



Alpha Tier

Key Takeaways:

- . The anatomy of speculation.
- . Pattern recognition, not prediction. AI is not tulips, but real revolutions can still become dangerous when prices overshoot.
- . The capex clock still favors the bulls. Expected AI spending is still rising, so the boom may have further to run.
- . One new addition and several tactical changes.

"What the wise man does in the beginning, the fool does in the end."
Warren Buffett

"The masses have never thirsted after truth. Whoever can supply them with illusions is easily their master."
Gustave Le Bon

The Tulip Test

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Welcome to the May issue of *Alpha Tier*. This month, we are going to pause...

The AI story has not weakened. It has become easier to believe. The models are improving, the capex boom is accelerating, and the obvious winners have captured the market's imagination.

We are pausing for a more important reason: the future has started to look *"obvious"* to the crowd. And in markets, *obvious futures* are rarely priced cheaply. The first phase of the AI trade is no longer hidden. The market now understands the need for semiconductors, memory, data centers, power, grid infrastructure, cooling systems, and physical capacity. What once looked like a narrow technology theme has become the largest capital-spending cycle in modern market history.

That is exactly why the moment deserves more caution, not less.

At the beginning of a great trade, the challenge is conviction. The evidence is incomplete. The thesis is uncomfortable. The market has not yet fully recognized the opportunity. Later, once the crowd arrives, the challenge changes. It is no longer enough to understand the theme.

We must understand the pattern.

That is the purpose of this issue. We are not going to argue that AI is *tulips*. That would be ridiculous. *Tulips* did not change the global economy. **AI probably will.** *Tulips* did not rewrite the cost structure of knowledge work. AI already is. *Tulips* did not force the world to rebuild its compute, energy, data, and software infrastructure. AI is doing exactly that. But **Tulip Mania** still matters because it reveals something permanent about markets: when novelty, scarcity, social proof, liquidity, and price momentum combine, investors can lose the ability to distinguish a real story from a dangerous price.

That is the uncomfortable lesson.

The most dangerous bubbles are not always built on fiction.
Sometimes they are built on truth.

Railroads were real. They changed the world. They also produced massive

Tulip Mania refers to the sharp rise and collapse in prices for certain rare tulip bulbs in the Dutch Republic during 1636-1637. Tulips had arrived in Europe from the Ottoman Empire and became highly prized luxury objects among collectors, growers, and wealthy merchants. The most valuable varieties were *"broken"* tulips, whose unusual flame-like patterns made them especially rare and desirable. During the final phase of the boom, contracts for some bulbs changed hands at extraordinary prices before the market suddenly broke in early 1637. Although later retellings exaggerated the scale of the episode, Tulip Mania remains one of the earliest and most famous examples of speculative excess in financial history.



overbuilding, speculative excess, and brutal market losses.
The internet was real. It changed the world. It also ended in one of the most vicious bear markets in modern history.
Broadband was real. It became essential infrastructure. But many of the companies that financed the buildout destroyed enormous amounts of capital.

The pattern is always similar:
A real technology appears.
The market underestimates it.
Early investors are rewarded.
Capital floods in.

The story becomes obvious.
Expectations detach from discipline.

And eventually, even a **slowdown in the rate of improvement** can be enough to reset the entire market's imagination.

That is the risk we want to examine now. Because the AI capex boom is not just moving fast. It is becoming reflexive. The more the market rewards the winners, the easier it becomes for those winners to finance, justify, and expand the buildout. The more they expand, the more investors extrapolate. And the more investors extrapolate, the more fragile the market becomes if growth merely decelerates.

That does not mean the top is here. But, it means the burden of proof has changed.

This is especially important because the market's leadership remains narrow. A small group of AI-related winners continues to carry a disproportionate share of investor enthusiasm. Breadth remains uneven. Positioning has become more crowded. And we are now entering a historically difficult seasonal window: the May-to-October period of a **midterm election year**.

Seasonality is not a thesis. But it can be a warning light. When a mature secular bull market, narrow leadership, crowded positioning, parabolic winners, and a fragile seasonal window begin to overlap, we pay attention.

That is pattern recognition. And pattern recognition matters more than ever because AI is changing the value of knowledge itself.

In the pre-AI world, information still carried a premium. Facts were costly to gather. Research was costly to synthesize. Models took time to build. Reports took effort to write. Even explicit knowledge had scarcity value because it was slow, fragmented, and expensive to organize.

AI is attacking that scarcity directly.

It can summarize, synthesize, draft, code, compare, model, and explain at extraordinary speed. In other words, it is printing explicit knowledge. But that does not make judgment abundant. In fact, it **may make judgment more valuable!**

Because the scarce skill is no longer producing an answer. The scarce skill is knowing when the answer is incomplete, when the analogy is wrong, when the crowd is extrapolating, and when a real technology has become a dangerous investment.

That is why this issue is not just about AI.
It is about wisdom in an age of *answer inflation*.

The **Presidential Cycle** divides market history into the four years of a U.S. presidential term: the post-election year, the **midterm year**, the pre-election year, and the election year. The theory is not that markets obey politics mechanically. It is that political incentives change through time. Early in a term, administrations usually have more room to absorb economic and market pain. As the next election approaches, policy often becomes more supportive. That is why midterm years deserve attention. They have often been the most difficult part of the cycle, especially when they overlap with inflation pressure, populist politics, or a fragile market structure.



Last month, in *Alpha Tier*, we argued that AI does not eliminate scarcity. It moves it. Intelligence may become cheaper, but scarcity shifts toward power, compute, rights, rails, regulation, trusted data, distribution, and physical infrastructure.

This month, we take that idea one step further: if AI is making knowledge abundant, then judgment becomes the new bottleneck.

So, we are going to run *The Tulip Test*.

We will begin with the psychology of bubbles, not to mock the *AI boom*, but to understand how real revolutions become dangerous when price, narrative, and crowd behavior reinforce one another. We will then compare today's AI capex cycle with prior infrastructure booms, especially railroads and the internet, where the technological premise proved right even as many investors were destroyed.

From there, we will examine the financial-market patterns now taking shape: narrow leadership, parabolic winners, crowded positioning, weak breadth, secular-cycle maturity, liquidity sensitivity, and the midterm-year risk window.

And finally, we will do the only thing that matters in *Alpha Tier*. We will apply the test to our own Model Portfolio.

May has already been an active month across VMF Research. In *VMF's Strategic Asset Allocation*, we increased exposure to China's internet platforms through **KWEB**. In *VMF's Security Selection*, we examined **PDD** as a direct stock-level expression of the next AI application-layer opportunity.

But *Alpha Tier* has a different job. This is where we ask how much risk we still want to take, what kind of risk we want to own, and whether the Model Portfolio still reflects the best asymmetry available today.

Do we need more exposure to underpriced AI application-layer assets?
Do we need to harvest more gains from obvious winners?
Do we need more protection?
Do we need more liquidity?
Do we need to keep owning bottlenecks, but change which bottlenecks we own?

That is the exercise.

**This is not a market top call.
It is a risk-budget call.**

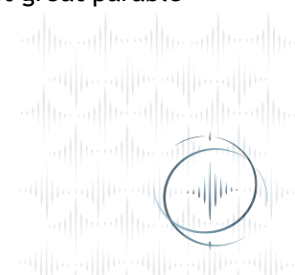
And in a market where knowledge is becoming abundant, disciplined risk budgeting may be one of the clearest expressions of judgment... better yet, of wisdom.

There is a lot to do.

The Price of the Obvious

There is a reason Tulip Mania still refuses to die.

Nearly four centuries later, the story remains irresistible. A flower becomes an asset. A luxury becomes a market. A market becomes a fever. And for a brief moment in the Dutch Golden Age, the price of certain tulip bulbs appears to detach so completely from ordinary reality that the episode becomes the first great parable of financial madness.



The version most investors know is simple.

Too simple, in fact.

According to the popular story, all of Holland lost its mind. Sailors, chimney-sweeps, merchants, aristocrats, servants, farmers, and speculators abandoned productive work to trade flowers. A single bulb changed hands for the price of a house. Then, suddenly, the bubble burst, fortunes vanished, and the Dutch economy was left in ruins.

It is a wonderful story.
It is also not quite true.



Source: *A Satire of Tulip Mania*, Jan Brueghel the Younger, 1640

Modern historians have done much to correct the caricature. Tulip Mania was not a nationwide collapse. It did not engulf the whole Dutch population. It did not destroy the Dutch economy. And the best archival work suggests that the most serious participants were not the mythical “*lowest dregs*” of society, but a relatively narrow group of wealthy merchants, brewers, cloth traders, collectors, growers, and a small number of local elites. Anne Goldgar, whose archival history has done much to demythologize the episode, shows that the tulip trade moved less like a national frenzy and more like a concentrated social market, carried through networks of reputation, credit, status, and trust.

Still, that narrower reality makes the episode more useful, not less.

The real lesson of Tulip Mania is not that an entire nation went mad over flowers. It is that a small, wealthy, networked, intelligent group of people can still produce a speculative fever when novelty, scarcity, social proof, financialization, and price momentum begin to reinforce one another.

Its usefulness, then, does not come from comparing a seventeenth-century flower bulb with a twenty-first-century general-purpose technology.

That comparison would fail almost immediately.

It comes from something more durable: the way markets behave when a scarce object captures imagination, when rising prices begin to validate the story, and when participation itself becomes a signal of sophistication.



Because the psychological machinery of speculation has not changed as much as we like to think...

Tulips entered the Dutch Republic as exotic luxury goods from the East. By the early seventeenth century, the Netherlands was becoming one of the richest and most globally connected societies in the world. Dutch merchants were global leaders in trade, finance, shipping, and capital formation. Wealth was rising. Gardens were fashionable. Collecting was fashionable. Rarity was fashionable. And tulips, especially the most unusual varieties, became a form of social display.

They were beautiful. They were foreign. They were scarce. And they were difficult to reproduce quickly.

That combination matters.

The most prized tulips were not ordinary flowers. They were “*broken*” tulips, whose dramatic streaks and flame-like patterns were caused by what we now know to be a virus. To the seventeenth-century collector, however, these patterns were mysterious, rare, and extraordinarily desirable. A rare bulb was not merely a plant. It was an object of taste, status, knowledge, and distinction.

In other words, tulips began with a real foundation.

They had aesthetic value.

They had scarcity value.

They had status value.

They had collector value.

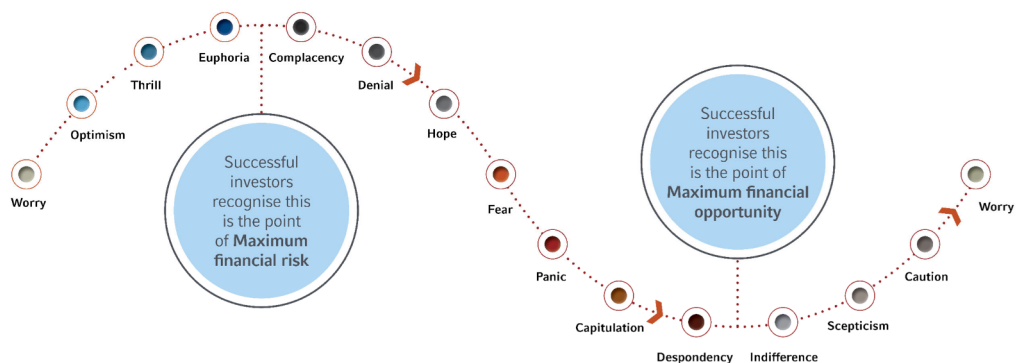
And for professional growers, they even had economic value as breeding stock. That is where every dangerous boom begins. Not with pure fantasy, but with a plausible foundation.

The first buyers are often right. They identify something scarce before others do. They understand why the object is desirable. They see the imbalance between limited supply and rising demand. And, for a while, the market rewards them.

Then price begins to do something psychologically powerful. It validates the thesis. A rising price tells the early buyer that he was not merely lucky, but perceptive. It tells the next buyer that someone else has already done the work. It tells the skeptic that perhaps he is the one missing the point. And it tells the entire community that this is no longer just a curiosity. It is an opportunity.

That is when the **emotional cycle** begins.

The **Emotional Cycle** describes how investor psychology tends to evolve during major market moves. It usually begins quietly, with curiosity and optimism. As prices rise, confidence builds. The thesis feels increasingly validated. Skeptics look wrong. Participation feels safer because others are making money. That is when emotion starts to replace analysis. Optimism becomes excitement, excitement becomes conviction, and conviction can turn into euphoria. The danger is that the same process works in reverse. Once prices stop confirming the story, confidence gives way to anxiety, denial, fear, and eventually capitulation. The cycle matters because markets are not driven by fundamentals alone. They are also driven by the emotional interpretation of fundamentals.



Source: Russell Investments

At first, there is curiosity. Then optimism. Then excitement. Then confidence. Then enthusiasm. Then euphoria. Along the way, judgment is quietly replaced by reinforcement.

Speculative booms are rarely driven by one mistake. They are usually the result of several biases reinforcing one another:

- . **Confirmation bias** makes investors search for evidence that supports the thesis and dismiss evidence that weakens it.

- . **Recency bias** makes the latest price action feel like the new normal, especially after a sharp acceleration.

- . **Social proof** makes participation feel safer because other intelligent people are already involved.

- . **FOMO** turns patience into discomfort. The investor no longer fears losing money as much as missing the move.

- . **Overconfidence** convinces participants they will recognize the top and exit before everyone else.

Together, these biases can turn a valid idea into an over-owned trade.

Confirmation bias makes every new price increase feel like proof.

Recency bias makes the recent acceleration feel permanent.

Social proof makes participation feel safer because other intelligent people are already involved.

FOMO turns caution into emotional discomfort.

And **overconfidence** convinces investors that they will be able to leave before the music stops.

This is why speculative manias are so difficult to recognize from the inside.

They do not feel like madness at first.

They feel like discovery.

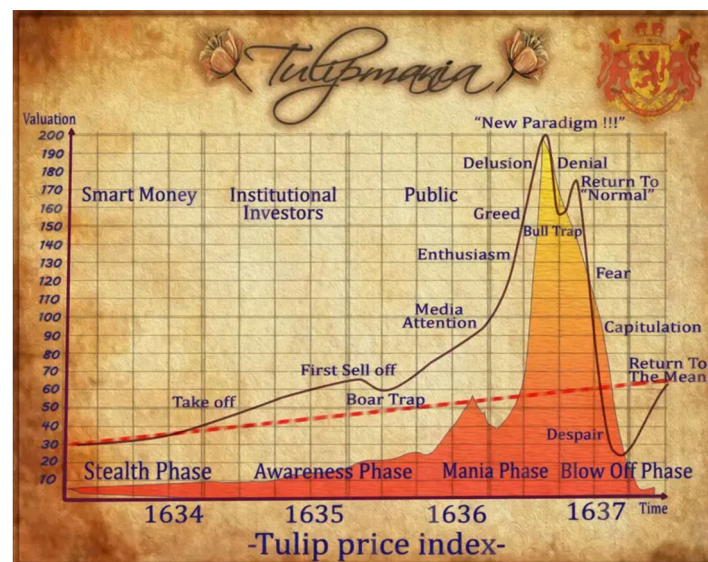
Then they feel like validation.

Then they feel like inevitability.

By late 1636 and early 1637, the tulip trade had reached that dangerous final stage.

Prices were no longer rising in a calm, linear fashion. They were accelerating.

Historical reconstructions of the period show a near-vertical move in tulip contract prices into early 1637, followed by an abrupt collapse.



Source: Tulip Price Index, Jan Brueghel

That chart is the real lesson. Not because every data point from the seventeenth century should be treated with modern precision. The historical record is incomplete, and some of the most dramatic prices came from transactions and auction records that deserve caution.

But the shape of the move is unmistakable.

Gradual.

Then fast.

Then vertical.

Then broken.

That is the anatomy of speculative acceleration.

And *acceleration* is the key word.



Bubbles do not usually require the story to become false. **They require the rate of belief to slow.** A market built on acceleration becomes vulnerable the moment the next buyer is no longer willing to extrapolate at the same speed.

The tulip did not need to become worthless for prices to collapse.
The next buyer simply had to disappear.

That is **the greater-fool problem**. In the early stages, investors buy because the asset is scarce, misunderstood, or underappreciated. In the later stages, they buy because someone else has been willing to pay more. The object may still have value, but the price increasingly depends on the existence of a future buyer with even greater confidence.

Once that chain breaks, the psychology reverses.

Euphoria becomes anxiety.
Anxiety becomes denial.
Denial becomes fear.
Fear becomes urgency.
And urgency becomes liquidation.

This is the point where the tulip story becomes useful for our own market.
Again, not because AI is a flower bulb.

The comparison is not about utility. It is about expectations.

Reuters recently framed the AI capex question clearly: Big Tech has already spent hundreds of billions of dollars over the past three years to power the AI boom, and 2026 spending is now expected to approach **\$600 billion**.

That number captures the scale of the opportunity. But it also captures the risk. Investors are no longer asking whether the AI buildout is real. They are asking whether the returns will justify the spending. That is an important shift. In every great capex cycle, the market first rewards the buildout itself. Later, it demands proof that the buildout can earn its cost of capital.

For now, expectations remain high, but not yet euphoric. The market still wants evidence. That skepticism may give the boom more room to run. But it also tells us what to watch: once expected AI capex stops accelerating, the burden of proof becomes much heavier.

That is precisely where we go next: from the psychology of bubbles to the capital cycle behind them.

Big Tech investors to gauge payoff as AI spending set to hit \$600 billion

By Aditya Soni and Deborah Mary Sophia

April 28, 2026 11:01 AM GMT+1 · Updated April 28, 2026



A Google logo is seen at a company research facility in Mountain View, California, U.S., May 13, 2025. REUTERS/Carlos Barria/File Photo
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April 28 (Reuters) - Big Tech has spent hundreds of billions of dollars over three years to power the artificial intelligence boom. But investors still want one answer: will all this pay off?

Source: Reuters, April 28 2026

AI has real economic value. More than that, it may become the most important general-purpose technology since electricity... and perhaps the most powerful economic force ever introduced into markets.

That is precisely why the analogy matters. The greatest bubbles do not form around trivial ideas. They form when a transformative truth becomes impossible to ignore, then impossible to price with discipline.

That is the real danger.



Not technological failure.
Extrapolation.

The tulip buyer did not need to discover that tulips had no beauty. He only needed to discover that the next buyer was no longer willing to pay a higher price. The same logic applies to every great boom once it becomes crowded enough.

The AI investor does not need to discover that AI has no value. He only needs to discover that the next buyer is no longer willing to pay a higher multiple for the same story, the same capex guidance, or the same earnings beat.

That is how expectations reset.

Slowly at first.
Then all at once.

Because the most dangerous moment in a boom often arrives after the thesis has been proven. Proof attracts capital. Capital creates extrapolation. Extrapolation creates fragility. And fragility reveals itself when acceleration slows.

That is the Tulip Test.

Not whether the innovation is real. Whether the expectations attached to it have become too dependent on uninterrupted acceleration... and on the permanent presence of a *greater fool*.

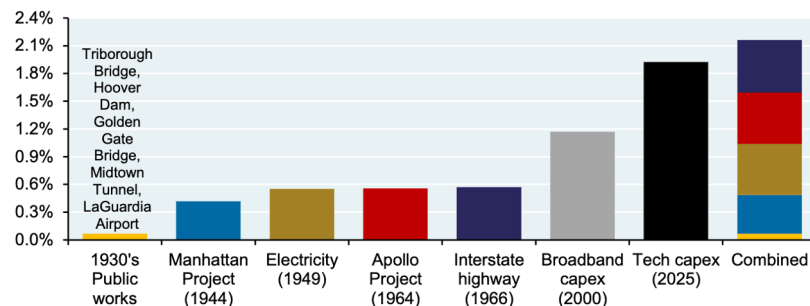
And that brings us to the better historical parallels. Tulips reveal the psychology. But railroads, broadband, and the internet reveal the capital cycle. Those were not decorative bubbles. They were infrastructure booms built around real technologies that changed the world. And they still ended in brutal market resets.

That is where we go next.

A Pattern Recognition Exercise

In this month's issue of *VMF's Strategic Asset Allocation*, we published the chart below from J.P. Morgan's research. It is one of the cleanest ways to understand the scale of what is now happening.

Tech capital spending in 2025 vs spending on major US infrastructure projects
Peak annual project percent of GDP



Source: Manhattan District History, BEA, Planetary Society, Eno Center for Transportation, San Francisco Fed, Hoover archives, Baruch, GoldenGate.org, New York Times, JPMAM, 2025

Source: J.P. Morgan, Michael Cembalest ("Eye On The Market"), January 2026

The conclusion is striking.



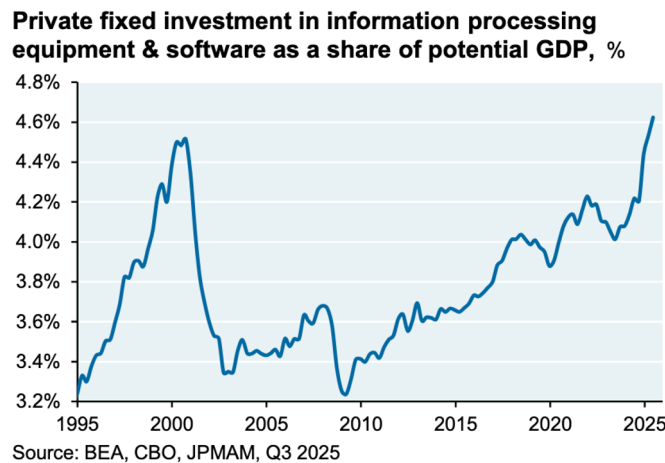
Measured as a share of GDP, today's technology capex boom already exceeds the peak annual spending of some of the most famous infrastructure and innovation projects in modern American history: the Manhattan Project, the Apollo Project, the Interstate Highway buildout, the electrification wave captured in 1949, and even the broadband capex cycle of 2000.

That last comparison is especially important.

The broadband buildout was the physical layer behind the internet revolution. It was real. It was necessary. **It helped create the digital world we now inhabit.** But it also became one of the great capital-allocation mistakes of the late 1990s and early 2000s. Too much money chased the right idea too quickly, at the wrong price, with too little discipline...

The current AI buildout is already operating at a larger annual share of the economy than that cycle.

And when we broaden the lens, the comparison becomes even more interesting.



Source: J.P. Morgan, Michael Cembalest ("Eye On The Market"), January 2026

The second chart tracks private fixed investment in information processing equipment and software as a share of potential GDP. This broader measure captures more than just the narrow data-center buildout. It reflects the deeper capital cycle behind the digital economy: hardware, software, systems, and the infrastructure required to process information at scale.

On this measure, the current cycle has now surpassed the late-1990s and early-2000s peak.

That moves the AI buildout from narrative to macro variable.

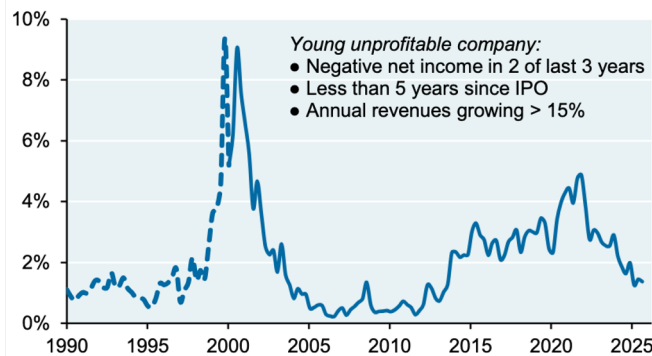
It means the AI-related capital cycle is no longer just something we can observe in stock prices. It is already visible in the structure of the economy.

But there is an important difference versus 2000.

The late-1990s boom was heavily populated by fragile companies, speculative business models, and young unprofitable technology firms trying to finance the future with cheap equity capital. Today's boom is being led by some of the most extraordinary companies ever created: **Microsoft (MSFT), Amazon (AMZN), Alphabet (GOOG), Meta (META)**, and the broader ecosystem around them.



Market cap of young unprofitable technology companies % of total technology market cap



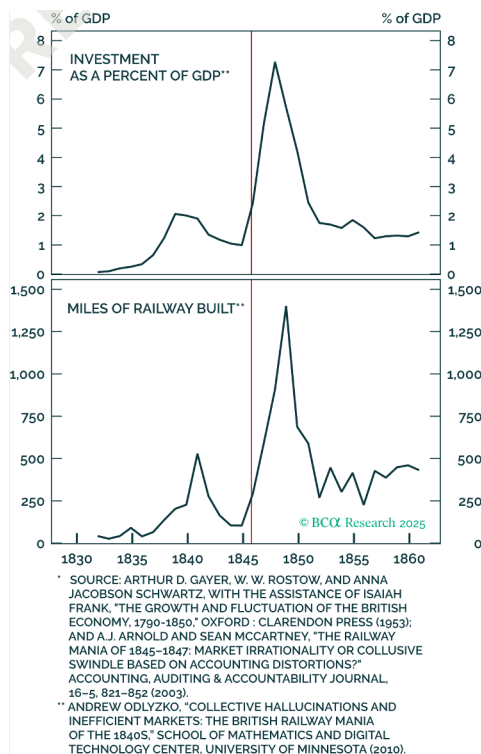
Source: Factset, JPMAM, Q3 2025

Source: J.P. Morgan, Michael Cembalest ("Eye On The Market"), January 2026

These are not garage-stage dreamers with no earnings. They are cash-generating machines with dominant market positions, enormous balance sheets, and strategic reasons to keep spending even when near-term returns are difficult to measure.

In our view, **that makes this boom more durable.**
It also makes it more dangerous to dismiss too early.

In fact, if we go further back in history, the railway manias remind us that truly transformative infrastructure booms can command an even larger share of the economy. In the British railway cycle, **investment rose to more than 7% of GDP at its peak.** That is a much bigger number than today's AI capex share.



Source: BCA Research

The railway comparison does not give us a simple bearish answer. It points instead to a useful tension.



On one hand, it suggests the AI capex boom may still have further to run. If AI is even remotely as transformative as we believe (and potentially more consequential than railroads, electricity, or the internet) then it is not absurd to imagine this buildout absorbing an even larger share of economic output before the cycle matures.

On the other hand, the railway boom also gives us the key pattern we need to monitor.

Stock prices led the physical buildout.



Source: BCA Research

As the chart shows, railway stocks rose before construction peaked. They also rolled over before the actual construction cycle did. The market did not wait for the final mile of track to be laid. It repriced the future first.

That is the crucial lesson.

In capital-spending booms, equities do not trade on realized capex alone. They trade on the **expected path of future capex**, future revenues, future margins, and future returns on capital.

Which brings us back to AI.

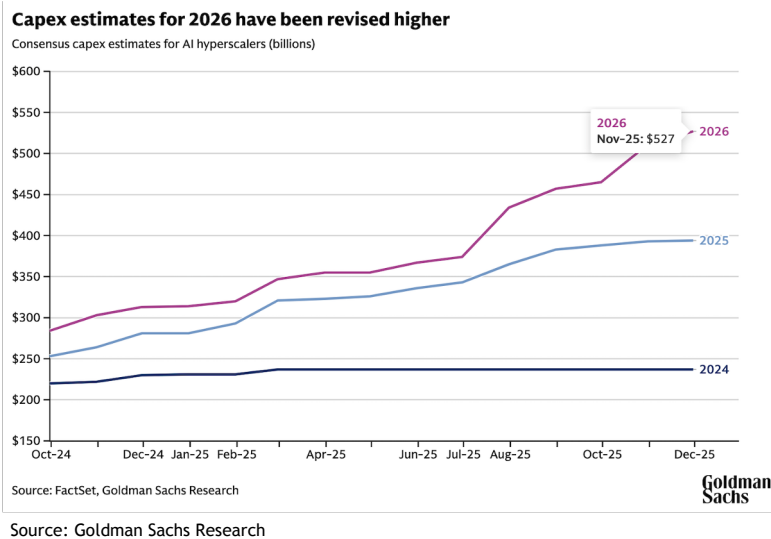
Our hypothesis is not that the AI capex boom must end tomorrow. It is not even that actual AI spending needs to decline for the market to suffer. The more important variable is the **rate of acceleration in expected capex**.

As long as expectations keep rising, the obvious winners can keep rising with them. If expectations stop improving, the burden of proof changes. And if expectations begin to fall, the market may no longer be willing to pay a higher multiple for the same story, the same earnings beat, or the same capex guidance.

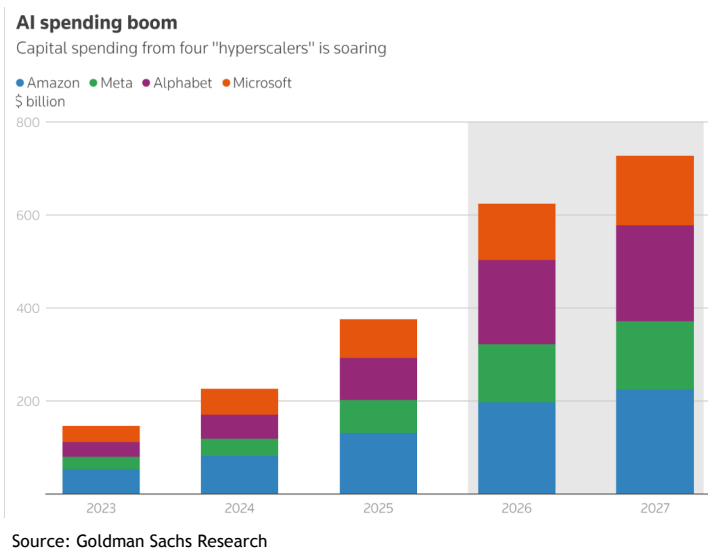


That is why the next charts are so important.

Goldman's late-2025 chart shows that consensus AI hyperscaler capex estimates for 2026 were still being revised meaningfully higher, reaching roughly **\$527 billion by November**.



More recent estimates from late April 2026 point in the same direction. The company universes are not perfectly identical across estimates, but the message is consistent: **expected AI-related capex is still moving higher**.



The expected spending curve is still bending upward.

So... for now, the capex clock still belongs to the bulls.

The next pattern is more nuanced.

The AI rally is narrow... but not in a random way.

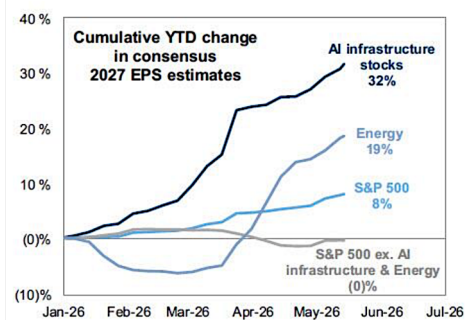
It is narrow because the earnings upgrades are narrow.



As the Goldman Sachs chart below shows, AI infrastructure stocks have driven the largest upward revisions to 2027 S&P 500 earnings estimates. Since the start of the year, consensus EPS estimates for AI infrastructure stocks have risen by roughly 32%. Energy has also seen strong upward revisions, helped by the broader geopolitical and commodity backdrop.

The S&P 500 as a whole has seen estimates rise by around 8%. But the most important line is the grey one. Excluding AI infrastructure and Energy, S&P 500 earnings estimates have gone nowhere.

Exhibit 13: AI infrastructure stocks and Energy have driven majority of upward revisions to S&P 500 EPS estimates



Source: FactSet, Goldman Sachs Global Investment Research

Source: Goldman Sachs Investment Research

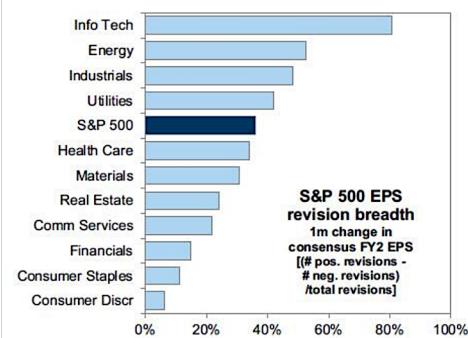
That tells us something important about the anatomy of this rally. The market is not yet paying for a broad, economy-wide AI productivity boom.

It is paying for the companies that are making money from the buildout **today**: chips, memory, hardware, capital goods, power, grid infrastructure, data-center suppliers. That is where the earnings revisions are visible. And markets always have a bias toward what they can see.

The second Goldman chart adds an important caveat. EPS revision breadth has been positive across every S&P 500 sector, so this is not a market where everything outside AI is deteriorating.

But the magnitude of the upgrade is still highly concentrated. The average sector may be seeing some improvement... the AI infrastructure complex is seeing the real acceleration.

Exhibit 14: Positive EPS revisions have outnumbered negative revisions in every S&P 500 sector



Source: FactSet, Goldman Sachs Global Investment Research

Source: Goldman Sachs Investment Research



This is where the concentration evidence becomes important.

The same narrowness visible in earnings revisions is also visible in market performance. Goldman's work shows that the S&P 500's gains have been overwhelmingly driven by the AI-linked complex. TMT, plus Amazon and Tesla, accounted for most of the index's year-to-date return, while the S&P 500 excluding TMT was up only modestly. Nvidia alone contributed a disproportionate share of the advance. Since late February, the divergence became even clearer: semiconductors surged, the *Mag 7* rose, the cap-weighted S&P 500 advanced, but the equal-weighted S&P 500 declined.

Exhibit 1: Sector contribution to the S&P 500 YTD return
TMT includes Information Technology, Communication Services, AMZN, and TSLA

Sector	Weight	YTD return	Contribution to S&P 500 YTD return	
			bp	%
Information Technology	38 %	19 %	659 bp	66 %
Comm Services	11	13	132	13
Industrials	8	13	105	10
Energy	3	30	85	8
Consumer Staples	5	12	59	6
Consumer Discretionary	10	2	26	3
Materials	2	14	25	2
Real Estate	2	14	23	2
Utilities	2	6	13	1
Health Care	8	(5)	(47)	(5)
Financials	11	(6)	(79)	(8)
S&P 500	100 %	10 %	1004 bp	100 %
TMT	54	17	849	85
S&P 500 ex. TMT	46	3	153	15

Source: FactSet, Goldman Sachs Global Investment Research

Source: Goldman Sachs Investment Research

Exhibit 2: Top constituent contributors to the S&P 500 YTD return

Company	Ticker	S&P 500 weight	YTD return	Contrib. to SPX return	
				bp	%
NVIDIA Corporation	NVDA	9 %	26 %	205 bp	20 %
Alphabet Inc. Class A	GOOGL	7	28	158	16
Micron Technology, Inc.	MU	1	172	94	9
Broadcom Inc.	AVGO	3	27	76	8
Apple Inc.	AAPL	7	10	68	7
Advanced Micro Devices, Inc.	AMD	1	110	66	7
Intel Corporation	INTC	1	214	61	6
Amazon.com, Inc.	AMZN	4	16	61	6
Caterpillar Inc.	CAT	1	61	28	3
Lam Research Corporation	LRCX	1	75	28	3
S&P 500		100 %	10 %	1004 bp	100 %
Top 10 contributors		34	29	845	84
S&P 500 ex. top 10		66	2	159	16

Source: FactSet, Goldman Sachs Global Investment Research

So, the pattern is clear.

The earnings revisions are concentrated.

The index returns are concentrated.

And the leadership is concentrated around the companies most directly exposed to AI infrastructure spending.

That is not automatically bearish. In fact, it partly explains why the rally has been so powerful. The market is rewarding the companies where the earnings bridge is already visible.

But it also tells us what kind of AI rally this is.

This is not yet a broad, full-spectrum AI mania where investors reward every company with a plausible AI story. During the internet bubble, thematic participation became much wider. The market rewarded telecom companies, software firms, portals, e-commerce platforms, incubators, concept stocks, and even companies whose main asset was the ability to attach themselves to the “*new economy*” narrative.

Today's AI rally is different.

The market is mostly rewarding the companies with a visible earnings bridge to AI capex. It has not yet fully rewarded the broader application layer... the companies that may use AI to improve software development, customer acquisition, commerce, advertising, pricing, logistics, financial rails, research productivity, operating leverage, and decision-making.

That is why we must separate two questions.



First: *who is benefiting from AI today?*
Second: *who may benefit from AI tomorrow?*

Today, the answer to the first question is clear: the benefits are concentrated in the capex chain.
The answer to the second question is still open.

And that is precisely why the broader AI cycle may still have further to run.

The market has not yet paid for every AI use case. It has not yet paid for every software winner. It has not yet paid for every marketplace, financial platform, commerce platform, or productivity beneficiary that may ultimately embed AI into its operating model.

But inside the first AI trade (the visible capex-beneficiary trade) the picture is different. There, the market has already found its winners...

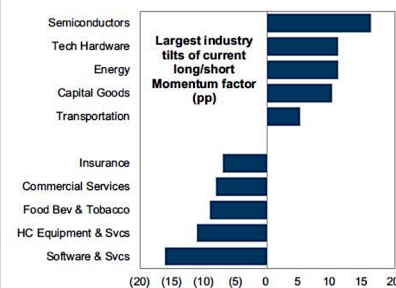
Momentum is a systematic equity factor that captures the tendency of recent winners to keep outperforming recent losers over intermediate horizons. In practice, stocks are ranked by prior returns (often excluding the most recent month to avoid short-term reversal effects) and portfolios are formed by going long the strongest performers and short the weakest performers.

A rising Momentum Factor means that leadership is being rewarded and laggards are being punished. It often performs well when market trends are persistent and earnings revisions reinforce price trends.

But Momentum is also prone to sharp reversals. When leadership becomes crowded, a change in the macro backdrop, earnings expectations, or investor positioning can trigger a rapid unwind as prior winners fall and prior losers rebound.

Goldman's momentum work reinforces the point. The current **Momentum Factor** rally is tightly linked to AI, especially memory and semiconductors. Its **long leg** is tilted toward semiconductors, tech hardware, and capital goods tied to the AI infrastructure buildout, while its **short leg** includes software and commercial services companies caught in the market's fear of AI disruption.

Exhibit 7: Momentum is currently tilted towards Semis, Memory, and Energy
GSMEFMOM



Source: Goldman Sachs Global Investment Research

Exhibit 8: Momentum and AI have recently been very correlated
Momentum (GSMEFMOM) and AI vs. AI risk (GSTMTAIP vs. GSTMTAIR)



GSTMTAIP and GSTMTAIR developed by GBM.

Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Source: Goldman Sachs Investment Research

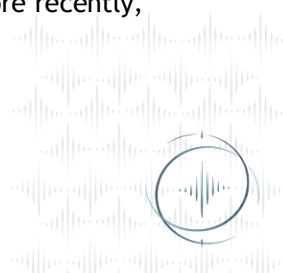
That is the whole market psychology in one chart.

The market is paying for AI capex today.
It is still discounting much of what AI may enable tomorrow.

That is why we closed our entire position in EWY in VMF's *Strategic Asset Allocation*. EWY, the South Korean equities ETF, is heavily influenced by Samsung and SK Hynix. We bought it because the market was underpricing the memory bottleneck inside the AI infrastructure buildout. That bottleneck is no longer hidden.

In less than a year and a half, the position delivered more than 230% in total returns. EWY did not fail our thesis. It fulfilled it.

The same logic explains why we have been adding exposure across the AI application layer throughout VMF Research: IGV, KWEB, Coinbase, Scottish Mortgage Investment Trust, Universal Music Group, Amrize and, more recently, PDD in VMF's *Security Selection*.



This is not a retreat from AI.
It is a rotation inside AI.

The first trade was about the buildout.
The next trade may be about monetization.

Therefore, the conclusion is not that the AI boom is over. The conclusion is more precise: the first AI trade has become crowded, while the second AI trade is still being formed.

That is why our response is rotation, not retreat.

We are not selling the future.
We are selling the part of the future the market has already discovered.

This brings us to the final pattern-recognition test: **timing**.

The capex data says expectations are still rising.
The earnings data says the visible AI infrastructure winners are still receiving the strongest upgrades.
The concentration data says the rally is narrow, but not yet a full-spectrum AI mania.

That leaves price and time.

We begin with the long-term chart we first published in the September 2025 issue of *Alpha Tier*.



Source: *Alpha Tier*, "Pulling a Loomis," September 2025, VMF Research

This chart has been central to our roadmap because it captures one of the most important features of market history: secular bear markets are rarely single events. They are long structural ranges.

The crash is only the beginning.
The repair takes years.

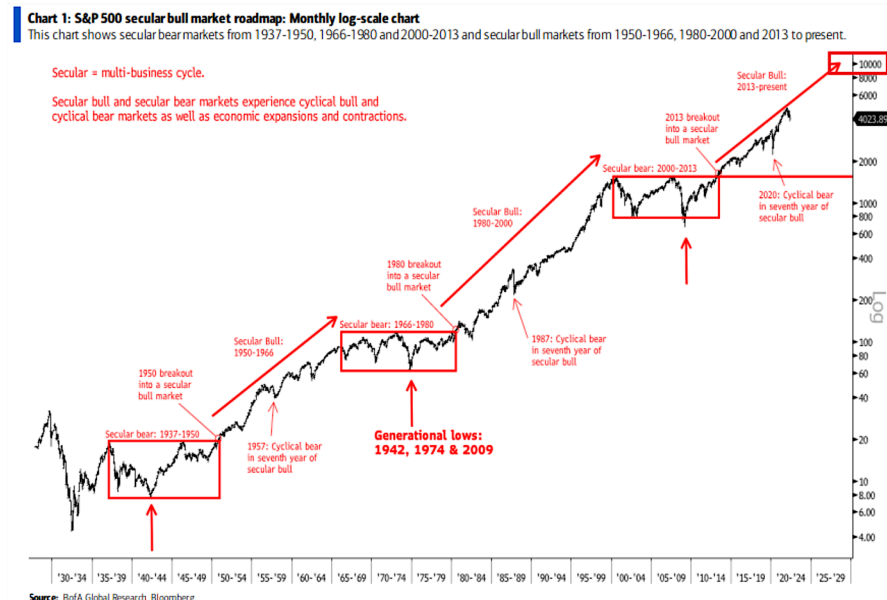
The new secular bull does not truly declare itself at the low. It declares itself when the market finally breaks out of the range that contained the prior bear market.



That distinction is crucial.

The 1942 low was generational, but the 1950 breakout confirmed the new secular bull. The 1974 low was generational, but the early-1980s breakout confirmed the next regime. The 2009 low was generational, but the 2013 breakout above the long 2000-2013 range confirmed the current secular bull.

This is why Bank of America's long-term roadmap is so interesting.



Source: BofA Global Research

BofA reaches a very similar conclusion. Its chart also treats 2013, not 2009, as the beginning of the current secular bull market. That is unconventional, but technically sound. Secular bulls do not begin when prices stop falling. **They begin when prices escape the old structure.**

In our view, that is the right way to think about this market.

It also fits the broader **Fourth Turning** framework we have been developing since *Alpha Tier's* early issues. Generational lows tend to emerge during periods of institutional stress, political disorder, policy experimentation, and social fracture. But markets do not immediately leave those regimes behind. They first repair. Then they break out. Only later does the new secular bull become obvious.

That is exactly what happened after 2009.

From this perspective, **the current bull market may still have further to run.** If we date the cycle from the 2013 breakout, the AI capex boom could still represent the final, powerful phase of a secular advance rather than its immediate end. That would also fit our Fourth Turning roadmap: a period of crisis, fiscal dominance, technological acceleration, geopolitical tension, and speculative capital pushing toward a dramatic climax before the next regime begins.

The long-term chart, then, does not force a bearish conclusion.

It leaves room for a melt-up.

But it also tells us the bull market is no longer young.



BofA's chart adds one more pattern worth noting: prior secular bulls suffered major **cyclical bear markets around their seventh year**. The 1957 decline appeared in the seventh year after the 1950 breakout. The 1987 crash came in the seventh year after the 1980 breakout. And if we use 2013 as the starting point for the current secular bull, the Covid crash arrived in the seventh year as well.

We should not turn this into a law. The sample is tiny. Three observations do not make a trading system.

But as pattern recognition, it matters.

The point is not that every seventh year must produce a crash. The point is that secular bulls can absorb violent cyclical declines without ending. That is why the 2020 crash did not invalidate the secular bull. It may have confirmed its structure.

So, the long-term message is balanced: **the secular bull may still have further to run, but the cost of complacency is rising.**

The shorter-term pattern is less forgiving.

We are now in a **midterm election year**. And as the table below shows, the April-to-October window in midterm years has historically been one of the more difficult stretches for U.S. equities.

The **Presidential Cycle** divides market history into the four years of a U.S. presidential term: post-election year, **midterm year**, pre-election year, and election year. The logic is simple: political incentives change through the cycle. Early in a term, administrations have more room to absorb pain; closer to the next election, policy often becomes more market-friendly.

That is why midterm years deserve attention. The weakness shown in the main table becomes more meaningful when compared with what these same seasonal windows normally deliver across all years:

- . **April-to-October**: average return of **+2.88%**, with **64.29%** positive observations.
- . **May-to-October**: average return of **+2.22%**, with **67.35%** positive observations.
- . **June-to-October**: average return of **+1.79%**, with **62.24%** positive observations.
- . **July-to-October**: average return of **+0.37%**, with **52.04%** positive observations.

S&P 500 Midterm-Year Seasonal Return Analysis										
Using the uploaded monthly SP500 dataset, midterm years 1930–2022 (2026 excluded because October data is not available).										
Window	Start Month	End Month	Observations	Average Return	% Positive	% Negative	Best Year	Best Return	Worst Year	Worst Return
Apr-Oct	April	October	24	-1.94%	45.83%	54.17%	1938	32.05%	1930	-29.62%
May-Oct	May	October	24	-0.69%	54.17%	45.83%	1938	30.86%	1930	-25.15%
Jun-Oct	June	October	24	0.06%	54.17%	45.83%	1938	27.91%	1974	-22.66%
Jul-Oct	July	October	24	0.03%	45.83%	54.17%	1982	21.30%	1946	-18.28%

Source: VMF Research

Using the long-term monthly S&P dataset, midterm years from 1930 to 2022 show an average April-to-October return of **-1.94%**, with only **45.83%** of observations positive. The shorter windows are less dramatic: May-to-October is only modestly negative on average, while June-to-October and July-to-October are close to flat.

This is not a mechanical sell signal.
But the left tail matters.

Year	Cycle	Apr→Oct Return	May→Oct Return	Jun→Oct Return	Jul→Oct Return
1930	Midterm (1930)	-29.62%	-25.15%	-16.73%	-14.91%
1934	Midterm (1934)	-18.04%	-8.77%	-9.96%	-5.49%
1938	Midterm (1938)	32.05%	30.86%	27.91%	6.70%
1942	Midterm (1942)	18.88%	17.53%	11.88%	7.87%
1946	Midterm (1946)	-20.95%	-21.12%	-20.61%	-18.28%
1950	Midterm (1950)	11.38%	7.75%	6.03%	14.33%
1954	Midterm (1954)	16.47%	12.01%	11.12%	6.80%
1958	Midterm (1958)	20.34%	16.59%	13.85%	10.81%
1962	Midterm (1962)	-17.46%	-10.83%	0.97%	-1.40%
1966	Midterm (1966)	-15.80%	-11.12%	-10.38%	-10.15%
1970	Midterm (1970)	-1.84%	10.93%	11.62%	11.42%
1974	Midterm (1974)	-24.90%	-22.56%	-22.66%	-12.44%
1978	Midterm (1978)	8.51%	3.27%	3.01%	3.51%
1982	Midterm (1982)	14.10%	14.00%	20.97%	21.30%
1986	Midterm (1986)	-0.25%	-0.46%	-3.22%	-1.17%
1990	Midterm (1990)	-9.18%	-12.31%	-14.78%	-14.70%
1994	Midterm (1994)	3.71%	2.86%	1.97%	2.75%
1998	Midterm (1998)	-7.17%	-6.85%	-6.85%	-10.73%
2002	Midterm (2002)	-23.14%	-20.81%	-15.72%	-5.42%
2006	Midterm (2006)	4.70%	5.69%	8.79%	8.18%
2010	Midterm (2010)	-2.15%	4.13%	8.14%	8.50%
2014	Midterm (2014)	3.92%	2.51%	-0.50%	-1.82%
2018	Midterm (2018)	4.97%	3.11%	1.13%	-0.29%
2022	Midterm (2022)	-15.15%	-7.78%	-4.43%	-4.75%

Source: VMF Research



The worst outcomes are not random...

Many of the deepest losses occurred inside, or near, the same secular repair regimes we identified in the long-term chart: 1930 and 1934 during the post-1929 structural bear market; 1946 during the long post-war transition; 1966 and 1974 around the inflationary secular bear; and 2002 during the post-dot-com secular bear. More recently, 2022 also fits the profile of a politically charged, inflationary, liquidity-sensitive regime.

That is where this seasonal work becomes more useful.

Midterm weakness is not equally important in every environment. It matters more when it overlaps with regime stress: inflation pressure, political volatility, populist policy impulses, narrowing leadership, and investor crowding.

That is why the 1970s remain an important analogue. They were not just weak midterm years. They were weak midterm years inside a populist, inflationary, institutionally strained period. As we have argued in prior issues, today's environment increasingly shares some of those features: fiscal dominance, industrial policy, tariffs, geopolitical fragmentation, redistribution pressure, and a political system increasingly willing to use economic policy as an electoral weapon.

That does not mean 2026 must behave like 1974.
But it does mean the current window deserves respect.

Put the pieces together...

The long-term chart still allows for a final secular-bull advance. The AI capex cycle is still accelerating. The application layer has not yet fully participated. And if the AI boom broadens, the upside could remain powerful.

But the short-term setup is less benign. We are entering the weakest seasonal stretch of a midterm year while the market is increasingly dependent on AI capex expectations, narrow leadership, crowded Momentum, and parabolic winners.

That is why this issue began with a pause.

Not because the future has stopped being exciting.
Because it has become too easy to believe.

And when a mature secular bull, a transformative technology, a narrow market, and a fragile seasonal window begin to overlap, the right response is not panic.

It is judgment.

That brings us to the Model Portfolio.

Model Portfolio: Tech & Healthcare

The portfolio is designed to provide long-term growth and income, with a focus on the technology and healthcare sectors. It is a long-term investment and should not be used for short-term trading.

The portfolio is managed by...

The portfolio is managed by... and is a long-term investment.





VMF research

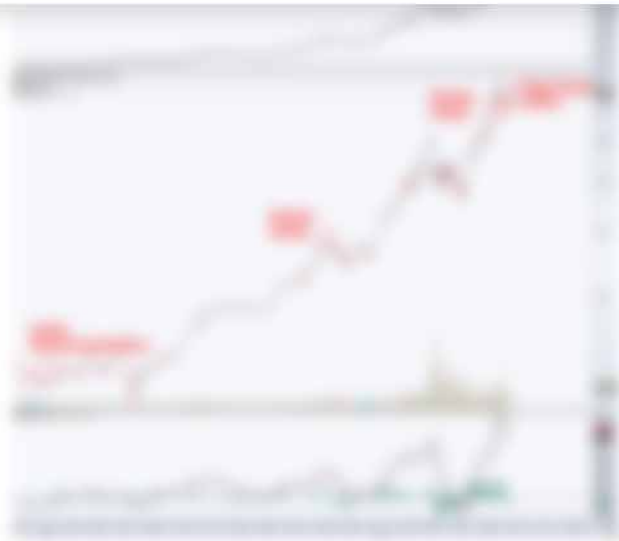
The script is free. The execution isn't.

What you see blurred below is the active, absolute-return Model Portfolio for Alpha Tier. It translates the long-form storytelling into position progress, asset weights, and concrete risk management.

Talk is cheap, but allocations aren't.

The strategy sample is open to everyone. The actual capital allocation belongs to our subscribers.

[ACCESS THE LIVE PORTFOLIO](#)



This is the difference between knowledge and judgment.

And it is why we are making the following changes to the Model Portfolio:

Asset	Current	Target	Change	Reason
US	50%	45%	-5%	Reduce exposure to US market
International	50%	55%	+5%	Increase exposure to international markets
Fixed Income	10%	10%	0%	Keep fixed income exposure
Alternatives	10%	10%	0%	Keep alternatives exposure

These changes:

• This is not a rejection of our risk asset thesis.

• It is a risk budget decision.

US, Int, and FI have all served a clear role in the Model Portfolio. They give us exposure to the different asset classes, and we can use all of our Model View. We will continue to use these factors. These allocations, however, are not a rejection of our long-term thesis. They are a risk budget decision, and the return is what we will see.



VMF research

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So, we are making it.

Our strategy is not just a story. It's a concrete risk management. Because the opportunity has changed.







and to make the "game" in the real world.

In doing this, we're suggesting a new way to think about investing. It's not just about the numbers, but about the story.



VMF research

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That is the actionable version of the Tully Test.

The question is not whether the future is real...

It is whether you're at a place where you can see the future. It's not about the future, but about the present. The future is what you see when you look at the present. The future is what you see when you look at the present.

In an age of abundant knowledge, judgment means seeing within the noise. It's not about the future, but about the present. The future is what you see when you look at the present.

That is what we are doing now.

Good morning,
Mark Morgan at Morgan, 10% off





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