

THE SHORT AND LONG

Weekly Bulletin

Capex broadens as labor holds and themes converge

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AUTHORS

JP Coviello
Head of Portfolio Strategy

Conrad DeQuadros
Head of Economics

CONTRIBUTORS

Kate Moore
Chief Investment Officer

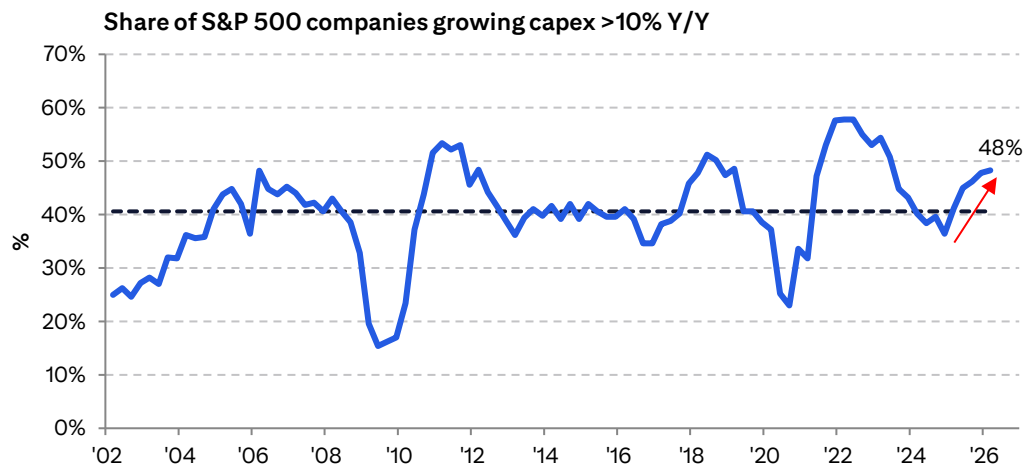
Olaolu Aganga
Head of Portfolio
Construction & Analytics

TAKEAWAYS

- The U.S. labor market posted another month of strong job gains, doubling expectations. Global PMIs strengthened in April, and South Korean export data accelerated, signaling continued upstream demand across the technology supply chain.
- Capital expenditure (capex) growth is no longer just a hyperscaler story. Nearly half of S&P 500 companies are now growing capex above 10% year-over-year, the highest share since 2022 and well above the long-run median.
- Two structural themes are gaining earnings confirmation: physical AI is contributing to exponentially higher memory and compute requirements, while energy infrastructure investment is accelerating globally as grid hardening becomes a national security priority.

This week in charts

FIGURE 1: Nearly half of S&P 500 companies are meaningfully growing capex spend



Source: Factset as of May 7, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

Looking closer

Capex spending is broadening beyond just the hyperscalers, with 48% of S&P 500 companies growing capex by more than 10%. The median of this dataset going back 25 years is 40%. When capex broadens across sectors and company sizes, the beneficiaries typically extend across industries and borders.

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The latest U.S. monthly payroll gain came in at double expectations. Non-farm payrolls have now exceeded 100,000 in three of the last four months. One softer reading in February largely reflected idiosyncratic factors, including a healthcare sector strike and workforce adjustments at some major couriers. However, we believe the underlying trend remains intact.

Within the report, the Information sector, which includes computer and data processing employment, was the one area of relative softness. That category is down roughly 5% year-over-year. Even so, computer and data processing payrolls remain approximately 30% above pre-pandemic levels, making it difficult to frame the data as anything other than a normalizing cycle within a structurally healthy labor market.

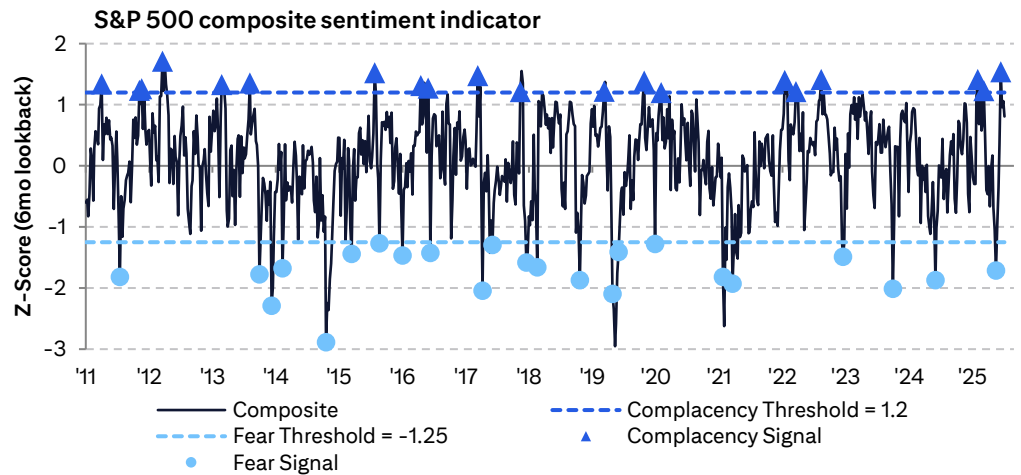
Weekly jobless claims reinforce the picture that there are no clear signs of broad deterioration at this moment. In our view, the current data argues against any near-term labor market breakdown.

The global picture adds to the constructive read. Japan reported its third consecutive month of real wage growth year-over-year, a figure the Bank of Japan (BoJ) monitors closely as it weighs further rate action. The June meeting remains a live possibility for an additional increase. Global Purchasing Managers' Indices (PMIs) for April came in stronger than March, with broad participation from the U.S., parts of Asia, and select emerging markets (EM) like India and Brazil. Europe showed softness, but the aggregate trend held.

South Korean export data, which we track as an upstream indicator of technology and AI-related demand given its heavy semiconductor weighting, rose 44% year-over-year in the first ten days of May. That compares to a 37% pace in the same window in April¹. We believe this acceleration matters.

Investor sentiment has shifted sharply. Markets have moved quickly from fear to optimism as markets look through geopolitical uncertainty and focus on ongoing peace talks and earnings durability (Figure 2). That said, complacency signals do not change our constructive view on equities. The macro backdrop remains supportive, and capex continues to broaden. We believe near-term positioning risk does not alter the durability of those fundamentals.

FIGURE 2: Market sentiment hit complacency signal, historically predicts some weakness



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Bottom line: Labor markets remain resilient at home and abroad. Global growth data is broadening rather than narrowing. The macro backdrop continues to support the constructive positioning we have maintained.

¹Korea Customs Service Export Data as of May 1, 2026.

Capex: the surge is real and it is broadening

With 90% of the S&P now reported, 84% of companies have beaten consensus estimates. That is the strongest beat ratio since the first quarter of 2021, and much of the earnings strength ties directly back to the capex cycle we have been tracking.

The hyperscaler commitment to capital investment is the headline figure. 2026 hyperscaler capex estimates are now tracking at roughly double what they were one year ago. Estimates for 2027 are already running approximately 40% above where they stood just six months ago. The scale of that commitment suggests the demand running through the technology supply chain is durable.

As we noted in our [Q1 Macro Investment View](#), “As AI technology advances, the contours of capex will evolve. This evolution will create new engineering requirements, new supply bottlenecks, and introduce niche companies as key drivers of innovation.” We are seeing this transition occur real-time as agentic AI changes the overarching workflow, compute demands, and memory needs.

But the capex story is no longer confined to a handful of large technology platforms. Currently, 48% of S&P 500 companies are growing capex at a rate greater than 10% year-over-year (Figure 1). The long-run median for that figure going back to 2002 is approximately 40%. We are meaningfully above that baseline and rising for the fifth consecutive quarter.

Breadth matters as it alters the portfolio opportunity set. When capex broadens across sectors and company sizes, the beneficiaries typically extend across industries and borders. Memory producers, semiconductor manufacturers, industrial automation companies, and energy infrastructure providers all sit downstream of that spending.

Earnings this season have confirmed the supply constraint dynamic. Hyperscaler free cash flow has declined as capex represents an increasing share of operating cash generation. At the same time, high bandwidth memory provider earnings per share have risen sharply, and the gap between the two continues to widen.

Bottom line: Capex is rising and broadening. We expect the cycle to continue, with supply constraints in memory, compute, connectivity, and physical infrastructure positioning those sectors as the primary beneficiaries.

Two themes with structural tailwinds

AI is moving from the cloud into the physical world. Autonomous mobile robot penetration in warehouse automation is tracking a 20% compound annual growth rate, expected to reach an estimated 20% penetration by 2029². Demographic pressures, lower labor supply, and the global push for manufacturing onshoring are structural drivers. This buildout requires a different set of components than the model training cycle that preceded it.

Agentic AI³ and robotics demand more memory (a robot must be able to operate with near-zero latency) and enhanced computational infrastructure. Specifically, model training and inference remain in a graphics processing unit (GPU)-anchored architecture. Conversely, agentic AI is a fundamentally different workload profile: a long-running, branching sequence of decisions and tool calls strung together over minutes or hours. Above all, the real-time processing of complex tasks drives higher memory requirements, higher bandwidth needs, and lower-latency interconnects between central processing units (CPUs), GPUs, and memory. As a result, the demand for AI compute resources has been unprecedented and that revenue could have been higher if supply kept pace.

Grid hardening has moved to the center of the investment conversation alongside the physical AI buildout. Transmission, electrification, storage, and system-level resilience are the common denominators across geographies and energy mixes, regardless of how the ultimate fuel mix evolves. Countries are pursuing multi-pronged Energy architectures designed to seek reliability and domestic control. Energy-importing regions have structural incentives to invest, and the data reflects that.

² Citi Research, "Embodied Intelligence: The Rise of Physical AI." December 5, 2025.

³ Refers to autonomous AI systems designed to achieve specific goals with minimal human supervision.

Q1 earnings provided strong confirmations across both themes. Companies reported growth and margin expansion as they work to keep pace with rising electricity demand, grid stability needs, and national security interests. Others highlighted demand for grid independence and on-premise power solutions at data centers.

What connects physical AI and energy infrastructure is the same underlying dynamic driving capex across both: the world is building physical systems that require computational power and connectivity at a scale that did not exist even five years ago. As we said in our [Q2 Macro Investment View](#) on this theme: “This [physical AI] transition raises technical requirements for operators across transportation, logistics, manufacturing, and resource extraction, while tightening constraints in power delivery, networking capacity, memory, and precision components.”

Bottom line: The transition from software-driven to physical AI is tightening constraints across memory, compute, power delivery, and connectivity. We view both themes as secular in nature rather than cyclical and expect the earnings confirmation to continue as capital deployment accelerates.

What happened

What's ahead

ECONOMIC DATA

U.S.

- Nonfarm payrolls grew 115K, beating estimates, while the unemployment rate was steady at 4.3%. Mixed report with downward revisions to prior months' growth, average weekly hours rose, and hourly earnings were a bit softer than expected.
- April Institute for Supply Management (ISM) Services mostly in line with expectations with new orders falling, prices paid steady, and employment rising.

Global

- Eurozone retail sales fell 0.1% in March after a 0.3% dip in February.
- Eurozone Manufacturing PMI hits 47-month high as Middle East conflict triggers stockpiling

U.S.

- Producer Price Index (PPI) for April set to release.
- Import/export prices for April set to release.
- Retail sales for April set to release.

Global

- UK GDP and industrial production for March set to release.
- Eurozone industrial production for March set to release.

POLICY

U.S.

- Treasury quarterly refunding announcement maintains auction sizes, no increase for several quarters, and preference to issue on shorter end of the curve.
- U.S. Court of International Trade struck down section 122 10% tariffs

Global

- U.S. awaiting Iranian response to 14-point peace plan that could end the conflict and kick off nuclear negotiations.

U.S.

- President Trump says ceasefire remains intact despite fresh missile/drone attacks.
- President Trump sets July 4 deadline for EU trade deal.

Global

- Trump-Xi talks in Beijing expected to center on geopolitics, trade, and technology.

MARKETS

U.S.

- Putting conflict aside, AI compute demand and capex spend continues to prop up markets, earnings surprising higher in all sectors, and more job cuts citing AI as a factor.
- S&P 500 sets longest weekly advance since 2024

Global

- UK markets centered around political risk and fiscal credibility as PM Starmer doesn't intend to walk away in response to local election

U.S.

- Light week of earnings (2% of S&P 500) with ~90% of firms have already reported.

Global

- Capex broadening beyond megacap tech, continued weakness in Europe vs. U.S., Asia upstream bottlenecks for AI.

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RELATED READING

[May 5, 2026 | Strong U.S. Earnings and Capex, Central Bank Divisions, and Shifting Inflation Assessments](#)

In last week's Bulletin, we looked at how Technology investments drive a Q1 surge in U.S. capital spending across sectors. On the macro side, current earnings reports and central bank developments support our view to maintain higher U.S. equity exposure in portfolios and remain underweight duration.

[April 20, 2026 | The Short and Long Podcast](#)

Hosted by Kate Moore, Chief Investment Officer of Citi Wealth, the inaugural episode "AI Through an Investor's Lens: Looking Beyond the Hype" addresses AI – the most transformative technology of our lifetime. Watch on [YouTube](#), [Apple](#), or [Spotify](#), and subscribe for future episodes.

[April 8, 2026 | The Short and Long: Q2 Macro Investment View](#)

Citi Wealth's quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report states global shocks to markets are driving higher volatility and rapid risk repricing, while the U.S. economy remains relatively resilient.

[April 2, 2026 | Global Investment Council](#)

The Citi Wealth Global Investment Council met April 2, 2026, and reallocated equity exposure from Europe to the U.S. The move maintains equity allocation while shifting risk toward more resilient markets. European fundamentals were already weakening prior to the Middle East conflict, and the U.S. offers more durable earnings with less geopolitical vulnerability.

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|---|----------------------|----------------------------------|---------------------------|
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| Investment Grade | | | |
| Highest quality | Aaa | AAA | AAA |
| High quality (very strong) | Aa | AA | AA |
| Upper medium grade (Strong) | A | A | A |
| Medium grade | Baa | BBB | BBB |
| Not Investment Grade | | | |
| Lower medium grade (somewhat speculative) | Ba | BB | BB |
| Low grade (speculative) | B | B | B |
| Poor quality (may default) | Caa | CCC | CCC |
| Most speculative | Ca | CC | CC |
| No interest being paid or bankruptcy petition filed | C | D | C |
| In default | C | D | D |

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- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

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