

14 May 2026

The Fed's approaching stress test

Paris

The lesson of history is that markets tend to test a new Fed chairman. The latest US inflation data has increased that possibility. US CPI rose by 3.8% YoY in April, the highest YoY figure since May 2023 (see Exhibit 1), which caused the 10-year Treasury bond yield to test the 4.5% level, the breaking of which *GREED & fear* continues to view as the commencement of a stress point for stock markets with the 30-year yield already above 5% (see Exhibit 2). The 10-year yield hit the 4.5% level intraday yesterday and is now 4.44%. Meanwhile, the Senate confirmed on Wednesday Kevin Warsh's appointment with a 54-45 vote which means he becomes Fed chairman on Friday.

Exhibit 1: US CPI inflation

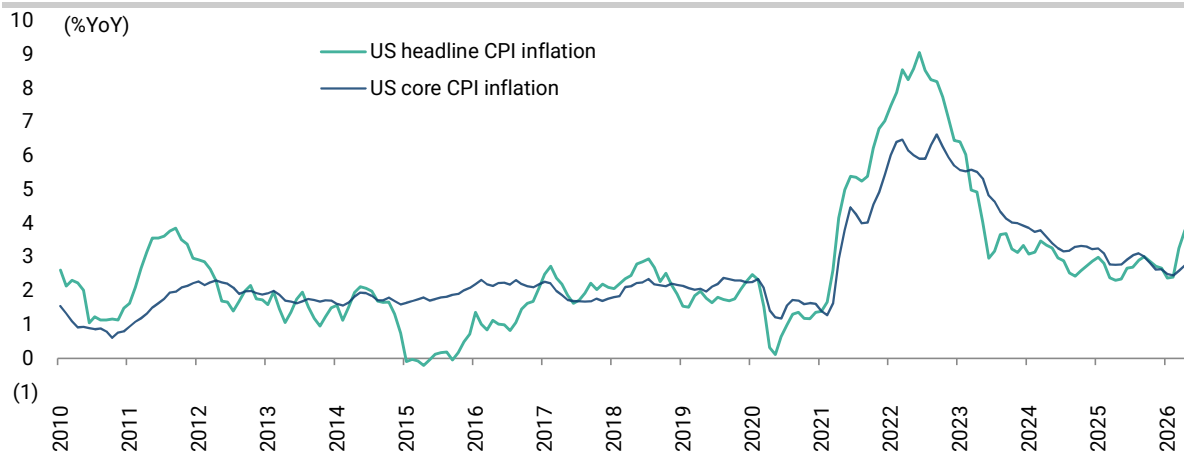
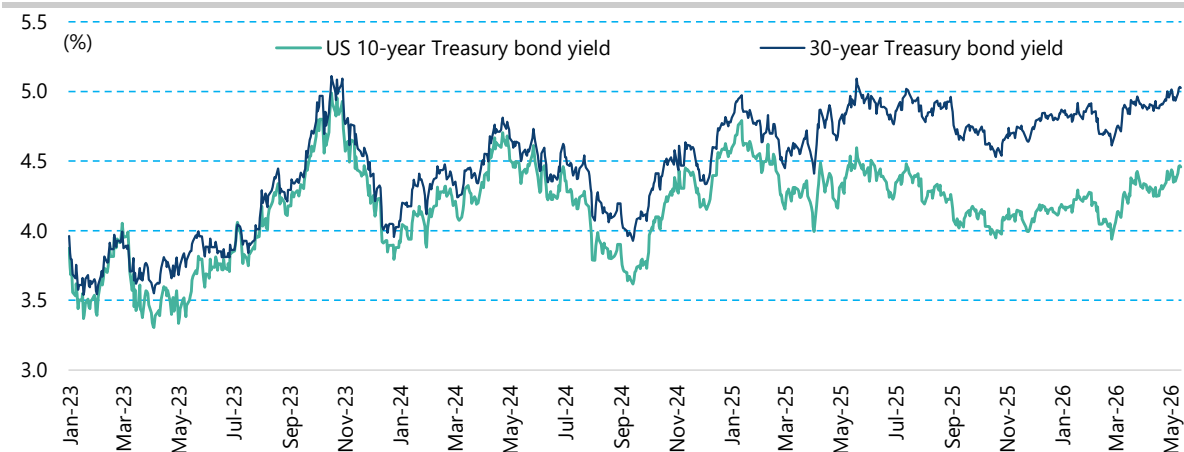


Exhibit 2: US 10-year and 30-year Treasury bond yields



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The biggest hope for such a test of the new Fed chairman not happening is clearly the opening of the Strait of Hormuz. But all the evidence is that Iran is digging in for a protracted standoff whereas *GREED & fear's* base case is that Donald Trump does not have the patience for such an endurance test. There is also the not unimportant matter of the approaching mid-term elections. That suggests either agreeing to a deal with Iran which will be extremely hard to project as a win, most particularly if the deal on the nuclear issue is not so different from the 2016 version negotiated by the Obama administration, or going along with the Israel agenda of renewed military aggression. This is certainly a possibility after the 47th president's visit to Beijing is completed, a trip Trump has long wanted.

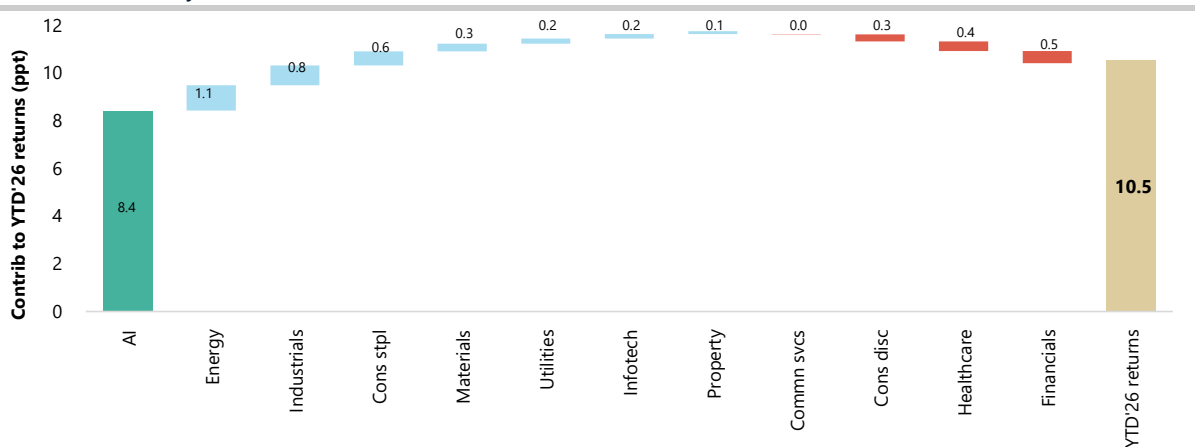
GREED & fear's guess is that Trump will not want to resume the military attack in Iran because of the mounting domestic political risks of such an approach, with the latest polling showing the war remaining as unpopular as ever with the US electorate. The *Reuters/Ipsos* poll conducted between 8-11 May found that 61% disapproved of US military strikes against Iran compared with a 35% approval rating. But *GREED & fear* could be wrong again, as *GREED & fear* never expected the initial attack on Iran in the first place.

As for Trump's visit to Beijing this week, there is every reason to expect the current effective truce on tariffs to be extended. There is definitely a possibility of something more substantive being agreed, as regards relaxation of US controls of semiconductor sales in return for China's relaxation of controls on so-called "rare earths". In *GREED & fear's* view the technology Beijing most wants access to is ASML's extreme ultraviolet (EUV) lithography machines rather than Nvidia chips. But whatever the demands of both sides on the tech/rare earth issues, President Xi Jinping is much more likely to give Trump a win if he makes the unambiguous statement on Taiwan Beijing has requested. That is that the US opposes Taiwan independence, in contrast to the more nuanced line out of Washington in recent years, namely that the US does not support Taiwan independence. Meanwhile Beijing's announcement, discussed here last week (see [GREED & fear – Metamorphosis](#), 7 May 2026), that Chinese refiners should not recognize, enforce or comply with recently imposed US sanctions related to Iranian oil should be interpreted as a warning shot across the bow that China is no longer willing to be pushed around.

Going into the summit, there will naturally be hopes that China pressure on Iran can trigger some breakthrough on the Strait of Hormuz. But this is not *GREED & fear's* base case. As for the damage caused by the continuing closure, it is less than it could have been since the Houthis have chosen to keep the Bab el-Mandeb Strait open providing access to the Red Sea which has allowed Saudi Arabia to keep exporting 5m barrels/day of crude oil through its Yanbu pipeline. What is clear is that the policies being followed by Saudi and the UAE have diverged starkly of late, as reflected in UAE's decision to leave OPEC earlier this month as well as the news this week that UAE is buying more weaponry from Israel. US Ambassador to Israel, Mike Huckabee, said on Tuesday that Israel just sent Iron Dome air defense batteries and trained military personnel to the UAE to help them to operate the missile defense system (see *NBC News* article: "[Israel sent military personnel and key defense system to UAE, U.S. envoy says](#)", 13 May 2026). This is the first official confirmation that the equipment was deployed and used in the UAE.

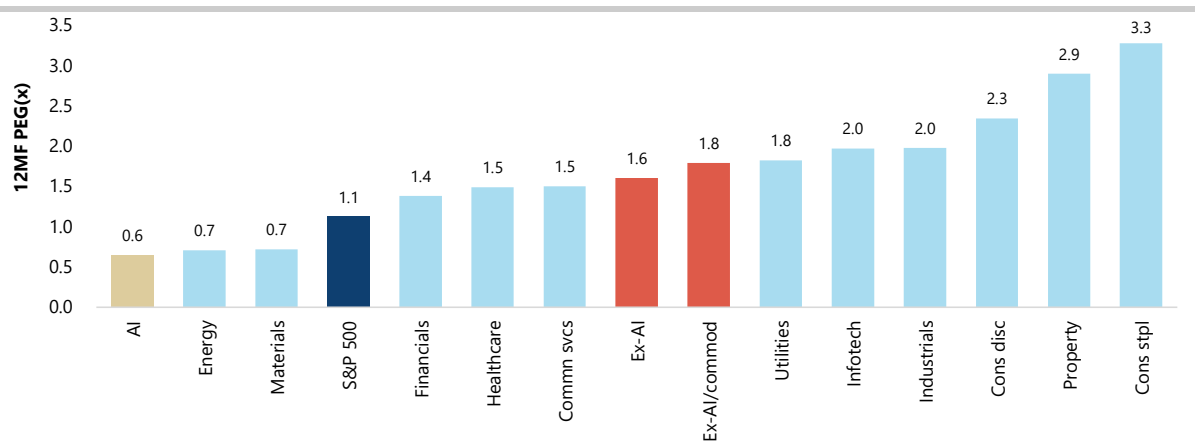
Moving on from geopolitics, it is not new news that AI capex is the key driver of earnings momentum, both in the US and emerging markets. But a report published on Monday by Jefferies' global head of quantitative strategy Desh Peramunetilleke contains some interesting data points following the near completion of the recent earnings season (see Jefferies research [USA Quant: S&P 500 – Riding the AI Unicycle](#), 11 May 2026). AI is driving about 80% of the S&P500 returns this year (see Exhibit 3) with Desh's AI basket up 30%. But it is still the cheapest sector on a price/earnings to growth (PE/G) basis at 0.6x (see Exhibit 4). This is based on a 25x forward earnings multiple. In aggregate S&P500 2026 forecast EPS has been upgraded by 6% over the past three months. However, excluding the two "hot" thematics of AI and commodities, the earnings revisions were only 0.3% (see Exhibit 5). Similarly, forecast 2026 earnings growth for the rest of the S&P 500 is "only" 11% compared with 19% for the overall index.

Exhibit 3: S&P500 year-to-date 2026 return contribution breakdown



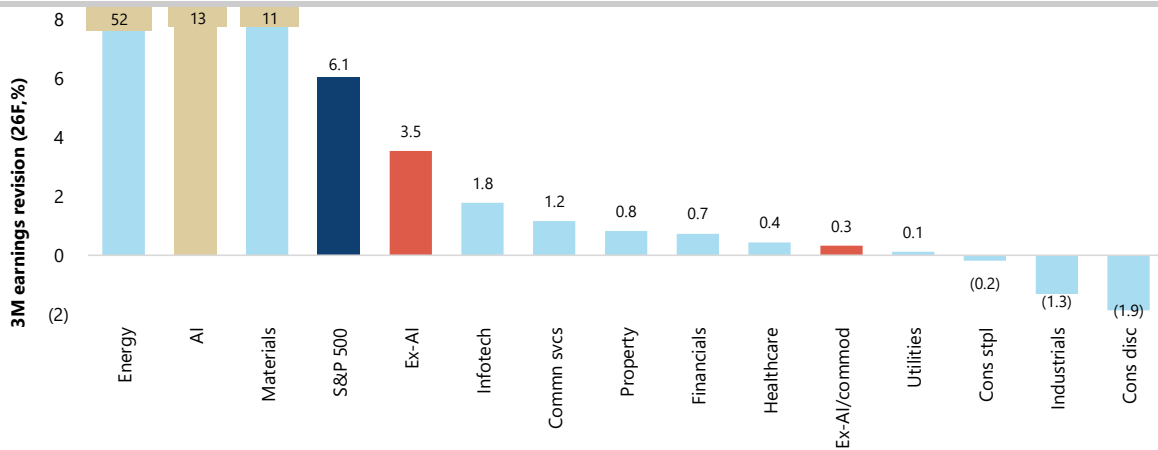
Note: All sectors are ex-AI. Univ as of April 2026. Source: Factset, Jefferies

Exhibit 4: S&P500 sectors – PE/G ratio



Note: Bottom-up aggregated with float adjustments. Data as of 6 May 2026. Source: Factset, Jefferies

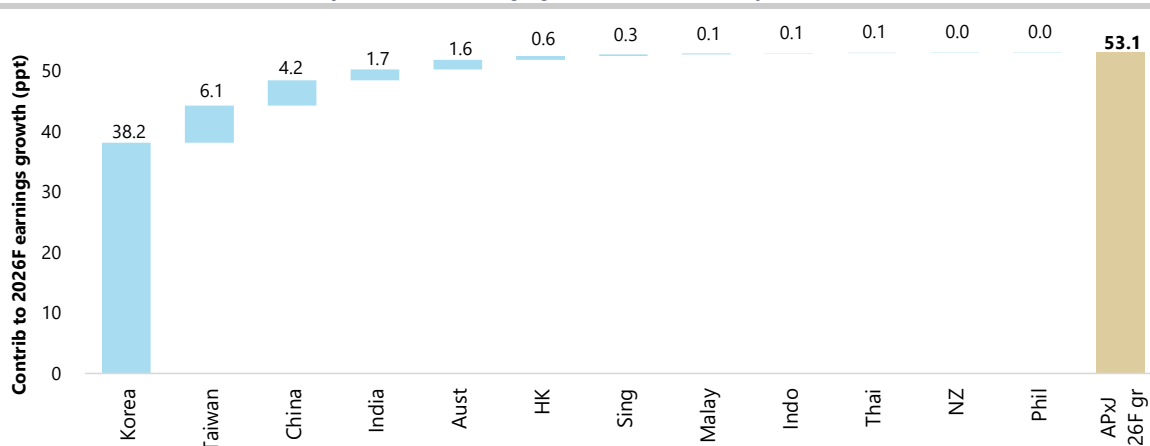
Exhibit 5: S&P500 sectors – 20F EPS revision (last 3 months)



Note: Bottom-up aggregated with float adjustments. Data as of 6 May 2026. Source: Factset, Jefferies

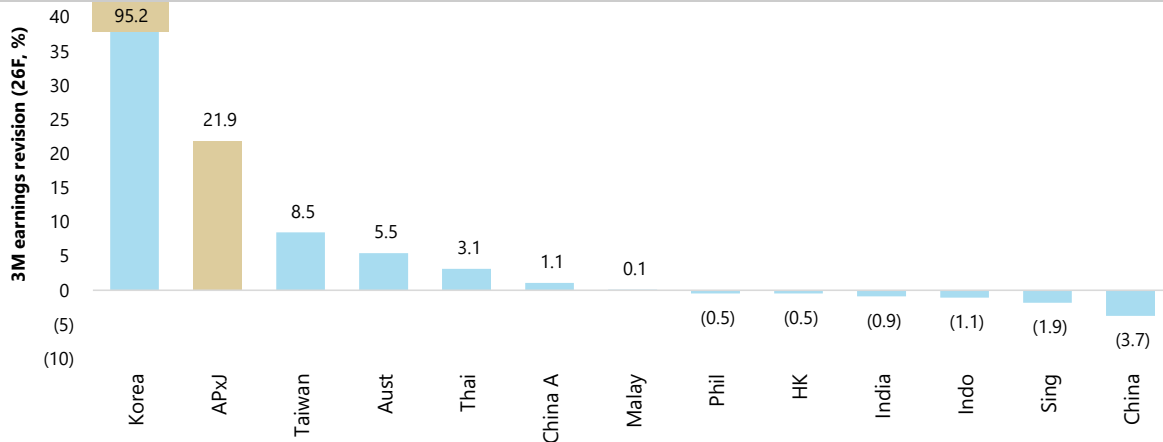
Still if AI is driving US earnings revisions the data is even more dramatic for the tech hardware sector in north Asia in terms of Korea and Taiwan. Jefferies’ quantitative strategy team now estimates that Korea and Taiwan will contribute 44 percentage points or 83% of the MSCI AC Asia Pacific ex-Japan consensus 2026 forecast earnings growth of 53% (see Exhibit 6). Excluding these two markets the region’s forecast earnings growth is only 8.8%. While Korea and Taiwan 2026 forecast EPS has been upgraded by 95% and 8.5% respectively over the past three months (see Exhibit 7).

Exhibit 6: MSCI Asia Pacific ex-Japan 2026F earnings growth contribution by markets



Note: Bottom-up aggregated with float adjustments. Source: Factset, Jefferies

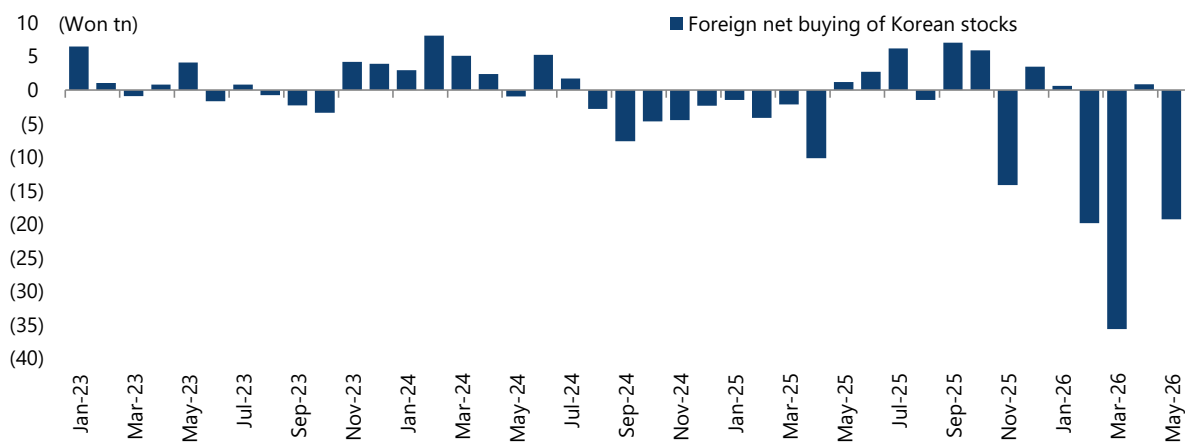
Exhibit 7: MSCI Asia Pacific ex-Japan 2026F earnings growth contribution by markets



Note: Bottom-up aggregated with float adjustments. Source: Factset, Jefferies

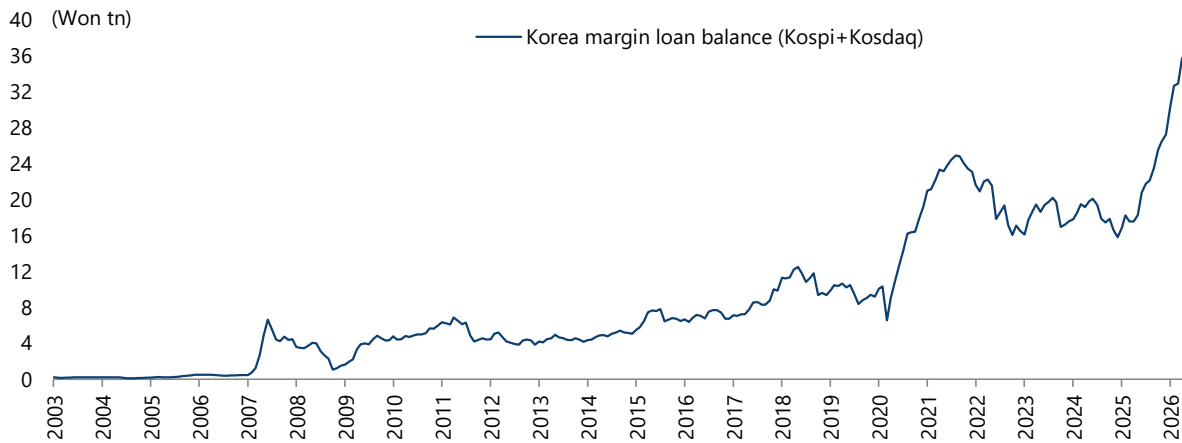
In meetings with institutional investors in London last week *GREED & fear* detected, unsurprisingly, growing capitulation on the memory sector as reflected in the return of foreign net buying in Korea in April after the net selling last quarter as it became almost obligatory for investors with relative-return benchmarks to chase surging neutral benchmark weightings as discussed here last week (see *GREED & fear – Metamorphosis*, 7 May 2026). Still foreigners have turned net sellers again so far this month. Foreigners have sold W19.3tn worth of Korean stocks (Kospi & Kosdaq) so far in May after buying a net W906bn in April. In the first quarter they sold a net W54.8tn (see Exhibit 8). Meanwhile, the biggest buyer remains Korean retail investors. They have bought a net W32.4tn so far in 2026. Stock market margin lending has surged by 128% from W15.8tn at the end of 2024 to W36.1tn on Wednesday (see Exhibit 9).

Exhibit 8: Foreign net buying of Korean stocks (Kospi & Kosdaq)



Note: Data up to 14 May 2026. Based on trading in the KRX. Source: KRX

Exhibit 9: Korea margin loan balance (Kospi & Kosdaq)

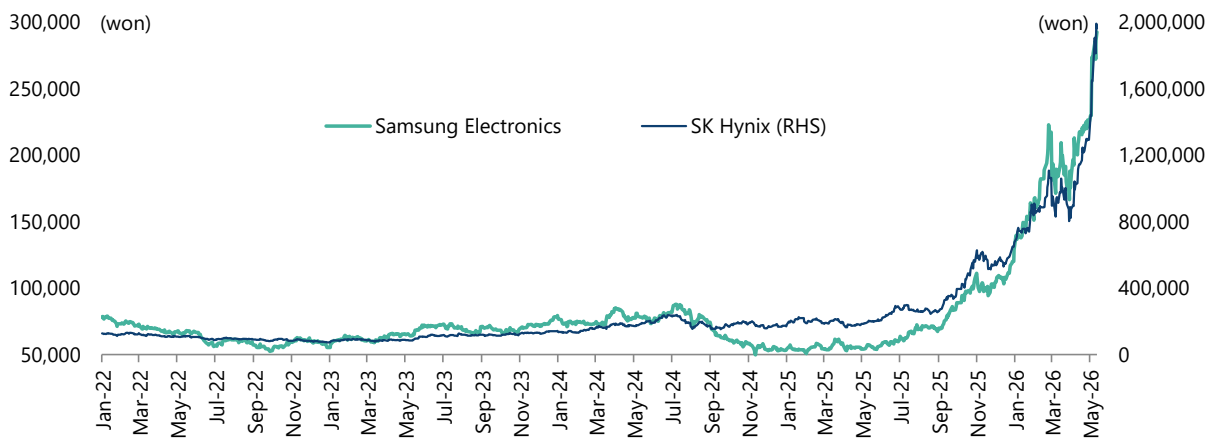


Source: KOFIA

There is no doubt that investors chasing the likes of Hynix and Samsung Electronics are taking comfort from the story first discussed here in January (see [GREED & fear - The appetite for memory](#), 22 January 2026), namely that the chokepoint of memory in the continuing AI capex ramp up means that the DRAM industry is moving to negotiate long-term agreements (LTAs) with major customers implying more visibility and predictability as regards earnings as opposed to the traditional hyper cyclicity. This in turn is viewed as justifying a multiple re-rating for these stocks which are increasingly being valued on a price to earnings rather than a price to book basis. Thus, Samsung Electronics and Hynix are currently valued at 6.9x and 6.0x earnings respectively based on the 2026 earnings forecast of Jefferies’ Korea research partner KB Securities (see KB research “[Samsung Electronics – Cheapest Now](#)”, 11 May 2026 and “[SK Hynix – Memory Chips: The Heart of the AI Ecosystem](#)”, 12 May 2026 by head of technology research Jeff Kim).

In the absence of a dramatic escalation in Iran it is hard to see what could suddenly derail the current momentum on DRAM stocks saving for the obvious desire to take profits when charts go parabolic as is now the case (see Exhibit 10).

Exhibit 10: Samsung Electronics and Hynix share prices

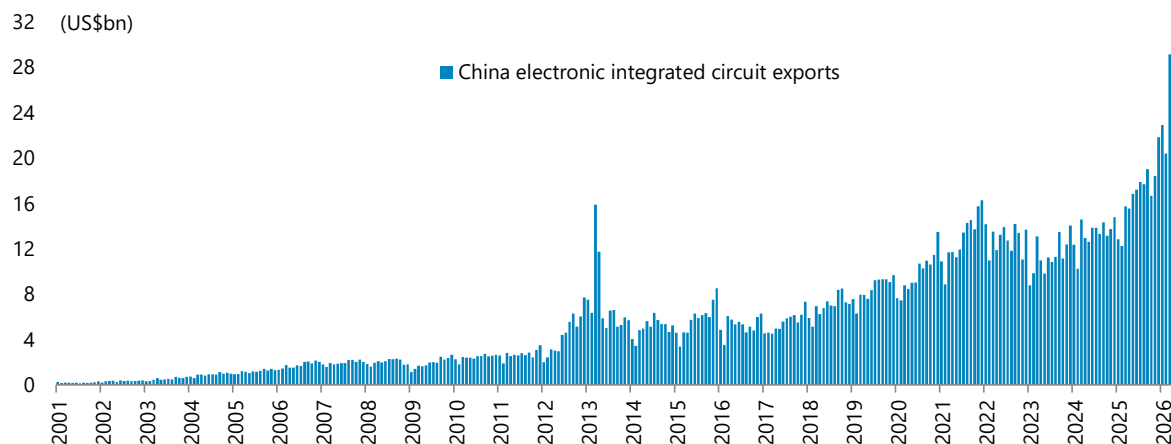


Source: Bloomberg

GREED & fear discussed the threatened industrial action by Samsung Electronics’ 90,000 employees last week. It is interesting that Samsung Electronics’ share price was not hit this week by the news that talks have collapsed and that the risk of industrial action is rising (see Bloomberg article: “*Samsung Labor Talks Collapse as Risks to Chip Supplies Rise*, 13 May 2026). Indeed the stock rose on the view that a strike will further reduce the supply of memory. It is also reported today that Samsung will begin cutting production today ahead of the planned strike (see Bloomberg article: “*Samsung Begins Output Cut Ahead of Planned Strike*”, 14 May 2026). Meanwhile it is also worth noting, from a macro perspective, that the profit explosion at Hynix and Samsung has huge benefits not only for Korea’s benchmark weighting in MSCI indices but also for the Korean government’s corporate tax revenues. Samsung and Hynix’s combined income tax expenses will surge from W11.8tn in 2025 to W146tn this year and W211tn in 2027, according to KB Securities. This compares with total corporate tax revenues last year of W84.6tn.

The other potential catalyst for a correction in memory stocks is when China’s leading DRAM and NAND flash producers list as is expected in coming months as discussed here previously (see [GREED & fear - Suez revisited and Chinese equities](#), 12 March 2026). China’s leading DRAM maker ChangXin Memory Technologies (CXMT) is planning an IPO in Shanghai likely in 3Q26 raising Rmb29.5bn (US\$4.2bn). While leading NAND flash maker Yangtze Memory Technologies (YMTC) is also reportedly considering a domestic listing in the mainland potentially in 4Q26 at a valuation between Rmb200-300bn (see Bloomberg article: “*China Chipmaker Yangtze Memory Is Said to Consider IPO Next Year*”, 22 October 2025). This will serve as a reminder that the Chinese are coming in both the DRAM and NAND flash markets. Meanwhile, it is worth noting that Chinese exports of integrated circuits (chips) surged by 99.6% YoY to a record US\$31.1bn in April and were up 83.7% YoY to US\$103.5bn in the first four months of 2026 (see Exhibit 11).

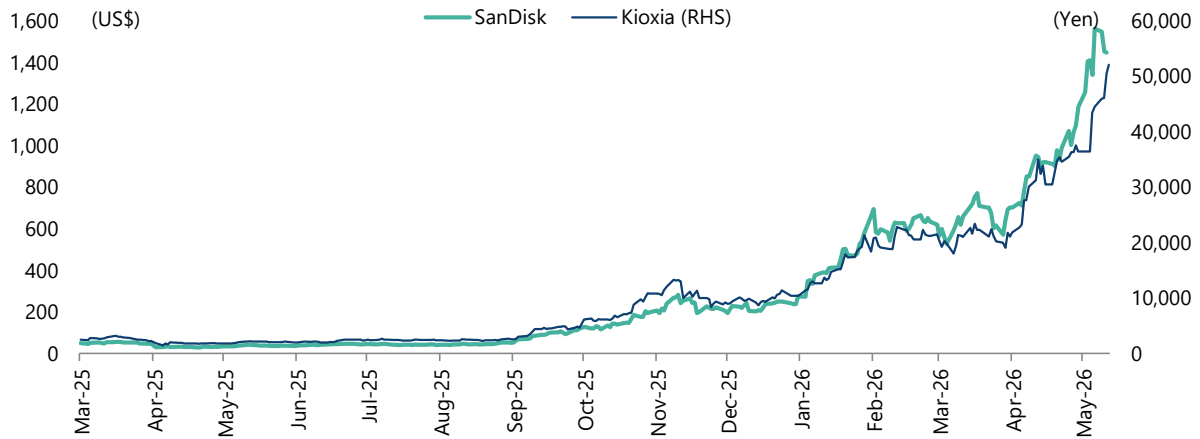
Exhibit 11: China exports of electronic integrated circuits



Source: General Administration of Customs, CEIC Data

Speaking of NAND flash, the performance of stocks purely focused on this area have seen moves which make the DRAM stocks look comparative laggards. The two best examples are US-quoted SanDisk and Japanese quoted Kioxia which emerged out of the old Toshiba. These stocks are up 2,658% and 1,906% since the beginning of September 2025 (see Exhibit 12). Why is this? GREED & fear makes no pretense to be a tech expert. But talking to people whom GREED & fear trusts, it seems to be the case that NAND flash will be consumed at an unprecedentedly voracious rate with the arrival of agentic AI.

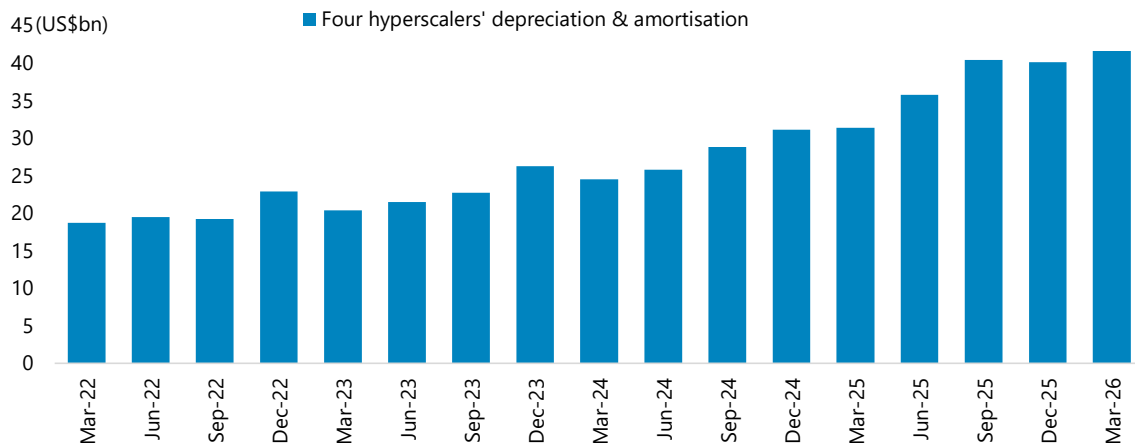
Exhibit 12: SanDisk and Kioxia share prices



Source: Bloomberg

Meanwhile, it should be noted that the memory chip makers book their revenues up front, highlighting the front-end loading of profits. By contrast, the hyperscalers are delaying paying for their surging AI capex via extended depreciation schedules. Still the depreciation bill is rising. The four major hyperscalers collectively spent US\$130bn on capex in 1Q26. But their depreciation expenses were “only” US\$41.6bn, though up 33% YoY (see Exhibit 13).

Exhibit 13: US four major hyperscalers' depreciation and amortization

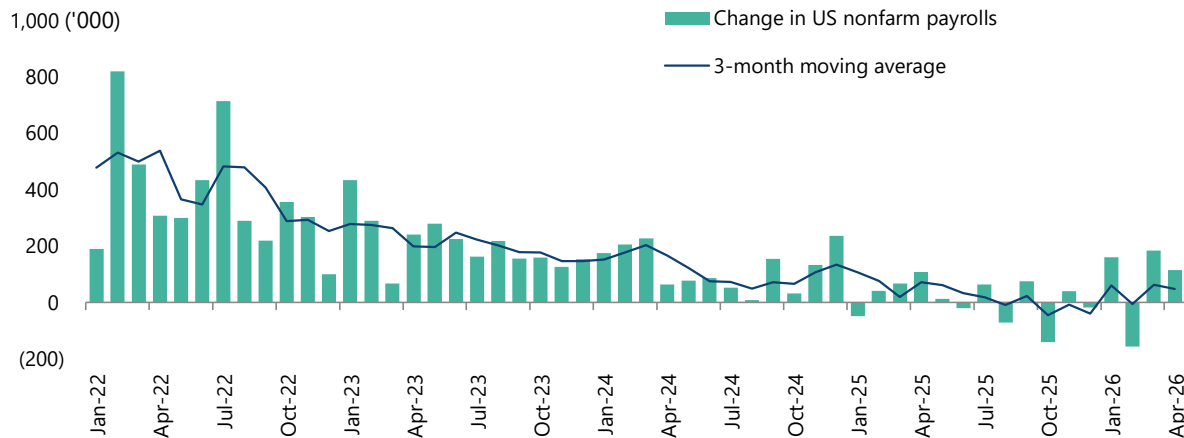


Source: Bloomberg, Companies

If AI remains the all-consuming focus for understandable reasons given market action, the latest US payroll data is noteworthy for its relative strength. If it is surely only a matter of time before the market starts to focus again on the issue it was beginning to think about prior to the onset of the Iran war, namely AI-induced white-collar job losses, the reality is that nonfarm payrolls rose by 115,000 in April and an upward revised 185,000 in March (see Exhibit 14). As noted by Jefferies’ US chief economist Thomas Simons, this is the biggest cumulative two-month increase since November-December 2024 (see Jefferies research: [Wait, Is the Labor Market Actually Improving?](#), 8 May 2026). He also points out, interestingly, that the ADP’s weekly measure of job growth is also showing the strongest pace in recent weeks since the inception of this data series in mid-2025. US private employers added an average of 33,000 jobs a week for the four weeks ending 25 April, though down slightly from the peak of 40,250 jobs in the four weeks to 4 April (see Exhibit 15).

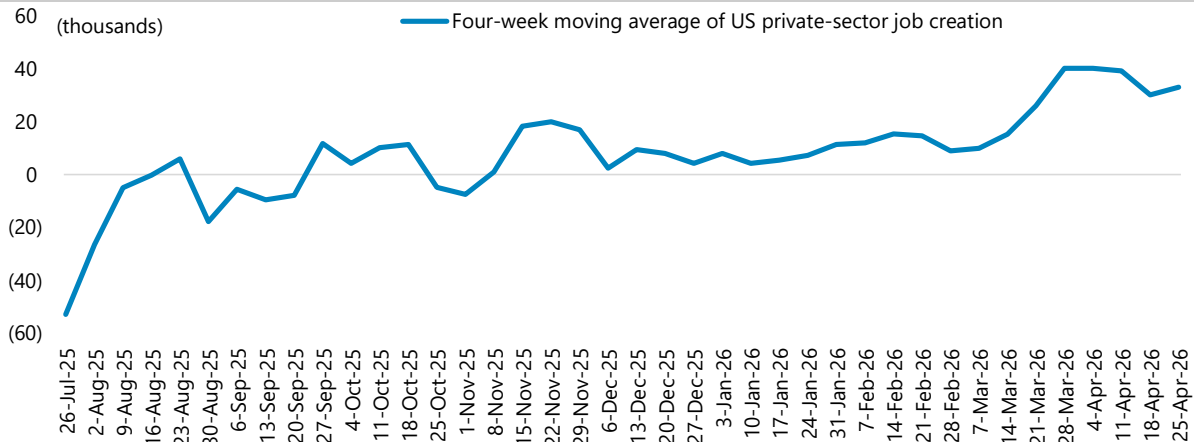
The latest employment data, along with rising inflation, is why money markets have for now given up all hope for a rate cut this year. But as noted earlier, the key issue is not what the new Fed chairman says or does but how the long end of the bond market behaves.

Exhibit 14: US monthly increase in nonfarm payrolls



Source: Bureau of Labor Statistics

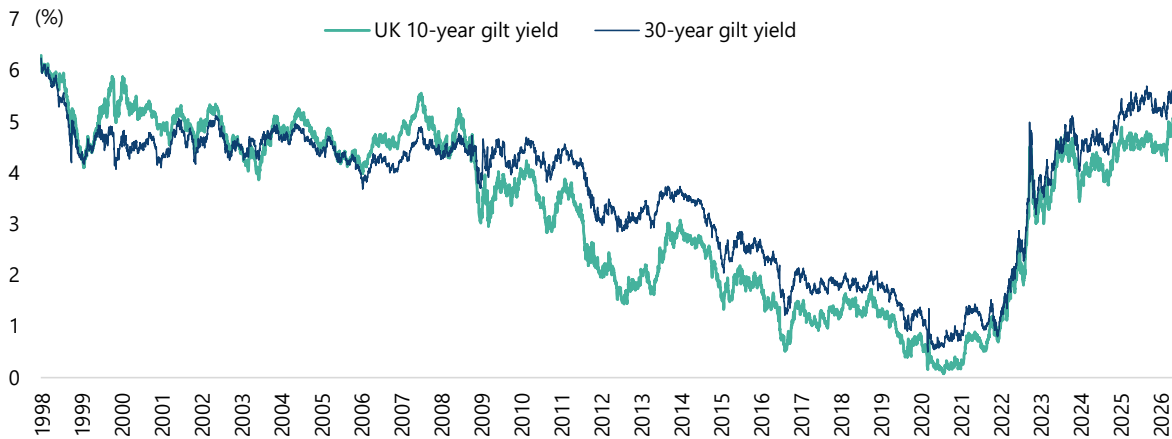
Exhibit 15: ADP weekly tracker: Four-week average of private-sector job creation



Source: ADP payroll data

In London last week talking to investors *GREED & fear* was amazed about the amount of coverage devoted by the ever more parochial British media to local elections and the resulting internecine conflict in the ruling Labour Party, a conflict which has escalated this week with financial market consequences in terms of the 10 and 30 year gilt yields reaching their highest levels since 2008 and 1998 respectively out of fear of the arrival of a more overtly left-wing Prime Minister. The 10-year and 30-year gilt yields have risen by 82bp and 70bp respectively from the recent low in late February to 5.05% and 5.73% (see Exhibit 16).

Exhibit 16: UK 10-year and 30-year gilt yields



Source: Bloomberg

GREED & fear’s advice to the wonderfully uncharismatic Keir Starmer would be to hang on and devote the rest of his premiership to two policies. The first is to negotiate a Swiss-style deal with the European Union to capture the anti-Brexit vote. The second is to boost fiscal credibility by turning back on North Sea oil. Meanwhile, unbeknown to most Brits, including wealthy ones, is that the current government has already commenced a retreat from the crazy policies which have caused an exodus of the wealthy from the UK as previously discussed here (see [GREED & fear - Emerging bond dynamic and regime change](#), 29 May 2025). That is that since April 2025 new arrivals in the UK, and GREED & fear emphasises the word “new”, are being offered a four-year tax relief on foreign income and capital gains known as the FIG residence-based tax regime as opposed to the previous “non-dom” (non-domiciled) remittance-based tax regime which was abolished last April.

GREED & fear met a wealthy Frenchman recently who has taken up residency in London on such a deal while he awaits to see the outcome of next year’s French presidential election which is now only one year away. In Paris this week GREED & fear understands that the concern is that there is, as yet, no unifying candidate on the centre right to run against the likely candidacy of Jean-Luc Mélenchon on the left and Jordan Bardella on the right, the number two in Marine Le Pen’s far-right National Rally party. For now Le Pen cannot run because of the court case against her. Le Pen was convicted in March 2025 of embezzling European Parliament funds, resulting in a four-year prison sentence with two years suspended and the remaining two to be served with an electronic tag, a €100,000 fine and a five-year ban from public office, which she is currently appealing. The appeal trial ended in February with the final court ruling due on 7 July.

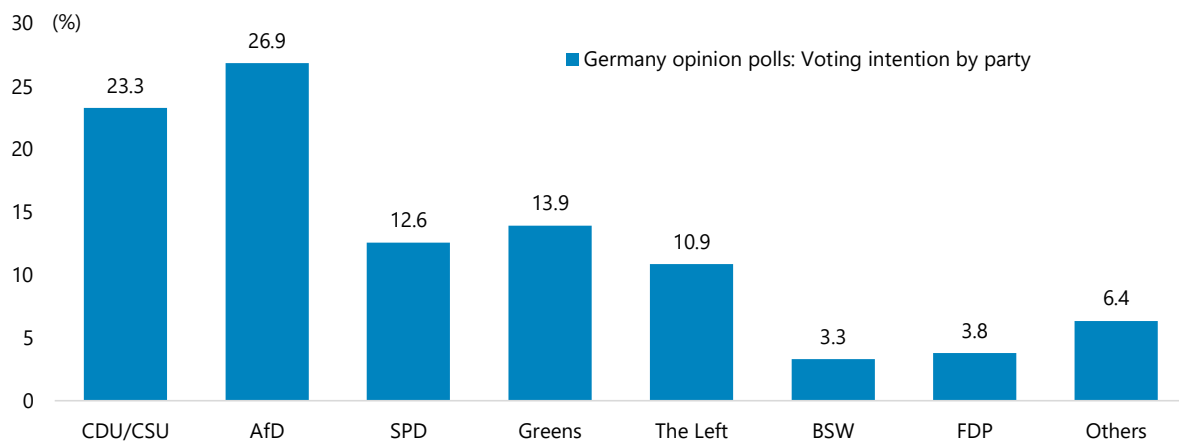
As regards current polling, Mélenchon’s support is running at 13% and Bardella at 35%. The continuing in-fighting between centre-right candidates is clearly a concern but GREED & fear has to assume that pressure, not least from business, will see one single candidate emerge in which case it will become much less likely that the second round of voting in the presidential contest will become a choice between extreme right and extreme left.

If France is more important than the UK from the standpoint of European policies given that the UK has rendered itself much less relevant because of the fiasco known as “Brexit”, GREED & fear continues to take the view that German politics remains by far the most important variable. On that point the next federal election is not due until March 2029. Still it is worth noting that the latest polling data in May now has the AfD polling ahead of the ruling CDU with a 27% support rating compared with the CDU’s 23% (see Exhibit 17 and

Financial Times article: "Germany's AfD enjoys popularity boost, 13 May 2026). The AfD has grown in popularity because of its criticism of Trump's attack on Iran and the resulting surge in energy prices. German CPI inflation rose from 2.7% YoY in March to 2.9% YoY in April, the highest level since January 2024, driven by a 10.1% YoY increase in energy prices (see Exhibit 18). As the above referenced pinko paper article also notes, AfD co-leader, Tino Chrupalla, called last month for the withdrawal of the 38,000 US troops on German soil. This follows on from the AfD's longstanding policy calling for renewed purchases of Russian energy and opposition to supporting Ukraine.

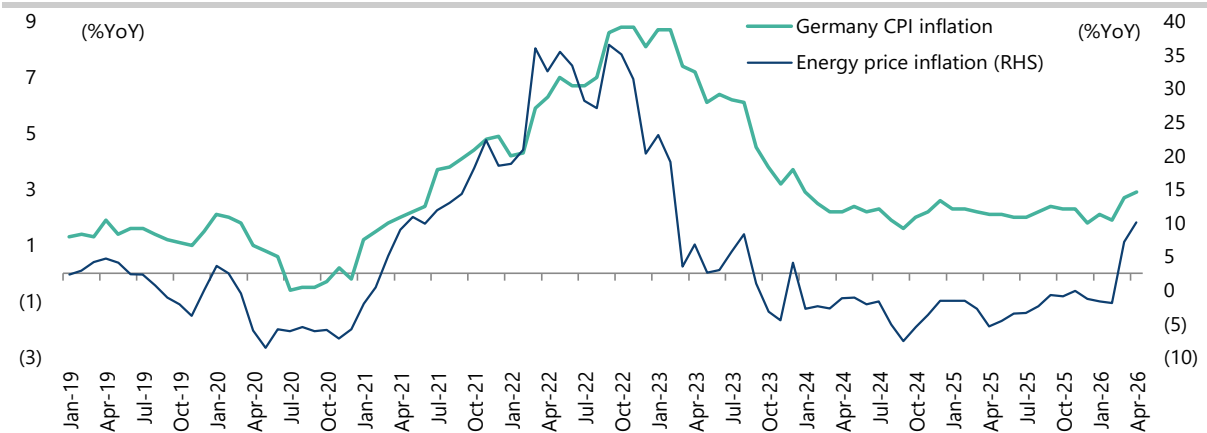
The focus on the AfD will increase if the party wins absolute control in the East German state of Saxony-Anhalt in the state election due to be held in September. This is now a real possibility. The latest opinion poll shows that the AfD's support has risen to 42% in the state, compared with 24% for the CDU.

Exhibit 17: Germany opinion polls: Voting intention by party (Average of latest 7 polls in May)



Note: Based on data compiled by Wahlrecht.de. Average of 7 polls published between 7-13 May. Source: Verian, Forsa, Infratest dimap, Forschungsgruppe Wahlen, INSA, YouGov, Ipsos, Wahlrecht.de

Exhibit 18: Germany CPI inflation



Source: Bloomberg, German Federal Statistical Office

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