

February 23, 2026

## The AI Trade Turns Selective

In the months following the launch of ChatGPT in fall 2022, investors piled into Nvidia, the perceived chief enabler of the AI revolution. Within a year, they were willing to invest in any stock that looked like an AI participant. Real technological transformation is called creative destruction for a reason, however, and over the past year, the market has become more discerning about the long-term implications of this transformation. Investors are now trying to determine which companies will flourish on the way to building AI infrastructure and thrive after it is built – and which companies risk seeing their hard-won market share and enterprise value wiped away by all the proliferating new models.

### Winners and Losers in the Tech Sector

In the Information Technology sector, the industry shorthand is that technology hardware companies – particularly semiconductors and semiconductor equipment – are the current and long-term beneficiaries of the AI revolution. Simultaneously, software companies are seen, however accurately or inaccurately, as near-term and particularly long-term losers.

For the 2026 year to date as of mid-February, the Information Technology sector within the S&P 500 was down 5% overall. There is a great deal of in-sector industry disparity, however. On a year-to-date basis as of mid-February, application software is down 27%; systems software is down 17%; and internet services is down 6%. At the other end of the industry spectrum, semiconductor materials & equipment are up 35% year to date. Electronic components are up 21%, and electronic equipment instruments are up 19%. Communications equipment and EMS (electronic manufacturing services) are both up 6% year to date. Semiconductors are up just 1% year to date as former leaders in the mega-cap space (i.e., NVDA) take a pause.

AI creates enormous potential for efficiency, improved processes, targeted messaging, and much more. As technology scales to the opportunity, rising performance and lower power consumption are reducing cost per token (i.e. per unit of processed data) and turning more and more bystanders into industry participants.

As more and more enterprises embrace AI, the positive case for semiconductors becomes more compelling. AI begins with compute implementations comprised of ever-bigger GPU clusters. In order to scale, fine-tune, disseminate, secure, and generally manage AI, an entire web of infrastructure – most notably networking and data storage – must be created and perpetually refreshed and improved.

Semiconductor makers and the semiconductor capital equipment industry are providing the technology that enables ever more efficient AI implementations, in turn widening the pool of potential and actual enterprise participants. In the GPU space, Nvidia's nearest competitor is AMD. Other semiconductor companies are producing XPU's, which share the massively parallel processing power of GPUs while being able to address specific tasks (hence, the X variable). Giant cloud service providers such as Google Cloud, AWS, and Meta Platforms design TPU's (tensor processing units) and other GPU-like processors built in merchant fabs. Beyond GPU compute, AI data storage requires high bandwidth memory in high-capacity drives, while AI networking requires high-end chips up and down the network stack.

World Semiconductor Trade Statistics (WSTS), an industry trade group, estimates that global semiconductor revenue including semiconductor capital equipment sales rose over 20% in 2025 to the \$750 billion range. WSTS looks for mid-20% growth in 2026, which would bring all-in semiconductor

*(continued on next page)*

---

## ECONOMIC & MARKET COMMENTARY (CONT.)

---

revenue to the \$1 trillion range for the current calendar year. A few years ago, McKinsey & Co. stunned investors with a report forecasting that global semiconductor sales would reach \$1 trillion -- by 2030. The claim seemed outlandish in its optimism at the time; it now seems outlandish from the opposite perspective.

Gartner is forecasting that worldwide AI spending will total about \$2.5 billion in 2026. Using that forecast and the WSTS estimate suggests that semiconductor spending will comprise about 40% of the total spend. A few years ago, when cloud computing was becoming ascendant, received industry wisdom was that tech hardware was dying. That hardly seems to be the case in the age of AI.

The corollary of “hardware is dying” is “software is thriving” -- also seemingly not the case in the age of AI. The iShares Expanded Tech-Software Sector ETF (IGV) was down 24.3% year to date as of 2/17/26. The ETF’s top holdings include Microsoft, Palantir, Oracle, Salesforce, Intuit, Adobe, CrowdStrike, and more. The selling extends back into 2025, with many of those stocks down 30% to 60% over the past six months

Large language models (LLMs), and particularly multi-modal and frontier models, are perceived as being able to perform the tasks of leading software programs more cheaply. AI models can write code, rapidly create new programs, and update existing programs. Anthropic’s Claude Cowork model is seen as threatening application software firms, which make products for creating and managing spreadsheets for payrolls and other tasks.

The investment community is divided as to whether the selling in software stocks is just getting started or has already created an attractive oversold opportunity. Top-tier technology companies typically are more than their existing products. These companies have long-term customer relationships; are often deeply integrated into their customers’ most valuable processes; and integrate within a security stack that is proprietary or managed with other vendors. Every IT implementation is only as strong as its weakest link. Enterprises will need to think long and hard before discarding the SaaS vendors that have so far accompanied their success.

### Sector Rotation Continues

Beyond the inter-sector dynamics in Information Technology, sector rotation continues to favor defensive, interest-rate-sensitive, cyclical, and inflation-beneficiaries at the expense of growth. At the top of the table are the inflation beneficiaries in the commodities space: Energy (up 22% YTD) and Materials (up 17%). These two sectors also benefit from a weak dollar, which makes commodities more expensive for international buyers and thus boosts revenue. Next up is the defensive Consumer Staples sector, up 16% year to date even as affordability issues cut into overall revenues. The cyclical Industrials sector is the only other double-digit gainer, up 13% year to date as defense, construction, agriculture equipment, and air freight stocks rally.

Two interest-rate-sensitive sectors, Utilities and Real Estate, are up in the 8%-9% range, while defensive Healthcare is up 2%. The three growth sectors of Information Technology, Consumer Discretionary, and Communication Services are down 2%-to-5% year to date, while Financial is down 6%. The laggards, apart from Consumer Discretionary, were the market leaders in 2025, even if they lost a little steam in 4Q25.

### Conclusion

AI disruption initially may have been focused in software. But it has made investors consider the viability and vulnerabilities of all business models. Companies in any kind of service business, including financial services, are being scrutinized. Transportation and logistics businesses have recently come under pressure. Outside the public-company sphere, enterprises such as law firms and accounting firms may be at risk as core functions -- trusts & estates, property closings, payrolls & compensation -- become automated.

Amid this broadening in AI disruption, Argus believes stock opportunities are being created. AI may be an existential threat to many top-tier companies across a range of industries; but we do not see it as a “right now” threat.

Investors should also not assume that industry leaders will stand still while AI eats their lunch. They will continue to strengthen their innovation engines -- which are more than ever stocked with AI tools to fight back.

Jim Kelleher, CFA,  
Director of Research

---

# KEY ECONOMIC FORECASTS

---

- The \$31 trillion U.S. economy remains on course for growth, powered by corporate investments in AI and outsized spending by the wealthiest households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- We recently raised our 2026 forecast for GDP growth to 2.3% from 2.2%. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation could boost tax returns by \$600 - \$1,000 for many families. We recently raised our 2027 GDP estimate to 1.8% growth from 1.7%.
- Consumers have been the engine of economic growth. That should continue with unemployment at 4.3%. Demand for healthcare workers, who are hard to replace with AI, is strong in an aging population.
- Inflation's downward progress has stalled above the Fed's 2% target. The median projection of Federal Reserve officials does not return to 2% until 2028.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 59% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be flat or slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- As long as geopolitics are flaring and the global economy is wobbling, gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. Our average target price in 2026 is \$4,500.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 6.7%, well below the average of 9.2% since 1949.
- What could go right? Monetary easing, big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, and ongoing innovation.
- Risks: Elevated Inflation, housing is stalled, low income consumers are struggling, spending by affluent may be dependent on stock market gains, AI may reduce entry-level hiring.

# CURRENT ECONOMIC RELEASES

## Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Feb	Existing Home Sales	January	<b>4.27 Mln.</b>	4.20 Mln.	4.15 Mln.	<b>3.91 Mln.</b>
13-Feb	Consumer Price Index CPI ex-Food & Energy	January	2.7%	2.4%	2.5%	<b>2.4%</b>
		January	2.6%	2.5%	2.5%	<b>2.5%</b>
18-Feb	Durable Goods Orders	December	10.5%	2.0%	NA	<b>12.5%</b>
	Industrial Production	January	<b>1.3%</b>	2.5%	NA	<b>2.3%</b>
	Capacity Utilization	January	<b>75.7%</b>	76.5%	76.4%	<b>76.2%</b>
	Housing Starts	December	<b>1,322K</b>	1,300K	1,303K	<b>1,404K</b>
19-Feb	Trade Balance	December	-\$56.8 Bln.	-\$55 Bln.	-\$55.5 Bln.	NA
20-Feb	GDP Annualized QoQ	4Q "Advance"	4.4%	3.1%	2.9%	NA
	GDP Price Index	4Q "Advance"	3.8%	3.5%	NA	NA
	PCE Deflator	December	2.8%	2.8%	NA	NA
	PCE Core Deflator	December	2.8%	2.8%	3.0%	NA
	Personal Income	December	4.3%	4.4%	NA	NA
	Personal Spending	December	5.4%	4.7%	NA	NA
	New Home Sales	December	737K	725K	738K	NA
23-Feb	Factory Orders	December	5.4%	5.0%	NA	NA
24-Feb	Wholesale Inventories	December	1.8%	1.6%	NA	NA
	Consumer Confidence	February	84.5	88.0	88.0	NA
27-Feb	PPI Final Demand	January	3.0%	2.4%	NA	NA
	PPI ex-Food & Energy	January	3.3%	2.8%	NA	NA
	Construction Spending	December	-1.0%	1.0%	NA	NA

## Disclaimer

---

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in New York, NY, is a customer of Argus Research Co. (ARC), also based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products. Recipients of the Research reports in Singapore should contact the Intermediary of the Research Reports in respect to any matters arising from, or in connection with, the analysis of the report. Where the recipient is not an accredited, expert or institutional investor as defined by the Securities and Futures Act, the Intermediary accepts legal responsibility for the contents of Research Reports in respect of such recipient in accordance with applicable law. When reports are distributed by Intermediaries in Singapore, the Intermediary, and not Argus Research, is solely responsible for ensuring that the recipients of the Research Reports understand the information contained in the Research Reports and that such information is suitable based on the customer's profile and investment objectives.

