Summit Trail Advisors

Monthly Download

April 2026

Summary

- **Markets rebounded** in April on ceasefire negotiations and a de-escalation in hostilities in Iran as well as strong corporate earnings. The US-Iran ceasefire took place on April 8th and generally held for the remainder of the month allowing the market to pay attention to other areas despite shipping via the Strait of Hormuz remaining at a virtual standstill. S&P 500 operating earnings once again increased from expectations at the beginning of the reporting season powered by the Mag7, Technology, Communications and Financials.

By Summit Trail Investment Team

David Romhilt, CFA
Seth Katz
Ben Johnson, CFA
Michelle Zeng, CFA
Charu Lahiri, CFA
Isabelle Kane
Kevin Dawson, CFA
Ryan Gell, CFA
Tobit Powell
Darryl Frank
Blake Peters

Market Overview

- **Equity markets** in the US fully recovered in April from the pullback brought about by the US-Iran conflict. De-escalation of the war combined with excellent Technology earnings quickly returned the S&P 500 index to all-time highs.
  - US Large Cap stocks (S&P 500) rose 10.5% in April, the largest single month gain for the S&P 500 since November of 2020. Earnings from Alphabet, Amazon, and Apple were well received by investors. Mag7 stocks were up over 14% for the month. Year to date, the S&P 500 has flipped to a positive 5.7% return.
  - US Small Cap stocks (Russell 2000) rebounded even more in April, jumping 12.2%. Smaller companies saw strong returns despite a lack of interest rate relief during the month. Small Cap stocks are now up 13.2% for the year.
  - Non-US stocks (MSCI EAFE Net) performed well but were the relative laggard of global equity markets, adding 7.5% for the month. Returns were more modest in local markets but benefited from the USD decline. Investors appeared more concerned about the Europe and Asia's energy challenges if the Iran conflict continues. Year to date, the index returned 6.1%.
  - Emerging Markets (MSCI Emerging Markets Net) returned to their pre-March form rocketing 14.7% in April. Chip and memory stocks gained back momentum from investors as Samsung, SK Hynix and Taiwan Semiconductor posted strong returns. Year to date returns are now at 14.5%.
- **Interest rates** moved higher again in April, albeit much more modestly than the spike in March on the Iran conflict. The 10-Year Treasury yield rose from 4.31% to 4.39%. Inflation data provided the first hints at the impact of the Iran conflict on the economy and bond markets continue to adjust to the new, higher-rate regime.
  - High Grade Taxable bonds (Bloomberg US Aggregate) recovered just 0.1% in April, as the modest increase in rates created a headwind for performance. Year to date returns are less than 0.1%.
  - Municipal bonds (Bloomberg 1-10 Year Muni Bond) added value to taxable bonds, adding 0.6% for the month. Market interest rate concerns are more specific to Treasury deficit financing and municipal/treasury ratios improved in April. Municipal bonds are now up 0.3% in 2026.
  - Investment Grade bonds (Bloomberg US Corporate Investment Grade) returned 0.5% in April as credit spreads stabilized after the response to the Iran conflict in March. High Yield bonds (Bloomberg US Corporate High

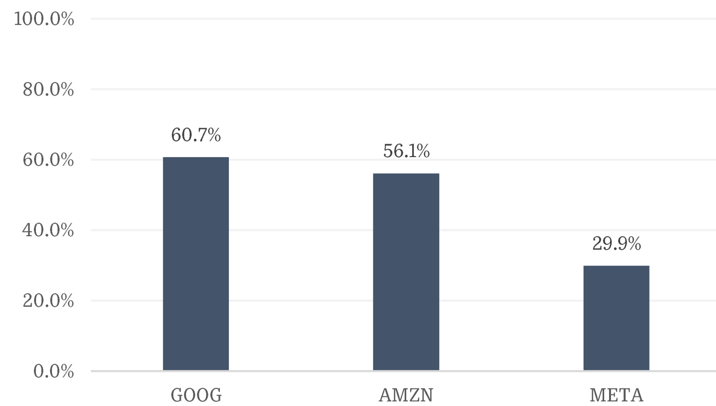
All market performance data are sourced from FactSet or Bloomberg.

Yield) rallied 1.7% in concert with the strong equity market recovery. Year to date Investment Grade bonds are down slightly at 0.1% and High Yield bonds have returned 1.2%.

- **Commodities** (Bloomberg Commodity Index) added to gains in April despite the de-escalation in April of the Iran conflict, returning 4.2% for the month. Crude oil (WTI) remained volatile, starting the month at $101, bottoming at just $83 mid-month before returning to $105 at month-end on a lack of a clear deal to end the conflict. Other industrial metals also performed as investors anticipate possible shortages. Commodities are now up 29.7% in 2026.

Economic Commentary

S&P 500 Earnings entered 2026 expecting to grow 15% over 2025 levels, well above historical averages and buoyed by AI and Technology expectations. On March 31st, with market being dragged down by concerns of higher inflation and energy prices, the expectation for 1st quarter earnings growth remained at 13%. As of May 1st, with 89% of S&P 500 companies reporting actual results, that growth has increased to 28% according to FactSet. Strong earnings have driven the market to recover all of its 1st quarter and Iran conflict losses and set new all-time highs on the S&P 500. 10 of the 11 GICS sectors have seen improvement in 1st quarter earnings growth relative to the beginning of earnings season on March 31st, with only Energy ironically seeing weaker results. Mag7 companies have driven Communications, Technology, and Consumer sector earnings increases while Materials, Financials, and Industrials have all improved substantially as well. Non-Mag7 earnings growth is now up to 16% for the 1st quarter, a very strong showing, but still paling in comparison to the 61% growth rate for Mag7 names. Mag7 earnings growth has been supported by not just operating earnings, but increases in valuations related to private investments. Public companies report earnings on a "GAAP" (generally accepted accounting principles) basis that includes the change in value of balance sheet assets during a reporting period. GAAP net income of $62.6 billion for Google included almost $38 billion of net gains from unrealized price increases on non-marketable investments. Amazon saw an almost $17 billion unrealized gain on its investment in Anthropic which makes up more than half of its $30.3 billion of net income. Companies use GAAP earnings as a standard in the industry as non-GAAP do not have agreed upon principles and can vary by company reporting style. Companies are also notorious for reporting non-GAAP earnings only if they are in their favor and reflect a better story than GAAP requirements. Investors were already focused on the virtuous cycle of AI capex and its impact on Mag7 earnings as companies benefit from investments in their businesses and significant demand from one another. Now, as large AI companies like OpenAI and Anthropic consider going public, Mag7 earnings are further benefiting from the increase in valuations. Operating earnings were very strong on their own, but overall market dependence on the AI story is only increasing as tailwinds from valuations further enhance Mag7 earnings and markets anticipate a possible record IPO calendar later in 2026.



% of GAAP Earnings from Unrealized Gains & Tax Credits
Source: FactSet

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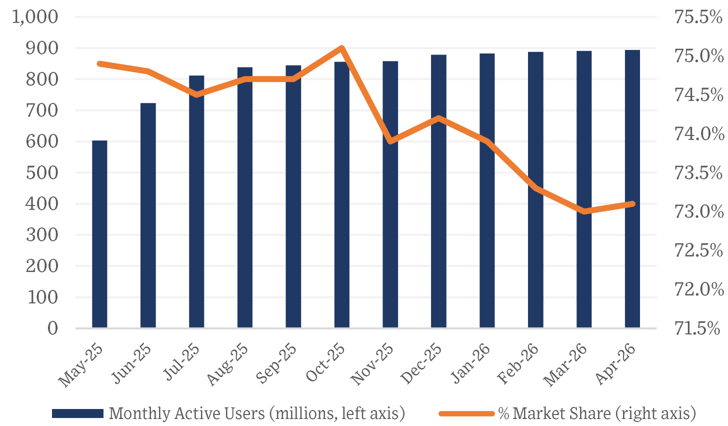
OpenAI's revenue and business model were under scrutiny in April from media stories and the Musk v. Altman trial that began playing out in California to much media fanfare. On April 28th, the Wall Street Journal published an article stating that OpenAI had recently missed its internal targets for new users and revenue. Slowing growth could cast a shadow on the company's efforts to raise capital to fund massive forward spending on data centers and computing power. We have commented in the past about OpenAI's unique IPO plans. It is rare for companies to go public without a clear path to profitability, whereas OpenAI by their own projections will not be profitable this decade. That raises questions about how long public markets will be willing to fund losses and how susceptible the company could be to changes in projections about their outlook. The company denied the WSJ article and released a statement that the firm is fully aligned on its future goals and continues to acquire as much computing power as possible. Separately, a 2024 lawsuit filed by Elon Musk against Sam Altman began testimony with Musk on the stand himself. Musk's suit charges that OpenAI abandoned its mission of being a non-profit organization solely focused on developing AI to benefit humanity and seeks to remove Sam Altman and Greg Brockman as well as restrict the company from becoming "for profit". The trial's early testimony makes it unlikely that either Musk or Altman's public approval rating will move higher. Internal dealings at OpenAI have been opened up to reporters covering the trial as well as painting a less than flattering picture of Altman's style, leadership, and integrity. A decision that permanently requires OpenAI to remain non-profit seems very unlikely, as well as Altman or Brockman's removal. The less than positive press is coming as independent data shows ChatGPT's user base growth is slowing and market share is slipping. ChatGPT added over 400 million monthly active users in 2025 according to data from First Page Sage (an SEO marketing company) but has added just 16 million in the first 4 months of 2026. In addition, ChatGPT's market share of AI chatbots has slipped from 75% to 73% as competition from Anthropic and Google increases. OpenAI and Anthropic are in a race to solidify valuations via IPO in the public markets, and likely many other AI-related companies will follow. We continue to believe the journey as a public company may be challenging, despite the revolutionary nature of their products.



ChatGPT Monthly Active Users (millions) and AI chatbot market share
Source: First Page Sage

Federal Reserve nominee Kevin Warsh saw his path to becoming Fed Chair improve with the DOJ dropping their inquiry in April into current Fed Chair Jerome Powell. Senator Thom Tillis then dropped his objection to Warsh's nomination at the Senate Banking Committee. Warsh's nomination will now move to the full Senate for vote prior to the end of Chair Powell's term on May 15th. Approval is expected given the narrow majority held by Republicans in the Senate. Chair Powell announced following the May FOMC meeting at his news conference that he would remain on the Fed Board of Governors when his term expires on May 15th, breaking a precedent that goes back to 1948. Powell's decision, however, was rooted in the attacks by the administration on the Fed and its independence as well as the fact that in dropping the DOJ case the issue was returned to the Fed's inspector general for further inquiry, not exactly an "all-clear" in a politically charged environment. Powell stated he would be a "low-key" member and seek to support Chair Warsh however possible. Chair Warsh now inherits a Fed with a Board of Governors that remains with a 4-3 majority of Obama/Biden appointees versus Trump appointees. In addition, in the most recent FOMC meeting there were 4 voting dissenters to the language and decision to keep the Fed Funds rate steady at 3.5 to 3.75%. Stephen Miran, a temporary Trump appointee who will depart when Warsh is approved, voted again for a rate cut. But 3 voting dissenters objected to the dovish language in the memo that pointed to future rate cuts, instead preferring that the language is “neutral”, meaning a cut or hike are equally likely. The Iran conflict and higher energy prices and inflation have clouded the Fed’s ability to deliver rate cuts later in 2026. While the energy spike may be deemed temporary, the conflict continues and damage to Middle Eastern energy infrastructure is significant. Analysts believe impacted energy markets may not normalize for years. Elevated energy prices likely mean higher interest rates and make Warsh’s job far more difficult to convince voting members that the age of AI productivity means rates can be lowered despite inflation above target. Warsh has other objectives at the Fed he has laid out, but the President who nominated him is unlikely to see the nuance in policy improvements if the Fed Funds rate remains at current levels or goes higher.

Important information