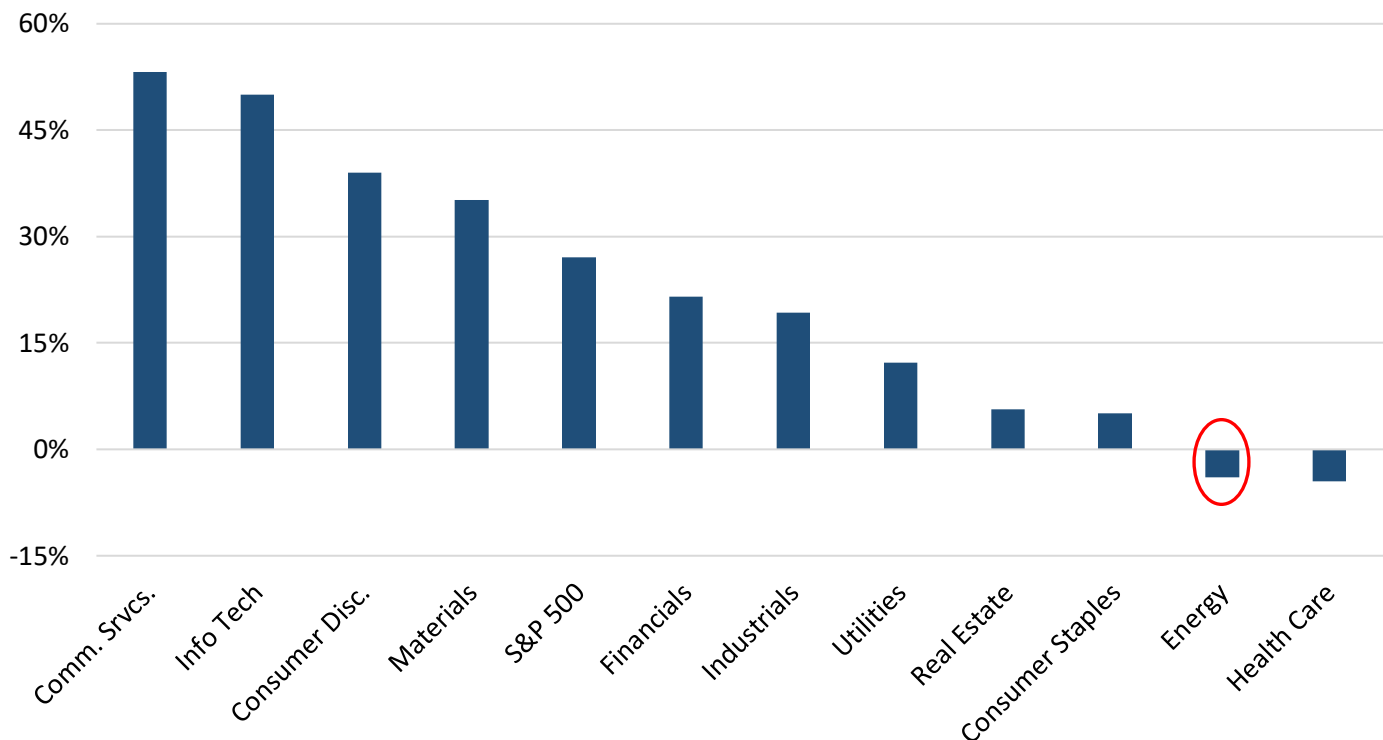


Information Technology & Energy: The Two Tails of Extrapolation Bias

U.S. GDP grew 2% annualized in Q1 2026 after inflation, including gas prices hit their highest since 2022.ⁱ Private non-residential fixed investment drove 70% of that growth, with "information-processing equipment" alone accounting for one-third of private demand growth over the past 12 months.ⁱⁱ

That category includes semiconductors, the main driver behind AI hyperscaler capex. The big spenders (Alphabet, Amazon, Microsoft, and Meta) show no signs of letting up.

The flip side—earnings growth—has been front and center. With Q1 2026 reporting underway, several sectors and individual names have posted impressive numbers, lifting stocks. You might guess Info Tech and, given oil's ~25% rise, Energy lead the pack. Partly right, but remarkably wrong.



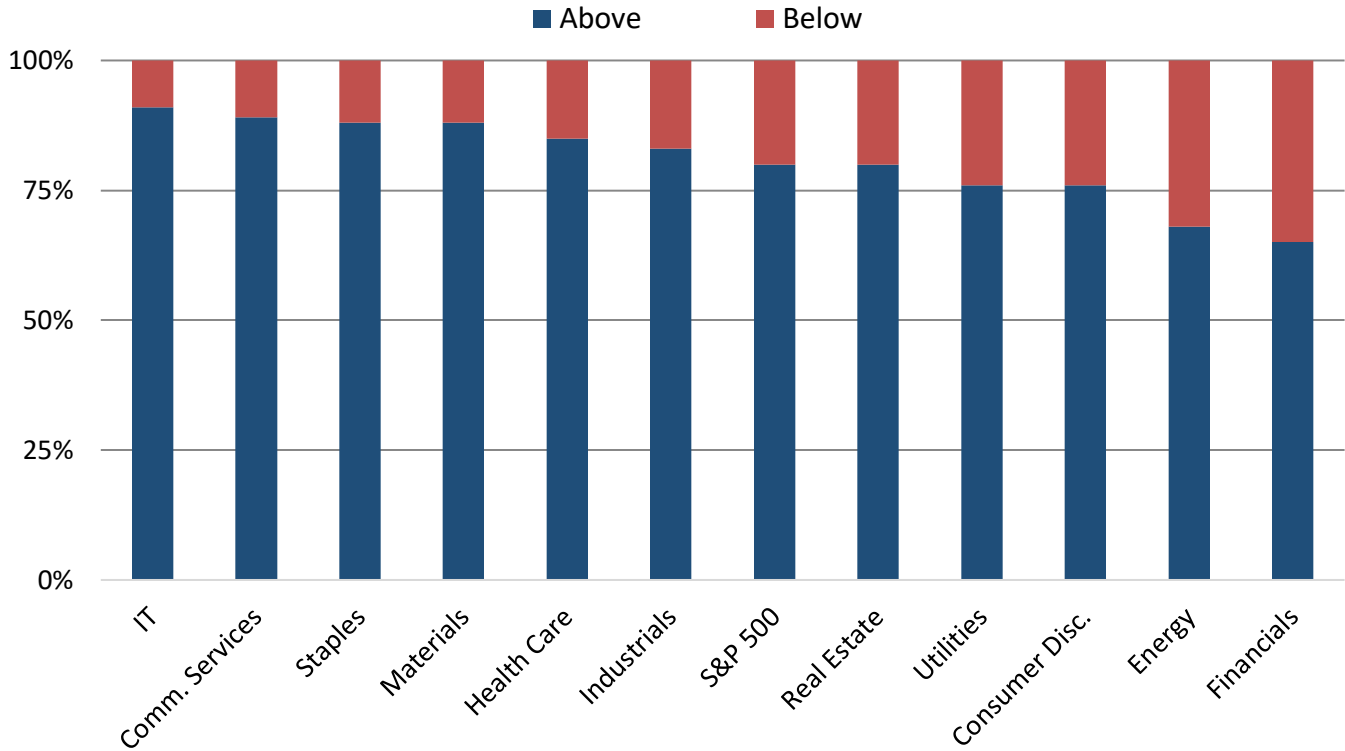
Source: Factset, Earnings Growth based on actuals if reported, otherwise, consensus estimates

- Technology (33% of the S&P 500) remains the market's main earnings driver: as of May 1, Q1 2026 Info Tech growth should hit 50% (led by Nvidia), with Communication Services (~10%, Alphabet and Meta) at 53%. Excluding both, S&P 500 Q1 earnings would be ~9.3%.
- By contrast, Energy is expected to post -4% earnings growth. The Iran war's ~\$100/barrel windfall only began two-thirds into Q1, with January and February prices much lower. This is why Energy stocks rose 37% in Q1 before rolling over in April, as analysts slashed longer-term estimates.

The market loves Tech based on expectations of **future** earnings growth due to **anticipated** AI-related revenues. Bulls will tell you *“not only did Energy companies see negative actual earnings growth but the future looks no better – we can tell.”* And as the charts below show, they are “right.” As FactSet reports:

“At the sector level, the Information Technology (91%) sector has the highest percentage of companies reporting revenues above estimates, while the Financials (65%) and Energy (68%) sectors have the lowest percentages of companies reporting revenues above estimates....”

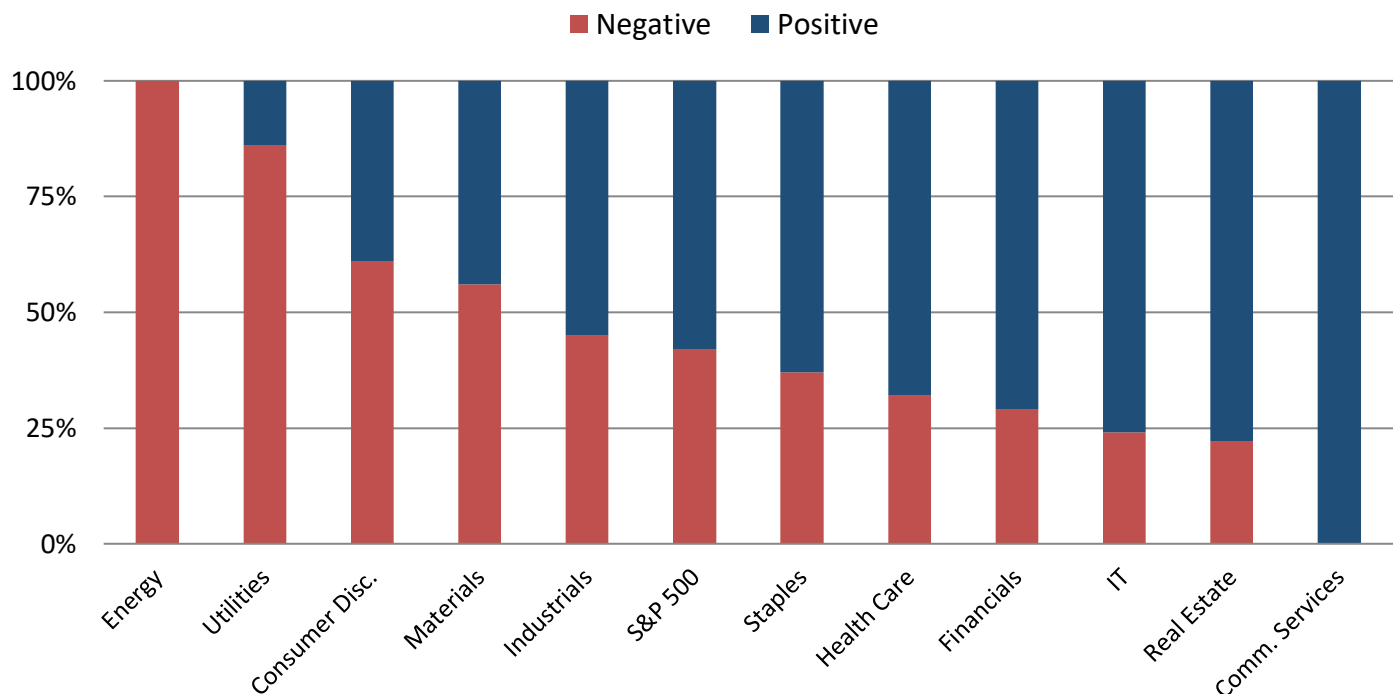
S&P 500 Revenues Above & Below Estimates: Q1 2026



Source: FactSet

As FactSet continues, "... **the Energy sector is the only sector that has recorded a decrease in its earnings growth rate since the end of the quarter due to downward revisions to earnings estimates and negative earnings surprises.**"

Percentage (%) of S&P 500 Cos. with FY Positive & Negative Guidance



Source: FactSet

So why is the KCR team underwhelmed by this?

First Up – Information Technology:

1. This is classic **extrapolation bias**, a behavioral error that has plagued investors since records began
2. KCR wrote a note demonstrating how this **error**, and it is an **error**, in judgement could easily be seen in how [investors in NVDA](#) went from refusing to believe the past data to suddenly extrapolating it forward...forever.
3. For more on the topic, we strongly recommend reading our piece [Apple, Coke, Tesla, WorldCom & Warren Buffett: What Can We Learn?](#) which digs into this issue at a systematic level across the investment landscape

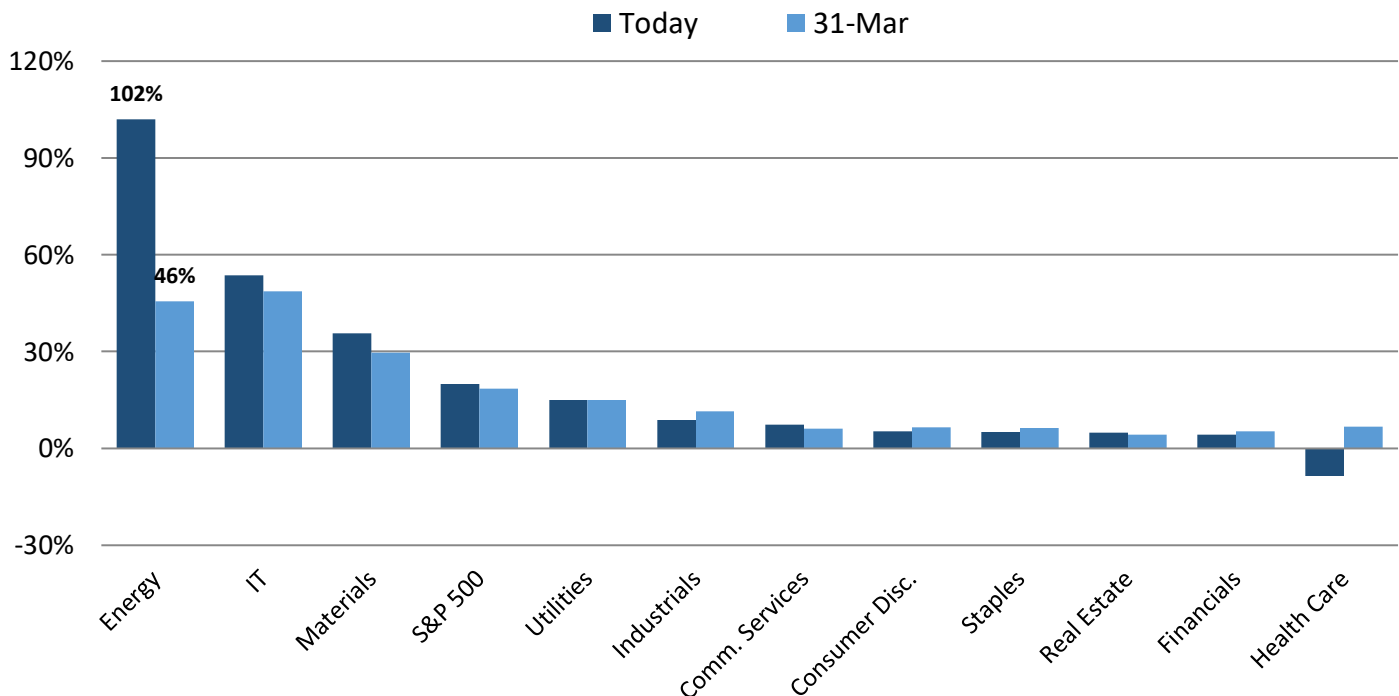
Second – Energy:

1. This too is extrapolation bias – investors have seen mediocre earnings out of Energy stocks for years and now they expect earnings to stay flat to negative for years
2. This despite the fact that the [catastrophic fallout](#) from our attack on Iran has created **structural deficiencies** in energy and food supplies with [no solution in sight](#).
3. Energy looks to us like NVDA and Technology did years ago; the bull case is in front of us while analyst and investors' bullish **focus** is fixated on Tech stocks due to their **trailing** performance - a concept we explained in our [recent Energy note](#)

Although only some Energy companies benefitted from the brief mid-quarter oil spike, analysts have raised Q2 2026 earnings estimates for Energy more than any other sector—now well above even Information Technology.

The chart below compares current expectations (navy) with those at March 31 (light blue). Energy's leap from ~45% to over 100% dwarfs every other revision, confirming that the recent oil move has finally flowed through to Q2 estimates.

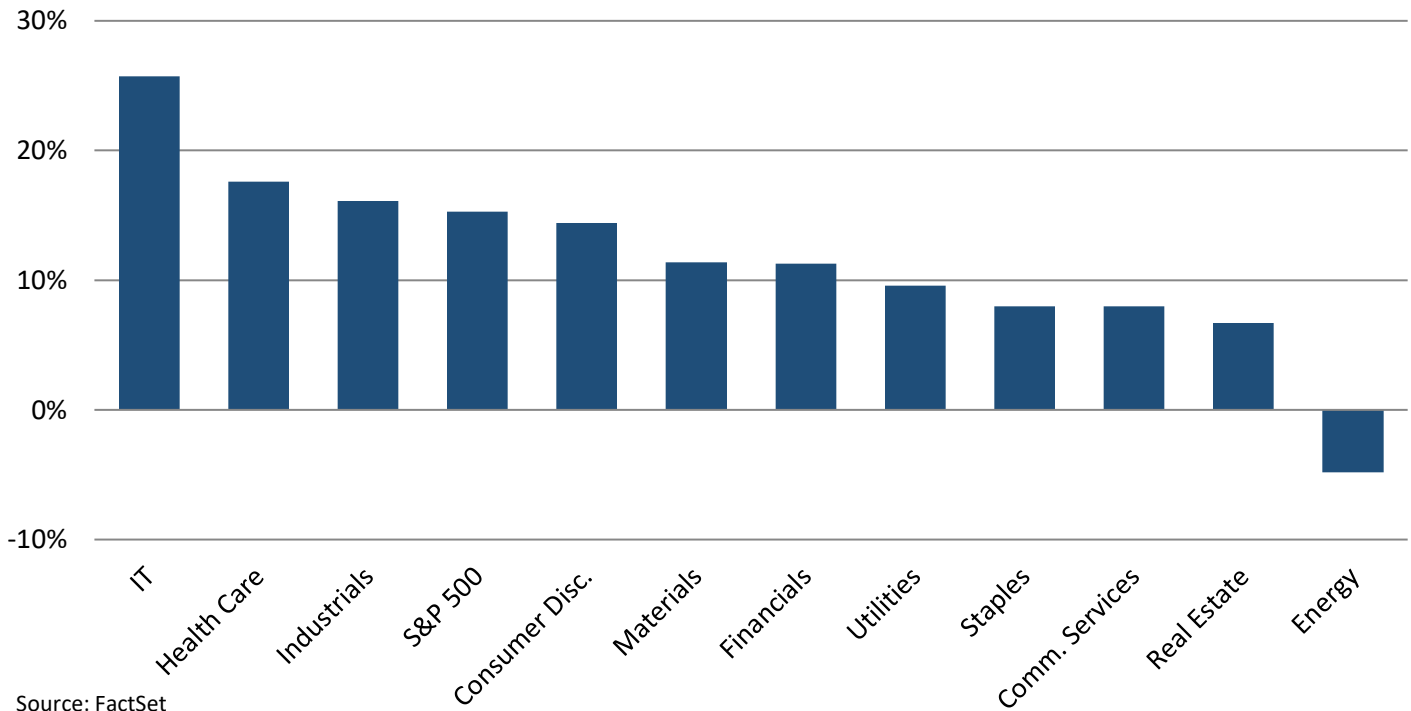
S&P 500 Earnings Growth (Y/Y): Q2 2026



Source: FactSet

Part of the reason the increases in earnings expectations for Q2 2026 jumped so high for energy is that they were very low to begin with. But these same analysts are entirely confident that the recent increase in their Q2 earnings' estimate is a short-term phenomenon. We can see this in the chart below which shows the expected earnings growth for every sector in 2027.

S&P 500 Earnings Growth (Y/Y): CY 2027



In an effort to make this more tactile and relatable we decided to look at the biggest stocks in each sector. In the table below we show the **Q1 2026 earnings growth** for the 10 largest companies in the S&P 500 Info Tech and Energy Sectors, side-by-side.

Ticker	Name	Market Cap**	MRQ	Ticker	Name	Market Cap**	MRQ
NVDA	NVIDIA CORP*	4,850,349	119%	XOM	EXXON MOBIL CORP	644,945	-34%
AAPL	APPLE INC	3,989,578	22%	CVX	CHEVRON CORP	385,541	-35%
MSFT	MICROSOFT CORP	3,029,398	23%	COP	CONOCOPHILLIPS	153,237	-10%
AVGO	BROADCOM INC	1,976,948	28%	WMB	WILLIAMS COS INC	93,251	22%
MU	MICRON TECHNOLOGY INC	583,356	682%	SLB	SLB LTD	85,054	-28%
AMD	ADVANCED MICRO DEVICES	577,819	43%	EOG	EOG RESOURCES INC	75,580	19%
INTC	INTEL CORP	474,573	123%	VLO	VALERO ENERGY CORP	75,507	N/A*
ORCL	ORACLE CORP	463,996	22%	MPC	MARATHON PETROLEUM CORP	73,246	N/A*
CSCO	CISCO SYSTEMS INC*	361,334	8%	KMI	KINDER MORGAN INC	73,130	41%
PLTR	PALANTIR TECHNOLOG INC	332,639	154%	PSX	PHILLIPS 66	71,864	-58%

*Consensus forecast

**As of April 30th, 2026

*N/A as the companies swung from a loss to a profit

**As of April 30th 2026

This is not complicated. On the left you can see the 10 biggest tech stocks have seen earnings growth explode higher. On the right you can see the biggest Energy stocks have been experiencing serious profit declines. As of April, analysts now believe tech will have explosive earnings growth in Q2 of this year but then are pessimistic on Energy's future earnings growth.

In the table below we show the **fundamental data** for the same 10 largest Information Technology companies (top row) and the 10 largest Energy companies (second row).

	FCF/EV	P/S	P/E	P/B	Total Yield	3 Yr Sales Grth	36m Beta
Largest 10 IT	2%	13x	38x	16x	1%	239%	1.48
Largest 10 Energy	4%	2x	24x	3x	6%	-16%	0.00

Source: Kailash Capital Research, LLC; Data from 4/30/2026

Again. This is not complicated.

The problem for investors is that the bullishness on tech now has these 10 big Tech stocks trading at **50x free cash flow** (2% FCF Yield), 13x sales, and 38x earnings. That means if these giant companies, valued in the trillions, fail to deliver on these bullish expectations over the ensuing years, they could suffer serious declines. The setup today is obviously reminiscent of Tech stocks in the internet bubble.

Contrast that with the 10 largest Energy stocks. These stocks trade at a fraction of Tech’s multiples from FCF/EV, P/S, P/E, to P/B. And it is critical we remember that these are **trailing** numbers over the year ending March 31st, 2026 when oil traded at an average price of \$65.ⁱⁱⁱ Oil is over \$100 today as we write this.

So big Energy stocks are **cheap** vs. big Tech even when using oil prices that were significantly lower than current prices. Analysts are bearish on Energy’s prospects in 2027 because they believe they know what oil prices will be in that year. **The term we use for such moments is “trough on trough” – low multiples on low earnings and we are fond of such situations.**

We think it worth noting that the 10 largest Energy stocks have a Beta of 0.0003 – that is not a typo. Generally speaking we are critics of beta as an optimization process over long horizons. You can read some of our thinking in [The Collapse of Common Sense: The Great Beta Breakdown](#) and [Is Equity Beta Broken](#). But we do acknowledge that it is widely used and therefore becomes a selection feature for many portfolios and being able to buy Energy – a group of stocks that investors perceive as being amplifiers of market moves – with a beta of zero is something we have never seen.

Below we show KCR’s top five ranked large cap Energy Stocks with our five worst ranked Tech stocks.

	FCF/EV	P/S	P/E	P/B	Total Yield	3 Yr Sales Grth	36m Beta
Top 5 Ranked Large Cap Energy	8%	2x	12x	2x	5%	-11%	0.05
Bottom 5 Ranked Large Cap IT	1%	15x	142x	7x	0%	50%	2.30

Source: Kailash Capital Research, LLC; Data from 4/30/2026

Do you want to get paid 5% a year in total yield to own dirt-cheap energy stocks that are generating an 8% FCF Yield on \$65 oil prices?

OR

Would you rather own tech stocks that pay you nothing to own them and generate a nominal FCF Yield?

We think the choice is easy but to each their own. The stocks are listed below.

Top 5 Ranked Large Cap Energy				Bottom 5 Ranked Large Cap IT			
KCR Agg Rank	Ticker	Company Name	Market Cap (\$m)	KCR Agg Rank	Ticker	Company Name	Market Cap (\$m)
13	DVN	DEVON ENERGY CORP	31,952	624	AMD	ADVANCED MICRO DEVICES	577,819
19	APA	APA CORP	14,376	616	SNPS	SYNOPSYS INC	92,393
24	HAL	HALLIBURTON CO	35,321	612	MCHP	MICROCHIP TECHNOLOGY INC	50,277
31	EXE	EXPAND ENERGY CORP	24,525	605	TDY	TELEDYNE TECHNOLOGIES INC	29,922
34	MPC	MARATHON PETROLEUM CORP	73,246	597	CRWD	CROWDSTRIKE HOLDINGS INC	112,937

Source: Kailash Capital Research, LLC; Data from 4/30/2026

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ⁱ <https://www.bea.gov/news/2026/gdp-advance-estimate-1st-quarter-2026>

ⁱⁱ <https://fred.stlouisfed.org/release/tables?rid=53&eid=8128#snid=8123>

ⁱⁱⁱ Bloomberg Data