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Investment Institute

Market Commentary

Weekly perspective on current market sentiment | **September 23, 2026**

Luis Alvarado
Co-Head of Global Fixed Income Strategy

Last week's S&P 500 Index: +0.4%

AI investing: Play the trend, not the hype

Key takeaways

- Artificial intelligence (AI) appears to offer meaningful long-term opportunities, but we believe uncertain payoffs require valuation discipline.
- In our view, investors should diversify across potential AI beneficiaries and rebalance when enthusiasm pushes valuations too far.

AI infrastructure buildout is racing ahead of broad adoption. Investment is pouring into semiconductors and data centers, supporting economic growth and corporate earnings. Yet many businesses are still integrating AI into existing systems and evaluating whether AI benefits can deliver measurable returns. This tension — between rapid spending today and uncertain payoffs tomorrow — defines both the potential opportunity and the risk for investors.

Rather than weakening the investment case, we believe that gap argues for discipline. At times, prices can outrun near-term earnings when enthusiasm is high, leaving markets vulnerable whenever investors question how quickly adoption and profits might grow. Our message has therefore remained consistent throughout the year: Participate in the AI investment trend but do not overpay for it.

Since AI became a prominent market theme in 2023, we have followed two complementary approaches. First, we have favored the AI-intensive S&P 500 Information Technology and Communication Services sectors when their earnings prospects justified their valuations. When enthusiasm pushed prices too far, we rebalanced toward what we believed to be better relative value. This approach, in our view, preserves targeted exposure while managing concentration and valuation risk.

Second, we have looked beyond the companies leading AI spending. Data centers require electricity, grid capacity, construction, machinery, and electrical equipment. Earlier this year, that broader opportunity supported our favorable views on Utilities and Industrials. By midyear, changing valuations led us to shift toward Materials, where raw materials, industrial gases, and specialty chemicals offer exposure to continued capital spending and potential pricing power.

Today, we maintain an overweight to Information Technology, supported by strong earnings momentum and sustained AI-related demand. Communication Services and Materials add exposure to other parts of the ecosystem, often at more reasonable valuations. Together, these positions reflect a broader principle: AI leadership can rotate even when the long-term investment trend remains intact.

In our view, the best way for investors to participate in the AI trend is by favoring businesses that translate AI spending into durable revenue, productivity gains, or essential infrastructure demand; by diversifying across the supply chain rather than concentrating in a few headline names; and by trimming positions when valuations assume flawless execution. This can keep portfolios connected to a powerful longer-term trend while preserving the flexibility to rebalance as sector winners evolve.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

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