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## Weekly Market Guide

**For an index that is virtually unchanged year-to-date, there is a lot going on beneath the surface.** ~20% of S&P 500 stocks are down over 10% YTD and ~10% are down over 20%, while the “average stock” is up 7%.

**Headline volatility has been the catalyst for underlying stock volatility-** i.e. AI disruptions, affordability rhetoric, geopolitical tensions, and tariffs (just to name a few).

- **AI has essentially gone industry-by-industry and found stocks to pick on** across the various channels. Investors have taken a “sell now, ask later” mentality that has fed this “AI scare.”
- Elsewhere, the Administration has ramped up **pressure on affordability issues ahead of this year’s midterms** (i.e. health care costs, housing, credit card caps, power supply, interest rates).
- **Geopolitical events have also intensified-** Iran most recently, but also Venezuela and Greenland.
- Finally, **tariff uncertainty is back in the headlines** following the Supreme Court’s ruling to nullify the IEEPA tariffs. The Administration has quickly pivoted to Section 122 tariffs with a 10% global rate (and threats to increase to 15%). These only last 150 days, with an eventual pivot to Section 301 investigations/tariffs. The bottom line is marginal benefits on paper to growth and cost reduction potentially, but uncertainty increases too (this has been the outsized market focus so far).

**For a market that increased 86% over the last three years, some consolidation is normal (and healthy).** Positively, the consolidation has come in conjunction with market rotation- as Tech mega-caps take a back seat to many other areas. Importantly, the “average stock” is climbing to new highs, cyclicals have improved (i.e. industrials, regional banks, small caps), and credit spreads are narrow. These provide a supportive backdrop overall for the market trend.

**What to do within this rotation?** At the sector and stock level, focus on relative earnings for clues on sustainability of performance and opportunity. We would lean toward diversification vs. index concentration, but Technology is unlikely to lose leadership that easy. Fundamentals remain strong with the group nearing support. There are questions on ROI for hyperscale spending, but the level of spending is enormous (i.e. >\$600B in 2026). Focus on the AI enablers (i.e. semiconductors, networking equipment, data center build out, power generation) and adopters (companies are broadly accelerating their AI adoption to amplify services and profitability).

**Bottom line:** Long-term, diversified investors are benefitting from this year’s rotation. Be patient, take advantage as opportunities arise.

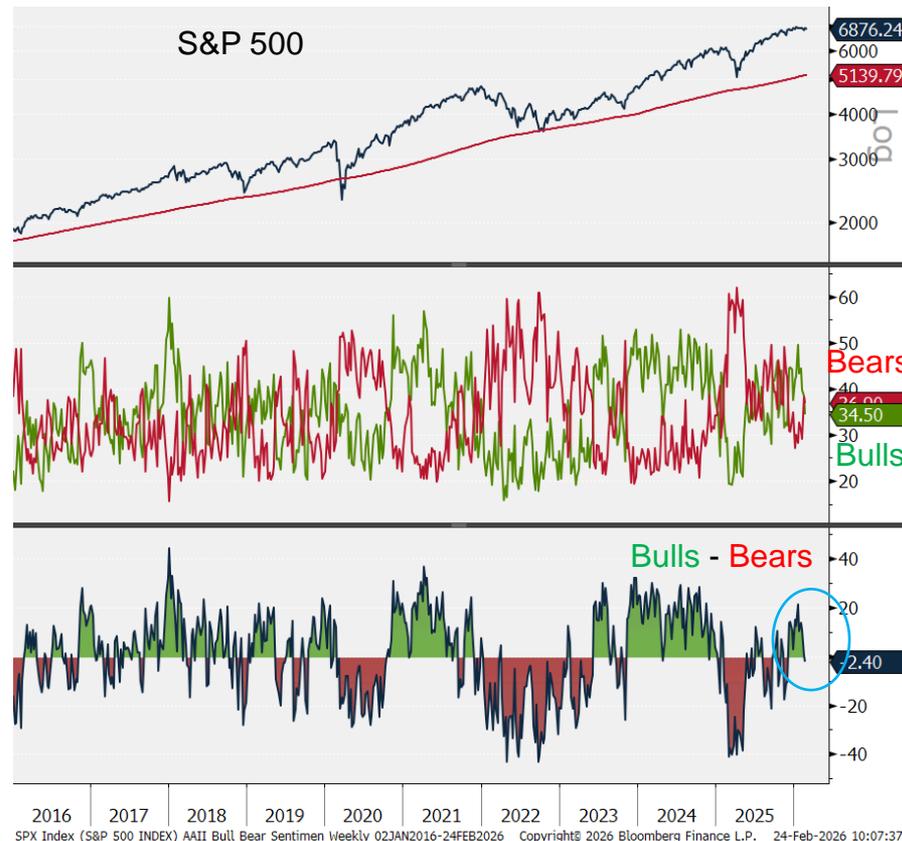
Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	2.3%	13.1%
S&P 500	0.7%	15.2%
S&P 500 (Equal-Weighted)	6.0%	13.1%
NASDAQ Composite	-1.6%	18.5%
Russell 2000	6.9%	21.8%
MSCI All-Cap World	3.7%	20.8%
MSCI Developed Markets	8.2%	27.9%
MSCI Emerging Markets	13.3%	40.1%
NYSE Alerian MLP	12.6%	5.2%
MSCI U.S. REIT	10.3%	6.0%

S&P 500 Sectors	Price Return	
	Year to Date	Sector Weighting
Energy	22.6%	3.4%
Materials	17.3%	2.1%
Consumer Staples	15.4%	5.4%
Industrials	14.0%	9.2%
Real Estate	10.7%	1.9%
Utilities	10.2%	2.5%
Health Care	1.7%	9.7%
<b>S&amp;P 500</b>	<b>0.7%</b>	-
Communication Svcs.	-1.4%	10.3%
Information Technology	-3.5%	33.1%
Consumer Discretionary	-3.9%	9.9%
Financials	-7.2%	12.4%

Source: FactSet

### Some Pick-Up in Investor “Fear” -> Good Contrarian Indicator

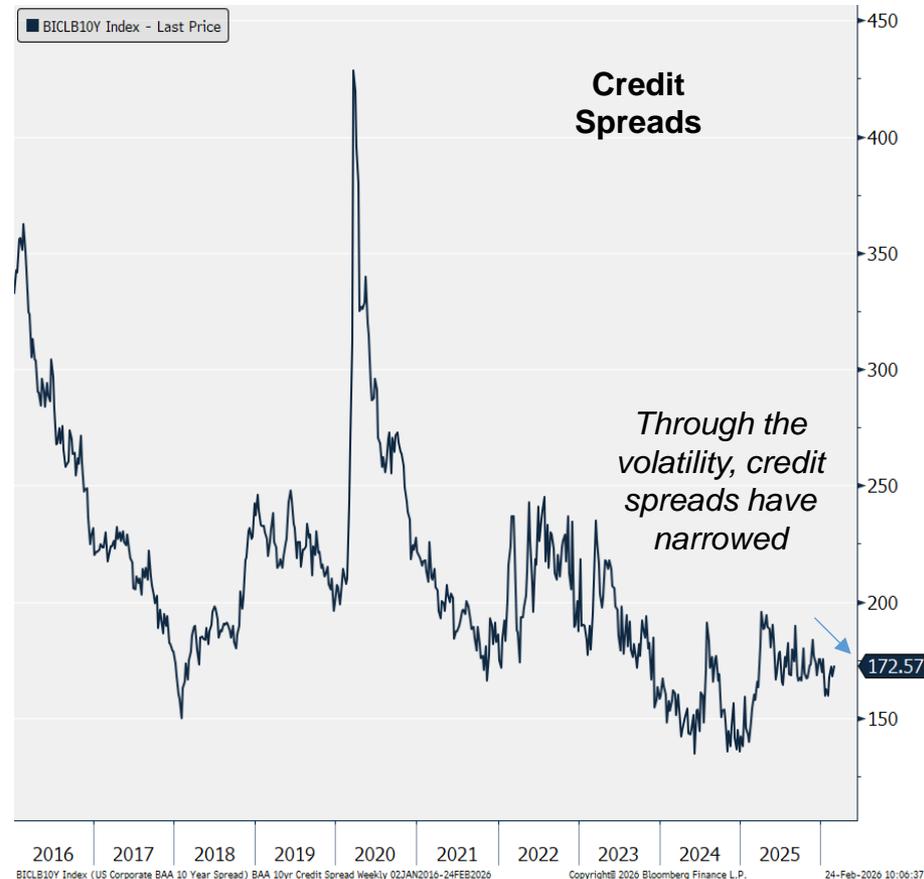
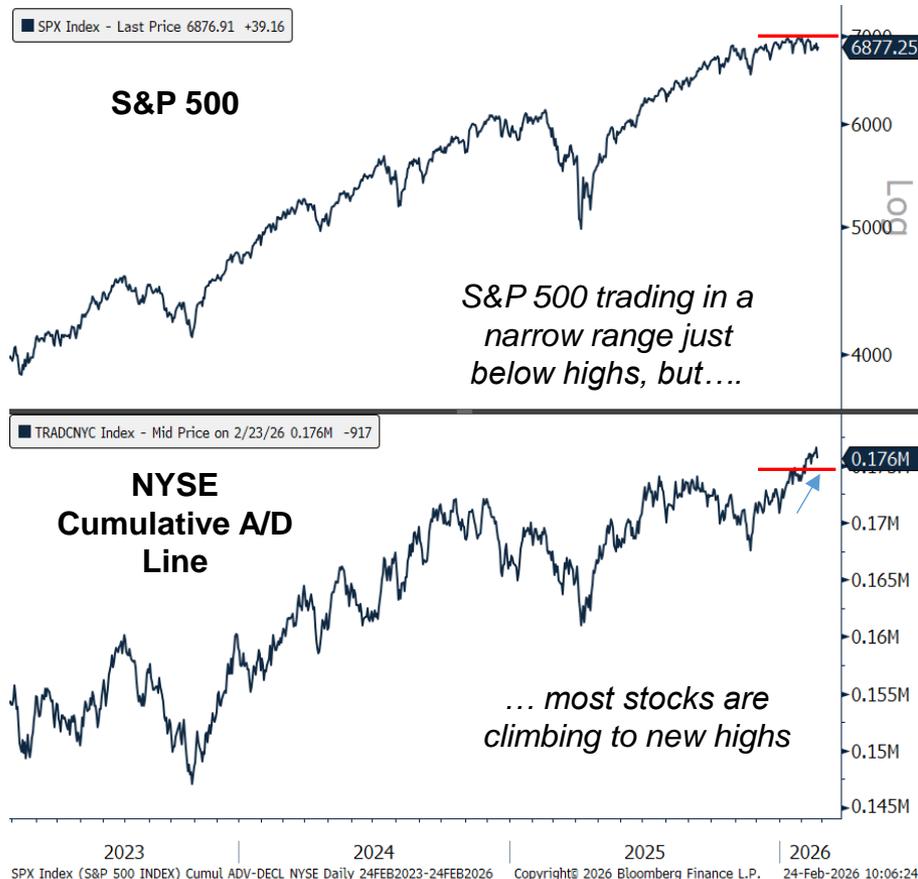
A consolidation in the S&P 500 to begin this year is normal (and healthy), following a +86% up-move over the past three years. There is some “fear” creeping back into the markets. As you can see below, the VIX has lifted a bit and bull-bear sentiment has flipped into negative territory. This is good from a contrarian standpoint, as expectations become more balanced. Markets like to climb a “wall of worry.”



Source: Bloomberg, FactSet

## Positioning Still Supportive

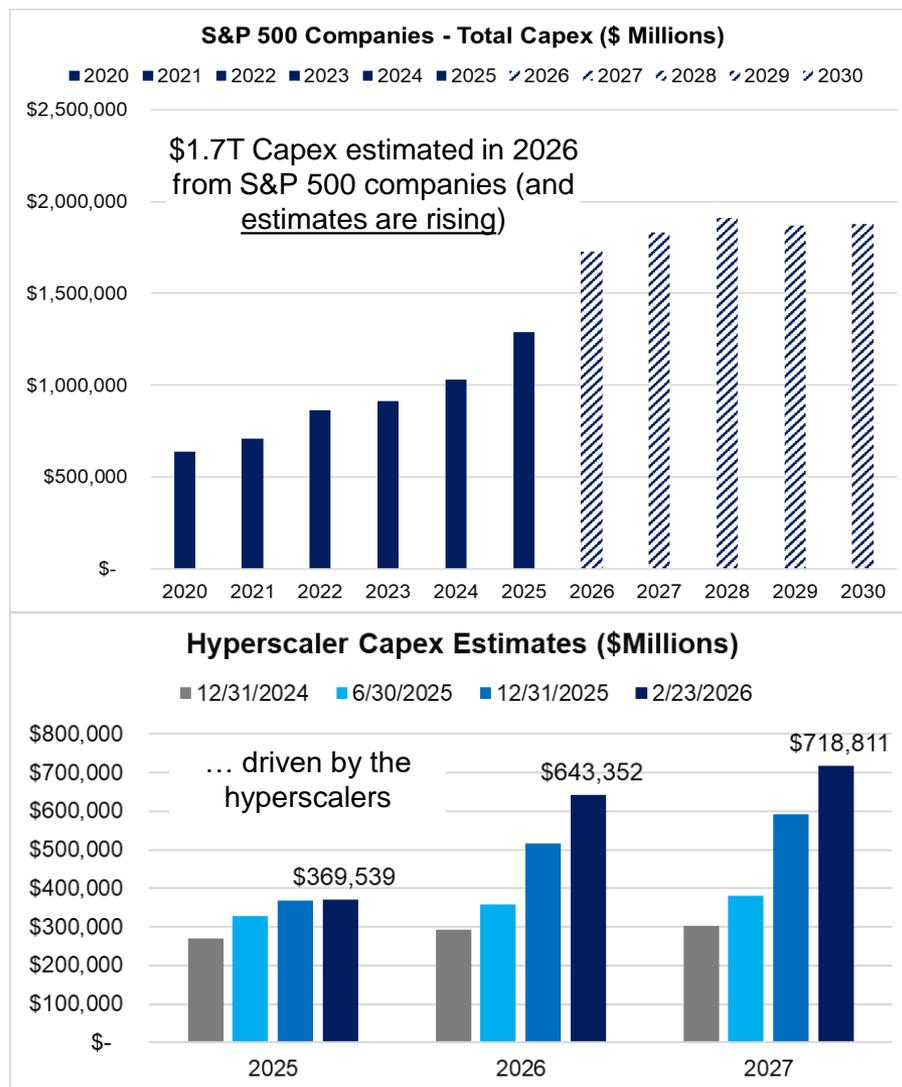
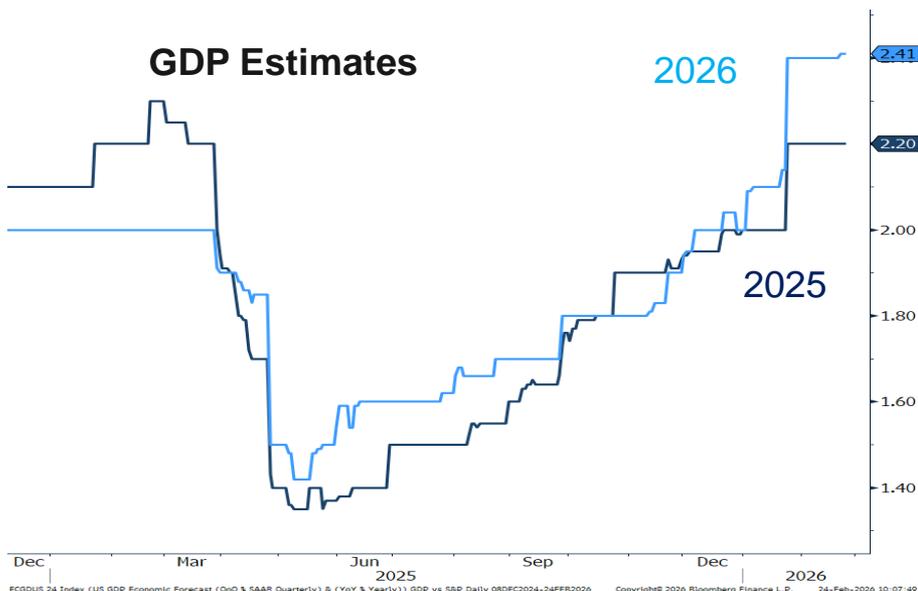
Positively, the market consolidation has come in conjunction with broader rotation- as Tech mega-caps take a back seat to many other areas. Importantly, the “average stock” is climbing to new highs, cyclicals have improved (i.e. industrials, regional banks, small caps), and credit spreads are narrow. These provide a supportive backdrop overall for the market trend.



Source: Bloomberg, FactSet

## Economic Health Is A Tailwind

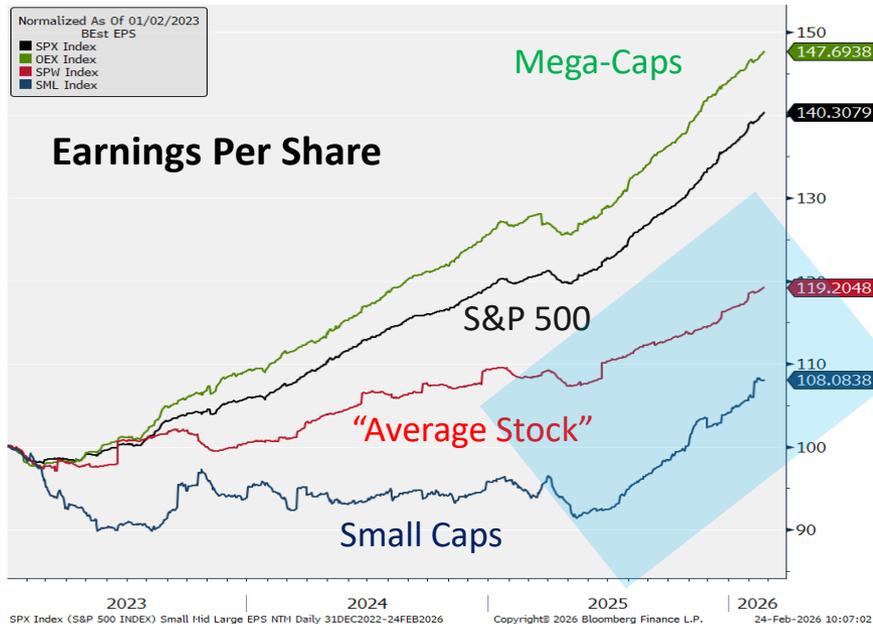
The economy is well positioned. Despite the headline macro volatility this year, there is plenty of cushion from OBBB tax stimulus (corporate capex depreciation and individual tax refunds) and monetary stimulus (175bp of easing in last 1.5 years), along with deregulation, productivity benefits of AI/tech, and manufacturing now showing improvement. GDP estimates have continued to increase year-to-date, supported by massive investment spending. For example, S&P 500 companies are expected to invest \$1.7T this year (and estimates are going up), driven by the hyperscalers. Hyperscale capex is expected at \$643B in 2026 (up from a ~\$500B estimate just two months ago), which amounts to over 2% of GDP. This surge in capital expenditures is stimulative to growth ahead.



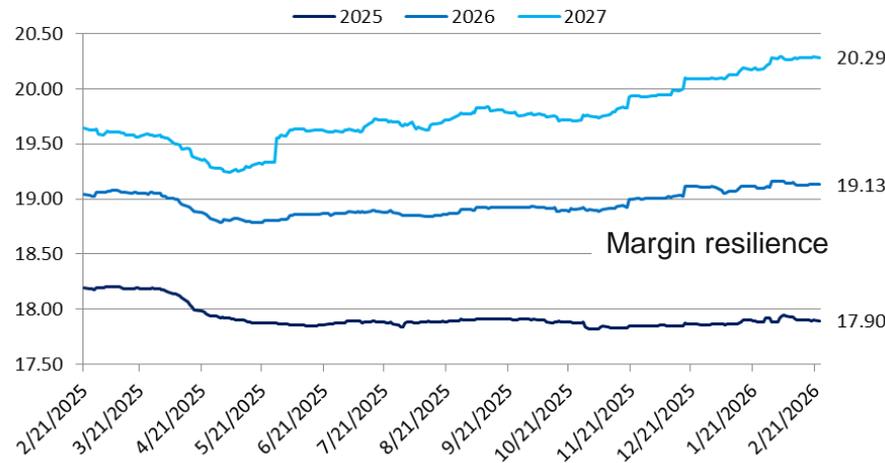
Source: Bloomberg, FactSet

## Earnings Are Strong And Broadening Out

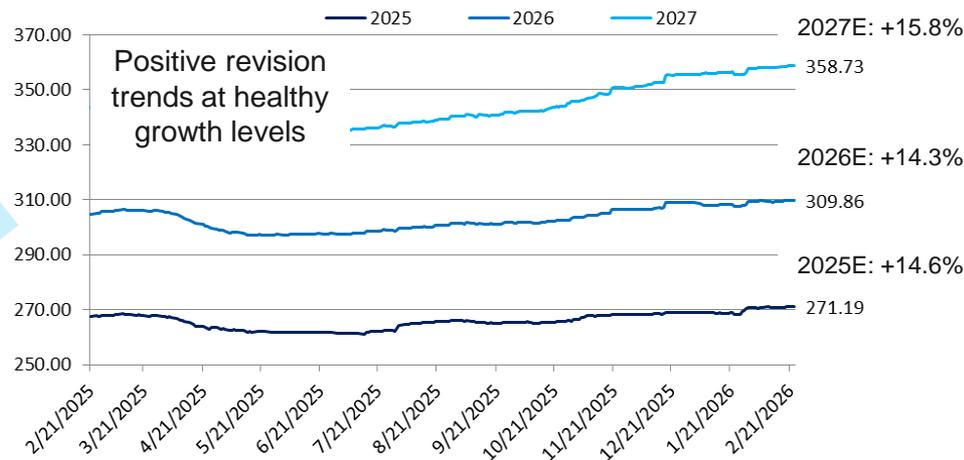
We are at the tail end of Q4 earnings season. 75% of S&P companies have beaten on EPS by 7.3%. Importantly, margins have held up very well, forward earnings estimates are moving higher (and reflect 15% growth), and earnings growth is broadening out. We note that AI enterprise adoption is expanding across sectors, supporting broader market fundamentals (and the broader market performance). *What to watch:* We do have some key semiconductor and software companies reporting over the next week, which will be closely monitored (and a potential catalyst) given current market dynamics.



Operating Margin Estimate Revisions - over Past Year



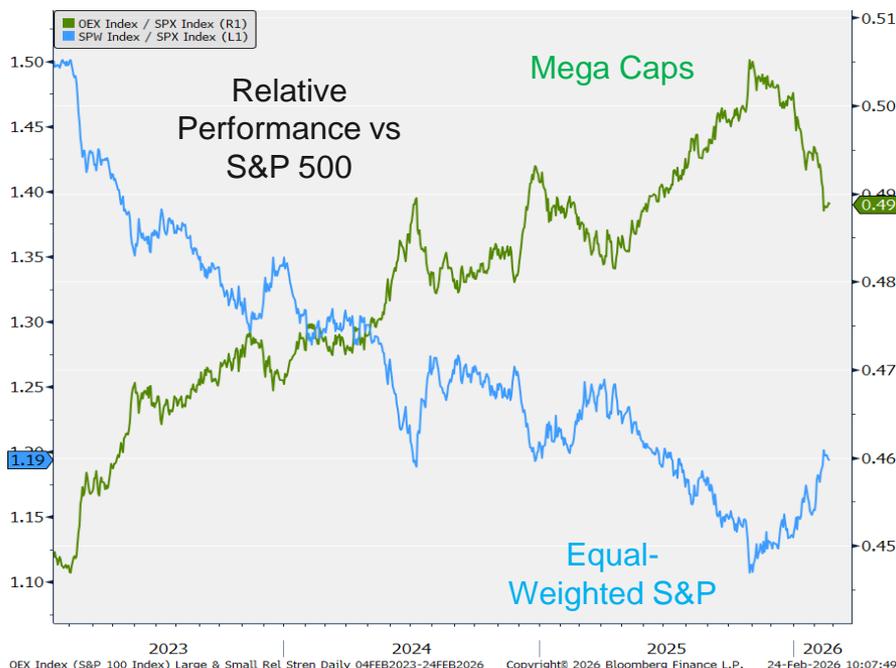
Earnings Estimate Revisions - over Past Year



Source: Bloomberg, FactSet

## Market Rotation

The broadening market fundamentals have brought more companies into investor favor, given how concentrated the index became in mega-cap Tech stocks and how reasonable valuations were for “the average stock.” Overall, we would lean toward diversification vs. index concentration, but Technology is unlikely to lose leadership that easy. Fundamentals remain strong with the group nearing support. Key earnings out this week (semiconductors and software) may be the catalyst to watch.

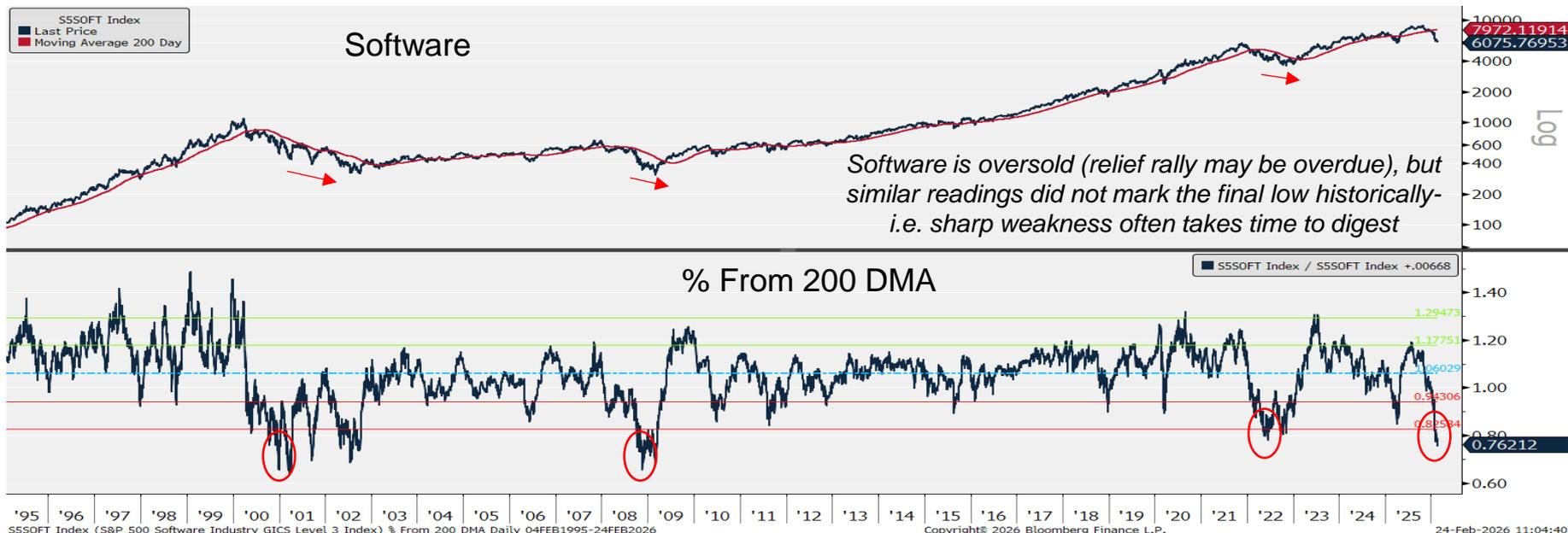


Source: Bloomberg, FactSet

## Software

Software & services is the worst-performing S&P industry group year-to-date at -20%. This group has historically traded at a premium valuation multiple due to its durable growth characteristics and wide margins. Those growth and margin expectations are under-fire right now as investors attempt to re-price these companies in a future embedded by AI platforms. The “fire sale” has been sharp in software, as the group is now 24% below its 200-day moving average- this is 2 standard deviations below the norm and only seen a few times over the past 30 years (i.e. dotcom collapse, financial crisis, and 2022 weakness).

To be sure, it’s important to know what you own in software (enterprise entrenchment and competitive dynamics vary). Nonetheless, stocks don’t often move in straight lines. When stocks get this oversold, they often experience a relief rally (numerous software earnings this week may be a key catalyst). However, it also often takes time for these stocks to digest the downside and investors to gain confidence in the businesses. In other words, even if a relief rally were to occur soon, it may not mark the absolute low; and there will likely be time needed to rebuild.



Source: Bloomberg, FactSet

## IMPORTANT INVESTOR DISCLOSURES

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### Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.