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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).

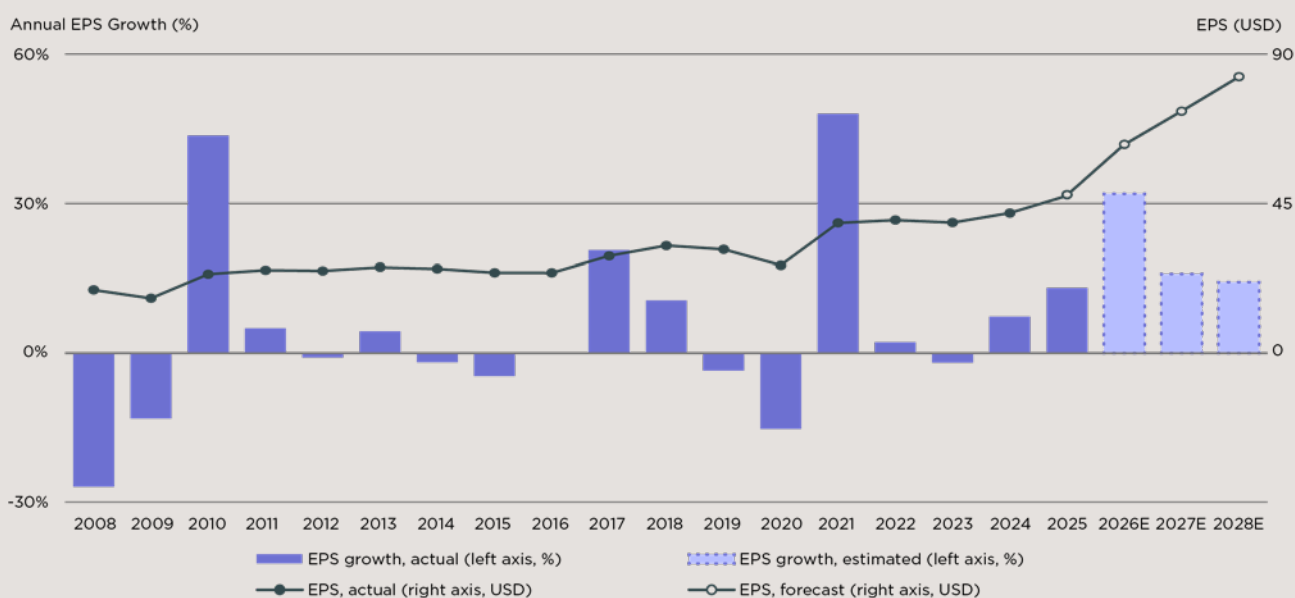
Such exceptional earnings growth rates occur normally only in recovery periods following an economic recession – as illustrated in figure 1. As no surprise to most investors, this boom is highly concentrated and driven by AI spending, accruing strong profits to a select few well-positioned technology 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.

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So we have an environment
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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.

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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 dif-

ferent 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

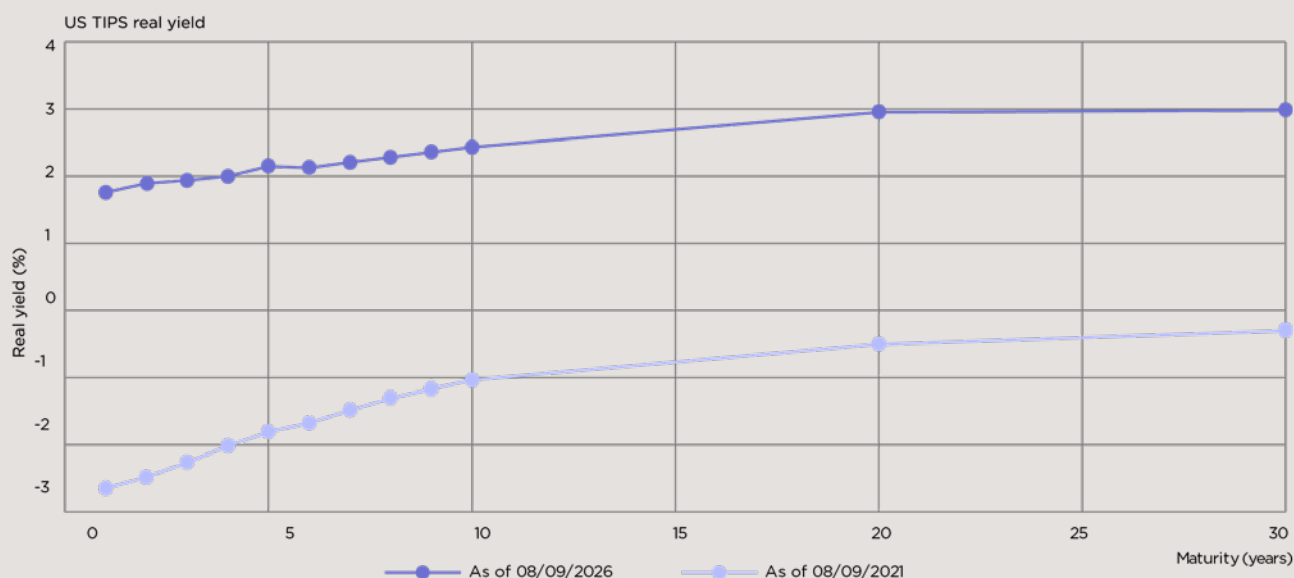
Historically, equity markets have always – sooner or later – been sensitive to changing interest rates and especially rising real rates as we have seen over the past 5 years, as illustrated in figure 2. For now, AI-spending seem price inelastic, where the likes of Alphabet, Meta and Microsoft have access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

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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 in-

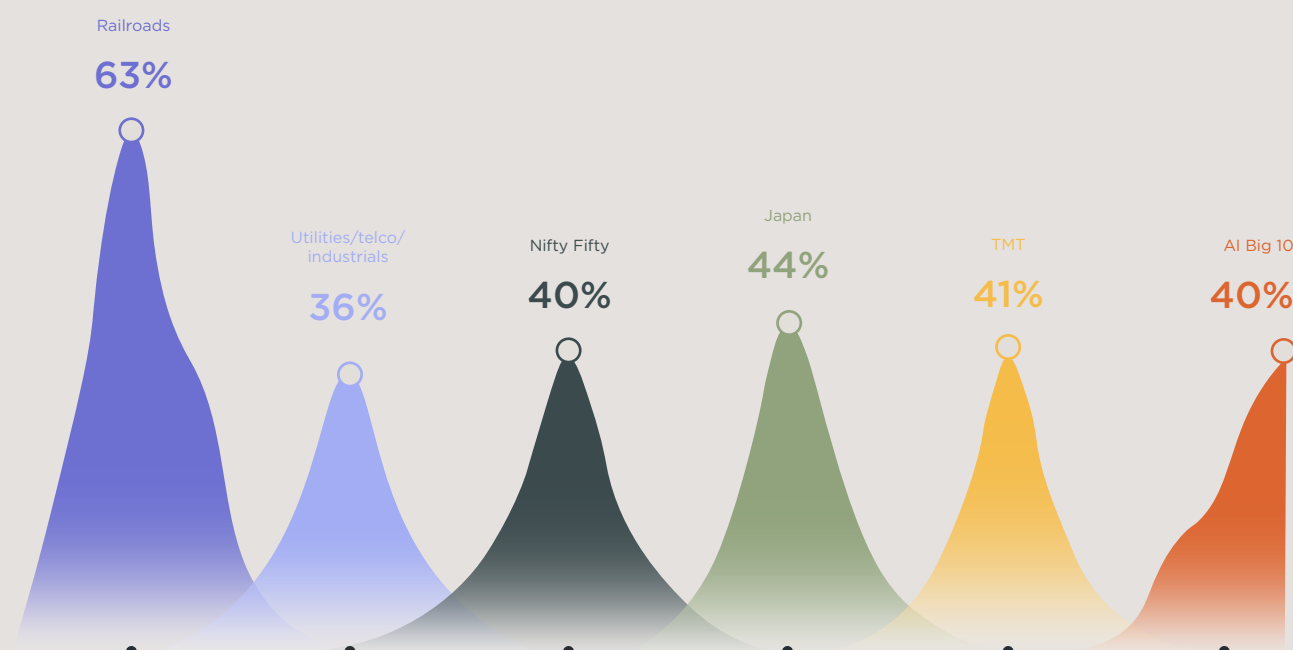
terest rate hike from the Fed signalled an understanding of the importance of keeping the long end under control. The situation around Iran is uncertain, and some kind of resolution would be a positive event enabling the elevated oil prices to retract. The budget imbalances are an important structural 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 increased 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.



The AI model rivalry

By Global Thematic Specialist Morten Springborg

C WorldWide Asset Management

China's hyperscale playbook is going for artificial intelligence – and Big Government will follow.

For three decades, global equity investors have watched a recurring Chinese industrial drama unfold across solar panels, batteries, electric vehicles, and increasingly, legacy semiconductors. The playbook is always the same: a massive state-supported capacity buildout, brutal domestic price competition, and, finally, a wave of exports at price points no Western competitor can match, closing the industry to new entrants long after profitability has been destroyed. The world-renowned business advisor, speaker, and bestselling author Dr Ram Charan, has described the logic with unusual candour:

“When you have ninety percent capacity, your costs are down because of hyperscale. You sell at the lowest cost, you grab market share even at a loss, and your opponent cannot build that industry. Nobody will put money in it. You don't just win. You permanently close the door behind you.”¹ – Dr Ram Charan

This paper explores whether the same playbook is now being applied to the most consequential technology of our era: frontier AI models. We believe this is the case – although with important differences – and that the inevitable Western response will be political. AI regulation, currently limited or non-existent, will increase quickly. The first binding

regulatory measures will be justified on national security grounds rather than on consumer protection grounds.

In the US, the June 2026 Executive Order titled “Promoting Advanced AI Innovation and Security”² signals the direction of travel. This order establishes a voluntary system for AI creators to share frontier models with the federal government for a 30-day security review before public release.

The implications broadly affect our portfolio holdings in the US hyperscalers and the semiconductor complex, as well as our Chinese platform holdings. They are not uniformly negative for either side, but they do shift the distribution of outcomes. They do so, moreover, against a market backdrop that has itself become a source of risk: the US equity market is today more lopsidedly exposed to a single investment theme than at any point in its history, and things only have to go a little less well for that concentration to work violently in reverse.

1 Dr. Ram Charan's 2020 book, *Rethinking Competitive Advantage: New Rules for the Digital Age*.

2 Executive Order 14409, “Promoting Advanced Artificial Intelligence Innovation and Security,” signed 2 June 2026; Federal Register, 5 June 2026, [federalregister.gov/documents/2026/06/05/2026-11415](https://www.federalregister.gov/documents/2026/06/05/2026-11415).

The hyperscale model reaches the AI frontier

CHINA IS CLOSING THE FRONTIER GAP

Chinese open-weight AI models have become a powerful, low-cost foundational backbone for global artificial intelligence infrastructure, rivalling US frontier models. In June 2026, Zhipu AI released GLM-5.2, an open-source AI model that independent analysts call a major AI milestone comparable to the original DeepSeek moment in early 2025. Entext Economics & Strategy characterised it as the first Chinese model capable of long-horizon agentic tasks and as a solid enough foundation to challenge the leading US frontier models within months through ongoing reinforcement learning.¹

The assumption that US laboratories would dominate the premium end of the token market – coding, agentic workflows, enterprise reasoning – has been shattered. In Entext’s framing, the remaining question is whether mainland compute can scale fast enough to exploit the breakthrough.

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AI’S ECONOMICS FAVOUR FAST FOLLOWERS

What makes this moment different from earlier “Sputnik moments” is the economics. Frontier AI turns out to have weak network effects at the model layer. Unlike software and social media, the marginal user does not deliver 100% gross margin. Anyone with sufficient resources can build a frontier or near-frontier model, and it is perhaps an order of magnitude cheaper to be a fast follower a few months behind the leading edge than to be at the bleeding edge itself. That is a market structure where China knows how to win.

SECOND AT ONE-TENTH THE COST CAN WIN

The hyperscale playbook does not require being first; it requires being second at one-tenth the cost and at overwhelming volume. Chinese open-weight models – GLM, DeepSeek, Qwen, Kimi, Minimax – are being released in rapid succession, priced at or near zero, and are already good enough to handle the large majority of structured en-

1 Entext Economics & Strategy is a UK-based research firm (entext.com).

terprise workloads when deployed on local GPU clusters at roughly one-tenth the inference cost of commercial Western models.

A familiar playbook, now in artificial intelligence

China does not need to be first. It needs to be faster, cheaper and everywhere.



When China enters the room, profits walk out

The comparison to solar and EVs is relevant: the value being destroyed is not Chinese value. Chinese AI labs largely monetise indirectly – through cloud services, domestic applications, and strategic positioning – while the business models under attack are those of Western closed-model laboratories, whose entire capital structure rests on the assumption of durable pricing power over premium tokens. As Louis Gave of Gavekal has famously said, “*When China enters the room, profits walk out.*”²

AI VALUE SHIFTS TO THE APPLICATION LAYER

If intelligence becomes a commodity, the hundreds of billions of dollars in annual capital expenditure deployed by the US hyperscalers must be justified by application-layer economics rather than by scarcity of models. That is a materially harder case to underwrite. The ambition behind this is not modest. In a recent social media post, Zhipu founder Tang Jie described a progression from fully automated “no-person companies” – thousands of AI agents collaborating and continuously allocating resources – to self-evolving systems that generate new knowledge³.

ROBOTICS COULD BE CHINA'S NEXT INNOVATION FRONTIER

One may discount the rhetoric, but it comes from the founder of the company that just delivered a frontier-class model at a fraction of US costs. It is a vision worth taking seriously, and it suggests the next contested frontier: embodied AI. China's dominance of the battery, motor, sensor, and precision-manufacturing supply chains makes humanoid and industrial robotics the natural candidate for China's first true innovation frontier – the place where the hyperscale cost machine meets a genuinely new product category rather than a catch-up one.

China's energy advantage

CHEAPER POWER LOWERS THE COST OF INTELLIGENCE

Beneath the model rivalry lies a more fundamental, physical contest: electrons. Training and, increasingly, inference are energy-intensive

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- 2 Louis-Vincent Gave, interviewed by Mark Dittli, “Louis Gave, Gavekal: The Days of US Exceptionalism Are Fading,” *The Market* (themarket.ch), 19 December 2025.
 - 3 See OfficeChai, “We are moving towards NCP, Or No-Person-Companies, Says CEO Of Company Behind GLM 5.2” 12 July 2026.



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Beneath the model rivalry lies a more fundamental, physical contest: electrons.

businesses. Here, the asymmetry is stark. China has been adding electricity generation capacity at a pace several times that of the United States – solar additions alone in recent years have exceeded the total installed solar base of most G7 economies⁴ – alongside continued build-out of coal, nuclear, and ultra-high-voltage transmission. The result is a grid that is not only larger but structurally over-supplied in several provinces, with curtailed renewable power available at marginal prices that Western data-centre operators can only dream of.⁵ In the US, by contrast, AI data centres are colliding with interconnection queues measured in years, transformer shortages, and a political backlash against the electricity price inflation that the build-out is causing for households. An energy-cost advantage of this kind functions exactly like the capacity advantage Charan

4 China added roughly 430 GW of wind and solar capacity in 2025 against approximately 63 GW of US utility-scale additions (NEA/EIA data, re-reported by carboncredits.com, January 2026).

5 Solar curtailment reached 6.6% and wind 5.7% nationally in H1 2025, with provincial curtailment far higher (e.g. Tibet, Qinghai) — Reuters, “As China’s renewable capacity soars, utilisation lags, data show,” September 2025.

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The race is therefore between China closing the chip gap and the US closing the power gap. We believe the odds favour China.

describes: it lowers the marginal cost of every token produced, and it compounds.

CHINA MUST CLOSE THE CHIP GAP BEFORE THE US CLOSES THE POWER GAP

If compute is the raw material of intelligence and electricity is the raw material of compute, then the country with structurally cheaper, faster-to-deploy power enjoys a persistent input-cost advantage in producing intelligence itself. How long can such an advantage last? Precedents from solar and batteries suggest a decade or more, because the advantage is not a single policy but a system: land, permitting, grid, equipment manufacturing, and state-directed capital all pulling in the same direction. The US response – gas turbines, small modular nuclear, and even orbital computing ambitions – is real but slower, more expensive, and more politically contested. We would caution, however, against treating the energy gap as decisive on its own: the binding constraint on Chinese AI in the near term remains access to leading-edge accelerators, not electrons.

The race is therefore between China closing the chip gap and the US closing the power gap. We believe the odds favour China.

Big Government is coming for AI

AI IS MOVING INTO A SECURITY REGIME

Technologies that reshape national power rarely stay unregulated: railways, radio spectrum, nuclear tech, and cryptography all started in free environments and eventually became part of security-controlled areas.

A VOLUNTARY FRAMEWORK CAN BECOME A LICENSING SYSTEM

AI developments are progressing along a similar trajectory, with June 2026 likely to mark the point at which boundaries begin to be defined. In the US, Executive Order 14409, titled “Promoting Advanced Artificial Intelligence Innovation and Security,” introduces for the first time a classified government benchmarking process to identify when an AI model qualifies as a “covered frontier model.” It also establishes a framework that requires developers to grant the Federal Government access to these models, with safeguards for

confidentiality, cybersecurity, insider risks, and intellectual property, for up to 30 days before releasing them to other trusted partners.⁶

It's important to be clear about the scope of the order. The framework explicitly states that it is voluntary and that nothing within it authorises mandatory licensing, preclearance, or permits for developing or releasing new AI models. Strictly interpreted, this is a minimal regulation document from an administration known for deregulation. However, structurally, it lays the foundation for an administrative system that resembles a licensing regime – covering capability thresholds, a designation process, government access before release, and a trusted-partner tier – despite remaining officially non-mandatory. Experience shows that such ‘off’ switches often do not stay off. The first significant AI-related cyber breach, or a Chinese open-weight model surpassing US capabilities, could serve as the political catalyst, and by then, the regulatory machinery will likely be ready to activate.

The more pressing near-term question concerns open-weight models. Once a model's weights are published, they cannot be recalled, embargoed, or given to the government thirty days early – the entire logic is incompatible with unrestricted open release above the covered-model threshold. Independent research we follow now suggests it is likely that the US will move within six to twelve months to restrict or effectively ban open-weight models above roughly the GLM-5.2 capability level, alongside measures against model distillation. Since the most capable open models are overwhelmingly Chinese today, such a rule functions as a de facto ban on Chinese frontier models within the US enterprise stack – a conclusion that enjoys growing support in both Silicon Valley and Congress, not least because the closed-model laboratories have every commercial incentive to lobby for it. It is a striking irony that “open-source AI as foundational to national security” is now the marketing language of Nvidia, whose Nemotron family is being positioned – with fully open weights, training data and recipes – as the compliant American open-source workhorse for exactly the moment when the Chinese alternatives become politically untouchable.

6 Executive Order 14409, “Promoting Advanced Artificial Intelligence Innovation and Security,” signed 2 June 2026; Federal Register, 5 June 2026, [federalregister.gov/documents/2026/06/05/2026-11415](https://www.federalregister.gov/documents/2026/06/05/2026-11415).

National security will be the entry point for AI regulation, but it will not be the endpoint

Three major challenges are likely to emerge this decade.

AI AGENTS WILL FORCE NEW LIABILITY RULES

First, the legal status of AI agents: as autonomous systems start managing transactions, contracts, and potential errors at scale, lawmakers must determine liability – an issue as fundamental as the concept of limited liability was for joint-stock companies.

SOCIAL INTERACTION WILL BECOME REGULATED

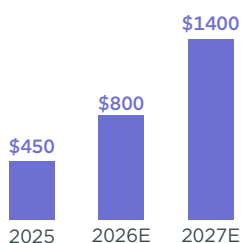
Second, the regulation of social gates: unlike previous technologies, AI actively creates synthetic social bonds and influences human attachment, beliefs, and behaviours on a large scale. China leads in regulating this aspect, with rules on recommendation algorithms, synthetic media, and minors' usage set before similar Western efforts. Overseeing machine-mediated social interactions will become a key regulatory requirement.

AUTONOMOUS WEAPONS WILL TEST EXISTING LAW

Third, the ethics of defence: the debate over whether AI-controlled autonomous drones and robots should be classified alongside indiscriminate weapons like cluster munitions is just beginning under international humanitarian law, and ongoing conflicts in Ukraine and the Middle East are shaping practical applications even before formal legal consensus.

A one-factor market

Hyperscaler capex



The rivalry and the coming regulation land on a market structure that deserves a section of its own. The great American technology franchises spent the past decade as extraordinary cash machines – asset-light, debt-light, and devoted to buying back their own shares. That model is being dismantled in real time by the AI build-out. Hyperscaler capital expenditures, roughly USD 450 billion in 2025, are expected to exceed USD 800 billion in 2026 and reach approximately USD 1.4 trillion in 2027.⁷ To fund it, the corporate

⁷ Goldman Sachs and Morgan Stanley both now model 2027 hyperscaler capex as high as USD 1.4 trillion. See Tech Times, “Street Got Cloud Capex Wrong: Morgan Stanley’s \$1.4T Math,” 3 August 2026.



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To fund AI investments, the corporate sector has flipped from being the largest net buyer of US equities to a net seller.

sector has flipped from being the largest net buyer of US equities to a net seller: new share issuance so far this year, at some USD 302 billion, already exceeds any of the four preceding full years, led by record offerings from SpaceX, a multi-tens-of-billions equity raise at Alphabet, the largest-ever share sale by a non-US company from SK Hynix, and a pipeline that includes the listing of Anthropic.⁸ Net of shrinking buybacks, US companies are projected to supply roughly half a trillion dollars of new equity and debt to investors over the coming year, against a net withdrawal of around a trillion in recent years. As Research Affiliates' Rob Arnott observes, issuance of this kind tends to surge in the late stages of bull markets.⁹

THE MARKET HAS BECOME A ONE-FACTOR TRADE

Supply alone rarely ends a bull market, and we should be honest about the counterevidence: a comparable issuance wave in 2021 was

⁸ SIFMA Research, [US Equity and Related Statistics](#), 2 September 2026

⁹ Rob Arnott (Research Affiliates), See Gregory Zuckerman, "Blockbuster Stock Sales Are Threatening to Overwhelm the Bull Market," Wall Street Journal, 22 July 2026

absorbed without incident. The problem is not the supply; it is what the supply is being sold into. Bottom-up equity analysts' long-term earnings growth estimates for S&P 500 constituents now approach 26% annually over the next three to five years, above the 18.6% peak of the dot-com era, with the technology sector alone above 43%¹⁰ The index's dividend yield has meanwhile fallen to 1.06%, the lowest on record, though buybacks now absorb a far larger share of distributions than in previous cycles¹¹ Expectations of this order set a high bar for disappointment. Since 1985, analysts have forecast around 13% long-term growth against roughly 7% delivered¹² and research covering four decades finds that elevated aggregate long-term growth expectations are associated with weaker equity returns over the following three to five years, with credit spreads compressing first and widening later¹³. That is not a timing signal, and we do not treat it as one. It is a statement about asymmetry: at these levels, very little needs to go wrong.

The US market is vulnerable

AI ONLY NEEDS TO
DISAPPOINT, NOT FAIL

What makes this cycle genuinely unique is the degree of concentration on a single factor. The US market, along with the US economy through capex and wealth effects, has become heavily reliant on a single factor, making it more vulnerable than ever. Meanwhile, the underlying economic fundamentals are in a strange pause, with the expansion of computing resources speeding up even as businesses find that adopting AI and achieving the expected productivity improvements are slower than initially thought. At the same time, nearly two hundred leading economists and AI researchers have jointly warned that the technology could drive an economic transformation larger than the Industrial Revolution over a far shorter timeframe, with large-scale job displacement and, absent policy action, the risk of

10 Yardeni Research, STRG, STEG & LTEG, <https://yardeni.com/charts/global-index-briefings/msci-global-comparisons/strg-steg-lteg>; Yardeni Research, US Market Call: A Bubble In Bubbles?, <https://www.yardeniquicktakes.com/us-market-call-a-bubble-in-bubbles/>

11 Multpl, S&P 500 Dividend Yield by Year, <https://www.multpl.com/s-p-500-dividend-yield/table/by-year>

12 O. Lamont, Acadian Asset Management, A pessimistic take on optimistic growth forecasts, <https://www.acadian-asset.com/investment-insights/ownomics/a-pessimistic-take-on-optimistic-growth-forecasts>

13 P. Bordalo, N. Gennaioli, R. La Porta, M. O'Brien & A. Shleifer, Long Term Expectations and Aggregate Fluctuations, NBER Working Paper 31578 (2023), https://www.nber.org/system/files/working_papers/w31578/w31578.pdf



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US economy through capex and wealth effects, has become heavily reliant on a single factor, making it more vulnerable than ever.

a permanent underclass.¹⁴ Retail investors seem to understand this instinctively – the high-risk appetite for call options and leveraged ETFs appears partly an attempt to profit from AI before it causes disruption. This creates a fragile, momentum-driven marginal buyer at the core of the market. This is not a prediction of an immediate downturn, but rather a statement about asymmetry: with expectations well above the dot-com peak, funding at historic highs, and market leadership very narrow, the AI trade doesn't need to fail for the US market to drop significantly. It only needs to perform slightly worse – such as a softer capex outlook, weaker token economics, a Chinese capability shock, or a regulatory misstep. Each of these factors mentioned could serve as a trigger.

14 “We Must Act Now,” an open letter organised by economists Erik Brynjolfsson, Ajay Agrawal, Anton Korinek and Tom Cunningham via Stanford's Digital Economy Lab, 13 July 2026 (wemustactnow.ai).

Outlook

REGULATION PROTECTS
INCUMBENTS, NOT MODEL
SCARCITY

1. US hyperscalers

For Microsoft, Alphabet, Amazon, and Meta – the regulatory turn is, on balance, protective in the near term. A security perimeter around frontier models raises barriers to entry, entrenches the incumbent laboratories with which they are financially intertwined, and pushes US enterprises toward compliant, domestically hosted AI, which is precisely what the hyperscalers sell. Restrictions on Chinese open-weight models would remove the cheapest competitive threat to their token economics. But this protection addresses the smaller of the two risks. The larger risk is the one regulation cannot fix: the commoditization of intelligence itself. If near-frontier capability is reproducible by fast followers at a fraction of the cost, then the returns on the extraordinary capital now being deployed depend on the application layer, enterprise integration, and proprietary context, not on model scarcity. We also note the emerging sovereignty backlash articulated by, among others, Microsoft’s own chief executive: enterprises are waking up to the fact that, in consuming intelligence, they are creating intelligence, and that their accumulated corrections, workflows, and judgment – their operating know-how – should belong to them rather than to a model vendor.¹⁵ The hyperscaler that positions itself as the neutral, multi-model “intelligence supermarket” with genuine customer data boundaries is better positioned than one betting on a single closed-frontier model.

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SOVEREIGN AI SUSTAINS
CHIP DEMAND

2. The semiconductor industry

The immediate impact of rivalry combined with regulation is clearly positive: an AI arms race backed by government mandates sustains demand for advanced logic, high-bandwidth memory, and lithography for years to come. Sovereign AI initiatives also provide a demand buffer unaffected by market prices. Nonetheless, two cautions are

¹⁵ Satya Nadella, blog post, 13 July 2026: “In consuming intelligence, you are creating intelligence. And what you create should belong to you.” Reported in TechCrunch, 13 July 2026, and Fortune, 16 July 2026.

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Memory-sector earnings momentum is nearing the point where “less good” performance has historically prompted corrections, despite record profits.

worth noting. First, positioning: long positions in global semiconductors are now among the most crowded trades worldwide, and memory-sector earnings momentum is nearing the point where “less good” performance has historically prompted corrections, despite record profits. Second, bifurcation affects both sides: any restrictions on Chinese access accelerate China’s pursuit of domestic alternatives – as seen in the progress of the leading Chinese memory company, CXMT – which will reduce the medium-term market for Western semiconductor companies, even as it expands the market today. We remain optimistic about the equipment and application layers, driven by demand from both blocs, while adopting a more valuation-conscious approach for companies whose profits rely on assumptions of ongoing scarcity.

CHINESE PLATFORMS
MONETISE CHEAP
INTELLIGENCE

3. Chinese platform holdings

For Alibaba, Tencent, through our position in Prosus, and Xiaomi – the calculus differs from what the headline “US bans Chinese AI” suggests. None of the three depends on selling frontier models into the United States. Alibaba’s Qwen family and its cloud business monetise Chinese and increasingly non-aligned-world demand for cheap, capable, open intelligence; a US ban on Chinese open models does nothing to impair that and may even accelerate the emergence of a parallel, Chinese-anchored AI stack across Asia, the Middle East, and the Global South – a rerun of what happened in payments and the consumer internet. Tencent’s AI value creation runs through distribution: an unrivalled position in China’s social, gaming, and payments platforms, into which commodity-priced intelligence can be embedded, making it a consumer of cheap Chinese models rather than a victim of Western restrictions. Xiaomi sits at the intersection of the two themes of this paper: it is a direct beneficiary of China’s hyperscale manufacturing system in EVs and smart devices, and embodied, on-device AI plays to its hardware distribution. The principal risks to all three are domestic – regulatory recidivism in Beijing and a soft Chinese consumer – plus the tail risk that escalation moves beyond models to broader capital controls, delistings, or sanctions that impair foreign ownership itself. That tail risk, not the model rivalry, is what we monitor most closely.

Conclusion

REGULATION CANNOT STOP THE COMMODITISATION OF INTELLIGENCE

China is running its proven industrial playbook against the economics of intelligence: scale, cost deflation, and open distribution aimed at the pricing power of Western closed models. The West's response will not be primarily commercial – it will be political, and it has begun. Executive Order 14409 is modest in its legal force but unmistakable in its architecture: capability thresholds, government pre-release access, and trusted tiers form the scaffolding of a security regime for frontier AI, with restrictions on Chinese open-weight models likely to be the first binding measure. Investors should hold both ideas at once. Regulation will protect the incumbent US AI complex from its cheapest competitor while doing nothing to reverse the deeper force of commoditization, and it will inconvenience China's AI champions far less than the headlines imply, because their economics never depended on American customers.

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China is running its proven industrial playbook against the economics of intelligence: scale, cost deflation, and open distribution aimed at the pricing power of Western closed models.

THE BIGGEST OPPORTUNITIES MAY SIT AROUND AI, NOT IN IT

All of this plays out in a market that has staked more on a single theme than any in history – where earnings expectations exceed the dot-com peak, corporates have turned from buyers of equity into sellers, and the marginal buyer is leveraged and momentum-driven. In such a market, the shocks described in this paper need not be severe to matter; the AI trade only must go a little less well for the repricing to be substantial. As ever, the durable investment opportunities lie less in the technology itself than in the second-order consequences: the energy build-out, the enabling semiconductor layer, the application and distribution moats, and the parallel AI stack forming across the non-aligned world – held with the valuation discipline and breadth that a one-factor market punishes investors for forgetting. The door Dr Charan describes closes slowly, and then all at once. Our task is to position ourselves on its right side before it does.



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Global Equities Ex. Tobacco

The Fed increased rates to contain inflation worries, and the 10-year yield surged above 5%. 2026 is shaping up as one of the strongest years for corporate earnings in decades. Consensus estimates expect MSCI ACWI earnings to grow over 40% in 2026 (helped by investment gains in some hyperscalers), with 15% expected for 2027. However, growth is heavily concentrated in the AI infrastructure build-out and the memory cycle. Seven of the ten largest contributors to 2026 earnings growth are semiconductor or memory companies. However, earnings growth is broadening out beyond technology as earnings in the rest of the market are growing at their fastest pace in over four years. Yet markets did not reward the strength, so valuations are compressing even as earnings accelerate, which is a sign that higher rates, not fundamentals, currently are the dominant pricing mechanism.

In the quarter, the strategy fell 2.0% (AUD), underperforming the MSCI AC World Index, which returned 1.2%. The performance was hurt by higher interest rates, putting pressure on higher-quality, longer-duration equities, while higher oil prices boosted the energy sector, where we have no holdings.

Investment strategy and portfolio changes

We have invested in Intuitive Surgical and DSV while selling the Indonesian bank BCA, as the domestic environment is becoming more difficult. The new

administration has less fiscal discipline, and general governance is an issue. Furthermore, higher oil prices and intensifying Chinese competition threaten middle-class consumption, which was the basis for our investment thesis.

Intuitive Surgical is the global pioneer and market leader in robotic assisted minimally invasive surgery with its da Vinci surgical system. The company has ~98% of the global installed base of general surgery robots. Switching costs are high, and the established training infrastructure makes Intuitive Surgical a safe, default choice for hospitals. The surgical robots market is expected to expand significantly over the next 5+ years, and the company is very well positioned to capitalize on this growth. Intuitive operates a razor-and-blade model, proving high recurring revenue (84% in 2025).

DSV is a leading global transport and logistics company. Supply chains are evolving from a relatively efficient bipolar system towards a multipolar network designed around resilience, redundancy and multiple production centres. This increases the value of DSV's global network and logistics expertise. Crucially, DSV coordinates these increasingly complicated physical flows without owning most of the underlying transportation assets. Its capital-light model and high returns on invested capital will become increasingly valuable in a world where capital is becoming scarcer and more expensive.



Global Equities

[Read more about the strategy ↗](#)



FACTSHEET

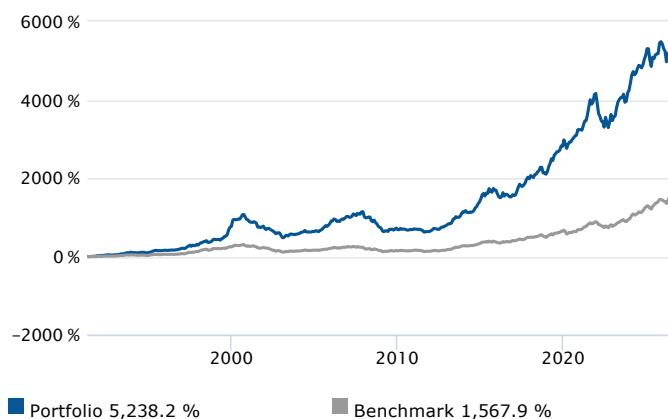
GROSS OF FEES IN AUD AS OF 30 SEPTEMBER 2026

INVESTMENT PHILOSOPHY

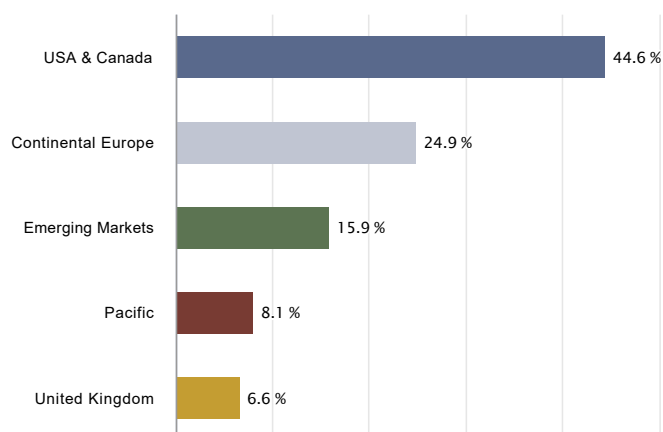
Name	C WorldWide Global Equities Ex Tobacco
Inception date	31 May 1991
Benchmark	MSCI All Country World incl. net dividends
Read more	www.cworldwide.com

The strategy aims to achieve long-term capital growth exceeding the return of the market with a moderate risk profile as measured by standard deviation. The portfolio consists of 25-30 high conviction global large cap stock picks that ensure a sufficiently high-risk diversification. There are no geographic or sector restrictions in the strategy. This fact sheet has been prepared by C WorldWide Asset Management Fondsmæglerselskab A/S and is for information purposes only.

INVESTMENT RETURNS



GEOGRAPHIC DIVERSIFICATION



RETURN & RISK

	Q3	YTD	1 Y	3 Y	5 Y	10 Y	Lifetime
Portfolio (gross) (%)	-2.0	-3.4	1.1	9.8	6.0	12.5	11.9
Benchmark (%)	1.2	8.3	11.2	18.7	12.4	13.5	8.3
Relative performance (%)	-3.2	-11.8	-10.1	-9.0	-6.4	-1.0	3.6

	3 Y	5 Y	10 Y	Lifetime
Std. dev. portfolio (%)	9.0	11.1	10.4	13.3
Std. dev. benchmark (%)	9.0	10.3	10.3	11.8
Beta	0.9	1.0	0.9	1.0

Periods longer than 1 year are shown annualized

TOP 10 HOLDINGS

	Share in %
TSMC	7.9
Alphabet	6.2
ASML	6.1
Microsoft	5.7
Visa	4.8
Amazon.com	4.6
AstraZeneca	3.9
Republic Services	3.6
AIA Group	3.6
HDFC Bank	3.6

CONTRIBUTION (3 MONTHS ROLLING)

Top/Bottom 5	Contribution (%)	Return (%)
▲ Microsoft	1.5	37.1
▲ SAP SE	0.7	36.9
▲ TSMC	0.2	2.8
▲ Visa	0.2	4.5
▲ Intuitive Surgical	0.2	-*
▼ CATL	-1.2	-31.2
▼ NextEra Energy	-0.5	-13.5
▼ AstraZeneca	-0.5	-12.6
▼ ASML	-0.5	-8.1
▼ HDFC Bank	-0.5	-12.6

*Bought or sold during the last 3 months

All figures are based on past performance. Past performance is not a reliable indicator of future performance. The currency is AUD. The return may increase or decrease as a result of currency fluctuations. The figures are based on a composite. The figures are gross of investment management fee and performance fee, if any. Other fees, incurred by the investor, such as custodian fee and transaction costs, are not included.

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