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Market Ethos

The latest market insights from
Richardson Wealth



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Storytime

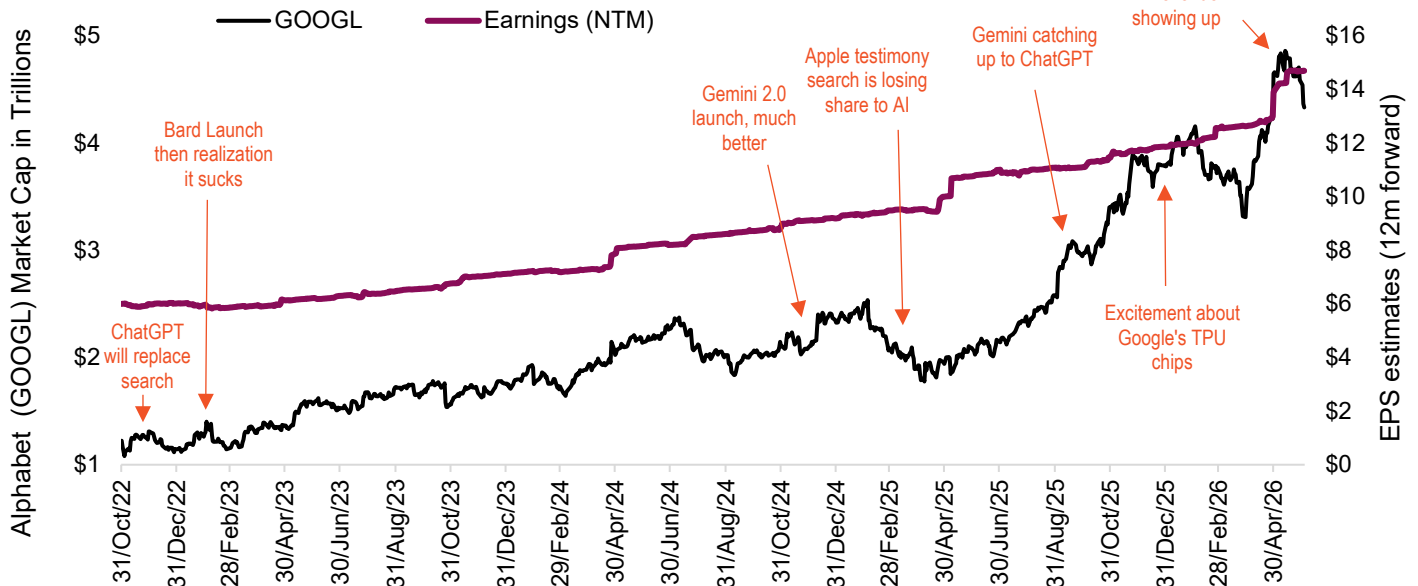
Many things affect the share price of a company. There are big macro factors such as the broader market, big economic data, interest rates and geopolitical factors. Or there are company-specific factors such as guidance, earnings or specific news. And then there is the story or prevailing narrative in the market. Think of it as what people are saying about a company, industry, or asset class. This narrative can be a very powerful influence on share prices.

We believe this is an increasingly narrative-driven market. All those other factors still matter and will move prices, but the narrative seems to be carrying a much bigger weight of late. The allure of a narrative is that it explains a very complex situation and boils it down to a short simple story, that sounds smart. And us humans like stories because they're part of our evolution. Information has always been passed along better in a story format.

Bitcoin is down over -20% in the past month, with the most prevalent narrative (story) being that investors are selling to free up cash to participate in the SpaceX IPO. Plausible? Sure. Provable? Nope. It does take the price of bitcoin, which is influenced by many factors, and explains what is happening with a reason that sounds smart enough. Unfortunately, there are so many moving parts in the market, so many participants, so many different motivations, that a simple narrative is a shortcut.

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The oscillating narratives for Alphabet



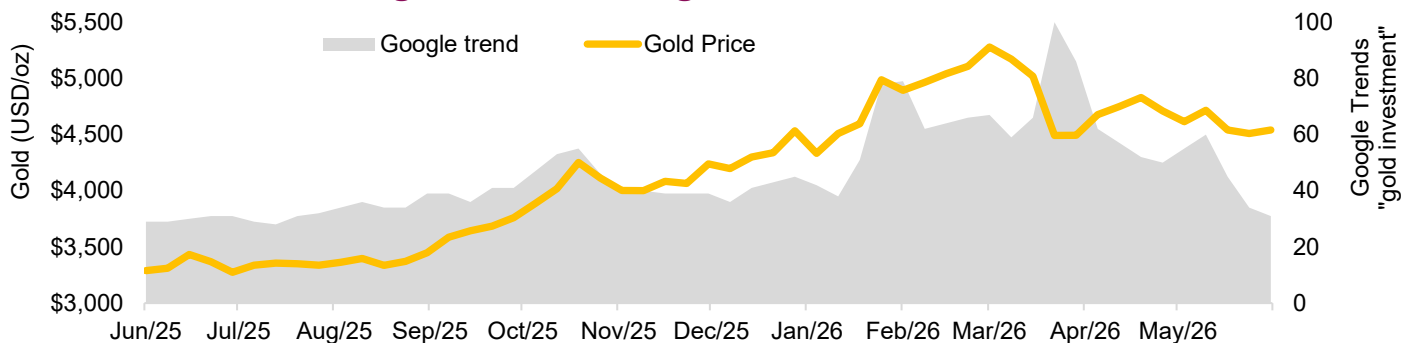
Source: Bloomberg, Purpose Investments

While a story may be a shortcut, that doesn't mean it doesn't move markets. And it doesn't remain constant. Take a look at Alphabet (Google) over the past few years. Very impressive with **steady earnings growth** from \$6 per share to just over \$14. Meanwhile, the market cap has grown from a bit over \$1 trillion to brush up against \$5 trillion, and **certainly not a smooth line like earnings**. When their initial AI tool, Bard, was launched, the stock went down -20% as it failed to impress. There were also periods when fear that AI would cannibalize or replace simple search, weighed on the stock. Given advertising on Google is 70% of sales, a legit fear. Then with Gemini, AI was incorporated into search, they gained market share and the narrative turned back to being positive. Then TPU excitement, then AI revenue started to show up, almost making it the most valued company in the world.

All these oscillating narratives have some fundamental foundation, but it sure seems the narrative carries a lot of weight. The price-to-earnings ratio of Alphabet ranged from a low of 14x to a high of 28x. Sure would be hard to justify these price variances with a discounted cash flow model after feeding it stable earnings growth.

This market has become very narrative driven, with the narratives driving some things up and some things down. And the narratives don't even have to change; they can simply become less prominent or fade away. Perhaps an over-simplified approach to show this is with Google trends, measuring keyword usage in search queries. It doesn't capture what the narrative is, positive or negative, but provides a proxy of how loud a narrative has grown.

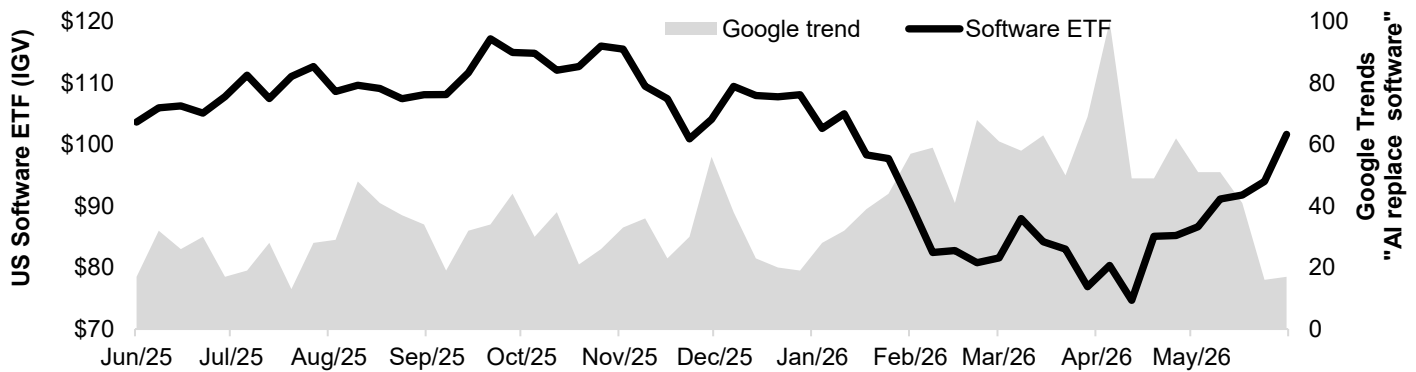
Rising narrative lifted gold, then narrative faded



Source: Bloomberg, Google, Purpose Investments

Gold had a pretty epic run in late 2025 into early 2026 and has been languishing over the past few months. Many factors influence the price of gold, but the narrative certainly matters. The first two peaks in Google trends were roughly in line with gold price peaks. The big peak in the narrative flow was after the war started and the price of gold dropped. It's very possible the narrative flipped from loving gold to wondering why it isn't working during wartime. Nonetheless, the interest in gold has faded, as has the price. For now, anyhow.

Will AI replace software?

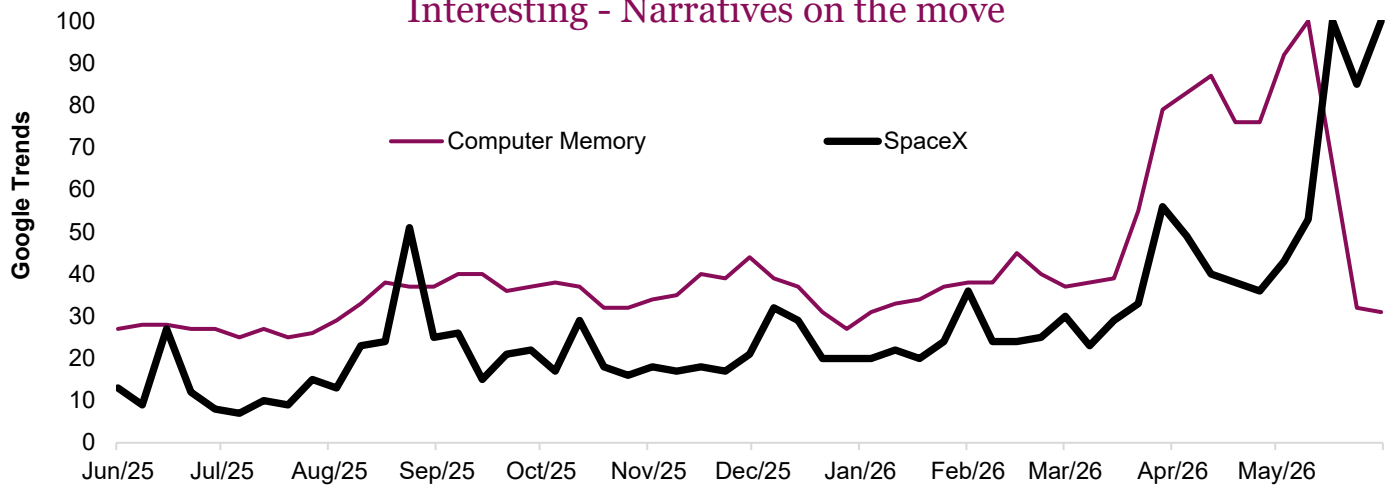


Source: Bloomberg, Google, Purpose Investments

Here is one even more on point. A narrative started to build late last year that AI would kill or really hurt many software companies. The premise was (and is) AI can more quickly or cheaply create software, which would allow a new competitor to come in with solutions at much lower price points. This would put pricing pressure on software companies. This narrative (fearful one) pushed software valuations from over 30x to under 20x in a few months, with share prices falling 25% based on the S&P 500 Software index.

This risk hasn't disappeared, but the narrative has. And share prices have recouped most of the losses. Markets often overreact in the short term and underreact in the long term. Narratives drive that short term overreaction. Here are two big narratives of late: computer memory and SpaceX.

Interesting - Narratives on the move



Source: Bloomberg, Google, Purpose Investments

Why is this a narrative-driven market?

Full disclosure, in our attempt to answer this question we are going to tell you a story. It is plausible, but sadly, hard to prove. We believe there are two key factors behind this more narrative-driven market dynamic: late cycle & AI.

Late cycle – We believe it is late cycle because of how long this cycle has run — inflation is pretty hot, output gap is largely closed, commodity prices are up, late cyclicals are performing strongly, employment is tight, consumers are starting to weaken and of course a big disruptive technology story.

In the late cycle, stories resonate more broadly and carry a bigger weight. The Internet, housing, China, Mag7, AI, these stories captivate and counter arguments are dismissed with “they just don’t get it”. As the cycle ages, strong performance and a fading memory of the past bear market cause investors to become more fearless. It is a more fertile environment for stories to resonate.

Artificial intelligence – This one has a few nuances. Firstly, whenever there is a big disruption, such as AI, the fundamentals become hard to conceptualize and stories fill the void. Maybe not simple valuations like PE, which are a bit stretched but not insane. It could be a size thing. Remember the chart for Alphabet that experienced a -20% drop when they launched Bard? That drop was about \$200 billion in market cap. If they fell -20% today, it’s a trillion dollars of wealth that would disappear.

The dollars being thrown around are pretty insane, though not implying they are made up or anything. Just hard to process mentally and stories can help with that.

Secondly, it may be algos. AI has enabled just about anyone to build an algorithm trading strategy. Upload a bunch of data, throw together some well-designed prompts and have AI build your strategy. A few more prompts and you can tie it into a trading platform. Ok, it’s not that easy but it is a heck of a lot easier than before AI.

We are 100% sure the quant shops are far superior in design, testing, implementing, monitoring and are regulated. But this DIY approach has likely lowered the barriers of entry. AI has enabled algos to be quickly developed on sentiment, news flow, momentum, etc. There is further evidence that AI is more prevalent in the market as trading volumes have declined during periods of key AI platforms outages.

Now if we truly have many DIY algo traders building strategies all based on the same LLMs, well, is it a surprise their signals would cluster together? A narrative starts to build, the algos find it and start trading on it, this fuels the narrative to become more widespread.

How to invest in a narrative-driven market?

This is a challenging question which we will attempt to answer with our three sample investors: Thomas Bayes, John Maynard Keynes and Dug.

Thomas Bayes: Creator of Bayes Theorem, has a view of the world, acknowledges the future is unknowable and uses a weighted probability approach to encapsulate his views. These probabilities are adjusted as new evidence is encountered. Call it a gradual, or fluid approach to changing his views on the world.

John Maynard Keynes: Often referred to as the father of modern economics but is perhaps more known for the quote “When my information changes, I alter my conclusions. What do you do, sir?”. In this case, Keynes doesn’t change his mind until the evidence accumulates enough to warrant the change. Slower to change his mind, but then abrupt and decisive.

Dug: The Golden Retriever from Up was famous for being distracted by squirrels. His famous quote is “My name is Dug. I have just met you, and I love you.” Dug changes his mind quickly and will change it back just as fast.

Given a narrative can drive stocks in one direction for a period and then the narrative moves elsewhere, Keynes probably wouldn't manage well. Too slow to change his mind and he may just do so near the top (or bottom). Bayes would likely do better, incorporating a new narrative sooner albeit with a lower weighting. And when the narrative changes, would gradually incorporate this as well. Better, but not great.

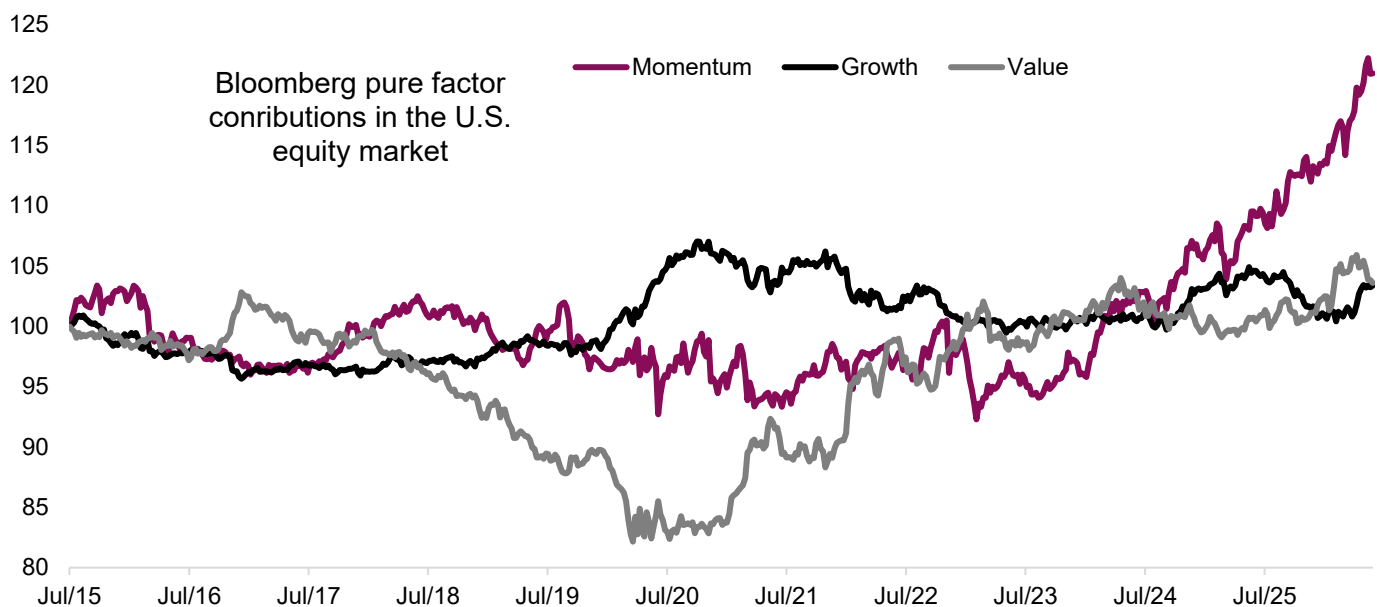
Dug, clearly the cutest, may have the investment edge here. The ability to change his mind quickly as the narrative oscillates. Unfortunately, from a portfolio perspective, changing your mind too quickly can easily lead to over-trading and often poor results. Perhaps the overall portfolio should be managed by Bayes with a little Dug allocation on the side.

Momentum does well when narratives dominate

If building your own algo trading strategy that digests news from multiple feeds plus Reddit and Twitter, synthesizing the flow to create trading signals is something still out of reach, momentum may be the answer. Momentum, which is based on price momentum of the market, sectors or individual equities, captures the narratives as they show up in market prices.

Bloomberg Pure factors break down market performance into many categories. Value and Growth are the most common but Momentum is getting more attention, helped by its rapid rise as a performance-driving factor. Since mid- 2023, momentum has become the dominant driver of performance, among other factors.

No question this is a momentum market



Source: Bloomberg, Purpose Investments

This is likely more evidence we are in a narrative-driven market. It sure ain't value, quality, or even growth. The challenge would be as the narrative changes, will the momentum index or factor reconstitute itself quickly enough? Nothing is as fast as Dug.

If the narrative-driven market continues, momentum is likely a useful factor. But it can also be pretty risky if things reverse. That is certainly evident in the last few days as leadership switched from the high momentum to value/defensive pockets of the market. At the time of writing early Friday afternoon, the iShares MSCI USA Momentum Factor ETF is down -5% in two days. Still up 24% this year, but clearly if the narrative or market leadership has changed, watch out.

Final thoughts

This is late cycle and a narrative-driven market. We don't think it ends anytime soon, but do expect narratives to drive markets in both directions as the sentiment or excitement oscillates. Late cycle can go on for some time and often sees some of the biggest moves. Fundamentals, the economy, rates and other factors will become important again, but in the meantime, it's the stories.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.

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