



## To the Stars?

Q2 2026

SpaceX is impossible to ignore so I'll start there.

*"To build the systems and technologies necessary to make life multiplanetary, to understand the true nature of the universe, and to extend the light of consciousness to the stars."*

I don't generally get too worked up about mission statements. Let's just say they're all a bit too aspirational for my taste. But the one above from SpaceX is a humdinger. Maybe in the next twenty years we will spend a zillion dollars to blast a few folks to Mars on a 2.5 year round-trip to scratch around in the dust and perhaps find something that died eons ago. What then? Hop on out to Jupiter or Saturn? No. There's no truly great reason to go to Mars and no possible way for humans to visit any planet beyond Mars. None of this multiplanetary happy talk makes sense. It's meant to fill our heads with infinite possibilities when the reality is more...down to earth. SpaceX is actually a broadband/wireless provider, a superb satellite launch company and an aspiring AI business. It was also the biggest IPO in history, puffed up by the Elon hype machine, in my opinion. In any case, I'd be happy to take a little sip of some of that *light of consciousness*, but I'm staying away from this stock.

Back here on Earth, markets ripped higher in the second quarter. Small caps led, posting a 21% gain, continuing to benefit from a very strong economy and the rotation out of the Magnificent 7. Not far behind, the S&P 500 rose 15%, dragged higher by a 44% gain in the tech sector, itself inflated by a nearly 100% gain in the semiconductor index. Much of the above can be explained by the unprecedented AI capital spending boom, projected to reach over \$700 billion this year from the hyperscalers (MSFT, AMZN, GOOG, META, ORCL) alone. For the capacity constrained chip sector, that spending is resulting in nearly 85% pre-tax margins on the incremental dollars of revenue, a windfall of historic proportions that explains their superlative gains. The hyperscalers, on the other hand, once the unquestioned leadership, have been banished to the doghouse as investors began to seriously fret over the potential return on all that spend. Other noteworthy performances for the quarter included a strong showing from industrials, up 15% as a clear

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beneficiary of the AI bonanza, and a 9% jump in healthcare. The second quarter can be summarized rather succinctly as a powerful rotation out of the AI spenders into the AI spending recipients and everything else, with just a few exceptions, notably energy falling 13% on Iran war relief.

This has been one of the most intense momentum surges of all time. That leaves domestic markets in an unstable state as investor positioning is all-in on the AI build-out boom. While valuations aren't bubble-like, the AI spending boom presents its own unique set of risks. For one, the sheer enormity of the spending suggests desperation rather than rational planning. Almost certainly some significant portion is being misallocated, or even just wasted given the price gouging evident in the semiconductors. This is a chronic feature of every boom cycle. Data center completions are already trailing expectations because of shortages of basic materials, labor and power, not to mention political backlash. Are unused chips piling up somewhere? And how we will use AI isn't even remotely clear yet. If I had to guess, the AI spenders are all racing to develop and host the most sophisticated models with the tiniest latency (how long it takes to answer your prompt) and they expect us to pay a premium. What if a so-so model with tolerable latency will do for most applications? How many good enough models do you imagine we'll eventually have to choose from? My typically imprecise prediction: at some point in the near future, someone important will say something cautious about AI spend and the momentum will break. Spectacular momentum breaks spectacularly. Hopefully, we'll be ready.

On this 250<sup>th</sup> anniversary of our country's birth one naturally reflects on the enduring success of our American experiment. And I'd argue that a principal reason that our economy and markets remain the world's most dynamic is that strangers from strange lands still take great risk to come here to make their mark. The majority of us are descendants of immigrants or actual immigrants seeking something better. The boldest, brightest and hardest working from around the world have always wanted to come here. Striving and risk-taking are deep in the American DNA. Is it a surprise that the richest person in the world is that strange genius from a strange land who came here to fulfil his audacious dreams? The Founding Fathers were thinking of a place for Elon. It ain't perfect, but it's the best here on Earth. Happy 250<sup>th</sup> birthday America!



Richard H. Skeppstrom II serves Brockenbrough as Managing Director and Chief Equity Strategist. He manages two of our investment products and writes most of our investment commentary. Richard joined the firm in 2016 and has 30 years of experience in the investment management industry

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