

Q4 Investment Perspectives | 2026

Executive Summary

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Q3 '26 Recap – The US economy grew 2.2% in Q2 2026, though inflation remains elevated (Core PCE 3.0%) and rates rose 0.82% in Q3 with 10 year US Treasuries finishing at 5.28%. S&P 500 earnings impressed, with EPS of \$101 in Q2, growing 51% YoY, although over half of this growth was potentially a result of unrealized private investment mark-ups. Equity markets continued to move higher in Q3, with global equities now +12.9% YTD. Oil also moved higher, while higher rates weighed on fixed income returns (AGG -2.8%).¹

The Big Picture – AI infrastructure spending of \$700-900 billion this year (and \$3 to \$7.6 trillion over five years) is reshaping labor, inflation, politics, and capital markets while its returns appear doubtful.² Meanwhile, a re-escalating Iran war, Fed hikes, rising leverage, and the upcoming mid-terms mean every box is checked on the list of items that are often linked to deep market declines, making stress-tested risk management important.

Geopolitics, Inflation, and Interest Rates – The “restart” of the war pushing oil back over \$100, together with AI-driven price pressure in semiconductors, memory, and electricity, has lifted headline PCE to 3.4%. An analysis of inflation shows that most is coming from higher oil prices, although AI-driven impacts are likely building. AI capex is also pushing spreads for hyperscalers wider and increasing upward pressure on rates. The high level of rates and debt levels have pushed gross interest cost as a % of tax receipts to the highest levels observed since 1940.³ History shows that the speed of rising rates hurts equities more than the size of the move.

AI – AI's effects now reach well beyond capex: higher unemployment for young workers in AI-exposed jobs, productivity gains that rarely reach the bottom line, a split federal-vs-state regulatory fight, and weaker equity supply/demand dynamics as roughly \$5 trillion of mega-IPOs arrive while buybacks shrink due to AI capex. Options markets are showing several signs of complacency in the face of those dynamics.

Current Research Topics – Our AI-enhanced research process has developed a model that seeks to determine that the right leverage for a client depends on portfolio volatility and tolerance for ruin. Our research also investigated several rebalancing approaches – we believe most simple approaches add 0.3-0.4% a year whereas momentum and options-based approaches can potentially add additional returns.

Positioning – We currently hold selective tilts in portfolios. Key exposures include equal-weight S&P allocations, and a focus on real assets. Where appropriate, we are also deploying option hedges across the richer parts of the equity market and allocating to liquid alternatives.

¹ YTD return numbers are from yCharts and Bloomberg as of 9/30/26. All forecasts are expressions of opinion and subject to change without notice and are not intended to be a guarantee of future events. Past results do not guarantee future results. Real results may vary. ² <https://finance.yahoo.com/technology/ai/articles/goldman-sachs-says-7-6-111940473.html?guccounter=1>. ³ Federal Reserve Bank of St. Louis (FRED), series FYOIGDA188S (Federal Interest Outlays) and FYFRGDA188S (Federal Receipts), based on Office of Management and Budget (OMB) data. Federal interest costs as a percentage of receipts calculated as interest outlays divided by receipts. Data through FY2025.

YTD '26 Market Recap

“... Q2 '26 earnings grew 51% YOY, although over half of the growth was the result of unrealized private investment mark-ups...”

The real economy grew 2.2% in Q2 2026, while inflation is still well above the Fed's 2% target (3.0% US Core PCE in August). Employment has been trending positive with Nonfarm Payrolls rebounding from a 6-month moving average close to zero in Q1 to just over 100k in August. Rates moved substantially higher (10y US treasury rate rose from 4.46% to 5.28% on the quarter) in response to stubborn inflation and a hawkish Fed. On the earnings side, Q2 2026 earnings season proved to be better than expected, with S&P 500 EPS of \$101, growing 51% YoY,⁴ although over half of this growth was a result of unrealized private investment mark-ups.⁵

Equities were mixed in Q3 but broadly moved higher, bringing global equities (ACWI) to up 12.9% YTD. US large cap equities (SPY) are up 12.7% but lagged Pacific-Asia (VPL) up 28.1% YTD. Growth (IWF, +6.1% YTD) has lagged while value has outperformed (IWD, +19.1% YTD). Divergence across sectors was large with technology (XLK, +36.5% YTD) being the standout, with consumer discretionary (XLY, -8.3% YTD) and utilities (XLU -5.7%) lagging.⁶

Fixed income returns were negative during Q3, bringing AGG to -2.8% YTD. Longer-duration assets (TLT -8.0% vs SHY +0.4%) underperformed and credit has added modest extra return. Broad-based commodity indices rose sharply +44.5% (DBC), while energy producers (XLE, +40.3%) and MLPs (MLPX, +19.0%) have performed well. Gold (GLD) continues to struggle and is now -3.9% YTD.⁶

Asset Class	Ticker	YTD 2026	2025	'08-'24 Ann	Asset Class	Ticker	YTD 2026	2025	'08-'24 Ann
Short Municipal Bonds	SHM	-1.05%	3.95%	1.92%	MSCI All Country All World	ACWI	12.93%	22.41%	7.86%
Long Municipal Bonds	MUB	-3.57%	3.78%	3.41%	US Large Cap (S&P 500)	SPY	12.71%	17.72%	10.84%
US Aggregate Fixed Income	AGG	-2.78%	7.19%	3.13%	US Small Cap (Russell 2000)	IWM	13.65%	12.66%	7.88%
Short US Treasury Bonds (1-3y)	SHY	0.38%	4.95%	1.64%	US Value Equities (R1000 Value)	IWD	19.12%	15.68%	7.57%
Intermediate US Treasury Bonds (7-10y)	IEF	-4.63%	8.03%	3.40%	US Growth Equities (R1000 Growth)	IWF	6.14%	18.33%	13.74%
Long US Treasury Bonds (20y+)	TLT	-8.01%	4.25%	3.88%	Canadian Equities	EWC	8.76%	35.92%	4.21%
US Investment Grade Bonds	LQD	-4.35%	7.90%	4.78%	European Equities (FTSE Europe)	VGK	6.00%	35.85%	3.33%
US Treasury Inflation Linked Bonds	TIP	-2.10%	6.77%	3.63%	Pacific Equities (FTSE Pacific)	VPL	28.11%	32.64%	2.98%
US High Yield Bonds	HYG	-0.34%	8.60%	5.16%	Emerging Market Equities (MSCI EM)	VWO	10.66%	25.58%	1.88%
Convertible Bonds	CWB	14.64%	16.61%	14.72%	Consumer Discretionary	XLY	-8.29%	7.36%	14.17%
USD EM Bonds (JPM)	EMB	-2.32%	13.85%	4.55%	Consumer Staples	XLP	5.76%	1.52%	9.84%
Alerian MLP Index	MLPX	19.04%	4.93%	9.34%	Financials	XLF	-1.32%	14.89%	5.18%
US REITs (MSCI REITs)	VNQ	4.19%	3.26%	6.38%	Health Care	XLV	10.14%	14.50%	11.67%
Commodities	DBC	44.54%	8.06%	-0.72%	Industrials	XLI	8.50%	19.33%	9.75%
Gold	GLD	-3.90%	63.68%	8.37%	Materials	XLB	8.76%	9.92%	6.86%
Energy	XLE	40.28%	7.88%	4.07%	Technology	XLK	36.45%	24.60%	15.65%
Agriculture	DBA	10.27%	-0.58%	0.61%	Utilities	XLU	-5.69%	16.00%	7.31%

For illustrative and informational purposes only. ⁴<https://aiweekly.co/alerts/amazons-534b-anthropic-gain-distorts-big-tech-q2-earnings>. ⁵ yCharts Data as of 9/30/2026 ⁶All YTD return numbers are from yCharts as of 9/30/2026. Equities are proxied by the ACWI ETF. US Equities are proxied by the SPY ETF. Europe equities are proxied by the VGK ETF. Asia equities are proxied by the VPL ETF. Growth stocks are proxied by the IWF ETF. Value stocks are proxied by the IWD ETF. Small cap stocks are proxied by the IWM ETF. Financial stocks are proxied by the XLF ETF. Utilities stocks are proxied by the XLU ETF. Health care stocks are proxied by the XLV ETF. Fixed income is proxied by the AGG ETF. Credit is proxied by the HYG ETF. Duration is proxied by the TLT ETF. EM bonds are proxied by the EMB ETF. Commodities are proxied by the DBC ETF. MLPs are proxied by the MLPX ETF. Gold is proxied by the GLD ETF. All forecasts are expressions of opinion and subject to change without notice and are not intended to be a guarantee of future events. The market returns presented herein are gross of fees and do not account for any management fees, advisory fees, trading costs, or other expenses that may be incurred in the management of an investment portfolio. As a result, the actual returns experienced by an investor will be lower than the gross returns presented. Investors should consider the impact of fees and expenses on their investment returns and consult with their financial advisor. Past performance is not indicative of future results.

Big Picture

“...Financial conditions are tightening with oil back over \$100 and 10y US treasury rates over 5%...The high level of rates and debt levels have pushed gross interest cost as a % of tax receipts highest levels since 1940...”

“...AI-related revenue would need to grow 85% annually over the next 5 years just to justify the investment at reasonable margins...Options markets are showing several signs of record complacency; at a time all four classic bubble-bursting conditions are now present...”

Financial conditions are tightening with oil back over \$100 and 10y US treasury rates over 5%. Higher rates are reinforced by headline PCE inflation rising back to 3.4%. An analysis of the inflation shows that most is currently coming from higher oil prices, although AI-driven impacts are likely building. AI capex is also pushing spreads for hyperscalers wider and increasing upward pressure on rates, which have already seen the 10-year treasury break 5%. The high level of rates and debt levels have pushed gross interest cost as a % of tax receipts to the highest levels observed since 1940. History shows that the speed of rising rates hurts equities more than the size of the move.

The major players in AI are on track to spend \$700-900 billion (2.5% of US GDP) in 2026 alone, and estimates imply more than \$3 trillion over the next five years on AI infrastructure.⁷ Much of this spending is committed through “circular” arrangements in which one company invests in another, and the proceeds are then used to purchase the first company’s products. This deepens interdependence among firms and amplifies the risks created by already elevated market concentration. The sheer size of the spending is having massive impacts across the real economy and financial markets.

Within the real economy, AI is changing how companies organize work and make hiring decisions, which could create longer-term pressure points in labor markets.⁸ The massive buildout is creating price distortions in inputs such as semiconductors and memory, which in turn are creating short-term upward inflationary pressures. The flip side of weak labor markets and higher inflation is, in theory, greater productivity. Several studies have been conducted to verify this and the data is mixed. AI demonstrably helps individuals complete isolated tasks faster.⁹ This is the most robust finding. However, those gains largely fail to reach the organizational bottom line due to bottlenecks, implementation failures, and system-level constraints. Macro data is improving, but economists disagree sharply on how much AI is the cause.

Within financial markets, the spending surge is transforming formerly capital-light businesses into more capital-intensive ones at a time when the returns on AI capex remain uncertain. By our estimates, we believe current AI-related revenue would need to grow 85% annually over the next 5 years just to justify the investment at reasonable margins. At the same time, a wave of major IPOs (Anthropic, OpenAI, Stripe, Databricks) combined with slowing buybacks potentially creates a deteriorating equity supply/demand dynamic. Options markets indicators also suggest several signs of record complacency; at a time all four classic bubble-bursting conditions are now present.¹⁰

In our view, the key to investing in times of increased volatility is sticking to core principles. We believe that having a risk framework which considers not only historical portfolio moves but also stress tests those portfolios to potential future volatility is paramount to endure the appropriate level of risk.

⁷ Source: <https://www.goldmansachs.com/insights/articles/why-ai-companies-may-invest-more-than-500-billion-in-2026>

⁸ Source: https://www.ey.com/en_us/newsroom/2025/12/ai-driven-productivity-is-fueling-reinvestment-over-workforce-reductions

⁹ Source: <https://laweconcenter.org/resources/ai-productivity-and-labor-markets-a-review-of-the-empirical-evidence/>

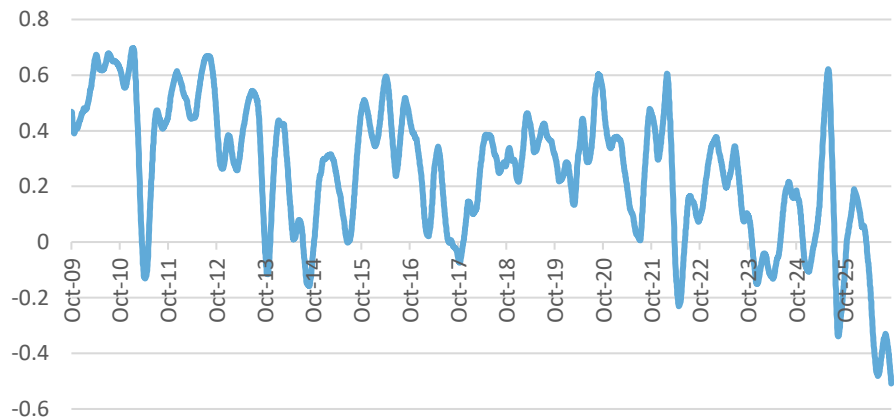
¹⁰ Source: CNBC/Investopedia Nov 2025; Stocktwits Mar 2026; https://www.nber.org/system/files/working_papers/w8966/w8966.pdf; <https://www.elibrary.imf.org/display/book/9781589062122/ch02.xml?utm>

Geopolitics, Inflation, Interest Rates

Iran

In late February, the US and Israel launched coordinated strikes against Iran. Energy flows through the Strait of Hormuz (SoH) were disrupted, and Brent crude rose from \$71 to almost \$140 at its peak during the month of March. Several proclamations of the war ending brought oil back to \$70 by the end of Q2. We discussed in last quarter's commentary that the conflict could re-emerge, especially with the US being in a weak position approaching mid-term elections. Unfortunately, that is exactly what happened, and oil is now back up to \$103, and has spent most of Q3 above \$80. The market is pricing in Brent Crude to go from \$103 back to \$90 by May '27 and \$80 by Dec '27. The correlation of most assets to oil has become very high, as you can see by the graph below. We explored in our Q2 quarterly that three relationships have historically been true with oil spikes: 1) equities rarely bottom before oil stops rising, 2) the larger the oil shock, the deeper the typical drawdown in equities and 3) the longer the shock persists, the more damaging it is for risk assets.

SPX v Brent Crude Correlation



Source: Bloomberg. For illustrative purposes only and does not represent client portfolio performance. Past performance and historical data is not indicative of future results. Correlation reflects the historical relationship between SPX and Brent crude oil and does not imply causation.

“... Democrats are heavy favorites to win the House at around 90%, whereas the Senate is 52-61% for Democrats...Both sources put the odds of a Democratic sweep near 50%...”

Mid-term elections

The Nov 3rd mid-term elections are shaping up as a referendum on President Trump. Voters are focused on affordability, and the Iran war that has become deeply unpopular. Gas prices near record highs are the main way voters feel the war's cost. Emerson's Sept 21-22 poll shows Democrats ahead 53% to 42% on the generic ballot.¹¹ Voters ranked the Iran war, jobs, and tariffs as their top issues, and those who said the economy matters most favor Democrats 55% to 41%.¹¹ NPR/Marist has Democrats up 12 points with Trump's approval at 39%.¹² Immigration, healthcare, tariffs, and a bipartisan backlash against the grid costs of AI data centers are also on the ballot. According to Polymarket and Kalshi, Democrats are heavy favorites to win the House at around 89% to 91%, whereas the Senate is around 52% to 61% for Democrats. Both sources put the odds of a Democratic sweep near 50%.¹³

¹¹ Source: <https://emersoncollegepolling.com/september-2026-national-poll-democrats/> ¹² Source: <https://www.npr.org/2026/09/23/nx-s1-5977613/trump-poll-democrats-congress>
¹³ Sources: <https://polymarket.com/event/balance-of-power-2026-midterms>, <https://defirate.com/prediction-markets/2026-midterms/>

“... The impact from AI is currently modest, however there are building pressures on the producer side in electricity, semiconductors, and memory prices, which will eventually translate into consumer price increases....”

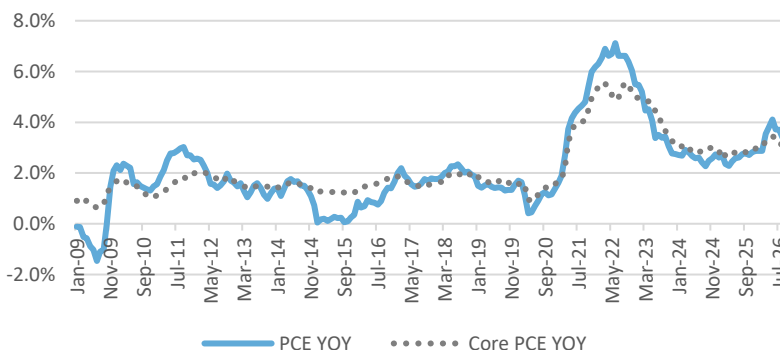
Analysis of impact of election results on key issues:

- Iran war – The Senate rejected a Democratic war-powers resolution. A Democratic House, and especially a Democratic Senate, would bring more war-powers votes, funding conditions, and oversight subpoenas. Trump's veto limits how much Congress could actually force. The bigger effect is political pressure toward a ceasefire, which analysts say is already pushing the administration. Some Republican Senate nominees, including Mike Rogers and Ashley Hinson, now openly back ending the war.¹⁴
- AI regulation – A Democratic House would probably block federal preemption of state AI laws and bring more hearings and scrutiny on competition, data privacy, and AI. Democratic strategists are telling candidates not to push AI regulation too hard, for fear of heavy tech-industry spending against them.¹⁵ The easiest area for action is making data centers pay more of their grid costs, since the House already passed a bill on that 417-3.¹⁶
- Economy/Markets – Divided government usually means gridlock, with fewer big legislative swings and more fights over spending. Tariffs and the war would stay mostly in the president's hands. Business Insider sees healthcare, energy, private equity, and crypto facing more oversight.

Inflation

From 2009 until 2021, core Personal Consumption Expenditures (PCE) ranged from 1-2%, below the Fed's target of 2%. After the inflation spike in 2022, core PCE returned to below 3% but has recently started to increase again. Headline PCE has picked up from 2.6% in July '25 to 3.4% in August '26.

PCE and Core PCE YOY



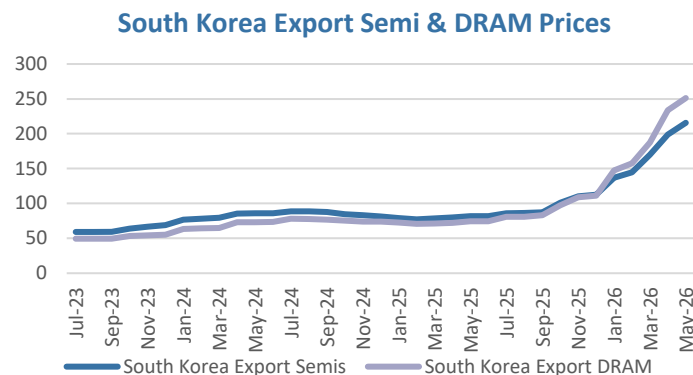
Source: Bloomberg. January 2009 – July 2026. PCE and Core PCE year-over-year data are provided for informational and illustrative purposes only. Historical inflation trends may change over time and should not be considered indicative of future economic conditions or investment results.

Are the moves higher in inflation coming from oil, AI capex, or something else? A breakdown of headline inflation in the table on the left paints a picture of inflation increases attributed mostly to oil. The impact from AI is currently modest, however there are building pressures on the producer side in electricity, semiconductors, and memory prices, which will eventually translate into consumer price increases. We have started to see the early stages of that with Apple's increase in the price of the MacBook and iPad.

¹⁴ Source: <https://www.npr.org/2026/09/23/nx-s1-5977613/trump-poll-democrats-congress> ¹⁵ <https://www.politico.com/news/2026/09/17/democrats-ai-regulation-midterms-warnings-01082564> ¹⁶ Source: <https://www.businessinsider.com/midterm-elections-stock-market-investor-guide-democrats-house-senate-outcomes-2026-9>

Category	Weight	YoY Change	Gross pp	Oil Attribution	AI Attribution
Gasoline (all types)	2.90%	27.40%	0.79%	100%	
Other motor fuels	0.09%	43.96%	0.04%	100%	
Fuel oil	0.08%	30.22%	0.03%	100%	
Airline fares	0.88%	23.41%	0.21%	25%	
Vehicle repair	1.04%	5.24%	0.05%	15%	
Food at home	8.33%	2.19%	0.18%	10%	
Electricity	2.49%	3.79%	0.09%		53%
Utility (piped) gas	0.77%	4.39%	0.03%		25%
Computers	0.29%	8.43%	0.03%		100%
Computer software	0.03%	25.43%	0.01%		100%
Internet services	0.92%	2.59%	0.02%		15%
Total				0.93%	0.09%

Source: BLS, Dallas Fed. For informational and illustrative purposes only. Data and attribution estimates are provided for informational and illustrative purposes only. Attribution reflects analytical estimates and should not be interpreted as establishing causation. Estimates are subject to underlying assumptions and may change as economic conditions and data change.



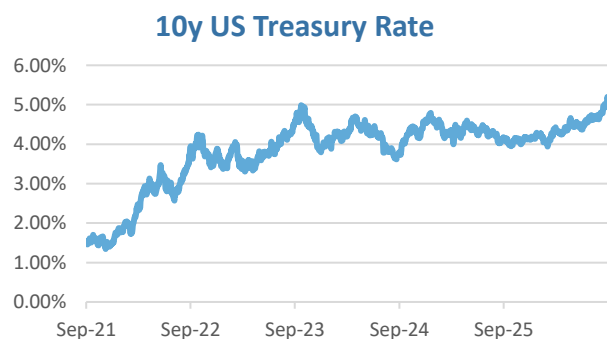
Source: Bloomberg Data is provided for informational and illustrative purposes only. Historical trends and relationships between semiconductor exports and DRAM prices may not persist and should not be considered indicative of future results.

Consensus views a few years ago were that AI was supposed to be a deflationary force. While we believe the long-term impact is still a bias towards lower inflation, it is unclear how long the near-term inflation risks will persist, a genuine risk to higher rates and weaker financial markets.

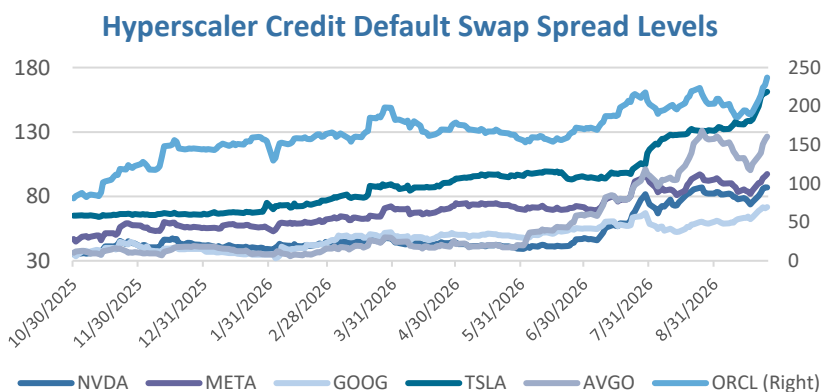
Interest Rates

The Federal Reserve raised the Fed Funds target range 25bps to 3.75-4.00% on September 16th. The futures market is currently pricing in three more 25bps hikes by June '27, so Fed Funds rates are expected to rise to 4.50-4.75% within the next 9 months. Will Fed rate hikes help slow the inflationary impulse? In our view, it certainly won't reduce oil prices, only the war ending will do that. Will it reduce data center buildouts?¹⁷

Estimates of AI infrastructure spending exceed \$700bn in 2026 including \$700bn from just Amazon, Google, Microsoft and Meta alone. Goldman estimates a cumulative \$7.6 trillion for the next 5 years by all players and all forms including compute, data centers and power.¹⁸ The actual interest rate the AI capex will be financed at is a function of both base rates (US treasury rates) and spreads the market wants to charge risky borrowers above those base rates. Base rates have been increasing but broad-based index spreads have so far been contained with US corporate option-adjusted spreads (OAS) at 77bps today vs 79bps at the end of 2025.¹⁹ However, spreads of certain hyperscaler names have widened (see graphic below).



Source: Bloomberg Sept. 2021 – June 2026. 10-Year U.S. Treasury rate data is historical and provided for informational and illustrative purposes only. Treasury yields fluctuate based on market and economic conditions, and historical levels are not indicative of future rates or investment results.



Source: Bloomberg. Oct. 2025 – Aug. 2026. Credit default swap (CDS) spread data is provided for informational and illustrative purposes only. CDS spreads may fluctuate based on market conditions, liquidity, and perceptions of credit risk. Historical spread levels are not indicative of future results.

¹⁷ Source: <https://www.cmegroup.com/markets/interest-rates/stirs/30-day-federal-fund-quotes.html> ¹⁸ Source: <https://www.goldmansachs.com/insights/articles/tracking-trillions-the-assumptions-shaping-scale-of-the-ai-build-out> ¹⁹ Source: Fred database

“... To further put this required revenue growth number in context, AI related revenue would need to grow by 85% per annum for the next 5 years to reach \$3.8 trillion, and if it did, that would represent 10% of estimated US GDP of \$38 trillion in 2030...”

Collectively, hyperscaler's are only 3.5% of the current index although this will change dramatically over the next few years as they become a major source of new bond issuance. The total stock of US nonfinancial corporate debt is over \$9trn and 2026 hyperscaler supply is expected to be \$250-350bn. However, 2027 hyperscaler bond issuance is expected to rise to \$400bn which is close to half of net corporate supply that year.²⁰

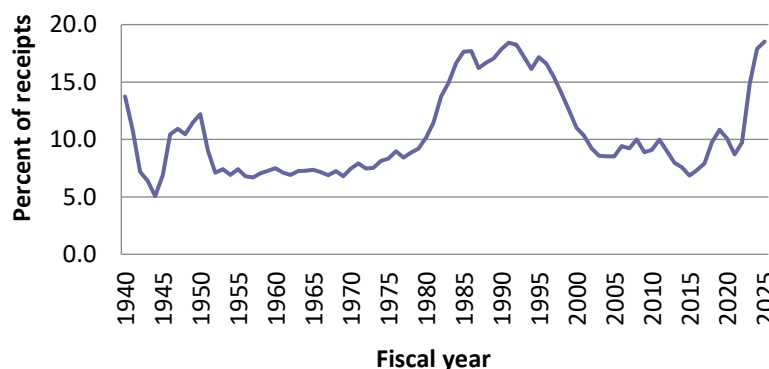
Does massive spending mean good returns on those investments and the companies undertaking them? In our view, definitely not. In fact, we would argue the return on these AI capex investments is likely to disappoint based on the sheer size of investments being proposed. Consider the following:

- Taking the lower end of estimates at \$3 trillion invested in AI spending by 2030
- If these investments target a 15% return on invested capital (ROIC) = \$450bn in annual profit
- If the investments operate on a 30% net margin = \$1.5 trillion in annual revenue to data centers (30% is Google's current margin)
- Assume compute is roughly 40% of revenue = \$3.8 trillion in annual revenue needs to be generated by AI investments by 2030. In 2026, the total revenue of all AI related services are estimated to be \$175 billion.

To further put this required revenue growth number in context, revenue would need to grow by 85% per annum for the next 5 years to reach \$3.8 trillion, and that would represent 10% of estimated US GDP of \$38 trillion in 2030.

The move higher in rates is a global phenomena – US, Canada, Mexico, UK, Europe, Japan and Australia are all at the highest rates since COVID. US 10y Treasuries recently broke the psychological barrier of 5%. The impact of higher rates can be felt in various ways. One way is through increased interest costs. The graph below shows that gross interest cost as a % of Federal Tax Receipts just reached a 100+ year high at over 18%. This metric was calculated before the recent rise in interest rates so is likely worse now.

Gross Interest as % of Federal Tax Receipts



Source: Bloomberg, FRED database. Data from 1940-2024. Gross interest as a percentage of federal tax receipts is based on historical data and is provided for informational and illustrative purposes only. Historical fiscal trends may change over time and are not indicative of future economic or investment results.

²⁰ Sources: <https://www.jpmorgan.com/insights/banking/capital-markets/financing-ai-infrastructure-data-centers>; <https://am.jpmorgan.com/wr/en/asset-management/institutional/insights/market-insights/market-updates/on-the-minds-of-investors/ai-the-new-bond-giant/>; <https://www.morganstanley.com/im/en-us/individual-investor/insights/articles/ai-dispersions-in-credit.html>

“... We examined 27 episodes of rates moving more than 100bps higher going back to 1970 and the relationship between rate move and equity move was not obvious until you factored in the speed of the rate move...”

Another impact of higher rates can be felt on equities. In a later section on AI and bubbles, we examine the relationship between tighter monetary policy and market disruption but here we focus on how higher long-end rates are also bad for equities. We examined 27 episodes of rates moving more than 100bps higher going back to 1970 and the relationship between rate move and equity move was not obvious until you factored in the speed of the rate move:

Pace of Yield Rise	Episodes	Negative Returns	Median S&P 500 Return
Slow (20bp/month or less)	10	2	31.80%
Medium (21-59bp/month)	10	5	0.70%
Fast (60bp/month or more)	7	5	-8.10%

Source: FRED FYOIGDA188S, FYFRGDA188S (OMB), and GenTrust Calculations. Yield-rise episodes are categorized based on the indicated monthly pace of change. S&P 500 returns and related statistics reflect historical observations and are provided for informational and illustrative purposes only. Calculations are based on selected methodology and assumptions, and results may differ under alternative periods or methodologies. Past performance and historical relationships are not indicative of future results.

Impacts of AI

Introduction

The focus for AI shifted in Q3 from rapidly expanding capabilities and multi-step reasoning to AI’s potential risk to society and the need for regulation. We’ve already explored how AI capex is partially responsible for higher rates through its impact on inflation and the surge in borrowing needs. Beyond that, AI is impacting labor markets, productivity, political debate, equity supply/demand, and the potential for asset bubbles.

Labor Markets

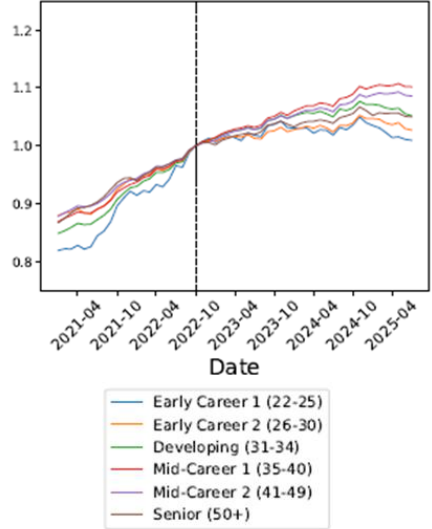
AI is already having a large impact on labor markets. An August 2025 paper by Stanford researchers Brynjolfsson, Chandar and Chen examined the change in labor markets for occupations exposed to generative AI using high-frequency ADP payroll data.²¹ The paper’s key conclusion was that employment for young workers (ages 22-25) had declined markedly in the most AI-exposed occupations. Further, employment declines are concentrated in occupations where AI is more likely to automate, rather than augment, human labor.

Since the use of AI accelerated in 2022, the above trends may be in their early stages. While we don’t believe the AI revolution will lead to mass unemployment, we do anticipate a challenging transition period. Many workers will need to be retrained for new roles—an adjustment that is already underway.

Productivity

The flip side of weak labor markets related to AI should be an increase in productivity. However, the data is mixed. While AI helps individuals complete isolated tasks faster,²² those gains largely fail to reach the organizational bottom line due to bottlenecks, implementation failures, and system-level constraints.²³ Macro data is improving, but economists disagree sharply on how much AI is the cause.^{24, 25}

Headcount Over Time by Age Group (Normalized)



For illustrative and informational purposes only. Data shown is subject to revision and may not be indicative of future economic or market conditions.

²¹ Source: https://digitaleconomy.stanford.edu/wp-content/uploads/2025/08/Canaries_BrynjolfssonChandarChen.pdf

²² Source: ICLE, "AI, Productivity, and Labor Markets: A Review of the Empirical Evidence," Feb 5, 2026 — laweconcenter.org

²³ Source: Fortune, "Thousands of CEOs admit AI had no impact," Feb 17, 2026 — fortune.com; WebProNews, Feb 19, 2026 — webpronews.com

²⁴ Source: AEI, "When Will AI Affect US Productivity Growth?," Feb 25, 2026 — aei.org.

²⁵ Source: CEPR VoxEU, "AI, Productivity and Work: Evidence from US Firms," Jun 26, 2026 — cepr.org.

Political Debate on AI

The core U.S. political fight around AI is federal preemption versus state authority: the White House's December 2025 executive order pushes for a single federal standard, while Congress has twice rejected a moratorium on state AI laws, leaving 45 states with over 1,500 AI bills introduced and laws like California's SB 53, Texas's TRAIGA, and Illinois's HB 3773 already in effect.²⁶ Beyond preemption, unresolved issues include frontier-model safety oversight (Great American AI Act of 2026), deepfakes/nonconsensual AI content (DEFIANCE Act, NO FAKES Act), and AI data center energy strain (Sen. Sanders's S. 4214). The harder unresolved question is how to balance innovation speed against accountability, consumer protection, and labor disruption without a unified federal framework yet in place.

One recent practical example of the consequences of limbo is Oracle sending Blue Owl a *force majeure* notice over "Project Jupiter," a 2.45 gigawatt, \$165 billion AI data center campus in New Mexico after power delivery delays, most notably New Mexico's July 2026 rejection of a natural gas pipeline extension, threatened the 2028 completion timeline.²⁷ Since securing power is contractually Oracle's responsibility, the notice lets Oracle extend the lower development-stage rent. Both companies downplayed the impact, but markets reacted: Oracle and Blue Owl shares each fell roughly 3.5% to 4.4%, and the project's \$18 billion construction loan reportedly traded down to 90 cents on the dollar.²⁸

Equity Supply/Demand

AI impacts go beyond the real economy and politics to impact financial markets. From 2006 to 2025, total net US equity issuance was approximately negative \$430 billion – companies collectively removed more shares from the market than they created, largely through aggressive buyback programs. The next 12 months changes things as several marquee IPOs are set to hit the market (Anthropic, OpenAI, Stripe, Databricks, etc). For context, the combined market cap of just the first two together with recent IPO SpaceX would be over 4% of the US total market capitalization. We believe 2027 will be worse as lock-ups expire and more stock from these companies hits the market. At the same time, buybacks are slowing because they were mostly done by large technology companies which are now either preserving cash or issuing shares to fund the aforementioned AI capex spend. With capital expenditures now expected to consume close to 100% of operating cash flows for the hyperscalers over the next two years, there is little left over for increased shareholder returns via buybacks. Technology companies are increasingly turning to bond markets as means of raising capital. In our view, this is a bad supply/demand set-up for equity markets and bond markets alike.

One interesting question we explored is that given SpaceX/OpenAI/Anthropic's lofty values and lack of profitability, what would the PE of the SP500 be if/when they all join in 18-24 months? Based on FactSet data, current trailing PE is 25.9x and 12m forward is 19.1x based on existing float market cap of \$64tr and 12m forward earnings estimates of \$3.32tr.²⁹ Market cap of SPCX, OpenAI and Anthropic is estimated to be upwards of \$5.0tr and their earnings are estimated to be essentially zero. This means the market cap increases by 5.7% while earnings aren't changed, so the forward PE would move from 19.1x to 20.8x all else equal once 100% of the float of those companies are available to the public.

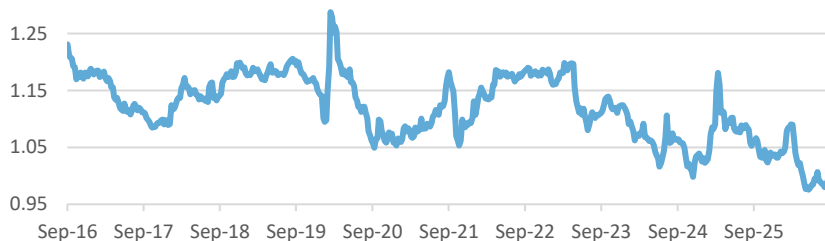
Investor mania for exposure to AI related names can be seen in the relative volatility of puts (downside protection) being at all-time lows versus volatility of calls (upside participation). Further, the implied correlation among the names in the SP500 is also at record lows. Both of these are extreme measures of complacency.

Company	Est Valuation
SpaceX	\$2.0t
Anthropic	\$1.5t
OpenAI	\$1.3t
Databricks	\$200bn
Stripe	\$170bn

Source Bloomberg. For informational purposes only. Valuations are based on most recently reported third-party estimates or in the case of SpaceX current market pricing as of the date of this commentary.

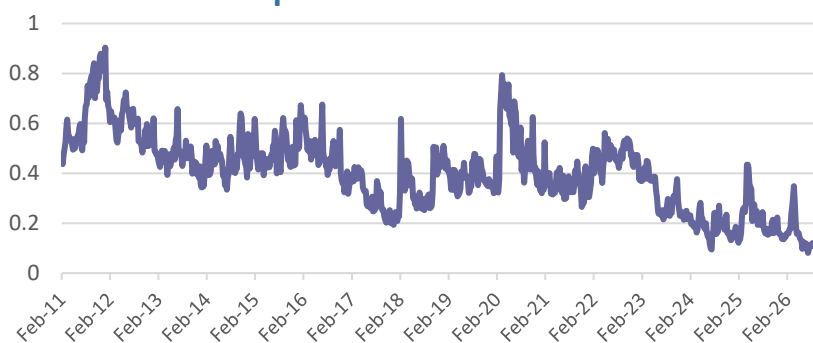
²⁶ Source: web_search, SIG/MultiState data, retrieved 2026-09-27; ²⁷ Source: Bloomberg; ²⁸ Source: CNBC; ²⁹ Sources: <https://www.factset.com/earningsinsight>

Mag7 1y 25DP/25DC Ratio



Source: Bloomberg, as of 09/30/26. The Mag 7 1Y 25DP/25DC ratio is an options-market metric and should not be interpreted as a forecast of future market performance. For informational purposes only.

Implied SPX Correlation



Source: Bloomberg, as of 09/30/2026. Implied S&P 500 correlation derived from option prices. For informational purposes only. Past performance and historical market indicators are not indicative of future results.

On a related note, the high flying hedge fund Situational Awareness (“SA”) lost 67% in July as it was 4x levered in a trade that has been described as long “picks and shovels” of AI (such as CoreWeave, Bloom Energy, Micron, NVDA) and short incumbent software (such as Adobe and Salesforce) under the theory that was spelled out Leopold Aschenbrener’s 165 page manifesto that if AGI arrives in the coming years, the scarce inputs are silicon, memory, land and electricity, and the losers are the software franchises that AI can replicate. During July, the semiconductor index fell 28% from its June 22 peak, as well as other momentum names such that the Morgan Stanley TMT index was down 53% over the same period.

AI Bubble

With the heightened levels of risk taking, complacency and growing risks, the obvious question is whether AI is in a bubble. In our view, much of the increase in market value of the largest companies of the S&P500 is due to anticipated capital expenditures on AI infrastructure buildout. These companies today face a classic Prisoner’s Dilemma around infrastructure spending: individually, we believe they would all be better off not overspending, but each firm’s dominant strategy is to invest aggressively or risk being left behind.

A bubble is a situation where an asset’s market price rises well above the level justified by fundamentals (discounted future cash flows, rents, etc). Bubbles are typically characterized by rapid price increases, widespread speculative behavior, and eventual sharp corrections once expectations or funding conditions shift. The current AI boom exhibits many classic bubble ingredients—compelling narrative, outsized recent performance, reflexive flows, and difficulty in separating winners from hype—raising vulnerability if earnings fail to catch up or rates stay elevated.

“...Historically bubbles burst when one or more of the following conditions are present:

- ✓ Tightening Monetary Policy
- ✓ Overleverage
- ✓ Confidence or Macro Shock
- ✓ Regulatory Changes

Historically, what causes bubbles to burst and are any of those conditions currently present?

- Tightening Monetary Policy - An IMF survey of historical crashes finds that “most of the crashes absent recessions were triggered by monetary policy tightening” often after a period of credit expansion and speculative excess. Given the increase in global interest rates, monetary policy is clearly tightening, and it is unclear if doing so will actually stop the sources of inflation.³⁰
- Overleverage - Bubbles are especially fragile when they are “leveraged”—funded heavily with borrowed money rather than equity. The current massive AI spending that is in the early stages we believe will create massive leverage amongst the largest companies. Nascent markets such as private credit also create leverage which is harder to measure. Overleverage is also presenting itself in the aforementioned options markets and hedge fund blow-ups.
- Confidence or Macro Shocks - Bubbles are sustained by narratives (“this time is different,” new technologies, permanent high growth); they often burst when those stories are punctured, such as returns to AI disappointing. With the Iran war, this may have already happened. Add in increasing risk in Taiwan.
- Regulatory Changes - Changes in rules, taxes, or guarantees can abruptly alter the economics of a bubbly asset class. These shocks matter because they change the constraints investors face. The growing political backlash against data center buildouts is an example of the type of regulatory shifts which could have impacts on broader markets.

Current Research Topics

“... we routinely feed academic and industry research into our AI system and ask it to verify the results and use that as a basis for improving our investment process...”

We have always been a research-focused firm, but the improvements in AI have allowed us to take that research to a new level. We routinely feed various academic and industry research into our AI system and ask it to verify the results and use that as the basis for improving our investment process. We also do a lot of research in response to client questions. Below is a sampling of some of the topics we’ve explored recently.

Optimal Leverage Ratio

One common question we receive from many clients during the onboarding process is what should their ideal leverage ratio be? There is an entire body of research around this question focused on applying the *Kelly Criterion* which is a mathematical formula used to determine the optimal risk sizing to maximize long-term wealth while avoiding ruin. The issue with applying the Kelly Criterion broadly to every client is each client’s risk profile is different (the volatility of their portfolio as well as their definition of ruin), and there are questions around what assets should be considered in this mix (ex. Do you include a primary home which has a very high leverage but very low asset volatility?). We have created a calculator in our system which can modify the base calculations for those different inputs as well as stress the outputs to non-normal assumptions of returns during our intake process. The table on the following page shows the range of outputs from the model. For example, if the volatility of your portfolio is 12% (typical of 50/50 allocation) and you define ruin as less than a 1% probability of running out of money, in this example the optimal leverage is 1.36x, meaning you should borrow 36% of your equity base to add to your asset level. If the volatility of your portfolio were 16% (all equities) then the idea leverage drops close to 1.

³⁰ Source: <https://www.elibrary.imf.org/display/book/9781589062122/ch02.xml?utm>

Optimal leverage ratio (x)

Unlevered Vol	6%	8%	10%	12%	14%	16%	18%	20%	25%	30%
Ruin <= 0.1%	1.99	1.55	1.27	1.07	0.92	0.81	0.72	0.65	0.52	0.43
Ruin <= 1%	2.48	1.95	1.6	1.36	1.18	1.04	0.93	0.84	0.67	0.56
Ruin <= 5%	3.14	2.48	2.05	1.74	1.52	1.34	1.2	1.09	0.88	0.73
Kelly (no ruin limit)	3.89	3.44	3.0	2.64	2.35	2.11	1.91	1.75	1.44	1.22
Ruin prob. at Kelly	13.5%	19.4%	22.5%	24.4%	25.7%	26.6%	27.3%	27.8%	28.7%	29.3%

Source: FOR ILLUSTRATIVE PURPOSES ONLY. GenTrust analysis. Results are derived from an internal portfolio optimization model utilizing volatility assumptions and specified ruin probability constraints. Outputs are hypothetical, based on model assumptions, and provided for illustrative purposes only. Actual results may differ materially.

Rebalancing

Another common question we receive from clients is our approach to rebalancing. There are many approaches based on deviation from target, time based, and size of drift. This is also an area where the academic and industry research is very fertile. Our conclusion of most research is that rebalancing is a good thing that can add 0.3-0.4% per year in returns and reduce risk, but we believe the method you use to rebalance is less important (see grid below).³¹

Rebalance	Type	Net Total Return	Volatility	Net Sharpe	Max Drawdown	Avg Alloc Range	Annual Turnover	Rebals / Yr	Annual Trade Cost
Buy and Hold	Benchmark	8.7%	9.0%	0.32	-41.2%	104%	0.0%	0.0	0.00%
Biennial	Calendar	9.3%	8.0%	0.44	-29.7%	95%	5.1%	0.5	0.03%
Annual	Calendar	9.2%	8.0%	0.43	-29.7%	70%	9.2%	1.0	0.05%
Monthly	Calendar	9.0%	8.1%	0.39	-32.8%	27%	26.0%	12.0	0.13%
+/-30% Band	Trigger	9.1%	8.3%	0.40	-32.6%	67%	6.3%	0.4	0.03%
+/-20% Band	Trigger	9.1%	8.2%	0.40	-32.8%	52%	9.4%	0.9	0.05%
+/-10% Band	Trigger	9.0%	8.1%	0.40	-32.8%	35%	13.8%	2.3	0.07%

Source: AQR Capital Management, Portfolio Rebalancing Part 1 of 2: Strategic Asset Allocation (December 2015) and GenTrust calculations. FOR ILLUSTRATIVE AND EDUCATIONAL PURPOSES ONLY. Results are based on hypothetical backtested performance from January 1972 through December 2014 using monthly data. Returns do not reflect advisory fees, custodial fees, taxes, or other investor-incurred expenses, which would reduce returns. Hypothetical results have inherent limitations and do not represent the performance of any actual account. Past performance, whether actual or hypothetical, is not indicative of future results.

We've taken those basic principles and extended the analysis to review momentum based rebalance as well as automatic options based rebalance. Currently, we are using a momentum-based approach that looks to rebalance buckets based their relative momentum shifts. This approach can add an additional layer of value versus the above simpler approaches. Options-based rebalancing is also a very interesting area of exploration for us. The basic idea is if you have a portfolio of assets, rebalancing is driven by assets moving significantly up or down, in which case you need to sell or buy. The same rebalancing can be accomplished by writing out of the money puts and calls or "strangles" in option-speak on those same assets, in which case you've locked in the "rebalance premium" explicitly by the option premium you've collected. This approaches makes sense when you believe the options market is pricing in large moves than you believe are likely. Given the current low levels of volatility, we don't currently find the approach attractive, but it is good to have the tool in our toolkit for when times change.

³¹ Source: Christopher Donohue and Kenneth Yip, "Optimal Portfolio Rebalancing with Transaction Costs," The Journal of Portfolio Management, Summer 2003.

Tax Loss Harvesting

Tax loss harvesting strategies are generally where an investment manager purchases all the individual stocks in an index such as the SP500 and then sells shares when they lose money and reallocate that capital to other holdings. Until about 5 years ago, this long only strategy was very popular and offered by firms such as Parametric, Aperio, and several others. We were never advocates of this strategy for several reasons. First, the losses harvestable quickly are reduced in up markets and the only way to keep the strategy producing more losses is charitable giving or adding cash. Second, we have seen many of those strategies trailed the benchmark (which makes intuitive sense if you're repeatedly selling low) and/or charged large fees which created a large performance drag.

Recently, several firms have started to offer overlay strategies that can be funded with existing positions (such as ETFs) and those holdings are used as collateral for an overlay that varies from 30% long vs 30% short to many multiples of that. These strategies can help overcome the ossification issue and are now being offered by firms that have a historical precedent of having a longer track record in equity alpha engine, unlike the first generation of strategies. The use of these strategies is client-specific, but it is typically a good tool for advisors to have available so they can help clients manage their tax outcomes.

Positioning

From an overall positioning perspective, we are neutral across asset classes. Most portfolios are already extremely exposed to the AI trade with holdings concentrated in the big tech names. Our preference is to stay diversified by holding broader public equity market exposures (equal weight, mid cap, non-us equities) and invest in the growth potential of AI through niche opportunities where we see the potential for more upside in providing clients with a diversified way to play this generational shift. Given the sheer size of the large public AI companies, their recent >100%/yr returns are unlikely to repeat whereas the next great AI company is likely not even known yet. Further, given the pricing in options markets, we have found hedges in many of the AI-related companies that may be attractive for investors who share our view.

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The leverage-model outputs and back tested rebalancing results presented in this material are hypothetical and do not represent the performance of an actual client account. They depend on selected data, methodologies, and assumptions. Different inputs or assumptions may produce materially different results, and actual outcomes may differ substantially. Backtests apply strategies to historical data and may benefit from hindsight. They cannot fully capture the effects of actual trading, liquidity constraints, or investor behavior. The rebalancing backtest excludes advisory fees, custodial fees, taxes, and other investor-incurred expenses, which would reduce returns.

Model estimates of "optimal" leverage or the probability of ruin are conditional on the model's assumptions. They do not establish a suitable borrowing level for any investor or guarantee that losses will remain within a stated probability or threshold. No assurance exists that any modeled result or estimated rebalancing benefit will occur.

Borrowing and leveraged strategies magnify investment exposure and can increase losses, potentially beyond the capital initially invested. Borrowing costs may rise and reduce returns. Declines in collateral value may trigger margin calls or forced liquidation at unfavorable prices, potentially without advance notice. Short-selling involves additional risks, including borrowing costs, recall of borrowed securities, and potentially unlimited losses as the price of a shorted security rises.

Options involve risks and may not be appropriate for all investors. Purchased options may expire worthless, resulting in the loss of the entire premium. Written options create obligations to buy or sell the underlying asset and may produce substantial losses. Uncovered call writing can produce unlimited losses. Receiving an option premium does not guarantee a profit or successful rebalancing outcome. Hedging may limit gains, increase costs, or fail to provide the intended protection.

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