Fear of a Hawkish Fed Drives a Sell Off and How Does AI build out compare to the Internet build out in 1999?

Sunday night stock futures are mixed with S&P futures flat, Nasdaq futures higher, oil prices higher as President Trump told Israel to not retaliate to Iran attacks.

Stocks sold off last week breaking a 9 week win streak for the S&P500 (-2.6%) and Nasdaq -4.7%). Given the duration and strength of the rally (S&P500 gained +19.0% and the Nasdaq gained +28.8% over the period), stocks were due for a pullback. Stocks were initially driven higher early in the week on news that Google was doing an equity raise of $85B presumably to fund additional investments in AI build-out. But investors were given excuses to sell as earnings reports from AI plays, Credo Technology (CRDO), Broadcom (AVGO), and Ciena (CIEN) included beat and raise on the earnings results and outlook but the magnitude was merely good instead of great/fantastic as had become the norm from so many earlier earnings reports such as Dell (DELL) and HPE. The results this week were thus considered underwhelming. The selloff picked up steam on Friday when the Nonfarm payrolls for May were much higher than expected at 172k vs 85k consensus and the prior month was revised higher to 179k from 115k. in addition the May ISM services index was 54.5 vs 53,8 consensus and an April 53.6. New orders jumped to 57.3 vs April's 53.5. But prices paid rose to 71.2 vs April 70.7 and was the highest since August 2022. So with all this "good" news, it became potentially "bad" news because the Fed is more likely to tilt its focus toward fighting inflation especially given less labor market risk. As a result, the odds of rate hikes have gone up. With so many names in the AI build-out sitting on large gains, there were ample excuses for algorithms to kick in and take profits, diving stocks lower on the week.

Interesting that last week we cautioned that there were a lot of extended stocks so it would be wise for investors to be patient in putting new money to work as pullback risks were on the rise. Unfortunately, we were proved correct on this warning. The Technology Sector (XLK, -5.6% w/w) led on the downside with risk proxy ARK Innovation ETF (ARKK, -9.1%). Energy (XLE, +2.45%) and Healthcare (+2.37%) led on the upside. The rally in software (SMH, -5.7%) was slammed back.

Today's markets in the AI Build Out Compared to the Dot-com Era of the Late 1990s:

- One of the questions that I get frequently is how the current rally in the AI infrastructure and AI build out compares to the technology/internet bubble of 1998-early 2000. Recall that the run-up in the Nasdaq to one of its larger pullbacks in March of 2000 was +97.6% vs the largest pull-back we have seen in the current market rally that broke through key support at the 21-day exponential moving average is +33.2%. Recall in March 2000 following the very top a few weeks later the dot-com era Nasdaq experienced lost ~77% over the next two years. The current AI build out shows strong, double digit EPS growth expectations for both the S&P500 and the Nasdaq driven by real revenue, profits, and infrastructure spending from well established and successful companies are generally far less extreme than the hyper-optimistic late 1990s dot-com era which assumed unsustainably explosive growth from many unproven companies. The poster child of the excesses of the 1990s were new IPOs with minimal or no revenue/profits that relied on ".com" names and eyeball metrics rather than fundamentals. The IPO of Pets.com was the poster child of the excesses. Today's AI buildout features highly profitable leaders such Nvidia, Broadcom with tangible revenue and earnings and a solid backlog.

- In the current environment, the S&P500 is projected by analysts to grow in the low to mid 20s% in 2026 with AI-infrastructure companies driving approximately ½ of this growth. Longer term into 2027 EPS growth is expected to continue in the low to mid double-digit range driven by billions in hyperscaler cap-ex spending as we have been flagging for weeks. Nasdaq 100 earnings growth are in the +40-50% range for tech/semiconductor names with overall 2026 EPS growth in the mid to high teens and Q1 EPS was tracking in the high 20%.

- In the early 2000s tech earnings had grown in the 30s% range in 1998-2000 and forward expectations were extreme to justify the P/Es of 100-200x for many names and a whopping 60x P/E for the Nasdaq 100 overall. Further, the earnings expectations were not realized with the S&P earnings fell roughly -50% from peak to trough in the early 2000s and the Nasdaq earnings outlook fell even harder with many tech names dropping 50% to 90% and IT earnings plunging over 90% with some readings showing a drop in IT earnings of over 95% in 2001. The plunge in earnings was so bad that it laid the groundwork that taken together with some accounting fraud/scandals involving Enron and Worldcom led to the passage of Sarbanes Oxley to completely separately equity research from investment banking. Today's multiples are far lower and are based on proven business models that are based on reinvesting cash flows from real businesses unlike the dot-com speculation of the late 1990s. By the year 2000 there widespread unprofitable IPOs with "story" valuations. Dot-com companies implied unrealistic perpetual hyper-growth. Today's multiples reflect high but deliverable growth based on backlogs and strong order books.

- The 1998-1999 dot-com era also reflected an IPO frenzy characterized by extreme speculation, a massive number of unprofitable and revenue light companies and sky-high valuations driven by excessive hype around the internet culminating in ridiculous business models such as Pets.com that contemplated selling pets over the internet. In contrast over the last two years, there is a more measured level of capital markets activity with stronger fundamentals though to be sure there are elevated valuations and concentration risks.

- In 1999 alone there were 476 total US IPOs. Internet IPOs surged from 42 in 1998 to 289 in 1999, representing 60% of all issues with many small highly speculative deals. Contrast the 2024-2026 activity with 225 IPOs in 2024, 216 IPOs in 2025 and in the high 60s so far in 2026. Today's IPO activity feature larger average deal sizes with more mature and profitable companies compared to the dot-com era. Furthermore, deals in the dot-com era often priced on extreme price to sales ratios with joke being that companies were trading on price to press release ratios featuring ".com" announcements since revenue let alone earnings was so scarce.

- For the current AI build out IPOs still command premium price to sales but public market leaders are trading 23x P/Es on the S&P500 and Nasdaq 100 forward P/Es are in the mid-20s to low 30s which are elevated compared to LT averages but far below the extremes seen in the dot-com era. Furthermore, Jensen Huang, CEO of Nvidia announced 4 new product offerings during his stop in Korea including a chip that could go into PCs, and all of which suggest accelerating demand for high bandwidth memory chips which benefits names such as Micron (MU) as well as SK Hynix in Korea and Samsung in Korea.

Bottom line in the late 1990s there was a classic bubble with frothy low-quality issuance that didn't survive as hundreds of the newly minted companies were out either delisted or out of existence altogether a few short years later. The current period has real technological and economic tailwinds, higher quality and profitable companies. Companies are still vulnerable to disappointment in growth, margins, and ROI timelines. But so far, most company earnings reports have been the "beat and raise" variety.

Near term outlook:

My expectation going forward is that the pull back was necessary given the length and duration of the rally. The main risk issue is whether the size of the pullback could be indicating a change in character in the market as both the Nasdaq and the S&P 500 plunged right though both the 10-day moving average and the 21-day exponential moving average. From a technical point of view, the moving averages are still stacked in the proper order, the current power trend continues to stay intact, as a decisive end to the power trend would require the 21day to cross below the 50day. Still near-term volatility likely from a macro perspective. The next logical stopping point would be down another 3% to the 7155 level which is the 50day moving average on the S&P500. For the Nasdaq the next natural downside stopping point would be -3.8% to the ~24,800 level. Better case outcome that would mirror more of what happened in the dot-com era is for a rebound of some sort over the next few days and another leg up. We would prefer to see a consolidation period over the next days and weeks.

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Source: YahooFinance

Technicals are under pressure, as the S&P500 and Nasdaq both broke below the 21-day exponential moving averages. The moving averages are stacked up in the proper order but for the power trend to continue will need to see some rebound in the next couple of weeks.

Source: MARKETSURGE BY INVESTOR'S BUSINESS DAILY

Bullish talking points:

- Solid macro backdrop supported by strong May economic data including nonfarm payrolls which increased by 172k, far better than the 82k expected. ISM manufacturing and services both surprised to the upside.
- No appetite for US to renew hostilities in Iran despite lack of agreement on a framework to reopen the Strait of Hormuz and US told Israel to hold off responding to Iran attacks over the weekend.
- Good appetite for IPOs despite looming wave of new issues. Google upsized its $80B equity offering to $85B.
- Blowout Hewlett Packard Enterprise results and guide for AI infrastructure.
- Berkshire Hathaway to put some of its $400B in cash to work as it agree to purchase $10B of the Google equity offering.
- Select tariff relief.
- Rally in credit funds that dampened scrutiny on private credit redemptions. Direct lending stabilizing and seeing wider spreads.
- FLEX and MRVL to be added to the S&P500 in another tilt in favor of AI.

Bearish talking points:

- Broadcom, Credo, Ciena results and guide underwhelmed. Beats across the board but the beats perceived as not enough.
- Lack of framework agreement between US and Iran and an attack against Israel over the weekend.
- A couple of Fed officials raised the prospect of possible rate hikes this year.
- Equity supply overhang from $75B SpaceX IPO could hit tech stocks as a source of funds. Follows Google's $85B equity follow on offering.
- Headlines on token economics: Sam Altman, CEO of OpenAI that token budgeting becoming an issue for corporate customers and talk about how cost cutting push could lead more US firms to adopt China's DeepSeek as more affordable alternative.
- Concern that oil has yet to reflect supply disruption due to China's prior stock piling and which inventory has depleted to the point that next few weeks could see soaring oil prices.

- Trump admin still not giving up on replacing IEEPA tariffs despite affordability concerns.

Longer Term Outlook: Tailwind remains AI spending

Looking at the longer term, I continue to believe that the AI infrastructure-driven rally has strength, which is why I post, week after week what the forecast capital spending is on the AI buildout. Also any Fed rate cuts for 2026 are essentially just not going to happen. The economy is too strong, inflation too elevated, not to mention a war with Iran and elevated oil prices that are going to be filtering through the economy.

Key tailwind for 2026 remains the buildout in AI and AI infrastructure. Note the latest estimates in the buildout of AI and AI infrastructure with the top 4 at $700B to $725B:

- Meta to $125-$145B, +$10B both ends
- Alphabet (Google) raised 2026 cap ex to $180B-$190B, +$5B both ends
- Microsoft: $190B for CY2026
- Amazon confirmed $200B
- Nvidia confirmed $1Trillion market for Blackwell + Rubin chips for CY2025-2027.

AI infrastructure investments estimated as $7.8T to $10.8T over the 2025-2030 time frame as shown in the latest table below.

Updated AI & Data Center Infrastructure Capex Projections ($ Trillions)

Year	Base Annual ($T)	Base Cumulative ($T)	Accelerated Annual ($T)	Accelerated Cumulative ($T)
2025	0.50	0.50	0.50	0.50
2026	**0.98**	**1.48**	**1.25**	**1.75**
2027	1.18	2.66	1.56	3.31
2028	1.42	4.08	1.95	5.26
2029	1.70	5.78	2.44	7.70
2030	2.04	**7.82**	3.05	**10.75**

Key Changes vs. Previous Table

- **2026** increased modestly (Base: 0.95 → 0.98T | Accelerated: 1.20 → 1.25T) to reflect the latest upward revisions.
- Cumulatives now sit at **~$7.8T base / ~$10.8T accelerated** through 2030.

Source: xAI's AI Buildout Funding and Plans - Grok as of 5/31/2026

Decisive odds of rate cut remain well out in the future with Dec 8 meeting at ~0% and now showing ~75% probability of a Fed rate hike FedWatch - CME Group). The odds of a rate cut at better than 50/50 do not show up at all for over a year and looking out to July 2027 are only 1.1%.

The US 10-year interest rate fell -12bp to 4.44%.

Stock Market Today/Week: June 5, 2026

Index	**Level**	**Day change**	**Week Change**
S&P 500	7,383.74	-2.64%	-2.59%
Nasdaq Composite	25,709.43	-4.18%	-4.68%
Dow Jones Industrial Avg.	51,561.93	-1.35%	+1.04%
US 10 year	4.54%		+10bps

Source: Factset

Key events/headlines for the week ahead: Key events this week are Oracle (ORCL) earnings, and Adobe (ADBE). Strong beats and guides could catalyze rotation back into AI leaders. US CPI (Wednesday) and US PPI (Thursday) also more critical this week as hotter inflation figures could affirm rate hikes sooner than expected or desired. SpaceX IPO also pricing late in the week which could suck liquidity out of other names.

6/8/2026 NA

6/9/2026 Existing home sales for May SAAR: 4080k expected vs 4020 prior month

6/10/2026 CPI for May +4.3% y/y headline, +0.22% m/m ex food and energy vs +0.40% prior month. ORCL earnings: $1.96 expected, +16% y/y.

6/11/2026 PPI for May +0.55% m/m headline, +0.30% m/m ex food and energy. ADBE earnings due, $5.81 +15% y/y expected, RH, LEN.

6/12/2026 Michigan sentiment prelim for Jun: 48.5 expected.

Source: Factset

What to do now: Waiting to see some signs of consolidation and/or selectively adding names that pulled back.

Appendix:

What kind of positive technical confirmations for a power trend per IBD (“Webby’s rules”):

1. Follow through day (FTD)
2. Subsequent FTDs.
3. Close above 21-day exponential moving average (EMA).
4. Low above 21EMA.
5. 3 consecutive days with low above 21EMA.
6. Close above 50-day moving average (DMA).
7. Low above 50dma.
8. 3 consecutive days with low above 50dma.
9. Close above 200dma.
10. Low above 200dma.
11. 3 consecutive days low above 200dma.
12. 21ema moves above 50dma.
13. 21ema moves above 200dma.
14. 50dma moves above 200dma.

As of 6/5/2026 a rally confirmation in place, and all the power trend conditions are in place rules in place for both the Nasdaq and the S&P500.

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