

MARKET COMMENTARY – February 1, 2026

Artificial intelligence will never be a match for natural stupidity. ~Anonymous
OR

With artificial intelligence we are summoning the demon. ~Elon Musk

Hopefully the above quotations grabbed your attention. The first one is often attributed online to a man who lived in the seventeenth century, thereby proving the point of the quotation for anyone who believes he said it. The second one is said by a man who has experience summoning demons with his admitted and frequent use of ketamine and other hallucinogenic drugs.

And while we have some moral concerns about the current AI meteor, it is upon us and we must navigate within its orbit. Each year companies are investing hundreds of billions of dollars to develop and deploy AI. Questions remain. Will the natural stupidity of corporate executives outweigh the potential benefits that AI will bring to their companies and the world? Can the demon of AI, now unleashed, be contained?

Prior to 2022, the largest technology companies had enormous capital expenditure budgets. This makes sense since the technology sector has proven itself winner-take-all. Companies must invest to keep that single step edge over their competitors. However, once ChatGPT from OpenAI hit the mainstream, these same companies slammed the capital expenditure accelerator to the floor. Amazon, Alphabet, and Microsoft each now spend about three times as much as they did just a few years ago. Meta spends four times as much as they did prior to the AI race explosion.

These monies are being poured into building the enormous data centers we've all seen crop up in our neighborhoods. Six hundred acres of concrete and computers, water towers and wires, generators and pumps. This ramp up in spending has benefited those making the hardware. Firms like Nvidia and Broadcom (chips) and Caterpillar (stand-by generators) among others have roared.

The managers of these companies think these additional costs are warranted. We know that if this level of investment is necessary, then the largest technology companies are going to be LESS profitable from a margin standpoint than in the past at least for the foreseeable future. Building and maintaining these vast data centers is a new phenomenon for them. In the past, they sold software and services over the internet. Their expenses were negligible, which is why investors loved them. Fast-growing revenues with little incremental expenses mean vast operating leverage. And fast-growing stock returns.



Said a different way, while these investments may be necessary for these titanic companies to stay at the forefront of their industries, by their very nature, these investments are altering the type of companies they are. We believe this to be fact. The only question is will the future play out like the past?

Fast movers who invested heavily in the internet had horrible profit margins for years. But then, suddenly, in the 2010's after they'd driven out the competition, their profit margins skyrocketed. Investors and corporate big wigs are betting this will be the case again. They think the winner-take-all game is multiplied by the ubiquity of AI.

We are following their lead, with caveats. We remain invested in these household names that are investing so heavily in data centers. However, we are not buying into the pitch that AI will mean the next tier of software companies like NOW, ADBE, INTU, CRM, etc. will wither and die. These latter companies are utilizing AI from the big data centers to build their own AI agents to incorporate into their software products, making them more efficient and specialized. We believe that a generic AI won't be able to compete with one specifically attuned to a precise task for years to come. We also think that the biggest technology consultants are still required to implement AI strategies in non-technology industries such as chemicals or finance.

While AI is and will change the world, there will remain many, diverse investment opportunities along the way. We still plan to use toothpaste (you're welcome). Though certainly AI will someday have a hand in manufacturing it.

Amidst it all, there might be a side benefit to all this talk of AI, one that Elon Musk might consider. Alan Perlis was one of the fathers of modern programming languages. Before his death in 1990, he said, "A year spent in artificial intelligence is enough to make one believe in God." While he certainly meant this as a witticism, we think he inadvertently spoke truth. AI will never permanently douse the divine spark in our human spirits. Carry on.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
Jason Born, CFA
President