

Condensed Report

- **Geopolitics & Futures:** Discussion of the wobbly Iran-US peace negotiations, recent weekend bombings, the attack on a Singaporean cargo ship in the Strait of Hormuz, US retaliation, and the ensuing market volatility. Futures showed a modest recovery at the open following news of renewed negotiation paths.
- **Macroeconomic Data & Fed Commentary:** Midweek PCE data came in better than feared (\$4.1\%\$ year-over-year). Analysis of New York Fed President John Williams' speech focusing on inflation containment, tariff effects, anchored expectations, and two-sided risks (AI boom vs. Middle Eastern disruptions).
- **Magnificent Seven & Hyperscaler Capex:** Deep dive into the \$5.3\$ trillion market cap sell-off in mega-cap tech (**Microsoft, Meta, Alphabet, Tesla, Nvidia, Amazon, Apple, and Oracle**) since *October of last year*. The sell-off is driven by massive capex investments into data centers with unproven short-term ROI, resulting in free cash flow compression.
- **Open-Source Chinese AI Shift:** Insight into a major enterprise structural shift where \$60\%\$ of US companies (e.g., **Uber**) are migrating to cheaper, open-source Chinese AI models (**DeepSeek, Qwen, MiniMax, GLM, Kimi**) for model routing to control ballooning budgets.
- **Semiconductor Industry & Micron Earnings:** Examination of the **iShares Semiconductor ETF (SOXX)** performance (\$107\%\$ return year-to-date). Comprehensive breakdown of **Micron (MU)**'s massive earnings beat, \$85\%\$ gross margins, and their game-changing 16 strategic customer agreements (take-or-pay contracts).
- **Special Situations & M&A Update:** Updates on US public M&A volumes (annualizing up \$19\%\$ vs. 2025); **Paramount's** acquisition of **Warner Brothers**; **ProAssurance (PRA)** sale approval; **S&P's** spinoff of its global mobility division; **Varonis (VRNS)** exploring a sale; and **GME's** ongoing pursuit of **eBay**.
- **Income & Credit Special Situations:** Analysis of **Rhythm Capital (RITM)** Series F preferred shares yielding over \$9\%\$. Review of private credit redemptions at **Apollo** and **Ares**. Strategic opportunities in distressed crypto-linked preferreds such as **MicroStrategy (STRC)** and **Asasta (ASST)**.
- **Alamos Gold (AGI) Deep Dive:** Evaluation of the seismicity event at the **Young Davidson** mine, the minor structural damage vs. the massive equity sell-off, and the high-grade upside expansion at the Island Gold mine.
- **Bit Digital (BTBT) Special Situation:** Exploration of **Bit Digital (BTBT)** trading at a \$43\%\$ discount to its net asset value due to its \$70\%\$ ownership stake in the debt-free infrastructure firm **White Fiber**.
- **Sea Limited (SE) Sum-of-the-Parts Valuation:** Long-term allocation analysis of **Sea Limited (SE)** highlighting its **Migu** AI assistant application and a valuation showing over \$100\%\$ structural upside.
- **Q&A Portfolio Updates:** Detailed breakdowns of **Redwood Trust (RWT)** interest rate sensitivities and capex/valuation models for **Amazon (AMZN)** and **Google (GOOGL)**.

Actionable Items

Macro Trends to Be Aware Of

- **Capex-Driven De-rating:** Investors are actively punishing massive corporate capex programs that possess unknown or distant ROIs, causing significant multiple compression in previously bulletproof mega-cap models.
- **AI Enterprise Cost Optimization:** US enterprises are aggressively utilizing "model routing," shifting simpler computing tasks to open-source Chinese models to optimize operational budgets.
- **Memory Chip-Induced Consumer Inflation:** Escalating memory chip costs are no longer being absorbed by hardware producers; they are being actively passed through to consumer retail pricing (e.g., **Apple** electronics and **Microsoft** Xbox consoles) and forcing vehicle manufacturers to scale back second-half 2026 production by

\$15\%-20\%\$.

Potential Additions to the Portfolio

- **Rhythm Capital (RITM) Series F Preferreds:** Buy below par value to capture a stable $\sim 9.2\%$ quarterly distribution yield, backed by a robust \$5.3\$ billion equity cushion.
- **Alamos Gold (AGI):** Accumulate shares for long-term allocation following an irrational, oversold reaction to a minor mine tremor, exploiting its eventual re-rating via high-grade Island Gold mill expansions.
- **MicroStrategy (STRC) Preferreds:** Accumulate the 10% non-cumulative perpetual preferreds around the mid-to-high 70s price range, positioning for a price recovery toward par value as liquidity risks stabilize.
- **Asasta (ASST) Preferreds:** Monitor and selectively buy into the low 80s to clip a clean 15% distribution yield backed by a debt-free corporate balance sheet.
- **Mega-Cap Quality on Drawdowns:** Incrementally accumulate long-term pillars like **Microsoft (MSFT)**, **Alphabet (GOOGL)**, and **Amazon (AMZN)** via leaps or equity during severe valuation compressions, avoiding overly aggressive sizing due to intermediate price discovery.

Potential Reductions in the Portfolio

- **FactSet (FDS):** Reduce or exit allocations; underperforming preferred alternative sector benchmarks like **S&P Global** and **Moody's**.

Potential Additions to Shorts

- **SpaceX (SPCX) Long-Dated Bonds:** Utilize the ultra-long-dated 2056 corporate bonds as a macro hedge against the broader AI infrastructure spend cycle, as a modest 100-basis-point expansion in credit spreads offers outsized downside pricing shifts due to high duration.

Ideas Worth Monitoring for Future Portfolio Actions

- **Domino's Pizza (DPZ):** Monitor the severe drawdown down to the high \$200s caused by GLP-1 fears and same-store sales deceleration; represents a high-quality fast-casual industry operator approaching deep value territory.
- **Varonis Systems (VRNS):** Track private equity bidding progress after the firm announced it was weighing a formal sale process.
- **Hudbay Minerals (HBM):** Keep on active watch lists as a preferred vehicle for long-term industrial copper demand exposure.

Stock Symbols & Company Names List

SE, Sea Limited

MU, Micron Technology

AAPL, Apple Inc.

MSFT, Microsoft Corporation

AGI, Alamos Gold

RITM, Rhythm Capital Corp.

VRNS, Varonis Systems, Inc.

AVAV, AeroVironment, Inc.

NKE, Nike, Inc.

STZ, Constellation Brands, Inc.

GIS, General Mills, Inc.

FDS, FactSet Research Systems Inc.

SPGI, S&P Global Inc.

MCO, Moody's Corporation

META, Meta Platforms, Inc.

GOOGL, Alphabet Inc.
TSLA, Tesla, Inc.
NVDA, NVIDIA Corporation
AMZN, Amazon.com, Inc.
ORCL, Oracle Corporation
PLTR, Palantir Technologies Inc.
PRA, ProAssurance Corporation
GME, GameStop Corp.
EBAY, eBay Inc.
RWT, Redwood Trust, Inc.
INTC, Intel Corporation
AMAT, Applied Materials, Inc.
HBM, Hubsy Minerals Inc.
AEM, Agnico Eagle Mines Limited
KGC, Kinross Gold Corporation
B2G, B2Gold Corp.
DPM, Dundee Precious Metals Inc.
LUG, Lundin Gold Inc.
OGC, OceanaGold Corporation
BTBT, Bit Digital, Inc.
WDC, Western Digital Corporation
STX, Seagate Technology Holdings plc
ANTH, Anthropic
LMT, Lockheed Martin Corporation
RTX, RTX Corporation
NOC, Northrop Grumman Corporation
GD, General Dynamics Corporation
BA, The Boeing Company
SWBI, Smith & Wesson Brands, Inc.
RGR, Sturm, Ruger & Company, Inc.
POWW, AMMO, Inc.
NPK, National Presto Industries, Inc.
AXON, Axon Enterprise, Inc.
LHX, L3Harris Technologies, Inc.
HII, Huntington Ingalls Industries, Inc.
TXT, Textron Inc.
APO, Apollo Global Management, Inc.
ARES, Ares Management Corporation
MSTR, MicroStrategy Incorporated

Economic Calendar

Date of Event	Event	Summary of Commentary
Tuesday, June 30, 2026	Consumer Confidence	Upcoming data point; not anticipated to alter current broader market trajectory.
Tuesday, June 30, 2026	Nike (NKE) Earnings	Key large-cap consumer discretionary reporting event.
Tuesday, June 30, 2026	Constellation Brands (STZ) Earnings	Major consumer beverage industry report.
Wednesday, July 1, 2026	ADP Employment Change	Private payroll data indicator.
Wednesday, July 1, 2026	S&P Manufacturing PMI	Monthly indicator tracking manufacturing sector momentum.
Wednesday, July 1, 2026	ISM Manufacturing	Crucial manufacturing baseline; unlikely to cause near-term macro shocks.
Wednesday, July 1, 2026	Construction Spending Change	Real estate/infrastructure investment health indicator.
Wednesday, July 1, 2026	General Mills (GIS) Earnings	Key consumer staples corporate performance update.
Wednesday, July 1, 2026	FactSet (FDS) Earnings	Corporate report; noted as an underperforming business relative to SPGI and MCO .
Upcoming 2026	Non-Farm Payrolls	Key labor market diagnostic data release.
Upcoming 2026	Durable Goods Orders	Manufacturing demand and capital goods investment tracker.
Upcoming 2026	AeroVironment (AVAV) Earnings	Highlighted tactical reporting event on the defense technology side.

Report Details

Iran-US Geopolitical Conflict & Market Volatility Timeline

The ongoing military friction between the United States and Iran remains a source of short-term financial market volatility. A recurring pattern has emerged where tactical military actions and diplomatic statements appear tightly correlated with Western market operating hours.

- **Monday:** Iranian officials reported constructive structural progress regarding the parameters of an interim peace treaty. This led to a brief compression in crude oil prices (**USO**) while broader equity indices remained relatively unchanged following a prior \$0.5\%\$ to \$1\%\$ drawdown.
- **Midweek Developments:** The state of Qatar announced that all active parties had agreed upon a conceptual roadmap designed to culminate in a finalized peace treaty within a 60-day window. Concurrently, US Senator J.D. Vance indicated positive momentum in diplomatic talks before departing Switzerland. Under this framework, the Strait of Hormuz was reopened, an international maritime safety transit mechanism was proposed, and Iran agreed to host official inspectors to examine domestic nuclear stockpiles.
- **Sanctions Relief:** The US Treasury issued a 60-day temporary general license, effective until *August 21, 2026*, waving key Iranian energy sanctions. The parameters of this license cover crude oil exports, shipping operations, and ancillary petrochemical services.

- **Thursday Friction:** Diplomatic progress stalled when Iran proposed levying an estimated \$40 billion annual maritime toll as a operational requirement for keeping the Strait of Hormuz accessible. This demand met intense resistance from US lawmakers, notably Senator Marco Rubio.
- **Military Escalation:** On *Thursday evening*, the Iranian Islamic Revolutionary Guard Corps (IRGC) executed a drone and missile attack targeting a Singaporean-flagged commercial cargo vessel, alleging it utilized an unauthorized transport route. In rapid response, Donald Trump ordered targeted US military strikes executed on *Friday*. The strikes hit Iranian radar centers, satellite ground systems, drone storage facilities, and coastal missile positions. Iran retaliated with targeted strikes against regional positions housing US personnel, including two airbases, while Bahrain condemned Iranian drone incursions into its sovereign territory.
- **Market Impact:** Maritime traffic through the Strait of Hormuz plummeted from a peak of over 50 vessels per day down to 24 by weekend's end. According to reports, the Pentagon intentionally delayed publicizing the military strikes until after *Friday's* 4:00 PM EST equity market close to blunt immediate systemic panics. Following a weekend of back-and-forth actions, **Axios** reported that both nations agreed to resume structural negotiations as futures trading commenced on *Sunday evening*, prompting a brief relief bounce across the **S&P 500**, **Nasdaq**, and **Russell 2000** futures before the rally began to fade.

Magnificent Seven Valuation Drawdowns & The Hyperscaler Capex Arms Race

A significant market shift is underway within the US mega-cap technology ecosystem. Since peaking in *October of last year*, the Magnificent Seven cohort has shed roughly \$5.3 trillion in cumulative market value. Individual peak-to-trough drawdowns reveal severe multiple compressions across the entire sector:

- **Microsoft (MSFT):** Down 35% from local highs, pacing toward its worst singular monthly equity performance since 2008 with a 19% drop in *June*.
- **Meta Platforms (META):** Down 33% from local highs.
- **Alphabet (GOOGL):** Down 20% from local highs.
- **Tesla (TSLA):** Down 20% from local highs.
- **NVIDIA (NVDA):** Down 18% from local highs.
- **Amazon (AMZN):** Down 18% from local highs.
- **Apple (AAPL):** Down 13% from local highs.
- **Oracle (ORCL):** Emerges as the worst absolute performer within the broader cloud infrastructure tracking peer group.

Initially, this structural liquidation was driven by public shareholders rejecting management decisions to redirect free cash flows into multi-billion-dollar data center builds with unproven short-term ROIs, rather than supporting stock buyback programs and dividend distributions. This infrastructure expansion is funded by five core hyperscalers: **Google**, **Meta**, **Amazon**, **Microsoft**, and **Oracle**. These entities are spending almost all of their corporate operating cash flows, aggressively tapping corporate debt markets, and diluting equity bases to fund the AI hardware cycle.

While GAAP operating margins continue to expand, public markets are discounting forward valuations because these tech giants are forced to lever up their balance sheets to stay competitive in this technology arms race. The **iShares Semiconductor ETF (SOXX)** has surged 107% year-to-date, fueled by this capex spend, while the **Roundhill Magnificent Seven ETF (MAGS)** has declined 8%. Aggregate free cash flows across the five core hyperscalers dropped from nearly one-third of a trillion dollars at the end of 2024 down to zero in 2026. Consensus expectations point to an annual capex spend reaching nearly \$1 trillion by 2028. The core beneficiaries of this cash layout remain concentrated among leading memory and chip architectures: **SK Hynix**, **Samsung**, **Micron**, **Nvidia**, **Broadcom**, and **AMD**.

Enterprise Shift Toward Open-Source Chinese Artificial Intelligence Models

A structural shift in corporate software deployment is presenting a direct headwind to mega-cap US AI monetization. Data from financial institutions, including a **UBS** enterprise survey, indicates that 60% of US corporations are actively monitoring software development budgets and shifting workloads toward cheaper, open-source Chinese AI models.

This corporate pivot is driven by ballooning operational costs. For instance, **Uber** completely depleted its internal annualized AI allocation within a single fiscal quarter due to employee infrastructure bills reaching up to \$35,000 per month per worker. To mitigate these extreme costs, enterprises are adopting a practice known as "model routing." This strategy directs basic automated tasks to low-cost open-source models, reserving expensive western frontier platforms like **Anthropic's** Claude or **OpenAI's** GPT models for advanced logical reasoning, complex software coding, and long-context documents.

The primary open-source Chinese frameworks gaining market share include **Qwen, DeepSeek, MiniMax, GLM, and Kimi**. These models are attractive to enterprise cost models because they can be run locally on corporate infrastructure or integrated directly via enterprise cloud catalogs. The shifting market dynamics over a 12-month period illustrate this trend:

Enterprise AI Model Market Share Shift (June 2025 vs. June 2026)

Model Provenance Cohort	Market Share (June 2025)	Market Share (June 2026)
US Frontier Models (Google, OpenAI, Anthropic)	\$70\%	\$30\%
Independent / Non-US Non-Chinese Models	\$10\%	\$20\%
Chinese Open-Source Models (DeepSeek, Tencent, Xiaomi, etc.)	\$15\%	\$45\%

This market share shift has led prominent international asset managers, including Yang Dong of **Wheelock Spring Asset Management** (noted for calling market peaks in 2007), to warn of a structural AI bubble. They point out that high token pricing models are unsustainable for long-term corporate adoption. Additionally, specialized commodity producers like **Micron** lack defensive moats against long-term, state-subsidized Asian capital entering the memory manufacturing sector over the next decade.

Special Situations, Merger Arbitrage & Corporate Actions Corporate Update

- **M&A Volumes:** Despite a brief deceleration during the height of the Middle Eastern conflict, annualized US public merger and acquisition volumes are tracking up roughly \$19\% relative to 2025 performance benchmarks.
- **Paramount (PARA) / Warner Brothers (WBD):** Reports indicate the European Union is positioned to grant antitrust clearance for **Paramount's** acquisition of **Warner Brothers**. This clearance is conditional on accepting specific regulatory remedies, including the potential exit of Sky from its active Universal Pictures International joint venture.
- **ProAssurance (PRA):** The long-delayed corporate sale to **The Doctor's Company** achieved final regulatory approval and officially closed on *Friday*. While the closing took 16 months from the initial transaction announcement—testing arbitrageurs' patience—it still delivered a structural \$7\% annualized internal rate of return (IRR) from day one.
- **S&P Global (SPGI):** The planned spin-off of the company's global mobility division officially commenced when-issued trading operations on *Friday*, with regular-way public trading scheduled to begin this week.
- **Varonis Systems (VRNS):** Equity shares of the cybersecurity firm rallied \$10\% following public confirmation that management is working with financial advisors to evaluate a potential sale of the company, following inbound acquisition interest from private equity firms.
- **GameStop (GME) / eBay (EBAY):** **GameStop** management adjusted its corporate governance by removing its Chief Executive Officer performance equity award structure. This move allows the executive team to focus entirely on pursuing a public acquisition of **eBay**. While public analysts question **GameStop's** capacity to raise sufficient debt capital to satisfy the cash component of such a transaction, the target equity reacted strongly. **eBay** shares climbed from a historical *November* low of \$80 up to a peak of \$120 per share before dropping back to \$104 on *June 22nd*.

Income & Credit Architectures: Rhythm Capital & Distressed Perpetual Capital

- **Rhythm Capital (RITM) Series F Preferred Shares:** **Rhythm Capital** operates as a diversified asset management firm, supported by its acquisition of **Oxif**, a robust mortgage servicing rights portfolio (which provides a natural hedge against rising interest rates), and a diversified real estate investment trust (REIT) sleeve. Boasting a \$5.3 billion equity market capitalization and generating \$1.1 billion in annualized corporate operating income, the business trades at roughly five times trailing earnings. The common equity distributions currently yield 10.6%. However, the fixed-income opportunity resides in the Series F Preferred shares, which yield over 9.2% because they trade slightly below par value. Given the \$5 billion common equity cushion insulated below the preferred shares, the trade represents a covered risk-reward profile (rated 2 out of 5 on an internal risk scale where treasuries represent 1).
- **Private Credit Redemptions:** Liquidity risks within the shadow banking system are resurfacing. **Apollo Global Management's** flagship private credit fund received investor redemption requests totaling 17% of assets under management, of which they honored only the 5% structural limit. Similarly, **Ares Management** faced a 14% redemption wave. These liquidity constraints have forced private equity executives to take out personal loans against future carried interest allocations to secure liquidity.
- **Crypto-Linked Capital Structures:** High volatility in the digital asset space has created pricing dislocations within crypto-adjacent preferred shares. **MicroStrategy (MSTR)** perpetual preferreds dropped down to 50 cents on the dollar, driven by the fact that their 10% distribution coupons are non-cumulative. Buying these instruments in the mid-to-high 70s offers a path to capture a 30% total return as pricing normalizes back to par. Similarly, **Asasta (ASST)** preferred instruments, backed by a debt-free balance sheet, are trading at distressed levels that yield a 15% distribution.

Alamos Gold (AGI): Mine Tremor Mispricing Analysis

Shares of North American precious metals producer **Alamos Gold** experienced heavy selling following a localized seismicity event (a minor underground tremor) at its **Young Davidson** operating asset. This sell-off has created a valuation discrepancy relative to its mining peers. North American mining assets generally command premium valuations because they lack the geopolitical and labor risks found in emerging market jurisdictions like South Africa or Mali.

The structural impact of the tremor is limited. The localized shift occurred at the 9410 level, roughly one kilometer underground. The incident temporarily disrupted access to a singular underground drift tunnel out of a larger three-shaft network. It caused zero injuries or fatalities and no damage to major underground machinery. Remediating the drift tunnel requires clearing loose rock and reinforcing the tunnel walls with specialized cable bolts and rebar. Total capital expenditures for this cleanup are estimated at an insulated \$25 million.

While the physical cleanup will require several months of manual labor, the long-term impact on the company's Net Asset Value (NAV) is negligible. The **Young Davidson** asset represents only 14% to 16% of the company's consolidated NAV. Total production at this mine was temporarily cut by 2,500 tons per day against an annualized corporate target of 5,000 tons, which was tracking toward 8,000 tons per day by late 2026.

Alamos Gold (AGI) Asset Valuation & NAV Breakdown

- **Island Gold Asset:** Valued at **\$27.00 per share**, representing 60% of total corporate NAV. It features high reserve grades of 10.5 grams per ton (five times higher than Young Davidson) and low cash extraction costs of \$988 per ounce against global gold spot prices trading near \$4,000 per ounce.
- **Young Davidson Asset:** Valued at **\$7.00 per share** (downrated from \$10.00 to account for the temporary operational delay).
- **Lynn Lake Asset (Manitoba):** Valued at **\$7.00 per share**.
- **Mulatos Operating Asset:** Evaluated at normalized baseline production levels.
- **Corporate Cash Equivalents:** Adds **\$3.60 per share** (\$1.5 million net cash position).
- **Total Structural Target NAV:** Formulated at **\$48.00 per share**.

Historically, **Alamos Gold** traded at a premium multiple of 1.2x Net Asset Value. Following this localized incident, forced selling compressed its multiple down to 0.8x NAV, causing it to trade at a discount to emerging market miners like **B2Gold (BTG)**, **Dundee Precious Metals (DPM)**, and **Lundin Gold**. Management aims to double total milling throughput at Island Gold from 10,000 tons per day to 20,000 tons per day. This expansion will allow them to blend production feeds, lower overall corporate cash costs, and drive long-term revenue growth.

Bit Digital (BTBT) & White Fiber Value Dislocation

Bit Digital represents a classic special situation asset mispricing. Originally structured purely as a digital cryptocurrency mining firm, the leadership team transitioned corporate capital out of volatile tokens into functional cash reserves, Ethereum staking, and high-performance computing (HPC) artificial intelligence infrastructure.

Bit Digital maintains a controlling 70% equity ownership stake in an unencumbered, debt-free AI infrastructure entity called **White Fiber**. This subsidiary provides high-performance graphics processing unit (GPU) hosting, cloud-based data solutions, and advanced colocation data center management services.

The valuation discrepancy lies in the market capitalization mismatch between the parent entity and the underlying asset. **White Fiber** commands an independent market valuation of \$1.5 billion. In contrast, the entire consolidated enterprise value of the parent organization, **Bit Digital**, trades at a market cap of only \$790 million. By adjusting for cash balances and accounting for the value of the underlying infrastructure asset, **Bit Digital** trades at a direct 43% to 44% discount relative to its net asset holdings.

Micron Technology (MU) Structural Transition & Strategic Agreements

Micron Technology delivered an historic corporate earnings report that marks its transition from a volatile, cyclical commodity business into a high-margin enterprise software partner. The company generated more profit this quarter than **NVIDIA** generated a year prior. Next quarter's guidance outpaces **NVIDIA's** Q3 2025 milestones, with **Micron** projected to deliver \$50 billion in revenue and \$35 billion in corporate profit. Following the earnings release, the stock jumped 16% to clear \$122.80 in after-hours trading.

For the fiscal third quarter ending *May 28th*, sales climbed to \$41.5 billion (beating Wall Street forecasts of \$35.6 billion), adjusted gross margins doubled to 85%, and EPS reached \$25.11 per share (beating consensus estimates of \$20.00). Driven by massive demand from **NVIDIA's** next-generation Vera Rubin AI architecture—which requires five times more memory bandwidth than previous iterations—**Micron's** quarterly operating income reached \$41.5 billion. This performance outpaced the operating income of the world's largest cash-generating enterprises:

Global Corporate Operating Income Comparison (Current Quarter)

- **Micron Technology (MU): \$41.5 Billion**
- **Microsoft (MSFT): \$38.0 Billion**
- **Alphabet (GOOGL): \$37.0 Billion**
- **Apple (AAPL): \$27.0 Billion**
- **Amazon (AMZN): \$22.0 Billion**
- **Meta Platforms (META): \$22.0 Billion**
- **Tesla (TSLA): \$1.0 Billion**

The key takeaway from the report was the unveiling of 16 Strategic Customer Agreements (SCAs). For 47 years, **Micron** operated as a volatile commodity business, vulnerable to the boom-and-bust cycles of DRAM and NAND spot pricing. These newly implemented SCAs are binding, multi-year, "take-or-pay" legal contracts running from 2026 through 2030. These contracts legally require customers to purchase predefined allocation volumes or pay severe financial penalties.

The pricing framework includes guaranteed price floors set high enough to ensure that even during a deep memory industry downturn, **Micron's** gross margins will remain above any historical peak cycle level. Furthermore, customers have provided \$22 billion in upfront cash deposits to secure these long-term allocations. Once fully executed, these SCAs will cover over half of **Micron's** total manufacturing output, transforming the business into a highly predictable, high-margin

revenue engine.

PCE Inflation Breakdown & Federal Reserve Monetary Policy Stance

Midweek macroeconomic data releases revealed that core inflationary inputs are tracking better than structural fear models suggested. The Personal Consumption Expenditures (PCE) metric logged a 4.1% year-over-year advance, matching consensus forecasts. On a month-over-month basis, the headline inflation reading came in at 0.4% against expectations of 0.5% , while Core PCE printed at 3.4% to match consensus expectations perfectly.

While the data triggered a brief relief rally across risk assets, markets quickly gave back those gains as participants digested the reality that a 4.1% PCE baseline remains significantly higher than the Federal Reserve's official 2.0% long-run target. New York Fed President John Williams addressed this dynamic, stating that current restrictive monetary policy is well-positioned to guide inflation lower over coming quarters. He outlined four structural drivers supporting this view:

1. **Tariff Peak Out:** The inflationary impacts of international trade tariffs have largely flushed through the domestic economic data and are beginning to fade.
2. **Supply Chain Normalization:** Supply chain bottlenecks related to the Strait of Hormuz conflict are viewed as transitory and are expected to stabilize.
3. **Housing Disinflation:** Domestic shelter and rental inflation data continue to show a steady slowdown.
4. **Labor Rebalancing:** Despite localized increases in white-collar corporate unemployment, there is no evidence of a wage-price spiral driving broader inflation pressures.

The Federal Open Market Committee (FOMC) elected to hold the target Federal Funds rate steady at 3.5% to 3.75% to maintain downward pressure on prices. Williams concluded by highlighting two-sided macro risks to the economic outlook: the ongoing capital expenditure boom in AI infrastructure could push asset prices higher, while potential energy supply chain shocks in the Middle East continue to threaten global growth, particularly across vulnerable emerging markets.

Inbound Investor Questions & Answers

Q: What is driving the recent sell-off in Redwood Trust (RWT), and does the dividend distribution remain safe?

A: Redwood Trust has experienced a sharp downward price adjustment, dropping to $\$4.81$ per share due to interest rate volatility and headline GAAP earnings shortfalls from their first-quarter earnings statement. Elevated mortgage rates have kept the broader US housing market flat, reducing overall housing turnover. This lack of market velocity has compressed industry profit margins on jumbo loan aggregations and originations, which are core to **Redwood's** business model.

However, this sell-off has created a value opportunity. At $\$4.81$ per share, the stock trades at a deep 33% discount to its stated GAAP book value of $\$7.12$ per share (a 3% reduction from prior quarters). Despite missing consensus earnings targets, the company's operating income delivered $\$0.21$ per share for the quarter. This fully covers its $\$0.18$ quarterly dividend distribution ($\$0.72$ annualized), translating into a covered 15% dividend yield. Backed by $\$200$ million in unrestricted cash reserves, **Redwood Trust** remains a compelling value opportunity, though a sustained recovery depends on macro interest rates ticking lower.

A: Are the massive AI-related capital expenditure increases at Amazon (AMZN) and Google (GOOGL) justified, and how should we manage position sizing?

A: Both **Amazon** and **Google** have significantly increased their capital expenditure forecasts, transforming their business models from asset-light cash cows into highly capital-intensive infrastructure businesses. **Google** surprised the market by raising its 2026 capex targets to between $\$180$ billion and $\$190$ billion—with 2027 projected to eclipse $\$200$ billion—requiring an extraordinary $\$85$ billion equity raise that caused its free cash flow to drop. Management is not spending

blindly; **Google** Cloud revenues jumped 63\% year-over-year to reach \$20\$ billion with strong 32.9\% operating margins and a solid \$168\$ billion contract backlog.

Amazon outspent the entire hyperscaler peer group by deploying \$44\$ billion in capital expenditures within a single fiscal quarter, putting it on track for an annualized capex run rate of \$200\$ billion. This aggressive expansion carries real risks: if enterprise tech spending cools over the next two years, **Amazon** will be left holding underutilized data center capacity while absorbing heavy hardware depreciation costs. This risk is evident as AWS operating margins contracted by 140 basis points down to 37.7\% due to intense pricing competition from **Google** and **Microsoft**.

On a positive note, AWS revenues reaccelerated, growing 28\% year-over-year to hit \$37.6\$ billion. Furthermore, **Amazon** possesses a highly valuable, hidden asset: its custom in-house chip division (producing Trainium, Graviton, and Inferentia silicon processors), which has quietly scaled to a massive \$20\$ billion annual revenue run rate. While both firms remain outstanding long-term holdings, investors should avoid adding outsized capital to these positions immediately. Given the escalating capex trajectories, timing the exact floor of this correction is difficult, making a gradual, long-term accumulation strategy the most prudent path.

Footer

- **Title:** 2026-06-28 - SSN - PCE Lower, MU Earnings, MAG7 Lags, AGI, BTBT 43Pct Cheap, RITM F 9Pct Prefs, SE Cheap - (report)
- **Creation Date:** 2026-06-28
- **Model (may not be accurate):** gemini-1.5-pro
- **Prompt Name:** ssn_report_v5 - 2025-12-07 - @DA