2026-09-20 - SSN - FOMC Meeting Hike Discussion, AI Slowdown Aftermath, Iran War Escalation, 3 Long Ideas WAY Acquisition, EXE Natural Gas, Nokia AI SOTP

Transcript

Introduction and Agenda - 00:00

Okay, happy Sunday everyone. The call is being recorded.

As I said over the weekend, we have several things to talk about. We need to talk about the aftermath of the Federal Reserve where they hiked 25 basis points, which was broadly expected by the market. This was after the ECB, the European Central Bank also raised interest rates this month. We then have to discuss the AI slowdown aftermath and the repercussions, the Iran War escalation, the attacks on Riyadh and the airport over the weekend, and the Al Mandeb Strait closing down. Um, there have been some discussions of meetings, um but outside of that, what I don't have in the PDF which I want to talk about is 1600 drones that were sent to Russia, Moscow hitting refineries, hitting a nuclear plant, um and what that also means for energy prices if it continues to escalate because Russia will retaliate. Um, and then outside of that we have three long ideas, one obviously being an energy idea, **EXC**, which was the former **Chesapeake**. It has since delevered after, you know, I started following this many many years ago before Aubrey McClendon died of suicide, but **Chesapeake** or **EXC** is now one of the biggest producers of natural gas in the world and we think that it trades at a 15% free cash flow yield to equity and over two years would could generate about 50% uh even at $70 oil and 334 gas per MMBTU because there is going to be increased volumetric demand from AI data centers over time and LNG exports to Europe now that Qatar is offline.

We'll also discuss the **Waystar** potential acquisition. **Waystar** put itself up for sale. It's very interesting, um, medical software company. Then we have **Nokia**, which is the biggest optical business that competes with **Ciena**. The reason why it trades so cheap is it has a legacy mobile business. We'll discuss what the some of the parts is for that one. And we'll give as we always do our large cap merger arbitrage update, economic calendar update, and the earnings calendar update. We also found um some very interesting insider buying from the CEO of **Uber**. Uh that doesn't necessarily mean that it's a buy. We we've always thought that it's kind of cheap in the 60s, 70s. Um but, you know, you had two kind of half a million to a million uh insider buys in **Uber**, which is interesting. Um, and then **Eaton**, which we think is a little bit expensive right now, but **Eaton**, **ETN**, is one of the biggest producers of of power uh to AI and we think on a pullback that could be interesting, although I'm not buying that one now. So, you know, at the end of last week, you saw we put in, we put in some purchases in the alerts for **Waystar**, **EXC**, um **Nokia**. **Eaton** we're going to wait on. Uh, so let's get into it.

Economic Calendar Review - 02:48

In terms of the economic calendar, the most important events for this coming week are number one, the S&P US manufacturing PMI. As you know, manufacturing has been quite weak. Uh we're currently in the low 50s. Um we've got we're expected this to go to 53 spot 5 from 53 spot 9 in the *September* data. Not terrible, but also not very strong. The service economy, which is two-thirds of our economy, is much stronger, but even that is decelerating from 56 spot 5, which is a great number to 55 spot 8. Overall, the trends we're seeing is that, you know, the economy is still growing modestly in the United States. If you look at the GDP Now data, it's saying the nominal GDP should be growing at 5%. I don't see that with the PMI numbers, but, um, I think it's being distorted by big capex spending in AI, which on a year-over-year basis, I think next year will have a much bigger economic slowdown, especially if the war does not stop. Um at least for now, the data is is good when it comes to earnings. Um but at the very low end, you know, what I'm worried about is food companies are starting to raise food prices for the first time in many years. And that is going to squeeze consumers alongside the 140 billion of additional capital they spent on uh oil, diesel, gas, heating oil year to date and that will likely grow to, you know, 200 and 250 billion into the winter when, you know, you you could see, especially in Europe, some energy squeezes given like European TTF prices are at the highest level they've been since *2023*. Uh it's good for for US energy, but it's really terrible for Europe.

Um initial jobless claims we expect to be a non-event. That's on *September 24th*. Then we have new home sales on *September 24th*, which is supposed to be roughly flat. Um I wouldn't be surprised if we see a lower number. It was negative 10.5% in *July* on the Iran War. Now it got better in *August*, it's supposed to be up 1.4%. I think in *September* on the resurgence of the Iran War, home sales will be quite weak, maybe even under 600,000 because as you know, with mortgage rates at 7.22%, and benchmark on the 10-year, no one is going to buy a new home with mortgage rates being this high. You know, the average person cannot afford with higher home prices and higher mortgage prices, right, to continue to um make these types of large investments.

Building permits is also on the *24th*. On the *25th*, we have durable goods orders. Um that's supposed to decelerate in *August* from positive 1.1% in *July* to negative .3%. Um due to the weaker consumer. Most of the growth in the economy right now is coming from businesses that are spending on AI, not from the consumer, although the top 50% of America is doing much better than the bottom 50%. Then we have cap goods orders, non-defense ex-air. Those are supposed to be a little bit better at 0.7 uh percent. And UMich sentiment. UMich sentiment is supposed to drop again because of higher prices to an annual low from 47 spot 8 to 47 spot 5, which means that the average consumer is not happy, um due to higher prices and the lack of new jobs as we saw in the JOLTS uh labor survey. It's been declining for several months. Small bounce last month, but just it's been declining for almost every single month over the last two years. So there're not enough service jobs available and food prices, energy prices are rising, not a great mix. Um UMich one-year inflation expectations, the estimates aren't out yet, we'll find out tomorrow and same for the five to 10-year inflation expectation, but I know that Powell looked at those indicators. I'm sure Warsh is looking at them again.

Earnings Calendar Review - 06:26

As you know, earning season has been over for a couple of weeks. There are a couple of companies that we're going to be looking at next week that are relevant for the broad economy. Um for the first couple of days, you know, we can basically ignore earnings outside of two companies, **AutoZone** and **KB Home**. We're going to be looking at the home builders as an indicator for the economy. That's mainly on *Tuesday*. *Monday*, you can just ignore earnings. On *Wednesday*, you have **Cracker Barrel** on the restaurant side. You have **General Mills**. I'm going to be listening to **General Mills**' earnings call or at least reading the transcript to see how much they're raising food prices on packaged goods. There are two reasons why packaged good food companies are raising prices. Number one, because volumes are down due to GLP-1s, they have to make up for it and then two, energy price pass through. You also have **Cintas** and **Paychex** reporting. Um and then **H.B. Fuller** on the trucking side. We'll see how much trucking rates are going up. That's important. On *Thursday*, you have **BlackBerry**, **Darden Restaurants**. We'll see how **Darden** is faring with the lower-end consumer getting squeezed. Um after the close, the only company I'm going to be looking at is **Costco**, um which is one of the most valuable retail companies in the US, uh specifically because of its membership model. But let's see if what **Costco** is guiding to because if **Costco** is getting affected, you know, the average **Costco** consumer is richer, right, than your **Walmart** or **Dollar General** consumer. But if **Costco** talks about any signs of slowdown, that would be a red flag. I doubt they will, but I'm going to monitor it.

Special Situations: Corteva Spinoff and Warner Brothers/Peacock Merger - 07:51

In terms of special situations, um there's a name that, you know, I know some of us owned, it was called **Corteva**. They made um seeds and fertilizers. If you know, um, you know, I no longer own **Corteva**, but it is a high-quality agricultural company. And as you know, they're in the middle of a spinoff. Because of the spinoff, the stock had rallied all the way to 90 because, you know, the rumors were already out and people knew about this spinoff happening. They're going to effectively spin spin off the seeds business, um and and keep the legacy business. Now, the seeds business, or the SpinCo, is supposed to trade at an EBITDA multiple, which is a cash flow multiple. Earnings before interest, taxes, depreciation, amortization, it's a shortcut for cash flow. I prefer unlevered cash flow, but the market's going to value this at between 16 and 17 times cash flow or EBITDA. Um which implies a $45 billion market cap for the seed business, whereas investors see the RemainCo of **Corteva** trading at about eight times EBITDA, which is about an 11 to 12 billion market cap. So this is one of the few scenarios where the RemainCo should probably sell off and this um the seed business could actually catch a bid because it's their best business. Um, There have been some lawsuits around this around crop pricing pressures, competition, impact and sustainability of higher corn prices which are up, etc. Um so there's some moving parts here. Um we'll come back to this in a moment. In other news, the FCC approved uh **Peacock**'s foreign investment backing. As you know, part of the financing for **Paramount**'s acquisition of **Warner Brothers** is coming from outside of the US and it just makes it one step closer for this deal to close. And as you know, we were adding to this arb spread, you know, at about 20% and it widened it it widened above 20% arb spread then it tightened to like seven, now it's back at 10. So, if it widens past 10, we might add add a little bit more after we sold. Um but as you know, with merger arb spreads are quite interesting like you saw with **US Steel**. When they widen out a lot, you can buy them, when they shrink, you sell them and then you can buy them again. You can do it multiple times. We've been in and out of **Warner Brothers Peacock** like three times. Um on the large cap merger arb side, you know, outside of that, there isn't a lot I'm interested in. Um but there are some new smaller potential mergers that I'm getting involved in, um which we'll talk about like **Waystar** in about two minutes. In the meantime, going back to **Corteva**, **Corteva**'s seed, crop protection spinoff, um which are its two best businesses, will be the focus for the market over the next few weeks for two reasons. Um you know, last *Monday*, California's AG along with 19 other states asked a federal court in South Carolina to temporarily block the *October 1st* spin, claiming that the company will have insufficient assets to cover its PFAS liabilities and environmental liabilities. **Corteva** then quickly responded that it will defend the AG's attempt to stop the separation. It never sold PFAS products and that it was a well-equipped balance sheet to cover any liability it may face. Secondly, **Corteva** will uh actually hosted its investor day ahead of the spin. **Vialores**, which is going to be the name of the seed division's investor day, started at 9:00 a.m. on *Tuesday*, followed by a new **Corteva**, which has the PFAS potential liability at 1:00 p.m. One of the reasons why they're doing the spinoff is with the seeds business, it won't be tainted by that potential PFAS liability, so the seed business could actually trade at a full valuation.

Waystar Potential Acquisition Analysis - 11:16

In other news, shares of **Waystar** created up 12% in early hours on *Tuesday*. Uh we waited for them to sell sell off a little bit, you know, to up 6-7%, we added a position. We still have room to add more to the position in the 25s as we think the potential takeout could be in the 35 range, which implies, you know, almost 40% upside in the stock, which we'll discuss in a minute.

There was a Reuters report saying that the healthcare software company had hired an investment bank and is in the early stages of selling itself. You can read about um, you know, the large cap merger arb on page three. For the sake of time, I'm going to jump into **Waystar** on page four. On page four, you can see that while **Waystar** has not officially announced an agreement to sell itself, Reuters reports indicate it is exploring a potential sale, and this is quite a good business. **Waystar** operates as a high-margin enterprise healthcare revenue cycle management company and a clearinghouse platform. In terms of the context of the press release, the company retained an advisor called **Evercore**, which is one of the best boutique M&A banks in the United States. **Barclays** is also advising the company to evaluate strategic options including selling itself to a private equity firm.

The conversations are in early stage, but I think this is quite an interesting name to hold in the portfolio because it's trading at a very reasonable valuation of around 10-11 times forward EBITDA and if it were to sell itself, it would probably sell itself in kind of the 13-14 times EBITDA range. As you know, we owned another company a couple years ago called **R1** or **RCM**. You can look in the alerts and we made, you know, a decent profit on that business. You know, it did have some volatility, however, and it was before the software sell-off.

The company um actually went public in *2024*. It was a private company, and major existing shareholders include **EQT** at 13%, the largest Canadian pension fund, **CPPIB**, at 10%, and **Bain Capital**. Based on current financial performance and market multiples in the healthcare in healthcare technology, **Waystar** could realistically sell for an enterprise value of about 7.5 billion to 9.5 billion representing an equity valuation of 32 to 42 per share. The mid of that would be 36, implying about 40% upside from *Friday*'s close.

At its current share price, it gives it a market cap of about 4 and a half to 5 billion and it has very little net debt of about 1.3 billion. Its revenue guidance, which you'll also see in our tracking model snapshot, is about 1.28 to 1.9, 1.29 billion, and adjusted EBITDA of about half a billion, 535 million to 545 million, which represents a very healthy 42% EBITDA margin. It currently trades at about 10 and a half to 11 times forward EBITDA and about four and a half times sales.

Now, there are three different cases we looked at, um, and these are very generous cases. Um, kind of where we think a private equity firm would get involved is about 14 times EBITDA. Um, that would be about $31 a share, you know, about mid-20s type, um, upside. If we see a strategic, another healthcare company buy, they could afford to pay around 16 times. This is not my base case, however, but that would be about $37 a share. It's a little bit higher than what I'm thinking, um but it kind of mid-40s type return. And the high synergy bull case is if, you know, a big healthcare company that really that really appreciates the asset pays, you know, around $40 a share, that would represent 65% upside. My base case is between the sponsor LBO floor and the strategic strategic M&A, you know, kind of a low 30s to mid-30s type. While I haven't finished the full LBO model/takeout model, I did provide a tracking model for the company's revenue growth to show how strong the business has been and how low its multiple is relative to its revenue growth, and an income statement model to show its stable margin profile. Now, what drives the valuation range? The company has a very strong margin profile. **Waystar** um has an adjusted EBITDA margin above 40% and strong unlevered free cash flow of about 300 million per year, giving it a, you know, a very reasonable free cash flow yield and making it an attractive target for LBOs where a private equity firm could use this cash flow to then add debt and then repay debt over time.

In terms of the private equity floor, there, you know, **EQT** or **CPPIB** who previously backed **Waystar** prior to its IPO could anchor a valuation floor around $31 to $33 a share at about 14 times, where peers kind of trade. In terms of strategic synergies, a strategic buyer in healthcare IT or payment clearinghouses where you could achieve synergies, which means they could fire people to achieve cost savings, you know, or cross-selling on the revenue side, which is lower probability, they could pay a higher price of $37 to $42 to share. However, as I said, that's not my base case. In the United States, the healthcare payment system is notoriously fragmented and complex. Between complex insurance rules, thousands of medical billing codes, varying coverage, and patient co-pays, healthcare providers like hospitals, physician groups, and labs, they struggle to get reimbursed accurately and on time, which is why they rely on **Waystar**. **Waystar** is an essential software business that in my opinion cannot be fully disintermediated by AI because healthcare is quite regulated.

Waystar acts as a financial operating system sitting between healthcare providers, insurance companies or payers, and patients. Its platform automates the end-to-end payment life cycle. Number one, the patient access and onboarding, pre-care cycle. It automates insurance eligibility checks, cost estimations, and prior authorizations. There is regulatory involvement here, so it is difficult for AI to take care of this full step. Number two, in terms of claims and billing management, mid-care, it scrubs claims for errors before submission to payers to prevent rejections or delays. Now, there is regulatory involvement here as well, but the company itself can use AI to speed up this process within its own software. Then three, denials and revenue recovery post-care. It uses its own AI algorithm to appeal denied claims and track missing payments for commercial payers and Medicare.

On page six, um, and finally the fourth step, it engages uh with a consumer-friendly digital payment portal, payment plan management, and patient billing with and end consumers. Now, why this why is this a good business? **Waystar** possesses structural competitive advantages that make it a highly defensible software-driven business model. Number one, it provides a mission-critical software with high switching costs. Healthcare providers cannot operate without receiving payment. **Waystar**'s platform is directly integrated into core electronic healthcare systems, EHR systems, such as **Epic**, **Cerner**, and **Athenahealth**. Replacing an RCM provider causes massive operational friction and risks interrupting cash flow, resulting in very low churn and strong net revenue retention. The company has been retaining like over 100% of its customers. By that, it actually increases revenue per client. So it's not it doesn't mean that it's retaining more than 100% of its customers, but it's growing its current customer base. So it's a very high uh net revenue retention. Number two, it has a highly recurring and scalable revenue base. **Waystar** monetizes through a combination of recurring SaaS subscription fees and usage and volume-based transaction fees. Because healthcare volume is non-discretionary and continues to grow with demographic tailwinds like an aging population, revenue is highly predictable and resilient during broader economic downturns. Number three, network effects and a data flywheel. Handing payments for over 1 million distinct healthcare providers and processing billions of transactions gives **Waystar** massive scale.

Its machine learning models analyze vast clearinghouse data to identify rules that lead to claim rejections across different insurance providers. Now this part you may not like, but what the company does is it allows the it allows these payment providers and insurance companies to reject claims that they normally wouldn't have to pay, but it gets paid to do that. Now, as more providers use **Waystar**, the software gets smarter at preventing claim rejections, making the platform increasingly valuable. And then on the other side, it helps consumers that are getting rejections that have real medical needs, then fight for those claims. So it kind of plays both sides. Now, number four, it has a high-margin profile and operating leverage. Because its platform is built on cloud infrastructure, it doesn't have to host its own servers, incremental transactions generate high gross margins. **Waystar** delivers a strong adjusted EBITDA margin like we talked about, over 40%, combining growth with actual profitability rather than cash burn. The company generates cash because of its high margins. And RCM operations in the US healthcare market represent 100 billion in annual labor pool. By embedding generative AI and automation directly into their workflows, such as appealing denied claims and automated clinical documentation parsing through acquisitions like **Iodine Software**, **Waystar** captures market share by directly replacing expensive manual billing labor for healthcare providers. Again, in the past, you used to have people going through all these billing codes and then working with insurance companies, going through rejections. It was a very cumbersome process, and so **Waystar** is already effectively an AI company in automating a lot of these processes.

Now, given its strategic position connecting providers and payers in the regulatory landscape, potential acquirers fall into strategic and financial buyer categories. Who can buy this company? Number one, large healthcare IT and EHR giants could potentially buy this company. Examples are **Oracle**, um, which is a low probability because it's having its own problems with its AI business, uh, and it's it's growth. Um, but **Oracle** actually owns a business called **Cerner**. And post its **Cerner** acquisition, **Oracle** has been aggressive in modernizing healthcare infrastructure. It's one of its best businesses. Integrating **Waystar**'s cloud billing and clearinghouse capabilities would strengthen its enterprise health system against **Epic**. Now, if **Oracle** wasn't dealing with all of these contracts with um, **OpenAI**, it would have the bandwidth to acquire this business, but right now we think this is a low probability.

Epic Systems is another potential buyer which is also unlikely. While **Epic** historically builds in-house, uh a strategic partnership or platform integration buyer looking to bolster RCM for non-**Epic** touchpoints would find **Waystar**'s network scale attractive. Number three, **Veradigm**, which is formerly **Allscripts**, and **NextGen Healthcare** is a higher probability acquirer. It's a provider focused on ambulatory software players looking for scale and end-to-end clearinghouse operations. We're going to move on from this in a minute, but the other buyers, which I think are more likely, um, would be payer and healthcare services conglomerates, maybe like **Optum** in **UnitedHealth Group** that wants to diversify into software. **Optum** is the most obvious strategic acquirer in terms of scale. Following anti-trust scrutiny around **Change Healthcare**, **Optum** has an appetite for high-margin RCM software, though any transaction would face stringent FTC, DOJ regulatory reviews. Another interesting acquirer could be **CVS Health**, **Elevance Health**, or **Signify Health**. Diversified managed healthcare players seeking to own clearinghouses and payment workflow rails between providers and health plans to diversify, you know, from their PBM and other businesses, could be really interesting. So **CVS** and **UnitedHealth** could be acquirers. Um, number three, financial data and payment processors. There are a lot of financial um payment companies that have seen margin compression, and this because it's an inefficient vertical that also has regulatory uh components, so it's it's harder for AI to effectively compete against once AI incorporates payments. There are companies like **Fiserv**, **FIS**, **Global Payments**, or **Experian** that could potentially want to buy, although I think the probability here is lower. But if **Experian** were to buy, acquiring **Waystar** would create an end-to-end powerhouse in patient clearance, billing, and claims management. **Experian** also has a major healthcare patient access vertical.

Now finally, private equity and buyout firms could take this company private because it generates a good amount of cash. Um, buyers could include **Thoma Bravo**, which is one of the biggest software uh owners in the world. Um, it owns like over 100 billion worth of software uh companies. **Veritas**, which has a deep focus on healthcare technology, could be another acquirer. **Blackstone**, **KKR**, **Clearlake**, um just your traditional private equity. Um, so the summary verdict here is that this potentially could be sold in the mid-30s to someone or low to mid-30s like **Oracle**, **Experian**. **Oracle** is a low probability. But in my opinion, um I think the most obvious buyers could be **Optum**, uh which is **Optum** owned by **UnitedHealth**, **CVS Health**, um or **Veritas** or **Thoma Bravo**, those four.

Long Idea: EXC (Chesapeake Energy) - 24:16

Now on the other side of things, let's talk about energy. **EXC**, um we think is one of the most compelling larger cap uh natural gas longs. Now natural gas is quite cheap in the US right now and a lot of the natural gas players have sold off because, you know, we could have a warm winter. And so this could be, you know, especially going into the winter, especially if natural gas stays low, it could be a good time over the next six months to accumulate something like **EXC** because of the long term, Europe is a strategic disadvantage and LNG exports have been growing in the US by 10 to 15% every year. Now the stock is basically trading at the lows of the year and it's, you know, a decent sized company. It's a 20 billion market cap, but has very little debt. Um the company has paid off its debt from when it was **Chesapeake**. Um it used to have over 10 billion of debt back, you know, before *2019*. Today it only has about 3 billion of debt, so it's in a much better position. 3.6 billion of debt, 600 of cash, so you net those. It has about 13.6 billion of sales, 7 billion of gross profit, 6.7 billion of EBITDA, 2 billion of net income, basically $9 a share of net income. So it trades at less than 10 times earnings. And it does about two and a half billion of free cash flow going to 3 billion of free cash flow in *2026*. So it is a cash flow uh machine and our long-term share price target over two years for this stock is 129. Now that implies from 80, you know, 88 on the close, um a very decent upside. You know, 129 on 88 is roughly 47% upside and this company has some long-term tailwinds because it has access to some of the best acreage in the United States for natural gas. It trades at a 15% free cash flow yield to equity on *2026*. We added 20 basis points here on *Friday*, which is a very big starter position. Um and we'll continue to add to it through *March*.

We have a very in-depth **EXC** model that we've shared in the SSR Q&A tab. We've shared a snapshot of our model on page nine. The full model is in the SSR Q&A, um, tab and it was too big to include it in an email, but you can see it. Now **EXC**, um we have a bull-bear case. Um we think this is quite interesting because even in our bear case, the price would be about 80. And so that only implies around 10% downside. Um but our bull case is around 152. Um and that means, you know, if natural gas prices are higher than three, you know, mid-threes, um in that type of scenario, 152 on 88, that would be about 70% upside in the bull case. So we think it's quite an interesting up-down with 10% downside and 70% upside with the mid-case being around 50%. Um, so it's basically like up seven down one in a in a two-year time frame. And so, you know, the company also has uh pretty diversified uh geographic reach. It's in the lower lower Marcellus, uh the Northeast, uh upper Marcellus in the Northeast Appalachia, it's in the Southwest Appalachia, and it's in the Utica. So, um it also has exposure in the Bossier and the Haynesville. So it's it's in three large US basins, Marcellus, Utica, and Haynesville. So it's a very diversified natural gas company with a very low-cost base. And you can see our assumptions are very conservative, right? We're assuming $70 um of oil in *2028*, *2029* after this oil spike this year. Um we're assuming natural gas, uh Henry Hub of around 334 in *2027*, 353 in *2026*, going at to 375. Now, we don't think that's unreasonable given all the LNG demand and the um AI demand. And we're using roughly kind of a mid-five times multiple, EV to EBITDAX, which is also not that egregious. And that's what gets us to kind of like a 128 uh valuation. We also do a um we also graph the company's free cash flow yield to equity uh at the bottom of the page and you can see our assumptions for production and volume and benchmark prices at the bottom of page nine.

Long Idea: Eaton Corporation (ETN) - 28:31

Now, on page 10, we think **Eaton** Power is a very, very good company to own. We think it's kind of expensive at the moment, but we think it's a buy on pullbacks under $400 a share. So **Eaton Corporation** represents one of the purest, highest quality secular growth plays in large-cap industrial. It sits directly at the nexus of four mega-cap capital expenditure trends. Number one, AI data center expansion. Number two, grid modernization and reshoring. Number three, electrical content multipliers. And number four, high-margin industrial execution. Rather than betting on volatile AI chip designers or software players, an equity long thesis in **Eaton** is effectively a tollbooth play on the physical layer of global energy transition.

So the first part of the thesis is a grid-to-chip infrastructure bottleneck. Compute capacity cannot scale without electrical power. While tech hyperscalers order GPUs in months, bringing grid interconnections, switchgear, substations, and transformers will take many, many years. There's, you know, this company had a really interesting uh update during the week. So there's a 342 gigawatt pipeline versus a 50 gigawatt base. In the United States, we have 50 gigawatts of power, but based on all the data centers that are being built, and while this number might seem outrageous, but there's basically six times as many uh power plants that need to be built versus what we have today. It's an insane number. So nearly 6.8 times the total installed base in computing history that needs to be built um for AI specifically for power.

Most of this pipeline represents revenues that will not show up on P&L for this company until *2028* and beyond, which gives us a head start. This gives **Eaton** structural revenue visibility and an order backlog duration that few industrial companies can match. Number two, content per megawatt is accelerating. **Eaton** is not just selling more units, it's extracting significantly higher dollar value per unit of power built because there's so much demand. In traditional cloud computing, **Eaton**'s addressable power management content averaged 1.5 million per megawatt. Driven by high-density AI clusters, high-voltage architectures transitioning towards 800-volt DC, and thermal management acquisitions such as **Boyd Thermal**, the addressable content has expanded to 3.4 million per megawatt. So it's basically growing its service offerings and because of all the demand, it's able to raise price. Number three, backlog acceleration and guidance upgrades. **Eaton** has systemically beaten and raised organic revenue growth targets for the last several quarters. It has a record order backlog. Total electrical global backlog expanded 103% year over year, up 54% organically excluding acquisitions with a rolling book-to-bill ratio sitting firmly above 1.2 to 1.3, which is quite good.

It also rerated its *2030* targets. Management's baseline financial target of 31 billion in electrical segment revenue by *2030* was modeled assuming only 17% annual data center growth, which is reasonable. With actual data center growth growing above 65% right now, management has signaled that the current multi-year targets represent an understated floor. The company has also been simplifying its business. It has a high margin mix shift. **Eaton**'s Electrical Americas segment operates at a structural segment margin of 27.5 to 33%, driven by pricing power and specialized engineering requirements. It's also spinning off its mobility business to unlock further value expansion. It's planning just like we talked with the **Corteva** spin, **Eaton** is executing a planned spinoff of its legacy lower margin mobility segment which focuses on automotive and vehicles to become a pure-play electrical aerospace platform. So instead of focusing on autos, which is a declining segment as people buy fewer cars, it's going to focus on electrical, AI, and aerospace, so planes going forward, which will make it a better business overall.

Its backlog has been growing rapidly. Between **Eaton**'s 2Q26 earnings release and mid-*September 2026*, which was its update last week, a window of roughly six weeks, global tracked data center project announcements expanded from 307 gigawatts to 342 gigawatts. Its current installed base versus pipeline, global operational data center capacity sits at about 50 gigawatts. By the way, that's sorry, that's global data center capacity. That most of it's in the US, obviously, but the announced pipeline represents 6.8 times the total infrastructure built in modern computing history. Ruiz, the executive at the company, emphasized that these projects do not translate into immediate revenue, noting most will not hit until *2028* and beyond. This reinforces that grid interconnections, switchgear lead times, transformer manufacturing, and physical site construction remain the primary bottlenecks for AI deployment. It'll shift from chips, which I think will slow down in *2027*, to power will become the biggest bottleneck. Driven by high-density AI clusters and **Eaton**'s acquisition of **Boyd Thermal**, **Eaton**'s addressable content per megawatt in AI data centers has risen from 1.5 million in the traditional cloud era to 3.4 million.

So let's move on to the next discussion. You can see **Eaton**'s stock price on the following page 11. You can see its summary financials on page 11, and then its summary um financial segments uh we've included. You can zoom in on page 12.

Long Idea: Nokia - 33:51

The last name we're going to talk about is **Nokia**. Um **Nokia** is a Finland-based company engaged in the network and internet protocol infrastructure, software, and related services markets. The company's businesses include **Nokia** Networks and **Nokia** Technologies. The company's segments include sub-segments include ultra broadband networks, IP networks and applications, and **Nokia** Technologies. The ultra broadband network segment includes mobile networks and fixed networks. The IP networks and application segment, which is the fastest growing AI segment, comprises IP and optical networks, which competes with **Ciena**, and applications and analytics operating segments. The applications and analytics operating segment offers software solutions spanning customer experience management, network operations and management, communications and collaboration, policy and charging, as well as cloud, internet of things, security, and analytics.

The company um has several subsidiaries we'll talk about. **Ciena**, which is a publicly traded comp you can look at, um has a ticker of **CIEN**. This is a direct comp to **Nokia**'s optical segment. **Ciena** trades at a 50 billion market cap and has only done about 1 billion of EBITDA this year. It doubled from last year. That implies this company trades at 50 times trailing LTM EBITDA, and because it's growing so fast, it's supposed to do about 1.4 billion of EBITDA next year. The 50 divided by 1.4 gives you a 36 times forward multiple for the company um and if you were to value **Nokia**'s optical segment at a similar kind of 35 to 40 times multiple, um you would get that **Nokia** is probably worth around $13 a share. That summarizes a lot of this analysis, you don't have to read it. But, you know, we kind of use, you know, 40, 45 times trailing EBITDA and 30, 35 times forward EBITDA to get to a target price from where **Nokia** is currently trading around 1068 after the big AI pullback in the summer, um which means that it has about 20% upside. So this one's not as interesting, but it's also one of the lower volatility AI names. This is not a name that's going to sell off, you know, 20, 30% in short order because, you know, it does have um a pretty stable existing business. Um but you can see its segment breakdown on page 14. The optical networks, you can see is growing much faster than the mobile infrastructure at the bottom of the page. And you can see a roll-up of the company's financials as a combined business on page 15.

Geopolitical Update: Iran, Saudi Arabia, and Oil Markets - 36:23

Now, let's quickly talk about the Iran War, um and Saudi escalations, uh you know, in Riyadh and the Bab-el-Mandeb Strait. Before we get into some details, **JP Morgan** has released a terrifying chart on the world's oil inventories. The stockpiles are in free fall and if this line, which you can see in the graph below on page 16, reaches 6.8 um billions of barrels of oil reserves, then we'll have a serious uh problem and oil could actually go much much higher and there could actually be a lot of demand destruction. The US Strategic Petroleum Reserve has hit its lowest levels since *1982*. This decline follows 172 million barrel release authorized by President Trump earlier in *2026*, part of a coordinated International Energy Agency effort totaling 400 million barrels to ease supply pressures from the Middle East conflicts like those near the Strait of Hormuz.

The exchanges let companies take oil now and return it later with a premium, aiming to stabilize markets without a taxpayer cost. While some blame past administrations for vulnerability and gasoline prices near 430 per gallon fueled debate, analysts note that the reserve's purpose is to buffer such shocks, though lower levels cut the margin for future issues. Now, globally, we've been depleting reserves in Japan, in China, and the US, and we reached about 7.6 billion barrels in *June*, and we we're now close to 6.8 in *September*, where near we're getting near the operational floor, according to **JP Morgan**, and that's why **JP Morgan** is very worried about oil prices going into the winter.

Over the weekend, tensions surrounding the Iran conflict experienced a significant sharp escalation driven by renewed Houthi strikes into Saudi Arabia, threats of expanded US military operations, and escalated disputes over maritime bottlenecks. The main one that, you know, we are concerned about is the escalation in Yemen and Saudi missile interceptions. So, the capital of Riyadh was targeted over the weekend. Iranian-backed Houthi forces from Yemen launched a major strike using ballistic missiles and drones targeting Saudi Arabia's capital Riyadh, including its international airport. This represents a first direct threat to the Saudi Arabian capital since the recent resumption of the regional conflict. Although Saudi's air defense systems intercepted incoming uh missiles, there was a residual impact and debris causing fires at a fuel storage depot near King Khalid International Airport, causing significant flight delays and diversions. Saudi forces confirmed intercepting the missile over Riyadh alongside drone attacks aimed at the Red Sea oil export of Yanbu. In response, Saudi aircraft executed 28 retaliatory strikes across Houthi-controlled regions in Yemen, Taiz, Al-Jawf, and Marib.

Number two, rapid Houthi coastal offensives. The Houthis have seized the Bab-el-Mandeb Strait, which is the main strait where Saudi sends its oil from its east-west pipeline. Over recent weeks, Houthi forces conducted a lightning offensive capturing key coastal districts including Hays, Al-Kawkah, and Dhubab, and they seized the Perim Island, which is in the middle of the strait, giving them a strategic foothold and allowing them to mine the strait, which would be a terrible consequence, and bomb Saudi VLCCs or supertankers that send oil through the Red Sea. This gives them effective operational control over the entire Yemeni Red Sea coastline and the Bab-el-Mandeb Strait. Then, the encirclement of Taiz. Houthi units have widened operations around Taiz and Marib, advancing in western Taiz and pushing government forces back towards Dubab and Mocha. In terms of the maritime blockade, leveraging their control of the coastline now, the Houthis have declared an active maritime blockade on Saudi-bound shipping and are actively fortifying captured coastal zones with subterranean tunnels and radar arrays. They're basically not allowing imports of other goods and consumer goods into Saudi Arabia as well.

Number three, escalating Saudi airstrikes and regional response. In response to Riyadh strikes and coastal advances, the Saudi Air Force using American F-15s and Typhoon jets executed dozens of retaliatory strikes across Houthi-led governates, including Sana'a, Taiz, Al-Jawf, and Marib. The US and international stance has been that Washington issued a stark travel advisory warning that the conflict has a potential to escalate rapidly. While the US previously declined direct Saudi request to execute joint strikes inside Yemen, the US State Department approved a 24.3 billion dollar sale of 48 high-quality F-35 jets to Riyadh. There's been a big humanitarian displacement. The renewed campaign has displaced over 112,000 civilians inside Yemen with thousands fleeing across the Red Sea to Djibouti. Number four, US warnings and threats. The State Department issued a stark security warning to American citizens, but what we've learned over the weekend is that the US government might also be sending aircraft to bomb Yemen. There have been Tehran uh counter-threats as well. Iranian officials claimed to have intelligence that the US is preparing a renewed bombing campaign against Iranian targets. The Islamic Revolutionary Guard Corps, the IRGC, which is the source of all our troubles, retaliated with warnings that any strike would trigger painful attacks without limitations targeting US bases in the region like Jordan and naval assets in the Indian Ocean.

Number five, chokepoint disputes and economic fallout. Hardliners in Tehran are actively resisting pressure from China and diplomatic channels to reopen the Strait of Hormuz, maintaining that the maritime blockade could serve as leverage until seven preconditions are met, including lifting US oil export blockades and unfreezing assets, which are the US financial sanctions. So China is trying to put pressure on Tehran as well. Not a big surprise as China is the biggest consumer of oil in the world, but right now Iran is pushing back. Iranian military forces claim to have shot down a reconnaissance drone over the Strait of Hormuz from the US. Meanwhile, CENTCOM reported that it has directed over 100 commercial vessels to enforce maritime compliance in surrounding waters. Official Iranian statistical data released over the weekend showed that Iran's in a big recession with its GDP contracting by about 10.1% year-over-year in Q1 of the Persian calendar, reflecting the compounding toll of military actions and severe trade blockades. So US's financial sanctions are having an impact. The problem is the IRGC is not budging yet.

In terms of diplomatic channels, the UNGA pre-delegation movements, following his departure from Tehran, Iranian Foreign Minister Abbas Araghchi stopped in Qatar for strategic coordination before heading to New York for the UN General Assembly where I believe he will meet Trump. In terms of Qatari intervention, Qatar's Prime Minister warned against repeated cycles of escalation and retaliation, calling for regional security arrangements that preserve national sovereignty without unilateral military pressure. On the graphs on page 18, you can see China's clean product exports have risen from low levels as the Chinese teapot refineries are now buying oil again after effectively striking and that's why oil prices were so low during the summer, and they are now increasing their refining capacity and then exporting oil to the rest of the world as well. One of the big things that is causing me uh to be worried is that tanker rates have gone from, you know, what was like 50,000 a day to over a million dollars a day. Um while no one's paying, you know, a million dollars, most uh contracts are for longer term, but this is on the spot market. If you were if you wanted to charter out a VLCC super oil tanker today and you didn't have a contract with any of the big companies, you would have to pay a million dollars a day. That's how tight the shipping market is because some of these ships have to go all the way around Africa, around the Cape of Good Hope to get oil into the Indian Ocean. And that is causing these oil uh tanker companies to rally. As you know, we owned a number of these companies um over the past year, including **STNG**, which is **Scorpio Tankers**, um we owned um,

IMPP, which we still own, **Imperial Petroleum**, which which we think is really, really cheap, that could double. The only issue is that, you know, management is a little bit annoying, is not the most transparent. Um but some other names in in the space um you know that are interesting are like **DHT**, **Nordic American**, **Frontline**, which is **FRO**, **Ardmore Shipping**. Um and if you look at, you know, where names like **STNG** trade right now on the tanker side, they trade at the highest levels of the year, uh around, you know, this one trades at 87. Um but when you actually look at its valuation, um, you know, the company trades at only like five times EBITDA and has a free cash flow yield of around, you know, it's going to do a billion and a half of free cash flow this year. You know, that's basically like a 30% free cash flow yield to equity. Now, the market's assuming that these tanker rates will fall, but the longer the the war stays here, you know, the longer that these companies will be able to earn like obscene amounts of cash. It's a 33% free cash flow yield. You know, that means that this company could pay a 30% dividend if it wanted to. Right now it's only paying a 2% dividend. Um but we think it's one, it's going to raise its dividend and two, it's going to buy back shares.

Now, um, if you look on page 19, uh there are a couple other things to talk about. Um Saudi's oil exports because of the temporarily damage to the Arabia's east-west pipeline, which will take about three weeks uh for the pump station to get fixed and another six weeks for the full pipeline to get fixed. By the way, they can obviously bomb it again, the Yemenis. But this could cut Yanbu exports by about 2 and a half to 2.7 million barrels a day, which is about 3% of the world's oil supply. Saudi Arabia can redirect roughly 3 million barrels a day through Ras Tanura, but that increases reliance on the Strait of Hormuz, which is already a problem. So Trump offered to make a deal with uh Iran with no response. Um, you know, after, you know, because the FOMC was such a shock, right after the FOMC when Warsh raised rates, he tried to pretend like he was making deals with Iran uh to keep oil prices from rising because that increases interest rates uh through the inflation impact, but we haven't seen any deals yet. Um Trump over the weekend then said, okay, if there's no peace, I might make a big decision on Iran, which he tweeted about today, um which could mean an acceleration of the war ahead of midterms, which would be catastrophic uh for the votes going into the midterm elections. Um Trump also told **Axios** he plans to use an upcoming UN meeting with Saudi Arabia, UAE, Qatar, Bahrain, Kuwait, and Oman to hear directly from regional allies about next steps and as you know, uh Pakistan is also going to be at that. Uh they've been mediating between Iran and um and the US. He declined to say whether a decision would come before or after US midterms, which is a big problem. That's why oil is so high.

Now, we talked about Saudi Arabia's infrastructure under attack, but one of the issues of Saudi Arabia's infrastructure being attacked is that European customers did not receive uh oil orders for next month. So basically, Saudi Arabia said that they're canceling oil orders from Europe for *October*. That's a huge problem going into the winter um because that means that, you know, Europeans could could freeze. I mean, they're already not getting pipeline gas from Russia, and so they'll have to pay through the nose to buy gas from the US. There are also reports that the Khurais oil field southeast of Riyadh may have been attacked, so this is only escalating. I'm surprised the market is up. You know, Nasdaq's up 30 bips, S&P is up 20 bips. You know, it looks like the market right now is ignoring a lot of the energy risk. The US is preparing for large-scale military operations against Houthi forces, which is the latest that came out this weekend, in Yemen following their attacks on Saudi Arabia and amid growing concerns over Houthi control of the strategically critical Bab-al-Mandeb Strait according to CNN. US security alerts issued *Saturday* warned of potential flight cancellations, airspace closures, and major travel disruptions while Americans outside the region were urged seriously to reconsider travel through the Middle East. This might make real estate really cheap in Dubai. I mean, this war has now been going on for almost a year. I mean, *February* to, I mean, several months, it'll be a year by by *February* of next year, but this is much longer than anyone expected it to, and Trump still hasn't said when it's going to stop. Um President Trump has cut short his stay at Camp David and is returning to the White House this weekend as tensions across the region continue to escalate. Um Iran has reportedly placing its armed forces on code 100 alert, putting the IRGC, regular military, and security forces on a heightened state of readiness.

The European Energy Crisis - 50:17

If we do see further escalation, oil and bond yields are likely to spike higher together. Markets have been very resilient, so they will encounter another test if we see a breakout above 108 on crude and 5% on the 10-year if this gets worse. There is an European there is a European energy crisis coming. A complete sustained halt of Middle East oil exports alongside rising European energy prices with Brent hovering above 100 to 110 dollars a barrel and Dutch TTF natural gas prices breaching 75 to 80 euros per megawatt hour due to the blockade of the Strait of Hormuz would trigger a systemic economic and geopolitical crisis across Europe that will lead to stagflation. Having eliminated most pipeline supply from Russia, Europe relies heavily on seaborne global energy, especially LNG from Qatar, the primary macro-financial and industrial applications, basically into five categories. So this this energy crisis would have five impacts. Number one, a macroeconomic shock or stagflation 2.0. TTF gas prices staying at this level would cause countries in Europe to have to subsidize um energy, which would cause prices to go up even more. Energy carries a high weighting in the European CPI or HICP basket. Sustained double-digit energy price growth immediately reverses progress on disinflation, dragging headline Eurozone inflation back towards 6 to 8%.

The European Central Bank and the Bank of England face a severe political policy mismatch. Inflation requires higher rates, but higher rates exacerbate recessionary contractions. If they hike into this energy crisis, they will cause a recession across all of Europe. Markets would quickly price in, you know, rate cuts to save growth, but rate cuts cannot happen until energy prices fall. This would cause European currencies to actually fall in *2027*, which would then be bad because the US dollar would then stay where it is, and, you know, as you all know, global equities tend to rally when the US dollar falls, and that could actually be derailed for *2027* if the war continues. The European economy would shift from sluggish growth to an immediate multi-quarter recession driven by compressed consumer discretionary spend and failing business investment, which is going to be made worse by rising food prices.

Number two, severe industrial de-industrialization demand destruction. As you remember from the Russia-Ukraine war, Europe had to shut down several several chemical companies and fertilizer companies that it has not restarted. Something similar could happen now with Qatari and Gulf LNG blocked. Europe is forced into an aggressive global bidding war with Asian buyers including Japan, South Korea, and China for Atlantic basin, which means American, spot LNG cargoes from the US and West Africa. This pushes TTF gas prices towards 100 to 150 dollars per megawatt hour in a worst-case scenario. This would result in energy-intensive sectors like fertilizer production, chemicals, steel, glass, and automotive um reaching destruction thresholds where operating cash goes negative. Factories will face mandatory output rationing so that people can afford heating. That will cause a lot of companies in Germany, which are already suffering from Chinese competition, to close down permanently.

Now, when you think about fiscal pressure and sovereign debt volatility, the return of energy subsidies will mean that companies like countries like France will see rising deficits, which means that they will actually see their bond yields go up even more. As you know, France's 10-year, you know, hit well above four, you know, four and a half percent, which is the highest uh yield it's been since *2008*. High-deficit, high-debt European nations, which include Italy, Spain, and France, face widening sovereign bond spreads over German bunds as markets price in ballooning public debt. The European Commission would likely trigger emergency energy interventions with mandatory gas demand reduction targets across member states, which means lower productivity, reactivation of emergency energy profit windfall taxes, which hurts European energy companies but benefits US energy companies, and strategic petroleum reserve coordinated releases via the International Energy Agency, which we can't continue doing because we're getting close to uh our floor in the US energy reserve and in Japan. China is the only one that still has a lot of room.

Number four, the trade balance and current account deterioration. Europe's trade balance will collapse into a deep deficit as its energy import bills swell while industrial exports decline due to high input costs and reduced global competitiveness. Non-Middle Eastern producers like the US, Norway, Brazil, and Guyana will capture massive capital inflows while Europe suffers a direct wealth transfer out of its economy. In terms of geopolitical and policy realignment, energy security completely eclipses short-term climate transitions and policy priority. Germany will restart its coal-powered plants, um, and they will forget ESG. You will start seeing expedited nuclear approvals in France and the UK, um, if this were to last more than more than a year. European capitals would place extreme pressure on Washington to secure alternative maritime supply routes, increase US energy export permits, and force diplomatic resolution in the Middle East. The problem is diplomatic relations between Europe and the US are so bad right now that um, you know, I doubt anything is going to get resolved soon.

European Energy Crisis and Strategic Oil Reserves - 55:40

If we look at page 21, you know, there's this short diagram which you all should understand, um, and probably already understand, but surging energy imports uh, will result in headline inflation spiking above 4%, which will make the ECB force to hike interest rates again, which will cause a recession in stagflation as discretionary income is squeezed and companies are forced to shut down factories.

In the face of this, France has already called for the release of oil stockpiles. French President Emmanuel Macron, I think on Thursday, said he would convene a meeting of the Group of Seven countries in coming weeks to discuss the potential release of strategic oil product stockpiles. As soaring energy prices stemming from the war in Ukraine and the conflict in the Middle East sap economic growth. He said I will convene a G7 to move forward on improving coordination on the level of stockpiles with greater cooperation on exports and production capacity. This was on *Friday*.

The G7 meeting will be devoted to increasing cooperation and avoiding unnecessary tensions between G7 countries and our main partners and to considering options for the potential release of strategic stockpiles in Japan, the US, Europe, and, um, I'm sure they'll ask China, but China basically runs its own game.

Fidelity Weekly Heat Map and Bond Volatility - 56:06

On page 22, there's this really interesting **Fidelity** weekly heat map that looks at, you know, next 12 months EPS growth, operating margin, **CNN** Fear and Greed Index, um, AI LLM token index prices, H100 lease rates, A100 lease rates, **Oracle** CDS, WTI, rates and credit, policy Fed hike probabilities. It's a quite interesting dashboard, you know, high-yield credit spreads. Um, it's something interesting that was just updated um last week. And um, you know, if you go and follow Timmer, he updates this every, every week. It's a cool dashboard to look at.

Also, if you look at bond volatility, bond volatility is back, you know, it's the highest it's been um, since, you know, *May of this year* when you had that oil spike. And we expect bond volatility to continue to be higher than it has been in the summer.

The Western Debt Crisis and Rising Bond Yields - 57:20

Um, the Western debt crisis. Now, as you know, oil prices have been one of the key igniters of this bond crisis, but it's also been deficits and it's been the crowding out of bond issuance by these big AI companies that have issued, you know, three trillion of debt over the last couple of years. But you see, you know, since *January 1st of 2025*, the Japanese 10-year has gone from 1.09% to 3.03%, which is quite scary, 193 bips. The French 10-year has gone from 3.19% to 4.55%, 135 bips. The German 10-year has gone from 2.36% to 3.57%, 120 bips, not as bad. Italy has gone from 3.52 to 4.47, 95 bips. UK has gone from 4.57 to 5.43, 86 bips. At 5.43%, mortgage rates in the high single digits, that makes it very hard for real estate prices to go up. In fact, real estate prices are going down all over the UK. Canadian interest rates going up from 3.22 to 3.96 and the US uh, seeing a 46 basis point move. Now, everyone talks about the US because it's a global benchmark for 40 trillion of debt. As you can see, Japan is the biggest move.

The US 10-year is the highest since *2007*, the US 30-year is the highest since *2004*, the Japanese 10-year is the highest since *1996*. UK 10-year is the highest since *2007*, French 10-year is the highest since *2008*, the German 10-year is the highest since *2009*. The rapid simultaneous surge in Western government bond yields with the US 10-year crossing 5% for the first time since *2007* and the UK 30-year gilts touching multi-decade highs near 6% is being driven by a powerful triple whammy of structural supply, geopolitical energy shocks, and shifting central bank expectations.

Factors Driving High Inflation and Interest Rates - 59:44

The energy shock and resurgent inflation fears we've already talked about with Brent, you know, in the 100s, you know, that is resulting in higher energy prices acting as an immediate tax on growth due to interest rate hiking. Instead of proceeding with rate cut cycles, markets are now rapidly pricing in rate hikes with the US market pricing in three hikes. Futures markets are pricing in Federal Reserve hikes and multiple Bank of England rate increases, pushing short and long-term borrowing costs up across the board.

Now, fiscal deficits and massive debt issuance. Higher energy prices are costing causing more energy um, subsidies and in Germany, they're actually slashing the oil gas or the gas tax, which means that governments are going to bring in less revenue, which also increases the amount of debt. So governments across the US, UK, and Europe are running historically massive peacetime budget deficits, 4% of GDP in the UK and a 40 trillion sovereign debt pile in the US with 6 over 6% deficit in the US and almost a 6% deficit in France as well.

Western treasuries are flooding primary markets with unprecedented volumes of new debt to fund public spending, defense budgets, and energy subsidies. Massive corporate debt issuance, particularly tech giants funding hundreds of billions in AI data center and energy infrastructure capex, is competing directly with sovereign paper for institutional capital, forcing yields to go higher. Now, you saw with Norway has one of the biggest sovereign wealth fund in the world, they basically sold 80 billion dollars of US Treasuries and government bonds. And the same thing is happening in Japan because they're using these funds to support the yen. That's basically 160 billion dollars of demand that has evaporated for US Treasuries, which has to be replaced by US banks and US citizens. That's not going to happen overnight, which is why yields have been going up.

Shifting Central Bank Policies and Bond Market Dynamics - 01:01:32

So there's this expanding term premium and buyer retreat. For over a decade post the great financial crisis, central banks were price insensitive buyers of government debt via quantitative easing. That backdrop has reversed. Now we're seeing quantitative tightening. Central banks are actively shrinking their balance sheets or letting bonds mature without reinvestment, removing a primary buyer from the market. And that's why Besant is issuing short-term debt to buy long-term debt because the Fed is not doing it.

There's also demand for higher term premium. Bond holders are demanding significantly higher compensation or term premium to lock up capital for 10 to 30 years in the face of volatile inflation, election and budget uncertainty, and currency debasement risks. So yield spikes in one major currency block immediately spill over to others as global asset managers reallocate capital. So if Japan sees a JGB spike, that's likely going to result in the US spiking. If the US sees a 10-year spike, that's likely to result in a German 10-year spiking.

So with the Bank of Japan hiking rates towards 1.25%, bringing the 10-year JGB yield to 30-year highs above 3%, Japanese institutional investors, traditionally massive buyers of US Treasuries and European paper, are repatriating capital back into their domestic yen assets. As the Japanese bond is actually now more attractive than European and US bonds on a risk-adjusted basis.

Markets are increasingly accepting that the post-*2008* era on un-opposed hedge FX currency hedge basis. Markets are increasingly accepting that *2008* era of zero interest rates is permanently over. Real yields are rising as investors price in higher baseline economic growth, AI capital intensity, and structurally higher interest rates over the next decade. You can see visually, the German 10-year on page 24 and the Japanese 10-year, you can see the massive moves they've had since the beginning of *2025*.

You can see the bond positioning on the short side is near extremes last seen since the taper tantrum of *2018*, while equity positioning on the next page is near extreme highs, which is kind of counterintuitive.

UK Gilt Market Crisis - 01:03:33

In the UK, the gilt bond market is in crisis. Britain is now uh halfway into a crisis after it announced that it's reversing its quantitative tightening program. They're effectively holding QE-based monetization in place to stop interest rates from rising. UK energy bills are expected to spike 25%, increasing inflation rapidly. And just last week, the European, or sorry, the UK fiscal authority said they're no longer going to sell 20 and 30-year gilts. So they're basically just stopping the issuance altogether of 20 and 30-year bonds. If you understand how insane that is, imagine if the US tomorrow said, we're just not even going to sell 20 and 30-year bonds. It would sap all of the supply and then all these insurance companies would have nothing to buy. That's effectively what's happening in the UK. They're so scared because there's no growth in the UK and you have an energy crisis, that they're basically saying, you know, we simply can't even issue 20 and 30-year bonds. They're just too expensive. So we're just going to stop altogether. That's a really bad thing for, you know, UK-based insurance companies.

Stock Valuations and Market Extremes - 01:04:59

Now, yields on the 10-year Treasuries, um, are about the highest relative to similar measures on the **S&P 500**. So if you compare the **S&P 500** free cash flow yield to the 10-year Treasury yield, stocks are the most expensive versus bonds that they've been in 26 years. That's what this graph is showing you, um, in a very simplified way on page 26. Okay.

You can see more about the the UK 10-year. So after the UK announced that we're not selling 20-year and 30-year bonds, it actually did help their market. At that point, the UK 30-year gilt rallied and yields fell 11 basis points in basically a few minutes, which was the largest single day drop since *May 20th*. 30-year yields had spiked to almost 6% in the UK, which were multi-decade highs, and they felt they needed to do this. The benchmark 10-year yield dropped about seven basis points, while policy-sensitive two-year yields only fell four basis points. And so, let's jump to page 27.

AI Industry Slowdown and Hedge Fund Positioning - 01:06:04

So there's also been news about this hedge fund, um, positioning going into an AI slowdown. We've seen um estimates around AI capex effectively peak. Um, you know, we've been, you know, growing 30% a year, and finally people are saying, you know, given the capital expenditures, uh, that pace might slow down if **OpenAI** and **Anthropic** both delay their IPOs because they need to raise money to spend on all this capex.

Um, the AI debate took a sharper turn this weekend with Dario pushing for a slower pace of frontier model development. It comes at a difficult time as investors had just started leaning back into the trade overall after the situational awareness blow-up in the summer. **Goldman Sachs's** PB shows hedge funds had bought US TMT in 10 of the last 11 sessions, led by semis and semi-equipment, right into this slowdown. With the two-week pace of long buys in the 97th percentile in the last five years. So hedge funds after situational awareness basically scrambled to buy semiconductor stocks, only to basically be blown up in the middle of September again. But the sell-off in semiconductors hasn't been that bad, um, but there hasn't been, you know, that rally that everyone expected.

Michael Burry's Take on AI Industry Self-Interest - 01:07:25

Now, on page 27, um, Michael Burry, um, you know, adds a adds his few cents. So **Anthropic**, **OpenAI**, and **Google** have been holding talks about working together to create an AI industrial standards body. And I think today Trump also mentioned hiring a new AI czar. This is coming from The Information.

Talk started before **Anthropic's** CEO Dario Amodei called on *Saturday* for AI companies last *Saturday* to coordinate on testing and auditing technology. **OpenAI's** CEO Sam Altman told a staff town hall that he supports a testing and auditing organization for the AI industry.

Now, a lot of people are saying this is happening because these guys want the US to effectively intervene and stop the usage of Chinese AI models, which are a lot cheaper than US AI models. He believes that major AI labs would have to create a standards body on their own without the support of the US government. This is Sam. The working group meetings between **Anthropic**, **OpenAI**, and **Google** about the industry-led standards body are ongoing according to The Information, and the group met as recently as the past week.

Michael Burry says, "Let's take all the, let's take a moment to understand how self-serving it is for **OpenAI**, **Anthropic**, and other execs like Elon Musk, a big hyperscaler, to talk about slowing things down." Number one, LLMs are not AI and won't be AGI. AGI is still, you know, some time away. I agree with that. And there's nothing, um, AI to slow down. He thinks that these companies have already accomplished a lot and the incremental dollar they're spending, you know, is not going to really improve revenue.

Number two, competition is coming up fast, slowing benefits of incumbents, like you see with these Chinese models. Number three, IPOs need hype and puffery. You know, these companies need to say we're so awesome it could become dangerous, uh, and by saying AI could be a danger, you know, that supports their hype and puffery, um, thesis. And number four, it could be a cover for a real uncontrollable slowing as these IPOs look to be pushed out further and further out into the end of *'26* and *'27*.

Satya Nadella and Trump on AI Regulation - 01:09:34

Microsoft CEO Satya Nadella also said that we should slow down because he's spending a lot of capex as well, and maybe these companies realized that they need to, in order to generate profit, slow down the pace of spending. He says that any pursuit of superintelligence has to be grounded in the core principle that if the AI we build is not helping humanity and under human control, it's not worth pursuing. We also need to accelerate and spread the benefits of AI such that they are diffused broadly across countries, communities, and companies. This requires a frontier ecosystem in which both closed and open sources source models can thrive. And for firms, it's imperative that they retain full control over their unique and tacit knowledge. Every organization should be able to build its own continuous learning loop or hill climbing machine without becoming dependent on any one model provider and have the ability to embed its own knowledge into models and we say control. So in this context, we welcome the research focus and deliberate pacing needed to get alignment right as the design goal. We also welcome ideas like embedded evaluators and the broader efforts to develop the mechanisms to make this more than just talk. The key is that this cannot be controlled by a handful of entities but must have broad representation across the ecosystem countries and fields, including academia.

Basically, all of these companies are saying we need to slow down. But Trump responded to the AI slowdown as follows. In a interesting tweet, he said that the only controller guard rails that AI needs is a strong and smart, high IQ president, and that the UA has that in spades. Basically, he's saying he's the only one that really needs to be there to control AI. The Trump administration has stopped AI people from doing bad or potentially bad things like Dario, who's actually been trying to slow it down, who is now pretending to be a perfect little angel, and we continued to do so. We already have tremendous criminal and regulatory power over these companies. They only kind of do. Um, there is a sick conspiracy going on against AI and data centers, and the only one that is happy about it is China. Whoever wins AI wins. This part is true. We are leading China and others and we'll continue to do so. Conspiracy theorists, treasonists, traitors, and leakers, beware. Thank you for your attention to this matter. There are a lot of like very ridiculous tweets like this over the past week. There was a little bit of truth in that we do have to beat China, but um, and the AI companies are self-serving, but I do think there needs to be some, you know, at least cybersecurity oversight and someone looking at safety.

Market Analysis: Overinvestment in AI and S&P 500 Performance - 01:12:04

Now, market participants start are starting to see an over-investment in tech. After that small pullback in the summer, um, you know, the the most recent poll from the **BofA** Global Fund Manager survey says that about 37% of investors think companies are over-investing in AI. **Goldman** is saying if capex were fully expensed, consensus *2027* EPS estimates would be about 22% lower than current accounting rules. What they're saying is this depreciation, um, you know, extension thing is one of the things that's driving profitability.

Only 36% of **S&P 500** stocks are trading above their 50-day moving average and yet we're only 2.5% from all-time highs. That says something. Um, a lot of companies are not performing well, especially consumer companies. Look at restaurant stocks, look at like **Wingstop** is at like multi-year lows, like there are a very small group of stocks that are keeping the overall market higher.

FOMC Aftermath: Rate Hikes and Market Reactions - 01:13:03

Let's briefly talk about the FOMC aftermath. You know that we've raised interest rates 25 bips over the past week. This was the first policy move of Chair Kevin Warsh's tenure, raising its policy rate to the 3.75 to 4% range. This change did not come as a shock. Bond markets had been pricing in a rate increase well in advance of last week's meeting, with the 10-year Treasury up 1% from its *February* lows.

What made last week's move different from prior liftoffs was the lack of guidance about where and why rates are likely to move from here. What problem does the economy have that higher interest rates will solve? Higher rates cannot fix oil prices. As we detail below, the path forward from here is unusually murky. Navigating the constant struggle between avoiding recession and controlling inflation while keeping the bloodshed to a minimum is the Fed's mandate. The Fed rarely embarks on a serious mission to bring down inflation unless it's willing to inflict some pain on the economy. Whether its efforts to bring down inflation this time will draw blood will depend on how committed the FOMC is to its 2% inflation target. Now you saw that the FOMC in the dot plot, which we'll see on the next page, doesn't expect 2% PCE since until *2029* now. So there isn't a lot that they can do to get inflation down this quickly.

The Federal Reserve is back to hiking rates. While Chair Warsh's less communicative approach is likely to create greater structural uncertainty going forward, this meeting's outcome was not in serious doubt. Over the past several months, various Fed officials, including Warsh himself, have laid out inflation benchmarks, which he also did during the Jackson Hole, some specific and some less so, that need to be met for them to be confident price pressures are easing. After the *August* CPI and PPI reports both came in hotter than expected, this month's hike was close to a certainty.

The FOMC's economic and policy forecast updates, which do not include Warsh's views, showed stronger growth in labor markets through *2027* and higher inflation in *2026*. This makes a decision to tighten policy, I guess, rather obvious. Um, I didn't think they that they would have to hike, but my view is that the resurgence of the Iran war is what took was what tipped them over in *August*.

At the same time, the median FOMC member expects only one more rate increase this year, and most members expect the committee to start cutting rates in the next few years. You can see the revised dot plot on the following page. With a day or two of reflection, the market's reaction to the FOMC meeting has been largely positive. Stocks were shaken on *Wednesday* afternoon but recovered strongly on *Thursday*, led by the technology sector whose earnings growth is perceived to be less cyclical, i.e., susceptible to rate hikes, and more structural than the market as a whole. Short-term rates increased as more hikes were priced in, but the longer end of the Treasury curve stabilized around 5%. This flattened the Treasury yield curve, a sign that monetary policy is tightening again.

The Impact of Rate Hikes on the Economy - 01:16:07

Now on page 33, what are rate hikes going to accomplish? It's hard to say how a brief and gentle tightening cycle would accomplish the Federal Reserve's goal of bringing down inflation, particularly when the economy is growing above its long-term trend and the labor market is at full employment. Markets are pricing in three more rate hikes over the year, but nothing close to the move the Fed had to make in *2022* and *2023*, when inflation problems were larger and the labor market was clearly overheating, which resulted in basically a 20% decline in the market in *2022*.

The disinflation of *2022* to *2025* has stalled and partly reversed, mostly for reasons beyond the Fed's control. Durable goods and energy price inflation remain higher than normal because of tariff policies and geopolitics created by this administration. If the Fed wanted to tighten monetary policy with the goal of fully reducing PC to its 2% target, it will have to inflict some pain on other economic sectors, specifically those most sensitive to real estates, uh, to interest rates like commercial and residential real estate.

Now let's start with housing, where the years-long period of rent disinflation is now ending. Fed hikes could help prevent a strong rebound in shelter inflation. Higher interest rates could deter builders from adding to supply and keep homeowners locked into their homes and their low fixed rate mortgages. But the contribution from this sector to overall inflation is already quite low.

Now if you look at page 34, Fed hikes could also soften the labor market if they disincentivize hiring. But wage growth and a good gauge of the balance of power between workers and employers has already been decelerating for years. In fact, it has failed to keep pace with inflation for most of this year.

Lastly, rate hikes could tighten financial conditions, sending corporate bond spreads higher and bringing equity markets lower. This transmission method would be even more effective if it were to dampen the wealth effect, consumers spending more as their financial asset prices rise, like housing prices and markets prices of stocks. But it would arguably be the most painful way to lower inflation as all of the voters would be furious at the current administration. Now, nothing in the Fed's forecast or public commentary tells us this is the path they want to go down yet.

The Possibility of Disinflation and Market Outlook - 01:18:24

Now, is disinflation possible? Of course, the true bull case for markets from here is that the inflation comes down gently without any of the offsetting weaknesses in growth we mentioned above. Believers in this immaculate disinflation phenomenon expect inflation to ease without the pains of weaker growth and higher unemployment. And they can credibly point to the last cycle as evidence it can happen, but it's not guaranteed.

We see important differences between the economic environment in the prior tightening cycle and the one the Fed faces today. First, the one-off shocks of the post-COVID reopening and stimulus and supply chain bottlenecks they created were not the Fed's doings, but the price pressures they generated would likely have dissipated with or without the hikes. Second, the wave of migration into the US dramatically expanded the labor force and actually forced wages lower when workers reported historic difficulties in finding filling open jobs. Third, households had amassed considerable savings that they could deploy to offset the economic effect of higher interest rates on their cash flows. And fourth, residential construction growth was white-hot in *2021* and *2022*, creating new supply needed to control rent inflation in fast-growing areas of the world of the country like Texas and Florida.

Now, a swift resolution to the Iran conflict and freer flow of oil through the Strait of Hormuz could undo much of the inflationary damage over the past six months. We will leave it to military and diplomatic experts to say whether such a resolution is likely anytime soon, but commodity futures markets have been too sanguine all along about the impact the conflict could have on oil prices.

Second, while many households retain an ability and willingness to spend, drawing on their higher wealth or credit, a growing number of households are falling into delinquency on their mortgage and auto loans for the first time in many years. This suggests that even a small upward move in interest rates could do more economic damage for households under financial stress. You can see United States consumer loan delinquencies spiking if you look at the 90 days or more after this administration restarted student loan payments. And now credit card uh delinquencies are the highest they've been in over 20 years at about 13, uh, about 18 years, sorry, at about 13%. It's the highest since the great financial crisis.

The US civilian labor force size has also been shrinking because of a lack of immigration, from 172 million down to 170 million, and that is resulted inflation as well. Lastly, data for new home construction continues to come in historically weak, telling us not creating wage inflation, but basically keeping wages from falling, uh, from from falling quickly. Now, lastly, the data for new home construction comes in historically weak, telling us that any further moderation in shelter inflation likely needs to come from softer demand. A higher supply of homes is not arriving anytime soon now.

We do not see the same helpful confluence of factors that helped the economy avoid a recession in *2024* returning to us in *2027*. If anything, the tailwinds that pushed us towards that first happy ending have turned into headwinds. This means one of two things is true: either rate hikes will have a more negative effect on growth than they did in the prior cycle, or they will be insufficient to meaningfully bring down inflation. We highly doubt the Fed currently has the will or the desire to meaningfully slow the economy and crush inflation. This could mean inflation stays elevated in the 3 to 3.5 range for the near term and introduces a greater risk that the Fed could be seen at some point as falling behind the curve.

Investment Strategy: Bonds vs. Stocks - 01:22:05

If there's good news about the inflation risk we outlined above, it's that investors are finally being well compensated for taking them. In fact, as interest rates have risen sharply from their late *February* bottoms, we have become more constructive on bonds. Taxable equivalent yields for muni bonds currently exceed those on investment grade corporate bonds even though historical default rates on muni bonds are lower. So muni bond closed-end funds are quite interesting. We've even been adding to **PDO**, **PDI**, and **PAX**, the **Pimco** funds which now trade at discounts to their NAV, which they haven't traded in many uh in in many months. And so I've been adding to **PAX**, **PDO**. Uh, they trade at like 5% discounts to NAV and they pay about 13% monthly dividends. So that is a low volatility way to take advantage of this interest hike, and the average duration on those bond funds is also lower than TLT, but they do have a little bit of leverage. But you know, 13% a month, you know, a year, monthly, isn't that bad, especially at a discount to NAV. So if, you know, for those, you know, that can take a little bit of risk, um, you can earn basically twice what you can earn, uh, in munis, while munis are a lot safer to buy bonds directly, by looking at closed-end funds like that.

Now, if the Fed hikes significantly weaken the economy, either by accident or by design, we think interest rates could actually fall and bonds would be amongst the best performing asset classes. But even without any positive price appreciation or correlation benefit, bonds' current coupons make them competitive now with riskier assets like stocks. We caution against using valuation as a sole basis for making investment decisions as valuation metrics are not reliably predictive of short-term performance. But the long-term return outlook for bonds rivals that of stocks for the first time in about 25 years. You can see that with the equity risk premium of the **S&P 500** versus the **Bloomberg** US Aggregate Bond Bond Index.

We were encouraged by the stability at the long end of the yield curve following the rate hike last week. As we pointed out in the introduction, long-term yields often reflect what the Fed is going to do before it does it. Absent a major positive inflation shock, which is still positive, but the Middle East turmoil, or a surprisingly hawkish turn from the Fed, we see rates across the middle or the long end of the yield curve is likely close to their peaks.

In truth, we remain constructive on the economy and the investing environment across a wide array of both public and private markets. A short and shallow hiking cycle, even if it ends with inflation still slightly above target, should be fine for corporate earnings and keep valuation supported at current levels. Um, valuations have actually been coming down because earnings have been growing faster than stock prices this year. So like the forward PE is is around 19 times. Um, that's what we're trying to say, like it markets don't actually need to fall that much. Last year, multiples were around 23 times, but because of earnings growth and because the market hasn't been rallying as much as um other global equity markets, um there isn't a lot of downside in equities, maybe 10% versus that 22% we saw in *2022* if the Fed hikes a few more times.

But investors should pay attention to how they're being compensated for taking various types of risks. It may be a good time for investors whose portfolios have fallen out of balance in the *2020s* with overexposure to stocks to allocate more to closed-end funds, more to perhaps more to bonds. There are a lot of prefs that have sold off. We've also been adding to **RWT** and **RWTQ**. Those are also double-digit yields. You know, so there's there's six names we've been adding to just on the income side already and what we're going to try to find more baby bonds to buy. Um, I've been focused right now more on interesting mid-cap stocks, but **RWT**, **RWTQ**, **PDO**, **PDI**, and **PAX** are just some examples of where you can earn 13%, um, without taking a boatload of risk.

Daily Market Recap and Analysis (Week in Review) - 01:25:58

Now, we saw some insider buying in **Uber** last week. Uh, we didn't add much of **Uber**, but it's very interesting that Andrew McDonald and Dara Khosrowshahi, who's the CEO of **Uber**, uh, bought about 15 million worth of stock, um, in the first two weeks of *September*. So if they continue to buy, it could be, you know, **Uber's** trading near the lows of the year, you know, we might increase uh some exposure there.

There's also been food price uh commentary from companies like **Campbell's**, where the CFO said last week that they can't just keep cutting costs, they're going to have to raise prices on packaged food. This is a big problem. **Evercore** also said that their food uh input basket is showing sharp acceleration in grade-based commodities like wheat, corn, resins, and freight. And as a result, because of these commodity price increases, they're actually lowering their EPS estimates for stocks like CAG, KHC, CPB because their input costs are going up, which unfortunately means that over the next six months, all these companies are going to have to raise food prices.

The consumer is surviving so far, you know, because they're borrowing more and incomes have been okay and stocks have been going up. But, you know, the issue is that if food prices go up into next year, the poor could be in a very difficult situation. And I know I've been saying that for some time, but, you know, food prices were normalizing and now they're going up again. Last week's strong *August* retail sales report, um, was driven by high-end consumers and it pushed the Atlanta Fed's GDP now to 5.1%, which is the highest growth we've seen in the last few quarters. So that's quite interesting. The Atlanta Fed GDP breakdown is at the bottom of page 41, and you can see that private investment in the form of AI spending is that purple category, it's more than half. Consumer spending is a little bit less than half. Um, so the combination of strong AI spend, um, and consumers not declining has been driving this GDP growth estimate.

Um, you can see how the FOMC, how the market usually sells off. It did the same thing on *Wednesday*. So now for the three Warsh Fed meetings, um, the market sells off every time. Uh, but in this case, on *Thursday*, the market did rally. In terms of the full FOMC meeting minutes, minute by minute, I've included my, um, my thread of Kevin Warsh's speech. Uh, you know, page 42, 43, 44, it includes the Fed statement side by side, what changed from *July 29th* to *September 16th*. It includes the economic projections on growth and inflation on page 45, the dot plot on page 45, and the pace of this shallow rate hiking cycle versus prior cycle, *'22, '23*, which was very sharp. Also the *'94, '95* Greenspan and *2004* to *2006* Greenspan-Bernanke hiking cycle, which resulted in the *2008* crash and the Yellen-Powell hiking cycle of *2015* to *2018*, which ended in the taper tantrum. This is like the most calm hiking cycle of those four cycles, and you can see how it compares on page 46.

Now, on page 47, uh, we have our daily market recap. We will end with this and uh some small discussion of crypto being, you know, resilient despite all this market volatility. And then we will answer uh some of your questions in the SSR Q&A tab. Uh, you can continue to type in questions as I briefly go through the daily uh recaps.

Now, *Monday* saw a clear AI rotation, long software, short semis. Software names have been rallying quite hard since the situational awareness blow-up. Um, you know, companies like **ServiceNow**, **Adobe**, **Intuit** were up 2 to 5%, while like **CoreWeave** and **Intel** were down 3 to 5% along with **Sandisk**, **Marvell**, and **Nvidia**. The move reflected a market trying to reprice the AI trade after the weekend's safety debate around Dario's essay. Semis and Neocloud sold off the most because their bull case is tied directly to continued AI capex growth, which the market interpreted as slowing down if the pace of frontier model development also slows down. At the same time, Trump rejected calls of the slowdown as we mentioned before. Oil crossed 105 and the US 10-year crossed 5% on *Monday*.

Palantir, **Nvidia**, and **Booz Allen Hamilton** are reportedly restricting **Anthropic's** fable model for sensitive work over concerns about its data retention policies. That came out on *Monday* as well. Trump called Jensen Huang during the All-In Summit and was put on speaker phone, uh, calling this whole AI slowdown a hoax. Uh, that was also on *Monday*. **OpenAI** acquired Glass Imaging on *Monday*. Um, this company is working to bring DSLR-like image quality to smartphones, uh, and it could provide some very high-quality uh AI uh camera images where you can take a picture and the AI can essentially manipulate the picture right after you take it or while you're taking it, which is quite interesting.

Truist initiated **Nvidia** at a buy with a 355 target after its sell-off uh because of its um recent pricing for, you know, for one to three-year deals. Uh it's seeing higher pricing. Um, the top 10 most active options on *Monday* were **Nvidia**, **Tesla**, **Apple**, **Micron**, **Amazon**, **Meta**, **Microsoft**, um, **Google** and **SpaceX**. US consumers aged 40 to 49 now account for 27% of new consumer bankruptcies, which is a big change. Um, the highest share since third quarter of *2015*, the largest of any age group. The 50 to 59 group represents 23%.

JPMorgan upgraded **Iren** to overweight and raises its price from 65 to 65 from 46, saying the company is emerging as a top-tier neo-cloud provider. Um, and we think that **Iren** is one of the better ones uh versus **Mara**. Um, we own a couple of these. Uh, we while we don't own **Iren**, we own one of its competitors in the alerts.

Global semiconductor revenue hit a record 425 billion in the in the second quarter of *2026*, up 31% according to **Omdia**. So despite all this discussion about a slowdown, semiconductor earnings have been the highest ever recorded. The industry generated 752 billion in revenue in the first half of the year alone. That's basically if you annualize that, that's 1.5 trillion dollars in revenue across the semiconductor space.

Apple has begun rolling out its new Siri AI in its uh iOS 27, adding personal context across messages, emails, and photos. US diesel prices have officially rose to 620 a gallon, up 78% over the last nine months. This is very bad for trucking. In California, diesel surged to a record 814 a gallon. And trucking prices are eventually going to come into food prices and consumer goods prices, which is also not being covered well in the media. Jet fuel is also surging, now at 435 a gallon, and so airline fares are already up 23% year over year in *August*, and plane ticket prices are going to go up pretty sharply going into the winter holiday season, unfortunately. The Clarity Act was back in focus. It was later rejected, so I'm going to skip that part.

Uh, in terms of *Tuesday*, the Clarity Act failed to advance in the Senate on *September 15th*, with the motion proceeding of to proceed falling short of the 60-vote threshold it needed. What's really interesting is despite the Clarity Act not uh passing, crypto actually then had a short-term sell-off but then rallied strongly in the back half of the week. Elon made some several notable comments at the All-In Summit about **SpaceX**, **Tesla**, and AI safety. On Starship, he said the odds of catching the ship on the first try are at least 50 to 60%. And he thinks it's extremely likely that **SpaceX** achieves full reusability of rapid re-flight in *2027*, which is a bold claim.

Grab will acquire a 60% stake in **Atome Financial** for 1.5 billion in cash. This is basically like the **Uber** and **Uber Eats** of Southeast Asia. Global yields were breaking out uh to *2007* levels on *Tuesday*, and the market was uncertain on that day. Officials from all 27 EU member states were set to meet in Brussels on *Thursday* to discuss international rules for advancing AI.

Saudi Arabia suspended all oil loadings in Yanbu, that happened on *Tuesday*. That's when oil started to go up very quickly, *Monday* and *Tuesday*. Um, Mark Zuckerberg said that he didn't think that the AI industry needed a coordinated pause. Um, that was also on *Tuesday*, and long-term unemployment continued to rise in *August*.

Um, then on on *Tuesday*, sorry, let me just jump to *Wednesday*. Um, *Wednesday* is on page 50. On *Wednesday*, the we talked about the FOMC 25 basis point hike. President Trump was expected to meet with Gulf leaders at the UN General Assembly. That's going to happen this coming *Tuesday*. **Generac** signed a long-term agreement to supply backup power to **Amazon** data centers. Uh, Fed Chair Kevin Warsh said the hike removed a a dose of accommodation, adding that the move shows the Fed is serious about returning restoring price stability. **Nvidia** announced another 20% price increase on demand for the H100, H200, B200, and B300 **Nvidia** GPUs, effective on *October 1st*. That actually led the stock to go a little bit higher on *Wednesday*.

Trump administration officials reportedly considered a meeting with AI and tech executives on the sidelines of Xi Jinping's Washington visit next week. That happened on *Wednesday*. **Chipotle** is partnering with **Palantir** to strengthen food safety monitoring across its restaurants. Very strange, but that happened on *Wednesday*. US home builder confidence fell to 32, its weakest reading since *2022* as elevated mortgage rates continue to weigh on demand. That's why we'll be watching home builder earnings this week. **Nokia** is expanding AI RAN trials with operators in North America, Europe, Asia Pacific, and the Middle East. That happened uh, it's one of the reasons why **Nokia** stock actually did well despite the AI pullback last week. One of the reasons why we like **Nokia**, it keeps announcing new contracts.

Um, **Apple** is weighing a return to the server market with an AI-focused enterprise system, which is quite interesting, using its own M-series chips and **Nvidia's** NVLink fusion networking technology. Um, **CoreWeave** signed a 15-year anchor lease with **BlockFusion** at its Niagara Falls, New York AI data center campus. That also happened on *Wednesday*.

Then on *Thursday*, President Trump approached a major decision on whether to resume large-scale military options in Iran, telling Axios, "We have a big decision coming up." We still don't know what his decision is. **OpenAI** disclosed that an unreleased Astra family model exhibiting rare signs of misalignment during reinforcement learning, including six unexpected or concerning incidents over the past six months. There's also a Gemini uh release that it hacked three companies. That also came out *Thursday, Friday*. **SpaceX** has reportedly held internal discussions about purchasing customer and operational data from troubled or defunct startups to help grow Starlink. That's interesting.

Um, on *Thursday*, the SEC issued a new innovation exemption designed to allow on-chain trading of US listed stocks through a new category of platforms called tokenized security venues, TSVs. Under the temporary framework, eligible platforms like Coin and **Robinhood**, which which rallied strongly last week, can facilitated automated market maker based trading of tokenized stocks.

AMD reported reportedly notified partners of an expected 10% price hike tied to higher **TSM** wafer costs according to a report cited by WCCFtech. **CoreWeave** said that it signed short duration Q3 contracts at $40 million per megawatt, which is another price increase on *Thursday*. And **Nokia** and **Microsoft** are expanding their partnership to bring agentic AI into telecom network operations. That also happened on *Thursday*. Uh, another **Nokia** deal, by the way.

Um, **Bank of America** estimates that **Meta** could save roughly 8.5 billion in *2027* by deploying its own AI infrastructure chips. That's quite interesting. It has a third-generation MTIA 450 Arc chip in the first half of *2027* that's coming out, followed by a higher performance MTIA 500 Astra chip later in the year. Both chips are being developed with **Broadcom** and are designed for AI inference with **Meta** targeting more than one gigawatts of custom chip capacity over a 12-month period. **BofA** estimates that **Meta** could deploy 5 to 6 gigawatts of its own AI capacity in *'27* at a cost of roughly 200 billion, assuming chips account for 60% of that spend and **Meta's** custom Silicom is 40% cheaper than **Nvidia**, the firm estimates annual savings of approximately 8.5 billion. **Meta** still seems like it's spending way too much on AI.

US median income adjusted for inflation rose about 2,200 year-over-year in *2025*, only up about 2.6%, slower than inflation to roughly 87,460. That's pretty good for a household to earn 87,460 for a median. The US strategic petroleum reserve fell another 403,000 barrels last week to 285 million barrels, its lowest level since *November 1982*. That marks the 25th consecutive weekly decline, the longest streak since the *2021-23* slowdown drawdown period during the Russia-Ukraine war. Over that stretch, SPR inventories have fallen by 131 million barrels of 46%, insane. For perspective, the SPR held roughly 650 million barrels in *2020*, more than 128% above current levels. I don't think people really understand how much the SPR is down.

US margin debt surged to 37 billion in *August* to 1.45 trillion, the second highest level on record. Margin debt has climbed 228 billion or 19% year to date, which which is higher than the stock market rally, and has soared 847 billion or 140% since the end of *2022*. The increase has significantly outpaced the **S&P 500's** gain of 98% over the same time period. Margin debt is now 4.5% of its GDP of US GDP, nearly double the level at *2022* and above the peaks of both the *2021* market cycle at 3.6% and the dot-com bubble of 2.8%. Just something to keep in mind.

Crypto Resilience and Q&A - 01:40:45

Now, the last page of this piece before we do Q&A is just some reflection about on crypto surviving negative catalysts. Our view is that, you know, while crypto will be volatile if oil prices go higher, crypto might have seen a near-term bottom in *June, July, and August of this year* because it Bitcoin just absorbed five major bearish headlines in a single week. Number one, Clarity Act failed in the Senate this week. Fed raised rates. Bank of Japan raised rates. The US dollar actually rose above 100 for the first time in seven weeks because of higher rates, and oil is climbing. Despite all those five things, crypto was strong. Now, I'm not saying this is an actual bottom, but it does seem that, you know, after the bearishness from *October* to *August*, the market is now looking forward to *2027*.

Q&A Section

Recap and View on Corteva (CTVA) - 01:41:34

J, uh, Melmel is asking, "Would you give a short recap of **Corteva** with your view? I have neglected this and thank you for the reminder. I'm still in the green but admonishing myself for not paying attention." Um, I will follow up on this. We talked about the **Corteva** spin-off briefly on this call. Um, because it's a little bit late, I will spend more time on **Corteva**, um, on our following call. Um, maybe next Sunday. Um, I haven't spent much time on the spin-off, um, but I will need to, um, recap myself. Um, but, you know, we do own some of these Ag names, um, and fertilizer names.

Outlook on Sea Limited (SE) - 01:42:21

This, uh, Dr. Inflation, Steve, is asking, um, sorry, just Steve is asking, "C Limited is down 30% from its recent intermediate high of 130 and hit 100 on *Friday*. Um, is this one still an add or something changed with its outlook? Q2 revenue miss apparently on *August 14th* and insider sales." Um, I have added to **SE** as you know this year. Um, I think that the earnings were a slight disappointment. Um, but the company is still one of the strongest gaming and e-commerce growers. Um, around $100 a share, I think that the company is trading at, you know, with 5 billion of expected EBITDA in *2027*, it's trading at about 11 times EBITDA for a business that's growing 30 to 40% a year. Um, it should do about four and a half billion of free cash flow, um, in *2027*, based on estimates. It's already at 4.4, so it's really basically free cash flow flat. Um, so you can even use *2026* at 4.4 billion. So 4.4 billion divided by a $62 billion market cap is a pretty healthy 7% free cash flow yield for a business growing this quickly. I still think the company is cheap. I wouldn't make it a very big position yet because it I think it still will be volatile. The market's going to be looking now at Q3 for an acceleration. I think the insider sales, um, don't make a lot of sense to me. I will continue to add to the stock at 100 and under 100. It's probably one of the cheapest growth stocks of its size. Um,

Potential in Shipping and Tanker Stocks - 01:43:58

Molly's Chamber is asking, "Seems like shipping stocks like Eco, TRMD have had a big run. Do you still think there's some more juice to squeeze?" I think of tanker stocks as basically a hedge of the to the portfolio. If this war lasts longer than we expect, um, right now the market is only expecting one year of super, uh, super high earnings growth for these names. Now, if earnings extend at these margins into *2027*, then these companies are going to generate so much cash that they'll be able to pay off all their debt. Like for example, like **Frontline** and and **STNG**, if they were to generate as much cash as they're generating this year, next year, not only would they be able to pay off all their debt, they would be able to pay 20, 30% one-time dividends. So I think that, um, it really just depends on the war and I wouldn't add them now as an outright long. I would add them as a way to one of the few ways to actually benefit from the war extending. Because with oil, you know, it's difficult. The the the federal government and with stock power releases, they could manipulate the price of oil short-term. But these tanker companies, um, you know, their cash flows are growing at a pretty insane rate, and as some of the older contracts roll off, you know, they don't even need tanker rates to go higher from here. They just need some of the older contracts to roll off at higher rates and they'll be even more profitable next year than this year. Um,

Deep Dive into Corteva's Business Model - 01:45:24

Now, just going back to **Corteva** because I answer those questions quite quickly, you know, **Corteva** is a pure-play agricultural technology leader. It was basically spun off from **DowDuPont** back in *2019*. This is from my notes from last year. It's widely regarded as a high-quality moat business with within industrials and materials equities. The quality stems from a combination of its proprietary germplasm, intellectual property around seeds, uh, high switching costs for farmers, and structural margin inflection via royalty economics and a resilient dual segment business model. The reason why it has high barriers to entry is that its proprietary genetics or seed segment represents about 57% of total revenue. **Corteva** owns unmatched multi-generational germplasm libraries like the Pioneer brand of seeds built over 100 years. Developing competing germplasm with equivalent yield, resilience, and regional climate adaptation takes decades and billions of capital expenditure. The problem is like people say, well, what about AI? Well, their seeds are proprietary. So unless you were to were to actually break down their seeds and compare them to thousands of others and then upload that data into AI, you really can't replicate this. Um, and they've licensed it as well. So if you copy it one for one, you know, you're going to have a lawsuit.

Um, in terms of biotech trait licensing, **Corteva's** flagship weed control system is also very valuable. It's called Enlist E3, and it basically protects soybeans, uh, and then you have this Enlist corn, which is also this corn which is resilient to weeds. This has captured dominant market share across North America. Rather than paying external competitors for trait licensing, over 100 independent seed companies license **Corteva's** genetics. So because they licensed them, it's kind of, you know, it defeats the point. You can't really copy them.

Um, now, structural inflection in royalty economics. In *2026*, **Corteva** crossed a critical financial threshold, flipping from a net royalty expense to a royalty positive company. This creates pure high margin cash flow expansion that's decoupled from the volume of acreage fluctuation.

In terms of pricing power, farmers buy yield, not commodity inputs. Because seed choice dictates a farmer's entire annual yield and revenue per acre, farmers are highly risk-averse to switching away from proven top-performing seeds. **Corteva** consistently achieves positive price mix realizations. It was positive 3% in seeds across all regions, even during periods where broader farm commodity prices are depressed. So when agricultural prices are falling, some seed prices are still going up, like even when farmers are stressed, because it's so important.

Crop protection is about 43% of sales. It's shifting away from generic post-patent chemicals towards proprietary biological and spinosyn-based insecticides. So the business has very high margins around 22-23% for a commodity product and it generates about 3 billion of free cash flow. So overall the business itself is quite good, but the planned value separation is going to make this seed business, I think, valued higher than before because before the whole business was was valued on like this insecticide, seed, agricultural conglomerate. But if the company is able to separate the seed business from the risk of lawsuits from the the PFAS business, um, which is, you know, a segment where they entered a defined payment settlement for PFAS liabilities, the risk of lawsuits for the seed business uh is separated into into the legacy business and that could result in the seed business being worth more. That is why the stock has been rallying this year.

Now, there have been some sharp declines in global corn and soybean spot prices, um, which have squeezed farmer net income. Um, and there's been some generic chemical pricing pressure, particularly in Latin America and Asia. But the seed business has been able to raise prices despite that. So if they can separate the seed business and the uh chemicals business, then, you know, they could unlock some value because the seed business is just worth so much more. So hopefully that provides some color on what **Corteva** is. It's a gem of a business. Um, and on **C**, I would just I wouldn't add a lot. I'm still an adder, but I just want to, uh, it is very cheap optically, but you know, you need the company to actually beat in Q3 for it to start inflecting above 120. Um, now, thank you guys for listening to the call. I wish you the best of luck in trading during the week. I hope that we were to help. You know, we we talked about three longs. Um, we talked about one that we're monitoring, uh, which is which is **Eaton**, but the, you know, longs like **EXN**, **Nokia**, **Wstar** are more actionable. We talked about, um, income names that we've been adding like **RWTS**, **RWTQ**, um, **PDO**, **PDI**, and **PAX**. So across the call, you know, we talked about at least, you know, eight names that you could that are actionable. So we're trying to help you guys navigate this market. The recording will be up very shortly. Um, we'll talk uh to you all next week.

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