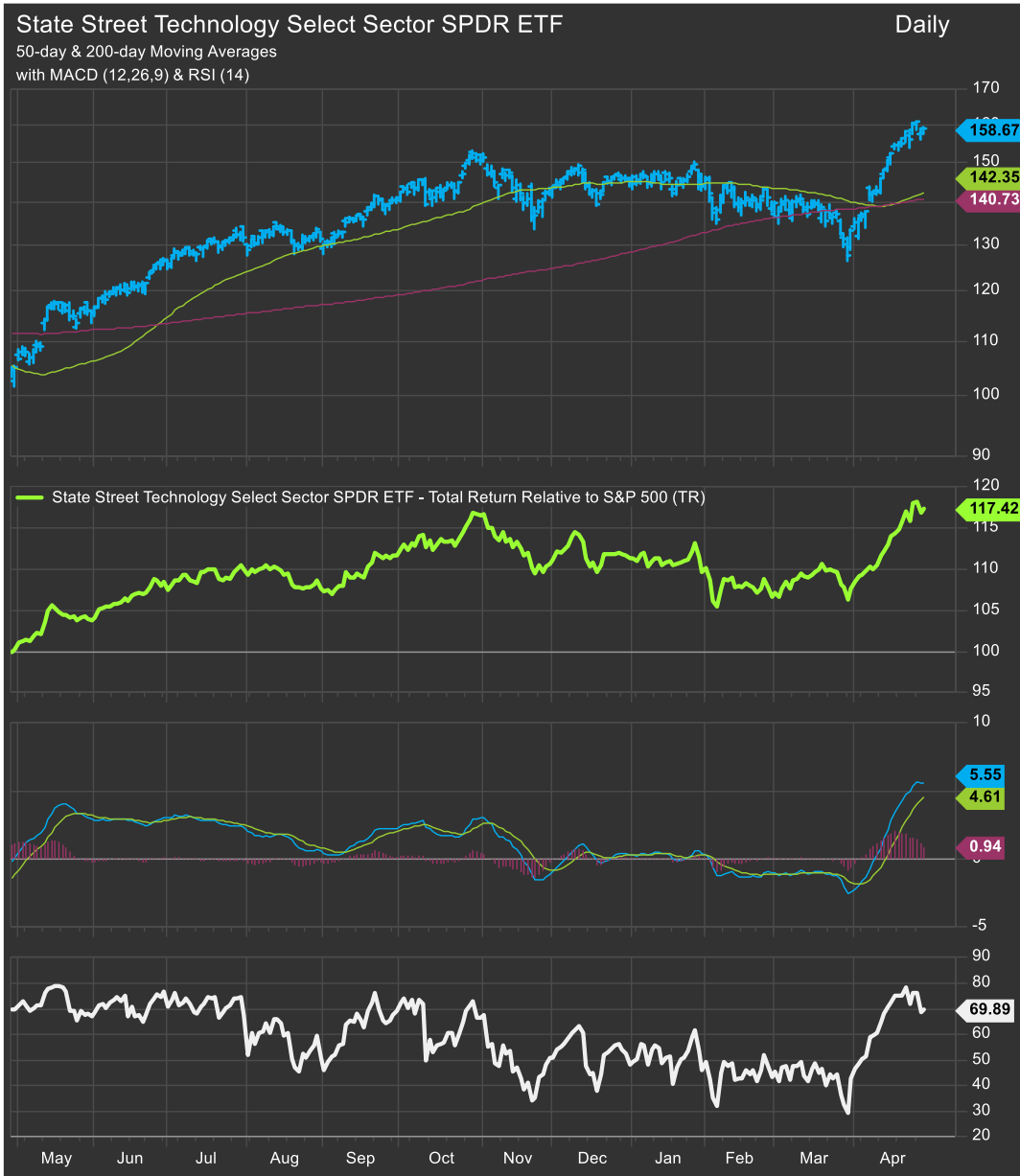


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Monthly Insights: May Outlook  
**Information Technology Sector**

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# Sector Price Action & Performance Review: Information Technology Sector



The Technology Select Sector SPDR Fund (XLK) delivered one of the strongest April rebounds among the major sector exchange-traded funds. XLK closed March 31 at **\$132.90** and traded near **\$158.75** on April 29, implying a roughly **19% month-to-date price gain**. The move represented a sharp reversal from the sector's late-first-quarter weakness and reflected renewed appetite for artificial intelligence (AI), semiconductors, cloud infrastructure, and mega-cap platform exposure.

The technical setup is constructive, but increasingly extended. Investing.com data showed XLK above both its **50-day moving average near \$157.51** and **200-day moving average near \$144.07**, while the ETF's April rally moved it well above the bearish \$138–141 technical zone that had worried technicians in March. That said, the late-April pullback in AI-linked stocks after the OpenAI revenue/user-target report showed that the sector is vulnerable to profit-taking after a powerful move. Near-term support is around the \$155–158 area, followed by the 200-day moving average zone near the mid-\$140s. A sustained move above \$160–162 would suggest the AI trade remains intact; a break back below the 50-day would raise the risk that April was a relief rally rather than a new leadership leg.

XLK's composition reinforces the sector's AI sensitivity. State Street data show XLK is **46.35% Semiconductors & Semiconductor Equipment, 24.37% Software, 16.45% Technology Hardware, Storage & Peripherals, 5.46% Communications Equipment, 4.23% Electronic Equipment, Instruments & Components, and 3.14% Information Technology Services**. In practical terms, XLK is now a concentrated play on the AI infrastructure cycle, with semiconductors driving nearly half the ETF and software/cloud/platform names determining the durability of end-demand.

The May outlook for Information Technology is **constructive but more selective after April's sharp rally**. The sector has the best earnings-growth profile in the S&P 500, the strongest secular themes, and the clearest connection to AI infrastructure spending. However, valuations and expectations have reset higher, and late-April volatility showed that the market will punish any sign that AI demand is less durable than expected.

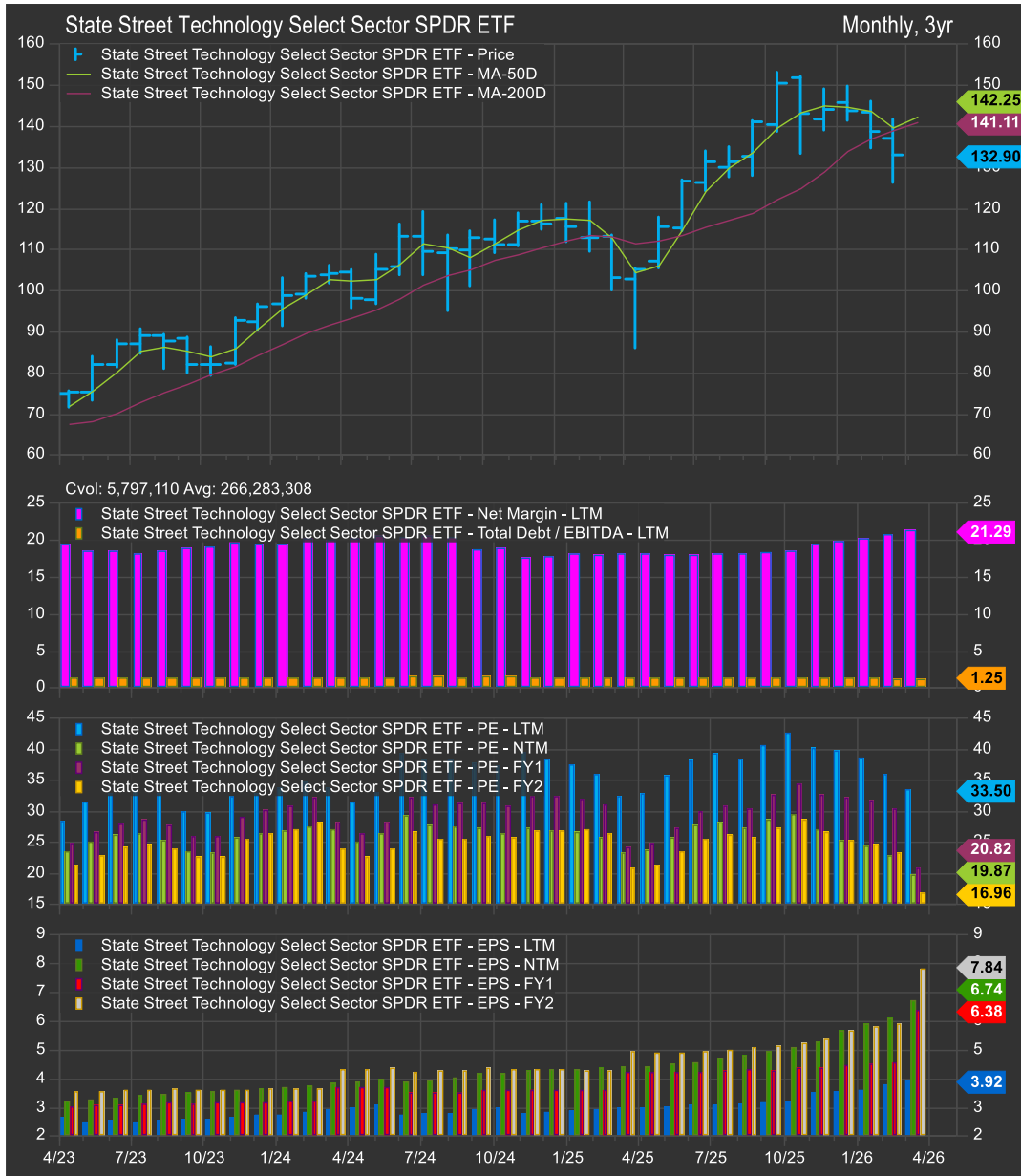
The best-positioned areas are **Semiconductors & Semiconductor Equipment, AI networking, cloud platforms, cybersecurity, and software companies with visible AI monetization**. NVIDIA and Broadcom remain central to the infrastructure thesis, Microsoft remains the software/cloud bellwether, and Apple offers quality hardware exposure if iPhone, Services, China, and device-level AI remain supportive.

The more cautious areas are **semiconductor equipment with high China exposure, consumer hardware without a clear AI upgrade cycle, traditional IT services, and high-multiple software names that cannot prove pricing power from AI**. These groups may lag if rates stay elevated, export controls tighten, or hyperscaler capex guidance disappoints.

Overall, Information Technology remains an **overweight sector**, but not an indiscriminate one. The April rally argues for owning the sector through higher-quality AI infrastructure, platform, and cybersecurity exposure rather than chasing every AI-adjacent stock. A bullish May scenario would include strong hyperscaler earnings, confirmed AI capex plans, resilient cloud growth, stable margins, and no escalation in U.S.-China chip restrictions. A bearish scenario would include weaker AI monetization, reduced capex guidance, export-control escalation, higher real rates, or evidence that data-center power constraints are slowing deployment.

**We start May with an overweight allocation of +7.18% to the Information Technology Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Information Technology Sector



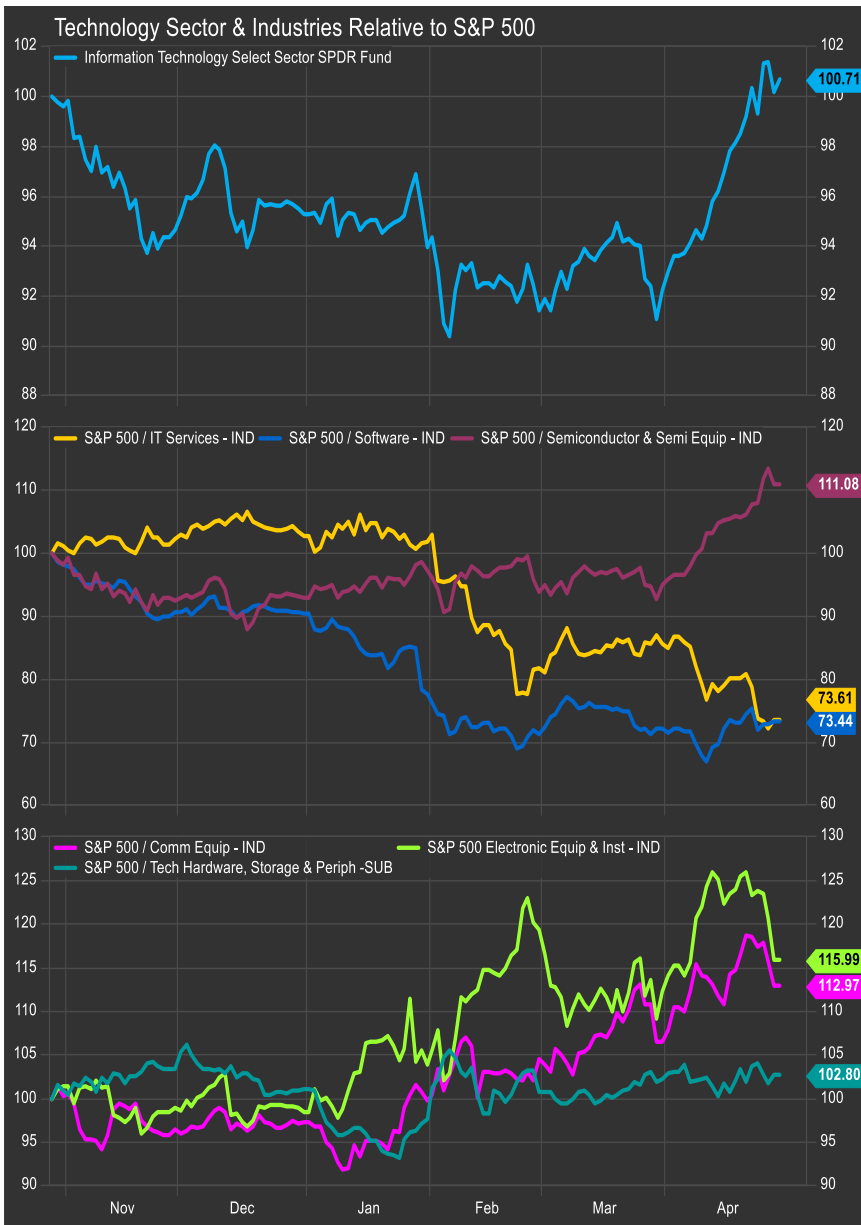
Information Technology had the strongest earnings-growth profile in the S&P 500 entering the final week of April. FactSet's April 17 Earnings Insight showed the sector's blended year-over-year earnings growth rate at **45.1%**, with Semiconductors & Semiconductor Equipment the largest contributor. Excluding that industry, the sector's earnings growth would fall to **20.3%**, which is still strong but highlights how important chips are to the sector's fundamental leadership.

The earnings story is being driven by three reinforcing factors: AI data-center demand, cloud infrastructure growth, and platform monetization. NVIDIA reported fiscal fourth-quarter revenue of **\$68.1B**, up **73% year-over-year**, with Data Center revenue of **\$62.3B**, up **75% year-over-year**. Broadcom reported fiscal first-quarter AI revenue of **\$8.4B**, up **106% year-over-year**, and guided second-quarter AI semiconductor revenue to **\$10.7B**. Microsoft's prior quarter also underscored the cloud/AI demand cycle, with Microsoft Cloud surpassing **\$50B** in quarterly revenue, up **26% year-over-year**.

Apple adds a different fundamental profile. The company reported fiscal first-quarter revenue of **\$143.8B**, up **16% year-over-year**, and diluted earnings per share of **\$2.84**, up **19%**, with all-time records for total revenue, earnings per share, iPhone revenue, and Services revenue. That supports the Technology Hardware sleeve, but Apple's May setup is more dependent on iPhone demand, China, tariffs, product-cycle execution, and AI-device positioning than on the same data-center buildout driving semiconductors.

The sector's biggest fundamental risk is that expectations are now very high. Reuters noted that Microsoft, Alphabet, Amazon, and Meta were preparing to report after the April 29 close, with their results seen as a major test for the AI-driven market because the group is expected to spend more than **\$600B** in 2026 on AI infrastructure and data centers. That means Technology is not just being judged on current earnings beats; it is being judged on whether AI capital spending can translate into durable revenue, margins, and return on invested capital.

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



Industry / Group	Approx. XLK Weight / Exposure	April Performance Trend	Fundamental Read	Macro / Policy Sensitivity	May Investment View
<b>Semiconductors &amp; Semiconductor Equipment</b>	46.35%	<b>Dominant leadership group, but volatile into month-end</b>	Strongest earnings engine in the sector. NVIDIA and Broadcom remain central beneficiaries, but valuations now assume sustained hyperscaler capital spending and continued GPU/custom-chip demand.	Sensitive to AI capital expenditure, export controls, Taiwan supply-chain risk, China demand, power availability, memory cycles, and U.S. semiconductor policy.	<b>Overweight, but manage position size.</b> Favor AI infrastructure leaders, custom silicon, networking, and advanced packaging; be cautious on stocks where expectations already discount perfection.
<b>Software</b>	24.37%	<b>Constructive, but less uniform than semis</b>	High-margin recurring revenue remains attractive, but software must prove AI monetization, not just AI integration. Microsoft remains the key bellwether.	Sensitive to enterprise budgets, cloud consumption, AI pricing, cybersecurity demand, antitrust scrutiny, and rates.	<b>Market weight to modest overweight.</b> Prefer platforms with cloud scale, security exposure, workflow integration, and clear AI monetization.
<b>Technology Hardware, Storage &amp; Peripherals</b>	16.45%	<b>Improved with Apple and AI-adjacent hardware demand</b>	Apple provides quality and cash-flow stability; AI servers, memory and storage add cyclical upside. However, consumer hardware and tariffs remain risks.	Sensitive to iPhone cycle, China demand, tariffs, memory pricing, component costs, and device-level AI adoption.	<b>Selective market weight.</b> Prefer Apple for quality and storage/memory names where AI server demand is visible; avoid weaker consumer hardware exposure.
<b>Communications Equipment</b>	5.46%	<b>Positive but more selective</b>	AI data centers create a stronger demand cycle for networking than traditional enterprise spending alone.	Sensitive to hyperscaler capex, telecom spending, supply chains, export controls, and pricing pressure.	<b>Selective overweight.</b> Favor AI networking and optical/connectivity beneficiaries over weaker telecom-exposed names.
<b>Electronic Equipment, Instruments &amp; Components</b>	4.23%	<b>Mixed</b>	Quality companies benefit from secular electrification and AI infrastructure, but the group is more industrial-cyclical than pure software or semis.	Sensitive to industrial production, semiconductor capex, auto electronics, tariffs, and supply-chain costs.	<b>Market weight.</b> Attractive where tied to AI infrastructure and automation; less attractive where end markets are consumer electronics or weaker industrial verticals.
<b>Information Technology Services</b>	3.14%	<b>Lagging but stabilizing</b>	AI services demand is real, but traditional consulting spending remains cautious. Accenture beat revenue estimates, yet flagged reduced federal spending as a fiscal-year drag.	Sensitive to enterprise spending, federal budgets, AI services demand, labor costs, automation, and outsourcing cycles.	<b>Selective neutral.</b> Prefer firms with AI infrastructure, cloud, cybersecurity, and managed-services exposure; avoid pure discretionary consulting.

# 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
INTC	Intel Corporation	Uptrend	424,797.5	3.39	80.3	0.04	1.66	83.8
SNDK	Sandisk Corporation	Uptrend	147,947.8	0.45	152.2	0.00	5.06	50.6
AMD	Advanced Micro Devices, Inc.	Uptrend	526,941.8	1.86	31.2	0.00	1.76	47.8
ON	ON Semiconductor Corporation	Bullish Reversal	36,697.4	1.35	50.0	0.00	1.76	47.7
STX	Seagate Technology Holdings PLC	Uptrend	126,270.8	1.41	57.5	0.36	1.94	40.2
MPWR	Monolithic Power Systems, Inc.	Uptrend	73,877.4	3.11	29.8	0.37	1.57	30.9
WDC	Western Digital Corporation	Uptrend	132,560.4	1.38	69.4	0.09	1.88	29.8
MU	Micron Technology, Inc.	Uptrend	568,705.0	0.29	40.0	0.08	2.01	29.1
TXN	Texas Instruments Incorporated	Bullish Reversal	241,174.6	1.58	29.9	1.56	1.12	27.1
ANET	Arista Networks, Inc.	Uptrend	208,128.1	2.07	11.4	0.00	1.35	24.7

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.	Consolidation	14,049.5	0.64	-8.9	0.00	-0.27	-28.8
EPAM	EPAM Systems, Inc.	Downtrend	6,022.2	0.41	-40.2	0.00	1.56	-27.7
NOW	ServiceNow, Inc.	Downtrend	93,323.1	0.97	-33.9	0.00	1.07	-21.1
CTSH	Cognizant Technology Solutions Corporation	Downtrend	26,119.6	0.45	-28.5	1.75	0.98	-19.9
ACN	Accenture Plc Class A	Downtrend	109,127.7	0.58	-30.5	2.63	1.02	-19.1
INTU	Intuit Inc.	Downtrend	110,725.1	0.74	-27.7	0.84	0.98	-15.7
IT	Gartner, Inc.	Downtrend	10,134.6	0.52	-31.7	0.00	1.38	-15.6
WDAY	Workday, Inc. Class A	Downtrend	25,447.8	0.53	-34.3	0.00	1.24	-14.6
IBM	International Business Machines Corporation	Support	219,030.9	0.87	-21.3	2.08	1.19	-13.6
PLTR	Palantir Technologies Inc. Class A	Retracement	323,509.8	4.59	-16.4	0.00	1.81	-13.5

AI Infrastructure plays have the wind in their sails

The now usual mix of Software and Services names are on the laggard list as “old tech” comes under renewed pressure

## Metrics:

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

### Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

### 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

Information Technology remains the market's highest-conviction growth sector, but the macro and policy backdrop is becoming more demanding. April's rally reflected renewed confidence in AI infrastructure, semiconductors, cloud, and mega-cap platforms. The May question is whether earnings and guidance can validate the scale of capital spending now embedded in valuations.

## 1. AI capital spending is the dominant macro driver

The most important macro variable for Technology is not simply economic growth; it is the AI capital-spending cycle. Reuters reported that Microsoft, Alphabet, Amazon, and Meta together are expected to spend more than **\$600B** in 2026 on AI-related infrastructure, including data centers. S&P Global Market Intelligence separately noted that hyperscaler consensus capital expenditure expectations for 2026 had risen by almost **\$250B**, from **\$379B to \$622B**.

That spending supports semiconductors, networking, optical components, storage, power management, cooling, servers, cloud platforms, and data-center software. It is the core reason XLK outperformed in April. However, it also raises the hurdle. Investors are increasingly asking whether AI spending will produce enough revenue growth and productivity gains to justify the scale of investment. If cloud revenue, AI workloads, advertising, enterprise software adoption, and data-center utilization disappoint, the market could begin treating AI capex as margin pressure rather than growth investment.

## 2. OpenAI concerns exposed fragility in the AI trade

Late April showed that the AI trade is not immune to demand questions. Reuters reported that OpenAI missed multiple monthly revenue targets earlier in 2026, with internal concerns that revenue growth might not be sufficient to cover future computing contracts. Following that report, AI-linked chip stocks fell, including NVIDIA, AMD, Broadcom, and Marvell, and the Philadelphia Semiconductor Index declined as investors reassessed the sustainability of AI infrastructure demand.

The investment takeaway is not that the AI cycle is broken. Rather, the bar is now high. The sector needs proof that demand is broadening beyond one or two frontier AI customers and that hyperscalers are seeing tangible monetization through cloud, enterprise software, advertising, and consumer AI features. May performance will likely depend on whether mega-cap guidance confirms or challenges that thesis.

## 3. Cloud and software monetization must validate the hardware buildout

Software is now the bridge between AI infrastructure spending and investor confidence in returns. Microsoft remains the clearest bellwether because it connects cloud infrastructure, enterprise software, AI copilots, developer tools, and OpenAI exposure. Microsoft previously reported that its cloud revenue surpassed **\$50B**, up **26% year-over-year**, and described AI as still in the early stages of diffusion across the economy.

For May, investors need to see three things from software and cloud: stable or accelerating cloud growth, evidence that AI features can command pricing or improve retention, and margins that are not overwhelmed by compute costs. If AI monetization broadens, software can join semiconductors as a leadership group. If AI features are expensive to deliver but hard to price, software could lag chips even while the AI theme remains intact.

## 4. Rates and valuation remain important, but Technology can absorb them if growth holds

Higher-for-longer rates are usually a headwind for high-multiple Technology because they reduce the present value of long-duration cash flows. However, April showed that strong earnings growth and AI momentum can offset rate pressure when investors believe the revenue opportunity is large enough.

The risk is that valuation support depends on growth continuing to surprise positively. If the Federal Reserve (Fed) stays restrictive because oil-driven inflation is persistent, and if AI results are merely "good" rather than exceptional, the sector could see multiple compression. This is most relevant for high-growth software, smaller AI infrastructure stocks, semiconductor capital equipment, and companies with earnings far in the future. Large profitable platforms are better positioned because they combine growth, cash flow, and balance-sheet strength.

## 5. Energy, power and data-center constraints are now Technology issues

The AI boom is turning electricity availability into a Technology-sector constraint. Data centers require power, cooling, transmission, transformers, backup generation, and grid interconnection. That makes Technology increasingly linked to Utilities, Industrials, Energy, and Materials.

This matters for margins and execution. If power costs rise, data-center construction is delayed, or grid bottlenecks limit deployments, AI infrastructure growth could slow. Conversely, companies that secure power, optimize chips for performance per watt, or build more efficient data-center architectures can gain advantage. The market is likely to reward firms that can show lower training/inference costs, higher utilization, and better energy efficiency.

## 6. Export controls and U.S.-China technology policy remain major risks

U.S.-China policy remains one of the biggest risks for semiconductors and semiconductor equipment. Reuters reported that the U.S. Department of Commerce ordered chip-equipment companies including Lam Research, Applied Materials, and KLA to halt certain shipments to China's Hua Hong, citing concerns that some facilities could support advanced 7-nanometer chip production. Reuters also reported that a U.S. House panel advanced the MATCH Act, which aims to close gaps in chip-equipment export controls and pressure foreign companies selling equipment to Chinese chipmakers to align with U.S. restrictions.

These actions support U.S. national-security policy but create revenue risk for chip-equipment companies with China exposure. They can also accelerate China's domestic substitution efforts, which may reduce long-term addressable markets for U.S. suppliers. For May, semiconductor equipment remains attractive where AI-related demand is strong, but export-control risk argues against indiscriminate exposure.

## 7. China's countermeasures raise supply-chain and end-market risk

China is not just a customer; it is also a supply-chain and policy risk. Reuters reported that China has expanded its economic pressure toolkit during the U.S.-China trade truce, including restrictions on rare earths and battery components, domestic-equipment mandates in semiconductors, and requirements to use Chinese AI chips in state-funded data centers.

This matters for hardware, semiconductors, Apple, networking, and electronics supply chains. China can pressure U.S. companies through demand substitution, procurement rules, export controls, and input bottlenecks. Apple's China smartphone sales rose **23%** in the first nine weeks of 2026, which is a positive sign for demand, but the market remains sensitive to any reversal in China consumer trends or policy restrictions.

## 8. Big Tech regulation is expanding from platforms to cloud and AI

Technology policy risk is moving beyond search, app stores, and social media into cloud and AI. Reuters reported that European Union regulators plan to expand Digital Markets Act scrutiny toward cloud and AI services, including whether cloud providers such as Amazon and Microsoft should be treated as gatekeepers. This matters because cloud is one of the key profit pools funding AI investment.

Regulation does not necessarily derail the sector, but it can affect data portability, interoperability, bundling, platform economics, and compliance costs. For large platforms, regulation is a persistent multiple cap. For smaller competitors, it may create opportunity if rules reduce switching costs or force more open ecosystems. In May, antitrust and digital-market regulation are secondary to earnings, but they remain important for long-term valuation.

## 9. Cybersecurity and AI security are structural supports

Cybersecurity remains one of the strongest secular demand drivers inside software and IT services. AI increases the attack surface: enterprises are connecting more data, deploying more models, automating more workflows, and relying on cloud infrastructure at greater scale. That raises demand for identity, endpoint, cloud security, data loss prevention, model security, and compliance tooling.

This is one area where spending is less discretionary than traditional enterprise software. Even if broader software budgets slow, security spending tends to be more resilient because the cost of failure is high. For May, cybersecurity remains one of the more attractive software sleeves, especially if investors rotate away from the most crowded AI infrastructure names but still want Technology exposure.

## 10. IT services are adapting to AI, but traditional consulting demand is cautious

Information Technology Services are not leading XLK, but they are important for AI adoption. Accenture beat quarterly revenue estimates in March, helped by demand for services tied to AI adoption and cloud migration, but the company also expected a **1% fiscal 2026 revenue hit** from reduced federal spending and acknowledged budget sensitivity in parts of the business. Cognizant's April agreement to buy Astreya for about **\$600M** also showed how services firms are adding AI infrastructure capabilities to meet enterprise demand.

The key question is whether AI services revenue offsets automation pressure. AI can create implementation work, but it can also reduce demand for labor-intensive consulting over time. This makes IT Services a selective neutral: attractive where companies are tied to cloud, security, AI infrastructure, and managed services, but less attractive where demand is traditional discretionary consulting.

# 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.