Executive Summary

Q3 2026 Economic Commentary

Jumping the Shark?

Markets remain strong on the surface, but the underlying story has become more complicated. The quarter's central theme is that investors are operating in a more constrained world—one increasingly shaped by chokepoints in energy, supply chains, semiconductors, power, infrastructure, capital markets, and policy. These pressure points have not broken the market, but they have made the path forward more nonlinear and more dependent on a narrower set of assumptions.

The "jumping the shark" framing is useful because it captures the risk that market narratives can outrun reality. AI is real, profitable companies are benefiting, and the long-term innovation case remains compelling. But the market's willingness to project years of potential cash flows into current valuations—especially around AI-adjacent businesses and newly public companies—raises the risk that expectations, rather than prices alone, have become stretched.

A Market Defined by Chokepoints

The multipolar-world thesis remains central. Economic leverage increasingly flows through control of critical pathways, inputs, routes, technologies, and capital. Covid exposed supply-chain fragility, Russia's invasion of Ukraine exposed energy and commodity dependencies, and the Iran conflict reminded investors that strategic transit routes can quickly move from the background to the center of market pricing.

AI adds another layer to this structure. Semiconductors remain the most visible constraint, but the buildout also depends on power availability, grid capacity, water, permitting, land, cooling infrastructure, and energy contracts. These are practical limits on how quickly capital can be converted into productive capacity, and they can influence both corporate earnings and market leadership.

Inflation, Rates, and Labor: Less Clear Than the Headlines

The policy backdrop is caught between persistent near-term inflation and longer-term expectations that remain more contained. The risk is that investors and policymakers place too much weight on recent inflation data while underestimating the potential for growth to slow as chokepoint-related costs filter through the economy.

The labor market is another constraint rather than a clean signal. Headline unemployment and wage data still point to resilience, but the underlying details are softer: labor force participation has weakened, job growth outside health care has been negative, and wage growth no longer clearly outpaces inflation. That leaves the Fed with less room to maneuver if supply-driven inflation and slower growth reemerge at the same time.

AI: From Narrative to Verification

The question for AI has shifted from whether the technology creates economic value to who captures that value and how much is already embedded in prices. This is where "implicit leverage" matters: portfolios may not show leverage on a balance sheet, but they can still be highly dependent on AI-related assumptions about semiconductor demand, capital spending, power availability, earnings growth, and the cost of capital.

That exposure is not limited to the Magnificent 7 or even to the U.S. The AI narrative has contributed to meaningful concentration in markets such as South Korea and Taiwan, where a small number of companies represent a large share of market capitalization. When the narrative works, it reinforces confidence; when a pressure point shifts, the repricing can be abrupt even if the broader market appears stable.

A More Selective Market

This environment does not point to a market that is breaking down. It points to one that is becoming more selective. Investors are placing greater emphasis on earnings quality, cash-flow generation, capital discipline, and business-model durability. That selectivity is especially important as the AI investment cycle begins to move from internally funded growth toward potentially more explicit reliance on debt and equity issuance.

Growth funded externally is evaluated differently. Debt introduces interest expense, and equity issuance introduces dilution. Even if revenue continues to grow, earnings per share can come under pressure when the cost of sustaining growth rises. That does not undermine the long-term AI opportunity, but it changes how investors should assess it.

Portfolio Positioning: Calibrated, Not Complacent

When markets are at or near highs, it is easy for recent returns to shape expectations and for risks to fade from view. That is precisely when it makes sense to revisit risk tolerance—not as a reaction to a drawdown, but as a discipline during strong markets. The practical question is whether portfolios remain aligned with long-term objectives or have drifted toward the areas that have recently worked best.

Thoughtful asset allocation remains the best response. Public equities still play an important role, but they do not need to carry the entire load. Fixed income can provide ballast and income; real assets can help in inflationary or supply-constrained environments; private equity can offer access to long-term growth opportunities; and diversifiers such as hedge funds and private credit, where appropriate, can introduce different return drivers.

Concluding Remarks

The opportunity set remains attractive, but the world is more complex than it was before Covid, Ukraine, and the Iran conflict. Each episode revealed another layer of dependency in the system. The goal is not to step away from markets, but to calibrate exposure thoughtfully, understand where concentrations exist, and build portfolios that can absorb a wider range of outcomes.

In a market defined by chokepoints, implicit leverage, and narrower drivers of return, diversification is not simply a defensive posture. It is a way to remain invested while recognizing that the path to realizing opportunity may require more patience, selectivity, and awareness of where risks are building.