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Structural Tailwinds Shaping Today's Technology and Defense Markets

A Positive Outlook on the Technology Sector

Despite recent narratives suggesting turbulence in the technology sector, our direct conversations with management teams tell a very different story. Across more than 30 company visits over the last several weeks, one message stands out: demand remains exceptionally strong. Many firms are operating at or near sold-out capacity and are actively looking to expand capacity.

This backdrop signals a healthy capital expenditure cycle. Companies continue to invest in growth, providing a solid foundation for sustained momentum. In short, what may look like "cooling" from a distance could be strength and disciplined expansion, when you speak directly to operators on the ground.

The Growing Necessity of Data Infrastructure Investment

The November 28 outage at the CME Group that disrupted global futures trading[1] served as a timely reminder of the critical role that resilient data infrastructure plays in modern markets. Even brief disruptions highlight how dependent global commerce is on secure, redundant, and scalable data center architecture.

For investors, the lesson is clear: investment in data infrastructure is no longer optional, it is foundational. Companies across every sector are increasing spending to ensure uptime, cybersecurity, and the ability to support ever-rising computational workloads. This is a structural trend that we expect to continue for many years.

Hidden Monetary Policy Tailwinds

One underappreciated dynamic supporting risk assets is the end of Quantitative Tightening (QT) on December 1. This pivot opens the door for future Quantitative Easing (QE), should the Federal Reserve choose to add liquidity back into the system. Even without an official policy shift, the Fed's recent actions, including November's repurchase-agreement activity, suggest a willingness to stabilize funding markets when needed.

For investors, these steps matter. Accommodative monetary conditions can create tailwinds for equities, particularly for sectors such as technology that are sensitive to liquidity and credit availability.

Chiplet Technology: The Next Wave of Semiconductor Innovation

The semiconductor industry continues to evolve rapidly, and one of the most promising areas is chiplet architecture, a modular approach that enables faster performance improvements and better cost efficiency. During his December 1 remarks, Jensen Huang highlighted ongoing investment by NVIDIA in advanced design methodologies, including collaboration with partners such as Synopsys.

This validates that chiplets are not a theoretical future, they are already shaping product roadmaps. Component suppliers and specialty semiconductor are firms positioned to support this transition.

Evolving Dynamics in the Defense Sector

Defense spending is also undergoing meaningful change. With the new administration now in place, strategy and budget priorities have been realigned, an adjustment period that typically takes several quarters. Historically, the most significant flow-through of contract announcements and program starts tends to occur in years two through four of a new administration.

We have begun to see early indications of this cycle forming. As modernization efforts accelerate, particularly around aerospace, advanced electronics, surveillance, and missile-defense technologies, well-positioned defense suppliers may experience a more favorable demand environment.

Final Thoughts

Across technology, data infrastructure, semiconductors, and defense, we see more underlying strength than recent headlines suggest. Companies continue to invest, demand remains healthy, and several longer-term structural trends are creating fertile ground for future growth.

Earnings may accelerate as the benefits of deregulation, favorable corporate tax policy, potential targeted tariff relief, improved merger and acquisition activity, and AI productivity enhancements. Any and all of these tailwinds would be beneficial to companies, more specifically, for small-cap companies with substantial financial leverage.

We remain selective, focused on businesses with durable competitive advantages, strong balance sheets, and clear pathways to long-term value creation. The evidence we see today points toward continued opportunity rather than contraction, and we remain constructive heading into 2026.

[1] https://www.cnbc.com/2025/11/28/cme-halts-fx-commodities-futures-trading-after-data-center-issue.html

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