
Pathstone

Summary

Monthly Market Insights

February 9, 2026

The “easy” AI trade may be over, while a “harder” AI trade has begun

- 1 Economic data continues to come in stronger than consensus estimates, both in US and globally, despite labor data remaining soft – suggesting a continued “jobless growth” phase**
- 2 Kevin Warsh nomination for next Fed Chair keeps the bias towards further rate cuts in 2026**
- 3 The “broadening out” theme within equities continues as non-US equities are outperforming YTD, while smaller caps are beating larger caps and value is beating growth within US equities**
- 4 4Q earnings are coming in strong with S&P 500 tracking towards double-digit growth – tech is leading earnings growth, but increasing AI capex spending estimates are furthering concerns**
- 5 Software stocks have sold off hard on fears of AI disruption to their business models – which we view as a fair re-rating given increased uncertainty required a higher risk premium**

Strong economic data with softer labor data suggests “jobless growth”

Citi Economic Surprise Index

Greater than 0 = Economic Data Stronger than Estimated



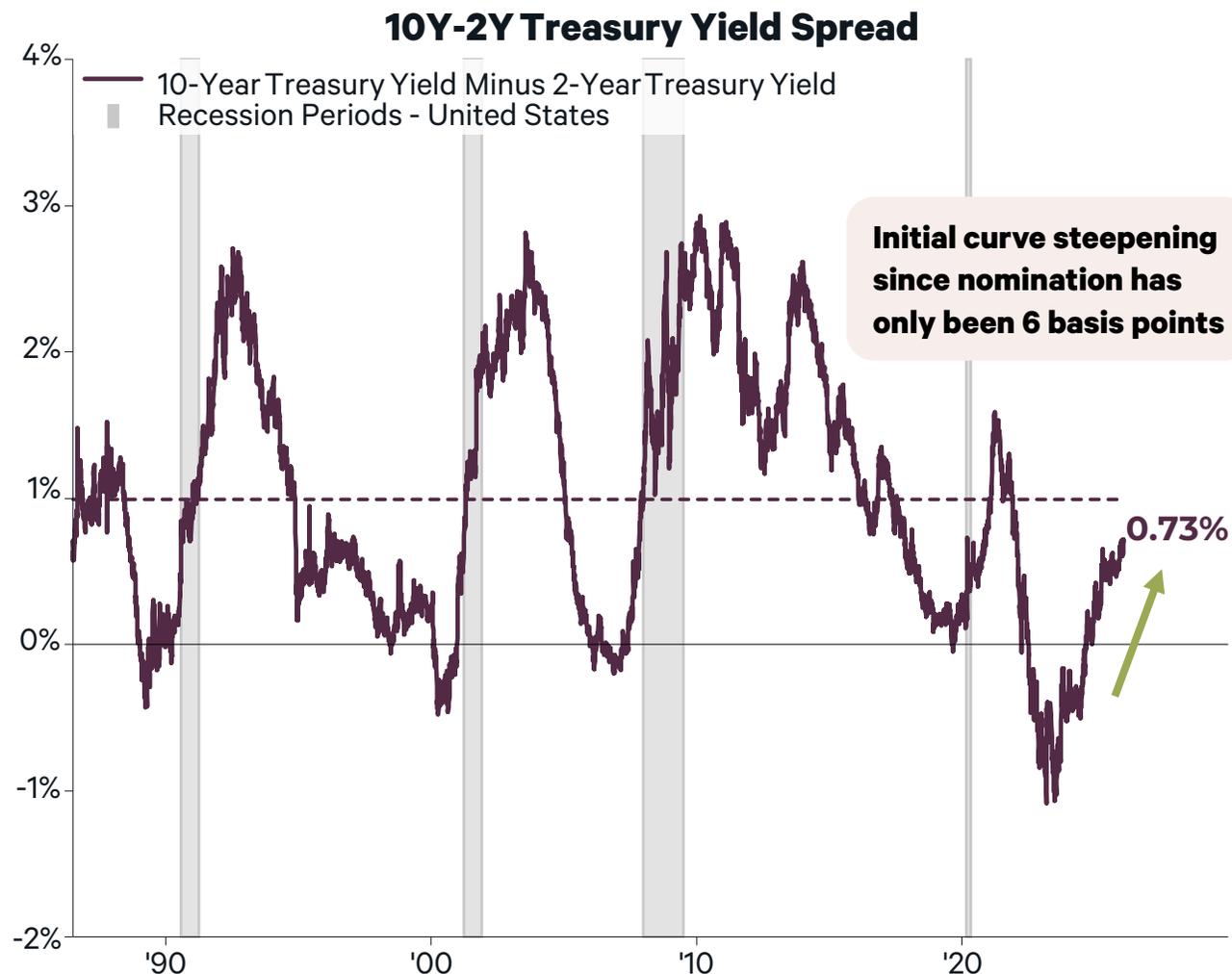
Sources: Pathstone with data from FactSet, Citi

Warsh nomination suggests rate cuts + deregulation = steeper curve

Kevin Warsh, a former Fed Governor nominated to be the next Fed Chair, is expected to bring a distinct shift in philosophy. While historically known as a "hawk," he views the current AI-driven economic boom as deflationary and argues that front-end rate cuts are necessary to better support the real Main Street economy amidst productivity-led growth.

A "Fed-Treasury Accord" on deregulation could reduce central bank intervention. To shrink the Fed's balance sheet without disrupting bond markets, Warsh and Treasury Secretary Bessent are likely to establish a new "Fed-Treasury Accord." By exempting Treasuries from the Supplementary Leverage Ratio (SLR) capital requirements, this agreement would free up bank capital to absorb debt supply, replacing Fed monetization with private sector demand.

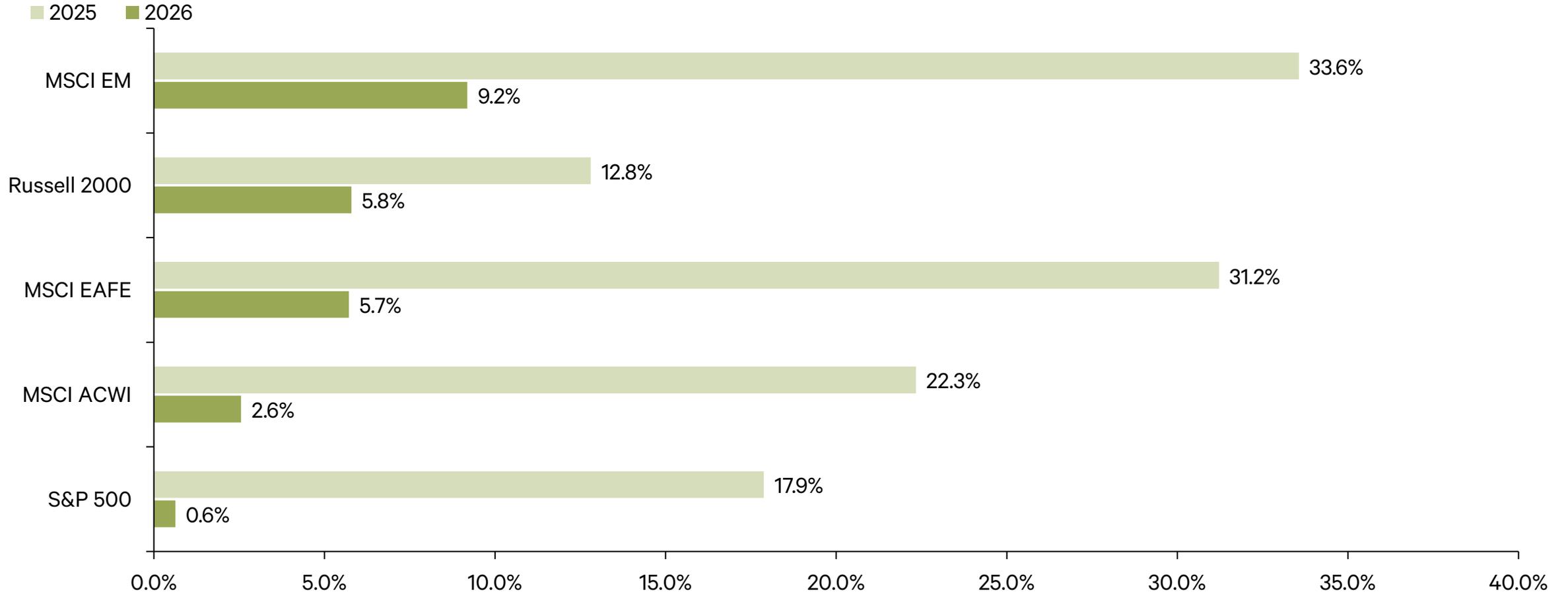
We view the nomination as positive for risk assets but expect a steeper curve. This policy mix signals a regime change from financial engineering toward supply-side incentives. We believe the combination of lower front-end rates and deregulation creates a favorable backdrop for equities, though the lack of active QE likely results in a steeper yield curve.



Sources: Pathstone with data from FactSet

“Broadening out” of performance from 2025 continues into early 2026

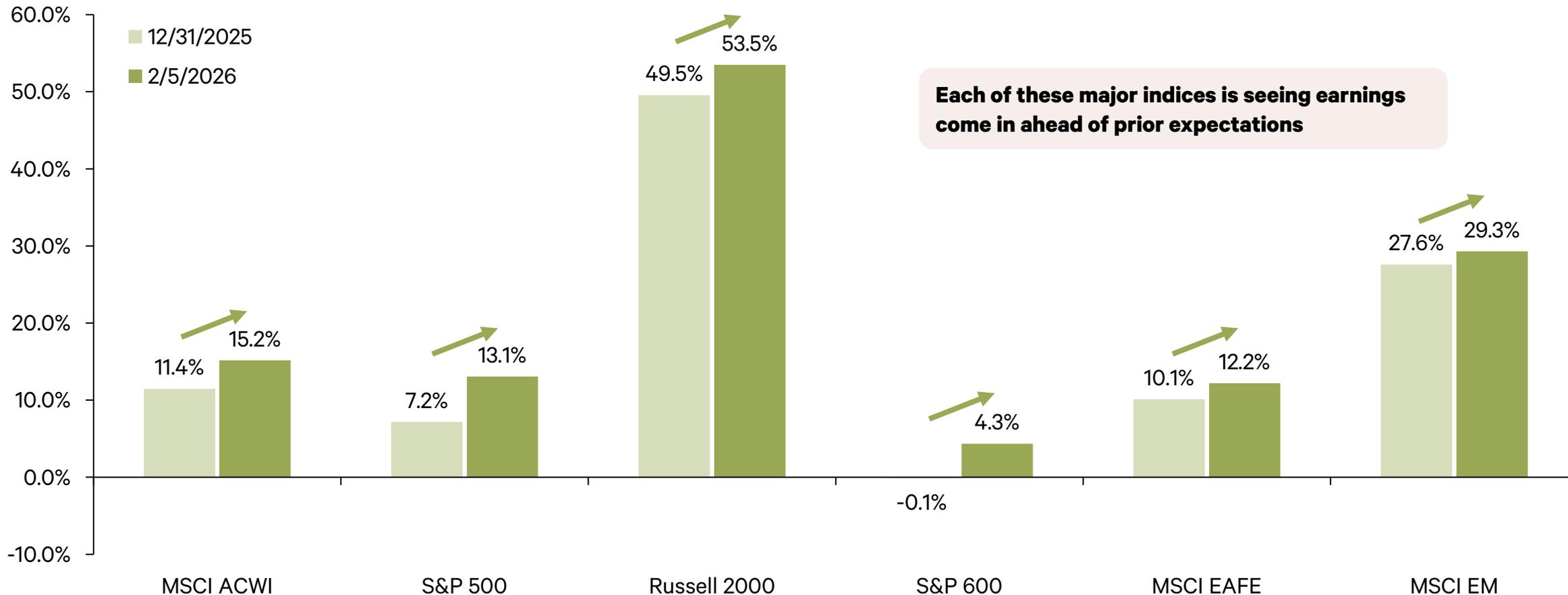
Cumulative Total Return



Sources: Pathstone with data from Bloomberg. Data as of 2/5/2026

Q4 2025 earnings are improving across broad asset classes

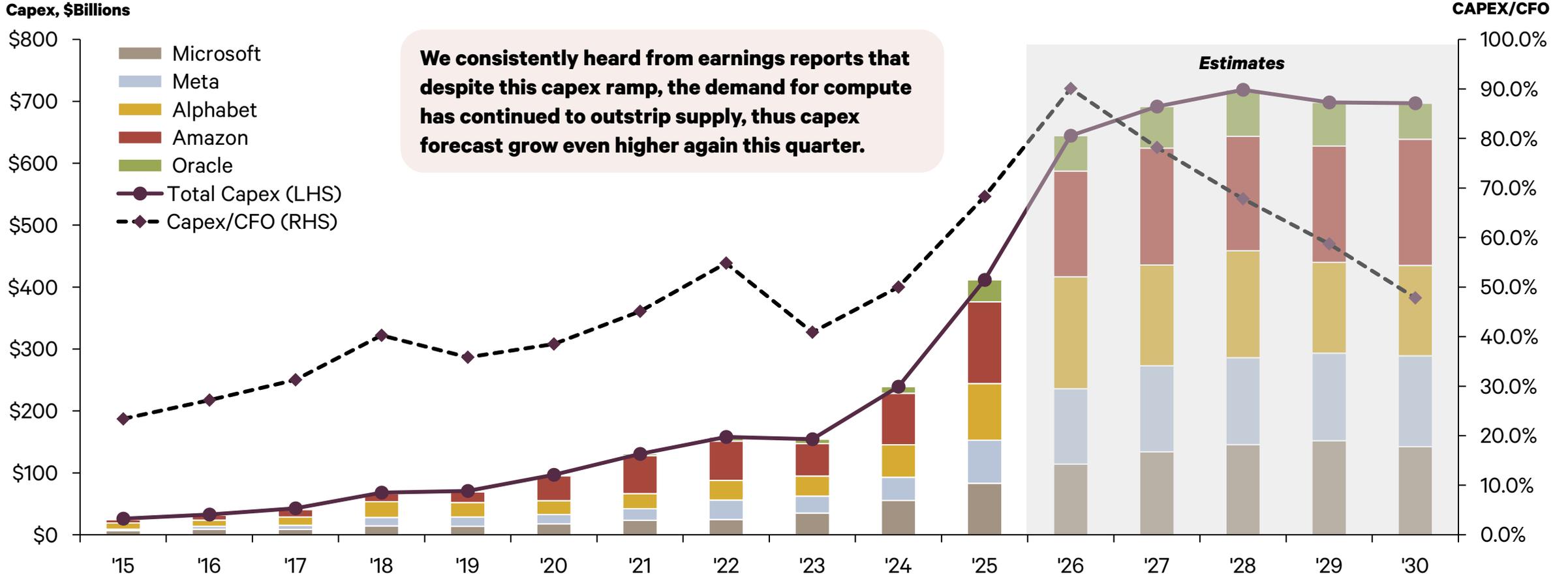
Earnings Growth Estimates for Q4 2025



Sources: Pathstone with data from Bloomberg. Data as of 2/6/2026

AI capex estimates surge, again, as demand outpaces supply

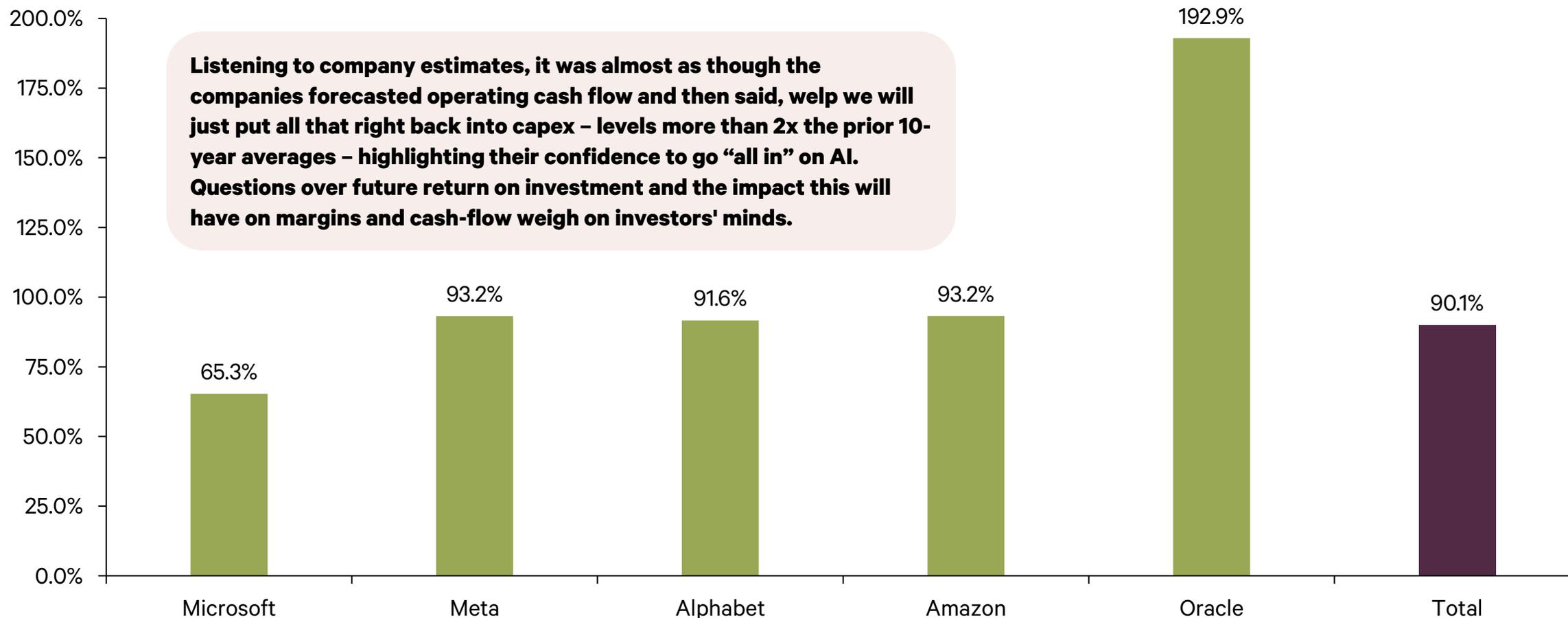
Hyperscaler Capex & Cash from Operations



Sources: Pathstone with data from Bloomberg. As of 2/6/2026

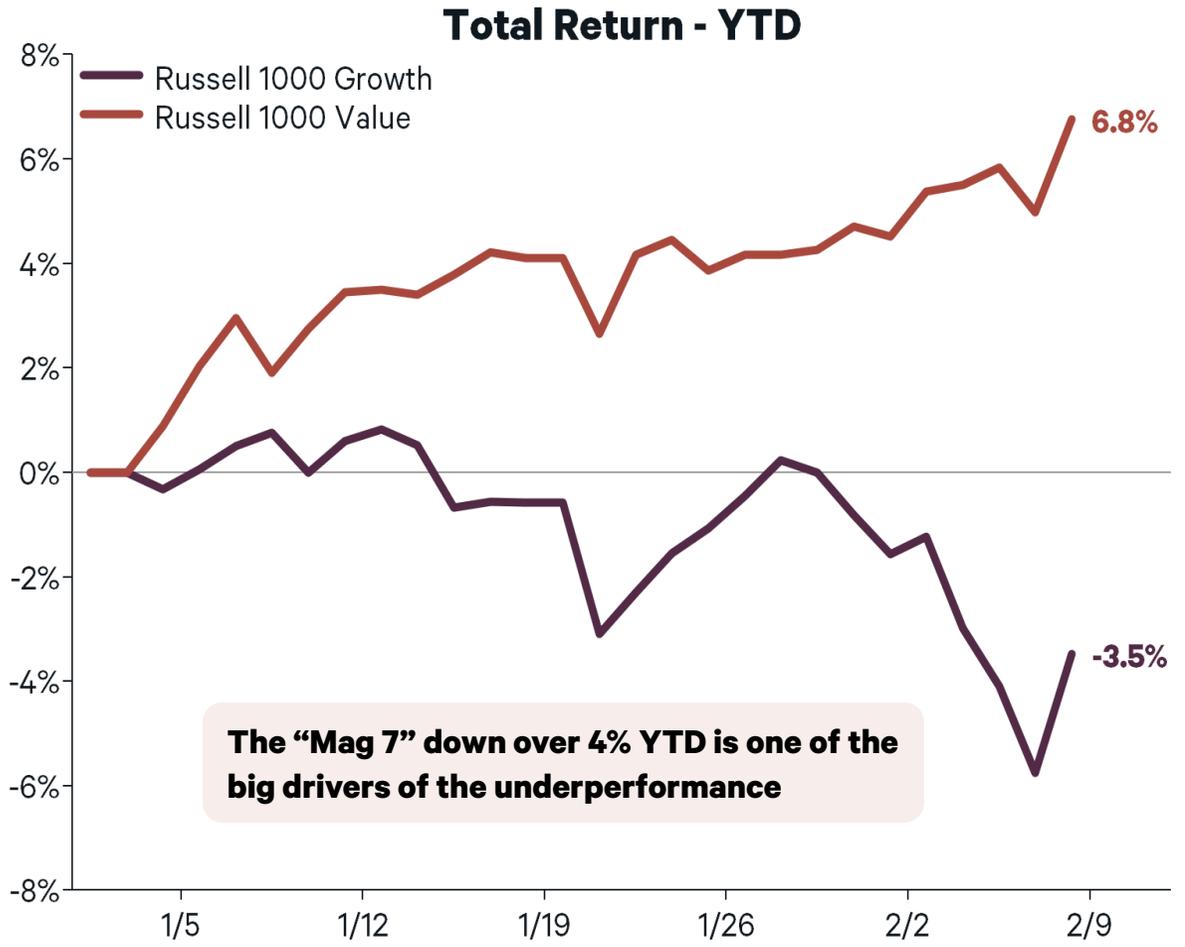
But concerns around going “all in” on AI has hampered AI megacaps

Estimated Capital Expenditures / Cash from Operations – Calendar Year 2026

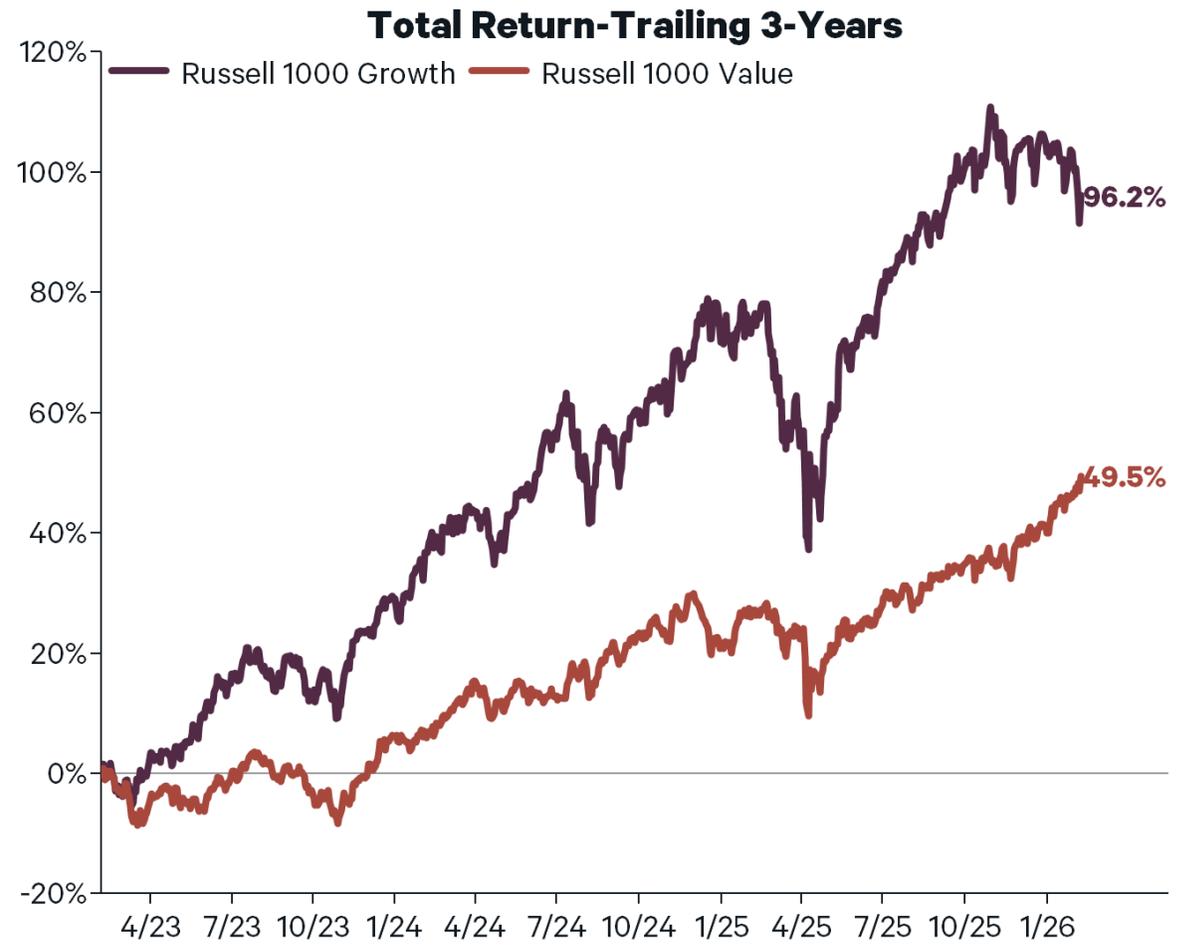


Sources: Pathstone with data from Bloomberg. As of 2/6/2026.

Value outperforming Growth by over 10% to start the year



Sources: Pathstone with data from FactSet. Data as of 2/6/2026



Source: Pathstone with data from FactSet. Data as of 2/6/2026

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US Equities by Size and Style

US Large Cap	Russell 1000 TR USD	The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index.
US Large Cap Growth	Russell 1000 Growth TR USD	Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
US Large Cap Value	Russell 1000 Value TR USD	Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
US Small Cap	Russell 2000 TR USD	The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.
US Small Cap Growth	Russell 2000 Growth TR USD	Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
US Small Cap Value	Russell 2000 Value TR USD	Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
US Mid Cap	Russell Mid Cap TR USD	Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
US Mid Cap Growth	Russell Mid Cap Growth TR USD	Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.
US Mid Cap Value	Russell Mid Cap Value TR USD	Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

Global Equities

US Large Cap	S&P 500 TR USD	The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
US Large Cap Tech	NASDAQ	The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ.
European Large Cap	MSCI Europe Large GR USD	The MSCI Europe Large Cap Index is a free-float weighted equity index.
European Small Cap	MSCI Europe Small Cap GR USD	Europe Small Cap - Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and UKMSCI's Developed Market Indices are based on the share prices of approximately 1,600
Japan	MSCI Japan GR USD	The MSCI Japan Index is a free-float weighted equity index. This index prices in real time in USD.
Asia ex-Japan	MSCI AC Asia Ex Japan GR USD	The MSCI AC Asia ex Japan Index is a free-float weighted equity index. This index is priced in USD.
China	MSCI China GR USD	The MSCI China Index is a free-float weighted equity index. This index is priced in USD.
EM Latin America	MSCI EM Latin America GR USD	The MSCI EM Latin America Index is a free-float weighted equity index. This index is priced in USD.
EM Europe	MSCI EM Europe GR USD	The MSCI EM Europe Index is a free-float weighted equity index. This index is priced in USD.

Fixed Income

Short-term Treasuries	Bloomberg 1-3 Yr US Treasury TR USD	The Bloomberg US Treasury 1-3 Yr Index measures the performance of US Treasuries with a maturity of between 1-3 years.
Long-term Treasuries	Bloomberg US Treasury 10+ Yr TR USD	The Bloomberg US Treasury 10+ Yr Index measures the performance of US Treasuries with a maturity of at least 10 years.
Inflation-Linked Bonds	Bloomberg US Treasury US TIPS TR USD	The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.
Municipal Bonds	Bloomberg Managed Money Short/	Bloomberg Managed Money Short/Intermediate Total Return Index Unhedged USD
Mortgage-Backed Securities	Bloomberg US MBS TR USD	The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
Short-term Investment Grade	Bloomberg USD Corp Bd 1-5 Yr TR USD	Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD.
Long-term Investment Grade	Bloomberg US Corp Bond TR USD	The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
High Yield	Bloomberg US Corporate High Yield TR USD	The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.
EM Aggregate Bonds	Bloomberg Emerging Markets Hard Currency Aggregate Index	The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.