

Sector Rotation and Resilient Earnings

Monthly Cybersecurity Update

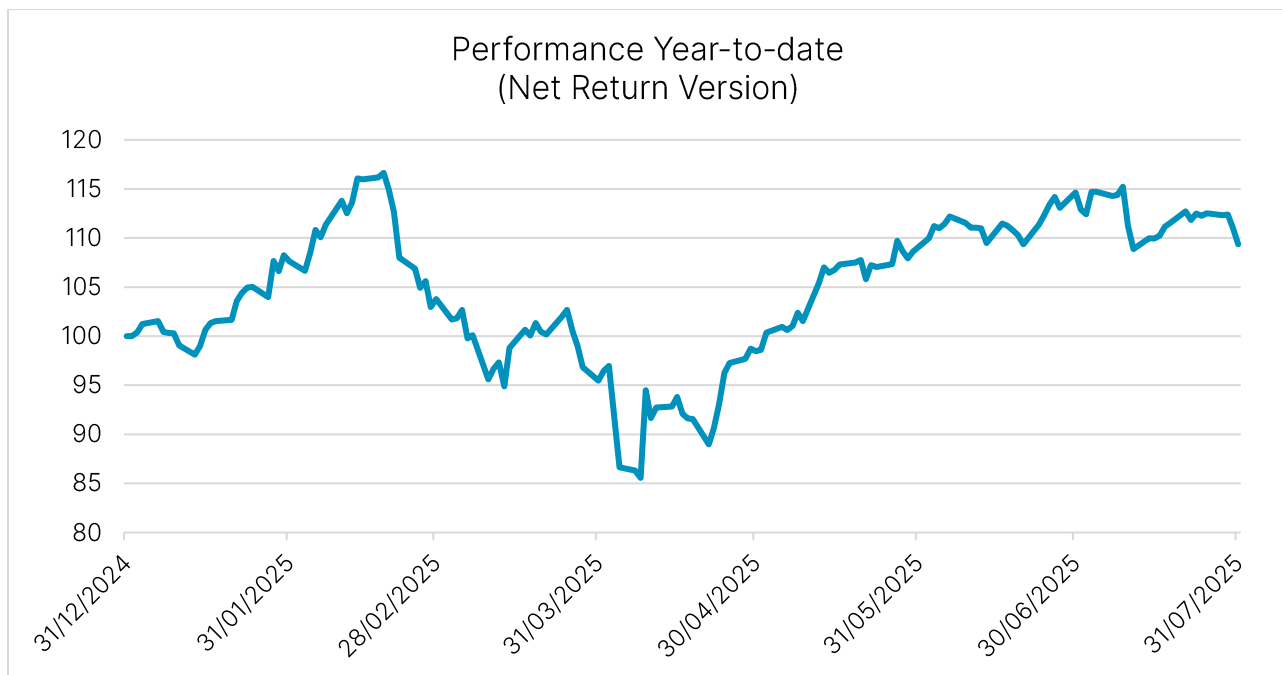
July 2025

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Navigating mixed signals - labor softness, earnings strength, and sector rotation

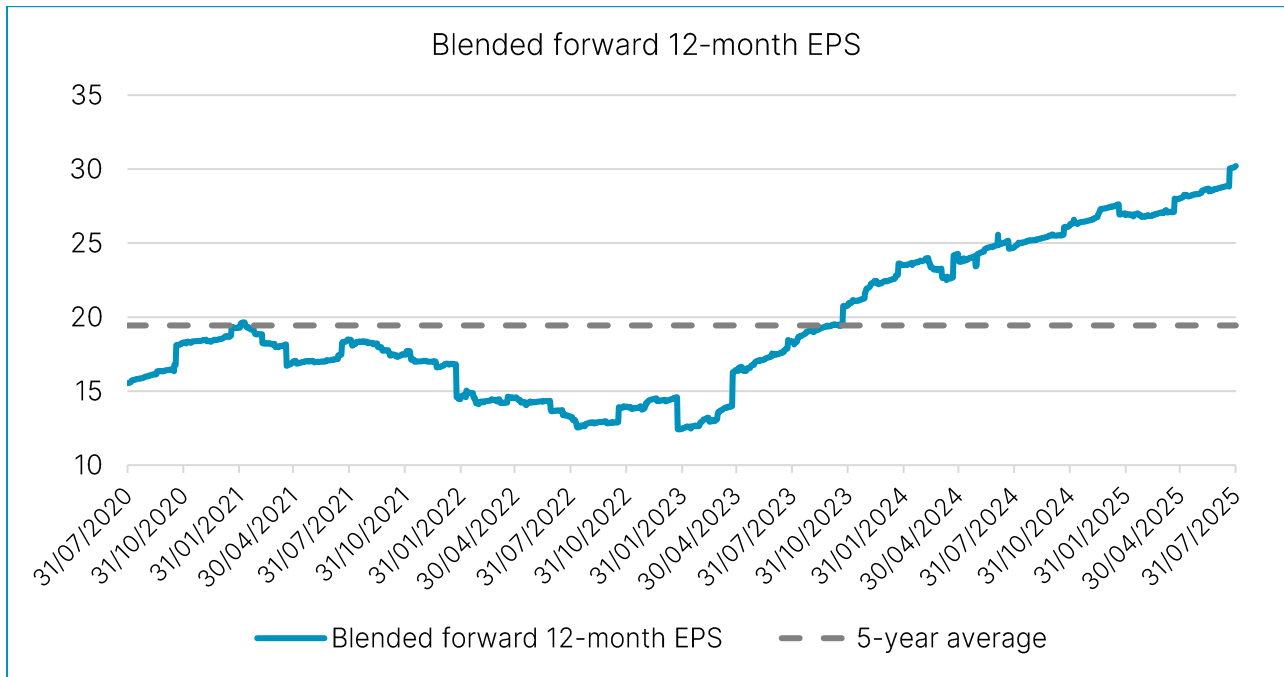
- Labor market data turned more cautious in July, with nonfarm payrolls showing slower job creations and significant downward revisions to previous months, raising investors concerns on the near-term economic outlook.¹
- Investors are expected to scrutinize Q2 earnings, seeking clear indicators of corporate resilience or emerging vulnerabilities.
- Over the course of July:
 - The Nasdaq-100 Index® (NDX®) led with a gain of 2.4%, followed by the S&P 500 (SPX) at 2.2%, and the MSCI World Index (MXWO) at 1.2%.
 - The ISE Cyber Security UCITS™ Index (HUR™) declined by -4.6%.

ISE Cyber Security UCITS™ Index: deep dive into performance



¹ <https://www.cnbc.com/2025/08/01/jobs-report-july-2025.html>

- HUR performance remained relatively flat through the first part of the month, with a modest gain of 0.5% by July 9. However, a sharp drawdown of 5.5% between July 9 and 11 accounted for the majority of the monthly loss. It was driven by broad market rotation that weighed on software stocks. According to Bloomberg, the observed softness in the software segment could be indicative of an ongoing sector rotation, with capital flowing from software into semiconductors.^{2,3}
- While the index fell -4.6% in July, its broader performance remains robust, up 9.2% year-to-date and 27.7% since April 8.
- Earnings momentum also remains strong. As of July 31, 2025, the blended forward 12-month EPS was 30.21, up +10.3% YTD.⁴ Compared to the current EPS at 24.60, this implies expected growth of about +22.8%.



² Ryan Vlastelica. Software Stocks Lag Overall Tech While Chipmakers Advance. July 10, 2025. Bloomberg

³ Goldman Sachs also reports that hedge funds sharply reduced their exposure to tech stocks in July 2025, marking the fastest pullback in a year. The rotation was driven by long position unwinds across software and IT services. At the same time, funds increased allocations to consumer staples, signaling a shift toward defensive assets amid elevated equity valuations and rate uncertainty.

<https://www.reuters.com/business/finance/hedge-flow-hedge-funds-ditch-tech-buy-essentials-goldman-sachs-says-2025-07-28/>

⁴ Represents a blended forward 12-months and is restricted to fiscal year periodicity. It uses the weighted average of current fiscal year and next fiscal year. Source: Bloomberg

Top and bottom performance contributors

Broadcom, Cloudflare along with Rubrik, were the top contributors to the index performance.

Despite the June pullback, largely driven by reactions around insider selling, Rubrik rebounded in July, gaining +6.6%. Investor enthusiasm was fueled by several factors: underlying business strength highlighted in robust Q1 earnings, and the strategic acquisition of Predibase to enhance its generative AI capabilities.⁵ The stock is now up +45% year-to-date, reflecting growing investor confidence in its long-term growth trajectory.

Broadcom's stock reached new all-time highs on July 30, 2025, as part of broader momentum into AI-driven chip demand and market rally. Cloudflare's stock also rallied in July 2025, driven by investor optimism ahead of its quarterly earnings release. Anticipation of robust financial performance, particularly in enterprise growth and AI infrastructure boosted sentiment. The company's move to block AI crawlers and positive analyst outlooks also contributed to the upward trend.⁶

BlackBerry, Palo Alto Networks, and Check Point were the three lowest contributors.

After the earnings-related rally in June, BlackBerry's stock has declined by approximately 20% (in USD) over the past month. The company continues to face a challenging macroeconomic environment. In its latest earnings release, CEO John Giamatteo noted that, although BlackBerry has not been directly affected by automotive tariffs, the broader economic uncertainty they have caused has led to delays in customer purchasing decisions. Additionally, analyst estimates have been trending downward, signaling reduced confidence in the company's near-term performance and contributing to the negative sentiment surrounding the stock.⁷

On July 30, 2025, Palo Alto Networks announced its largest acquisition to date: the purchase of CyberArk for approximately \$25 billion. The deal is aimed at addressing the growing threat of AI-driven cyberattacks by enhancing Palo Alto's capabilities in identity security and AI-powered threat detection. Despite the strategic rationale, the company's stock fell 5.2% following the announcement, reflecting investor concerns over the size of the deal and potential integration challenges.⁸

On July 30, 2025, Check Point's stock fell by 14.5%, even after reporting solid Q2 earnings. Despite beating expectations on revenues and EPS, cautious guidance and billings shortfalls triggered the sell-off.

⁵ On June 25, the company announced a deal to acquire Predibase, a generative AI startup with deep integration into AWS Bedrock, Azure OpenAI, and Google AgentSpace. The market viewed this as a significant expansion into AI-powered cyber resilience. Each of these platforms, AWS Bedrock, Azure OpenAI, and Google AgentSpace, provides enterprise-grade infrastructure for deploying advanced AI models securely and at scale, without the need to build or maintain complex model architectures internally.

<https://www.rubrik.com/company/newsroom/press-releases/25/rubrik-to-acquire-predibase-to-accelerate-agentic-ai-adoption>

⁶ In July 2025, Cloudflare introduced a default block on AI crawlers, giving website owners more control over how their content is accessed and used by AI systems. This move was part of the company's broader commitment to ethical internet practices, aiming to protect creators from having their work used without permission or compensation. By doing so, Cloudflare positioned itself as a leader in promoting responsible AI development and supporting a fairer digital ecosystem.

<https://www.cloudflare.com/press-releases/2025/cloudflare-just-changed-how-ai-crawlers-scrape-the-internet-at-large/>

⁷ <https://finance.yahoo.com/news/happened-blackberry-bb-stock-102000006.html>

⁸ <https://www.reuters.com/world/middle-east/palo-altos-25-billion-deal-cyberark-targets-rising-ai-driven-threats-2025-07-30/>

<https://www.paloaltonetworks.com/company/press/2025/palo-alto-networks-announces-agreement-to-acquire-cyberark--the-identity-security-leader>

	Average Weight (during July)	Total Return ⁹ (as of July 31) ¹⁰	Contribution to HUR Total Return
Broadcom	6.8%	6.6%	0.4%
Cloudflare	6.8%	6.1%	0.4%
Rubrik	5.7%	6.0%	0.3%
BlackBerry	4.6%	-19.6%	-1.0%
Palo Alto Networks	5.3%	-15.2%	-0.8%
Check Point	4.6%	-15.8%	-0.8%

Cybersecurity in M&A: a strategic imperative, not an afterthought

The recent announcement by Palo Alto Networks presents a timely opportunity to highlight the growing importance of cybersecurity in M&A transactions. As digital infrastructure becomes deeply embedded in business operations, cybersecurity is no longer a back-office concern. On the contrary, it has become a frontline issue, central to strategic decision-making, including mergers and acquisitions.

A striking example of what can go wrong is the Marriott-Starwood merger. In 2018, Marriott revealed that hackers had accessed the guest reservation system of Starwood, its newly acquired subsidiary, compromising the personal data of nearly 500 million guests. The breach had actually begun in 2014, two years before Marriott's acquisition, but went undetected due to insufficient cybersecurity due diligence. Attackers exploited outdated systems and weak remote access protocols, remaining active even after the merger. The fallout included regulatory investigations, lawsuits, and reputational damage, underscoring the critical importance of integrating cybersecurity assessments into M&A processes, especially when legacy systems and sensitive customer data are involved.¹¹

Cybersecurity risks can significantly affect the valuation and outcome of M&A transactions, as demonstrated by Verizon's acquisition of Yahoo. Between 2013 and 2016, Yahoo experienced a series of massive data breaches that compromised over 3 billion user accounts. These incidents were not disclosed until after Verizon had agreed to acquire Yahoo in 2016 for \$4.8 billion. Once the breaches became public, Verizon renegotiated the terms of the deal, ultimately reducing the purchase price by \$350 million. The transaction closed at \$4.48 billion, highlighting how undisclosed cyber incidents can materially erode deal value and trust.¹²

These two cases showcase how in M&A, failing to uncover cyber vulnerabilities can lead to financial losses, legal exposure, and lasting reputational harm. To protect deal value and stakeholder trust, cybersecurity due diligence must be treated as a core component of strategic risk assessment, not an afterthought. From protecting sensitive data during negotiations to ensuring long-term integration success, cybersecurity has become a strategic priority throughout the M&A lifecycle.

Sources: Nasdaq Index Research, Bloomberg, FactSet.

⁹ In USD

¹⁰ Total Return during the month of July 2025

¹¹ <https://coverlink.com/case-study/marriott-data-breach/>

¹² <https://breached.company/case-study-lessons-learned-from-the-yahoo-data-breach/>

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