

# Different, Again

## *Weekender*

March 7, 2026

The creation and collapse of great investment bubbles is the only truly important activity in investment management.

Jeremy Grantham

Bubbles are invisible to those inside them.

Warren Buffett

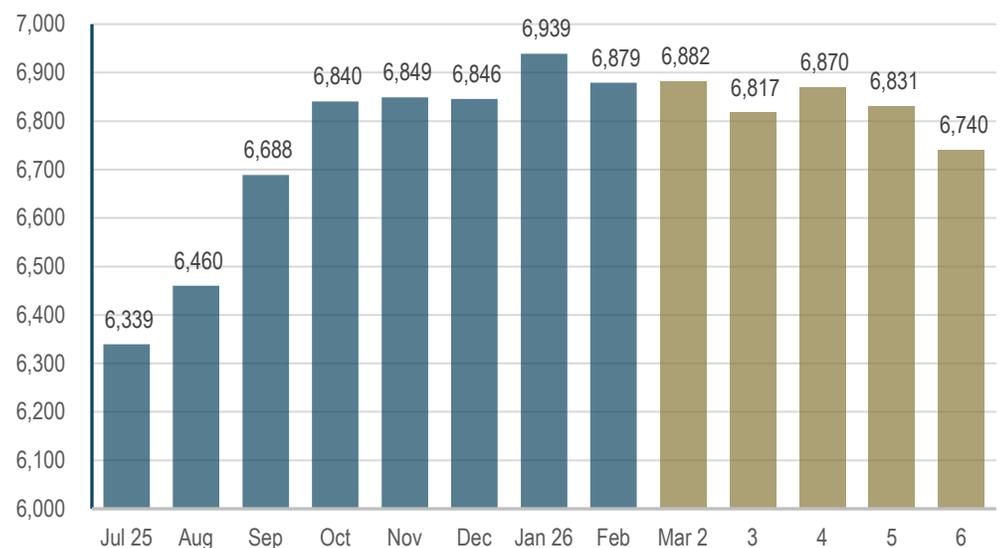
What we learn from history is that people don't learn from history.

Benjamin Graham

Good morning, and welcome to the *Weekender* for Saturday, March 7, 2026. It was another volatile week, with the net result for equities, as measured by the Standard and Poor's 500 Index, a -1.9% decline. Volatility was evident in remarkable swings higher and lower throughout the week. From their 2026 peak on January 20 at 4.29%, US government ten-year bond yields have been falling, at least until this week. Higher inflation expectations from product-producing companies pushed yields higher and reduced the probability of a Federal Reserve rate cut at their March meetings. But then Friday's labor market data provided support for a competing view.

### S&P 500 Index Levels

(Source: Bloomberg)



From a fundamental perspective, earnings are reported primarily for the fourth quarter and for full-year financial performance. Both revenues and profits were strong but not stellar. But strong is great. Economic performance was robust, with strong demand for both products and services. Inflation is slowly being tamed on the services side but spiking in products, mostly due to the delayed impact of tariff implementation.

In this *Weekender*, we analyze the current geopolitical state of play and provide a more detailed description of our conceptual position on artificial intelligence. A short summary of economic data is included at the end.

Please be sure to consult a reputable financial advisor prior to making any financial decisions.

## Geopolitics

Geopolitics continues to take over market headlines, providing the cathartic ambulance-chasing it offers. With political punsters arrayed on both sides of the legitimacy argument for America's strikes on a sovereign nation, any casual observer of President Trump's foreign actions since his inauguration must certainly begin to cobble together a sense of his strategy.

Trump is boxing in China. Approximately 27% of the Middle Kingdom's petroleum needs are met by domestic extraction and refining. All the rest is imported from other countries. The largest is Russia. Iran and Venezuela are also in the top ten. If you endorse the classification that the axis of authoritarians (China, Russia, Cuba, Venezuela, Iran, and North Korea) is the source of a majority of the world's oppression, then it seems obvious that President Trump is systematically reducing the power of the axis. If this view is a little too extreme, a more palatable narrative may be that Trump is trying to reinsert the United States as the center of geopolitical gravity after a period of decline since the end of the George W. Bush presidency.

Regardless of which narrative is more world-view-conductive, the impact is the same. The United States influence in the world is no longer waning and deferential.

## Artificial Intelligence

Sir John Templeton famously declared that the most dangerous words in the English language are "this time is different." Markets tend to be mean reverting. Technology tends to be adopted along similar patterns. However, most technological advancements are a function of redeployment of capital away from fixed assets. Artificial intelligence beyond the infrastructure stage is not the same.

Without any real accuracy in prognostication about the medium- and long-term future of artificial intelligence, market pundits have been catastrophizing about the end of humanity or prophesying a future of universal human freedom from the constraints of daily labor and endless liberty to pursue a life filled with passions and meaning. Anyone who professes to know the endgame of this technology is confabulating. Those with the deepest understanding of technology admit that artificial intelligence presents Pandora's box of possibilities.

We think about artificial intelligence (AI) as having three layers: surface, deep, and agentic. Surface AI has crossed into mainstream adoption. Approximately 71% of organizations have incorporated surface AI, though the vast majority report no real impact on their firm's bottom line. The primary use case of surface AI is as a more efficient search engine.

Deep AI is the integration of artificial intelligence into core workflows, systems, and processes. We believe this level is where the competitiveness game begins to change. A fraction of firms are involved in deep AI integration. As firms move forward in deep AI, long-held competitive positions will be altered. Importantly, deep AI is here and ready for implementation. No real barriers are in the way.

Agentic AI uses autonomous agents to complete complex tasks once the exclusive domain of humans. A study by Stanford and Carnegie Mellon found that agentic AI workflows were 88% faster and 90% cheaper than human workflows. However, longer-term success came from hybrid AI-human workflows.

## History Doesn't Repeat Itself, It Rhymes

Every transformative technology tends to face adoption in stages. It's overhyped in the short run and underestimated in the long run. The Dow Jones Industrial Index was started in 1896 to track remarkable technological innovation — locomotives, both directly and indirectly. It was overhyped like all the others, but the ability of trains to connect civilizations changed the fates of the world's powers. But there have been so many. The locomotive came along in 1804, followed by the steamboat, mechanical reaper, telegraph, telephone, internal combustion engine, lightbulb, car, radio, airplane, rocket, TV, computer, transistor, space, smartphones, gene editing, and now artificial intelligence.

All these innovations were initially accompanied by irrational manias, which led to bubbles that eventually popped. The bigger the bubbles, the more important the related technology, and the bigger the drop; markets seek to find their new normal. But the impact of the innovations lasted far beyond the market reaction that was temporally unsupported.

As the bubble in artificial intelligence brews, this time may be different. Again. Jeremy Grantham, founder of the investment group GMO, suggests that the advent of AI is unique in financial history. For one, the AI bubble is being inflated just as the pandemic bubble deflates, cushioning the economy and markets from what is usually a devastating recalibration.

We are nonplused by our view that the full impact of artificial intelligence will be far more extensive than anyone can accurately predict. However, in any endeavor, the gulf between promises and reality is a wilderness. We expect time spent in the AI wilderness will be short but real. Never has a technological revolution burst upon society with such speed and ferocity. Markets are likely to adjust to its vagaries with similar speed and power.

We are not just casual sideline observers of artificial intelligence. To the extent that any of its tools can be implemented without sacrificing the power of human connection and performance, we will implement them as they become available.

## Credit Woes

Last week, we discussed some of the challenges for private credit, as fund redemptions pushed managers to sell holdings at discounts to satisfy redemption requests. This week produced more private credit problems. BlackRock slashed the value of a particular private loan from the 100 cents-on-the-dollar valuation it assessed only three months ago to zero this week. The \$25 million loan was to Infinite Commerce Holdings, an Amazon aggregator. We do not anticipate that private credit underwriting challenges present an existential threat to the financial markets, banking, or the US economy. However, we expect investors to become increasingly suspicious of private credit offerings and to continue thinning their exposure to related instruments. Over time, we expect a much smaller group of specialized private credit managers to thrive in this space focused on strict underwriting standards, conservative collateral coverage, and thin leverage.

## Economic Staccato

The headline news this week is a notably weak February jobs report released this morning. Non-farm payrolls fell by 92,000 for the month, well below the estimate of 50,000 and beneath the downwardly revised January total of 126,000 — marking the third time in the past five months that payrolls have declined. The unemployment rate edged higher to 4.4%, with job losses spread across health care, federal government, transportation and warehousing, and manufacturing. The decline in health care was partly attributed to a Kaiser Permanente strike, but federal workforce reductions also played a role — federal government employment has declined by roughly 330,000, or 11% of the total workforce, since October 2024. Revisions also painted a darker picture: the December change was revised down by 65,000, from a gain of 48,000 to a loss of 17,000, meaning December and January combined came in 69,000 lower than previously reported. On a brighter note, average hourly earnings for private nonfarm workers rose about 15 cents, or 0.4%, to \$37.32 — a 3.8% increase over the prior year.

Zooming out, the broader economic picture remains mixed. GDP grew at an annual rate of just 1.4% in the fourth quarter of 2025, a sharp deceleration from the 4.4% pace recorded in Q3, with consumer spending and investment as the primary drivers, partially offset

by declines in government spending and exports. On the manufacturing side, the ISM Manufacturing PMI slipped slightly to 52.4 in February from 52.6 in January, though it remained above the 50-point expansion threshold and beat market expectations of 51.8.

Consumer confidence remains fragile: the Conference Board's Consumer Confidence Index ticked up 2.2 points in February to 91.2 but remained well below the four-year peak of 112.8 reached in November 2024, with consumers' write-in responses continuing to skew pessimistic around prices, inflation, and trade policy. With inflation data still pending and a weakening labor market, Federal Reserve officials have maintained a cautious wait-and-see posture, though traders are now pulling forward expectations for the next rate cut to July following today's disappointing payrolls print.

The economy is in an interesting position. Despite signs of resilience, the consumer is increasingly stretched. Consumer credit has been increasing at a slower pace than projected, which, on its surface, is a good sign. But the slowdown is evident in flat consumer spending and tighter credit. A healthy consumer response would be a paydown in debt, which has not happened. In fact, withdrawals from retirement accounts, despite the penalty for doing so, have increased to the highest level ever. Sacrificing the security of retirement to keep spending today is not just a bad financial decision; it's a sign that consumers are more fragile than many expect.

## Conclusion

That's it for this *Weekender*. Have a wonderful week.

## Disclosure Statement

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