Marble Harbor Investment Counsel, LLC
Second Quarter, 2026 Letter

We are pleased to send an excerpt from our quarterly client letter that discusses our current thinking. We welcome your thoughts.

Sincerely,

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Art Institute of Chicago

One Theme

In the 1980s coming-of-age film, *Ferris Bueller's Day Off,* Ferris and his friends spend part of their epic day at the Art Institute of Chicago. There, Ferris' friend Cameron considers his life by intensely studying Georges Seurat's *A Sunday on La Grande Jatte.* The scene takes us from him observing the entire painting to progressively focusing on the finer and finer details of the artist's pointillism, until we only see the texture of the canvas and the dots that define a young girl.

During our recent travels, a conference in Chicago was amongst our visits where we were able to spend time with numerous company managements. These sorts of discussions allow us to move from observing the whole market of many companies, to a close-in focus on individual businesses – the points that build up to the entire picture, and the place we find the surprising details that most inform our investing.

This year, a clear theme emerged almost immediately. We've seen shadows of this sort of uniformity in the past, but rarely has it been so strong and distinct. We expect software companies and semiconductor manufacturers to discuss artificial intelligence (AI). Far more striking was how essentially every company in every industry feels the need to rub some of the gold dust on their narrative. Networking companies, electrical equipment manufacturers, engineering firms, nuclear power companies, testing laboratories, filtration companies and road builders all described unprecedented demand being created by the build-out of AI infrastructure.

Just three years ago, these companies would have described widely varied sources of new business. Today, many are building their long-term plans around the capital spending decisions of the so-called hyperscale cloud providers such as Microsoft, Amazon and Google, as well as AI model developers like OpenAI and Anthropic. What were once separate sources of growth have become intertwined into a single investment cycle. Unlike the concentration visible in the index itself, what we observed in Chicago was concentration in the underlying sources of future growth. Much of the economy's future is increasingly dependent on AI.

One conversation stood out. A firm whose business historically has been building municipal roads explained that it is now preparing sites for AI campuses. These projects often require three to five years of planning before construction even begins. Some otherwise unrelated companies are hiring people, expanding capacity and investing capital based upon projects that may not break ground until the end of the decade. If those projects do move forward, demand should remain strong for years. If they are delayed, resized or cancelled, billions of dollars of anticipated future orders across many industries might disappear before a shovel ever reaches the ground. Businesses that once relied upon industrial production, municipal spending and other traditional sources of growth are now tying their fortunes to the AI investment cycle. Much is being staked upon fickle capital markets and rapid technological change, and many of these companies have scant experience with the speed of these cycles.

This build-out requires capital on a remarkable scale. Major infrastructure booms have historically been financed with debt, and we are beginning to see that today. Several of the largest and most profitable companies, including Google, Nvidia, Amazon and Meta, are supplementing record capital expenditures with record debt issuance. There is nothing inherently troubling about borrowing to finance attractive investments, rather it reflects the sheer magnitude of the investment now underway.

History suggests this is not an unfamiliar pattern. The railroads and then electrification were perhaps the first modern examples of transformative technologies financed with debt on a massive scale. Their expansion helped give rise to the corporate bond market as we know it today and to the credit rating agencies that evaluated those securities. Although both of these technologies transformed the American economy, many of the companies that financed and built them ultimately went bankrupt. The excitement over what could be achieved got the projects funded, but few of the pioneers enjoyed the spoils.

This single-themed environment has influenced how we think about your investments. We believe artificial intelligence will become one of the defining technologies of our generation, and we have made companies that benefit from AI in various ways an important part of your portfolio. Several of our holdings provide networking, electrical infrastructure, cooling, and other products and services essential to the continued build-out of AI infrastructure. Others use AI to great advantage. However, we remain committed to owning a diversified portfolio of companies for you. We feel there is a critical difference between participating in a powerful long-term investment trend and building an entire portfolio around it.

Thoughtful investors do not have to adopt the risk profile of the index. Owning businesses that benefit from not only what may pay off ten years hence but also what is currently profitable mitigates risk. The purpose of diversification is not simply to own companies in different industries, but to own businesses whose future earnings depend upon different and varied factors. Your investment fortunes should not rely upon a single investment theme, no matter how compelling it may be. Participating in one of the most important technological developments in recent years is imperative. Building an entire portfolio around one theme is not.

Sincerely,

Paul, Eric, LJ, Dan and Joe

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