HANGAR 4 PARTNERS LLC

*Hangar 4 Partners LLC*
*1110 Button Sage Way*
*Arroyo Grande, CA 93420*
*Phone: 415.382.4380*
*info@hangar4partners.com*

## A Status Report- Bull Market

Accounts managed by Hangar 4 Partners LLC generated a gain of about 27% net of all fees during the quarter, bringing year-to-date performance to about 19% net of all fees. By comparison, the NASDAQ Composite increased 21% for the quarter and 12.8% year-to-date, while the S&P 500 and Dow Jones Industrials advanced 14.9 % and 9.6% for the quarter, and 12.9% and 8.9% year-to-date, respectively.

Our results were driven primarily by investor enthusiasm for the first phase of the AI investment cycle: the large-scale purchase of hardware required to build out AI infrastructure, including semiconductors, networking equipment, and data center capacity. Thus far, this has been the only area of the AI ecosystem where returns on invested capital have been clearly observable. Hardware and compute vendors have benefited from exceptional demand, while many customers funding the infrastructure buildout have yet to demonstrate comparable economic returns. As a result, substantial capital requirements and negative cash flows remain prominent across the industry. Memory pricing, a critical component in the infrastructure buildout, has reached the point of negatively impacting the overall hardware trade after propelling the trade all quarter long suggesting a pause in investor enthusiasm at a minimum.

In an environment where interest rates may remain higher for longer, these dynamics have made projected returns appear increasingly uncertain. Even so, the competitive race for strategic positioning continues, much as it did in the early stages of the internet era. By quarter-end, however, momentum in even the hardware-related areas of the market had begun to moderate as supply constraints- semiconductors, water, electricity, data center availability led to further price increases exacerbating the inflation narrative and putting additional pressure on these firms and their customers.

Investor skepticism remains understandable and is unlikely to fade until more tangible returns emerge in other areas where AI is being deployed. A critical next step will be evidence that enterprise customers can generate adequate returns by incorporating AI into their software platforms, workflows, and broader business processes. If that evidence develops, the hyperscalers—Microsoft, Amazon, and Google—could see customers accelerate their use of cloud and hosting services, creating a clearer path to attractive returns for those providers as well.

The macroeconomic backdrop during the quarter remained uncertain, with inflation and interest rates continuing to shape investor sentiment. Food prices continued to rise, and energy prices initially moved sharply higher. The Federal Reserve faces the challenge of addressing persistent inflation while

*Hangar 4 Partners LLC*
*1110 Button Sage Way*
*Arroyo Grande, CA 93420*
*Phone: 415.382.4380*
*info@hangar4partners.com*

maintaining its mandate for price stability. Although broader AI adoption should ultimately prove deflationary by improving productivity and reducing labor intensity in certain functions, near-term supply constraints—particularly in memory semiconductors—have contributed to higher input costs. These cost pressures are now working their way through the broader technology supply chain.

A potential settlement in the Iranian conflict could, however, place downward pressure on energy prices. Such a development would likely help temper inflationary pressures and provide some support for consumer spending.

The central question is whether a broader return on AI investment is now approaching**.** We believe it may be. The evolution of AI from the initial training of large language models toward agentic AI—systems capable of automating and replacing portions of human workflows—could represent the beginning of a more meaningful return cycle. We expect greater clarity as companies report June-quarter results in the coming weeks. At the first credible signs of this transition, skeptical investors could become more constructive. The hyperscalers—Amazon, Microsoft, and Google—may also begin to see improved visibility through accelerating customer backlogs. In addition, we expect evolving software business models to stabilize, allowing that segment of the market to establish a firmer foundation. **In our view, the second phase of the AI bull market could begin later this summer.**

These remain extraordinary investment conditions. Extreme volatility, the disruption of established industries, and historic demand in selected areas have made disciplined stock selection especially important. A Federal Reserve focused on restoring price stability could keep interest rates higher than the market currently expects. Nevertheless, the opportunity set remains compelling. If our view regarding the next phase of the AI cycle proves correct, the rewards for careful and accurate security selection may be substantial.

| | |
|---|---|
| Michael P. DeSantis | Bruce M. Lupatkin |
| General Partner | General Partner |