



Monthly Digest

FEBRUARY 2026

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The Great Rotation: Capital Flows, AI Angst, and the Question of What Comes Next

THE S&P 500'S CEILING AND THE PARADOX BENEATH IT

On the surface, the market appears stagnant. The S&P 500 has been hovering around 7,000 since late October. For a \$62 trillion market to go nearly four months without meaningful gains – even while European, UK, and Japanese indexes hit new highs – is unusual. And it is not for lack of participation: over half of S&P 500 stocks hit overbought territory at points in February, and the Dow has notched six record closes in 2026.

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Look underneath, though, and there is a great deal of movement. Capital has been shifting steadily out of the technology and AI names that powered the last three years of gains and into energy, materials, industrials, and defensive sectors. It is a meaningful rotation, and understanding what is driving it – and where it may be headed – warrants careful analysis.

THE BROADENING BENEATH THE SURFACE

The flatness of the S&P 500 masks one of the healthiest periods of market breadth in years. Fifty-one percent of its constituents were overbought heading into mid-February – a twelve-month high – despite the index itself going nowhere. Rather than selling the entire market, investors have shifted funds out of heavily weighted technology, financials, and communication services companies and into energy, materials, consumer staples, and industrials. This has kept participation remarkably broad, even while the headline index has stalled.

We view this as a sign of strength, not fragility. Market broadening typically reflects a healthy rotation, suggesting investors are seeking opportunities beyond the AI theme as technology dynamics continue to evolve. Critically, this expansion is occurring near market highs – not during a selloff, which would signal panic. When broadening occurs at elevated levels, it generally indicates genuine investor interest in new leadership rather than a flight to safety.

The conditions support this type of rotation. A prolonged economic expansion powered by consumer resilience and an accelerating capital expenditure cycle should direct capital toward small caps, banks, retail, and fundamentally sound cyclicals, particularly as investment spending flows into the physical economy. We have already begun to see this dynamic: small caps have remained in an uptrend even as the “Magnificent Seven” have corrected.

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The path, however, has not been smooth. Volatility beneath the surface has been extraordinary – the S&P 500 swung from overbought to oversold and back again within two weeks in early February, faster than at any other point in the index’s history.

In short, the market is not frozen – it is churning. Capital is being actively reallocated, and the breadth of participation suggests this rotation has structural durability rather than being a momentary anomaly. The open question is whether this broadening can propel the index higher, or whether the gravitational pull of its largest, most AI-exposed components will continue to cap overall progress.

FROM TAILWIND TO HEADWIND: AI’S CHANGING ROLE IN MARKETS

From late 2022 through mid-2025, artificial intelligence acted as a rising tide, lifting virtually all technology and tech-adjacent equities. The launch of ChatGPT in November 2022 ignited an investment boom that created trillions of dollars in market value. AI infrastructure stocks – semiconductors and hardware – and AI implementation stocks – primarily software – advanced in tandem, each rising roughly 200% by mid-2025.

Since then, that alignment has fractured. AI infrastructure names are up more than 60% over the past year and 15% year to date. AI implementation stocks, largely large-cap software companies, are down nearly 20% over the same period and 15% year to date. The market appears to be sending a clear – and uncomfortable – message: the current cohort of publicly traded software firms may not be the primary beneficiaries of the AI buildout. Some may, in fact, face disruption from it.

Recent developments have reinforced this concern. Anthropic, a Silicon Valley-based AI startup, released tools in January that automate legal workflows, contributing to a broad selloff in software stocks. Its launch of an investment banking plug-in unsettled financial services firms, while its Claude Code and Cowork platforms are reshaping the economics of software development. These advances are placing pressure on specialized providers across law, advertising, and other knowledge-work industries.

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The result is a notable paradox. Investors are reducing exposure to hyperscalers amid concerns that massive AI spending is not yet generating sufficient returns, while simultaneously retreating from software companies vulnerable to AI-driven disruption. This two-front dynamic helps explain why the S&P 500 has struggled to advance even as individual sectors post strong gains.

THE “REVENGE OF THE OLD ECONOMY” – OR SOMETHING DEEPER

Capital exiting technology has not disappeared. It has rotated – decisively – into what the Carlyle Group has termed the “revenge of the old economy.” Since October, technology and new-economy shares have declined 5–10%, while energy, metals, and mining stocks have risen 30–50%. Sector leadership has reversed sharply in 2026: energy (+20.7% year to date), materials (+16.5%), and consumer staples (+14.8%) now lead, while last year’s leaders – technology (–3.3%), communication services (–2.6%), and financials (–5.6%) – are negative.

The comparison to the dot-com era is tempting. The premise that controlling AI infrastructure equates to controlling long-term value echoes the late-1990s bet on telecom networks. Today’s companies investing billions into data centers resemble the telecom giants that built broadband capacity ahead of the bubble’s collapse.

There is, however, a meaningful distinction. In the early 2000s, large technology companies declined alongside the broader sector. Today, Microsoft, Google, and Amazon are investing heavily in physical infrastructure – constructing data centers and consuming substantial quantities of steel, copper, and power. The market has increasingly treated them as capital-intensive operators rather than pure software enterprises. In this environment, that distinction has been constructive: hyperscalers have risen roughly 30% since October, tracking closely with energy stocks.

The dividing line is less about old versus new economy and more about asset intensity. Companies tied to tangible capital investment have outperformed those reliant primarily on intellectual property and software margins.

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Importantly, this rotation may not be entirely new. Excluding AI-linked technology names, the shift began in late 2022 as interest rates rose in response to higher commodity prices – historically, a catalyst for cyclical leadership. The AI boom masked and delayed that transition. As enthusiasm normalizes, the underlying trend is becoming more visible. We believe this may represent the early stages of a decade-long physical capital expenditure supercycle.

THE ECONOMIC BACKDROP: STRONG BUT NOISY

Beneath the market rotation, the broader economy appears resilient, though the data require careful interpretation. January's jobs report exceeded expectations, adding 130,000 non-farm payroll jobs, but it included notable caveats. The Bureau of Labor Statistics did not update population controls, likely due to staffing constraints and the fall government shutdown. Severe January storms also reduced household survey response rates to 64.3%, below average.

These factors do not invalidate the data, but they counsel against over-extrapolation from a single release. February's report should provide additional clarity.

Corporate earnings have been solid. Approximately 73% of S&P 500 companies have exceeded revenue estimates and 74% have surpassed earnings expectations, with roughly three-quarters of companies reporting as of mid-February. Inflation data were also expected to moderate modestly. Several strategists have characterized the current environment as "Goldilocks" – growth firm enough to sustain profits, but not so strong as to force aggressive Federal Reserve tightening.

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WHAT IT MEANS FOR PORTFOLIOS

The ongoing rotation is not a signal to retreat, but it is a call for deliberation. Broadening participation, a resilient economic backdrop, and the emergence of a capital-intensive investment cycle collectively argue for diversification beyond the concentrated technology exposures that dominated returns over the past three years.

For long-term investors, this environment favors selectivity. Real assets, infrastructure-linked equities, and high-quality cyclicals present compelling opportunities, while the AI buildout continues to create both clear winners and structural losers that demand thoughtful differentiation.

We are not declaring an end to technology leadership. We are, however, acknowledging that leadership is evolving – and portfolios constructed for the previous cycle may not be optimally positioned for the next.

As always, our focus remains on aligning allocation decisions with each client's objectives, risk tolerance, and time horizon. We welcome the opportunity to review positioning and ensure portfolios reflect the shifting dynamics now underway.



CLIENT UPDATES



CLIENT UPDATES

Leadership Worth Celebrating

Please join us in congratulating [Tom Moran, AIF®](#) on being recognized again as one of the Naples 100.

This recognition reflects Tom's continued commitment to thoughtful leadership, long-term perspective, and building a firm grounded in education, service, and integrity.

We're proud to celebrate this honor and grateful for the steady guidance and vision he brings to our clients, our team, and the Naples community.

[SEE THE NAPLES 100 HERE](#)

Naples 100 is a third-party ranking published by Naples Illustrated in February, 2026. Neither Tom Moran nor Moran Wealth Management® provided compensation in connection with obtaining or using this ranking.

CLIENT UPDATES

2025 Form 1099s

Tax season is here, and we want to help you plan for when your 2025 Form 1099 may arrive.

Pershing will continue delivering 1099s on March 4th for accounts that now have finalized reporting from issuers (including mutual funds, REITs, and remaining UITs), following processing after the February 18th delivery.

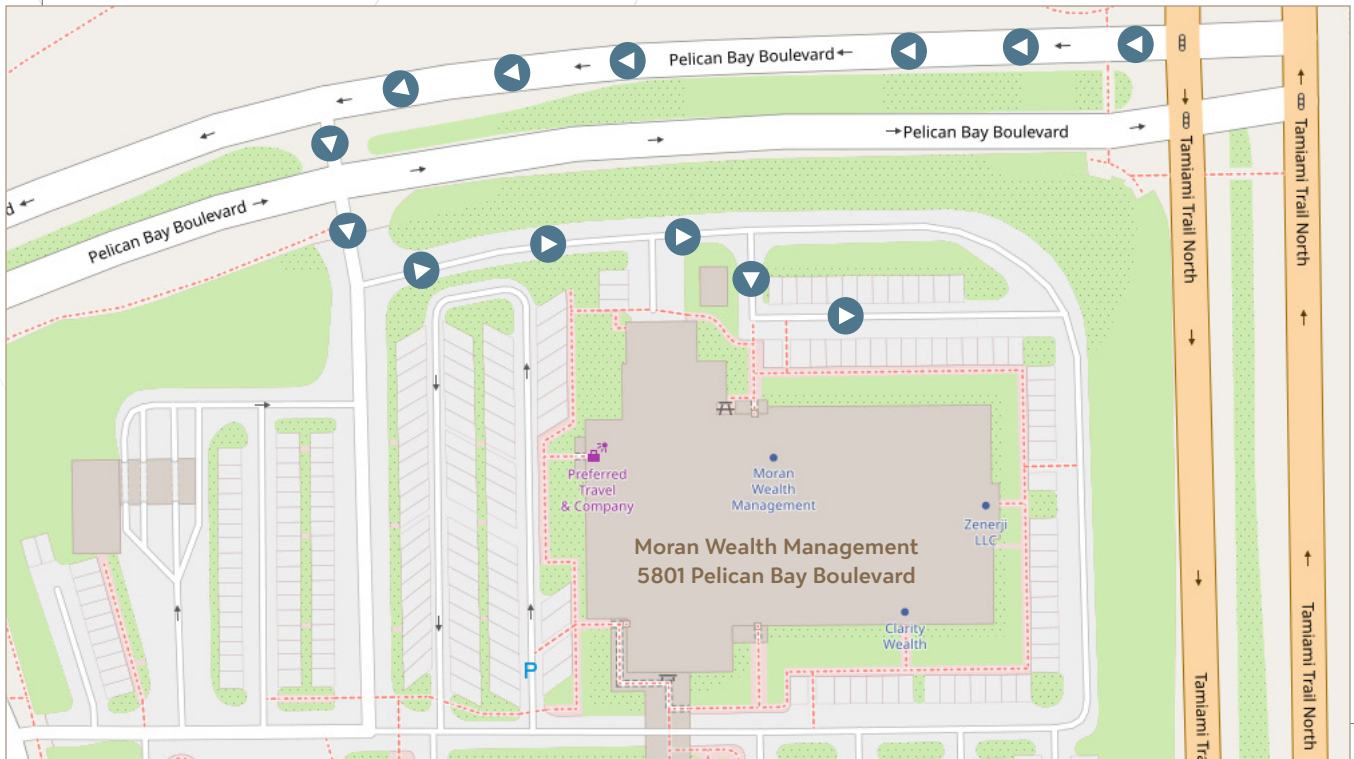
A final delivery is scheduled for March 11th for any remaining accounts, including those with pending income reclassifications and accounts holding complex non-equity securities (such as REMICs, WHFITs, and UITs).

Please note: Form 1099 timing is set by Pershing based on when issuers finalize tax reporting and when Pershing completes processing.

Documents are delivered electronically via your Pershing investor portal or by USPS based on your preferences, and you may receive a corrected 1099 if updated information is later provided.

If you have questions, please email us at support@moranwm.com. We're here to help.





CLIENT UPDATES

MWM Shred-A-Thon

Moran Wealth Management® will host a complimentary Shred-A-Thon on **Friday, March 27, from 10:00 a.m. to 12:00 p.m.**, offering clients and guests a secure and convenient opportunity to safely dispose of sensitive documents. A professional on-site shred truck will be available to ensure confidential materials are destroyed properly, helping protect against identity theft and unwanted exposure of personal information.

The event will take place at **5801 Pelican Bay Boulevard** in Naples, with the shred truck located in the North Parking Lot for easy access. Guests are encouraged to bring documents containing personal, financial, or medical information and enjoy a simple, efficient drop-off experience. We look forward to welcoming you for this practical service and another opportunity to connect with the Moran Wealth Management® community.

CLIENT UPDATES

Building Momentum with Perspective

As the year finds its rhythm, February offers a helpful checkpoint. It's a moment to confirm priorities, review progress, and stay aligned with long-term goals.

As 2026 continues, we're offering a new series of in-person seminars focused on economic momentum, labor market signals, inflation, and more! These educational sessions offer the opportunity to hear directly from Tom Moran, AIF®, ask questions, and engage in thoughtful discussions with our team about current market trends, economic conditions, and long-term planning strategies. [Click here to reserve your seat today.](#)

Prefer a more personal discussion? We would be happy to connect one-on-one. [Schedule a complimentary meeting with one of our advisors.](#) We'll talk through what matters most to you, answer questions, and outline potential next steps for consideration.

For additional perspectives, we invite you to explore our [Insights page](#) where you can find educational podcasts, videos, and articles from our team.

REGISTER FOR UPCOMING SEMINARS



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**FEATURED
MEDIA**

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Global Perspective in a Shifting Environment

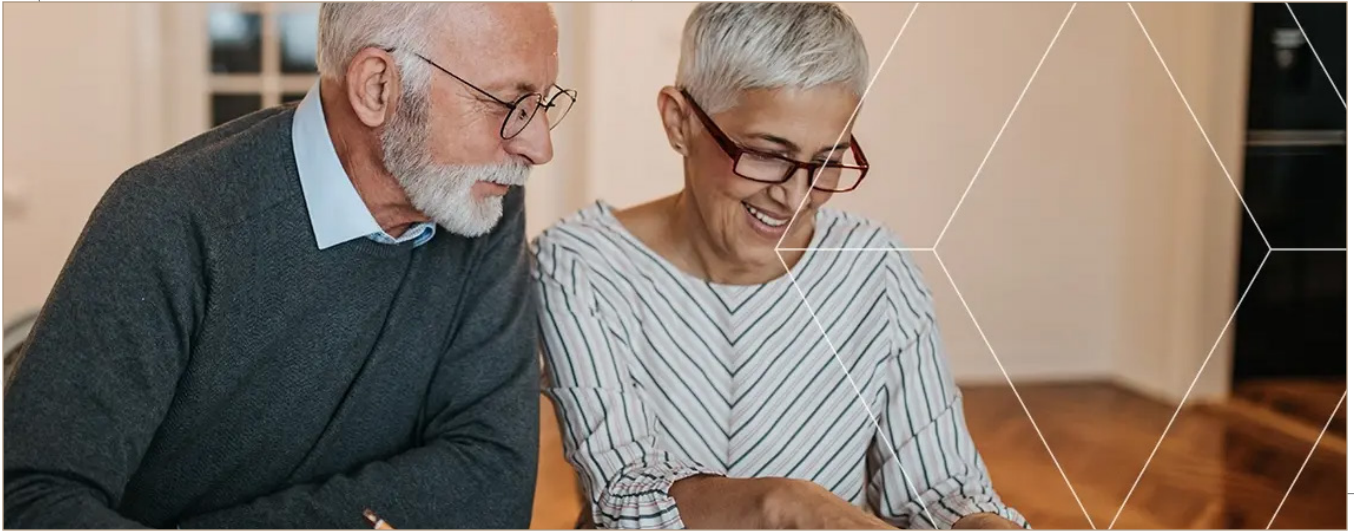
Markets don't move in a vacuum. In 2026, global policy shifts, regional tensions, and changing trade dynamics are playing a more visible role in how investors interpret risk, opportunity, and diversification.



At Moran Wealth Management®, we believe thoughtful planning starts with perspective—especially when the backdrop is changing. Our educational series is designed to bring clarity to complex topics and help clients evaluate decisions in context, from diversification and risk awareness to the long-term trade-offs that headlines don't always capture.

This month's featured videos highlight two planning themes that are becoming more central for long-term investors. [International Investing in an Era of Rising Tensions](#) examines how the global landscape has shifted in recent years—from decades of increasing globalization to a period where geopolitical risk, supply chain considerations, and country-specific dynamics play a more visible role in markets. The conversation highlights why international investing may still serve a purpose in a diversified portfolio, how long-term investors can evaluate emerging and developed markets, and why having a plan can help reduce the temptation to overreact to headlines. [The Challenges of Sustaining Wealth Across Generations](#), focuses on helping families preserve wealth through transitions. The discussion explores why inheritances can be treated like a “windfall,” how early education and proactive family conversations can shape better outcomes, and why introducing heirs to an advisory team can help create better continuity.

In addition, we've prepared [supporting insights](#) to help you approach these topics with greater clarity. Whether you're evaluating diversification across global markets or considering how to prepare your family for a future wealth transition, these resources are designed to provide perspective and encourage thoughtful review.



FEATURED MEDIA

How to Maximize Tax Benefits in Retirement Planning

As you prepare for retirement, tax planning can play a meaningful role in long-term wealth planning. The decisions you make today around tax-deferred accounts and tax-aware strategies may influence how much of your savings you ultimately keep and how efficiently your retirement income supports your lifestyle.

Tax-efficient retirement planning is not just about choosing the right accounts. It's about coordinating contributions, investment growth, and withdrawal decisions over time. For many individuals approaching retirement, the goal is to reduce unnecessary tax drag while staying aligned with personal priorities, income needs, and evolving financial considerations.

In this article, we explore key retirement tax planning concepts such as maximizing tax-deferred accounts, evaluating Roth conversion opportunities, and more...

[CONTINUE READING ON OUR BLOG](#)



HIGHLIGHTED STRATEGY

MICRO

FEATURED STRATEGY

Micro Cap Equity (MICRO)

This strategy seeks capital appreciation through the investment of micro capitalization equity securities.

WHAT IS THE MICRO STRATEGY?

- Invests in micro capitalization (typically under \$1 billion) companies with strong fundamentals and excellent growth or turnaround potential.
- Portfolio of financially sound companies with low price-to-earnings and debt ratios while growing revenues and surpassing earnings expectations.
- Strategy also considers sector exposure in current macro environment and technical momentum factors of each security.

[For more information on MICRO and other strategies, please visit our website.](#)

Your financial advisor will begin building your portfolio by first identifying your unique investment style based on a variety of factors, such as income, risk tolerance, diversification, investment and financial goals, and preferred market exposure. This will help us select a suitable strategy for you, allowing us to use a personalized approach to asset allocation and securities selection that meets your needs and yields the desired short- and long-term results.

Where Strategy Begins

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