

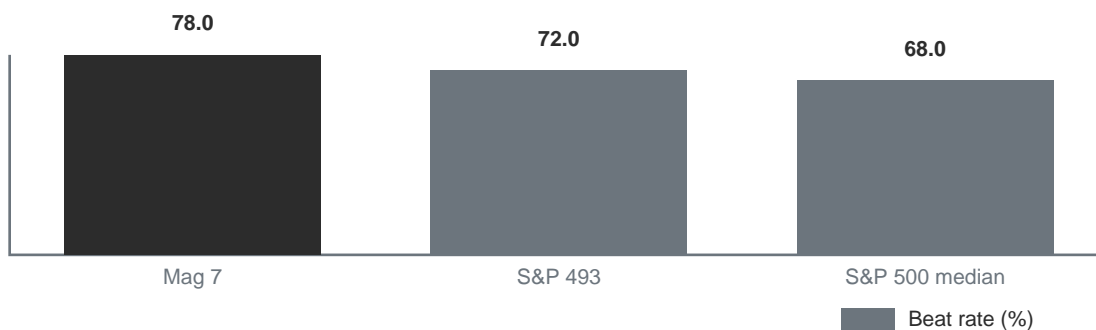
Q1 2026 Earnings: Mag 7 vs. the Rest , Did Breadth Improve?

Research Team

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By mid-May 2026, the bulk of S&P 500 companies have reported first-quarter results, providing the first full earnings picture of the year. Investors entered the season asking whether index-level resilience masked narrow fundamentals or whether participation was finally broadening beyond the largest technology and AI-linked names. This scorecard reviews beat rates, year-over-year earnings growth by cap tier, guidance revisions, capex intensity, and the performance gap between cap-weighted and equal-weight indices, linking fundamentals to the portfolio question of whether to tilt toward RSP-style breadth or maintain concentration in proven earners.

Q1 2026 EPS Beat Rate by Tier (Illustrative)



Source: Illustrative; company reports and consensus (Q1 2026 season)

Key Takeaways:

- Q1 beat rates remained above long-term averages for large caps, but dispersion widened, weak reports in rate-sensitive and consumer discretionary pockets stood out.
- Mag 7 earnings growth still outpaced the index median, yet a larger share of non-Mag names beat lowered bars, early breadth improvement, not a full rotation.

- AI and data-center capex guidance stayed elevated; free-cash-flow conversion and margin commentary are the next scrutiny points.
- Equal-weight versus cap-weight spread narrowed modestly on strong reports from financials and industrials; technology leadership persisted in price terms.
- **Portfolio takeaway:** barbell quality mega-caps with selective equal-weight or mid-cap exposure; avoid assuming breadth without confirming follow-through in Q2 guidance.

Executive Summary

Q1 2026 earnings confirm a market still led by scale and AI narratives but with incremental broadening. Revenue growth held up in technology, communication services, and financials; energy benefited from higher commodity averages versus year-ago quarters. Consumer-facing cyclicals showed more mixed results amid still-elevated rates and uneven real wage growth. The cap-weighted index can advance while median stock performance lags; the equal-weight index's relative trend is the clearest breadth signal. Base case: concentration remains structurally elevated, but stock pickers find more opportunities outside the top seven names than in 2024 to 2025.

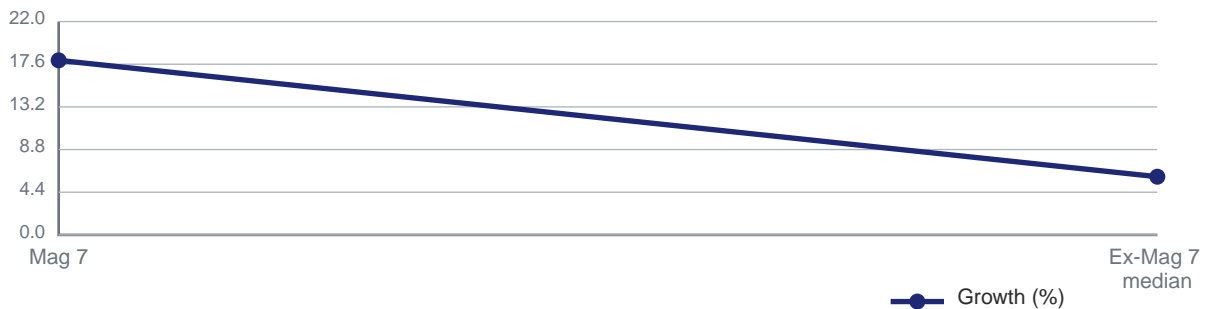
Beat Rates and Growth: Cap-Weight vs Equal-Weight

Aggregate beat rates for the S&P 500 remained in the low-to-mid seventies percent on EPS, above the long-term average, while revenue beats were slightly lower, consistent with cost discipline and margin management. Median earnings growth for the Mag 7 exceeded the index median by a wide margin, driven by cloud, advertising, and semiconductor supply chains tied to AI infrastructure. Ex-Mag 7 median growth turned positive on a year-over-year basis in more sectors than in Q4 2025, led by banks (net interest income normalization) and industrials (reshoring and defense orders).

Mag 7: Capex, Margins, and Guidance

Hyperscaler and semiconductor capex guidance remained aggressive, supporting suppliers but raising questions on payback horizons. Margin commentary emphasized operating leverage in software and mix shift in hardware. Any guide-down on AI return on investment would be a risk event for the cluster; so far, language remained constructive with caveats on timing.

YoY EPS Growth: Mag 7 vs Ex-Mag 7 (Illustrative)



Source: Illustrative; AVANTAS Research Analysis

Sectors: Winners, Laggards, and Dispersion

Technology and communication services led contribution to index EPS growth. Financials delivered solid beats on trading and investment banking recovery. Energy earnings rose with commodity prices. Consumer discretionary and parts of health care lagged on margin pressure. Real estate and utilities remained rate-sensitive with mixed outlooks. Dispersion, the gap between top and bottom decile stock reactions on earnings days, remained elevated, favoring active selection over passive beta.

Breadth Signals: RSP vs SPY and the Median Stock

Equal-weight versus cap-weight relative performance is the standard breadth diagnostic. A narrowing underperformance gap suggests more stocks participating; sustained cap-weight outperformance confirms narrow leadership. In Q1 reporting season, episodic equal-weight strength around financials and industrials earnings weeks appeared, but technology reasserted leadership on mega-cap guide-ups. The median S&P 500 stock's year-to-date return still trailed the cap-weighted index, breadth improved at the margin, not regime change.

Catalysts for Q2 and Second-Half Breadth

Fed cuts or clearer disinflation would help rate-sensitive sectors and small caps. A pullback in oil from geopolitical peaks would ease margin pressure for transports and consumers. Sustained dollar weakness would aid multinationals' reported earnings. Conversely, sticky inflation or delayed cuts would keep pressure on the long tail of the index.

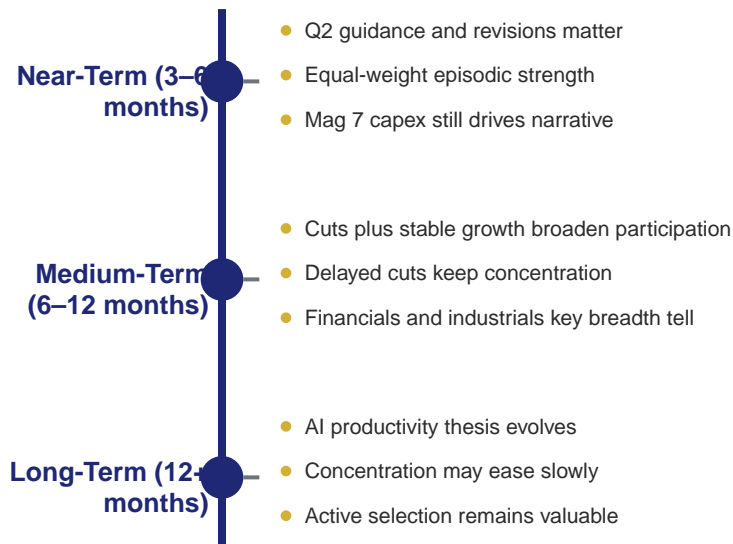
What to Watch Next

Q2 guidance revisions; Mag 7 capex updates; equal-weight versus cap-weight ratio; sector earnings revision breadth; credit conditions for small caps; June FOMC and oil.

Timeline and Outlook

Near-term (3 to 6 months): Earnings revisions and macro data drive dispersion; breadth likely improves slowly, not abruptly. **Medium-term (6 to 12 months):** If cuts arrive with stable growth, equal-weight and cyclicals may outperform; if inflation delays cuts, quality mega-caps remain anchor. **Long-term (12+ months):** AI productivity and capex cycle remain structural themes; concentration may ease only gradually.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Mag 7 guide-down risk; oil and wage inflation compressing margins; credit tightening for lower-quality issuers; recession shock widening dispersion negatively.


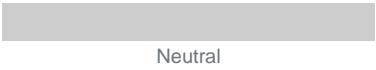


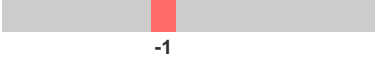
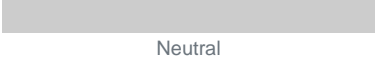
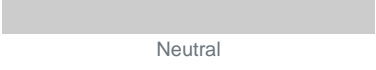

Conclusion

Q1 2026 earnings show a still-concentrated but slightly broadening market. Favor quality leaders with selective exposure to financials, industrials, and equal-weight vehicles when macro cooperates, do not confuse one quarter of better median growth with a permanent rotation.

Asset Class Impact

US large-cap quality: Overweight. Equal-weight / mid-cap: Neutral to slight overweight on macro confirmation. Small caps: Neutral, tactical. Sectors: OW financials and industrials selectively; UW consumer discretionary margin losers. International: Use Europe and Japan for diversification, not as breadth substitutes.

Asset Class Impact

Asset	View	Commentary
Mag 7 / Quality Mega-Caps	 +1	Overweight. Earnings durability and AI exposure.
Equal-Weight S&P 500	 Neutral	Neutral. Add on confirmed breadth follow-through.
Financials	 +1	Overweight selective. Solid Q1 beats.
Industrials	 +1	Overweight selective. Defense and reshoring.
Consumer Discretionary	 -1	Underweight marginal names. Margin pressure.
Small Caps	 Neutral	Neutral tactical. Needs cuts and credit stability.
Europe Equities	 Neutral	Neutral diversification.
Energy (Earnings)	 +1	Overweight. Commodity tailwind to EPS.

Source: AVANTAS Research Analysis