C Y P R E S S
Asset Management, Inc.

MARKET COMMENTARY **July, 2025**

2025 2Q ASSET PERFORMANCE

	QTD	YTD
S&P 500 Total Return	10.94%	6.20%
NASDAQ	17.97%	5.86%
Dow Jones	5.46%	4.55%
Russell 2000	8.50%	-1.79%
World ex. US	6.24%	9.20%
Gold ($3338/oz)	5.53%	26.00%
Oil ($65.24/bbl)	-8.91%	-9.22%
Long Term Treasury (4.77%)	-1.52%	3.23%
As of June 30, 2025		

Second Quarter 2025 Market Summary

Global markets wrapped up the first half of 2025 on a solid note, shrugging off April's turbulence. The S&P 500 climbed 6.2% year-to-date and non-US stocks rebounded from a very weak 2024, fueled by a softer US dollar that gave foreign equities a strong boost for American investors. In addition to the weak dollar, the renewed investor interest in Generative AI was the other important theme behind global equity gains. Important and sizable Cypress investments like Nvidia, Broadcom, Microsoft and Meta all enjoyed significant positive moves and most are sitting at all-time highs as we write this note.

Despite the year's unpredictable tariff drama and Middle East skirmish headlines, markets stayed resilient. The Nasdaq followed the S&P 500 and rose nearly 6%, while the Russell 2000 trailed at -1.8%, echoing 2024's patterns. Developed and emerging market currencies, down 7-11% in 2024, rebounded 8-10% this year and fueled mid-teens gains in overseas equity markets. Investor confidence is riding high as we head into the second half, with markets having cleared a number of significant hurdles and looking steady. Looking ahead, we remain upbeat on US large caps and global equities.

Artificial Intelligence Global Arms Race

Investors' return to the AI driven tech sector in the second quarter of 2025 likely reflected the market's recognition that AI is a monumental mega trend the likes of which we have not witnessed in generations. Indeed, it appears to be a global technological arms race.

In 2025, the Magnificent Seven—Amazon, Microsoft, Alphabet, Meta, Apple, Tesla, and Nvidia—are projected to collectively spend over $300 billion on AI, driven by a race to dominate cloud computing, generative AI, and autonomous technologies. Amazon leads with an estimated $100 billion, largely for AWS data centers and AI services, followed by Microsoft at $80 billion for Azure's AI infrastructure and then Alphabet at $75 billion for AI-driven search and cloud enhancements. Meta is expected to allocate $60–65 billion, focusing on AI for advertising and metaverse projects, while Apple's AI spending, embedded in a $500 billion four-year plan (~$125 billion annually), emphasizes on-device AI and cloud partnerships. Tesla plans to invest $8–10 billion in AI for self-driving and robotics, and Nvidia, while spending modestly (~$1.5 billion) on R&D, fuels the ecosystem with its GPUs and core AI computing stacks. This aggressive spending reflects competitive pressures and high AI demand, though investor scrutiny over ROI and supply constraints like GPU shortages pose challenges. It also reflects national imperatives in a global arms race between the US and China with the ROW also forging ahead so as not to be left behind by the digital Industrial Revolution.

For 2026, AI spending by the Magnificent Seven is expected to approach or exceed $350 billion, with growth moderating as companies optimize infrastructure and face pressure to demonstrate investment returns. Models like China-developed DeepSeek raise questions about cost efficiency, competitive dynamics and long-term AI ambitions suggest sustained high investment, potentially tempered by macroeconomic factors and investor demands for profitability.

AI Is in the Early Innings

We think it is worth noting, having been investors in the internet boom at the end of the last century, that this potential boom is distinctly different from those internet buildout years. Most important is that the companies leading the AI evolution are the largest companies in the world, eclipsing all but the largest nations on earth in size, scale and profitability. These companies are not a product of an IPO boom and ensuing financial craziness witnessed in the late 1990's. Rather, they are hugely successful business that have evolved to dominate the tech landscape and all economies through awesome operating success and execution. However, we feel that the most important similarity to the internet buildout in the late 1990's is that AI is in its infancy. There is so much buildout, implementation and execution ahead.

None Of This Is New To Us

At Cypress, we have always been long-term believers in the semiconductor as the essential building block of the modern world. We go all the way back to successful and productive investing in companies that were best of breed in microprocessors, application specific chips and programmable logic chips that allowed engineers to customize the chip for specific purposes. It should come as no surprise to our long-time clients that we are well-positioned for the semiconductor-driven artificial intelligence revolution. We are significant investors in the best of breed companies poised to take advantage of this potentially enormous future trend.

2H 2025 Outlook: Big Picture

- Current mid-cycle economy good for U.S stocks, can last for many years, but tariff issues still add to economic uncertainty
- Fed rate hike cycle is over and rate cut cycle has begun
- Inflation has come down but tariffs complicate outlook
- AI spending boom, favorable pro-business growth policies of incoming Trump administration including deregulation, investment incentives & lower tax rates
- Decades-long trade imbalances and massive immigration challenge the framework of post WWII global world order

POSITIVE	NEGATIVE
• U.S. Economy Still In Mid-Cycle Growth Phase with growth, jobs, and inflation approaching equilibrium	Restructuring of Global World Order: Tariffs add to economic uncertainty
• The U.S. remains the indispensable market	• Wars in Ukraine and Middle East & Flashpoints of Conflict in Taiwan, Korea, and Asia Pacific
• Fed Rate Cut Cycle Began Fall 2024, further cuts only a matter of time	• Market Valuation: At about 22 times forward earnings markets reflect a high level of investor confidence in outlook
• AI & Technology Investment Spending Boom appears to have legs and to be a critical foundation in the high stakes global battle for technological advantage	• US National Debt at Record High Level ($37T), @1.25x Greater than Nominal GDP: Challenge to U.S. Debt Markets and Interest Rates

We felt it is important to include two addenda to the quarterly letter with a couple long term truths about the market, neither of which go out of favor and should always be heavily weighed. Many of you will remember that we have written about the second addendum, all for good reason.

Addendum 1:

The 2 Year Treasury Rate & S&P 500 Returns

We are fans of Nicholas Colas and Jessica Rabe, who write a superlative, and often prescient investment letter called Data Trek. Recently they made an elegant observation about why the 2 Year Treasury rates are important, in fact determinative, to the S&P 500 returns. They wrote:

"As they (2 Year Treasury interest rates) decline, capital leaves the money market fund "parking lot" and ventures out to find riskier assets with hopefully better returns. Does that make money market fund balances "dry powder"? Sort of … But the spark that ignites it is not rising stock prices. It is declining yields. Two-year Treasury yields have defined the contours of S&P 500 returns over the last 2 years more than any other single factor. That's because they are the market proxy for Fed policy. Are money market funds really "cash on the sidelines", waiting for further stock price gains as a reason to jump into stocks? History back to 1990 says no. Rather, it is declining short-term yields that pushes capital into riskier investment options. Another reason 2 Year Treasury yields are so important. When 2 Year Treasury yields

are rising, stocks drop (all of 2022, August – October 2023). When they are relatively stable (January – July 2023, even with the sudden drop due to the US bank mini-crisis) or declining (November 2023 – present), stocks go up. This is not correlation; it is causation."

Addendum 2:

We recently bought a pump for a swimming pool from Amazon (first world problem, we know). Of course, the first pump arrived damaged and had to be returned. Online, we created a return code on our phone in seconds and dutifully put the puzzle of pump pieces, Styrofoam and molded cardboard together in the huge box it came in, taped it up and returned it to the UPS store less than a mile away from us. I walked in along with three other customers all lugging oversized boxes. I waited a few seconds, placed the monstrosity on the counter, the UPS worker scanned my code, printed out a return mailing label and I was out the door in less than 45 seconds. The whole process took less than 10 minutes. That got us thinking about the constant, never ending march of technology. None of what I just described was possible, even imaginable, in 1999. As we discussed earlier in this letter, the first wave of internet technology in the late 1990's imploded as a result of a decline in the initial buildout and Wall Street's issuance of stock and debt to crummy first wave made-up companies. The market may have given up on the first wave of companies in the infancy of the internet but those tech pioneers did not. Creativity and innovation continued unabated. Amazon was around, having gone public as an online book retailer in 1997 and was a multi-billion-dollar market cap company. Twenty-five years later it is a $2 trillion market cap company and the undisputed champion of global retail and distribution. The Apple iPhone wasn't even introduced until 2007. Nvidia went public in 1999 and, at the time, it was only a game chip fabricator. Tesla went public in 2010 and Facebook, now Meta, went public in 2012. Twenty-five years after the initial rollout of the internet, you can now have almost anything imaginable delivered to your home in a very short time. If you don't like it, you can send it back almost completely hassle free and cost free. On the shoulders of chip, software and communications innovation, AI is now born.

What the market missed in the late 1990's was, as noted, the internet was in its infancy, the initial buildout had just begun. Investors were quick to sell valuable franchises with clear signs of promise. That reminds of us the Peter Lynch's now treasured saw, "The mistake is they sell the stock that's done well, the flower, and they keep the stock that's done poorly, the weed." This line has been shortened to "sell the flowers and water the weeds" over the years. But that truth remains: one of the great investment mistakes one can make is to sell the great franchises they own, convinced that their remaining poor investments will surely come back some day. We reprise Peter Lynch's wisdom because AI is the newest, shiniest object in the market today. There are already some clear winners, flowers. The luster will come off the stocks from time to time but we encourage you to remain steadfast in your long-term investment style and hold onto those flowers, let them grow and prosper.