FORTITUDE FOCUS

Investment Department

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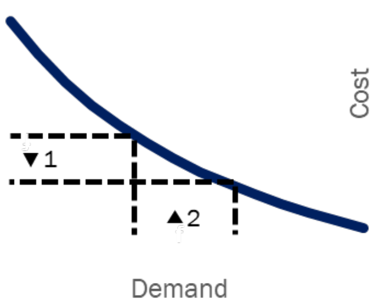
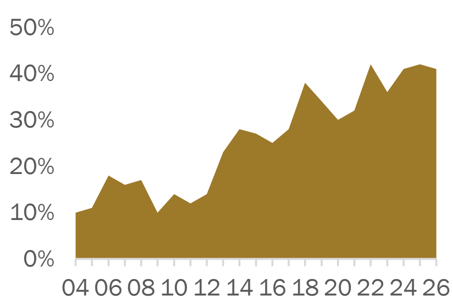
THE STORY

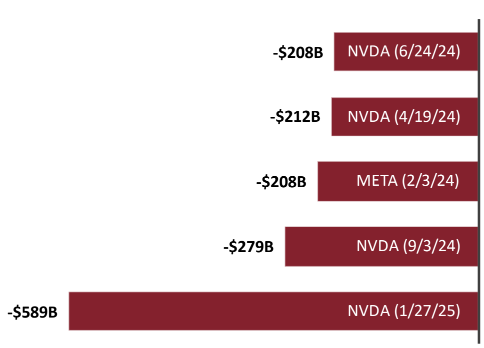
Jevon's Paradox[1]



AI Hyperscalers Capex % Of Operating Cash Flow[2]



Largest Single Day Losses[3]



[1]Numbers are examples to illustrate Jevon's Paradox
[2]Guide to the Markets – U.S. Data are as of Dec 2024.
[3]Visual Capitalist: Top 10 Single-Day Market Cap Gains Feb 2024

THE AI BET - VALUE CREATION OR TRANSFER?

The recent DeepSeek moment sent shockwaves through markets, sparking debate over whether AI's relentless advance could trigger a **Jevon's paradox** – where efficiency gains only accelerate total output rather than curbing it.

Up to now, big tech has shown no signs of slowing down. AI hyperscalers have been busy ramping up spend to historic levels with **capex now consuming more than 40% of their operating cash flows.**

What remains to be seen however is the return on investment for these colossal ventures. On the DeepSeek news, **Nvidia's $589B single day drop (more than the GDP of over 150 countries)** illustrated the broader risks of these gargantuan, concentrated AI bets.

And yet, while tech giants absorb the staggering costs of AI infrastructure, history suggests the biggest winners may lie elsewhere. Just as past technological revolutions funneled productivity gains into simpler, less 'exciting' industries, AI's real value may ultimately be captured by the companies who effectively **leverage rather than build the technology.**

From industrial automation to healthcare and enterprise software, firms applying AI to enhance their operations, could see greater long-term upside on their capital.

To be clear, AI remains an extraordinary force, and its potential is undeniable. Yet history shows how innovation often rewards unexpected players. While today's spotlight may shine on the highly visible few, risks loom, and the technology's biggest winners may still be under the radar.

UPCOMING EVENTS

Monthly CPI – 2/12

President's Day – 2/17

FOMC Meeting – 2/19

"First We Build The Tools, Then They Build Us"

- Marshall McLuhan

WHAT HAPPENED?

BP To Cut 5% Of Global Workforce:
U.K. based oil company BP is cutting 4,700 jobs worldwide as well as 3,000 contractor roles as a part of a cost-saving drive. The company said it had identified $500M of cost savings to be delivered this year. The reductions come as BP tries to bring more digital capabilities into the business (AP).

US Banks Face Loan Slowdown:
Despite strong Wall Street performance, banks struggle with weak loan growth, especially in commercial real estate. Elevated interest rates and continued economic uncertainty is driving the trend (WSJ).

$500B Investment In AI Infrastructure:
A private-sector initiative led by OpenAI, SoftBank, and Oracle will invest up to $500 billion in AI infrastructure. Named "Stargate", the project aims to build massive data centers and create over 100,000 jobs across the U.S. (Reuters).

Deloitte Sees Modest Global Growth:
Deloitte's global economic outlook forecasts a 0.9% GDP growth in 2025. It expects rising nominal wages to boost household purchasing power, while falling interest rates may reduce savings incentives and encourage more spending (Deloitte).

EQUITIES GAINED

US equity markets rose in January with the S&P 500 up 2.8%. Global ex-US equity markets rallied further with the MSCI World ex-US Index up 4.7%.

	MONTH*	YTD*
US Large	2.8%	2.8%
US Mid	3.8%	3.8%
US Small	2.9%	2.9%
Global ex-US	4.7%	4.7%
Int'l Dev	5.3%	5.3%
Emerging	1.8%	1.8%

ALTERNATVIES CLIMBED

Credit alternatives continued to produce stable, high yield income while infrastructure assets rallied to kick off the year and liquid alternatives yielded mixed results.

	MONTH*	YTD*
Gold	6.7%	6.7%
Merger Arbitrage	1.2%	1.2%
Infrastructure	2.4%	2.4%
Direct Lending	0.9%	0.9%
Hedge Funds*	-0.5%	-0.5%
Managed Futures	2.5%	2.5%

Due to reporting lags, some data represents the latest return as of the month prior to this period.

FIXED INCOME STAGNATED

Fixed income markets also rallied in January as the market reacted to President Trump's calls for lower rates as the Bloomberg Agg Index rose over 0.5% in the period.

	MONTH*	YTD*
Ultra-Short	0.4%	0.4%
Short	0.4%	0.4%
Core	0.5%	0.5%
Long	0.5%	0.5%
High Yield	1.4%	1.4%
US TIPS	1.3%	1.3%
Intl Bonds	0.6%	0.6%
EM Bonds	0.9%	0.9%

*Sources: Each asset class is represented by a corresponding index or fund as of each report's month-end date. The associated indexes can be found below. This has been provided for informational purposes only, and reflects the current opinion of the author, which is subject to change without notice, as are statements of financial trends, which are based on current conditions.

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Model index performance does not represent actual performance and should not be construed as an indication of such performance. The model index performance results do not represent the impact that material economic and market factors might have had on the management decision-making process compared to actually managing client money during that period. Model performance also differs from actual performance because it is achieved through the retroactive application of an asset allocation designed with the benefit of hindsight.

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Illiquid Investments. Illiquid investments may not be suitable for all clients. Investors in illiquid investments must qualify for these investments based on suitability criteria, and they must complete subscription documents.

Reference Above	Benchmark Index	Reference Above	Benchmark Index
US Large	S&P 500 Index	Hedge Funds	Eurekahedge Hedge Fund NR Index
US Mid	S&P 400 Index	Managed Futures	Credit Suisse Mgd Futures Liquid TR
US Small	S&P 600 Index	Ultra-Short	Bloomberg US Treasury Flt Rate Index
Global ex-USA	MSCI World ex-USA All Cap NR Index	Short	ICE US Treasury 1-3Y Bond Index
Intl Dev	MSCI EAFE NR USD Index	Core	Bloomberg Aggregate Bond Index
Emerging	MSCI EM NR US Index	Long-Term	ICE US Treasury +20Y Bond Index
Gold	S&P GSCI Gold TR	High Yield	Bloomberg US Corporate HY Index
Merger Arbitrage	IQ Hedge Merger Arb TR USD Index	US TIPS	ICE US Treasury Inflation Linked Index
Infrastr (Infrastructure)	MSCI ACWI Infrastructure NR Index	Intl Bonds	Bloomberg Global Agg ex-USD Index
Direct Lending	Cliffwater Corporate Lending I	EM Bonds	Morningstar EM BD GR Index