



Navigating artificial intelligence (AI) velocity: A structural approach to market acceleration¹

PineStone Asset Management Inc.

Capital markets have long been characterized by periods of rapid technological advancement and subsequent volatility. From the profound dislocations of the dot-com bubble and the global financial crisis to the regional banking pressures and aggressive interest rate fluctuations of recent years, the market frequently extrapolates short-term disruptions into permanent paradigm shifts. Historical examples demonstrate how rapidly sentiment can detach from fundamental reality. In the early 2010s, the emergence of mobile wallets triggered widespread apprehension regarding the disintermediation of established payment networks. Similarly, the rapid ascent of e-commerce led to premature declarations of a retail apocalypse, heavily penalizing incumbent physical retailers. In these instances, market participants confused temporary stock price volatility with permanent business impairment. The late Benjamin Graham observed that in the short run, the market operates as a voting machine, driven by popularity and psychological momentum, but in the long run, it acts as a weighing machine, anchored by cash flows and return on invested capital. This distinction remains the core of a long-term investment philosophy. Identifying structural superiority, high barriers to entry, and durable pricing power requires analytical rigor, patience, and a steadfast temperament, acknowledging that periodic underperformance is an inherent aspect of long-term ownership.

The illusion of velocity: Prioritizing durable economics in fast-moving markets

The advent of generative artificial intelligence and rapid technological shifts has dramatically accelerated information flow and short-term price swings, generating unprecedented market noise. When headlines are dominated by technologies ostensibly disrupting entire industries overnight, a long-term, low-turnover strategy can superficially appear static. However, this velocity is largely an illusion of the voting machine. While the market moves faster, the fundamental laws of business economics (cash flow generation, competitive moats, and disciplined capital allocation) have not been suspended. Speed increases noise; it does not change what compounds value. By extending the investment lens across multiple decades, long-term investors effectively filter out daily market hyperactivity. This structural advantage prevents capitulation to the hyperactivity trap, where reactionary, high-frequency trading may destroy wealth through frictional costs and emotional decision-making. The discipline is to underwrite the durability of the business rather than the velocity of the buildout.

The discipline of patience and fundamental rigor

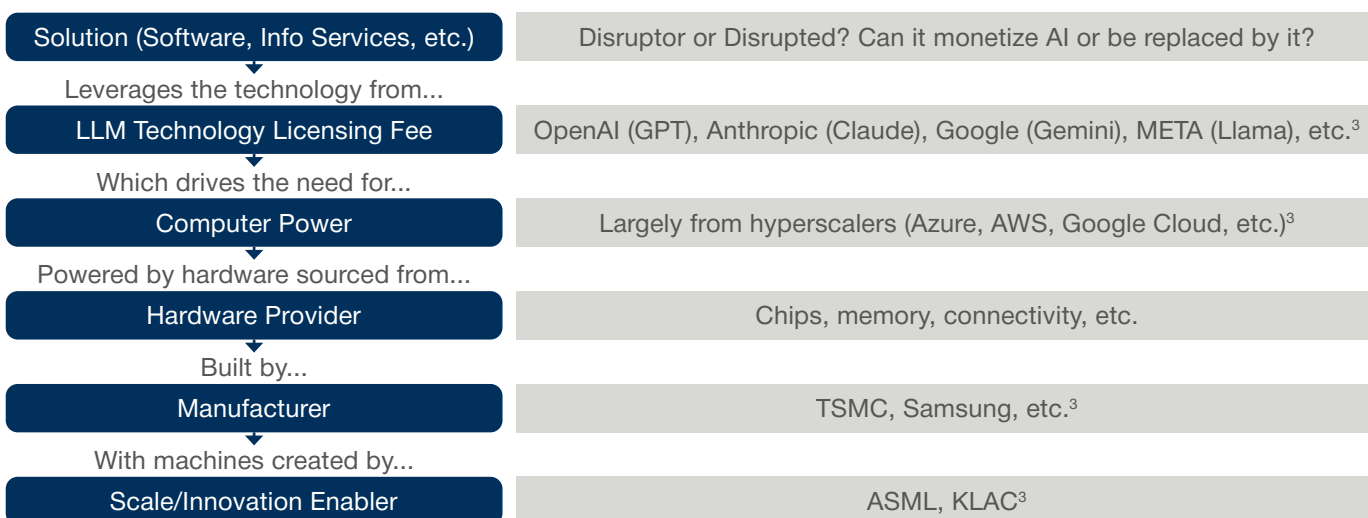
A patient investment horizon is not synonymous with passivity. Artificial intelligence undeniably accelerates the rate of change across the global economy, necessitating active oversight and continuous risk assessment. The purpose of patience is to grant the necessary window to perform exhaustive fundamental analysis, ensuring actions are predicated on structural conviction rather than impulse. This perspective is reinforced by more than 15 years of studying businesses, owning them through different market environments, and refining our judgment through experience. Continuous, in-depth evaluation helps us deepen our understanding of each core investment thesis, testing assumptions as new information emerges to better distinguish between short-term noise and meaningful structural change. This requires the emotional discipline to differentiate between temporary stock price drawdowns and permanent fundamental impairment. Mistakes and periods of underperformance are inevitable in public markets; however, applying a rigorous framework improves the probability of recognizing structural winners. This patience possesses strict boundaries. When technological shifts materially impair a company's competitive advantage or its long-term durability, swift and decisive action is required. By systematically allocating capital based on shifting risk-reward profiles, portfolio weights are continuously optimized.

Our position in Alphabet² serves as a representative case study of this discipline in practice. Following the launch of ChatGPT in late 2022, Alphabet experienced significant underperformance relative to the technology peer group and traded near all-time lows on a relative valuation basis. The underperformance was driven by elevated market concern that generative AI would rapidly dismantle Google's search monopoly and that its internal models were structurally disadvantaged. Rather than reacting impulsively to the prevailing negative sentiment,

we relied on our fundamental rigor. Exhaustive analysis of Alphabet's underlying AI infrastructure, including its unmatched proprietary compute via TPUs, an unrivaled volume of proprietary training data, the extensive user context and broad distribution provided by its numerous billion-plus-user platforms, and the consolidation of its elite talent pool under Google DeepMind, confirmed its enduring competitive moat. By maintaining the emotional discipline to recognize the sell-off as a temporary, sentiment-driven mispricing rather than a permanent fundamental impairment, we held our structural conviction. We believe this patience proved accretive, paying off significantly as Alphabet successfully scaled its Gemini models, defended its core search economics, and subsequently drove the stock to new all-time highs.

Mapping the value chain of artificial intelligence

Understanding where durable economics reside requires mapping the artificial intelligence value chain from the end-user down to the physical silicon. At the highest layer sit the software and information services solutions, which face the immediate pressure of determining whether they can monetize artificial intelligence or be replaced by it. Below the application layer are the foundational models and large language technologies, which command licensing fees and dictate the cognitive capabilities of the system. These models are entirely reliant on the immense compute power supplied by platform hyperscalers. To deliver this compute, hyperscalers require vast quantities of hardware, including advanced memory, networking equipment, and specialized accelerators. This hardware must be fabricated by highly specialized manufacturers that operate the world's leading-edge foundries. Ultimately, these manufacturers depend upon scale and innovation enablers: the capital equipment providers who design the monopolistic lithography, process-control, and inspection machines that make advanced silicon physically possible.



Calibrating strategic catalysts and systemic risks

A balanced assessment of the artificial intelligence complex reveals profound opportunities juxtaposed against notable systemic risks. On the positive side of the ledger, artificial intelligence applications are driving tangible productivity gains across enterprise workflows. The infrastructure providers remain capacity-constrained, demonstrating highly attractive incremental margins in the 30% range and robust returns on invested capital in the mid-teens to mid-20% range, particularly for those deploying custom silicon at scale. Furthermore, well-capitalized incumbents are effectively financing this massive build-out from existing cash flows, possessing latent pricing power that allows them to drive user habits today and monetize more aggressively in the future. Conversely, structural risks warrant intense scrutiny. The ecosystem exhibits circular financing dynamics, where capital expenditure is highly concentrated among a few large, sometimes unprofitable players reliant on continuous capital market access. The sheer scale of data center infrastructure financing introduces substantial leverage into the system. With equity and credit risk premiums resting near historical lows, any deceleration in the rate of technological progress could rapidly dampen investor appetite, eroding pricing power and stalling capital expenditure cycles.

Foundations of the future: Focusing on quality in the AI ecosystem

Across the PineStone Global, U.S., and International Equity Strategies, exposure to the rapid proliferation of artificial intelligence is anchored not in speculative

momentum, but in what we view as structurally superior business models. Our direct exposure to the AI ecosystem is effectively bifurcated into two distinct cohorts of capital compounders: Semiconductor Enablers and Platform Hyperscalers. The foundational enablers (ASML, KLA, and TSMC⁴) function as the tollkeepers of advanced computing. Rather than attempting to predict the ultimate victor in the highly competitive silicon design race, long-term investors benefit from owning the underlying racetrack. We believe these enterprises possess structural dominance rooted in immense technological complexity and prohibitive capital requirements, creating in our view nearly insurmountable barriers to entry. ASML's absolute dominance in extreme ultraviolet lithography, KLA's mission-critical process control and yield management, and TSMC's unmatched leading-edge foundry scale represent essential prerequisites for the physical creation of AI infrastructure. The core lesson from previous infrastructure cycles, such as the early internet buildout, is that durable pricing power and slow competitive fade beat commoditizable, boom-bust demand, wherever they sit in the value chain. Some of the Internet's infrastructure did commoditize, and its suppliers were impaired. Some did not, because they occupied specific chokepoints that competition could not easily contest.

Downstream, the Platform Hyperscalers (Microsoft, Amazon, and Alphabet⁴) leverage massive distribution networks and robust, highly cash-generative legacy operations to fund multi-year capital expenditure cycles while keeping flexibility on their balance sheets. Whether through Alphabet's full-stack integration of custom silicon and proprietary models, Amazon's cloud infrastructure scale, uniquely positioned to fund its AI growth with its retail engine and core AWS cloud business, or Microsoft's ability to drive sustained growth and incremental margins through ubiquitous software distribution, these hyperscalers exhibit the clear hallmarks of high-quality compounding in our view.

SEMICONDUCTOR ENABLERS

ASML

Monopoly on EUV lithography. Without its machines, leading-edge AI chips don't get made. The deepest pick-and-shovel play in the stack.

KLA

Process-control and inspection leader. As nodes shrink, yield economics become decisive — KLA's tools are non-negotiable for AI silicon.

TSMC

The world's foundry for leading-edge silicon. Effectively every advanced AI chip (merchant or custom) is manufactured here.

PLATFORM HYPERSCALERS

MICROSOFT

Office and Windows distribution at AI scale. Azure delivering sustained growth at attractive incremental margins.

AMAZON

AWS scale plus Trainium custom silicon. Retail and Prime cash flows finance the AI build-out without straining the balance sheet.

ALPHABET

Full-stack AI: TPUs, Gemini, Search, Android, Chrome. The cleanest expression of our framework — distribution, custom silicon, own models.

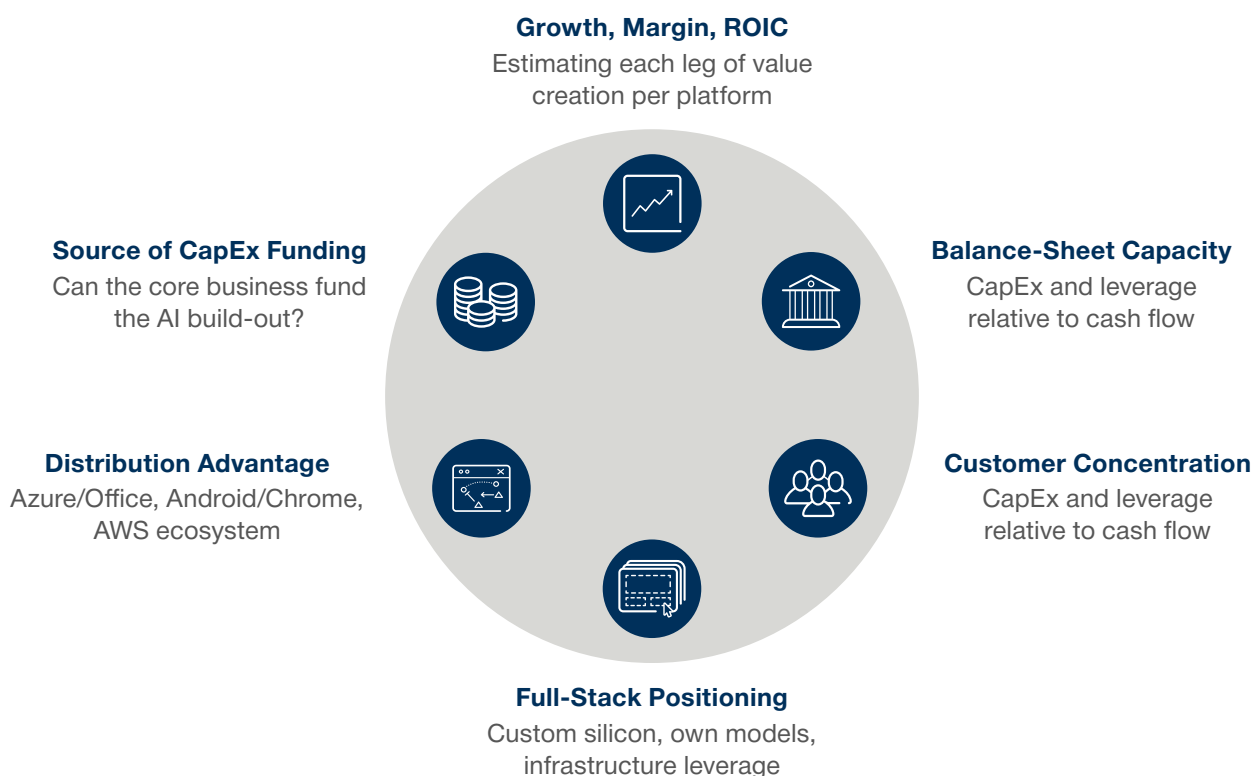
United by positive returns on invested capital, structural pricing power, and healthy balance sheets, this collective cohort represents the physical and digital infrastructure of the future economy. By prioritizing fundamental durability and oligopolistic positioning, long-term investors are positioned to capture outsized economic rents regardless of the technology's eventual application or end-state.

The economics of scale: Evaluating the hyperscaler framework

Hyperscalers are massive operators of data centers offering scalable cloud computing, storage, and networking, benefiting from a long-term total addressable market expansion as global enterprises migrate their

infrastructure to the cloud. Analyzing these entities requires a rigorous six-dimensional framework.

The first dimension estimates future growth, operating margins, and specific returns on invested capital for cloud workloads. The second assesses balance-sheet capacity, analyzing capital expenditures and leverage relative to operating cash flows. The third evaluates customer concentration to determine counterparty risk. The fourth examines full-stack positioning, favoring entities that possess custom silicon, proprietary models, and infrastructure leverage over those reliant on merchant hardware. The fifth dimension analyzes distribution advantages, such as existing operating systems or enterprise software ecosystems. The final dimension measures the ability of the core business to internally fund the massive infrastructure build-out.



Based on our internal research and analysis, we believe that Amazon Web Services, Microsoft Azure, and Google Cloud Platform have structural advantages relative to other cloud providers as they generate returns on invested capital in the mid-teens to mid-20s. These three entities leverage vast existing user bases, generate immense free cash flow from core operations, and increasingly deploy custom silicon to drive down the unit economics of compute.

Conversely, applying this framework to Oracle Corporation⁵ highlighted distinct vulnerabilities. Our

analysis indicated that the return profile of Oracle's artificial intelligence cloud workloads was structurally lower, estimated in the mid-to-high-single-digits. Furthermore, a lack of comparable distribution advantages, elevated customer concentration, and balance sheet constraints regarding data-center financing revealed an unfavorable long-term risk profile. Consequently, these escalating risks and less attractive relative cloud economics triggered a decisive reallocation, reflecting the high competition for capital within our concentrated portfolios.

The software and information services paradigm: Discerning moats from interfaces

As highlighted in our previous insight pieces and quarterly commentaries, the software and information services sector has undergone a significant repricing as markets attempt to distinguish between durable moats and vulnerable user interfaces. Evaluating this risk involves four distinct vectors: data disintermediation, workflow substitution, system-of-record defensibility, and seat-based deflation. Entities like Moody's Corporation⁶ possess core ratings franchises structurally insulated by regulatory designations, governance requirements, and mandatory integration into global capital markets. While analytics divisions face nuanced pricing pressures, artificial intelligence serves primarily to enhance the synthesis and delivery of proprietary data. Similarly, MSCI controls deeply embedded benchmark franchises where trust and data provenance are the ultimate arbiters of value. The London Stock Exchange Group (LSEG) exemplifies a moat built upon mission-critical infrastructure and exclusive data reservoirs. By controlling an expansive ecosystem of real-time feeds, multi-decade tick histories, and post-trade clearing via LCH, LSEG commands proprietary, regulatory-grade data that public AI models cannot replicate. Rather than facing data disintermediation or workflow substitution, LSEG is actively entrenching its data directly into enterprise workflows, ensuring its architecture remains the indispensable system of record across the global trade lifecycle.

Strategic & tactical reallocation: Executing thoughtful & decisive adjustments

As a low-turnover, high-conviction investor, our primary objective is to allow our clients' capital to compound through ownership in exceptional businesses positioned to outperform over the long run. However, rigorous adherence to our investment discipline requires continuous portfolio optimization.

While our holding periods are measured in decades, we actively execute tactical adjustments (adding to or trimming existing positions). These decisions are not made lightly; rather, they are driven by a disciplined assessment of relative valuation, the evolving strength of underlying fundamentals, the durability of our core thesis, business momentum/execution, and prudent portfolio construction. This dynamic recalibration ensures that our capital is consistently aligned with the most attractive risk-adjusted returns available within our universe.

To support this process, we maintain a "Wishlist" of approximately 20 companies. For these select few, our thorough core due diligence is complete. They remain on our bench, actively monitored and fully modeled, so we are prepared to deploy capital decisively when market volatility or temporary dislocation creates a compelling entry point.

The humility of compounding: Cultivating emotional discipline

Attempting to outpace a hyper-fast, algorithmic market through elevated trading volume is a structurally flawed proposition. Long-term wealth creation is rarely linear, demanding the emotional discipline to endure periods of relative underperformance while underlying business fundamentals silently compound.

As Warren Buffett aptly observed, "The stock market is a device for transferring money from the impatient to the patient."

For a fundamental, high-conviction global equity investor, this patience is not passive; it is actively anchored by comprehensive research. As artificial intelligence drives sweeping economic transformation, identifying true structural winners requires looking past daily volatility to evaluate the resilience of underlying business models. By maintaining an unwavering commitment to rigorous analysis and granting high-quality companies (whether transformative or steady) the runway necessary to realize their full potential in the market, we aim to position ourselves and our clients to capture economic value in excess of the benchmark over the long run.

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1. This analysis represents a retrospective synthesis of research and evolving thought processes conducted from November 2022 through May 2026.
 2. This stock example (Alphabet) is provided for illustrative purposes only and is not intended to represent the performance of any specific portfolio or all investment decisions. Note, Google is wholly owned by Alphabet. Not all investments will be profitable, and similar opportunities may not be identified in the future. Past outcomes are not indicative of future results, and individual investment decisions may differ in outcome. Please refer to important disclaimers on page 7.
 3. Source: PineStone Asset Management Inc.; 2023-Q1 2026
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