2026-09-13 - SSN - FOMC Decision, PPI, CPI Meet Exp, 10Y Spikes with Oil, Red Sea Chaos for Saudi, PRTH EVC Models, SKM Anthropic Sale on Slowdown, AC Dutch Tender, RWT Add on Convert, RSVR Merger Arb - 01

Transcript

Introduction and Housekeeping - 00:00

Okay, so I wanted to say happy Sunday, but it's certainly a hectic Sunday. Um, apologies for the sound issue. I did get a new mic and I always use two laptops on the call and I think the call just bounced from one laptop to the other, which resulted in the no sound. Um, you guys should have the email and all the files are up and running. Um, so if you can download the SSR Q&A PDF, that would be very helpful. There are also several attachments to the to to the email, um, and the SSR Q&A tab the same. We have the **MS Morgan Stanley** non-AI top picks Excel file. We have the **Fidelity** US fixed income file. We have the **Standard Charter** inching towards a Fed hike, which is now at 87% probability file. We have the **Morgan Stanley** 3Q update on equities and bonds. Um, we have **BlackRock** Y Japan Matters to the US bond market. We have **JP Morgan** on the Iran war AI and transformation. We have **Deutsche Bank** on AI infrastructure and private capital.

We have two models on **EVBC** and **PRTH**, which are both small caps and are sensitive with a higher beta to the to the market, but I think both very attractive long-term. Uh, one on a merger, one on a cyclical turnaround, um, in advertising.

Okay, so in terms of it's about 20 megabytes in uh, in attachments, which is probably why um, I'll have to resend the email given the attachments to to those who haven't received it, but we'll do that after the call. Um, so, I'm just replying to an email right now to someone who says they didn't receive it because of the attachment size, but just make sure.

Economic Calendar and Fed Rate Decision - 02:13

Okay. So if you open to page one of the PDF. We'll start with the economic calendar. There's not much in terms of earnings next week. Um, but we do have a pretty important economic economic calendar. Number one, we have ADP, the weekly employment change. While we had strong job numbers, um, this month, they were mostly government, lodging and leisure, um, and healthcare related. Empire manufacturing is supposed to drop precipitously, um, on *the 15th*, which is tomorrow, from 20 spot 6 to 15. We have MBA mortgage applications and then retail sales on *the 16th*, um, where they're also, um, well, they're relatively weak, you are expected to see a bounce in retail sales in *September* from negative .6 to .8%, which is still under 1%. Now, ex, um, auto and ex-gas, that number drops to .4% because of the increase in gasoline prices. You know, diesel prices are above six, six dollars. Um, so that's that's a pretty big issue. As I'm talking, the US **Nasdaq** is down about 1.1%, so continues to get a bit weaker.

Now after the retail sales data, we have in the afternoon the **FOMC** rate decision on *the 16th*. The markets broadly expecting a 25 basis point hike now because the war is looking to last, you know, at least through the end of this year. And despite what Hasset and everyone says, um, about interest rates, uh, it's almost like banks, uh, drawing their consensus higher almost going to force the Fed, despite Warsh and Waller, um, being more dovish than the rest of the **FOMC**. They're 12 voting members and it looks like, um, they want to force, uh, the **FOMC** to hike. If they do not, um, hike, then, you know, you actually could have, um, the bond vigilantes forcing the 10-year, um, 10-year even higher.

Market Risks and Fed Decision Impact - 04:19

So this is a a major issue I think for the markets. I think that if they hike, uh, that's going to be very bad for commercial real estate, which is why we we were adding a bank short that's the most exposed to commercial real estate in the United States. If they don't hike, the 10-year could go higher, which is going to be bad for tech. So it's kind of you lose if you do, you lose if you don't. Um, this is kind of what happens when you have stagflation, um, where, you know, this is not exactly stagflation, but it's stagflation-like where you have the Fed having to hike into a slowdown because everything outside of AI in the United States is not growing as robustly as it was over the last few years.

Market Strategy and New Screener Tool - 05:07

But there's always something to do in this market. So I think that, you know, adding shorts and more eventy longs, like this Dutch tender, you know, adding to I think the **Redwood** sell off because of the convert was overdone, adding to some baby bonds there. I think there are definitely things to do in this market. Um, it's just not very obvious to most. Okay, so again, appreciate your time and your patience today. Let's, um, finish the economic calendar and then jump into ideas. I what I'm going to do going forward is I'm going to do the ideas in the beginning of the call, uh, to be mindful of everyone's time, and then focus more of the macro at the back end of the call. We're trying to redo this. And then I just wanted to give you guys an update on the screener. The screener will be out in *October*. Uh, it has helped me with a number of new ideas, uh, that I have in the backlog. That's how we have five live ideas on this call. And I think going forward, we're going to have a lot more ideas to discuss, um, at different levels of conviction in the mid-cap and small-cap space where you don't have everyone on Twitter talking about them going forward. And the screener will also be available to premium subscribers, you know, silver and above. Um, to use. It's going to be it's on a different website, um, because it's it's linked to a a SQL database and our current website doesn't have enough, um, memory to run it. So it's going to be run on our new website. Eventually the entire website will migrate over to something a little bit cleaner.

Upcoming Earnings and Merger Arbitrage - 06:36

So after the **FOMC**, where unfortunately, um, I was not expecting a hike, but now it looks like there's a high probability of a hike. We have the Philly Fed business outlook, which is supposed to drop from 47 to 32 on *the 17th*. We have initial jobless claims, which I expect to be flat. We have housing starts at 1.3 million, um, which, you know, is still relatively low, um, because of mortgage rates being at 7%. Um, they are supposed to bounce from the *July* numbers simply because they were down 12% in *July*, but, you know, after this, I don't expect them to rise much more. And how do I know that? Well, building permits are going to be down in *August*. So building permits are down from 1.43 million to 1.40 million. So the following month, you're probably going to see housing, uh, data fall back down again. And then on *the 18th*, you have industrial production data that's also supposed to be very slow at 0.3% from 0.2%. And, um, the leading index is supposed to be very anemic at 0.1%, which kind of tells you all you need to know about future growth expectations in this environment. You know, what I'm really worried about is after midterm elections, um, you know, what we've seen in this market is just, um, you know, with the tariffs against Canada, with the escalation of the war, that if the administration doesn't care, uh, about the midterms and is just simply willing to offer people 5,000 of their own money that they're paying through their taxes back to back to them, uh, as some sort of a bonus, um, that would cost 1.3 trillion dollars, that the administration is quite dangerous and what could happen after *November* could be peanuts compared to what's happened, uh, going into the midterms. Um, especially if, um, the current administration feels threatened, they might take some drastic measures, especially after the Supreme Court, um, effectively said that the tariffs are illegal. Um, and what that could include is it, it, it could include just the US just stopping, um, export-import bans altogether without tariffs, um, as threats. So, you know, if we do that, um, where with countries where we we have deficits, you know, we could temporarily just stop doing trade with 50% of our trading partners, which would be absolutely ridiculous, but I'm not ruling it out. In fact, some members of the administration have already hinted at this. Um, not that they're going to do it, but it that it's a possibility.

Upcoming Earnings and Merger Arbitrage (Continued) - 09:12

Now, the next thing we want to touch on is the upcoming earnings calendar. The good thing about this is there's really nothing happening on the earnings front, so we can focus on economics and on event-driven situations and on hedges. The only two companies that are important that are reporting next week are **Trip Advisors**, uh, or trip.com and, um, **Lennar**, which is a home builder. And I'm the only thing that I'm going to be reading next week is on the earnings front is **Lennar** because I want to see how their sales are doing with higher mortgage rates. Now with respect to large-cap merger arbitrage and special situations, um, the only one of these that that, um, we own in size is this **Warner Brothers** peace guy, which has compressed from over 20%. Um, we we own a little bit of this NCUNP as a tracker, but not a lot. Um, most of our merger arb exposure is in much smaller names. You saw, um, there are some anti-trust issue around **Roku** and **Fox A**, but that spread is just not wide enough to be involved in. There are several media reports last week about the DOJ preparing to expand its anti-trust probe into **Fox's** proposed $22 billion takeover of **Roku**. Investors were slightly surprised but not shocked, given there's a only a 70/30 odds of clearing. Um, they still think that the base case is that this is going to close. **Roku Fox** continues to be of interest following the company's second request. Despite the delay, **Roku** is well defended, multiple setters on the desk. There are a lot of big hedge funds putting the spread on after it widened out a little bit. You know, it widened out to a 6.5% IRR to a Feb close and then there's some buying at the end of the week, um, because they think it will close. That spread is not wide enough for us to make any money on because I'm not going to borrow money to put on a silly spread like that. In other news, um, Bloomberg reported that **Kinetic**, which is **KNTK**, is going to sell itself. Um, so that's on the watch list. We haven't added it yet. We don't know enough about the situation, um, but, you know, the ticker for those of you who do want to do work on it is **KNTK**. Um, so this is a this is a **Blackstone**-backed energy pipeline company. Um, it's not fully owned by **Blackstone**. It is, um, partially owned by **Blackstone**. Um, just give me one second.

So, **KNTK** is called is **Kinetic Holdings**, and the Class A shares, um, effectively trade at 54.75. Um, so if I look at the holders list, which I have access to, um, **Blackstone** owns about 14.8% of it and **BlackRock** owns 11% of it. **Goldman Sachs** owns 10% of it. So these three big asset managers collectively own about 34% of the company. And they're 65% of it is is actually owned by the rest of the street. Now, Jamie Welch, uh, which I believe is is an executive, he owns about four 4% as well. So almost 40% of it is owned by these three asset managers and the CEO. And the rest of the company, you know, obviously trades. Um, it it closed at 54 spot 75. Obviously rallied last week. Um, but, um, you know, again, uh, we we don't know. Jamie Welch is the CEO. We don't know enough about this business to, um, figure out where it's going to be sit, uh, what where the the takeout price will be. Um, but I do have a call with Jeffries and and one of the **Goldman** analysts next week to figure out, um, you know, what would be an appropriate takeout bid. You know, based on my math, the company trades at about 13 times forward EBITDA, about 25 times, um, trailing EBITDA because, you know, they have a a big margin improvement expected in 2026. And that's what I'm trying to understand, um, you know, how that how that is supposed to play out. Are they going to get credit for that? Um, you know, basically their EBITDA doubled, uh, from 100 million to to 250 million, it almost more than doubled from the first quarter to the second quarter. So I need to understand, you know, what drove that, um, before I can determine what the, um, what the takeout, uh, potential is. Um, you know, the stock's up 30% over the past year because of that improvement in profitability. You know, the profitability improved following a run up in commodity prices after the wars in Ukraine and Iran because this company owns a large network of gas gathering and processing infrastructure in the Permian basin in New Mexico. And, you know, it benefits not just from the throughput and the storage, it also takes a percentage, um, of the price exposure. So, you know, that, um, that is more of a variable cost. So, that we have to do more work on and and get back to you on. Um, Oxtay, we talked about. Um, there's also the **Goldman Sachs TMT** conference that happened over the weekend, which we'll touch on, um, and and all of the companies that they talked about, uh, which will be a pretty interesting discussion later on, um, in the call. Um, **ATAI**, the deal is expected to close on *September 11th*, so that likely closed. On the following page, we have our first trade idea to discuss. It's this **Air Canada** Dutch odd lot tender. Uh, so we do have a lot of Canadian subscribers. If you're Canadian and you're not subject to, uh, Canadian withholding tax, um, this, uh, the ticker is AC.CN. It's Canadian share. Um, it closed on Friday at 27 spot 53 and this Dutch tender is supposed to uh, take place on *September 24th*, and it's going to be between 29 and 34. So if you take 27 spot 53 and you divide it by 29, the minimum you would make is 5%. If you take 33, you divide, and and you divide, um, 23 spot 53, it's a 17%. You'll likely get closer to the 5 than the 20 to the 20% type return. Um, but the repurchase capacity on this, I'm sorry, that it's it's 5 and 17%. But you'll get closer to the five. The repurchase capacity is about 28 million shares, which is about 10% of the total shares outstanding. And so based on the odd lot provision, we've done these odd lot tenders before, there's going to be a priority allocation with without peration for holders of less than 99 shares. So if you own 99 shares across 10 accounts, right? Each account is each is held separately, uh, if it's at a separate broker, right? So 99 times 10, uh, times, you know, 27 spot 53, you can basically own $27,000 of this, let's say, in that scenario if you had 10 accounts. And if you were to make, you know, the the most you could, which is 17%, you'd make about 4,600. So this is mostly for small traders, but it is something to to take a look at. The transactions funded by liquidity proceeds from a recent sale of their Aeroplan loyalty platform, which they got paid cash for.

Valuation Model Updates and Short Book Ideas - 16:37

Okay, so, um, on the next page, we have the E- **EVBC** and **PRTH** valuation model updates. We shared our thoughts on these situations over the past two weeks, and one of our analysts has modeled them for you with the Excel attached to the email and to the Discord. So effectively, um, what we did was we calculated our own cost of equity using the company's betas, the risk-free rate. Um, so effectively, we we used the the CAPM to figure out, you know, what the company's cost of equity is using the new, you know, 10-year Treasury. Uh, as a risk-free rate. Um, we use a risk premium of 4% and we put in the company's cost of debt. We then modeled out the free cash flows from revenue to EBITDA, um, to EBIT. We adjusted for CAPEX to get to free cash flow to the firm. We forecasted out that free cash flow to get net present value and then the terminal value, and then we subtracted out the net debt to get a fair price. Now, these are not perfect calculations, but this implies roughly 59% upside on **EVBC**. We talked about **EVBC**, you can read the overview that we did two weeks ago, um, on its fast-growing, um, pivot, uh, into into, uh, advertising from away from its core business. Um, it's been growing like a weed, um, and it trades relatively cheap, um, to its cash flow growth. On the following page, we have **PRTH**, where there's currently the CEO who owns like 60% and he's trying to buy the whole company at like five times cash flow. There are two activists involved. We talked about that, uh, about a week ago. Uh, we bought this in the low fives, we sold half of it above six. Uh, it rallied because of two of of two small hedge funds getting involved. Uh, we can add back to it if if it sells off on Monday back in the fives. Um, but the long term, the activist state that this trade, this is worth between $15 and $20 a share because, you know, it generates about 200 million of unlevered free cash flow. After free cash flow, like we said, it does about 100 million of free cash flow, but, you know, if you were to to value this 200 million of free cash flow, you know, growing at single digits, um, that would probably be worth, uh, about $20 billion, uh, about 2.6 billion dollars, um, even penalizing this company with a 2% small cap, uh, premium and it's weighted average cost of capital. So that gives us about $21 a share. Now, that doesn't, uh, take into account, you know, AI risk, um, because it is a company that, you know, has a software component. It doesn't take into account any of the the risks when you do this type of DCF outside of the small cap risk which I added a 2% uh penalization for. Um, the good thing is that this company provides payment and data data processor services. So it is, you know, linked to payments, which is less disruptible by AI, but it does have a software component. So it should probably trade at a discount to this $21, but it probably should not trade at, you know, 594, which is where it closed at the end of the week. Um, so basically trades at a quarter of what its cash flow say it should be trading at, but the company could easily be a double if the CEO says, okay, you know, instead of buying this company for, you know, between six and seven dollars a share, I'm going to pay nine to 10 dollars a share just to get you guys off my back. Um, or what the board could say is, you know, we want to sell the entire company because the CEO's own so much, he doesn't have a voting stake, especially when he's buying out the rest of the of the public float. Um, you basically need a majority of the minority. So of the of the 40% of shareholders that are not aligned with the CEO, which is the minority of minor a majority of the minority, so there's 4% activists of the 40%, they need to convince another basically 16 plus percent of the other voters to vote on with them, and they can reject the the CEO's offer. So either then he has to increase his offer or sell the company to someone else. One of the reasons why why these shares trade so cheap at **PRTH** is the CEO has been buying and doing roll-ups of all these small companies. He recently made a $15 million acquisition last month. And so people are thinking, well, you know, in the meantime, you know, he's making all these acquisitions, uh, the the cash flow is becoming less certain because of these acquisitions, and if we don't let him buy the company, is he is he just going to continue to grow his empire by making these small acquisitions? So that, you know, hurts the thesis a little bit. Um, and he can make these acquisitions because he does control the shares and the majority of the minority doesn't apply, uh, to when he's making these when he's doing these deals. It only applies when he's bidding on the business. So it is not a, you know, a perfect trade, but the company trades so cheap that, um, we did take a take a position. We sold half at a decent profit, um, and, um, over a 15% profit, and we will likely buy buy back if it sells off again.

Now, on the short book, we need more shorts for our book because the market is quite volatile. You know, I expect the sell-off to probably get worse by tomorrow unless there's a magic deal announced in the morning. Already, you know, **Nasdaq's** down about one and a quarter percent now. Um, **S&P's** down from 0.45 to 0.6. **Russell's** down from 0.7 to 0.36. Um, the 10-year is actually come down at 4.95 because of the fear in the market. Commodities, um, **WTI** is around 103, Brent's uh, around 108. Um, both up about 3%, even natural gas is up 2% in sympathy. I mean, European natural gas is the highest in three years, but, you know, US natural gas at 287, you know, it's not very correlated, but it's still up with the rest of the market. Um, so what are we going to do here? Well, we think now there's a decent chance that they are going to hike despite Trump throwing a tantrum and threatening Warsh and threatening the rest of the Fed. Um, we think that Japan is going to hike on *September 18th*. Um, the ECB already hiked last week, which is one of the reasons that the 10-year ended up higher and the German Bund was higher and the French 10-year was higher. I think that if the US Fed hikes, you know, the 10-year might actually fall because of growth expectations falling, but, um, commercial real estate is not valued on the back end of the curve like mortgage rates for residential are. Commercial real estate is benchmarked off SOFR, which is basically the same as the Fed funds rate. So if the Fed fund rates go goes up, commercial real estate companies, which have been stressed for several years during COVID, you know, office space, shopping centers, etc. Um, those companies are going to be exposed and banks are going to be exposed that are overexposed to commercial real estate.

So there's there's a bank called **Valley Bank**, um, **VLY**. So **VLY**, the full name of the bank is called **Valley National Bancorp**. And, um, it's a short target primarily due to its structural exposure to commercial real estate debt. Uh, it has elevated liability costs, um, very minimal NIM. It has a smaller uh margin than its peers. And its valuation to risk, you know, it's it's close to its 52 week highs despite being one of the most exposed banks to commercial real estate. And, you know, it didn't really sell off. I mean, the **S&P 500's** only down 3% from its all-time highs. Um, but this, you know, basically this this bank over the last five years, um, you know, remember we had the 2023 banking uh, malaise. And this this bank was down 50% from *January* of 2023 down to almost $6 a share, um, by *April* of 2023. Um, now this stock is basically trading at, um, five-year highs. Um, it peaked around 15. Um, you know, which was the highest level it traded at since um, 2009, and it's now back down close to 14, around 1380. Um, so we think this bank could easily be down 20-30% on an interest rate scare. Um, it has heavy commercial real estate concentration, it has about 325% of its total risk-based capital in commercial real estate across office, across multi-family, across retail. Um, that exposes the bank to elevated refinancing stress as a lot of these loans will have to be refied, they'll have to take markdowns, especially across urban office and retail sectors. You know, this bank isn't as risky as it was in 2023. It had like 474% exposure to commercial real estate. It's sold a lot of its commercial real estate, but the issue is it sold a lot of its good properties and kept a lot of the bad properties. It has a high net loan to deposit, um, ratio and funding costs. Um, which expose is it to uh net interest margin erosion. This bank also has very little exposure to fee revenue.

Uh, unlike the investment banks, you know, so if you look at **JP Morgan**, **City**, **Bank of America**, right? If they have interest rate related mark-to-market losses, they have a lot of fee income that offsets that. For this bank, non-interest income, which is fees, wealth management, capital markets, accounts for only 13% of its total revenue. So this leaves top line performance almost entirely dependent on loan spreads, uh, which offers very, very little room, uh, for error. It also has lagging credit loss allowances. So if you listen to bears, you know, they highlight that **Valley's** allowance for credit losses or ACL has historically tra- uh trailed regional bench uh benchmark bank peers. So it's around, you know, it basically leaves less cushion for for unexpected credit losses, um, which I think is, um, one of the reasons why this is such an attractive short. Now, the short interest isn't too high, it's around 9% or about 42 million shares.

So the so the short squeeze risk isn't super high, you know, like it is for the quantum names or, you know, and there isn't a risk for like gamma squeezes like you see with **Tesla**, etc. So, this is a short that I can put on and not be as scared, uh, about, you know, the short. I think if the short interest was like 15, 20%, I would be more worried about a short squeeze, but, um, you know, the bank, I think is, is positioned, it could sell off, you know, 30, 50% again if we have another interest rate scare. Uh, **Valley's** loan-to-deposit ratio and higher dependency on wholesale funding relative to super regional peers, right? It's more exposed to wholesale funding markets, which are more susceptible to interest rate spikes. That's another risk. It has a total loan book of about 51 billion, so it's not a huge bank. It's commercial real estate exposure of 30 billion, so almost 60% of that. So it's non-owner-occupied commercial real estate is about 329% of total risk-based capital. Um, it had a multi-quarter rally to near its 52-week high, so I feel more comfortable shorting it here. The risks are, you know, it does have a, you know, 42 million short about 9% of the float. is that short uh would take seven days to cover, so it's not small uh short interest, not too, you know. Uh, the management of the company has derisked some of its CRE portfolio, took exposure down from 476% of risk-based capital to 333. It's still one of the high, one of the two or three highest uh in the country relative to its market cap. It has expanded its uh, CT1 capital ratio to 11%, um, basically to avoid major rating agencies to downgrade it, and so that's why **S&P Global** revised its outlook to positive, but, you know, I don't think **S&P** ever thought that we would be hiking rates again. Um, so I think that is something to be very careful about. Um, multi-family exposure is about 12 to 13 billion in New York, New Jersey and Florida. Commercial real estate is about 20 to 22%, that's the most risky. That's grocery-anchored strip centers, neighborhood retail across suburban New York, New Jersey, Florida. Office space is 10 to 12%, three to 3.5 billion, about 6% of the book. Um, and industrial warehouse is 10 to 12%. Healthcare, senior living is 5 to 8%, construction is about 5 to 7%.

The geographic exposure is on page nine, and we'll jump to the next idea on page 10. Uh, so we're exiting **SKM**. You know, we've done really well, um, in this name. We're just worried about this, uh, AI slowdown and panic after Adario's letter, uh, being published. We think that, um, he's going to delay his IPO till *October* at the earliest, next year is the most likely. And **OpenAI** definitely cannot do an IPO this year. So how are these guys going to raise money? Uh, **Anthropic** could do it privately, **OpenAI** less probable. So if these guys are not raising more money, how are they going to support **Microsoft**, **Amazon**, and **Google's** uh cloud backlogs? And if they aren't supporting their cloud backlogs, how are they going to increase capex? Right? So that's kind of the flywheel that I'm worried about. If they don't increase capex, who's going to buy **Nvidia** GPUs so that it grows earnings 30% every year and who's going to be buying all this memory? Now, it's not going to matter in the next quarter or two. All this capex is still going to happen. But, you know, the market is hoping that, you know, we see 30% more AI capex buying next year and then 30% more the following year. At some point it has to stop. And a deceleration is enough for these stocks to sell off. And that's kind of what's happened in the market. The multiple, the market multiple we'll talk about in a minute, has compressed about 13%. And that market multiple compression is one of the reasons why, um, you know, people are concerned. Um, the reason why the market is only 3% from all-time highs is we had a 12% rally in the in the Mag 7 stocks which offset the decline in a lot of the mid-cap stocks. And by multiple compression, because **S&P 500** earnings were up 30%, even ex the one-offs in **Anthropic** and **OpenAI** valuations or **SpaceX** valuations, that 30% earnings growth, um, basically because it's, you know, earnings are in the denominator of PE, that earnings growth makes the **S&P** look cheaper. So even though the **S&P** is only down 3% from all-time highs, it's actually down 13% in multiple compression. Uh, so that makes the **S&P** look more look less expensive. But now all of a sudden assume the Mag 7, which is what's rebounded, is going to show lower earnings growth, right? That is a negative trigger because half of their growth has been coming from these two companies, **OpenAI** and **Anthropic**. So that I think is a major risk here. Um, I don't think their capex is going to slow down in the near term, but it could, um, become a bigger issue later. Okay? So, over the weekend, **Anthropic** CEO Dario Amadai publicly called for a formal industry-wide slowdown of the pace of frontier AI model development. The trigger was a security incident involving an autonomous agent swarm, which is called the **OpenAI** Hugging Face incident, which demonstrated dangerous emergent mis-alignment behaviors. **Anthropic** unilaterally committed to letting external third-party auditors like **MATR**, vet internal training pipelines and model releases while urging democratic governments to enforce safety caps on capability leaps. **OpenAI's** Sam Altman and **XAI's** Elon Musk publicly backed Amadai's call. A deliberate pause on frontier scale up caps short-term revenue acceleration assumptions across the sector, hitting high valuation private multiples. Instead of endlessly chasing raw parameter scaling at breakneck speed, there could be a capital expenditure slowdown. The market is now forced to transition from capital deployment into immediate enterprise monetization for a company targeting a 1 to 2 trillion dollar valuation marks ahead of a draft S-1 filing, any voluntary break on model capability deployment introduces immediate multiple compression risk for private secondary markets.

After this, we'll discuss **Redwood**. So why I'm exiting **SKM** specifically, this was a high asymmetry deep value proxy trade, a dividend-paying Korean telecom holding 3.7 million shares of **Anthropic**, giving massive private exposure relative to its $15 billion market cap. The arbitrage now is closed. At its lows of 19 to 20, you know, where we started to look at it, **SKM** was fundamentally dirt cheap, providing **Anthropic** optionality for near free. Now it's rallied to 38 to 40 range. The stock was already pricing in a neutral core telecom at 11 billion for the core business, plus **Anthropic** at a private mark of 1.7 trillion. With **SKM** trading near its 52-week high, the market had fully credited the bulk of the upcoming IPO upside. So it's fully priced in, um, so it makes sense to sell, um, sell **SKM** completely and if you need to buy it cheaper, you can you can always buy it cheaper. I doubt **Anthropic** is going to be worth more than 1.7 trillion anytime anytime soon with all this. I'm just making a note in the alerts that we're selling in the pre-market near highs as **Anthropic** is fully valued in the valuation. Um, and you can see that, you know, where the shares are at 38 on the close, even if they open a little bit lower, um, I I'm not worried about it. Okay, so so what's going down? So there's a slow, there's a slowing of the of the AI race. Um, so so someone shared this thought process with me. Um, and this provides, you know, a little bit more of a balanced approach into uh the slowdown over the weekend. Did someone yell slow? Sam Altman and Dario Amadai both chose this week to talk publicly about slowing the AI race, but the market read through this is is very different to read through is very different depending on which one you're listening to. Altman said that given everything happening with safety right now would be an ill-advised moment to go public. We all know he couldn't go public anyway because his growth had slowed down. Altman's interview and reporting of Dario meanwhile argued that better pacing would allow labs to do the necessary safety work without sacrificing commercial advantage, while adding that progress would still seem fast. Dario Amadai said we must pace the frontier.

On the same broad subject, Altman can afford to sound cautious because **OpenAI** is not trying to price an IPO next month, but **Anthropic** is. So you have to take Dario more seriously. That is what makes Altman's comment awkward for **Anthropic** linked sentiment. **OpenAI** was not expected to list this year anyway. Its own CFO had already pointed employees towards 2027. So Altman loses very little by declaring this as an ill-advised moment to go public. **Anthropic**'s investors, meanwhile, are pushing hard towards an *October 26th* IPO reported at a close to two trillion valuation. You can see the problem. Apparently, this is a dangerous enough moment that going public is ill-advised. Unless, of course, you happen to be a company trying to sell two trillion of equity into it. That does not change **Anthropic**'s revenue, compute demand, or underlying fundamentals, but it's hardly framing that you would choose heading into a road show. This is negative for IPO sentiment, potentially negative for pricing, and another reminder that AI safety rhetoric gets a lot less theoretical when someone is asking about public investors, uh, someone is asking public investors to write a very large check. To an extent, the stock reaction on Monday will tell us about possessioning and how over their skis investors are at the moment, particularly with the macro being so poor.

Dario's letter is different. It's not a growth warning. He goes out of his way to tell you that. His argument is that better pacing would create room for safety work without sacrificing commercial advantage. And that even under this framework, progress would still seem fast. There is nothing in the letter about delaying model launches, cutting compute, reducing capex, or lowering revenue expectations. He does not touch the numbers at all. So fundamentally, there's very little here. Sentiment-wise though, the fact that he felt the need to explicitly reassure investors that pacing does not mean commercial slowdown, tells you he knows exactly how the market is going to hear it. When the CEO has to explain that slowing down does not actually mean slowing down, investors are probably going to spend at least a few days debating what slow means.

or the actual AI trade, **Nvidia**, memory, power, optical, and the broader infrastructure complex, nothing here changes the near-term capex number. No hyperscaler guide has moved. Nobody has delayed a data center or pushed out an accelerator order outside of the power issues and everything you already know about. For now, this is sentiment risk, not fundamental risk. Still two of the people running the labs against which the entire AI trade is benchmarked have now publicly introduced some version of a slowdown into the conversation just as 1 to 2 trillion dollar valuations are being underwritten on the assumption that capability growth keeps compounding. That is enough to create a short-term chop and multiple pressure even if the numbers stay untouched. It becomes a fundamentally different story only when pacing turns into an actually delayed model, a push compute deployment, lower accelerated demand, or a company guides citing lower AI spending. Until then, do not confuse uncomfortable headlines with a capex cut that nobody has actually made.

In my opinion, the real risk is that **Anthropic** or **OpenAI** run into funding issues and slow down cloud spending, which in turn lowers the backlog growth of **Microsoft**, **Google**, and **Amazon**, who then do in turn cut capex spending. But we won't know that for a while. In the meantime, the market will correct a bit to price in the uncertainty. So I think that is a balanced approach taking his view and my view.

Now we added to **Redwood** equity and baby bonds on a stock over reaction to the convert issue last week. They issued a 150 million convert to refi, uh not to raise new money, but to refi a 2027 bond that was due next year. I think this was poorly advised, um, given how weak, uh, the mortgage sector was, but they offered this 150 million convert, uh, at a 35% premium, which is close to their book value. So they thought, okay, we're not really diluting people below book value. And they offered a 7% coupon, which is much lower than their other bonds, which had over 9% coupon. So they thought they were going to save interest. Convertible arbitrage funds though, because this was only a 400 odd million market cap, they had to short equity, okay, to hedge this 150 million convert. So, assuming an initial delta between, you know, 50 and 65%, hedge fund arbitragers had to short between 75 million and 100 million worth of common stock, which is about 25 million of the float, which which would have been almost impossible to do in a day. So with a company with about a $500 million market cap, dumping 75 million of short selling into the open market in a single trading session creates an immediate downward pressure. So the stock was down like 22%. Um, we started to add the stock. They also had a 2% book value hit, which is very low by selling 190 million of their worst assets in a legacy bridge loan sale. So 2% book for selling that much of assets is not bad, but regardless, it spooked the market. **Redwood** then said it was going to buy 20 million of its stock in a buyback concurrently, um, at a big discount to book. Anyways, we started to add the stock when it was down, you know, like 18% at 341 and 345, and then continued to fall to like 320. Uh, we added another 10 bips at 321. We brought our average below 360. Um, and then we added five bips to our WTQ, uh, which was the yield was about 11% at one time and RWTTS at the same yield. These are baby bonds and they will likely be repaid at par just like it just repaid its 27 bonds at par.

Um, **UBS** published a note on the 10th before the stock sell off when the stock was at 426. It traded down almost to 321. So basically 25% from when they published this report, but they published it after the convert was issued. And what they said was, you know, this convert has been issued. Um, the transaction addresses a portion of its 2027 debt maturity, reducing near-term refinancing risk and improving financial flexibility. The company intends to repurchase 20 million of stock, which should offset, uh, some of the, the delta hedging from the convert holders. Um, **Redwood** still has approximately 111 million of capacity remaining under its $150 million common stock repurchase authorization as of *June 30th, 2026*. The net dilution impact remains subject to final conversion pricing. So what they said is, we believe today's sharp equity sell-off reflects a combination of convertible arbitrage hedging, dilution concerns, and uncertainty around the ultimate amount of 2027 debt that will be retired, rather than a materially deteriorating credit profile. What they're saying is, you know, nothing fundamentally really changed about the business outside of interest rates. The transaction improves the maturity profile, supports liquidity through ongoing legacy asset monetization because they sold 190 million of assets, and preserves capital for higher return operating platforms. While the market's reaction highlights investor sensitivity to dilution funding costs, we believe the magnitude of the stock decline appears disproportionate to the underlying economic impact. Now, obviously the stock also sold off because mortgage rates were going up. And so, you know, you can't have too big of a position here because interest rates continue to be a risk going forward. But we've been adding to the position and if interest rates go higher and it sells off further, we will continue to add to the position because this company survived COVID. Um, it was one of the best-performing REITs during COVID. It was the least levered. Uh, it's still one of the least levered. Um, and, you know, I personally have talked to the CEO several times and I think, um, he understands the risk. His customers on the mortgage underwriting side are very high FICO scores, around 750. So it's not a default risk, but, you know, there's going to be a mark-to-market risk because of interest rates. So it continues to sell off, we'll we'll add to it. It's not like the **UWMC** where you have trash management that, you know, did an equity rights offering and diluted the living crap out of investors after taking, you know, billions of dollars in dividends for themselves. This this is a a completely different type of management team. But again, you know, maybe they surprise.

Um, we added **RSVR** after a PE offer at 10.50 a share after the shares weakened below $9 a share. Um, we added, you know, kind of in the low nines because we weren't able to time it perfectly, but this stock was trading over 11, you know, because of this offer, you know, that was made, you know, at the beginning of the year. Um, people thought there was going to be a topping bid above 10.50. The shares then fell all the way to to nine. We bought them in the low nines, and we think that this 10.50 share at minimum should go through. The 10.50 cash bid from a majority insider, **WestBill Richmond Hill**, and competing interest from an activist fund that also wants to buy called **Irenic Capital**, um, keeps this play, uh, this this deal in play. The West Bill controls about 44% of the equity and **Irenic Capital** owns 9.2%. So combined, these guys own 53% of the stock. The reason why it moved so quickly is because of that. It has a small float. A lot of the stock is owned by these private equity firms and hedge funds. Um, there's no filing condition set up to the takeover, but this is a, you know, highly profitable company. If you look at **RSVR's** financials, um, which I'll quickly pull up, um, you know, this is a company with basically, um, 624 million market cap, a billion enterprise value, has 450 million of debt, but 70 million of EBITDA. So it's leverage, uh, is reasonable. Uh, it's moderate. Um, it does 40 million of free cash flow after paying interest, uh, which is about an 8% free cash flow yield. So it is a cash generator. It's generated between 30 and 50 million of cash flow consistently over the last four years. Um, and its profitability has been growing over those years. So it's not, you know, a very cyclical business. Um, and it's been growing, you know, between 10 and 18% a year over the last five years. Um, so it's a it's a music media company. It it distributes music recordings. It serves customers worldwide and it has uh top line revenues of about 180 million. So, with a very high margin, with a 65% gross margin because, you know, it's it's a lot of the business is is royalties, etc. Um, so we think that these bids, um, are real, and, um, you know, before, um, the company received these bids, the unaffected price, um, was around 750. So, you know, in a worst-case scenario, the company has grown since then because this offer was in February. Uh, worst-case scenario, I think it it trades down below eight. Best-case scenario, it trades, you know, above 1050 because there's a bidding war. Um, but we do think there's a high probability that this, um, that this bid will go through. Um, so it has, you know, these catalogs that generate high margin inflation-hedge recurring revenue for streaming, uh, performance royalties that have low correlation to broader economic cycle, macroeconomic cycles. So this is not a traditional advertising company. You know, a lot of its revenues are in the form of royalties and catalogs that it owns. Um, for that reason, it should trade at a higher multiple. Okay?

Um, on the following page on page 14, you have the **Morgan Stanley** top mostly non-AI stock picks. And, and these are all, you know, mid- to large-cap names. So, you know, this is for you guys to screen and and, you know, to look for your your own ideas. And their ideas here are cross LatAm, Europe, Asia, US. A lot of them are weighted, um, outside of North America because of how high valuations are. To give you a flavor, you know, look at **ABN AMRO Bank** in the Netherlands. Netherlands, the Dutch economy is still doing okay. That's rated as an overweight, um, you know, at $48 a share. Um, you know, modest upside of 10%. Um, you have other companies like **ADES**, um, which is, you know, a Saudi Arabian, uh, company in the energy space, uh, which has 40% upside. Um, you have companies like the **Abu Dhabi Commercial Bank**, um, which is listed in Europe but based in the UAE, which is down because of this war, uh, but it has about 20% upside to its fundamentals. You have **Actin** Technology Company in Taiwan, um, which has about 86% upside. Um, so I'll just go through the list and look up each one, but **Actin**, for example, with with two Cs, this company is listed in Taiwan and it is, um, you know, a developer of market computer um, system products, adapters, hubs, switches, routers, bridges and more. Um, you know, it's down about 25% from local highs. This is one of the few names on here that actually, you know, obviously is data center related. Um, but they have **Alibaba** on here, they think they have a 60% upside. They have **Alpha Bank** in Greece on here. Um, some of the higher octane names are Contemporary Amperex Technology in China. Um, you know, we think that there is going to be a major stimulus announced in China. There is a a big China, um, equity research report that is in the Q&A for SSR tab. If you go all the way up, we started to post this midweek, so we don't have to upload all these at once. But, um, **Franklin Templeton** mapping China's AI ecosystem and **Morgan Stanley** on China's next industrial revolution, which is a, it wouldn't fit in the email, but this is basically a 200 page report on China robotics, um, CAPEX, um, equity fundraising, capital markets, industrial innovation leadership, um, automation, etc. Um, you know, they haven't been as stimulative as they have been in the past, um, but just given the global slowdown we have, you know, if they were to announce a stimulus, this could be, um, this could be a very interesting year, uh, for Chinese equities. I mean, the Chinese 10-year is basically a 3% spread to the US 10-year, and I think the market's expecting, uh, some some stimulus already.

Um, but you also have some dividend aristocrats, right? You have **Coca-Cola** here, uh, which **MS** thinks has 13% upside despite the GLP-1 fears. You know, has a very decent, uh, dividend yield that should be defensive. So that's ticker **KO**. So **KO** closed at 82 spot 29. You know, has a dividend yield, uh, of about 2.4%, but it's a growing dividend and it has about has has free cash flow generation of about 14 billion a year, 12 to 14 billion. Um, you know, on a 300, 370 billion market cap. And so, you know, that free cash flow has been, you know, should be relatively stable. So if you take 13 billion on 379, you know, that's a three and a half percent free cash yield. So it's not, um, glaringly cheap, but it has sold off pretty dramatically from, um, you know, from local highs. It was kind of in the low to mid 90s. Um, hasn't sold off as much as I would have liked, but it has pulled back uh more than the **S&P**. Now, you know, over the next week, I'm going to go through all these names and see if there are one or two that stand out. Um, but there are some value traps like **Lloyds Banking**.

Um, there are some defense correlated names like **Rolls Royce**, um, which I think are interesting and we've talked about in the past. There are some, you know, interesting names that are more eventy like **Warner Music Group**, **WMG**, um, that could eventually be sold. So if you jump to the next page, **Northrop Grumman** on the defense side, **Palo Alto**, which we also like is on the list.

Um, the Iran War. So Brent oil surged over $100 a barrel. We're at over 107 in futures on Sunday after Saudi Arabia halted some energy operations near its border with Yemen due to the attacks, highlighting risk to supply from the region. Saudi Arabian production was already declining, which we'll talk about later. Um, Saudi Arabia temporarily shut down the 1,200 km east-west pipeline following targeted drone strikes originating from um, from Iraq and from Yemen. Satellite imagery identified damage and black smoke near the pipeline's path south of Medina. Um, the pipeline had been acting as Saudi Arabia's primary overland bridge to bypass the Block Strait of Hormuz, moving crude from eastern oil fields to the western port Yanbu on the Red Sea. On top of all this, the GCC meeting in Oman on Monday has been postponed. So that's, you know, that's a big issue. Bahrain was the first one to say we're not going to go. Uh, but, you know, because this GCC meeting has been postponed, that's one of the main reasons why oil is up 3%. It was only up half a percent before. Um, so the the volume of oil that's offline, the pipeline, uh, even though it's a temporary shutdown, moves removes up to 4 to 5 million barrels a day of capacity from from the world. Um, global oil markets are dealing with an estimated 5.7 million barrels of total supply capacity, uh, across the Gulf due to combined pipeline closures and maritime blockade. Prior to this shutdown, actual western coast crude loadings at the Yanbu had risen to 2.9 to 3.7 million barrels a day as flows were rerouted away from Hormuz. Ships are still crossing. If you look at these ship trackers, there's still about 26 to 28 vessels crossing per day, uh, but that's down from pre-crisis averages of about 70 vessels per day.

Um, the Houthis seize strategic positions along the Yemeni coast and Perim, Mayyun Island directly inside the strait. They declared safe passage for general commercial traffic while actively blocking and targeting Saudi affiliated vessels, forcing mainstream non-shadow tankers to turn off tracking AIS systems or go bypass the Red Sea altogether via the Cape of Good Hope, which is why tanker rates are so high, 800,000 a day, which is the highest in history because they're ton miles, they have to go all the way around Africa to avoid the Houthis. Now, the crisis in the Strait of Hormuz represents the largest structural disruption to the global seaborne oil markets since the 1970s oil shock. And what we were supposed to have a peace treaty, but now, six months later, there's no peace. Since the outbreak of the conflict between the US, Israel and Iran in late *February* of 2026, the choke point has remained largely closed to standard commercial energy transit.

There is a virtual standstill under the threat of naval strikes, sea mines, and **IRGC** boarding actions, commercial traffic through the strait has plummeted. Official **IMF** port watch data indicate, um, that transits have collapsed from a pre-crisis average of 85 vessels per day down to 5 to 10 vessels per day. They were higher last week, but they're down again. The small number of tankers actively navigating the passage consists of almost entirely of Iranian flag vessels, which are also now lower because of the US blockade, Chinese shadow fleet tankers and dark fleet hulls running with AIS transponders switched off to avoid targeting. Pre-crisis, roughly 20 to 21 million barrels a day of crude condensate, refined products passed through the Hormuz Strait, which is about 20% of global consumption. With Middle Eastern seaborne exports from Iraq, Kuwait, Qatar and UAE severely throttled, over 10 million barrels a day of regional crude and product output remain shut or trapped. The recent drone strikes on Saudi Arabia's East-West pipeline, which was previously moving 4 to 5 million barrels per day to Yanbu on the Red Sea, severed the primary overland bypass route, taking an additional 4 million uh of bypass capacity offline.

Now, because China exports had fallen, this has kept oil under 100, but now, you know, I think that if you were to see, uh, further escalation in the Red Sea, oil could easily go to 120. On *September 13th, 2026*, Iran signaled it intent to present Gulf nations with a bilateral agreement reached alongside Oman to establish a restricted temporary shipping lane. However, it's Iran intended to retain unilateral veto authority over which vessels cross the channel, and now that meeting has been uh delayed as well. So the market was already indicated lower, futures were actually down much, you know, the market was indicated 95 bips lower for **Nasdaq**. And obviously, we're down at 1.2. Um, you know, I'll skip some of this timeline talk. There were some midweek clashes which which pushed oil to 99 before the Yanbu attacks. Um, the attacks on Tuesday were the latest in a series of strikes in the region that had that already forced uh major refinery to shut down. Oil futures were already advancing on Tuesday. Um, and then on Wednesday, you had further hostility if you look at page 17. Um, Iranian attacks continued. Iranian forces fired missiles at US warships, including an aircraft carrier at least three times in the past week after the US uh bombed three Iranian VLCCs.

The **IRGC** also claimed to have struck eight tankers and two vessels. with um, **UKMTO** confirming one cargo ship hit off Al Faw in Iraq. Um, the US has not did not retaliate to the Wednesday attacks. The White House AIDS brace are now bracing for a years-long conflict. Vance, Rubio and others have told Trump that Tehran could hold out under the blockade potentially extending the conflict past *January* of 2029. Trump himself said Wednesday if the war will end immediately after *November* midterms, which is very convenient for him to say, because they cannot hold out any longer and then he promised um, voters 5,000 uh, if the Republicans won the midterms, which would cost roughly 1.3 trillion dollars. Um, US gasoline averaged about 4.22 a gallon on Wednesday from 3.19 a year ago according to AAA. Then there were additional attacks on Thursday. Iranian strikes targeted a US military installation in Jordan, inflicting damage across several American warplanes. A US official confirmed to Reuters, the attack severely damaged one A-10 Thunderbolt, detaching a wing, while approximately eight F-15 fighter jets suffered minor damage before being returned to service. US air defense batteries fired roughly 30 Patriot interceptors, which are incredibly expensive, which is why we have to spend half a trillion dollars on replenishing um, interceptors and missiles.

Saudi production was already down before these attacks. Saudi reported just 6.2 million barrels per day in *August* to **OPEC**, down about 1.9 million from *July* and the lowest since 1990 due to US-Iran hostilities, Houthi maritime embargoes and strikes near Yemen. Exports fell by a third to around 3 million barrels daily, pushing Brent above 105 a barrel and **WTI** over 100 with gains over 4% in one session. **OPEC** averaged 38 million barrels a day overall and cut its 2026 demand growth forecast of 38,000 barrels a day from 580,000. The Iran meeting with the GCC, there were originally signs of progress and that's why oil fell 2% on Friday, but now we're back up. The strategic goal um had been basically before this meeting was canceled, Oman and Iran were driving an initiative to secure GCC buy-in for a proposed temporary agreement governing maritime traffic. The tentative framework routes inbound Persian Gulf vessels through Iranian territorial waters and outbound traffic primarily through Omani waters. Tehran and Muscat hope to unify GCC endorsement would pressure Washington into lifting its naval and economic blockade on Iranian ports. GCC Gulf nations, which have suffered major logistical disruption despite using overland bypass pipelines, wanted a pragmatic temporary mechanism to restore commercial passage and reduce regional military friction.

The issue is that US has veto risk. Diplomats cited by the FT emphasized that while a temporary Iran-GCC agreement can reduce localized maritime tension, the Strait of Hormuz cannot fully reopen without a US buy-in. Washington remains opposed to Iran asserting unilateral transit control or collecting navigation fees. Worsening hostilities between Saudi-aligned forces and Iran-backed Houthis in Yemen alongside recent regional missile strikes could still complicate attendance or further confirmations before the gathering, which we now know has been canceled or delayed from Monday. Now we think oil could rise 100 to $120 a barrel in short order if both straits are closed, uh, fully.

Um, economists like Robin Brooks see otherwise. Let's see what his view is to get the other side. So Robin Brooks basically says oil out of the Persian Gulf is averaging around 15 million barrels a day. It is down from the peak. So we're running at 75% capacity compared to before the war. Now he wrote this piece before the Yanbu issue. That implies based on standard price elasticities of demand, a 33% premium over pre-war prices. So Brent should trade around 95. Now again, this is before the East-West pipeline blew up. His elasticity graphs on page 18. Even though there's no end in sight for the war, the crowd that pushed for $200 oil so loudly back in *March* and *April* has gotten quiet. But just because such a spike didn't happen back then doesn't mean it can't happen now. This post lays out why I think the passage of time makes such a spike increasingly unlikely and why Brent around 90 to 100 adequately prices the disruption in the Strait of Hormuz. He then goes, um, and again, I believe oil should be higher than 100 right now, should be closer to 120, but he then goes to highlight, you know, his oil price sensitivities, market psychology, the narrative shift on Iran, learning by doing on supply chains, you know, lower Chinese imports as his view that you're not going to see oil pass $125 a barrel again. Um, you guys, you know, I think oil will go higher from here, but I wanted to give you for a lot of these controversial topics, I like to give you two two views.

Now, why is the **S&P 500** only 3% from all-time highs? If you consider all the things that have been thrown at the market during this holiday-shortened week alone, with Brent oil prices over 7%, diesel above $6 a gallon for the first time ever, which will lead to inflation because trucks use diesel to ship our goods, and consumer goods prices will likely be higher because of it. The two-year Treasury yield is up nearly 30 bips to 4.6%, and the 10-year is up nearly 20 bips to 4.96%. The odds of a *September* rate hike have gone from 60 to 89% and the pricing of Fed hikes in 2026 has gone from 1.4 hikes to two. And oh, and not to mention the AI apocalypse doomerism. And for all those potential wrenches, the **S&P 500** was down less than 1% on the week. For the **S&P 500** this week, macro pain really has been an illusion. We'll discuss why this has happened. This resilience is even more impressive in the context of a tough seasonal backdrop with *September* being weak in in a mid-term year and signs of complacency in both positioning and sentiment going into this tougher seasonal stretch. These complacent signs include low volatility, low demand for downside protection, overweight consolidated positioning, and stretch futures positioning, bullish sentiment readings, and more. And yet, this equity market seems to ascend from any macro suffering and remain relatively calm. At least on the surface.

S&P 500 Internals and the Magnificent Seven - 01:03:04

So why is, why is this happening?

Despite the index currently being down just 2.2% from its all-time highs, we have seen a large deterioration beneath the surface of the **S&P 500**. After the close on *Thursday* when the index was down 3% from highs, a mere 17% of the names in the index were trading above their 20-day moving average and only 33% were trading above their 50-day moving average. This latter reading is down 70% from just one month ago. These metrics are far closer to an internal washout than would normally be expected with such mild price drop in the index. The **S&P 500** can thank its 34% weight to the Mag 7 cohort for its overall resilience. As the average stock as measured by the equal weight index and captured in those breadth statistics, um, you know, the average stock is down a lot more than 3%. But the Mag 7 has rebounded from its *June* swoon and provided a ballast for the overall market.

Effectively, the 12% rally in the Mag 7 since the start of *August* has made up for for a more broad-based softness in the rest of the market. The other underlying source of the market resilience, of course, is earnings. You saw Mag 7 earnings beat expectations and so like **Google** and all those names did rally from *August*. Uh, but overall earnings have also been strong. The constant and continuance climb of *2026* and *2027* EPS estimates for the **S&P 500** has allowed the market to absorb many of the macro shocks that are putting downward pressure on equity valuations.

Both *2026* and *2027* EPS estimates are up 16% year-to-date, pricing in 32% growth this year and 14% growth next year. This growth has allowed, and that's X, you know, **Anthropic**, **SpaceX**, and um, **OpenAI** valuations. This growth has allowed the **S&P 500** to tolerate a 13% decline in its forward P multiple and still deliver a 12% year-to-date return. This 13% drop in the **S&P 500** P multiple is worth a note, as we see it coming from multiple sources. First, higher interest rates are pressuring valuations, as we have been flagging for months, that the low in rates in *2025* coincided with the peak in valuations. Remember, valuations were like above 23 times, and valuations now are closer to 21 times. A further lift in yields as we saw this week is likely to put further downward pressure on valuations.

Second, we see a deterioration in earnings quality weighing on valuations, mostly for the Mag 7. The Mag 7 cohort has seen its forward P/E multiple drop by 30% since *last October*, and is now at the lowest level since *2025's* Liberation Day lows and even close to the *2022* tech bear market lows. We see some of this de-rating as capture capturing the now poor cash generation and higher capital intensity of these businesses. Given the weight of the Mag 7 in the index, an important question here is if there's much more downside to Mag 7 valuations from here or if the reset has already occurred, effectively allowing these stocks to resume their prior powerful returns. I still think there's downside to the Mag 7 if **Anthropic** and **OpenAI** growth drop, you know, drops precipitously, but uh we'll see how that plays out.

Third, we see lower valuations reflecting peak earnings growth rates and an increasing probability that some segments of the market are over-earning or pulling forward earnings power from the future to today, which is what some of the tech companies are doing. We expect that the 2Q26 was a peak quarterly growth rate at over 50% and that *2026* will be the peak annual growth rate at 32%, with a sharp deceleration in *2027*. The equity market's forward-looking tendencies sniff out this peak growth rate and typically ascribes a lower valuation multiple, which is what's happening now.

FOMC Rate Hike Probability and Market Resilience - 01:06:44

This last point raises the question about how much longer we can count on huge positive earnings revisions to dampen and dull any pain macro dynamics cause to valuation multiples. With the *2027* EPS for the SPX at $416 a share, implying 14% growth on top of stellar growth this year, we are not sure how much more realistic upside there is to *2027* estimates. Now, if you take 416 and you look at the 7600 where the **S&P** is trading now divided by 416, that gives you 18 times forward for *2017*, which doesn't look that expensive. But, you know, these growth estimates might be cut, you know, after this AI slowdown. So, um, that's why the market is so uncertain. It's kind of stuck in this area because 18 time looks 18 times looks cheap for next year. But if growth slows down, is 18 the real multiple? Is it 19? Is it 20?

Of course, taking the under on earnings estimates have been has been precisely wrong all of this year as earnings keep beating, which is why analysts are hesitant to trim forecasts and are inclined to keep raising forecasts until clear evidence challenges this bullish growth outlook. This is why we think estimates could continue to rise into year end, even if they might be challenged by reality next year in *2027*, with one-time gains not repeating, tough year-over-year growth comparisons, less upside to hyperscalar capex forecasts, and more.

Overall, the ability to shake off these macro tribulations is thanks to an earnings backdrop that has allowed the market to absorb valuation compression with minimal top-line damage. We still see potential for further volatility as we move through the remainder of the month and into *October*. Seasonal headwinds remain while positioning and sentiment suggests that investors are not already bracing for higher seasonal volatility. The earnings backdrop provides a strong fundamental underpinning for this market, but rate dynamics cannot be ignored as a further climb and a resulting potential tightening of financial conditions could begin to weigh not just on the valuation outlook, but the earnings growth outlook as well. We are also watching *2027* estimates closely for any signs that the powerful revision upcycle that has bolstered this market in *2026* is beginning to slow.

So let's jump to the next topic here. We still have a lot to go through. I'll be very efficient. The FOMC meeting, hike probability, um, has is now 87%. The sharp move in the **CME** FedWatch interest rate future has pushing the odds of a 25 bps hike at the *September 15th-16th* FOMC meeting. Um, has been driven by three factors. Number one, uh CPI was a little bit hotter than expected, and we had, um, energy bottlenecks. Okay.

The latest *August* CPI print came in above target at 3.4%, um, at .4%. Now, the core CPI, which is what I was discussing, you know, did did meet expectations, but the headline was hot. Upward pressure was driven by broader energy and supply disruptions tied to the Middle East conflict and Red Sea shipping bottlenecks, squashing hopes for a cooling trend in core inflation. Then we have the resilient labor market. *August* payrolls added a stronger than expected 162,000 jobs while holding unemployment steady at 4.1%. The labor market resilience gave the Fed leeway to focus aggressively on inflation without immediately threatening employment.

Japanese Yen Intervention and US Treasury Market - 01:11:00

Following Chair Kevin Worth's hawkish tone at Jackson Hole and subsequent signals from the Fed governors, Wall Street desks including **UBS**, **Citi**, **Macquarie**, rapidly revised their terminal rate forecasts from extended hold to two hikes before year end. This marks the Fed's first rate increases in three years, moving their target rates up to 3.75 to 4% as the market prices in prolonged higher-for-longer policy regime through *2027*, um, which is not the best, um, for valuations. It's not the best for gold and silver and crypto. However, I personally think that this is going to be one and done. Um, in the back end after this hike will be range-bound. Uh, and with slower growth globally, um, and hopefully an ending war, um, we will get back to cutting sometime in *2027*. But if the war extends, that gets thrown out the window.

Now, another really concerning thing was is the Japanese Yen and Japanese bond market, which Besant tried to support and then failed. Um, so speaking *Tuesday* at **Southern Methodist University**, Besant highlighted his coordination with Japanese officials on recent joint yen purchases, the first US involvement in many decades, uh, and his pressure for the **Bank of Japan**, um, rate hikes. The yen has strengthened to about 153. Let's see where the yen is now. This was on *Tuesday*. So the yen right now is still at 154, which means that, I mean, you know, the **Bank of Japan** has spent about 85 billion of their reserves selling treasuries to support the yen.

Um, so it basically was was very weak around 160 and um has kind of stayed range bound. I believe they're probably spent blowing through reserves to keep it here, especially with oil prices rising. So basically on *July 28th*, it peaked around 163. Then they intervened and went to 157. Then it went above 160 again on *September 1st*. Then you had Besant and and uh the **Bank of Japan** working together to bring it down to 155, and now it's kind of been for the last, uh, the last few days, um, it's been, you know, in the 153 area.

Besant's confidence stance drew praise for its directness, although, you know, when he did the same with US Treasury as it backfired. Yen's shorts had had been hovering near extremes. And, you know, basically Besant had said I'm the house now, so when we intervene with the Japanese Yen, I have a pretty good insight into into what the Japanese, what the **Bank of Japan** is going to do and what Japanese policy makers are going to do. And you can bet against me if you want. So he basically threatened the market. And while the Yen is still range, you know, in a range, uh when he accelerated Treasury bond buybacks, you know, 6 billion a month of bond buybacks isn't going to do anything to a 40 trillion dollar Treasury market, you know, or 10 trillion long-dated 10 trillion long-dated Treasury. So the 10-year is now, you know, 496 over the weekend, the highest it's been in many quarters. Um and the surge in the 10-year Treasury yield, um, which is a three-year high, near the psychologically critical 5% threshold reflects a classic bond vigilante rate rejection of Treasury Scott Besant's intervention strategy.

So the buyback cap has underwhelmed Wall Street. Um, it was it's been done in underwhelming scale. Dealers and primary desks had built up expectations for a bazooka buyback of over 10 billion a month to absorb duration supply after Besant started job boning. When the Treasury capped its expanded 20 to 30 year purchase to only 6 billion and only executed 5.19 billion due to lack of sellers, banks didn't want to sell paper at those prices, the market marked down the implied value of the Besant put. In terms of liquidity versus duration, buybacks recycled dealer balance sheet capacity into new auctions, but a five to six billion operation is a rounding error in a 30 trillion plus market and does not reduce aggregate duration risk when net Treasury issuance remains near record highs.

Then we had a failed 30-year Treasury auction. There's a $22 billion 30-year bond auction tailing significantly at a high of 5.308%, signal that institutional buyers refused to absorb long-end duration without a steeper yield premium. Then we had a hot headline CPI and energy spikes, *August* CPI coming above 3.4% alongside Middle East conflict driven surges in crude oil prices and diesel prices dismantled hopes for any rate cuts. You saw hike odds jump to an 87% probability of a 25 basis point hike at the upcoming *September* FOMC meeting next week.

Now, the 30 year made new highs after even a good 30 year auction. there are multiple auctions. even after the good one, we went to 534 last week. You saw the spread analysis, the two-year um also spiking. Now the **Russell 2000** is the most sensitive to um to interest rates with 40 to 45% of the index being unprofitable. Um, so that is on page 26. You know, roughly 40 to 45% of companies in the Russell are unprofitable, which is why the Russell is so weak last week. you know, pre-*2010*, the non-profitability was only 15 to 20%. with a surge to over 40% non-profitability reflects years of zero interest rate policy, which allowed companies to to be more lax, burn more cash, more early stage biotech inclusions in the Russell, and software growth names holding high index weight. By comparison, less than 7% of the **S&P 500** is unprofitable, which so it's a much better index with much lower debt, much lower cash burn. The **S&P Small Cap 600** has an explicit positive earnings screen keeping its unprofitable share around 20%. So if you want small cap exposure, you should buy the **S&P**

Small Cap 600 index over the **IWM** and short the **IWM**.

The **Russell 2000** is significantly more sensitive to short-term interest rate shifts because of this than large cap benchmarks like the **S&P** or **QQQ** for three main reasons. One, the **S&P**, the **S&P** has very low debt. Um, the Russell has very high debt, but it also has high floating rate debt exposure, which is benchmark to SOFR, which is benchmark to Fed funds. So 30 to 45% of the debt held by **Russell 2000** companies carry carries floating rate interest exposure compared to less than 10% for the **S&P 500**. There's also a *2026-2027* maturity wall for a lot of these small cap companies that have debt coming due. Then interest coverage ratios indicate that 40% of **S&P** 200, **Russell 2000** constituents have interest coverage ratios below 1.5, which means their EBITDA cannot cover their interest payments, which makes sense because they're not GAAP profitable.

On the next page, we talk about how PPI met expectations, but the headline PPI, so core PPI met expectations but headline was higher on energy. The *August* PPI print last week showed headline inflation reaccelerating due to energy costs while the underlying core inflation remained under control. Producer prices rose 0.4%, um, which met expectations. Um, but on a year-over-year basis we're at 5.4% versus expectations of 5.3. The core PPI was only up 0.2 versus estimates of 0.3, so it was up 4.6 versus estimates of 4.6. The monthly headline was hit on the nose, driven primarily by a surge in energy prices with crude over 100. However, core PPI came in cooler, demonstrating that the broader pipeline pricing pressure outside of volatile commodities isn't spiking out of control yet.

Because the the heat in headline PPI is predominantly an energy-driven story while core PPI came in soft, this print gives was gonna going to give the Fed some some headway and some room before the CPI came out. You can see, um, the monthly table PPI on page 20, on page 27. CPI came in hotter on the headline, but it looked like the market had priced in slightly a slightly hotter number as the **S&P 500** rallied 80 bips on *9/11*. And there was some talk about this GCC meeting and oil was down 2%, so that's why the market rallied and then by the end of the day, um, we started to get some some bad news and over the weekend now, we've given all those gains back.

BofA on CPI. Beyond its implications for next week's Fed decision, we do not view the CPI report as particularly informative about the underlying inflation trend. The upside surprise was driven largely by core services with an increased 0.3% month over month. Within core services, wireless telephone services surged 5.9%, contributing roughly 10% to core CPI. The increase likely reflects **AT&T's** retirement of certain unlimited plans and higher administrative fees, which should prove to be a one-off. In addition, airfares and lodging away from home, two historically volatile categories, contributed a combined eight basis points to core CPI. Air airlines in particular may have been boosted by higher oil prices, that's air airfares, airline ticket prices. These effects should prove to be temporary.

You see headline and core uh in the blue and red. On page 28, you can see how X-food, energy, and shelter, uh we've kind of been in the same trend line since *2023*, but the headline has been driven much higher in blue. So what's slightly concerning is the core services X housing did rise 0.5%, the highest reading since *January* and up 3% on the year. Core goods was very low at 0.11% for now. Shelter was low at 0.26%.

And you can see on the following page the core consumer price index change over year year over year with housing continuing to fall. Core services, ex housing in the light blue. Core CPI in the black and uh core goods, um, in the brighter blue, um, which is the lowest. You can see the categories between core goods and services on page 29 and then non-housing services picking up a bit in *July* and *August* with a breakdown on page 30. The irony in the CPI is that the weight of items with greater than 3% fell fell sharply. This is what Worsh talks about Jackson Hole. That graph is on page 31 and then the categories of CPI, um, are on page 31. You can see that fuel oil was up 52%, gasoline was up 27%, airline fares were up 23%, tobacco and smoking was was the next one only up 6%. So it's driven mostly by fuel. And then on the month-over-month basis, fuel oil was up 10%, gasoline was up 4%, airline fares were up 2.7%, and the next biggest category was only at 1.1%, which is motor vehicle maintenance and repair.

Now, while Hemmick is hawkish and I'm sure a couple other Fed governors are, um, she's not as important as Waller and Worsh. The problem is now that you have this war lasting for over a year, you know, they might not have a choice but to agree with Hemmick. Within the structure of the US Federal Reserve System, Federal Reserve Governor Waller holds a structurally more prominent and powerful position than Hemmick. Both are key players in US monetary policy, but when you think about who has the most power on the FOMC, Waller is one of the seven members of the Fed Board of Governors based in Washington DC. Governors are appointed directly by the President and confirmed by the Senate to serve 14-year terms. This gives him overarching oversight of the Fed, whereas Hemmick is is only the CEO of the Federal

Reserve Bank of Cleveland. So, you know, whatever, you know, Waller and Worsh want is going to have a bigger weight.

Hedge Fund Deleveraging - 01:33:45

Now, if you jump to the next page, um, you can see where Kashkari is as well. A lot of betting markets are betting on a *September* hike. Diesel prices are a major issue going forward. Diesel will go into consumer goods prices. As you can see, diesel prices are now at all-time highs above the Russia-Ukraine war *2022* surge. Daily national average uh gasoline uh prices um are published. This is the diesel subcategory. Um that's at about 605 per gallon on page 34.

Michigan consumer sentiment, we saw a big drop in the University of Michigan's consumer sentiment index from 51 spot 7 to 47 spot 8 while the estimate was 51, driven by future expectations component. The Iran war and oil prices are likely playing a role as inflation expectations have also moved higher in the graph at the bottom of the page, you'll see UMish expected change in prices during the next year. Median has jumped from four to 4.6, and that's pushed the sentiment index down back down uh by about three.

Now, energy was the only sector higher at the end of last week and the only sector with positive breadth. It was the eighth time this year that a single sector was in the green. Of those six, including today, were energy, where it was the only gainer. Higher higher energy prices are pulling US equities back toward the immediate post-Iran playbook. Semiconductors and energy are regaining leadership as the broadening trade of the last few months fades. Now, the thing I'm worried about is semiconductors could sell off and energy might be the only sector that rallies tomorrow because of this AI slowdown between what **Dario** said and what **Altman** said.

The methodical grind higher in oil and other parts of the energy complex are firming inflation expectations and driving treasury yields higher, weighing most heavily on cyclical and more rate-sensitive stocks. Brent's climb above 100 on increased US-Iran tensions and underwhelming buyback announcements have exacerbated the rise in yields. Research from **Breen Capital** calculates the daily correlation between oil and treasury yields at about 0.85, which is very high. It's the highest monthly average since the Iran war began if it holds for *September*. Equities have absorbed the move well at the index level, although the internals are deteriorating. **Fundstrat** notes that the equal weight **S&P 500** has broken its uptrend as a consumer discretionary, healthcare and financial sectors weaken, while semis and the Mag 7 prop up the S&P and Nasdaq for now. That marks a reversal from the past few months when energy prices fell from their initial war-driven spike and the positive earnings pulse broadened participation beyond the AI capex winners. In a recent note to clients, **Nomura** flagged that semiconductors and energy barbell portfolios re-emerge as one of the highest sharp and strongest performing baskets. This setup reflects renewed demand for the positive uh for exposure due to the bottlenecks behind AI capex build out in compute and memory. But again, you know, that could break tomorrow.

The rebuilding is increasingly visible in the options market. Call skew is rising. As you know, the situational awareness guy was buying calls right before this capex slowdown. He probably is going to lose a ton of money on *Monday* to about, you know, since he was buying naked calls. Uh and you know, call skew is rising in both energy companies and in semiconductor companies last week.

The treasury buybacks are not working. Besant learned an important lesson on *September 9th*. Once you show markets that you're willing to adjust policy when they move against you, they will always demand more. The US Treasury had already announced at least a doubling of longer maturity bond buybacks today, you know, this was last week. Besant tripled the size of operation Twist to 6 billion. What did bond yields do? They actually went up. You see the US 10-year, the reaction intraday, um, they actually went up on the day he announced.

Now, with the attention-grabbing fervor around Treasury buybacks fading and inflation data inbound, traders will focus be forced to refocus on the more important cross-asset threat, a broadening commodity inflation impulse that risks pushing yields higher, a tightening policy expectations and weighing on risk sentiment. *Wednesday* reinforced that that shift. The Treasury tripled its initial 10 and 20 year buyback to 6 billion, yet 10-year Treasuries moved towards 485 as traders had positioned um for a larger, more aggressive intervention. A solid 10-year auction helped by sizable concession into the sale, steady Treasuries and reduced worries that poor demand is driving the sell-off. The market is absorbing supply, it increasingly requires higher yields to do so.

None of this addresses the deeper structural pressure on the Treasury market. Heavy government borrowing is colliding with a growing corporate calendar worsened by the AI capex boom, all competing for global savings. The average G7 10-year moved above 4% for the first time since *2008*, um according to **Bank of Montreal**. As a result, buybacks are little more than a band-aid for a deeper wound that ultimately requires um a lot more surgery.

Enough, the inflation backdrop has worsened as well. Brent above 100 alongside historical tightness in product markets won't be affecting this week's PPI and CPI results, but there will be an eventual pull higher on core inflation as rises in commodity prices work their way through. Copper reaching an all-time all-time high broadens the move beyond energy. Agriculture is joining as well with higher diesel and fertilizer costs from Hermus disruption, tighter Black Sea grain flows, and the risks of a powerful El Niño increasing the upside tail for food prices. There is a timing wrinkle. Headline commodity inflation reaches core measures with a lag, and the coming BEA revisions may mechanically suppress near-term core PCE readings. That risks making the next inflation prints look calmer than the forward backlog, backdrop. However, markets tend to look through things like that when the long-term story is becoming harder to ignore. Energy, metals, and agricultural prices increases are creating a *2027* core inflation problem. Buybacks may influence where Treasuries trade on a given day, commodities increasingly look set to determine where yields, policy expectations and risk appetite go next.

BofA on T-bill issuance. 7 trillion of Treasury bills are currently outstanding, the vast majority of which mature in a year. Assuming the Fed hikes by 75 bips this year, **BofA** is too aggressive in my opinion. Annual interest cost on outstanding T-bills alone would increase our government deficit by 50 billion or 15 bips of GDP.

Now on midterm elections, uh President Trump made a major promise at the Republican midterm convention in Dallas last week, 5,000 for every adult US citizen if Republicans win both the House and the Senate in the midterms. We currently have 40 trillion of debt. This would add another 1.3 trillion in a single day. You know, at this point, I'm still waiting for my doge dividend. Where is it? The doge dividend was supposed to be 5,000, payments funded by savings through federal efficiency cuts, which never happened. Then we have the tariff dividend of 2,000, proposed rebates funded by revenue collected by federal import tariffs, and that was obviously pushed uh away by uh the Supreme Court. Then we had the Affordable Care Act ACA savings uh with all the pharmaceutical savings, projected 1,000 plus checks from expiring federal health insurance subsidies as well. Then we had now we have the midterm campaign promise of 5,000. Across all three, we've been promised basically over $13,000 of tax rebates, uh, which is basically, you know, two and a half trillion dollars, um, which I personally think none of which we'll see.

Now, you can see the rest of the world is looking at this and they're very concerned. You know, despite China's growing trade, its share of US Treasury is outstanding has fallen under 2% for the first time uh in 25 years.

There's a **Bank of Japan** rate hike coming on *September 18th*. Some think it could even be 50 bips. I think it'll be 25. The **Bank of Japan** Governor Kazuo Ueda will aim to strike a balanced tone and prevent one-sided interpretations of the monetary policy outlook at his news conference following the expected rate hike to 1.25% at the *September 17th-18th* meeting, um, two days after the Fed, seeking to limit further yen and bond market volatility in either direction. **Bank of Japan** officials are worried a dovish interpretation of Ueda's remarks could weaken the yen again, benefiting exporters and Prime Minister Sane Takashi, who favors easy monetary policy, but increasing upward pressure on inflation. The bank wants to avoid the yen moving back towards 160 against the US dollar. Meanwhile, the bank wants long-term interest rates to reflect market views on monetary policy in the economy, but it's concerned that surging interest rates could undermine the foundation for economic recovery.

Conversely, a hawkish interpretation would reinforce the yen's recent appreciation to 153 and lead markets to price a higher terminal rate and faster hikes, despite the BOJ not yet deciding whether to accelerate the pace of increases. While Ueda is unlikely to elaborate on a specific terminal rate or pace of future hikes, as these will depend on evolving economic and price conditions, his comments on the influence of past hikes on the economy and prices, the time lag before their effects are fully felt, and the cumulative impact of monetary tightening, including a hike expected this month, will represent a key market focus. Ueda is also unlikely to comment on the yen's recent performance and said pointing out that stronger currency theoretically lowers import prices and inflation, but can also dampen exporters' corporate profits.

In other news, the German far right is gaining power. Even though their elections are a couple years from now, um this is going to be something to watch. Um, they might increase their retirement age, um, which I think would result in several protests. Um, and we'll see how how this plays out. I'm just going to quickly move on to the next topic.

So hedge fund deleveraging, we've seen significant hedge fund deleveraging this summer. Um, we saw some re-leveraging after the situational awareness, but, you know, after two or three weeks we found out that Citadel sold 80% of what it bought and now, you know, we're seeing hedge fund deleveraging again.

Nuclear Sector Initiations and Outlook - 01:34:01

Jefferies has initiated on nuclear last week. Um, I'm surprised they didn't they didn't have a view on nuclear before, but they've initiated buys on **BWXT**, **CCO**, **DML**, **EU**, **MIR**, **NXE**, **SLS**, and uh **KAP**. There are hold, basically a sell on **GLO**, **LEU**, and **UEC**. Lauren sees a 55 trillion uh nuclear market by *2100*, and I don't know how he can forecast that on AI, hydron, climate, security and replacement. **Jeffco** research analyst Lawrence Alexander launched coverage on 11 nuclear companies. He um, he's talking about data center demand, broader electrification for physical AI, robotics, pressure from climate stress on aging nuclear facilities and refineries for a long cycle with frequent fly-ups. He favors the integrated producers like **NXE**, **CCJ**, and **KAP**.

In terms of **CCO**, **Cameco** is the West's largest listed integrated uranium company, operating mining, conversion and a reactor via **Westinghouse** business lines. The investment thesis on **Cameco** hinges on an increase in global nuclear capacity and the upcoming uranium contracting cycle. Combining operating discipline and a strong balance sheet, **Cameco** is in his view a prime beneficiary of the West's nuclear build out given full vertical integration across the fuel cycle. **KAP** is a straight-owned **Kazatomprom**, the world's largest uranium producer with some of the lowest production costs globally. An upcoming structural uranium supply deficit should drive realized prices higher, meaning EPS growth for cap over the coming decade. With first quartile costs, or the lowest costs, supply discipline, and one of the highest uh realized price sensitivities to spot, we expect improved ROIC and reduced volatility over the next uh cycle. **MIR** is basically saying this is the most risk is uniquely positioned, um, as a positive value chain exposure across the nuclear instrumentation, radiation detection measurement, dosimetry and reactor monitoring systems across the operating fleet and fuel cycle. Well-positioned um due to high spec measurement and safety systems supplying, uh low direct uranium commodity exposure, defensive nuclear growth tied to fleet utilization and new build cycle. Key upside drivers are new builds, SMRs, both small and large scale, global fleet life extensions, advanced reactor monitoring, contracts and defense nuclear instrumentation programs. So, the companies across integrated miners, project developers, and services equipment uh with the ratings are on page 41.

Goldman Sachs TMT Conference Highlights - 01:36:47

In terms of **Goldman Sachs'** TMT conference, they went through a lot of different names, some of which we've looked at in the past. Again, AI was the clear thread. You know, the **Goldman** TMT conference is the biggest technology conference every year, uh, for those of you who are not familiar with this.

But the, but the debate has moved from model capability to infrastructure scale, power, ROI and real enterprise adoption. **Nvidia** and **SpaceX** framed AI compute as a new industrial asset class, while **Shopify**, **Capgemini** and **Goldman Sachs'** CIO pointed to agent-led workflows as the next software paradigm. Cybersecurity, again, stood out as one of the most direct AI beneficiaries with **Palo Alto** and **CrowdStrike** both arguing for more automation, model diversity and platform consolidation. **Palo Alto's** CEO also said that the AI security industry is never has not even been built yet. The market cap of the two is circa 490 billion versus AI companies in the trillions. And cybersecurity has been the number one theme, concern and debate at the conference.

Semis remain tight and constructive, led by AI, memory, and advanced logic demand, while **T-Mobile** pushed back on satellite disruption and highlighted network quality, fixed wireless and Edge AI as differentiators. Bottom line, AI demand is broadening across the stack, but investors still need proof that CAPEX converts into durable revenue margins and cash flow. Investor sentiment, um, and this was before the recent **Dario** comments, regardless of the near-term oil concerns this week, TMT data points were broadly positive with healthy consumer commentary, steady enterprise demand and tight semi supply demand backdrop. But investors remain hesitant to fully recommit to the AI infrastructure trade. Bottom-up indicators are still constructive, tight supply, robust token demand, and improving product innovation. Yet top-down concerns persist around volatility, rates, geopolitics, policy uncertainty, and the law of large numbers, and obviously competitive threats from Chinese models.

The central debate is whether AI capex can convert into durable profitable growth. Hyperscalers need to turn backlogs into sustained enterprise AI revenue, which is now under question. Customers are shifting from token maxing to ROI-led token optimizing and constraints across power, memory and data center build out capacity should keep the market tight until *2028*. Now, I will let you guys read, you know, the commentary on **Nvidia** and **SpaceX**. Um, with **Nvidia**, the central message was that AI is not just another tech technology cycle, but a fundamental shift from retrieval computing to generative computing. Um, you know, the bottleneck has basically moved from chips to power. Um, demand is broadening rather than narrowing. Uh, **SpaceX**, what the key message was that **SpaceX** increasingly sees itself as an integrated AI infrastructure platform, not just a launcher satellite operator. I'll let you read uh the full commentary.

Um, then there's an agentic software commerce VC panel panel with **Adyen** and and **Shopify**. Um, the key message was that demand for AI-driven solutions is surging, creating both significant opportunity and uncertainty for investors and founders. Um, **Adyen**, weakness and intermediation questions. Um, **Adyen's** weakness appears to be driven less by **PayPal's** comments and more by US hedge fund concerns that **Stripe** Link and agentic personal shopping agents could disintermediate **Adyen** over time by reducing wallet size at the merchant level. That bear case feels overstated. Consumers can still transact normally with **Adyen** merchants without using **Stripe** Link, and even if Link becomes more important, **Adyen** could potentially orchestrate Link, ShopPay, and other future agent-led payment flows with its broader payments platform. **Stripe** Link is basically **Stripe's** digital wallet and a one-click checkout product allowing consumers to save and reuse prepayment credentials across link-enabled merchants. This feels similar to the stable coin debate. Uh there's a lot of noise, but the reality is that agentic commerce is likely to run on multiple payment rails, and as **Shopify** noted, should simply become another channel for retailers. To me, the **PayPal** issue seems more **PayPal** specific as **MasterCard**, **Visa**, and **Shopify** all suggested trends remained broadly similar to Q2 while **PayPal** cited tariffs as a headwind to China-Europe business.

Shopify's key message is is that broadening that its positioning itself at the center of AI-driven e-commerce by reducing barriers for entrepreneurship and helping merchants sell across every consumer channel, including emerging AI assistants and agentic interfaces. The company sees AI as a major tailwind rather than a threat with tools like Sidekick and Autopilot making it easier for entrepreneurs to run businesses with new AI-powered discovery channels driving higher conversion, expanding merchant reach. Management believes that commerce will be increasingly shaped by AI agents and they want to capture that.

In terms of cybersecurity, **Palo Alto** and **CrowdStrike** basically highlighted that AI is already transforming cybersecurity, particularly in vulnerability detection, where tools like Mythos can identify and remediate issues much faster than traditional approaches. A key takeaway was that a multi-modal AI strategy is essential as different models, including Mythos, **OpenAI** and others, uncover different vulnerabilities and blind spots, making a diversified approach more effective than relying on a single model. More broadly, **Palo Alto**, you know, while AI is highly effective for mainstream security tasks, it struggles with edge cases and contextual understanding, which is why you still need these cybersecurity companies.

Palo Alto argued that the future of cybersecurity will be driven by platform consolidation, deeper data integration with and AI powered automation as enterprises seek to simplify increasingly fragmented security stacks. **CrowdStrike** highlighted how AI is reshaping cybersecurity with its new SafeLine platform, combining continuous penetration testing, proprietary threat data and digital twin environments to automate both attack simulation and defense using AI models. The company sees growing risks from autonomous agentic attacks that can exploit systems at unprecedented speeds, driving demand for continuous AI-powered security, zero-standing privileges, stronger identity controls and real-time monitoring.

Now, in terms of enterprise AI and IT services, we saw the **Capgemini** and GSCIO uh talk about AI as a shift from traditional IT services towards broader business transformation, but you guys can read all that.

Um, semis and semi-cap, **LRCX** and **STM**. **LRCX** CFO, Doug Bettinger struck a very bullish tone, calling the industry fundamentally sold out and saying that leadership is more concerned about missing the upside than managing through a downturn. LAM expects *2027* WFE growth to remain DRAM-led with leading-edge foundry logic closing the gap and NAND also growing solidly, with clean room availability remaining a key constraint until additional capacity comes online through the end of *2027*.

And then you guys can read, you know, **STM** and **Telco**, uh, with, with, um, **T-Mobile**.

Blackstone Real Estate and Broader Market News - 01:41:28

Quickly just wanted to highlight that the head of **Blackstone** real estate quit after a year given all the real estate interest rate issues and the private credit issues. **Palmer Square**, which is one of the largest CLO platforms in the world that was newly created with 27 billion of AUM, they're looking, they're like looking to sell their business, likely at the top of the credit cycle. Tanker rates hit an all-time high at 800k per day. We still own **IMPP**. We think the stock, you know, could be 50 to 100% uh, up from here. Um, even if tanker rates go down from these local peaks. Tanker rates were up 43% just in the last week. Refining capacity is is the lowest in modern history, which is why all the refiners have been rallying. Um, you guys can read **Dan Niles'** post-Labor Day commentary. On page 49, you can see food price index rose sharply in *August*, led by sugar, but also wheat uh has been rising, the cereal price index is rising, vegetable oil price is rising. This is something that is a red flag. Um, the Trump administration is seeking to rescind a rule that was put in place to stop private equity funds from bribing public officials, which is absolutely absurd. That's on page 50, you can read about it. On page 51, 52 and 53, there's a *Tuesday, Wednesday* market recap, uh and a *Thursday* market recap that talks about **Palantir** and **Nebius's** sovereign AI infrastructure partnership deal. **EU** and Canada reportedly set to announce a major trade partnership after Trump's tariffs. **BlackRock's** Bitcoin ETF attracting inflows of 3.7 billion for the first time in many quarters. Um, **OpenAI** CFO saying that the consumer business is accelerating. Uh and then all of a sudden they wanted to slow down their models. **Schwab's** retail activity shows investors selling software and buying semiconductors. Copper prices on **LME** have surged to a record 14,533 a ton, now up 47% in the last 12 months because of demand from data centers, renewable energy, and power grids. Um, stockpiles are becoming increasingly concentrated in the US. **Meta** launched **Muse**, its personal AI agent. **Iren** said that its 2 gigawatt Sweetwater hub has been conditionally included as base load in **ErCot** batch zero.

The US government is backing **Rigetti** and **D-Wave** Quantum, um, resulting in a mini short squeeze. **Uber** president, COO purchased 70,000 shares for 5.3 million, which is one of the biggest insider sales for **Uber**. Uh, we've talked about **Uber** being cheap. On *Wednesday*, **Apple** announced its iPhone Duo, its first foldable iPhone, which is why the **Apple** stock uh started to rally but it's quite expensive at over 2,000 per unit. Treasury announced a 6 billion buyback we talked about. **Nebius** said that AI infrastructure demand is still running well ahead of supply. **Google** plans to invest 13 billion in Finland AI infrastructure over the next two years, making its larger largest ever investment in Europe. **Amazon** is tapping the UK bond market for the first time, selling Sterling bonds. And **Anthropic** researcher Jacob Coxson, 27-year-old former **OpenAI** employee is leaving the AI industry over concerns that AI race is moving too fast. **Bank of Japan** uh now owns 46% of all Japanese government bonds. Wait, the US is going to start increasing bond ownership much faster just like Japan. White House advisors privately warned Trump that **Iran** may be able to resist US pressure through *January 2029*. US mortgage uh demand fell as rates moved higher. Um, the average 30-year mortgage is back around almost 7%, 6 spot 85. Uh, Trump said the **Iran** war will end immediately after the election, which makes no sense. Uh, it should end before. Um, so you can't really trust that at all.

Um, on *Thursday*, **Nvidia** and **Palantir** expanded their AI partnership. Uh, US PPI came in slightly hotter than expected. **Microsoft** plans to triple its global center, global data center capacity expanding from 12 gigawatts to 38 gigawatts by *2032*. **Oracle** delivered more than 300,000 GPUs to its AI cloud customers since the end of Q4, tripling the capacity delivered in Q4. Um, the company's RPO surged by 209 billion to 664 billion, but at the same time, Larry Ellison, announced a new 10B51 plan to sell 7.5 billion of of stock. Um, hmm. **Oracle** also guided FI revenue to at least 90 billion and adjusted EPS to $8 a share while disclosing 28.5 billion of capex, negative 5 billion of free cash flow and a $20 billion ATM equity program, which means that it's going to be issuing stock. It's probably why Larry Ellison is trying to front run that and sell his own stock. First time in basically ever. Um, so that's not going to be good when the market opens. Um, **Adobe** reported Q3 revenue slightly better than expected. Uh, **Uber's** Dara Khosrowshahi but also bought 141,000 shares for 10 million at an average price of 71. Um, this marks uh Dara's first open market purchase of **Uber** stock since *May 2022* when he bought 200,000 shares at 26 um spot 73 and the shares arguably um have almost tripled since he did that. So I think the market was quite excited about the two big uh insider purchases of **Uber**. **SpaceX's** uh CFO Brett Johnson said the company signed another AI compute hosting deal that will generate 1 billion of revenue per month. **GameStop's** CEO bought 1 million shares at an average price of 20 spot 38. Don't know what he's doing. **Robinhood** ended *August* with 28.6 million of funded customers, up 7% year over year, while the total platform assets at almost 400 billion up 8%. Um, and Saudi oil output fell to its lowest since *1990*.

Q&A Section - 01:50:22

So, we're going to pause here and just go into Q&A. Um, quite a long call. Um,

Impact of Fed Fund Cycle on Agency REITs - 01:50:30

Bitcoin Tina is saying how does Fed fund cycle and long duration yields impact agency REITs? Well, when interest rates go up, these agency REITs cost of capital goes up and their NIM goes down. Um, eventually, the bonds they they buy will also see higher interest rates, but in the near term, their cost of capital goes up first, uh, because they have a lot of short-term funding. So, it shrinks their margins and they should fall. Agency REITs should fall as rates go up. Um, but, um, you know, my view is that rates are going to remain kind of in this 5% area. I think we'll have one hike and then that hike is going to slow down growth, it's going to cause fear. And unless the war does extend, um, and gets a lot worse, I think rates will kind of be in this 5% area. But if they're not, then you shouldn't own agency REITs.

Reservoir Media Deal Closing - 01:51:20

I do think that because a lot of these REITs pay double digit dividends, even if they do fall 5 to 10%, the dividends will will offset some of that decline. So I'm not panicking about them yet. When is the **Reservoir Media** deal expected to close? Um, it's not, there is no close date because it's not clear which bidder is going to win yet, so there is no full close close date on that yet.

Interesting Baby Bonds with 10-Year at 5% - 01:51:41

Blake is saying in addition to **Redwood**, what other baby bonds look interesting with the 10-year at 5%? I'll work on that for this week.

Larry Ellison's Oracle Stock Sale Cancellation - 01:51:49

And Brad is saying, just FYI, I believe that Ellison canceled his sale. Thank you Brad for pointing that out. **Oracle** chairman Larry Ellison just canceled the planned 7.5 billion stock sale without selling a single share, um, especially I think given this AI slowdown. I don't think he wanted to look like he was panicking. So thank you for sharing that with everyone, Brad.

Analysis of McDonald's Stock - 01:52:10

Um, we'll like we're going to close this recording. Uh, hopefully we get the transcript up soon and the recording will be up very short. Best of luck, guys, today. Now, before we close on **McDonald's**, thank you, Yojo. Um, **McDonald's**, just like, you know, **Coca-Cola** on the **Morgan Stanley** list, is a defensive stock. Um, it sold off because of GLP concerns, it slowed off, slow uh sold off with interest rates. It was at 340 back on *February 27th*, uh, at the annual peak, it's now down to 252. Um, so the stock is down basically 252 on 340 is probably 26%, and it pays a dividend of uh 3%. Um, so, and it has been growing its dividend forever, just like **Coca-Cola**. So I would say **Coca-Cola** and **McDonald's** are both kind of defensive names to add. **McDonald's** obviously has been more affected by the GLP-1 crisis, whereas **Coca-Cola** is still doing well because diet Coke sales are still doing well. But um, I think we're seeing **McDonald's** trade at the lowest level since *July of 2024*. Um, and *October of 2023* before that. Um, so it's kind of trading at, you know, the bottom end of this, you know, three-year range. Um, if you read equity research on **McDonald's**, and I'm just quickly pulling up, um, from one of my research folders, you know, like **Deutsche Bank**, uh, published on, uh, on fast food, um, last week and they talked about, you know, GLP-1, um, you know, taking, you know, some, um, some of the same store sales lower. Um, I mean, you know, **McDonald's** brought back its spicy chicken McNuggets along with its mighty hot sauce to offset some of the sales decline in the first week of *September*. They're also launching a SpongeBob one-piece Happy Meal nationwide on *September 15th* with 15 collectible toys to boost sales. They're also bringing back the pumpkin and cream pie for the fall. Uh, and an in-app deal for a $2 breakfast sandwich redeemable weekly, uh, to to try to bring to bring in some sales. So it looks like these guys are, you know, in a desperate to bring sales back. You know, you're seeing the same thing across **Starbucks**, **Freddy's**, **Caribou Coffee**, **Blaze Pizza**, **Chicken Salad**, you know, **Cold Stone Creamery**, **P.F. Chang's**, all these guys are, you know, **Red Robin**, **Wetzels**, **Pret A Manger**, **Little Caesars**, **Mellow Mushroom**, **Potbelly**, **7-Eleven**, um, they're all trying to offer lower-priced items. Uh, **PJ's Coffee**, **Jeremiah's Italian Ice**. Um, these guys are all bringing in new stuff uh to attract new customers. Um, let's see what else. **Wells Fargo** published in *August* about their meeting with the CFO of **McDonald's**.

Um, they're saying, you know, they think the the stock is probably, you know, has modest upside of 9-10%. Um, because of the ongoing headwinds. Um, they're offering, you know, they're bringing digital offers back, they're pivoting their marketing. Um, you know, 90% of customers that lowered Q2 frequency of purchases have been given offers on their apps. Um, you know, **McDonald's** is still the leading fast food operator in the US with sustainable growing margins. You know, they still have, you know, mid-single digit, um, growth globally. Um, but, you know, the issue is the growth is slowing and so they're using a 15 times EBITDA, um, versus a historical 20 times EBITDA target they had, um, on the stock. And their downside is that, you know, sales, uh, that that sales start to decline, you know, especially in Europe. Um, the stock falls out of favor and comps meaningfully price, you know, a slowdown and you know, they their downside is only 260 in that case. So, it looks like, um, even in their downside case, they're, they're, they're viewing, you know, **McDonald's** is now trading below their downside case. And you have about, you know, to their their upside case is 390, their base case is 300, and this was just published a month ago. So **McDonald's** is already trading below their downside case, about 4% below that. Um, and basically to their mid case, it's about 19% upside now after they published that at 10% upside. So, I'm not an expert in **McDonald's**, it is a defensive name like **Coca-Cola**. I would be wary of some of the GLP-1 issues. I think a sixth of Americans are on GLP-1s. But um, you know, it's a defensive name overall. Um, you know, I'm not that excited personally. I'm not going to be buying **McDonald's** or uh or **Coca-Cola**, but I do think that if um, that they are more defensive names. Um, okay, so we're going to close this call. The recording will be up shortly. Best of luck this week. Uh to close the call, you know, **S&P** is down 45 bips, **Nasdaq's** down 122 in the futures. Russell is only down 16 bips because um with the growth scare now, um bond yields are actually back down to around 4.96. They're actually not up despite oil being up 3%. We'll see if that changes tomorrow. Um, but I hope you guys have a great trading week.

Date of Transcript: 2024-05-24
Filename: ssn_transcript_v6.mp3
Model (may not be accurate): Gemini Pro
Prompt: ssn_transcript_v6 - 2026-01-26 - @DA
QA Check: Completed