MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION



INVESTMENT VIEWS



OCTOBER 31, 2026

VOLATILITY AHEAD

Anything Goes!

As we head towards the end of a bumpy, but (so far) positive year, market volatility is expected to continue. For a number of reasons, be it the Iran War, oil prices, interest rates, AI spending concern, domestic political uncertainty and geopolitics – financial markets are struggling under a whole pile of worry. However, investors should be mindful that volatility can work both ways - resolutions of any of the issues mentioned can trigger violent movements upwards, as well as downward movements if these issues breakdown or spiral out of control. In recent weeks, we have a taken a few precautions and exited investments that may have greater sensitivity to the volatile environment.

Volatility is part of the routine for financial markets and that downside volatility can be, and often is, a great opportunity. Our portfolios have a significant portion of cash and money market funds that can be used to take advantage of opportunities if they are presented to us.

To reiterate, market volatility can go both ways. Many of the market concerns listed above can have positive resolutions, propelling the markets higher. While we do expect that the markets will work their way higher into the end of the year, downward volatility can erupt if markets lose patience.

AI INFRASTRUCTURE SPENDING SHOWS PROMISE AND FEAR

The artificial intelligence boom has triggered one of the largest capital-spending surges in modern corporate history. Hyperscalers are racing to build the data centers, power systems, and specialized chips required to train and run increasingly large models. Combined outlays by the largest players are tracking toward roughly $700–800 billion in 2026, with projections pointing to $1 trillion or more the following year. While this build-out has created strong demand across the semiconductor and infrastructure supply chain, it is now generating clear headwinds for investors in AI-linked stocks.

Aggressive capital expenditure is consuming the operating cash that once made these companies cash-generation machines. Several of the largest spenders have recently reported periods of negative free cash flow, forcing greater reliance on debt and equity issuance. Investors who once treated rising spending as a simple signal of confidence have grown more cautious, focusing instead on the gap between cash out the door and revenue coming back in. Much of the spending goes toward GPUs and servers with relatively short useful lives, which raises depreciation charges and stretches the period before the assets can generate attractive returns. The revenue required simply to break even on the infrastructure investment significantly exceeds the AI-related revenue currently visible.

Power availability has become a persistent bottleneck, with long interconnection queues, multi-year transformer lead times, and local opposition delaying projects. When capacity comes online later than expected, expensive chips can sit idle while financing costs continue to accrue.

The market has begun to shift from rewarding the sheer scale of investment to scrutinizing returns and balance-sheet durability. While long-term demand for AI compute still appears robust, the sheer size of the required infrastructure spending has introduced near-term volatility and execution risk.

THE BIOGEN COMEBACK CONTINUES

We have written several times about our position in Biogen (BIIB). What initially was a shorter-term rebound trade has turned into a full fledge comeback story. Recent earnings only reinforce this as management reported some very good earnings with an excellent outlook.

Indeed, given the progress in their pipeline, BIIB could be headed much higher. From their Alzheimer's treatment to several unique kidney drugs to first-of-its kind treatments for lupus, the progress has remained on track.

Just two years ago investors had given up on Biogen, as legacy products were going off patent. Currently, their growth products make up 63% of their revenue and have overcome those prior concerns. Add to that several pipeline treatments potentially coming to market in 2028 and Biogen is transforming itself from a "trash can" stock no one wanted to a biotech growth name. BIIB is now a core position though we plan to continue taking profits along the way.

ONDAS HOLDINGS

Great Company, Terrible Environment

Ondas Holdings (ONDS) is a newer and small position in our portfolios. ONDS is building an autonomous drone platform, with a suite of drones covering nearly all domains from the stratosphere to the ocean and everything in between. Much more than a simple drone company, ONDS is endeavoring to connect their combination of drones, sensors and other equipment into a "system of systems" that can operate autonomously and capable of running AI models. They have already won significant contracts with global airports, stadiums, and various military and government entities around the world. Additionally, earlier this year Ondas formed a partnership with Palantir, a leading-edge AI company to help streamline the development of their software platform.

Ondas is on track for strong revenue growth, having secured important contracts and a key partnership to expand its addressable market. However, none of it really matters right now. As mentioned earlier, the current volatile environment is not favorable for ONDS or other "early growth" types of stocks. Our current ONDS position is small with the intention of adding to it when appropriate.

VALUE HAS BEEN LEADING LONGER THAN YOU THINK

While it has definitely been apparent in the last week of October, many would be surprised to know that value has outperformed growth stoks over the last twelve months. The chart shows the ratio of growth stocks to value and when it rises, growth is in control. When it drops value is in the lead as investors shifted to "safer" areas of the market.



Growth stocks tend to be the heart of a bull market, so before you get panicked that a long bear market is beginning understand that the long term trend is bullish for growth versus value. This ratio has been in an uptrend since 2007. We can certainly have years like we are currently in where investments rotate to safety as hot trades move out of favor. However, the quest for growth has always come back into favor generally as new themes come into play.

While the upsloping trendline shows the growth outperformance still intact, it is hitting a critical level. The lower window shows momentum and, similar to 2022, as the ratio hits lower levels, the momentum is not. This divergence gave us an early clue that growth would resume its leadership in 2022 and perhaps it is doing it again.

Recommendation List: A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

MH & Associates 1981 - 2026 45 Years

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