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Morning Briefing

On Mag-7, Microsoft & Dancing Robots

Check out the accompanying [chart collection](#).

Executive Summary: They may be magnificent, but they're not invincible. The Mag-7 has been beaten down into correction territory, but the group still wields outsized influence over stock-market performance by virtue of its still huge market-cap share. Jackie examines the valuation carnage and whether it seems warranted relative to earnings prospects. ... Also: A look at embattled Microsoft as it fends off competitive attacks from multiple directions. ... And: China's humanoid robots strutted their stuff on a televised celebration of the Chinese New Year. Their awesome performances suggest robotics competitors have their work cut out for them.

Information Technology I: Mag-7 Post Correction. After an amazing run, the Magnificent-7 collectively entered an official correction last week, pulled downward by fears of artificial intelligence taking over the software business, Nvidia losing market share to competitors, and Amazon, Meta Platforms, and others spending too much on capital expenditures ([Fig. 1](#)). Even after their recent selloff, the tech titans collectively wield an outsized influence on the broad market, representing 29.8% of the S&P 500's market capitalization, largely unchanged over the past six months ([Fig. 2](#)).

Purely from a valuation standpoint, the Mag-7 isn't as expensive as it was, but it's not cheap either. The group's forward price-to-sales (P/S) ratio has fallen to 7.10, down from its November 3, 2025 peak of 8.33. But the P/S ratio remains higher than it has ever been outside of the past two years ([Fig. 3](#)).

What has fallen back to a more reasonable level is the Magnificent-7's forward P/E. Currently at 25.8, the forward P/E is far below its September 2020 peak of 38.1, and it's not far above the S&P 500's forward P/E of 21.8 ([Fig. 4](#)). The Mag-7's forward P/E is arguably justified given the index's forward earnings growth rate of 22.8% ([Fig. 5](#)). That's far better than the S&P 500's forward earnings growth rate of 15.2% and the 12.9% forward earnings growth expected for the S&P 500 index excluding the Magnificent-7.

The valuation of each of the Mag-7 stocks has fallen—except for Tesla's. The electric car company's forward P/E has climbed to 196.8 as investors anticipating the production of the company's humanoid robots have pushed up the stock price ([Fig. 6](#)). What investors appear to have overlooked is the company's modest long-term earnings growth rate, which the analysts' consensus pegs at only 10.3% a year ([Fig. 7](#)).

Conversely, the forward P/Es of Amazon and Nvidia have collapsed from levels north of 40 in 2021 to the 20s today. That much devaluation seems appropriate for Amazon, given that its long-term earnings growth estimate has declined from typical levels around 40% to 18.3%. Nvidia, on the other hand, is still expected to have unusually strong long-term annual earnings growth of 47.0%.

Overall, analysts remain sanguine about the Magnificent-7 as a whole. Their consensus estimate for the Mag-7's annual earnings growth over the next three to five years is 21.7%, only about one percentage point lower than the earnings growth they're expecting over the next year ([Fig. 8](#)).

Technology II: Microsoft Under Attack. Of the stocks in the Magnificent-7, Microsoft has had the worst ytd performance, falling 17.9% through Tuesday's close ([Fig. 9](#)). Unfortunately for the company, there are diverse reasons that its shares have come under pressure.

Investors are concerned about Microsoft's large increase in capital spending. Last quarter, capex rose 65.9% y/y to \$37.5 billion. The company certainly isn't alone in expanding its capital spending, but that spending has arguably produced less success. About two-thirds of the capex last quarter was spent on short-lived assets like GPUs and CPUs used in its Azure web services business. But Azure's revenue climbed 39% y/y last quarter, which beat estimates but was below the 40% growth in the prior quarter.

There has also been tepid adoption of the company's AI service, Copilot. Microsoft sold 15 million Microsoft 365 Copilot seats, which underwhelmed analysts given that Microsoft has customers that pay for more than 450 million seats to access Microsoft 365's business software. That result also pales in comparison to Google Gemini's 560 million monthly [users](#) and ChatGPT's 900 million weekly active users.

And then there's the growing competition. A myriad of competitors are building software infused with AI to compete with Microsoft 365's office productivity software. Mistral CEO Arthur Mensch estimated in a CNBC [interview](#) yesterday that more than 50% of enterprises'

current software could be replaced by AI.

Let's take a look at what some of the competition is offering up:

(1) *The big guys pile on.* Google's Workspace has long been a Microsoft Office competitor, but now it is using the power of Google Gemini, its AI assistant, throughout its Docs, Sheets, and Slides.

OpenAI is developing products to compete with Microsoft Office and Google Workspace. The move into Microsoft's turf is somewhat surprising considering that Microsoft owns a 49% stake in OpenAI's for-profit unit. OpenAI is reported to be developing document creation and collaborative editing, a browser, an AI-powered hardware device, and a social content feed within ChatGPT.

Tesla CEO Elon Musk has announced plans to create a purely AI software company called "Macrohard," a poke at Microsoft. "It's a tongue-in-cheek name, but the project is very real!" he wrote on X last August.

Zoho Workplace uses AI throughout its cloud-based suite of productivity tools. Zia, its assistant, helps write documents and emails, provides data insights on Zoho Sheets, and can create presentations. It can also proactively detect and neutralize email-based threats; identify incoming leads in email; identify, classify, and organize incoming legal documents; and train AI models without using customer data.

(2) *The little guys get in on the action, too.* There are many AI apps that offer up one or two of the services that Microsoft 365 offers. While a large company might not want to cobble together a handful of offerings, a small company looking to save money might be willing to go the extra mile.

Grammarly, the software company that corrects spelling and grammar, acquired Superhuman, an AI-infused email app, last year. It has AI agents that help users respond to emails and help with sales or marketing. The company is evolving into an AI productivity platform for apps and agents.

Shortcut AI looks like an Excel spreadsheet, but you can ask it to perform a task, and it will handle the coding that used to be handled by a human. It can build complex financial models or do competitive analyses. It can pull data from an annual report and enter it into a spreadsheet. Essentially, it can perform the same tasks typically done by a first-year analyst

on Wall Street.

Gamma uses AI to convert text and data into presentations, websites, and social posts. The company, which was founded in 2020, [raised](#) \$68 million in new funding at a \$2.1 billion valuation in November. The company is going after incumbents PowerPoint and Google Slides, which also include AI in their offerings, and newcomers Beautiful.ai and Canva. Other small companies in the space include Grist and Rows.

(3) *Stock looks awfully cheap relative to expectations.* If Microsoft can successfully defend its offerings and produce the earnings analysts are forecasting, its stock looks extremely inexpensive. Analysts are calling for forward earnings growth of 17.1% and long-term earnings growth over the next three to five years of 16.2% ([Fig. 10](#)). The company's forward revenues, forward operating earnings per share, and forward profit margin each are at record levels ([Fig. 11](#), [Fig. 12](#), and [Fig. 13](#)). Yet Microsoft's forward P/E has dropped more than 10 points to 22.0 ([Fig. 14](#)).

Disruptive Technologies: China's Robots Put on a Show. US robotics companies got the latest insight into what their Chinese competitors are up to on Monday. Chinese robots performed in China's *CMG Spring Festival Gala*, considered the world's most widely watched TV show. The four-hour program celebrates the new year on China's New Year's Eve. Here's a look at these amazing robots showing off:

(1) *Robots would have made Bruce Lee proud.* Unitree's humanoid robots performed an intricate [martial arts routine](#) that showcased their flexibility and fluidity of movement. While entertaining, the dance also made it easy to see how these robots could be used in combat. Unitree's G1 robot used in the dance sells for \$13,500 internationally, the *South China Morning Post* [reported](#). The company is reportedly preparing for an initial public offering in the first half of this year and has said its shipments could reach up to 20,000 units this year.

(2) *Short but sweet.* Noetix's Bumi, a friendly three-foot-tall humanoid robot designed primarily for educational and family use, listens and respond to humans. There's an [online video](#) of it walking around the gala's backstage area, sociably interacting with the performers. Bumi has a much lower [price tag](#), at \$1,400.

(3) *What the local competitors are doing.* What's unclear from the videos are the dexterity of the robots' hands and their "intelligence." What is clear is that Boston Dynamics and Tesla had better keep working and fast.

Earlier this month, Boston Dynamics released a [video](#) of its humanoid landing a series of acrobatic moves. Tesla reportedly is [developing](#) “skin” to make its humanoid look and feel more like a human. In a video from December, Tesla’s Optimus was taking a human-like jog. The company said an Optimus pilot production line was running in its Fremont factory, and a much larger production line is coming this year.

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): It was record highs across the board during the February 12 week for the S&P 500’s forward revenues, earnings, and profit margin. Forward revenues gained 0.2% w/w, and forward earnings edged up less than 0.1%. The forward profit margin remained steady w/w at a record-high 14.6%.

Consensus expectations for forward revenues growth rose 0.1ppt w/w to a 43-month high of 7.3%. From a longer-term perspective, that’s well above its 20-year average of 5.2% and its 33-month low of 2.3% during the February 23, 2023 week. The analysts’ forward earnings growth forecast rose 0.1ppt w/w to 15.2%, just 0.1ppt below the 54-month high of 15.3% during the January 1 week. That’s well above its 20-year average of 11.4% and up 4.2ppts from its 15-month low of 10.9% during the May 29 week.

Annual growth expectations for revenues and earnings also rose to new highs w/w instead of falling as is typical. Analysts expect revenues to rise 7.4% in 2026 (+0.1ppt, new high) and another 7.4% in 2027 (new high), compared to a 6.7% gain in 2025 (+0.1ppt, new high). They expect an earnings gain of 15.3% in 2026 (+0.1ppt) and a 16.3% rise in 2027 (+0.2ppt, new high), compared to 2025’s earnings gain of 13.6% (12-month high).

Consensus profit margin forecasts were mostly steady w/w but remain on solid uptrends. Analysts expect the profit margin to rise 0.8ppt y/y to 1.0ppt y/y in 2026 to 14.3% (eight-month high), 1.2ppts y/y in 2027 to 15.5% (+0.1ppt, new high), compared to 2025’s 13.3% (eight-month high).

Looking at valuation data as of February 12, the S&P 500’s weekly forward P/E rose 0.1pt w/w to 21.8 from a 34-week low. That’s well above its 20-year average of 16.4 and is up 2.6pts from its 16-month low of 19.2 during the April 17 week, but has fallen 1.5pts from its 25-year high of 23.3 during the October 30 week. It also compares to 23.1 in early September 2020, which was then its highest level since July 2000, and to a 77-month low of 14.0 in March 2020.

The S&P 500 weekly price-to-sales ratio rose 0.02pt w/w to 3.18 from a seven-week low of 3.16. That's still well above its 20-year average of 1.80 but 0.10pt below its record high of 3.28 during the October 30 week, and it compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins ([link](#)): During the February 12 week, ten of the 11 S&P 500 sectors posted gains in their forward revenues, and eight had forward earnings rise. While four sectors had their forward profit margins tick down w/w and none rose, these are short-term swings; margins should revert to their positive trends. Indeed, eight of the 11 sectors have higher forward profit margins since the start of the year.

Looking at the sectors' forward revenues, the record-high club count was unchanged w/w at eight: Communication Services, Consumer Discretionary, Financials, Health Care, Industrials, Information Technology, Real Estate, and Utilities. A ninth, Consumer Staples (3.3% below record), would be in the club too after adjusting for the removal of CVS last September. Energy's remains depressed at 29.2% below its September 2008 record, while Materials' has improved steadily since its May 2025 bottom to just 1.9% below its June 2022 record.

The membership roll for the record-high forward earnings club saw two sectors exit this week (Consumer Discretionary and Industrials) as the count dropped from seven to these five: Communication Services, Consumer Staples, Financials, Information Technology, and Utilities. The lower count w/w is not a concern, as their forward earnings uptrends remain intact. As recently as late November, nine of the 11 S&P 500 sectors were in the record-high forward earnings club. Earnings remains depressed near a cyclical low for Energy (42.5% below October 2022 record), but has improved steadily for Materials since May 2025 (16.4% below April 2022 record).

In the record-high forward profit margin club, Financials holds down the fort this week as the sole member. However, these five sectors have just a short trip back to record highs: Communication Services, Consumer Discretionary, Industrials, Information Technology and Utilities. Among the five lagging sectors, the forward margins of Consumer Staples, Materials, and Real Estate have improved from their recent multi-year lows, while Energy's and Health Care's are just a tick above their recent record lows.

Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts: Information Technology (30.2%, down 0.1ppt w/w from record 30.3), Financials (21.4, record high), Communication Services (19.4, down 0.1ppt w/w & 0.4ppt below 19.8

record in August), Real Estate (16.6, 3.6ppts below 19.2 record high in 2016), Utilities (15.0, 48-month high & 0.1ppt below April 2021 record 15.1), S&P 500 (14.6, record high), Materials (11.5, 19-month high & down from 13.6 record high in June 2022), Consumer Discretionary (9.5, down 0.2ppt from 9.7 record in January), Energy (8.3, down 0.1ppt w/w to 64-month low and 4.5ppt below 12.8 record in November 2022), Industrials (11.2, 0.1ppt below 11.3 record high in January), Health Care (8.0, 0.1ppt above 7.9 record low in January and 3.5ppt below February 2022 record high of 11.5), and Consumer Staples (7.1, 0.4ppt above September low & 0.6ppt from June 2020 record high of 7.7).

S&P 500 Q4 Earnings Season Monitor ([link](#)): With 389 companies having reported Q4 results through mid-day Wednesday, the Q4-2025 earnings season is now 78% complete. The latest readings suggest a tad weaker revenue and earnings surprise than in Q3-2025, but with y/y growth steady q/q near their respective three- and four-year highs.

Revenues are ahead of the consensus forecast by 1.7% (down from 2.2% in Q3), and earnings have exceeded estimates by 5.6% (down from 9.6% in Q3). Both of those measures are stabilizing now as the Q4 finish line approaches.

Just 72% of the 389 companies has reported a positive revenues surprise, while 75% has reported an earnings beat. That's well above historical averages of 62% (revenues) and 73% (earnings), but are below Q3's uncommonly high readings of 77% (revenues) and 83% (earnings).

Among the 389 companies that have reported so far, aggregate y/y earnings growth is exceeding revenues growth for a 10th straight quarter. Their aggregate y/y growth rates have improved q/q so far for revenues (to 9.0% from 8.1%) and weakened for earnings (to 12.1% from 16.6%).

More companies have been reporting positive y/y revenues growth in Q4 (83%) than positive y/y earnings growth (71%), but both are near four-year highs now and well above their historical averages of 73% (revenues) and 66% (earnings).

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