

AI capex financing risks have risen, but market sell-off may already reflect this

Last week's equity and credit market weakness creates a temptation to view the falls in prices of AI stocks, neocloud debt, and US banks as evidence that AI infrastructure spending is indeed a bubble and that it is beginning to burst. Nasdaq fell 5% last week while MSCI Korea dropped almost 16%. Prices for the debt of a major neocloud company plunged into distressed territory pushing the yield on its shortest dated public debt up 282bps to 14.95%. The KBW US bank sector ETF dropped 1.4%, pushing the share prices of some leading banks back to levels at the start of the year.

Our analysis suggests something different. **We view markets as trying to determine whether and how much current estimates for AI-related earnings growth may need to be trimmed, not that earnings will not grow or contract.**

This uncertainty is mainly about the cost and availability of financing for AI capex and not the demand. All data sources on token usage continue to show exponential growth. Data from the largest US hyperscaler point to total token usage across all surfaces rising from 480tn to a likely 3.2 quadrillion this year. Token usage by APIs, which enable applications to access AI models, grew 37.5% in Q2. The second largest hyperscaler reported token volume growth of 30% over the same period, while token usage at the two largest private US AI model labs was growing 11% - 30% per month.

Qualifications about the sources of token demand – agent context window reads vs. inference – and spread across open source vs. frontier lab models matter for pricing and profitability. **Nonetheless, the broad picture continues to point to exponential demand growth**, with leading hyperscalers reporting data center capacity constraints and rental rates for H100 and B200 GPU racks reaching new highs in recent weeks. Leading semiconductor producers and equipment manufacturers are also reporting capacity constraints that extend through 2027.

However, **financing the build-out of AI infrastructure to meet this demand is increasingly straining markets, as it coincides with large government budget deficits, and, crucially monetary policy tightening.**

Admittedly, the AI-financing requirements are huge. Debt financing by the four leading US hyperscalers will rise to USD250bn this year and is projected to grow to USD420bn in 2027, up from USD100bn last year. Once neoclouds and other AI infrastructure developers are included, total AI-related financing requirements across all sources are estimated to range between USD1.1tn to USD1.4tn in 2027.

A key problem is that renewed tension in the Middle East is forcing markets to expect energy prices to remain higher for longer. No clear path toward truce in either the Iran-US war or the Saudi-Houthi war yet exists. **We now expect Brent crude to remain in a USD100bbl - USD115bbl range into Q1 2027, roughly a quarter longer than we previously expected.**



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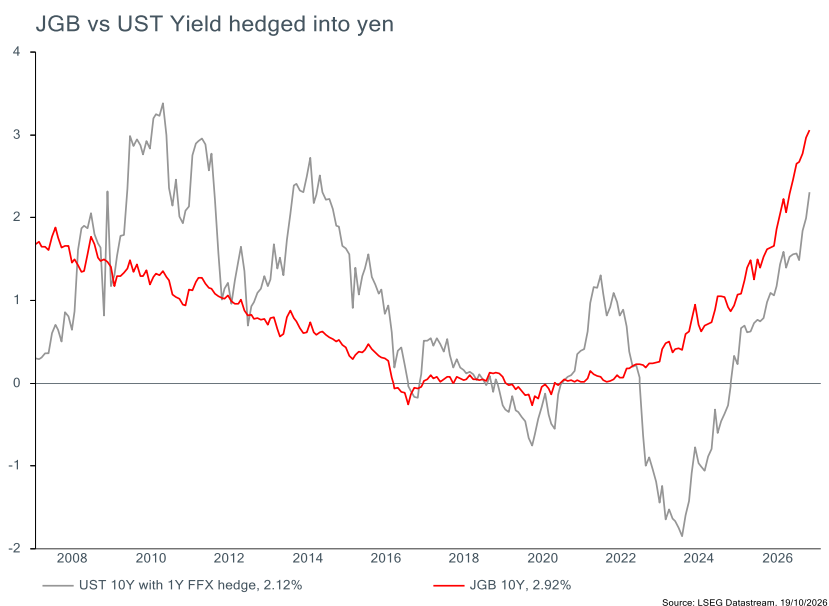




This is forcing global central banks to raise policy rates with the US Federal Reserve (Fed) central to this outlook. Higher and broader than expected US core CPI inflation in September of 0.3% mom dashed market hopes that continued disinflation would forestall further Fed hikes. Energy prices do not appear to be passing through to core CPI prices – yet - but they have elevated consumer inflation expectations creating risk for the Fed. We expect the Fed to counter this with a 25bps hike in the Fed Funds rate in December and a further 25bps in Q1 2027.

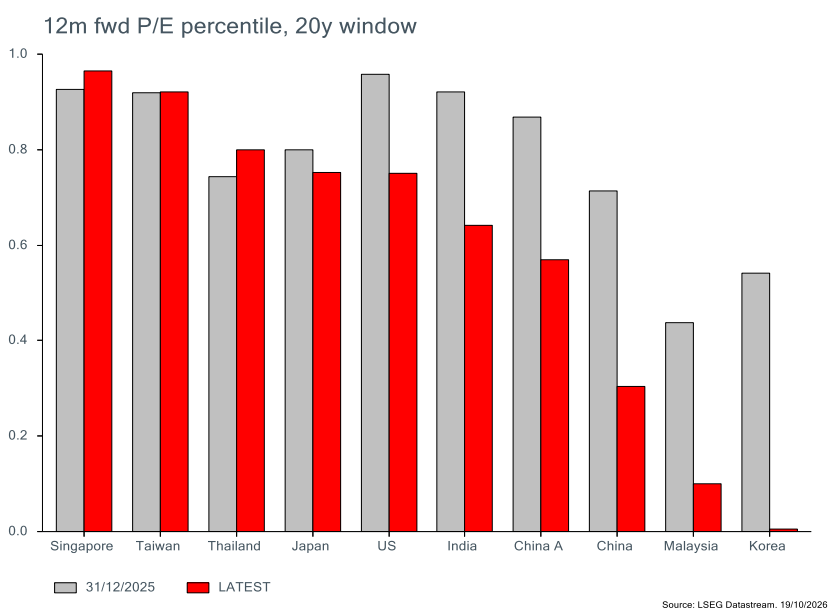
The Fed is not the only central bank tightening. The European Central Bank is expected to raise its policy rate 75bps over the next year. More important, in our view, is that inflation pressure is pushing the Bank of Japan (BoJ) to tighten sooner and by more. We expect the BoJ to hike 25bps in December and another 50bps next year, starting in April.

BoJ tightening is important for AI capex financing because it is contributing to rising Japanese government bond yields. The chart below shows that the rise in the 10y JGB yield to about 2.9% translates into a roughly 2.1% yield pick up over Treasuries for Japanese investors on a currency- hedged basis. **Although this has not yet driven Japanese net selling of US debt, it has essentially stalled new Japanese flows into Treasuries. This contributes to upward pressure on Treasury yields, raising the all-in financing costs for AI capex.**

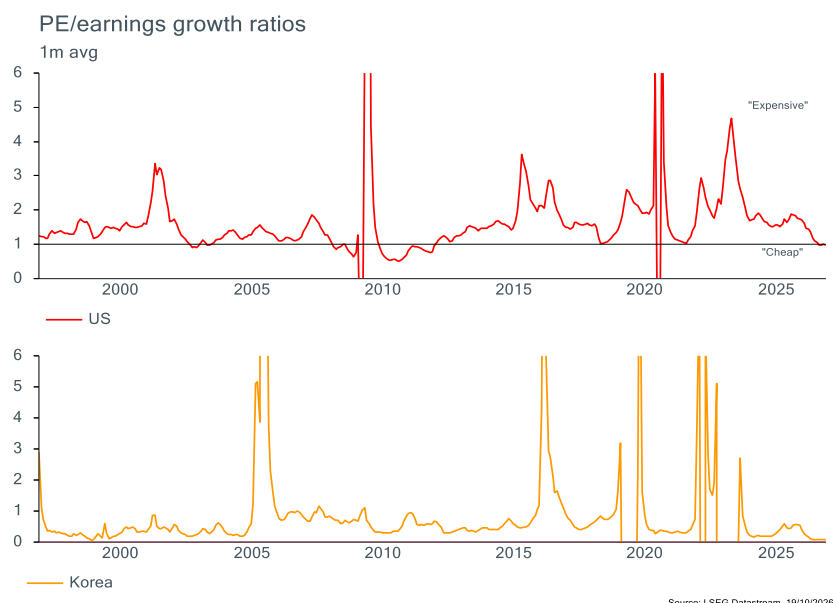


Whether higher financing costs will reduce growth in AI capex next year and by how much remains highly uncertain. Some neocloud developers could be forced to cut expansions, but financially stronger hyperscalers could step in to fill the gap.

What is much clearer is that recent falls in equity prices have discounted much of this risk in the leading AI-related markets. The chart below shows that P/E ratios for the US, China, and Korea have fallen significantly from the start of the year.

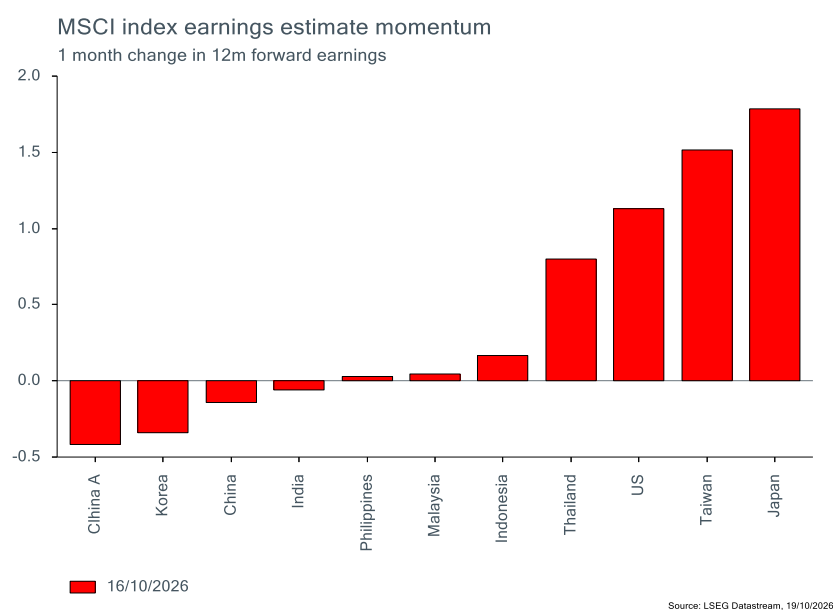


However, P/E ratios do not show the full extent of how much the market has cheapened given still high earnings growth rates. The chart below of P/E to growth ratios, commonly known as PEG ratios, shows that the US is trading close to historic lows. Korea's PEG has collapsed even more to its lowest levels since 2000. This implies that a significant cushion to the risk of earnings downgrades already exists in share prices.



Meanwhile, the chart below shows that earnings estimates continued to be revised up last week. **We accept that the clear risk is that analysts are underestimating the impact of higher financing costs on AI capex spending and earnings. As such, Q3 earnings reports from the US hyperscalers and Asia's leading semiconductor firms will be crucial to determining whether this risk materialises or it proves to be an unfounded worry that markets recover from.**

Our bias is to expect some trimming of forecasts for AI infrastructure spending in 2027 and 2028, but less than the now quite bearish scenarios that are in market prices. We remain constructive on [Asia's IT hardware ecosystem](#).

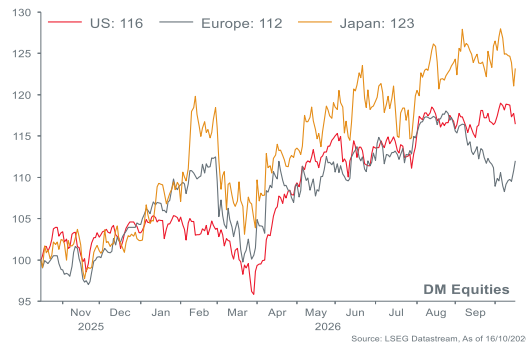
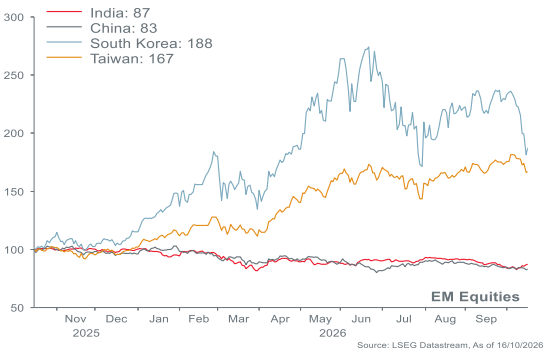
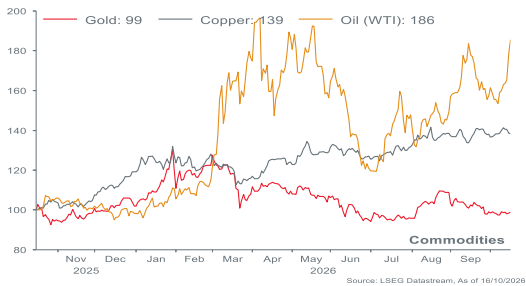
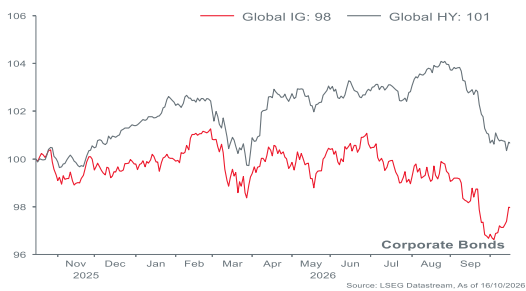
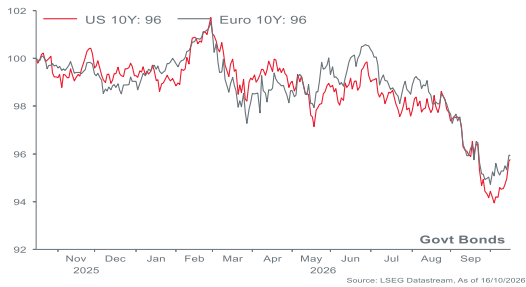
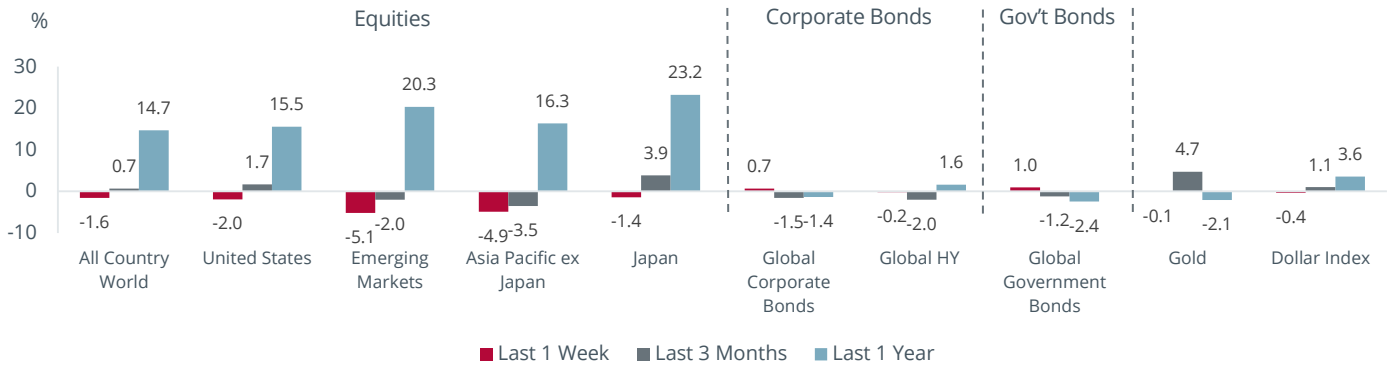


Market Review

Global equities were broadly weaker over the week, with the MSCI AC World Index declining 1.6%. US equities retreated, with the S&P 500 falling 2.0% and Nasdaq losing 4.5%. Emerging Markets lost 5.1%, while Asia Pacific ex Japan fell 4.9%. Japan was down 1.4%.

Gold slipped 0.1%, while the US dollar index weakened 0.4%. Bond markets were mixed with Global Corporate Bonds and Global Government Bonds gaining 0.7% and 1.0%, respectively, while Global High Yield Bonds declined 0.2%.

Asset Performance



Market Data

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
10 Year	5.10	-2.78	1.88	11.58	28.22	22.75	5.31	3.95
10 Year Bond Yield (%)								
Japan	2.94	-2.69	-2.10	8.22	77.13	41.79	3.11	1.63
China	1.64	-4.48	-2.43	-5.52	-7.12	-11.76	1.89	1.64
Australia	5.24	-1.95	-2.22	7.07	25.71	10.13	5.41	4.10
Singapore	2.35	-4.08	-6.47	5.50	32.16	5.58	2.62	1.75
Malaysia	3.85	-2.70	-8.00	5.59	10.62	10.02	4.19	3.43
Indonesia	7.17	-0.94	0.39	-0.94	21.02	17.16	7.48	5.92
	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	91.38	0.62	-0.05	-2.02	-4.35	-3.45	95.69	90.53
Bloomberg U.S. Aggregate USD	89.97	0.84	-0.37	-2.65	-5.06	-4.36	95.21	88.78
Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
World								
MSCI AC World Index (USD)	1,129.10	-1.58	0.10	0.66	14.70	11.28	1,160.81	960.87
North America								
US S&P 500 Index	7,659.44	-1.95	1.43	1.67	15.54	11.89	7,844.52	6,316.91
US Nasdaq Composite Index	26,140.03	-4.48	0.62	1.00	15.86	12.47	27,722.75	20,690.25
Europe								
MSCI Europe	2,763.33	2.55	-1.20	-1.43	8.69	4.56	2,917.43	2,461.79
Asia Pacific								
MSCI Asia Pacific ex Japan	831.69	-4.91	-4.10	-3.50	16.34	15.16	925.80	684.96
Japan Nikkei 225	65,324.29	-5.37	2.19	-2.26	35.31	29.77	72,831.75	47,494.31
Shanghai Stock Exchange Composite	3,716.28	-2.56	-4.51	-4.28	-5.11	-6.36	4,258.86	3,674.82
Hong Kong Hang Seng	24,186.83	-0.10	-2.13	-3.29	-6.57	-5.63	28,056.10	22,518.00
Taiwan TAIEX	47,111.26	-4.47	2.75	3.26	70.40	62.66	49,968.92	26,395.98
Korea KOSPI	5,668.05	-14.46	-15.63	-16.90	51.21	34.50	9,385.59	3,675.82
India NIFTY 50	23,146.15	2.78	-0.31	-3.85	-9.53	-11.42	26,373.20	22,179.90
Australia Stock Exchange 200	8,806.70	1.03	1.27	-0.38	-2.89	1.06	9,296.70	8,262.40
Indonesia Jakarta Composite	5,185.10	-14.91	-19.45	-15.11	-36.18	-40.04	9,174.47	5,185.10
Thailand SET	1,573.01	-0.29	0.66	-3.81	21.80	24.87	1,657.55	1,232.40
Malaysia FTSE Bursa KLSE	1,607.76	-0.04	-4.25	-6.64	-0.28	-4.31	1,771.25	1,597.68
Philippines Stock Exchange PSE	5,782.70	1.43	-2.27	-8.58	-5.10	-4.46	6,673.61	5,564.47
Singapore FTSE Straits Times Index	5,415.53	0.25	-3.90	-2.24	24.32	16.56	5,828.50	4,311.65
Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	0.19	0.34	-1.96	-1.77	-3.83	-4.31	1.20	1.12
GBP	0.41	0.73	-0.40	-1.10	-0.76	-1.08	1.38	1.30
CHF	-0.34	-0.75	-0.17	1.89	3.91	3.99	0.84	0.76
JPY	0.01	-0.20	1.10	-2.70	5.03	0.86	163.85	150.42
Asia								
CNY	-0.07	-0.09	-0.30	-1.28	-6.13	-4.39	7.13	6.69
HKD	0.00	0.00	0.04	0.10	0.99	0.84	7.85	7.77
INR	-0.10	-1.86	-1.03	-1.44	7.96	5.69	96.82	87.72
MYR	-0.02	-0.10	-0.09	0.22	-3.46	0.57	4.23	3.88
KRW	-0.53	-0.45	-3.10	-9.81	-5.82	-7.38	1,559.08	1,334.19
SGD	-0.16	-0.06	0.12	-0.78	-1.07	-0.46	1.31	1.26
TWD	0.27	1.60	1.88	0.53	5.93	3.50	32.43	30.54
IDR	0.45	0.70	1.84	0.11	8.66	7.98	18,170.00	16,565.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 16 October 2026. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index. **(line charts)** Eastspring Investments, Refinitiv, as at the end of the prior week, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne Ounce. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index.

Market data: Eastspring Investments, Refinitiv, as of 16 October 2026. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.



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