N10° Signal Weekly

June 16, 2026

THE LEAD

AI Becomes an Instrument of the State

Three signals this week pointed in one direction: advanced compute is no longer purely a commercial market, it is becoming an instrument of statecraft. Washington is asserting privileged access to frontier models, Trump threatened 100% tariffs on French wine over a digital-services tax on U.S. tech, and the historical rhyme is hard to miss. The investment consequence is counter-intuitive: state involvement reads less like a ceiling on the AI build-out and more like an accelerant for it.

Macro investor Raoul Pal framed the U.S. government's move to secure first access to the most capable models as "the East India Company all over again", private enterprises left free to grow dominant, granted protection and a clear run by the state, on the unspoken condition that they serve strategic interests first. In his reading, the hidden outcome is the one that matters for markets: the largest AI firms are now treated as too strategically important to fail, which means the debt funding their capital build-out carries an implicit state backstop. That accelerates the intelligence build-out rather than curtailing it.[1]

> *"The market may wobble, convinced the TAM of AI just collapsed. The real outcome is an acceleration of intelligence, and a super-cycle that keeps running."*
>
> Raoul Pal, Co-Founder and CEO of Real Vision, Founder of Global Macro Investor

The parallel is not new. In 1999 the Department of Defense briefly blocked exports of Apple's PowerMac G4 after it crossed the one-gigaflop "supercomputer" threshold, and Steve Jobs turned the restriction into an advertisement. Capability controls have shadowed leading-edge compute for 25 years. What is new is the scale of the capital at stake, and the breadth of the portfolio sitting downstream of it. Meanwhile, the trade dimension sharpened: ahead of the G7 in Évian, the administration warned France to scrap its 3% digital-services tax on U.S. technology firms or face 100% tariffs on its wine and champagne exports, a reminder that the platforms in this portfolio (GOOGL, META, MSFT) are now bargaining chips in statecraft.[2,3]

For a portfolio concentrated in the AI infrastructure stack, the read-through is straightforward: if the build-out is now a national-security priority with implicit funding support, the demand signal for power, cooling, interconnect, optics, memory, and compute is more durable, not less.

PORTFOLIO DEEP-DIVE

The Optical Bottleneck

Why We Own It in 3 Layers

Our optical exposure is not a single bet on LITE. It is a deliberately layered position across LITE, MRVL, and AVGO that owns the scarcity while hedging the two ways that scarcity could migrate. Start with where the true chokepoint sits: the indium-phosphide (InP) substrate that every high-speed AI laser is built on.

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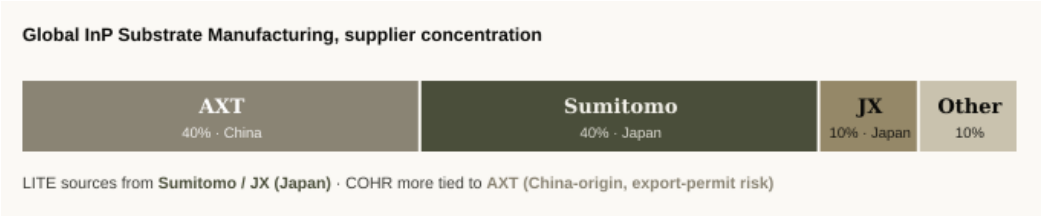
Where the InP bottleneck actually sits

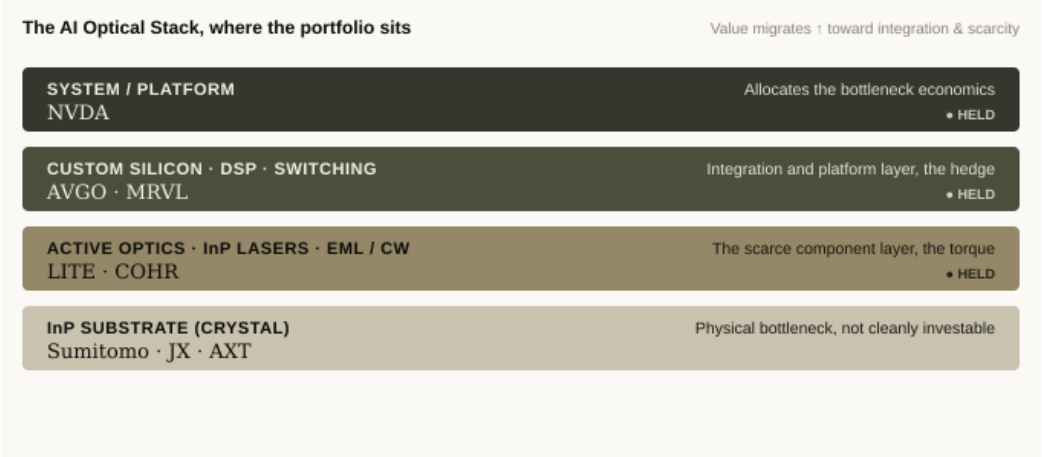


Roughly 80% of global InP substrate manufacturing sits with just two players, AXT and Sumitomo, with JX adding another ~10%. The geography matters more than the share. AXT manufactures most of its InP in China and has been working through export-permit backlogs; Sumitomo and JX are Japan-based. LITE is mainly supplied by Sumitomo and JX, while COHR is more tied to AXT. Because supplier qualification cycles are long and difficult to switch, LITE's Japan-linked, non-China substrate access may be a more durable advantage than the market appreciates.[4]

LITE: the scarce-component torque

LITE is no longer a low-margin optical-hardware vendor; it increasingly resembles a scarce AI-component supplier. Fiscal Q3 2026 revenue grew 90% year over year to $808 million, with GAAP gross margin of 44.2% and operating margin of 21.6%, roughly 540 bps of sequential gross-margin expansion and 700 bps of operating-margin expansion. Scarcity is showing up in the margin line, not just the top line. Its new 240,000-square-foot Greensboro, North Carolina facility adds U.S.-based InP device capacity precisely as hyperscalers prioritize supply security and reshoring.[5]

The three-layer optical position



LITE owns the scarce laser/component layer; MRVL and AVGO sit one layer up, where economics migrate if the market stops paying for discrete InP scarcity. Owning all three makes the thesis robust rather than redundant.

MRVL + AVGO: the integration ballast

- MRVL hedges the risk that value migrates from scarce lasers toward the optical-DSP and connectivity-silicon layer. Its expanded 1.6T optical DSP platform targets end-to-end AI data-center connectivity, and notably, MRVL and LITE demonstrated interoperating systems at OFC 2026, so the hedge does not invalidate the core position.[7]
- AVGO hedges the risk that hyperscaler custom silicon absorbs the economics. Its Taurus 400G/lane optical DSP, paired with in-house 400G EML and photodiodes, targets 1.6T and future 3.2T transceivers. With fiscal Q1 revenue of $19.3B (+29% YoY) and ~68% adjusted-EBITDA margins, AVGO can fund multi-generation roadmaps in a way pure-play component makers cannot.[8]
- COHR (not held) is the secondary capacity story, doubling InP wafer capacity this year and more than doubling again by end-2027, but with more China-origin supply-path risk near term.[6]

Net: LITE is the torque, MRVL is the integration hedge, AVGO is the platform hedge. The combined position captures the bottleneck while controlling for the two most likely paths to thesis failure.

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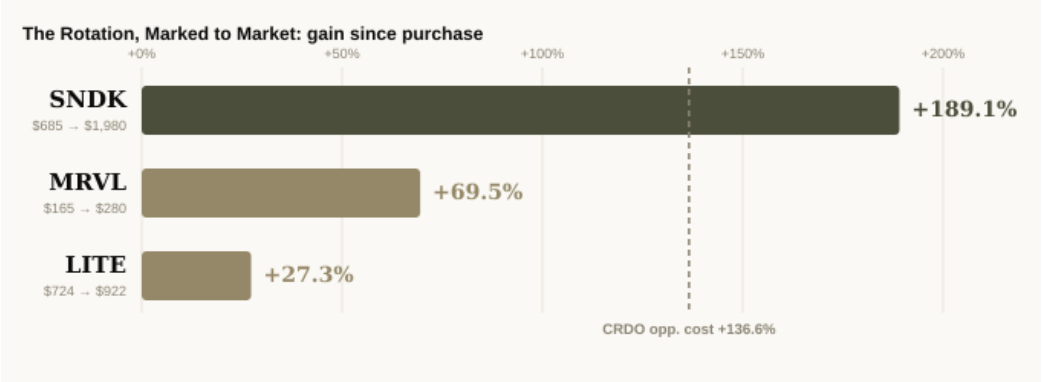
PORTFOLIO SCORECARD

The Rotation, Marked to Market

A reminder of why the bottleneck framework earns its keep. The decision to rotate out of mature infrastructure winners (CRDO, ANET, PRIM) and into less-owned memory, optics, and custom-silicon names (SNDK, MRVL, LITE), before the market fully capitalized the scarcity story, has paid off, with SNDK doing the heavy lifting.



The dashed line is the opportunity cost of the CRDO position we sold at $106 (now ~$251). SNDK's +189% more than offset that, and the ANET / PRIM sales near their highs improved overall trade quality.

Figures reflect model portfolio entry prices versus current marks, are illustrative of position-level results only, and do not represent actual client account returns or a recommendation to buy or sell any security.

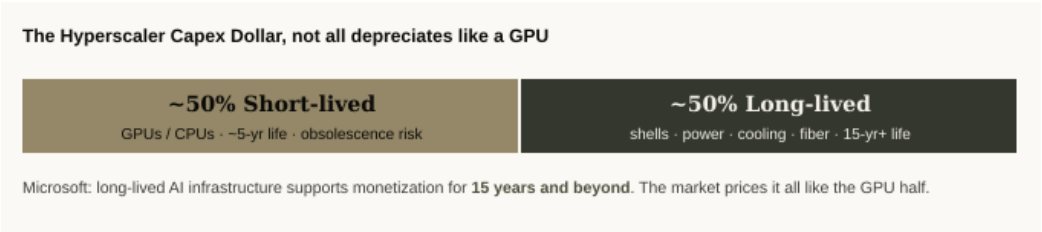
SNDK, the basket's superwinner, now carrying the position. The discipline from here is trimming, not adding; a ~189% move concentrates risk in a single memory-cycle name.

- MRVL, the best long-term compounder in the new basket and the strategic anchor; hold.
- LITE, still the cleanest direct photonics-scarcity exposure; hold, but monitor whether margin and capacity conversion keep pace.
- The lesson is specific: this was a rotation into bottleneck assets ahead of the market, not simply "new names beat old names." De-risk the win; do not reverse the thesis.

THE CAPEX QUESTION

Why the Market Misreads the AI Capex Dollar

The single most important debate for this portfolio is whether AI infrastructure spending earns its return. The market's error is treating every capex dollar as if it depreciates like a GPU. It does not.



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Microsoft has disclosed that roughly half of its AI capex goes to short-lived assets, GPUs and CPUs that age fast, while the rest funds long-lived assets (powered shells, electrical, cooling, fiber, network footprint) expected to support monetization for 15 years and beyond. Amazon, by contrast, shortened the useful life of some servers from six years to five, citing faster AI hardware evolution, a $1.4B depreciation increase. Both facts are true at once: accelerators deserve a high hurdle rate; the powered site, grid access, and cooling design behind them are scarce, long-duration real assets.[10]

Goldman now estimates the four largest hyperscalers will spend roughly $5.3 trillion from 2025 through 2030, up from a $4.5T estimate just one quarter earlier, with ~$725B in 2026 alone, nearly double 2025. That spending flows directly into the names we own across power (VRT, GEV, PWR, VST), interconnect and optics (APH, LITE, MRVL, AVGO), compute and silicon (NVDA, TSM, LRCX), and memory (SNDK).[9]

- The hedge built into the portfolio: we own the hyperscalers themselves, MSFT, GOOGL, AMZN, META. If capex eventually moderates, suppliers de-rate first, but hyperscaler free cash flow improves. Owning both sides is deliberate insulation against the capex cycle turning.
- The watch-point is 2027 guidance. The market can begin pricing a “capex-utility” narrative, where infrastructure spend is the cost of staying in the game rather than a source of monopoly ROIC, before capex actually slows. ORCL screens highest on that utility-risk; we size it accordingly.

R E A D - T H R O U G H

Apple Joins the Buyers

Three of Our Names Win

At WWDC, Apple confirmed its most capable model, AFM 3 Cloud Pro, distilled from Google’s Gemini under a roughly $1B/year arrangement, runs on NVIDIA Blackwell B200 GPUs hosted in Google Cloud. It is Apple’s first meaningful use of NVIDIA silicon in years. The read-through to the portfolio is direct:[11]

- NVDA gains Apple as a (reluctant) Blackwell customer, further evidence that even the most vertically integrated player cannot escape the accelerator.
- GOOGL wins on two fronts: a ~$1B/year model deal and a Google Cloud capacity win hosting Apple’s most demanding workloads.
- The setup pressures AAPL itself, a premium multiple, now exposed to the AI capex cycle it long avoided, plus handset-margin risk from shallow, expensive memory supply. That same memory tightness is a tailwind for SNDK.

T W O H O L D I N G S , O N E D E A L

Uber’s Autonomous Turn Runs on NVIDIA

Uber and NVIDIA deepened a strategic Level-4 autonomy partnership: NVIDIA’s proprietary L4 software will launch across Uber’s network in 28 cities by 2028, beginning in Los Angeles and San Francisco in 2027, with a related Stellantis–NVIDIA–Uber–Foxconn robotaxi program slated for production in 2028 and an initial 5,000-vehicle rollout. This is not “Uber buys chips”, it positions UBER as the demand-aggregation and fleet-orchestration layer for autonomy while NVDA supplies the compute-and-software standard. Both are held; the partnership compounds the thesis on each.[12]

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MARKET INTELLIGENCE

Signals Worth Tracking

- Volatility cluster = bullish, historically. Milton Berg (CFA) notes Friday's cluster, Russell −3%+, Nasdaq −4%+, VIX +35%, 1- and 7-day SPX volatility above the 240% threshold, has led to a higher S&P 500 six months later 100% of the time, with pullbacks modest (0% to −1.94%) and a median 12-month gain of +23.75%.[13]
- Earnings estimates look justified. Cameron Dawson (NewEdge) flags that ISM New Orders, which lead S&P 500 forward EPS growth by ~6 months, have turned higher, supporting current estimates rather than contradicting them.[14]
- The "shrinking middle class" is mostly an upgrade. Ryan Detrick (Carson) highlights that the U.S. upper-middle class rose from 10.4% of families in 1979 to 31.1% in 2024, and the "rich" from 0.3% to 3.7%, while poor / near-poor fell from 29.7% to 18.7%. The middle is shrinking because households moved up.[15]
- Token-spend is bifurcating into "frontier" vs "everyday" AI. Citadel Securities' Token Expenditure Index has rolled over as users substitute toward cheaper models, evidence that adoption is becoming about the price and scarcity of inputs (compute, power, memory) rather than what frontier models can do in principle. That is the bottleneck thesis, restated by the buy-side.[16]
- A fresh tailwind for LLY. A Penn Medicine analysis of 111,646 women presented at ASCO 2026 found GLP-1 users were ~30% less likely to develop breast cancer, expanding the long-run GLP-1 opportunity well beyond diabetes and weight loss, and supporting the durability of our LLY position.[17]
- Platform regulatory risk ticks up. The U.K. announced a ban on social media for under-16s, modeled on Australia's law but going further, a reminder to weight META's engagement exposure against a tightening global regulatory backdrop.[18]

POSITIONING · JUNE 16, 2026

The week's through-line: the AI build-out is being underwritten by the state, the bottleneck is migrating from chips to light, power, and memory, and the market still misreads the capex dollar.

The portfolio is built for exactly this: scarce optics owned three layers deep (LITE / MRVL / AVGO), memory torque (SNDK) to be trimmed into strength, power and interconnect (VRT / GEV / PWR / VST / APH) downstream of $5T+ of committed spend, and the hyperscalers themselves (MSFT / GOOGL / AMZN / META) as a built-in hedge if the cycle turns.

PORTFOLIO IMPLICATIONS

Current Exposures

- **LITE** Best risk-adjusted InP optical-bottleneck expression; Japan-linked (Sumitomo/JX) substrate access; +90% revenue, margin inflection, Greensboro reshoring
- **MRVL** Integration hedge + strategic anchor; 1.6T optical DSP; interoperates with LITE rather than displacing it
- **AVGO** Platform hedge; Taurus DSP + in-house EML/PD to 3.2T; balance sheet funds multi-gen roadmaps
- **SNDK** Memory-cycle superwinner (+189%); trim discipline warranted; Apple/handset memory tightness an added tailwind
- **NVDA** Now even Apple's reluctant Blackwell customer; compute-and-software standard for Uber L4 autonomy
- **VRT / GEV / PWR / VST / APH** Direct downstream beneficiaries of ~$5.3T committed hyperscaler capex through 2030
- **MSFT / GOOGL / AMZN / META** Owned as the built-in hedge against a capex-cycle turn; GOOGL also wins Apple model + cloud deals
- **ORCL** Highest "capex-utility" screen risk; sized accordingly
- **UBER** Demand-aggregation / fleet-orchestration layer for NVIDIA-powered L4 autonomy across 28 cities by 2028
- **LLY** GLP-1 TAM expanding into oncology-adjacent prevention; thesis durability improving

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Where Caution Is Warranted

- SNDK concentration after a ~189% move, trim into strength rather than chase.
- The 2027 capex-guidance window: a “capex-utility” re-rating can hit suppliers before fundamentals roll. ORCL most exposed.
- Platform regulation (UK under-16 ban) and digital-tax/tariff brinkmanship (France/G7) are rising, if still secondary, risks to META / GOOGL / MSFT.

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SOURCES

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[2] CNBC / NY Post. “Trump says France must scrap tech ‘sales tax’ or face 100% wine tariffs.” June 15, 2026.

[3] Historical reference: U.S. Department of Defense export restriction on Apple PowerMac G4 over the 1-gigaflop threshold, 1999.

[4] Reuters. InP substrate supply concentration: AXT + Sumitomo ~80% of global manufacturing, JX ~10%; LITE supplied mainly by Sumitomo/JX, COHR more tied to AXT. 2026.

[5] Lumentum Holdings. Fiscal Q3 2026 results: revenue $808M (+90% YoY), GAAP gross margin 44.2%, operating margin 21.6%; Greensboro, NC InP device facility. 2026.

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[9] Goldman Sachs Research. Hyperscaler capex forecast raised to ~$5.3T (FY2025–2030) from $4.5T; ~$725B in 2026. June 2026.

[10] Microsoft and Amazon disclosures. MSFT FY2026 Q1 capex split (~half short-lived GPUs/CPUs; long-lived assets 15-yr+ monetization); AMZN server useful-life change 6→5 years (+$1.4B depreciation). 2026.

[11] CNBC / Apple Machine Learning Research. Apple AFM 3 Cloud Pro runs on NVIDIA Blackwell GPUs in Google Cloud; distilled from Google Gemini (~$1B/year). WWDC, June 8, 2026.

[12] NVIDIA / Reuters. NVIDIA Level-4 software on Uber’s network across 28 cities by 2028 (LA/SF in 2027); Stellantis–NVIDIA–Uber–Foxconn robotaxi program, 5,000-vehicle initial rollout. 2026.

[13] Milton W. Berg, CFA (@BergMilton). Institutional research excerpt on Friday volatility cluster and forward S&P 500 returns. June 8, 2026.

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