Argent Capital Management LLC

Market Overview – February 2026

February introduced a more volatile tone to markets as investors continued to assess the evolving implications of artificial intelligence across industries. As noted in our January commentary, a divergence has emerged between companies building the infrastructure needed to support AI and those whose business models may be disrupted by it. That dynamic remained a key driver of market behavior and the shift sparked sharp rotations across sectors and increased volatility throughout the month.

New AI developments highlighted the potential for rapid change across a range of industries. Announcements around increasingly sophisticated AI tools triggered selloffs in software and software-as-a-service (SaaS) companies, with concerns quickly spreading to other market segments viewed as vulnerable to AI displacement, such as logistics, asset management, and other financial services. Even strong earnings from leading technology companies, including Nvidia, drew more muted reactions, as investors began focusing less on near-term results and more on the scale of capital expenditures needed to support the next phase of AI infrastructure. Alphabet, Amazon, Meta, and Microsoft collectively forecast roughly $650 billion in capital spending in 2026, raising questions about the timing and magnitude of returns on those investments.

Another area that drew attention was the private credit market. Blue Owl Capital restricted withdrawals from one of its retail-focused private credit funds, prompting broader concerns about liquidity and concentration risks across the growing private credit ecosystem. While the situation appeared contained, the event weighed on alternative asset managers and increased concerns in the leveraged loans and high-yield debt markets.

Against this backdrop, investors rotated toward more defensive areas of the market. Many of them fall under the newly classified HALO umbrella, or "heavy asset, low (AI) obsolescence" risk. Utilities, consumer staples, materials, and energy led performance during the month, benefiting from capital flows and macro factors, including elevated oil prices tied to geopolitical tensions. Consumer sentiment faced additional pressure after Walmart issued a cautious outlook, reinforcing concerns that persistent inflation may be weighing on household spending.

Economic data during the month remained mixed. Job growth surprised to the upside, while inflation readings showed modest improvement but remained above the Federal Reserve’s long-term target. Minutes from the latest Federal Open Market Committee meeting suggested policymakers remain cautious, though markets currently anticipate additional rate cuts later in the year if inflation continues to moderate.

For the month, major U.S. equity indices finished slightly lower. The S&P 500 declined 0.9%, the Dow Jones Industrial Average slipped 0.2%, and the tech-heavy Nasdaq 100 fell 2.3%. However, beneath the surface, the month was characterized more by sector rotations and sharp repricing across industries than by broad market weakness.

Looking ahead, artificial intelligence remains one of the most powerful long-term investment themes in the global economy. However, February served as a reminder that transformative technologies rarely advance in a straight line. As markets transition from early enthusiasm toward a clearer understanding of winners and losers, periods of volatility are likely. In this environment, maintaining our disciplined focus on durable businesses with the ability to adapt remains critical.

As a reminder, we are 100% employee-owned, and we thank you for your business and your interest. If you like our market letters and my videos, we hope you will share them with friends. For information on our five successful equity strategies – Large Cap, Dividend Select, Mid Cap, SMID Cap, and Small Cap, please contact clientservices@argentcapital.com.

Sincerely,

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