

2026-06-14 - SSN - CPI meets exp, peace treaty, SATS 45pct discount, PFLA 7.4pct baby bond, buy TLT, ASTS short - (report)

Condensed Report

- **Weekly Market Recap:** Discussion of a highly volatile week featuring initial tensions regarding Taiwan potentially halting semiconductor shipments to China, military and drone escalations involving Iran, the US, and Israel, a surprise mid-week rate hike by the European Central Bank (ECB), and the massive **SpaceX** IPO.
- **Geopolitical Pivot:** Analysis of the impending US-Iran peace treaty rumored to be signed in Switzerland, leading to a dramatic drop in oil prices, a weakening dollar, lower interest rates, and a broad macro rotation.
- **Macro & Central Bank Policy:** In-depth look at the coordinated global hawkish pivot with 46 of 68 central banks overshooting inflation targets. Evaluation of Kevin Warsh's entry as the new Federal Reserve Chair amidst trailing 3-month annualized CPI running at 8.2% and stabilizing unemployment at 4.3%.
- **Space and Satellite Sector Deep Dive:** Comprehensive unwinding of trades following the \$2.1 trillion **SpaceX** IPO. Valuation analysis of **EchoStar (SATS)** trading at a steep 40% to 45% discount to its underlying **SpaceX** equity stake and spectrum assets. Examination of a new short thesis on **AST SpaceMobile (ASTS)** due to a 400x trailing sales valuation, contract quality issues, and severe launch delays caused by **Blue Origin's** New Glenn rocket explosion.
- **Credit & Fixed Income Markets:** Introduction of a high-yield, low-risk 7.4% unsecured baby bond (**PLFA**) issued by **PennantPark Floating Rate Capital (PFLT)**. Execution of a long-term structural pivot back into long-duration US Treasuries (**TLT**).
- **Private Credit & Equity Red Flags:** Examination of systemic liquidity strains within private credit, highlighting massive redemption requests at **Cliffwater** (17%), **Blackstone's B-CRED** (10%), and **Partners Group**. Breakdown of structural risks within the emerging \$30 billion Collateralized Fund Obligation (CFO) market and circular AI financing schemes.
- **The \$35 Billion Anthropic "Big Sky" SPV:** Critical analysis of the massive off-balance-sheet circular financing deal engineered by **Apollo** and **Blackstone** to fund **Anthropic's Nvidia** GPU purchases, backstopped under extreme residual value guarantees by **Broadcom (AVGO)**.
- **Market Volatility Structure:** Analysis of the post-COVID "volatility smirk" driven by retail options flow, characterized by heavily bid upside call options, compressed downside put premium, and structurally elevated Implied Volatility to Realized Volatility (IV/RV) ratios.
- **Corporate Special Situations:** Review of the **Eaton (ETN)** mobility group spinoff and merger with **Dana Inc. (DAN)**, the ongoing antitrust volatility surrounding the **Warner Brothers** merger, regulatory approvals for **Esperion Therapeutics (ESPR)**, and **Ancora's** activist stake disclosure in **Ashland (ASH)**.
- **Corporate Governance:** Discussion on the SEC proposal regarding shifting from mandatory quarterly reporting to semi-annual reporting, with a strong professional consensus favoring the preservation of quarterly filings.
- **Equity Valuation Case Studies:** Long-term structural evaluation of **Adobe (ADBE)** as an AI-susceptible cash cow trading at a historically cheap 12.5% free cash flow yield.

Actionable Items

Macro Trends to Be Aware Of

- **The Peace Treaty Rotation:** The signing of the US-Iran peace treaty creates a macro framework where oil prices decline, the US dollar weakens, and bond yields compress. This environment is strongly supportive of rate-sensitive assets, emerging markets, precious metals, spec tech, and crypto.
- **Coordinated Central Bank Tightening:** Despite localized economic weakness, global central banks (ECB, Bank of England, Reserve Bank of Australia, Bank of Japan) remain in a hawkish posture due to stubborn inflation

overshoots. A "hawkish hold" or scaled-back forward guidance is anticipated from the Federal Reserve.

- **Systemic Strains in Private Credit & Insurance:** The life insurance sector and private credit space are experiencing elevated asset-liability mismatches. Retail and institutional investors are aggressively demanding redemptions from large interval funds, forcing alternative asset managers to engineer illiquid, highly levered structures like CFOs to mask liquidity deficits.
- **Circular AI Borrowing and GPU Glut:** Hyperscale CAPEX is signaling a structural peak. Tech companies are heavily participating in circular financing schemes to artificially prop up revenue pipelines. This risks a massive multi-year oversupply and data center buildout cancellation wave as physical limitations (power, cooling, water) and unproven return on investment (ROI) bind execution.

Potential Additions to the Portfolio

- **EchoStar (SATS):** Establish or increase long positions. The stock trades at a 40% to 45% discount relative to its net asset value, which is anchored by its 2.2% liquid stake in **SpaceX** post-IPO and billions in highly monetization-ready spectrum assets.
- **Long-Duration US Treasuries (TLT):** Reinitiate a core structural long allocation. With the 10-year yield near 4.5% and the 30-year yield hovering around 5.0%, fixed income yields represent a cyclical peak, especially as energy-led headline inflation shocks recede under the new peace treaty terms.
- **PennantPark Floating Rate Capital 7.375% Unsecured Baby Bond (PLFA / PFLT):** Allocate capital to this baby bond as a high-yielding, low-loan-to-value (LTV) pure-play credit instrument. The underlying portfolio is safely structured with 87% senior secured first-lien middle-market loans, exceptionally low non-accruals (1.0% to 1.5%), and highly diversified, small sub-1% position sizing.
- **Defensive Value and High-Quality Quality Moats:** Target oversold, non-tech, high-moat compounders such as **Moody's**, **S&P Global**, and premier cybersecurity software names like **DataDog** that exhibit robust cash flow generation and insulation from cyclical AI disruption.

Potential Reductions in the Portfolio

- **Energy and Power Sectors:** Reduce exposure to traditional oil, gas, and power infrastructure equities as crude breaks below key supports (\$81 on WTI, \$84 on Brent) due to the impending reopening of the Strait of Hormuz toll-free.
- **Business Development Company (BDC) Common Equities:** Avoid or reduce exposure to the common equity tranches of BDCs. Despite healthy current dividend yields, headline risks remain severe across the sector due to high-profile private equity/software enterprise defaults (e.g., Thoma Bravo's Medallia defaulting, hitting peer vehicles like **RBXSL**).
- **Mega-Cap Technology Exposure:** Selectively pare back extended, momentum-driven large-cap technology weightings into the post-treaty futures market melt-up, reallocating capital toward beaten-down, rate-sensitive defensive value sectors (staples, REITs, healthcare).

Potential Additions to Shorts

- **AST SpaceMobile (ASTS):** Initiate short positions, particularly on any near-term counter-trend technical bounces. The company commands an unsustainable \$32 billion enterprise value relative to a microscopic \$84 million in trailing sales (400x trailing revenue multiple). It faces catastrophic operational risk given a 3-to-6 month satellite launch delay stemming from **Blue Origin's** New Glenn rocket explosion and severe underlying capital underestimation.
- **Highly Leveraged Space and AI Pure-Plays:** Maintain and look to opportunistically reload structural short baskets across fragile, speculative vehicles like **Virgin Galactic (SPCE)** and **Vici Properties (VCX)**, which are experiencing complete technical collapse post-**SpaceX** IPO.

Ideas Worth Monitoring for Future Portfolio Actions

- **Adobe (ADBE):** Monitor from the sidelines as a compelling valuation case study. While trading at an extraordinary

12.5% free cash flow yield with pristine 89% gross margins, it remains highly exposed to long-term terminal value destruction from generative AI advancements. Wait for clear evidence of AI product monetization and customer retention stability.

- **OpenAI Financial Distress:** Closely monitor **SoftBank**’s failed attempts to secure \$6 billion in margin loans against its private **OpenAI** shares. This banking refusal signals a severe valuation fracture for private AI enterprises marked at astronomical levels (e.g., \$800 billion), foreshadowing a severe funding crunch.
- **Retail Sales and Consumer Squeeze:** Track upcoming economic prints intensely. Real disposable income is falling as CPI outpaces private hourly wage growth, and personal savings rates are severely depleted. A sharp print contraction in retail sales could confirm a major consumer spending slowdown for the second half of 2026.

Stock Symbols & Company Names List

- **ADBE**, Adobe Inc.
- **Ares**, Ares Management Corporation
- **ARCC**, Ares Capital Corporation
- **ASH**, Ashland Inc.
- **ASTS**, AST SpaceMobile, Inc.
- **AVGO**, Broadcom Inc.
- **AVNS**, Avanos Medical, Inc.
- **B-CRED**, Blackstone Private Credit Fund
- **DAN**, Dana Incorporated
- **DXYZ**, Destiny Tech100 Inc.
- **ESPR**, Esperion Therapeutics, Inc.
- **ETN**, Eaton Corporation plc
- **HPS**, HPS Investment Partners
- **KKR**, KKR & Co. Inc.
- **OBDC**, Blue Owl Capital Corporation
- **PAYO**, Payoneer Global Inc.
- **PFLA**, PennantPark Floating Rate Capital 7.375% Senior Notes due 2026
- **PFLT**, PennantPark Floating Rate Capital Ltd.
- **PWRL**, PowerSchool Holdings, Inc.
- **RBXSL**, Blackstone Private Credit Fund Vehicle
- **SATS**, EchoStar Corporation
- **SPCE**, Virgin Galactic Holdings, Inc.
- **UNF**, Unifi, Inc.
- **VCX**, Vici Properties Inc.

Economic Calendar

Date of Event	Event	Summary of Commentary
Monday,	Empire State	

<i>June 15th</i>	Manufacturing Index	Early monthly regional gauge of manufacturing sector health.
<i>Monday, June 15th</i>	Industrial Production Data	Key macro data point tracking industrial output; critical for evaluating broader economic slowdown or resilience.
<i>Monday, June 15th</i>	Canopy Growth Earnings	Notable cannabis player reporting in the pre-market session.
<i>Monday, June 15th</i>	ESPR HSR Expiration	Hart-Scott-Rodino antitrust waiting period is officially scheduled to expire today.
<i>Tuesday, June 16th</i>	Import Price Index	Vital input metric for analyzing global inflationary inputs and currency effects.
<i>Tuesday, June 16th</i>	Housing Starts	Critical health check on real estate construction and economic interest rate sensitivity.
<i>Tuesday, June 16th</i>	La-Z-Boy & Wiley Earnings	Minor corporate prints; useful for analyzing discretionary consumer behavior and institutional education trends.
<i>Wednesday, June 17th</i>	MBA Mortgage Applications	A vital macro leading economic indicator for domestic residential real estate demand.
<i>Wednesday, June 17th</i>	Retail Sales Data	Arguably the most critical economic data point of the week. Projected flat at 0.5% for <i>May</i> vs. <i>April</i> ; vital to observe if the lower-wage consumer is entirely tapped out.
<i>Wednesday, June 17th</i>	FOMC Rate Decision & Press Conference	Federal Reserve policy decision. Highly anticipated debut of the new Fed Chair Kevin Warsh; market expects a hawkish hold and structural revisions to forward guidance/dot plots.
<i>Wednesday, June 17th</i>	Progressive Insurance, Jabil Circuit, & CarMax Earnings	Key corporate earnings prints. CarMax is closely watched purely as a primary competitive read-through for volatile digital auto retailers like Carvana .
<i>Thursday, June 18th</i>	Initial & Continuing Jobless Claims	Standard weekly employment market health check; critical given the Fed's current dual-mandate focus.
<i>Thursday, June 18th</i>	Philly Fed Business Outlook	Mid-Atlantic regional manufacturing index mapping corporate capital expenditure sentiment.
<i>Thursday, June 18th</i>	Leading Economic Index (LEI)	A highly important forward-looking aggregate index used to map prospective multi-quarter recession risk.
<i>Thursday, June 18th</i>	Kroger & Accenture Earnings	Final key earnings prints of the week; provides direct visibility into consumer grocery behavior and corporate IT spending/consulting budgets.
<i>Friday, June 19th</i>	Target US-Iran Treaty Signing	Official peace treaty signing ceremony scheduled to take place in Switzerland according to international intermediaries.
<i>Tuesday, July 14th</i>	Warner Brothers EU HSR Phase 1 Deadline	Major antitrust regulatory milestone determining if the European Union approves the transaction or pushes it into an extended phase two review.
<i>Wednesday, July 22nd</i>	AVNS Shareholder Vote	Official date for the targeted corporate merger proxy vote.

Report Details

Weekly Market Recap and Geopolitical Macro Rotation

The global markets have emerged from an exceptionally tumultuous and volatile trading week, initially marked by severe geopolitical friction after Taiwan publicly mulled halting semiconductor shipments to mainland China on behalf of the United States government. This friction was immediately exacerbated by acute military escalations in the Middle East, including drone strikes involving Iran, the US, and Israel. The resulting energy and commodity price shock prompted the European Central Bank (ECB) to execute an unexpected interest rate hike in the middle of the week. However, the subsequent domestic Consumer Price Index (CPI) and Producer Price Index (PPI) prints thankfully arrived in line with consensus expectations, avoiding a worst-case "hot inflation" scenario.

Concurrently, the primary market witnessed the colossal initial public offering of **SpaceX**, which achieved a public valuation of approximately \$2.1 trillion on a highly constrained 7% float. This massive liquidity event solidified Elon Musk's position as the world's wealthiest individual, pushing his personal net worth past the \$1 trillion threshold. Interestingly, the listing operated as a classic "sell the news" catalyst across the entire speculative space and satellite ecosystem. Speculative industry names experienced severe liquidations: **Vici Properties (VCX)** collapsed to definitive all-time lows ahead of the listing; Virgin Galactic (**SPCE**) completely unraveled immediately following the strategic deployment of institutional short positions; PowerSchool Holdings (**PWRL**) experienced a pre-market exit at \$25 before closing the week at \$19; and AST SpaceMobile (**ASTS**) suffered a heavy institutional short-driven sell-off.

The defining macro catalyst heading into the new trading week is the impending signing of a comprehensive bilateral peace treaty between the United States and Iran, championed heavily by President Donald Trump. Although the precise operational timeline has oscillated between immediate implementation and a formal ceremony on *Friday*, global commodity markets have entirely capitulated to the validity of the accord. Crude oil plummeted 4% rapidly.

Macro Transmission Mechanism: If a permanent peace treaty is successfully ratified, the structural implications across global multi-asset portfolios are uniform: crude oil prices collapse, the US dollar weakens significantly, sovereign interest rates compress, and rate-sensitive assets experience an aggressive capital allocation shift. This macro framework is fundamentally supportive of emerging market equities, gold, precious metals, speculative technology, and cryptocurrencies.

Reflecting this structural pivot, overnight futures trading has already executed an aggressive risk-on posture: the S&P 500 futures rallied 1.0%, the Nasdaq 100 surged 1.7%, small-caps advanced 1.9%, while West Texas Intermediate (WTI) crude cracked below \$81 per barrel and Brent fell below \$84. Concurrently, gold surged 2% to \$4,323 per ounce, silver advanced 4% to \$70.62 per ounce, and copper climbed 1.3% to \$6.43 per pound.

Central Bank Policy Dynamics and the Warsh-Led Federal Reserve

Prior to the positive geopolitical breakthrough concerning the peace treaty, global central banking architecture was shifting into a synchronized, highly hawkish stance. Data reveals that 46 out of 68 globally tracked central banks are actively overshooting their official, mandated inflation targets. While domestic US inflation prints technically matched baseline sell-side expectations—with headline CPI rising 0.5% month-over-month in *May* and core CPI expanding by a more contained 0.2%—the structural run-rate remains highly alarming. On a rolling three-month annualized basis, the United States is enduring an extraordinary 8.2% inflation spike, while the full year-over-year headline CPI print sits at 4.2%, well above the Federal Reserve's long-term 2.0% target. Similar target overshoots are visible globally: the Eurozone is running at 3.2% versus a 2.0% target; the United Kingdom is at 2.8%; Russia is at 5.6%; Brazil is at 4.4%; Canada is at 2.8%; Australia is at 3.2%; and Turkey is at a massive 32.0% due to its structural dependence on energy imports.

This severe backdrop intensely handicaps the incoming Federal Reserve Chairman, Kevin Warsh, as he prepares for his highly anticipated debut at the upcoming FOMC rate decision and press conference this week. Although Warsh was originally nominated by the Trump administration with an explicit executive mandate to lower interest rates, the macroeconomic reality of stable-to-improving labor metrics (with national unemployment compressing from 4.5% down to a stable 4.3% alongside robust leisure, hospitality, and low-wage hiring) completely eliminates the policy urgency for emergency insurance rate cuts. To successfully forge unanimity across a highly fractious and independent group of 12

voting FOMC members, Warsh will likely be forced to entirely expunge the central bank's long-standing institutional bias toward interest rate accommodation. The market now widely anticipates a strict, hawkish policy hold at the *June* meeting.

However, over a multi-quarter horizon, institutional research indicates that a Warsh-led Federal Reserve will introduce structural changes to the domestic monetary apparatus across three distinct vectors:

- **Elimination of Explicit Forward Guidance:** Warsh has historically been a vocal, aggressive critic of the Federal Reserve's institutional reliance on projecting long-term interest rate paths. Because the central bank's structural forecasting models are highly imperfect, predictive tools like the quarterly "dot plot" have routinely generated severe market distortions. Expect these forward-looking communications to be aggressively scaled back in both structural depth and public frequency.
- **Enhanced Coordination with the Executive Branch:** Unprecedented institutional collaboration is anticipated between Chairman Kevin Warsh and Treasury Secretary Scott Bessent. Both key policymakers maintain immense allegiance to the Trump administration. This alignment implies a powerful consolidation of executive influence over the strategic management of national debt issuance, specifically via the manipulation of short-term Treasury bill allocations versus long-term coupon bonds to artificially influence the shape of the sovereign yield curve.
- **Structural Hostility to Quantitative Easing (QE):** Unlike his bureaucratic predecessors, Warsh is philosophically anti-QE, viewing the massive federal ownership of Treasury securities and Mortgage-Backed Securities (MBS)—which currently sits at an elevated 21.2% of national GDP down from a 36.0% pandemic peak—as an unsustainable distortion of free-market capital allocation. While no abrupt balance sheet liquidations will be announced this week to avoid triggering an immediate liquidity crash, a structural long-term regime of balance sheet reduction remains a core policy objective.

Space and Satellite Sector Deep-Dive: SATS Long vs. ASTS Short

The closing of the \$2.1 trillion **SpaceX** public flotation has generated an exceptional, highly actionable relative value mismatch between EchoStar Corporation (**SATS**) and AST SpaceMobile (**ASTS**). Institutional capital has actively utilized **SATS** common equity and highly liquid options chains as an imperfect proxy hedge to insulate private, locked-up **SpaceX** equity allocations, artificially depressing **SATS** shares down to a staggering 40% to 45% discount relative to its net asset value (NAV).

To properly comprehend the structural undervaluation of **SATS**, a rigorous, granular sum-of-the-parts asset valuation must be conducted. **SpaceX** closed standard trading hours at \$161 per share, advancing to \$167 in after-hours trading, cementing its \$2.1 trillion market capitalization. **EchoStar's** permanent equity stake in **SpaceX** stands precisely at 2.2%, translating directly into an isolated asset value of \$47 billion. On a per-share basis, this single equity allocation implies a standalone stock value between \$123 and \$136.

By applying an institutional liquidity discount to the **SpaceX** shares and incorporating **EchoStar's** massive corporate spectrum portfolio, the comprehensive NAV model breaks down as follows:

- **Core SpaceX Equity Value (Discounted):** \$114.00 per share.
- **Highly Marketable Spectrum Assets:** \$33.00 billion in total cash consideration, anchored by the finalized sale of the premium 600 MHz and 3.45 GHz spectrum bands to **AT&T**, alongside the strategic sale of the AWS4 and H-Block spectrum bands directly to **SpaceX**.
- **Remaining Speculative Spectrum Portfolio:** \$8.60 billion in remaining residual value, derived by marking the core AWS3 spectrum at a conservative \$2.50 per megahertz POP, while pricing the legacy 7 GHz and CBRS bands at distressed, low speculative marks.
- **Aggregate Corporate Holding Company Assets:** \$42.00 billion (excluding core **SpaceX** equity).
- **Less: Total Consolidated Holding Company Debt:** -\$14.00 billion.
- **Plus: Available Corporate Cash Reserves:** +\$4.30 billion.
- **Less: Embedded Deferred Tax Liabilities:** -\$4.00 billion, derived from the impending asset gains realized on the \$33 billion spectrum liquidation.

- **Less: Structural Tower Lease Termination Costs:** Mandated operational outlays following the asset transaction.
- **Net Non-SpaceX Net Asset Value (NAV):** \$73.00 per share.
- **Total Combined Target Intrinsic Value:** \$114.00 (SpaceX) + \$73.00 (Spectrum/Net Cash) = **\$187.00 per share.**

Given that **SATS** closed regular trading at a mere \$114.00 per share, the equity is trading at a massive, completely irrational 40% discount to its current liquid asset value (and a mid-45% discount when calculated against after-hours marks). While **SpaceX** itself is fundamentally extended from a traditional valuation standpoint—trading at an astronomical 300x forward EBITDA and 120x enterprise value to sales—purchasing **SATS** allows investors to capture exposure to Elon Musk's premier asset at nearly fifty cents on the dollar, completely insulated by billions in hard spectrum infrastructure assets.

Conversely, AST SpaceMobile (**ASTS**) represents a highly compelling structural short opportunity. The company commands an entirely absurd, hyper-speculative \$32 billion enterprise value on a microscopic \$84 million of trailing twelve-month sales, translating into a staggering 400x trailing price-to-sales multiple. Even if one entirely adopts management's aggressive multi-year guidance and assumes the company successfully quadruples its core operational revenue pipeline, the equity still trades at an unsustainable 162x 2027 forward EBITDA.

A detailed forensic examination of **ASTS** uncovers several severe fundamental red flags:

- **Severe Operational Counterparty Risk:** **ASTS** possesses zero vertical integration and takes total rocket execution risk, completely outsourcing its satellite deployment to third-party providers with unproven operational track benchmarks. Its primary launch partner, **Blue Origin**, recently suffered a catastrophic failure when its New Glenn rocket exploded during a static fire test at Launch Complex 36, entirely destroying **Blue Origin**'s sole orbital launch pad infrastructure. This structural disaster inflicts an immediate 3-to-6 month satellite deployment delay on **ASTS**.
- **Fragile Contract Quality and Revenue Model Mismatch:** At a recent institutional conference on *May 18th*, the President of **ASTS** admitted that a mere 10% of the company's heavily marketed \$1 billion corporate revenue target is legally contracted, leaving 90% completely uncontracted and highly vulnerable to client churn or defection to **SpaceX**'s Starlink or **Eutelsat** as launch delays mount. Furthermore, while management marketed a lucrative 50-50 incremental revenue-share model with major mobile network operators like **AT&T** and **Verizon**, recent wholesale partner disclosures reveal a far less lucrative, traditional lower-margin wholesale economics framework.
- **Massive Asset Write-Downs and Cost Underestimation:** **ASTS** was recently forced to entirely write off a single satellite asset for \$160 million—an amount tracking at roughly seven times the \$21 million to \$23 million per-unit satellite manufacturing cost that management has historically marketed to retail shareholders over the past year. This massive variance implies severe capital underestimation across their prospective 90-satellite global broadband network buildout.

Credit Markets: PLFA Baby Bond Evaluation and Systemic Private Credit Redemptions

The fixed income markets are presenting a highly compelling entry point to allocate capital into a newly debuted unsecured baby bond issued by PennantPark Floating Rate Capital Ltd (**PFLT**), trading under the ticker **PLFA**. Debuting late last month at a structural par yield of 7.375% (7 and 3/8s), this paper was priced roughly 100 basis points wider than historical fair value due to localized panics and negative headline flows swirling around the broader Business Development Company (BDC) ecosystem.

A granular comparative credit analysis demonstrates that **PLFA** is a highly resilient, isolated income instrument:

Credit Metrics & Portfolio Attributes	PennantPark (PFLT / PLFA)	Broad BDC Peer Universe (e.g., ARCC, OBDC, RBXSL)
Senior Secured First-Lien Loan Focus	87.0%	70.0% to 82.0%
Non-Accrual Rate (Fair Value Basis)	1.0% to 1.5%	3.0% average
Non-Accrual Rate (Cost Basis)	1.8% to 2.2%	Significantly higher across large software portfolios
Average Portfolio Position Sizing	< 1.0% (Highly Diversified)	Large, concentrated single-ticket enterprise risk
Regulatory Debt-to-Equity Leverage	1.2x to 1.3x (Stable)	Elevated, chasing late-cycle mega-buyouts
Weighted Average Portfolio Debt Yield	11.5% to 12.3%	Compressed relative to underlying asset risk
Asset Class/Sector Exposure	Core Middle Market (\$10M-\$50M EBITDA)	High-Tech, Late-Stage Software Buyouts

While the BDC common equity remains highly unappealing due to structural headline risk, the **PLFA** baby bond sits senior to the common dividend equity waterfall. The company's weighted asset portfolio yield of up to 12.3% easily covers the senior bond interest. From a loss-given-default (LGD) perspective, assuming a standard 50% recovery rate on senior secured middle-market defaults, **PFLT**'s underlying portfolio would have to experience an apocalyptic, unprecedented 30% catastrophic default rate to impair the principal of the baby bond. The single primary risk to the vehicle is a aggressive, multi-quarter global central bank rate-cutting cycle due to its 100% floating-rate asset asset architecture; however, stubborn global inflation sticky effects insulate this yield for the foreseeable future.

Away from high-quality public credit, the opaque private credit and private equity shadow banking ecosystem is exhibiting profound structural decay. While public equity indices melt upward to all-time highs fueled by the speculative AI bubble, a massive liquidity crisis is unfolding via institutional redemption requests. For *June*, premier alternative credit manager **Cliffwater** disclosed that redemption mandates across its flagship \$30 billion private credit fund skyrocketed to 17% of total assets under management (AUM), forcing the firm to gate liquidity and honor a mere 7% of liquidations.

Similarly, **Blackstone**'s massive retail-targeted credit vehicle, **B-CRED**, faced a staggering \$4.4 billion in total redemption requests for the second quarter alone, tracking at 10% of the entire fund size, resulting in the firm restricting outflows and honoring only 5% of withdrawals. **Partners Group** was likewise forced to enforce strict withdrawal gates across its interval fund complex after hitting a brick wall of 10% institutional redemption demands.

To mask these intense liquidity deficits and avoid forced asset liquidations into an illiquid market, mega-cap alternative managers like **Blackstone**, **Apollo**, and **KKR** are leveraging their captive insurance subsidiaries (e.g., **Apollo** forcing asset allocation via **Athene**, **KKR** exploiting **General Atlantic**) to purchase highly engineered, toxic securitizations known as Collateralized Fund Obligations (CFOs). Over \$30 billion of these structures have been aggressively issued year-to-date.

The structural mechanics of a CFO represent an alarming financial engineering risk that closely mirrors the pre-crisis subprime collateralized instruments of 2006-2007:

- **Underlying Collateral Mismatch:** Asset managers pool together a dozen highly illiquid private equity funds, comprising roughly 10-plus highly levered equity investments per fund.
- **Zero Natural Cash Flow Generation:** Unlike traditional Collateralized Loan Obligations (CLOs) backed by interest-bearing debt, a CFO is packed entirely with private *equity* stakes. The vehicle generates absolutely zero organic yield or natural coupon payments.

- **The Circular Interest Waterfall:** The only method available to pay the mandated 6% to 7% interest on the senior tranches is by actively selling underlying portfolio companies or issuing fresh debt. This creates a highly fragile structure that functions similarly to a Ponzi scheme.
- **Exploitation of Rating Agencies:** Private equity sponsors systematically pay small, conflict-of-interest-prone rating agencies (with **Egan-Jones** flagged as the most permissive, alongside **KBRA**, **Fitch**, and **Kroll**) to paste investment-grade ratings (AAA down to BBB) onto these levered equity structures.
- **Systemic Insurance System Contamination:** These toxic notes are aggressively pushed onto the balance sheets of the \$10 trillion domestic life insurance sector. To amplify returns, these insurers are ceding their liabilities offshore to loosely regulated Cayman Islands reinsurance entities.

This behavior introduces severe systemic tail risk, threatening an echo of the catastrophic 2020 insolvency of the Senior Health Insurance Company of Pennsylvania (SHIP), where retail policyholders were wiped out, recovering a mere 15 cents on the dollar after the insurer's asset base was stuffed with illiquid private investment junk.

The Circularity of AI Financing: The \$35 Billion Anthropic "Big Sky" SPV

The unmitigated frenzy surrounding artificial intelligence infrastructure capital expenditure has culminated in one of the largest, most structurally circular off-balance-sheet financing transactions in economic history. Alternative asset giants **Apollo** and **Blackstone** have successfully finalized a massive \$35 billion private credit special purpose vehicle (SPV) transaction, dubbed "**Big Sky**," designed explicitly to finance the foundational AI startup **Anthropic**.

The granular debt architecture of this multi-tranche facility is structured as follows:

- **Tranche A1 Notes (\$6.00 Billion):** Placed directly onto commercial bank balance sheets at an exceptionally tight, low credit spread of only 1.00% over matching US Treasuries.
- **Tranche A2 Notes (\$24.00 Billion):** Sold broadly to institutional investors within asset-backed fixed income markets, carrying a fixed yield of a mere 5.75%.
- **Junior Debt Tranche (\$4.50 Billion):** Structured with zero outside corporate backstops, carrying an 8.50% coupon rate and offered with an original issue discount (OID) of 98 to 99 cents on the dollar to compensate lenders for taking unmitigated, direct equity-like credit risk on **Anthropic**.

The defining, highly alarming attribute of the "**Big Sky**" facility is the implementation of a comprehensive "residual value support" guarantee engineered entirely by chipmaking giant **Broadcom (AVGO)**. Because traditional commercial banking institutions refuse to directly underwrite loans backed exclusively by highly depreciable graphics processing units (GPUs) and tensor processing units (TPUs), **Broadcom** agreed to enter a binding legal covenant. If **Anthropic** defaults on its lease payments, the SPV is mandated to liquidate the hardware assets. If the market value of the chips fails to make the senior debt investors entirely whole, **Broadcom** is legally on the hook to cover 100% of the financial shortfall across both the A1 and A2 tranches—representing a staggering **\$30 billion corporate liability exposure**.

This structure exposes an extraordinary, highly fragile circularity:

- **Broadcom** is actively guaranteeing a \$36 billion private credit structure to provide **Anthropic** with the capital required to purchase proprietary AI chips developed jointly by **Broadcom** and **Google**.
- **Broadcom** is effectively financing and backstopping its own corporate revenue pipeline, taking immense balance sheet tail risk to artificially inflate its immediate software and hardware sales metrics.
- **Google** maintains a direct 14% equity ownership stake in **Anthropic**, while simultaneously acting as the primary cloud infrastructure counterparty.
- **Morgan Stanley** acted as the primary financial advisor to **Broadcom** to arrange the transaction, while simultaneously operating a lucrative margin-lending facility to lend leverage to the institutional investors who purchased the debt paper.
- **Complete Information Blackout:** Demonstrating the peak euphoria of the ongoing AI bubble, the institutional investors who allocated billions to this debt facility were completely denied access to **Anthropic's** underlying

corporate financials or cash flow statements ahead of its prospective IPO. Lenders have absolutely zero visibility into how much revenue the underlying business generates.

This immense borrowing spree highlights a broader macro trend: AI enterprise funding has officially saturated traditional capital markets. Estimates indicate that AI-related financing is on track to extract \$400 billion from domestic debt markets over the near term, scaling rapidly to over \$1 trillion in aggregate debt through 2028 to satisfy a monstrous \$1.8 trillion hyperscale CAPEX infrastructure buildout over the next two years.

However, major institutional allocators like **Citadel** are pointing out severe physical and economic constraints to this model. Total tokenomic cost indices collapsed for six consecutive days last week as enterprise clients encounter unexpectedly massive, unsustainable bills for running large language models. Major global corporations are hitting a wall of marginal returns: **Microsoft** has begun canceling prospective rollouts of Claude due to extreme inference costs; **Uber** completely exhausted its entire annualized AI operational budget within a single quarter and has been forced to enforce strict capital caps; and **Amazon** has quietly removed its public token leaderboard entirely.

The market is rapidly bifurcating: elite frontier models will remain heavily concentrated among a narrow handful of mega-cap corporate balance sheets capable of absorbing immense compute costs, while the broader economy shifts toward cheaper, simpler, localized models. Consequently, the massive over-ordering of GPUs and TPUs runs the acute risk of mirroring the pandemic toilet paper panic: a colossal, multi-year capacity oversupply that will culminate in widespread data center cancellations, power grid bottlenecks, and severe asset write-downs over the next two to three years.

Market Microstructure: The Post-COVID Options Smirk and Corporate Actions

A profound structural transformation has occurred within the microstructure of equity derivatives markets, shifting from a historical "volatility smile" to a distinct, highly skewed "**post-COVID volatility smirk.**" In the pre-pandemic market paradigm, the equity volatility curve exhibited a heavy left tail. Long-only asset managers and sophisticated macro hedge funds routinely paid elevated premiums for deep out-of-the-money put options to insulate their portfolios against catastrophic downside shocks, while the right tail remained exceptionally flat because retail upside call option buying was virtually non-existent.

In the current market architecture—where hyper-speculative retail options trading volume has doubled to command a massive 32% of total daily equity volume up from 16% historically—the curve has entirely distorted. Retail's unquenchable thirst for leverage has heavily bid the right tail of the distribution. Out-of-the-money call options now systematically trade at elevated implied volatility premiums relative to at-the-money contracts, while the premium priced into traditional downside put hedges has significantly compressed.

This structural shift has driven the Implied Volatility to Realized Volatility (IV/RV) ratio to historical highs. Investors are aggressively bidding at-the-money volatility options purely as a capital-efficient vehicle to secure long exposure. During recent market volatility, the VIX closed at 18.92 against a 30-day realized volatility of 13.51, printing an elevated IV/RV ratio of 1.40x. As intraday volatility expanded the next day, the ratio spiked to 1.51x, vastly exceeding the long-term historical norm of 1.20x to 1.30x.

Concurrently, the CBOE Skew Index—which maps extreme tail risk pricing—sits at an elevated 136 relative to its historical baseline of 118 to 125. While mainstream financial media commentators falsely attribute this phenomenon to systematic "VIX suppression" via covered-call and put-write ETFs, the reality is driven by the structural profile of zero-day-to-expiration (ODTE) options. These ultra-short-dated contracts exhibit a completely unique gamma profile that structurally compresses short-end implied volatility while magnifying extreme, asymmetric upside melt-up tracking across the mega-cap indices.

Finally, the corporate landscape features several highly critical special situations and M&A developments:

- **Eaton Corporation plc (ETN):** Following the strategic announcement of its mobility group spinoff five months ago, **Eaton** finalized a definitive merger transaction with **Dana Incorporated (DAN)**. This combination creates an industry leader in propulsion and drivetrain architectures for commercial heavy trucks and vehicles. Under the closing terms, legacy **Eaton** shareholders will command 51% of the newly formed entity. The transaction values the **Eaton** asset at a highly modest 5.9x 2026 EBITDA inclusive of projected synergies (or 8.3x ex-synergies), contrasting favorably with **Dana's** 6.0x standalone trading multiple. Consequently, **DAN** aggressively raised its 2030 corporate

financial targets, boosting top-line revenue guidance to a range of \$14 billion to \$15 billion, and expanding projected EBITDA margins to 18% (up from a 14% to 15% baseline) due to the extraction of \$250 million in full operational synergies. The merger is formally scheduled to close in Q1 2027.

- **Warner Brothers Merger Antitrust Volatility:** Shares of **Warner Brothers** endured severe mid-week intraday liquidations, dropping 120 basis points rapidly as its gross arbitrage spread widened out to a highly volatile 14% premium before recovering back to \$27 per share by *Friday's* close. This volatility erupted after *The Hollywood Reporter* revealed that elite trial attorney Robert Van Nest is actively negotiating to legally represent the State of California and a coalition of state attorneys general following a secret meeting with California AG Rob Bonta. Conversely, the transaction secured major international regulatory clearances from antitrust bodies in Saudi Arabia, Ukraine, Serbia, and North Macedonia, alongside foreign direct investment approvals from Germany, Slovenia, Belgium, Czechia, New Zealand, Italy, France, and Romania. The European Union's HSR equivalent formally commenced its antitrust review on *June 9th*, establishing a critical Phase 1 decision deadline for *July 14th*.
- **Payoneer Global Inc. (PAYO):** The payments processing infrastructure enterprise collapsed by 24% within a single trading session following widespread reports that Canadian payment giant **Nuvei** is in highly advanced, late-stage negotiations to acquire the company for a total cash consideration of \$2.7 billion, with a formal deal signing expected imminently.
- **Esperion Therapeutics, Inc. (ESPR):** The pharmaceutical name captured vital international regulatory clearance from the German Federal Cartel Office (FCO), clearing the path for its domestic Hart-Scott-Rodino (HSR) antitrust waiting period to officially expire today, *June 15th*.
- **Ashland Inc. (ASH):** Shares of the specialty chemicals business broke out of the high-\$50s to close at \$65.00 per share by the end of the week following the formal disclosure that activist hedge fund **Ancora** has quietly amassed a substantial equity stake in the company to force operational restructuring.

Equity Valuation Case Study: The Moat Architecture of Adobe

Adobe Inc. (**ADBE**) currently represents one of the most fiercely debated, structurally mispriced asset valuation anomalies within the enterprise software sector. The equity has been aggressively liquidated by the market over the past 12 months, collapsing from a cyclical peak of \$400.00 per share down to a current valuation that implies a modest \$83 billion enterprise value (\$82 billion market capitalization with effectively zero net debt on the balance sheet).

To properly contextualize the magnitude of this multi-year valuation compression, a historical look-back at the company's capital allocation metrics must be performed:

- **The 2023 Valuation Peak:** **Adobe** commanded an premium \$300 billion market capitalization, trading at an extreme, hyper-extended 2.0% free cash flow yield.
- **The Current 2026 Valuation Trough:** Following the massive stock price liquidation, the underlying business is on track to generate \$10.0 billion in pure free cash flow this fiscal year, scaling to \$11.2 billion next year. At its current compressed valuation, **Adobe** is trading at a staggering **12.5% free cash flow yield**.

This implies that while the raw stock price has halved, the company's underlying structural profitability has actively doubled. **Adobe** is now trading at roughly 25% of the valuation multiple it commanded a mere 24 months ago. Concurrently, its operational fundamentals remain extraordinarily pristine: the business maintains exceptional, world-class 89% gross margins, representing a 200 basis point expansion since 2023.

The ultimate driver of this severe valuation derating is institutional panic regarding long-term terminal value destruction. Modern equities are ultimately financial claims on long-duration future cash flows rather than short-term present performance; historically, 70% to 80% of a technology company's ultimate stock price value is derived entirely from its priced terminal value five to ten years out.

The Toll Bridge Analogy: Imagine owning a highly lucrative physical toll bridge that generates a stable \$100 million in clean profit per year. If a competitor announces that an advanced, free, AI-powered second bridge will be constructed directly adjacent to your infrastructure five years from now, the intrinsic value of your toll bridge instantly collapses today, even though your current present-day profits remain completely unchanged. Nothing deteriorated in the present, but everything unraveled in the future.

This explains why the most dangerous phrase in institutional investing is systematically: *"The stock is down but the current fundamentals are improving."* This precise value trap historic trap destroyed equity allocators across legacy print newspapers during the emergence of the internet, department stores during the scaling of e-commerce, and linear cable television providers during the onset of streaming.

While millions of professional designers, video editors, and marketers still use Photoshop and Illustrator daily, generative AI prompts can now instantly synthesize complex images and automate high-end video editing, entirely bypassing years of highly specialized software training. If **Adobe** can successfully embed generative AI to retain its subscriber base and expand its ARPU, the stock possesses explosive upside from these distressed valuation levels. However, until clear empirical proof of long-term moat stability materializes, the asset must be observed strictly from the sidelines as a defensive cash cow.

Footer

- **Title:** 2026-06-14 - SSN - CPI meets exp, peace treaty, SATS 45pct discount, PFLA 7.4pct baby bond, buy TLT, ASTS short - (report)
- **Creation Date:** 2026-06-14
- **Model (may not be accurate):** gemini-1.5-pro-001
- **Prompt Name:** ssn_report_v5 - 2025-12-07 - @DA