MARKET MINUTE

With McGAREL



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Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Investors cannot invest directly in an index. **CapEx** (capital expenditure) is a strategic investment in long-term assets that is depreciated over time on a company's financial statements.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

There is no guarantee that past trends will continue, or projections will be realized.

In *The Old Man and the Sea*, an Ernest Hemingway classic, the fisherman Santiago says, "But I try not to borrow. First you borrow. Then you beg."

The month of October reminded us how debt cuts both ways. The breathtaking rise in 2026 CapEx intentions for the five major hyperscalers [Chart 1] over the last two years along with another year of strong growth forecasted for 2027 and rising interest rates have caused investors to question if companies are introducing undue risk to their businesses. This is showing up in wider credit spreads for hyperscalers at a time of increasing capital needs as cash flows have turned negative in aggregate for the group.

Capital expenditures, in the private sector, are the elixir to earnings growth. Companies invest prior profits, issue equity, or incur debt to invest in physical assets to grow their business. Pretty simple.

Over the last several years, data center construction and semiconductor equipment have dominated this capital investment cycle. Four of the largest companies on earth, Alphabet (Google), Meta, Amazon, and Microsoft, are the biggest spenders and are set to deploy more than $1 trillion in 2027 after investing over $700 billion in 2026.

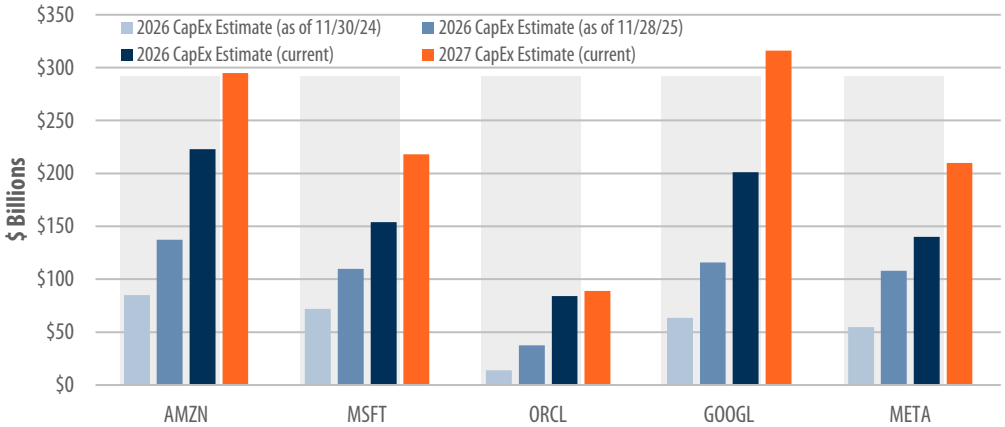
It has been easy to raise capital through debt and equity for those four giant companies the market refers to as hyperscalers. Their tremendous profits and cash flows from their dominant operating businesses allow them to lead in financing all of this computing infrastructure. Even those companies without the massive cash flows of those four hyperscalers have found plenty of capital willing to invest on both the equity and debt side.

As even the most powerful and profitable companies continue to spend enormous sums on AI infrastructure, the shift to debt as an increasing part of their financing mechanism drew scrutiny as cash flows weren't sufficient to cover the tab and yet spending was still accelerating. The impact of higher interest rates on the cost of capital was also a factor and raised concerns about the continued access to capital especially for those companies with less than pristine balance sheets.

The tech sector fell 7% in October even as the S&P 500 Index only fell 1%. Communication services, where Alphabet and Meta represent 78% of the sector weight, fell 15% for the month.

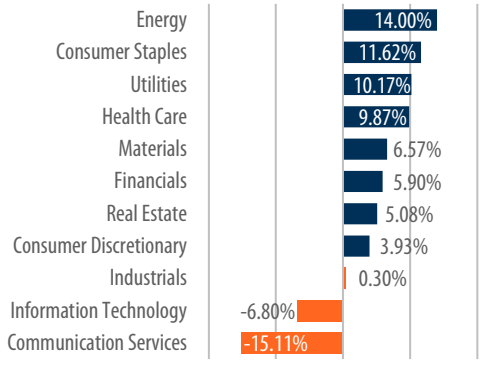
In our view, October is a reminder of how quickly investors can shift focus to the risks of the AI buildout from the unbridled promise exhibited throughout this investment cycle. The sector returns for the S&P 500 Index for the month of October tells the story best, in our view [Chart 2]. As we have written throughout the year, we believe the best risk/reward opportunity is represented in an allocation across size, style and sector. We continue to advocate that positioning.

Chart 1: CapEx Spending Estimates



Source: Capital IQ. Data as of 30/10/26. The chart is for illustrative purposes and does not represent any actual investment. Estimates are based on projected capital expenditures for mega-cap tech stocks. AMZN: Amazon.com, Inc. MSFT: Microsoft Corporation. ORCL: Oracle Corporation. GOOGL: Alphabet Inc. META: Meta.

Chart 2: S&P 500 Index October 2026 Sector Performance



Source: Bloomberg, 30/9/26 – 30/10/26. For illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. Returns are based on price only and do not include dividends.

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