



## The Rotation to Resilience

### **Hard-Asset, Low-Obsolescence Stocks Positioned for Durable, Long-Term Growth**

- Market leadership is broadening beyond mega-cap AI winners toward “durability” characteristics such as predictable earnings, strong free cash flow and tangible asset backing — making hard-asset, low-obsolescence (HALO) stocks particularly attractive.
- HALO stocks span several sectors and combine defensive characteristics with multiple long-duration growth tailwinds, including the AI buildout, natural gas demand/LNG exports, geopolitical defense, energy security and demographics.
- We believe attractive valuations and low correlations to the rest of the market also make for compelling fundamentals for HALO stocks.

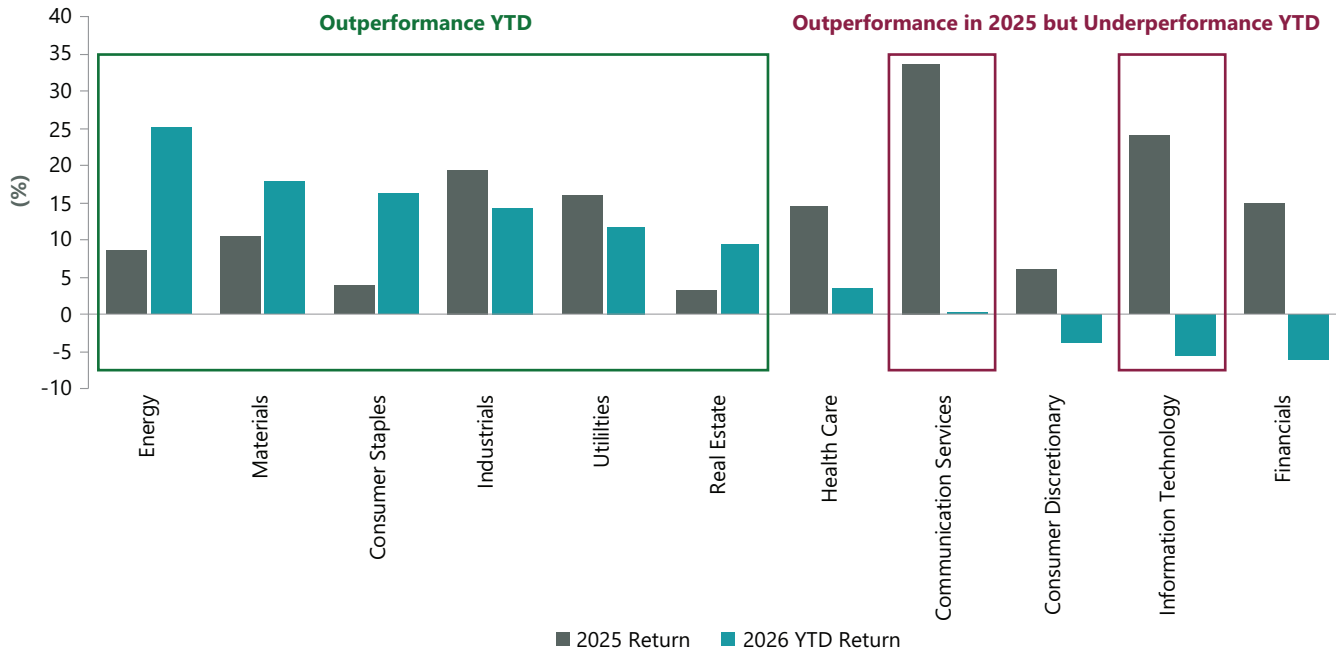
### **A Shift in Leadership and Investor Priorities**

The equity market environment has evolved meaningfully in 2026. Following a period in which generative AI-related companies dominated returns and investor attention, leadership has begun to broaden. In 2025, performance was heavily concentrated in a narrow group of mega cap technology companies, many of which traded at elevated multiples amid enthusiasm for AI-driven growth. That concentration left markets increasingly sensitive to valuation risk, stretched capital intensity and execution challenges.

This year, investors have begun to reassess those dynamics. Questions surrounding the sustainability of aggressive capital expenditure programs, the balance sheet implications of AI infrastructure buildouts and the long-term return profile of these investments have introduced a dose of reality and greater selectivity. At the same time, the disruptive potential of AI across software, services, financials and other industries has created uncertainty about the durability and terminal value of certain business models. The issue is not whether AI will reshape industries — it almost certainly will — but rather how quickly and to what extent that transformation will occur.

As a result, market attention has begun to shift away from an exclusive focus on pure thematic momentum and toward companies with stable and predictable earnings streams, durable free cash flow and tangible asset backing. The market leaders in 2025 — hyperscalers in communication services and information technology (IT) more broadly — have ceded market leadership thus far in 2026 in favor of energy, materials, consumer staples, industrials, utilities and real estate (Exhibit 1).

**Exhibit 1: Early Signs of a Market Rotation (S&P 500 Index)**

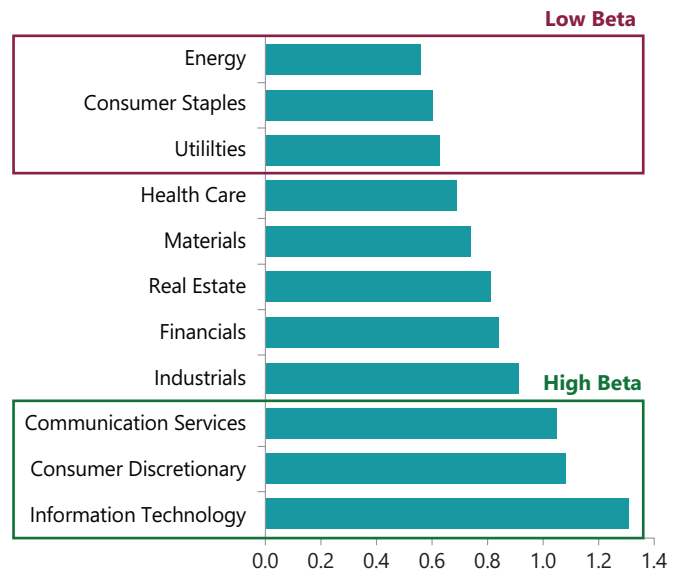


As of Feb. 28, 2026. Source: ClearBridge Investments, FactSet.

### Defensiveness Built on Long-Lived Assets

Amid this backdrop, hard-asset, low-obsolence (HALO) stocks have become increasingly compelling. These businesses own tangible, difficult-to-replicate assets and provide essential goods and services that are unlikely to be disintermediated by technological innovation. Pipelines, electric grids, defense systems, apartment buildings (providing essential housing needs), data centers (providing cloud services), and everyday consumer products remain necessary regardless of the evolution of software or AI models. The shifting of market leadership thus far in 2026 has highlighted the attractiveness of such companies, particularly their defensiveness or lower volatility. Notably, the outperforming sectors thus far have been largely lower-beta sectors such as energy, consumer staples and utilities, at the expense of higher-beta sectors such as communication services, consumer discretionary and IT (Exhibit 2).

**Exhibit 2: Sector Betas**



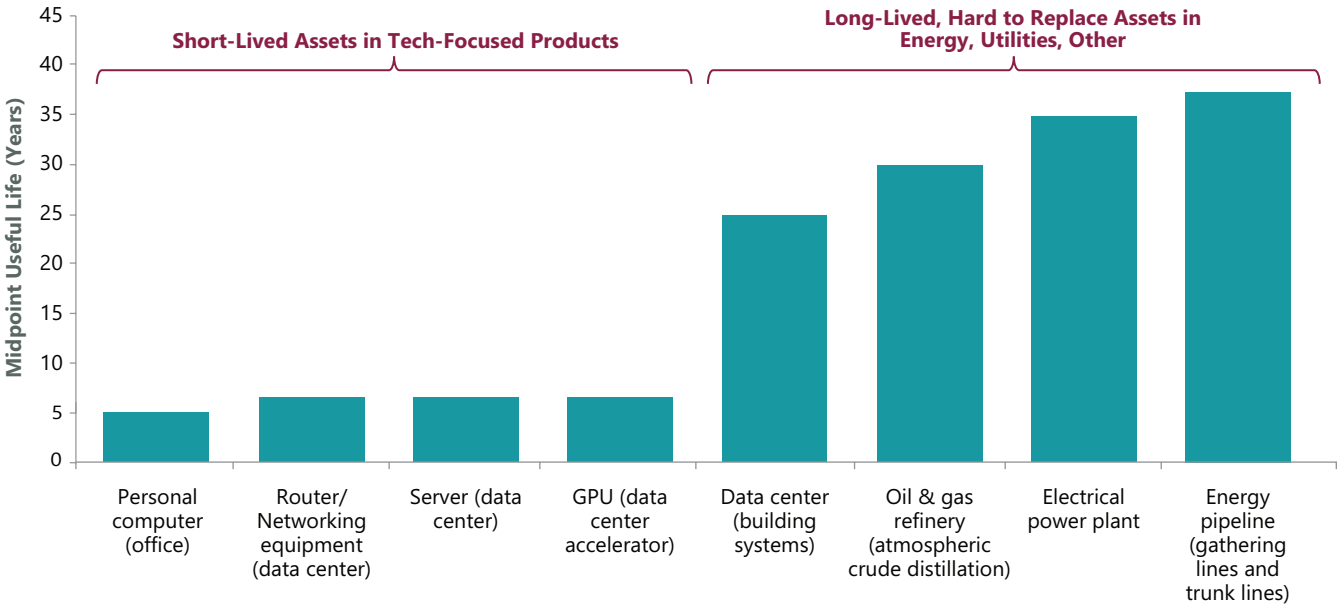
As of Feb. 28, 2026. Source: ClearBridge Investments, Northfield U.S. equity risk model.

One major point of differentiation of HALO stocks from technology is the long useful lives of the products they provide (Exhibit 3). While there are certainly strong drivers for demand in tech-focused products like personal computers, routers, servers and GPUs for data centers, there is considerably less guarantee any one company's products will be the preferred replacement in five or six years' time when their useful lives end. The long lives of assets underpinning midstream energy, data center building systems (such as HVAC, electrical power components and fiber cabling), oil and gas infrastructure and utilities' power plants support long-term contracts, which enhances the predictability of their returns over time.

### Structural Tailwinds Allow HALO Stocks to Play Offense

Importantly, HALO companies are not solely defensive. Many — such as AI infrastructure enablers, data center operators and defense contractors — offer meaningful participation in structural growth themes. The result is a combination of downside resilience and targeted offensive opportunity.

Exhibit 3: Short-Lived Assets Vs. Long-Lived Assets



Source: Estimated Normal Useful Life Study, ASA – Machinery & Technical Specialties Committee, American Society of Appraisers, 2024.

First, the AI buildout itself is profoundly physical. The development and deployment of AI models require enormous investment in data centers, power generation, cooling systems and networking infrastructure. This creates sustained demand for companies that provide the foundational components of the digital ecosystem. Data center operators such as real estate companies Equinix and Digital Realty and infrastructure component manufacturers such as Amphenol stand to benefit from this investment cycle irrespective of which AI platforms ultimately prevail. These are, in effect, the “picks and shovels” businesses whose fortunes are tied to the scale of the buildout rather than to the success of any single application.

Second, structural growth in natural gas demand represents a powerful multiyear tailwind. AI-driven data centers require reliable and scalable sources of power, for which natural gas remains well suited. At the same time, Europe’s continued effort to reduce — if not eliminate — reliance on Russian energy has reinforced the importance of U.S. liquefied natural gas exports. Combined with ongoing domestic economic growth, these forces support sustained volume growth for high-quality midstream operators such as Williams and Kinder Morgan and related infrastructure assets.

Geopolitical considerations further reinforce the appeal of hard assets. Heightened global tensions and persistent regional conflicts have increased the strategic importance of defense capabilities and secure energy supply chains. Companies producing sophisticated defense systems — such as Northrop Grumman, L3Harris and Lockheed Martin — operate in industries characterized by high barriers to entry, long program durations and durable demand profiles. Similarly, energy infrastructure assets are critical to national and economic security, enhancing their long-term relevance.

Demographic and secular trends also underpin demand for real assets. An aging population supports the need for retirement housing and community living arrangements, particularly amid a U.S. housing shortage of between 1.5 million and 5.5 million units.<sup>1</sup> Essential consumer goods enjoy the relative stability of non-discretionary spending. These drivers operate largely independent of technological cycles and provide an additional layer of stability.

Together, the physical requirements of AI, structural energy demand and geopolitical realignment and demographic evolution create a durable growth backdrop for businesses anchored in tangible, difficult-to-displace assets.

### Compelling Fundamentals of HALO Stocks

In addition to favorable structural forces, HALO stocks exhibit strong underlying fundamentals that reinforce their attractiveness.

A defining characteristic of these businesses is their ability to generate durable and ample free cash flow. Take the midstream energy sector, which features many HALO stocks. Many midstream energy companies operate under long-term contracts, in regulated frameworks and with entrenched market positions that provide recurring revenue streams and high degrees of earnings predictability. This cash flow stability supports reinvestment in core assets, prudent balance sheet management and sustainable, and growing, dividend distributions. Further, these companies often also benefit from embedded inflation protection through contractual escalators, regulated returns or volume-based pricing structures. These mechanisms can help preserve margins and real cash flow over time.

Balance sheet strength is central to the HALO framework. Companies in this category typically maintain low or modest leverage profiles, providing financial flexibility and enabling them to manage through periods of volatility without compromising the opportunity to invest for growth. In an environment where certain growth sectors, most notably the hyperscalers, are undertaking substantial capital commitments, this financial prudence stands out.

Equally important is earnings durability and cash flow stability. HALO companies provide essential services — transporting energy, generating electricity, operating data centers, manufacturing defense systems or supplying housing stock or household goods — that remain necessary regardless of technological disruption. AI may alter operating efficiencies or competitive dynamics, but it is unlikely to eliminate the need for these underlying products and services. We believe this provides a measure of resilience that is particularly valuable during periods of rapid innovation and heightened market volatility.

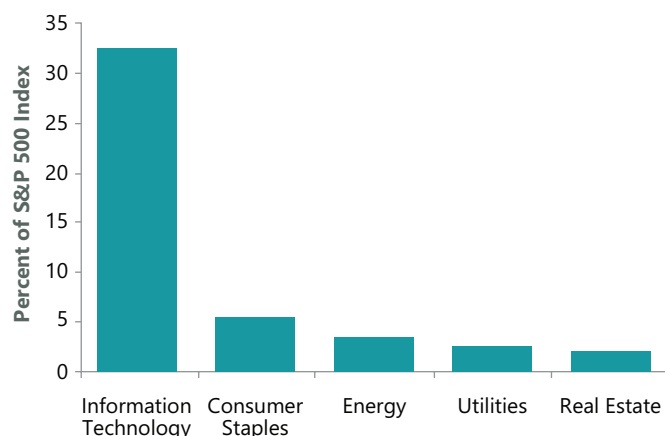
<sup>1</sup>“The Outlook for US Housing Supply and Affordability,” Goldman Sachs, Oct 21, 2025.

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### Valuation and Diversification Support

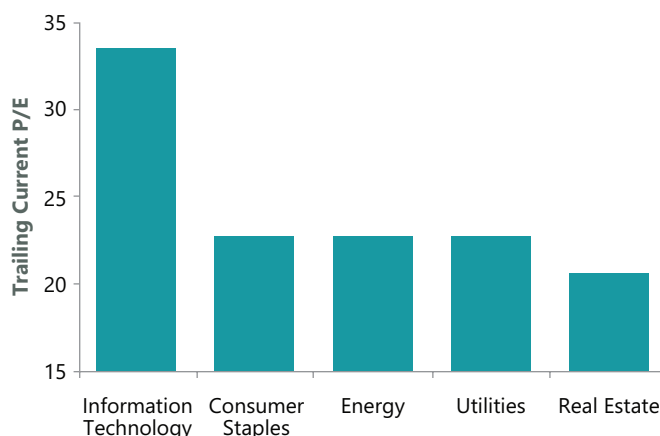
HALO stocks found themselves out of favor in 2025 in a risk-on and speculative market that created a massive amount of concentration in technology stocks (Exhibit 4) and left valuations of non-tech stocks more attractive entering 2026 (Exhibit 5). This recent market history provides some valuation support for the group.

#### Exhibit 4: Market Concentration in Technology



As of Feb. 28, 2026. Source: ClearBridge Investments, FactSet. GICS Sectors in the S&P 500 Index.

#### Exhibit 5: Technology Valuations Are Rich Compared to HALO-Heavy Sectors



As of Feb. 28, 2026. Source: ClearBridge Investments, FactSet. From left to right: Technology Select Sector SPDR Fund, Consumer Staples Select Sector SPDR Fund ex distributors, Energy Select Sector SPDR Fund, Utilities Select Sector SPDR Fund, Real Estate Select Sector SPDR Fund (using P/FFO).

In addition to a valuation discount as a result of the flux of market leadership, HALO stocks may provide diversification benefits. In a correction driven by an AI de-rating, for example, HALO stocks generally have lower correlation to high-growth AI equities, free cash flow cushions and income stability (Exhibit 6).

#### Exhibit 6: HALO-Heavy Groups Have Low Correlations to IT

##### 5-Year Correlation Matrix (Monthly Returns)

	Real Estate	Utilities	Consumer Staples	Energy MLPs
Information Technology	0.59	0.38	0.14	0.22

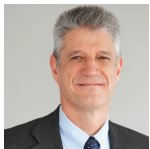
As of Feb. 28, 2026. Source: ClearBridge Investments, FactSet. IT: S&P 500 GICS sector; real estate S&P 500 GICS sector; utilities S&P 500 GICS sector; consumer staples S&P 500 GICS sector ex distributors; energy MLPs the Alerian MLP Index.

## Conclusion

The market leadership seen in the first quarter of 2026 underscores the limitations of chasing growth regardless of valuation and highlights the appeal of companies with predictable earnings, strong balance sheets, ample free cash flow and attractive valuations, especially when underpinned by durable and long-lived assets that are hard to replace.

Such stocks benefit from structural tailwinds linked to AI infrastructure, energy security, geopolitics and demographics, while also offering compelling company-level fundamentals as well as low correlations. For investors seeking a balanced approach — one that combines resilience with selective exposure to long-term growth — HALO equities represent a differentiated and durable strategy in a rapidly changing world.

## About the Author



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