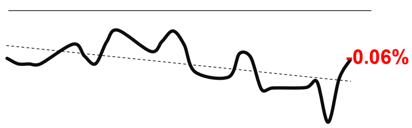
CDT July 2026 – The Market is Asking Questions.

Market Update.

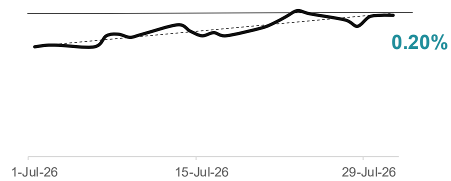
S&P 500 Total Return Index

16,763.52



10yr. Treasury Yield

4.68%



S&P 500 Excess Earnings Yield

-1.28%

S&P 500 Normalize Earnings Yield - 10yr. Treasury rate

Risk is Expensive

*Source: Seeking Alpha, Federal Reserve, CDT

The markets are starting to ask questions. In our June Memo – *The AI Bubble Reckoning*, we highlighted our concerns around an increasingly likely AI reckoning that could manifest itself in several ways. If you have not done so already, we invite our partners and readers to read the details of our argument which are available here.

To summarize our concerns, we believe that the justification for continued spending on AI infrastructure is becoming increasingly precarious. The potential halt of or a sharp decline in AI related spending presents a range of negative outcomes and consequences for the global economy and the stock market. The two data points that best underscores this danger is that in 2026, AI related infrastructure spending is projected to reach between $650B and $800B or 2% to 2.5% of the total gross domestic product of the United States (Article), while semiconductor companies, the unequivocal beneficiaries of the AI build out represent ~20% of the total capitalization of the S&P 500 index (historically they have represented low-to-mid single digits) - (Article).

This month, the data continues to mount against the durability of the multi-trillion-dollar buildout.

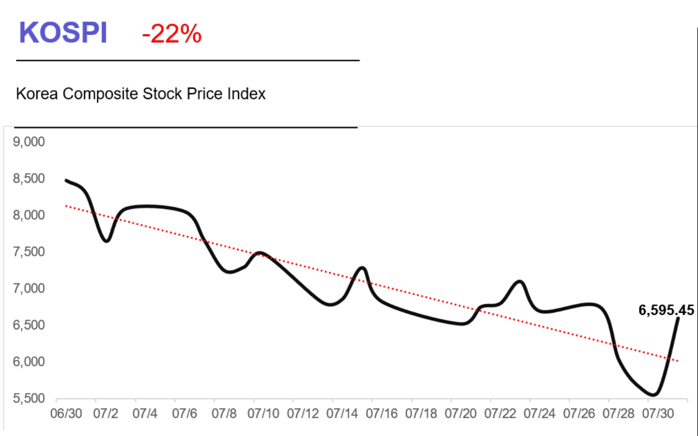
- **Apple – PrismML:** Apple is looking at acquiring a start-up and Caltech spinout, PrismML. The company boasts that it can shrink large language models into smaller, but still capable models that can fit on an iPhone – no large data center required. (Article)

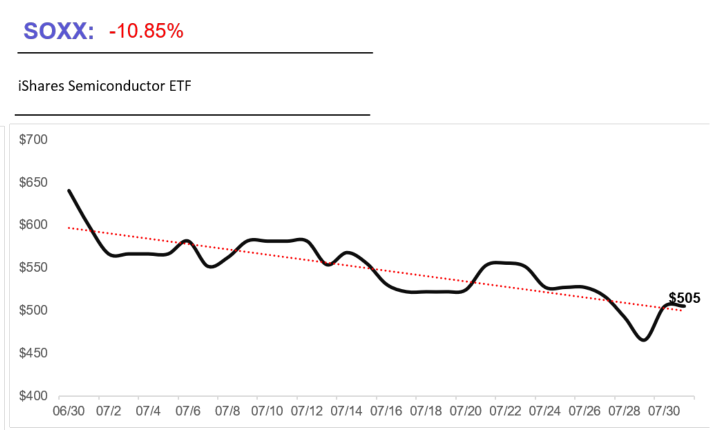
- **Open-source:** Open-source AI models are increasingly becoming the preferred model path for enterprises. In a business setting, these models boast two very important advantages – they cost significantly less to run, and the company's proprietary data never leaves their servers or application layer. China has been very adept at designing these models and in some benchmarks, they are +90% more cost efficient than their American close-source counterparts. This competitive threat was underscored this month with Moonshot's launch of Kimi K3, which challenged the notion that China's AI is six months behind the curve. (Article)

- **Meta Earnings:** The lack of a coherent AI strategy is drawing the ire of shareholders that are being asked to foot the bill for a $130 to $145B AI buildout with no comprehensible plan insight. Earlier in the week, the firm reported earnings and the stock sold off rather violently. The lack of details around a crystal-clear plan to earn a meaningful (if any at all) return on its AI investments weighed on confidence and shares. (Article)

- **Rating Agencies:** Even the credit rating agencies which have been notoriously late to the game are flagging AI risks to the economy. In their Global Risk Outlook: 3Q26, Fitch notes that AI spending supports the economy directly with capital outlays (that is obvious), but AI also supports consumer spending by propping up stock market valuations and making Americans feel wealthier. What they are pointing to is that the economy's relationship with AI is increasingly circular and fragile. Add to the story that obscure sources of funding (mostly off-balance sheet complex debt securities) are financing the construction of data centers around the country and we have the ingredients in place for the potential for a severe credit event. To underscore this point, earlier in the month the Nikkei reported that they estimate that Meta, Oracle, Amazon, Microsoft and Alphabet (Google) collectively have $1.65T of debt that they have not yet reported on their financials.

Now, global markets are asking hard questions that ChatGPT and Claude cannot answer, *at least not yet*. And the price action is getting ugly. In South Korea, where a culture of risk taking has drawn out the AI buildout hype to the extreme, the KOSPI or the nation's equivalent to the S&P 500 index was down -34% on a month-to-date basis on July 30th. It rebounded on July 31st, but still ended the month down -22%. At the core of the sell off was a combination of the excessive use of margin and excessive concentration as a result of the KOSPI's construction. Note that at the beginning of the month, Samsung and Sk Hynix represented over 50% of the value of the index – two semiconductor companies that have seen a surge in their memory business and their share prices due to AI related demand. While here in the United States, semiconductors as a group also fared poorly down -11%.



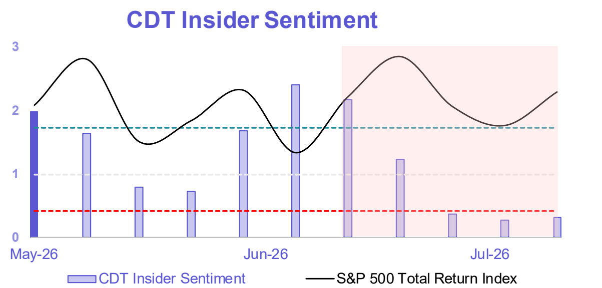


Source: CDT & Investing.com

The story of skepticism is also showing up in the bond market. Oracle, which has committed to an estimated $350 to $450B in capital to the AI build out has seen its credit default swaps or the insurance investors can take out on the company's bonds if the company is unable to pay its obligations increase exponentially this year – exceeding levels during the Great Financial Crisis.

Source: Bloomberg

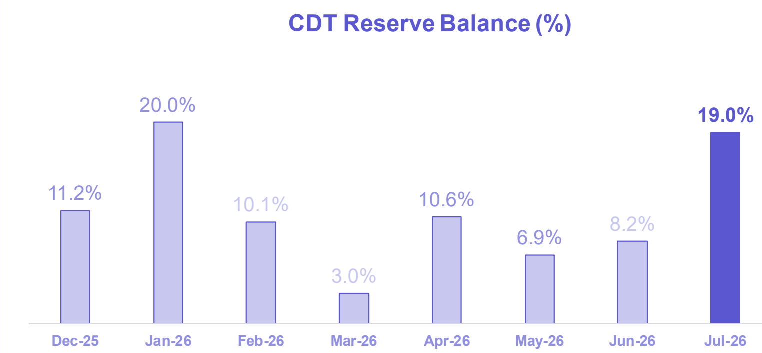
Above The Clouds.



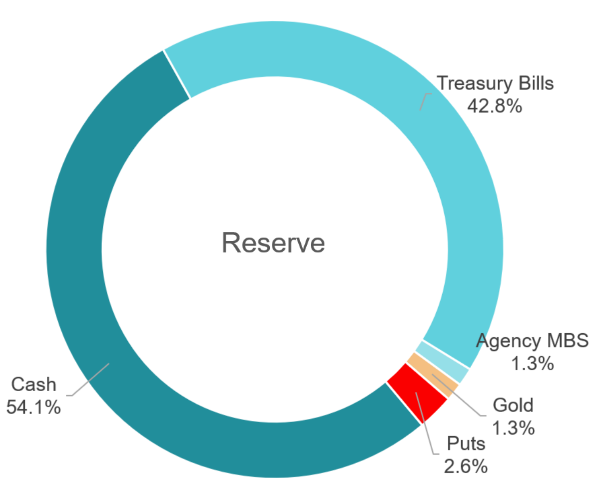
Normal

- Transaction Value: 57.9%
- Transaction Volume: 28.3%

*Year-Over-Year Rate of Change



To be clear, it is not our intention to be deliberate contrarians to the AI investment thesis, nor do we intend to profit from or bet against it. With as much of an unbiased lens that we can have, we have objectively concluded that there are mounting risks to the economy and stock market. As a hedge fund intending to live up to its name, we are *hedging* or taking actions to insulate our portfolio (your capital) from what we believe to be the eventual decline in AI spending and its ramifications thereafter.



CDT Reserve Composition

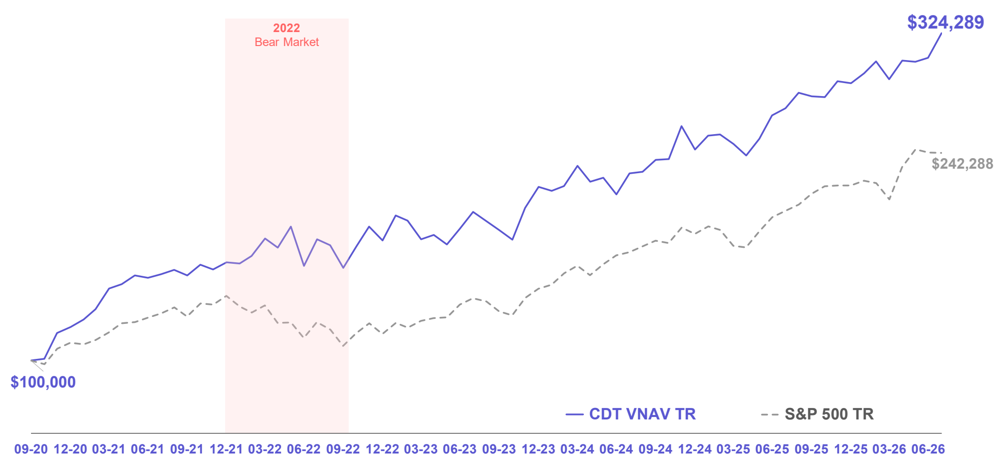
Our quantitative hedging strategy, which does not consider the beliefs or bias of this manager in its analysis draws the same conclusion as we do, prudence and restraint are what is required to navigate these darkening skies. Into market softness, Insider Sentiment has markedly declined and now sits well under normal levels. While conversely at the end of June, Investor Sentiment as measured by margin debt relative to the total market capitalization of the stock market increased at its fastest pace since the beginning of the year which statistically indicates that excitement is teetering on the doorstep of irrational exuberance.

As evidenced by our returns this month, our caution does not preclude us from continuing to generate a fair return for our partners. Year-to-date, our returns are now above our benchmark. There are many areas of the market that have little in common with or connection to the AI buildout and it is in those corners that we are concentrating our capital. Healthcare, communications, financial services (ex. banks), consumer staples and defense are the sectors of the market that we are uncovering value in. What we find repeatedly is that the world's most impressive companies in these non AI sectors are trading at significant discounts to their intrinsic value because they are not an AI lab, hyperscaler or semiconductor company. As the narrative around the AI buildout takes on a more skeptical tone, we believe that the market will eventually be forced to come to us to find value.

We look forward to updating you again in September.

VNAV Performance.

	July - 2026	Year-to-Date	Since Inception (Sep 2020)	Sharpe Ratio
CDT VNAV (Net of fees)	+5.48%	+11.83%	+224.29%	1.78
S&P 500 Total Return	-0.06%	+10.14%	+142.29%	



Monthly Performance

• CDT VNAV CAGR	1.7%
• S&P 500 CAGR	1.3%
• Monthly Upside Capture	133%
• Monthly Downside Capture	85%

2022 Bear Market

• CDT VNAV Total Return	+9.1%
• Low	-2.3%
• S&P 500 Total Return	-15.3%
• Low	-23.9%

Best Regards,

David Papson & The CDT Team

Phone: (516) 509 - 3675

E-Mail: David.Papson@CDTCapitalManagement.com

Visit us at https://www.cdtcapitalmanagement.com/home

CDT Capital Management Invest Above the Clouds.

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