

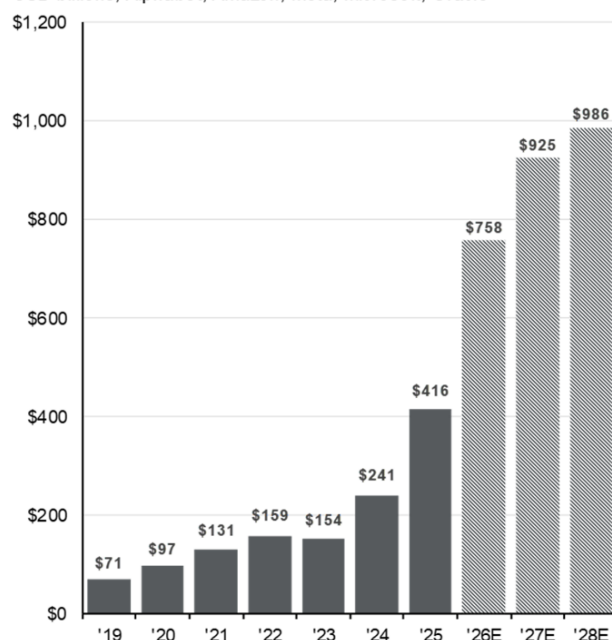
FRONTIER FUNDING

In the spirit of America's 250th anniversary, it's worth looking back on how the American experiment has been so successful. Initially, the distinct geographic advantages of the United States – isolated by oceans, the most arable farmland, and more miles of navigable internal waterways than the rest of Earth combined – were key factors that brought safety, food security, and transport. As time passed, agricultural abundance, energy independence, and domestic consumer demand allowed the U.S. to become relatively insulated from food, energy, and trade shocks. The world's largest economy also benefits from favorable demographics and structural immigration, promoting cultural integration, a stronger labor pool, and increased consumption. This was put on full display during the World Cup, as social media posts from international fans celebrated the diversity of food, landscape, and culture (and our use of air conditioning, of course). The U.S. is so vast that the economies of single states are on par with whole countries, as the GDPs of California, Texas, and Pennsylvania are similar to those of Japan, France, and Saudi Arabia, respectivelyⁱ.

The history of the U.S. is one of many boom-and-bust capital cycles as well. The settlement of the American frontier was accelerated by the construction of the railroad in the mid 1800's. While this united both coasts and enabled mass industrialization, the capital cycle brought speculation and hyper expansion. This led to the Panic of 1873 when hundreds of railroad companies collapsed, yet the infrastructure left behind brought significant economic value. It also led to an even greater capital intensive period in the following decade. There were 164,000 miles of railroad by 1882, when more track was laid in a single year than existed in 1850, resulting in the U.S. having more track than any other countryⁱⁱ. Long term economic value created from these cycles wouldn't be possible without the U.S. having the most liquid and diverse capital markets in the world. Today, the companies building leading artificial intelligence systems, or "Frontier AI", have created an investment boom so massive that even the deep U.S. capital markets cannot completely disengage from the investment cycle. The charts below reflect the continued climb in capex as well as its material impact on free cash flow generationⁱⁱⁱ. While this has helped the market and economy to shrug off major macroeconomic shocks of the last several years, it has also consumed capital markets, as companies seek sources of cash beyond free cash flow.

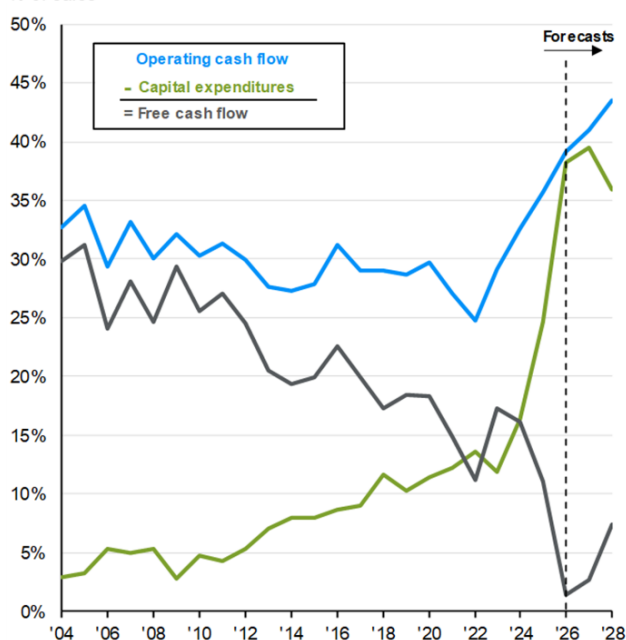
Capex from the major AI hyperscalers*

USD billions; Alphabet, Amazon, Meta, Microsoft, Oracle



Hyperscalers' cash flow and capex

% of sales



RMC Investment Advisors Q2 2026 Commentary

- Alphabet (Google) recently raised nearly \$85 billion in a public equity offering, including a \$10 billion private placement from Berkshire Hathaway (Warren Buffett). SpaceX had a record initial public offering (IPO) in June, raising more than \$85 billion with a starting valuation of \$1.77 trillion. Anthropic and OpenAI are also planning IPOs with ~\$1 trillion valuations in late 2026 or 2027, which along with SpaceX, would place them within the top ten S&P 500 companies (if they are officially added to the index). SK Hynix, a South Korean chip maker, just raised ~\$26 billion in American depositary receipts, which is the largest ever share sale by a non-U.S. company.
- Hyperscalers have issued around \$250 billion in bonds globally this year, as compared to \$108 billion in 2025 and \$17 billion in 2024. This includes recent issues of ~\$30 billion and ~\$25 billion from Alphabet and SpaceX, respectively, to go along with their equity raises, as well as \$25 billion each from Nvidia and Amazon^{iv}.
- Data center builders and operators are partnering with private fund companies that are actively adding such exposure to their portfolios. BlackRock's Global Infrastructure Partners just closed on Aligned Data Centers for \$40 billion, making it the largest data center transaction in history. Since it acquired QTS Realty Trust, a data center REIT, in 2021, Blackstone has continued to make significant similar investments, including a recent \$30 billion commitment in Japanese infrastructure and a 49% stake in Rowan Digital Infrastructure. These deals are driving increased exposure to data centers for investors in the companies' alternative investment offerings.

The S&P 500 moved higher by ~9.6% in the first half of 2026 yet the valuation of the index actually moved lower. Earnings and earnings expectations have been rising, for mega cap technology companies and the broader S&P 500, which has justified the march higher in equity prices^v. Instead of being wary of a valuation bubble as in the dot-com bust, market participants are increasingly questioning if the AI capital cycle will create an earnings bubble. While the demand for compute and server capacity is outpacing supply, how long will these massive capital expenditures persist, and thus, continue to drive a considerable part of the market's earnings potential? Semiconductor companies are obviously critical in this capital cycle, yet the industry now comprises ~18% of the S&P 500 today, versus 12% last year and just 5% in July 2021^{vi}. For comparison, the largest S&P 500 sector outside of Technology is Financials at ~11.8%. Could there be an overbuild of data centers as there was with railroads? Demand may be increasingly higher over the next decade, but cheaper Chinese models will likely usher in more competition, and further innovation could bring more efficient chips and greater value per token (of data), lessening the need for as much infrastructure. This creates a potential earnings picture that is vulnerable to an eventual pullback. As always, RMC likes to point out the concentration in equity markets and the importance of participation in momentum, but with diversification. The equity markets were this concentrated in the 1960's, however, those top ten companies were spread across various industries, like oil, retail, autos, and telecom^{vii}. Today, the index is increasingly reliant on the AI investment boom, and that's before SpaceX, Anthropic, and OpenAI potentially join the index.

ⁱ U.S. Bureau of Economic Analysis, IMF World Economic Outlook

ⁱⁱ Fabricated Knowledge

ⁱⁱⁱ JPMorgan Guide to the Markets

^{iv} Dealogic, The Wall Street Journal

^v JPMorgan Guide to the Markets

^{vi} Citadel

^{vii} S&P Global, Vanguard

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