GRYPHON INVESTMENT ADVISORS BAHAMAS

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Thoughts for the Day

Monthly Overview

A Month Like a Stress Test

Dear Fellow Investors,

July opened with crude near four-month lows, the Dow at a record and a market broadly convinced that the worst of the Gulf conflict was behind it. It closed with roughly fifteen ships a day crossing a strait that used to carry a hundred and twenty, a Federal Reserve holding rates against three dissenting votes, and thirty-year Treasury yields at levels last seen in 2007. Very little that mattered this month was decided by earnings — and yet, as it happens, this was the best earnings season in years.

The honest summary is that July was the month several positions we had all been carrying separately turned out to be the same position. Long artificial intelligence, long duration, short yen, short volatility and long the assumption of a benign inflation path were never independent bets; an energy shock revealed them as a single trade with several names. That is what a stress test does. It does not necessarily break anything. It tells you what is actually load-bearing. My read is that the month damaged very few businesses and a great many assumptions, and that the second of those is the more useful information.

THE DOMINANT STORY

The Strait Sets the Price of Money

The dominant story of July is easy to state and uncomfortable to hold: a waterway in the Gulf, rather than a central bank, set the direction of global inflation expectations, and therefore of everything priced off them. The month began deceptively. Indirect talks had stalled, but tankers were moving, the war premium had almost entirely drained from crude, and the first week's data — payrolls of just 57,000 against roughly 100,000 expected — pushed the Dow to a record close of 52,900 on the reasonable conclusion that a cooling labour market would keep the Federal Reserve still. For about a week, the peace trade and the soft-landing trade were the same trade.

That ended on the eighth, when American strikes resumed. From there the escalation was near-continuous: Brent through ninety dollars by the twentieth as strikes entered a ninth consecutive day, approaching ninety-six by the twenty-third as Saudi-linked tankers were attacked, and a mid-month peak near ninety-four for the US marker. A pause on the twenty-sixth produced one of the sharpest single-day crude declines in months, only for an intercepted Iranian missile salvo to end it within seventy-two hours — and this time Saudi forces joined American strikes on Iran-aligned targets in Iraq. That was the genuinely significant development of the month, and it received far less attention than it deserved. A United States–Iran conflict became a Gulf-wide one, which changes the target set to include the export infrastructure the entire oil market assumes is inviolable.

The transmission was clean and, for a while, one-directional. Crude finished July up roughly a fifth, its largest monthly gain since March. Refined products were tighter still, with Ukrainian drones reaching Russian refineries thirteen hundred kilometres inside the border and the Caspian Pipeline Consortium suspending Black Sea loadings after two associated tankers were hit. Freight, insurance and rerouting costs rose independently of the crude price. Every one of those is an input cost that arrives in third-quarter inflation prints across the developed world, which is precisely how a regional war ends up setting policy in Washington, London and Frankfurt.

My read is that the market is still pricing this as an event rather than a regime. Consensus assumes a negotiated reopening restores the status quo. I am not persuaded. Iran has held the strait since late February and has spent the month attempting to convert wartime disruption into permanent leverage — Oman's proposal of a joint mechanism with voluntary transit fees, rejected by Tehran, would have institutionalised exactly that. Gulf states are now building bypass capacity at an acknowledged premium of around five dollars a barrel, which tells you what those governments actually expect. Meanwhile Washington has confirmed it will make no further strategic reserve releases with inventories at their lowest since 1983. The administrative cap on crude rallies has been removed at the same moment the physical buffer has gone. If transit counts stay where they are, the energy inflation impulse is not a spike to be looked through; it is a level to be lived with, and every developed-market central bank is constrained simultaneously.

THE SECOND LAYER

When a Growth Story Becomes a Credit Story

Running underneath the war, and in my view carrying more long-term significance for how we allocate, was the transformation of the artificial intelligence trade from an equity growth story into a financing story. The equity symptoms were dramatic enough. The Philadelphia Semiconductor Index entered a bear market on the twentieth, having erased some three-and-a-third trillion dollars of value since late June, and went on to record its worst month since 2002, down close to thirty percent from its June high at the trough. South Korea's KOSPI fell sixteen percent in a single session, triggering a trading halt and emergency regulatory measures on leveraged retail products, before rebounding by a record margin at month end.

But the price action was the symptom, not the disease. Three things changed the character of the debate in July. The first was competitive: a claim that a Shanghai state-backed enterprise had begun mass-producing immersion deep-ultraviolet lithography tools, alongside ChangXin Memory Technologies' Shanghai listing, which closed up some four hundred and seventy percent on debut with guided first-half revenue up more than sevenfold and which displaced ICBC as the mainland's most valuable listed company. Whether or not the lithography claim survives verification, the market has begun to price the possibility that export controls accelerated Chinese indigenisation rather than arrested it. That is structural doubt, not valuation doubt, and it is far harder to arbitrage.

The second was financial. Reports emerged that Nvidia was in talks to guarantee roughly two hundred and fifty billion dollars of construction and lease financing for OpenAI's ten-gigawatt Ohio data centre, and to facilitate financing for as much as three hundred and fifty billion of accelerators besides. A vendor underwriting its buyer's credit converts equipment revenue into contingent liability and flatters the quality of reported demand. The credit market understood this immediately: five-year protection on Nvidia doubled from around forty basis points earlier in the summer to a record eighty-two, and default protection on Oracle, Alphabet, Amazon, Meta, Broadcom and SpaceX reached records alongside it. Credit repriced this faster than equity did, which in my experience is the more reliable signal.

The third was the scale itself. Amazon, Alphabet, Meta and Microsoft together plan roughly seven hundred and twenty-five billion dollars of artificial intelligence capital expenditure this year, up around seventy-seven percent, with consensus pointing to something near eight hundred and seventy-eight billion in 2027. Spending on that scale cannot be funded from operating cash flow alone, and it is not being: bank-arranged project finance with corporate backstops is now the emerging structure. That is how a technology theme becomes a bank and credit-market exposure.

The two stories reinforce each other in a way I find genuinely uncomfortable. Higher energy prices push long yields up; higher long yields raise the discount rate applied to distant cash flows and the coupon on the debt funding the build-out. The month's most instructive session was the twenty-ninth, when equities and long bonds fell together — the signature of a policy-credibility problem, not a growth scare, and a reminder that the diversification most balanced portfolios still assume was simply not there. Then came the counter-example: Azure accelerating to forty-three percent, its fastest since 2022, delivered Microsoft the largest single-day market-value gain on record, while Meta reported twenty-eight percent revenue growth alongside a fourteen percent profit decline and free cash flow collapsing under data-centre costs. The theme has not broken. It has begun to discriminate. That is the investable development of the month.

RATES, CURRENCIES & MARKET DIRECTION

What the Markets Are Telling Us

THE RATE NARRATIVE

July compressed an entire cycle of expectations into thirty-one days. It began with markets debating a hike, swung sharply dovish on the soft payrolls print, and swung further when June consumer prices fell 0.4% on the month — the first monthly decline in six years — taking the annual rate to 3.5% and collapsing July hike odds to seventeen percent. Then oil reasserted itself, and by the twentieth futures implied a sixty percent probability of a September increase.

The Federal Open Market Committee held at 3.50–3.75% on the twenty-ninth, but the vote was nine to three, with the Cleveland, Minneapolis and Dallas presidents all preferring a quarter-point rise — the largest hawkish dissent bloc since 2016. With forward guidance withdrawn and no projections at this meeting, the press conference carried the entire signal.

> ***"There is no soft inflation target, and no soft implicit target, on this committee's watch."***
>
> *Chair Kevin Warsh's framing at the post-meeting press conference on 29 July — a deliberate closing-off of any ambiguity about the target itself.*

The bond market rendered its verdict within the hour. Thirty-year yields rose more than eleven basis points on the day to their highest since 2007, closing the month above 5.2%, and swaps moved back toward sixty percent odds of a September move. Read plainly, the long end believes the Committee should have acted and is tightening conditions itself in the meantime. The data did not settle it: second-quarter growth undershot at 1.5% annualised while the purchases deflator ran at 5.7% — a textbook stagflationary combination — and June core personal consumption expenditure eased to 3.3%, decelerating but still close to double target. The Chair's suggestion that he is examining a broader set of inflation measures than the Fed's traditional preferred gauge adds genuine uncertainty about the reaction function itself, which is a reasonable argument for a persistent term premium regardless of where the policy rate settles. Elsewhere the European Central Bank held at 2.25% following June's first increase in three years, the Bank of England held at 3.75% on a six-three vote with an expanding hawkish minority, and the Bank of Japan held at 1%.

CURRENCIES

The dollar spent July supported by yield differentials rather than by conviction, firming to a one-month high above 101.5 before easing toward 100.9 at month end as policy-credibility questions began to cut both ways. The euro and sterling held narrow ranges around 1.13 and 1.33 respectively; neither currency's story was its own this month.

The yen was the month's most combustible position and remains so. It reached a four-decade low of 162.83 in the first week, rebounded on suspected intervention after Tokyo signalled it would stop pre-announcing action, drifted back toward 164 by late July, and returned above 160 following coordinated Japanese and Korean intervention and the Bank of Japan's hold. Speculative net shorts remain very large. Intervention can force rapid short covering; it cannot close a yield gap. The relevant point for portfolios is that a disorderly yen appreciation would arrive as a funding event across leveraged equity, credit and emerging-market carry simultaneously — which is precisely the correlation problem the rest of the month has been illustrating.

EQUITIES

Index levels concealed almost everything that mattered. Between the last June close and the thirtieth of July the S&P 500 slipped from 7,499 to 7,438 and the Dow was essentially unchanged, while the Nasdaq Composite fell from 26,214 to 25,122 — and spent the twenty-ninth more than ten percent below its record after the Dow's worst session since April 2025, a fall of 1,153 points. Underneath, the equal-weighted S&P 500 reached record highs, financials broke to an all-time high, and roughly two-thirds of index constituents advanced from early June even as the largest seven names fell more than eight percent.

That is not distribution; it is rotation, and healthy rotation at that. Capital left one crowded trade rather than leaving equities. The complication is arithmetic: broad participation cannot offset concentrated losses when a handful of names carry the index. With nearly sixty percent of the S&P 500 reported, aggregate earnings were up forty-five percent year on year and beating estimates by more than a third — the best season in years, delivered into a semiconductor de-rating. When record earnings coincide with a violent sectoral drawdown, the drawdown is about positioning and financing structure, not demand. Markets were not irrational in July. They were, for once, quite precisely rational about different things in different places at the same time.

GEOPOLITICS & THE INVESTMENT CYCLE

The World Beyond the Markets

Three structural changes occurred in July, as distinct from the headlines. First, Saudi Arabia's entry into direct kinetic operations alongside American forces converted a bilateral conflict into a regional one and widened the plausible target set to Gulf export infrastructure. Second, the Red Sea became a second live chokepoint rather than a residual nuisance, with Houthi blockade threats, an attack on gas vessels near Egypt, and Saudi Arabia canvassing an international coalition to protect shipping. Third, the trade architecture moved again: a fresh American tariff wave covering sixty economies at ten to twelve-and-a-half percent, imposed under forced-labour findings that are less vulnerable to judicial challenge, with Beijing pre-emptively disclosing a twenty percent ceiling ahead of September's summit and warning of countermeasures should Chinese artificial intelligence firms be sanctioned. A second investigation into industrial overcapacity remains open, and that one reaches steel, chemicals and battery supply chains.

The redirection of capital is now unambiguous and, I think, durable. Energy security has displaced energy transition as the organising principle: bypass pipelines at a five-dollar premium, a United States–Saudi civil nuclear agreement concluded, five American states advancing interim spent-fuel storage, and Europe entering its stockpiling season with gas storage at just sixty-one percent. Defence procurement continues to compound across Europe, North America and Asia, with a Patriot interceptor shortage emerging as a genuine multi-theatre constraint rather than a budgeting question. Critical minerals moved from policy paper to statute: the Defense Production Act invoked to restrict scrap and waste exports, a five-hundred-million-dollar Africa investment programme launched, and a January 2027 compliance deadline now barely five months away against Western magnet capacity covering roughly a tenth of demand. Rare earth prices posted their first broad-based advance of the year, with all eighteen tracked elements higher and an average gain of nearly seventeen percent. What is being quietly de-prioritised, meanwhile, is anything whose economics depend on cheap freight, cheap energy and frictionless sourcing.

The risks I do not think are priced are these. The market is treating the Hormuz situation as a negotiation with a probable settlement; the evidence of the past five months is of repeated breakdowns and of one party attempting to make disruption permanent. A strike on Saudi export infrastructure is not in any consensus forecast I have seen, and the participant set has just widened to make it more likely. Europe's gas position leaves no margin for a cold winter, and that transmits into industrial competitiveness and European Central Bank policy by the first quarter. And the Ukraine and Gulf theatres are no longer separable for risk-pricing purposes — a Ukrainian strike on an Iranian vessel in the Caspian this month made that explicit.

THE INVESTMENT CYCLE

Where Capital Is Moving — and Why

CAPITAL SPENDING & THE AI BUILD-OUT

The scale is now genuinely macroeconomic. Amazon, Alphabet, Meta and Microsoft alone intend to spend around seven hundred and twenty-five billion dollars this year — Amazon lifting full-year capital expenditure to two hundred and twenty billion, Meta guiding its artificial intelligence range to a hundred and thirty to a hundred and forty-five billion, Microsoft absorbing forty-one billion in the quarter against a cloud backlog of six hundred and seventy-eight billion, and Alphabet raising its own guidance toward two hundred and five billion. The binding constraints are no longer chips; they are power, copper and capital. Nuclear commitments for data centres now exceed nine-point-eight gigawatts across thirteen agreements, but restarts deliver this decade and new small modular reactors do not — the interim load will be carried by gas and grid, as the hundred-billion-dollar campus the Energy Department has awarded to Brookfield and NextEra at the former Paducah enrichment site in Kentucky, with two gigawatts of gas generation, makes plain. PJM Interconnection, the largest American grid operator, has warned that data centres may face involuntary curtailment to protect households, which introduces interruptibility as a category of siting risk that project economics have not been underwriting. Copper is the other bottleneck: roughly twenty to forty tonnes per megawatt of applied power, against Codelco, the world's largest producer, guiding to nearly thirty percent less output this year than it mined in 2015.

CREDIT & PRIVATE MARKETS

Conditions tightened where it matters most. Long-dated yields above five percent for their longest stretch since 2007 raise the cost of every debt-financed project simultaneously; some eight trillion dollars of Treasury refinancing over the next twelve months against an average coupon near 3.3% is a structural constraint on the terminal rate that no amount of hawkish rhetoric resolves. Credit protection on the artificial intelligence complex reached records across the board, Nvidia included. Margin debt at roughly one-and-a-half trillion dollars means falling collateral values can convert an orderly sectoral correction into indiscriminate selling. And the build-out's financing is migrating from balance-sheet cash to leveraged project finance with corporate backstops — the fifteen-billion-dollar package Morgan Stanley is arranging for Nexus Data Centers at Hubbard, Texas, which serves Anthropic and is backstopped by Alphabet's Google in return for roughly a fifth of the project, is the template; Goldman Sachs is marketing a five-point-four-billion-dollar facility for a Microsoft-linked site on similar lines. That structure distributes risk into bank and credit markets, and it is the channel to watch if returns disappoint.

DEAL ACTIVITY & CAPITAL MARKETS

The headline issuance figures are misleading and worth reading carefully. Eighty-six American listings raised two hundred and fifty-one billion dollars through late July against forty-seven billion in all of 2025 — but SpaceX alone accounts for roughly a third of that, having priced at a one-point-seven-five-trillion-dollar valuation, and Databricks' refusal to list this year is the more informative signal about where sophisticated sellers see value. Private equity told the opposite story: first-half volumes down thirty-four percent with average deal size up nearly fourfold, which is fewer, larger transactions funded through a narrower credit channel. That is a late-cycle configuration, and the exit bottleneck is the binding constraint — sponsors who cannot return capital cannot raise successor funds. Strategic activity nonetheless continued — Intercontinental Exchange agreeing to buy MarketAxess for five-point-seven billion dollars, Grant Thornton taking CBIZ for five billion, Ares approaching Leonard Green in alternatives — while Paramount's takeover of Warner Bros. Discovery was pushed out to the conclusion of an antitrust trial or June 2027, which tells you how management teams now price regulatory duration.

CLOSING THOUGHTS

Where We Stand

July confirmed more than it resolved. It confirmed that the energy shock is a level rather than a spike, that the artificial intelligence cycle has become a credit question as much as an earnings question, and that the correlations we rely on for diversification fail in exactly the conditions that make us want them. It complicated the policy picture considerably: a divided Federal Reserve without forward guidance, a bond market tightening conditions on its own initiative, and a Chair reviewing the very yardstick by which success is measured. On balance I think we are better positioned to make decisions than we were thirty days ago — not because the outlook is clearer, but because the month exposed which of our assumptions were actually doing the work. Gold's behaviour through all of this, holding above four thousand dollars through a hawkish surprise and rising yields, has been the clearest confirmation of the debasement thesis we have had this year.

What I am watching in August:

1. The daily transit count through Hormuz, currently around fifteen vessels against a pre-war hundred and twenty — that number, not the diplomatic commentary around it, is the single most important input to the global inflation path.
2. The two consumer price prints before the September meeting: three dissents and roughly sixty percent implied odds mean the Committee is one firm reading away from acting, and one soft reading away from a violent duration rally.
3. Nvidia’s late-August quarter, and whether the reported financing backstop for OpenAI is confirmed at scale — I will be watching credit spreads rather than the share price for the answer.
4. European gas storage from sixty-one percent, which decides whether the Gulf conflict becomes a European industrial problem by the first quarter.

A closing thought. There is a particular discomfort in a month where you are proved broadly right about the direction of things and it brings no satisfaction at all, because being right meant a war widened and a chokepoint stayed shut. I have been doing this long enough to know the difference between a market that is falling apart and a market that is changing its mind, and July was firmly the second. But I would rather tell you plainly that the range of outcomes has widened than pretend to a precision I do not have. Thank you, as always, for your trust — and please do call if any of this warrants a longer conversation.

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