

Weekly Market Commentary

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AI Wave Continues to Power Technology Earnings Boom

In investing, the goal is to find assets that appreciate. That can be accomplished in different ways. One way is to find businesses that aren't growing very fast but can be purchased at a low enough valuation that the investment can perform well. Another way to find potentially good investments is by identifying businesses (or groups of businesses that make up an index) that are growing rapidly but the market underestimates that growth. Some refer to this as "growth at a reasonable price" investing. Whatever style of growth an investor might pursue, it's clear that finding growth that the market doesn't expect may be a path to success. That's what we see in the technology sector currently — a sector with very strong earnings growth that, in our view, is not being sufficiently rewarded in the marketplace due to ongoing AI skepticism.

Hyperscalers Post Blockbuster Beats

A frenzied week of macroeconomic data and big earnings news offered glimpses under the hood of both the U.S. economy and some of corporate America's highest profile companies. Here we'll focus on the latter, as last week brought eagerly anticipated quarterly results from mega-cap artificial intelligence (AI) hyperscalers Alphabet (GOOG/L), Amazon (AMZN), Meta (META), and Microsoft (MSFT), as well as Apple (AAPL). While scrutiny on capital investments remains high, takeaways from results broadly leaned positive, in our view.

Alphabet grabbed the spotlight among last Wednesday's reports as the Google-parent company blew past Wall Street's expectations. High demand for cloud and AI offerings drove a "meaningful acceleration" in growth, indicating to investors that significant AI investments are paying off. Worries that their main business line — Google search — could be taken over by chatbots, ebbed on signs that the firm has successfully integrated AI into its search offering, while also driving down costs to answer users' questions with AI.

Strong growth in Amazon Web Services highlighted the e-commerce giant Amazon's report. The unit accounts for most of Amazon's operating profit, and intense demand for AI computing power drove the fastest quarterly sales growth since 2022. Online sales, which still make up the largest share of revenue for Amazon, rose 12% last quarter.

Meta reignited worries around the social media company's historic spending levels after revising capital expenditures higher while citing higher component pricing and additional data center costs. The company blamed disruptions in Russia and Iran for its first-ever quarterly decline in users.

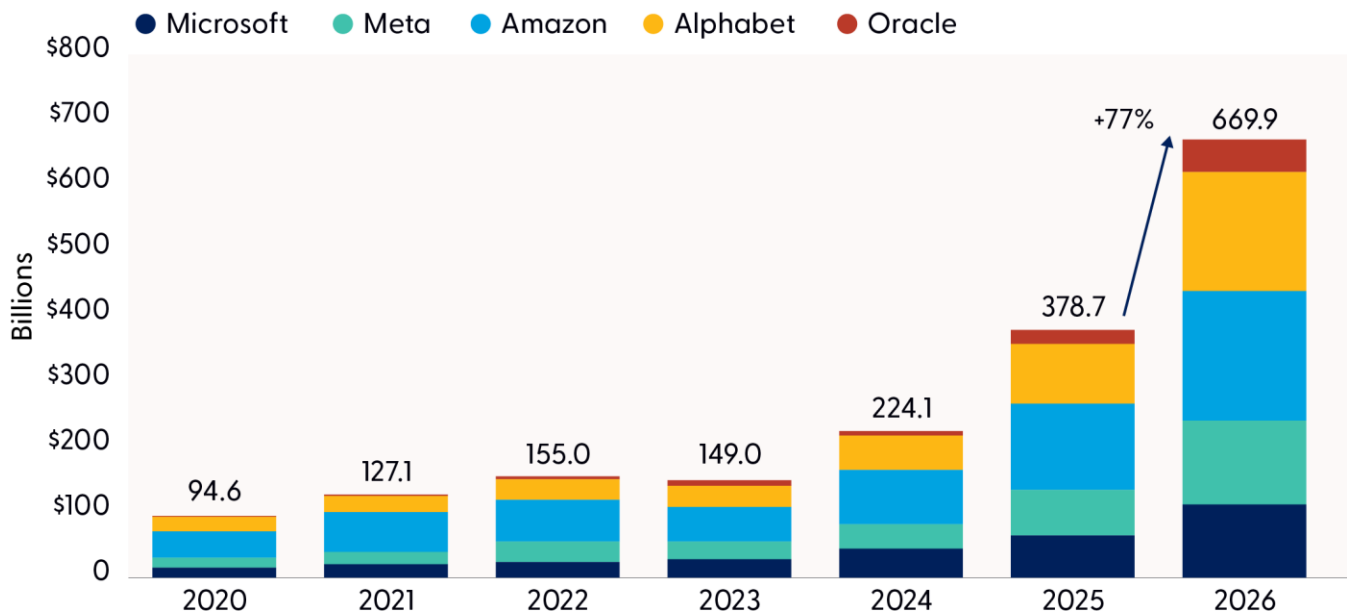
Microsoft rounded out Wednesday's slate of reports. All-important cloud revenue growth remained strong but came in only 1% above the consensus estimate and trailed peers.

At a higher level, all four companies met or exceeded earnings and revenue estimates and ramped up spending guidance yet again — now tracking toward \$725 billion for this year, mostly earmarked for data center buildouts and equipment. With no signs of slowing down, AI-driven spending will likely continue to do the heavy lifting for S&P 500 earnings growth, led by the technology sector. Technology earnings are on pace to grow over 50% this quarter, while 80% of the 26% S&P 500 earnings per share growth is expected to come from the top three growth sectors: communication services, consumer discretionary, and technology.

AI Capex Cycle Picking Up Speed

As investment in AI ramps up and the market’s confidence in technology’s value increases, as we believe it did last week, the outlook for the technology sector improves. The debate about whether AI will fulfill its promise as a productivity enhancer won’t be settled for quite some time. But what we do know is that massive spending is going to continue. The top five hyperscalers building out AI data centers and unleashing unprecedented computing power, namely Alphabet, Amazon, Meta, Microsoft, and Oracle (ORCL), have told us spending could reach up to \$725 billion, with Wall Street’s median forecasts calling for just over \$670 billion (for comparison, that number was roughly \$520 billion at the end of 2025).

AI Capital Investment by Largest Hyperscalers Could Exceed \$700 Billion in 2026



Source: LPL Research, Bloomberg, 04/30/26

Disclosures: Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change.

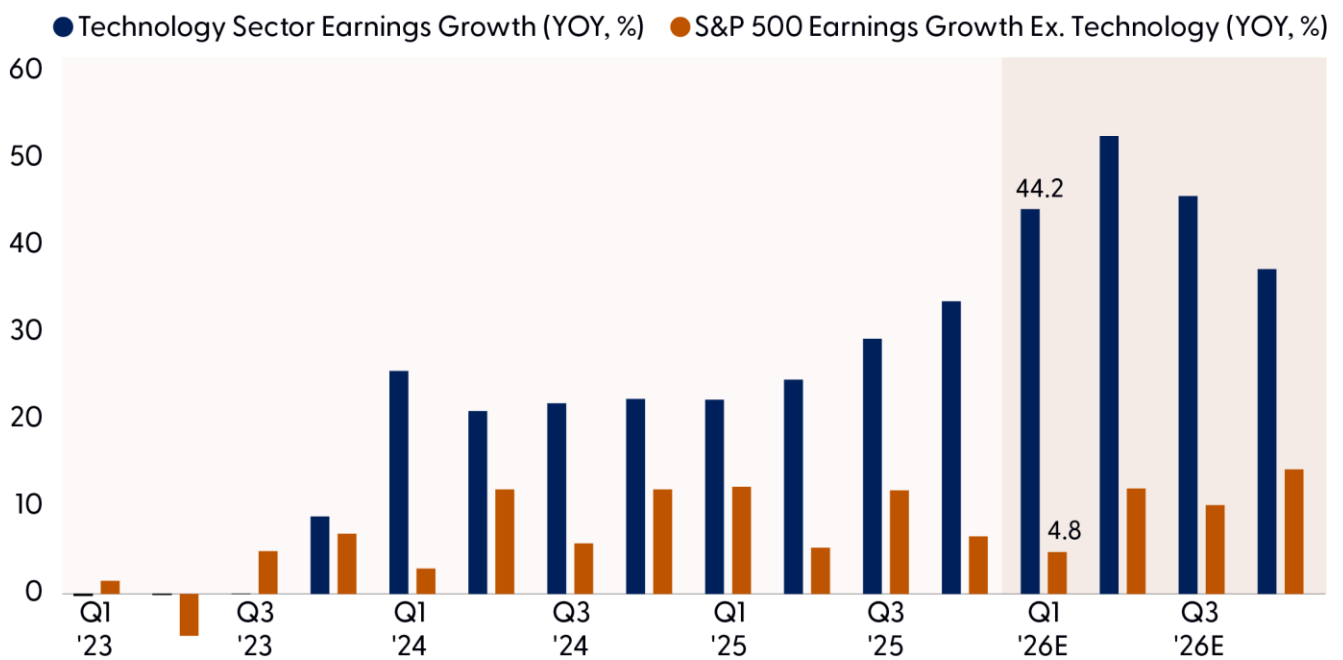
Strong Earnings Outlook Getting Stronger

Before the debate about whether investment in AI will pay off is settled (for the record, we suspect most of it will), the massive AI investment will translate into technology companies’ earnings. We also expect productivity enhancements to drive higher profit margins and support strong earnings. In the first quarter, by the time all results are in, technology sector earnings growth may exceed 50% and end up more than five times the pace of earnings growth from the rest of the S&P 500. Perhaps even more impressive, the consensus 2026 earnings estimate for the sector has been revised higher by nearly 15 percentage points year to date (23.4% to 38.7%) as capital investment targets increased.

But that earnings growth won't come easily. Some of the infrastructure buildout is being funded by debt — and that cost could rise over time depending on AI's ability to generate revenue. Some of the funding for the buildout will come from capital yet to be raised by private companies such as Anthropic and OpenAI. And if at some point the value proposition from AI adoption fails to live up to its hype, demand for computing capacity will slow down.

Bottom line, if these companies can deliver what they have told the market to expect, the technology sector has the potential for significant earnings growth and price appreciation ahead.

Significant Earnings Growth Gap Between Technology and the Rest of the S&P 500



Source: LPL Research, Bloomberg 04/30/26

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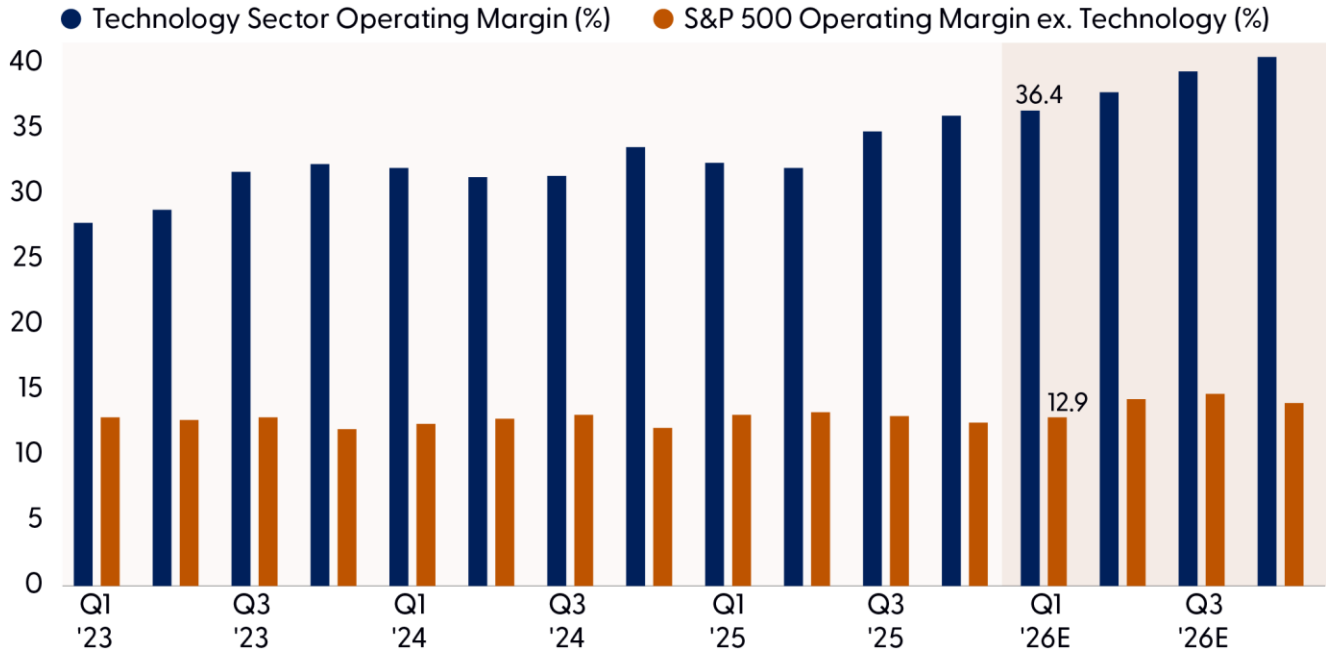
Margin Expansion Story Likely Not Over

Profit margins for the S&P 500 are at record highs and are likely to continue to go higher as AI adoption fuels productivity gains and revenue continues to grow at a solid pace. A lot of the margin expansion in the coming quarters is expected to come from the technology sector, as shown in the “Technology Enjoys Significant Profit Margin Advantage” chart.

Technology sector operating margins are expected to exceed 36% in the first quarter, compared to just 13.1% for the rest of the S&P 500. Given we are still in the early innings of the AI adoption cycle, we wouldn't be surprised to see expanding margins for several more years — as long as the U.S. economy avoids recession. Just 60% of large companies have adopted AI, according to data from Ramp Economics Lab. For small companies, that number is 44%. Productivity gains will come at the cost of some displaced labor, but over time, we expect workers to reinvent

themselves for the new economy as they have through prior technology revolutions, helping to mitigate any increase in unemployment.

Technology Enjoys Significant Profit Margin Advantage Over Rest of the S&P 500



Source: LPL Research, Bloomberg 04/30/26

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Technology Valuations Remain Reasonable Despite Recent Strength

With the S&P 500 at record highs and technology having outperformed the broader market in 2023, 2024, 2025, and year to date, suggesting the sector is reasonably valued may be hard to believe. The sector has nearly tripled in price since the start of 2023. However, at a forward price-to-earnings ratio (P/E) of 24, just 14% above the S&P 500, with compelling margins and earnings growth to the broad market, we believe the sector is undervalued. A few more years of massive AI infrastructure spending and potential margin expansion as AI adoption ramps could drive technology sector valuations much higher, in our view. If any sector can generate productivity gains from AI, it's probably technology.

There are clearly risks, including disruption to software businesses because of the ease of coding with AI and possible funding challenges. But the path has been paved for higher valuations and continued strong earnings growth this year and next, and potentially beyond.

Conclusion

The technology sector's renewed leadership reflects strong earnings growth amid lingering AI skepticism. While debate continues over the ultimate return on the massive investment in AI, capital spending plans are rising, earnings estimates are moving higher, the sector's margins remain well above the broader market, and the sector's

free cash flow outlook remains robust. Together, these trends suggest the market is still underappreciating technology's AI-driven earnings power. Despite several years of sector outperformance, valuations remain reasonable in our view, relative to the broad market and the sector's compelling growth and profitability.

Risks remain, including potential software disruption from AI and financing challenges related to the buildout. There will no doubt be ups and downs for the AI trade. Even so, if companies can execute current plans and the economy continues to expand, technology appears well positioned for additional outperformance in the months and years ahead.

Asset Allocation Insights

LPL's Strategic Tactical Asset Allocation Committee (STAAC) recently moved its equities recommendation to a tactical overweight and fixed income to underweight. This shift builds on positioning decisions implemented ahead of the recent rise in volatility. In our view, increased market uncertainty has improved the forward-looking risk-reward for incremental equity exposure, allowing us to act within our established tactical framework while maintaining prudent risk controls.

Within Growth with Income (GWI) portfolios — our closest proxy to a traditional 60/40 allocation — this adjustment reflects two related changes: neutralizing the underweight to U.S. small cap value and reducing exposure to MBS to fund that move. From a portfolio construction standpoint, this lifts equity exposure slightly above benchmark while keeping overall risk well within the intended tactical range. This reflects improved expected equity returns following market weakness, alongside a more cautious outlook for select areas of core fixed income. Within equity sectors, the STAAC holds a positive view on the industrials and technology sectors.

Overall, our tactical views emphasize a modest equity overweight led by large-cap growth, a continued focus on quality, caution in rate-sensitive fixed income sectors, and an ongoing allocation to diversifying strategies and alternatives funded from cash.

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All index data from FactSet or Bloomberg.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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