

Individual stock market investment strategies

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TL;DR

Equity markets are experiencing a profound structural shift as investors rotate away from highly valued software giants into tangible, physical-asset-backed companies and undervalued small-caps. At the same time, surging bond yields are flashing warnings that sticky inflation may rule out anticipated rate cuts, forcing a total re-evaluation of dividend sustainability and valuation multiples across the entire market.

The AI-Resistant Trade and the Physical Asset Rotation

Investors are increasingly seeking refuge in tangible, real-world assets that are fundamentally insulated from artificial intelligence disruption.

"There's nothing you could type into an LLM, that's going to change what they do, at least not in a negative way. They're probably all beneficiaries of AI. Let's not be invested in the most disruptible companies. Let's look for the companies that are AI resistant." — The Rise of "HALO" Stocks (via CNBC)

This dynamic has driven the launch of the Roundhill Halo ETF on May 14, as investors rotate away from highly valued software giants that face margin compression [The Rise of "HALO" Stocks](#). Meanwhile, pure-play infrastructure capital is concentrating in the physical memory bottleneck, with the Roundhill Memory ETF drawing \$9.8 billion in assets under management [The Rise of "HALO" Stocks](#).

What to watch: Watch whether heavy-asset giants like ExxonMobil and FedEx can sustain their 30% year-to-date gains as the market re-rates physical infrastructure over software.

The Great Rotation and Small-Cap Valuation Arbitrage

Extreme valuation disparities between mega-cap tech and forgotten small-cap equities are triggering a massive reallocation of institutional capital.

"This combination of low valuation and superior projected growth created a 'coiled spring' effect. In early 2026, the Russell 2000 surged over 7%, while the cap-weighted S&P 500 remained flat, signaling the start of a broadening market." — The Great Rotation (via Kavout)

Multi-billion-dollar managers are active participants in this shift, trimming overextended tech giants to fund allocations into under-the-radar infrastructure and biotech [The Great Rotation](#). With the valuation gap between small-caps and the broader market reaching a 25-year extreme, the small-cap index's projected 19% year-over-year earnings growth presents a compelling alternative to expensive large-caps [The Great Rotation](#).

What to watch: Watch whether active managers continue to slash holdings in mega-cap semiconductor and computing giants to fund positions in specialized small-cap infrastructure plays like Willdan Group.

The Stock-Bond Divergence and the Restrictive Rate Threat

Surging long-term bond yields are directly challenging the stock market's optimism, threatening to force a painful reassessment of equity valuations.

"There's no space for rate cuts. The data has just stripped [Warsh] of the capacity for a rate cut." — Equity-Bond Divergence (via Politico)

Although strong corporate earnings have pushed the S&P 500 to trade around 7,520, the bond market is flashing warning signals as yields on long-term U.S. government debt touch their highest levels since 2007 Equity-Bond Divergence. This divergence is fueled by persistent inflation, which has forced markets to price in a potential rate hike rather than the cuts expected earlier this year Equity-Bond Divergence.

What to watch: Watch how incoming Fed Chair Kevin Warsh navigates internal FOMC resistance to his "AI productivity" thesis as bond yields test multi-decade highs.

The Redefinition of Safe Dividend Income

The traditional playbook for dividend investing is collapsing under the weight of massive corporate capital expenditures and structural business stress.

"Several high-profile, decades-long dividend champions have recently cut or eliminated their payouts due to severe financial distress..." — Dividend Strategy in 2026 (via Morningstar Europe)

With the average dividend yield of the Morningstar US Market Index falling below 1.2%, many investors are lured into dividend traps like Dow Inc., which slashed its payout by 50% after years of unsustainable leverage Dividend Strategy in 2026. To avoid these traps, self-directed investors must shift focus to forward-looking metrics like economic moats and Distance to Default rather than historical payout track records Dividend Strategy in 2026.

What to watch: Watch whether former dividend champions that recently executed steep cuts, such as the industrial giant MMM with its 40% reduction, can stabilize their balance sheets and recover their market valuations.

What surprised us

- **The mind-boggling speed of the DRAM ETF asset gathering:** The Roundhill Memory ETF pulled in \$9.8 billion in assets in just 43 days, outpacing even the historic launch of spot Bitcoin ETFs The Rise of "HALO" Stocks. That a cyclical commodity like memory chips has structurally re-rated so rapidly shows how desperate investors are to find the physical bottlenecks of the AI era.
- **The swift fall of long-standing dividend aristocrats:** Giants like Walgreens Boots Alliance were completely wiped out and taken private by private equity, while the industrial giant MMM ended its multi-decade streak with a massive 40% reduction Dividend Strategy in 2026. It is a stark reminder that historical payout records mean nothing when a company's economic moat disappears.
- **Former Fed Chair Jerome Powell's refusal to leave the stage quietly:** Powell's decision to remain on the Fed board as an active governor with a vote sets up an incredibly tense dynamic for newly sworn-in Chair Kevin Warsh Equity-Bond Divergence. Powell is acting as a hawkish anchor, directly challenging Warsh's supply-side theory that the AI boom will naturally suppress inflation.

Appendix: Findings

The Rise of "HALO" (Heavy Assets, Low Obsolescence) Stocks: The Anti-AI Capex Play (May 2026)

The Rise of "HALO" (Heavy Assets, Low Obsolescence) Stocks: The Anti-AI Capex Play (May 2026)

In late May 2026, a powerful new valuation and investment theme has taken hold of global equity markets: **"HALO" (Heavy Assets, Low Obsolescence) stocks**. Coined by Ritholtz Wealth Management CEO and co-founder Josh Brown in February 2026, the HALO framework identifies companies that are structurally immune to artificial intelligence disruption because their business models rely on physical assets, real-world infrastructure, and essential analog services.

This theme has rapidly transitioned from a conceptual framework to institutional adoption and a dedicated investment product, reflecting a major rotation away from highly valued, potentially disruptible software companies.

The HALO Framework and the LOHA ETF

As enterprise software giants like Adobe, ServiceNow, and Salesforce test 52-week lows due to fears of AI-driven margin compression¹ and competitive disruption, investors are rotating into businesses with high physical barriers to entry.

To capitalize on this trend, Roundhill Investments launched the **Roundhill Halo ETF (ticker: LOHA)** on Thursday, May 14, 2026. The fund tracks an index that screens the largest listed U.S. companies for businesses whose value is focused in physical assets and infrastructure that AI cannot replace, spanning sectors such as industrials, transportation, mining, and energy. Josh Brown joined Roundhill on a limited advisory basis for the product's launch.

Key holdings and performance highlights in the HALO category include:

- **Outperforming Giants:** FedEx (FDX) and ExxonMobil (XOM) are both up close to 30% since the beginning of the year, while Coca-Cola (KO) has gained nearly 17% YTD.
- **Top LOHA Holdings:** Top holdings in the new ETF include Cummins (CMI), AutoZone (AZO), TFI International (TFII), CSX (CSX), JB Hunt (JBHT), and Lennox (LII)—many of which are durable, century-old industrial and transport businesses.

"There's nothing you could type into an LLM, that's going to change what they do, at least not in a negative way. They're probably all beneficiaries of AI. Let's not be invested in the most disruptible companies. Let's look for the companies that are AI resistant." — *Josh Brown, CEO of Ritholtz Wealth Management, on CNBC's Halftime Report (May 14, 2026)*

The Flip Side: The Memory Bottleneck (DRAM ETF)

While HALO stocks represent the "AI-resistant" physical world, the pure-play AI infrastructure boom is experiencing its own physical constraint: **memory chips**.

On April 2, 2026, Roundhill launched its **Memory ETF (ticker: DRAM)**, which has shattered all industry records by amassing **\$9.8 billion in assets under management in just 43 days**—the fastest-ever asset accumulation for an exchange-traded fund, outpacing even the spot Bitcoin ETFs. The fund is up over 80% since inception, driven by the realization that high-bandwidth memory (HBM) is the primary physical bottleneck of the AI data center build-out.

Historically a highly cyclical, boom-and-bust industry, memory is experiencing a structural re-rating. Dave Mazza, CEO of Roundhill Investments, estimates that the supply-demand imbalance in HBM and DRAM could extend into 2028.

"Investors are waking up to the fact that the biggest bottleneck in the AI build-out is actually memory chips. There's an incredible amount of supply and demand imbalance with memory which is one of the reasons why the stocks have been performing so well." — *Dave Mazza, CEO of Roundhill Investments, on CNBC's ETF Edge (May 11, 2026)*

Citi Research's Drew Pettit notes that unlike previous speculative tech bubbles, this price momentum is backed by extraordinary fundamental earnings revisions:

"The price momentum has earnings momentum backing. So, this is the place where we have seen the best earnings revisions this year in the United States and globally. If we're up 300%, but your earnings expectations are up six-to-eightfold for the next few years, it still comes back reasonably priced to us." — *Drew Pettit, Director of U.S. Equity and ETF Strategy at Citi Research (May 11, 2026)*

Instance of [\[\[c8e265c6e5bbe\]\]](#){why="Illustrates the rotation away from disruptible software giants toward physical infrastructure and asset-heavy 'HALO' stocks as an anti-AI-capex investment strategy."}

1. An instance of [\[\[c0da03e8b6678\]\]](#) — Major tech companies that rely on per-user software licensing are seeing their stock prices crash as investors realize AI workers will shrink customer login counts.

Sources

- One of the market's hottest stock themes is buying everything AI can't replace
- 'Biggest bottleneck in the AI buildup' fuels DRAM ETF to record

The "Great Rotation": Capital Shifts from Mega-Cap Growth to Small-Cap and Value (May 2026)

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A profound structural transformation is reshaping global equity markets in May 2026. The "Great Rotation"—characterized by capital migrating away from elite, asset-light US mega-cap technology companies toward small-cap, value, and "old economy" infrastructure stocks—has accelerated.

This rotation is driven by a combination of historical valuation extremes, broadening corporate earnings, and growing investor scrutiny of the return on investment (ROI) for artificial intelligence capital expenditures.

The Valuation Gap and the "Coiled Spring"

By early 2026, the valuation discrepancy between small-cap stocks and the broader S&P 500 had reached a **25-year extreme**:

- **Forward Multiples:** The Russell 2000 Index traded at a modest **18.0x forward earnings**, compared to a steep **22.0x+ multiple** for the S&P 500.
- **The Shiller P/E:** The inflation-adjusted 10-year Shiller P/E ratio for the S&P 500 surpassed **40**, its highest level since the peak of the dot-com boom, historically signaling a high probability of a market correction or flat returns for large-cap indices.
- **Earnings Strength:** Small-cap fundamentals have provided a strong foundation for this shift. Russell 2000 components posted a robust **65% earnings beat rate** in Q4 2025.
- **Growth Outlook:** Consensus estimates for the full year 2026 project a **19% year-over-year earnings growth** for the Russell 2000, significantly outpacing the **12.5%** projected for the cap-weighted S&P 500.

This combination of low valuation and superior projected growth created a "coiled spring" effect. In early 2026, the Russell 2000 surged over **7%**, while the cap-weighted S&P 500 remained flat, signaling the start of a broadening market.

Institutional Rebalancing: Trimming the Giants

Multi-billion dollar institutional managers are actively executing this rotation. For example, recent regulatory filings from Kovitz Investment Group Partners reveal significant trims in highly valued holdings to fund reallocations into small-cap, value, and infrastructure segments:

- **Mega-Cap Valuations:** Investors are questioning the massive valuations of giants like Apple (AAPL), which reached a **\$4.00 trillion** market capitalization trading at a P/E of **34.08x**, and Broadcom (AVGO), commanding a P/E of **66.60x**.
- **Trimming Positions:** Kovitz trimmed its stake in Advanced Micro Devices (AMD) by 2.1% (selling 37,819 shares, though retaining a \$292 million position), slashed its Johnson & Johnson (JNJ) holding by 45% (selling 201,160 shares), and reduced Dollar Tree (DLTR) by 10.8%.

Where is the Capital Flowing?

The capital exiting mega-cap tech is being redeployed into high-conviction, valuation-supported areas:

1. **Old Economy and Data Center Infrastructure:** Companies deeply tied to physical infrastructure and domestic energy efficiency are major beneficiaries. Examples include **Willdan Group (WLDN)**, which provides energy-efficient engineering for AI data centers, and **Gorman-Rupp (GRC)**.
2. **Specialized Biotech:** Small-cap biotech companies such as **Dianthus Therapeutics (DNTH)** and **Ligand Pharmaceuticals (LGND)** are attracting capital, aided by the reversal of 2017-era R&D tax rules that make their pipelines highly valuable.
3. **AI Infrastructure Pivots:** Some energy-focused small-caps, like **CleanSpark (CLSK)**, are actively pivoting their operations toward high-performance computing (HPC) and AI infrastructure colocation, capturing the AI tailwind at a fraction of mega-cap valuations.

This structural rotation represents a shift from passive index-tracking toward active stock selection, where valuation, balance sheet strength, and tangible assets are rewarded over speculative tech growth.

Instance of [\[\[ce254e98ec421\]\]](#){why="It details how public equity markets are punishing spending giants, triggering a major stock rotation as investors grow skeptical of the ROI on these massive, margin-squeezing cash outlays."}

Sources

- Is the "Great Rotation" Reshaping Portfolios in 2026
- S&P 500 forecast to end year slightly higher even as war drags on

Equity-Bond Divergence Signals Growing Correction Risk (May 2026)

Equity-Bond Divergence Signals Growing Correction Risk (May 2026)

In late May 2026, the divergence between the equity and bond markets has reached a critical threshold. While major stock indices have recovered from their March corrections and hovered near all-time highs—with the S&P 500 trading around **7,520** (closing at 7,519.12 on May 26,

2026)—bond yields are surging. This disconnect is forcing a major repricing of macroeconomic expectations and creating a highly complex environment for self-directed investors.

The Stock Market's Resilient Surge

The S&P 500 crossed the **7,350** mark for the first time in early May, representing a 16% gain from its March 30 lows. This resilience has been supported by two primary pillars:

1. **Blockbuster Earnings and Upgraded Forecasts:** The Q1 2026 earnings season was exceptionally strong. S&P 500 year-over-year earnings growth expectations for the full year 2026 have leaped from 16% in early January to **almost 25%** by late May, according to LSEG data. This represents the highest annual profit growth rate since the post-pandemic recovery in 2021.
2. **AI Secular Tailwinds:** Market heavyweights continue to deliver. Nvidia (NVDA) recently forecast Q2 revenue well above Wall Street estimates and announced a massive **\$80 billion share repurchase program**, reassuring investors of the durability of the AI build-out.

According to a Reuters poll of 47 market strategists conducted from May 15 to 26, 2026:

- The median forecast has the S&P 500 ending 2026 at **7,620** (up from a February forecast of 7,500) and reaching **8,050** by mid-2027.
- Highly bullish strategists, such as Chris Zaccarelli, CIO of Northlight Asset Management, have targets as high as **8,300**, citing the corporate race to acquire AI infrastructure.
- Despite the run-up, 9 out of 13 poll respondents believe a stock market correction in the next three months is *unlikely*.

The Bond Market's Warning and Fed Rate Hike Fears

In sharp contrast to the stock market's optimism, the bond market is flashing severe warning signals.

A war in Iran (now entering its third month) has disrupted energy markets and pushed inflation back above 3%, well over the Federal Reserve's 2% target. In response, global bond yields are surging. During the third week of May, yields on **30-year U.S. government debt touched their highest level since 2007**.

This spike in yields has completely stripped the Fed of its capacity to cut rates. At the beginning of 2026, equity markets were banking on multiple rate cuts from the current range of **3.5% to 3.75%**. Now, futures markets are actively pricing in the potential for an **inflation-fighting rate hike** by the Federal Reserve later in 2026.

“There’s no space for rate cuts. The data has just stripped [Warsh] of the capacity for a rate cut.”
— *Tim Duy, Chief Economist at SGH Macro Advisors (May 22, 2026)*

Federal Reserve Leadership and the "AI Productivity" Debate

This divergence is testing the newly sworn-in Federal Reserve Chairman, **Kevin Warsh**, who took the oath of office on Friday, May 22, 2026.

Warsh has advocated a supply-side theory that the Fed can keep interest rates lower because the AI boom is "structurally disinflationary" due to massive productivity enhancements. He has argued that this allows the economy to safely "run hot" without triggering inflation.

However, this theory faces deep skepticism within the FOMC and the broader market:

- **Internal Pushback:** Fed Governor Michael S. Barr has publicly stated that the "AI boom is unlikely to be a reason for lowering policy rates." Fed board member Christopher Waller noted on May 22 that "a rate cut is no more likely in the future than a rate increase," suggesting a bias toward keeping rates restrictive.
- **The Powell Factor:** Outgoing Fed Chair Jerome Powell has chosen to remain on the Fed board as an active governor with a vote. Powell represents a hawkish anchor, warning at his final press conference that energy costs and tariff-related price spikes must fade "before we even thought about reducing rates."
- **The Bond Vigilantes:** If Warsh attempts to push through rate cuts that are unsupported by inflation data, he risks triggering a revolt from "bond market vigilantes," which would send long-term borrowing costs even higher, hurting the housing market and corporate debt refinancing.

For individual investors, this divergence means the equity bull market is increasingly "running on hot coal." While strong earnings justify current stock levels, the structural reality of "sticky high interest rates" and rising debt service costs represents a growing systemic risk that could trigger a sudden correction if economic growth or employment begins to falter.

Instance of [\[\[c0da03e8b6678\]\]](#){why="Investors and lenders don't naturally maintain rigorous underwriting and valuations; they get sloppy when cash is flowing freely and only tighten their standards again when rising interest rates or tight liquidity force them to."}

Sources

- S&P 500 forecast to end year slightly higher even as war drags on
- Trump finally gets his Fed chair. Bond investors are already testing him.
- Warsh at the Reins: New Fed Chair Faces Challenges

Dividend Strategy in 2026: Income with Selective Exposure Outperforming

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Dividend strategies in 2026 are undergoing a fundamental transformation as macroeconomic realities and disruptive technologies diverge from early-year expectations. In an environment dominated by high equity valuations, rising bond yields, and massive corporate capital expenditures, traditional "yield-chasing" has become highly dangerous.

For self-directed investors, navigating this landscape requires shifting from historical dividend records to forward-looking sustainability metrics.

The Low-Yield Dilemma of 2026

Equity income has become exceptionally scarce in 2026:

- **Historical Lows:** The dividend yield of the Morningstar US Market Index in the first quarter of 2026 fell **below 1.2%**, an extremely low level by historical standards.
- **Global Yields:** While yields are higher outside the United States, the Morningstar Global Markets ex-US Index is also yielding a paltry **2.6%**.

This low-yield environment is driven by three main structural factors:

1. **Stock Price Appreciation:** Rapid equity market gains (with the S&P 500 near 7,520) have far outpaced dividend growth.
2. **AI Capex vs. Payouts:** Companies are aggressively deploying cash into **artificial intelligence buildouts** and capital expenditures rather than increasing cash payouts to shareholders.
3. **Share Repurchases:** Corporate boards are heavily prioritizing stock buybacks (such as Nvidia's recent \$80 billion repurchase program) over establishing or raising recurring dividends.

The Danger of "Dividend Traps"

In a low-yielding stock market, investors are often tempted to target stocks with exceptionally high yields. However, in 2026, the highest yields are frequently found in troubled sectors, acting as "dividend traps" where high yields are simply a reflection of collapsing share prices.

Several high-profile, decades-long dividend champions have recently cut or eliminated their payouts due to severe financial distress:

- **Dow Inc. (DOW):** The chemical giant, which had a decades-long history of regular cash payments, saw its stock price plunge nearly 37% in 2025—the same year it **slashed its dividend by 50%**. Its payout ratio had reached an unsustainable 341.5% in 2023 and 178% in 2024.
- **Walgreens Boots Alliance:** After nearly 50 years of consecutive dividend growth (earning the "dividend aristocrat" title), Walgreens slashed its payout in 2024. Unable to sustain profitability in a hyper-competitive retail landscape, the company was **eventually taken out by private equity**.
- **3M Company (MMM):** 3M held a 67-year dividend growth track record before executing a **40% reduction** in 2024.
- **Other Major Cuts:** Other notable former dividend champions that have recently cut, suspended, or reduced payouts include Intel (INTC), Whirlpool (WHR), Saudi Aramco (2222), Harley-Davidson (HOG), and Shell (SHEL).

These dividend cuts have delivered a double blow to investors, destroying both their recurring income stream and their principal capital due to accompanying share price collapses.

Three Predictors for Dividend Durability

To avoid dividend traps and build a resilient income portfolio, Morningstar Indexes utilizes three forward-looking metrics that have demonstrated strong predictive power for dividend safety:

1. Payout Ratio

The payout ratio (dividends paid as a percentage of net earnings) remains the most critical red flag. A ratio significantly above 100% indicates that a company is paying out more than it earns, which is structurally unsustainable over the long run (as seen with Dow's 341.5% and Walgreens' ~300% ratios prior to their cuts).

2. Economic Moat

A company's competitive advantage directly protects its dividend. Morningstar's research shows that **wide-moat companies cut dividends far less frequently** than narrow-moat or no-moat companies. For example, Walgreens was classified as "no-moat" at the time of its dividend cut due to its inability to generate excess returns over its cost of capital.

3. Distance to Default

This quantitative metric assesses the risk that a company's asset value will fall below the sum of its liabilities. Crucially, Distance to Default incorporates **equity value and share-price volatility** because the public market often sniffs out structural balance sheet weakness long before it is officially reported in quarterly filings. A deteriorating Distance to Default score relative to sector peers is a strong leading indicator of an impending dividend cut.

The Strategic Takeaway

For individual investors in 2026, successful dividend investing must prioritize **total return and dividend durability** over raw yield. High-quality dividend growth strategies (focusing on companies with strong balance sheets, wide economic moats, and reasonable payout ratios) are significantly outperforming high-yield, value-trap portfolios.

Instance of [\[\[c0da03e8b6678\]\]](#){why="This finding shows how massive AI capital expenditure requirements are draining corporate free cash flows, directly cannibalizing traditional capital return mechanisms like investor dividends."}

Sources

- How Income Investors Can Avoid Dividend Traps in 2026
- One of the market's hottest stock themes is buying everything AI can't replace