

# Weekly commentary

February 17, 2026

# BlackRock

## Software selloff shows AI acceleration

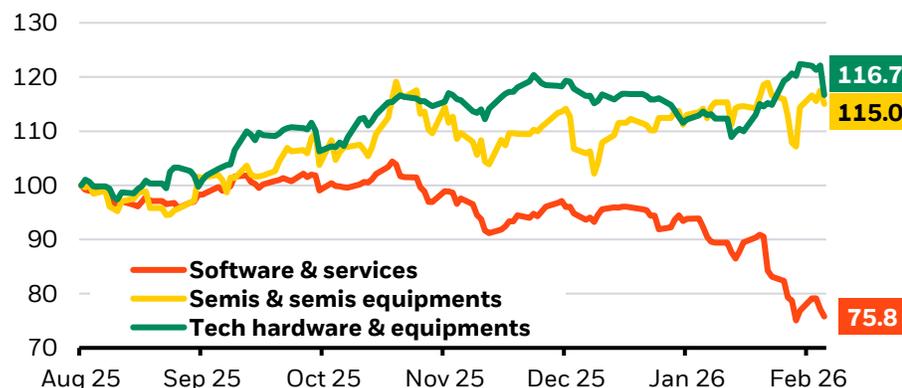
- The software selloff shows the market is recognizing AI's disruptive power, with the focus shifting to potential losers. We favor U.S. equities and selected credit.
- U.S. jobs surprised to the upside last week while core CPI met expectations. Underlying inflation pressures bolster the case for an extended Fed pause.
- U.S. core PCE and Q4 GDP data this week could play into interest rate expectations, shaping financing conditions for the AI buildout.

The recent software selloff marks a dramatic shift in the AI narrative. A few months ago, the market debated whether AI was real. Today, it's seen as an active threat to business models. We believe the hunt to sort the winners and losers reinforces AI's massive buildout - and the borrowing spree by to finance it. The corporate micro spending has a macro impact, as increased leverage amplifies any upward pressure on interest rates. We like U.S. equities and credit, but get selective.

### A market shift in the AI narrative

S&P sector performance, past 6 months

Index level (Aug. 12, 2025 = 100)



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. It is not possible to invest in an index. Indexes are unmanaged and performance does not account for fees. Source: BlackRock Investment Institute with data from LSEG Datastream, February 2026. Note: The chart shows the performance for various S&P tech sector indexes.

The market has been laser-focused on identifying companies exposed to AI disruption - and sorting out which ones it thinks will be able to evolve and adapt. The phenomenon is rippling through industry sectors, but software has been ground zero. New AI agents can take on software-linked tasks, for example, potentially eroding the competitive moat some software companies have enjoyed for decades. The change in the AI narrative has triggered indiscriminate selling of these firms, resulting in a marked performance divergence within tech sectors. Software providers have underperformed sharply in the past six months, as the chart's red line shows. By contrast, sectors essential to the AI buildout - such as semiconductors and hardware - have advanced.



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Indeed, we are still firmly in the AI buildout phase. The mega cap tech companies are spending heavily on chips, data centers and power infrastructure. This is a key reason why we still like infrastructure. What has changed is the market’s focus: it now asks how AI adoption will translate into revenues and profits. This sorting of winners and losers means it’s prime time for active investing, as we emphasized in our 2026 Global Outlook. The broad software selloff shows how markets can miss nuances in the near term. Case in point: Software companies with proprietary data, mission-critical workflows or strong customer relationships can leverage AI disruption and thrive, we believe. It’s key to apply such a granular lens beyond public markets. Software makes up a sizeable portion of many private equity funds, so AI disruption could be existential for some portfolio companies. Private credit is likely more shielded, in our view, as much of its software exposure is in short-term and senior-secured debt.

As the sorting process accelerates, the AI builders are locking in long-term financing to fund capex. Alphabet recently raised \$20 billion in the U.S. investment grade market and is reportedly preparing a 100-year sterling bond. The issuance bonanza reflects our Outlook’s *leveraging up* theme: Investment is occurring now, and revenues will follow later, with credit bridging the gap. The problem: Rising corporate borrowing adds supply to bond markets struggling to digest large public deficits. The AI mega force is so powerful that it drives the macro environment, compounding any upward pressure on interest rates.

Such pressures simmered in last week’s U.S. jobs report, which showed wage growth consistent with inflation settling above the Federal Reserve’s 2% target. The pressure could abate if AI productivity gains can break U.S. growth out of its longstanding 2% trend. We see a credible path for that to happen some day, but recent U.S. jobs data do not yet show that sectors exposed to AI are cutting hiring. We stay underweight long-term U.S. Treasuries as a result, and we’re selective in credit. The AI builders have largely tapped the U.S. investment grade market, so we prefer high yield and European bonds.

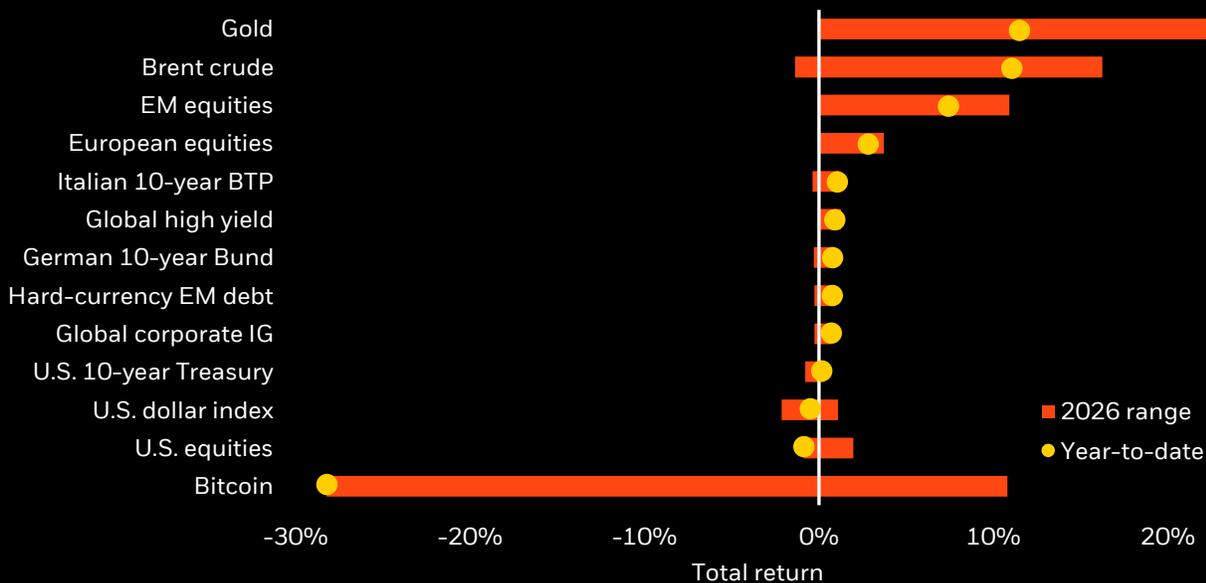
**Bottom line:** We’re still in the AI buildout – but markets are now focused on a search for losers in the AI adoption phase. We favor U.S. equities, with selectivity crucial as dispersion widens. We prefer selected credit over long U.S. Treasuries.

## Market backdrop

The S&P 500 fell on the week as the selloff of sectors seen as vulnerable to AI accelerated. U.S. 10-year Treasury yields hit a five-month low after U.S. January core CPI met expectations. This matched the picture from earlier in the week: an upside surprise of U.S. jobs data consistent with inflation settling closer to 3% than the Federal Reserve’s 2% target. That suggests monetary policy will remain restrictive, keeping markets highly sensitive to incoming inflation and growth data.

## Assets in review

Selected asset performance, 2026 year-to-date return and range



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 Sources: BlackRock Investment Institute, with data from LSEG Datastream as of February 12, 2026. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, spot bitcoin, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

## Week ahead

**Feb. 18**

U.K. CPI, Japan trade balance

**Feb. 20**

U.S. core PCE & Q4 2025 GDP advance, Japan CPI, and global PMI flash

**Feb. 19**

U.S. international trade & initial jobless claims

We're watching U.S. core inflation this week for additional clues on the path of interest rates. Any changes would affect financial conditions for the ongoing AI buildout. We expect fourth-quarter GDP growth to moderate from the strong 4.4% annualized pace in the third quarter, while still reflecting strong underlying momentum.

## Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, February 2026

Tactical	Reasons
Still favor AI	We see the AI theme supported by strong earnings, resilient profit margins and healthy balance sheets at large listed tech companies. Continued Fed easing into 2026 and reduced policy uncertainty underpin our overweight to U.S. equities.
Select international exposures	We like Japanese equities on strong nominal growth and corporate governance reforms. We stay selective in European equities, favoring financials, utilities and healthcare. In fixed income, we prefer EM due to improved economic resilience and disciplined fiscal and monetary policy.
Evolving diversifiers	We suggest looking for a "plan B" portfolio hedge as long-dated U.S. Treasuries no longer provide portfolio ballast – and to mind potential sentiment shifts. We like gold as a tactical play with idiosyncratic drivers but don't see it as a long-term portfolio hedge.
Strategic	Reasons
Portfolio construction	We favor a scenario-based approach as AI winners and losers emerge. We lean on private markets and hedge funds for idiosyncratic return and to anchor portfolios in mega forces.
Infrastructure equity and private credit	We find infrastructure equity valuations attractive and mega forces underpinning structural demand. We still like private credit but see dispersion ahead – highlighting the importance of manager selection.
Beyond market cap benchmarks	We get granular in public markets. We favor DM government bonds outside the U.S. Within equities, we favor EM over DM yet get selective in both. In EM, we like India which sits at the intersection of mega forces. In DM, we like Japan as mild inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, February 2026. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

## Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far in the future. They change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our [web hub](#) for our research.

- 1. Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- 2. Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- 3. Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
- 4. Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
- 5. Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

# Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, February 2026

	Asset	View	Commentary	
Equities	<b>Developed markets</b>			
	United States		We are overweight. Strong corporate earnings, driven in part by the AI theme, are supported by a favorable macro backdrop: continued Federal Reserve easing, broad economic optimism and less policy uncertainty, particularly on the trade front.	
	Europe		We are neutral. We would need to see more business-friendly policy and deeper capital markets for recent outperformance to continue and to justify a broad overweight. We stay selective, favoring financials, utilities and healthcare.	
	UK		We are neutral. Valuations remain attractive relative to the U.S., but we see few near-term catalysts to trigger a shift.	
	Japan		We are overweight. Strong nominal GDP, healthy corporate capex and governance reforms – such as the decline of cross-shareholdings – all support equities.	
	<b>Emerging markets</b>			
	China		We are neutral. Trade relations with the U.S. have steadied, but property stress and an aging population still constrain the macro outlook. Relatively resilient activity limits near-term policy urgency. We like sectors like AI, automation and power generation. We still favor China tech within our neutral view.	
	Fixed Income	Short U.S. Treasuries		We are neutral. We see other assets offering more compelling returns as short-end yields have fallen alongside the U.S. policy rate.
		Long U.S. Treasuries		We are underweight. We see high debt servicing costs and price-sensitive domestic buyers pushing up on term premium. Yet we see risks to this view: lower inflation and better tax revenues could push down yields near term.
		Global inflation-linked bonds		We are neutral. We think inflation will settle above pre-pandemic levels, but markets may not price this in the near-term as growth cools.
Euro area govt bonds			We are neutral. We agree with market forecasts of ECB policy and think current prices largely reflect increased German bond issuance to finance its fiscal stimulus package. We prefer government bonds outside Germany.	
UK gilts			We are neutral. The recent budget aims to shore up market confidence through fiscal consolidation. But deferred borrowing cuts could bring back gilt market volatility.	
Japanese govt bonds			We are underweight. Rate hikes, higher global term premium and heavy bond issuance will likely drive yields up further.	
China govt bonds			We are neutral. China bonds offer stability and diversification but developed market yields are higher and investor sentiment shifting towards equities limits upside.	
U.S. agency MBS			We are overweight. Agency MBS offer higher income than Treasuries with similar risk and may offer more diversification amid fiscal and inflationary pressures.	
Short-term IG credit			We are neutral. Corporate strength means spreads are low, but they could widen if issuance increases and investors rotate into U.S. Treasuries as the Fed cuts.	
Long-term IG credit			We are underweight. We prefer short-term bonds less exposed to interest rate risk over long-term bonds.	
Global high yield		We are neutral. High yield offers more attractive carry in an environment where growth is holding up – but we think dispersion between higher and weaker issuers will increase.		
Asia credit		We are neutral. Overall yields are attractive and fundamentals are solid, but spreads are tight.		
Emerging hard currency		We are overweight. A weaker U.S. dollar, lower U.S. rates and effective EM fiscal and monetary policy have improved economic resilience. We prefer high yield bonds.		
Emerging local currency		We are neutral. A weaker U.S. dollar has boosted local currency EM debt, but it's unclear if this weakening will persist.		

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