

## WEEKLY ECONOMIC UPDATE MAY 18, 2026

Stocks were mixed last week as investors fretted over hot inflation reports, which offset the move in chipmaker stocks.

The Standard & Poor's 500 Index rose 0.13 percent, while the Nasdaq Composite Index edged down 0.08 percent. The Dow Jones Industrial Average lost 0.17 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, declined 1.77 percent.<sup>1,2</sup>

### **Volatile Week**

Stocks ticked up to start the week, helping the S&P 500 close above 7400 for the first time. The Nasdaq also closed at a new high as chipmaker stocks continued to lead the tech sector.<sup>3</sup>

Markets opened lower on Tuesday after the Consumer Price Index (CPI) report came in hotter than expected. Stocks pared the losses by the close, with the Dow Industrials managing to notch a slight gain.<sup>4</sup>

The rally continued, with the S&P and Nasdaq hitting new intraday and closing records over the next two trading days. On Thursday, a strong Q1 report from a megacap tech company helped pace gains while investors kept one eye on the ongoing U.S.-China meetings. The S&P 500 closed over 7,500 for the first time, while the Dow reclaimed the 50,000 level.<sup>5,6</sup>

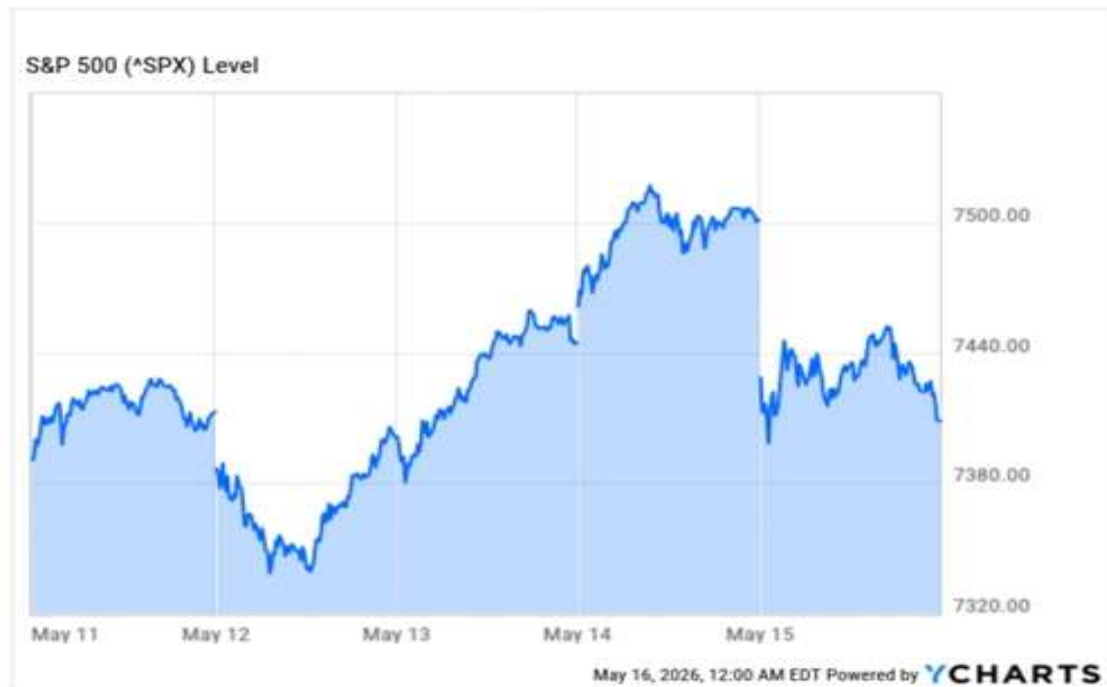
Stocks were under pressure from the opening bell on Friday. Treasury yields rose as the three-day summit between U.S. and Chinese leaders came to a close. Investors seemed disappointed that there were no major agreements in the Middle East conflict.<sup>7</sup>

## Weekly Market Insights (WMI)

### Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
<b>Nasdaq Composite</b>	12.71%	14.83%	39.98%	105.7%
<b>S&amp;P 500</b>	7.74%	10.04%	28.87%	93.19%
<b>Dow Jones Industrial Average</b>	3.22%	4.71%	21.08%	60.12%
<b>MSCI EAFE</b>	0.26%	7.91%	24.37%	56.77%

### S&P 500 Daily Close



### 10-Year Note Review

Indicator Name	Latest Value	1M Ago	1M Change
Date		3M Ago	3M Change
		1Y Ago	1Y Change
<b>10 Year Treasury Rate</b>	<b>4.59%</b>	4.29%	6.99% ▲
05/15/26		4.04%	13.61% ▲
		4.45%	3.15% ▲

## **Inflation in Focus**

Both retail and wholesale inflation rose faster than expected in April, heavily influenced by higher energy prices.

The CPI increased 3.8 percent year over year in April, up from 3.3 percent in March. Fuel oil alone climbed 54 percent year over year, while gasoline jumped 28 percent. In fact, over 40 percent of the 0.6 percent month-over-month gain was driven by energy inflation.<sup>8</sup>

Inflation also showed up in wholesale prices. The Producer Price Index rose 6 percent over the prior 12 months in April, also a 3-year high. Month over month, PPI rose 1.4 percent (a 4-year high) versus the 0.5 percent increase expected.<sup>9</sup>

## **This Week: Key Economic Data**

**Tuesday:** Pending Home Sales. Philadelphia Fed President Anna Paulson speaks.

**Wednesday:** Minutes from Fed's May FOMC Meeting.

**Thursday:** Weekly Jobless Claims. Housing Starts. Building Permits. Purchasing Managers Index—Services. Purchasing Managers Index—Manufacturing.

**Friday:** Consumer Sentiment. Leading Economic Indicators.

## Quote of the Week



*"Governments and their “experts” constantly try to blame inflation on anything except what really creates it: monetary excess preceded by fiscal irresponsibility and uncontrolled deficit spending.*

– Daniel Lacalle

## Of Note



Classic warning indicators are now near historic extremes. The Cyclically Adjusted Price Earnings ratio (CAPE) is near its all-time high. It's above the 1929 level and just short of the dot-com level. Dislocation from fundamentals is accompanied by US PPI running at 6%, CPI almost 4%, as energy, electricity, transportation, goods prices, rents are on the rise and US CPI on course for greater than 5% by the midterm elections.

Geopolitical chaos is pushing gas prices up dramatically. Simultaneously, consumer borrowing in the U.S. rose to the highest level since late 2022. Non-revolving credit climbed by almost \$15 billion in March, the highest figure since mid-2023. Pending credit card debt increased by \$10 billion, the most since 2024.

So why is the stock market at record highs? Extreme speculation in a handful of US names has led to the fastest rise in “gamma” yet seen, along with similarly unprecedented moves in correlation and dispersion. What is “gamma”?

A “gamma squeeze” is a rapid, self-reinforcing spike in a stock’s price caused by heavy Call option buying and the way options dealers hedge their risk. When many traders buy Call options on a stock, the dealers who sell those options hedge their exposure by buying shares of the underlying stock. Recall a Call option gives the buyer a right purchase stock at a specific price but the seller now has the obligation to sell it at that price. If prices go up, the seller will have to sell at a price lower than the market, creating a loss. They can hedge this exposure by purchasing the underlying stock associated with the option.

As the stock price rises, the “delta” (how much the option price moves for a one point move in the stock) of those calls increases, and because of gamma (the rate at which delta changes), the dealer needs to buy even more shares to stay hedged. That dealer buying pushes the stock price up further, which again increases option deltas and forces more hedging buys, creating a feedback loop: rising price → more hedging → rising price. That loop is what people call a “gamma squeeze”.

When a stock with a lot of outstanding short calls (dealers short, customers long) starts to move up quickly and trades near big strike levels, gamma is high, so delta changes fast. Dealers’ hedge requirements jump sharply in a short time, forcing very aggressive stock buying. That’s the “squeeze” on the dealers.

Now combine the gamma squeeze with a short squeeze. Shorts (people who borrowed and sold the stock) are forced to buy back shares to cover as the price rises, pushing it higher.

In practice, both can happen together: a heavily shorted name with huge call buying can see short covering and dealers hedging at the same time, which is why the moves can be violent.

Things that often show up in a gamma squeeze setup:

- 1) Very high call open interest and volume, often concentrated at a cluster of near dated strikes.
- 2) Many of those calls are sold by dealers (so dealers are short calls).
- 3) A sharp upside move in the underlying stock that pushes price toward or through those strikes, especially into expiration.
- 4) Dealers scrambling to stay delta neutral by buying stock as price runs through their key strike prices.

Dealers are not making a directional bet; they are just mechanically hedging. But the market doesn't care why shares are being bought; the flow still pushes the price upwards. If liquidity is thin or there's also retail or speculative buying in the stock itself, and/or a short squeeze (short sellers covering as price rises), the dealer hedging demand stacks on top of organic and forced demand, making the move much sharper and more vertical than would otherwise be expected from simple supply/demand in the stock alone.

Bottom line, the recent parabolic rise in the stock market has little to do with fundamentals, rather it is reacting to gamma and short squeezes. At some point, the alligator jaws will close, the only question is when.

## **Footnotes And Sources**

1. WSJ.com, May 15, 2026
2. Investing.com, May 15, 2026
3. CNBC.com, May 11, 2026
4. WSJ.com, May 12, 2026

5. CNBC.com, May 13, 2026
6. CNBC.com, May 14, 2026
7. CNBC.com, May 15, 2026
8. WSJ.com, May 12, 2026
9. CNBC.com, May 13, 2026

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