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

Introduction and Weekly Recap - 00:00

Alright, happy Sunday everyone. Uh, another weekend. This weekend, hopefully we have some positive news after a very, very busy week last week with essentially, you know, a rocky start to the week with, um, Taiwan mulling, you know, a cease of shipping semiconductors to China on the US's behalf. We had, you know, war escalations, um, across both Iran, US and even Israel, um, which led to the ECB hiking in the middle of the week, then both CPI and PPI, uh, which thankfully weren't much hotter than expected.

SpaceX IPO and Space Stocks - 00:45

Followed by a massive uh, **SpaceX** IPO, valuing the company at about 2.1 trillion on a small 7% float, making Elon the richest person in the world at over 1 trillion in net worth. Um, you know, which is quite interesting because it was a sell the news event for a lot of space stocks. Um, you know, **VCX** made all-time lows ahead of that IPO. **SPCE** completely collapsed after we went short. Um, and on the other hand, also **ASTS** sold off, we'll talk about that in a moment. Um, but on the other hand, you know, even names like um, **PWRL**, which we think is, which we sold pre-market at 25, you know, closed at like 19. Um, we sold our **SATS**, uh, sorry, **SATS**, our **EchoStar** pre-pre-market, um, around 135, then bought it back, uh, around 117 and 110, with an average price of like 113 and that closed at about 114. We think it's 45% cheap to the IPO pre-tax.

Upcoming Economic Data - 01:47

Um, we will also talk about on today's call, earnings season's basically over, so we'll focus on the economics. We have the FOMC meeting, we have industrial production data out this week, we have housing starts, we have retail sales, we have the leading index.

Merger Arb Update and BDC Baby Bond - 02:02

We'll also do our merger arb update. Uh, there's some news out on **Eaton**. Um, **Warner Brothers** had a a small hiccup during the week. Um, we will also talk about a new uh, BDC baby bond, 7.4%, quite healthy, um, for a BDC called **PennantPark Capital**, which has, you know, one of the lower default rates in the industry, at least for now, around one and one and a half percent. Um, so we think the baby bond is covered given the amount of cash flow the BDC is is coming off and it priced probably 100 basis points higher than it normally would have priced because of all the bad news in the market around BDCs.

The War and Market Implications - 02:41

We'll talk about the war, um, and this, you know, this peace treaty which, which Trump is apparently signing either today or *Friday*. Uh, it keeps hopping around, but the market believes it. Oil is down 4%. Um, if oil continues lower, actually could be a really interesting opportunity to catch some names on the energy side, especially if power and gas sell off. Um, you know, if it is a true peace treaty, you know, that means oil is down, dollar's down, rates are down, rate-sensitive names are up, emerging market names are up. Um, you know, it means that that gold is up, spec tech is up, and crypto is up. So I know that's a lot of things to keep your eyes on, but, um, you know, rates drive the world and the war drives rates. So it is quite interesting. Um, so let's just get to it.

Detailed Economic Calendar Review - 03:42

So, you know, we quickly talked about the economic calendar. Um, you know, tomorrow we have the Empire manufacturing, we have industrial production on the, on the 15th. Then we have, um, the import price index on the 16th and housing starts on the 16th. On the 17th, we have MBA mortgage applications, which are a leading indicator. Um, retail sales, which is probably one of the most important data points of the week, um, which is supposed to be roughly flat at

0.5% in *May* versus *April*, okay? So it's supposed to be healthy. Um, following that, we have, um, the FOMC rate decision, uh, which is the same day on the 17th. Um, on the 18th, we have initial jobless claims, continuing claims, Philly Fed business outlook, and the very important leading index.

Earnings Calendar Review - 04:36

With respect to earnings, um, you know, like I said, earnings season's over, but we do have, you know, a marijuana name, **Canopy Growth**, reporting in the pre-market on *Monday*. Um, we have, uh, **La-Z-Boy** and **Wiley** reporting on *Tuesday*, **Progressive Insurance** on *Wednesday*, **Jabil Circuit** on *Wednesday*, **CarMax**, which competes with **Carvana**, the only reason it's really relevant to us, on *Wednesday*, then *Thursday* we have **Kroger** and **Accenture**. *Friday* is nothing.

Special Situations and Mergers - 05:06

On the special situations, uh, front, after announcing the spinoff on of its mobility group, um, about five months ago, **Eaton**, **ETN**, announced a transaction that will merge the business with **Dana Inc.**, creating a leader in propulsion and drive trains for commercial vehicles and trucks. Under the terms, **Eaton** holders will own 51% of the newco. The transaction values **Eaton** at a modest 5.9 times 2026 EBITDA, including full synergies of about 250 million, or 8.3 times ex-synergies, as compared to **Dana's** uh, six times trading multiple. As a result of the transaction, **DAN** raised its 2030 targets, boosting its top line to 14 to 15 billion, and its EBITDA margin to 14 to 15%, from 14 to 15% to 18% due to the synergies. The transaction is now supposed to close in the first quarter of next year. On the other side, um, you know, one of the more interesting spreads of the past, **Universe**-**Centos** merger is expected to be topical with the UNF vote at the end of last week and HSR expiring. The spread was about 8% gross, so that's a pretty healthy spread. Um, you know, and the consensus is that deal is going to close.

In other news, **AVNS** will host its shareholder vote on *July 22nd*. Um, on the following page on page three, um, shares of **Warner Brothers** actually fell as much as 120 basis points uh, intraday, uh, which is meaningful considering that, you know, it's, it's well into its antitrust uh, investigation and and people were actually thinking, um, you know, it had a high like high likelihood of close. Not, not extremely high likely, just given it did have a 14% spread, but quite high likely, likelihood of a close. Um, so that, you know, widened out. You guys remember on the 10th and 11th, if you guys own it, and then, you know, quickly rallied, you know, into the end of the week back to about $27 a share. Um, so the reason for that was, um, last *Wednesday*, the Hollywood Reporter released a story uh, that the trial lawyer Robert Van Nest is in talks to potentially represent California and other states after meeting with the California AG Rob Bonta last *Friday*, the *Friday* after last. So **Warner Brothers** announced that it received approval from several regulatory bodies around the globe, including Saudi Arabia, Ukraine, Serbia, North Macedonia, for what it's worth, to close the deal and from foreign direct investment authorities in Germany, Slovenia, Belgium, Czechia, New Zealand, Italy, France, and Romania. The EU HSR commenced their review of the transaction on *June 9th* with a phase one deadline set for *July 14th*. That's when we'll find out whether the EU approves the deal. Um,

Payoneer, ESPR, and Ashland - 08:00

In other news, shares of the payments company **Payoneer Global**, **PAYO**, finished the session down 24% after several media outlets reported the Canadian payments firm, um, **Nuvei** is in advanced talk to acquire the company for 2.7 billion. Uh, according to the reports, the deal could be signed, um, in the next coming days. **ESPR** also announced that it received regulatory approval from the German FCO and HSR waiting period is now expected to expire, um, today actually on *June 15th*. Shares of **Ashland** also rose after **Ancora** disclosed a stake in the company. Um, so **Ashland**, if you guys noticed it at the end of last week, you know, we were all busy with the **SpaceX** IPO, but, um, **Ashland's** stock, which, you know, no one really in the media was commenting on because they're all distracted, uh, did close up, um, you know, from the high 50s up at about 65 by the end of last week. Obviously there were some, some leaks to the rumors ahead of that.

Merck Portfolio Transformation - 09:03

Um, so in terms of details, you can read about the, the **Eaton** deal, uh, with **Dana**. Um, **AVNS**, there's a proxy filed. Um, **Warner Brothers** bullet is on page three. Um, oh, **Merck**. Um, so at the 47th annual uh, Global Healthcare conference at **Goldman**, um, there's basically a a pretty wide-ranging discussion, um, around management expressing a portfolio transformation at **Merck**. You know, **Merck** has had, you know, obviously a very challenged portfolio, um, for a while. Um, which has kept its valuation kind of capped. Um, obviously it is a great company, uh, but the shares have kind of been range-bound between 100 and 120 all year. Um, you know, it is a mega-cap, it's a 300 billion market cap, but, um, you know, has been, has been range-bound and, you know, it's trading at a 5% free cash yield, which is, uh, and a 7% for next year, which is, you know, relatively cheap for a company of its quality and its, its caliber.

Um, and what the company's trying to do is, you know, it's fairly unlevered. Um, it's trying to diverse, diversify and, um, change the composition of its portfolio. They've de-risked about 35 billion of its revenue pipeline, uh, in 2026, and they have a 70 billion new commercial revenue target in mind by 2030. Um, so that's quite interesting. You know, as a large cap, low-vol name to look at. Um, we think that **CVS** is also cheap which has a lot more upside. Um, **ESPR** is, you know, received the German FCO approval we talked about and then that **Ash** news is, is at the bottom of the page.

Detailed Look at a New Baby Bond (PLFA) - 10:44

So more exciting, um, **PLFA**. We haven't talked about a new baby bond or pref in a while. Um, but **PLFA**, uh, which is the **PFLT** 7 and 3/8 unsecured baby bond. Um, that debuted late last month. Um, and now that, you know, this Iran war deal is on the table and we're not as worried about rates, um, you know, we think it is, uh, is quite interesting. So this BDC, uh, it's about an 800 million BDC, uh, market cap before debt. It focuses almost exclusively on senior secured first lien loans, so no like second lien, pref, mezz, no tech exposure, very little tech exposure compared to other BDCs. Um, and it focuses on the core middle market. So companies with 10 to 15 million to 50 million in EBITDA. So think about companies that, you know, are really 100 million to 500 million in value.

Um, so this design gives it a distinct risk, credit, and leverage profile compared to some of the larger BDCs you've seen in the news like **ARCC**, **OBDC**, **RBXSL**, which actually has a much higher default rate than, um, people expected because of the Thoma Bravo Medallia default. So historically, **PFLT** um, maintains a highly stable credit profile with very high diversification. Its average position size is less than 1%. Um, so it, you know, should be relatively resilient in a, uh, you know, mildly child, challenged market or in a mild recession. You know, current status is that it's, uh, non-accruals depending on which quarterly report you look at. Um, sit at approximately 1 to 1.5% on a fair value basis. So at the very low end of the BDC spectrum compared to, uh, 1.8 to 2.2% on a cost basis. Um, **PFLT** operates within a regulatory debt-to-equity leverage of about 1.2 to 1.3, which is within kind of the average range. Um, in terms of its portfolio yield, slightly higher than average, but it's also lower risk than average. Um, portfolio yield, um, it's weighted average debt yield is between 11.5 and 12.3% depending on which quarterly report you look at this year, which is more than enough to cover the baby bond interest and the dividends that are junior to that in the common. We don't like the common because we still think that there's a lot of headline risk in BDCs. Um, but we do like the baby bond because it's relatively low LTV. Like this company would need to see like 30% defaults, uh, to hit this baby bond. So we think that, you know, the baby bond is relatively covered. It doesn't mean that they wouldn't cut dividends, um, on the common, but it does mean that, you know, that defaults would have to be pretty high. And, you know, when you have a default of 30%, it means that your losses are like 15% because you're assuming a 50% loss given default. So default doesn't mean zero in this case, but, uh, so hopefully that provides some perspective in how I'm thinking about it.

Uh, so, so a side-by-side sector comparison of like **PFLT** to, you know, some of the more well-known BDCs in terms of like first-lien focus, it's much more first-lien, like 87% versus 70 to 82% for its peer group. It's non-accruals are 1, 1 and a half percent versus 3%, um, so much, so less than half the default rate. Its average position size is much smaller, um, so it's more diversified than the average BDC, and it's 100% floating rate. Um, the one risk with that is obviously if, you know, which I don't think is going to happen is, is if the world just starts cutting rates aggressively, right, they're, they're going to have less dividend coverage. Um, which I just don't think is going to happen because of the inflation shock we have, even if we do have a peace, peace deal, because it'll take three months for inflation expectations really, and inflation itself to really come down, um, after this big shock.

SpaceX IPO Aftermath and Related Trades - 14:33

Um, so let's talk about **EchoStar** and the **SpaceX** IPO very briefly. I know we could speak about this for hours, but I'm going to keep it short and sweet, um, and relevant to us. So we had several trades around this name, like we shorted **VCX**, you know, it was above 300, we, we shorted calls, we did whatever we could to short it. You know, that ended up being down 50%. Whether it's luck, I'll take it. Um, almost exactly after we pointed it out, it went straight down. Um, it ended up closing down in like the 115 range and then bounced to 130, but it's still down more than 50% from when we discussed it. Um, and then on a very interesting note, like we were shorting, uh, we shorted **SPCE** twice. Once because people were trying to pump it based on how close the Virgin ticker was to **SpaceX**, **SPECE** versus **SPCX**, and we saw the option value volume was not sustainable despite the short interest. And then, you know, the day before the **SpaceX** IPO, we had a, a vol, a vol, um, spike, you know, implied vol basically doubled, and we saw like even the, the, the options expiring on *Friday* were like at 600 vol. You know, like the nine strike calls were at like 35 at one point on *Thursday*, uh, expiring on *June 12th*. So, you know, we added more short to that, um, and then the next day those options basically went to zero. Even the 18th options, like the 17s were at like 25, those went to like 3 cents in one day. So it was like almost like 100% return on the, on the nines and then like a 90% return on the 17s. Those of you who called, who were, who were interested, who do the one-on-one calls, who, who called about specific names, like we talked about that in a lot of detail, we had like seven or eight people reach out, and that was probably one of the best trades of the week.

Um, but you know, on a go-forward basis, we think that **SATS** is super interesting. Obviously, we already have a position. Our first trade was kind of in the 80s when, you know, it was obvious that Musk had given **SpaceX** stock in exchange for **EchoStar's** spectrum. And um, you know, at like a 300 billion valuation, and you know, the shares, you know, **SATS** was trading cheap relative to where the implied IPO price was going to be and then it became more and more obvious. What was interesting is that I think people who were long **SpaceX**, uh, and were locked up, or are locked up because of the six-month IPO lock, were probably using **SATS**, because it's the most liquid name, right, outside of like **DXYZ** and **VCX** and **PWRL**, which are the funds are much less liquid. The options are much more liquid for **SATS**. So we saw like several thousand put options, like 110 strike put options open, and I think it's people that were also trying to just figure out a way that they can hedge their **SpaceX** exposure without breaking any rules. So we think that's what pushed the stock lower. At one point, like intraday, it was trading below 110. It was trading at something like a 50% discount pre-tax on the **SpaceX** shares. Um, you know, looking at like the net debt, cash minus debt, and the, you know, uh, remaining spectrum and remaining co-value.

Um, so **SpaceX**, you know, closed at like 161, um, during trading hours and then 167 after the close, uh, which roughly implied like a 2.1 trillion dollar valuation. Um, the **EchoStar** stake in **SpaceX** is about 2.2%, which implies a 47 billion dollar **SpaceX** value. Okay? Um, and that 47 billion dollar **SpaceX** value, just on the **SpaceX** value alone, not on its cash or spectrum, implies, um, something like a 123-136, uh, share price. Okay? If you're still following me. And then, you know, you subtract, um, you know, a, uh, you know, a discount, you know, on the **SpaceX** shares, uh, so a healthy discount gets you to 114, and then you assume like an **AT&T** sale of the 600 MHz in 3.45 GHz spectrum. Um, a **SpaceX** sale of the AWS4 and H block spectrum, which gets you about 33 billion in spectrum assets sold, you know, cash consideration. And then you value the remaining AWS3 spectrum at $2.5 per megahertz POP, the 7 Hz megahertz spectrum and the CBRS spectrum at very low speculative values to get about 8.6 billion in spectrum assets remaining, which gives you a total Holco assets, um, of about 42 billion, and then you have the Holco debt, so you subtract out the 14 billion of debt plus the available cash of about 4.3 billion, and then the tax liability on the spectrum they're selling. Obviously the 33 billion in spectrum has to have a tax. So you subtract out the four, the 4 billion on that, and then the tower lease termination costs after they do that trade. So that gives you a NAV X, X **SPCX** equity of about 73. So when you add the 73 to the 114 at the *Friday* close, you get something like a share, uh, value of about $187 a share, uh, is what **SpaceX**, uh, sorry, **SATS** is worth. And given it closed at about 114, 114 divided by 187, implies about, um, you know, 40% discount. Okay? Um, and then after hours, you know, it was trading at about 167. So that implied like a mid-40s discount. So we think it's actually, on a long-term basis, uh, if you believe that **SpaceX**'s value, um, you know, at least for the next few months ahead of the unlock, kind of stays flat or goes up because it's a, it's a small float, especially when they lift options, you know, it could actually, you know, rally further, but you end up getting is that the stock is about 40% undervalued. So it's actually quite an interesting way, uh, to bet on this speculative IPO. Now on the IPO itself, you know, I have to admit that **SpaceX** is kind of running hot when it comes to valuations, trading at like 300 times forward EBITDA and you know, 120 times sales. So I'm not saying it's cheap, I'm not saying it's, it's speculative, but if you can buy something at like pretty much almost half, uh, of where it's trading in the public market, um, and you can hedge, you know, with a lot of different space names, you know, whether it's **ASTS** or **SPCE** or **VCX**, if you can, you know, on top of that, if you can kind of hedge it, uh, in an, in an imperfect way, you know, we think that that's actually quite interesting of a trade. Um, now, you know, on the following page you can kind of see, um, the GIPO, like the average daily, um, trading volume of of the names. So, I do think that, um, you know, if you look overnight, so overnight trading is actually already started. Um, so if we look at where **SPCX** is trading now, it is actually trading, yeah, it's still trading above, above 160, 167, which implies like a 45% discount on on **SATS**, on **EchoStar**.

AST SpaceMobile (ASTS) Short Report - 22:05

So Adam Tobb, thank you for someone for sharing this in the, in the Discord. So we have another space hedge we could put on. Um, and, and don't get me wrong, you know, these, Adam Tobb has already put on this short, and we do not have this short, full disclosure. So, there's no front-running or anything like that happening, but, um, **AST SpaceMobile**, um, you know, he did publish this short, the stock did fall from about 100 to 82. Uh, we, we didn't catch it because we were so busy with our **SATS** during the day. Um, but this is a company that, um, you know, also trades at an absolutely absurd valuation in the space, uh, space. It has a 32 billion dollar valuation on 84 million of trailing sales. So, to be frank, it's actually even more expensive than **SpaceX**. Uh, 32528 enterprise value divided by 84, trades at like 400 times sales, right? So it's like, it's almost four times as expensive as **SpaceX** without, you know, the AI angle. Um, and if you go to like 2027 EBITDA and you assume the company is able to quadruple its revenue, uh, which is a tall ask, uh, but that's what they're telling the street. You take the 32 and a half billion enterprise value, let's say you believe everything they say on 2027 EBITDA, it's still 162 times forward EBITDA. Um, so, you know, we just snipped a couple pages of this report. Um, you know, essentially, you know, this **AST**, uh, **SpaceMobile**, it was a very interesting company when it was a SPAC, uh, but it essentially it's up like 800% since that point.

Um, and, you know, it relies effectively on **Blue Origin's** launch, right, to, uh, launch its satellites, and **Blue Origin** has had significant launch issues. Um, it's had explosions, it's had service delays. Um, so now the company is facing like a three to six month, um, service delay, and this was discussed at the William Blair conference last week. **ASTS** has also disclosed significantly higher costs per its, per unit satellite, uh, than its, than management has actually marketed in the past. So at a **JP Morgan** conference on *May 18th*, **ASTS**'s president disclosed that 10% of the company's 1 billion revenue target is contracted, leave, leaving 90% uncontracted. And why that's important is that if it sees further delays in launch, right, 90% of the uncontracted revenue can just go away, right? Maybe that revenue goes to **SpaceX**, maybe it goes to **Eutelsat**, maybe it goes to another company, but if they're not able to launch these satellites in orbit because **Blue Origin's** not doing its, its part, then, you know, that could be a really big problem for the stock, which has a lot priced in, right? So I wish, you know, we had looked at this on *Friday*, but, you know, if there is a bounce, um, you know, it could be one to short again.

ASTS also relies on a 50-50 revenue share, which is very weird, um, for a company of its size, uh, for incremental services. Recent statements from customers instead describe a less lucrative wholesale economics where, you know, they actually get payment first and it's not really a 50-50 deal. So that's actually quite interesting, um, around the revenue model not being what they marketed it as. Um, so I'll leave it at that. You know, I did snip some of the compelling pages here. Um, I have to do my own work, but I just thought it was quite timely because if you do want, you do have exposure to space and you want, you know, several ways to hedge, this is just something to take a look at. Um, **ASTS** basically also wrote off a single satellite for like 160 million, which is almost its entirety of revenue, which is expected for next year. Um, this is roughly seven times the 21 to 23 million of satellite cost management has marketed for the past year. So they just took a write-down on a single satellite at seven times what they're telling the market they can actually launch a satellite for. So that's a big, that's a big red flag. Um, you know, they had told the market that, you know, across 90 satellites that their cost was one-seventh of what they just wrote off. Um, so, you know, we do think that there's a lot of potential red flags. If there are delays given 90% of the contracts are not, you know, it's not like government contracts like **SpaceX** has, um, or, you know, corporate contracts where, you know, it's take or pay and they have to pay no matter what. Um, I think the quality of contracts here is really a big, a big issue. Um, and, you know, its business model, right, similar to **SpaceX**, is uh, to create a broad, but not exactly the same, uh, but you can compare it somewhat to the Starlink business. Um, you know, it's to create a broadband network using large satellites, not small satellites that it sells access to. So its customers right now are mobile network operators like **AT&T**, **Verizon**, and others. But the issue is that its contracts with these mobile network operators are not fixed. So **ASTS** doesn't take any rocket risk and it, it doesn't have control over its launches and it basically outsources to third-party rocket providers and this is also a big source of the risk because it's basically outsourcing to providers that don't have like proven operations. Um, and so when you have newer companies like **Blue Origin**, you know, having a number of failed launches, um, you know, that becomes a a big issue because **Blue Origin** is its biggest launch partner. Um, so, you know, the reason why this is so relevant is like two weeks ago, **Blue Origin's** New Glenn exploded during its static fire test, um, at its launch complex 36 and the explosion destroyed the the rocket and **Blue Origin's** only orbital launch pad. So it will take several months, um, to get this up and going again, right? Um, so you guys can read this report, the full report is going to be attached via email. Um, so I'm not going to spend as much time on it now because we just have, you know, on every call we just have a lot, a lot to cover.

Global Hawkish Pivot and Inflation - 31:53

On page 19, um, we talk about, you know, this global, um, hawkish pivot. Obviously, you know, this was written ahead of today's positive news about the peace treaty, but, you know, effectively we have 46 out of 68 global central banks that are overshooting their inflation targets. I mean, even though US inflation met expectations this past week, you know, we were running, you know, on a quarterly basis, annualized 8% inflation. Uh, and that's like just annualizing the increase in inflation over the last couple months, but, you know, on a full year basis, you know, you're at about 4.2%, you know, on the CPI this week, which is, you know, it would have been quite alarming to you if I if I told you that that was going to happen in *December* of last year. Um, so if you look at, you know, um, the latest CPI, um, you know, before this week, um, you know, we were at 3.8%, now 4.2% versus, you know, inflation target of two. And the Eurozone, you know, you're at 3.2 versus a target of two. So you're well over expectations. That's why they hiked last week. You know, the UK is at 2.8 versus two. You know, Russia's at 5.6 versus four. Brazil's at 4.4 versus three. Canada's at 2.8 versus two. Australia's at 3.2 versus 2.5. Mexico's at 4.5 versus three. You know, Turkey's at 32 versus 24 as a big oil importer. So you start to get the picture.

Central Bank Outlook and Fed Policy - 33:22

You know, **HSBC**, um, in one of their reports we we uploaded, you know, also talks about this major issue, which is that, you know, after months and months and months, um, central banks are now starting to hike rates, um, in a coordinated manner, um, after, you know, a period where the majority of central banks, at least since 2024, end of 2023, uh, were in a mode of cutting interest rates. Um, so they call it one of their key themes for the mid-year outlook. Um, they call it two shocks and a boom, where the first shock is inflationary. The Middle East conflict basically pushed oil prices well above $100 a barrel. And as we speak, you know, I know that, you know, Brent is back down at 80 spot 83, um, but you know, this shock itself and even with oil at 80 versus expectations of 50, um, you know, is quite a big deal. There's another report that I'm going to, um, upload. Um, it's just a, you know, a larger PDF. Um, it it's, it was published on *June 12th* and it was the **Standard Chartered**, um, CIO report. Um, and, um, you know, that also talks about inflation, market froth. Um, so let me just upload that so I don't forget while we're speaking.

Midterm Elections and Market Impact - 35:19

And then a third one I did want to, um, update that, you know, I think was, was quite interesting was a, um, a report by **Merrill**, um, so **Bank of America**, **Merrill Lynch**, um, on midterms and, um, you know, the IPO market. So I'll upload that in a moment.

The State of the Global Economy and Central Banks - 35:43

But going back to with this inflation shock, you know, these these uh, these forces, you know, the first shock being inflationary and the second shock being mildly disinflationary from China. Um, you know, create a difficult environment for any investor, uh, and for central banks. Uh, but so far, because the war impact has been greater than the China deflationary impact, it's basically driven a very hawkish, um, pivot. So, you know, the ECB's, um, latest rate rise, um, is just an example of that. And if you listen to, um, Madame Lagarde speak at the ECB meeting last week, which I did and I almost fell asleep, but I did listen to it. Um, you kind of heard her say that, you know, *July* hike was also on the table if the war, uh, wasn't addressed. And I think that was one of the reasons why I think Trump is so eager to push this treaty. Um, because he knows that central banks will have no choice and he's actually putting a lot of pressure on Warsh, who was actually supposed to be cutting interest rates.

What to Expect from a Warsh-Led Fed - 36:58

You know, I do think that this, um, let me just upload this **Merrill** report on the midterm elections and on the IPO market. Now this is actually quite a good read because the other two pieces don't focus on, um, on this as much. But, you know, it's quite a, you know, decent piece for those of you who have not been following, um, I don't know how you haven't been, but you know, on the pipeline of three high-profile initial public offerings, uh, primarily within AI and the broader tech and tele- telecommunication sector. Um, you know, they also talk about how alternative access routes like the SPVs for qualified investors, um, you know, introduced additional structural valuation and regulatory considerations. You guys remember that Anthropic was actually trying to cut back the SPVs out there. Um, and so a lot of closed-end funds that, you know, purported to own Anthropic really had to reassess that. Um, so that created a lot of volatility in the, in the closed-end fund space. Um, you know, and, you know, midterm elections are coming up. You know, historically, compared to non-election years, midterm years have been weaker in almost every month. Uh, *September* stands out as the laggard. Um, and people tend to, you know, basically expect after midterm elections that, you know, the president is going to care less about the market because, you know, he or she has very, very little to lose.

Um, you know, since 1928, the S&P 500 has averaged a 1% loss, um, in the month of *September*, right, going into a midterm election season. Um, you know, year-to-date performance is already ahead of an annual midterm election average. So small caps are up like 14.8%, large caps are up 8.4%. You know, semis have basically up like 60, 70%. So, you know, the question is, does it really matter who wins? Um, equities really tend to favor a divided government. So if we actually do have, you know, one house controlled by the Republicans, one house controlled by the Democrats, it's actually quite constructive, uh, for the market because it means like no big policy changes. Um, the market doesn't really like change. So if we go back to 1928, you know, the S&P 500 has delivered an average annual return of about 11.4% under a unified Congress versus a 13.5% when Congress is divided. So it's about two, 210 basis points of alpha when Congress is actually divided. Uh, so, you know, legislative gridlock can actually complicate negotiations surrounding issues like government funding and the debt ceiling, which is the downside, but the positive thing is, you know, politicians are stupid and they're controlled by lobbyists and they don't have people's interest in mind. It prevents them from making big sweeping changes that can hurt specific industries and sectors and and can cause a risk off like we've already seen in healthcare, for example.

IPOs and Index Inclusion - 40:08

Um, and then when it comes to, uh, mega IPOs, if you look at page four of the **Merrill** report, you know, it goes, you know, it talks about, you know, index inclusion, you know, how it has a potential to create sequential non-fundamental demand. Um, and as you guys know, you know, the **Nasdaq** is likely including **SpaceX** soon, whereas the **SPX** is holding off about a year. You know, if you if that were to change and the **SPX**, you know, were to include **SpaceX**, that could be a huge ETF uh, demand. Right now, I mean, the **Nasdaq** is still, you know, quite a big, uh, you know, quite a big source of demand as well, but nowhere near that of the **SPX**.

Market Volatility and Risk-Off Sentiment - 40:48

So if we jump to, um, page 21, you know, ahead of this Iran peace treaty, you know, single name stock fall had really spiked and there are areas of the market that are just very, very, um, exposed, right, to risk off. Like crypto tends to have an extremely high beta, um, to the market risk off. And especially with, you know, Saylor who had promised never to sell Bitcoin selling a very small amount of Bitcoin, it just kind of destroyed confidence in the market, you know, ahead of, you know, the fact that this administration has been very pro-crypto, nothing, you know, effectively pro-crypto has been done outside of, uh, the CFTC and the SEC who are still waiting on the clarity act. So, you know, that resulted in, um, an extremely high, uh, fat tail leptokurtosis when it comes to crypto, you know, not following through on positive days, selling off on more than the market on negative days. Um, and the same thing, you know, with, with riskier stocks, you know, higher beta, non-AI, non-space stocks, you know, they had also been selling off more aggressively. Um, interest rate sectors had been selling off more aggressively. So you saw single stock implied volatility, um, that premium over the broader **SPX** vol, uh, at the highest premium it's been since, you know, 12 years.

CPI Data and Market Reaction - 42:13

On the positive note on page 22, you can see that, you know, CPI came in in line, if not, you know, slightly, um, you know, slightly below buyside expectations, if not in line with sell-side expectations. So the US *May* consumer price index rose about 0.5%, which was in line with the sell-side expectation of 0.5%. Um, the core CPI rose about 0.2% versus expectations of about 0.3%. Um, so that was actually quite positive on the core CPI. You know, gold didn't really care, you know, gold was selling off, um, throughout, uh, the month because of the Iran war risk and, you know, inflation expectations globally around that. Um, they did pare some big losses in choppy trading, you know, after the core CPI print. So gold was down, I think like three, over 3% intraday, and then it closed down about one and a half percent on the day, but still down on the week. Um, overall inflation, like I said, rose about 4.2%, the most since early 2023, but you know, the core was, was more contained.

Geopolitical Tensions and Trump's Peace Treaty - 43:23

Um, you know, American forces had struck Iranian sites about three times near the straight after President Donald Trump blamed Tehran about shooting down a US helicopter with a drone off the coast of Oman. You know, if you read the story, it was was quite uh, quite, it must have been quite terrifying for the US soldiers. Basically a drone went right through the uh, the helicopter windshield and was lodged between the two pilots. Uh, luckily it didn't explode. The pilots were able to safely land the helicopter in the water, and it was the first rescue actually of via remote drone that actually carried the two soldiers to safety. You know, as a side note, that was pretty cool. Um, you know, the soldiers were safe. Uh, no one was hurt. Um, but, um, you know, gold is, um, is much lower than it was at the end of *February*, uh, when the Iran war broke out. And I think a lot of that has been, you know, risk off, uh, for sellers in the Middle East and Dubai who are, you know, selling gold to raise cash, and also as the dollar rallied, as the dollar has been a safe haven, uh, less exposed to energy shocks than the rest of the world. Uh, but now if this, you know, peace treaty is signed, the dollar is supposed to go down, rates are supposed to go down, rate sensitive names are supposed to go up, gold is supposed to go up, EM stocks are supposed to go up, crypto is supposed to go up, low earning names are supposed to go up, and tech is supposed to go up. So we'll see if there's a follow through tomorrow. At least now in futures, you know, **S&P**'s up 1%. **Nasdaq**'s up 1.7%, small caps are up 1.9%, crude is down below 81 on **WTI**, below 84 on Brent, natty's, uh, even down 2%, gold is up 2% up to 4323, silver's up 4% up to 70 spot 62 per ounce, and copper's up 1.3% to 6 spot 43 per pound. Okay?

The State of the Global Economy and Central Banks - 45:16

Uh, so let's just take a step back and just think about, um, you know, what, why central banks were acting the way they were going into this peace treaty, which by the way still has to be signed, uh, four days from now on the 19th in Switzerland according to Pakistan. But, you know, inflation had been accelerating around the world. The labor market was also stable, if not, some of the labor prints are actually quite strong in the US because of, in the last one, it was due to lodging and leisure, um, and hospitality hiring, uh, you saw on the lower wage side, not white collar labor.

What to Expect from a Warsh-Led Fed - 45:51

Um, and then the new Fed Reserve chair, you know, who is a Warsh, who's about to step into the spotlight, you know, is basically handicapped because with the higher inflation, what the hell is he supposed to do? You know, the FOMC has 12 voting members, you know, in a rising inflation environment, he's definitely not going to be able to sway anyone's, uh, opinion. Okay? So the world basically has changed dramatically since Trump first named Warsh as a second choice for Fed chair. Uh, I'm sorry, as his main, as his main choice for Fed chair. I know it was back and forth for a bit in *January*. While he initially indicated he favored interest rate cuts sooner than later, Warsh may have already forgotten what he started fighting for now that CPI has annualized at an astounding 8.2% over the past three months, which is what I mentioned earlier. So you can see the three-month average inflation spike, um, in the second quarter in the blue line. Okay? Um, while core is a little bit less, but you can see that on page 24. At the same time, major labor market indicators like the unemployment rate have stabilized or improved since the start of the year reducing the urgency to provide further insurance cuts. That's at the bottom of page uh 24 where where unemployment has come down from about 4.5 down to about 4.3. Now based on their public commentary, some of Warsh's new colleagues are worried inflation will be persistent, while others see Iran's conflict uh, effects wearing off sooner rather than later.

So to get the ship on the shore and achieve unanimity across what has recently been a rambunctious group of FOMC voters, many of whom have disagreed, um, with Warsh and with the current president, Warsh will likely need to remove the long-standing bias in the Fed's statement towards lowering interest rates. This would be a painful step for a chair who was nominated with a clear mandate to lower interest rates. But rather than dissent from the majority in his first meeting, you know, ahead of this peace treaty, Warsh will likely have to allow the prevailing opinion to take him to places that he alone would never find and agree to a hawkish hold. You know, this is as the ECB has hiked, the Bank of England has hiked, the Australian Central Bank has hiked, and the Bank of Japan has hinted that it will have to hike twice. Now if he wishes, he will have a chance to express more of his own views in the post-meeting press conference which is supposed to happen this week. And because the press conference is happening this week, right, this puts, this is what put a lot of pressure on Trump, one with the ECB meeting and now with the FOMC meeting, to push for a deal so early in uh, in *June*. Okay? You know, early last week it looked like, you know, he was going to push for another round of attacks. Um, but it looks like, you know, it was really just jawboning ahead of the FOMC meeting this week because there's not much worse can say.

You know, at the start of *May*, while rate cuts had been largely priced out, markets were not pricing in a substantial chance for a rate hike over any time horizon. But since then, better than expected labor market readings and small business surveys, in addition to the prolonging of the Iran conflict and resulting upward pressure on energy prices, have caused investors to price in uh, a close to 100% chance of a rate hike by *December*, which I still don't think would happen. If you look at economic data surprises versus Fed fund expectations, you know, the economy driven by the top 10% of the consumer and by AI spending, um, you know, has been a has been more robust. Um, it's frankly slowed down from, you know, expectations at the very start of the year. Um, but, you know, *December* is still a long way away and higher energy prices alone are not currently pressuring the Fed to hike rates. Indeed, the ECB's decision to tighten policy may look like a policy error sooner rather than later. And at the beginning of this call, I said it was likely a one-and-done situation now that there's a peace treaty because the European economy is so freaking weak that if they were to hike two or three times this year, they would definitely drive the entire continent into a recession. So what to expect from a Warsh-led Fed? Um, so as we discussed in *February* when he was first tapped for Fed chair, Kevin Warsh comes to the Fed with with a set of lofty goals including the Fed's presence in bond markets, both the frequency of purchases and the size of its holdings. One of the reasons why the market was not that enthused was, unlike other Fed officials, you know, Warsh has historically been anti-QE.

Um, up until very recently, the Fed balance sheet had been shrinking until under the quantitative tightening regime reducing the amount of liquidity in the financial system. But the Fed announced the end of QT late last year and its portfolio remains historically, um, large as a percentage of GDP at about 21.2% of GDP, down from a peak of about 36% of GDP. With barely a month under his belt as chair, we don't expect him to be making any big announcements at the *June* meeting. Uh, he's probably just going to listen to the other Fed members on the FOMC. However, we are expecting changes in a few key areas. So we do expect changes to forward guidance. So Warsh has been critical of the Fed's tendency in recent years to communicate the likely future path of interest rate policy. Like everyone else, the Fed has highly imperfect forecasting powers which have made the dot plot and other public predictions look wildly wrong in retrospect. We could see these communications scaled back both in frequency and in depth. Two, greater coordination with the executive branch. Both Warsh, which we haven't seen before. Both Warsh and Secretary Scott Bessent have indicated that the Fed and the Treasury, which have been working closely at least since the 2008 financial crisis, could see even greater collaboration in issuance and ownership of Treasury debt. And because both owe allegiance to Trump, that effectively means a very strong amount of executive power, um, and a very strong amount of sway when it comes to the Treasury's, uh, management of, you know, issuing bills versus bonds, which, you know, Yellen manipulated as well under the prior administration. But then also how Fed policy is communicated and how, you know, Warsh effectively tries to, you know, manipulate other members on the Fed board to, you know, come to his side of the table.

Shrinking the balance sheet. So this might be done with the Treasury's help, but Warsh sees the ballooning federal ownership of Treasury and mortgage-backed securities dating back to 2008 and more recently 2020 COVID as warping the market. The challenge is doing this without draining the financial system liquidity too much, which could cause a market crash in the short term. So in conclusion, you know, we're not going to see any rate hikes, we're not going to see, especially with the inflation backdrop. We aren't going to see any rate cuts either. I think this FOMC meeting is really going to be a nothing burger. Um, it's, you know, it's one of the reasons why I think Trump is being so frantic, um, ahead of the meeting so that at least there's no hawkish talk. Um, and then,

2026-06-14 - SSN - CPI meets exp, peace treasty, SATS 45pct discount, PFLA 7.4pct baby bond, buy TLT, ASTS short - 02

Economic Indicators and Central Bank Policy - 55:08

And if we go into employment costs and unit labor costs, you can see that employment costs and unit labor costs have been trending lower. Um, while other inflation indices have been moving higher, so that's resulted in a squeeze on the consumer. It also means that consumer spending might fall. That's why retail sales is so important this week. Consumer spending could fall in the back half of the year.

And then if you look at private average hourly earnings versus consumer price inflation, you can see that CPI is well exceeding average hourly earnings which have been on a downtrend. And the that last graph may be keeping Chair Warsh up at night. Energy-led inflation is a tax on consumers and their wages. Real incomes are actually falling as personal savings rates are falling as well. Tightening policy into an environment that's already set up for weaker consumption could be an ignominious way uh to start his tenure as the head of the central bank.

Uh, Warsh and his colleagues are, like it or not, hostage to events in the Middle East and the policies coming out of the White House as they search for the right direction and timing on rates.

Private Credit Redemptions and Collateralized Fund Obligations - 56:27

Now, taking a step back from this, private credit redemptions continue in a big way. Um, while the market has been in awe of this AI and semiconductor bubble, I don't think that the issues in private credit have actually gone away at all.

So while public equity markets are making new highs, issues in private equity and private credit are not behind us. In fact, in *June*, **Cliffwater** revealed that redemption numbers for its $30 billion private credit fund were as high as 17%, and they honored only 7%. Even **B-CRED**, **Blackstone**'s fund, redemptions were around 10% and they honored 5%. **Partners Group** was another interval fund that recently limited withdrawals across its funds after it received 10% redemptions. Um, you know, **B-CRED** in size, you know, had about 4.4 billion of redemptions alone for the second quarter of it. You know, that's just a massive, massive number. So none of these issues have actually gone away, even though the stocks have rallied.

Um, and its private equity arm, given liquidity concerns, **Blackstone** launched a $2 billion collateralized fund obligation. There have been 30 billion of these announced this year. It's basically a bond structure, um, that's actually backed by equity, which is very bizarre. Like, it reminds me of like *2006*, *2007*. So what they do is like, if you look at the diagram at the bottom of page 29, they basically get a group, basically 10-plus investments per private equity fund, and they put a dozen of them into a portfolio, and they securitize them. But this is private equity, not private debt. So this portfolio is actually not generating interest. The only way they pay interest on the structure is by selling their portfolio. So it's kind of like a Ponzi scheme.

And then they put the security and they lever it up, you know, 60%, you know, and they sell the AAA notes, the AA notes, the single-A and the BBB notes, which are rated to insurance companies, which, by the way, are ceding insurance offshore to like Cayman and other areas where they can get more leverage, where, you know, you're buying life insurance for your family members. Um, and God forbid, you could have a situation like the Ship, S-H-I-P, uh, insurance company, uh, which blew up in *2020*. It was also backed by um, a hedge fund/private equity firm when they filled it up with a bunch of crap. And so when, you know, insurers act, when you actually had to get your policy, you know, people who had paid for insurance for years only got 15 cents on the dollar and what their policy was stated at. And there's really nothing they could do about it because the com, the insurer had filed for bankruptcy.

So this whole thing is kind of tied into the $10 trillion life insurance sector, which is not regulated as tight as the banking system. And like I've said in the past, this is not something being discussed in the media. But if this whole private equity, now collateralized fund obligation and private credit CLO and interval fund thing really does blow up, a lot of people are going to be very sad who've bought insurance policies who realize that they're not going to get paid what they think they're going to get. Um, but it will take a lot of time for that to be uncovered.

The Risks of New Financial Structures - 59:45

So the massive jump in in collateralized fund obligation issuance, I can't even believe I'm saying this, you know, that people are actually buying and you know what's funny? It's being, it's because they're being forced to buy, because let's say **Apollo** owns **Athene**, which is an insurance company. And, you know, **Blackstone** and **KKR**, you know, **KKR** owns **General Atlantic**, and these are multi-billion dollar insurance companies. They can force these insurance companies, you know, because they make the big fees when they do these trades, to actually buy all this shit paper.

Like if I came to you and said that, you know, you're going to get zero upside on the private equity, you're going your upside is going to be capped, but I'm going to sell you a BBB bond that's going to pay you like 6, 7%, where you have all the downside of private equity, which is by the way, is already six, seven times levered on an EV to EBITDA basis. I'm going to lever that up another 60% and I'm going to send you that and you're going to get paid 6 to 7%, not through an interest rate waterfall, but, you know, we're going to try to sell some of the companies we have in an illiquid private equity market with this huge software overhang and a $900 billion debt maturity wall in *2028*. And we're going to sell you this paper, um, with 100% with all downside and no upside. Your upside is capped at 6-7%. You would say, no, absolutely not. Why would I take that risk? Um, in the form of a bond. I'm taking equity risk in the form of a bond.

You know, that's the risk that these insurance companies are being stuffed with. And because these small um, rating agencies are being paid by these private equity firms to give them ratings, which is effectively the business model, they're getting these ratings from like **Fitch**, from **Egan-Jones** is the worst of the bunch, from **KBRA**, from **Kroll**. And they're giving these ratings to these ridiculous types of structures. Um, and and this is just a sign of of a of a huge bubble in private credit, which is just getting worse.

Um, and if you look at the following page, you know, the gates of of Q1, this is a little bit dated, the information in the first paragraph is more new, but you can see, you know, how big some of these redemptions have really been, how scared investors are, you know, 40% in **Blue Owl OTIC**, 21% at **Blue Owl OCIC**, 14% at **Cliffwater**, now 17%, 12%, and even like the best funds, which **Ares** is one of the best funds. Um, 10% in **B-CRED**, 9% at **HPS**. **Apollo** even at 12 at 12%. So it's quite, it's quite uh jarring and it's not over.

The Shape of the Volatility Curve (The Smirk) - 1:02:15

Now volatility, let's talk about the the shape of the volatility curve for you options nerds. And I'm a huge options nerd. You know, I'm not going to spend too much time on it for the complexity, but on page 31, and one of my friends wrote this incredible piece on the shape of the volatility curve, he calls it the smirk. And effectively what, you know, what is what he's trying to say is that, you know, prior to COVID, there was more a bid, you know, for volatility as a hedge. So people would buy options to effectively to hedge their portfolio, um, and they would buy catastrophe hedges. So they'd buy, you know, out of the money puts.

And what's happened now is that, you know, the shape of the volatility curve is has changed. You know, with after *October 2019* with **Robinhood** and investors, you know, becoming more speculative and now retail becoming the majority of the options market, you know, about, you know, 32% of daily equity volume up from 16%, you know, there's a huge bid for up-vol. Right, so call options now, the skew is just much, much higher than it has in the past, and the bid for for for down-vol is actually lower. So you could see like for this entire period, you know, after *February 28th* with the Iran war, like overall VIX, the entire VIX curve has been fairly subdued. Um, and you know, with single names, you know, often times the volume on the the the vol on the call side is actually much higher than the vol on the put side. And that is something very unique in the post-COVID environment.

Recent Market Rotation and Sector Performance - 1:03:48

So I think that this piece does a really good job of summarizing the volatility we saw at the end of last *Friday* and uh the first half of this week. Um, so as you guys remember, you know, S&P, S&P fell about 30 bips um on *Tuesday*'s close after after rallying at the beginning. You know, *Friday* was a was a horrible close. Um, but the rotation is what was the most interesting on *Tuesday*. So three of the indices, indices, 11 sectors finished in the red. So information technology was down 2.4%, you know, all the memory names, semiconductors were down due to, you know, the Taiwan fear around not selling semis to China and, you know, **AVGO**'s bad earnings and if you look at, you know, **Oracle** was adding a lot more debt and issuing about another 20 billion of of stock and bonds. So despite its decent earnings, you know, that sold off.

Um, and then, you know, the whole memory uncertainty around Veru Ruben, you know, there's a lot of of heaviness in the semi space. You know, the Korean market was was down, you know, 9% at the worst of it from the highs.

Um, consumer discretionary, you know, given sensitivity, um, and the oil tax on consumers was down 2.1% after, you know, the war escalated between Iran, US, Israel. Energy was frankly, it was kind of bizarre that day because consumer discretionary was down and energy was down because Trump was saying one thing but the market didn't believe him uh on the on the on the equity side, but they believed him on the energy side. Um, eight sectors were in the green, led by defensives. So staples were up was up 1.7%, real estate was up 1.7%. Um, we think that REITs and real estate are going to rally this week as well. Um, healthcare was up 1.2% as defensive rally and utilities were up .9%. So it was a textbook risk-off rotation.

Market Sell-off Details and Rumors - 1:05:46

Um, the data now that I'm talking about here and the last three sessions, you know, um, it's not as relevant to talk about it now, so I'm going to skip most of this. Um, but you know, there's a pretty good description of what happened with $2 trillion being wiped off of off of equity markets with the Nasdaq down 4.8% one day on *Friday*. You know, there were rumors around **Meta** raising equity, **Google** raised 80, $85 billion ahead of the **SpaceX** IPO trying to front run them. You know, VIX spiked 39% in a day, close at 21.51, which is still not very high. You know, stress levels are 28 to 35 and complete risk-off is 40 plus.

Geopolitical Tensions and Market Impact - 1:06:23

Then on *Monday, June 28th*, Iran and Israel had exchanged direct strikes with Israel hitting an Iranian petrochemical plant. Um, President Trump urged uh restraint and then today has actually rebuked Israel for for whatever is going on in Beirut. Um, under any *1973* to *2007* institutional reading, you know, on *Monday* you should have seen the VIX gapped to 25 plus after what happened over the weekend, but strangely, VIX actually fell 12% to 18 spot 92, and the Nasdaq 100 rose 1.6%, Russell rose .8% and the S&P rose .3% after after **Micron**, effectively, uh, which had fallen 13% on *Friday*, rose 10% on *Monday*. And then it basically sold off again on *Tuesday* with two counter-vindicating catalysts hitting the market within hours of each other. In the morning, Trump told reporters that a deal with Iran could be reached in two days and the strait would be open immediately. Uh, Energy Secretary Chris Wright told CNBC that ship traffic through Hormuz would rise very meaningfully and so oil was down, energy stocks were down, but then in the afternoon, Trump accused Iran of shooting down a US Apache helicopter and then, you know, this rotation happened.

Analysis of Market Rotation Drivers - 1:07:34

And so, there's a description on page 32 of three cyclical sectors fell and you know, why that mattered. Um, the fact that the market caught on that Trump pushed Taiwan to stop selling semiconductors to China, like several hours after it was actually announced. Um, I think that was just a a risk-off reaction after the *Friday* sell-off in semis. And, you know, the rotation was becoming much, much more obvious going into *Wednesday*.

A Deeper Look at Volatility Smirk and Retail Influence - 1:08:01

Um, you know, on the following page, you can actually see what I mean with this post-COVID volatility smirk. It's a different shape, not just a different level. So on the red line, you can see what, you know, the volatility curve had looked like before COVID and today, you know, what it looks like. You know, the pre-COVID equity volatility skew had a recognizable shape. It had a heavy left tail, so where deep out-of-the-money puts were bought mostly by hedge funds and long-only managers to hedge their risks. Um, and then you had modest bids at the, you know, when with at-the-money premium, then notably light right tails. So out-of-the-money calls were were cheaper than at-the-money because nobody was bidding upside vol. But now with retail, which loves leverage and uh loves buying call options, you know, that curve is actually quite skewed, um, with the out of the out of the money calls uh implied vol spiking and less of a demand for the hedges because people are just overly bullish.

Um, so the post-COVID volatility surface has a different shape. It looks more like a smirk than a smile. Um, for you volatility nerds, it's actually quite an astute observation. You know, the at the and another thing is, you know, because of the desire for leverage, you know, while the left tail is compressed, you know, some deep out of the money puts are still bid. The magnitude of the put skew premium has come down and the at-the-money level is elevated as people use options just for leverage.

Volatility Mechanics and Market Flows - 1:09:28

And so this IV/RV ratio, which is the implied volatility divided by the realized volatility, has structurally risen as people are bidding at-the-money vol just to get leverage in in the market. On *Monday*'s close, you know, the VIX was down to 18.92 against the 30-day realized of 13.51 in an IV/RV ratio of 1.4. *Tuesday*'s intraday VIX of 20.45 against the same realized vol number takes the ratio to 1.51 versus a historical ratio of 1.2 to 1.3.

Now, the right tail is bid, out-of-the-money calls are no longer cheap. Passive flow buying, vol-of-vol pricing and asymmetric melt-up risk create the concentration of mega-cap returns that have pushed the call side of the curve. And everyone on the retail side is scrambling to buy upside call options. The CBOE skew index, which measures uh tail risk pricing in S&P 500 options, sits at 136 as of last week. Historically, the skew has averaged around 118 to 125, and this is now being skewed more by up-vol than down-vol.

On the other side of things, um, 136 on vol-vol, um, I'm sorry, uh, 136 says the market is pricing in a meaningful tail upside and downside but not panic. VIX at 89 and MOVE 76 are actually more in in normal areas, so interest rate vol and just regular vol-of-vol, uh, is relatively normal. It's just that this, um, this skew is is something new. Um, everyone you listen on the street tends to have the wrong idea. They're talking about VIX suppression. There is some truth to that because of put-write ETFs, structural vol selling from covered call funds, um, but the reality is that, you know, these zero-day expiration options compress short-end implied vol because their gamma profile differs from longer-dated options. And so when you add that in, and you add in, you know, this call skew, um, vol selling is large, but the story is not just about vol selling, it's about, you know, bidding vol, um, on the call side and, you know, the story is also about, um, you know, selling, um, puts when it comes to these zero-day expirations. So the entire vol equation is now in terms of flows is a lot different than it was in the past.

Market Valuations and Red Flags - 1:11:49

And so, you know, on the following page, um, on page 35, you know, you can see, you know, one of the reasons why I was concerned, um, last week, I didn't add a lot of risk, um, but, you know, now that we have a peace treaty, I feel a little bit better. Um, I don't feel good about valuations, um, but I was very concerned going into this, especially with the backdrop, the geopolitical backdrop because, you know, valuations and and allocations, you know, the S&P 500 Cape ratio was at all-time highs and US household holdings of equities were above 50%, also at all-time highs. So, you know, where can it really go from there? Uh, it's kind of exactly where it was. I mean, it's actually higher than it was back in *1999*.

You know, if you jump all the way to **BofA**'s red flags diagram which we created on page 37, you know, things were getting quite concerning, you know, with the conference board net percentage expecting stocks higher ratio. The S&P 500 long-term growth expectations ratio, the 10-year Z score of the number of M&A deals, the 10-year Z score of the trailing S&P 500 CP, you know, PE versus year-over-year CPI. Low PE underperforms high PE, so a momentum chasing indicator, credit stress indicator at very tight levels. I mean, high-yield spreads were just so tight, there's no risk being priced into the credit market at all. So that was driving me to be a little bit concerned.

Portfolio Strategy and Iran Deal Update - 1:13:20

Um, but obviously we didn't add a lot of shorts outside of the obvious names like **VCX** and **SPCE**, which was also smart. Didn't have a crystal ball, but at least we're not going to get hurt much on the short side when the market opens up 2% tomorrow um on the Nasdaq. Um, and I don't know if I'm going to be resetting or adding more shorts, but I do think that I am going to be looking at non-tech names that have sold off, um, to be adding more longs to the portfolio outside of tech. So that could be quite interesting for this coming week.

Um, so at the beginning of the week, you're right, Iran peace was still not achieved. You know, the SPR in the US was the lowest since *1983*. The White House kept saying that the deal was close, while there was escalation from Israel. The US SPR basically declined by 7.9 million barrels in the prior week to reach 349 spot 2 barrels as of *June 5th*, meaning that at any point over the next few days, which would have been this week, the SPR would have declined to the lowest level since *1983* when it was filled for the first time.

Draft of the US-Iran Nuclear Deal - 1:14:24

So we'll kind of skip, you know, the headlines from *Tuesday* and *Wednesday* because, you know, after the escalation, you know, we are now at a point where um, we can talk about the draft deal on page 40. And in the draft deal, you know, there are six issues being discussed: the nuclear program, sanctions, frozen assets, the Strait of Hormuz and US blockade, missiles and proxies, US military presence and ending the war, which go together. And what's been drafted in an MOU is that Iran commits not to pursue a nuclear weapon and agrees to a negotiation on nuclear enrichment over the next 60 days where they are looking at like a 15-year moratorium. It's obviously benefits the US.

Um, the US commits to temporarily waving sanctions, agreeing to incremental sanctions relief, which benefits Iran. The US commits to releasing some foreign assets. The rumor is 25 billion, it's unclear what the real number is, so that benefits Iran. The Strait of Hormuz and US blockade, Iran agrees to reopen the strait without tolls but on its terms, which is not confirmed, and the US agrees to lift the blockade, which was confirmed today, that benefits both countries. Missiles and proxies, um, have not been discussed in the MOU about giving them up.

Um, US military presence, the US agrees to withdraw forces from the vicinity of Iran and cap force levels, that benefits Iran. Uh, and then ending the war on all fronts, which I think actually benefits everyone. Um, the US agrees and includes Lebanon, but Israel not party to the MOU or talks, which I don't know how they're going to figure that out.

Conflicting Timelines on the Iran Deal - 1:15:58

Um, so afterwards, despite Iran's pushback, Trump did declare today that President that, um, the deal is now complete, adding that he's authorizing a toll-free reopening of the Strait of Hormuz. Trump also says that he authorized removal of the US naval blockade, which he does have authority, obviously, to do. And then unilaterally, declared the strait open, which resulted in a 5% gap down in WTI. He then actually rebuked Israel for bombings in Beirut during negotiations. And Pakistan then said that the deal will be signed on *June 18th* even if the other side doesn't show, which is quite bizarre thing to say.

Um, the headlines are on page 42 and then on the following page, what is still not clear is uh when this deal is supposed to take place. Is it today or *Friday*? Because in one tweet, thanks for posting it in the Discord, you know, Trump basically said that the deal with the Islamic Republic of Iran is now complete. This was today. Congratulations to all. I hereby fully authorize the toll-free reopening of the Strait of Hormuz and simultaneously here with authorize the immediate removal of the United States naval blockade. Ships of the world, start your engines, let the oil flow. And then very shortly after, he says the great deal will bring peace and security to the whole region. Many presidents have tried to make peace with Iran and have all failed before me. The leaders of the region have for the first time found a president who can help them achieve real peace with the opening of the strait upon signing of the deal on *Friday* for purposes of mine removal, oil will flow on both ends again for the region. So I, I mean, here he clearly says *Friday*. Um, and I think that's what Pakistan meant. So it looks like this is a *Friday* event, um, but the market is obviously pricing it in now.

Housing Data and a Major Private Credit Deal - 1:17:46

Last week, another reason for, you know, a hawkish sell-off was housing sales did beat expectations despite higher mortgage rates. I guess sales rose, um, in the South, uh, the Northeast and the Midwest from a month earlier, while they're unchanged in the West. Contract closings rose 3.2%. I guess there's just a lot of pent-up activity despite mortgage rates being higher, people are just tired of it.

Um, **Apollo** and **Blackstone** raised $35 billion for **Anthropic** in one of the biggest ever private credit SPV deals. I mean, this is one thing that's getting very concerning, these like off-balance sheet SPV deals and circular funding deals. I mean, this is one of the biggest ones so far. So back in *January*, you know, we talked about **Meta**'s landmark $27.3 billion SPV. It was called Bene for the Hyperion data center located in Louisiana, which by the way is going to cause huge water shortages, and which **Blue Owl** provided the credit. You know, we said to to expect expect hundreds of billions of these in *2026*. Fast forward five months, **Apollo** and **Blackstone** have finalized an even bigger deal, 35 billion that will help finance **Anthropic**'s growth, even though, you know, traditional banks are now not trying to fund these deals. There's basically a third of IG issuance has been dedicated to this. You know, a lot of private credit has been dedicated to this. Um, these two private credit giants, um, you know, obviously believe in **Anthropic**.

The "Big Sky" Anthropic Deal Structure - 1:19:21

And um, the deal is basically called Big Sky. It comes amid concerns that the AI frenzy is overheated. Shares in the chipmakers rebounded on *Monday* after tumbling last week, led by **Broadcom**'s fall in market value. It also adds to a glut of chip-backed loans that sparked debate over how quickly graphics processing units or GPUs would depreciate. And this type of financing structure, a special purpose vehicle or SPV basically raises capital through a mix of debt and equity to purchase the chips, which are then leased to the customer, in this case, **Anthropic**. The debt is primarily backed by the resulting lease payments along with the unknown long-term value of the chips. Now in this case, the $35 billion debt facility was structured across three tranches. By the way, the proceeds of these of this $35 billion of debt, it's all going to **Nvidia**. So Jensen loves this shit. But the senior layers, the $6 billion notes clubbed or dubbed the A1 and the 24 billion of A2 notes are actually backed by **Broadcom**, which is really bad for **Broadcom** considering if there's any issue at **Anthropic** and they take a they take an O on the equity, **Broadcom** is actually on the hook for $30 billion. Um, now in a worst case if, you know, those GPUs were marked as zero, like **Broadcom** is taking a massive risk with all this. Um, it's one of the reasons why, you know, **Broadcom**'s equity was also not that strong. I mean, why would they agree to guarantee this? I frankly do not understand it at all.

The Circular and Risky Nature of AI Financing - 1:20:54

Um, so the transaction wrapped up days after **Alphabet** completed one of the largest equity offerings in history, as it looks to raise $85 billion to fund **Google**'s AI buildout. And as **SpaceX** prepares for a flotation that could uh raise a record 86 billion, which it did on *Friday*. As discussed previously, the AI borrowing spree has reached um traditional US capital markets where AI is expected to raise $400 billion in debt, rising to over 1 trillion through *2028* to meet roughly 1.8 trillion in CAPEX needs over the next two years, according to **Morgan Stanley**. I mean, to understand how big that is, 1 trillion of debt, okay, that that's like, you know, our entire leverage credit market in the US is 4 trillion. Right? When you include IG debt, that's 10 trillion. I mean, to have 1 trillion in this unproven asset class with like very little ROI, 1 trillion of debt over the next two years is absolutely bonkers.

Um, so you can actually see on the following page hyperscale CAPEX, which is continuously revised higher, is supposed to reach over a trillion dollars for next year. I mean, **Amazon** is raising 14 billion Canadian dollars, 10 billion US dollars, uh, in the largest Canadian dollar bond sale, um, on *Monday*. Similar to **Meta**'s Bene deal, the **Anthropic** deal with **Apollo** and **Blackstone**, um, um, relies on a complex structure that private investment groups routinely use to finance startups with backing from blue chip companies. Um, a special purpose vehicle was formed by **Apollo**'s Atlas SP partners to raise the debt with lease agreements for the chips supporting the value of the transaction. The Financial Times wrote that this debt was structured in three different tranches. Um, the first two tranches backed by **Broadcom**, the chip makers is making the so-called TPUs or tensor process tensor processing units with **Google**. Its agreement to provide support if if **Anthropic** misses an interest payment helped vastly reduce the cost on the debt.

Investor Risk and The GPU/TPU Overhang - 1:22:53

So basically **Broadcom** is financing its own revenue, learning from **Nvidia**. They're all kind of doing these circular deals now and that's what's getting really concerning. Um, you know, the the A1 notes were basically sold to banks with an interest rate just 1% over Treasuries, if you can imagine how low that spread is. The 24 billion of A2 notes were sold to investors in asset-backed credit markets priced at a yield of only 5.75%, which is actually really low. Um, the 4.5 billion of junior debt, which was not supported by **Broadcom** and therefore exposes lenders more acutely to **Anthropic**, carried an interest rate of about 8.5%, which still think is quite low. Investors were also offered an original issue discount of 98 to 99 cents on the junior debt.

Um, a key feature of of the deal is **Broadcom** providing residual value support, which means that if **Anthropic** fails to make the lease payments for a certain period of time, the SPV will actually sell the chips to pay back the debt investors. If the value of the chips does not make the investors whole, then **Broadcom** will have to make up the shortfall for 100% of the value owed on the A1 and A2 tranches. This type of residual value feature has been used in another mega debt deal, um, you know, it financed the construction of a data center rather than chips. As noted above, **Meta** provided a similar protection for the value of its Hyperion facility in Louisiana, but that made sense because **Meta** was effectively paying for it anyway.

Um, now, for those concerned with the circularity involved, um, you know, to summarize this whole deal, **Broadcom** is backstopping 36 of $36 billion private credit SPV for the first 30 billion of debt with **Apollo** and **Blackstone**, which helped **Anthropic** buy **Google** and **Broadcom** chips, effectively made by **Broadcom**. And yes, **Google** also owns 14% of **Anthropic**. So, you know, that kind of makes your head spin. But wait, there's more. Because if that wasn't enough, **Morgan Stanley**, which advised **Broadcom** and arranged the transaction, is also lending money to investor investors participating in the deal. And just because this is a chip-backed off-balance sheet SPV where nobody really knows who holds the debt, the monstrous circularity of all the deal aspects will be ignored until the AI bubble actually cracks.

As for the punchline, demonstrating the insane frenzy of anything involving AI, investors involved in the deal didn't even know what they were investing in. According to the FT, investors pitched on the deal were not given early access to **Anthropic**'s financials ahead of its IPO, and they have no idea how much money **Anthropic** even makes. Now, everyone involved in the deal is a total idiot. Some investors passed on the deal over the delayed draw format of the debt, which drives down yields because the money can be withdrawn in multiple tranches over a period of time. Yet despite the smashing success of the $36 billion deal drop, one glaring question remains. Recall, last week **SpaceX** penned a massive deal with **Google** at about 900 million a month to access 110,000 **Nvidia** GPUs for its Colossus data center in in Tennessee. Um, **SpaceX** has plenty of spare compute to run out. And yet, despite seemingly telegraphing its dramatic compute constrained that it's dramatically compute constrained as **SpaceX** as the deal implies, it still has plenty of chip availability that it can sell 35 billion of chips to their biggest competitor **Anthropic**.

So, I mean, I think what's happening is people are just over-ordering GPUs and TPUs. And, you know, the question is how are these companies able to do these big deals and promise all this capacity when there's supposedly such a big uh supply chain constraint? And you know, it's just, it's just unclear. Um, I think people are just over-ordering memory, I think people are over-ordering GPUs because they think they need to lock up, you know, next two-year supply. And it could, the worst case scenario is that it could be something like COVID where everyone just over-orders like they were over-ordering toilet paper and then you have a toilet paper surplus. Um, and frankly, you won't see it right away because there's such a big demand. Um, and there are bottlenecks and memory, etc. But, you know, I think within two or three years, there's a really big risk that, you know, basically even if the demand is real, that these data centers builds are delayed by three years. And frankly, you know, these GPUs just sit in warehouses and, uh, you know, more and more data centers are delayed because of water issues, because of power issues, because communities don't want data centers in their backyard, and then you have data center cancellations and you just have like this huge oversupply. Um, we're not there yet, but it is a very is a very real possibility that we'll see that soon.

Oracle's Capex and Market Reaction - 1:27:49

Oracle sold off in a big way last week. Its CAPEX was 5.7 billion higher than expected, and it announced it needs to raise 40 billion of equity and debt. I'm surprised Ellison is going there with diluting and raising so much equity, but it is what it is. Um, CAPEX, largely made um measure of data center spending, were 15.9 billion in the period ending *May 31st*, bringing the annual total to 56 billion, higher than the projection for 50 billion. Um, you know, earnings were okay, but the market didn't care about that.

The Economics of AI and Tokenomics - 1:28:21

Citadel had a very interesting report on tokenomics. Um, and token prices were down like six days in a row last week, you know, after a three-month rally, okay. Um, but the recent drop in the token index, I think, also put some weight on the semiconductor sell-off. You can read their their token economic piece, you know, where they argue that for some time, the gigantic and complex workflows delivered by frontier models would be expensive to run, constrained by physical bottlenecks, and vulnerable to unrealistic expectations of frictionless deployment costs. The judgment now looks less contrarian than it did in the past. You know, as you see, you know, companies like **Microsoft** canceling their Claude because it's too expensive. Um, **Uber** spending their entire AI budget in like one quarter and now having to cap it.

You know, there have been, you know, **Amazon** has now removed its token uh leaderboard. There have been multiple reports of unexpectedly large token bills. Um, a salient point is that even the most powerful technologies must pass through a prosaic discipline of cost curves, capacity constraints, and marginal returns. Adoption is therefore becoming less about what frontier models can do in principle and more about the price and scarcity of the inputs required to make AI operational at scale. Compute, power, cooling, memory, bandwidth, and inference budgets are real and binding constraints. Economic theory tells us that the prices perform three basic functions: they signal scarcities, create incentives for substitution, and ration scarce resources towards their highest and best use. These functions apply clearly to AI. Higher compute and inference costs signal the scarcity of the underlying inputs. They encourage substitution away from low-return experiments and towards more efficient models or workflows. And they ration scarce capacity towards areas where marginal productivity of AI justifies the marginal cost of using it.

Citadel basically says, "We do not think this implies that the frontier of inference-intensive AI will be abandoned, only that it is likely to be concentrated amongst a narrow set of firms and the balance sheets that can absorb the compute costs, the research depth to deploy effectively, and more importantly, the operational domain to scale the rewards from solving generally hard problems." For the economy at large, simpler models may be the most cost-effective productivity-augmenting pathway until physical constraints are eased. We hence see growing signs of bifurcation in the frontier versus everyday AI usage. And I think that makes a lot of sense. You know, if you're running a very small company with basic requirements where you need someone to, you know, help you with customer service or scheduling or booking, etc., you don't need the most advanced Claude model to do that. You're better off, you know, finding a cheaper model. And, you know, the most expensive models being used by the companies with the biggest balance sheets, with the highest ROI, and the most capital to deploy. So it's really, you know, just basic economic supply and demand. But this also created some uncertainty in the market last week.

OpenAI Valuation and Quarterly Reporting Debate - 1:31:18

What was actually quite funny last week is that **Softbank** tried to borrow 6 billion using its private **OpenAI** stock, you know, which is marked at like 800 billion. And banks said, "Hell no, we are not going to lend you $6 billion." You know, your margin days are over. And so that, um, potentially affects how much, uh, **OpenAI** can actually raise in its, in its IPO. And I think it's the first sign of many that I think **OpenAI** could be the most overvalued of the AI names.

Um, investors, I think you should get should read this. Almost two-thirds of investor investment analysts and portfolio managers said that the US SCC Commission should maintain mandatory quarterly filings reporting for public companies. I'm actually pro-quarterly filings. I know that it can be expensive for smaller companies, but I think that it brings some semblance of rationality to the market. I mean, for companies that don't report quarterly, I mean, you can get excessive speculation. There's really no reason for stocks to come back down to earth. And I think it would just result in like rampant speculation, pumping, um, I I frankly am not a fan of it. And I think most professional investors agree that more information is better than less information. So we'll see what comes out with it. You know, it comes out of it. The SCC in *May* basically released its much-watched proposal that would allow companies to basically cut quarterly financial reports and choose instead to move to twice a year like they do in Europe. The company would still be able to hold quarterly earnings calls if they want to, but, you know, I was happy to see that response by, uh, by analysts and PMs, and we'll see what the SCC does in response.

The Case for Long-Term Bonds - 1:32:57

Um, so I actually think that this is one of the most interesting times in the last few years to actually start an allocation back to the long bond, um, effectively to buy **TLT** again. Um, I do think that, um, after months and months and months, um, buying the long bond is actually quite attractive. Um, so we will actually be reinitiating our **TLT** long, um, especially if these peace talks hold. As we think that, you know, the US 10-year, um, yield, you know, at around five, uh, at around 4.5% and the 30-year around 5%, um, could be the peak of what we see, uh, in *2026*, okay?

ECB Rate Hike and European Economic Outlook - 1:33:45

Now, um, the ECB hiked for the for the first time since *2023* as inflation, um, heated up. Uh, the deposit rate was lifted to 2.2, 2.5, 2.25% from 2%, and I think this is going to really weigh on the economy as Germany is basically in a recession, the UK is basically in a recession. Even though the Bank of England has its own policy, I think that they they will hike as well. Um, and you know, the ECB is a lot different than the US where the US has a dual mandate on employment and inflation. I mean, they've really focused on inflation because of what happened in, you know, the Weimar Germany and how, you know, they're still focused only on inflation. It's one of the reasons why growth is subdued, um, along with other reasons like productivity issues and lack of technology and demographic issues, um, and and, uh, you know, less, uh, focus on capitalism overall. But anyway, um, I think that this doesn't bode, it didn't bode well for global growth. I do think that if this Middle East conflict is resolved, I think that the *July* hike, which was actually very likely, is now off the table. I think it might be one and done for them on the year. I'm not going to read through this, but you know, one of the risks was that Nagel said that the ECB was ready to hike again in *July* if necessary. You guys can read that on page 51 and 52.

A Case Study on Adobe's Valuation - 1:35:10

And finally, thoughts on **Adobe**. Um, you know, **Adobe** is actually a very controversial stock because it's, it was seen as being very susceptible to AI. Um, and it's not one of the most attractive tech stocks. We still favor the cybersecurity stocks and stocks with a bigger moat. But I do think it's a very interesting name as it gets cheaper and cheaper every quarter. Um, if they can implement AI and attract customers, um, I do think that, you know, at about $200 a share, after a massive, massive sell-off, you know, this stock was at like 400, um, 12 months ago. And um, you know, if you look at where, what it implies, um, you know, it's only an $83 billion enterprise value right now, $82 billion market cap. So basically zero net debt.

Um, it's going to do about $11.2 billion of free cash flow next year and 10 this year. I mean, just on this year cash flow, right? Let's not even talk about the future. You know, but on this year, you know, basically trades at like a 12.5% free cash yield, which you wouldn't have believed, like something like this in *2023*. In 20, so at 12.5% free cash flow yield, back in *2023*, at a $300 billion market cap, I mean, this traded at a 2% free cash yield, right? So, you know, you look, you can say the stock have, but the valuation because the company's profitability is more than doubled, you know, it's especially four times cheaper. Uh, it's like 25% of the multiple that it was back in *2023*.

So it's actually very, very interesting. Um, if they, if they can prove that AI is not as much of a disruptor, um, you know, the stock is basically 25% of the valuation that it was just two years ago. Um, you know, revenue continues to grow, margins remain exceptional at around 89% gross margin, which is just unbelievable. Margins have actually grown since *2023* by about 200 basis points. Um, millions of customers still rely on **Adobe** products every day. Um, newer investors are kind of confused, right? And and the confusion is real because of AI. And this company is very susceptible to AI. I'm not denying it.

Um, you know, for decades, you know, the company's built one of the biggest moats in software, Photoshop, Illustrator, um, are still being used by creative professionals around the world. You know, entire careers were built around learning **Adobe**'s products, millions of designers, marketers, photographers, video editors, they still use **Adobe** every day. It does, they do use AI and budgets will move towards more AI. For the first time, images can now be generated with just a prompt, videos can be created automatically, design work that once required years of expertise could suddenly be performed by almost anyone.

The question investors began asking at the start of this year was not whether **Adobe** remained a great company. The question was whether **Adobe**'s moat would be strong five or 10 years from now as, you know, most terminal values for tech stocks, 70-80% of the value of the stock, right, is its value five years from now. So that is a very valid concern. I mean, even videos today can be created automatically. So the distinction is incredibly important because stocks are ultimately claims on future cash flows, not on current cash flows. Now, imagine owning a toll bridge that earns 100 million per year. If someone announces a second bridge will be built beside yours five years from now, the value of your bridge immediately changes, even though today's profits remain exactly the same. Nothing changed in the present, but something changed in the future.

This is why investing can be so difficult. The numbers investors see today often tell a very different story than the future investors are attempting to price. A business can appear healthy while its long-term competitive position weakens. At the same time, a business can appear expensive while its future becomes more valuable than people realize, which we saw happen to **Palantir** over the last few years, as the US military almost exclusively relies on its intelligence. The market depends surprisingly little uh time pricing the present and an enormous amount of time attempting to price a future that has not yet happened. This is also why one of the most dangerous phrases in investing is the stock is down because the fundamental the stock is down but the fundamentals are improving. Investors have said that about newspapers as the internet emerged, department stores as e-commerce generated gain share, and cable television as streaming began to take over. In many cases, the current business remained healthy long after the future business had already started to deteriorate. So this is just a case study. I mean, the other names, you look at what happened, you know, in the past, you know, **Adobe** can keep looking cheaper and cheaper and cheaper. But we are looking at it from the sidelines as a cash cow. Um, but, you know, this little write-up is not to say **Adobe** is a buy, but what it what it does mean is that it's it's an interesting case study, and if they can prove that they can succeed in the AI world, that there's an enormous amount of upside, but as we've seen, even with companies that are performing well, um, they can sell off. Like, look at **Visa**, um, underperforming, look at **Mastercard**. And, you know, tokenization and AI, you know, really are not going to affect them anytime in the near term, but they could a few years from now. Um, look at **Moody's** and **S&P**, which I think are buys as well. And look at the cyber security. Now, the cyber security games, I mean, **DataDog** has crushed it, and it is traded trading actually, frankly, one of the few names that's trading higher than than um, you know, it was trading almost at $280 a share. It's trading much higher than than uh it had been over the past um throughout its history. Uh, so I think our view that cybersecurity would be the best name in the space, it has proven correctly. I'm not saying to buy **Adobe**, I'm just saying that you can compare it to prior cycles and it does look really, really cheap. And it does make you want to look at it as a buy, but it's just it's very difficult to make that decision.

Final Summary - 1:41:28

So with that, um, I hope you guys enjoyed the call. We covered so much from new baby bonds to the Iran war, to shorts in **VCX** and **SPCE** and potentially **ASTS** and how Sats is 45% cheap, uh, based on pre-market levels to where **SPCX** is trading. Um, we talked about the ECB hiking rates, we talked about Warsh's uh issues now at the Fed, we talked about Centcom and **BofA**'s red flags, we talked about the new shape and the smirk of the volatility curve, we talked about private credit redemptions and managed CFOS, collateralized fund obligations, and despite that, we think that the the new BDC baby bond for Pennant Park Capital is actually um, a little, you know, a little bit interesting as a diversify in the in your pref portfolio. Uh, we talked about gold, we talked about um how this war could put some um investor fears at ease, it could result in a lower dollar, lower rates, higher interest rate exposed sectors, you know, whether it's at the very high risk end to crypto, but then and unprofitable tech companies, but also, you know, REITs rallying, next week, um, you know, large cap tech rallying, emerging market stocks rallying, gold and precious metals rallying as they don't generate their own yield. Um, so frankly, uh, very interesting week coming up as well on the economic front, not that exciting on the earnings front. Um, we look forward to seeing you again on next *Sunday*. The recording will be up very shortly. Have a good night, guys.

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