

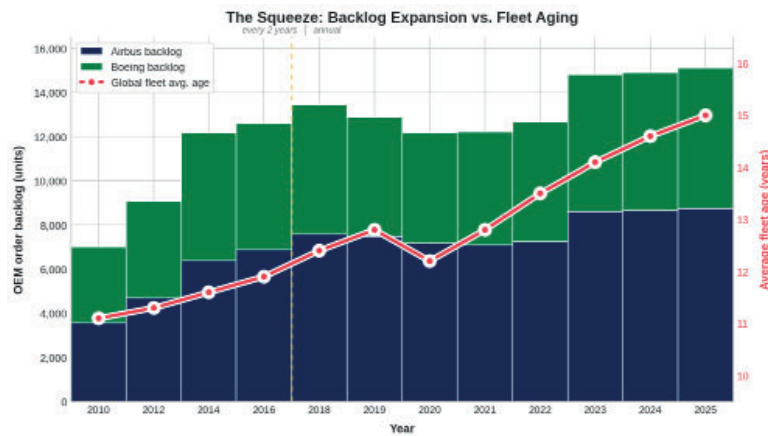
## Market Views

- U.S. equity indices delivered a more decisive rebound in August as the market reversed July's growth-to-cyclical rotation. The month saw Mega-cap technology and AI infrastructure-linked stocks reassert leadership after July's consolidation, with energy and precious-metals names receiving a late-month bid. Counterbalancing this strength was a climbing of long-term Treasury yields (which briefly hit a 20-year high) and another oil spike after renewed tensions in the Strait of Hormuz. This mix lifted the Nasdaq Composite 3.9% and the S&P 500 2.6%, the pair's best August return since 2021, while the Russell 1000 Growth gained 3.7%, recovering a portion of July's 4.8% decline.

## AI Frontier Spotlight

- Frontier model economics.** In mid-August the cheap workhorse tier of the frontier moved again: Google shipped Gemini 3.7 Flash, with large gains on software engineering and long-horizon agent tasks and introductory pricing at half the prior model rate. Days earlier, xAI released Grok 4.6 with a 500K context window at about \$2 input / \$6 output per million tokens, undercutting GPT-5.6 Sol and Claude Opus 5 while landing roughly even with Sol and Anthropic on independent composites. Together the two releases compressed the gap between frontier intelligence and high-volume production use, reinforcing a market in which capability is still rising even as the price keeps falling.
- WeatherNext forecasting.** Google DeepMind recently published WeatherNext Cyclones in Nature and open-sourced WeatherNext 2, a result that reset expectations for operational tropical-cyclone forecasting. The model produces 15-day ensemble forecasts of track, intensity, and wind structure from coarse global inputs, at about 100× lower resolution than the regional systems traditionally required, and delivered an average extra day of lead time on 2023–2025 storms, making a three-day forecast roughly as skillful as prior operational models at two days. WeatherNext turns cyclone warning from a high-resolution physics bottleneck into a fast, probabilistic AI product.

## Food for Thought



Source: Company filings, International Air Transport Association

- Can structural aerospace backlogs insulate component suppliers from broader macroeconomic volatility?** In the years following the pandemic, global passenger travel demand rebounded much faster than anticipated, leading to a bolus of orders from airlines looking to modernize their fleets. These rapid orders created multi-year backlogs across both Airbus and Boeing, which currently stretch ~10 years. Component manufacturers, like Howmet Aerospace and HEICO, enjoy critical structural moats by supplying proprietary structural forgings, engine fasteners, and Parts Manufacturer Approval replacement parts essential for both new production and fleet maintenance, which is also on the rise (see chart). Because airlines are forced to run aging fleets longer to satisfy elevated passenger traffic, high-margin aftermarket spares revenue provides exceptional downside protection. This structural supply-demand mismatch and need for more intense maintenance has the potential to decouple precision aerospace suppliers from broader macroeconomic cycles.

- Are we in a post-SaaS-pocolypse world?** The following SaaS-pocolypse narrative took root in the summer of 2025: the rise of agentic coding and foundational AI models would completely commoditize enterprise software and eliminate traditional per-seat subscriptions. Investors sold software stocks indiscriminately, operating on the premise that LLMs would allow enterprises to effortlessly build bespoke applications and bypass established SaaS platforms altogether. That doomsday thesis, however, seems to be fraying. Leaders at OpenAI (Sam Altman) and Anthropic (Dario Amodei) have increasingly conceded that enterprise software moats, deeply embedded system-of-record data, enterprise security, and complex regulatory compliance, cannot simply be prompt-engineered away. Rather than displacing incumbent platforms, frontier AI labs are shifting their strategy toward broad distribution partnerships, integrating their models directly into the very enterprise workflows they once threatened to replace and quietly retiring the narrative that software is dead.
- The watt-bit spread and AI megadeals.** The watt-bit spread is the gap between what a watt is worth once it is turned into AI compute (a bit) and what that watt costs on the grid. Some of these mega AI leasing deals, where companies are willing to pay billions of dollars per month for access to energized infrastructure, shine a spotlight on the chasm that is the spread. For a model trainer, a 2027 megawatt is far more valuable than the same megawatt in 2032, but utilities still price them as the same product. That mismatch makes interconnectable power a very scarce asset, allowing exorbitant amounts of value to accrue to companies that have readily available supply. While we are likely not to live in a supply constrained environment forever, the ability of the US energy complex to quickly build out more watts will be a key determinate of how long these mega AI leasing deals will persist.

## Monthly Podcast Spotlight

- Neil Movva on Invest Like the Best Ep. 488.** Neil Movva is the founder and CEO of Sail Research. The episode covers why the demand for intelligence is effectively limitless once tokens get cheap enough, Neil's company's scavenger strategy for buying the chips and power nobody else wants, and how open-source models keep collapsing the frontier's pricing edge.

For informational purposes only. This presentation is not to be considered investment advice and is not to be relied upon as the basis for entering into any transaction or advisory relationship or making any investment decision. All investments involve the risk of loss, including the loss of principal.

Have additional questions? Contact: [info@ithakagroup.com](mailto:info@ithakagroup.com)  
[www.ithakagroup.com](http://www.ithakagroup.com)