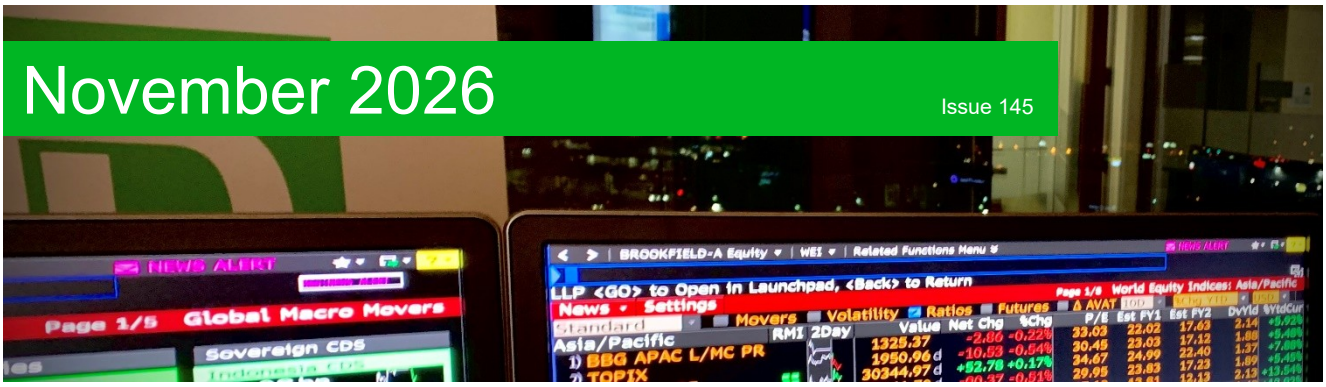
The Charter Group Monthly Letter



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Economic & Market Update

Artificial Indigestion

AI stocks have had a great run … until recently.

I have written in this space for more than a year now that the future of Artificial Intelligence (AI) maybe be determined as much by finance as by advances in AI technology. This has characterized much of the history of industrial progress. It would be odd to think that somehow things have changed and that we can separate technological progress from the need for capital and a return on that capital.

From the introduction of ChatGPT 3.5 (the start of the current AI frenzy) in November 2022 until early autumn of last year, the Wall Street hype machine did a remarkable job of focusing on the potential of AI to do amazing things which helped induce a flood of capital into the sector. Then, rather suddenly, investors began to ask questions as to how this was being financed and about risk.

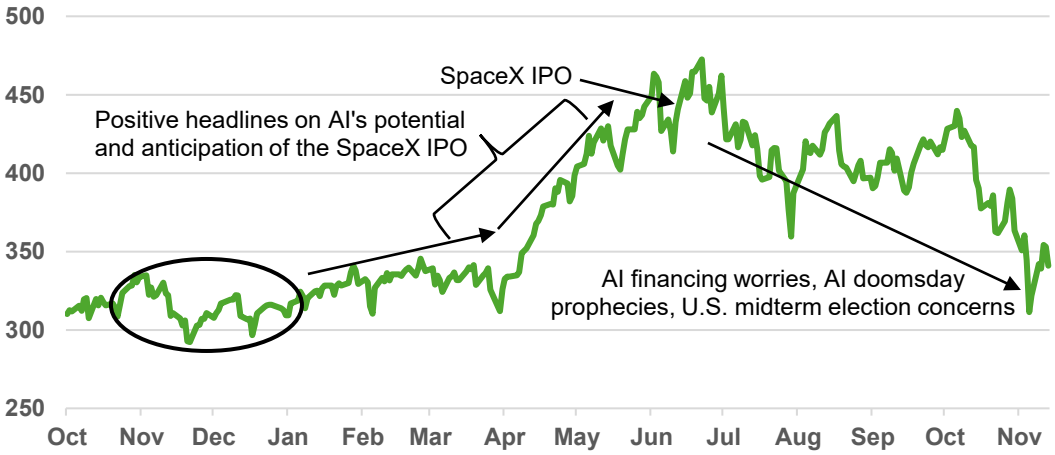
A few large technology companies with an AI focus began adding debt to their balance sheets in an effort to build data centres. Previously, profit margins for large tech companies were so substantial that they were able to finance much of their operating expenses and capital investments through internally generated cash flow. This initially allowed some of them to take on debt at a reasonable cost. Investors, private credit firms,

and other lending institutions were eager to lend. As companies kept going back to the well, some analysts began to have questions about the sustainability of the debt loads. Subsequently, we began to see some volatility in the share prices of AI companies during the last quarter of 2025.

However, that episode was hardly enough to derail the overall enthusiasm for the sector. By the beginning of 2026, the sector found its footing and began to ascend as stories about robot butlers and futures where there was no need for money or work began to fill the headlines. That phase also coincided with the run-up to the SpaceX initial public offering (IPO) and the talk of orbiting data centres (**Chart 1**).

Chart 1:

Goldman Sachs U.S. Broad AI Index



Source: Bloomberg Finance L.P. as of November 12, 2026

That IPO attracted enormous media interest even outside of the financial press. Elon Musk becoming a trillionaire (on paper and just briefly) captured global attention. Generally, all that attention can be a good thing for the sector as it can generate a fear of missing out. There was a massive oversubscription for the issued shares which then helped to set off discussion of more potential massive IPOs for companies such as Anthropic and OpenAI.

With all these numbers being thrown about, investors now had some yardsticks regarding the amount of capital needed to achieve all the advances being promised. Suddenly it was easier to get a view of the proposed playing field. How much capital? Over what time period? When could a return on investment be expected? How much of a return would there be for investors?

Now investors are beginning to ask questions.

How much capital will be needed to finance the AI buildout?

How fast will that capital need to be raised?

What is the cost of that capital?

What is the viability of new ways to finance the buildout such as circular financing?

When will the invested capital start producing a return?

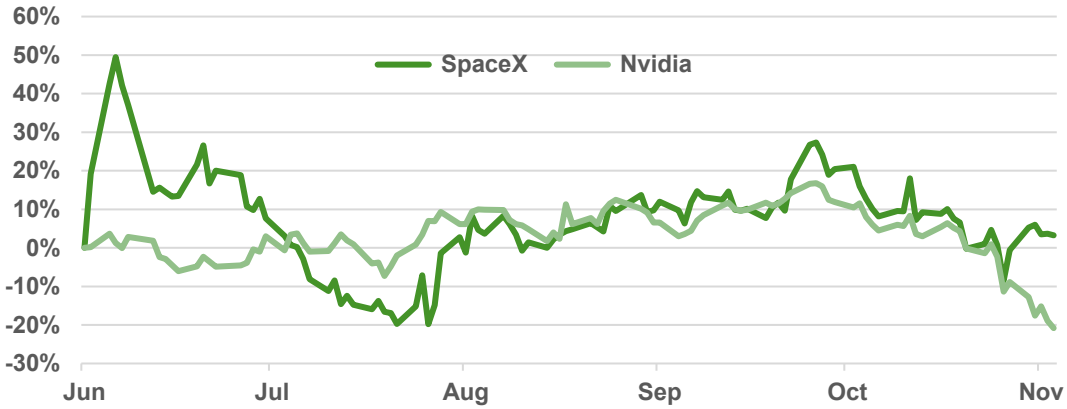
How much will the return on investment be?

More questions might temper some of the investor enthusiasm.

I have a sense that this is not what Wall Street and the major AI players wanted. Investors can be stingier when they start asking such questions (**Chart 2**). Much of the last four years feels as though investors had generally not contested the narrative established by AI leaders and the investment industry which was primarily focused on the topic of AI's technological potential. But at some point, it needs to make financial sense if AI-related stocks are to continue their ascent.

Chart 2:

Since the SpaceX IPO on June 11, 2026



Source: Bloomberg Finance L.P. as of November 12, 2026

Since the SpaceX IPO, the financial considerations regarding AI have been more prevalent. One contributing factor has been a dash to raise capital. It has been a little like musical chairs where firms want to make sure that they are not left out when the music stops. This might explain Anthropic's eagerness to complete an IPO this month and the parade of private placements and borrowings since the summer.

Much of this capital has been for the construction of data centres. In addition to established tech firms that are participating in this buildout, there are numerous smaller enterprises that don't have established balance sheets or cash flow and depend primarily on raising capital. Stories about the increasing cost of that capital over the last month have caused some worry for these newer players.

Adding to that concern is circular financing: larger companies invest in or lend to smaller firms that then buy their components. Nvidia has been a pioneer in providing this type of financing. It might be more comforting if there wasn't as much need for circular financing to maintain the pace of the AI buildout.

And what will be the eventual return on all this capital being raised? That's almost impossible to answer with any accuracy. However, generally, it will be primarily determined by how much you and I pay for AI (either directly, or indirectly as the cost of AI is passed on to us when we buy goods and services).

In previous newsletters I have discussed the total capital investment required to build out the necessary computing capacity for AI to do all the wonderful things that are being promised. One recent paper that is getting attention suggests that this number is $10.3 trillion by 2032 for data centres in the U.S. alone.[1] How much annual revenue will need to be generated in order to provide a return to justify the $10.3 trillion? Some estimates suggest $3.5 trillion. If we divide the current U.S. population into $3.5 trillion, that comes out to over $10,000 USD a year for every person.

The amount of future revenue generated might need to be staggering to produce the expected profits.

In addition to all the financial questions (and the doomsday proclamations discussed in the September edition of this newsletter), two other challenges facing AI have appeared in the last month.

The first was the result of the U.S. midterm elections. The successful Governors, Senators, and Representatives tended to tilt towards those who were more cautious about approving new data centres. That may not have a significant impact on the total number of data centres built, but it could have an impact on how quickly they are built and where.

U.S. midterm election results were not a net positive for AI and the construction of the needed data centres.

The second challenge might be more scrutiny of export controls of the semiconductors used in data centres. Recent developments appear to suggest that enforcement was not as strict as it could be. More enforcement might reduce revenues and lead to less cash that could have been used to finance future growth.

More enforcement of export controls could slow things down.

Do all these recent sources of investor indigestion signal the end of the AI frenzy? Probably not. We are likely just seeing a recalibration towards a more realistic timeline. Unfortunately, such a recalibration entails volatility and potentially lower AI-related stock prices for a time. But I think it is something from which the sector can recover.

All of this is more of a speed bump rather than the end of the road with respect to the AI story.

It may be a preview of how the AI cycle progresses going forward. Periodic good stretches followed by corrections. This contrasts with the first few years of the large language model craze and the expectations that this would continue unhindered. But progress is usually more challenging than how it is initially sold. 😊

But we could see more speed bumps if investors continue to ask questions or if there are economic and regulatory issues that impede the pace of AI.

[1] Stijn Van Nieuwerburgh, "Financing the AI Buildout." Brookings Papers on Economic Activity: BPEA Conference Draft, September 24-25, 2026.

Model Portfolio Update[2]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	15.0	None
U.S. Equities	34.0	None
International Equities	11.0	None
Fixed Income:		
Canadian Bonds	18.2	None
U.S. Bonds	9.8	None
Alternative Investments:		
Gold	7.5	None
Commodities & Agriculture	2.5	None
Cash	2.0	None

No portfolio changes during October.

There were no changes to the asset allocations or the holdings in any of the model portfolios during October and into November.

Volatility in U.S. stocks and a decline in the price of gold detracted from the portfolio results.

The model portfolios were down fractionally for the month. The main contributors to this were the allocations to U.S. and international stocks as well as the position in gold bullion.

U.S. stocks had some difficulty gaining traction as investors rotated out of AI stocks. Gold bullion suffered as yields on U.S. Treasury securities rose (gold doesn't pay income and often has difficulty competing against securities that do).

Markets are heading into a better time of year historically which might help to finish the year on a positive note.

Going forward, we are heading into a seasonal period that has tended to be positive for stocks. Also, traditionally, the first couple of months following U.S. presidential or midterm elections have also tended to be positive. Barring a major unforeseen disruptive event, hopefully stocks follow their historical pattern.

[2] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of November 12, 2026. The asset allocations of individual clients invested in this Portfolio may differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

One potential hurdle might be the concern over deficit-financed government spending and the resulting higher bond yields which would have the effect of lifting interest rates for all of us. Like President Trump's last two years of his first term, he might be interested in deals with the Democrats that lead to additional overall spending.

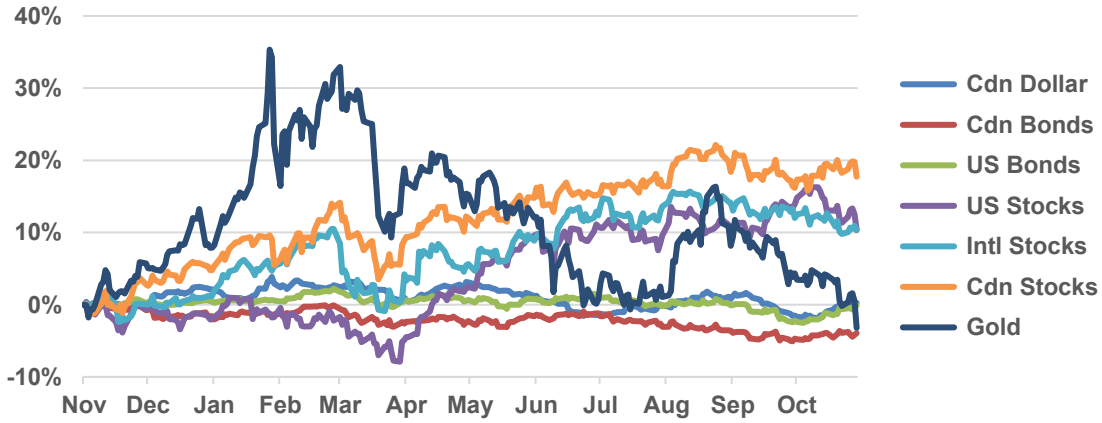
That and the growing anxiety over the projected depletion of U.S. Social Security (retirement and survivor trust-fund reserves) by the end of 2032 might already be having the effect of lifting yields and interest rates. After a bit of a reprieve during October, yields on bonds are beginning to spike again. However, I think this might be more of a matter for next year when we can see the spending and the amount of Treasury bond issuance.

Below is the 12-month performance of the asset classes that I have used in the construction of The Charter Group's model portfolios (**Chart 3**).[3]

Except for continued worries about deficit spending and its potential impact on interest rates and inflation, there are not many other hurdles on the immediate horizon.

Chart 3:

12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. for the interval from November 1, 2025 to October 31, 2026

[3] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the Core Canadian Universe Bond Index; US bonds are represented by Barclays US Aggregate Bond Index; U.S. stocks are represented by the S&P 500 Index; International stocks are represented by the MSCI EAFE Index; Canadian stocks are represented by the S&P/TSX 60 Composite Index; Gold is represented by the Gold to US Dollar spot price.

Top Investment Issues[4]

Issue	Importance	Portfolio Impact
1. Global Geopolitics	Significant	Negative
2. Global Trade Wars & Alliances	Moderate	Negative
3. Inflation from Tariffs (Portfolio Impact)	Moderate	Positive
4. Tariffs: Slowing Economic Growth	Moderate	Negative
5. Long-term U.S. Interest Rates	Moderate	Negative
6. U.S. Fiscal Spending Stimulus	Medium	Positive
7. Growing U.S. Credit Risks	Medium	Negative
8. Canadian Federal Economic Policy	Medium	Positive
9. China's Economic Growth	Light	Negative
10. Canadian Dollar Decline	Light	Positive

[4] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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The Charter Group Asset Management is a team that specializes in combining wealth management with discretionary investment management. For an annual fee, we manage model portfolios for private clients. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that Mark and Keith commit all their own investable wealth to the same model portfolios in which our clients are invested.





The information contained herein is current as of November 12, 2026.

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Voted Best in Investment Management in Langley

Thank you, Langley.

We're grateful to our clients and community for recognizing The Charter Group for the seventh consecutive year.

Managed here in Langley

We manage portfolios on a discretionary basis, with investment decisions made by our team.

Clear accountability

We make the decisions and take responsibility for them.

Long-term discipline

Our focus is straightforward - managing risk thoughtfully and supporting long-term growth through the power of compounding over time.



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