



Rotation Continues, Being Active is Key

Friday's CPI inflation number showed another deceleration to 2.39%, confirming that the economy is enjoying accelerating growth with decelerating inflation, the goldilocks scenario. This is great news for investors as this backdrop is typically favourable to asset prices and to equities in particular.

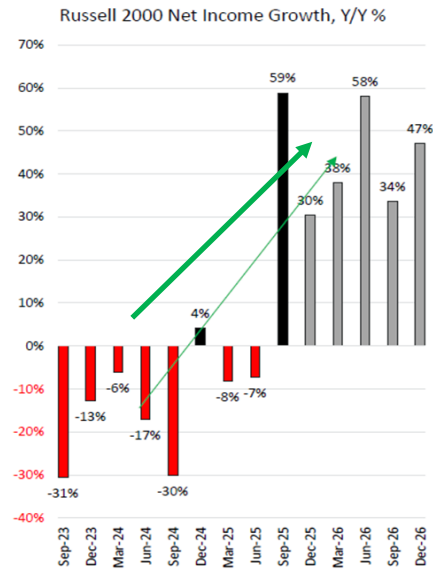
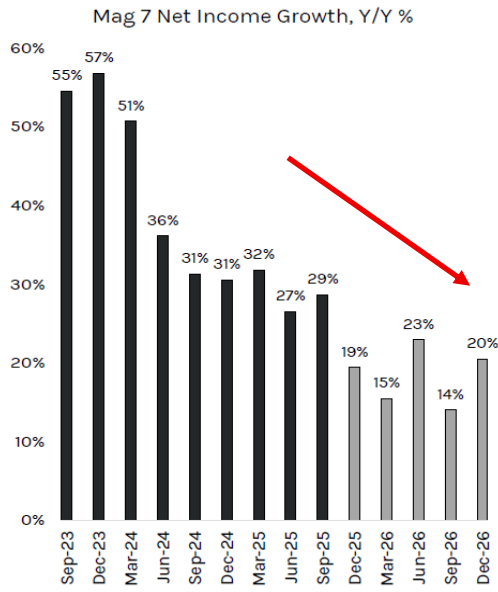
The positives are clear. We are at the beginning of a new cycle in disinflationary growth and early-cycle sectors are the new leaders of the advance. So far so good. Tech would normally be right up there in terms of leadership but not this time. Large swaths of the tech sector are selling off, driven by the fear that AI will disrupt their businesses, but it is not so much disruption that is being priced in, but obsolescence. Investors are wondering which companies have been too harshly treated, which are the babies and which the bathwater?

That question must be examined on a case-by-case basis, and it's not for anyone to say with too much confidence which companies are 'overdone' to the downside, because the fact is, we simply do not know. It is a trap to try to win the intellectual argument about whether Adobe or Salesforce.com, for example, have been holed under the waterline; we just do not know yet. These stocks have been brutally sold off (-25% and -28% ytd respectively) – the market shoots first and asks questions later, and as you can't disprove a negative, these stocks are not investable from our point of view.

But it's not just tech and software. The concerns have spread to other sectors like video games, trucking and logistics, online travel, and auction businesses. The AI disruption theme is everywhere at the moment, and it must be respected. We are treading carefully in tech and are underweight the sector. Our exposures centre around memory and storage, which are in very short supply and are benefiting from the huge demand from hyperscalers. Our focus remains on industrials, materials and other sectors that are exposed to the economic growth we are seeing. We have moved down the market cap spectrum too.

Key conclusion: With leadership changing and former winners underperforming, now is the time for active strategies to come into their own. For years now, being long the US has meant being long big cap tech stocks and being passive has been an easy win. That is now changing, and this is an important time for investors to take note of this change and indeed to take advantage of it as the old guard retreats and new leaders take us forward. This dynamic is well depicted by the relative growth in Mag 7 vs the Russell 2000.





Source: Hedgeye Risk Management

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 16 February 2026

Sources: Bloomberg, Hedgeye Risk Management LLC

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