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Software Mispricing and the CAPEX Paranoia: What the market is getting wrong.

11th February 2026

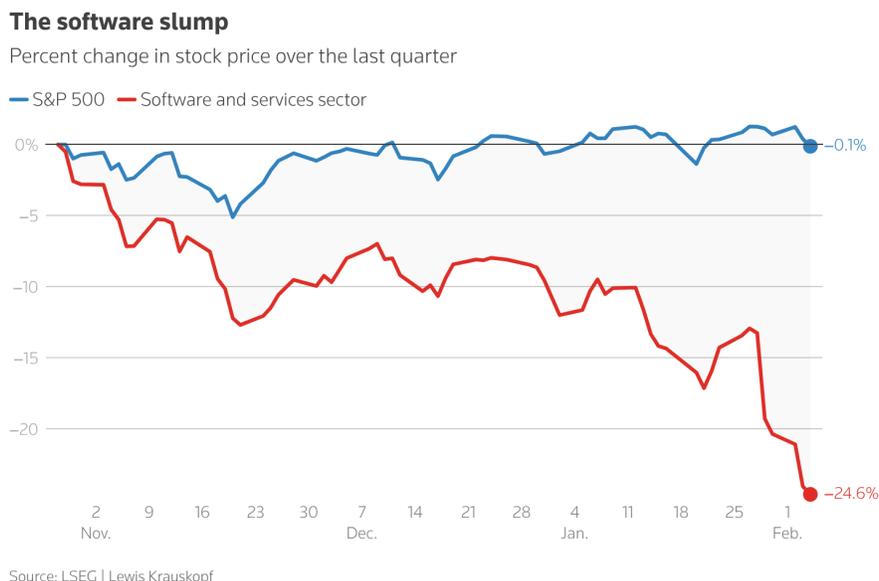
Thomas Amara - Editor-in-Chief, Head of Investing

1. SOFTWARE MISPRICING AND THE CAPEX PARANOIA: WHAT THE MARKET IS GETTING WRONG.

Last week, the market showed multiple notable patterns. The market was mostly red across the board. However, the technology sector may be where the most interesting phenomena are taking place.

An Indiscriminate Sell-off is creating fundamental mispricing in software

While the broader S&P 500 remains relatively unchanged, the S&P 500 software and services index has plummeted 25% since October. This represents the worst three-month performance relative to the broader market since May 2002. This was strongly accentuated last week as the index tumbled 13% week-on-week, wiping out \$800 billion in market capitalisation in just five days:



What is interesting in this trend is the broadness of this sell-off. It seems as though the market is selling software names indiscriminately, not distinguishing between strong moat firms and those offering easily replaceable solutions. The main concern investors have regarding software is how the impact of artificial intelligence is going to manifest.

What the market is getting wrong is treating firms with a solid ecosystem like the ones that do not. Firms such as Adobe, that integrated AI into an already ‘sticky’ ecosystem, should not be treated like a firm that can easily be replaced by an in-house solution. Adobe sells an ecosystem that is fundamentally ‘sticky’: it is used by professionals, boosts productivity through years of innovation of its solutions, continues to robustly develop these solutions, and represents the industry standard. For instance, Adobe’s integration of Firefly into Creative Cloud does not weaken Adobe’s moat, but makes its solutions better and even stickier.

Furthermore, the market seems to be treating a positive outlook on the significant increase in productivity through the use of such solutions as something that is going to reduce the number of seats companies are going to use as a consequence. However, this assumes that the firm will be unable to price the significant increase in productivity into the value of its subscriptions. Adding strong financials and solid growth to this solid moat further de-credibilises the bear case for such a firm. ServiceNow, Salesforce, Adobe, and Intuit should not be regarded as firms that simply sell a service; they sell ecosystems, embedded workflows, and distribution networks. However, they are being treated as firms that are feature-based rather than ecosystem-based, easily replaceable rather than entrenched, and modular rather than mission-critical. Furthermore, it is important to note the significance of the switching costs of such software solutions.

On the other hand, it is certain that artificial intelligence will significantly facilitate the replacement of narrow-moat software by in-house solutions. Other firms also show undeniable fundamental weaknesses. For instance, Oracle stock declined 15.8% in the week to Thursday. Oracle investors have valid reasons for worry. Since the shock induced by the spike in its credit default swap pricing last November, the company has failed to reassure investors and bondholders. These parties are wary of the speed at which the company is raising capital. They fear that the firm’s exposure to OpenAI means Oracle is burning cash to build out AI infrastructure for a company that is itself burning cash at astonishing rates and is predicted not to be profitable until 2030. In other words, they are relying on OpenAI’s ability to raise capital, a prospect that investors are becoming increasingly sceptical about due to OpenAI losing market share and its vague profitability prospects. Furthermore, if OpenAI were not able to pay back its agreements due to its failure to raise capital, Oracle would likely be far behind Microsoft and other firms, such as Amazon, in the order of repayment. In consequence, Oracle is issuing debt at near junk-bond rates and is diluting ownership through share issues to honour a contract which their client may be unable to honour, further adding to investor scepticism.

Such fears were accentuated this week when the company posted a tweet seen as ‘clumsy’ and ‘worrying’. On February 2nd, the company posted on X: “The NVIDIA-OpenAI deal has zero impact on our financial relationship with OpenAI. We remain highly confident in OpenAI’s ability to raise funds and meet its commitments.” The goal of the post to reassure investors backfired: the tone was seen as defensive, and showed that the company may be

worried, contrary to what it wanted to portray. Poor communication and high uncertainty made Oracle's plummet in stock price normal rather than not.

In other words, the sell-off as a whole is not irrational. However, companies should be analysed on an individual basis. While moving some capital away from the sector towards higher expected growth opportunities can be rational for certain agents, treating all firms alike might create long-term opportunities for long-term value investors. Does this mean it is time to buy? That is uncertain and depends on the profile of the investor: time, capital and tolerance to seeing positions in the red play an important role in determining this. It is important to keep in mind that low can always go lower, and cheap can always get cheaper. The way to go for someone who believes in these stocks' long-term future is to dollar cost average, to remain patient, and to keep a diversified portfolio.

Capex fears are trumping solid earnings reports

A second interesting phenomenon took place last week. Amazon stock fell as much as 10% early Friday, and finished the week down 14% after the company announced it will allocate upwards of \$200 billion on capex for the year, up from \$125 billion in 2025. Similarly, Meta stock dropped 11% in a single day after it announced a record 2026 Capex range of \$115 billion to \$135 billion, nearly double 2025 levels. However, both companies reported strong earnings. We are seeing fears about heavy capex overshadowing solid earnings reports.

Amazon's revenue for the quarter of \$213.4 billion beat estimates of \$211.5 billion. While net income guidance for Q1 2026 is announced lower than expected, between \$16.5 billion and \$21.5 billion, compared with expectations of \$22 billion, Amazon's highest-growing segments are the ones with the highest margins. Notably, the Amazon Web Services (AWS) segment saw revenue of \$35.6 billion versus expectations of \$34.9 billion. The company also announced to be cutting 16,000 jobs, the first tangible impacts of automation and the underlying efficiency gains.

Meta reported fourth-quarter 2025 revenue of \$59.89 billion and full-year revenue of \$200.97 billion, alongside guidance for first-quarter 2026 revenue of \$53.5 billion to \$56.5 billion. Meta demonstrated strong growth once again, and its advertising business did particularly well, making up 97% of overall revenue for the quarter.

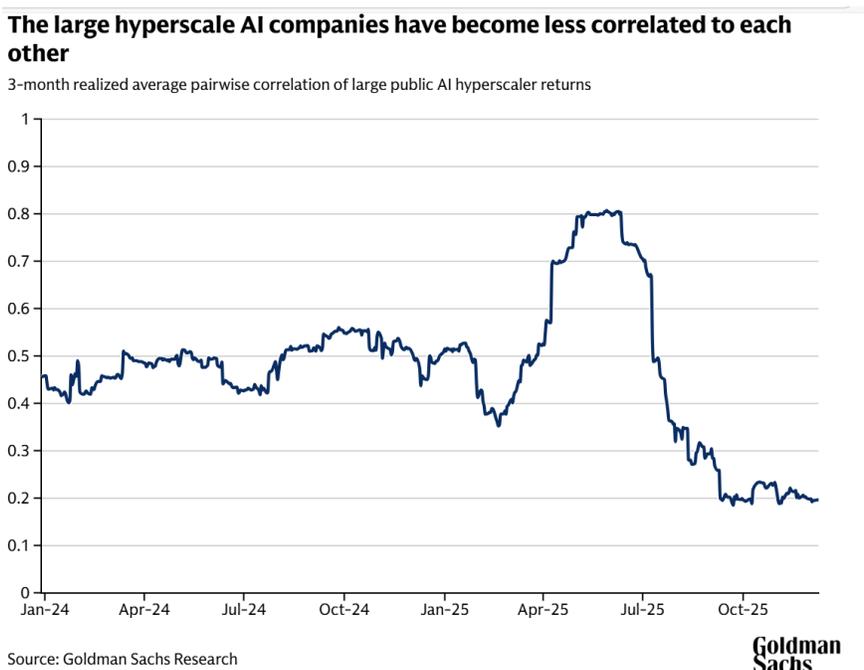
Both companies, despite strong earnings, suffered from their capex expansion plans. However, it is probable that these plans should be treated more as positive news rather than negative news.

There are several key arguments for this:

Firstly, Amazon and Meta are expanding because demand for compute is outstripping global capacity. Furthermore, this spending is an investment in the core, most lucrative functions of these businesses. AWS already represents \$35.6 billion in revenue, while advertisements generated 97% of Meta's revenue. These investments are likely to reinforce their moats in these already proven business segments. The road to monetisation of these investments is justified beyond a simple race. Strong managerial competence at both companies further reinforces the likelihood of a reinforcement of the companies' moats being the likely outcome of this capex.

Beyond the reinforcement of individual moats, the market’s reaction to Meta and Amazon’s spending plans reveals a deeper and more structural phenomenon: the beginning of a true dispersion within the so-called “Magnificent Seven.” For much of the post-2020 period, the Mag 7 traded as a homogenous bloc rather than fundamentally distinct businesses. That illusion is now fading. The violent divergence in price action following recent earnings demonstrates that investors are no longer treating these companies as interchangeable components of a single trade. Instead, they are finally beginning to price them according to the nature of their exposure to artificial intelligence, the capital intensity of their business models, and their respective positions in the emerging AI value chain.

This is in continuation of a clear trend already visible in October 2025:



Investors have predominantly focused on the near-term earnings beneficiaries of the current boom in AI investment spending, partly driving this divergence. This can be said to cause a situation where companies whose business models depend on deep, irreplicable infrastructure are being penalised for investing to maintain their dominance. Companies whose moats are expanding because of their integration of AI are being priced as though those moats were weakening. Meanwhile, companies with no clear AI strategy are treated as if they were unaffected by the structural shift underway. This is a situation that is likely to reward long-term investors, capable of seeing the long-term value of capex beyond the slight short-term opportunity cost in terms of earnings.

The Limits of Serial Bidding in UK Takeovers

11th February 2026

Adam Dewji

2. THE CURRENT STATE OF UK TAKEOVERS

Recently, an area of the UK equity market that has been shaped sharply by recently volatility is takeovers. While the UK has been accustomed to a steady rhythm of agreed bids and negotiated premiums, that process has become more strained. Depressed share prices, uneven post-pandemic recoveries and heightened uncertainty have increased takeover interest, yet have also made boards reluctant to recommend offers anchored to cyclical lows. As a result, what should be straightforward price discovery has increasingly turned into protracted and contested processes.

Nevertheless, takeover interest remains strong. UK-listed companies, particularly in the small and mid-cap space, are largely still trading at a discount to pre-covid valuations, as well as relative to their international peers. Therefore, both financial sponsors and strategic buyers are seeking opportunities. Bid premiums seem high relative to historical levels over the past few years, but boards are reluctant to engage, which signals a belief that the market undervalues the company.

The traditional UK takeover dynamic of an indicative approach, negotiated uplift and board recommendation is being put to the test. Repeated approaches and non-binding bids have become more common as buyers attempt to bridge valuation gaps, particularly in volatile markets. However, the UK's board-centric regulatory framework, including strict disclosure requirements and time-limited bidding windows, limits how long this process can continue and raises the stakes of each successive offer.

Outcomes have therefore become more polarised. Well-timed, clearly compelling bids continue to succeed, while incremental or tactical approaches risk alienating boards and stalling transactions altogether. The challenge for bidders is that persistence can begin to look like pressure, while boards, conscious of past criticism for selling too cheaply, are increasingly willing to wait

The UK takeover market is active but somewhat apprehensive. Assets are seemingly cheap but execution of deals is harder to achieve and certainty is less prevalent. Buyers must be opportunistic yet credible; boards must retain shareholder confidence without giving away the reins at the wrong time in the cycle. For the time being, however, the gap between price

discovery and a value-destroying mistake in judgement has rarely been tighter.

THE DYNAMICS OF SERIAL BIDDING

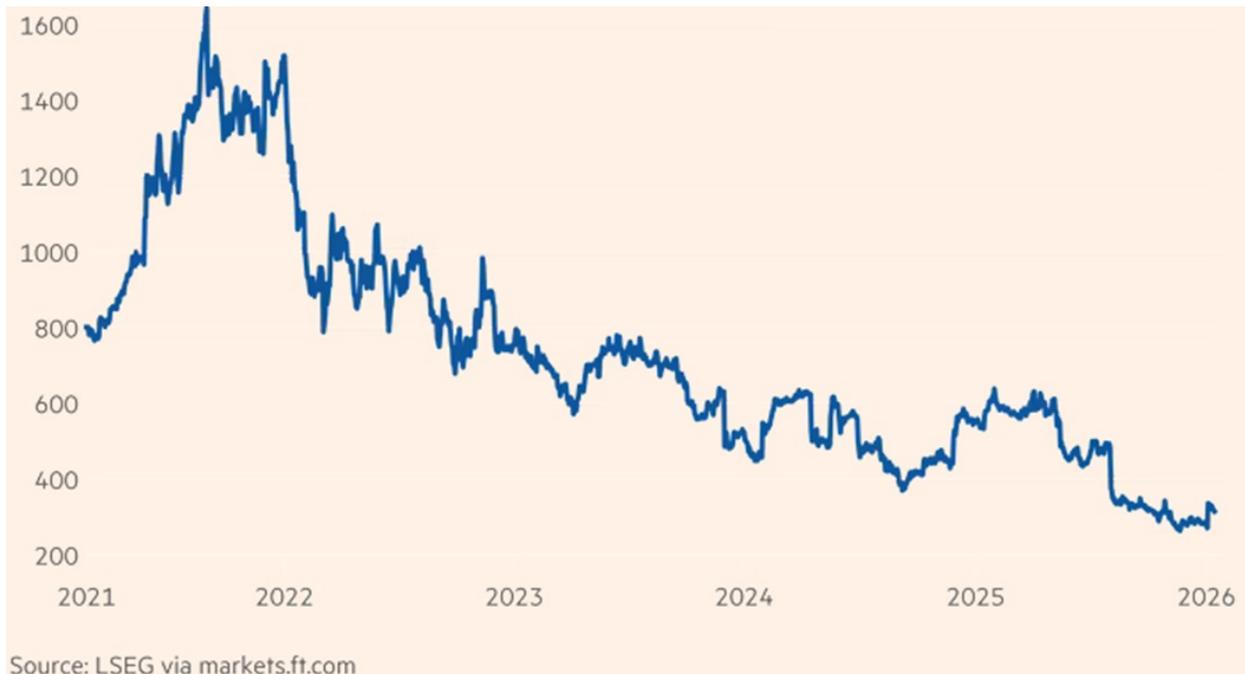
Serial bidding has emerged as a response to a breakdown in the traditional UK takeover process. In volatile markets, initial offers often fail to clear the widening gap between buyer opportunism and board expectations of long-term value. Rather than walking away, bidders increasingly return with revised or repeated approaches, framing the process as price discovery. In practice, this can leave targets in a prolonged state of uncertainty, as successive indicative bids replace what was once a short negotiation culminating in a firm recommendation.

The prevalence of serial bids has grown to the highest extent in circumstances where stock prices are low or very unstable. While headline premiums might appear attractive to historical levels, boards are less hesitant to reject them today, especially when they believe future earnings growth or strategic redirection is more beneficial. However, serial approaches allow for the revelation of information, signal intention but also, can reduce legitimacy when they're just days apart with no discernible step change in escalation.

However, serial bidding, as time passes, turns into more of a shove than a negotiation. In the UK, disclosure requirements and the "put up or shut up" rule facilitate a time constraint on friendly approaches. Once bids are disclosed, boards are limited in their ability to defend themselves and bidders must either increase their offers substantially or walk away. The authority to eliminate protracted competing bids for company control is just as strong as boards seeking to challenge it.

There remains an aspect of practical responsiveness in this approach, however, its negatives are clear. An excessive bidder might alienate the very board it seeks or a continuously pursued target might not have many strategies beyond a blank check. Repeat bidding only works if persistence is tied to the fundamental entity attributes that make value really compelling. If it doesn't work, it says something greater about takeovers and acquisitions in the modern day, price discovery has its limits and repeated approaches cannot substitute for a genuine stance.

Example Analysis



Auction Technology Group illustrates these present realities clearly. After a series of operational missteps, including a poorly judged acquisition and a profit warning, ATG's share price fell sharply, leaving the company looking vulnerable to approach. This decline created the appearance of cheapness and invited repeated bids, even though the core business continued to generate earnings and retained a defensible market position. Analysts continued to forecast steady medium-term revenue growth, suggesting that the company's long-term fundamentals had weakened far less than its share price implied.

The danger of the merger was fought over value as opposed to price. FitzWalter's final offer represented a 49% premium on ATG's undisturbed share price, but only valued the company at a multiple of twelve projected earnings which was an earnings multiple that the board believed to be low considering ATG's growth and recapture efforts coming out of the pandemic. This continued serial bidding exposed this tension but didn't ultimately ease it as each new offer was anchored to ATG's stock price during 2020's market faltering rather than relative value. In a shareholder-dominated offer environment, the time value of money and good faith access to avoid doing the deal at all works; in a board-dominated takeover environment, time and effort means nothing if legitimate arguments aren't involved. The final outcome exposes the greater truth that if boards think temporary dislocation fails to capture proper long-term value, they prefer to entrench resistance than unlock a deal.

Long-Term Macroeconomic Analysis

Examples of UK-listed takeovers in 2025

Target	Buyer
Alliance Pharma	DBAY
Alphawave IP	Qualcomm
Bakkavor	Greencore
De La Rue	Atlas
Deliveroo	DoorDash
Dowlais	American Axle & Manufacturing
Just Group	BWS
Ricardo	WSP
Spectris	KKR
Wood Group	Sidara

Source: AJ Bell, company announcements



What serial bidding manifests is not cyclical irregularities but instead, the structural forces of the UK takeover market. Resilient valuation differentials, growing volatility and a board-favouring legal environment complicate how control transactions operate over time. The ATG example details how bidders increasingly attempt to exploit market dislocation while boards increasingly refuse to engage with their unsolicited intentions at a value they consider to be a short-term low. Over time, this relationship shifts control transaction patterns from effectively negotiated, quickly painted transactions to longer, more difficult patterns.

If the current macroeconomic conditions endure, low growth, higher-for-longer interest rates and ongoing geopolitical uncertainty, then this will be a hallmark of UK takeovers moving forward. The lack of value creation in equities will appeal to acquirers and with boards

unlikely to hand-over control at such uncomfortable market levels, the precedent may show that frustrating bids happen more frequently in this environment. However, when they do, the unsolicited bids become recommended bids at lower thresholds unless would-be buyers can support fundamentals for the long term instead of merely arbitrage for the short term.

There are, however, risks to this equilibrium. In theory, board resistance can protect shareholders from opportunistic bids and prevent the transfer of long-term value at cyclical lows. In practice, prolonged takeover standoffs may reduce market dynamism, discourage strategic decision-making and leave companies in a state of prolonged uncertainty. As seen in the ATG case, serial bidding can constrain corporate action without delivering resolution, particularly once regulatory time limits force bidders either to escalate or withdraw.

For investors, there are mixed implications. Board activism is more favourable to results in the long run if implementation is more likely than immediate value and selling the company, then it's appreciated. But it also complicates a selling landscape where prices are increasingly regulated and negotiated instead of priced appreciation to signals. Whether this means more concentrated investment or simply less turnover remains to be seen. What the ATG story drives home, however, is that the UK takeover marketplace has visibly adjusted to one where practicality instead of ego and patience instead of a time-crunched schedule have become more important.

The 5 stocks to look out for in 2026

11th February 2026

Rithik

MY TOP 5 STOCKS FOR 2026

1. Palantir

Palantir is my number one stock to watch out for 2026 because it sits where national security, geopolitics and capital allocation. Its platforms were originally built for intelligence and defence agencies now being used by corporates and financial institutions to model sanctions and supply chain risks. With AIP driving revenue growth and very high software margins. It generated about 63% year on year revenue growth in q3 2025. Total contract value reached 2.8bn USD up 151% YOY. As sanctions great power rivalry increasingly move markets. I see Palantir as a key player in the market to come. Q3 2025 revenue hit \$1.181B, up 63% YoY, with TCV at \$2.8B (+151% YoY); cash from operations was \$508M (43% margin), adjusted FCF \$540M (46% margin), and GAAP net income \$476M on a rock-solid balance sheet with net dollar retention at 134%.

2. Nvidia

Nvidia's data centre revenue has been growing 60% year on year. ITS CUDA ecosystem underpins most cutting edge AI training and roughly controls over 70% of the AI CPU market. With countries and hyperscalers planning hundreds of billions of dollars in AI/ data centres. This gives it both earning leverage and geopolitical relevance as both the US and China are dependent on Nvidia's chips in the near future. Nvidia's Q3 FY2026 data center revenue rocketed 66% YoY to \$51.21B within \$57B total, yielding \$31.91B net income and 75% gross margins on a fortress balance sheet .

3. Exxon Mobil Corp.

On the energy side Exxon Mobil Corp. (XOM) is a stock to watch out for 2025. It operates Guayana's Stabroek block with over 9bn barrels of recoverable oil and expected output path above 1mn barrels per day and benefit from a post Maduro Environment lower conflict environment allowing for more oil to be extracted and hence greater profits with lower costs due to alignment with the American government and repealing of sanctions. ExxonMobil posted

FY2024 revenue of \$339.25B, \$33.68B net income, and \$30.72B FCF funding shareholder returns on \$23B cash despite \$18.68B net debt.

4. Rio Tinto

Rio Tinto is another stock as its extraction is fundamental to semi conductors through copper. With the global race for precious minerals heating up copper and precious minerals are in greater demands thus raising the price for copper and other resources the firm extracts thus could lead to higher profits for the firm in turn greater profits for shareholders. Rio Tinto generated H1 2025 \$6.9B operating cash flow (60% EBITDA conversion), \$52.9B equity, and \$7.7B cash on stable debt amid rising mineral demand.

5. SpaceX

On a potential IPO listing in 2026 is SpaceX. It is currently private but has already values in secondary trades at hundreds of billions of dollars on the base of growing Starlink revenues. The company has reportedly secured around 2bn USD in Golden Dome related contracts to deploy missile tracking satellite. Thus in convergence with President Trump's plan for a space-based shield which could cost over 800bn could lead to greater demand for Space X. This makes Space X a unique geopolitical asset where it simultaneously a commercial launch and broadband business but also a core contractor for a project to shape nuclear deterrence and geopolitics.SpaceX eyes \$15.5B 2025 revenue (Starlink-led) with cash flow breakeven and secondary valuations in hundreds of billions on \$2B+ contracts, though the full balance sheet remains private.

3. WHAT TO LOOK OUT FOR THIS WEEK

Zaki Bawany - Macro and Strategy Editor, Head of Trading

1. Macro & Policy Backdrop

- Markets head into the week with sentiment subdued after a volatile stretch in technology and renewed concerns over earnings quality.
- The macro landscape remains disinflationary but uneven, with services inflation proving stickier than goods, reinforcing central banks' preference for caution.
- Policy communication from the Fed and ECB is expected to remain hawkish-neutral, keeping the first rate cuts framed firmly as a late-2026 story.
- The balance of macro risks continues shifting away from inflation and towards financial-stability concerns driven by credit stress, liquidity fragmentation, and the impact of higher-for-longer rates on leveraged sectors.

2. Geopolitics & Strategic Risk

- Tensions in the South China Sea have escalated, prompting investors to reassess supply-chain resilience and the vulnerability of semiconductor logistics.
- The Middle East risk premium remains elevated, with periodic disruptions to Red Sea shipping routes affecting freight costs and delivery times.
- European defence postures continue hardening following new NATO commitments, reinforcing the structural nature of geopolitical risk.
- These developments collectively point to a world where geopolitical shocks are becoming persistent drivers of market pricing, not episodic anomalies.

3. Oil & Energy Markets — Structural Upside

- Crude markets enter the week with supply still biased to the upside as shipping bottlenecks and geopolitical tensions tighten physical flows.
- Despite softer macro data, refined product inventories remain low, keeping energy inflation risks alive.
- Integrated oil companies continue benefiting from strong cash generation, disciplined spending, and elevated geopolitical premia.
- Energy equities retain a favourable mix of valuation support, dividend income, and geopolitical optionality.

4. Defence & Security — Structural Allocation Tailwinds

- Defence remains a secular growth sector, supported by multi-year procurement pipelines across the US, Europe, and key Asian economies.
- Governments continue to prioritise investment in missile defence, drones, cyber, surveillance, and naval assets.
- The sector's inflation-protected long-duration revenue streams keep attracting institutional capital seeking stability in a fragmented geopolitical environment.
- Defence equities are increasingly treated as quasi-sovereign assets rather than cyclical industrials.

5. Equities & Sector Positioning

- Leadership is likely to favour energy, defence, and high-quality industrials, consistent with recent macro and geopolitical patterns.
- European and UK markets could outperform on a relative valuation basis, driven by real-asset exposure and lower growth expectations baked into prices.
- U.S. megacap tech remains powerful but increasingly sensitive to valuation compression following last week's sharp sectoral divergence.
- Sector differentiation and balance-sheet strength are set to matter more than index exposure, favouring quality over beta.

6. Volatility, Liquidity & Risk Management

- Volatility is expected to remain elevated as investors digest earnings dispersion, geopolitical headlines, and supply-chain disruptions.
- Demand for hedges should rise after several weeks of complacency unwinding.
- Capital is likely to be deployed selectively, with investors avoiding broad risk-on positioning and instead adding exposure to targeted opportunities.
- Liquidity conditions remain patchy, placing a premium on defensive positioning and staggered entry strategies.

7. Key Watchpoints for January

- Escalation risk in the South China Sea and implications for semiconductor supply chains. • Developments in Red Sea shipping routes and freight cost behaviour.
- European and U.S. defence-spending signals following recent geopolitical escalations.
- Earnings commentary from megacap technology firms and market reaction to CAPEX guidance.

- Behaviour of crude and refined product prices amid geopolitical uncertainty.

Overall Outlook

Investors continue shifting toward real assets, defence, and quality cash generators, while tech remains powerful but exposed to valuation pressure and CAPEX scrutiny.

Base case: moderate global growth, continued disinflation, elevated geopolitical risk — favouring energy, defence, and balance-sheet strength.

Upside risks: faster-than-expected easing in supply-chain pressures and improving earnings sentiment.

Downside risks: geopolitical escalation, shipping disruption, or a sudden tightening in liquidity conditions.