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Monthly Insights: February Outlook

S&P 500

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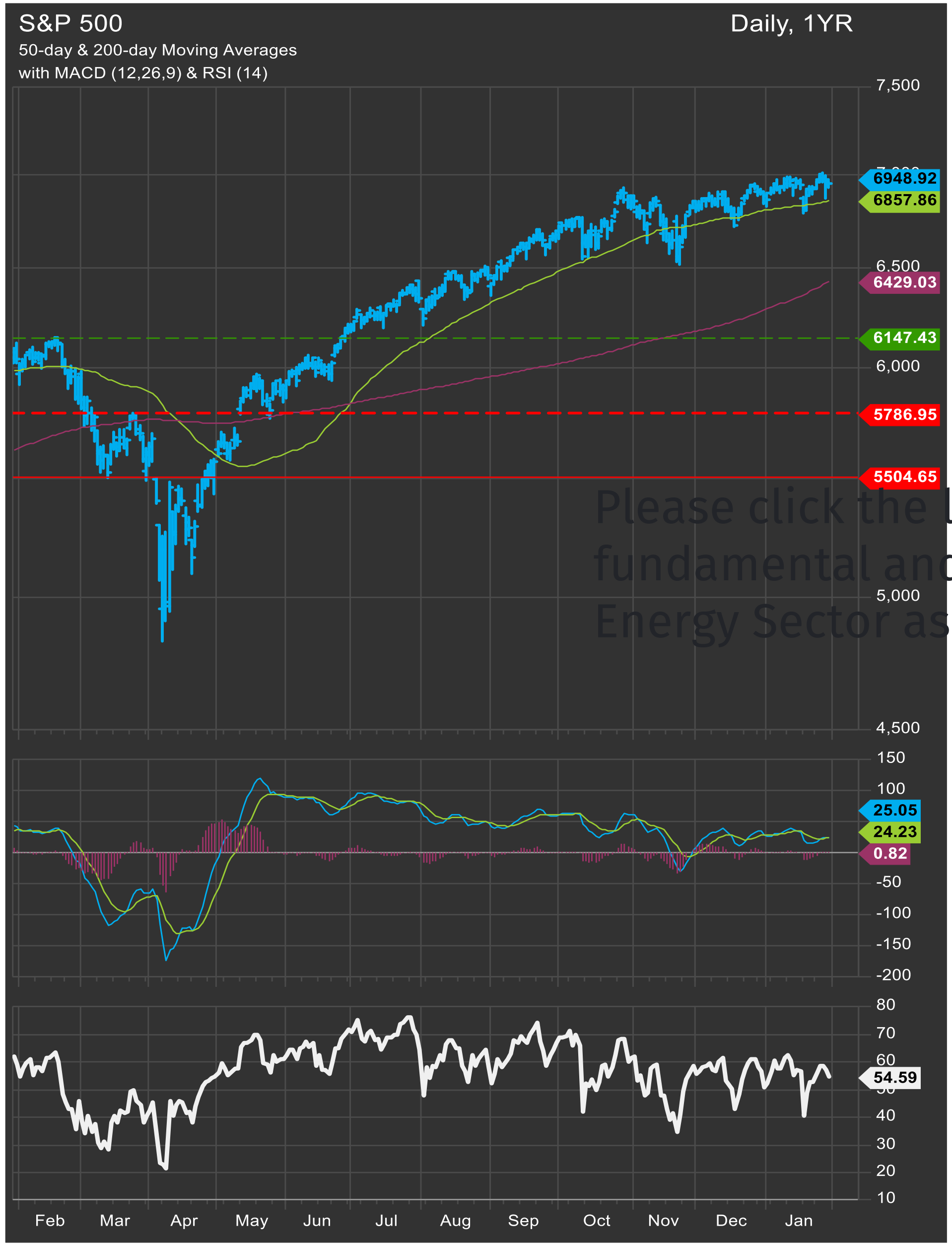
Sector Price Action & Performance Review: S&P 500



The S&P 500 printed new all-time highs in January. Buyers have consistently defended the 50-day moving average on pullbacks. Inflation readings remain tame, though commodities prices have been moving higher in the near-term and bond investors are beginning to put upwards pressure on longer-dated treasury yields.

From a technical perspective we note the formation of a negative momentum divergence in our oscillator studies since as far back as May of 2025. This is a potential concern as an indication of diminishing buyer enthusiasm. However, this is also how the market has behaved each time the AI trade has valued but and investors diversify positioning.

Please click the link below for our views on technical, fundamental and economic developments driving the Energy Sector as we start January

When we look at the macro and fundamental picture, we see the S&P 500 as richly valued but also supported by an economy near full employment. Margins are expanding rather than contracting to this point, earnings are robust, and the Fed has signaled it will support the economy if inflation stays on the sideline.

When we put the pieces together, we see a classic late cycle setup where inflation potential is a broad concern. Low vol. stocks have been inconsistent in offering downside protection because interest rates are not moving lower uniformly. Instead, the 10yr-2yr spread is widening, which historically keeps credit available and leads us to bet on a continued expansionary cycle, but without the luxury of loading up huge directional bets as we would want to if we were earlier in the cycle.

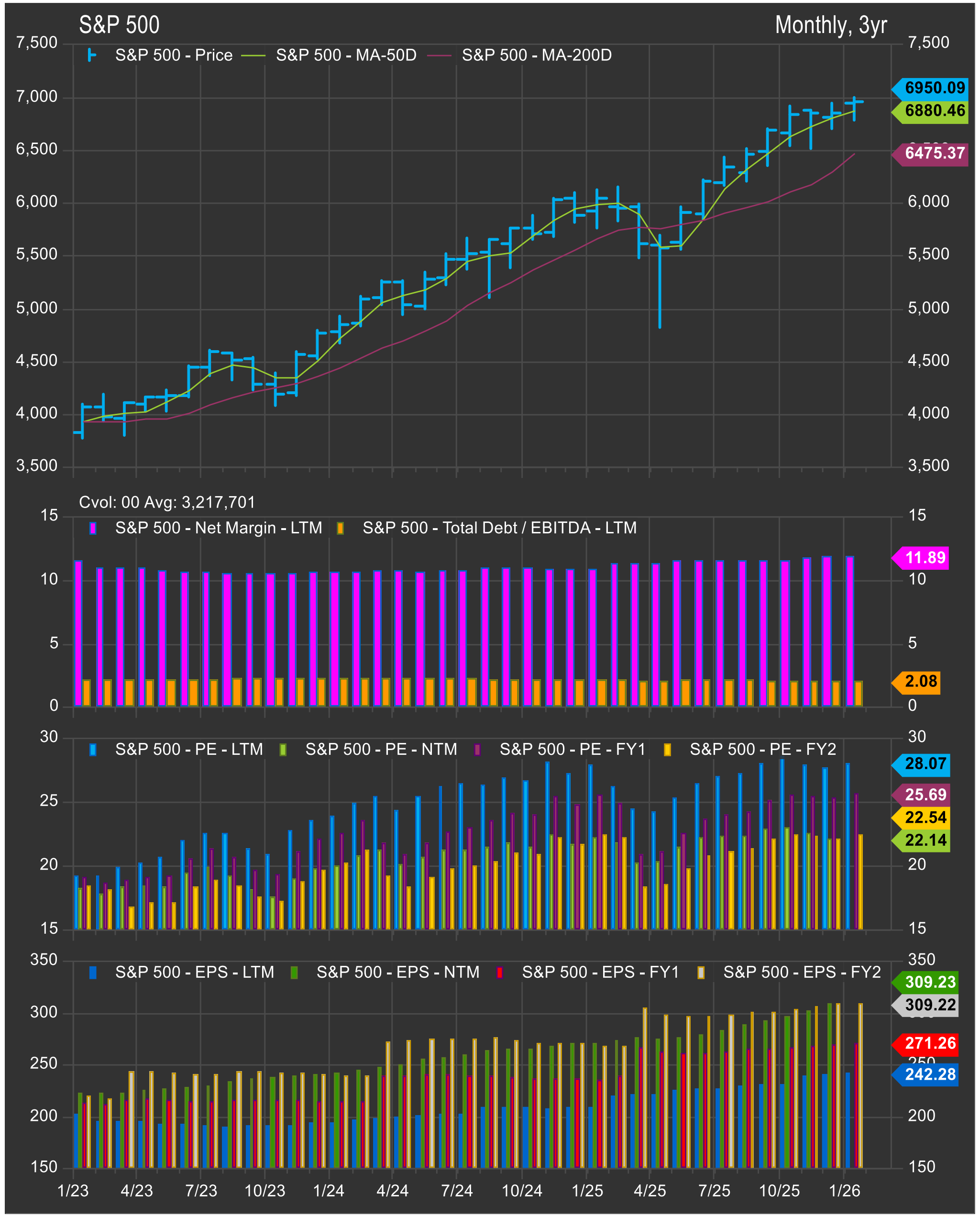
Our key takeaway is that low vol. stocks historically struggle when rates move higher. In 2022, Financials and Industrials acted as defensive havens, and we think that is a likely playbook for the present as well.

Our Elev8 Sector Rotation Model Portfolio starts January with the following sector allocations:

Elev8 Model Positions: February 2026

	BMK Weight	Elev8 Model	+/-
XLB	1.97%	5.27%	3.31%
XLI	8.43%	11.56%	3.13%
XLE	3.08%	6.17%	3.08%
XLF	12.70%	14.46%	1.76%
XLC	10.19%	11.30%	1.11%
XLK	34.86%	35.46%	0.59%
XLY	10.42%	10.72%	0.30%
XLP	4.93%	5.07%	0.14%
VNQ	1.82%	0.00%	-1.82%
XLU	2.22%	0.00%	-2.22%
XLV	9.38%	0.00%	-9.38%

Fundamentals: S&P 500



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

Net Margin for the S&P 500 ticked higher as earnings season has been better than feared. Valuations ticked higher as well after beginning to contract in November/December.

While a trailing multiple of 28x is high by historical standards, we tend to be skeptical of longitudinal comparisons that measure the current environment to the past. We would be more concerned if there was a wide valuation spread between sectors, but we note that elevated valuations are fairly wide-spread, especially with recent reflation in the Energy sector.

Financials and Energy sectors are the only sectors that screen as “cheap” in our work on a relative basis.

Industry/Sub-Industry Performance and Breadth: S&P 500

S&P 500 Sectors (chart, left): A pause in the AI/Momentum trade over the past 3 months has been marked by rotation into commodities linked sectors (top panel) while low vol. exposures (middle panel) have stabilized.

Financials re-rated lower in January, but we think some mean-reversion is likely there.

S&P 500 Internals (chart, right): As investors took profits from Tech sector outperformance the **% of stocks above their 50-day moving average** and **200-day moving average** firmed. However, we're getting some pushback on the bullish commodities trade in the very near-term.

Top 10/Bottom 10 Stock Level Performers: S&P 500

Symbol	Name	GICS Sector Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
SNDK	Sandisk Corporation	Information Technology	Uptrend	77,325.9	0.81	362.5	0.0	4.89	110.2
STX	Seagate Technology Holdings PLC	Information Technology	Uptrend	94,591.3	1.08	102.2	0.4	2.16	54.0
WDC	Western Digital Corporation	Information Technology	Uptrend	95,629.2	1.18	136.5	0.1	2.30	53.3
MU	Micron Technology, Inc.	Information Technology	Uptrend	489,911.7	0.47	119.3	0.1	1.89	52.1
MRNA	Moderna, Inc.	Health Care	Bullish Reversal	17,700.2		56.6	0.0	1.06	44.4
INTC	Intel Corporation	Information Technology	Bullish Reversal	243,656.1	3.57	43.3	0.1	1.92	34.0
LRCX	Lam Research Corporation	Information Technology	Uptrend	300,919.7	1.73	63.2	0.3	2.01	33.8
BG	Bunge Global SA	Consumer Staples	Bullish Reversal	22,294.5	0.52	26.7	1.6	0.59	28.7
SLB	SLB Limited	Energy	Bullish Reversal	73,076.9	0.67	32.0	1.6	0.84	28.5
AMAT	Applied Materials, Inc.	Information Technology	Uptrend	267,023.7	1.32	45.3	0.4	1.64	27.8

Symbol	Name	GICS Sector Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
HUM	Humana Inc.	Health Care	Downtrend	23,334.2	0.62	-30.6	1.3	0.31	-25.8
APP	AppLovin Corp. Class A	Information Technology	Uptrend	166,828.3	1.44	-7.7	0.0	2.64	-24.8
INTU	Intuit Inc.	Information Technology	Downtrend	149,906.2	0.87	-25.8	0.6	1.13	-21.0
CEG	Constellation Energy Corporation	Utilities	Retracement	89,923.9	0.99	-24.0	0.4	1.76	-20.9
ROP	Roper Technologies, Inc.	Information Technology	Downtrend	38,789.3	0.67	-26.4	0.6	0.65	-20.7
GDDY	GoDaddy, Inc. Class A	Information Technology	Downtrend	13,966.9	0.57	-26.7	0.0	1.27	-19.4
HPQ	HP Inc.	Information Technology	Downtrend	17,487.6	0.25	-29.0	4.1	1.36	-18.9
TTD	Trade Desk, Inc. Class A	Communication Services	Downtrend	14,033.0	1.14	-40.0	0.0	2.16	-17.6
PLTR	Palantir Technologies Inc. Class A	Information Technology	Uptrend	359,440.0	6.24	-16.6	0.0	1.86	-17.4
PSKY	Paramount Skydance Corporation Class B	Communication Services	Downtrend	12,152.7	0.45	-25.3	1.2	1.65	-17.3

January was marked by big hits and misses at the stock level.

AI infrastructure remains an explosive Growth trend and companies that are in the network, particularly those that were previously not considered concept stocks, have been part of a furious "catch-up" rally now that the technology is going from concept to implementation.

On the downside, Software and other outmoded Tech names are suffering poor performance.

Metrics:

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

<u>Valuation Multiple Relative to Index</u>

Premium (or discount) to benchmark valueation

<u>Momentum</u>

Long higher scores, short lower scores

<u>Dividend Yield Relative to Index</u>

Higher scores preferred when rates and equities are moving lower

<u>Near-term Overbought/Oversold</u>

Price is >10% away from the 50-day moving average Above/Below

<u>GREEN|RED</u>

Company scores positively|negatively for Elev8 Sector Rotation Model

Economic & Policy Drivers: S&P 500

January confirmed that **macro and policy signals—not earnings alone—were the dominant drivers** of U.S. large-cap equity performance. Despite frequent headline shocks, the broader setup proved more constructive than price action often implied. Labor conditions remained firm, growth data held up, and earnings—especially across technology and cyclicals—were resilient even with elevated expectations. Heading into February, conditions favor a **range-bound but upward-leaning S&P 500**, with continued leadership rotation rather than broad market deterioration.

Trade, Tariffs, and Geopolitics

Trade policy rhetoric and geopolitical risk generated the bulk of January's volatility. Tariff threats tied to Europe, South Korea, and Greenland repeatedly weighed on sentiment, only to be followed by partial reversals or de-escalatory messaging that reignited risk appetite. Iran-related headlines lifted energy prices at times but failed to produce lasting equity drawdowns.

Markets increasingly treated these events as **episodic rather than structural risks**, rewarding periods of de-escalation and fading worst-case outcomes. The result was shorter volatility cycles and quicker stabilization after policy headlines.

Federal Reserve, Rates, and Policy Signaling

The Federal Reserve remained on hold throughout January, with messaging reinforcing patience rather than renewed restraint. While rate-cut expectations edged lower, the presence of dissents and Powell's emphasis on flexibility supported confidence that policy is restrictive but stable. Speculation around a forthcoming Fed chair nomination briefly supported the dollar and longer-dated yields, though equity markets absorbed the news without sustained damage.

Monetary policy continues to act as a **background constraint**, not an accelerating drag on risk assets.

Dollar Dynamics and Cross-Asset Signals

January featured pronounced dollar volatility, including a slide toward multi-year lows before stabilizing late in the month. These moves amplified swings in precious metals and industrial commodities, where sharp rallies were followed by aggressive pullbacks as crowded positioning was unwound.

These cross-asset moves appeared driven more by **flows and positioning adjustments** than by weakening macro fundamentals. A more stable dollar environment into February would likely support equities by reducing cross-asset stress.

Growth, Labor, and the Consumer

Incoming economic data supported a narrative of ongoing, if moderating, expansion. Initial and continuing jobless claims remained near cycle lows, reinforcing labor market stability. GDP revisions confirmed solid underlying growth, while consumer confidence softened without corroboration from spending or employment trends.

The disconnect between softer sentiment and firmer hard data suggests the economy retains enough momentum to **absorb tighter financial conditions without stalling**.

Fiscal and Government Policy Risk

Government shutdown risk resurfaced multiple times during January, contributing to short-term volatility. However, negotiations repeatedly reduced the probability of a prolonged disruption, and markets showed limited sensitivity beyond brief headline-driven moves.

Fiscal uncertainty remains a **latent risk**, but its ability to derail equities appears diminished unless accompanied by broader policy dysfunction.

Earnings, AI, and Market Leadership

Earnings season underscored strong AI-related demand, elevated capital spending, and uneven reward for results due to a high expectations bar. Select megacap and semiconductor names delivered meaningful upside, while "in-line" results were often met with selling pressure. Importantly, leadership rotated across technology, cyclicals, energy, and defensives rather than narrowing aggressively.

This rotation allowed the index to consolidate without a deeper correction, preserving overall market structure.

February Outlook: Constructive but Selective

The January data set points to a **measured but constructive** outlook for February. Labor stability, manageable monetary policy, and earnings resilience provide a solid foundation, while trade and geopolitical risks remain sources of episodic volatility rather than trend-defining threats.

Base case: A choppy but upward-biased S&P 500, driven by rotation rather than multiple expansion.

Upside catalysts: Further easing of trade tensions, dollar stability, and clearer AI monetization signals.

Key risks: Renewed tariff implementation timelines or a sharper-than-expected shift in policy tone.

Bottom Line:
The balance of evidence from January supports staying engaged with U.S. equities into February. While volatility is likely to persist, the macro and policy backdrop argues for **constructive positioning and selective risk-taking**, not broad defensiveness.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS) / (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

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

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.