

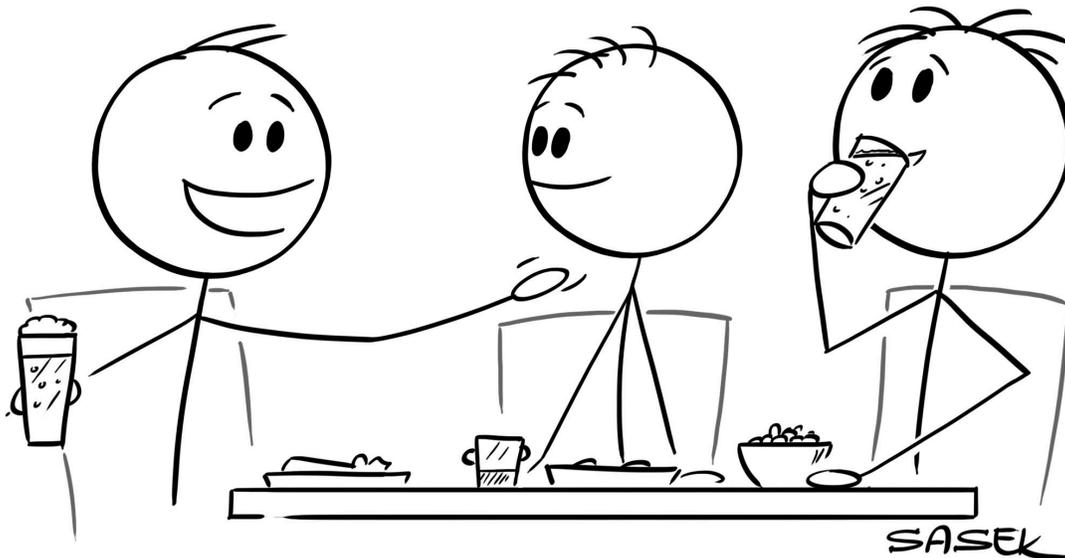


**PACIFICUS**  
CAPITAL MANAGEMENT

INVESTMENT OUTLOOK – FEBRUARY 2026

## The Big Money in Today's Economy Is Going to Capital, Not Labor

*"The real danger is not that computers will begin to think like men, but that men will begin to think like computers." – Sydney Harris*



*"Since AI is replacing artists and intellectuals, I'm glad I'm an idiot."*

CartoonStock.com

I began my career in the financial markets in 1997 as an assistant trader (aka a grunt) on the mortgage backed securities desk for a regional dealer. At that time there were approximately 40 Primary Dealers tasked with acting as counterparties to the Federal Reserve, in which they were expected to participate in all U.S. Treasury bond auctions, as well as stand to make secondary markets to the public on a consistent basis around the clock. Today there are only 26.

Every bank I worked for in my previous career between 1997 and 2013 has merged or been bought.

If I were to survey my peer group today about their unique industries I would hear an abundance of similar stories.

Technological advancement and globalization were the drivers for both corporate and employment destruction in the past, and whether we like it or not, they will likely be the culprit driving change into the future.

Today, there is a lot of anxiety regarding Artificial Intelligence replacing white collar employment.

The optimists believe new jobs will emerge to replace the ones which have been lost. The pragmatists argue the workforce will become more productive with AI creating greater value with minimal job cuts. While the pessimists fear entry-level knowledge workers will find themselves structurally redundant for many of today's popular roles.

To that I say, yes, yes, and yes.

In all seriousness, I have no idea what the future will bring, however there is one thing we can all count on – and that is change is constant.

Greg Ip has been writing insightful economic columns for The Wall Street Journal for many years. Recently he published the piece below which I found relevant to the overall discussion on change, job security, technological advancement, and growth.

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### **The Big Money in Today's Economy Is Going to Capital, Not Labor**

By Greg IP

The Wall Street Journal

February 9, 2026

*Soaring profits and stocks funnel more of GDP toward companies, their top employees and shareholders. AI will intensify this trend.*

In 1985, IBM was America's most valuable company, one of its most profitable, and among its largest employers, with a payroll of nearly 400,000.

Today, Nvidia is nearly 20 times as valuable and five times as profitable as IBM was back then, adjusted for inflation. Yet it employs roughly a 10th as many people.

That simple comparison says something profound about today's economy: Its rewards are going disproportionately toward capital instead of labor. Profits have soared since the pandemic, and the market value attached to those profits even more. The result: Capital, which includes businesses, shareholders and superstar employees, is triumphant, while the average worker ekes out marginal gains.

The divergence between capital and labor helps explain the disconnect between a buoyant economy and pessimistic households. It will also play an outsize role in where the economy goes from here.

The brute financial force of all that wealth means market fluctuations, like last week's, matter more for consumer spending. Meanwhile, artificial intelligence could funnel even more of economic output toward capital instead of labor. Last week may be a taste. Amid reports that layoffs are climbing and job openings plunging, especially for professionals exposed to AI, the Dow Jones Industrial Average closed above 50000 for the first time.

### **It began with factories**

Gross domestic product measures all the value added in the economy. For example, the value added by a manufacturer is its sales minus inputs such as parts and raw materials. That value is then distributed either to labor as wages and benefits, or to capital as profits and interest. Some value added is also allocated to depreciation, the cost of replacing assets as they wear out or become obsolete.

The shift to capital from labor has actually been under way for more than 40 years. Labor received 58% of the total proceeds of economic output, as measured by gross domestic income (conceptually similar to GDP), in 1980. By the third quarter of last year that had plummeted to 51.4%. Profits' share, meanwhile, rose from 7% to 11.7%.

In the 1980s and 1990s, the demise of unions and the spread of outsourcing sapped workers' bargaining power. The nature of capital also changed: Businesses spent less on long-lived buildings and factories and more on computer equipment, software and intellectual property that must be replaced every few years.

And then there is automation. Its impact showed up first in manufacturing as machines, robots and computers took the place of workers. In 1980, 66% of value added in factories went to labor as wages and benefits, said Pascual Restrepo, a Yale University economist. By the 2000s, that was down to 45%.

This was great for manufacturing productivity and consumers who got cheaper products. But it meant that workers who might have landed good-paying factory jobs took lower-paid work elsewhere. This can explain about half the drop in labor's share of

output between 1987 and 2016, according to a study by Restrepo and Daron Acemoglu of the Massachusetts Institute of Technology.

### **Big tech's postpandemic rise**

The Covid-19 pandemic briefly put workers on top as desperate employers bid up wages amid an epic labor shortage. But prices ended up rising almost as much as wages. Profits, after an initial hit, romped to new highs.

Meanwhile, big tech expanded its reach. Tech business models today differ fundamentally from those of earlier eras. Their capital consists not of factories, buildings and machines, but algorithms, operating systems, standards and vast, self-reinforcing user networks. Nvidia, unlike IBM in the 1980s, designs but doesn't manufacture its products.

Declining labor share is sometimes attributed to businesses underpaying workers. In fact, it is more due to a shift in the sorts of businesses that dominate the economy. Today's fastest-growing "superstar" companies pay well, but don't have many workers. In the past three years Google parent Alphabet's revenue has grown 43%, while head count has remained flat. Amazon is a major employer because of its fulfillment centers, but even it is eliminating jobs.

In such companies, the line between capital and labor blurs. Employees who design the technology are a form of human capital, and are compensated in stock to reflect that. Some corporate acquisitions dubbed "acquihires" are aimed primarily at talent, such as when Meta Platforms paid \$14 billion for a stake in Scale AI to nab founder Alexandr Wang.

### **Winners and losers**

Since the end of 2019, just before the pandemic, workers have basically just kept up. After inflation, average hourly wages are up 3%. For workers in aggregate, total compensation is up 8%. Meanwhile, profits have climbed 43%.

Last year was decent for wages, but even better for profits. Last week's blowout earnings for big tech helped lift profit margins for the S&P 500 to their highest since at least 2009, according to FactSet. Multiply rising earnings by a higher ratio of share price to earnings, and you get a levitating stock market.

Households' stock wealth is now equal to almost 300% of their annual disposable income, compared with 200% in 2019. At such levels, wealth starts to rival wages as the driver of consumption, at least for the affluent households who own most stocks.

Doug Peta, a strategist with BCA Research, estimates that a 10% stock return, including dividends, taxed at the highest marginal rate, boosts spending capacity as much as an 18% rise in income. No wonder tepid job and income growth aren't holding back the economy.

As the market's latest swings demonstrate, high valuations are precarious. But profit margins aren't going back to 1950s or 1960s levels "any more than the three-martini lunch or unionization will come back to life," Peta wrote in a report.

What happens next? As big tech companies pour hundreds of billions into data centers, they are no longer the cash cows Wall Street loved. They may never earn a decent return on that investment. But what matters in the long run is what their customers do with the models that run on those data centers.

"AI isn't a substitute for specific human jobs but rather a general labor substitute for humans," Dario Amodei, CEO of leading AI model maker Anthropic, wrote last month. "That could lead to a world where it isn't so much that specific jobs are disrupted as it is that large enterprises are disrupted in general and replaced with much less labor-intensive startups."

Markets got a taste of that last week when Anthropic unveiled new tools for sophisticated tasks such as writing legal briefs and synthesizing data, tanking specialized software companies' shares.

Restrepo, the Yale economist, predicted that as companies integrate AI into their operations, a shrinking share of their revenue will go toward labor, as happened with factories in decades past. And, just as blue-collar workers' wages suffered as a result, so will that of white-collar workers displaced by AI.

There will be winners, Restrepo said: workers whose jobs require social skills, proximity or manual labor, and consumers, who get cheaper products and services. The biggest winners of all? Shareholders.

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Markets have been volatile. So far, previously underperforming assets such as international equities continue to lead prices higher, while domestic equity sectors such as consumer staples, industrials, materials, and energy are leading the way in 2026. Precious and industrial metals are up a decent amount but also adding to portfolio volatility.

I still believe in an overweight to large capitalization technology, however given the recent price moves, I've added some of the above equity sectors to balance out the over concentration in technology names.

I do believe inflation will continue to trend lower which means interest rates across the entire yield curve could continue their recent decline. If this is the case, hedging equity oriented portfolios with US Treasury bonds could provide excellent risk adjusted returns for multiple scenarios going forward.

<b>ASSET CLASS &amp; SECTOR OPINIONS</b>		
<b>OVERWEIGHT</b>	<b>NEUTRAL</b>	<b>UNDERWEIGHT</b>
Cash & Money Markets	Healthcare	Mortgage-Backed Securities
U.S. Treasury Notes & Bonds	Consumer Discretionary Sector	Investment Grade Corporate Bonds
Large Capitalization Technology	Communication Services Sector	Leverage Loans (Floating Rate Debt)
Energy Related Equities	Materials Sector	Treasury Inflation Protection Securities
Utilities	Financial Services Sector	High Yield Corporate Bonds
Aerospace & Defense	Consumer Staples	Local Currency EMG Bonds
Precious Metals	U.S. Real Estate & Related Equities	Leisure & Hospitality
International Developed Market Equities	Small Capitalization Stocks	
Emerging Markets Equities		

Sincerely,  
 Justin Kobe, CFA  
 Founder, Portfolio Manager & Adviser  
 Pacificus Capital Management



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