

EPOCH

Category Foresight

EPOCH CAPITAL · RESEARCH

SEPTEMBER 2026

ADITYA NIDMARTI

EPOCH CAPITAL · RESEARCH · ESSAY II

Category Foresight

Understanding where capital is moving is not the same as knowing where to invest it.

ADITYA NIDMARTI

SEPTEMBER 2026 · 14 MIN READ

CONTENTS

Introduction

The Category Comes Before the Company

What Becomes Possible, Vulnerable, and Necessary

Reading the Formation Cycle

From Necessity to an Investable Company

Category Foresight as Reflexivity

The Institutional Builder

Before Consensus

The first installment described the [Productive Capacity Supercycle](#): a reallocation of capital toward the systems that determine how much an economy can produce, how securely it can operate, and how effectively technological capability becomes economic and strategic power. Its central argument was that the world's binding constraints are moving back into productive capacity.

Translating that direction into investments requires a more specific view of the markets taking shape.

A world that requires more energy, more autonomous systems, more secure communications, and greater industrial depth will not reward every company attempting to supply them. Some requirements will be met by incumbents. Some technologies will remain uneconomic. Some companies will identify the right opportunity but arrive before the conditions required for adoption exist. Others will participate in enormous markets without retaining much of the value they create.

The investor therefore needs to answer a more precise question: which changes in the world are about to produce economically consequential categories, and which companies can establish a durable position within them?

This question precedes conventional company selection. It requires a view of the market before the market has fully formed.

I call this discipline **Category Foresight**: identifying economically consequential categories before consensus has fully named them. Its purpose is to recognize a real

but poorly understood shift, determine how it becomes an investable market, and identify the company capable of becoming its clearest expression.

The work begins with research and can extend to helping a company bring the category into existence.

The Category Comes Before the Company

A familiar approach to venture investing begins with a market that already has a name.

The customer is identifiable. The product category is understood. There are competitors to compare, spending patterns to analyze, and a developing consensus about what a successful company should look like. The investor's task is to determine which founder can build the strongest business within that opportunity.

This is essential work. But at the frontier, it leaves an important decision unexamined: whether the category itself is where an exceptional amount of economic value is about to accumulate.

Power-law thinking should begin above the level of the individual company. The investor needs a view of which emerging markets could support outcomes that are disproportionate to their apparent importance today. Category Foresight directs research toward those markets before their potential has become conventional wisdom.

Power-law thinking should begin above the level of the individual company.

Company selection remains just as rigorous. Category formation comes first in the analytical sequence because understanding the market being formed changes what the investor should look for in the company.

A category is a more specific unit of analysis than a sector.

Defense, energy, robotics, and space are broad fields of activity. They contain different customers, technical architectures, capital requirements, and competitive structures. An attractive view of the sector does not resolve which capability will become necessary or where a new company can build an enduring position.

The useful unit of analysis is more specific: a capability that addresses a consequential requirement, a technically credible way to deliver it, and a market through which customers can acquire it repeatedly.

The category becomes meaningful when these elements begin to fit together. Its name describes the relationship between a customer's need, the capability that addresses it, and a viable market.

This distinction separates Category Foresight from thematic investing. A theme identifies an area likely to attract attention. A category thesis explains why a particular market should form, what changes make its formation possible, and why the resulting economics could support an important new company.

The objective is to recognize an emerging market while its customer requirements, economics, and competitive boundaries are still taking shape.

What Becomes Possible, Vulnerable, and Necessary

The starting point is the interaction between technological possibility and the requirements of the world around it.

What has newly become possible? What has become vulnerable or constrained? What capability therefore becomes necessary?

These questions connect the scientific frontier to the formation of markets. A new technology can create an opportunity that did not previously exist. It can also expose a weakness in an existing system, change the cost of competing, or make an established operating model inadequate. The investment task is to understand how these changes affect what customers need and what a new company could supply.

Possibility can develop through several routes. An approach can become viable because components improve, manufacturing becomes more repeatable, a computing architecture changes, or several previously separate capabilities become practical to combine. The relevant threshold is the one that alters what a customer can economically or operationally do.

Vulnerability emerges when an existing way of operating becomes less reliable, secure, or competitive. A state may face an adversary whose capabilities its defenses cannot counter. An enterprise may depend on a single supplier, lack reliable power, or reach the limits of its production capacity. Competitive pressure can have the same effect: if a rival adopts a process that materially lowers costs or improves output, a company's existing operations may no longer be competitive. These gaps create a reason to invest in new capabilities.

Necessity is where these changes begin to acquire economic force.

A capability becomes necessary when its absence imposes a cost that an institution cannot readily avoid. The cost may be lost output, strategic dependence, operational exposure, or an inability to perform an increasingly important function. The

customer's response must ultimately extend beyond agreement that the technology is interesting. There must be a reason to acquire it.

Not every category follows this sequence in the same order. A capability requirement may be evident long before a credible solution exists. A technical advance may arrive before customers understand how to use it. Sometimes an existing solution becomes valuable because the environment changes around it.

What matters is the convergence.

A technological possibility without a consequential application may remain a research achievement. A pressing requirement without a feasible solution may remain unmet. A feasible solution to a real requirement may still fail to become a market if no customer can purchase and deploy it.

Category Foresight studies when those separations begin to close.

The research therefore extends beyond conventional market analysis. Scientific literature, adversary research, industrial bottlenecks, technical roadmaps, procurement plans, government budgets, enterprise investment plans, energy systems, and supply-chain concentration all become inputs into investment judgment. They help reveal changes in capability and necessity before those changes appear in ordinary commercial data.

The investor is looking for a causal relationship between technical progress, changing requirements, and the formation of a market.

If a particular technological or strategic development continues, what must another part of the system become capable of doing? Why can the existing system not meet that requirement? What has changed that allows a new company to respond?

The strength of the thesis lies in the connection between those answers.

What matters is the convergence.

Reading the Formation Cycle

The working horizon I have in mind is approximately five years.

That is far enough ahead to study capabilities before their commercial consequences become obvious, while keeping the work anchored to developments that can be investigated in the present. The seeds are already somewhere: in laboratories, engineering programs, customer requirements, industrial constraints, or decisions institutions are preparing to make. The task is to understand which of those seeds can develop into consequential markets.

Before a category forms, the important evidence may concern the conditions required for adoption rather than adoption itself. The investor must distinguish what each piece of evidence establishes.

A research result may demonstrate that a mechanism is possible. It does not establish that a product can be manufactured reliably. A successful prototype may establish performance under particular conditions. It does not establish that the customer can integrate it into an operating system. A procurement plan may reveal a requirement. It does not establish that a particular company will receive an order.

The analytical work consists of tracing the transitions between these states.

Consider the possibility of autonomous, dexterous machines performing productive work. The first installment described this as an expression of intelligence acquiring agency in the physical world: software, sensing, actuation, compute, manufacturing, and energy combined into a system that can act.

A thematic conclusion would be that robotics will become important.

A category thesis has to go further. It must identify the work being constrained, explain why existing automation cannot perform it adequately, and isolate the technical change that could make a different approach viable. It must then establish what level of performance would cause a customer to adopt the system, what it would cost to deliver that performance, and how the product would fit into the customer's operations.

The relevant company might supply the complete machine. It might control a difficult subsystem or the software that allows the machine to perform useful work. That question cannot be answered by the size of the robotics opportunity alone. It depends on where the binding constraint sits and which part of the solution can retain economic value.

Timing follows from the same analysis. A technically promising company may still be too early if an essential dependency remains unresolved. Conversely, waiting for broad adoption may mean waiting until the most important technical and commercial positions have already been established.

The objective is therefore to identify a sequence of observable developments through which the category can become real.

The thesis should be testable at each stage.

A serious thesis should specify what evidence would weaken it. Perhaps the required performance does not improve. Perhaps the customer's cost of inaction proves lower than expected. Perhaps the solution requires so much integration that it cannot be deployed economically. Perhaps an incumbent can satisfy the requirement without the new architecture.

An investor who treats every development as support for the thesis loses the ability to judge whether it is holding up.

Foresight requires conviction about the causal structure of an opportunity and a willingness to revise the judgment when that structure fails to hold. Research establishes which assumptions remain supported and which need to be reconsidered.

From Necessity to an Investable Company

Even a well-founded category thesis does not automatically produce an investment.

The next question is what kind of company the emerging market requires.

A new company must do more than participate in an important transition. It needs a credible reason to exist within it. That reason may be a technical architecture incumbents cannot readily adopt, a capability they do not possess, or a way of delivering the outcome that changes its economics.

The company must also be organized around the actual requirements of the market. A business responsible for delivering a complete operating capability faces a different task from one supplying a component. The required team, manufacturing depth, customer relationships, and financing path should follow from that task rather than from a preferred startup template.

This is where Category Foresight returns to company-level underwriting. The technology must work. The founder must build an organization capable of delivering it. Customers must buy. The capital invested must earn a return. The category thesis gives these obligations a more precise context.

Several exclusions matter.

The first is confusing durable necessity with temporary spending. A government may need a capability for decades, while a particular subsidy or funding increase lasts only a few years. The investor must establish how that underlying requirement translates into procurement through successive budget cycles. State support can help initiate a project while leaving its economics unresolved.

The same test applies to private enterprises. A corporate pilot, a temporary innovation budget, or a rush to add capacity during a shortage can produce early revenue. The investor needs to understand whether customers will continue to adopt the capability once those conditions pass. Demand is more durable when the product makes an ongoing contribution to cost, output, reliability, or revenue. In both public and private markets, the requirement must support a viable business for the supplier.

The second is confusing scarcity with lasting advantage. A shortage may be real but temporary. New capacity may arrive before a startup can become a competitive supplier. Alternatively, solving the shortage may create enormous value for customers while leaving suppliers with little bargaining power.

The company thesis must therefore explain both the source of today's scarcity and the economic position the business can retain after the market responds.

The third is treating capital intensity as either inherently unattractive or inherently strategic. Neither judgment is sufficient. The relevant question is what the capital creates and whether the return on that productive capacity exceeds its cost. The resulting capability must justify the investment required to create and sustain it.

These distinctions also change how competitive advantage should be evaluated.

In a forming category, some of the most important advantages will not yet appear as mature financial characteristics. They may have to be constructed through engineering, deployment, manufacturing capability, or the ability to coordinate parts of a system that do not work independently.

The investor must judge whether the company's next period of execution is likely to make its position more difficult to reproduce.

Speed matters when it establishes that position. It matters less when it merely produces an earlier version of something competitors can readily copy.

Finally, the financing path must fit the formation cycle. A company cannot survive on the eventual correctness of its category thesis. It needs a credible sequence of milestones through which technical progress becomes customer evidence and customer evidence supports further development.

The potential return must be considered after accounting for the capital required to reach that position and the ownership that remains along the way.

A consequential market, a strong company, and an attractive investment are related judgments. They are not interchangeable.

Category Foresight as Reflexivity

The investor's actions can also affect how a category develops.

George Soros's concept of reflexivity describes how people's beliefs can influence the events they are trying to anticipate. What people expect affects what they do; their actions can change the outcome; and the results then reinforce or challenge the original belief.

In venture capital, this can happen while a company and its market are still taking shape.

Suppose an investor backs a company because it believes an emerging capability will become essential. The financing lets the company hire engineers and build a working product. Having a funded team can give a customer confidence that the company will be able to support a deployment. If the product works and the customer commits to buying it, the company now has evidence of performance and demand that can attract further customers, employees, partners, and capital.

Precise language can contribute to the same process. An emerging capability may be difficult for people to evaluate because they do not yet share an understanding of what it is, why it matters, or how it fits into their decisions. A clear category thesis can make the opportunity legible.

As people understand the opportunity and commit resources, the company can make further progress. Successful execution gives the category greater credibility, which can strengthen the position of the company demonstrating its value.

The investor's initial conviction has helped create the conditions for the progress that later supports that conviction. This is the reflexive element of Category Foresight.

This process still has to be judged by the evidence it produces.

A productive loop is validated by progress in the underlying business. The technology performs. The customer acquires a capability it values. Delivery becomes more reliable or economical. The company's position strengthens through work that has consequences beyond the financing market.

A speculative loop is validated principally by the willingness of another investor to pay more.

Attention and additional capital can accompany either process, making the operating evidence essential.

The category must rest on a change with objective force: a technological inflection, an altered customer requirement, a strategic vulnerability, or a constraint that the economy has a reason to resolve. Reflexivity can help accelerate the response. It cannot substitute for the underlying change.

Nor does the ability to influence an outcome eliminate the need to question it. In fact, the investor's own involvement makes independent evidence more important. A company's success in raising capital is evidence that investors supported it. It is not, by itself, evidence that the technical or commercial thesis is correct.

The discipline is to keep the feedback loop connected to reality.

Under those conditions, foresight and agency reinforce one another. Research identifies the opportunity, and the investor helps a credible company assemble the resources needed to deliver the capability.

The discipline is to keep the feedback loop connected to reality.

The Institutional Builder

This changes the kind of venture firm the work demands.

A passive allocation model can begin when a founder arrives with a recognizable company in a recognizable market. An institutional builder must sometimes begin earlier, when the requirement is becoming clear but the company capable of addressing it has not yet been assembled.

That may mean bringing together technical talent before incorporation, connecting research to a customer's operating problem, or helping a founder establish the relationships required to deliver a capability. It may mean supporting an existing company whose potential category is substantially larger than the framework through which others currently understand it.

The investor accepts responsibility for helping an opportunity become viable while its market is still taking shape. The firm develops the technical judgment, industrial understanding, customer access, and formation capital needed to help make the company possible.

The founder remains responsible for building the business. The investor's contribution is to improve the conditions under which that work can succeed.

This role requires more than an expansive network. Relationships matter to the extent that they can resolve actual constraints. Research matters to the extent that it improves decisions. A category thesis matters to the extent that it identifies a real market and helps the company establish a position within it.

Institutional building places greater demands on investment discipline. The investor must understand both what is likely to become necessary and which parts of the path toward that necessity can be influenced through capital and judgment.

The ambition is to make a well-founded possibility more achievable.

The categories visible today should not become the permanent boundaries of this work. Energy, compute, manufacturing, autonomy, defense, and space are present expressions of the Productive Capacity Supercycle. Other categories may emerge as technologies now principally in laboratories cross the thresholds required for

economic deployment. The discipline must remain capable of recognizing them rather than becoming attached to the vocabulary of its first conclusions.

What remains constant is the method: understand how the world's requirements are changing, investigate what technology makes possible, and determine where those forces can support a consequential new company.

Before Consensus

Category Foresight creates value by recognizing a market while important choices remain open: what the company should build, which capabilities it should control, how it should reach customers, and where early capital can materially improve its position.

Being early only matters when the judgment is sufficiently grounded to act upon and the opportunity is sufficiently formed to support action.

There is a further question. Even after identifying the right category and the right company, the investor must determine how much of that future is already reflected in the price. An important technology can still be a poor investment. Recognizing the future and purchasing an attractive claim on it remain separate disciplines. That is the subject of the next installment: Structural Mispricing.

Those judgments depend on first understanding the market being formed.

Before there is an established market to value, there is a capability becoming possible, a requirement becoming consequential, and a company attempting to connect the two.

Category Foresight is the work of recognizing that connection before it becomes consensus — and helping build the institution capable of acting on it.

In venture, consensus is often built by those who act before it.

Also published on Aditya Nidmarti's website: <https://nidmarti.com/writing/category-foresight/>