

MARKET REVIEW & OUTLOOK



2Q 2025

All AI, All the Time

Big Tech continues to dominate markets, but exposure to Artificial Intelligence (AI) has shaded fortunes. Those who have made good moves early are already benefiting, while others are only now racing to catch up. Still, they all have a distinct advantage in deploying massive capital to soak up talent pools and start-ups with any promising technologies. This is very hard to compete with and keeps market leadership in Big Tech's hands.

Core Sustainability Themes Still Hold

We are cautious in the markets as we approach new highs, despite an enormous wall of worry built from tariff disputes, military conflicts, and a shifting global political landscape. Perhaps AI will solve economic cyclicality, but not today and we will soon see turmoil as we digest current risks. As such, we advocate a modestly defensive posture while using any declines to bolster positions in our core sustainability themes.



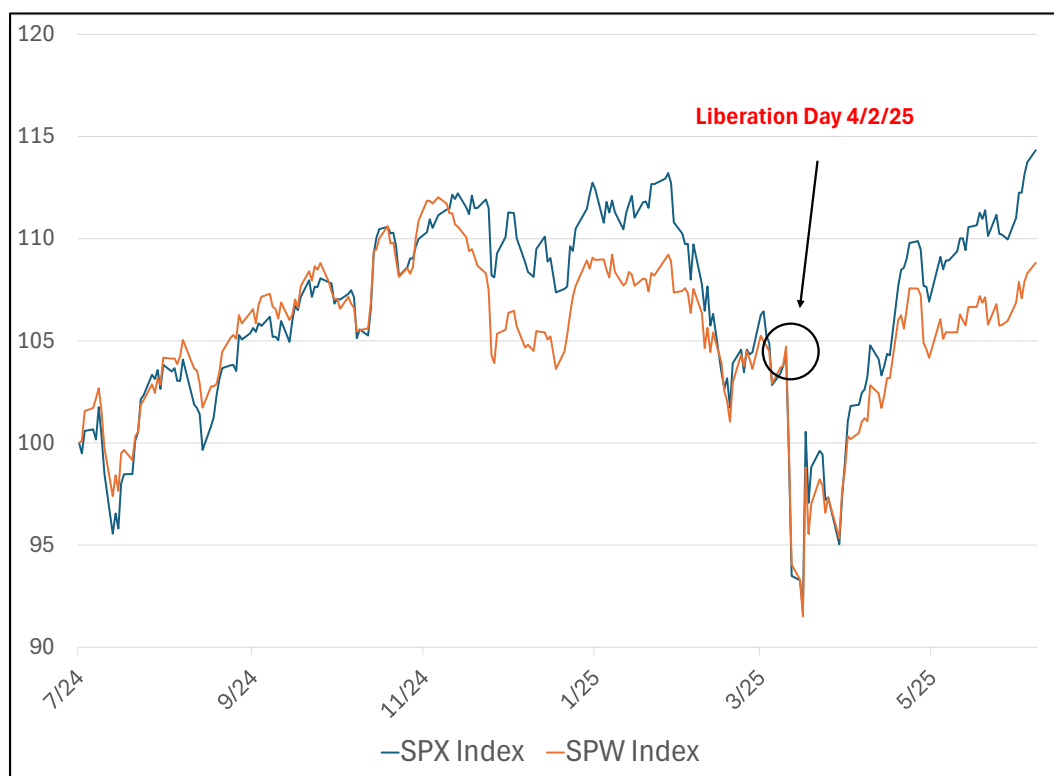
Big Tech's big wallet keeps them at the forefront of the AI movement.

The Machines Have Taken Over

Big Tech has been a major driver of stock market performance for the past several years, and while the group has reasserted itself as leadership since “Liberation Day,” the complexion is decidedly different. A stock’s exposure to Artificial Intelligence (AI) now determines its fate. Let’s have a look at Big Tech’s performance before and after the President’s tariff announcements on Liberation Day.

We use the S&P 500 (SPX) to represent Big Tech, as these top 5 names account for over 25% of the index. For a more diverse view of the market, we also examine an equal-weighted version (SPW). The President’s tariff announcements on Liberation Day spread enormous pain all over global stock markets (highlighted with the S&P 500 Index in Exhibit 1, below), leveling the playing field. The uncertainty was massive, and the economics were puzzling, punishing all stocks relentlessly.

Exhibit 1 – S&P 500 (SPX Index) leaps ahead of Equal-weighted S&P 500 (SPW Index) post-Liberation Day

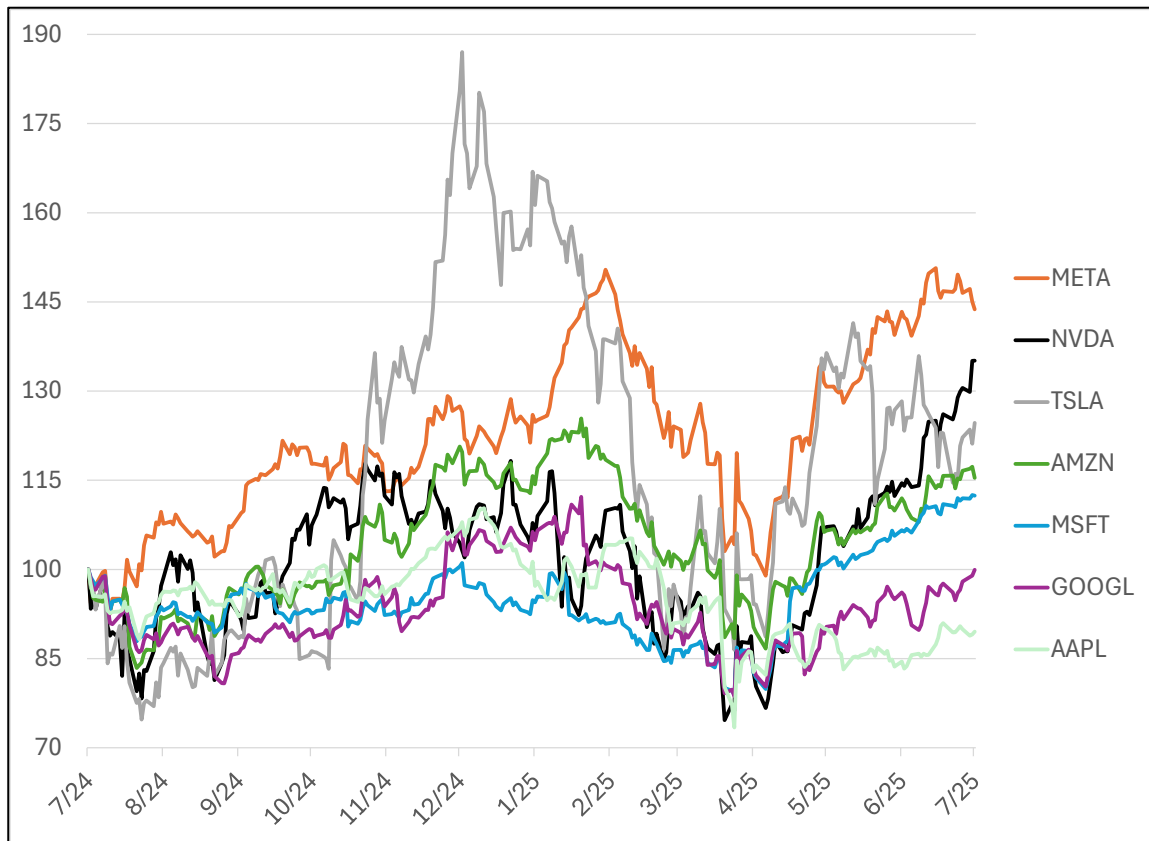


Comparison of S&P 500 Index with S&P 500 Equal-weighted Index, daily, last twelve months ended June 30, 2025;
Standard & Poor's, Bloomberg Data Services, Harmony Capital Advisors, LLC

However, many of the initial tariffs have since been delayed and are being renegotiated, suggesting that the pain of Liberation Day was too severe, as cooler heads might prevail. Sort of. We'll see. Regardless, Big Tech has motored ahead again (right side of Exhibit 1, above), but this time with a delineation specific to AI. We believe the more direct and significant the exposure to AI, the better the stocks have performed.

As a result, we would like to take this opportunity to retire the “Mag 7” moniker, as the members of that group are now experiencing distinctly different returns, as shown in Exhibit 2, below.

Exhibit 2 – “Magnificent Seven” Stock Performance Last 12 Months



Share price performance of “Magnificent Seven” (META, NVDA, TSLA, AMZN, MSFT, GOOGL, AAPL); daily, last twelve months ended July 16, 2025; Bloomberg Data Services, Harmony Capital Advisors, LLC

- Meta (Facebook)- investing heavily for use across the company’s services
- Nvidia- makes high-performance microchips necessary for AI
- Tesla- big AI opportunities, albeit complicated by EV challenges and the Elon Musk overhang
- Amazon- data center segment benefits from AI demand
- Microsoft- owns nearly half of OpenAI and has been investing heavily
- Alphabet (Google)- opportunities, but the search business is threatened by AI
- Apple- investing but has largely missed the first move in AI

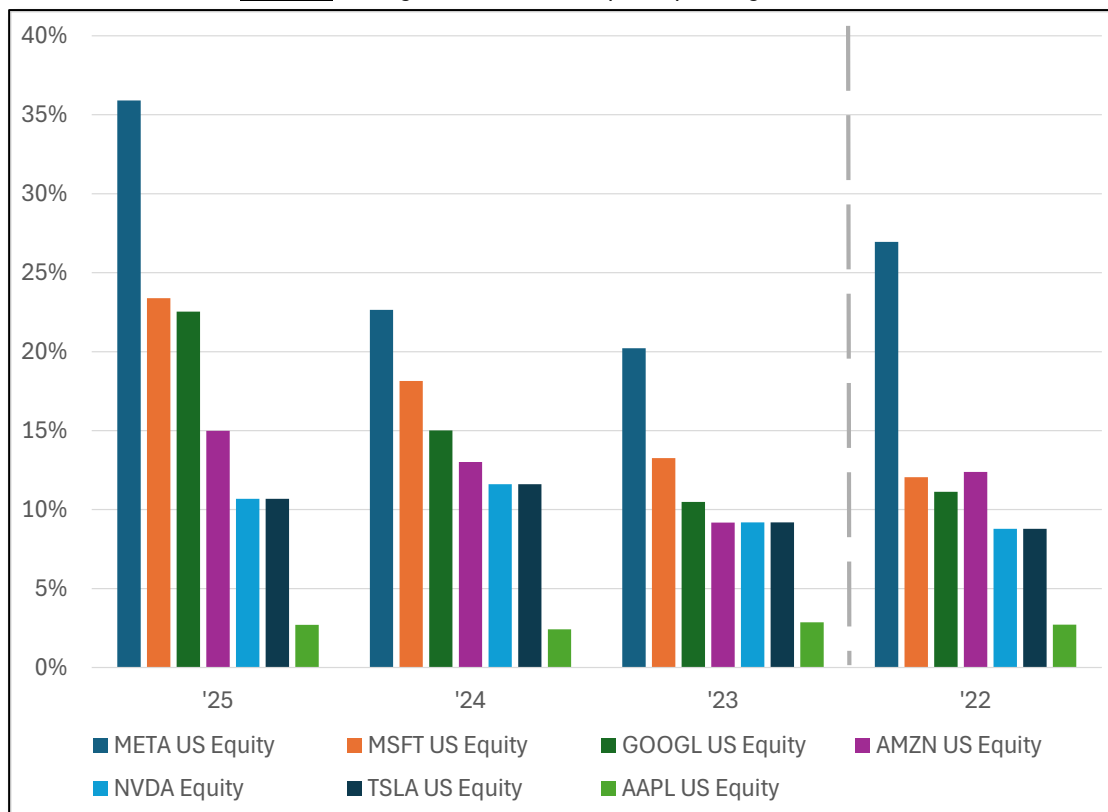
A Super Expensive Arms Race

While the technology behind AI is still in its infancy, it is unlikely that small companies will disrupt the space. Big Tech has a massive competitive advantage in capital spending, and it is being used unsparingly. Wall Street analysts have estimated, based on companies’ guidance, that the group will collectively invest over \$343 billion in 2025. This is up from last year’s reported spend of \$249 billion, and more than double 2023’s \$169 billion. Doubling investment at any level is challenging, let alone doubling \$170 billion. That is one seriously challenging investment pace that likely keeps the big companies big. Even the disruptor, OpenAI, was launched with over \$1b committed. Microsoft later agreed to pay \$13b for half the company in 2023.

For our analysis, we focused on total capital spending changes to estimate AI priorities within Big Tech. The chart below, Exhibit 3, illustrates capital spending as a percentage of sales, enabling a comparison of companies of different sizes and approximating their investment appetite. We assume that AI ultimately drives increases in spending. COVID-19 economic weakness distorted 2022 ratios due to lower sales.

(Data points in the above paragraph are sourced from Aggregated Analyst Estimates for FY2025, as of 7/15/2025, Bloomberg Data Services.)

Exhibit 3 – “Magnificent Seven” Capital Spending as % of Sales



Capital Expenditures as a percentage of Revenue, “Magnificent Seven” (META, NVDA, TSLA, AMZN, MSFT, GOOGL, AAPL); quarterly, 2022-2025; Bloomberg Data Services, Harmony Capital Advisors, LLC

Without knowing more specifics about investing plans, we can only draw a couple of conclusions. Firstly, it appears that only Meta, Microsoft, and Google have structurally increased their investment levels, while the others seem to be operating on a more limited budget.

The nature of these businesses is quite different (Facebook vs Amazon vs Tesla), so standardizing as a percentage of sales may not be the best metric. It is also not a predictor of success; in fact, more than one of the companies listed is likely racing to catch up.

A simple conclusion is that spending is massive, and it will be tough to compete with the AI-induced acceleration of investments for such large firms. This group will remain market leadership until AI benefits accrue to the rest of the economy, as consumers of the technology.

Outlook

Recent market highs despite enormous uncertainty suggest to us that there is more lurking on investors’ minds than tariff rancor, military conflicts, and higher rates. The emergence of Artificial Intelligence (AI) has many expecting a robust future, but questions remain about its extent and timing (and profitability!). We suspect investors are ultimately underestimating the value creation coming from AI; however, the transition from today’s lofty markets may still prove bumpy.

At the time of this writing, the S&P 500 (and other stock market indices) are still flirting with all-time highs. This comes amid a time of unprecedented geopolitical uncertainty, as we witness challenges to legal frameworks in the US, while also triggering a global tariff war, not to mention the inflationary pressures that have been building since the COVID pandemic, supply chain issues, and appreciably higher rates.

Even if rates normalize here or move slightly lower towards year-end, we are structurally higher than we have seen since the Great Financial Crisis (GFC). The economy has been digesting these higher rates, even before the uncertainty of the US presidential elections earlier this year, which has compounded higher costs and a lack of visibility for investing.

As such, it is concerning to us that markets are at highs, shrugging off higher rates and the ongoing wave of political uncertainty. Either markets are too complacent, or they are discounting an economic future far brighter than what we have seen over the past 20 years.

A bit of both? Not that the market is complacent, likely optimistic, as we begin to discount the value and impact of Artificial Intelligence (AI). Currently, AI is little more than an arms race, soaking up investment dollars and profitability for the early innovators; however, the promises and dreams are spectacular.

Suppose AI can unleash even just a fraction of the productivity some are prognosticating. In that case, we are likely on the doorstep of a significant global economic expansion, akin to the proliferation of the internet at the beginning of this century. Sure, the stock market entered a bubble and burst. Still, the size of the digital economy has since grown exponentially larger than anything previously discounted by the markets during the “tech bubble.”

Perhaps we are in an AI bubble- but we are confident that in just a few years’ time, today’s estimations of value potential will prove to be woefully anemic.

Still, markets are volatile, and thusly we do not expect a smooth transition from the wall of worry we have built politically, amidst structurally higher rates, into a goldilocks economic growth period fueled by AI opportunity.

How to Navigate the Opportunity while Minding the Gap

While we expect the market to work higher as it discounts the potential of AI, we also expect a bumpy transition as we digest the current “wall of worry” (tariffs, immigration, war, rates, etc.). Staying invested through these transitions can be as challenging as timing them, so we would advocate for a portfolio strategy that provides wide exposure. Combining various economic exposures with equally diverse investment time horizons reduces the urgency of timing markets and mutes the extremes of volatility, when done correctly.

AI is likely the defining technology of our time and deserves an increasing allocation of capital as investment opportunities emerge. As with all new technologies, investment levels are high with outcomes unknown and ultimately dragging on profitability. This will improve, slowly, then seemingly all at once. Staying invested (early and through the noise) will likely generate the best returns over time.

We highlighted AI (and cryptocurrencies) as one of our major themes emerging from the current environment. We wrote about that exposure in our last quarterly, as well as the four other areas that could help with the core of your portfolio as we navigate the volatility ahead:

1. Crypto/AI
2. Automation
3. DIY
4. Outside the Fray
5. Electricity

Market swoons will come and go, but each time it does, the groups mentioned above will find themselves on higher ground. They will be structural outperformers as the world embraces new technologies and the ecosystem that enables them. Please review our last quarterly write-up, the Harmony Capital website (“Insights” tab), or our YouTube channel for more on the new enduring sustainability themes.

Watch the news...

...we said. With markets melting higher, our thesis of watching the news for fund closures essentially failed. Market volatility reached one of its highest levels over the past 40 years, which we suspected would lead to fund closures, as periods of heightened volatility typically do. Many funds inevitably get caught up in the excitement of rallying markets, only to get bludgeoned as market indices mercilessly fall, relegating some players out of business.

However, markets recovered very quickly - perhaps too quickly. Many investors were bailed out, and thus we never saw the great bottoming signal of fund closures. That dynamic would have strengthened our resolve for the year, but as we have discussed, market strength amidst the worries we highlighted has us leaning defensively.

On the margin, we are maintaining slightly higher cash levels, seeking less cyclical investments, and still avoiding interest rate sensitivity. That said, we are also looking to increase our exposure to AI and the other themes mentioned above. We aim to capitalize on any market weakness ahead to continue those investments. The diversity of the portfolio across themes, industries, and geographies should prove supportive when markets finally make that bumpy transition and fully digest the risk and worry factors we have highlighted here.

Disclosures

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