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Macro Repricing, Sector Divergence, and the Broadening of the AI Trade

- **Interest Rates and Yield Curve Dynamics:** How rising oil prices, firmer inflation expectations, and shifting rate-cut assumptions reversed February’s bond rally.
- **Technology Sector and Valuation Dynamics:** Why higher real yields and AI capex concerns pressured mega-cap tech while creating clearer differentiation within the sector.
- **European Equities Under Pressure and the Broadening of the AI Trade:** How geopolitical risk drove a broad European sell-off even as Marvell and Broadcom showed that AI leadership is expanding beyond a single name.

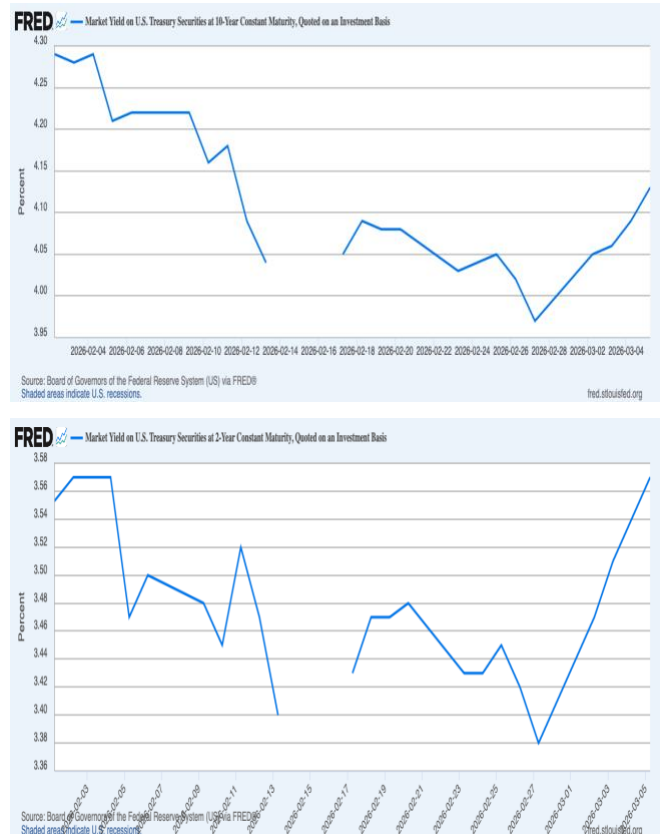
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U.S. Treasury yields moved higher across the week of March 2–6, effectively ending the bond market rally that had dominated much of February. The increase in Treasury yields was largely driven by the surge in global oil prices following geopolitical tensions in the Middle East. As a result, investors demanded a higher return for holding long-term debt, pushing the 10-year Treasury yield to around 4.13%. This marked the largest weekly move in yields since the start of the year. In the U.S. Treasury market, the nominal 10-year yield had declined steadily throughout February, falling from around 4.27% at the start of the month to roughly 3.97% by late February. However, yields rebounded at the start of March, rising back to approximately 4.13%. This reversal suggests that the bond rally has stalled as markets reassess the outlook for inflation and the likely path of monetary policy.

Figure 1: U.S. Treasury yields declined throughout February before rebounding in early March as geopolitical tensions and rising oil prices pushed inflation expectations higher.



At the front end of the curve, the 2-year Treasury yield moved back above 3.55% after reaching a trough in mid-February. Because the 2-year yield is highly sensitive to expectations for Federal Reserve policy, this move suggests that markets may be returning to a “higher for longer” view on interest rates.

Real yields followed a similar pattern. The 10-year real

yield continued to fall during February before rising again to around 1.8% in the first week of March. This points to a tightening in real financial conditions. Higher real yields tend to weigh on long-duration assets, particularly technology stocks, because they increase the discount rate applied to future earnings.

Yield curve spreads remained positive, indicating that markets continue to lean more toward a soft-landing scenario than an outright recession. The 10Y–2Y spread stabilized at around 0.59%, while the 10Y–3M spread rebounded to roughly 0.46%. This suggests that although the improvement in growth expectations may have slowed, recession risks remain relatively contained.

Overall, the rise in both nominal and real yields suggests that the easing in financial conditions seen during February has paused. Markets are now weighing the inflationary risk created by higher energy prices against the uncertainty surrounding the timing of Federal Reserve easing.

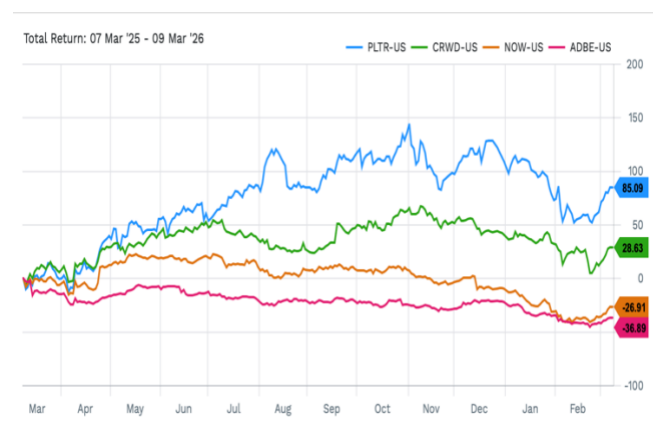
Technology Sector and Valuation Dynamics

Technology equities faced considerable volatility during the week, as rising geopolitical risks and growing doubts around artificial intelligence investment weighed on parts of the sector. Investors appear to be shifting their focus away from AI as a broad narrative and toward companies that are more likely to generate immediate and visible economic benefits from the technology. At a recent Morgan Stanley technology, media, and telecom conference, one technology investment banking executive reportedly described the current software backdrop as “wartime, not peacetime,” reflecting a more competitive landscape shaped by AI.

Investors are increasingly differentiating between companies likely to benefit from artificial intelligence

and those likely to be disrupted by it. Firms with exposure to deterministic enterprise software, such as payroll systems or financial management platforms, may be better positioned to benefit because precision and reliability remain critical in those areas. In contrast, companies whose products are centered primarily on organizing or retrieving information may face greater pressure, as AI-based interfaces can increasingly perform similar functions more efficiently.

Figure 2: Artificial intelligence is reshaping the software industry, with companies such as Palantir significantly outperforming peers while others face valuation pressure.



Technology valuations also weakened as investors reassessed the scale of capital expenditure required to support AI infrastructure. Several major technology companies, including Microsoft, Amazon, Nvidia, Apple, and Alphabet, saw notable valuation pressure during the first half of 2026 as markets questioned whether the heavy capex needed for AI infrastructure would generate sufficient returns. More broadly, this valuation compression reflects a shift in sentiment, with investors becoming more focused on near-term earnings visibility rather than distant AI-related upside.

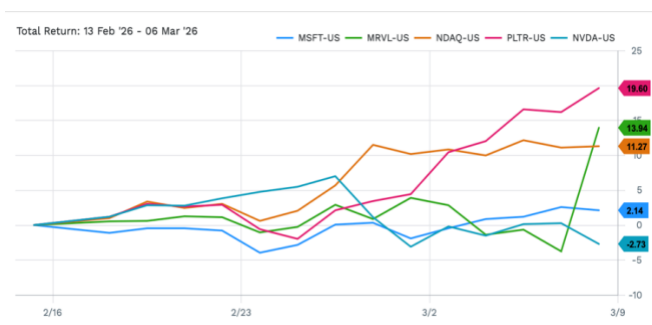
Figure 3: Large-cap technology companies have experienced valuation compression in 2026 as investors reassess whether heavy AI capital expenditures will generate sufficient returns.



Despite the broader weakness in technology valuations, some companies linked to AI infrastructure and defense technologies delivered strong performance during the week. Marvell Technology, for example, outperformed after providing positive guidance tied to continued demand for AI-related data-center infrastructure. The company reported revenue above expectations and indicated stronger revenue prospects for 2027.

At the same time, Palantir Technologies significantly outperformed the broader technology sector, rising by around 15% during the week following the U.S. strike on Iran. The company's strong performance reflected the view that it could benefit from rising geopolitical tensions, given its close ties to U.S. military and intelligence agencies. With roughly 60% of its revenue coming from government contracts, Palantir is increasingly seen as a beneficiary of higher defense spending. Its platforms, including Maven Smart System for military intelligence and targeting, position the firm as an important player at the intersection of artificial intelligence and national security.

Figure 4: AI infrastructure and defense-linked companies have outperformed traditional mega-cap technology firms during recent market volatility.



Overall, this week's developments highlight a growing divergence within the technology sector. While concerns over AI spending and higher real interest rates continue to pressure the valuations of some large technology firms, companies linked to AI infrastructure, cybersecurity, and defense-related analytics are increasingly being viewed as structural beneficiaries of both the AI investment cycle and rising geopolitical tensions.

Against this backdrop of tighter financial conditions, rising geopolitical risk, and increasing divergence within technology, equity markets during the week of 1–7 March showed two particularly clear patterns: broad weakness in European stocks and continued strength in selected AI infrastructure names.

European Equities Under Pressure and the Broadening of the AI Trade

The week of 1 March to 7 March 2026 offered two very different but equally important equity market stories. In Europe, stocks suffered their worst week in almost a year as investors reacted to rising geopolitical tension, higher oil prices, and weaker economic sentiment. At the same time, in the United States, Marvell and Broadcom reinforced a different market theme: the AI trade is no longer seen as a story driven only by Nvidia, but increasingly as a broader ecosystem trade across custom chips, networking, and data-center infrastructure. Taken together, these developments show how equity markets can be moved by both top-down macro shocks and bottom-up company guidance.

In Europe, the main headline was the sharp sell-off in regional equities. On 6 March, Reuters noted that the pan-European STOXX 600 fell 5.5% over the week, marking its biggest weekly decline in close to a year, while major markets such as Frankfurt and Paris

recorded their sharpest weekly falls since April 2025. Madrid also posted its biggest weekly drop in four years. This was not a stock-specific move but a broad de-risking across the market, which is why it matters for an equity desk: it was a clear index-level repricing of risk rather than a collection of isolated earnings disappointments.

The sell-off was driven mainly by a worsening macro backdrop. The ongoing Middle East conflict kept geopolitical risk elevated and pushed oil prices to multi-month highs, immediately raising concerns about inflation and growth. This mattered especially for Europe because the region remains more exposed to imported energy. Investors increasingly began to worry about a stagflationary environment, meaning a mix of slower growth and higher inflation. At the same time, weak U.S. labor market data added another layer of concern, clouding the outlook for global growth and rate expectations. In simple terms, the market began to fear that growth was softening just as energy costs were rising.

The way this showed up in equities was through a classic risk-off rotation. When investors turn more defensive, they usually sell sectors that are more sensitive to the economic cycle and favor areas that can hold up better in uncertainty. European banks came under pressure again, falling 1.7% on the day, while healthcare stocks also slid. By contrast, the energy index was the only STOXX 600 sector index to close higher on 6 March, rising 0.8%, and defense names such as Rheinmetall and Leonardo also gained as investors priced in the prospect of stronger weapons demand. This is an important market lesson: even in a broad sell-off, relative winners and losers still emerge, and sector performance often reveals what the market is worried about most.

Another important feature of the European story was the

rise in volatility. Europe's volatility index, often referred to as the region's fear gauge, spiked to its highest level since April earlier in the week and remained elevated into Friday. That matters because higher volatility is not just a sign of nervous sentiment; it also affects positioning, hedging costs, and investor appetite for risk. For equity markets, rising volatility often means lower conviction, wider dispersion across sectors, and faster short-term repricing as investors react to changing headlines.

If the Europe story was about macro pressure on the index, the Marvell and Broadcom story was about the market rewarding strong company-level guidance within a powerful structural theme. Marvell forecast fiscal 2028 revenue approaching \$15 billion, well above analyst expectations, and said fiscal 2027 revenue growth would exceed 30%. Its shares surged after the release. A day earlier, Broadcom projected AI chip revenue above \$100 billion by 2027, while first-quarter revenue rose 29% to \$19.31 billion and AI revenue more than doubled to \$8.4 billion. In both cases, the market reaction was driven less by the past quarter alone and more by the visibility these firms provided on future demand.

What made these announcements especially important was what they suggested about the next phase of the AI trade. For much of the last year, investor attention in AI-linked equities was heavily concentrated in Nvidia, which dominates the accelerator market. However, the updates from Marvell and Broadcom strengthened the view that the beneficiaries of AI spending are becoming broader. Both companies help cloud and hyperscale customers design custom chips tailored to specific data-center workloads, offering alternatives or complements to Nvidia's more general-purpose processors. Broadcom also works with customers such as Google and OpenAI on custom processor development. This means the AI investment theme is widening beyond one

dominant name and into a larger part of the semiconductor and infrastructure supply chain.

The fundamental driver behind this is capex. Alphabet, Microsoft, Amazon, and Meta are expected to spend at least \$630 billion this year building AI infrastructure. That spending supports demand not only for high-end chips, but also for interconnect solutions, networking hardware, servers, and custom silicon. Marvell said that growing demand for custom application-specific integrated circuits and interconnect technologies was supporting its outlook, while Broadcom said its visibility into 2027 had improved dramatically as demand for custom chips continued to surge. In other words, the market is beginning to treat AI less as a narrow software or single-stock story and more as a broad infrastructure build-out.

This matters for equity investors because it changes how leadership within the market is understood. A narrow trade is one where most of the gains are driven by a small number of names. A broader trade is one where other companies across the value chain begin to participate. Marvell and Broadcom helped support the idea that AI leadership may be broadening into custom compute and networking. That does not mean Nvidia becomes less important, but it does mean investors are searching for second order and third-order winners. As a result, the market is paying more attention to supply-chain exposure, product mix, customer concentration, and forward guidance across the semiconductor space.

The key conclusion from this week is that markets were sending two messages at once. First, Europe showed how fragile broad equity sentiment can become when geopolitical shocks threaten growth and inflation at the same time. Second, Marvell and Broadcom showed that investors still have strong appetite for companies with real earnings leverage to AI infrastructure spending. For an equity desk, that is a valuable contrast. It highlights

why market analysis cannot stop at the headline index move. It must also look underneath the surface at sector rotation, volatility, guidance, capex trends, and where leadership in the market is broadening.

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