Economics Weekly

The Industrial Rotation

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Please refer to important disclosures on pages 16 and 17. Analyst certification is on page 16.

After effectively three years of recession for the manufacturing and industrial sector of the economy, last week's sharp rebound in the ISM index to 52.6 (the highest since August 2022, in the midst of the COVID boom) looks to be a definitive sign that things have changed. **In this *Economics Weekly,* we look at what the financial market and real economic data are telling us about the durability of this rotation toward industrials as well as where this recovery could hit major roadblocks.**

Capex Recovery

In our Economics Weekly from two weeks ago, we once again presented the case for a continued capex boom. Over the last several years, we have argued that this recovery is being built on the following pillars:

1. An emerging shortage of labor, due to demographics, deglobalization, and immigration controls, and resulting in a greater need for automation;

2. An aging capital stock that needs renewing (in particular the energy grid), which is one of the main drivers of today's rotation;

3. An innovation boom, resulting from the R&D surge over the last few years, which is forcing companies to adopt new technology to remain both competitive and relevant; and

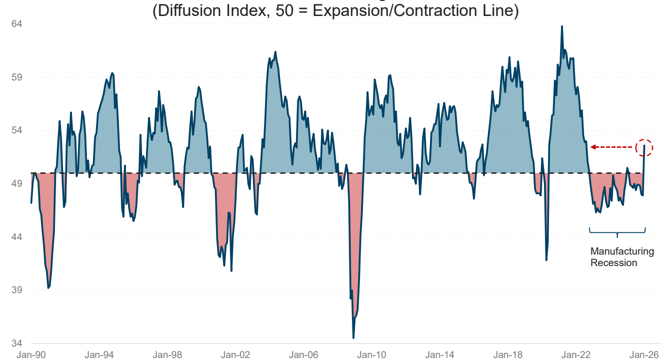
4. Government incentives, including the Biden administration's series of policies to encourage reindustrialization—such as the CHIPS Act, the Infrastructure Investment and Jobs Act, and the Inflation Reduction Act—that are being supercharged by the One Big Beautiful Bill Act's permanent 100% accelerated depreciation allowance.

In addition, tariffs and the Trump administration's seemingly single-minded goal of increasing national defense and security are forcing many companies to double up on their supply chains and hold more inventory, given that we no longer live in a hyperglobalized world. The Trump administration is also arguably encouraging a much weaker dollar to take on as much of the heavy lifting as possible to achieve these goals.

The ISM Bounce Looks Sustainable

Last week, the ISM manufacturing index jumped to its highest level since 2022 (which was in the midst of the pandemic surge in the demand for goods, exhibit 1), which we view as strong confirmation that this recovery is taking place.

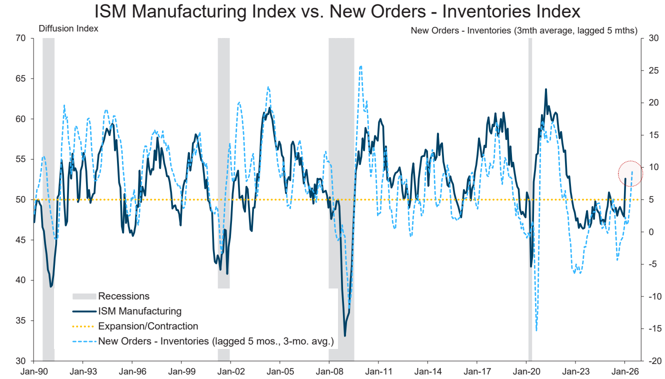
Exhibit 1
ISM Manufacturing Index
(Diffusion Index, 50 = Expansion/Contraction Line)



Sources: ISM, Bloomberg, William Blair Equity Research

New Orders Rising to Replenish Depleted Inventories
While it is true that the comments section of the ISM report was not consistent with this increase, the subcomponents—all except the employment index—were particularly strong. For example, the new orders, inventories, backlogs, and production indices all confirmed that a broad recovery is taking place (exhibit 2).

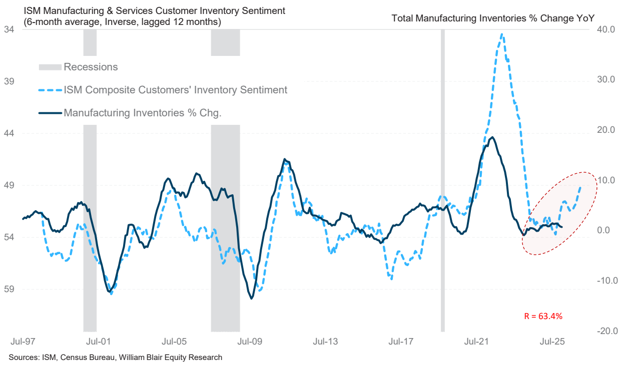
Exhibit 2
ISM Manufacturing Index vs. New Orders - Inventories Index



Sources: Institute for Supply Management; William Blair Equity Research, Shaded Area = Recessions

ISM respondents have also stated that their customers' inventories are far too low and need replenishing, which is a good leading indicator of future manufacturing inventory building (exhibit 3).

Exhibit 3
ISM Customers' Inventory Sentiment vs. Total Manufacturing Inventory Growth

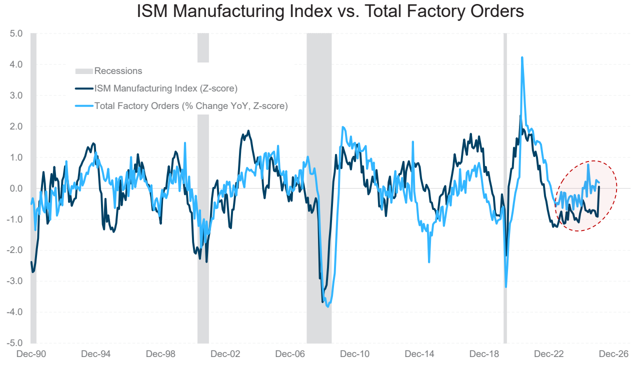


Other leading indicators of the ISM index are also pointing to continued gains ahead.

The reality is that the ISM is a measure of activity reported by purchasing managers on the shop floor, where the data likely filtered down after decisions on large capital goods orders were made at the board level. These decisions are based on economic expectations, the cost of capital, necessity, and combined new and replacement demand for goods. The PMI is therefore a good measure of momentum but not necessarily of the magnitude of those changes, and the survey data can often lag actual factory orders data by one to three months.

Hence, exhibit 4 shows that total factory goods orders have been steadily rising for most of the last year, despite continued weakness among the responses from purchasing managers. The implication is that through December, growth was likely more narrowly concentrated, but it then significantly broadened out in January.

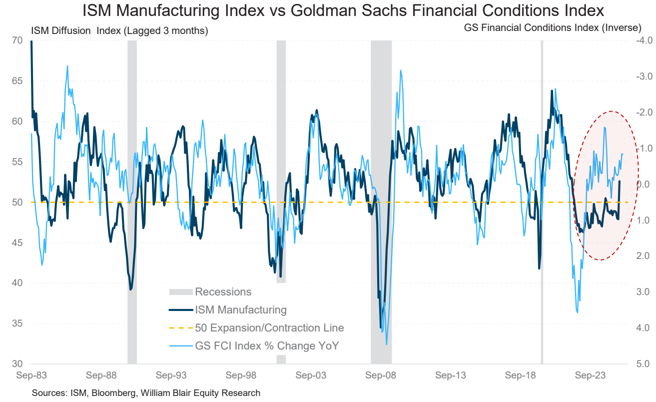
Exhibit 4
ISM Manufacturing Index vs. Total Factory Orders



Financial Conditions Are Highly Accommodative

Financing is also extremely important in the decision-making process for large capital goods orders. To that effect, gauges of aggregate financial conditions are tightly correlated with manufacturing activity. This is depicted in exhibit 5, where financial conditions are now extremely accommodative and also consistent with further improvement in manufacturing activity.

Exhibit 5
ISM Manufacturing Index vs Goldman Sachs Financial Conditions Index



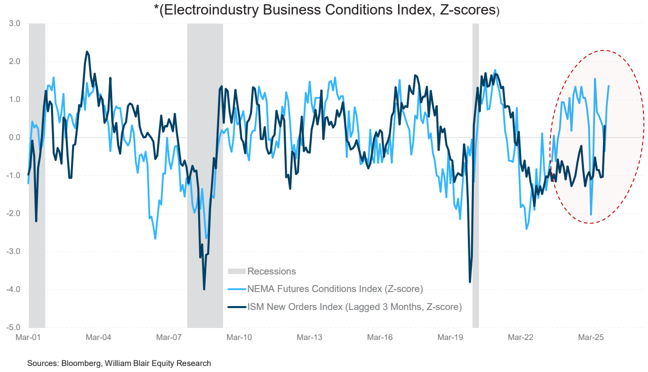
Upstream Manufacturing Surveys Point to Continued Strength

Lastly, it is worth looking at surveys of manufacturers further upstream in the production process, such as those of electric and electro-industrial manufacturers. The less followed NEMA (National Electrical Manufacturing Association) survey addresses the C-suite members of electro-industrial manufacturers on their thoughts about current and expected future business conditions.

Importantly, the electro-industrial manufacturers provide much of the core equipment that needs to be ordered first in the manufacturing process, before more downstream equipment and materials are ordered. This survey should be getting more attention these days, given how reflective it is of the current boom in data centers and other tech-related industrial activity.

As exhibit 6 shows, the NEMA index has had a strong correlation with the ISM new orders index, which historically lags by 3 months. As also shown, the recovery up to now has been more narrowly concentrated among the electro-industrial manufacturers and not broad enough to tangibly impact the ISM. Yet, given the continued strength in the NEMA index and the fact that it is a leading indicator for the broader manufacturing sector, this would strongly suggest that the ISM is more likely to continue to move in the direction of the NEMA index than it is to return to contraction.

Exhibit 6
NEMA Futures Conditions Index* vs. ISM New Orders
*(Electroindustry Business Conditions Index, Z-scores)



Sources: Bloomberg, William Blair Equity Research

What the Stock Market Is Telling Us About the Industrial Recovery

What we are seeing playing out in the stock market at the moment is a pure rotation. Investors are not moving out of the market as a whole; rather, they are attempting to sort out the AI winners from the AI losers. At the moment, the winners include those old-school industrial stocks.

The rotation is not signaling that investors question the AI future, but rather that investors are waking up to the fact that for that future to continue as envisioned, massive infrastructure investment needs to be undertaken to facilitate it. Today's aging electricity grids are already struggling to supply the necessary energy for current demand, let alone what will be required in the future. Investors are also recognizing that for both technological and national security purposes, the U.S. will need to rapidly expand the production of critical materials required for most of the production process outside China.

The economic regime change is resulting in renewed investor interest in parts of the economy and stock market that have been seemingly dormant for decades now. For example, as the U.S. moved from a largely manufacturing-based economy (52% of GDP in 1947 versus 30% today) to a service-based one over the last few decades, investor interest shifted to the tech-heavy Nasdaq and away from the Dow Jones Industrial Average, which gradually started to be viewed as irrelevant.

Yet, in light of the ongoing reindustrialization of the economy, coupled with the current year-to-date outperformance of the Dow Jones Industrial Average, interest is being rekindled. As a result, we have been dusting off those Dow theory textbooks and plundering the archives of Richard Russell's old "Dow Theory Letters" (which began in 1958 after his return from the war as a bombardier), in search of what insights we might glean on the performance of the stock market and the real economy.

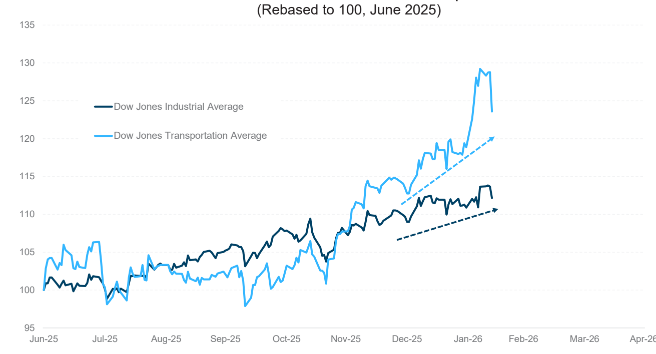
The Dow theory today can act as a useful confirmation gauge from the stock market about how the economy is performing and whether the equity market is still in a bull or bear scenario. Based on this theory, a strong equity market should be a reflection of a strong economy. In addition, the economy's performance can be gauged by the relationship between the industrial stocks (the companies that *produce* stuff) and the transportation companies (the ones that *move* that stuff from the producer to the consumer).

The theory also indicates that a bull market will be confirmed when both the industrials and the transports are making higher new highs and higher lows, as opposed to a bear market defined by lower lows and lower highs.

If, however, industrial stocks are rising but the transportation stocks are falling, this is likely to signal weakening demand in the end-markets. This also indicates caution among investors about the strength of the recovery, given that factories are producing more goods, but those goods are ending up on the shelves as inventory rather than being shipped out to consumers.

As shown in exhibit 7, both industrials and transports are making higher highs and higher lows, and the transports are well ahead of the industrials. This signals that this bull market is still very much intact, inventories are likely to be very lean (consistent with exhibit 3), and new orders are likely to continue to replenish that stock.

Exhibit 7
Dow Jones Industrials vs. Transports
(Rebased to 100, June 2025)

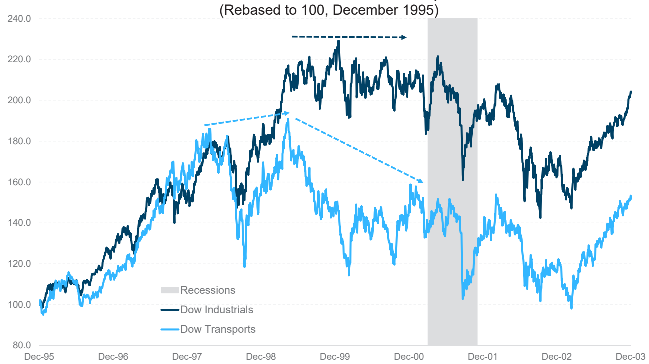


Sources: Bloomberg, William Blair Equity Research

Given the comparisons that continue to be made with the late-1990s internet bubble, we thought it was worth looking at what was happening during that period, and whether any signal was given ahead of the stock market crash of 2001.

As shown in exhibit 8, the transports were leading the industrials right up to early 1998. The transports then reached a peak in May 1999, before diverging sharply from the continued strength of the industrials. Effectively, factories were overproducing on the expectation of continued strong demand, which was already fading. The two only became more realigned following the 2001 crash. Fortunately, this is not the signal that we are seeing today.

Exhibit 8
Dow Jones Industrials vs. Transports
(Rebased to 100, December 1995)

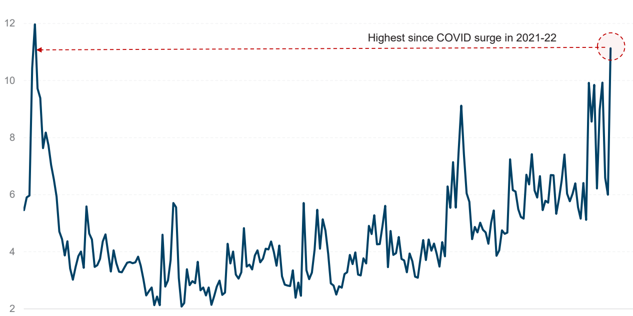


Sources: Bloomberg, William Blair Equity Research

Over the last few weeks, hard evidence of transportation strength has been seen in a sharp tightening of capacity among the freight companies.

For example, the DAT National Average Dry Van Spot Load to Truck Ratio—a gauge of orders relative to the availability of trucks to deliver those orders—has not seen such tight capacity since January 2022, in the midst of the COVID scramble for goods (exhibit 9). Anecdotally, truckers are confirming that demand strength is off the charts.

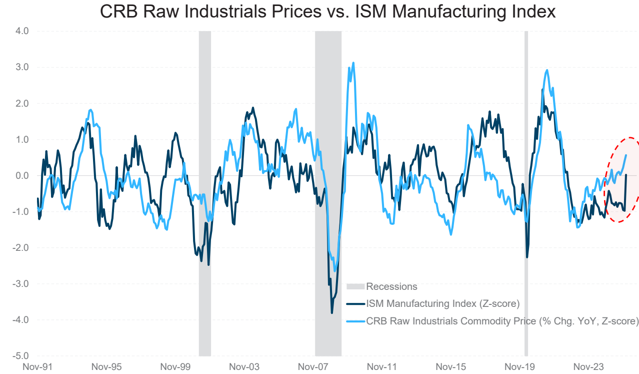
Exhibit 9
DAT National Average Dry Van Spot Load to Truck Ratio
High Ratio = Greater Demand for Carriers



Sources: DAT Freight and Analytics, Bloomberg, William Blair Equity Research

This picture is also being reflected in higher commodity prices for products in such high demand (exhibit 10).

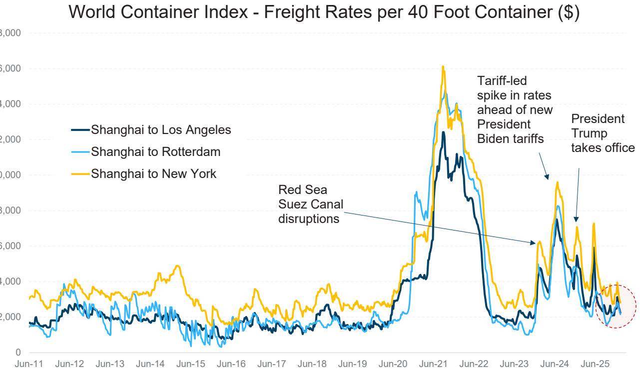
Exhibit 10
CRB Raw Industrials Prices vs. ISM Manufacturing Index



Sources: ISM, Bloomberg, William Blair Equity Research

Interestingly, where this is not showing up is the container shipping market, where port activity is relatively quiet and freight rates are near historically low levels (exhibit 11). This is the result of President Trump's policies, in particular tariffs, which have led to a steady deceleration and decline in imports growth and therefore less intercontinental shipping.

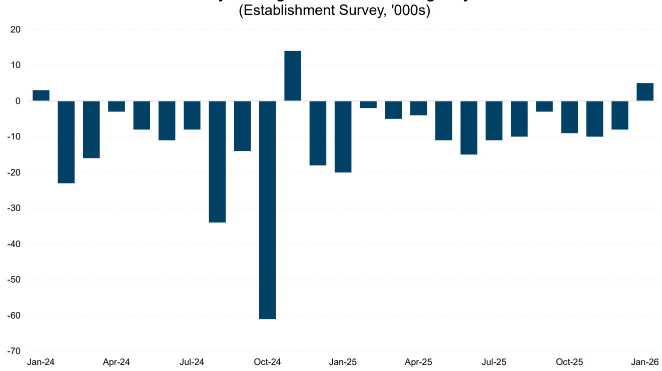
Exhibit 11
World Container Index - Freight Rates per 40 Foot Container ($)



Sources: Drewry World Container Index, Bloomberg, William Blair Equity Research

Wednesday's employment report proved to be another tentative sign of a turnaround in the industrial sector: Manufacturers' payrolls increased by 5,000 in January (they had been expected to decline 7,000). This marks the first time that U.S. factories have added jobs since November 2024. The improvement was driven solely by durable goods producers, particularly in transportation equipment, processed minerals, and electrical equipment, pointing to early but narrow strength in the sector. The manufacturing gains were complemented by a sizable increase in construction payrolls (33,000) that helped bring total goods-producing employment up by 36,000 in the month (exhibit 12).

Exhibit 12
Monthly Change in Manufacturing Payrolls
(Establishment Survey, '000s)



Sources: Bureau of Labor Statistics, William Blair Equity Research

Hurdles Ahead for This Recovery?

The most significant hurdles for this manufacturing expansion in the coming decade are likely to be the reliance on affordable electricity and stable access to raw materials.

We already know that very rapidly expanding demand for electricity (particularly from data centers) is not being matched by the available supply or even the expected available supply any time soon. Past underinvestment in the infrastructure to provide these (as highlighted by the aging capital stock), coupled with rising geopolitical tensions, is increasing cost pressures and will result in investment delays and production bottlenecks going forward.

For example, the North American Electrical Reliability Corporation (NERC) estimates that procurement lead times for critical grid equipment (e.g., large power transformers) is now around four years, more than double what it was in 2020.

Once again, this is likely to be one of the main reasons behind the current stock market rotation from technology stocks and into industrials. Investors are not pricing out the continuation of the tech boom, they just understand that a lot more investment needs to take place at the back end for that expansion to continue. In short, despite seemingly exponential growth and everything taking place in the mythic cloud, these companies are still very much tied to earth. Or, if Elon Musk has his way, space:

> *The availability of energy is the issue. If you look at electrical output outside of China, everywhere outside of China, it's more or less flat. It's maybe a slight increase, but pretty close to flat. China has a rapid increase in electrical output. But if you're putting data centers anywhere except China, where are you going to get your electricity? Especially as you scale. The output of chips is growing pretty much exponentially, but the output of electricity is flat. So how are you going to turn the chips on? Magical power sources? Magical electricity fairies?... It's harder to scale on land than it is in space, but also you're going to get about five times the effectiveness of solar panels in space versus the ground, and you don't need batteries. I almost wore my other shirt, which says "it's always sunny in space."*

Similarly, many of the material inputs into the manufacturing production process are both import-dependent and supply-constrained. The U.S. imports more than 50% of its consumption for critical minerals, including nearly 100% of rare earth processing. As we know, it is not that the U.S. or allied countries do not have those rare earth materials, it is that they do not have the high-pollution processing plants. Thus, Western countries up to now have preferred to outsource to countries such as China that have lower environmental barriers.

Domestically, a few states have already presented bills to their state legislatures to ban data centers due to the increases in electricity costs they are experiencing, though many others (mostly southern states) are still broadly welcoming the investment.

Manufacturing companies are actively looking for solutions to these problems, by investing in workaround grid constraints, establishing themselves in states with excess capacity, looking at recycling existing materials within the circular supply chain, and substituting inputs wherever possible. There is also likely to be increased vertical integration taking place and increased use of longer-term contracts—particularly for critical minerals and materials. However, the solution will likely be more of an adaptation than a resolution.

Conclusion

There is increasing evidence of a genuine and durable turning point for the manufacturing and industrial sector, after nearly three years of recession-like conditions. The sharp rebound in the ISM index is likely to continue; its increase is being confirmed by rising factory orders, low inventories, extremely accommodative financial conditions, strengthening upstream manufacturing surveys, transportation activity, and equity market performance.

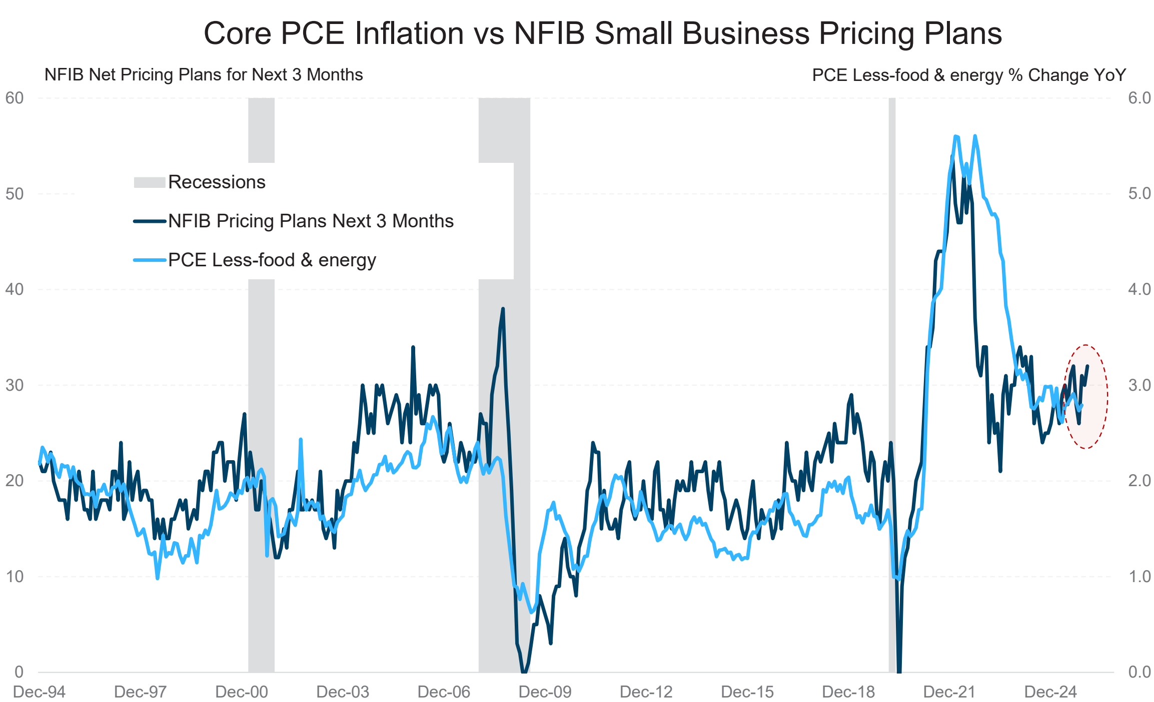
This industrial renaissance, however, will not be without constraints in the coming decade. The most binding challenges lie on the supply side—most notably access to affordable and reliable electricity, as well as secure supplies of critical raw materials. Historical underinvestment in grid infrastructure, long lead times for essential equipment, and heavy reliance on imported and environmentally intensive inputs introduce meaningful risks to the pace and scale of this expansion. While firms are adapting through geographic optimization, vertical integration, recycling old materials, substitution, and longer-term contracting to stabilize prices, these measures are more likely to mitigate rather than fully resolve the bottlenecks ahead, until sufficient capacity can be built.

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
18 Feb	8:30 a.m.	Durable Goods Orders (Dec)	5.3%	-1.8%	-0.5%	
		Order Less-transportation	0.4%	N/A	1.1%	
18 Feb	8:30 a.m.	Housing Starts (Dec)	4.6%	N/A	N/A	
		Building Permits	0.3%	N/A	N/A	
18 Feb	9:15 a.m.	Industrial Production (Jan)	0.4%	0.3%	0.3%	
		Capacity Utilization	76.3%	76.4%	76.4%	
18 Feb	10:00 a.m.	Leading Economic Indicators (Jan)	-0.3%	N/A	N/A	
19 Feb	8:30 a.m.	Advance Goods Trade Balance (Dec)	-\$84.7bn	-\$87.6bn	-\$86.0bn	
20 Feb	8:30 a.m.	Personal Income (Dec)	0.3%	0.4%	0.4%	
		Personal Spending	0.5%	0.5%	0.5%	
20 Feb	8:30 a.m.	GDP (Q4 Advance)	4.4%	2.9%	3.1%	
20 Feb	10:00 a.m.	New Home Sales (Dec)	0.1%	N/A	N/A	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: PCE Price Index



Source: NFIB, Bureau of Economic Analysis, William Blair Equity Research

Economic Scorecard

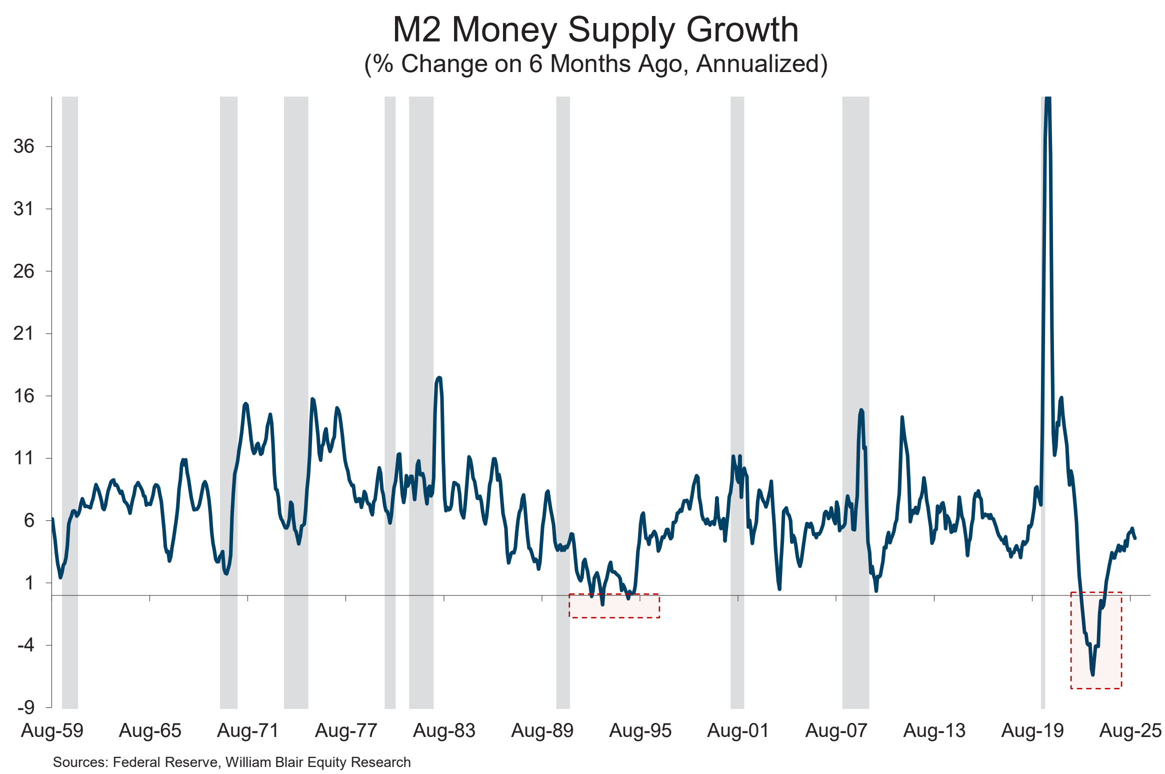
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

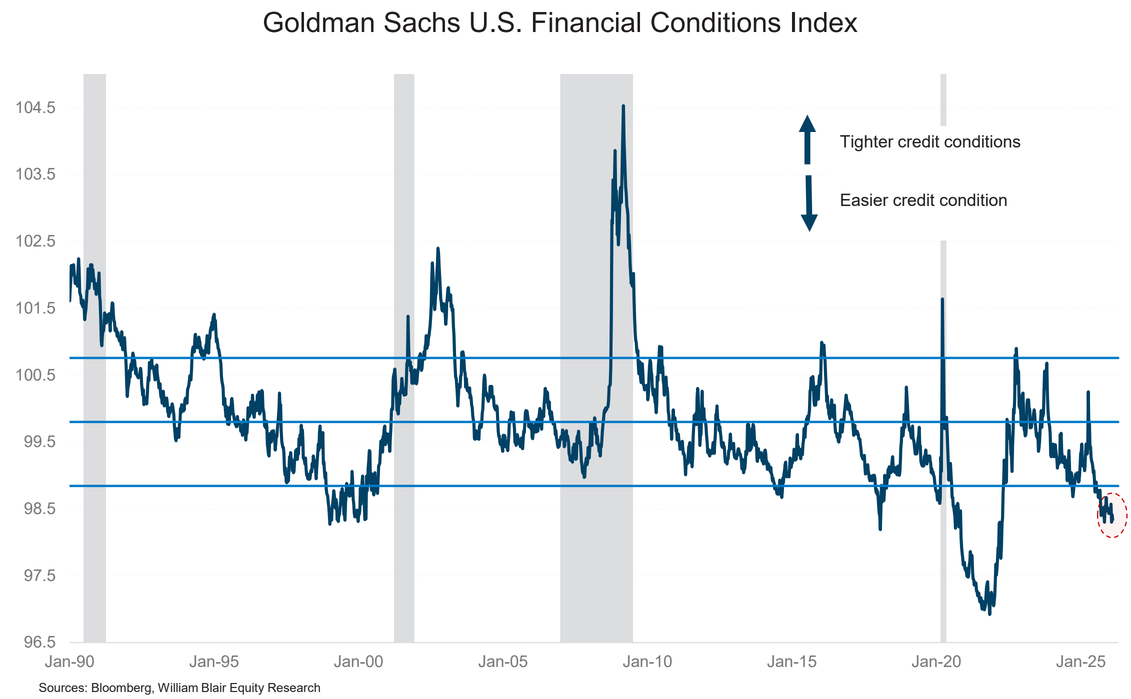
	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Growth																			
US Leading Indicators	-4.6	-4.3	-3.7	-3.0	-3.0	-2.7	-3.0	-3.6	-4.3	-3.9	-4.0	-3.5	-3.5	-3.3	-3.2	-3.7			
US Coincident Indicators	1.7	1.6	1.6	1.3	1.7	1.5	1.5	1.8	2.0	1.4	1.3	1.6	1.4	1.1	1.1	1.2			
US Lagging Indicators	0.8	0.3	0.1	0.0	0.1	-0.1	0.1	-0.1	-0.2	0.7	0.4	0.4	0.5	1.2	1.0	0.8			
Consumer																			
Total Retail Sales	1.8	2	3.2	3.9	4.6	4.6	3.9	5.1	5	3.4	4.4	4.1	5	4.1	3.2	3.3	2.4		
Personal Income	5.4	5.3	5.5	5.3	5.3	5	5	5.2	5.6	4.5	4.3	4.6	4.7	4.7	4.3	4.3			
Real Disposable Personal Income	2.8	2.8	2.7	2.4	2.2	1.8	1.8	2.3	2.8	1.5	1.2	1.5	1.5	1.5	1.2	1			
Real Personal Consumption	3	3.4	3.3	3.2	3.6	3.3	2.7	3.2	3.1	2.5	2.5	2.6	2.8	2.4	2.6	2.6			
Personal Saving Rate (%)	5.2	4.8	5	4.9	4.3	5.1	5.2	5.1	5.5	4.9	4.6	4.3	4.1	4	3.7	3.5			
Consumer Confidence (Conference Board)**	105.6	99.2	109.6	112.8	109.5	105.3	100.1	93.9	85.7	98.4	95.2	98.7	97.8	95.6	95.5	92.9	94.2	84.5	
Employment																			
Employment Growth	1.0	1.0	0.9	0.9	0.9	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.2	
ASA Temporary Staffing Index	-12.2	-12.0	-9.5	-6.6	-21.0	-8.2	-7.5	-8.7	-6.4	-5.8	-5.3	-0.8	-0.9	0.8	1.5	4.5	7.3	2.3	
ISM Employment Index Manufacturing*	46.2	44.7	44.6	48.3	45.4	49.7	47.1	44.4	46.2	46.1	45.1	44.9	44.3	45.4	45.8	44.1	44.8	48.1	
ISM Employment Index Services*	50	48.5	52.2	50.8	51	51.4	53.4	46	49.2	50.4	47.7	46.9	46.9	47.6	48.1	48.7	51.7	50.3	
Unemployment Rate, %	4.2	4.1	4.1	4.2	4.1	4	4.2	4.2	4.2	4.3	4.1	4.3	4.3	4.4	4.4	4.5	4.4	4.3	
Average Hourly Earnings	3.9	3.9	4	4.2	4.1	4	4.1	4.2	3.9	4	3.9	4	4	3.8	3.9	3.9	3.7	3.7	
Initial Jobless Claims (avg. wkly. chg. '000s)	230	225	236	219	222	218	227	223	226	235	241	221	231	235	225	215	219	213	
Jop Openings	-17.6	-23.5	-10.9	-7.3	-12.5	-8.3	-11.4	-11.0	-2.9	-2.4	-0.7	-3.9	-5.5	7.8	-2.2	-13.7	-12.9	-15.7	
Layoff Announcements	1	53.4	50.9	26.8	11.4	-39.5	103.2	204.8	62.7	47	-1.6	139.8	13.3	-25.8	175.3	23.5	-8.3	117.8	
Housing Market																			
Housing Starts	5.6	-1	-1.2	-14.5	-0.5	-1.7	-4	3.3	0.9	-2.6	4.1	12.3	-7.2	-3.8	-7.8	-7.8			
New Home Sales	7.4	5.3	-8.8	10.7	11.7	-2.8	-2.4	-4.6	-1.8	-5.7	-1.3	-10	2.6	2.9	18.7	18.7			
Existing Home Sales	-3.7	-3.0	3.1	6.2	8.6	1.7	-1.0	-2.7	-1.5	-0.5	0.5	0.8	2.3	4.4	2.2	-1.2	1.9		
Median House Price (Existing Homes)	-8	-1.2	2.1	-7.4	1.1	-0.2	-1.4	-5.4	-0.4	2.5	-1.2	-7.4	3.5	-3.6	-8	-8	-8		
Existing Homes Inventory (Mths' supply)	3.9	3.9	3.9	3.8	3.8	3.9	4	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4		
New Homes Inventory (Mths' supply)	8.2	7.9	9.3	8.7	8.2	9	9.3	9.2	8.5	9.6	9.1	9.3	8.3	7.9	7.9	7.9			
NAHB Homebuilder Sentiment*	39	41	43	46	46	47	42	39	40	34	32	33	32	32	37	38	39	37	
Inflation																			
Consumer Price Index	2.5	2.4	2.6	2.7	2.9	3	2.8	2.4	2.3	2.4	2.7	2.7	2.9	3	3	2.7	2.7		
CPI Less-food & energy	3.2	3.3	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	2.9	3.1	3.1	3	3	2.6	2.6		
Producer Price Index	2.1	2.1	2.8	2.9	3.5	3.8	3.4	3.2	2.4	2.7	2.4	3.2	2.7	3	2.8	3	3		
PPI Less-food & energy	2.8	3.3	3.6	3.4	3.7	3.9	3.7	3.8	3.1	3.2	2.7	3.5	2.9	3	3	3.1	3.3		
PCE Price Index	2.4	2.3	2.5	2.6	2.7	2.6	2.7	2.4	2.3	2.5	2.6	2.6	2.7	2.8	2.7	2.8	2.8		
PCE Prices Less-food & energy	2.9	2.8	3.0	3.0	3.0	2.8	3.0	2.7	2.6	2.8	2.8	2.9	2.9	2.8	2.7	2.8	2.8		
Business Activity - US																			
Industrial Production	-0.4	-1.2	-1.0	-1.6	-0.3	0.9	0.8	0.6	0.9	0.1	0.6	1.9	1.2	2.0	2.1	2.7	2.0		
New Cap Gds Orders less-aircraft & parts	-1.8	0.5	0.2	-1.1	1.9	3.3	-0.9	2.2	0.5	2.2	4.5	4.4	2.5	5.3	6.2	4.1	4.1		
Business Inventories	2.1	2.1	1.9	2.2	2.7	1.9	2.5	2.3	2.5	2.2	1.7	1.6	1.4	1	1.3	1.3	1.2		
ISM Manufacturing PMI*	47.7	47.3	47	48.4	49.2	50.5	50	48.9	48.8	48.6	49	48.4	48.9	48.9	48.8	48	47.9	52.6	
Markit US Manufacturing PMI*	47.9	47.3	48.5	49.7	49.4	51.2	52.7	50.2	50.2	52	52.9	49.8	53	52	52.5	52.2	51.8	52.4	
ISM Services Index*	51.8	54.6	55.5	52.4	53.5	52.6	53.2	50.8	51.6	50.2	50.8	50.5	51.9	50.3	52	52.4	53.8	53.8	
Markit US Services PMI*	55.7	55.2	55	56.1	56.8	52.9	51	54.4	50.8	53.7	52.9	55.7	54.5	54.2	54.8	54.1	52.5	52.7	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	42.4	40.6	43	43	42.5	45	46.5	48.3	48.4	48.3	49	49.1	49.8	49.5	49.6	48.2	47	49.1	
Japan Manufacturing PMI Jibun Bank*	49.9	49.7	49.2	49	49.6	48.7	49	48.4	48.7	49.4	50.1	49	49.7	48.5	48.2	48.7	50	51.5	
Caixin China Manufacturing PMI*	50.4	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	50.4	49.5	50.5	51.2	50.6	49.9	50.1	50.3	
China Manufacturing PMI*	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49	49.5	49.7	49.3	49.4	49.8	49	49.2	50.1	49.3	
UK Manufacturing PMI Markit/CIPS*	52.5	51.5	49.9	48	47	48.3	46.9	44.9	45.4	46.4	47.7	48	47	46.2	49.7	50.2	50.6	51.8	
France Manufacturing PMI Markit*	43.9	44.6	44.5	43.1	41.9	45	45.8	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7	51.2	
Currencies* **																			
Euro (EUR/USD)	1.9	5.3	2.9	-2.9	-6.2	-4.2	-4.0	0.2	6.2	4.6	10.0	5.4	5.8	5.4	6.0	9.7	13.4	14.4	
Renmimbi (USD/CNY)	-2.3	-3.8	-2.7	1.6	2.8	1.1	1.2	0.5	0.4	-0.6	-1.4	-0.4	0.6	1.5	0.0	-2.4	-4.3	-4.0	
Yen (USD/Yen)	0.4	-3.8	0.2	1.1	11.5	5.6	0.4	-0.9	-9.3	-8.4	-10.5	0.5	0.6	3.0	1.3	4.3	-0.3	-0.3	
Sterling (GBP/USD)	3.6	9.6	6.1	0.9	-1.7	-2.3	-0.4	2.3	6.7	5.6	8.6	2.7	2.9	0.5	2.0	3.9	7.7	10.4	
Canadian $ (USD/CAD)	-0.1	-0.4	0.4	3.3	8.6	8.2	6.5	6.3	0.2	0.8	-0.5	0.3	1.8	2.9	0.5	-0.2	-4.6	-6.4	
Mexican Peso (USD/MXN)	15.8	13.0	11.0	17.2	22.7	20.1	20.5	23.6	14.4	14.3	2.3	1.4	-5.4	-7.0	-7.4	-10.2	-13.5	-15.6	
US Equities																			
S&P 500	25.3	34.4	36.0	32.1	23.3	24.7	16.8	6.8	10.6	12.0	13.6	14.8	14.4	16.1	19.9	13.5	16.4	14.9	
S&P 400 Midcap	16.9	24.8	30.9	31.3	12.2	18.6	7.1	-4.2	-0.3	0.6	5.9	1.7	5.3	4.5	4.8	-1.7	5.9	6.1	
S&P 600 Smallcap	15.1	23.5	27.6	30.9	6.8	14.5	4.5	-5.0	-3.6	-3.4	2.8	-6.3	1.8	1.9	3.8	-4.0	4.2	7.0	
Russell 2000	16.7	24.9	32.1	34.6	10.0	17.5	5.3	-5.3	-0.5	-0.2	6.2	-1.9	6.7	9.3	12.9	2.7	11.3	14.3	

* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

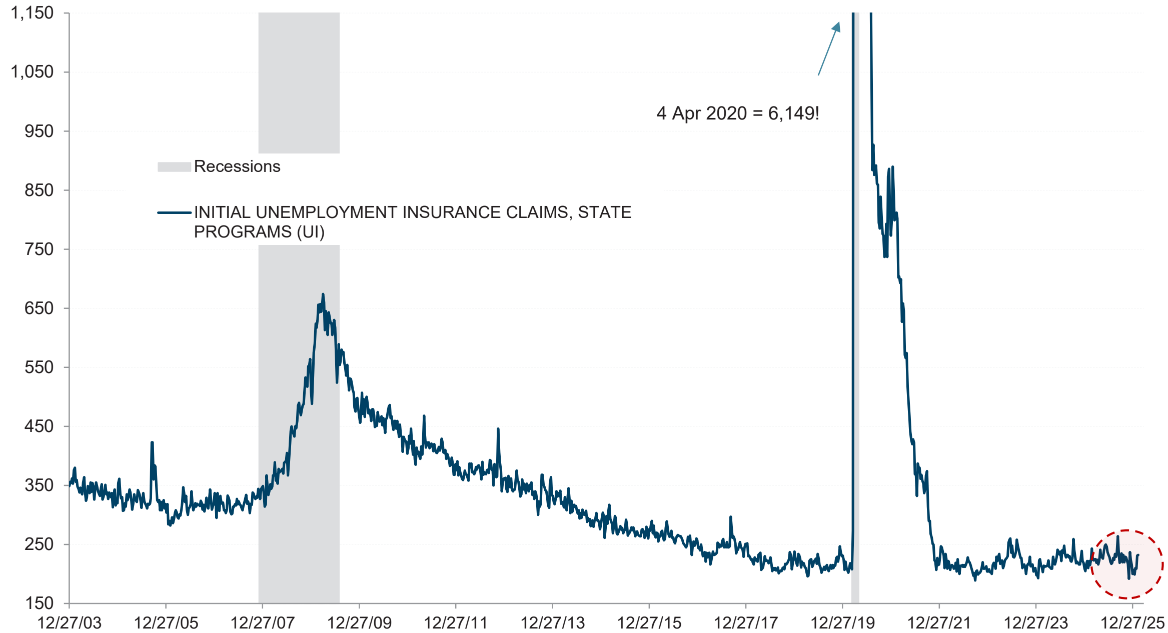
Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

Other Economic Indicators



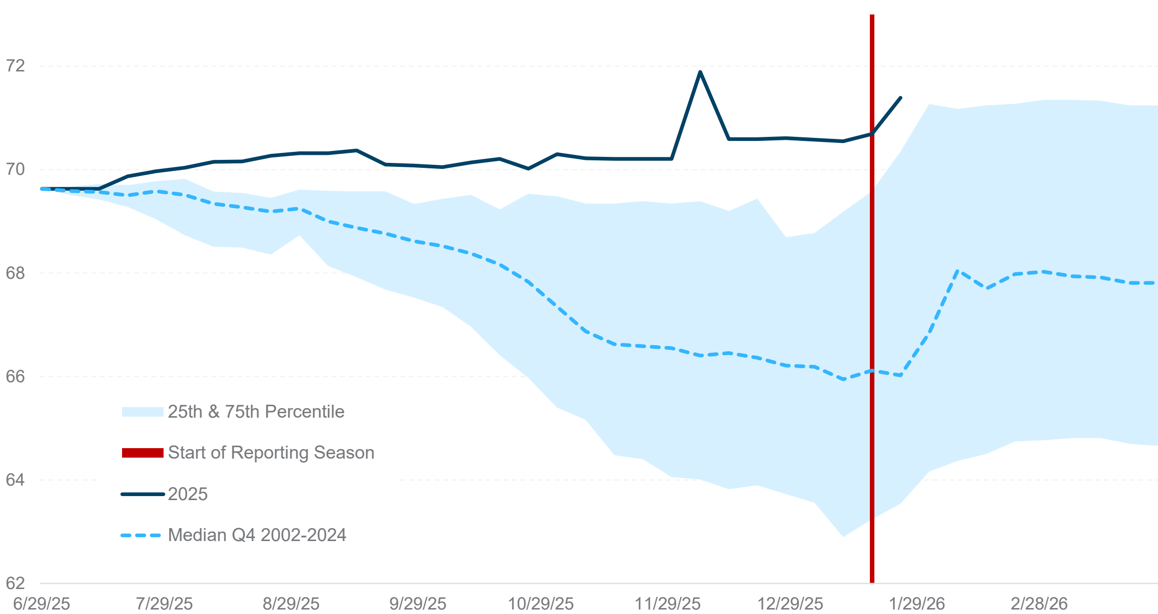


Initial Jobless Claims
('000s, Seasonally Adjusted)

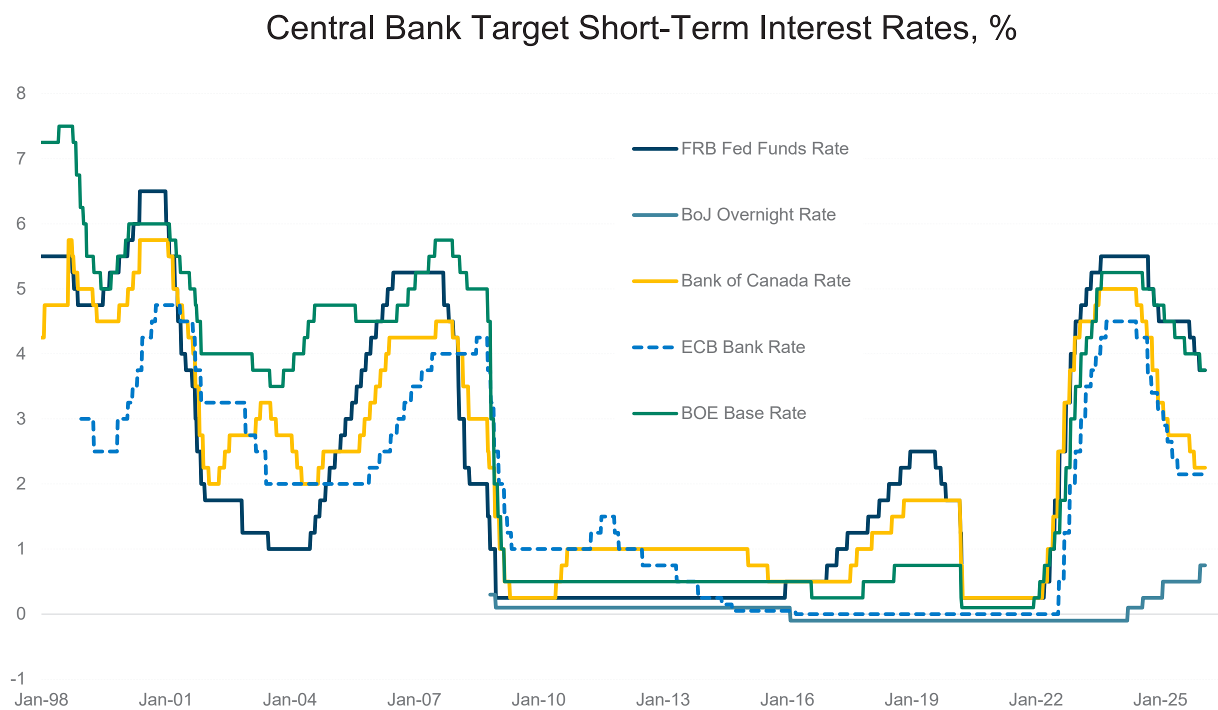


Source: Department of Labor, Bloomberg, William Blair Equity Research

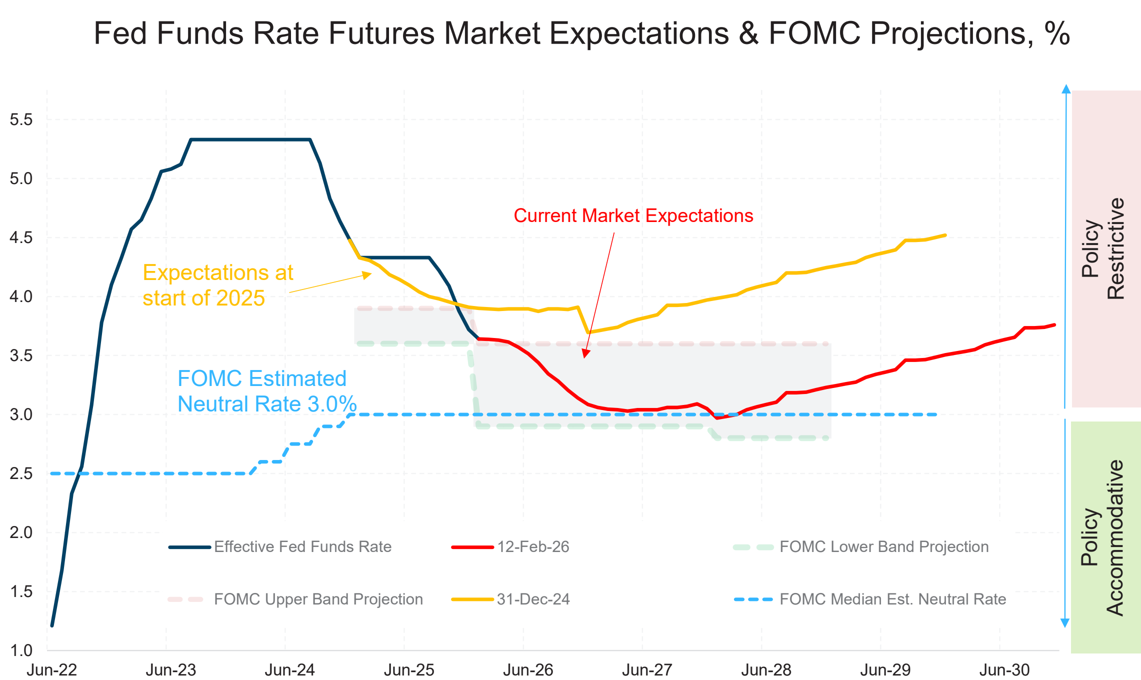
Progression of S&P 500 Q4 EPS Estimates, Q4 2025 vs Median Q4 2002-2024
(Rebased to Q4 2025 Estimate at End of Q2 2025 of $69.5 per share)



Sources: LSEG, William Blair Equity Research



Sources: Bloomberg, William Blair Equity Research



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 12-Feb-26	Week Ago 05-Feb-26	Month Ago 12-Jan-26	Qtr-to-Date 31-Dec-25	Year-to-Date 31-Dec-25
S&P 500 Index	**100.00**	**0.51**	**-2.07**	**-0.19**	**-0.19**
S&P 400 MidCap Index		**1.49**	**1.91**	**6.86**	**6.86**
S&P 600 SmallCap Index		**0.74**	**2.21**	**7.58**	**7.58**
Dow Jones Industrials		**1.11**	**-0.28**	**2.89**	**2.89**
Nasdaq Composite		**0.25**	**-4.79**	**-2.77**	**-2.77**
Communication Services	**10.30**	**-4.26**	**-3.67**	**-1.74**	**-1.74**
Advertising	0.05	-1.89	-19.94	-22.38	-22.38
Broadcasting	0.05	-12.46	-22.42	-22.24	-22.24
Cable & Satellite	0.05	6.51	15.20	13.02	13.02
Integrated Telecommunication Services	0.83	4.77	19.57	17.16	17.16
Interactive Home Entertainment	0.14	0.09	-12.37	-13.59	-13.59
Interactive Media & Services	7.79	-5.60	-4.61	-1.41	-1.41
Movies & Entertainment	0.99	-3.23	-11.02	-13.64	-13.64
Publishing & Printing	0.02	-7.16	-15.67	-14.01	-14.01
Wireless Telecommunication Svcs	0.38	6.35	8.69	5.73	5.73
Consumer Discretionary	**10.22**	**-2.66**	**-9.10**	**-4.91**	**-4.91**
Apparel Retail	0.37	0.20	-1.01	2.36	2.36
Apparel & Accessories & Luxury Goods	0.10	4.64	-0.62	2.13	2.13
Auto Parts & Equipment	0.03	4.11	-4.41	9.08	9.08
Automobile Manufacturers	2.69	4.30	-6.64	-6.44	-6.44
Automobile Retail	0.30	-0.29	-6.31	-0.53	-0.53
Broadline Retail	3.46	-10.33	-18.95	-13.44	-13.44
Casinos & Gaming	0.09	-2.66	-5.16	-10.78	-10.78
Computer & Electronics Retail	0.02	-4.86	-3.43	-3.08	-3.08
Consumer Electronics	0.06	2.28	-3.91	0.18	0.18
Distributors	0.05	2.05	11.05	19.37	19.37
Footwear	0.14	-1.32	-3.58	-1.44	-1.44
Home Furnishings	0.01	1.88	12.13	22.12	22.12
Home Improvement Retail	0.87	2.58	4.46	14.82	14.82
Homebuilding	0.20	3.45	3.29	15.23	15.23
Hotels, Resorts & Cruise Lines	0.82	0.26	-6.81	-3.72	-3.72
Leisure Products	0.02	6.43	17.23	23.86	23.86
Restaurants	0.86	-0.90	0.16	2.43	2.43
Other Specialty Retail	0.09	-0.87	3.94	9.55	9.55
Consumer Staples	**5.95**	**2.51**	**11.57**	**15.36**	**15.36**
Agricultural Products	0.09	6.43	14.49	25.68	25.68
Brewers	0.02	6.36	11.32	16.50	16.50
Consumer Staples Merchandise Retail	2.71	3.52	9.65	17.46	17.46
Distillers & Vintners	0.06	-0.54	8.43	17.69	17.69
Food Distributors	0.07	6.25	20.96	22.01	22.01
Food Retail	0.07	5.21	14.78	12.26	12.26
Household Products	0.84	1.76	13.18	13.97	13.97
Packaged Foods & Meats	0.40	1.40	11.44	11.43	11.43
Personal Care Products	0.10	5.68	2.23	4.95	4.95
Soft Drinks	1.09	0.57	13.21	13.11	13.11
Tobacco	0.65	3.44	14.42	17.36	17.36
Energy	**3.25**	**3.04**	**16.50**	**20.67**	**20.67**
Integrated Oil & Gas	1.66	2.28	17.33	22.37	22.37
Oil & Gas Equipment & Services	0.26	3.80	16.58	30.96	30.96
Oil & Gas Exploration & Production	0.63	4.21	14.90	14.62	14.62
Oil & Gas Refining & Marketing & Transportation	0.29	1.24	11.65	21.27	21.27
Oil & Gas Storage & Transportation	0.41	5.30	19.35	16.85	16.85

Financials	**11.83**	**-3.05**	**-6.59**	**-5.86**	**-5.86**
Asset Management & Custody Banks	0.97	-0.84	-10.83	-7.64	-7.64
Consumer Finance	0.62	-3.87	-7.77	-10.85	-10.85
Diversified Banks	3.05	-3.55	-5.09	-4.09	-4.09
Diversified Financial Services	6.83	-2.73	-8.55	-7.53	-7.53
Financial Exchanges & Data	0.85	-7.18	-16.08	-13.66	-13.66
Insurance Brokers	0.40	-10.00	-12.65	-12.30	-12.30
Investment Banking & Brokerage	1.31	-2.36	-10.20	-5.25	-5.25
Life & Health Insurance	0.28	0.41	-1.10	-0.30	-0.30
Multi-Sector Holdings	1.09	-0.77	0.27	-0.53	-0.53
Property & Casualty Insurance	0.93	-0.97	2.52	-0.94	-0.94
Regional Banks	0.30	-4.57	4.39	7.69	7.69
Reinsurance	0.02	3.14	2.36	-0.95	-0.95
Transaction & Payment Processing	1.88	-3.05	-8.96	-9.75	-9.75
Health Care	**9.32**	**0.72**	**-0.99**	**0.65**	**0.65**
Biotechnology	1.67	2.09	7.93	6.78	6.78
Health Care Distributors	0.38	-3.27	7.18	7.60	7.60
Health Care Equipment	1.70	-0.70	-8.62	-7.11	-7.11
Health Care Facilities	0.21	4.68	12.94	13.63	13.63
Health Care Services	0.37	2.02	3.25	4.00	4.00
Health Care Supplies	0.07	1.83	-2.34	3.42	3.42
Life Sciences Tools & Services	0.81	-4.32	-15.39	-10.44	-10.44
Managed Health Care	0.60	2.85	-16.99	-13.14	-13.14
Pharmaceuticals	3.51	1.79	5.07	6.56	6.56
Industrials	**8.62**	**2.59**	**5.81**	**11.33**	**11.33**
Aerospace & Defense	2.26	2.89	0.67	8.73	8.73
Agricultural & Farm Machinery	0.26	5.72	21.88	28.47	28.47
Air Freight & Logistics	0.34	-2.04	8.75	17.80	17.80
Building Products	0.50	4.59	17.11	17.94	17.94
Cargo Ground Transportation	0.09	-6.56	6.60	16.38	16.38
Construction & Engineering	0.25	9.71	20.74	28.06	28.06
Construction Machinery & Heavy Trucks	0.87	9.01	15.18	26.02	26.02
Data Processing & Outsourced Services	0.03	-11.92	-23.56	-23.61	-23.61
Diversified Support Svcs	0.18	-2.10	-1.77	0.58	0.58
Electrical Components & Equipment	0.59	3.23	8.88	14.91	14.91
Environmental & Facilities Services	0.34	0.39	2.09	2.20	2.20
Heavy Electrical Equipment	0.35	10.72	27.63	24.94	24.94
Human Resource & Employment Services	0.20	-9.09	-19.00	-17.75	-17.75
Industrial Conglomerates	0.39	3.75	10.54	17.29	17.29
Industrial Machinery	0.71	0.75	6.81	11.56	11.56
Passenger Airlines	0.17	-0.01	0.64	4.06	4.06
Passenger Ground Transportation	0.23	-5.31	-15.88	-12.84	-12.84
Railroads	0.48	3.21	13.18	11.93	11.93
Research & Consulting Svcs	0.14	-4.96	-14.51	-11.40	-11.40
Trading Companies & Distributors	0.25	-2.24	2.00	10.40	10.40
Information Technology	**31.03**	**2.57**	**-4.85**	**-4.45**	**-4.45**
Application Software	1.89	-1.70	-27.40	-28.21	-28.21
Communications Equipment	0.95	-2.14	6.41	2.61	2.61
Electronic Components	0.46	14.05	13.14	19.17	19.17
Electronic Equipment & Instruments	0.13	4.86	11.45	17.51	17.51
Electronic Manufacturing Services	0.15	6.79	-0.78	2.04	2.04
Internet Software & Services	0.07	-2.63	-7.88	-8.90	-8.90
IT Consulting & Services	0.70	-8.77	-19.43	-15.73	-15.73
Semiconductor Equipment	1.29	9.01	6.65	29.90	29.90
Semiconductors	12.51	7.17	0.85	2.38	2.38
Systems Software	6.12	3.21	-16.37	-17.14	-17.14
Technology Distributors	0.03	-9.90	-5.00	-6.88	-6.88
Technology Hardware, Storage & Peripherals	6.74	-4.28	2.35	-0.78	-0.78
Materials	**1.99**	**4.35**	**7.54**	**15.30**	**15.30**
Commodity Chemicals	0.07	6.91	21.88	37.16	37.16
Construction Materials	0.26	0.95	-2.55	3.65	3.65
Copper	0.14	4.76	5.67	22.15	22.15

Fertilizers & Agricultural Chemicals	0.12	3.04	10.69	14.17	14.17
Gold	0.20	8.84	4.57	18.30	18.30
Industrial Gases	0.45	2.86	7.16	12.44	12.44
Metal & Glass Containers	0.03	0.80	20.28	25.96	25.96
Paper Packaging	0.18	9.29	14.39	21.63	21.63
Specialty Chemicals	0.42	4.83	8.98	17.18	17.18
Steel	0.11	2.05	15.30	16.52	16.52
Real Estate	**1.85**	**4.20**	**6.10**	**6.79**	**6.79**
Data Center REITs	0.25	14.96	19.02	21.64	21.64
Health Care REITs	0.33	7.00	9.91	10.68	10.68
Hotel & Resort REITs	0.02	2.84	6.54	10.21	10.21
Industrial REITs	0.20	0.17	5.67	6.82	6.82
Multi-Family Residential REITs	0.00	1.96	1.12	-1.92	-1.92
Office REITs	0.01	-6.50	-11.72	-12.47	-12.47
Other Specialized REITs	0.10	9.44	10.89	14.33	14.33
Real Estate Service	0.09	-16.06	-20.23	-21.95	-21.95
Retail REITs	0.25	-0.09	6.66	8.67	8.67
Self-Storage REITs	0.13	3.70	3.95	11.93	11.93
Single-Family Residential REITs	0.13	3.70	3.95	11.93	11.93
Telecom Tower REITs	0.23	10.42	7.70	4.30	4.30
Timber REITs	0.03	1.24	5.00	14.14	14.14
Utilities	**2.27**	**4.87**	**6.15**	**5.88**	**5.88**
Electric Utilities	1.49	4.81	6.09	5.33	5.33
Gas Utilities	0.05	3.65	6.06	6.04	6.04
Independent Power Producers & Energy Traders	0.11	12.02	-2.28	3.06	3.06
Water Utilities	0.04	2.14	-1.48	-1.63	-1.63
Multi-Utilities	0.58	4.16	8.49	8.33	8.33

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 50121.40
S&P 500: 6941.47
NASDAQ: 23066.50

Additional information is available upon request.

Current Rating Distribution (as of February 12, 2026):

Coverage Universe	Percent	Inv. Banking Relationships *	Percent
Outperform (Buy)	73	Outperform (Buy)	11
Market Perform (Hold)	27	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	0

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