

September 2026 Monthly Macro Letter

The Tug of War

Earnings growth is pulling one way. The cost of money is pulling the other.

September 27, 2026

EXECUTIVE SUMMARY

- The month's story was rates. The 10 year went through 5%, the 30 year hit its highest since 2004, and equities still finished higher on strong earnings and data. Growth won the round.
- The buyers of bonds have changed. Pensions spent twenty years leaving, hedge funds filled the gap with leverage, and Japan's rising yields are squeezing the carry trade. At 5%, pensions finally have a reason to come back.
- The AI build out keeps compounding: roughly 725 billion dollars of capex planned this year, revenue following it, and component prices telling you demand exceeds supply.
- We stay invested in the theme, covered and unlevered. What would flip us: a second 2 sigma month in rates, a failed Q3 earnings season, or plumbing stress.

**Lobato
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Growth won the round. Rates raised the stakes.

September was the month the bond market stopped being polite. The 10 year went through 5%, rising about 46 basis points in eleven sessions. The 30 year touched its highest level since 2004. The MOVE index, which is the bond market's version of the VIX, a gauge of how much volatility bond traders are bracing for, sat above 100. And yet equities finished the month higher, carried by strong PMIs and durable goods.

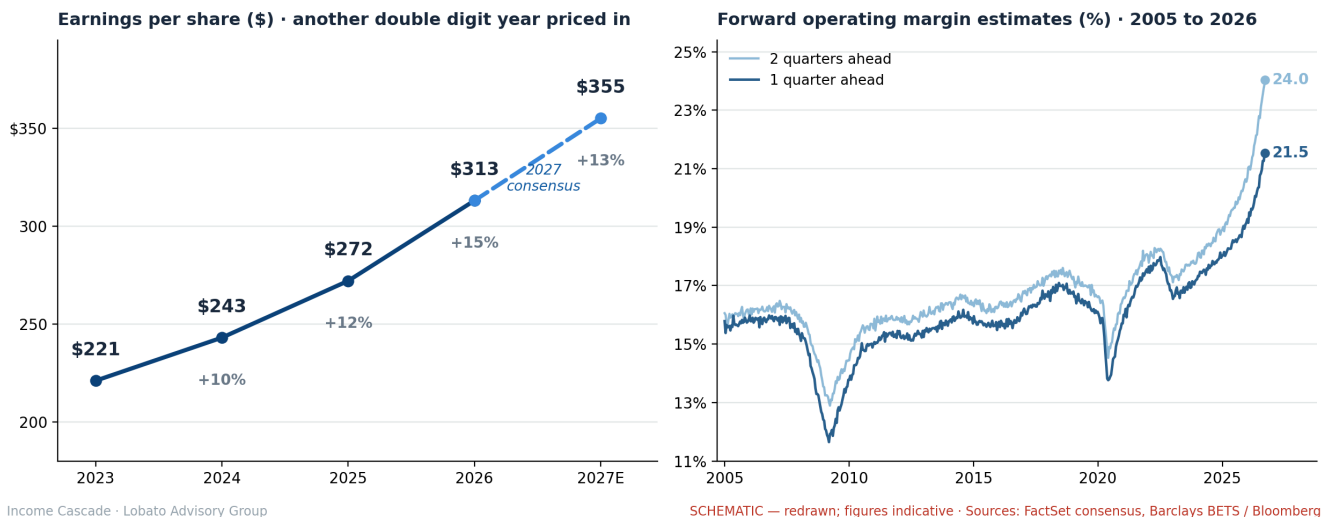
Earnings growth pulling one way, the cost of money pulling the other.

That is the tug of war this letter is about. Growth won this round. I want to show you why, and what would make me change my mind.

The growth side of the rope is easy to state. Consensus has S&P 500 earnings growing about 15% this year and another 13% in 2027, to roughly 355 dollars of index earnings. Another year of double digit growth is already priced in. As long as the earnings keep arriving, the market can digest a 5% ten year. That is what September just demonstrated.

The other side of the rope: earnings and margin expectations keep climbing

S&P 500 · left: EPS, 2026 largely in the books · right: analyst margin expectations, twenty years between 13 and 18% before this move



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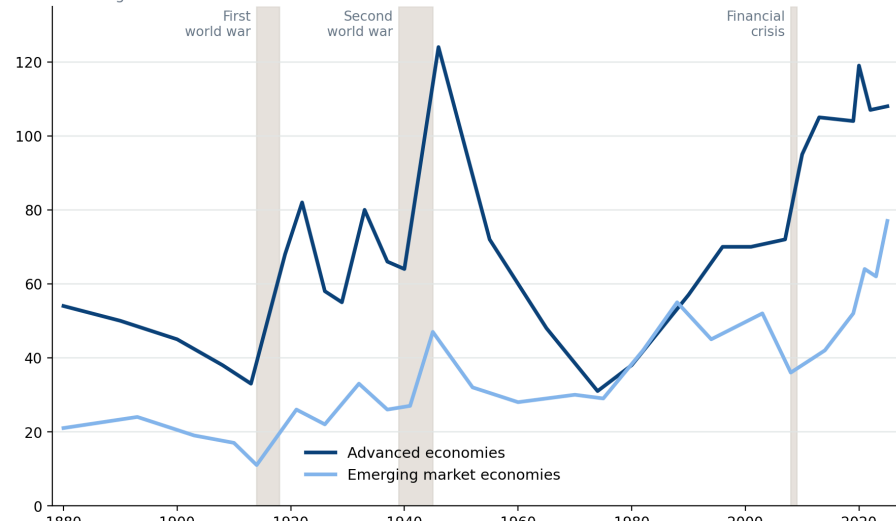
The world is levered. The money is no longer free.

The debt stock is near historic extremes; the cost of carrying it has reset.

Start with the stock of debt. Government debt in the advanced economies sits near 110% of GDP, a level the world has only seen coming out of the Second World War. Add corporate debt and the global total is close to 300 trillion dollars, about 250% of world GDP.

Government debt has reached historically high levels

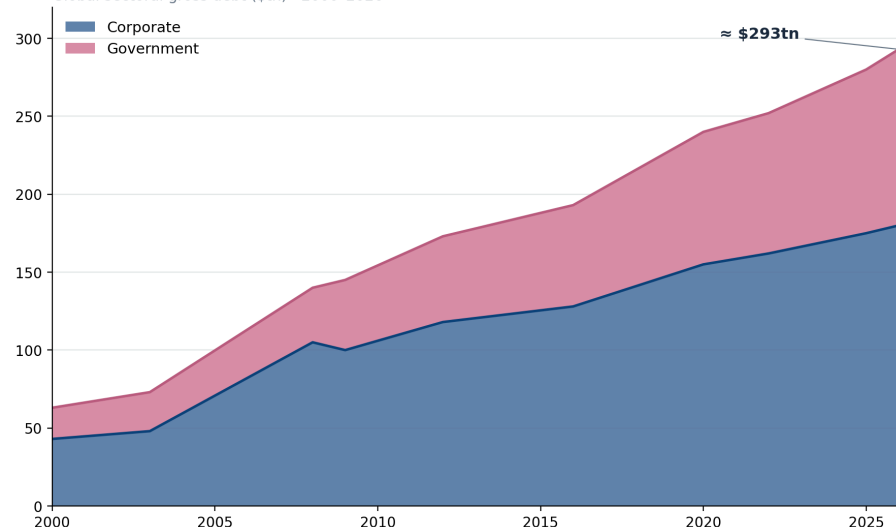
General government debt as a % of GDP · 1880-2025



SCHEMATIC — redrawn; figures indicative · Source: IMF

Total corporate and government debt has reached almost \$300tn

Global sectoral gross debt (\$tn) · 2000-2026



SCHEMATIC — redrawn; figures indicative · Source: IIF / press reports

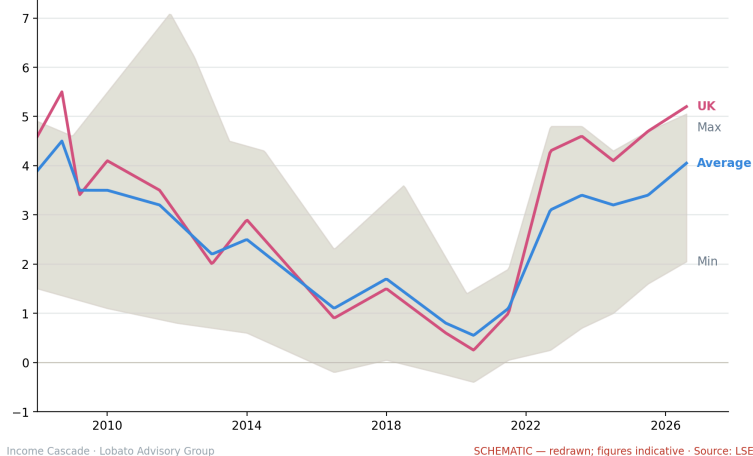
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Higher rates do not sink the market evenly. They sort it.

For fifteen years that stock was cheap to carry. It no longer is. Average G7 borrowing costs are at their highest since 2008. Both the US and the UK 10 year are above 5%, and Japan's long yields are at 30 year highs. The interest bill has followed. Governments in the OECD now pay more than 2 trillion dollars a year in interest, roughly double the level of a few years ago.

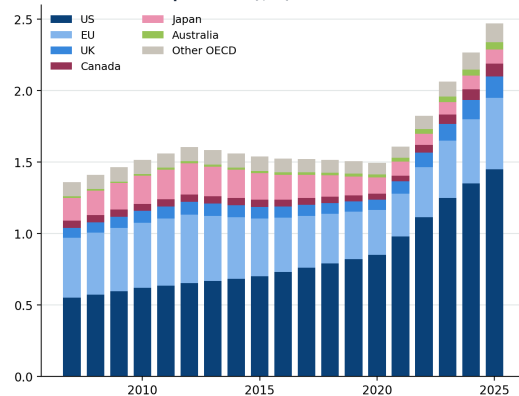
Average G7 borrowing costs have climbed to their highest since 2008

10-year government bond yield (%) - UK vs G7 range (max/min exclude UK)

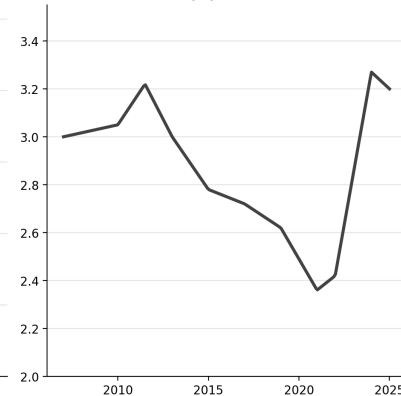


Interest on government debt in the OECD now exceeds \$2tn per year

Gross interest expenditure (\$tn)



As a share of GDP (%)

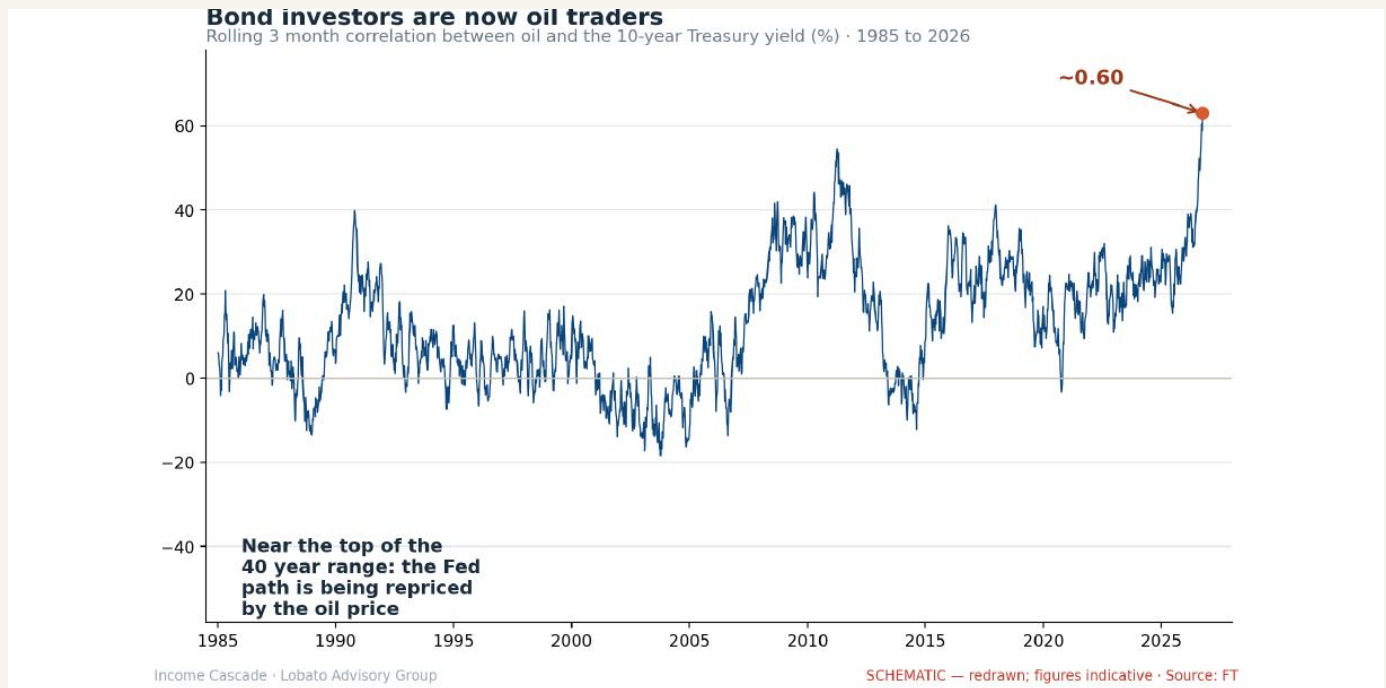


Here is the part I want you to keep. Goldman's arithmetic says a company needs about 2 points more long term growth to fully offset a 1 point rise in its cost of equity. That is the bar rates have set. The leaders clear it because they are growing 40 to 70% with real cash flow. Profitless long duration stories do not.

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Bond investors have become oil traders.

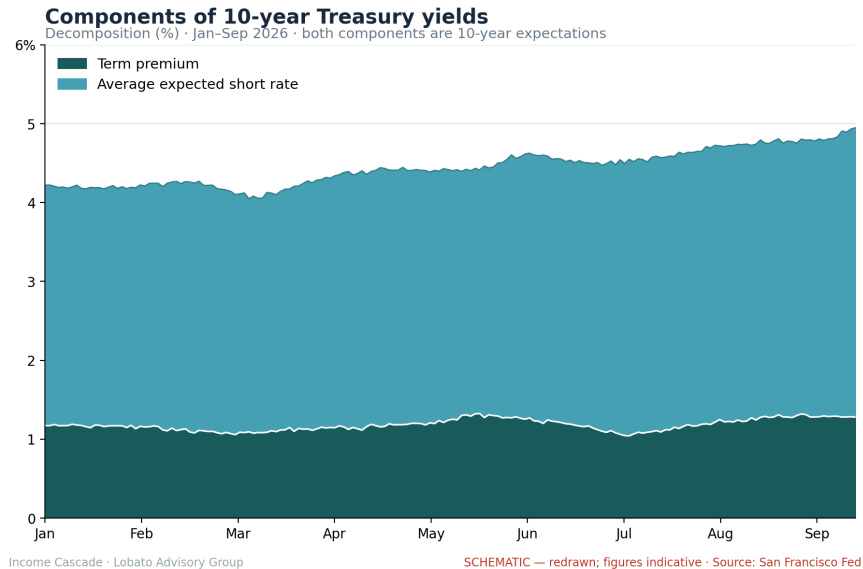
The proof is in the correlation. The three month correlation between oil and the 10 year yield sits near 0.60, at the top of its forty year range. As the FT put it, bond investors are now oil traders. They are trading the inflation path, and right now the inflation path is a barrel of crude. As long as oil stays firm, yields stay firm. It also means a break in oil would be the fastest path to lower yields, a flip condition in our favor.



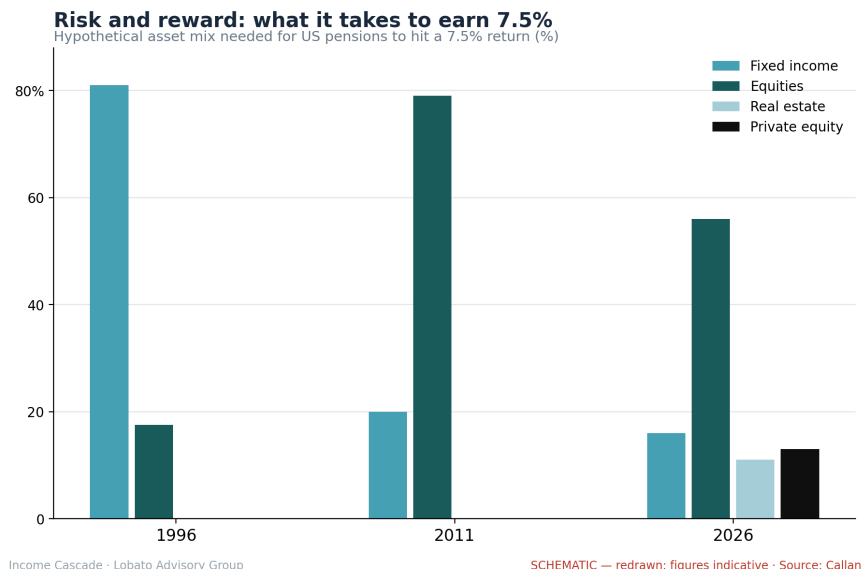
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The buyers of bonds have changed.

The rise in yields is not mainly a deficit scare. The San Francisco Fed's decomposition shows the term premium roughly flat near 1.3% since July. What moved is the expected path of the Fed, repriced by strong data and firm oil. That matters because a repriced Fed path is a story that can reverse. A term premium blowout would be harder to undo.



Who is on the other side of all this supply is the more interesting question. Pension funds, the traditional buyers, have been stepping back. To earn the 7.5% they promise, the math has pushed them out of bonds. In 1996 a pension could hit that target with roughly 80% in fixed income. Today it takes a mix of equities, real estate and private equity, with bonds down to about 16%.



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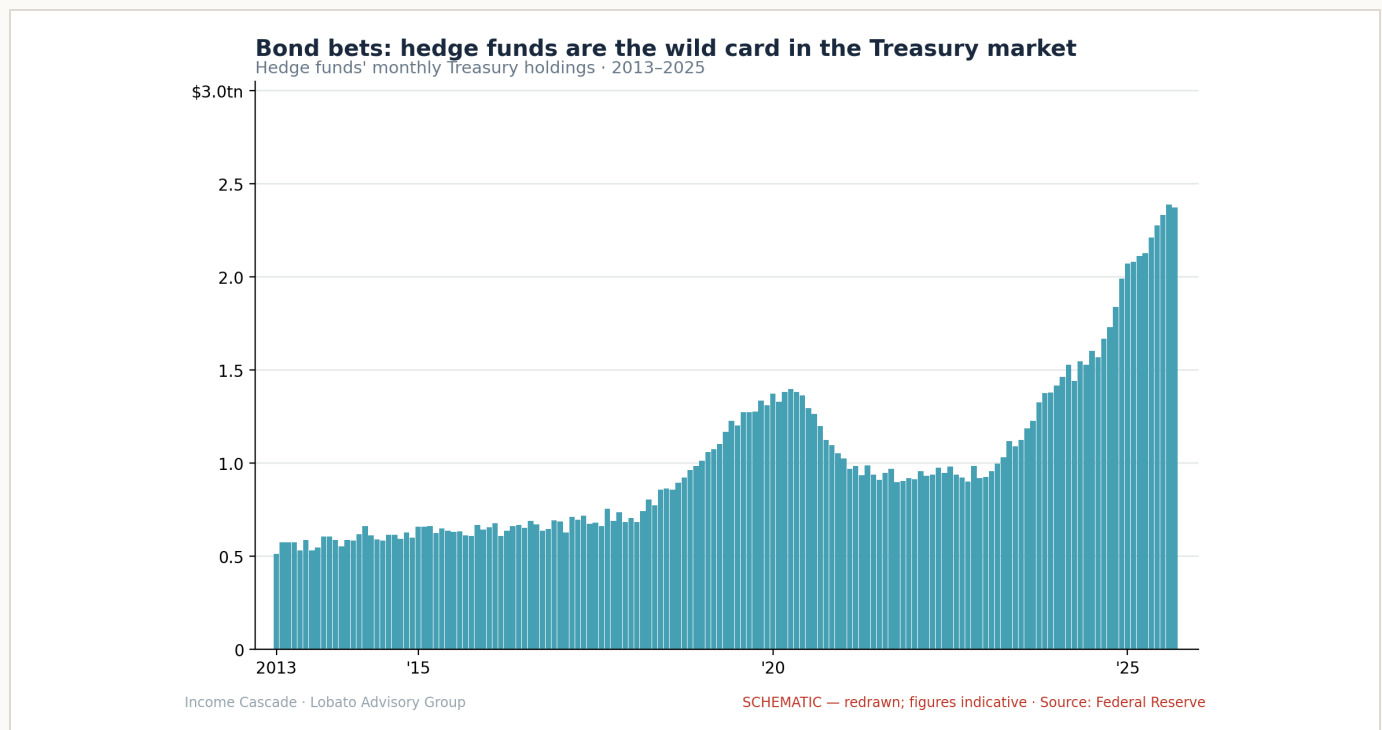
At 5%, pensions have a reason to come back.

| A natural buyer may be returning. A leveraged buyer has filled the gap.

Here is the twist. With the 10 year at 5%, for the first time in decades a pension can cover its cost of carry with bonds again. If yields hold here, the buyer that spent twenty years leaving the bond market has a reason to come back. That would be the natural ceiling on yields, and it is worth watching.

The void has been filled by hedge funds, mostly through the leveraged basis trade. Their Treasury holdings have climbed to about 2.4 trillion dollars, roughly double the level of 2022, and the New York Fed has started asking questions about it. These are not buy and hold owners. They are levered holders of a small spread, and my phrase for that business has not changed:

Picking pennies in front of a bullet train.



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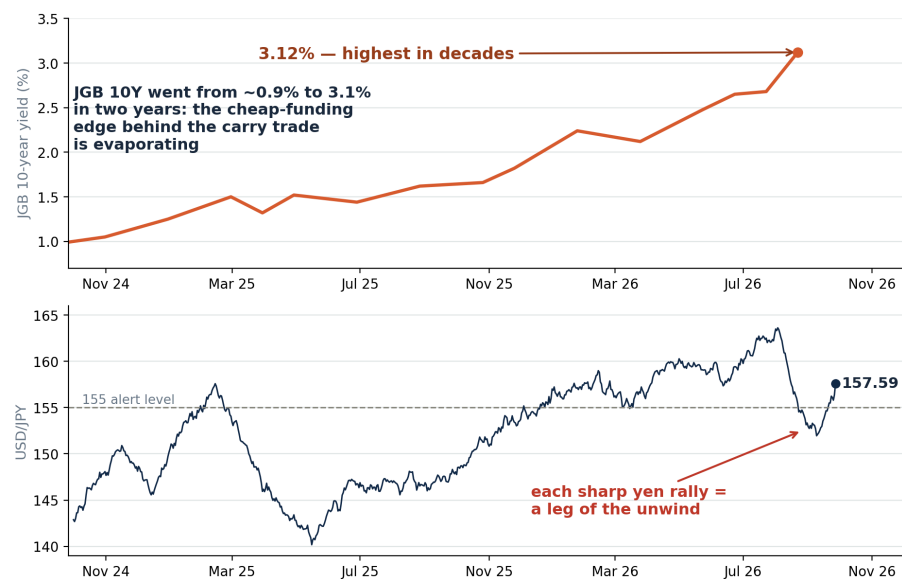
Japan is the other leg of the leverage.

The second levered trade I watch is the yen carry. Its funding edge is disappearing in plain sight. The JGB 10 year has gone from about 0.9% to 3.1% in two years, its highest in decades, and the BOJ is still telegraphing hikes.

When the cheap leg of a trade stops being cheap, the trade unwinds, and every sharp yen rally is a leg of that unwind.

The carry-trade squeeze: JGB yields at multi-decade highs, yen bid on every unwind

Sep 2024 - Sep 2026 · falling USD/JPY = stronger yen = carry-trade pain



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SCHEMATIC — redrawn; figures indicative · Sources: OECD/FRED (JGB), ECB ref rates (USD/JPY)

The dangerous combination would be a hawkish BOJ, a hard break in the dollar yen rate, and long yields still rising. The hedge for a currency driven shock is long volatility.

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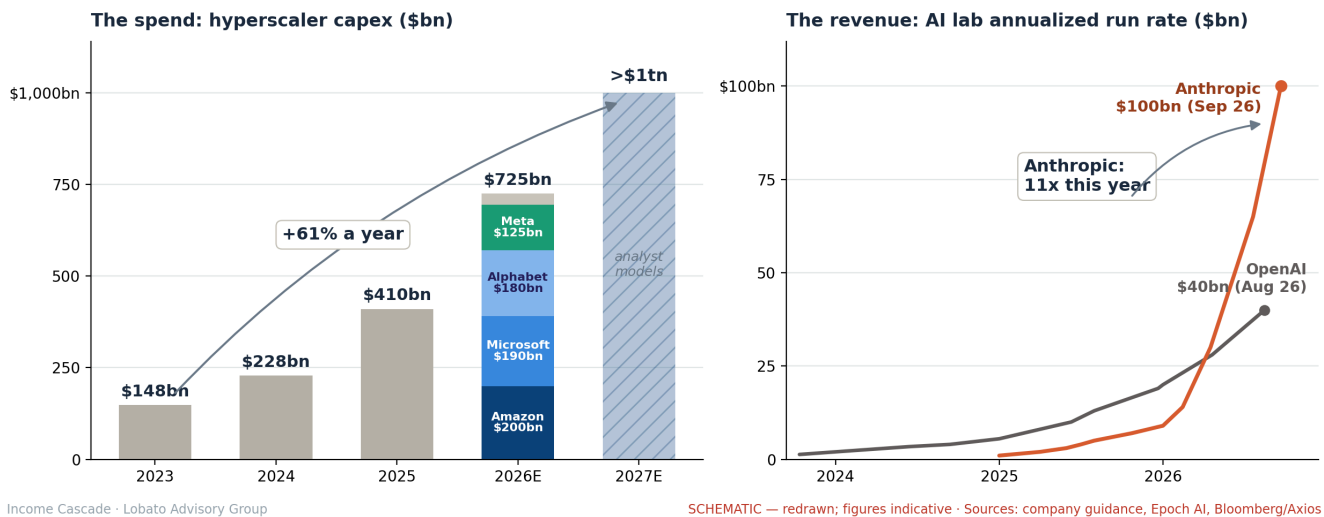
The spend is real. The revenue is following.

Start with the size of the spend. The four large hyperscalers put about 148 billion dollars of capex to work in 2023. This year the combined guidance is roughly 725 billion, with Amazon near 200, Microsoft near 190, Alphabet around 180 and Meta up to 135 at the top of its range. Analyst models for 2027 sit above a trillion. Nothing in the private economy has ever spent at this pace.

And the revenue is following the spend. OpenAI's run rate topped 40 billion dollars by August, and Anthropic's has gone from 9 billion to a 100 billion pace this year. The build out is not a leap of faith. It is being paid for as it goes.

The build out and the revenue behind it

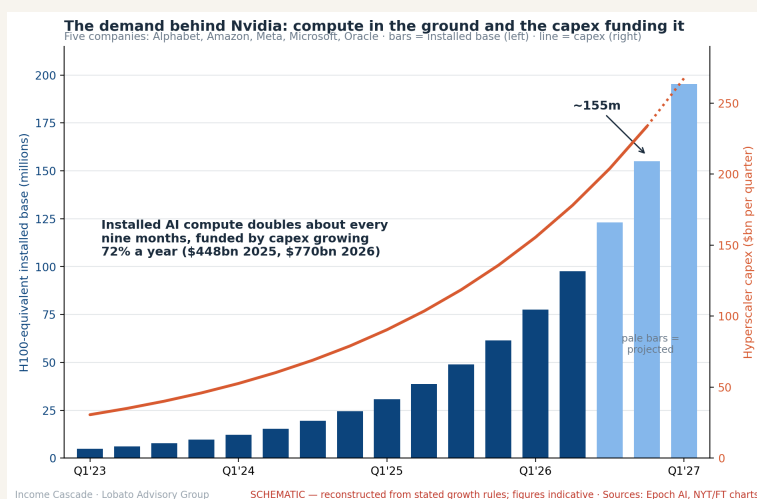
Left: combined capex, Amazon + Microsoft + Alphabet + Meta · Right: OpenAI and Anthropic annualized revenue run rates



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What is running today reflects decisions made a year ago.

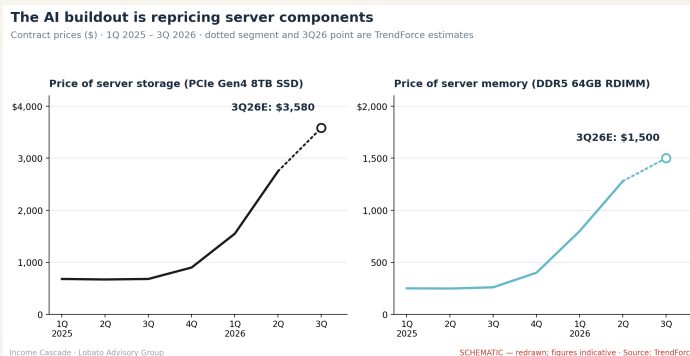
The spend is turning into hardware in the ground. Installed AI compute is doubling about every nine months, and the installed base lags orders by quarters, so what is running today reflects decisions made a year ago. Compute in the ground only bends when deployed capacity stops growing, not when a headline wobbles.



Against that backdrop, the four large hyperscalers carry about 3 trillion dollars of commitments tied to the build out, and only about 600 billion of that sits on balance sheets. The rest is purchase contracts and leases on data centers still under construction. None of it is hidden. It is all in the notes. The point is scale: the real investment is far larger than the balance sheets suggest, and it is contracted demand for years ahead.

You can see the pressure in the prices of the inputs. Server storage has gone from about 680 dollars to an estimated 3,580 by the third quarter. Server memory from about 250 to 1,500. That is what contracted demand meeting limited supply looks like.

On the last day of the month, Micron put a number on the demand: fiscal fourth quarter revenue of 54.23 billion against 51.33 expected and 11.32 a year earlier, at a non-GAAP gross margin of 87% and adjusted earnings of 33.42 a share against 31.61 expected. Guidance is 60 to 63 billion for the current quarter against 57.4 expected, backed by 150 billion of contracted revenue across 26 take-or-pay agreements. Management expects tighter supply-demand in fiscal 2027 and 2028 than in 2026.



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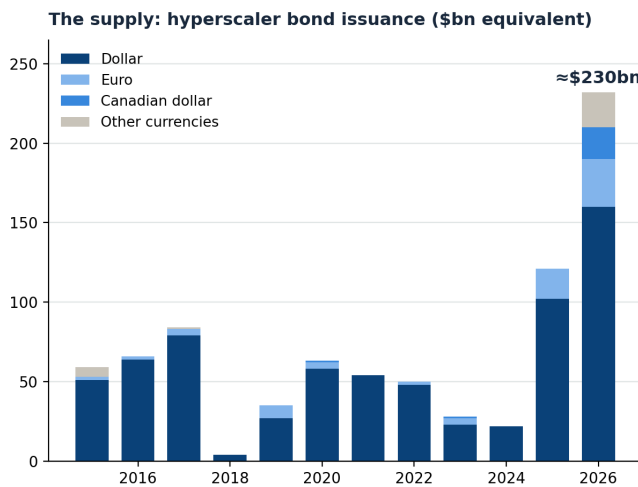
The bond market has started charging tech for the volume.

The market has noticed. Forward operating margin estimates for the S&P 500 spent twenty years between 13 and 18%. They are now printing 21.5% one quarter out and 24% two quarters out. Barclays calls those expectations literally unbelievable. I read it differently. Some of it is AI margin leverage that is real. But a market priced for 24% margins has thin room for disappointment, which is exactly why we hold the theme covered and unlevered.

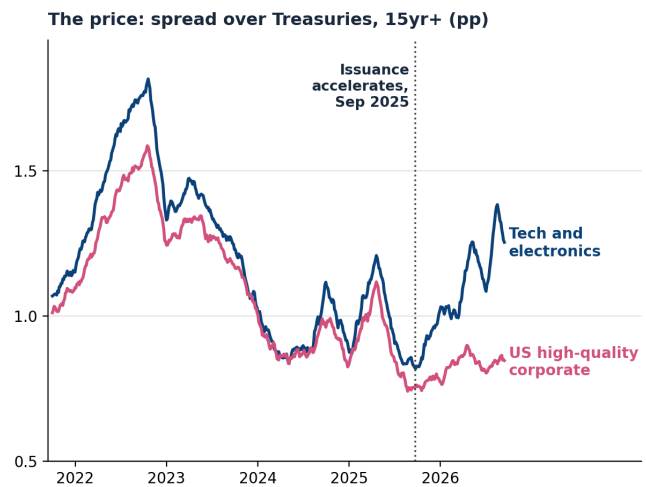
One new development worth flagging. The bond market has started charging tech for the volume. Hyperscaler issuance is on pace for roughly 230 billion dollars this year and is spreading into euros and other currencies, and since the wave accelerated last September, long tech paper has gone from trading level with high grade corporates to paying about 40 basis points more.

The debt wave has a price: tech now pays up to borrow

Left: issuance by year and currency · Right: extra yield long tech bonds pay over governments vs AAA-A corporates



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SCHEMATIC — redrawn; figures indicative · Sources: Société Générale/Bloomberg/Bond Radar, ICE BofA via FT

Keep the scale in mind. That 40 point move in a year is about a third of what the Treasury market moved in 2026 alone, and spreads remain well below their 2022 peak. This is supply being priced, not solvency being doubted.

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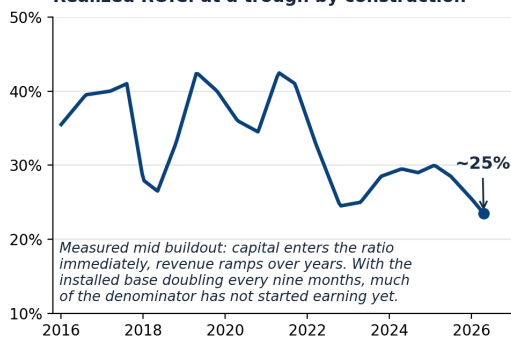
A return-hurdle debate, not a solvency case.

Goldman published the bear exhibit of the cycle this month, and I would rather show it to you than have a skeptic show it to you first. Their math: on 2026 and 2027 capex, the hyperscalers need about 308 billion dollars a year of AI revenue to break even and about 417 billion to earn a 10% return, against an AI run rate near 75 billion today. Their returns on invested capital have already slid from about 40% to 25%.

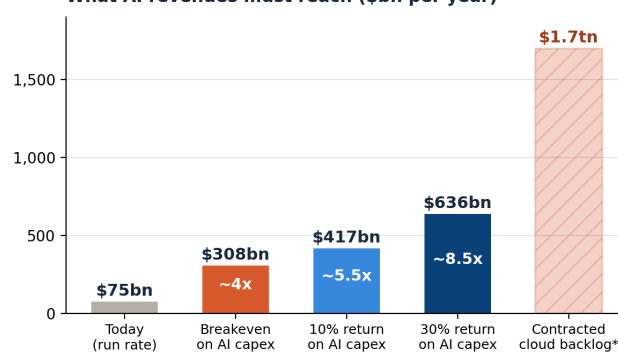
The bar for the AI trade, and the backlog that answers it

Hyperscalers · left: realized return on invested capital · right: annual AI revenue required on 2026-27 capex (Goldman Sachs)

Realized ROIC: at a trough by construction



What AI revenues must reach (\$bn per year)



* Backlog: combined contracted cloud revenue at Amazon, Alphabet and Microsoft. A stock of future revenue already signed, not an annual figure. Spread over four years it covers the entire 10% return bar by itself.

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SCHEMATIC — redrawn; figures indicative · Source: Goldman Sachs Research

Here is what that math leaves out. First, timing. ROIC measured in the middle of a buildout is at its trough by construction. Capital enters the ratio immediately while revenue ramps over years, and when the installed base doubles every nine months, much of the denominator has not started earning yet.

Second, the backlog. Goldman's own report carries 1.7 trillion dollars of contracted cloud revenue already signed at Amazon, Alphabet and Microsoft. Spread over four years, the contracts already in hand cover the entire 10% return bar before a single new booking.

Third, accounting. The capex is investment on the balance sheet, and it reaches the income statement only as depreciation over the life of the assets. It is a return hurdle, not rent due Friday.

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Funded, contracted, adjustable.

Fourth, most of the headline number is committed, not invested. Commitments arrive in cohorts and the pace is adjustable, so the realistic downside is a slower ramp, not a writeoff.

And the one risk worth respecting, asset life, is being answered by the credit market itself. GPUs are lasting longer than the bears model, software keeps repricing older chips upward, and the largest lenders now finance GPU fleets as collateral on multi year terms. Nobody lends against an asset they believe evaporates in three years.

The bears only show the bad news.

The full picture is a return debate about a funded, contracted, adjustable buildout, and that is a debate I am happy to own covered.

\$1.7tnCONTRACTED CLOUD REVENUE
ALREADY SIGNED**~\$75bn**CURRENT AI REVENUE RUN RATE
IN THE BEAR EXHIBIT**25%**HYPERSCALER ROIC AFTER THE
BUILD-OUT RESET

Timing, backlog, accounting and adjustability matter. Capital enters the denominator immediately; revenue arrives in cohorts.

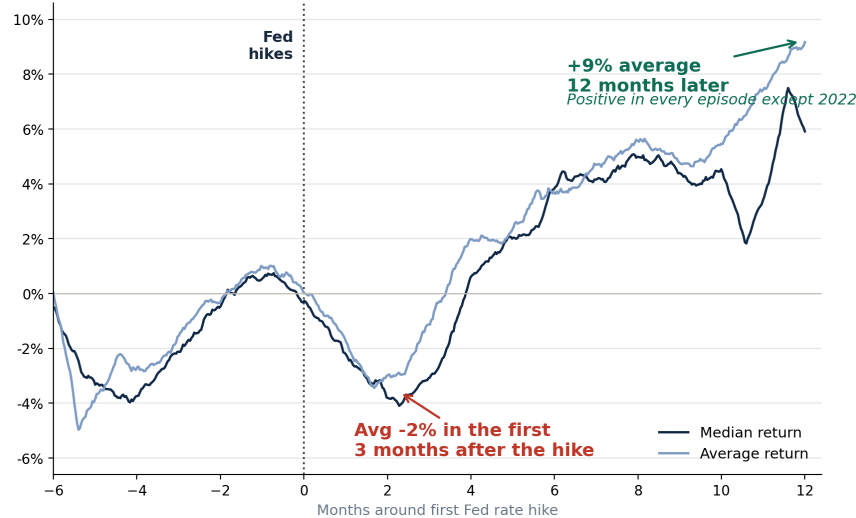
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Speed hurts. Levels do not.

History helps with the nerves here. Around the start of Fed tightening cycles since 1988, the S&P 500 has fallen about 2% on average in the first three months and then finished the following twelve months up about 9% on average, positive in every episode except 2022. The pain is front loaded and short. Patience gets paid. The same discipline applies now that the market is repricing the path in the other direction.

US stocks typically struggle at the start of Fed tightening cycles

S&P 500 return around start of Fed hiking cycles - seven episodes since 1988



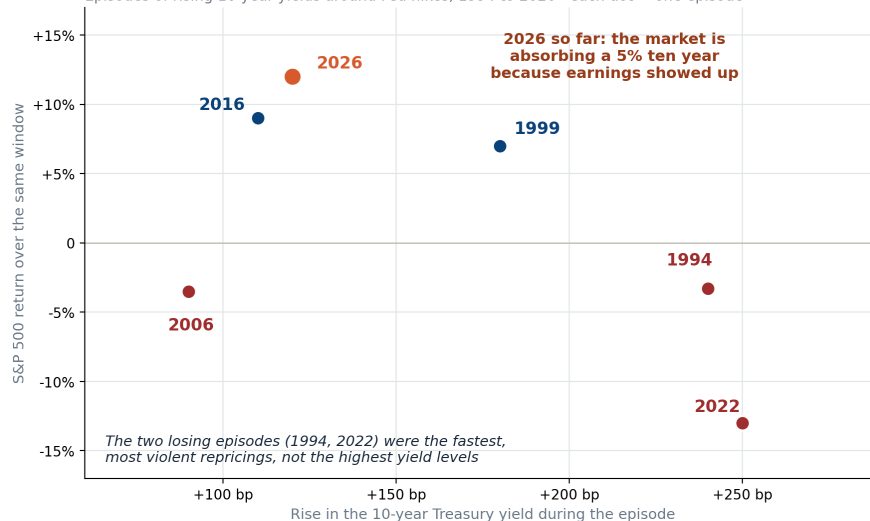
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SCHEMATIC — redrawn; figures indicative - Source: Goldman Sachs Research

The episode history makes the same point another way. Since 1994 the market has absorbed every rise in the 10 year that came gradually and with earnings behind it. The two losing episodes, 1994 and 2022, were the fastest repricings, not the highest levels. So far 2026 sits with the winners.

Six rate shocks, one lesson: speed hurts, levels do not

Episodes of rising 10-year yields around Fed hikes, 1994 to 2026 - each dot = one episode



Income Cascade - Lobato Advisory Group SCHEMATIC — figures approximate, read from published charts - Sources: WSJ, TradeWeb/RyanALM, FactSet

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Covered. Unlevered. Patient.

| Growth wins the round unless speed, earnings, or market plumbing says otherwise.

We express the theme with defined risk. The book stays covered and unlevered, protection is held at all times rather than bought after the fact, and exposure is trimmed into events rather than after them. My biggest macro concern remains the level and speed of long term yields, not the financing of the AI companies themselves. They have little debt and enormous cash flow. The strain belongs to governments, who now compete with the build out for capital.

Speed

A second 2 sigma month in the 10 year.

Earnings

The Q3 earnings leg failing to show up.

Plumbing

MOVE above 120, a weak long bond auction, or cracks in the basis trade.

None of those are here today. Until one of them is, growth wins the round and we stay the course, covered and patient.

If you want to walk through any of this in more detail, call me.

Flavio Lobato

Managing Member, Lobato Advisory Group, LLC

Charts are schematic reconstructions of published data; figures are indicative. Sources are noted on each chart. This letter is for information only and is not investment advice.

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