

# Biweekly Investment Insights: Rapidly Changing Narratives

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Yanni Angelakos, Head of Investment Insights, Nasdaq Capital Access Platforms

Mike Cho, CFA, Senior Research Analyst, Nasdaq Capital Access Platforms

Tony Kistic, Senior Research Analyst, Nasdaq Capital Access Platforms

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## Key Points:

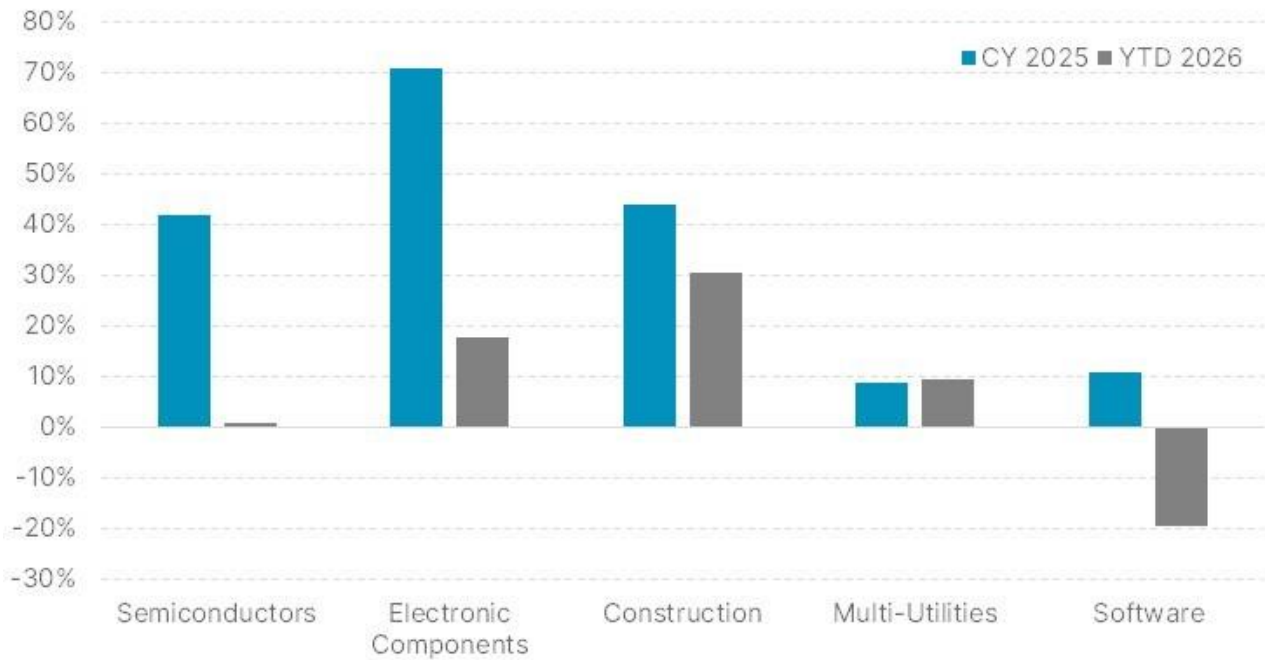
- Upside surprise in the U.S. labor market reinforces steady growth narrative for 2026
- Q4 2025 earnings season strong, but market feedback has been mixed
- “SaaS-pocalypse” continues to roil equity markets, but corporate bond spreads remain in-check

## Summary

Street consensus is for a moderate uptick in U.S. economic activity in 2026. However, the risk for investors may be to the upside as a number of key economic indicators posted positive surprises in mid-February; the Citi U.S. Economic Surprise Index rose as a result, hovering near similar levels as December 2024. Furthermore, the Trump administration’s “affordability agenda” ahead of the midterms and an expected dovish bias from the Federal Reserve Chair nominee, Kevin Warsh, offer reasons to be bullish on both fiscal and monetary fronts. With that being said, narratives are liable to shift again with downward revisions to the labor data, a lack of fiscal impulse from Washington, or a more hawkish Fed.

From a financial markets perspective, the dominant theme continues to be the ramifications of the AI boom. The upside narrative has largely moved on from the hyperscalers and semiconductor manufacturers to other parts of the ecosystem – those involved in data center construction, i.e.: energy and construction, semiconductor capital equipment, and memory and storage. These reflect some of the physical world constraints that need to be addressed for large-scale AI implementation. At the other end of the spectrum, the market continues to price in digital disruption via the ongoing “SaaS-pocalypse.” This edition’s Biweekly Chart in Focus depicts the sharp rotation within U.S. equities, keeping in mind the differing timescales.

## Biweekly Chart in Focus: U.S. equity sector rotation



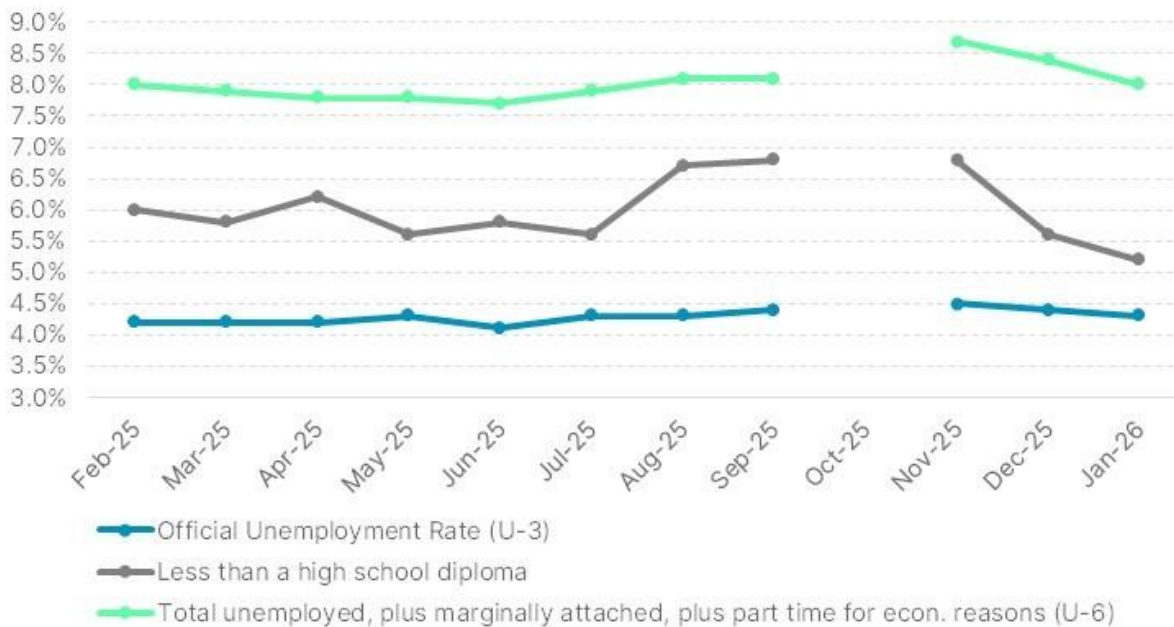
Source: FactSet. Notes: Price returns for select Nasdaq US Benchmark™ subsector indexes, YTD through February 16, 2026.

### Details

#### Signs of Steady Economic Growth

After a string of data points portending a slowdown in U.S. economic activity, nonfarm payrolls (NFPs) surprised to the upside with January 2026 actuals coming in at 130,000 versus a consensus of 65,000, albeit with a wide range of estimates coming from the sell-side. The unemployment rate also improved slightly from 4.4% to 4.3%. A number of “canary in a coal mine” data series, i.e. those which tend to be leading indicators of economic activity, improved sharply including the rate of unemployment for those with less than a high school diploma. Lastly on the labor front, U-6, a wider measure of unemployment which includes the “underemployed” and those employed part-time for economic reasons, also dropped from 8.4% to 8.0% month-over-month. The readthrough was an outsized impact from seasonality adjustments; nevertheless, the markets moved from pricing in a full Fed rate cut by the June meeting on February 10th to less than one cut as of February 17th, per Bloomberg.

Figure 2: Improved employment picture for those with less than a high school diploma and those marginally attached or employed part-time



Source: Bureau of Labor Statistics. Notes: Data as of February 11, 2026. October 2025 data missing due to agency data collection issues.

With regard to inflation, the Consumer Price Index (CPI) moderated to 2.4% versus a consensus estimate of 2.5%, year-over-year and not seasonally adjusted. While not the Fed’s preferred inflation measure – the Personal Consumption Expenditures Price Index (PCE) is slated for release on February 20<sup>th</sup> – a softer inflationary backdrop would likely provide more room for policymakers to cut rates amidst what has broadly been a weakening labor environment since 2022. Interest rate directionality and the path of rate hikes and cuts typically have profound impacts on investor outcomes, for more see the [latest piece](#) from the Index Insights team.

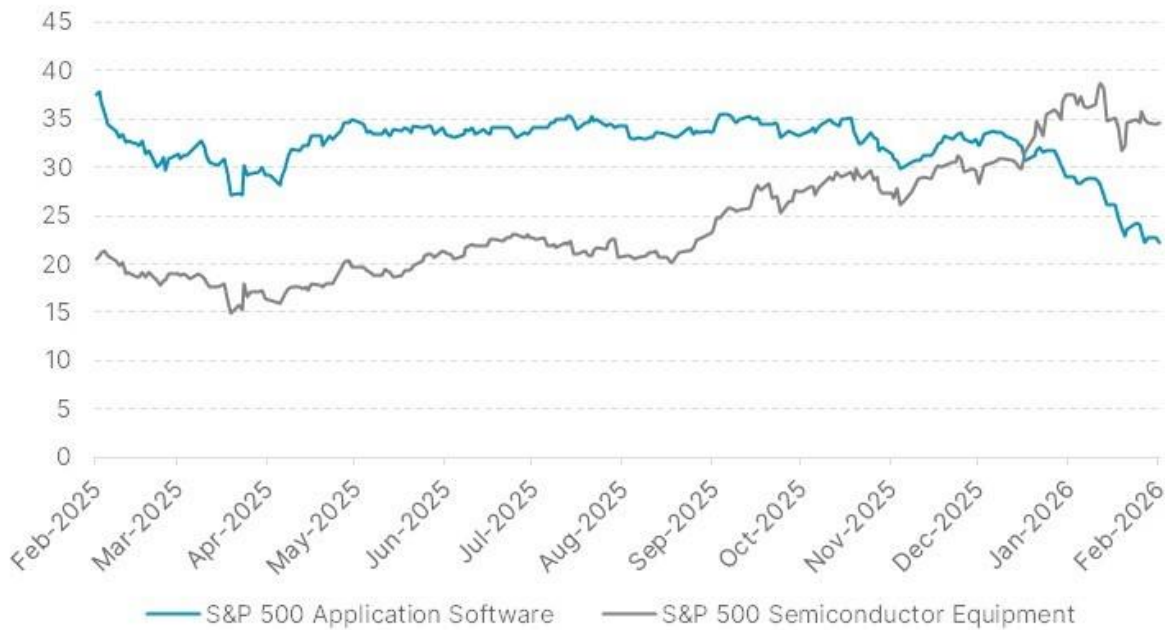
### A Bird in the Hand is Worth Two in the Bush

Despite the mixed, yet steady, economic backdrop, earnings continue to come in strong with Q4 2025 Nasdaq - 100<sup>®</sup> EPS growth measuring 16% and S&P 500 EPS growth 13.2%, both on a year-over-year basis. The three largest hyperscalers, Microsoft, Amazon, and Alphabet, again exceeded expectations, albeit with a slight miss on EPS for Amazon. However, markets reacted unfavorably to capex guidance from these firms in spite of robust cloud growth attributed to AI demand; Meta rose after earnings with analysts crediting cleaner communications regarding AI capex monetization. For more on the Q4 earnings season read the latest [Nasdaq-100 Earnings report](#). Investors seem to have convinced themselves that the capex is real, but the marginal beneficiaries of the investment boom have moved on to downstream players, per our Biweekly Chart in Focus. The market reaction function reinforces a number of questions regarding AI’s impact on business models and the overall economy.

With Claude dominating mindshare of late, in what many would characterize as a come-from-behind win for Anthropic, the proposition of some players ultimately seeing a sub-par return on investment has likely

crystallized in the views of investors. With the winners uncertain, and the hyperscalers unanimously announcing additional AI spend, investors have seemingly turned to the “picks-and-shovels” names. At the other end of the equation, investors have begun to rationalize who the potential losers of the AI paradigm shift could be and year-to-date have fixed on SaaS companies – in some part due to the assumed proficiency of Claude Code. Next-twelve month P/E for the S&P 500 Semiconductor Equipment sub-industry rose from 29.8 at the start of the year to 34.5 as of February 16<sup>th</sup>, while declining for S&P 500 Application Software sub-industry from 32.2 to 22.7 over the same time frame, per FactSet.

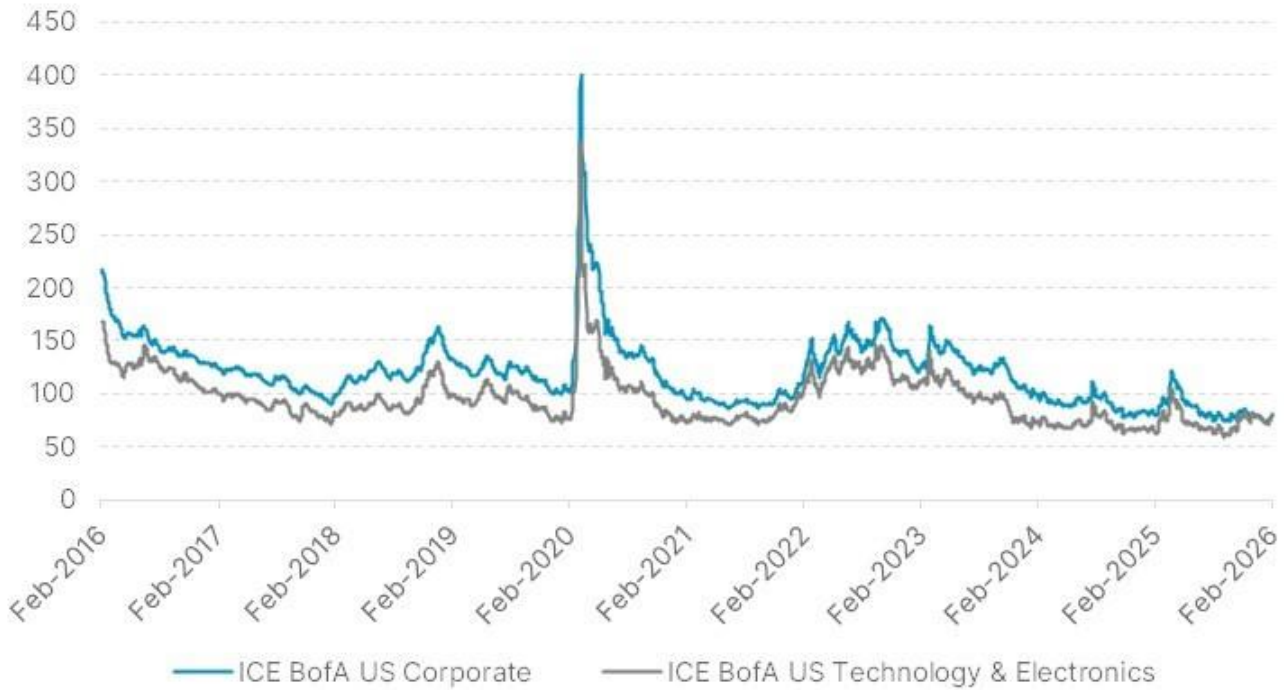
Figure 3: Select corners of the market re-rating sharply (next-twelve month P/E)



Source: FactSet. Notes: BEst P/E ratios through February 17, 2026.

Despite multiples re-rating sharply, corporate credit spreads continue to hit new lows, suggesting investors are not overtly concerned about catastrophic outcomes at this juncture. Figure 4 depicts corporate bond spreads near all-time tights, 80 basis points on February 16th for the ICE BofA US Technology & Electronics index, after accounting for firms' option to call debt back early.

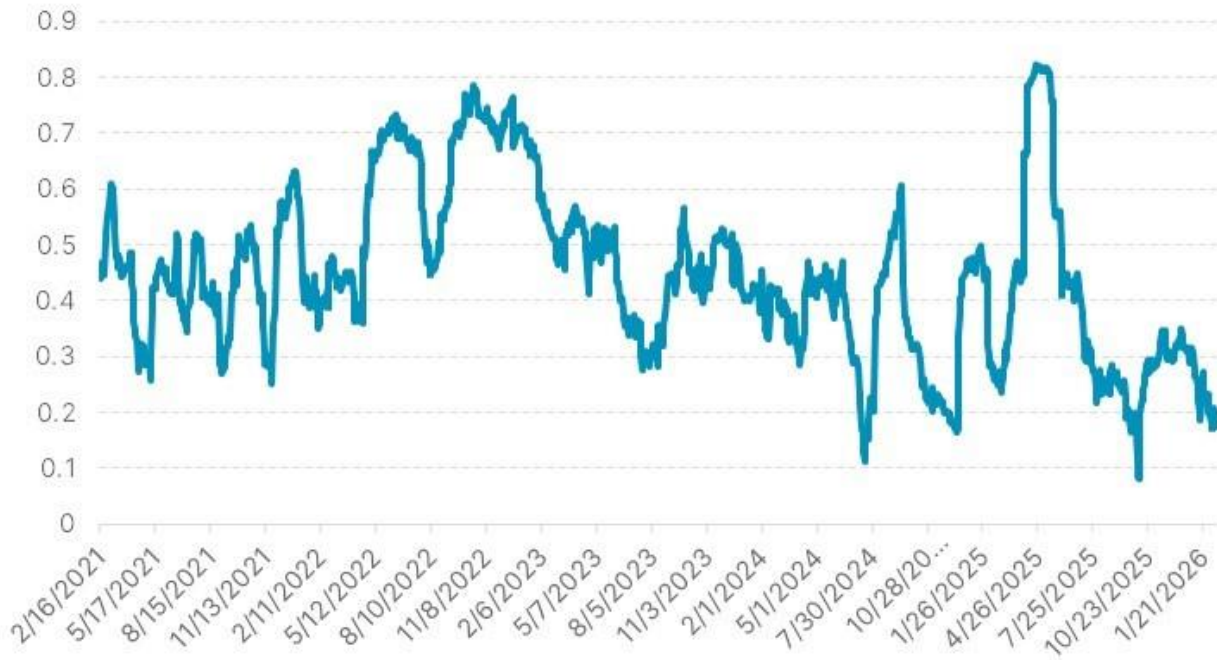
Figure 4: Corporate bond spreads more than contained, despite violent moves in equities



Source: FactSet. Notes: Option-adjusted spreads to Treasuries in basis points.

The aggregate effect at the index-level belies the large moves, and has been net negative mostly due to the outsized weighting of software businesses as mentioned in our [prior piece](#). Price returns measured -0.03% for the S&P 500 and -2.2% for the Nasdaq – 100 YTD through February 17th. However, the dispersion has made 2026 more of a stock picker’s market. Equity sector correlations have dropped to 0.17 from a 5-year average of 0.45, per Figure 5. Said another way, there are likely outsized relative returns, both positive and negative, for active investors differentiating between the winners and losers.

Figure 5: Sector correlation has declined sharply



Source: FactSet. Notes: Average of pairwise 30-day correlations for S&P 500 sector price returns.

## Atoms over Bits

Concluding with the AI boom’s impact on the real economy, we also revisit our initial theme of a renewed focus on the physical world. Goldman Sachs estimates that electricity prices in the U.S. rose 6.9% year-over-year through December 2025 and that data center demand is likely to account for 40% of total power demand growth through 2030.

We suspect data center capex has already produced a positive impulse on construction employment, although the exact effect is difficult to disentangle. Figure 6 depicts U.S. construction employment since the launch of ChatGPT on November 30, 2022. Construction employment growth may have turned the corner (+65,000 since October 31, 2025) after flatlining from late-2024 to late-2025, likely due to immigration policies. The growth mix over the past three months, and over the fuller 38-month period, skews heavily toward non-residential activity.

Figure 6: U.S. construction employment growth due mostly to non-residential activity



Source: Bureau of Labor Statistics. Notes: Measured in 1,000s, latest levels and change based on data released February 11, 2026.

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