MARKET MINUTE

With McGAREL

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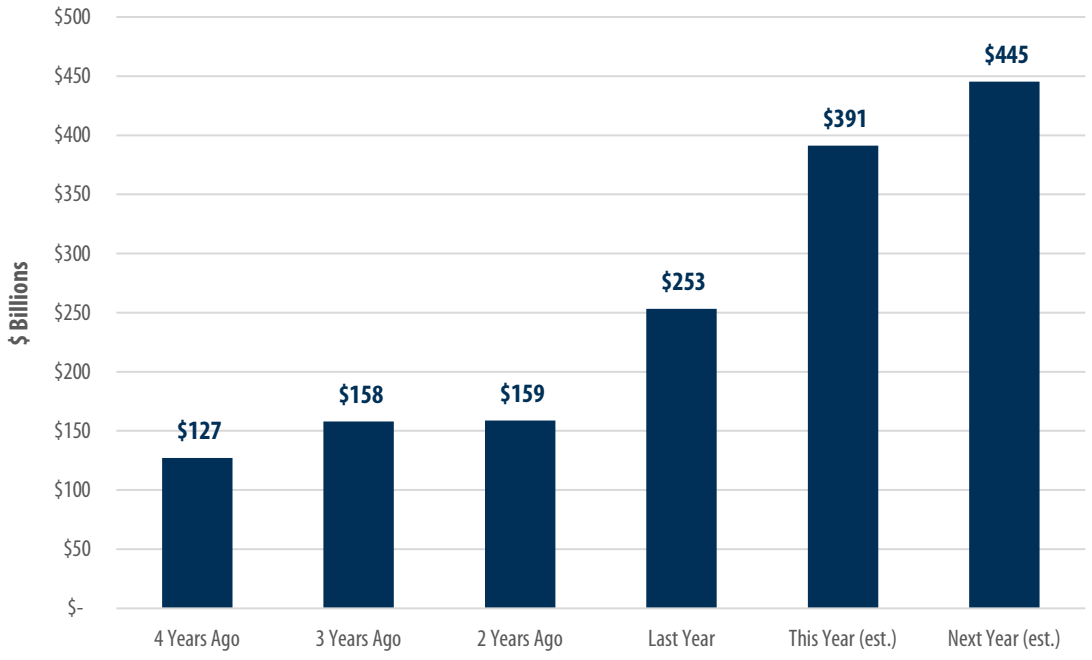
If You Build It, Will They Come?

As the massive Artificial Intelligence (AI) story continues to unfold and dominate the stock market, many companies that have made announcements to spend heavily on capital expenditures to build AI infrastructure have been rewarded with outsized gains in their stock prices. Look no further than Oracle's announcement on September 9th that they will rapidly increase spending on AI infrastructure after signing an enormous deal with OpenAI to provide computing power to the company from 2027 until 2032. Oracle's stock soared 36% the next day. That stock price surge may be appropriate... or not. In our view, the market is rewarding future **projected revenue** streams and showing little concern (or regard) for the **committed outlay** of most of Oracle's cash flows, plus additional balance sheet leverage for the foreseeable future, to generate those revenues. In addition, the entire focus is on the massive revenue increases in the future. What are the profit expectations? No one is quite sure at this point.

To be fair, it is extremely difficult to project future revenues and earnings far into the future. All this spending may turn out great for shareholders. However, we believe a better option may be the companies that are benefiting from all this AI spend. In other words, who is getting all this money over the next several years? A recent study by McKinsey projects $5.2 trillion in data center spending through 2030. Their breakout of costs: 60% ($3.1 trillion) to technology developers and designers that produce hardware and semiconductor equipment, and 40% ($2.1 trillion) for building the massive buildings and installing all the energy equipment and electrical components to make everything work.

In our view, the better risk/reward proposition may be investing in the companies that are the recipients of the projected spend versus the ones paying the bills and expecting that spend to translate into future profits. That said, if the build continues at this frantic pace, many industrial companies, tech companies that are supplying hardware and software to build out the AI space, energy companies, and financials (insurers on all these assets and lenders on AI leverage) may be the true winners.

Combined AI CapEx Spending of Major Tech Companies*



Source: Capital IQ. Data as of 9/30/25. The chart is for illustrative purposes and does not represent any actual investment.

*Actual and projected CapEx from Amazon, Microsoft, Google, Meta, Oracle. There is no guarantee that past trends will continue, or projections will be realized.

Past performance is no guarantee of future results.

AI CapEx (capital expenditure) Spending is the investment companies make to acquire, upgrade, and maintain the long-term, physical and intangible assets needed to develop and operate AI technology. CapEx is a strategic investment in long-term assets that is depreciated over time on a company's financial statements.

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