

April witnessed a nice rebound for the stock market. Most investors with diversified portfolios are now up in 2026. It was just five or six weeks ago that numerous experts were warning investors that inflation would skyrocket (not that it is currently low!), interest rates would shoot up, oil would go to \$200 US a barrel, and the stock market could go down much further. Adding to all that negativity is the popular SaaS “pocalypse” refrain we are hearing almost daily. This refers to the threat posed to software-as-a-service (SaaS) companies by Artificial Intelligence. The perception that traditional software workflows could be replaced by A.I. has led to marked declines in the price of stocks such as Microsoft, Salesforce, Service Now, and Adobe.

What has led to the market turnaround in April? First, a ceasefire in the Middle East was announced on April 7th. What we are seeing now and what might happen soon in the Middle East is currently perceived as being ‘less bad’ than what was happening from Feb 28th to April 7th. Markets are reacting positively to a ‘less bad’ potential outcome. Secondly, and just as important if not more important than the ceasefire, is the tremendous increase in corporate profits being experienced by large public companies. The technology sector - with the huge buildout of A.I. initiatives - is leading the pack in earnings growth. But other sectors such as heavy machinery, banking, and energy have also been experiencing strong profit growth.

It is my opinion that strong corporate profits are trumping (excuse the unintended pun) everything at the moment. Even with higher food and energy prices - which certainly affect us as consumers - corporate profits are forging ahead. James Carville – Bill Clinton’s campaign strategist in 1992- was famously quoted as saying: *‘It’s the economy, stupid’* when referring to what really impacts election results. I admire the directness and simplicity of his statement. As far as the stock market goes, it’s corporate profits that have the greatest long-term impact - even while military conflicts, elections, etc. grab our individual and the media’s attention.

For a copy of our most recent Monthly Global Insight , please send us a request at wade.brown@rbc.com or Patrick.freel@rbc.com

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