

PORTFOLIO ANALYSIS & CONSULTING

The Market's Next Test: Rates, AI, and Elections

Jack Janasiewicz, CFA®

Portfolio Manager and
Portfolio Strategist

Garrett Melson, CFA®

Portfolio Strategist

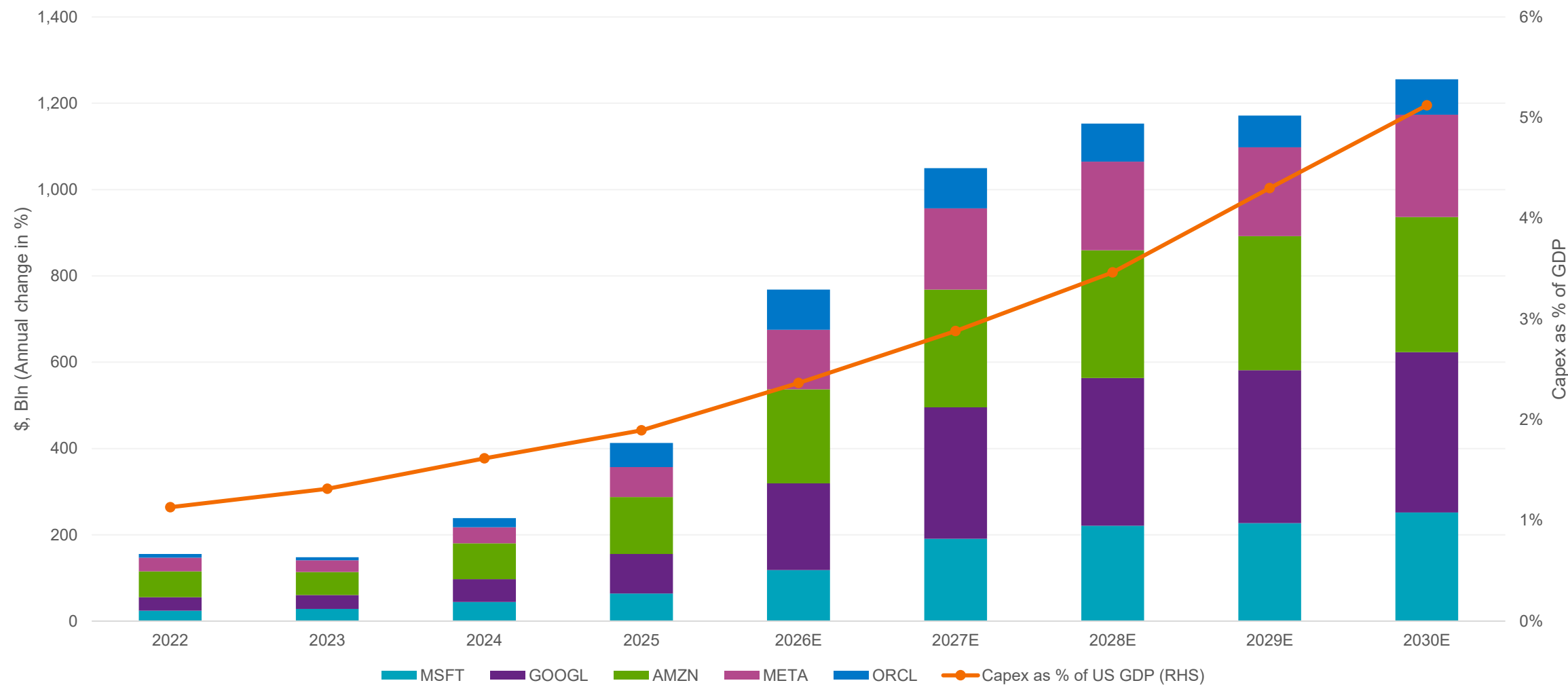
Brian Hess

Portfolio Manager

It's All AI All the Time

Will All of This Spend Ultimately Pay Off?

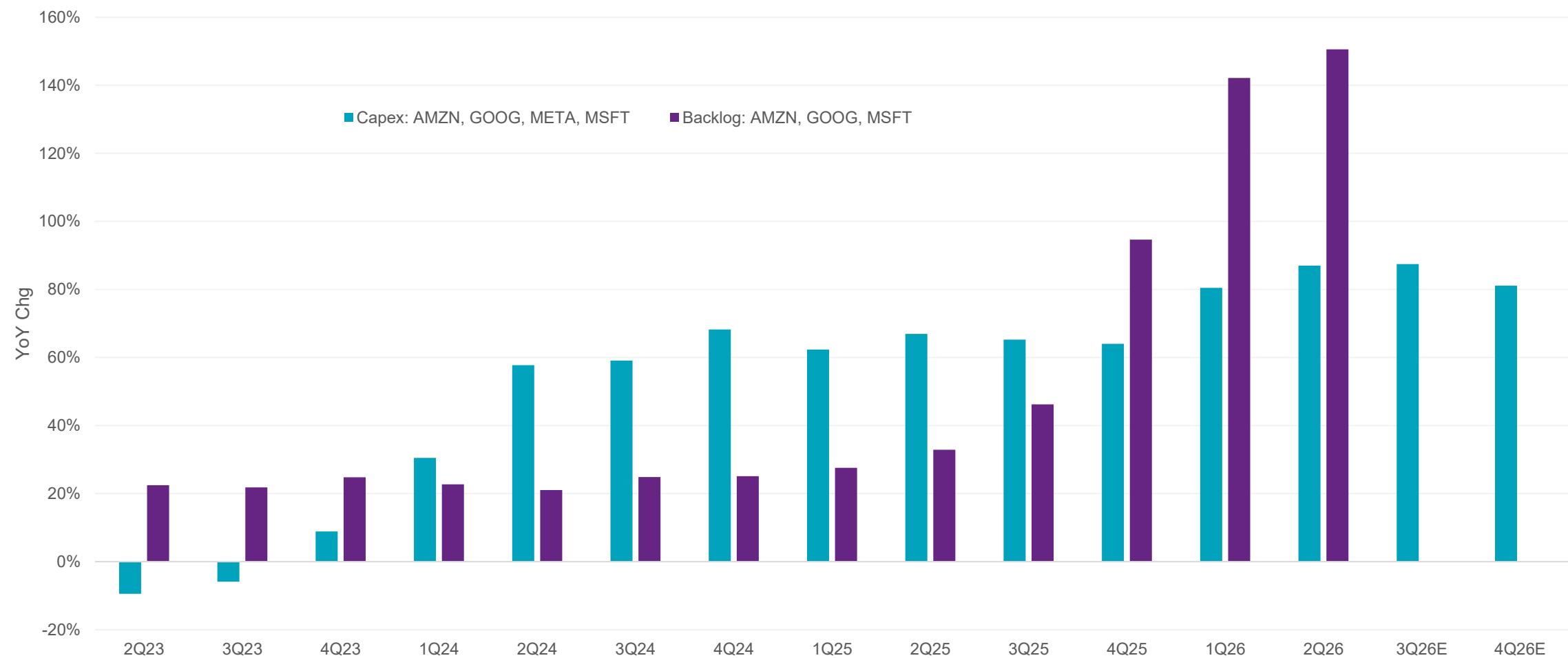
Big Tech Consensus CapEx Estimates (2022–2030E)



Source: Portfolio Analysis & Consulting. Bloomberg. MSFT is Microsoft. GOOGL is Alphabet. AMZN is Amazon, META is Meta. ORCL is Oracle. As of 9/23/26.

Demand Is Increasing

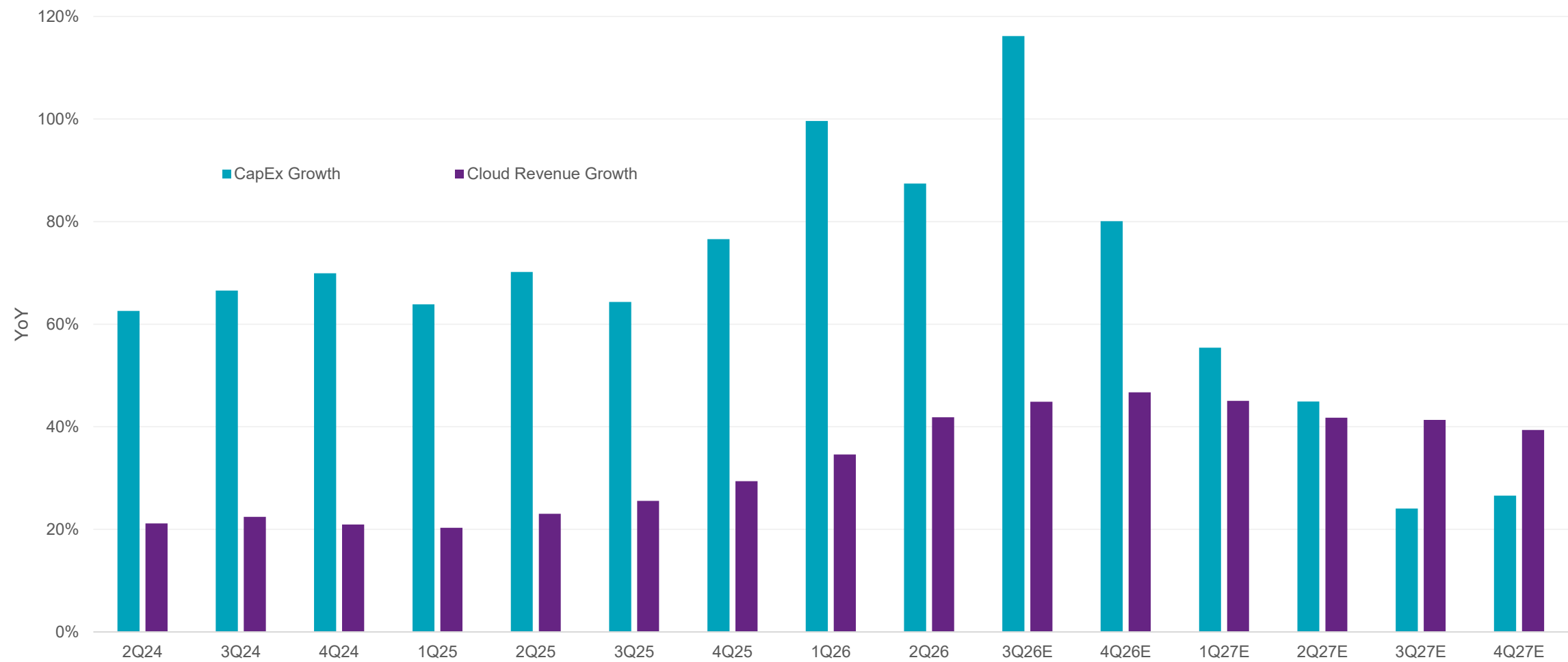
Order Backlog vs CapEx Growth (2Q23–4Q26E)



Source: Portfolio Analysis & Consulting. Bloomberg. Estimates based on Bloomberg consensus analyst estimates. AMZN is Amazon. GOOG is Alphabet. META is Meta. MSFT is Microsoft. As of 9/23/26.

Growth Rates Are Converging

Cloud Revenue Growth vs CapEx Growth (2Q24–4Q27E)



Source: Portfolio Analysis & Consulting. Bloomberg. Estimates based on Bloomberg consensus analyst estimates. Data include numbers from Amazon, Google, Oracle and Microsoft. As of 9/23/26.

Revenues Still Not Exceeding CapEx

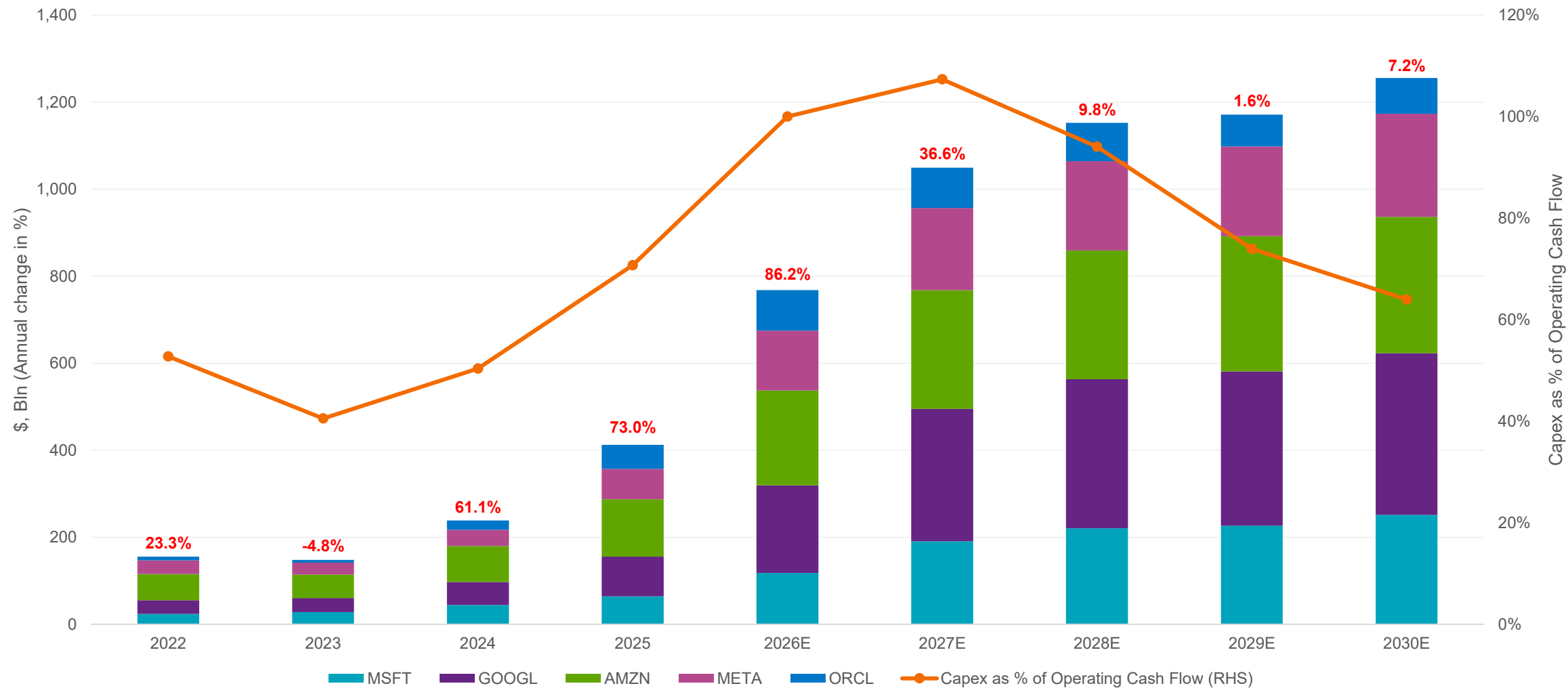
Cloud Revenue vs CapEx (2Q24–4Q27E)



Source: Portfolio Analysis & Consulting. Bloomberg. Estimates based on Bloomberg consensus analyst estimates. Data include numbers from Amazon, Google, Oracle and Microsoft. As of 9/23/26.

These Companies Still Have Strong Cash Flow

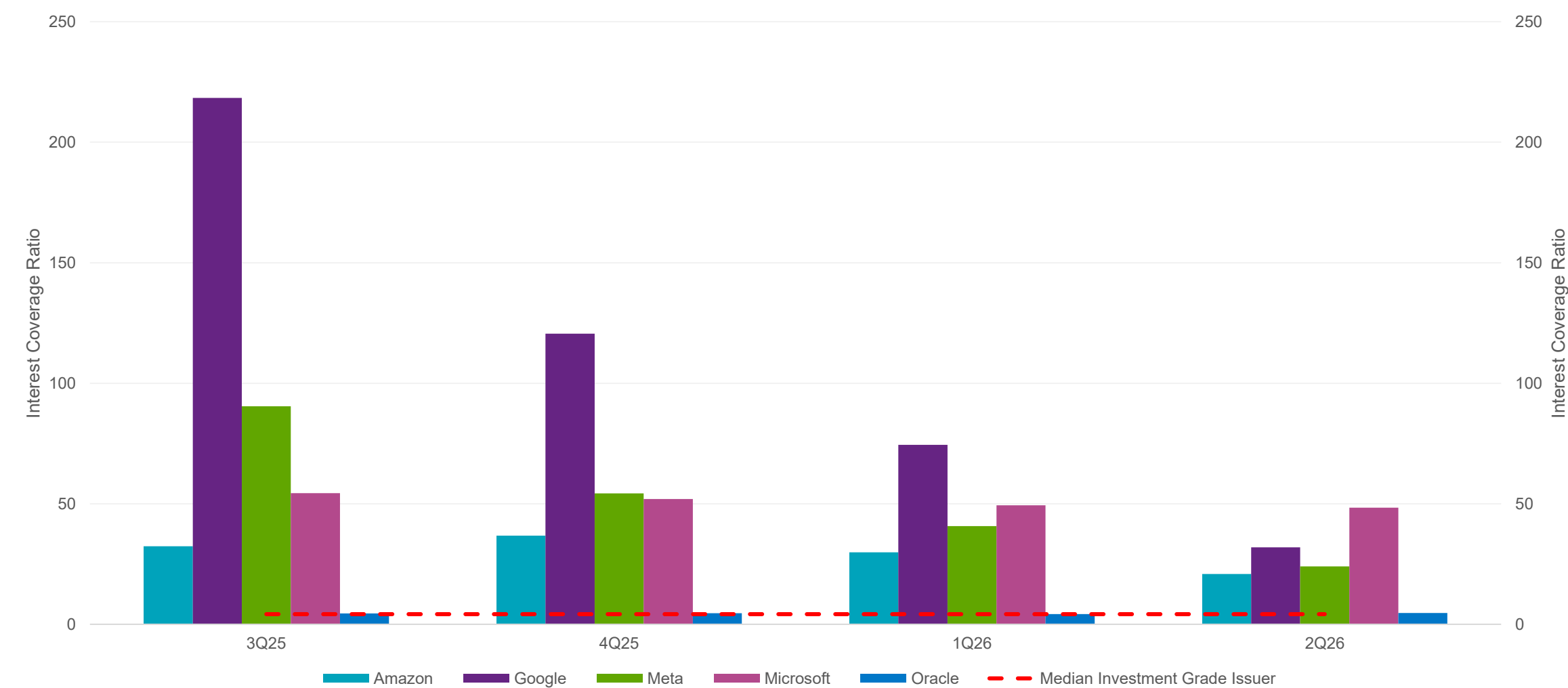
Big Tech Consensus CapEx Estimates vs Operating Cash Flow (2022–2030E)



Source: Portfolio Analysis & Consulting. Bloomberg. MSFT is Microsoft. GOOGL is Alphabet. AMZN is Amazon, META is Meta. ORCL is Oracle. As of 9/23/26.

Interest Coverage Ratios Still Strong

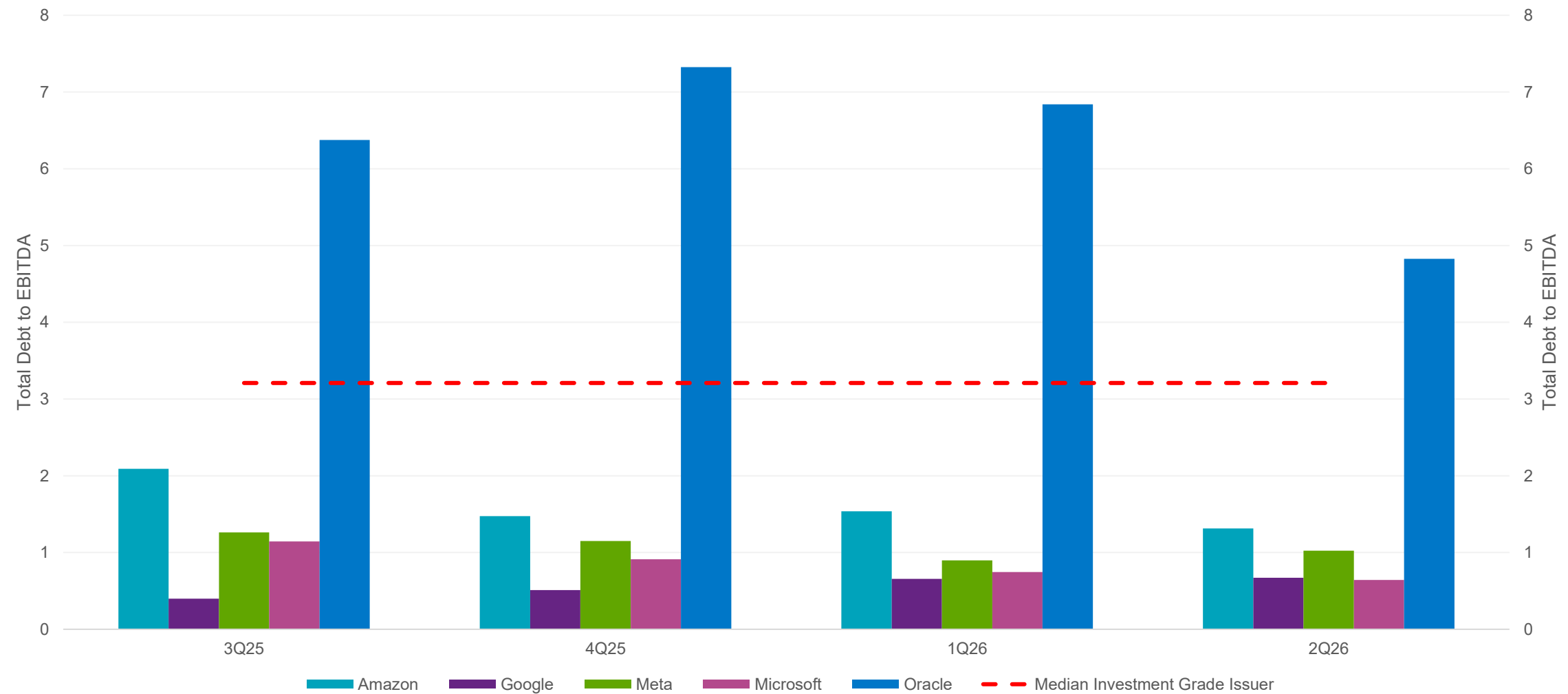
Interest Coverage Ratio (3Q25–2Q26)



Source: Portfolio Analysis & Consulting. Bloomberg. Median Investment Grade Issuer reflects the Bloomberg Investment Grade Corporate Bond index.

Leverage Ratios Still Fine

Debt to EBITDA (3Q25–2Q26)

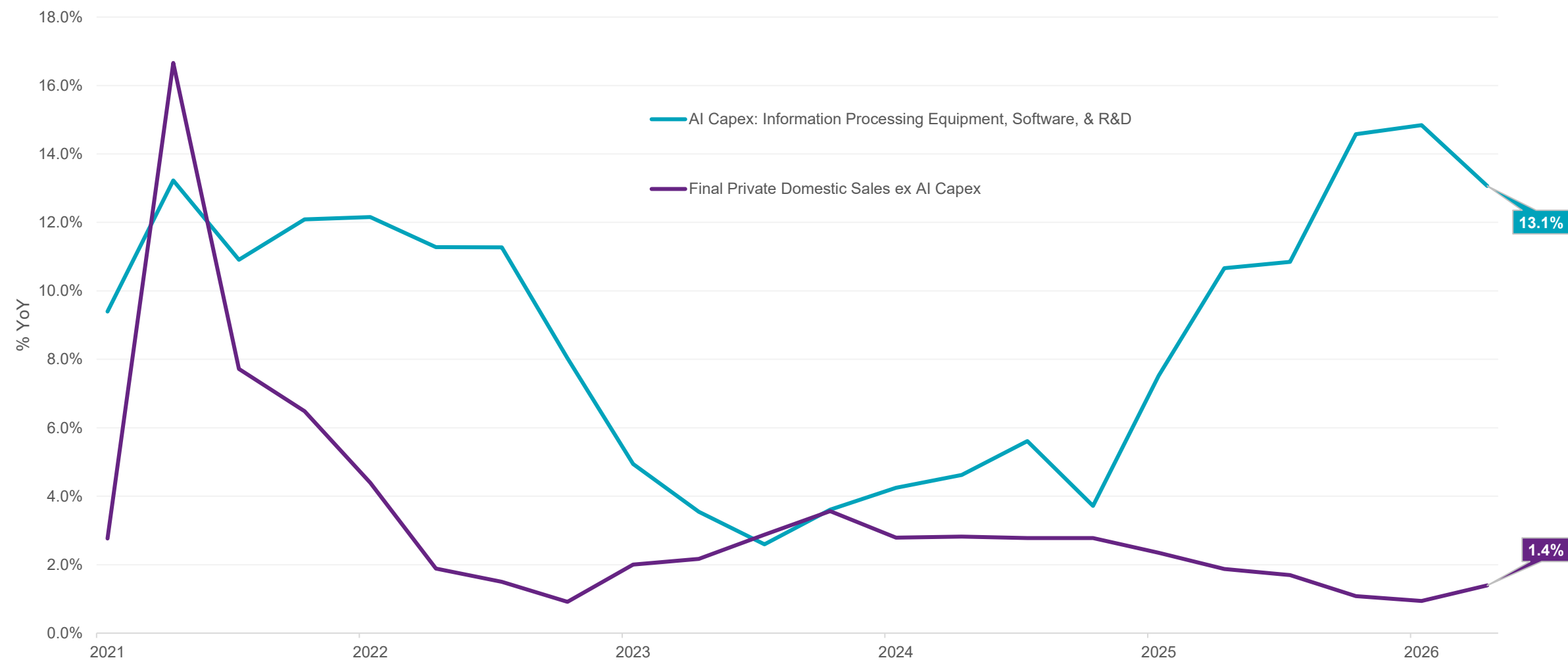


Source: Portfolio Analysis & Consulting. Bloomberg. Media Investment Grade Issuer reflects the Bloomberg Investment Grade Corporate Bond index. EBITDA is earnings before interest, taxes, depreciation and amortization.

Trapped in a Ho Hum Economy

AI is Driving Economic Growth

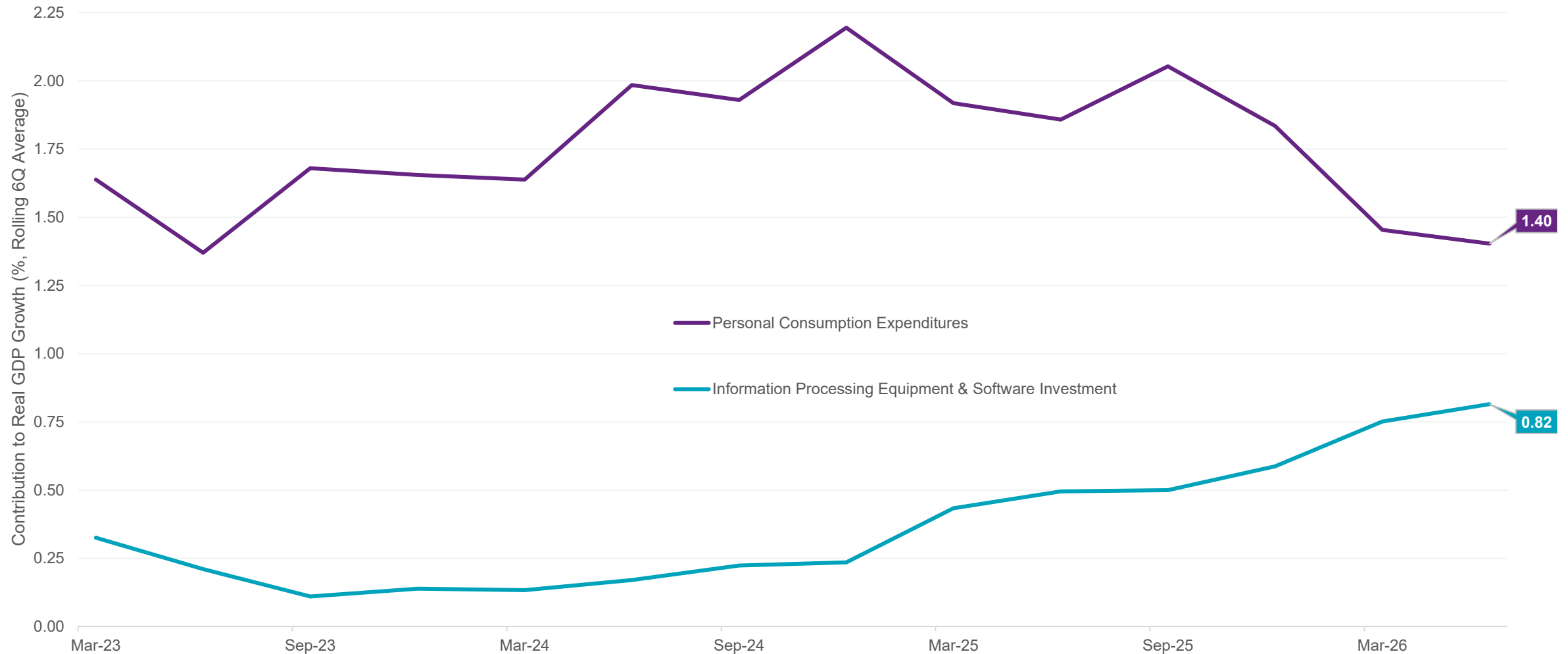
Real Final Private Domestic Sales vs AI Capex (3/31/21–6/30/26)



Source: Portfolio Analysis & Consulting. Bloomberg. AI Capex represents artificial intelligence capital expenditures. R&D represents research and development.

AI Growth Impulse Has Been Eyewatering

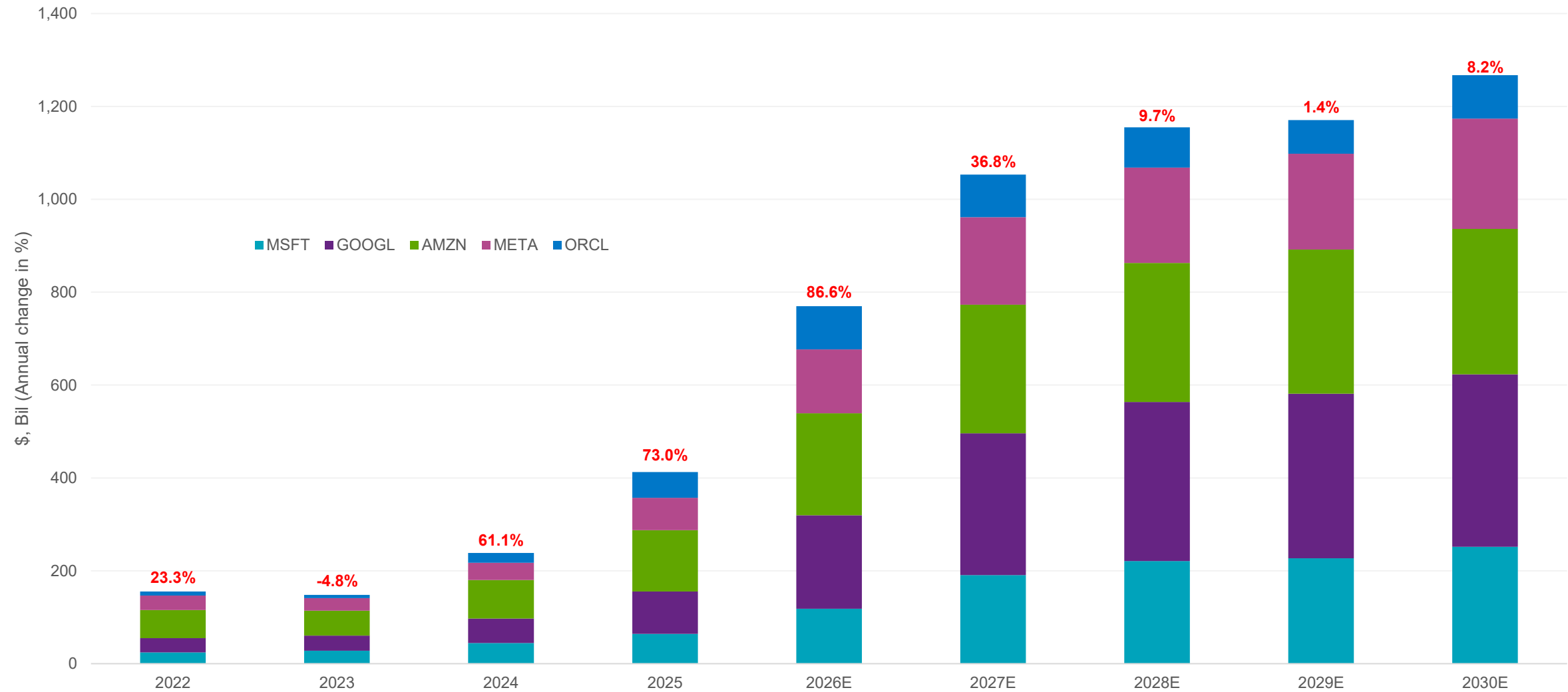
AI vs Consumption (3/31/23–6/30/26)



Source: Portfolio Analysis & Consulting. Bloomberg. GDP is gross domestic product.

Growth is a Flow Measure

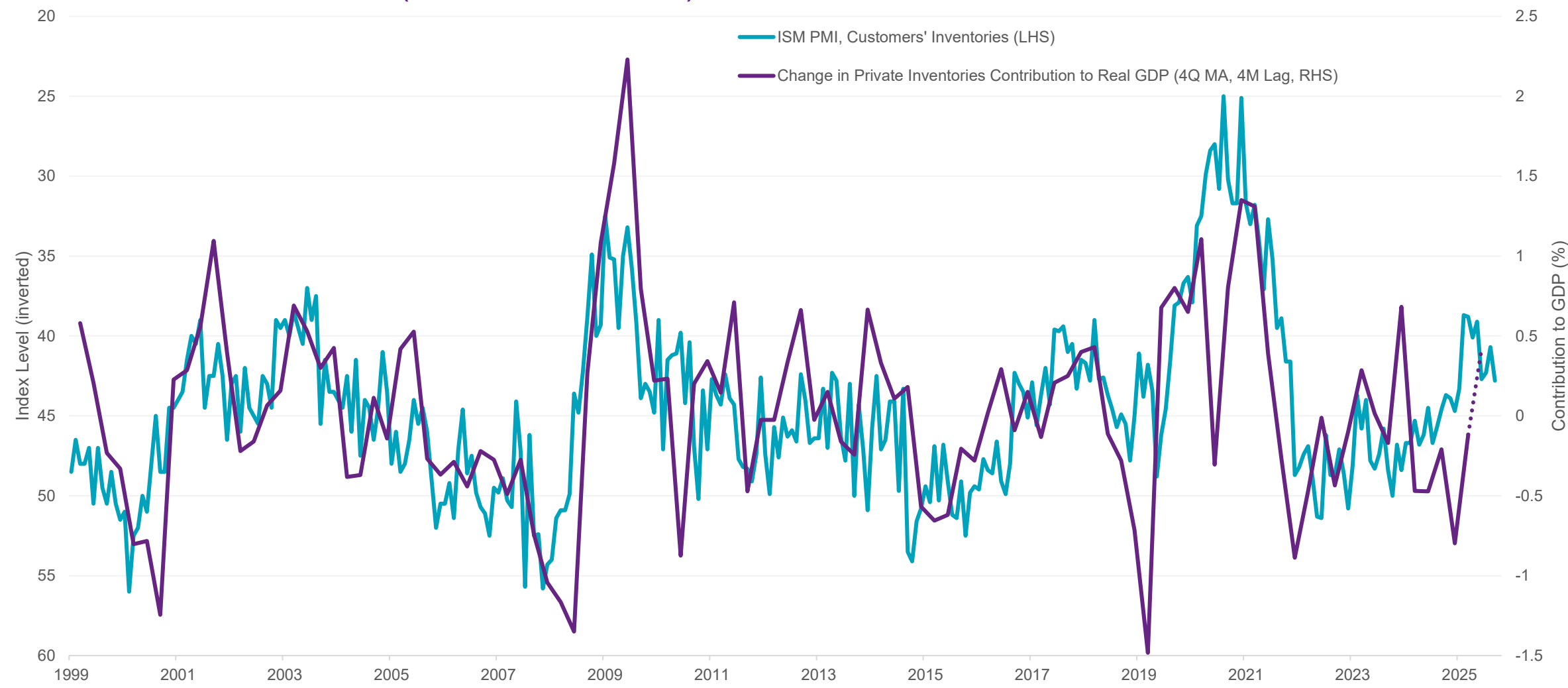
Hyperscaler Consensus Capex Estimates (As of 8/19/26)



Source: Portfolio Analysis & Consulting. Bloomberg. Capex represents capital expenditures.

Cyclical Reacceleration or Inventory Restocking?

Inventories vs Real GDP (12/31/99–6/30/26)



Source: Portfolio Analysis & Consulting. Bloomberg. 4Q MA represents 4 quarter moving average. GDP represents gross domestic product. ISM PMI represents Institute for Supply Management Purchasing Managers' Index. Dotted line represents estimate for Q3 2026 from Federal Reserve Bank of Atlanta GDP Now.

Fiscal Headwinds Mounting

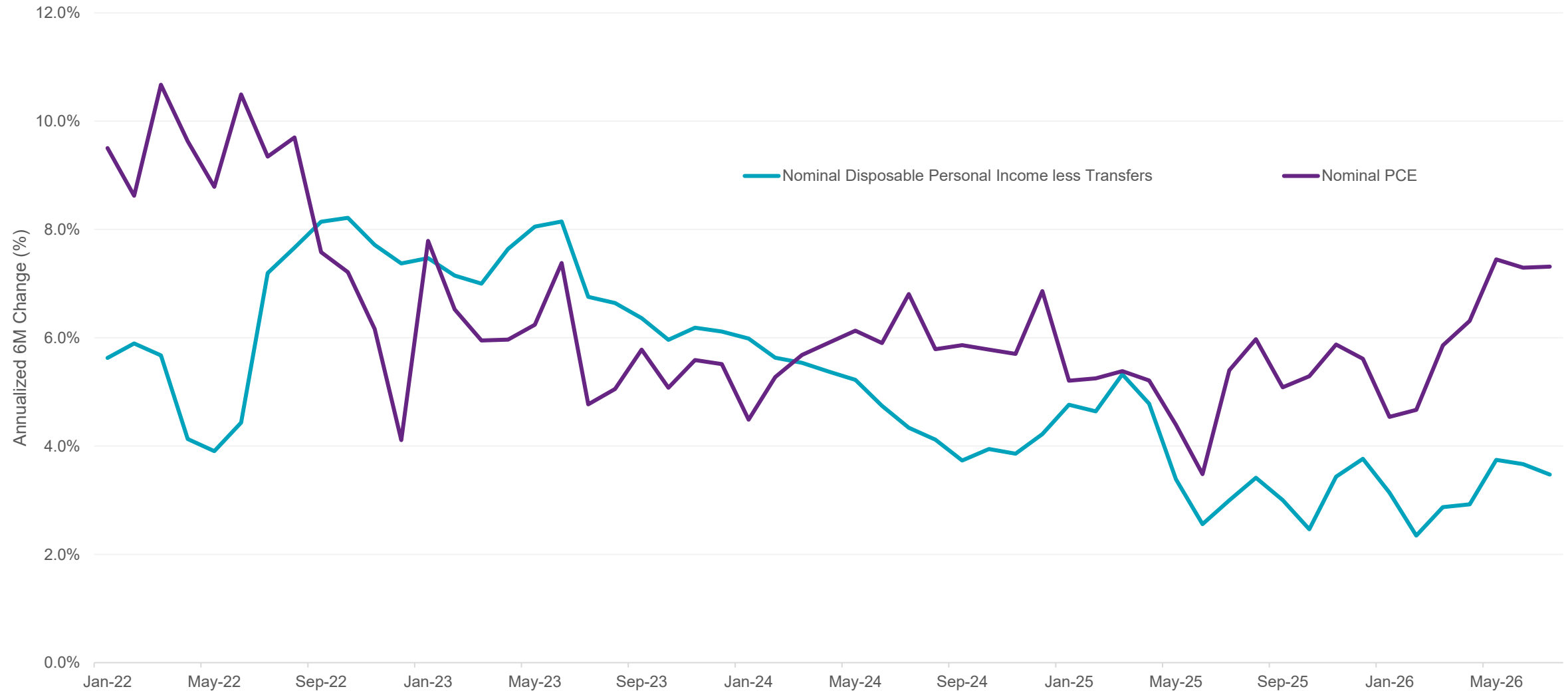
Hutchins Center Fiscal Impact Measure (Q1 2025–Q2 2028E)



Source: Portfolio Analysis & Consulting. Bloomberg. GDP is gross domestic product.

As Consumption Looks Set to Moderate

Nominal Personal Income vs Personal Spending (1/31/22–6/30/26)



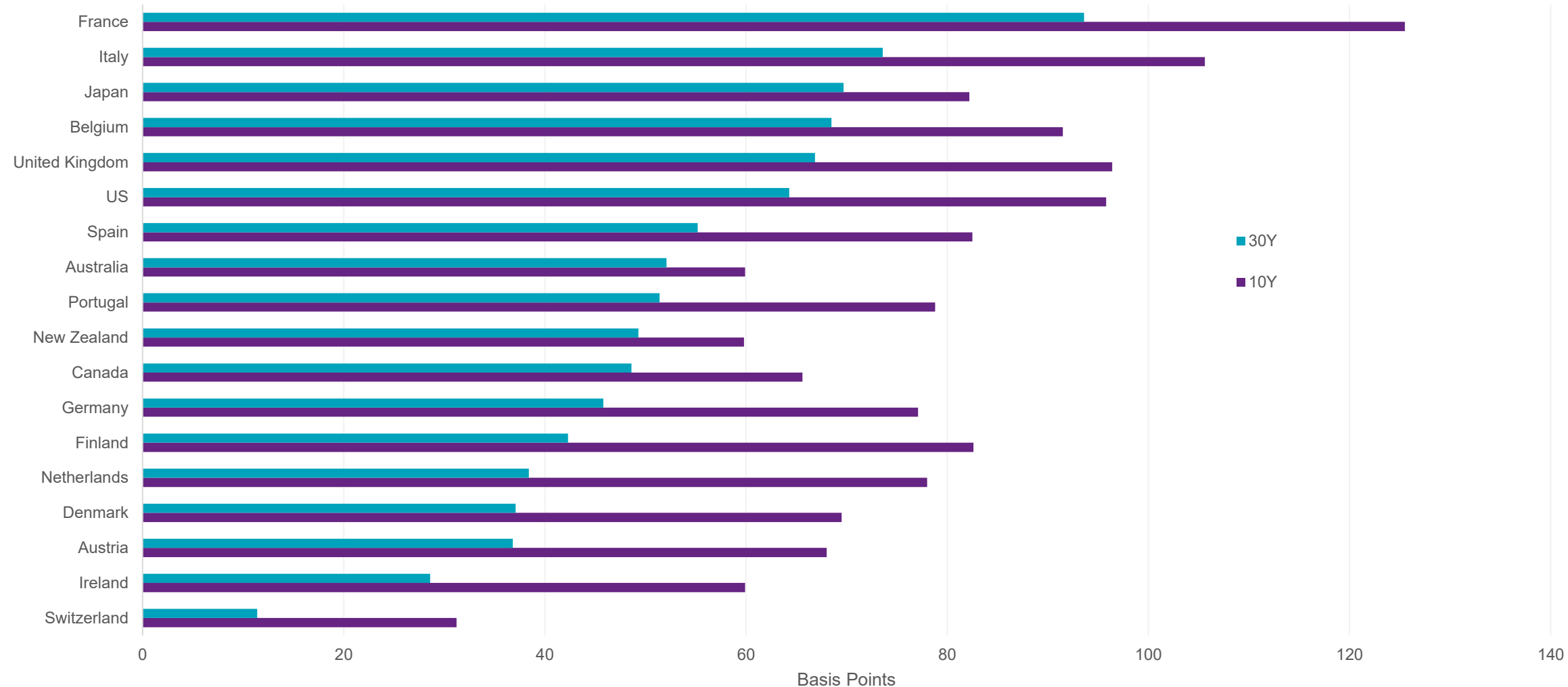
Source: Portfolio Analysis & Consulting. Bloomberg. PCE represents personal consumption expenditures.



Rates: A Fundamental to Technical Handoff

A Global Bear Flattener

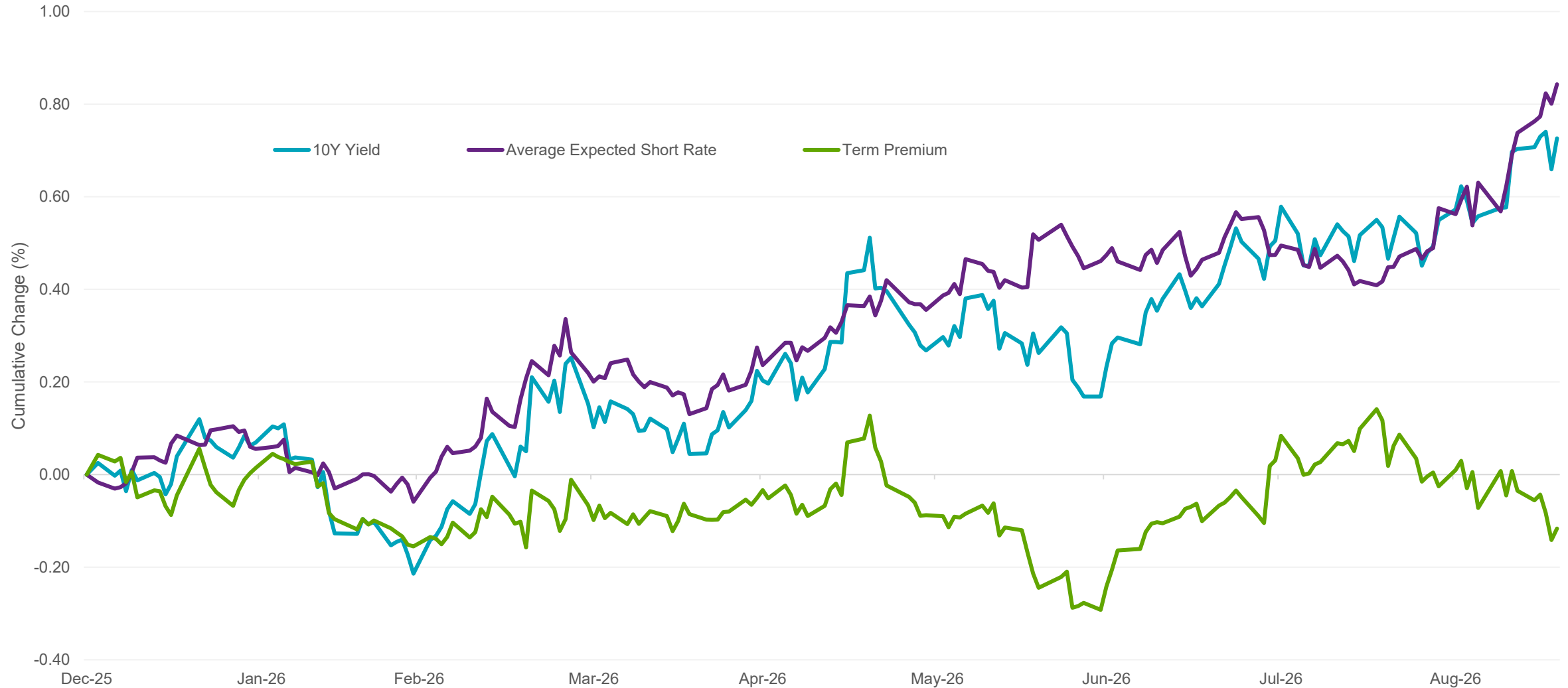
Change in Benchmark 30Y & 10Y Yields (2/26/26–9/22/26)



Source: Portfolio Analysis & Consulting. Bloomberg.

Repricing the Policy Path

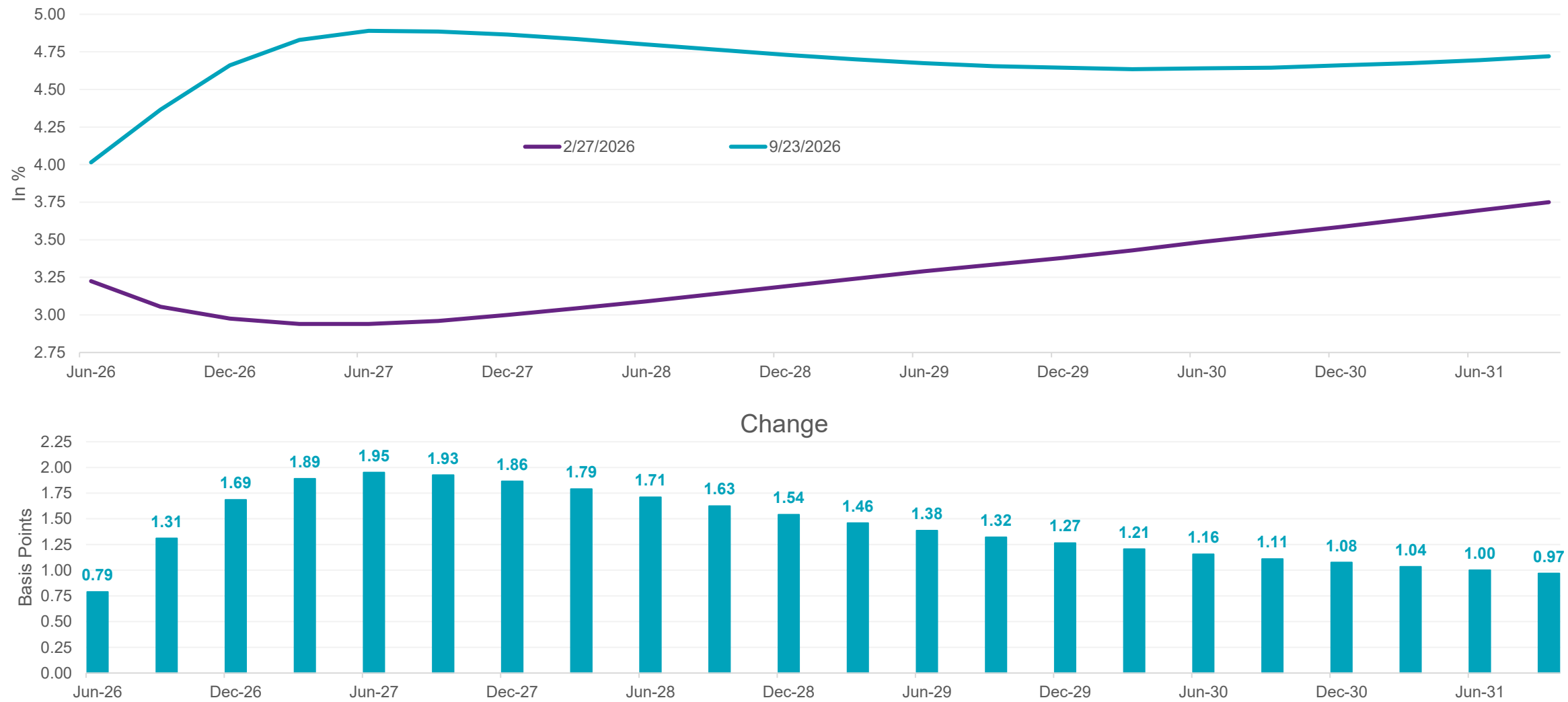
NY Fed 10Y Yield Decomposition (12/31/25–9/18/26)



Source: Portfolio Analysis & Consulting. Bloomberg.

From Cuts to Hikes

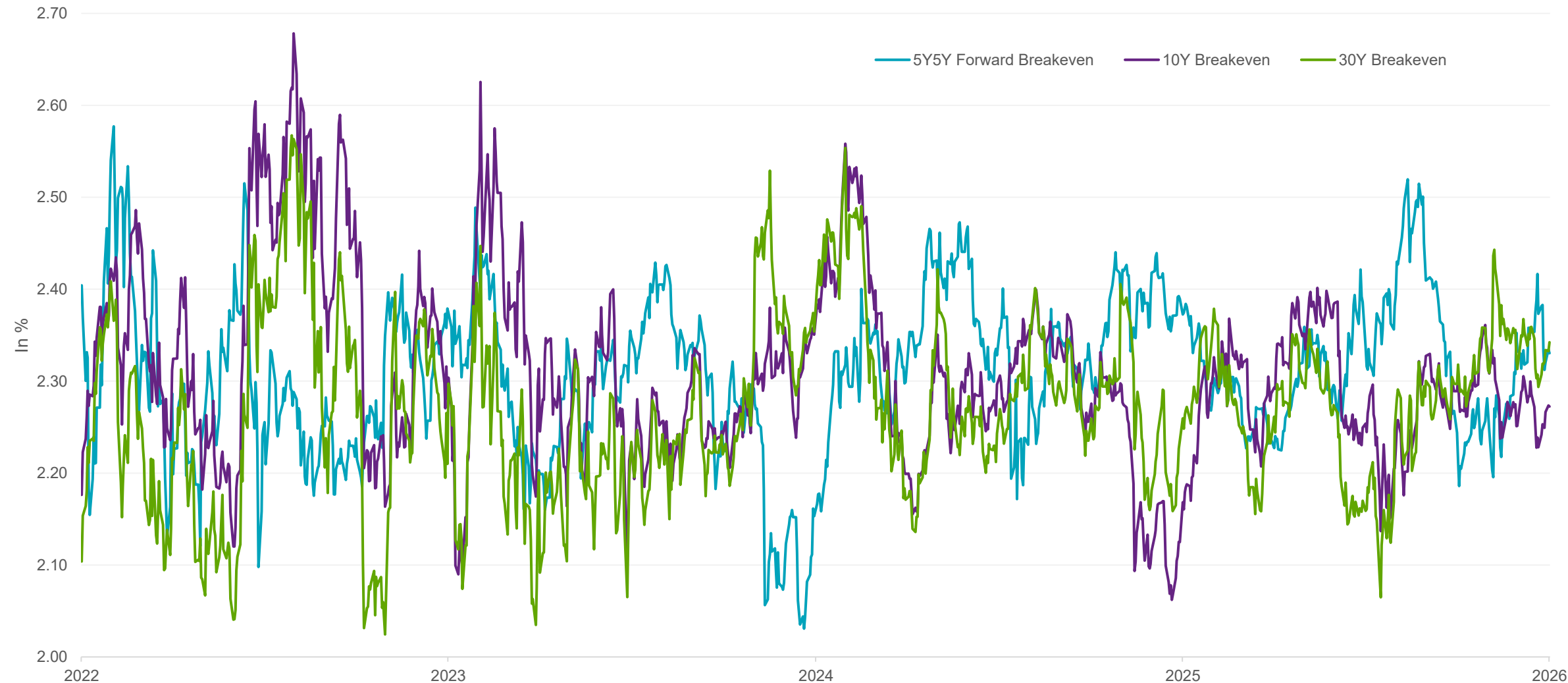
SOFR Curve (As of 9/21/26)



Source: Portfolio Analysis & Consulting. Bloomberg. SOFR is the secured overnight financing rate.

No Loss of Credibility Here

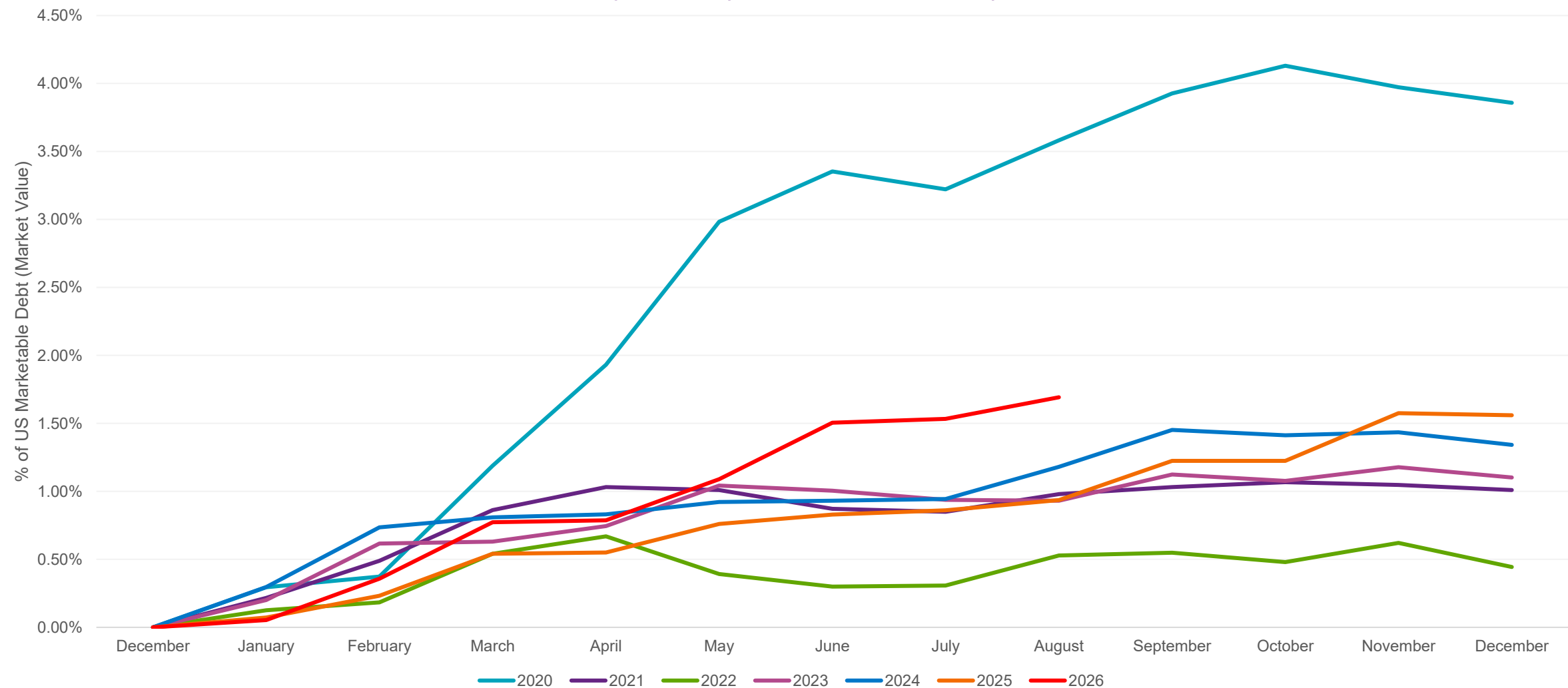
Inflation Expectations (9/22/22–9/22/26)



Source: Portfolio Analysis & Consulting. Bloomberg.

Is AI Issuance Really Crowding Out Treasuries?

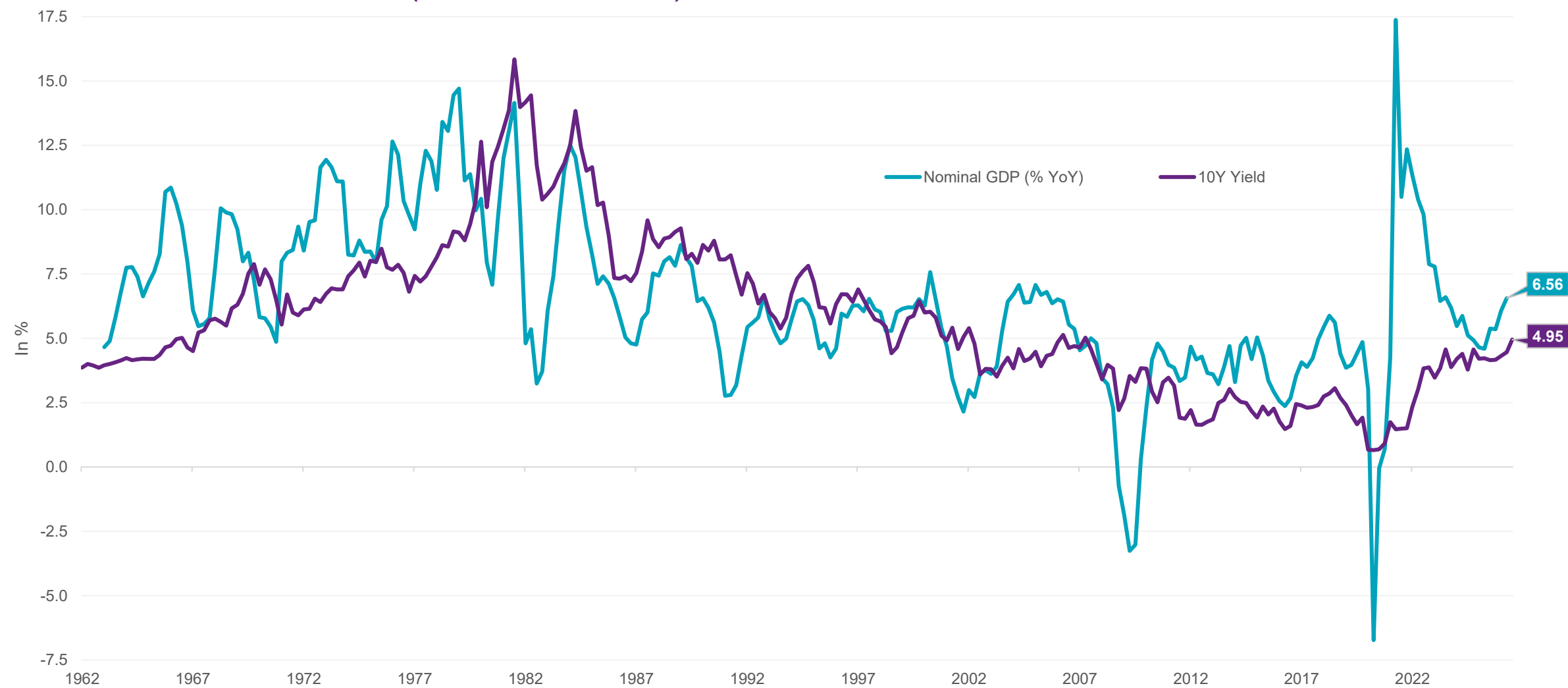
Net Nonfinancial Corporate Issuance by Year (1/31/20–8/31/26)



Source: Portfolio Analysis & Consulting. Bloomberg.

Nominal Growth Drives Nominal Yields

US Nominal GDP Growth (3/31/61–9/21/26)

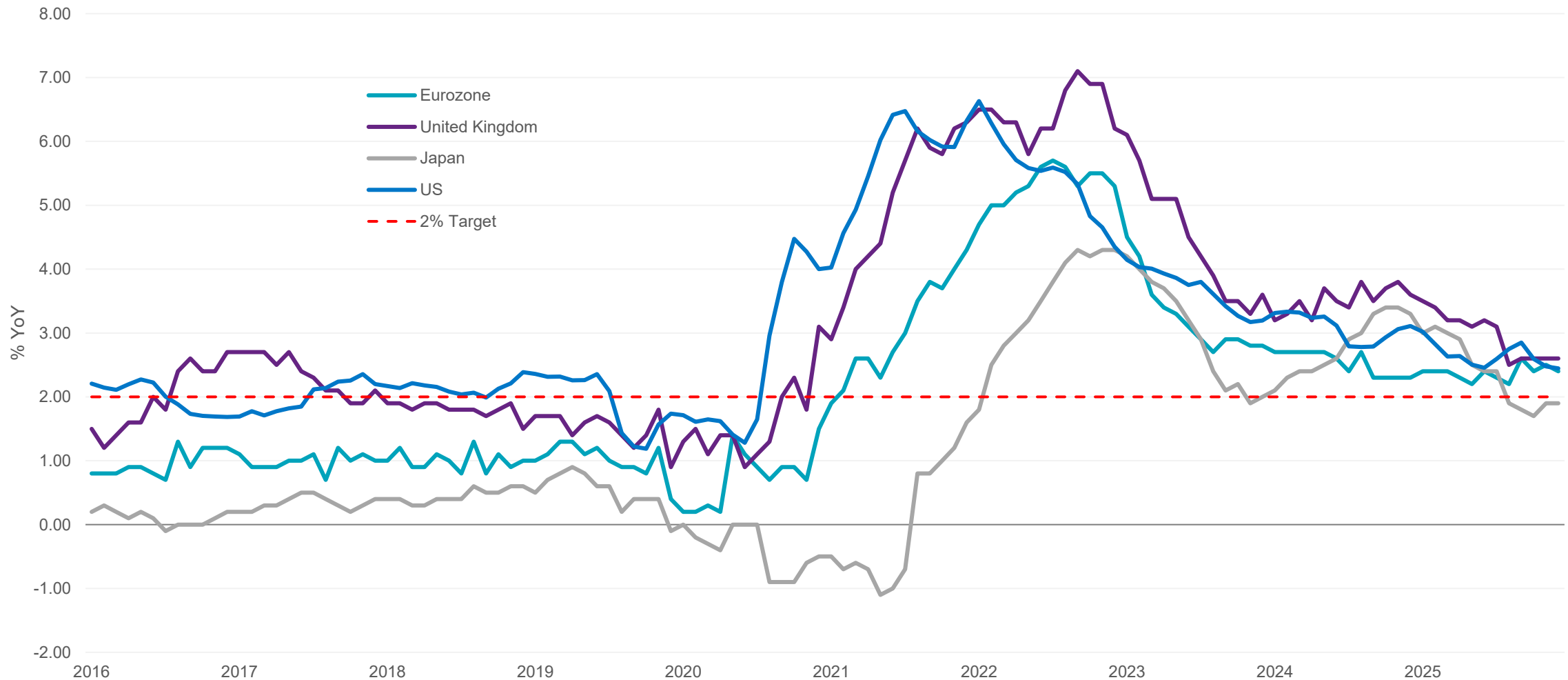


Source: Portfolio Analysis & Consulting. Bloomberg. GDP is gross domestic product.

Interest Rate Reaction

Inflation Has Remained Persistently Above Target

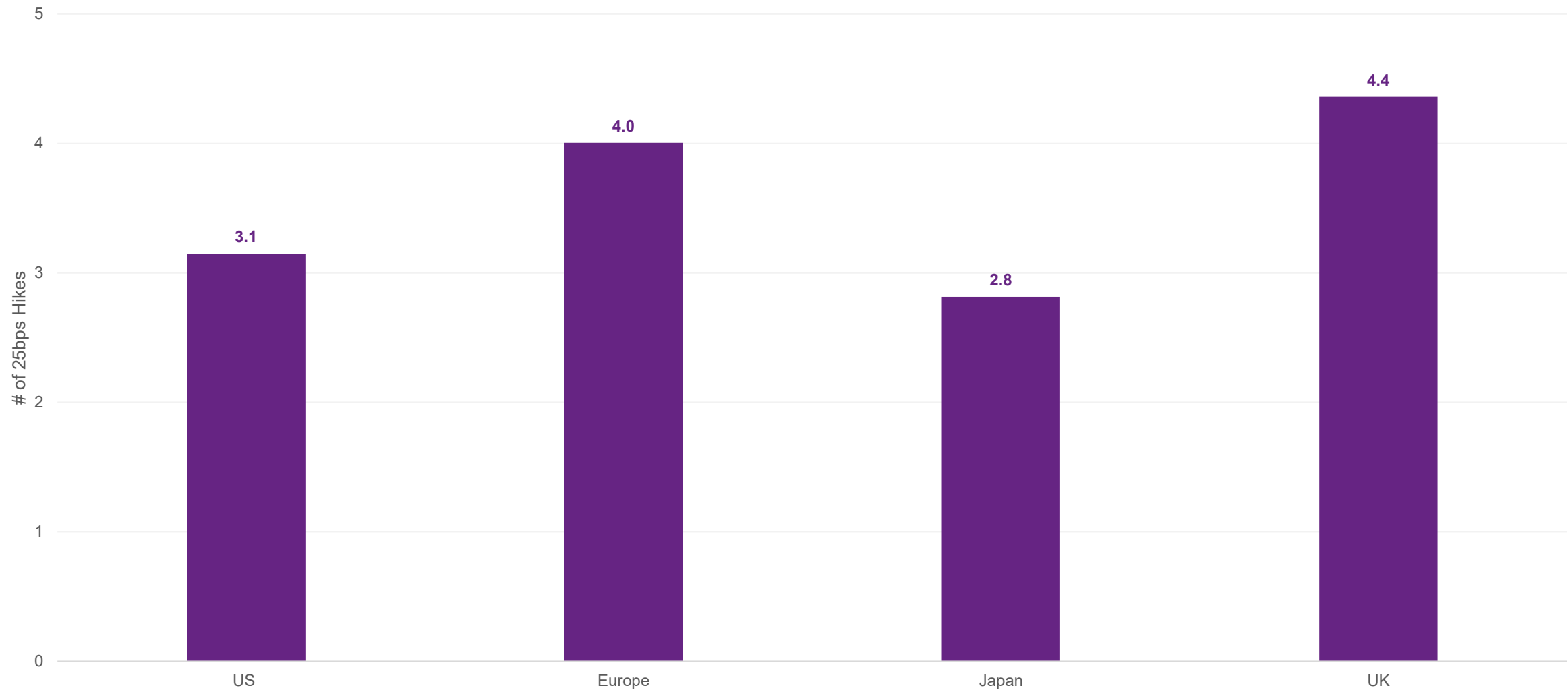
Core Inflation Rates (9/30/16–8/31/26)



Source: Portfolio Analysis & Consulting. Bloomberg. US uses the Core Consumer Price Index ex Food & Energy. Eurozone uses the Core Harmonized Index of Consumer Prices ex energy, food, alcohol & tobacco. United Kingdom uses the Core Consumer Price Index ex food & energy. Japan uses the Core Consumer Price Index ex fresh food.

Global Tightening

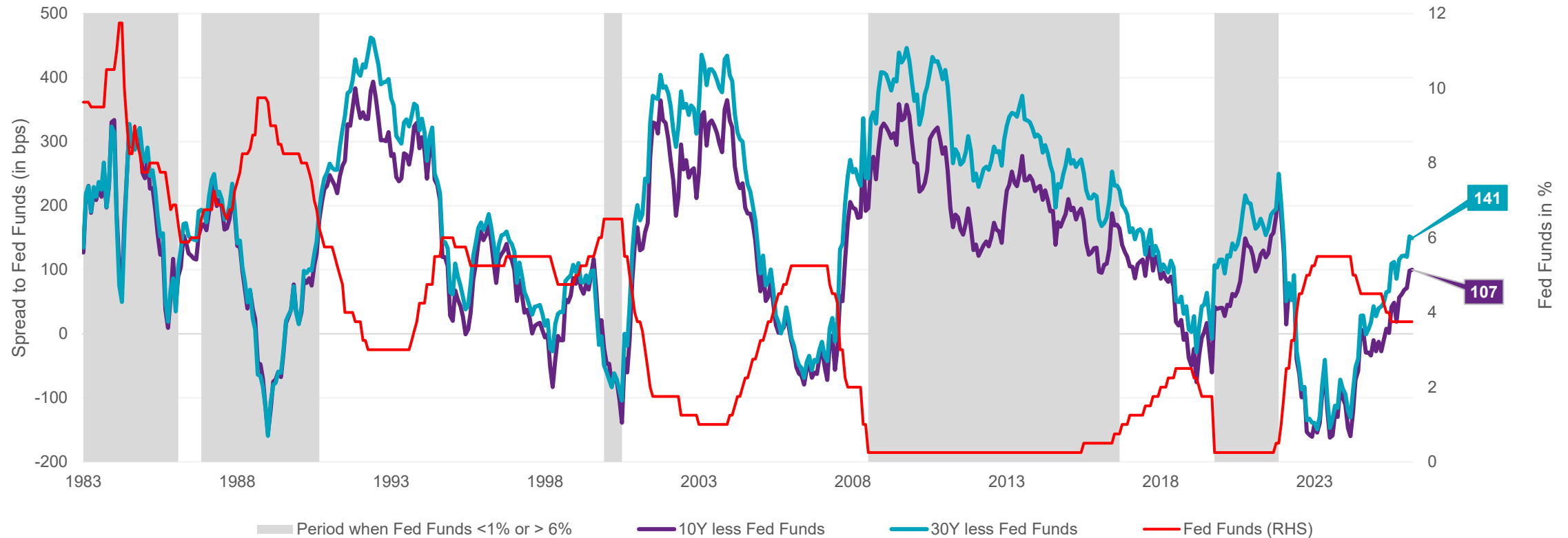
Number of Interest Rate Hikes Expected By Markets by July 2027 (as of 9/22/26)



Source: Portfolio Analysis & Consulting. Bloomberg.

Curve Re-Pricing Back to Normal

US Treasury Curve vs Fed Funds Rate (6/30/83–9/22/26)



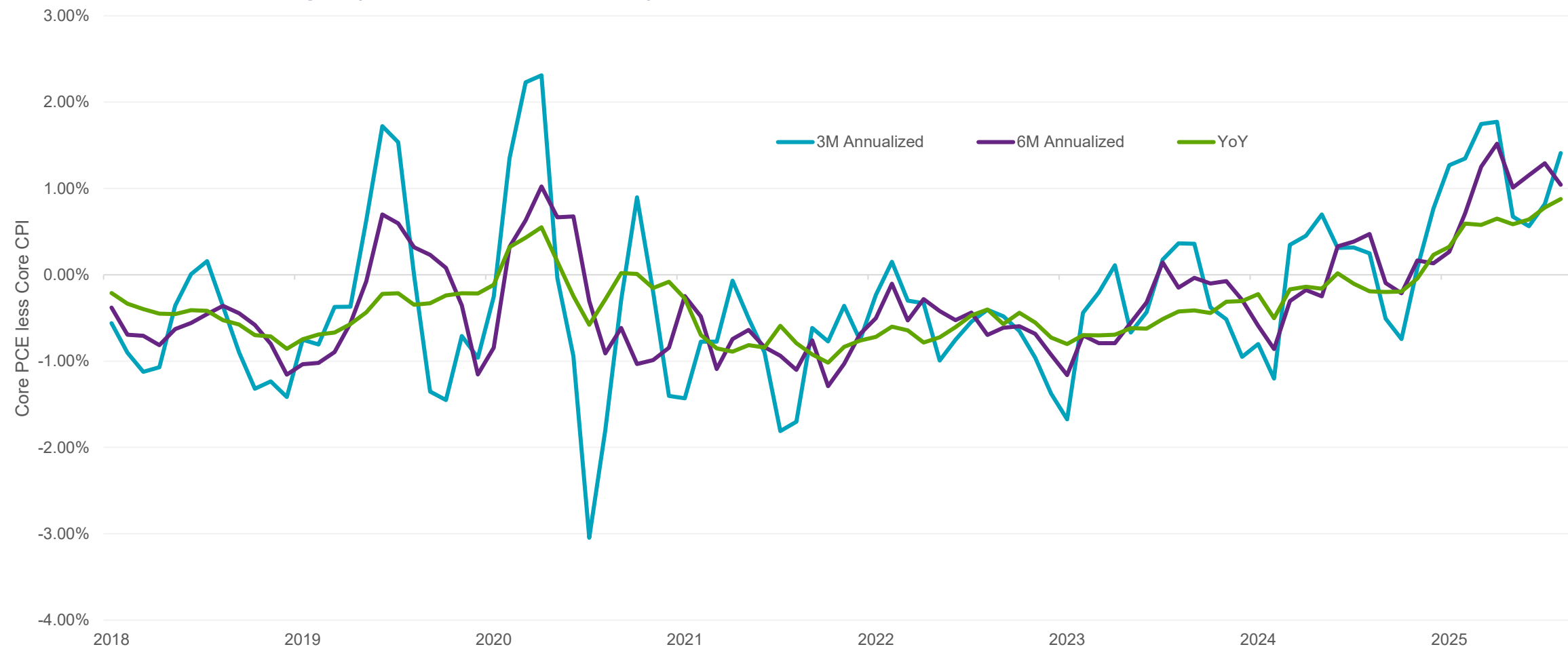
	2Y vs Fed Funds	5Y vs Fed Funds	10Y vs Fed Funds	30Y vs Fed Funds
9/22/26	86bps	95bps	107bps	141bps
Average (Fed Funds 1%–6%)	31bps	73bps	109bps	149bps

Source: Portfolio Analysis & Consulting. Bloomberg.

Markets Are Too Hawked Up

Mind the Gap

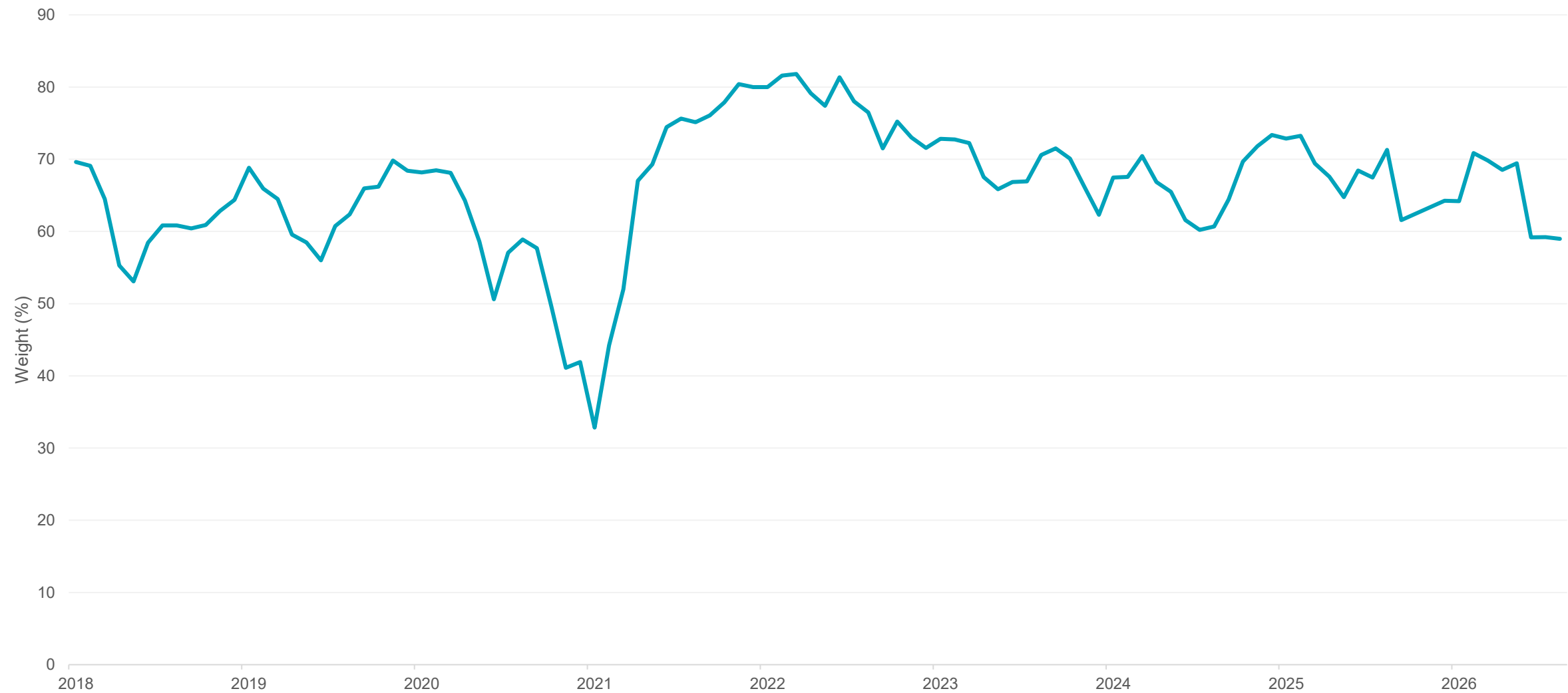
Core Inflation Wedge (12/31/18–7/31/26)



Source: Portfolio Analysis & Consulting. Bloomberg. Core PCE represents personal consumption expenditures price index less food and energy. Core CPI represents consumer price index less food and energy.

Inflation Breadth is Narrowing

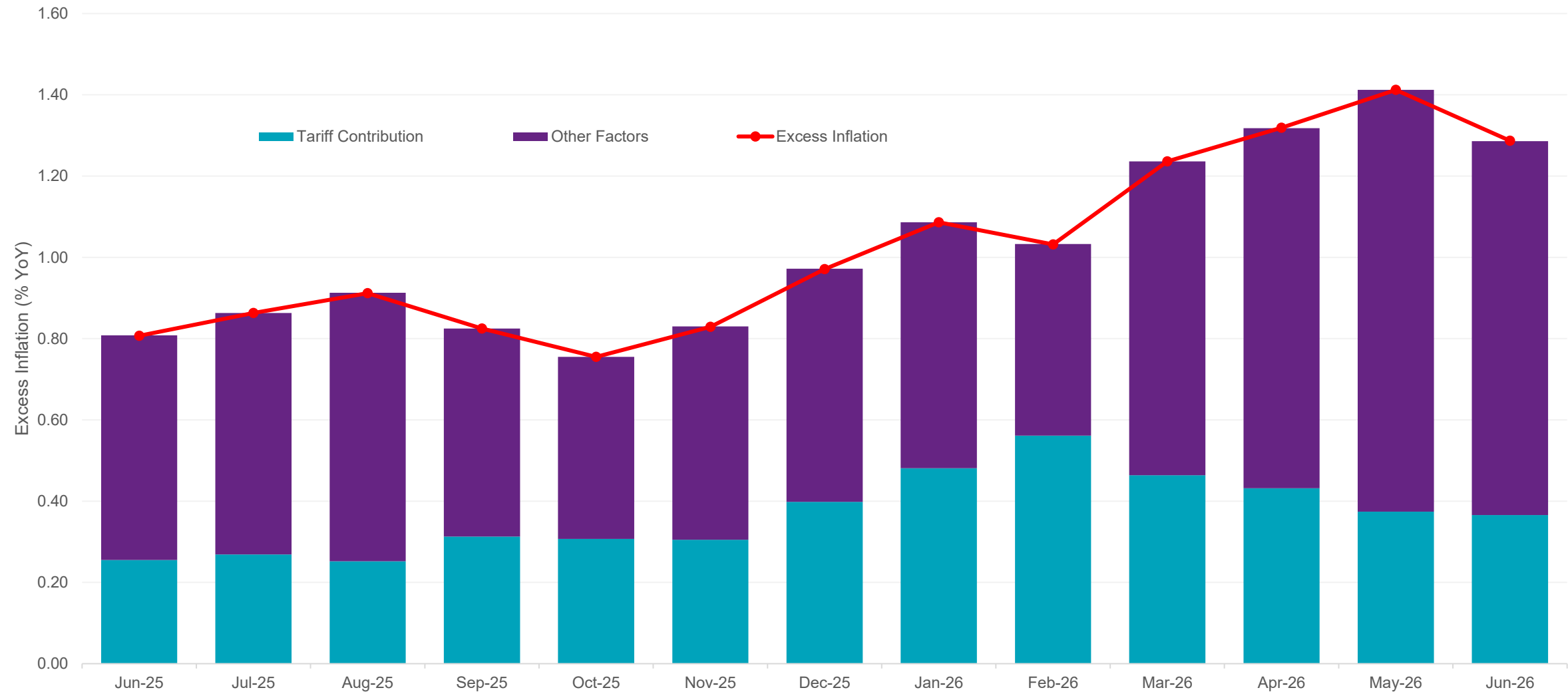
Share of CPI Components Growing Over 2% Annualized (1/31/18–8/31/26)



Source: Portfolio Analysis & Consulting. Bloomberg.

Tariff Effects Set to Fade

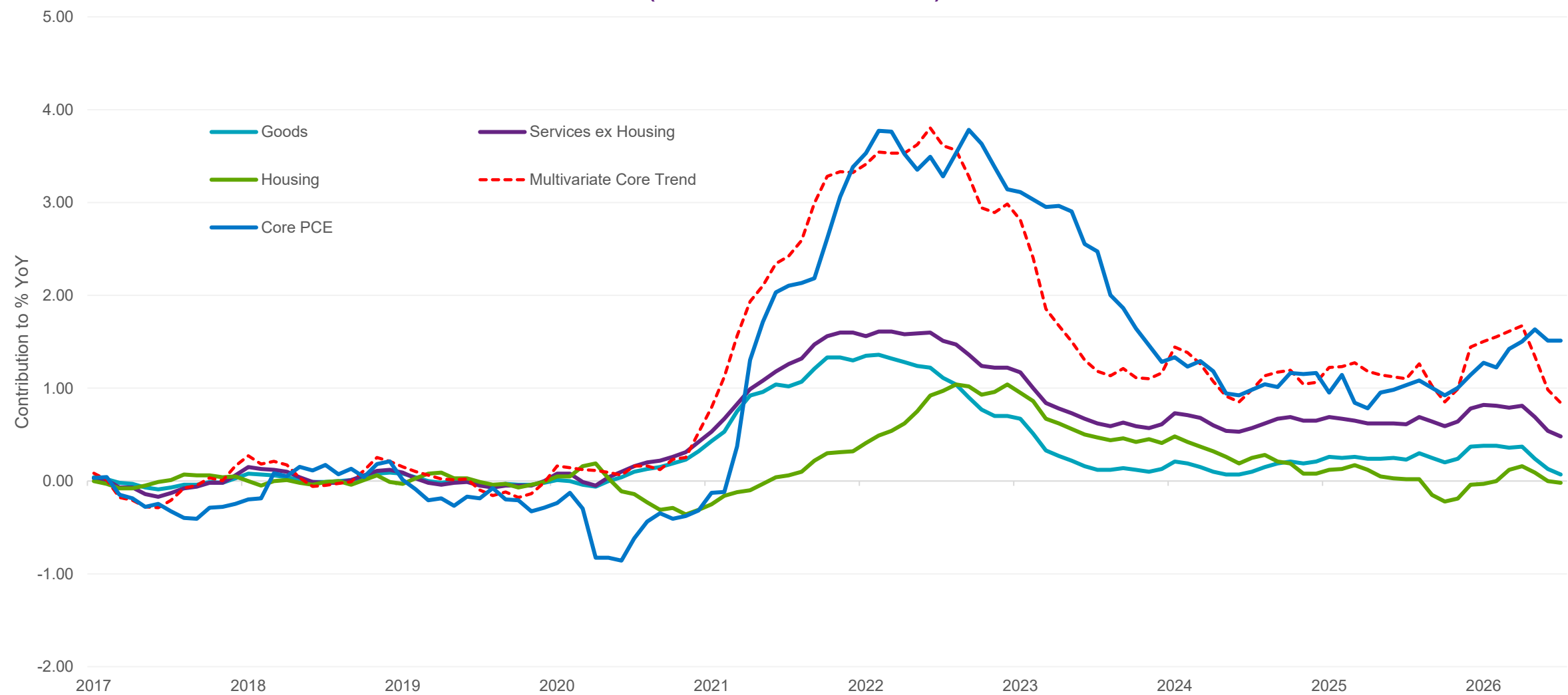
Tariff Contributions to Excess Core PCE (6/30/25–6/30/26)



Source: Portfolio Analysis & Consulting. Federal Reserve Bank of St. Louis. Excess inflation defined as difference between Core PCE and the Federal Open Market Committee's (FOMC) 2% target.

Underlying Inflation Rolling Over

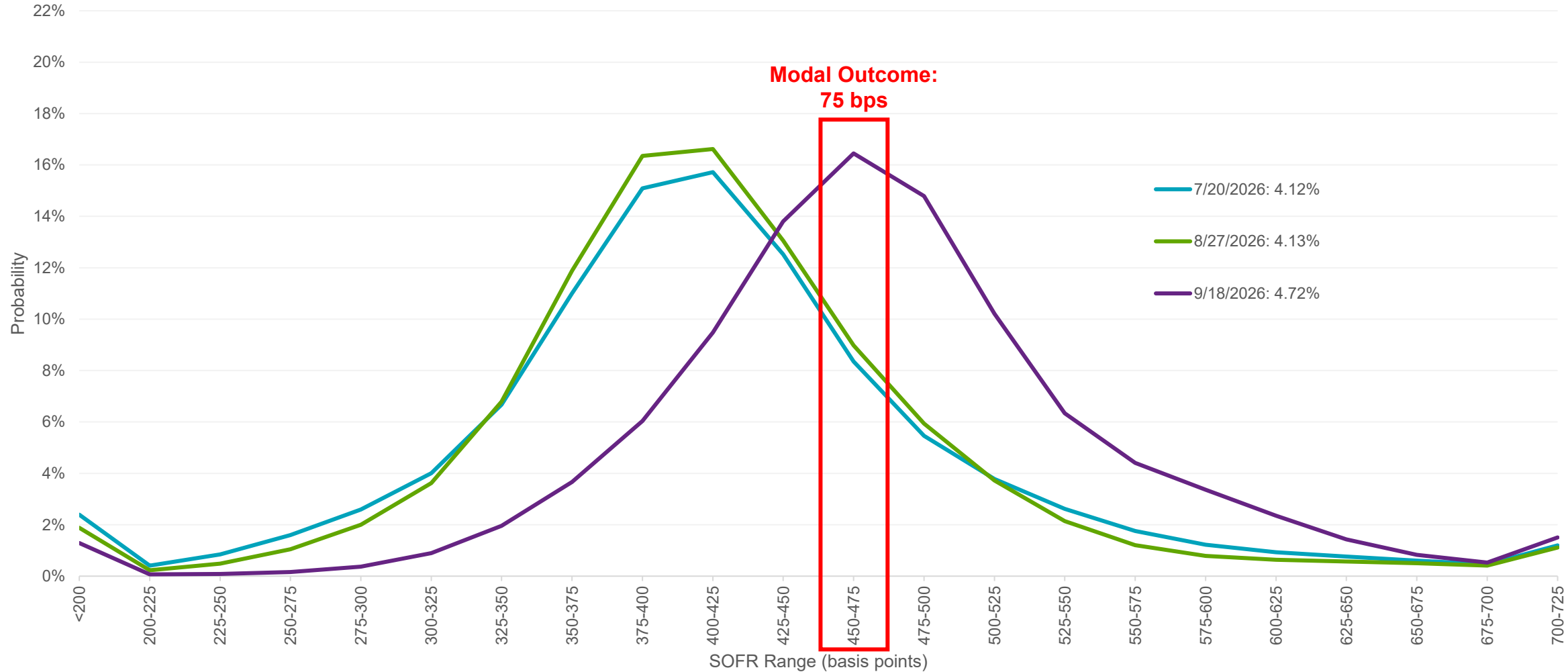
NY Fed Multivariate Core Trend Inflation (12/31/10–7/31/26)



Source: Portfolio Analysis & Consulting. Bloomberg. Core PCE is personal consumption expenditures price index less food and energy.

Bar for Hawkish Surprises is High

Target Range Probabilities for June 2027 SOFR (As of 9/18/26)



Source: Portfolio Analysis & Consulting. Bloomberg. SOFR is the secured overnight financing rate.

Midterms and the Market

3 Weeks Before Midterms: Market Tends to Bottom

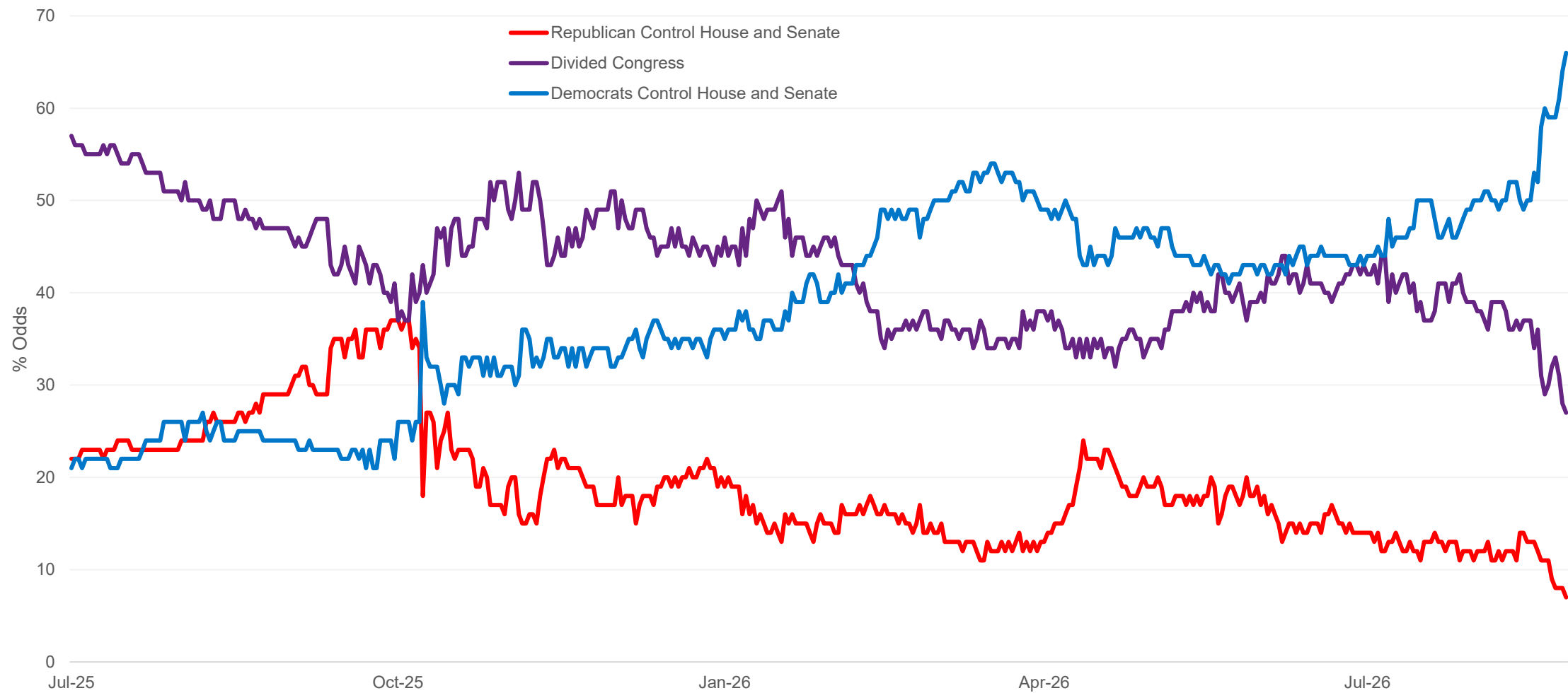
S&P 500® Median Performance: Midterm Years Only (1974-2024)



Source: Portfolio Analysis & Consulting. Bloomberg.

Odds Are Increasing for a Democrat Controlled Congress

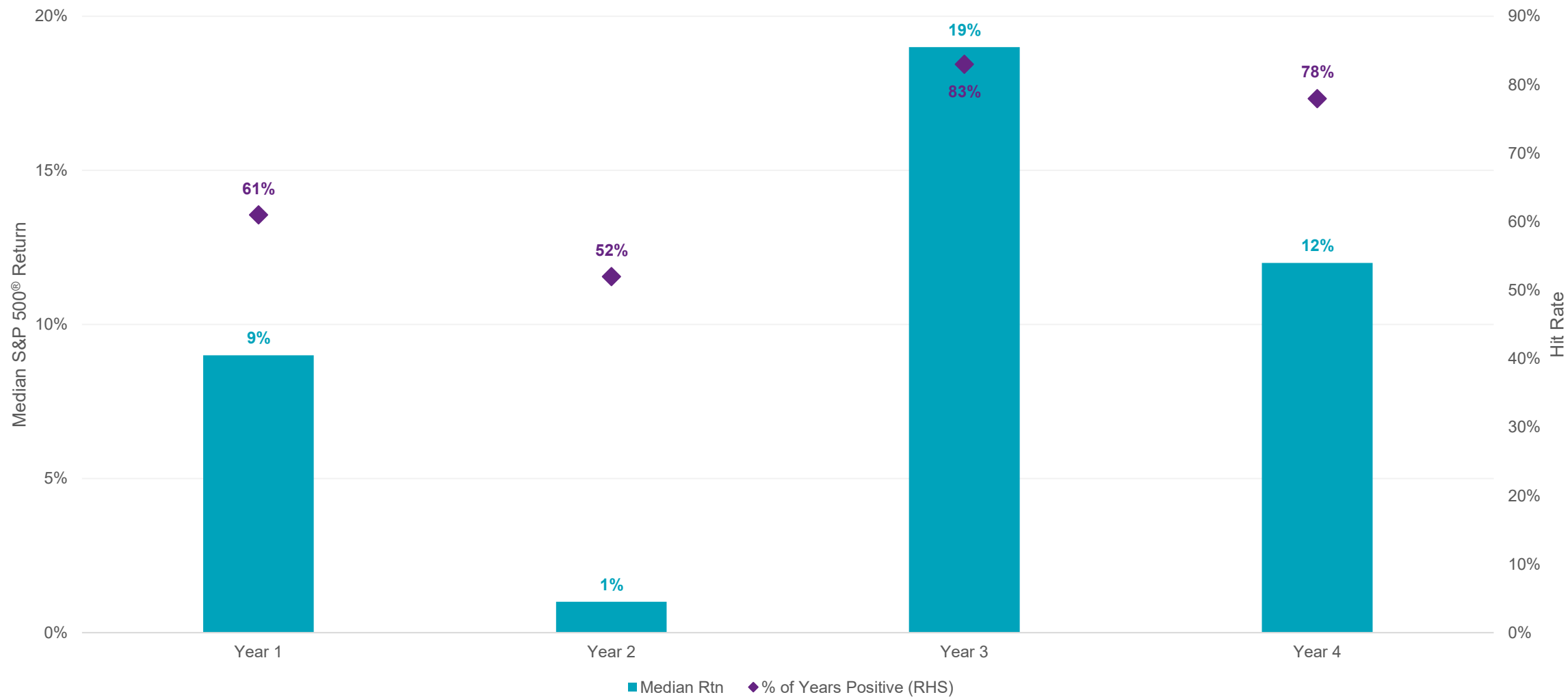
Polymarket Odds for 2026 Midterm Election Outcomes (7/28/25-9/22/26)



Source: Portfolio Analysis & Consulting. Bloomberg.

Year 3 of a Presidential Cycle Tends to Be the Strongest

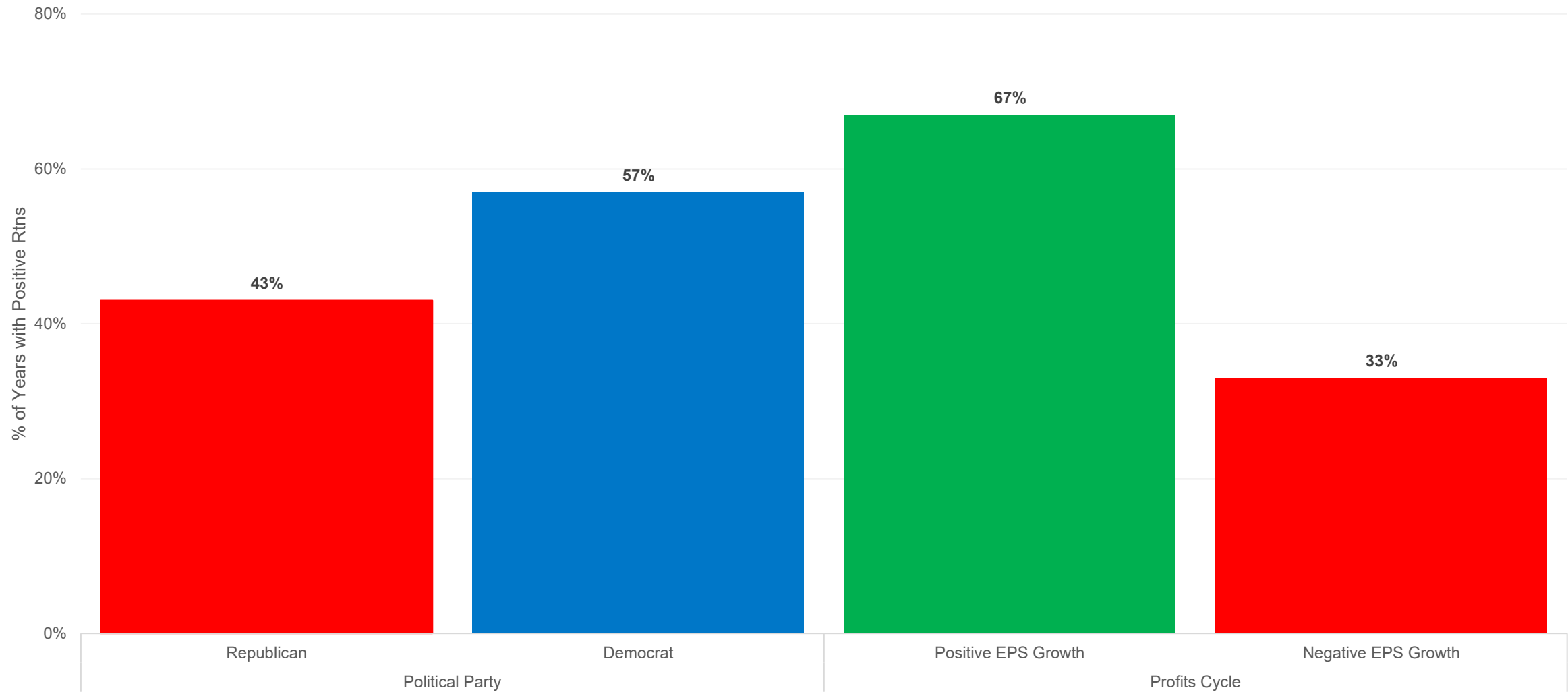
S&P 500® Returns by Year of Presidential Cycle



Source: Portfolio Analysis & Consulting. Bloomberg. Since 1932.

Profits Over Politics

S&P 500® Returns: Political vs Economic Cycle



Source: Portfolio Analysis & Consulting. Bloomberg. Since 1932.

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