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AI CAPITAL CYCLE

The Money Breaks First

Why the AI capital cycle ends on the liability side

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THE MONEY BREAKS FIRST

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Executive summary

> *On the evening of 4 November 1929, Samuel Insull sat in a box at Chicago's new Civic Opera House, in the base of a 45-storey tower the city had nicknamed his throne. He controlled eighty-five companies supplying electricity across thirty-odd states, an empire valued near $4 billion, sold to Midwestern schoolteachers on a promise his shares were as safe as the sunrise. The machine never missed a beat. Electricity output roughly tripled over the decade, residential electrification went from about 35% of American homes to nearly 70%, and output in 1932 still ran above the 1929 level across several utility systems. Insull's structure entered receivership in April 1932 anyway, and roughly 600,000 shareholders were wiped out.*

That is what a bubble looks like. The technology works, demand is not the problem, the capital structure is. Where the obligation is recorded, who has to change their mind, and what happens when they do, is what the aftermath looks like.

So, is AI a bubble?

The word has a technical meaning. In Minsky's framework, a financing structure moves from **hedge finance**, where cash flow covers interest and principal, to **speculative finance**, where it covers interest but principal must be rolled, to **Ponzi finance**, where it covers neither and the position depends on fresh issuance. **Moving from the first rung to the third requires no deterioration in the underlying business at all.** Insull's utilities grew throughout.

Applied to the AI ecosystem, the ladder reaches a handful of base-layer borrowers and stops there. Interest expense running above the quarterly loss is the clearest case of a borrower that needs the window to stay open. The apex can still slow spending and can still raise equity. ***Calling this cycle speculative overstates the evidence. Calling it Ponzi finance overstates it by more.***

Are we there yet? No. But we are on the way. The cycle is further along than it was in September, and it is unfinished. Compute is getting cheaper to serve, and usage rises as the price falls. The open question is where the obligation sits, and what gets sold when it is recognised. Fragility is real. It sits at the base of the stack and in the gap between cash capital expenditure and operating cash flow at the large platforms. Coupons are being paid.

The case carrying the central weight is a grind of several years - the technology is vindicated, the 2026 vintage of capital earns a poor return, and there is no morning on which the exit is obvious.

Bubble-nomics: the framework

The structure. AI infrastructure is not one thing. It is a stack of three tiers with completely different balance sheets, and almost every confused argument about this cycle comes from treating them as one. At the apex are the hyperscalers, a cohort with the largest operating cash flows in corporate history: Microsoft, Alphabet, Amazon and Meta, net cash or about one turn of leverage, AA or A. Oracle, SoftBank and Broadcom sit in the middle, with Oracle one notch above high yield. Contrast that with the base - the neoclouds, the operators, the GPU-collateral lenders and the private credit funds behind them. That is where the stress is. **The fragility is real, rising, and concentrated. It is not yet systemic.**

EXHIBIT

The cycle in one view

Three bands. The stack, the conditions, and the gates.
26–28 October 2026

THE STACK who holds the obligation

Apex **Microsoft, Alphabet, Amazon, Meta**	Net cash or about one turn. AA or A. Five-year CDS unpublished. Record wide, well below Oracle.
Middle **Oracle, SoftBank, Broadcom**	Oracle 288 bp, a record. SoftBank 424 bp. Oracle is one notch above high yield.
Base **CoreWeave, Nebius, Nscale, Lambda**	Contractors, GPU lenders, private credit, joint ventures. CoreWeave 1,194.5 bp on 15 Oct 2026, from 452 bp in June. Bonds below 80 cents. No payment missed.

Weakness sits at the base. Upward path: one condition documented, two not documented.

THE CONDITIONS what is under test. Valuation is a gauge, outside the four.

■ **Returns**	**A risk**
■ **Mis-allocation**	**Limited on signed deals**
■ **Valuation**	**A gauge, not a condition**
■ **Financing fragility**	**Rising, offset while equity can be raised**
■ **Recourse and recognition**	**Live**

THE GATES how far. The check that would move a gate is written on it.

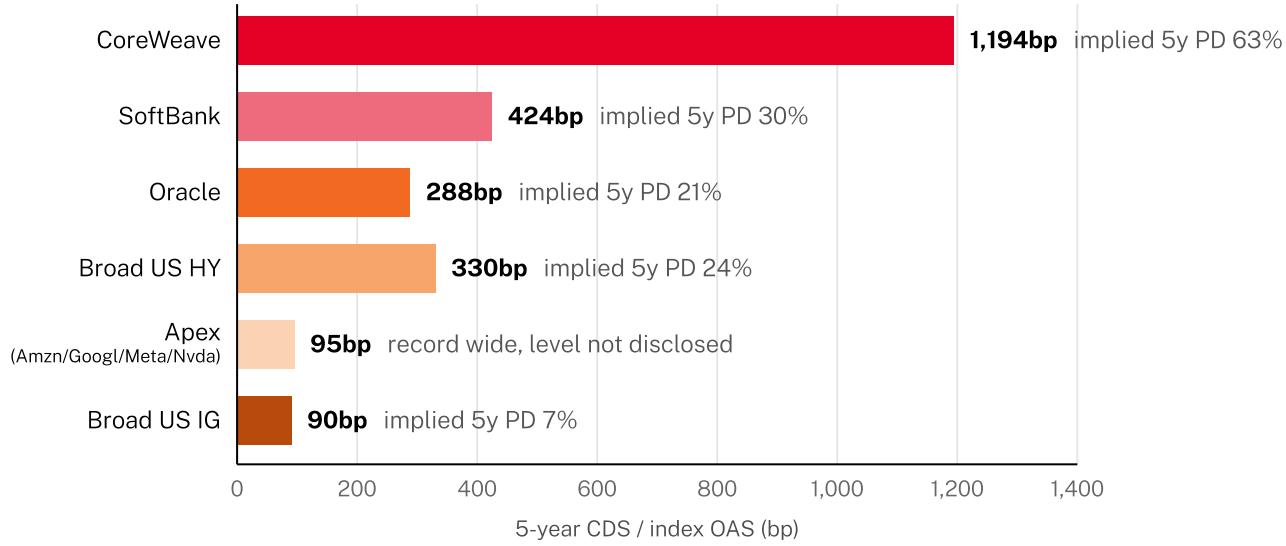
0	1	2	3	4
Confirmed	**At the line**	**Amber**	**Early**	**Not met**
Cohort repriced. Equity still absorbed.	Priced as distressed. No default.	Equity window still open.	IG 90. HY 330.	No regime shift.
MOVES IF	**MOVES IF**	**MOVES IF**	**MOVES IF**	**MOVES IF**
Bond concessions widened on supply; the window did not shut.	Payment default, covenant waiver, or a redemption gate.	Apex CDS more than 7 bp on a base headline, or correlation above 0.5.	Broad US investment grade above 150 bp for two weeks.	Correlation to one, and the first easing fails to arrest it within 60 days.

Filled square: a status that has been scored. Open square: not met. Judgements of the assessment.

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EXHIBIT

The market is still ranking credits — but the apex is no longer inert



Sources: LSEG, S&P Global Market Intelligence and ICE Data Services via press reporting (15 Oct 2026); ICE BofA OAS via FRED (26 Oct 2026). Implied default probabilities computed at 40% assumed recovery. Apex bar is indicative only — levels reported as 'record wide, well below Oracle'.

CoreWeave's five-year credit-default swap touched 1,194.5 basis points on 15 October 2026, from 452 in June, with bonds below 80 cents. Oracle is at 288, a record. SoftBank is at 424. Apex swaps are near 95 basis points, at record wides of their own and still well below Oracle. No payment has been missed anywhere in the stack. **The ordering between tiers has held throughout**, and a market pricing the base at several times the apex is a market ranking credits, not one that has stopped discriminating.

The transmission. In 1929, Samuel Insull's utility empire was a pyramid, holding companies stacked on holding companies, each layer paying dividends out of fresh share issuance, with leverage at the top approaching 20 to 1. The weak point was the apex: strength at the bottom, fragility at the top, damage running down.

Today is the mirror image. The apex is the strongest part of the stack and can cut spending at will. The fragility sits underneath it. **So, if damage travels, it has to travel upward**, much like 2007. A base-layer borrower gets into trouble and impairs a GPU-collateralised loan. That loan sits in a private credit fund, which marks it down. Investors in that fund ask for their money back. The fund cannot sell the impaired loan, so it sells what it can sell, its liquid holdings, which may include apex bonds and apex equity. **Knowing which shape you are in matters, because the 1929 shape says protect yourself by owning quality, and the 2007 shape says quality is what gets sold to meet the margin call.**

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EXHIBIT

Upward transmission: three conditions

☑	1	**Documented** Funds hold AI-linked private credit in size.
☐	2	**Not documented** Liquid apex bonds and equity, in a size that would matter. No fund-level holdings.
☐	3	**Not documented** Redemption terms that let a queue form faster than the illiquid book can be sold.

A path with one condition in the record can carry a slice of the 22 and a slice of the 8.

The 50 percent case is a grind. It does not require a forced sale of the good asset.

Weights are judgements. Holdings that would settle conditions 2 and 3 are unpublished.

That route has three conditions. One is documented: the funds hold AI private credit in size. Two are not. There are no fund-level holdings on liquid apex paper in a size that would matter, and none on redemption terms that outrun the illiquid book. **The mechanism can carry a scenario weight. It cannot carry the central case.** A grind does not require a forced sale of the good asset.

The four conditions. The framework tracks return over-estimation, capital mis-allocation, financing fragility, and recourse and recognition. They are read in parallel, not in sequence, and valuation sits alongside them as a gauge of severity rather than as a condition in its own right. **The one that decides the ending is the one that changes the obligations. Anyone waiting on the first condition before acting on the fourth would have been late in every case on record.**

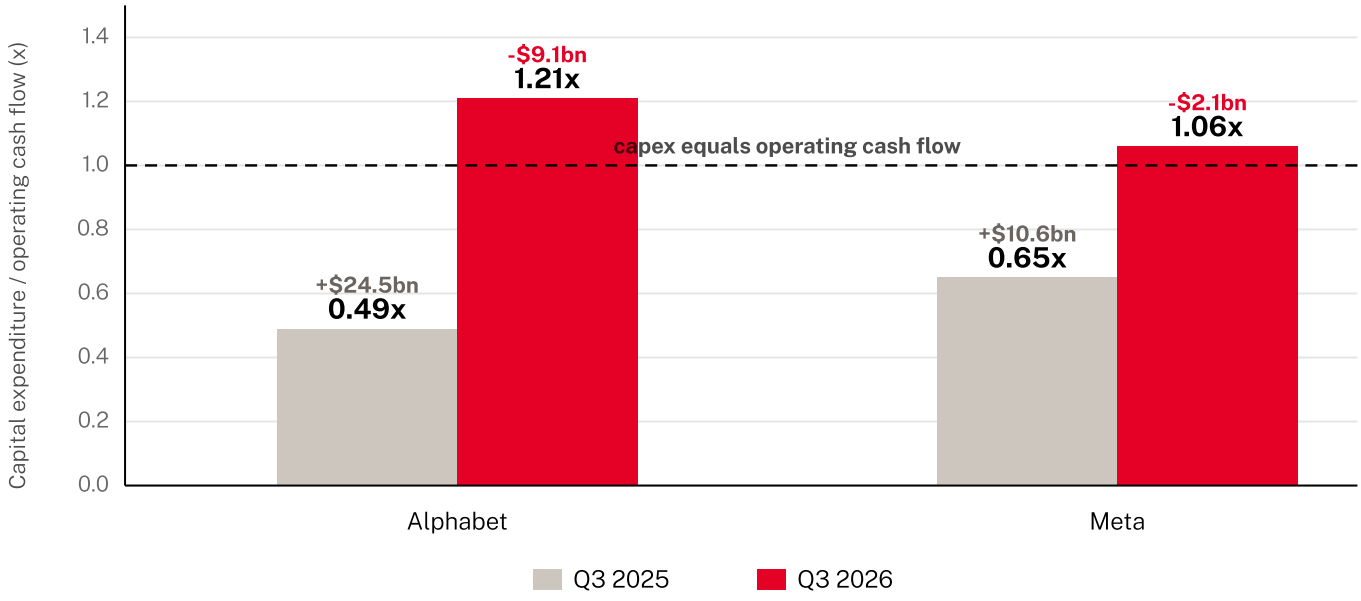
- **Returns are a risk, not a present condition.** Unit economics have improved, although the vintage can still be wrong. A later, cheaper cluster can take the volume while usage rises. The spot market still says shortage. Rents are rising. No cash loss on the 2026 vintage has been measured. Jevons is winning on current evidence, and the distinction that matters is that **Jevons protects the industry, not the vintage.**
- **Mis-allocation is limited on the deals that can be checked.** Signed paybacks of about 10 to 22 months, with prepayments of 50 to 60% on a large share of deals. Cancellations are about power, including Microsoft's exit from Nscale's Loughton site on 18 October on a grid date in the 2030s. **A build-out running into the limits of the grid is a different phenomenon from one running into the limits of demand**.

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- **Financing fragility is rising**, in the gap between cash capital expenditure and operating cash flow, and it is offset at the apex while the equity window is open. Four platforms guide about $735 billion of capital expenditure for 2026, against about $409 billion in 2025. Debt near one turn at the apex is the wrong place to look - the gap is being funded, and the funding is the variable. **What changed this quarter is that the crossover stopped being a forecast.** Alphabet's third-quarter free cash flow was negative $9.1 billion, on $42.3 billion of operating cash flow against $51.4 billion of capital expenditure. Meta's was negative $2.1 billion. A year earlier both were comfortably positive. Two of the four largest platforms have crossed from funding this out of operations to not funding it, and they crossed in a quarter in which nothing went wrong. The offset held in the same week: Meta priced $37.5 billion on 27 October, upsizing the common tranche that day, and Alphabet has $27.6 billion of its programme still available. **While this window stays open, apex debt does not bind.** It is the single most important fact against the bear case, and the first thing that would have to change for the rest to matter.

EXHIBIT

Two of the four crossed over in the third quarter



Source: company Q3 2026 results releases. Capex includes finance lease principal for Meta. Free cash flow as reported. Capex against operating cash flow is a level, so it avoids the base effects that make capex growth against revenue growth misleading.

- **Recourse is live, because Moody's and S&P disagree**, and nobody can state consolidated leverage. Moody's puts committed future leases across the five largest spenders at $969 billion, of which $662 billion sits on no balance sheet, equal to 113% of those companies' most recent adjusted debt. S&P assigns zero debt value to Meta's residual-value guarantee; Moody's would adjust debt for the same obligation. **The disagreement is itself the exposure.** Moody's wrote on 23 February 2026. S&P does not share the view on the named structure. No issuer has restated. But one issuer restating a joint venture onto its own balance sheet is the recognition event, and it is also what would turn the grind into a sharper shock. The path underway is a drag on the financing channel, which is why the central case is a grind.

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Valuation is a gauge. The multiple sets how far a fall runs. It has no record as a clock. 1929 and 2007 broke from ordinary multiples, about 15 to 18 times and about 17 times. March 2000 was near 60 times forward, and Japan in 1989 was 60 to 70 times. The Nasdaq-100 is near 29 times trailing, well clear of 60 times forward. **Focus on earnings. If this is an earnings bubble, as Druckenmiller calls it, only then do valuations become relevant.**

And the earnings are not one thing. At the operator end - the data-centre operators and the frontier labs - the earnings are a forecast - revenue depends on monetisation arriving on a schedule nobody has committed to, which is why take-or-pay obligations running to 2045 sit against consumption revenue that is mostly uncontracted. Shorter lease terms (now down to 4 years), run the risk, a big one, of renewals at lower levels as compute gets cheaper OR the operators need to constantly upgrade to newer chips to maintain revenue – in either case, **extrapolating current ROIs for Data Centre operators may be ambitious.**

At the supplier end the earnings are an order book. Memory, logic, optics, power equipment, transformers, turbines and the construction itself are paid for when capacity is built, not when it is monetised. **The $735 billion of guided 2026 capital expenditure is somebody else's revenue, most of it contracted, scheduled and often prepaid.**

So, if there is an earnings bubble, it is at the operator end. Whether the 2026 vintage of compute earns an adequate return has no bearing on whether the transformer was delivered and invoiced. **That is the part of the ecosystem carrying the fewest questions today.** The qualification is that visibility is not durability: an order book converts a build-out pause into a revenue hole with the same lag it converts a build-out into revenue, so the exposure is to whether the next vintage gets ordered. That is a risk to size, not a reason to avoid the leg.

Demand confirms; it does not lead. Electricity demand grew through the 1920s while the structure financing it was already fragile. Internet traffic kept doubling through the telecom bankruptcies. Railway tonne-miles rose for decades after the 1840s mania while freight rates fell 50 to 70%, because capacity arrived faster than traffic did. **A strong usage print cannot clear a bad vintage, and a weak one is not required before the liability side is taken seriously.**

The gates & the tripwires

Five gates, each a step further through the capital structure. Credit and equity are read on the same gate, because a cycle in which credit widens while equity is still absorbed is in a different place from one in which both have shut.

- **Gate 0, Cohort Repricing, is confirmed.** The cohort has repriced, and equity is still being absorbed. Bond absorption fired on supply, as competing AI-linked paper arrived together, and the equity window did not shut with it.
- **Gate 1, Distressed Pricing, is at the line.** The base is priced as distressed and has not defaulted. A payment default, a covenant waiver, or a redemption gate would take the gate from at the line to met.
- **Gate 2, Equity Window, is amber.** Apex credit has moved, and the equity window is still open. This is the live line between a sector problem and a portfolio problem. The open window is what keeps Gates 0 and 2 from becoming a shut window. The test that would take Gate 2 from amber to met is an exponential move in apex swaps alongside a major raise pulled, repriced materially, or covered below 1.5 times.

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- **Gate 3, IG Spreads, is early.** The gate is the broad US investment-grade option-adjusted spread above 150 basis points, sustained for multiple weeks. Investment grade was 90 basis points on 26 October 2026, from 80 on 14 September. High yield was 330, from a 2026 low of 260 on 28 August.
- **Gate 4, Regime Shift, is not met.** It requires correlation going to one, and the first policy easing failing to arrest the widening. The restatement named under recourse is what would turn the grind into a sharper shock on the way to that gate. It has not happened.

TRIPWIRE	GATE IT SITS ON	STATUS	WHAT WOULD CHANGE IT	WHERE TO LOOK
Equity window - the release valve	**Gate 2**	● Green	A major raise pulled, repriced materially, or covered below 1.5x	Deal pricing, syndicate desks
Apex responds to base-layer news - the containment test	**Gate 2**	● Amber	Apex CDS moving more than 7bp on a base-layer headline, or apex-to-base correlation above 0.5 for five consecutive days	Daily marks
Base-layer default or gate - the likely next event	**Gate 1**	● Amber	Any payment default, covenant waiver or fund redemption gate	Deal news, fund notices
Agency action on JV consolidation - decides the damage function	**Gate 4**	● Amber	A single issuer restating a JV onto its balance sheet	Agency criteria, 10-K footnotes
GPU rental rollover - lags by design	**Gate 0**	● Green	A100 rental down 10% year on year	Rental indices

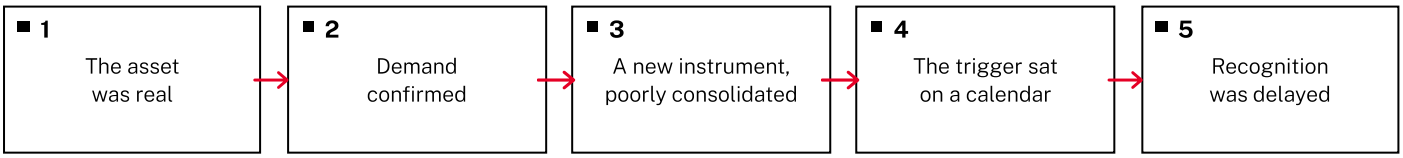
The history - similarities and differences

We read the South Sea Bubble, British railway mania, 1929, Japan, the dotcom cycle and the global financial crisis for invariants. **The similarities lie predominantly in the credit architecture, reinforced by the "this time it's different" narrative.** The asset was real. Demand confirmed. A new instrument was poorly consolidated. The trigger sat on a calendar. Recognition was delayed by an accounting or supervisory choice.

EXHIBIT

What broke was the capital structure

The episodes differed. The invariant is the structure.



WHERE THIS STACK DIFFERS

2000	1929	This stack	Policy
The debt was on the balance sheet	Weak at the top. Damage ran down	Weak at the base. The apex can cut	Tighter room than in 2000

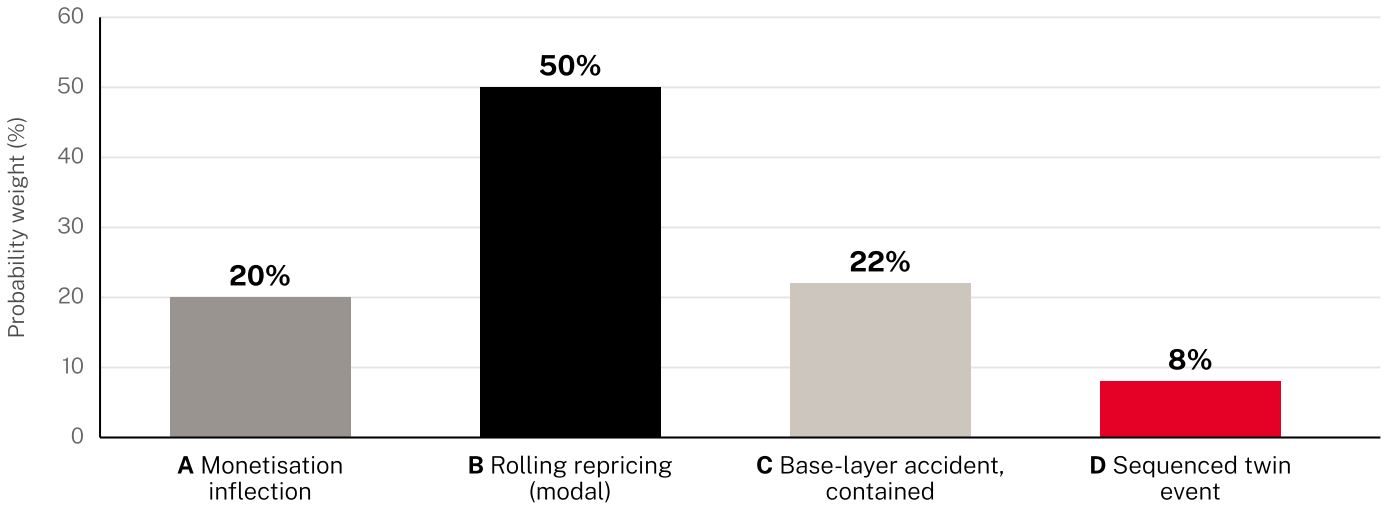
Accounting or supervisory choice is the delay. The dates exist. The ladder does not.

But there are multiple divergences, and important ones. In 2000 the debt was on the balance sheet, so a maturity wall was the right thing to watch; that same watch arrives late here, because the claim is visible and unconsolidated rather than visible and consolidated. Policy room is tighter: the funds rate is 3.75 to 4.00% after a September rise, a December increase was priced near 73%, and the ten-year sits near 5%, against a cut from 6.5% to 1% and a unified budget surplus of about $236 billion in fiscal 2000. And cheaper cognition with elastic demand can still vindicate the economics, as cloud did, except that cloud had no turbine queue and was never a quarter of investment-grade issuance. **The elasticity argument can win on the economics and lose on the financing.**

Scenarios

EXHIBIT

Half the probability sits in the scenario with no identifiable bad day



Source: author's judgement. Weights are stated so they can be argued with, and the conclusion is robust to reweighting within a few points.

SCENARIO	WEIGHT	RANGE
Monetisation inflection	20%	15-25
Rolling repricing - the grind	**50%**	45-55
Contained base-layer accident	22%	18-26
Sequenced twin event	8%	5-12

"The money breaks first" most likely looks like a slow repricing nobody can date, rather than a crash.

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The order holds while the equity window is open and the accounting argument stays public. **And a grind is not the benign outcome it sounds like.** A crash clears. It forces recognition, reprices the asset, frees the capital and creates an entry point, usually within quarters. A grind does none of that. Japan is the case: no single catastrophic day after 1990, forbearance instead of resolution, and a market that took thirty-four years to regain its high while nominal GDP went nowhere for two decades. The damage in a grind is the opportunity cost of capital trapped in a vintage that never quite fails and never quite works, and the absence of any moment at which the decision to exit becomes obvious. **For a long-only allocator, a five-year grind is arguably the worse of the two outcomes, and it carries the higher probability.**

The time stop is 30 June 2027. Close the positions if no issuer in this spending has entered high yield, the substitute spread is back under 110 basis points, and order books are above three times covered. **The likely mistake is being early - diagnosis has led the break by nine to thirty-six months.**

What to do about it

- **Nothing here argues for cutting AI exposure.** The modal outcome is a multi-year grind in which the technology is vindicated and the 2026 vintage of capital earns a poor return, with no crash and no identifiable bad day.
- **Split the allocation by tier rather than treating AI as one trade.** The three tiers have different damage functions, different trigger dates and different instruments. This is the primary decision.
- **Then split it again by position in the chain.** The tier split says who survives a funding shock. **The chain split says whose earnings are an order book and whose are a forecast**, and the two cuts do not land in the same place. A name can sit high in the funding tier and still be an operator. Roughly two-thirds of the long exposure belongs with suppliers, where the earnings are already being invoiced; the apex belongs in the book because its AI build is cross-subsidised by search, advertising and cloud businesses that are not a forecast; and **there is no long in the pure-play operator at all**, which is the clearest single consequence of the earnings argument.
- **Own the inelastic input rather than the elastic output.** Compute gets cheap, because that is what a build-out does. A gigawatt, a transformer, a turbine and an interconnection queue position do not. Microsoft walked away from a 50MW UK site in October because the grid could not deliver power before the 2030s, which tells you what the real constraint is. 20 to 25% of the sleeve, against 35 to 40% in apex quality on the self-funding names with headroom.
- **Hold the elastic supply chain too, but smaller.** Memory, logic, networking silicon and optics have the same order-book earnings and none of the physical protection: capacity responds to price with a lead time measured in quarters rather than in grid-connection years, so a build-out pause reaches that leg first. 10 to 15%, with an exit condition rather than a view. **Both supplier legs have visible earnings today; only one has them protected by something other than demand.**
- **Express the dispersion rather than hedging it.** The gap between the best and worst performing hyperscaler this year has run to 125 percentage points of total return, with pairwise correlations at new lows. Long the self-funding names, short the lease-heavy and capex-stretched ones: 15 to 20% gross and about zero net. Size it to be closed rather than held, because its exit condition is Gate 2 confirming and Gate 2 is already amber.

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- **Watch the equity window above everything else.** It is the release valve. While the apex can raise equity at these multiples, debt stress stays contained. If that window closes, the debt-side problems become binding immediately.
- **Say which tail you are covering.** Tail protection here covers the sequenced twin event, not the grind, and a hedge bought against a grind simply decays. Broad index protection is the instrument rather than single-name apex protection, and roughly 70 basis points of the move in high yield is already behind us.

#	EXPRESSION	POSITION IN THE CHAIN	SHARE OF SLEEVE
1	**Long apex, quality-tilted**	Operator, but not a pure one	35-40%
2	**Long inelastic inputs**	Supplier, inelastic	20-25%
3	**Long the elastic supply chain, sized smaller**	Supplier, elastic	10-15%
4	**Long/short dispersion**	Operator against operator	15-20% gross, about zero net
-	**Pure-play operators at the base**	Operator, pure	No position

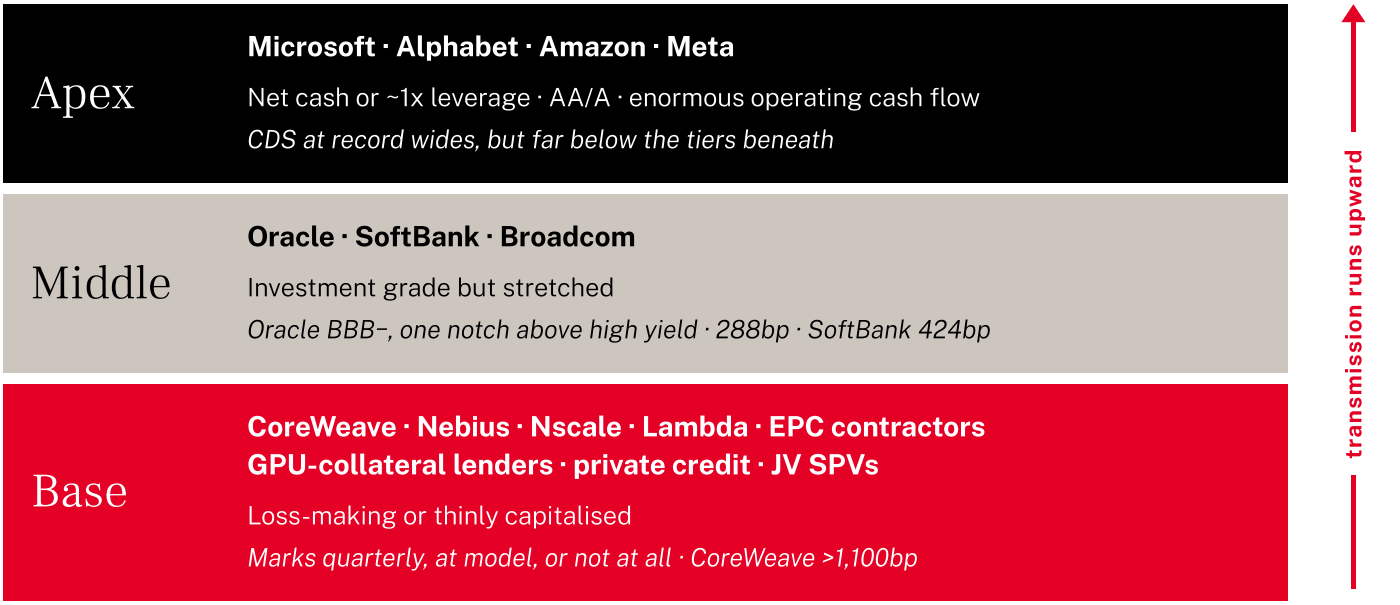
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The structure, and why it matters more than the headlines

EXHIBIT

Who sits where in the AI capital structure

Strength sits at the top. Fragility sits at the bottom.



Credit marks: LSEG and S&P Global Market Intelligence via press reporting (15 Oct 2026). Tiering is this note's own, based on reported leverage, rating and funding source. Names are illustrative of each tier rather than an exhaustive list.

Are we there yet? No. But we are on the way, and further along than we were in September.

AI infrastructure is not one thing. It is a stack of three layers with completely different balance sheets, and almost every confused argument about this cycle comes from treating them as one.

The **apex** is Microsoft, Alphabet, Amazon and Meta: net cash or roughly 1x leverage, AA/A ratings, and the largest operating cash flows in corporate history. The **middle** is Oracle, SoftBank and Broadcom, investment grade but stretched, with Oracle one notch above high yield. The **base** is CoreWeave, Nebius, Nscale, Lambda, the EPC contractors who build the sites, the GPU-collateral lenders, the private credit funds behind them, and the joint-venture vehicles through which much of the capital now flows.

Stress is concentrated almost entirely in the base. CoreWeave's five-year CDS hit 1,194bp intraday on 15 October against 452bp in June, implying a five-year default probability near 63%, with bonds below 80 cents. Oracle sits at 288bp, a record for that name. The apex is at record-wide spreads too, but far below the tiers beneath it, and the ordering between tiers has held throughout.

The fragility is real, rising, and concentrated. It is not yet systemic.

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Why "2007 inverted" rather than "1929 repeated"

In 1929, Samuel Insull's utility empire was a pyramid: holding companies stacked on holding companies, each layer paying dividends out of fresh share issuance, with leverage at the top approaching 20:1. The weak point was the apex. When it could no longer issue, the whole structure collapsed downward onto operating businesses that were themselves perfectly healthy. **Strength at the bottom, fragility at the top, damage running down.**

Today is the mirror image. The apex is the strongest corporate cohort in history and the fragility sits underneath it. So, if damage travels, it has to travel *upward*, and there is a specific route by which it could. A base-layer borrower gets into trouble and impairs a GPU-collateralised loan. That loan sits in a private credit fund, which marks it down. Investors in that fund ask for their money back. The fund cannot sell the impaired loan, so it sells what it *can* sell - its liquid holdings, which may include apex bonds and apex equity. **The apex would then reprice without anything having gone wrong at the apex.**

Hence "2007 inverted": fragility at the base, strength at the apex, and transmission that runs upward through vehicles that do not mark to market. Knowing which shape you are in matters, because the 1929 shape says protect yourself by owning quality, and the 2007 shape says quality is what gets sold to meet the margin call.

The four conditions

EXHIBIT

How a condition is scored

■ 1
Evidence for
The uncomfortable reading, from filings, prints and calendars.

→

■ 2
Evidence against
The fact that cuts the claim, already in the record.

→

■ 3
Judgement
A status, and where the case is ahead of the evidence or behind it.

STATUSES

■ **A risk**	Mechanism intact. Loss not measured.	■ **Rising**	Wrong way, offset elsewhere.
■ **Limited**	Fails on deals that can be checked.	■ **Live**	Parties disagree. No forced number.
■ **A gauge**	Sets the depth of a fall. Poor as a clock.		

A status moves on a filing, a print, a cancellation reason, or an agency action.

What is actually happening - four findings

- **The demand side is working.** Compute costs are falling fast as a share of revenue at the frontier labs, unit economics have crossed into profitability, and inference now accounts for roughly two-thirds of all AI compute. ***Anyone waiting for monetisation to disappoint is watching the wrong instrument.***
- **Against those economics sit take-or-pay obligations running to 2045, funded by revenue nobody has committed to.** That asymmetry is written into the capital structure and stated by the obligor itself. It does not depend on demand disappointing, on the technology failing, or on any forecast. The same shape appears across the cycle: the contracted backlog justifying hyperscaler capex is substantially made up of obligations like these, with Oracle reporting $638bn of remaining performance obligations, roughly half of it a single counterparty.
- **Financing access is wide open, and that is the single most important fact against the bear case.** Meta priced $37.5bn in late October, upsizing the common tranche on the day, with a further $60bn authorised behind it. Alphabet sold $12.4bn of stock in the third quarter with $27.6bn still available to it. **Access on that scale, at these multiples, is what keeps debt-side pressure offset rather than binding** - and it is the first thing that would have to change for any of the rest to matter.

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- **Nobody can state the consolidated leverage of the complex.** Moody's puts committed future leases across the five largest spenders at $969bn, of which $662bn sits on no balance sheet - 113% of those companies' most recent adjusted debt. S&P assigns zero debt value to Meta's residual-value guarantee; Moody's would adjust debt for the same obligation. **The disagreement is itself the exposure, and it is the condition that will decide how this ends.**

Where we are on the clock

The honest reading of the four conditions is far more mixed than the bubble commentary suggests. One of four is live. One is rising. Two are risks rather than conditions. **That is a cycle showing more fragility than it did six months ago, not a cycle at the end of its rope.**

The note tracks progression through five gates, each a step further through the capital structure. **The AI cohort has repriced while the broad index stayed calm** - that step is complete. **The base layer is at distressed pricing but nothing has actually defaulted**, so it sits at the line of the next step. **The apex has begun to move while the ordering between tiers still holds**, which is the step that separates a sector problem from a portfolio one, and it is the live question. The broad index has drifted wider without approaching the level that would matter, and nothing resembles a regime shift.

The framework tracks four conditions: **return over-estimation, capital mis-allocation, financing fragility, and recourse and recognition.** They are read in parallel, never as a sequence. A clean reading on one of them does not retire the others, and a vivid reading on one of them does not promote it into a forecast. Valuation sits beside the four as a gauge of severity.

A common approach puts the stages in sequence - demand over-estimated, then capital misallocated, then the multiple ahead of itself, then the unsustainable leverage. The record of earlier booms is a set of conditions, present in different degrees at the same time. The stages are conditions. They can be present in different degrees at the same time, and **the one that decides the ending is the one that changes the obligations**. **Anyone waiting on the first condition before acting on the fourth would have been late in every case on record.**

Demand confirms. It does not lead. Electricity demand grew through the 1920s, Internet traffic kept doubling through the telecom bankruptcies, Railway tonne-miles rose for decades after the mania of the 1840s. A strong usage print cannot clear a bad vintage, and a weak usage print is not required before the liability side is taken seriously. The test on returns is therefore a test of the return to the supplier - volume, divided by competitive supply, times the price the supplier actually receives.

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Each condition is evaluated the same way. First, the evidence that supports the uncomfortable reading. Second, the evidence that cuts against it. Third, a judgement - where the bear case is ahead of the evidence and where it is behind it.

The four conditions, and where each stands

	CONDITION	READING TODAY & WHY	WHAT IT ASKS
1	**Return over-estimation**	**A risk, not a present condition** Unit economics are improving, not deteriorating. The risk is that today's capacity is superseded, which is a 2028-29 question	Does revenue per unit of deployed capital hold up? Demand, competitive supply and price in one test
2	**Capital mis-allocation**	**Limited evidence** Paybacks of 10-22 months are not mis-allocation. Project cancellations are running at scale, but on *power* constraints rather than demand	Tested at the *marginal* project and on *assured* rather than headline contract value
3	**Financing fragility**	**Rising, and concentrated at the base** Real at the base, contained at the apex while the equity window stays open	Not the quantum. Duration, refinancing dependence, and whether the obligation sits where it appears to
4	**Recourse and recognition**	**Live** Contested classification, agencies split, and nobody able to state consolidated leverage	Who holds the claim, can they be forced to sell, and when must they mark it

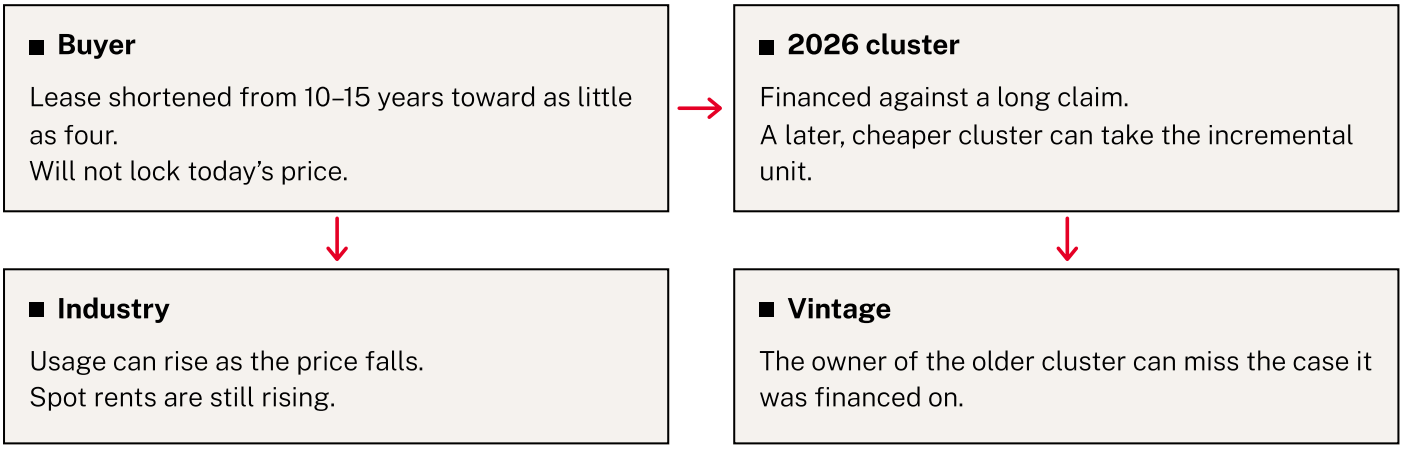
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Return over-estimation – a risk, not a present condition

EXHIBIT

The vintage and the industry

The test is the price the supplier receives



The two can be true together. A strong usage print does not clear a bad vintage.

No cash loss on the 2026 vintage has been measured. Status: a risk.

Structure of this assessment. Data through 26–28 October 2026.

Demand was fine in 1929, in 1989, in 2000 and in 2007. In none of those episodes did the market for the underlying product disappoint. What got over-estimated was the return to the people who *supplied* it, which is a different quantity: demand divided by competitive supply, multiplied by price.

Railways are the cleanest case. Tonne-miles rose for decades after 1845. Freight rates fell 50-70% anyway, because capacity arrived faster than traffic did, and the investors were wiped out while the volume statistics looked magnificent throughout.

What supports a return problem

The forward market is cautious about the price of the output, and the obligations are long. Initial data-centre lease terms have shortened from a historic ten to fifteen years toward as little as four. That is the behaviour of a counterparty that will not lock today's price. The shortening is evidence about the life the buyer will underwrite. On its own it is not evidence that demand has rolled over. It is evidence that the buyer wants the option to reprice.

A later, cheaper cluster can take the volume the 2026 cluster was built to serve. If a 2029 cluster produces tokens at a fraction of the 2026 cost, a large rise in usage accrues to the newer asset. **The industry can be right and the vintage can be wrong.** Cheaper inference that raises usage more than proportionally protects the industry. The cost of producing a token can fall faster than the price, and the margin of the industry can hold, while the owner of the older cluster loses the incremental unit - it becomes a fact when a vintage's cash flow misses the case on which it was financed.

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The liability side of the same economics is Anthropic's preliminary Form S-1 filed in October 2026. Take-or-pay terms run toward 2045 against consumption revenue that is mostly uncontracted.

What cuts against it

The spot market still says shortage. Rents on older silicon are rising. Paybacks on new leases are compressing. Utilisation is still the binding constraint. A buyer who shortens the lease and a spot market that pays up for current capacity can coexist. One is a view on the residual. The other is a view on the next several quarters.

The filed unit economics have improved, and they have improved by a large amount – Anthropic's S-1 suggests an 85% gross margin (not explicitly disclosed).

Judgement

Return over-estimation is a risk. The loss has not been measured and unit economics are improving. **The bear case on the vintage is a real mechanism, with the shortened lease and a longer take-or-pay tail.** The bull case that treats rising spot rents as proof the 2026 machines will earn an adequate return over a long bond is ahead of the forward market. Buyers have already refused to lock today's price for ten or fifteen years. **What would roll this over?** A gross margin that rolls over even utilisation is still high, would make this a "present condition". A decline in A100 rental would say the spot market had joined the forward market.

Does Jevons break this? On current evidence, yes. Cheaper inference raises usage more than proportionally, technical advance cuts the cost of producing a token faster than the price falls, and margin holds. Anthropic's filing shows exactly that, and inference now accounts for roughly two-thirds of AI compute against about a third in 2023, so the improvement is substantially in serving rather than training economics.

We are not at the inflection, and the signals that would show it are all pointing the other way. Rents on older silicon are rising, not falling. Payback periods are compressing. Utilisation is still the binding constraint.

What keeps this on the list is a single structural point. **Jevons protects the industry, not the vintage.** Rail tonne-miles kept rising and the 1845 investors were still destroyed, because the additional volume was served by capacity built later and more cheaply. **If a 2029 cluster serves tokens at a fraction of a 2026 cluster's cost, volume compounding tenfold accrues to the newer asset. The industry wins and the vintage still loses.**

One countervailing signal is worth holding alongside the rents, because the two disagree. The spot market says shortage. The forward market says caution.

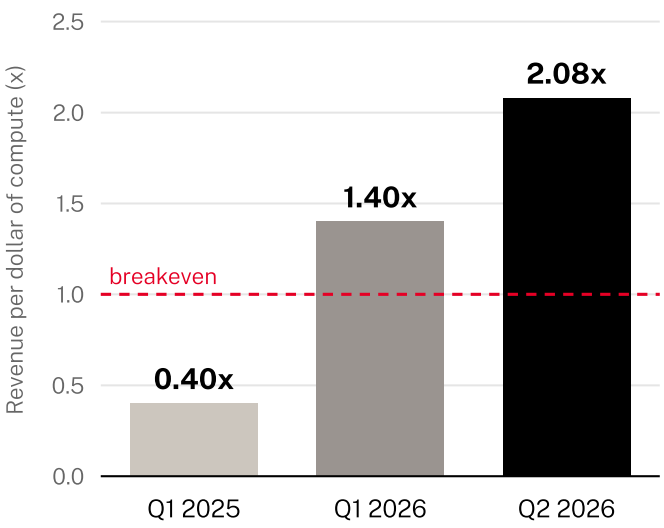
None of this is load-bearing for the argument. A four-year lease term and a 2049 bond maturity arrive on their dates whether or not token volume is compounding.

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EXHIBIT

Anthropic's S-1: both halves of the argument, in one filing

The unit economics work



The commitment ladder, as filed

Due within 12 months	**$ _____**
Before 31 Dec 2030	**$ _____**
2031 to 2045	**substantially all of the remainder**
Aggregate	**more than $ _____**

Every figure is a blank in the preliminary filing. The obligations run twenty years out; the amounts are not stated.

Source: Anthropic Form S-1 (preliminary), filed October 2026, read directly. Left panel is this note's calculation from filed inputs: revenue divided by compute and infrastructure expense. Right panel reproduces the filing's own commitment disclosure, including its blanks, verbatim in structure.

What one filing shows, in detail

Anthropic's preliminary Form S-1, filed October 2026, is the most complete public disclosure of AI unit economics and compute obligations available, and it supports two readings at the same time.

- **The economics have improved sharply.** Compute and infrastructure expense ran $8,945m against revenue of $16,286m for the six months to 30 June 2026, or 54.9%, down from 201% a year earlier. On this note's calculation from those inputs, revenue per dollar of compute moved from roughly 0.40x in early 2025 to around 2.08x by the second quarter of 2026. The filing discloses no gross margin, but third party derivation places this at 85%.
- **The obligations do not match them.** The filing describes an **aggregate committed spend of $895bn** ($70bn in 2027, $448bn 2028-30 and the rest beyond that) with take-or-pay terms running toward 2045, **against consumption revenue that is mostly uncontracted.**

That mismatch - twenty-year obligations funded by revenue nobody has committed to - is the shape the whole cycle takes, stated by an obligor in its own words. The full reading of the filing, including the cross-default and exclusive-supply provisions and what cannot be concluded from it, is in the appendix.

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Capital mis-allocation – limited evidence

Paybacks on newly signed capacity have compressed toward roughly 22 months, and the best individual leases imply nearer ten. **Capital returning its cost in under two years is not misallocated under any definition that means anything,** and this is categorically unlike telecom, which had no revenue, or dotcom, which had no unit economics at all.

Project cancellations are running at real scale - 30% to 50% of the 2026 US pipeline delayed or cancelled on one estimate, with around 75 projects worth some $130bn delayed or rejected in the first quarter alone, concentrated in Virginia, Georgia and Texas. **But the reason matters more than the count.** Microsoft ended its anchor-tenant agreement at Nscale's Loughton site in Essex on 18 October - 50MW expandable to 90MW, 23,040 GB300 GPUs - because UK Power Networks advised that adequate grid power would not reach the site until the early-to-mid 2030s. Some UK connection queues run to thirteen years. OpenAI's Stargate site in Texas has stalled on power infrastructure rather than funding.

These are physical constraints, not demand failures or financing failures. A build-out running into the limits of the grid is a different phenomenon from a build-out running into the limits of demand, and reading the second into the first is the most common error in the current commentary.

And headline commitment totals need splitting. Counterparty-level amounts (from Anthropic's S-1 filing) - Broadcom around $161bn of equipment leases, SpaceX AI up to $120.5bn exitable on ninety days from early 2027, $41.3bn at Lambda of which $34.9bn is conditional, $125-150bn of TPU capacity with terms unfinalized - show how varied the terms are within one counterparty book.

Firm, conditional and cancellable are three different things, and a coverage ratio computed across all of them without that split overstates what is actually owed. The same caution applies to every headline backlog figure in this cycle, including Oracle's.

Three narrower points also survive on the payback arithmetic. **Payback is computed on headline contract value while a material share of those contracts is cancellable.** The payback assumes today's rents persist through the payback window, which embeds the very assumption under debate. And the published figures are the signed deals; the projects that never cleared have paybacks nobody reports.

Mis-allocation, if it is here, sits at the marginal project and in the gap between headline and assured value. It does not sit in the deals that got done.

> **Inelastic input scarcity: status: amber, and this is the constructive leg.**

Everything above concerns whose balance sheet breaks. This condition asks the opposite question: which balance sheet cannot be replicated?

Compute is the elastic output. Power, grid interconnection, transformers, turbines and land with an interconnect are the inelastic inputs, and they cannot be supplied at scale within the horizon that matters. Capex flows to whoever cannot be replicated, regardless of AI's return on capital.

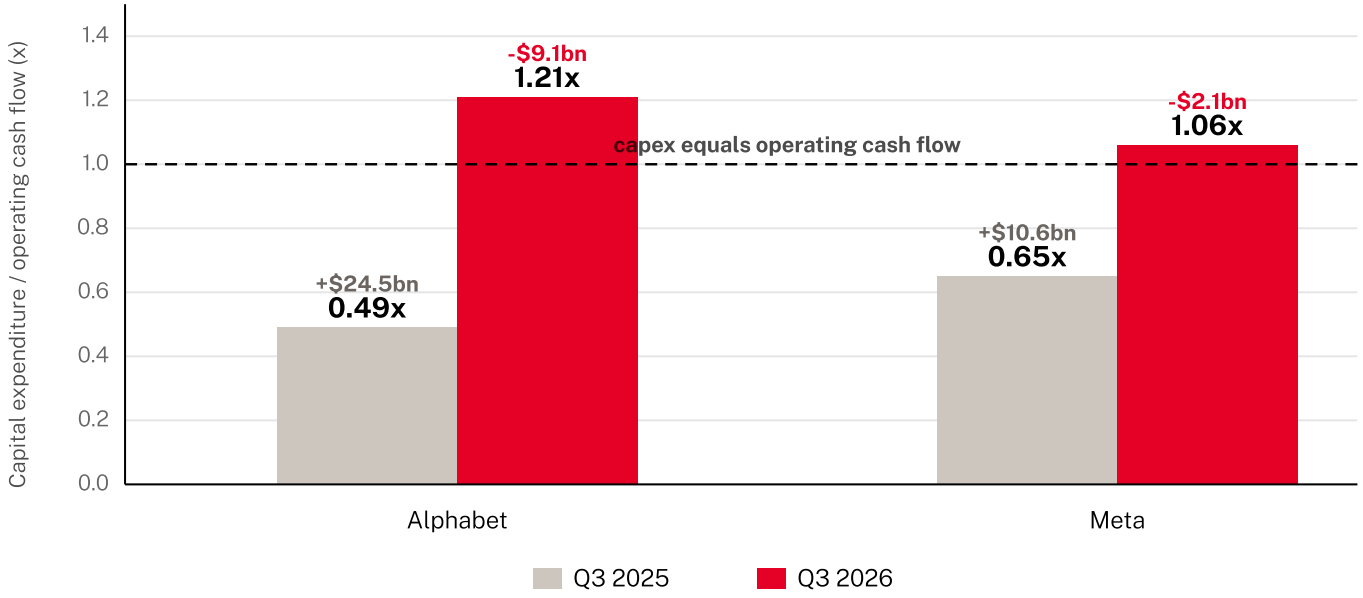
This condition also qualifies the price-collapse argument, and the qualification is real. The cancellations running through the 2026 pipeline are overwhelmingly power-constrained rather than demand-driven, which means **the supply response a hog cycle requires is being curtailed by physical limits in real time.** That is the one mechanism that could prevent the compute price collapse, and it is why the monetisation-inflection scenario carries real weight rather than a courtesy.

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Financing fragility & equity window – rising, but concentrated at the base

EXHIBIT

Two of the four crossed over in the third quarter



Source: company Q3 2026 results releases. Capex includes finance lease principal for Meta. Free cash flow as reported. Capex against operating cash flow is a level, so it avoids the base effects that make capex growth against revenue growth misleading.

Leverage, as usually quoted, is the wrong test at the top of this stack. Debt to EBITDA at Microsoft, Alphabet, Amazon and Meta is near one turn. Interest coverage is large. Spending and buybacks can be cut, which is the option Samuel Insull did not have and the competitive local-exchange carriers did not have. **"Unsustainable" is close to untestable until the moment funding is refused.** What can be tested now is narrower. Does the next round of spending depend on a market that stays open? The second half of the old leverage claim, whether the structure can be forced to recognise an obligation it has not recognised.

What supports a financing problem

The base is already priced as distressed. CoreWeave's five-year credit-default swap widened as much as 74.5 basis points intraday on 15 October 2026, to a record 1,194.5, from 452 in June. S&P Global Market Intelligence put the implied five-year cumulative default probability near 64 percent, from about 30 percent a year earlier. At a 40 percent recovery the same spread gives 63 percent. The 9 percent bonds due 2031 traded at 79.9, a 15.6 percent yield. The 9.75 percent bonds traded at 78.65, a 16.2 percent yield. Below 80 cents is the conventional distressed threshold. It is a price. It is not a missed coupon, and it is not evidence the company cannot service the debt. CoreWeave owes close to $50 billion. It lost $626 million in the second quarter on revenue of $2.58 billion, against net interest of $640 million. **The interest bill is larger than the loss. That is a position that needs the market to stay open**.

On 15 October 2026, the day of that print, Jensen Huang said in Stockholm that CoreWeave's cost of capital was falling and that he did not believe Nvidia needed to support it financially: a statement, not a drawdown and not a renegotiation. The equity stake is not a debt guarantee and the compute backstop is not a repayment guarantee, and precision cuts both ways there.

SoftBank's five-year swap is at 424 basis points. Oracle's is at 288, a record for the name. Oracle is one notch above high yield. No issuer in this spending has crossed into high yield. Apex swaps are at records of their own and well below Oracle. On a comparison sometimes quoted, the base is priced at roughly nine times the apex default probability.

NAME	FIVE-YEAR CDS	STANDING
CoreWeave	1,194.5 bp	15 October 2026, from 452 bp in June
SoftBank	424 bp	As reported in the press, late October 2026
Oracle	288 bp	A record for the name
Apex	55-115bp	Record wides, and well below Oracle. No figure is printed or inferred

Rents have firmed across generations of chips, and lenders are differentiating among neoclouds. An illustrative cluster breaks even near 70-75 percent utilisation: about a $100,000 monthly loss at 65%, about a $450,000 monthly profit at 90 percent. The illustration is a sensitivity. It is not a CoreWeave, or anyone else's, reported result. **Payback says what happens if utilisation holds. The spread says who bears the loss if it does not.**

Minsky's sequence, from hedge finance to speculative finance to Ponzi finance, fits a handful of base-layer borrowers and stops there. Interest expense above the quarterly loss is the clearest case of a borrower that needs the window to stay open. The apex can still slow spending and can still raise equity. **Calling the cycle speculative overstates the evidence. Calling it Ponzi finance overstates it by more.**

The measurable gap at the platforms is separate from distress at the base. Capital expenditure at Amazon, Microsoft, Alphabet and Meta goes from roughly $409 billion in 2025 to roughly $735 billion guided for 2026, up about 80 percent, against revenue growth in the teens to the twenties.

COMPANY	2025 CAPEX	2026 GUIDANCE	CAPEX GROWTH	REVENUE GROWTH
Amazon	About $128 billion	About $220 billion	+72 percent	+12 percent
Microsoft	About $118 billion	About $175 billion	+48 percent	Mid-teens
Alphabet	About $91 billion	$195–205 billion	+120 percent	Mid-teens
Meta	About $72 billion	$135–145 billion	+94 percent	+26 percent

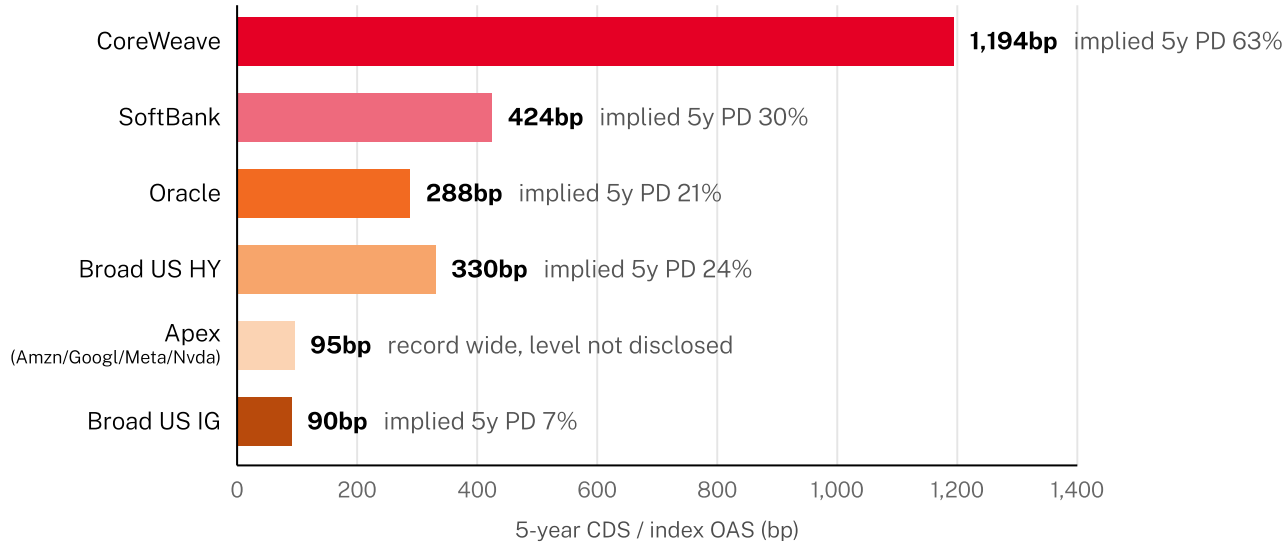
The growth rates are the comparison everyone quotes, and they flatter the alarm. Capital expenditure is the smaller base. Revenue is a much larger one. A 120 percent rise on $91 billion is a different kind of number from a mid-teens rise in revenue. **The level that matters is cash capital expenditure against operating cash flow**. Across the five largest spenders, aggregate cash capital expenditure is on track to overtake aggregate operating cash flow around the third quarter of 2026, taking free cash flow for the group toward roughly zero. Oracle's capital expenditure runs near twice operating cash flow. Amazon's exceeds it. Alphabet and Meta no longer hold positive buffers. Microsoft is the only one of the five with meaningful headroom.

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Allianz Research put the capital-expenditure-to-sales divergence at 46 points for the AI complex, against 32 points in the 2001 telecom cycle: telecom was funded from weak balance sheets, and this cycle is funded from the strongest in corporate history. Telecom capital spending grew at 18-28% compound rate from 1996 to 2000. Telecom revenue grew a cumulative 7-10% from 1996 to 2001. They are a reason to take the spending gap seriously. They are not a reason to treat the balance sheets as interchangeable with 2001.

EXHIBIT

The market is still ranking credits — but the apex is no longer inert



Sources: LSEG, S&P Global Market Intelligence and ICE Data Services via press reporting (15 Oct 2026); ICE BofA OAS via FRED (26 Oct 2026). Implied default probabilities computed at 40% assumed recovery. Apex bar is indicative only — levels reported as 'record wide, well below Oracle'.

What cuts against an imminent break

The equity window is open, and it is the fact that most weakens an imminent-break call. On 27 October 2026 Meta priced $37.5 billion: $25 billion of Class A common stock and $12.5 billion of mandatory convertible preferred at a 6.50 percent fixed yield. The common tranche was upsized from $22.5 billion on the day. A further $60 billion at-the-market programme is authorised and has not been established. The common tranche is a forward sale, so the cash settles later; **what the print establishes is committed access to about $37.5 billion at a known price**, which is the fact that matters here. Wells Fargo has framed the raise as likely to fill an estimated $60 to $80 billion gap in Meta's fiscal 2027 AI spending: pre-funding of a gap the company can see. The 6.50 percent coupon, from a business with Meta's cash flow, belongs in the same observation.

Alphabet sold $12.4 billion of stock in the third quarter, with $27.6 billion still available. Access at this scale, and at the multiples has to change before debt at the apex binds. **A wide single-name tape is a poor map of the dispersion underneath it**. An apex credit at a record spread, with net cash and very large operating cash flow, is a different instrument from a base-layer borrower at 1,100 basis points with negative free cash flow. A round figure of $100 billion of annual operating cash flow is a characterisation of the apex.

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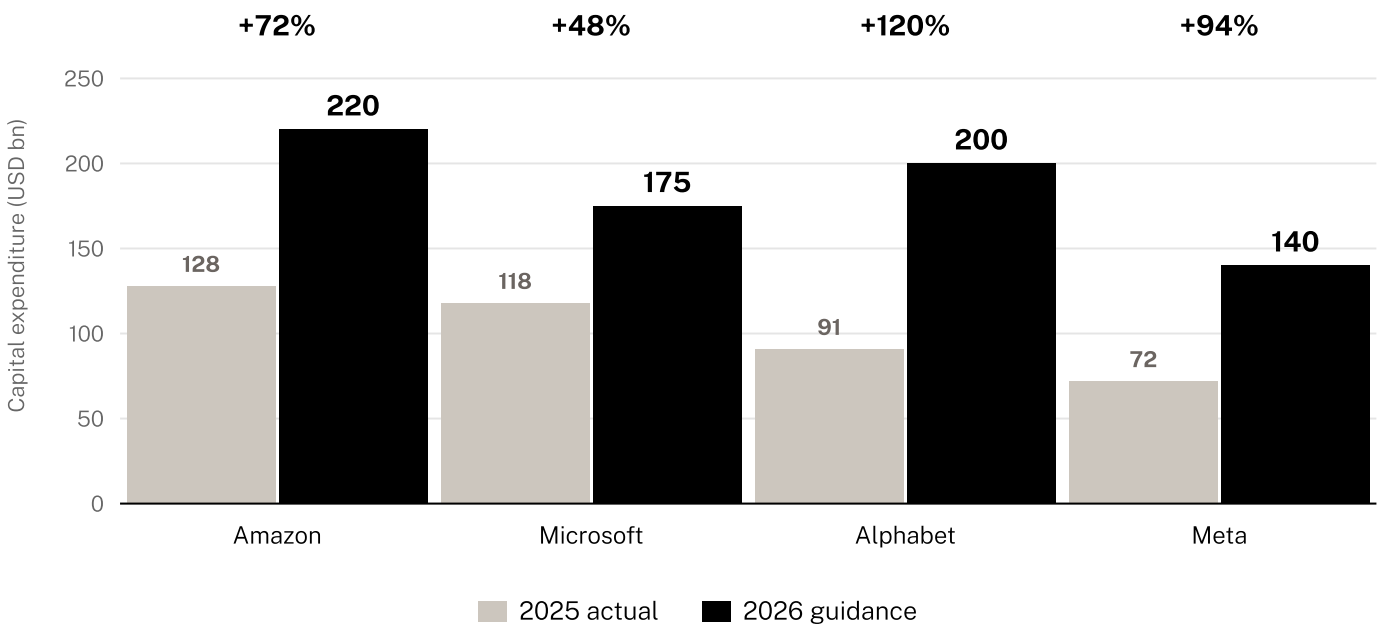
Bond absorption has weakened, and equity absorption has not. Order-book coverage on the bonds fell from roughly five times to below two. Concessions widened from 2 to 3 basis points to about 20. Insurer orders for thirty-year paper roughly halved quarter on quarter. Six of those supply markers had fired by September. Meta's equity book, in the same season, was roughly five times covered. The primary market objected to a rush of AI-linked paper. It did not refuse the equity of a profitable issuer.

Judgement

Financing fragility is rising at the base and in the cash gap. It is offset at the apex for as long as the equity window stays open. The bear case that the cash gap is a talking point is behind the guidance: four companies are pointing at about $735 billion of 2026 spending, and the five-spender crossover sits around the third quarter of 2026. **The base can be priced for default, and can even default, while the apex is still raising equity.** That split is the financing reading. It becomes something worse if a major raise is pulled, repriced materially, or covered below 1.5 times.

EXHIBIT

Big four capital expenditure: USD409bn to USD735bn, up 80%



Sources: company guidance as at Q2 2026 (Meta and Microsoft updated Q3 2026), compiled from reported figures. Microsoft's 2026 figure was restated from ~USD190bn to ~USD175bn following a lease-accounting change, not a reduction in spending.

The gap is also visible as a transaction rather than a ratio. The late-October raise set out above is what pre-funding a visible gap looks like when the window is still open.

A company does not pre-fund a gap it cannot see. Wells Fargo frames the raise as likely filling an estimated $60-80bn financing gap in Meta's fiscal 2027 AI spending, which is what pre-funding looks like rather than closing. The size of the gap being pre-funded is the measure, and a business generating Meta's cash flow paying 6.50% on the convertible leg is the price of closing it.

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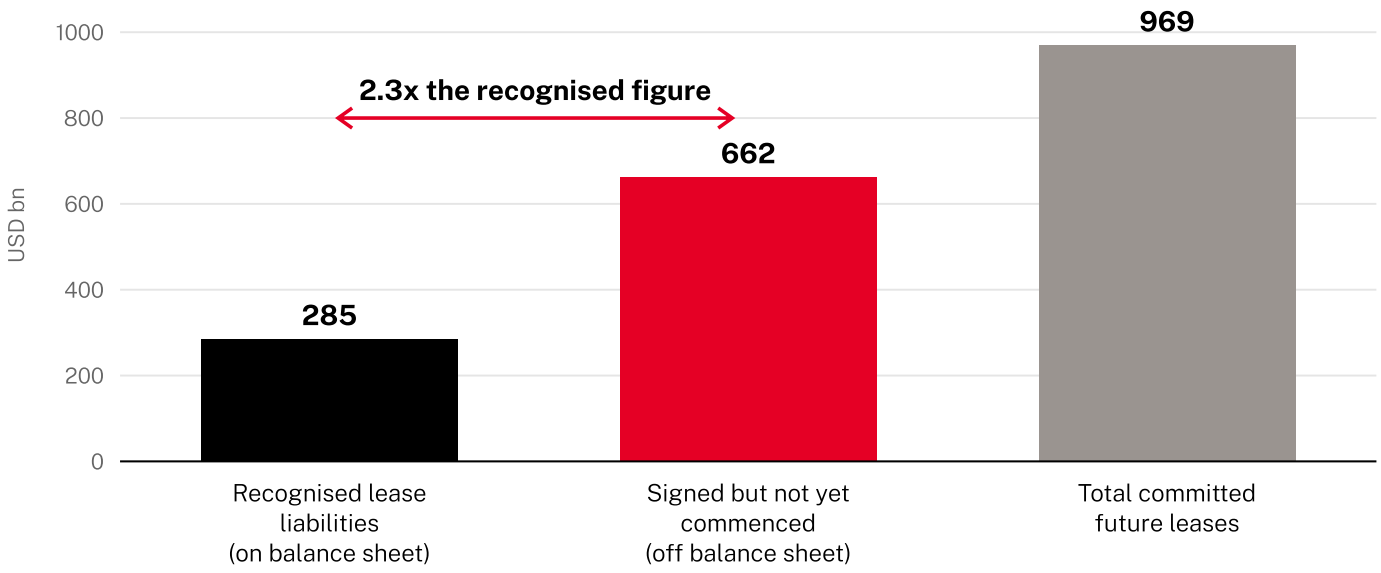
The gap is wider than the headline, because the sales side is not firm. Some of the largest compute agreements, reported as running to 2029, carry mutual termination rights on 90 days' notice. In the clearest case, SpaceX's filing recorded the Colossus 1 lease to Anthropic as running to May 2029, and ten days later Elon Musk publicly described it as a 180-day arrangement with 90-day mutual cancellation thereafter, saying SpaceX had not committed the site for years. Assured value on that agreement may therefore be nearer $7.5bn than the roughly $45bn the stated term implies. **A contract cancellable at ninety days puts no floor under the operator's cash flow.** It is an option written by the operator to the customer - the customer keeps the upside if cheap compute arrives and walks if it does not. **Any payback or coverage arithmetic built on headline duration overstates the certainty behind it,** by an amount nobody has published.

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Recourse, recognition, and duration – live, contested

EXHIBIT

Two-thirds of the committed lease obligation is not on a balance sheet



Source: Moody's Ratings, February 2026, covering Alphabet, Amazon, Meta, Microsoft and Oracle. Leases not yet on balance sheet equal 113% of the five companies' most recent adjusted debt. Figures are undiscounted and not additive to reported debt.

The classification boundary - status: red, and moving.

The structure in question is now standard. A hyperscaler enters a joint venture with a third-party fund; the fund holds roughly 80%; the JV issues long-dated, privately placed senior secured debt; the hyperscaler provides a residual-value guarantee and leases the facility back on a single-tenant lease.

What supports the recourse claim

The economic substance is a financing. The accounting treatment is an operating lease plus a contingent guarantee. The difference in reported leverage is material.

Moody's puts committed future leases across Alphabet, Amazon, Meta, Microsoft and Oracle at $969bn, roughly double the prior year, of which more than two-thirds - $662bn - relates to leases not yet commenced and therefore not on any balance sheet. That off-balance-sheet figure equals 113% of the five companies' most recent adjusted debt.

Under US treatment, lease renewals need accounting only once they are "reasonably certain," and residual-value guarantees only if "probable." Both tests are judgements made by the obligor.

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The agencies disagree, and on a named deal. On Meta's Hyperion structure - $27.3bn of senior secured debt raised through the Beignet Investor SPV jointly owned with Blue Owl, maturing 2049, behind a sixteen-year residual-value guarantee - S&P assigns *zero* debt value to the guarantee, citing headroom against third-party appraisal. Moody's is willing to adjust debt for the same obligation. EY, as auditor, signed off and flagged the consolidation assessment as a critical audit matter, calling it "especially challenging."

The disagreement is itself the exposure. In 1929 the pyramid was at least structurally legible - PUHCA could describe exactly what it was abolishing. Here there is no agreed description of the structure to abolish.

The common reading treats this determination as a future event, sitting on a published calendar eighteen to thirty-six months out, and concludes there is no excuse for being surprised. That reading is out of date. Moody's opinion is dated 23 February 2026. It called the disclosures "opaque," said the accounting "is not in line with the expected economics of this transaction," and signalled quantitative - and in some cases non-standard - debt adjustments, expecting adjusted debt and lease-related outflows to rise materially. Bankers quoted at the time expected these structures to become less attractive if the view spread.

The determination is not coming. It arrived nine months ago, contested, and it is grinding through deal by deal. **That changes the damage function fundamentally: a reclassification that arrives as a surprise is a systemic event, and one that arrives as a slow argument between agencies is a chronic drag on a financing channel.** Agencies were slow to convert one into the other in 2007 and 2008, which is a reminder about process, not a forecast of a repeat. This is the single largest reason the modal outcome in the scenario matrix is a grind.

One live illustration of how mechanical this is. Microsoft's 2026 capex headline fell from roughly $190bn to roughly $175bn following a lease-accounting change - not a reduction in spending. The classification boundary moved a reported number by $15bn in public, with no change in economics whatsoever.

Nobody can state the consolidated leverage of the complex. That is the condition that decides the shape of the ending, and it is the one place where the bear case and the bull case are both, in different ways, ahead of a number that does not exist.

The ordering still holds, and that matters: CoreWeave above 1,100bp, SoftBank at 424bp, Oracle at 288bp, the apex at record wides but well below Oracle. A market pricing the base at roughly nine times the apex's default probability is a market ranking credits, not a market panicking.

At the base, the repricing is no longer prospective.

CoreWeave's five-year CDS widened as much as 74.5bp intraday on 15 October to a record 1,194.5bp, against 452bp in June. S&P Global Market Intelligence put the implied five-year cumulative default probability near 64%, against about 30% a year earlier; computing it independently at a 40% recovery assumption gives 63%, which is close enough to treat both the model and the mark as sound. Its 9% bonds due 2031 traded at 79.9 for a 15.6% yield, the 9.75s at 78.65 for 16.2%. Below 80 cents is the conventional distressed threshold. The company owes close to $50bn and lost $626m in the second quarter on revenue of $2.58bn, with net interest expense of $640m - the interest bill alone exceeds the loss.

The bull case at the base is real. Payback periods on newly signed contracts have compressed toward roughly 22 months from a historical two to three years, with prepayments covering 50-60% of associated capex on a large share of recent deals. Rental pricing has firmed across generations. Lenders are differentiating rather than treating "neocloud" as one risk, which is what a functioning credit market looks like.

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Payback period and recourse quality measure different things, and neither cancels the other. Payback describes what happens if utilisation holds. Recourse describes who absorbs the loss if it does not, and CDS and bond markets have now answered that question for at least one name. An illustrative GPU cluster needs roughly 70-75% utilisation to break even and swings from a c$100,000 monthly loss at 65% to about a $450,000 monthly profit at 90%. That is a narrow band to depend on, whatever the payback arithmetic says.

One structural feature at the base deserves naming, because it is the mechanism by which a single commercial dispute becomes a solvency question. Anthropic's filing discloses that a default under certain commercial agreements **could trigger cross-default provisions** under its credit agreement, potentially resulting in **"the acceleration of substantially all of our outstanding, and any future, indebtedness."** A take-or-pay dispute with one compute counterparty is therefore not necessarily contained to that counterparty.

At the apex, the question is contingent exposure rather than reported leverage. The apex is strong on the numbers as currently reported. The numbers as currently reported are the thing in dispute.

Endogeneity, or circular financing - status: red, and it has reached the apex.

Circular financing is usually framed as a base-layer phenomenon and a moral one. Both framings are wrong.

The economically serious objection is not that it is improper. Vendor financing is normal in capital-intensive industry - GE Capital, Lucent, Intel and Boeing all did it. **The objection is that circular flows destroy the informational content of prices.** The only mechanism that tells a capital-intensive industry to stop is the price of its output falling below the cost of the last unit. When the buyer of the output is financed by the seller of the input, the transaction clears at a price neither party negotiated at arm's length and at a volume no independent order book validated. Nvidia's $6.3bn capacity backstop to CoreWeave, running to April 2032, matters far less for its size than for what it removes. **Severed price signals do not warn. They fail silently.**

The BIS described the mechanism in the present tense in its 2026 Annual Economic Report: circular financing, long-dated leases with embedded exit clauses, poor disclosure, and the same asset pledged more than once. That last phrase should stop any credit analyst cold.

The loop now includes the apex, which is new. Nvidia committed $3bn to Meta's equity offering in the week of 27 October; AMD committed $1bn the following day. AMD's February 2026 agreement with Meta for up to six gigawatts of Instinct capacity is tied to 160 million AMD share warrants issued to Meta. Nvidia's 2026 equity campaign runs to roughly $40bn across AI companies, including about $30bn to OpenAI and a roughly 10% stake in CoreWeave.

Anthropic's filing records the same pattern from the borrower's side, noting that certain financing arrangements **"require us to enter into exclusive or preferential supply commitments with particular chip suppliers."** Capital and procurement are being negotiated as one transaction rather than two.

The supplier is funding the equity of its largest customers, and the customer holds warrants in its supplier. **This weakens the cleanest bull argument in the entire debate, which is that apex balance-sheet strength can be verified independently of the ecosystem it sits in.** It cannot, entirely, anymore.

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Duration, and whose life estimate counts

Five-year debt against a three-year chip, if the loan amortises, is ordinary equipment finance. The mismatch here is of a different order. Hyperion's bonds mature in 2049. The guarantee expires in 2042, leaving seven years of principal with no credit support. Under both sits a lease term that, as the conditions section records, can be as short as four years. A four-year revenue term, a twenty-three-year claim, a seven-year uncovered stub, off the obligor's balance sheet: that stack is visible without settling the argument between the agencies.

Michael Burry re-depreciates hyperscaler GPU spending over two to three years rather than the four to six the operators use, and puts the understatement near $176 billion across 2026–28, naming Oracle and Meta. He held disclosed puts while saying so. It is an argument from an investor with a position. It is not a restatement.

The operators do not agree with each other, which is its own evidence. Nvidia's answer is specific: six-year-old A100s are still at full utilisation, and obsolescence in the training era is a different thing from economic death in the inference era. Amazon cut server life from six years to five in 2025. Meta extended most server life to five and a half. Microsoft extended building lives from fifteen years to twenty-five.

Power remains the constructive leg, and it belongs next to recourse because it is the input the financing cannot conjure. Compute gets cheap. A gigawatt, a transformer, a turbine and a queue position do not, inside any horizon that matters for this vintage. The cancellations are a supply response being cut off while it is still trying to happen. That is a path by which the price of compute might hold up. Capital that moves toward the input that cannot be copied is the part of the book that does not require a view on the guarantee.

So, the structure is a four-year revenue commitment supporting a twenty-three-year claim, with a seven-year uncovered stub at the end, held off the obligor's balance sheet. Stated that way, the condition is not amber.

The lease market is the better evidence. The counterparties who actually bear the obligation have settled on initial terms as short as four years. That is shorter than any depreciation schedule in use, and it is a revealed estimate of economic asset life made by people with money at stake rather than a model built by anyone with a position to defend.

Judgement

Recourse and recognition is live. Consolidated leverage cannot be stated, and the two agencies that would state it do not agree on Hyperion. The bear case that adds $662 billion to debt is ahead of the accounting: the stock is undiscounted, contingent, and sensitive to which names are included. The bull case that treats nine months of public disagreement as harmless is behind Moody's February language, behind EY's audit flag, and behind a maturity stack that does not need the agencies to agree. Four-year leases, a guarantee that ends in 2042, bonds that run to 2049.

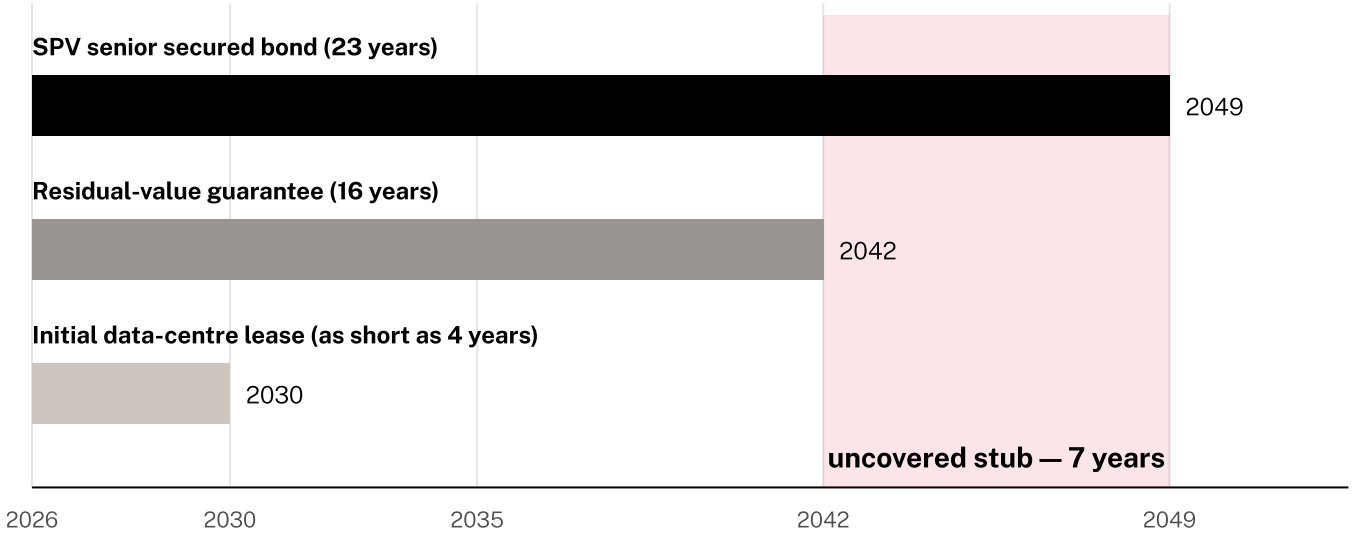
The shape follows from the process. A surprise consolidation, landing inside one reporting period and alongside impaired collateral, is the shock – but for now is a small probability. A contested process that has already run since 23 February is a drag. Drags reprice vintages. They do not usually produce the morning on which everyone leaves. Burry's $176 billion is a positioned argument about earnings, subordinate to audited lives and to the lease term. **The lease term is the evidence that cuts toward a shorter life. Rising rents are the evidence that cuts against a demand-led write-down. Both can be true while the maturity mismatch stands on its own.**

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A shortening of server life at two of the top four in the same year would make the duration mismatch an earnings event. Amazon cut server life from six years to five in 2025. Meta and Microsoft have not shortened server life in that same year. The judgement moves to an event when one issuer restates a joint venture onto its own balance sheet, or when a rating moves on that basis. It moves the other way if Moody's withdraws the view and joint-venture terms return to what they were before February. Neither has happened.

EXHIBIT

A four-year revenue commitment underneath a twenty-three-year claim



Source: Moody's Ratings (Feb 2026) on shortening initial lease terms; reported terms of the USD27.3bn Hyperion SPV financing (2049 maturity, 16-year residual-value guarantee). Illustrative of the structure, not of any single transaction's exact dates.

Valuation, the gauge beside the four

Why valuation is not a condition

Look at what the multiple told you going into each of the four big breaks.

EPISODE	VALUATION AT THE PEAK	WHAT FOLLOWED
1929	~15-18x trailing, unremarkable	−89%
2007	~17x, financials nearer 12x, **cheap**	Worst financial crisis in seventy years
2000	~60x forward, extreme	−78%
Japan 1989	60-70x, extreme	−80%, and a thirty-four-year round trip

The range runs from cheap to absurd and predicts nothing about timing. Nothing has ever broken because the multiple was high. Earnings break, or funding access breaks, and the multiple is how the damage is transmitted rather than why it happened. **Valuation sets how far you fall once something else gives way. It does not tell you whether anything will.**

If it is an earnings bubble, where are the earnings

Druckenmiller's framing is the useful one. The multiple is not the thing to argue about. **The question is whether the earnings under it are real, and that question has different answers at different points in the chain.**

The chain splits in two, and the split is the whole of it.

At the operator end, the earnings are a forecast. The data-centre operators and the frontier labs are selling a service whose price is falling, into a market whose willingness to pay at scale is the thing in dispute. Their revenue depends on monetisation arriving on a schedule nobody has committed to, which is why the take-or-pay obligations running to 2045 sit against consumption revenue that is mostly uncontracted. **A multiple on those earnings is a multiple on an assumption.**

At the supplier end, the earnings are an order book. Memory, logic, networking silicon, optics, power equipment, transformers, turbines, switchgear, the construction itself: these are paid for when the capacity is built, not when it is monetised. The $735 billion of guided 2026 capital expenditure is somebody else's revenue, and most of it is contracted, scheduled and in many cases prepaid. Whether the 2026 vintage of compute ever earns an adequate return has no bearing on whether the transformer was delivered and invoiced.

So, the earnings bubble, if there is one, is at the operator end and not the supplier end - and that is the opposite of how the complex usually gets sold and the opposite of how it usually gets shorted. **The supplier end is the part of the ecosystem carrying the fewest questions today.** The two cautions below qualify that; they do not reverse it.

Two cautions sit on the constructive half of that, and both matter for sizing.

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Supplier earnings are visible but not durable. An order book converts build-out into revenue with a lag, and it converts a build-out *pause* into a revenue hole with the same lag. The supplier is not exposed to whether the vintage earns its return; it is exposed to whether the next vintage gets ordered. That is a shorter and more cyclical exposure than the quality of the earnings suggests. **Visibility is not durability.** It is a reason to size the leg and set an exit on it, not a reason to prefer the end of the chain where the earnings are a forecast.

Some supplier earnings are circular. Where the vendor has financed the customer, the order book records a sale the vendor part-funded. Those earnings are real in the accounting sense and weaker as evidence than an arm's-length order, for the reason set out under recourse: the transaction clears at a price neither party negotiated independently.

The practical reading. Valuation becomes a condition rather than a gauge only where the earnings beneath it are the forecast kind. At roughly 29 times trailing, the index multiple is not the problem; what sits under it is a blend of order-book earnings that are visible and monetisation earnings that are not, priced as though both were the same quality. **The gauge is telling you how far a fall would run. The composition of the earnings is telling you which part of the complex would fall.**

Where the present matches the historical peaks

Valuation, which is a severity gauge rather than a trigger. The opening sets out why: across 1929, 1989, 2000 and 2007 the multiple at the peak ranged from cheap to absurd and told you nothing about timing. What it tells you is depth. On that basis the answer depends entirely on which multiple you choose, and that dependence is itself the diagnostic. The Nasdaq-100 trades near 29x trailing. Forward multiples are elevated but nowhere near the roughly 60x the index carried into March 2000. The technology complex on EV/EBITDA runs in the low twenties, high against its own history. CAPE sits in the high thirties, around the 97th percentile. Market capitalisation to GDP is at or beyond every prior peak.

A 22x forward multiple on earnings that do not arrive is a 45x trailing multiple on earnings that do. The 1929 utility complex and the 2000 market both sat in exactly that position, with the trailing number defensible and the forward number carrying everything. The practical consequence is about magnitude rather than probability: if one of the four conditions gives way, the starting multiple determines how far the repricing runs.

Credit architecture. This is the most complete match in the note. New-issue absorption weakened first, as it did in 1929, 1989 and 2000: order-book coverage fell from roughly five times to below two, concessions widened from 2-3bp to 20bp, insurer thirty-year orders roughly halved quarter on quarter. Dispersion widened within the cohort. A single name repriced violently. The broad index stayed calm.

Six of those seven markers fired by September. The seventh - the broad index staying calm - stopped being true in October.

Narrative structure. Bubbles share an argument, and its structure is more diagnostic than its content. A true premise: AI is a general-purpose technology with real and growing demand. A false inference: therefore the companies building the infrastructure will earn an adequate return on it. A temporal error: therefore the capex is justified at today's rental prices. **In every historical case the value accrued to users and the suppliers competed the returns away**.

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And a fourth move the historical templates do not contain - **the self-referential validation**, in which the current price of the input is offered as proof that the capacity built against it will earn a return.

Retail participation. The form has changed completely and the function is identical. Retail does not buy AI infrastructure directly; it buys through index funds and default allocations at whatever weight market capitalisation assigns. That is better in one way - the household sector's exposure is diversified, so capitulation does not directly impair a single security. It is worse in another: retail is structurally forced to hold at a weight set by price, which creates a feedback loop that runs in both directions with equal force, and the downside loop has no valuation-sensitive buyer to arrest it. **In a passive-dominated market the marginal buyer is price-insensitive upward and price-insensitive downward.**

The two-speed structure

This is where the present cycle departs from every template above, and it carries the core of the argument.

In 1929, 1989 and 2000 the bubble ran at one speed. Euphoria at the apex and fragility at the base were the same phenomenon, funded by the same institutions, marked in the same market, revealed on the same day. When the Nasdaq broke, the venture funds that had financed the companies marked their books on the same screens.

Today the capital structure has been separated into a marked layer and an unmarked layer, and they reprice on different schedules through different mechanisms.

	MARKED LAYER	UNMARKED LAYER
What sits here	Apex equity, index credit, listed neoclouds, public bonds	Private credit funds, private placements, JV structures, residual-value guarantees
Pricing frequency	Continuous	Quarterly, at model, or on an event
Information	Public	Negotiated
Supervision	Light but visible	Light, and by no single regulator
Can a loss be recognised gradually?	No	**Yes - which is what causes the delay**

Three consequences follow, and each is often misread.

The marked layer looked calm because the risk migrated out of it. Broad investment grade near cycle tights is not evidence of health when the marginal dollar of AI infrastructure financing has stopped travelling through the public market.

The unmarked layer breaks in discrete events, not continuous price declines. No gradual warning. A gate, a markdown, a covenant waiver, a restatement.

What carries the problem from the unmarked layer to the marked one is recognition, not price. In a single-speed bubble the transmission is the tape. In a two-speed bubble it is an accounting or legal determination that forces unmarked exposure into the marked layer.

A redemption mechanic sits underneath all of this. Private credit funds gate, typically quarterly and with a cap, so when recognition comes it produces a queue rather than a price decline. The assets sold to meet that queue are by definition the *liquid* ones. **The first transmission to the public market is a forced sale of good assets, not bad ones.** That is the 2007 mechanism exactly, and it requires nobody to panic.

What this route still needs to be proven

The upward path is a mechanism, not an observation, and it should be read as a scenario with conditions attached. It requires three things together: that the relevant funds hold AI-linked private credit in size, that they also hold enough liquid apex paper for forced sales to matter at the margin, and that redemption terms permit a queue to form faster than the illiquid assets can be realised. **The first is documented. The second and third are not, and this note does not have fund-level data to confirm them.** What gives the route credibility is that it operated in 2007, when the apex repriced despite its own assets being sound.

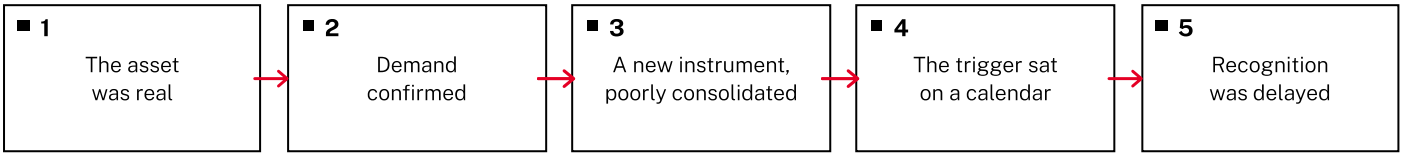
One further caveat. The marked layer is no longer entirely calm. The two-speed structure explains why the break began where it did; it does not mean the marked layer stays quiet, and it has not.

What history says

EXHIBIT

What broke was the capital structure

The episodes differed. The invariant is the structure.



WHERE THIS STACK DIFFERS

2000	1929	This stack	Policy
The debt was on the balance sheet	Weak at the top. Damage ran down	Weak at the base. The apex can cut	Tighter room than in 2000

Accounting or supervisory choice is the delay. The dates exist. The ladder does not.

What broke, in episodes that differed from one another, was the capital structure. The asset was real. Demand confirmed. A new instrument was poorly consolidated. The trigger sat on a calendar. Recognition was delayed by an accounting or supervisory choice.

The differences are specific. In 2000 the debt was on the balance sheet, and the failure was access, so a maturity wall was the right watch. That watch arrives late when the obligation was never consolidated. In 1929 the weakness sat near 20 to 1 at the top, and damage ran down. This stack is weak at the base, and the apex can cut spending. Policy room is tighter than in 2000. The funds rate is 3.75 to 4.00 percent after a September rise, a December hike was priced near 73 percent, and the ten-year is near 5 percent. The fuller comparison, including the 2000 path from 6.5 percent to 1 percent and the fiscal surplus, sits with the difference table below.

The episodes that get studied are the ones that broke, because those are the ones with a complete file. The population of technology-driven, credit-financed booms is larger than that file. British canal mania left assets in use for decades, and profitable for many of the investors. The American railroad build-out of 1865–73 ended in a panic and still became the platform for fifty years of growth. German and Japanese reconstruction after the war was capital-intensive without a financing break of this kind. **A trigger map built only from failures will look sharp in hindsight and will over-predict in real time.**

The anecdote is not evidence. The shoeshine-boy story is unverified. Tulip mania, as usually told, owes more to a moralising pamphlet published two centuries later than to a thin price record confined to a handful of rare bulbs in the last weeks. Ninety years of work has not settled what caused October 1929. It settled, inside a generation, what made the structure fragile. **That is the practical reason to watch structure rather than to wait for a catalyst**.

The seven invariants

Strip the episodes to their structural essentials and seven things hold across the record. These are the conditions, not the costumes.

#	INVARIANT	1720	1845	1929	1989	2000	2007	TODAY
1	The technology or asset is genuinely valuable; the failure is in the financing	Yes	Yes	Yes	Yes	Yes	Yes	**Yes**
2	The marginal buyer shifts from specialist to non-specialist	Yes	Yes	Yes	Yes	Yes	Yes	**Yes**
3	A new instrument class bridges the financing gap and is not understood	Yes	Yes	Yes	Yes	Yes	Yes	**Yes**
4	**Leverage is disclosed but not consolidated - legal, visible, unaggregated**	**Yes**	**Yes**	**Yes**	**Yes**	**Partial**	**Yes**	**Yes - and this is the one that decides the outcome**
5	The trigger sits on a calendar, published in advance	Yes	Yes	Partial	Yes	Yes	Yes	**Yes**
6	Demand data is confirming evidence, never the leading indicator	Yes	Yes	Yes	Yes	Yes	Yes	**Yes**
7	Recognition is delayed by an accounting or supervisory choice	No	No	Yes	Yes	n/a	Yes	**Contested, not yet resolved**

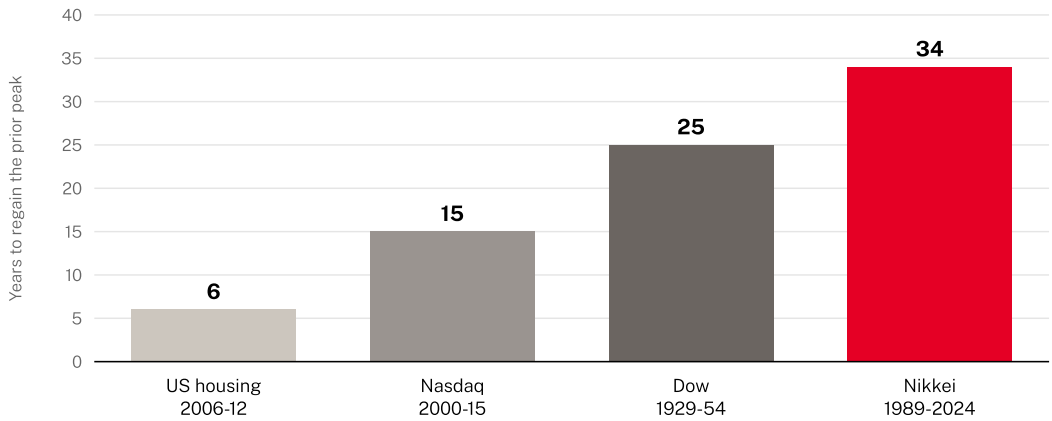
Invariant 5 needs spelling out for this cycle, because the calendar is not the one most people are watching**. *The industry monitors refinancing walls and quarterly earnings. The dates that will actually matter here are contractual: residual-value guarantee expiries, the renewal date on every four-year data-centre lease, take-or-pay reset points, the ninety-day cancellation windows embedded in the largest compute agreements, and the effective dates of any accounting determination***. Each is a date on which a contingent obligation becomes a real one, or a counterparty gets to walk away, or an agency has to make a call it has so far avoided. Every one of them is knowable in advance to anyone who builds the schedule, and nobody has built it.

Invariant 4 is the most consequential cell in the table. 2000 is the one episode where leverage *was* substantially consolidated - CLEC debt sat on the issuer's balance sheet, visible in the indenture, and the failure was access rather than opacity. The present cycle resembles 1929, 1989 and 2007 on this dimension, not 2000. **That is why the prescription drawn from 2000 - wait for the refinancing wall - arrives late.**

Invariant 7 is the open one, and the classification-boundary discussion below is built on it.

EXHIBIT

Recovery time spans six years to thirty-four



Sources: Nikkei 38,915.87 (Dec 1989) regained Feb 2024; Nasdaq 5,048.62 (Mar 2000) regained Apr 2015; Dow 1929 peak regained 1954; Case-Shiller national index peaked Jul 2006, trough Mar 2012. Index recovery, nominal, excluding dividends.

The precedents, in summary

Seven episodes carry the argument. The detail on each is in the appendix; what each contributes is here.

EPISODE	THE ASSET	WHAT BRIDGED THE FINANCING GAP	WHAT BROKE IT	WHAT IT CONTRIBUTES
1720 South Sea	Trade monopoly, genuinely granted	Subscription shares bought on instalment, lent against by the company itself	The company lending against its own stock	The purest case of circular financing. Severed price signals
1845 Railway mania	The railway, which was real and is still running	Partly-paid shares - about £250m subscribed against roughly £70m called	Calls on unpaid capital arriving on a schedule	Capacity arrives faster than traffic. Tonne-miles rose for decades while rates fell 50-70%
1907 Trust companies	Ordinary banking assets	Trusts outside the clearing house, holding thin reserves	A failed corner exposing which institutions had no backstop	Fragility sits in the entity nobody is supervising
1929 Insull	Electricity. Output tripled over the decade	Holding companies stacked on holding companies, ~20:1 at the top	Inability to issue, with recognition delayed to April 1932	The classification boundary in its original form. **Strength at the bottom, fragility at the top**
1989 Japan	Land and industrial capacity, both real	Cross-shareholdings and land-collateralised lending	A quantitative cap on real-estate lending, March 1990	**The recognition lag.** Peak to first write-down ran years, not months
2000 Telecom	Fibre, still carrying traffic today	Vendor financing and high-yield issuance, **on the balance sheet**	Funding access, on a dated maturity wall	The one case where waiting for the maturity wall worked
2007 Housing	Houses, occupied throughout	Off-balance-sheet conduits and SIVs	Marks arriving on assets nobody could sell	**Transmission runs upward.** Quality is what gets sold

Read down the fourth column and the pattern is a capital structure failing, not an asset failing. Read down the fifth and the two that matter most for this cycle are 1929 and 2007: **1929 for where the obligation is recorded, 2007 for which way the damage travels. 2000 is the case most often reached for and the least applicable**, because its debt was consolidated and visible, which is precisely what is not true here.

Recovery is the part nobody prices. Six years for US housing, fifteen for the Nasdaq, twenty-five for the Dow, thirty-four for the Nikkei. The spread is the finding. There is no central tendency to plan around, which is the argument against treating any of this as a timing exercise.

What the record actually transfers

Not one of these broke because a technology stopped working. Electricity demand grew every year of the 1920s. Internet traffic never stopped doubling. Japanese manufacturing was genuinely world-beating throughout.

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The residue pattern is the one most often mis-stated. Freight rates fell 50-70% after the railway mania. Electricity got cheap for fifty years. Bandwidth collapsed after 2001. In every case the input became abundant and cheap *precisely because* the overbuild happened. **The mania is a transfer from the investors who funded the capacity to the users who consume it, and the residue column is a price list whose prices are the losses of the people who paid for them.**

And the recovery function has no central tendency worth relying on. Six years for US housing. Fifteen for the Nasdaq. Twenty-five for the Dow. Thirty-four for the Nikkei. An eighty-percent decline never recovered within an investing lifetime is not a tail scenario. It is a documented outcome in what was then the world's second-largest economy.

Where this cycle matches, and where it changes the shape

WHAT MATCHES	WHAT ACTUALLY TRANSFERS
The asset is real	If a failure arrives, it arrives in the financing.
Demand confirms	Volume can look excellent through the whole episode. Scored in the conditions section.
A new instrument, unconsolidated	Joint-venture leases, residual-value guarantees, GPU-collateral private credit.
Credit inside the complex	New-issue absorption in bonds weakened first, as in 1929, 1989 and 2000. Order-book coverage fell from roughly five times to below two. Concessions widened from 2–3 bp to about 20 bp. Insurer thirty-year orders roughly halved quarter on quarter. One name repriced hard. Six of those markers had fired by September.
The narrative	A true premise, that the technology has real demand. A false inference, that the firms building the infrastructure therefore earn an adequate return at today's rents. In the historical cases the value accrued to users, and the suppliers competed the return away.
The household	Households do not buy the infrastructure directly. They hold it through index funds at the weight market capitalisation assigns. The book is diversified. The marginal buyer is price-insensitive on the way up and price-insensitive on the way down.
A calendar	The dates exist. The ladder does not.

The broad index stayed calm through the summer. That stopped being true in October. A great deal of AI-linked paper arrived at once, and equity was still absorbed. Meta's equity book was roughly five times covered in the same month.

In 2000 the response to a capital-expenditure bust was available: the Federal Reserve cut from 6.5 percent to 1 percent, and the fiscal position was in surplus. This time the shock absorbers are impaired together – inflation is rising (arguably structurally) and deficits are already large – interest costs are 3.3% of GDP and set to rise to 4.6% by 2030. In 2000 the tightening was a demand-side choice the economy could absorb. Here part of the constraint is on the supply side, so the discount rate on a long-duration asset rises while the income available to consume the output is squeezed.

Elastic demand for cheap cognition is the row that could vindicate the cycle. The output is cognition, and the addressable market is a meaningful fraction of global labour cost. If inference becomes 90 percent cheaper and demand elasticity holds above one, volume can compensate for the price. That is what happened to cloud compute. The base case remains the grind. Cloud compute never required a physical energy system with multi-year interconnection queues and turbine lead times, and it never became a quarter of the US investment-grade primary market. The elasticity argument can win on the economics and lose on the financing. Only this row is a reason the cycle might be vindicated. The other differences change the shape of a break, or its timing, or both. **Apex quality is the one that partly blocks a cascade from the top, and its qualifier is the classification boundary and the circular financing. That is why this assessment does not forecast a crash.**

How much weight the upward path can bear

EXHIBIT

Upward transmission: three conditions

☑	1	**Documented** Funds hold AI-linked private credit in size.
☐	2	**Not documented** Liquid apex bonds and equity, in a size that would matter. No fund-level holdings.
☐	3	**Not documented** Redemption terms that let a queue form faster than the illiquid book can be sold.

A path with one condition in the record can carry a slice of the 22 and a slice of the 8.

The 50 percent case is a grind. It does not require a forced sale of the good asset.

Weights are judgements. Holdings that would settle conditions 2 and 3 are unpublished.

One of the three conditions is documented and two are not, which is what the exhibit shows and what limits the weight this path can bear.

Where it diverges

The apex is of a quality with no precedent. Insull's apex was a shell holding shells. The 2000 apex was pre-revenue or commoditising. Today's apex is the most cash-generative corporate cohort in history, with low net leverage, genuine pricing power and the ability to cut capex and self-insure a downturn. The 1929 cascade cannot replicate mechanically, and that is a real and important difference.

Its qualifier is the classification boundary, and now circular financing too.

The technology is a deflationary general-purpose technology, and this is the one difference that could produce vindication. AI's output is cognition, with an addressable market equal to a meaningful fraction of global labour cost. If inference becomes 90% cheaper and demand elasticity exceeds one, the build-out is validated retrospectively regardless of the price collapse, because volume compensates. That is what happened to cloud compute. It is not a weak argument.

Market microstructure has no historical analogue. Roughly half of US fund assets sit in passive vehicles whose marginal buyer makes no price judgement. Dealer inventory capacity is constrained by post-2008 capital rules, so when the market most needs a liquidity provider the providers cannot provide. Volatility-control and risk-parity strategies sell into declines mechanically, without a view. Net effect: a long, quiet build-up followed by a compressed, violent repricing. There is no clean precedent for that combination.

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Sovereign and strategic capital cuts both ways. Export controls make the compute supply chain a national security matter, and industrial policy means a portion of capex is not return-seeking. Strategic capital provides a floor that a purely private market would not. It also means capacity gets built regardless of commercial return, which extends the overbuild and makes the eventual correction larger.

The asymmetry, put simply

DIFFERENCE	DOES IT STOP A BREAK?	WHAT IT CHANGES
Macro and fiscal position already tight	No. The cushion is smaller.	A smaller policy backstop.
A marked layer and an unmarked layer	No. Recognition is delayed.	Discrete events, rather than one tape.
Apex quality, with no historical peer at this cash flow	Partly. A 1929 cascade from the top is blocked.	The timing and the starting point.
Elastic demand for cheaper cognition	Possibly. This is the real bull case.	Vindication remains available.
Passive flows and thin dealer balance sheets	No. They amplify.	A long quiet build, then a faster overshoot. No clean precedent for the combination.
Contracts cancellable at ninety days	No. The backlog defence is weaker.	The true financing gap is wider than the headline.
Accounting already contested	No. This is the mechanism.	The surprise is smaller, because the argument is public.
Sovereign and strategic capital	No. Capacity gets built anyway.	The overbuild can run further.

Seven differences. One of them - the elasticity of demand for cheap cognition - is a real reason this cycle might be vindicated. The other six either make the break more likely, delay its recognition, or amplify its eventual magnitude.

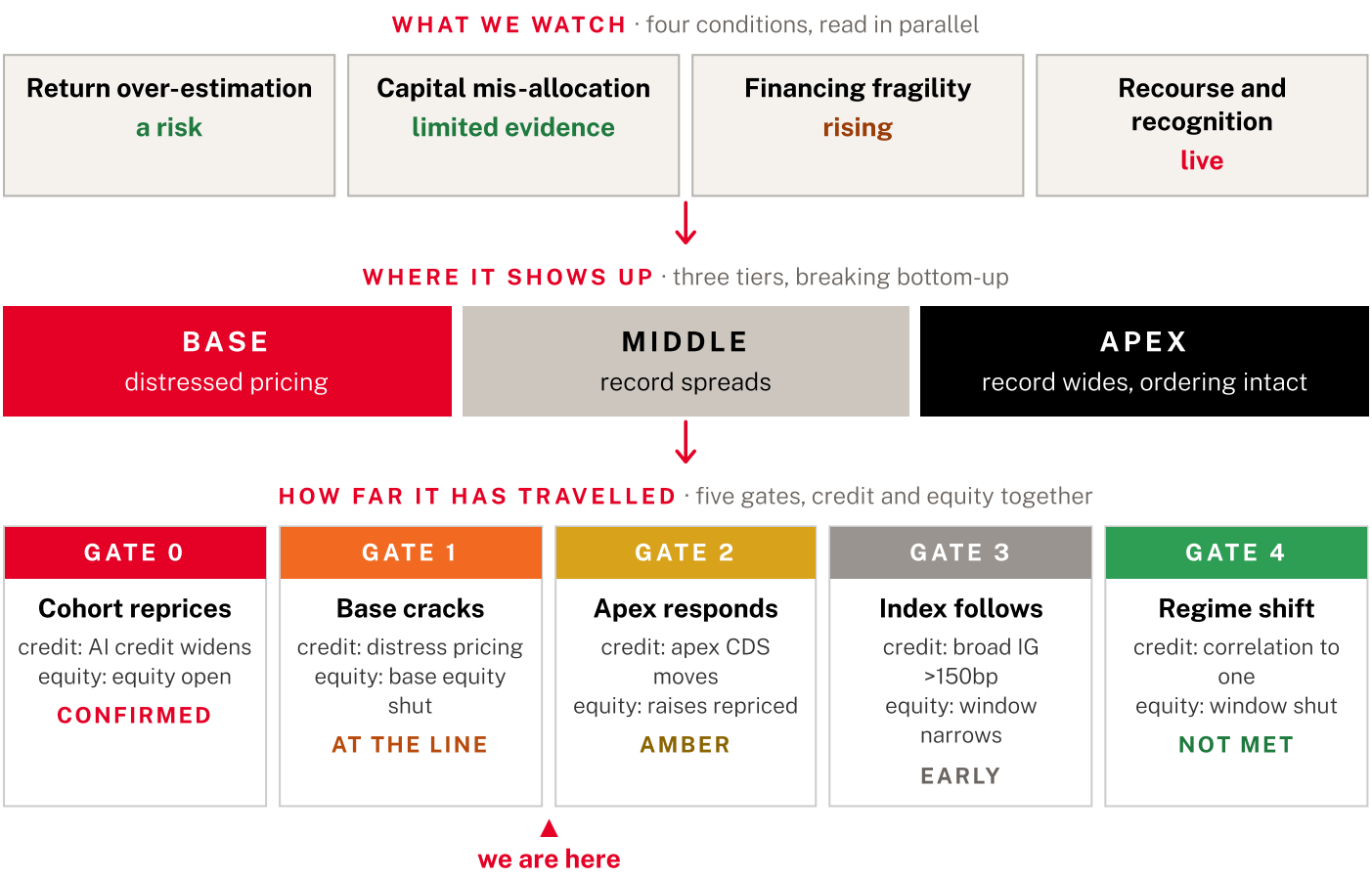
That asymmetry is uncomfortable and it is the honest conclusion of this section: the differences that exist are mostly differences in how the break arrives, not whether it does. The one exception is a real exception, and it is why this note does not forecast a crash.

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The gates and what to watch

EXHIBIT

How the pieces fit together



Valuation sits outside the chain. It sets how far the fall goes, not whether one starts.

The five-line dashboard tracks gates 1 to 3 weekly.

The conditions say what to watch, the tiers say where it appears first, and the gates say how far it has travelled. Each gate carries both a credit and an equity signal, because financing runs across the whole capital structure rather than through credit alone.

The five gates

EXHIBIT

Five gates

Each gate shows the check that would move it. Credit and equity stay on the same gate.

0	1	2	3	4
Confirmed	**At the line**	**Amber**	**Early**	**Not met**
Cohort repriced. Equity still absorbed.	Priced as distressed. No default.	Equity window still open.	IG 90. HY 330.	No regime shift.
MOVES IF Bond concessions already widened on supply. The window did not shut.	**MOVES IF** A payment default, a covenant waiver, or a redemption gate.	**MOVES IF** Apex CDS more than 7 bp on a base headline, or correlation above 0.5 for five days. A raise pulled, repriced, or covered below 1.5x shuts the window.	**MOVES IF** Broad US investment grade above 150 bp for two weeks.	**MOVES IF** Correlation to one, and the first easing fails to arrest it within 60 days.

Before gate 2 the problem can still be solved inside the sector. Gate 2 is the line between a sector problem and a portfolio problem.

Index gate on investment grade: 150 bp, held for two weeks. The 28 August investment-grade print is blank and is not shown.

The lifecycle question is operationalised as five gates, each with a threshold, each observable.

Each gate carries a credit signal and an equity signal, because financing runs across the whole capital structure. A cycle where credit widens while equity stays open is in a materially different place from one where both tighten together, and a map built on spreads alone cannot tell the two apart.

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GATE	DESCRIPTION	CREDIT SIGNAL	EQUITY SIGNAL	STATUS
0	**Cohort reprices**	AI-linked credit widens against a stable broad index	Equity issuance still absorbed at tight concessions	**Confirmed**
1	**Base layer cracks**	A payment default, covenant waiver or redemption gate	Base-layer equity issuance window effectively shut	**At the line** - distressed pricing, no default
2	**Apex responds**	Apex CDS >7bp on a base-layer headline, or apex-to-base correlation above 0.5 for five consecutive days	A major apex raise pulled, repriced materially, or covered below 1.5x	● **Amber** - credit has moved, equity has not
3	**Index follows**	Broad US IG >150bp sustained two weeks	Issuance window narrows across the sector, not one name	**Early** - IG 90bp, HY 330bp
4	**Regime shift**	Correlation to one, dispersion collapses, policy fails to arrest within sixty days	Window shut to quality as well as to the weak	**Not met**

Gate 2 carries the whole risk. Everything before it is a sector problem with a sector solution. Everything after it is a portfolio problem.

Through the summer, Gate 2 was unambiguously green and the containment reading was correct. It is no longer green. Amazon, Alphabet, Meta and Nvidia CDS are at record wides. The equity selloff has broadened past the leveraged names into profitable ones - Dell roughly -23% in a week, CrowdStrike, Palo Alto and Snowflake -17% to -18%, Micron -5.6%, AMD -6%, Intel -5.8%, Broadcom -3.6%, the Nasdaq -4.5% on the week to mid-October and the Philadelphia Semiconductor index on its longest losing streak since 2008. These are not all weak companies, and that is worth sitting with.

Both halves are now true at once: the market is still ranking credits correctly, and it has stopped ignoring the apex. That intermediate state is where we are, and a binary containment test has no way to represent it.

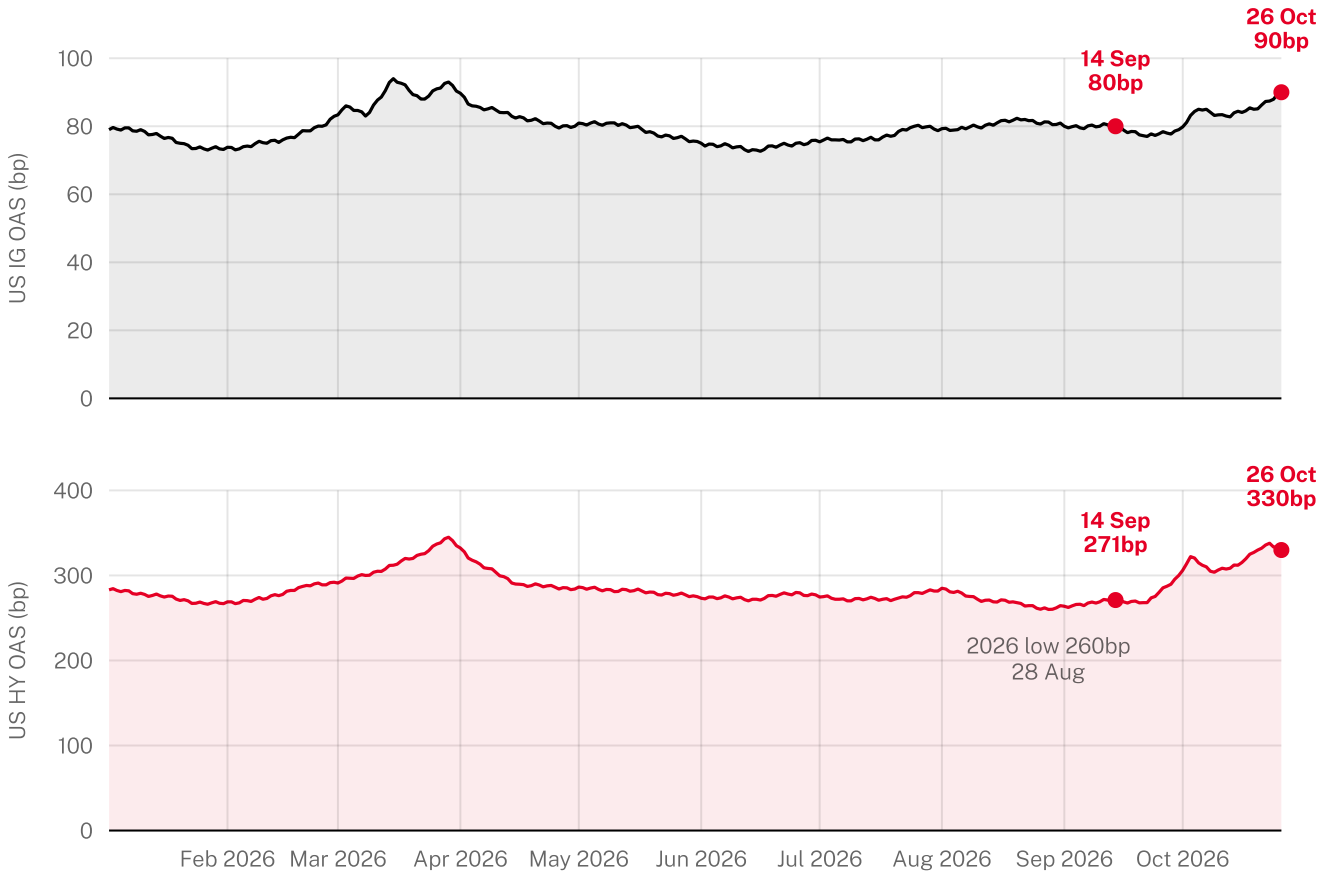
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Gate 3 is earlier than it looks

EXHIBIT

The broad index has started to move

High yield is roughly 70bp off its August low, most of it in one late-September window



Source: ICE BofA US Corporate and US High Yield option-adjusted spreads via FRED, to 26 October 2026.

The standard framing is that the broad index remains near cycle tights and only the AI cohort has repriced. That was accurate in August. It is not accurate now.

	28 AUG	14 SEP	1 OCT	26 OCT
US investment grade OAS	n/a	80bp	86bp	**90bp**
US high yield OAS	260bp (2026 low)	271bp	324bp	**330bp**

High yield is roughly 70bp off its August low, and most of that move happened in a single late-September window. Investment grade has drifted 10bp wider. Neither is near the Gate 3 threshold, and investment grade at 90bp is still historically tight. But the claim that the broad market has not moved at all is no longer available, and any recommendation built on it - including the argument that broad index protection is the last cheap thing in the market - needs repricing to reflect that part of the move has already happened.

Financing is a capital-structure question, not a credit question

A map built only on spreads misses the half of the structure that is currently doing the work. Debt has repriced; equity has not, and equity is where a growing share of the funding now comes from. **Any framework watching only CDS will read the stress as worse than it is.**

The sharper point sits underneath that. CDS has widened right across the AI complex, which invites the reading that the market has taken a uniform view. It has not. **What is genuinely dispersed is balance-sheet strength, and the spread widening is a poor proxy for it.** An apex name at a record-wide spread with net cash and $100bn of annual operating cash flow and a base-layer borrower at 1,100bp with negative free cash flow are not two points on one spectrum; they are different instruments wearing the same label. That dispersion is the opportunity set out in the positioning section, and it is why the tripwire map below carries an equity-window item alongside the credit ones.

The five tripwires

The full map runs to fourteen items, which is right for a quarterly review and far too much for a weekly one. Five carry almost all the information, and each one sits on a gate. **A tripwire is the check that would move its gate; the gate is what the move would mean.**

TRIPWIRE	GATE IT SITS ON	STATUS	WHAT WOULD CHANGE IT	WHERE TO LOOK
Equity window - the release valve	**Gate 2**	● Green	A major raise pulled, repriced materially, or covered below 1.5x	Deal pricing, syndicate desks
Apex responds to base-layer news - the containment test	**Gate 2**	● Amber	Apex CDS moving more than 7bp on a base-layer headline, or apex-to-base correlation above 0.5 for five consecutive days	Daily marks
Base-layer default or gate - the likely next event	**Gate 1**	● Amber	Any payment default, covenant waiver or fund redemption gate	Deal news, fund notices
Agency action on JV consolidation - decides the damage function	**Gate 4**	● Amber	A single issuer restating a JV onto its balance sheet	Agency criteria, 10-K footnotes
GPU rental rollover - lags by design	**Gate 0**	● Green	A100 rental down 10% year on year	Rental indices

Read the Gate column and the weighting becomes visible. **Two of the five sit on Gate 2**, which is the line between a sector problem and a portfolio problem, and which is where this cycle currently is. One sits on Gate 1, the most probable next event. One sits on Gate 4, and it is there rather than closer because an agency determination is what would change the damage function rather than the current reading. One sits on Gate 0, already confirmed, and it is kept because it is the only honest read on the demand side.

Gate 3 has no tripwire of its own, by design. It is a level on a published index rather than an event that has to be spotted.

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Why these five. The equity window is the release valve, and while it stays open nothing else on the list becomes binding. The containment test is the only item that distinguishes a sector problem from a portfolio problem. A base-layer default is the most probable next event in the sequence. The agency question decides whether an eventual determination arrives as a shock or a grind. And rental rollover is the one honest read on whether the demand side is finally turning, with the caveat that it confirms rather than warns.

Two of the five are green, three are amber, and none is red. That is the quantitative version of "on the way, not there yet."

The calendar

Every historical trigger above sat on a date visible in advance to anyone who looked. Here is the equivalent, with the caveat that the most important entries require work to populate.

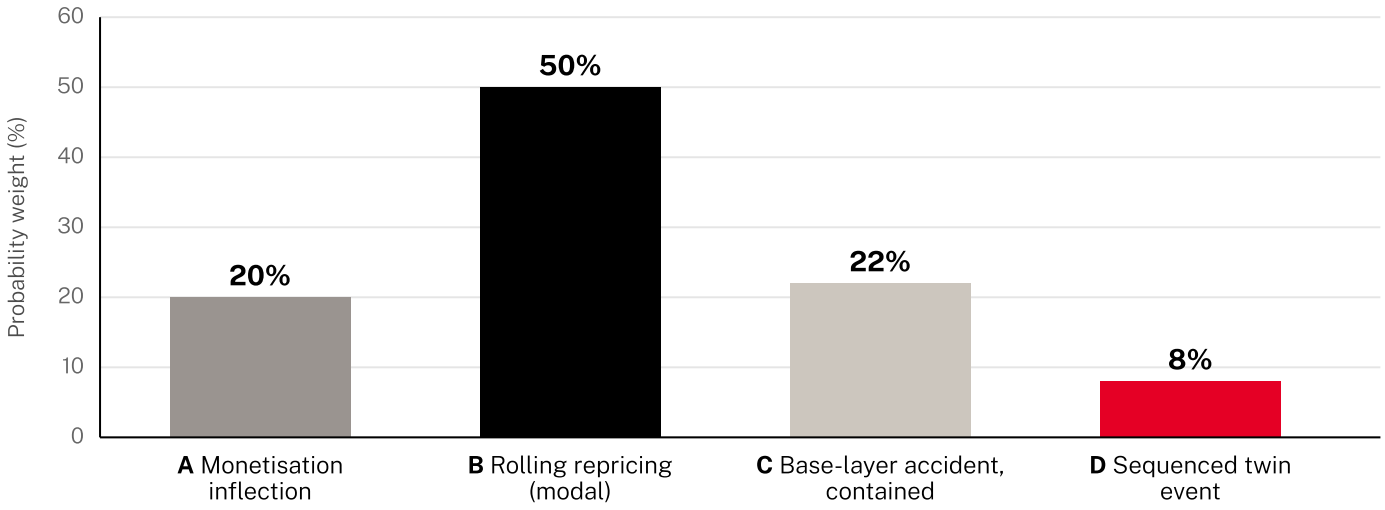
DATE OR CADENCE	EVENT	WHY IT MATTERS
8-9 Dec 2026	FOMC	Market-implied probability of a hike moved from 42% to 73% in a month
Quarterly	Hyperscaler 10-Q and 10-K - useful life, capex guidance, lease commitments	The depreciation argument becomes an earnings event on this schedule
Quarterly	Private-credit fund NAV marks and redemption notices	The transmission channel. The only regular window into the unmarked layer
Quarterly	Agency rating *criteria* revisions on JV and lease structures	Watch criteria, not ratings. Criteria are the leading indicator
Rolling	FASB and IASB work plans, exposure drafts, comment deadlines	Tripwire 10, already in motion
Rolling	Residual-guarantee expiries, lease renewals, take-or-pay reset dates	Tripwire 11 - requires the ladder to be built
30 Jun 2027	**Thesis falsification window**	See the falsification table
2027-28	The 2027-28 vintage of JV deals reaches first rating review	Structures underwritten at peak euphoria face their first real test
2042	First major residual-value guarantee expires	The uncovered stub begins

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Scenarios, and what would prove this wrong

EXHIBIT

Half the probability sits in the scenario with no identifiable bad day



Source: author's judgement. Weights are stated so they can be argued with, and the conclusion is robust to reweighting within a few points.

Judgements, not forecasts. The weights are stated so they can be argued with.

	SCENARIO	WEIGHT	MECHANISM	WHAT IT LOOKS LIKE
A	**Monetisation inflection**	**20%**	Inference demand grows into the installed base; compute prices fall but volumes more than compensate; the 2026 vintage survives with lower returns	Capex-to-sales divergence narrows below 25%; rents flatten rather than fall; this note is wrong in the most interesting way
B	**Rolling repricing, no systemic event** *-modal*	**50%**	Base-layer names impair one at a time; dispersion widens; the apex reprices 30-50% in credit and consolidates; no recession from this cause alone; AI keeps working	Tripwires 1, 2, 4 fire; Gate 2 hovers; the classification question stays contested and is absorbed
C	**Base-layer accident, contained**	**22%**	A major neocloud or EPC fails; GPU collateral marks down 40%+; private credit funds gate; contagion reaches the apex briefly and is bought	Tripwire 4 fires; Gate 2 flickers then resets; IG widens 40-60bp and retraces
D	**Sequenced twin event** -systemic	**8%**	A base-layer failure *and* a consolidation determination (or an energy-driven rate shock) inside two quarters; the market loses the ability to discriminate	Tripwires 4, 8, 9, 10 fire together; broad IG through 150bp

Two notes on these weights, because the reasoning matters more than the numbers.

Scenario D sits lower than it would have a year ago, and the classification question is the reason. The systemic path requires the consolidation determination to arrive as a surprise - a single ruling that makes the consolidated number public at the same moment the collateral is impaired. The determination is not arriving that way. Moody's moved in February, S&P has not followed, the auditors are flagging rather than forcing, and the argument is proceeding deal by deal in public. **And a view that is raised but not acted on is not an event at all.** Rating agencies are habitually slow to convert a stated concern into an action - the 2007-08 record is the obvious reminder - so the Moody's opinion matters as evidence that the boundary is contested, not as a trigger that has fired. It becomes an event only if a determination lands in one go and forces a restatement. Sequencing is still the risk that turns a bad year into a bad decade, but the probability that the two events coincide falls when one of them is a nine-month grind rather than a dated event.

Scenario B carries half the probability, and it is where most of the money gets lost. No crash, no systemic event, no identifiable day on which anything went wrong. A multi-year grind in which the equity of the 2026 vintage underperforms, the base layer impairs quietly, the financing channel narrows as the agencies argue, and the technology is vindicated while the capital that funded it is not.

"The money breaks first" most likely looks like a slow repricing nobody can date, rather than a crash.

And a grind is not the benign outcome it sounds like. A crash clears. It forces recognition, reprices the asset, frees the capital and creates an entry point, usually within quarters. A grind does none of that. Japan is the case: no single catastrophic day after 1990, forbearance instead of resolution, and a market that took thirty-four years to regain its high while nominal GDP went nowhere for two decades. The damage in a grind is the opportunity cost of capital trapped in a vintage that never quite fails and never quite works, and the absence of any moment at which the decision to exit becomes obvious. **For a long-only allocator, a five-year grind is arguably the worse of the two outcomes, and it carries the higher probability.**

What would prove this wrong

A conclusion without a falsifier is not a conclusion.

THE CLAIM	FALSIFIED IF
The break has started, in the unmarked layer	The AI IG basket retraces below 110bp and order-book coverage recovers above 3x by mid-2027
The governing analogue is 2007-inverted	Apex credit never responds to base-layer news across a full cycle, and the cohort's widening proves orderly and isolated
The classification boundary is the decisive variable	The agencies converge on a treatment with no restatement and no measurable repricing
The reclassification is already under way	Moody's position is withdrawn or quietly dropped, and JV issuance returns to its prior terms
Compute gets materially cheaper	Inference demand grows faster than capacity even at scale, with elasticity persistently above one
The modal outcome is a grind	A single-day systemic event occurs, or the cycle resolves to full vindication

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THE CLAIM	FALSIFIED IF
Own the inelastic input	Compute prices stay elevated *and* power prices collapse - that is, the inelastic inputs turn out to be elastic

And the hard time stop. If by **30 June 2027** no AI-capex issuer has crossed into high yield, the AI-linked investment-grade basket has retraced below 110bp, and order-book coverage is back above 3x, the thesis has failed and the positions built on it should be closed regardless of how persuasive the narrative still sounds.

Where this note is most likely wrong is in the direction of being too early. The gap between diagnosis and break has historically run nine to thirty-six months. The investors who learned this lesson in 1932 and 2002 were, in both cases, correct about the future and early to the wrong instrument.

Positioning

Sizes below are expressed as shares of an AI sleeve rather than of the total portfolio, and they are a starting point for the Investment Committee rather than a decision.

The six principles

- **Stop treating "AI infrastructure" as one allocation.** Split by funding tier and treat the split as the primary decision rather than a refinement. The tiers have different damage functions, different trigger dates and different instruments.
- **Split by position in the chain as well as by funding tier.** The tier split says who can survive a funding shock. **The chain split says whose earnings are an order book and whose are a forecast**, and the two cuts are not the same. Operators - the data-centre operators and the frontier labs - sell a service whose price is falling into a market whose willingness to pay at scale is the thing in dispute. Suppliers are paid when capacity is built. A name can sit high in the funding tier and still be an operator, and that is the case that needs stating plainly.
- **Own the inelastic input, not the elastic output.** This is the highest-conviction constructive idea here and it survives scenarios A, B and C. Compute gets cheap; a gigawatt does not.
- **Express the dispersion, do not hedge it.** If dispersion is the story - and the gap between the best and worst performing hyperscaler has run to 125 percentage points of total return this year, with pairwise correlations at new lows - **the expression is long/short, not long-plus-hedge**. That trade requires no view on the cycle at all, which is why it survives the uncertainty in this note.
- **Say which tail you are covering, and price it.** Tail protection on this complex covers the sequenced twin event, not the grind. Broad index protection is the instrument rather than single-name apex protection, and roughly 70 basis points of the move in high yield is already behind us. Whether to carry it is a decision about the risk budget.
- **Position for the grind, not for the crash.** The modal scenario is a multi-year repricing, and protection bought against a grind simply decays. What works against the grind is avoidance of the specific vintage and the specific tier, not insurance.

The expressions

All sizes are a share of the AI sleeve. They follow from the judgements above rather than from a separate view of the technology, and where a line here conflicts with a status above, the status wins and the line is sized down.

#	EXPRESSION	POSITION IN THE CHAIN	SHARE OF SLEEVE	WHAT IT IS EXPOSED TO
1	**Long apex, quality-tilted**	Operator, but not a pure one	35-40%	The equity window closing, which is the one thing that would make apex debt bind. Earnings are a blend: the AI build is a forecast, the search, advertising, cloud and enterprise businesses funding it are not
2	**Long inelastic inputs**	Supplier, inelastic	20-25%	The next vintage not being ordered. Power, interconnection queue positions, turbines, transformers and the grid connection. An order book that cannot be replicated inside the horizon that matters
3	**Long the elastic supply chain, sized smaller**	Supplier, elastic	10-15%	The same order book, but capacity responds. Memory, logic, networking silicon and optics. Visible earnings on a shorter cycle, and the leg where the revenue hole arrives first if the build pauses
4	**Long/short dispersion**	Operator against operator	15-20% gross, about zero net	Relative performance holding and convergence arriving inside the holding period. Long the self-funding names, short the lease-heavy and capex-stretched
-	**Pure-play operators at the base**	Operator, pure	No position	Named to be explicit that there is none. These are the names whose earnings are entirely the forecast and whose financing depends on the window staying open

Read as a book. Roughly 65 to 75% net long, with the dispersion pair at about zero net. **The chain split, not the tier split, is what the sizing actually expresses.** Two-thirds of the long exposure sits with suppliers, where the earnings are an order book. The apex sits in the book because its AI build is cross-subsidised by businesses that are not a forecast, which is a different proposition from a pure-play operator at the same multiple. There is no long in the pure-play operator at all, and that is the single clearest consequence of the earnings argument.

On the two supplier legs, the difference is elasticity rather than quality. The inelastic leg is larger because a gigawatt, a turbine and an interconnection queue position cannot be supplied at scale inside the horizon that matters, so the order book is protected by physics. The elastic leg is smaller for the opposite reason: memory, logic and optics are genuinely cyclical, capacity responds to price with a lead time measured in quarters rather than in grid-connection years, and a build-out pause reaches that leg first. **Both legs have visible earnings today. Only one has them protected by something other than demand.**

On the dispersion pair, one caution. A long/short is neutral to market direction. It is not neutral to the cycle. It depends on relative performance holding and on convergence arriving within the holding period, and it loses precisely when correlation goes to one, which is the same event the containment test is watching for. Its exit condition is Gate 2 confirming, and Gate 2 is already amber. **Size it to be closed, not held.**

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On both supplier legs, the qualification from the valuation section applies. Visibility is not durability. An order book converts a build-out pause into a revenue hole with the same lag that it converts a build-out into revenue, so the exposure is to whether the next vintage gets ordered rather than to whether this one pays. That is the reason the elastic leg is sized at 10 to 15% rather than held as a conviction position, and the reason both legs need an exit condition rather than a view.

Tail protection is a separate decision. The instrument for the 8% scenario is broad index protection rather than single-name apex protection, and high yield has already moved roughly 70 basis points off its August low, so part of that move is behind us. Whether to carry it, and at what annual cost, is a risk decision.

What resolves next, and on what evidence

Three questions are open, and they are at different stages.

The payment, guarantee and residual ladder. Still the largest gap, but a smaller one than it was. Anthropic has now published its schedule: an aggregate committed spend of $895bn, with $70bn falling due in 2027, $448bn across 2028-30 and the remainder beyond, against consumption revenue that is mostly uncontracted.

What remains open is the same exercise everywhere else. For each major committed counterparty: payments falling due by year, the conditions attached, which tranches are firm, conditional or cancellable and on what notice, every residual-value guarantee expiry, and every lease renewal date - set against projected operating cash flow and committed facilities. On Oracle's performance obligations and the hyperscalers' un-commenced leases it can be built from filings that already exist, **which makes its absence a choice rather than a constraint.** Until it exists, no funding conclusion should be drawn from their commitment totals in either direction.

The firm share of the contracted backlog. What proportion of headline contracted value is firm, and what proportion is cancellable at ninety days? This determines whether the financing gap is as measured or materially wider, and the bull case's strongest structural defence currently rests on an unpublished split. **It resolves at the first disclosure that separates the two**, which several issuers could provide at the next reporting date.

Whether the apex is responding to base-layer news. Plot the same-day and five-day move in apex CDS against each base-layer credit event of the past twelve months. **This one needs no new disclosure at all** - it is computable today from marks already held, and it would convert the containment call from a judgement into a measurement.

Three gaps: one of them now partly filled, one a disclosure away, one already computable.

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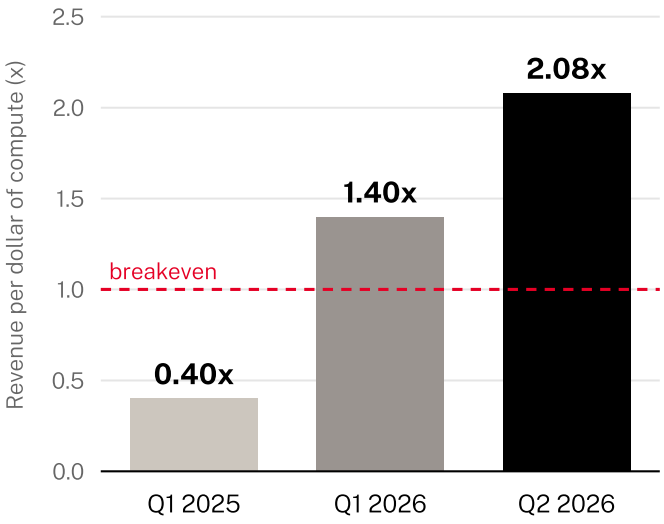
Appendix A: The Anthropic preliminary S-1

The only audited-standard window into the economics of a frontier lab. It is a preliminary registration statement, terms are not final. The exhibit and the headline findings sit in the returns section of the main body; what follows is the detail behind them.

EXHIBIT

Anthropic's S-1: both halves of the argument, in one filing

The unit economics work



The commitment ladder, as filed

Due within 12 months	$ _____
Before 31 Dec 2030	$ _____
2031 to 2045	substantially all of the remainder
Aggregate	more than $ _____

Every figure is a blank in the preliminary filing. The obligations run twenty years out; the amounts are not stated.

Source: Anthropic Form S-1 (preliminary), filed October 2026, read directly. Left panel is this note's calculation from filed inputs: revenue divided by compute and infrastructure expense. Right panel reproduces the filing's own commitment disclosure, including its blanks, verbatim in structure.

What one filing shows, in detail

What follows is the filing read line by line. The headline figures and the exhibit are in the returns section; this is the detail behind them, including the provisions that do not fit in the body and the limits on what can be concluded.

On the economics. The reported lines are compute and infrastructure expense of **$8,945m against revenue of $16,286m for the six months to 30 June 2026**, or 54.9%, from 201% a year earlier. The derived series, calculated here rather than filed, is revenue per dollar of compute: roughly 0.40x in early 2025, about 1.40x in the first quarter of 2026, and around 2.08x in the second. The distinction between the two matters, because only the first is a company disclosure. The filing does not disclose a gross margin: compute is presented as an operating expense rather than cost of revenue, so the 85% figure circulating in commentary is a third-party derivation.

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On the obligations. The disclosure describes "an aggregate committed spend of $895bn, substantially all of which is related to compute and infrastructure", with more than half expected to be incurred before December 31, 2030. What is stated is the tail: **a substantial remainder falls between 2031 and 2045.**

On the mismatch. The commitments include "minimum purchase commitments, take-or-pay provisions" that "obligate us to pay for resources regardless of actual utilization." The revenue funding them is described as "primarily consumption-based, and much of it is not subject to long-term contractual commitments."

Take-or-pay obligations running twenty years out, funded by consumption revenue nobody has committed to. That is the mismatch at the heart of this cycle, disclosed by the obligor, and it requires no forecast to read.

Two further features matter. A default under certain commercial agreements could trigger cross-default provisions that accelerate "substantially all of our outstanding, and any future, indebtedness," so a take-or-pay dispute with one counterparty need not stay contained to it. And certain financing arrangements "require us to enter into exclusive or preferential supply commitments with particular chip suppliers" - circular financing, described from the borrower's side.

What cannot be concluded from this. Twenty-year obligations set against a cash balance on one date would look alarming, and that comparison would be wrong: a stock measured against a stack of flows. The rung is no longer blank for Anthropic. The fundability question now has an answer to work with, and that is a finding, not a gap.

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Appendix B: The historical cases, one at a time

The invariants, the recovery times and what transfers are argued in the main body. The episodes themselves are here, so the body does not have to carry them.

1929 - the classification boundary in its original form

The mechanism ran as follows. A holding company takes voting control of operating utilities with well under 50% of the equity, using non-voting preferred and pyramided common. A super-holding company controls that, applying leverage a second time. A second super-holding sits at the apex, and the apex companies hold substantial stakes in each other. Each layer declares dividends, and dividends at the upper layers are paid not from utility earnings but from fresh securities issuance. The structure requires perpetual new money to service itself. Leverage at the apex approached 20:1.

The same operating earnings were claimed at multiple levels, and the claims were not visible *as* claims.

Three mechanisms get blamed for the break and none is sufficient. Brokers' loans reached $6-7bn at margins as thin as 10% - margin amplified the decline, it did not initiate it. The New York Fed raised the discount rate to 6% on 9 August 1929, and the market rallied for three weeks afterwards, making its high on 3 September. The best-documented catalyst is the Hatry collapse in London in September, a forged-securities fraud that froze British capital and forced liquidation of US holdings. **The structural analysis told you the market was fragile. It did not tell you a fraud in London would be the match.**

The dated anatomy is worth keeping in view because of its length. Dow peaks 3 September 1929 at 381.17. Black Tuesday 29 October. Roughly 1,350 banks fail in 1930; around 9,000 by 1933, with money supply down a third. Insull's core holding enters receivership in April 1932 - two and a half years after the crash. The Dow bottoms 8 July 1932 at 41.22, down 89.2%. PUHCA arrives in 1935.

Note the sequence. Crash, then three years of banking failure, then the last domino, then the legislative determination six years out. The damage ran through credit intermediation, not through the equity index. **The modern counterpart of the banking channel is the private credit complex, not the stock market.**

What matches is the opacity: a legal structure, audited, and still impossible to consolidate. What does not match is the direction of the damage. Weakness sat at the apex, and the operating companies were sound, so damage ran down. This stack is weak at the bottom. The apex can cut spending. Quality, which was the defence in 1929, is the asset the upward-transmission story says gets sold.

1989 Japan - the recognition lag

Japan is the cleanest case in financial history of asset prices becoming the collateral for the credit buying the assets.

The instrument was a capital regime that let banks count paper gains as loss-absorbing capital. Cross-shareholdings ran to roughly 40% of the float, carried at historic cost, with the unrealised gains treated as a buffer. Basel I in 1988 formalised it: Tier 2 capital could include up to 45% of unrealised equity gains. The international standard blessed the marking-to-myth. Land was lent against as a fraction of appraised value, and appraisal was set by a market that had risen for thirty years.

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Valuations had no precedent - market P/E in the 60-70x range, the cyclically-adjusted measure above 80, Japan at roughly 45% of the MSCI World index. NTT's February 1987 privatisation drew 1.03 million applications for 195,000 shares.

The trigger was administrative, not monetary. The Bank of Japan raised the discount rate five times from 2.5% to 6.0% between May 1989 and August 1990, and the market rallied through the first three. **What broke the back was the Ministry of Finance's March 1990 quantitative cap on real-estate lending** - a unilateral redefinition of what banks could treat as lendable collateral, which removed the marginal bid from a market that had no other bid.

The number that transfers from this case is the delay, not the 80% decline. Peak to first official acknowledgement of systemic bad loans: five to seven years. Peak to the failures of Sanyo, Yamaichi and Hokkaido Takushoku: eight years. Peak to a functioning resolution framework: a decade. Japanese nominal GDP in 2012 sat roughly where it had been in 1992, and gross government debt went from about 65% of GDP to over 200% without any large stimulus programme - the denominator simply stopped growing.

The mechanism of the lag was an accounting forbearance decision. **Where the classification is unsettled, the capital ratio is a fiction.** The Nikkei regained its December 1989 high in February 2024, thirty-four years later.

2000 - the funding-access break, and the calendar

The dot-com case is invoked most and used worst, because its equity signature is so spectacular that it obscures its credit signature.

What was real: internet traffic roughly doubled annually from 1995 through 2001, and kept doubling right through the telecom bankruptcies. What was not real was the *rate*. The standard forecast was that traffic would double every 100 days. It doubled every year - a forecast error of roughly fifteen times over three years, and every fibre network in the ground was financed against the forecast rather than the outcome.

Two funding structures, both failing through access rather than valuation. The equity-funded dotcom depended absolutely on the next round; when the market closed the model did not deteriorate, it stopped, on a date. The debt-funded telecom builders raised well over $500bn of high-yield debt between 1996 and 2001 with no cash flow during construction, structured on the assumption the high-yield market stayed open for refinancing. It closed in 2001.

Almost every trigger was published in advance. Fed meetings were on a calendar - 4.75% to 6.5% over six moves. Lock-up expiries releasing an estimated $43bn of insider stock were in the S-1s. Bond maturities were in the indentures. The first broken IPOs came in March 2000, the same month the Nasdaq peaked at 5,048.62. **The failure was not information. It was attention.**

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What transfers is access, and the size of a forecast error: volume can compound and the supplier can still have financed the wrong case. **What does not transfer is the location of the debt. It was on the balance sheet**. The refinancing wall was the right watch. In the AI Ecosystem, the wall that matters has not been consolidated, which is why waiting for it is the late trade. The subsequent profit on the fibre is also a warning against a simple write-off story. The users of the cheap capacity did well. Many of the people who financed it did not - long-haul fibre went from about 39m miles in 1996 to over 80m by 2001, under 5% of it lit. Bandwidth became effectively free, and the lit fibre was absorbed profitably by a different set of owners after 2005. The 2010s cloud build was in part financed by the 2000s overbuild.

Nasdaq bottomed 9 October 2002 at 1,114.11, down 77.9%, and regained its March 2000 high in April 2015 - fifteen years.

Four shorter cases that sharpen the frame

1720, South Sea. £128 in January, £1,050 in August, £175 in October. The instrument was a debt-for-equity conversion of roughly £31m of government annuities. The trigger was legislative: the Bubble Act of June 1720, passed at the company's own lobbying behest to suppress rivals, collapsed the market for all new issues and removed the marginal buyer. **A legal act introduced to protect an incumbent destroyed the incumbent's own market.** Classification decisions have second-order effects on asset classes they were never aimed at.

1845, British railway mania. About £250m subscribed by 1850 against roughly £70m actually invested. The instrument was the partly-paid share - 10% down, liable for the balance on call. The Bank of England raised rates in October 1845 and is usually credited with the trigger, but the operative mechanism was that the rate rise coincided with the *capital call schedule*, forcing shareholders to liquidate other holdings to meet calls. **What breaks a levered structure is not the level of the rate. It is the date the money is due.** Railway shares fell 60-80% between 1846 and 1850; roughly a third of authorised lines were never built.

1907, the trust companies. A failed corner in United Copper exposed New York's trust companies, which held deposits on thinner reserves than national banks and sat outside the clearing system. The entity outside the supervisory perimeter is where the run starts. The institutional response - the Federal Reserve Act - arrived six years later.

2007, housing. The Case-Shiller 20-city index peaked July 2006 and bottomed March 2012, down roughly 35%. The level of leverage is not what made it lethal. Three other things did: the marginal claim sat with a holder who had no access to the borrower and no ability to inspect the collateral, the instrument reset on a published schedule, and the accounting treatment of off-balance-sheet vehicles stayed unsettled until FASB 166/167 in 2009-10 forced consolidation in a single reporting period. The apex of 2007 was not the source of the fragility either - that sat in the conduits, SIVs and monolines. When the base failed, the apex repriced anyway, not because its own assets were impaired but because the market could no longer compute what its exposure was.

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Appendix C: The full tripwire map

Fourteen items with thresholds, which is the right length for a quarterly review and too long for a weekly one. The five that carry most of the information are in the main body as the dashboard.

Fourteen items with thresholds. A tripwire without a threshold is an observation.

#	TRIPWIRE	STATUS, 28 OCT 2026	ACTIONABLE THRESHOLD
1	Primary-market absorption, **bonds**	● **Fired, on supply**	Concessions >25bp sustained across two consecutive deals
2	Spread dispersion, AI vs broad	● **Fired**	Already actionable
3	Ratings migration to high yield	● **Amber - one notch, one name**	Oracle to BB+, or any second issuer to BBB–
4	Base-layer credit accident	● **Amber - distressed pricing, no default**	Any payment default, covenant waiver or redemption gate
5	Useful-life dispersion	**Partial, and re-specified**	A *shortening* at two of the top four in the same year
6	Demand guarantee tested	● **Amber**	Any renegotiation, extension at worse terms, or drawdown
7	GPU rental rollover	● **Green, lagging by design**	A100 rental −10% year on year
8	Macro clamp	● **Amber, deteriorating**	Core inflation >3% with Brent >$100 for two quarters
9	**Apex responds to base-layer news**	● **Amber - moved from green**	Apex CDS >7bp on a base headline, or apex-to-base correlation >0.5 for five consecutive days
10	**Standards or agency action on JV consolidation**	**Raised, not acted on**	A single issuer restating a JV onto its balance sheet
11	**Residual-guarantee expiry ladder**	**Not built**	First tier-one guarantee reaching five years to expiry
12	**Firm vs cancellable contract split**	**Not quantified**	Disclosure that >30% of headline contracted value is 90-day cancellable
13	**Private-credit redemption behaviour**	● **Green**	Any gate, side-pocket, or NAV markdown >5% at a major AI-exposed fund
14	**Equity-window access**	● **Green - and it is the release valve**	A major raise pulled, repriced materially, or covered below 1.5x

Four of these need a word of explanation.

Tripwire 1 fired in the bond market and on supply, not on credit. Order-book coverage thinned because a great deal of competing AI-linked paper arrived at once, not because investors revised their view of the borrowers. And it has not fired across the capital structure at all: Meta's equity book was roughly five times covered in the same month. Calling primary absorption broadly impaired would be wrong.

Tripwire 6 moves to amber on Huang's 15 October comments. Not a drawdown and not a renegotiation - but the limits of the backstop stated publicly, on the day the market priced a 64% default probability on the counterparty, is information.

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Tripwire 10 has been raised rather than acted on, and the distinction matters. Moody's has stated a view and signalled adjustments. S&P has not followed, no issuer has restated, and no rating has moved on this basis. Agencies are habitually slow to convert a stated concern into an action, as 2007-08 demonstrated at some cost. The threshold that would make this actionable is narrow and specific: a single issuer restating a JV onto its balance sheet.

Tripwires 11 and 12 are the further analysis, and they are the two pieces of work worth more than the rest of the monitoring apparatus combined. See the further analysis.

Appendix D: Method and definitions

How the thresholds are defined

A threshold that cannot be audited is not a threshold. These are the definitions behind the gates and tripwires.

TERM	DEFINITION USED HERE	STATUS
AI-linked IG basket	A third-party basket of investment-grade AI-exposed issuers	**Not independently reproducible** - constituents and weights are not disclosed, so no gate should depend on its level. Superseded below
Reproducible substitute	Equal-weighted five-year CDS of the four apex names plus Oracle, against ICE BofA US IG OAS	**Use this for the gate.** Fully reproducible from daily marks; the basket level is retained only as commentary
Broad IG / HY	ICE BofA US Corporate and US High Yield option-adjusted spreads	Public daily series, reproducible
Apex CDS	Five-year senior CDS, single name	Levels here are from press reporting, not terminal data
Apex-to-base correlation	Pearson correlation of *daily* CDS spread changes between an apex name and a base-layer name, computed over a rolling **60-business-day** window. The trigger is that reading holding above 0.5 on a sustained basis.	Reproducible from daily marks
Implied default probability	1 − exp(−5 × spread / (1 − recovery)), at 40% assumed recovery	Stated formula; a model output, not a forecast
Gate 4, the three tests	Broad IG through 150bp sustained over weeks; cross-sectional dispersion collapsing as correlation rises toward one; the first policy easing after the break failing to arrest widening within sixty days	All three must hold together
Scenario weights	The author's judgement, not a model	See below

On the scenario weights. They are judgements and should be read as ranges rather than point estimates: monetisation inflection 15-25%, rolling repricing 45-55%, contained base-layer accident 18-26%, sequenced twin event 5-12%. The ordering is the part worth arguing about, and it is robust within those ranges. The ordering rests on two observable facts: the equity window is open, and the classification determination is arriving as a contested process rather than a dated ruling. If either changes, the weights move materially.

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