

## Valuation = No Room for Error

- The Fed holds, but a pivot to hike — not cut — is the real market correction trigger.
- Semicon is driving the rally, fundamentals intact, but warrants caution.
- Earnings back the AI conviction, but at 40x CAPE, position sizing matters.

### Hold Steady — For Now

At the FOMC meeting, rates held steady at 3.50–3.75%, with members pushing back on the easing bias amid sticky inflation. All eyes now shift to the 12 May release of April CPI, where headline inflation is expected to accelerate to ~3.7% y-y, driven by surging gasoline prices from the Middle East conflict. The key risk is pass-through into core categories — if that materializes, the higher-for-longer narrative solidifies further. CME FedWatch already prices zero cuts for 2026, a scenario the market has comfortably absorbed. However, any data trajectory pointing toward a rate hike — not a cut — would be a different story, and in our view, the real trigger for a market correction.

### The Engine and the Risk

1Q26 earnings season is effectively in the books, with 83% of S&P 500 companies beating estimates, lifting the index to fresh all-time highs above 7,300. The rally is semiconductor-driven — the sector now is accounting for ~40% of index gains since late March. The SOX is up 65% YTD, fueled by AMD's Q1 beat and the Intel-Apple chip supply deal. The fundamental case remains intact — industry revenue projected at ~\$660B in 2026, AI capex unbroken. However, the SOX is now trading ~60% above its 200-day moving average, a technical extreme seen only twice before: July 1995 and March 2000. The fundamentals are not wrong — but the price velocity is unsustainable, and a reversal in semiconductors would not stay contained.

### Expensive, Not a Bubble — But Don't Be Wrong

Current valuations leave no room for error. The Shiller CAPE stands at 40x (typically 28–36x), and the S&P 500 forward P/E of 20.9x embeds a near-perfect earnings trajectory through 2H26. Is this a bubble? We don't think so — earnings are real, and the AI capex cycle has fundamental backing. A correction is plausible, and the technical stretched-ness we highlighted in semiconductors makes the market vulnerable to a sharp repricing on any negative surprise. But we remain convicted on the AI wave, particularly the [CPU architecture cycle](#), where the earnings beat cycle continues to demonstrate that demand is running ahead of even the most optimistic estimates. As long as results keep surprising to the upside, there remains room for opportunity — but at 40x CAPE, the margin of safety is thin, and position sizing matters more than ever.

### The China AI Race

China's AI push presents direct read-throughs for US equities. DeepSeek's V4, now running on Huawei's Ascend chips, signals US export controls are losing effectiveness. Bernstein report projects Nvidia's China AI market share could collapse to just 8% in 2026, as domestic players, Huawei, Cambricon, and the newly listed "Four Little Dragons" (Moore Threads, Biren, MetaX, Enflame). This week, Alibaba's earnings and the Baidu AI Conference (13-14 May) are the CapEx signals aggressive infrastructure spending from Chinese hyperscalers would reinforce the global AI hardware bull thesis.

### DR Pick: BABA80, TP of THB7.25 (9988 at HKD177, HKD/THB at THB 4.1)

Our DR pick of the week is BABA80 with a TP of THB7.25. The catalyst is 4Q26 earnings. The thesis rests on Alibaba Cloud, which has delivered triple-digit AI revenue growth for 10+ quarters, with token consumption on Model Studio growing 6x in 3 months. The concurrent Trump-Xi summit (14-15 May) adds geopolitical optionality.

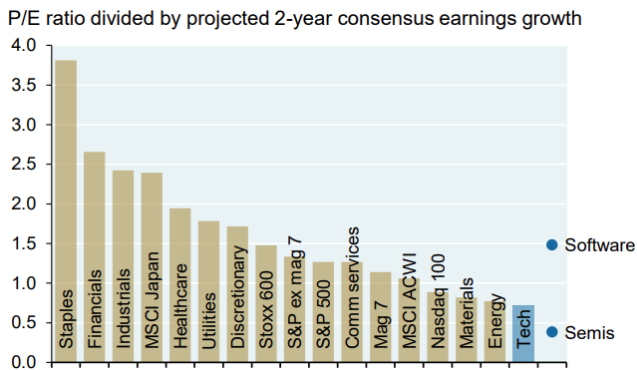
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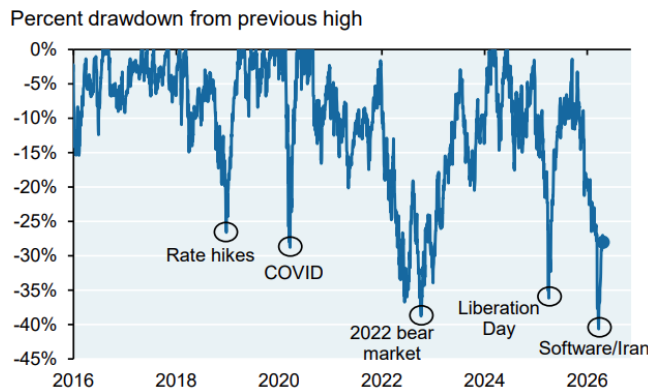
Peerayu Sirivorawong

### Exhibit 1: The price investors pay for earnings growth



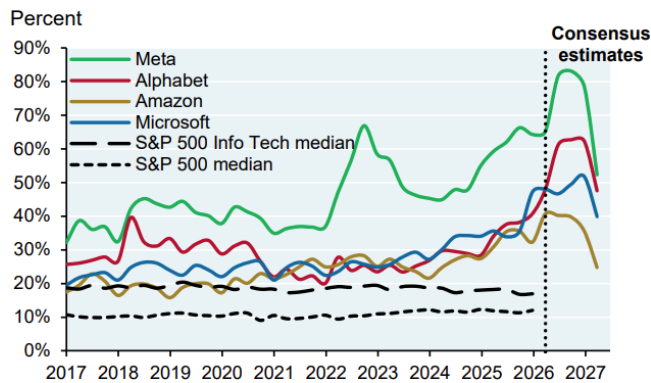
Sources: Bloomberg, [JPMAM](#), 1-May, 2026

### Exhibit 2: S&P 500 tech forward PE drawdown



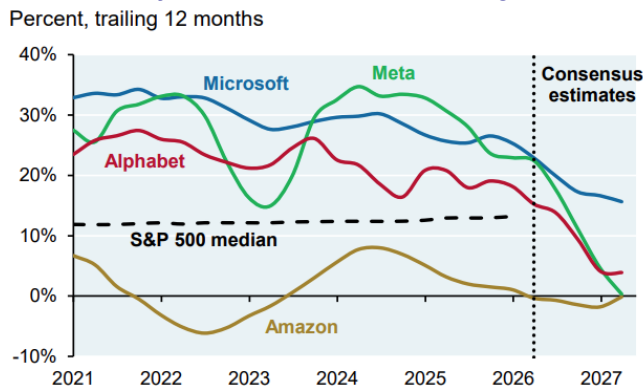
Sources: Bloomberg, [JPMAM](#), 30-April, 2026

### Exhibit 3: Hyperscaler capex and R&D



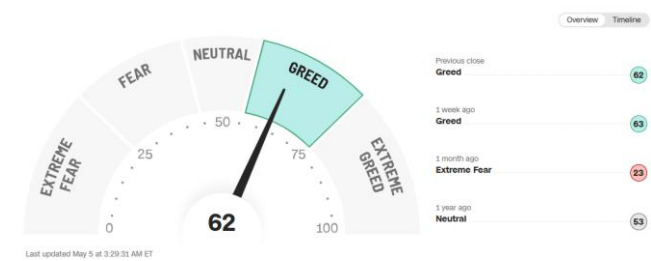
Sources: Bloomberg, [JPMAM](#), 30-April, 2026

### Exhibit 4: Hyperscaler free cash flow margins



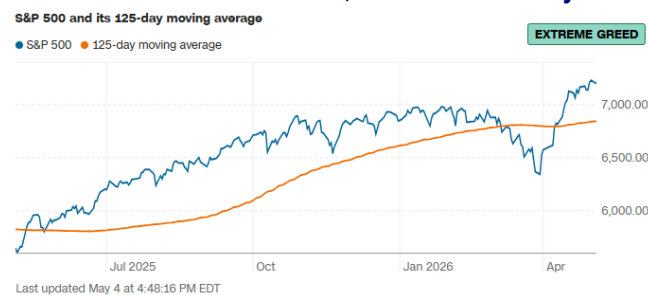
Sources: Bloomberg, [JPMAM](#), 30-April, 2026

### Exhibit 5: Fear & Greed Index (5 May 26)



Sources: CNN

### Exhibit 6: Market Momentum, S&P500 vs 125 days MA



Sources: CNN

### Exhibit 7: Shiller PE Ratio



Sources: Multpl.com

### Exhibit 8: S&P 500 PE Ratio



Sources: Multpl.com

## GENERAL DISCLAIMER

### Analyst Certification

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## RECOMMENDATION STRUCTURE

### Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

- BUY:** Expected return of 10% or more over the next 12 months.  
**HOLD:** Expected return between -10% and 10% over the next 12 months.  
**REDUCE:** Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Sector Recommendations

- Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.  
**Neutral:** The industry is expected to perform in line with the relevant primary market index over the next 12 months.  
**Underweight:** The industry is expected to underperform the relevant primary market index over the next 12 months.

### Country (Strategy) Recommendations

**Overweight:** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral:** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight:** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.