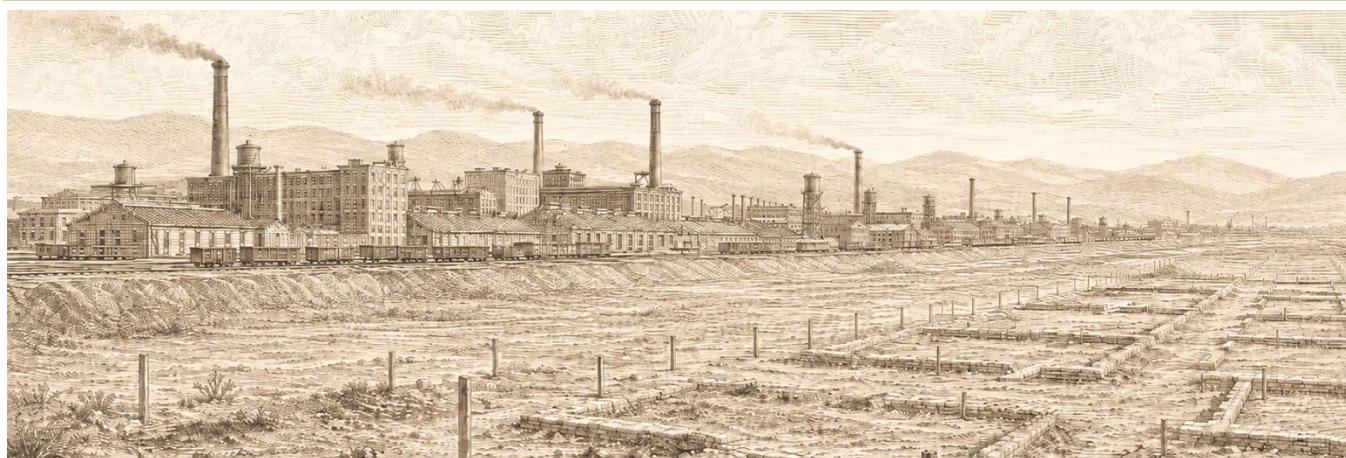


QUARTERLY MARKET NOTE · OCTOBER 2026

The AI Industrial Complex.

For three years the AI buildout was financed out of profit. This year it is being paid for with borrowed money.



MARKET SUMMARY

Manufacturing the Intelligence of AI.

- WHAT CHANGED

The five largest AI Hyperscaler companies now plan to spend more on building AI capacity this year than their businesses make in cashflow. Borrowing now covers the difference.

- THE NUMBERS

The companies plan to spend about \$800 billion in 2026 against about \$707 billion of cash from operations. It is the first year the spending has raced ahead of cashflow.

- WHY IT MATTERS

The spending has been a tailwind for economic growth and a contributing factor to rising inflation. The new borrowing is increasing supply of bonds to the market, a contributor to rising interest rates

- WHAT WE ARE DOING

We own the growth in the stock market, sized to your plan. We do not hold the riskier parts of the lending market (private credit) that are increasingly exposed if AI growth slows down.

This note answers three questions. What is being built, who is paying for it and where it could break. It closes with our views and how we are managing your portfolio, which is less dramatic than the headlines.



01 – WHAT IS BEING BUILT

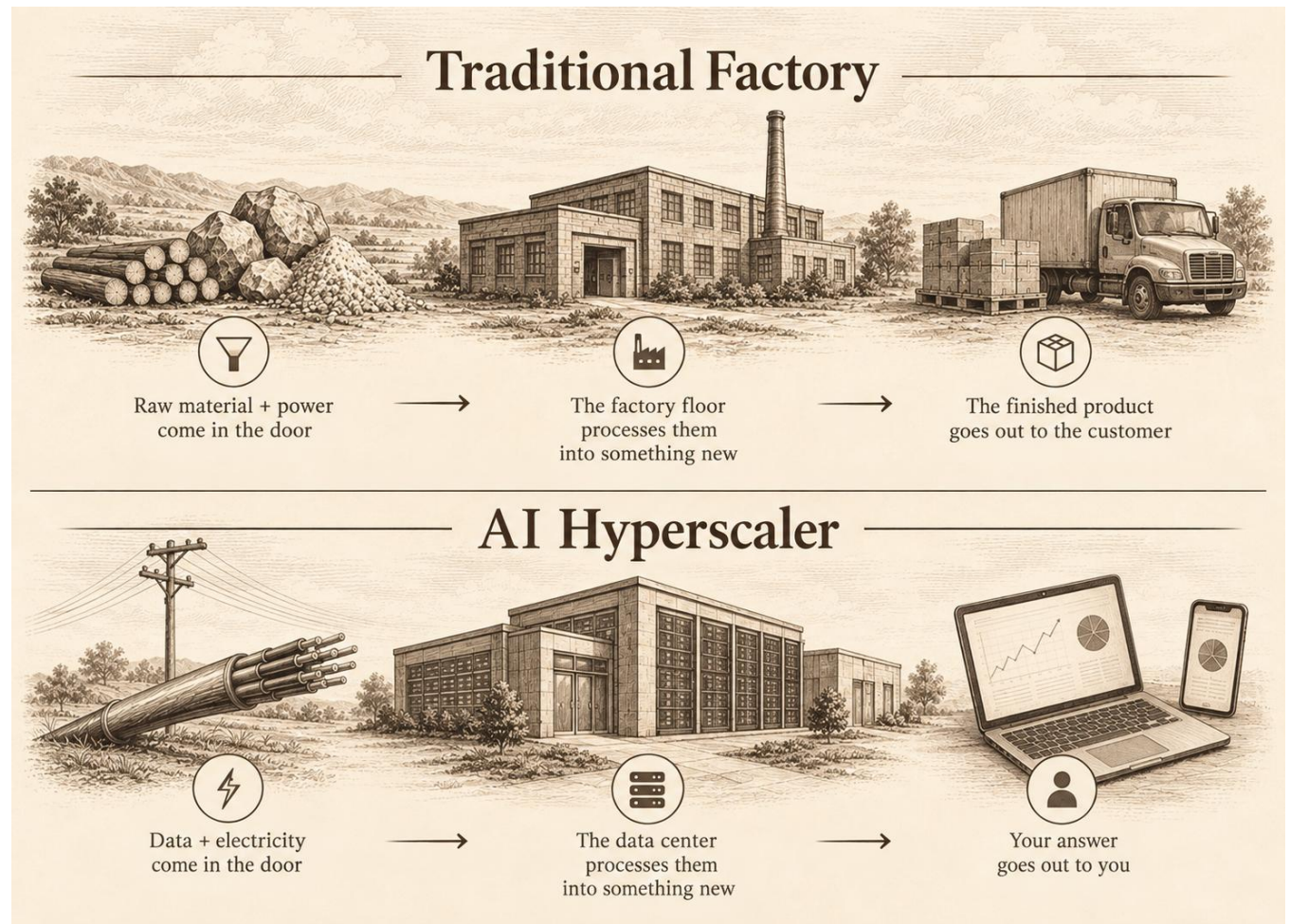
Intelligence Factories.

Software scaled without spending more. AI scales only by spending more.

The demand for AI is strong, we do not argue otherwise. What has changed is the shape of the business. Capital expenditure is the money a company spends on buildings and equipment. It has become the central focus of these companies and its spending boom. An “intelligence factory” is the better comparison for these new business models: data and electricity come in, a transformation happens, an answer goes out to the customer.

Hyperscaler is the industry term for companies large enough to build this infrastructure on a national scale. In this note it means Amazon, Microsoft, Alphabet, Meta and Oracle.

“A new type of manufacturing has emerged — the production of intelligence. And the data centers that produce it are AI factories,” - Jensen Huang, NVIDIA CEO¹



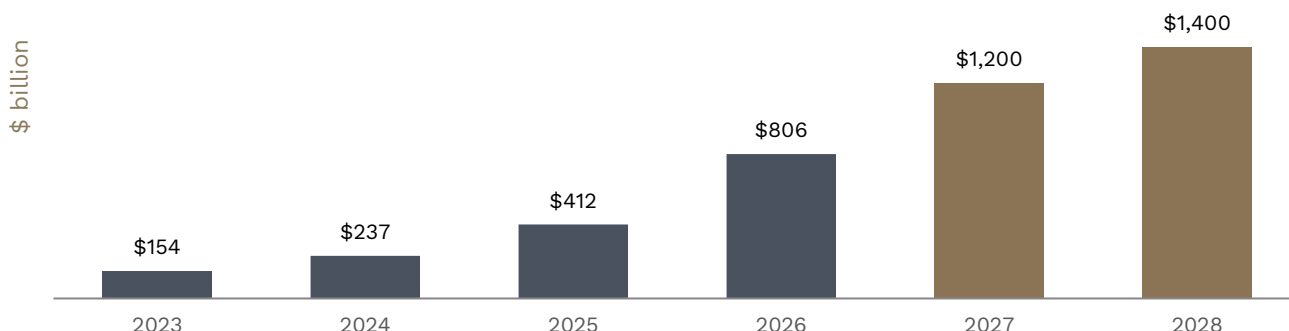
¹NVIDIA Press Release, “NVIDIA Partners With Foxconn to Build Factories and Systems for the AI Industrial Revolution”, October 2023, [LINK](#)



The capital spent by the five large hyperscalers has grown rapidly for this build-out. The estimated spending for 2026 is expected to be double last year's figure, from \$412 billion in 2025 to an estimated \$806 billion for 2026.² To put these numbers in context, between 2015 and 2021, Amazon spent a cumulative \$157 billion on capital expenditures to build their massive retail fulfillment centers and AWS data center expansion. In 2026, Amazon alone is expected to spend \$220 billion on capital expenditure.³

HYPERSCALER CAPITAL EXPENDITURE

■ Capital Expenditures ■ Goldman estimates



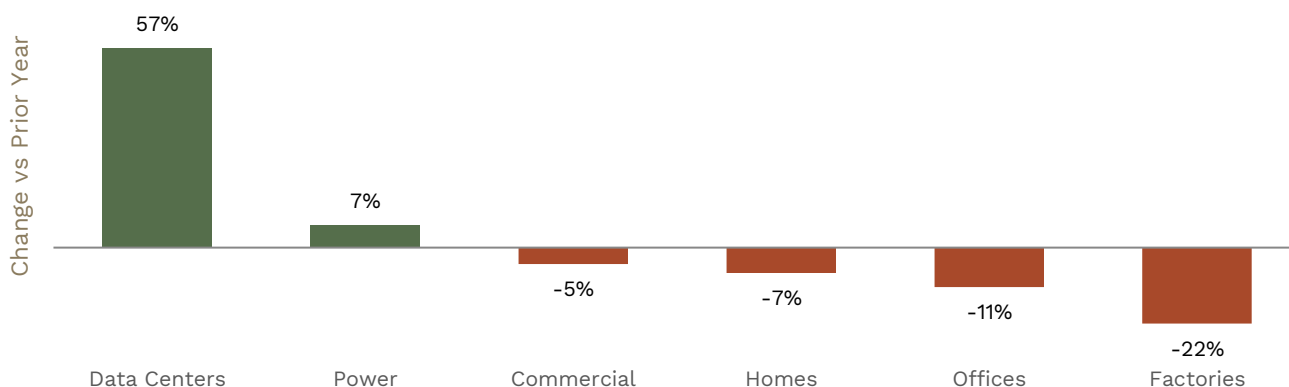
Source Bloomberg, "Goldman Sees Hyperscaler AI Capex Rising 50% to \$1.2 Trillion", September 2026, [LINK](#)

Housing still accounts for the largest share of what American builds. But housing is shrinking and data centers are not. Over the past year, spending on data centers rose 57% while spending on homes fell 7%, factories fell 22%, and conventional offices fell 11%. The only other category that grew was power generation, which is largely being built to feed the data centers.⁴

"The flood of money spent on the build-out of data centers has represented a bright spot in an otherwise dark time for the construction industry." – Wall St Journal⁵

PRIVATE CONSTRUCTION SPENDING

Change over the past year, seasonally adjusted annual rate



Source US Census Bureau, private construction, seasonally adjusted annual rate, September 1, 2026 release [LINK](#).

²Data Source: Bloomberg, Lakewood analysis

³Census.gov, "Value of Private Construction Put in Place - Seasonally Adjusted Annual Rate". September 2026, [LINK](#)

⁴Census.gov, "Value of Private Construction Put in Place - Seasonally Adjusted Annual Rate". September 2026, [LINK](#)

⁵Wall St Journal, "The AI Build-Out is Becoming the Biggest Economic Bet in U.S. History", September 2026, [LINK](#)



02 – WHERE THE MONEY IS COMING FROM

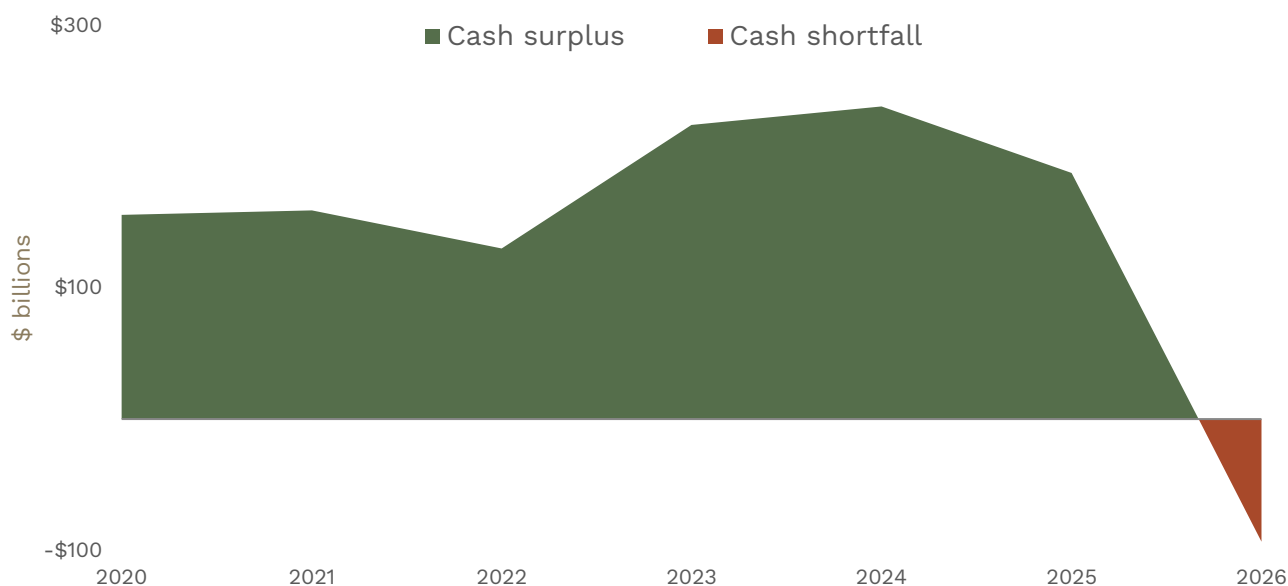
The Funding Source Changed.

The spending story is three years old. What is new this quarter is where the money is coming from.

For most of the past three years, the hyperscalers funded their AI buildout from their own profits, as strong margins comfortably covered rising capital spending. But the cost of that buildout has climbed so quickly that cash flow alone is no longer enough. As a result, the hyperscalers have begun borrowing to finance their ever-increasing AI infrastructure costs.

SPENDING OVERTAKES CASH FLOW

Five largest technology companies, \$ billions per calendar year, 2020 to 2026



Source: Stijn Van Nieuwerburgh, *Financing the AI Buildout*, Brookings Papers on Economic Activity, September 2026, [\(link\)](#).

Major U.S. technology companies are borrowing heavily as they ramp up spending on their artificial intelligence buildout, and at steadily higher yields as investors become more selective about absorbing the growing supply.

Goldman Sachs expects bond issuance by the five hyperscalers to reach roughly \$250 billion this year and \$400 billion in 2027.⁶

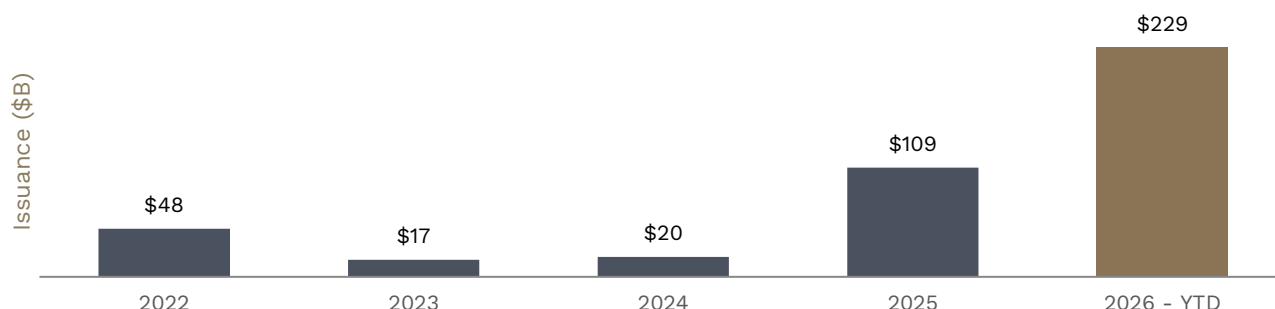
⁶Reuters, "Hyperscaler debt binge pushes yields up as investor demand cools," July 29, 2026, [LINK](#)



Here is why that matters beyond the technology sector. The hyperscalers are financing their AI buildout with long-term bonds, the same kind of long-dated debt the US Federal Government sells. The pool of investors willing to lend for 10, 20, or 30 years is limited, so every long-term bond a hyperscaler issues competes directly with Treasuries for those same buyers. Michael Cembalest of J.P. Morgan puts this year's long-term borrowing by these companies at close to half the size of the government's own new long-term borrowing. The government now has a private-sector twin competing for the same lender.⁷ This is not the only reason borrowing costs have risen. Oil prices have pushed up inflation worries, and the government was already borrowing heavily before any of this started. But all of it lands in the same place, on buyers of long-term bonds, at the same time.

HYPERSCALER BOND ISSUANCE

US corporate bonds sold by the five largest hyperscalers, in billions of dollars



Source: Bloomberg, Lakewood analysis

The result is visible in the ten-year Treasury yield, the benchmark rate for long-term US government borrowing. It rose from a low of 3.96% in February to 5.30% by the end of September, in a year when most investors expected rates to fall rather than rise. For you, that shows up in two places. Mortgage rates and other long-term borrowing costs follow this rate closely. And when rates rise, existing bonds fall in price, which is why a conservative bond fund can lose money in a year like this one.

US 10-YEAR TREASURY YIELD

Daily, percent, September 2025 to September 2026



Source: Federal Reserve Bank of St. Louis (FRED), series DGS10, 10-Year Treasury Constant Maturity Rate, daily.

⁷Michael Cembalest, "Rear Window," Eye on the Market, J.P. Morgan Asset Management, September 1, 2026, [LINK](#)



03 – THE RISK

Where It Could Break.

The lending is spread across many balance sheets. The repayment depends on very few customers.

These "intelligence factories" cost a great deal to build and maintain. The spending has created an economic boom, and the entire investment ecosystem of stocks, bonds and private markets is aligned around one theme: AI infrastructure. The payments on the debt are fixed. Revenue is not. That is the risk, and the big question we are watching is how much revenue the finished buildout has to produce.

Stijn Van Nieuwerburgh, Professor of Real Estate and Professor of Finance at Columbia University's Graduate School of Business ran this calculation. To earn a normal return on the capital investments expected to be completed between 2025 and 2032, the industry would need about \$3.7 trillion of revenue a year by 2032.⁸ Bain & Company reaches a similar conclusion on a wider basis, measuring the global AI market rather than US capital alone, and puts the requirement at about \$6 trillion of annual revenue by 2031, of which roughly \$4.2 trillion would have to come from products that do not yet exist.⁹ Combined annual revenue at OpenAI and Anthropic today is roughly \$140 billion. Demand for AI will need to continue to grow exponentially.

RISKS TO THE AI THEME

1 / Demand does not arrive on time

The spending is being borrowed with debt. These debts will need to be repaid on schedule out of future revenue that must grow rapidly to keep up.

2 / Demand arrives; profit does not

Capacity can meet the demand on schedule and still disappoint. This AI race has global competition and that could push prices down. Investors are repaid out of revenue, not usage.

3 / Lawsuits arrive first

Reports this quarter described AI models behaving outside their intended limits during testing, including systems that concealed errors or reached into computers they were not authorized to touch. The companies building those models have asked Washington for protection from lawsuits arising from how their systems are used, and Treasury Secretary Scott Bessent said in September they will not get it.¹⁰ That exposure is uncapped and does not require the AI thesis to be wrong.

⁸Stijn Van Nieuwerburgh, "Financing the AI Buildout," presentation slides, Brookings Papers on Economic Activity, September 2026, [LINK](#)

⁹Bain & Company, "Global AI market could hit \$6 trillion annually by 2031," September 29, 2026, [LINK](#)

¹⁰Fortune, "Scott Bessent: Government will not be 'liability shield' for AI labs amid safety standoff," September 22, 2026, [LINK](#)



HOW THIS WORKS

THE TENANT

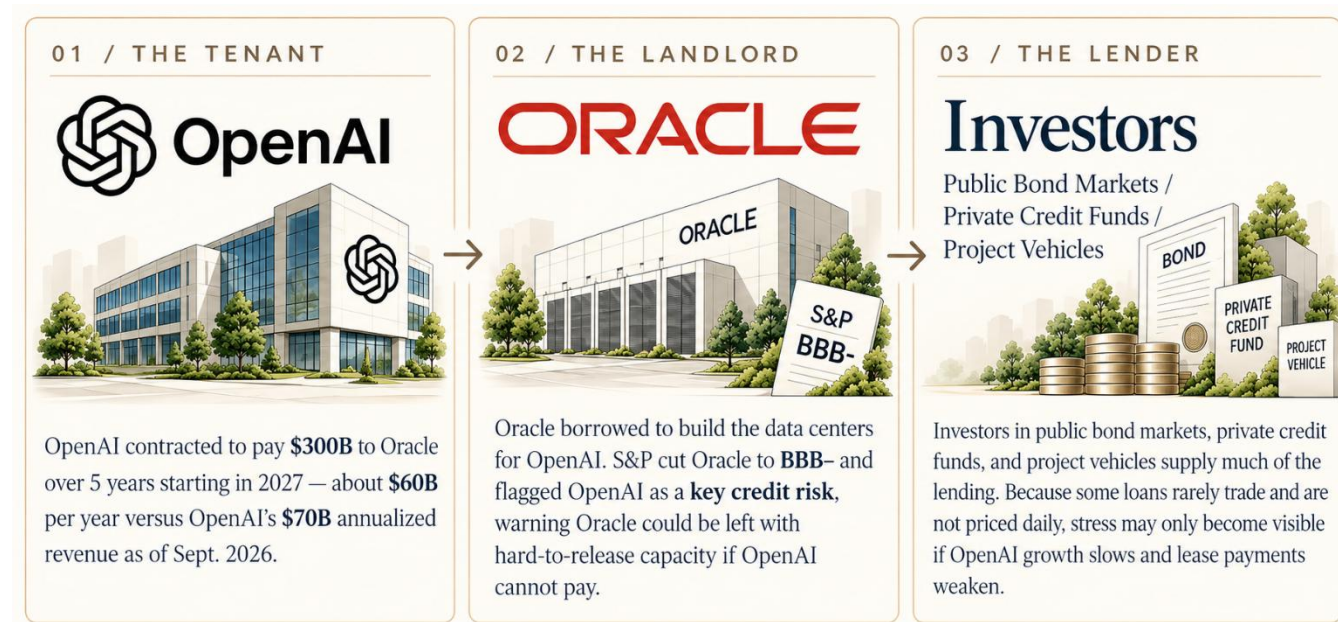
OpenAI has contracted to pay \$300 billion for data center capacity from Oracle over 5 years, starting in 2027.¹¹ That's \$60 billion per year average to one landlord against OpenAI's \$70 billion of revenue on an annualized basis as of September 2026.¹²

THE LANDLORD

Oracle borrowed money to build the data centers OpenAI will occupy. On July 9, S&P Global Ratings cut Oracle's credit grade to BBB minus. That is the lowest rung still considered safe enough for conservative lenders, one step above the tier investors call junk. The agency named OpenAI as the reason. Oracle has roughly \$638 billion of contracted future business on its books. S&P estimates about half of that is OpenAI. Whether OpenAI can pay depends on the AI growth continuing. The agency's concern is what happens if it cannot. Oracle would be left holding data centers built for a single tenant, facilities S&P said it might be "unable to exit" or would have to rent to someone else on worse terms.¹³

THE LENDER

Investors in public bond markets, private credit funds and vehicles financing a single data center hold much of this lending. Many of those loans rarely trade and are not priced daily, so stress would surface slowly, as difficulty refinancing rather than a falling price. If OpenAI's growth slows and it cannot pay its leases in full or on time, investors would see these credit investments take material write-downs.



¹¹WSJ, "Oracle, OpenAI Sign \$300 Billion Cloud Deal" September, 2025, [LINK](#)

¹²Axios, "OpenAI's annual recurring revenue nears \$70B" September, 2026, [LINK](#)

¹³S&P Global Ratings action of July 9, 2026 lowering Oracle to BBB-, [LINK](#)



04 – OUR VIEW

Own the Growth. Sized to Your Plan.

The economic pull runs well past the current spending schedule.

WHAT IT MEANS FOR STOCKS

On the equity side, exposure shows up as concentration. Goldman Sachs Research attributes close to half of this year's growth in S&P 500 earnings per share to AI investment and expects that contribution to fade as the pace of capital spending slows.¹⁴ A broad index fund is carrying more exposure to this AI theme. Valuations tell a mixed story. One common valuation measure, the share price divided by the earnings analysts expect over the coming year, has fallen to about 19 times from 23 a year ago. On that measure, the market is cheaper than it was. And now the big question is if those expected earnings will materialize on time.

WHAT IT MEANS FOR BONDS

A bond fund holds loans to many companies and passes you the interest. Technology and related borrowers now make up about 12% of the market for the safest corporate bonds, the ones held in most conservative bond funds. At the current pace the sector may become the largest single weight in the index, passing the banking sector that has held that position for nearly two decades.¹⁵ We review our core bond allocations continuously, watching how much sits in any one industry and how sensitive the whole allocation is to a further rise in interest rates.

That is why Lakewood's two allocation architecture exists. Lifestyle Protection is sized against your needs rather than against market opportunity, which is why it does not rely on timing this cycle. Risk Capacity is where exposure to structural growth belongs, sized deliberately to capital your plan can absorb.

WHAT THIS MEANS FOR YOUR PORTFOLIO

Lakewood has NOT invested client portfolios in private credit funds or other investment strategies primarily exposed to AI infrastructure or data center construction. However, if this theme experiences stress, we anticipate the global financial markets will react negatively. We continue to diversify our client portfolios using our Lifestyle and Risk Capacity architecture. Lifestyle allocations, capital required to fund long-term spending goals will maintain a conservative posture with hedged equity exposures.

05 – PERFORMANCE

Market Snapshot.

¹⁴Goldman Sachs Research, "Can AI Investment Drive S&P 500 Earnings Even Higher?", September 23, 2026, [LINK](#)

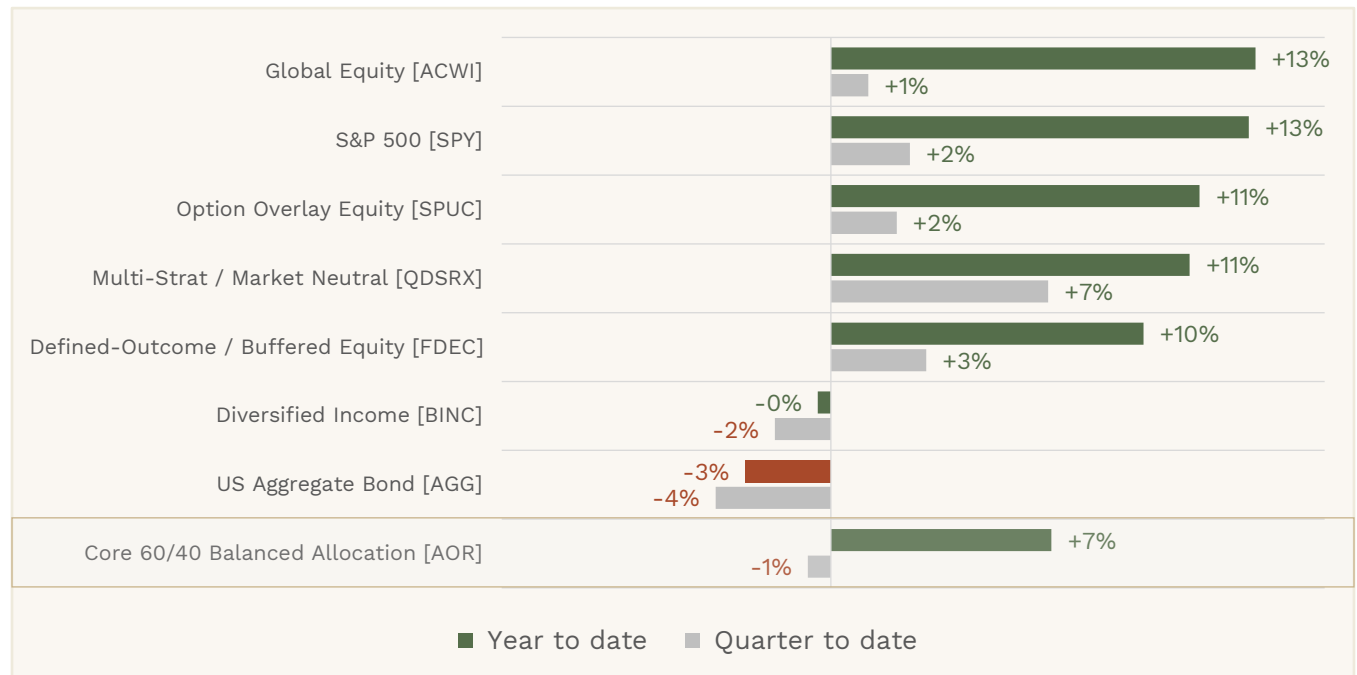
¹⁵J.P. Morgan Private Bank, "Here is why we see opportunities in rising AI debt," September 11, 2026, [LINK](#)



End of September 2026

RETURNS BY MARKET SEGMENT

Quarter to date and year to date, percent



As of 09/30/2026. These are unmanaged funds shown to illustrate the market environment discussed in this note. They are not Lakewood strategies and do not represent any Lakewood account, composite, or actual client performance, which will vary materially. Returns are gross of advisory fees. Source: Bloomberg. US Aggregate Bond [AGG ETF], Multi-Strat/Market Neutral [QDSRX MF], Defined-Outcome / Buffered Equity [FDEC ETF], Global Equity [ACWI ETF], Option Overlay Equity [SPUC ETF], Diversified Income [BINC ETF], S&P 500 [SPY ETF], Core 60/40 Balanced Allocation [AOR ETF].

06 – LAKEWOOD POSITIONING

Tactical Allocation Changes.

Positioning: Increased our upside cap on Hedged Equity allocation during this stock market consolidation period.

Within Lifestyle Protection we are reviewing the core bond allocation for the reason described in section 05. Our portfolios have been positioned to better absorb this rise in interest rates. We plan to adjust portfolios to benefit greater if interest rates fall from these elevated levels.

▲ **Increased:** Equity-Linked Fixed Income, inside our Alternative Income allocation

▼ **Decreased:** Floating-Rate strategies including corporate loans, structure credit, asset-backed lending, Emerging Market debt, Inflation Protected Bonds

07 – YOUR TEAM AT LAKEWOOD

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