DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY - APRIL 24, 2026

Well, hello and welcome to the Dividend Cafe. I am your host, David Bahnsen. I have been inspired to write a piece on AI and the disruption that it represents to the software industry and to investors and to various other elements of the economy for some time, and various issues over the last month have come up where I have had to push it off—the stuff with the Fed and then, of course, all the things with the Iran war.

And yet today we're going to do it. And naturally, after I completed the Dividend Cafe early this morning, as I'm sitting here recording in the middle of the market day on Friday right before the market opened, the president did announce the Strait of Hormuz is open, and the blockade is working, and Iran's coming around and this and that, and markets are rallying and oil has dropped. And so those things, as I've been talking about for some time, were part of the conversation in very recent past Dividend Cafes, and I'm very happy to see the way certain things are playing out.

But I want to comment more on that, and I'm going to do that Monday in the Dividend Cafe, and by then we'll have had a weekend of more analysis there. But I do want to go forward with today's topic about the AI disruption thesis. I think you could argue, if it were not for the Iran war, this would be the biggest story in markets so far this year. In fact, in early February, which was close to a month before the military operation around Iran began, you had a pretty substantial selloff in the software space and a big question about not the AI thesis as in AI as an investment, but rather AI impact into software verticals.

And so a tangential story became a really big one about the artificial intelligence disruption into various elements of the marketplace. And I want to right now suggest to you the very, very easy trifurcation, three-part separation of categories of AI companies. I believe I've done this before, but we'll just recap. There are those hyperscalers, the customers of AI computing power, and the largest names we know in this domain are your Googles, Microsofts, and Metas. Then there are the pick-and-shovel companies that provide the needed parts for this computed power, and I think chip makers are the most obvious example, and most people will immediately think of Nvidia, probably Broadcom as great examples in this space.

And then, of course, that is separate from what you would refer to as the makers of the language models. These LLMs, these so-called AI labs, are making AI programming, training, and distributing generative AI applications. And so I think separating our understanding of these three categories of companies and understanding that about a year ago the narrative was that the people paying for future AI use were winners, the people they were paying were winners, the

people who needed to make the things were winners, and then the products and services that would come out of this chain were winners.

But then they also added that the competitors to those products and services were winners, the users of the products and services were winners, and so you got to a point where a lot of the assumptions undercut other assumptions. I think investors began to feel that some of these things are adverse to one another, either within categories or across them. The AI labs often compete with hyperscalers while at the same time requiring them as customers. The hyperscalers themselves clearly compete with one another. And then some of the products and services that come out of this process inevitably displace existing enterprise applications.

That's the phase we got into in February. People started saying, wait a second, are a lot of the companies that are vertically integrated into the technology stacks of American enterprise going to suffer from this? And it led us to question where things are with AI more broadly. That sentiment has vacillated over the last several months, but I think there is now a resurgence of optimism that the AI development story is going very well.

I want to reiterate that there is absolutely nothing contradictory about believing there is incredible technological transformation happening while also believing that the commercial implications are not black and white or obvious. The AI products you are witnessing are incredible, but that does not mean that every company that could be theoretically competed away is a dead duck. And in saying that, it does not force one to disparage the AI products themselves. I think this is a false dilemma.

We've seen this repeatedly in market history. The internet did not destroy all media—it made much of it stronger. Social media did not destroy advertising—it created a massive new outlet. E-commerce did not destroy retail—retail evolved, and high-end retail remains strong. In each case, the premises were true, but the conclusions misunderstood the dynamism of markets.

Markets adjust, adapt, and incorporate change. Disruption does not necessarily mean destruction. Believing in the AI story and in the complexity of commercial application is not luddite—it is sensible.

Now we are in a phase of agentic AI, where systems are not just tools but begin to act autonomously. AI can generate code, solve problems, and perform tasks at increasingly sophisticated levels. There is still human supervision required, but the capabilities are advancing quickly. I will continue to say there are limitations, including philosophical ones, but that is not the focus today.

From a commercial standpoint, the question is disruption. It is undeniable that AI is making coding faster and better. For companies whose value proposition rests entirely on code, that presents a clear threat. But those companies are fewer than many assume.

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What is different this time is the reduction in switching costs. Historically, even superior technologies struggled to displace incumbents due to high switching costs. AI is lowering those costs, amplifying disruption potential. At the same time, measured productivity impact remains modest, though growing, as evidenced by corporate disclosures and survey data.

One could argue AI is disruptive because AI companies are investing massively to meet demand. While that logic is not perfect, it is directionally correct—demand currently exceeds supply. That is especially true for the infrastructure side of the ecosystem.

But the real issue is not whether disruption exists. It is understanding its limits. AI operates through pattern recognition based on historical data. New situations requiring judgment, taste, and wisdom fall outside its core capability. Human intuition, especially where there is "skin in the game," remains important.

There is also the need for human validation in many cases. Some believe this will disappear entirely. I do not. And even if it diminishes, it remains a constraint on total disruption.

There are also economic constraints. The computing power and energy required for full-scale AI deployment act as natural limits. Adoption and integration do not move as quickly as capability. Technological progress is not linear in its economic application.

Furthermore, many companies being written off have competitive advantages and time to adapt. The idea that disruption is zero-sum is flawed. The market often expands, and companies with durable advantages can benefit.

From an investment standpoint, we must avoid treating the sector as monolithic. The dispersion within technology is enormous. Valuations, profitability, growth rates, and exposure to AI vary widely. A blanket approach is not appropriate.

Some companies benefit from network effects, integration, proprietary data, and brand strength. But more importantly, some will become anti-fragile by incorporating AI into their business models. These companies offer solutions, not just software. The service component matters.

Many who use the term SaaS have not truly meant it. They focus on software but ignore the service. Where that combination exists, the disruption thesis is often overstated.

So as we conclude, there is real disruption, but also real limitation. There is opportunity and uncertainty. Some companies will fail. Others will adapt and thrive. The notion that this is existential doom for the entire software space is misguided.

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Finally, looking at the broader financial system, exposure to technology exists across investment-grade bonds, high-yield bonds, bank loans, and private credit. If impairment is coming, it is not isolated. It is a broader issue tied to equity outcomes.

I'll leave it there. Please reach out with any questions. Thank you for bearing with me this week in the Dividend Cafe. I look forward to being with you Monday to discuss markets, Iran, and where we go from here.

Thanks for listening, thanks for watching, and thank you for reading the Dividend Cafe.