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Q3 2026

Investment boom spurs earnings bonanza

Global stock markets continue to surprise on the upside despite monetary tightening, with central banks restarting raising short–term rates and the 10-year US bond yield rising above 5% – a level unseen for almost 25 years. Furthermore, real rates in the US have now reached 2-3% (depending on the term), which is in stark contrast to five years ago, when real rates were negative. The backdrop is inflationary worries due to rising oil prices and the continued high US federal budget deficit, with elevated debt balances straining bond markets due to high refinancing needs.

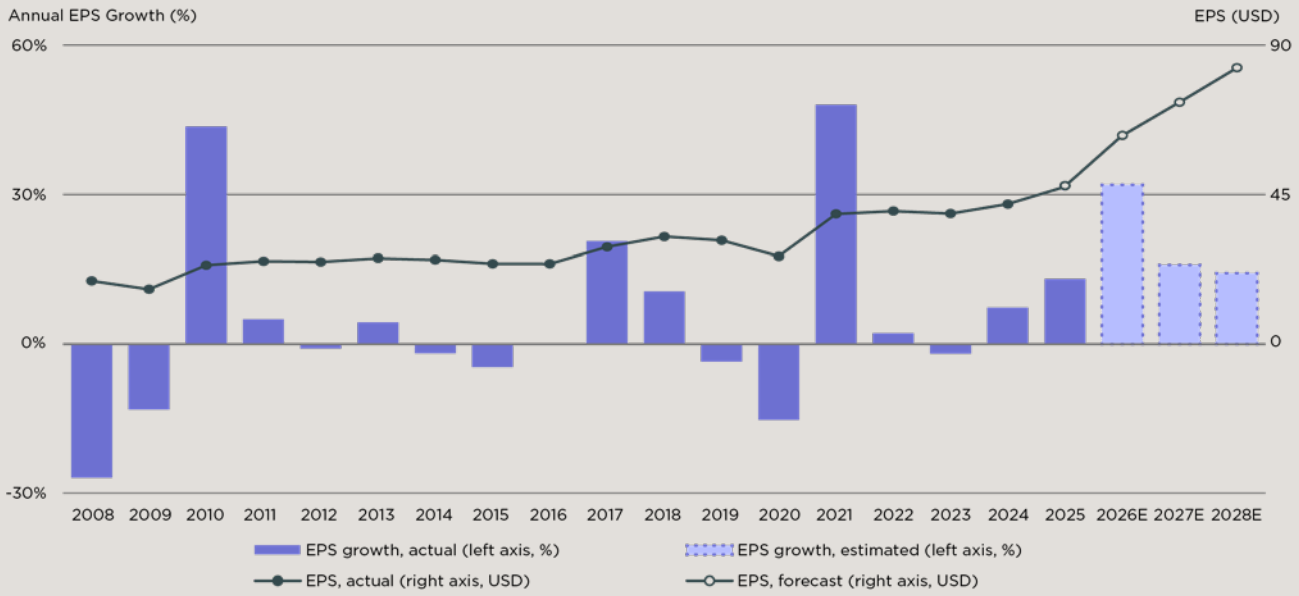
The key driver of equity market gains this year has been the extraordinary growth in corporate earnings, with global earnings growth set to rise an impressive 34% year over year in 2026 (USD). Such exceptional earnings growth rates occur normally only in recovery periods following an economic recession – as illustrated in figure 1. As no surprise to most investors, this boom is highly concentrated and driven by AI spending, accruing strong profits to a select few well-positioned technology companies, especially in the semiconductor space, particularly in memories and GPUs. Fifteen companies account for almost 60% of all the earnings growth globally, and more than half of these are semiconductor-related with Samsung Electronics, Nvidia and SK Hynix in the lead.

Accounting alchemy

So we have an environment where earnings are booming due to AI investments, while the rising

Figure 1

A boom in corporate earnings



Note: Measured by the MSCI AC World Index.

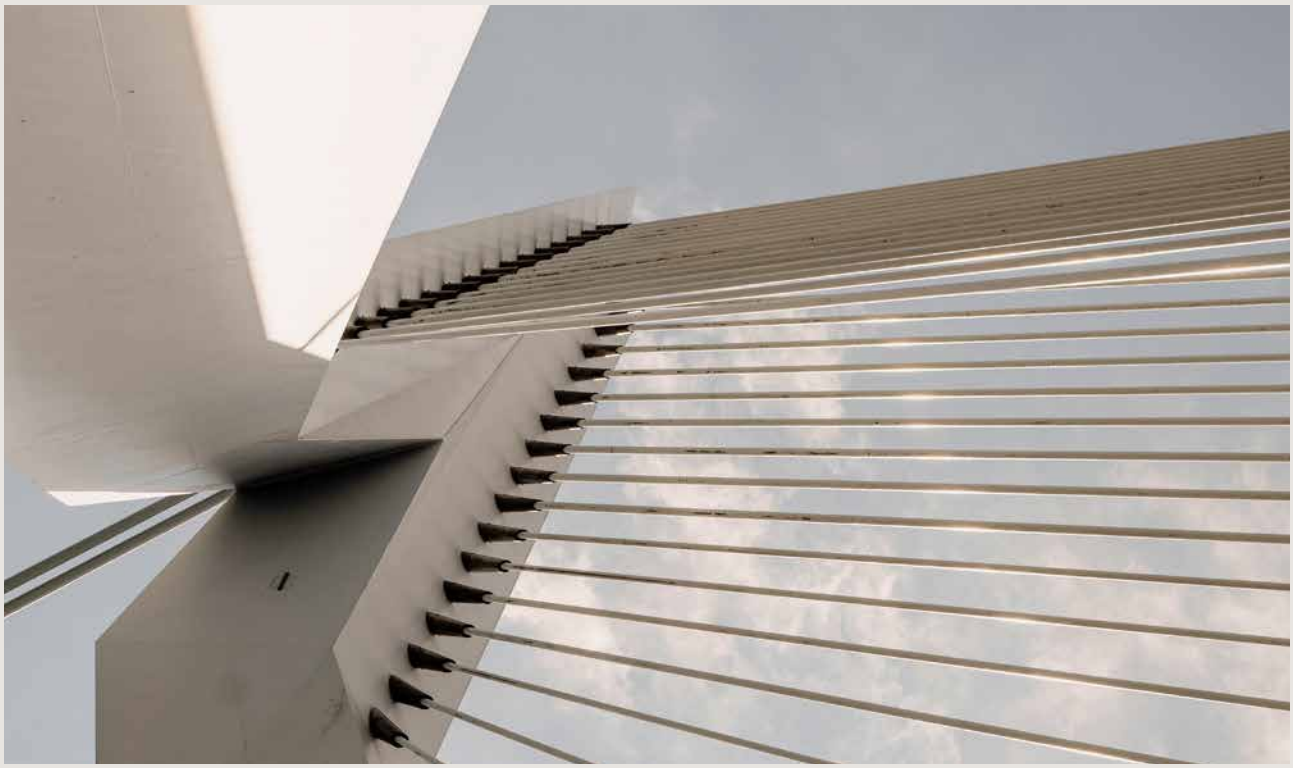
Source: FactSet, 30th September 2026.

> **So we have an environment where earnings are booming due to AI investments, while the rising bond yields are compressing global p/e valuations.**

bond yields are compressing global p/e valuations to around 18x current year's earnings. A derating of about 20%, while global equity markets are up just shy of 15%. Is this sustainable? Besides the obvious question of the sustainability of the current ambitious spending trajectory, where the six large IT companies (Alphabet, Amazon.com, Microsoft, Meta Platforms, Oracle and SpaceX), according to S&P Global, are expected to spend around USD 870 bn in 2026 and close to USD 1.300 bn in 2027, it is important to understand the earnings dynamics of an investment-driven boom.

An investment boom always has a positive initial, but an inflated, effect on total corporate earnings. This is due to the effect of financial accounting. When a hyperscaler decides to invest USD 100 bn in AI-infrastructure, this land as high-margin revenues for the semiconductor companies (a minor part of the revenue also accrues to other sectors). Net profit margins of 60% are not unusual in the current environment, so with incremental AI spend close to USD 500 bn this potentially creates USD 300 bn in additional corporate profit. This alone provides a high single-digit percentage boost to aggregate global earnings without accounting for the also important multiplier effects. However, this USD 100 bn investment is an expense for the hyperscaler, but this expense is capitalised on the balance sheet as an asset and depreciated over typically 5 years. So, the P/L effect is only USD 20 bn in the first year, and as the asset is generating revenues from the sales of AI compute, the hyperscaler also books a profit. This is the alluring benefits of an investment boom. Financial account alchemy, if you will. However, as the investment boom matures, depreciation gradually catches-up.

> **An investment boom always has a positive initial, but an inflated, effect on total corporate earnings.**



In a constant investment state, it will take five years before the math turns from a tailwind to a headwind, however given the current expositive growth trajectory it will take a little longer.

Importantly, these principles of depreciation could shorten abruptly if rapid technological advances render current HBM infrastructure or GPU clusters obsolete sooner than the assumed 5-year period, triggering large potential asset write-downs. This is a highly topical discussion point.

We are in a period where reported earnings growth is strong, supported by the AI investment boom – boosting companies in technology hardware, communications equipment, construction, and semiconductors. It is likely to continue for the foreseeable future, with consensus expecting earnings growth of 16% in 2027. However, it's a different story if you look at it from the perspective of free cash flow. Here, investment expenditures show up immediately, and the free cash flow of the hyperscalers are compressing dramatically and are already negative for some. To meet the challenge, Amazon.com and Alphabet alone have issued around USD 180bn in debt year-to-date.

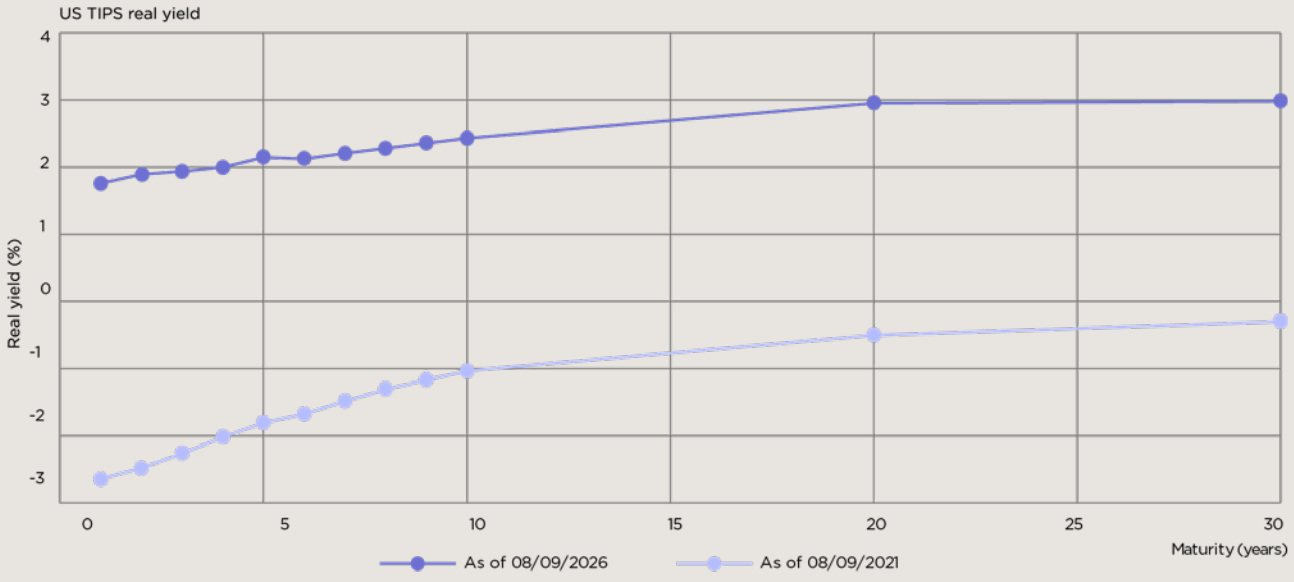
The effects of higher interest rates

Historically, equity markets have always – sooner or later – been sensitive to changing interest rates and especially rising real rates as we have seen over the past 5 years, as illustrated in figure 2. For now, AI-spending seem price inelastic, where the likes of Alphabet, Meta and Microsoft have access to capital and will deploy ever more capital in an existential arm race.

> **Market concentration is reaching a historically high, with the ten large AI companies in the US now comprising more than 40% of the US equity market value.**

Figure 2

This extreme shift will not repeat over the coming 5 years



Source: FactSet, 30th September 2026.

Even though AI spending looks price-inelastic, market concentration is reaching a historically high, with the ten large AI companies in the US now comprising more than 40% of the US equity market value, according to an analysis by Bank of America, as shown in figure 3. We flag it as a risk, as much of this value is anchored around companies benefiting from exploiting bottlenecks in the AI value chain. Bottlenecks that eventually will be resolved. Furthermore, competition from especially low-cost Chinese alternatives is rising, potentially dampening the current high-return economics of AI business models. Our position is that over time, value will accrue to a broader set of companies, with the traditional platform companies well positioned to monetise the benefits of AI with a large, entrenched customer base.

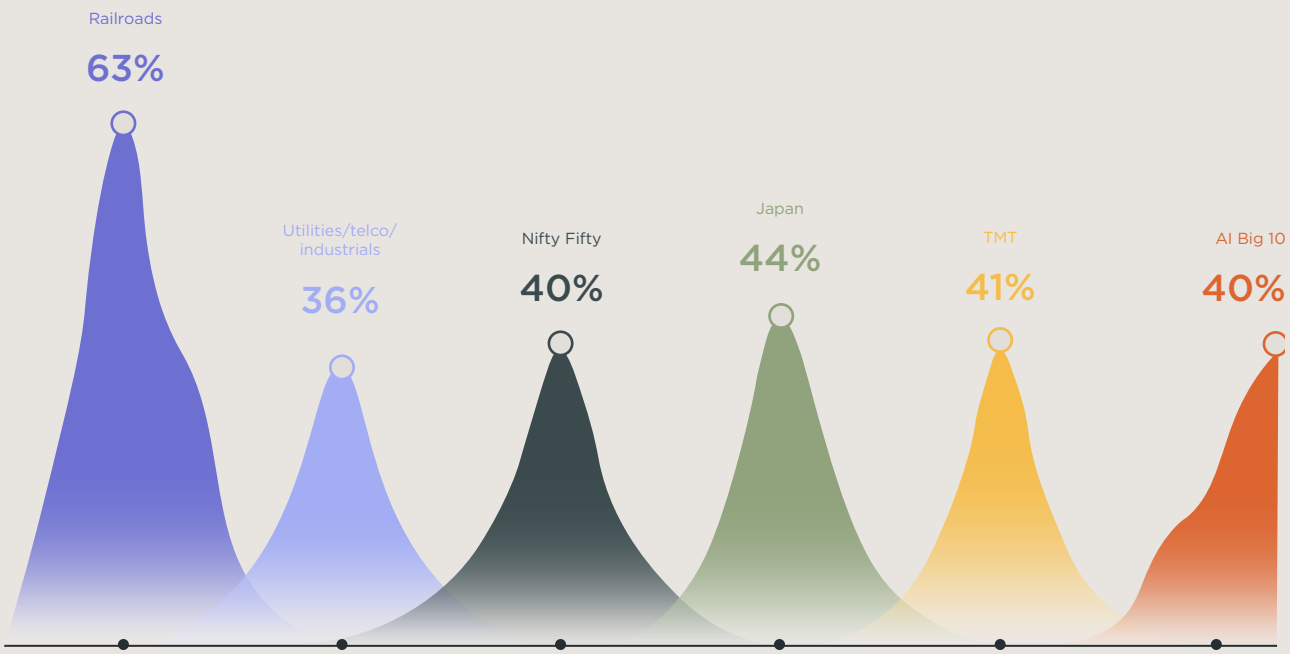
Beyond the AI space, there is a risk that higher interest rates will restrain and crowd out investments in other parts of the economy, essentially killing other lower-return projects. The latest interest rate hike from the Fed signalled an understanding of the importance of keeping the long end under control. The situation around Iran is uncertain, and some kind of resolution would be a positive event enabling the elevated oil prices to retract. The budget imbalances are an important structural issue, and "Big government" influence is as significant as ever when it comes to the financial markets. Longer-term, the world needs lower, not higher interest rates to build infrastructures that meets the needs of the world population.

Investment implications

From an equity market perspective, there is a risk of further derating as higher bond yields become a more attractive alternative, although we see markets supported by a continued strong outlook for corporate earnings. The key risks are continued inflationary pressure caused by elevated oil prices driving bond yields even higher, and poten-

Figure 3

Equity market concentration reaching historic high



Note: Measured against S&P500, though Japan against MSCI ACWI.

Source: FactSet, 30th September 2026.

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Some of our strongest convictions are in companies within enterprise data and software with sticky customer bases, long-duration defensive compounders with pricing power, and electrical, industrial and defence infrastructure.

tial cracks in the AI investment complex, including weakened appetite for risk financing.

Our long-term investment approach performs better in a lower interest rate environment. Higher-quality companies have seen significant declines this year, and some companies trade at decade-low valuation levels. Some of our strongest convictions are in companies within enterprise data and software with sticky customer bases, long-duration defensive compounders with pricing power, and electrical, industrial and defence infrastructure. We believe this is a fantastic long-term opportunity. It is unrealistic to think that the headwind to long-duration companies from real rates rising by 3-400 bp over the past five years will be repeated going forward.

Bo Knudsen
CEO & Portfolio Manager
C WorldWide Asset Management

A REFLECTION ON RATIONALITY

Intelligence is not rationality

After roughly three years of widespread generative AI, there is little evidence that the world has become more rational. The critical question is whether that will change over the next decade.

Intelligence and rationality are different qualities. There is a difference between being able to reason and choose the right actions for your goals. A person or an AI system can therefore be exceptionally intelligent yet deeply irrational. The same limitation applies to large language models, world models and next-generation agentic systems: greater capability improves the power to pursue a goal but does not ensure that the objective is sound or that the underlying beliefs are true.

Can AI systems become more rational?
Several approaches may improve reliability. Self-reinforcing learning can help systems learn from outcomes; world models can simulate consequences before action; and agent-driven model can generate, improve, test and refine solutions with less human intervention. When combined with reflection, self-correction and separate generator–critic roles, these mechanisms may expose errors and improve decisions before an answer or action is finalised.

Yet the central problem remains; systems can be tested only against known conditions, not the future itself. When Emotional AI is used poorly, it could reinforce bias, optimise for emotional dependence, or manipulate behaviour more effectively. At the end of the day everything is linked to human relations.

Generative AI has sharply in creased the production and distribution of misinformation, drawing on training material of uneven and sometimes contradictory quality.

In narrow domains, however, AI can produce more consistent and mathematically rational outcome. AI is a multiplier and amplifier of human behaviour. As AI learns from outcomes, models the world and responds to human emotions, it will become more autonomous, adaptive and persuasive. But capability is not judgement, and even emotional fluency is not wisdom. AI will optimise the goals it is given; humans remain responsible for choosing those goals - and for the consequences. So, don't expect more rationality. Arm yourself with common sense and learn to use the tools at hand for good purpose.

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