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The Evolution of AI

Three years ago, we explored emerging technology by asking ChatGPT to draft our Q2 market commentary. We followed that exercise with a thoughtful evaluation of its strengths and limitations. Since then, artificial intelligence (AI) has advanced significantly. Awareness and adoption have grown, and many individuals now rely on AI tools to support problem-solving and improve productivity.

This year, we revisited the same prompt: *"Write an investment commentary for Q2 2026 in under 400 words."* We expected a materially improved result compared to 2023. While the output did show measurable progress—particularly in its ability to follow instructions—it continued to exhibit many of the same limitations. The commentary was overly broad and technical, lacking depth and specificity. It referenced themes such as inflation and corporate earnings but did not add meaningful data, current metrics, or supporting evidence. It remained a generalized script that could apply to most quarters in most years.

This reinforces an important reality: the quality of output is highly dependent on the quality of the input. With more precise prompts and iterative refinement, AI would likely deliver stronger results. However, from a client perspective, this is where human advisors continue to add meaningful value. We go beyond responding to broad questions—we ask the right follow-up questions, identify what truly matters, and tailor strategies based on each client's unique goals, concerns, and circumstances. That level of insight cannot be replicated through a single prompt.

Market Commentary (Legacy's, not AI's)

The second quarter has been characterized by significant volatility and mixed signals. In March, the S&P 500 declined approximately 9%, followed by a roughly 20% rally through the end of May. Market optimism has been supported by solid corporate earnings (currently expected to increase by 15-25% in 2026), increased Initial Public Offering (IPO) activity, and the potential for progress in resolving geopolitical conflicts in regions such as Iran and Ukraine. At the same time, consumer sentiment remains weak due to persistent inflation—evidenced by a 6.5% Producer Price Index reading in May—and rising government debt levels, totaling approximately $39.2 trillion.

At Legacy, we have managed this environment through disciplined portfolio oversight and consistent rebalancing aligned with each client's risk tolerance. Following several years of strong market performance, we have utilized dividends and selective rebalancing to keep equity and bond exposures at intended portfolio allocations. In addition, we have made targeted adjustments where appropriate. Most recently, we exited our ultra-short duration fixed income position, which had been held since early 2022. With the 10-year Treasury yield now exceeding 4.5%, we believe both yields and risks within fixed income have become more balanced, prompting a shift toward a more neutral allocation.

Diversification has also been a huge help to portfolio's the last few years. After large cap US outperformance for the better part of a decade, international stocks outperformed in 2025 with the MSCI ACWI ex US index up 32.39% in 2025 compared to S&P 500 at 18%. This year, diversification continues to help with US small cap companies up 23.10% (measured by the S&P 600) and US mid cap companies up 21.89% (measured by the Schwab Mid Cap Index) and international stocks up 13.14%, all outperforming the S&P 500 which is up 9.33%.

As we wrote in our Q2 2024 commentary, there is no need to take individual stock risks in any of these AI companies. It is much more efficient to buy a market-weighted index and get exposure to the relevant size of each company through the index. Depending on how you measure AI, there is plenty of AI in the S&P 500. In a recent Goldman Sachs chartbook, they estimated that AI-linked stocks account for a 45% weighting in the S&P 500. Any individual stock added to the AI space is simply taking individual stock risk and doubling down on what you already own in the broader index.

Planning Considerations

From a planning standpoint, strong portfolio returns mean that many clients relying on portfolio withdrawals should anticipate higher realized capital gains going forward. We remain highly focused on tax efficiency, typically prioritizing the sale of holdings with lower embedded gains. However, after several years of double-digit market returns, capital gains are simply a reality, and a welcome one at that. Many of the most tax-efficient tax lots have already been sold to fund previous distributions, leaving only lots with higher embedded appreciation available to fund future withdrawals.

Looking Ahead

AI will continue to evolve and become an increasingly powerful tool. However, it still lacks nuanced judgment and can occasionally produce inaccurate conclusions with unwarranted confidence.

As we look ahead, we remain committed to combining technological innovation with personalized advice. We have also expanded our team with new talent to support the next generation of clients. We look forward to introducing them and continuing to build a firm positioned for long-term success.

If you have any questions regarding the markets, potential tax implications, or your financial plan, please do not hesitate to contact your relationship manager.