



## Aptus February 2026 3-Pointers Highlights

### Market Overview

February delivered a stable headline result despite meaningful turbulence beneath the surface. The S&P 500 finished essentially flat, yet daily participation felt far more volatile than index returns imply. Performance dispersion widened sharply, with a growing gap between the strongest and weakest constituents. Rather than signaling broad deterioration, the month reflected a leadership rotation and positioning reset. Mega-cap technology experienced valuation compression, while smaller capitalization and more cyclical stocks advanced. The average stock outperformed several of the largest constituents, highlighting expanding breadth even as prior leaders paused.

### Growth and Margin Durability

Despite geopolitical headlines and policy noise, macro fundamentals remain constructive. Nominal GDP continues to expand at a healthy pace, real growth remains positive, and corporate earnings extended their streak of double-digit year-over-year gains. Operating margins remain firm across much of the index. Revenue growth and profitability expansion among the average company provide insulation against isolated sector weakness. Earnings growth and margin durability remain the primary drivers of equity performance.

### Rates, Bonds, and the Policy Backdrop

February brought a rally in Treasuries, with yields declining across the curve. Markets now price roughly two to three rate cuts over the remainder of 2026, supported by moderating inflation and softer government-related GDP components. Persistent fiscal deficits and steady nominal growth, however, complicate the case for materially lower long-term rates. Lending at yields near inflation while deficits remain elevated raises longer-term sustainability concerns. While bonds delivered positive returns during the month, the traditional stock-bond relationship may remain less reliable in the current fiscal regime.

### Mega-Cap Compression and Expanding Breadth

Valuation compression within the largest technology companies has been a central theme. The premium historically assigned to the “Mag 7” relative to the broader S&P 500 has narrowed meaningfully. Importantly, weakness in select mega-cap names has not translated into index declines. Strength among the remaining 493 companies has provided offsetting support, reinforcing improved breadth. For material downside to occur, deterioration would likely need to develop simultaneously in both mega-cap earnings and broader profitability trends. At present, earnings momentum remains supportive.

## AI, Software, and Competitive Reassessment

Software has been among the most pressured segments. Performance declined sharply even as forward revenue expectations remained intact, indicating valuation compression rather than immediate fundamental collapse. Markets appear to be reassessing competitive durability amid accelerating artificial intelligence adoption. While uncertainty exists, productivity gains and continued hiring trends challenge narratives of widespread displacement.

## Looking Ahead

Forward earnings expectations for 2026 and 2027 remain constructive, with consensus projecting mid-teens growth. Earnings trajectory (not headlines) continues to anchor long-term market direction. Volatility may persist as markets digest policy and technological shifts, but disciplined allocation and risk management remain key. Leadership may rotate, yet the underlying earnings engine continues to support the broader market.

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