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Monthly Insights: April Outlook

Information Technology Sector

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Sector Price Action & Performance Review: Information Technology Sector

Information Technology was among the hardest-hit sectors in a brutal March for the S&P 500. The **Technology Select Sector SPDR (XLK)** declined sharply, significantly underperforming the **SPY**, which itself fell approximately **5–6% YTD** through late March as tariff escalation fears, deteriorating growth expectations, and a reassessment of AI capital expenditure returns weighed on risk assets broadly. XLK's losses were materially worse than SPY's on both an absolute and relative basis, as the sector's outsized weight in mega-cap names — **Apple, Nvidia, Microsoft, and Broadcom** represent the majority of XLK's index weight — amplified the drawdown.

The sector that led the S&P 500 higher through much of 2023–2025 became one of its primary detractors in Q1 2026. Three compounding dynamics drove the underperformance:

Tariff escalation introduced direct cost risk for hardware and semiconductor supply chains heavily concentrated in Taiwan, South Korea, and China — precisely the geographies most exposed to trade policy uncertainty

AI capex skepticism resurfaced after mixed signals from hyperscaler earnings and questions about the timeline for meaningful AI revenue monetization relative to infrastructure spend

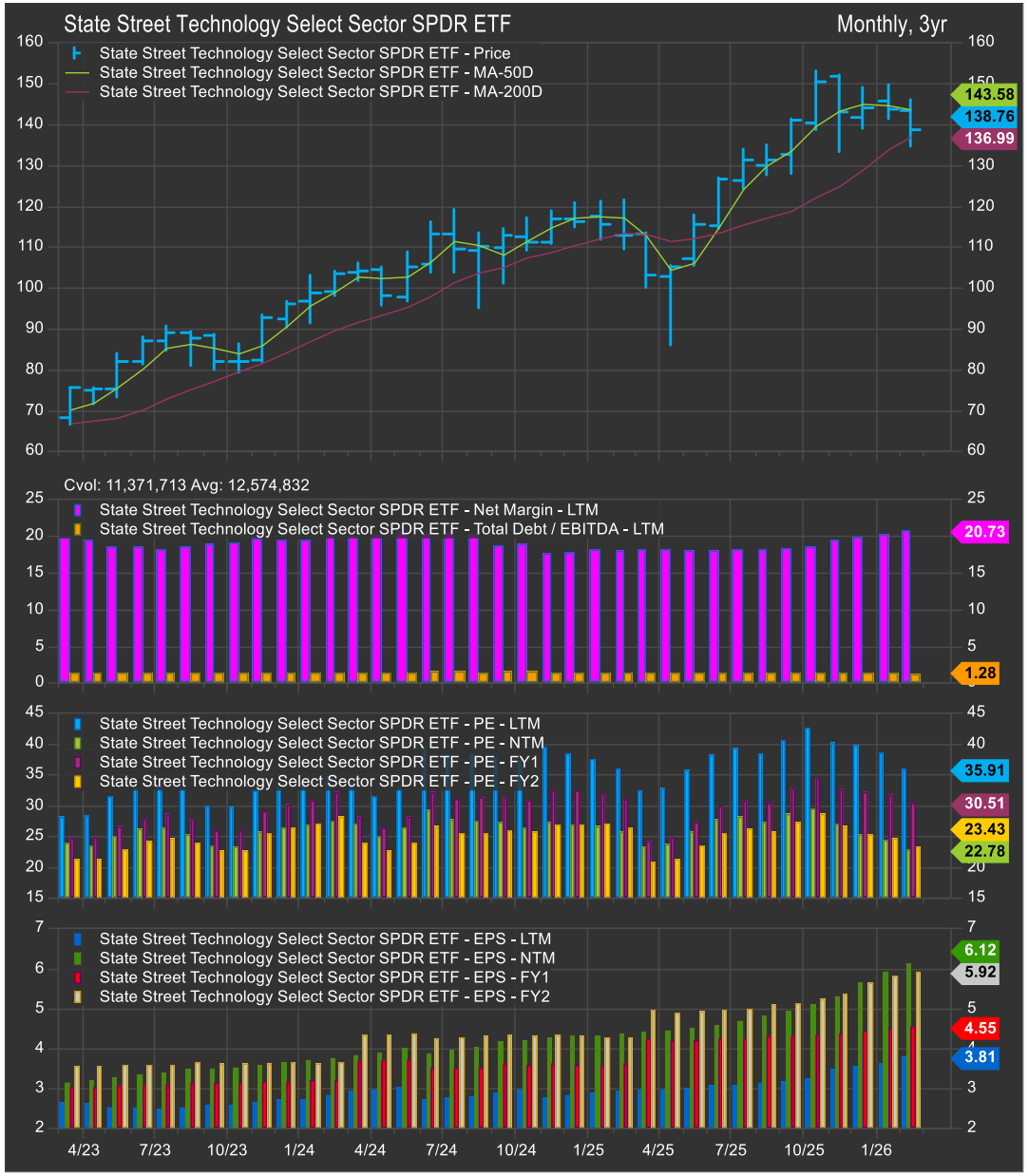
Multiple compression on long-duration growth assets as the market repriced the risk-free rate's impact on discounted cash flows and investor appetite for speculative premium valuations contracted sharply

XLK's technical deterioration through March was among the most pronounced of any major sector ETF. Having broken below its **50-day moving average** in late February, the ETF spent the majority of March failing to reclaim that level — a technically significant failure that triggered further institutional de-risking. By late March, XLK was pressing toward its **200-day moving average**, a level that represents the last meaningful structural support before a broader trend change would need to be acknowledged.

Information Technology enters April 2026 as the S&P 500's most consequential battleground. The sector's outsized weight in SPY means its trajectory will largely determine whether the broader index stabilizes or continues lower — there is no scenario where the S&P 500 recovers meaningfully without technology participating. The fundamental case for the sector's long-term leaders remains intact: the AI infrastructure buildout is real, enterprise software monetization will arrive, and the companies involved are among the most profitable and cash-generative in history. But the near-term setup is difficult. Tariff exposure is unresolved, the AI revenue timeline is under scrutiny, and valuations — even after March's correction — have not reached levels that provide strong fundamental support. We're maintaining a tactical underweight vs. the S&P 500 in our Elev8 Portfolio.

We start April with an underweight allocation to the Information Technology Sector of -14.10% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Information Technology Sector



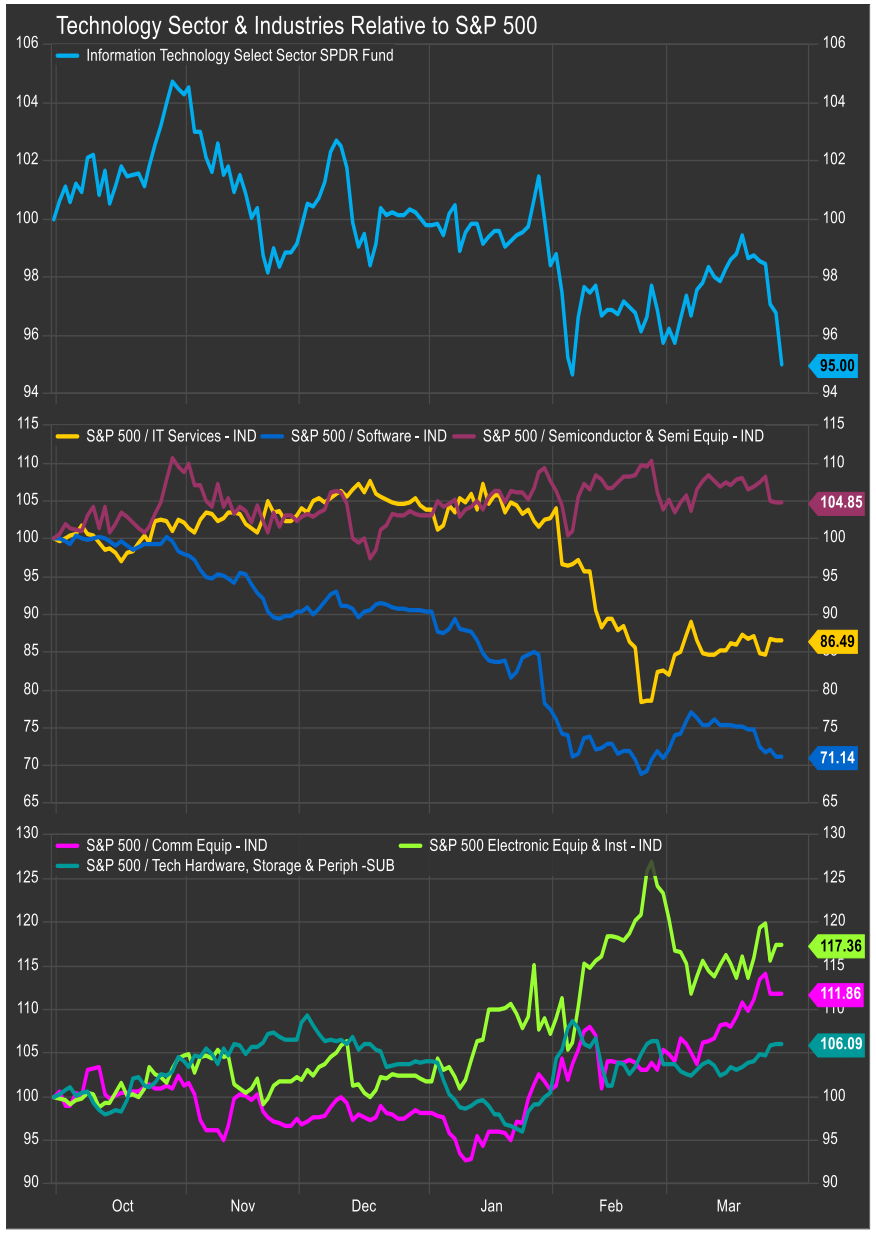
The chart (left) shows S&P 500 Information Technology Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins expanded through the recent reporting season and at a new high for the cycle (chart, panel 2)

Forward valuations continue to compress for the sector but remain elevated relative to other areas of the equity market. Forward guidance remains robust, but the largest AI players are merely meeting expectations now rather than blowing them out of the water (panel 3 and 4).

Overall, the situation remains constructive despite near-term rotation away from the biggest growers, however with some economic weakness emerging the sector remains a source of funds.

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



Information Technology Industries (chart, left): Hardware, Electronics and Networking gear remain outperformers, but Semiconductors will likely swing the sector bullish or bearish.

Software and Services Industries remain in deep slumps

Information Technology Sector Internals (chart, right): Breadth gages continue to deteriorate in early 2026. Despite strong present earnings, the AI trade is in search of new bullish catalysts as the market begins to discount less optimistic outcomes and now faces some inflation and potentially recession headwinds

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
AKAM	Akamai Technologies, Inc.	Bullish Reversal	16,589.7	0.83	36.5	0.00	0.00	23.7
DELL	Dell Technologies, Inc. Class C	Bullish Reversal	54,697.1	0.68	35.1	0.96	0.96	23.3
CIEN	Ciena Corporation	Uptrend	56,787.0	2.93	81.0	0.00	0.86	22.5
HPE	Hewlett Packard Enterprise Co.	Bullish Reversal	31,764.9	0.48	9.9	1.61	1.65	19.5
VRSN	VeriSign, Inc.	Consolidation	22,693.9	1.31	7.5	0.84	0.10	15.9
PLTR	Palantir Technologies Inc. Class A	Retracement	327,817.8	5.13	-7.2	0.00	1.92	11.6
HPQ	HP Inc.	Consolidation	17,778.9	0.34	-3.8	4.11	1.40	11.3
FFIV	F5, Inc.	Bullish Reversal	15,937.3	0.88	9.7	0.00	0.94	11.2
NTAP	NetApp, Inc.	Consolidation	20,194.8	0.62	2.1	1.39	1.82	10.7
DDOG	Datadog, Inc. Class A	Consolidation	37,604.8	2.59	-5.4	0.00	2.34	9.6

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
SMCI	Super Micro Computer, Inc.	Retracement	13,159.8	0.40	-27.0	0.00	2.41	-24.9
FICO	Fair Isaac Corporation	Retracement	23,984.5	1.10	-30.0	0.00	1.30	-20.9
GEN	Gen Digital Inc.	Downtrend	11,107.9	0.33	-22.6	1.78	1.55	-11.4
MCHP	Microchip Technology Incorporated	Consolidation	33,550.4	1.19	-0.5	1.98	1.81	-9.6
APH	Amphenol Corporation Class A	Uptrend	151,955.5	1.39	-2.1	0.52	1.26	-7.9
NXPI	NXP Semiconductors NV	Consolidation	48,431.1	0.67	-7.0	1.55	1.50	-7.8
MU	Micron Technology, Inc.	Uptrend	402,849.1	0.23	37.0	0.11	1.78	-6.1
ADI	Analog Devices, Inc.	Bullish Reversal	150,093.5	1.32	13.9	0.92	1.16	-6.0
TDY	Teledyne Technologies Incorporated	Bullish Reversal	27,473.4	1.25	10.8	0.00	0.87	-5.6
APP	AppLovin Corp. Class A	Support	117,055.1	1.16	-29.0	0.00	2.87	-5.0

AI Infrastructure remains the leadership theme with memory, storage and Electronics continuing to exhibit sustained upside momentum

Select Software and Services names have bounced, but we're expecting there is more selling to come based on the intermediate-term technical setup.

The Semiconductor trade hasn't broken yet but looks vulnerable.

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

Equity Market Stress — A Sector Under Pressure Where the SPY declined roughly 5–6% YTD through March, XLK declined materially more — illustrating that technology is not just participating in the broad market drawdown but leading it. The sector's structural characteristics make it particularly vulnerable in the current environment: high valuations relative to the SPY, supply chain concentration in tariff-exposed geographies, and earnings models that are sensitive to both corporate IT budget cycles and consumer discretionary spending. In a stressed equity environment, technology names face the dual headwind of multiple compression and earnings estimate cuts, compounding the drawdown beyond what sector-agnostic de-risking alone would produce.

Tariffs and Supply Chain Exposure Tariff risk is the most direct and immediate macro headwind for Information Technology. The sector's hardware and semiconductor supply chains are among the most geographically concentrated in the global economy:

Semiconductors: TSMC manufactures the overwhelming majority of leading-edge chips used by Nvidia, Apple, AMD, and Broadcom in Taiwan — directly in the crosshairs of any U.S.-China trade escalation

Consumer hardware: Apple's iPhone and Mac production remains heavily concentrated in China, with meaningful tariff pass-through risk on U.S. consumer pricing

Enterprise hardware: Dell, HP, and networking equipment manufacturers source components extensively from Southeast Asia and China

Any escalation in tariff policy beyond current levels introduces direct cost risk across the sector's largest names. Even where companies can diversify manufacturing over a 2–3 year horizon, near-term margin compression and pricing uncertainty are real. The market is pricing this risk into multiples now, before earnings reflect it — which explains the severity of the drawdown relative to the SPY.

Interest Rates and Valuation Sensitivity Technology is the equity market's most duration-sensitive sector. The discounted cash flow models that underpin mega-cap tech valuations are acutely sensitive to the discount rate — long-duration earnings streams lose disproportionate value when the risk-free rate rises or the equity risk premium expands. The Fed's hold at **3.50–3.75%** prevents additional rate-driven compression, but it does not reverse the multiple expansion that occurred when markets were pricing in aggressive cuts. The sector's forward P/E remains elevated relative to the SPY's overall multiple, meaning technology continues to carry a premium that requires sustained earnings growth to justify — a harder ask in the current environment.

AI Capex Cycle — The Core Debate AI investment is simultaneously the sector's biggest near-term cost burden and its most important long-term growth driver. The debate that defined Q1 2026 for technology investors is straightforward: **are hyperscalers spending too much on AI infrastructure relative to the revenue it is generating?**

The concern crystallized around a few data points: AI infrastructure spending by the major cloud providers is running at unprecedented levels, but enterprise AI adoption — the revenue monetization that justifies the capex — is developing more slowly than the most optimistic projections assumed. The gap between AI investment and AI revenue creates a timing mismatch that is particularly painful for semiconductor names (Nvidia most visibly) whose valuations were built on the assumption of continuous, uninterrupted demand acceleration.

The counter-argument is that the investment cycle is long, the competitive stakes are high enough that no hyperscaler can afford to slow down regardless of near-term ROI, and the revenue monetization, when it arrives, will be substantial. Both arguments have merit — the honest answer is that this debate will not resolve in Q1 2026 and will remain the dominant overhang for the sector through much of the year. markets.financialcontent.com

Sector-Specific Drivers

Semiconductors — High Beta to Every Theme Semiconductors are the highest-beta subsector within XLK and the most directly exposed to both the AI capex cycle and tariff risk. **Nvidia** remains the fulcrum of the AI trade — its GPU dominance in training and inference workloads gives it earnings leverage that no other semiconductor company can currently match, but its valuation already embeds years of sustained demand growth. Any signal that hyperscaler AI capex is moderating — or that competing chips from AMD, Intel, or custom silicon from Google and Amazon are gaining meaningful share — would be a material negative catalyst. **Broadcom and TSMC** (as an ADR) are similarly exposed, though Broadcom's software diversification through VMware provides some earnings resilience.

The tariff dimension is existential for hardware-intensive semiconductor names in a worst-case scenario. A breakdown in U.S.-Taiwan technology trade policy — however low probability — would be a sector-level shock with no near-term mitigation available. Markets are not pricing a high probability of this outcome but are appropriately applying a risk premium to names with concentrated Taiwan manufacturing exposure.

Cloud Computing and Enterprise Software Microsoft and Salesforce represent the software-centric end of the sector — businesses where AI is being embedded into existing enterprise workflows and monetized through incremental subscription price increases and new product attach rates. This model is less capital-intensive than semiconductor manufacturing and less dependent on hardware supply chains, making it somewhat more insulated from the tariff and capex-skepticism dynamics hammering semiconductor names.

Microsoft's Azure cloud and Copilot AI assistant products represent the most visible test case for enterprise AI monetization. Q1 earnings will be closely watched for evidence that Copilot seat adoption is translating into measurable revenue acceleration — this is the most important data point for validating (or challenging) the enterprise AI revenue timeline that the entire sector's valuation rests on.

Consumer Hardware — Apple's Tariff Exposure Apple occupies a unique position as the world's largest company by market cap and XLK's largest holding, with a business model that is simultaneously a consumer hardware company (iPhone, Mac, iPad) and a high-margin services platform (App Store, iCloud, Apple Pay). The tariff risk is most acute for its hardware business — a significant portion of iPhone production remains in China, and any tariff-driven cost increase either compresses margins or requires consumer price increases in a softening spending environment. Apple has been actively diversifying production toward India and Vietnam, but this transition is measured in years, not quarters. Near-term tariff escalation would arrive faster than its supply chain can adapt.

Cybersecurity — A Relative Bright Spot Within the broad technology sector, cybersecurity names have shown relative resilience. Corporate IT security budgets are among the stickiest line items — the consequences of cutting them are asymmetric, and the regulatory environment increasingly mandates minimum security standards. AI is also an active driver of cybersecurity demand, both as a threat vector that requires new defensive capabilities and as an enabler of more sophisticated detection and response tools. Names with strong recurring revenue, high switching costs, and mission-critical product positioning are better insulated from both the tariff headwind and the broader enterprise IT spending caution.

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) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

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

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.