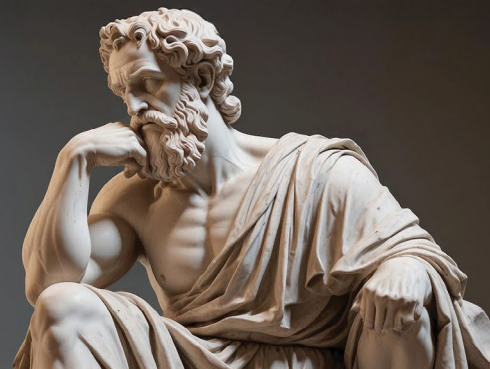


Macro Musings



October 2026

It's the End of the World as We Know It. (I Feel Fine)

(Performance data as of September 30, 2026)

The Quick-Hits

- Viral post claims AI is an existential threat to humanity, growing calls for accountability
- U.S. Treasury yields continue to climb, exacerbating a challenging fixed income outlook
- Tech the lone bright spot amidst a sea of red, hyperscaler bond issuance likely to continue
- U.S. Fed raises rates, signals more on the horizon
- Quotes of the month:

"Debt and deficits are one subject where FAFO is the right slogan"

- Gideon Rachman, Financial Times columnist (FAFO = F*** Around and Find Out)

"Investors will have to consider a giant unpriceable risk and a giant unpriceable opportunity"

John Foley, Head of Financial Times Lex column

Macro Musings

After a viral social media post from a former Anthropic researcher that claimed leading artificial intelligence (AI) labs were "gambling with our lives", the narrative around AI has changed. Suddenly, the question is no longer "is AI going to kill our jobs?" but rather "is AI going to kill us all?" Spoiler alert - we're going to be fine. Incentives drive human behaviour, and what has been lacking to date are disincentives. More specifically, accountability. But that won't be the case for long.

Dario Amodei, CEO of Anthropic, told the UN Security Council in late September that AI could threaten humankind and was the most important global security issue facing the world today. He also led public calls this month to "pace the frontier" of development, with Sam Altman and Elon Musk quickly backing that sentiment. Earlier in the month, in the wake of the aforementioned viral social media post, Evan Hubinger, who leads alignment-related work at Anthropic, responded by saying that "Jacob is correct here - we really do earnestly believe AI could kill all humans!"

There has been some speculation in parts of the media around whether this is some sick and twisted marketing gimmick. 'Look at the scary Frankenstein monster I've created. Only I'm capable of such a tremendous feat. Oh and, by the way, did I mention our IPO is coming soon?' Or so goes their line of thinking.

Another angle that has been floated is that "pacing the frontier" based on safety concerns provides a convenient explanation for what some believe is an inevitable slowdown in growth, as questions remain regarding how companies like Anthropic and OpenAI are going to generate the revenue necessary to justify current valuation estimates.



Think back to the early days of COVID when vaccines were being developed. If, during Operation Warp Speed, the CEO of Pfizer or Moderna had come out and said, "take this shot, but there's a 10% chance it will kill you," do you think that shot would have ever seen the light of day? Not a chance. Yet for some reason, the winner-takes-all mentality around AI has allowed these labs to continue developing their models, with the U.S. President championing the lack of regulation.

But we're now finally starting to see some leadership emerge here.

NVIDIA's Jensen Huang recently announced the launch of its Open Agent Safety Platform. Rather than advocating for a broad slowdown in AI development, he's arguing that the safety concerns people are raising are engineering problems that can be addressed with straightforward technical controls. One such approach is to provide critical organizations such as banks, utilities and industrial manufacturers access to the latest AI models so they can identify and close vulnerabilities before bad actors exploit them.

Similarly, Sam Altman has postponed the OpenAI IPO, stating that now is a good time to slow down and that the company will likely be paced by how quickly it can progress on alignment and safety.

But the challenge extends beyond just safety.

On the IPO side for Anthropic, backers of the company are confident it can list at north of \$2 trillion, making it the largest IPO in history. However, leaked prospectus documents appear to paint a fairly bleak picture, with the company losing billions of dollars. While details remain scarce, analysts believe Anthropic may be removing training costs from its earnings, potentially allowing it to claim profitability on an "inference-only" basis. But if you raise your eyebrows upon reading that, you're not alone.

Is training of frontier models part of operations, or is it not? If training is an ongoing exercise, it's difficult to argue that it isn't an operational expense. This points to what may be the central challenge facing frontier AI labs. They could stop training new models and become tremendously cash-flow positive, but in doing so they risk becoming commoditized and overtaken by lower-cost competitors, particularly from China. As a result, they may ultimately come to be the luxury brands of the AI world, as remaining at the cutting edge is simply too expensive to serve the mass market without charging accordingly.

One area where it may seem like the sky is falling is fixed income. Early in September, Ruchir Sharma, Chair of Rockefeller International, published a column in the Financial Times titled "*Why a US debt binge is starting to matter*"¹. Not only have rising bond yields hurt fixed income investors of late, but he also argued that if 10-year Treasury yields decisively breached 5%, the AI bubble could pop.

His rationale was that when Big Tech has to compete for capital with a government that is paying a yield north of 5%, many will find themselves crowded out of the debt market. He also noted that a 10-year bond yield above 5% would surpass the earnings yield of the U.S. stock market, which has historically been a headwind for stocks. Since the publication of that article on September 6, 2026, yields have decisively breached 5%, but so far, the Information Technology (Info Tech) sector overall appears to be fine. That's not to say his argument doesn't hold merit, but with a return of about 4% in September, the Info Tech sector of the S&P 500 Index held up just fine, while just about everything else was negative.

To play devil's advocate, does a rising 10-year bond yield make much difference when it comes to Big Tech bond issuance? Perhaps, but the AI buildout appears to be so price-insensitive. If these companies are willing to press on in the face of dramatically higher chip costs, how reasonable is it to assume that even an extra 100 bps (1%) increase in borrowing costs will do much to slow them down?



One of the most pervasive narratives about bond yields today is the U.S. government's fiscal incontinence. With national debt above \$40T and a more than \$2T annual deficit, the overall debt load has doubled since Trump first took office (it was just shy of \$20T in January 2017).

What we've seen this year has been international flows into U.S. stocks overtaking flows into treasuries for the first time in 26 years, outside of brief episodes during COVID and during the aftermath of the global financial crisis, according to Deutsche Bank². This reflects not only the ever-growing allure of U.S. stocks, which are on pace to record double-digit returns for the fourth consecutive year, but also rising pressure on treasuries, as the global risk-free asset, as investors around the world grow increasingly reticent about lending to heavily indebted governments.

George Saravelos, global head of FX research at Deutsche Bank, recently stated that *"U.S. assets are no longer the safe but risky asset of choice"*, while Marija Veitmane, head of equity research at State Street, said, *"If you are worried about the U.S. government's fiscal prudence, then comparing equity fundamentals with governments makes companies look very, very solid."*³

According to Stephen Miran, however, U.S. long-bond yields are not rising because of debt-load concerns, but rather because investors are pricing in AI-driven economic growth (i.e. an expansionary economic environment, leading to higher inflation expectations down the road).

Regardless, the U.S. Federal Reserve (Fed) unanimously raised rates by 0.25% in September, marking the first hike since July 2023 and setting the Fed funds target range at 3.75-4.00%. Solid economic data allowed concerns surrounding inflation and its associated risks to take centre stage as the main focus. Many viewed this unanimous decision by the committee as one that bolstered the credibility of Kevin Warsh (Fed Chair) and the Fed overall as an independent institution and an inflation fighter, particularly in light of repeated calls by the President for them to cut rates. Looking at the committee's most recent dot plot (a snapshot of where Fed officials expect interest rates to go), expectations are leaning towards higher rates coming and more than previously anticipated. Here in the early days of October, investors are pricing in a 70% probability that the Fed hikes rates by another 0.25% this month.

With yields rising across the curve over the past month by considerable margins, are we now closer to yields topping out? It depends on many factors, including the U.S. economy, which continues to be driven by the AI super-cycle. Stronger and sustained growth pushes bond yields higher as inflation expectations rise. So too does geopolitical conflict. Are we set to see an end to hostilities with Iran? Despite on-again, off-again talks, the answer currently appears to be no. Will AI companies continue to issue bonds at these higher rates? As previously mentioned, indications strongly point to yes. Will the U.S. Congress decide to rein in spending? Perhaps if there's a democratic wave in the midterms, we could see a change in policy, but the debt issue has been growing for decades, so this too seems unlikely.

Michael Green, CEO & CIO of Tier 1 Alpha Asset Management, recently offered a counterargument to what he calls all of the "morality-driven" narratives the media is running with to explain why bond yields are rising (i.e. the idea that government policy has been bad and they're being punished accordingly)⁴. According to him, the bond market selloff we've been witnessing is simply a mechanical phenomenon that is the consequence of improperly constructed bond indexes and the passive investment strategies that track them.



He argues that many commentators have incorrectly concluded that rising Treasury yields reflect U.S. debt concerns. First, he looked at U.S. credit default swaps and noted that they have been tightening rather than widening (think of these as insurance contracts against the U.S. defaulting on its debt, with the price of this insurance falling, not rising). Additionally, the U.S. dollar has been strengthening, not weakening (if investors were exiting U.S. bonds and going elsewhere, they'd be selling U.S. dollars and the currency would be expected to decline considerably), and similar bond market weakness is occurring in other countries with different fiscal situations.

Green thinks the Fed is looking at the wrong signals and needs to get wise to the fact that yields are rising because of the self-reinforcing downward price pressures coming from passive investments and their associated inflows and rebalances. The bond indexes these strategies track are constructed such that issuers with more debt outstanding account for a higher proportion of the index weight, and bonds trading at a discount receive smaller weights relative to those trading at a premium. Not only is this potentially backwards thinking (there may be a better investment opportunity in buying the cheaper bond, all else being equal), but it also means bonds outstanding in a rising rate environment will see more and more downward price action. Why? Because bond prices fall → the weight of the bonds in the index declines → bond ETFs need to sell those bonds → bond prices fall...rinse and repeat.

With the midterms approaching in November, Republicans and the current administration have a narrow window to notch some wins, including providing relief against rising bond yields. One approach that U.S. Treasury Secretary Scott Bessent is pursuing is having the Treasury purchase longer-dated bonds to the tune of about \$6B. Unfortunately, that seems unlikely to do much, as that amount is a drop in the bucket relative to the size of the market and relative to the scale of purchases they've done in the past.

Eventually bonds will look quite attractive again with high starting yields. But are we there yet?

Equities

September brought a sea of red for the main global equity indices we track, excluding the NASDAQ 100 Index⁵ as the lone bright spot. Pundits attributed stock market weakness to factors including rising bond yields, which put pressure on equity valuations, rising energy prices, continued tensions in the Middle East, and the associated knock-on effects on inflation.

Within the S&P 500 Index⁶, the only two positive sectors in September were Information Technology (+4.5%) and Communication Services (+4.3%). Leading the way were names like Everpure Inc. (+41%, Info Tech), Moderna, Inc. (+37%, Health Care) and Intel Corp. (+34%, Info Tech), while the bottom end of the spectrum saw names like Fair Isaac Corp. (-48%, Info Tech), Gen Digital Inc. (-29%, Info Tech) and Equifax Inc. (-27%, Industrials) hit hard.

Here in Canada, the broader S&P/TSX Composite Index⁷ was down 2.6%, with only Information Technology in the green, up 3.5%. Within the Information Technology sector, it was Celestica Inc. that topped the sector and finished in the #2 spot amongst all constituents of the index, up 24%. Coming in slightly ahead to take the top spot was Aecon Group Inc. (+25%, Industrials), and slightly below it was Russel Metals Inc. (+23%, Industrials). The bottom of the index constituents came from within the Energy and Materials sectors: Energy Fuels Inc. (-23%, Energy), Abrasilver Resource Corp. (-22%, Materials) and Avino Silver & Gold Mines Inc. (-22%, Materials) were firmly in the red.



Despite a negative month for the overall index here at home, there is renewed optimism around investment opportunities in Canada. Prime Minister Mark Carney hosted 200 of the world's top financial executives who gathered in Toronto in September and pitched them a simple idea: invest 1% more in Canada as a hedge against Donald Trump's volatility. By most accounts, the summit, which brought together a pool of CAD \$120T of global capital, was positively received. Deborah Orida, CEO of Canada's Public Sector Pension Investment Board that oversees roughly \$320B of assets, said, *"We actually expect to increase our investment in Canada and will cross the \$100B threshold over the next few years, which is an increase of 30-40% from where we are today."* Also in attendance was David Rawlings, CEO of JPMorgan Canada, who said that more capital would flow when Ottawa lowered taxes, shortened permitting timelines and improved the regulatory landscape⁸.

Meanwhile, from an international standpoint, the MSCI EAFE Index⁹ underperformed the U.S. again in September and, as a result, has narrowly slipped below the S&P 500 Index on a year-to-date (YTD) return basis, 12.8% vs. 12.4%.

From an equity factor standpoint, it was a Momentum-led market in September, while Dividends were most out of favour. Interestingly, while it's also been a Momentum-led year thus far, that doesn't translate into it being a "Growth" market. In fact, the Growth factor has been the worst performer thus far. Behind Momentum, it's been Value that's performed next best YTD.

On the currency side, the U.S. dollar appreciated by 2.5% vs. the Canadian dollar and 2.0% vs. a basket of global currencies.

Fixed Income

Like equities, most fixed income markets were negative in September. U.S. high yield considerably outperformed investment grade and the broader U.S. aggregate benchmark. Meanwhile in Canada, it was corporate exposure across each of the short-, mid- and long-term segments of the curve that outperformed government-oriented counterparts. And duration was not your friend in either jurisdiction, with shorter-dated bonds outperforming their longer-dated counterparts as yields rose.

September's positive correlation between equities and bonds isn't anything new. In fact, we can go back to 2021 during COVID when higher inflation really sparked equities and bonds moving more in tandem. It appears, unfortunately, that bonds are not providing the same sort of diversification or hedging benefits to portfolios that they once did. One of the practical implications of this could likely mean we'll see allocations to equities remaining high or increasing in the coming quarters, while investors potentially ramp up their exposure to derivative-based products (i.e. covered call funds) and more exotic strategies in pursuit of alternative ways to obtain downside protection and income in a challenging bond environment.

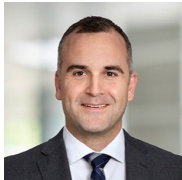
Thanks as always for your attention, and best of luck with back-to-school!



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¹ Financial Times, "Why a US debt binge is starting to matter", September 6, 2026

² Financial Times, "Foreign investors favour US stocks over Treasuries as debt fears mount", September 16, 2026

³ Ibid.

⁴ Vox Media, Prof G Markets Podcast, "Wall Street Veteran: The Bond Sell-Off is a Buying Opportunity", September 29, 2026

⁵ The Nasdaq-100 Index® includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization.

⁶ The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap US equity universe.

⁷ The S&P/TSX Composite Index is the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange (TSX), with about 250 companies included in it.

⁸ Financial Times, "Canada seeks \$1tn investment amid break with the US", September 14, 2026

⁹ The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.



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