

## The Disciplined Investor Podcast – Guest Interview Summary

Guest: Tom Nelson

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### **Energy Shocks and Inflation Impact**

Tom and Andrew discussed the impact of recent energy supply shocks, particularly driven by the war in Iran, on global inflation and economic growth. Tom explained that while higher energy prices are expected to lead to higher inflation and lower GDP growth by about 50 basis points globally, it's still early to see significant demand destruction. He noted that the effects on food costs and crop yields are likely to be more acute in the second half of 2026 and into 2027, while tariffs are no longer driving price increases. Andrew observed that inventory-heavy companies are benefiting from current conditions, as their costs remain stable while they wait for prices to decrease.

### **Market Trends and Economic Concerns**

Andrew and Tom discussed market trends and concerns about potential economic impacts. They noted that while earnings estimates have risen so far this year, there are concerns about the second half of 2026 and into 2027, particularly regarding the situation in Iran and the Strait of Hormuz. They observed that stock prices tend to peak about three months before earnings estimates, and discussed the potential for market consolidation or a small pullback. Andrew also highlighted rising agricultural and petrochemical prices, noting that markets may be ignoring these issues while consumers are already feeling their effects.

### **University of Michigan Consumer Confidence**

The conversation moved to the University of Michigan Consumer Confidence Index, which reached a 70-year low of 47. Tom explained that while consumer confidence indicates negative sentiment, they place more weight on actual actions rather than opinions, citing strong retail sales and small business metrics as more reliable indicators. They noted conflicting economic data, including low consumer confidence but strong employment numbers, with Tom acknowledging this discrepancy without providing a complete explanation. The conversation concluded with Andrew observing that traditional economic indicators have become less reliable in recent years, with market movements increasingly driven by government stimulus, central bank actions, and the involvement of sovereign wealth funds.

## **AI Infrastructure CapEx Discussion**

Andrew and Tom discussed concerns about the significant capital expenditures (CapEx) being spent on AI infrastructure, particularly by hyperscalers, and how this might affect earnings versus free cash flow. Tom explained that while there has been a shift from stock buybacks to CapEx spending, they remain optimistic about AI's transformative potential, citing TSMC's positive guidance as evidence of resilient demand for AI infrastructure. Tom noted that investing in AI beneficiaries has been highly profitable, with those stocks returning 132% over the past 12 months compared to companies at risk from AI.

## **AI Impact on Technology Sectors**

Tom and Andrew discussed the impact of AI on different sectors, particularly highlighting transformative effects on technology companies and mentioning upcoming IPOs from companies like OpenAI, Anthropic, and SpaceX. They noted that banks reported generally positive earnings during the current earnings season, with favorable yield curves, though Wells Fargo performed less well. The conversation also touched on recent market performance, with notable gains in technology stocks like Microsoft, Intel, and Nvidia over the past 10 days.

## **Growth vs Value Investment Discussion**

Tom and Andrew discussed the current state of growth versus value investments, noting that growth has derated with the NASDAQ 100 trading below its 10-year average multiples. Tom explained that in an environment of slowing growth, large technology companies with high-quality balance sheets and strong cash flows would perform well, suggesting a tilt towards growth over the next 12 months. They also touched on the recent performance of value and emerging markets, with value performing well earlier this year due to safety trades and conservative models.

## **Emerging Markets Investment Strategy Discussion**

Andrew and Tom discussed the current state of emerging markets and their investment strategy. Tom confirmed they remain positive on emerging markets despite recent challenges, citing better earnings revisions, fiscal and monetary policy flexibility, and improving corporate governance. They noted that while the war in the Middle East has impacted these markets, particularly oil-importing countries like Japan and South Korea, there has been a notable rally with Korea's KOSPI up 20% month-to-date and emerging markets up roughly 12%. Tom explained their approach to managing risk by keeping active positions close to neutral, with flexibility to adjust allocations by plus or minus 10% within their overall portfolio constraints.

## **Portfolio Management in Uncertain Markets**

Tom and Andrew discussed portfolio management strategies, particularly during unpredictable market conditions. Tom emphasized the importance of humility and avoiding unnecessary risks when markets are uncertain, especially regarding geopolitical tensions. He advised waiting for clarity rather than taking active risks, and highlighted the importance of maintaining credibility and staying true to investment style to manage career risks. The conversation ended with a brief mention of target-dated funds, though the details were not covered in the transcript.

### **Target Date Funds Evolution Discussion**

Andrew and Tom discussed the evolution and future of target date funds in 401K plans, particularly the increasing use of ETFs as underlying investments due to their lower costs. Tom explained that while risk-based target date funds were previously offered with different risk levels, most participants typically chose moderate funds, leading to a decision to focus on a single moderate fund with optional adjustments.