

Out of the Way

Weekender

February 28, 2026

One of the signs of a great society is the diligence with which it passes culture from one generation to the next... when one generation no longer esteems its own heritage and fails to pass the torch to its children, it is saying in essence that the very foundational principles and experiences that make the society what it is are no longer valid.

Winston Churchill

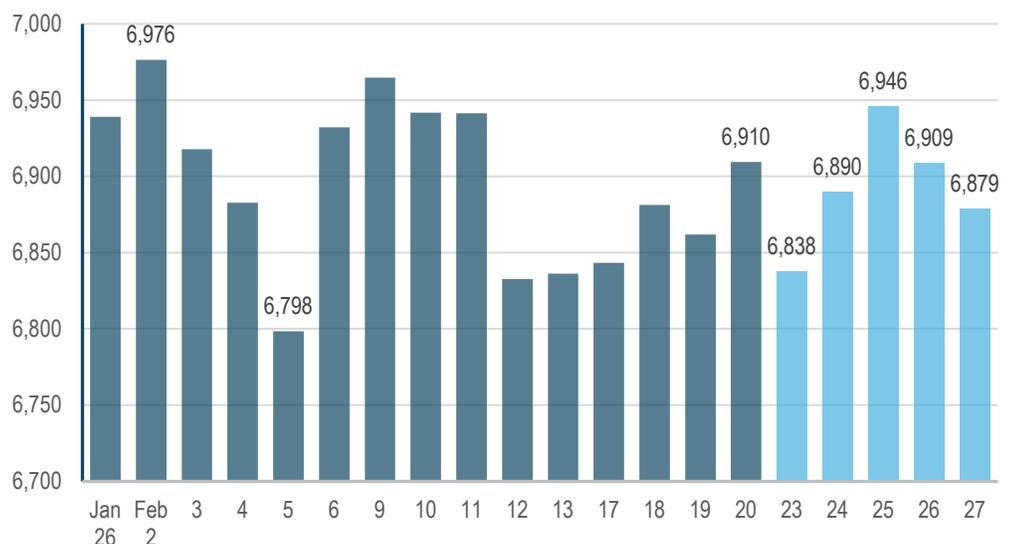
Let it be said of this generation of Americans that when we pass the torch of freedom onto the new generation, it was burning as brightly as when it was handed to us.

Ronald Reagan

Good morning and welcome to the *Weekender* for Saturday, February 28, 2026. It was another wild week in what has been a flat year for broad indexes. Within the indexes, it has been anything but calm. Equity markets, as measured by the Standard and Poor's 500 index, were lower by -0.9%. For February, the index is lower by -1.3%, and the full year performance is slightly positive at 0.5%.

S&P 500 Index Levels

(Source: Bloomberg)



Two dominant themes have been driving financial markets since the beginning of the year—an evolving counter AI narrative and the beginning of the Great Rotation. A third investment theme that tightened its grip on financial markets this week is the problem in the private credit market. Geopolitics, as ever, influences consumer sentiment but has little lasting impact on domestic financial markets, at least for the moment. As geopolitical consequences become more crucial and persistent, this calculus may change. Most corporate earnings reports have been released for the fourth quarter and full year of 2025. In aggregate, earnings have been good. Each of these elements is discussed in this *Weekender*.

Be sure to consult a qualified financial advisor prior to making investment decisions.

Market Narrative

In this week’s market narrative, we will discuss artificial intelligence, the Great Rotation, private credit, and earnings.

Artificial Intelligence

A significant change is afoot in the tenor of the artificial intelligence trade and narrative. Artificial intelligence has been the primary engine behind stellar annual stock market gains over the last three years. However, these historical gains have been made on the promise of good things to come. Markets are no longer satisfied with the “one day my prince will come” view. Investors are demanding more proximate results from gargantuan AI investments, or at least a reasonable path to them.

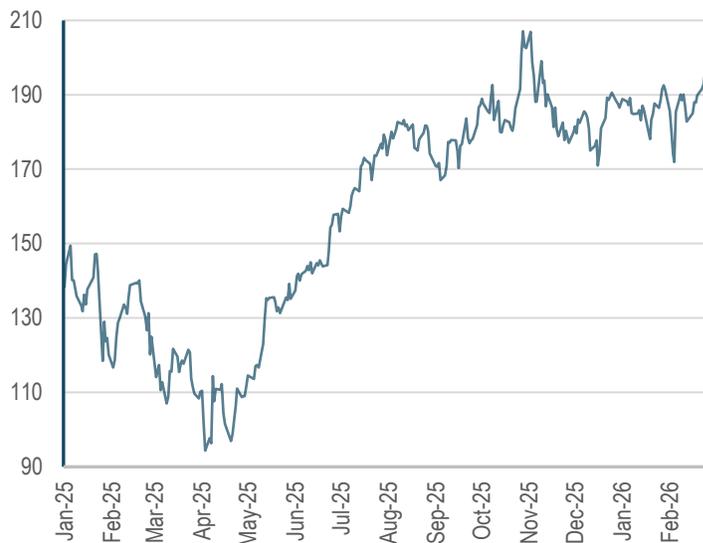
NVIDIA released results that beat expectations on Wednesday. Revenue was up by 73%, and earnings per share beat expectations. But their stock fell by -8.1% following the announcement, on the back of comments from their CEO, Jensen Huang, that they would continue investing heavily to meet compute demand from artificial intelligence. NVIDIA’s price action is representative of part of the changing AI narrative. Investors do not question the life-changing impact of AI technology on society that is coming, but indiscriminate capital spending on AI is no longer being blindly rewarded as it has been over the last three years. In

response to this changing narrative, Jensen Huang believes the markets are wrong. Time will tell.

NVIDIA Stock Price

January 2, 2025 - February 27, 2026

(Source: Bloomberg)

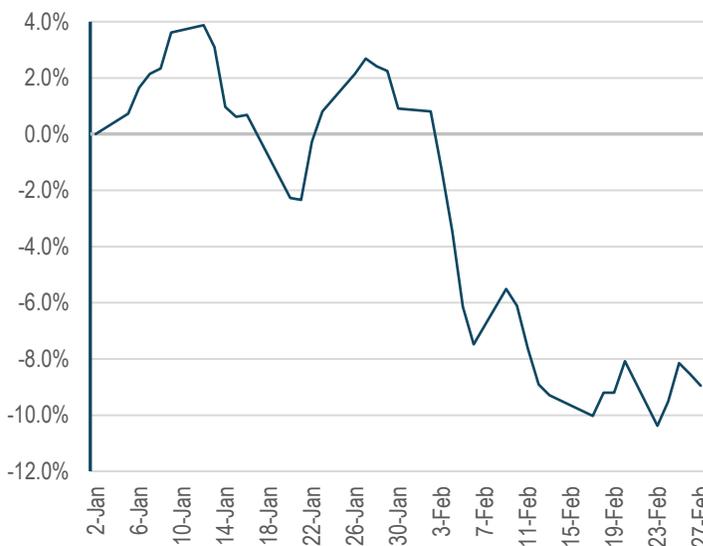


Hyperscalers, who are on the hook for a large portion of AI infrastructure investment, have been hit particularly hard this year. They include Amazon, Microsoft, Alphabet, and Meta. Together, they will invest more than \$700 billion in AI infrastructure this year alone. As an indication of the market impact of the changing AI narrative, the cumulative year-to-date return on hyperscalers has been powerful.

Hyperscaler Index (Cumulative Return)

January 2, 2026 - February 27, 2026

(Source: Bloomberg)



Another side of the changing AI narrative is illustrated by investors turning away from companies deemed at risk of disintermediation by artificial intelligence. Anthropic's targeted February announcements about the impact of its AI technology have cast a broad shadow on many areas. Apparently, accountants and lawyers are soon to be a thing of the past. Doctors are also about to be taken over by artificial agents. While this transition may be farther than around the corner, markets have begun toying with this eventuality by sending software companies into the basement. From software, AI angst spread to banks, brokerages, and wealth management firms. We believe this response has been far overdone and, in some select cases, presents a buying opportunity.

Hyperscaler Index (Cumulative Return)

January 2, 2026 - February 27, 2026

(Source: Bloomberg)



Adding to this uncertainty is the role of government in the AI world. Over the weekend, President Trump demanded that the federal government stop using Anthropic's AI solutions and shift to OpenAI. Fortunes can change in a moment.

Lack of profit visibility on AI investors has many with internet bubble memories wondering if markets have not backed themselves into a similar corner. Despite the magnitude of the opportunity, precisely where does it make money? Since last fall, we have been writing about our shift in preference toward companies implementing AI solutions, which has led to margin expansion. This continues to be our preference.

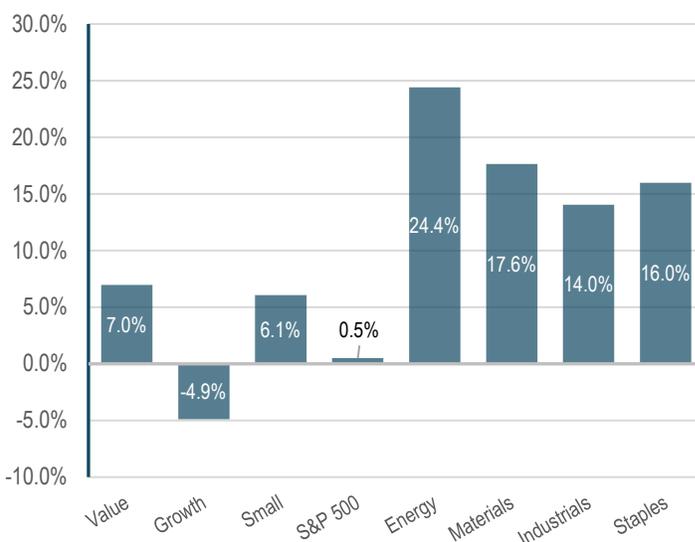
Great Rotation

A great rotation began at the beginning of the year. Large-capitalization technology companies, which have been the sole driver of broad market performance for almost three years, began to give way, allowing forgotten punters to get a little sunlight. Small capitalization companies are up 6.1% since the beginning of January. Value stocks have outperformed growth. Energy is 24.4% higher despite tame oil prices. Materials, industrials, and staples are all higher.

Year-to-Date Returns

January 2 - February 27, 2026

(Source: Bloomberg)



While a broadening of market performance is generally a good thing, we believe considerable caution is warranted. John Deere is a great example. Deere stock has rocketed 35.3% since the beginning of the year and now trades at 33.3 times next year's earnings estimates, a considerable premium of 75% compared to its historical ten-year average. Deere is a wonderful company with strong prospects, but it drives only moderate revenue growth of 7.0% annually. Nothing about the company warrants such a premium valuation. Instead, we believe it is a continuation of revolving bubbles, largely the result of excess liquidity flushed into markets from pandemic era excess.

John Deere PE Ratio

January 2, 2025 - February 27, 2026

(Source: Bloomberg)



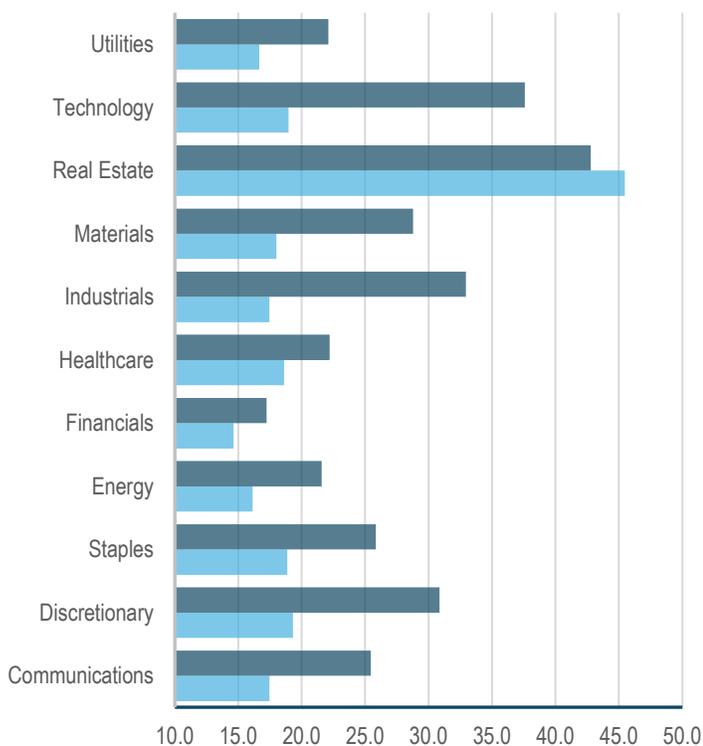
John Deere is not an isolated example. Every sector except real estate trades at a meaningful premium to its average PE ratio from 2010 – 2019, a period used as a proxy for markets operating normally.

Sector PE Ratios

January 2, 2025 - February 27, 2026

Ten Year Average (Light Blue) vs Current (Dark Blue)

(Source: Bloomberg)



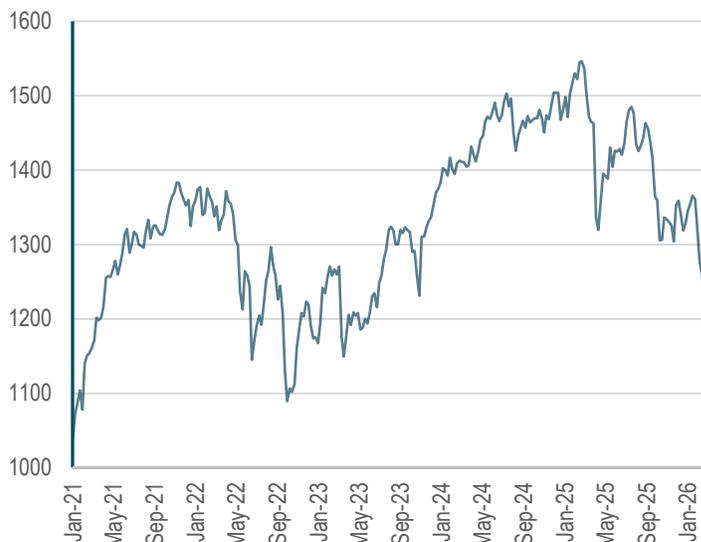
Private Credit

Private credit currently accounts for approximately 2.75 trillion dollars in invested assets. It has exploded in size over the last decade. During this period, private credit has become an integral part of many accredited investor portfolios and, more recently, part of ordinary investor accounts through targeted exchange-traded funds. Yields on private credit are sometimes alluring, occasionally earning 9-12% and regularly 6-8%. Over the last two months, several private credit funds have reported significant increases in defaults, liquidity pressures from investor redemption requests, ongoing declines in property valuations, and potential contagion stemming from interconnected relationships between funds and issuers.

Private Credit Index (Cumulative Return)

January 2, 2021 - February 27, 2026

(Source: Bloomberg)



Earnings

Approximately 72.8% of all publicly traded US companies have reported fourth-quarter and full-year 2025 earnings. Results have been generally positive. Revenues are up 8.8%, and profits are up 7.8%, suggesting slight margin compression likely due to tariffs. Looking more deeply into the data, large companies outperformed smaller ones by a wide margin because they are better able to negotiate tariff impacts. We are seeing an interesting and unexpected development in results.

It has been assumed by many that artificial intelligence gains would accrue to larger companies more than smaller ones. However, our data does not support this view. Instead, the relative agility of small companies is moving them toward AI adoption more quickly than large behemoths that operate by committee rather than individual responsibility.

Economic Narrative

The US economy is navigating a complex and often contradictory environment. Inflation remains persistent, especially in services. Economic growth, as measured by gross domestic product (GDP), has been slowing considerably. Consumer sentiment is rising, though still near recession levels. Manufacturing is no longer in contraction but just barely above the water line. Labor markets remain resilient and stable despite expectations that artificial intelligence will lead to widespread layoffs.

Geopolitics

Geopolitical narratives are shifting as quickly as markets. Trade tariffs have been declared illegal by the Supreme Court, resulting in thousands of corporate lawsuits against President Trump's administration seeking redress and in the cessation of tariff negotiations by several trade partners. It's reasonable to argue that the global political landscape has not been this unstable since the Cold War.

This morning, the United States and Israel launched coordinated attacks on Iran as President Trump encouraged the Iranian people to rise and depose their theocratic government. In response, Iran lobbed missiles at US bases and oil facilities in various Middle East countries. Most of the missiles were intercepted. In response to the increased global instability, OPEC+ increased oil production to ease price pressures in the crude market. OPEC+'s quick action shows a degree of tacit approval for the US and Israeli actions.

Monetary Policy

Producer prices rose more than expected in January, putting some pressure on the Federal Reserve to stand on the sidelines on interest rates. Meanwhile, the Federal Reserve began signaling that the potential effects of artificial intelligence will shape any future actions

it may take. Epic capital expenditures for artificial intelligence infrastructure are squeezing prices in some areas, while implementation of efficiency-generating AI solutions promises sharp productivity gains.

Labor Markets

As mentioned previously, labor markets have been remarkably resilient in the face of considerable uncertainty. To some degree, labor markets are subject to the same dueling narratives about artificial intelligence. Entry-level jobs are increasingly scarce as employers consider artificial intelligence a legitimate substitute. Meanwhile, some try to assuage the paranoid, suggesting that jobs won't go away but change. In my interactions with nervous college students, images from the movie Wall-E are invoked regularly, in which humans have nothing to do but entertain themselves as they wait for the world they ruined to renew itself for their return.

Jack Dorsey, the chairman and co-founder of payments company Block, announced he is cutting 4,000 employees, approximately 40% of total employees, betting artificial intelligence can pick up the slack. Dorsey is known for gutsy out-of-order moves like this. He said, "A significantly smaller team using the tools we're building can do more and do it better." His actions are not that unusual, except in the extreme. Many companies are trying to reconcile the investments in AI versus hiring. It's reasonable to assume that hiring will at least slow considerably until the dust settles a bit.

One More Thing

One more thing. In a world bereft of happy thoughts, let me share one. As a university professor, I am regularly in contact with members of the rising generation. Yes, I have had students who insisted that they were not human, but feline, and demanded that I address them as one. In a world so replete with important questions demanding life-altering answers, it seems odd that we spend so much of our time debating the obvious.

On the other hand, I spend time every week with a group of students who regularly seek out professors at school to learn life lessons. They formed a group of fellow learners and met regularly to discuss life's

questions and complications. A book club emerged in which they read important books every month and meet to discuss them. Books like, *I'm Proud of You* by Tim Madigan and *Night* by Elie Wiesel. On occasion, I sit in on their meetings and listen to their deliberations. Without exception, they are earnest and genuine with an eye to making the world better than the mess we are giving them. I am so very proud of them all. And as I look toward the end of my journey, my confidence in turning over the reins to them is enhanced. Perhaps we need to just get out of the way a bit more.

Conclusion

That's it for this *Weekender*. Have a wonderful week, and perhaps practice getting out of the way a bit more.

Disclosure Statement

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