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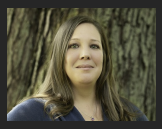
AI's Impact on Markets: What Investors Need to Know



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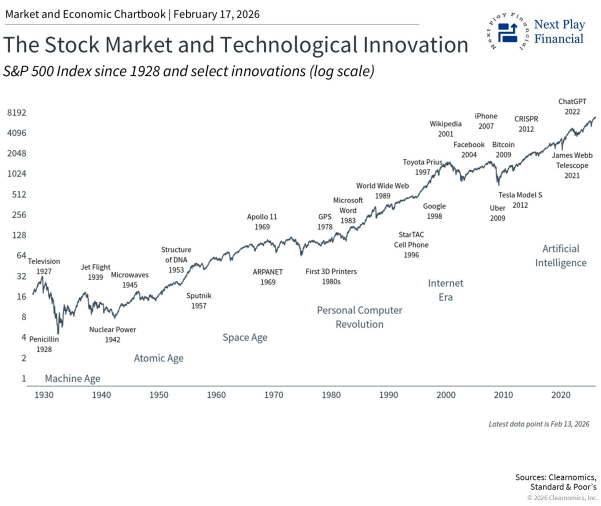
Marc Andreessen, a prominent venture capitalist, proclaimed fifteen years ago that "software is eating the world." His prediction—that software would automate any service capable of automation—has proven remarkably prescient. The rise of cloud computing, software-as-a-service models, and digital platforms has fundamentally altered industries and consumer behavior. For investors, understanding these shifts is crucial, particularly as they contribute to recent market turbulence.

Artificial intelligence now represents the latest chapter in this ongoing transformation. Like previous technological revolutions, markets are attempting to evaluate its implications for various sectors and the broader economy. For those focused on long-term investment strategies, examining how similar cycles have evolved historically can offer valuable insights.

Innovation inherently brings disruption, and recent fluctuations in technology stocks—including sharp declines followed by rapid recoveries—illustrate the difficulty of forecasting these developments. When Anthropic, a leading AI firm, introduced new automation capabilities that could replicate tasks traditionally performed by specialized software in legal and financial domains, it prompted investors to reconsider conventional software business models. Additionally, major technology firms reported quarterly capital expenditures exceeding one hundred billion dollars on AI infrastructure, prompting concerns about return on investment.

Notably, this occurred nearly one year after the "DeepSeek moment" of January 2025, when a Chinese AI company reportedly demonstrated that AI models could be developed at significantly lower costs. In both instances, markets reassessed which companies would benefit or suffer from technological change, yet recovered swiftly once uncertainty subsided. This pattern reinforces the importance of maintaining a long-term investment perspective amid fluctuations between innovation-driven opportunities and disruption-related challenges.

Historical patterns emerge in technological disruption



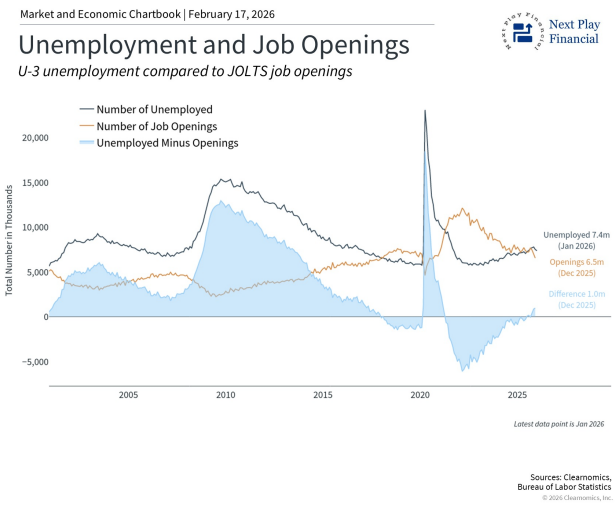
While today's AI-driven uncertainty may appear unique, historical evidence reveals that technological disruptions typically follow recognizable patterns. Reflect on the evolution of software over recent decades: from physical products installed on individual computers, to internet-connected mobile devices, to the foundation of modern work, communication, commerce, banking, and entertainment. Each innovation wave creates distinctions between "old economy" and "new economy" participants, requiring markets to categorize companies accordingly.

Artificial intelligence has the capacity to transform how services are developed and delivered, extending the trend of software replacing traditional processes. Yet even the most revolutionary technologies rarely eliminate the need for specialized knowledge and services. Regardless of their sophistication, AI systems will continue requiring access to high-quality data, dependable platforms, and unique expertise. Likewise, consumers will persistently seek trust, personalization, and quality results.

The competitive landscape for delivering these services may shift over time, but fundamental needs typically endure. Just as individuals don't manufacture their own vehicles or reassemble them before each trip to the store, AI applications will continue depending on existing infrastructure and specialized capabilities. Eventually, this dynamic generally benefits consumers through enhanced products, reduced costs, and greater accessibility.

Setting realistic expectations about transformation timelines is equally important. Although AI companies have forecasted the emergence of "artificial general intelligence" or "artificial super intelligence" in recent years, recent indicators suggest that progress in AI training has moderated somewhat. Nevertheless, current AI capabilities are already impressive and sufficient to reshape investor expectations substantially.

Labor market dynamics contribute to economic concerns

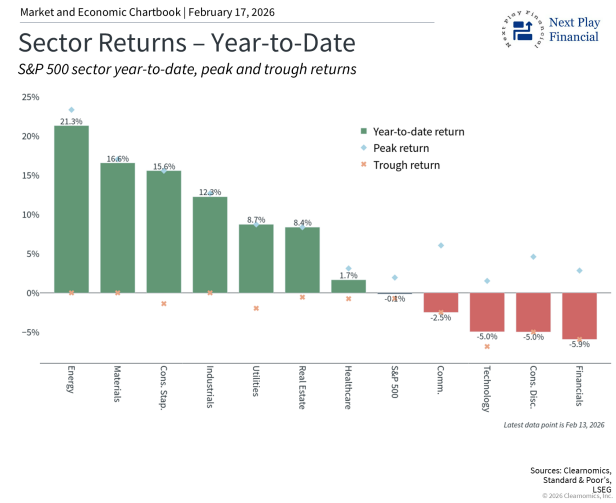


Contributing to investor anxiety is a labor market that has softened since mid-2025. Recent Bureau of Labor Statistics data revealed that job openings declined to their lowest level since 2020 in December. At its zenith, there were over two job openings per job seeker, but the ratio has now fallen below one, with approximately 6.5 million openings for 7.5 million unemployed workers. Concurrently, Challenger, Gray & Christmas reported that job cuts surged to 108,435 in January, representing a 118% year-over-year increase and the highest January figure since 2009.

While no definitive evidence links these job reductions to AI adoption, these developments nonetheless influence the broader economic outlook. Throughout history, major technological transformations—from the Industrial Revolution through the Information Technology Revolution—have ultimately generated more employment than they eliminated, though transition periods involving worker retraining can prove challenging for individuals and society alike.

Meanwhile, a softer labor market has heightened concerns among certain investors following years of stronger-than-anticipated economic expansion. This situation also carries implications for the overall outlook and Federal Reserve policy trajectory. It bears noting that other economic indicators remain robust, including sustained consumer spending supported by household wealth near record highs and inflation holding steady below 3%. Consequently, while economic challenges exist, there are also grounds for optimism regarding continued healthy growth.

Portfolio implications of current trends



For investors, recent volatility reinforces the fundamental principle that asset allocation outweighs any individual trend or headline. The Information Technology and Communication Services sectors, despite delivering substantial returns in recent years, are also characterized by volatility as expectations evolve. These sectors exhibit sensitivity to long-term factors like interest rates and are therefore affected by Federal Reserve uncertainty. While groups such as the Magnificent 7 have performed admirably over recent years, they can falter during periods like 2022 and the past two months.

Perhaps the most significant consideration involves stock market valuations. With the S&P 500's price-to-earnings ratio approaching historically elevated levels, investors have been reallocating capital toward sectors including

Consumer Staples, Energy, Materials, and Industrials. This potentially signals markets becoming more discerning and identifying opportunities beyond AI. After all, AI capturing investor attention doesn't preclude attractive opportunities elsewhere in the market.

Cryptocurrencies have also experienced substantial declines recently, with Bitcoin falling 50% to slightly above $60,000 before partially recovering. This serves as a reminder that, from a portfolio standpoint, cryptocurrencies remain highly volatile assets susceptible to sentiment shifts that often lack straightforward explanations. For those considering these assets, determining their role within a balanced portfolio is far more critical than attempting to time market movements.

Ultimately, current AI developments should be evaluated within a broader context alongside other market and economic shifts. If historical patterns hold, markets will likely overreact and underreact to these trends in the near term. Experience demonstrates that investors who remain patient and appropriately invested are best positioned to accomplish their financial objectives.

The bottom line? Although AI is prompting reassessment of particular stocks and sectors, fundamental investing principles remain constant. Maintaining a portfolio aligned with your financial objectives remains the optimal approach for navigating periods of rapid transformation.

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