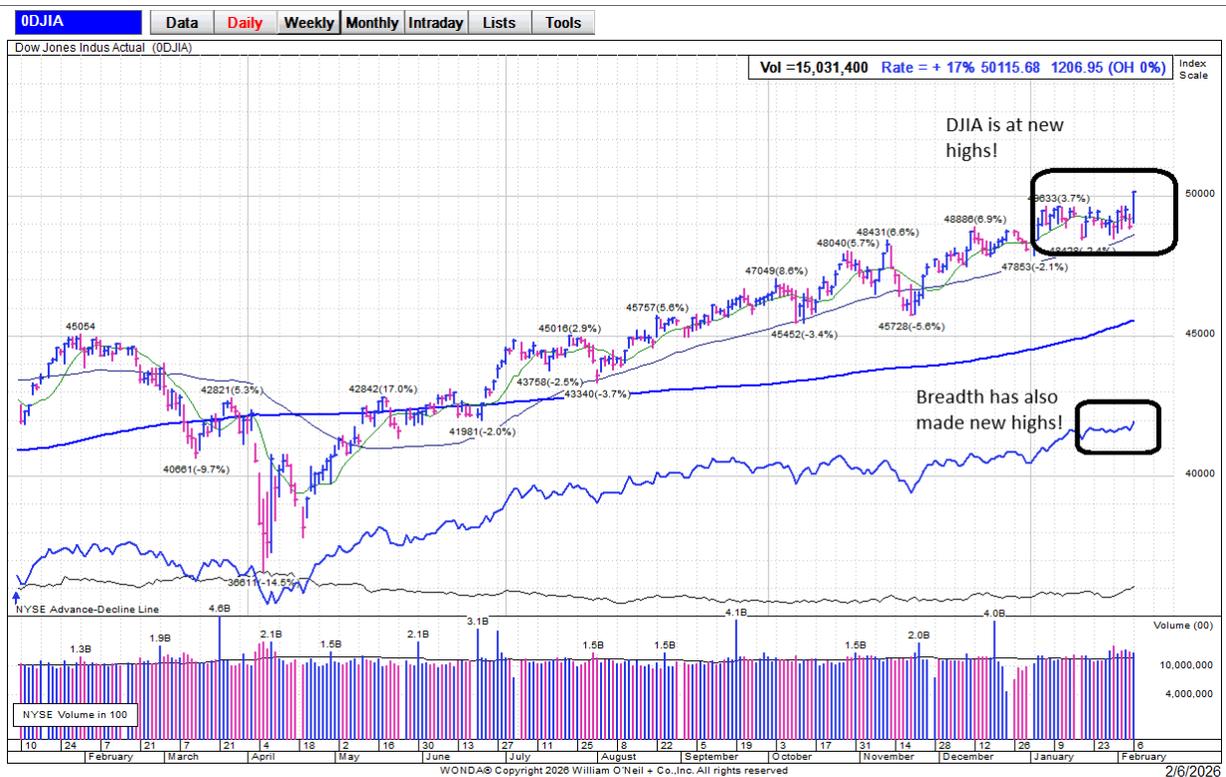


# Monthly Market Update

February 11, 2026

Over the past month the stock market has been driven more by changing stories than by changes in company fundamentals. Investors have gone back and forth between feeling confident about artificial intelligence and worrying that companies may be spending too much, too fast. This internal debate has led to choppy markets, especially in technology and software stocks.

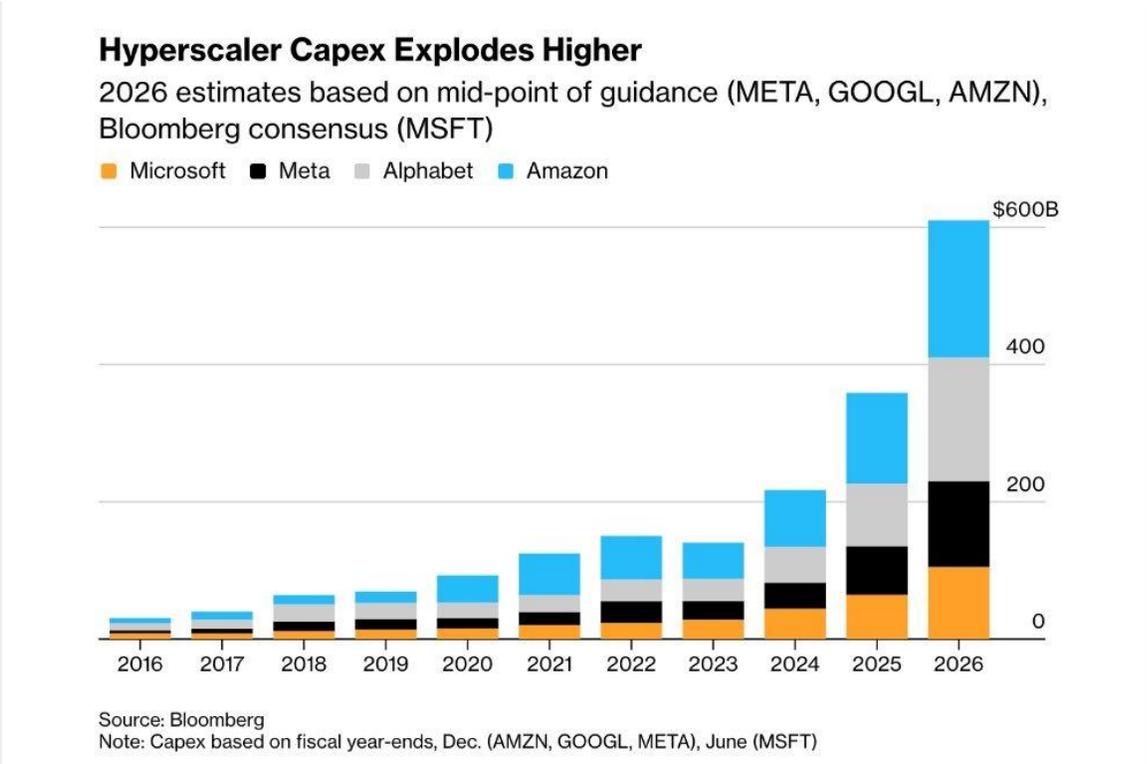
Despite this volatility, markets outside of technology have held up well. The S&P 500 is roughly one percent below its all-time high, while the Dow Jones Industrial Average has reached new highs. A key positive is market breadth. Participation on the NYSE continues to improve and is also at all-time highs, which we believe confirms that strength is spreading beyond a narrow group of stocks.



This is no longer a debate about whether AI is important. Most investors agree that it is. The focus has shifted to whether today’s massive spending will lead to attractive returns, and how long that process may take.

Company earnings were generally strong this quarter, but the market reacted differently than it has in the past. Instead of focusing on sales and earnings growth, investors paid closer attention to how much money companies are spending and what that means for free cash flow. Many large technology companies raised their AI spending plans, which caused some investors to pull back from higher-priced technology stocks and rotate toward areas that feel less risky in the short term.

The scale of this spending helps explain the market’s mixed reaction. Capital spending by the largest hyperscalers—namely Microsoft, Google, Amazon, and Meta—is expected to approach well over \$600 billion in 2026. At the same time, their combined free cash flow has declined from about \$237 billion in 2024 to roughly \$200 billion last year and is expected to fall to around \$150 billion in 2026. Amazon is expected to generate negative free cash flow as it invests heavily. Microsoft and Google are better positioned, while Meta, though still positive, is expected to see a roughly 90% decline in free cash flow.



As of 2/5/26

The good news is that this is a concern about cash flow, not a cash problem. These companies collectively hold about \$420 billion in cash. The issue is timing—spending is happening now, while the returns are expected later.

Software stocks have been hit especially hard. Recent demonstrations showed AI tools completing complex tasks, including building simple applications with very little human input. This raised concerns that some software features could become less valuable. At the same time, many businesses are actively using AI to improve productivity and work more efficiently across existing tools. The market reaction has been broad and, in many cases, overly aggressive. While AI will clearly impact software, we believe the greatest risk appears to be in more generic products that lack domain expertise and have low switching costs.

Despite widespread concerns about AI investment, there are several reasons this does not yet look like the end of the cycle. Key bottlenecks are still being discovered, including shortages in memory, data storage, and network capacity. Fixing these constraints will take years, not months, suggesting this build-out is still underway.

According to an interview with Nvidia CEO Jensen Huang, demand has been so strong that even six-year-old chips are currently being rented out. One of the first signs that demand is slowing would be if these older chips are no longer fully utilized. For now, demand remains strong.

The debate about whether we are in an AI bubble is an interesting one. Bubbles, by definition, tend to fool investors at their peak, when participation is widespread, and skepticism fades. Historically, markets do not peak when investors are actively debating whether investments are too large. They peak when everyone agrees that the spending is the right move and stops questioning it. Today's market still reflects debate and caution.

Overall, we believe recent volatility reflects uncertainty about timing and returns, not weakening business conditions. We have not made significant changes to our asset allocation. Pullbacks and corrections are to be expected, and for now, we remain optimistic.

For a full description of each strategy, please [click here](#).

Best regards,

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