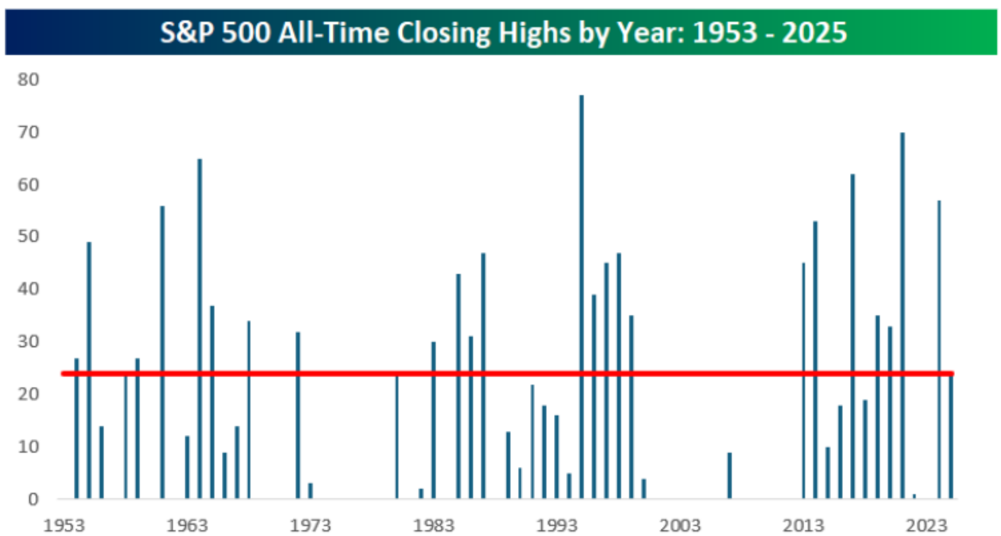
Stocks rallied again this week; the S&P 500 rose 1.6% to notch fresh all-time highs. The catalyst for this week's move was further support for Fed rate cuts due to relatively benign new inflation readings (i.e. soft core PPI and core CPI which was in-line with expectations) and additional evidence of labor market weakness. Furthermore, Oracle's guidance on Tuesday afternoon highlighted exponential, multi-year revenue growth expectations related to the company's cloud infrastructure business. This provided another key data point regarding the continued acceleration of AI demand over a multi-year horizon and thus lifted stocks across the AI ecosystem.

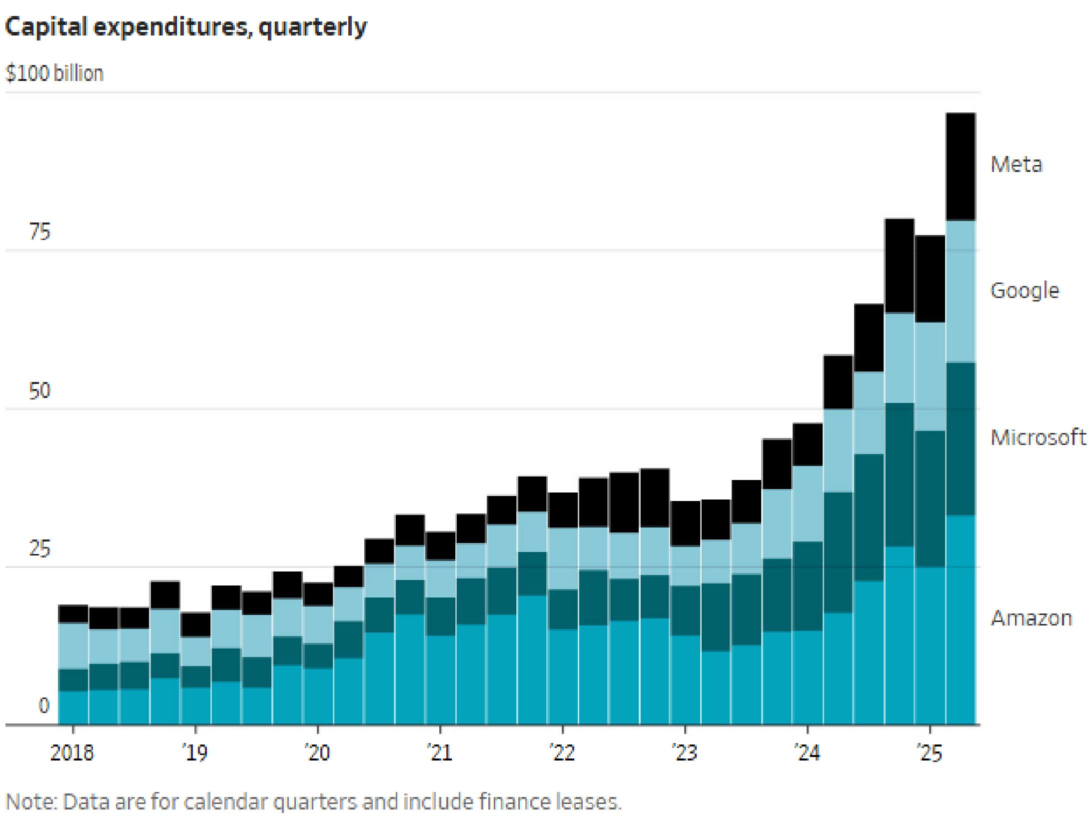


Source: Bespoke Investment Group

On Tuesday, the Bureau of Labor Statistics provided annual revisions which showed a decline of 911K jobs for the trailing 12 months through March 2025. There are two key takeaways from this release which I believe are (perhaps counterintuitively) both positive for markets. Firstly, this sharp negative revision provides strong additional evidence that the labor market has been deteriorating. Given the Fed's dual mandate regarding both full employment and low inflation, a weaker jobs market provides justification for more dovish monetary policy. In addition, given the backward-looking nature of this report (March 2024-March 2025), we now have evidence that impressive earnings growth has persisted despite an employment backdrop that has been much worse than previously thought. I believe this allows investors to remain optimistic that profit growth can continue moving forward even if the labor market isn't particularly favorable.

Economic forecasts appear to support this thesis. For example, the estimate for third quarter GDP growth provided by the Atlanta Fed (GDPNow) now sits at 3.1%. This includes growth forecasts of 2.3% and 6.2%, respectively, across consumer and business spending, which highlights the positive effect that elevated capital investment is having on economic growth. More importantly, while business spending typically accounts for only roughly 15% of total GDP, it's impact on corporate profits is more meaningful. This explains the significantly higher expectations for earnings expansion compared to growth estimates for the economy as a whole. S&P 500 profits are forecasted to grow by 17% in 2026 while most economists expect economic growth in the 1.5%-2% range next year[1]. I believe the positive multiplier effect from the continued acceleration across capital investment, predominately driven by AI-related spending, will continue to boost growth prospects even if consumer spending softens given the weakening labor market.

It remains my view that investors continue to underappreciate the impact and magnitude of AI-related spending. Capital investment from the hyperscalers alone now totals roughly $600 billion annually and will likely approach a run rate of $1 trillion when the calendar turns into next year.



Source: Company Filings

All indicators suggest spending levels will only continue to ramp from here, and it wouldn't surprise me to see this number climb to $3T-$4T in total by the end of the decade. Given

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[1] Organization for Economic Co-operation and Development, [Global economic outlook shifts as trade policy uncertainty weakens growth]()

that total GDP is currently roughly $30T while corporate profits are running at just under $4T, the impact on both the economy and earnings outlook is virtually unprecedented. The market's positive reaction to Oracle's earnings announcement last week is a clear example which suggests that investors haven't fully priced in this upside just yet in my view.

Should the current pace of technology-related capital spending persist, I believe the secular bull market may continue for years to come. While the economic data pertaining to the consumer isn't especially bullish, this is more than offset by the capital spending boom which I believe is still in its early innings. Go-forward profit growth will be the ultimate test, and I expect many might be surprised by the level of earnings acceleration over the coming years. In my view, this suggest concerns over somewhat elevated valuation multiples may be misplaced given the positive growth prospects which may be on the horizon. If this thesis plays out, I believe markets will continue to climb the proverbial wall of worry as profit growth fuels the next leg of this multi-year rally.

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