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Monthly Insights: March Outlook

Information Technology Sector

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Sector Price Action & Performance Review: Information Technology Sector



The Information Technology Sector finished February on a sour note with price breaking to multi-month lows on a downside violation of its 200-day moving average

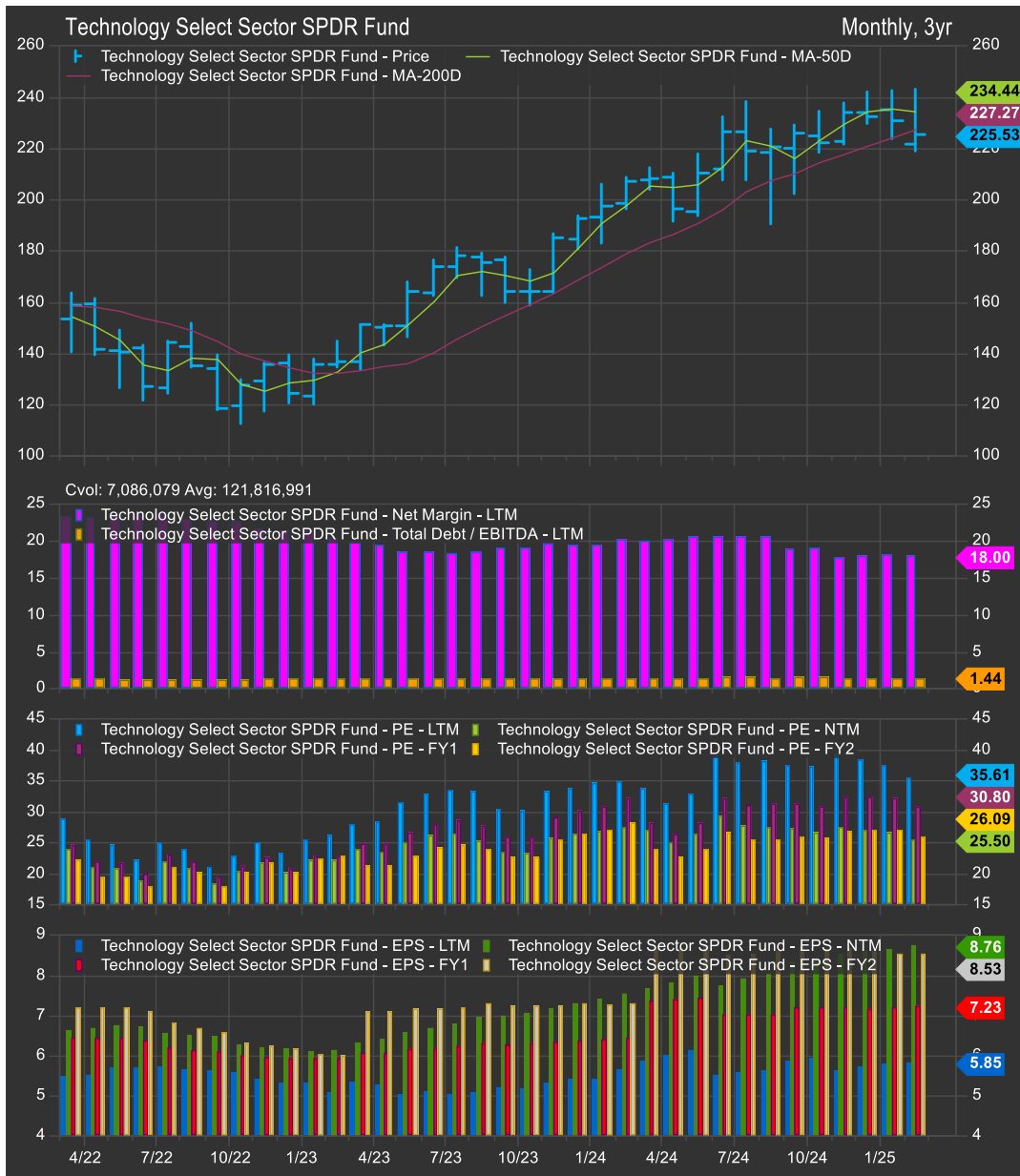
While the sector managed a marginal new high in 2025, price action has been choppy as we've seen a broadening pattern (consolidation with higher-highs and lower-lows) which is typically bearish

At the market level we are seeing signs of rotation away from the Mega Cap. Growth trade and towards Value as optimism around an easy Fed, economic soft landing and optimism around de-regulation are running into economic realities of slowing growth and persistently high interest rates

We are continuing to be underweight the Information Technology sector in this environment. Given some signs of economic stagnation, it seems investors are growing skeptical of the AI panacea they have been bidding on for the past 2 years. While we do expect the bull to ride again, we think the sector is vulnerable and lacking a catalyst in the near-term

We start March out of the Information Technology Sector with an **UNDERWEIGHT allocation of **-7.17%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Information Technology Sector



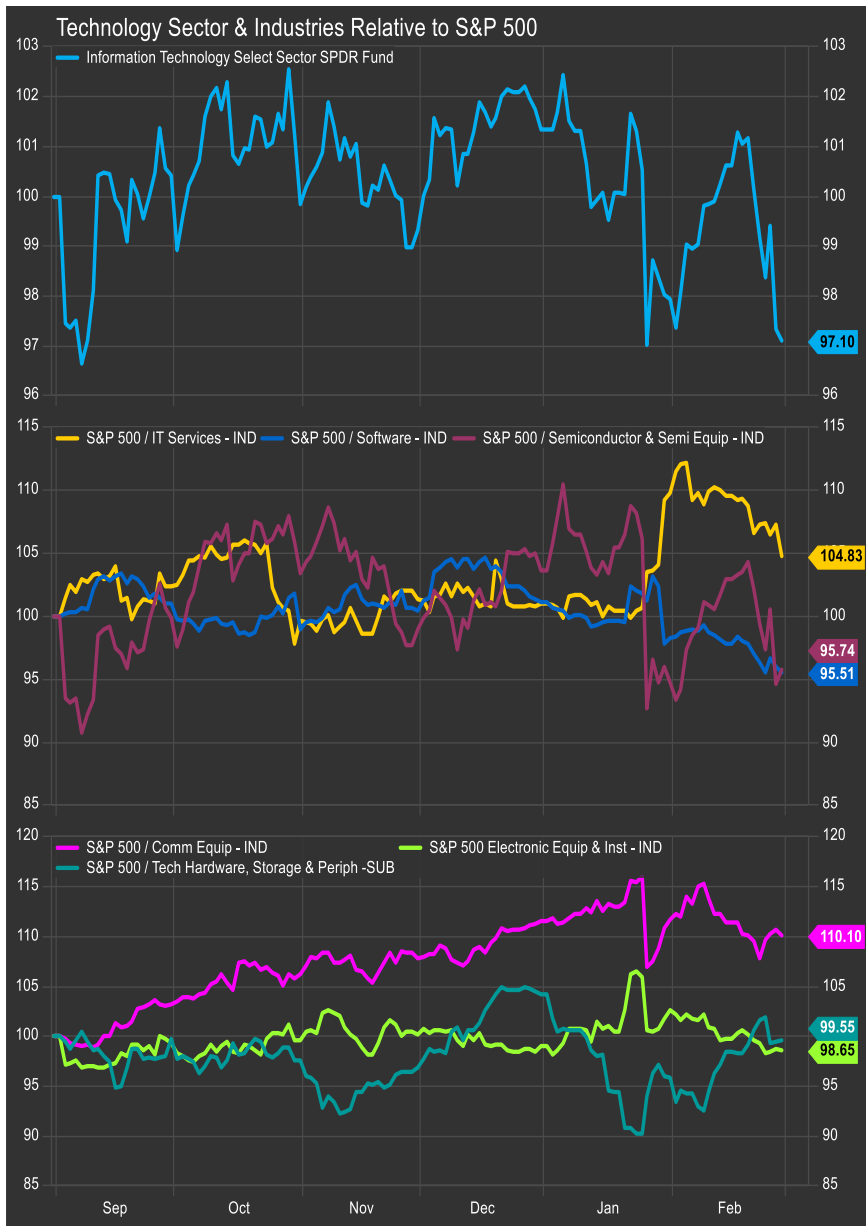
The chart (left) shows S&P 500 Information Technology Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins contracted in the back half of 2024 (chart, panel 2) while valuation multiples have been steadily expanding based on current and (panel 3).

Consensus forward earnings estimates still project earnings for the sector to grow >20% YoY which is a stout expectation in the face of weakening economic data in the near-term

Present valuations >35X are justified by future earnings growth, but that represents a lot of good news that's already been priced in. The bar is high for the sector.

Industry/Sub-Industry Performance and Breadth: Information Technology Sector



Information Technology Industries (chart, left): Tech Hardware stocks have turned higher on steady performance from AAPL and a strong quarter from SMCI

The rest of the industries within the sector corrected sharply in February with Semiconductors now lagging over the trailing 6-month period

Information Technology Sector Internals (chart, right): Market internal trends for the Info Tech sector have deteriorated over the past 6-months...January saw a bid to change the trend, but we are now seeing the % of stocks below their 200-day m.a. at the lowest level in 6-months...negative divergences are in place

Top 10/Bottom 10 Stock Level Performers: Information Technology Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
SMCI	Super Micro Computer, Inc.	Bullish Reversal	24,605.7	1.42	2.7	#N/A	-8.7	48.9	18.6	-13.7	
INTC	Intel Corporation	Downtrend	102,750.9	-4.31	-2.6	0.17	-4.5	21.6	0.7	13.8	
IBM	International Business Machines Corporation	Bullish Reversal	234,078.6	2.58	2.6	2.30	18.3	14.4	12.4	21.9	
VRSN	VeriSign, Inc.	Bullish Reversal	22,503.4	0.33	0.3	0.00	19.0	13.3	24.5	24.1	
ADI	Analog Devices, Inc.	Consolidation	114,104.3	4.59	3.6	0.82	2.3	11.5	6.8	-5.1	
TXN	Texas Instruments Incorporated	Consolidation	178,416.2	0.16	0.1	1.41	-2.7	11.1	-0.5	-11.5	
FFIV	F5, Inc.	Bullish Reversal	16,859.2	1.96	2.3	0.00	29.8	10.2	17.3	39.8	
FTNT	Fortinet, Inc.	Bullish Reversal	83,056.9	0.34	0.2	0.00	27.1	9.9	15.2	35.7	
CSCO	Cisco Systems, Inc.	Bullish Reversal	255,048.3	1.80	2.5	1.99	16.8	9.6	9.3	23.3	
ROP	Roper Technologies, Inc.	Consolidation	62,766.6	1.52	1.2	0.31	-0.4	8.1	4.1	-0.7	

SMCI led tech stocks higher, but despite outperforming by almost 50% in February the stock still lags the S&P 500 by 13% over the past 6-months

The rest of the top performers represent a “Value-y” group of stocks within a predominantly pro-Growth sector

The decliners list features a number of software companies which highlights one of our concerns for the sector, AI skepticism isn’t the only headwind!

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
SWKS	Skyworks Solutions, Inc.	Downtrend	10,715.0	1.20	1.9	1.79	-36.5	-23.3	-21.4	-43.6	NT OVERSOLD
ZBRA	Zebra Technologies Corporation Class A	Retracement	16,187.0	1.94	2.3	0.00	-15.6	-20.6	-21.9	-15.6	NT OVERSOLD
NOW	ServiceNow, Inc.	Retracement	191,530.6	5.40	2.3	0.00	-1.5	-18.8	-10.3	7.0	
AKAM	Akamai Technologies, Inc.	Downtrend	12,127.6	3.55	6.5	0.00	-25.4	-18.0	-13.6	-26.6	NT OVERSOLD
EPAM	EPAM Systems, Inc.	Consolidation	11,692.6	1.41	1.8	0.00	-18.1	-17.5	-15.7	-3.4	NT OVERSOLD
CRM	Salesforce, Inc.	Consolidation	285,042.5	2.92	2.6	0.18	-4.9	-15.5	-9.2	8.2	
NTAP	NetApp, Inc.	Consolidation	20,302.5	2.17	3.9	0.83	-19.9	-14.8	-17.7	-30.9	NT OVERSOLD
CDNS	Cadence Design Systems, Inc.	Retracement	68,664.1	2.88	1.9	0.00	-18.6	-14.6	-17.4	-12.0	NT OVERSOLD
GDDY	GoDaddy, Inc. Class A	Retracement	25,373.4	0.00	0.0	0.00	4.7	-14.5	-8.9	2.2	
FSLR	First Solar, Inc.	Support	14,579.7	2.12	7.2	0.00	-34.6	-13.3	-28.9	-47.6	NT OVERSOLD

Metrics:

(Formulas are in the appendix at the end of the report)

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Valuation Adjusted Earnings Growth

Higher scores preferred absent high momentum

Volatility Adjusted Income

Higher score preferred when equities and yields are moving lower

Momentum

Long higher scores, short lower scores

Economic & Policy Drivers: Information Technology Sector

Interest Rate and Inflation Uncertainty:

- January core PCE inflation rose 2.6% y/y, keeping the Fed cautious on rate cuts, which weighed on rate-sensitive growth stocks.
- Treasury yields remained volatile, with the 10Y yield falling below 4.30% before rebounding, impacting tech sector valuations.
- Fed officials, including Richmond's Barkin and Cleveland's Hammack, emphasized that inflation risks remain, reducing expectations for near-term rate cuts.

Semiconductors and AI Demand:

- Nvidia (NVDA) beat on revenue and EPS but guided gross margins lower, citing the ramp-up of Blackwell GPUs.
- Nvidia reported "extraordinary demand" for its Blackwell chips, with \$11B in revenues from that product line in Q4.
- The company also emphasized that AI reasoning models (DeepSeek breakthrough) require 100x more compute power than training models, supporting continued AI infrastructure investment.
- Broadcom (AVGO) and Marvell (MRVL) echoed strong AI-driven semiconductor demand, but weakness in legacy networking and storage chips offset gains.

Tariffs and Trade Tensions Impacting Supply Chains:

- Trump administration confirmed a 10% additional tariff on Chinese imports starting March 4, which could disrupt semiconductor supply chains.
- Tariffs on Canadian and Mexican imports (25% starting March 4) could raise costs for data center construction and telecom infrastructure.
- Apple (AAPL) flagged weaker iPhone sales in China, partly due to trade tensions and government restrictions on foreign tech.
- Cloud providers (AMZN, MSFT, GOOGL) may face higher costs if server component tariffs escalate further.

Software and Cloud Computing Trends:

- Salesforce (CRM) missed on revenue and issued weaker-than-expected FY26 guidance, renewing concerns about enterprise software demand.
- Workday (WDAY) posted a strong quarter, highlighting AI-driven growth in cloud-based HR and financial software.
- Snowflake (SNOW) guided FY26 product revenue above consensus, with analysts pointing to stronger AI-driven data demand.
- Oracle (ORCL) and Microsoft (MSFT) noted strong cloud adoption but flagged potential enterprise spending headwinds in Q2.

PC and Consumer Tech Demand:

- Dell (DELL) and HP (HPQ) both reported weaker-than-expected PC sales, though HP cited improving demand trends in the second half of 2025.
- Apple (AAPL) continued to face headwinds in China, while iPhone sales in North America were largely stable.
- Advanced Micro Devices (AMD) noted continued weakness in consumer PCs but highlighted strong AI-driven server chip demand.

Cybersecurity and Enterprise IT Spending:

- Palo Alto Networks (PANW) and CrowdStrike (CRWD) both posted strong results, with AI-enhanced security solutions driving growth.
- However, some enterprise IT budgets remain constrained, with spending focused on cost-saving automation rather than broad expansion.
- IBM (IBM) emphasized its hybrid cloud and AI-driven automation business, but legacy IT infrastructure demand remains sluggish.

Appendix: Metric Interpretation/Description (All Data Sourced From FactSet Research Systems Inc.)

Valuation Adjusted Earnings Growth

Higher scores with positive momentum preferred

Valuation Adjusted Earnings Growth (simple mean)

Relative Earnings Growth Multiple (vs. Benchmark)

Divided by

Rel. Valuation Multiple (vs. Benchmark)

Relative Earnings Growth Multiple:

Company Earnings Growth:

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) /
Restated LTM Annual Earnings

Divided by

Benchmark Earnings Growth:

Benchmark consensus mean EPS NTM / Restated Annual Benchmark
EPS

Relative Valuation Multiple

Company NTM P/E / Index NTM P/E

Volatility Adjusted Income

Higher score preferred when equities and yields are moving
lower

Volatility Adjusted Income (simple mean)

Dividend Yield Multiple

Divided by

3yr Beta Vs. S&P 500

Dividend Yield Multiple

Stock Dividend Yield (Consensus NTM)

Divided by

S&P 500 Dividend Yield (Consensus NTM)

Appendix: Metric Interpretation/Descriptions

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Cap. Weighted Earnings Growth

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings * weight of each company in the universe 1-n

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.1

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.3

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.4

Plus

12-month Excess Total Return (vs. S&P 500) * 0.2

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.