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Key Takeaways

- **AI has shifted from enabler to disruptor.** Assets in its crosshairs should command lower multiples as the market reassesses long-term margins and growth.
- **Capital is rotating toward beneficiaries.** Sectors insulated from, or powered by, the AI buildout will likely earn higher valuations.
- **The bull market remains intact, but leadership has changed.** Breadth and fundamentals are improving, and portfolios need to adjust to a new environment.

Ask Forstrong: The tech wreck is brutal — but does it end the bull market?

Swiss psychiatrist Elisabeth Kübler-Ross famously suggested there are five stages of grief. But modern markets, with their limited attention spans, skip most of them. In a matter of months, we've jumped from stage one, denial — “AI is not an existential risk” — straight to stage five, acceptance — “AI is devouring its own ecosystem”. Anger, bargaining and depression barely had time to trend on X.

The great AI boom was supposed to lift all digital boats — a productivity miracle that would expand margins, justify nosebleed valuations and usher in a new golden age for American tech. Capital flooded into anything even loosely adjacent. Software stocks became bulletproof cash gushers in the public imagination and permanent core holdings in almost every portfolio.

But the vibes, as the kids say, have shifted.

What makes this market moment strange is not that AI failed. It's that it may be working too well. When Anthropic rolls out tools that threaten to automate entire layers of enterprise software, investors don't wait for proof. They hit the sell button first and ask questions later. Last quarter's earnings, largely excellent, are suddenly

irrelevant. And forget about forward guidance — next year’s forecasts hardly matter. The market no longer cares whether these companies had a good

90 days. It’s questioning whether their once-lofty margins and growth rates survive at all.

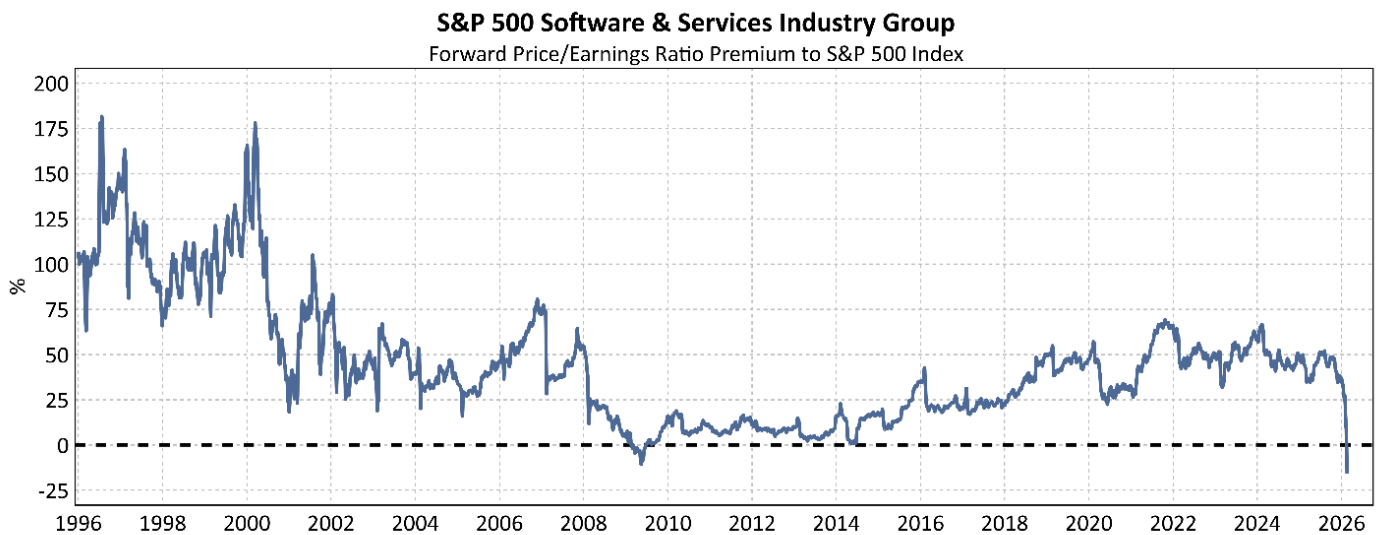
AI Came in Like a Wrecking Ball

The fact is markets don’t grieve narratives slowly anymore. They reprice them quickly. The Covid crash in March 2020 and last year’s Liberation Day selloff rank among the fastest declines on record, compressing what once took months into a matter of weeks. The current drawdown is behaving similarly.

Structural forces help explain why. Algorithmic and high-frequency trading amplify declines, while a hyper-connected world ensures that

once sentiment turns, reactions cascade across asset classes and borders almost instantly.

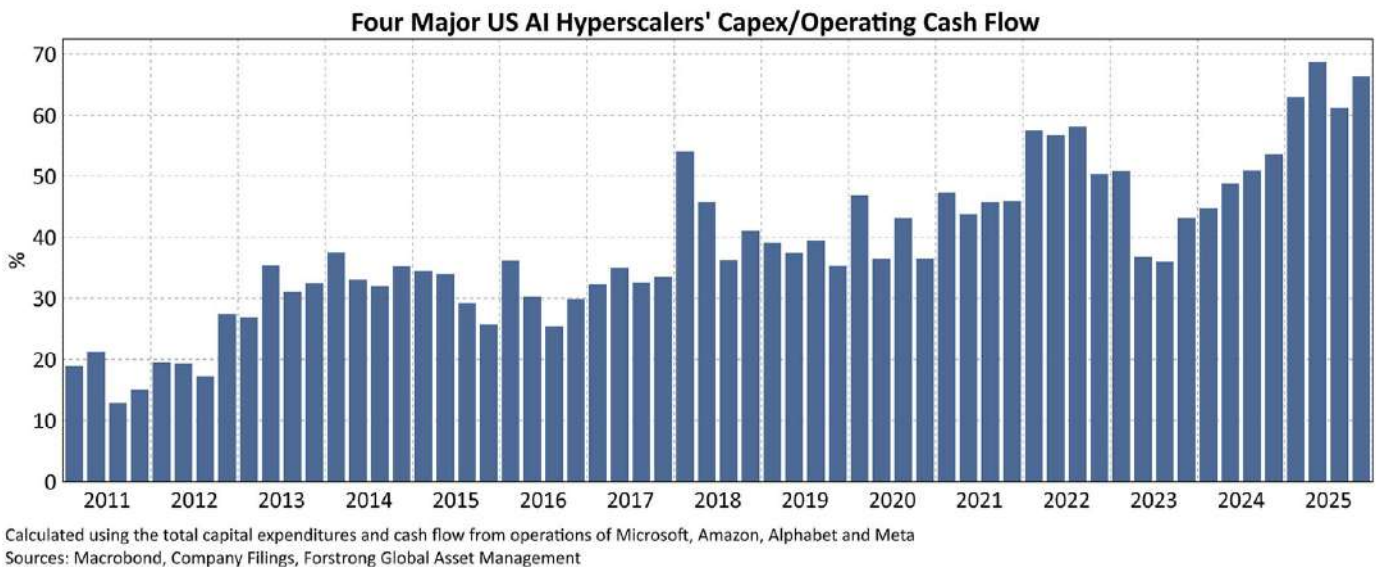
Today, sentiment has suddenly shifted from “how much money will AI make?” to “who does AI disrupt?”. That’s a different question. And it produces a different multiple. After recent declines, the software and services subsector of the S&P 500 is trading at a discount to the entire index for only the second time in 30 years.



Sources: Macrobond, S&P Dow Jones Indices, Forstrong Global Asset Management

Some of the recent declines will almost certainly prove to be overreactions. Not every sector and software company will disappear entirely. The market is now sorting, not collapsing — something we anticipated in our 2026 outlook ([Super Trend 3: The Adopters: AI's Second Act](#)). But the broader shift should be unmistakable. For more than a decade, capital-light, high-margin, recurring-revenue models commanded

the highest valuations. Asset-light was king. That era is now being challenged. The hyperscalers are projected to spend nearly two-thirds of operating cash flow on capex over the next two years. AI spending among the Magnificent Seven has more than doubled since 2023 and is on track to keep climbing. Tech investment now exceeds 6% of US GDP — above the peak reached in 2000.



Yet the returns on this now three year old AI arms race are far from certain. Markets are beginning to ask whether we're witnessing disciplined investment or a fear-driven overbuild in data centres and power capacity. Meanwhile, competition is intensifying. Gemini is taking market share from ChatGPT. Chinese open-source models are spreading rapidly,

often cheaper and more adaptable than their US counterparts.

All of which is another way of saying: Big Tech is no longer an asset-light monopoly franchise. It is now capital-hungry, more competitive and less insulated. Markets assign very different multiples to that kind of business model.

What is the Next Stage?

At this point, some readers may feel the urge to sell everything and head for the hills. Don't. Stay with us.

Our investment team believes the bull market remains intact.

A Broadening Bull Market. One ominous comparison making the rounds is that this feels like late 1999 — leadership cracking just before the dot-com collapse. But there is a crucial difference. The AI boom has been led by large, profitable companies, not speculative balance sheets fueled by credit excess. That doesn't eliminate volatility, but it materially reduces the odds of a fundamental collapse.

What the two periods do share is narrative fatigue. Universal optimism has given way to uncertainty. When that happens, multiples compress. Assets in AI's crosshairs will settle at lower valuations. Those insulated or benefiting from AI will command higher ones. That's repricing, not apocalypse.

But here's the key point: while different sectors absorb the body blows, broad markets are making new highs. Cyclical sectors are surging. Small caps have broken out. Long-unloved European equities, crammed with old economy industrials, financials and dull commodity producers, have been rising steadily.

Bear markets rarely begin like this, with breadth expanding and economically-sensitive sectors strengthening. We're not seeing systemic stress. We're seeing rotation. Leadership is changing.

Capital is reallocating. The market is moving from a narrow, momentum-driven obsession toward a broader cyclical expansion.

Rotation, Not Recession. Ironically, the digital AI boom is reviving the real economy — what we've called the "revenge of the real economy." Data centre buildouts require copper, power and infrastructure. Commodity cycles are essentially capex cycles, and today they are reinforced by government policy. Alongside AI spending, geopolitics and the retreat from free trade are driving investment in energy, infrastructure and defense as the world reorganizes into regional blocs. After years of underinvestment, shortages in key commodities are emerging.

This shift to higher growth and higher government spending is now showing up in earnings. Last year's outperformance in Europe, Japan and emerging markets was driven largely by multiple expansion. This year it is likely to be earnings-led. Consensus 2026 earnings growth forecasts for MSCI Japan, Europe and Emerging Markets stand at 9.4%, 11.7% and 23.2%, respectively — a clear acceleration from 2025.

The bottom line: absent a major external shock, recession risk remains low. With the US running fiscal deficits above 6% of GDP, the Magnificent Seven still investing heavily in capex, and large parts of Europe and Asia in early-stage reflationary cycles, the current expansion has far more support than current headlines suggest.

Investment Implications: Follow The Money

In a world where wealth is increasingly mobile, investors should pay close attention to where it is flowing. Foreigners now own nearly \$70 trillion in US assets — roughly double the level of a decade ago. If global investors reduce their appetite for America's largest software companies, the impact on US markets will be meaningful.

But markets rarely stay still for long. They simply move on to a new obsession. Following the money offers a clue. Software faces disruption risk. Crypto has gone cold. Meanwhile, the real economy is reasserting

itself. Suddenly, fantasy is out and fundamentals are in. "Growth at any cost" is no longer rewarded. Capital is gravitating toward businesses tied to tangible activity — resources, health care, industrials and other cyclical sectors.

In other words, risk appetite is alive, but the world is getting back to reality. Money is moving onto different themes. Investors should not grieve the shift.

Tyler Mordy, February 2026

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