

THEIA INVESTMENTS
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Daily Commentary

From Momentum to the Fundamentals

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From Momentum to the Fundamentals

There is a sentence, in the summary that Goldman Sachs traders circulated tonight, that is worth more than all the pages produced in a week of selling.

The market has passed from a phase guided by momentum to one guided by fundamentals.

It is no longer discussed whether Artificial Intelligence matters, but how it is financed, who captures its value, and what return justifies investments of this scale.

Yesterday the Nasdaq recovered **1.1**%, with Amazon +**4.95**% after having been indicated as a preferred choice by Morgan Stanley and CoreWeave supported by a buy upgrade from Goldman Sachs.

Is it the return of momentum?

No.

It is the first day of school after a bad report card, someone buys back where the grade had been too severe, but the criteria of judgment have changed.

Let's start from the **flows**.

On Friday, the "first true signal of panic in index protection" arrived with VIX futures volumes **3.6** times the norm and a historical record of index put options at CBOE.

Long/short funds cut net leverage by **3.2** points in a week, the strongest drop since Liberation Day, and the global technological sector suffered the widest net sales since 2016.

Meanwhile, the positive gamma cushion of the dealers has thinned.

When dealers have positive gamma they sell on rises and buy on drops, dampening

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House

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movements, instead with less positive gamma the shock absorber weakens and oscillations lengthen.

And yet there is a detail that makes the difference.
Managers have increased short positions instead of selling long securities.
More defensive portfolios, not capitulation, with net exposure at five-year lows, that is, we have entered a different volatility environment, not necessarily more bearish.
The difference with July is precisely this.
July had been a purely technical unwinding: too many on the same boat, with the boat tilting and then straightening.
This time the decline has opened a real debate on the duration of the Artificial Intelligence growth story and **a debate on fundamentals closes only with numbers**.
Semiconductors have dropped from about **29** times the summer expected earnings to **17** times and the Nasdaq trades near the lowest multiple since the beginning of the Artificial Intelligence cycle in 2023.
The question is no longer whether expectations have fallen, but whether they have fallen enough.

Morgan Stanley followed dollar for dollar the **1,600** billion of spending for investments in Artificial Intelligence foreseen for 2027 and wondered what happens if that money is not spent as foreseen.
The constraints summarize themselves in three "P": People, Energy, Politics.

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House
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The credit of the same bank adds a fourth one: **Who pays**.

Politics.
On November 3 they vote for the midterm and data centers have become a topic that divides.
Washington will not stop the construction site, but the real levers are local: grid connections, tariffs, permits and tax breaks.
In states with key elections there are almost **60 GW of data centers** under construction, planned or on land already purchased with Texas alone, where the governor has already frozen new approvals, is worth **24 GW**.
In Ohio, both candidates propose restrictions.
Only **7**% of voters puts data centers among the priorities, but when speaking of bills that 7% is enough and to spare to decide a contested election.
The market, with an index that tracks the probability of a democratic victory risen by **20**%, is already pricing the scenario that Morgan Stanley judges less favorable to Artificial Intelligence.

Prices and volumes.
In the scarcity phase buyers pay today because they fear that tomorrow calculation costs more and suppliers accumulate margins.
Then the cycle turns and the same urgency works in reverse.
The precedent is the 2022 of memories with NAND shipments down just 5%, prices down **20**-**30**% and margins pulverized.
Amazon has attributed much of the

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increase in capital expenditure for 2026 to the cost of memories, without changing the construction plan.
A part of the "boom" is price, not quantity and that is where it would deflate first.

Energy.
For Morgan Stanley it is the most tangible risk.
Even counting nuclear, turbines, engines and fuel cells, by 2028 **32 GW of power** will be missing in the United States, a third of the **97 GW** necessary and about **72 GW by 2029**.
A chip without current is a very expensive paperweight.
The big cloud operators can buy hardware and keep it in stock, inflating the short-term revenues of suppliers, but buying machines that cannot be turned on does not hold up for long.

Who pays.
It is the matter that holds the other three together.
2027 is the year in which the sector's free cash generation hits bottom and the debtors with the worst rating exhaust the cushion.
The credit spreads linked to investments in Artificial Intelligence are at the worst levels of the year and the basket of AI leader stocks has given back all the gain of the first semester.

The four "P" feed each other.
Politics slows down connections and permits, the energy deficit widens, the chips bought at peak prices remain turned off and one arrives at the scenario

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for which, according to Morgan Stanley, no one is positioned.
The base scenario however remains constructive: a construction site that is done where mitigation works, costs more and arrives later.
The CFO of OpenAI, **Sara Friar**, has just said: "We are still short of computing capacity, I should have bought more".

If the market questions about fundamentals, **the promoted ones will be those that pass all four subjects, not just one**.
At the top is "**behind the meter**" **generation**, that is gas turbines, engines, fuel cells, and small modular reactors built next to the data center, instead of drawing from the grid.
It is the only solution that solves together the political problem (it does not weigh on families' bills) and the energy wall.

They are followed by the **owners of already connected capacity** (pricing power on the scarce resource), then **network**, **cables** and **cooling**, which win in the medium term, because orders will turn into revenues more slowly and the **big cloud operators** that pay for their investment spending with their own cash flow.
At the opposite are the **components bought in advance** and the **leveraged intermediaries**, for whom the fourth subject is an exam to be repeated every quarter.
In the middle is the almost monopolistic upstream supply chain (TSMC and ASML) less exposed to inventory risk, but

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nonetheless tied to the volume cycle.

There is then a path that does not pass through AI.
Goldman traders indicate it explicitly, **buying the widening of the market**.
In the last week about 350 stocks of the S&P500 index closed up and **the quality factor is at highs**.
Today, quarterly reports lead. This week **14**% of the S&P500 index publishes, next week **44**%.
Tonight, Netflix and SpaceX, tomorrow night Meta and Tesla.
Meta brings to its report card two subjects in one single stroke, investment spending and the vote in Louisiana on Entergy's gas power plants for its Richland Parish campus.
Yesterday's rebound can continue, but from here on every rise will have to be signed by the numbers.
The recreation of momentum is finished, one returns to class.

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