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## From the Global Director of Research | North America

# Charts That Caught My Eye

A guiding principle at Morgan Stanley Research is to enhance your investment process by delivering unique insights that separate the signal from the noise. An intuitively designed and well-crafted chart can often accomplish this with exceptional clarity.

With that mission in mind, these charts in our recently published research stood out to me.

- US Equity Strategy:** Current-year EPS expectations are accelerating rapidly, in contrast to the typically declining seasonal trend, and earnings revisions breadth has accelerated as well.
- Tech Diffusion – Hyperscalers:** We have raised our hyperscaler capex projections again, more so in 2027 than 2026, which we see leading to strong multi-year growth for revenue and ROIC.
- Tech Diffusion – US AI Adoption:** Our AlphaWise survey indicates consumer sentiment on AI skews positive, driven by time savings and improved access to information.
- Tech Diffusion – China's AI Path:** We expect China's engineering efficiency to continue to scale, enabling similar AI model intelligence as US AI labs at only 15-20% of US inference costs.
- Asia Pacific Economics:** We believe Asia is entering its strongest industrial cycle since the mid-2000s.
- Japan Equity Strategy:** We see higher costs as the most likely spillover from Middle East developments, but these effects may already be largely priced in.
- Citigroup:** We expect Citi's May 7 Investor Day to be a moderately positive catalyst as the company outlines a path to mid-teens ROTCE.
- Liberty Formula One:** FWONK (Top Pick in US Media & Entertainment) is trading at a 25% discount to the estimated value of the F1 teams.

Please reach out to me with feedback on these or any other key investment debates. Thank you for your partnership.

**Katy Huberty**

Global Director of Research

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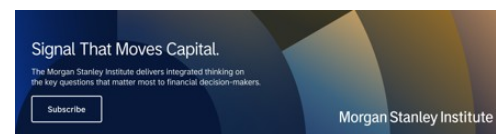
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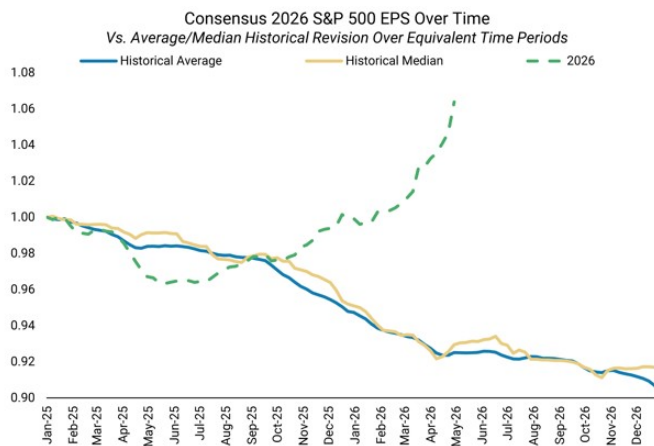
# US Equity Strategy

## Earnings Strength Continues

We're encouraged by the earnings resiliency this reporting season despite the geopolitical backdrop. Earnings guidance is actually up over the last month, and the acceleration of current-year EPS expectations is striking relative to the typically declining seasonal trend. Further, the improvement broadening – earnings revisions breadth has accelerated for the S&P 500, the Nasdaq 100, and the S&P 600 (small caps) since reporting season started. Although many investors are concerned about potential equity market impacts of a potentially less-dovish Fed, our work shows that equity index returns are historically strong (mid-teens range) over a 12-month period when the Fed is on hold and earnings growth is above the long-term median (8%) – and we expect both conditions to sustain through 2026.

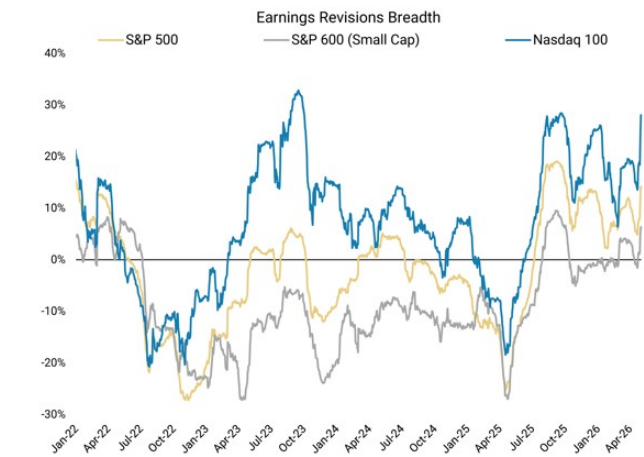
See [Weekly Warm-up: Earnings Strength Continues \(4 May 2026\)](#)

**Exhibit 1:** Upward Revision to 2026 EPS Estimate Is Fairly Unprecedented



Source: FactSet, Morgan Stanley Research.

**Exhibit 2:** Earnings Revisions Breadth Is Re-Accelerating



Source: FactSet, Morgan Stanley Research.

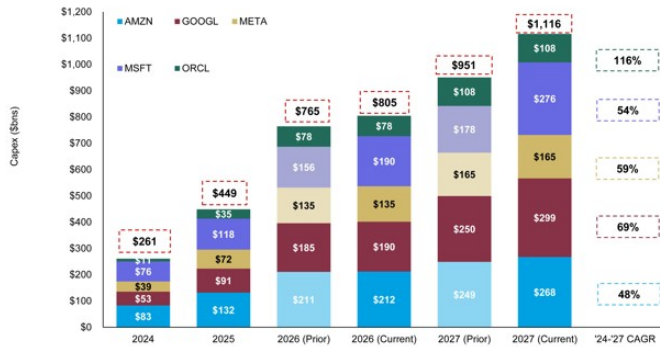
# Tech Diffusion – Hyperscalers

## Capex Estimates Raised Again, Setting the Stage for Faster Revenue Growth Ahead

The hyperscalers' business model revolves around heavy multi-year capex investment, followed by scaling revenue and ROIC. We have raised our hyperscaler capex projections again, more so in 2027 than 2026. Hyperscalers' revenue is already accelerating across the board as capacity comes on to meet surging demand, and strong backlogs speak to multi-year growth ahead.

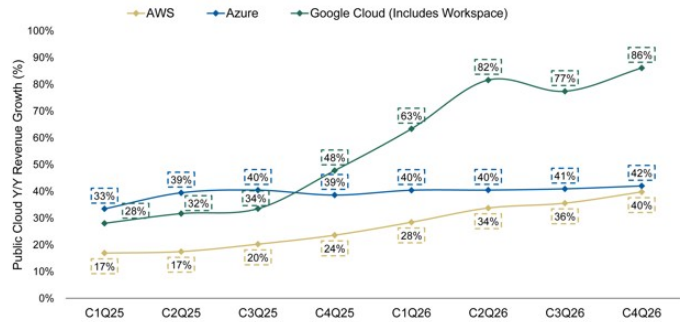
See [GOOGL, AMZN, and META Surprises and Learnings \(30 Apr 2026\)](#)

**Exhibit 3:** We now see Hyperscaler capex approaching \$800bn/\$1.1trln in '26/'27 vs \$765bn/\$950bn prior



Source: Company data, Morgan Stanley Research estimates

**Exhibit 4:** We continue to see faster hyperscaler cloud growth ahead as capacity opens



Source: Company data, Morgan Stanley Research estimates

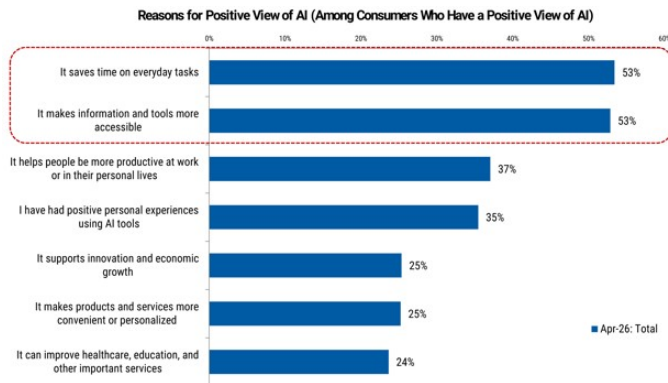
# Tech Diffusion – US AI Adoption

## US Consumer Attitudes Toward AI Skew Positive – What Factors Drive Positive (and Negative) Views?

Our latest AlphaWise survey of ~2,000 US consumers (conducted April 23-27) indicates sentiment on AI skews positive overall, with 44% expressing favorable views versus 28% negative and 25% neutral. Time savings and improved access to information are the primary drivers of positive sentiment toward AI, according to the survey, while respondents who expressed a negative view of AI most often cited perceived external risks (i.e., not based on personal experience) such as fraud, misinformation, and data/privacy concerns. We believe this highlights a disconnect – optimism on AI reflects lived utility, while skepticism reflects more abstract trust and governance issues.

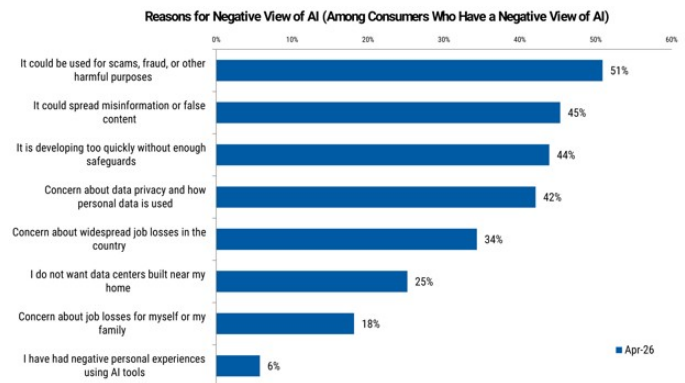
See [US Consumer Pulse Survey: Attitudes Toward AI Skew Positive But Vary by Cohort \(4 May 2026\)](#)

**Exhibit 5:** Reasons Driving Positive Views of AI



Source: AlphaWise, Morgan Stanley Research

**Exhibit 6:** Reasons Driving Negative Views of AI



Source: AlphaWise, Morgan Stanley Research

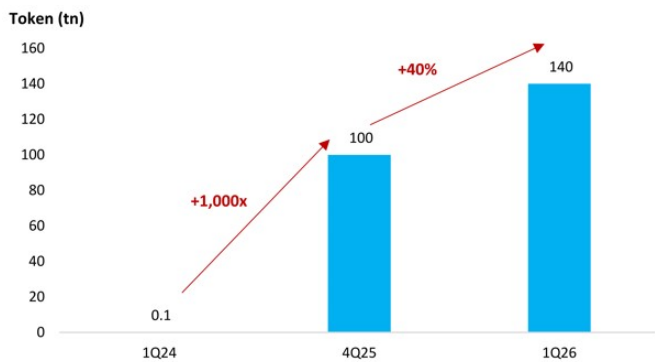
# Tech Diffusion – China's AI Path

## More Bang For The Buck

According to OpenRouter, top Chinese LLMs grew their token-usage market share from 5% in April 2025 to 32% in March 2026 (vs. top US models down from 58% to 19%). Contrary to a market view that US AI labs will win by outspending on compute, we expect China's engineering efficiency to continue to scale, enabling similar model intelligence at only 15-20% of US inference costs. We forecast China frontier models' annual recurring revenue to reach US\$1-1.5bn each by end-2026 and US\$2.5-5bn by end-2027 (base-bull ranges).

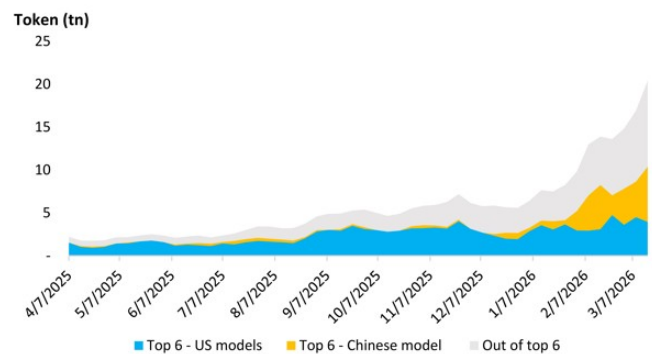
See [China's Emerging Frontiers: China's AI Path: More Bang For The Buck \(27 Apr 2026\)](#)

**Exhibit 7:** China's daily token consumption



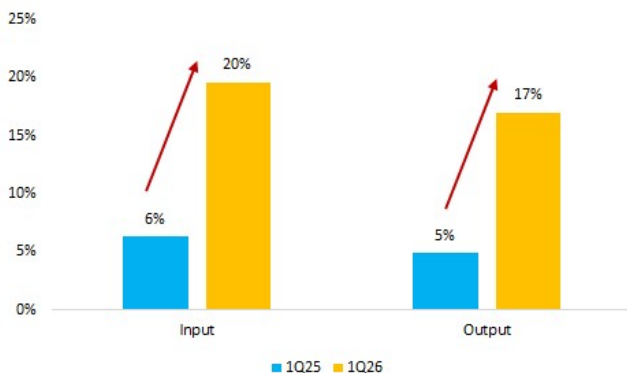
Source: National Data Administration

**Exhibit 8:** Weekly token consumption of models across OpenRouter



Source: OpenRouter, updated Mar 2026

**Exhibit 9:** Frontier Chinese LLMs average API price as % of US LLMs



Source: Company official pricing, Morgan Stanley Research

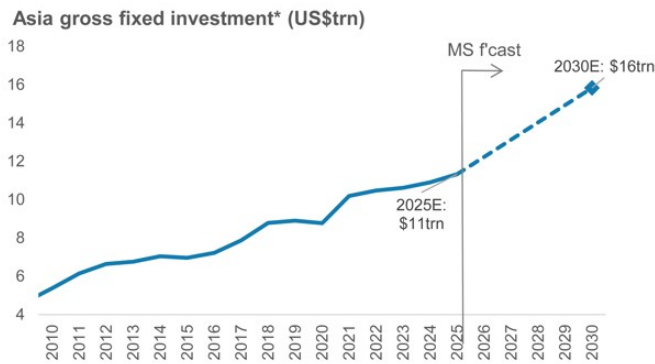
# Asia Pacific Economics

## Headed Toward an Industrial Super-Cycle

We believe Asia is entering its strongest industrial cycle since the mid-2000s, supported by AI and AI-related infrastructure, energy transition, defense capex, and spillovers into broader industrial investment. We expect Asia's capex to grow at a 7% CAGR through 2030 (~3x the pace of the past three years) to a US\$16trn annual run rate, with high-growth sectors expanding at a 16% CAGR and Taiwan, Korea, China, and Japan best positioned to benefit, in our view.

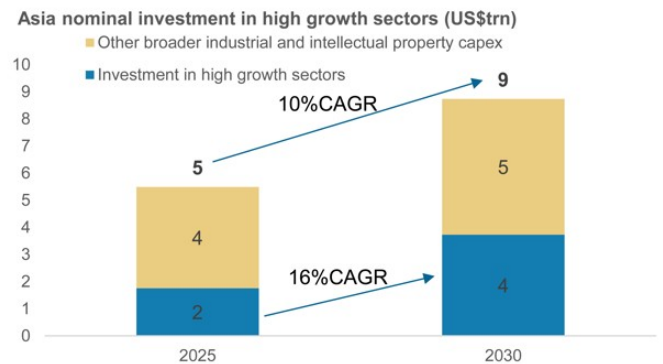
See [Headed Towards an Industrial Super-Cycle \(27 Apr 2026\)](#)

**Exhibit 10:** Asia's gross fixed investment to rise to \$16trn by 2030



Source: CEIC, Haver, IEA, Lowy Institute, Morgan Stanley Research estimates; Note: \*We exclude China real estate capex given the structural decline in property demand.

**Exhibit 11:** Rise in capex due to new structural demand drivers – AI, Energy / Energy Transition, and Defense



Source: CEIC, Haver, IEA, Lowy Institute, Morgan Stanley Research estimates; Note: \*We exclude China's real estate capex given the structural decline in property demand.

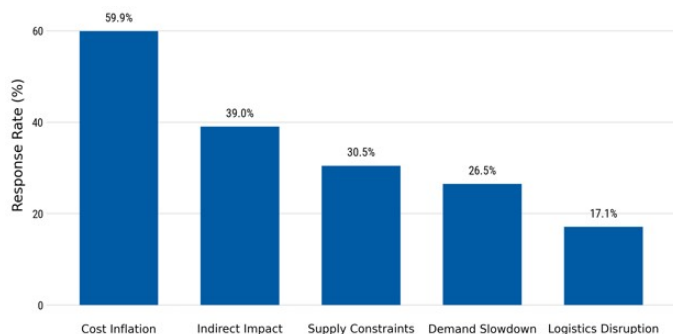
# Japan Equity Strategy

## We Think Spillover Effects of Middle East Disruption Are Largely Priced In

One of the biggest concerns for Japan's upcoming full-year earnings season is likely to be guidance risk stemming from Middle East developments. To assess where risks may be concentrated, we surveyed our analysts for their views on which channels might see spillover effects from Middle East developments, the degree to which risks have been priced in by the market, and what the impact on guidance could be. "Cost Increase" was the most common response from our analysts. We also created a five-point scale for both estimated market pricing-in of risk and the likely impact on disclosure/guidance (1 = significant negative impact with insufficient pricing-in, while 5 indicates significant positive impact that is over-discounted into the equity). The results were broadly neutral but Transportation-related sectors were seen as most vulnerable.

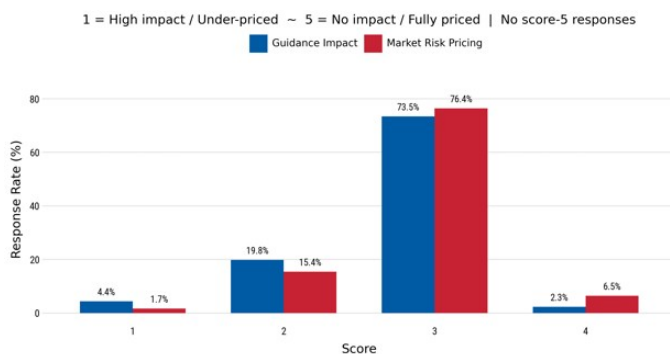
See [Navigating Guidance Risk Stemming from Middle East Developments: Investment Strategy Based on Analyst Survey \(27 Apr 2026\)](#)

**Exhibit 12:** Spillover channels from Middle East developments: all 479 stocks, response ratio, multiple responses allowed



Source: Morgan Stanley Research

**Exhibit 13:** Distribution of market risk pricing-in and disclosure/guidance impact



Source: Morgan Stanley Research  
 Note: There were no "5" responses.

# Citigroup

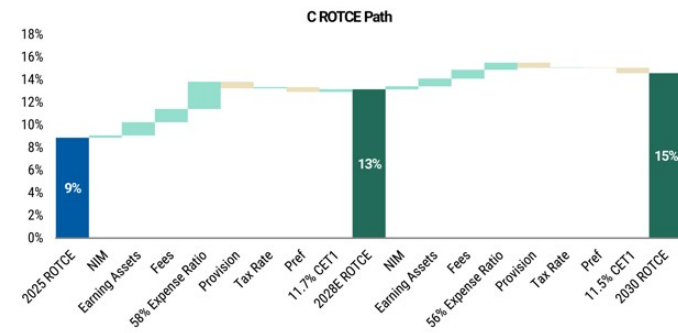
## Investor Day Preview – Rising Conviction in Mid-Teens ROTCE

We expect Citi’s May 7 Investor Day to be a moderately positive catalyst as the company outlines a path to mid-teens ROTCE. Our Base Case gets to a 13% ROTCE in 2028e, and to 15% ROTCE in 2030e. Although our sense is that consensus mostly expect "mid-teens" to be the message, we think that if Citi shows details of the plan, including a lower core Expense Ratio (i.e., non-interest expenses as a percentage of revenue) and capital deployment, it would raise investor conviction in that outcome. We expect Citi’s Expense Ratio improvement to be among the best in our US Large Cap Banks coverage. Citi is our Top Pick in the group.

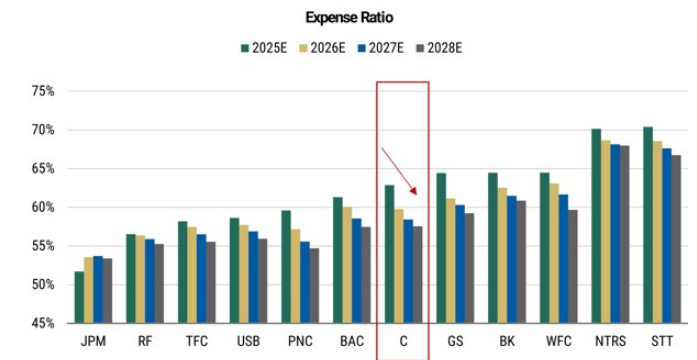
See [Investor Day Preview: Rising Conviction in Mid-Teens ROTCE \(28 Apr 2026\)](#)

**Exhibit 14:** We model Citi achieving a 13% ROTCE in 2028 and 15% ROTCE in 2030

**Exhibit 15:** We model Citi’s expense ratio improving from 63% in 2025 to 58% in 2028



Source: Company data, Morgan Stanley Research estimates



Source: Company data, Morgan Stanley Research estimates

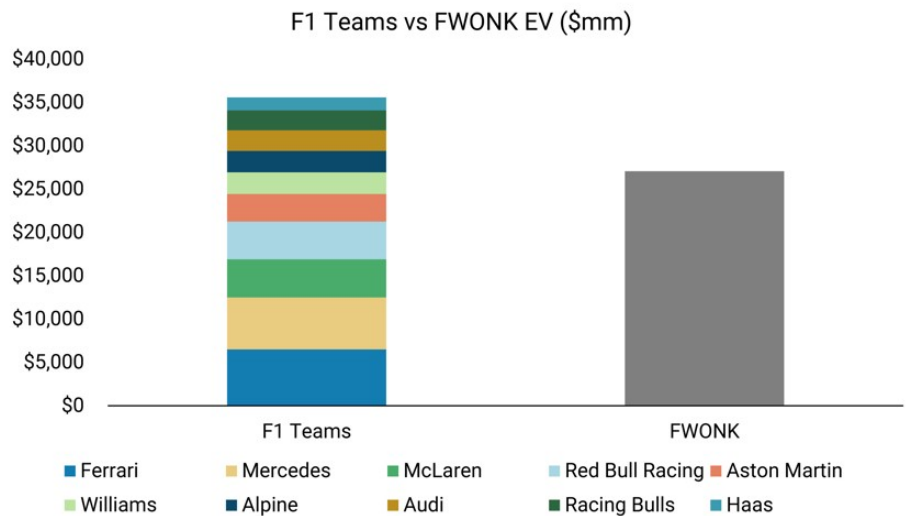
# Liberty Formula One

## New Top Pick in US Media & Entertainment

We believe the scarcity, urgency, and interactivity of sports and live experiences should drive superior monetization and pricing power. We argue that markets are currently underpricing these advantages in shares of our “Live 5”: Liberty Formula One, TKO, Disney, Live Nation, and Sphere (all rated OW). FWONK is our Top Pick in US M&E, as we have increased conviction in the company’s growth outlook: It has a young, affluent, highly engaged, and growing global fan base of over 800 million (growing +12% Y/Y) while still remaining under-penetrated and under-monetized in the US and Asia. Interestingly, the aggregate value of the F1 teams (according to Forbes) is ~25% greater than FWONK’s current market value. Given the significant cash flow generation of Liberty F1 compared to the average team and FWONK’s ownership of MotoGP, the stock’s discount versus the teams is unwarranted, in our view.

See [May I Have Your Attention Please...Introducing The Live 5: FWONK \(Top Pick\), TKO \(Upgrade to OW\), DIS, LYV & SPHR; Double Upgrade PSKY to OW \(30 Apr 2026\)](#)

**Exhibit 16:** Per Forbes, F1 teams are worth ~25% more than the current market value of Liberty Formula One Group



Source: Company data, Morgan Stanley Research

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1568	43%	358	39%	23%	715	44%
Not-Rated/Hold	4	0%	0	0%	0%	1	0%
Underweight/Sell	555	15%	84	9%	15%	202	12%
Total	3,673		909			1627	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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