July 2026

"When there is a frenzy of activity in one area of the market, there is very often an anti-bubble of discarded companies. In the dot-com era, these were companies with steady cash flow."
– Nick Sleep, co-founder of the Nomad Investment Partnership

INVESTMENT PERSPECTIVES

The Machinery of Speculation, Two Markets in One, and the Difference Between Owning and Betting

The stock market is a living exchange. Built more than a century ago as a way for companies to list ownership in themselves with the public, it has grown and morphed with each new technology. One thing has held true throughout: whether the participants are humans or computers, trading is driven by the same two emotions that drive most decision making, fear and greed. Markets are always looking forward, because the value of any stock is its future earnings potential. But the future is uncertain, and that uncertainty is where both opportunity and danger live. This quarter, we think the market has split into two markets, one crowded and demanding, one largely ignored, and the distinction matters for how we invest.

Against this backdrop, this quarter's *Investment Perspectives* explores three themes. First, the machinery amplifying the enthusiasm: circular financing among AI companies, a new generation of investors trading on smartphones, the growth of leveraged products, and momentum-driven algorithms that buy simply because prices are rising. Second, how concentrated the market has quietly become, what that means for anyone who owns an index fund, and why the neglected majority of the market interests us more than the crowded top. And third, the oldest distinction in our discipline, the difference between speculating and investing, and what we are doing in portfolios as a result. Though distinct in subject, these themes share a common thread: frenzies concentrate attention in one corner of the market, and as Nick Sleep observed, that is precisely when durable businesses elsewhere get discarded at attractive prices. Our job is to be ready for that.

The New Machinery of Speculation

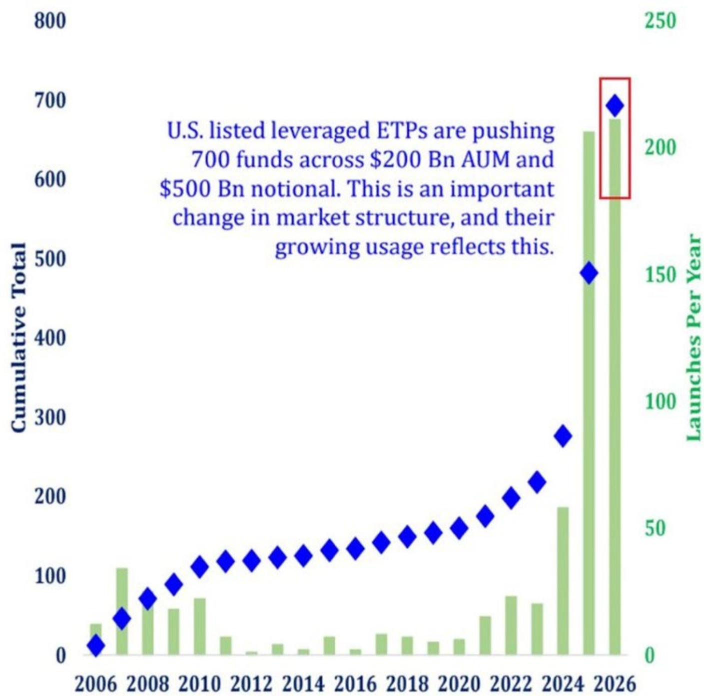
Every market cycle runs on the same emotions, but the machinery transmitting them changes, and this cycle's machinery is unusually powerful in both directions.

The first, and the one that most rhymes with 1999, is circular financing. The companies driving the AI boom are increasingly funding each other. Chipmakers take equity stakes in the AI labs that buy their chips. Cloud providers commit to multiyear compute deals that help finance the very customers placing the orders. Money is moving in a circle, and circular money makes growth look more durable and more independent than it is. In the late 1990s, telecom equipment makers lent billions to the upstart carriers buying their gear. The revenue looked real until the financing stopped, and then it vanished all at once. We are not asserting the AI economy is hollow; unlike the dot-com cohort, today's leaders generate enormous real cash flow. But we are watching how much of the reported growth depends on capital that the beneficiaries themselves supplied.

The scale of value creation adds to the sense that old rules no longer apply. In prior eras, growing a business took time: factories built, employees hired, inputs purchased. Software, and now large language models, can scale to new customers at extraordinary speed once built. Leading AI companies have reached valuations in a fraction of the time it took any prior generation of businesses. That speed is real, but it also feeds an environment where colossal projections become hard to argue against, because the recent evidence keeps validating the optimists.

The market's participants have changed as well. A new generation of investors has entered, most trading on smartphones, many sourcing their views from TikTok, X, and Reddit boards rather than from filings or financial statements. Alongside them, leveraged exchanged-traded products (ETPs) have proliferated. We are longtime admirers of the ETF structure for what it does well: low-cost access to broad indexes and factor exposures. But the fastest growth has come in products that borrow to amplify daily moves, including funds leveraged to single stocks. These instruments are marketed as investments and function as wagers.

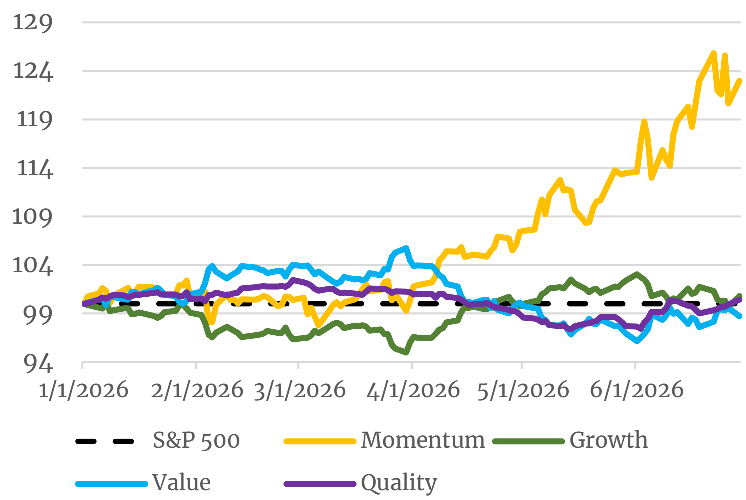
# of Leveraged ETP Products
U.S. Listed



Source: Strategas Asset Management

Then there are the machines. A large share of daily volume now comes from algorithmic strategies that do not analyze the businesses they trade beyond a few financial metrics. What they watch is momentum: if a price is rising, the algorithm buys more. Momentum strategies have always produced boom and bust cycles, and right now they are feeding one of the strongest booms since 1999. The critical point is that leverage and momentum work identically in reverse. Forced selling, margin calls, and algorithms that sell into weakness can turn an orderly decline into a cascade. The same machinery lifting prices today will accelerate them downward when the direction changes.

Factor Performance Relative to S&P 500
Index (12/31/25 = 100)



Source: FactSet

Finally, a genuinely new feature: the federal government has begun taking direct equity stakes in companies it views as strategically important and has signaled more to come. Whatever one thinks of the policy, it adds a political dimension to individual stock prices that American investors have rarely had to underwrite.

A Tale of Two Markets: The Index and Everything Else

The clearest evidence of that machinery at work is a single number: the ten largest companies now make up roughly 40 percent of the entire S&P 500. That is a record in the index's history, and much of the weight sits in a handful of companies tied to a single theme, artificial intelligence. Twenty years ago the top ten accounted for a small fraction of that. The index has not merely gotten more expensive at the top; it has changed what it is.

S&P 500 Index Concentration

Source: J.P. Morgan

This matters because it changes what index ownership actually means. An investor who buys "the market" today believes they own five hundred businesses spread across the American economy. In terms of dollars at work, they largely own ten, and those ten rise and fall together on the same story. The diversification that made index investing sensible has quietly eroded from within. None of this is a criticism of the companies themselves, which include some of the most profitable enterprises ever built. It is an observation about what happens to a portfolio when its fate becomes tied to a single technological narrative playing out on an uncertain timeline.

The more interesting consequence is what concentration does to everything else. When attention and capital crowd into one corner of the market, the other corners get neglected, and neglect is where opportunity lives. This is exactly the pattern Nick Sleep described in our opening quote. In 1999, while the market chased anything with a dot-com in its name, businesses with steady cash flows were discarded so thoroughly that the following decade belonged to them. Today, beneath the crowded surface of the index, sits a broad universe of profitable, durable businesses going about their work with far less fanfare and far less demanded of their share prices. The frenzy and the anti-bubble are two halves of the same phenomenon. You cannot have one without the other.

Of course, the market does not divide that neatly. The dividing line is not simply the ten largest companies versus everyone else. Pockets of stretched pricing run throughout the market: AI-adjacent names several layers removed from any actual earnings, speculative companies priced on distant projections, and even some high-quality businesses whose quality is no longer a secret. An anti-bubble is not a clearance sale where everything is mispriced in your favor. It is an environment where inattention creates selective opportunity, and capturing it requires discrimination on two dimensions at once. The first is quality: businesses with high returns on invested capital, durable competitive advantages, and balance sheets that let them play offense in a downturn rather than defense. The second is price: our estimate of what a business is worth is the anchor for what we will pay, and no amount of quality justifies an unlimited price. Quality without price discipline is how investors overpaid for excellent companies in past manias and waited a decade to break even. Price without quality is how investors bought cheap businesses that deserved to be cheap. We insist on both.

The practical implication is reassuring rather than alarming. Your portfolio is not the index. We own individual businesses selected through exactly this double filter, and what we pay for them has far more in common with the overlooked many than with the crowded few. The same concentration that has narrowed the index is what creates the opportunity set we spend our days working through. We would rather own the anti-bubble than rent the bubble.

Speculating and Investing Are Different Jobs
It can seem, in stretches like this one, as if speculating has replaced investing altogether. The distinction is worth stating plainly, because it drives everything we do. A speculator's return depends on someone else paying a higher price later. An investor's return comes from the business itself: its earnings, its cash flows, its dividends over time. The speculator needs to understand the crowd. The investor needs to understand the company. And the required effort follows from the holding period: if you only intend to own something for weeks, understanding it deeply is wasted work. At HCM, we hold businesses for five years or more on average, which is why we spend our time digging into what we own rather than guessing what others will pay for it.

This distinction also answers the question clients reasonably ask: what are you doing about all of the above? Three things. First, we are reviewing every portfolio position and stress-testing the same question against each: what happens to this business if the good times do not last? A company that needs buoyant markets, cheap capital, or uninterrupted AI enthusiasm to justify its price does not belong in a portfolio built for a full economic cycle. Second, we are maintaining the valuation discipline that has, candidly, been a headwind in the first half of this year. Quality at a reasonable price underperforms in a momentum-driven market, almost by definition. We accept that cost knowingly, because the alternative is paying prices that require perfection. Third, we are preparing to be buyers. The strongest companies benefit disproportionately from downturns: they can take market share, invest while competitors retrench, and acquire weaker rivals at bargain prices. We want to be positioned, in confidence and in fact, to add to what we own at far more attractive prices if the cycle turns. Sleep's anti-bubble observation is the operative idea: while attention crowds into ten stocks, durable cash-generative businesses elsewhere are being quietly discarded, and that is where our list is growing.

In Conclusion

A market structure built to amplify momentum, record concentration, and the enthusiasm surrounding a single technology share a common feature: none of them tells you when anything will change, and all of them tell you what to be prepared for. We do not know whether the current enthusiasm resolves through a correction, a long sideways grind, or earnings eventually growing into today's prices. We do not need to know. What we need is to own businesses whose value does not depend on the answer, at prices that do not require perfection, with the liquidity and conviction to act when others are forced to sell.

We remain constructive on the long-term prospects for patient, disciplined investors. Manias have come and gone before, and each one has ultimately rewarded those who understood what they owned and why they owned it. The qualities that have always mattered most, strong businesses at reasonable valuations and the temperament to hold them through both euphoria and fear, are more relevant today than at any point in recent memory.

Our commitment to you is unchanged: we will continue to focus on businesses that can compound value across a range of economic scenarios, maintain the discipline to buy quality at reasonable prices, and hold through the inevitable periods of volatility that test every investor's resolve. These principles have served our clients well through prior cycles, and we believe they will continue to do so.

Thank you for your continued trust and partnership. As always, we welcome your questions about current market dynamics, portfolio positioning, or your specific financial objectives.

DISCLOSURES:

As of June 30, 2026, the following were the ten largest holdings of HCM:

Name of Issuer	% of Equity Portfolio	06/30/2026 Closing Price
Apple Inc	6.91%	$294.38
Berkshire Hathaway Inc Class B	6.59%	$499.74
Alphabet Inc Class A	5.92%	$361.21
Microsoft Corp	5.00%	$384.28
Progressive Corp	4.19%	$225.30
Exxon Mobil Corporation	3.52%	$136.28
Dimensional US High Profitability ETF	3.45%	$41.54
Amazon.com Inc	3.29%	$241.70
Jacobs Solutions Inc	3.25%	$124.63
Waters Corp	3.23%	$378.13

HCM's investment decision making process involves a number of different factors, not just those discussed in this document. The views expressed in this material are subject to ongoing evaluation and could change at any time.

Past performance is not indicative of future results, which may vary. The value of investments and the income derived from investments can go down as well as up. It shall not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities mentioned here. While HCM seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

Although HCM follows the same investment strategy for each advisory client with similar investment objectives and financial condition, differences in client holdings are dictated by variations in clients' investment guidelines and risk tolerances. HCM may continue to hold a certain security in one client account while selling it for another client account when client guidelines or risk tolerances mandate a sale for a particular client. In some cases, consistent with client objectives and risk, HCM may purchase a security for one client while selling it for another. Consistent with specific client objectives and risk tolerance, clients' trades may be executed at different times and at different prices. Each of these factors influence the overall performance of the investment strategies followed by the Firm.

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