

MARKET MINUTE

With McGAREL



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Past performance is no guarantee of future results.

S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

Technology Plus (Tech+) is a combination of the technology sector; the interactive home entertainment and interactive media & services industries; Amazon.com Inc., Tesla Inc., and Netflix Inc.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

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There's Something Happening Here

The opening lyrics to Buffalo Springfield's hit song *For What It's Worth* in 1966 seem appropriate to describe the equity markets after just two months into the new year. While the S&P 500 Index is basically flat on the year, the market has rewarded a new set of stocks from those that dominated the past three calendar years. The "Artificial Intelligence (AI) scare trade" is disrupting groups of stocks in different sectors or industries seemingly on a weekly basis. Software stocks are the poster child of the threat that AI can replace those companies' offerings at a much lower cost. Insurance companies, property managers, wealth managers and logistics firms have also been cast as vulnerable to AI disruption and have seen their stocks take a hit on AI fears. Asset-light business models, the belle of the ball all these years, have suddenly been considered the most susceptible to disruption. Asset-heavy sectors, with higher debt levels and lower profit margins, are rallying and leading the market year-to-date.

In addition, the dominance of large cap stocks over their small and mid brethren, growth stocks over value stocks, the U.S. over the rest of the world, and Tech+ over everything else these last three years is nowhere to be found as we enter the month of March [Chart 1].

"There's something happening here...what it is, ain't exactly clear."

Here is our take on the market rotation to date. Late last year, as the largest companies in the world ratcheted up their capital spending to build infrastructure for data centers to produce massive "compute power," investors became nervous about the spend and a changing from asset-light to asset-heavy business model. When they looked up, they saw a crowded, concentrated Tech+ group of stocks that were expensive and creating uncertainty with their profligate spending and no reliable future earnings forecasts (yet) to justify the change in business models. In addition, no longer do they have ironclad balance sheets and the means to reward shareholders with increasing dividends and share buybacks, yet they still maintain high valuations compared to the rest of the market.

Investors found, however, companies trading at depressed valuations almost everywhere they looked outside the top 100 companies in the S&P 500 Index. In dividend paying companies, value companies, small- and mid-cap companies, and even international companies. And with earnings growth as well! And a great rotation began as seen in Chart 2. Yet most investors are underweight in those types of companies. If the first two months of the year signal a change in leadership and a more fundamental approach to finding the best opportunities, we believe there is further room to run in all those areas after years of paltry returns.

Chart 1:
S&P 500 Index 3-Year Sector Performance
12/30/2022 - 12/31/2025

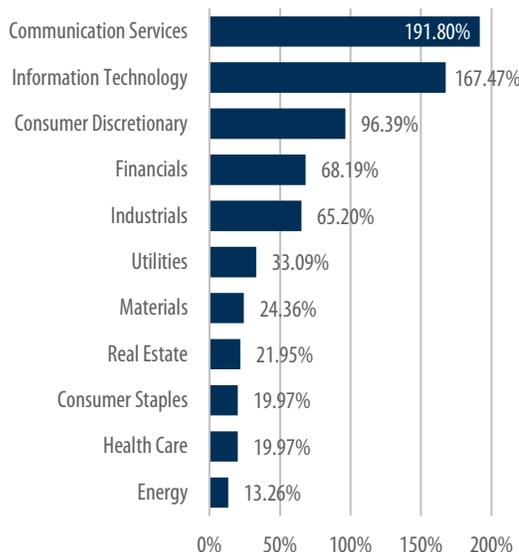
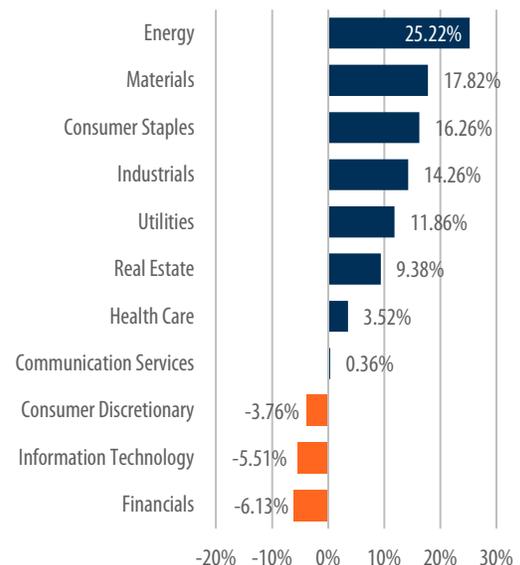


Chart 2:
S&P 500 Index YTD Sector Performance
12/31/2025 - 2/27/2026



Source: Bloomberg. For illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. Returns are based on price only and do not include dividends.