

Global Research Marketing

10 Micro Themes for 2026: Acquisitions and AI are just the beginning

This is a redaction of a 62-page report published on February 12, 2026. Please reach out to your BofA Securities representative or Merrill Global Wealth Management financial advisor for more information.

1) M&A likely to reach record levels

M&A activity is set to accelerate, supported by regulatory change, stable rates, and pent-up demand. These conditions point to a sustained deal cycle into 2026, benefiting industries from biotech to banks to media to M&A advisors.

2) AI buildout is mid-cycle, some valuations compelling

Vivek Arya believes we are in the mid-cycle of a multi-year AI buildout. Semiconductors are tracking ~30% growth in 2026. Certain semi valuations look attractive versus growth. Accelerating enterprise, sovereign, and cloud adoption reinforce the trajectory.

3) Industrial momentum improving

U.S. manufacturing is returning to expansion, short-cycle demand is accelerating. Ongoing capex, reshoring, easier credit conditions support an earnings-driven upswing.

4) Defense spend could step higher in 2026

Global defense spending is entering a sustained upcycle toward 2030, driven by geopolitics and higher NATO budgets. Large defense primes could benefit.

5) GLP1 access to broaden, impacting various groups

Lower GLP-1 prices and orals may negatively impact PBMs, could pressure snack/alcohol volumes too. Within restaurants, QSRs more at risk given higher mix of snacking.

6) Higher tax refunds support some consumer stocks in 1Q

Tax season stimulus is expected to average ~\$1,000 per household, providing a near-term boost to GDP. Non-discretionary and discretionary likely boosted fairly equally and while tax benefits skew mid/higher income, lower income more likely to spend.

7) Utility affordability concerns to impact AI buildout

Affordability concerns may shape where data centers are built, but are unlikely to slow AI-driven expansion. Speed-to-power, storage, grid investment remain dominant forces.

8) Commercial real estate supply growth slowing

Sharply lower new deliveries should improve fundamentals. Jeff Spector says apartments, industrial, and self-storage see the biggest slowdowns.

9) Prediction mkt reshaping industries; reg risk a question

Rapid innovation in prediction markets and new entrants are creating near-term uncertainty. Legal ambiguity and pricing risks remain an overhang for Online Betting.

10) Beauty growth set to accelerate

The group sits at the intersection of staples and discretionary and we expect revenue growth to nearly double versus 2025 levels. China is the biggest driver of improvement.

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Refer to important disclosures on page 11 to 12.

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PBM = Pharmacy benefit manager

QSR = Quick service restaurant

1) M&A likely to reach record levels

Ebrahim H. Poonawala

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Will bank M&A accelerate?

Yes. The regulatory window remains open, as evidenced by a 40%+ faster days to close for deals than under prior administration and 45% y/y increase in deal volume in 2025. This, coupled with improved price-to-tangible book value (P/TBV) multiples, and stable rates, offers an opportunity for banks to pursue M&A in coming years. Consolidation has been a multi-decade theme for the sector and we expect regional banks to continue adding scale, product capabilities, and lower cost deposits via M&A as they look to better position themselves to compete against money center bank peers and non-banks.

Near term pain for longer term gain: While the track record of bank M&A to generate alpha has been less than stellar, we do think that sound M&A can be an accretive way for banks to add scale, low-cost deposits while improving efficiencies.

What could go wrong?

Speed of regulatory approval slows as we approach midterm elections or perception of deal announcement turns, souring investor appetite for owning buyers.

Boutique I-Banks should benefit from record M&A

Our positive stance on boutique investment banks reflects expectations for record M&A activity driven by pent up demand among both strategics and financial sponsors, a more accommodative regulatory environment, stable to declining interest rates, and ample credit availability. These dynamics position the sector to build on a strong 2H25, during which U.S. and global M&A volumes reached \$1.8 trillion / \$4.0 trillion, still below their 2021 highs of \$2.8 trillion / \$5.7 trillion. We forecast M&A advisory revenue growth of 20-25% for FY26.

We see the M&A super cycle to be driven by three main themes: technological advancement (including but not exclusive to AI), redefining of operations/supply chains in a de-globalized world, and monetization of sponsor investments. We also note the emergence of Sovereign Wealth Funds as investors.

Biotech: Look for M&A momentum follow-through in 2026

Tazeen Ahmad

Research Analyst
BofAS

In 2025, biotech saw strong momentum in 2H, with the S&P Biotechnology index gaining 34% vs 30% for the S&P 500. There was a rebound in biotech M&A with 59 transactions accounting for \$115bn in total deal value vs 44 transactions for \$49bn in 2024. Entering 2025, we anticipated elevated M&A due to key revenue cliffs and strong balance sheets from large pharma. In 2026, we expect to see this momentum continue with 23 blockbuster drugs, representing \$144bn in 2025E sales, going off-patent by 2030. We think late-stage and commercial companies continue being acquired, with particular preference for bolt-on acquisitions which can be quickly incorporated into the acquirer's portfolio as seen in 2025. With more clarity on macro overhangs and a less hands-on Federal Trade Commission (FTC) chair, we think large pharma gained more confidence throughout the year in acquiring assets and expect this trend to continue in 2026.



Among US-listed public biotechs, we saw 29 acquisitions for \$81.5bn in 2H vs 10 acquisitions for \$23.8bn in 1H. In our view, appetite for bolt-on acquisitions with late-stage or commercial assets remains high among big pharma companies. We highlight key drivers of further biotech deal activity:

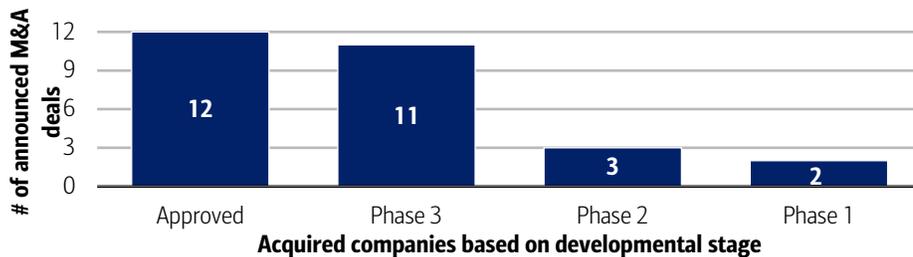
- **Blockbuster patent cliff:** 23 blockbuster drugs are expected to lose exclusivity by 2030, representing \$144bn in 2025E worldwide sales. We expect large pharma to continue adding to their late-stage and commercial portfolios to dampen the cliff in 2026.
- **Strong balance sheets:** Big pharma balance sheets remain strong. We expect the general profile of targets to remain consistent for large pharma in 2026.
- **Return to FTC status quo:** The new FTC chair, Andrew Ferguson, has stated his intention to enforce antitrust action when laws were being broken but to "get out of the way" when mergers are legal. He stated the previous FTC regime utilized sub-regulatory means to hold up mergers, and his intention was to let businesses innovate. Although investors have inquired about possible FTC action regarding certain biotech M&A transactions in 2025, we have yet to see the FTC attempt to block any proposed acquisitions with the possible exception of one from a large European Pharma. We think this bodes well for M&A activity in 2026 as bolt-ons are likely able to be quickly integrated without the overhang of a prolonged FTC case.

Challenges to continued deal activity in 2026:

Scarcity of high-quality assets: High quality assets with large potential total addressable markets (TAMs) may become scarce as large pharma has picked off desirable companies during the depressed biotech market.

Exhibit 1: Acquirers favored companies at or near revenue generation stage

23/28 (82%) of public US-listed biotech targets with active R&D had a lead program at Phase 3 or beyond



Source: BofA Global Research

Note: does not include targets without active R&D

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Lower volatility interest rates could pique sector interest

Heading into 2025, there were concerns around the stickiness of inflation and the potential for the Fed to provide 0 rate cuts. Elevated interest rates have been a key point of caution for generalist investors to allocate more exposure to the biotech sector due to heavier dependence on cost of capital from generally longer time horizons to generating cash flow and the need for regular financings. In 2025, the Federal Funds Target rate saw 3 consecutive cuts to close 2025, ending at 3.50-3.75%, and the 10-year Treasury yield at 4.2% after peaking in early 2025 at 4.9%. BofA economists anticipate 2 rate cuts in 2026 following the appointment of Kevin Warsh as Fed Chair in mid-2026 and BofA Rates strategists expect the 10-year yield to be largely range-bound ending the year at 4.25%. We think with rates stabilizing in 2H25 and more confidence in dovish monetary policy in 2026, given President Trump's rhetoric regarding Chairman Powell's replacement, non-specialist investors could see renewed interest in the biotech sector, providing a more favorable environment for primary and secondary issuances.



Media & Entertainment: M&A: A continuation into 2026

Jessica Reif Ehrlich

Research Analyst

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It has long been our view that the media industry needs to undergo another wave of consolidation. Given the announced actions at the end of 2025, we are clearly in a more transactional era. The secular decline in the linear subscriber universe is putting a tremendous amount of pressure on the earnings power of several media companies and the inherent challenges in the streaming business model (e.g. high churn, low switching costs, constant need to add fresh content to platforms, competition) are creating challenges for sub-scale media companies to fully recoup the lost economics of the linear TV ecosystem. The industry has been anticipating this moment, and we believe 2026 will likely see multiple transactions.

What's in motion now

The media sector is currently navigating a period of consolidation driven by the need to achieve the necessary scale amidst the decline of linear television and the high costs of streaming. Legacy entertainment conglomerates are increasingly pressured to merge, seeking to combine libraries and infrastructure to compete effectively against capitalization rich, tech-native platforms that operate with fundamentally different economic incentives. This potential integration highlights a sharp strategic divide between keeping content within exclusive ecosystems versus adopting an "arms dealer" approach, where licensing intellectual property becomes a key revenue driver. However, regulatory scrutiny remains a potential barrier, possibly complicating the path to finalizing mega-deals. Ultimately, we anticipate a future with fewer distinct distributors, which raises concerns about a potential reduction in theatrical output and overall content volume as the remaining players streamline operations and prioritize efficiency.

2) AI buildout is mid-cycle, valuations compelling

Vivek Arya

Research Analyst

BofAS

Vivek Arya believes that CY23 was the first year for the AI-driven semiconductor cycle and that we're currently around the mid-point of what is an 8-10 year journey of upgrading traditional IT infrastructure for accelerated AI workloads. Greater scrutiny of AI returns and hyperscaler cash flows could keep stocks choppy, offset by newer/faster large language model (LLM) builders and AI factories serving enterprise and sovereign customers. We forecast 2026 to feature another ~30% growth towards the first \$1tn for semiconductor sales, supported by nearly double-digit YoY wafer fab equipment (WFE) sales growth.

We believe consensus under-appreciates the mission critical, offensive and defensive nature of capex investments being done by the largest and best funded tech companies. Return on investment is being delivered not just by extracting more insights about customers, but also by upgrading to more efficient (graphics processing unit [GPU]/custom chip) accelerated infra from traditional central processing unit (CPU) hardware, and protecting existing moats in search, e-commerce, social and streaming. Enterprise adoption of AI is just getting started, while sovereign (government) customers globally are keen on becoming self-sufficient in AI deployments to promote vital national security, high-tech employment, healthcare and cybersecurity sectors. Overall, despite continued volatility, we expect AI to continue to drive attractive returns



across wide range of cloud, memory, optical and semiconductor capital equipment (semicap) stocks.

We forecast robust capex outlook into CY26/27 (+34%/+16% YoY) despite profitability and depreciation concerns (GPU useful life 5-6 years in practice today). Scaling laws remain accelerated, with both tokens per watt and revenue per token continuing to expand 2x-15x+ gen-over-gen on new accelerators. Importantly, the launch of Blackwell-trained LLMs in early 2026 could again reshape LLM performance/rankings (led by TPUv7-trained models today) and revitalize the non-TPU (tensor processing unit) camp demand throughout the year. Overall we continue to see (global) AI capex head towards \$1.2Tn by CY30E.

Emerging themes: Optics, Robotics, Quantum Computing

In 2026 we see the continue emergence of 1) Co-Packaged Optics (CPO), a novel networking technology for AI scale-up providing performance improvements over copper and pluggables. 2) Robotics with potential for greater U.S. White House push and 3) Quantum Computing with public and private leaders advancing their respective platforms.

Chip valuations reflect a fair bit of caution already

Leading AI names trade near or below ~1x projected earnings growth (PEG), well under the ~1.5–2x range for the S&P 500 and large-cap growth peers. Current pricing appears to discount material capex deceleration and earnings revisions that we believe may not materialize. We acknowledge both real and perceived concerns around funding for large private LLM developers, yet market reports indicate continued access to strategic capital. In our view, the binding constraints are more likely to be power, land, data-center shells, and select components such as leading-edge wafers, advanced memory, substrates, and optics. Long lead times across this supply chain should act as a natural governor on overbuild risk. Overall, we remain constructive on leading compute, memory, and semicap stocks and expect volatility to moderate (and perhaps provide some enhanced buying opportunities) as earnings and guidance clarify the outlook this reporting season. We continue to forecast AI systems opportunity to jump 4x+ to \$1.2Tn by 2030E, with mix steadily moving to revenue generating inference, and with leading compute, networking, memory and semicap vendors well-positioned.

Exhibit 2: SOX index trading at 25.3x forward PE, 1.2x turn premium to SPX, wider than history but below '24 peak

Forward PE multiple for the SOX and SPX indices



Source: Bloomberg



Bullish Semicaps: AI continues to drive growth

Didier Scemama >>

Research Analyst

MLI (UK)

Semicap outlook remains strongly positive into 26E according to Europe IT hardware analyst Didier Scemama. Accelerating AI-driven memory demand, rising DRAM/HBM (dynamic random access memory/high-bandwidth memory) layer complexity, and not-AND meemory (NAND) greenfield expansion are fuelling robust wafer fab equipment (WFE) growth, while leading-edge logic and advanced packaging adoption broaden the customer base. Structural technology inflections, such as hybrid bonding, gate-all-around, and gallium nitride/silicon carbide (GaN/SiC), position semicaps for sustained upside beyond 2026E.

AI and capex returns remain top Internet Equity theme into 2026

Justin Post

Research Analyst

BofAS

Sentiment on AI capabilities, long-term incremental revenues, and capex returns are expected to remain a critical driver of mega-cap Internet performance into 2026. Justin Post estimates \$1 trillion incremental AI rev. opportunity across Cloud, Ads & Subscriptions, but returns on capex are expected to decline.

Big-4 Infrastructure as a Service/Platform as a Service sales of \$81.6bn grew 35% y/y in 4Q, a 4ppt acceleration vs 3Q and above our 31% estimate. Improving industry growth was driven by continued capacity adds and accelerating demand for AI services (aggregated backlog of \$1.64tn grew 146% y/y, up approx. 50ppts q/q), which is giving management teams confidence in returns on new capacity. We expect Cloud growth to accelerate to 37% in 2026. Capex estimates following 4Q results call for 2026 industry capex of \$543B, up \$201B y/y and well ahead of the prior estimate of an \$87B annual increase.

Potential 2026 AI catalysts across large-cap internet

Justin Post thinks AI capabilities remain a leading asset and valuation driver across large-cap Internet. As infrastructure investment spend continues to rise for all Internet mega caps, we expect the importance of proprietary chip technology, frontier models, user data, and scaled consumer distribution of AI models to increase. Justin believes 2026 is likely to be another pivotal year for market-moving AI announcements with catalysts including new model launches, new products and new Agentic and subscription offerings to monetize AI.

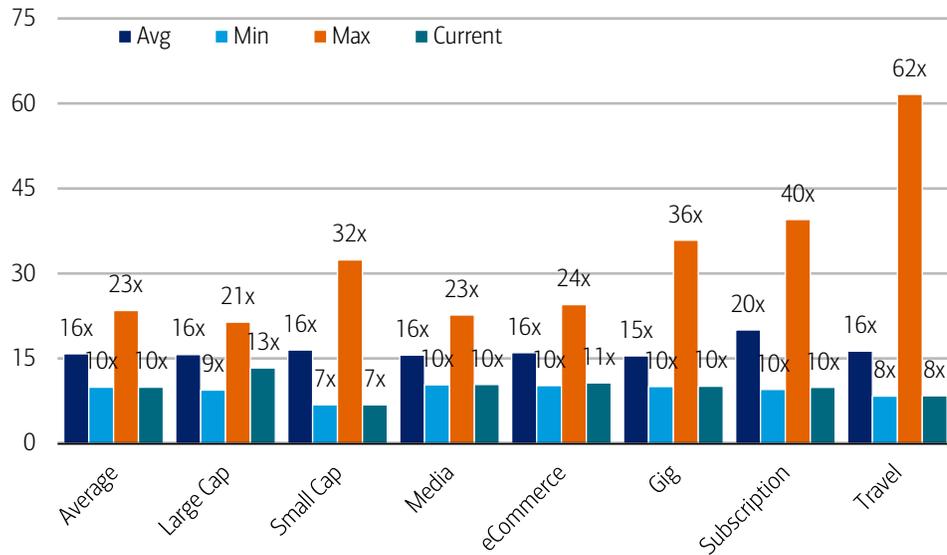
Valuations for Internets are below historical averages

Mega-cap Internet stocks are likely to benefit from continued AI-driven innovation, while Internet valuations remain below historical averages on many metrics (but not on free cash flow), creating potential upside from: 1) resilient consumer demand and 4Q upside (Media and Travel subsectors), 2) growing AI related revenue benefits, and 3) easing interest rates. Downside risks include: 1) poor returns on capex spend, 2) fears on depreciation related margin pressure, 3) AI business model disruption, 4) increasing pressure on consumer spend, and 5) tougher 2026 comps vs 2025 eCommerce surge that started in 2Q.



Exhibit 3: On an EV/EBITDA basis large cap is at 13x 2027 EV/EBITDA, small cap at 7x

5-Year Historical 2-yr Year FWD EV/EBITDA by Sector



Source: BofA Global Research, Bloomberg

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3) Industrial momentum improving

Andrew Obin
Research Analyst
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Michael Feniger
Research Analyst
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We wrote in our year ahead that US short-cycle industrial demand will improve:

The US manufacturing Purchasing Managers' Index (PMI) had been below 50 (indicating m/m contraction) since March 2025 until the January result rose to 52.6 on Feb 2. On average, multi-industrials outperform the S&P 500 by 9% in the one year after PMIs return above 50 (in the seven prior non-recession occurrences).

Capex cycle keeps going: After more than doubling, manufacturing construction spend (i.e., walls & roofs) has leveled off. However, spending on equipment continues to rise. Andrew sees pharma as the next wave of reshoring (~\$470bn of announced capex plans), while semi fab spending is less than halfway complete (~\$230bn still being built). Data center and electrical grid capex spending are growing as well.

Deregulation & policy tailwinds: Andrew Obin views deregulation as beneficial to US manufacturers' margins and capital spending. The Trump Administration has acted to expedite permitting for power generation and manufacturing sites. Accelerated depreciation is a tailwind to capex. The past two periods of accelerated depreciation raised capital spending by 10% and 17%.

Schrödinger's Tariffs: With a Supreme Court ruling expected later this year or early next, more tariff uncertainty could be ahead. While a ruling against the administration would cause another round of uncertainty, Andrew does not see it derailing the ongoing US manufacturing expansion.

Positive short-cycle data points piling up

The Institute of Supply Management's (ISM) US manufacturing Purchasing Managers' Index (PMI) is a closely watched measure of industrial activity. It is a diffusion index, meaning readings above 50.0 show that more industries are growing m/m versus shrinking. January's PMI came in at 52.6, beating consensus of 48.5 and rising from 47.9



in December. This was the strongest reading since August 2022. The headline index is the equal-weighted average of five series: new orders (57.1), production (55.9), employment (48.1), inventories (47.6), and supplier deliveries (54.4). All five improved m/m in January. Short-cycle industries — such as metals, machinery, transportation equipment, and chemicals — saw particularly strong order growth.

Improving credit conditions to help US industrial demand

Many investors blame slow US industrial production on regulatory uncertainty or labor shortages. In our recent report, we found another explanation: tighter credit. Since mid-2022, US banks have been tightening lending standards for commercial & industrial (C&I) loans. During this time, US manufacturing companies have reduced leverage from 2.6x net debt to EBITDA at the end of 3Q19 to 2.0x today. We see this changing from a drag to a benefit. The combination of strong capital levels across the US banking industry, significant shift in regulatory backdrop over the last twelve months, and improving US economic outlook should drive increased lending appetite.

Multi-industrials shares perform well after going back >50

History supports the idea that US manufacturing PMIs returning above 50 is a buy signal. We assume investors buy long-lived multi-industrial stocks on the month that the US manufacturing PMI returns above 50 (e.g., not the month before).

On average, multi-industrials outperform the S&P 500 by 9% in the one year after PMIs return above 50 (hit rate: 5 of 7 times, range: -7% to +24%). On average, multi-industrial stocks rise 21% on an absolute basis in the one year after PMIs return above 50 (hit rate: 6 of 7 times, range: -2% to +44%).

Machinery outperformance requires EPS revisions

Michael Feniger

Research Analyst

BofAS

In Mike Feniger's view, the story for 2026 is the 'baton pass' from multiples to 'EPS revisions'. Most of our coverage observed multiple re-rating to the 'recovery multiple' phase (i.e., >20x forward EPS) as demand bottomed out, earnings troughed, and glimmers of green shoots emerged. In periods of multi-year outperformance, the first leg was driven by multiple re-rating followed by positive EPS revisions. Do we believe valuation multiples are likely to remain elevated through 2026? Yes – EPS is still somewhat depressed, interest rates are heading lower. That said, multiples are not likely to expand any further, placing the onus on 2026 (and certainly 2027) to be an earnings driven' story. In fact, multiples are likely to start to de-rate in 2H and into 2027.

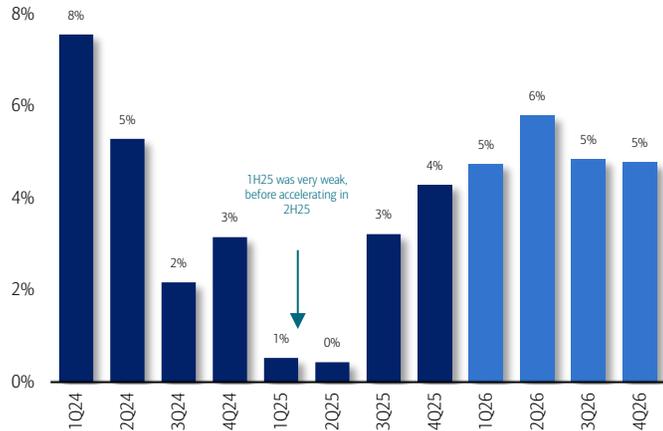
End Market Preference - Construction > Trucks > Ag

Outside of Power, core machinery markets remain in a recession the last 2-3 years: construction spending negative, Institute for Supply Management (ISM) Manufacturing in a recession, ag economy in a recession, freight in a recession (truck production below replacement). That said, Mike Feniger points out that there are green shoots developing. First, we are starting to see heavy construction equipment find its footing driven partly by inventories (two years of de-stocking – time to replenish) and improving sentiment in the pipeline for large projects (starts are up in less 'rate sensitive' construction verticals). We believe trucks are likely to follow construction equipment as the next end market recovery in 2026 driven by freight stabilization and an emission regulation change in 2027 that could drive some pre-buying of trucks. We believe farm equipment is likely to remain the laggard out of the equipment space.



Exhibit 4: Organic growth to accelerate in 2H25 and into 2026

Global beauty YoY quarterly revenue growth, organic, Dec YE adj

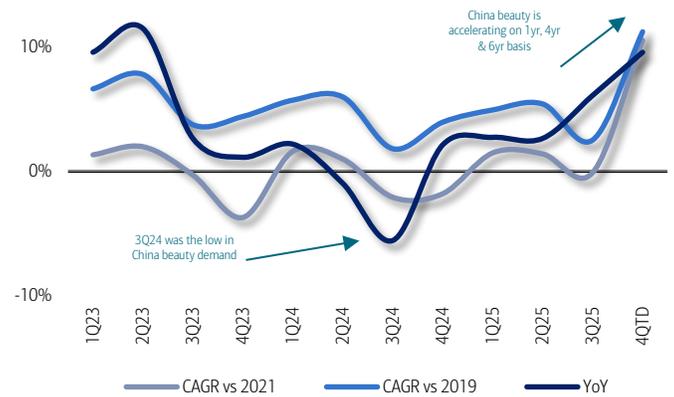


Source: BofA Global Research estimates, company reports

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Exhibit 5: China to see the biggest sequential improvement

Chinese cosmetic sales YoY growth, CAGR vs 2021 & 2019, Dec YE

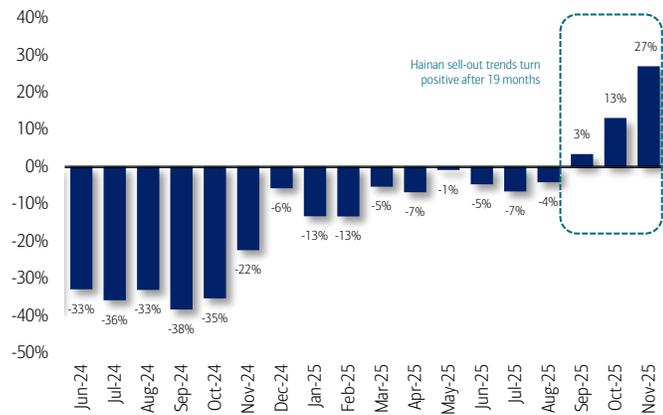


Source: BofA Global Research, DataStream

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Exhibit 6: Hainan sell-out turns positive after 19 months

Hainan duty free revenues (sell out), monthly, Dec YE

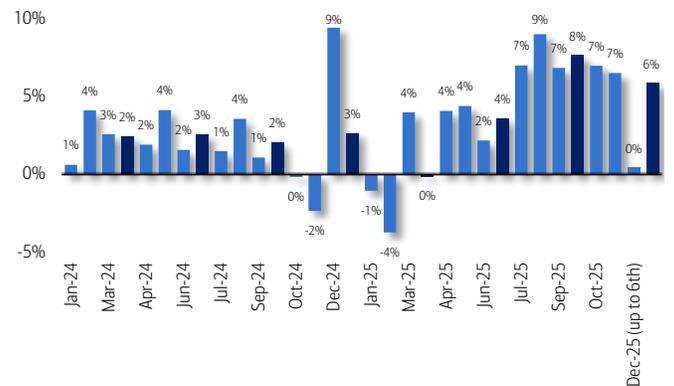


Source: BofA Global Research, Hainan customs

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Exhibit 7: US Beauty market improves in 2H25, pricing & innovation to support stronger 2026

BAC US data for beauty store spend, YoY growth rate



Source: BAC Internal data

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Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry



Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

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