Weekly Market Commentary

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Moats, Machines, and Mr. Market

For the second year in a row, we had the opportunity to attend MOI Global's flagship U.S. event, Latticework 2026, hosted at the University Club of Chicago. This year's expanded two-day event featured 14 panelists in a fireside-chat format, as well as an idea-sharing session among attendees. We highlight a selection of insights from the event, including key investment themes presented and an analysis of a frequent topic of discussion: artificial intelligence (AI) and its impact on fundamental investing.

Takeaways and Investment Themes of Interest

Two days of sessions with professional investors and C-suite executives provided a broad spectrum of viewpoints, ideas, and investment philosophies to consider. Below, we share takeaways from the sessions and presentations that we found most compelling.

Sentiment Among Investors: Crowd Sourced Positioning Check

The first day of the event ended with an idea pitch session, "Elevator Pitches: Twenty Ideas in Sixty Minutes." Attendees volunteered an individual equity investment idea in two minutes or less, providing plenty to talk about over dinner and think about over the next few weeks. Without getting into the individual ideas themselves, here's where this group of investors is finding value in the equity markets. Attendees skewed North American, and the pitches had a home bias, with roughly 80% of ideas being U.S. equity investments. The expected value tilt showed up in size and sectors, with pitches skewing small-/mid-cap, breaking down to roughly three quarters small, and mid-cap and one quarter large-cap. As for sectors, roughly half of the pitches landed in real and hard asset driven sectors (i.e., industrials/materials/REITs), with the rest split roughly evenly between financials, info tech/comm. services, and consumer discretionary/staples.

Building Products and Housing-Related Business Remain Attractive

A recurring theme from the 2025 event was the relative attractiveness of both homebuilders and the industry's building products suppliers among some presenters. This space was well represented among the attendee pitches as well, within the industrials/materials sector. Starting at the macro level, the environment facing the industry remains challenged. The housing market in the U.S. is best described as "stuck" due to elevated mortgage rates and the reluctance of homeowners to give up existing fixed mortgage rates, many of which were refinanced and locked in when rates were lower before 2022. New housing starts, a key macro indicator for both homebuilding and building products demand, have been in a steady decline since early 2022. However, fitting with the contrarian, value-focused speakers and attendees with long investment horizons, this is the exact time to seek quality businesses in any cyclical industry, before the eventual turn of the cycle. Valuations remain compelling despite recent "broadening out/rotation" rallies in the market supporting stock prices of industry players. There are also idiosyncratic trends that could provide additional tailwinds to the industry once demand recovers, chief among them being continued consolidation of a very fragmented marketplace.

A Golden Age for Biotech

Another interesting theme discussed was biotech and life sciences/tools, within the health care sector. A session dedicated to the topic described the current environment as a "golden era of biotech," given constructive demographics, pipeline visibility, and a (recently) more accommodative regulatory regime at the FDA. The presentation was geared toward generalist investors and made the case not to ignore the space as "too hard" or "binary lottery tickets," as many generalists typically do. The primary reasons for this bullish view of biotech and the life sciences tools and services space, we believe, are threefold:

- **Evolution of biotech platforms**: Biotech "platforms" shift the model from one drug / one disease to a reusable discovery engine that can generate multiple clinical candidates from the same core biology, chemistry, delivery system, or computational workflow. The idea is "one platform, five drugs." If the engine works, each new program should benefit from shared learnings and a lower marginal R&D burden.
- **Underlying bid/investment from big pharma**: The well-known names in medicine, large-cap pharmaceutical businesses are generating high levels of cash, and are sitting on large cash balances but collectively face a "patent cliff" for many of their blockbuster drugs. This environment will necessitate replacing drugs in their pipelines, via acquisition, or co-investment with recently developed drugs / therapies.
- **Accommodative FDA**: Regulatory sentiment toward biotech has improved after the departures of FDA leaders viewed as more restrictive for drug development. Since then, investor surveys show a more supportive read on the FDA, and the agency has signaled greater flexibility around single-trial approvals and cell / gene therapy manufacturing requirements.

The presentation is best summarized as such: these are the keys to the case that the next successful large-cap biotech may already exist in the public market and may be trading cheaply relative to intrinsic value.

A Contrast in Metals and Mining: Exploration versus Development-Focused Miners

The final investment theme that we found particularly insightful and worthy of sharing came via a session with two CEO's of small-cap mining companies, hosted by a natural resources equity fund manager. The contrast we found interesting was not the metal being mined, nor the approach taken to capital allocation. It was where each company is focused in the life cycle of a new mining play. One is focused on exploration, while the other is focused on the development and production of an already-proven mine. This lifecycle, and the typical path of travel for share prices of junior miners, resides on what is known as the "Lassonde Curve," named after Pierre Lassonde, founder of Franco-Nevada Mining. The Lassonde Curve maps the typical share-price from discovery (stock rallies on excitement), through development (investors get bored, shares languish), and eventually into production (stock can re-rate higher again as valuation shifts from optionality to NAV/cash flows).

- **Exploration-focused miners:** Mining companies that are involved primarily in the speculative business of finding an economically viable amount of metal in a specific area of the Earth. This work is largely led by a scientist, the head geologist. The core role of an exploration-focused CEO? Take care of your head geologist; i.e., make sure they have the money and resources they need.
- **Development-focused miners:** On the other side of successful exploration is development. The market typically loses interest during feasibility work, permitting, and planning. The underlying metal is there, but cash flow is not, which introduces risk. The keys to managing this risk revolve around people, project / change management, and procurement. Get any of these wrong, and you could end up with a cash-flow timing mismatch, which sends the business back to the capital markets for financing.

Two additional learnings to share, which answer the "why should I care?" about miners in the first place. First, to give readers a tangible connection to metals and mining: *Of the roughly 80 stable elements in the periodic table, your smartphone contains 70 of them*. Second, there are geopolitical tailwinds. China's grip on rare earths and critical minerals has become increasingly uncomfortable for the U.S. As such, there is plenty of regulatory support and demand for these resources from the federal government. How these ambitions evolve as administrations change remains to be seen, but many of the efforts to curtail outside reliance began during prior administrations.

Revisiting Economic Moats and Competitive Advantages

One of the featured keynote speakers was Pat Dorsey, head of Dorsey Asset Management, and former head of Morningstar's equity research franchise. At Morningstar, he helped develop the economic moat ratings and framework for analyzing competitive advantages; therefore, his perspective on analyzing economic moats is worthwhile. We won't go through everything he covered, but his response to one question gave us plenty to think

about: where has your thinking on economic moat analysis changed over the last 20-plus years, or what would you do differently if you were writing the rulebook today?

- **Delete the section on company management not providing a moat.** Through experience, the speaker found that executives, particularly CEOs, do make a difference. He suggests seeking out humility in a leader.
- **"Capital-light" business models make reliance on ROIC less meaningful.** Software-as-a-Service businesses generate such high margins that even a bad, low-moat software business could exhibit very high ROIC.
- **Network effects are not as durable of a moat as originally thought.** Just because you have a network effect does not guarantee a durable moat. The network must remain difficult to bypass, and the value delivered to both sides must grow or remain stable.
- **Consumer brands don't have as durable a moat as they used to.** Due to social media, hyper-targeted, niche product markets, and online influencers driving decision-making, brands are much more ephemeral. Barriers to entry and barriers to distribution are now much lower.

The Augmented Investor: Maintaining an Edge with Artificial Intelligence

Lucas Miller, cognitive scientist, author, and faculty professor at UC Berkeley, spoke on the topic of how AI shifts the way long-term, fundamental investors do their jobs. His work can be found at lucasmiller.org, which we found to be a great resource after we heard him speak. Active, fundamental investing requires critical thinking with less well-defined outcomes, and requires a different approach to analyzing how generative AI will impact the profession. The presentation noted that iterative tasks where the goals are clear and success or failure is quickly verifiable, adding more compute has been a more successful strategy than relying on expert training. This discovery does not apply to long-term investing, and complementarity (AI + Human being greater than either alone) is expected to last.

That said, the source of human edge has shifted, as digesting more information does not guarantee better results. If investing were simply a volume-of-information game, the human edge over AI would have already vanished.

The practical takeaways for today's long-term investors are as follows:

- **Idea Generation:** Use AI to help improve the focus of your attention. If a large language model (LLM) is trained on what you look for and what you ignore when scouring the universe of opportunities, it can help investors to more quickly narrow data down to what is most relevant.
- **Idea Vetting:** A person can only be sure of work they have done themselves. To expedite the process of checking any AI output thoroughly — point the tools you use only to sources you trust and ensure they ignore the rest. Think for yourself, then compare that against what the bot has to say. Finally, leverage follow-up prompting to "fight" with your AI. Treat the tool as a sparring partner, not a chauffeur.
- **Decisions:** Everyone tends to underestimate how often they "borrow" conviction. This is no different when using AI, but it is important to remember that these tools cannot bear consequences for poor decision-making. AI tools are particularly good at helping you discard bad ideas, but be wary of sycophantic, AI-enabled bullishness in areas outside your circle of competence.
- **Generalists over Specialists:** Our final takeaway from the session is that AI has made it harder to find a competitive edge as a specialist. The scales have tipped in favor of generalist investors who can now scour a broader landscape for worthwhile investments.

Conclusion

The Latticework event provided us with the opportunity to hear and learn from successful fundamental investors with long track records, as well as being introduced to specific investment ideas and themes. We are grateful to have been provided the opportunity to spend two days learning and networking with peers who hold the same passion for investing as we do.

Asset Allocation Insights

LPL's Strategic and Tactical Asset Allocation Committee (STAAC) maintains its recommendation for a tactical equity overweight and fixed income underweight. We believe AI-driven earnings strength, prospects for an improvement in the macro backdrop, post-midterms policy clarity, and positive seasonal trends provide a favorable risk-reward trade-off through 2026. The Committee favors the quality factor domestically to express the tactical equity overweight, backed by resilient U.S. economic growth, AI innovation, and relative insulation from possible additional energy shocks.

The Committee holds a slight preference for the value style over its growth counterpart given cyclical tailwinds, relatively more attractive valuations, and our positive view of the energy sector. The Committee believes the technology sector valuations are attractive and that skepticism around the AI buildout has become overly pessimistic post-midterms.

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