2026-06-21 - SSN - PCE, FOMC, Iran Peace, Adding Gold AGI Special Sit, Real Estate Dividends DX, NLY, RWT, ServiceNow Cheap, Arb Discussion

Introduction and Market Futures - 00:00:00

Okay, happy Sunday, everyone.

Just like, uh, the last 110 days, there's been a back and forth around the Iran deal. Uh, it looks like Iran backed out of Switzerland, um, after new threats and, uh, continued attacks to Lebanon. Um, but that will be very small part of our discussion on today's call, but I did want to mention it given that futures are down 40 bips for the **S&P 500**, 37 bips for the **Nasdaq**, and 55 bips for the small-cap 2000, the **Russell**.

If you look at commodities, oil prices are up 2% on **WTI**, up to 78, uh, from 76 last week. Uh, Brent is now 81 spot 40, uh, from below 80 last week. And it looks like there's just, you know, there's no peace, um, in the near term. It doesn't look like, um, the two sides are working together and that $324 billion bribe of $24 billion in in, uh, frozen funds and a $300 billion construction fund, which no one knows, uh, who will fund, weren't enough, uh, to get Iran on board.

So, um, welcome back to, uh, to chaos here. Uh, it looks like **Nasdaq** is now down more than half a percent. We'll see how things open up tomorrow morning, uh, and if anyone backs down by then.

Overview of Today's Call and Company Earnings - 00:01:35

So, um, what we're going to cover on today's call, um, we're going to cover, um, company earnings and the economic calendar. As you guys know, **Micron** is reporting next week, the most important company. We also have **FedEx**, **Carnival Cruise**, **NovaGold**, **Paychex**, uh, **trip.com**.

As you all know, um, we are long **TripAdvisor**. And despite the fact that they sold a business, um, last week, it's about half the company's market cap, as BK I'll mention. Um, the stock barely moved. You know, it was up maybe 35 cents, uh, to about $13 a share. Now, you know, our cost base on the shares is something like $10. Um, so we're still up 30%. Um, from, you know, it was, it was the lows were around nine.

Um, but, you know, the planned sale of **TheFork**, um, you know, for about 300, for for about 700 million, uh, in an all-cash transaction is, um, is quite a good sale. Um, so that was announced on the *15th*. Um, and I believe **American Express** um, agreed to, to buy the, to buy the division. Um, and what might have happened is, you know, that takeover may have already been rumored or somehow priced into the stock.

But what we'll do is, you know, in the merger, uh, arbitrage channel, I will put in a summary, um, of **TheFork** transaction. I need to just confirm when it's going to close. Given such a small deal, I don't think there's going to be much antitrust risk.

So really Jeff Smith at **Starboard Value** has been pushing for a sale. Um, so I'll also just copy this and put this in the, uh, SSR Q&A tab so that we can continue to monitor **TheFork** sale. You know, I do think that **TripAdvisor** is like 50% undervalued, but, you know, while it's up 30% from our cost, you know, I think it's, it's probably worth over $20 a share. We'll see how the other divestitures play out.

Gold and Real Estate Dividend Stocks - 00:04:14

Um, we're also starting to become more positive on gold, um, given, you know, a very sharp sell-off, um, from the local highs down to around 4,100, uh, dollars an ounce. We think that central bank buying is is frankly not going away. And, uh, the dollar's been strong because of, uh, the flight to safety.

But, um, you know, gold, as you guys know, back in *January* got to around 4,000, 5,420. And now we're at 4,000, so 4,150, so 4150 divided by 5420. Yeah, we're down about 25% in gold in a period of a few months. So, we think it's interesting and one way that we would like to play gold after the earthquakes, uh, last week for **Alamos Gold**, um, is to buy this, you know, mid-cap, um, **Alamos Gold** play. Um, its main asset, which is about 60% of NAV, had nothing to do with the earthquakes. Furthermore, no one died, no one was injured. Um, so we think the impact of the stock should have been about 4-5%, it sold off 25%.

Um, the stock, the US shares, we bought the Canadian shares because of Juneteenth on the on the *19th*. Um, we are buying the, um, US shares as well when the market opens. We have a 10 basis point tracking position. Um, we'll buy the US shares which will likely open around 30. We think upside based on where gold is today is around 50, uh, but if gold rallies, obviously the upside could be higher.

Um, we're also going to be exploring some real estate dividend value names. You know, we're last week as you know, we added, uh, **Dynex**, uh, **Redwood**, **NLY**. You know, **NLY** is a 13.5% dividend, **Redwood**'s around 14% dividend, **Dynex** is around a 16% dividend. So high dividend names that, you know, given we think that rates have are near peaking if this Iran deal can can close.

FPH Small-Cap Real Estate - 00:06:23

And then the **FPH** small-cap real estate play. So this is a California-based um, residential real estate company that has a lot of JVs. You know, some of its JVs have dividended over 100 million to the company over over the past few years. It's trading at a very depressed value, around 40% of book value. We think over the next three years it could be a 3x, um, if they're able to develop some of the the high quality property that they own.

Um, it's a smaller cap name, so less liquidity.

Software Sector (ServiceNow, Salesforce) - 00:06:53

And we'll talk about **ServiceNow**. Um, we think that **ServiceNow** has, you know, about 80-90% upside. It's probably one of the better software names and less AI exposed. Um, it's not as good as the cybersecurity names, which we all know, which we owned and and they've all doubled, including **DataDog** and **CrowdStrike**. Um, but we think that **ServiceNow** is in kind of the second category of of software names. And it continues to be depressed, um, just given the **IGV** ETF has seen outflows, but overall, we think it's better positioned than the average software company.

We'll also talk about, you know, **Salesforce**, which is more of a software benchmark. They've announced 55, they've done $55 billion of share buybacks, but the market has just ignored it. It shows you how software is just out of favor. We're not advocating, you know, a buy of this company, but it just shows you despite tens of billions of dollars in share repurchases, the stock has still been been in the doldrums as, you know, hedge funds have been selling software to buy semiconductors, probably one of the most crowded trades of all time.

Okay? It doesn't mean that it still may not work for for, uh, the next few weeks and maybe a few months, um, but it is one of the most crowded trades of all time.

Sats and SpaceX IPO - 00:08:07

We will also then talk about, um, **Sats** and and the **SpaceX** IPO. Um, you know, we think that at-the-money put buying, which you can actually track, uh, you know, thousands of contracts every day, um, because you can't actually buy puts if you're an institution that has, uh, an allocation to the **SpaceX** IPO, that's keeping that arb around over 40%, given the, uh, upcoming *August* unlock for **SpaceX**. You know, so what we've done is we've, uh, hedged our **Sats** exposure by shorting **SpaceX**, and it actually worked really well on Friday because **SpaceX** sold off more than **Sats**.

Um, and we've also have some covered calls on **Sats**. So what we did was we shorted 30% of **SPX** versus **Sats** and then we sold some very juicy covered calls through *October* for like $10 a contract on **Sats** as well. Um, so most of the sell-off in the **SpaceX** complex, you know, was absorbed by the **SPCX** short and the the call premium, uh, leaking that we sold.

Upcoming Economic Events (FOMC, BoJ, ECB, PCE) - 00:09:12

Um, we'll also discuss the FOMC. You know, we have a new Federal Reserve Chairman, Warsh. Um, we'll discuss the Iran peace timeline. It went from a peace deal to now, um, Iran and, uh, B.D. Vance leaving Switzerland.

We will also discuss the Bank of Japan, uh, which hiked rates to the highest since 1995 and the recent ECB hike. We'll discuss PCE expectations for the USA next week, which is the most important data point, uh, on the economic calendar next week. We'll also discuss data center delays, which have been confirmed by **Jefferies** and **JPMorgan**, but semi-analysis has challenged the thesis. They're not saying that there aren't delays, they're just saying the delays are not 70% like

Jefferies and **JPMorgan** are saying, but maybe, you know, something under 50%, which is still quite bad.

And then we'll discuss **OpenAI** and Altman getting a body blow from **Microsoft**, which, uh, has basically said that they're going to use usage-based pricing and diversify their AI models, uh, outside of **OpenAI** and **Claude**. You know, you've seen a number of banks balk at the price of **Claude**. Um, we've seen **Uber** have to cut back their AI spend because they blew it all in the first quarter. Um, **Microsoft** has also been sued by a Michigan pension fund alleging that they lied about their cloud profitability. So, you know, there are a lot of early signs that AI is getting overheated. We'll talk about those.

Um, in terms of the economic calendar, the most important economic events next week are the US manufacturing and service PMIs, new home sales, PCE, personal spending, GDP, durable goods orders, and UMich sentiment. Also, as you know, **Micron** is reporting this week, will be one of the most important earnings prints this week given how the semiconductor memory segment is just completely, um, you know, at a blow-off top.

Special Situations and M&A Deals - 00:11:04

In terms of special situations, after jumping, um, you know, 14% uh, on Thursday, shares of, uh, **Lionsgate** were down 6% on Friday following a report um, that **Netflix** is not interested in the media company.

Um, with respect to **Roku**, uh, **Netflix** also indicated that it did not make a bid to challenge the existing **Fox** bid. As you know, **Fox** bid, um, for **Roku**, which really hammered, uh, **Fox** stock, uh, but they're trying to integrate, you know, that advertising flywheel business.

The 2% spread in in the **Webster Bank**-**Santander** deal is is likely to, you know, likely to move tighter after the deal received, uh, OCC clearance on Thursday afternoon. Uh, the approval will be seen as a positive signal that the review process remained independent and objective. So that spread is gone. The deal still requires the European Central Bank and the Fed, uh, to sign off.

In other news, the **ESPR** cleared HSR, **OGN** filed the definitive proxy. There's an article about **Caesars** potentially selling its, um, AC assets, um, in New Jersey, and several **ZIM**-related headlines regarding a bid from Heim Skall.

Also, **Huntsman** and **Olet** announced an all-stock merger of equals on *June 16th*. The M&A terms imply an at-the-market valuation and a 54%, 46% hunt equity split. The deal brings, uh, 400 million in operational synergies on a 1 billion EBITDA base. Um, you know, a lot of chemicals names have sold off this year, so this is a way for them to to extract synergies and preserve some valuation.

The widest spreads in the market right now are, uh, **NSC**, **EUNP**, and **Warner Brothers**-**P-sky**. Um, despite receiving antitrust clearance, the **Warner Brothers** deal still has a very wide spread, which we think is quite attractive. Um, the **Warner Brother** twists and turns continued on the *15th* of *June* following a Wall Street Journal report indicating that the Department of Justice staff was leaning towards recommending a lawsuit challenging the deal on the grounds that the combination of the two movie studios would be anti-competitive. This is different from, um, the news earlier, um, in the week that said that, um, you know, the DOJ had closed its investigation. Um, originally, um, the market had viewed that as favorable, but now there, you know, there are rumors that, you know, they're going to sue. That's why the spread is as wide as it is.

Um, you know, but I'm assuming after some divestitures, they'll get clearance. Um, in other news, **CCRN** filed the definitive proxy for *July 16th* vote. **EXTA** received clearance from CADE. **LLPX** received German FCO approval, and **Valaris** filed their transaction with **A-Triple-C**.

You can see **Lionsgate**, you know, rallying on the *16th* and then selling off after **Netflix** said they wouldn't buy it. It's been bid up for the last several months given that they have a big content portfolio that someone is going to buy eventually. Um, **Roku**, uh, shares were halted on the *15th* after the company announced they had received a definitive agreement with **Fox** Group to be acquired for $160 a share for um, for cash and stock, valuing the company at 22 billion, which I was quite surprised by. **Fox** will pay about $96 a share in cash and .9693 of **Fox** A-shares for every **Roku** class A and B share.

In other news, **Honeywell Aerospace**, ticker **HONA**, will begin trading. It was a spin-off from **Honeywell** on a when-issued basis, um, on Friday, um, for a two-week period. After that two-week period, it will trade, um, as an independent stock. Uh, again, that ticker, uh, is **HONA**. So within two weeks, that'll trade as a separate company.

Two Harbors, um, announced on the *15th* that **UWMC** did not submit a proposal during the waiver period that Two obtained to engage directly with **UWMC** in a potential transaction. As you guys know, they've been challenging this deal and it hasn't closed, which is why Two rallied after the initial **UWMC** sell-off, given **UWMC** has sold off so much because of its own problems. Um, so details of all these deals, the **Webster** deal, um, **Lionsgate**, um, bid fake, **OGN**, uh, the **Huntsman**, **Olin** deal, um, the the **Warner Brothers**, um, DOJ clearance and then, you know, rumors of the lawsuit, **CCRN**, **Honeywell**, um, **HONA** spin-off. All those details are on page four.

Bearish Positioning in Gold and Alamos Gold (AGI) - 00:16:20

On page five, um, we'll quickly discuss bare positioning in gold. Um, we think that bearish positioning in gold reached, um, its highest level since *2017*, according to **Goldman**. Um, as a result, um, we added some exposure, maybe a little bit too early ahead of the Fed, but we added more exposure after the Fed meeting. Um, gold is down 25% from the *January* highs. We added **PHYS** and **GLD** for spot ETF exposure. We also added miners, **GDX** and **SIL**, and a new, uh, miner special situation at **Alamos Gold**, starting with the Canadian shares and then USD shares on *Monday*.

Um, we bought about 10 basis points to start, so about .1%. We'll likely double that on *Monday* morning. Um, shares were down 19% in Toronto, the most intraday since *2020*, after the miner trimmed its second-quarter production guidance as a result of earthquakes that damaged its infrastructure at its Young-Davidson mine, which is one of its smaller properties.

So, this is a cheap, mid-cap gold miner that went through a temporary setback due to an earthquake outside of its main asset. Um, its main asset is called Island Gold, and it's over, um, 60% of the company's NAV. Um, **Alamos Gold**, ticker **AGI**, has a market cap, um, of about 15 billion dollars, so it's not a small company or a speculative company by any means. Um, it doesn't have a lot of debt either. Um, so it's a relatively unlevered business, um, you know, with a total of, you know, as net cash of 500 million. Um, so we think that on a go-forward basis, it's a relatively good risk-reward.

Um, if gold stays flat or rises, we think this name could rise about 65% to $50 a share within one to two years. Um, and we think that the US shares, if they match the Canadian share sell-off, will open around $30 a share on *Monday* with upside to 50 over one to two years. Um, the company also has a very strong growth profile as well, so it deserves a higher multiple. Right now, it trades at a 25, 20% discount to peers. Um, more than a 20% discount to peers.

If you look at its peer group, um, you can see, you know, it trades at a discount to **Lundin Gold**, **Agnico Eagle**, um, **Royal Gold**, um, um, on a on a forward FY1 and FY2 basis. On FY2, um, it trades at about 4.7 times forward EBITDA, um, which is cheaper than most of the companies in the index, which which trade at a median of about, uh, 6.1 times. Um, on a P/E basis, um, on a FY2, it trades at eight times earnings, um, given its growth profile.

So on *Friday*, **Stifel** cut its price target on the company in Canadian dollars, uh, from from 70 to 75 from 80, which still implies a lot, you know, almost a double. Um, you know, why did it downgrade? Because the two earthquakes, um, and storm-related damage to a power line for one of its smaller properties resulted in three, uh, days of unplanned downtime. So the company now sees 2Q production between 130,000 and 135,000 ounces, which is at the lower end of guidance. Um, mining rates at Young-Davidson are expected to average, uh, around 5,000 tons a day, which is a couple thousand below expectations. Um, Island Gold, which is about 60% of NAV was not affected and production for the second quarter is expected to be in line with plan. It's underground mining rates, um, have increased to a record above 1,500 tons per day. It's on track to increase to 2,000 tons per day by the end of *2026*.

The 19% intraday drop, uh, looked like to be a severe overreaction by the market driven by automated trading algorithms and a near-term panic rather than a fundamental degradation of the company's long-term net asset value. The operational reality shows the impact of seismic events is localized and the stock sell-off, we think, is fundamentally decoupled from the actual underlying damage to the business.

Um, you know, the Q2 production is only dropping about 12%, uh, at the midpoint down to, you know, 130 to 135,000 ounces from the baseline of about 151,000 ounces, so not terrible. Um, you know, like I said, there are zero injuries, zero deaths. Um, there is an infrastructure damage that physically blocks access to two specific high-grade, uh, stopes within the, um, the Young Mine complex.

In terms of the full-year drag, because underground mining rates at Young-Davidson are capped at 5,000 tons per day for the rest of *2026* to implement extra ground support, full-year consolidated production will slide to below the low end of guidance, um, at around 570,000 ounces for the year versus, you know, the original range of 570 to 650. The 19% drop wiped out roughly 3 billion in market cap in a single trading session, um, versus actual damage to the company of under 100 million.

In terms of the cash flow math, you know, the company will miss out on roughly 20,000 ounces in the second quarter, um, representing a deferred or lost revenue of about 46 to 48 million. Um, even factoring elevated all-in sustaining costs for the remainder of the year, the total financial impact should be under 100 million. Um, structural cushion. Um, Island Gold is the company's main asset, which represents over 60% of the NAV. As noted in the **Stifel** and **Jefferies** updates, Island Gold is completely unaffected by the seismic events. Um, underground mining rates also hit a record, and this asset should continue to grow. Um, the newly acquired Magino mill throughput is already approaching over 10,000 tons per day.

Um, so how much should the stock be down? You know, we think it should be down about 4 to 6%. So it was probably overdone by about 15%. So the event and the gold sell-off, I think make this quite an interesting hold. Um, you can see **Jefferies** shares that view with a base case up 40%, upside up 80%, downside down 15%. Um, their note is on page nine and page 10, which lays out their gold production forecast, the company's all-in sustaining costs, you know, the the multiples they believe the company should trade at, total revenue by year, um, total gold sales, uh, real costs, operating cash flow, uh, free cash flow, and, you know, assets, liability, and valuation multiples at the bottom of page 10. And that, um, you know, reflects, um, you know, this note was was written around the time of the, uh, of the guidance reset, so these are all updated.

FPH Small-Cap Real Estate - 00:23:25

Um, another interesting name that we wanted to discuss is the FPH. Um, so we added, you know, to high dividend names like **Dynex** at a 15.6% dividend, **Redwood** at 14 and **NLY** 13 and a half last week. We'll continue to add to real estate names. You know, it looks like the market is going to be soft at the open. We'll continue to add to these names. Um, it looks like, um, you know, despite, um, the rally in gold, you know, US 10-year is is, uh, is around 4.51 percent. So, up slightly, but nothing too dramatic, except maybe four bips.

Um, you know, a name that provides more torque but it's a lot riskier, um, that we think could be a potential triple is a company called **FPH**. Uh, it's a company called **Five Point Holdings**. Um, so obviously our **RWT**, **NLY**, and **Dynex** positions will be much bigger, but this is a a small allocation that we think could do well over time.

Um, there's a hedge fund called **Black Bear Value Partners** that originally, um, shed light on this name. We have no affiliation, but the market basically treats this company as this as a standard home builder, but in reality, it's a huge land owner. Um, and as it develops this land or sells the land, uh, through JVs, there's a lot of cash that could be unlocked. Um, it's a master plan computer uh community land developer trading at a massive discount to its liquidation value, and it shouldn't trade like a home builder.

Um, based on the 1Q *2026* financial disclosures and the structural tailwinds of California real estate, um, you can basically identify, um, the three big flagship communities that drive a lot of the company's value. One, uh, is called Great Park neighborhoods in Irvine, California, which is located near the heart of Orange County, which is where most people have been moving, uh, from greater LA. It's where the affluent people live in California. This is **FPH**'s crown jewel. It is a premium multi-decade development surrounding a 1,300 acre public park. Home sites here command massive pricing power from public home builders like **Lennar**, **Toll Brothers**, etc. on the premium side.

Um, then they have some properties in Valencia, which is also in Los Angeles County. This is a massive, fully permitted, master-planned city designed for approximately 21,500 homes and millions of square feet of commercial space. Valencia is a cash-generative driver for the company through its JVs.

San Francisco's Shipyard and Candlestick Point. Uh, this is a long-duration massive urban waterfront project slated for roughly 12,000 homes. While subject to long-term development delays, its terminal, uh, land value is immense due to its geographic scarcity.

So, the reason why this company trades at such a big discount is that the market doesn't know how to value the joint ventures. As highlighted by **Black Bear Value Partners**, **FPH**'s most meaningful cash-generative asset is held in an unconsolidated joint venture, which is called, which is the Great Park venture, which is, you know, the the land that they own in Irvine, uh, in near Orange County.

And because this asset is owned in a JV, um, the market doesn't give them, you know, the right, um, or the fair fair treatment for that ownership. And, so if you look at the company's financials, they look kind of sleepy, right? While **FPH** can report quiet quarters with minimal consolidated revenue due to land sale timing, um, such as we saw in the first quarter of *2026* where they had a $5 million loss on $13.6 million in revenue, which, you know, looks, you know, looks bad. Um, they routinely extract massive lump-sum distributions when they finish developing properties within those three projects, uh, including a record $231 million in distributions and incentive comp, um, in a single year recently.

So, when you calculate, you know, what **FPH** is truly worth, if you look at the trailing P/E ratio, it doesn't look that cheap because the land sales are intentionally lumpy. So, the only way to value this company is by calculating a NAV. So, the market cap is about, you know, 750 million. On the, so it's a very small name, and it doesn't have a lot of volume. It only trades it trades a couple hundred thousand shares per day. Um, I'm sorry, the market cap, I'm sorry, the enterprise value is 750 million, not the market cap. Um, but its accounting inventory is about 2.5 billion. So its estimated real estate NAV is between 2.2 billion and 2.5 billion. And so, if you look at the, um, you know, the company has two share classes. So when you look at the market cap at 370 million, that's not the true market cap. They also has B shares, so it has 72.4 million A shares, and then it has 76 million B shares. So in order to calculate that that true market cap of about 750 million, you need to include, um, both classes of shares. And, um, I will just, you know, paste that screenshot so you can see their two, um, share classes in the SSR Q&A tab.

But when you account for those, you know, you basically get that there's 750 million of of, um, of equity value and the total real estate's worth about 2.5 billion. So it's roughly a 3x. Um, **FPH**'s accounting book value sits at roughly $12 a share. So the stock trades at about a a .4 book value. Means you're buying, you know, the most premium Southern California land at about a 60% discount to book. But then when you mark their thousands of unsold acres, uh, to their current market value, um, you should get something like 15 to 17 and a half dollars a share. Um, so it's an asymmetric trade that will take place, it will take a number of a couple years for this to trade to its fair value in my opinion, but, you know, where it trades at $5 versus its ultimate, um, fair value around $15 is quite interesting.

ServiceNow Deep Dive - 00:30:04

Um, then **ServiceNow**. So **ServiceNow** is on page 13. You know, for **ServiceNow**, you know, the question we ask is, how often do you see a company grow free cash flow by about 36% in 12 months while its valuation falls by 60%? That's exactly what's happening with **ServiceNow**. It has a healthy 7% *2027* estimated free cash flow yield, which is much higher than that of the **S&P 500** now. It, you know, we added to shares at about 95.48 after hours, post-FOMC on on *June 17th*.

Um, so for those of you who don't know what **ServiceNow** does, it is a workflow software platform that is a cloud-based solution that helps enterprises and organizations across public and private sectors digitize workflows. The Now platform helps business leaders realize value from these investments by incorporating advanced technology into the flow of work, end-to-end, across the enterprise for every department and persona. The company has approximately 8,400 enterprise customers, so very diversified, that operate in a wide variety of industries including government, financial services, healthcare, manufacturing, IT services, technology, telecom, and consumer products. North America is about 65% of total revenue. It also has a big client base in Europe.

In terms of the free cash flow generation and DCF, we get the stock's probably worth $180 a share over the long term, which implies over 90% upside or almost a double if, you know, people stop fearing, um, this AI software, um, contagion.

So **ServiceNow**'s workflow applications are built on its own intelligent platform. The applications built on this platform are technology, customer and industry, employee, and creator workflows. The products under each of its workflows help customers connect, automate, and empower work across systems and silos to enable greater outcomes for businesses. Um, the important thing to understand is that, you know, AI falls into its technology workflows and employee workflows. So, you know, **ServiceNow** is an enabler of AI, so it's not something that is ultimately, in our opinion, going to be replaced by AI.

Um, the Now platform is a single platform with one data model, one architecture enabling speed, productivity, and innovation. It basically simplifies automation and manual processes for companies. Um, it's frankly a lot easier to use this model than to create several different AI verticals, uh, that a company can manage itself.

Business is based in Santa Clara, has data centers in North America, South America, Europe, Asia, and Australia. Um, has a global office base, and while North America counts for 65% of revenue, EMEA is about 25%, Asia-Pacific is around 10%.

Um, so the company has a big AI vision, um, given, you know, from its founder, CEO, it wants to be a single platform that brings people and agents together to accomplish governed work. It starts with its employee works platform, the conversational employee front door powered by move works that enables any user to kick off workflows and enterprise services with access to the web. The company is also determined to automate as many workflows as possible by building AI specialists that perform business processes and control governance across the enterprise.

So the company has enterprise-wide coverage. The cross-enterprise control plane means that customers don't have to use **ServiceNow**'s technology to build agents but can still govern them via a central location. So it's essentially going wants to be an AI, um, management tool. For example, **ServiceNow** is built across all three hyperscalers so that it can connect isolated AI investments. Plus, action fabric enables users to leverage their preferred agent development kits and govern them all using the AI control tower that **ServiceNow** provides. Areas like ITSM, HR, and security lend themselves to building in **ServiceNow** where the data estate is being managed, but not every process needs to be constructed in-house to be covered.

So, the company has a forward-deployed engineering team. Um, it's announced a project now *2026*, giving **Accenture** clients access to more than 300 pre-built AI agents, skills, and agentic workflows on the **ServiceNow** AI platform. The partnership is targeted, uh, targeting the top of the pyramid use cases, um, that agent skills and agentic workflows on **ServiceNow** AI platform have. Um, you know, it's identified problems with multi-million dollar ROIs and stand up sending up processes in weeks. So basically, you know, we think now is quite interesting as it's trying to become an AI management platform. It has 8,500 customers, it's been growing revenues at over 30% a year, but the stock's down 60%.

JPMorgan, um, recently had, uh, a conference where, uh, they had several takeaways after speaking with the president, CPO and COO, Amit Zavery. Um, they said that usage volume and adoption underpin confidence in the company's $1.5 billion AI ACV target. Um, growth engines are fueling a base case, um, for 30 to 32 billion in subscription revenues. So the company's goals remain intact for revenue growth. Um, its fast-growing CRM business continues to grow. Um, AI confusion comes from vendor choice and AI solution tangibility. The company acknowledges that customers are exhibiting some confusion, um, on vendor choice in the tangibility of the AI solutions. **ServiceNow** explains that its investment to bolster its AI platform were very strategic and it certainly led to many more at-bats than what we had before. Further, the company comments that it intentionally gives customers frontier model choice to give them flexibility and the ability to really do the right thing to run and operate their business as customers look to drive cost savings and efficiencies. Interestingly, **ServiceNow** notes that it believes LLMs could potentially become commoditized in the future, likening the usage of different model versions to silicon chips. Over time, it becomes like chips. You don't really care what chip you're using in your application. And we've already seen this with **Claude**, you know, with a number of banks saying, you know, we want to replace **Claude** with cheaper models. Even **Microsoft** is using **DeepSeek**, which we'll talk about in a moment, uh, a localized **DeepSeek**.

Salesforce Share Buybacks - 00:36:32

So, on the following page, on page 17, you can see that **Salesforce** has bought over $55 billion in stock and the market hasn't cared. Um, you know, a funny anecdote is if **Salesforce** were to repurchase shares at the same pace as it did last quarter, you know, there may not be any shares left outstanding in just 13 quarters. While I say this jokingly, the market seems not to care at all about the company's share repurchases because it's still terrified of terminal value risk.

Historically, **Salesforce** didn't prioritize share buybacks. For years, its share count grew because it diluted shareholders to fund massive stock-based comp and acquisitions like **Slack** and **Tableau**. The real change happened over the last three fiscal years due to immense activist investor pressure. The capital deployment has scaled rapidly. So after no buybacks in *2023*, the company bought back $5.7 billion in stock in *2024*, 10 billion in *2025*. In FY26, which ended *Jan 31st, 2026*, it bought back 12.7 billion. Just in *March*, the company bought back $25 billion in stock.

And year-to-date, it's funded about $27 billion in share repurchases. **Salesforce** deployed about $28 billion, um, over the last three years before its recent purchases. And in *February* of *2026*, CEO Marc Benioff announced a massive $50 billion aggregate share buyback authorization. This program completely alters the company's capital strategy. Instead of slowly buying back shares using existing business cash flows, **Salesforce** basically borrowed money, uh, did a $25 billion debt raise in *March*, uh, to buy back stocks immediately. So this is called an accelerated share buyback plan, and it immediately funneled 80% of the $25 billion proceeds into the stock, buying back roughly 103 million shares at once. The rest of the, uh, 20% of the share buyback plan, uh, took place over *April* and *May*.

Um, because it was structurally set up as an accelerated framework with, uh, **JPMorgan**, **BofA**, **Citibank**, **Morgan Stanley**, and **Santander**, the delivery of the shares was front-loaded. Um, but, you know, after the final settlement window, the company's continued to buy back shares up to the $50 billion authorization, and it's bought back roughly $27 billion worth of shares, um, year to date, which is very impressive, and we'll see how the market, um, looks at these companies once, um, you know, some of the software fears are fully understood.

Sats (EchoStar) Puts and SpaceX Unlock - 00:38:54

On the following page, you can see, you know, the aggressive puts buying for, um, for **Sats** or **EchoStar**, you know, when **SpaceX** IPOed, um, it almost reached 2.8 trillion within a couple of days on *June 16th*, so it was essentially the fifth most valuable company in the world on a micro float of about 4%.

Um, the reason why this stock, um, people are, the stock's been so volatile is because, um, you know, the IPO is 4.9%, but, you know, on *August 8th*, you know, there's an unlock to 11.8%. Um, there are several unlocks that happen, um, if the share price is above a certain level. Um, but, you know, by the 180-day point, uh, by *November*, you will have, you know, over 30% of the shares, um, unlocked and by, uh, *June* of of *2027*, you know, Musk's 46% shares will also unlock. So the full unlock will happen by *September* of *2027*. But by the end of this year, you'll have 40% of the shares unlocked, which is roughly nine times what is available in the float right now. That's why there's been aggressive hedging.

Weekly Market Recap - 00:40:11

Um, so let's take a step back, uh, from, you know, the **AGI** gold special situation, the **FPH** real estate special situation, the three dividend names that we've been adding, **Dynex**, **NLY**, and, um, **Redwood**, and just quickly talk about what happened in the market last week. Obviously, this will be recorded and you guys can read the PDF as well. But, you know, a lot can happen in a week. This past week was notable in three ways. First, the US-Iran conflict appears to have reached the beginning of its end, with both sides expecting to sign a memorandum of understanding to bring about an end to hostilities and blockades to and begin negotiations. That was slightly derailed, which is why futures are down half a percent. We obviously wrote this before that, um, after Trump threatened Iran, uh, today, and, uh, Israel continues to occupy, um, Lebanon.

Second, uh, new Fed Chair Kevin Warsh led his first meeting of the Federal Open Market Committee, um, this week. In a distant third came a slew of US economic data, some but not all of which came in below expectations. Together, these three developments further cloud the outlook for the economy over the balance of *2026* and may make the opening months of Warsh's tenure difficult to navigate.

Warsh's confirmation process was controversial, coming as it did during a period of unprecedented attacks from the president on the former Fed chair. From the beginning, however, we have not believed his decisions once in the role would be overly influenced by political considerations. His first press conference, promising major challenges and a return to first principles, seemed to our to affirm our view. You know, even though Warsh does speak with Besant every week, he can't afford in the first meeting to look like he's compromised, right? That would be a much worse outcome than what we saw last week.

Even without the debut of the new Fed chair announcing big changes, as Warsh did, the June FOMC meeting would have been notable in several ways. First, the FOMC has become more rambunctious lately, with dissents becoming more routine and individual regional presidents and governors striking out on their own to comment on inflation and the appropriate path of policy. The new, the Fed's new communication strategy, clearly spearheaded by Warsh himself, is to say less in statements about its plans going forward or what would make it change its policy rate target. Phrases like, "in considering the extent and the timing of additional adjustments to the target range of the federal funds rate," which was in the April statement, are now absent. This probably made it easier to achieve unanimity, as most FOMC members can agree on statements of fact rather than opinions about the proper path of policy moving forward.

Second, thanks to the conflicts in the Middle East, the US economy has experienced a major economic shift since the March meeting, which led several forecasts to be revised dramatically, as you can see, with GDP coming down, PC inflation coming now to the mid-3% range for the year, which we think is is overstated, uh, for a forecast. Um, the economic forecast revisions once again add a whiff of stagflation with the *2026* GDP revised down to 2.2% as we mentioned, while expectations for inflation soared to well over 3% for both headline and core PCE prices.

Perhaps most notably, the median forecast for core PC inflation for *2027* also rose by 0.3% to 2.5%, a rate most FOMC would have deemed to be unacceptably high. The absence of forward guidance for the FOMC statement seemed to give the members' dot plots greater importance for the markets. The dot plot itself also had a hawkish tilt with just one dot reflecting a single interest rate cut in *2026*, which wasn't Warsh, he declined to submit a forecast, while exactly half the dots are nine called for one or more hikes. The rest of the committee felt leaving rates on hold would be appropriate. Compared to the March projection, the FOMC has added 0.375% to its *2026* expectations for the policy rate and 0.5% to its *2027* expectations. That is still not as high as the market expects, but the gap has shrunk considerably.

In terms of the impact of oil supply, it's hard to imagine a geopolitical event that would confuse a central bank more than a months-long disruption to global oil supply. To wit, the European Central Bank last week elected to raise its policy benchmark for the first time since *2023*. Europe's economy has not grown for two quarters and core CPI inflation on the continent has only been 2.6% for the past year. In tightening policy, the ECB effectively is attempting to dampen inflation in parts of the economy it can't control, like housing, to offset high inflation in the part of economy, gasoline prices, that it cannot. Sorry, it plans to control inflation using housing and and to cap housing prices and rents to offset, you know, this energy shock.

If you can see US average gasoline and diesel prices, which spiked in *2026* to the same levels that they did during the beginning of the Russia-Ukraine war. It seems unlikely to us that the Fed will hike rates, especially with oil supply about to be slowly restored to normal and gasoline prices falling quickly, as the graph above shows. What has become clear, however, is the surge in energy-driven inflation during the first half of this year is going to prevent the Fed from cutting rates anytime soon. It's easy to forget now, but rate cuts on a mix of weaker hiring and moderating inflation was the Fed's plan ahead heading into this year.

Fortunately, the labor market's recent stabilization makes the conversation about cutting rates less pressing for now. Financial market conditions are loose enough to support tight credit spreads, high equity valuations, and it seems at least an occasional two-trillion-dollar IPO, uh, which we'll likely see again with **OpenAI** at 1 trillion and **Anthropic** at 1 trillion by *December*.

The Fed funds rate is only slightly higher than the Cleveland Fed's one-year inflation estimate, and it's well below the realized headline inflation over the past year. When asked how he felt about the hawkish set of forecasts his colleagues submitted last week, Chair Warsh noted that projections seem to have been written in pencil and they can be erased in six weeks. This underscored both the skepticism about economic forecasting in general and a more specific view that delivering guidance on the economy or rates is unusually challenging right now. We happen to agree with that.

No signs of political interference yet. So judging by Warsh's, um, refusal to provide guidance on markets in the direction of monetary policy. Heck, it was even hard to get him to deliver a frank assessment of current conditions at his press conference last week. He probably doesn't want to seem to care much that markets are pricing in earlier hikes following the Fed's meeting, but they are.

If you look at the following page on 23, you can see the Fed's funds rate with market projections for *2026* and *2027* rising. Now Warsh's approach for the next six months will be to start from scratch with the Fed's approach to interpreting data, communicating with the public and managing its balance sheet. He did note that changing the Fed's 2% inflation target will not be on the table, a move, no doubt designed to solidify the Fed's hard-won credibility on delivering price stability.

The mere belief amongst investors that inflation will eventually get back down to 2% makes delivering on that promise easier, which is why the Fed has so frequently discussed the anchoring of inflation expectations. On that point, the gap in yields between the two-year and the 10-year US Treasury note shrank sharply on *Wednesday*, which typically happens when monetary policy is tightening. I.e., short-term rates rising faster than long-term rates. This is another sign that markets do not view politics as a factor in monetary policy so far and are not demanding much of a premium to lend to the US Treasury for longer periods. So we saw, you know, the Treasury yield curve, the two's 10s cutting from, you know, basically 70 bips down to 26 bips, you know, from the first quarter of this year.

The risk for any new Fed chair is a significant macro or market shock. Warsh's approach to the job will be to allow markets to react to events and data rather than to guess how the Fed will react to them. That is a worthy and admirable goal, but should a market crisis arise, even one that is not of the Fed's own making, investors will want to understand how and how much the Fed is committed to help in the form of cuts and liquidity injections.

We do not expect a moment of truth in which the Fed decisively either tightens or loosens monetary policy to pop up this year, but we can say we can easily imagine scenarios in which inflation roars higher due to resumption of Middle East hostilities or the job market starts to soften with consumers getting squeezed.

Perhaps the Fed has over-communicated and over-promised during the last three Fed chairs' tenures and Warsh's chairmanship will be a needed correction from the central bank's tendency to talk more, write more, and do more. But the transition between the Bernanke-Yellen-Powell approach and the new one could be rocky, at least at the outset.

Iran Peace Negotiation Timeline and Breakdown - 00:49:50

On the following page 24, we discussed the five-day Iran peace negotiation timeline with detailed 14-point description of the memorandum of understanding or MOU, and then today Iran walking out of negotiations after new threats. So basically on *Monday*, um, we had a MOU to be signed. Um, you know, Trump and Vance signed the MOU, so did Iranian parliamentary speakers. Um, the deal provided for immediate opening of the Strait of Hormuz and lifting of the US blockade. Details of the agreement were then released. On *Wednesday*, um, and there's discussion of relief of frozen funds, plan to keep, uh, US military force posture during the next phase of negotiations over 60 days, and an agreement to contemplate a reduction of military forces upon the agreement of a final deal. Brent basically fell below $80 for the first time. You know, **WTI** fell below $78. It's effectively, you know, modestly higher, um, overnight.

On *Tuesday*, there's an Iran MOU draft update where Iran said they don't, they agree not to develop or acquire nuclear weapons. Um, US and Iran agreed to halt hostilities across the entire region, including Lebanon, which Israel has not done, which is why Iran has walked out. Iran also said they would guarantee free and safe commercial shipping through the Strait for 60 days. The US was then to release frozen, uh, Iranian assets once the agreement took effect.

So, both sides agreed to address Iran's uranium style pile in future negotiations, so that was not agreed to. Um, and on *Wednesday*, there was a flip-flop with Trump, uh, saying that, um, you know, he would sign the deal by Friday. Um, and then he said that Iran's MOU is not final. If I don't like the agreement, we'll be going back to dropping bombs. If Iran isn't behaving, they will get hit again. Uh, Trump said that the US is not putting up money for Iran, but this $300 billion has to come from somewhere. No one right now knows where it's coming from, which is hilarious. Um, Trump said that they will only lift Iran oil sanctions if they do things right, which makes sense, actually. Europe is doing some things badly. Um, Trump also said that the Lebanese president is coming to the US in the next week or two and that Lebanon had been treated worse than anyone.

At the G7 meeting on *Wednesday*, Trump, uh, on the Iran deal said that maritime traffic in the Strait has increased substantially, which it did temporarily, but now it's back down. Um, it's really the Iranian vessels that, uh, escaped, uh, on their way to China, but non-Iranian vessels pretty much had been blocked by the end of the week.

Um, as you can see now, the US **Nasdaq** is actually down 80 bips because of, uh, fears about the war restarting. Small caps are now down about 80 bips and the **SPX** is down about 55 bips, um, which shows that the concern around escalation, uh, and another energy shock is only accelerating.

Quickly looking to see, apparently a US diplomat told Barak Ravid that the talks with Iranians started on *Sunday* morning, um, and were going non-stop. Um, one of the issues was deconfliction mechanisms in Lebanon and enforcing the ceasefire. The US diplomat added that the US, Iran, uh, mediators discussed the Strait of Hormuz and recent Iranian statements about allegedly closing it. They wanted to make sure it was stayed open. Um, the US diplomat said that the parties had productive talks, um, but then, um, while they were pleased about how talks went today, um, Iran then left after continued bombing of Lebanon.

Uh, so that's, that's basically, I think what happened, and then Trump effectively threatened Iran by saying that its leaders wouldn't be allowed to return home without a peace treaty. Um, and then the the Pakistan, uh, Prime Minister was frankly shocked, um, when Iran left because he thought this was a done deal. Um, you know, the 14 points of the Iran-US MOU are on page 25, including an end to conflict on all fronts, which has not happened, respect for internal affairs, an extendable 60-day timeline, US to end the blockade, uh, Iran to end its blockade, money for Iran's reconstruction, um, sanctions to end on point seven, no new nuclear weapons for point eight, points nine and 10, basically a status quo where, um, US and Iran agree that the nuclear program will be, uh, halted. Um, I'll point 11, Iran's frozen funds to be released. Points 12 to 14, around monitoring and final negotiations. You know, the US is, you know, is being very careful not to, uh, agree to remove sanctions or give funds until final negotiations are complete.

So that was signed on *Wednesday* and then on *Thursday*, um, Israel started to, uh, aggressively bomb Lebanon and then on *Friday*, these attacks delayed negotiations. Um, Vance first canceled his Switzerland trip, then restarted it. Um, and on an interesting perspective, 11 tankers holding about 20 million barrels actually left the Iranian port of Chabahar on the Gulf of Oman this week. So Iran was actually able to send its oil, but shortly after it sent its oil because of the continued bombing, it actually stopped allowing, uh, non-Iranian vessels to leave. Um, then on *Sunday*, Iran walked out of talks, um, after Trump said that Iran must immediately stop their highly paid proxies in Lebanon from causing trouble. If they don't, we will hit Iran very hard again, just like we did last week, only harder.

Um, so whether that's right or wrong, you normally don't say those types of things like during an actual peace meeting, um, which was not taken well. Um, so now basically Iran, and that's actually never been done in history, you know, during a peace, a live peace negotiation threatening another country with bombs. Um, so Iran now said that they will not return until they receive an apology, which they probably won't, and Lebanon attacks stop, which they probably won't. So Iran basically, um, has said it won't return to Switzerland, and I don't expect they'll return for for Switzerland for several days now. Um, and there's really no, um, end to the conflict in sight. Bill Ackman, uh, smartass, basically said he doesn't understand who is going to invest in a $300 billion reconstruction fund for Iran. Obviously, the only country that has those types of funds would be the US, uh, and some Middle Eastern nations. But the funny thing is, people say the US is not going to fund it. Who the fuck do you think is going to fund it?

Saudi Arabia, Qatar, all these Middle Eastern nations have promised, you know, over a trillion dollars, uh, in US infrastructure, right? If the US is not going to fund it, they're just going to take, they're just going to take back what they were going to spend on the US and fund it. There's no one else in the world that's going to fund Iran's reconstruction. So it's either going to come from the US or it's going to come from funds that were promised to the US from the Middle East now that the Middle East has had tens of billions of infrastructure projects destroyed. And for anyone who doesn't understand that, you know, you read, you need to gather some brain cells. It's either going to come from the US, US companies, or it's going to come from the Middle East that is going to take away funds that were going to be spent on the US, uh, that they can't afford to now spend on the US because they have to rebuild themselves. Um, and that's why we don't trust the government because they're completely full of shit and can't explain that simple concept to the public.

FOMC Meeting Details and Warsh's Approach - 00:58:00

Um, so the very specific details on the FOMC meeting, almost excruciating detail on Warsh, uh, and the minutes, uh, you can read on page 31. I'm not going to spend a lot of time going through this because we did summarize it earlier in this piece. Uh, so on page 32, Warsh's, uh, 2:30 p.m., uh, speech, um, and page 33 is discussed, and then you can see FOMC members see inflation risk, they're less worried about jobs in the white and blue lines on page 33.

Um, and then on page 34, you can see a graphical representation of real GDP forecast, unemployment rate forecast, core PC inflation forecast, um, in the *March* SEP and then the *June* SEP. So you can see a spike in inflation expectations, a drop in GDP, and then an expected Fed funds rate, uh, on page 34. And then you can see the yield curve flattening almost real-time in the in the meeting, and then a, um, 15 basis point spike in the two-year yield at the bottom of page 35, and then, you know, the nine FOMC members that called out rate hikes, and the new FOMC minutes that were cut back about 70% on page 36.

On page 37, you can see that the Bank of Japan is gradually raising, uh, its interest rates, uh, up to 1%, which is the highest since 1995. ECB also hiked in *June* and said that hikes are not over, especially if there's no peace. The ECB could actually hike in *July*, which in my opinion would send Europe into a recession. And that's not being priced in by the market at all at the moment, which could mean that European stocks could be a short and European credit could be a short if the ECB hikes again in *July*.

We are going to see PCE on *June 25th*. Um, with the May PPI and CPI in hand, forecasters expect core PCE to print around 0.35% in *May*. That would raise the year-over-year rate to 3.4%. The six-month annualized PCE would climb to 4.1%, which is the highest since *June* of *2023*, which is why the Fed is so scared. Both measures were below 3% in the year-earlier period. And basically this war has crushed crypto, it's crushed gold, and it's crushed real estate, uh, because there's no way the Fed can actually cut interest rates this year. As I'm speaking, the US **Nasdaq** is now down almost 1%. The small-cap **Russell** is down about 80 bips and the **S&P 500** is down about 60 bips.

Data Center Delays - 01:00:33

The other important topic that we, uh, discussed last week and many people are discussing is data center delays. Uh, so **Jefferies** and **JPMorgan** wrote some pretty detailed pieces about how they think, you know, 70% of data centers that were supposed to be built by *2027* haven't even struck ground. Um, semi-analysis challenged this to a bit, but they didn't have like a really good conclusion. I think they're basically saying that it's not 70%, it's under 50%, but there's still a huge delay in data centers because of power bottlenecks, memory bottlenecks.

Um, the $700 billion AI infrastructure buildout hit a wall that capital alone cannot fix. And **Jefferies** laid out why. If you can see in the table below, um, the data center pipeline chart shows an announced capacity surge surging from 6.9 gigawatts of data centers in *2025* to 24.1 gigawatts in *2026*, peaks at 44 gigawatts in *2027* and sits at 40 gigawatts in *2028*. This pipeline looks like an unstoppable infrastructure build out, except for the fact that most of the announced data center builds have not even been started yet.

Jefferies basically says that about 50% of *2026* data centers and 80% of *2027* and *28* data centers do not appear to have even started. **JPMorgan** independently confirmed it, finding that over 60% of data center capacity planned for *2027* has not broken ground, with another 7% already flagged as delayed. Site Light Climate put the raw numbers behind it. Of the roughly 12 to 16 gigawatts of US capacity announced for *2026*, only about 5 gigawatts is actually under active consideration, meaning the rest is still paper.

The reason is that so much of the announced pipeline is stalled is not capital, but just physics. High-voltage transformer lead times that ran 12 to 18 months in *2022* have extended to 30 to 36 months. There are simply not enough transformers to build the power necessary for these data centers to be completed. Some of the voltage transformer lead times are up to five years, a catastrophic mismatch for data centers that need to deploy them within 18 months to match AI demand. Grid interconnection queues in high demand areas like Texas, Virginia, and the Carolinas have grown to three to five years, meaning that projects that broke ground in late *2024* and expected to be online by mid-*2026* are finishing construction and finding that they can't physically receive power or put GPUs to work. Capacity market clearing prices in these regions reflect that scarcity, hitting $329 per megawatt day in *2026*, up from $28.92 the year before, a 1,037% increase in a single year. Power generation cancellation data makes it significantly worse. The second chart on page 40 shows postponed power generation projects across every major category: solar, natural gas, batteries, onshore wind, and offshore wind, all trending sharply higher from *April 2023* through *April 2026*. Battery cancellations in Texas's ERCOT, which **Jefferies** specifically flagged as a key forward indicator, are accelerating precisely when they should be expanding to support new data center demand. The conclusion is that headline pipeline figures materially overstate the capacity that will actually come online. Solar and battery project attrition is accelerating just as data center demand firms and the supply environment is getting tighter. What this means for the AI infrastructure trade is direct and consequential. When 50% of the *2026* capacity and 80% of *2027* capacity is on paper rather than under construction, the AI compute shortage does not ease on the timeline the market is currently pricing, but rather actually extends. Every gigawatt that slips from *2026* to *2027* or *2028* is a gigawatt of compute that hyperscalers, model labs, and enterprise AI teams cannot access, which means they will pay a premium for whatever capacity actually exists. And the companies already that already have operational data centers and secured power today are not in a competitive market. They're in a market where they will receive a premium. They're in a seller's market with no meaningful competition for longer than consensus currently believes. So this is an environment where companies like **DGX**, uh, where **CoreWeave**, um, where **Nebius**, where all these names will, uh, have higher lease rates until data centers can actually be built. So despite, you know, Chanos being negative on the space, um, it still has another year or two, I think, before, at least a year, before this bubble really blows up given all the delays that we're seeing in the data center build out.

Now, semi-analysis, you know, uh, Nutson, Barkin, and Onteveros, uh, wrote a piece on *June 18th* that basically said that, hey, while the data center, uh, capacity has been delayed, uh, it hasn't been delayed as much as, um, these banks are saying. You know, the first rumors of big delays came on *April 1st* in Bloomberg's piece, America's AI build out hinges on Chinese electrical parts, which framed the *2026* capacity slowdown as a consequence of fragile, China-dependent equipment supply chain. Okay, so that was actually partially true because a lot of the voltage transformers, etc., come from Asia. Bloomberg, you know, didn't lead with that framing, but within days, TechRadar, Tom's Hardware, the Register, and other news outlets ran sharper, more clickbait versions claiming half of data centers were canceled, and that's the version now circulating.

Basically, uh, semi-analysis said that they were first and, um, it's really a bunch of, you know, kind of a, it's kind of a bullshit piece to get you to buy their database. Um, but what they're saying is they're the first to to note that colocation delays and data and hyperscalar delays were happening. Um, but the delays are not as bad as **JPMorgan** and **Jefferies** say. But the conclusion is really that data centers are highly delayed. Whether it's 40% or 70%, um, there's going to be demand for compute that far exceeds supply. Um, you know, in the near term.

Microsoft, OpenAI, and the Shift to Usage-Based AI Pricing - 01:02:59

In the longer term, we're seeing, you know, that that, um, corporations are starting to balk at AI pricing, and even companies like **Microsoft** are now including **DeepSeek** native models as a way to, um, lower their AI spend. So **Microsoft** plans to move Copilot to usage-based pricing with open-source AI model **DeepSeek** instead of **OpenAI** or in addition to **OpenAI** due to high cost of implementation. Even though this represents less than 5% of pro-forma revenue for **OpenAI**, the risk to **OpenAI** ahead of its IPO is that others could follow suit, creating a bigger issue.

Microsoft CEO Satya Nadella's shift to offer **DeepSeek** version 4 alongside a move to usage-based token and pricing for Copilot's co-work is an absolute watershed moment for the AI industry. The era of all-you-can-eat flat-rate corporate subscriptions is ending because agentic AI, AI that continuously plans, codes, and loops in the background is dramatically more expensive to run than simple chatbots. The financial and strategic ripple effects across tech hardware and venture capital break down as follows:

AI models are cost-prohibitive. So **OpenAI**'s ChatGPT 5.5 and **Anthropic**'s **Claude** 4.8 have priced themselves into a corner. Reportedly, **DeepSeek**'s version 4 costs roughly one-third as much as **Claude** for inputs and one-seventh as much for outputs, then taking away pricing leverage. **Microsoft**'s, uh, **Microsoft** is **OpenAI**'s biggest backer, but Nadella is explicitly executing a multimodal platform strategy. He noted on X last week that we do not want a world where enterprises seed all value to a small number of models. By introducing a hyper-efficient open-source competitor, **Microsoft** is stripping **OpenAI** of its premium pricing leverage.

Now, what could this mean for hardware? Um, the shift to open-source, highly optimized mixture of experts or MOE architectures like **DeepSeek** means that enterprise software can achieve the same results using significantly fewer compute cycles. If the industry shifts from bloated massive frontier models to lightweight, fine-tuned open-source models, the frantic exponential panic buying of premium AI chips could cool down longer term.

On the bull side, um, the AI is moving to a usage-based enterprise billing, which means that there will be a lot more AI consumed. This transforms AI into a metered utility like electricity or **AWS** cloud storage, and enterprise enterprises optimize their their cost via cheaper models, total volume, and actual utilization of AI agents will skyrocket. The sheer scale of agentic workflows running continuously will still require an immense, unyielding baseline of infrastructure. This development explains exactly why the public market has started applying heavy discounts to proxy investment vehicles holding pre-IPO tech blocks. Closed and venture vehicles like DXYZ or VCX that we are heavily short, uh, or even **Parallax PWRL**, all have concentrated secondary allocations in **OpenAI** and **Anthropic**. Both of which are currently in the confidential stages of preparing for trillion-dollar IPOs. With **Microsoft** proving that it will happily swap out open-source models to preserve its own corporate margins, the public markets are realizing that the long-term enterprise software moats of **OpenAI** and **Anthropic** are far less secure than originally hyped.

There's also a political issue. So this move introduces a massive geopolitical paradox. The Trump administration has been actively tightening restrictions on advanced AI models leaking out of the United States. Now, **Microsoft**, one of America's most financial tech institutions, is adopting a model born out of a Chinese lab, simply because the raw economics of American frontier models are unsustainable. To protect itself from political blowback, **Microsoft** has heavily modified the model to make its make it its own, layered it is with Western safety bias overrides, and restricted it entirely to self-hosted Azure environments.

You know, on a similar note, **JPMorgan** also blocked, uh, using **Claude** in Hong Kong because of its cost, but also because of some compliance issues. On the following page 44, you can see that, you know, screenshots of the **JPMorgan** um, execution, and then on page 44, you can also see the AI trade is extremely crowded, you know, with, um, according to **BofA**, you know, 80% of investors saying that AI trade is too crowded versus, you know, roughly 72% in *May* and, uh, only 25% in *April* of *2026*.

If you look at the options flow of **Micron**, **Marvell**, **Intel**, **Dell**, or **Oracle**, um, on *Friday* on page 45, you know, they were at unbelievable highs. Um, you know, AI was almost every single, uh, option, was the highest, uh, volume across those five five companies. Um, and one interesting thing is that despite the the boom in AI, just like we saw the boom in internet, um, you know, biggest companies that should benefit from AI are actually underperforming. So **Microsoft**'s stock is down over 20%, you know, from its highs and now Michigan pension fund is suing them because they said that AI cloud computing profitability would be higher than it really is. Um, when, you know, **Microsoft** obviously has an, I believe that this lawsuit, you know, they won't win the lawsuit, but it just shows how frustrated investors are. You guys can read the piece.

Um, and what we've noticed also is that private credit withdrawals continued. We had another, we've had several billion of, um, withdrawals from interval funds. **Thoma Bravo** took a $5.1 billion write-down, and **Blackstone** took another $2 billion write-down on, um, along with the other lenders because there's 3 billion in debt, um, and the private credit loan take-back paper is now 40 cents on the dollar. So there's roughly an 85% write-down on that structure. And it kind of just shows you that the private credit contagion is frankly not over. The market's been ignoring it, but eventually defaults will rise. They're about 6% according to, um, to **Fitch** right now.

So, you know, we quickly went through that 47 pages. Um, again, to wrap it up, you know, we think that Warsh, um, will reveal more of his true colors six weeks from now depending on the Iran war peace treaty. PCE will be very important next week. In terms of earnings, **Micron** will be the most important earnings next week. Um, in terms of special situations, we talked about the **Honeywell** spin-off, **HONA**. We talked about, um, **Caesars** potentially selling its Atlantic City assets. We talked about **Roku** being bought by **Fox A**. We talked about **Netflix** not being interested in **Roku** or **Lionsgate**. We talked about, um, **Warner Brothers**. We talked about, um, **Two Harbors**, uh, in the merger section. We talked about bare positioning in gold being too high and adding gold exposure along with the **Alamos Gold**, uh, which we'll double again. So we doubled from five bips to 10 bips. We'll likely double it via US shares on *Monday*, especially if they're down with this, uh, this market sell-off due to the, um, due to Iran leaving Switzerland today.

Um, then we talked about, um, the real estate special situation, **FPH**, potentially being a triple, uh, because of its prime quality real estate near Orange County, at Great Park neighborhoods. Um, we also talked about adding to high dividend names like **Dynex**, **NLY**, and **Redwood** with 14 to 16% dividends on this, uh, rate, uh, rate hike, uh, fear. And, um, we talked about, uh, **ServiceNow** being quite cheap, uh, and discussed briefly our DCF model on it and the company's business model. Then we talked about how the market has been ignoring, uh, **Salesforce**'s 55 billion share buybacks so far over the last three years and the accelerated 25 billion share buyback in *March*. Then we talked about, uh, **SpaceX**'s unlock and, you know, uh, how to hedge **Sats** and, uh, at the money put buying in **Sats** from probably **SpaceX** institutional holders.

Then we talked about the FOMC, the rate market, the Iran peace deal. Um, we talked about, um, the FOMC and, uh, the yield curve flattening. Then we talked about the Bank of Japan hike and the ECB hike, and then we talked about PCE and data center delays. So pretty detailed call. Um, we'll quickly go into Q the Q&A tab. We don't see any questions, so we'll end this call for today. Um, so we had, you know, several recommendations in this piece from gold special situations and ETFs to software, to real estate, um, land-based, uh, holdings that are interesting. Uh, and we discussed why futures are down 1% now with the **Nasdaq**. So I hope you guys have a blessed trading week. There will likely be, uh, names that we can buy, uh, next week, especially if oil were to spike further. Brent's already at 81.

Um, as you guys know, we bought oil last week, um, small amount of oil, um, given, you know, as a hedge, given we were, uh, worried of this, uh, peace deal happening, and it turns out we were right. Wish we bought more oil. Um, but because the the peace deal is, you know, is basically 75% done, um, the market's really not, um, pushing oil much higher. If it takes another few weeks for this peace deal to be signed, you could see oil going higher from here. Uh, so the risk-reward of oil when we bought it in the mid-70s, I thought were pretty decent. Um, so we'll close the call now. The recording will be up in a few minutes. You have the PDF, you have Joel Greenblatt's class on special situations, which we thought was very well done. You have the **ServiceNow** model, you have the **AGI** gold model, you have the **FPH** real estate write-up, uh, and you have the **Standard Chartered** piece on the Warsh FOMC meeting, which was a good read, **HSBC** on broadening market performance, **DB** on the **Anthropic** Mythos model, and the **BlackRock** earnings piece. So again, wish you guys a good week and we'll talk to you soon.

Date of Transcript: 2024-05-21
Filename: ssn_transcript_v6 - 2026-01-26 - @DA
Model (may not be accurate): Gemini 1.5 Pro
Prompt: ssn_transcript_v6 - 2026-01-26 - @DA
QA Check: Completed