

## TOMORROW'S PROMISES, TODAY'S PRICES



### MARKET INSIGHTS

The second quarter provided a useful reminder that markets rarely move in unison. The S&P 500 declined 4.3%<sup>1</sup>, international equities, as measured by the MSCI ACWI ex-USA Index, proved more resilient with a decline of just 0.7%<sup>1</sup>, and the Bloomberg U.S. Aggregate Bond Index was essentially unchanged, slipping only 0.1%.<sup>1</sup>

However, market leadership within U.S. equities rotated as several members of the “Magnificent Seven” underperformed sharply. Microsoft, for example, in June suffered its worst monthly decline<sup>1</sup> since the bursting of the dot-com bubble more than two decades ago. Investors have begun questioning whether the enormous capital commitments to artificial intelligence will ultimately generate returns commensurate with today’s expectations. While quarterly performance is always worth reviewing, the more enduring lessons for investors come from understanding the relationship between innovation, expectations, and valuation.

### GAINING PERSPECTIVE

Artificial intelligence has become the defining investment theme of our time. Technology companies are committing hundreds of billions of dollars to AI infrastructure, private market valuations continue to

climb, and investors are attempting to estimate the economic impact of a technology whose ultimate potential remains uncertain.

History offers a useful reminder: transformational technologies and successful investments are not always the same thing.

Periods of technological enthusiasm often attract extraordinary amounts of capital. A famous story attributed to Joseph Kennedy recounts that, before the 1929 stock market crash, he received stock tips from a shoeshine boy. The lesson endures: when excitement becomes universal, investors should be especially careful not to confuse popularity with value.

Railroads transformed commerce, reduced transportation costs, and accelerated economic growth. The internet reshaped communication, media, retail, and information access. Yet many investors who financed these revolutions earned disappointing returns because competition, excess capital, and unrealistic expectations overwhelmed the economics of many businesses.

Today’s AI boom presents a similar challenge. If AI adoption proves slower than investors currently expect, the elevated valuations of many companies may be difficult to justify. High Price-to-Earnings (P/E) multiples require extraordinary future growth, leaving little room for disappointment.



“ In bull markets, investors put a premium on promises. In bear markets, they put a discount on reality.”

Paradoxically, the opposite outcome may present its own risks. If AI progresses faster than expected many of the assets being deployed today may depreciate economically faster than accounting statements suggest. Data centers, networking infrastructure, and advanced semiconductors may require replacement on cycles shorter than current depreciation schedules assume. In that scenario, reported earnings may overstate economic earnings because the cost of maintaining technological leadership exceeds what current depreciation schedules reflect.

Much of this optimism has been concentrated in private markets. Companies such as OpenAI, Anthropic, and the newly public SpaceX have attracted enormous amounts of capital and achieved valuations that would rank among the world's largest public companies. Their long-term success may ultimately justify those valuations. However, history suggests that periods of abundant capital often coincide more with peak enthusiasm than peak opportunity.

Indeed, some of the largest public offerings in history have arrived near the end of investment booms rather than the beginning. By the time a company reaches a valuation of hundreds of billions of dollars and becomes broadly available to public investors, years of anticipated growth may already be reflected in the price. As legendary investor Jim Chanos quipped, “In bull markets, investors put a premium on promises. In bear markets, they put a discount on reality.”

None of this suggests these companies are poor businesses. SpaceX may fundamentally reshape global communications and launch economics. OpenAI and Anthropic may dramatically improve productivity across the economy. The challenge is not determining whether these innovations are important. The challenge is determining how much of that future success has already been incorporated into today's valuations.

Fortunately, investors do not need to answer that question with precision. Our goal is not to predict which company will dominate artificial intelligence, whether current valuations are justified, or when today's private market leaders will become publicly traded. Instead, our goal is to own a globally diversified portfolio of productive assets that can participate in innovation while remaining resilient if expectations prove either too optimistic or too pessimistic.

Technological progress is often easier to predict than investment returns. History suggests the greatest fortunes are often earned not by identifying the most exciting technology, but by maintaining the discipline to separate innovation from valuation, process from prediction, and resisting the temptation to interrupt the power of compounding.

In our opinion, the best long-run investment path is rarely the most exciting, but we care about the dough, not the dopamine.



## PORTFOLIO IMPLICATIONS

We are making one modest change to our Core models this quarter by slightly reducing our allocation to the S&P 500 (IVV) and moving the proceeds into the Vanguard Value ETF (VTV).

The rationale is straightforward. Despite their recent underperformance, concentration of the Magnificent Seven within the S&P 500 remains historically elevated, leaving broad market investors increasingly dependent on the future success of a small number of companies. We continue to believe these are exceptional businesses,

but we are less comfortable allowing a handful of stocks to account for such a large share of portfolio risk.

The adjustment is intentionally incremental. We are not attempting to time the market or make a statement about the future of artificial intelligence. Rather, we believe a modest reduction in concentration risk is consistent with our long-term philosophy of broad diversification, disciplined rebalancing, and allowing compounding, not prediction, to drive investment success.

**Our portfolios are designed to meet our clients' needs and help them achieve their long-term goals.  
Please contact your advisor to discuss how we balance risk and reward in your personalized plan.**

*- NorthLanding's Investment Direction Committee*

---

*Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Adviser. Investment advisory services are offered through NorthLanding Financial Partners, LLC, an SEC registered investment adviser. Clearing, custody and brokerage services provided to clients of NorthLanding Financial Partners, LLC are offered by Fidelity Brokerage Services, LLC, Member NYSE/SIPC. SIPC coverage may not apply to all assets held away from National Financial Services, LLC.*

<sup>1</sup> Investment performance data through 6/30/2026 was provided by Morningstar, Inc. and believed to be accurate as of the date of this publication, gross of any advisory fees. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed. All investment strategies including diversified asset allocation have risk. Past performance of the markets or any investment approach, as well as component holdings, does not guarantee future results.