Caleb & Brown Cryptocurrency Brokerage

powered by swyftx

Inside the Markets

May 2026

Middle East developments in control of sentiment + is crypto's next big rally here?

Sentiment recovered somewhat throughout April. TradFi risk assets rallied, with the S&P 500 and Nasdaq both reaching record highs, while crypto showed signs of bullish momentum after several months of downside. While the extreme fear seen throughout crypto in February and March appears to have slowed, the ongoing prevalence of macroeconomic and geopolitical uncertainty emphasises the importance of patience as the prevailing trend materialises.

Keep reading for the key catalysts shaping crypto in May.

BTC Snapshot

12-month high	$126,080
12-month low	$60,001
Price (11 May 2026)	$82,184

Key Market Metrics

BTC Dominance	60.7%
ETH Price	$2,358
Total Crypto Market Cap	$2.73T
Alt-Coin Market Cap	$1.2T

S&P 500 and Nasdaq rally to new all-time highs; Dow lags

The fear that struck markets throughout March seemed all but forgotten throughout TradFi in April. Risk assets rallied to new highs, primarily due to strong earnings and developments in the U.S. and Israel's war with Iran. There is still yet to be a long-term solution to the conflict, but the indefinite ceasefire agreed in late-April added fuel to the upward momentum seen across risk assets throughout the month.

While March's declines were regained in April, a lack of breadth, especially in the S&P 500's performance (a handful of companies are contributing to the index's gains), points to potential underlying risks. In late April, for example, only 2.4% of companies in the S&P 500 were at highs, which could point to inflated valuations, particularly in tech and artificial intelligence (AI) stocks. While history is not a reliable indicator of future performance, a similar market structure emerged in the dot-com bubble, emphasising the need for caution as risk assets continue trading at historic highs.

"Markets are following fundamentals. Earnings are coming in pretty strong, and the expectation is that will carry forward into the rest of the year."

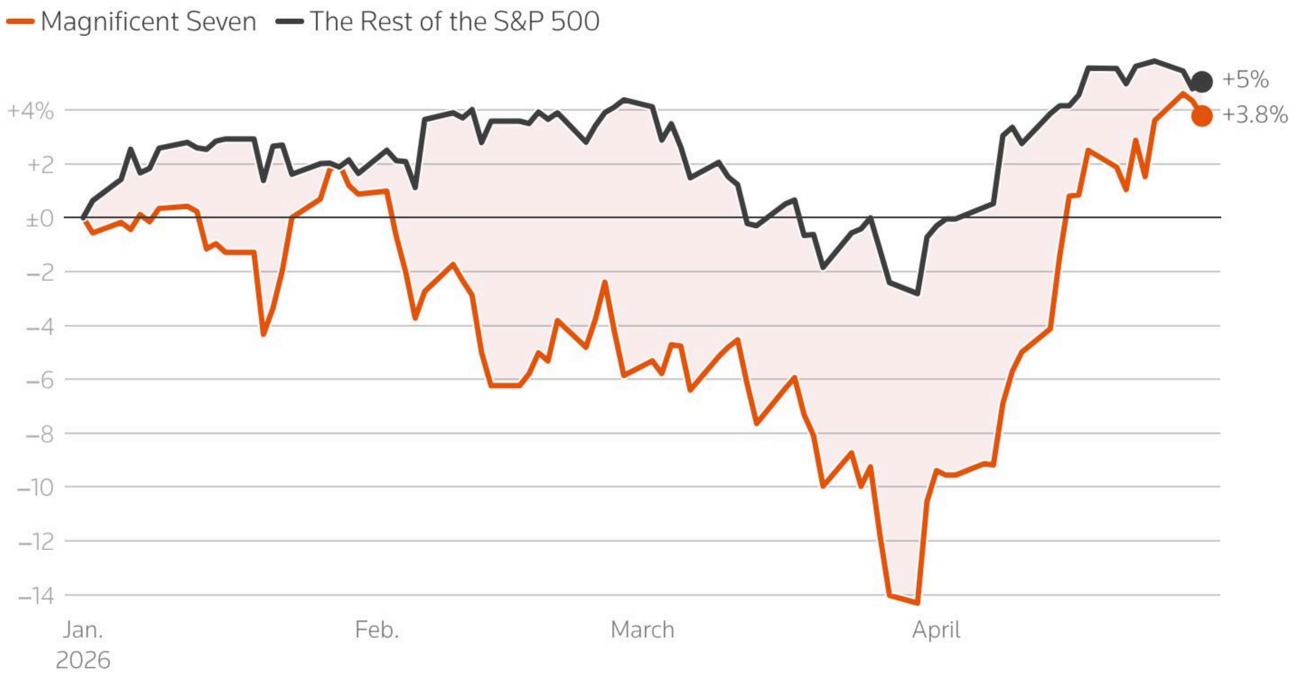
Tom Hainlin, Investment Strategist - U.S. Bank Wealth Management

In the final week of April, mega-cap stocks, including Alphabet, Meta, Microsoft, and Apple all reported earnings. Performance was mixed, with Alphabet reporting 63% revenue growth in its Google Cloud division, while Meta and Microsoft both dipped on growing capital expenditure associated with AI. Apple reported a small beat, with analysts calling it a "solid" result. The Dow Jones led the TradFi rally into the end of April, primarily due to legacy player Caterpillar's almost 10% gains on demand for its power equipment in growing AI data centre development. And Palantir, who reported a US$1.6 billion Q1 revenue—an 85% increase year-on-year—sparked the Nasdaq's rally in early May.

The magnificent seven stocks have underperformed compared to the S&P 500 in the year to date, as technology stock performance becomes increasingly sensitive to fluctuations in AI expenditure, conditions in the sector, and sentiment around the technology (see chart below). Pockets of the indexes are seeing gains, but the short- to medium-term outlook requires caution.

The Magnificent Seven versus the market

How Wall Street's heavyweight stocks have stacked up this year



The Magnificent Seven represents the combined market capitalizations of Microsoft, Apple, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla.

Magnificent seven stock performance vs. the market 2026 year to date. Source: [Thomson Reuters]

Liquidity remains tight and increases near-term risk

Further, a lack of depth in current performance, tight liquidity, delayed monetary policy responses and increased sensitivity to macro developments indicate that, while the major indexes make new highs, the foundation is fragile and susceptible to violent swings. The chart below outlines that TradFi is currently in a very tight liquidity risk period. Throughout these periods, there is limited global liquidity expansion to provide tailwinds for risk assets, and a lack of breadth can move markets with force in any direction.

Liquidity risk. Source: [Into the Cryptoverse]

In economic data, it appears that the economy and labour market have been relatively resilient. The ISM Manufacturing purchasing managers' index (PMI) for April came in just below forecast at 52.7, while the core personal consumption expenditures index for April came in on forecast at 0.3%. The ISM Services PMI also came in around forecast at 53.6, while the April non-farm employment change came in well above forecast at 115,000, indicating the economy has shown resilience. Given this resilience, coupled with the recent rally in financial markets, the backdrop for central banks to begin easing monetary policy doesn't currently exist. This poses a risk to both financial markets and the economy—growth may appear like it's trending upwards currently, but the underlying foundations could see a sharp drop should a black swan event or market shock materialise.

Throughout May, we expect the same market catalysts to move markets as those seen in previous months, including developments in the Middle East, oil prices, monetary policy (particularly with a change in U.S. Fed Chair Governors), and global liquidity. To end April, the S&P 500 gained 10.4%, the Nasdaq rallied by 15.6%, and the Dow Jones finished up 7%. It's the strongest performance for the Nasdaq since October 2002, as AI and semiconductor stocks sparked much of the upside.

New month, new Fed Chair + where to next for interest rates?

U.S. Federal Reserve Chair Jerome Powell's term ends on May 15. Nominee Kevin Warsh is expected to receive confirmation to take over the role, while Powell intends to remain on the central bank's board as a governor until his term expires on January 31, 2028. While Warsh is in favour of lowering interest rates and driving productivity, it's unclear if the central bank's board will have a majority agreement on delivering rate cuts throughout the remainder of 2026. On April 29, rates remained on hold due to sticky inflation, a resilient labour market, and geopolitical tensions. The next Federal Open Market Committee meeting is on June 17. The CME's Fed Watch tool puts the likelihood of rates remaining at 3.5% to 3.75% at 95.7%.

In geopolitics, a resolution to the Iran war hasn't been reached, though an indefinite ceasefire in late April did put markets at ease. Oil prices continued to fluctuate throughout April, hitting a high of almost US$118 on Tuesday, April 7 and closing the month at US$105.42 per barrel.

It was a big week in global macro at the end of April. Several central banks delivered their rate decisions, with Japan, England, Canada, Europe, and the U.S. all leaving rates on hold, presumably due to continued uncertainty, the inflationary risks posed by fluctuating oil prices and resilient growth despite recent geopolitical tensions.

> "Growth is really solid across our economy. Some of that is that consumer spending is hanging in pretty well, the most recent data [points] are good. And some of it is just the apparently insatiable demand for data centers all over the United States. So a lot of business investment going into building data centers, and every reason to think that that continues."
>
> Jerome Powell, Chair - U.S. Federal Reserve

Back in the U.S., Treasury yields gained slightly in April, with the two-year yield closing at almost 3.9%, while the ten-year yield closed the month at 4.37%, aligning with the Fed's indication that rates will remain on pause for longer than expected. And in precious metals, gold declined by 1.4% on the month, and silver declined by 2.5%, presumably as more capital flowed to risk assets throughout the month.

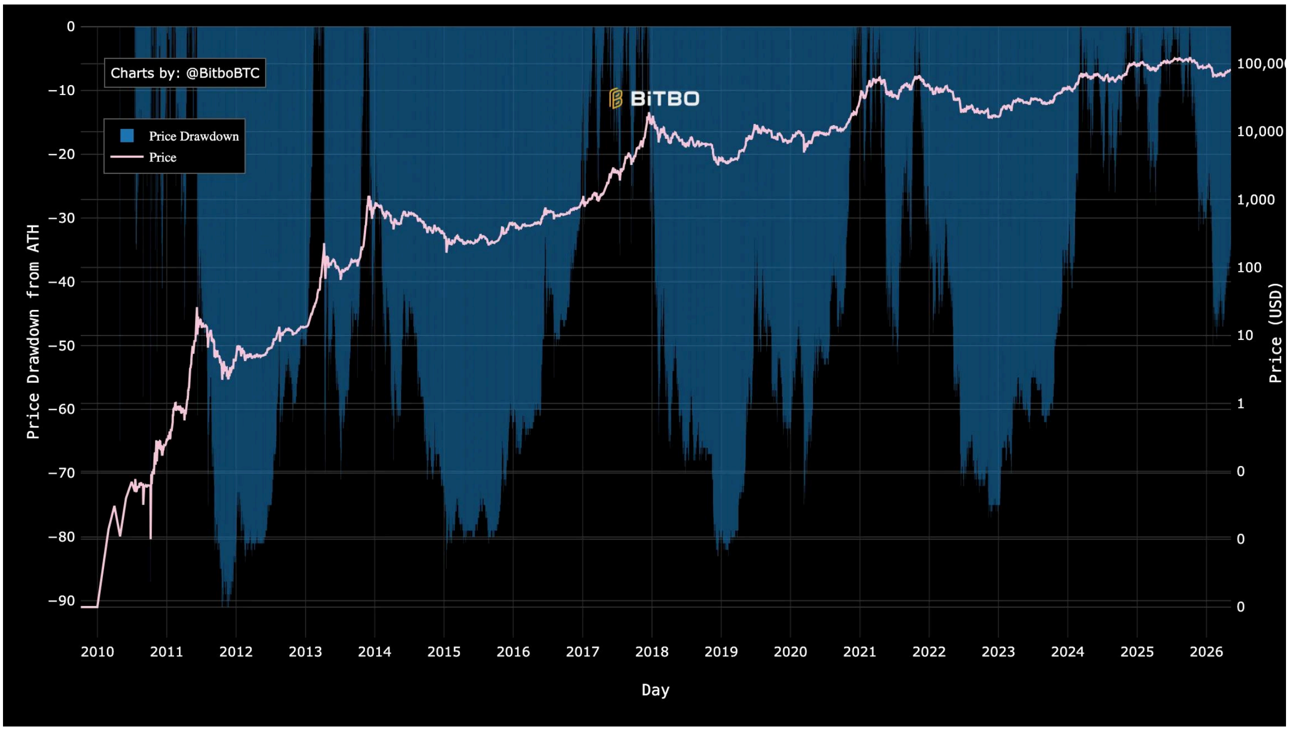
Bitcoin trades above US$80k for the first time since January

Bitcoin opened April at US$68,200. The cryptocurrency declined to a monthly low of US$65,700 on Tuesday, April 2 before rallying to break above US$80,000 in early May. The gains surpassed the declines seen throughout the second half of March when escalating tensions in the Middle East saw risk-off sentiment prevail. Notably, as further tensions have arisen throughout the first week of May, bitcoin's performance, like TradFi, has been relatively strong. Further, digital asset products have seen five consecutive weeks of inflows since mid April, confirming the improvement in sentiment.

With bitcoin now trading at levels not seen in months, market participants are understandably gauging whether this marks the end of the significant drawdowns seen since the October 6, 2025 all-time high (ATH) of US$126,300. From the ATH to the February 6, 2026 low of US$60,001, bitcoin's price declined by 52.5%. This is a much smaller decline than previous cycles. The drawdowns in previous cycles were:

- 2011 crash: 93% drawdown, triggered by early exchange hacks.
- 2013 to 2015 bear market: 86% drawdown, driven by Mt. Gox's collapse and bankruptcy.
- 2018 crypto winter: 84% drawdown after bitcoin reached US$20,000 in late 2017.
- 2021 to 2022 capitulation: 77% drawdown from the ATH of US$69,000. Bitcoin reached US$15,500 by late 2022.

The chart below also illustrates the relatively small drawdown seen since October 2025. At this stage, it's too soon to determine if institutional adoption, corporate treasury holdings and the launch of exchange-traded funds (ETFs) have shifted the market structure to a degree that bitcoin's four-year cycle has changed. Bitcoin's price is now up over 35% from the February lows—a decent rally after months of risk-off sentiment, but not yet strong and sustained enough to call this the start of a new bitcoin cycle. Further, the sell off occurred over around five months, which would be a much shorter drawdown than previous cycles.



Past performance is not a guarantee of future results.
Price drawdown from all-time high. Source: Bitbo

"In prior cycles, similar regimes have coincided with environments where markets exhibit reduced speculative participation, narrowing leadership, and increased sensitivity to macro developments."

Benjamin Cowen, Founder and CEO - Into the Cryptoverse

Bitcoin closed April at US$76,300 (+12%). Monitoring global-macro sentiment, central bank's monetary policy outlooks for the remainder of 2026 and into 2027, and whether bitcoin's recent upward momentum can be sustained around key areas of support and resistance (US$85,000 and US$89,000) will add to confirmation of whether the recent upward momentum is the start of bitcoin's climb back to all-time highs or a counter-trend rally.

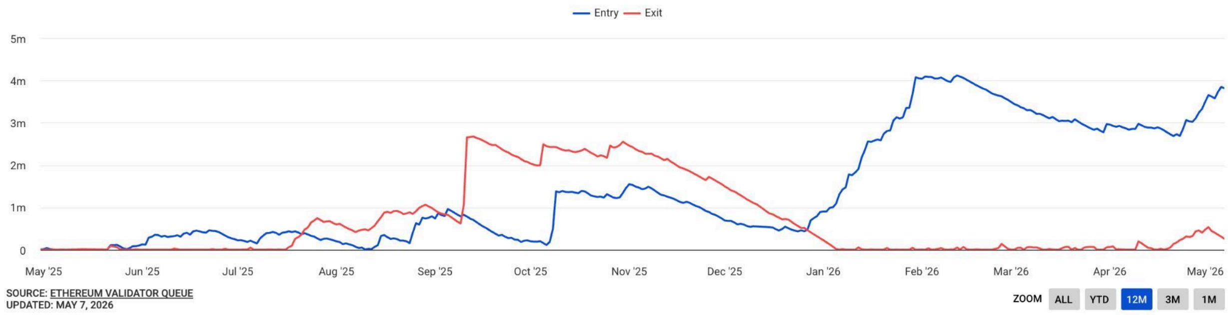
April was strong for Ethereum as corporate treasuries continue buying

Ethereum opened the month at US$2,100, rallied to a monthly high of US$2,460 on April 17, and sold off to around US$2,200 to support a break back above US$2,340 heading into May. Key catalysts that drove upward momentum for Ethereum throughout April include, hopes of peace talks progressing between the U.S. and Iran, Bitmine's growing ETH treasury and subsequent staking, a strong validator entry queue, and the resilience of the DeFi networks affected by the US$292 million Kelp DAO exploit.

By early May, Bitmine's Ethereum treasury totalled almost 5.2 million ETH, worth US$12.2 billion. The company has also staked almost 88% of its holdings, with over 4.5 million ETH staked, taking 3.7% of circulating Ethereum supply out of the market.

The US$292 million Kelp DAO exploit saw the LayerZero bridge used to move assets between blockchains. The attackers compromised a Remote Procedure Call (RPC) node that forced the bridge to mint 116,500 of Kelp's rsETH tokens (around 18% of supply). These tokens were then used as collateral on DeFi lending protocols like Aave and Compound to borrow other assets, leaving these protocols with US$195 million in bad debt. The response has been swift, with Aave and other protocols uniting to raise over US$300 million to address losses. A detailed strategy has been proposed to recover funds, including targeting those in open positions to unwind bad loans and restoring rsETH backing with fresh ETH.

The protocols associated with the Kelp DAO attack have remained relatively stable, but it hasn't stopped some Ethereum network validators from withdrawing their stake. Ethereum's validator exit queue rose to 433,158 ETH in the first week of May, equating to a seven-day wait to exit the network. In contrast, Ethereum's validator entry queue remains strong at 3.6 million ETH (62-day wait).



Ethereum validator queue YTD.. Source: The Block.

The network's resilience in the face of the recent exploit, strong corporate buying activity and companies like Bitmine reducing circulating supply by staking the majority of their holdings indicate the strong underlying foundations of the network.

> "We believe the potential passage, or even failure, of the CLARITY Act confirms the arrival of crypto spring. As for the upcoming drivers of crypto gains, Ethereum continues to benefit from the dual tailwinds of Wall Street tokenizing on the blockchain and from agentic AI systems increasingly needing public and neutral blockchains."
>
> Tom Lee, Chairman - BitMine

Like other cryptocurrencies, Ethereum is showing signs of strength, with catalysts such as passage of the CLARITY Act adding potential fuel for further upside. Despite the strength, Ethereum is currently trading 52% below its August 24, 2025 all-time high of US$4,955 and 36% above its February lows. In short, there are signs of strength, but it's too soon to determine the prevailing direction, especially with ongoing uncertainty in geopolitics and tight global liquidity.

Will much-needed CLARITY come to crypto in May?

In the week commencing Monday, May 11, the U.S. Senate returns from hiatus. One of the top items on its list: sort out the CLARITY Act. There have been numerous delays to the act, both due to domestic issues that presumably needed policymakers' attention and the ongoing dispute between TradFi stakeholders and crypto industry players over the stablecoin provisions outlined in the bill. Senator Thom Tillis (R-NC) plans to bring forward a markup vote on the bill in the Senate Banking and Finance Committee, plus a potential compromise on stablecoin rewards may be what's needed for the bill to finally pass.

Senators have proposed that rewards be banned on stablecoin deposits, protecting the apparent threat to banking some TradFi stakeholders expressed concern over, while allowing rewards tied to staking and governance on stablecoin platforms. Circle shares jumped almost 20% on the news, and Coinbase, one of the main distributors of USDT gained 6%, indicating the positive sentiment the development is bringing to the crypto market. The White House is aiming to sign the bill into law by July 4.

According to crypto analysts, behavioural metrics, restrictive global liquidity, delayed policy easing, and weak breadth, indicate that, while the recent gains across crypto, particularly bitcoin and Ethereum show some improvement in sentiment, it may not be enough to sustain a prolonged rally. At this stage, current market dynamics suggest that current upward momentum could be a counter-trend rally with the potential for further downside. Bitcoin's dominance is back around 60%, the broader altcoin market hasn't seen convincing upward momentum, and the macroeconomic and geopolitical picture remains uncertain—all key indicators that the macro landscape hasn't aligned for an "everything rally".

If you have questions about your portfolio as you navigate the weeks ahead, book a call with your Caleb & Brown broker.

May key dates and crypto catalysts

The Iran war, U.S. Federal Reserve's rate trajectory, U.S. trade policy and global liquidity are expected to influence sentiment in the weeks ahead.

May 15	May 21
U.S. Fed Chair Powell's term ends	U.S. FOMC April meeting minutes

U.S. trade policy

What's at stake? President Trump's universal tariffs were announced following the Supreme Court's ruling, though developments in this area have slowed since the Iran War started.

What to consider? Expect volatility in risk assets around trade announcements. Engage with your broker to understand how tariff changes may affect your positions.

U.S. Federal Reserve rate decision (June 17)

What's at stake? The next FOMC meeting is on June 17. The meeting minutes from the FOMC's April meeting will be released on May 21. Fed Chair Powell's term ends on May 15.

What to consider? The U.S. Fed's rate trajectory will affect market sentiment. Expect potential market swings when a new Fed Chair is confirmed. Discuss potential outcomes with your broker.

Crypto policy and legislation

What's at stake? The Senate's crypto market structure bill, the CLARITY Act, which has stalled since January, is expected to go to a markup vote in May, while a July 4 deadline has been set for full passage of the bill.

The Securities Clarity Act was reintroduced to the House and referred to the House Committee on Financial Services on March 26. It remains before the Committee at the time of writing.

Senator Lummis introduced the Lummis Crypto Tax Bill and the 21st Century Mortgage Act in 2025. Both bills remain before the Senate.

State-based crypto legislation remains before Congress in several U.S. states.

What to consider? If you're assessing your exposure to stablecoin-related or U.S.-based crypto projects, now may be a good time to reach out to your broker to revisit your strategy.

Need help navigating the markets? Speak with your Caleb & Brown broker to align your portfolio with evolving macro and crypto developments.