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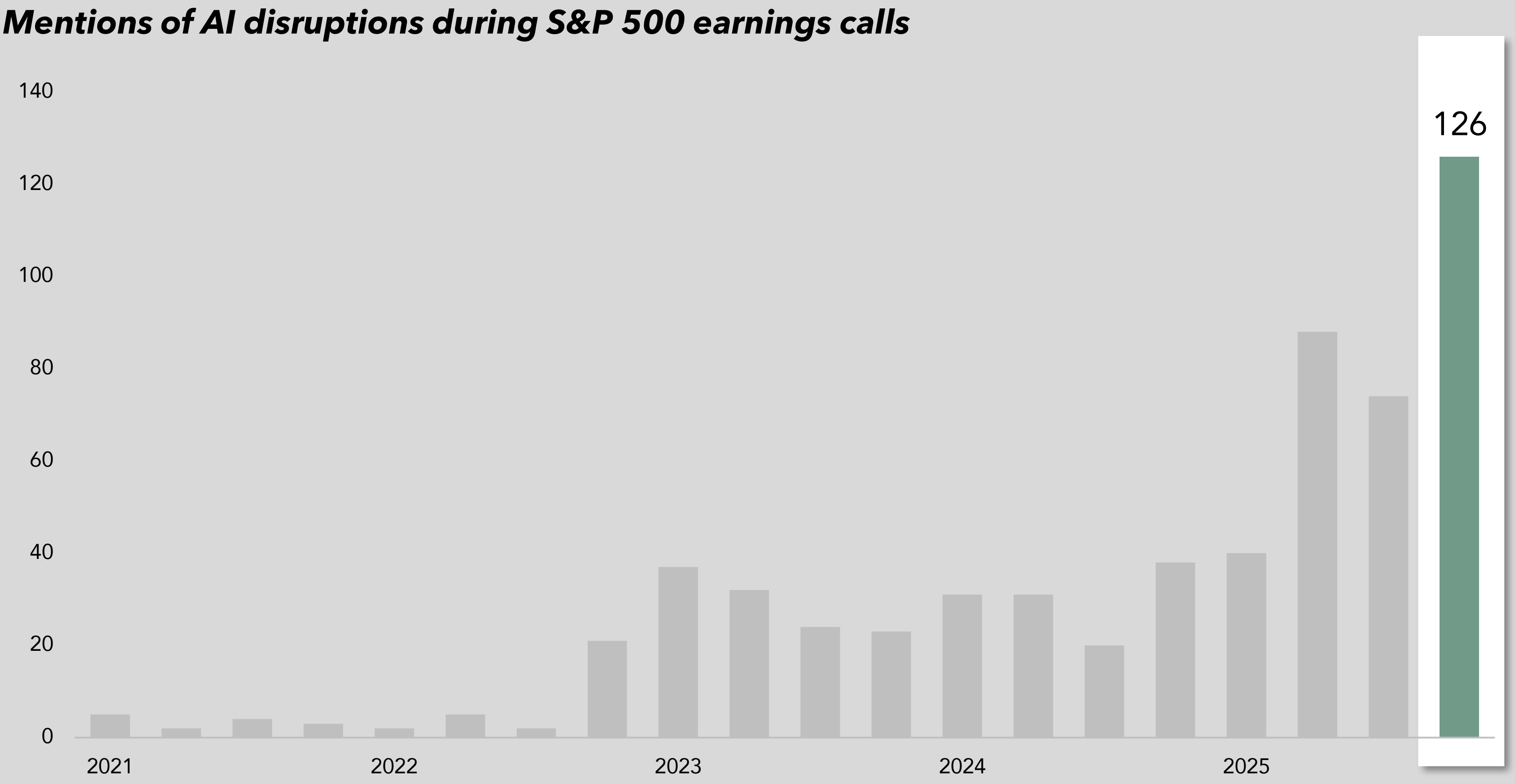
AI Disruption Mentions Nearly Double Q/Q

For Q4 2025, S&P 500 earnings are running at roughly low-teens y/y growth with a roughly 75% EPS beat rate. Notably, however, mentions of AI disruption continue to rise sharply on management calls, nearly doubling over the prior quarter. Generally speaking, executives remain focused on both the risks and opportunities of AI disruption in a manner that was notably less evident just a few quarters ago.

Mentions of AI disruptions during S&P 500 earnings calls

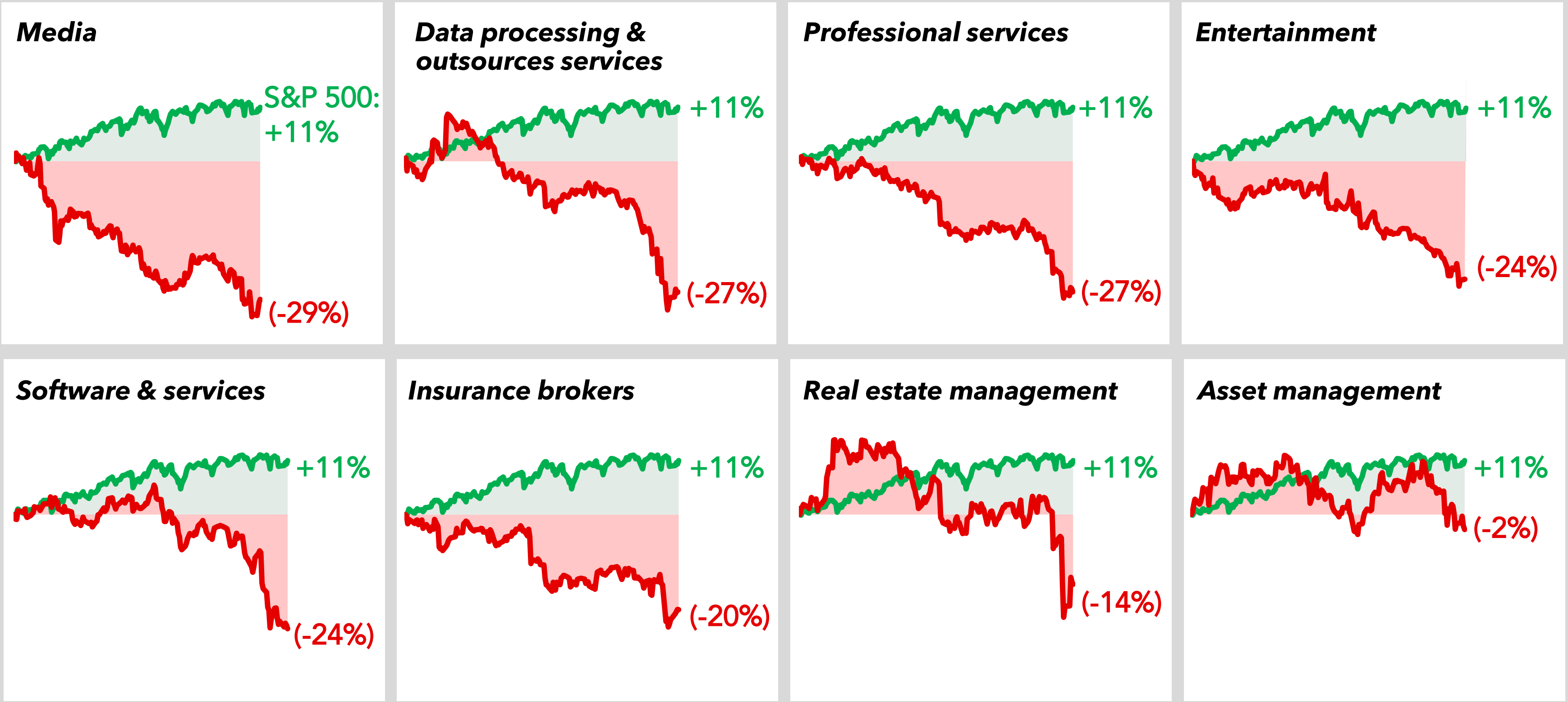


Source: (1) Bloomberg. Data is based on transcript analysis during earnings seasons. Data shows quarterly data through Q4 2025.

AI Tools Disrupting Business Models

After several years of building out AI infrastructure (data centers, power grid, computing equipment), the adoption and implementation phase of the AI buildout has accelerated in early 2026. The rapid and visible rollout of disruptive, AI-automation tools has precipitated a **"sell-first, think-later"** mentality also known as the **"AI fear trade"** as investors reprice business models deemed to be either labor-intensive or vulnerable to disintermediation. The range of specific concerns include new product shocks, fee and margin compression, automation and contagion risk.

S&P 500 vs. S&P 500 sector performance since Jul 1, 2025

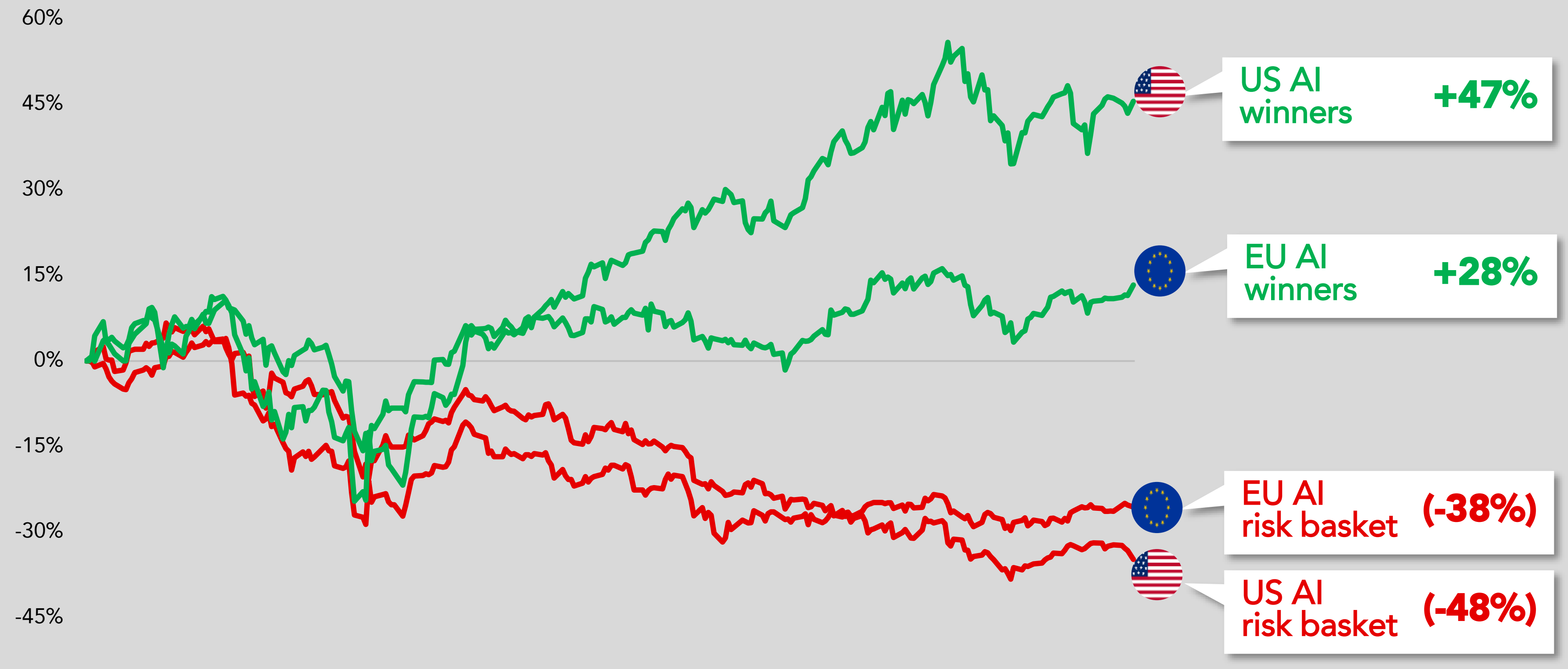


Source: (1-8) Bloomberg. Data as of February 19, 2026.

AI Disruption Risk Varies by Industry

The impact of AI varies by sector with media and software companies viewed as businesses most likely to be affected by AI disruption. The trend has broadened in 2026 with financial, professional services and logistics companies impacted negatively as well.

US & EU AI winners vs. risk basket, since January 2025

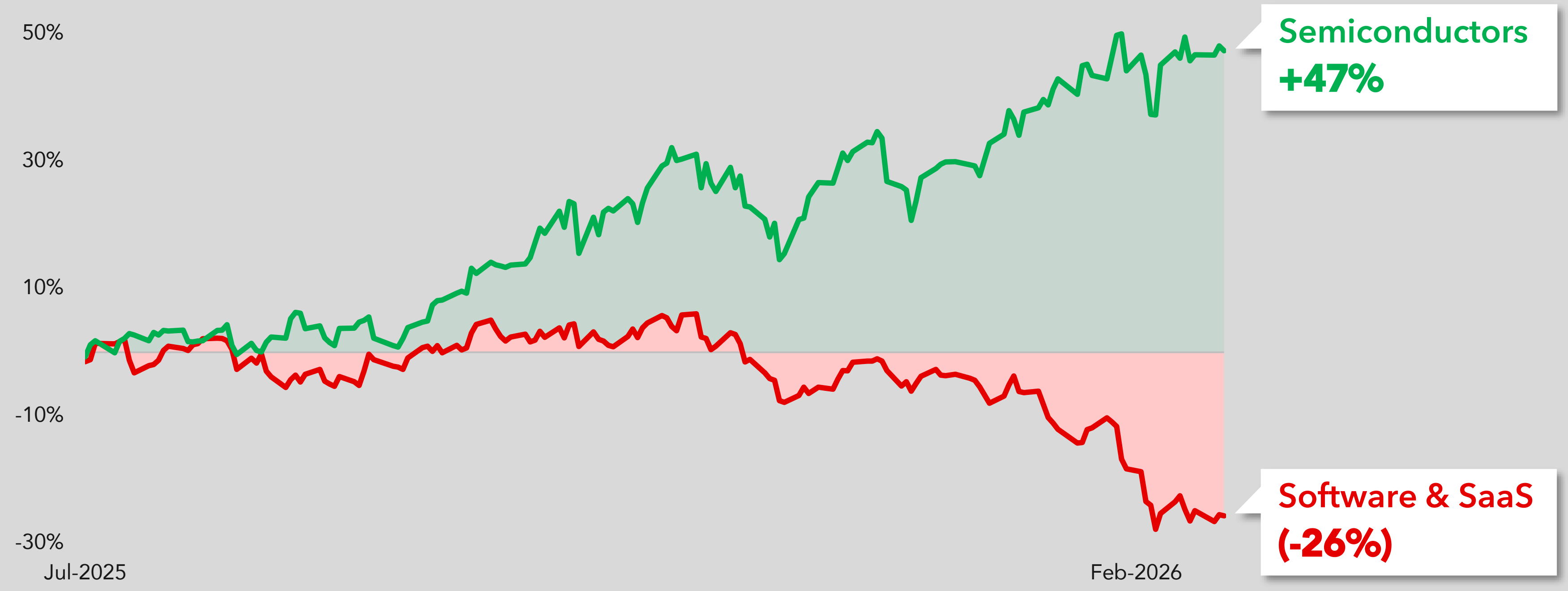


Source: (1) Bloomberg, "AI Risk Is Dominating Conference Calls as Investors Dump Stocks". Indices are UBS. Data as of February 19, 2026.

Semiconductors Outperforming Software

Semiconductor stocks have sharply outperformed software since mid-2025 as the AI trade has rotated toward infrastructure, and most notably GPU demand, and away from companies whose business models look more exposed to AI disruption. Since mid-2025, the benchmark semiconductor SOXX index is up more than 40% while the software index has materially lagged, especially in recent weeks. With semiconductors as the bottleneck in the AI stack, the structural secular growth drivers for chips remain strong.

Software & Saas vs. semiconductor performance since Jul 1, 2025

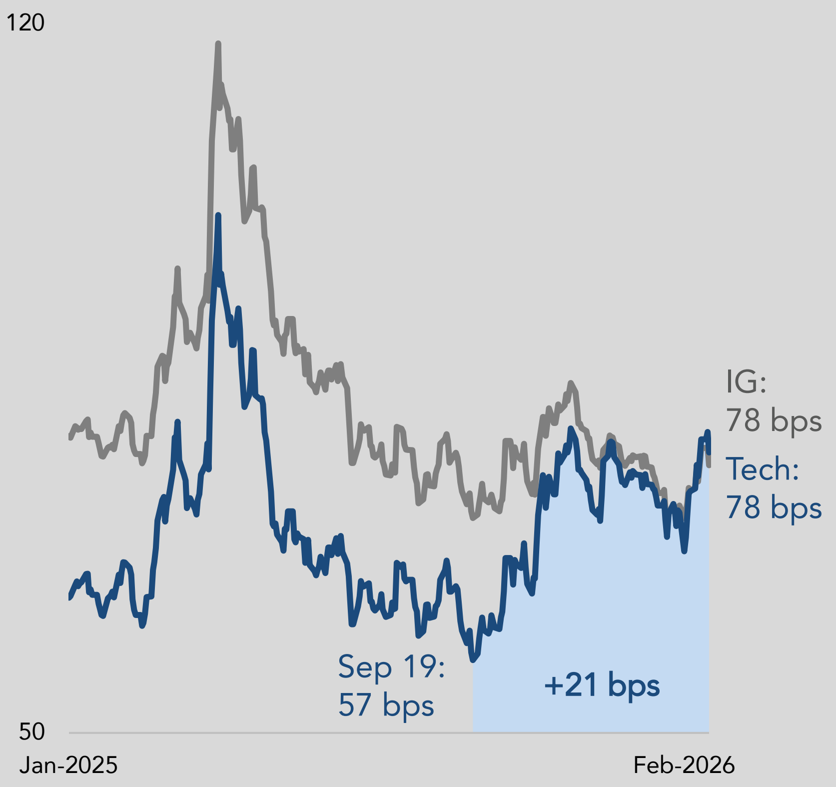


Source: (1) Bloomberg. Data as of February 19, 2026. Software & SaaS index is UBS. Semiconductor index is Philadelphia Stock Exchange.

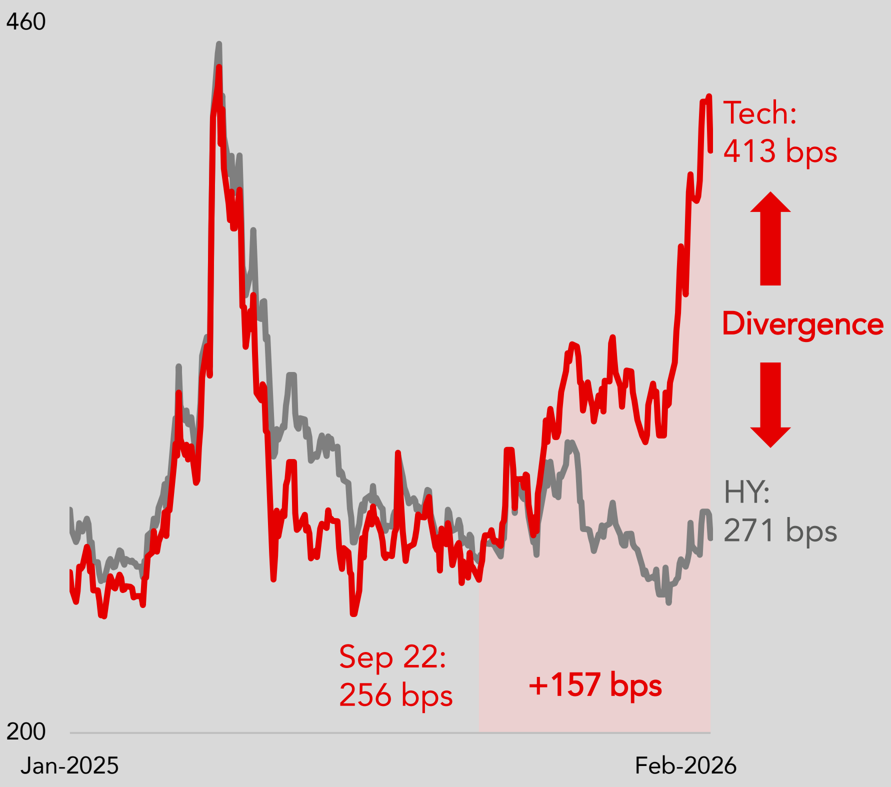
Tech Spreads Diverging Sharply on Credit Quality

Despite record supply to fund AI data center expansion, US dollar IG tech sector spreads have remained relatively contained. However, US dollar HY spreads have diverged sharply wider in recent months, driven by rising credit and ratings related concerns from more leveraged names.

IG index vs. IG tech spreads



HY index vs. HY tech spreads

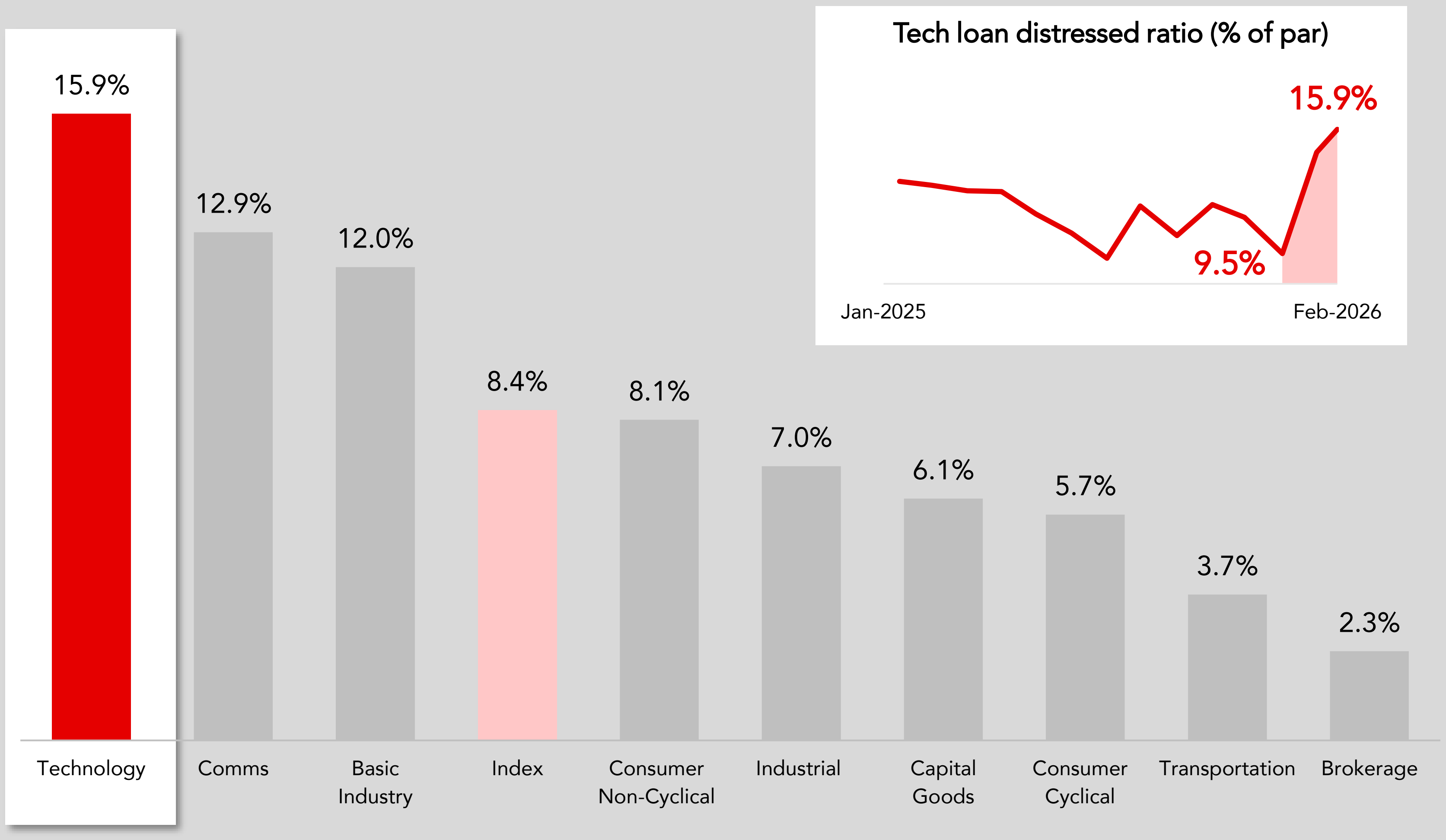


Source: (1-2) Bloomberg. Data as of February 19, 2026. Index OAS to Treasury.

Tech Leveraged Loan Distress Ratios Rising Rapidly

Not to be confused with the earnings and balance sheet strength of big tech hyperscalers, tech sector leverage loan distress ratios hit record levels in early 2026 driven by AI disruption and capex concerns. Software companies have been hit particularly hard as investors pare back positions amid concerns that some products may become obsolete sooner than expected. Nearly 16% of all the technology debt in the Bloomberg US lev loan index is now in distress, up from 9.5% at the end of December.

Leveraged loan distressed ratio, Feb 2026 (% of par value)

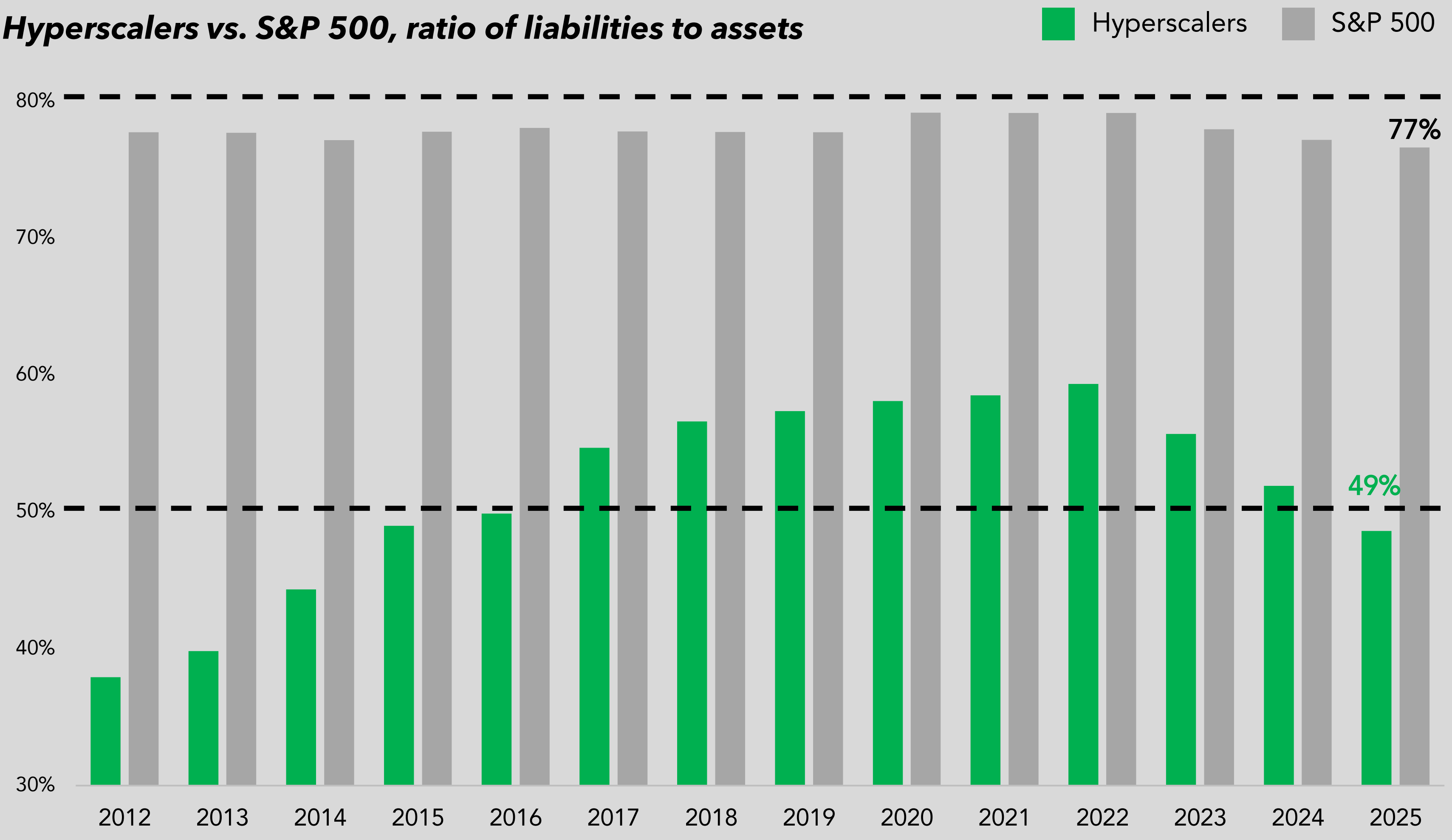


Source: (1) Bloomberg Intelligence. Data as of February 19., 2026. Bloomberg US Leveraged Loan Index.

AI Big Tech Leverage Metrics Still Strong

According to CreditSights, hyperscalers' ratio of liabilities-to-assets fell to 49% in Q4 2025, close to 2015 levels, down from a peak of 59% in late 2022. By comparison, the comparable leverage ratio for S&P 500 companies remained steady at just below 80% over the same period.

Hyperscalers vs. S&P 500, ratio of liabilities to assets



Source: (1) Bloomberg. Data as of December 31, 2025. Hyperscalers include Oracle, Amazon, Nvidia, Microsoft, Apple, Alphabet & Meta.

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"Macro stability isn't everything, but without it, you have nothing."