2026-06-28 - SSN - PCE Lower, MU Earnings, MAG7 Lags, AGI, BTBT 43Pct Cheap, RITM F 9Pct Prefs, SE Cheap

Agenda - 00:00

So we have quite a detailed call. Um, happy Sunday everyone. We are going to be covering PCE, **Micron** earnings, uh, semis causing price hikes at **Apple**, **Microsoft**. Uh, we're going to be talking about the continued Iran peace discussion, which is an ongoing project. We will also be discussing a follow-up on **Almos Gold**. I had some calls with some sell-side analysts. We will be doing a follow-up on **Sea Limited**, um, which is looking, uh, very cheap for a long-term allocation after the recent sell-off.

That's ticker SE.

Um, we'll also be discussing **Almos Gold** again. Um, **Rhythm** series F prefs, uh, which are yielding about 9%, available to all retail investors. They sold off over the last couple months with the rate volatility. And we'll be discussing **VRNS**, uh, which is effectively selling itself.

Economic Calendar and Earnings - 01:17

So on the first page, you can see the economic calendar. And the most important events that next week are consumer confidence, ADP employment change, **S&P** manufacturing PMI, ISM manufacturing, construction spending change, and non-farm payrolls and durable goods orders. But none of these events I think is going to make a big impact on the market. So I'm really not going to waste time going through the calendar. Same thing for earnings. Um, the most important earnings next week are going to be **AeroVironment** on the defense side, **Nike** on *Tuesday*, **Constellation Brands** on *Tuesday*, **General Mills** on *Wednesday*, **FactSet**, um, which we don't like versus **S&P** and **Moody's**. We like **S&P**, **S&P** and **Moody's** more, that's on *Wednesday*. Um, so that's really it. There, they're not very many companies, um, reporting next week.

Iran Peace Talks Update - 02:06

However, we are seeing, you know, futures. Um, we've seen a modest recovery, um, in the **S&P 500** futures from the open as, you know, right as futures open, you know, Iran and the US after bombings over the weekend, say that they are, um, open to a, um, peace negotiation.

And going forward, um, I do think that if you read the **Deutsche Bank** piece, you know, this is going to be a, a wobbly, uh, peace negotiation to say the least. And there will be continued volatility as it goes back and forth. Um, but what's very, uh, almost comical is that, you know, we saw *Friday* after 4:00 PM, um, there was news that was discussed about, I'll go into more detail, about the bombing of a Singaporean cargo ship. And obviously the US retaliated because it wants to protect the Strait of Hormuz. And then we had, uh, missiles, uh, directed at US air bases. And now as futures are opening, they're all, there's all of a sudden, uh, some sort of a, you know, renewed, uh, discussion. So it's just quite comical how this war, uh, is almost perfectly timed with the market closing and opening. Uh, you, you really couldn't make this up.

Magnificent Seven Sell-Off and Market Dynamics - 03:41

But more importantly, um, we need to discuss what's happening to the Mag 7. Um, so we've seen a serious sell-off in the Mag 7 stocks since, uh, the end of *October of last year*.

The Mag, Magnificent Seven, uh, tech stocks in the United States have sold off, uh, to the tune of about 5.3 trillion in market cap, uh, from their local highs in *October of last year*. So **Microsoft** is down 35%, **Meta** is down 33%, um, **Alphabet** is down 20%, **Tesla** is down 20%, **Nvidia** is down 18%, **Amazon** is down 18%, and **Apple** is down 13%.

Microsoft shares are poised for their worst monthly loss since *2008*, having plunged nearly 19% so far in *June*. **Oracle**, um, is, is actually the, the worst off, um, out of the group. So this sell-off was initially driven by Mag 7 free cash flow being invested aggressively into data centers without a known ROI, right, instead of dividends and buybacks which shareholders like. Now, memory chip inflation has negatively affected **Microsoft's** Xbox division, which they're actually looking to spin off. Um, and is also now being reflected in **Apple's** forward margins and price increases.

So this huge rally in AI infrastructure is made possible by a massive increase in capex from hyperscalers. The large cloud computing, uh, companies that are building physical infrastructure, um, **Google**, **Meta**, **Amazon**, **Microsoft**, and **Oracle**. It is these hyperscalers' willingness to fund huge AI infrastructure capex by spending nearly or completely all of their operating cash flow, tapping debt markets, and raising equity that has resulted in the semiconductor rally. But the market is now questioning whether these companies are investing their capital adequately. And while GAAP earnings margins continue to expand, you know, if a company like **Meta** has to leverage itself and add debt to its balance sheet, or a company like **Oracle** has to leverage itself, um, in order to show the market, um, that it is competing adequately in this new AI arms race, then the market won't give them full credit for the forward growth expectations.

So after all, the reason why **Micron** is able to print 85% gross margins and 830% earnings growth in *2026*, which we'll discuss their earnings in a moment, is that hyperscalers are willing to reach deep into their pockets in order to fund this massive amount of capex. It's almost like an arms race where there will be big winners and big losers. On the following page, you can see the **iShares Semiconductor ETF**, the SOXX, total return of 107% since just *January of this year*, which is unbelievable. And the **Roundhill Mag 7 ETF**, the MAGS, down about 8%.

The sell-off has been driven by free cash flow, uh, reallocation, and you can see a very clear graph of **Amazon**, **Oracle**, **Microsoft**, **Google**, and **Meta** free cash flows, which have gone from almost a third of a trillion, um, down to zero, uh, from the end of *2024* to *2026*. If you look at the following page on page four of the PDF, um, you can see the race to spend, um, actual and estimated capex from the five hyperscalers. Um, we're forecasted by *2028* to see almost a trillion of spend on capex, uh, which has been what is driving the semiconductor stocks to make all-time highs. And then you can see the inverse of that graph at the bottom of page four, right, the biggest beneficiaries of this capex spend being **SK Hynix**, **Samsung**, **Micron**, **Nvidia**, **Broadcom**, and **AMD**.

Now on the following page, on page five, you know, **Microsoft** stock was down another 3.3% on *Thursday*, uh, which takes its below its *March* closing low. Um, **Microsoft** is down about 28% year over year and its overall drawdown from the high is about 35%, which is probably why, uh, Burry partially covered his short, uh, on **Palantir**, which is down 50% from its local highs and he started to buy leaps in **Microsoft**.

So you can see at the bottom of the page on page five, even **Palantir** is down 50% from its local highs, which shows you that even the most hyped stocks, uh, suffer, um, and valuations do model. At that point, I remember we talked about **Palantir** being overvalued in *October of last year*. It was trading at something like 300 times forward, um, and not even earnings. It was like trading at 300 times forward EBITDA. And while it's a great company, uh, that type of valuation was not justified because there's no way that **Palantir**, uh, can grow its earnings, you know, 100% a year, which is what it, or its revenues, um, at 50% a year every year and its earnings at 100% every year. Um, so I mean now it's basically a quarter trillion dollar market cap. It was a half a trillion dollar market cap with only 5 billion of sales. Um, and roughly 2 billion of EBITDA, less than two at the time.

Special Situations and M&A Update - 09:44

So, if we look on on the following page, um, we'll briefly go through our, um, special situations update.

Just give me one second to get some water.

Okay. So, with one week remaining in the first half of *2026*, in fact, the second half will start this week, US public M&A volumes are annualizing up about 19% versus *2025* levels. Um, you know, this slowed down during the worst of the Iran war. Um, on *Friday* morning, the FT was reporting that the EU was set to clear **Paramount's** acquisition of **Warner Brothers**, provided that the company accepts certain remedies, including Sky possibly exiting from its Universal Pictures International JV. Um, in other news, **ProAssurance**, which is ticker **PRA**, announced its sale to **Doctor's Company**, uh, obtained its final approval and is set to close, um, *Friday*.

The approval comes 16 months following the M&A announcement. So it was a long and grueling wait for arbs. Um, the approval, the approval, I think a lot of arbs were frustrated on how long it took, um, and it's still a 7% IRR if you said it to day one. Um, **S&P** is also spinning off its global mobility division, which commences its when-issue trading, um, which actually commenced on *Friday*. Um, and it will be trading regular way this week.

Um, shares of the cybersecurity firm **Varonis**, **VRNS**, uh, were trading up 10% since the company announced its weighing a potential sale, which we talked about at the beginning of this call, after receiving interest from private equity. And **GME** removed its CEO performance award to focus on the acquisition of **eBay**. Um, so they are looking to continue to pursue their acquisition of **eBay**. I don't know how they're going to be able to do it because there's no way that they would be able to raise enough debt, uh, to provide the cash component for the, the deal. Maybe they offer some, some compelling equity, uh, trade. And as you guys know, you know, after that announcement, **eBay** rallied all the way up to $120 a share. It was trading as low as $80 a share in *February*, uh, and in *November of last year*. Um, so the market did price in some possibility of a deal. We shorted the stock, um, somewhere probably in the, in the high, you know, one teens, so close to 120. And then it quickly traded off all the way down, down to as low as 104, um, on *June 22nd* and now it's kind of bounced. We covered somewhere in between there. It's kind of bounced back to 108. Um, and we'll, at some point, I don't know how, uh, **GME** is going to do it, but they probably have some trick up their sleeve to resubmit a bit.

You can read the details on these four, uh, deals on page six, uh, and seven.

Rhythm Capital Series F Preferreds - 14:03

And then on, on, um, on page seven, uh, we also discussed the, these, uh, **Rhythm** prefs. So, as you guys know, **Rhythm** is a diversified asset manager. Um, they bought **Oxif** a couple years ago. They also, um, have a big mortgage servicing business, uh, which is inversely related to interest rates. And they also have a REIT business. So it's a quite a diversified business. Uh, it has a 5.3 billion market cap. It is a profitable company, um, and it's frankly a more diversified and a safer company to invest in than **RWT**. You know, less sensitive to rates overall because it has a natural hedge. The common stock yields about 10.6%.

That's interesting. If the common stock only yields 10.6% and you can buy the preferreds, these are not baby bonds, these are preferreds, uh, at 9%, I would think the preferreds offer a much better risk reward because you have 5 billion of market cap below you. So this is a simple, very simple trade. I call it a common sense trade. You know, **Rhythm** did about 1.1 billion of operating income, um, and, uh, you know, its operating income was, was up about 120 million year-over-year. Uh, it does about one, 180 of EPS. Uh, so it trades, you know, 9.38 on 178, trades at like five times earnings. And next year its EPS is supposed to grow to 2.26. Uh, doesn't have a lot of exposure to private credit. So frankly, you know, the prefs look pretty, pretty decent, uh, in my opinion, probably a risk score of, you know, two out of five with one being the highest, with treasuries. Um, so I personally think that, um, it's one that I'm going to add this coming week. Uh, doesn't require a lengthy, uh, explanation.

And again, you know, if you want to just look at the, the ticker and, um, the snapshot of these prefs and the size, they have about 10 million shares outstanding. Uh, they were priced back in *January of this year*. They trade a little bit below par, which is how you get the yield up from 8.75 to kind of a 9.2% yield because they trade below par. Um, and they pay quarterly, okay?

Iran-US Tensions Timeline - 16:36

Um, on the following page, let's just go through a brief timeline. It's so sad that we have to do this every week. Uh, just give you an Iran update. Um, the, the **Deutsche Bank** piece, I think just does a, a very, very good job, um, going into, going into the actual details. Um, but I'll just give you a, a very high level update of what happened. So on *Monday*, uh, Iranians discussed progress, um, on the peace, on the peace treaty. Um, oil was down or or USO was, was down. Um, equities were flat, uh, from down .5 to to 1% the prior night, uh, because there was an escalation that night as well. And then Qatar basically said that parties reached a roadmap to reaching a final deal in 60 days and then the market, uh, had a bounce. J.D. Vance, before departing from Switzerland, said that yesterday was a good day of talks. The Strait of Hormuz is now open. They were setting up a mechanism to keep the the Strait of Hormuz open and Iran basically agreed to invite inspectors, um, to, to look at its nuclear stockpiles.

So then the Treasury issued a 60-day temporary general license waving key Iranian oil sanctions until *August 21st, 2026*. On a quick read, um, it's a rather wide-ranging license covering, um, exports, shipping, and ancillary services including crude, refined products, and petrochemicals. Then on *Thursday*, it was discussed that despite progress in the talks, Iran still planned to charge an estimated 40 billion in annual tolls for reopening the strait. The proposal was then met by resistance from the US and other countries, specifically Marco Rubio, uh, strongly rejected this.

Then in the evening on *Thursday*, there's an Iranian attack on a Singaporean flat cargo ship. It was effectively the IRGC, um, that attacked this vessel, which was not acceptable given the peace treaty. Um, Hormuz crossings had rebounded, you know, upwards of 40 vessels a day as of *June 24th* before this happened. So after the unnecessary Iranian attack on the Singaporean cargo vessel, Trump announced US military strikes on Iran and threatened that Iran will no longer exist, specifically the IGRC is probably what he meant, if there comes a point when we are no longer able, uh, to be reasonable. Okay?

So the US military conducted strikes on Iranian targets including some different some radar, uh, and satellite sites. Um, they struck a missile and drone storage facility as well and coastal radar positions on *Friday*. Iran said that the cargo ship was attacked because it was using an unauthorized route to transit through the Gulf Waterway, whatever, that's just an excuse. After the US strikes, Iran in turn accused the US of violating their interim deal and said that it had struck targets linked to American forces including two American bases. Um, that has not been confirmed by the US.

US Central Command, or CENTCOM, described the American strikes as a powerful response to the drone attack a day earlier. Um, CENTCOM said the US military would continue to provide safe passage coordination and support to commercial vessels. And then the Iranian, uh, Islamic Revolutionary Guard Corps said that its navy had struck US military positions in the region without providing any details. Bahrain's foreign ministry said the country had come under attack from several Iranian drones earlier on *Saturday*, condemning the action as flagrant violation of its sovereignty and accusing Tehran of undermining peace efforts. Also on *Saturday*, the United Kingdom Marine Trade Operations UKMTO said a tanker was struck by an unidentified projectile in the Strait of Hormuz. Um, the vessel had sustained damage to its bridge.

The Pentagon reportedly delayed publicly announcing US strikes until after the stock market closed on *Friday*, with the timing intended to reduce immediate impact on financial markets, reported by NBC. You can see Hormuz vessel crossings, uh, by the end of the week actually fell from a peak. Um, it looks like, you know, above 50 all the way down to 24. You can see the Iran Foreign Ministry condemning the attacks and the mystery of Foreign Affairs, the unofficial translation on page 11, and then what they wrote on page, uh, 12. Then on page, um, so effectively after all this, um, it looks like, you know, as the futures opened, um, both the US and Iran agreed to talks. And that was according to **Axios**. So that's where we are now. Um, so S&P futures are up 0.45%. **Nasdaq** is up 0.85%, small cap **Russell** is up 0.43%.

PCE Data and Fed Commentary - 22:07

Okay, so let's quickly just cover what happened in the, in the PCE. So, you know, you can use the CPI and PPI, um, to effectively estimate the PCE. And people were quite or analysts were quite concerned, uh, given the PPI on how the PC would come out. And frankly, it was not as bad as expected. So there is, the market did rally, um, very briefly, uh, to the PCE data that came out midweek. Um, PCE was 4 spot 1 year-over-year versus estimates of 4 spot 1. Month-over-month, it was 0.4 versus estimates of 0.5. Core was 3.4, which matched expectations, and on a month-over-month basis, it was also meeting expectations. So frankly, it wasn't that bad. Okay, the market effectively rallied on that and then when people still realized, well, you know, PCE is still 4.1% and the Fed needs it at 2%, the market kind of just gave up that rally and then the New York Fed basically said, uh, this is John Williams, that in coming quarters, they do expect inflation readings to edge down for several reasons.

Um, it's up, first of all, because of tariffs, energy, and AI-related demand for tech goods, but he thinks it will fall because the tariff effects have mostly played out. A base case is that Hormuz-related supply disruptions are, are behind us. Third, housing inflation continues to slow, and fourth, there's no evidence of a labor market-driven price pressure. So the punchline is, you know, according to him, given the elevated level of inflation, it's imperative that we restore our 2% longer run goal on a sustained basis. The current sense of monetary policy is well positioned to do that and he thinks that inflation, um, will be contained.

So, in terms of additional points, um, in his speech, which I included a link to, you can see that he talked about absorbing shocks. Despite unpredictable global risks, specifically ongoing economic disruptions from the Middle East conflict, the US economy has remained relatively resilient, which is why unemployment is still relatively low, despite white-collar unemployment going up. Then he talks about consumer and business health. While households face elevated fuel and energy input costs, consumer spending and business investments remain robust. That's frankly because 10% of Americans do 50% of the spending. Uh, and we have a huge AI investment boom.

Anchored expectations, he talked about how inflation expectations remain well-anchored in the midterm. One-year inflation expectations ticked up modestly through *May*, but three to five year outlooks remain unchanged. So the FOMC maintained its target federal funds rate at 3.5 to 3.75 to continue steering inflation towards the 2% goal and he said that there are two-sided risks. The AI boom could actually help push prices up faster than expected, which you've already seen with **Apple**, um, Xbox, while Middle Eastern supply chain disruptions do still threaten global growth, especially in emerging markets.

Semiconductors, Hyperscalers, and Market Volatility - 25:44

One interesting thing that we should probably talk about is the fact that semiconductors are biting the hand that feeds, um, resulting in, you know, some significant market volatility. It's no secret that the largest contributor to **S&P 500** returns in *2026* has been the AI infrastructure trade. Um, all of the AI capex recipients with key names being **Micron**, **AMD**, **Intel**, **SanDisk**, and **AMAT**, accounting for 55% of the **S&P 500's** return year to date and posting an average gain of 356% year to date. I know, pretty hard to believe.

Um, this huge rally in AI infrastructure has made it possible as has been made possible by a massive increase uh from the hyperscalers. The large cloud computing companies that are building the physical infrastructure of AI including **Google**, **Meta**, **Amazon**, **Microsoft**, and **Oracle**. It is these hyperscalers' willingness to fund huge AI infrastructure capex by spending nearly or completely all of their operating cash flow or more than that, according to **Meta**, um, by detting, by tapping debt and equity markets as well. After all, the reason why **Micron** is able to print its 85% gross margins and 830% earnings growth in *2026* is that hyperscalers are willing to fund it. But instead of the market rewarding this aggressive spend, seeing these hyperscalers as building and owning essential infrastructure of the future, the market's actually been punishing them, essentially biting the hand that feeds the AI infrastructure trade because the ROI isn't really provable yet. This was the biggest risk to the market rally after the inflation and the war in our opinion, as I've seen over the past 20 years in the markets that investors always punish capex spend with unknown ROI. That's why a lot of the Mag 7 stocks are down versus cash generation and capital return.

The basket of hyper uh, scaler names, **Google**, **Meta**, **Amazon**, **Microsoft**, and **Oracle** is down about 9.5% year to date, trailing the **S&P 500** by nearly 15%. These five names represent a 16% weight in the **S&P 500**, meaning their weakness is weighing on the index returns in an outsized way, which is one reason why the equal weight **S&P 500** is up 10.5% year to date versus the **S&P 500** only being up 7.5%, which is actually not normal. The last three years it was the opposite. You can see the hyperscaler index absolute and relative uh performance versus the **S&P 500** on page 14.

But it's more important than just the impact of this hyperscaler weakness on the index that we need to know. Importantly, we must assess how the share price weakness could impact the hyperscalers' future plans to spend aggressively on AI capex and thus how hyperscaler equity weakness could challenge the dominant AI infrastructure trade, semiconductors, tech hardware, electrical equipment, etc.

Of course, we could see hyperscalers continue to spend regardless of their near-term stock price performance, setting an exis, citing an existential arms race and pointing to an expected future inflection in the earnings payback of this AI capex. Or, we could see the market sour mood towards this aggressive spending so much that it ultimately puts pressure on management teams to find capex discipline, which likely has negative implications to the AI infrastructure trade. In fact, if that were the conclusion, all these names would be down 20, 30% in a day. And so we find ourselves asking, just how deep do you believe in the ability of hyperscalers to continue to aggressively grow AI capex spending? This may be the most important question with which the market will have to wrestle through the rest of this year and next year.

In terms of Mag 7 capex guidance, it has only been accelerating. In today's market, just uttering that hyperscalers could pull back or moderate spending during this apparent existential arms race seems sacrilege. But importantly, we don't have to see these hyperscalers actually cut capex to see the pace of returns in the AI infrastructure trade slow. We could just see *2027* capex slow versus expectations. The key reason why *2026* has been such a powerful year for AI infrastructure returns is that analysts significantly underestimated how much hyperscalers would be willing to spend on their own and other people's debt, uh, other people's equity and debt money on data centers, and thus underestimated how much demand would be flowing to these newly supplied, uh, supply-constrained AI infrastructure plays. Importantly, analysts significantly underestimated the magnitude of this AI infrastructure buildout, and that has been a key feature of markets over the last three years. And delays to data center builds and supply chain bottlenecks have only extended the cycle. As you can see in the **Goldman Sachs** chart below on page 15, analysts expected only 36% growth for hyperscaler capex at the start of *2026*. This growth was expected to be a mere 10% this time last year. But hyperscaler capex is now expected to be nearly 90% versus 36% in Jan and 10% last year's estimates. Um, and as we turn our eyes towards *2027*, **Goldman** estimates that consensus expects another 22% growth to be reached. Um, so capex will be roughly 920 billion by next year. We have seen estimates from other banks as high as 1.2 to 1.5 trillion for *2027* capex, which absolutely boggles the mind, which means that all of these companies are going to have to borrow debt and issue equity like **Google** did of over 80 billion to actually fund their capex spend.

The Hyperscaler Spending Debate - 31:34

And behind behind it all, you know, there's a price to be paid. This raises a question about how hyperscalers will fund another large increase in capex in *2027*. Equity and debt markets have recently been receptive to incremental capital raises, but from the strongest players only. **Google**, for example, was able to issue a 100-year bond with robust demand back in *February* and raised another record 85 billion in equity in early *June* with the express purpose of significantly increasing *2027* capex. This is because **Google's** operating cash flow and balance sheet, it still has negative net debt thanks to a large cash balance, remain robust. But other potential raises have not been fairly well received. When there is a rumor about **Meta** raising equity, **Meta** shares, and and sorry, when, of **Meta** raising equity and debt, **Meta** shares suffered pretty sharply. **Oracle's** credit default swaps are back on the rise, even though they don't trade as much, and new new cloud players like **CoreWeave** sank after the company looked to raise 3.5 billion in a dilutive equity round, right? If **Meta** were to do an $80 billion equity round, I think the market would, would really hammer **Meta** because it doesn't have a good free cash flow um, outlook at the moment. And **SPCX**, which is the new hyperscaler, **SpaceX**, um, you know, which did a $25 billion debt market round, has actually seen traders try to short its 2056 bonds. We'll discuss how how, how traders were treating the new, uh, bond issue later in this piece.

This is a good reminder that the market is now questioning not only the hyperscalers' belief that they need to spend more on AI capex, but, but also the belief that this capex spend is an attractive use of significant capital. This brings us back to how the market has been judging the hyperscaler capex binge in *2026*. The chart below, um, which is quite a decent chart, um, shows two trends. It shows EPS in blue, um, and it shows free cash and the PE ratio in black, uh, but then free cash flow in gold. Okay. The chart below is basically shows us that the weakness in Mag 7 shares had nothing to do with earnings being weak. It has all been driven by valuation multiple compression and free cash flow falling. So here we're using the **Bloomberg** Mag 7 index because it overlaps with the hyperscaler index but has more history and data. Importantly, the Mag 7 is flattered by the exclusion of **Oracle**, which has the weakest free cash flow, and the inclusion of **Apple** and **Nvidia**, which have not spent aggressively on capex, and **Nvidia** is also a capex beneficiary. Now note that the valuation of the Mag 7 has fallen by 10 multiple turns from 32 times to 22 times at the liberation day lows. For a bullish view, you could argue that this derating has been overdone and the Mag 7 is posed for a rebound as valuations normalize. AKA Burry buying leaps or long call options in **Microsoft**. For a bearish view, you could argue that the market is now discounting a lower cash generative, lower ROIC, heavier debt-laded set of companies than in the past. Both may likely be true to some extent, as some of the hyperscaler stocks look oversold in the near term, but the transfiguration of these business models to be more capital intensive is suggestive of a lower long-term valuation.

We bring it back to the starting question. How much share price or valuation multiple weakness will hyperscaler companies tolerate before they begin to rethink massive *2027* capex plans? And if they do that, how much will semiconductor stocks sell off in *2027* and *2027*, eight and in *2028*? So what if this whole crusade is a charade? It's just a question that everyone's asking. It doesn't mean that it is a charade. But what if this whole crusade is a charade? We are not suggesting that AI is not exciting and revolutionary and still in the early days of a broad adoption that could have significant impacts on the market economy. But instead, noting that there are real debates as to how sustainable the current breakneck pace of AI infrastructure spending is, given questions about the profitability of AI model providers and about market loss, to market share loss to the Chinese AI models which are open source, which even **Microsoft** is using now. So the flame of this debate grew hotter on *Thursday* when news broke out that **OpenAI** may be delaying its IPO until *2027*. This means that it may not have the cash from its trillion dollar valuation and 60 billion dollar IPO to actually fund all of the AI capex that the market expected. This is important because **OpenAI** is **Microsoft's** largest cloud customer as well, and this could negatively impact **Microsoft** earnings. **OpenAI** actually represents 45% of **Microsoft's** cloud backlog.

You can see the Mag 7 forward PE ratio versus the **S&P** 493 PE ratio, um, in for the screen and gold, uh, from the **Apollo** graph on page 17. Now to conclude, a bullish argument in this debate is in reports that show how direct AI revenue is growing rapidly. This is not profitability, just revenue, um, which Exponential, uh, which is a research firm estimates three times faster than prior technology adoption cycles, and is now starting to clear the depreciation hurdle of AI infrastructure investments that have already been made. Now only time will tell how this will play out, but we think we will see more volatility before the actual ROI is known or understood because ROI is not revenue, it's actually EBIT or cash flow.

Now you can see on the following page that they are correct that AI is scaling three times faster than any other past IT wave like mobile apps or the internet in *1995*, mobile apps starting *2007*, or cloud in *2010*.

Chinese AI Models and Market Pressure - 37:56

The bearish argument is that, uh, is basically what **Citron** says on AI model developer unprofitability, flagging how losses could swell as revenues grow because of the high marginal cost of these business models that need to, need ever more compute to meet demand. This raises a last important point about how competition amongst AI players now some models may not be as capable as the US top-of-the-line frontier models, but because of their lower cost, like **DeepSeek**, and despite their foreign providence, some simpler AI users are just opting for these more cost-optimized models. Michael Cembalest's latest eye on the market from **JP Morgan** displays this in the graph below. And what this shows you is that, you know, if you look at the, the cost to run artificial analysis, um, on a US dollar lock scale, um, you look at all the frontier models like Cloud, Cloud Fable 5, it's, it's almost excruciatingly expensive to use. Um, whereas **DeepSeek**, uh, V4 Flash, um, which is, you know, and **DeepSeek** V4 Max, um, you know, costs, you know, less than 1%, um, of, of the price of, of running even Cloud Opus 4.8. So I do think that you'll see more and more American companies take some of these Chinese models, retool them, right, so our government isn't pissed off, you know. Um, they're open source, you can download them, make changes, and then use them for their own needs.

So the debate is clearly not settled, but after such a powerful and dominant run in the AI infrastructure trade contrasted with the weakness in the hyperscalers funding the boom in infrastructure earnings, we should not be surprised to see ample volatility. On the following page on page 19, you can see that the how the AI boom compares with boom-bust cycles of major, uh, innovations. And this is shows this shows how investment are trading as multiples of the pre-boom trough. It's not a really telling graph, uh, but it kind of just shows the magnitude and the speed of this AI trade. The massive capital being spent on the data center build out seems a huge gross misallocation relative to the broader economy's needs and this is according to **Semaphore**, but you know, I don't think **Semaphore** has enough data to actually make a solid conclusion yet.

Now, on the following page, uh, what is a really big risk and what you can track is that more US companies are shifting to open source Chinese AI models. **UBS**, uh, the Swiss Investment Bank says that 60% of companies are now watching AI budgets and are moving to cheaper models and open source Chinese models specifically. The pressure is coming from extreme bills including users spending up to 35,000 a month per employee and teams exceeding quotas by 200% like **Uber**. Uh, they exceeded like their entire AI budget in like one quarter and companies cutting internal AI tools from five to two. Companies are not abandoning AI, they are just using model routing which sends easier tasks to cheaper models and saves premium models for hard reasoning, code, and long context work. Chinese open source models such as **Qwen**, **DeepSeek**, **MiniMax**, **GLM**, and **Kimi**, now fit the enterprise cost curve because they can be run locally or used through cloud catalogs. A snippet of this **UBS** uh, **UBS** survey is on page 21.

And on page 22, **Bloomberg** actually shows an interesting bar chart where they say US companies' use of **Google**, **OpenAI**, and **Anthropic** was about 70% in *June of 2025*. Um, there's only about 10% use of others and about 15% use of Chinese models like **DeepSeek**, **Tencent**, **Xiaomi**, and **MiniMax**. Now fast forward one year to *June 2026*, um, the usage of US models is only 30%, um, non-Chinese, non-US models is something like 20%, and then, you have, you know, it looks like upwards of, you know, 45% usage of these Chinese models. Uh, and I had no idea that this was happening, uh, to this level or this extent. Um, now below this, and by the way, if this is true, that means that if you see more of a market share change, then, you know, why, um, should these companies keep spending as much on AI infrastructure if they're not able to monetize, uh, and continue to lose some market share to these Asia models. Now, there, there was an article and it was not the best written piece, um, but there's is some concern, um, in China, specifically two Chinese hedge fund managers that are warning about an AI bubble.

Chinese Hedge Funds Warn of AI Bubble - 43:03

So, two of the Chinese, uh, China's best-known hedge fund managers, one is called **Wheelock Spring Asset**, whose founder Yang Dong is well known for, in China for calling the top of the Chinese market in *2007* and the global market in *2007*, said global AI stocks have become a super bubble and that the collapse may not be that far away. Now who knows, uh, what he what he's being motivated by, but what we do know is that Chinese companies are also starting to build memory. Uh, they're competing with US companies when it comes to the cheaper AI models. Um, and maybe he thinks that, um, you know, US companies need to cut costs dramatically or US customers will cut back their spend. Um, but what he specifically talked about was pressure on breakneck revenue growth at **Anthropic**, and some of the prices, uh, per token that **Anthropic** is charging are just not sustainable for companies to, to continue buying. At least four other Chinese hedge funds expressed reluctance around AI in *May*. You know, around investing in even domestic companies, according to a monthly summary of fund views compiled by CSC Financial Group. The investor letters, um, that were published by two of these funds offer an insight into how China's prominent hedge funds are viewing a technology that is shaking up markets around the world. AI-related stocks have bottomed this year with, uh, bellwethers, uh, have, sorry, have boomed this year with bellwethers like **SK Hynix** and **Micron Technology** more than tripling in value. But the rally is suffering from violent pullbacks as investors and their counterparts become more cautious. So **Wheelock Spring** only manages about 1.4 billion of assets. Um, they said that they missed a lot of this wave. They didn't truly, uh, anticipate that a mere boom driven by a wave of massive demand could be hyped up so much, um, and result in such high market valuations. Um, what they say is that a lot of these AI companies like **Micron**, etc., they don't really have a moat. Um, they are oligopolies, but it isn't very difficult for another company over many years to actually develop a large memory infrastructure. Um, they're saying that back in the *2015* bull run, there was a term called brainless buying. And right now we're probably in a similar, similar state. I think that applies to a lot of the South Korean and Taiwanese investors, like the super speculative, triple-levered margin using, uh, investors. But I do think that the fundamentals and earnings of the companies, at least in the near term, have been stronger than anyone expected. **Banyan Tree**, which is the other hedge fund that's talk, talking about an AI bubble, only manages about 300 million. So just put, put all of this in context. China's AI index is also up about 35% this year, not as high as the US at about 100%. Um, but that does, it that is seven times higher than the rest of the Chinese benchmark, which is up less than 5%.

Um, so you can see, you know, Chinese stock performance, AI performance at the bottom of, uh, page 23. Um, you know, from local highs, however, you know, the, the China tech index, um, has sold off quite a bit. Um,

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Alamos Gold (AGI) - 46:12

Now, let's take a break from that conversation and talk about **Alamos Gold** on page 24. We did get a pretty detailed comp set and we compared **Alamos** to some other Canadian gold miners. Remember that Canadian, North American, like US and Mexico miners are tier one assets because they don't uh suffer from the emerging market risks, for example, of having a uh gold mine in South Africa or for example, Mali, where um you will have, you know, issues with power, um issues with union riots, um which, you know, could result in lost production.

Um, so I personally think the fact that **Alamos** is now trading at the same valuation, like P/NAV or earnings or forward EBITDA, as some of the more emerging market gold miners, uh does make it quite interesting for a long-term allocation. Uh so this comp uh graph, you know, includes all the copper miners. We frankly think that **HBM** is quite interesting and would be buying here as well on the copper side. Um, on the gold miners, you can see um, you know, on a, you know, on a free cash flow basis, um **AGI** is around 7%, but it's growing much faster than all the other miners. So, you know, while **Kinross** is as is actually quite cheap, um as well, um, you know, we think that **AGI** just because if they can build their mill um to the capacity they need for the Island mine, you know, the company should be able to increase its revenues um quicker than than a lot of the bigger gold miners like **Agnico Eagle**, for example.

Um, so, you know, we think **Alamos** is, you know, could grow revenues around, you know, 30% a year, um, and for that reason, um, we do think that, um, we do think that it's it's quite an interesting, uh, quite an interesting trade. Um, and not just a trade, um, more, more so a, more so an investment.

Alamos Gold (AGI) Valuation Breakdown - 48:27

Now, you can see our valuation from last week, you know, where we think the stock in US dollars is worth about $48 a share. Uh, we did kind of like a mine-by-mine um analysis. So they have the **Young Davidson** mine, which is the mine where where it had the seismicity, uh, or you know, the mini earthquake because of unknown reasons. Um, so that's probably worth around, you know, $7 a share down from $10 a share because they, you know, that does affect about 2,500 uh tons a day of uh mining production. The Island mine is worth about $27 a share and that impact is really unaffected. And that NAV per share will likely increase once they uh increase their mill capacity.

Um, they also have a mine called Lynn Lake uh in Manitoba, Canada, which is worth the same amount as **Young Davidson**, and then the **Mulatos** mine. So when you really think about it, um **Young Davidson** is only really worth 15% of the company and of that, you know, of that 15%, you know, maybe 3 to 5% was affected by this uh event. And so the stock really, I think is oversold. Um they also have some like options, some exploration assets in Turkey. Um and they also have, you know, a decent amount of cash. They have about 1.5 million of cash at 3.6 uh per share. Um so we think that the corporate, you know, that adds about uh corporate $3 to the corporate NAV and that's how you get to $48 a share.

Analyst Calls Regarding Young Davidson Mine - 49:58

Now, we had a call with some Wall Street analysts and we talked about them about the seismicity and the tremors under the Young mine. Um, they also believe, like we talk, we talked to um like **RBC** for example, we talked to, uh **Jefferies**, uh we talked to **Evercore**, and they basically said that um the Island mine should be worth about 60% of the NAV. And as that grows, you know, people won't really be as concerned about the Young mine.

Um the mine collapse happened at the 9410 level. It's about a 1 kilometer underground, which sounds deep, but isn't uh isn't really. Um what they need to do is first rehabilitate that specific mine shaft. Uh it's I think it's one of three mine shafts, um which is a series of tunnels and drifts. One of the drifts basically lost access. They'll have to put in some cable bolts and and rebar. Um, no equipment was actually damaged, no major equipment, and there are no injuries or deaths. So we don't we we we don't think that the stock should have sold off uh by a couple billion uh for, you know, 50 million of damage.

Um the CapEx spending according to the sell-side won't be that much. Um they're going out and taking out excess rock from the drift openings, so that could cost, I think the highest estimates are around 25 million to put in the rebar, take out the excess rock and then restart that to get, you know, that 2,500 tons back.

Mine Impairment and Recovery Timeline - 51:23

The cleanup though, even though the cost isn't a lot, it will take months of human labor to clean up. Um, so, you know, don't expect this to rerate right away. Um, the mine has been impaired. Remember, they have four mines, uh but this specific mine has been impaired to the tune of about 2,500 tons a day temporarily versus total production, which was 5,000 tons per day and they're hoping to get to 8,000 tons per day very soon. Um, I think by the end of this year. So it's about 2,500 of 8,000. Assume 5,000 tons per day by the end of the year instead of 8,000.

Um the sell-side was modeling 6 to 8,000, but because of the the because of the disruption in the rock, they don't have access to some of the higher grades as well for that specific region. Um, this was like 16% of NAV, now it's like 14% of NAV versus 18% on consensus. Production in ounces from the **Young Davidson** mine versus the whole was about 100,000 uh ounces, which is 19% of the 570k ounces um per year. And only, apparently only 10% of this mine is offline.

In terms of a worst case scenario, even if that 2,500 tons per year, uh, sorry, uh 2,500 tons per day instead of 8,000 tons per day is offline, that's still, you still have a 3 billion NAV at that **Davidson** mine and and that will likely recover if they finish cleaning it up. The bigger issue of what some of the larger Canadian pension investors are worried about is, could this company have been too aggressive in their mining grades and could they have been this aggressive at other mines, which is what caused the tremors. Um, other issues that investors I think have been frustrated with were, you know, there were issues that started after the Argonaut uh mill acquisition, Argonaut mine acquisition of the mill, which is called Magino Mill. Um, they cut guidance a a number of times. Now, I did read about the Magino Mill uh back in *2023*. It also had some cost overruns and it was effectively a startup. So when they acquired it, they probably didn't understand how to build a mill, you know, what went into it, you know, they just made this acquisition. The prior management had promised them it would be okay. Regardless, they cut guidance, so investors were already kind of pissed off with management.

Management had done a really good job over the last 10 years, but over the last two years they haven't been performing as well. So then once you saw the seismicity event and, you know, investors were probably concerned, you know, that management wasn't managing, you know, safety and and risks at this specific mine, they kind of, there was kind of a force-selling event. So you kind of need, you know, at least two or three quarters of operational issues, of zero operational issues at the company to uh effectively rerate the stock higher. The grades, um on the positive note, okay, to switch from the Young mine, um, conversation to Island mine,

High Grades at Island Gold - 54:32

um, is that the grades are very high at Island Gold. They more than um displace the Young mine. And from a margin perspective and a grade perspective, there's a pathway to blend uh the overall grades higher. What does that mean? So the reserve grade at Island Gold is about 10.5 grams per ton, which is five times as high as the **Young Davidson** mine. So that also translates into cash costs. So cash costs are only about 988 uh per ounce versus gold uh at 4,000 an ounce uh at Island Gold versus cash costs uh at above 1,700 an ounce at **Young Davidson**.

So what they need to do is do an expansion of the mill and then blend these two uh to get a lower cost overall and higher margins overall. The current mill is operating at about 10k per day. Remember that Young is now down at five, and then most of the other production is coming from Island at five. If they double the mill capacity to 20k per day, they can increase their production at Island, which is a much lower cost per ounce. Um and that will improve the overall margins of the company and improve revenue growth, which is what we are betting happens.

Um in terms of overall reserves, Island Gold has about 1.4 million ounces of gold. Um Young has about 1.2 million ounces, but the quality and the cost of extraction at Island is is worth much more. Peers to these companies include **BTG**, which is **B2Gold**, uh which is Molly, uh **DPM**, which is **DPM Metals**, and uh **London Gold**. Also like **OceanaGold** in the Philippines is a similar size. Um **Alamos** used to trade at a premium to all of them. It used to trade around 1.5, oh sorry, 1.2, um because it's a top tier uh miner, but it's now it's trading at around the same multiple of about 0.8 times NAV, net asset value. Um so historically it was trading at a 30% premium to peers and now it's trading at a discount to peers. Even on forward EV to EBITDA, it's trading at a discount to peers. So for those reasons, I think after our calls, we are still confident that it is a good name to hold longer term.

Broader Market Update - 56:41

Um, while I've been speaking, futures have sold off. Um, S&P gave up almost an entire half a percent rally down to basically up .1%. The Russell is now negative, and the Nasdaq rally um is kind of down uh to about flat. And so, you know, Brent oil did rally about two 2% at the open, the market didn't really seem to care. Um now Brent oil is down kind of flattish as well. Um, so we'll we'll monitor this and kind of see why um we had that. Well, I know why we had the initial rally because of the renewed peace talks. Um, but uh it looks like the market is kind of fading that.

BTBT and White Fiber Special Situation - 57:30

Now, **BTBT** and **White Fiber**. Um this is a pretty interesting special situation. Um so **BTBT** is a company called **Bit Digital**. And what they did, you know, this was a Bitcoin miner, they they transitioned into AI. And they they own 70% of a company called **White Fiber**, um which provides artificial intelligence infrastructure solutions, so basically support for data centers. It offers cloud-based uh HPC graphics processing units, hosting and colocation services, like DGXX.

What's interesting is that **BTBT** owns, they've transitioned from Bitcoin to cash and ETH and they own 70% of **White Fiber**, which has a $1.5 billion uh market cap versus a full enterprise valuation of only 790 million for **BTBT**. And **White Fiber** doesn't have any debt. So when you actually look at this uh situation, you can see that **BTBT** had sold off with crypto, but it's main asset is actually **White Fiber**. And if **White Fiber** can actually meet its long-term uh EBITDA goals and can justify its valuation, um you can see the the NAV chart at the bottom of page 26, um effectively **BTBT** trades at a um 43% discount to its assets. 44% discount, which is actually quite interesting.

Micron (MU) Earnings and Strategic Agreements - 59:03

Now, if you look at **White Fiber** and **BTBT**'s market caps, you can see them on page 27. Um we'll quickly talk about **Micron** earnings. **Micron** made more profit this quarter than **Nvidia** made exactly uh almost exactly one year ago. And next quarter's guidance is actually way more than **Nvidia** made in the third quarter of '25. **Nvidia** did about 35 billion in revenue and 20 billion in profit in the Q3 of '25. **Micron** will do 50 billion in revenue and 35 billion in profit next quarter. So that is actually quite, quite impressive.

Um, you can see **Micron** rallied, you know, uh to about 1228 um after hours, um and you know, then maintained some of that rally. Um, I won't spend too much time on it. You guys can can read about, you know, what **Micron**'s CEO Sanjay Mehrotra said about how there's no line of sight to when supply will catch up with demand. Um, shares were up 16%, you know, post those earnings. For the fiscal third quarter, which ended *May 28th*, sales rose to about 41.5 billion, earnings climbed to about 21 uh 2511 per share, so about $100 a share annualized. Analysts on average had estimated about 35.6 billion in revenue versus that 41 and a half billion of revenue and EPS of about $20 a share versus $25 a share.

Um and another sign of **Micron**'s widening profitability, its adjusted gross margin more than doubled to about 85% in the last quarter. Analysts had estimated about 81.9% and the percentage of sales remaining after was after deducting uh production costs.

South Korean Chip Market and Zero-Sum Game - 60:42

So **Micron** works with **Nvidia**, the largest maker of artificial intelligence processors, to integrate its memory into AI infrastructure. So earlier this month, **Nvidia**'s Jensen Huang confirmed that his company will rely on **Micron**'s HBM4 memory along with those of its rivals for its next generation Vera Rubin platform, which requires, you know, more than five times as much memory as **Nvidia**'s prior platforms. All three of the major memory makers have been jockeying for this place of that of that AI data center business. And, you know, below you can see **Micron**'s operating income estimate for the fourth quarter of 2026. Operating income estimate is about 41 and a half billion, which actually exceeds **Microsoft** at 38 billion, **Google** at 37 billion, **Apple** at 27 billion, **Amazon** at 22 billion, **Meta** at 22 billion, and **Tesla** at only 1 billion.

So in terms of um, **Micron**'s call presentation, the most important thing that happened uh when **Micron** reported wasn't the quarterly print. It was the three slides on the strategic customer agreements. So for 47 years, **Micron** was effectively a commodity business. Memory prices went up, **Micron** made money. Memory prices went down, **Micron** lost money. Every investor who ever touched the stock lived and died that the, you know, by the cycle. Um but that cycle is now a little bit different. **Micron** has signed basically 16 strategic customer agreements, binding multi-year take-or-pay contracts with customers across data centers, consumer devices, auto, and industrial applications. Take-or-pay is a critical phrase in that sentence, which means that these are not soft purchase commitments or letters of intent, but rather legal obligations with some minimum spend obligations. Customers must buy specific volumes over the contract term or pay penalties if they don't. The demand is contractually guaranteed regardless of what happens to the broader memory market.

The agreements run from calendar 2026 through the end of 2030, five full years of committed supply locked in at the exact moment AI infrastructure spending is accelerating into its steepest phase of growth. So they do this for about, I think, 40% of the the business. The pricing structure is what makes the floor so durable. The largest agreements have a ceiling price set at current market prices and a guaranteed floor price locked in through the entire term of the agreement. That floor is set high enough that even in a deeper memory downturn, **Micron**'s gross margins under these agreements would sit well above any peak quarterly margin in the company's prior history. Customers have also agreed to provide 22 billion in cash deposits and financial commitments in uh upfront, meaning that they're literally prepaying billions of dollars just to secure their memory allocation years in advance. When fully executed, these SCAs will cover half or more of **Micron**'s total company revenue. Okay, so it's half more than 40%. Approximately 40% of all revenue will be locked in at fixed or ceiling prices at or near current market levels with the remaining SCA volume operating within a guaranteed floor to ceiling price band. What **Micron** has built here is not just a better quarter or a strong cycle, but rather a durable, high margin, predictable revenue engine on top on top of what used to be the most volatile business in the entire semiconductor industry. And they have done it by converting their largest customers from buyers of a commodity into long-term partners with billions of dollars of skin in the game, at least for the next few years.

An you can see the quarterly revenue for **Micron** in the blue bars on page 30. You can also see DDR prices, um for DRAM, DRAM spot price, um on page 30. And you can see NAND prices for NAND flash spot memory, uh which, you know, effectively peaked in March, uh and have been coming down a little bit, but not too much. You can see the three slides that we referred to on page 31, 32 and 33 with respects to **Micron**.

Uh, some good news is that there there are some massive bonuses for South Korea's chip workers. Uh, a memory chip worker with a base salary of like 52k US uh is set to receive a bonus of about 410k this year, which is a complete game changer for for South Koreans. Um, **SK Hynix** employees are expected to receive bonuses of about 454,000. And as you can probably guess, luxury jewelry sales are up 146% in Korea. Luxury watch watch sales are up 85% year over year. And you can see, you know, how **Micron**'s big win is a zero-sum event for Megacap Tech. You know, you saw memory producers like **Micron**, **SanDisk**, **STX**, **WDC**, and **Samsung** see their market cap rise for about half a trillion, while memory consumers like **Apple**, **Microsoft**, **Meta**, **Amazon**, and **Google** saw their market caps fall by half a trillion during the earning sprint.

Apple and Microsoft Price Hikes - 65:42

We've also seen **Apple** be forced to raise prices on customers like its base iPad price is up about 28%, the Mac Studio up 25%, iPad Air's price is up 25%, iPad Mini up 20%, and so on. Um price changes across the product set in more detail, including the MacBook Neo, MacBook Air, uh Mac Mini, iMac, um, you know, for each product are also on page 33. Um, so this was quite shocking and **Apple**'s **Apple** sold off about 6% because uh not only are these price increases, it will also likely take a hit to its margin because it's it's likely not a full pass through.

Um now to go along with this, **Microsoft** also announced price hikes for **Xbox** devices due to memory chip costs just hours after **Apple** hiked prices on its MacBook and iPads. Among the price increases, the **Xbox** series 1 terabyte increased from about 150 to 599. The **Xbox** series 1 ter X 1 terabyte increased from 150 to 799. These are massive price increases. The **Xbox** series 512 gigabyte increased from 100 to 499. And these and these are all just memory prices. **Microsoft**, I think is doing like a full pass through.

Micron and Anthropic Strategic Deal - 67:07

Micron also announced this strategic deal with **Anthropic**, which is a multi-year HBM, DRAM and SSD agreement. They're co-designing memory and storage around Claude's workloads. Claude deployed is also going to be deployed across **Micron**, and **Micron** invested in **Anthropic**'s Series H, which is interesting. The press release for that is on page 34.

Google Talent Drain and OpenAI IPO Delay - 67:29

Um **Google**, **Google** fell, um, last week, um, midweek, the most since May of last year. John Jumper, uh was a famous **Google DeepMind** data scientist, Nobel Prize winner, uh left to join **Anthropic**. Another one of the **Google** leading data center uh staff members went to **OpenAI**. Then on *June 24th*, there were rumors that two other senior AI researchers were going through **Anthropic**. So this resulted in several billion market cap loss at **Google**. Um the other guy was uh were named Jonas Adler and Alexander Pritzel, uh also uh planning to to leave to **Anthropic**. Um the Nobel laureate was John Jumper who left and the star researcher was Noam Shazeer.

Um so **OpenAI** also delayed its IPO to 2027. Um Sam Altman is reportedly considering postponing the IPO from September of 2026 to later in 2027 given just a lack of retail demand. Uh, you know, he rejected lower options. He didn't want to bring the the valuation down. Uh the company did generate about 13 billion in revenue in 2025, now reporting two billion monthly, but it is still well below **Anthropic**.

SpaceX, Memory Chip Costs, and C Limited - 68:45

SpaceX has become the latest hyperscaler and an interesting data point is that memory semiconductors are so expensive in the US now that US vehicle manufacturers are expected to cut vehicle production by 15 to 20% or about 600,000 cars in the second half of 2026. This is affecting, you know, in terms of inflation, it's affecting cars, it's affecting phones, it's impacting tablets and laptops as well. So it's quite a big deal. Now, before we talk about **C Limited**, I just need um a minute to get some more water.

(long pause)

Okay. Um, and by the way, we will go through some of these questions as well. Um, for example, you know, **Redwood**, um, you know, which has, I think it's a good value opportunity, but it has been, you know, affected negatively, um, very recently because of rate volatility. We did buy some last week.

Um, but let's talk about **C Limited**. We've discussed this name in the past. And for those of you guys who don't know, um, **C Limited** is a global gaming, e-commerce, and payments powerhouse based in Asia, and it's expanding into other emerging markets around the world like LatAm. It has its own AI platform that is also growing and overall the business has never been as cheap as it is today. Um an interesting update is um **Migu**, uh which is one of their new AI platforms, appears to be poised uh as a daily use AI companion rather than a simple chatbot. Now, based on this app, uh the product aims to help users plan their day, digest long emails and files, create content in their personal style, monitor tasks in the background, and act on instructions such as rescheduling meetings or sending alerts.

In effect, **Migu** is trying to sit closer to the user's daily workflow, remembering preferences and understanding routines and acting on context over time. The strategic opportunity if linked to **C** is less about building a better Siri or Gemini and more about owning a recurring AI service across Southeast Asia and LatAm. If **Migu** becomes as useful as a day daily planner, memory layer, and companion, it could capture intent before users enter a marketplace or payment app. Combined with local language, vouchers, merchants, payments, and delivery context, this could eventually funnel demand into **Shopee** and **Money**. We've written about these two products in the past. I'll try to remember uh which weekly email it was uh that detailed the entire **C** business. Um, as, you know, reminder, shopping lists, price tracking, payment nudges, and purchase recommendations could become natural entry points.

C Limited (SE) Sum-of-the-Parts Valuation - 73:45

Um, now while AI adoption cost may slow margin lift, which is, you know, important for the for this thesis to play out, remember that, you know, they could raise, um like **Amazon** raised prices over time. If they do that same margin expansion trick, um with their um **Shopee** business, what you could see is that, you know, their EBIT could effectively triple and the stock could actually be a multi-bagger versus just the 100% upside we see today. Uh but that will take, you know, that it's a multi-year step.

Um the challenge is that this is a crowded and expensive category with respect to the **Migu** AI app. **Google**, **Apple**, **OpenAI**, **ByteDance**, and others already compete for the AI assistant interface, while **Google** and **Apple** own the OS layer. So for **Migu** to resonate, **C** would likely need meaningful product investment, marketing, promotion, and user education. This could slow near-term margin expansion, although such investments can be comfortably funded from existing positive cash flows. If **Migu** gains traction and links into **Shopee** or **Money** workflows, it could help **C** address the AI disintermediation risk, which is a key overhang on the stock, while creating meaningful upside optionality.

The latest sum-of-the-parts model, as you can see below, attributes about $29 a share, 16% to the **Garena** um gaming platform. Um, it attributes about $134 a share to the global uh e-commerce platform across ASEAN and LatAm. The split is about 116 and 18, given that, you know, the company hasn't been able to compete as much in LatAm with **Mercado Libre**, which is the best company in LatAm for this. Um and then C **Money**, uh has about $42 a share. And then we take a holdco discount of about $33 a share, which you think is fair. Divide by the 638 million shares. Um, you know, to and then compare it to its the spot 9133 stock price to get about um 187 versus 91 or 105% upside in the long term. Now if you go past page 37, you can see **Migu**'s option, you know, uh how their AI app actually works, what they offer. Um and it's a very cheap app, right? It'll probably just be free. Uh so it's effectively the goal is for it to be a funnel into its other businesses. Um and you can see the value proposition of **C Limited**, uh which is a Singapore-founded internet company with businesses in digital entertainment, e-commerce, and digital financial services with it being dominant in e-commerce market share in ASEAN and Taiwan. It's grown at about uh, you know, over 20% a year over the last few years and it's expected to grow at 19% a year up through 2030. It owns logistics and has a strong balance sheet with a very competitive moat. You know, the risks, the reason why it sold off is like AI and TikTok disruption. Um, you know, people buying directly on TikTok and unfavorable unit economics in ASEAN, which are now improving. Um, you can see, you know, in terms of price drivers, right, rate shocks were an issue, growth de-rating was an issue, **Garena** slowdown, and India's uh Free Fire ban on gaming was an issue. Uh, there's a relief rally as cost-cut signal of the pivot from growth to profitability. The first quarter profit validated uh self-help and margin discipline with margin expansion. The better than expected 1Q '25 results were helped by improvements across the segments. Um, you know, many forecast 2024 to 2027 revenue growth of well over 20% for this company. Adjusted EBITDA is supposed to grow at 40 over 40%. The cash balance is roughly 10 billion, it's over 20% of the company's market cap with no debt. And upside factors could be stronger than expected user growth, share buybacks, and seller take rate increases on its e-commerce platform. And downside could be weaker than expected consumer spending in the regions as Asia was slowing down because of the Iran war. Um slower user growth metrics, especially if this is due to increased competition across SE's offerings, higher than expected credit costs for C **Money**, and new entrants which could intensify competition.

Domino's (DPZ) and Avis (CAR) Updates - 78:15

You can read about the company's business model uh on page 40 and then just quickly, you know, we're not not taking a position here, but **Domino's** has taken a blood bath. Um you can see the stock price. It's raised its dividends almost every single year since it started the company covering the company in 2016. Uh it's continued to take market share from **Pizza Hut**, which is the big loser from over 40% market share to kind of high 20s. **Domino's** has gone from, you know, mid-30s to over 50% market share in fast casual pizza. **Papa John's** has been flat. And you can see that despite all that, **Domino's** is the stock is down from almost $500 a share to kind of high 200s. Part of that is because of fear, you know, due to the GLP-1s. Part of it is because of a same-store sales deceleration, but it's still the best uh, you know, fast casual pizza, delivery pizza uh company in the US. So just, you know, a name to flag uh in the large cap side. Um **Avis**, which, you know, we had some pretty interesting option trades for, did receive a cash windfall from **Pentwater** for illegal short-swing profits. You guys can read that, very, very interesting uh discussion on page 42. I think the hedge fund had to pay uh, you know, several hundred million uh in an AK filing uh for selling the stock, um, you know, before the appropriate time. So there's a proposed $650 million cash windfall to **Avis** as a result. So the stock rallied a little bit on that news.

European and Chinese Economic Outlook - 79:48

Um, UK service PMIs fell to 48.7 versus 50.1. So the UK looks like it's entering some sort of a recession. Uh French, the French economic outlook is also very downbeat. Um unemployment's well over 8%. Um the prospect of a rebound in France uh remains quite low. Business confidence edged up only marginally in June. Um overall, the underlying details paint a rather concerning picture for the French economic outlook. The modest improvement is largely attributed to retail, while sentiment is slightly less negative than May. Um though still significantly below its normal level of 100. Um business sentiment in services uh remains very weak and at its lowest since back in 2021 with deeply negative expectations across all subsectors, which is very bad for the overall European economy. Um the most worrying is a continued deterioration of the labor market outlook in June. The employment climate indicator fell by three points to its lowest level since 2013 as people are having very difficult time finding jobs.

Um you guys can read the rest of that. Um China uh the **KWEB**, uh Chinese tech uh entered a bear market, um with the Hang Seng China Enterprises Index extending its drop to about 20% from its October 2nd peak. Um so everyone can be wrong, even **Appaloosa**. Um I don't know if he sold everything yet. Um we did see some crazy memory like 12% moves uh every day in the DRAM ETF. It was down on Tuesday, then up with **Micron** earnings, then down again. Um South Korea's tech heavy Kospi also fell 10% on Tuesday before **Micron** earnings. Um, you know, according to Dan Ives, investors worried about Tuesday sell-offs were were missing the bigger picture that there's still a strong demand uh for the memory names.

Oracle, Nvidia, and SpaceX News - 81:47

Um, in other news, **Oracle** said this on Tuesday, the adoption and and deployment of AI technologies across our operations has resulted in reductions to our workforce. Uh the company's global head count shrank to uh 141,000 full-time employees as of *May 31st* compared with 160,000 a year earlier, and it's going to fire more. **Nvidia** uh raised about 25 billion of debt. Um after the deal was reported more than three times oversubscribed, that was a massive vote of confidence. I mean, not really massive, but from the bond market, it was a decent vote of confidence. Um **SpaceX** um also, which is a new hyperscaler, uh raised about 20 billion of debt, and while it was received positively initially, uh what we've seen is that, you know, the bonds started to sell off a couple days after the uh 89 billion of of peak demand on the 20 billion book, and the 2056s um were actually quite an interesting short uh because they're super long-dated, and even a 1% decline, you know, in or a 1% increase in credit spreads or 100 basis points, um could result in a huge decline in the bond price, right? You know, with 30 plus duration, you know, 100 basis point increase in spreads could result in the bonds falling 30 points. So quite an interesting hedge um to the overall AI trade. Um given that **SpaceX** is trying to become with its huge data center in Tennessee, uh where I think **Google** is paying it, you know, several hundred a month uh to use so far, um is effectively becoming a a hyperscaler.

Trump Meeting with Defense Contractors - 84:06

So now, um, if we jump to uh page 48, Trump basically hosted um weapons makers in the Oval Office meeting on Wednesday. Um and relevant names there um were the big five defense, **Lockheed Martin**, **RTX**, **Northrop Grumman**, **General Dynamics**, and **Boeing**. Small arms, uh tactical gear, **Smith & Wesson**, **Sturm, Ruger**, **AMMO**, and **National Presto**, and drones and AI, **AVAV**, **Axon**, **L3Harris**, and military ship building, **Huntington Ingalls**, and **Textron**. So, you know, there this meeting, you know, I think we'll we'll get some discussion of what came out of it. It could be good for some of the defense names that have sold off.

Private Credit, Howard Hughes, and MicroStrategy - 84:56

Um in other news, **Apollo**'s private credit fund got about 17% redemptions, unreal. They only honored about 5% and then **Ares**, which is supposed to be one of the best private credit firms, got about 14% redemptions. So this private credit issue is not over. Private equity bosses are so stressed that they're actually taking loans on carried interest as their payouts have been stalling, um and their liquidity dries. Um a quick snapshot from **JPMorgan** on **Howard Hughes** with a low 80s uh sum of the parts. You guys can read that on page 51. The Italy relations kind of blow up on page 52. But on page 54 is interesting, some graphs on the **STRC** um **MicroStrategy**, uh which is still over 30 billion market cap, you know, it saw its prefs trade down about 25 points on **STRC**. Its SCRDs were already um at a low dollar price because they don't have the variable dividend. Um but those 10% perps were all the way down to 50, and I believe the dividends are also not cumulative, so they are riskier, but those were down to 50, and we started to buy those. They rallied to 52. Uh not bad. We started to buy **STRC**. Our average for **STRC** is kind of in the in the uh mid-to-high 70s. So if it goes back to par, plus the dividend, you know, it's over 30% return.

Um by the way, these are not without risk, so it's it's they're small pieces of a diversified portfolio, but we do think that um Sailor still has the ability to issue stock um to pay dividends and so once the market fully understands that, you know, you might see a rally in some of these prefs. And the **Asasta**, which is **ASST**, which actually has no debt and it's only prefs, whereas **MicroStrategy** still has debt, um those were effectively trading at a 15% yield as well and you could have bought them in, you know, kind of very low 80s and they they bounced a little bit on Friday. Uh but with this war fear coming back, I I'm worried that crypto will sell off again this week, so I wouldn't be too aggressive.

Q&A Section

Redwood (RWT) Analysis - 87:00

So someone on the call asked me specifically about, you know, **Redwood**, and obviously, I've been following **Redwood**. I own uh **Redwood**. We had sold it, you know, I think it rallied well above $6 a share and then um after earnings and then we took that to take take profits, and then we've been adding to it um due to this rate volatility kind of in the fives and high fours. Um, so hopefully we get another round trip here.

The reason why **Redwood** has sold off is because of a combination of interest rate volatility and headline earnings shortfall from their Q1 earnings report, even though the reaction was very positive to the earnings report in the beginning. I think people questioned it after the actual call uh and subsequent days. Um, there was a little bit of margin compression, um you know, on the GAAP profit. Um there was some book value erosion, only of about 3% to about 7.12. Um but the stock does trade at a big discount to book value. So if it's trading at 481 versus 712, um that implies effectively a 33% discount to its book value. Um there are also some macro housing headwinds with higher mortgage rates, elevated interest rates have kept the broader US housing market stuck at neutral. Um it hasn't really been growing at all. And then a slower overall housing turnover and affordability constraints have forced tighter industry margins on jumbo loan aggregation and originations, which is what **Redwood** is exposed to. Um so, you know, effectively hitting its margin outlook.

Um but it does trade at over 30% discount to book and it has a robust dividend coverage. So despite missing analyst projections, the 21 cents in earnings still fully covers the 18% quarterly dividend, which is about 0.72 annualized. So at 481 share price, this translates into a 15% dividend yield that remains fundamentally covered by the operating cash flows, at least as of the first quarter. Uh and it has about unrestricted liquidity of about 200 million of cash. Uh so we still like **Redwood**. It's just, you know, we really need interest rates to come down for the story to really play out well. Um so hopefully that um hopefully that answers your question.

Amazon (AMZN) and Google (GOOGL) Capex and Valuation - 89:20

And then on the **Amazon** and **Google** question, you know, I think that some of the valuations already already reflect um a higher CapEx. Um, you know, combined, they've had 180 billion, you know, **Google** has had 180 billion AI pivot. Uh, so, so **Google** transformed from like a poor cash uh pure cash cow into a capital intensive infrastructure giant. So for **Google** management guided towards a 2026 CapEx of about 180 billion to 190 billion and expects 2027 to be higher over 200 billion and that's why it had to raise 85 billion in equity. That was a big shock to the market. Free cash flow collapsed and the raising equity, they must if they're raising that much equity, they must believe that the ROI on this spend is going to be high. There's just no way to prove that yet. You know, **Google** isn't building its data centers blindly. As of 1Q '26, **Google** Cloud Cloud revenue did surge about 63% year over year to about 20 billion with operating margins at 32.9%. They do also have a big backlog of about 168 billion.

Amazon also shocked the market by outspending everyone with about 44 billion in one quarter alone on track for about a 200 billion annual spend. Um so there is obviously some margin execution risk. Uh early AI infrastructure depreciation is starting to hit. **AWS** segment operating margins actually fell 140 basis points to 37.7 in the first quarter as it competes with **Google** and **Microsoft**. If tech spending experiences a cyclical macro cooling in '26 to '27, **Amazon** will be left carrying a a bag, right? As they invest in their TPUs, etc. But **AWS**, you know, did see a reacceleration where it did see growth of about 28% year over year to 37.6 billion during the quarter in terms of revenue. And it has this hidden chip business where it has, you know, this custom silicon, Trainium, Graviton, and Inferentia, which has scaled to about a 20 billion annual run rate for its own chip business, which is quite impressive. Uh so we think that there's some value there and **Amazon**'s not getting credit for that. So um I think that **Amazon** is still interesting long-term. I still think that **Google** is interesting long-term, but I wouldn't be adding too much uh because their CapEx keeps going up. Um but you know, on this Mag 7 sell-off, I would be adding to names like **Microsoft**, **Google**, and **Amazon**. It's just I wouldn't be adding too aggressively because it's very very very difficult to uh to time a bottom in these types of markets.

Um so I answered your questions. I hope you guys have enjoyed the call. We did cover a plethora of topics, more than most calls. Um the recording will be out very shortly. Wish you the best in terms of trading during the week and you guys should be receiving an email as well.

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