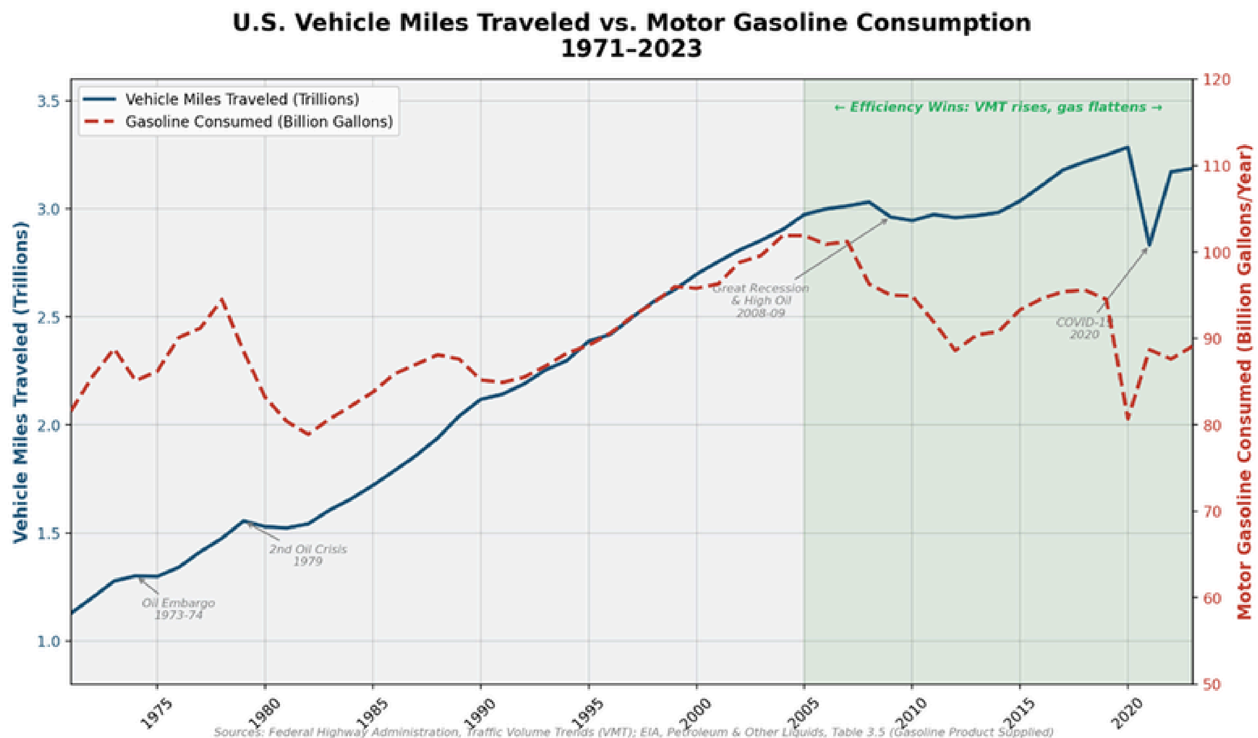
AI, Energy, and The Jevons Paradox [1]

In 1865, the English economist William Stanley Jevons observed something counterintuitive: as coal-powered steam engines became more efficient, total coal consumption went up, not down. James Watt's improved engine design made coal so much cheaper per unit of work that it opened the door to entirely new uses. Factories multiplied. Railways expanded. Industries that never would have existed at higher energy costs suddenly became viable. British coal consumption tripled by 1900.[2]

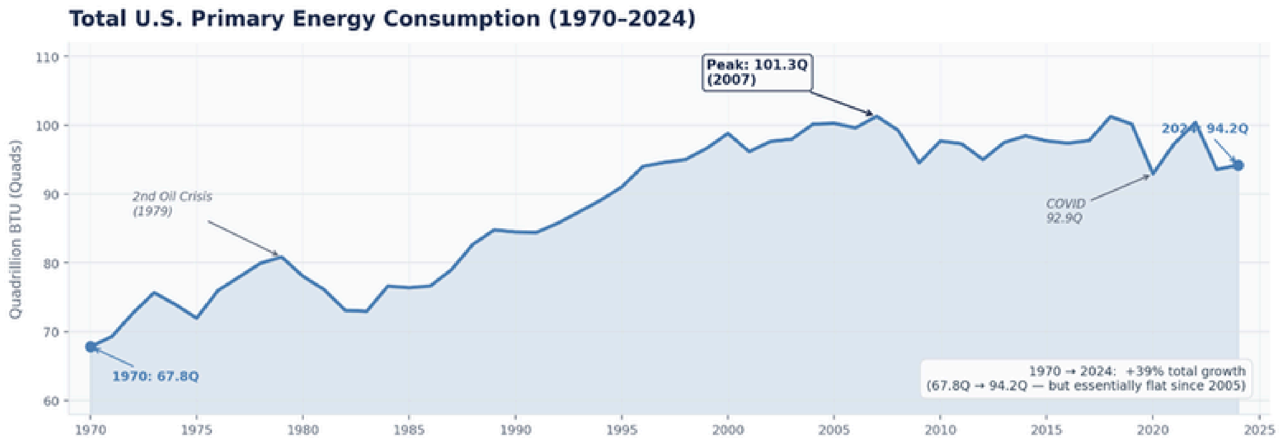
Jevons' insight — that efficiency gains can increase total resource consumption — was largely forgotten for over a century. But it's back. And it's relevant.

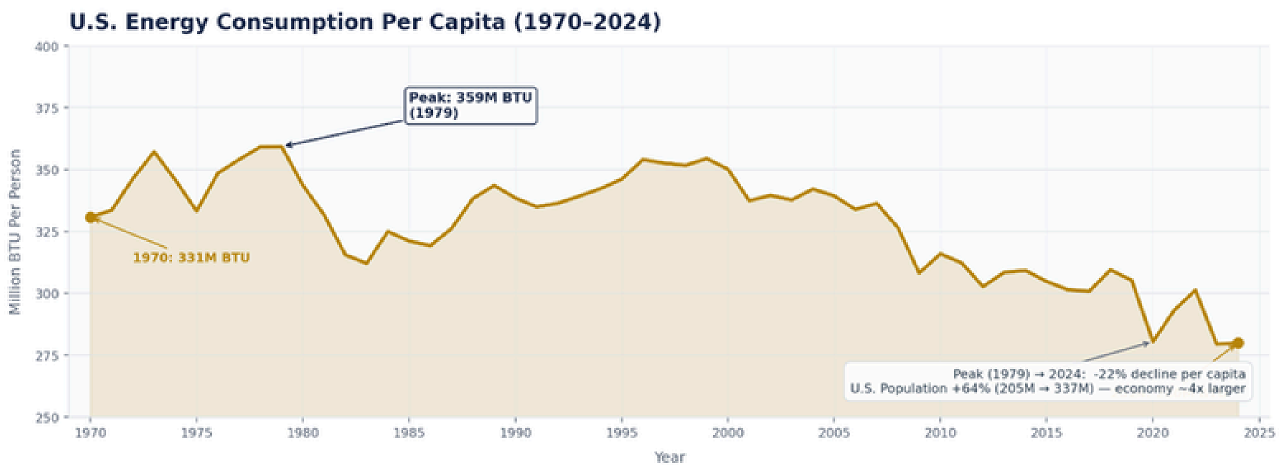


[[1] All graphics in this commentary were AI generated – either by Claude or ChatGPT – with sources for data where relevant listed and verified.
[2]Jevons, W.S. (1865). The Coal Question. Macmillan and Co.: William Stanley Jevons' The Coal Question (1865), beyond the rebound effect

(continued)

For decades, technological progress steadily reduced energy intensity across the US economy. Our GDP grew while total energy consumption stayed relatively flat. LED lights replaced incandescent bulbs. Buildings got smarter. Cars got more fuel efficient. Even our data centers — quietly humming in the background of the Information Age — managed to handle exponentially more computing without proportionally increasing power use. Efficiency won.





AI may flip that equation.

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The Power Wall of Insane Chip Innovation

Most of the modern chip era benefited from a companion to Moore's Law known as Dennard Scaling. The concept was elegant: as transistors got smaller, their power density stayed constant. You could double the transistors on a chip without increasing its heat output. That's the reason your smartphone has more computing power than the machines that sent us to the moon, yet it fits in your pocket without burning a hole through it.

Around 2005, the physics broke down.[3]Transistors became so small that current leakage — electrons bleeding through even when the transistor is "off" — made it impossible to keep reducing voltage. Clock speeds, which had been climbing steadily for decades, flatlined. The industry hit what engineers call the "power wall." We could increase transistors on a chip but not performance per watt. The industry adapted by going parallel — instead of one faster core, you got multiple cores working together. It was a workaround, not a solution. But for most applications, it was good enough.

AI changed the nature of the problem entirely. Traditional computing, like running a spreadsheet or loading a webpage, uses only a fraction of a chip's transistors at any given moment. AI workloads are different. Training a large language model or running real-time inference lights up essentially the entire chip, all at once, continuously. Every core firing. Every transistor active. AI has effectively gone from the equivalent of one human genius working sequentially on tasks to a stadium of people collaborating on everything all at once.

[3] Dennard scaling broke down between 2005–2007 per general industry consensus - Understanding Dennard scaling - Rambus

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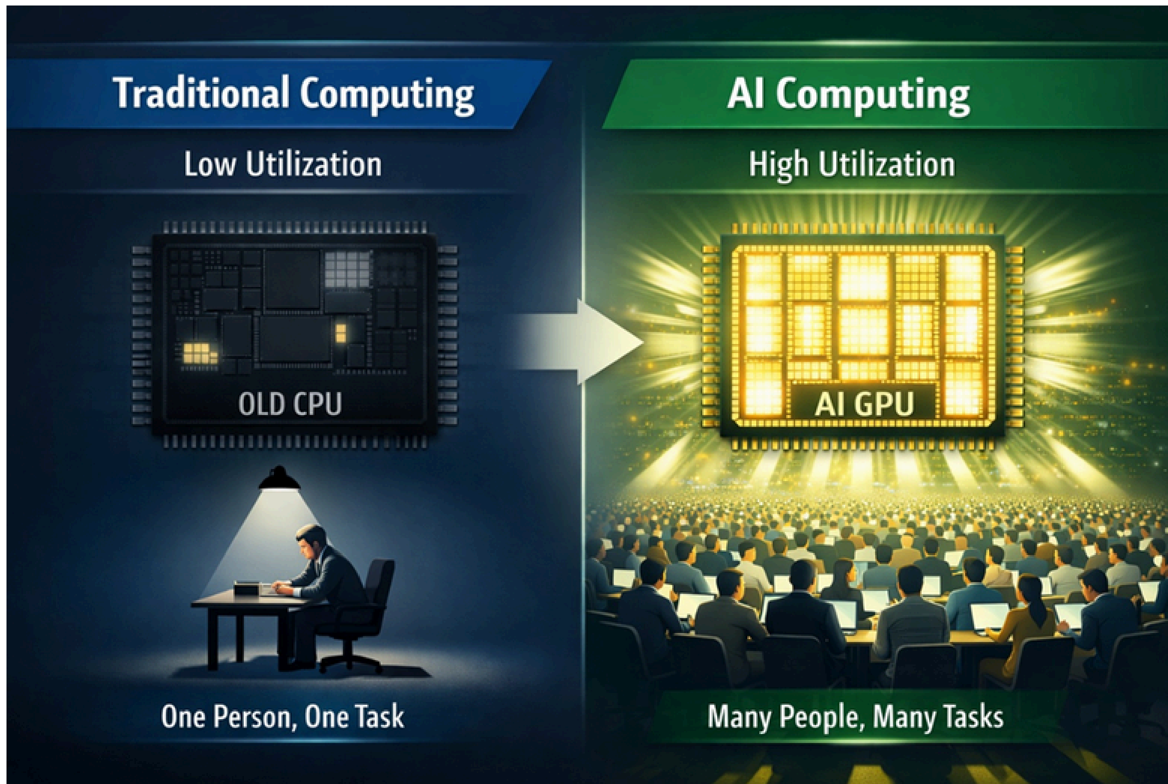


Nvidia's latest Blackwell chip has 208 billion transistors and draws 1,200 watts[4] — roughly the same as a microwave oven running full blast. And you don't have one of these in a data center. You have hundreds of thousands.

The result is a fundamental shift in where energy goes inside a data center. For years, the data center industry's biggest energy challenge was the building itself — the air conditioning, the power systems, the lighting. The computers inside were relatively modest consumers. AI flipped that: the chips themselves are now the dominant power draw, and everything else has to scale up to support them. Servers and computer equipment consume roughly 40–60% of total facility power. While cooling, the thermodynamic cost of removing all that heat eats another 25–40%.[5] The remainder goes to power distribution, lighting, and administrative overhead. Efficient hyperscale facilities like Google's have squeezed overhead to as little as 9% above IT load.[6]

[4]NVIDIA, "Inside NVIDIA Blackwell Ultra: The Chip Powering the AI Factory Era" (August 2025).
[5] ABI Research, "Data Center Energy Consumption Forecast" (2025); Utility Dive, "The 2025 Outlook for Data Center Cooling" (January 2025).

(continued)

But AI's power-hungry chips are pushing in the other direction. As chip wattage increases, so does the heat they generate, and so does the cooling bill. Goldman Sachs notes that efficiency improvements that previously masked growing power needs have "largely plateaued."[7]

The Efficiency Mirage

In our January 2025 commentary,[8] we discussed how DeepSeek challenged the assumption that AI "will demand ever increasing power and energy." DeepSeek introduced novel efficiencies, materially lowering energy requirements and overall costs. We called it "a huge breakthrough, resetting the cost structure and potentially accelerating AI development."

DeepSeek made AI cheaper. And cheaper AI means more people use it, more companies deploy it, and more data centers get built. Microsoft CEO Satya Nadella captured it well: "As AI gets more efficient and accessible, we will see its use skyrocket."[9] Per-query cost drops; total queries explode. This is the paradox. DeepSeek did not reduce demand for energy — it may have accelerated it by lowering the barrier to adoption for an entirely new class of users and applications.

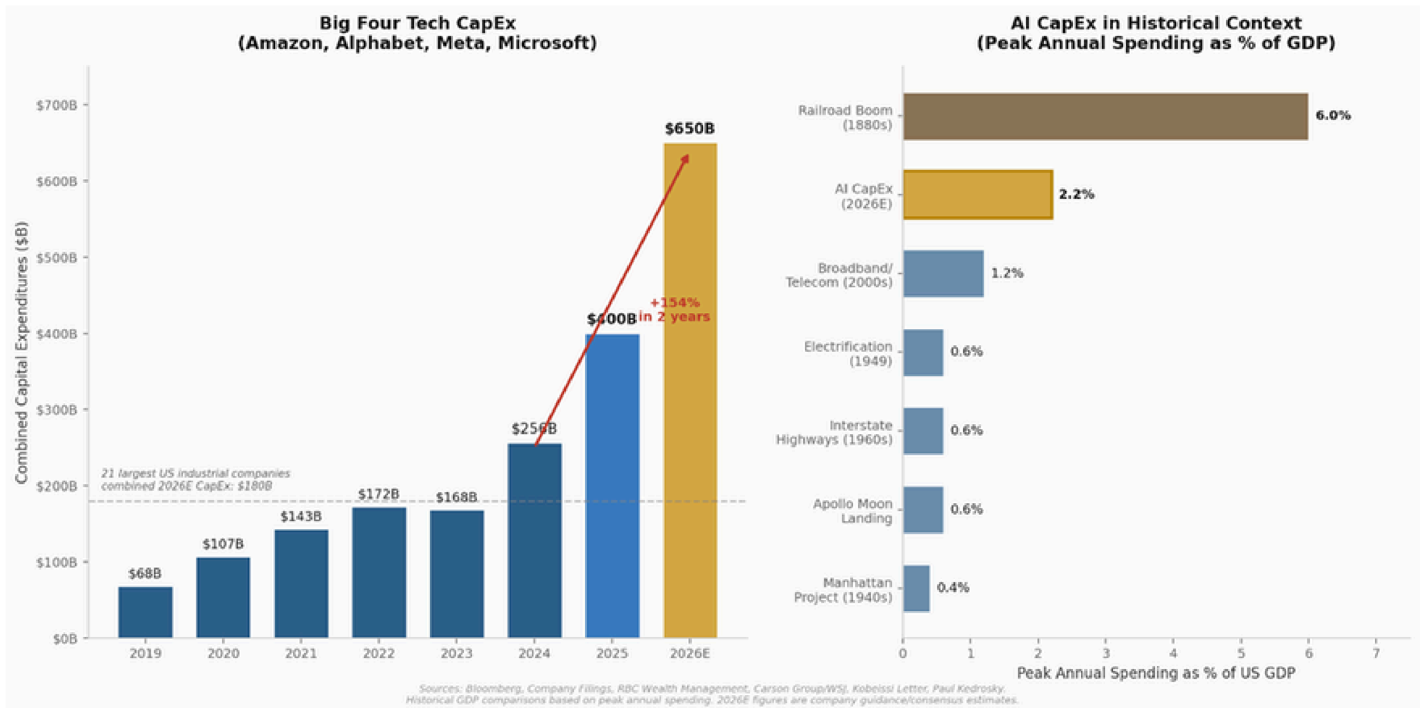
A Local and Global Arms Race

Every prior tech revolution was essentially weightless. Google was two guys in a garage. Facebook was a dorm room. The entire social media era ran on infrastructure that already existed — the internet backbone, the cell towers, the phones already in people's pockets. Value lived in code, and software companies earned 80%+ gross margins precisely because they sold weightless things.
AI flips this on its head. For the first time in the modern tech era, the breakthrough technology requires massive physical infrastructure at every

[6]Google reported a fleet-wide PUE of 1.09 as of 2025, per Socomec, "Understanding the Power Consumption of Data Centers."
[7]Goldman Sachs Research, AI data center power demand projections (2025).
[8] Fountainhead Asset Management, Market Commentary, January 2025.
[9]Microsoft CEO Satya Nadella, comments following DeepSeek's announcement (January 2025).

(continued)

layer simultaneously — purpose-built chips, industrial-scale data centers, new power generation, grid upgrades, cooling systems, and water. The four largest tech companies are now spending at levels that match Boeing, Exxon, and Ford as a percentage of gross profit.[10] These former "asset-lite" businesses have become heavy industry overnight.



The scale of the resulting US arms race is staggering. Amazon, Alphabet, Microsoft, and Meta collectively plan to spend approximately $650 billion in capital expenditures in 2026, a roughly 60% increase from the already historic $400+ billion spent in 2025.[11] The power required to train frontier AI models is now doubling annually.[12] Epoch AI, a research organization focused on AI trends, projects that the largest individual training runs could require 4–16 gigawatts by 2030[13] — the equivalent of four to sixteen large nuclear power plants for a single model. EY recently put it plainly: "The single most critical constraint on the entire digital build-out in 2026 hinges upon energy scarcity."[14]

[10]Carson Group, "Big Tech Capex Plans Are Ballooning" (February 2026). Hyperscalers now spending ~65% of gross profit on capex, comparable to Boeing (69%), Exxon (62%), and Ford (60%).
[11]Company filings and capital expenditure projections. See: Yahoo Finance, "Big Tech Set to Spend $650 Billion in 2026" (February 2026).
[12]Epoch AI, "The Power Required to Train Frontier AI Models is Doubling Annually" (September 2024).
[13]Epoch AI & EPRI, "How Much Power Will Frontier AI Training Demand in 2030?" (August 2025).
[14]Vamsi Duvvuri, EY Americas AI Leader, "10 AI Predictions for 2026," AI Business (January 2026).

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Bloomberg put it in stark terms: the largest US automakers, construction equipment manufacturers, railroads, defense contractors, wireless carriers, and parcel delivery companies — 21 companies including Exxon Mobil, Intel, and Walmart — are projected to spend a combined $180 billion in 2026.[15] Four tech companies will spend 3.5x that amount. As a share of GDP, this buildout already exceeds the broadband/telecom boom of the early 2000s and trails only the railroad boom of the 1880s.[16]

Why? Because these companies view AI as the next winner-take-all platform — the operating system of the Automation Age. Just as Google became the gateway to information and Windows became the system every business ran on, whoever controls the AI platform layer, the models, the cloud infrastructure, and the developer ecosystem, becomes the toll collector on every transaction in the next economy. None of them are willing to lose that race.[17]

Simultaneously, there is a global race that not only dictates the platform winner but also has serious geopolitical implications (e.g., military applications). Given AI's current energy intensity, it is a significant gating item. You can design the most brilliant chip in the world, but if you can't plug it in, it's a paperweight.

America's Energy Advantage

In our December 2023 commentary,[18] we wrote that America is "blessed with a bounty of natural resources, an enviable geographic location, and strong governmental institutions." That framing is more important now than it was then. The US is uniquely positioned to lead the AI era not just because of our chips and software talent, but because of our energy assets. We are the world's largest natural gas producer. We have significant nuclear capacity. We have an increasingly pro-energy regulatory environment. And we have a mature financial system that can capitalize the massive infrastructure buildout this moment demands.

[15]Bloomberg, "Big Tech to Spend $650 Billion This Year as AI Race Intensifies" (February 2026).
[16]Carson Group / Wall Street Journal historical comparison; Kobeissi Letter analysis of tech CapEx as % of GDP.
[17]DA Davidson analyst Gil Luria, quoted in Bloomberg (February 2026); Silicon Republic, "Investors Worried After Big Tech Plans $650bn Spend" (February 2026).
[18] Fountainhead Asset Management, Market Commentary, December 2023.

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Goldman Sachs projects that global data center power demand will surge 175% by 2030 versus 2023 levels.[1] US data centers alone will consume roughly 8% of total US electricity by 2030, up from 3% in 2022. US technology companies have signed contracts for more than 10 GW of potential new nuclear capacity, with several plants potentially operational by 2030.[2] This isn't just an economic advantage — it's a competitive moat.

Additionally, as highlighted on earlier charts, the US has been particularly good at creating energy efficiencies, resulting in flat energy consumption over the last twenty-five years despite material GDP growth. Over the same period, we've had declining per-capita consumption. This compares positively to the rest of the world, and in particular, China. The chart below illustrates the divergence: while the rest of the world, driven overwhelmingly by China, nearly tripled energy consumption since 1970, the US kept total consumption essentially flat while quadrupling GDP.

[19]Goldman Sachs Research, global data center power demand projections (2025).
[20] Goldman Sachs Research, US nuclear and utility infrastructure estimates (2025).

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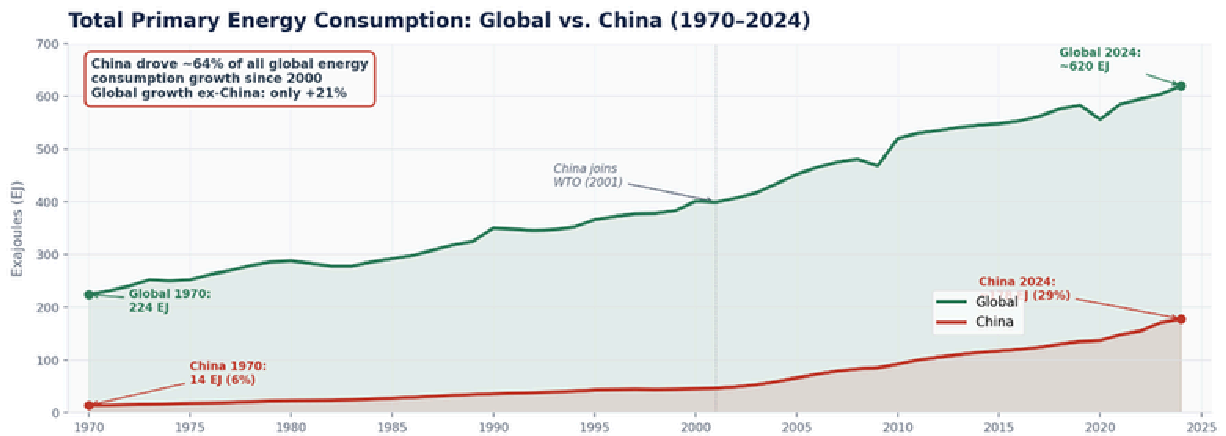

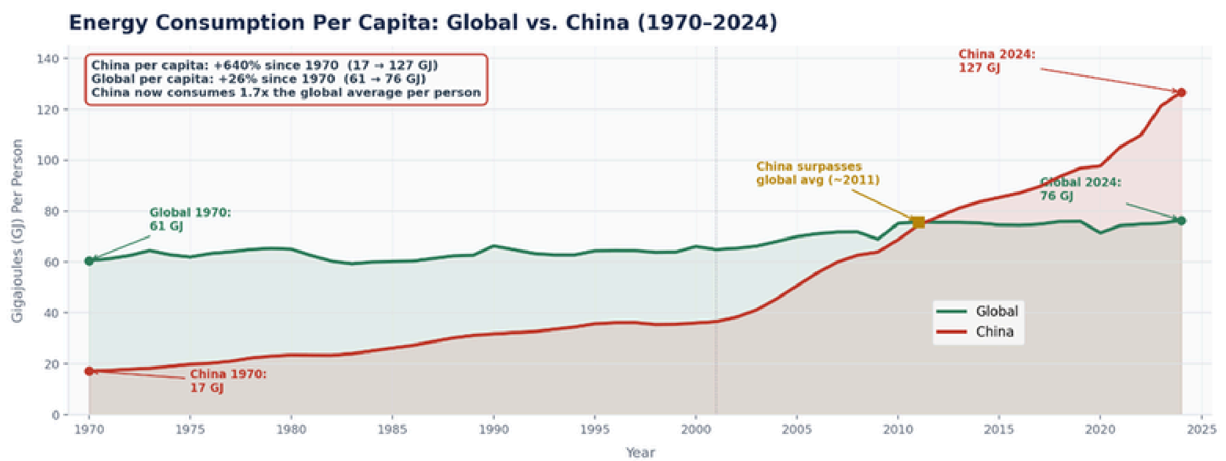

Sources: Energy Institute Statistical Review of World Energy (2025); Our World in Data; EIA International Energy Data; IEA World Energy Balances | UN World Population Prospects (population)

Where Does This Leave Us?

Here is the tension: can we innovate our way out of the energy constraint, or do we simply need more of it?

The honest answer is both. The same competitive pressure that is driving AI's insatiable demand for power is also driving innovation in how we generate that power. Small modular nuclear reactors, once a theoretical curiosity, are being actively developed by companies backed by Amazon, Google, and Microsoft. Grid-scale battery storage is improving rapidly. Advanced geothermal, once dismissed as niche, is attracting serious capital. Even the cooling problem itself is spurring breakthroughs, for example, liquid cooling and immersion cooling technologies are allowing facilities to operate at power densities that would have been unthinkable five years ago.[21]

[21] Utility Dive, "The 2025 Outlook for Data Center Cooling" (January 2025); Microsoft and Schneider Electric liquid cooling designs (December 2024).

(continued)

Energy, in other words, is becoming an innovation story in its own right — not just about pumping more oil or spinning more turbines, but about fundamentally rethinking how we generate, distribute, and consume power. The AI revolution has a power cord. But the act of plugging it in may spark an energy revolution just as consequential.

Deep Thought: The Shadow Fleet — The World's Most Important Balancing Act

In last month's Deep Thought we explored Edward Fishman's Chokepoints, which details how economic weapons, namely sanctions, capital controls, and currency access, have become the dominant tool of modern geopolitics.[22] A question lingered: Do economic weapons actually work?

The shadow fleet, a clandestine network of over a thousand aging oil tankers, offers a fascinating answer.

[22] Fountainhead Asset Management, Market Commentary, December 2025.

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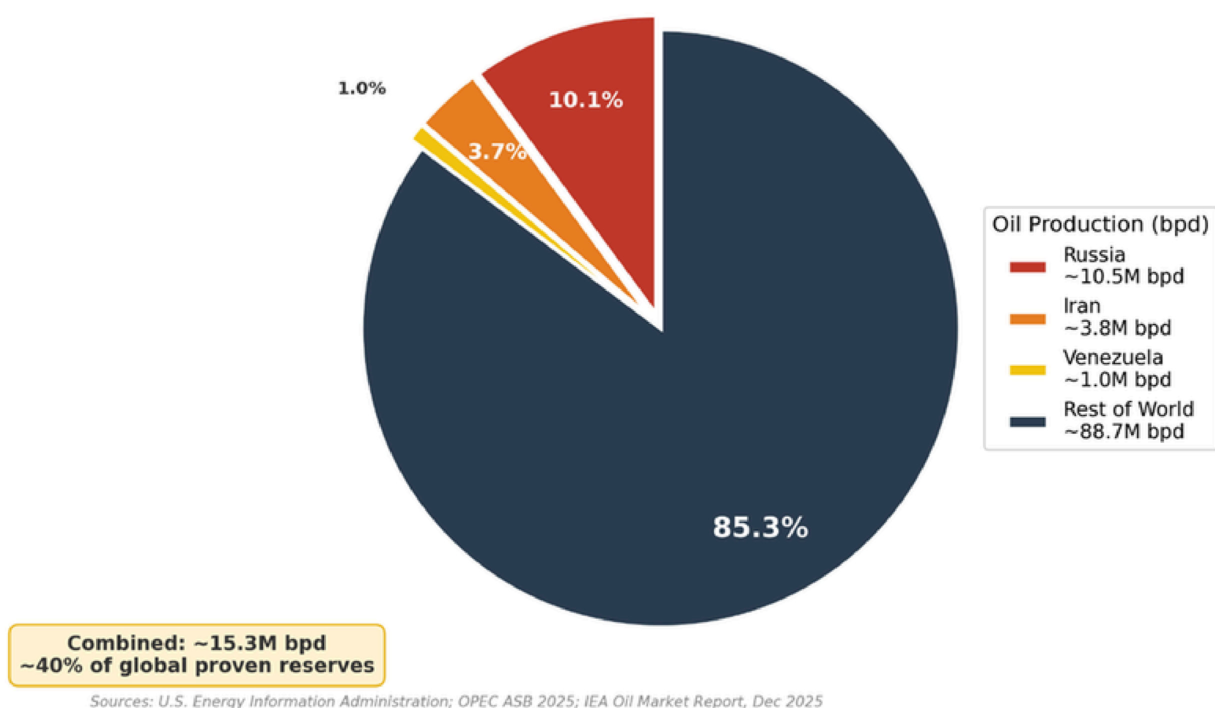
Russia, Iran, and Venezuela collectively produce roughly 15% of global oil supply and sit on nearly 40% of the world's proven reserves.[23] Simply shutting off their oil would trigger an energy crisis dwarfing the 1973 embargo. So Western policymakers face competing goals:

1. squeeze revenues enough that adversaries cannot fund aggression,
2. while keeping enough oil flowing so prices remain manageable.

A global-scale risk management exercise.



For Russia, the tool is a price cap — Western-insured ships can carry Russian oil only if sold below a set price (recently lowered to $44.10/barrel).[24] For Iran and Venezuela, it is a comprehensive embargo — their oil is not supposed to be sold at all. In practice, however, it still reaches buyers like China at steep discounts.

[23]U.S. Energy Information Administration; OPEC Annual Statistical Bulletin 2025; IEA Oil Market Report, December 2025.
[24] "New dynamic mechanism to lower price cap for Russian crude oil to $44.10 per barrel." European Commission, January 15, 2026.

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The shadow fleet is what makes it all work. By operating outside Western shipping and insurance, these tankers bypass the cap entirely. Russia sells above the cap, but buyers demand discounts for the risk. Iran and Venezuela use similar tactics simply to sell oil at all.[25] The uncomfortable truth: the shadow fleet is functional for the West. Sanctioned oil keeps reaching the market, maintaining supply — but adversaries earn far less per barrel. Russia's Urals crude fell to roughly $43/barrel in late 2025, its lowest since the invasion of Ukraine.[26]

The risk? Push enforcement too hard and 15% of global supply gets disrupted — prices spike. Don't push hard enough and adversaries remain well-funded. The margin for error is thin.[27]

[25]Centre for Research on Energy and Clean Air (CREA) via FREE Network policy brief, November 2025.
[26]IEA Oil Market Report, December 2025.
[27] KSE Institute, February 2025; Danwatch (Denmark), August 2025; The Atlantic, December 2025.

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Talking Points — February 2026

Monthly Market Recap

Equity and fixed income markets were volatile throughout February. The Dow ended up being the only major US index to finish higher, while intermediate and long-term yields fell materially. Much of the selling pressure in equity markets was a direct result of ongoing concerns related to AI disruption and rising concerns surrounding the health of private credit markets. The one positive event for markets this month was the Supreme Courts ruling on tariffs.

The overall sentiment surrounding AI has shifted drastically over the past few months. After months of exuberance where any company or industry remotely related to AI surged, markets first began to take issue with the massive amounts of capex spend. Earnings results were analyzed with more of a "fine tooth comb" with investors wanting to see results that justified the capex – companies that met or exceeded expectations performed better than those that did not (i.e. things returned to normal).

Sentiment then turned negative throughout the month of February. It started with Anthropic (AI company) launching new AI productivity tools that expanded its capabilities to perform "specialized" business functions. The main concern centered around the idea that these tools (as well as future advancements) would decrease the need for software products/services as well as make access to data more democratized. As a result, software companies and data providers, which were already trading at stretched valuations, sold off materially.

Later in the month, Citrini Research published a report outlining a bear case for AI in which "white-collar" knowledge work and jobs essentially disappear as a direct result of advancements in AI. The report also highlighted a long list of "at risk" industries including software, banking, and even food delivery. Their thesis is that throughout modern economic history "human intelligence" has always been a scarce input and that the introduction of AI to most industries will result in an "unwinding" of that premium. Simply put, as AI advances companies' need for humans decreases, leading to massive layoffs of white-collar workers which ultimately craters the economy as we know it.

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Markets have always thought of this as more of a longer-term type of risk that could be mitigated given the time horizon (i.e. companies, governments, and people have time to adjust/adapt) - this report essentially suggested that this could be a risk sooner rather than later. By the end of the month, sentiment was bad enough that when Nvidia reported record breaking earnings results, its shares sold off by more than 5%. Expect this focus on AI disruption to continue in the weeks and months to come.

Private credit markets started to show signs of weakness last month when a publicly traded BDC managed by Blackrock reported an unexpected 19% decline in net asset value due to write downs on positions that had previously been marked at par. Concerns were further fueled this month when the selloff in software started given that software makes up around 18-20% of the private credit universe. Shares of large private asset managers sold off materially as a result. Then later in the month selling pressure intensified when Blue Owl (large private credit manager) announced that it would be restricting withdrawals from one of its private credit funds aimed at ordinary investors. The firm also announced that it would be selling approximately $1.4 billion in assets in order to help meet their elevated redemption requests. With the mass adoption of private credit in institutional and retail portfolios in recent years, any widespread liquidity crunch could be very problematic for the asset class.

There was some positive news this month, markets welcomed the Supreme Court ruling that President Trump exceeded his powers by imposing tariffs without clear Congressional authorization. The decision essentially wipes out all the tariffs implemented by the Trump administration, including the 10% baseline ones and the elevated tariffs for "bad actors." While markets were happy with the outcome, caution remains as there is still a lot of uncertainty surrounding tariffs:

- President Trump immediately implemented new 10% global tariffs
- It is unclear whether the government will have to refund companies for tariffs already paid
- Recent trade deals are now expected to be under review
- Tariffs were being used as a tool to apply economic pressure on US adversaries like Iran, Russia, and China

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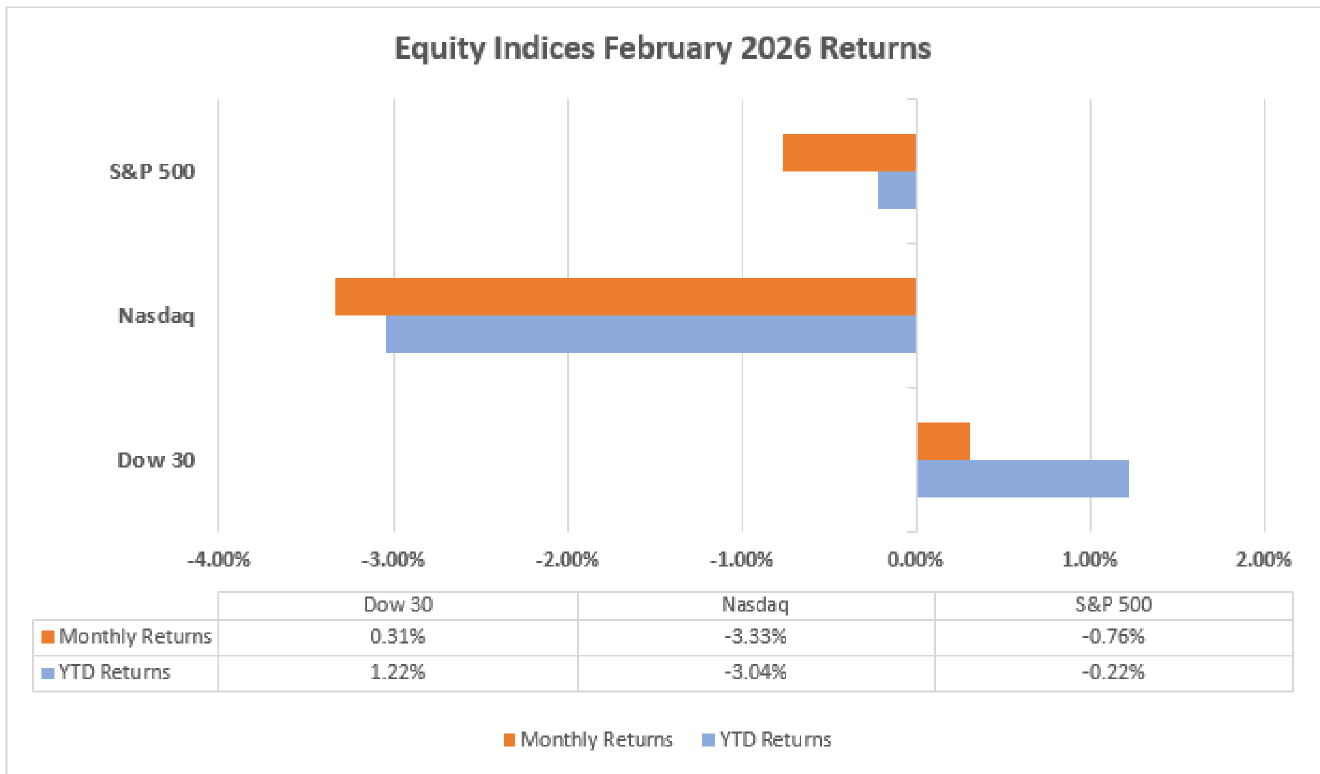
Graphs/Visuals



	Dow 30	Nasdaq	S&P 500
Monthly Returns	0.31%	-3.33%	-0.76%
YTD Returns	1.22%	-3.04%	-0.22%

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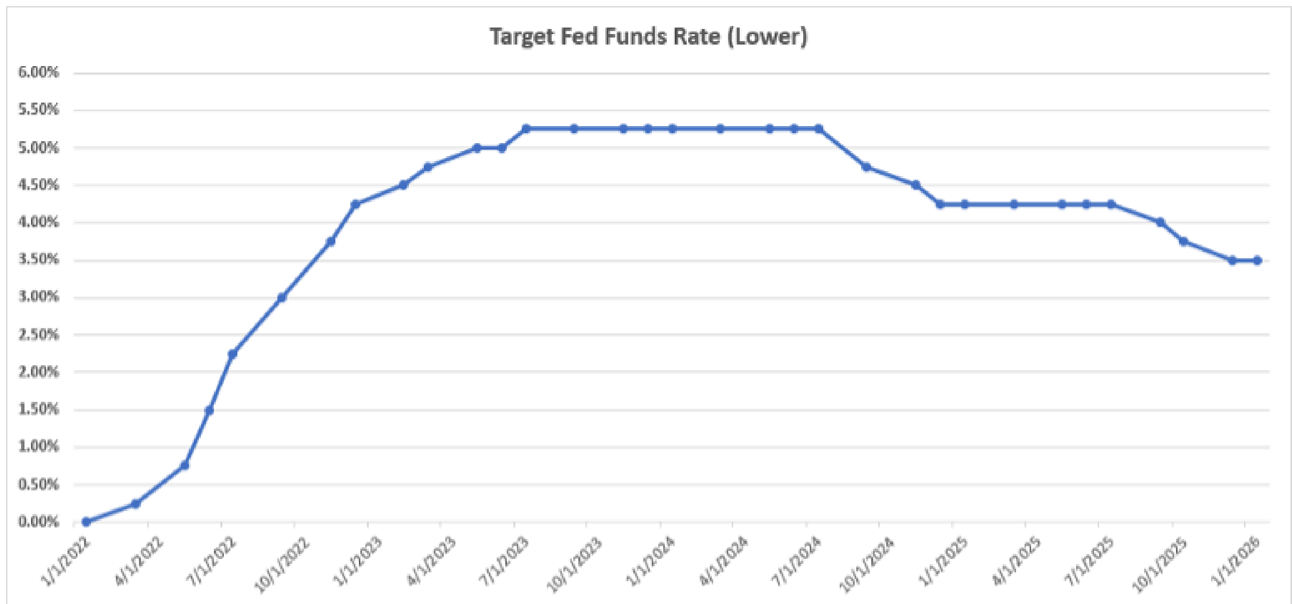
Fed Interest Rate Decisions Since Start of Hiking Cycle

FOMC Meeting Date	Hike/Cut	Target Fed Funds Rate (Lower)	Target Fed Funds Rate (Upper)
Start of 2022	-	*0.00%*	*0.25%*
3/16/2022	**0.25%**	0.25%	0.50%
5/4/2022	**0.50%**	0.75%	1.00%
6/15/2022	**0.75%**	1.50%	1.75%
7/27/2022	**0.75%**	2.25%	2.50%
9/21/2022	**0.75%**	3.00%	3.25%
11/2/2022	**0.75%**	3.75%	4.00%
12/14/2022	**0.50%**	4.25%	4.50%
2/1/2023	**0.25%**	4.50%	4.75%
3/22/2023	**0.25%**	4.75%	5.00%
5/3/2023	**0.25%**	5.00%	5.25%
6/14/2023	**0.00%**	5.00%	5.25%
7/26/2023	**0.25%**	5.25%	5.50%
9/20/2023	**0.00%**	5.25%	5.50%
11/1/2023	**0.00%**	5.25%	5.50%
12/13/2023	**0.00%**	5.25%	5.50%
1/31/2024	**0.00%**	5.25%	5.50%
3/20/2024	**0.00%**	5.25%	5.50%
5/1/2024	**0.00%**	5.25%	5.50%
6/12/2024	**0.00%**	5.25%	5.50%
7/31/2024	**0.00%**	5.25%	5.50%
9/18/2024	**-0.50%**	4.75%	5.00%
11/7/2024	**-0.25%**	4.50%	4.75%
12/18/2024	**-0.25%**	4.25%	4.50%
1/29/2025	**0.00%**	4.25%	4.50%
3/19/2025	**0.00%**	4.25%	4.50%
5/7/2025	**0.00%**	4.25%	4.50%
6/18/2025	**0.00%**	4.25%	4.50%
7/30/2025	**0.00%**	4.25%	4.50%
9/18/2025	**-0.25%**	4.00%	4.25%
10/29/2025	**-0.25%**	3.75%	4.00%
12/10/2025	**-0.25%**	3.50%	3.75%
1/28/2026	**0.00%**	3.50%	3.75%



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Probability of Upcoming Fed Interest Rate Decisions							
2/6/2026	**Hike**	**Hold**	**Cut**	**Hike 25bps**	**Cut 25bps**	**Cut 50bps**	**Cut 75bps**
March 18th	0.00%	80.10%	19.90%	0.00%	19.90%	0.00%	0.00%
2/13/2026	**Hike**	**Hold**	**Cut**	**Hike 25bps**	**Cut 25bps**	**Cut 50bps**	**Cut 75bps**
March 18th	0.00%	90.30%	9.70%	0.00%	9.70%	0.00%	0.00%
2/20/2026	**Hike**	**Hold**	**Cut**	**Hike 25bps**	**Cut 25bps**	**Cut 50bps**	**Cut 75bps**
March 18th	0.00%	96.00%	4.00%	0.00%	4.00%	0.00%	0.00%
2/27/2026	**Hike**	**Hold**	**Cut**	**Hike 25bps**	**Cut 25bps**	**Cut 50bps**	**Cut 75bps**
March 18th	0.00%	94.10%	5.90%	0.00%	5.90%	0.00%	0.00%

January CPI and Core CPI (yoy)	*Jan.*	*vs. Expected*	*vs. Dec.*
CPI	*2.4%*	*2.5%*	*2.7%*
Core CPI	*2.5%*	*2.5%*	*2.6%*

December PCE and Core PCE (yoy)	*Dec.*	*vs. Expected*	*vs. Oct/Nov*
PCE	*2.9%*	*2.8%*	*2.8%*
Core PCE	*3.0%*	*2.9%*	*2.8%*

Highlights/Notes

Highlight: Rising concerns related to AI disruption and the health of the private credit market resulted in material selling pressure in equities.

FAM Sentiment Summary 2025:

2025	January	February	March	April	May	June	July	August	September	October	November	December
Fed	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bullish**	**Mildly Bearish**	**Mildly Bullish**	**Neutral**	**Neutral**	**Mildly Bullish**	**Mildly Bullish**	**Mildly Bearish**	**Neutral**	**Mildly Bullish**
Interest Rate Decisions	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bullish	Neutral	Neutral	Neutral	Bullish	Neutral	Neutral	Bullish
Commentary	Mildly Bearish	Mildly Bearish	Mildly Bullish	Bearish	Mildly Bullish	Neutral	Mildly Bearish	Bullish	Mildly Bullish	Bearish	Mildly Bullish	Mildly Bearish
Economic Data	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bearish**	**Neutral**	**Mildly Bullish**	**Mildly Bearish**	**Mildly Bearish**	**Neutral**	**Neutral**	**Neutral**	**Mildly Bullish**
Inflation	Mildly Bearish	Mildly Bearish	Mildly Bearish	Bullish	Mildly Bullish	Bullish	Mildly Bearish	Mildly Bearish	Bullish	Bullish	Neutral	Bullish
Employment/Labor Market	Bearish	Mildly Bearish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Bearish	Bearish	Neutral	Neutral	Neutral	Mildly Bearish
GDP	Mildly Bullish	Neutral	Mildly Bearish	Mildly Bearish	Mildly Bearish	Neutral	Neutral	Mildly Bullish	Neutral	Neutral	Neutral	Bullish
Consumer Spending	Neutral	Mildly Bearish	Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Neutral	Neutral	Neutral	Neutral	Neutral
Consumer Sentiment	Neutral	Bearish	Bearish	Bearish	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bearish	Neutral	Mildly Bearish	Neutral
Housing/Real Estate	Mildly Bearish	Mildly Bearish	Mildly Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral
Global Events/News	**Mildly Bearish**	**Neutral**	**Mildly Bearish**	**Neutral**	**Neutral**	**Neutral**	**Neutral**	**Neutral**	**Neutral**	**Neutral**	**Neutral**	**Neutral**
China	Bearish	Neutral	Neutral	Mildly Bearish	Mildly Bullish	Mildly Bullish	Neutral	Neutral	Neutral	Mildly Bullish	Mildly Bullish	Neutral
Europe	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish	Neutral	Neutral	Mildly Bullish
Japan	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Mildly Bullish	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bearish
Middle East	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Russia/Ukraine	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Bearish	Mildly Bearish	Mildly Bearish	Neutral	Neutral
US Politics/Government	**Neutral**	**Bearish**	**Bearish**	**Bearish**	**Mildly Bullish**	**Mildly Bullish**	**Mildly Bullish**	**Mildly Bullish**	**Neutral**	**Mildly Bullish**	**Mildly Bullish**	**Neutral**
Tariffs	Bearish	Bearish	Bearish	Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish
US/China Trade War	n/a	n/a	n/a	Bearish	Bullish	Bullish	Mildly Bullish	Bullish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Mildly Bearish
Economic Policy	Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Market Trends	**Mildly Bullish**	**Neutral**	**Mildly Bearish**	**Neutral**	**Neutral**	**Neutral**	**Mildly Bullish**	**Neutral**	**Mildly Bullish**	**Mildly Bullish**	**Mildly Bearish**	**Mildly Bearish**
Earnings	Bullish	Mildly Bullish	Bearish	Mildly Bullish	Neutral	Neutral	Mildly Bullish	Mildly Bearish	Bullish	Mildly Bullish	Bullish	Mildly Bearish
AI/Chips	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish	Bullish	Bullish	Mildly Bearish	Bearish
Crypto	Mildly Bullish	Bearish	Mildly Bearish	Neutral	Mildly Bullish	Neutral	Mildly Bullish	Neutral	Neutral	Neutral	Bearish	Mildly Bearish

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FAM Sentiment Summary 2025:

2026	January	February
Fed	**Mildly Bearish**	**Neutral**
Interest Rate Decisions	*Neutral*	*Neutral*
Commentary	*Mildly Bearish*	*Neutral*
Fed Independence	*Mildly Bearish*	*Neutral*
Economic Data	**Mildly Bullish**	**Mildly Bullish**
Inflation	*Bullish*	*Mildly Bullish*
Employment/Labor Market	*Neutral*	*Mildly Bullish*
GDP	*Neutral*	*Neutral*
Consumer Spending	*Neutral*	*Mildly Bearish*
Consumer Sentiment	*Neutral*	*Neutral*
Housing/Real Estate	*Neutral*	*Mildly Bullish*
Global Events/News	**Mildly Bearish**	**Mildly Bearish**
China	*Neutral*	*Neutral*
Middle East	*Bearish*	*Bearish*
Russia	*Neutral*	*Neutral*
South America	*Mildly Bullish*	*Neutral*
Europe	*Mildly Bearish*	*Neutral*
Japan	*Neutral*	*Neutral*
US Politics/Government	**Mildly Bearish**	**Mildly Bullish**
Tariffs	*Mildly Bearish*	*Bullish*
Economic Policy	*Mildly Bearish*	*Neutral*
Market Trends	**Mildly Bearish**	**Bearish**
Earnings	*Mildly Bearish*	*Neutral*
AI/Chips	*Mildly Bearish*	*Bearish*
Private Markets	*Bearish*	*Bearish*
Energy Prices	*Mildly Bearish*	*Bearish*
Metals/Critical Minerals	*Mildly Bullish*	*Neutral*
Crypto	*Mildly Bearish*	*Neutral*

Noteworthy Sentiment Items:

- Inflation – Bullish to Mildly Bullish
    - CPI data did show a trend lower, but PCE data surprised to the upside.
- Middle Eart – Remained Bearish
    - Tensions remain elevated as the US continues to move military assets into the region. Both sides at this point seem far apart on negotiations.
- Tariffs – Mildly Bearish to Bullish
    - Even though there is still some uncertainty surrounding tariffs, the Supreme Court's ruling was viewed by markets as a big win.
- AI/Chips – Mildly Bearish to Bearish
    - Sentiment around AI has come full circle and is now unquestionably bearish.

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Key Topics/Items from Below:

BEARISH

- Anthropic launching new AI productivity tools that expanded its model's capabilities to perform "specialized" business functions – resulting in material selling pressure in the software sector
- Disappointing earnings results from chip maker AMD
- Financial services firms with wealth management and brokerage exposure selling off on concerns over AI related disruptions
- Energy prices hitting highest levels since the summer as tensions in the Middle East continued to rise late in the month
- Blue Owl Capital restricting withdrawals from one of its private credit funds aimed at ordinary investors and announcing $1.4 billion in asset sales to help manage elevated redemptions – adding to concerns surrounding the overall health of the private credit markets
- Citrini Research publishing a report outlining a bear case for AI in which "white-collar" knowledge work and jobs essentially disappear as a direct result of advancements in AI – the report also highlighted several "at risk" industries
- Payments company Block announcing that it plans to lay off 40% of its workforce and lean more heavily on AI – a real world example of AI replacing a huge chunk of a company's workforce
- Nvidia's record breaking earnings resulting in a 5% sell off in the company's shares (as well as selling pressure in other tech names), highlighting the dramatic shift in sentiment surrounding AI
- Concerns surrounding AI disruption and private credit markets hitting the banking sector

MILDLY BEARISH

- Jobs data which showed unexpectedly low job openings
- A report which highlighted January as the worst January for planned corporate layoffs since the 2008 global financial crisis
- Rising geopolitical tensions in the Middle East pushing energy prices higher as the Trump administration contemplated seizing additional oil tankers transporting Iranian oil (mid-month)
- The return of uncertainty surrounding trade/tariffs post Supreme Court ruling (company refunds, impact on trade deals, new 10% global tariffs, etc.)
- Release of data which showed that default rates in the commercial real estate market had picked up materially in recent months as lenders opt to call in loans rather than extending them

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- Release of trade data which showed that the US trade deficit surged to $70.3 billion in December, a material jump from $53 billion the month prior and that imports grew to record levels for 2025 (despite tariffs)
- Earnings commentary from Walmart warning markets that consumers continue to be cautious about spending, especially on non-essential items (with lower income households being most affected)
- President Trump floating the idea of raising new global tariff levels from 10% to 15%
- PPI (wholesale) inflation data showing an unexpected uptick, leading to concerns that PCE data will also start to trend higher

Neutral

- President Trump announcing that the US would eliminate tariffs on more than 1.6k of Argentinian goods
- "Mixed bag" of earnings results from non-tech companies
- December PCE and Core PCE data surprising to the upside
- Release of latest Fed meeting minutes which showed that most members are not in favor of additional rate cuts in the near term as their focus shifts back to inflation

MILDLY BULLISH

- US agreeing to lower tariffs on India from 50% to 18% after India agreed to stop buying Russian oil
- The delayed January job's report showing stronger-than-expected hiring and a drop in overall unemployment levels
- Meta and Nvidia announced that they would be "expanding" their relationship (Meta to buy more chips)
- Mortgage rates falling to lowest levels in over three years
- Meta and AMD announcing a deal that would see Meta purchase approximately $100 billion worth of chips

BULLISH

- January CPI and Core CPI pointing to easing inflation levels (with CPI coming in below expectations)
- Supreme Court ruling that President Trump exceeded his powers by imposing tariffs without clear Congressional authorization – wiping out most of the tariffs implemented by the Trump administration.

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Key Topics/Items from Below:

- **Week Ending 2/6/26**
  - Equities mixed, yields down
  - There was material selling pressure in tech and other growth sectors due to rising concerns over AI disruption, AI overspend, and stretched valuations. Anthropic's new AI productivity tools prompted markets to re-evaluate the need for software and things spiraled from there (e.g., disappointing earnings from chip maker AMD, worse-than-expected jobs data). Investors rotated out of riskier sectors and assets, like crypto, and into more value-oriented exposures (hence Dow's outperformance). The selloff in risk-on assets was amplified by the fact that valuations felt stretched to begin with. When valuations are higher than historical averages, bad news tends to result in swifter moves to the downside. This dynamic has played out a few times in recent market selloffs like DeepSeek, Liberation Day, and now software (and even precious metals to an extent).

    - AI: On Tuesday, equity markets sold off after Anthropic (AI company) launched new AI productivity tools. Anthropic's Claude AI model used to be considered somewhat of a niche player in the AI space but has grown in popularity recently. Tech insiders and software engineers praise the model for its ability to tackle rather complex coding projects autonomously. Claude's new productivity tools expanded its capabilities to perform "specialized" business functions. The market's concern is that these AI products will decrease the need for software products/services as well as make access to data more democratized. As result, the worst hit industries were software companies, data providers, and asset managers that specialize in private markets (as the private equity/credit universe has heavy software exposure). Selling pressure related to concerns over software continued the following day as markets scrambled to figure out what will/won't be affected by these recent advances in AI. On Friday, equities recovered some of their earlier losses, though lingering concerns remain.

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- Earnings: The sell-off in tech continued Wednesday after disappointing earnings results from chip-maker AMD added to market's concerns. Recent earnings from companies in the AI space have diverged - some companies have had great results that justify high levels of recent capex spend (Meta, Google), while others have missed the mark (Microsoft, Oracle, Intel, AMD). The initial exuberance over anything, even slightly related to AI seems to have worn off - markets now want actual results and execution rather than great ideas/theories.
- Economic Data: On Thursday, the release of some uninspiring jobs data added to the selling pressure in equity markets. Already concerned with the future of software companies and AI earnings, markets then had to digest government data that showed unexpectedly low job openings and a new report that highlighted last month as the worst January for planned corporate layoffs since the 2008 global financial crisis. The US government announced that the January jobs report would not be released on Friday as scheduled due to the partial government shutdown.
- Crypto: The price of bitcoin sold off materially mid-week, briefly dropping below 61k as investors rotated out of risk assets. Selling pressure started at the beginning of the week but intensified as the selloff in growth assets picked up steam. By Friday it recovered some losses - trading around 70k by week end.
- Iran: On Monday, energy prices dropped after President Trump stated that Iran was taking talks more seriously. One of the major highlighted pain points in negotiations between the US and Iran is its stated positions, which is quite wide apart (i.e. expectations of Iran's nuclear, ballistic and proxy programs)
- Tariffs: On Monday, the US agreed to lower tariffs on India from 50% to 18% after India agreed to stop buying Russian oil. Recall, India was facing 25% reciprocal tariffs and an additional 25% tariff related to continuing to buy Russian oil (50% total). On Thursday, President Trump announced that the US would eliminate tariffs on more than 1.6k of Argentinian goods. Argentina was only facing 10% tariffs on exports to the US (some of the lowest levels).
- Precious Metals: The wild ride in the precious metals market continued this week with the prices of gold and silver experiencing large up and down swings.

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- **Week Ending 2/13/26**
  - Equities down, yields mixed
  - Renewed AI-related volatility and shifting rate expectations pressured risk assets. The Dow briefly extended its record above 50,000 early in the week before retreating, while the Nasdaq led declines following a sharp Thursday selloff in the tech sector. Treasury yields were volatile—rising midweek after stronger-than-expected labor data, then falling to multi-month lows after softer inflation data on Friday. The crosscurrents between resilient economic growth, moderating inflation, and structural AI disruption kept volatility elevated for the week.
    - AI: AI concerns remained a dominant market driver, as technology and software stocks saw renewed selling pressure from investors reassessing the long-term margin implications and competitive disruption risks posed by generative AI. Cisco Systems fell sharply despite solid hyperscaler demand, while AppLovin (mobile app marketing, advertising, and AI-driven monetization platform) plunged following earnings as management attempted to calm AI-related concerns. Financial services firms with wealth management and brokerage exposure also underperformed amid fears that AI tools could compress fees and automate advisory functions. This tone reflects a continued shift from AI enthusiasm toward scrutiny of execution, monetization, and cost discipline.
    - Earnings: Earnings results were mixed and often secondary to broader macro and AI narratives. Oracle Corporation rebounded strongly early in the week after the prior selloff, and Spotify surged on better-than-expected results. Conversely, Coca-Cola slipped after softer revenue. Overall, markets rewarded clear earnings beats and constructive guidance while punishing companies where AI uncertainty clouded forward visibility.

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- Economic Data: The delayed January jobs report showed stronger-than-expected hiring, with payroll growth exceeding forecasts and the unemployment rate edging lower—initially pushing Treasury yields higher and reinforcing expectations that the Federal Reserve will remain on hold in the near term. However, Friday's CPI report showed headline inflation, cooling to 2.4% on the year, slightly below expectations, while core inflation held steady at 2.5%. The combination of firm labor conditions and easing inflation complicates the policy path but reduces fears of reaccelerating price pressures. Markets now reflect a continued pause from the Fed with rate-cut timing remaining data dependent.

January CPI and Core CPI (yoy)	Jan.	vs. Expected	vs. Dec.
CPI	2.4%	2.5%	2.7%
Core CPI	2.5%	2.5%	2.6%

- Crypto: Bitcoin rebounded to around $70,800 on Monday following recent volatility. Prices later pulled back during the week due to broader market pullback, before climbing roughly 5% on Friday to approximately $68,900.
- Commodities / Iran: Brent crude prices were influenced by escalating U.S.–Iran tensions. Trump administration officials have discussed whether to seize additional tankers involved in transporting Iranian oil but have held off amid concerns about retaliation and disruption to global oil markets. The U.S. has already seized several vessels as part of its blockade of sanctioned tankers tied to Venezuela and has sanctioned more than 20 ships transporting Iranian oil this year, including 14 additional vessels announced last week. President Donald Trump said he may deploy a second aircraft carrier to the region if negotiations fail. Iran has signaled willingness to discuss aspects of its nuclear program but has refused to end uranium enrichment. U.S. officials also warned commercial vessels about potential Iranian threats in the Strait of Hormuz, through which roughly 25% of global petroleum supply passes.

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- **Week Ending 2/20/26**
    - Equities up, yields up
    - The holiday shortened week ended up being a busy one for markets. Tensions continue to build in the Middle East as the US brings more military assets into the region. President Trump is expected to make a decision on whether to strike Iran in the coming days. In US markets, concerns over the health of private credit portfolios continued while rising default rates in the commercial real estate markets added additional uncertainty. The biggest news of the week dropped on Friday when the Supreme Court ruled that President Trump exceeded his powers by imposing tariffs without clear Congressional authorization - effectively wiping out most of the tariffs his administration put in place throughout the year. While markets welcomed the decision, there is still caution (President immediately proposed new 10% global tariffs).
        - Tariffs: On Friday, markets had a positive reaction to the Supreme Court ruling that President Trump exceeded his powers by imposing tariffs without clear Congressional authorization. The decision essentially wipes out most of the tariffs implemented by the Trump administration, including the 10% baseline ones and the elevated tariffs for "bad actors." Markets were happy about the outcome however caution remains as there is still a lot of uncertainty:
            - It is unclear whether the government will have to refund companies for tariffs already paid
            - Companies will still have to pay tariffs for days or potentially weeks before the ruling officially goes into effect
            - Recent trade deals are now expected to be under review - recall, several countries agreed to buy more US goods and invest billions into the US in exchange for lower levels
            - Tariffs were being used as a tool to apply economic pressure on US adversaries like Iran, Russia, and China
            - This administration is very determined to make some level of tariffs a reality - President Trump immediately announced that he would now be implementing 10% global tariffs under a different authority

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- Fed: On Wednesday, markets had a muted reaction to the release of the Fed's last meeting minutes which showed that most members are not in favor of additional rate cuts in the near term. The common theme seems to be that more progress needs to be seen on the inflation front prior to rate cuts being back on the table. The exception was of course the two members who dissented that were in favor of cutting by 25bps.
- Iran: On Thursday, energy prices rose with oil hitting highest levels since the summer. The jump in prices is a direct result of tensions building in the Middle East (US contemplating military action against Iran) as well as new data which showed that US inventories had declined sharply from start of the year levels. President Trump still has yet to decide whether to take military action but the buildup of US military assets in the region has global energy markets (and equity markets) on edge.
- Private Credit: Concerns within private credit resumed on Thursday when Blue Owl Capital (well-known private credit manager) restricted withdrawals from one of its funds aimed at ordinary investors. The firm also announced that it would be selling approximately $1.4 billion in assets in order to help meet their elevated redemption requests. Blue Owl thought that the asset sales would help sure up investor confidence, but it ultimately had the opposite effect. The company's stock, as well as shares of other large private credit managers (Blackstone, KKR, Apollo etc.) sold off materially on the day.
- Commercial Real Estate: Default rates within the commercial real estate market have picked up materially in recent months. January data showed that the delinquency rate for office loans in commercial mortgage-backed securities hit a record 12.3%. Post COVID, there have been lingering concerns surrounding offices with more remote/hybrid type roles becoming commonplace. For a while, real estate lenders were actively extending maturing loans hoping that rates would fall or cash flows would pick back up, but this never played out. Now, lenders are calling in these loans resulting in the uptick in defaults that we see now.

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- AI: On Tuesday, Meta and Nvidia announced that they would be "expanding" their relationship. Meta will be purchasing billions of dollars' worth of Nvidia's chips to further build out their AI capabilities.
- Economic Data: Trade data released on Thursday showed that the US trade deficit surged to $70.3 billion in December, a material jump from $53 billion the month prior. Despite the Trump administrations tariffs, imports grew to a record high in 2025 resulting in an annual trade deficit that was right around 2024 levels. The same day, markets got some better news when the average rate on 30-year fixed rate mortgages (common benchmark for mortgage rates) fell to the lowest level in over three years. The following day markets had a muted reaction to the release of December PCE and Core PCE data. Both readings ended up coming in above expectations and higher than the month prior.

December PCE and Core PCE (yoy)	Dec.	vs. Expected	vs. Oct/Nov
PCE	2.9%	2.8%	2.8%
Core PCE	3.0%	2.9%	2.8%

- Earnings: Late in the week markets had a negative reaction to earnings commentary from Walmart. While the company reported strong results, it warned that consumers continue to be cautious with spending especially on non-essential items with lower income households being the most affected.

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- **Week Ending 2/27/26**
  - Equities down, yields down
  - Concerns surrounding AI disruption increased further. Citrini Research released a report that outlined a bear case for AI in which white-collar jobs all but disappear in the not-too-distant future. The report also focused on several industries that could be most impacted by advancements in AI, and the list was a long one (software, banking, food delivery, and more). It had such an impact on market sentiment that when Nvidia reported record-breaking earnings results later in the week, their stock sold off by 5%. Expect this focus on AI disruption to continue in the weeks and months to come.

    - AI: On Monday, equity markets sold off materially on more AI related concerns. This time a report from Citrini Research was the culprit. The report outlined a bear case for AI in which “white-collar” knowledge work and jobs essentially disappear as a direct result of advancements in AI. The report highlighted several “at risk” industries including software, banking, and even food delivery. Their thesis is that throughout modern economic history “human intelligence” has always been a scarce input and that the introduction of AI to most industries will result in an “unwinding” of that premium. Simply put, as AI advances company’s need for humans decreases leading to massive layoffs of white-collar workers which ultimately craters the economy as we know it. Markets have always thought of this as more of a longer-term type of risk that could be mitigated given the time horizon (i.e. companies, governments, and people have time to adjust/adapt) - this report essentially suggested that this could be a risk sooner rather than later. The following day, equity markets bounced back after Meta and AMD announced a deal. Meta agreed to buy more than $100 billion worth of chips from AMD. Later in the week, payments company Block (formally Square, founded by Jack Dorsey) added more fuel to these concerns after it announced plans to lay off 40% of its workforce and lean more heavily on AI. The company's stock was actually up over 20% after the announcement but the real-world example of AI replacing a huge chunk of a company's workforce just days after the Citrini report had markets on edge.

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- Earnings: On Thursday, equities were down despite Nvidia’s “blockbuster” earnings report. Nvidia blew past expectations reporting a huge jump in profits and record income. Still, the results were not enough to ease markets concerns related to AI which seem to be snowballing as each week passes. Shares of Nvidia were down 5% on the day and other big tech/AI names were also down. This is a great example of how much of an impact market sentiment can have on performance, if Nvidia had reported results like these last summer its stock would have soared.
- Tariffs: On Monday, markets had a negative reaction to President Trump commenting that he wanted to increase the new global tariffs from 10% to 15%. Recall, last week's supreme court ruling wiped out the majority of tariffs implemented by the administration over the past year. The new 10% tariff was officially put into effect last week via executive order and falls under a different emergency law. The caveat is that they are currently only set to last 150 days before needing official congressional approval. As of right now, it is uncertain whether the courts will step in prior to that window expiring or after. However, based on general push back related to tariffs and last week’s events it seems likely that the courts will be involved in some capacity at some point. As for the uncertainty surrounding any trade deals that were influenced heavily by the threat of higher tariff levels, the Trump administration stated that they plan on standing by any deals that were struck and that they expect other nations to do the same.
- Economic Data: On Friday, markets had a negative reaction to the release of PPI inflation data (wholesale inflation). The data showed a material unexpected uptick leading to concerns that PCE data will start to show the same. Recall, the release of the Fed’s latest meeting minutes showed that the majority of officials (and Powell) have shifted their focus back onto inflation after cutting rates by 25bps at three consecutive meetings to end 2025. While the market still expects there to be at least one rate cut in 2026, any material trend higher in inflation data would make this unlikely (although not impossible if labor market weakens enough).

- Banks: On Friday, continued concerns surrounding AI disruption and private credit markets hit the banking sector. An index that tracks the sector was down more than 5% on the day.

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