

July saw the bulk of second quarter results released, with two-thirds of the companies in the S&P500 reporting earnings. So far, the news has been encouraging, with 80% of companies reporting better than expected results, and beating estimates by a wider margin than usual. Along with better than expected second quarterly results, some of the uncertainty around tariffs began to clear, as the Trump Administration announced agreements with Japan, the EU and other important nations. While the U.S. has yet to ink agreements with every trading partner, progress on global tariffs was appreciated by the market. These positives drove the S&P 500 up 2.2% for the month, marking the third consecutive month of gains, as investors' negative reaction over 'Liberation Day' continued to fade.

Within the better-than-expected results, one theme continued to take center stage – AI. Coming into the quarter, expectations were high, but many of the tech behemoths surpassed even those elevated expectations. On July 30th, after markets had closed, Microsoft reported a 39% year-over-year increase in its cloud business Azure, 4% above Wall Street estimates. Combined with its other cloud services, Microsoft generated over \$75B in revenue for the quarter. The stock rose 9% in after-hours trading. That same day, Meta reported its results. Meta's revenues rose 22% year-over-year, to \$47.5B, sending its stock up 10% the following trading day.

In addition to better-than-expected revenues from AI-related operations, another recurring theme was an increase in capital spending to support that AI growth. Microsoft announced its intention to invest over \$30B in capital expenditures next quarter, a 75% increase from its most recent quarter. Meta projected capital spending for the year between \$66B - \$72B, an increase of 130% from the prior year.

Not surprisingly, as results from the AI behemoths rolled in, the bar for others rose. Amazon reported a 17% increase in revenues tied to its cloud offering, Amazon Web Services, to \$31B. In most industries, that would be remarkable, but in the current AI-driven climate, it fell short of heightened investor expectations. The stock sank by 8% the following day. I guess \$31B in revenue ain't what it used to be.

The AI race remains intense, with a small group of dominant players, including the "Magnificent Seven", capturing a disproportionate share of market gains. These companies have the scale, resources, and determination to keep investing heavily in AI. The ticket to compete in this arena is getting more expensive, and for now, the biggest names appear willing to pay it.

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Sincerely,



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