

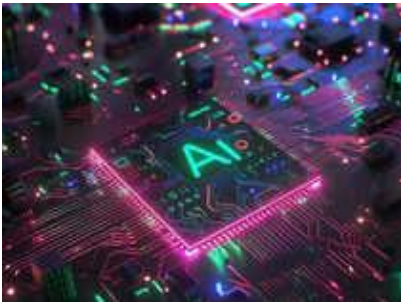
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The global markets are an AI story...or are they?

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Synopsis

The narrative that markets need an AI story is outdated. Leadership has shifted from Big Tech to broader markets and old-economy sectors, especially small caps. While AI spending remains strong, gains are concentrated in suppliers like semiconductors and infrastructure, not tech giants, signaling a deeper market rotation and changing drivers of global equity performance.



You have seen all the interviews with the so called market experts telling you that the Indian market is not performing because it does not have any AI story, as the only thing that is running in the world is the AI theme.

Is that the truth or is it just the story?

The world was indeed marching to the AI beat but the key word is 'was'. You cannot drive a car facing backwards but that is what we try to do too often in the markets.

In the last 3 years you could get by in Global investing by buying the seven large technology stocks you knew the names of...aptly dubbed the Magnificent Seven or the Mag Seven. These were [Microsoft](#), Apple, Amazon, [Meta](#), Alphabet ([Google](#)), Tesla and Nvidia.

However, the real story is that these are not what are driving the Global or even the US market any more.

Two important change in trends are visible.

One, leadership has more from the S&P 500 index to the broader market.

Two, it is no longer the Mag Seven that are driving even the S&P 500. It is the old economy sectors that are doing well and even within tech it is a different profile of company that is now leading.

Let us get into more details:

From 2021 to 2025 [5-year period], the S&P 500 delivered total returns of 82%, significantly outperforming the [Russell](#) 2000 (The US small cap index), which returned only 26%, indicating that the rally was largely driven by large-cap technology stocks.

However, this trend has shifted substantially in 2026, with “old economy” sectors gaining traction and market breadth improving, particularly within the Russell 2000 small-cap segment.

In the first four months of 2026, the Russell 2000 generated a return of 13.1%, more than twice the 5.5% for the S&P500.

Interestingly every single sector in the Russell 2000 is trading in positive territory for 2026.

US Smallcap segment performance:

Russell2000 — Sector Returns	
Period: 31/12/2025 – 30/04/2026	
Sector	2026-YTD* Return%
Energy	42.1%
Materials	20.7%
Information Technology	20.7%
Industrials	15.8%
Communication Services	8.8%
Financials	7.4%
Consumer Staples	5.5%
Real Estate	3.8%
Health Care	3.6%
Consumer Discretionary	3.1%
Utilities	2.7%

**Source: LSEG, First Global research*

And this is the more mixed picture for the S&P 500

S&P500 sector Returns for 2026-YTD [till 30-04-2026]

S&P 500 — Sector Returns	
Period: 31/12/2025 – 30/04/2026	

Sector	2026-YTD* Return%
Energy	38.3%
Information Technology	20.4%
Materials	16.0%
Utilities	10.6%
Industrials	9.3%
Real Estate	7.7%
Consumer Staples	3.8%
Financials	-2.4%
Consumer Discretionary	-2.5%
Communication Services	-2.9%
Health Care	-4.3%

**Source: LSEG, First Global research*

Unsurprisingly, the Energy sector has emerged as the top performer across both indices, delivering 38% returns in the S&P 500 and 42% in the Russell 2000.

The Russell 2000 (small-cap segment) has shown strong performance in 2026 [YTD](#), with all sectors ending in positive territory. Energy, Materials, IT, and Industrials have emerged as the top contributors, each delivering double-digit returns.

Within Materials, performance was driven by commodity chemicals, aluminium, and metals & mining, with returns ranging from 25% to as high as 102%.

In the Industrials space, key contributors included construction & engineering, electrical components, industrial machinery, and heavy transport equipment with returns ranging from 16% to as high as 45%.

Additionally, sectors such as Financials, Healthcare, Consumer Discretionary and Communication Services have shown stronger participation and positive returns in the small-

cap segment, contrasting with negative performance in the S&P 500.

Overall, the small-cap segment remains robust, supported by strong breadth, with approximately 65% of index constituents delivering positive returns, reflecting broad-based participation.

The current trend indicates a clear rotation from largecaps to smallcaps, as well as a recovery in old economy stocks.

Technology stocks

In both the S&P 500 as well as the Russell 2000, the IT sector has gone up by 20%+ in the last 4 months.

So, the AI bull appears to be alive and well. But this would be at least a partly erroneous conclusion.

What we think of as the major AI plays like Meta and Microsoft have shown significant declines this year.

In fact the Magnificent Seven have been tiring for a while. In 2023 and 2024 they accounted for over 50% of the S&P up move, in 2025 this proportion came down to 43% but more important only two of the seven outperformed the index last year: Nvidia and Google.

In the first 4 months the Mag 7 in aggregate has underperformed the S&P 500. In spite of being 33% of the index, they have accounted for only 16% of the rally.

This year as well, the list of performers among them have been narrowing, with only Alphabet (Google) and Amazon outperforming the index. And remember the performance of Google includes the 10% one day rise on April 30th post its results.

Mag-7 stocks Contribution to S&P500 index returns

Particulars	Calendar Year Returns analysis			
	CY23	CY24	CY25	CY26-YTD*
S&P 500 Total Returns*	26.3	24.8	18.1	5.5
Mag 7 Contribution	14.3	13.5	7.7	0.9
Mag 7 Contribution %	54.2%	54.3%	42.6%	15.8%
Contribution of IT & CS sector**%	69.4%	56.7%	62.1%	59.6%
S&P 500 EW Total Returns	13.9	13.0	11.4	6.8
*ishares S&P500 core ETF is used as proxy **Information Technology & Communication Services Source: LSEG, First Global Research				

**CY26-YTD till 30-04-2026*

Now for what exactly has driven the IT sector headline outperformance. It has been driven primarily by Semiconductors, Hardware, and Electronic Equipment sub sectors, which have rallied between 30% and 82%, pushing the sector into the list of top performers for 2026 YTD.

Thus the likes of Intel, AMD, Texas instruments, Corning, ON semiconductor, Micron, Quinty electronics, SanDisk which are on various points along the semiconductor and hardware chain are all up between 60 and 130% in just 4 months (SanDisk is up a whopping 360%). Even old-time hardware and networking companies like Seagate technologies and Dell are among the top 25 S&P performers.

The companies you know as the 'AI companies' are spending an astounding USD 700 billion (even more by some estimates) this year in capital expenditure. Their stocks might be struggling (Meta and Microsoft are down significantly in 2026) but all those suppliers supplying the equipment and technology for their data centers are the ones that are doing well for now.

MAG-7 stocks performance for 2026-YTD, 2025, 2024

2026 YTD [till 30-04-2026]

Symbol	Name	CY26-Ytd Return%	CY25 Return%	CY24 Return%
AAPL.OQ	Apple Ord Shs	-0.1	9.0	30.7
GOOGL.OQ	Alphabet Ord Shs [Class A,B]	23.0	66.0	36.0
AMZN.OQ	Amazon Com Ord Shs	14.8	5.2	44.4
META.OQ	Meta Platforms Ord Shs Class A	-7.2	13.1	66.0
MSFT.OQ	Microsoft Ord Shs	-15.5	15.6	12.9
NVDA.OQ	NVIDIA Ord Shs	7.0	38.9	171.2
TSLA.OQ	Tesla Ord Shs	-15.1	11.4	62.5

Data Source: LSEG, S&P ETF, First Global Research

Within IT, sub sectors such as IT Consulting, Application Software, and System Software have acted as laggards, declining between 15 and 35%.

The headline move in technology appears good but it is confined to only a particular set of stocks. Basically the mind-boggling capital expenditure going into data centers and other AI infrastructure is benefiting the semiconductor, hardware, electronics and networking ecosystem.

THAT is what the market is currently rewarding. In fact the mad rush for setting up capacity has allowed a great deal of pricing power to some of the suppliers which have been increasing prices at will.

In addition to the suppliers, it is also giving a boost to power utility companies as data centers are extremely power and water intensive

BUT that is very different from betting on AI itself and whether all this spending is ever going to earn economic rates of return. In fact it is my assessment that this type of mad rush to spend will not end well for the companies setting up these capacities.

The same pattern is visible not just in the US markets but in the Global markets. There too the apparent outperformance of the IT sector is confined to the suppliers of various kinds for the data centers.

[All Country World Index] sector returns for 2026-YTD [till 30-04-2026]

ACWI — Sector Returns

Period: 31/12/2025 – 30/04/2026

Sector	2026-YTD* Return%
Energy	30.9%
Information Technology	21.6%
Utilities	12.1%
Industrials	11.2%
Materials	9.4%
Real Estate	2.5%
Financials	2.3%
Consumer Staples	0.6%
Communication Services	-3.1%
Health Care	-4.2%
Consumer Discretionary	-5.3%

**Source: LSEG, First Global research*

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