

Hindenburg Alarm: Another Rotation Or Worse?

In early November, we sounded the alarm about a recent Hindenburg Omen. Per the [Commentary's](#) summary:

*Bottom line: market breadth is horrendous and **will likely lead to a rotation favoring out-of-favor sectors and stocks**. Thus, it's not surprising that the Hindenburg Omen was triggered. If we continue to see more of these Omens, the threat of a drawdown grows.*

At the time, Mega-Cap stocks were grossly outperforming the market, while many sectors lagged the market. Since that Hindenburg Alarm, our expectations have come to fruition. We have, in fact, seen a *rotation favoring out-of-favor sectors and stocks*.? The graphic below, courtesy of [SimpleVisor](#), shows the significant change in fortunes between sectors. The first column shows each sector's excess returns (vs. the S&P 500) since the Hindenburg Omen on October 29th. The second column shows the excess returns over the 50-day period preceding the alarm.

The Hindenburg Omen has sent 6 alarms over the last month. The last batch of Hindenburg alarms signaled drawdowns in the leaders and strong performance in the laggards. Is this Hindenburg Alarm signaling a rotation back to large-cap growth? Or might it be more ominous for the entire market? The last time this technical indicator triggered six times in a month was preceding the Pandemic crash of 2020, as we share in the Tweet of the Day.

SPY Excess Returns Over Time			SPY Excess Return Correlations	Excess Return Z-Score and Rank
Lookback Days: 78,50,50			Update	Price data of 2026-02-24 17:12:27 EST 
			78 days	50 days
Symbol	Name	Top 10 Holdings	2025-10-30 to 2026-02-24 	2025-08-20 to 2025-10-30 
XLE	Energy		24.87%	-4.58%
XLB	Materials		22.73%	-10.91%
XTN	Transportation		20.59%	-6.71%
XLP	Consumer Staples		16.20%	-14.61%
XLI	Industrials		13.30%	-4.24%
XLV	Health Care		8.30%	-1.59%
XLRE	Real Estate		5.87%	-8.81%
XLU	Utilities		4.11%	-2.43%
XLC	Communication Services		0.50%	-2.47%
XLY	Consumer Discretionary		-1.23%	-3.82%
XLF	Financial		-3.50%	-7.75%
XLK	Technology		-7.68%	9.05%

What To Watch Today

Earnings

Thursday Feb 26	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time	
Salesforce CRM.US	3.05	2.78		11.17B	10B		\$228.44B	Q4	PM	★ 🔔
Intuit INTU.US	3.68	3.32		4.52B	3.96B		\$184.24B	Q2	PM	★ 🔔
Dell Technologies DELL.US	3.52	2.68		31.09B	23.9B		\$88.2B	Q4	PM	★ 🔔
Vistra Corp VST.US	2.33	2.38		5.28B	17.22B		\$78.93B	Q4	AM	★ 🔔
Warner Bros Discovery DIS	-0.03	-0.20		9.37B	10.02B		\$70.11B	Q4	AM	★ 🔔
Monster Beverage MINST.US	0.47	0.38		2.03B	1.81B		\$69.08B	Q4	PM	★ 🔔
Autodesk ADSK.US	2.64	2.29		1.91B	1.64B		\$63.3B	Q4	PM	★ 🔔
Sempra Energy SRE.US	1.26	1.50		4.26B	3.76B		\$58.44B	Q4	AM	★ 🔔
Cheniere Energy LNG.US	3.84	4.33		5.4B	4.44B		\$49.64B	Q4	AM	★ 🔔
Zscaler ZS.US	0.89	0.78		798.3M	647.9M		\$43.43B	Q2	PM	★ 🔔
Public Service PEG.US	0.74	0.84		2.86B	2.46B		\$41.62B	Q4	AM	★ 🔔
EMCOR EME.US	6.68	6.32		4.28B	3.77B		\$29.81B	Q4	AM	★ 🔔
NetApp NTAP.US	2.07	1.91		1.7B	1.64B		\$23.01B	Q3	PM	★ 🔔
SBA Communications SBAC.U	3.63	1.61		726.75M	693.7M		\$21.42B	Q4	PM	★ 🔔
MasTec MTZ.US	1.95	1.44		3.72B	3.4B		\$19.45B	Q4	PM	★ 🔔
Coterra Energy CTRA.US	0.55	0.49		1.91B	1.4B		\$19.34B	Q4	PM	★ 🔔
Viatis VTRS.US	0.53	0.54		3.53B	3.52B		\$15.51B	Q4	AM	★ 🔔
Hormel Foods HRL.US	0.32	0.35		3.07B	2.99B		\$13.23B	Q1	AM	★ 🔔
Solventum Corp SOLV.US	1.75	1.41			2.07B		\$11.45B	Q4	PM	★ 🔔

Economy

Thursday February 26 2026	Actual	Previous	Consensus	Forecast	
08:30 AM US Initial Jobless Claims FEB/21		206K	215K	210.0K	📊 🔔
08:30 AM US Continuing Jobless Claims FEB/14		1869K	1860K	1872.0K	📊 🔔
08:30 AM US Jobless Claims 4-week Average FEB/21		219K		221.0K	📊 🔔
10:00 AM US Fed Bowman Speech					
10:30 AM US EIA Natural Gas Stocks Change FEB/20		-144Bcf			📊 🔔
11:00 AM US Kansas Fed Composite Index FEB		0		1	📊 🔔
11:00 AM US Kansas Fed Manufacturing Index FEB		-2		-1	📊 🔔

Market Trading Update

[Yesterday](#), we discussed the potential market topping indications, we will also do a deeper dive in this weekend's [#BullBearReport](#).

Today, I want to dig into a report from Citadel Securities discussing the current narrative that *?AI will eat everything.?* In a February 2026 report titled *?The 2026 Global Intelligence Crisis,?*

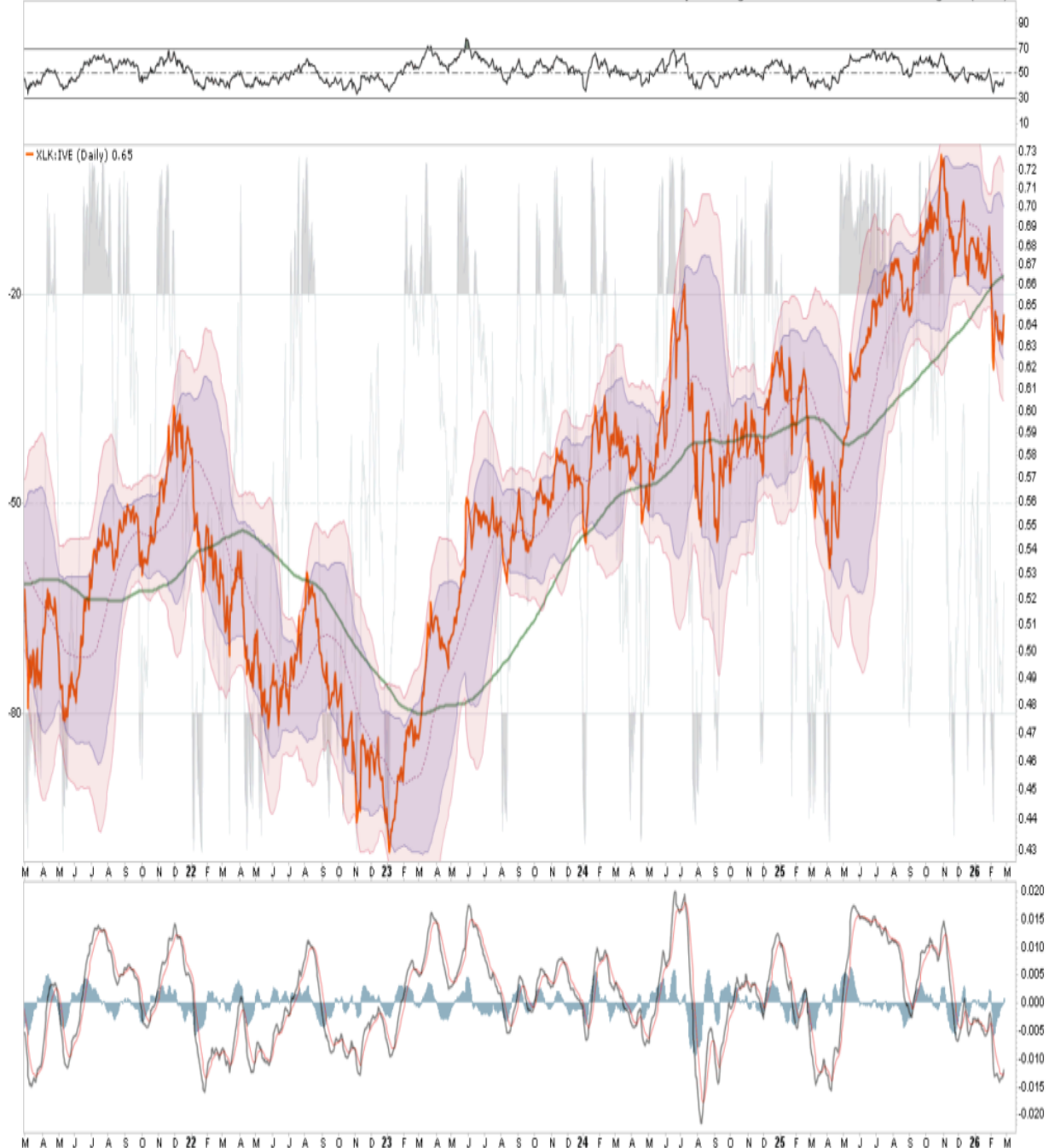
Citadel Securities strategist Frank Flight pushes back against the prevailing AI doom narrative, arguing that fears of imminent mass labor displacement are overstated. Despite a recent market panic triggered by a viral Substack scenario predicting widespread white-collar job destruction, Citadel points to real-world data telling a different story: unemployment sits at 4.28%, software engineer job postings are up 11% year-over-year, and new business formation is rapidly expanding.

The report's central thesis is that recursive technological capability does not necessarily translate into recursive economic adoption. Technology diffusion historically follows an S-curve: A slow early uptake, accelerating growth, then a plateau. Currently, AI shows no signs of breaking this pattern. St. Louis Fed data on AI use at work reveal unexpectedly stable adoption trends with no signs of imminent displacement. Moreover, scaling AI to replace white-collar work would demand vastly more compute than currently available, and if compute costs rise above the cost of human labor for certain tasks, substitution simply won't happen.

Citadel also frames AI as a productivity shock. Fundamentally, a positive supply shock lowers costs, expands output, and raises real incomes. Every major technological revolution, from steam power to personal computing, has followed this pattern. The report cites Keynes's famous 1930 prediction of a 15-hour workweek, noting that he was right about productivity growth but wrong about its consequences: societies consumed more rather than working less because human wants proved highly elastic.

For AI to produce a sustained economic contraction, the report argues, one would need simultaneous near-total labor substitution, no fiscal or regulatory response, and unconstrained compute scaling, all an implausible combination. Historically, technological revolutions have altered the composition of work rather than eliminating it, and long-term trend growth in advanced economies has remained near 2%. AI may simply be enough to offset current headwinds from aging populations, climate change, and deglobalization.

So, with this in mind, the revaluation of Technology may be providing a compelling opportunity in the future. The companies that are leading the way have low valuations, in many cases, high rates of earnings and revenue growth, and broad moats to protect them. Looking at a long-term chart of the Technology sector, such previous setups have been decent entry points for longer-term investors.



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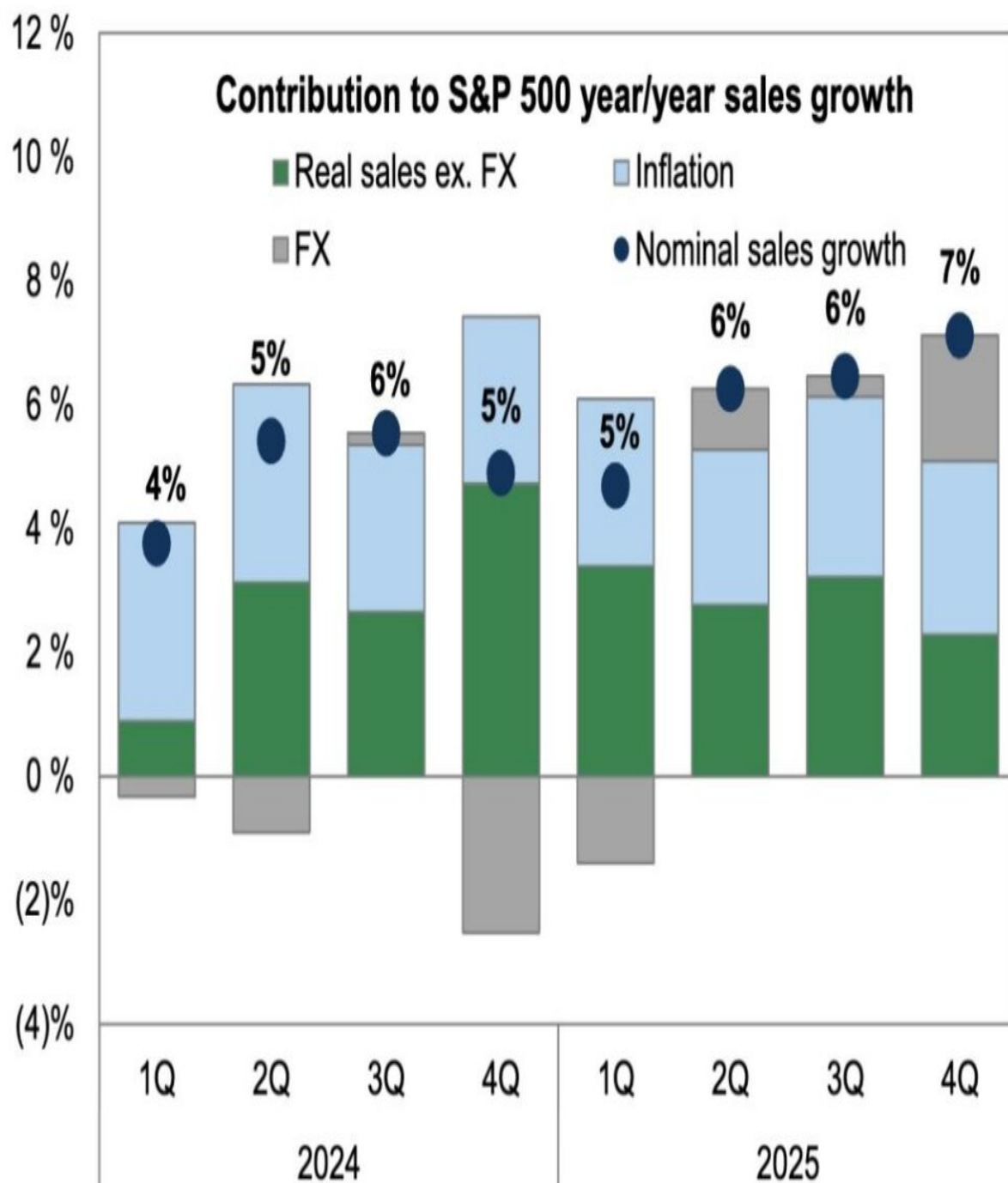
Inflation & The Dollar- Can These Earnings Tailwinds Continue?

Wall Street is forecasting a resurgence in earnings growth for the large majority of non-mega-cap S&P 500 stocks. Before blindly assuming that will be the case its worth understanding what drives earnings. Earnings are the results of sales. For many companies, sales are primarily a function of economic activity. However, as we share below, courtesy of Goldman Sachs, inflation and changes in the dollar also play meaningful, often underappreciated roles.

As shown below, inflation above pre-pandemic levels has boosted sales growth by approximately 2-3% over the past two years. Furthermore, the weakening dollar has benefited sales over the last three quarters. Looking ahead at sales and ultimately earnings, we must consider that inflation is showing signs of returning to pre-pandemic levels, and the dollar appears to be stabilizing. Assuming inflation continues to decline to the Fed's 2% target and the dollar remains flat or even appreciates, as we suspect it may, earnings forecasts face a headwind that Wall Street analysts may not have factored in when making their optimistic beginning-of-year projections.

Exhibit 3: A weaker dollar has helped sales grow faster than nominal GDP

excludes Financials, Real Estate, and Utilities



Inflation component based on headline CPI

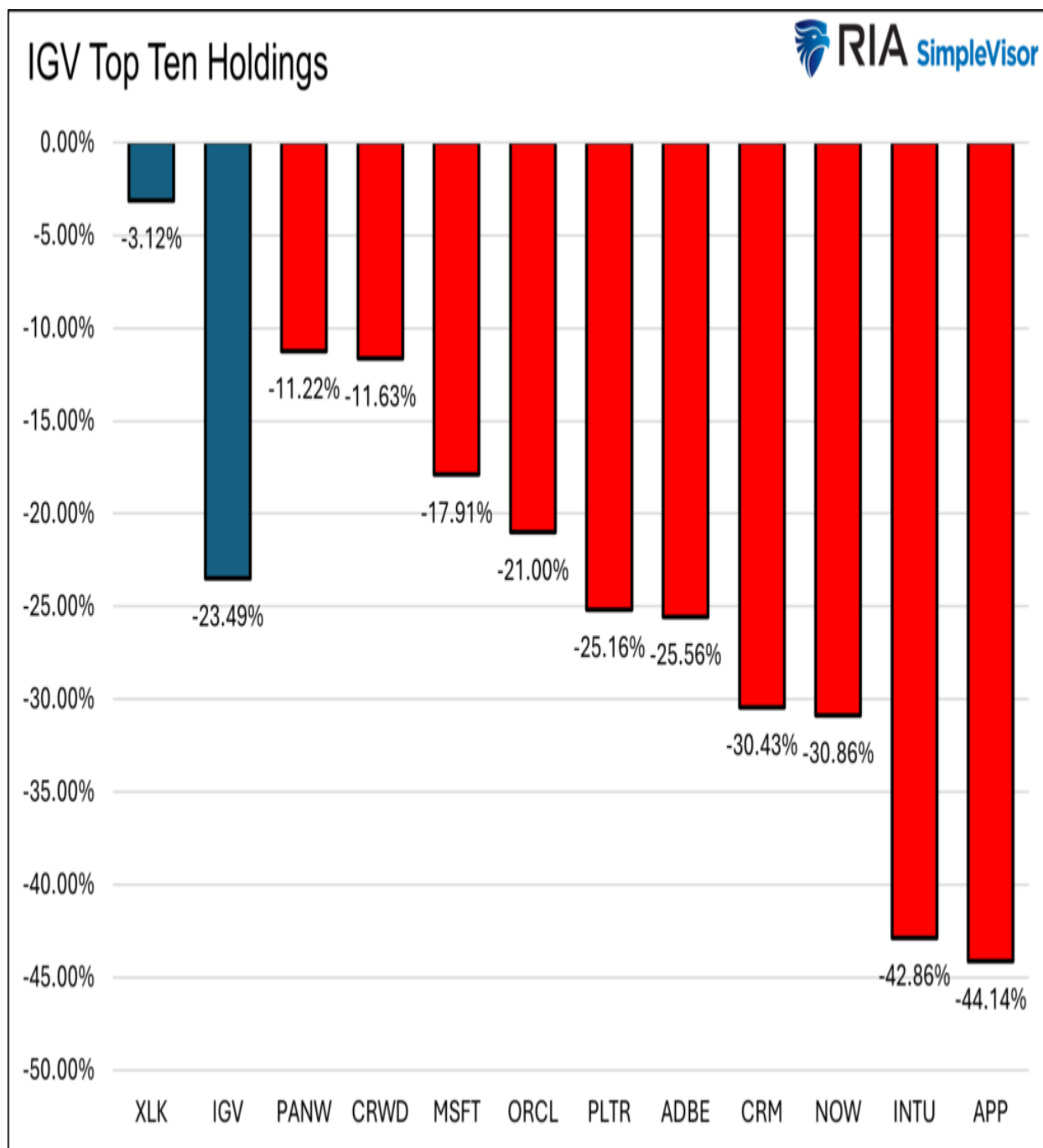
Source: Goldman Sachs Global Investment Research

Software Stocks: Navigating The SaaSocalypse

Like most narratives, the SaaSocalypse has some truth and some falsehoods. There is also a large degree of speculation buried within it. Furthermore, the truth shouldn't be applied

broadly to all software companies and their products. In fact, AI will make some software companies more profitable and strengthen their moats. Other companies may fail as competition becomes fierce. The goal for an investor is to figure out who the winners and losers will be. Such is not a simple task, but doing so can provide significant rewards if your research proves correct.

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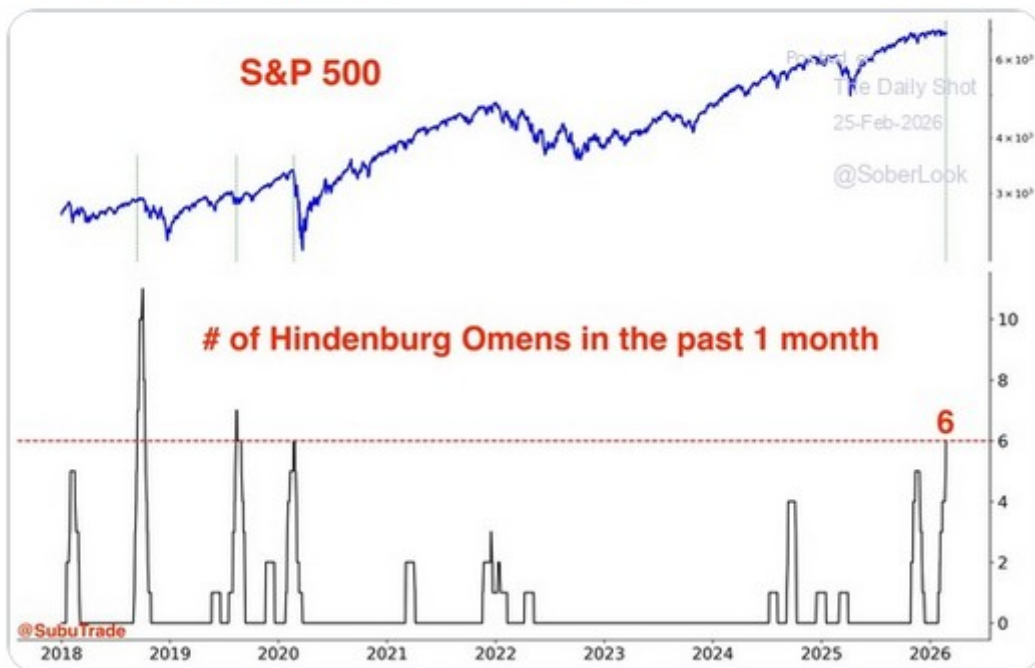
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The Hindenburg Omen has been triggered six times over the past month. The last time this happened was February 2020.



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