

May 8, 2026

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Dear Reader,

## The Market Rebounded Sharply In April – Best Month For Stocks Since November 2020

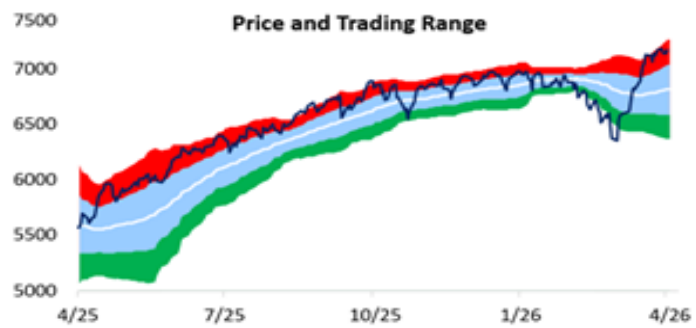
The S&P 500 surged 10.5% in April, staging a sharp rebound from its roughly 5% decline in March. This marked the index's strongest monthly performance since November 2020. Semiconductors, now commanding approximately 16% of the S&P 500's total market capitalization, were a major force behind the rally — the Dow Jones U.S. Semiconductors Index soared 28% for the month. At the forefront of the AI revolution, the sector continues to benefit from the unprecedented level of capital spending powering the AI infrastructure buildout, which has significantly lifted earnings

### Philadelphia Semiconductor Index



Source: Bespoke Investment Group

S&P 500: Last 12 Months



Source: Bespoke Investment Group

prospects for leading chipmakers such as Nvidia, AMD, and Broadcom.

## Robust Earnings Growth Continues To Fuel This Bull Market

Corporate profit forecasts continue to strengthen, supporting higher stock valuations as investors embrace a more robust growth outlook. The S&P 500 delivered 12% earnings growth in 2025—well above the long-term historical average of 7-8%—and expansion is projected to accelerate to roughly 20% in 2026 before slightly moderating to around 15% in 2027. This upbeat trajectory has been reinforced by widespread earnings beats and upward guidance revisions.



AI-related capital investment is the primary driver fueling this growth. Capital spending from the hyperscalers alone is expected to comprise a massive 2.5% of U.S. GDP this year. Against a backdrop of roughly \$4 trillion in annual U.S. corporate profits, this incremental revenue for the AI ecosystem provides a powerful tailwind. While precise incremental margins on AI spending are difficult to pinpoint, they are almost certainly well above the S&P 500's baseline net profit margin of approximately 13-14%, implying a strong multiplier effect on aggregate corporate earnings. In fact, S&P 500 overall profit margins have continued to recently expand, highlighting the impact of this significant revenue uptick.

**Consensus Forecasts See Hyperscaler Capex Stable At 2.5% of US GDP**



Source: Bespoke Investment Group

### Macro And Geopolitical Risks Remain Stubbornly Elevated However

The conflict in Iran and the resulting energy price spike continues to weigh on the economy despite the massive tailwind from AI-related capital investment. Oil prices remain well over \$100/barrel, nearly double the levels prior to the conflict's escalation in late February.

Elevated energy prices are pressuring consumer wallets while increasing input costs for businesses globally. This headwind may put downward pressure on GDP growth through at least the end of 2026.

The ultimate resolution of the ongoing energy supply shock remains uncertain, as it stems primarily from the closure of the Strait of Hormuz.

Over the medium term, energy suppliers are likely to pursue alternative shipping routes, while the Strait may eventually reopen to

**Very Strong EPS Beat Rate Continues**



**Revenue Beat Rates Also Top Decile Historically**

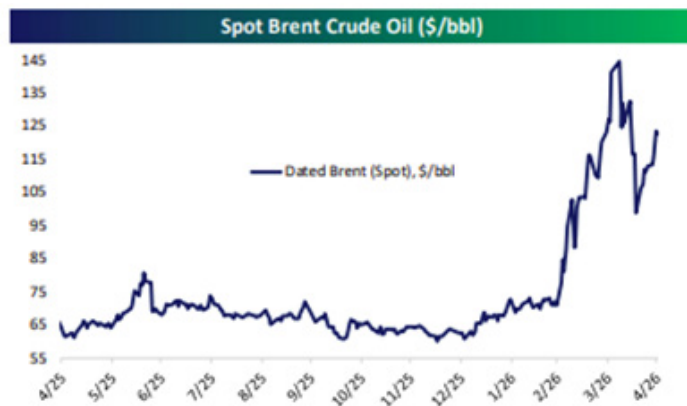


**Net Guidance Rate Has Actually Accelerated**



Source: Bespoke Investment Group

normal traffic. In the meantime, however, oil prices remain elevated at levels not seen since the peak of the Russia-Ukraine War in 2022.



Source: Bespoke Investment Group

Although we expect the ongoing capital investment boom to drive strong corporate earnings growth, we acknowledge that persistently elevated energy prices are acting as a drag on broader economic output and cast a shadow over an otherwise favorable outlook. This may further dampen consumer sentiment while reducing disposable income levels, negatively impacting global GDP.

### Looking Ahead - Ignore The Noise, Focus On Fundamentals

The first-quarter earnings season is now well underway. So far, results have been strong—companies in the aggregate are posting solid beats, lifting guidance, and offering a robust outlook. As long as this

Hyperscalers refer to massive cloud service providers that operate at an enormous, globally distributed scale to deliver the computing power, storage, networking, and specialized hardware required for modern artificial intelligence workloads. The term “hyperscaler” comes from hyperscale computing — architectures designed to scale dynamically and seamlessly to handle exponential growth in demand (millions or billions of users, or massive AI training/inference jobs). These companies run thousands of hyperscale data centers packed with servers, often containing tens of thousands of units each, optimized for high-performance, low-latency operations. In AI specifically, hyperscalers are the foundational infrastructure providers that make large-scale AI possible. These companies include Microsoft, Amazon, Google, Meta, and Oracle.

trend continues, we remain bullish on the market’s prospects.

AI-driven capital spending continues to ramp at an unprecedented scale. We believe it will surpass \$1 trillion annually within the next two years, and current forecasts may still prove too conservative. This massive secular tailwind from AI-fueled investment should continue to drive earnings growth over the medium term.

Corporate balance sheets remain strong overall. The largest technology companies, which dominate market capitalization, boast pristine balance sheets with minimal debt reliance. Credit metrics are healthy—charge-offs remain modest, and credit spreads have returned to near-record lows, indicating that bond investors see limited risk ahead.

Headlines will always test investor confidence. Current attention centers on the Iran conflict and private credit concerns. While the energy shock deserves monitoring, we view fears around private credit as significantly overblown. Credit losses tied to private businesses should stay modest, with minimal risk of broader contagion even in a higher-default scenario.

As investors, we stay anchored to the core fundamentals: corporate earnings power and risks to the growth outlook. The primary secular driver—AI-driven capital investment—remains firmly intact, as reaffirmed by hyperscalers' updated capital spending plans in their latest earnings calls. Elevated energy costs may create some near-term economic pressure, but we expect the ultimate impact on corporate profits to be limited.

In short, as long-term investors, we remain focused on fundamentals rather than headline-driven noise.

As always, we value your trust in us and urge you to call with any questions concerning your financial matters.

Sincerely,



CJ Brott



Karen Burns



Andrew Kerai