

AI MOVES FROM STORY TO ECONOMICS

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Mega-Cap Earnings, AI Spending, and a Farewell to Powell

AI Moves from Story to Economics

This week I focus on two topics that look different on the surface but share the same theme: **judgment under uncertainty**. Mega-cap earnings gave a clearer picture of where we are in the AI cycle. The headline is simple: *the AI spending boom is not slowing, but the conversation is changing*.

A year ago, investors asked which companies had the best AI story. Now they ask which *can turn AI spending into revenue, margins, productivity, and cash flow*. Microsoft, Alphabet, Amazon, and Meta all told a similar story: demand is real, infrastructure is constrained, and capital spending is massive. But investors are no longer rewarding spending just because it's labeled "AI."

This is the next phase: less narrative, more math.

Microsoft, Alphabet, Amazon, and Meta: AI Demand Meets Capital Discipline

Across **Microsoft, Alphabet, Amazon, and Meta**, the message was consistent: AI demand is real, but investors are becoming more selective about what they reward. **Microsoft** showed AI moving from concept to monetization, with cloud growth still strong and a clear shift from simple per-seat software to seats plus usage. In other words, employees still use software, but agents and computers increasingly sit alongside them to accelerate work, improve output, and compress workflows.

Alphabet was important because AI appears to be helping Search rather than hurting it, while also strengthening Cloud. The bigger takeaway is efficiency: lowering the cost of AI responses makes more use cases economically viable. **Amazon's** AI opportunity is broader and more operational. Its gains may show up less through one product and more through logistics, advertising, shopping, seller tools, customer service, and software development. **Meta** remains the clearest "show me" story. AI is helping

engagement and ads, but rising capital spending means investors want proof that infrastructure turns into revenue, not just ambition. *The AI trade is maturing. Capex alone is no longer enough; the market wants demand, discipline, efficiency, and cash flow.*

AI Productivity: Real, But Uneven

To me, the key point is that AI productivity is arriving unevenly. It is easiest to see in software development, advertising, customer support, cloud usage, model efficiency, and workflow automation. It is harder to see in the macro data. That is normal. General-purpose technologies take time to spread. Productivity may not initially look like everyone is working less. It may look like more output per employee, faster ad creation, better customer service, improved software development, and agents compressing business workflows. It may also show up inside the infrastructure itself: lower inference costs, better model routing, faster response times, improved data-center efficiency, and more useful output per dollar spent. **The AI boom is becoming an industrial cycle**, not just a software cycle. It requires data centers, power, chips, networking, cooling, land, and long lead times. That is why the *spending is so large* and **why the infrastructure layer behind AI remains one of my main investment focuses**. But the hurdle rate is rising. "AI is important" is no longer enough. The winners will be the companies that turn AI capital spending into real productivity, real revenue, and real cash flow.

Powell: A Farewell to Seriousness

Secondly, I want to send a farewell to Jerome Powell as Fed Chair. Powell's legacy will be debated for a long time, and it should be. The Fed made mistakes. The **"transitory"** inflation call will always be part of the record. But Powell deserves credit for the way he carried himself, the way he communicated, and the **number of extraordinary events he had to manage**.

His tenure included late-cycle rate hikes, balance-sheet normalization, political pressure, Covid, emergency lending, massive asset purchases, reopening distortions, supply-chain chaos, inflation, aggressive rate hikes, regional banking stress, and the challenge of bringing inflation down without breaking the labor market. *That is a lot for one Fed Chair.*

Covid was the emergency chapter. Markets were seizing up, the economy was shutting down, and nobody knew how long the disruption would last. Powell's Fed moved quickly to keep credit flowing to households, businesses, and state and local governments. Whatever one thinks about the long-term consequences, the immediate moment required speed and size. In a crisis, hesitation can become its own risk. *Then came inflation.* The Fed underestimated it. Powell underestimated it. A lot of people did. Supply chains were broken, demand shifted in unusual ways, fiscal support was large, labor markets were strange, and energy shocks added pressure. Inflation eventually reached **9.1%**, and at that point the Fed had to pivot hard.

This is where I respect Powell's directness. He did not pretend inflation was fine since it clearly was not. He acknowledged the problem directly, and that plain language mattered. People were feeling prices every week, and Powell spoke about the issue in a way that felt clear and serious.

The Theme: Judgment Under Uncertainty

*If there is one thread running through both topics, it is **judgment under uncertainty**.* The mega-cap companies are deciding how much to invest now to create future productivity. Powell's Fed had to decide how much restraint the economy needed to restore future stability. **Different worlds, same core challenge.**

In my view, the AI cycle is not ending — it is maturing. The bar is going up. Capital spending alone will not be enough. Investors should focus on companies with clear demand, improving efficiency, and a visible path from spending to returns.

As for Powell, my farewell is simple: he was not perfect, but he was serious. He was direct, measured, and respectful of the office during one of the hardest central-banking periods in modern history. In an era that often felt politicized and performative,

Powell was steady. I appreciated that.


-Scott Tremlett CEO/Chief Investment Officer



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JUDGMENT UNDER UNCERTAINTY

From AI investment decisions to monetary policy, the challenge is the same: making the right calls when the path forward is not clear.



A FAREWELL TO JEROME POWELL
 Thank you for your service and steady leadership.

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