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Thinking Out Loud

The Yo-Yo of FOMO and HALO

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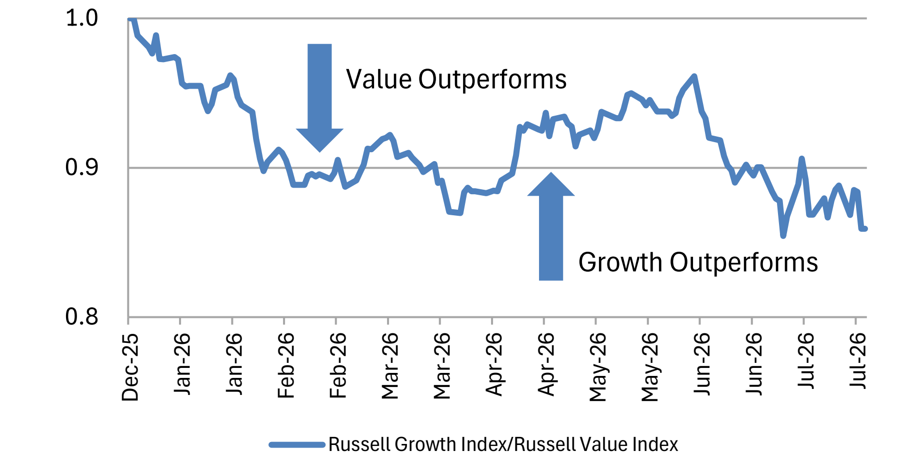
Christopher Pike, CFA®
chris.pike@northeastprivate.com
973-422-9140

Christopher Viola, RICP®, AIF®
chris_viola@northeastprivate.com

Mitchell Lanzl
mitchell.lanzl@northeastprivate.com

Markets have been swinging between two competing forces. One is FOMO — the fear of missing out — which keeps pulling money toward richly valued AI, hyperscalers and semiconductor/memory stocks. The other is HALO — heavy assets, low obsolescence — durable, asset-intensive businesses like utilities, energy, and industrials that are hard to disrupt with new technology. The tug-of-war between the two has been the main source of volatility throughout 2026, and this week it played out for all in full view.

Exhibit 1: Growth Versus Value – Indexed Performance



Source: NEPCG and FactSet

But the recent volatility wasn't only caused by deepening concerns regarding AI capex spending. There were plenty of other culprits, such as renewed fighting in the Middle East, rising oil prices, manic inflation trends, and the possibility of Federal Reserve rate hikes.

The US–Iran conflict has settled into a grinding war of attrition centered on the Strait of Hormuz with daily strikes on both sides. Oil transit through the Strait is down significantly, and nuclear disarmament talks are at a standstill. As a result, brent crude climbed from roughly $79 toward $85 a barrel. But markets are now viewing this conflict as background noise rather than a crisis. Workarounds are being built out to transport oil (alternative routes/pipelines), and historical net-importers, such as the U.S., are now exporters, dampening the impact of historical draws on strategic oil reserves.

Inflation blinked this week. June's consumer prices actually fell 0.4% month over month (M/M), the first outright monthly decline in six years. In addition, core prices (ex-food/energy) were flat, taking annual rates down to 3.5% and 2.6%, respectively. Producer prices also fell 0.3% M/M, the coolest reading since spring 2025. The readthrough suggests that the inflation pressure that had been building a case for rate hikes just lost steam.

New FOMC Chair Warsh, in his first congressional testimony, brought a tough tone regarding inflation, but continues to suggest patients. But while professing no tolerance for inflation, there was no declaration of victory, and as everybody expected, no forward guidance. Notably, Chairman Warsh once again signaled discomfort with the size/duration of the Fed's $6.7 trillion bond portfolio. While the Fed has now entered its quiet period ahead of the July 28–29 meeting, we would not be surprised that rather than hiking rates into 2026, focus will fall squarely on quantitative tightening (removing Treasury capacity from its balance sheet), and effectively placing upward pressure on Treasury rates.

Still, the selloff in AI-linked stocks intensified this week, and took center stage, with some related equities now down over 20% from their early-June peak, rivaling the tariff-driven selloff of April 2025. At the root of the consolidation is not only more recent concerns about Chinese open-source AI models rivaling the leading American systems at lower costs, but continued fears that AI capital spending, now roughly 2.5% of U.S. GDP, cannot generate returns large enough to justify today's lofty AI infrastructure/large-cap tech valuations.

But while certain segments of the market are facing fierce headwinds, others are doing just fine. Big-banks opened the 2Q26 reporting season with force, and the earnings results, in general, were very strong. Overall, with 35 S&P 500 companies reporting through Thursday, earnings growth is running at 58.5% and companies are beating estimates by 17.2%, on pace with 1Q26, and trending toward growth in the high-20s. But we expect a "what have you done for me lately" mentality on the part of investors. We have already seen only modest price gains associated with companies beating on both sales and earnings, but punishment for misses.

While concerning, the recent AI/Tech swoon is concerning, but we view this as a buying opportunity for long-term investors. We simply feel that the demand proposition for AI, hyperscalers and energy infrastructure remains in a nascent stage – and the recent re-rating of valuations, make this case even more compelling.

We'd love to hear your thoughts.

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