2026-07-26 - SSN - Big Mag7 Earnings Week (AMZN, AAPL, META, MSFT), NVDA 250B Guarantee for OpenAI, APP Add, BWMX Add, Temporary Iran Peace - (Transcript)

Introduction and Nvidia AI Data Center News - 00:00

Alright, happy Sunday everyone. Let's discuss a few really interesting trends. Um, before we get to that, there is some breaking news about **Nvidia** just a few minutes minutes ago, um, signaling one of the biggest AI data center guarantees uh ever.

In guaranteeing about a $250 billion data center build for **Open AI**. Um, that combined with a temporary halt of missile launches across Iran and the US over the last two days is probably going to result in some strong short covering.

Market Overview and US/Iran Conflict Impact - 00:47

You know, we do think that um, you know, actually as you see right now, Nasdaq's now up about 1.36%. S&P's up .8%, uh Russell small cap is up 1.2%. Crypto's rallying, uh US 10 years down five bips which is risk positive, and crude oil is down about 5%. So, that is quite positive. Again, we've seen these rallies fade overnight if there's anything said negatively about the Iran conflict, but at least for now, um this is looking very positive for tomorrow.

Q&A and Attachments Note - 1:28

Again, you can add all of your Q&A to the SSR Q&A tab as we progress. Um all of the attachments are now in the email. So feel free um, to follow along.

Economic Calendar and Earnings Week Preview - 01:51

So, on the first page, you know, we have the economic calendar and the rise in 10 year yields which had driven the market lower at the end of last week. Um, the most important economic events for this coming week are durable goods orders, consumer confidence, personal income, personal spending, PCE inflation, um, and UMich sentiment.

The 10-year yield was up five bips, um, last week, driving chance of a rate hike in *July* to 40% after the re-escalation of the Iran war. Uh Besant was probably crying in the bathroom at the end of last week and lo and behold, um, things have changed over the weekend.

Real yields on the US 10-year Treasury reached their highest point before this weekend since *2023*. US initial jobless claims just came in at the lowest level since *1969* as well, which had supported those long-term yields. Um, and we are preparing for the biggest earnings week of the quarter. Um, you know, with obviously **Amazon**, **Apple**, **Microsoft**, **Meta**, **Qualcomm**, **Western Digital**, **Lam Research**, **Fortinet**, **Arm**, you know, all these really big tech companies reporting. Not to mention non-tech companies of massive scale like **Visa**, **Coca-Cola**, **Boeing**, **Corning**, uh **S&P Global**, **PayPal**, which is under an M&A bid, spec. Um, **Shell**, uh, **AB InBev**, **Yum**, which owns **Taco Bell**, **AbbVie**, **Chevron**, **Sony**, **Enbridge**, on the MLP side in Canada, **Moderna**, **Siemens**, just a massive, massive earnings week, okay?

Short Interest and the Taco Index - 03:43

Um, you know, one of the reasons why we think we could see a pretty big short covering rally is the short interest, um, we talk about on page four. The short interest in the S&P 500 has climbed to about 3.7% of free float, which is one of the highest levels it has been since *2010*. This indicates that hedge funds and other investors are increasingly betting on a decline in US equities despite the market trading near record highs.

The Taco Index, uh which is actually published by **Signum Global Advisors**, uh, it's almost right on the ball, um, before this this weekend. Analysts at **Signum Global Advisors** are led by a gentleman named Andrew Bishop. They created a Taco index, which is a combination of, you know, Brent crude prices, the 10-year yield, the number of Hormuz crossings and S&P levels, very basic. Uh all of you guys could have predicted this. But you know, on a back testing they found a 2.3 to 3.4

standard deviation move for an average of 2.9 standard deviations across all four, has resulted in action from the president in the past. And you know, they predicted, you know, a taco, um, at the end of July and and there we go. Um, you know, they what they said was the taco could happen as early as *July 26th*, no later than *July 30th*, and here we go, *July 27th*.

Google Earnings Analysis and Hyperscaler Spending - 05:24

Um **Google** earnings last week did disappoint. Uh let's just talk about them briefly. Um 87% of **Google's** record $112 billion in net income in the second quarter came from historic markups in its equity investments like **SpaceX** and **Anthropic**. Without this other income, **Google's** net income would have only been about up 2% from the first quarter. Um so that is why there's a big sell off in **Google** last week, um, or **Alphabet**. **Alphabet** highlights how much the hyperscaler landscape has changed. These companies used to be cash producing machines. Now **Google's** parent company just posted its first negative free cash flow quarter since *2016*.

You can see that on page five. **Alphabet** raised its capital spending forecast to a range of about $195 billion to $205 billion this year, up from a previous forecast of about $190 billion. The company's quarterly cash flow was negative for the first time since going public with negative free cash flow of $5.9 billion for the period, and its cloud revenue totaled uh about $24.7 billion up from up 82% from a year earlier. But on a lower margin. **Alphabet's** investment portfolio has become a source of upside for the company with gains in the value of its investments totaling nearly $100 billion for the quarter.

Shares, despite this, fell 6% on Thursday. This was a reminder that the full cost of Silicon Valley's AI rivalry is still largely unknown. **Alphabet** was one of the first big tech companies to report. **Meta Platforms**, **Microsoft**, **Amazon**, uh followed this coming week. Altogether, the four companies telegraphed in *April* that they would be spending as much as $725 billion this year on their AI ambitions, but it could be even higher. If **Alphabet** is any indication, the sum will be larger by the end of this coming week. Um, and maybe the market will be a little bit lukewarm after today's short covering rally on that news.

Alphabet's bigger spend plan does not sit well, um according to investing.com senior analyst uh Thomas Monteiro. Add to that an increasing rates environment and a continuous supply demand crunch in AI infrastructure, and the notion that the company would fund itself with cash flows might be starting to fade. In another indication of the immensity of **Alphabet's** capital spending, the company's quarterly cash flow is negative for the first time since going public more than 20 years ago, according to data compiled by Bloomberg. Negative free cash flow again came in almost at negative $6 billion. The company said that the higher guidance reflects its efforts to accelerate and expansion of the AI computing capacity and book more revenue from cloud competing clients. As I'm talking, now Nasdaq is up about 1.5%.

It stands to intensify investor scrutiny of AI investments. Wall Street has been looking for more convincing evidence that **Alphabet's** massive bet on technology and those of its rivals are generating new growth rather than weighing on profits. **Alphabet's** second quarter results demonstrated some progress in that respect. Cloud revenue totaled about $27.5 billion for the for the period ending the second quarter, up 82%. Cloud um the backlog grew to about $514 billion up from $460 billion a quarter earlier last quarter.

Cloud demand was powered by strong demand for AI infrastructure. **Google** Cloud has emerged as one of the clearest test of whether **Alphabet's** AI spend can deliver financial returns. Though it still trails behind **Amazon Web Services** and **Microsoft** Azure or Azure, the unit has become one of **Alphabet's** fastest growing businesses fueled by demand from startups and enterprise customers seeking infrastructure needed to develop and deploy AI applications. The cloud sales beat is is at least a clear sign that the company's investments are converting into fast growing profitable revenue with contracted deals coming online the moment capacity is built.

Google said the majority of its cloud backlog involves typical contracts with a broad mix of customers and that it expects to recognize more than half of it as revenue over the next 24 months. Search advertising generated about $63 billion in sales, falling slightly below estimates. The unit remains the backbone of **Google's** advertising business and has so far weathered competition from AI chatbots well. The longer-term question for investors is whether Gemini can help **Google** defend its position in search as the way people interact with information changes. We'll have some more commentary on this in a moment.

Monthly active users of Gemini totaled about almost a billion people, 950 million, above estimates but below the first quarter, which was kind of scary. Gemini is on a whisker of becoming **Google's** third different $1 billion consumer AI product, alongside AI overviews and AI mode. **Google** has continued to expand the Gemini family, introducing new models such as the Gemini 3.6 flash designed to improve efficiency and support enterprise AI. Yet delays to Gemini 3.5 Pro have raised questions about how **Google** plans to position the model across consumer products and developer tools, including AI coding, where it competes with **Anthropic** and **OpenAI**.

At the same time, the CEO of **Google** sought to shift attention to Gemini 4, saying on the call that he was encouraged by its progress and describing it as a much larger next generation frontier model that **Google** is prioritizing. With the launch of Gemini 4, **Google** will begin releasing models at a faster clip, issuing new ones almost at a monthly cadence, Pichai said. That would bring **Google** into parity with rivals like **Anthropic** and **OpenAI** which routinely have regular updates.

The video platform YouTube reported about $11 billion in revenue, beating estimates. The unit remains one of **Alphabet's** strongest businesses as YouTube expands its reach across connected TVs, creator-led programming and new AI powered tools. YouTube is a little better than the past, breaking a multi-quarter losing streak, but it too feels like it should be doing better in this environment.

Alphabet's investment portfolio was one of the biggest surprises for the company with stakes in **Anthropic** and **SpaceX** generating about $100 billion in temporary gains. The company said that its equity holdings include $94 billion in **SpaceX**, $80 billion of which was short has short-term sale restrictions, which means they can't sell. **Alphabet's** other bets division which houses long-term ventures including life sciences, company **Verily** and self-driving unit **Waymo**, generated about $382 million in revenue, falling below estimates. The company said that CAPEX was about $45 billion in the second quarter, which also exceeded Wall Street's estimate of $44 billion. Total sales, excluding partner payouts were about $103.6 billion in the quarter, beating the $101 billion estimate, and net income was $9.11 per share, well above Wall Street's forecast.

Now, **Google's** uh backlog and spending was about $811 billion of contracted future spending commitments, which scared the street because it's up $500 billion in just three months. The obligations disclosed separately from the CAPEX budget represent purchases the company has already committed to making under supply agreements and open purchase orders. Roughly $201 billion of the total were short-term. The commitments cover everything from chips and data centers to electricity, inventory and content licenses. The sharp increase underscores how quickly **Alphabet** is locking in resources as it expands the infrastructure that powers its AI business.

Dan Niles' Market Outlook and Max7 Analysis - 13:57

Now Dan Niles, ahead of the massive **Max7** earnings coming this week across **Meta**, **Amazon**, **Microsoft**, and **Apple**, basically talks about how he previewed caution on CAPEX spenders and more optimism on semiconductor companies last week. And this past week, **Max7** spenders were down 6% with the one really big down day on **Google** report day, while the semiconductor index was up 1%, and it'll probably be up more than two or three percent tomorrow.

Last week, oil was up 8%, now it's down 5%, and yields were up uh across the two and 30-year bond curve by 9 to 15 bips, now they're down five bips, which is why we're seeing that countertrend rally. De-escalation in Iran over the weekend should help both oil prices and yields during the start of this upcoming week. Uh *November 3rd* midterm elections put a powerful impetus on the US administration to get oil prices down well before then. Oil prices were back down around 70 before this, and now they've rallied all the way back up to 100 before the sell off over the weekend, back down into the mid 80s. Now de-escalation in Iran over the weekend should help. Um, his view for AI investing is you know, positive to negative, three positive, three negative. Number one on the positive side, the advent oftic AI on *January 30th* with the formalization of open claw will drive about 10 to 100X more token production and consumption.

Number two, microprocessor vendors benefit in the shift from eight to one GPUs per CPUs um to unity in the move to agenic AI. The current philosophy of the hyperscalers is that they cannot afford to lose the AI race keeps him more bullish on the recipients of the CAPEX spend than the spenders themselves. So he thinks the semiconductor company still will have another run.

In terms of negatives, he says that AI native revenues will be determined in the near term by the tradeoff between the top 1% of companies focusing on controlling AI spend versus the ramp of the other 99 given the move from token maximization in *March* to token minimization by *June* where they use, obviously, open source Chinese models. Even **Microsoft** is. Part of that control of AI spend will come at the expense of non-security software companies, IT services and head count. Number three, the cost of money is also more expensive after the increase in credit spreads across names that we all know, like **Oracle**.

Equity multiples have also compressed, increasing the cost of capital. 11 of the major central banks have gone from cutting rates from roughly 2.7% in *July of 2025* to 2.4% in *early February* to now raising them to 2.6% today. At the same time, the 10-year Treasury yields across 11 associated countries stayed flattish at roughly 3.2% over that same time period from *July 2025* through *February*, but it's now risen to 3.8%.

For mega cap earnings this week, his belief is much like last week, ROIC, the interplay between CAPEX and future EPS estimates is likely to have an outsize impact on the near-term direction of stock prices. With respect to **Meta**, he thinks it should have benefited from increased engagement during the World Cup. **Meta** revenues grew about 27% in 3Q25 versus 22% in 2Q25, creating a tough comp for the Q3 guide.

In addition, a potential launch of a public cloud and LLM API may embolden **Meta** to increase CAPEX spend, which will be a negative. Fortunately, the valuation in the teens versus low 22X for a *2026* calendar PE for the S&P means that, you know, downside could be limited. For **Microsoft**, Azure or Azure has a high bar given **Google** GCP revs accelerated from 63% year over year to 82% in the second quarter. But he wonders if the focus on AI cost control is an increased tailwind for **Microsoft** co-pilot. It operates natively within the **Microsoft** 365 ecosystem where enterprise work already happens, but **Microsoft** already owns 27% of **Open AI**, uh which he remains negative on given they are caught between **Google** and consumer AI and **Anthropic** in enterprise.

With respect to **Amazon**, he thinks AWS revenue growth also has a higher bar to clear due to due to **Google** Cloud. In addition, higher oil prices are likely to be pressuring the logistics of their e-commerce businesses as well as consumer purchasing power. Their shift of the four-day prime event to late *June* from early *July* should benefit Q2 but at the expense of Q3. With respect to **Apple**, he says it's benefiting from the AI CAPEX spend of others because it isn't really focused on its own AI strategy, saving it money. Um, **Google** is their partner, so they're allowing **Google** to spend instead. He believes that the Q3 and Q4 estimates are too high for both revenues and margins due to semiconductor prices, especially memory, and the valuation of 37 times PE is expensive, so he's not a buyer of **Apple** here. On the longer term, he remains bullish on the upgrade cycle with the new foldable phone.

Deeper Dive into Google's Pricing Strategy - 19:12

Further insight on **Google** pricing from Max Anderson, uh who spends about half a million on **Google** ads per year. Uh what he's noticed is that the revenue growth within search is artificial and extremely unhealthy for **Google's** business long-term because it's mostly them raising prices while they lose eyeballs to LLM search. Search volumes are declining as legacy search is being increasingly cannibalized by non-monetized LLM queries. **Google's** response has been to manufacture revenue growth via short-sided, highly extractive customer hostile tactics like charging advertisers more for lower quality clicks, including clicks they do not want and explicitly did not approve **Google** to charge them for. A few examples: for all of its history until recently, **Google** operated on a second price auction model, which means if you bid $5 uh for CPC, then the next higher bidder bids $1, **Google** charged you $1.01 for the click, one penny more than the second highest bidder rather than the five that you bid. This was a genius move by **Google** early on as it incentivizes advertisers to input their true maximum willingness to pay, rather than trying to play the game of bidding low and constantly adjusting to try to stay ahead.

However, **Google** silently deprecated the second price auction and began charging advertisers as much as their bid and budget caps allow, regardless of what anyone else is bidding. It's a short-sighted cash grab at the expense of long the long-term health of the advertiser ecosystem. To make things worse, **Google** also recently nerfed keyword targeting precision. **Google** previously had precise keyword targeting settings that allowed advertisers to pick individual search phrases to bid on, defined down to the character with exact match or phrase match targeting. This was one of the first core features that made search advertising magic, enabling advertisers to an extremely precise campaigns based on exactly what their target customer typed. But now, even if you bid on a specific term or phrase using the strict exact match target settings, **Google** will show you your ad across thousands of unrelated keywords, labeling them as exact match or close variant. The definition of close variant means whatever they want and it changes constantly. The result is advertisers get build for clicks that are totally irrelevant to their business and that their targeting settings explicitly forbid **Google** from targeting. **Google** does it anyway and there's no ability to turn this off.

So now exact match is broad match and broad match is a meaningless spam. This is all very bad for advertisers, but for **Google**, it allows them to show your ad and bill you for clicks across a thousand times more searches than we're previously that were previously going unmonetized, mainly because they're garbage queries no one wants. This is how you grow revenue atop declining search volumes. Lastly, and perhaps more egregiously, **Google** quietly stopped respecting budget caps by a factor of 2X. For example, campaigns we've been running for years with a thousand daily budget caps suddenly began spending 2,000 per day. This is all not good for advertisers on **Google**, for now they have no choice but to continue to spend. And the extra spend is entirely on the garbage keywords **Google** arbitrarily throws in as exact match, close variants, which have no value to his business, but can't be turned off. **Google** offers no refunds or any recourse for overspend or spend on keywords you explicitly did not target. There are no actions these are not actions of a healthy search business. These are the actions of a company whose core business is in decline, but desperately needs to pump quarterly earnings to show Wall Street that will continue to fund insane CAPEX while hopefully looking through their rapidly deteriorating negative free cash flow.

Google operated as a benevolent monopoly for the better part of 25 years, meaning the value of **Google** captured from search was small but was was a but a small fraction of the value it created. And that spread produced a potential energy that justified expectations of high earnings growth far into the future. This is no longer the case. At the altar of AI CAPEX, **Google** is sacrificing its golden goose of search.

Special Situation: Betterware de Mexico (BWMX) - 23:38

On the next page, we talk about a special situation called **Betterware** (**BWMX**) uh which is a special situation we may have discussed in the past, but it's now very, very compelling after an acquisition. So **Betterware de Mexico**, SAPI de CV sells household products. The company offers furniture, uh sinks, uh electronics, uh utensils, laundry equipment, cleaners, bath accessories, personal care and other goods. It serves customers primarily in Mexico. The core value thesis for **Betterware de Mexico** centers on a severe market disconnect. Operational earnings are surging very rapidly, as you can see in the table below, yet the market multiple is shrinking. So just over the past, you know, two years, like in *2024*, this company was doing 2 billion of EBITDA, and by next year, it's expected to do 4.3 billion of EBITDA. So doubling, right? It's supposed to do almost 3 billion in free cash flow on a on an 11 billion market cap, right? So high 20% free cash flow yield equity.

BWMX uh next 12 months EBITDA estimates are up 50% in the last year, while EV to EBITDA has fallen 30%. So it's now trading at only 3.8 times *2027* EBITDA. High free cash flow to equity yield. So **BWMX** converts over 80% of its EBITDA into free cash flow. And so that's a, you know, 20% plus type free cash flow to equity yield. And it uses this equity yield to pay very high dividends. So it's about its dividend right now is about 8.6%, about 36 cents uh US per share quarterly, and it's had 26 consecutive quarters of dividend payouts without canceling.

So after its strategic M&A, um, which was very creative and its first consolidated month alone, **Tupperware** LatAm contributed 11% of net revenue to the company and 16% of EBITDA. So management estimates a proforma 12-month EPS when you combine the two, 36% higher with **Tupperware** integrated. Um, a says it maintains low leverage, so proforma net debt to EBITDA is very low, under two times, at 1.6 times, down from a brief 2.6 times right after the deal close. Why the mispricing exists for this stock? Um, we think that it's trading at a discount because of a direct selling discount. Wall Street habitually applies low valuation multiples of three to six times EV/EBITDA to direct-to-consumer, direct-selling networks, uh due to perceived distributor churn risk. And then it's also an emerging market company with some FX tailwinds with the Mexican peso and the Brazilian Real. And then M&A digestion just completed a deal, so there's some short-term noise and people are waiting to see what the cost savings are.

You can see the key headlines for the second quarter earnings, you know, it crushed. Um, you know, revenues were up 16.8%, EBITDA was up 25%, uh EBITDA margin improved by 140 bips or 1.4%, uh net income grew by 20%, and diluted EPS grew by 14.9%. And some key quarterly takeaways, um, the **Tupperware** accretion begins, despite including only one month of the **Tupperware** LatAm consolidation in the second quarter, the brand immediately contributed 11% to revenue and 16% to total EBITDA. Management noted that on a proforma trailing 12-month basis, earnings are 36% higher with

Tupperware integrated than on an organic basis. Core segments showed steady momentum. **Betterware** revenues grew almost 4% while **Jafra** revenue grew about 4 and a half percent. In terms of free cash flow, cash generation remained robust with 2Q free cash flow, um of pesos 578 million, about 74% EBITDA conversion. This brought uh their leverage down to only 1.6 times. They're updated *2026* guidance, uh management raised significantly. Um, from 4.8% growth to 18 to 22% growth, which obviously includes the acquisition, while maintaining the EBITDA margin of over 19%, which is quite healthy for a company like this. Um, so they talked about a sustained dividend. Um the board authorized a quarterly dividend a pesos of 250 million or about 36 cents um USD, so that translates to about uh 8.6% dividend, which is very healthy, marking that 26th 26th dividend in a row.

Market Momentum, Hedge Fund Positioning, and US/Iran War Update - 28:23

We also added to app. We'll talk about **AppLovin** in a moment. We think it has, you know, about 50% upside. You know, the company's seen, you know, very strong adoption from, you know, e-commerce companies testing. So a lot of, you know, they're entering a new vertical. Um the sharp sell-off in momentum stocks may be nearing its end, creating an opportunity for investors to start to start to rebuild positions in AI and semiconductor shares according to **UBS**. Part of the reason the sector may be finding a floor is that much of the speculative positioning has already been unwound. Hedge funds have cut long positions in momentum and semi-stocks by about 5% of gross market value, one of the largest reductions on record, according to **UBS** prime brokerage data. Still, pressure is building on companies to justify their AI spend. That's the main risk. The skepticism mounting about hundreds of billions of dollars being spent on AI. Earnings reports over the next two weeks will be scarred for evidence that the investments are generating bigger returns. **Tesla** and **Alphabet**, you know **Tesla** was down like 14% last week because of this. Um, you know Elon actually spent some time on the call like thanking **Micron** for for for selling him um, memory chips at a decent price and the market didn't really like that. Especially with this CAPEX friend growing.

Morgan Stanley predicts 25% memory price rises on AI demand and **Micron's** HBM production sold out through *2027* to support this outlook. On the 21st of *July*, you know, Sandisk was up 9%, SKHY was up 9%, **WDC** was up 8%, **Micron** was up 8%, SCX was up. Um, we took that opportunity to trim a little bit and then we added back at the end of this past week and it looks like Monday's going to be a good day. Um, since the middle of June, hedge funds have reversed 80% of their cumulative net buying in semis and semi-cap equipment names but started buying again last week, which is also a good sign. Net allocation in global semis and semi-equipment stocks started this year at 10%, then more than doubled to 24%, which was the record high in *June*, and then fell to 19% before this weekend. Healthy correction.

Net allocation in the US semis and semi cap equipment stocks in terms of the **JPMorgan** prime hedge fund book started this year at 7%, then doubled to 14% and now it's back down all the way to 11%. That's right, that's a **Goldman** Prime book. Uh, to take a step back from that for a moment, Trump did add new 10 to 12.5% tariffs as the current tariffs were set to expire. Um, he did this with 60 trading partners.

New US Tariffs - 31:08

And so why the shift occurred. So there was a Supreme Court defeat in *February 2026*. The Supreme Court struck down the tariffs after Liberation Day. There's some stop gap measures where the White House immediately instituted a temporary 10% global tariff using section 122 of the Trade Act of *1974*. By law, this stop gap measure was limited to 150 days and expired on *July 24th*. The new authority to replace the expiring duties, the office of US Trade Representative USSTR turned to section 301 of the Trade Act of *1974* and basically said that these countries are using forced labor. The legal justification sites forced labor prohibitions, which is unreal. Like most of these countries do not have forced labor at all. Uh but he asserted that he's targeting trading partners that fail to adequately ban or restrict goods produced using forced labor in global supply chains.

So there's a tiered tariff rate, 10% is applied to 20 partners that the US views as having made commitments or taken legal steps to adopt forced labor import bans like UK, European Union, Canada, Mexico and India. A 12.5% rate is applied to nations deemed non-compliant or lacking adequate productions. Obviously then China, Japan, South Korea, Australia, and Brazil. The key exemptions and carve outs for commodities, oil, natural gas, fertilizers, certain goods not produced domestically in the US, and existing sectorial tariffs, goods already subject to national security tariffs like steel, aluminum, auto products, etc, which I think is fine. And the context behind the tariff shift was the expiration of the section 122 stop gap levies. Um, you know, the administration has enacted did enact temporary 10% global duties under section 122, but now it has, you know, this longer new section 301 basis.

So the nations that made specific commitments or took legal steps uh with the lower tariff rate are the UK, Canada, Mexico, India, Argentina, Bangladesh, Cambodia, Indonesia, Malaysia, Pakistan, and Sri Lanka. The 10 to the 10 to 12 and a half percent were the European Union, Japan, South Korea, Taiwan, Switzerland, and then 12.5%, the highest tax rate was China, Brazil, Australia, Singapore, Saudi Arabia, Vietnam, Philippines, South Africa, Thailand, and the UAE, which is surprising that Saudi's there. Um, key exemptions and conclusions, um, critical categories including agricultural food products, fertilizers, and specific energy imports are exempt from section 301 duties. Now steel, aluminum, and automotive, which already have tariffs are excluded, and additive rates, um, unlike the US partner receiving carve outs or exemptions from existing rates, additional duties apply on top of previous duties for China.

Utz Brands Acquisition - 34:09

Um so outside of that, looking at some special sits, um **Utz Brands** um sword about 90% last week after the potato chips producer agreed to be taken private by **Intersnack** for about 14.25 per share. Its shares closed at about 7.25 on Monday. They traded as as high as uh 14.04 uh on Tuesday. The deal is set to close in the fourth quarter. I think anything below 13 here is kind of Bible. There's not a lot of anti-trust risk here.

Iran War Update and Market Impact - 34:37

Then on the Iran war, Iran's IRGC said this week it has destroyed the entire **Amazon** Central data center facility in Bahrain with several cruise missiles overnight. Um and warns that it will now strike more tech facilities as named. But as of Sunday night, today, Iran said it halted retaliatory strikes against the US after President Trump called off US strikes for a second consecutive night. Basically Besant saw that US tenure then freaked out uh and that's why we have this rally overnight. It's tapered a little bit, Nasdaq's only at 1.1%.

Price increases uh since the Iran war, I mean sulfur's up 142%, European natural gas is up 97%, heating oil's up 62%, jet fuel 44, diesel 38, gas 38, rice 36, WTI 30, Brent crude 29, cotton 23, wheat 18, palm oil 14. So this is a big problem. On *July 22nd*, uh the White House said that that Iran for every ship it shoots, um, the US will destroy one bridge or power plant. Uh the IRG announced then the three oil tankers that attempted to to transit the mined southern route of the straight and one severely exploded and the two other turned around. And so then the US started to bomb again 12 hours later. Um the House for Republicans also passed a $95 billion budget plan to win the war, apparently, and and restock our ammo. Um Trump says Russia Russia China told them they would not sell weapons to Iran. Yeah. Don't believe that at all. Um but because of the the halt to the bombings over the weekend, there's a 75% chance that there's some effective ceasefire by *August 31st* ahead of the midterm elections, which they need.

General Market Commentary and Cash on Sidelines - 36:33

BCA research says that cash on the sidelines was actually at a record low. Um, Goldman on the new oil upside risk, we can kind of skip this for now. I do think that if there's no peace, this will be more real. Um but for now, you know, given that peace talks are back on the table, I'm going to skip the oil oil fearmongering here. Um even though a lot of this data, I mean, all the data is true about shale, etc.

Open Source AI's Impact on Memory Demand - 37:12

Um, B of A talked about open source memory, was it bad for uh the open source AI being bad for memory stocks? And the actually the answer is actually the opposite. So closed models amortized global demand across shared HBM pools, concentrated in a handful of data centers, whereas open models create a new memory footprint with every deployment. So if 10,000 companies self-host the same open model, the model weight must be replicated across 10,000 separate HBM pools, which require all require memory, with each deployment also requiring its own KV cache. As a *27*K or 1 million token context become common place this year, the KV cache alone can exceed 40 gigabytes per session. Wow, that's insane.

Low cost Chinese APIs drive greater inference demand, broader enterprise self-hosting and more uh memory sockets worldwide. In closed model models where they concentrate on memory demand, um you know, that is not as useful um via these APIs. And then **AMD** and **Anthropic** signed a deal for tens of billions worth of AI servers over the weekend, and **Nvidia** just signed a deal uh to back or potentially signed a deal to back a quarter billion of **OpenAI** spend. Um which which was very shocking because they were creating their own open source AI, but I guess they need someone to buy their GPUs. Um,

JPMorgan CIO on AI's Impact - 38:33

JPMorgan CIO on how AI is impacting their tech stack. You know, core part of every business unit and product strategy, you know, is fraud and payments lending. So, you know, I don't know how it happens. Um, but anyway, um, **JPM** basically says the core part of every business unit and product strategy is fraud, payments, lending. They still require rely on critical software platforms like **ServiceNow**, which crushed earnings last week. There's more of an ability to replace point solutions with AI because it's easier to build software, but the challenge is to scale and secure it and to make sure people use it. Open source is extremely risky because all the code out there in the public is there for the attackers. They can easily just test it out on their own. They have about one exabyte of data, which could give them a competitive advantage in how they serve customers, so they're starting to test that out now. Um,

Micron/Meta White Paper and DRAM Shortage - 39:38

so on the next page, there's a **Micron**/**Meta** white paper which talks about a 38X slowdown once shuffle data exceeds available DRAM and spills into SSD. So there is a big DRAM shortage still. Elon Musk just stopped his earnings to think **Micron** for reasonable prices. You know, he knows he's burning cash now, so he has to play nice. Um **Reddit** was down on *July 22nd* because there were rumors that they might walk away from a $60 million deal with **Google** and Gemini that's paying them because they think it's not enough. I think it's just a negotiation tactic. Um, you know, **Reddit** probably wants something closer to 150 to 200 million per year because it's the sixth largest website on the planet. Um, **Reddit** might believe that Gemini is benefiting way more from their data than **Reddit** is is receiving in return as a cited source which could be negatively impacting user growth and monetization growth. Um, based on all data sources, Q2 revenues for **Reddit** are supposed to be up 55 to 60% versus 46 for consensus. Based on all data sources, Q3 revenues are tracking above 70% year over year, which means we'll probably see some revenue acceleration, uh likely from better user growth, better monetization or ARPU, bigger ad budgets being allocated to **Reddit**, improved ad products and placements.

If you include the 2.8 billion of cash on the balance sheet and zero debt using current sell-side estimates, uh **Reddit's** probably trading around 17 times next 12 months earnings and EPS is expected to grow 42% over the next two years. Those estimates are probably too low.

STMicroelectronics Earnings Miss - 41:17

On the following page, you can see, you know, **STMicro** missed, one of the reasons for the sell-off last week. Um, the company shares were down 17%, which is the biggest intraday decline since *July of 2027*, uh, sorry, *2025*. Luckily, we didn't have any shares here.

Hyperscaler Free Cash Flow Incineration - 41:42

Free cash flow generation of hyperscalers is getting incinerated, which is why the stock sold off so much last week. The sheer incineration of free cash flow generation at the hyperscalers has been one of the most important market stories of the past year. The chart below shows the epic wealth transfer from hyperscaler spending on AI CAPEX to semiconductor companies who have been receiving much of this CAPEX spend. This story has been well captured by stock prices as seen in the stark divergence and performance over the last years of the company spending on CAPEX dollars for AI and the companies receiving the CAPEX dollars.

And based on **Alphabet's** 2Q26 earnings release this week, there appears to be no near-term end in sight to this aggressive CAPEX. And thus, we free cash flow generation. Note that free cash flow is calculated by subtracting CAPEX from CFO. That's how you get the free cash flow to equity. And it's not just **Google** that is expecting to deliver an increase in spending. Um all the hyperscalers are expected to kick it up a notch with total hyperscaler CAPEX expected to jump over a trillion dollars um by *2028*, which is insane. Many analysts such as **Goldman**, **Morgan Stanley**, and **JP Morgan** have been flagging that CAPEX forecast have been too low last year. See the **JP Morgan** chart below where it beat both times.

Taking it back to this week, **Google** stock reacted poorly on this higher CAPEX commentary shown by uh Bloomberg's chart below. And you know, the stock immediately started sell off. Uh based on current consensus forecasts, the street expects overall hyperscaler free cash flow generation to go negative in *2027*, meaning the street is expecting hyperscalers to spend more on CAPEX than they're earning in operating cash flow this year. This means that hyperscalers will have to spend more cash off their balance sheet and or raise incremental debt and equity to fund about $1 trillion of *2027* CAPEX. But we repeat, what if the cost of this debt and equity go up, as we saw last week, spreads are widening and stock prices are falling. The price for to pay for glory would become an increasing challenge to these CAPEX plans.

Importantly, the chart above shows how the street is sanguin on free cash flow improving in *2028*, even as CAPEX continues to rise, as analysts expect the payoff from this CAPEX to start out pacing the growth in CAPEX. This forecast for improving free cash flow relies on the assumption that AI-related revenues will grow faster than the cost to serve, which means that domestic people who use AI will be more useful than people who are, you know, spending most of their time out outside. Um the forecast okay, so there's a there's a clear profit and growth being generated by some of this AI CAPEX, but we think it is also clear that the capital light low marginal cost legacy business models of hyperscalers have uh changed in a highly competitive capital intensive AI world. Said in another way, the hyperscalers used to be able to make a lot of money without having to spend a lot of money. Uh so that resulted in, you know, a monopoly uh type treatment.

A higher spending to drive growth suggests lower margins, you know, **Google** guided to this in 2Q26 with their cloud business and lower return on invested capital. We have been arguing for the past year that AI would gradually make these hyperscalers lower ROIC companies, um which is what's happening. So what does this mean for broader markets? First, the five hyperscalers represent about 16% of the S&P 500, while it's the company's willingness and ability to spend that drives the fact of the AI infrastructure cohort cohort with semiconductor companies uh representing 19% weight in the S&P 500. If the hyperscalers were to lower their expected CAPEX plans, we could see stocks rally on renewed CAPEX discipline, uh but it doesn't seem like that's going to happen anytime soon.

Further, we must note that the deterioration in cash generation is likely a big reason why we have seen the valuations for **Max7** compress. The chart below shows how valuations for the **Max7** fell to 22 from a peak of 32 back in *October* of *2025*. **Max7** earnings have continued to soar higher thanks to one-time gains and accounting assumptions that let these companies spread out their cost of CAPEX. But in reality, analysts have been describing lower valuations to these earnings things to the poor cash flow generation. There is no doubt that AI is an exciting technology that is early in its adoption curve and has the potential to significantly do so after uh alter the way we work in the future. But in the present, we can see this caused a significant cash flow burnout hyperscalers and likely a long-term shift in the profitability of the below uh capital intensive business.

So **Max7** you know, all could be penalized for higher CAPEX next week except for **Apple**, which probably isn't spending more. Um **Bloomberg Max7** index was down 4.8% midway through Thursday's session, wiping about basically three quarters of a trillion in market valuation from the market cap. Um, so the **Max7** basket finished down 4.8% last week, most in several years. You see from **Goldman**, hyperscaler CDS here, and the guilt yield at the bottom of page 37. Last week **Tesla** was down 14% on accelerating CAPEX spend in a profit miss. Um you guys can read about that, you know, about Musk calling it a big CAPEX here on page 38. You can see it's negative free cash flow on page 39. Um you can see the natural gas storage change, which was um a little bit lower than expected, um as people start to use their ACs in the US. Page 40, **Roper** shares were up about 10% the most since *2020* after the industrial company boosted its full year EPS guidance. Um, TD Cowen said that the lack of an issue is a positive in itself right now. Network was slightly below model but consistent. City says they expect a positive reaction to the beat and raise quarter. Um he sees adjusted EPS of $5.75 to $5.80 versus the estimate of $5.66. So pretty well could beat. Um, okay, so year forecast was 22.15 to 22.3, uh which was a beat. Adjusted EPS was um 5.38 versus 5.29, so that was a beat. Revenue was also a beat 2.11 versus 2.1 billion. So it's good to see, um, **Roper** doing well. We own we own some shares. I think the Kaiser brought it up. Um, we're adding to our growth position in **AppLovin**. We think that there's so many new e-commerce platforms, it's not really AI-disruptible. So this **AppLovin** I think has about 50% upside. You can see the model on page 43.

ServiceNow Earnings and South Korea ETF Rules - 48:51

Uh Nebius just is deployed its first full version of the Varin Rubin Ultra. Uh it's a finished um facility, so maybe we see bounce there. **AMD's** Lisa Su expects the AI accelerator market to reach 1.4 trillion by *2030*, which is absolutely absurd. You can see the graph some below and her speaking on the next page. Then on page 46, you know, now earnings were absolutely phenomenal. Um, but people, you know, were fading the rally. Um, very unclear why, probably they weren't bullish enough. Um, and people used to go for like a good time. It was, you know, it was less, uh, well anyways, um, the market produces an endless stream of information but very little insight. Most of what crosses your screen every day will have almost no bearing on what a business earns five to 10 years from now. What we think is that, you know, now **ServiceNow** benefits as the AI um or organization engine and we think that it will actually continue to grow. Um South Korea is tightening rules for its leveraged single stock ETFs. Uh that's on page 47, you can see that.

CXMT Memory Pricing and Intel's Turnaround - 50:05

CXMT, so memory prices are actually rising more than **Samsung's** uh prices, which means that, you know, there is no cheap memory. CXMT is really not a cheap memory alternative because their prices are so high for data center memory at roughly $1,240 for a 64 GB DDR5 server memory module. So, you know, there's really no alternative to SK Hynix, **Samsung** and **Micron** for the short-term, for the short-term. Um, Chinese memory and chips have sold off last week, I'm sure they're rallying now. **Intel** Corp's long awaited turnaround is in progress. Um it was a really good movie, but I think that, uh. So let's just go back to **Intel** for a second. **Intel**, um the company's revenue forecast shattered Wall Street expectations. **Intel's** sales will be about 15.8 to 16.8 billion for the third quarter versus 15.1. Uh Li Puan who took the reins uh last year is working on working to position **Intel** as a key beneficiary of AI spend in data centers, the CPUs taking off. Um sales in the data center segment sort of above 59%, shares were up 3% in the pre-market and then sold off. Um so **Intel's** probably, you know, buy on on the dips here. Um you know, but it's also it's it's run so much that I don't want to, you know, be aggressive in buying it. Um,

Token Costs, Nvidia/OpenAI Deal, and Open Source AI - 51:32

on the following page, uh token costs have erased the entire Gentic AI bounce. Um you can see that with the hyperscalers uh graph and the Silicon Data LLM token expenditure index. Below that, you can see **Nvidia** is in talks with **OpenAI** to guarantee $250 billion in financing for a data center, um which is one of the biggest guarantees I've ever seen. It's a 10 gigawatt project that **SoftBank** is developing in Southern Ohio. Uh Jensen had his first post his first post post on open source AI models on um over the past week and you can read his open weights on American AI leadership. He's basically saying that it's a lot different, you know, from the the tech bubble and demand is going to go up um because of these open weight models.

Macro Outlooks and Productivity Differences - 52:25

It's a really good read, you should read it. It ends on page 54 and then we've included some macro outlooks from State Street, um which shows you, you know, US US growth outlook, European outlook and Asian outlook. And then we included, you know, Citi talking about productivity differences across Europe, Japan, UK. Um and it's really interesting to see that US productivity growth by region is so high in the US. Uh then global consensus growth forecast uh driven by AI investment on page 58 and then **BlackRock** talking about rates, you know, it's time to buy bonds. They would have been right today on page 59. Um,

Q&A Section - 53:02

So, we can go through some questions here. Um,

Is Google and Amazon a Sell or Buy on Dips? - 53:06

is **Google** and **Amazon** a sell or buy on the dips for the technology basket? I think all tech names are um, I believe the semiconductors are buy on dips right now. And the hyperscaler names, I would just wait for this week because when **Meta** reports, uh **Microsoft** reports their CAPEX will likely have gone up like **Google** and that could be a sell the news event. So I would just say, you know, um wait for sell the news first from **Amazon**, **Microsoft** this week like Goog, which sold off last week on higher CAPEX spend.

Adding to Warner Brothers? - 55:52

Adding to **Warner Brothers**? Yeah, I think with the 15% spread, um, especially with the news this week, you know, we'll be adding to it. Um, I'm just waiting for additional questions here before we wrap up.

Which Agency REITs Do You Like? - 56:37

Yeah, so what we did was we had a pair trade on. Um, we were long Echo, short **SpaceX**. So **SpaceX** has actually fallen more than Echo, so that spread has come in. So not horrible, uh but you know, at this point, if you want to just take the entire trade off, take your short covering uh profits on **SpaceX** and sell Echo, you can just get out of the whole position.

Any agency re-press that you like here? Um, yeah, I mean the one we were adding to most recently was the RWTS, like the **Redwood** S is about a 10% yield. Um, on the stocks, um we like **Dynex** here. Uh it's a very, very high yield and we, you know, we've been adding uh to **Redwood** common below five. Uh it was a great ad from a three handle. Um, we also outside of **Dynex**, um we think **AGNC** is is interesting. I mean, if you believe the rates have peaked, all of them are pretty much ads here. Um you know, NLY after the dividend uh raise is also an ad. Um you know, I I personally think the 10-year, especially if we get some sort of a temporary peace for a couple months ahead of the mid-terms, um, I think all of them are likely ads here.

Any Thoughts on the Clarity Act? - 57:14

Any thoughts on the Clarity Act? Um, the Clarity Clarity Act really has been um delayed because of the Trump administration, basically, you know, making billions of dollars off, um, you know, publicly disclosing how much money they made off. Um, you know, Fidelity, um, several big companies have been pushing um passage of the Clarity Act, and one of the, you know, one of the issues, you know, **BlackRock**, **Charles Schwab**, um **Goldman**, Grayscale are also pushing it. Um, you know, today Senator Lummis said the Clarity Act would close gaps, uh the groups like North Korea's Lazarus exploit. I mean, there's a there's a lot of corporate backing for it. The problem is that, you know, that there needs to be some resolution around um, around uh, government corruption around crypto before it can pass. Um, you know, the current probability, the act passing is still quite low, and that's why crypto is kind of where it is. It's just about 38% uh according to Polymarket. But it probably means that, you know, crypto is kind of interesting here, especially if rates have peaked because, you know, what's being priced in is actually quite low.

Annaly's Dividend Raise - 58:49

Um, yeah, **Annaly** raising its dividend was quite a positive thing here. Um so **Annaly**, if you look at the last 10 dividends, uh just raised it to 75 and it was basically 70 for about six quarters and 65 for about eight quarters before that, so that's quite positive. It's about 13.4% dividend yield here. And let me just do this.

Is Echo a Sell? - 01:01:04

So, is Echo a sell? Um, yeah, so what we did was we had a pair trade on. Um, we were long Echo, short **SpaceX**. So **SpaceX** has actually fallen more than Echo, so that spread has come in, so not horrible, uh but you know, at this point, if you want to just take the entire trade off, take your short covering profits on **SpaceX** and sell Echo, you can just get out of the whole position.

View on IBM? - 01:03:30

What's your view on **IBM**? Um I I think **IBM** sold off quite dramatically, but I'm not I think it could decelerate further because of uh, you know, more spending on AI. Um, so I think, you know, next quarter could miss as well. I would wait for another quarter or two to add to **IBM**. Um, also on the quantum side, it's not a big contributor to earnings, so I'm not a big fan of quantum overall, and I think that you'll continue to see spend uh focused on AI products and less on **IBM**. So I am just not a a big fan of the company. You know, I think you'll you might get three or four quarters of just subdued spend, you know, and then a bounce later on, just like you've seen with some of the software companies, especially the lower quality software companies. So, take it for what it, what it's worth, you know, I'm not an expert on this **IBM**, but I just don't see a reason to really own it. It's also not super cheap. Um, what I'd like to do is just, you know, find some of the cheapest like AI names that have sold off and you know, do a short-term trade because AI CAPEX you saw **Google's** numbers, right?

It's only accelerating. You know, there's probably one more run there uh and then, you know, focus on within tech, some of the cheaper software companies. Um, that is, you know, that's frankly how I'm thinking about it. Um, you know, **Roper**, for example, right? Was was one of the cheaper industrial software companies, and then they crushed, right? They're up 10%, but nobody was looking at that name. So, I think being contrarian in this type of market is, um, is definitely a really important thing. And I think, you know, the contrarian trade right now after everyone's sold off AI, um even though it's not remarkably cheap, but the contrarian trade right now is, you know, to wait for the **Max7** earnings because everyone else is increasing their CAPEX spend. The market won't like that. Uh but, you know, when the market realizes that all the **Max7** guys are raising their CAPEX spending, which it seems like is the case right now, um you'll see a another bid for the semiconductor names.

Rates vs Yields? - 01:05:55

By rates, do you mean yields or Fed funds? I mean yields. Uh the yields matter more than Fed funds. So for example, the 10 years down to 4.63. I think the 10-year might have peaked at 4.7 if this war is over. Um so I think that, you know, that is more of what definitely more of what I mean here.

Okay, so now what I'll do is I will just um close this. You know, hope you guys have a wonderful trading week. I will then open it up for um, well what I'll do is I'll just add the recording and you know, I've sent out the email. Um so that everyone, everyone should have it. just wait maybe a minute or two. Uh so Gerardo, before we end, any thoughts on investing in RSP versus SPY? Yeah, the RSP should outperform the SPY simply because **Max7** is underperforming right now. So that's a good question. Uh let me just stop this now.

- Date of Transcript: 2024-05-21
- Filename: ssn_transcript_v6 - 2026-01-26 - @DA.mp3
- Model (may not be accurate): gemini-1.5-pro-001
- Prompt: ssn_transcript_v6 - 2026-01-26 - @DA
- QA Check: Completed