Market Perspectives: Is This Time Different?

In the now classic 2009 best-seller *"This Time is Different: Eight Centuries of Financial Folly,"* Reinhart and Rogoff highlight the recurring (and largely erroneous) belief that current conditions are so unique that past lessons no longer apply. In what is now known as the "*this time is different"* fallacy, we are reminded that, though technologies, economies, and political institutions evolve, human nature remains mostly unchanged. And so, as we consider the present moment, where the advent of machines that indistinguishably reason and behave like humans has reached previously unimagined heights, we cannot help but ask, *IS* this time different? Or are we once more hurtling towards an extreme divergence between expectation and reality, as has been the case in so many prior "new eras"?

How Past "New Era" Booms Played Out

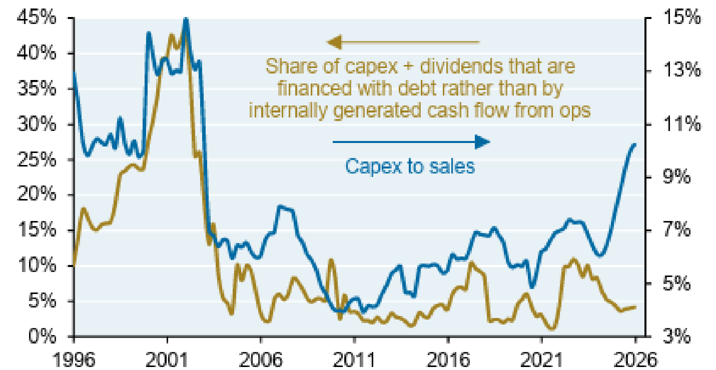
Classic "new era" bubbles (i.e. the roaring 20's, the Nifty Fifty of the 60's and 70's, and the dot-com bubble) shared a common pattern: a genuinely important technology, a "this time is different" narrative, and large capital flows into a narrow group of "must own" stocks. The rhyme across these episodes ended up being that though the technology ultimately did prove transformational, many equities and IPOs attached to the *"story phase"* did not. Even names that *did* prove to be central to the transformation suffered large drawdowns on the back of broader de-risking. In the dot-com bubble peak-to-trough declines in the Nasdaq were 78% from March 2000 to October 2002. It took 15 years for the Nasdaq to reclaim its prior high in April 2015. In short, the market narrative ended up being right, but the timeline was wrong.

What is Similar in the AI Boom

Several features of today's AI cycle look familiar:

- **Market concentration:** similar to how index returns today are concentrated in handful of accelerated computing, optics, and memory names, as well as in the companies buying their products (i.e. hyperscalers) late 90's returns were concentrated in names like Microsoft, Cisco, Intel, and General Electric, which were the largest companies by market cap at the peak. Cisco briefly became the most valuable company in the world in March 2000 at around $550B in market cap. Qualcomm was one of the best performing stocks of 1999, up ~2,600% that year. Oracle, Sun Microsystems, and JDS Uniphase were also major contributors. Lucent Technologies rode the telecom infrastructure boom before collapsing spectacularly. Similarly, AOL Time Warner became a symbol of the era after that disastrous merger in 2000.

- **Capex spending:** in the late 90's, telecom companies and internet infrastructure providers spent massively building out fiber and network capacity. A lot of that infrastructure was real and useful, but far more was built than demand justified in the near term. Today the hyperscalers are spending at a pace that dwarfs the dot com era capex boom, and the same question applies: will AI demand grow into the infrastructure being built, or will there be significant overcapacity? For reference (and using inflation adjusted dollars) today's

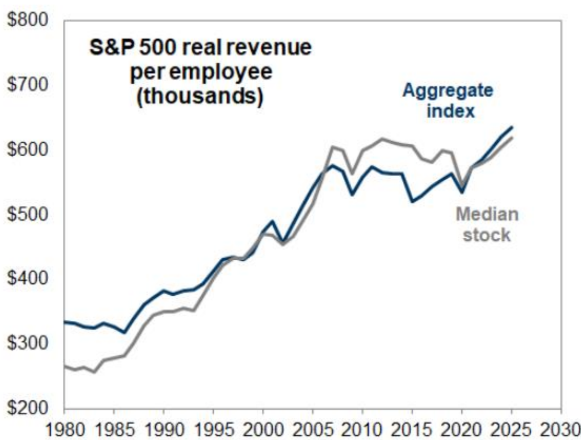


AI-related hyperscaler infrastructure spending of close to $1 trillion in aggregate, is 4-5x larger than the telecom, IT, and internet infrastructure spending of the late 90's. Worth noting however, is that in spite of this massive capex, spending as a percentage of company revenues, as well as the share of capex that is financed by debt (as opposed to operating cash flow) still remain well below their dot-com level peaks.

- **Narrative displacement of fundamentals:** in the late 90's, analysts introduced new metrics like eyeballs and page views to justify companies with no earnings. Today there is a similar tendency to focus on gigawatts, rather than near term free cash flow. We also note a climate that is willing to indefinitely give companies the benefit of the doubt, since we are dealing with technological advances that are understood by a relatively small group of specialists. Fiscal tailwinds and relatively accommodative monetary policy (relative to the last 2-3 years) also allow investing dollars to flow freely, without much of a need for skepticism.

What is *Actually* Different This Time

There are important differences between now and then. For starters, AI already shows tangible utility. Given the nature of the natural language interface on which many large-language models are built, adoption, and the impact of that adoption is arguably faster than in prior "new eras". Not only is the magnitude of the potential productivity gain larger, but the speed with which that productivity can be felt (just by the nature of its ease of use) is also faster. Below, a few examples of real productivity gains already having economic impacts:



Source: Compustat, Goldman Sachs Global Investment Research

Software development: GitHub Copilot have shown measurable increases in coding speed, with developers completing tasks 30 to 55% faster on certain types of work.

Customer service and call centers: companies using AI assisted agents report meaningful reductions in handle time and the ability to resolve more issues without human escalation. Klarna made headlines claiming their AI handled the workload equivalent of 700 customer service agents.

Healthcare: AI tools like AlphaFold have accelerated protein structure prediction, compressing work that previously took years into days. Similarly, AI assisted diagnostic tools have are augmenting radiologist accuracy and throughput.

Legal and knowledge work: document review, contract analysis, and due diligence tasks that previously required large associate teams can now be done faster with AI assistance.

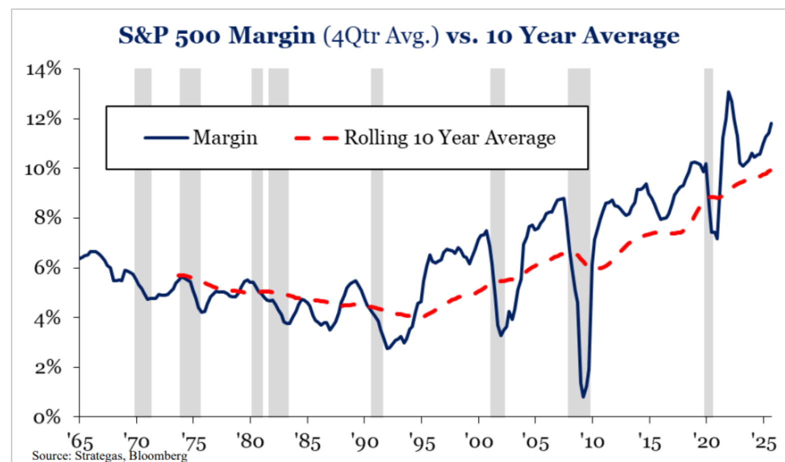
Why Valuations Look Cheaper Than in the 1990s

A key distinction versus the late 1990s internet bubble is the quality of today's leaders. Then, many internet and telecom names traded at triple digit price to sales multiples, burned cash, and had no clear path to sustainable profitability. Today's AI bellwethers, by contrast, are generally large, profitable businesses with substantial free cash flow generation, high returns on capital and recurring revenue streams. On cash flow and quality metrics like free cash flow yield, operating margins, balance sheet strength, and durability of earnings, many AI-exposed leaders screen materially stronger than the average "dot com" did at its peak. To be sure, as more operating cash flow has been allocated to capex, hyperscalers have seen their free cash profiles deteriorate. Nonetheless, the core of their legacy businesses remains highly profitable.

	EPS Growth %	Total Return %
1995	16%	38%
1996	11%	23%
1997	7%	33%
1998	0%	29%
1999	20%	21%
1995-1999	67%	220%

	EPS Growth %	Total Return %
2021	40%	29%
2022	5%	-18%
2023	0%	26%
2024	14%	25%
2025	15%	18%
2021-2025	79%	85%

Source: Strategas, Bloomberg



That does not mean they are "cheap" in an absolute sense, or immune to a painful de rating if growth expectations reset; it does mean that, relative to their cash flow power and business quality, valuations today are less extreme than in the late 90's. We are not paying 90's style prices for pre profit concepts; we are paying elevated, but more defensible, multiples for businesses that already generate significant cash and own critical infrastructure in the emerging AI stack.

Portfolio Strategy

If history is any lesson, the present AI infrastructure boom is likely to suffer at least one "disappointment moment" whereby companies are eventually pressed to live-up to expectations. The severity of that moment will ultimately depend on many exogenous factors including monetary, fiscal and geo policy. In spite of the potential for this moment, the lesson from history is not to avoid investing behind transformative technologies, but to stick to a handful of basic investing principles that allow a portfolio to whether stormy days, even if it means giving up some upside when optimism is at a peak:

- **Play the broadening:** aim to participate more in AI's diffusion across the broader market, especially among enablers and end-users, rather than solely in the most crowded AI producers. As Jensen Huang has put it, the real economics accrue in the upper layers of the "AI cake," where AI meets the customer and the money. To that end, having a deeper understanding of how well companies are actually integrating AI becomes more important, as it becomes a source of competitive edge and therefore, of long-term returns.

- **Be precise, and stay disciplined with respect to valuation:** we believe it is a mistake to speak of AI names as a monolith, as ultimately AI-related names are a full spectrum of companies with different operating

characteristics and growth levers. It is vital to focus on valuation relative to the visibility, and more importantly, the *durability* of those fundamentals. We see little value in investing in a low margin, high growth business at an all-time high valuation vs. a higher margin, but lower growth business at a much more reasonable valuation. In other words, not all AI-related earnings should be valued equally.

- **Favor durable enablers over commoditized applications:** we look to tilt exposure toward businesses with strong moats and mission critical components, rather than generic product offerings where competition will eventually compress margins. We favor companies with network effects and ecosystem stickiness, whereby companies not only sell products, but more thoroughly embed themselves with their customers (for example, the CUDA software ecosystem that sits on top of Nvidia's hardware stack).

- **Hedge with exposure to displaced, out of favor names:** part of the current market regime is the belief that many technology incumbents (chiefly software companies) stand to be entirely displaced by new AI-native competitors. We believe that optimism for the new, need not necessarily be accompanied by pessimism for the old, as many of these legacy companies still have extremely sticky customer relationships, attractive operational characteristics, and most importantly a max-level of pessimism already baked into their valuations.

- **Maintain dry powder:** past market downturns have created outstanding entry points into the eventual survivors and new leaders. Maintaining diversification and cash buffers a la Berkshire Hathaway, are critical for stepping in at more favorable valuations.

Contributors

Rene Negron

Analyst

Ignacio Pakciarz

Co-Founder and Co-CEO

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BigSur Wealth Management, LLC
1441 Brickell Avenue, Suite 1450
Miami, FL 33131
Office (Main): 305-740-6777
Fax: 305-350-9998
http://www.bigsurpartners.com