

Signal Weekly

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PORTFOLIO MANAGER

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Founder & CIO - N10° Assets

Growth, Momentum, & Profitability®

THE LEAD

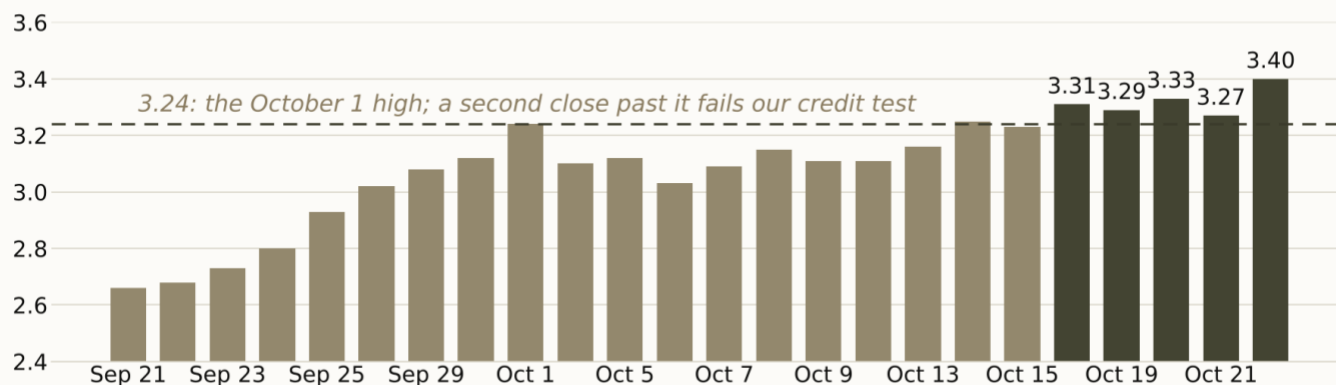
Credit Failed Our Test This Week

Capital Is Now the Constraint

Our credit test failed this week. Last week the high yield spread closed at 3.23 percentage points, one basis point short of 3.24, the October 1 close that was the high of this widening when we set the test, and we wrote that a second close past it would change our view. It closed at 3.31 that Friday, then at 3.29, 3.33, 3.27 and 3.40 on the four sessions through Thursday. The equity indexes barely moved: the S&P 500 lost 0.5 percent to 7,623.68, the Nasdaq 0.7 percent to 25,955.34, and the Dow rose 0.4 percent to 52,215.16, its third weekly gain in a row. The ten year yield closed below 5 percent on Thursday for the first time in about a month and ended the week at 5.00 from 5.09 percent.^{1,2,3,4}

Credit Closed Past Our Line on Every Session This Week

ICE BofA U.S. high yield option-adjusted spread, percentage points, daily closes, Sept. 21 to Oct. 22, 2026



Source: ICE BofA U.S. High Yield Index Option-Adjusted Spread (FRED series BAMLH0A0HYM2), observations through October 22, 2026.

Every close since our last issue sits past the October 1 high; the widest reading, 3.40, came on the day the Nasdaq fell 2.6 percent and the ten year yield fell 17 basis points.^{2,3}

We read the combination as capital being rationed, and that is the change in our view. Spreads widened while Treasuries rallied, so money left risk for safety, and the selling concentrated in the companies that borrow to build. Higher rates, costly delays, component inflation and energy prices push marginal borrowers toward failure, and in our judgment those failures will leave good semiconductor collateral to be bought by stronger

balance sheets. A failed test changes how we describe the environment. It does not change which companies own the bottlenecks.^{5,2}

“In a capital constrained environment, the strong will eat the weak and further strengthen incumbent advantage. Our portfolio favors the stronger balance sheets.”

Andrew D. Urbanski, CIO, N10° Assets

The selling was positional and heavy. Jefferies' trading desk was a net seller of technology by more than \$1 billion on seven of the last ten sessions, and its twenty day rolling flow reached one of the most negative readings of recent years; some strategists read a flow that extreme as a sign the selloff is ending. Multiples have corrected about 17 percent from their highs. The S&P 500 trades at about 19 times forward earnings, and its CAPE ratio falls from 33 to 27 times once the next eighteen months of consensus earnings replace the oldest year of the lookback: high, and well below where operating margins would put it.^{6,7}

Oil replaced rates as the inflation risk. Brent settled at \$116.72 on Friday, up about 6 percent on the week and the highest since late April, after Houthi strikes on Saudi Arabia on Thursday. The Treasury Secretary said Iran's Kharg Island terminal had no crude tankers in sight, and Central Command said its 100 day blockade has kept at least \$25 billion of Iranian crude off the market. One reading we weigh is that the mid-October selling anticipated a resumption of strikes on Iran after hedge funds had already exited. Friday fit that reading: energy rose 2.6 percent to a record and three of every four S&P 500 stocks fell.^{8,3}

The week's tape: October 19 to October 23, 2026 (Friday closes)

MEASURE	LEVEL	CHANGE OR CONTEXT
S&P 500	7,623.68	Down 0.5%; 1.2% Thursday, its worst day since July; 0.5% Friday ³
Nasdaq Composite	25,955.34	Down 0.7%, a second straight weekly loss; 2.6% Thursday ³
Dow Jones Industrial Average	52,215.16	Up 0.4%, a third straight weekly gain ³
Semiconductor ETF (SOXX)	478.20	Down 3.1%; 6.8% Thursday, then up 0.5% Friday ⁹
Ten year Treasury yield	5.00%	From 5.09%; first close under 5% in about a month on Thursday; two year 4.69% ^{3,4}
High yield spread (ICE BofA)	3.40 pts	Thursday reading; every close since October 16 past 3.24, the October 1 high ²
Fed funds, hike odds	3.75 to 4.00%	Hold expected Wednesday; December hike 71 to 80% on futures, expected by all 100 polled economists ¹⁰
Brent crude	\$116.72	Up about 6%; highest settlement since April 29; WTI \$103.27 ³
VIX	19.45	Low close of 16.68 Wednesday; Nasdaq volatility index 28.30 ³
Gold (December)	\$4,007.90	Down about 4%; first trade under \$4,000 since July ³

The strong are already taking share. **GS, MS** and **JPM** captured nearly 80 percent of the top five banks' equity trading revenue this year, \$52 billion combined, on hedge fund borrowing for leveraged bets on AI hardware and Asian semiconductor supply chains; their balance sheets absorb losses that force smaller rivals to cede share. A new essay by Eric Schmidt, Niall Ferguson and Lisa Klaassen makes the same argument for the AI buildout: the frontier now depends on energy, chips, minerals and capital at enormous scale, and the deciding question may be who can bankroll the race. When the inputs are scarce, the owners of the inputs and the companies that can fund them from cash flow win.^{11,12,5}

Breadth that improved through mid-October gave some of it back. Stocks above their 20 day average had gone from under 20 percent at the end of September to above 66 percent by October 15, when the S&P 500 was still holding the rising trendline that had contained every pullback since July; on Friday decliners led advancers by about two to one on both exchanges and Nasdaq new lows outnumbered new highs 299 to 61. Nothing in the week's demand readings changed, as the next section shows.^{13,3}

COMPUTE SCARCITY

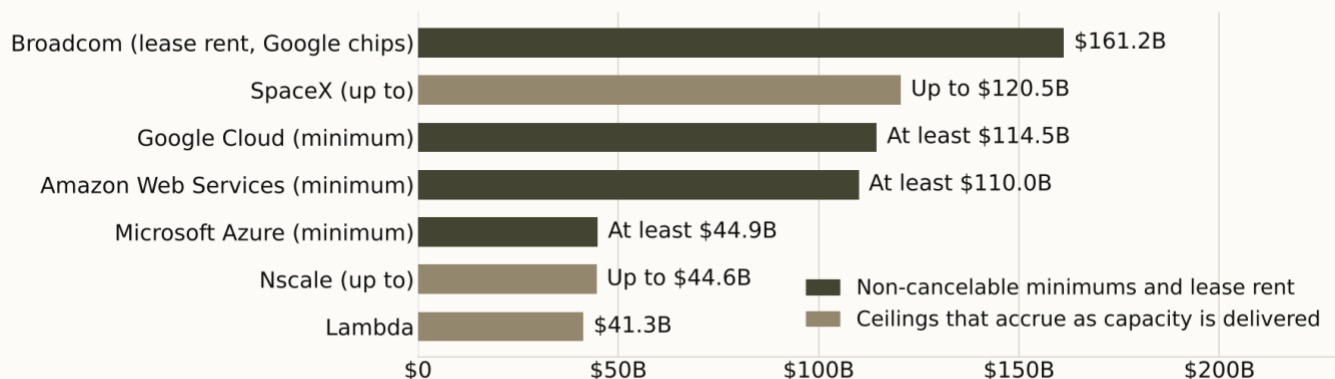
The Compute Shortage Is Getting Worse

Anthropic Has \$637 Billion and Wants More

The largest buyers of compute cannot get enough of it, and the week's filings and calls said so in numbers. Anthropic's registration statement, reported from a draft on Tuesday and filed publicly on October 26, shows revenue of \$16.3 billion in the first half of 2026 against \$1.2 billion a year earlier and a net loss of \$80.7 billion, of which \$72.4 billion is a non-cash change in the value of convertible notes. Its compute contracts with seven suppliers sum to about \$637 billion: non-cancelable minimums of \$114.5 billion with **GOOGL**, \$110 billion with **AMZN** and \$44.9 billion with **MSFT**, \$161.2 billion of lease rent to **AVGO** for Google chips, and up to \$120.5 billion with **SPCX**, \$44.6 billion with Nscale and \$41.3 billion with Lambda. The filing says the company has sought more compute from the clouds than they were willing to provide, and that some of those clouds sell their own models. Last week we said a public filing showing growth well below the reported figures would change our view; the public filing matches the draft.^{14,1}

Anthropic Has Contracted About \$637 Billion of Compute

Anthropic's compute contracts by supplier, \$ billions, from its Form S-1 filed October 26, 2026



Source: Anthropic, PBC, Form S-1 filed with the SEC on October 26, 2026, as read by Cape Fear Advisors and The Stack; Broadcom rent excludes interest.

Anthropic's three largest compute bills run to **AVGO**, **GOOGL** and **AMZN**; the filing says even these suppliers have not delivered the capacity it sought.¹⁴

Compute capacity is the decisive advantage in the model race, as we have said since the spring, and the laboratory that identified the bottleneck earliest holds it. OpenAI's lead rests on the capacity it locked up first; Anthropic's filing shows the second largest laboratory paying whatever it takes to close that gap. One investor argued this week that Anthropic should raise at least \$200 billion at its offering even at a lower valuation, because \$200 billion funds five to ten gigawatts of its own compute and surety of compute matters more than

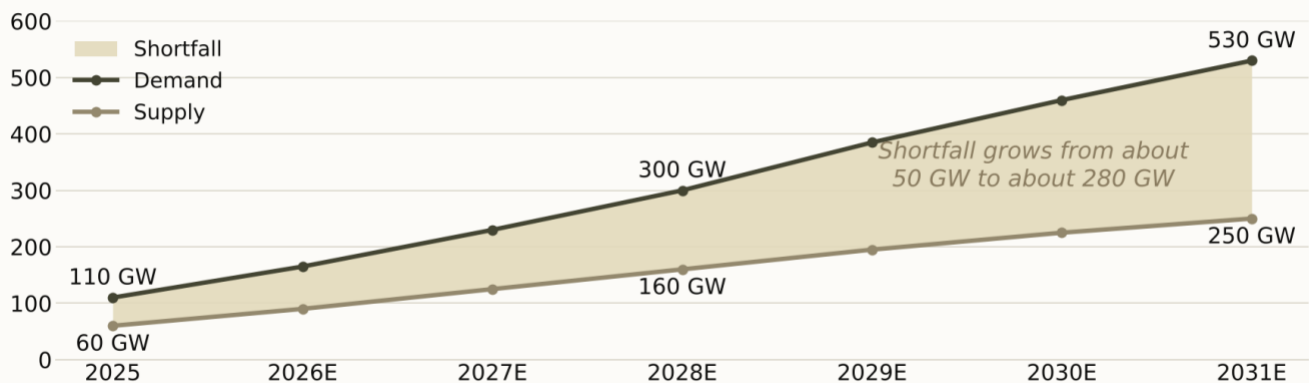
the mark. We agree with the premise. A model company without captive capacity rents it at spot prices from the companies we own.^{5,15}

The sellers confirmed the shortage from their side. On **SPCX**'s third quarter call, its chief executive said the value of compute per watt rises as models improve, that two year old H100s rent for more than when they were new, that short term contracts are renewing at higher dollars per watt, and that the company tried to offload inference to other clouds and found none with GB300s, GB200s, TPUs, Trainiums or H100s to spare. Its nameplate compute reached 1.7 gigawatts, with 2.5 to 3 expected by year end and about 10 more in 2027, current deployments pay back in under a year, and its superintelligence segment produced \$7.6 billion of revenue from \$813 million a year earlier.¹⁶

Usage is rising faster than price is falling, and supply falls further behind demand every year on J.P. Morgan's forecast. Anthropic and OpenAI token usage has multiplied since January 2025 while the cost per million tokens fell to about 60 cents, and quoted short term rents at the neoclouds run two to three times the realized revenue per gigawatt at the hyperscalers, the premium a buyer pays today for capacity it cannot get on a long contract.^{17,18,19}

Compute Demand Outruns Supply Every Year Through 2031

J.P. Morgan global AI compute forecast in gigawatts; supply roughly quadruples and the gap still widens



Source: J.P. Morgan Communications Infrastructure and Asia Technology Hardware teams, via Milk Road AI on X, Oct. 20, 2026; values read from the published chart.

Supply quadruples and the shortfall still grows from about 50 gigawatts to about 280 by 2031; the companies we own sell into that gap.¹⁹

Memory is where the market tested the shortage and where the supplier answered. Memory stocks fell for a week after an October 15 column in a South Korean publication warned of a flood of new supply in 2029 and after China's CXMT announced a new design architecture; **MU** and its peers sit roughly a third below their July peaks, and SK Hynix withdrew the U.S. listing of its Solidigm unit. **NVDA**'s chief executive said on Thursday that he sees no sign of a 2029 memory glut and that high bandwidth memory will be used for years; the memory names rose 2 to 5 percent on Friday. **SNDK**, a larger position, closed at \$1,238.03, down 4.7 percent on the week after an 8.5 percent fall on Thursday. We read the 2029 debate as an argument about the fourth year of a shortage whose first three are contracted.^{20,9,5}

The bear case this week came from a credible source. Citadel's founder said investors are almost certainly in an AI bubble, that corporate America has been uneven at extracting value from its models, and that the companies surviving a bubble become the market leaders for decades. By one estimate 1 percent of

companies account for 90 percent of AI spending and about 70 to 75 cents of every AI dollar comes from venture capital flowing through unprofitable companies, so revenue quality is poor until the spending shows up in public company earnings. Clearing events sort brittle revenue from durable revenue, as they did for cloud before AWS scaled; the weak buyers fail, the strong buyers absorb their capacity at a lower price, and the suppliers keep selling.^{21,15,5}

HYPERSCALER CAPEX

Meta Spent More Than It Earned in Cash

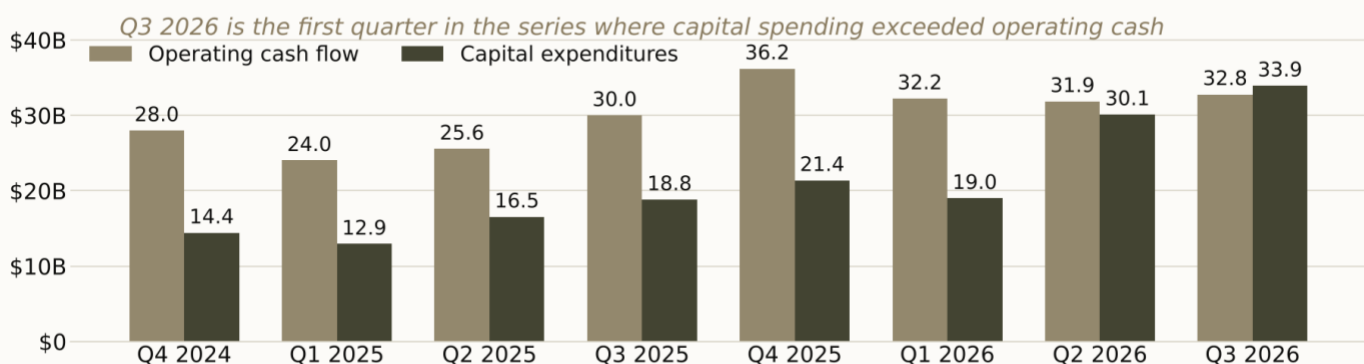
Class C Shares Are the Financing Plan

META's quarter answered the demand question and raised the financing one, and the market priced the second. Revenue rose 26 percent to \$64.6 billion against \$63.3 billion expected, the fourth quarter guide of \$73 to \$76 billion straddled consensus, and earnings were \$3.83 a share after a \$10 billion settlement with state attorneys general, or \$7.40 before it. Capital spending was \$34.9 billion including finance leases, against \$19.4 billion a year earlier and \$32.8 billion of operating cash flow, so free cash flow was negative \$2.1 billion; the 2026 capital range moved to \$135 to \$145 billion from \$130 to \$145 billion, the opposite of the cut we listed last week as something that would change our view. The shares fell 7 percent on Thursday and 9.4 percent on the week to \$642.62, and five year credit default swaps reached a record 114.79 basis points.^{22,3,23,1}

We weigh the demand side and hold the position. Muse, the assistant launched in September, has more than 10 million users in the U.S. and Canada, a quarter of them returning daily, and has not launched globally because it is compute intensive to run; management expects it to become more than ten times as cost efficient over the next year. Instagram and Facebook engagement reached records as the company's models surfaced more relevant content. Revenue per dollar of capital spending, the test we set for the hyperscaler reports, worsened this quarter by construction, because capacity is being bought ahead of the product that will use it; the fourth quarter guide is the first evidence that the product pays. **META** remains a larger position as the distribution end of a commoditizing model layer.^{22,1,5}

Meta's Capital Spending Overtook Its Operating Cash Flow

\$ billions by quarter; capital expenditures exclude finance lease principal, which Meta reports separately



Source: Meta quarterly cash flow statements via StockAnalysis.com; Meta Q3 2026 release, October 21, 2026 (\$34.9B capex including finance leases).

*Capital spending exceeded operating cash in the third quarter for the first time in the series; the Class C shares are how **META** intends to keep spending without borrowing against its votes.*^{23,24}

The financing plan is a new class of stock. **META** will distribute one nonvoting Class C share for every Class A and B share, effective January 19, 2027, to raise capital, pay employees and fund acquisitions without diluting votes. The founder's agreement lets Mark Zuckerberg sell 20 percent of the Class C shares he receives at once, about \$20 billion, and the rest over time without reducing his 60.6 percent voting control, and commits him to remain a California resident, or to live wherever the company is headquartered, for eight years. The residency clause answers Proposition 40, the one time 5 percent wealth tax on California billionaires on the November 3 ballot, which applies to residency on January 1 and is expected to raise about \$100 billion over 2027 to 2031; CNBC's wealth editor reads the threatened move out of state as leverage in the negotiation with the board. Either way, the structure exists to fund compute, and the street's targets rose: **JPM** to \$940, Citi to \$905, Barclays to \$880 and **GS** to \$860.^{24,22}

POWER EQUIPMENT

Casting Is the Turbine Bottleneck

Two New Foundries Explain GE Vernova's Drop

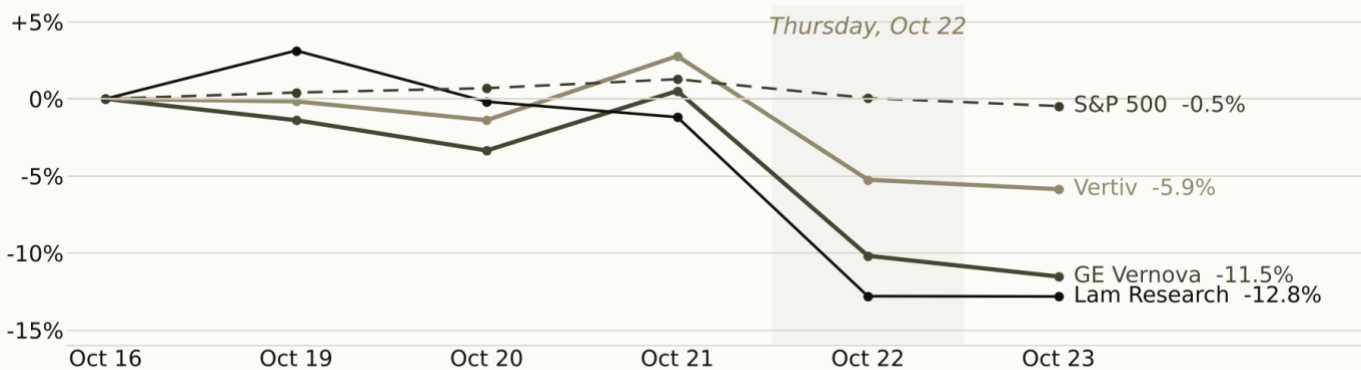
GEV fell 10.6 percent on Thursday and 11.5 percent on the week to \$815.00; **VRT** fell 7.8 percent on Thursday to \$194.32, **PWR** 8.1 percent and **VST** 9.8 percent on the day. The press attributed the move to **META**'s negative free cash flow, the worry that hyperscaler financing could slow large, long lead equipment orders, two target cuts and profit taking ahead of **GEV**'s October 28 report. We weigh a different cause more heavily: in the same three days, two companies said they will cast their own turbine blades and vanes.^{25,9,5}

Blades and vanes are the part of a gas turbine that cannot be bought. On Tuesday's **SPCX** call, its chief executive said turbine suppliers can deliver everything except the blades and vanes 12 to 18 months before they can deliver the blades and vanes, that casting is the bottleneck and seems to be getting worse, and that **SPCX** will apply the casting capability it built for rocket engines to terrestrial turbines to bring power online 12 to 18 months faster than anyone else. On Thursday Boom Supersonic unveiled its first completed turbine core, a 2 gigawatt a year Superfactory in Centennial, Colorado, for its 42 megawatt turbines, with 1 gigawatt of output in 2028, 2 by 2029 and first deliveries targeted for mid 2027, and an all digital foundry inside it to cast single crystal blades and vanes, with the first components expected in 2027.^{16,26}

The casting constraint is what gave the incumbents their pricing power, and the market priced two new entrants attacking it. We hold **GEV** on its order book and its place at the front of a multi-year turbine queue, and nothing in the week changed the 2027 and 2028 deliveries already contracted; a 42 megawatt turbine from a company that has not yet fired its core is no substitute for a frame unit in 2027. It is a substitute in the years beyond, which the market was also paying for, and that is why the multiple moved. The October 28 report is where the order book speaks. **VRT**'s cooling and power equipment sits downstream of whichever turbine is installed and is less exposed to the casting question than its Thursday decline implied.^{5,26,25}

Thursday Did the Week's Damage to Power and Equipment

Change in closing price from October 16, 2026; Meta reported Oct. 21, the casting news came Oct. 20 and 22



Source: StockAnalysis.com closing prices, October 16 to 23, 2026; S&P 500 built from daily index changes. All three companies are portfolio holdings.

GEV, **VRT** and **LRCX** fell 6 to 12 percent on Thursday with the index down 1.2 percent; the moves came on the days the financing and casting news landed, with no change in any company's guidance.^{9,3}

SEMICONDUCTOR EQUIPMENT

Lam Sold More Than It Can Ship

The Constraint Is in Lam's Own Supply Chain

LRCX reported a fifth consecutive record quarter and fell 11.8 percent the next day. September quarter revenue was \$8.22 billion, up 22 percent on the quarter and 54 percent on the year, earnings \$2.20 a share against \$2.18 expected, and operating margin passed 40 percent. December guidance of \$8.6 billion plus or minus \$400 million was in line, and the finance chief said it would have been higher without near term supply chain constraints that he expects to persist into next year, with slipped orders shipping in the March quarter; the chief executive cited visibility through 2028. China was 35 percent of revenue and will be a significantly lower share in December. Preliminary 2027 wafer fab equipment spending is above \$200 billion, and unconstrained demand would be higher. The shares closed Friday at \$230.10, down 12.8 percent on the week; **KLAC** fell 12 percent and **AMAT** 8 percent alongside.^{27,9,3}

A supplier that cannot ship what it sold is in the position we want our suppliers in. The constraint is in gas delivery subsystems across the industry, by one broker's account from SEMICON West, and the same broker cut its target to \$345 from \$385 while raising its 2027 and 2028 estimates, moving to 25 times 2028 earnings from 29; the de-rating is a multiple event with estimates rising, the pattern we described in September for the owned AI names. The China mix shift is the risk we watch, because it is the one part of the guide that is about demand.^{27,1,5}

Lam Sold More Than It Can Ship: a Fifth Record Quarter

Lam Research revenue by fiscal quarter, \$ billions; the December 2026 bar is company guidance with its range



Source: Lam Research fiscal first quarter 2027 results and call, October 21, 2026; prior quarters from company filings via StockAnalysis.com.

Revenue has nearly doubled in seven quarters and the next quarter is guided higher again; the gap between what **LRCX** can ship and what it has sold is the constraint, by the company's account.²⁷

TXN gave the analog cycle its first read of the season, and it was strong. Third quarter revenue rose 28 percent to \$6.06 billion, up 11 percent on the quarter, and earnings rose 77 percent to \$2.62, with broad growth in industrial, automotive and data center; fourth quarter guidance of \$5.8 to \$6.3 billion is flat sequentially against a normal seasonal decline. The shares rose 3 percent on the week to \$284.69. The week's five reports from companies we own or follow closely say one thing in five ways.^{28,9}

Five reports, one pattern: demand strong, supply and capital constrained

REPORT	WHAT IT SAID	OUR READ
META, Oct 21	Revenue up 26%; capex of \$34.9 billion exceeded operating cash; Class C shares to fund compute	Demand intact; financing priced ²²
LRCX, Oct 21	Record \$8.22 billion; December guide capped by supply constraints; visibility through 2028	Supply constrained ²⁷
TXN, Oct 21	Revenue up 28%; fourth quarter guided flat against a seasonal decline	Demand intact ²⁸
SPCX, Oct 20	Compute renewals at higher dollars per watt; no spare chips at any cloud; 13 gigawatts targeted for end 2027	Supply constrained ¹⁶
AXP, Oct 23	Record revenue; 5% of jobs cut to prepare for AI; 2026 guidance raised	AI reaches operating budgets ²⁹

THREE CURRENTS

What's Actually Moving

1. American Express is cutting 3,500 jobs to prepare for AI; the spending is moving into operating budgets.

AXP reported record revenue of \$20.06 billion, up 9 percent, adjusted earnings of \$4.68 a share against \$4.48 expected and billed business up 8 percent, raised its 2026 earnings range, and on the same call said it will cut about 5 percent of its 78,000 employees at a \$336 million charge; its finance chief said the goal is to be leaner, more agile and to prepare for AI, removing management layers before more work is automated. The shares fell 3.7 percent on Friday to \$313.22, about flat on the week. The restructuring is what the transition Citadel's founder described looks like in practice: his firm's agentic tools cut research that took six to eight weeks to two to three hours. AI spending funded by venture capital is brittle; AI spending funded by an incumbent's restructuring charge is the durable kind, and it is the demand that reaches our suppliers after the laboratories. **AXP** is a smaller position among the deliberate diversifiers.^{29,21,15,30}

2. Space data centers run hot by design; Amphenol and Tesla are how we hold the thesis.

SPCX's chief executive explained this week why orbital compute will run its chips hot. In a vacuum heat leaves only by radiation, radiated power rises with the fourth power of absolute temperature, so raising operating temperature by 20 percent in kelvins halves the radiator mass a launch must carry; chips designed for 100 to 120 degrees Celsius make the economics work, and large models tolerate the occasional bit flip from radiation. The design choice moves the engineering problem from cooling to interconnects and materials that hold at temperature, which is where **APH** sits. **SPCX** also said the **TSLA** combination is not a certainty, with the special committees having reached no agreement on terms; **TSLA** rose 4.9 percent on the week to \$372.22 and **SPCX** 1 percent to \$147.49, after a Friday report that **SPCX** is seeking thousands of cell sites for a fourth wireless carrier sent **T** and **TMUS** down about 8 percent each. Star Mind, the orbital computer we described last week, remains the substance; **APH** and **TSLA** are smaller positions and the thesis is unchanged.^{31,16,9,1,30}

3. AI found the PHP flaws; the attack surface keeps expanding and the security vendors recovered.

Two critical flaws in PHP, which runs about 70 percent of websites, were found with AI agents and disclosed this week; one corrupts memory to allow remote code execution, and some of the underlying issues date back more than a decade. Government services in Britain, Finland and Japan went offline to patch, the FBI advised taking sites down if they could not be updated at once, and a former CISA director said 3 percent of all critical vulnerabilities ever discovered were found in the last month, calling it Black October. Separately, the largest banks are restricting unvetted AI agents that act on customer accounts. Last week we wrote that security vendors sit between the model providers and the customer and that the market was pricing it; this week **ZS** rose 23 percent and **CRWD** 13 percent as the attack surface visibly widened. Both readings hold: demand for security rises with every AI found exploit, and the margin between the model that finds flaws and the vendor that sells protection is still being negotiated. We do not own a security vendor.^{32,3,1}

PORTFOLIO IMPLICATIONS

Current Exposures

- › **NVDA / TSM** The two largest positions. **NVDA** fell 4.4 percent on Thursday and closed the week at \$210.96, down 1.5 percent; **TSM** rose 1.4 percent to \$418.51. **NVDA**'s chief executive dismissed a 2029 memory glut, and every model in the week's filings still runs on accelerators.^{20,9,30}
- › **SNDK / LRCX** Larger positions, and the two most exposed to the week's supply and memory debates: **SNDK** closed at \$1,238.03, down 4.7 percent, and **LRCX** at \$230.10, down 12.8 percent, on a record quarter capped by its own supply chain.^{27,20,9,30}
- › **GOOGL / META / AMZN / MSFT** Larger positions. **META** fell 9.4 percent to \$642.62 on the financing of its buildout; **GOOGL** (\$320.21), **AMZN** (\$248.00) and **MSFT** (\$524.51) report next week, and their capital plans are the test. Anthropic's commitments run through all three clouds.^{22,14,9,30}
- › **MRVL / AVGO** Larger positions. **AVGO** carries the largest single Anthropic commitment, more than \$160 billion for Google chips; it closed at \$321.68, down 2.2 percent, and **MRVL** at \$228.51, up 0.3 percent.^{14,9,30}
- › **GEV / VRT / PWR / VST** **VRT** is among the largest positions. **GEV** (\$815.00) fell 11.5 percent, **VRT** (\$194.32) 5.9 percent, **PWR** (\$546.43) 13.5 percent and **VST** (\$140.16) 7.8 percent, on financing worries and the two casting announcements; **GEV** reports October 28.^{25,26,9,30}
- › **ORCL** One of the smaller positions, deliberately, as the closest thing we own to a neocloud. It closed at \$126.16, down 1.6 percent; a failed credit test raises the cost of the financing exposure we accept there.^{9,30,5}
- › **PLTR / AXON** **PLTR**, a larger position, rose 5.8 percent to \$196.75 with the software group; **AXON** is a smaller position. No change in thesis.^{9,30}
- › **TSLA** A smaller position, up 4.9 percent to \$372.22. The combination with **SPCX** is not a certainty, by **SPCX**'s own account, and the orbital compute thesis does not depend on it.^{16,9,30}
- › **LLY / MCK / AXP** The deliberate diversifiers. **AXP** fell 3.7 percent on Friday to \$313.22 on the job cuts; earnings revisions are the strongest stock selection signal in health care since 2020, and **LLY** and **MCK** are our platform and distribution exposures there.^{29,33,9,30}
- › **APH / LITE / UBER / TXN** **TXN** rose 3 percent to \$284.69 on a strong quarter and guide; **APH** (\$74.09) and **LITE** (\$756.17) fell 6.6 and 8.2 percent with the equipment group on no company news; **UBER** is unchanged in thesis.^{28,9,30}

POSITIONING · OCTOBER 27, 2026

The week's through line: our credit test failed, with the high yield spread past 3.24 on every close since October 16, and we now describe the environment as capital constrained. Every demand reading moved up again: Anthropic's draft filing, **SPCX**'s renewals, **LRCX**'s order book, **META**'s guide and **TXN**'s quarter. We made no changes. We own the chips, memory, optics, power and distribution platforms that sell the scarce inputs, hold **ORCL** small for its financing exposure, and hold no neocloud, no standalone model company and no security vendor.

Current Exposures are shown for illustrative purposes to demonstrate how N10° Assets is positioned relative to the themes discussed in this publication. The holdings presented were selected based on their relevance to those themes and are not intended to represent all portfolio holdings.

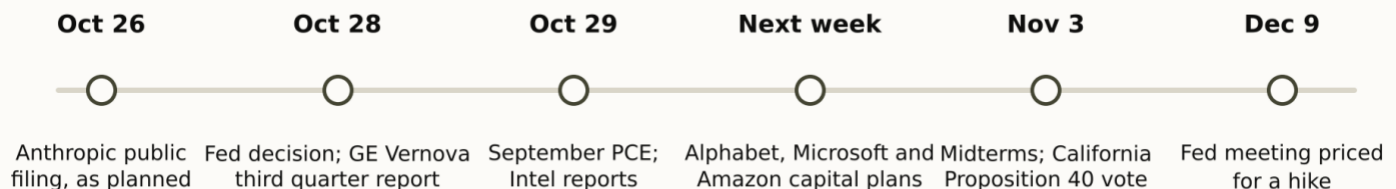
References to portfolio actions and positioning reflect target weightings as of the date shown, are subject to change without notice, and are not recommendations to buy or sell any security.

Where caution is warranted

- › **A failed credit test has preceded broader drawdowns.** Spreads at 3.40 are 75 basis points wider than on September 1, and the series alone does not say where this widening ends.²
- › **Our attribution of GEV's decline to the casting announcements is an inference.** The company made no announcement, the press cited **META's** financing, and the October 28 report is the first direct evidence either way.^{25,26}
- › **Anthropic's figures come from a draft.** The public filing, planned for October 26, may differ, and the reported contract amounts do not fully reconcile to the \$450 billion cloud total.¹⁴
- › **Oil is now the inflation risk.** Brent at \$116.72 with Houthi attacks on Saudi Arabia and an Iranian export blockade; one year inflation expectations stand at 4.7 percent; the December hike is priced and a second is not.^{3,10}
- › **The memory debate is about 2029.** A supply response that year would leave 2027 contracts intact and would alter the multiple the market pays for them now; **SNDK** and **LRCX** are the positions most exposed to that multiple.²⁰

The Next Six Weeks Test the Capital Constraint Directly

Dated events that bear on the questions in this issue; all markers open, meaning pending



Sources: IFR on Anthropic's timetable; Federal Reserve calendar; company earnings calendars; California Secretary of State; CME FedWatch.

WHAT WOULD CHANGE OUR VIEW

- › **High yield spreads close past 3.40 on a second reading.** The constraint would be spreading from AI borrowers to credit broadly; the prior high of the widening has been our line since No. 19, and Thursday set a new one.^{2,1}
- › **Anthropic's public filing shows commitments or revenue materially below the draft.** The strongest demand reading of the week would be weaker on a stated basis.¹⁴
- › **GEV reports cancellations or pricing concessions in gas turbines on October 28.** The casting entrants would be reaching the contracted 2027 and 2028 book.²⁵
- › **GOOGL, MSFT or AMZN cuts its 2027 capital plan.** Demand from a cash funded buyer would be in question, the test we set last week.¹
- › **GPU rental prices turn down while capacity additions continue.** The first sign of a compute surplus, which every reading this week contradicts.^{16,18}
- › **The Fed raises rates on Wednesday.** Against a near unanimous hold expectation, the constraint would be tightening faster than the market has priced.¹⁰

These observations would change our opinion. They are not commitments to act; positioning can change at any time and for other reasons.

ALSO WORTH NOTING

The Wider Read

- › **The Fed is expected to hold Wednesday and raise rates in December.** All 100 economists polled by Reuters expect a December increase and futures price it at 71 to 80 percent; one year inflation expectations stand at 4.7 percent, and producer prices run at 6.3 percent against 3.7 for consumers.^{10,13}
- › **Commodities against long Treasuries reached their highest since 2008.** The ratio of the CRB index to 30 year bonds last stood here just before the financial crisis; the market expects inflation pressure to persist.¹³
- › **Earnings revisions are health care's strongest stock signal since 2020.** The sector has the highest company specific risk of any, and 33.3 percent of its companies cite AI cost reductions against 43.6 percent of the S&P 500.³³
- › **New York lost about 2,000 restaurants in a year.** The first quarter count fell by the most in at least 36 years of data, more than the worst quarter of 2020, with health insurance costs up 12.9 percent.³⁴
- › **Europe's Russian energy purchases dwarf the U.S. diesel deal.** The \$1 billion purchase we noted last week compares with more than \$200 billion the EU has spent on Russian oil and gas, with hundreds of billions more on track.^{35,1}
- › **French riots burned the 1873 Limoges town hall.** More than 1,200 people were arrested across France over the weekend, and France's bond market was among Friday's reasons for caution.^{36,3}

- › **DARPA moved four more quantum developers to final verification.** Atom Computing, Diraq, IBM and IonQ join Microsoft and PsiQuantum in Stage C, which tests whether a useful machine can be built by 2033.³⁷
- › **Palmer Luckey's Warhound will clone and gene edit military dogs.** It raised \$200 million at a reported \$1.2 billion valuation; the Pentagon buys 200 dogs to field 100.³⁸
- › **A fusion startup turned mercury into gold.** Marathon Fusion says it beat CERN's transmutation record tenfold and a 40 year Soviet isotope enrichment record, and is building a reactor in San Francisco.³⁹
- › **Musk put about \$1 billion into Skydance.** The Ellison led group carries \$87 billion of merger debt; a global output deal delivering television over Starlink has been discussed.⁴⁰
- › **Investors who use AI want human advisors more.** A Vanguard survey of 6,686 investors found AI users eleven times more likely to say it raised an advisor's value than lowered it; our CIO wrote this week that AI makes the complexity of advice visible.⁴¹
- › **The Pentagon cleared a heat ray test at the southern border.** The non lethal system reaches more than half a mile; four open source Microduck robots shared NVDA's GTC Berlin stage the same week.^{42,43}
- › **New York City will ban horse drawn carriages by June 2028.** The union representing 200 drivers will sue; medallions have traded for as much as \$400,000.⁴⁴
- › **NYSE extended options hours to 7:30 a.m. and 4:15 p.m. Eastern.** The change, on heavily traded ETFs and single stocks, follows Cboe.⁴⁵

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