WINNER TAKE ALL

July 31st, 2025 - By Samantha LaDuc, Founder of LaDucTrading

Why Market Thinks Big Tech Is Recession Proof

Fun Fact floating on FinTwit:

> It took 14 years for the S&P to gain 30% from 1966 to 1980. It has taken just over 14 weeks to climb 30% since April this year.

Actually, NDX is up 45% off the lows and SPX is up 33%, and we know why: NVDA, MSFT, META each doubled off the April bottom after July 9th policy intervention by Trump.

We also know:

> The market remains heavily bifurcated, the top 10 stocks now account for 40% of the S&P, a concentration level not seen since 1932.

Last night helped - as the monsters of tech grew much larger :

> $META +10% in a/h adding $174B in market cap
> $MSFT +6.2% in a/h adding $220B in market cap
> That's $394B in total market cap added in seconds in just 2 companies.
> That's akin to a new $JNJ sized company created out of thin air which happens to be the 22nd most valuable company.

OR

> Impressive that MSFT and META together went up after-hours more than the entire market cap of the largest company in Europe (SAP at $350bn).

The market bulls keep shouting: It's ALL about the CAPEX, and Hyperscalers' capex as % of operating cash flow is expected to remain high for the foreseeable future.

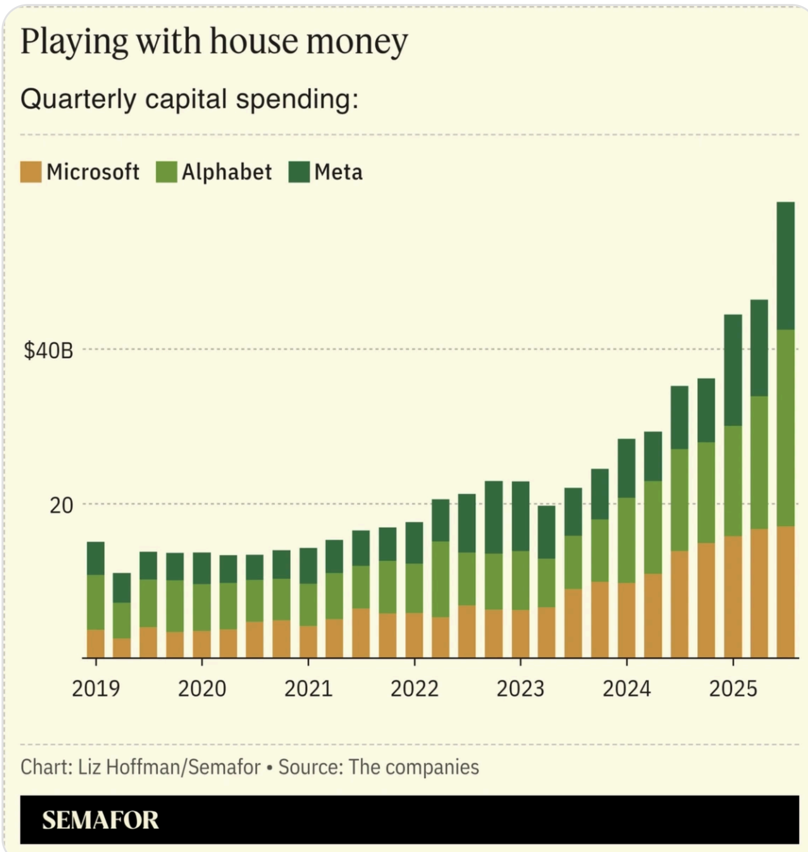
> *"The company projected capital expenditures will jump to more than $30 billion in the September quarter, up from $24 billion in the June quarter, and implying Microsoft could spend $120 billion for the full fiscal year ending June of 2026. That represents an astounding increase from just a few years ago—Microsoft spent $29 billion in all of fiscal 2022 on capex"* (The Information)

AND

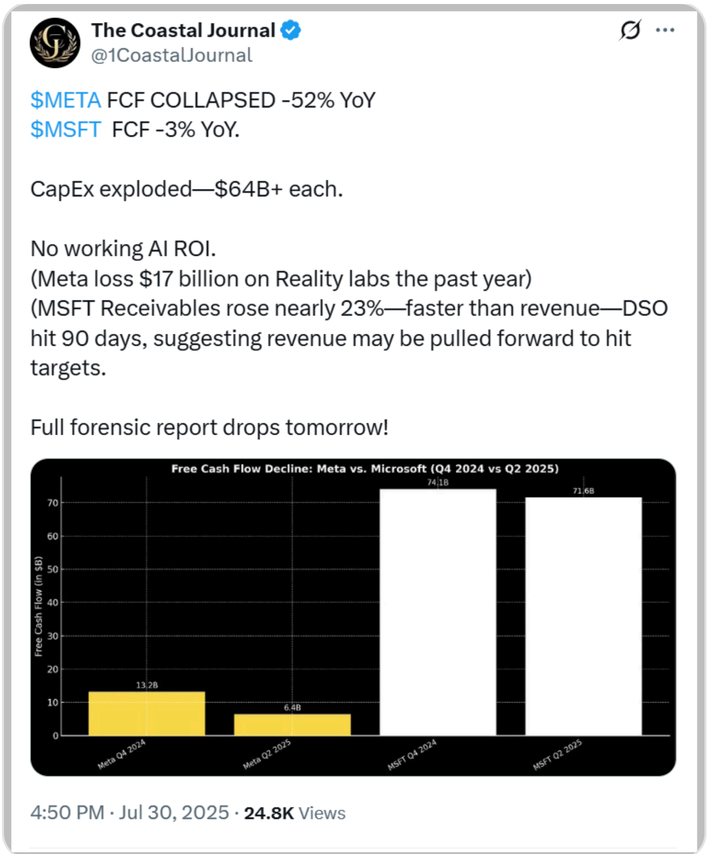
> *"Meta has projected its capex will jump to as high as $72 billion in 2025, compared with $39 billion last year. Today the company said it expects 2026 capex to rise by "similarly significant capex dollar growth"—implying it could pass $100 billion next year."* (The Information)

How big is that capex spend anyway?

> ***"Meta, Microsoft, and Alphabet have spent $186 billion on capital expenditures over the past year — more than the revenue of 96% of S&P 500 companies."***



The naysayers be damned:


The Coastal Journal
@1CoastalJournal

$META FCF COLLAPSED -52% YoY
$MSFT FCF -3% YoY.

CapEx exploded—$64B+ each.

No working AI ROI.
(Meta loss $17 billion on Reality labs the past year)
(MSFT Receivables rose nearly 23%—faster than revenue—DSO hit 90 days, suggesting revenue may be pulled forward to hit targets.

Full forensic report drops tomorrow!

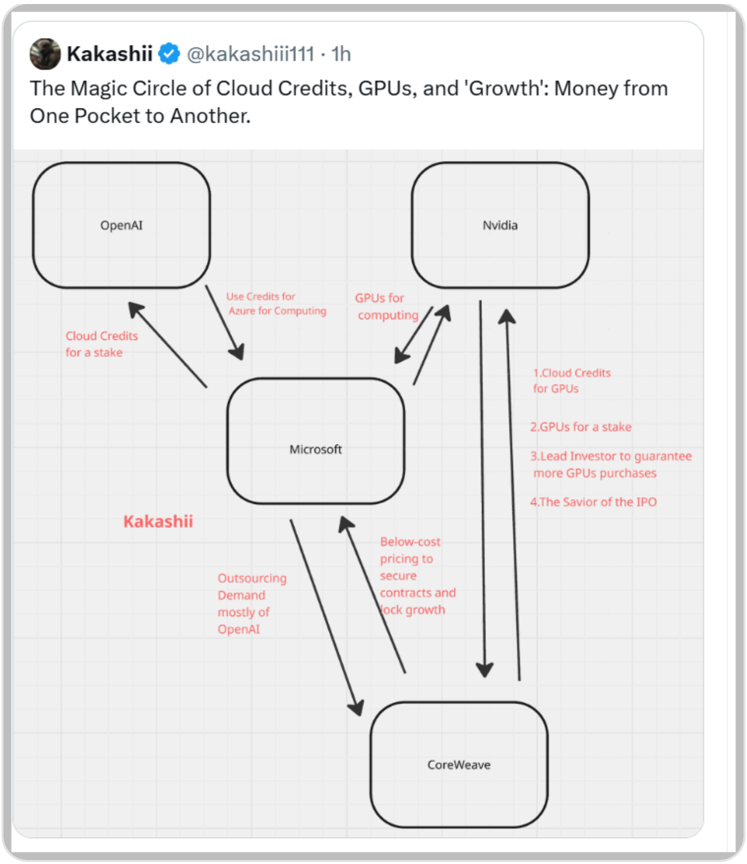
4:50 PM · Jul 30, 2025 · **24.8K** Views

Famed short-seller can't even nudge META from its gap up:

> *"It looks like META's depreciable life on its capital base ($210B at 6/30/25) was 11-12 years, as of the 2Q. If the true economic life on its GPU's is actually 2-3 years, most of its "profits" are materially overstated."* (Jim Chanos)

Forget the tricks around Securitization & Financialization, the big tech consortium has also pulled off the ideal closed circuit:

> ***The Magic Circle of Cloud Credits, GPUs, and 'Growth': Money from One Pocket to Another***.



Marco Kolanovic: ex-JPM Chief Strategist

> ***"Data centers may end up being the biggest mis-allocation of capital in human history (bigger even than windmills). Trillions to tweek order of videos in reels, or spy on you to better target adds"***

All these negative voices are ignored because valuations don't matter during a paradigm shift when ***big tech is recession proof.*** H/t DataTrek

"There is no way to explain current S&P 500 levels without using at least a "Peak Confidence" PE ratio of 22x and applying current consensus earnings estimates or "Super Peak" PEs of 24x and a small (10 percent) haircut to 2026 earnings.

The last time the S&P 500 traded for 22x was in 2021, when massive fiscal and monetary policy stimulus assured the US would not go into a recession in the next 12 months.

The last time the S&P traded for 24x earnings was at the peak of the late 1990s dot com bubble.

To believe the S&P has any upside from here, one must be confident that multiples can either hold "Super Peak" levels and index earnings will be at least $302/share or that we can see fresh highs for PE multiples (26x) and future earnings are all but assured to grow by 3 – 14 percent."

META & MSFT are there.

		Forward Price/Earnings Multiple						
		Trough Confidence 14	16	10-Year Average 18	20	Peak Confidence 22	Super Peak Confidence 24	Above 90s Bubble 26
S&P 500 2025 Earnings								
30% Lower	$186	2,597	2,968	3,339	3,710	4,081	4,452	4,823
		-59%	-54%	-48%	-42%	-36%	-30%	-25%
20% Lower	$212	2,968	3,392	3,816	4,240	4,664	5,088	5,512
		-54%	-47%	-40%	-34%	-27%	-20%	-14%
10% Lower	$239	3,339	3,816	4,293	4,770	5,247	5,724	6,201
		-48%	-40%	-33%	-25%	-18%	-10%	-3%
Current Estimate	$265	3,710	4,240	4,770	5,300	5,830	6,360	6,890
		-42%	-34%	-25%	-17%	-9%	0%	8%
S&P 500 2026 Earnings								
20% Lower	$242	3,382	3,866	4,349	4,832	5,315	5,798	6,282
		-47%	-40%	-32%	-24%	-17%	-9%	-2%
10% Lower	$272	3,805	4,349	4,892	5,436	5,980	6,523	7,067
		-40%	-32%	-23%	-15%	-6%	2%	11%
Current Estimate	$302	4,228	4,832	5,436	6,040	6,644	7,248	7,852
		-34%	-24%	-15%	-5%	4%	13%	23%

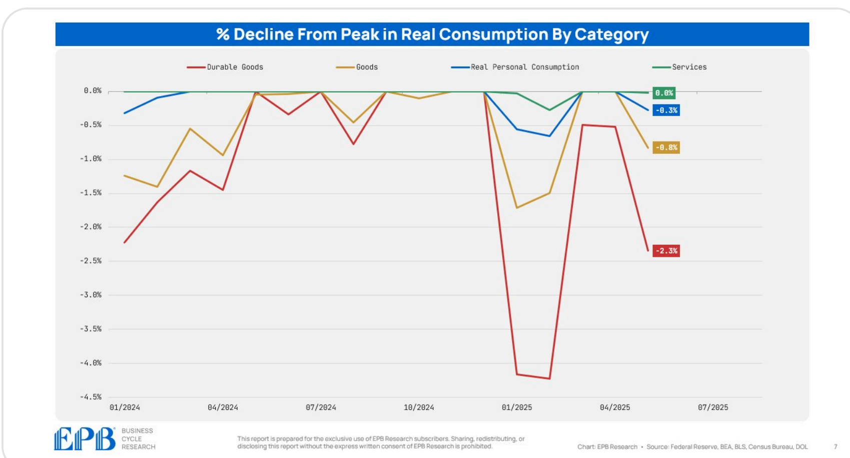
Based on July 28 close of 6,389.77
Current earnings estimates courtesy of FactSet

Why Ai Matters For Macro Returns

Productivity and Consumption are both falling this year. Ai is supposed to help with that.

Consumer spending has fallen this year despite the rosy 3% Q2GDP print that the Trump Admin is heralding. They don't parse it out to breakdown the trade data but rather obscure the health of personal expenditures.

> “Spending fell early in the year, bounced, and may now be heading lower again.” Eric Basmajian



also:

> "Consumption + investment (87% of GDP) decelerated to 1.2% growth in Q2." EPB Research

Heather Long:

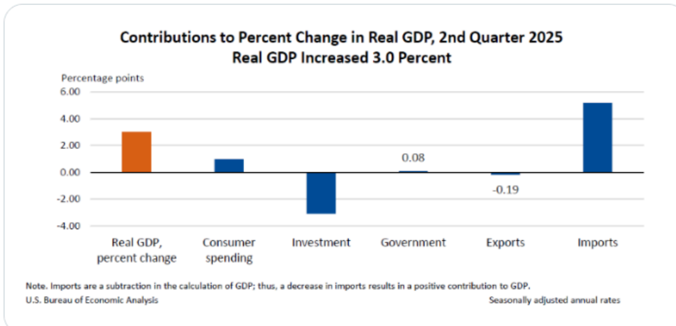
> "This is an economy running just above 1% if you strip out the trade noise."

Heather Long
@byHeatherLong

The US economy saw 3% GDP growth in Q2.
But it was highly unusual...

1) A massive decline in imports (-35% for goods) lifted GDP
2) Consumption was +1.4% -- a solid, but not spectacular number.
3) Business investment DECLINED in Q2

This is an economy running just above 1% if you strip out the trade noise.
Real final sales to private domestic purchasers was 1.2%



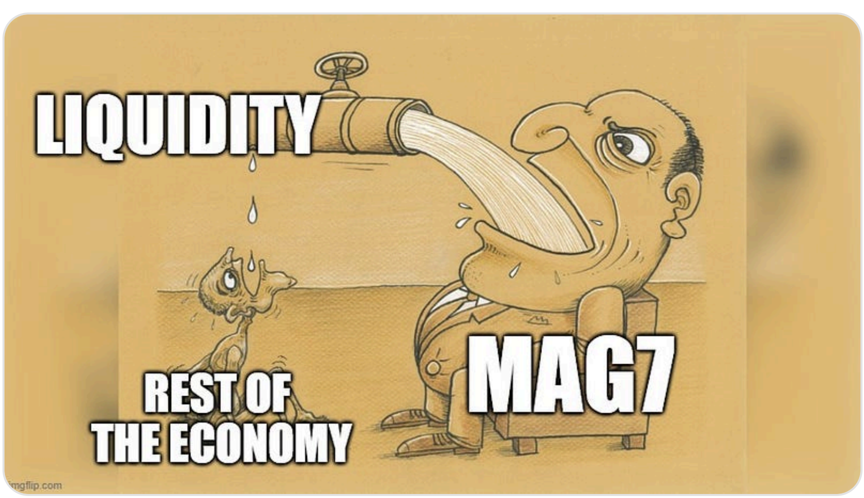
8:42 AM · Jul 30, 2025 · **242.3K** Views

The above was reason enough for Powell to highlight as reason not to cut rate: goods inflation.

Add to that: Inflation dampens consumer spending - not the other way around.
Just like Inflation raises yields - not the other way around.

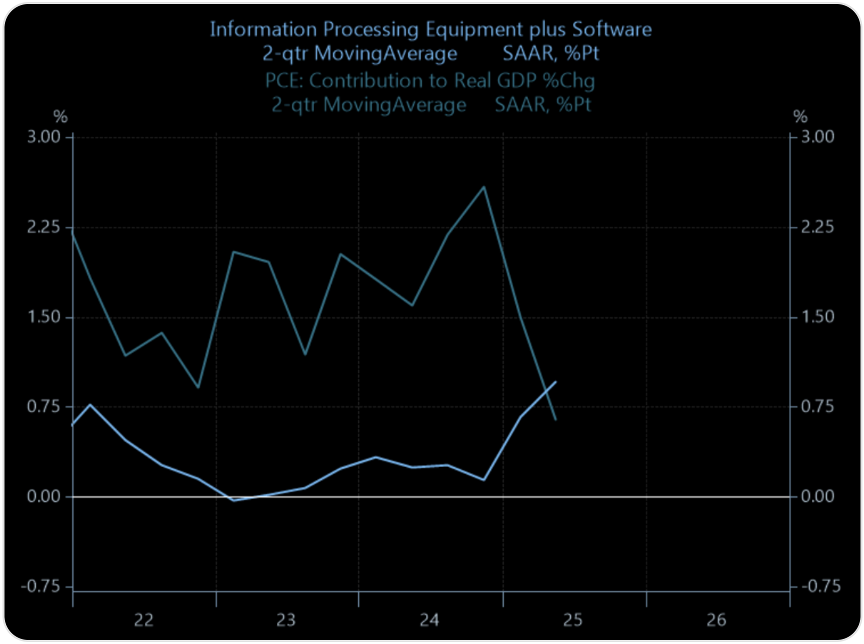
But it is the ***Inflation In Asset Prices*** that attracts capital into markets - specifically the AI mania stocks - and out of everything else.

Great meme:



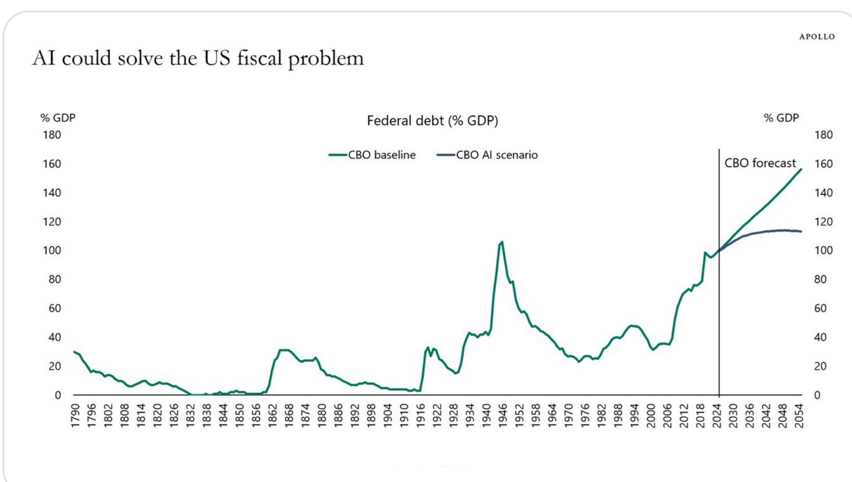
And while consumer consumption is falling, Ai growth is hoped to make up this shortfall:

> ***"So far this year, AI capex, which we define as information processing equipment plus software has added more to GDP growth than consumers' spending."*** BEA



Apollo was out with a chart last week that highlights a CBO estimate where AI could help the US fiscal problem:

> ***"if AI results in permanently higher GDP growth and permanently lower inflation, it could solve the US fiscal problem"***



That is the hope. The reality is that consumer spending comprises 70% of GDP growth.

So is it any wonder the Trump Admin is pumping Ai & crypto? ***Both help distract from the devaluation in USD*** to focus on the promise of future abundance not scarcity.

Dollar, Yields, Gold, and Oil Macro Trends

And that abundance means rising govt tax receipts resulting from a rising US stock market, and this is very helpful to offset profligate US fiscal spending.
Ergo, there is much incentive to keep the Ai & crypto dreams alive.

I would say, Place Your Bets, but clearly the market already has.

Ai > Powell: No Rate Cuts For You, Mr. President

Wednesday, the market sold off after Powell disappointed markets with a hawkish pause.

META & MSFT earnings popped it back up on Ai enthusiasm.

For the most part, the market has already priced in future rate cuts and front-run future Ai revenues.

There will be many battles, but Ai is winning the war.

That doesn't mean Powell will make it easier for markets or Trump...

Powell clearly had the Q2GDP print number and composition before the 2:30 press conference yesterday post FOMC when Fed kept rate unchanged as expected:

> "we have three or four tenths" of core inflation, from tariffs."
> ***"you could argue we are looking through goods inflation by not raising rates." (!)***

Translation: Tariffs are inflationary, and the current restrictive Fed policy is going to stick around for awhile.

Bowman and Waller dissented - advised cutting rates. Both are in line for Powell's job.

What could trip up Powell & his hawkish tone? Employment weakness.

You know what's gonna suck for Powell after he pushed back hard on cutting rates? Friday's labor data.
Maybe not THIS Friday, but some monthly NFP print or spiking jobless claims is going to come in super weak.
Whether actual or manipulated, the blame game will get louder then.

Imagine the Bloomberg headlines - when they pull this actual quote from Waller last week:

> ***"Waller warned: 'The job market underneath the surface is not doing well. When you start hearing cracks... it's too late."***

Jobless Claims spike. Powell is punted (demoted not fired). Waller vaults to the top of betting markets as new Fed head.
Something to keep in mind for bond traders into year-end 😉.

And here's what's on my mind as counter to the unstoppable AI train that is sucking liquidity out of Main Street / Main Street stocks and into the AI 'recession-proof' ecosystem / Wall Street stocks - that is a much bigger macro event risk

than Powell Punted or falling consumer health ...

The Coming US Ai Tech Jubilee

You've heard of a Debt Jubilee - freeing individuals, businesses, governments from debt. It has large moral hazards - like creating the disincentive for future lending, not to mention big questions about fairness and who would ultimately bear the cost of debt forgiveness.

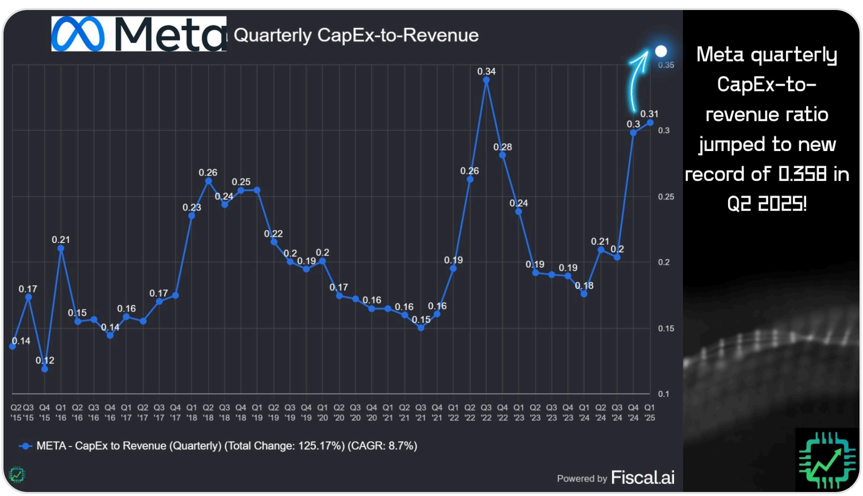
Well, the Ai Tech Jubilee - is the fanciful creation of a future utopia where:

> ***"The path to solving hunger, disease and poverty is AI and robotics" Elon Musk***

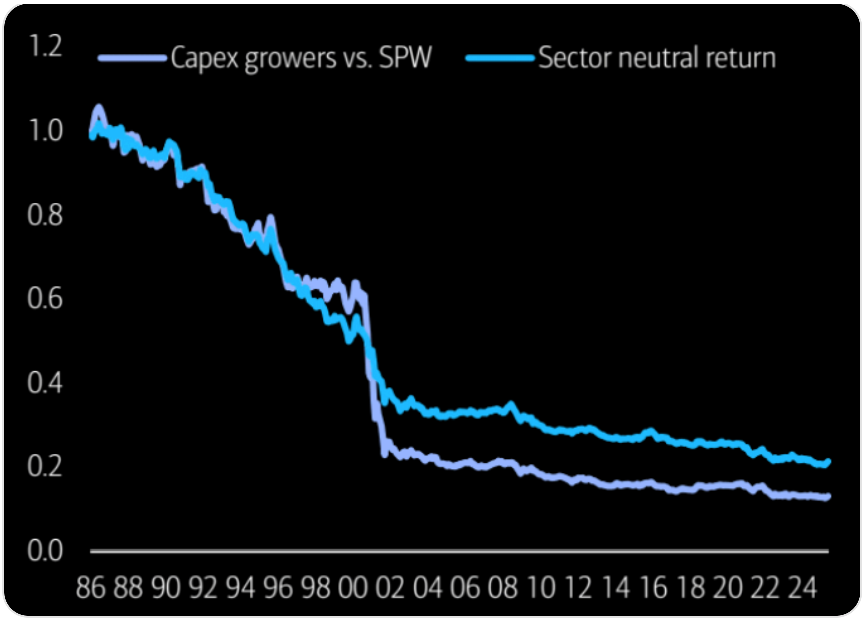
But when it comes to how to distribute the power and benefits, US has a very different view then China, for example.

Irony - in the US:

- 50% of AI is currently monetized via gaming - not stuff that makes Americans smarter (or richer for that matter). Only 3% for productivity. [source: Apple Store app download data]
- META bets AI will generate cheaper, better, more ***targeted ads*** to its mostly non-business user base to justify its massive capital spending. Again, this doesn't make Americans smarter (or richer for that matter).



- CAPEX growth is the trigger for higher valuations and yet CAPEX growers have historically underperformed! Make it make sense.



But all of that pales in comparison to where I see so many US AI TECH BULLS missing the BIG Picture.

China is way ahead of US in physical dominance, energy transition, education and now AI tech dominance - as I wrote about post DeepSeek deep-sixing the semi market in January.

THIS IS THE MANHATTAN PROJECT 2.0

The US market just isn't willing to accept these facts.

More than that, China doesn't see AI as a product. They see it as infrastructure - NOT winner-takes-all like Silicone Valley Tech Bros or Trump!
Have a read/look at this thread/interview snippets as color on what I mean.

And it is this WINNER-TAKE-ALL hubris that is so dangerous to US asset holders big picture - As China's AI Tech dominance quietly outpaces US assumed tech hegemony.

> *Chinese AI is booming in global markets, and Huawei's chips beat Nvidia's*

So instead of Trump forcing sanctions and tariffs on China, making Americans poorer in the process ... or running the stock market hot so as to ensure a sweep for mid-term elections to further get GOP behind a coordinated attack on China's supply chain, energy & tech dominance over US...

How about we focus on the real problem at hand in the US that is only made worse from this capital misallocation into Ai tech:

> **"Before we work on artificial intelligence why don't we do something about natural stupidity?"**
> **—Steve Polyak**

Then I'd really be bullish.