



Investor Letters

Q2 2025 Investor Letter: Zoom Out—A View From the Edge of Transformation

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Three emergent themes shaping the decade ahead: Chinese innovation, autonomous transport, and intelligent automation.

There's no shortage of headlines designed to make you feel unsettled. Interest rate speculation. Election-year turmoil. Trade wars. Real wars. Political grandstanding. Fiscal cliffs. Currency devaluation. Pundits arguing with each other on television.

If you judged the world's trajectory by scanning a week's worth of front pages, you'd be apted to believe the sky is falling.



The long-term drivers of human progress tend to operate in the background, compounding in strength and scale while the news reports the latest doom and gloom. We've seen this play out repeatedly throughout history: The Cuban Missile Crisis didn't stop the semiconductor industry. The dot-com bust didn't halt the internet. Lehman's collapse didn't cancel the smartphone revolution.

In fact, history tells us that political risk and macro fear are often the fog that obscures the most powerful opportunities.

Right now, we believe we're standing at the edge of one of the most transformative decades in human history. It's not hyperbole to say that artificial intelligence could rewrite the structure of the global economy—how we work, how we create, and how we build wealth. And yet, much of the market is still focused on interest rate movements or GDP growth ticks to the right of the decimal.

That's the noise. We're here for the signal.

It's not that politics don't matter. Politics *do* matter—but mostly in the short term. Over the long arc of time, what matters most is innovation — the ability of people to solve problems, create value, and scale that value across borders.

In our view, AI is not just another productivity tool. It is a general-purpose technology platform shift on the level of electricity—or the printing press. The potential economic upside isn't linear. We believe it's exponential.

We are already beginning to see it. AI models are now designing proteins, writing software, accelerating scientific discovery, generating art, analyzing legal contracts, and augmenting human intelligence across every industry from agriculture to aerospace. These aren't niche applications. They're the scaffolding of a new economy.

While these developments are still in their early stages, what matters most is where the puck is going—not where it is today. In public markets, that's often where the real money can be made.

The infrastructure to deploy and monetize AI at scale is being laid. Foundational model companies are racing ahead. Hardware makers are in a historic arms race to push the physical limits of computation. Developers are building new abstractions for reasoning and autonomy.

Additionally, each successive wave of technological revolution has been significantly faster than one which preceded it. The cost curves are bending in real time. And it's all happening incredibly quickly.



But compounding—real, generational compounding—requires patience, vision, and a tolerance for volatility. It requires ignoring the headlines and focusing on what the world *could* look like in 10 years, not just what it *does* look like today.

In this letter, we explore three key themes shaping the future:

1. The revaluation and resurgence of Chinese technology.
2. The accelerating march toward autonomy (and Real World AI) led by Tesla's robotaxi launch.
3. The transformative productivity gains driven by robotics that are poised to power economic growth throughout the decade.

The Reports of My Demise Have Been Greatly Exaggerated.

As investors we continue to believe that the next wave of innovation will be focused on the United States and China.

Occupying roughly 20% of global GDP we believe China is in a breakneck competition with the United States for control of potential superintelligence, advanced robotics, transportation and energy.

And while we understand a reticence around Chinese ADRs in terms of corporate governance, Variable Interest Entity (VIE) structures and differences in business and corporate culture virtually all North American investors are heavily underweight (or retain zero allocation at all) to Chinese ADRs.

Until recently these equities have been virtually left for dead with many institutional players throwing up their hands. We believe this has created opportunity — if one, that requires nuance, a focus on highly compelling valuation, *and cash flow*.

One of the difficulties of the Chinese market is the level of domestic competition. The Chinese domestic market is a pressure cooker of innovation. In sectors from e-commerce and fintech to AI and EVs, Chinese startups and fully mature companies both move at a blistering pace, often out-iterating (or at least copying with extreme pace) their Western counterparts.

The level of technological experimentation happening within China's borders—driven by vast data sets, agile product cycles, and an intensely digital consumer base—makes it one of the most dynamic ecosystems on the planet. But with that dynamism comes an unforgiving landscape: competition is ruthless, margins are razor-thin, and even dominant players can be dethroned seemingly overnight.

In a market where being second often means being obsolete, we're focused on identifying early



Overall, we see three distinct avenues for investment going forward:

1. Growth In Aggregate Wealth

We believe this to be true for both citizens of China and Asia as a whole. What this means is a transition from a heavily manufacturing based economy to a more consumer driven economy. Consensus appears to be that the growth in consumption trend will be in the low single digits — *We believe this is understated.*

We have already started to see a rebound with retail sales posting a stronger than expected start to the year and more importantly growing faster than fixed asset investment.

Wynn Resorts (WYNN) and Las Vegas Sands (LVS) provide a calculated bridge to the Chinese economy—without the direct exposure and risk that typically come with mainland investments. These companies maintain significant assets in Macau, the world's largest gaming hub, which functions as a unique access point to Chinese consumer demand. In the wake of COVID, there has been a great deal of uncertainty about a potential rebound.

But we see an optimistic picture emerging: a rebound in tourism, a gradual reorientation of China's domestic economy toward consumption, and an underappreciated opportunity to capture upside in Asian discretionary spending. What makes this position compelling is the structure—U.S.-based corporations benefiting from Chinese growth dynamics while operating under the legal and financial protections of American capital markets.

As Chinese wealth creation resumes and regional travel flows normalize, we believe companies like WYNN and LVS are positioned to be long-term beneficiaries. These are plays on the next phase of China's consumer story—but executed through entities governed by robust disclosure standards, shareholder protections, and capital allocation discipline. In a world increasingly defined by geopolitical tension, this dual exposure—Asian growth through American frameworks—offers asymmetric return potential with a margin of safety.

• Parallel Technological Tracks

Similar to the internet-based economic growth we saw at the start of the 21st Century (think: BIDU & GOOG, BABA & AMZN) we see the most likely outcome for key AI, robotics, and autonomous transportation being the existence of similar technology platforms with geographically distinct companies for these key technology platforms. These emergent technologies have already kicked up a decent amount of geopolitical tension and this is likely going to increase. The most likely scenario is that some reasonable facsimile of what we saw in the early 21st century repeats itself. Geofenced technologies with opportunities to



Google initially seemed indistinguishable from its peers, we recognize that picking ultimate winners this early is more art than science. Our goal isn't to predict with certainty, but to position ourselves intelligently around emerging themes—and to incorporate new data ruthlessly as it becomes available. If the story improves, we scale; if the thesis breaks, we adapt. This approach allows us to capture upside while avoiding dogma. In frontier markets like China's EV and robotics sector, it's less about perfect foresight and more about agile participation—entering at a reasonable valuation, observing closely, and being willing to evolve with the facts.

We've been closely following Alibaba for over 15 years—through its IPO, meteoric rise, regulatory turbulence, and now its strategic reset. Over that time, we've come to understand the company not just as China's Amazon, but as a foundational piece of the country's digital economy. Its reach spans e-commerce, logistics, cloud computing, and fintech, with a scale and infrastructure footprint that is nearly impossible to replicate. After years of growth and volatility, what we now see is a business that's leaner, more focused, and trading at a valuation that no longer reflects its long-term earnings power.

What makes this moment particularly compelling is the convergence of a depressed multiple and a maturing opportunity set. While sentiment around China and its tech sector remains cautious, Alibaba continues to generate strong free cash flow and dominate key verticals in one of the largest consumer markets in the world.

As the regulatory environment stabilizes and the company leans into shareholder returns, we believe the risk-reward dynamic has meaningfully shifted. It's rare to find a business of this caliber, with this level of optionality, trading at such a compressed valuation. We're re-engaging not just because of where Alibaba has been—but because of where it still has the potential to go.

And while we have written a lot about China and the strong role we believe it will play in the global economy going forward the amount of actionable ideas is relatively few.

- **Ascent up the global value chain**

This is the earliest mega trend we are evaluating in terms of actionable investment opportunities yet possibly the one with the greatest long-term impact. China's ascent through the global value chain marks one of the most profound economic shifts of the 21st century. Once known primarily as the “world's factory,” focused on low-cost, high-volume manufacturing, China is now actively moving upstream—toward innovation, brand creation, and value-added production.



success story in the largest car market in the world.

This shift toward brand-building is key because it unlocks higher-margin economics. Rather than competing in the commoditized middle of the supply chain, China is increasingly owning the top of it—capturing consumer mindshare and pricing power. Branding transforms the economic equation: instead of assembling phones for Apple, Chinese firms now sell their own premium handsets globally. This isn't just about profit—it's about prestige, influence, and control over narrative. In sectors from fashion to electric vehicles, Chinese companies are learning how to tell their own stories and build global communities around their products.

As this evolution continues, China has the potential to become a net global exporter—not just of goods, but of culture and design. With digital platforms enabling global reach, and a growing cohort of internationally-minded Chinese entrepreneurs, we may see the emergence of Chinese equivalents to Nike, Sony, or Samsung in the coming decade. This could realign global trade flows and challenge Western incumbents in ways that are just beginning to be understood.

The question remains however — Do equity market investors have a chance to participate in this growth or will value accrue elsewhere?

The Robotaxi Revolution Begins in Austin

In July, Tesla flipped the switch.

Its robotaxi network—powered by the company's Full Self-Driving (FSD) platform—officially began commercial service in Austin, Texas. While the headlines haven't yet caught up, we believe this marks a generational milestone in both transportation and artificial intelligence.

This is no longer a simulation. No longer a slide deck. No longer a promise of what's to come. What matters now is the ability to scale the project — First slowly and then with increasing acceleration.

Tesla now operates the world's first vision-based, end-to-end autonomous mobility network using consumer-owned vehicles. And because the software stack was built entirely in-house—from silicon to inference engine—Tesla controls the unit economics in a way no other player can.

The Economics: Zero Marginal Cost, Infinite Scale

Let's break this down.



no expensive Light Detection And Ranging (LiDAR) or (eventually) remote operator. Tesla vehicles already ship with the hardware required. It's a software unlock.

Every incremental robotaxi mile becomes a margin story. Think of it this way:

- Uber's driver takes ~75% of the fare.
- Tesla takes 100%.

At maturity, we estimate robotaxi gross margins could exceed 70%. That's better than Apple's iPhone, better than AWS, better than almost any business with massive potential scale we've studied in modern history.

The Opportunity: Trillions, Not Billions

The global personal transport market is estimated at \$10 trillion. That includes taxis, ride-hailing, car ownership, public transport—anything that moves people. Capturing just 10% of that market with high-margin autonomous rides could generate \$1 trillion in annual revenue. While that is obviously high we genuinely believe it is within the realm of reason. Autonomous transportation has the potential to be that big.

Let's say Tesla reaches 100 billion robotaxi miles per year globally (a conservative estimate by 2040). At \$0.50/mile net revenue, that's \$50 billion per year in high-margin software income. At \$1.00/mile, that's \$100 billion.

And that's before we include licensing FSD to third-party fleets.

We believe Tesla is not building a product. It is building infrastructure—much like AWS did for cloud, or Apple did for mobile. And as infrastructure, the upside becomes nonlinear.

Austin Is Just the Start

We are not investing in what Tesla is today. We're investing in what it can become—and what we believe it is on the verge of becoming.

Austin is the first node in a network that could soon span the globe. The next cities—Houston, Miami, Los Angeles, Phoenix—are in Tesla's sights. And unlike every other player in autonomy, Tesla already has millions of vehicles on the road and billions of miles of real-world training data.

In our view, Tesla is building the most capital-efficient mobility platform in history, powered by vertically integrated AI, and accelerated by a deeply underappreciated energy business.



We continue to focus on one of the most significant transformations: the accelerating shift toward intelligent automation and robotics. What was once speculative R&D is now compounding in real-world deployments—with profound implications for productivity, margins, and long-term enterprise value.

As we've long argued: the companies that *build and deploy the robots*—not just buy them—will hold the levers of structural advantage in the decades ahead. Let's walk through what we're seeing across three of our key exposures: Amazon, Tesla, and China's rising robotics entrant, Xpeng.

Amazon's robotics network—now numbering over 1 million autonomous robots across more than 300 fulfillment centers—is nothing short of an industrial revolution in progress. Since acquiring Kiva in 2012, Amazon has scaled up its in-house robotics stack with a clarity of vision and execution that we believe remains underappreciated by the market.

Their latest innovation, Sequoia, shortens order processing time by 25% and improves inventory handling by 75%. Equally impressive is Amazon's foundation model, DeepFleet, which has cut travel time across its robotic fleet by 10%. These aren't marginal gains—they're margin catalysts.

In fact, our analysis indicates that robotics is playing a pivotal role in Amazon's push to double its operating margins in North America from ~5% to 10–11% over time. This is a slow-motion tectonic shift—one that favors patient capital.

With this, Amazon is building a greenhouse for innovation, compounding structural efficiency and financial oxygen.

Tesla's humanoid robot, Optimus, has now reached its third generation, with ongoing trials in internal factory settings.

While there have been setbacks—engineer departures, component delays, and recalibrated timelines (similar to what we see with the Model 3 launch in 2019)—we remain intrigued by the overall velocity of progress. Tesla's competitive advantage lies not only in its vertical integration, but in its AI software stack, which continues to train across multiple real-world environments.

As we've written before: Tesla is building an "AI flywheel"—each product reinforcing the next. The humanoid bet will require immense execution, but we believe if the thesis plays out, it could offer the potential of a massively high-reward. In our view, it represents the farthest edge of what's possible in applied automation.



But what's more notable is their declared strategy: Xpeng is investing over \$13.8 billion to build out its robotics division—declaring outright that the robotics opportunity will eventually surpass automotive.

In our view, this sets up a multi-polar future in robotics, with China, the U.S., and Japan each taking different approaches to scale and commercialization.

Across these three companies, we see a consistent throughline: robotics is no longer a slide in an investor presentation—it's a real-world driver of efficiency, safety, and speed.

Just as software “ate the world” in the 2010s, robotics could reconstruct the physical world in the 2020s and beyond. In Amazon's case, we see it directly translating into margin expansion. At Tesla, it offers a new frontier for optionality. And with Xpeng, we're witnessing a credible challenger emerge in real-time.

From an investment perspective, we view robotics not as a trend—but as a foundational pillar for long-duration growth.

In Conclusion

Despite the drumbeat of negative headlines—from geopolitical tensions to economic uncertainty—we remain deeply optimistic about the future. Markets are forward-looking mechanisms, and history has shown time and again that innovation, resilience, and human ingenuity prevail over cycles of fear. Beneath the surface noise, powerful secular trends are taking shape: the rise of AI, electrification, digital infrastructure, and global consumer evolution.

Our job is not to react emotionally to every headline, but to thoughtfully allocate capital where long-term value is being created. We're investing in companies with real assets, durable business models, and leadership teams capable of navigating complexity. Staying the course in periods of doubt has historically been the foundation for outsized returns—and we believe this time is no different. We encourage you to remain engaged, patient, and optimistic. The opportunities ahead are real, and we're committed to capturing them.

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