

Front Line Thinking

INDEPENDENT AND OBJECTIVE OBSERVATIONS FROM FRONTWATER CAPITAL | APRIL 1, 2026

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Q1 2026: The Magnificent 7 Get Grounded

For those clients who enjoy live theatre, 2024 and 2025 were the years of tech stocks “defying gravity,” as made famous by the Broadway hit *Wicked*. Week after week, the Magnificent 7 seemed to levitate higher, smashing new highs, untouched by the usual forces that keep markets tethered to reality.

Eventually, even the strongest performers need to come back down to the stage for intermission — not in a dramatic, broom-falling-from-the-sky catastrophe, but in a gentle, swan-dive sort of way where investors are reminded that gravity still exists. More like a subtle tug on the sleeve by a stagehand whispering, “Hey... remember me? I’m a market correction.”

To be clear, markets were chugging along nicely for the first two months of the year. The global economy was humming at a mid-3% growth rate. Inflation here in Canada was drifting comfortably toward its pre-pandemic 2% range, and central banks around the world were inching their way toward rate cuts.

And then, in late February and early March — even before the war in Iran began — the long-dominant Magnificent 7 hit a wall in ways we hadn’t seen in years.

AI Spending: From “Exciting” to “Concerning”

The first crack in the armour came from the very theme that propelled tech stocks to superstardom: artificial intelligence.

The four hyperscalers — Microsoft, Amazon, Alphabet, and Meta — are projected to spend over **\$650 billion** on AI infrastructure in 2026, a **60% jump** from last year and a number large enough to make many investors reach for the Advil. Suddenly, even the most powerful companies in the world looked capable of overspending, and investors were reminded that margins don’t expand forever.

The Magnificent 7: From Market Gods to Market Mortals

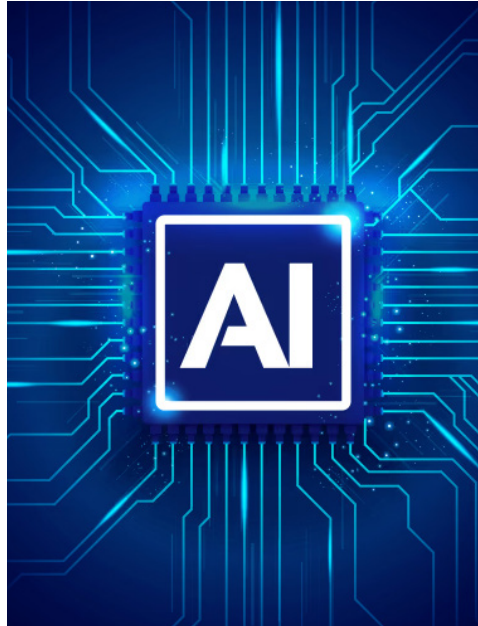
For the first time in years, every single Magnificent 7 stock was down double digits from its 52-week high in the first quarter: This wasn’t a crack — it was a proper reset.

Company	Ticker	Last Price	52-Week High
Apple	AAPL	\$253.79	\$288.62
Microsoft	MSFT	\$370.17	\$555.45
Alphabet (Class C)	GOOG	\$286.86	\$386.76
Amazon	AMZN	\$208.27	\$273.88
Meta Platforms	META	\$572.13	\$796.25
NVIDIA	NVDA	\$174.40	\$216.83
Tesla	TSLA	\$371.75	\$498.83

The “Anthropic” Effect

Around the same time, Anthropic released a widely circulated research note suggesting that the next wave of AI models could automate — or outright replace — large swaths of traditional software development. That sent a chill through the entire software sector. If AI can write, debug, and deploy code at scale, then the long-held assumption that software companies enjoy permanent pricing power suddenly looks less bulletproof.

Investors began asking uncomfortable questions: *What happens to margins when your core product — code — becomes commoditized?* For a sector long treated as untouchable, Anthropic’s analysis was a reminder that even the digital world has its own version of gravity.



Operation Epic Fury — Will the War in Iran Push Us Toward Recession?

The outbreak of war in Iran has understandably rattled markets, pushing oil prices sharply higher and reviving memories of past energy shocks. Higher oil prices do put the global economy at risk.

The sad reality is that the current Iranian regime may remain a destabilizing force for some time. Even with its navy and air force effectively obliterated, Tehran retains a suite of tactics capable of provoking outsized regional tension — most of which should be labeled as terrorist acts of violence quite frankly — from launching drone strikes on neighbouring Arab states to using the Strait of Hormuz as geopolitical leverage.

These actions are intended to sow fear and destabilize their neighbours. Inevitably, it inflames global opinion and directs anger toward the United States and Donald Trump for causing oil prices to surge and recession risks to rise. Among European nations, Spain’s left-wing government has been, in our view, the most disappointing in its posture toward the US and its support for Iran.

The one saving grace is that countries like Saudi Arabia and the UAE are nearing their wits’ end with Iran — and

with 37% of the oil flowing through the Strait of Hormuz being Saudi-owned, they have every incentive to push for stability. Along with Qatar, these nations may be able to apply enough political and financial pressure to force negotiations.

For long-term investors, this is not a moment to panic but a moment to stay disciplined. Inflation may wobble, rates may stay elevated a little longer, but the underlying economic foundation remains intact — and periods of geopolitical stress often create some of the most attractive entry points for patient capital. This latest shock, while uncomfortable, is unlikely to push the U.S. economy past its limits.

Valuations Look Attractive

Let’s be clear: **This is not 2000. This is not a bubble bursting. AI is not going away.** This is a recalibration.

The Magnificent 7 remain the most profitable, strategically important companies in the world. But after years of straight-line gains, they needed a breather. Q1 provided that breather — and gave investors a chance to reassess valuations, expectations, and opportunities elsewhere.

Moreover, Anthropic’s suggestion that AI could automate large portions of software development — thereby threatening traditional software business

models — is a sweeping claim. Like many AI-related forecasts, it leans more toward science fiction than practical reality.

Software companies don’t sell lines of code — they sell reliability, security, integration, and enterprise-grade systems that AI cannot replicate on its own. More importantly, the real moats in software are ecosystems, data, distribution, and switching costs — none of which disappear because AI can draft a computer program more quickly. It is extremely difficult to imagine a Fortune 500 CTO approving in-house development to replace mission-critical, million dollar third-party platforms.

If anything, software companies stand to benefit from AI by making development more efficient. In our view, Anthropic’s analysis exaggerates theoretical risk rather than reflecting practical reality.

Looking Ahead to Q2

As we head into Q2, the market finds itself at an interesting crossroads. Operation Epic Fury and Middle East tensions will likely keep oil prices elevated, creating a temporary inflationary aftershock. But at some point, the world will have no choice but to find a solution for the Strait of Hormuz.

Meanwhile, investors are recalibrating expectations in real time. Excessive P/E ratios have come back down to earth, and the Magnificent 7 are trading at far more attractive valuations. Overall, we still like the long-term AI story.

Our Core Beliefs Remain Unchanged

- High-quality companies win over time.
- Diversification across sectors and geographies reduces risk.
- Market corrections are healthy — they flush out excess.
- Trying to time tops and bottoms is a fool’s errand.

That’s not a bad setup for long-term investors. In fact, many of our clients know from our 17-year history that this is exactly the kind of environment where disciplined investors quietly make their best decisions — setting themselves up for future success. ■



14x Earnings for the World's #1 Consulting Firm? We're Buying.

Today, the stock sits near a 52 week low around \$192, trading at roughly 14x forward earnings and just 10x EBITDA – valuation levels we haven't seen in years. The recent pullback has created one of the most compelling large cap opportunities in the market.

For most of 2025, Accenture was an AI market darling, trading as high as **\$317** and still around **\$290** as recently as January 2026. It offered investors a way to participate in the AI boom without owning a pureplay technology company – a high quality, diversified proxy for enterprise AI adoption.

Accenture is one of the largest and most influential consulting and technology services companies in the world; a global powerhouse that sits at the intersection of business strategy, digital transformation, and enterprise technology.

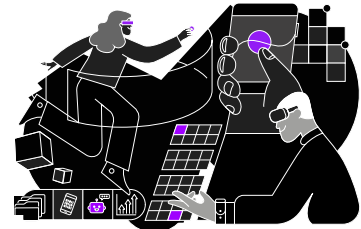
The firm traces its roots back to the early 1950s as the consulting arm of Arthur Andersen. In 2001, after separating from Andersen, the business aptly rebranded itself as **Accenture**; a name derived from “Accent on the Future.”

Over the last two decades, Accenture has evolved from a traditional management consultancy into a **\$60billionplus global leader** in cloud migration, cybersecurity, digital transformation, and now AI integration.

Today, Accenture operates in more than **120 countries**, serving **over 9,000 clients**, including three-quarters of the Fortune Global 500. Its scale is unmatched: more than **700,000 employees** across strategy, consulting, technology, and managed services.

What sets Accenture apart is its ability to deliver **end to end solutions**, from high-level strategy to hands-on implementation and longterm operational support.

In practical terms, Accenture is the firm companies call when they need to modernize their technology stack, migrate to the cloud, redesign workflows, secure their data, and more recently, integrate AI into their business. It is one of the few organizations with the global reach, technical depth, and industry



expertise to execute complex, multi-year transformation programs at scale.

This combination of **brand strength, client stickiness, and global execution capability** is why Accenture remains a cornerstone partner for enterprises navigating the next wave of digital and AI-driven change, and why the market's current discount looks increasingly out of sync with the company's longterm trajectory.

From a financial standpoint, Accenture remains a remarkably solid enterprise. The company carries a market cap of roughly **\$118 billion** and generated nearly **\$13 billion in EBITDA** over the past year, while delivering a **return on equity close to 25%** – an impressive figure for a firm of its scale. Its balance sheet is equally strong:

Accenture holds about **\$9 billion in cash** against only **\$8 billion in debt**, giving it net cash flexibility that many peers lack. And for us at Frontwater, the **secure 3.4% dividend yield** is a meaningful part of the story. There's something deeply satisfying about getting paid to wait, especially when we believe the stock is poised to rebound from today's depressed levels.

It naturally begs the question: **why the selloff?** Some analysts have pointed to the idea of "AI driven substitution". This is the notion that generative AI could eventually automate tasks traditionally performed by consultants, reducing the need for billable hours.

In our view, this line of thinking misses the mark entirely. One of the recurring challenges with certain research analysts is that many have never spent a day inside a large corporation. They move from business school to a bank and, through no fault

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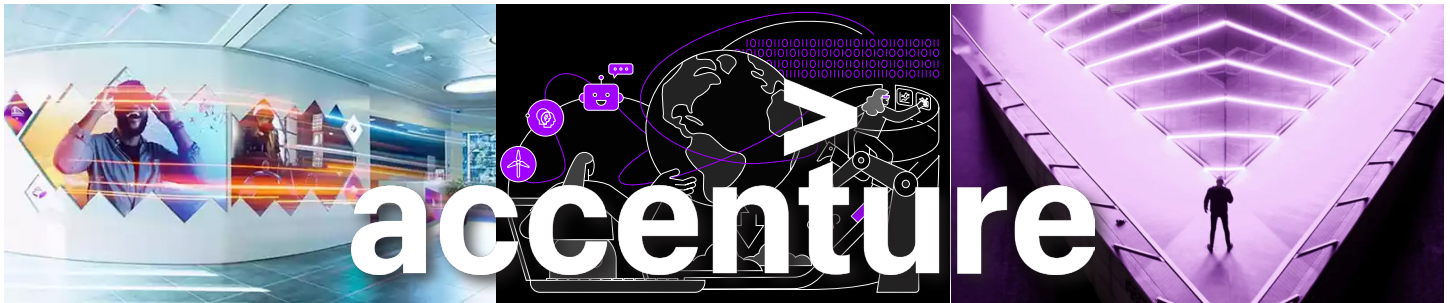
of their own, often lack an appreciation for how complex organizations actually operate. This can lead to theoretical conclusions that sound clever on paper but fall apart in the real world.

The truth is simple: **these analysts misunderstand how consulting works.** AI is not shrinking Accenture's opportunity set — it is expanding it. The company is already monetizing AI strategy, governance, risk management, and large-scale implementation work, while simultaneously

using AI internally to improve delivery efficiency and margins.

Moreover, clients don't hire Accenture for isolated tasks; they hire Accenture for **outcomes, governance, integration, and enterprise-grade execution** — all of which become more complex, not less, in an AI-enabled world. For this reason, we continue to view AI as a multi-year tailwind for Accenture, not a threat to its business model.

In our view, the market has overreacted to the broad-based softness across IT services and consulting. Investors are effectively pricing in a recession-like scenario despite **no evidence of deterioration** in Accenture's underlying business. As AI-driven transformation accelerates and enterprise spending normalizes, we believe Accenture is positioned for a meaningful rebound. Its share price should ultimately return to trading at the premium multiple a company of this quality deserves. ■



Why Now: The Accenture Opportunity

Valuation at Multi-Year Lows:

Accenture is trading near a 52week low and well below its historical earnings and EBITDA multiples — a rare discount for a premium franchise.

Fundamentals Remain Intact:

The selloff reflects broad IT services weakness, not deterioration in Accenture's business. Demand has paused, not collapsed.

Positioned for the AI Spending Wave:

As enterprises shift from AI experimentation to large-scale deployment, Accenture is one of the few global integrators capable of delivering end-to-end solutions.

Cyclical Headwinds Are Temporary:

IT budgets froze in late 2025 due to macro uncertainty. Historically, Accenture rebounds early as spending normalizes.

Margin Expansion Tailwind:

AI-enabled delivery improves productivity and accelerates project timelines — a direct boost to margins and earnings power.

Under-appreciated Long Term

Growth Runway: Accenture's brand, client stickiness, and global scale remain unmatched. The market is pricing in a recession; we see a reset.