Shopify Valuation: 60% Upside in 1-2 Years from $119 → $190 Base Case

Merger Arb/Special Sits Update: RKLB, P, CMCSA, AAUC, SPGI

DISCLAIMER: *The research attached is NOT investment advice and the author is not an investment advisor. All content on this website and in the newsletter, and all other communication and correspondence from its authors, is for informational and educational purposes only and should not in any circumstances, whether expressed or implied, be considered advice of an investment, legal or any other nature. Please carry out your own research and due diligence! The purpose of our work is to help individuals and empower them to do their own research.*

HAPPY 4TH OF JULY!!! HOPE YOU ALL ENJOYED WITH YOUR FAMILIES

Economic Calendar: The most important economic events next week are Service PMI, ISM Services, and Existing Home Sales

United States | Browse | 23:46:17 | 07/05/26 - 07/12/26

Economic Releases | All Economic Releases | View Agenda Weekly

Date Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21) 07/06 14:45				S&P Global US Services PMI	Jun F	51.3	--	51.3	--
22) 07/06 14:45				S&P Global US Composite PMI	Jun F	52.2	--	52.2	--
23) 07/06 15:00				ISM Services Index	Jun	54.0	--	54.5	--
24) 07/06 15:00				ISM Services Prices Paid	Jun	67.5	--	71.3	--
25) 07/06 15:00				ISM Services New Orders	Jun	56.8	--	57.3	--
26) 07/06 15:00				ISM Services Employment	Jun	48.2	--	47.9	--
27) 07/07 13:15				ADP Weekly Employment Change	Jun 20	--	--	30.750k	--
28) 07/07 13:30				Trade Balance	May	-$78.5b	--	-$55.9b	--
29) 07/07 13:30				Imports MoM	May	2.1%	--	2.0%	--
30) 07/07 13:30				Exports MoM	May	-3.5%	--	2.6%	--
31) 07/07 16:00				NY Fed 1-Yr Inflation Expectations	Jun	--	--	3.46%	--
32) 07/08 12:00				MBA Mortgage Applications	Jul 3	--	--	0.0%	--
33) 07/08 15:00				Wholesale Inventories MoM	May F	0.3%	--	0.3%	--
34) 07/08 15:00				Wholesale Trade Sales MoM	May	--	--	2.0%	--
35) 07/08 19:00				FOMC Meeting Minutes	Jun 17	--	--	--	0
36) 07/08 20:00				Consumer Credit	May	$17.500b	--	$20.733	--
37) 07/09 13:30				Initial Jobless Claims	Jul 4	220k	--	215k	--
38) 07/09 13:30				Initial Claims 4-Wk Moving Avg	Jul 4	--	--	222.00k	--
39) 07/09 13:30				Continuing Claims	Jun 27	1815k	--	1814k	--
40) 07/09 15:00				Existing Home Sales	Jun	4.20m	--	4.17m	--
41) 07/09 15:00				Existing Home Sales MoM	Jun	0.9%	--	3.2%	--

Nonfarm payrolls miss expectations and market goes higher on Thursday (back to bad news is good news)

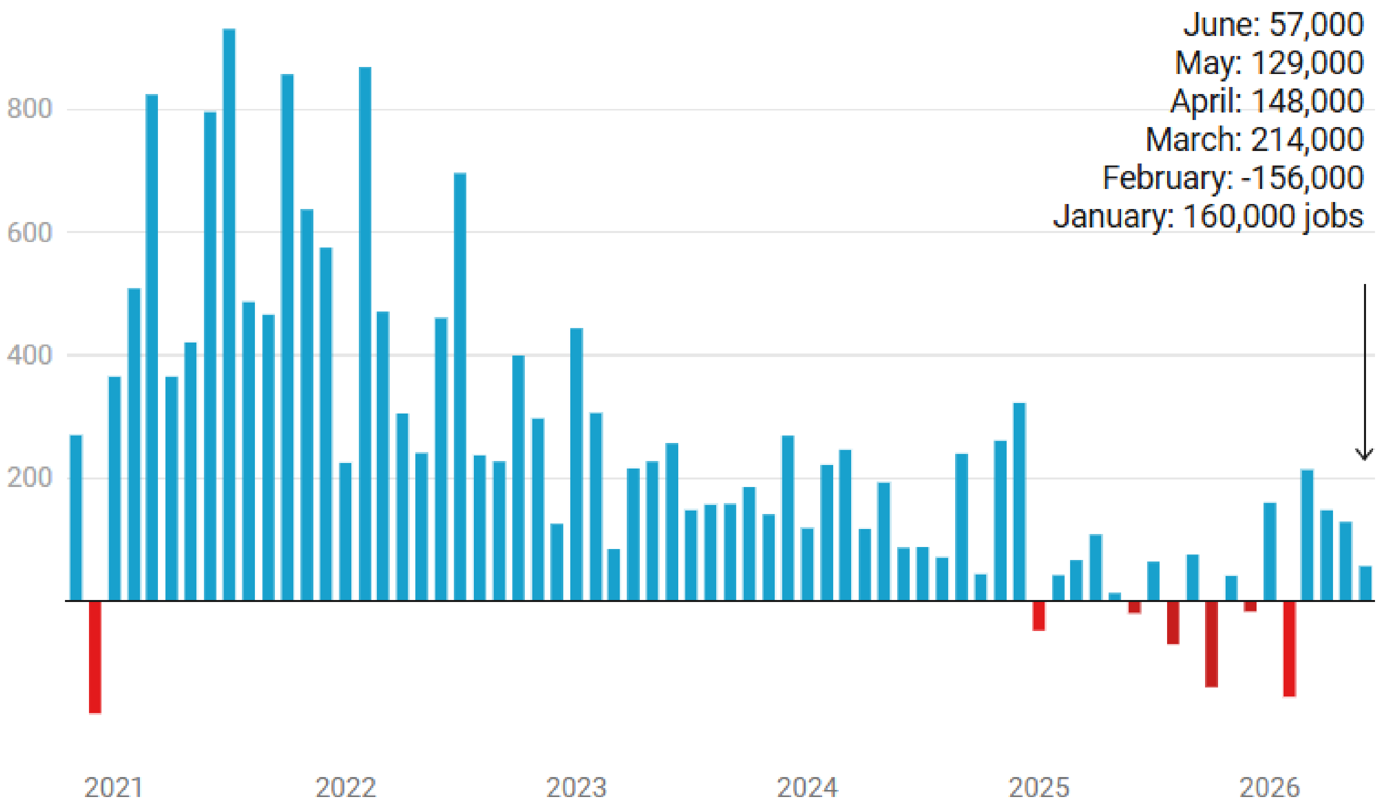
- NONFARM PAYROLLS +57K, (Est. +113K)
- UNEMPLOYMENT RATE 4.2%, (Est. 4.3%)
- PARTICIPATION RATE 61.5%, (Est. 61.8%)
- PRIVATE PAYROLLS +49K, (Est. +107K)
- AVG. HOURLY EARNINGS MoM 0.3%, (Est. 0.3%)

- AVG. HOURLY EARNINGS YoY 3.5%, (Est. 3.5%)
- AVG. WORKWEEK 34.3 HOURS, (Est. 34.3)
- MAY PAYROLLS REVISED TO +129K FROM +172K
- APRIL PAYROLLS REVISED TO +148K FROM +179K
- APRIL + MAY COMBINED REVISED LOWER BY -74K

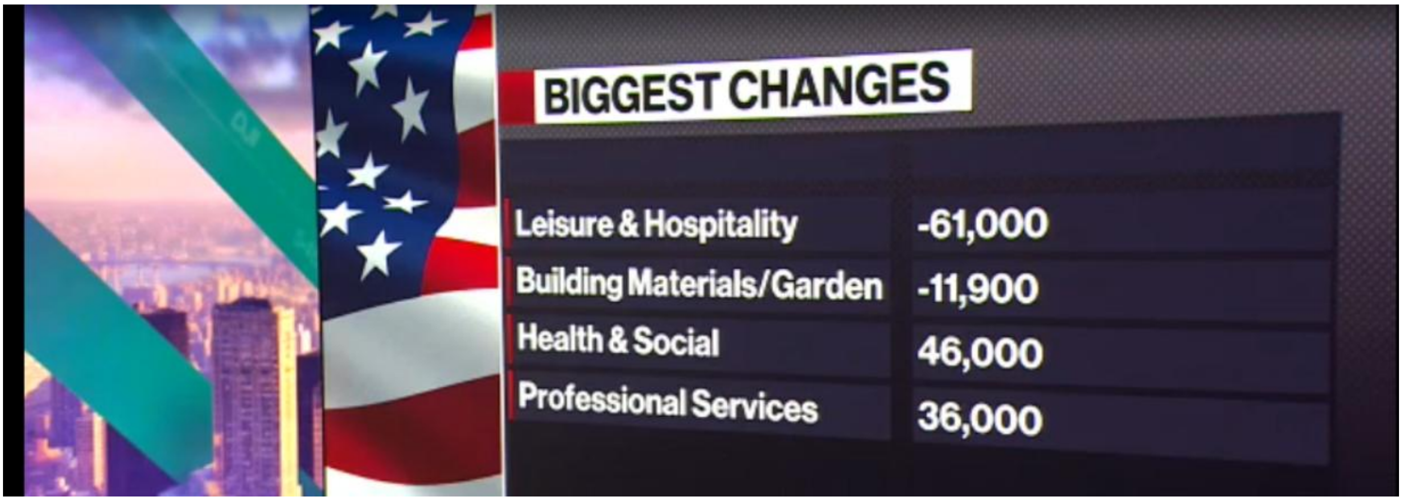
Change in Nonfarm Payrolls	Jun	113k	57k	172k	129k
Two-Month Payroll Net Revision	Jun	--	-74k	93k	--
Change in Private Payrolls	Jun	107k	49k	120k	97k
Change in Manufact. Payrolls	Jun	3k	3k	7k	-2k
Nonfarm Payrolls 3-Mo Avg Chg	Jun	--	111k	188k	164k
Average Hourly Earnings MoM	Jun	0.3%	0.3%	0.3%	--
Average Hourly Earnings YoY	Jun	3.5%	3.5%	3.4%	--
Average Weekly Hours All Employees	Jun	34.3	34.3	34.3	--
Unemployment Rate	Jun	4.3%	4.2%	4.3%	--
Labor Force Participation Rate	Jun	61.8%	61.5%	61.8%	--
Underemployment Rate	Jun	--	7.9%	8.1%	--
Initial Jobless Claims	Jun 27	218k	215k	215k	216k
Initial Claims 4-Wk Moving Avg	Jun 27	--	222.00k	224.25k	224.50k
Continuing Claims	Jun 20	1820k	1814k	1821k	1812k

U.S. adds 57,000 jobs in June, less than expected

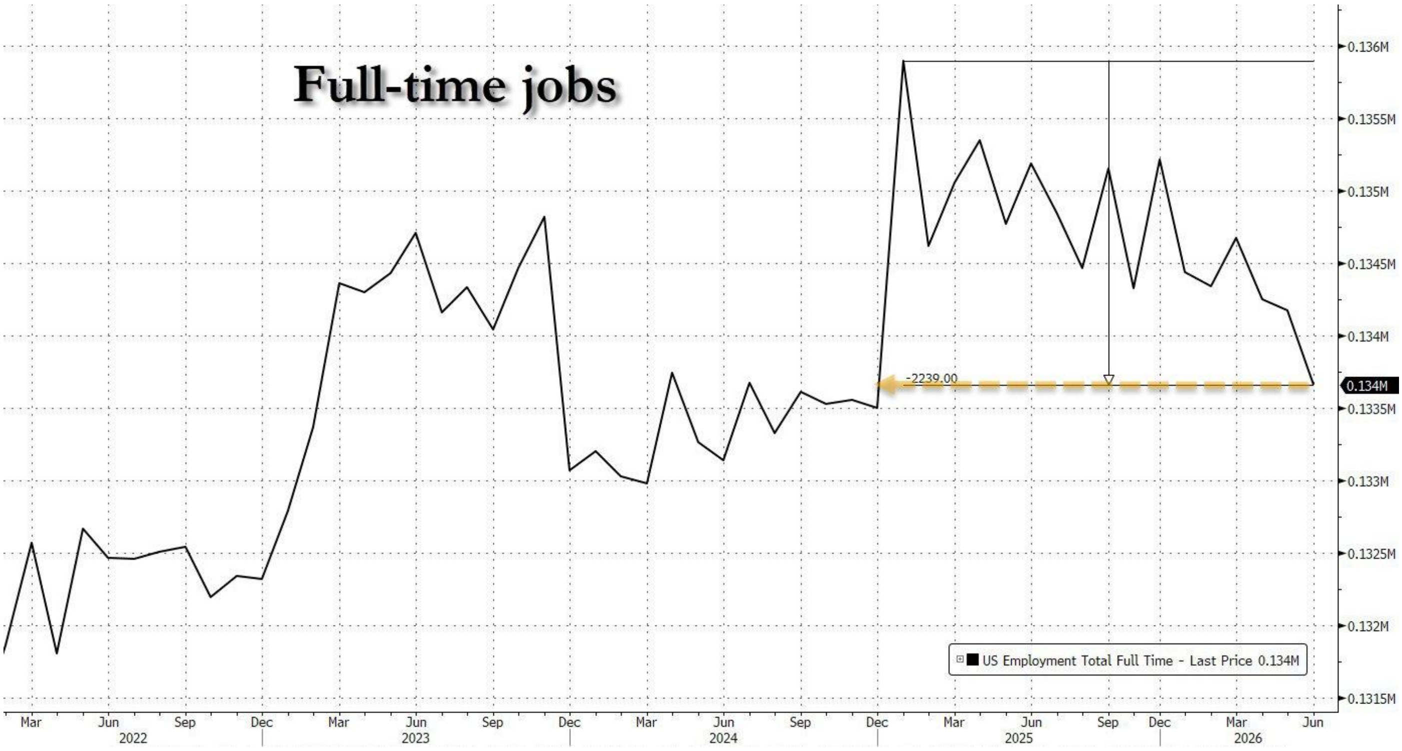
Job growth is picking up somewhat in 2026.

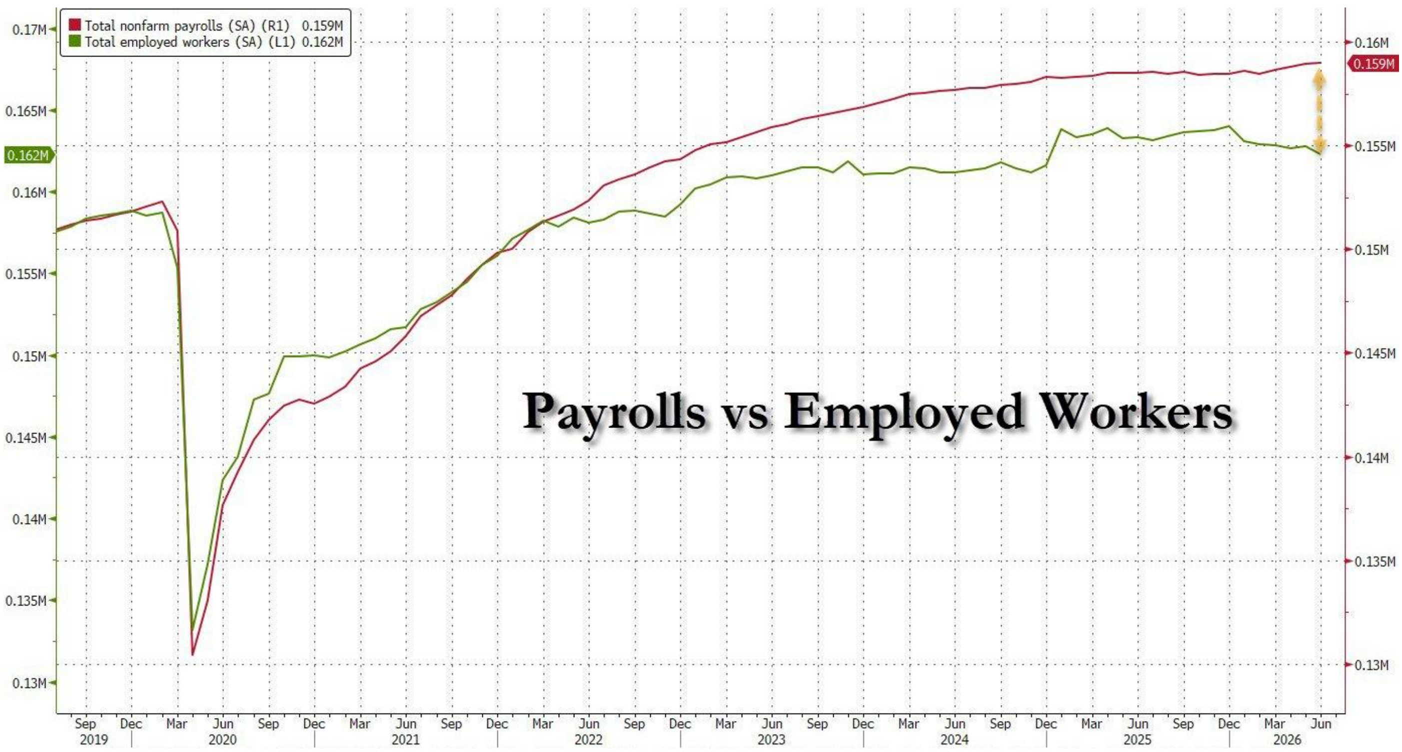


Source: Bureau of Labor Statistics • Get the data • Created with Datawrapper



- US full-time jobs are down by more than 2.2 million from their Jan 2025 record, back to levels last seen in 2024
    - April jobs revised down by 31,000, from +179,000 to +148,000
    - May jobs revised down by 43,000, from +172,000 to +129,000.
    - Hospitality jobs decline by -61k.
    - Unemployment fell mainly due to a big drop in people job hunting.
    - With these revisions, employment in April and May combined is 74,000 lower than previously reported


Full-time jobs
-2239.00
US Employment Total Full Time - Last Price 0.134M
0.134M


Total nonfarm payrolls (SA) (R1) 0.159M
Total employed workers (SA) (L1) 0.162M
Payrolls vs Employed Workers
0.162M
0.159M

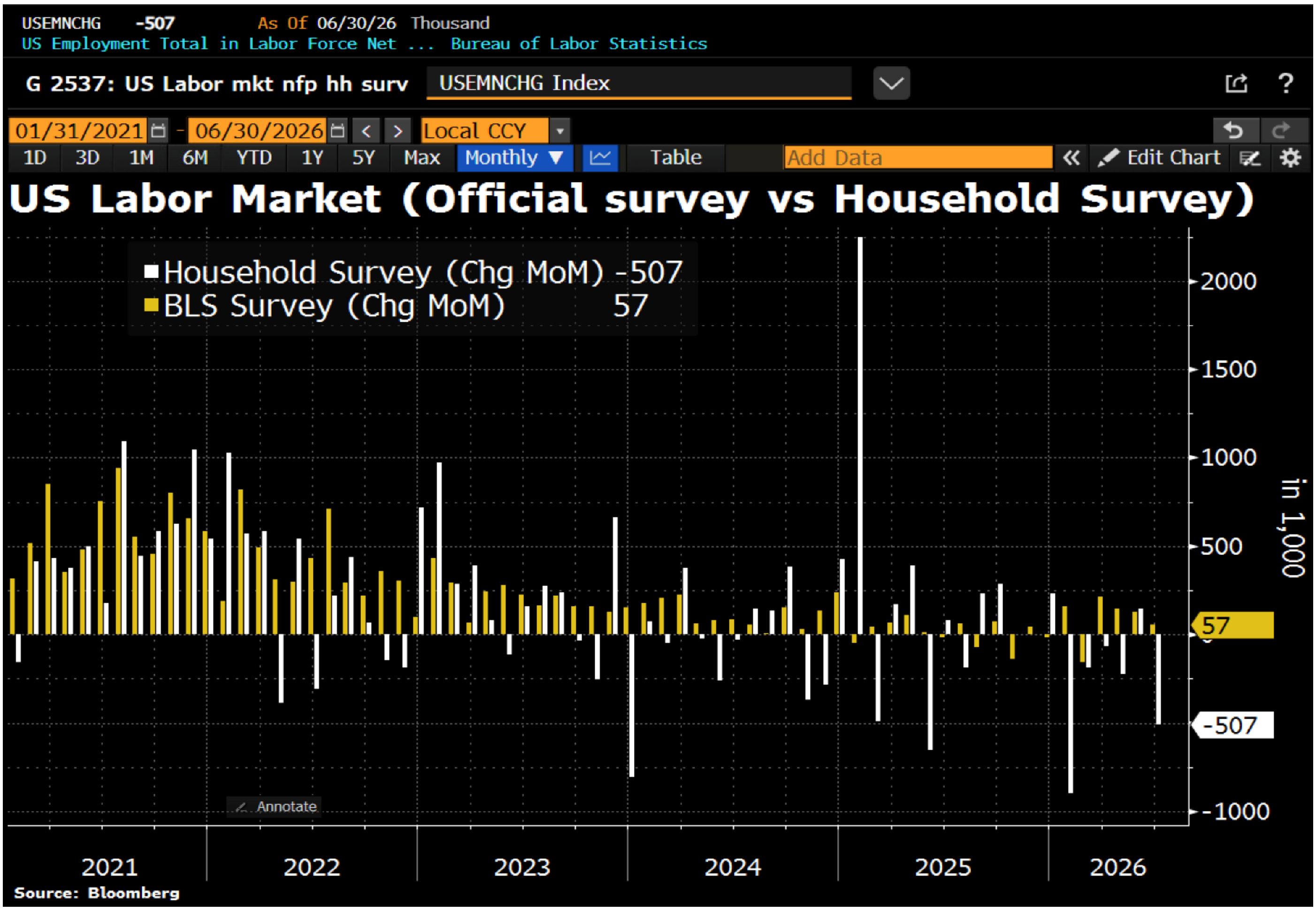
US Labor Force Flows From May to June

By Dominic Carey

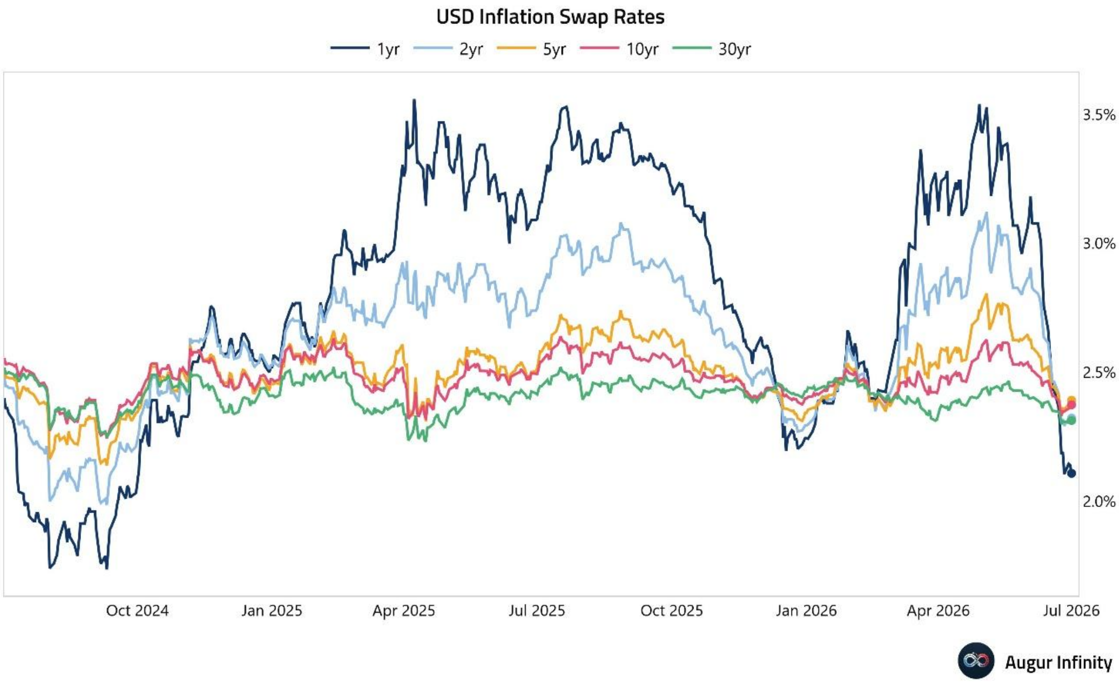
(Bloomberg) -- The following table shows labor force flows in June Data come from the household survey.

Labor Force Flows:	May to June	April to May	March to April	Feb. to March
Employed	162,264	162,771	162,622	162,848
Remained employed	156,111	156,208	156,236	156,391
Unemployed to employed	1,771	1,829	1,736	1,882
Not in labor force to employed	4,315	4,696	4,597	4,529
Other inflows to employed	68	38	54	46
Newly Employed	6,154	6,563	6,387	6,457
Unemployed	7,094	7,307	7,373	7,239
Employed to unemployed	1,599	1,454	1,715	1,380
Remained unemployed	3,696	3,927	3,750	3,919
Not in labor force to unemployed	1,764	1,906	1,897	1,935
Other inflows to unemployed	36	20	11	5
Newly Unemployed	3,399	3,380	3,623	3,320
Not in labor force	105,808	104,976	104,959	104,771
Employed to not in labor force	5,034	4,906	4,860	5,115
Unemployed to not in labor force	1,839	1,613	1,750	1,768
Remained not in labor force	98,683	98,129	98,059	97,605

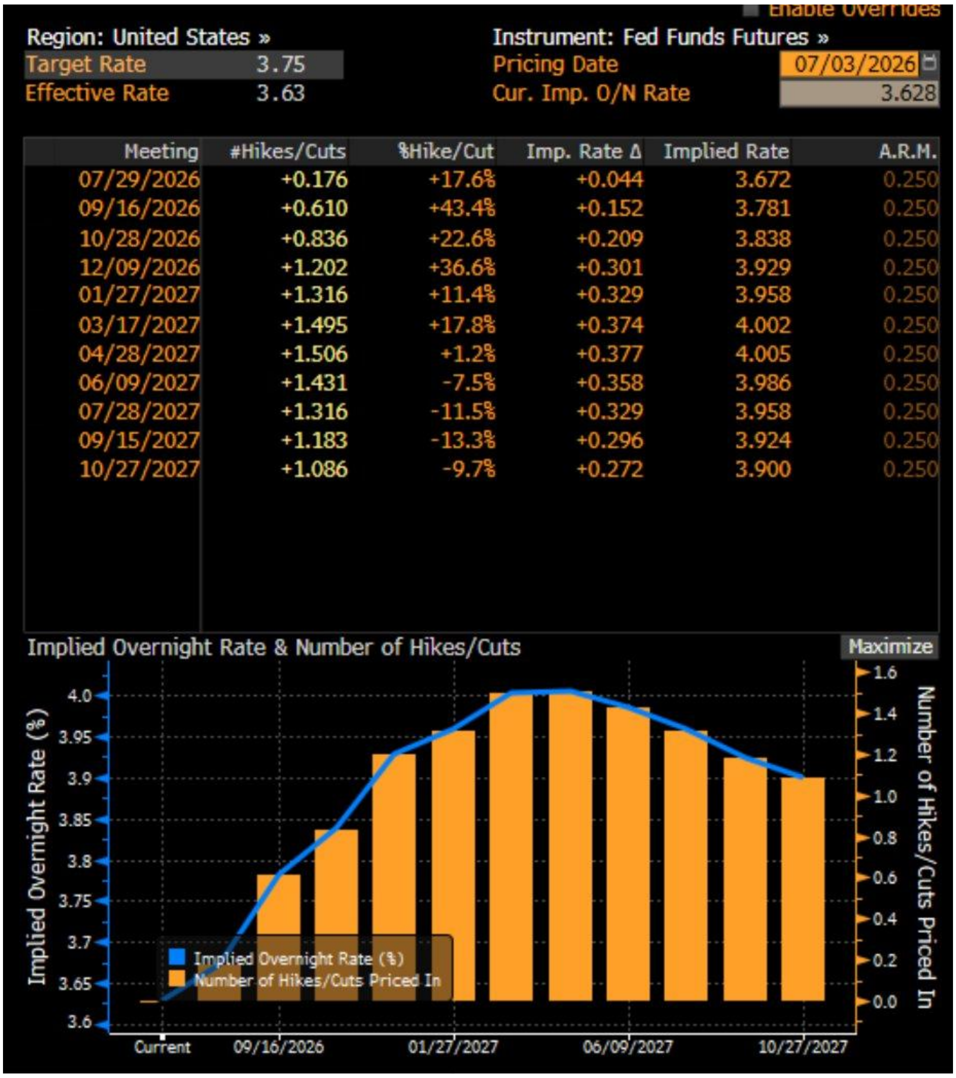
US jobs report screams slowdown beneath the headline: payrolls rose just 57k, but the household survey showed employment plunging 507k and the labor force collapsing 720k. Unemployment fell to 4.2% for the wrong reason: participation cratered to 61.5% from 61.8%.



Inflation Swap Rates Steady



Rate hike odds drop after Fed Warsh speech and nonfarm payrolls yesterday



Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
07/29/2026	+0.176	+17.6%	+0.044	3.672	0.250
09/16/2026	+0.610	+43.4%	+0.152	3.781	0.250
10/28/2026	+0.836	+22.6%	+0.209	3.838	0.250
12/09/2026	+1.202	+36.6%	+0.301	3.929	0.250
01/27/2027	+1.316	+11.4%	+0.329	3.958	0.250
03/17/2027	+1.495	+17.8%	+0.374	4.002	0.250
04/28/2027	+1.506	+1.2%	+0.377	4.005	0.250
06/09/2027	+1.431	-7.5%	+0.358	3.986	0.250
07/28/2027	+1.316	-11.5%	+0.329	3.958	0.250
09/15/2027	+1.183	-13.3%	+0.296	3.924	0.250
10/27/2027	+1.086	-9.7%	+0.272	3.900	0.250

Shopify Valuation (60% Upside from $119 close to $190 Base Case Target Over 1-2 Years...)

We see Shopify continuing to expand and capitalizing on the attractive eCommerce tailwinds, international expansion, continued Payments penetration, growth within Shopify Audiences and other new merchant solutions.

A key beneficiary of the pandemic-driven shift to e-commerce, investor debate has shifted to the durability of GMV growth and levers to expand take rate. With an expanding solution portfolio and recent pullback, SHOP looks attractive and has room for further operating leverage against more measured expectations.

Base	AE	AJ	AO	AT	AY	BD	BI	BN	BS	BX	CC	CH							
Calendar Year	2017	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e
Shopify Scenario Analysis																			
Merchants																			
Total Merchants (K)	609	820	1,069	1,749	2,063	2,095	2,228	2,353	2,407	2,476	2,558	2,645	2,752	2,859	2,963	3,066	3,170	3,269	3,363
YoY Growth	61.5%	34.6%	30.4%	63.6%	18.0%	1.5%	6.4%	5.6%	2.3%	2.9%	3.3%	3.4%	4.0%	3.9%	3.6%	3.5%	3.4%	3.1%	2.9%
Net New Merchants	232	211	249	680	314	32	133	126	54	69	82	87	107	107	104	103	104	98	95
YoY Growth	74%	-9%	18%	173%	-54%	-90%	322%	-6%	-57%	28%	20%	6%	23%	0%	-3%	-1%	1%	-6%	-4%
Revenue																			
Subscription Solutions	$310	$465	$642	$909	$1,342	$1,488	$1,837	$2,350	$2,752	$3,308	$3,859	$4,424	$4,952	$5,515	$6,098	$6,702	$7,346	$8,013	$8,723
YoY Growth		50%	38%	41%	48%	11%	23%	28%	17%	20%	17%	15%	12%	11%	11%	10%	10%	9%	9%
% of Total	46%	43%	41%	31%	29%	27%	26%	26%	24%	22%	21%	20%	16%	15%	14%	13%	12%	11%	10%
Subscription Rev / Merchant	$509	$567	$601	$520	$651	$710	$825	$999	$1,143	$1,336	$1,509	$1,672	$1,800	$1,929	$2,058	$2,186	$2,317	$2,451	$2,594
YoY		11%	6%	-14%	25%	9%	16%	21%	14.5%	16.9%	12.9%	10.9%	7.6%	7.2%	6.7%	6.2%	6.0%	5.8%	5.8%
Merchant Solutions	$363	$608	$936	$2,021	$3,270	$4,112	$5,223	$6,530	$8,804	$11,535	$14,290	$17,930	$26,026	$31,750	$38,454	$46,161	$55,027	$65,032	$75,996
YoY Growth		67%	54%	116%	62%	26%	27%	25%	35%	31%	24%	25%	45%	22%	21%	20%	19%	18%	17%
% of Total	54%	57%	59%	69%	71%	73%	74%	74%	76%	78%	79%	80%	84%	85%	86%	87%	88%	89%	90%
GMV ($B)	$26	$41	$61	$120	$175	$197	$236	$292	$378	$479	$588	$714	$834	$971	$1,124	$1,293	$1,479	$1,680	$1,890
YoY	71%	56%	49%	96%	47%	12%	20%	24%	30%	27%	23%	22%	17%	16%	16%	15%	14%	14%	13%
Take Rate	1.38%	1.48%	1.53%	1.69%	1.86%	2.09%	2.21%	2.23%	2.33%	2.41%	2.43%	2.51%	3.12%	3.27%	3.42%	3.57%	3.72%	3.87%	4.02%
YoY (bps)		10.0	5.1	15.9	17.5	22.1	12.8	2.1	9.2	8.1	2.4	7.8	60.9	15.0	15.0	15.0	15.0	15.0	15.0
Average Merchant Solutions / Merchant		$851	$991	$1,434	$1,715	$1,978	$2,417	$2,851	$3,699	$4,725	$5,678	$6,892	$9,644	$11,317	$13,210	$15,313	$17,647	$20,200	$22,918
YoY			16%	45%	20%	15%	22%	18%	30%	28%	20%	21%	40%	17%	17%	16%	15%	14%	13%
Total Revenue	$673	$1,073	$1,578	$2,929	$4,612	$5,600	$7,060	$8,880	$11,556	$14,843	$18,149	$22,353	$30,978	$37,266	$44,552	$52,863	$62,373	$73,044	$84,720
YoY Growth		59%	47%	86%	57%	21%	26%	26%	30%	28%	22%	23%	39%	20%	20%	19%	18%	17%	16%
Operating Income	$6	$17	$46	$437	$718	$6	$782	$1,478	$1,978	$2,653	$3,350	$4,288	$6,029	$7,958	$10,368	$13,335	$16,978	$21,365	$26,208
YoY		177%	173%	856%	64%	-99%	12806%	89%	34%	34%	26%	28%	41%	32%	30%	29%	27%	26%	23%
OM%	0.9%	1.6%	2.9%	14.9%	15.6%	0.1%	11.1%	16.6%	17.1%	17.9%	18.5%	19.2%	19.5%	21.4%	23.3%	25.2%	27.2%	29.2%	30.9%
Cash From Operations	$8	$9	$71	$425	$504	-$136	$944	$1,630	$2,334	$3,777	$3,470	$4,274	$5,799	$7,408	$9,395	$11,824	$14,791	$18,347	$22,260
YoY		18%	657%	502%	19%	-127%	-792%	73%	43%	62%	-8%	23%	36%	28%	27%	26%	25%	24%	21%
Margin	1.2%	0.9%	4.5%	14.5%	10.9%	(2.4%)	13.4%	18.4%	20.2%	25.4%	19.1%	19.1%	18.7%	19.9%	21.1%	22.4%	23.7%	25.1%	26.3%
Capex	24.3	41.5	62.4	53.0	701.0	50.0	39.0	19.0	26.0	32.9	96.7	154.2	190.2	231.1	262.5	295.9	331.6	368.9	406.5
Free Cash Flow	-$16	-$32	$8	$372	-$197	-$186	$905	$1,611	$2,308	$3,744	$3,373	$4,120	$5,608	$7,177	$9,133	$11,528	$14,459	$17,978	$21,854
YoY		NM	NM	4426%	NM	NM	NM	78%	43%	62%	-10%	22%	36%	28%	27%	26%	25%	24%	22%
Margin	(2.4%)	(3.0%)	0.5%	12.7%	(4.3%)	(3.3%)	12.8%	18.1%	20.0%	25.2%	18.6%	18.4%	18.1%	19.3%	20.5%	21.8%	23.2%	24.6%	25.8%
FCF Assumptions/Drivers																			
Capex - % of Sales	3.6%	3.9%	4.0%	1.8%	15.2%	0.9%	0.6%	0.2%	0.2%	0.2%	0.5%	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%
Capex - YoY		71%	50%	-15%	1222%	-93%	-22%	-51%	37%	27%	194%	60%	23%	21%	14%	13%	12%	11%	10%
D&A / Capex	96%	65%	57%	132%	9%	181%	179%	189%	119%	162%	47%	51%	56%	60%	65%	69%	74%	78%	83%
Depreciation & Amortization - % of S	3.5%	2.5%	2.3%	2.4%	1.4%	1.6%	1.0%	0.4%	0.3%	0.4%	0.2%	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Depreciation & Amortization - YoY		16%	32%	97%	-5%	37%	-23%	-49%	-14%	72%	-16%	75%	34%	31%	22%	21%	19%	18%	17%
Change in WC as % of Rev	1.8%	-0.5%	6.0%	0.4%	2.3%	-1.3%	3.9%	2.7%	3.8%	4.5%	2.4%	2.2%	2.0%	1.8%	1.6%	1.4%	1.3%	1.2%	1.0%
Detailed Assumptions																			
Valuation Analysis																			
Diluted Shares	958	1,057	1,130	1,225	1,269	1,266	1,282	1,293	1,305	1,306	1,342	1,377	1,413	1,449	1,485	1,521	1,557	1,593	1,628
YoY Growth		10%	7%	8%	4%	(0%)	1%	1%	1%	0%	3%	3%	3%	3%	2%	2%	2%	2%	2%
Base Case: FCF										$3,744									
Base Case: Net Cash										$3,978									
Net Cash										$3,978									
Net Cash per Share										$3									
FCF	($16)	($32)	$8	$372	($197)	($186)	$905	$1,611	$2,308	$3,744	$3,373	$4,120	$5,608	$7,177	$9,133	$11,528	$14,459	$17,978	$21,854
YoY				4426%	NM	NM	NM	78%	43%	62%	-10%	22%	36%	28%	27%	26%	25%	24%	22%
Multiple																			31x
Implied Terminal Growth																			7.1%
Growth Adjusted Multiple (2032-2034 Growth)																			1.3x
Discount rate																			10.3%
Enterprise Value																			$673,094
Enterprise Value per Share										$171	$189	$208	$230	$253	$279	$308	$340	$375	$413
2026 FCF Per Diluted Share, Discounted										$5.6	$6.1	$6.8	$7.5	$8.2	$9.1	$10.0	$11.0	$12.2	$13.4
EV/ Per Diluted Share											$189								
Plus Net Cash = Equity/Share											$192								
Price Target											$192								

	'23-'25	'24-'26	5yr '23-'28	10yr '23-'33	CAGR '24-3
Total Merchants (K)	4%	3%	3%	4%	3%
Subscription Solutions	22%	19%	19%	15%	13%
Subscription Rev / Merchant	18%	16%	15%	11%	9%
Merchant Solutions	30%	33%	28%	27%	25%
GMV ($B)	27%	28%	25%	20%	18%
Average Merchant Solutions / Merchant	24%	29%	23%	22%	21%
Total Revenue	28%	29%	26%	24%	23%
Operating Income	59%	34%	41%	36%	30%
Cash From Operations	57%	52%	35%	32%	27%
Free Cash Flow	60%	52%	35%	32%	27%

CY33-35 Growth	
22.9%	
EV/'35 FCF	Multiple
Bull	32x
Base	31x
Bear	25x

Equity Value	252,672
Plus: Debt	918
Less: Cash	-5,479
Enterprise Value	248,111

CY2026 Sales	14,843
EV/CY26 Sales	16.7x
CY24-CY26 Sales Growth	29%
EV/Sales/Growth	0.57x

CY2027 Sales	18,149
EV/CY27 Sales	13.7x
CY25-CY27 Sales Growth	25%
EV/Sales/Growth	0.54x

Equity Value	252,672
Plus: Debt	918
Less: Cash	-5,479
Enterprise Value	248,111

CY2026 FCF	3,744
EV/CY26 FCF	66.3x
CY24-CY26 FCF Growth	52%
EV/FCF/Growth	1.26x

CY2027 FCF	3,373
EV/CY27 FCF	73.5x
CY25-CY27 FCF Growth	21%
EV/FCF/Growth	3.52x

CY2027 GP	8,554
EV/CY27 GP	29.0x
CY25- CY27 GP Growth	24%
EV/GP /Growth	1.21x

What is Shopify?

Shopify Inc. provides a cloud-based commerce platform. The Company offers a platform for merchants to create an omni-channel experience that helps showcase the merchant's brand. Shopify serves customers in Canada and the USA. The company is a leading global commerce technology platform providing the essential internet infrastructure for businesses to start, scale, and manage retail operations. Originally known as an all-in-one software builder for online storefronts, Shopify operates a dual-revenue model:

- Subscription Solutions: Recurring monthly software-as-a-service (SaaS) fees paid by merchants for access to store themes, inventory management tools, and business analytics.
- Merchant Solutions: Transaction-driven revenues—representing the bulk of top-line growth—which include payment processing via Shopify Payments, shipping logistics, and cross-border checkout operations (Shop Pay).

Shopify powers millions of businesses across more than 175 countries, spanning independent e-commerce entrepreneurs up to massive multinational brands (e.g., SKIMS, Supreme, Vuori, and Mattel).

- Core Geographic Concentration: The United States and Canada remain Shopify's primary financial anchors, accounting for the highest concentrations of Gross Merchandise Volume (GMV) and Monthly Recurring Revenue (MRR).
- International Footprint: Europe, the Middle East, and Africa (EMEA) represent the platform's fastest-accelerating expansion vectors. Recent quarterly trends emphasize massive growth in international Shop Pay processing volume, which jumped over 70% year-over-year.

In its latest strategic shift, the platform has integrated advanced generative AI tools (such as its "Sidekick" commerce assistant) into its core catalog architecture to optimize automated storefront management and search-to-order conversions.

AI is a TAILWIND FOR Shopify: Rapid innovation around AI begins to pay dividends top of funnel, GMV share gains and continued efficiency gains within Shopify. Near-term concern on token costs likely prove misplaced, as Shopify has well proven out their ability to monetize their innovation and flywheel over time.

The investments made over the past decade – Enterprise, International and Offline – continue to pay significant dividends for Shopify as of 1Q26 as seen through headline gross merchandise value (GMV) growth at 35% YoY or 30% in constant currency (cc), an acceleration from 31% in Q4 and representing the fourth consecutive quarter of 30%+ GMV growth with

1) >$100 million merchant count having more than doubled over the past two years – strong evidence of Enterprise traction,

2) European GMV growth of 35% cc – showing solid yield on the international expansion and

3) offline retail accelerating to 33% YoY in the quarter.

Looking forward, the investments Shopify is making today around GenerativeAI look poised to drive the next leg of growth for the company across multiple dimensions including;

A) improving top of funnel for new merchants – GenAI broadly looks to spur what President Harley Finkelstein called an 'agentic entrepreneurial evolution', with Shopify well positioned to capture those new adds,

B) improving share of commerce – as AI-driven search ramps, Shopify has seen this emerging channel drive twice the number of new buyers to their merchants sites as traditional search. This matches well to partner feedback we picked up at the Adobe Summit, suggesting LLM Optimizer tools were seeing a significant spike in demand.

C) broadening usage amongst existing customers – with Shopify's Sidekick Agentic tool beginning to ramp aggressively within the user base. The company cited merchants using Sidekick weekly was up 4x YoY in Q1, with those merchants creating >12,000 custom apps in Q1 alone, while nearly half of all Shopify flows generated in Q1 were built with sidekick and

D) leading into Agentic Commerce – as Shopify's efforts to create standards in the industry like Universal Commerce Protocol (UCP) gain traction – last month Amazon, Meta, Microsoft, Salesforce, and Stripe all joined the UCP council – and seeding the market with the innovation necessary for Merchants to well enable Agentic Commerce, like Product Catalog, through the Agentic Plan.

To be clear, the AI Tailwinds have only just started to blow for Shopify and the company has a track record of accelerating share gains during periods of disruption in commerce.

Rising Token Cost Represent a Wise Investment. On the Q1 call, management did call out rising token costs as an increasing weight on Subscription gross margins, touching a nerve for investors concerned about changing structural costs for software companies embracing Generative AI. In our view, the rising token costs should best be looked at as investments in future growth – getting more merchants on the platform, getting more GMV to the merchants, enabling merchants to better convert that demand – all drives the core flywheel at Shopify and the company has well illustrated their ability to monetize that flywheel.

At the same time, the company has aggressively utilized AI internally to improving the operating efficiencies of the company – Shopify trailblazed the 20% top-line growth with flat headcount growth well before peers in Silicon Valley. In the quarter, further opex leverage enabled a 260 bps YoY improvement in non-GAAP operating margins, more than offsetting the 80 bps degradation in gross margin, and translated that into 31% YoY FCF growth. Bottom-line, this Best Athlete is better utilizing GenAI innovations to expand their market opportunity, position well to gain share of that opportunity and execute to the opportunity efficiently versus most software peers, creating a durable runway for outsized FCF growth.

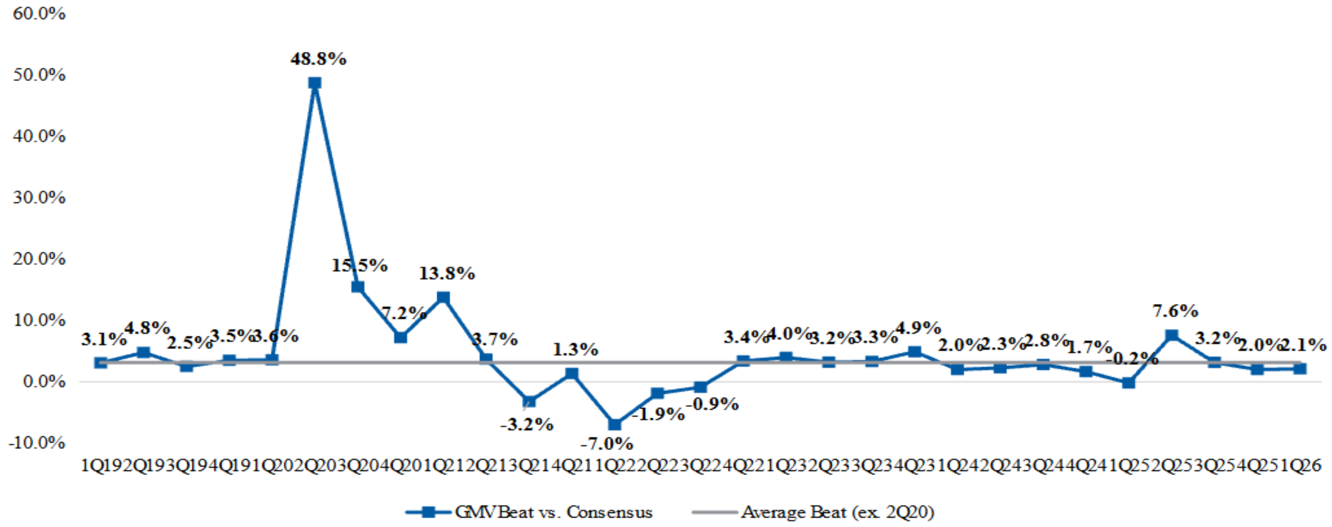
Recent Performance (2Q Report in August)

- GMV Growth Accelerated, Inline with Expectations. GMV of $101 billion, grew 35% YoY (30% in cc), above consensus at $99 billion, +32%. GMV growth came in line with investor expectations of ~35%. North America GMV accelerated in the quarter, and management noted no signs of degradation in the consumer spending backdrop despite macro uncertainty.
- Strong Topline Results. Q1 total revenue of $3.170B grew 34.3% YoY (32% in cc), ahead of consensus at $3.094 billion, +31% YoY. Revenue also hit investor expectations around ~34%.
- International GMV growth of 45% outpaced the overall business. Europe stood out in the quarter, growing 48% YoY (or 35% in CC), up from 45% YoY in Q4.
- Offline GMV grew 33%, accelerating from 29% in Q4. The fastest growing slice within offline was 20M+ location merchants (location growth of 50% YoY in Q1).
- B2B GMV grew 80% in Q1, down slightly from 84% in Q4.
- Shopify Payments Penetration Increased ~3% YoY – Gross payments volume reached $67 billion, 67% GMV penetration.
- Merchant Solutions revenue of $2.420 billion, +39% YoY, came in ahead of consensus looking for $2.352 billion, +35% YoY, benefitting from strong GMV performance and increased payments penetration, reaching 67% of GMV.
- Take Rate Beat Consensus. Take Rate of 2.40% came in ahead of MS/consensus at 2.35% / 2.38%.
- FCF / FCF Margin Upside in Q1. Free cash flow of $476M came in ~750 bps ahead of the Street at $443M, driving margins of 15% ~70 bps above consensus (at ~14%).
- OpEx Discipline in Q1. Shopify posted better than expected OpEx in Q1, with GAAP OpEx as a % of revenue coming in at 36.7% (below guidance for 37-38% of revenue). This drove operating margins to ~16.5% in the quarter, ahead of Consensus at ~15.5%.

What We Are Monitoring:

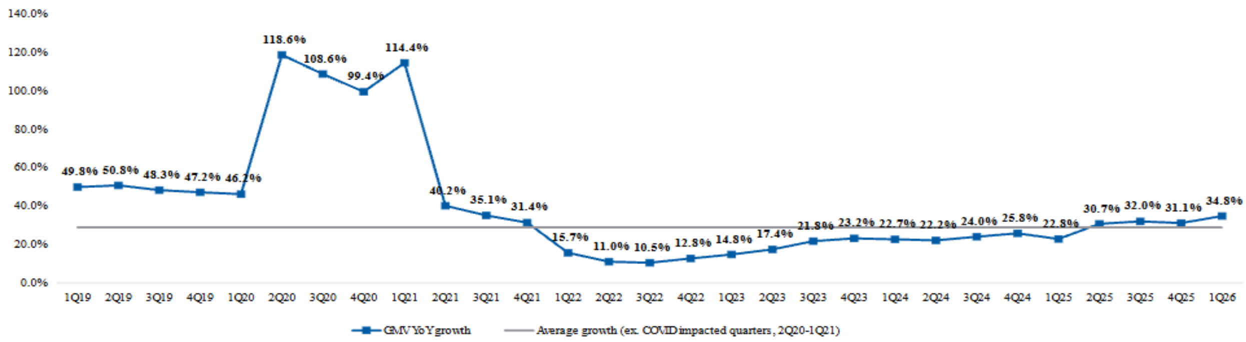
- Q2 Revenue & Gross Profit Dollars Guided Inline with Consensus... Management guided Q1 revenue to grow in the 'high-20%'s YoY', inline with Consensus at ~28% YoY. Gross Profit guidance for GP dollars to grow 'mid 20s % YoY' also came inline with Consensus at ~25.5%.
- ... Implying Deceleration in Growth QoQ. The above guidance reflects implies a decelerating growth trend sequentially, though a beat-adjusted metric would suggest revenue growth sustains 30%+ in Q2 despite a difficult revenue growth compare into Q2.
- Q2 FCF Margins Guided Inline. Q2 guidance for FCF margins in the 'mid teens' came in in-line with consensus at ~16%.

Exhibit 1: GMV vs. Consensus – Beat Cadence Expands QoQ...



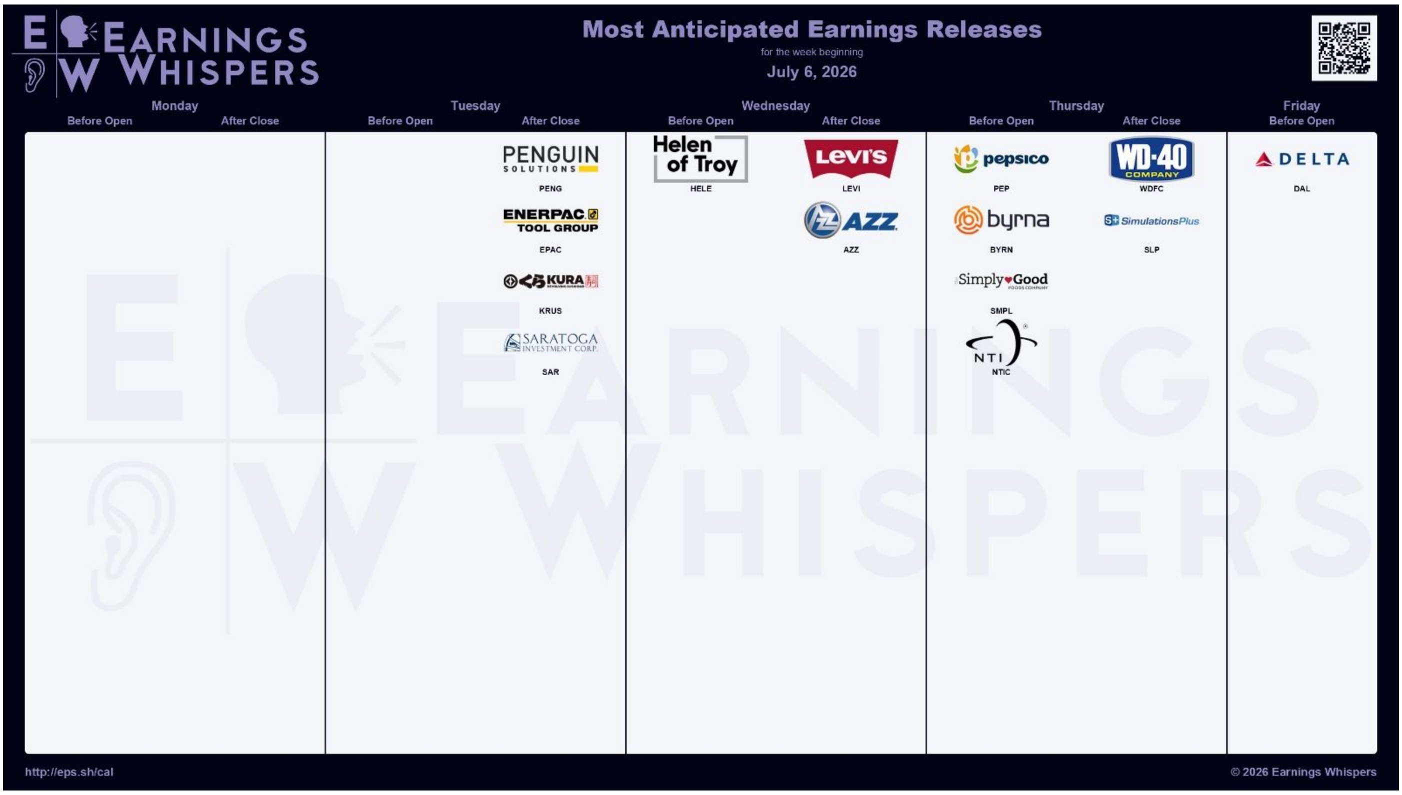
Source: Morgan Stanley Research, Company Data, Visible Alpha Consensus Data

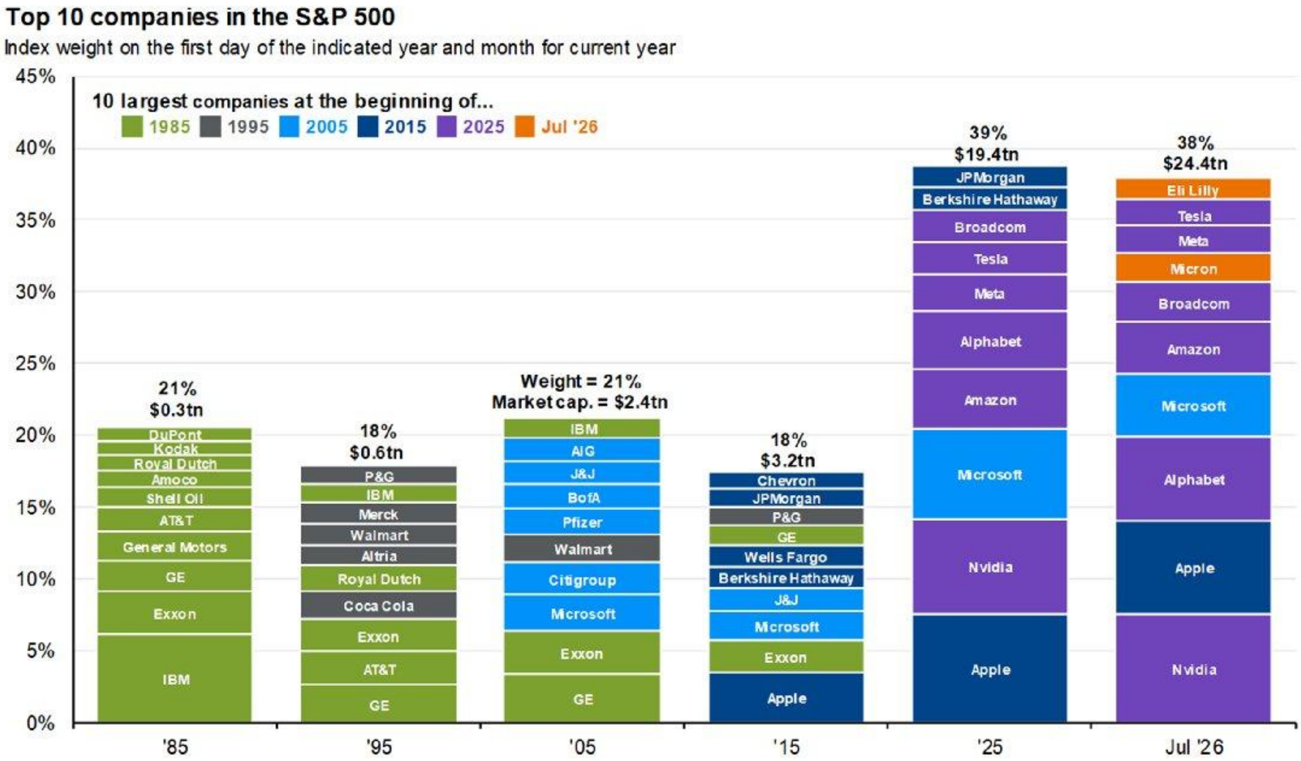
Exhibit 2: ... With 35% Overall GMV Growth Ahead of Consensus (32%) and Inline with Investor Expectations (35%)



Bull Case: Shopify's underlying business engine is compounding robustly. In its Q1 financials, quarterly GMV crossed an unprecedented $100 billion ($100.7B, up 34% year-over-year), fueling $3.17 billion in revenue. Furthermore, free cash flow (FCF) generation remains highly durable, holding at a solid 15% FCF margin. Bullish institutional desks argue that a company maintaining high-20s organic revenue growth alongside consistent cash conversion deserves to trade at a premium multiple.

The Bear Case (The "Growth Trap" view): The stock sits vulnerable to sudden multiple contraction whenever forward guidance flinches. For instance, the stock recently faced sharp downward pressure when management forecast that Q2 revenue growth would moderate slightly into the "high-twenties" percentage range. With transaction loan losses ticking higher and paper net income heavily obscured by volatile mark-to-market equity investments, defensive value investors see a stock priced to perfection. **Hopefully, this is already priced in.**





Special Situations Update

Another busy start to the week in Special Situations, Comcast Corporation (Nasdaq: CMCSA) shares are trading up 20% last week after the company announced its plan to separate the company's media & entertainment assets (NBCUniversal & Sky) from its broadband and wireless business. The newly spun-off NBCUniversal will include the company's theme parks division, Universal film and television studios, NBC and Telemundo networks, Peacock, Bravo, and Sky. The separation is expected to be completed through a tax-free spin-off to Comcast shareholders in approximately one year, subject to the satisfaction of customary conditions, including final approval by

Comcast's Board of Directors, receipt of tax opinions, regulatory approvals and completion of financing arrangements. NBCUniversal will have the same dual-class share structure as Comcast. Comcast expects to retain a stake of up to 19.9% ownership position in NBCUniversal for up to one year after the completion of the spin, which it intends to monetize in a tax-efficient manner over time. Iridium (IRDM) announced last week it has entered into a definitive agreement to be acquired by Rocket Lab (RKLB) in a cash & stock deal for a total enterprise value of $8bn. Iridium stockholders will receive $27.00 in cash and a number of shares of Rocket Lab common stock calculated pursuant to an exchange ratio (subject to a collar) for each share of Iridium common stock outstanding at the closing. The collar is banded from $67.50 to $112.50. The transaction is expected to be completed in mid-2027. In other news Biolife (BLFS) is said to have drawn takeover interest from Repligen, Theravance (TBPH) entered a definitive agreement to be acquired by Zymeworks in an all cash deal for $17/shr; and Martin Marietta has agreed to combine with Lhoist North America in a transaction valued at $13.5bn including debt.

Largest US Transactions:					6/26/2026 Last		6/25/2026 1D Chg		6/18/2026 1 Wk Chg		5/27/2026 1 Month Chg	
	Target	Buyer	Tgt Mkt Cap	Consid	Spread ($)	Spread (%)	Spread ($)	Spread (%)	Spread ($)	Spread (%)	Spread ($)	Spread (%)
1	NSC	UNP	$70,255	Cash/Stock	$44.36	14.2%	($0.13)	(0.1%)	($1.26)	(1.0%)	$1.83	1.1%
2	WBD	PSKY	$67,041	Cash	$4.26	15.9%	$0.24	1.0%	($0.54)	(2.4%)	$0.40	1.7%
3	D	NEE	$61,025	Stock	$2.68	3.9%	$0.82	1.2%	$0.49	0.7%	($1.45)	(2.3%)
4	EA	PE	$51,467	Cash	$4.75	2.3%	($0.52)	(0.3%)	($3.10)	(1.6%)	($4.57)	(2.3%)
5	KVUE	KMB	$36,730	Cash + Stock	$0.37	1.9%	$0.02	0.1%	($0.01)	(0.2%)	($0.10)	(0.7%)
6	AVB	EQR	$26,448	Stock	$0.87	0.5%	($0.61)	(0.3%)	($0.82)	(0.5%)	$1.00	0.5%
7	ROKU	FOXA	$19,998	Cash & Stock	$9.16	6.8%	$0.53	0.4%	$0.61	0.6%		
8	PEN	BSX	$12,454	Cash or Stock	$3.16	1.0%	$0.80	0.3%	($0.53)	(0.2%)	($2.74)	(0.8%)
9	WBS	SAN	$12,249	Cash + Stock	$0.66	0.9%	($0.06)	(0.1%)	($0.21)	(0.3%)	($0.98)	(1.4%)
10	BLD	QXO	$11,925	Cash or Stock	($0.73)	(0.2%)	($0.82)	(0.2%)	$1.21	0.3%	($3.78)	(0.9%)
11	TECH	Merck KGaA	$11,116	Cash	$2.00	2.8%	($0.30)	(0.4%)				
12	WTRG	AWK	$10,962	Stock	$1.82	4.7%	$0.10	0.2%	$0.37	0.8%	$1.14	2.9%
13	AES	GIP & EQT	$10,462	Cash	$0.33	2.2%	($0.01)	(0.1%)	($0.05)	(0.3%)	$0.01	0.1%
14	GSAT	AMZN	$10,335	Cash or Stock	$0.57	0.7%	$0.79	1.0%	($2.09)	(2.6%)	($3.49)	(4.1%)
15	GTLS	BKR	$9,981	Cash	$1.50	0.7%	$0.34	0.2%	($0.51)	(0.2%)	($0.79)	(0.4%)
16	APGE	ABBV	$9,966	Cash	$2.56	1.9%	$0.13	0.1%				
17	NUVL	GSK	$9,799	Cash	$0.48	0.4%	$0.01	0.0%	($0.09)	(0.1%)		
18	QRVO	SWKS	$8,282	Cash + Stock	$3.90	4.2%	($0.37)	(0.3%)	$0.27	0.5%	($0.22)	0.2%
19	JHG	Trian Fund & General Catalyst	$8,001	Cash	$0.07	0.1%	($0.01)	(0.0%)	($0.05)	(0.1%)	($0.15)	(0.3%)
20	SLAB	TXN	$7,204	Cash	$12.58	5.8%	($0.47)	(0.2%)	$1.33	0.6%	($0.36)	(0.2%)
						Average		0.1%		(0.3%)		(0.4%)
						Average (mkt cap)		0.3%		(0.6%)		(0.3%)

Recent transactions												
Date	Target	Buyer	Tgt Mkt Cap	Consid	Spread ($)	Spread (%)	Spread ($)	Spread (%)	Spread ($)	Spread (%)	Spread ($)	Spread (%)
6/26	SYNA	ON	$4,675	Stock	$ 1.38	1.1%						
6/25	TECH	Merck KGaA	$11,116	Cash	$ 2.00	2.8%	($0.30)	(0.4%)				
6/22	APGE	ABBV	$9,966	Cash	$ 2.56	1.9%	$0.13	0.1%				
6/22	ACA	CRH	$7,094	Cash	$ 5.50	3.8%	$0.46	0.3%				
6/15	PAYO	Nuvei	$2,411	Cash	$ 0.27	3.8%	($0.09)	(1.3%)	($0.11)	(1.6%)		
6/15	ROKU	FOXA	$19,998	Cash & Stock	$ 9.16	6.8%	$0.53	0.4%	$0.61	0.6%		
6/9	NUVL	GSK	$9,799	Cash	$ 0.48	0.4%	$0.01	0.0%	($0.09)	(0.1%)		

Details

- **CMCSA - Comcast Announces Plans to Separate Media and Technology Businesses Into Two Leading Public Companies:** Comcast Corporation (Nasdaq: CMCSA) today announced its intention to separate into two independent publicly traded companies through a tax-free spin-off of NBCUniversal and Sky. The separation is expected to be completed through a tax-free spin-off to Comcast shareholders in approximately one year, subject to the satisfaction of customary conditions, including final approval by Comcast's Board of Directors, receipt of tax opinions, regulatory approvals and completion of financing arrangements. NBCUniversal will have the same dual-class share structure as Comcast. Comcast expects to retain a stake of up to 19.9% ownership position in NBCUniversal for up to one year after the completion of the spin, which it intends to monetize in a tax-efficient manner over time.
- **IRDM – Rocket Lab To Acquired Iridium For $54/shr:** Under the terms of the transaction, Iridium stockholders will receive $27.00 in cash and a number of shares of Rocket Lab common stock calculated pursuant to an exchange ratio (subject to a collar) for each share of Iridium common stock outstanding at the closing. The collar is banded from $67.50 to $112.50. The transaction has a notional value of $54.00 per share of Iridium common. The transaction is expected to be completed in mid-2027, subject to the satisfaction of customary closing conditions, including approval of Iridium stockholders and required regulatory approvals.
- **MLM - Martin Marietta Strikes $13.5 Billion Deal for Limestone Supplier.** Martin Marietta Materials (MLM) has struck a deal to combine with limestone supplier Lhoist North America in a transaction valued at $13.5 billion, including debt, according to people familiar with the matter. Martin Marietta is expected to use a mix of $7 billion in cash along with shares of its stock valued at $6.5 billion to fund the deal, the people said. A transaction could be announced as soon as Monday morning, they added.

- **BLFS - Biolife Is Said to Have Drawn Takeover Interest From Repligen.** Biolife Solutions Inc. has attracted takeover interest from parties including diagnostics company Repligen Corp., according to people with knowledge of the matter.
- **TBPH - Theravance Biopharma Enters Definitive Agreement To Be Acquired By Zymeworks.** Theravance Biopharma, Inc. (Nasdaq: TBPH) today announced that it has entered into a definitive agreement pursuant to which Zymeworks Inc. will acquire the Company for $17.00 per share in cash, representing an equity value of approximately $929 million. In addition to the cash consideration, Theravance Biopharma shareholders will receive a CVR entitling them to 80% of net proceeds realized from any future license, divestiture or other monetization of ampreloxetine over the next ten years, with the remaining 20% to Zymeworks. The transaction is expected to close in the second half of 2026, subject to approval by Theravance Biopharma shareholders, receipt of applicable regulatory approvals and satisfaction of other customary closing conditions.

$RKLB up 8% after it announces acquisition of Iridium communications $IRDM

Paying $54/share, half equity/half debt, or $8 billion enterprise value

- The move will combine Rocket Lab's launch capabilities and satellite manufacturing with Iridium's low-Earth orbit network. Iridium shareholders will receive $27 in cash and a number of shares of Rocket Lab common stock calculated pursuant to an exchange ratio, according to a statement Monday. The deal puts the satellite communications company at about $8 billion in enterprise value.
- Iridium shares rose as much as 22% in premarket trading Monday, while Rocket Lab shares rose about 10%. Rocket Lab went public in August 2021, and this is its biggest purchase to date.
- Long Beach, California-based Rocket Lab said the move aims to create a "competitive, vertically-integrated space company that designs, builds, launches, and operates its own constellations, delivering critical communications capability to millions of users worldwide." Last week, NASA selected Rocket Lab for three launches starting early next year.
- The Iridium deal gives Rocket Lab a foothold in the emerging market of direct-to-device, it said, providing satellite service to smartphones and other equipment. The competitive market for satellite-based navigation has heated up, with Elon Musk's Starlink taking a commanding lead in recent years with a constellation of thousands of machines.
- In April, http://Amazon.com Inc. announced plans to buy Globalstar Inc. in an $11.6 billion deal to ramp up competition with Starlink. Amazon's satellite initiative, called Amazon Leo, is in beta testing with commercial customers, ahead of the planned start of widespread service later this year.
- Rocket Lab is second to SpaceX in number of missions by US-based companies. Its next rocket, the Neutron, is behind schedule and will be smaller than the Falcon 9.
- Together, Rocket Lab and Iridium will "pioneer next-generation space applications and deliver sought-after capabilities to existing and new customers," Peter Beck, Rocket Lab's chief executive officer and founder, said in the statement.
- Rocket Lab said it expects the deal to close in mid-2027. Deutsche Bank Securities is serving as lead financial adviser, and Wells Fargo and PJT Partners are serving as financial advisers to Rocket Lab. There is a termination fee of about $224 million.

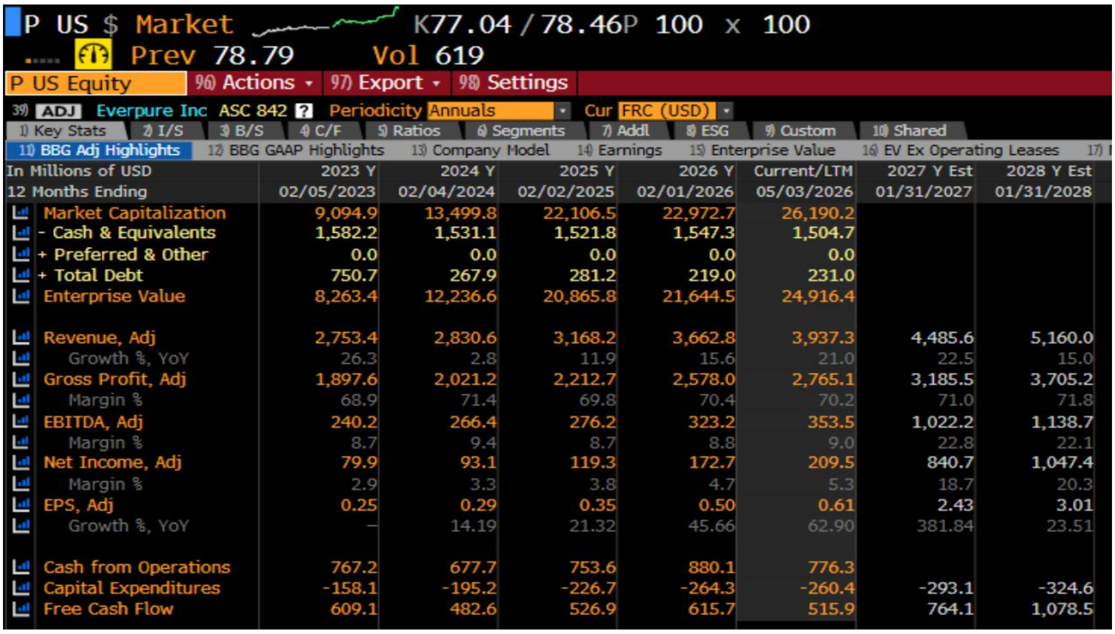
Comcast to Spin Off NBCUniversal, Ending a Long Union of Cable and Media $CMCSA

- Comcast's ($CMCSA) announcement to split off NBCUniversal [and Sky] marks a structural turning point in its corporate strategy. The transaction officially dismantles the "distribution plus content" vertical integration thesis of the early 2010s.
- By carving out its high-profile film and premium studio assets from its stable, capital-intensive broadband and connectivity core, Comcast is moving to eliminate the persistent "conglomerate discount" that has depressed its valuation for years.
- Core Transaction Architecture & Deal Terms
    - Structure: The transaction is structured as a tax-free spin-off directly to existing Comcast shareholders.
    - Retained Interest: Comcast will maintain a 19.9% passive equity stake in the newly independent NBCUniversal for a transitional period of up to one year, providing financial flexibility and potential monetization options down the road.
    - Timeline: The corporate separation is slated for completion within 12 months (mid-2027), subject to regulatory approvals and final board structuring.
    - Governance & Voting Control: Critically, both independent corporate entities will replicate the combined group's current dual-class stock structure. This structural mechanic ensures that the Roberts family, led by Chairman Brian Roberts, preserves absolute voting control over both standalone enterprises.
    - The market's historical fatigue with unwieldy media-and-cable tie-ups, vividly illustrated by AT&T's disastrous acquisition and eventual discard of Time Warner, has weighed on Comcast's equity value for half a decade.
    - The Value Unlock: Equity markets immediately validated the restructuring, with Comcast shares surging over 20% in premarket trading following the announcement.
    - The Valuation Reality: Comcast originally accumulated full control of NBCUniversal across two tranches ($6.2 billion for a controlling stake from General Electric in 2011, followed by a $16.7 billion buyout of the remainder in 2013). By separating this asset base, Comcast allows pure-play infrastructure investors to value the broadband business on EBITDA multiples unburdened by streaming content burn or secular cord-cutting.

ACTIVIST JANA PARTNERS BUILD NEW POSITION IN TECH COMPANY EVERPURE, SOURCES SAY $P

- Everpure stock jumped in afternoon trading Tuesday, following a report that activist investor Jana Partners has built a new position in the enterprise data storage provider.
- Jana Partners owned more than 1 million shares of Everpure as of the end of the first quarter, according to a Reuters report, but the current size of Jana's stake is unclear.
- Everpure stock gained 9% to close at 78.79 on the stock market today, and has gained 18% year to date, including Tuesday's late rally.
- “The hedge fund began building its position in the first quarter of 2026 but did not include it on its 13-F form because it had requested a temporary delay in disclosing the new position”

- Formerly known as Pure Storage, Everpure offers flash-based data storage solutions, as well as software tools, for enterprises. It competes against NetApp, Dell Technologies and others.
- The company began officially trading under the Everpure name in March. The rebranding is part of a focus on providing a broader "data platform" for enterprises that includes hardware and software.
- Everpure stock has gained 18% year to date, including Tuesday's late rally. While earnings growth has accelerated in Everpure's three previous quarters, the company has faced challenges from the rising costs of flash memory. Both Everpure and rival NetApp have raised prices for customers in the past six months.



P US $ Market K77.04 / 78.46P 100 x 100
Prev 78.79 Vol 619
P US Equity 96) Actions 97) Export 98) Settings
39) ADJ Everpure Inc ASC 842 Periodicity Annuals Cur FRC (USD)
1) Key Stats 2) I/S 3) B/S 4) C/F 5) Ratios 6) Segments 7) Addl 8) ESG 9) Custom 10) Shared
11) BBG Adj Highlights 12) BBG GAAP Highlights 13) Company Model 14) Earnings 15) Enterprise Value 16) EV Ex Operating Leases

In Millions of USD 12 Months Ending	2023 Y 02/05/2023	2024 Y 02/04/2024	2025 Y 02/02/2025	2026 Y 02/01/2026	Current/LTM 05/03/2026	2027 Y Est 01/31/2027	2028 Y Est 01/31/2028
Market Capitalization	9,094.9	13,499.8	22,106.5	22,972.7	26,190.2		
- Cash & Equivalents	1,582.2	1,531.1	1,521.8	1,547.3	1,504.7		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	750.7	267.9	281.2	219.0	231.0		
Enterprise Value	8,263.4	12,236.6	20,865.8	21,644.5	24,916.4		
Revenue, Adj	2,753.4	2,830.6	3,168.2	3,662.8	3,937.3	4,485.6	5,160.0
Growth %, YoY	26.3	2.8	11.9	15.6	21.0	22.5	15.0
Gross Profit, Adj	1,897.6	2,021.2	2,212.7	2,578.0	2,765.1	3,185.5	3,705.2
Margin %	68.9	71.4	69.8	70.4	70.2	71.0	71.8
EBITDA, Adj	240.2	266.4	276.2	323.2	353.5	1,022.2	1,138.7
Margin %	8.7	9.4	8.7	8.8	9.0	22.8	22.1
Net Income, Adj	79.9	93.1	119.3	172.7	209.5	840.7	1,047.4
Margin %	2.9	3.3	3.8	4.7	5.3	18.7	20.3
EPS, Adj	0.25	0.29	0.35	0.50	0.61	2.43	3.01
Growth %, YoY	--	14.19	21.32	45.66	62.90	381.84	23.51
Cash from Operations	767.2	677.7	753.6	880.1	776.3		
Capital Expenditures	-158.1	-195.2	-226.7	-264.3	-260.4	-293.1	-324.6
Free Cash Flow	609.1	482.6	526.9	615.7	515.9	764.1	1,078.5

AAUC CN Arb Spread

The merger arbitrage spread on **Allied Gold Corporation (TSX: AAUC / NYSE: AAUC)** is notably wide right now because of a high concentration of **geopolitical, regulatory, and macro risks** that are causing arbs to demand a steep risk premium.

Zijin Mining agreed to acquire Allied Gold in an all-cash deal at **CAD $44.00 per share** (~USD $32.00 depending on FX rates), yet the stock currently trades significantly below that target (around USD $23.70 to CAD $33.70).

The primary factors driving this wide spread include:

1. Chinese Regulatory Approvals & The Extended Timeline

While the parties successfully secured Canadian regulatory clearance under the Investment Canada Act (ICA) in May, the deal's closing date has been pushed out. On May 29, 2026, the outside closing date was officially extended to **July 29, 2026**.

- **The Bottle Neck:** Outbound Chinese regulatory filings (MOFCOM, SAFE, and NDRC) are still outstanding. Arbitrageurs hate timeline extensions, and the delay introduces extended capital lock-up risk.

2. Extreme West African Geopolitical Exposure

Allied Gold's asset portfolio is heavily tied up in highly unstable jurisdictions. Its three main producers/projects are the Sadiola gold mine in **Mali**, the Bonikro/Agbaou complex in **Côte d'Ivoire**, and the Kurmuk project in **Ethiopia**.

- **The Mali Hurdle:** Mali has experienced severe ongoing political unrest and localized conflict. Securing formal local government change-of-control approvals from a military junta is notoriously unpredictable.
- **The Threat of Nationalization or Windfalls:** Resource nationalism is rising across West Africa. Arbs fear that local governments could hold up the transaction to demand exorbitant tax penalties or larger state-carried interests before letting Zijin take control.

3. Execution & Financing Squeeze

Allied Gold reported a heavy **net loss of US$58.33 million in Q1 2026** and holds an elevated All-In Sustaining Cost (AISC) across its operational mines. Furthermore, its Kurmuk project in Ethiopia is in a critical capital-expenditure phase as it nears first gold production. If the deal breaks, Allied Gold faces immediate liquidity constraints and a steep operational funding hurdle, meaning the "downside" if the deal fails is deeply punishing.

4. Gold Market & Sector Volatility

Precious metals stocks have experienced sharp, systemic sell-offs driven by a hawkish Federal Reserve backdrop and a strengthening U.S. dollar. When the broader gold mining sector slides, it drags down the trading price of the target company, widening the gross arbitrage spread even if the fundamental probability of the deal closing hasn't changed.

The Arbitrage Summary: On paper, the deal has strong institutional backing, having overwhelmingly passed Allied Gold shareholder approval in March, and Zijin is a highly capable buyer. However, the market is pricing a high probability of delays or friction from the Malian government or Chinese regulators. Arbs are treating this as a high-yielding but high-risk emerging-market special situation.

AAUC CN CAD ↓ 33.70 +0.56 T33.70/34.97T 1x5
On 30-Jun d Vol 2,463,922 O 32.97T H 34.15B L 32.62O Val 82.989M
AAUC CN Equity 96) Actions 97) Export 98) Settings Finan
39) ADJ Allied Gold Corp IFRS 16 Periodicity Annuals Cur FRC (USD)
1) Key Stats 2) I/S 3) B/S 4) C/F 5) Ratios 6) Segments 7) Addl 8) ESG 9) Custom 10) Shared
11) BBG Adj Highlights 12) BBG GAAP Highlights 13) Company Model 14) Earnings 15) Enterprise Value 16) EV Ex Operating Leases

In Millions of USD	2022 Y	2023 Y	2024 Y	2025 Y	Current/LTM	2026 Y Est	2027 Y Est
12 Months Ending	12/31/2022	12/31/2023	12/31/2024	12/31/2025	03/31/2026	12/31/2026	12/31/2027
Market Capitalization	–	666.3	779.4	2,859.1	2,998.8		
- Cash & Equivalents	45.2	158.6	225.0	479.8	424.2		
+ Preferred & Other	66.1	81.1	70.5	97.1	110.9		
+ Total Debt	53.5	103.5	96.4	169.8	246.7		
Enterprise Value	–	692.3	721.3	2,646.2	2,932.4		
Revenue, Adj	669.6	655.7	730.4	1,331.8	1,379.5	2,379.9	3,363.2
Growth %, YoY	36.8	-2.1	11.4	82.3	53.0	78.7	41.3
Gross Profit, Adj	129.4	106.8	220.2	506.5	557.8	1,377.2	2,071.8
Margin %	19.3	16.3	30.2	38.0	40.4	57.9	61.6
EBITDA, Adj	131.8	88.3	182.2	441.6		1,173.7	2,059.4
Margin %	19.7	13.5	25.0	33.2		49.3	61.2
Net Income, Adj	-7.0	-175.7	-47.9	41.3	-42.9	604.0	1,157.6
Margin %	-1.1	-26.8	-6.6	3.1	-3.1	25.4	34.4
EPS, Adj	-0.06	-2.61	-0.53	0.36	-0.34	4.88	9.61
Growth %, YoY	93.14	-4,455.75	79.47	65.12	70.26	1,266.98	96.82
Cash from Operations	83.7	19.8	109.5	514.0	450.1		
Capital Expenditures	-104.0	-23.4	-7.2	-422.7	-425.6	-442.4	-295.5
Free Cash Flow	-20.3	-3.6	102.4	91.3	24.6	372.2	1,206.7

S&P Global Inc. (NYSE: $SPGI) Wednesday announced that it has completed the separation of its Mobility division into an independent, public company, Mobility Global Inc. ("Mobility Global"). Mobility Global common stock will begin regular-way trading today on the New York Stock Exchange under the ticker symbol $MBGL

- "The successful completion of this separation reflects the extraordinary work and dedication of the S&P Global and Mobility Global teams over the past 15 months," said Martina Cheung, President and CEO of S&P Global. "Together, we have built a strong foundation for Mobility Global as an independent company and both companies stand well-positioned for the future."
- The separation was achieved through the distribution of 100 percent of the shares of Mobility Global to holders of S&P Global common stock effective as of 12:01 a.m. New York City time on July 1, 2026, with S&P Global stockholders receiving one share of Mobility Global common stock for every share of S&P Global common stock held at the close of business on June 15, 2026, the record date.
- S&P Global stockholders entitled to receive the distribution received a book-entry account statement or a credit to their brokerage account reflecting their ownership of Mobility Global common stock. Fractional shares of Mobility Global common stock were not distributed.
- Any fractional share of Mobility Global common stock otherwise issuable to a S&P Global stockholder will be sold in the open market on such stockholder's behalf, and such stockholder will receive a cash payment for the fractional share based on its pro rata portion of the net cash proceeds from all sales of fractional shares.

Lee Robinson and his firm Altana (which turned $20M into $200M during the GFC) is launching a new fund to short life insurance companies due to their private credit exposure.

"Robinson is ramping up bearish wagers on firms from Lincoln National Corp. to MetLife Inc. and even Berkshire Hathaway Inc. through the use of credit default swaps, derivative contracts designed to protect investors against a default. His firm, Altana, is launching a new fund, into which it is also investing its own capital, to protect against what he sees as an inevitable downturn in private credit, a cooling-off in AI hype, and the impact of declining liquidity on corporate valuation"

Investor Who Scored 900% Win in 2008 Has New Big Short Bet

Summary by Bloomberg AI

- Hedge fund manager Lee Robinson is shorting insurers, including Lincoln National Corp. and MetLife Inc., due to their exposure to private credit.
- Robinson's firm, Altana, is launching a new fund to protect against a potential downturn in private credit and its impact on corporate valuations.
- Insurers' exposure to private credit has grown significantly over the last decade, with a fifth of the US life insurance sector's fixed-income holdings allocated to illiquid assets, mostly private credit, at the end of 2025.

By Abhinav Ramnarayan, Tasos Vossos and Liza Tetley

BLUE OWL BDCS IMPOSE CAPS AFTER 18.8%, 38.1% REQUESTS TO EXIT

Blue Owl capped withdrawals at 5% at two private credit funds for the second straight quarter after large redemption requests, per Bloomberg.

- **OCIC, roughly $34B in assets:**
  - Investors requested 18.8% of shares, or $3.6B

- **OTIC:**
    - Investors requested 38.1% of shares, or $1.1B
- Blue Owl said OCIC's requests were lower q/q, mostly from repeat redeemers, and included "limited new participation."
- Management also said: "OCIC does not need to sell a single private loan to satisfy the tender offer."
- Though the 18.8% and 38.1% requests present an optical headwind for direct lending fundraising channels, the sequential decline suggests a possible peak in the retail private credit withdrawal wave.

Fund Name	Asset Size	Q1 2026 Requests (% of Shares)	Q1 2026 Value	Q2 2026 Requests (% of Shares)	Q2 2026 Value	Status
Blue Owl Credit Income Corp (OCIC)	~$33.8B	21.9%	~$4.2B	**18.8%**	**$3.6B**	Capped at 5%
Blue Owl Technology Income Corp (OTIC)	~$4.9B	40.7%	~$1.2B	**38.1%**	**$1.1B**	Capped at 5%
Total Backlog	**~$38.7B**	—	**$5.4B**	—	**$4.7B**	—

US Market Quarterly Recap:

This week we are recapping a historic second quarter for global equity markets and taking a closer look at the recent FTSE/Russell index reconstitution. While it happens every six months, this cycle's index rebalancing, measured by total market cap movement and the number of companies migrating between indices (between large and small, and growth and value) is the largest on record.

While we are not suggesting investors say "good riddance" or move on from equities, the recent performance and lofty enthusiasm for certain segments, combined with increased scrutiny around AI capex trends and monetization, has created a more complicated environment going forward.

Equity Market Performance: Q2 & Year-to-Date

Broad Index	Q2	YTD	Segment	Q2	YTD
MSCI Emerging Markets	24.1%	24.0%	Semiconductors	88.0%	101.7%
Russell 2000	21.6%	22.7%	GS AI Data Centers	70.3%	115.0%
Russell 1000 Growth	16.7%	5.3%	S&P500 (AI Winners)	65.5%	62.0%
S&P500	15.2%	10.2%	GS-Non Profitable Technology	43.7%	48.5%
MSCI ACWI	15.1%	11.5%	GS High Beta/ High Momentum	31.5%	56.7%
Russell 1000 Value	13.9%	16.2%	Bloomberg Magnificent 7	11.7%	-1.7%
S&P500 Equal Weight	11.4%	12.1%	S&P500 (Hyperscalers only)	10.0%	-6.2%
MSCI EAFE (Foreign Developed)	11.1%	9.9%	S&P500 (excluding AI Winners)	7.2%	6.0%

Performance of Broad Indices & Various Market Segments

The second quarter for global equity investors was a historic one by many measures. While the MSCI All Country World Index returned a robust 15% (notching its best quarter since Q4 of 2020), the quarter will be remembered for the performance and enthusiasm for companies leveraged to the generational AI infrastructure build-out. This performance, driven by a combination of earnings momentum and increased investor risk appetite, helped fuel a historic stretch of gains during the quarter, where the S&P 500 posted nine consecutive weekly gains and a cumulative return of 17% from early March to early June. This streak and level of return ranks as the second-best for the index since 1950 and helped fuel the best quarter for many equity market segments in six years.

While weekly winning streaks for broad indices are not unusual in secular bull markets, the duration of this streak and the overall performance for the S&P 500 for the quarter were notable, evidenced by the fact that the S&P 500's total return of 15% ranks in the 93rd percentile of quarterly performance since 1950.

While we continue to see earnings momentum as a key pillar of fundamental support for equity markets going forward, we acknowledge that the second quarter saw a confluence of positive tailwinds for equities (and a potential pull forward of performance). Combined with the seasonal volatility we typically see during the summer months, this may lead to some digestion and consolidation as we begin the second half of the year.

The dominant driver of equity market performance during the quarter was underlying earnings momentum, both in reported earnings growth (surpassing 20% YoY for the first quarter) and in estimates for earnings growth for the coming years (referred to as positive earnings revisions). Despite a more turbulent macro environment, including an oil price shock that would typically be associated with lower economic and earnings growth, EPS growth estimates for 2026 and 2027 surprisingly increased by more than 6% over the course of the second quarter.

S&P500 with Consensus EPS Expectations for 2026 (orange) and 2027 (blue)

While the earnings momentum fueled risk appetite and investor sentiment in Q2, the underlying composition of earnings growth was largely concentrated in three industry groups, all of which are beneficiaries of AI-related capex (semiconductors, capital goods, and technology hardware and equipment). Combined, these three industry groups accounted for 65% of the S&P 500 return for the quarter, a function of both optimism around the pace of AI capex growth and lingering macro headwinds to the average company from higher interest rates and upward pressure on inflation.

These trends resulted in a highly bifurcated equity market in which AI plays outperformed non-AI plays by nearly 60% during the quarter. Semiconductors, for example, the largest beneficiaries of AI capex, posted a record quarter and returned 88%. At the same time, the average S&P500 company returned just 11%, and the hyperscalers (the companies making the investments in AI infrastructure) actually lagged and returned 10%, with notable weakness in June to close out the quarter.

In addition to this bifurcation, we saw more speculative areas like non-profitable tech and indices comprised of companies with the highest trailing momentum return over 40%, both of which reflect elevated risk appetite, investors gravitating towards top-performing companies, and optimism about a sustained acceleration in many cyclical areas.

Overall, this bifurcation contributed to narrower performance and a market of haves and have-nots, evidenced by the fact that just 10 companies (comprising 32% of the S&P 500 index) accounted for more than 60% of the index return during the quarter. At the same time, just 30% of companies outperformed the index and 33% declined during the quarter.

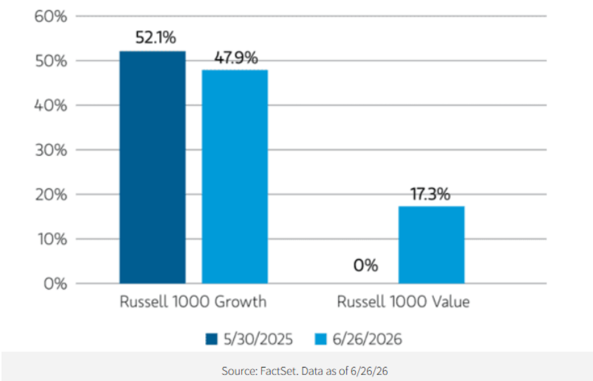
Index Reconstitution and the Style Blurring of the Magnificent Seven

Following a remarkable second quarter of performance and the bifurcation between the haves and have-nots which we have detailed, it shouldn't be too surprising that the rebalancing of the FTSE/Russell indices has taken on greater significance this year.

Historically, the semi-annual reconstitution of the holdings and weights of the major FTSE/Russell indices garners headlines, results in modest institutional rebalancing, and leads to some front-running by investors looking to capitalize on investment flows. While these variables contribute to near-term price volatility (and volumes as a record number of shares traded for the combined NYSE and Nasdaq on 6/26), historically the effect has been modest and the volatility short-lived. The current index reconstitution, however, is notable for several reasons, primarily the magnitude of the changes and the continued blurring of lines between what have historically been well-defined market segments.

Starting with the Russell 1000 Growth and Russell 1000 Value indices, we are seeing a continued migration of Magnificent Seven capitalization from the Growth to Value style. This shift began a year ago when Alphabet, Meta Platforms, and Amazon were first classified as both Value and Growth, and as a result were included in both indices. In this year's reconstitution, Alphabet is moving entirely back to Growth (after a relatively short stay in the Value world), discretionary heavyweight Amazon is moving almost entirely to Value, and tech giants Microsoft and Apple (historically two of the largest Growth companies) are seeing half of their index weight shift to the Value index. According to FTSE/Russell, these changes are driven by a proprietary formula which assigns companies to either the Growth or Value universe according to historical growth rates and current valuation, as well as their mandate to maintain an equal split in total large cap market capitalization between Growth and Value. The recent expansion in market capitalization of the largest Growth companies has ultimately raised the bar for what it takes to be a "Growth" company in their framework, which is resulting in many names drifting into the Value segment.

This phenomenon is most evident in the Magnificent Seven group, which as of early July is now a 17% weight in the Russell 1000 Value Index. This is a surprisingly large allocation to a group that has historically dominated the Growth index and has not exhibited many of the common traits of Value companies like slower growth, cyclicality, capital intensity, and operating leverage. This reclassification is, in part, a recognition that the many Magnificent Seven companies are more capital intensive today and are trading at valuation discounts relative to peers and recent history. While this does broaden the universe of potential investors in these names (as many Value managers now have to consider larger Mag7 allocations given their weight in the index), this shift also brings both the Russell 1000 Growth and 1000 Value indices closer together from a style standpoint. In our view this may reduce some of the diversification benefit an allocation to both segments has historically generated.



Looking at the large-cap and small-cap segments, we see a similar blurring of the lines. In total, 43 companies are graduating from the small-cap Russell 2000 index in this rebalance, a result of their recent performance and market cap growth. In addition, the maximum market capitalization for small-cap qualification continues to increase, now standing at $5.7B. This is an increase from the $1.0B maximum qualification that existed post the global financial crisis, and it is more than double the average maximum threshold of $2.9B since 2000. The weighted average market capitalization for the index has also continued to rise, reaching $7.5B by late June, which is up from $2.1B a decade ago. While equity market performance should lead market capitalization to rise over the long term, and the current rebalance will reduce this record level, we find it interesting that just 10 years ago a weighted average market cap of $7.5B would have been larger than 30% of companies in the large-cap S&P 500.

In the interest of time, we'll save a deeper dive on the small cap segment for another day, but the overall takeaway is that the line between large and small cap indices is also becoming blurred and, once again, potentially watering down the diversification and style benefits many allocators are aiming to capitalize on.

Finally, when evaluating the 43 companies graduating from the Russell 2000, we see many key beneficiaries of AI capex trends. This small cohort of AI infrastructure companies has largely carried the Russell 2000 Index this year, accounting for nearly half of the index total return. While active managers in the small cap segment without exposure to this cohort are likely saying "good riddance", the reconstitution (similar to a championship team losing the majority of its best players) leaves the index searching for a new cohort of star contributors and at the same time, potentially less fundamentally attractive (as these graduates were also generating healthy earnings growth).

The key takeaway is that the small-cap index going forward will likely be more reliant on traditional drivers like easing financial conditions (lower rates and more abundant liquidity) and accelerating economic activity, both of which have been historical tailwinds for the small-cap segment.

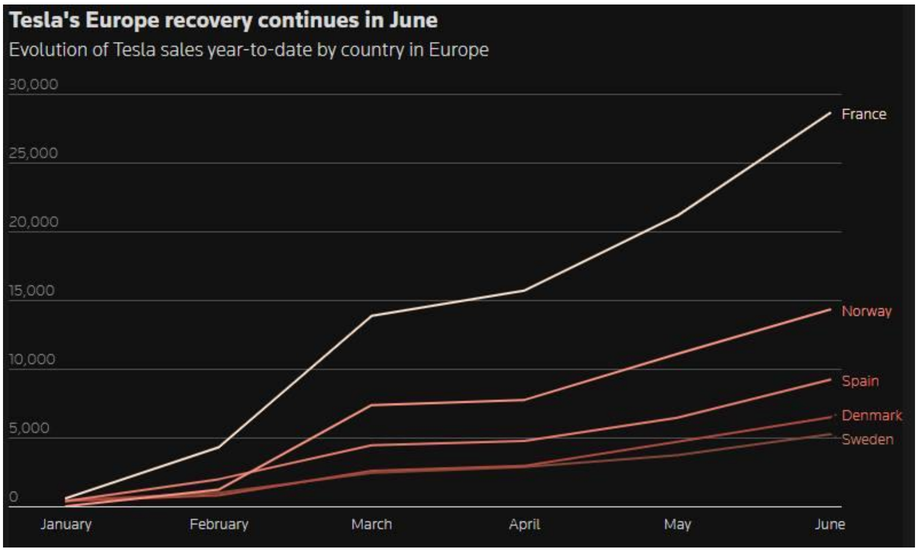
As we turn to the second half of the year, we see global equity markets at an interesting intersection. Following a historic second quarter, we are clearly in an environment of elevated enthusiasm for equities, enthusiasm that is most pronounced in highly cyclical areas, segments that have exhibited the strongest recent momentum, and those most leveraged to the AI infrastructure theme.

While underlying earnings momentum remains a key pillar of support, providing insulation from macroeconomic uncertainty and helping justify current valuations, in our view this environment warrants a more disciplined approach for the second half. Historically, crowded positioning, high leverage levels, lofty expectations, and historic outperformance from the high momentum segment have opened the door for rapid resets and resulted in periods of near-term consolidation or digestion.

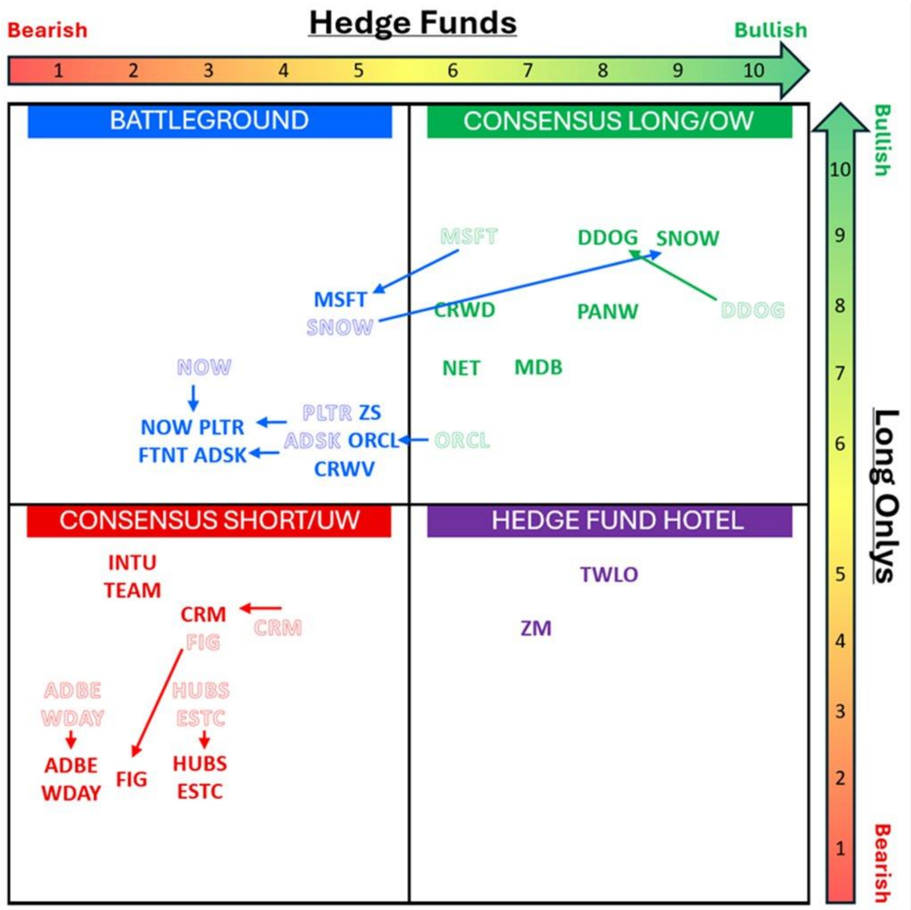
While we remain constructive on equities, we believe investors should continue to prioritize those companies with durable earnings growth and use tools like rebalancing and diversification to their advantage.

Tesla Sales Recover on Oil Crisis:

- **$TSLA - TESLA Q2 DELIVERIES BEAT EXPECTATIONS**
  - Tesla delivered 480,126 vehicles in the second quarter, well above analyst estimates of 406,024.
  - The company produced 451,758 vehicles, with the Model 3 and Model Y accounting for nearly all deliveries. Tesla also deployed 13.5 GWh of energy storage products during the quarter.
- **$TSLA - TESLA CHINA SALES RISE FOR EIGHTH MONTH**
  - Tesla's China-made EV sales rose 24.4% year-over-year to 89,091 vehicles in June, marking an eighth straight month of growth.
  - The increase was driven by a continued recovery in European demand. Tesla's Shanghai factory supplies both the Chinese market and exports vehicles to Europe. Demand was driven by the oil crisis.
  - Tesla sales gaining over rivals in all its leading markets

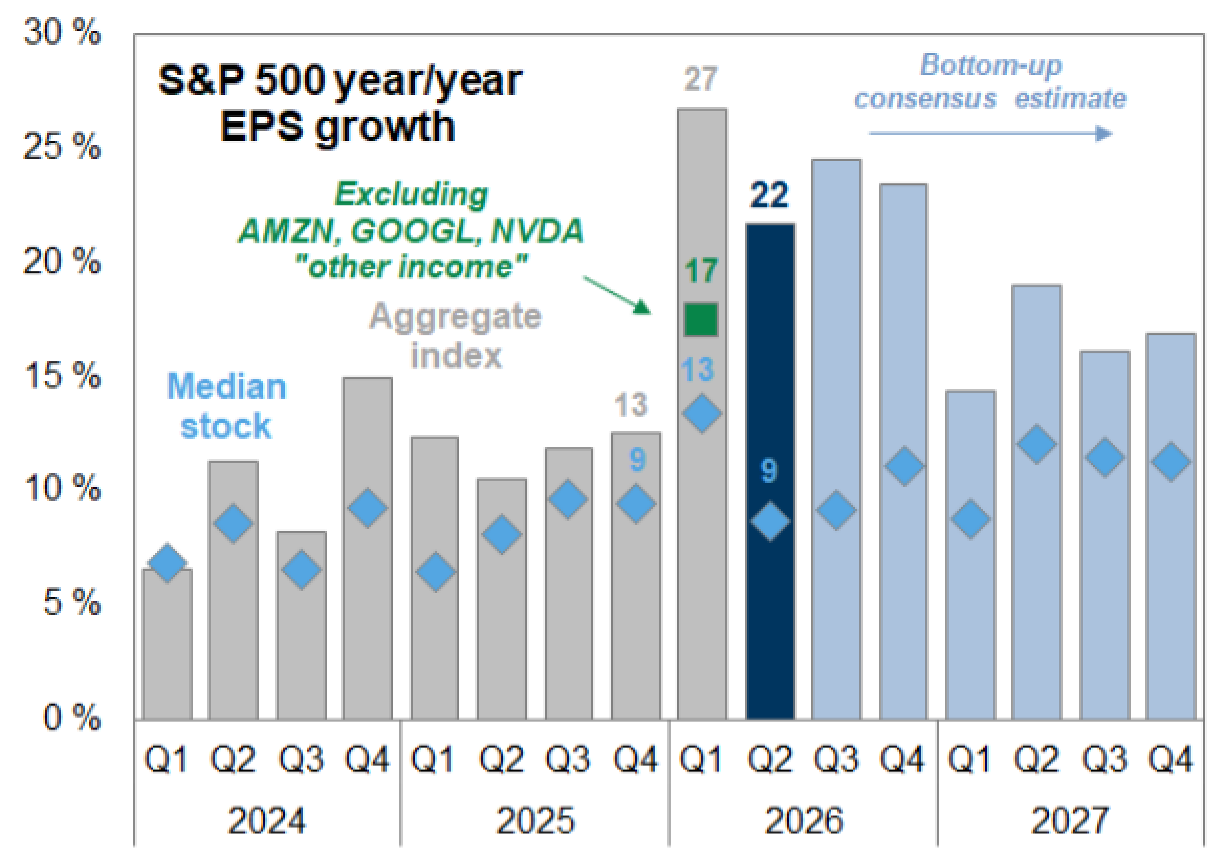


Updated software sentiment matrix from JPM's Schilsky:



MU and NVDA estimated to account for 40% of S&P500 EPS growth this Q (top 10 contributors = 75% of the growth).

Exhibit 7: Solid Q2 earnings growth expectations for the median S&P 500 stock



Source: FactSet, Goldman Sachs Global Investment Research

We have been arguing that the stock market is effectively two asset classes: AI stocks and non-AI stocks. There are 41 AI-related stocks in the S&P 500.

AI-Related Stocks in the S&P 500

41 AI-Related Companies as Identified by JP Morgan Analysis

Market Cap Changes as of June 26 2026

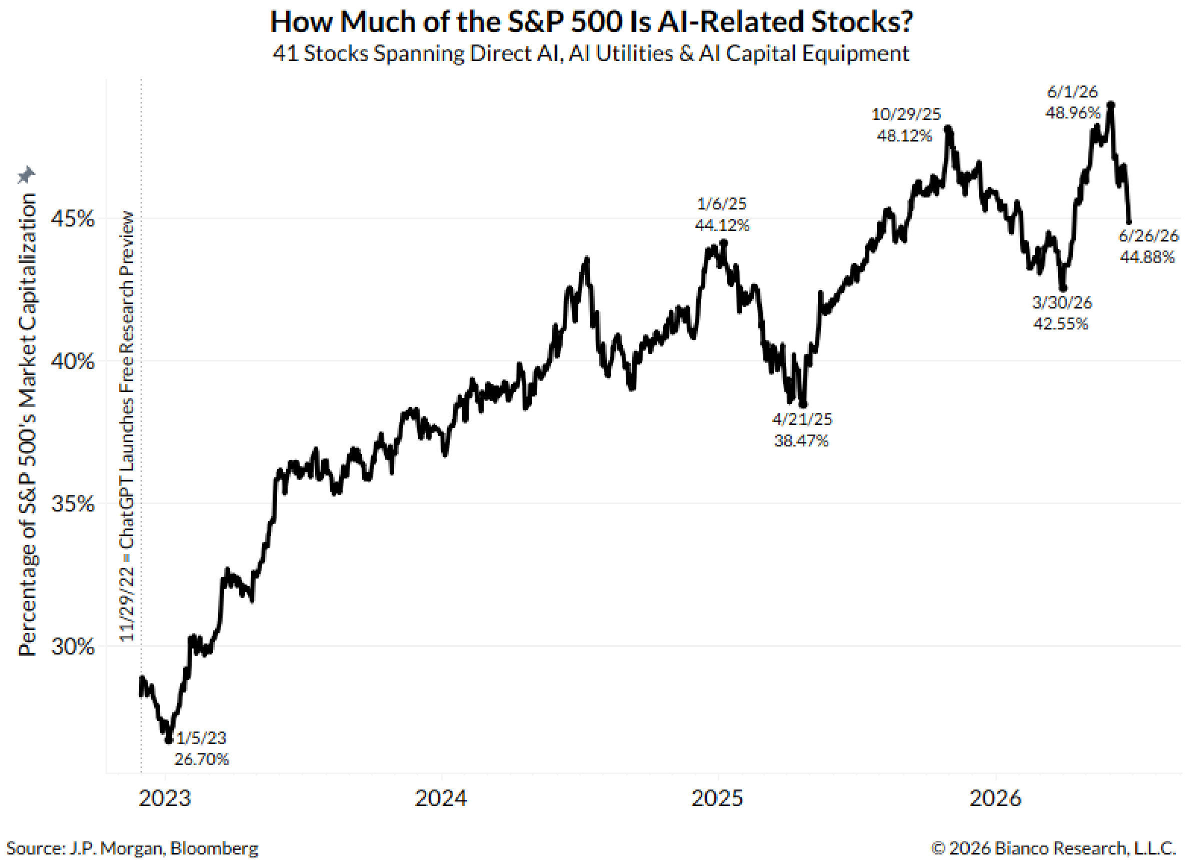
Company	Total Return Since 12/31/25	Market Cap ($Billions)	YTD Market Cap Change	Pct of S&P 500	Contribution to S&P 500 Return	Forward P/E Ratio
Other AI-Direct						
Broadcom Inc	5.85%	$1,737	$96	2.64%	0.15%	23.4
Oracle Corp	-23.33%	$428	-$132	0.65%	-0.20%	18.4
Palantir Technologies Inc	-36.47%	$271	-$153	0.41%	-0.23%	70.7
Advanced Micro Devices Inc	143.55%	$850	$502	1.29%	0.76%	59.4
Salesforce Inc	-39.91%	$130	-$119	0.20%	-0.18%	11.1
International Business Machine	-7.09%	$255	-$22	0.39%	-0.03%	21.6
Uber Technologies Inc	-6.74%	$155	-$15	0.24%	-0.02%	21.3
ServiceNow Inc	-35.81%	$101	-$58	0.15%	-0.09%	22.4
QUALCOMM Inc	11.86%	$200	$16	0.30%	0.02%	19.2
Arista Networks Inc	20.28%	$198	$33	0.30%	0.05%	41.7
Adobe Inc	-42.08%	$81	-$66	0.12%	-0.10%	7.8
Micron Technology Inc	296.92%	$1,279	$958	1.94%	1.46%	7.8
Palo Alto Networks Inc	65.15%	$248	$120	0.38%	0.18%	77.6
Intel Corp	247.75%	$645	$461	0.98%	0.70%	117.9
Crowdstrike Holdings Inc	49.56%	$178	$60	0.27%	0.09%	135.8
Cadence Design Systems Inc	20.70%	$104	$19	0.16%	0.03%	46.2
Dell Technologies Inc	219.80%	$258	$173	0.39%	0.26%	21.5
NXP Semiconductors NV	28.72%	$70	$15	0.11%	0.02%	17.7
Fortinet Inc	90.59%	$111	$52	0.17%	0.08%	48.2
Digital Realty Trust Inc	26.43%	$69	$15	0.10%	0.02%	92.0
Hewlett Packard Enterprise Co	83.60%	$58	$26	0.09%	0.04%	11.4
Super Micro Computer Inc	4.65%	$20	$2	0.03%	0.00%	10.4
Totals	36.36%	$7,446	$1,985	11.32%	3.02%	
S&P 500 INDEX	8.15%	$65,753	$4,952	100%	8.15%	21.5
41 AI-Related Stocks	5.69%	$29,508	$1,589	44.88%	2.61%	
459 Non AI-Related Stocks	10.23%	$36,245	$3,363	55.12%	5.53%	

Company	Total Return Since 12/31/25	Market Cap ($Billions)	YTD Market Cap Change	Pct of S&P 500	Contribution to S&P 500 Return	Forward P/E Ratio
Magificent Seven						
NVIDIA Corp	3.36%	$4,659	$127	7.09%	0.19%	19.2
Apple Inc	4.58%	$4,168	$151	6.34%	0.23%	30.9
Microsoft Corp	-22.54%	$2,771	-$824	4.21%	-1.25%	20.1
Alphabet Inc	7.93%	$4,092	$310	6.22%	0.47%	25.1
Amazon.com Inc	0.81%	$2,503	$36	3.81%	0.05%	23.7
Meta Platforms Inc	-16.50%	$1,397	-$267	2.12%	-0.41%	14.6
Tesla Inc	-15.57%	$1,426	-$70	2.17%	-0.11%	191.0
Totals	-2.49%	$21,015	-$537	31.96%	-0.82%	
AI-Utilities						
NRG Energy Inc	-5.61%	$32	$1	0.05%	0.00%	19.2
Vistra Corp	1.64%	$55	$0	0.08%	0.00%	30.9
NextEra Energy Inc	11.85%	$185	$17	0.28%	0.03%	20.1
Southern Co/The	13.23%	$110	$14	0.17%	0.02%	25.1
Constellation Energy Corp	-25.05%	$96	-$15	0.15%	-0.02%	23.7
Public Service Enterprise Grou	5.82%	$42	$2	0.06%	0.00%	23.4
Entergy Corp	26.91%	$55	$14	0.08%	0.02%	18.4
NiSource Inc	19.07%	$24	$4	0.04%	0.01%	14.6
Totals	6.63%	$597	$37	0.91%	0.06%	
AI-Capital Equipment						
Eaton Corp PLC	27.16%	$156	$33	0.24%	0.05%	18.4
Trane Technologies PLC	23.38%	$106	$19	0.16%	0.03%	70.7
Johnson Controls International	16.24%	$84	$11	0.13%	0.02%	59.4
Quanta Services Inc	63.05%	$103	$40	0.16%	0.06%	11.1
Totals	29.91%	$450	$104	0.68%	0.16%	

AI Related S&P 500 Stocks Indicated By Michael Cemblast of JP Morgan
www.assets.jpmprivatebank.com/content/dam/jpm-pb-aem/global/en/documents/eotm/the-blob.pdf

Bianco Research LLC
www.biancoresearch.com

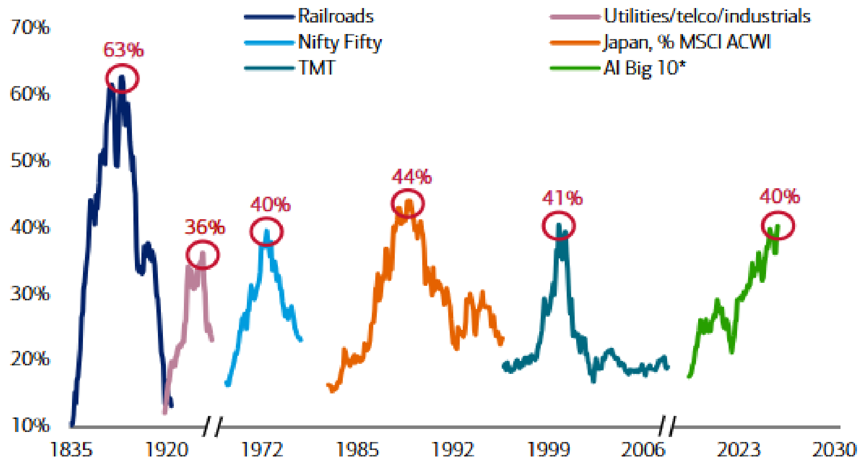
They account for 44% of the S&P 500's market cap and hit a peak of 49% earlier this month.



In his May 22 "Flow Show," Michael Hartnett of BofA highlighted the chart below. It shows the stock market is the most concentrated in a single theme in 150 years. The last time we saw anything resembling this level of concentration was the railroads in the late 19th century.

(Note: To say the stock market is the most concentrated in 150 years, we are using the table above showing a 49% peak, not the "AI Big 10" showing 40% that Hartnett uses below.)

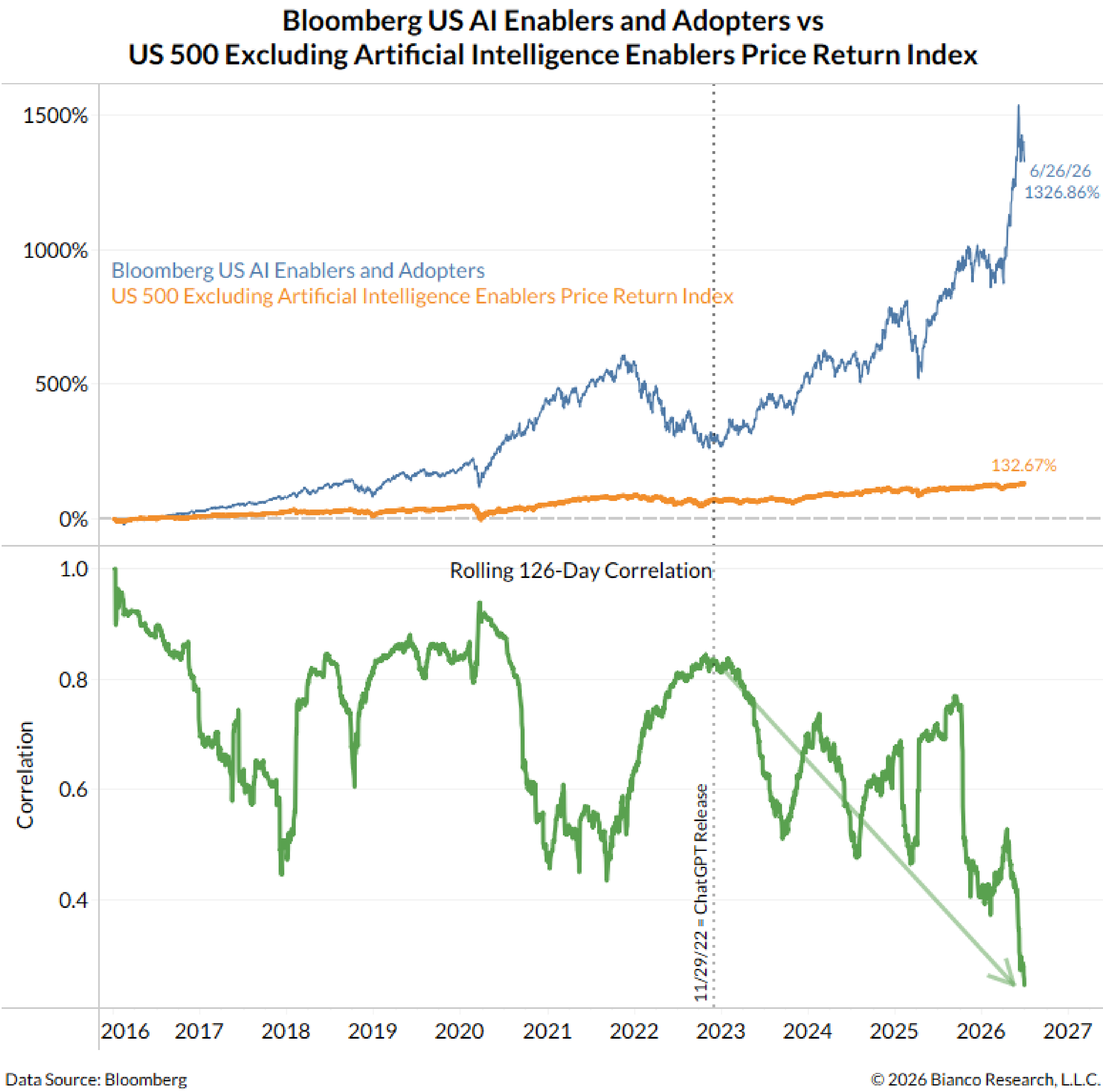
Chart 2: The history of stock market bubble concentration
The bubble history of stock market concentration measured as % of US market cap



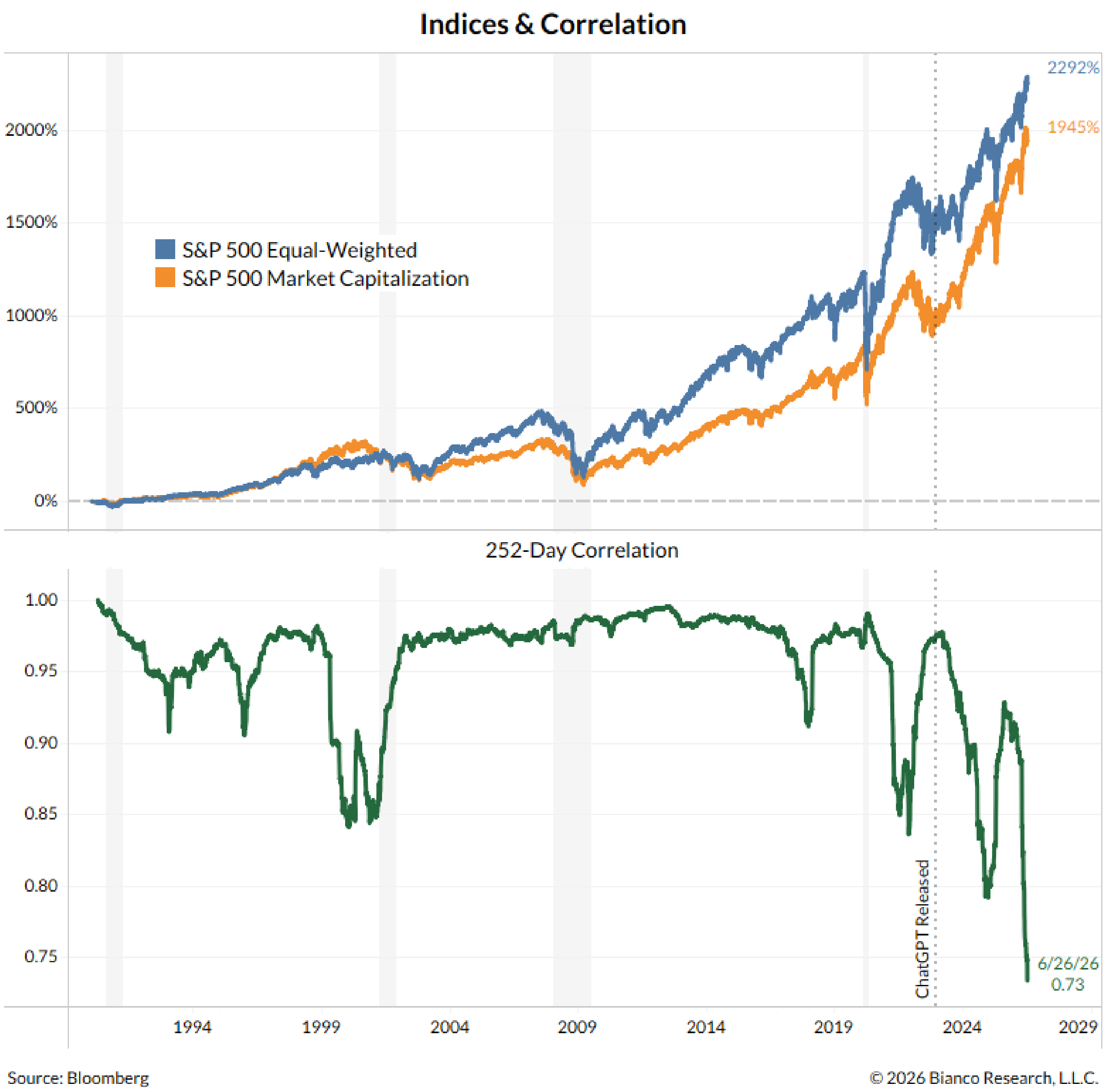
Source: BofA Global Investment Strategy, GFD Finaeon, Bloomberg. Note: Japan is measured as % of MSCI ACWI, all others as % of US stock market. *"AI Big 10" = Magnificent 7 + Broadcom, AMD, Micron.

BofA GLOBAL RESEARCH

And AI and non-AI stocks are diverging from each other, as the following chart shows.



And this divergence between AI and non-AI stocks is showing up in the record divergence of other indices, such as the one below, which compares the S&P 500 market-cap-weighted index to its equal-weighted counterpart.

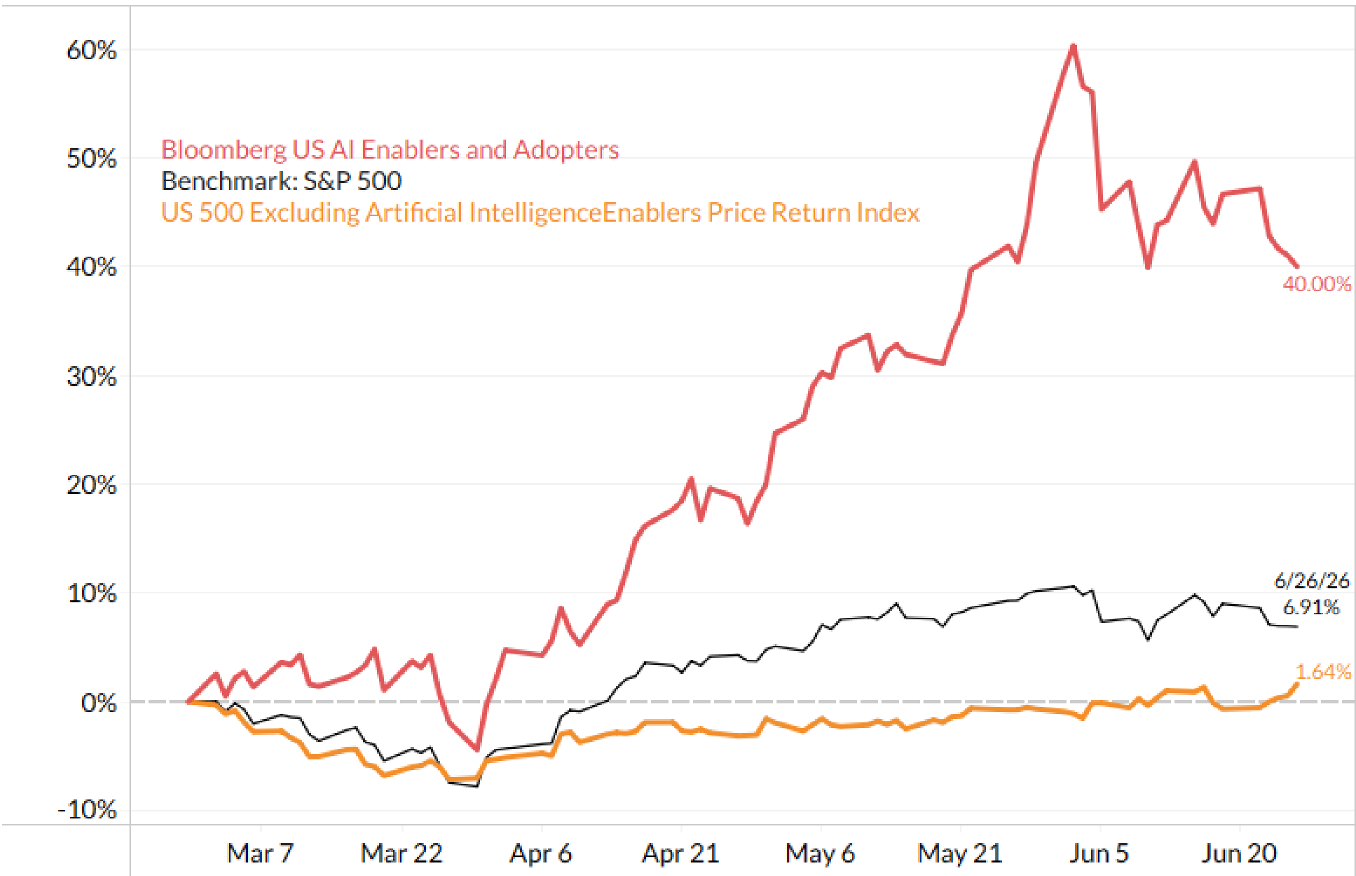


This distinction of two asset classes matters for two reasons: index investing and market signaling. Index investing is somewhat obvious, as nearly half of an index's holdings are now tied to AI stocks. But what about market signaling? What is the stock market telling us about the economy?

Consider the following two charts that show the same thing, differing only by time. The first starts on February 28, the day the Iran War began. The black line shows the S&P 500 is up almost 7% in four months, an impressive run. A standard interpretation is that the economy is doing well. But see the orange line, the 459 non-AI stocks. They are only up 1.5%, with the positive gains coming in the last few days. That suggests a very different interpretation of the economy.

Nearly the entire 7% gain on the S&P 500 since February 28 was driven by AI stocks (red).

S&P 500 vs Thematic Indices



Index Description:
Bloomberg US AI Enablers and Adopters: The Bloomberg US AI Enablers and Adopters Price Return Index is constructed to track the performance of companies that develop, facilitate, or use solutions such as deep learning, machine learning, natural language processing, and image and speech recognition utilizing data from Bloomberg Intelligence (BI).

US 500 Excluding Artificial Intelligence Enablers Price Return Index: The US 500 excluding artificial intelligence enablers price return index is an alternative for the S&P 500. The SPXXAI index excludes companies perceived to be enablers of artificial intelligence innovation before applying the S&P 500 Index weighting methodology to the remaining universe of companies.

Data Source: Bloomberg

'Samsung, SK hynix, And Micron Sued Over Alleged DRAM Price Fixing Amid Record Memory Costs — Lawsuit Claims Coordinated HBM Shift Was Cover To Curtail DDR3 And DDR4 Production' - Tom's Hardware

- Samsung, Micron, and SK Hynix have been hit with a Federal Class-Action lawsuit alleging they coordinated DRAM production cuts since 2022 while shifting capacity toward higher-margin AI memory, squeezing conventional supply and sending RAM prices soaring.
- Together, the three companies control over 90% of the global DRAM market, with plaintiffs alleging their strategy helped drive commodity memory prices up by roughly 700% over the past four years.

CXMT is now clearly the No. 4 DRAM player globally, and it aims to exert increasing pressure on leading memory suppliers such as SK Hynix, Samsung, and Micron. While the company has been expanding capacity, with further additions likely supported by significant cash flow accumulation in the coming months, CXMT still faces several key challenges:

- Equipment: The company continues to face export controls across a wide range of advanced semiconductor equipment required for both DRAM and HBM production, including EUV lithography, advanced etch tools, and TSV-related equipment. These restrictions remain a major constraint on CXMT's ability to scale into more advanced process nodes and higher-end memory products. While the rise of domestic equipment suppliers such as AMEC, Naura, and others has certainly helped alleviate the impact of export controls, this relief is highly asymmetric.

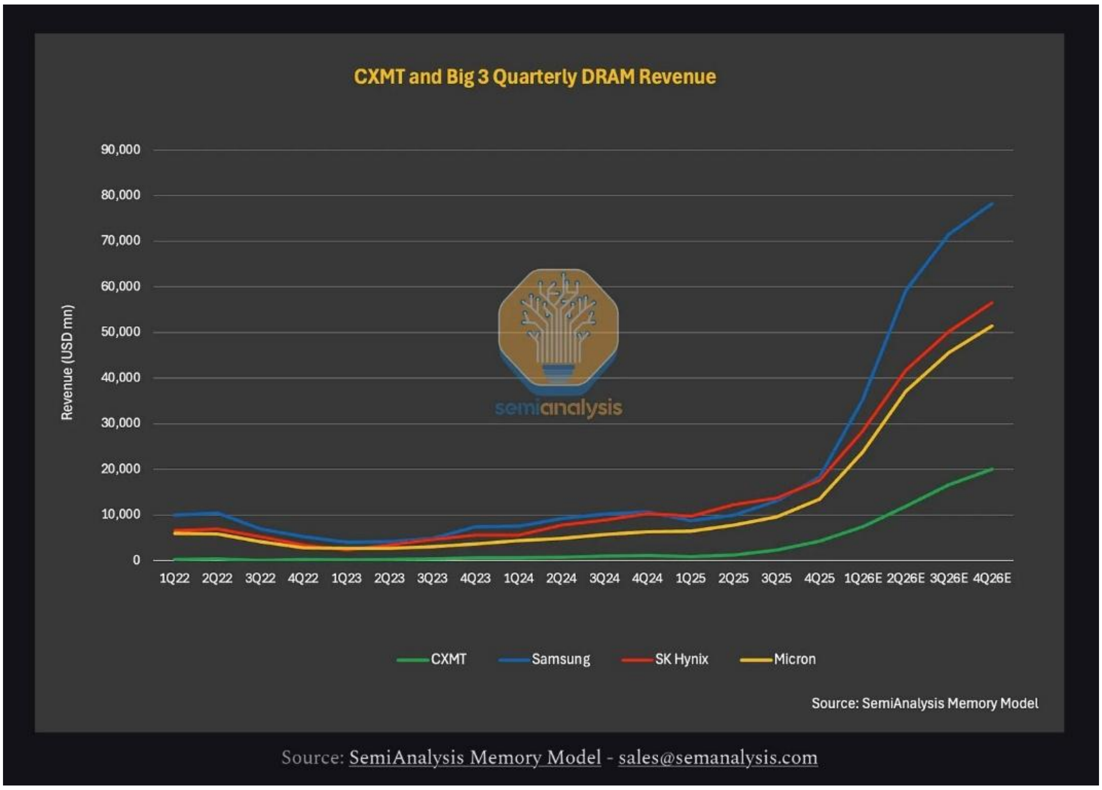
   - CXMT still faces manufacturing challenges across multiple process steps, as each step requires different equipment capabilities, process maturity, and integration know-how. In other words, progress in one equipment category does not automatically solve bottlenecks in another, leaving the company exposed to uneven tool availability, process variability, and yield risk across the full DRAM and HBM manufacturing flow.
- Technology: CXMT still trails the incumbents by several generations in DRAM process technology, even as its existing nodes continue to improve and the company pushes forward with further innovation. The gap in HBM is even larger.
   - This challenge is likely to become more difficult over time, as advanced equipment plays an increasingly critical role in enabling next-generation DRAM scaling.

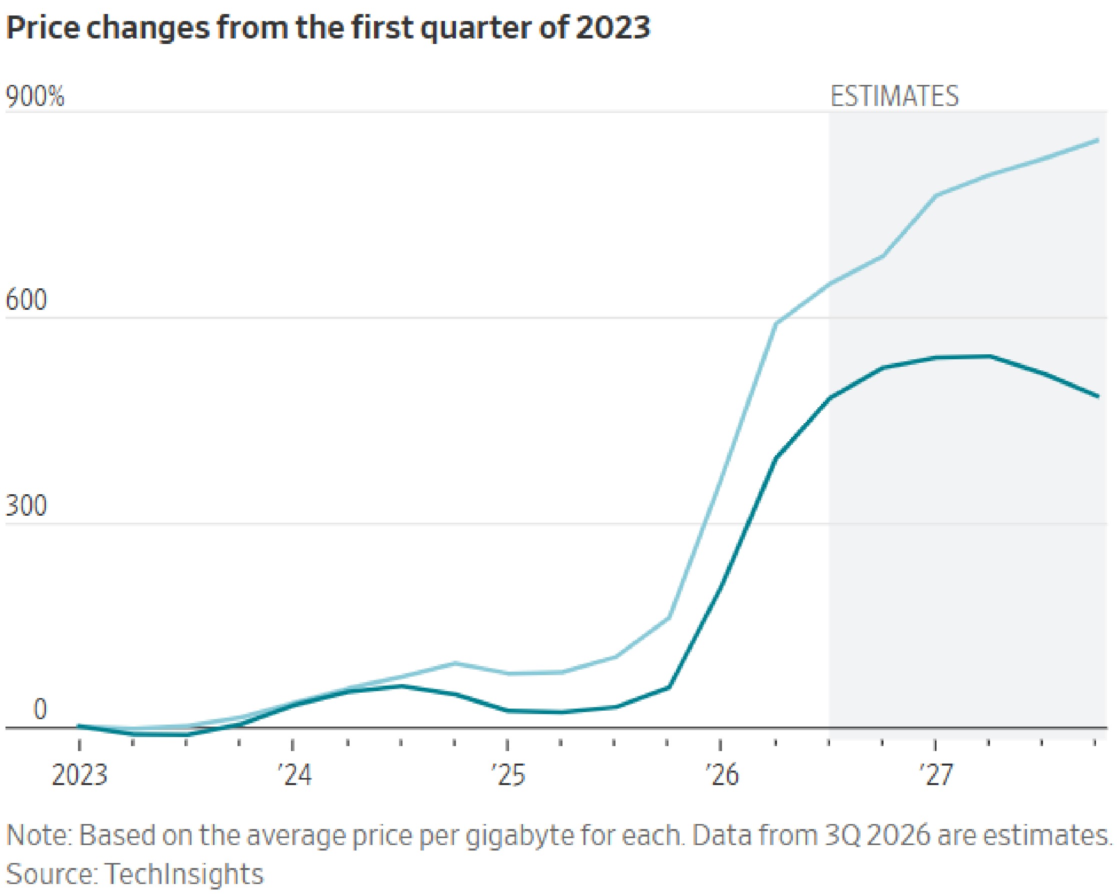
HBM Technology Roadmap								
Company	2020	2021	2022	2023	2024	2025	2026	2027
SK Hynix	HBM2E		HBM3		HBM3E(1st)	HBM3E	HBM4	HBM4E
Samsung	HBM2E		HBM3		HBM3E	HBM3E	HBM4	HBM4E
Micron	HBM2E				HBM3E	HBM3E	HBM4	HBM4E
CXMT					HBM2	HBM2E	HBM3/3E	HBM3E / Custom

- Market: Most of CXMT's presence remains concentrated in China. Even where the company has begun qualifying or penetrating foreign PC, mobile, and consumer brands, its global share remains very very limited. Over time, broader international adoption will depend not only on pricing and supply availability, but also on product quality, qualification progress, geopolitical considerations, and customer willingness to diversify away from incumbent suppliers.

What Does This Mean for the Memory Supercycle?

- Some investors may misread our recent research on CXMT as a purely negative signal for the memory market. We think that interpretation misses the central point of this cycle: significant shortage.
- Even as CXMT continues to add wafers and bit supply over time, we believe the extremely constrained DRAM environment will remain supportive for all memory suppliers. In fact, CXMT itself may struggle to fully satisfy domestic Chinese demand, let alone "flood the market with cheap memory," as some might fear.
- It is also worth emphasizing that CXMT's memory is not necessarily "cheap." Chinese memory pricing has also gone through the roof, broadly tracking the strength seen across the global DRAM market. In other words, CXMT is benefiting from the same shortage-driven pricing environment as the incumbents, rather than acting as a deflationary force against it. This might be true before, but NOT this time.
- To that end, CXMT's rise should be viewed NOT cycle-killer nor imminent threat to leading memory players, but more as a long-term structural competitive force. In the near term, the scale of DRAM undersupply is simply too large for CXMT's incremental output to materially loosen the market. The supercycle remains defined by constrained supply, rising memory content, HBM wafer absorption, and accelerating AI-driven demand.

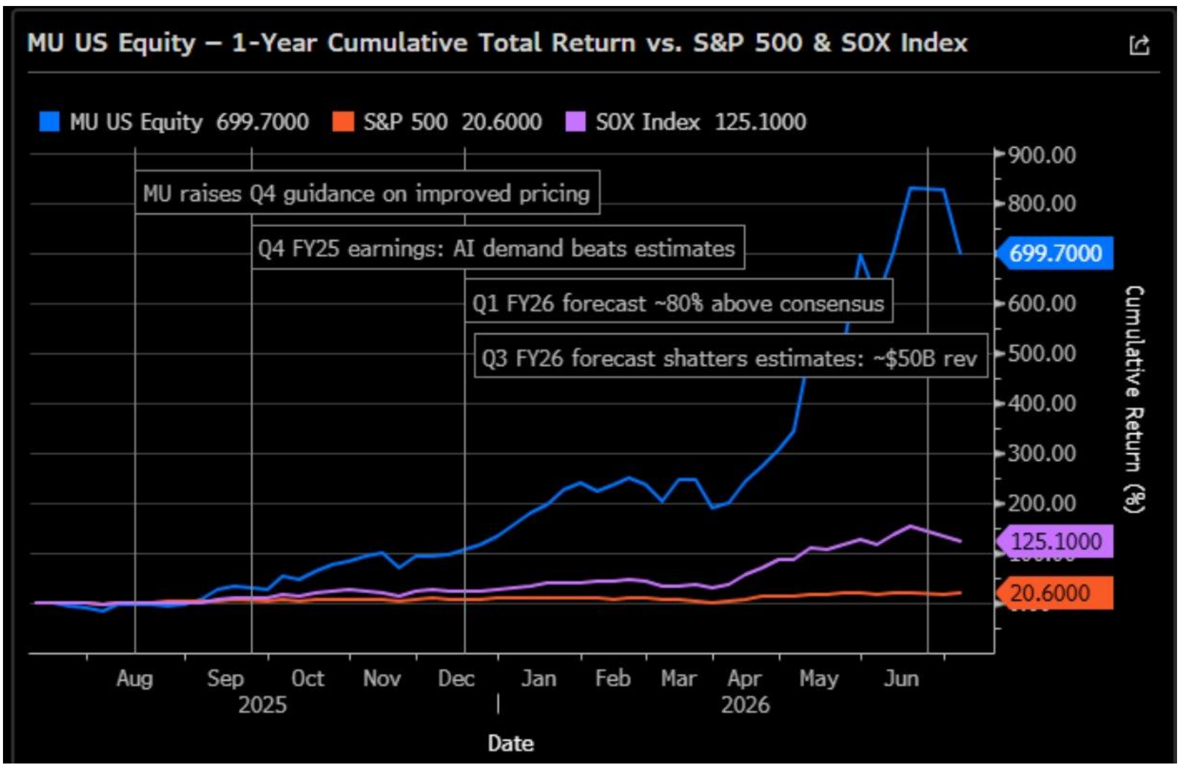




Micron Chartbook

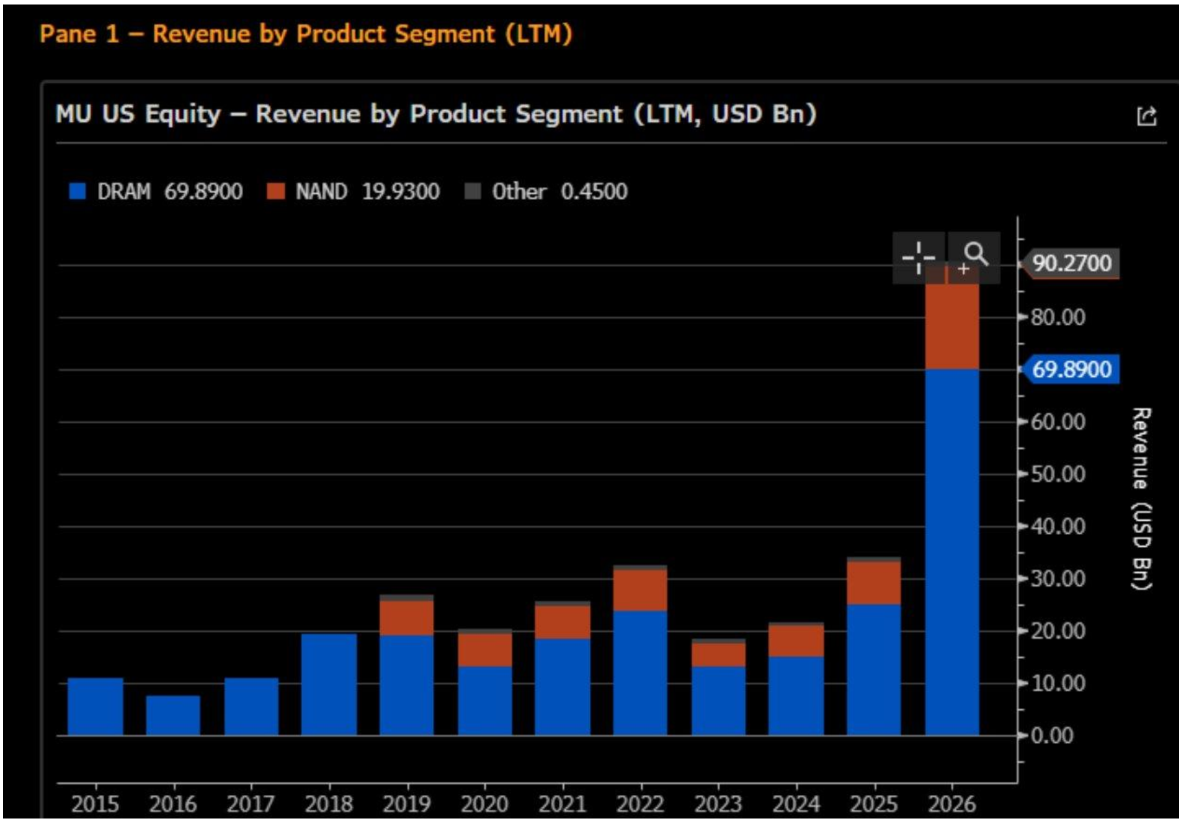
1) 1Y Cumulative returns and catalysts

MU has returned ~+700% over the past year, dramatically outpacing both the SOX Index (+125%) and the S&P 500 (+21%), with the bulk of the re-rating driven by a sequence of earnings beats and guidance revisions that consistently ran 30–80% above consensus, fueled by AI-driven HBM and DRAM demand.



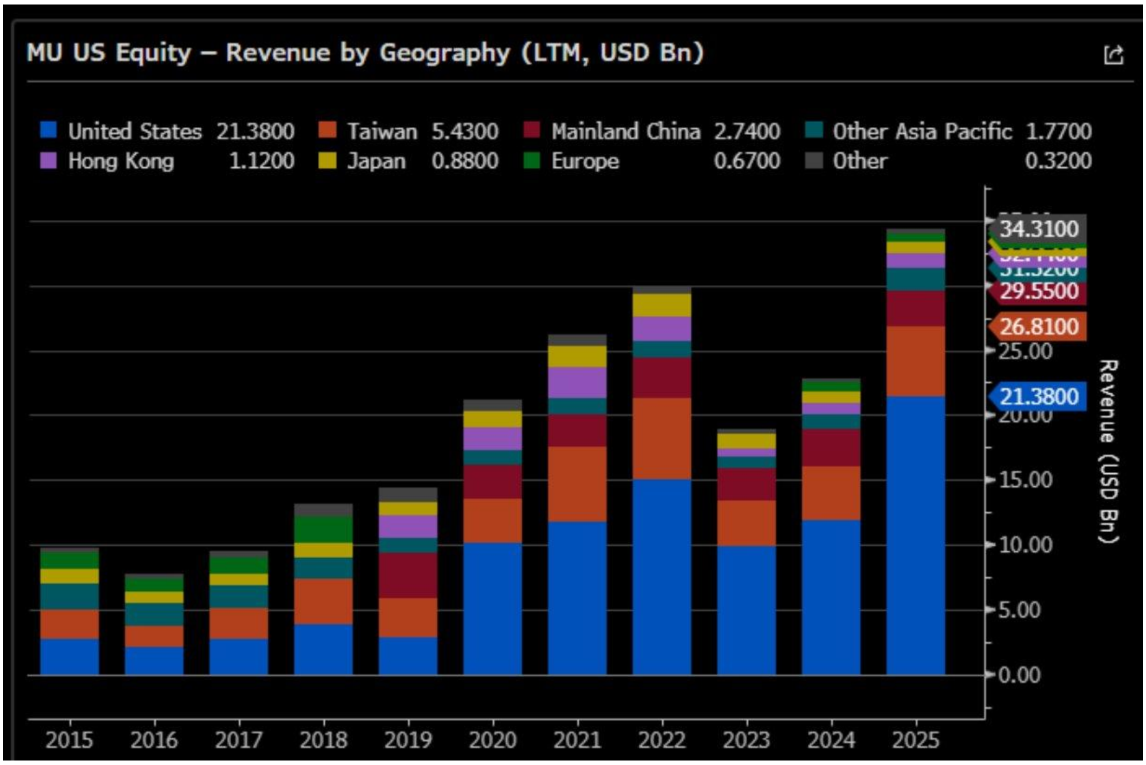
2) Revenue by Segment

DRAM dominates the revenue mix at ~77% of LTM revenue as of FY25 Q3, with the most recent LTM period showing an extraordinary step-up to ~$69.9Bn — reflecting both volume growth and sharp AI-driven pricing power in high-bandwidth memory.



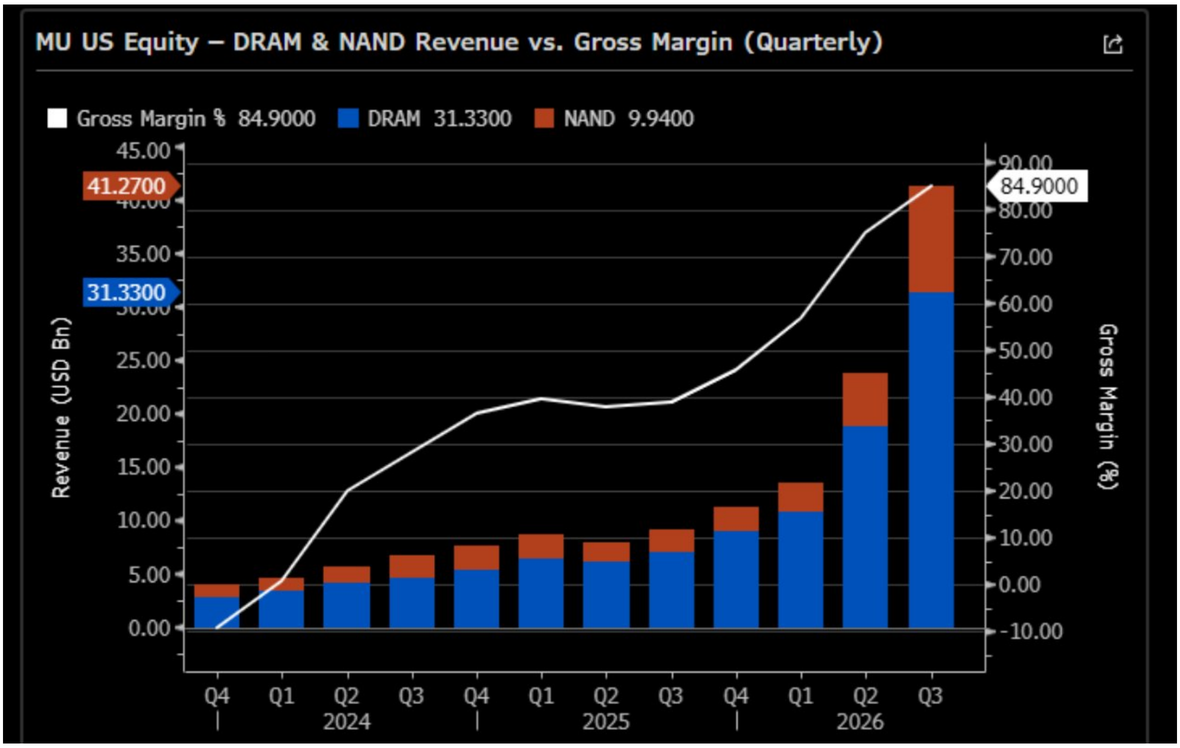
3) Revenue by Geography

The United States has become the dominant geography, growing from ~$2.8Bn in FY19 Q3 to ~$21.4Bn in FY25 Q3 LTM, reflecting the concentration of hyperscaler AI infrastructure spend; Taiwan remains the second-largest region, consistent with the role of TSMC and major ODMs in the supply chain.



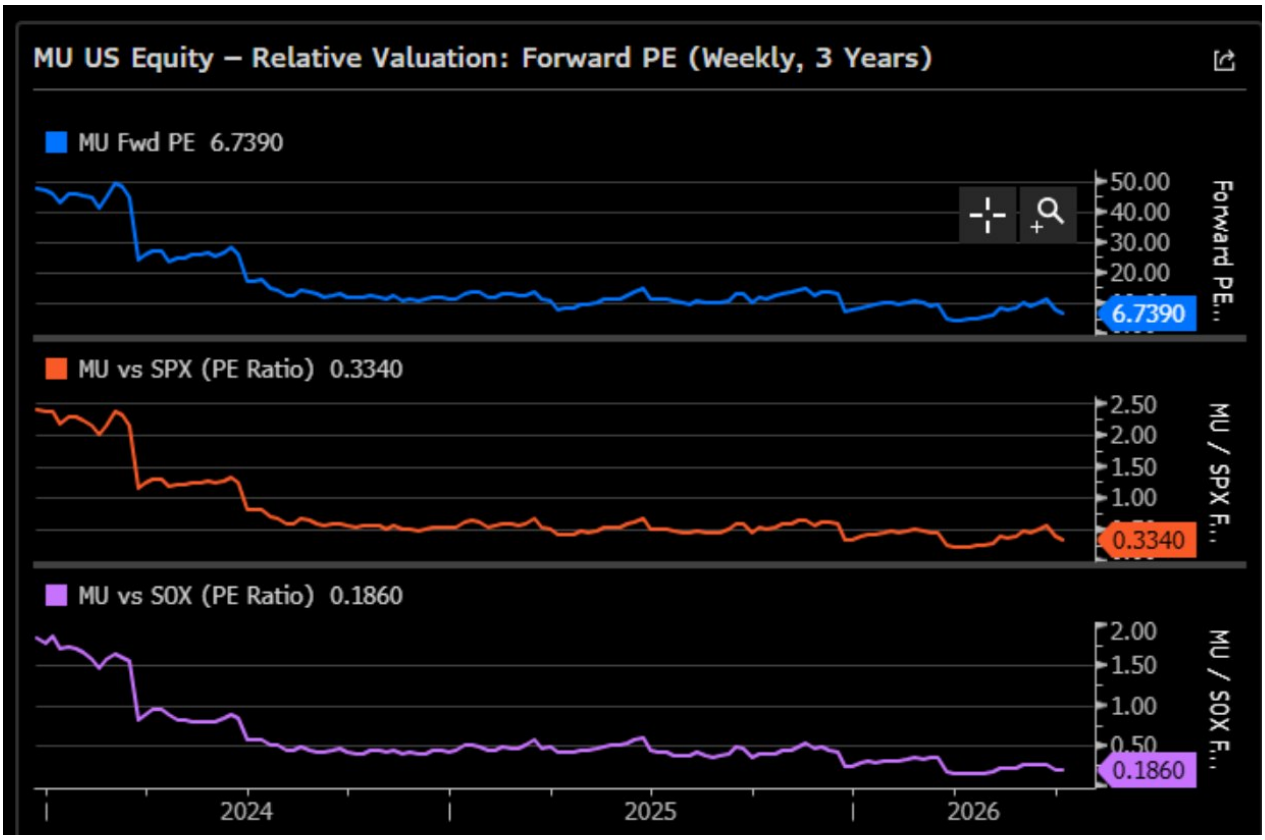
4) Gross Margin Contribution

Gross margin has expanded from -9.1% in FY23 Q4 to 84.9% in FY26 Q3, tracking almost perfectly with the acceleration in DRAM revenue — underscoring that DRAM pricing and mix (particularly HBM) is the single most important driver of Micron's profitability cycle.



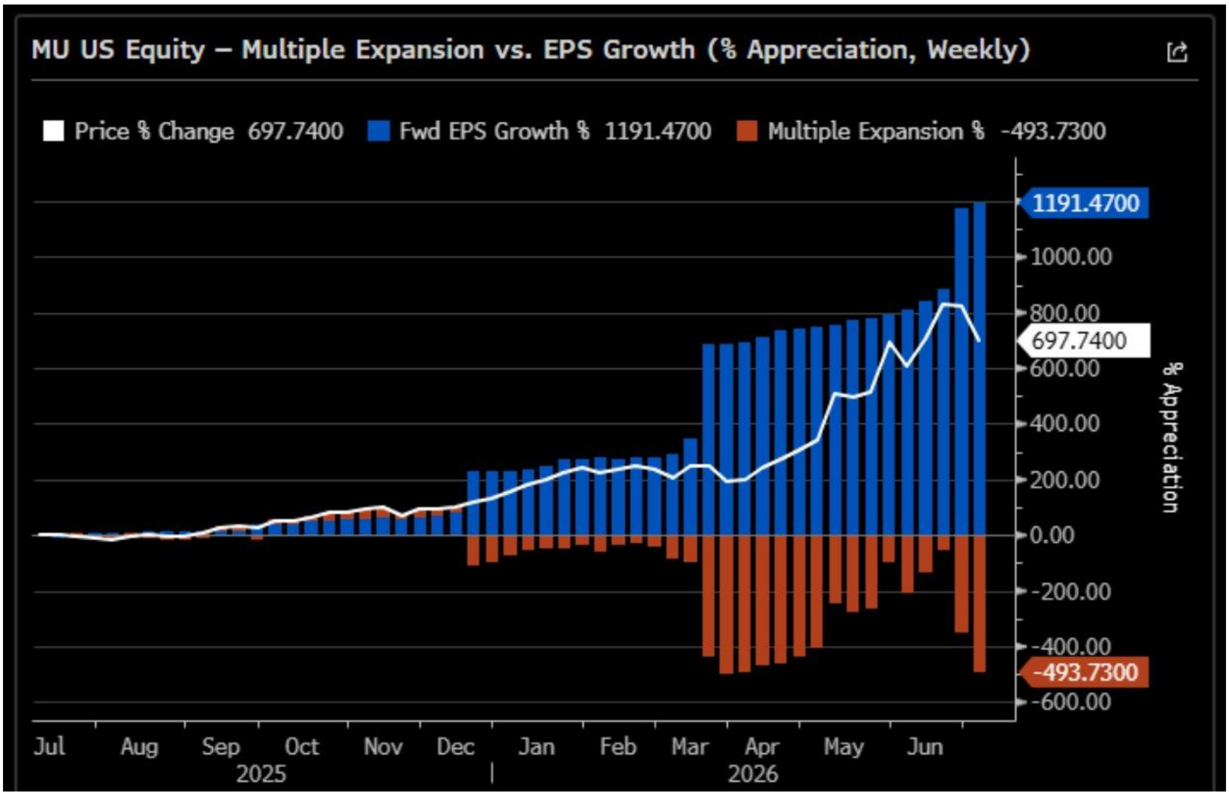
5) Forward P/E vs SPX and SOX

MU's forward PE has compressed sharply from ~47x in late 2023 to ~6.7x today as earnings estimates have surged far ahead of the stock price; relative to both the S&P 500 and the SOX median, MU now trades at a historically deep discount — a pattern typical of memory names at peak cycle, where the market prices in mean reversion.



6) Multiple Expansion vs. Earnings Growth

Virtually the entire ~+700% price appreciation over the past year has been driven by forward EPS estimate revisions (blended forward EPS up ~+1,190% from the start of the period), with multiple contraction acting as a persistent drag — the market has consistently discounted the durability of the earnings cycle even as estimates have continued to rise.



Earnings Recap

Micron delivered a historic beat-and-raise quarter, reporting record revenue, margins, and EPS — all materially above consensus. The results were driven by explosive ASP increases across both DRAM and NAND, fueled by AI-driven demand that continues to far outpace supply. The stock surged +15.7% on June 25, 2026, the day following the post-market release.

Actuals vs. Consensus (Q3 FY2026)

Metric	Actual	Consensus (Prior Day)	Beat %
Revenue	$41.46B	$35.63B	+16.3%
Adj. EPS	$25.11	$20.49	+22.5%
Adj. Gross Margin	84.9%	81.8%	+307 bps
Adj. Operating Income	$33.68B	$27.81B	+21.1%
DRAM Revenue	$31.3B	–	–
NAND Revenue	$9.9B	–	–
HBM Revenue	~$3.8B (est.)	–	–
Cloud Memory BU Revenue	$13.8B	–	–
Core Data Center BU Revenue	$11.5B	–	–
Mobile & Client BU Revenue	$11.5B	–	–
Auto & Embedded BU Revenue	$4.6B	–	–
Free Cash Flow	$18.3B	–	–

Key Metrics Highlights

- Revenue growth of **+346% YoY** and +73.7% QoQ was driven almost entirely by ASP expansion — DRAM ASPs surged ~215% YoY and NAND ASPs ~272% YoY — rather than volume.
- Gross margin of **84.9%** — described by analysts as approaching "near software-like profitability" — significantly exceeded the company's own prior guidance of ~81%.
- All four business units posted record revenue, with data-center-exposed units leading. Total data center revenue exceeded **$25B**.
- HBM4 revenue surpassed **$1B** in the quarter, with yields improving faster than HBM3E.
- Data center SSD revenue exceeded **$5B**, more than doubling sequentially.
- Finished goods inventory fell to **$621M** from $812M in the prior quarter, underscoring the tightness of supply.

Guidance vs. Prior Consensus (Q4 FY2026)

Metric / Period	Company Guidance	Consensus Estimate (Prior Day)	% Difference
Revenue / Q4 FY26	$49.0B–$51.0B ($50.0B mid)	$43.1B	+16.0%
Adj. EPS / Q4 FY26	$30.00–$32.00 ($31.00 mid)	$25.31	+22.5%
Adj. Gross Margin / Q4 FY26	~86%	83.5%	+250 bps
FY26 Capex	~$27B (raised from $25B)	–	–

Q4 guidance represents a **first-time raise** relative to prior guidance and came in materially above consensus across all metrics. Management guided for DRAM blended ASP up ~17% QoQ and NAND blended ASP up ~35% QoQ in Q4. Key assumptions include continued supply tightness and no expectation of supply/demand parity in the near term.

Earnings Drivers

- **ASP-led revenue surge:** Revenue growth was driven by pricing power, not volume. DRAM bit shipments rose only low-single digits sequentially, while ASPs surged in the low-60% range QoQ. NAND bit shipments rose mid-single digits, with ASPs up mid-80% QoQ. (Source: Earnings Transcript)
- **Strategic Customer Agreements (SCAs):** Micron announced 16 take-or-pay SCAs with four large customers, averaging five-year terms through CY2030. These cover ~20% of DRAM volume and ~33% of NAND volume, with $22B in cash deposits and commitments already secured. Management expects SCAs to represent over 50% of revenue when fully executed. Floor prices are set to yield gross margins "well above" prior cycle peaks. (Source: Earnings Transcript)
- **HBM ramp acceleration:** HBM4 is ramping approximately twice as fast as HBM3E, with over $1B in HBM4 revenue already shipped. The HBM TAM is projected to exceed $100B in CY2027 — a year earlier than previously anticipated. Micron targets HBM market share in line with its overall DRAM share (~23%). (Source: Earnings Transcript)
- **Supply tightness structural, not cyclical:** Management stated it has no line of sight to supply/demand parity. Structural constraints include long fab construction lead times, HBM's 3–4x higher wafer consumption vs. standard DRAM, and suppliers prioritizing DRAM over NAND investment. Conditions are expected to remain tight beyond CY2027. (Source: Earnings Transcript)
- **Capital allocation:** Record free cash flow of $18.3B. Micron increased its quarterly dividend by 30% and intends to return 100% of excess cash to shareholders — primarily via buybacks — beginning December 9, 2026, when CHIPS Act restrictions expire. FY26 capex raised to $27B; FY27 capex expected to exceed $10B per quarter. (Source: Earnings Transcript)

Analyst Q&A Themes

- **SCA structure and pricing mechanics:** Analysts probed the ceiling/floor pricing framework. Management confirmed floor prices yield gross margins well above prior cycle peaks, while ceilings for the largest agreements are set at C2Q26 market prices — implying some near-term upside cap. (Source: Earnings Transcript)
- **Supply/demand outlook beyond 2027:** Analysts questioned when supply could catch up. Management declined to project a specific date for parity, emphasizing that demand is structurally outpacing supply due to AI workloads and HBM wafer intensity. (Source: Earnings Transcript)
- **HBM market share and roadmap:** Questions focused on HBM4 ramp speed and HBM4E timing. Management confirmed HBM4 yields are improving faster than HBM3E, with HBM4E volume production targeted for CY2027. (Source: Earnings Transcript)

- **Chinese competition (CXMT/YMTC):** Analysts asked about competitive risk from Chinese memory makers. Management noted CXMT and YMTC output is primarily sold within China, with limited competition observed outside that market. (Source: Earnings Transcript)
- **Capex and fab ramp timeline:** Questions on Idaho 1 (mid-CY27 wafer output), Idaho 2 (late CY28), and Tongluo, Taiwan (mid-CY27, ahead of prior expectations). Startup costs expected to weigh on DRAM bit costs in Q4 and H1 FY27. (Source: Earnings Transcript)
- **Capital return timing:** Analysts focused on the December 9, 2026 CHIPS Act restriction expiry. Management confirmed buybacks will be the principal return mechanism, with potential for significant scale given projected free cash flow. (Source: Earnings Transcript)

Analyst Updates (Post-Earnings)

Barclays (Buy, PT $2,000 from prior)

- Raised CY27E revenue to $267.4B and EPS to $166.74; PT based on 12x CY27E EPS. (1)
- Cited increased demand visibility through CY26 and continued supply constraints as key drivers.

Needham (Buy, PT $1,650)

- PT based on 9x FY28E non-GAAP EPS of $184.00; highlighted HBM4 ramp and SCA structure as key positives.
- Flagged no line of sight to supply/demand parity and FY27 capex exceeding $10B/quarter as key watch items.

UBS (Buy, PT $1,625)

- PT based on 15x NTM P/E applied to CY2029E EPS, reflecting through-cycle earnings power under long-term agreements.
- Noted SCA floor price for DDR of ~$6/GB is well below the ~$13/GB implied by FQ4 guidance, suggesting significant downside protection.

Deutsche Bank (Buy, PT $1,550 from $1,500)

- Raised PT based on ~9x P/E on revised CY27E EPS of $170.45.
- Flagged investor skepticism around SCA non-cancellable nature and potential near-term pricing upside cap from SCA ceilings as key risks.

Wells Fargo (Overweight, PT $1,525 from $1,220)

- Highlighted CMBU revenue of $13.8B (+307% YoY) and estimated ~7% of revenue from a single customer (assumed to be NVIDIA).
- Noted SCA gross margins are expected to be well above historical peak quarterly margins.

Mizuho (Outperform, PT $1,375)

- Cited strong HBM growth (+169% YoY in FY26) and HBM4/4E roadmap as key drivers of market share gains.
- Projects HBM4E to drive 70–100% YoY increase in blended HBM ASPs in CY2027.

Note: Since the earnings release, MU shares have pulled back amid a broader semiconductor sector selloff, falling ~10.6% on July 2, 2026, partly driven by Meta's AI capacity plans raising overcapacity concerns. Michael Burry disclosed a short position in MU on July 2, citing its cyclical nature.

Samsung to Raise Q3 DRAM Prices by Up to 20%, AI Demand Remains Solid

Korea's memory semiconductor industry is understood to be pushing to raise the average selling price (ASP) of commodity DRAM in the third quarter of this year by as much as 20% versus the prior quarter.

With supply shortages persisting across the entire product lineup on the back of AI infrastructure investment, memory makers are interpreted to be extending a strategy of maximizing profitability. The pace of price increases will slow thereafter, but industry sources say an extremely high profitability trend will continue into next year as well.

According to the industry on the 3rd, Samsung Electronics is in negotiations with customers targeting a Q3 DRAM ASP increase of up to around 20% versus the previous quarter.

DRAM prices have shown a sharp upward trend, driven by aggressive AI infrastructure investment from global big tech firms. This is because supply shortages have intensified across the entire product lineup, spanning not only server DRAM and high bandwidth memory (HBM) but also low power DRAM (LPDDR), which is drawing attention in the AI inference space.

Samsung's DRAM ASP increase is especially pronounced relative to SK Hynix. The industry assessment is that commodity DRAM, which carries high price volatility, accounts for a large share of Samsung's total output, and that the company has been the most aggressive in raising prices.

In fact, Samsung's first quarter DRAM ASP rose by the low 90% range versus the prior quarter. The second quarter is estimated at around 50 to 60%. Furthermore, it is targeting an increase of around 20% in the third quarter as well. SK Hynix, which has a relatively high share of HBM production, is estimated to come in somewhat below this level.

A semiconductor industry official said, "Samsung is negotiating very aggressively on pricing in the third quarter this year. We understand it will also raise LPDDR, which has recently seen severe bottlenecks in both server and mobile, by more than 20%," adding, "That said, it is not certain whether customers will accept all of this."

DRAM prices are seen as highly likely to remain stable going forward. Although the pace of DRAM price increases is gradually easing, the share of long-term agreements (LTAs) signed with key customers is steadily expanding.

For example, Micron of the United States disclosed through its earnings release late last month that it had signed a total of 16 long term agreements with customers. These contracts carry binding commitments to purchase a certain volume and set a price floor that guarantees very high margins. This is interpreted as reflecting customers' judgment that memory supply and demand will remain tight over the medium to long term.

The recently raised possibility of Meta entering the cloud business is also not expected to weigh on memory demand as a negative. Some had read Meta's move to sell its internal surplus computing resources externally as a sign that its AI production capacity may already be sufficiently built out.

However, Meta has maintained an aggressive investment stance, in April raising its annual AI infrastructure investment plan from an initial 115 billion to 135 billion dollars to 125 billion to 145 billion dollars.

Another industry official explained, "With the expansion of LTAs that include price floors and HBM price renegotiations, there will be no sharp decline in the DRAM market next year either," adding, "In Meta's case, it is more accurate to view this as a way to efficiently utilize its internal computing resources."

UBS raises its DRAM and NAND price forecasts

UBS raises its memory pricing forecasts again, arguing DRAM and NAND shortages are likely to persist well into 2028 despite ongoing LTA negotiations. The latest supply-chain checks continue pointing out that demand is still outpacing supply.

UBS increased its DRAM contract pricing forecasts for 3Q and 4Q26 and continues to expect the memory market to remain undersupplied through at least 2028. The firm believes LTAs are increasingly locking in both pricing and volumes, improving visibility for memory suppliers.

DRAM prices are now expected to rise 32% QoQ in Q3 and 18% QoQ in Q4.

NAND prices are expected to rise 30% QoQ in Q3 and 12% QoQ in Q4.

Upside to 2H26 memory pricing

Based upon our industry checks, we increase base-line DDR contract pricing to +32% QoQ in 3Q26 (was +17%) and +18% QoQ in 4Q26 (was +12%), after +67% QoQ in 2Q26. Depending upon pricing under longer term agreements (LTAs), as well as HBM pricing and mix, the QoQ ASP comparisons will vary though by memory vendor. We continue to forecast the DRAM industry to be undersupplied until at least 2Q28. The gap between bit demand growth in 2027 (+36.2% YoY) and supply (+19.3%) is too wide to close by then. If we assume no inventory digestion downstream in 2027 (i.e., no customers' inventory rebuild in 2H26), then the sufficiency ratio would actually deteriorate to -13.6% from -8.1% in 2026E. Both are unprecedented levels over the last 30 years. As for NAND flash, we now forecast +30% QoQ in 3Q26 (was +17%) and +12% QoQ (unchanged) in 4Q26 after +67% QoQ also in 2Q. We forecast the NAND upcycle to continue til at least 4Q27. Net net, this leaves us forecasting memory industry revenues to reach US$992bn in 2026 and US$1,763bn in 2027. The main risk to this unprecedented upcycle remains affordability by customers, notably hyperscalers which will have to continue to tap capital markets to finance this capex.

Also important: UBS sees no meaningful impact from $META's comments, arguing HBM procurement assumptions remain intact across $NVDA, $GOOGL, $AMD and Meta. It also believes the recent pullback in memory stocks reflects positioning rather than deteriorating fundamentals.

Nikkei Asia reported that Chinese smartphone brands such as Xiaomi, OPPO, and vivo have cut their shipment targets for this year by as much as 30%.

“Even planning for new product launches next year has become extremely difficult, because we have no idea how we can actually secure the components needed for those new products,” Nikkei quoted a source as saying.

In particular, the supply shortage is reportedly severe not only for memory, but also for certain types of printed circuit boards and other supporting chips.

TECHNOLOGY

China's Xiaomi, Oppo, Vivo cut 2026 smartphone targets again: sources

Rising costs and component shortages lead some brands to slash outlook by up to 30%

Smartphones on display at a Xiaomi retail shop in Beijing on March 16. Several Chinese handset makers are lowering shipment targets this year. (Photo by Tomoki Mera)

CHENG TING-FANG and LAULY LI
June 30, 2026 12:09 JST

Listen English (Original)

TAIPEI -- Major Chinese smartphone makers including Xiaomi, Oppo and Vivo have told suppliers they will again cut shipment targets for this year -- some by up to 30% -- as rising costs and unprecedented component shortages continue to weigh heavily on the market, multiple sources briefed on the matter told Nikkei Asia.

Semiconductor Selloff Continues on Thursday

Anthropic PBC is in talks with Samsung Electronics Co. to be a manufacturing partner for a custom artificial intelligence chip, the Information said, citing people familiar with the plan.

- Anthropic's plans are at an early stage and the company is still determining what the processor should do, how powerful it should be and how it would fit into a server, the Information said, citing people familiar with the matter who it didn't identify.

- Amazon.com Inc.'s Trainium chip, Google tensor processing units and Nvidia Corp. graphic processors will remain central to Anthropic's computing strategy, the company said to the Information, while declining to comment on its chip plans. Samsung also declined to comment to the news site.
- AI companies are aiming to diversify their supplies of chips to meet surging demand for their services. OpenAI last month unveiled its first custom AI chip with Broadcom Inc. The generative AI company is aiming to tailor the hardware that's crucial for running its models to be more efficient.

SK Hynix -30% from ATH

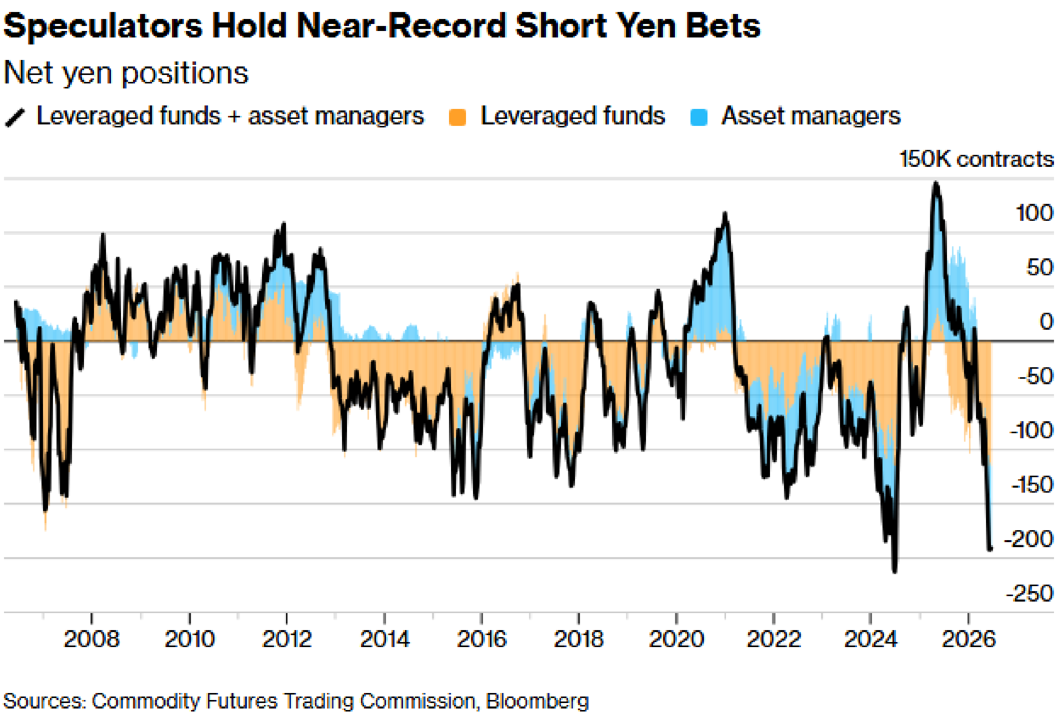
Yen falls to lowest level in 40 years

What makes the yen price action so bizarre is that volatility is too low; the 40-day realized vol is a smidge over 3.75%. It's like the drivers of the exchange rate are all pushing it higher, but the market is collectively too scared to act on them.

This vol is remarkably low for a currency pair that is so stretched by conventional valuation measures. Going back to 1970 (so observations starting in 1980), I filtered for all times when USD/JPY was at least 20% above its 10-year average and trading at 10-year highs. The sample threw up a handful of days in 2015 and then 58 since 2022. Today's 40-day vol is the lowest of the bunch. I repeated the exercise, but to the downside (ie 10-year lows and at least 20% below the 10-year average.) That generated 172 observations; the average 40-day vol was 10%, and the minimum was 6%.

Looking at sterling and the Swiss franc demonstrates that the current super-low yen vol really is quite anomalous. It's the lowest reading of any 40-day realized for these types of extremes; the closest I could find was cable trading at a realized vol of 4.2% when spot was north of 2.00.

Speculators have now built the 2nd largest Japanese Yen short position in history



Iran Update

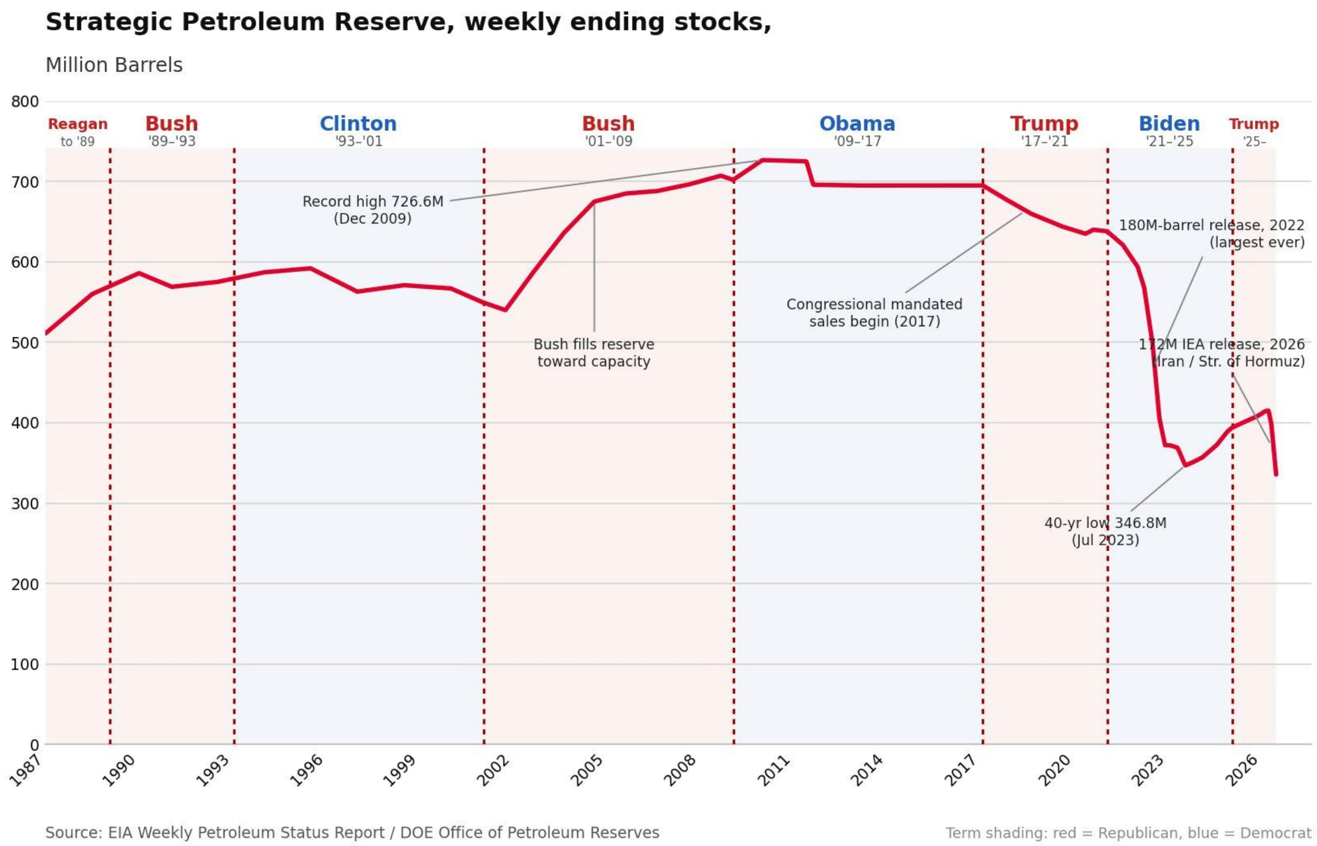
Monday

- WHITE HOUSE ON IRAN: WITKOFF AND KUSHNER WILL ATTEND MEETING IN DOHA
- WHITE HOUSE ON IRAN: TECHNICAL TALKS WILL BE HELD ON SIDELINES OF HIGH-LEVEL TALKS -FOX NEWS INTERVIEW

The global oil market is set to swing back into oversupply as the impact of the Iran war fades and traffic through the Strait of Hormuz recovers, according to Goldman Sachs Group Inc.

Samantha Dart said the surplus is expected to average just over 3 million barrels a day next year, but purchases of crude to replenish strategic reserves would partially offset the anticipated glut.

Exports through Hormuz are now expected to normalize by the end of July, with Dart saying "We really expect, by the end of July, this is done" after recent disruptions set back the expected time line.

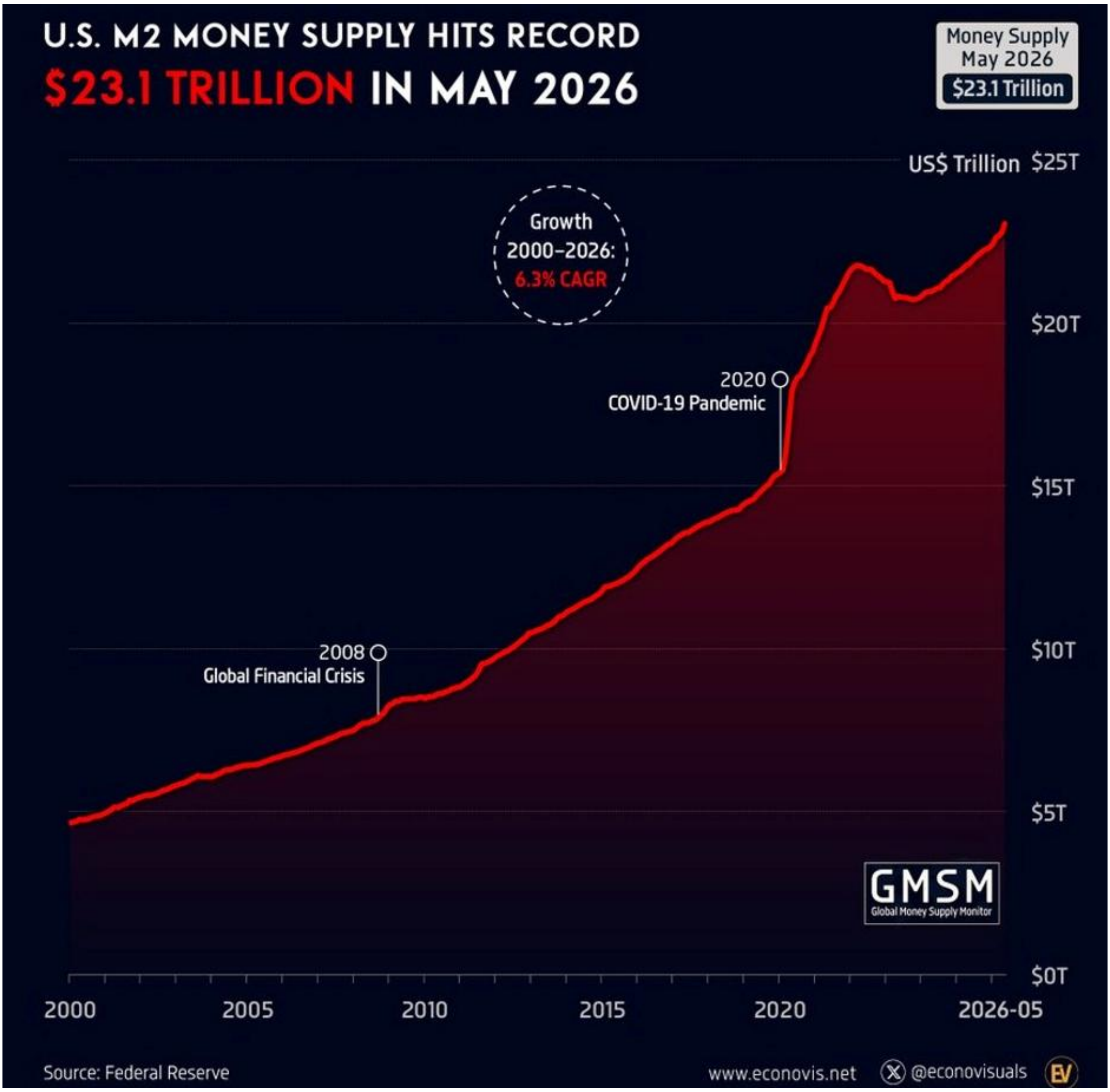


Druckenmiller Adds Sea Limited (SE)

Stock	History	Sector	Shares Held or Principal Amt	Market Value	% of Portfolio	Previous % of Portfolio	Rank	Change in Shares
NTRA	History	HEALTH CARE	3,063,606	612,691,000	18.14%	12.80%		552,249
INSM	History	HEALTH CARE	1,154,090	188,717,000	5.59%	5.74%		-327,662
TSM	History	INFORMATION TECHNOLOGY	495,280	167,380,000	4.96%	3.67%		-47,805
EWZ CALL	History	FINANCE	4,228,000	162,313,000	4.81%	2.99%		No Change
RSP CALL	History	FINANCE	821,000	157,566,000	4.67%			821,000
YPF	History	ENERGY	3,235,962	149,566,000	4.43%	0.49%		2,628,972
EWZ	History	FINANCE	3,436,170	131,915,000	3.91%	2.51%		-116,405
TBBB	History	CONSUMER DISCRETIONARY	3,109,202	109,972,000	3.26%	1.99%		434,050
AA	History	MATERIALS	1,493,390	99,057,000	2.93%	1.63%		117,340
NAMS	History	HEALTH CARE	3,070,146	98,275,000	2.91%	2.40%		No Change
SE	History	INFORMATION TECHNOLOGY	1,099,905	91,083,000	2.70%	2.68%		155,785
STM	History	INFORMATION TECHNOLOGY	2,612,880	90,275,000	2.67%	0.45%		1,839,325
WWD	History	INDUSTRIALS	211,355	75,648,000	2.24%	3.97%		-379,575
TEVA	History	HEALTH CARE	2,377,285	71,604,000	2.12%	4.08%		-3,497,585
ROKU	History	INFORMATION TECHNOLOGY	750,190	70,983,000	2.10%	1.41%		167,210
AVGO	History	INFORMATION TECHNOLOGY	195,955	60,650,000	1.80%			195,955
SPY CALL	History	FINANCE	90,000	58,531,000	1.73%	1.37%		No Change
CPNG	History	CONSUMER DISCRETIONARY	2,667,485	50,362,000	1.49%	3.55%		-4,105,424
OPCH	History	HEALTH CARE	1,868,550	50,301,000	1.49%	1.24%		122,600
AMZN CALL	History	CONSUMER DISCRETIONARY	200,000	41,654,000	1.23%	0.51%		100,000
CRH	History	MATERIALS	377,555	39,689,000	1.18%	1.32%		-97,400
FIGR	History	FINANCE	1,150,415	39,057,000	1.16%	1.40%		-389,370
ARGT	History	FINANCE	387,400	36,152,000	1.07%			387,400
CAI	History	HEALTH CARE	1,894,450	33,873,000	1.00%			1,894,450
QSR	History	CONSUMER DISCRETIONARY	454,435	33,583,000	0.99%	1.84%		-754,565

Burry disclosed new shorts against $NVDA, $TSLA, $CAT and $AMAT, calling the semiconductor index "a pure form of overvaluation" that is "rarely seen," per Business Insider.

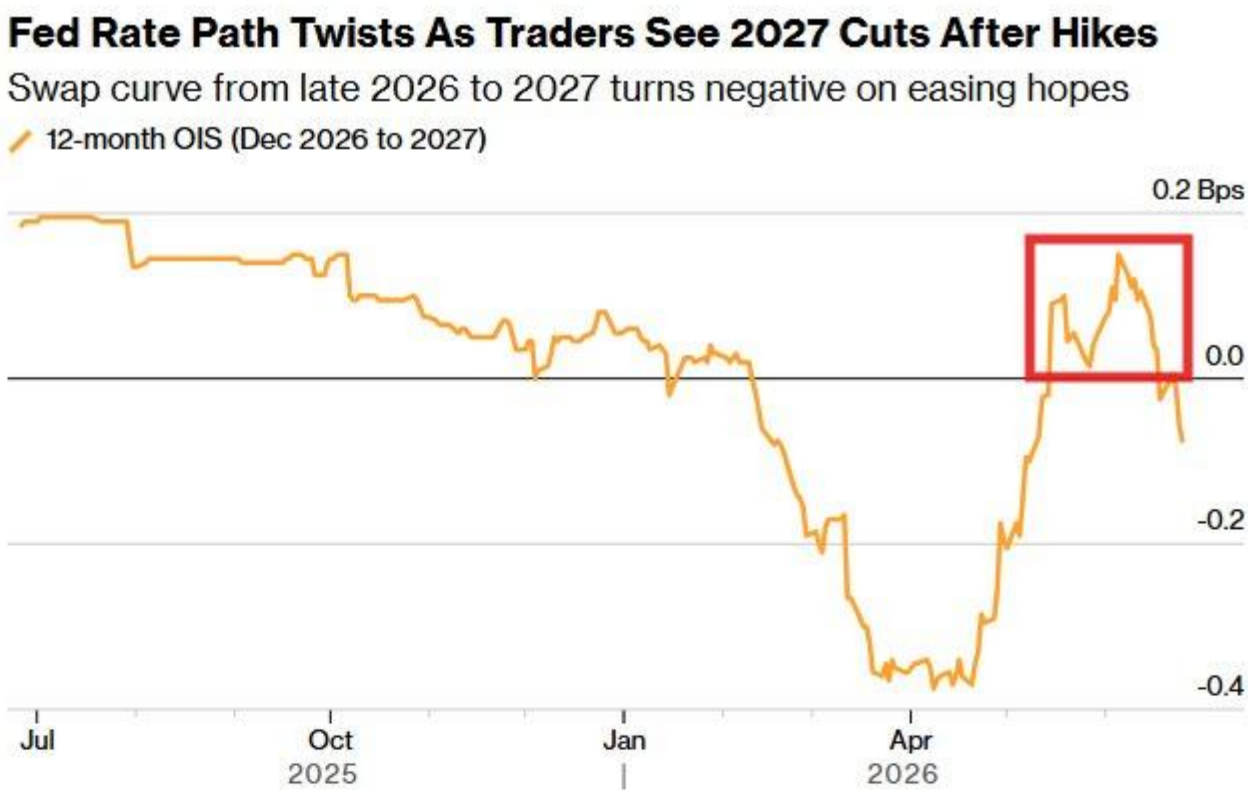
He shorted Caterpillar for the first time ever after the stock surged 86% in the first half of 2026 alone.



Index max drawdowns this year

Major indexes and maximum drawdowns			
Index	Index YTD return	Index maximum drawdown from YTD high	Average member maximum drawdown from YTD high
S&P 500	7%	-9%	-23%
NASDAQ	9%	-13%	-39%
Russell 2000	21%	-11%	-30%
Dow Jones	8%	-10%	-19%

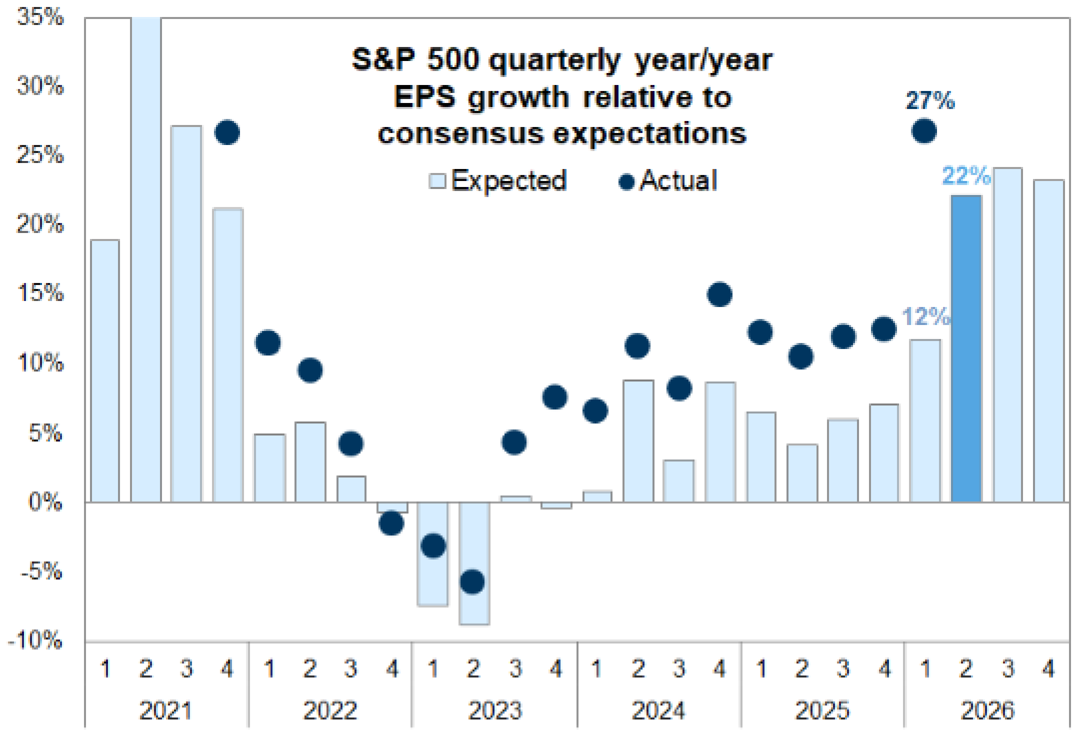
Source: Charles Schwab, Bloomberg, as of 6/26/2026. Data based on price performance. Some members excluded from year-to-date return columns given additions to indices were after January 2026. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. **Past performance is no guarantee of future results.**



Source: Bloomberg

Following Q1, which saw 27% YoY earnings growth, Q2 S&P500 earnings are expected to grow at 22% - the highest estimate heading into earnings season since 2021 per GS

Exhibit 6: Bottom-up consensus expects S&P 500 EPS grew by 22% year/year in Q2 2026

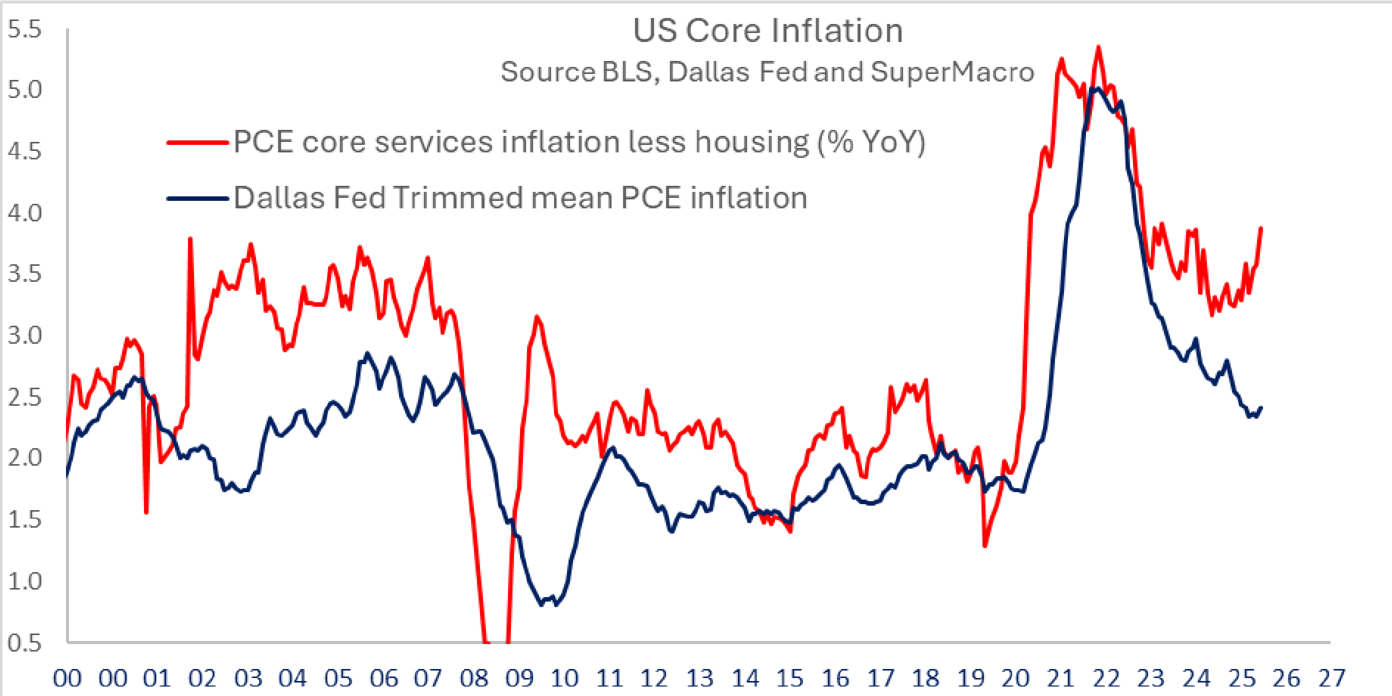


Source: FactSet, Goldman Sachs Global Investment Research

Is Fed pricing too hawkish? Since Kevin Warsh's first appearance in the hot seat, OIS has settled on ~1.5 hikes by year-end (first full by October), which might be a shade too much, in our view.

- His pivot seemed to take some by surprise, and Bessent's subsequent tacit agreement gave it further emphasis.
- BUT - have we gone too far the other way? Warsh's latest speech in Europe was less hawkish. After all, recent PCE data was benign, the US labor market looks stable rather than overheating (let's see NFP tomorrow), and the sharp drop in oil should continue to feed through to headline inflation.

Kevin Warsh's preferred inflation measure - trimmed mean - strips out the most extreme price moves. Apple's 20% Mac and iPad hikes: stripped out. Netflix's 8-12.5% subscription rises: stripped out. We're all still paying 20% more for our iStuff. Steep, permanent price cuts being stripped out the other side? None that I can think of. The measure is far from neutral - and Treasury investors may not buy it.



On the other hand, Citadel Securities says investors underestimate Fed Chair Kevin Warsh's commitment to lowering inflation, warning higher rates could weigh on risk assets. One of the key issues is that AI inflation is doing the opposite of what Warsh expected, it is putting upward pressure on inflation in the short term, even if it is deflationary long term.

The firm also cautions that the AI rally faces growing risks from weaker demand, falling returns, and increasing political and regulatory scrutiny.

Wolfe Research says soaring memory chip prices, driven by AI demand, have added about 0.3 percentage points to U.S. core inflation.

- Rising DRAM and NAND costs are pushing up computer and smartphone prices, with Apple expected to raise prices on several products.
- Wolfe warns AI is becoming an inflation driver rather than a disinflationary force.
- As Wolfe's Stephanie Roth noted to clients, "AI was supposed to make everything cheaper. Instead, one of the first places it's showing up is in higher prices." Rather than unlocking immediate economy-wide productivity gains, the early phase of the AI boom is behaving like a classic commodity supply shock.

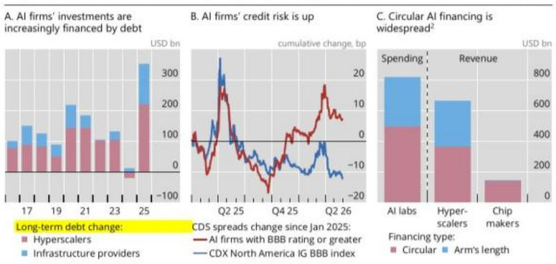
BIS Warns How Debt Fueled Spending on AI is Driving up the Risk of a Global Financial Crisis

Central bankers now fear the AI gold rush could seed the next major financial shock.

- Bank for International Settlements (BIS) just issued one of its sharpest warnings yet about debt building behind the AI boom.
- The danger is not AI itself; the danger is building a leveraged supply chain around revenue that has not yet proved durable.
- The risk is that if AI demand disappoints, data-center spending could slow, borrowers could struggle to repay, and stress could spread from tech into credit markets.
- AI demand pushed hyperscalers to spend heavily on chips, data centers, and power capacity, and that spending supported growth, trade, and easy financial conditions while equity investors priced in years of high earnings growth.

- Debt changed the shape of the boom because hyperscaler bond issuance topped $100B in 2025, while off-balance sheet vehicles shifted data-center obligations toward private credit funds, insurers, and other non-bank lenders.
- Circular financing adds another weak point because chipmakers, hyperscalers, AI labs, and compute providers can fund each other while also booking future sales from each other, which can make real demand harder to read.
- A capex slowdown could hit suppliers first, then credit markets, then households, because US stocks make up about 64% of the MSCI Global index and household equity exposure is higher than in past cycles.
- Private credit raises the systemic risk because direct lenders have quadrupled AI and IT exposure in 5 years to about 15% of portfolios, while some retail-facing funds already face redemption pressure.
- AI can still deliver real productivity gains, but the financing stack now assumes that delivery arrives fast enough to support huge fixed costs.

Corporate credit is vulnerable to repricing on AI disappointments[1] Graph 13



AI = artificial intelligence; CDS = credit default swap; IG = investment grade.

[1] See additional notes to graphs for details. [2] Announced multi-year commitments as of April 2026. Circular financing refers to a reciprocal investment structure in which hyperscalers take equity stakes in AI labs in exchange for the latter's purchase commitments, thus rechannelling capital back to investors as revenue; arm's length financing denotes flows that do not involve such circular financing.

Sources: Bloomberg; CNBC; LSEG Datastream; S&P Global Market Intelligence; The Wall Street Journal; BIS.

firms have already begun to widen somewhat to reflect this risk (Graph 13.B), even as equity markets continue to price in significant upside gains.

The opacity of AI-sector financing compounds these vulnerabilities. Hyperscalers, chip makers and AI labs are linked through a complex web of private arrangements. The most prominent is circular financing: chip makers and hyperscalers take equity stakes in AI labs or neocloud providers, who in turn commit to multi-year purchases of chips or computing power. Data centre construction is increasingly outsourced to third parties that lease facilities back to hyperscalers on long-dated contracts with embedded exit clauses. The terms of such deals are typically poorly disclosed, with risks of the same asset being pledged multiple times. Together, such arrangements account for a sizeable share of sector-wide financing and forward revenue (Graph 13.C).

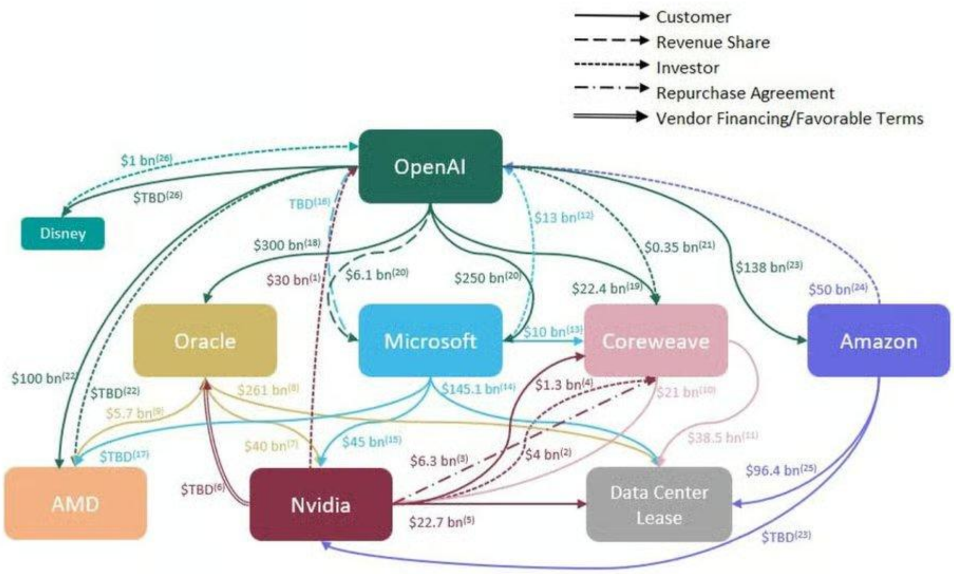
Substantial debt-fuelled spending on AI is driving up the risk of a global financial crisis, central bankers have warned.

The Bank for International Settlements (BIS) said on Sunday that "excessive" spending on new AI data centres and opaque, debt-fuelled transactions risked a financial meltdown similar to the global credit crunch nearly two decades ago.

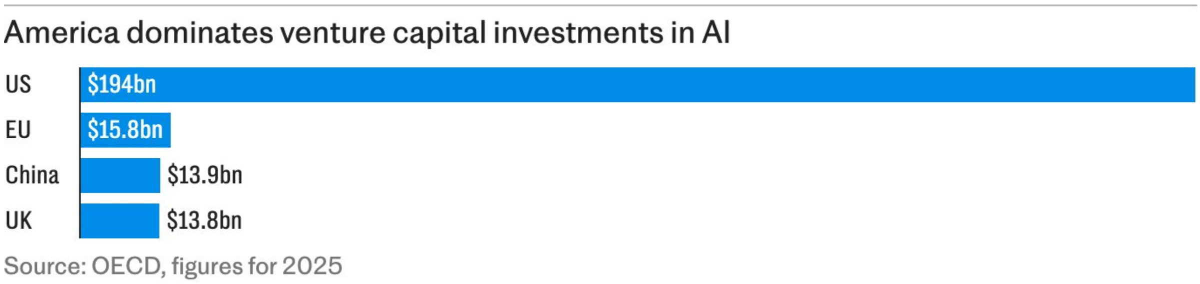
The BIS, known as the bank for central banks, said there was growing "peril" in financial markets from the complex web of financial ties between AI giants, shadow banks and data centre builders unravelling.

"Financial stability could ... be at risk in the event of an AI bust," the BIS said. "Should hyperscalers slow or halt the aggressive pace of capex deployment, many borrowers across the supply chain could struggle to replace lost revenue and service their debt.

AI Ecosystem Capital Flows



Read more: AI: Mapping the AI Ecosystem (22 Mar 2026)
Note: ORCL, MSFT, and CRWV are covered by Keith Weiss. NVDA and AMD are covered by Joseph Moore. AMZN is covered by Brian Nowak. DIS is covered by Sean Diffley. Data as of 3/19/26.
Source: Company Data, Morgan Stanley Research.



Opposite, bullish view: https://x.com/DratchCap/status/2071398240302358529?s=20

This chart may mark one of the most important inflection points in the AI investment cycle. For the first time, quarterly AI revenue has overtaken the depreciation expense associated with AI capital expenditure. In simple terms, the industry has crossed the threshold where AI infrastructure is no longer merely an expensive investment consuming capital. It is beginning to generate enough revenue to pay for itself.

This matters because one of the biggest criticisms of the AI boom has been that hyperscalers were spending hundreds of billions of dollars without a clear path to monetization. Bears argued that AI capex resembled the telecom fiber bubble of the late 1990s, where investment far exceeded eventual returns. That narrative becomes much harder to defend once AI revenues consistently exceed the economic cost of the assets being deployed.

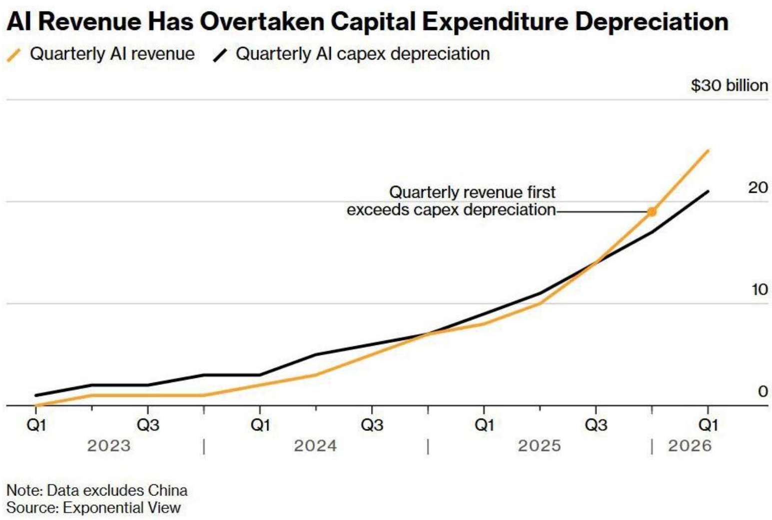
Importantly, this does not mean hyperscalers will suddenly slow their investment. Quite the opposite. Once management teams demonstrate that incremental AI infrastructure is generating attractive returns on invested capital, the incentive shifts from caution to acceleration. Capital naturally flows toward projects producing positive economic returns. We have already seen this dynamic before with cloud computing, where early monetization success led to an extended period of investment rather than restraint.

The implications extend far beyond software. If AI infrastructure is becoming economically self-sustaining, the demand outlook strengthens across the entire supply chain. GPU manufacturers, memory suppliers, networking companies, optical components, power equipment, cooling systems, data center developers, utilities, and semiconductor equipment providers all stand to benefit from a longer and potentially larger investment cycle than many investors currently expect.

This also reinforces our view that AI capex should increasingly be viewed as productive investment rather than discretionary spending. Unlike traditional IT expenditure, AI infrastructure has begun creating new revenue streams through enterprise software, AI subscriptions, inference services, autonomous agents, and cloud-based AI platforms. As monetization improves, the distinction between capex and growth investment becomes increasingly blurred.

That said, investors should avoid assuming every dollar of AI spending will generate attractive returns. Monetization remains heavily concentrated among a handful of companies with the scale, customer base, and proprietary models to commercialize AI effectively. The winners are likely to be those that control the highest-value layers of the AI stack rather than every participant building infrastructure.

Overall, we believe this crossover represents a meaningful milestone. The investment debate is gradually shifting from “Will AI ever generate enough revenue to justify the capex?” to “How large can the AI revenue opportunity ultimately become?” That is a far more constructive question for the sector. In our view, we are still in the early innings of what could become one of the largest technology investment cycles in modern history, and this chart provides another piece of evidence that the AI buildout is evolving from a speculative infrastructure boom into a profitable commercial ecosystem.



On the other side (bullish argument), memory cost at 18% doesn't look as high as the narrative is.

In fact, 2% before may have been too low.

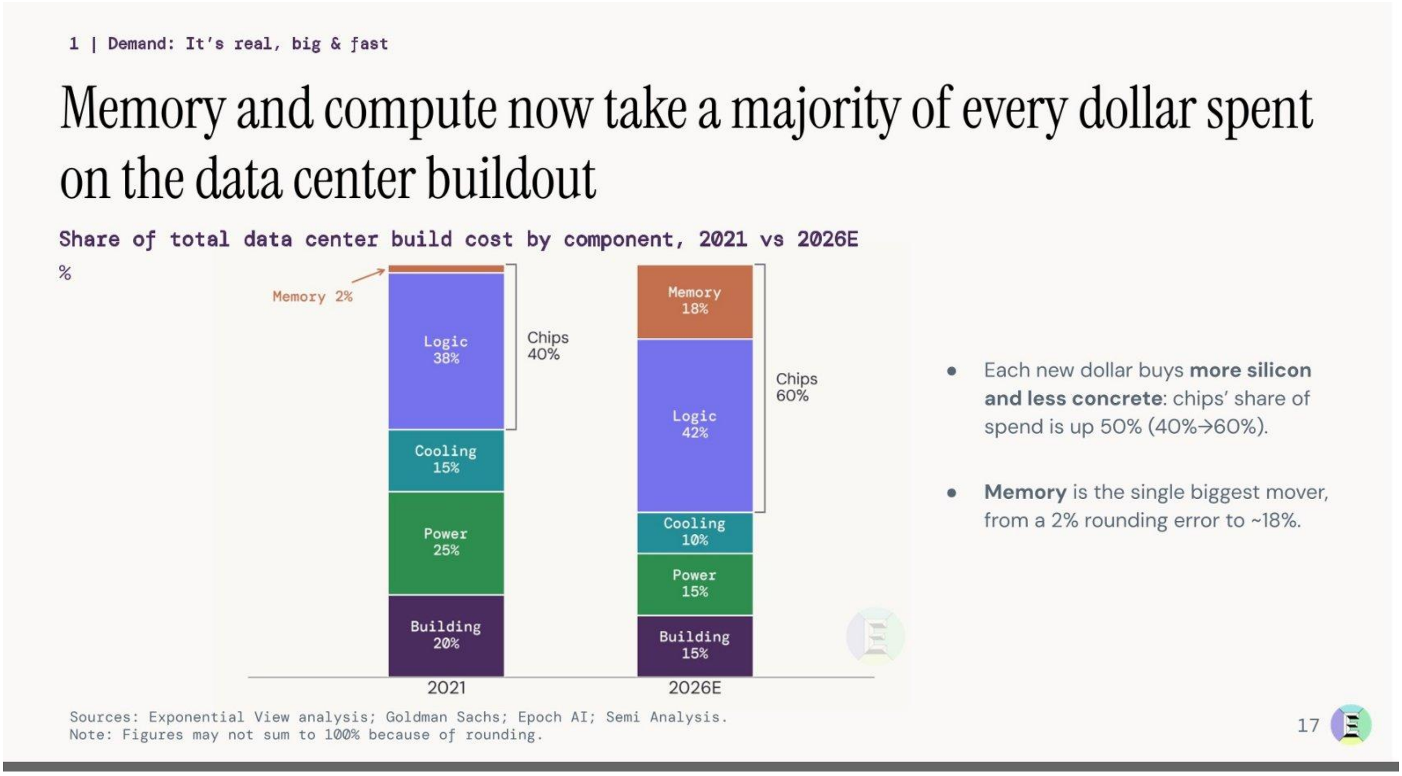
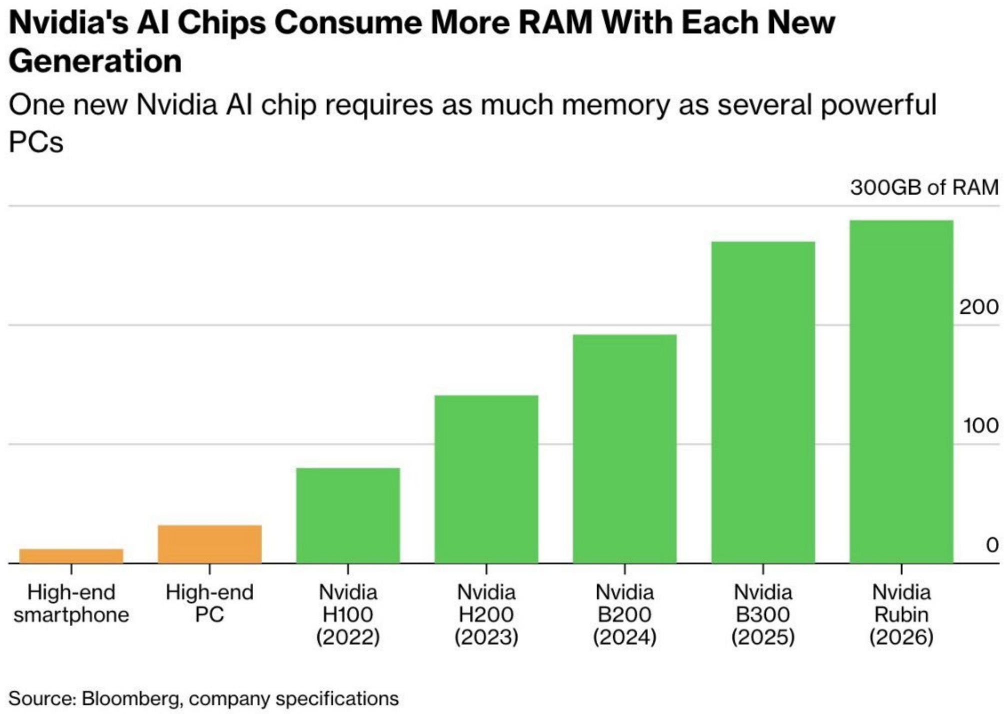


Chart showing just how much RAM data center GPUs take & Apple asks U.S. government to buy Chinese memory chips

- Nvidia's H100 carried 80GB of GPU memory, H200 moved to 141GB, Blackwell moved to 192GB class parts, and GB300 Blackwell Ultra reaches 288GB of HBM3e per GPU.
- A 72-GPU rack multiplies that into a memory wall big enough to change supplier behavior, because AI servers pay premium prices for capacity and bandwidth that make everyday device memory less attractive



FT: Apple is asking Washington for permission to buy DRAM from CXMT, a blacklisted Chinese supplier, because AI server demand has made ordinary device memory painfully expensive.

DRAM is the short-term working memory inside iPhones, Macs, and iPads, while HBM is a stacked, faster version used in AI accelerators, so the AI buildout is pulling factory capacity toward servers and away from consumer gadgets.

Apple's problem is supplier pressure, because it mainly depends on Micron, Samsung, and SK Hynix, while CXMT could add cheaper supply from China's state-backed memory push.

But CXMT sits on the Pentagon's Chinese Military Company list, which does not block Apple purchases by itself but signals national-security concern and could become far more serious if Commerce adds CXMT to the Entity List.

Apple's $263B market-value loss was triggered by the memory-cost pressure that forced MacBook and iPad price hikes, showing how AI infrastructure demand is now raising the cost base of everyday consumer devices.

Apple's $AAPL Geopolitical Gamble: Lobbying for CXMT instead of buying from $MU and SK Hynix/Samsung $DRAM

- To break the pricing stranglehold of Micron, Samsung, and SK Hynix, Apple has quietly launched a lobbying blitz targeting the Commerce Department and the White House for permission to onboard ChangXin Memory Technologies (CXMT)
- Who is CXMT? They are China's premier state-backed DRAM manufacturer. While they lag behind in cutting-edge AI memory like HBM, they have rapidly achieved high-volume scale in the exact general-purpose LPDDR5X chips required for iPhones and MacBooks.
- The Pentagon placed CXMT on its 1260H Chinese Military Company list due to alleged ties to the People's Liberation Army. While being on the 1260H list does not legally bar a commercial company like Apple from buying their chips, it serves as a massive warning flag.
- Regulatory Risk: Apple is seeking explicit assurance from Washington because it fears the Commerce Department could imminently upgrade CXMT to the Entity List (a total trade ban). If Apple integrates CXMT chips into millions of upcoming iPhone 18 assembly lines only for an absolute ban to hit months later, its global supply chain would be completely paralyzed.

Why Apple Sold Off Last Week

This unprecedented supply-chain crisis has forced Apple into an aggressive geopolitical lobbying campaign to protect its margins. ## 1. The Root Cause: "Chipflation" and Factory Cannibalization

The fundamental problem is a massive manufacturing bottleneck. High-Bandwidth Memory (HBM)—the ultra-fast, stacked memory used in AI accelerators like NVIDIA's chips—requires significantly more silicon wafer capacity and more complex manufacturing steps than the standard Low-Power DRAM ($LPDRAM$) used in smartphones and laptops.

The Squeeze: The "Big Three" memory giants—Micron, Samsung, and SK Hynix—have aggressively diverted their factory lines to prioritize highly lucrative HBM and enterprise server DRAM for cloud hyperscalers like Microsoft, Amazon, and Google.

The Result: This has starved the consumer tech sector. Morgan Stanley reported that average memory prices have skyrocketed sixfold over the past year, with Jefferies warning that DRAM prices are set to surge another 40–50% in Q3 2026.

CEO Tim Cook uncharacteristically described the pricing landscape as a "once-in-a-century flood.

2. The Unprecedented $263B Market Value Loss: Apple typically shields consumers from component price shocks through aggressive long-term contracts. However, the sheer scale of this memory crunch broke that shield:

The Broad Price Hike: Apple took the rare step of executing a uniform, blanket ~20% price increase across its entire MacBook and iPad lines to pass these "unsustainable" memory and storage costs to consumers (e.g., the base iPad Pro jumped from $999 to $1199).

The Investor Panic: Because a sudden overnight price hike across two major product lines signals intense margin pressure, investors panicked. Apple shares tumbled 6.1% in a single day, wiping out $263 billion in market capitalization—its largest drop in over a year.

Samsung and SK Hynix could announce as much as $1.3T of investment over 10 years on Monday.

Samsung's decade-long spending roadmap would span semiconductor fabs, AI data centers, advanced packaging, batteries, and displays, with roughly $214B for new fabs in southwestern South Korea, $257B for the Yongin semiconductor cluster, and more than $250B for AI data centers.

But shares of Samsung fell 4.7% and SK Hynix fell 3.1%

Investors are reacting to a shift from scarcity profits to capex risk, because today's shortage can become tomorrow's glut if supply arrives after demand cools.

Technology

Samsung, SK Prep Record Spending to Sustain Korea's AI Lead

By Yoolim Lee and Soo-hyang Choi
June 29, 2026 at 4:47 AM GMT+5:30
Updated on June 29, 2026 at 11:05 AM GMT+5:30

Save Translate

Takeaways by Bloomberg AI

South Korea unveiled an ambitious plan aimed at cementing its status as a technological powerhouse, with companies led by Samsung Electronics Co. and SK Hynix Inc. initiating large-scale investments in memory chips, data centers and robotics.

Samsung Group and SK Group plan to build two chipmaking plants apiece for 800 trillion won, the country's industry minister said Monday. The country as a whole aims to double DRAM production capacity in five years. Samsung and SK Hynix

Memory Long-Term Contracts Compared: Micron vs SK hynix

Firm	micron	SK hynix
Contract Type	**Strategic Customer Agreement (SCA)**	**New Long-Term Agreement (LTA)**
Pricing Mechanism	***Price Floor & Ceiling** Upper cap tied to Apr–Jun market prices ***Take-or-pay provisions**	***No Price Cap** Removes price caps; reflects spot surges *** Advance Payments:** Reportedly 10%–30% upfront cash deposits
Duration	Likely 5-year term (3 years for automotive)	Extended from traditional 1 year to 3–5 years
Long-term Goal	Now: **20% DRAM; 1/3 NAND output** Long term: **50%** sales	Undisclosed; estimates suggest **25–30%** of sales from four hyperscalers
Clients	**General Motors, Anthropic and more (16 SCAs)**	**Google & Microsoft** (reported)

Source: Green Economy News, ZDNet, Yonhap News, money Today, Reuters and media reports

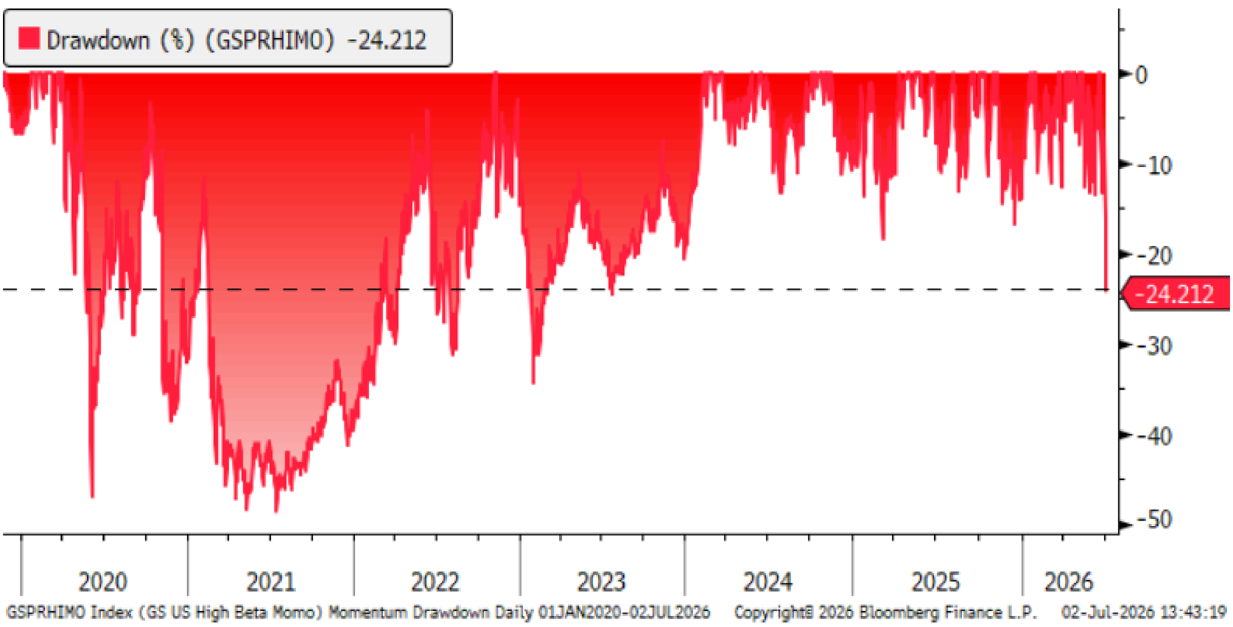
NEWS https://www.trendforce.com/news/

SK Hynix -30% from ATH

Goldman's High Beta Momentum Index Down Most Since Covid (-18%)

GS High Beta Momentum (GSPRHIMO) is having its worst two-day move since Covid, down 18% on Thursday. The GS trading desk flagged earlier this week that momentum was at risk of a July correction. The spectacular 1H run, limited liquidity, extreme factor volatility, crowded exposure, and quarterly resets into a holiday weekend are exacerbating this move with High Beta Momo (GSPRHIMO) having its worst 2 day move in 5 years. So what's next?

Unconstrained Momentum is having its worst drawdown since Q1 2023



Source: Goldman Sachs FICC & Equities, Bloomberg; past performance is not indicative of future returns; as of July 2026

GSPRHIMO is having its worst 2-day move since Covid

Source: Goldman Sachs FICC & Equities, Bloomberg; past performance is not indicative of future returns; as of July 2026

Chinese models charge as little as 18 cents per million tokens versus $4 average for top models, says CitiBank Research.

Open-source processing on OpenRouter rose to 65% in June from 34% in January, while Chinese models such as DeepSeek gained attention by offering much lower token prices. - CitiBank Research.

Cheaper AI has become the new enterprise priority as usage-based bills turn model choice from a capability contest into a cost-control problem.

Gartner estimates AI coding costs will pass the average developer salary by 2028.

OpenAI and Anthropic now face price pressure because enterprise buyers can compare models task by task rather than treat the biggest model as the default choice.

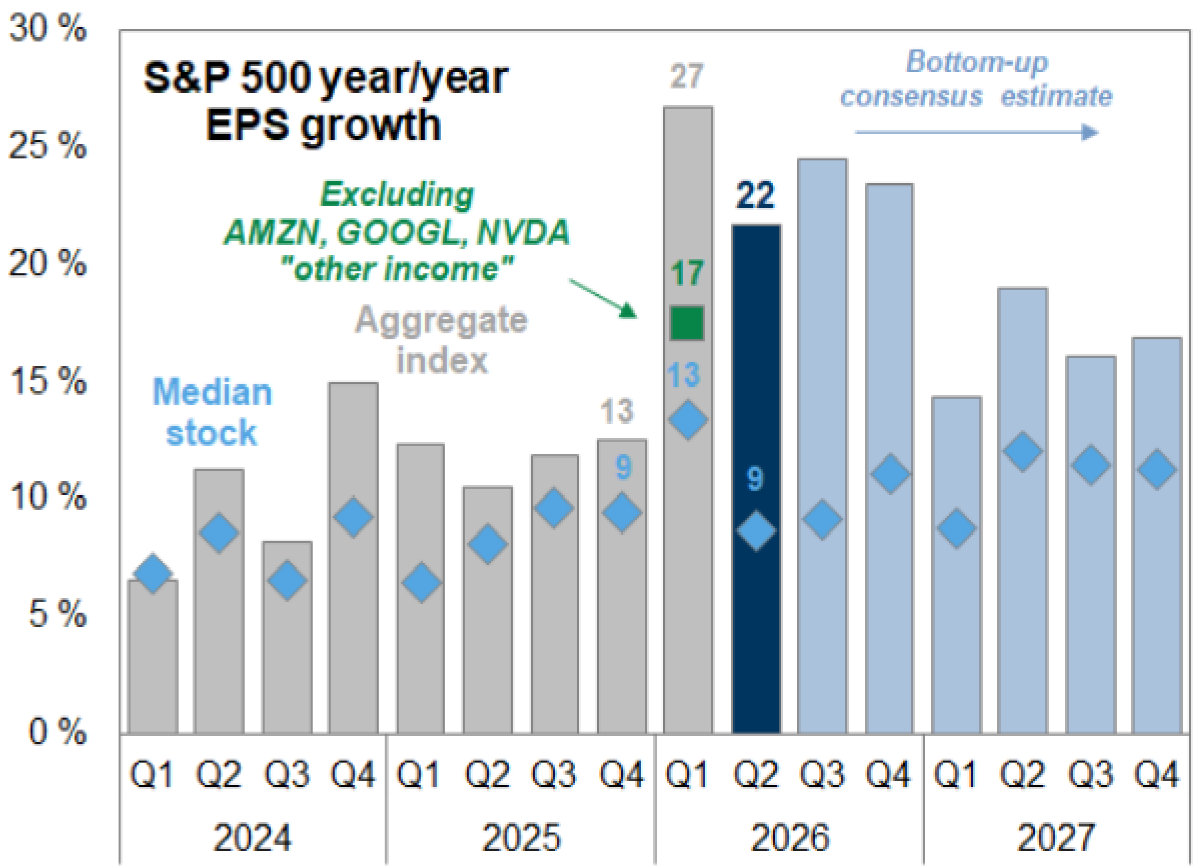
Cheaper AI is better: Soaring bills are reshaping how businesses choose models

By **Aditya Soni**

June 29, 2026 3:46 PM GMT+5:30 · Updated 21 hours ago

"AI infrastructure stocks are expected to contribute nearly 60% of S&P 500 EPS growth this quarter. The top 10 contributing stocks are expected to account for nearly 75% of aggregate S&P 500 earnings growth in Q2" – GS

Exhibit 7: Solid Q2 earnings growth expectations for the median S&P 500 stock



Source: FactSet, Goldman Sachs Global Investment Research

THE OFFERING

Issuer	SK hynix Inc.
The offering	We are offering common shares represented by ADSs. On June 24, 2026, our board of directors resolved that the maximum number of new common shares to be issued in connection with this offering is 17,790,000 shares, representing approximately 2.50% of our total issued and outstanding common shares of 712,702,365 shares as of the date of such resolution. The maximum offering size was determined taking into account the requirement under the Monopoly Regulation and Fair Trade Act that SK square Co., Ltd. ("SK square"), our largest shareholder, maintain ownership of at least 20% of our issued and outstanding shares. See "Korean Foreign Exchange Controls and Securities Regulations — Holding Company Regulations" and "Principal Shareholders."
Underwriters	BofA Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities LLC
Shares outstanding after the offering	Immediately after the offering, we will have an aggregate of common shares, including common shares represented by ADSs (assuming the placement of all common shares represented by ADSs offered).
ADSs	Each ADS represents th of a common share. The depositary will hold the common shares underlying the ADSs through its custodian. You will have rights as provided in the deposit agreement among us, Citibank, N.A., and the registered holders, indirect holders and beneficial owners from time to time of ADSs issued thereunder (the "deposit agreement"). If we declare dividends on our common shares, the depositary will pay you the cash dividends and other distributions it receives on our common shares after deducting its fees and expenses in accordance with the terms set forth in the deposit agreement. You may surrender your ADSs to the depositary for cancelation in exchange for the underlying common shares. The depositary will charge you fees for any cancelation. We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended.

After Selling Off Due to Russell Rebalance, BE Inks Large Partnership with Brookfield

16:05:00 [BUS]

Brookfield and Bloom Energy Expand AI Infrastructure Partnership to $25 Billion; Fivefold Increase to Build and Finance Rapid Power for AI Infrastructure

- *Supports fast power needed for AI infrastructure's rapid growth with Bloom's clean, community-friendly power*
- *Further strengthens Brookfield's position as a leading global AI infrastructure investor, capable of delivering fully integrated AI factory solutions*
- *Expanded collaboration reflects strong business momentum and growing customer demand for Bloom's islanded power solutions*

Business Wire

NEW YORK & SAN JOSE, Calif. -- June 30, 2026

Bloom Energy (NYSE: BE), a global leader in power solutions, and Brookfield today announced the expansion of their strategic partnership as Brookfield increases its framework to finance power projects for AI infrastructure – from previously announced $5 billion to $25 billion – a fivefold expansion since October 2025. The increased funding will help grow the fuel cell partnership globally.

The expanded partnership reflects strong and sustained demand from hyperscalers and AI infrastructure developers for fast, reliable, and community-friendly power. It brings together Brookfield's global leadership in AI infrastructure development, access to capital, and operating scale with Bloom's rapidly deployable onsite power platform. Together, the companies continue to advance a new model for AI factories that integrates power, compute, data center infrastructure, and capital from the outset.

SMCI Selloff

The Keelung District Prosecutors Office in Taiwan has expanded its investigation into the illicit diversion of advanced semiconductors to China, directly targeting **Super Micro Computer Inc. (SMCI)** and its local partners.

The escalating corporate and geopolitical crisis unfolds through several key operational layers:

1. The Expanding Dragnet and Detentions

- **The Detentions:** Following massive raids across 12 separate locations (including six private residences), Taiwanese prosecutors officially detained two local Super Micro employees.
- **The Scope:** The number of individuals under active investigation has expanded from three to nine. Alongside Super Micro, authorities raided the offices of two major Taiwan-listed tech firms: **Albatron Technology Co.** (a Super Micro distributor) and **Chief Telecom Inc.** (a prominent data center operator).
- **The Allegations:** The group is accused of forging shipping documents to smuggle roughly **50 high-end AI servers** equipped with restricted Nvidia chips into China, Hong Kong, and Macau. At least one intercepted shipment was allegedly routed through Japan to mask its final destination.

2. A Crucial Shift in Taiwan's Legal Stance

Historically, enforcing Washington's export bans has been a U.S.-driven effort. This operation marks Taiwan's first major, public domestic crackdown on AI chip smuggling.

- **The Loophole:** Curiously, exporting AI chips to China is **not currently a criminal offense under Taiwanese law**. To pursue this case, local prosecutors have been forced to piece together charges using alternative statutes, primarily focusing on **document forgery** and customs fraud.
- **The Upcoming Law:** The political landscape is changing quickly. Lawmakers from Taiwan's ruling Democratic Progressive Party (DPP) are aggressively drafting an amendment to the *Foreign Trade Act*. The proposed bill will introduce a dedicated **"Mainland China Semiconductor Chip Clause"** to officially criminalize the diversion of restricted silicon, granting investigators far broader seizure powers.

3. Connection to U.S. Criminal Charges

The Taiwanese sweep operates independently of, but heavily mirrors, a major U.S. federal case. Federal prosecutors unsealed an indictment charging Super Micro co-founder **Yih-Shyan "Wally" Liaw** and two associates with orchestrating a multi-billion-dollar scheme to divert Nvidia-equipped AI servers to China via a Bangkok-based intermediary shell company (**OBON Corp**).

Sable Offshore Raises Capital to Repay Exxon Term Loan

Sable Offshore Corp. (NYSE: SOC) successfully cleared its imminent refinancing crisis by executing a comprehensive, cross-conditioned recapitalization package to fully retire its massive legacy debt owed to ExxonMobil.

However, escaping the immediate default window required accepting highly expensive credit terms and inflicting intense structural dilution on public equity holders, triggering an abrupt 55% plunge in the stock price to historical lows ($3.08) during the final marketing phase.

1. The Pre-Event Extensions and Fees

The original Senior Term Loan from ExxonMobil—totaling **$956.3 million** (inclusive of paid-in-kind interest)—was officially due on June 26, 2026.

- To buy operational runway to market the refinancing package, Sable entered into a last-minute third amendment with Exxon on June 22, paying an aggressive **$30 million amendment fee** to push the ultimate hard maturity out to **July 24, 2026**.
- Concurrently, Exxon granted a limited waiver deferring billions in Plug & Abandonment (P&A) financial security obligations until late 2028, giving Sable the flexibility to shrink its needed new capital footprint.

2. The Final Refinancing Architecture

Lead bookrunner JPM encountered steep institutional resistance when trying to market the new debt. To get the transaction across the finish line, the deal structure was repeatedly modified, culminating in a three-part, cross-conditioned package that successfully settled on **July 2, 2026**:

- **The High-Yield Term Loan B ($675 Million):** Originally intended to be a $1 billion package, weak credit market demand forced Sable to scale the loan back to $675 million. To attract lenders, Sable dangled an exceptionally high fixed interest rate of **15.00%**, offered the paper at a discounted price of 97 cents on the dollar, and accepted an unusually short 2.5-year maturity paired with structural amortization requirements.
- **Convertible Senior Notes ($345 Million):** Sable fully expanded its offering of 6.5% convertible senior notes due 2031 (including the underwriters' full over-allotment option). The notes carry an initial conversion price of approximately **$4.00 per share**, embedding a potential future dilution layer of 86.25 million underlying shares.
- **Concurrent Common Equity Offering ($115 Million):** To plug the cash gap left by the scaled-down Term Loan, Sable issued 37.34 million new common shares (including over-allotments) at a heavily discounted pricing floor of **$3.08 per share**.

3. Balance Sheet Takeaway

By combining the **$675M Term Loan B**, the **$345M in convertible notes**, and the **$115M common equity raise**, Sable generated the total gross proceeds required to completely extinguish the $956.3 million legacy Exxon loan, pay out the cross-conditional transaction fees, and fund general corporate purposes.

The Analyst Perspective: The immediate corporate "sword of Damocles" has been removed—Sable faces **zero near-term default or bankruptcy risk** from Exxon. However, the corporate capital structure is fundamentally transformed. Total debt equivalents remain highly levered, and the immediate interest burden will track substantially higher due to the 15% coupon on the Term Loan. Equity holders paid a steep price via a ~25% immediate expansion of the basic share count, but the operational focus now cleanly shifts back to their core Santa Ynez Unit production volume.

Will Mag7 Cash Flow Recover? What are the Risks?

If you believe sell side estimates, The Mag 7 is extremely undervalued right now, and this chart below is exactly why.

From 2006 to 2024, Alphabet, Meta, Microsoft, and Amazon steadily grew their free cash flow in a relatively orderly line, modest capex, expanding margins, compounding cash generation year after year.

Free Cash Flow Falls Off:

Then something breaks around 2025–2026.

- Free cash flow drops sharply as all four companies simultaneously committed a combined ~$725 billion in capital expenditure for 2026 alone, a 60%+ increase from already-record 2025 levels to build the AI infrastructure layer of the next decade.
- Amazon's Free cash flow fell 95% in Q1 2026 as it spent $44 billion in a single quarter.
- Meta's FCF compressed against $19 billion in quarterly capex, with projections turning negative by 2027.
- Alphabet guided Capex as high as $185 billion for the year and this is the reason most investors are scared right now.

Recovery?

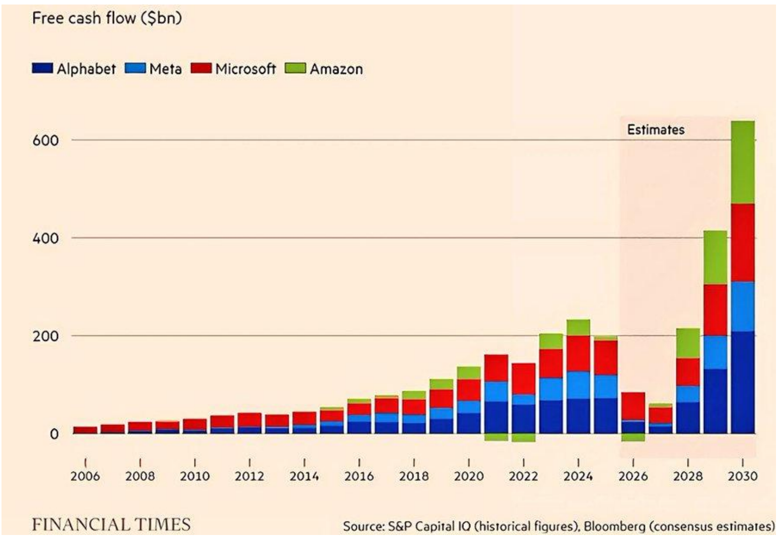
But then look at what Bloomberg consensus estimates show happening from 2028 to 2030.

- Free cash flow explodes, the stacked bar chart nearly triples from current levels and approaches $650 billion combined by 2030.
- This is the math of how infrastructure investment works, you spend the money first, you depreciate the assets over 10–20 years, and once the buildout is complete, incremental revenue becomes almost pure free cash flow because the fixed costs are already sunk.
- Amazon CEO Andy Jassy described this perfectly, "we're investing to be the meaningful leader, and our future business, operating income, and FCF will be much larger because of it.
- The evidence that monetization is already beginning is visible right now.
- Microsoft's AI business is running at a $37 billion annual revenue run rate, up 123% year over year, with 20 million paid Copilot seats growing at 250% annually.
- Google Cloud revenue surged 63% year over year to $20 billion in Q1 2026, with Alphabet's cloud backlog nearly doubling to $460 billion in one quarter.
- AWS saw its strongest growth since 2022, and Amazon's AI services crossed a $15 billion annualized run rate just three years after launch.
- The Capex fear is being priced as if this spending has no return, when in reality the contracted backlog tells you the demand is already locked in and signed.

THE MAIN RISK HERE IS THAT HALF THE BACKLOG IS THE AI COMPANIES THEMSELVES, WHICH NEED FUNDING TO GROW, AND OPENAI HAS SHELVED ITS $60 BILLION ($1 TRILLION VALUATION) IPO UNTIL NEXT YEAR...

The FCF trough you see in this chart from 2025–2027 is not a sign of broken businesses but rather the price of owning the infrastructure layer of the AI economy for the next 20 years.

The window to buy that at a discount closes the moment the market starts pricing the 2028–2030 FCF explosion, and that repricing could happen at some point.



AI-related debt issuance is skyrocketing:

- US corporate investment-grade gross debt issuance is projected to surge +25% YoY in 2026, to a record $2.25 trillion.
- This would mark the 4th consecutive annual increase.
- After accounting for maturing debt that is repaid, net new investment-grade debt issuance is projected to jump +57% YoY to a record $1 trillion.
- Year-to-date, investment-grade gross issuance has already risen +20% YoY, to $796 billion.
- The primary driver behind the surge is AI CapEx, with AI and AI-related debt issuance estimated to increase to at least $400 billion this year, according to Morgan Stanley.
- The AI revolution is fueling a historic surge in corporate borrowing.

Source: Bloomberg, Dealogic, PitchBook | LCD, Federal Reserve, Morgan Stanley Research forecasts; Note:

Relief for Meta Comes After Announces Selling Excess Compute: Becoming a Cloud Company (Competing with SPCX, AMZN, MSFT, GOOG)

- Meta Platforms Inc. is developing plans for a cloud infrastructure business to sell access to AI computing power and models, competing with industry leaders like Amazon Web Services and Google Cloud.
- The company is considering selling access to various AI models hosted on its existing AI infrastructure, as well as "raw" computing capacity, as part of its Meta Compute initiative.
- Meta's plans to generate revenue from excess computing power could help return its investment in AI infrastructure, which includes hundreds of billions of dollars spent on data centers and expensive chips.

Meta, which has been rushing to secure expensive data centers and other infrastructure to fuel its own artificial intelligence ambitions, is forming a business to generate revenue from excess computing power sold to outside customers, according to people familiar with the matter, who asked not to be named as the details aren't public.

One potential plan includes selling access to various AI models that are hosted on Meta's existing AI infrastructure, an approach similar to AWS's Bedrock offering, the people said. Meta would run the data centers and chips that power the models, including its own Muse Spark models, and charge developers to access them.

The company is also considering selling access to "raw" computing capacity, akin to other so-called neocloud businesses like CoreWeave Inc., the people said. Development of these new business lines is part of Meta Compute, an internal initiative to build and manage the company's AI infrastructure efforts, according to a person familiar with the plans. Meta Compute is led by Santosh Janardhan, Meta's head of infrastructure; Daniel Gross, a leader inside the Meta Superintelligence Labs AI unit; and Meta President Dina Powell McCormick.

A Meta spokesperson declined to comment. The company's plans are still in development, and it's possible the strategy could change. Shares of Meta jumped 9.3% to $615.55 at 10:04 a.m. in New York on Wednesday, the biggest intraday gain since April. CoreWeave fell as much as 14%. Nebius Group NV, a Dutch AI data center company that trades in New York, fell as much as 17%.

Meta has made developing AI "superintelligence" a top priority, and has committed hundreds of billions of dollars to data centers and other AI infrastructure, like expensive chips that it deems necessary to make that happen. That investment, which has left investors anxious about Meta's plans to earn a return on that spending, includes major computing deals with CoreWeave, Alphabet Inc.'s Google and Oracle Corp., among others.

A cloud business offers one way to return some of that investment. AWS, Azure and Google Cloud have spent decades building platforms that rent access to computing power, storage and software over the internet — businesses that now command tens of billions of dollars per quarter in revenue.

The demand for computing power from major AI developers remains insatiable. Meta and other tech companies have committed tens of billions of dollars for data center capacity for their own needs in recent quarters, adding to the massive sums the industry is spending on artificial intelligence. Selling computing is just another means of capitalizing on the broader AI boom.

As appetite for AI has surged, those providers have also expanded to rent the specialized chips and computing capacity needed to train and run AI models. It is a complex business, requiring not only vast fleets of data centers but also software platforms, enterprise sales teams and customer support operations.

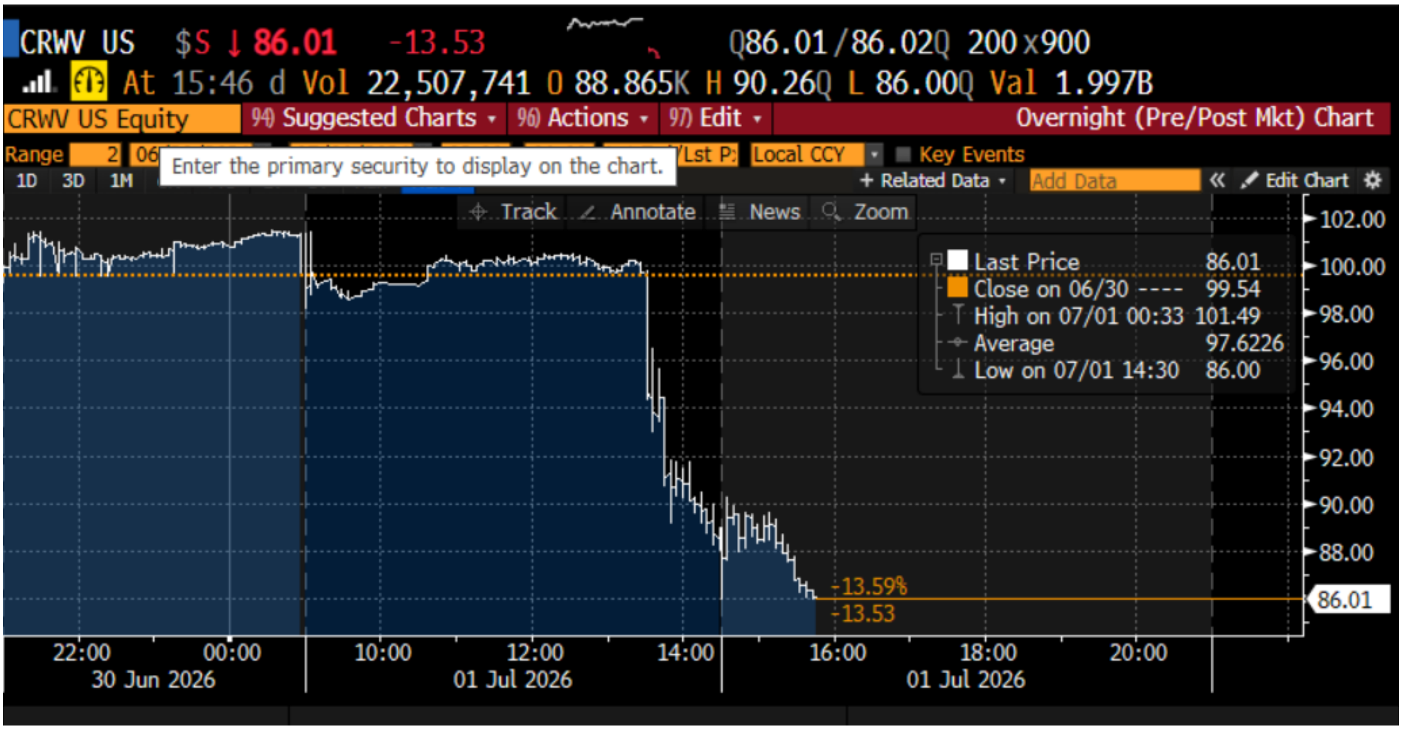
Elon Musk's SpaceX, which acquired his AI startup xAI in February, recently emerged as a key player in this space, renting access to its massive data center in Memphis to Anthropic PBC earlier this year and striking a deal with Google. That strategy could help xAI generate more than $50 billion in revenue by 2028 and $100 billion by 2030, according to an estimate by Bloomberg Intelligence.

Despite the complexities, Meta Chief Executive Officer Mark Zuckerberg has signaled to investors that he's open to selling excess computing infrastructure, or even a so-called API service where customers would pay for AI usage — a business that's usually measured in "tokens," or the amount of data used and generated for a customer query.

"It's definitely on the table," Zuckerberg said during a call with shareholders in May. "Almost every week there are different companies that come to us from the outside asking us to both stand up an API service or asking if we have compute that they could buy from us at some premium to what we've bought it at."

"We haven't done that yet because we think we have a use for the compute," Zuckerberg said at the time. "But obviously if we get to a point where we feel that we have overbuilt, then that is an option that we have, and that is partially what gives us confidence in investing in building this out."

Amid a fast-moving AI race, Zuckerberg has repeatedly suggested that he believes the industry is constrained when it comes to computing capacity and that Meta should amass as much as possible and determine its use later.



Ticker		Last Price	%1D ↓	%5D
NBIS US	S		-15.10%	-14.81%
CRWV US	S		-13.41%	-14.56%
HUT US	S		-10.98%	-14.72%
WYFI US	S		-10.94%	-10.62%
CIFR US	S		-9.10%	-19.43%
CORZ US	S		-8.25%	-19.48%
WULF US	S		-7.73%	-20.81%
IREN US	S		-6.30%	-14.81%
APLD US	S		-4.24%	-21.10%

Chip and memory stocks took a beating this week 🩸

🔴 Sandisk $SNDK -16%

🔴 Micron $MU -14%

🔴 Western Digital $WDC -11%

🔴 Seagate $STX -11%

🔴 Applied Materials $AMAT -7%

🔴 Arm Holdings $ARM -7%

🔴 Intel $INTC -6%

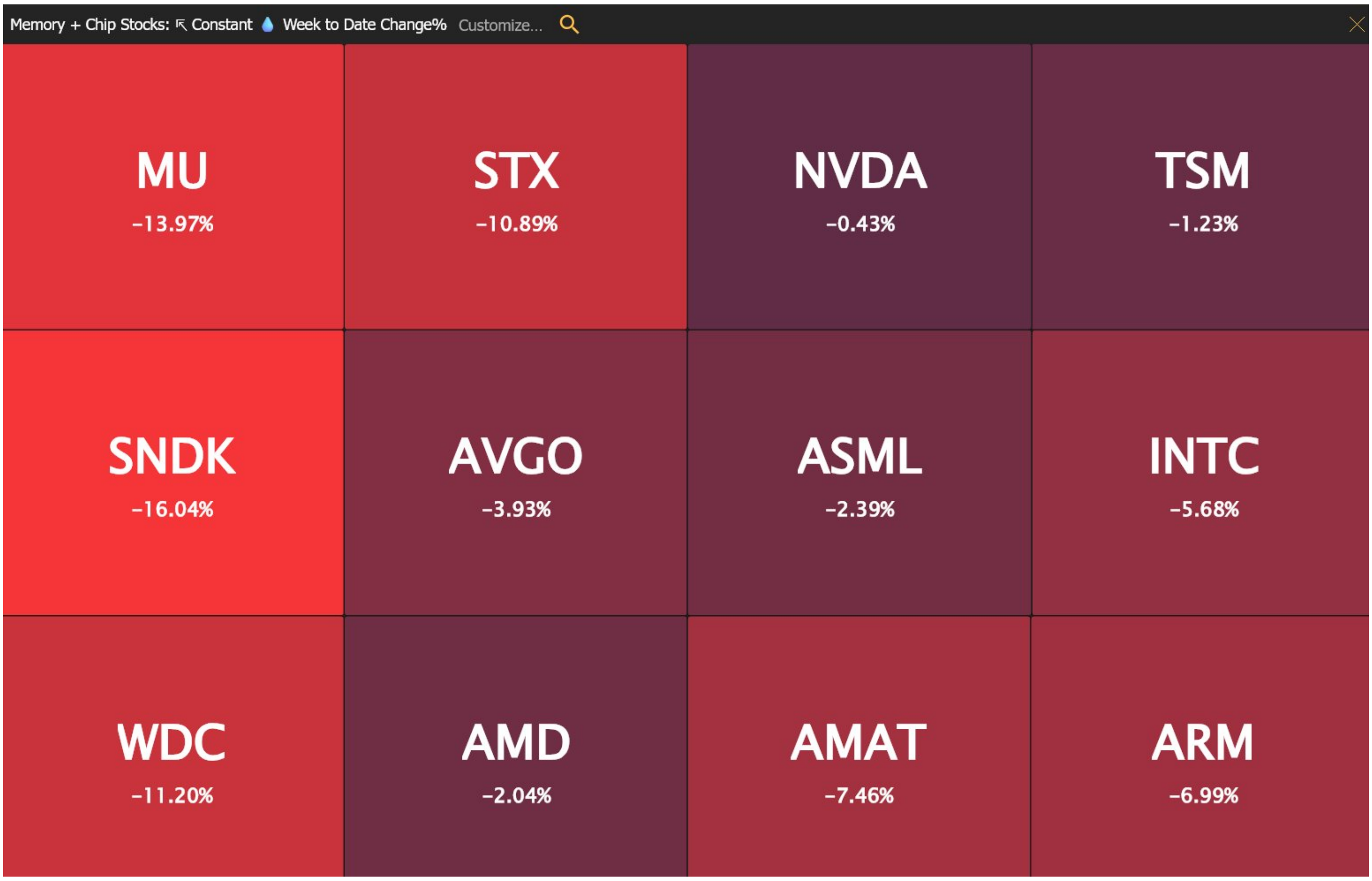
🔴 Broadcom $AVGO -4%

🔴 ASML $ASML -2.5%

🔴 Advanced Micro Devices $AMD -2%

🔴 Taiwan Semi $TSM -1%

🔴 Nvidia $NVDA-0.4%



Mark Zuckerberg told employees that Meta's AI bets "haven't come to fruition yet" and agent development has not accelerated as expected, per Reuters.

Meta has committed up to $145B, mostly for AI infrastructure this year, while cutting 10% of its workforce.

SemiAnalysis Take on Meta's Announcement

With Bloomberg headlines suggesting Meta could become a Neocloud, the market's reaction was immediate: aggressive sell-off of Neoclouds like Coreweave & Nebius, and debates of "overcapacity" coming back. Let's set the record straight – we believe that **both takes are erroneous** and that Meta's datacenter & compute procurement will ***accelerate***, not slow down. Capex in 2027 will be shockingly high. In just the first six months of the year, **Meta has contracted over 5GW of capacity across Cloud & Colo**, and that doesn't even include all their accelerating self-build activity. Everything is computer and everything is a neocloud.

Semi supply chain inventory rose q/q but outperformed seasonality, with below-seasonal producer builds and distributor declines. Supply is tightening, but meaningful restocking has yet to emerge.

Key takeaways

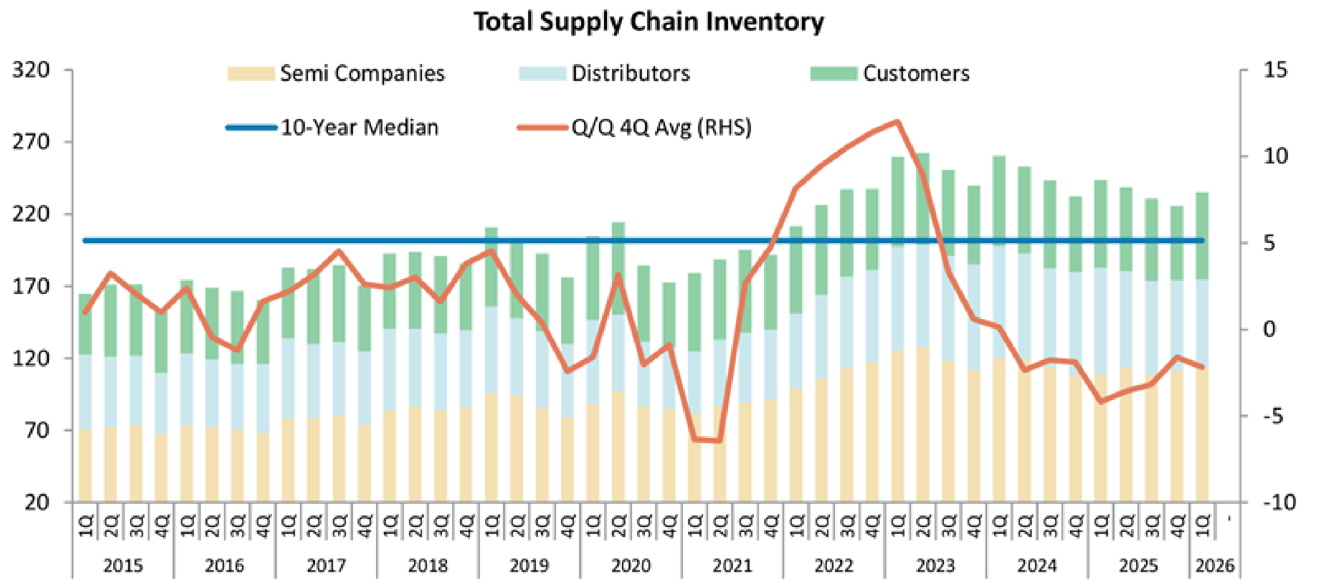
- Overall supply chain outperformed seasonality, increasing by less than the typical 1Q increase.
- Producer and disti DOIs outperformed seasonality; customers were ~in-line.
- Auto OEM DOI moved above historical median, while Auto Supplier DOI declined to in-line with historical levels.

Overall supply chain inventory increased q/q in 1Q, but the build was below typical 1Q seasonality. We remain above historical median levels, as distributors declined and producers built less than seasonal levels, while customers were ~in-line. While this is a step in the right direction, we still remain 33 days above historical median for the supply chain, and have not yet seen a broader restocking cycle.

The quarter reflected a mix of normal 1Q inventory build and continued discipline across the supply chain rather than broad restocking. Distributors continue to lean out, producer builds remain relatively steady, and customer trends were mixed. For stocks, we prefer areas where supply/demand is tightening or inventory risk is more defensible, including premium-end analog exposure in ADI and NXP, compute/networking names NVDA, AVGO, and CBRS, memory names MU and SNDK, and semicap names MKSI, KLAC, LRCX and ONTO.

Stacked DOI increased 9 days vs. a seasonal 19-day increase and is 33 days above the historical median. Trailing decreased ~2 days.

Stacked DOI increased 9 days vs. a seasonal 19-day increase and is 33 days above the historical median. Trailing decreased ~2 days.



Source: FactSet, Morgan Stanley Research