

The Bull in the China Shop

November 12, 2026

The stock market's been very volatile lately. It had a nice spike after the election, followed by a larger drop the following day. During the last couple of weeks we've seen big moves up and down. They've been so confusing that even I've lost track of where we are. I can't imagine how casual observers must feel.

The volatility is centered around the AI trade. If it feels like AI drives the market these days, you're not wrong. Per a recent study BlackRock shared with us, the contribution of the technology sector to equity risk has risen to absurd levels. A year ago, technology broadly accounted for 44% of market cap and 50% of market volatility. Today, it's still 44% of market cap, but it now contributes 92% of market volatility!

The recent pullback in AI stocks, caused primarily by hedge funds unwinding their very successful pro-AI trades, has driven a lot of interesting headlines around the death of the AI trade. You'd think this was a terrible stock market if you read the financial news. I'm not suggesting they are making it up. The NASDAQ 100 Composite fell ~15% from its October 6th peak (though it has recovered a lot of that back is now down ~9% from the peak). However, the NASDAQ 100 is up ~13% so far this year. It's also up ~85% cumulatively over the last three years!

I've been investing for almost 30 years now and I can't remember ever seeing a bull market exist at the same time there is so much fear. Markets have delivered substantial gains over the past several years. Corporate profits are growing rapidly. The economy continues to expand. Yet when I talk to clients, I hear far more concern than excitement. People are nervous about valuations, artificial intelligence, inflation, interest rates, geopolitics, and just about anything else that might derail the market."

It's an unusual environment. We have a bull market that seems determined to charge ahead, surrounded by investors who are increasingly convinced something is about to break.

The image that keeps coming to my mind is a bull in a china shop.



The interesting question is whether the bull is actually breaking things—or whether investors are so focused on the possibility of broken china that they're overlooking what's driving the market forward.

Our Position on AI: Leaning in while also building some defense

We are believers in the AI story and believe strongly that it will be a key driver of growth for the next decade. Earnings are proving that the AI story is real and the investment plans from the key players are showing us that it’s just getting started. It may be a bumpy road and there will surely be some missteps, but long-term investors will want to keep their exposure. That said, we’ve taken steps to build in a little defense by adding to value and core strategies in a way that we think can also benefit from the broadening out of the AI trade – specifically when main street companies start seeing margin expansion from their own investments in AI to help run their businesses. We are also reducing some direct exposure to AI and broader technology to bring total portfolio volatility down a bit. We’re not eliminating the exposures because we still believe in them long-term, but we feel we have to acknowledge the increased volatility of these positions and take steps to bring them in line.

Why do we still want the direct AI exposure at all? One of the more persistent criticisms

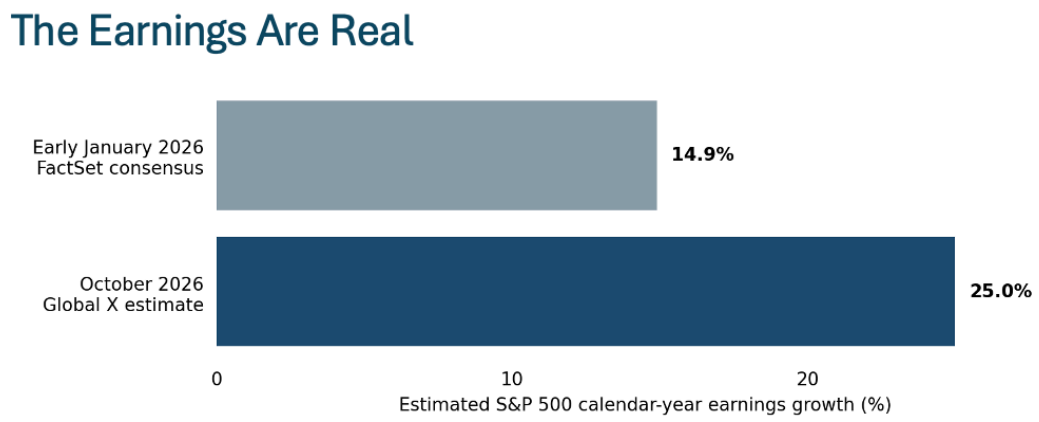
of this bull market is that stock prices have gotten ahead of fundamentals. Investors have seen strong returns, then hear about historically elevated valuations, and reasonably wonder whether the market has become disconnected from reality.

The funny thing about this criticism is that stocks have steadily gotten cheaper throughout 2026. Even before this recent correction, the P/E for our Technology funds was down since the start of 2026. After this recent correction, the S&P 500 has a forward looking P/E of just 17.7x per Factset. That's down from 22x in December 2025 and now below the 10 year average of 19.1x. It's not a screaming buy signal, but I can finally say the market is reasonably priced and not expensive.

If the NASDAQ is up this year, how is the P/E down so much? Great question. The answer is that corporate earnings are great. According to research published by Global X in October, S&P 500 earnings are expected to finish 2026 up 25%. Outside of periods immediately following recessions, we haven't seen that kind of earnings growth in more than three decades.

Think about that for a moment. This isn't an economy recovering from a devastating recession, where earnings are rebounding from depressed levels. We're talking about extraordinary earnings growth in the middle of an ongoing economic expansion.

What's even more remarkable is that the market has consistently underestimated the strength of that growth. At the start of January, FactSet's Wall Street consensus called for approximately 14.9% earnings growth in 2026. By October, the estimate cited by Global X was roughly 25%. And yet most investors wonder why stocks are up for the year, despite the recent downturn.



Sources: FactSet Earnings Insight (January 9, 2026); Global X (October 26, 2026). Forecasts are not actual results.

Companies have repeatedly delivered stronger results than analysts anticipated, and earnings estimates have continued to move higher. Yet, price has not always followed those earnings trends. The valuation table below also illustrates that compression is not uniform: some leaders are less expensive on expected earnings while others have become more expensive.

Valuation Changes in Tech Leaders

2026 year-to-date returns among the Magnificent Seven (through October 27, 2026)

Company	Ticker	2026 YTD return
Apple	AAPL	+28.0%
NVIDIA	NVDA	+17.1%
Microsoft	MSFT	+10.6%
Amazon	AMZN	+9.4%
Alphabet	GOOGL	+2.6%
Meta Platforms	META	−5.9%
Tesla	TSLA	−9.4%

Sources: ChartRow and market-close data, October 27, 2026. Approximate total returns, rounded; not all technology leaders have participated equally.

Tech Leaders: Forward P/E Then and Now

Company	Early Jan. 2026	Oct. 26, 2026
NVIDIA	27.0×	22.7×
Microsoft	29.0×	26.6×
Alphabet	30.0×	23.7×
Amazon	31.0×	31.4×
Meta	23.0×	21.1×
Apple	33.0×	38.9×

Forward P/E snapshots: early-January values reported January 7 by David Kass (University of Maryland); October 26 values from Investing.com. Different vendors and observation times; directional comparison only, not a uniform point-in-time Bloomberg series. Tesla excluded due to unusually high and unstable earnings multiple.

That's not what we typically associate with a speculative bubble. In a bubble, stock prices increasingly disconnect from the underlying economics of the businesses. Today, we're seeing something quite different: earnings are doing a meaningful amount of heavy lifting.

That doesn't eliminate valuation risk, but it provides a much stronger foundation for the market than the headlines might suggest.For much of the past few years, the artificial intelligence investment story has been dominated by a relatively small group of companies.

The hyperscalers—Microsoft, Amazon, Alphabet, Meta, and others—have been spending staggering sums building data centers, acquiring advanced chips, and developing the infrastructure necessary to support AI.

Chipmakers, semiconductor equipment manufacturers, and other technology companies have been among the obvious beneficiaries. But the next chapter of this story is beginning to emerge.

As AI investment expands, the economic benefits have the potential to spread beyond the handful of companies building the technology. Infrastructure providers, utilities, industrial companies, manufacturers, and businesses across the economy are becoming increasingly important participants.

The early signs of this broadening are encouraging. Global X estimates that approximately 80% of S&P 500 companies are expected to report positive year-over-year earnings growth for the third quarter, with roughly 140 companies expected to generate earnings growth exceeding 30%. Not all of that growth is attributable to AI, of

course. But it demonstrates that corporate earnings strength is considerably broader than the handful of technology companies that dominate the headlines.

UBS and Goldman Sachs have delivered S&P 500 earnings growth forecasts of between 14% and 18% for 2027, making it the 5th year in a row of solid, above average growth.

We believe the most interesting phase of this transformation may still be ahead of us.

We're Still Building the Foundation

One reason we remain constructive on the longer-term outlook is that much of the spending supporting this earnings expansion has already been committed, while much of the potential economic benefit has yet to materialize.

Companies are planning enormous capital investments over the next several years. Data centers need to be built. Power generation and transmission capacity need to expand. Semiconductor manufacturing must continue to develop. Networks, cooling systems, and supporting infrastructure all need to grow alongside demand.

This is not a cycle that can be completed in a few quarters.

There's also an interesting disconnect between corporate spending plans and broader economic forecasts.

Global X points out that economists are projecting relatively modest investment growth through 2027 and 2028, while corporate capital expenditure projections imply a much more substantial expansion. Both forecasts cannot be entirely correct.

Our suspicion is that the economic forecasts are once again underestimating the scope of the investment cycle. If corporate spending materializes anywhere near current plans, it could provide meaningful support for economic growth over the next several years.

Of course, spending alone doesn't create lasting economic value. Companies ultimately need to earn an attractive return on that investment.

But we think investors may be underappreciating both the duration of this investment cycle and the productivity improvements it could eventually deliver.

The Market Is Being More Rational Than It Gets Credit For

One of the most encouraging things about the current environment is how the market has been responding to corporate results. Investors aren't simply rewarding every company with an AI story.

Companies that disappoint on earnings, margins, spending efficiency, or forward guidance can be punished severely. Meanwhile, businesses that demonstrate real revenue growth, improving profitability, and credible returns on investment are being rewarded.

This is exactly what we want to see. A healthy market should distinguish between companies with compelling narratives and companies delivering compelling financial results. In speculative bubbles, nearly everything remotely connected to the core trend can go up. Think pets.com for the Dot-Com bubble. Think Dogecoin for crypto.

While the major indexes have continued to perform well, there's considerably more turbulence underneath the surface. About one-third of S&P 500 companies have fallen at least 20% from their 2026 highs. Yet many areas experiencing sharp price corrections have also seen positive revisions to expected earnings.

That divergence creates something we find particularly interesting: opportunities to purchase businesses whose fundamental outlooks may be improving even as their share prices decline.

Certainly, not every beaten-down stock represents a bargain. Sometimes the market is correctly anticipating trouble that hasn't yet appeared in reported earnings. But when the underlying business continues to strengthen, price declines can create opportunities for patient investors.

There Are Good Reasons to Be Nervous

Don’t take the above statements to mean we don’t think there are any risks. In fact, there are several legitimate reasons to question how smoothly this transformation will unfold.

First, the amount of money being committed is extraordinary. While much of the initial AI investment was funded by the enormous cash flows of the largest technology companies, an increasing portion of future investment may require debt financing, equity issuance, or other outside capital. That matters.

Companies that finance expansion with debt face greater financial risk if returns disappoint. Companies that issue stock can dilute existing shareholders. And as spending expands beyond the strongest corporate balance sheets, investors will need to become much more discerning about who is likely to earn an adequate return.

Second, there's no guarantee that all this investment will be profitable. History is full of transformational technologies that created tremendous economic value while simultaneously destroying shareholder capital for companies that invested too aggressively or pursued the wrong strategy.

The internet is a perfect example. The technology transformed the global economy, but that didn't prevent an enormous amount of money from being lost during the Dot-Com bust.

Finally, we still face the usual economic risks. Inflation remains a concern, interest rates may stay elevated, geopolitical uncertainty is substantial, and the labor market deserves close attention. These are all reasons to be disciplined about risk.

They are not, in our view, reasons to abandon an earnings expansion that continues to demonstrate considerable strength.

Sometimes the Best Offense is a Good Defense

How should investors balance the potential rewards of AI against the downside risks? We think one of the best ways to do this is to build defensive positions that can still provide some offense. To do this, we have to understand that the first phase of the AI investment cycle has largely been about building the technology. The next phase, however, should increasingly be about using it.

Consider an industrial manufacturer that incorporates AI into its production processes. It might reduce equipment downtime, improve inventory management, optimize supply chains, detect manufacturing defects earlier, or increase output without a corresponding increase in labor costs.

None of those improvements necessarily requires the company to become a technology business. But they could have a profound impact on profitability.

A manufacturer operating on relatively thin margins doesn't need an enormous increase in revenue to meaningfully improve earnings. Even modest improvements in productivity and operating efficiency can translate into substantial earnings growth.

Now imagine that dynamic playing out across transportation, logistics, healthcare, financial services, energy, construction, and countless other industries. This is where we believe the next significant wave of AI-driven economic value may emerge.

And interestingly, many of the potential beneficiaries are not expensive, high-growth technology companies. They're established businesses, including companies that have historically been considered value investments. That creates an opportunity to participate in technological change without necessarily paying premium valuations for the companies developing the technology itself.

We expect the distinction between AI developers and AI beneficiaries to become increasingly important in portfolio construction over the coming years. The challenge will be identifying companies that can translate technological adoption into measurable improvements in revenue, margins, and returns on invested capital.

We think active, valuation-conscious investment strategies could be particularly well positioned to find those opportunities. Perhaps more importantly, those types of companies may also be more resilient if the AI trade rolls over or we enter a recessionary environment. A little bit of defense and a little bit of offense in one move.

Don't Let Fear Drive the Investment Decision

There's an old market saying that investors should be fearful when others are greedy and greedy when others are fearful. You've heard it from us before. It's good advice, although putting it into practice is considerably harder than it sounds.

After several years of strong returns, it would be reasonable to expect investors to be increasingly euphoric. That's generally when we become most concerned about excessive risk-taking. But that's not the environment we're experiencing.

Instead, we have investors who are nervous, skeptical, and frequently looking for

reasons to reduce their exposure—even as corporate earnings continue to exceed expectations.

Again, this is not your typical bull market, and we think that is good news. We believe this growth curve is still in its relatively early stages, and that investors have consistently underestimated how large and consequential it could become.

For long-term investors, the greatest risk may not be experiencing the next market pullback. It may be allowing fear of that pullback to push them out of a powerful, multi-year earnings expansion.

Our approach is not to chase performance or disregard valuations. We remain focused on maintaining portfolios that are appropriately diversified and aligned with each client's tolerance for risk. But within that disciplined framework, we see market weakness as a potential opportunity to add exposure to durable growth at more attractive prices.

And increasingly, we're interested in finding that growth beyond the obvious technology leaders—in the businesses that can use the next generation of technology to transform their own economics.

The bull is still charging. There will be broken china along the way. Some companies will overinvest, others will disappoint, and markets will periodically react with fear. But for investors willing to look beyond the noise, we believe the most important part of this story is still ahead of us.

Research reference: Global X, "Inflection Points: The Spooked Earnings-Driven Market," Scott Helfstein, October 26, 2026. Data and forward-looking estimates cited above are based on information available at the time of publication. Additional data: FactSet Earnings Insight (January 9, 2026); ChartRow (October 27, 2026); David Kass (January 7, 2026); Investing.com (October 26, 2026).

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All the best,



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