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"The heroes of the boom are the villains of the bust".

- Wall Street Adage

It is no secret that we have been cautious about the sustainability of the AI boom and the attractions of related companies and sectors, especially for our defensive, high-quality investment strategy. Given the scale of capital deployed and its influence on markets, the economy and consumption, the long-term prospects of the Large Language Model (LLM) companies are pivotal to the investment outlook for the coming months and years.

It is likely that the boom we have witnessed has been elongated by the fact that the companies at its centre have lacked the scrutiny of public markets despite their enormous size. This is about to change.

The Anthropic IPO took place last week to much fanfare. Before the event the company published its pre-IPO S1 document. It's a fascinating read - although not quite as outlandish as SpaceX's S1. Essentially the document goes some way to establishing that Anthropic is a substantial commercial enterprise but does surprisingly little to refute the bear case. This is essentially that these model companies (Anthropic and OpenAI predominantly) have highly uncertain revenue profiles but gargantuan contractual fixed financial commitments. It is on these commitments that the Artificial Intelligence (AI) infrastructure edifice rests.

Volume is not value

Revenue growth is undoubtedly exceptional but remains highly uncertain, appears to be slowing and token prices are falling.

FIGURE 1: SILICON DATA LLM TOKEN EXPENDITURE – WEIGHTED PRICE INDEX

The LLM Token Expenditure Index is a daily statistical benchmark designed to measure the effective expenditure level of the actively traded broad LLM market, measuring price per million tokens.



Source: Bloomberg, 19 October 2026. Past performance is not a guide to future performance and forecasts are not a reliable indicator of future performance. The Index is a reference measure of market pricing, and its construction is subject to validation checks. These checks are intended to support data quality but cannot eliminate the risk of errors, gaps or unrepresentative results. Further detail on the Index methodology is available at https://www.silicondata.com/products/silicon-index/llm-token-expenditure-index.

The implication is that even if demand continues to increase (as we expect), but prices are deflating, profits may not be sufficient to justify the current outlay. As we have laid out before, the revenue needed to provide an adequate return on this investment would represent a material proportion of current global IT spending.

The asymmetry between falling prices and the fixed spending commitments is striking, and it makes the gross margin of this business impossible to forecast with any certainty. Claude (Anthropic's frontier LLM) is currently the flavour of the month, but there is no guarantee it will remain so. Indeed, we think it highly likely that all but the most cutting-edge models will be undermined by lower-cost, possibly Chinese, competitors. The chart below shows that, on a volume basis as opposed to value, the shift in market share is already happening.

The profitability of these model companies and the returns on capital they achieve depend on the eventual industry structure – and not whether AI demand is real (it is) or whether AI is a transformational technology (it will be).

What remains unresolved

Three questions in our mind remain unresolved. Is the current profitability profile sustainable? We believe it is simply not possible to discern if operating leverage, that is revenues growing faster than compute costs, will survive the next investment cycle, increased competition or falling model prices.

Does the company have durable competitive advantages? While models may at any particular time be at the leading edge there is no evidence that any one has sustainable pricing power over, say, a decade. In our view they will become increasingly commoditised while the enterprise applications built around them may well become valuable franchises and source of future investment ideas.

Will incremental capital expenditure justify the investment? The enormous compute commitments create a substantial obligation to grow. These sunk costs represent huge risk to shareholders should technology or demand evolve differently from expectations. This is why the weakness of the LLM business model is so problematic.

FIGURE 2: CHINESE AI MODELS NOW LEAD ON REAL-WORLD USAGE

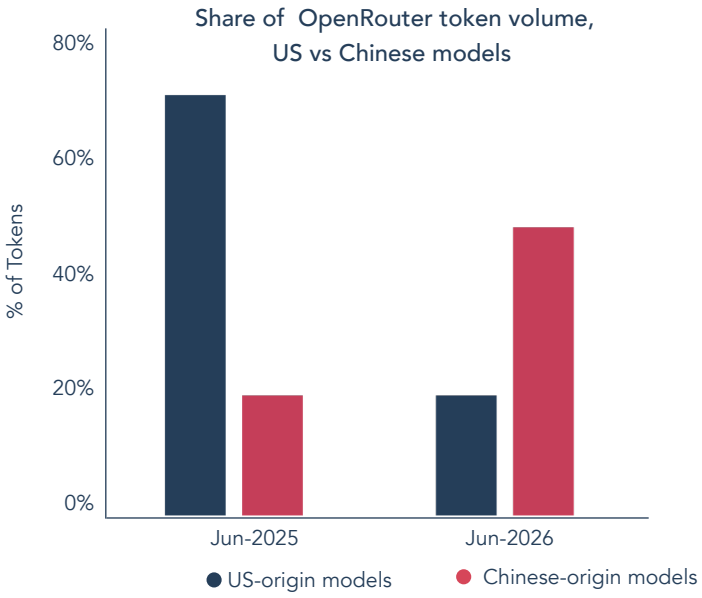
AJP 7 July 2026

Chinese AI Models Surpass U.S. in Token Usage on OpenRouter

by Kim Seong Hyeon

Chinese artificial intelligence (AI) models have overtaken U.S. models in token processing share on the world's largest AI model brokerage platform, OpenRouter.

This shift in market dynamics suggests that the competition between the U.S. and China in AI is moving from model performance to actual usage.



Source: Bloomberg analysis of OpenRouter data, via AJP (7 July 2026). Figures approximate. Past performance is not a guide to future performance and forecasts are not a reliable indicator of future performance. The reference to specific securities is not intended as a recommendation to purchase or sell any investment.

In summary Anthropic is an exceptional, innovative franchise operating in an industry whose long-term economics are largely unproven. This means that AI can fulfil much of its promise without Anthropic, or any other high-cost LLM, generating attractive returns for its shareholders.

How might the bear case play out?

Model intelligence commoditises faster than enterprise adoption, which creates switching costs. Revenue growth disappoints as token volumes rise but monetisation per unit of intelligence falls faster. The fixed compute commitments start becoming problematic as the bills come due. Margins compress as profitability disappoints. The models become commoditised and the lowest-cost producer wins.

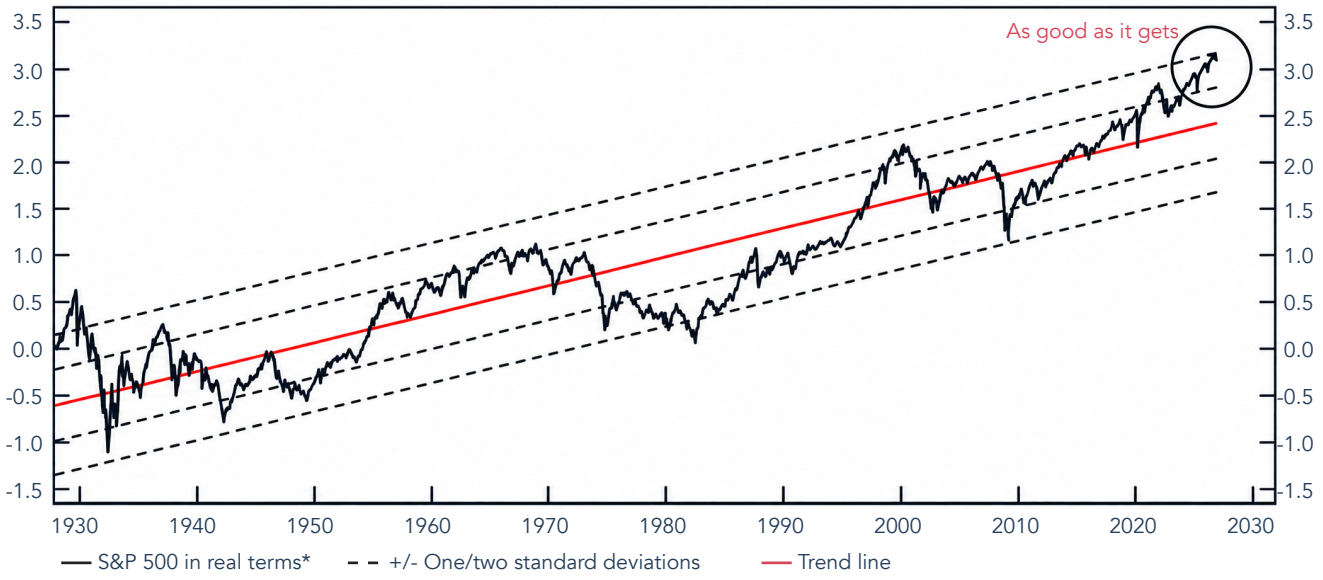
In this scenario the assumptions underpinning the build out prove false and the edifice crumbles. We would expect material losses across the AI infrastructure complex, including in semiconductor businesses, and even potentially overcapacity for a period.

That this is happening when valuations are full, both in absolute terms and relative to fixed income, should make the dependable, quality focussed nature of our positioning that much more appealing.

It's probable that the events outlined above are already in train. While AI related companies continue to announce strong earnings (backward looking) the stock market (forward looking) is taking a different view.

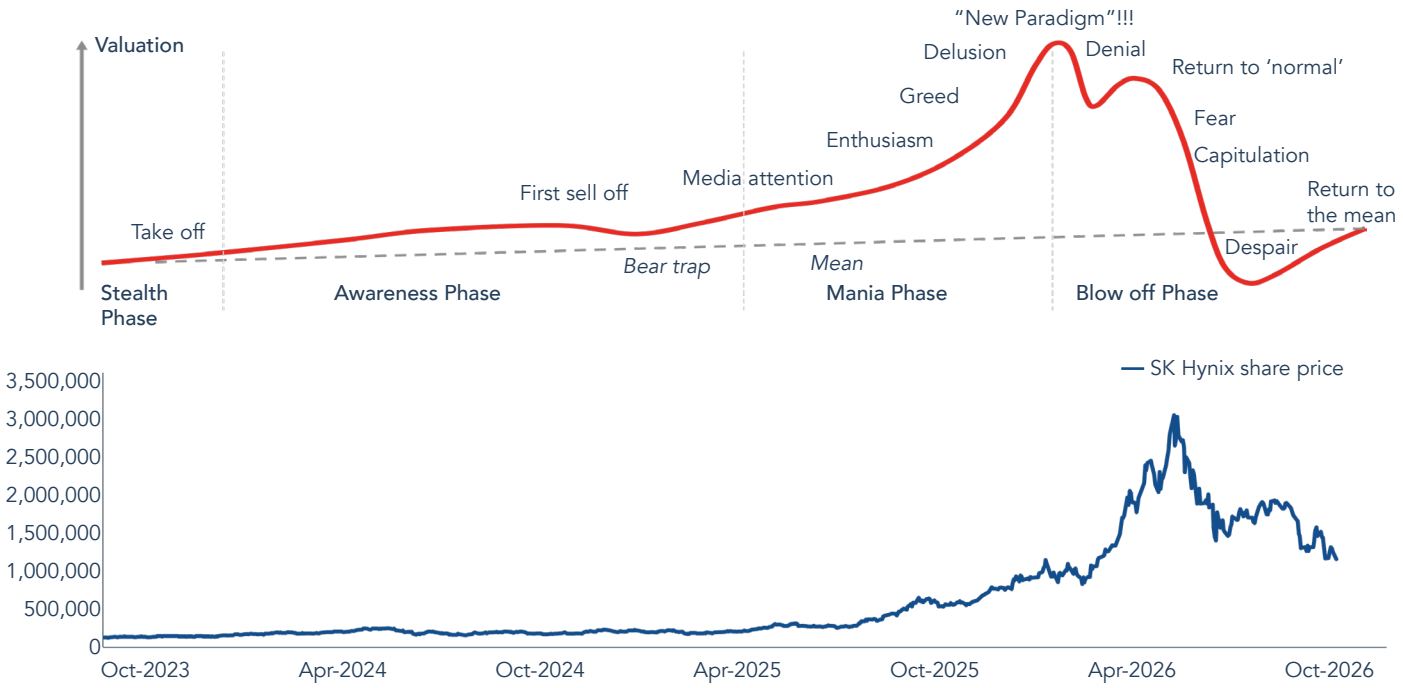
The companies that have shown explosive revenue growth and corresponding share price appreciation until recently are the memory chip makers (SK Hynix, Samsung Electronics, Micron). They are highly cyclical, highly capital-intensive makers of a commodity product, but have been able to exploit a bottleneck in demand. While they can be loss-making at cyclical lows, recent earnings have been skyrocketing, and the transfer of value from the buyers of these chips to the sellers has been on a scale rarely seen in the corporate world. The change in their fortunes has been so stark that they could be viewed as the leading edge of the boom. Having

FIGURE 3: DON'T MISS THE FOREST FOR THE TREES



*Deflated by US headline CPI; Shown as a natural logarithm
Source: BCα Research, 31 October 2026. Past performance is not a guide to future performance. All references to benchmarks are for comparative purposes only.

FIGURE 4: A TYPICAL BUBBLE & SK HYNIX SHARE PRICE



Source: Bloomberg, 16 November 2026. Past performance is not a guide to future performance. The reference to specific securities is not intended as a recommendation to purchase or sell any investment.

enjoyed such a meteoric rise, their recent chart action has been far less favourable, and it is sending a clear message. We have rarely seen a chart in real life which matches so perfectly the archetypal example shown in figure 4.

This is echoed, but not quite so perfectly in the SOX Index. It looks like the top was in July during the period of "tokenmaxxing" – when users were encouraged to see what the LLMs could do without regard to cost.

FIGURE 5: PHILADELPHIA SEMICONDUCTOR INDEX (SOX)



PHLX Semiconductor Sector Index (SOX) is a modified market capitalisation-weighted index that tracks 30 of the largest U.S. listed companies involved in the design, distribution, manufacture, and sale of semiconductors. Source: Bloomberg, 16 November 2026. Past performance is not a guide to future performance. All references to benchmarks are for comparative purposes only.

A word on NVIDIA.

The "resignation" then re-instatement (at the time of writing) of the CEO of Nvidia, Jensen Huang, has been a dramatic and fast-moving story. It has highlighted, however, the dependence of the AI trade on financing provided by Nvidia (the so-called Central Bank of AI) and the decisions of one man. As the build out is increasingly financed by debt the fragility of the need for ongoing financing, from whatever source, grows. Mr Huang's presence at the helm does not alter the underlying economics of the models.

The wider consequences

The macro-economic implications of this are, in our minds, clear: an economic slowdown and perhaps, in time, falling rates. Because the problems are centred on the AI build-out, it is possible (though in our view not likely) that, as in 2000, the effects are relatively contained and the resulting slowdown or recession is mild. It may be, especially as the financing has become more debt- than cashflow-funded, that the fallout is more serious. Either way, we think that, unusually, the weakening equity market will be accompanied by a falling US dollar as investors lose confidence in US dollar assets. Should the more severe scenario play out, rates will also fall, but given structural upward pressure on inflation this is less certain.

Prepared for either outcome

In either scenario, we believe the portfolio should perform well. Our defensive assets should underpin both returns and reliable income and our software assets may recover as disruption fears lessen. The inherent degree of rate sensitivity in the portfolio will become a bonus once again. Our limited US dollar exposure will likely be a tailwind for years to come - or at least until the US equity market and currency offers value once again (in stark contrast to today).

Conversely the assets that will perform poorly will be today's winners. Obviously, companies involved in the AI build out but also more cyclical sectors including banks. In a credit shock and falling rates scenario the loan growth the banks have enjoyed and expanding net interest margins will likely go into reverse. They are also no longer cheap.

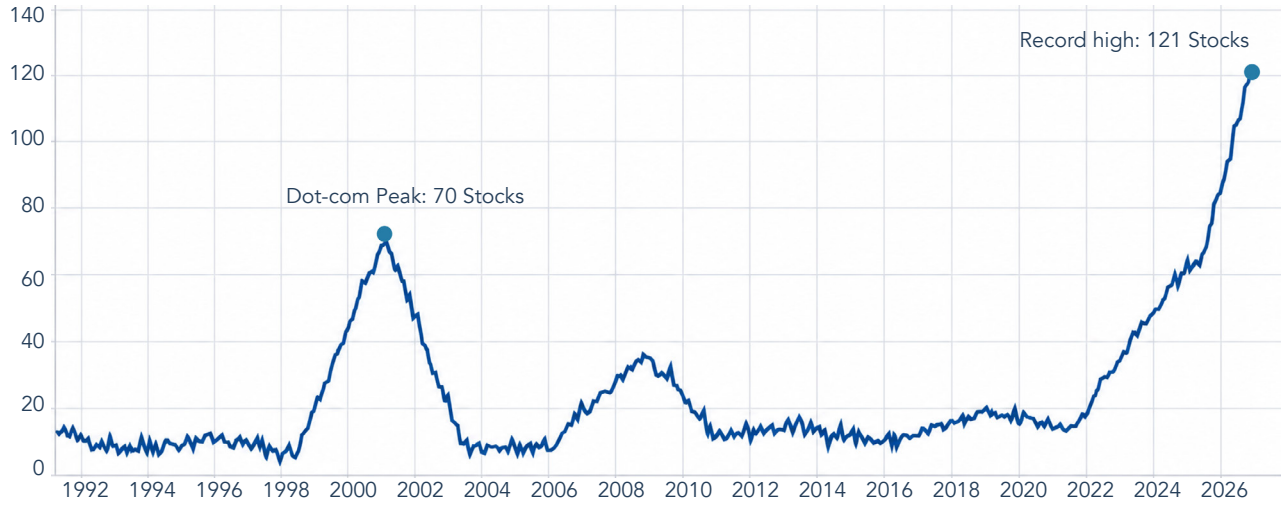
This has been captured recently by the number of companies exhibiting a negative beta. That is where a company falls in a rising market rather than simply climbing at a shallower rate. This is very reminiscent of the dot-com boom as investors crowded into a narrow part of the market and left other assets by the wayside. This too is likely to be in the process of unwinding. The implication, of course, that in a falling market, centred on AI, many companies of the

FIGURE 6: AS BAD AS IT GETS FOR DEFENSIVES



*Including Health Care, Consumer Staples and Utilities
Source: BCα Research, 31 October 2026. Past performance is not a guide to future performance and forecasts are not a reliable indicator of future performance. All references to benchmarks are for comparative purposes only.

FIGURE 7: S&P 500 STOCKS WITH NEGATIVE BETA (1991-2026)



Source: Evercore ISI, 31 August 2026. Past performance is not a guide to future performance

type we own may well actually rise rather than simply outperform.

Recent market activity is the precursor to this event. We think investors may be well served by building a diversifying strategy into their equity allocations which is what we believe we offer. We are also working to identify companies that can benefit from its unravelling.

This is shaping the structure of our portfolio but also the new purchases and sales. We want to ensure that we remain defensive but that we also diversify into countries and sectors that will benefit from the structural change in capital flows that a potential AI bust will likely drive. In this way we can take advantage of the end of the AI boom without also predicting a recession which, although clearly a risk, is a view we hold with less conviction.

These fall into three main groups. First, high quality, predictable businesses when they are out of favour (this is descriptive of our portfolio as a whole), real dependable yields (National Grid, VINCI) and businesses that should benefit from a structurally weak US dollar and a commodity-supportive environment (Ashmore, B3, SLB).

Overall, we are seeking to balance creating a dependable, diversifying asset with being proactive in investing for where capital is likely to head rather than where it is currently focussed.

The upshot is a portfolio that embeds great value, increasing opportunity and accelerating free cash flow and income. 2027 is shaping up to be a fascinating year in markets.



James Harries
Co-Manager, Troy Global Income Strategy



Tomasz Boniek
Co-Manager, Troy Global Income Strategy



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