Insight #2: Capital Reallocation Amidst Geopolitical Tensions and Market Uncertainty + Apple (AAPL) Commentary

Justice Baoerjin and Austin Ku - BK Capital Management, LLC.

1. **Insights: Capital Reallocation Amidst Geopolitical Tensions and Market Uncertainty**

Unrest and uncertainty plague stock markets today. The fear and greed index and S&P 500 are currently at their lowest point YTD, and public voices are divided as to whether markets will enter deep value or recession territory. We think it's noteworthy to take a step back and examine how capital is moving in these times, and hopefully provide guidance on portfolio recalibrations, if any.

Let's first look at some leading voices of today's market. Below we've compiled 3 large categories of public opinion we find useful in representing varying perspectives. (Note that these are not inclusive of all published opinions due to some overlap.)

Sell-Side Institutions

Name	Institution	Commentary	Source
David Kostin	Goldman Sachs	…ultimately a tax on US companies and consumers... While some domestic industries might benefit, the broader market tends to react negatively, particularly sectors with global supply chains like technology and industrials.	Goldman Sachs Insights, Mar 2025
Marko Kolanovic	J.P. Morgan	Tariffs pose downside risk but market momentum and technicals can absorb or override the shock — until they can't	Odd Lots podcast, Mar 2025
Michael Hartnett	Bank of America	"Monster equity inflows say no one really believes trade war = recession/bear market,"	Business Insider, Mar 2025

Buy-Side Investors

Name	Institution	Commentary	Source
David Tepper	Appaloosa Management	“My counterbet is that I don’t care”; pro Chinese stocks	CNBC Interview, Mar 2025
Ray Dalio	Bridgewater Associates	Tariffs are a form of economic warfare…They may seem manageable in the short term, but over time, they build resentment and risk retaliatory spirals that are bad for global stability.”	CNBC CONVERGE LIVE, Mar 2025
Dan Ivascyn	PIMCO	“Acknowledge the uncertainty, but look to take advantage of the full global opportunity set…fixed income is a cheap, attractive tactical trading environment.”	PIMCO commentary, Mar 2025

Academic Commentary

Name	Institution	Commentary	Source
Kenneth Rogoff	Harvard University	The country that suffers most from imposing tariffs is the one that does it... US consumers bear the cost, and if others retaliate,	CNBC TV-18, Mar 2025

American exporters are hit too. The US doesn't win in a tariff war.

Overall, while opinion is clearly varied due to different motivations, most of their tones all underscore some degree of caution and uncertainty. Sell-side still focuses on calming clients through rather neutral tones but addresses risks associated with tariffs. Buy-side views diverge across a logical spectrum due to longer term horizon and personal macro views, likely motivated by a need to differentiate. Academia continues to assume a rational and economical stance by highlighting associated tradeoffs.

Now let's examine actual capital movement to gauge the market's reflected sentiment. Roughly since Trump's first tariffs, the S&P has been down ~7-8%. Within the S&P, healthcare, insurance, and energy are the largest gainers with roughly ~5% in the past month, while all of tech and consumer are down at least -10%. The explanation is simple: down sectors have high exposure to international trade (currently China) and supply chain disruptions, hence immediate victims of market uncertainty. Hence, investors seek safe haven in defensive and reliable sectors to hopefully hedge against economic cycles. However, outside the US, key trading partners — Canada, Mexico, and China's — stock markets have largely outperformed the US markets. The TSX and SSE fluctuated since tariff announcements but only dipped slightly, while the IPC rebounded past a dip and is now in the green. If tariff concerns are truly tangible, these stock indices would already reach rock bottom. Hence, we believe there is a possibility that US investors are overplaying tariff concerns. (Also noteworthy to mention Japan and South Africa are currently enjoying stock market rallies. We won't dive into specifics as it detracts from the focus of this article)

As investors that predominantly focused on US-based companies, the logical thought is to then consider investment implications. As our horizon is mid-long term, we shall consider whether end demand and future market growth is intact. This is because a business fundamentally profits and scales from a function of its market share + market size — portion of the pie increases along with the size of the pie. Given a discount in current market prices, we believe if the pie is growing, it would justify fundamentals and provide a potential entry point given current market drawdowns.

For a comparative case study, let's look at tech. In late 2022, the advent of ChatGPT fuelled the "Gold Rush for Generative AI". Note that Trump 1.0 tariffs also took place and investors worried too about China demand. But in 2023, hyperscalers' capex suddenly spiked as they began investing tens of billions in cloud AI and with no signs of faltering optimism. Moving upstream in the supply chain, their GPU suppliers Nvidia and AMD skyrocketed in stock value as demand boomed and their pie grew larger. Their key supplier, TSMC, was pushed into the spotlight like never before and was named "The Backbone of AI". And finally, of course, the final supplier ASML doubled in stock value at its peak. Even though most of these companies in the supply chain faced investor scrutiny regarding Chinese customers, negative sentiment was quick to reverse in the face of long term opportunities.

Since this trickle-down theory seems to hold true, let's apply it today. We believe the continuous display of confidence by hyperscalers, combined with their much longer horizon and perspective on AI end demand, is a continuous sign that the AI catalyst is still in play. We largely align with their stance that ultimately AI is in the beginning phase, and that hyperscalers will continue to invest aggressively in capex in the face of tariffs. Given more compute, more end products are going to form, and the pie will only get larger. The fact that AI applications are still unclear to the market means the investment runway is long, and the cloud AI semiconductor TAM will only grow.

One key concern from investors relates to the growth of capex spending. We believe this is a fallacy for 2 reasons. Firstly, when GPUs become more efficient and demand becomes clearer, AI adoption will only increase. The need for compute in the future will only grow larger. Secondly, we believe the reliability and dependence for AI is undervalued. Current use of computational resources is still used to serve human needs, but in the future machines will significantly outpace humans for computational needs. Again, the pie is bound to increase.

So to answer the question of whether capital should be reallocated? We believe no. Instead, investors should seek to maintain their portfolio and make only minor adjustments for liquidity purposes. Tariff concerns are ultimately building off on AI's bearish investors who were already uncertain about AI's growth and future. But we believe that investing in the right tech companies will eventually yield significantly better results than other sectors' stocks.

II. CNBC Commentary: Apple bull Gene Munster believes iPhone sales will benefit the stock despite AI delay

Long time Apple investor Gene Munster says there is a bull case despite Siri AI disappointments.

The delay of an AI-enhanced Siri is a disappointment in the short-term, but Munster believes that once Apple Intelligence fully rolls out, that will be a catalyst that drives the stock to further heights.

Munster's bull case:

1. Apple will avoid tariffs due to Trump and Cook's relationship.

- Cook's strategic negotiations with Trump, and his promises to invest in America to avoid tariffs.

2. Upside potential in iPhone sales this year.

3. Once Apple perfects AI, consumers will want it.

Apple is struggling to have Apple Intelligence up and running in China, which is one of its biggest markets. Local companies are slowly filling this void as AI is a major selling point among consumers.

1. This demonstrates the increasing importance of the AI race in consumer electronics and personal technology.

2. Not only is the AI race important for capturing institutions and clients of solutions providers, but it is also important for the sake of regular consumers.