By Thomas Wash

September 15, 2025

The Great AI Race: A Sputnik Moment for the 21st Century

On his first full day in office, President Trump convened a group of prominent tech leaders in what he characterized as an effort to secure the United States' technological future. This meeting launched the largest artificial intelligence infrastructure initiative in US history, named Stargate Project. The strategy forged a major public-private partnership with firms such as OpenAI, SoftBank, and Oracle, creating a joint venture with a fund that will exceed $500 billion over the next four years in order to cement US global dominance in artificial intelligence (AI).

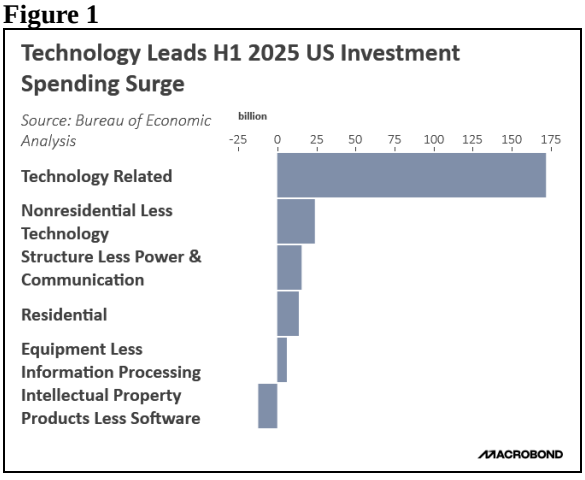
This initiative placed the US at the forefront of a struggle with China that transcends a mere contest for technological supremacy; it is a fundamental clash of economic systems. While both are engaged in industrial state policy, China employs a state-guided, top-down model, using its bureaucracy to steer markets toward national objectives. In contrast, the American industrial approach is decentralized and industry-led, relying on private enterprise to drive innovation and growth.

The outcome of this contest will do more than anoint a global technology leader. It will also determine the dominant economic framework of the 21st century, which could not only profoundly reshape the world economy but also the architecture of the global financial system. Thus, much like Sputnik, this isn't just about a single technological achievement; rather, the future of the global order could be at stake. In this report, we discuss the AI race between the US and China and what it means for markets going forward.

The US Strategy of Public/Private AI

The Stargate Project is a modern initiative that takes its name from a clandestine CIA program during the Cold War.[1] While the original Stargate Project explored psychic intelligence as a potential weapon against the Soviet Union, the new program's mission is to help the US achieve a breakthrough in artificial intelligence. This effort is a key part of the US's competition with China and highlights how the project is designed to boost US economic and military advantages.

Figure 1



The Stargate Project marks a major strategic shift in how Washington develops policy,

[1] We can neither confirm nor deny if any worker at Confluence contributed to the original Stargate Project (or any other CIA project for that matter).

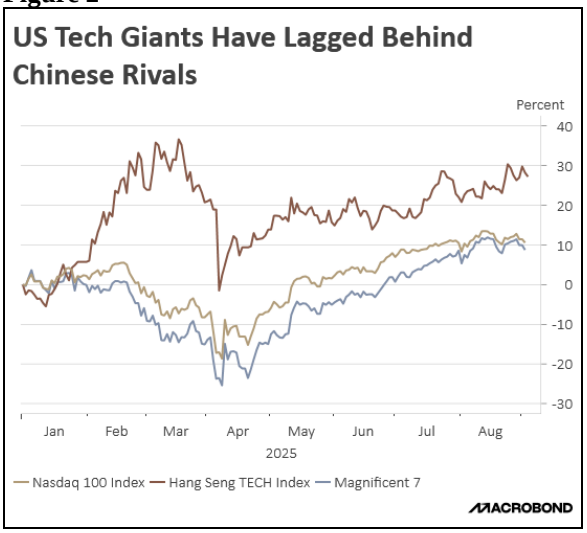
moving from a reliance on technocrats to a partnership with Silicon Valley to achieve its geopolitical goals. Through this collaboration, the US government is pursuing two primary objectives: developing artificial general intelligence (AGI), which mimics human cognition, and superintelligence, which surpasses it. To accomplish this, the government has adopted a public/private partnership model, which will strategically outsource core research and development (R&D) to leverage the private sector's specialized expertise, vast financial resources, and global scale for advancing national security and economic interests.

Recent moves by both the US government and SoftBank to invest in struggling semiconductor giant Intel serve as another example of how this dynamic is playing out. In a highly unusual move, the government finalized a deal to acquire a 9.9% equity stake in Intel in exchange for a portion of its CHIPS Act funding. This public investment was announced around the same time as a separate $2 billion private investment in Intel common stock by SoftBank. This parallel infusion of capital from both public and private sources signals that companies targeted for government support can also attract significant private capital, creating a combined public/private effort to advance the goal of global technological leadership.

China's Top-Down Focus on Results

China's government has adopted a more direct and centralized approach to technological development than the US. Initiatives in its "Made in China" framework outline a clear national mission — to reduce dependency on foreign technology and become the world leader in artificial intelligence by 2030. To this end, Beijing directs state funding and sets strategic goals for its companies, channeling their efforts toward these government-defined objectives. While this ensures a powerful, coordinated national effort, it also shows China's desire to challenge the US on the global stage. While the US approach to AI is more about the big picture (focusing on innovation and long-term research), China has adopted a more pragmatic strategy with the goal of achieving dominance through the widespread and universal application of its technology. Specifically, Beijing aims to ensure that every AI project delivers demonstrable value through the development of practical tools. This results-driven effort is projected to build a core AI sector worth $100 billion, with the potential to create over $1 trillion in value for the broader economy. This stands in stark contrast to the US model, which prioritizes frontier research and has, to date, seen only a small percentage of AI deployments yield significant, widespread results.

Figure 2



China's prioritization of efficiency paid off dramatically with the release of DeepSeek's AI model in January 2025. By leveraging less advanced chips to achieve performance rivaling Western models, the breakthrough proved China's ability to do more with less. This surprise advancement stunned investors and has been a major factor in the

outperformance of Chinese tech companies over their US peers this year.

US-China AI Rivalry in the Middle East

Beyond divergent industrial strategies, the US and China also champion competing visions for a global AI order, each reflecting its own core governing philosophies. The US promotes a proprietary model designed to cement its technological leadership, encouraging global adoption of its systems to create enduring dependence on American innovation. This framework treats AI primarily as a private, monetizable good, ensuring the commercial and strategic dominance of US companies. Conversely, China advocates for a cooperative, open-source framework that promotes shared technological development. This approach strategically positions AI as a public good, aiming to make it accessible to a broader range of nations beyond the traditional sphere of wealthy US allies.

These competing visions for the future are particularly visible in the Middle East currently, where both the US and China are fiercely competing for influence. Gulf States like the UAE, Qatar, and Saudi Arabia are making AI development a cornerstone of their national strategy to diversify their economies away from energy exports and toward becoming hubs of global innovation. Leveraging their immense financial resources, they are actively investing in AI startups worldwide and collaborating with both US and Chinese companies to build their domestic AI infrastructure.

China's Middle East strategy leverages technology-sharing as a cornerstone of its soft power. Through joint ventures and research institutes, it systematically transfers technical expertise and cultivates local AI talent, aligning with the region's economic diversification agendas. This model of collaboration positions regional partners as stakeholders in the technological process, creating an alternative to Western models often perceived as restrictive or conditional. The US has responded by trying to leverage its cutting-edge technology in order to maintain its influence. The White House recently loosened its AI Diffusion Rule, giving Middle Eastern nations greater access to advanced US-made chips and technology. Furthermore, plans are underway with companies like OpenAI to build new data centers in the region. This strategy encourages Gulf States to build out their AI capabilities with American technology and infrastructure, which creates long-term reliance on the US tech ecosystem without requiring them to independently develop foundational expertise.

A critical driver of this geopolitical rivalry is the immense energy demand of AI. The Middle East's oil-rich nations, with their vast energy resources and ambitions to become global data computing hubs, have therefore become indispensable allies in the battle for AI supremacy. They are not just adopting technology but are also positioning themselves as the physical infrastructure upon which that supremacy will be built. In this high-stakes contest, the Gulf is rapidly transforming from a strategic prize into a powerful arbiter of the global technological future.

From Free Market to Free Tech

A paradigm shift is underway in US trade strategy. The nation is abandoning the traditional laissez-faire approach that cemented its hegemony through broad market access. In its place, a new calibrated policy prioritizes economic security, aggressively protecting key domestic sectors — notably in national security — while using advanced technology as the primary instrument for building alliances. This

strategy allows the US to pry open foreign markets, while shielding its foundational industrial base, a stark contrast to China's state-driven model, which promotes open technology flows to maximize global interdependence and expand its influence. The US is strategically leveraging its technological supremacy as a new form of diplomatic currency. This "free-tech" policy grants partner nations access to the cutting-edge American technology ecosystem but is conditional on their adoption of US technical standards and security protocols. These conditions often explicitly require the exclusion of Chinese components and a commitment to prevent technology transfer to rivals, as exemplified by TSMC's compliance in removing all Chinese tools from its facilities. Ultimately, this model of "techno-statecraft" creates a new mechanism for coercion, weaponizing technology access much like trade sanctions of the past.

In contrast, China's tech policy promotes a "no strings attached" approach to expand its influence via the Digital Silk Road. Unlike the US model, the Chinese model prioritizes strategic adaptation and long-term influence over immediate profitability. By offering subsidies and building key digital infrastructure, China aims to create an inclusive, cooperative ecosystem where nations can adopt technology free from the political conditions typically attached to Western aid.

The competition for AI dominance between the US and China will be determined not only by technological achievement, but also by geopolitical alignment and will be dependent on which model gains wider international adoption. Currently, the US holds the advantage in maintaining the support of developed economies, while China has cultivated significant influence within the Global South. Which country eventually wins this struggle will profoundly impact financial markets, influencing everything from US equity valuations to capital allocation worldwide.

AI and Broader US Trade Policy

The US-China rivalry is a clash of economic systems, not just political ideologies. Unlike the Cold War's battle between capitalism and communism, this competition pits America's traditional market-driven, corporate-led model against China's state-planned technocracy for global technological leadership.

As we noted early in this article, Stargate Project represents a major domestic technological effort for the US. As we noted in the previous section, the US is also shifting from building influence by offering free trade to instead building influence by offering access to its technology. But the US is also employing other fundamental shifts in its trade policy to gain an edge in the AI race. Moving away from a longstanding commitment to free trade, the US is now strategically using tariffs and other economic tools to achieve several key goals:

- **Attract foreign investment:** Tariffs are being used to encourage foreign companies to build facilities and invest directly in the US.
- **Incentivize domestic production:** This policy pressures US firms to build domestic capacity rather than expanding abroad.
- **Provide direct funding:** The government is providing direct funding for critical AI and technology projects to accelerate innovation.
- **Isolate China:** These measures are designed to limit China's access to crucial technology and global markets, particularly in advanced semiconductors.

This multi-pronged approach aims to boost domestic AI capacity and reduce reliance on foreign supply chains, marking a decisive shift toward a more protectionist and self-reliant economic model in this high-stakes competition with China.

The global AI race is exhibiting similar characteristics on an international scale with nations vying for technological supremacy. This competition appears to be aimed at more than just commercial success; it's a geopolitical struggle for influence, economic power, and national security. Countries are pouring massive resources into AI development with the hope that a breakthrough will give them a long-term strategic advantage.

Investment Ramifications

In sum, the ongoing AI race between the US and China brings a "race to the bottom" dynamic to today's geopolitics. The victor is poised to capture a disproportionate share of global capital. Since the dot-com era, the US has been the primary beneficiary of such flows, with foreign direct investment fueling the tech sector's high valuations. This was underpinned by a symbiotic relationship between global trade and technological advancement. However, this foundation is now fracturing under the strain of intensifying competition between the US and China.

This rivalry could put pressure on some US firms, especially the Magnificent 7, as many rely heavily on international sales. If China's domestic firms become more competitive, these US giants could face earnings pressure. Furthermore, the push for domestication could hurt firms with significant foreign supply chain exposure. Consequently, while we maintain confidence in the long-term prospects for tech and growth stocks, the escalating US-China rivalry necessitates a more nuanced approach. For many investors, we continue to believe that strategic diversification into value stocks can reduce the volatility of portfolios and help support returns when market sentiment shifts. This hedge provides crucial protection against unforeseen disruptions in the escalating competition between the two superpowers.

Thomas Wash
September 15, 2025

This report was prepared by Thomas Wash of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics, and geopolitical analysis with a value-driven, company-specific approach. The firm's portfolio management philosophy begins by assessing risk and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.

Important Disclosures

This material is for use with investment advisory clients or prospects only

The information contained herein represents the opinions of the author and not necessarily Benjamin F. Edwards®. Benjamin F. Edwards® is providing it for informational purposes only, not as investment advice or a solicitation for the purchase or sale of any security or class of securities. Benjamin F. Edwards® & Co. (BFE) is a dually-registered broker-dealer and investment adviser and member of FINRA and SIPC, and its affiliate Benjamin F. Edwards℠ Wealth Management, LLC, d/b/a Edwards Wealth Management (EWM) is an SEC-registered investment adviser. BFE and EWM are affiliates through their common ownership by Benjamin Edwards, Inc. Depending on the context, the name Benjamin F. Edwards® refer to either EWM, BFE or both.

As a registered investment adviser, Benjamin F. Edwards offers clients a variety of advisory portfolio options. Any portfolio discussed is offered at Benjamin F. Edwards as an investment advisory account. To participate, investors must sign an investment advisory agreement, select a manager, and pay an advisory fee. For additional information regarding fees, please refer to the third-party asset manager's (asset manager) applicable disclosure documents and Benjamin F. Edwards' disclosure documents, which may be obtained through your advisor or found on Benjamin F. Edwards' website, www.benjaminfedwards.com, under the Important Disclosures section.

Participating in advisory programs may cost the client more or less than if the client were to implement his or her selected program separately, such as by using a different program sponsor, pursuing the strategy through a brokerage account, or investing directly with the asset manager. Some factors that might impact the total cost to a client who implements a program separately include the frequency of trading activity; whether a client might be successful in negotiating a lower fee with a sub-advisor; rate of commissions, markups or other transaction-related compensation; or whether account fees, transaction fees or similar charges would be incurred.

Investing in securities entails certain risks, including the potential loss of all or a portion of the proceeds invested. Individuals should consider their specific financial needs, investment objectives and risk tolerance before making an investment. Investments can be significantly affected by certain events, including international political and economic developments, inflation, and other factors. Dividends are not guaranteed and are subject to change or elimination.

Exchange traded funds (ETFs) and mutual funds are sold by prospectus only, which should be read carefully before investing. Please consider the investment objectives, risk, charges and expenses before investing. The liquidity of ETFs may not reflect the level of liquidity of other instruments on listed exchanges such as well-recognized, large cap stocks. The prospectuses, which contain this and other information, can be obtained from your advisor.

Investing in fixed-income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high-yield or "speculative-grade" bonds, which have lower ratings and are subject to greater price volatility. All fixed-income investments are subject to availability and change in price and may be worth less than original cost upon redemption or maturity.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.