

U.S. Equities Turn Selective as Yields Fall and AI Leadership Narrows

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Macro & Rates

Treasury yields declined across the curve as inflation cooled and growth moderated, supporting valuations without signaling recession risk.

Tech and AI structures

AI demand remains strong, but performance has narrowed toward semiconductors and infrastructure while hyperscalers and software face greater scrutiny.

Sentiment and Valuation

Investor positioning has become more cautious, with multiple compression in mega-cap tech and increased focus on cash flow durability over growth narratives.

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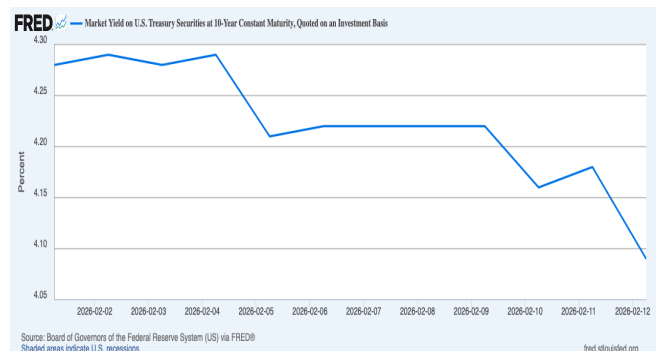
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Section 1: Macro Overview

Global macro conditions this week were defined by a broad decline in bond yields across the United States, Europe, and parts of Asia, signalling that markets are increasingly positioning for a softer growth environment and potential monetary easing later in 2026. The lows in long end yields was synchronized across regions, suggesting a global repricing of rate expectations rather than a localized shift. Despite this adjustment in the rates market, economic activity remains stable. Manufacturing has started to recover, services continue to expand, and inflation is gradually easing. The overall environment points to a late-cycle phase in which growth is moderating but still positive, inflation is cooling but not fully contained, and financial conditions are beginning to loosen slightly at the margin. This combination is particularly relevant for equity markets, as falling yields tend to support valuations, especially in long duration sectors like technology.

Figure M1: U.S. 10-Year Yield Falls as Markets Price a Softer Growth Path and Future Easing

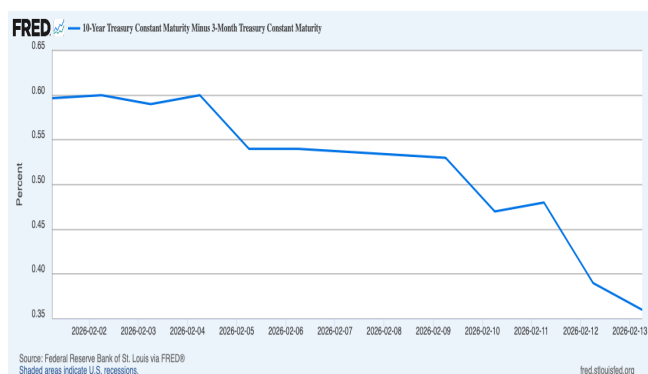
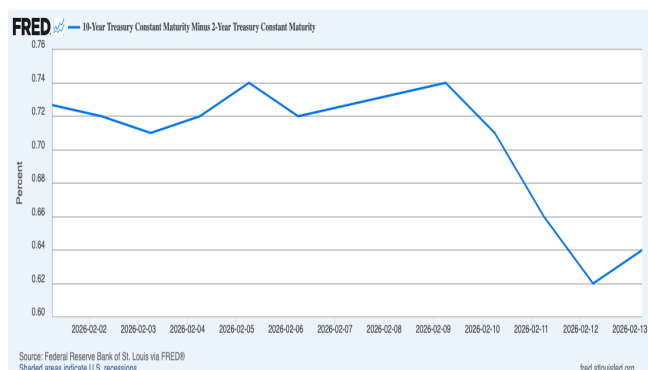


In the United States bond market, there were pullbacks in the bond yields across the curve throughout the week. The 10-year bond yield decreased from around 4.29% at the start of February to around 4.04% on February 13. The Similar moves were visible in the 2-year, 5-year, 20-year, and 30-year maturities, indicating a broad shift in expectations rather than a policy-driven move at the front end. The bond market appears to be pricing in slightly slower growth and gradually building expectations for rate cuts later in the year.

Importantly, the yield curve remains positively sloped, with the 10Y–2Y spread still around 0.64% and the 10Y–3M spread near 0.36%. This suggests that markets

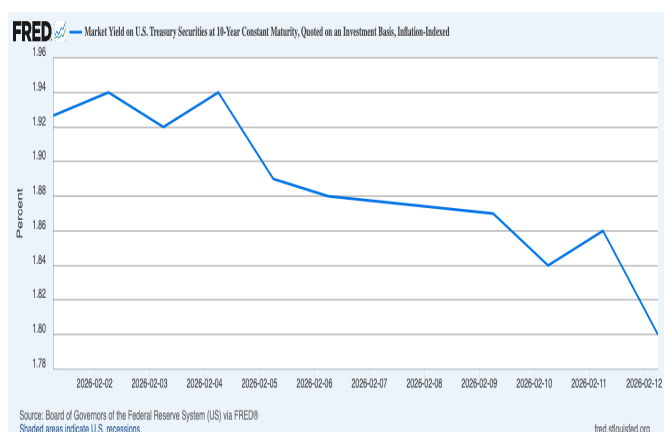
are not signalling an imminent recession. Instead, the curve is indicating a stable economy that is expected to cool modestly rather than contract sharply.

Figure M3: Yield Curve Remains Positive, Pointing to Slowdown—not Recession Pricing



Real yields also edged lower, with the 10-year real rate drifting toward 1.8%, pointing to slightly easier financial conditions. The fall in bond yields will be supportive for growth and technology stocks, which will be driven by lower discount rates and a higher present value of future earnings.

Figure M2: Real Yields Ease, Reducing Discount-Rate Pressure on Long-Duration Equities



Recent economic data reinforces the idea that the U.S. economy remains resilient. Manufacturing has rebounded to expansion territory, with the PMI rising to 52.6 from 47.9, with new orders rising significantly. Production is rising, and backlogs are increasing, which means that the sector is seeing renewed demand after a period of weakness. However, employment within manufacturing is still contracting, suggesting that firms remain cautious about hiring even as activity improves. Input prices are rising again, which could sustain underlying inflation. The services sector, which remains the backbone of the U.S. economy, continues to show steady strength. Business activity and new orders remain solidly in expansion territory, and employment has turned slightly positive. The main concern remains the services prices index, which is still elevated and signals sticky inflation in core areas of the economy.

Inflation data released during the week added to the disinflation narrative. Consumer prices rose around 2.4% annually in January, coming in slightly below expectations and marking one of the lowest readings since mid 2025. Core inflation also eased, suggesting that the worst of price pressures may be behind. While inflation remains above the Fed’s long term target, the trend is clearly moving in the right direction. Markets interpreted the data as supportive for eventual rate cuts, which contributed to the decline in Treasury yields.

In Europe, sovereign bond yields also moved lower during the week, reflecting growing expectations that the European Central Bank may begin easing policy later in the year as inflation stabilizes and growth remains modest. Germany’s 10-year yield drifted toward roughly 2.76%, while France and Italy also saw declines, with yields near the mid 3% range. The softening in core European yields suggests that markets are becoming more confident that inflation pressures are easing across the euro area. At the same time, spreads between core and peripheral countries remained

relatively stable, indicating that investors are not pricing in financial stress or sovereign risk concerns. Instead, the movement in yields appears to be driven mainly by macro expectations around slower growth and eventual policy normalization.

In the Asian region, the developments have shown greater variability while largely tracking the *global* trend of stable growth and low inflation. Japan's long-term yields have shown relative stability while registering marginal declines. This is a reflection of the gradual and cautious normalization path being followed by the Bank of Japan. China's 10-year yields have continued to trend down towards 1.8%. This has raised further apprehensions of low domestic demand and the necessity to continue policy support. India's 10-year yields have remained stable and have continued to hold their ground in the mid 6% region. This reflects a stronger growth and inflation dynamics.

This divergence highlights the different stages of the economic cycle across Asian economies, with China focused on supporting growth, Japan slowly normalizing policy, and India maintaining a more stable trajectory.

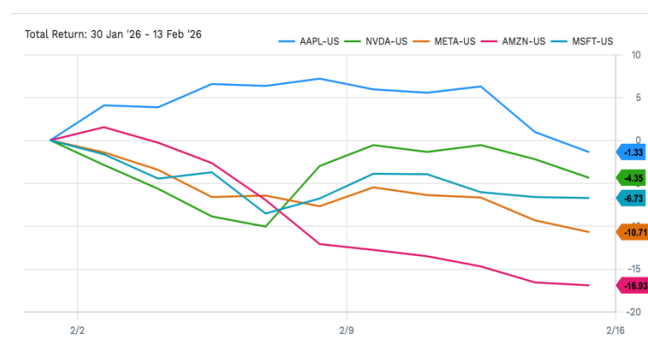
Overall, the global bond market reflects a coherent narrative. Growth is positive and remains stable while decelerating. Inflation is easing while not being resolved completely. Investors have started to price the market for the expected easing cycle. The decline in long-term yields in the US, Europe, and parts of Asia reflects the expectation of easing financial conditions. This does not reflect an impending economic slump. Rather, the positive shape of the yield curves in these economies reflects that the risks of a recession have not dominated the market sentiment. Rather, the market is shifting towards a phase where policy rates have reached their peaks and have started to fall as inflation normalization continues. This macro backdrop creates an important foundation for equity markets, particularly the technology sector. Falling real yields reduce

discount rate pressure on high growth companies and support long duration assets. At the same time, stable economic growth ensures that demand conditions remain intact.

Technology & AI Positioning

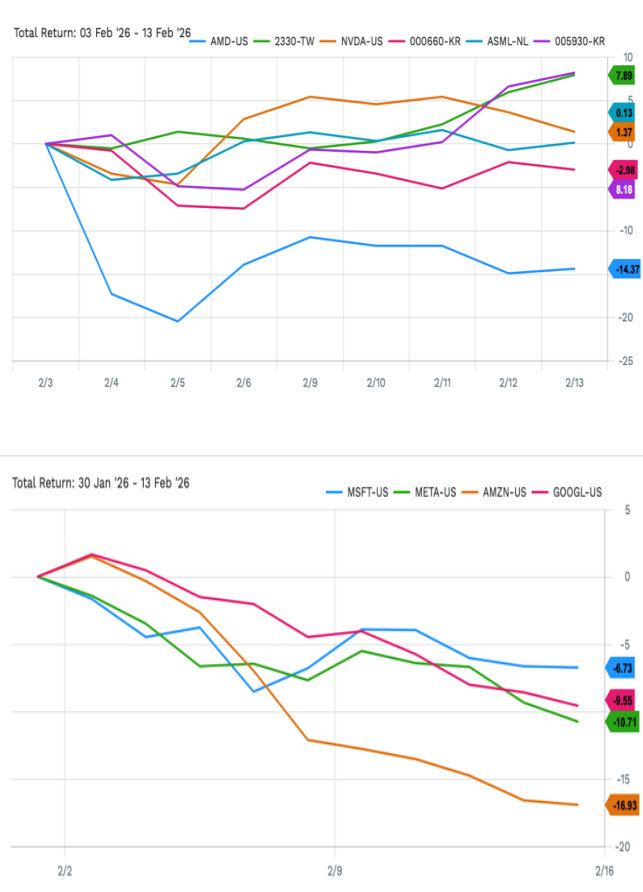
Over the past several weeks, technology market dynamics have transitioned from early signs of dispersion to a much clearer structural pattern across the AI ecosystem. In previous reports, the focus was on the initial shift away from broad multiple expansion toward earnings credibility, particularly as real yields remained elevated and investors began questioning the sustainability of AI driven capital expenditure. What was previously an emerging theme has now become more pronounced and measurable in price action across regions, subsectors, and stocks.

Figure T1: From Broad Tech to Select Winners — Mega-Cap Performance Diverges



This week, the performance of the large-cap tech sector continued to face challenges in the platform and application layers, while the AI supply chain remained resilient. Nvidia declined roughly 3.8%, AMD fell nearly 3%, while Microsoft slipped modestly and Apple underperformed sharply with a drop of more than 7%. Taiwan Semiconductor was up about 5.5% in the same window, outperforming not only the broader market but also most of the large-cap tech peers. The S&P 500 itself fell approximately 1.5% over the same window, indicating that weakness in tech was not purely macro-driven but tied to sector-specific repricing.

Figure T2: AI Supply Chain Outperforms as Hyperscaler Exposure Reprices

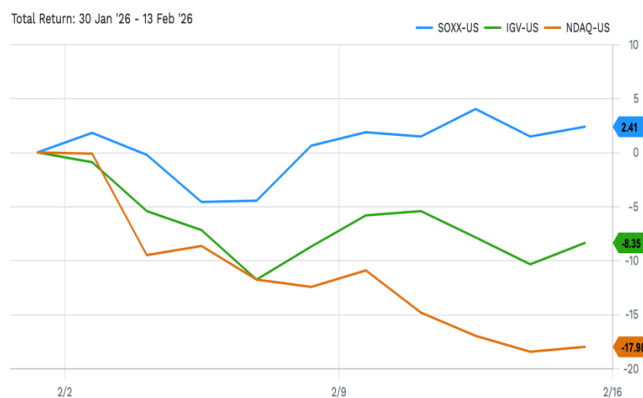


If we look at the broader market in the last two weeks, Feb 2-13, reinforces this developing structure. Semiconductor and hardware-linked names continued to show strength, with Nvidia up nearly 5%, AMD rising more than 3%, ASML gaining about 4.5%, and TSMC climbing over 8%. At the same time, Apple was down by 7% and Microsoft moved lower, highlighting that while the AI theme remains intact, leadership within it has become more concentrated. Compared to earlier weeks, the distinction between supply-chain beneficiaries and platform-led exposure is now much clearer.

This shift is particularly visible in memory producers, which have emerged as some of the strongest performers globally. Samsung gained nearly 9% and a gain of around 20% in the short term horizon, while SK Hynix also delivered solid gains. The strength in these companies indicates that there is a continued demand for high bandwidth memory, which will be required for

AI compute and other activities in the data centers. This serves to further reinforce the idea that the physical buildout phase of the AI cycle continues to accelerate, even as market sentiment on the monetization of the platforms becomes more conservative.

Figure T3: Semiconductors Lead While Software Underperforms Amid Monetization Concerns



Beyond chips and memory, the infrastructure layer remains relatively stable. Arista Networks, positioned at the center of AI data center networking, traded largely flat over the most recent week and modestly positive over the broader period. The stability in this space serves to indicate that the demand for hyperscaler infrastructure expansion continues to sustain itself. The market does not seem to be indicating a reduction in AI investment at this point in time but instead appears to be recalibrating expectations around the level at which this investment will be turned into margins and earnings for the companies that are financing this investment.

The difference can be seen particularly in the case of companies like Amazon, which saw a decline of almost 4.8% in the most recent week and a decline of more than 18% over the two week period. Similarly, companies like Meta saw a decline of more than 5.5% in the most recent week and a decline of almost 9% over the two week period. This marks a notable change from earlier phases of the cycle when hyperscalers were treated as the primary beneficiaries of AI enthusiasm. The current price action suggests increasing sensitivity to capital intensity, free cash flow implications, and the timing of returns on AI related spending.

Software and platform oriented names also continued to face pressure. SAP declined in Europe. In earlier reports, this pressure appeared episodic and event-driven. Now, it is becoming a more persistent trend, reflecting growing concerns around pricing power, margin sustainability, and long term defensibility in an AI native environment.

Taken together, the past few weeks reveal a clearer pattern about the AI cycle itself not weakening, but leadership within it is becoming more defined. Earlier in the year, markets were broadly rewarding exposure to the AI theme. Now, performance is increasingly concentrated in the infrastructure and supply chain layers which includes chips, memory, manufacturing, and hardware where demand visibility is strongest and revenue conversion is more immediate.

This suggests that the market has moved past the initial hype and excitement phase and into a more advanced stage of the cycle. Instead of rotating between different sectors, the market appears to be increasingly allocating to segments of the AI cycle that have more pronounced earnings visibility. The best-performing stocks continue to come from companies that enable AI deployment at scale, while those that finance that growth are increasingly scrutinized.

Section 2: Market Sentiment

The shift described above, where leadership is narrowing inside the AI ecosystem, is now clearly reflected in valuation metrics and investor positioning. The story is no longer just about who is growing, but about what investors are willing to pay for that growth. Over the past week, valuation compression has become more visible in the broader large-cap technology complex, even as the overall market remains relatively stable.

Forward price to earnings ratios across mega-cap technology have drifted lower. This has not been driven

by earnings downgrades, but by a decline in the multiple investors are willing to assign to future profits. In simple terms, the discount rate applied to long-term cash flows remains high enough that the market is less tolerant of delayed returns. Companies that are guiding for elevated capital expenditure without clear near-term margin expansion are seeing that reflected in lower valuation multiples.

At the same time, equity risk appetite has cooled modestly. The CBOE Volatility Index, often referred to as the VIX and commonly used as a gauge of expected market volatility, moved higher during the week before stabilizing. While levels remain far below stress territory, the uptick signals that investors are paying slightly more for downside protection. This is consistent with the recent narrowing in market breadth. Fewer stocks are driving index performance, and rallies are becoming more selective rather than broad based.

Fund flow data reinforces this point. Exchange traded funds focused on semiconductors and hardware continue to see relative inflows, while flows into broad growth and software oriented funds have moderated. This suggests that investors are not exiting the AI theme, but reallocating within it toward segments with clearer revenue visibility and shorter cash conversion cycles. In other words, confidence remains in the buildout phase, but conviction is lower in the monetization phase.

Options activity over the past week also indicates a more cautious tone. There has been an increase in put option volume relative to call options in several large-cap technology names. A put option gives the holder the right to sell a stock at a predetermined price and is often used as downside insurance. The rise in protective positioning does not imply panic, but it does suggest that investors are less willing to hold unhedged exposure at current valuations.

Another important development this week has been the behavior of equity factor performance. Value stocks, defined as companies trading at lower price to earnings or price to book ratios, have held up better than high growth names in recent sessions. Defensive sectors such as utilities and healthcare have also shown relative strength. This rotation is subtle rather than dramatic, but it aligns with the broader theme of selectivity and caution. When defensive sectors begin to outperform alongside resilient supply chain names, it often reflects a market that is recalibrating risk rather than aggressively adding it.

Corporate buyback announcements have provided some support to sentiment, particularly among large firms with strong balance sheets. However, the market reaction to these announcements has been muted compared to earlier in the cycle. Investors appear more focused on free cash flow sustainability than on financial engineering. This again reinforces the idea that valuation discipline has returned to the forefront.

Taken together, recent price action and positioning data suggest that the equity market is entering a more mature phase of the cycle. The initial expansion in multiples tied to enthusiasm around artificial intelligence has given way to a more sober assessment of earnings durability, capital intensity, and balance sheet strength. Sentiment is not bearish, but it is no longer euphoric. Investors are differentiating more aggressively between companies that generate cash today and those that promise it tomorrow.

This evolving sentiment backdrop is critical for understanding the next phase of market movement. If real yields remain stable or decline further, valuation pressure could ease and support a rebound in longer duration names. However, if inflation surprises or growth data reaccelerates, pushing yields higher again, the market's current preference for resilience and cash flow visibility is likely to deepen rather than reverse.

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