

Q1 2026 HXRXL™ Cybersecurity Commentary

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Executive Summary and Performance Commentary

Cybersecurity companies delivered negative price performance in Q1 2026, with the Nasdaq ISE Cyber Security Select™ Index (HXRXL™) down 6.7% for the quarter, underperforming the S&P 500 (-4.6%). Of the 22 constituents, only 9 names had gains, with 1 name (Fastly) experiencing triple digit gains and 3 names experiencing double-digit gains. 13 names experienced losses, with 12 names down more than 10% apiece, including the worst performer, Zscaler (37.6%), followed by Rubrik (-36%), Varonis Systems (-34.5%) and Qualys (-33.9%).

Investors continue to lack meaningful exposure to cybersecurity in their core portfolios. The S&P 500 currently tracks only 9 constituents that overlap with HXRXL, comprising 4% of its exposure. 9 of HXRXL's constituents (~47.2% of index weight) do not overlap with the S&P 500. The sell-off in the software sector, which began in 4Q 2025, continued into the first quarter of 2026, with the S&P 500 Software Sector Index losing more than 30% of its value during this period. Semiconductor stocks outperformed, given the strength of their investment thesis as perhaps the most direct beneficiaries of AI spending. We note that cybersecurity has been trading more independently of broader software, functioning as an essential, defensive sector more resistant to downturns with unique geopolitical drivers; other software names tend to rely more on somewhat discretionary and more cyclical IT spending growth. This decoupling from broader software was observed in the recent sell-off that was driven by AI-disruption fears. During this period, cybersecurity held up better than the wider software industry due to its non-discretionary nature, while we saw sharp, sentiment-driven pullbacks in the broader software complex. Following the sell-off, the cybersecurity sector demonstrated the capacity to rebound quickly due to rising geopolitical risks. The US-Iran war triggered a surge in cybersecurity activity, which boosted interest in defense-oriented software and infrastructure amid growing concerns around digital resilience. From February 27 to March 9, 2026, the Nasdaq ISE Cyber Security Select™ Index (HXRXL™) gained 7.0%. By contrast, performance across the rest of the technology sector was far more uneven.

Nasdaq Cybersecurity Thought Leadership

With the focus on tensions in the Middle East, [our research highlights how cybersecurity stocks have outperformed as geopolitical tensions drive a risk-off rotation.](#)

Key Cybersecurity News Items

On March 11, medical technology company Stryker (NYSE: SYK) was hit by a wiper malware attack claimed by Handala, an Iranian-linked and pro-Palestinian hacktivist group. Handala claimed to have stolen 50

terabytes (TB) of data before wiping tens of thousands of systems and servers across the company's network. Stryker was forced to shut down offices in 79 countries¹.

On March 3, data analytics company LexisNexis Legal & Professional confirmed that hackers breached its servers and accessed customer and business information. A threat actor named FulcrumSec leaked 2GB of files on various underground forums and sites. The company noted that the stolen information was old and consisted mostly of non-critical details².

South Korea implemented the AI Basic Act in January 2026, targeting high-risk systems. It acts as a comprehensive, national regulatory framework balancing AI innovation with safety regulations³.

Introduced in March 2026, Trump 2026 National Cyber Strategy pivots toward "common sense" regulation, aiming to reduce compliance paperwork while elevating cybercrime to a national security threat. Key focus areas include dismantling ransomware gangs as transnational criminal organizations (TCOs) and promoting private-sector offensive deterrence⁴.

Quarterly Earnings Recap

Overall, HXRXL companies that beat revenue and earnings estimates in the most recent quarter did so by an average of 3.0% and 19.4% respectively, while those that missed revenues did so by 0.1%. 92.2% of the index weight beat top-line estimates while 100% beat bottom-line estimates. In aggregate, HXRXL companies grew revenues 11% year-over-year. Aggregate net income surged by 29.3% year-over-year.

	Beats		Misses	
	No. of Firms/Index Weight	Average Beat (%)	No. of Firms/Index Weight	Average Miss (%)
Q1 2026 Revenues	20/92.2%	3.0%	2/7.8%	-0.1%
Q1 2026 Earnings	22/100%	19.4%	0	0

Source: Nasdaq Global Indexes, FactSet data as of March 31, 2026

Index Deletions (March 23, 2026)

Rapid7 (RPD), a provider of data security and analytics, was deleted from the index at a weight of 1.3%.

Top 3 Index Performance Contributors in Q1 2026

Fastly^{1,2}

- The stock was up 186% from December 31, 2025 - March 31, 2026.
- The stock rose on the heels of a strong quarter, momentum from agentic AI and analyst upgrades. Strong revenue growth and improved operating efficiency helped halve the net loss for the company

¹ <https://www.bleepingcomputer.com/news/security/stryker-attack-wiped-tens-of-thousands-of-devices-no-malware-needed/>

² <https://www.bleepingcomputer.com/news/security/lexisnexis-confirms-data-breach-as-hackers-leak-stolen-files/>

³ <https://aibasicact.kr/>

⁴ <https://www.mayerbrown.com/en/insights/publications/2026/03/trump-administration-releases-cyber-strategy-for-america-and-related-executive-order-on-combatting-cybercrime>

compared with the previous year. The top line was driven by balanced performance across customer mix and an expanded product platform.

- AI is expected to be a growing tailwind, with increasing agentic AI traffic, bot management, and AI workloads on the platform. In the long term the company expects the business to outgrow the market growth rate. Network services are expected to grow at 6%-7% y/y.
- Fiscal Q4 2025 revenue grew by 22.8% y/y to \$172.6 million. Net loss was \$15.5 million vs. \$32.9 million in Q4 2024. On a q-o-q basis, revenue increased by 9.1%. Q1 2026 revenue is expected to be in the range of \$168-\$174 million. Non-GAAP diluted EPS is expected to be in the range of \$0.07-\$0.10.

A10 Networks^{3,4}

- The stock was up 31% from December 31, 2025 - March 31, 2026.
- The stock gained due to strong financial performance, AI infrastructure momentum and cybersecurity strength. The company is seeing good traction from cloud companies building AI infrastructure, as well as from telcos improving their security for networks and enterprise services. The company has successfully transitioned to a security-led strategy, with these solutions now contributing a sustainable 65% of total revenue as of Q4 2025. This strategic pivot aligns with rising demand for security in AI-driven workloads and cloud infrastructure.
- Fiscal Q4 2025 revenue grew by 8.3% y/y to \$80.4 million. Higher operating expenses and an increase in income tax resulted in a reduction of net income by 46.1% y/y to \$9.9 million while net margins halved to 12.3% vs. 24.7% in Q4 2024. On a q-o-q basis, revenue increased by 7.6%. Fiscal 2026 revenues are expected to grow in the range of 10%-12%.

Northrop Grumman Corporation^{5,6}

- The stock was up 20% from December 31, 2025 - March 31, 2026.
- The stock rose on the heels of a strong Q4, a growing backlog, and a proposed increase in the U.S. defense budget following geopolitical tensions. Backlog grew to a new company record of \$95.7 billion driven by a full-year book-to-bill of 1.10. The company has invested to triple the capacity at its Elkton, Maryland site by 2030.
- Fiscal Q4 2025 revenue grew by 9.6% y/y to \$11.7 billion. Net income increased by 12.9% y/y to \$1.4 billion while net margins increased to 12.2% vs. 11.8% in Q4 2024. On a q-o-q basis, revenue increased by 12.4%. Fiscal 2026 revenues are expected to be in the range of \$43.5-\$44.0 billion. Mark-to-market adjusted EPS is expected to be in the range of \$27.40-\$27.90.

Bottom 3 Contributors in Q1 2026

Rapid^{7,8,9}

- The stock was down 64% from December 31, 2025 - March 31, 2026, to a large extent driven by its earnings release on February 11 which triggered a one-day drop of 29%.

- The stock fell for several reasons including weak guidance issued for FY 2026, flat Q4 revenues, and disappointing Annualized Recurring Revenue (ARR) growth. Gross margins remained stagnant over the last three fiscal years.
- Fiscal Q4 2025 revenue grew by 0.5% y/y to \$217.4 million, beating consensus by \$2.4 million (1.1%). Fiscal Q1 2026 revenue is expected in the range of \$207-\$209 million. Non-GAAP EPS is in the range of \$0.29-\$0.32. Q1 2026 ARR is expected at \$830 million.

Zscaler^{10,11}

- The stock was down 38% from December 31, 2025 - March 31, 2026.
- The stock came under pressure due to a widening net loss from higher operating expenses, slower billing growth, and increased competition. Despite beating headline EPS expectations by 12.9% on February 27, the stock price reacted with a drop of 12.2%.
- Fiscal Q2 2026 revenue grew by 25.9% y/y to \$815.8 million. An income tax payment of \$13 million resulted in a higher net loss of \$34.3 million vs. a loss of \$7.7 million in Q2 2025. On a q-o-q basis, revenue increased by 3.5%. Fiscal Q3 2026 revenue is expected to be in the range of \$834-\$836 million. Guided non-GAAP diluted EPS is expected to be in the range of \$1.00-\$1.01.

Rubrik^{12,13}

- The stock was down 36% from December 31, 2025 - March 31, 2026.
- The stock fell amid negative sentiment toward the broader software sector. Its earnings report on March 13 delivered an EPS beat of 18.5% vs. consensus expectations, with the stock price showing minimal reaction dropping 1.1%.
- Fiscal Q4 2026 revenue grew by 46.3% y/y to \$377.7 million. Net loss was lower at \$87.0 vs. \$114.9 million in Q4 2025. On a q-o-q basis, revenue increased by 7.9%. Fiscal Q1 2027 revenue is expected to be in the range of \$365-\$367 million. Non-GAAP diluted EPS is expected to be in the range of negative \$0.04- negative \$0.02

Cybersecurity Industry Outlook and Top Headlines from Q1 2026

- The International Data Corporation projects cybersecurity spending to reach \$377 billion by 2028.¹⁴ The cost of cybercrimes for the world economy is expected to reach \$10.5 trillion for the year 2025¹⁵ with the average cost of a data breach at \$4.4 million, a 9% y/y reduction driven by faster identification and containment. Costs remain high in the U.S., where breaches often exceed \$10 million¹⁶.
- In February 2026, the Cybersecurity and Infrastructure Security Agency (CISA) issued an emergency directive to secure Cisco SD-WAN systems, in response to a significant cyber threat targeting federal networks utilizing Cisco's cloud-native, software-defined architecture.¹⁷
- According to a U.S. intelligence assessment, Iran and its proxies pose an ongoing threat of targeted attacks on the United States. In the short term, this risk is expected to materialize primarily through low-level cyber-activity by Iran-aligned "hacktivists" against U.S. networks, including website defacements and distributed denial-of-service attacks.¹⁸

- In February 2026, OpenAI reached an agreement with the Defense Department to deploy its models in the agency's network.¹⁹ The deal with OpenAI comes following President Donald Trump's announcement to all federal government agencies to cease using Anthropic's AI tools.²⁰
- According to Forrester (a global market research company), cybercrime operations from actors such as Russia, China, Iran, and North Korea are expected to expand in 2026.²¹ This concern is echoed by Google's annual Cybersecurity Forecast for 2026.²² One area that Google sees as particularly vulnerable to Chinese attacks is the semiconductor sector, due to competition from rivals such as TSMC and American export restrictions.²³
- According to Fitch Ratings, U.S. public finance issuers face elevated cyber risk amid the Iran conflict. Previous geopolitically-motivated attacks on U.S. public finance entities have primarily targeted health care and utilities. Increased broad-based retaliatory cyber intrusions also are likely.²⁴

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¹ https://investors.fastly.com/files/doc_earnings/2025/q4/supplemental-info/Fastly-Fourth-Quarter-2025-Investor-Supplement.pdf

² Factset, Q4 2025 Transcript

³ https://s203.g4cdn.com/667520861/files/doc_financials/2026/q4/Rubrik-Inc-99-1-Press-Release-1-31-2026_FINAL.pdf

⁴ Factset

⁵ <https://investor.northropgrumman.com/static-files/3171e77d-bbf4-4736-b8e8-dad06c924cfe>

⁶ Factset, Q4 2025 Transcript

⁷ <https://investors.rapid7.com/news/news-details/2026/Rapid7-Announces-Fourth-Quarter-and-Full-Year-2025-Financial-Results/>

⁸ https://s29.q4cdn.com/157304370/files/doc_financials/2025/q4/Q4-25-Investor-Deck.pdf

⁹ Factset

¹⁰ <https://ir.zscaler.com/static-files/ce56680c-6d60-4b97-a9f0-9cf90dad6940>

¹¹ Factset, Q2 2026 Transcript

¹² https://s203.q4cdn.com/667520861/files/doc_financials/2026/q4/Rubrik-Inc-99-1-Press-Release-1-31-2026_FINAL.pdf

¹³ Factset, Q4 2026 Transcript

¹⁴ <https://www.ibm.com/think/topics/cybersecurity>

¹⁵ <https://www.ibm.com/think/topics/cybersecurity>

¹⁶ <https://www.ibm.com/reports/data-breach>

¹⁷ <https://www.cisa.gov/news-events/news/immediate-action-required-cisa-issues-emergency-directive-secure-cisco-sd-wan-systems>

¹⁸ <https://www.reuters.com/world/middle-east/intelligence-assessment-warns-iranian-attacks-us-following-khameneis-death-2026-03-02/>

¹⁹ <https://edition.cnn.com/2026/02/27/tech/openai-pentagon-deal-ai-systems>

²⁰ <https://edition.cnn.com/2026/02/27/tech/openai-pentagon-deal-ai-systems>

²¹ <https://www.euronews.com/next/2026/01/12/from-ai-breaches-to-rising-geopolitical-threats-heres-what-to-expect-from-cybersecurity-in>

²² <https://services.google.com/fh/files/misc/cybersecurity-forecast-2026-en.pdf>

²³ <https://services.google.com/fh/files/misc/cybersecurity-forecast-2026-en.pdf>

²⁴ <https://www.fitchratings.com/research/us-public-finance/us-public-finance-cyber-risk-elevated-due-to-iran-conflict-09-03-2026>