



May/June 2026 Newsletter

“Hey Macarena”

In August of 1996 I attended a Yankees and Mariners baseball game at Yankee Stadium. The thick humidity in the evening air was normal for that time of year. The baseball game was a good one, between two good teams. The most anticipated and unique moment of the evening, however, came at the end of the fifth inning. With the benefit of significant advanced promotion in New York media, over 50,000 fans in attendance that night jumped to their feet at the end of the fifth and participated in the “Macarena” dance. I was there for the baseball game, but the massive song/dance participation was easily the most memorable moment of the evening.

For those that were more meaningfully occupied in the Summer of 96, or not even born yet, the “Macarena” song version in question was the Bayside Boys remix, a version that added some English vocals and a dance beat to increase the commerciality of a previous version that had success in Latin America. The baseball game promotion and fan participation took place while the song was in the midst of a 14 week run at #1 on the Billboard Charts (back when this was an achievement worth bragging about). Billboard would later rank it as the #1 all time Latin song. The song was an absolute phenomenon. You could not go anywhere or listen to the radio without hearing this song, or more specifically hear people talk about (and probably perform) the dance that accompanied the song. The country had caught the “Macarena” fever. Being there at Yankee Stadium, or anywhere in August of 1996 for that matter, one knew that this was not sustainable. The song was being overplayed to such an extent that very few, not even the Bayside Boys, would want to hear and or think of this song for a very, very long time after the Summer of 1996.

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When it comes to popular culture items like “Macarena”, Cabbage Patch Kids, the Taylor Swift “Eras” tour, or Labubu dolls, society has a way of obsessing. It is all in good fun, because we know we can all move back to our normal lives in short order. The attention span is consumed, with little room left for diversity of topics. An issue that we have with society today is that collectively many of us are suffering from our attention spans getting to be ever shorter. Investors can suffer from the same problem. As the great financial historian James Grant has often said “markets are only as efficient as the people that drive them”. As we head through May of 2026, Artificial intelligence, or “AI”, has taken over the markets with the same fever, spirit and grip that the “Macarena” took over that stadium on that August night. The markets are obsessed. AI growing means greater compute, and greater compute means more giant data centers are needed, and then we need to think about, or “obsess”, with all the things that go into building giant new data centers. The economic might of AI is not conjecture. Panmure Liberum has calculated that over the past four quarters, 93% of US GDP growth was driven by tech investments. When it came to the “Macarena” phenomenon part of the fun was that it was unsustainable. I don’t believe I am alone in saying that I do not think I have heard the song even one time in this century. As with the song, the fever pitch and over obsession in markets for AI and data center capex will also pass.

Or at the very least, it cannot continue at this rate. Markets have been frothy before. What makes this month special? A few notable news items from markets this past month seem more than coincident with a fever pitch:

- Micron reaches \$1 trillion in market capitalization. This highly cyclical DRAM manufacturer that was founded back in 1978 (well before the “Macarena”) had reported operating losses of more than \$5bn as recently as FYE August of 2023. Given their cyclical end markets, that level of losses is likely to recur at some point.
- The ECB sent a stark warning to markets. Specifically they said that “financial markets look stretched by historical standards...(and are) vulnerable to sharp repricing”. This brings back memories of Greenspan’s “irrational exuberance” quote in the 90s.

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- Bond yields continued historic climb. Japanese 30 year yields have not been this high since introducing that maturity in 1999. See below

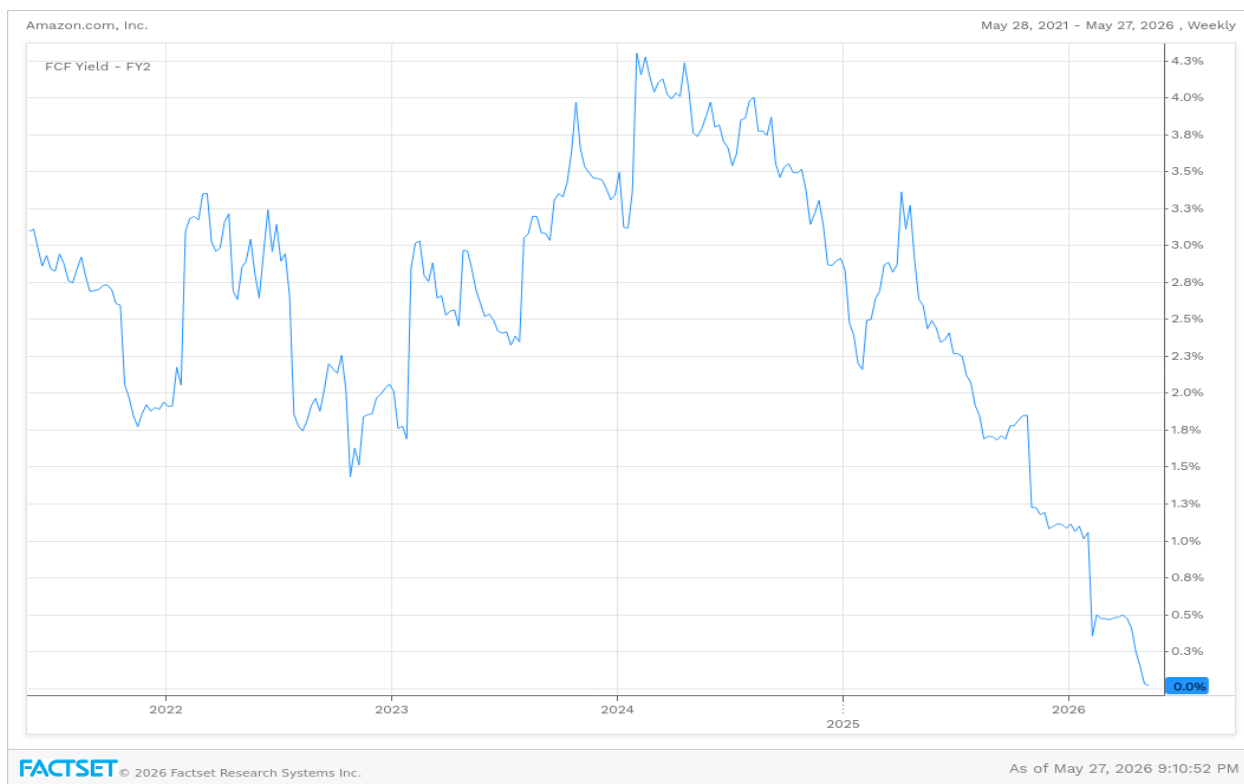
Japan 30Y - Yield



Source: Factset

- Financial media are obsessed with the looming mega IPO's of SpaceX, Open AI and Anthropic. It is possible that each of the three will achieve at least a \$1 trillion valuation (SpaceX will clearly achieve more than that if it lists)
- Hyperscaler capex is seen as a tremendous positive for earnings. However, it is not that long ago that mega cap U.S. tech companies were valued for their overwhelming cash generation. It doesn't seem to have caught much attention that much of mega cap U.S. tech have seen their free cash flow estimates plummet to microscopic levels. See the collapse in AMZN FY2 free cash flow yield estimates below to zero.

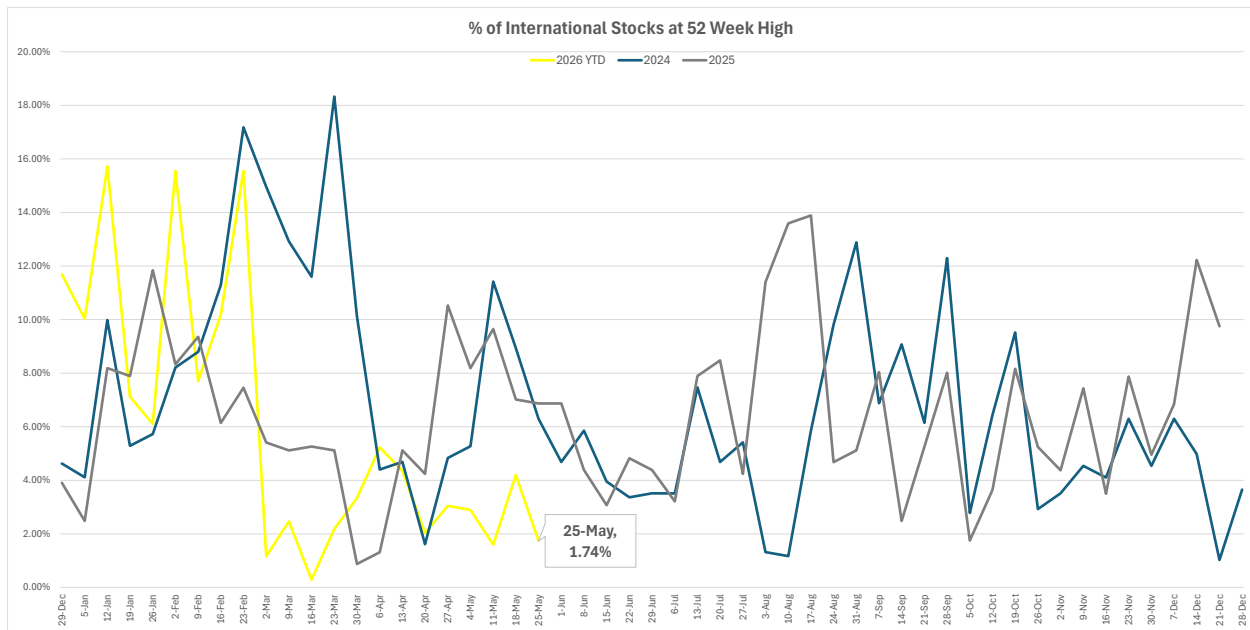
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Source: Factset

- Finally, note the small % of stocks that are at 52 week highs. Here in our “Macarena” month, at the end of a blistering rally in stocks, that % is just 1.74% at latest measure. See below. In the halcyon days of 2024 and 2025, two very strong years for stocks, these % were normally in the range of 4 to 10%. As recent as January and February of this year, this range was in an even more normal healthy breadth range of 8 to 16%. With the investor’s maniacal raging focus for AI and data center capex, this measure has collapsed to no more than 3% in five of the last six weeks.

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Source: Factset. Calculations are made using constituents of EFA index.

One might harken back to the Meme stock craze of 2021 and think that what we're highlighting here is similar. The meme stock craze was an interesting phenomenon, and definitely meaningful for short sellers, but it was a sideshow at best. It was not meaningful in terms of major market indices and value creation. Equity indices in May of 2026 are powering forward on the backs of a narrow number of stocks. The bulls will point out that a powerful earnings surge is driving this narrow group of stocks higher. According to Goldman Sachs, the global IT sector will account for 62% of earnings growth in 2026 across the MSCI All Country World Index. The stocks driving the markets higher in recent weeks are rewarding these earnings, as all have AI and data center capex underpinning their investment narrative.

Investors will remember this period many years from now. We just might not hear the same “tune” that is playing this month many times in the interim. There was nothing wrong with the song “Macarena”, but variety is better for most with music, and the same thing applies

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for investing. Diversification is better. What happens to push us toward a less myopic market is anyone's guess, but our view would be that in the medium term the rebalancing pivot will likely come from something breaking the credit financing side of the equation. As noted, bond yields are climbing. According to Fidelity, AI related corporate bond issuance is projected to land between \$300bn and \$400bn in 2026. In the so-called K Shaped economy that we have today, a surprise could come from policymakers and or supply chains that refuse to allow the trade to grow larger. Even with policymakers and their populace continuing to enable the massive resource grab at pace, Panmure Liberum has calculated that Hyperscalers would need to generate an additional \$2 trn to \$5 trn in revenue a year to achieve a 10% return on their capex.

At Ballina we are still finding great values in the market. We have some stocks that are benefiting from the AI fever pitch. While we do prefer to let our winners run, price and value are present in every step of our investment process. May of 2026 is fun, but it too will pass. In the "Macarena" dance back in 1996, there was that moment when you made a quarter turn jump. At Ballina we stand prepared for the market pivot.

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