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ANXIETY ABOUT AI FUNDING

October did not dispel all the uncertainties in the financial markets. While investors scrutinize the third-quarter results in detail, volatility in the bond markets persisted. Concerns about the accumulated debt in the technology sector (the AI investment cycle), and more specifically among *neocloud players* specializing in data center management, finally triggered a flight to quality , bringing long-term sovereign bond yields down a few dozen basis points (1 basis point = 0.01%) below their recent record highs. This lull contrasts sharply with the tensions surrounding oil prices, with the price of Brent crude once again approaching the $120 mark, a peak reached in the spring.

ARE THE CONCERNS ABOUT AI FUNDING JUSTIFIED?

The sustainability of the AI investment cycle and financing issues remain central to investors' concerns. The strength of global economic growth (exceeding 3% in volume), despite the conflict in the Middle East, and a significant portion of corporate profit growth stem from this technological revolution and the immense expectations of productivity gains. Approximately half of global trade growth is driven by demand for AI-dedicated infrastructure; in the United States, AI contributes roughly 1% to real GDP growth. AI is the dominant theme driving savings flows and steering global markets; other factors (energy, geopolitics, monetary policy, etc.) appear to be mere background noise. Consequently, the slightest hitch in the investment cycle or in the pace of diffusion of these disruptive technologies into the economic fabric is viewed with dread by financial markets. **We have previously emphasized the issue of monetization and the risks of disappointment for AI labs such as Anthropic, OpenAI, and xAI, given the intensification of competition and the rapid spread of *open-weight models* .** These leading companies don't have the time to monetize their superintelligences, while new frontier models are constantly being launched in a frantic race for performance. The current rate of launch of new large language models (LLMs) by major labs is 15 to 20 per year: the result is excessive cash burn (for training), while valuations announced before IPOs reach the two trillion dollar mark–a fanciful level if we accept the idea that added value is rapidly shifting towards agentic AI, cybersecurity, and robotics, and that LLMs are simultaneously becoming commodities. For the sake of completeness, we should point out that the figures published by Anthropic prior to its IPO were rather better than expected (despite the lack of details on future computing expenditures), and reassuring regarding the financial resources available to cover firm commitments for computing capacity ($430 billion, to which must be added approximately $350 to $400 billion in potential commitments). But for the moment, the main concern is with ***neocloud*** **companies specializing in providing computing capacity dedicated to AI,** such as Coreweave, Nebius, and Mara (originally a Bitcoin mining company). **Hyperscalers (Microsoft, Amazon.com ,** Alphabet, Meta, Oracle), which account for roughly two-thirds of AI investments, totaling over $800 billion in 2026, **are not a cause for particular concern regarding their financing capacity** : their available cash on their balance sheets are close to $400 billion, and their strong operating cash flow generation allows them to absorb the investment cycle through a controlled public offering (issuance of new shares and/or bonds) (around $300 billion over the 2026-2028 period, a small amount considering the size of the companies involved). The same cannot be said for neocloud companies, *which are suffering from a wave of distrust in the credit default swap (CDS)* markets (credit default swaps , or financial insurance contracts to cover the risk of default). In the case of Coreweave, the five-year CDS indicates an implied probability of default of around 60%!

Should this stress surrounding AI debt alert us to the sustainability of the investment cycle? We don't think so: while circular finance and the proliferation of off-balance-sheet entities (*special purpose vehicles) certainly increase market participants' nervousness, neocloud* companies represent only a small fraction of the total investment (around 15%). The real issue is rather the lack of available global funding to achieve the computing power required by the accelerated deployment of agentic AI in the coming years, especially given the fierce competition to attract global savings, as evidenced by the pressure on real interest rates (excluding anticipated inflation). Analysts at the brokerage firm ODDO recently emphasized that an AI agent consumes, on average, fifteen times more *tokens* (the smallest unit of data processed by AI) per user than a simple *chatbot* . In our view, the main constraint regarding the pace of adoption of agentic AI will be the need to strengthen cybersecurity aspects, but available statistics clearly show a significant acceleration in ***token*** **consumption since the emergence of the first AI agents and the significant decrease in the unit cost of the *token* .**

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In conclusion, the current stress in the AI debt segment should remain a temporary phenomenon, even if it continues to fuel brief periods of high market volatility. The ability of *hyperscalers* to monetize their investments (see the lukewarm reactions to the latest earnings releases from Amazon.com and Alphabet), the ability of software publishers to create value by integrating AI functionalities into their offerings, the ability of cybersecurity leaders to develop tools for managing the collateral risks associated with agentic AI deployment, and the ability of semiconductor manufacturers to meet customer demand seem to us to be far more fundamental issues. As for the constraints likely to slow the investment cycle (access to the electricity grid, supply chains, regulation, etc.), we believe they do not in any way call into question the massive need for computing power (see previous note).

THE RETURN OF SOVEREIGN RISK IN EUROPE – THE CASE OF FRANCE AND THE ECB'S INAPPROPRIATE POLICY

Tensions surrounding peripheral eurozone sovereign debt serve as a stark reminder of the busy political agenda in the coming months (France, Spain, Italy). *The spread* between France's ten-year French government bond (OAT) and Germany's exceeds 160 basis points (1.6%), a jump of 100 basis points since the beginning of summer, triggering a contagion effect on the borrowing of the most indebted European countries (Italy, Spain, Belgium, etc.). While **the rise in yields on US Treasury bonds certainly has a global pull on interest rates, it is not the only factor at play in Europe.** Numerous national elections are scheduled, which could fuel volatility in European financial markets. France is the focus of intense attention. Its weight in the European economy (close to 20% of the Eurozone's GDP) is too significant for us to ignore the effects of political paralysis in the face of the budgetary challenge and social unrest. While social democracy has managed elsewhere to overcome the ideological conflict between capital and labor, France's socio-economic model, statist in its principles, regardless of the political leanings of the party in power for the past thirty years, is proving unsustainable (56% of GDP in public spending, a level higher than that of the Soviet Union at the end of the 1980s, including social transfers!). Without a parliamentary majority capable of implementing serious reforms (supply-side policies, pension reform, increasing the employment rate, improving the performance of the national education system, etc.), collapse seems inevitable, potentially triggering a major European financial crisis. Long a stowaway in the Eurozone, France no longer seems able to benefit from the indulgence of the financial markets. The denial of reality, which characterizes Macron's doctrine, has made the rise to power of a populist party far removed from the liberal policies that would put France back on track likely. The chances of stabilizing the public debt-to-GDP ratio are virtually nil. This would require a budgetary effort of around €150 billion (5% of GDP), while the country needs to invest massively in defense, R&D, AI, and the energy transition. Eliminating the primary deficit alone (excluding debt servicing) would already require nearly €100 billion in budget cuts! Such an effort, which would be spread over several years, requires a parliamentary majority that is currently impossible to secure. The ludicrous discussions currently underway on the 2027 budget, aimed at reducing the deficit to 5%, demonstrate the negligence of public officials.

The upcoming national elections will therefore be decisive. Some are calling for intervention by the European Central Bank (ECB) even before these elections. Frankfurt has tools at its disposal to prevent a breakup of the eurozone (notably the OMT for *Outright Monetary Transactions* and the TPI for *Transmission Protection Instruments*), tools which have never been used until now. **However, it is unlikely that the ECB will act before the elections.** In any case, any intervention would entail painful reforms imposed on a country that has long since failed to meet its European commitments regarding public deficits. It is difficult to imagine, in such a scenario, what would become of the already very tense social climate.

At most, we would like to see the ECB pause its quantitative tightening process (balance sheet reduction), which is increasing pressure on bond yields, as well as a postponement of the planned increases in its key interest rates (decided at the meeting on October 29, which we welcome). The Frankfurt-based institution seems to be lacking political vision today. Mario Draghi, who saved the eurozone in 2012 – let us remember his famous "whatever it takes" – is no longer at the helm. **The current Governing Council has become trapped in a narrow view of its role. Only the fight against inflation and anchoring expectations serve as its compass.** Yet, a rise in the price of silver has never caused oil prices to fall in the context of an external energy shock. Furthermore, Europe has lost control over prices in entire sectors of industry whose production it no longer controls, largely having been relocated as part of the energy transition (petroleum products, fuels, fertilizers, metals, etc.). Not to mention Brussels policies such as the Carbon Border Adjustment Mechanism, which are inflationary in nature. While core inflation (excluding energy prices) remains moderate, the ECB adheres to a narrow view of its mission. Yet, in 2025, it decided to introduce the climate factor into its collateral and refinancing rules to favor issuers committed to the energy transition, at the expense of assets contributing to global warming. This is clearly a political decision, as the European treaties do not explicitly mention a mandate on this otherwise legitimate issue. **In reality, even though inflation is its main mandate, nothing legally prevents the ECB from supporting the economic and environmental policies of the Union (secondary mandates).**

The ECB is therefore playing a detrimental role in tightening financial conditions in the eurozone by exacerbating the contagion effect of US interest rates. While long-term dollar interest rates are not a problem for the United States (5% compared to nominal GDP growth of around 7%), long-term European interest rates are becoming a problem for many countries. In France, long-term rates above 5% are being compared to nominal growth of less than 3%! **The eurozone has long-term nominal growth expected to be around 3.5% (at best), while the average of long-term sovereign bond yields reaches 4%, which is clearly too high for an entity whose potential growth is too low** (insufficient productivity gains) and whose investment needs in AI, the energy transition, defense, new technologies, etc., are enormous (see the recommendations of Mario Draghi's September 2024 report, which

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have so far had few concrete effects, apart from conventional political rhetoric and a partial dismantling of the EU's Green Deal). Which side is the ECB on?

CONCLUSION

While we reiterate our advice on prudence and sound diversification given during the summer, the markets today offer numerous attractive investment opportunities. Admittedly, equity indices, supported until now by AI and the strong financial health of companies (consensus 2026 profit forecasts of +34% and +17% respectively for the US and the Eurozone), are vulnerable to a potential continuation of the bond market correction and a rise in the cost of capital. **We remind you that the *ex-ante imbalance* between massive investment needs and available global savings, in a context of intense competition between indebted states and the private sector, can only fuel pressures on the cost of credit, exacerbated by international crises.** The flight to quality observed in recent days has eased pressures on sovereign bond yields, but this may only be a short-lived respite. **Nevertheless, bond markets now offer real yields that make carry strategies attractive.**

On the equity side, while the valuation of the AI-exposed technology sector is generous (which increases the risk of disappointment), without being excessive, the rest of the market is far from reflecting unrealistic expectations regarding the productivity shock that this technological and industrial revolution will inevitably trigger in the coming years . Furthermore, the 2027 earnings consensus is reasonable, in line with a nominal global growth rate of around 6.5% to 7% per year. The outcome of the US midterm elections could signal a broadening of the bull market to sectors with attractive prospects, but which are less expensively valued.

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