FIRST PRINCIPLES
GLOBAL CAPITAL, LLC

PORTFOLIO CONSTRUCTION OUTLOOK

The Other Half

Why owning beyond the S&P 500's AI-and-technology complex can improve the odds

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MARKET COMMENTARY | FOR INFORMATIONAL AND EDUCATIONAL PURPOSES ONLY

EXECUTIVE CONCLUSION

You do not need AI to fail for diversification to win.

AI demand is real. The portfolio risk is that one capital-intensive ecosystem now drives an unusually large share of index weight, expectations and duration. The alternative is not an anti-technology bet; it is deliberate ownership of independent earnings streams at different starting prices.

52.0%	37.1%	21.3×	15.6×
Broad technology / platform exposure IT + Comm. + Amazon + Tesla	**Top 10 securities** S&P 500 weight	**S&P 500 forward P/E** 26 Aug. 2026	**Developed ex-U.S. forward P/E** 31 Jul. 2026

- **The 52% estimate is a risk-bucket definition, not 52% pure AI. Information Technology alone is 37.1%; adding Communication Services, Amazon and Tesla reaches 52.0%.[1]**
- **The boom has substance.** Nvidia's latest quarterly data-center revenue was $89 billion, up 117% year over year, while Microsoft and Alphabet reported accelerating cloud demand.[5][6][7]
- **The financing and accounting are less independent than the headlines imply.** Our auditable working range is that roughly 8%-15% of 2026 AI/data-center chip demand is enabled by broad strategic support. Separately, four Big Tech groups booked more than $160B of latest-quarter 'other income,' largely valuation gains on AI-linked stakes rather than operating cash flow.[12]-[19][36]
- **The diversification discount already exists—but the 'E' may also be unusually high.** Equal weight, U.S. value, profitable small caps and developed ex-U.S. equities trade at lower multiples; every pool should be tested against normalized earnings.[2][3][27][29][36]

BOTTOM LINE

Treat the cap-weighted S&P 500 as a choice—not a neutral default.

Measure exposure by economic driver, require a margin of safety outside the AI complex, and keep enough participation that being early on diversification does not become being absent from innovation.

1. What ‘about half’ actually means

Sector labels obscure economic exposure. A transparent hierarchy is more useful than calling half the index ‘AI.’ Information Technology is the narrow definition; the broad public-company measure also includes Communication Services, Amazon and Tesla, even though Tesla is classified as Consumer Discretionary.

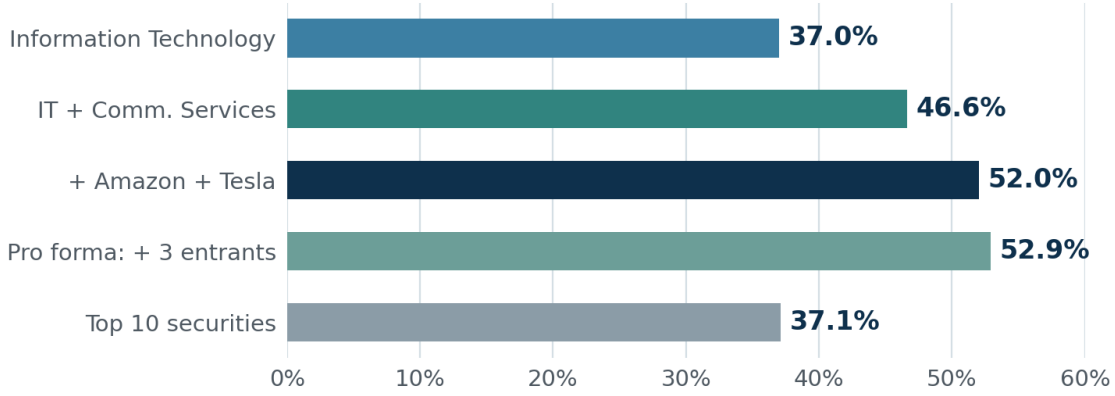

Figure 1. Tesla’s 1.5% S&P 500 weight lifts the broad public-company bucket from 50.5% to 52.0%. The 52.9% pro forma adds SpaceX, OpenAI and Anthropic using current equity values and assumed indexable floats; it is illustrative, not an inclusion forecast. Top ten is a separate concentration measure.[1][8][12][24][35]

LENS	WEIGHT	INCLUDED EXPOSURE	INTERPRETATION
Strict sector	37.05%	Information Technology	Cleanest classification; includes non-AI hardware/software.
Sector cluster	46.64%	IT + Communication Services	Captures Alphabet and Meta, but also telecom/media.
Broad platform	52.00%	IT + Communication Services + Amazon + Tesla	Headline technology/platform bucket; includes Tesla despite its sector label.
Business-model check	49.77%	IT + Alphabet + Meta + Amazon + Tesla	Excludes legacy telecom/media; includes a major AI-linked automaker.
Illustrative pro forma	52.9%	+ SpaceX + OpenAI + Anthropic	Central float assumptions; 54.6% if all equity value were indexable.

Call it technology and major AI-platform exposure—not 50% pure AI.

Communication Services contains non-technology businesses; Information Technology contains many businesses with only indirect AI exposure; power, industrial and financial companies can also be AI beneficiaries. The objective is to see correlated economics, not win a classification argument.

Concentration is more than a taxonomy issue. The top ten securities were 37.1% of the index, versus roughly 2% for the top ten in an equal-weight rebalance. The cap-weighted index therefore embeds a large active bet on a small set of long-duration cash flows.[1][2][30]

What concentration buys

- More exposure to exceptional margins, network effects and balance sheets.
- Automatic participation as winners compound and become larger.
- Low turnover and tax efficiency in a simple benchmark.

What concentration costs

- A smaller number of assumptions determines more of the outcome.
- Price-insensitive ownership increases as market capitalization rises.
- Diversification by ticker can mask common dependence on AI capex and discount rates.

2. The thesis is not that AI is fake

FIRST PRINCIPLE

Economic importance is not the same as shareholder return.

A technology can transform productivity while investors overpay for the suppliers, competition shifts value to customers, or depreciation consumes more of accounting profit than expected.

The strongest case against diversification is straightforward: AI demand is already producing extraordinary revenue growth, and the largest buyers can finance the buildout from profitable incumbent businesses. That evidence should be stated before the risks.

OBSERVED EVIDENCE	LATEST READING	WHAT THE BULL CASE SAYS
Nvidia data center	$89.0B quarterly revenue; +117% y/y	Demand is monetized now, not merely a distant promise.
Microsoft cloud	$59.3B quarterly cloud revenue; +27%; commercial RPO $678B	Committed demand and enterprise adoption remain deep.
Alphabet cloud	$24.8B quarterly revenue; +82%	Cloud growth is accelerating alongside Search and advertising.
Anthropic	>$30B annualized revenue run-rate disclosed in April	A frontier-model provider can scale revenue rapidly.
Semiconductor market	$1.51T 2026 WSTS forecast	The entire supply chain is expanding, especially memory.

Latest company readings are not directly comparable in period or scope. Nvidia data-center revenue includes systems and networking; the WSTS figure covers all semiconductor categories.[5]–[9]

RETURN IDENTITY

TSR = starting cash yield + per-share earnings growth + change in valuation

AI can deliver the second term and still disappoint if starting yield is thin, reinvestment is unusually heavy, dilution offsets growth, or the terminal multiple compresses.

Three paths allow AI to win while concentrated investors earn less:

- **Value migrates.** Falling model and inference costs transfer economic surplus from infrastructure suppliers to users in health care, finance, industrials and consumer services.
- **Returns normalize.** Competition, custom silicon, power costs and shorter asset lives reduce incremental returns on capital even as unit demand rises.
- **Expectations outrun results.** Earnings grow, but not enough to justify the initial price; multiple compression absorbs the fundamental progress.

BALANCED INFERENCE

The right hedge against an expensive innovator may be a cheap user of the innovation.

This is why ‘beyond technology’ should include AI adopters with independent customer economics—not only businesses untouched by AI.

3. The buildout is real—and increasingly financed

Three credible 2026 forecasts frame the scale, but they use different dates and definitions. They should not be added together or treated as a single reconciled dataset.

2026 MEASURE	ESTIMATE	SCOPE / CAUTION
All semiconductors	$1.51T	WSTS Spring 2026; memory exceeds $800B and contributes much of the nominal surge.
All data-center semiconductors	$477.1B	IDC April 2026; CPUs, GPUs, memory, networking, storage and related silicon.
Generative-AI-related chips	Approaching $500B	Deloitte February 2026; broader AI-supporting silicon definition.
AI data-center capex	$400B–$450B	Deloitte February 2026; chips estimated at $250B–$300B under a narrower capex scope.

The working $500B AI/data-center-chip denominator is a rounded analytical convention, supported by IDC and Deloitte but not a standardized market category.[9]–[11][31]

The financing chain

01	02	03	04
Strategic capital	**Compute buyer**	**Commitment**	**Reported demand**
Supplier equity, credit or guarantee →	AI lab or neocloud receives funding →	Cloud, lease or capacity contract →	Data-center capex and chip revenue

> **Funding, contract, capex and chip sale are stages—not four independent sources of final demand.**
> A supplier investment can become an AI laboratory's cloud commitment, which becomes a hyperscaler's data-center build, which becomes supplier revenue. The transactions are real; the economic dollar is not independent at every stage.

FINANCING TIER	2026 AI-CHIP DEMAND	INTERPRETATION
Strict vendor-financed	~4%–8%	Chip supplier capital can be linked to buyers and near-term demand.
Broad strategic support	~8%–15%	Adds cloud-supplier capital, contract credit and related support.
Sensitivity band	10%–20%	Useful stress range if conditional or less directly traceable support is included.
External debt / leases	Potentially much larger	Not circular by definition; independent lenders can still amplify the cycle.

First Principles estimate, not an audited industry statistic. The $500B denominator and timing allocation drive the percentages materially; see Methodology.[24]

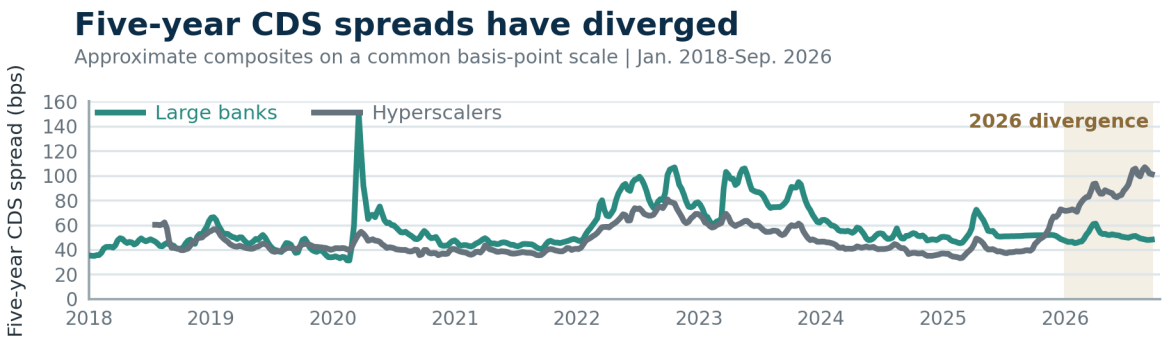

Figure 2. Five-year CDS spreads widened sharply for hyperscalers in 2026 while the bank basket remained broadly stable. The chart is redrawn on a common basis-point scale; values are approximate and directional. CDS spreads are market prices, not default forecasts.[37]

4. Strategic support matters at the margin

The visible relationships are too large to ignore, but not clean enough to total mechanically. Amounts span funded investments, conditional commitments, facilities, guarantees and future capacity agreements.

BUYER / PARTNER	SELECTED SUPPLIER-LINKED CAPITAL	COMMERCIAL LINKAGE	STATUS / CAUTION
OpenAI	$50B Amazon; $30B Nvidia	AWS arrangement and next-generation Nvidia compute	Part of February 2026 funding; investment is not identical to 2026 chip spend.
Anthropic	$18B cumulative Amazon; up to $10B Nvidia; up to $5B Microsoft; ~$20B Google funded	AWS, Azure/Nvidia and Google TPU commitments	Some capital and another ~$20B Google amount are conditional or milestone-linked.
CoreWeave	$2B Nvidia	Infrastructure remains heavily Nvidia-based	Strategic investment supports capacity but has uses beyond chips.
OpenAI / Ohio leases	Up to $105B Nvidia residual-value guarantees	4.25GW Nvidia DSX deployments	Contingent, capped and expected to begin in 2028—not 2026 demand.
Industry platforms	>$500B third-party-capital ambition	Six financial partners and Nvidia infrastructure	MOUs over multiple years; independent capital is not automatically circular.

Selected relationships only; intentionally not summed. Amounts and conditions are drawn from company and regulatory disclosures and a reported Google commitment.[12]–[19][32]

SENSITIVITY

$500B demand × 8%–15% broad support = roughly $40B–$75B

At 10%, the estimate is $50B. At a 15% case, it is $75B. At 20%, it is $100B. We use 10% as the base case because not all strategic capital is spent on chips, spent in 2026, or tied to incremental demand.

Why a minority share can still set the marginal price

- **Capacity is constrained.** A modest demand subsidy can extend lead times, raise utilization and support scarcity pricing.
- **Backlogs become collateral.** Long contracts support debt, leases and further capacity commitments before end-user revenue is fully observable.
- **Residual values are correlated.** If rental rates, utilization or chip resale values fall together, lenders and guarantors retrench at the same time.

Why this is not fictitious demand

- Chips, power and buildings are delivered.
- Hyperscalers have large incumbent cash flows.
- Enterprise and consumer usage is measurable.

Why independence still matters

- Suppliers can finance the buyers that validate their backlog.
- Future guarantees move risk beyond current income statements.
- Capital availability can weaken before reported revenue does.

The interlock now reaches reported profit. The Financial Times calculated that Alphabet, Amazon, Nvidia and Microsoft booked more than $160B of 'other income' in their latest quarters, largely reflecting valuation gains on AI-linked stakes. Alphabet reported $97.9B and Amazon $53.4B in the June quarter; Nvidia reported $7.7B through July and held 122.8 million SpaceX shares. The combined boost was more than double the prior period's roughly $69B. These marks may be economically real, but they are non-operating, noncash and reversible; headline P/E and growth should therefore be normalized before judging repeatable earning power. Core technology earnings remain strong.[25][36]

5. Revenue is visible; economic return is still being tested

The key question is no longer whether AI infrastructure will be built. It is whether end-customer cash generation will ultimately cover depreciation, financing costs and the next replacement cycle.

COMPANY	CURRENT INVESTMENT EVIDENCE	CURRENT DEMAND EVIDENCE	INVESTOR QUESTION
Amazon	$96.3B cash capex in 1H26; major AWS commitments	AWS contract backlog and AI-lab commitments	How much capex becomes durable free cash flow after replacement spend?
Alphabet	$175B–$185B 2026 capex guide; $44.9B in Q2	Cloud revenue +82%; Search and ads also grew	Can cloud margins absorb power and depreciation while capex stays elevated?
Meta	$130B–$145B 2026 capex guide	Management still expects 2026 operating income above 2025	Will engagement/ad gains compound faster than infrastructure cost?
Microsoft	$31.9B Q3 capex; roughly two-thirds short-lived GPUs/CPUs	Azure +43%; commercial RPO $678B	Are contracted demand and realized utilization aligned?

Company reporting periods and capex definitions differ; the table is directional, not an additive aggregate. Disclosed guides and run-rates imply more than $600B of annual investment across the largest buyers.[6][7][13][20]

ECONOMIC TEST

End-user revenue must eventually outrun capex + depreciation + financing cost.

Contracted revenue can fund a buildout; it does not by itself prove the return on the assets. Shorter chip lives and falling compute prices help users while increasing the hurdle for owners of infrastructure.

Reasons the return can remain high

- Hyperscalers fund investment from profitable, diversified incumbencies.
- Cloud backlog and enterprise adoption are accelerating.
- Model efficiency can expand demand faster than price declines.
- Network, data and distribution advantages can protect margins.

Reasons cash conversion can weaken

- Rapid obsolescence raises true economic depreciation.
- Custom silicon and competition compress accelerator pricing.
- Power, grid and construction bottlenecks lift delivered cost.
- Contract finance can precede sustainable end-user cash flow.

A high-quality company can therefore be a poor investment at the wrong price, while a capex beneficiary can be cyclical despite secular demand. The memo’s diversification argument rests on that distinction—not on a forecast that AI spending stops.

Normalize both margins and headline profit.

Do not capitalize temporary scarcity margins or noncash equity revaluations as permanent earnings. Value strategic stakes separately; compare normalized operating cash economics with less reflexive earnings pools.

6. The other half begins with price

Diversification is most compelling when it changes both the earnings driver and the price paid. Today's dispersion provides that combination: several broad pools trade at forward multiples 20%–45% below the cap-weighted S&P 500.

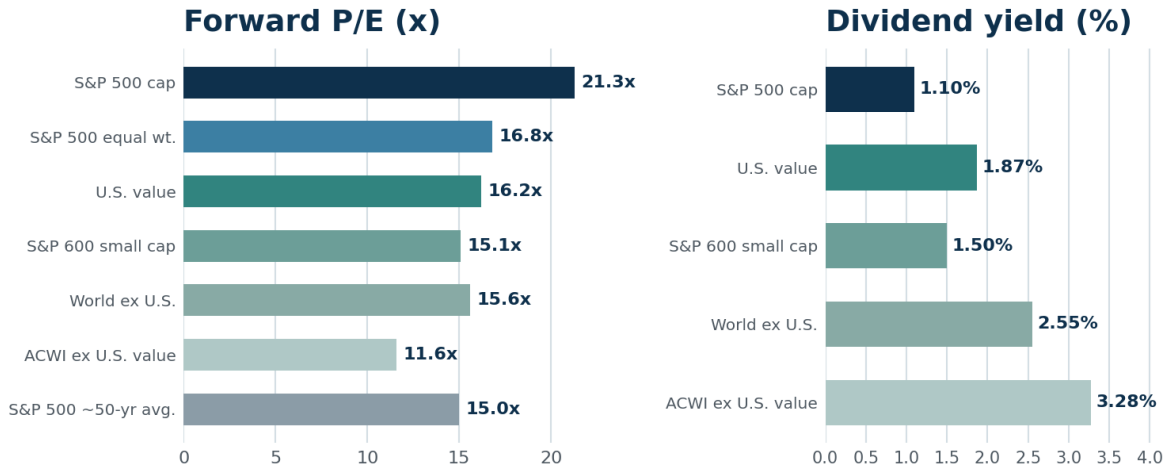

Figure 3. Current bars use forward P/E; the 15.0x S&P 500 history bar is the average since 1978, the available near-50-year forward series. Other snapshots are 31 July or 26 August 2026. Equal-weight yield is omitted.[1][2][3][27]-[29][34]

EQUITY POOL	FORWARD P/E	DISCOUNT VS. S&P 500	DIVIDEND YIELD	CONCENTRATION / EXPOSURE NOTE
S&P 500 cap weight	21.32×	—	1.10%	Top ten 37.1%; IT 37.1%.
S&P 500 equal weight	16.82×	21%	n/a	Each name resets to ~0.2%; IT 14.1%.
MSCI USA Value	16.21×	24%	1.87%	Financial/cyclical tilt; not a free quality upgrade.
S&P SmallCap 600	15.13×	29%	1.50%	Profitability screen; more cyclicality and rate sensitivity.
MSCI World ex USA	15.59×	27%	2.55%	Different currency, policy and sector mix.
ACWI ex USA Value	11.58×	46%	3.28%	Financials 38%; replaces tech concentration with another tilt.

EXPECTED-RETURN CHECK

Vanguard's 10-year ranges: U.S. equities 4.2%–6.2%; developed ex-U.S. 4.5%–6.5%.[21]

A lower multiple is only protective if the earnings denominator survives normalization. In Q2 2026, BEA pre-tax corporate profits with inventory valuation and capital consumption adjustments reached 17.9% of national income—the highest quarterly share in the series since 1947—while employee compensation fell to 60.2%, its lowest since Q1 1951. Holding national income constant, a return to the 2015–19 profit-share average of 13.5% would imply roughly 25% lower aggregate NIPA profits. This is scenario arithmetic, not an S&P 500 earnings forecast.[36]

Cheap is not a catalyst. Equal weight underperformed cap weight by roughly 35 percentage points from late 2022 to August 2025. Developed ex-U.S. and value have also endured long relative droughts. Diversification must be sized to survive that possibility rather than treated as a near-term timing call.[30]

7. Diversification owns tomorrow's leaders before they are obvious

The strongest argument for breadth is not simply that today's leaders are expensive. It is that cap-weight concentration tells us where past success accumulated—not where future value creation must originate.

> **Nifty Fifty Context**
>
> **The ten largest S&P 500 companies were 38.2% of the index; six decades later they were only 2.4% combined.**
>
> Three eventually went bankrupt. Meanwhile, the companies that became the 2025 top ten began at an average index weight of only 0.58% and later generated roughly one-third of market growth. The tail is where future leaders start.[4]

The lesson is not to abandon the adaptive broad index. It is to avoid letting yesterday's winners crowd out the pool from which the next winners must emerge.

INDEPENDENT EARNINGS POOL	WHY IT DIVERSIFIES	WHAT CAN GO WRONG	WHAT TO UNDERWRITE
S&P 500 equal weight	Reduces mega-cap price momentum and restores sector breadth.	Structural quality and tax-efficiency may be lower; can lag for years.	Profit breadth, leverage and rebalance discipline.
U.S. value / profitable small-mid	Shorter-duration cash flows; lower prices; different customer cycles.	Credit, refinancing and economic sensitivity.	Balance sheets, normalized margins and free-cash-flow yield.
Developed ex-U.S.	Currency, policy, sector and valuation diversification.	Lower trend growth, governance and geopolitical risk.	Per-share growth, capital returns and currency exposure.
AI users outside technology	Can capture falling compute costs as margin/productivity gains.	Benefits may be competed away or offset by implementation cost.	Evidence of revenue lift or cost reduction—not AI branding.
Power / grid / industrial enablers	Physical bottlenecks can earn scarce returns outside software.	Still linked to AI capex; regulation and overbuilding matter.	Contract quality, allowed returns and replacement economics.
High-quality fixed income / liquidity	Changes risk driver and provides a measurable hurdle rate.	Reinvestment risk; inflation can erode real value.	Duration, credit loss and after-tax yield.

Current breadth is not only valuation theory. Through 27 August, the S&P 500 ex-Magnificent Seven had returned 15.01% versus 9.08% for the Magnificent Seven. A simple attribution implies the other 493 generated roughly three-quarters of the index's 2026 price gain. FactSet also reported Q2 earnings growth in ten of eleven sectors. The weights remain concentrated; the returns are already broadening.[22][26]

8. Four regimes, one robust decision

A diversification plan should not require a single forecast. The decision earns its keep if it improves portfolio resilience across several plausible paths.

REGIME	AI / TECHNOLOGY COMPLEX	INDEPENDENT EARNINGS POOLS	PORTFOLIO IMPLICATION
Revenue outruns capex	Strong earnings; multiples may hold	Positive but may lag	Keep meaningful AI participation; rebalance rather than exit.
Adoption broadens	Infrastructure growth normalizes	Users capture productivity and margin gains	Favor a barbell of enablers and verified adopters.
Monetization is delayed	Capex, pricing and multiples weaken	Cheaper cash flows provide relative ballast	Valuation and funding independence matter most.
Financing shock	Neoclouds, leases and residual values retrench	Low-leverage pools outperform, though cyclicals can also fall	Liquidity and balance-sheet quality become the hedge.

The strongest counterarguments

COUNTERARGUMENT	EVIDENCE	RESPONSE
The leaders are not 2000-era speculation.	Large incumbent cash flows, real cloud demand and exceptional margins.	Agreed. The risk is price, capex intensity and common exposure—not fabricated revenue.
AI lowers costs and expands the addressable market.	Model efficiency and enterprise adoption can create new demand.	Agreed. Falling unit cost can benefit users more than asset owners; value capture must be observed.
Cap-weight automatically owns winners.	Successful firms become larger without active selection.	True, but it also buys more after price appreciation and reduces exposure to the future-winner tail.
Cheap markets may be cheap for structural reasons.	Lower growth, weaker governance and cyclicality can persist.	Use quality and per-share cash economics; a valuation gap alone is insufficient.
Concentration can persist.	Equal weight and international assets have lagged for long periods.	Size diversification as risk control, not a short-horizon relative-performance wager.

Historical drawdown evidence is still relevant: from March 2000 to September 2002, U.S. Information Technology and Communication Services fell nearly 80%, versus 22% for the rest of the market. Today's businesses and balance sheets differ; the arithmetic of concentration does not.[23]

> **WHAT WOULD CHANGE OUR MIND**
>
> **Sustained post-depreciation returns, independent end demand and broad earnings growth would justify more—not less—technology exposure.**
>
> The memo is a live underwriting framework, not a permanent style preference.

9. Portfolio construction: diversify the thesis, not just the labels

> **Every holding should earn its place through a distinct cash-flow engine, a defensible price, or explicit ballast.**
>
> If two holdings fail for the same reason—AI capex slows, long rates rise, GPU residual values fall—count them as one risk even if they sit in different sectors.

CONSTRUCTION RULE	PRACTICAL APPLICATION	FAILURE IT PREVENTS
1. Look through sector labels	Map revenue, capex, funding and valuation sensitivity to the AI buildout.	False diversification across correlated beneficiaries.
2. Separate enablers from users	Require users to show measurable cost, revenue or working-capital benefits.	Paying technology multiples for an unproven narrative.
3. Budget common downside	Cap aggregate exposure to a funding, rate or residual-value shock.	One macro variable overwhelming position-level analysis.
4. Demand a starting-price edge	Compare normalized free-cash-flow yield and per-share growth across pools.	Substituting ‘cheap’ labels for an actual return bridge.
5. Rebalance with evidence	Add when valuation improves and thesis metrics hold; trim when price outruns economics.	Turning diversification into static anti-momentum dogma.
6. Preserve liquidity	Maintain assets that can fund dislocation purchases without forced sales.	Owning optionality only on paper.

Monitoring dashboard

SIGNAL	HEALTHY EVIDENCE	WARNING EVIDENCE
End revenue vs. compute commitments	Revenue compounds at or above committed capacity cost.	Contracts grow much faster than customer monetization.
Capex / operating cash flow	Ratio stabilizes as revenue scales.	Free cash flow weakens despite rising accounting earnings.
Utilization / rental rates	High utilization with stable pricing after new supply.	Falling rates, idle capacity or contract renegotiation.
Vendor support	Buyer funding becomes more independent and diversified.	More equity, guarantees or facilities are needed per dollar of demand.
Residual values / asset lives	Realized lives match depreciation assumptions.	Rapid obsolescence, impairment or collateral haircuts.
Earnings quality / breadth	Operating profit, cash flow and non-tech earnings broaden; equity marks remain supplemental.	Index growth narrows or noncash valuation gains drive headline profit.
Valuation gap	Broader markets rerate through earnings, not leverage.	Cheap pools become lower quality without better cash returns.

10. Conclusion

FINAL CONCLUSION

AI can be transformational. The S&P 500 can still be an incomplete way to own the future.

About 52% of the index is in a broad technology/platform risk bucket and the top ten hold 37%. The buildout blends customer demand with supplier finance, while strategic equity marks can add non-operating gains to headline profit. None of that makes the revenue unreal. It makes price, normalized operating earnings, funding independence and portfolio breadth more important.[36]

The investment case for the other half is positive, not merely defensive. It owns cheaper current cash flows, a wider set of geographies and customer cycles, potential AI users, and the small weights from which future leaders emerge. The objective is not to predict the exact top of an AI cycle. It is to stop requiring one crowded thesis to carry the whole portfolio.

ACTION

Measure the portfolio by economic driver; then rebalance toward independent cash flows with a price advantage.

Keep enough technology participation to respect the evidence. Keep enough of the other half to respect the arithmetic.

Methodology

Concentration and valuation figures are point-in-time index or ETF data. The broad technology/platform definition is an analyst-defined risk bucket. Pro forma exposure assumes a $65T float-adjusted S&P 500, SpaceX at $1.86T/40% float, OpenAI at $852B/30%, and Anthropic at $965B/25%; it is not an inclusion forecast. The circular-financing estimate begins with a rounded $500B AI/data-center-chip denominator, identifies disclosed strategic capital, then discounts for timing, non-chip uses, conditionality and demand that would have occurred without support. The result is a range, not an audited statistic. Forecasts are labeled and should not be interpreted as expected First Principles results.

Profit-share calculations use quarterly BEA NIPA Table 1.12. NIPA profits are pre-tax economic-accounting profits with inventory valuation and capital consumption adjustments, not S&P 500 GAAP EPS or a profits-to-revenue margin; employee compensation includes wages and benefits. The normalization illustration holds national income constant.

Source notes

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