

What's next for stocks: AI melt-up or oil crunch?

Energy prices may hold the keys to where the stock market goes next.

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Key takeaways

- Soaring earnings and AI spending are fueling a bull market with signs of resilience.
- An extended oil crunch could lead to higher rates and inflation that might weigh on stocks.
- Investors may be underestimating the severity of global energy supply stress.
- The path of oil prices could determine whether stocks soar or stumble.

Despite a Mideast conflict that has severely disrupted global energy supplies, stocks this year have done more than climb a wall of worry; they've vaulted to record highs. Here's what to keep in focus for the rest of 2026.

2026 midyear stock market outlook

With the second half approaching, the stock market bull run remains largely intact. If investors continue to look past the Iran conflict and focus on earnings growth, the market could potentially ride the artificial intelligence boom's tail to new highs.

On the other hand, investors could at any time shift their focus from rising profits to the ongoing energy shock and how it may be beginning to create an inflation problem. As recent days have shown, that kind of shift in sentiment could send interest rates higher and push bond prices lower, putting pressure on stocks.

Why stocks might continue their bullish run

If bubbles are defined by excessive market valuations and a lack of earnings growth, we haven't seen either so far. Investors are witnessing growth rates typically seen in the early stages of an economic recovery, not 4 long years into a record-setting [bull market](#).

Case in point: Companies haven't just been beating estimates; they're blowing them out of the water. As of May 11, with 453 of the companies comprising the [S&P 500](#) reporting, 84% of companies beat their first-quarter profit estimates. Earnings are growing so strongly that, relative to past tech stock rallies, [price-to-earnings \(P/E\)](#) valuations have been reasonable, even among the [Magnificent 7](#) mega-cap technology leaders.

[S&P 500 revenues](#) have been growing by 10%, but profits have been rising faster, while operating margins have increased to roughly 16%, an all-time high.

A lot of this growth has been driven by the [technology sector](#), particularly AI development, yet this earnings expectations outperformance has been seen across market sectors. Moreover, earnings estimates are rising at a faster rate.

With capital expenditures (CapEx) surging, that could pave the way for continued earnings growth, which could fuel an AI-driven "melt-up" in stocks.

Since the launch of ChatGPT in late 2022, capital expenditures as a percentage of S&P 500 revenue have doubled to 9%, even as revenue has grown. Indeed, Alphabet (

), Amazon (

), Meta Platforms (

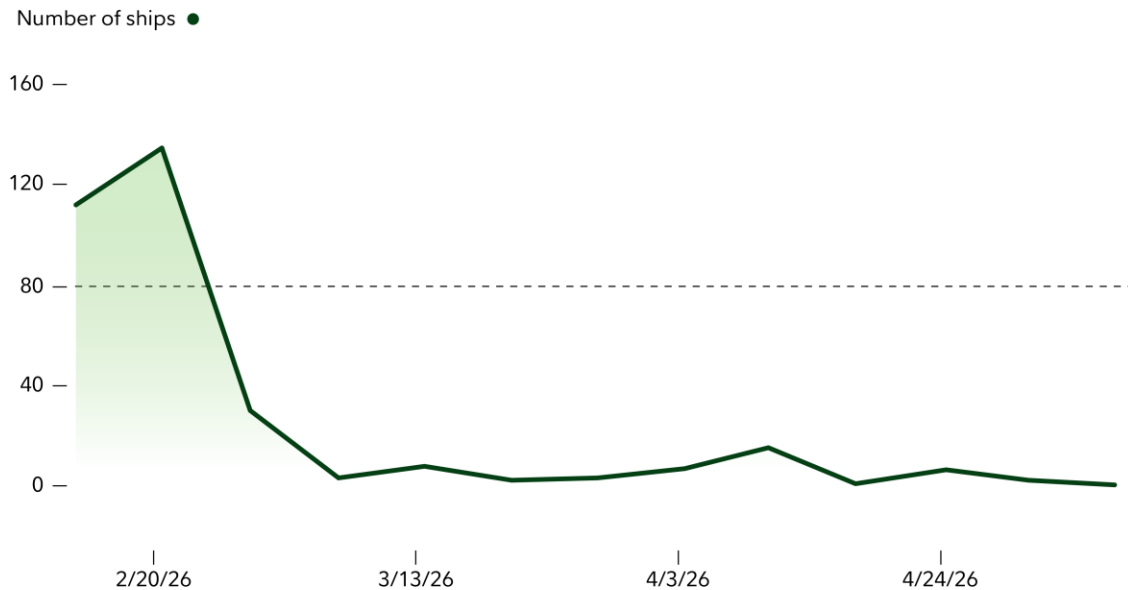
), and Microsoft (

) have projected roughly \$700 billion in spending on AI data center buildouts in 2026.

Sustained higher oil prices could impact bonds and stocks

On the other hand, if energy supplies remain stressed and [oil prices](#) stay north of \$100 a barrel, the damage could spill over to stocks and bonds because interest rates and consumer prices may be pushed higher. Investors will be keeping a close eye on the flow of oil through the Strait of Hormuz, which has been choked off since late February. During the week of May 8, just 4 oil tankers passed through, well below the weekly average of 102 ships.

Strait of Hormuz weekly oil tanker traffic



Source: Bloomberg, as of May 10, 2026

Investors have remained hopeful, looking past the Iran headlines. Stocks rebounded quickly to new record highs just weeks after the US and Israel launched their first strikes.

Given the complexities of producing, transporting, and storing oil, I am increasingly concerned that what the market views as a temporary shock may have longer-term, far-reaching repercussions.

Oil markets may be more stressed than investors realize

Global oil markets remain backwardated, which means the price of oil for future delivery is below the “spot” price for immediate delivery. Up until now, the market has behaved as if the supply squeeze is temporary, but one could argue that investors are unaware that crude oil markets have never been so stressed.

The price of crude has recently reflected a 60% “scarcity premium,” the amount by which market prices exceed the historical baseline. This economic surcharge indicates traders anticipate critical tightness in physical supplies.

If the oil crunch lasts longer than the market’s expectations and energy prices remain elevated, it could send stocks lower, push bond yields higher, and stoke inflationary pressure. Though the rate of inflation had settled at 3%, down from a COVID-fueled spike of

9%, this means future consumer price increases would start from a higher base. That could affect the Federal Reserve's ability to deliver interest rate cuts before the end of the year.

And if bond yields go up, that could hurt the stock market, especially high-flying growth companies. Investors have already seen this happen in recent days, with the stock market declining while yields on 10-year Treasuries have been ticking up. If benchmark rates stay above 4.5%, the market is likely to keep paying close attention.

Midyear stock market outlook: What it means for investors

While the market is roughly in balance here, I am more concerned about downside risk than upside potential, given the risk of an indefinite oil supply crunch.

What's an investor to do? To help manage risk, investors would be wise to review and rebalance their portfolios as needed to ensure no exposures have grown overly large.

Another step might be to diversify into assets not correlated with either stocks or bonds, such as [commodities](#), especially energy. The challenge with commodities is that they can be more volatile. Cash and short-term [Treasuries](#) can be good diversifiers because there's no room for the Fed to cut rates. [Bitcoin](#) may have underperformed in 2025, but it has recently found its footing.

Several segments of the stock market have remained attractive, even in light of these risks. The [energy sector](#) may be suitable for investors who believe the market has been complacent about the Iran situation and is underestimating the potential for oil prices to remain high. Technology, powered by the AI narrative, could be worth exploring because market valuations are not stretched while earnings growth is increasing. Banks and other [financial services](#) companies are also attractive because of the potential of rising long-term interest rates, which have historically driven stronger profit margins.

At the end of the day, the price of oil has the potential to negatively impact the markets. If crude benchmarks remain elevated or rise further, that could lead to higher inflation, push long-term interest rates higher, and knock stocks down at the margin.