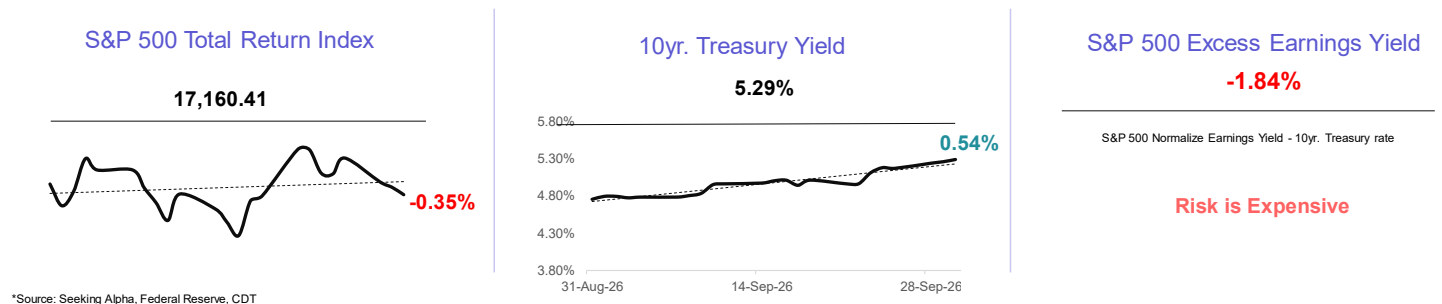
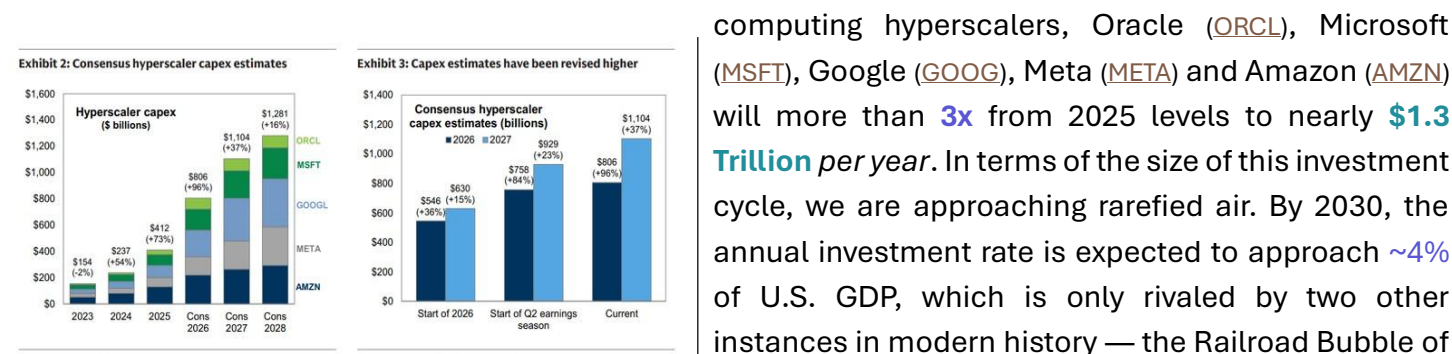


CDT September 2026 – A Quiet Market Drawdown & Two Opposing Thoughts.

Market Update.

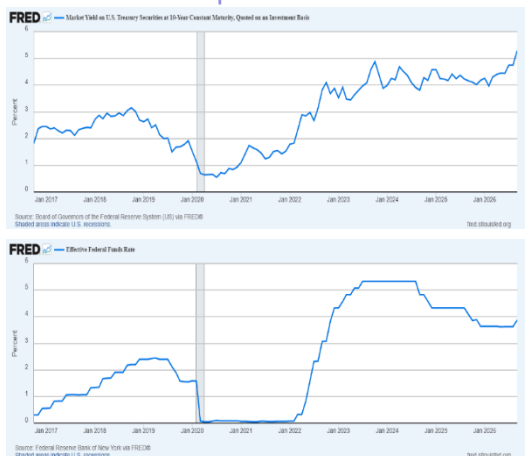


A quiet market drawdown. Underneath the surface of this month's modest **-0.35%** index level decline was a somewhat nasty market drawdown. As we mentioned in our [August](#) letter, driven by the AI capital feeding frenzy, global interest rates are surging and that is putting pressure on stock prices all over the world. For some context around the magnitude of the AI investment super-cycle and the extraordinary demand for capital, earlier this month, Goldman Sachs reported that by 2028 the capital budgets for the five-cloud



computing hyperscalers, Oracle ([ORCL](#)), Microsoft ([MSFT](#)), Google ([GOOG](#)), Meta ([META](#)) and Amazon ([AMZN](#)) will more than **3x** from 2025 levels to nearly **\$1.3 Trillion** per year. In terms of the size of this investment cycle, we are approaching rarefied air. By 2030, the annual investment rate is expected to approach **~4%** of U.S. GDP, which is only rivaled by two other instances in modern history — the Railroad Bubble of the 1870s at **~4%** of GDP (Source: [Brookings Papers](#)) and the Housing Market Boom of the early 2000's which approached **~6.7%** of GDP (Source: [St. Louis Federal Reserve](#)).

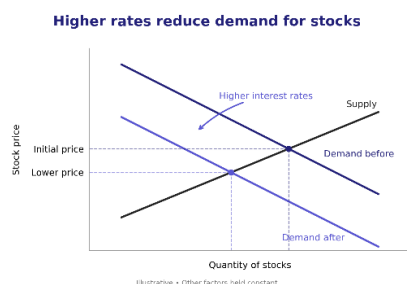
The cost of capital. With so much current and anticipated demand for capital, the cost of capital is



rightfully increasing. This month, the 10-year Treasury interest rate, which is considered by many to be the long-term risk-free rate of capital jumped comfortably above **5%**. The last time long rates were this high ***NSYNC** was topping the Billboard charts back in 2000. This is significant because this yield is the starting point for which all other long-term commercial interest rates are priced such as corporate bonds, residential home mortgages and business loans. The story is the same for *short-term* interest rates, but instead of looking at a market driven by the 10-year Treasury, we reference the [Federal Funds](#) rate, which is set by the Federal

Reserve Board of Governors. Here too, we will find higher interest rates. For the first time since 2024, this month, in response to persistent inflation pressures, the Fed raised interest rates **.25%** to a range of **3.75% to 4%** ([Article](#)).

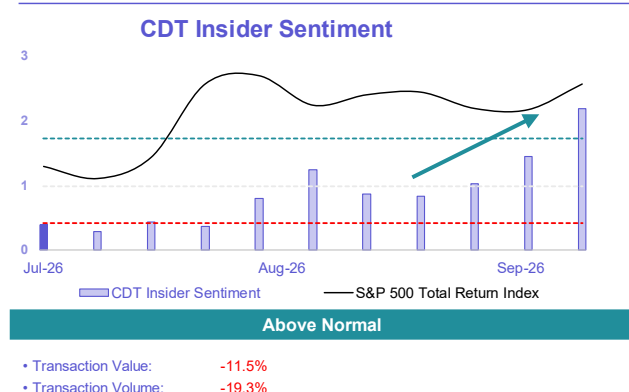
As we have discussed in the past, higher interest rates pose a two-front challenge for stocks as an asset class. First, higher rates may entice would-be stock buyers to choose bonds instead or prompt some



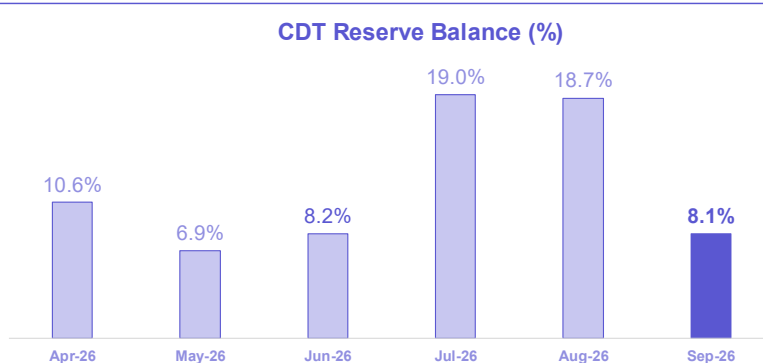
investors to sell shares and move the proceeds into bonds. Either outcome weakens the supply-and-demand dynamic for equities. The second effect is more nuanced. Higher rates intentionally stymie commercial activity by increasing the cost of financing. Starting a new business, investing in an existing business, or even purchasing a car becomes more expensive when rates rise. If higher rates constrain economic activity and reduce corporate profits, the value of the stocks

representing those businesses may decline as well.

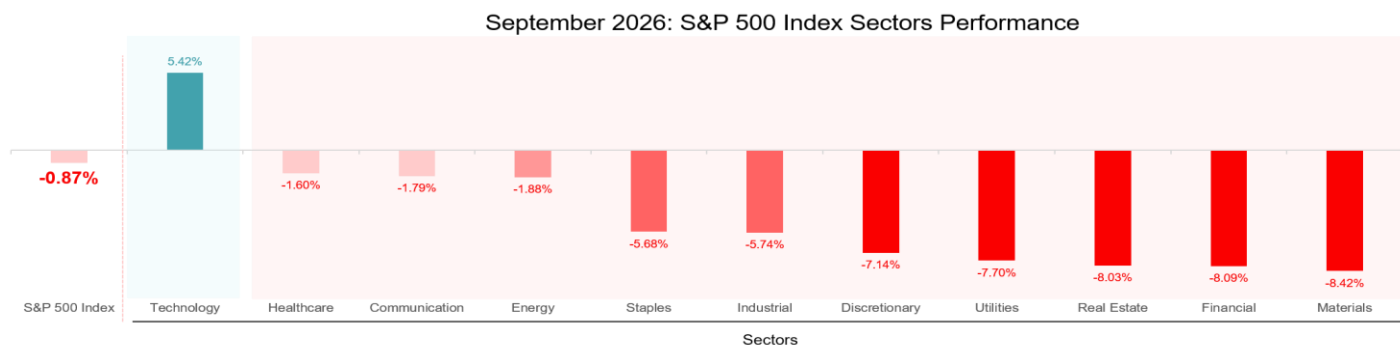
Above The Clouds.



*Year-Over-Year Rate of Change



Working as Intended. Note that coming into the month, we held approximately 19% of the fund's asset value in reserves. The stability of these assets proved exceedingly valuable during a broad market drawdown. Although the headline index declined only modestly, the median S&P 500 sector fell 5.74% this month. While the technology-driven AI trade was unfazed by the interest-rate increases, other parts of the market were less fortunate.



Source: CDT and State Street Sector ETFs

This month, you will notice that **Insider Sentiment** has climbed sharply into the September drawdown. Taking note of the decline in their stock prices, insiders from all corners of the market became buyers of their own shares this month with retail, medical devices, aerospace & defense and software stocks paving

the way. For us, we welcomed the likes of Honeywell Aerospace ([HONA](#)), Dick's Sporting Goods ([DKS](#)), Salesforce ([CRM](#)), Alibaba ([BABA](#)) The Coopers Companies ([COO](#)) to our portfolio.

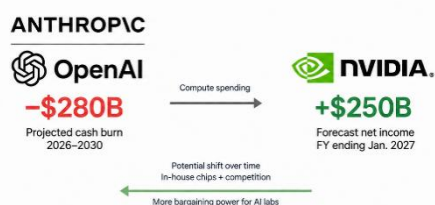
Two opposing thoughts. There is an AI Bubble and AI will transform the world. Recently, our thoughts around the AI thesis have materially changed. Previously, our gripe with the story has been the obvious lack of profits and the insatiable demand for capital which are not a compatible mix in the long run. However, after reading Alibaba's Q1 earnings call transcript we have evolved our thinking around the potential profitability for this industry.

As we ramp up deployment of our own proprietary chips in our data centers as they account for an increasing proportion of total chips and replace commercially procured chips, we can expect to see substantially higher gross margin as well as profitability.

- Eddie Wu, CEO of Alibaba Group Holdings – Q1-2026 Earnings Call

Similar to its domestic counterparts, Alibaba's AI labs are currently unprofitable; however, the company has an internal AI semiconductor design business that it hopes to leverage to improve profitability over time. Generally, proprietary or in-house chips carry a significantly lower price tag and offer greater workload efficiency than their third-party generalist counterparts, both of which can translate into higher margins over time.

In the United States, the preeminent third-party AI semiconductor company is Nvidia, and it is right now gorging on virtually **all** the AI profits. For its fiscal year 2027, the firm is estimated to generate nearly a **quarter of a trillion dollars** in net income, while the prevailing AI labs, Anthropic and OpenAI among others are expected to generate massive losses ([Article](#)). This dynamic in which Nvidia customers receive **zero** in



economic benefit from their participation in the AI industry cannot persist in perpetuity and while previously we thought that the AI bubble would have to implode to correct itself, we now believe in more nuanced outcome.

AI as a technology is a transformative force and although we don't believe in the **\$30** trillion TAM story purported by others, we do believe that the market is enormous as people find new AI applications to improve their work and personal lives. For context, the latest annual recurring revenue numbers from OpenAI and Anthropic total **~\$140B** and growing.

A large market with hundreds of billions in sales and **\$0** in profits. How could that be? Our guess is that Nvidia is capturing profits that might otherwise accrue to the rest of the industry. In economics this is referred to as *renting* profits. Its advanced chipsets and foundational software, CUDA, have entrenched its position as **the** arms dealer in the AI race, but, as we have discussed, this is an untenable situation. While their customers burn through enormous sums of cash, Nvidia enjoys a fat **75%** gross margin. At some point, its customers will run out of cash, or Nvidia will have to accept a smaller margin and pass some of the profits on to them so that they can earn an acceptable rate of return. Voluntarily forfeiting profits is not

what public companies are designed to do, but market forces can compel them through competition. In addition to pressure from other third-party semiconductor companies, we believe the most powerful competition will come from customers' own semiconductor design operations. Microsoft has its Maia chipset, Amazon has Trainium, Google has Ironwood, OpenAI has Jalapeño, and Meta has MTIA. It is our new view that the AI industry will become more profitable over time as Nvidia's grip fades. To be sure, Nvidia is unlikely to disappear, but its relative importance must decline for the rest of the industry to flourish.

As part of our new framework for AI, we revisited Broadcom ([AVGO](#)), a company we passed on in June. We believe Broadcom currently plays, and will continue to play, a pivotal role in enabling AI industry profits by assisting hyperscalers and AI labs to shift more of their computing requirements away from Nvidia and toward their own internal chipsets. As a provider of semiconductor intellectual property and design consulting, Broadcom is already working with Google, Meta, OpenAI, and Anthropic toward this end. As a result of this auspicious positioning, Broadcom is now one of the largest positions in our portfolio. We also believe that hyperscalers will benefit from this shifting power dynamic. As a result, we recently repurchased our position in Microsoft ([MSFT](#)) and today bought a small starting position in Oracle ([ORCL](#)).

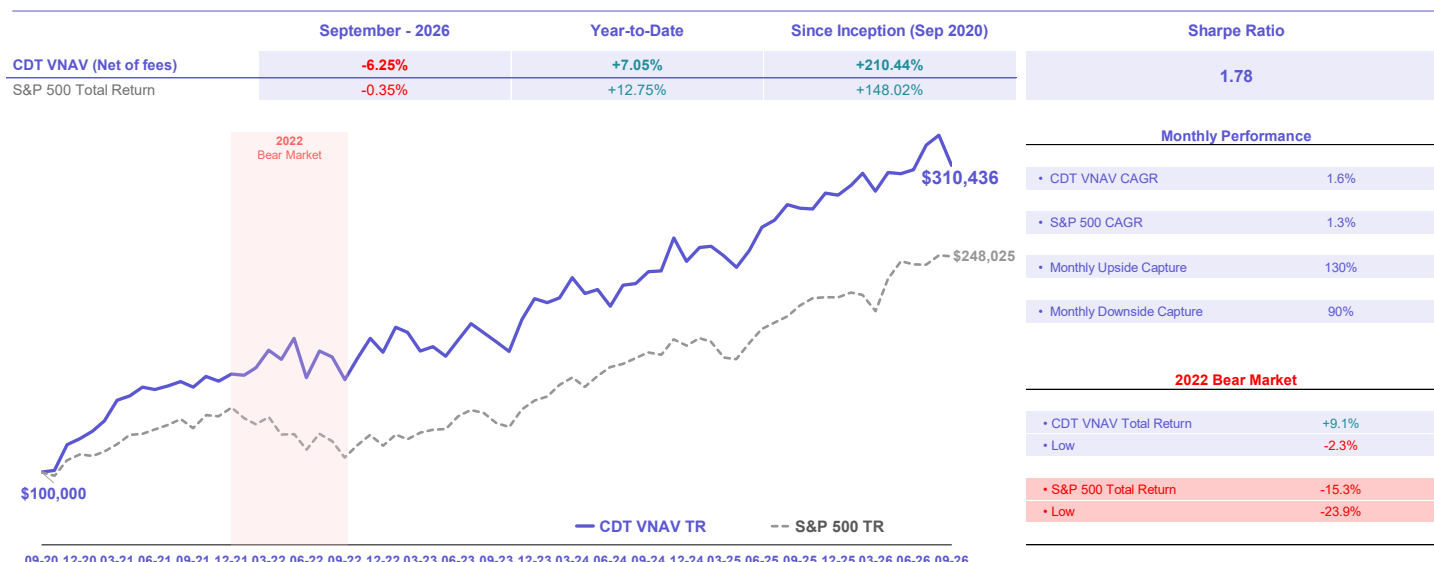
an XPU, it not only performs as well, if not better for your particular LLM workloads for each of our customers. It's also half the cost. In fact, less than half the cost. And that's -- you made my point exactly

- Hock Tan ,CEO of Broadcom Inc. – Q3 -2026 Earnings Call

Overall, we remain significantly overweight healthcare because of structural demographic trends, but we also believe that carefully selected AI positions have a place in our portfolio as well.

We look forward to updating you again in November.

VNAV Performance.



Best Regards,

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