

INSIGHTS

IS AI EATING THE WORLD? A PORTFOLIO PERSPECTIVE

Innovation and disruption are often two sides of the same coin. What does recent market volatility driven by trends in artificial intelligence mean for investors and their portfolios?

Fifteen years ago, venture capitalist Marc Andreessen famously wrote that "software is eating the world," meaning any service that could be written and automated as software, would be. This has proved accurate as cloud computing, software-as-a-service, and digital platforms have reshaped entire industries and how consumers buy goods and services.

Today, AI represents the next phase of this transformation, and as with every major technological shift, markets are trying to assess what it means for specific sectors and the overall economy. For long-term investors, maintaining perspective on how these cycles have unfolded in the past can provide helpful clarity.

Innovation and disruption are two sides of the same coin, and the recent broad sell-off and quick rebound in technology stocks shows how difficult it can be to predict how these trends play out. The release of new automation tools from Anthropic, a major AI company, demonstrated the ability to perform tasks previously handled by specialized software in areas like legal and financial research, sparking reassessment of traditional software models. In addition, several large technology companies also struggled after reporting over a hundred billion dollars in quarterly capital expenditures on AI infrastructure, raising questions about whether this spending will pay off.

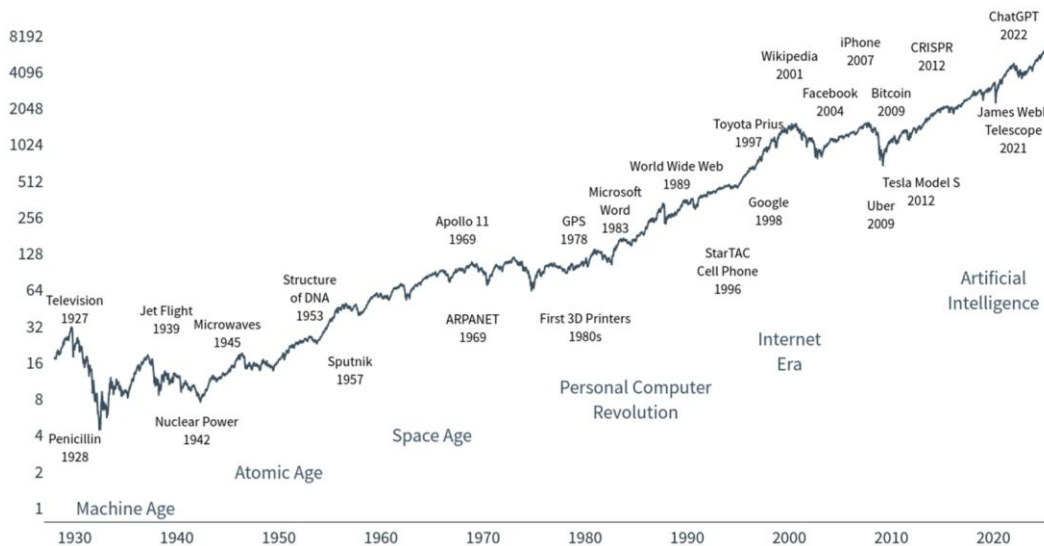
Ironically, this occurred almost exactly one year after the "DeepSeek moment" in January 2025, when a Chinese AI company purportedly showed that AI models could be built at a fraction of the cost. In both cases, markets re-evaluated the winners and losers of technological change but also rebounded quickly once the dust settled. For investors, this is a reminder that maintaining a long-term perspective is important as the market shifts between the opportunities from innovation and the challenges of disruption.

Technological Disruption Follows Familiar Patterns

Current uncertainty around AI may feel unprecedented, but history shows that technological disruptions follow similar patterns. In every wave of innovation, there is an "old economy" and a "new economy," and markets must determine which companies fall into each category. And, while AI has the potential to change or replace many traditional processes, it's worth remembering that even the most transformative technologies don't eliminate the need for human expertise and services, not to mention human trust, personalization, and quality outcomes.

The Stock Market and Technological Innovation

S&P 500 Index since 1928 and select innovations (log scale)



Sources: Cleonomics, Standard & Poor's. Latest data point is February 12, 2026.

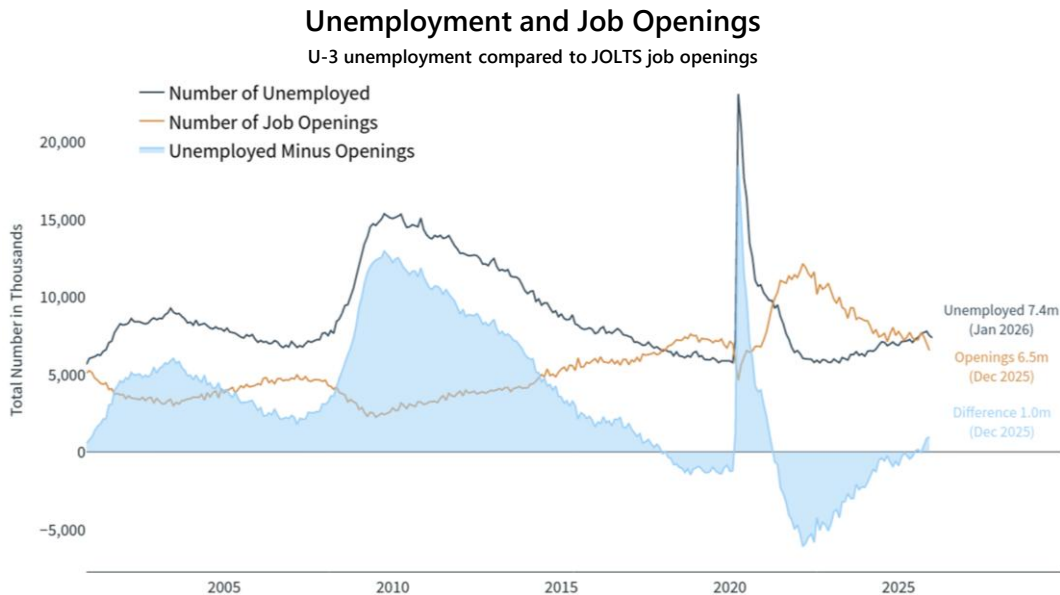
Which companies are most competitive in delivering these services may change over time, but the underlying fundamental needs will remain the same. Just as you wouldn't build a car yourself, or rebuild it every time you needed to drive to the grocery store, AI applications will still rely on existing infrastructure and specialized services. Over time, this dynamic will benefit consumers through smarter products, lower costs, and more accessible services.

INSIGHTS

It's also important to maintain realistic expectations about the pace of change. While AI companies have predicted the arrival of "artificial super intelligence" over the past several years, recent evidence suggests that progress in AI training has slowed. That said, what current AI systems can accomplish is already remarkable and is clearly enough to reshape expectations.

The Labor Market Adds to Economic Uncertainty

Adding to investor concerns is a labor market that has weakened since the middle of 2025. The latest data published by the Bureau of Labor Statistics showed that job openings fell to their lowest level since 2020 in December. At its peak, there were more than two job openings per job seeker, but now the ratio is less than one, with about 6.5 million openings for 7.5 million unemployed individuals.



Sources: Clearnomics, Bureau of Labor Statistics. Latest data point is January 2026.

There is no direct evidence yet that these job cuts are AI-related, but these trends affect the broad economic outlook nonetheless. In the long run, every major technological wave, from the Industrial Revolution to the Information Technology Revolution, has eventually created more jobs than it replaced, but the transition periods as workers are retrained can be difficult for both individuals and society.

What These Trends Mean for Portfolios

For investors, recent volatility underscores the principle that asset allocation matters more than trends or headlines. The Technology and Communication Services sectors, while delivering strong returns in recent years, are also known to experience large swings as expectations shift. Both sectors are sensitive to interest rates, and are thus affected by uncertainty around the Fed. So, while groups like the Magnificent 7 have performed well over the past several years, they can struggle in periods like 2022 just as they have over the past two months.

Perhaps the biggest question is around stock market valuations. With the S&P 500's price-to-earnings ratio at historically elevated levels, investors have been rotating into other sectors such as Consumer Staples, Energy, Materials, and Industrials. This reflects a market that is becoming more selective and focusing on opportunities beyond AI. After all, just because AI is the trend capturing investor attention does not mean there are not attractive opportunities across other parts of the market.

Ultimately, today's AI trends should be viewed in a broader context along with other changes to the market and economic landscape. If past cycles are any indication, markets will likely over- and underreact to these trends in the short run. History shows that those who can stay patient and properly invested will be best positioned to achieve their financial goals.



INSIGHTS

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