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Monthly Insights: May Outlook

Information Technology Sector

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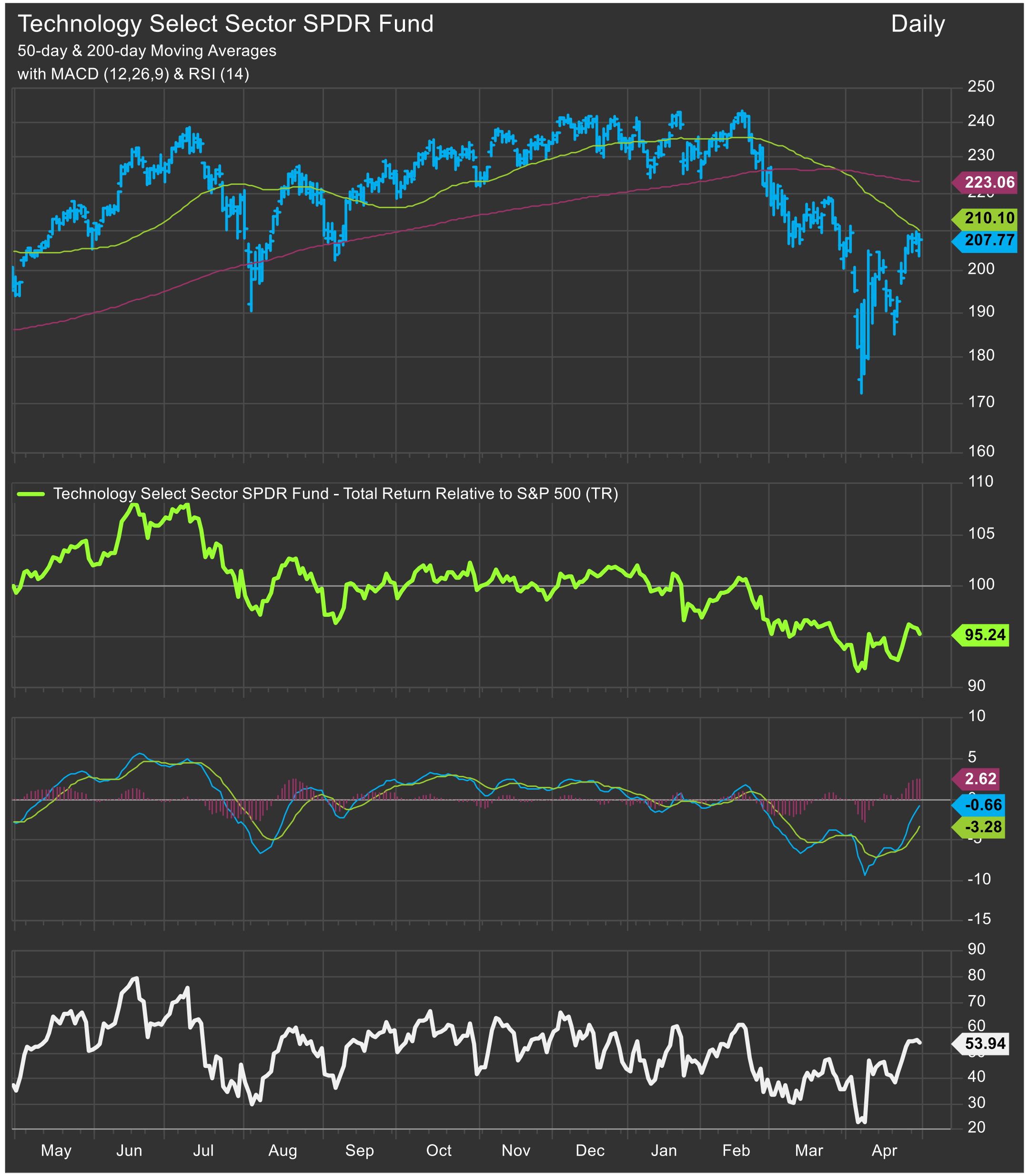
Sector Price Action & Performance Review: Information Technology Sector



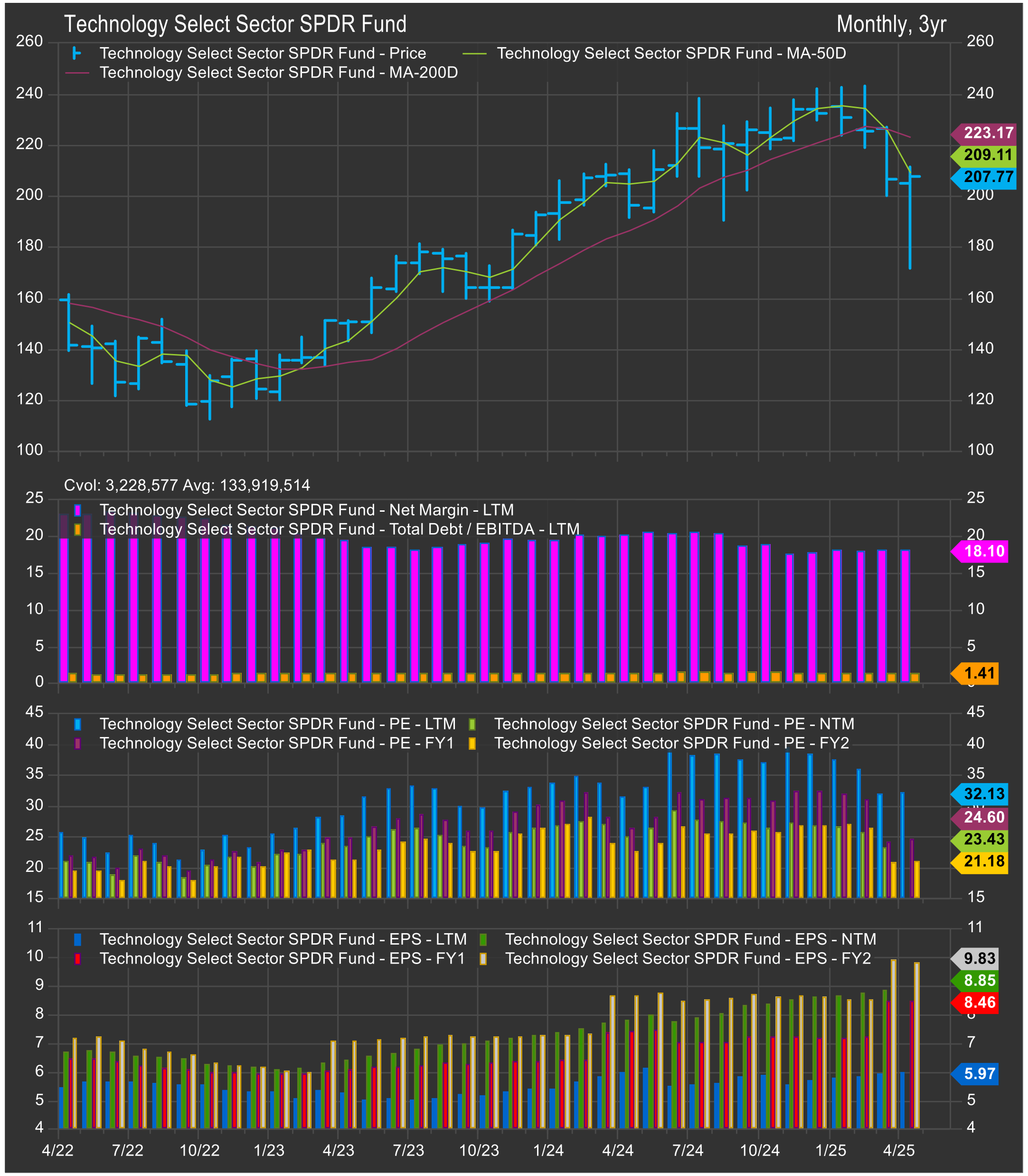
The Information Technology Sector showed signs of bullish reversal in April for the first time in this correction. Price has rallied from deeply oversold conditions to short-term resistance at the 50-day moving average. With our MACD study showing a tactical buy signal and the RSI still well short of overbought conditions, there's potential for more upside from a technical perspective.

However, challenges do remain given a complicated new global trade environment that is forcing changes to US supply chains and increased international competition on AI which presents continued challenges to the business models of US chip companies. Contracting capital budgets, overseas and domestic regulatory scrutiny and a softening economy are all potential headwinds for Technology companies.

Given the >20% discount in shares of the XLK SPDR from February – April in combination with a stronger than expected earnings season (so far), we are becoming more constructive on the sector as an accumulation opportunity and are moving from a negative to a neutral outlook for May.

We start May with a MARKET WEIGHT allocation to the Information Technology Sector of -0.32% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Information Technology Sector



The chart (left) shows S&P 500 Information Technology Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins contracted in the back half of 2024 (chart, panel 2) while valuation multiples have begun to contract (panel 3). Earnings season revealed upbeat forward guidance where it was available raising FY2 estimated EPS and compressing forward valuations. This is the positive dynamic that offsets some of our near-term concerns about the aggressive start to global trade negotiations, particularly between the US and China

Industry/Sub-Industry Performance and Breadth: Information Technology Sector

Information Technology Industries (chart, left):The Software Industry followed through to a constructive looking bullish reversal in April while Semiconductors made most gains for April, but remain challenged.

Comm Equipment stocks are now retracing YTD gains along with IT Services

Information Technology Sector Internals (chart, right): We're finally seeing signs of life from the buyer as mid-April saw several >90% up days among stock level constituents pushing the % of stocks above their 50-day moving average off the floor and above March levels

Top 10/Bottom 10 Stock Level Performers: Information Technology Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
PLTR	Palantir Technologies Inc. Class A	Uptrend	262,652.2	7.85	164.1	0.0	35.5	NT OVERBOUGHT
CRWD	CrowdStrike Holdings, Inc. Class A	Bullish Reversal	106,831.0	4.63	30.3	0.0	21.0	NT OVERBOUGHT
NOW	ServiceNow, Inc.	Bullish Reversal	195,172.0	2.16	4.2	0.0	18.5	NT OVERBOUGHT
CDNS	Cadence Design Systems, Inc.	Bullish Reversal	82,903.1	1.72	8.8	0.0	18.0	NT OVERBOUGHT
APH	Amphenol Corporation Class A	Bullish Reversal	92,752.1	1.15	16.7	0.6	15.4	NT OVERBOUGHT
AVGO	Broadcom Inc.	Uptrend	898,871.5	1.07	12.9	0.8	13.3	
VRSN	VeriSign, Inc.	Bullish Reversal	26,138.0	1.25	46.1	0.5	11.2	NT OVERBOUGHT
PANW	Palo Alto Networks, Inc.	Bullish Reversal	123,581.0	2.12	9.2	0.0	8.3	
FTNT	Fortinet, Inc.	Bullish Reversal	80,134.8	1.65	29.1	0.0	8.2	
FSLR	First Solar, Inc.	Downtrend	14,717.7	0.27	-19.9	0.0	8.1	

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
ENPH	Enphase Energy, Inc.	Downtrend	6,259.9	0.69	-35.5	0.0	-22.3	NT OVERSOLD
MU	Micron Technology, Inc.	Downtrend	85,918.9	0.32	-21.4	0.4	-12.7	NT OVERSOLD
INTC	Intel Corporation	Support	88,723.1	1.75	-9.6	0.3	-10.2	
TER	Teradyne, Inc.	Downtrend	12,044.7	0.82	-31.4	0.4	-9.3	NT OVERSOLD
TXN	Texas Instruments Incorporated	Support	146,055.1	1.10	-12.8	2.3	-8.6	
ZBRA	Zebra Technologies Corporation Class A	Support	13,095.2	0.67	-26.1	0.0	-8.5	
HPQ	HP Inc.	Downtrend	24,057.8	0.29	-18.5	3.0	-8.3	
TYL	Tyler Technologies, Inc.	Consolidation	23,034.4	1.87	-4.7		-7.6	
AMD	Advanced Micro Devices, Inc.	Support	156,062.3	0.79	-29.1	0.0	-6.7	
TDY	Teledyne Technologies Incorporated	Bullish Reversal	21,678.1	0.85	2.6	0.0	-6.4	

April saw a return to pro-momentum leadership in the sector while big names AAPL, MSFT, and NVDA stabilized

The laggard list was populated largely by long-term regulars

Our biggest quibble with stock level performance is very low investor interest in bottom-fishing the average semiconductor company…Most of those names have traded to support without generating much interest

Metrics:

(Formulas are in the appendix at the end of the report)

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Information Technology Sector

1. Global Trade: NVDA's Supply Chain and Rising Chinese AI Competition

U.S.-China tensions re-intensified in April, and the Information Technology sector—particularly semis—remains front and center in the policy crossfire. The Trump administration's expanded tariffs on Chinese technology imports, combined with **uncertainty over reciprocal measures**, are affecting both **hardware supply chains** and **AI deployment timelines**.

NVIDIA (NVDA) was notably weak during the month, under pressure from reports that **Huawei has begun testing a domestic AI processor (Ascend 910D)** that could rival NVDA's H100 chips in China. This raised concerns that NVDA could **lose share in a critical market** due to escalating export controls and forced localization.

While NVDA remains dominant globally in high-end AI compute, Chinese firms like **Alibaba, Baidu, and DeepSeek** are scaling local LLMs and hardware stacks, threatening the **"AI exceptionalism" thesis** that has underpinned NVDA's massive re-rating.

Other semi names including **QRVO, NXPI, and SMCI** highlighted supply chain disruptions and delayed customer decisions, often citing **tariff uncertainty** as a factor.

At the same time, the Biden administration's CHIPS Act incentives continue to flow, but **near-term reshoring of manufacturing is limited**, making hardware-dependent firms still vulnerable to Asia-based logistics and policy risk.

Implication: While AI tailwinds remain structurally intact, **policy risk is growing**, and supply chain friction is a real margin risk for hardware-oriented names. Expect dispersion to grow between globally diversified firms and those with greater China exposure.

2. Fed Policy & Rates: Lower Yields, Higher Valuations

A key driver of the April rally was the drop in long-term interest rates:

The 10-year Treasury yield fell to ~4.3%, a three-week low.

Market now prices in **~85 bps of rate cuts** in 2025, boosting demand for long-duration assets—like tech equities.

Mega-cap tech stocks—especially **Apple, Microsoft, Alphabet, and Nvidia**—are extremely sensitive to real yields given their growth profiles and weight in passive indices. The **valuation multiple expansion** in these names helped pull the whole sector higher.

However, the political rhetoric around the Fed has introduced a **new overhang**. Former Fed governor and Trump policy adviser Kevin Warsh warned of **systematic errors at the Fed**, and Trump reiterated his **criticism of Powell**, calling for more aggressive easing. Any shift in Fed leadership or independence could introduce volatility for a sector that thrives on policy clarity.

Implication: Lower yields are a tailwind, but **rate stability matters more than rate direction**. The sector's high sensitivity to duration keeps it vulnerable to surprises in inflation or Fed communications.

3. Enterprise IT Demand & Earnings: Better Than Feared

Q1 earnings have so far **largely exceeded expectations** across most sub-segments:

Microsoft (MSFT) and **Alphabet (GOOGL)** delivered strong AI and cloud updates. GOOGL highlighted **28% y/y Cloud growth** and rising monetization from AI-driven search engagement.

Cadence Design Systems (CDNS) and **Zebra Technologies (ZBRA)** both beat estimates, with **broad-based demand** and successful pricing offsetting softer China volumes.

Super Micro (SMCI) preannounced weaker Q1 results, citing **customer decision delays**, though reiterated FY guide.

PayPal (PYPL) beat on EPS, though total payment volumes and TPV growth showed signs of saturation. Management left FY guide unchanged due to macro caution.

Software players with **AI platform exposure**—like **ServiceNow (NOW)** and **Zscaler (ZS)**—benefited from optimism around future spend, even if near-term revenue remained flattish.

The common earnings themes:

FY guidance reaffirmations well-received in a cautious backdrop.

Tariff mitigation strategies, including pricing offsets and supplier diversification, were often cited.

Companies remain **disciplined on costs**, and headcount growth remains muted.

Implication: Despite macro noise, core demand trends remain intact, though China-exposed revenues, FX, and tariffs are increasingly complicating the FY outlook for semis and hardware.

4. Regulatory & Antitrust Risks: FCC and DOJ Stay Active

April brought fresh signs of **tightening regulatory scrutiny**:

The **DOJ is investigating Google and Meta's AI initiatives**, looking at potential **monopoly risks in compute infrastructure**.

The **FCC floated new guidelines** around **spectrum allocation and AI-enabled telecommunications**, raising concerns for firms with 5G exposure.

There is growing bipartisan pressure to enforce **content transparency and "algorithmic accountability"**, especially around election-related speech and misinformation—implications for **YouTube, X (Twitter), and Meta**.

No material fines or orders have been issued yet, but sentiment is increasingly cautious around the **legal frameworks for AI deployment** and speech moderation.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.1

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.3

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.4

Plus

12-month Excess Total Return (vs. S&P 500) * 0.2

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.