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The Investment Conversation: Forces Driving Market Volatility

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In this podcast, Lord Abbett fixed income and equity Portfolio Managers Robert Lee and Matthew DeCicco discuss recent episodes of market volatility and what they may mean for investors.

ANDY D'SOUZA: Welcome to *The Investment Conversation.* I'm Andy D'Souza, chief marketing officer here at Lord Abbett. We've seen a lot of volatility recently in the news. A couple of major themes: geopolitics and the disruption in technology. To help unpack what's really going on, I'm joined by Matt DeCicco, director of equities.

MATTHEW DECICCO: Thanks for having me.

D'SOUZA: Thanks for coming on again. And Rob Lee, our co-head of taxable fixed income. What's going on, Rob?

ROBERT LEE: Doing great. Great to be here.

D'SOUZA: All right. Great to have you guys. Let's get right into it. So, two things we laid out in the beginning here between geopolitics and disruption in technology. Why don't we start with you, Rob, and let's talk about geopolitics. What's happening here

LEE: Sure. Okay. At the risk of stating the obvious, the thing in all the media, for a good reason, is the U.S. and Israeli strike on Iran. The reason that matters is energy. The Middle East is energy rich. This is oil and natural gas. Some economists would argue with pretty good reason that the economy is energy transformed. High prices at the pump, high natural gas prices matter for everything. Households, you go to fill up your car at the gas station, you turn on your stove, it's warmer now here in the northeast, but when it's cold in the winter, many people heat their homes with hydrocarbon. The same is true for businesses.

Energy matters for everything. There is a broader geopolitical risk element, too, when missiles, bombs, and drones are flying, usually you get some risk premium priced into markets. So, the big issue, and the risk is with higher oil prices, and natural gas prices, especially European natural gas. When those things rise, you have an effect on the economy, and more specifically, I would say, wars tend to be inflationary, and wars in commodity, especially energy rich regions, which is true today, tend to impart stagflationary impulses. It doesn't mean you guarantee you get stagflation. But the impulses are there. If you're spending a lot and filling up your car so you can drive to work, or on vacation, or to the grocery store, you have less to spend on groceries, or clothes, or anywhere. So that will impinge on the household balance sheet and disposable income. That's the big issue.

The last thing I'd say on this, and there's a lot to talk about it, but the last thing I'd say right now is how high oil prices get, or energy prices more broadly, and how long they stay there is the key for determining how big those stagflationary impulses are.

D'SOUZA: And I guess over time, how independent or not are we as a country from foreign oil versus previous times? And you mentioned Europe as well. What's the difference or similarities there?

LEE: Okay. The good news is the U.S. is in much better shape than other parts of the developed world, as a blanket statement. The U.S. had and has, and continues to benefit, from the shale revolution. We are net oil exporters, and I believe we're natural gas exporters through LNG, liquefied natural gas. The shale revolution changed the geopolitical power on the energy front for the U.S. The U.S. has a lot of resources in general, given the size geographically, and the resource rich nature. It's not just energy. It's agriculture and things like that, which are being affected by the energy and oil crisis now. But the U.S. is in much better shape. So that's the first thing.

Europe is not. Europe gets a lot of its energy, natural gas in particular, it used to get a lot from Russia, but after the invasion of Ukraine four plus years ago, that's mostly or essentially shut off. So, most of Europe is very dependent upon the Middle East. The same thing is true for Asia. In particular, China, Japan, South Korea, three of the biggest, you know, Asian countries, economically speaking,

same thing with India, they are large importers of energy, and a lot of it comes from the Middle East. Right now, the Strait of Hormuz is effectively shut. There are a few ships, you know, tankers going through, but essentially shut.

D'SOUZA: And about a fifth of the world's oil goes through there. Is that right?

LEE: Yes. Both oil and natural gas, to my understanding. I've seen some slightly higher numbers, but that's a ballpark. I've seen 20% to 30%. So, it depends on your source.

D'SOUZA: Okay. Great. And look, headlines are moving fast. Today is actually March 11th, just for the record, because things do change pretty quickly here in this marketplace. And speaking of things that change fast, Matt, let's turn quickly to the second big headline we're seeing out there, which is disruption in technology. I think there was a paper that came out by Citrini Research recently. It was last month. A couple weeks ago, I think, at this point. That was titled "The 2028 Global Intelligence Crisis." And that forecast things like 10% unemployment, and other things. To my understanding, it was almost like [artificial intelligence] AI productivity, it was almost too good. Is that right? And what's happening?

DECICCO: Yeah. So, I think maybe just take a step back. This is a major platform shift. It's an incredible technological disruption that's now over three years old. And during those three years, the power of the technology has continued to improve. If you think about what you were using ChatGPT for in late 2022 compared to a year and a half ago, you realize, wow, the research that I can do with this has gotten a lot better, to today, where with things like OpenClaude, or Claude Code, you're able to have a full project be done by an agent.

So, the rate of change of the technology is continuing to increase. And so, one can extrapolate to infinity and make predictions I'd say in both directions, one of a utopian society where there's wonderful productivity gains that accrue to all, or a much more dystopian future where you have, like in the article you mentioned, where unemployment is very high. I'm not going to make either. Although, I will point out that there's a reason that dystopian thrillers sell books, and are blockbuster movies, and you don't go watch a utopian movie or read a utopian book. It's human nature to be much more attracted to what can go wrong. So, I think there's both sided risks to the pace of technological change that's happening with generative AI. But I'd caution against getting overly negative or perhaps getting overly positive.

If we just think about what actually is happening is the pace of productivity, as people are using these tools, is increasing. And the supply for compute to use these tools is being outstripped by the demand for people using those tools, whether it be people like you, or me, or Rob, to become more productive in their jobs. And I think right now these tools are providing tremendous value to the work I do every day, and they're providing tremendous value to the work that people do in a lot of different industries. The academic research and, you know, if you just go by anecdotes, you're getting maybe 20%, 25% productivity from these tools. So, while I think they're certainly some things to be concerned about, about how quickly the technology is moving, I think that we should be looking at what are the opportunities, what are the risks, and making good investments based upon a balance of the risk and reward.

D'SOUZA: And what about for either of you here, because it crosses all markets, what about the idea of the actual dollars and cents being invested, whether they're saying the hyperscalers' investment in this, and what does that mean?

DECICCO: Yeah. I can start on this, Rob, and you can please chime in. Roughly, next year, the big five hyperscalers, we will include Oracle, are projected to spend about [estimated] $550 billion dollars in [capital expenditures] CapEx. And that's not all for generative AI tools but you can think of it as mostly driven, the growth in that is mostly driven by building out data centers or artificial intelligence factories.

To put that into context, before ChatGPT, in 2022, these big five [hyperscalers] were spending maybe $150 billion in CapEx, and it had grown in the year before that by about 15% or 20%. And so now we're talking about $550 billion dollars in CapEx in 2026, and the growth in 2025 was north of 65%, and it's probably going to grow significantly again this year. So higher numbers and higher levels of growth. So, it's a significant amount of spend. But to tie it back to what I said earlier, why are they spending this much, it's because the demand for the compute that the spend is enabling is still outstripping supply.

So, every one of the companies, every one of the hyperscalers is telling you that they're seeing higher revenue growth compared to what they were doing two or three years ago in their cloud businesses. And they're telling you that their growth would be faster, including hearing the same thing from Anthropic, or OpenAI, if they had more compute. So, the amount of spend is very high. And it's much higher than it was in the past. But what is driving it are good fundamentals, which is demand outstripping supply.

D'SOUZA: Got it. And Rob, I think maybe another question I have along the same lines here would be how do we measure the return on that investment? Is that even possible this early on?

LEE: Yeah. Okay, so let me say one thing before I answer that question. The biggest technology companies, these so-called hyperscalers, these are some of the most profitable, highly cash flow and free cash flow generating companies. Less on the free cash flow side, because they're spending so much on AI build out and infrastructure. But these are monsters. These are one, and two, and three plus trillion-dollar market [capitalization] cap companies. Massively profitable. So, they have the financial wherewithal to make these massive multi-hundred-billion-dollar investments. They could be making a mistake. That is a possibility.

But these are not stupid people, at the risk of stating the obvious. They see something, and the something is massive innovation. It's a very exciting time to be alive. This is the more utopian side. If you're not using these tools, I suggest you do for all our viewers or listeners. What you will see, and I paraphrase an Arthur C. Clarke quote, the old science fiction writer, "Technology sufficiently advanced is indistinguishable from magic." And that's kind of what we saw in November of 2022 when ChatGPT came out. Every month, or two, or three, sometimes it feels like every week, some new model gets developed.

D'SOUZA: I think it was yesterday another one came out.

LEE: Developed and then released. And every single one, I don't want to exaggerate, but especially for the best AI labs, the advancement, the innovation, the progress is astounding, I don't think is an unfair word. So, if you're not using these tools at whatever level, you should be just to see how it's going. If you did it three months ago and you stopped, you probably want to try it again because something else happened, and you're going to be dazzled, probably. That's what they see, these hyperscalers.

It seems unlikely, I can tell a more dire scenario, and a counterpoint, but it seems unlikely they're going to stop any time soon. So that's the big picture. As long as the innovation and progress is there, they're going to keep going. The opportunity set, by the way, for those hyperscalers, is massive, because if you win and you build the best machine, the best [large language model] LLM, the best AI model, the so-called TAM, the total adjustable market, is I'll say gigantic. For effect, sometimes I say it's the world or on a bad day or a weekday, I say the universe. But it's massive. So, it's both offense, where they see an opportunity to capture huge market share, extension of their businesses, additional revenue. On the opposite side, and I'm kind of more in Matt's territory here, so he can refute or confirm, on the opposite side, if you don't do it, maybe you're going to be a dinosaur in one, three, five, ten years, if you fall behind. I don't think they're going to stop. So that's the first thing.

To size it a little bit, and you asked Matt this, you're talking about $500, $600 billion. It keeps going up and every year in the last few years it goes up, and it keeps surpassing on the high side. One way to put it into context is a few ways. The U.S. economy in nominal terms is around $30 trillion. So, half a trillion is small relative to $30 trillion, but it's not small in an absolute sense, and it's not small in a growth investment sense. I mean, those dollars had to go somewhere. Sometimes they are retained as earnings by the companies and sometimes they get paid out to shareholders in different ways. But now it's going to CapEx.

D'SOUZA: And again, just the idea of the measurement of the return on that, of the overall investment they're making. Matt, any comments on that?

DECICCO: Yeah. I would go back to what I ran through on some of the numbers before. The increase in revenue growth for [Google Cloud Platform] GCP, for example, Google's cloud business, from low 30s to [approximately] 50%. And 55% of that revenue is coming down, is dropping down to the bottom line, incremental margin. And these are huge businesses. You know, [Amazon Web Services} AWS is a $100 billion dollar business. Azure is a $40 billion dollar business. These are huge businesses. And they're seeing a big uptick in growth and again at very high margins.

And then the productivity measures I referred to earlier, or 25% uptick in productivity, either through anecdotes that you hear on company earnings conference calls, or through a variety of different academic research, that's the return on that investment as well. And then there are case studies that you hear about everywhere. Even a small restaurant company, a trucking company, that's talking about their revenue seeing an uplift from implementing these tools.

I think it's going to be very hard to aggregate at the economic level the productivity in the sense that an economist would be comfortable saying broadly, in real time, we're seeing a productivity lift from this spend. Rob would know more about this than I do, but that type of calculation normally just has a lot of errors and there's a lot of hypotheses that goes into that, but also, it's often not clear until years after that you actually experience the return.

So, I think I can't give you an answer that is rock-solid, like there's the return. But I can tell you just by looking at these different data points that I feel confident that there is a return being earned. And I think the biggest one is the one Rob referred to, is that you've got these incredibly profitable, incredibly smart people that run these, some of the greatest companies in the history of mankind are increasing the amount they're spending because they see the possibility of returns now and in the future.

D'SOUZA: What about some of the smaller companies? Matt, I'll ask, I guess, on both sides of the house, but stick with the equities for a second here. You talk about some of the major publicly traded companies out there. What about smaller companies you see? How's it going?

DECICCO: I'll give you an anecdote of a small company. It's Wingstop, which is the chicken joint. That place. So, they have used a prediction model, using generative AI tools, to roll out what they call their smart kitchen. And what that is doing is drawing from, of course, their prior results. And what they're trying to do is predict demand so that their kitchen is staffed appropriately. And so, they use a whole bunch of different inputs, including their prior results, weather, and they even pull in information from prediction markets like Draft Kings, to know when there's a lot of action on games. And the entire reason they're doing this is so that when Andy D'Souza calls for chicken wings, or looks on Door Dash for chicken wings, that from Wingstop, it's coming to you in 13 minutes instead of 21 minutes. And so, because they know if you see 13 minutes instead of 21 minutes, you're more likely to order, and they can turn the kitchen over faster. And that's real revenue and a real return that they're getting. So that's just one very silly but real-life example of the types of things we're hearing from companies and the way they're using these tools, and how they're seeing an immediate either uplift in productivity or revenues.

D'SOUZA: I do like wings, and I am very impatient so that one hits home, for sure.

LEE: Perfect for you.

D'SOUZA: It's great for me. You like wings, Rob?

LEE: I do like wings. Bad for you. Bad for my diet.

D'SOUZA: Are you impatient by nature?

LEE: A little bit. Occupational hazard.

D'SOUZA: We'll get some wings after this. It's good.

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LEE: Sounds great. Okay, so I'm going to give the disruption side. But before I do that, let me say as far as I can tell, as you might be able tell from some of my earlier comments, I'm a true believer in the potential for AI to change the world in a very positive way. Productivity is hard to measure. Maybe extremely hard to measure with accuracy in the short run, as Matt said. We have trained economist on our team. They will confirm that.

But what I see is massive potential. I'm a true believer, at the very least in the potential, and more broadly speaking. That being said, I'm going to give you the potential disruption side. So, the disruption side is if the scaling laws, and we can define that later, continue to work. It's not an actual law, but you know, effectively, if the innovation, the power of AI, continues to work, and accelerate even, the future could be extremely bright. Higher productivity is good for society. But let's separate out the distribution of that, because that matters. It matters a lot. But let's separate it for a second. It means you can produce more with the same number of people or even fewer people, or workers. [Gross Domestic Product] GDP will grow. Inflation might be more contained. This is a very benign and positive scenario for humankind. It's very exciting for our kids. But I'll still give you the negative side because I'm a bond guy. So, the negative side is many industries get disrupted.

What has happened over the last few weeks, or even months, has been massive rotations below the surface. That's probably not going to surprise anyone who is watching or listening, but the massive bear markets fear potential for disruption is there. One shouldn't make light of it. I'll point to probably the most obvious sector, and the one maybe most vulnerable is software in general. Software has been eating the world for a decade and a half. You can go read Marc Andreessen, famed venture capitalist. I think he wrote the article in 2011. Software is eating the world. That happened for a decade plus. And some of the most valuable companies in the world, these software companies, or [Software as a Service] SaaS, I'll call it SaaS companies—they are related—huge wealth creation, very large companies and you can name all of them. I could name probably 70% of them. If software ate the world for so long, there's a chance that AI eats software.

If everybody can vibe code, and with such a powerful AI model, if a novice who can't code in Python, or anything else, like me, could go into the powerful enough AI, and say, "I have an idea to solve some problem for someone. Write the code." I don't need to know. I mean, it could be glitchy. It could be. But it's going to get increasingly better and better. And it's already writing a tremendous amount of code. I can create some app that makes a lot of money if I do it right. Again, there's massive competition. Maybe somebody else will do it better, because they know how to prompt better. But that's the potential disruption we are looking for if you are a software company. The reason software is such a good business, to take a step back, was you put in the original [research and development] R&D, you have these great software engineers, and people who can write code, they build something great, and it solves a problem. And then you sell it, and you scale really fast. And then it's all gravy from there, because you can replicate, it's essentially costless because you have the intellectual property. There are network effects, there are relationships, there's sales, there are partnerships, there are a lot of moats, potentially, but you've built a great business.

And there is a possibility, AI, because it is so powerful, can write all that code so quickly, because it works 24/7, and all the massive compute that Matt talked about, which is only increasing. Compute just means you're getting a whole lot of super powerful chips from NVIDA and [Advanced Micro Devices] AMD, and Broadcom, and whoever else. You buy enough of it, and you throw enough data at it, this is scaling laws, magic comes out. It can be so powerful. I, a novice, an amateur, someone who can't code, could build something. That is potentially disruptive to lots of software businesses.

Last thing I'd say here, and I can go on, is one needs to separate which software companies have enough of those moats, frictions, true advantages, you know, real things that make them sticky, and hard to disrupt, versus perhaps probably, maybe, some of the smaller, less profitable, lower cash flow, earlier stage businesses—then you can't paint with a broad brush—fewer resources, less cash on hand, they're scaling right now. Those might be more vulnerable than the biggest, you know, software companies out there.

D'SOUZA: And when you guys look at companies, whether it's the equity side of the house, or the debt side, when you think about some metrics like annual recurring revenue [ARR], which we've seen is sort of rock-solid, almost like a constant in the future, suddenly that's being sort of shaken a bit. Has your philosophy or process changed at all with these types of companies? How do you think about them any differently than the year before?

DECICCO: So, no change in our philosophy or process but I think you have to stress test your assumptions on these companies. And what we've done is lean into a bit more of the qualitative elements of our process.

D'SOUZA: What do you mean?

DECICCO: So, I can tell you what a company's net revenue retention is today. Or I can tell what their ARR is today. I could tell you what their margins are today. But what's at debate is what are those numbers going to be three years and five years from now. I'm spending a lot more time evaluating the management team of the companies we're investing in. It's a good time to be invested in companies that are still led by, we'll call maniacal founders.

D'SOUZA: Humans.

DECICCO: Yeah. Humans for one. Yes. But a special kind of human. Someone who has started the company from the ground up, and views the company as their child, and will do anything to make sure that that child grows up and is bigger and stronger in the future. And that doesn't mean you have to be a founder to have that point of view. But we're looking at our management teams and saying do they have that raw ability, that raw potential to do what it takes to operate in this wildly disruptive world.

We're then looking at, Rob used the term moats, the competitive advantage of these companies. How sustainable are they? You know, not just what they have today, but how sustainable it is in the future. And a lot of that comes back to the management team and

the culture of the company. Do they have a culture of innovation, a culture of disruption? Are they willing to disrupt themselves? Are they willing to take new revenues on at 65% gross margins when the old business was at 85% gross margins because in the future, if they don't, they won't have a business at the same size or scale?

And then I also think, the last thing is, I talked a little bit about the platform shift, and the latest shift towards this agentic world. We're asking ourselves, especially in software specifically, how do these companies exist in this agentic world, whether it's agentic commerce, or agentic software. And by agentic, we just mean imagine a group of agents that are executing tasks on your behalf. And so, do you have a company that is positioned well for that future?

And you could go through every software company, and you can, again, look at their financials. Their financial strength is certainly important for where they are and how well they can weather the storm. But they're willing to navigate through change. I'm laying out for you these qualitative elements are our view on their ability to navigate incredible disruption and change that we think can make them successful, again, three or five years from now.

Because, to Rob's point, this is where there has been the largest draw down in share prices. It has been in software or in these areas where [generative] Gen AI is disrupting, and the baby, so to speak, has been thrown out with the bath water. And so, if you have a bunch of companies that are trading at a much lower price than they were before, there are some that will not be here in three years. There are some that will have a very different, worse business model in three to five years. And so, what we're spending a lot of time on is trying to pick through the wreckage, so to speak, and figure out which of these companies have what it takes to not just be on the other side but be stronger on the other side.

D'SOUZA: Yeah, it's interesting. You talk about the advances in productivity through technology, yet, at the same time, you're spending almost more time now on the qualitative factors, in terms of the humans involved, which is interesting.

DECICCO: Well, we can also use some Gen AI tools internally to scrape through hundreds and hundreds of earnings reports to get a sense of earnings calls, and to get a sense of which companies are doing this better than others. So, we are using some AI tools to enhance our research, the pace of our research.

D'SOUZA: Combination. Got you. Rob?

LEE: Yeah, okay, so let me say a few things that I think are related to your question and the discussion. The first is, this is an exciting time for active managers. When you have this much potential disruption both with the conflict, plus AI, and other things we can talk about like credit crunch, and cockroaches. This is where active management can shine. Deep credit research separating out what is unfairly beaten up versus what is more resilient or more protected or more remote from the AI disruption, to use that topic. This is where the hard work is done by our teams. So, it's a very exciting time if we have the right people and we make the right calls. Very exciting time for active managers. That's the first thing I'd say.

The second thing I'd say is a response to your question. Yeah. 50% [annual recurring revenue] ARR, 75% ARR, 100% ARR, that's all backward looking. I mean, so are earnings. But besides guidance, the risk is AI disrupts you. You can go from 100% ARR, or 50% ARR, to like negative, and game over, and out of business, depending. I'm not saying it's going to happen to everyone. ARR is a concept that could apply to anything, but it tends to be more early stage, often because established, large investment-grade public companies—there's a long history there. There's a lot of scrutiny of them. It doesn't mean they aren't somewhat vulnerable. No one's completely protected. But that's the key. Right? Make no mistake about what we're talking about. Yeah, 50% ARR, 75% ARR sounds great. And the reason they are as revenue is because sometimes you don't have the earnings yet. And that's okay. Amazon did that for a long time and they did all right for themselves. The real risk is now you never make it to that point. So, that is where the deep research and the active management are critical.

The one thing, the last thing I'd add here, on the bonds side, and I'll talk specifically for the public bond markets, both investment grade, and leverage credit, high yield, and leverage loans. The issue here is, and I'll start with investment-grade corporates, credit spreads are pretty tight. There's usually a pretty big negative asymmetry, especially when credit spreads are tight, to bonds. If the revenue keeps going and the cash flow keeps going, you might tighten, and you might outperform comparable maturity or duration treasuries, which is a good thing, plus, the extra income and coupon. But if you're wrong, at the extreme, it could be really bad. You have true value destruction. Down grade, default. You know, falling to below investment- grade territory. Those are all bad things for a bond if you're overweight or if you hold those bonds. If it's trading on spread, especially really tight spreads, you don't have the upside of getting it right, necessarily. With the uncertainty around AI and what will happen next, although I'm a true believer, I'll repeat, sometimes you're not getting paid. You don't have to be there.

It's a little less true, or maybe meaningfully less true on the below investment-grade side, including some of the stuff that's gotten beaten up. So, in the broadly syndicated leverage loan market, depending on what index or what data you use, that's about 13% in software. If you define it more broadly, it's a lot bigger than that, but [approximately] 13% in software. Those loans, software loans, many of them took a pretty big hit. They've already bounced some in recent days but took a pretty big hit. And back to my earlier comment, we are doing the work, we find some interesting things to buy there, and you're not buying them at par anymore, you might buy that at $90 price, or $80 price, or something different. But you have more upside plus all the coupon and the carry. So exciting times for active managers. You better be able to do the work. And that's what they pay us for.

D'SOUZA: I love it. Thanks, guys, for the time today. I really appreciate it.

DECICCO: Thanks for having us.

LEE: Great to be here. Yeah.

D'SOUZA: Thank you for listening to *The Investment Conversation*. Find more episodes wherever you get your podcasts, or at lordabbett.com. And follow us on LinkedIn, Instagram, and YouTube, for more perspectives from across the firm.

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GLOSSARY OF TERMS USED IN THIS BROADCAST

Agentic Describes AI systems that can act autonomously, setting goals, making decisions, and taking actions (often across multiple steps) with minimal human oversight.

Annual recurring revenue (ARR) measures the predictable recurring revenue a subscription business expects to generate in a year, excluding one-time fees.

Artificial Intelligence (AI) Agent is a software system that can autonomously pursue goals and complete tasks on a user's behalf by reasoning, planning, and taking actions, often across multiple steps and systems, without needing constant human direction

Broadly syndicated loans (BSL) are floating-rate loans made to corporate borrowers with generally greater than $50 million in EBITDA and in most cases, at least $100 million. They are senior in the capital structure and have a first claim on the assets of the borrower.

Capital Expenditures (CapEx) refers to the funds that a company uses to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. These expenditures are considered investments in the company's future operations and growth.

Carry is the difference between the yield on a longer-maturity bond and the cost of borrowing.

Cockroaches refers to Jamie Dimon's metaphor for hidden or unrecognized financial problems—meaning that when one visible issue appears in the economy or credit markets, it likely signals more potential problems.

Corporate margins refer to the percentage of revenue that a company retains as profit after accounting for costs and expenses.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

Free cash flow (FCF) is the amount of cash a company generates after covering operating expenses and capital expenditures (CapEx) needed to maintain or expand its asset base. It represents the cash available for discretionary uses.

Gross Domestic Product (GDP) is the total monetary value of all final goods and services produced within a country's borders during a specific period, usually a quarter or a year.

Gross Margin is the percentage of revenue left after subtracting the direct costs of producing goods or services—showing how efficiently a business turns sales into profit before other expenses.

Hyperscalers are large technology companies that operate massive, globally distributed data centers designed to deliver cloud computing, storage, and networking services at extreme scale.

Issuance refers to the process by which an entity—such as the U.S. government, a municipality, or a corporation—raises capital by selling debt securities (bonds) to investors. When investors buy these bonds, they are effectively lending money to the issuer in exchange for periodic interest payments (coupon payments) and repayment of principal at maturity.

Joint venture (JV) is a business arrangement where two or more parties agree to pool resources—such as capital, expertise, or technology—to accomplish a specific goal or project, while sharing profits, losses, and responsibilities.

Levered lending refers to the practice of providing loans to borrowers—typically businesses—that already have high levels of debt or lower credit ratings, making them riskier than traditional borrowers. Because of this elevated risk, these loans generally carry higher interest rates and often include stricter terms or covenants.

Large Language Model (LLM) is a type of artificial intelligence model designed to understand and generate human language. It is typically built using transformer-based neural networks and trained on very large amounts of text.

Large Multimodal Model (LMM) is an AI model that can understand, reason over, and generate multiple types of data (modalities), such as text, images, audio, and video, within a single system

Net income—also called net profit or net earnings—is the amount of money a company retains after subtracting all expenses from total revenue.

Net Revenue Retention is the percentage of revenue a company keeps from existing customers over time, including upgrades and expansions, after accounting for churn and downgrades.

Network Effect is a phenomenon where a product or platform becomes more valuable as more people use it, creating a self-reinforcing cycle of growth and adoption.

Open Claude is an independent, open-source chat interface inspired by Anthropic's Claude. It lets users interact with multiple AI models, including Claude, through a single interface. It's hosted on GitHub and is community-built, not maintained by Anthropic

Qualitative Analysis is a research approach focused on non-numerical data—like interviews, text, or observations—to understand patterns, themes, and meaning rather than statistics.

Return on Invested Capital (ROIC) measures how efficiently a company uses all of its capital (debt + equity) to generate operating profits.

SaaS (Software as a Service) is a software delivery model where applications are hosted in the cloud and accessed via the internet, usually through a subscription, with updates and infrastructure handled by the provider.

Shale revolution refers to the period in the energy industry beginning in the early 2000s that was marked by the widespread adoption of hydraulic fracturing (fracking) and horizontal drilling technologies to extract oil and natural gas from shale formations.

Spread is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one-one hundredth of a percentage point). The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

Spread products are any bonds that are not a government bond.

Stagflation is an economic condition where high inflation, slow or negative economic growth, and high unemployment happen at the same time.

Vibe Code / Vibe Coding is a style of software development where you describe what you want in natural language and let AI generate the code—often prioritizing speed and experimentation over deep code review.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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References to data on U.S. nominal GDP are based on Federal Reserve Bank of St. Louis (FRED) data as of December 31, 2025.

References to Google Cloud Platform revenue growth are based on company-reported financial data as of December 31, 2025.

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