POST OAK PRIVATE WEALTH ADVISORS
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Monthly Market Commentary

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Over the last several years, the AI wave carried technology stocks and the overall equity market to remarkable heights. But in every rally, certain moments come along to remind investors that even the most promising opportunities come with risks. This past October was one of those moments.

Last month's selloff in AI stocks raises important questions that Wall Street is asking: Are technology companies spending too much on AI infrastructure? How will they finance their investments, and will the profits justify the costs? And with AI becoming an important driver of economic growth and America's technological competition with China, what might a slowdown mean for the broader economy?

This month, we'll examine the concerns that are unsettling investors, discuss why we remain constructive on the long-term AI opportunity and, most importantly, explain what it means for your investments.

Growing pains or warning signs?

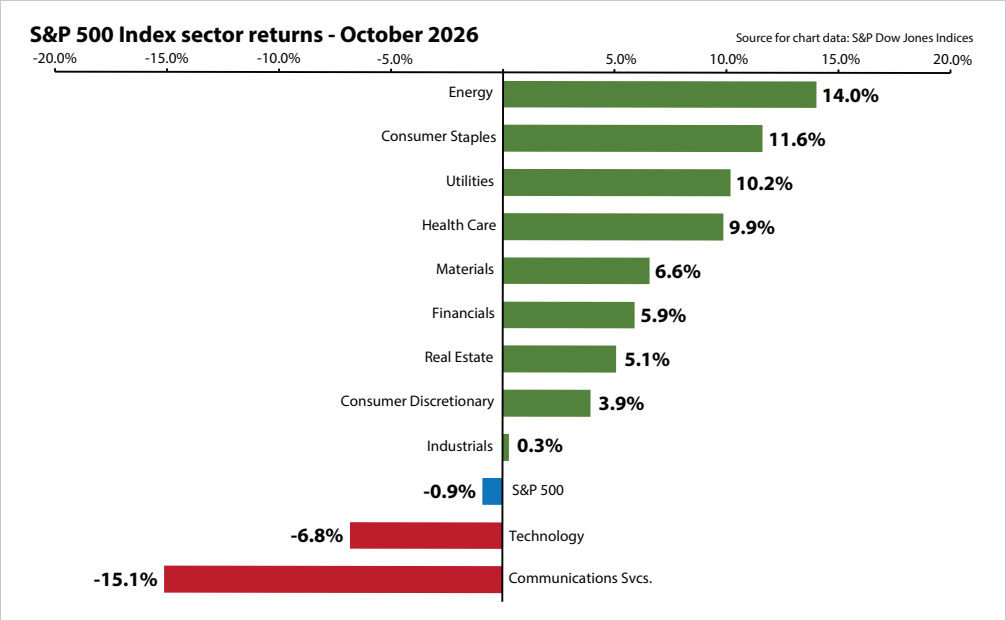
Before we go deep into the AI discussion, let me provide context with a review of market performance as it relates to your investment portfolio. The S&P 500 declined 0.9% last month while the Nasdaq Composite dipped more than 5%%. But the headline numbers don't really tell the full story of the month; volatility rocked sectors that are tied directly and indirectly to the AI investment boom—technology, communications and industrials—but all other sectors in the S&P 500 were positive for the month and outperformed the benchmark stock market index. (See the performance chart on the next page.)

This kind of broad participation tends to be a positive sign for the health of the market, but after the multi-year AI rally the S&P 500 is now heavily weighted toward technology and AI stocks. As a consequence, what happens in tech and AI heavily influences the market as a whole. While the S&P 500's tech concentration helped elevate the index to record levels in recent years, it also dampened performance when investor sentiment soured, as we saw last month.

As a long-term investor, it's important to put these short-term spells of volatility in context. First, there's value in having a diversified portfolio. While troubles in tech may have dragged on performance, stocks in other sectors did well, especially energy and consumer staples.

Second, just as rallies can get extended on the upside, drawdowns can be overdone too. Patience is required to see through the emotional reactions that compound market volatility and individual stock losses. This is especially true with AI, where things are moving fast and changing quickly.

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We continue to see opportunities for companies in tech and elsewhere to develop business uses for AI that ultimately deliver earnings and share price growth, but the payoff for those opportunities are still in the early stages.

And there are risks, too; not every AI company will be successful. We believe the firms with strong business cases and solid fundamentals will be poised to come out ahead and reward investors who have the patience and conviction to stay invested as the market separates the winners from the losers.

Where will the AI profits come from?

Artificial intelligence has captured investors' attention for good reason. Its potential to drive innovation and unlock efficiency extends to nearly every industry, but bringing this technology to market requires an extraordinary investment in infrastructure. That means data centers and the semiconductors, servers, networking hardware and power grid required to run them. J.P. Morgan Global Research estimates worldwide AI-related capital expenditures could reach $900 billion in 2026 and approach $5.5 trillion by 2030.[1]

For the last several years, one question has pre-occupied investors: What companies will profit from this spending boom? Nvidia and other chipmakers have been the most obvious beneficiaries as investors cheered their revenue growth and stock-price appreciation. But the capex surge has also helped old-school industrial firms like GE Vernova and Caterpillar that are reaping the benefits of active data center construction.

More recently, investors have started to ask a different question. It's no longer about how much companies are spending on AI, but how much money will they ultimately make from these investments. It's encouraging to see tangible signs of the AI opportunity. For example, according

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1 "What unprecedented AI capex means for markets and investors." J.P. Morgan Global Research, October 19, 2026.

to real estate firm CBRE more than 80% of data-center capacity under construction in North America's eight primary markets is already pre-leased[2], reflecting substantial existing demand.

Some clues to answering the AI profitability question have appeared in third-quarter earnings reports, and the market's reaction has been informative in two different ways. First, investors have punished the AI hyperscalers Amazon and Alphabet (parent company of Google) for increasing capital expenditures while growth slows for their traditional revenue sources. Alphabet had its worst day even as a public company after its Q3 earnings announcement, shedding around a half-trillion dollars in market value. The disconnect between faster capex spending and slower revenue growth and negative cash flows add to the doubts that many investors already have about future profitability.

Second, many firms are coming up against lofty expectations for Q3 earnings and falling short. Take construction equipment giant Caterpillar, which continues to ride the data-center building boom as demand for its power generation and earth-moving machines has skyrocketed. Revenue grew 17% in Q3, but investors were expecting something more spectacular like its 24% revenue gain in Q2. CAT's stock price fell 10% on the day of the earnings announcement. It wasn't fun to watch as an investor, but CAT has returned over 20% over the past 5 years compared to 61% for the S&P 500, even after last week's drawdown. That helps to add some perspective.

As we have written for months, lofty earnings expectations are a big risk facing investors with the third-quarter earnings season underway. Some stocks are bound to be battered when investors are disappointed by not-good-enough earnings. These resets may be healthy in the long run in that they create opportunities to buy well-managed companies at discounted prices. As an investor, it's important to remember that a declining stock price doesn't mean a company's business is deteriorating. Stock prices reflect future expectations and even companies delivering excellent results can experience significant declines when those expectations become exceptionally high.

AI's importance to the US economy

One aspect of the AI boom that receives less attention is its growing importance to the U.S. economy. Data-center construction, sales of computer hardware and electrical infrastructure investment have become meaningful contributors to economic growth. It was a big contributor to third-quarter GDP, which showed the U.S. economy expanding at a 3.4% annualized rate, the best report in a year. Without this spending, the economy would likely be growing more slowly. It's not that we'd be in a recession without it—consumer spending has also held up in recent month despite inflation pressures and weaker job growth—but AI investment has clearly become an important source of support for the broad U.S. economy.

The stakes extend beyond economics. The United States and China are competing to develop increasingly advanced AI systems, with implications for productivity, scientific research, cybersecurity and national defense. Success could influence America's technological leadership for decades, creating a powerful incentive for continued domestic investment.

But you may have notices a growing resistance to AI data centers in communities across the country. Data centers require enormous amounts of electricity, infrastructure investment and sometimes substantial water resources. Concerns about utility costs and environmental impacts have prompted proposed restrictions and construction moratoriums. Data-center development

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2 "North American Data Center Demand Continues to Outpace Supply Despite Record Construction Activity" CBRE press release, August 27, 2026.

also became a prominent issue in the midterm elections. Some of the political focus on AI may diminish afterward, although the underlying concerns will remain. Companies in the AI realm need to do be more transparent with the public about their operations and consider ways to lessen the burden from higher utilities costs on households and communities.

The AI financing question

The financial success of today's AI investments and the long-term economic potential of AI are not necessarily the same thing. Much of today's spending is focused on infrastructure, while meaningful AI adoption across the economy appears to be in the early stages. Initially, much of the financial benefit has flowed to companies supplying semiconductors, servers, routers and other hardware. Over time, we expect opportunities to broaden as businesses translate AI capabilities into measurable productivity and profitability improvements. We believe this could represent the next important phase of the AI investment opportunity.

One of the most important lessons you can learn as an investor is that identifying a successful technology isn't necessarily the same as identifying a successful investment. A company can operate in a rapidly growing industry, produce impressive earnings and still deliver disappointing stock returns if investors have already priced in too much future success.

At Post Oak, our objective is to identify businesses that are capable of turning attractive growth opportunities into sustainable earnings and long-term shareholder value. That means emphasizing financial strength, reasonable valuations and durable competitive advantages, while maintaining appropriate diversification.

We don't view the recent pullback in AI stocks as evidence that the long-term AI investment thesis has fundamentally changed. Instead, it may represent a transition from a market rewarding nearly any company associated with AI to one demanding evidence of profitability, financial discipline or sustainable competitive advantages. We view that as constructive for the market overall and for you as an individual investor.

Please reach out to us if you have any specific questions about the market or if you'd like to discuss the recent performance of your investments. We thank you for your ongoing confidence in our strategies and services.

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