



When the Rules Change

“The riskiest thing in markets is the belief that there is no risk.” Howard Marks

For much of the past forty years, investors enjoyed a remarkably favourable environment. Interest rates generally moved lower, global trade expanded, inflation remained subdued, technology improved productivity, and major geopolitical conflicts were relatively contained.

Those conditions shaped more than markets — they shaped investor expectations. Many came to believe that globalisation would continue indefinitely, that central banks could smooth out almost any economic setback, and that technological progress would keep inflation low while lifting corporate profits. That world produced exceptional investment returns.

Today, however, the world appears to be operating under a different set of rules. Some of the assumptions that served investors so well over the past four decades deserve to be questioned.

The world is becoming less focussed on efficiency and more focussed on resilience. As investment manager Lyn Alden argues, self-reliance is increasingly replacing global efficiency as the organising principle of economic policy. Governments are taking a larger role in directing investment. Supply chains are being redesigned, domestic manufacturing is returning to the political agenda, and national security increasingly influences economic decisions. At the same time, decades of rising government debt mean fiscal

policy is becoming just as important to markets as monetary policy.¹

In other words, the playbook that served investors well for the past forty years may not work quite as well going forward.

Perhaps the most important change is where capital is being invested.

For many years, exceptionally low borrowing costs encouraged companies to reward shareholders through share buybacks, acquisitions, and other forms of financial engineering. Capital expenditure was often viewed as a drag on earnings rather than a source of future growth.

The incentives are now changing. Market strategist James Thorne observes that companies are increasingly being rewarded for building productive capacity rather than simply optimising their balance sheets. Companies that once prided themselves on being asset-light are becoming asset-heavy. Capital is increasingly flowing into factories, semiconductor plants, data centres, electricity generation, transmission networks, logistics infrastructure, and critical supply chains. Rather than simply shrinking the number of shares outstanding, businesses are once again investing heavily in productive capacity.²

No investment theme better illustrates this shift than artificial intelligence.

AI may ultimately prove as transformative as railways, electrification, or the internet. Yet history reminds us that changing the world and making money for shareholders are not always the same thing.

Technological revolutions tend to follow a familiar pattern. Genuine innovation attracts enormous amounts of capital. New competitors emerge. Capacity expands rapidly. Eventually, supply catches up with demand, competition intensifies, and returns often disappoint those who arrived late.

The scale of today's AI investment cycle is extraordinary. Global AI-related capital expenditures are expected to approach US\$1 trillion this year, with another US\$1 trillion likely to be invested in supporting infrastructure over the next five years. Those investments may generate enormous economic benefits and significantly improve productivity.

That does not necessarily mean every investment will prove successful.

Railways transformed economies, yet many railway investors lost fortunes. The internet reshaped commerce, yet numerous technology companies from the late 1990s never came close to justifying the prices investors paid for them. Great technologies frequently survive. Speculative valuations often do not.

Investors often assume that recognising the future is enough. But that is

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only one-half of the equation; paying a reasonable price for it is the other half.

Periods of excitement encourage investors to assume that today's winners will remain tomorrow's winners. History suggests otherwise. Competition increases, margins narrow, and high expectations eventually meet economic reality. A wonderful company purchased at too high a price can become a disappointing investment. Conversely, an unfashionable business purchased at a sensible valuation can produce exceptional long-term returns.³

Economist John Hussman recently warned that current market valuations rival some of the most expensive periods in modern financial history (see chart). Yet he also advises against becoming committed to any single forecast. Markets can remain exuberant far longer than many investors expect — just as they can decline much further than most investors can imagine. As Hussman puts it, "The deferral of consequences is often confused with the absence of consequences."⁴

Markets evolve. Human behaviour does not. Valuation still matters. Competition still matters. Cash flows still matter. Just as gravity may appear suspended for a moment when a ball is thrown into the air, it never disappears. Markets can drift away from underly-

ing business value for surprisingly long periods before eventually reconnecting with economic reality. No one knows precisely when that adjustment will occur, but history suggests that it always (painfully) does. The longer optimism carries prices above intrinsic value, the more important discipline and patience become.

AI is changing more than the economy. It is changing our relationship with information itself. Never before have we had access to so much information, yet many people feel less certain about what is true. Artificial intelligence, social media algorithms, declining trust in institutions, and increasingly sophisticated synthetic media make it harder to distinguish signal from noise.⁵

Investors face the same challenge. Information has become abundant; genuine insight remains scarce.

None of this should be mistaken for pessimism.

Human ingenuity has repeatedly adapted to technological revolutions, geopolitical transitions, and financial restructuring. Innovation remains one of the greatest drivers of prosperity, and artificial intelligence may ultimately improve productivity in ways we cannot yet imagine.

What has changed is not humanity's ability to innovate. What has changed is the assumption that progress will be linear, predictable, and evenly distributed.

The coming decade is likely to reward adaptability over certainty. Markets may increasingly be influenced by government policy, geopolitical developments, and productive investment as much as by interest rates and financial engineering.

The future will almost certainly create tremendous wealth. It always has. History also suggests that it rarely rewards every participant equally. Some of today's market leaders will justify the optimism surrounding them. Others may resemble the celebrated companies of previous investment booms — excellent businesses that nevertheless proved disappointing investments because expectations became detached from reality.

Our responsibility as portfolio managers is not to predict the future with precision. It is to build portfolios that can prosper across a range of possible futures. That requires recognising that the assumptions which served investors well during one era may not serve them as well during the next.

In that sense, the most valuable investment asset may not be conviction, but humility.

Sources:

1. Lyn Alden, "The Wild West", [Lyn Alden Investment Strategy](#), 4 June 2026
2. James E. Thorne, "The End of Financial Engineering", [drjstrategy on X](#), 26 June 2026
3. Vitaliy Katsnelson, "This is your Captain Speaking—Buckle Up", [Investment Management Associates](#), 9 June 2026
4. John Hussman, "Record Extremes, Alternative Investments, and the Hippo", [Hussman Funds](#), June 2026
5. Lyn Alden, "The Wild West", [Lyn Alden Investment Strategy](#), 4 June 2026
6. Chart: John Hussman, "Record Extremes, Alternative Investments, and the Hippo", [Hussman Funds](#), June 2026



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