



PERKINS
CAPITAL
MANAGEMENT, INC.

February 17, 2026

Dear PCM Clients and Friends:

The quote from the famous opening line of Charles Dickens' 1859 novel *A Tale of Two Cities*: "It was the best of times, it was the worst of times," is recognized by most everyone.

This quote is commonly used to reflect on extremes – "the best" or "the worst." Today, it is also used to describe, or reflect on, times of rapid change, immense technological progress, and social challenges. The novel, also in its opening sentence, highlighted the era's confusion, where Dickens wrote it was "the epoch of belief" and "the epoch of incredulity." Describing the time as both a "spring of hope" and the "winter of despair."

Today we are also living in a time of strong opposing opinions and many extremes which are creating confusion. We see this all around us in the news of the day.

We wrote about this three years ago in our April 27, 2023 letter when we described "two ways to look at things" or "strong opposite opinions" all around us.

Despite the indices being at new highs today, we continue to have a split stock market and divergent opinions concerning most everything from the future of the U.S. economy to politics. Bull vs Bear. Conservative vs Liberal. New highs vs New Lows. And, three years ago, but not now, the worry of a Hard landing vs a Soft landing.

A year ago, in February of 2025 we wrote about change, that the "pendulum" had begun to swing. The 2024 election was described as a mandate for change. As Bob Dylan lyricized, "*The Times They Are A-Changin'*." The government activity and policy change this past year has been decisive. What has occurred in the way of policy changes has been more than most anyone could have or did predict. As has been the discourse.

Yet, over 45 years of investment experience tells us, and only reinforces, that investment common sense and fundamentals don't change: The More Things Change, the More They Stay the Same. For example: avoiding investments that have "gotten ahead of themselves", practicing diversification, and meeting with corporate management teams.

The healthcare sector has been at a historic low valuation extreme; despite an aging population and a wave of healthcare innovation. Today, due to AI concerns, solid established software companies have recently sold off to valuation lows. There is an investment opportunity to consider here too, as the market overreacts to unknowns.

As we look forward into 2026, as investors, we feel our job for you is to stay grounded, away from investment extremes, and to actively manage a diversified portfolio of investments in companies whose business plans and opportunity we understand.

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INVESTMENT MANAGEMENT

THE MARKET SCOREBOARD

Continuing the strong year-to-date performance, all major indices, including the S&P 500, the Dow Industrials, the Dow Utility Index, and the Nasdaq Indexes finished the fourth quarter with positive returns and, further, rose to all-time highs early in the fourth quarter as economic data showed continuing solid growth. In Q4, the Dow Industrials outperformed others due to strength in financials and industrials. For the full year, the Nasdaq, with its large weighting in tech stocks was the best performing major index; followed by the S&P 500. The Wilshire and Russell 2000 both finished the year with solid gains as the markets significantly broadened beyond the “Mag 7” into small-cap, and other non-tech companies.

The Fed generally met investor expectations and cut interest rates three times in 2025. Investment and consumer spending continued throughout the economy at a strong pace supporting expectations for continued economic and corporate earnings growth into 2026. Massive AI infrastructure investment highlighted the year’s news. Perhaps the biggest surprise of 2025 was that continued domestic and international geopolitical tensions, the longest government shutdown, as well as, U.S. trade policy did not more negatively impact markets or cause greater volatility. Negative news throughout the year only temporarily impacted the market’s momentum. Solid economic growth is forecast into 2026 and there are few, if any, major economic metrics warning of an economic slowdown in 2026.

Indexes	% Return YTD Through 12/31/2025	% Return Q4 2025	% Return Q3 2025	% Return Q2 2025	% Return Q1 2025
NASDAQ Composite	20.36	2.57	11.24	17.75	-10.42
S&P 500 Total Return	17.88	2.66	8.12	10.94	-4.27
Wilshire 5000	15.71	1.91	8.05	10.91	-5.25
NYSE Composite	15.22	2.04	5.56	5.33	1.56
Dow Jones Industrial Average	12.97	3.59	5.22	4.98	-1.28

For the second straight year, all 11 economic sectors ended the full year with gains. The healthcare sector was, by far, the best performer in the fourth quarter. For the full year, technology and communication services sectors were the top performers, as both sectors benefitted from the substantial gains of AI-linked tech stocks.

In sum, 2025 was a strong year for the markets. We begin the new year riding an impressive winning streak that’s been powered by rate cuts, solid economic growth and extreme investor enthusiasm over artificial intelligence. These and other positive factors remain in place as we begin 2026. Yet, while the outlook for investments is positive, as investors, we shouldn’t allow that to create a sense of complacency.

STOCK MARKET OBSERVATIONS

As we think about our stock market observation for the year ahead, our thoughts have not changed dramatically during the past several months or since mid-year 2025.

Our first thought is that we are entering 2026 with a continuing positive economic environment. Consumer spending and corporate investment are still strong. The strong “tailwind” of fiscal, monetary, and corporate onshore investment stimulus put into place in 2025 is building and will have a positive effect on the economy in 2026. In the current S&P 500 earnings season, the reporting of last year’s final Q4 earnings continues to show better than forecast results with 75% of companies having reported on average better than 12% earnings gains on top of 10% increasing revenues. A solid year. We expect this to continue as 2026 unfolds. That is the big picture.

There is also an individual company picture. It could be called, a “Tale of Two Companies.” The market’s reaction, this year, to earnings releases has often been volatile, not moderate. If the results are positive many stocks have moved strongly higher. When results or expectations or guidance has been missed, even slightly, there has frequently been a volatile declining reaction. This split market – the “good” and the “bad,” has affected both large and small companies; including several mega-cap companies where the market’s negative reaction was not deserved and extreme. Microsoft is an example of this.

We feel this split market will continue throughout 2026. It appears at this time that the market is broadening away from its concentration in technology companies and rotating into a broader mix of stocks across new sectors and market caps. In 2026, as part of this, as investors rebalance, they are skeptical about the massive amount of money being poured into AI infrastructure. Investors are asking: Will the “AI Boom” continue or will it be an “AI Bust?” Both thoughts are extremes. A more balanced market response would be “AI Angst,” a more moderate sorting out or consideration of AI investment facts as they evolve while companies and investors learn and understand more about AI. At this time, the market is acting less balanced and more emotional than a moderate or balanced approach.

Last year, we noted in both our May and October stock market observation sections that since the 2009 market lows the S&P 500 has traded within a broad price channel of highs and lows. During this 18-year period the S&P 500 has touched the top of the price channel four times and has also touched the bottom of the price channel twice; nearly touching both the top and the bottom twice more.

As we said in October: “We continue to feel that, at this time, with what is “known,” that the S&P will continue to stay and trade within this price channel; the price channel it has traded within since 2009.”

In the past several months, the S&P has continued to climb along the top of this channel reaching new highs with several other market indexes. Since this chart, from the very solid technical work of RBC’s Technical Strategist Robert Sluymer, CFA, so accurately helps

visualize where we feel the markets are today, we, at the risk of being repetitive, are including it again, at the start of 2026.



The S&P 500 Monthly Index Price Chart clearly shows the price channel which the S&P has traded within since 2009 in light green. At this time, the top of the channel is at about 7,500 in the S&P. There is room for the S&P to continue higher than its recent high of about 7,000. It is positive that the markets are broadening and we are experiencing several indexes also going to new highs. We are not quite at the absolute top of a positively sloped increasing trendline; but it is clear that there is more space in the channel below than above.

It is also important to note that, and though this is a repetitive thought, we feel it is important to note, as we did in October, that the distance from the top of this S&P 500 price channel to the bottom of the channel is approximately 2,000 S&P 500 points or 25%. Staying within this price channel does leave room for the S&P 500 to correct in 2026; yet, still maintain its upward path with, as noted in the chart, corrections of up, down, or sideways price movement along the way.

In previous letters we have written about the well-documented four-year presidential cycle and have included copies of the New Davis Dow Industrial Four-Year Presidential Cycle. We will review and print this again in April. What is important to know today is that, in simple terms, this year, within the four-year cycle, the cycle broadly divides the year into three sections. An early upward first third of the year much like we have been experiencing, a

correcting mid-year period, and then, after the uncertainty of the mid-term elections is removed, a movement up from a fall post mid-term election low into year end. A year influenced again by politics and election uncertainty.

The cartoon speaks to how AI has inserted itself into our daily use of email and other digital functions in order to, supposedly, “help” us. We expect we will see more of this “help” in the future.

We want to thank you for your continuing confidence and trust. We are always available to meet with you by phone, Zoom, FaceTime, or in person to review your investments or for you to update us with any changes in your investment objectives. If you have any questions, please give us a call. Or call and ask to schedule a time to talk or meet in person.

Sincerely,

Richard C. Perkins, C.F.A.
President
Portfolio Manager

Daniel S. Perkins, C.F.A.
Chief Operating Officer
Portfolio Manager

RCP:DSP/jah



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An old Italian man living alone wanted to plant his annual tomato garden. But it was very difficult for him as the ground was hard. His only son, Vincent, who used to help him, was in prison. The old man wrote a letter to his son and described his predicament:

Dear Vincent, I am feeling sad, because it looks like I won't be able to plant my tomato garden. I'm just getting too old to be digging up a garden plot. I know if you were here my troubles would be over. I know you would be happy to dig the plot for me, like in the old days. Love, Papa.

A few days later he received this letter from his son: Dear Pop, Don't dig up the garden. That's where the bodies are buried. Love, Vinnie.

At 6 am the next morning, FBI agents and the local police arrived and dug up the entire area without finding any bodies. They apologized to the old man and left. That same day the old man received another letter from his son.

Dear Pop, go ahead and plant the tomatoes now. That's the best I could do under the circumstances. Love, Vinnie

A couple in their eighties were both in very good health, largely due to the wife's insistence on healthy foods and exercise for the last decade.

One day, their good health didn't help when they were in a plane crash. When they reached the pearly gates, and St. Peter escorted them inside. He took them to a beautiful mansion, furnished in gold and fine silks, with a fully stocked kitchen, bedroom, and master bath. They gasped in astonishment when he said, "Welcome to Heaven. This will be your home." The old man asked St. Peter how much all this was going to cost. "Why, nothing, this is your reward in Heaven," St. Peter replied.

The old man looked out the window and right there he saw a championship golf course, finer and more beautiful than any ever built on Earth. "What are the greens fees?" grumbled the old man. "This is heaven," St. Peter replied. "You can play for free, every day."

Next, they went to the clubhouse and saw the lavish buffet lunch, with seafood, steaks to exotic desserts, and free flowing beverages. "Don't even ask," said St. Peter to the man, "This is Heaven, it is all free for you to enjoy."

"Well, where are the low fat and low cholesterol foods?" the man asked. St. Peter replied, "You can eat and drink as much as you like and you'll never get out of shape or sick." The old man asked, "No gym to work out at?" "Not unless you want to," said St. Peter, "All you do here is enjoy yourself."

The old man glared at his wife and said, "You and your damn bran muffins. We could have been here ten years ago!"

Two young businessmen in Colorado were sitting down for a break in their soon-to-be new store in the shopping mall. Yet, the store's merchandise wasn't in it, only a few shelves and display racks set up. One said to the other, "I'll bet that any minute now some old senior is going to walk by, put his face to the window and ask what we're selling."

Sure enough, just a moment later, a curious senior gentleman walked up to the window, looked around intensely and rapped on the glass, then in a loud voice asked, "What are you selling here?" One of the men replied sarcastically, "We're selling assholes." Without skipping a beat, the old timer said, "You must be doing well. Only two left."

Seniors, don't mess with them. They didn't get old by being stupid!

A stingy old lawyer who had been diagnosed with a terminal illness was determined to prove wrong the old saying, "You can't take it with you."

After much thought and consideration, the old ambulance chaser finally figured out how to take at least some of his money with him when he died.

He instructed his wife to go to the bank and withdraw enough money to fill two pillowcases. He then directed her to take the bags of money to the attic and leave them directly above his bed. His plan: When he passed away, he would reach out and grab the bags on his way to heaven. Several weeks after the funeral, the deceased lawyer's wife, up in the attic cleaning came upon the two forgotten pillowcases stuffed with cash.

"Oh, that old fool," she exclaimed. "I knew he should have had me put the money in the basement."

An old man and a 20-year-old are paired together at a golf tournament. They're playing a long par 5 that doglegs around some tall trees.

As the 20-year-old sets up his tee shot to hit onto the fairway, the old man notes "When I was your age, we used to hit over the trees not around to the side."

So, the 20-year-old readjusts and tries to hit over the trees, but can't clear them and loses his ball. He tries again and loses that one too.

Then the old man says "Of course, when I was your age, the trees were only six feet tall."

An employee had a conversation with the boss. Boss: Do you believe in life after death? Employee: No, because there is no proof of it. Boss: Well, there is now! After you left yesterday saying that you had to go to your grandma's funeral, she called the office looking for you.