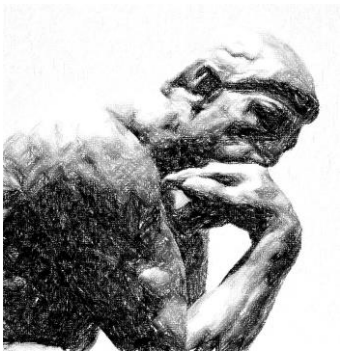
The AI Trade Is Nowhere Near Done

Every technological revolution in modern history has set off the same reaction: fear. People feared that machines would take the jobs, hollow out the middle class, and leave ordinary workers behind. It happened with the textile machinery that enraged the Luddites in the 1810s, with the assembly line in 1913, with the mainframe in the 1960s, and with the personal computer in the 1980s. In 1589, nearly two centuries before the United States existed, Queen Elizabeth I refused William Lee a patent for his mechanical knitting machine for fear of putting hand-knitters out of work.

That fear has always been wrong. ATMs were supposed to eliminate bank tellers. Instead, they made branches cheaper to run, banks opened more of them, and teller employment rose for decades. Spreadsheets wiped out bookkeeping clerks, and they created far more jobs for accountants, analysts, and financial managers than they destroyed. The pattern has held for 250 years: new technology displaces tasks, not people. The net effect has been more work, at higher wages, in jobs that did not exist before the technology arrived.

The Thinking Man



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The Backlash Playbook: This Movie Has Played Before

Resistance to new technology has never been just sentimental. It has had legislation, courts, troops, and strikes behind it. The political record deserves a close look, because today's AI backlash is following a script written centuries ago.

The looms (1810s). When new stocking frames and cloth-finishing machinery threatened England's framework knitters and croppers, the Luddites did more than petition. They smashed an estimated 1,000 machines in organized nighttime raids. Parliament answered with the Frame Breaking Act of 1812, which made destroying a machine a capital crime. The government sent some 12,000 troops to the industrial counties, more than Wellington had led into Portugal in 1808. In January 1813, seventeen men were hanged at York, fourteen of them on a single day. In his maiden speech in the House of Lords, Lord Byron warned against being asked "to pass sentences by wholesale, and sign death-warrants blindfold." He lost. The machines stayed, and so did the Industrial Revolution.

The railroads (1860s–1890s). The first American technology backlash with real political power came from the farm. Farmers were convinced that railroad monopolies were strangling them through freight rates. They organized the Grange, captured state legislatures, and passed the "Granger Laws," starting with Illinois in 1871, which set maximum rates the railroads could charge. The Supreme Court upheld the states' power to regulate

businesses "affected with a public interest" in Munn v. Illinois (1877). After Wabash (1886) moved that power to Washington, Congress responded to public pressure with the Interstate Commerce Act of 1887, which created the first federal regulatory agency in American history. The Populist Party went further and demanded outright government ownership of the railroads. The railroads, of course, kept building, and the country kept growing along their lines.

The automobile (1865–1896). This may be the most entertaining chapter. After heavy lobbying by horse-drawn carriage operators and railway interests, Britain's Locomotive Act of 1865 required a man to walk sixty yards ahead of every self-propelled road vehicle carrying a red flag, with speeds capped at two miles per hour in town. When the motorcar arrived, the rule applied to it too. Vermont passed its own version in 1894, requiring a "person of mature age" to walk an eighth of a mile ahead of any steam vehicle to warn horsemen. In Pennsylvania, a rural group called the Farmers' Anti-Automobile Society went further still, proposing that a driver whose car spooked a horse "take the machine apart as rapidly as possible and conceal the parts in the bushes." In the popular retelling, the proposal became a bill that passed the legislature unanimously in 1896 before the governor vetoed it. The lesson holds either way: incumbents lobby, legislators listen, and the technology wins anyway.

The waterfront (1950s–1970s). The backlash to containerization was led by labor rather than legislatures, and it ended in negotiation rather than prohibition. Mechanization shrank the West Coast's registered longshore workforce from about 14,500 in 1960 to roughly 8,400 by 1980. Instead of trying to ban the container, the ILWU signed the landmark Mechanization and Modernization Agreement of 1960 (the M&M Agreement). The union accepted mechanization in exchange for no layoffs of fully registered workers, a guaranteed floor of 35 hours' pay per week, employer-funded early retirement, and a $29 million fund that gave workers a share of the productivity gains. Tensions still boiled over in the 134-day coastwise strike of 1971–72, which ended only under federal pressure, but the negotiated framework held. The workers who stayed became some of the best-paid blue-collar workers in America, and the collapse in shipping costs supercharged the postwar trade boom.

The computers (1960s). When mainframes arrived, the panic reached the White House. In February 1961, Time magazine warned of "the automation jobless." In 1964, President Johnson created a National Commission on Technology, Automation, and Economic Progress. That same year, an influential group of scientists and activists, the Ad Hoc Committee on the Triple Revolution, warned that "cybernation" would make human labor obsolete and urged the government to use its licensing power "to regulate the speed and direction of cybernation." Johnson's own framing is worth rereading today: "Automation is not our enemy. Our enemies are ignorance, indifference, and inertia." The commission concluded in 1966 that "technology eliminates jobs, not work." The three decades that followed produced one of the strongest labor markets in American history.

The pattern is the same in all five episodes. Backlash peaks early, politics channels it, negotiated settlements turn disruption into shared gains, and the technology transforms the economy anyway. We believe the negotiations now underway between AI data-center builders and local communities, over power, siting, hiring, and training, are the modern Mechanization and Modernization Agreement. They are no longer a side issue: the environmental and community impact of new data centers became a campaign issue in this month's midterm elections. Done well, these negotiations can do for AI what the M&M Agreement did for the ports, letting the productivity gains flow while the affected communities share in them. The parties who negotiate well will prosper. Those who try to legislate the technology away will end up hiding car parts in the bushes.

We believe today's backlash against AI, with its polls, protests, and political noise, is simply the latest chapter of this very old story. The data is already showing us how it ends.

The Labor Market Is Telling the Truth

The October employment report, released November 6, was a blockbuster. Nonfarm payrolls rose by 165,000, nearly three times the consensus forecast, and the unemployment rate fell to 4.1%. Private employers added 159,000 of those jobs, while government added just 6,000.

The most important number was professional and business services, which added 70,000 jobs, more than four times its twelve-month average. That is exactly the sector AI was supposed to hollow out first. It is not contracting; it is booming. Output per hour rose at a 3.6% annualized rate in the third quarter, and unit labor costs fell 0.7%. The data supports what we have argued for some time: AI is a complement to labor, not a substitute.

The Rule of 25: Bubbles Die of Shocks, Not Old Age

The bear case rests on the claim that AI capital spending is a bubble about to burst. In a late-August cover story, Barron's examined 250 years of U.S. market history and found that capital spending bubbles almost always pop, but rarely when investors expect them to. From the railroads of the 1860s to the internet buildout of the late 1990s, the economy absorbed spending equal to roughly 25% of GDP before the cycle truly turned. Barron's calls it the "Rule of 25."

With U.S. GDP near $30 trillion, the danger zone sits at roughly $7.5 trillion of cumulative AI investment. Cumulative global AI spending since 2024 is about $1.15 trillion, and at the projected pace the threshold would not be reached until the early 2030s. The comparison is not exact, since the spending figure is global and the threshold is based on U.S. GDP, but the margin is wide enough that the conclusion holds. Capex booms need an outside shock to end, and even then, what was built remains.

Gridlock as Rocket Fuel

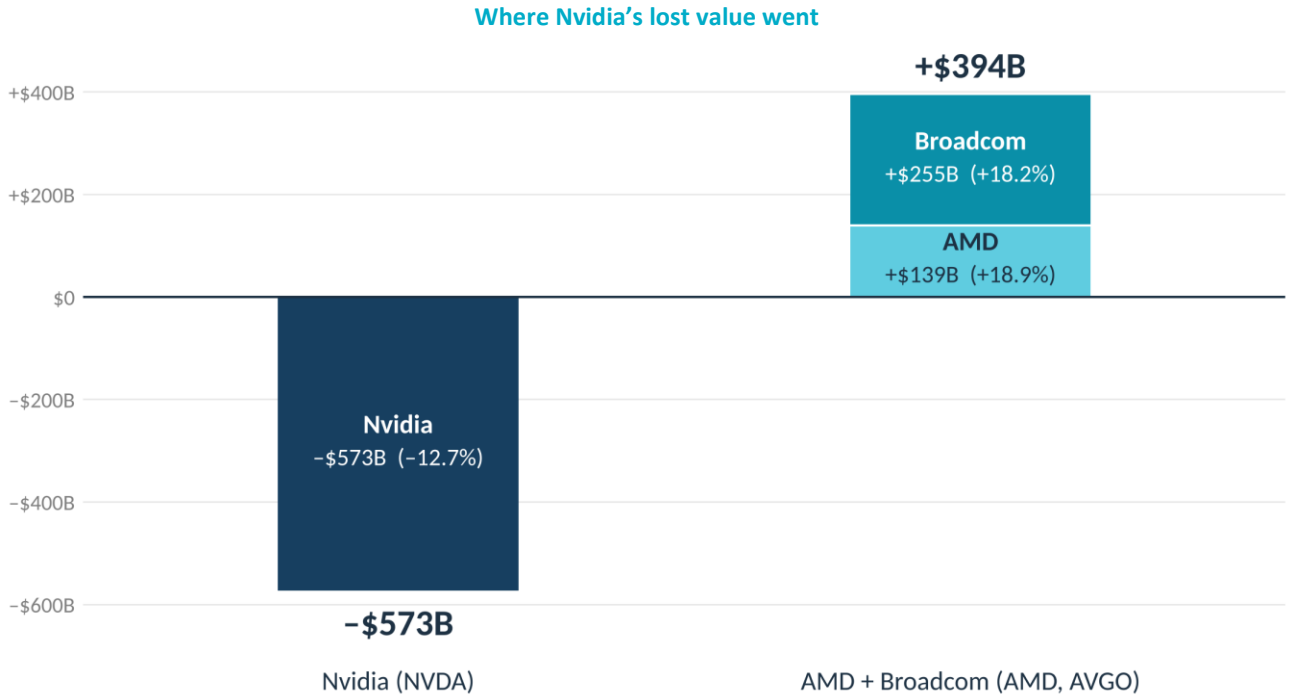
The calendar adds a tailwind. Ken Fisher's "Midterm Miracle" shows that since 1925, the nine months beginning October 1 of a midterm year have seen the S&P 500 rise 92% of the time, with an average gain of 19.8%. The November 3 midterm elections delivered that setup: Democrats won control of both the House and the Senate, and the resulting gridlock takes policy risk off the table.

Our House View

On AI, our view is straightforward:

- **The AI trade is not done.** Cumulative spending is years away from the levels that came before past breaks.
- **AI is creating net new jobs.** The sector most exposed to it is among the fastest-growing.
- **The productivity dividend is already measurable, and it compounds.** Goldman Sachs estimates that widespread AI adoption could lift U.S. productivity growth by about 1.5 percentage points a year over a decade.
- **The benefits depend on execution.** Real negotiation between builders and local communities can make the buildout a broadly shared gain, much as the railroads and the grid ultimately were.
- **The fear itself is the tell.** For two centuries, technological backlash has come before periods of net job creation and rising living standards.

Last week offered a live test. In the week Jensen Huang resigned as Nvidia's CEO, the company lost about $573 billion of market value, while AMD and Broadcom added about $394 billion, nearly 70% of Nvidia's loss, even after Friday's chip-sector selloff. Investors repriced one company's leadership risk, not AI demand: a rotation within the AI trade, not an exit from it. Nvidia reports earnings on Tuesday, November 17.



Change in market capitalization, Friday, November 6 close to Friday, November 13, 2026 close (the week of Jensen Huang's resignation).
Sources: Nasdaq closing prices; shares outstanding from latest SEC 10-Q filings.

We remain constructive on equities, on the productivity beneficiaries of AI across the capital stack, and on the resilience of the real, private-sector economy.

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