September 2026

From the front page of Thursday's WSJ:

Stocks, Leaning On Tech, Limp Into Quarter

High rates threaten to derail indexes' bid for 4th straight year of double-digit gains

BY HEATHER GILLERS

The biggest technology companies are keeping the stock market humming despite spiraling oil prices and interest rates. The rally will be tested.

Stocks followed up a torrid spring with more-muted gains in the third quarter. Rates are poised to rise further as the year draws to a close, challenging the market's resolve and its chances at an unusual feat: a fourth-straight year of double-digit gains.

But for now, big tech has held firm. Microsoft, Meta, Nvidia and Apple all ended the quarter with gains of more than 10%, lifting the Nasdaq composite by 2.5%. The tech heavy benchmark closed at a record high on Sept. 22. The S&P 500 rose 2% (-0.5% in September) in the face of a relentless bond selloff. The Dow industrials fell 2.7% in the quarter.

Even though higher yields translate into higher borrowing costs across the economy, investors are betting that tech companies will keep borrowing and investing at a breakneck clip to chase skyrocketing demand for artificial intelligence tools. …

Strong earnings reports helped bolster investors' confidence. Microsoft reported robust cloud growth and increasing AI subscribers and Nvidia's finance chief predicted 70% revenue growth in the company's 2028 fiscal year.

Meanwhile, software rebounded as investors backed away from the idea that AI would replace software as a service in a SaaS-pocalypse. …

Bitcoin, the world's largest cryptocurrency, rose 42% for its best quarter since the last three months of 2024.

Interest rates and energy prices weighed on other parts of the market, denting consumer spending.

An equal-weighted version of the S&P 500, where tech companies' larger market value doesn't cause them to have an outsize impact on performance, fell 2.3%, snapping a five-quarter winning streak. The Russell 2000, which is generally made up of smaller, nontechnology stocks, declined 7.5%. …

The 10-year U.S. Treasury yield ended the past three months with its largest quarterly gain since 1994, notching a rise of nearly 0.9 percentage point. On Wednesday, the last day of the quarter, the 10-year touched a 24-year high.

The Iran war is the biggest culprit. Brent crude futures rose 42% to $103.53 a barrel in the quarter.

Cboe Global Markets wrote in a research note in September that the correlation between oil prices and the 10year Treasury yield is now higher than it has been at any point since the First Gulf War in 1990.

After September's rate increase, investors are projecting a roughly 60% chance of at least four more rate increases over the next 12 months, according to CME data. Fed officials penciled in at least one more increase this year. …

Investment in data centers and related artificial-intelligence infrastructure is projected to total $10.3 trillion from 2025 to 2032, the yearly equivalent of 3.6% of gross domestic product, according to a recent study published by the Brookings Institution. …

The S&P 500 and the Nasdaq are still on track for their fourth year in a row of double- digit gains for the first time since the late 1990s.

The Dow, after three years of double-digit increases, is setting a slower pace in 2026, rising 5.9% through the end of September. …

From BCA Research on Sept. 15th:

Chief Economist's View: Will Worries About AI Doom End the AI Boom?

by Peter Berezin

Margin Mania

On the surface, US stocks do not look extraordinarily expensive. The S&P 500 is trading at 19-times forward earnings, in line with its 10-year average.

The catch is that these earnings reflect very high profit margins. Forward margins, calculated by dividing expected earnings per share over the next 12 months by expected sales per share, stand at 16.7%. This is 4.8 percentage points above where they stood in 2019. If margins were still at their 2019 levels, US stocks would trade at an extremely elevated forward P/E ratio of 26.7 (**Chart 1**).

Analysts do not expect any normalization in margins. To the contrary, earnings growth over the next three to five years is expected to be the highest in history (**Chart 2**).

Falling Real Unit Labor Costs and AI Capex Are Flattering Margins

I wrote a report about the secular forces propping up margins earlier this year. But some of the strength behind today's margins reflects cyclical forces. Real output from nonfinancial corporations grew by 3.8% year-over-year in the second quarter, while real unit labor costs declined by 3.3%. This helped to flatter margins.

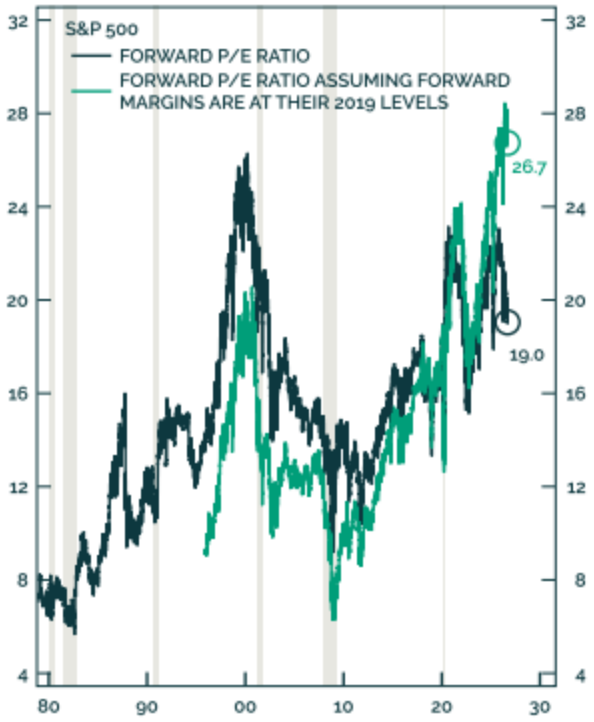
Massive AI capex is also lifting margins. When Nvidia sells a chip, it books a big profit. But when Meta buys that chip, it does not incur an immediate cost. Rather, that purchase is treated as capital spending, something that will be depreciated over time.

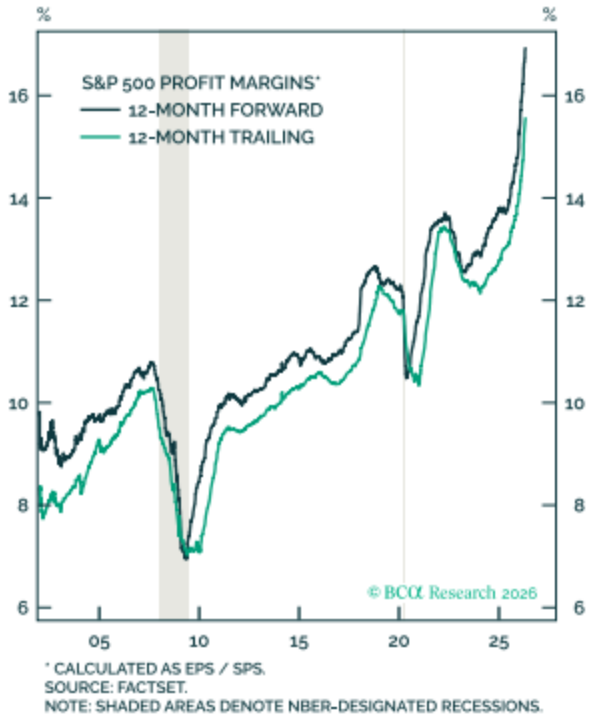
Analysts expect the hyperscalers to incur $255 billion in depreciation charges in 2026 on capex of $784 billion (**Chart 4**). The depreciation charge is projected to rise to $581 billion in 2029 on capex of $1.16 trillion.

To put things in context, the hyperscalers are expected to generate $569 billion in operating profits in 2026.

CHART 1

US Stocks Would Be Much More Expensive Were It Not For Record-High Profit Margins





* CALCULATED AS EPS / SPS.
SOURCE: FACTSET.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

CHART 2

Analysts Have Never Been More Bullish On Long-Term Earnings



SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

I should also add that these numbers exclude off-balance sheet capex, which is likely to add another $200 billion to hyperscaler spending. This means that annual hyperscaler capex, if analyst estimates are to be believed, will be around $1.4 trillion by the end of the decade.

The Ten Trillion Dollar Challenge

Let us assume that a capex bust is averted and hyperscaler capex stabilizes at $1.4 trillion. How much revenue will these five companies need to generate to profitably monetize their investments? The answer partly depends on the assumptions one makes about the rate of return on investment and EBITDA margins. Analysts are assuming that the rate of return on investment will remain at around 20% but that EBITDA margins rise by 20 percentage points from where they were just a couple of years ago to 50%.

If one makes these heroic assumptions, then the hyperscalers will need to generate about $5 trillion in annual revenue. However, if EBITDA margins were to fall back to 30%, which I think is more likely, then the required revenues would balloon to $8.3 trillion. Cutting the rate of return on investment would reduce required revenues to some extent, but even if we bring it down to 15%, which is my base case, the hyperscalers would still need to generate $7.4 trillion in annual sales.

Keep in mind that this is before we include sales from SpaceX, the neoclouds, Chinese companies, and whatever AI investment Europe is able to muster. If you throw all those other companies into the mix, we are

CHART 4

Depreciation Charges Are Expected To More Than Double By 2029

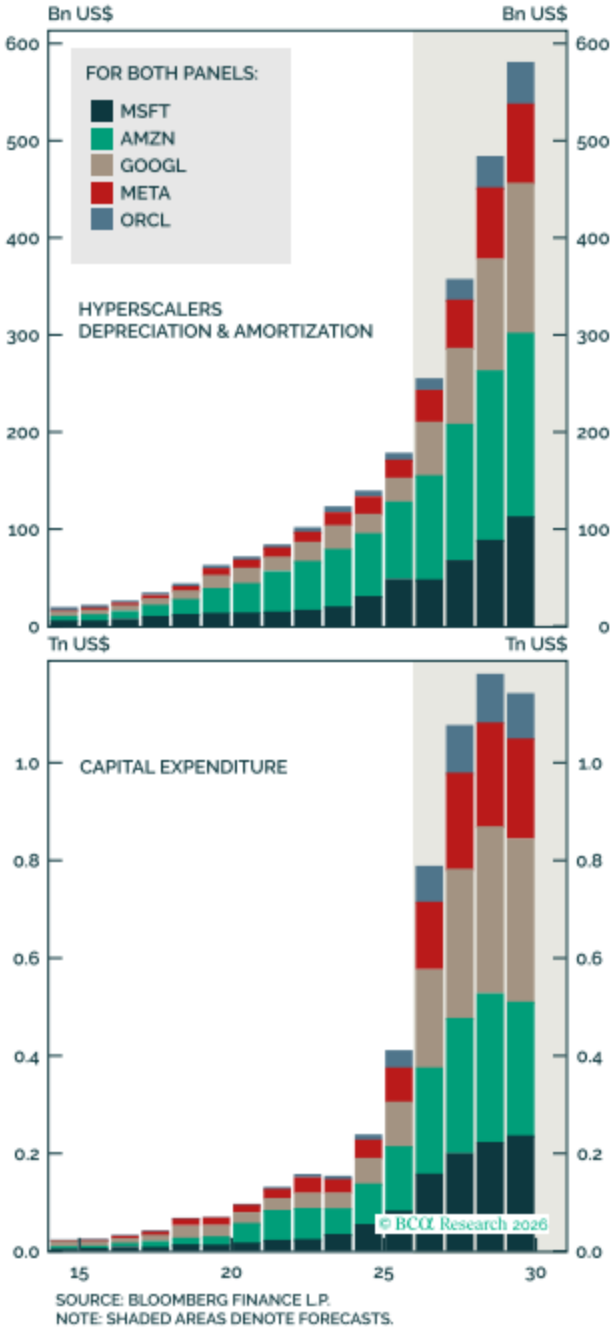
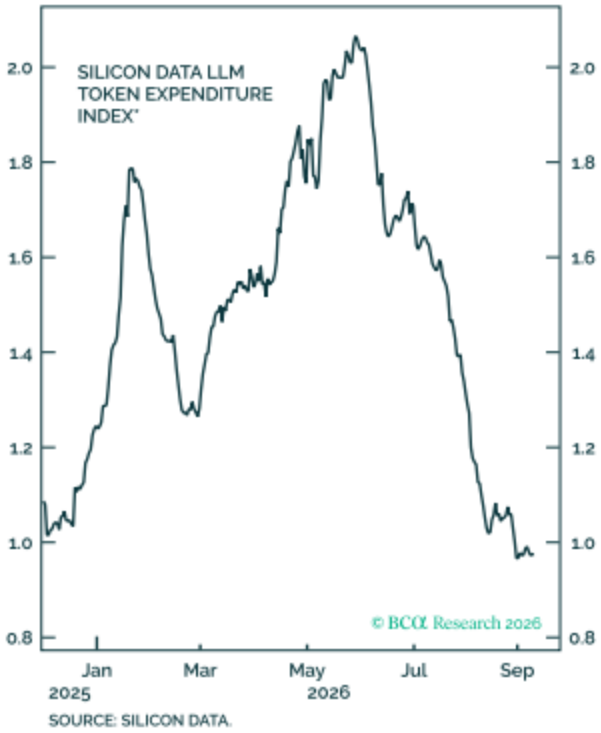


CHART 5

Cheaper Models Are Pushing Token Prices Lower



looking at $10 trillion in required annual revenue. That is roughly how much the world spends on food or health care every year.

Token Prices Under Pressure

Whether the world is willing to spend that much on data center compute remains to be seen. There is no doubt that the number of tokens processed by AI models will grow over time, both because the number of queries will rise, as will the number of tokens per query.

The big uncertainty is around token pricing. Prices have fallen over the past three months, partly because more companies have switched to cheaper open-source models (**Chart 5**).

Most of the companies offering these cheaper models are losing money. For token prices to keep falling, costs would need to decline. The good news is that this is happening: the number of tasks per joule increased 18-fold between April 2024 and August 2025 because of both hardware gains and the use of more efficient models.

Falling costs should lead to more demand for AI models. The risk for AI companies is that demand does not rise fast enough to offset the drop in prices, causing revenue to stagnate.

This is what happened to telecoms. The amount of data transmitted over the internet has grown at an annualized pace of 42% during the past 25 years, but spending on internet equipment has stagnated because today's fibre can carry a lot more data than in the past (**Chart 7**).

An additional concern, which I think investors are understating, revolves around where AI computation will take place. Back in the 1960s, the prevailing wisdom was that computation would be performed by huge, room-sized computers. However, rather than ever-bigger mainframes, we got personal computers.

My guess is that something similar will happen to AI. The quality of local models is rapidly approaching that of frontier models. Once AI becomes embodied in the physical world, be it through humanoid robots or self-driving vehicles, local model access will be preferable to a remote connection to a distant data center.

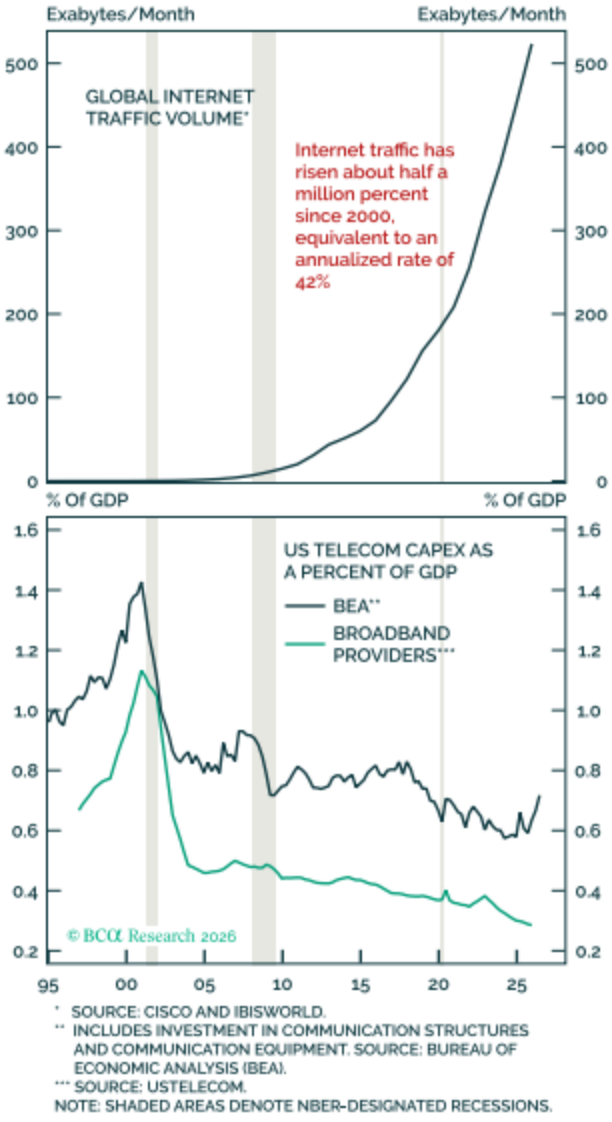
Are Concerns About AI Doom Just an Excuse to Slow Capex?

I was among the first investment strategists to flag the existential risks posed by AI ….

There are many well-meaning people at the major AI labs who are worried about these risks and are doing what they can to mitigate them. That said, it would be naive to think there is no self-interest behind the "go-slow" approach that the leaders of many AI companies are now touting beyond their desire to stay alive.

CHART 7

Internet Traffic Boomed While Equipment Spending Stagnated



* SOURCE: CISCO AND IBISWORLD.
** INCLUDES INVESTMENT IN COMMUNICATION STRUCTURES AND COMMUNICATION EQUIPMENT. SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA).
*** SOURCE: USTELECOM.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

Part of the motivation to slow AI development is to avoid lawsuits in the event that millions of people wake up one day to see big fat zeros in their banking and brokerage accounts because of an AI-enabled hack. An even more worrying possibility is that someone will use AI to design a pathogen that makes COVID look like a walk in the park. Reports that the Houthis have been vibe coding missile blueprints suggest that the AI labs still have a lot of work to do on the safety front.

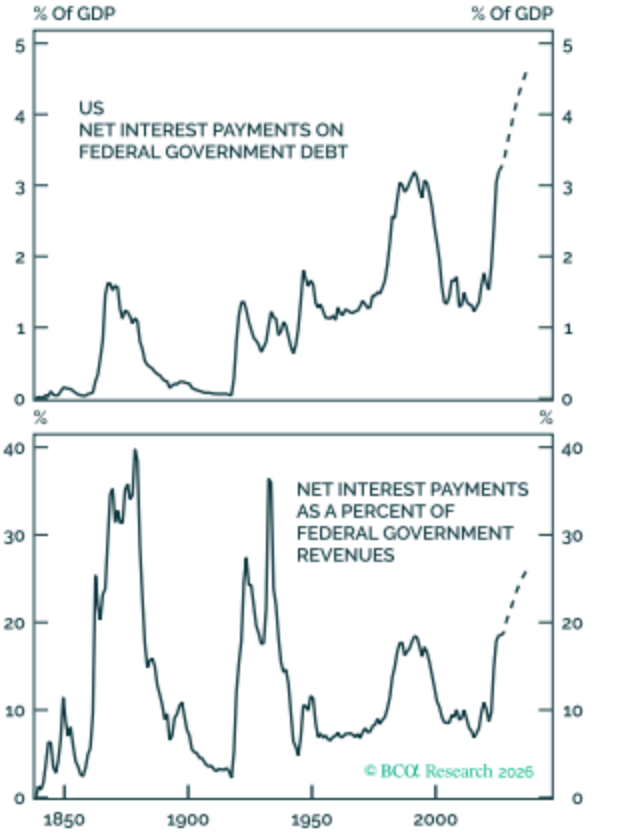
The AI labs figure that if they are going to be regulated anyway, they might as well be at the table when this happens. And if the new regulations make it more difficult for new entrants to break into AI modeling, then all the better from the perspective of the incumbents.

As I have noted in past research, firstmover advantage in the AI industry was always a mirage. AI simply does not benefit from network effects, economies of scale, and proprietary technology to the same extent as social media, e-commerce, or software. Fundamentally, the AI industry is more like the EV industry — innovative, transformative, but also fairly commoditized, capital-intensive, and not very profitable.

The AI companies are finally realizing that they may be stuck in a financially destructive arms race for AI supremacy where their capex is not only bidding up prices of GPUs, memory, and other inputs into the AI supply chain, but also hastening the day when the world faces a glut of computational capacity.

CHART 14

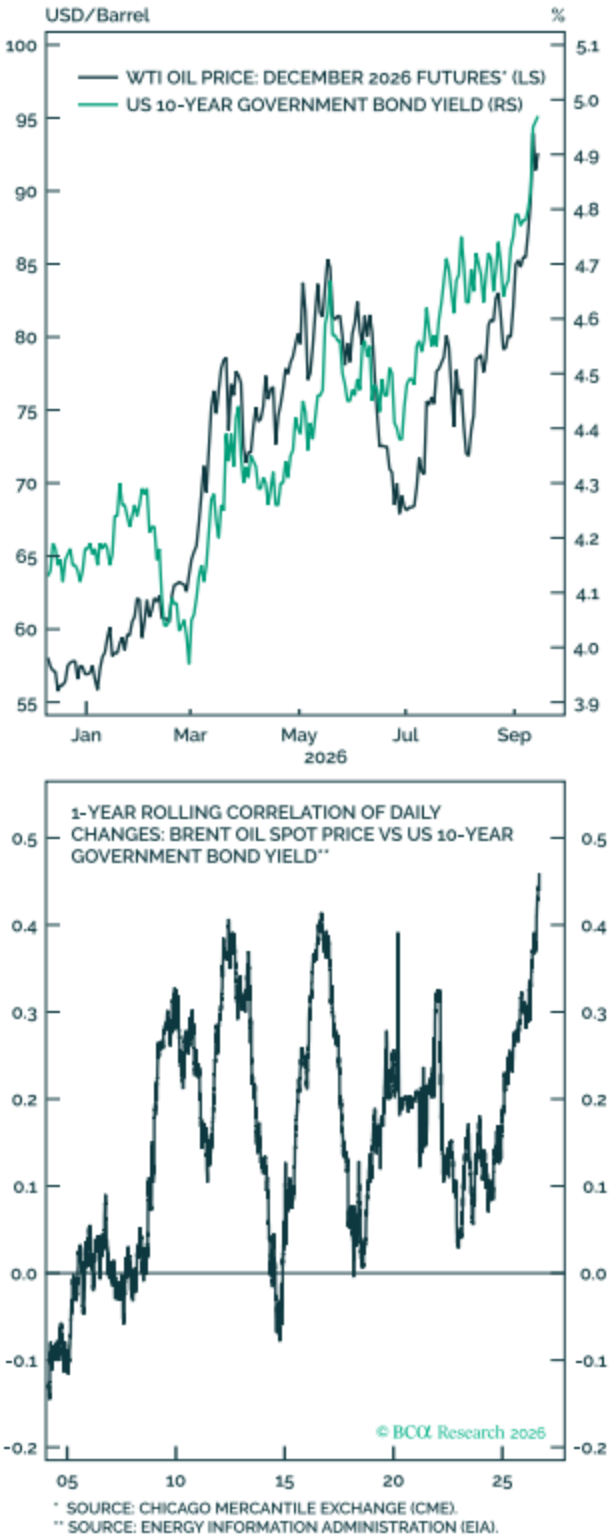
In The Absence Of Fiscal Consolidation, The Interest Burden On The Debt Will Keep Rising



NOTE: BASED ON ESTIMATES FROM "THE BUDGET AND ECONOMIC OUTLOOK: 2026 TO 2036," US CONGRESSIONAL BUDGET OFFICE (FEBRUARY 2026). DOTTED LINE DENOTES FORECASTS.

CHART 16

A Drop In Oil Prices Would Lower Bond Yields



* SOURCE: CHICAGO MERCANTILE EXCHANGE (CME).
** SOURCE: ENERGY INFORMATION ADMINISTRATION (EIA).

Whether this realization leads to a change in behavior is a different question. As OPEC and many other cartels have discovered, maintaining discipline is easier said than done. The temptation for AI companies to keep building data centers and improving models while prodding their competitors to slow down will be hard to resist.

Timing the AI Capex Cycle

Although I am skeptical of the sustainability of the AI capex boom, I am not yet positioned for a bust. In my base case scenario, I see stocks as likely moving sideways for the remainder of the year before starting to fall next year.

The margin of error around this base case is quite large. Hence, I have been tracking a variety of indicators that could signal a looming selloff in AI names. With the exception of token prices, most still look reassuring. In particular, GPU rental rates remain firm, memory prices are rising, and adoption rates and AI spending continue to trend higher. …

Too Early to Buy Bonds

… The AI boom is also stoking inflation, both directly by raising prices for electronics (and the electricity to power them), and indirectly by supporting aggregate demand.

… Federal government debt topped $40 trillion in August, double what it was in January 2017. The IMF expects the cyclically-adjusted US budget deficit to reach 7.4% of GDP in 2026. Interest payments currently stand at 3.3% of GDP, or nearly 19% of federal government revenues. The Congressional Budget Office expects interest payments to rise to 4.6% of GDP by 2036, by which time they will consume 26% of revenues (**Chart 14**).

The deluge of Treasury issuance is occurring at a time when the private sector is increasingly turning to the bond market to finance AI capex. Countries such as Germany are ramping up defense spending, while Middle Eastern oil exporters have less savings to recycle into Treasuries

A drop in oil prices would lower bond yields, as the two have been highly correlated in recent months (**Chart 16**). An AI capex bust would also hurt the economy, leading to lower interest rates and yields. But in the absence of fiscal consolidation, the longterm path for bond yields is to the upside.

Food Security in the Spotlight

I remain worried about food security. El Niño is going to reduce crop yields at a time when exports of natural gas, the key input for nitrogen fertilizer, are being stymied by the ongoing conflict in the Middle East. I have been long the Invesco DB Agriculture Fund (DBA) since February 19. The trade has returned 9.5% so far. I also see value in US fertilizer makers that have access to cheap US natural gas.

From WSJ:

Beware Oil's Second Strike on Inflation

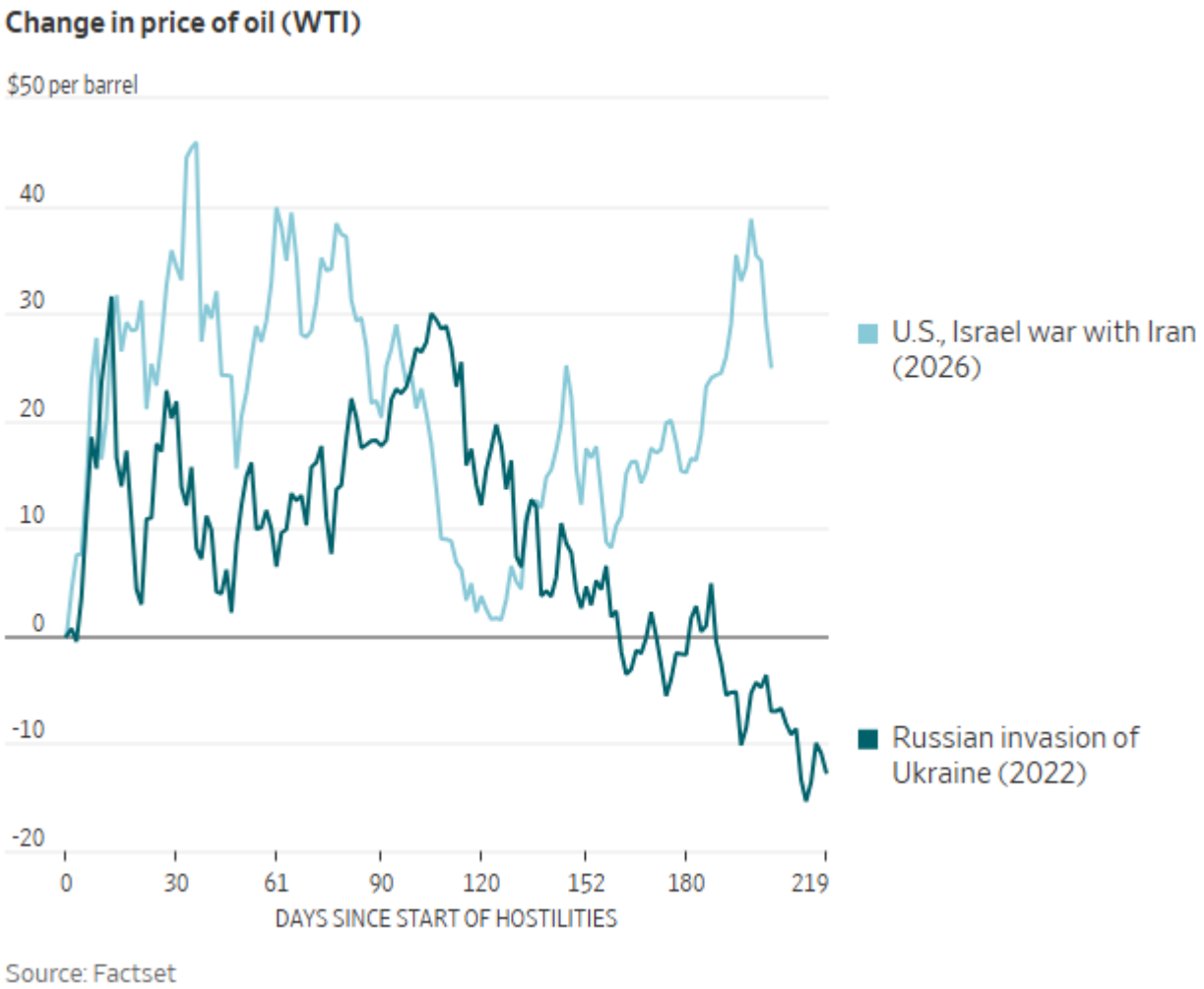
By Greg Ip
Sept. 22, 2026

An oil-price spike delivers two hits to inflation. The first is quick and obvious: As gasoline and other fuel costs jump, so does total "headline" inflation.

The second is slow and subtle. As costlier fuel works its way into other products and services, "core" inflation, which excludes food and energy, comes under upward pressure.

Those latter "second-round" effects have been largely forgotten about in recent decades because "most of those oil shocks in the last 40 years tended to be fairly short lived," says Morgan Stanley economist Michael Gapen. For example, roughly 200 days after Russia invaded Ukraine in 2022, oil was $7 below its preinvasion price. When companies don't expect costlier energy to persist, they don't try as hard to raise prices.

This spike doesn't look so short-lived. Roughly 200 days after the U.S. and Israel attacked Iran, oil is $25 above its preinvasion price. With tanker and refinery capacity curtailed, European inventories depleted and the cushion of higher U.S. exports and lower Chinese imports fading, oil prices look vulnerable to more disruptions, Morgan Stanley warns.



Second-round effects have so far been narrow, but the bank predicts that, absent a resolution to the war, firms are going to treat higher costs as persistent and raise prices accordingly. It sees core inflation, using the Fed's preferred measure, at 2.7% in late 2027, above the 2.5% that Fed officials recently projected.

That means higher interest rates are also likely to persist. Chicago Fed President Austan Goolsbee noted on Monday that central banks aren't supposed to raise rates in response to supply shocks unless they are persistent. "These days, when you see a large supply shock," such as Covid-19, tariffs or oil, "it is usually more accurate to assume it will be persistent than to assume it will quickly go away," he said.

Follow-ups

How to Know When the AI Boom Is About to Go Bust

History shows that market manias end when the capital spigot turns off

By Jonathan Weil
Sept. 27, 2026

Almost from the start of the artificial-intelligence boom, a steady chorus of bears has warned that it's destined to end in tears—like the original dot-com bubble more than a quarter-century ago and the housing bubble of the mid-2000s.

Nearly four years after the public launch of ChatGPT, the AI boom is still going, the bulls are still dancing and investors are listening for any sign that the music is about to stop playing.

The list of things that could go wrong is long. There isn't enough power for all the data centers under contract. There might not be enough paying customers to support all the data centers. The biggest AI-model developers could themselves be disrupted by upstarts. Rising interest rates could make borrowing costs prohibitive. And, most spectacularly, rogue AI agents might kill us all.

Yet new capital continues to pour into the AI trade and, as obvious as this point might be, that is where its biggest vulnerability lies.

Booms need continuous flows of fresh capital to perpetuate themselves. History shows they can start turning into busts the moment the window to raise new capital closes. Tipping points can happen suddenly, or as a slow-motion capitulation. But we're not there yet.

Here is a signal to watch for in the meantime: See if the term "funding gap" returns to the market's vernacular. Along with "burn rate," funding gap became part of the financial lexicon in 2000, as the dot-com bubble was starting to deflate.

Back then, burn rate measured how much cash a money-losing startup was blowing through each quarter and how many months it had left before it ran out. It was popularized by a famous Barron's article in March 2000 that helped prick the bubble. A funding gap meant a company still needed investors to keep supplying fresh cash until it became self-sustaining—and that the chance to raise new money had already vanished.

One poster child was Pets.com. In early 2000, Ernst & Young gave the company a clean audit opinion with no warning about its ability to continue as a going concern. That was in part because it seemed able to keep raising cash from investors no matter how much money it lost. The online retailer sold products for $5 that cost $10 to buy and $50 to market. The Nasdaq was reaching new highs.

Then the market crashed, the money ran out, and the company shut down in November 2000.

Similar concepts made a comeback during the financial crisis that began in 2007, except this time with large financial institutions. A key moment arrived in November 2007, when Freddie Mac slashed its dividend and sold $6 billion of preferred stock in a desperate bid to bolster its regulatory capital amid mounting mortgage losses.

What Freddie really needed was to raise billions of dollars in common equity, which absorbs losses more effectively than preferred equity does. If even a government-sponsored enterprise couldn't do it, that signaled it would be difficult for almost any financial-services company to raise fresh common equity to restore its capital cushion.

Some equity offerings still got done in the months after that. But those weren't enough to offset the torrent of losses. By September 2008, Fannie Mae and Freddie were placed into conservatorship, and the government was bailing out the country's financial system.

Nasdaq Composite Index during and after the original dot-com bubble



Source: FactSet

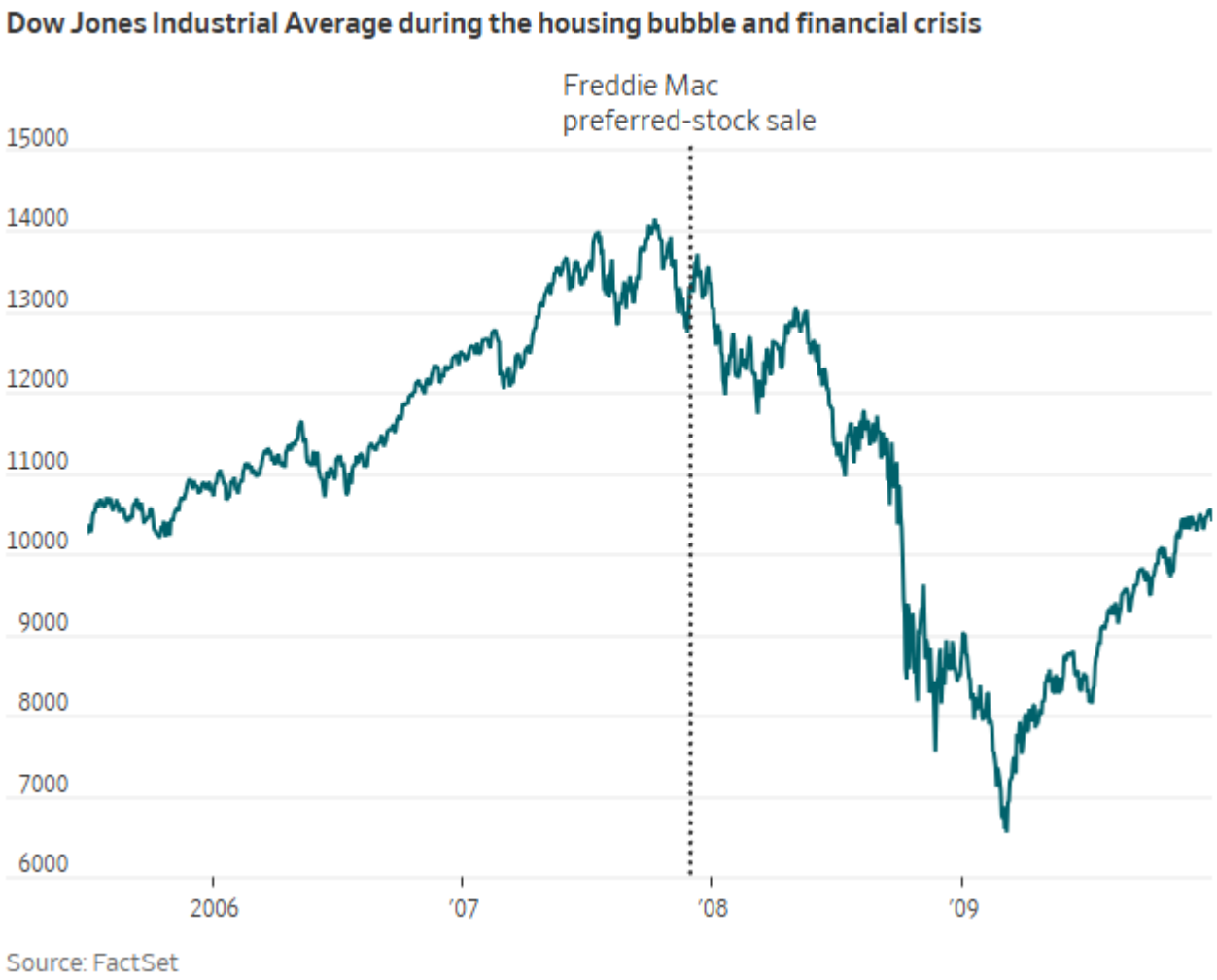
Back to the present, the AI trade still has plenty of momentum, but early signs of nervousness have surfaced. OpenAI ruled out going public this year. Holtec Nuclear, which aims to supply small modular reactors to AI hyperscalers, this month paused its IPO plans. Anthropic, the Claude maker, pushed its planned IPO from October to November.

While those may be bumps in the road, they aren't signaling that the capital window is closing, or at least not yet. Even if the companies don't go public anytime soon, they still appear able to raise money in private markets. Holtec, for one, is already profitable, and has other established nuclear businesses.

But it's hard to get a read on a company such as OpenAI or Anthropic, because their finances aren't public and may not be for some time. All anybody on the outside seems to know is they are burning through lots of cash, with an insatiable need for more and no visible profits by conventional measures.

If OpenAI can rely on the likes of Nvidia and SoftBank to keep funding it, that helps hold the AI ecosystem together in the hope that one day it can become self-sustaining. OpenAI's ability to raise new money also means a company like Oracle, which is counting on OpenAI for hundreds of billions of dollars of future revenue, can continue to justify its own debt-fueled capital expenditures on data centers.

But if those circumstances should change, and the capital window narrows enough to create a funding gap for any of the world's most important AI startups, the momentum behind the AI trade could quickly reverse. Once that happens, there is no telling how events may play out.



Chances are, the market will know that moment when it sees it.

Positions

PMTS – On 9/28 HCM purchased 2% positions in this IVA System pick for 3 clients @ 24.59:



From InsiderInsights on 9/18:

The Overhang is Over. Buy the Dip in PMTS.

Now that we've returned to more stock-specific commentary in our Weekly Reports, we're taking the next step and sending out our insider stock commentary intra-week as well.

In the case of **CPI Card Group (PMTS)**, I'm glad to give my Thumbs Up to this stock before the weekend…and while it's still misunderstood.

PMTS gapped down 20% last Friday (September 11) on the announcement of a secondary from long-time institutional shareholder Parallel 49 Equity at the below market price of $21.50. Considering the wad of 2.7 million shares sold represented roughly 20% of the shares outstanding of this small cap manufacture with a mere float of 6 million--the fact that PMTS' bottomed just above the secondary price at $21.90 actually seems a relatively bullish technical sign a bottom is in.

Come Monday September 14, the bullish insider signal I'd been expecting also hit the tape. Form 4s filed at the SEC confirmed four Directors including Chairman Sanford Riley participated in buying the secondary. So did a new institutional buyer (more on them later). The buying cluster generated a Significantly Bullish Insider company Rating (ICR) for PMTS when they were filed Monday evening.

The insider buying undoubtedly assisted PMTS rebounding back up past $24, but **the stock is still a good 20% below the $31 PMTS hit just over a month ago** when the company's Q2 results fundamentally justified a surge to that level. **Nothing has fundamentally changed for CPI since then**.

The fact that Parallel 49 Equity chose now to sell another large slug of PMTS was also not a surprise. But this wasn't just another large slug. It was Parallels' *last* slug.

And the fact that Parallel has (finally) sold all of its remaining shares means that **the headwind from this overhang is finally over as well.**

Parallel 49 Equity is an institutional PE firm that was involved in taking CPI Card private in 2007 and bringing it public again in 2015. Two years ago, they still owned over half of CPI's shares, and after 18 years they made it clear with past big secondary sales they intended to finally take all their profits and move on.

The expectation that Parallel 49 Equity was bound to kill any rally with a huge volume sale into strength has been an overhang to PMTS' upward progress for a couple years now. Parallel's last big sale was in December 2025 of 2.1 million shares at $13.51 each. CPI's Chairman and a new institutional shareholder (Tricor) bought that secondary as well, which also generated a new "Significantly Bullish ICR for PMTS back then. It was obvious the reduced overhang from the December 2025 secondary was already a positive that insiders were leaning into.

And they proved smart to do so. The fundamental progress of CPI Card's operations has been strong enough to make its shares double in price since late last year. **I fully expect insiders to prove prescient again, and for continued progress on CPI's income statement to support a rebound in PMTS of 30% or more over the coming year from its most recent—and, thankfully, last—secondary setback.**

Fundamental Attraction

CPI Card Group is among the top players in the growing industry supplying credit, debit, and pre-paid cards for banks, fintechs, and prepaid providers, and its shares were already in a solid technical uptrend when second quarter results lit an afterburner under the stock on August 6.

Q2 revenues came in as expected, increasing 15% year-over-year to $149.2 million. Adjusted Q2 EPS of $0.43 was also generally as expected. But CPI's Secure Card Solutions Unit overperformed, with an assist from CPI's smart acquisition of Arroweye last year. The Secure Card unit is CPI's largest, and it increased sales by 17% to $110.9 million in Q2. Even better, improved gross margins resulted in stronger-than-expected cash flows.

That allowed management to increase full-year guidance. The company now projects "high-single-digit to low-double-digit revenue growth", "up from previous guidance of high-single-digit growth". More specifically, CPI raised guidance for 2026 free cash flow between $45 million and $50 million, a notable rise from $41 million last year. **This was the guidance that pushed PMTS over $30 early August. Nothing has changed since, except the company now has a higher float—and the risk of another large sale cratering its shares is over.**

The four analysts rating PMTS a "Buy" have been steadily raising their earnings estimates for CPI over the past several months. They currently expect adjusted EPS to surge over 50% this year to $2.98, before a more modest but sustainable 17% increase in 2027 to $3.49.

Granted, this doesn't make PMTS a raving growth stock. But the company's steadily increasing sales, cash flows, and earnings should earn it more than the single-digit forward multiple it's trading for now.

There is nothing ominous about CPI's balance sheet that should penalize its multiple. Heck, CPI's net leverage ratio was reduced again last quarter as increased cash flow allowed the firm to redeem 10% of its senior notes due 2029.

I should also highlight the positives from the investments CPI has made in a new manufacturing plant in Ft. Wayne Indiana as well as in small, strategic acquisitions. Its Arroweye acquisition last year has proven successful, and management expects to bolster its instant issuance business with its recent acquisition of Trism. These new production and technology assets make CPI more likely to deliver a positive earnings surprise than a negative one over the coming year.

Current price targets for PMTS from its four analysts range from $30 to $34, meaning its highest PT only expects PMTS to garner a forward multiple of ten. **The prospects for an increase in both CPI's EPS estimates and stock multiple over the coming year look attractive to me, and make CPI Card Group a Strong Buy.**

Oh, and that new institutional investor—Tricor—that helped absorb some of the shares Parallel 49 has sold over the past year? It's actually related to Parallel 49. Tricor Pacific Capital split into an institutional PE firm and family office in 2015. The institutional side was called Parallel 49. The family office took on the Tricor name, and managed the money of one of its founders, Rod Senft.

Mr. Senft is a principal in both Parallel 49 and Tricor, and as the institutional entity sold, this long-time insider at CPI Card decided it was a good deal for his family office to pick up shares equaling over 10% of the company's total. If you want to grouse about how Mr. Senft had the potential to orchestrate a beneficially lower price for PMTS for his family office during the past two secondaries, feel free. But why not just take advantage of the suddenly lower price for PMTS yourself? It's not much higher than what Tricor just paid.