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INDEPENDENT RESEARCH

Weekly Analytical Briefing: Navigating the Nervous Bull

A Synthesis of Market Intelligence for the Week of October 21, 2025



The Market Stands at a Critical Juncture: Powerful Growth Drivers are Being Tempered by Mounting Risks

The “responsibly optimistic” outlook remains valid, but rising volatility demands a more nuanced strategy. A hybrid “Think Bear, Act Bull” approach is essential to capture upside while mitigating downside risk.



The Engine Room

The AI investment supercycle and accommodative Fed liquidity provide a strong fundamental floor.



The Fault Lines

Geopolitical tensions, private credit opacity, and speculative froth are creating significant tail risks.

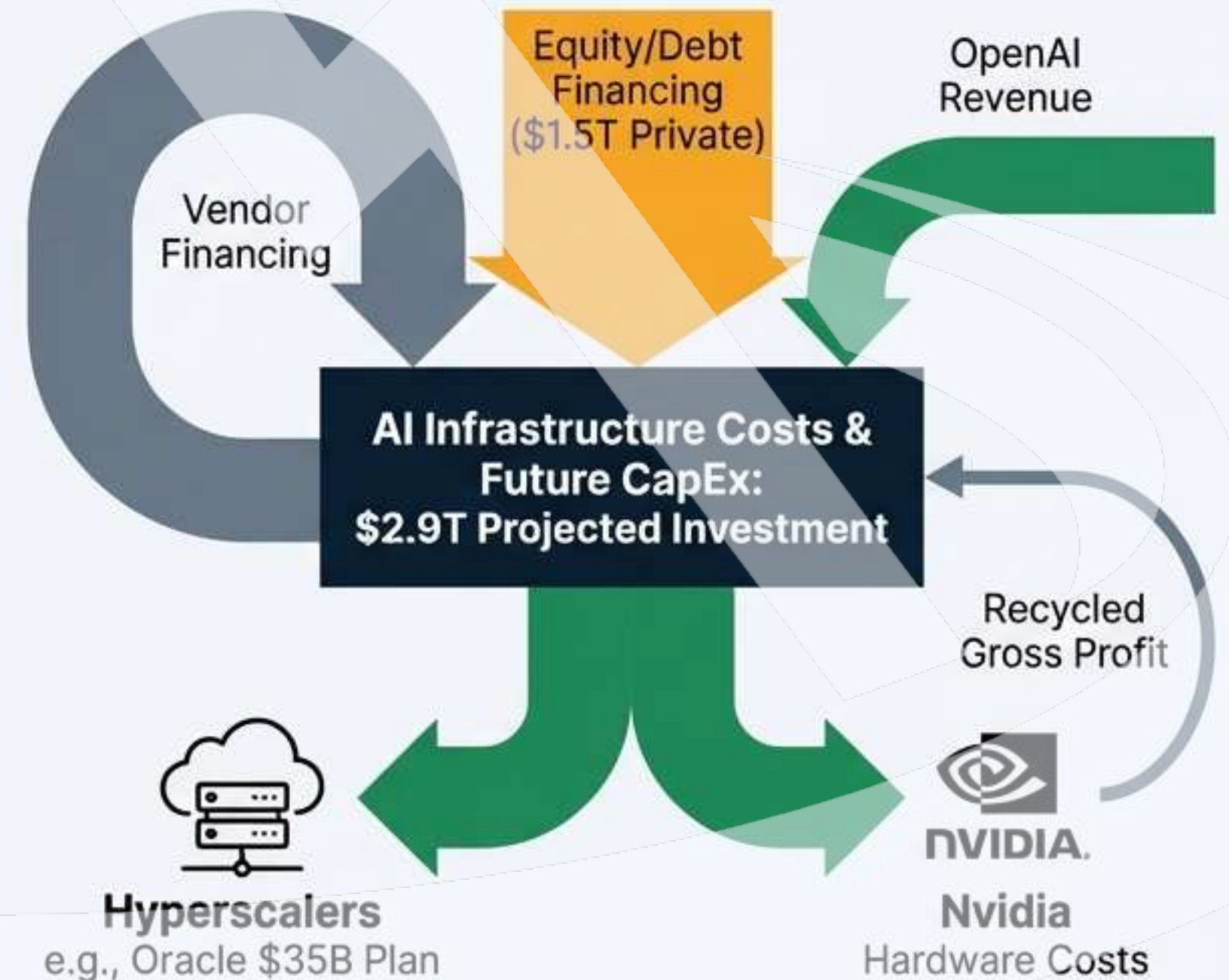


The Strategic Imperative

Maintain core exposure to secular growth themes while actively managing risk through selective hedging and a focus on quality.

AI Capex is a Generational Driver, with Trillions in Funding Earmarked for Infrastructure

- The AI build-out is a primary market driver, with a projected **\$2.9 trillion** in investment, nearly half of which (**\$1.5 trillion**) is expected to be funded by private capital.
- This boom creates a virtuous cycle, fueling giants like Nvidia and cloud providers. Oracle, for instance, has an aggressive **\$35 billion** CapEx plan for FY26.
- A historical parallel from commentator Andrew Ross Sorkin compares the current moment to the dawn of radio in 1929, positioning **Nvidia as the modern-day RCA**, signaling a transformative technology shift.

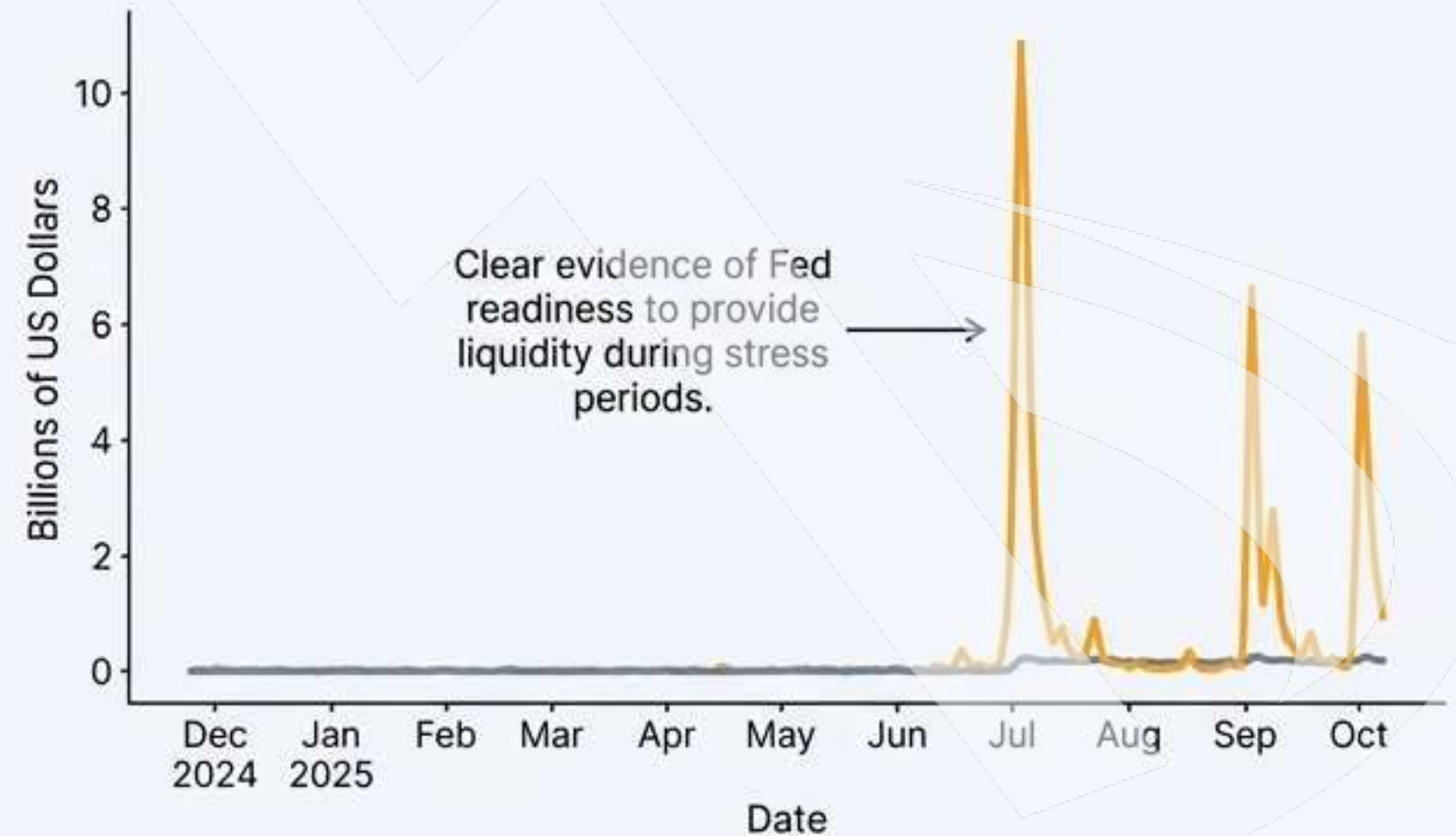


The Federal Reserve is Actively Managing Liquidity, Suppressing Systemic Stress and Supporting Risk Assets

SOFR Rate Stabilizes



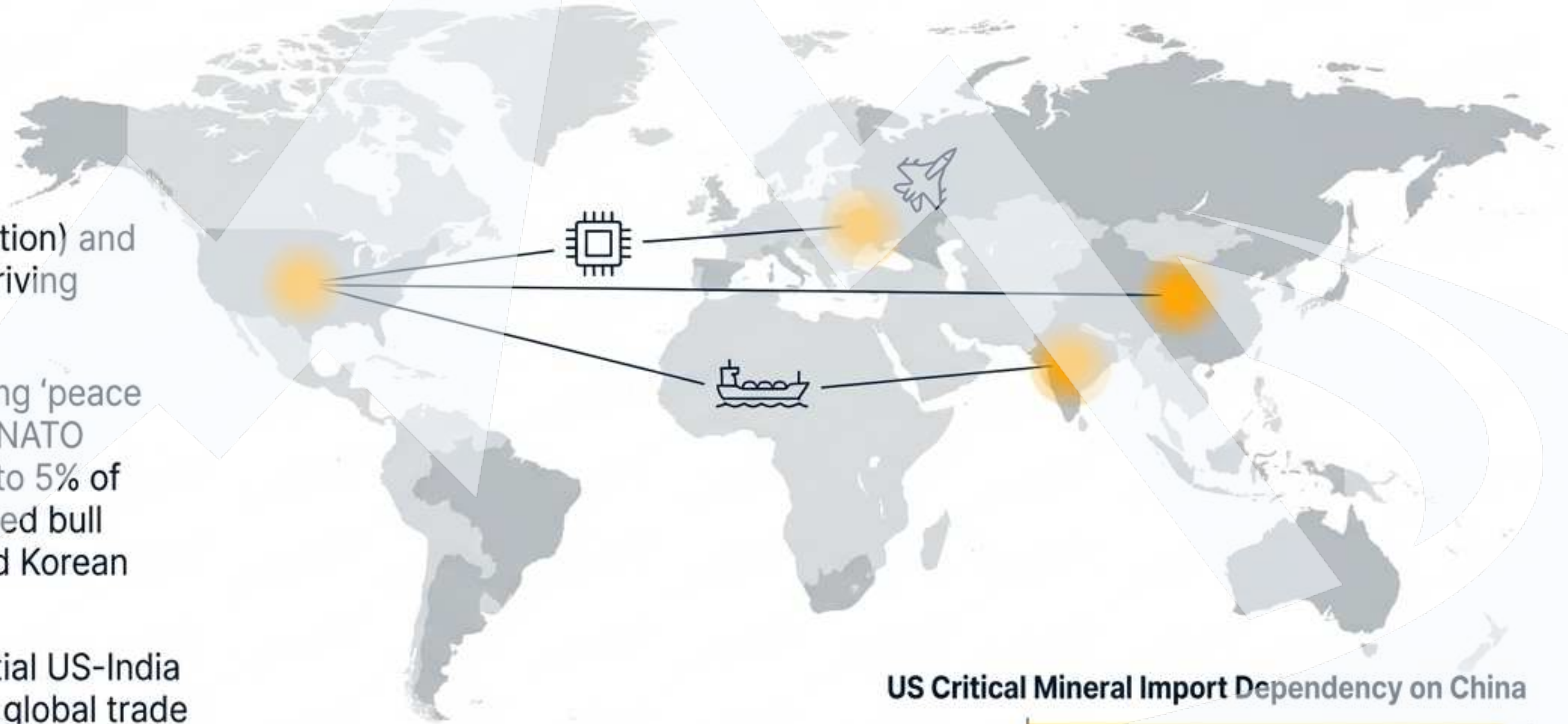
Fed Intervention Spikes



- Recent Fed open market operations have successfully stabilized and lowered the Secured Overnight Financing Rate (SOFR), calming the interbank lending market.
- This action has eased fears of credit system cracks, leading to a broad rally across asset classes—from equities (KRE regional banking ETF) to bonds and gold.
- The message from the Fed's interventions is clear: it stands ready to act to ensure market stability, creating a supportive backdrop for investors.

Geopolitics Has Shifted from Background Noise to a Key Driver of Sector-Specific Volatility and Opportunity

- **US-China:** Escalating tensions over semiconductors (the Nexperia dispute disrupting VW production) and critical minerals are driving industrial policy.
- **Russia-Ukraine:** Fading 'peace momentum' and new NATO spending targets (up to 5% of GDP) create a sustained bull case for European and Korean defense stocks.
- **Trade Deals:** A potential US-India trade pact could shift global trade flows, with India potentially reducing Russian oil imports.



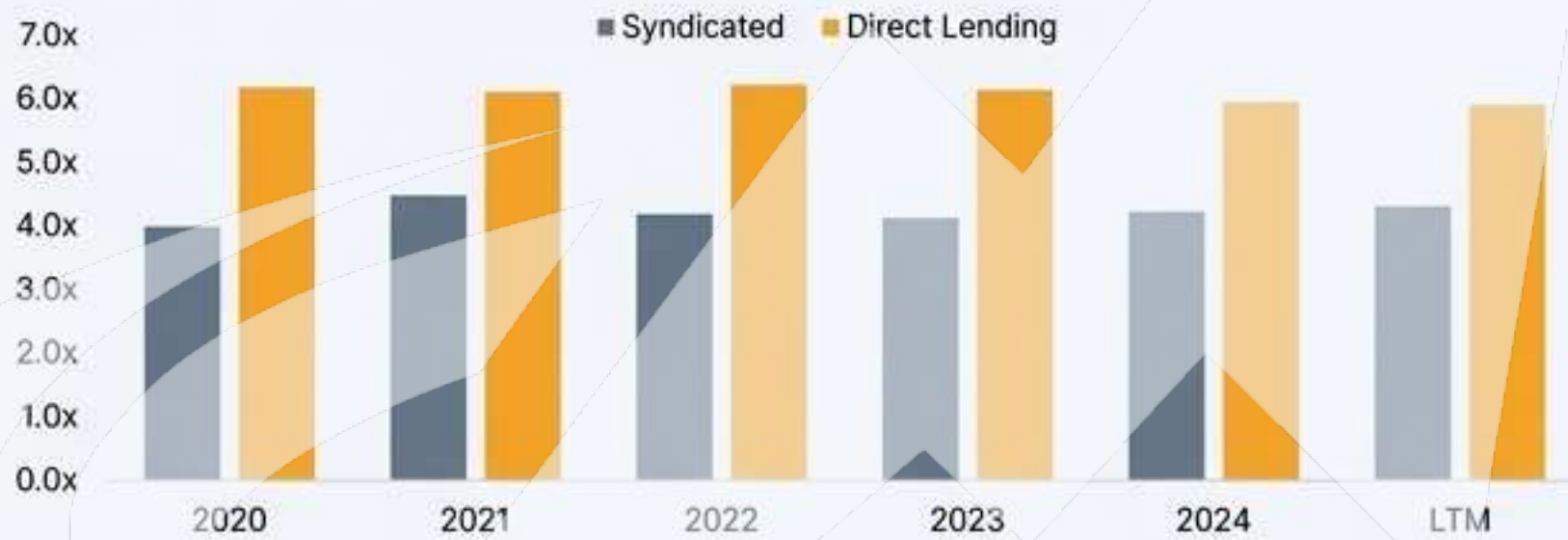
US Critical Mineral Import Dependency on China



The "Shadow Banking" System is a Growing Source of Systemic Risk, with High Leverage and Low Transparency

- The failures of firms like First Brands and subprime auto lender PrimaLend are viewed as "cockroaches," signaling potential hidden problems.
- While syndicated loan defaults remain low (1.2%), competition is increasing. Spreads have compressed by over 100 bps since late 2022.
- The primary danger is the "unseen interconnectedness" between NDFIs and regional banks, creating a channel for rapid contagion.

Leverage for PE-backed transactions (Debt/EBITDA)



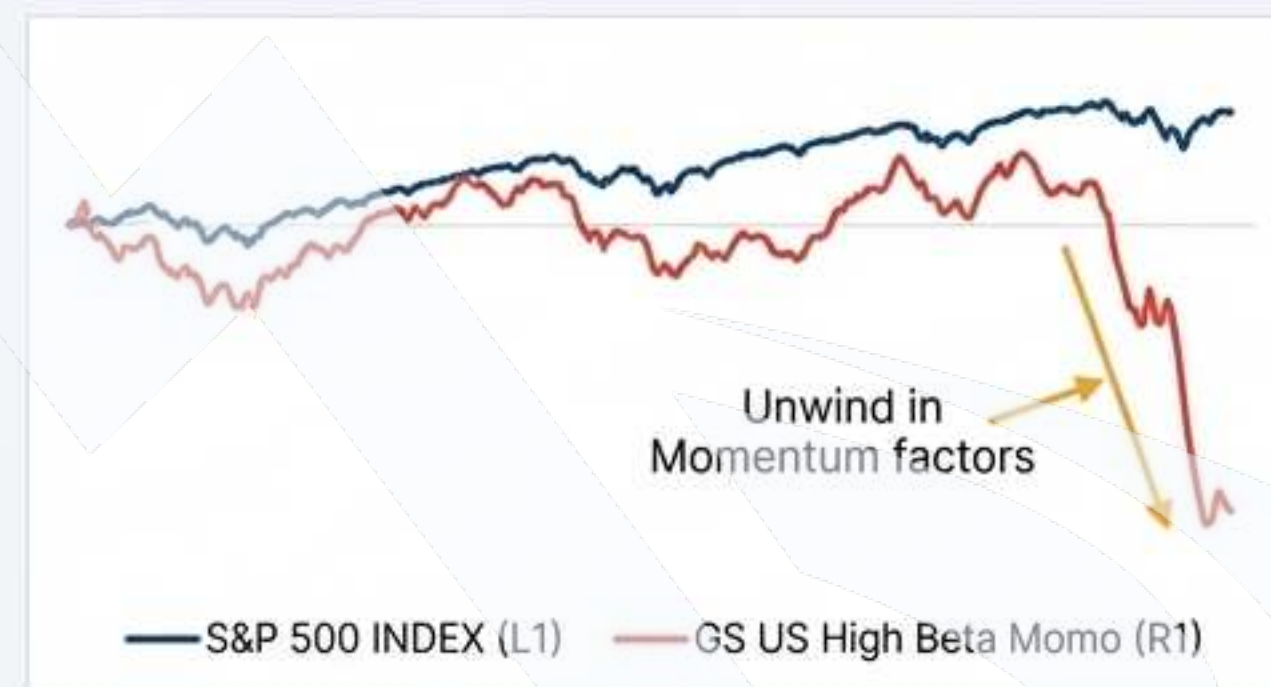
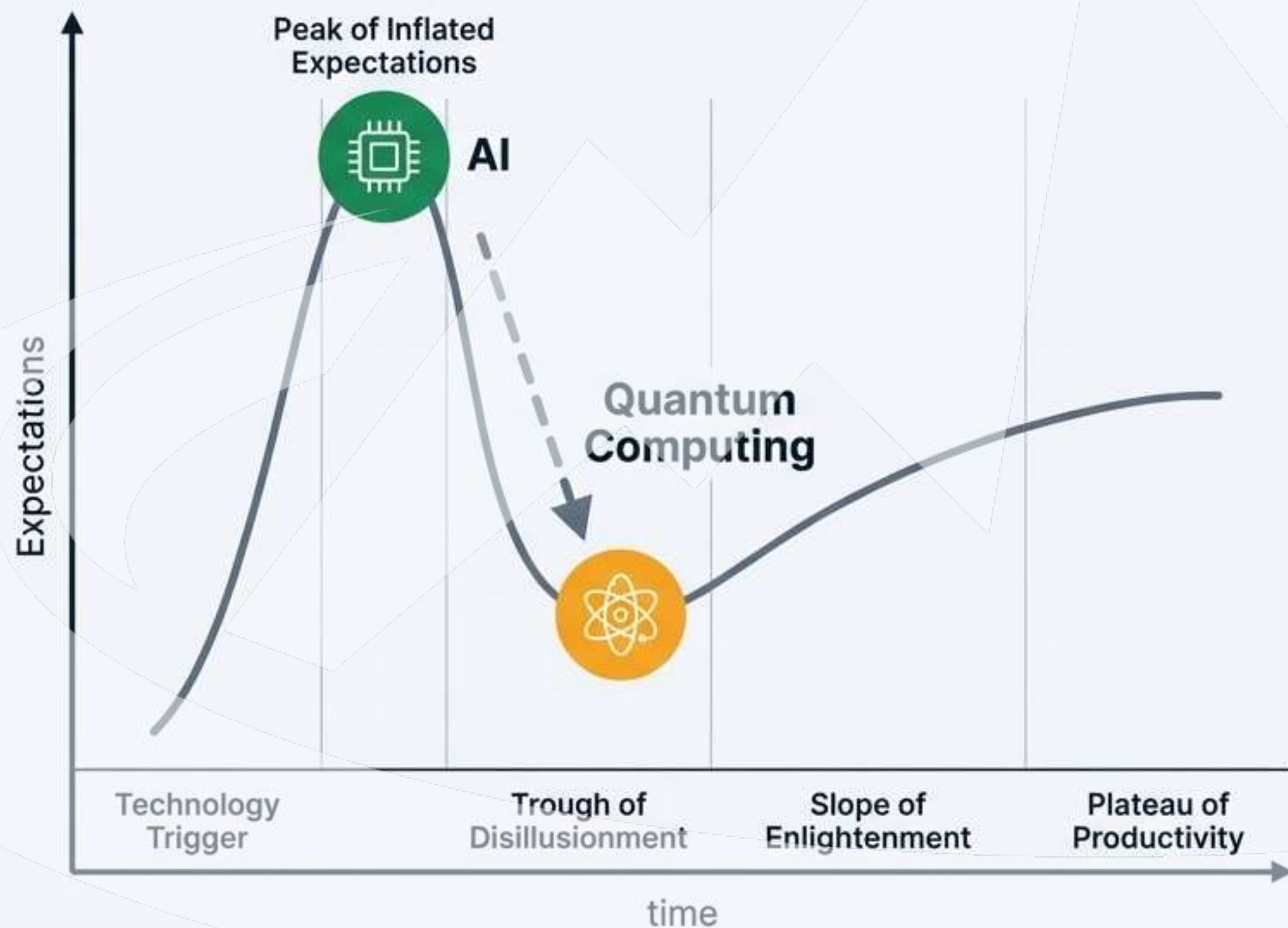
New Issue Volume (Direct Lending gaining share)



Leveraged Loan Spreads (bps)



Extreme Investor Complacency, Stretched Valuations, and Meme-Stock Manias Signal a Late-Cycle Environment



- ❖ The market is behaving like a 'voting machine' (popularity) rather than a 'weighing machine' (value), a classic warning from Warren Buffett.
- ❖ This is evidenced by the recent sharp, multi-day unwind in Momentum factors and high-beta thematic baskets (AI, Quantum Computing).
- ❖ A surge in retail trading activity is fueling volatility in highly-shorted, low-quality names (e.g., Beyond Meat), creating an unstable market structure.

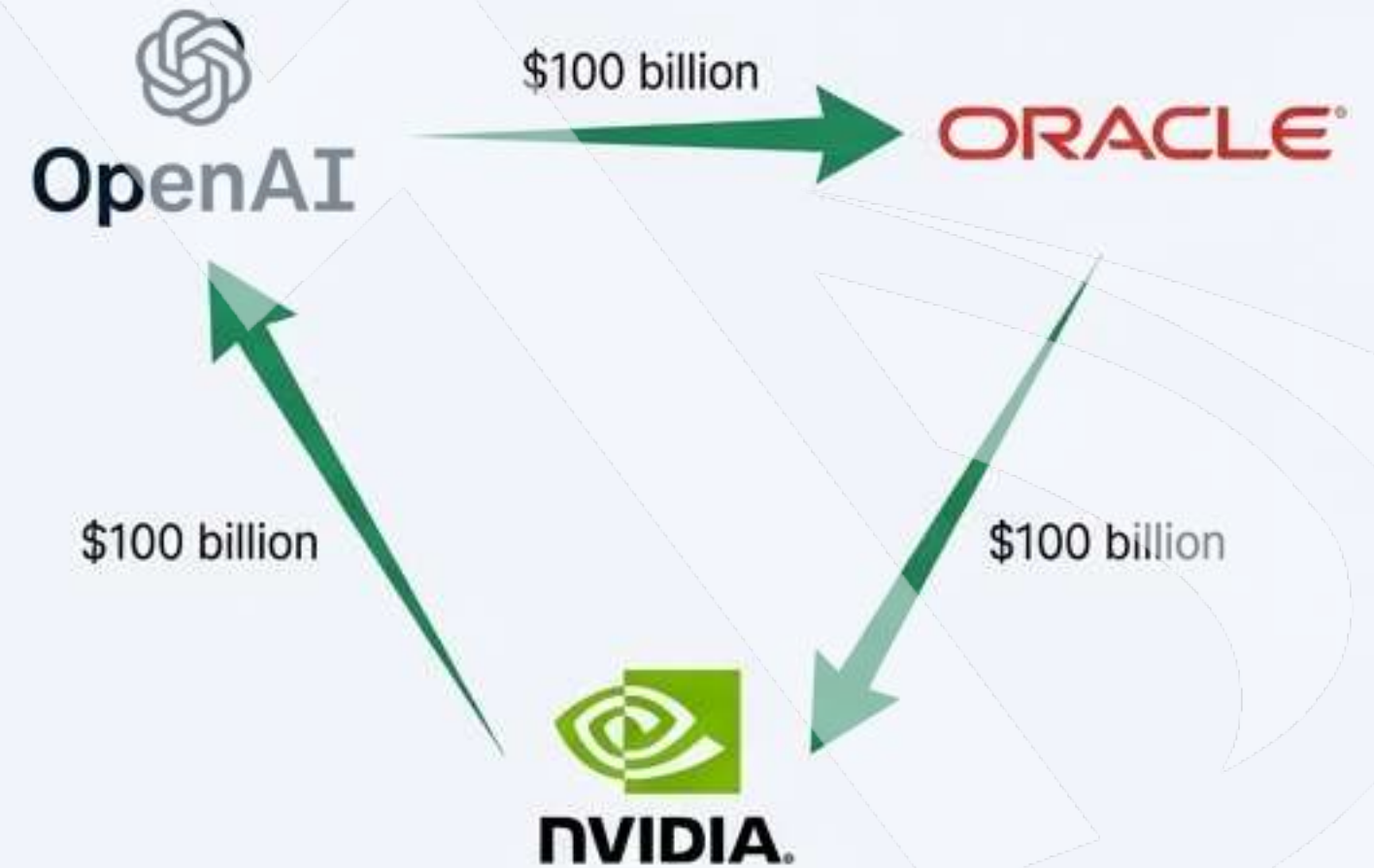
While the Long-Term AI Thesis is Intact, Near-Term Headwinds are Emerging

ChatGPT Global Mobile DAUs



- **Demand Signal:** Third-party data suggests daily active user (DAU) growth for flagship apps may be plateauing, raising questions about monetization.
- **Infrastructure Strain:** The recent major AWS outage highlights the fragility of the underlying infrastructure required to support the AI boom.

The AI Funding Ecosystem

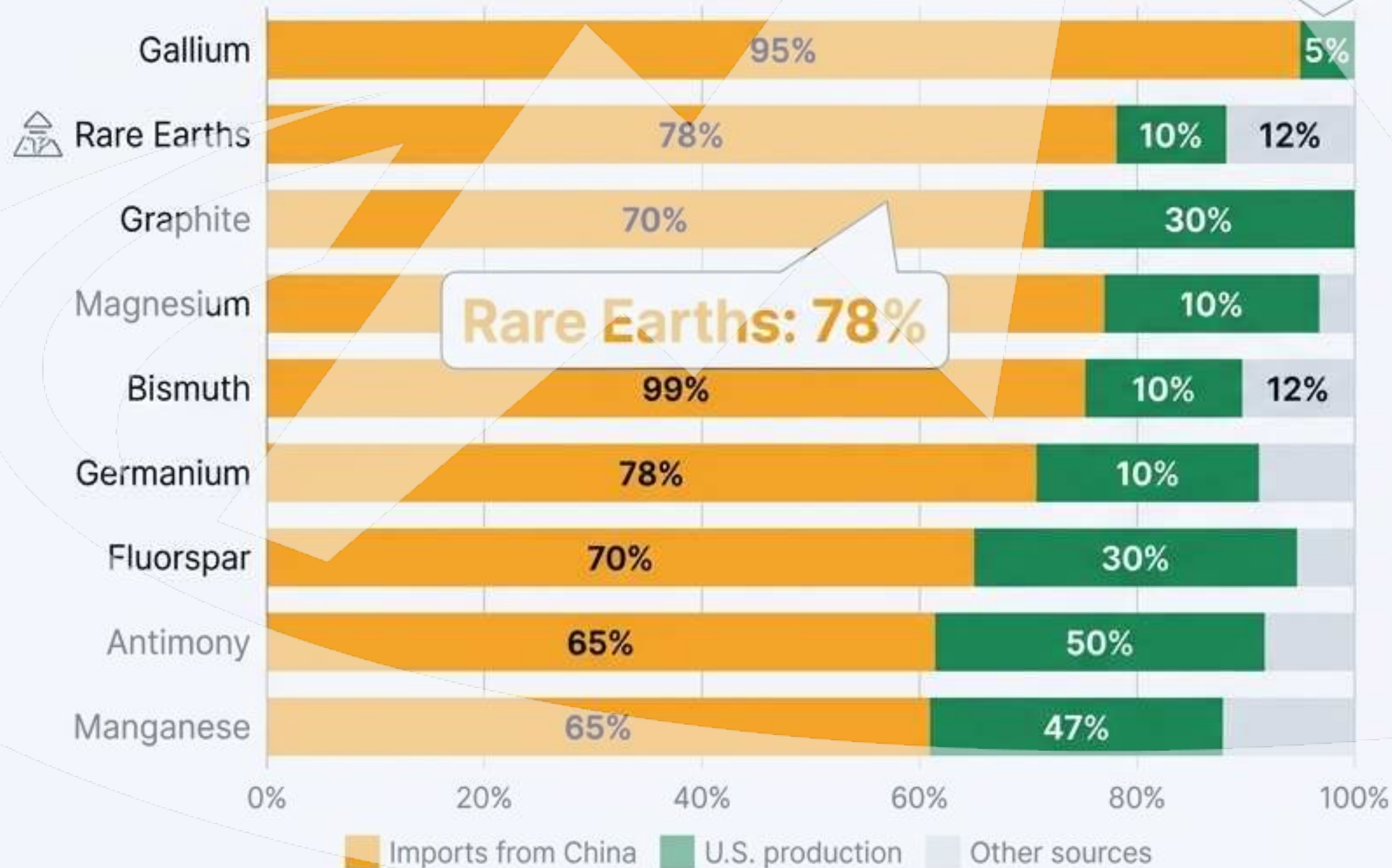


- **Peak Capex Fears:** Commentary from infrastructure providers suggests a potential peak in data center CapEx by 2026, a key risk for the semiconductor sector. Upcoming hyperscaler earnings are a critical litmus test.

The Race to Secure Lithium and Rare Earth Supply Chains is a Major Long-Term Investment Theme

U.S. Critical Mineral Dependency on China

Gallium: 95%



Rare Earths: 78%

- The US is aggressively **onshoring its critical mineral supply chain**, backed by substantial federal funding (e.g., NioCorp, TerraVolta).
- This is creating **long-term investment opportunities** in domestic mining, processing, and recycling.
- However, significant hurdles remain, including **environmental challenges** (water rights), operational risks, and the financial viability of junior miners.

Recent Earnings Reports Reveal a Market of Haves and Have-Nots

Tesla (TSLA)



Mixed Report with High Hopes

- Record revenue (**\$28.1B**) and FCF (**\$4.0B**) but an EPS **miss** (**\$0.50** vs \$0.55 exp.).
- Auto margins compressing to **15.4% ex-credits**, a key concern for investors.
- **Valuation** heavily reliant on **future promises** (FSD, robotics), creating **downside risk**.

IBM



Solid Quarter Punished

- Strong beat-and-raise quarter driven by **Infrastructure** and **Software**.
- Revenue at **\$16.3B** and adj. EPS at **\$2.65** both exceeded expectations.
- A slight **slowdown** in the key **Red Hat** segment spooked investors, highlighting the market's unforgiving expectations.

Amazon (AMZN)



High Expectations into Earnings

- Viewed as a **'must add'** ahead of the report by some analysts.
- Key catalysts are a potential re-acceleration in **AWS growth** to **over 20%**.
- Rapidly expanding, high-margin **advertising business** is a critical growth driver to watch.

The Current Environment Demands a Hybrid Approach: Capture Upside in Secular Trends While Actively Protecting Capital

This is not about market timing, which can be value-destructive. It is about implementing disciplined risk management to survive the inevitable drawdowns in a speculative market characterized by investor complacency and stretched valuations.



Think Like a Bear

Acknowledge high valuations, geopolitical threats, and hidden credit risks. Identify potential points of failure and have a plan for volatility.



Act Like a Bull

Remain invested in the market's powerful primary uptrend driven by AI and liquidity. Gain exposure to durable growth themes where momentum is strong.

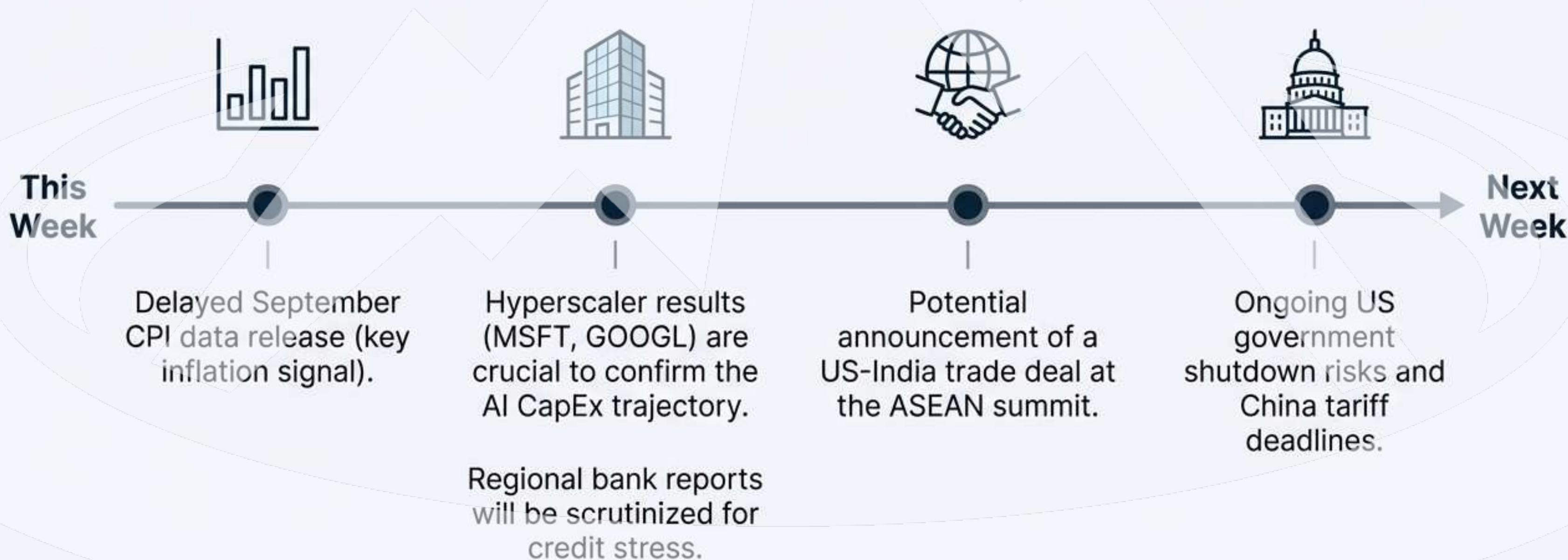
"Investors, who have been preparing for corrections, or trying to anticipate corrections, have lost a lot more money than has been lost in the corrections themselves."

— Peter Lynch

Focus on Quality and Structural Growth Themes While Employing Tactical Hedges

Strategy	Sector/Theme	Sample Ideas from Source	Rationale
CORE LONGS	AI Infrastructure	NVDA, AMD, AVGO	Direct beneficiaries of the CapEx supercycle.
	Power Grid / Data Centers	VST, ETN, DLR, EQIX	Essential enablers of the AI build-out.
	Industrial Metals	FCX, RIO (Copper)	Critical for electrification and energy transition.
	US Aerospace & Defense	GE (Buy), RTX (Neutral)	Favorable fundamentals from commercial recovery and geopolitical spending.
RISK MGMT.	Safe Haven / Hedge	Gold, Silver	Beneficiary of Fed easing, central bank buying, and geopolitical risk.
AVOID / UW	Stretched Valuations	Oracle (ORCL)	Negative FCF and a high debt load create a "show-me" story.
	Opaque Credit	High-Yield / IG Spreads	Spreads are too tight to compensate for emerging default risk.

The Next Two Weeks are Critical, with Key Economic Data and Earnings Reports Set to Drive Market Direction



Four Key Downside Scenarios to Monitor



Credit Event Cascade

A failure in the opaque private credit market triggers a wider liquidity crisis, spreading to regional banks via NDFI lending channels.



Geopolitical Escalation

US-China tensions move beyond tariffs to export controls on critical tech (semiconductors) and commodities (rare earth elements), disrupting global supply chains.



AI Capex "Air Pocket"

Hyperscalers signal a slowdown in AI investment during earnings calls, leading to a sharp de-rating of the entire tech sector.



Inflationary Surprise

The delayed CPI data comes in hot, forcing the Fed to adopt a more hawkish stance and undermining the "accommodative liquidity" thesis that supports asset prices.

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