AI & Semiconductors: Durable Earnings Momentum into Year-End

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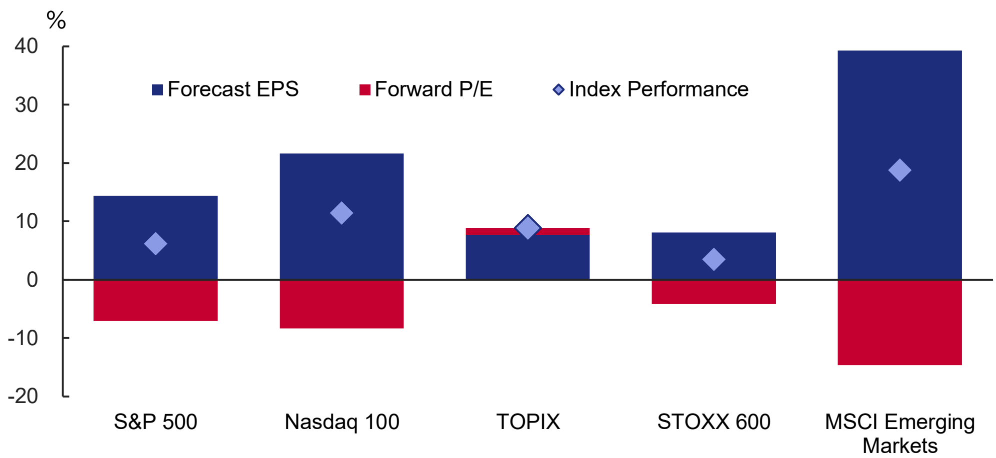
Hitoshi Asaoka
Chief Strategist

Equity gains driven by earnings upgrades

Despite lingering uncertainty surrounding the situation in Iran, global equity markets have continued to move higher. Gains have been particularly pronounced in Artificial intelligence (AI) and semiconductor-related stocks.

Figure 1 decomposes year-to-date equity returns into (i) changes in forward 12-month Earnings Per Share (EPS) estimates and (ii) changes in forward Price Earnings Ratio (P/E) multiples. Across the US, Europe and emerging markets, forward P/E multiples have generally de-rated, yet forward EPS expectations have risen. This particularly reflects a run of recent results in which profit growth, especially among AI- and semiconductor-related companies, has materially exceeded market expectations.

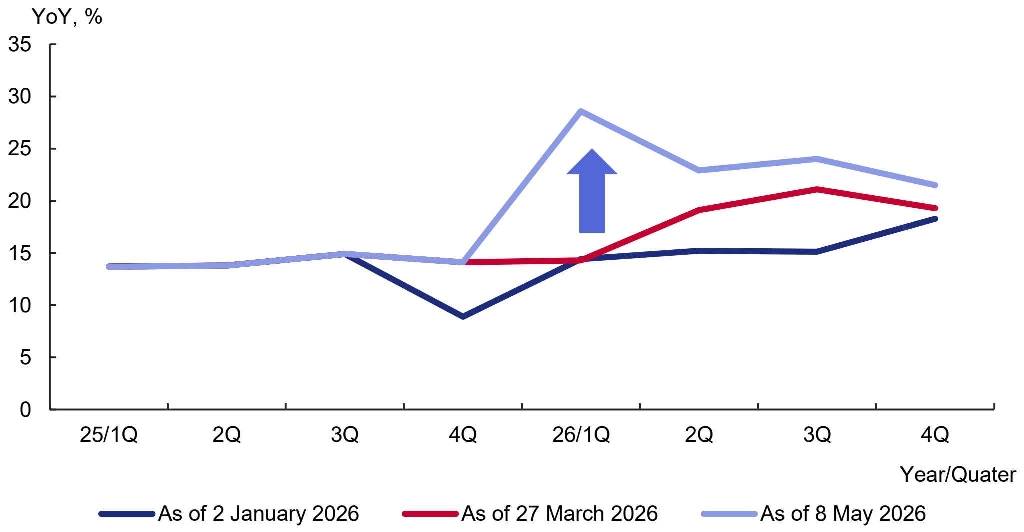
Figure 1: Return Decomposition of Major Equity Indices



Source: LSEG Datastream; Asset Management One Co., Ltd.
Note: Survey period from 26 December 2025 to 8 May 2026.
Return decomposition is based on changes in forward EPS and P/E.

As at 8 May, the year-on-year earnings growth rate for S&P 500 constituents in the January–March 2026 quarter stood at +28.6% (LSEG), well above both the previous quarter (+14.1%) and pre-results expectations (+14.3% as at 27 March) (Figure 2).

Figure 2: Revisions in Earnings Growth for S&P 500 Constituents



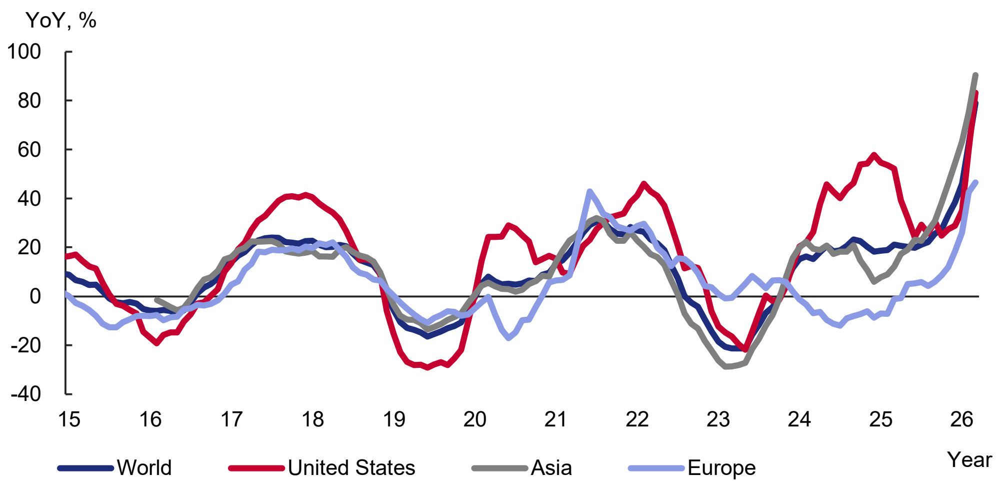
Source: LSEG Datastream; Asset Management One Co., Ltd.
Note: Quarterly data from Q1 2025 to Q4 2026.
Consensus earnings growth forecasts.

Surge in semiconductor revenues

One key driver of the strong earnings growth among S&P 500 constituents has been a sharp increase in semiconductor revenues (Figure 3). Higher shipment volumes have played a role, while tight inventories have amplified price strength, further supporting the rise in sales. Together, these factors have contributed to the outsized rise in sales.

In Korea, Taiwan and Japan, semiconductor-related stocks have rallied sharply, while stronger semiconductor exports have also lifted overall export values.

Figure 3: Global Semiconductor Sales



Source: Bloomberg; Asset Management One Co., Ltd.
Note: Monthly data from January 2015 to March 2026.

AI-driven capex is spreading beyond technology

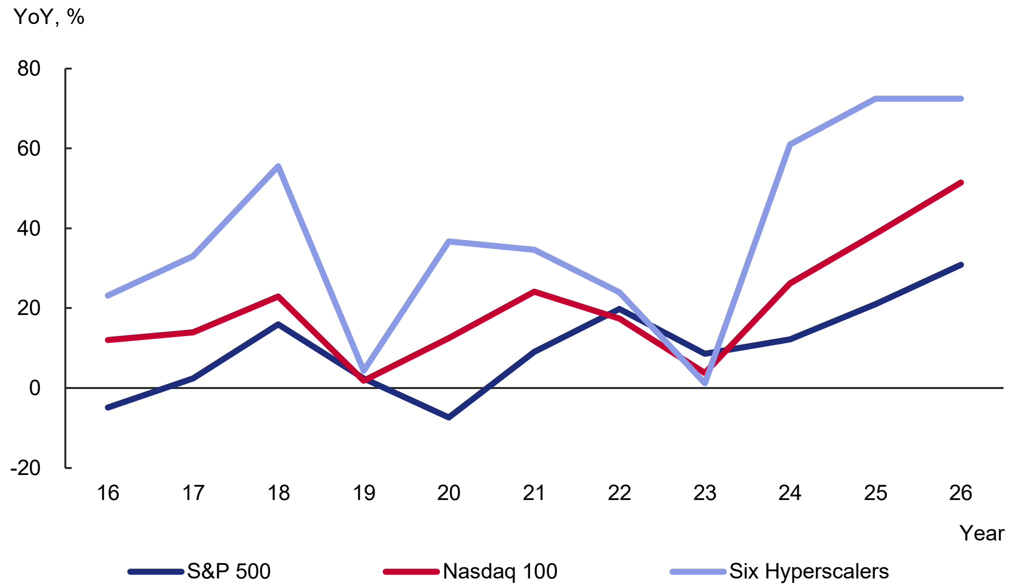
The rapid expansion in AI-related capital expenditure, most visibly, hyperscalers' investment in data centre build-outs, has supported semiconductor demand.

However, data centre construction stimulates demand well beyond semiconductors, spanning construction, IT equipment, power-generation equipment, and grid-related infrastructure. As a result, signs of earnings improvement are becoming more evident in US manufacturing sectors outside technology.

For example, Caterpillar, a leading US capital goods company, has announced an expansion of its own investment plans, citing robust demand for power-generation equipment and construction machinery used in data centre projects.

Capex by six hyperscalers – Microsoft, Alphabet, Amazon, Meta, Oracle and CoreWeave - is projected to rise by more than 70% year-on-year in 2026. Capex by Nasdaq 100 constituents is expected to increase by more than 50%, while S&P 500 capex is projected to grow by more than 30% (Figure 4). Although higher oil prices still pose risks to consumption, the scale of AI-related investment, typically less sensitive to oil-price shocks, is increasingly likely to support corporate earnings and the broader economy.

Figure 4: Capital Expenditure of U.S. Listed Companies



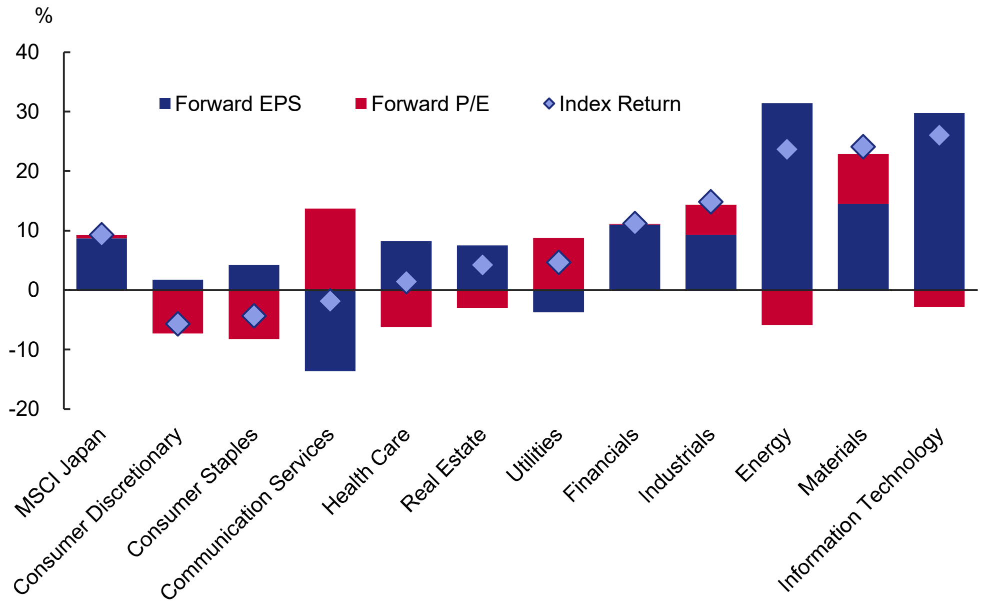
Source: FactSet; Asset Management One Co., Ltd.
Note: Annual data from 2016 to 2026, with 2026 as forecast.

Japanese equities are also benefiting meaningfully

A similar decomposition of returns for MSCI Japan sector indices (as in Figure 1) suggests that improved earnings expectations in the information technology sector have been a major contributor to Japanese equity gains (Figure 5).

While higher oil prices have weighed on consumer-related sectors, strength in information technology and other AI-related beneficiaries has more than offset weakness in oil-sensitive areas.

Figure 5: Decomposition of MSCI Japan Sector Index Returns



Source: LSEG Datastream; Asset Management One Co., Ltd.
Note: Survey period from 26 December 2025 to 8 May 2026.
Index returns are decomposed into forward EPS and P/E.

What are the implications of the AI investment boom?

The longer-term consequences of this unprecedented AI-related capex cycle remain uncertain.

Key downside risks include: the potential emergence of substantial excess capacity over time; the possibility that hyperscalers' and AI developers' revenues fail to scale as expected, creating a heavy depreciation burden; and the risk of commoditisation and aggressive price competition in AI services amid intensifying US–China rivalry.

At the same time, rapid progress in areas such as physical AI and AI agents could accelerate real-world adoption, with the potential to deliver a meaningful improvement in productivity across the economy.

For the remainder of the year, corporate investment looks set to remain the dominant engine for markets and growth. By contrast, household consumption may remain subdued in terms of market influence. Concerns are also emerging about adverse spillovers to households and other sectors through higher prices and rising interest rates.

In Korea, some senior officials have even alluded to the possibility of redistributing semiconductor-related gains to the public. While such discussions may be premature, they suggest that national debates over wealth distribution could intensify over time.

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