17 February 2026

Market Ethos

The latest market insights from Richardson Wealth

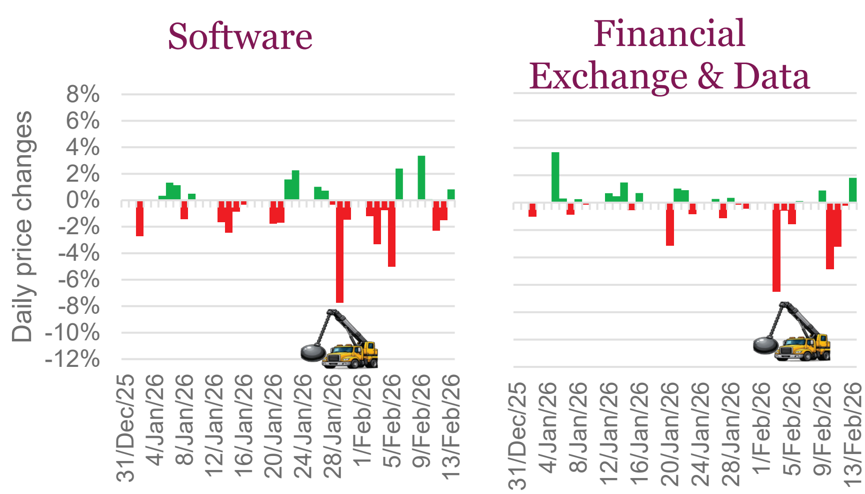
Craig Basinger

RICHARDSON Wealth

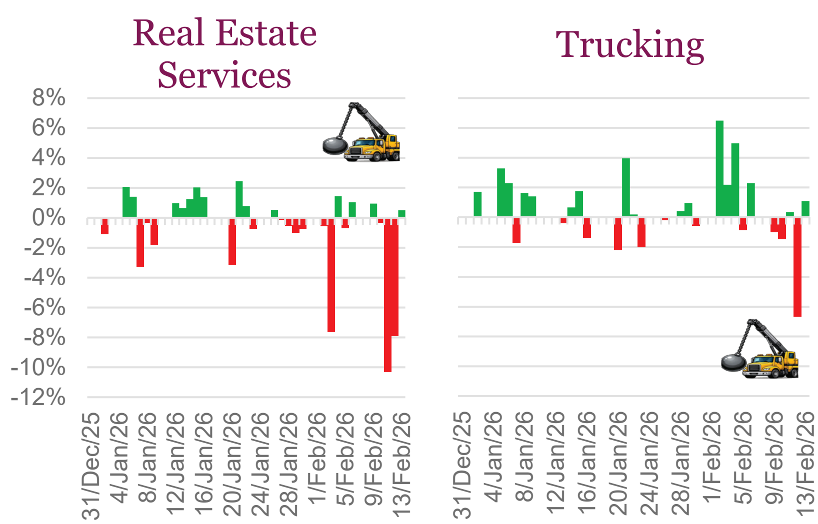
AI wrecking ball

There is a wrecking ball bouncing from one industry to the next and folks are calling it the "AI Scare Trade". Any whiff of how AI could potentially disrupt an existing business model or service, and stocks plunge lower. We discussed this in last week's Ethos, "Mixed signals", as new functionalities on Anthropic AI services impacted the software space generally. This spread to legal and other services.

This past week, the AI wrecking ball visited wealth services, real estate firms, insurance brokers, rating agencies and trucking. Some of the price moves are a bit eyewatering. S&P and Moody's, both providers of financial services including credit ratings, were down -25% and -20% over past couple weeks. Raymond James, a wealth service company, dropped -10% when a financial planning AI tool was announced.



Source: Bloomberg



Sign up here if you do not already receive the Market Ethos directly to your inbox.

Perhaps the most outrageous price reaction may have been in the trucking industry. A Florida company, Algorhythm Holdings, announced its service has improved customers' scale freight volumes by 300% to 400% without adding headcount. This knocked billions in market capitalization off truck transport shares. This company had $2M in revenue as of September and just recently divested its previous core business of selling karaoke machines. The company's ticker is RIME, more fitting than when the name was Singing Machine Company.

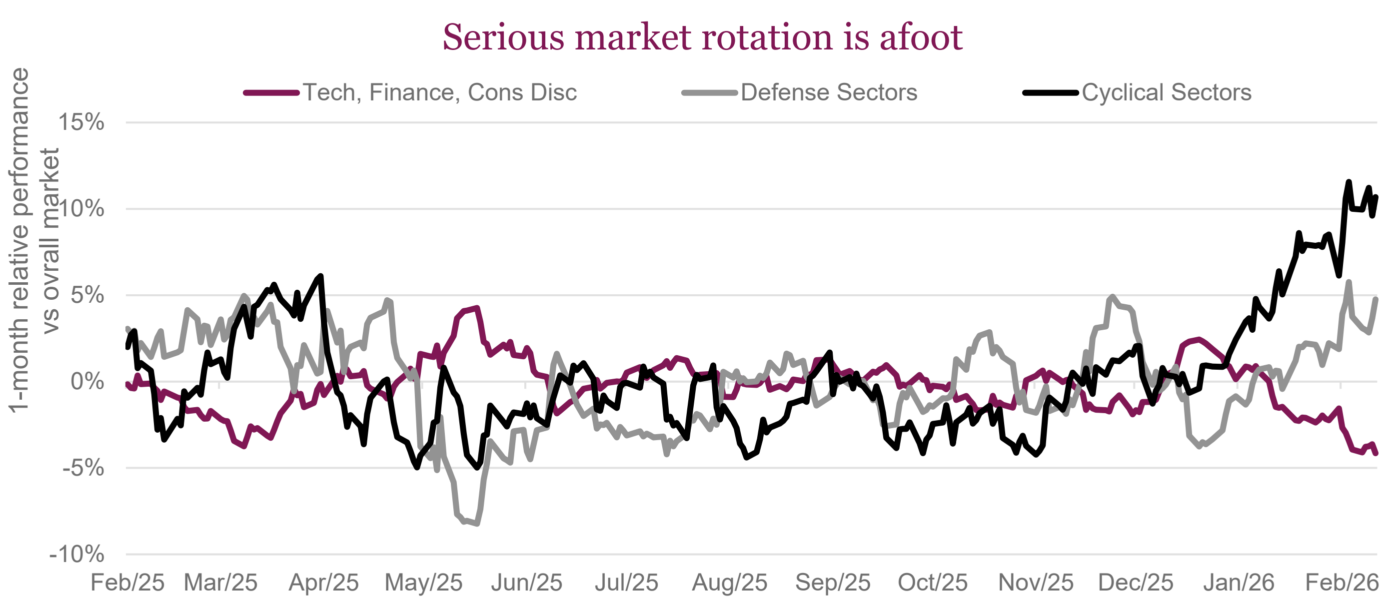
As the AI wrecking ball moves from one industry to the next on even the slightest whiff of disruption, is this an opportunity or is the market right to drop -5, -10, -20%? Markets do overreact in the short term and sometimes underreact in the really long term. It also appears these dramatic moves are driven in part by retail and likely some quant algos. It is somewhat reminiscent of Roaring Kitty (the meme stock king), but instead of hyping up questionable business models, it's quickly deflating profitable businesses.

Can the market have it both ways?

Lately, there have been rising concerns over the return on investment for these hyperscalers building out AI infrastructure. Capex levels are eyewatering, and still rising, while the market remains unsure they will make enough money to justify the dollars spent. This is captured in the credit default swaps for Oracle, perhaps the hyperscaler with the most aggressive push into the space. In September, swaps sat at 40 bps; now they are at 160 bps. BUT, if AI can disrupt all the above-mentioned industries in a material way, there clearly is a huge ROI.

As with everything, the truth usually sits somewhere in the middle. The hyperscalers will likely have a challenging time to generate enough ROI, but they have strong balance sheets and are comfortable with the risk. Plus, the trend over the past year has been to spread that risk via more debt structures and circular finance arrangements. On the various industry side, yes there will be disruption and business models will evolve, but probably not quite the doomsday being priced in off one headline here or there.

This has all created a higher level of divergence in the market. In fact, the current level of divergence, measuring performance dispersion among index members, is one typically seen during market sell-offs. Yet the market aggregates are down just a bit. What has been saving the overall market from a weakening technology sector was originally the defensives in Q4 2025, including health care, consumer staples, utilities and telcos. More recently cyclicals from industrials, energy and materials have been the saviour.

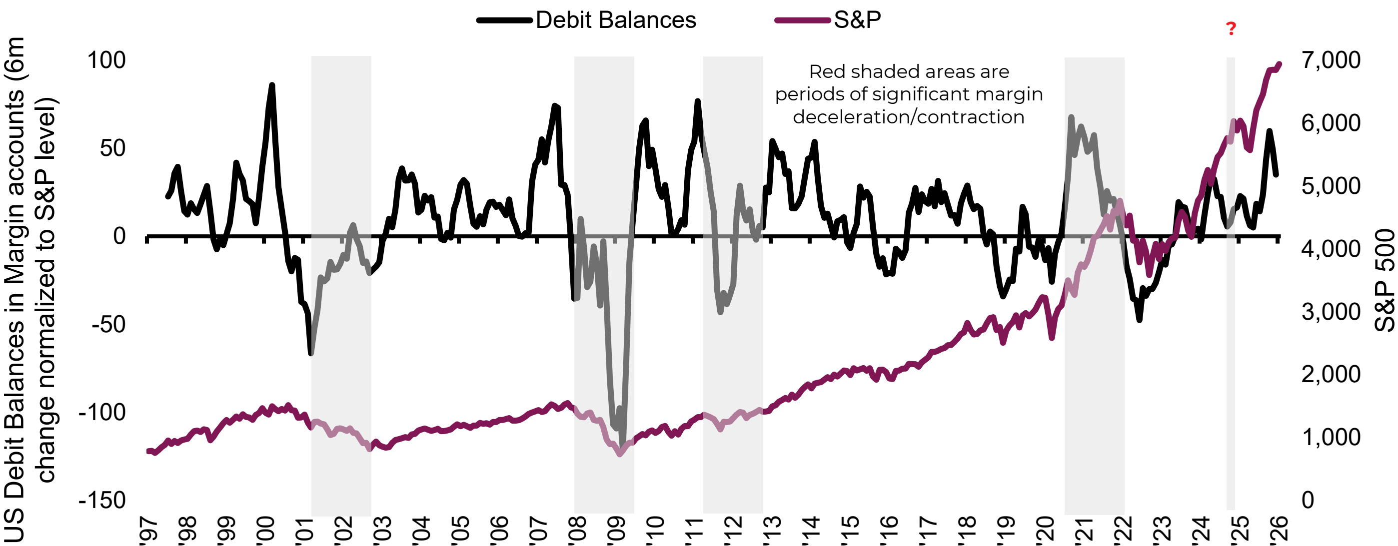


Source: Bloomberg, Purpose Investments

For all the fanfare, we should point out the S&P 500 is currently is down a paltry -2.5% from its all-time high set in late January, with the TSX down -2.0% from its all-time high set mid last week. At the headline index, this is really just noise. But it does highlight the fragility of this market so far in 2026. These kinds of moves, even if in smaller companies that don't influence the index much, are not signs of a healthy market.

Another point of interest to maintain a bit of a defensive tilt in 2026 is leverage. One factor that really helped equity markets post those strong returns in the second half of 2025 was increased leverage by investors. The chart below is the six-month change in debit balances, adjusted for the level of the S&P. This makes comparisons with years past a bit more apples to apples. Late last year, there was a pretty big increase in debit balances, stock ownership in margin accounts, as investors took on more leverage. The key is that when this reverses or loses upward momentum, it often is followed by a market reversal as well. And based on the latest data point (December) the pace of margin growth has slowed.

After rampant leveraging up in margin accounts helped drive markets, the pace is slowing quickly



Source: Bloomberg, Purpose Investments, FINRA

Final thoughts

Leadership change, AI wrecking ball hitting one industry after another, margin leverage starting to lose momentum and a market that is less than a stone's throw from all-time highs are all good reasons not to chase this market. That being said, the price reactions in various industries are clearly knee-jerk at this point, and may open up some potential opportunities.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

The contents of this publication were researched, written and produced by Purpose Investments Inc. and are used by Richardson Wealth Limited for information purposes only.

*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.