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MAY 2026

Tech in a Cross-Asset Portfolio

We review our technology positioning in a global, cross-asset portfolio given the way that the sector has dominated returns in recent years.

A key attribute of our positioning is remaining strategically positive on equities and underweight nominal long duration. We also retain our view of overweighting the US strategically within a global equity context. This view yields an overweight tech position compared with a 60:40 benchmark. We are also happy to hold a slight overweight to the broader tech sector in the US equity context.

The technology sector is "cheap" even after its rally. Of course, this assessment reflects a huge upgrading of long-run earnings expectations. We discuss to what extent these expectations are sustainable and whether the pace of earnings upgrades represents a problem.

We think there is a path that justifies the current run of capex. The challenge is whether one can have clarity on that path within a time frame that is short compared with the depreciation cycle of chips. This situation implies, we think, that investors are complacent about volatility.

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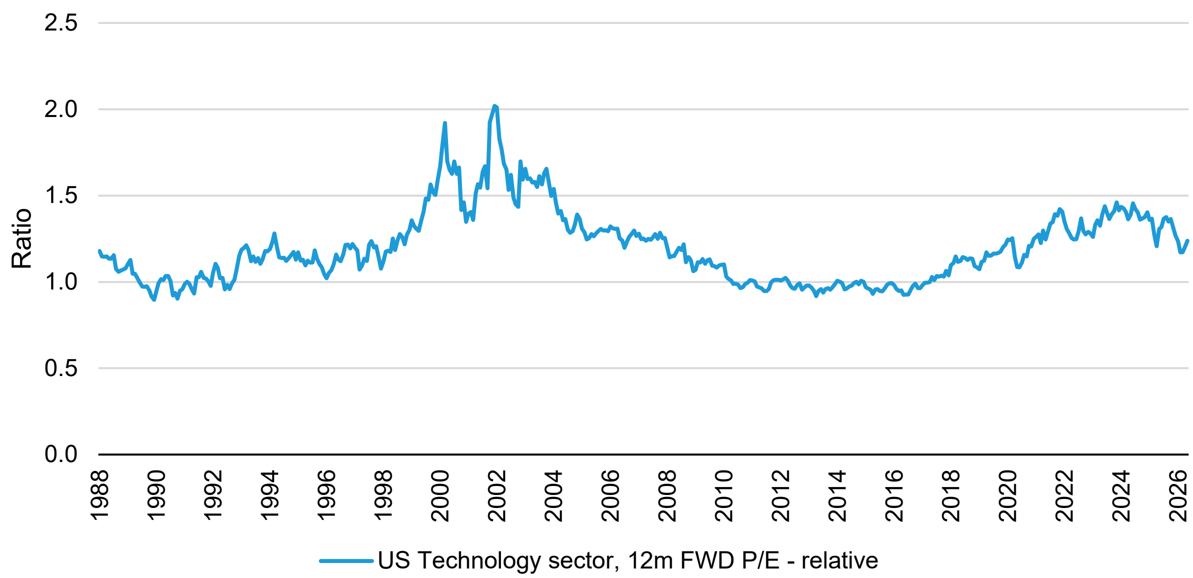
How should cross-asset investors think about the tech weighting in their portfolios? While investors wonder at a tech-led market that manages another leg up even as oil prices also remain high, this is, in a microcosm, a bigger strategic question about the role of tech and artificial intelligence (AI). In this note, we reiterate our call to overweight the US relative to global equities, which brings an implicit slight overweight to tech relative to a global benchmark. We also have a slight overweight of the broader tech sector within a US equity allocation.

The main influence of AI on our strategic cross-asset views in aggregate is via the potential for it to counter other downward forces on economic growth, its potential to increase the profit share of gross domestic product (GDP) and its role in underpinning a call to overweight US equities. We have discussed these aspects in recent notes;[1] in this note, we focus more on positioning within equites and what it means for a cross-asset portfolio.

With the tech sector so in the spotlight, it feels like charting key metrics for tech is going over what people already know. But it is worth it, we think, to spell out a few key attributes. The first point is that the US tech sector is not expensive. The massive pace of earnings upgrades leaves it looking "cheap" compared with history and nowhere near the over-extended multiples in past cycles. This cheapness reflects both the profitability of current businesses and the ramp up in expectations for the future (*Display 1*).

DISPLAY 1: TECH IS NOT EXPENSIVE



Historical analysis does not guarantee future results.

12 month forward price/earnings ratio of US tech relative to the market

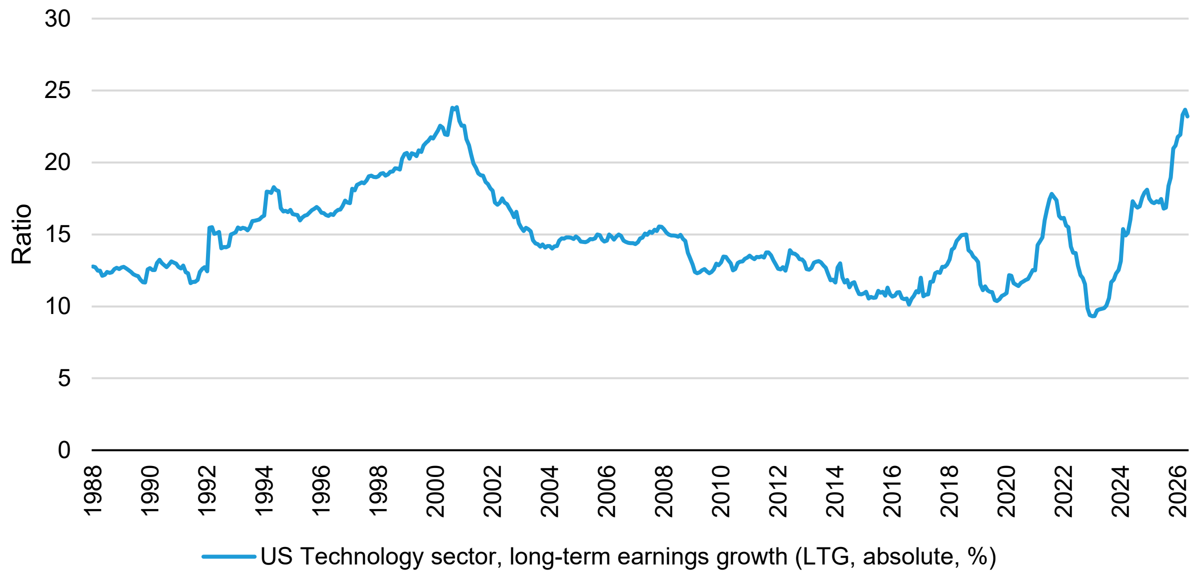
As of May 31, 2026

Source: Factset and AllianceBernstein (AB)

Of course, much of this "cheapness" is from the explosive growth in earnings expectations. Analyst forecasts for five-year expected earnings per share (EPS) growth for the US tech sector have reached 23% annualized (*Display 2*). The forecast for five-year forward per-annum growth rates has risen by a startling 13 percentage points since ChatGPT was released. An upgrade of per-annum expected growth rates of this magnitude should raise one's eyebrows. This post-ChatGPT revival takes expected growth rates for the sector back to where they were in mid-2000. Then, of course, we know that the sector's price levels were unsustainable—not only were expected growth rates high, but the multiple placed on them was at unprecedented levels. However, this time we do not have the multiple problem.

[1] AI vs. Demographics: Or might shrinking populations not be so bad if robots are taking jobs, anyway?

DISPLAY 2: FORECAST LONG-TERM EPS GROWTH RATES HAVE RISEN BY 13 PERCENTAGE POINTS SINCE CHATGPT'S RELEASE



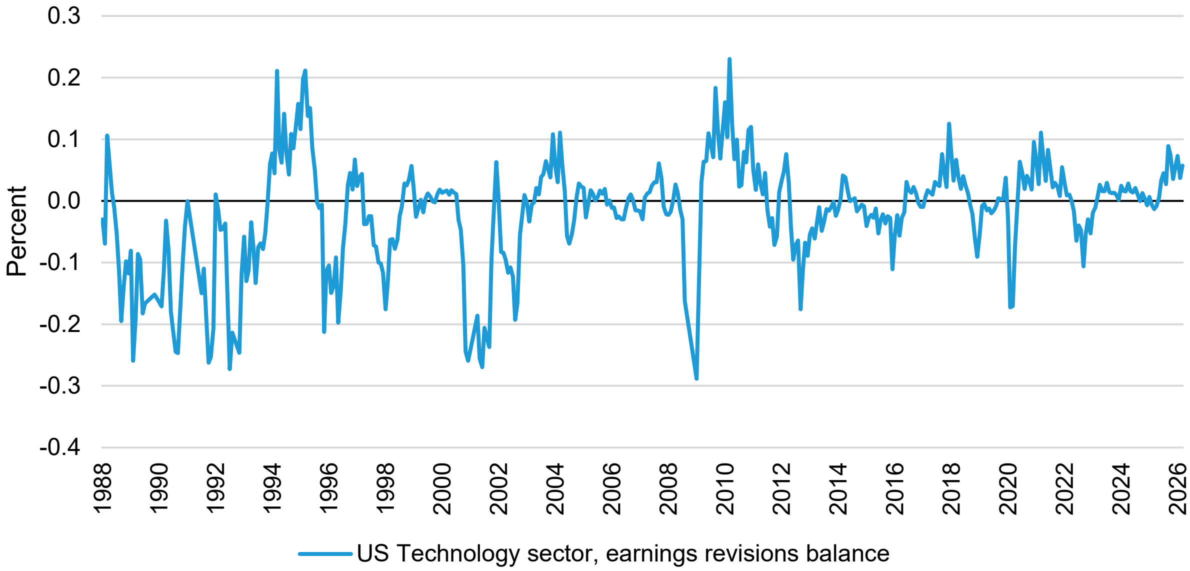
Historical analysis does not guarantee future results.

As of May 31, 2026

Source: Factset and AB

Despite the magnitude of this increase in long-run expectations, the rate of earnings-revision upgrades does not betray the kind of sudden surge that can be indicative of exuberance (*Display 3*). Moreover, were one, for the purposes of argument, to take the long-term expected growth rate as correct, then it would imply that the tech sector will account for 38% of corporate profits in five years' time, up from 28% today. That is a large proportion, to be sure, but not unthinkable, given the general-purpose nature of AI as a technology, the fact that corporations are firmly in the driving seat (vs. regulators or labor), and the pitch that tech can monetize an increase in economy-wide cross-sector productivity.

DISPLAY 3: TECH OVERALL EARNINGS UPGRADES DO NOT INDICATE IRRATIONAL EXUBERANCE



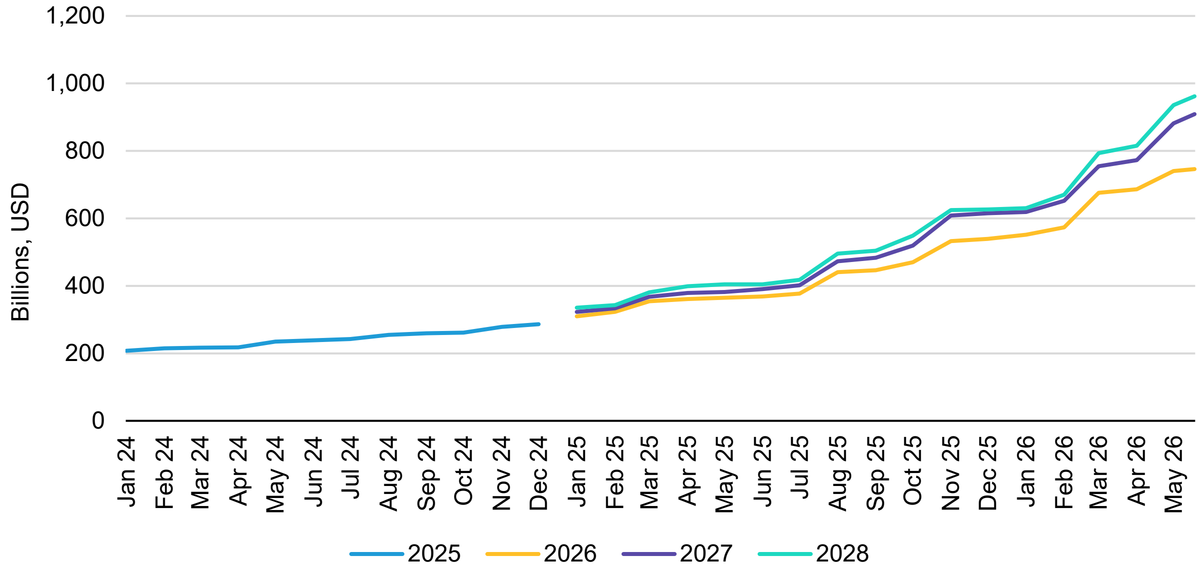
Historical analysis does not guarantee future results.

As of May 31, 2026

Source: Factset and AB

The lack of apparent exuberance in earnings expectations reflects the "fundamentals" of the AI trade apparently still being very much intact. Capex is being progressively revised up (*Display 4*), and so far, the specter of new AI releases missing expectations in terms of efficacy has not materialized.

DISPLAY 4: HYPERSCALER CAPEX STILL BEING REVISED HIGHER



Historical analysis and forecasts do not guarantee future results.

Note: Hyperscalers include APPL, GOOGL, META, MSFT, ORCL and AMZN.

As of May 18, 2026

Source: Bloomberg and AB

We wrote an earlier, and larger, report on whether AI capex was justified from an aggregate economy point of view. We repeat the main scenario analysis below (*Display 5*). Here, we try to link the valuation of the AI industry to its ability to monetize an economy-wide increase in productivity. Of course, the jury is out on the extent to which such a thing is possible. In this table, we account for the profitability of existing tech businesses, then assume different degrees to which AI can drive a productivity increase across the economy, with an assumption that the AI companies can take 10% of any such productivity increase as tangible revenue. The bottom line is that there is eminently a path that justifies the capex. The problem is more that the timeline required to know which of these paths one is on is a long one compared with the depreciation cycle of the chips.

DISPLAY 5: HYPERSCALER CAPEX SCENARIOS AND IMPLIED RELATIVE MULTIPLE

	Low (+0.1%)	Mid (+0.9%)	Techno-Optimist (+2.5%)
Baseline Developed-Market GDP (2024)	70,000	70,000	70,000
Starting Earnings for AI Companies (2024)	368	368	368
Baseline Nominal GDP 2030 (4%/yr)	88,572	88,572	88,572
Incremental Gain from AI, pppa	0.1	0.9	2.5
Scenario-Specific 2030 GDP	89,085	93,272	102,140
Incremental GDP from AI (2030)	512	4,700	13,568
AI TAM (10% of increment, $B)	51	470	1,357
AI Earnings (Assume 20% Margin, $B)	**10.24**	**93.99**	**271.35**
Baseline Sector Earnings from non-AI Business (2030, $B)	**552**	**552**	**552**
Total Sector Earnings AI + Legacy Business (2030, $B)	**563**	**646**	**824**
Market Cap 2030 (Price +7%/yr for 5yrs, $B)	**16,690**	**16,690**	**16,690**
Implied Scenario-Specific P/E (2030)	**29.7**	**25.8**	**20.3**
US Market 12M FWD PE Multiple	21.7		
Implied Hyperscaler Relative 12M FWD PE Multiple	1.37	1.19	0.93

Historical analysis and forecasts do not guarantee future results.

The model shows potential 2030 multiples for hyperscalers (Microsoft, Alphabet, Amazon, Meta and Oracle) based on three productivity growth scenarios: low, mid and optimistic, with 0.1%, 0.9% and 2.5% additional productivity growth, respectively. It assumes that hyperscalers capture 10% of incremental GDP growth and that they earn 20% margins on the incremental income. Their legacy business earnings are assumed to grow by 7% per year. Finally, they are assumed to return 7% pa through 2030.

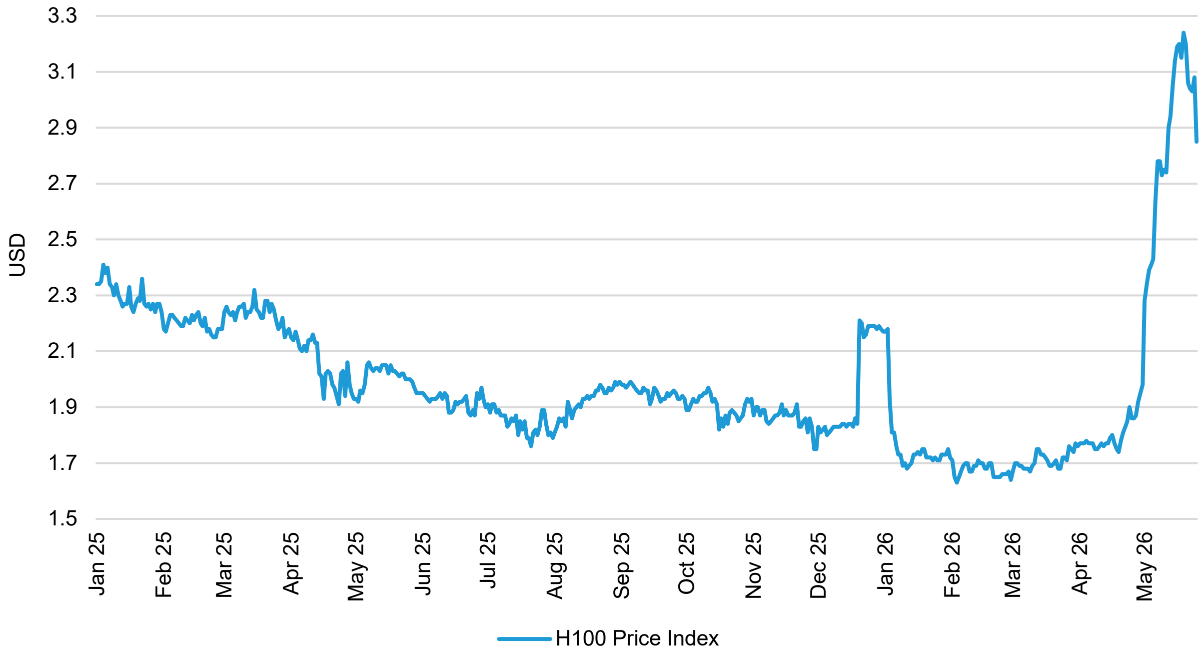
As of May 11, 2026

Source: Bloomberg, Factset and AB

However, the very robust rental prices for older graphic processing units (GPUs) implicitly extends the assumed lifetime of chips. If this is the case, it eases the time-horizon problem somewhat.[2]

[2] Stacy A. Rasgon et al., *Global Technology: AI Value Chain; Can you really run a GPU for 6 years?*, Bernstein Societe Generale Group, November 17, 2025

DISPLAY 6: NVIDIA OLDER-GENERATION CHIP-RENTAL PRICES REMAIN HIGH



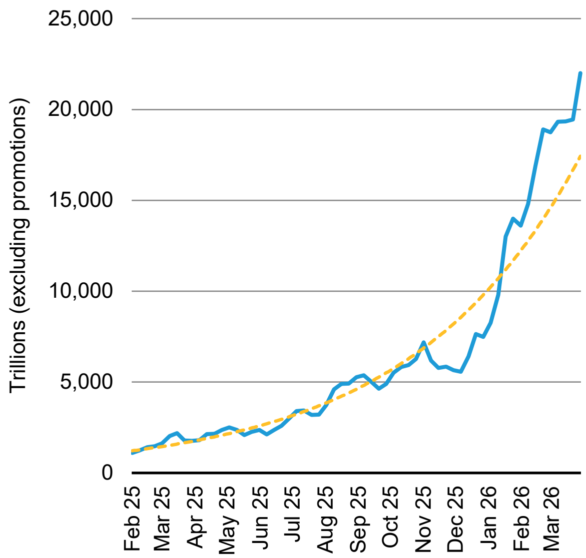
Historical analysis does not guarantee future results.

As of May 25, 2026

Source: Bloomberg and AB

At the same time, the demand for compute is accelerating (*Display 7*). This results from the deployment of agentic workflows that require long-running and multi-step tasks as well as very large context windows, which then sharply increase the use of memory and compute required per task. Additionally, as model capabilities continue to improve, the complexity of tasks and the length of time during which agents can operate autonomously rises, which further increases compute demand. As a result, the bottlenecks are expanding from NVIDIA chips to other parts of the supply chain, most notably memory (*Display 8*) but also central processing units (CPUs) and other hardware required for inference.

DISPLAY 7: COMPUTE DEMAND CONTINUES TO ACCELERATE

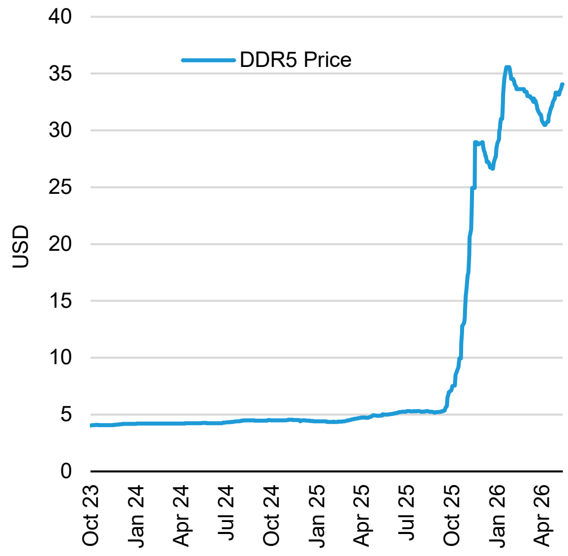


Historical analysis and forecasts do not guarantee future results.

As of April 21, 2026

Source: ISI, Openrouter.ai and AB

DISPLAY 8: DRAM PRICES ARE RISING SHARPLY



Past performance does not guarantee future results.

As of May 14, 2026

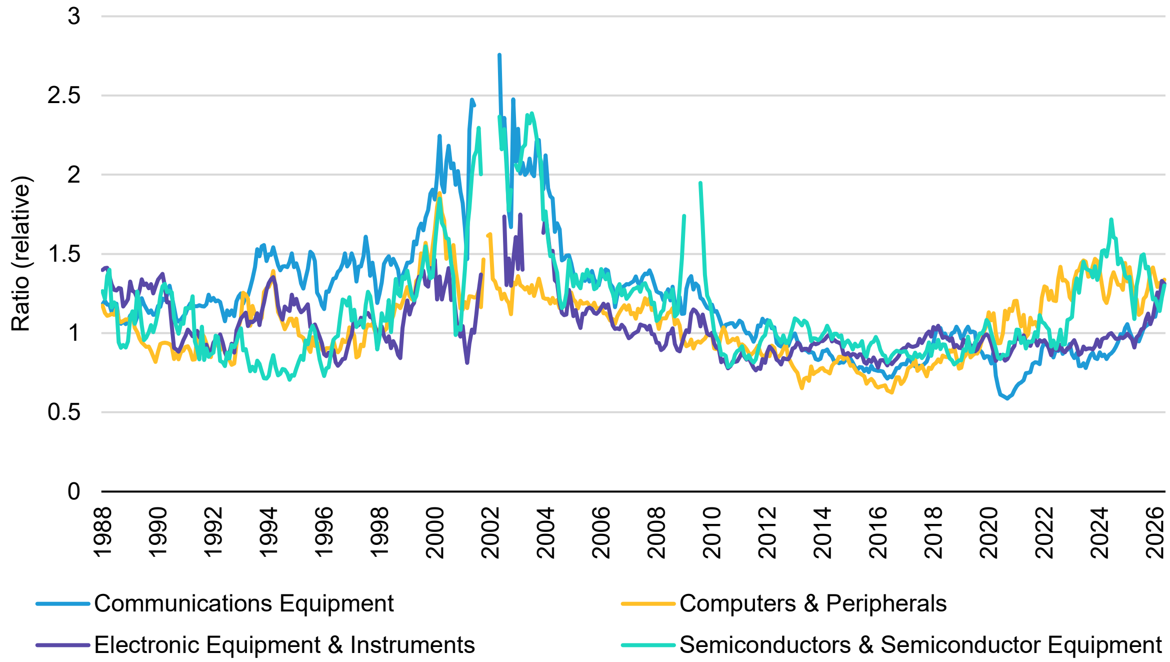
Source: Bloomberg and AB

While the progressive increase in AI capex provides support for the fundamentals of the sector, it does push our preference to the capex beneficiaries vs. the capex spenders, not least because of the emergence of a greater share of debt and vendor financing in the mix.

Comparing traditional subsector valuation in tech is slightly confused, given the distribution of AI-linked names across the groups, and the fact that some of the Mag Seven, such as Amazon, Tesla and Meta, are not constituents of the tech sector at all. But, broadly speaking, the capex beneficiaries show up in two key subsectors: Semiconductors, on a forward price/earnings (PE) basis appear benignly valued but have seen the most eye-watering (though not necessarily unjustified) increases in forward earnings expectations. Electrical equipment has not seen the same increase in forward earnings expectations and hence appears as the most expensive of the subsectors. From a top-down perspective, we would favor both of these as a pairing.

The traditional subdivisions are becoming less useful, but in *Displays 9–14* we show the relative forward PE multiples, the level of consensus long term expected EPS growth rate, and the more rapidly updated balance of earnings revisions for the key subsectors within the industry, drawing out these trends.

DISPLAY 9: US TECHNOLOGY HARDWARE VALUATION

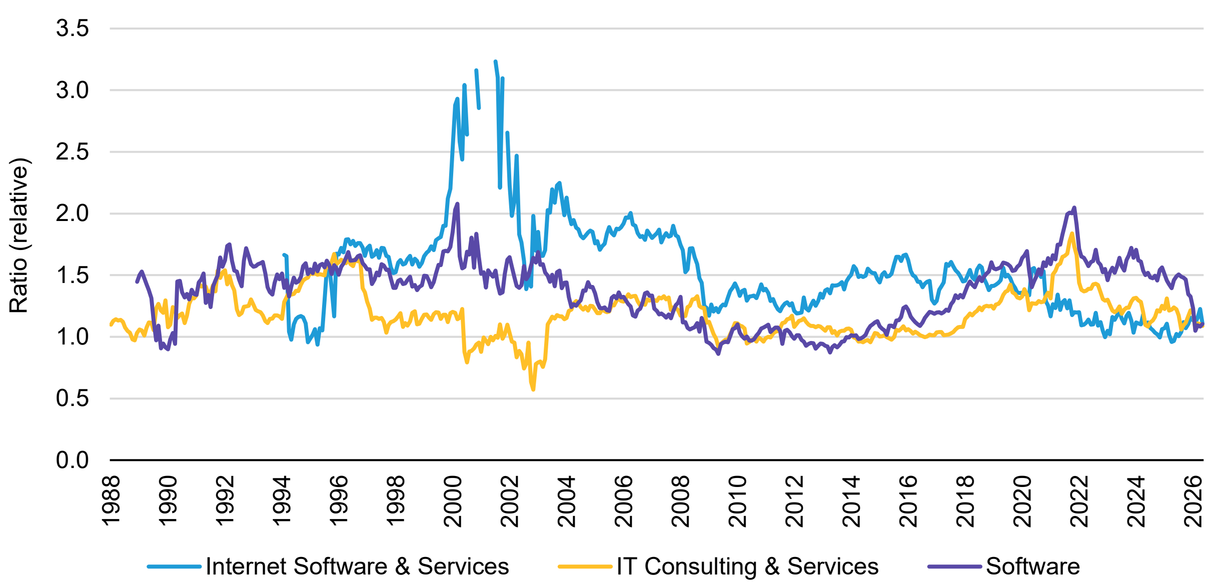


Historical analysis does not guarantee future results.

As of May 31, 2026

Source: Factset and AB

DISPLAY 10: US TECHNOLOGY SOFTWARE VALUATION

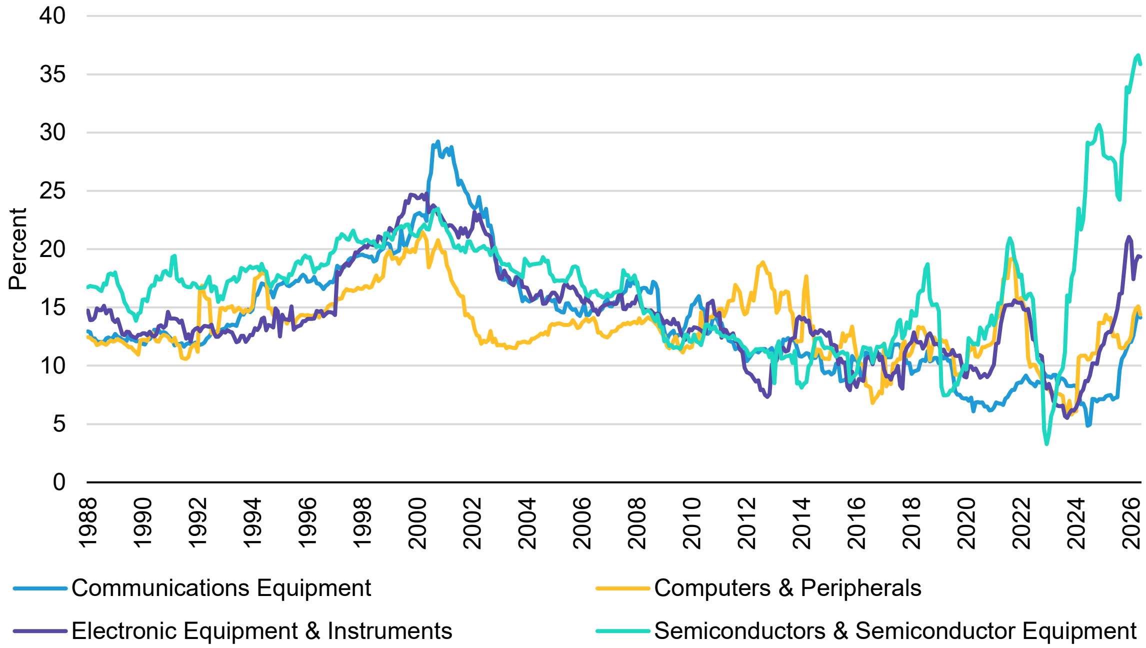


Historical analysis does not guarantee future results.

As of May 31, 2026

Source: FactSet and AB

DISPLAY 11: US TECHNOLOGY HARDWARE LONG-TERM EXPECTED EPS GROWTH

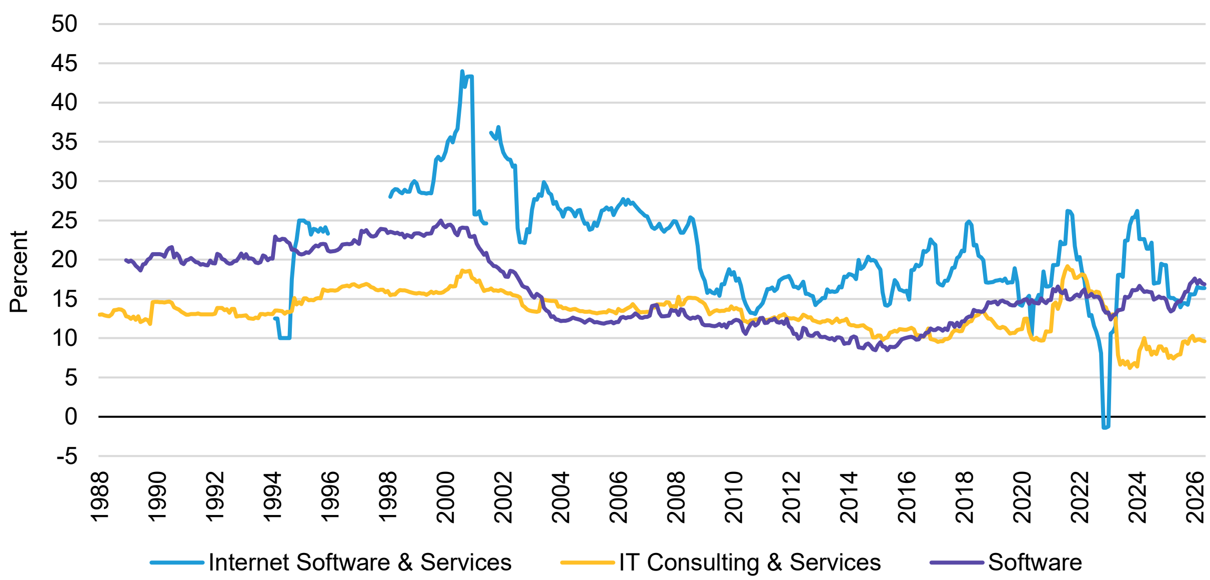


Historical analysis does not guarantee future results.

As of May 31, 2026

Source: FactSet and AB

DISPLAY 12: US TECHNOLOGY SOFTWARE LONG-TERM EXPECTED EPS GROWTH

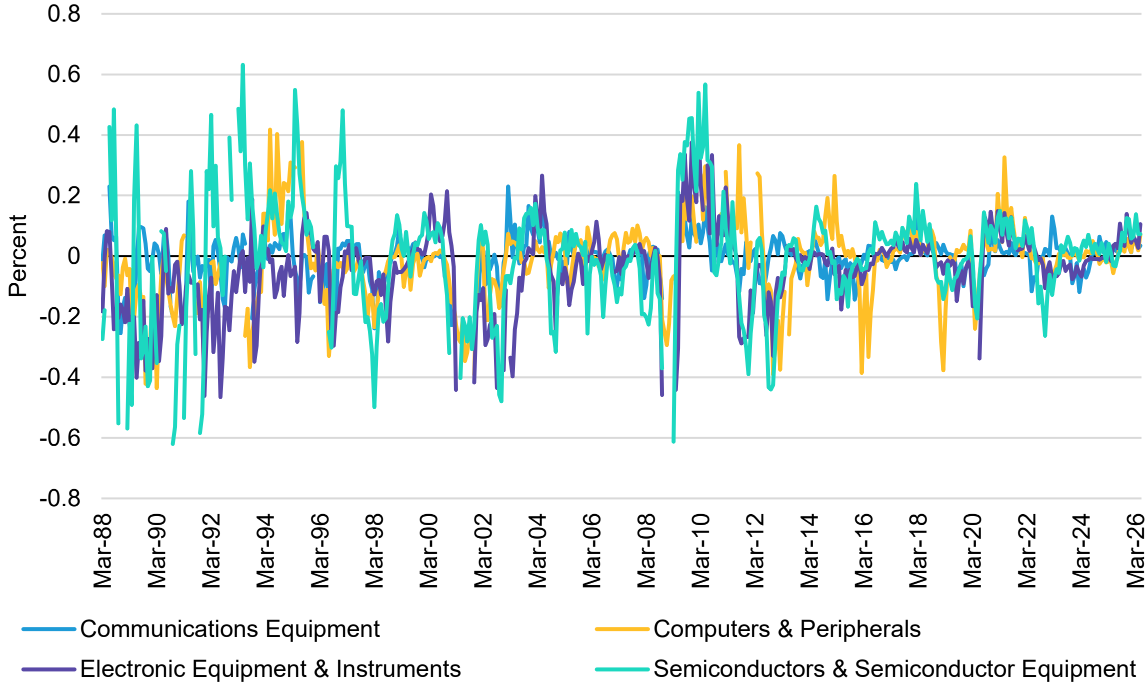


Historical analysis does not guarantee future results.

As of May 31, 2026

Source: Factset and AB

DISPLAY 13: US TECHNOLOGY HARDWARE EARNINGS-REVISIONS BALANCE

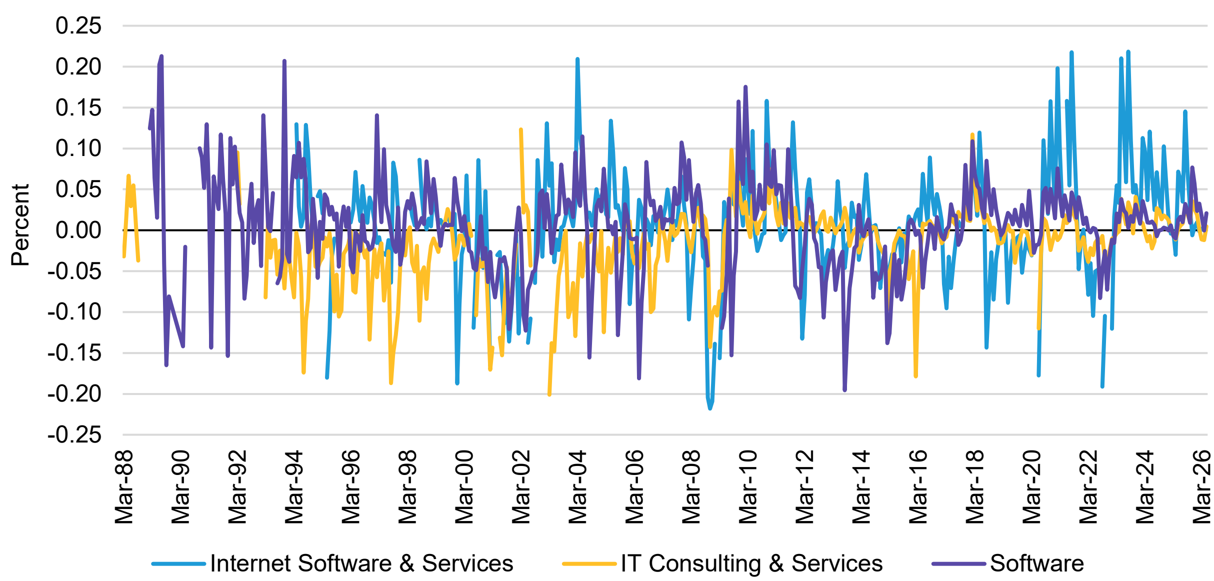


Historical analysis does not guarantee future results.

As of May 31, 2026

Source: FactSet and AB

DISPLAY 14: US TECHNOLOGY SOFTWARE EARNINGS-REVISIONS BALANCE



Historical analysis does not guarantee future results.

As of May 31, 2026

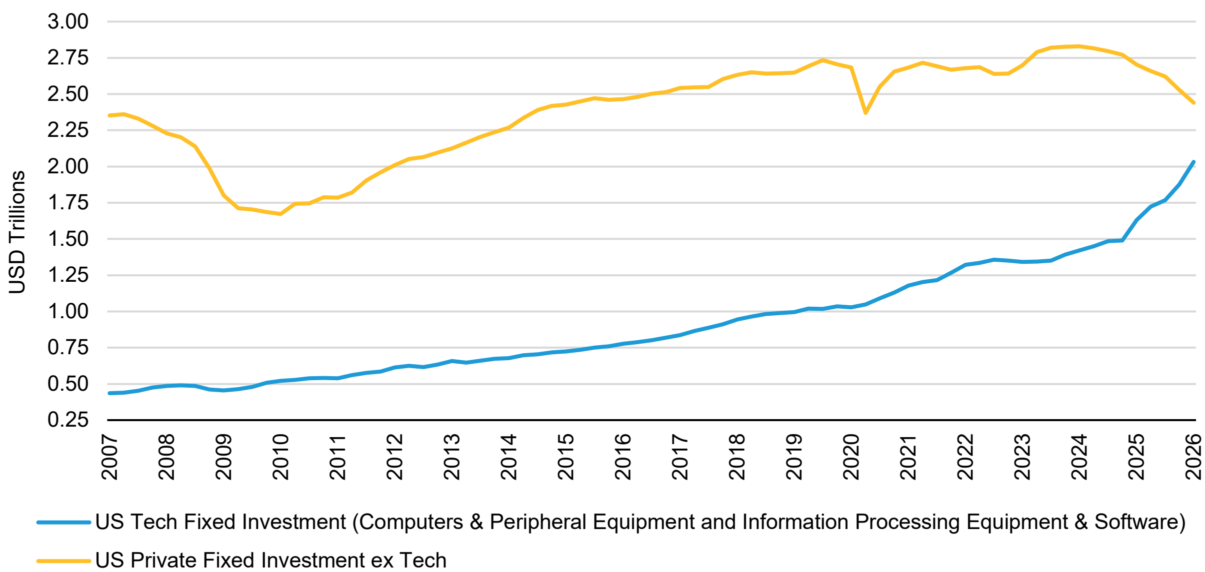
Source: Factset and AB

The tech trade is concentrated in more ways than one

The concentration of the capitalization-weighted passive broad-market index is well documented, and we won't repeat here the reasons why it makes a passive index riskier. For our more discursive note on this point, see The Dystopian Symbiosis: Passive Investing and Platform Capitalism.

There is further, more latent, concentration in the cross-ownership between major tech firms and the way that this relationship shows up in non-operating income. The vendor-financing nature of the relationship between these firms is a form of latent concentration.[3] Yet another form of concentration of the trade is the degree to which US growth has become dependent on AI, and non-AI linked sectors are in retreat (*Display 15*).

DISPLAY 15: A TALE OF TWO WORLDS: US FIXED INVESTMENT IN AI VS. NON-AI RELATED SECTORS



Historical analysis does not guarantee future results.

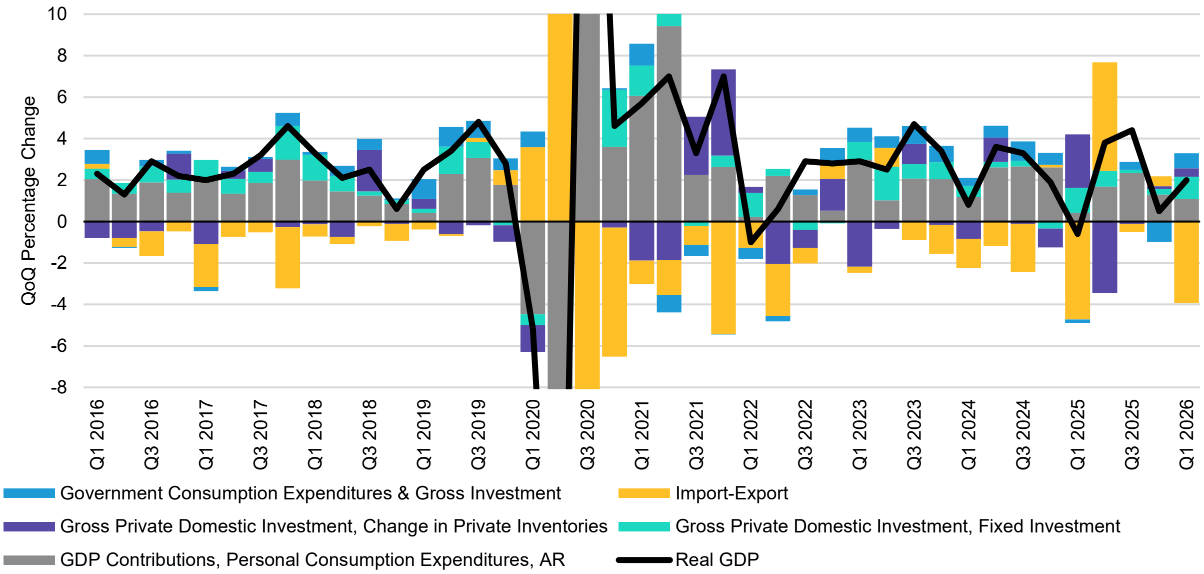
As of May 7, 2026

Source: Bureau of Economic Analysis, Macrobond and AB

Despite this split economy, US consumer spending has held up remarkably well (*Display 16*). As AB's economics team has pointed out, this is likely because of the wealth effect of the rising stock market, which has insulated households that own equities from the effects of inflation. However, this does mean that anything that might pull the rug from AI spending would also presumably create a negative wealth effect that could derail overall growth in the near term.

[3] Robin Wigglesworth, "The Mysterious $53bn 'Other Income' Boost to AI Hyperscaler Earnings," *Financial Times* (FT Alphaville), May 7, 2026, https://www.ft.com/content/be97df0a-76b1-4cb0-9ba4-d1117d8d1450.

DISPLAY 16: CONTRIBUTIONS TO US GDP BY COMPONENT



Historical analysis does not guarantee future results.

As of May 7, 2026

Source: Bureau of Economic Analysis, Macrobond and AB

These multiple forms of concentration and/or correlation are not reasons to be bearish, nor do they imply that this constitutes systemic risk. Indeed, we remain constructive in our view of global equities. However, it does underpin the point we have made for some time—that there appears to be volatility complacency among investors. If one part of this were to go wrong, then the interlinkages would likely inflate this.

Tech and its place in cross-asset portfolios

So, what does all this mean from a cross-asset total portfolio perspective?

The main implication is that the growth from AI is one of the reasons we still maintain our preference for US over non-US equities. We laid out the continued case for this in The End of US Exceptionalism? and it still stands today. There are multiple reasons for this strategic preference (demographics, relative supply-chain security and high profit share), but the one that is most germane to this note is the role of AI. Whatever positive growth impetus AI ends up providing (and we are cautious rather than techno-optimist on this point), it is likely that US firms will benefit more than those in other major listed markets. Some of this distinction might be the mundane point that US firms can fire people faster, which in turn raises more strategic questions about consumption and inequality that we discuss in our more discursive notes. In the near term, though, it supports a continued US overweight.

This overweight brings a natural slight AI/tech/growth overweight to the overall portfolio relative to a global equity index. Also, given our strategic position that is overweight equities and underweight duration, it brings a more pronounced AI/tech/growth overweight relative to a 60:40 benchmark. We are also happy to hold a slight overweight to the broad tech sector within a US equity context.

As part of a broader cross-asset portfolio, this exposure fulfils several roles. It is a key part of the strategic overweight toward US equities. It forms a "thematic" trade for the broader adoption of AI as a greater contribution to total growth. The broader context in our advice on cross-asset portfolio construction is to favor long-term real growth. We think that the broader tech sector offers that, especially when paired with other forms of growth, for example our continued overweight in healthcare and exposure to commodities as a play on "the return of physical capex." All of these offer different takes on the concept of long-term growth in real terms.

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