MORNINGSTAR

Morningstar Wide Moat Focus Index

Performance & Ratings Changes Amid the "SaaSpocalypse"

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Executive Summary

Year-to-date through February-end, the Morningstar Wide Moat Focus Index delivered a 3.38% total return versus 0.86% for the Morningstar US Market Index. Primarily, this outperformance stemmed from the index's equal-weighting scheme, as equal-weighted U.S. equity indexes have outperformed market cap-weighted indexes as the breadth of market returns has broadened away from the "Magnificent 7".

On a YTD basis for the Morningstar Target Market Exposure Index, which is comparable to the S&P 500, its equal-weighted variant has outperformed its market cap-weighted variant 4.51% vs. 0.27%. Notably, the equal-weighted variant only outperformed the market cap-weighted variant once over the last nine calendar years, in 2022. Accordingly, market conditions through the first two months of 2026 represent a major shift from what we've observed over much of the last decade, a period when "big tech" has dominated and references like "FAANG and "The Magnificent 7" have entered the zeitgeist.

We're pleased to see the Morningstar Wide Moat Focus Index outperforming its benchmark YTD through February-end, particularly after headwinds from its equal-weighting methodology drove underperformance in 2024 and 2025. However, our enthusiasm is dampened by the fact that stockselection has been unfavorable thus far in 2026. As a result, total returns lag those of equal-weighted large-cap U.S. equity indexes. This adverse stock selection has effectively come from one industry alone -- software. Amid the 2026 AI-fueled software rout, now known as the "SaaSpocalypse", the Morningstar Wide Moat Focus Index's moderate overweight position in the software industry has weighed on relative performance. Sector-level performance attribution indicates that, while sector weightings have driven +339 bps of outperformance versus the Morningstar US Market Index, stock selection within sectors has generated a -87 bps impact. Of this total, -83 bps came from the Technology sector, largely due to the index's software holdings.

On average, over the first two months of the year, the Morningstar Wide Moat Focus Index has an 18.9% weighting to the software industry versus 11.3% for its benchmark. Through an industry-level attribution lens, this overweight industry position has taken a -166 bps toll on relative performance while stock selection within the software industry has driven an additional -33 bps impact. This accounts for most of the shortfall versus any typical equal-weighted large-cap U.S. equity benchmark.

The SaaSpocalypse has inspired us to review our economic moat ratings for 132 companies across our global coverage, leading to some changes that will impact the selection set for the Morningstar Wide Moat Focus Index. Amid the SaaSpocalypse, this report provides detailed year-to-date performance attribution and a summary of recent changes to our economic moat ratings and fair value estimates.

Source: Morningstar
All performance data reflects USD total returns | Indexes are unmanaged and not available for direct investment

See Important Disclosures at the end of this report.

Morningstar's Take: Is the SaaSpocalype Justified?

The GenAI disruption narrative is compelling. We broadly think of GenAI as a system that can capture the internal logic of any data source on which it is trained and where verifiable rewards are able to reinforce that logic. This is "multi-modal", and can occur across text, images, video, and more. GenAI will increase the risk of disruption where data is reasonably available and where value is extracted by existing players by organizing/analyzing the internal logic of that data.

The launch of Claude Opus 4.6, Claude CoWork, OpenAI Frontier, and OpenAI Codex all reinforce that AI keeps getting better and is gradually inserting itself directly into knowledge workflows. AI tools are now able to perform multi-step, complex coding projects, using multiple agents, and are being integrated across more "apps" and "data sources" and other "tools", positioning AI platforms at the center of this new ecosystem. AI tools are now becoming so integrated within a PC that they are operating directly from the CLI, giving it access to the whole computer as if it was you. This is all being done at prices of $20-$200 per user per month.

While we view the YTD share price pullback for many software companies as overdone, we do believe that GenAI represents a credible long-term threat. This has inspired wide-ranging economic moat reviews across the software space. We do not view AI as a universal disruptor of all competitive advantages. Instead, we view it as a sorting mechanism. Most economic moat ratings we reviewed were unchanged, but the number of downgrades was still significant. AI advancements will challenge business models that depend on workflow frictions, labor intensity, and application stickiness, while preserving (or even strengthening) businesses built around infrastructure, proprietary data, network effects, or specialized domain workflows.

The main reasons we've downgraded several economic moat ratings across the software industry include the following:

- Software is often Built on "Per Seat" Economics, Which is Directly Threatened
- GenAI is Token Consumption Based, and Has Lower Gross Margins
- AI Changes the Basis of Competition and the Industry Architecture
- Technology Shifts Introduce Uncertainty into the System
- AI Lowers the Cost of Producing Code
- GenAI Lowers Barriers to Entry
- AI Lowers switching costs

Summary: Economic Moat Rating Reviews Amid AI Disruption

In light of rapid AI advancements, we've reevaluated the economic moat ratings of 132 companies across our global coverage. To do so, we developed a proprietary scoring framework across seven dimensions. This system was primarily designed to evaluate moats in the Software industry, and we made some adjustments so we could apply it to certain other industries as well, such as IT Services and Financial Services. The framework accounts for both the threats AI poses to existing moats, and the moat enhancements it may provide for firms that are well-positioned in the AI value chain.

Global Summary of Results
Downgrades from Wide to Narrow: 20
Downgrades from Wide to None: 2
Downgrades from Narrow to None: 18
Upgrades from Narrow to Wide: 2
No Change: 90

Key Dimensions for Thinking About Economic Moats in an AI World

Dimension	Better Positioned	Worse Positioned
Layer Positioning	Economics come from infrastructure layer, AI can increase demand	More application layer economics, AI substitutes product
Data Moat	Unique, non-replicable, proprietary data assets	Generic, customer owned, or public data
AI Demand	AI directly increases consumption of your product	AI reduces need for product
Pricing Model	Per-transaction, value based, usage based	Per-seat, vulnerable to headcount cuts
Workflow Complexity	Multi-step, multi-module, significant domain expertise, regulated, high-stakes	Simple, repetitive, more easily automated
Switching Costs	High stakes for switching, many switching pain points, network effects, regulatory barriers	Lower friction, evidence that vendor swapping is more realistic
Competitive Positioning	Strong distribution advantages, evidence of AI monetization	Fragmented, more realistic that AI-native competitors can take share

Source: Morningstar
All performance data reflects USD total returns | Indexes are unmanaged and not available for direct investment

Moat Rating Changes Impacting the Morningstar Wide Moat Focus Index's Selection Set

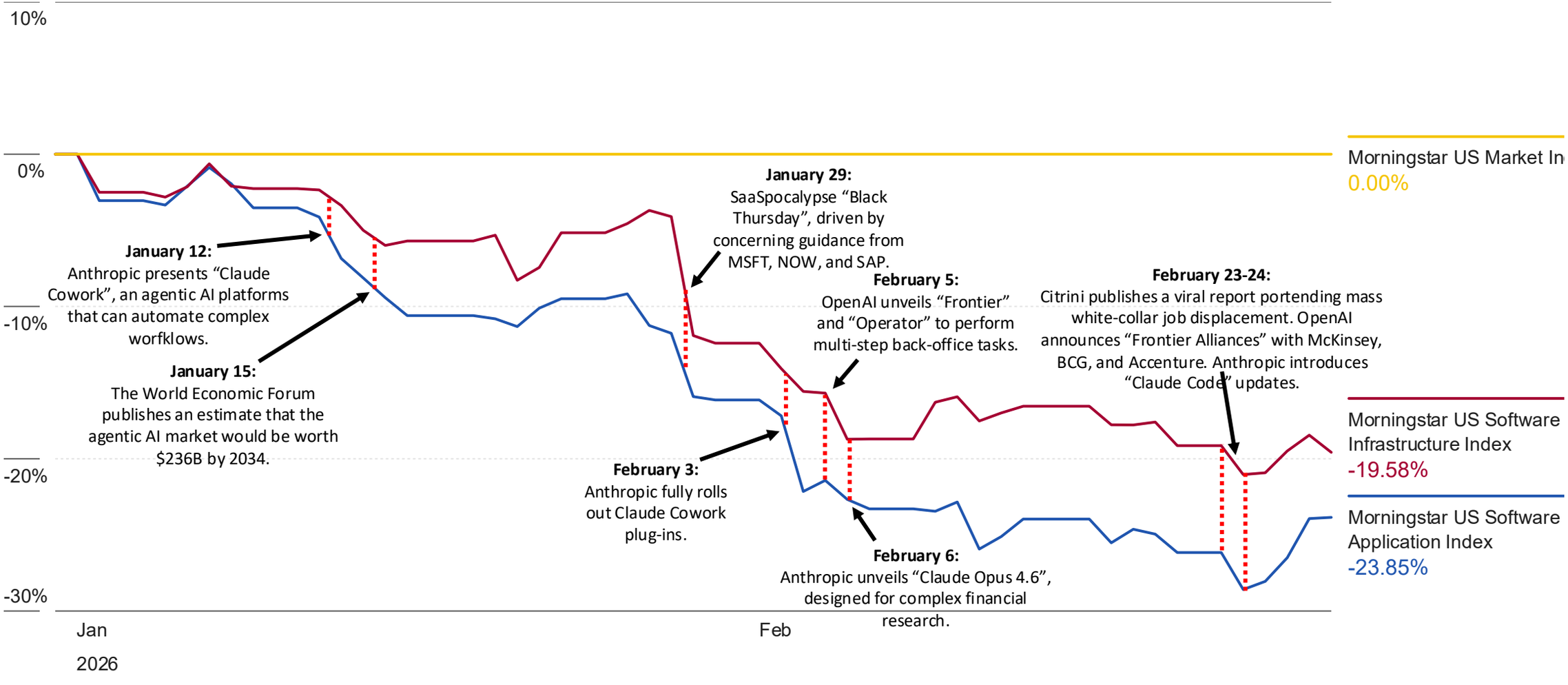
The selection set for the Morningstar Wide Moat Focus Index spans Morningstar US Market Index constituents with a wide economic moat rating. While the recent economic moat review process had a global scope, the table below highlights only those changes that impact the Morningstar Wide Moat Focus Index selection set.

Company	Ticker	Sector	Industry	Prior Economic Moat Rating	Updated Economic Moat Rating	Prior Fair Value Estimate	Updated Fair Value Estimate
Economic Moat Downgrades (10)							
Adobe	ADBE	Technology	Software - Application	Wide	Narrow	$560	$380
Automatic Data Processing	ADP	Technology	Software - Application	Wide	Narrow	$297	$231
Intuit	INTU	Technology	Software - Application	Wide	Narrow	$535	$495
Manhattan Associates	MANH	Technology	Software - Application	Wide	Narrow	$215	$170
Paychex	PAYX	Technology	Software - Application	Wide	Narrow	$122	$90
Salesforce	CRM	Technology	Software - Application	Wide	Narrow	$300	$280
ServiceNow	NOW	Technology	Software - Application	Wide	Narrow	$200	$165
Workday	WDAY	Technology	Software - Application	Wide	Narrow	$170	$150
Oracle	ORCL	Technology	Software - Infrastructure	Wide	Narrow	$277	$215
Accenture	ACN	Technology	Information Technology Services	Wide	Narrow	$272	$255
Economic Moat Upgrades (2)							
Cloudflare	NET	Technology	Software - Infrastructure	Narrow	Wide	$200	$235
CrowdStrike Holdings	CRWD	Technology	Software - Infrastructure	Narrow	Wide	$410	$460

Source: Morningstar

A Rapid Sequence of Notable GenAI Developments Has Weighed on Software Stocks

Relative Performance: Key Software Indexes vs. Morningstar US Market Index (2026 YTD)



Source: Morningstar | **Time Period:** 1/1/2026 – 2/28/2026
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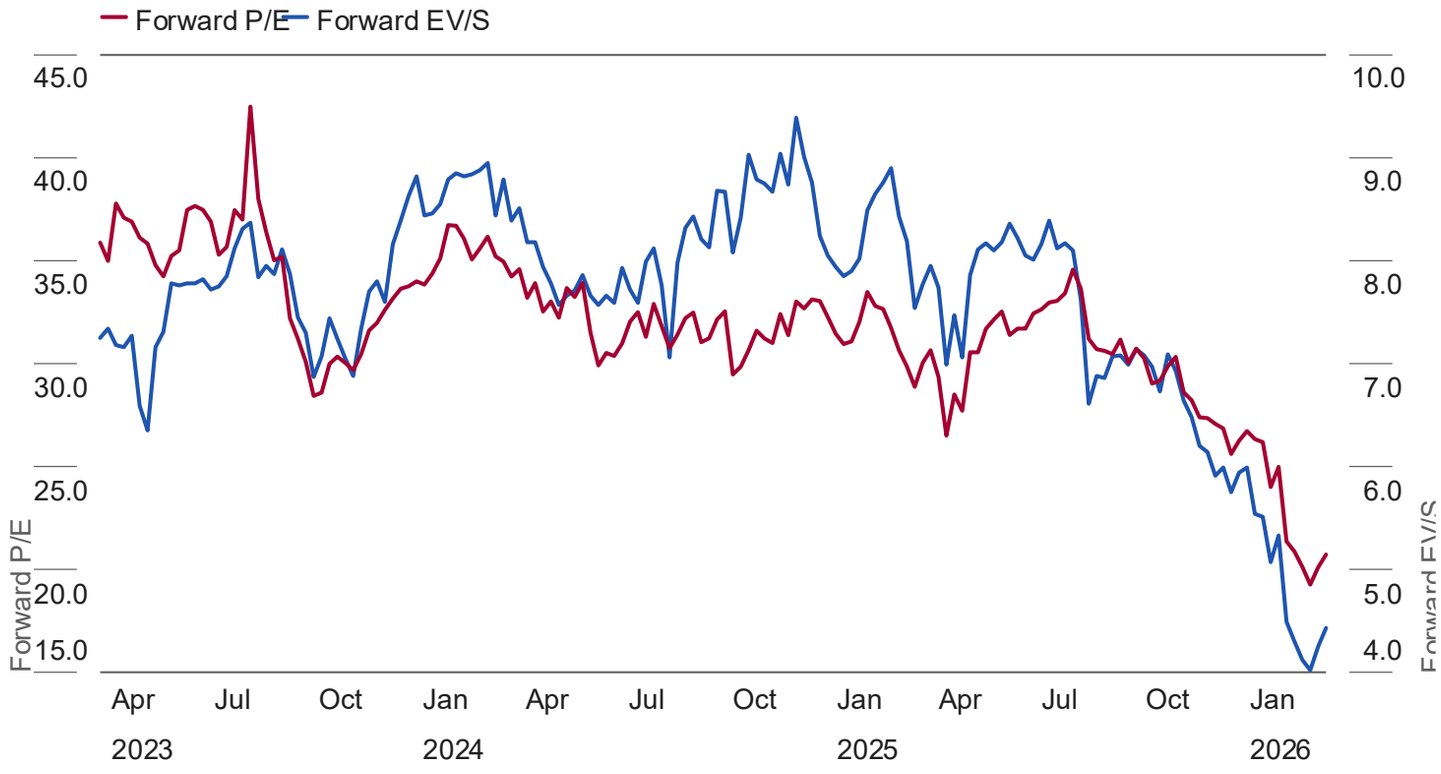
Multiples Have Compressed Materially Across Our Core Software Coverage

Forward P/E and EV/S Multiples for Morningstar's Software Coverage Have Reached Multi-Year Lows



Software names are currently trading at historically low forward P/E and EV/S multiples, highlighting the significant multiple compression the sector has experienced in recent months.

While we did downgrade several economic moat ratings and fair value estimates across our software coverage, we are finding that shares are now pricing in a far more severe outcome than currently reflected by our base case.

In other words, while AI disruption in software is a legitimate concern that does threaten economic moats, we feel the market has overreacted in terms of the ultimate magnitude of this threat. For many software firms we cover, especially those that maintained their prior economic moat rating, we feel the ultimate impact on financial results will prove less significant than what share prices currently imply.

Amid the well-documented rise of AI, this severe market reaction may be the result of "sell now, ask questions later" behavior. As a result, we see a number attractive investment opportunities, particularly for companies where economic moats will limit or slow the ultimate impact of AI disruption.

Source: Morningstar, PitchBook, and FactSet | **Data as of:** 3/9/2026
All performance data reflects USD total returns | Indexes are unmanaged and not available for direct investment

Industry-Level Attribution: Being Overweight Software Has Weighed on Relative Performance

Performance Attribution By Industry: Top & Bottom 5 Drivers of Active Returns

% Total Returns

Sector	Weight %			Total Return %		Contribution %		Performance Attribution		
	Index	Benchmark	+/-	Index	Benchmark	Index	Benchmark	Allocation Effect %	Selection Effect %	Excess Return %
Consumer Packaged Goods	11.24	1.29	9.94	16.07	16.29	1.75	0.21	1.50	-0.03	1.47
Semiconductors	7.20	13.31	-6.10	23.99	1.64	1.61	0.21	-0.08	1.54	1.46
Aerospace & Defense	6.98	2.34	4.64	20.60	13.34	1.34	0.30	0.56	0.45	1.01
Drug Manufacturers	7.04	4.34	2.70	15.29	9.15	1.07	0.39	0.22	0.43	0.65
Beverages - Alcoholic	4.74	0.06	4.68	13.03	12.04	0.60	0.01	0.51	0.05	0.55

Sector	Weight %			Total Return %		Contribution %		Performance Attribution		
	Index	Benchmark	+/-	Index	Benchmark	Index	Benchmark	Allocation Effect %	Selection Effect %	Excess Return %
Retail - Defensive	-	1.76	-1.76	-	15.55	-	0.27	-0.25	0.00	-0.25
Capital Markets	5.99	2.36	3.62	-6.11	-5.90	-0.37	-0.14	-0.23	-0.04	-0.27
Medical Diagnostics & Research	5.33	1.10	4.22	-9.18	-7.10	-0.50	-0.08	-0.33	-0.12	-0.46
Oil & Gas	-	3.01	-3.01	-	25.13	-	0.71	-0.69	0.00	-0.69
Software	18.88	11.29	7.59	-20.99	-19.60	-4.25	-2.35	-1.66	-0.33	-2.00
Total	**100**	**100**		**3.38**	**0.87**	**3.38**	**0.87**	**0.39**	**2.13**	**2.52**

The Morningstar Wide Moat Focus Index had an average 18.9% weighting in the Software industry over the first two months of 2026 versus 11.3% for the benchmark. As the industry suffered a -19.6% total return, the combination of this overweight position and stock selection within the industry had a -200 bps impact on relative performance. Fortunately, strong results across the CPG, Semiconductors, and Aerospace & Defense sectors provide a performance offset. The stark performance contrast between the Semiconductors and Software industries is noteworthy, as flagging investors enthusiasm for SaaS companies has driven a rotation out of SaaS companies into the semiconductor space.

Source: Morningstar | **Time Period:** 1/1/2026 – 2/28/2026

All performance data reflects USD total returns | Indexes are unmanaged and not available for direct investment

Sector-Level Attribution: Favorable Sector Positioning Has More Than Offset Adverse Software Exposure

Performance Attribution By Sector

% Total Returns

	Weight %			Total Return %		Contribution %		Performance Attribution		
Sector	Index	Benchmark	+/-	Index	Benchmark	Index	Benchmark	Allocation Effect %	Selection Effect %	Excess Return %
Basic Materials	-	1.88	-1.88	-	18.73	-	0.34	-0.33	0.00	-0.33
Communication Services	2.57	10.61	-8.04	-4.38	-0.85	-0.11	-0.09	0.13	-0.09	0.04
Consumer Cyclical	7.52	10.73	-3.21	-2.20	-3.49	-0.17	-0.37	0.14	0.09	0.23
Consumer Defensive	17.25	4.63	12.62	15.40	16.06	2.57	0.72	1.88	-0.12	1.76
Energy	-	3.02	-3.02	-	24.96	-	0.71	-0.69	0.00	-0.69
Financial Services	7.33	13.02	-5.69	-4.59	-6.02	-0.34	-0.80	0.40	0.11	0.51
Healthcare	18.30	9.74	8.56	4.05	2.87	0.75	0.28	0.16	0.22	0.39
Industrials	19.65	8.77	10.89	15.73	16.99	2.98	1.44	1.72	-0.25	1.46
Real Estate	-	2.16	-2.16	-	8.62	-	0.19	-0.17	0.00	-0.17
Technology	27.38	33.22	-5.84	-8.14	-5.38	-2.30	-1.81	0.37	-0.83	-0.45
Utilities	-	2.22	-2.22	-	11.37	-	0.25	-0.23	0.00	-0.23
Total	**100**	**100**		**3.38**	**0.87**	**3.38**	**0.87**	**3.39**	**-0.87**	**2.52**

*** Reported cumulative returns for the index and benchmark were 3.38% and 0.86%, respectively, after accounting for residuals.

Reported Excess Return: **2.52**

The Morningstar Wide Moat Focus Index had an average 18.9% weighting in the Software industry over the first two months of 2026 versus 11.3% for the benchmark. As the industry suffered a -19.6% total return, the combination of this overweight position and stock selection within the industry had a -200 bps impact on relative performance. Fortunately, strong results across the CPG, Semiconductors, and Aerospace & Defense sectors provide a performance offset. The stark performance contrast between the Semiconductors and Software industries is noteworthy, as flagging investors enthusiasm for SaaS companies has driven a rotation out of SaaS companies into the semiconductor space.

Source: Morningstar | **Time Period:** 1/1/2026 – 2/28/2026

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Companies Subject To Perceived AI Disruption Headline the Bottom 10 Contributors To Active Returns

Top & Bottom 10 Contributors To Active Returns

% Total Returns

	Weight %			Total Return %	Contribution %		
Company	Index	Benchmark	+/-	Benchmark	Index	Benchmark	Active Return %
Huntington Ingalls Industries Inc	3.10	0.02	3.07	31.12	0.87	0.01	0.85
Applied Materials Inc	2.13	0.36	1.77	45.05	0.86	0.15	0.71
Entegris Inc	1.46	0.02	1.44	57.34	0.71	0.01	0.69
Microsoft Corp	2.24	5.31	-3.07	-18.61	-0.44	-1.05	0.64
Clorox Co	2.36	0.02	2.34	27.55	0.62	0.01	0.59
United Parcel Service Inc	2.77	0.12	2.66	18.57	0.50	0.02	0.46
IDEX Corp	2.70	0.02	2.68	18.14	0.47	0.00	0.44
Bristol-Myers Squibb Co	2.71	0.17	2.54	16.99	0.46	0.03	0.41
The Hershey Co	1.29	0.04	1.24	30.70	0.38	0.01	0.36
Deere & Co	1.26	0.19	1.06	35.26	0.42	0.06	0.35

Company	Index	Benchmark	+/-	Benchmark	Index	Benchmark	Active Return %
Exxon Mobil Corp	-	0.85	-0.85	27.59	-	0.22	-0.21
Danaher Corp	2.60	0.22	2.37	-7.99	-0.21	-0.02	-0.22
Micron Technology Inc	-	0.60	-0.60	44.48	-	0.22	-0.22
TransUnion	2.34	0.02	2.31	-8.25	-0.20	0.00	-0.22
ServiceNow Inc	0.99	0.22	0.77	-29.49	-0.33	-0.07	-0.27
Broadridge Financial Solutions Inc	2.16	0.04	2.12	-16.71	-0.38	-0.01	-0.40
Tyler Technologies Inc	2.01	0.03	1.98	-21.87	-0.48	-0.01	-0.50
Adobe Inc	2.28	0.21	2.07	-25.02	-0.62	-0.06	-0.59
Salesforce Inc	2.29	0.35	1.94	-26.47	-0.67	-0.10	-0.60
Workday Inc	2.11	0.07	2.04	-37.72	-0.88	-0.03	-0.87

This exhibit captures active returns, which account for both a stock's performance and its relative weighting in the index and benchmark.

The top contributors to active returns were mostly overweight positions in the Industrials, Consumer Defensive, and Technology sector that performed well, highlighted by Huntington Ingalls Industries, Applied Materials, and Entegris.

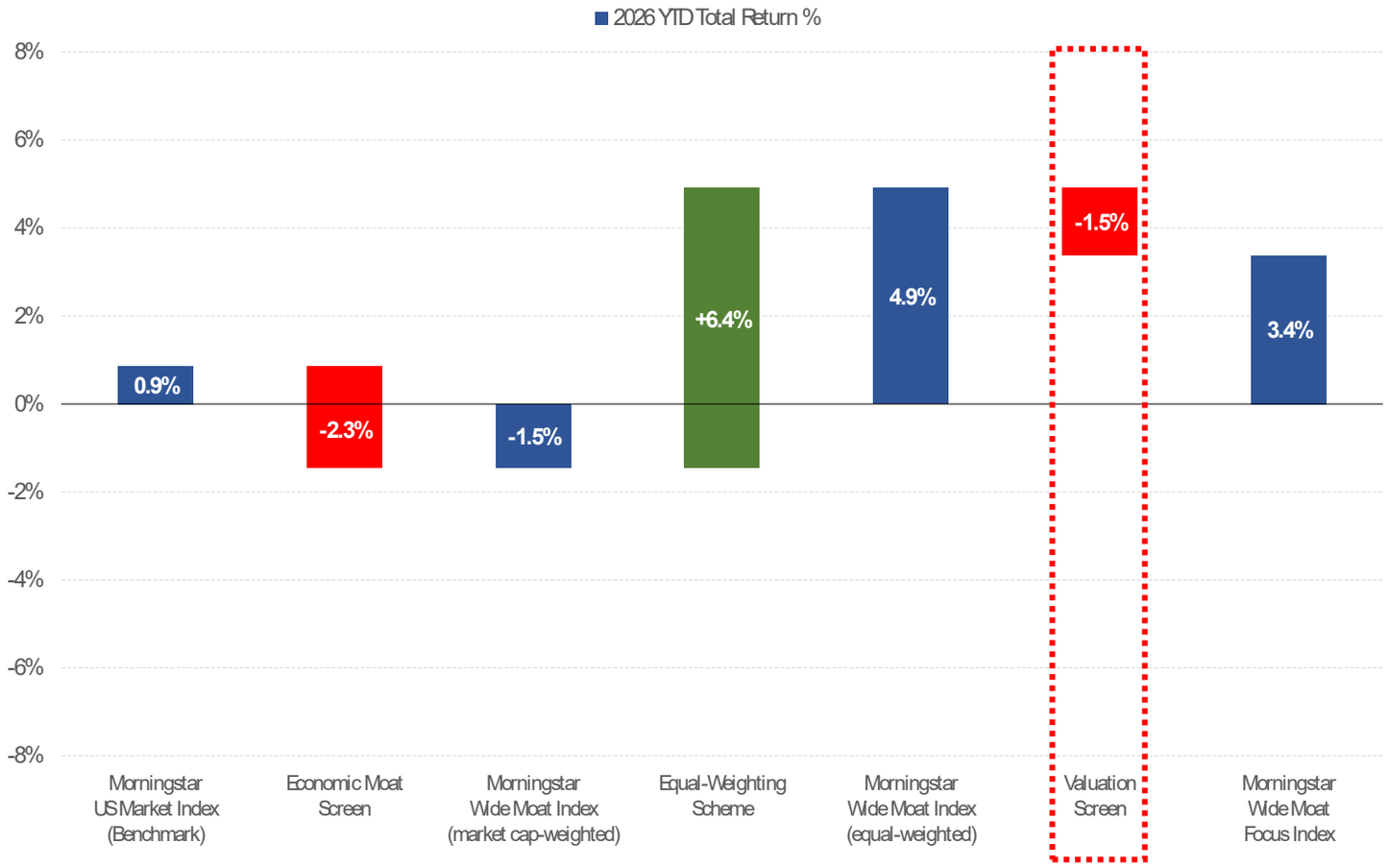
As for the bottom 10 contributors to active returns, potential disruption from advances in agentic AI impacted the seven biggest detractors. Beyond the well-documented pullbacks for SaaS companies,

Source: Morningstar | **Time Period:** 1/1/2026 – 2/28/2026

All performance data reflects USD total returns | Indexes are unmanaged and not available for direct investment

The YTD Performance Drag From the Valuation Screen Stems From a Software Industry Overweight Position

Performance Impact From Key Screening Criteria



Comparing the performance of the Morningstar Wide Moat Focus Index with three other key indexes helps us isolate the performance impact from each of its main screening components. This approach controls for the index weighting scheme before assessing the impact of its valuation screen. In this fashion, it likely provides a more insightful perspective on stock selection than what we can glean from traditional performance attribution techniques.

These additional indexes are the:

- Morningstar US Market Index (parent index & benchmark)
- Market cap-weighted index of all U.S. wide moat-rated stocks
- Equal-weighted index of all U.S. wide moat-rated stocks

Comparing performance across all four indexes allows us to assess the impact of the economic moat screen, the equal weighting scheme, and the valuation screen.

Through February-end, the index has outperformed its benchmark thanks to its equal-weighting scheme. Concurrently, the index's focus on wide moat-rated companies and valuation screen have served as a partial offset.

Source: Morningstar | **Time Period:** 1/1/2026 – 2/28/2026
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Portfolio Construction Process

Selection universe

- Morningstar US Market Index
  - Represents 97% of the investable market cap of the US equity market

Eligibility requirements

- Must have a "wide" economic moat rating
- Must have a fair value estimate assigned by a Morningstar analyst

Portfolio construction

- The bottom 3% of securities (by count) based on lowest float adjusted market capitalization are removed
- The 40 eligible stocks with the lowest price/fair value ratios are selected
- Constituents are equal-weighted
- Sector capping and turnover buffers are applied

Morningstar Wide Moat Focus Index

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