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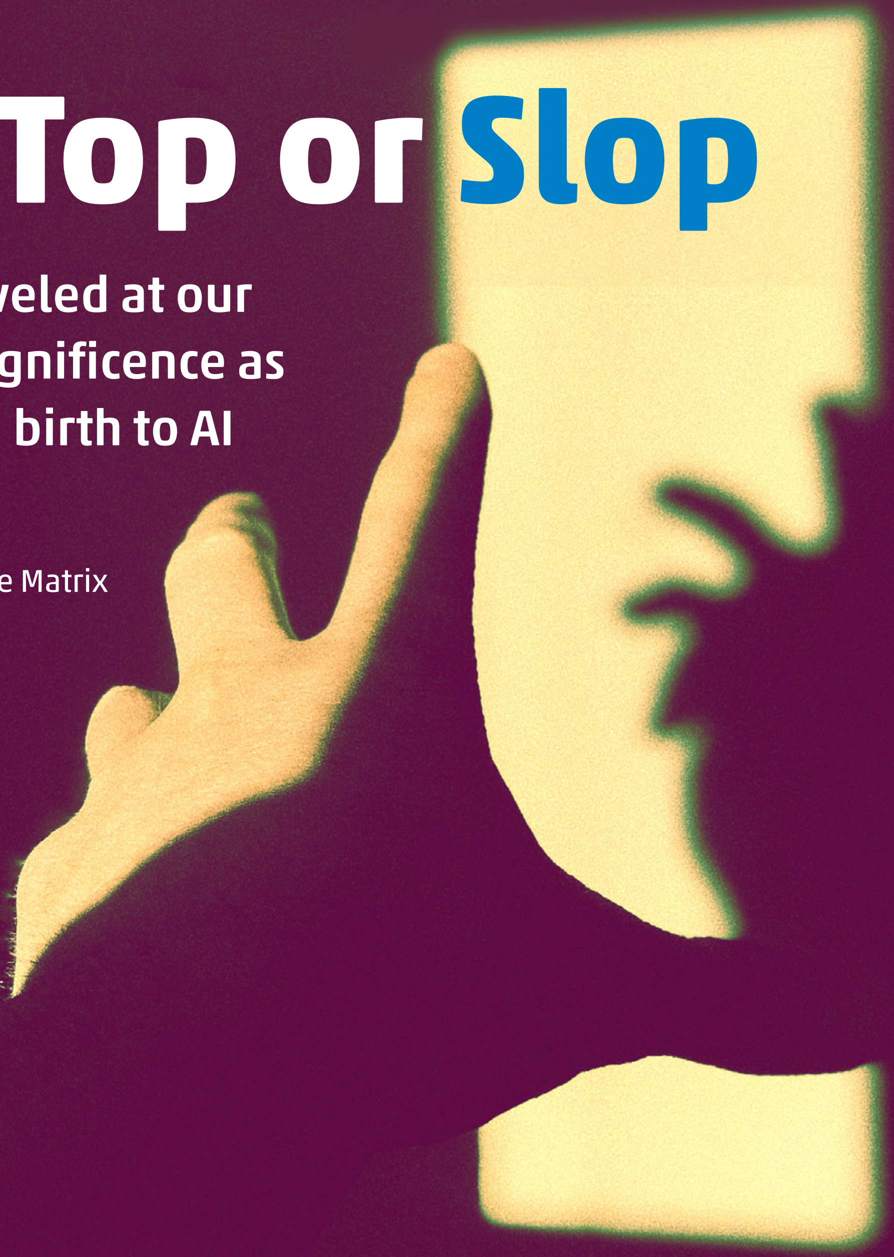
True Partner Capital

AI Top or Slop

> “We marveled at our own magnificence as we gave birth to AI
>
> Morpheus, The Matrix



09-2025, Chicago / Hong Kong

True Partner Capital

Suite A123, 16/F, Tower 5,
The Gateway, Harbour City,
Tsim Sha Tsui, Kowloon,
Hong Kong

111 West Jackson boulevard,
Suite 1700, Chicago,
60604, USA

Beursplein 5,
1012 JW Amsterdam,
The Netherlands

www.truepartnercapital.com

Being a True Partner

True Partner Capital

About True Partner Capital

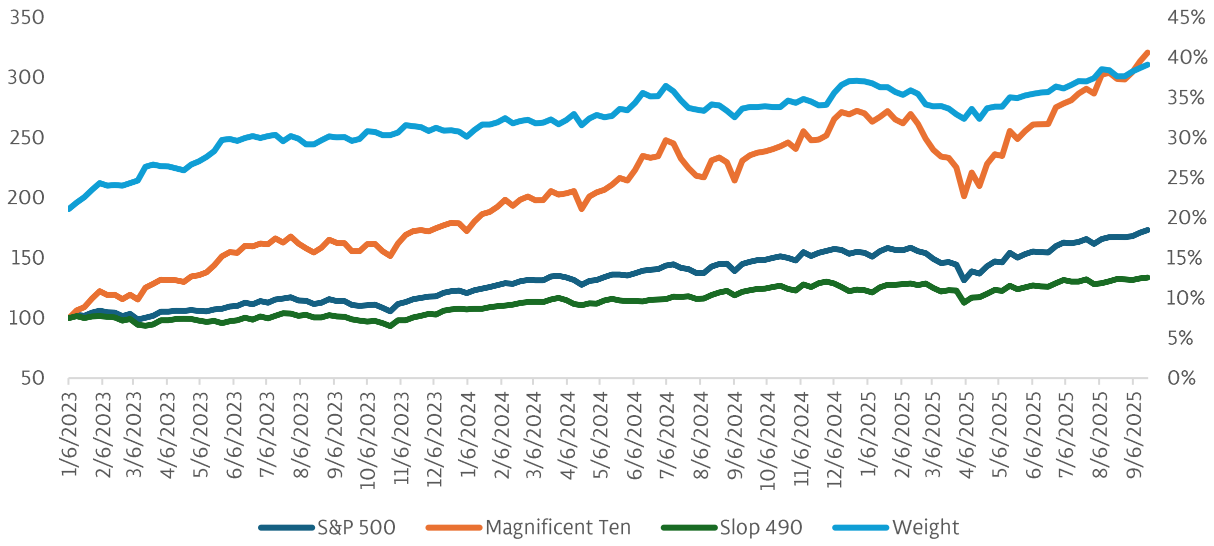
True Partner Capital is a global asset management firm founded by a team of former options market makers and technology specialists, with a primary focus on equity volatility strategies. The Firm has offices in the US, Europe and Asia and the key personnel have been working together for over 10 years. The Firm invests on behalf of a varied global investor base. Our investment expertise is accessible via commingled funds, separate mandates and customized solutions where we offer tailored volatility solutions, for example for tail risk hedging. The Firm's longest running commingled fund has an over 10 year track record pursuing the Firm's relative value volatility strategy. The Firm trades close to 24 hours a day across liquid global derivative markets and leverages proprietary technology developed by our experienced team, enabling the portfolio management team to identify and capitalize on trading opportunities.

AI Top or Slop

Magnificent Ten index is an AI focused index

A few weeks ago, CBOE announced the launch of derivatives on a Magnificent Ten index, a basket of highly esteemed US technology stocks. Bestowing 'Magnificent' status to a growing number of companies not only reduces the scope of funny acronyms, but also offers a glimpse into the drivers of the recent profoundly optimistic stock market sentiment. The graph below shows the performance of the Magnificent Ten stocks (Alphabet, Amazon, AMD, Apple, Broadcom, Meta, Microsoft, Nvidia, Palantir and Tesla) compared to the S&P 500 index as a whole from 2023 through current.

Performance S&P 500 and Magnificent Ten – 1/1/2023 through 9/19/2025



Source: True Partner, Bloomberg

While the outperformance of magnificence has been duly and repeatedly noted over time, a graphical depiction highlights the magnitude. The Magnificent Ten have been the key drivers of the rise in the S&P 500 as the weight of these ten companies in the overall market capitalization of the index constituents practically doubled, from 21% at the start of 2023 to a current level of 39%. The USD 24.89 trillion increase in total market capitalization over the period was generated for the majority (USD 15.85 trillion or 64%) by the Magnificent Ten stocks and only for the remaining USD 9.04 trillion by the rest, basically dividing the index in a Top 10 and a 'Slop 490'. On an annualized basis, the Magnificent Ten has returned +53.9%, significantly outpacing the +11.3% annualized return for the Slop 490.

With the Magnificent Ten stocks having a nearly 40% share of the overall S&P 500 market capitalization, the market breadth appears narrower than ever. But looking under the hood, the concentration is even more material as the components of the Magnificent Ten stocks have something in common: a very strong artificial intelligence ("AI") focus, as per the below table.

Alphabet	"Alphabet jumps as AI-driven spending fuels cloud revenue" [1]
Amazon	"Amazon plans to spend USD 100 billion this year to capture 'once in a lifetime opportunity' in AI" [2]
AMD	"Nearly 75% of AI optimists believe that not investing in AI is the bigger risk if their organization gets left behind by the rest of their industry"[3]
Apple	"CEO Tim Cook says Apple ready to open its wallet to catch up in AI"[4]
Broadcom	CEO Hock Tan quoted about his clients that "They are investing full-tilt. They will stop when they run out of money or when shareholders put a stop to this" 5
Meta	CEO Mark Zuckerberg was quoted that he'd rather risk "misspending a couple of hundred billion" than miss superintelligence [6]
Microsoft	"Microsoft CEO Nadella just reaffirmed his plan to spend USD 80 million on AI data centers in 2025…" and "For reference, the company had around USD 50 billion in total capex in 2024" 7
Nvidia	"Nvidia agreed to rent its own AI chips in USD 1.5 billion deal" [8]
Palantir	CTO Shyam Sankar quoted on the speed of AI implementation that "You can divide companies in two categories, the quick and the dead" [9]
Tesla	CEO Elon Musk quoted that "80% of Tesla value will be Optimus robots"[10]

What the comments appear to share is a high degree of both urgency and optimism on AI spending, which looks to also be shared by the market in general as investors have repeatedly bid up the shares of those Magnificent Ten members announcing massive capital AI expenditure. To put the Meta quote into context, it was only November 2022 when Meta shares hit a trough down 73% year-to-date as investors were of the opinion that "Mark Zuckerberg had squandered tens of billions of company dollars on building his mysterious Metaverse".[11]

AI investing in AI investing in AI

Potentially the most interesting mention in the table relates to Nvidia. Recent developments have shown the company repeatedly investing in prospective clients, of which the USD 100 billion investment in OpenAI allowing the latter to build AI data centers applying the former's advanced chips is the latest example. But in the transaction with Lambda (in which the company owns an equity stake), Nvidia supposedly commits to rent 18,000 of its own AI chips for a total of USD 1.5 billion. Lambda, whose business model is to equip datacenters with servers powered by Nvidia and subsequently rents them out to cloud customers is preparing to go public, and following this deal Nvidia would be Lambda's biggest customer.

1. Reuters – 24 July 2025
2. CNBC.com – 6 February 2025
3. AMD AI Outlook - https://www.amd.com/content/dam/amd/en/documents/solutions/ai/ai-outlook-are-it-teams-prepared.pdf
4. Reuters – 1 August 2025
5. Ft.com – 19 December 2024
6. Quotation from the Access podcast, published 18 September 2025
7. The Motley Fool – 4 February 2025
8. Bloomberg News – 4 September 2025
9. Palantir Q4 earnings call – 3 February 2025
10. Post on X by Elon Musk – 1 September 2025
11. The Guardian – 2 November 2022

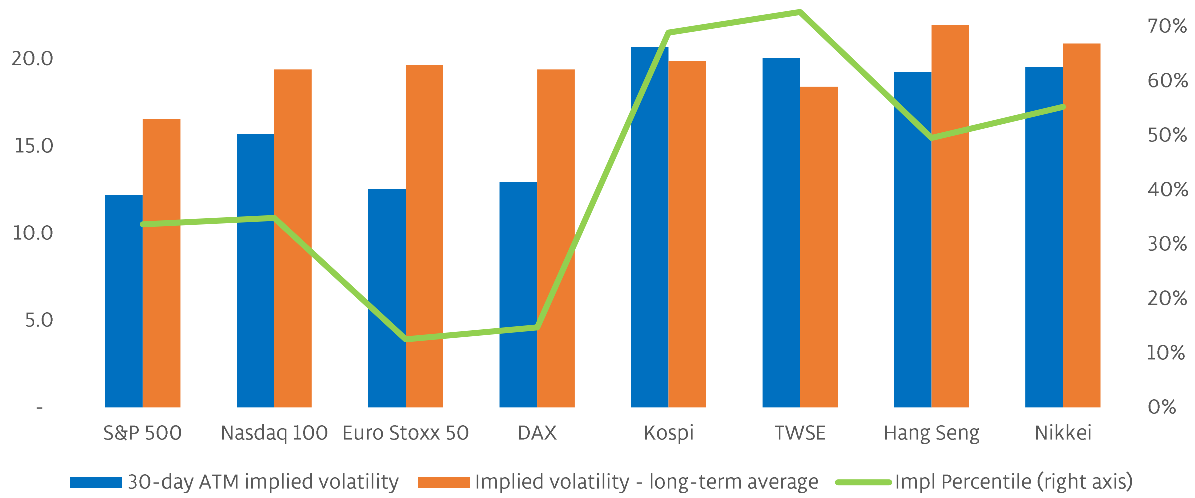
While the circumstances differ, these transactions carry at least a whiff of the circular financing agreements at the very start of the century, of which Nortel Networks was one of the more infamous practitioners. Towards the collapse of the dot-com bubble, the major supplier of communications equipment provided generous vendor financing agreements to purchasers in order to drive revenue. Even start-up telecommunications providers received generous vendor financing, in some instances in excess of the revenue generated by the sales [12]. When market headwinds persisted, nearly all major suppliers of the hardware for the internet revolution ended up with significant write-downs of such vendor financing arrangements and not all survived. Nortel which at its peak represented roughly one third of the entire Canadian market capitalization filed for bankruptcy in 2009.

As said, flush with stellar market capitalizations, the AI space is in quite a different spot from the telecommunications equipment firms when the dot-com bubble burst, but with their solid multiples based on projected revenues, such circular financing arrangements which further increase near-term revenues, do have the effect of paying for themselves.

Elevated AI hence S&P 500 valuations but index implied volatility low

For the team at True Partner, being volatility traders, we do not make a judgement on the validity of the AI-driven bull market we are currently experiencing. Upside volatility is also volatility after all, but given the current more elevated valuations of the Magnificent Ten, especially any fragility or hiccup in the market environment could trigger significant downside volatility. This is why any potential pivot in this all-encompassing AI fervor would squarely become our business. Especially when, as is currently the case, implied volatilities trade well below their long-term averages. For the US and Europe that is. The graph below plots the current 30-day implied volatility against the long-term (i.e., 2006 onwards) average implied volatility for the world's main equity indices (on the left-hand axis) and the percentile of current implied volatility levels (on the right-hand axis).

30-day implied volatilities across global indices: 9/19/2025 versus long-term averages



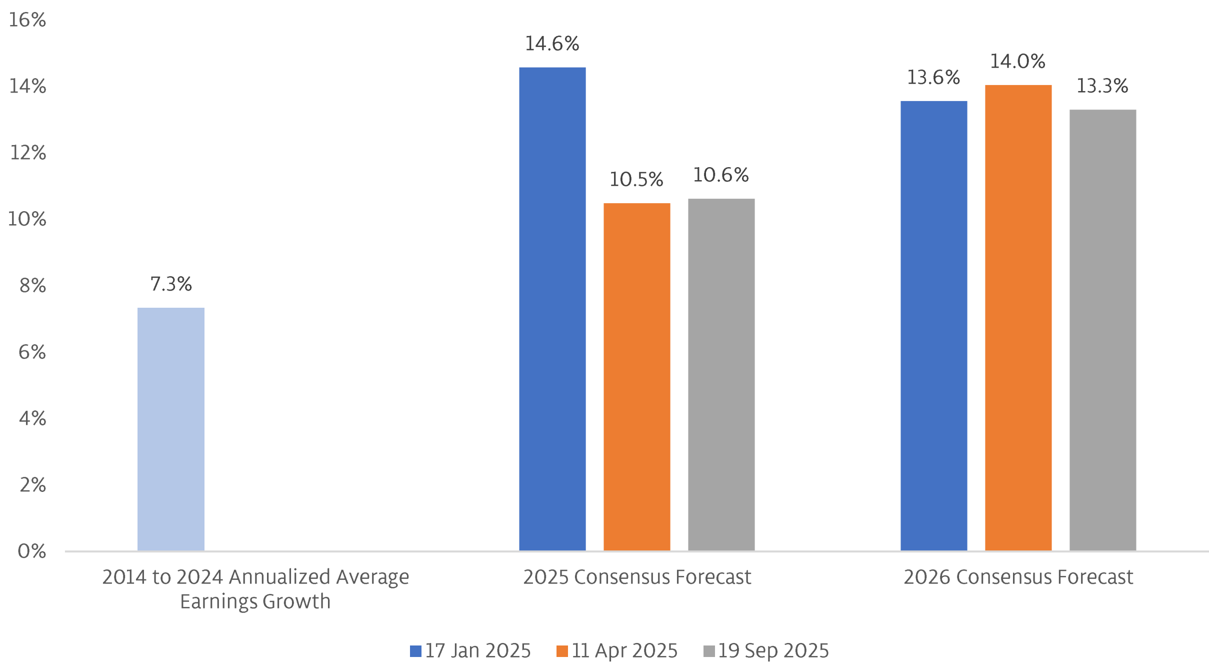
Source: True Partner, Bloomberg

12. In October 1999, Nortel Networks announced it had provided vendor financing of USD 600 million to a subsidiary of Mexican wireless firm Unefon in association with a sales contract worth USD 480 million. The issue ultimately ended in court in September 2002 after Nortel filed a notice of default when Unefon spun off its network assets and contributed to the demise of Nortel.

What is notable from the graph is the difference between the US and European indices on one hand and the Asian indices on the other, with the latter trading near their long-term averages. The index which trades the 'richest' compared to its long-term average is actually the Taiwan Stock Exchange index, which by itself is notable given the strong weight of the semiconductor industry, including bellwether TSMC. While of course cross-channel tensions play a role here as well, these have been a consistent feature of any Taiwan investment case for decades and would not explain the relatively high current percentile. The index has been rallying sharply on AI sentiment and the implied volatility is reflecting this upside fervor. For Western markets, however, they are pricing in a much higher degree of complacency.

Followers of our quarterly updates may recognize the graph below in which market expectations for S&P 500 earnings per share are mapped. Compared to the 7.3% annualized growth rate of the past decade, projections for the near future remain buoyant. What is notable on the right side of the graph is the comparison between the datapoint at the start of the year and the reading shortly after the April 2nd Liberation Day Tariff announcement. While 2025 expectations have not rebounded, the lofty growth predicted for 2026 appeared to have never been impacted. In other words, the market is firmly convinced that the tariffs and escalation of global trade tensions will not be felt beyond this year with earnings growing at a pace almost twice that of the past decade.

Consensus forecasts for S&P 500 EPS



Source: Factset data

Geopolitical disruption potential

Taking a step back and looking at the overall market background, there remain various potential catalysts that could disrupt this rather optimistic base case. Although the consensus forecast for 2026 S&P 500 earnings appear to indicate the tariffs are only a transitory disruption, global trade flows are shifting with likely more lasting results. This is not only visible in the field of commodities, where changes can be implemented (and reversed) fairly quickly as China's complete substitution of US agricultural imports show, but also in more complicated supply chains. A more negative animus towards the US is not just visible in physical trading, but also increasingly in US tourism and in finance as European and Canadian institutional investors look to deploy larger parts of their assets outside of the US and without the help of US financial intermediaries

The European economy appears to be at the receiving end of not only the US tariffs but also of the rerouting of Chinese exports away from the US. Its large automobile sector is most in the spotlight, with plunging sales abroad and increasing competition from Asia, especially in EV's. Since start of 2023, the major German carmakers have lost between 8% (BMW) and 41% (Volkswagen) of their market capitalization while other producers such as Renault and Stellantis also saw their shares decline over the period.

Although in Asia, China was the main target of the US trade tariffs, other major Asian exporters (including staunch US political allies) face significant tariff headwinds as well. Market performance has been solid for both Korea's Kospi 200 (up 49% YTD) and Japan's Nikkei 225 (up 13% YTD) as similar to the US markets, these indices trade around their all-time highs, but their implied volatilities indicate a higher degree of future uncertainty. While this could tie to the more 'Asian' dynamic of volatility increases associated with upticks, another explanation would be that market participants are more worried about the non-AI economy. Contrary to the US markets, both for Nikkei and Kospi pundits have been negative on their outlooks as Korea and Japan appeared to have missed the proverbial AI train. Thus these markets have reached their all-time highs based on gains in more conventional sectors of the economy, which contrasts with the US where the Slop 490 has strongly underperformed. In that interpretation, AI would be such a surefire bet that dominance of AI companies actually dampens downside risks of an index.

Who remembers the Nifty Fifty?

This current dynamic would be reminiscent of the Nifty Fifty craze, over 50 years ago. The Nifty Fifty was the designation for a set of US large cap stocks which were deemed to be solid growth stocks and are credited with propelling the bull market of the early 1970's. But as a result of their popularity, valuations became disconnected from their fundamentals and the stocks subsequently crashed and underperformed through the 1980's. Next to companies which currently still prosper (albeit at more modest valuations), some key members were Kodak and Polaroid, the latter reaching a price earnings ratio of 90 in 1971, not far from Broadcom's current level of 82 or AMD's 88 [13].

Several general parallels with the Nifty Fifty era are notable. The Trump administration's pressuring of the Federal Reserve is not unprecedented as at the time President Nixon attempted a similar path pushing for interest rate cuts. This was also the era of a weaker US dollar and strong gains for gold (amid geopolitical and inflation worries in the aftermath of nixing the gold standard).

Adapting Mark Twain's quote, markets may not repeat themselves, but they often rhyme. The lessons of the past are often forgotten by a new generation of traders.

13. P/E as per Bloomberg data, 24 September 2025

Feel the burn

As to future market performance, all roads appear to lead to the success of AI, it may help to have a look at the projections going forward. Given all the announced investment projects, the projected capital expenditure side is somewhat clear. According to Bloomberg Intelligence, the biggest tech firms will ramp up their combined annual spending on AI to over USD 500 billion by the start of the next decade. Not dissimilar to the dot-com era currently markets are rewarding increased expenditure, or increased burn rate as it was called back then, with stock price rallies.

Externalities such as power and water demand are becoming a constraint, for which someone will need to foot the bill to hyperscale AI justifying current valuations.

Already, US consumers are upset about stark rises to their electricity bills as costs to upgrade the grid are increasingly born by rate payers, witnessed in record auction prices at PJM Interconnection, a key US grid operator, last month.

The revenue side is murkier. As per a Bain Capital study, by 2030 AI companies will need USD 2 trillion in combined annual revenue only to fund the computing power needed to meet projected demand. But in light of the trailing efforts to monetize AI services, Bain expects revenue is likely to fall USD 800 billion short of that mark [14]. Monetization may not be as straightforward with innovation and competition heating up.

Potential disruption from China

China's nascent AI giants also ramped up spending, but in a different way. The lesson from the DeepSeek release in January this year is that nimbler open-source alternatives may well be viable. This would commoditize the AI large language models ("LLM"s) and would put significant pressure on margins.

On the hardware side more competition is to be expected from China as well. The US government has forbidden Nvidia to sell its most advanced AI chips to China already for some time. However, this has sparked an accelerated catch-up race in China with various hi-tech chip companies recently having launched their first AI chips as well. While they may not be of the same level as Nvidia (yet), it is a telltale sign that recently the Chinese government ordered Chinese companies to stay away from Nvidia chips altogether. They would not do that unless they know China is producing good alternatives. While first being used domestically, the next step of course would be exporting these AI chips as well, and probably for a much lower price than the current Nvidia chips, pushing down margins. Looking at recent history, it could go the same way as it did for the price competition of solar cells, at the time bankrupting Q-cells the largest European solar cell company and for instance First Solar is still trading below its 2008 high. Another more recent example is the EV price competition which is putting significant pressure on US and European car makers.

Like dotcom, solar and EV, the innovations themselves are here to stay, no dispute there, but US AI markets again may have gotten ahead of themselves in terms of the speed of scaling and revenue margins.

14. *AI industry faces US$800 billion revenue shortfall amid data centre expansion: Bain | South China Morning Post*

What AI thinks of AI?

Maybe it is only fair to give the last word to AI itself. When we asked (the free version of) Grok the question as to whether AI stocks were in a bubble, it provided a remarkably clear and honest answer. *"Based on recent analyses and market sentiment, **yes, many signs point to an AI bubble forming, reminiscent of the dot-com era, but it's not yet at peak mania, and a burst could be months or years away**"* [15].

We would agree with Grok that the timing of calling a bubble is a key aspect. Divesting out of US equities poses the risk of missing upside when the bull market continues. But at the same time, maintaining exposure to US equities does come with sizeable downside risks. From that perspective, with the current low levels of implied volatility this may well be a good time to augment equity exposure with an investment in a volatility strategy.

Therefore, why not invest some percentage of an equity portfolio in a relative value volatility fund like the True Partner Fund. This Fund could be a good diversifier as in the 14 years since inception, the Fund has paired an annualized return of +4.1% with a negative correlation to equity markets. This feat was possible as our relative value volatility strategy tends to make outsized returns in periods of market turmoil such as August 2011 (European debt crisis), June 2013 (Taper Tantrum), August 2015 (Yuan depreciation 'Black Monday'), February 2018 ('Volmageddon') and Q1 2020 (Covid pandemic). And for those who are worried something large is afoot, True Partner Capital also engages in Customized Solutions for downside and tail-hedging.

About the authors

Mr. Govert Heijboer, Co-CIO of True Partner, has been active as a market maker trading in the European and Asian derivatives markets as well as positional trading since 2003. Govert started as a trader/researcher at Saen Options in Amsterdam and rose to become the director of derivatives trading and a member of the executive team in 2007. In 2008 he moved to Hong Kong to set up and assume responsibility for all trading activities in the new Saen Options Hong Kong branch office. Govert holds a PhD in Management Science and an MSc in Applied Physics from the University of Twente, Netherlands. He is a founding partner and has worked on the launch of the True Partner Fund since March 2010.

Mr. Tobias Hekster, Co-CIO of True Partner, has been actively trading for the past 27 years in various different roles in several markets across the globe. Starting at IMC in 1998 as a pit trader in Amsterdam, Tobias has established the off-floor arbitrage desk, headed the Chicago office in the transition from floor trading to electronic trading and set up the Asian volatility arbitrage desk in Hong Kong. Tobias holds an MSc in Economics from University of Groningen, Netherlands. Next to his role as Senior Strategist, he taught as an Adjunct Associate Professor at the Chinese University of Hong Kong and as an Adjunct Professor of Financial Practice at National Taiwan University.

15. Philosophically, this answer is interesting. If there indeed is a bubble, the correctness of its answer would point towards its value, thus disproving the bubble. But if there would not be a bubble, the answer is incorrect and that would indicate there might be a bubble after all. Or more likely, functionally there is no unjustified hype in AI but the crucial driver as to whether there is a bubble are current valuations.

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Addresses:

True Partner Advisor Hong Kong Ltd.
Suite Suite A123, 16/F, Tower 5,
The Gateway, Harbour City,
Tsim Sha Tsui, Kowloon, Hong Kong

Tel: +852 3845 5900

True Partner Capital USA Holding, Inc.
111 West Jackson boulevard,
Suite 1700, Chicago,
60604, USA

Tel: +1 312 675 6128

True Partner Capital Netherlands B.V.
Beursplein 5,
1012 JW Amsterdam,
The Netherlands

Tel: +31 20 578 2011

Email vol.contact@truepartnercapital.com

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