



Last Week: Rotation Beneath the Surface

Last week didn't look dramatic on the surface, **but underneath it was anything but calm.** The S&P 500 slipped -0.42% on the week, and February finished modestly negative. *But that headline masks what I'd call a violent rotation.* Utilities, energy, and staples outperformed, while technology and financials lagged. Equal-weight indices quietly outperformed cap-weighted benchmarks, reinforcing that this is less about broad market collapse and more about repositioning. **Inflation data ran hotter than expected**, with core PPI up 0.8% month-over-month in January. At the same time, **initial jobless claims ticked up slightly to 212,000**, suggesting the labor market is

cooling — but not cracking. *To me, the key takeaway isn't panic. It's dispersion.* We're in a market that is repricing risk, reallocating capital, and reassessing narratives—particularly around AI and mega-cap tech.

This Week: Labor, Retail, and the Fed Narrative

This week, the focus shifts squarely to labor and consumption. We get nonfarm payrolls, unemployment, and retail sales — all critical inputs for the Fed's rate path. *Markets are currently pricing in roughly 25-50 basis points of cuts this year.* If the labor data moderates but doesn't deteriorate, that "soft landing" narrative stays intact. The dollar has already been under pressure, partly due to narrowing yield differentials. If U.S. yields continue to converge toward global peers, that dollar softness could persist — and that has portfolio implications. A softer dollar supports international diversification and commodities. It also changes earnings translation dynamics for multinationals. Again, this is about positioning — not reacting emotionally.



Earnings: Strong Growth, Narrower Margins for Error

Earnings season is largely behind us, and **the numbers were solid.** Blended S&P 500 earnings growth came in at **14.2% year-over-year**, marking the **fifth consecutive quarter of double-digit growth.** That's well above where expectations started the quarter. But here's the nuance: *the average earnings beat lagged the five-year average.* In other words, companies delivered — **but investors demanded more.** We're seeing margin resilience where companies focus on mix, operational efficiency, and alternative revenue streams. That's a big shift from relying purely on pricing power. At the same time, hyperscaler capex continues to accelerate dramatically. *Estimates for 2026 capex have risen sharply, with projections exceeding \$2 trillion over the next three years.* That raises legitimate questions about free cash flow and capital intensity. This isn't

2021. Investors are now scrutinizing return on invested capital, not just growth at any price. **That's healthy.**

AI: Fear, Fatigue, and Opportunity

AI continues to dominate the conversation — and the volatility. There's real anxiety around AI-driven job displacement, especially in software and white-collar industries. But the data tells a more nuanced story. **Software development job postings are actually up 11% over the past year.** *That suggests adaptation, not annihilation.* At the same time, the tech sector's valuation premium relative to the broader market has *compressed to roughly a five-year low.* Software stocks, in particular, have erased six years of relative outperformance. That's what makes this environment interesting. Some repricing is grounded in fact — capex is surging, margins may compress. But some of the sell-off appears *sentiment-driven.* When valuations compress this quickly, I start thinking about selective opportunity rather than structural collapse. **AI is likely to be an efficiency tool for large financial institutions and corporations — not a universal destroyer.** *As always, the truth is probably somewhere in the middle.*



Iran: Geopolitics Back in the Driver's Seat

We can't ignore geopolitics. Oil prices pushed higher as U.S.-Iran tensions escalated, culminating in U.S.-Israeli strikes. WTI finished the week at \$67.02 per barrel, and gold surged to \$5,278.93 per ounce — clear evidence of safe-haven demand. Markets tend to look through geopolitical shocks unless they meaningfully disrupt energy supply or financial conditions. But tensions with Iran are one of the few geopolitical flashpoints that can transmit quickly through crude prices. Energy's outperformance this year reflects that dynamic. When macro uncertainty rises, capital rotates toward tangible cash flows and real assets. Again, rotation — not collapse.

The Theme That Keeps Showing Up: Rotation, Not Recession

If there's one thread running through last week, this week, earnings, AI, and Iran—**it's rotation.** The short-term stock and bond indicator shows sentiment improving even as volatility rises. Sector leadership has shifted dramatically, with energy and materials leading year-to-date. Tech premium valuations have compressed. Financials have been hit by contagion fears. The dollar is softening. Commodities are firming. **This doesn't look like systemic deterioration to me. It looks like capital reallocating under new assumptions.**

Markets are grappling with three big recalibrations:

- What is AI really worth?
- How much capex is too much?
- How fragile is the global backdrop?

When dispersion increases, passive beta (risk) becomes less effective. **This is a stock picker's market.** It rewards discipline, valuation awareness, and selective exposure.



In my view, we're not witnessing the end of a cycle—we're watching it evolve.

-Scott Tremlett CEO/Chief Investment Officer