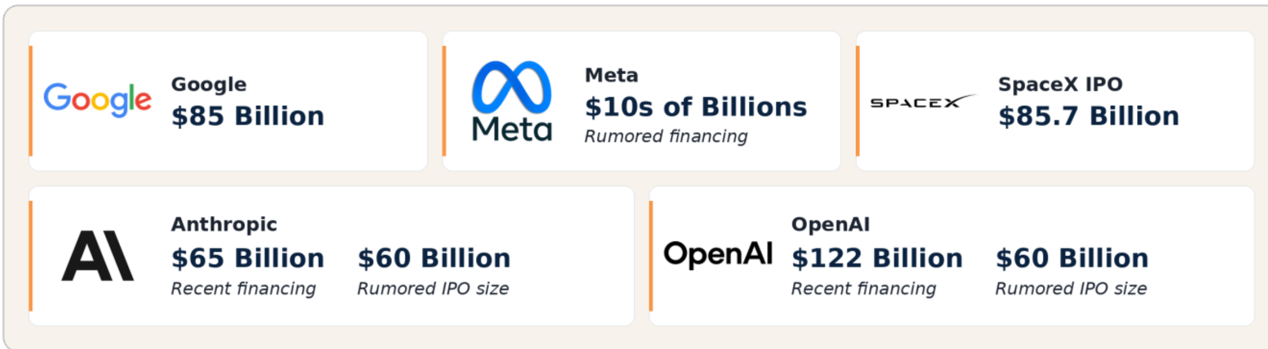
AI, the only game in town!

The only game in town is related to the huge capex into AI. Investors are selling their other stocks and crypto to fund the purchases of AI stocks. The AI companies keep issuing debt and equity:



Sources: See "AI Capex sources" in the Sources section.

Almost $2 trillion will be spent over the next 2-3 years to build the AI infrastructure instead of doing buybacks. We've seen Alphabet go from buying back $15bln per quarter to buying back no shares in Q1, while Meta went from a $45bln buyback in 2025 to an $18bln annual pace in Q1.

AI Demand Is Not All Permanent

The demand for AI might have been artificially boosted by leaderboards measuring employee token usage. For instance, Uber's CTO admitted on the record that the company blew through its entire 2026 AI tooling budget in just four months, and has now capped spending at $1,500 per employee, per tool, each month.[1] That is a sharp reversal from the near-unlimited Claude Code access it handed roughly 5,000 engineers back in December.

Here is a description by Gemini: *Companies like **Meta**, **Amazon**, and **Uber** have recently shut down internal leaderboards that tracked employee AI token usage. This trend, often referred to as "**tokenmaxxing**," was halted because employees began executing unnecessary AI tasks just to climb rankings and inflate their usage score. Also, Walmart restricted employees to a fixed amount of monthly tokens for its internal workplace AI, "Code Puppy".*

Another example of AI hype are the Google and Claude contracts with SpaceX, both of these contracts have 90-day cancellation notice periods. Combined, these are $26bln of annual revenue, which could be stopped with a 90-day notice. Consider how the markets would react if that would happen. There is not a long-term commitment here.

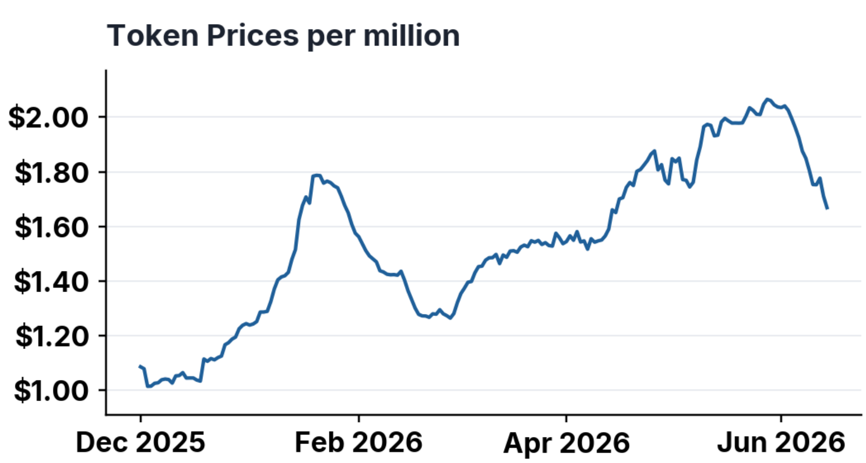
Cheaper Models Getting Traction

Another challenge for US AI companies is the Chinese open-source models that are available at a fraction of the costs for similar capability:

> **Chamath Palihapitiya**
> @chamath
>
> Your margin is my opportunity: AI version...
>
> The biggest surprise of 2026 is that the capability gap between the best open-weight/source models and the best closed models has narrowed much faster than the pricing gap. The pricing gap remains enormous while the capability gap is quite narrow.
>
> What does this means in practice?
>
> For a company consuming 1 billion input tokens and 1 billion output tokens per month:
>
> GPT-5.5 Pro: ~$105,000
> Claude Opus 4.8: ~$30,000
> DeepSeek V4 Pro: ~$5,220
> DeepSeek R1: ~$2,740

Source: @chamath on X (Twitter), accessed June 2026

One of our portfolio companies and Uber are saying quietly and out loud that they switched traffic to cheaper models including DeepSeek and are saving millions of dollars while watching performance go up, not down.[2] We have seen this start to show up in the data: the average price paid per million tokens has dropped by almost 20% from the peak in late May, a shift is happening. Uber's CEO explained it well: they explore new ideas with the latest model, and then scale their exploration successes with lower cost models.



Source: Bloomberg, Intraday June 15th, 2026.

The recent launches of Fable 5 and Mythos 5 are priced at $10/M input and $50/M output tokens, less than half the cost of Mythos Preview, suggesting Anthropic has reached a scale point where it can serve its most capable model at a price point designed for broad adoption rather than scarcity-priced access.

Circular Vendor Financing

Another issue is the circular financing issues that we have observed where the seller of the equipment lends the money for the client to buy or lease. Here is an example:

> **zerohedge**
> @zerohedge
>
> And the biggest investor: unwitting retirees through "safe" annuities purchased from Apollo's Athene insurance company
>
> > **zerohedge** @zerohedge · 19h
> > Broadcom is backstopping a massive $36 billion private credit SPV with Apollo and Blackstone which will help Anthropic buy Google chips made by Broadcom, even as Google is renting compute from SpaceX while Morgan Stanley, which is arranging the deal, lends money to investors x.com/zerohedge/stat...

Source: @zerohedge on X (Twitter), accessed June 2026

Competition In Chips Accelerating, Expect It to Get More Intense

Another issue, particularly for Nvidia or even Intel and AMD, is many players are developing their own AI chips.

- **AMD:** Serves as the primary GPU alternative to Nvidia, particularly with its MI-series accelerators, which are gaining serious traction in data centers.
- **Intel:** A traditional giant pivoting to AI, competing through its Gaudi accelerators and processors built for the edge/PC market.
- **Alphabet (Google):** The pioneer of custom Application-Specific Integrated Circuits (ASICs) with its long-running Tensor Processing Units (TPUs).
- **Amazon Web Services:** Heavily successful with its Trainium and Inferentia lines used to power its cloud infrastructure.
- **Microsoft:** Expanding its custom hardware capabilities with its Maia AI accelerator.

- **Meta:** Developing its own in-house AI chips to power its sprawling Llama model training and recommendation engines.
- **Huawei:** Dominating the Chinese domestic market with its Ascend series, bypassing hardware restrictions.
- **Broadcom:** Designs custom XPUs for major players like Google and Meta, securing massive demand as companies transition to ASICs.
- **Cerebras Systems:** Disrupting the market with massive, wafer-scale processors built to accelerate generative AI inference and scientific research.
- **Groq:** Using LPU (Language Processing Unit) architecture to deliver, ultra-low latency inference speeds.

Hyperscalers Are Great Customers Today, May Look Different Over Time

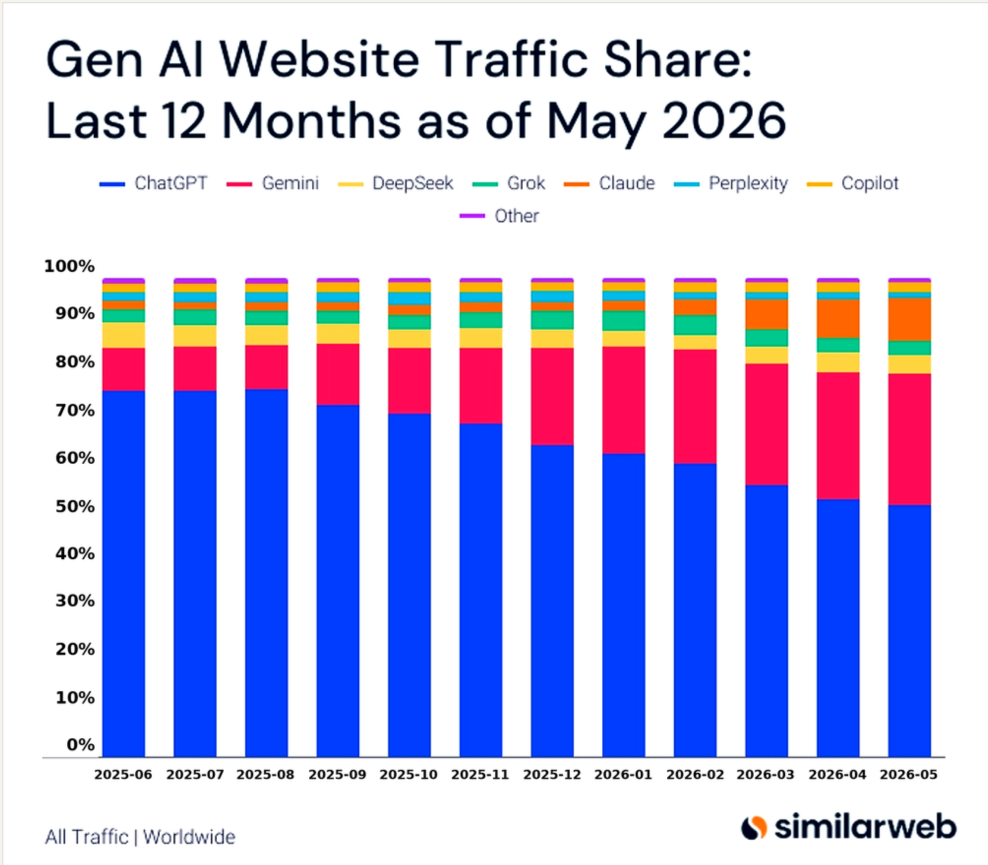
In November 2025, Microsoft CEO Satya Nadella said on a podcast[3] that Microsoft had chips ordered in 2024 sitting in warehouses as they waited for data center power to come on. We doubt that they were the only ones buying in advance. We have long said that the chip companies are massive beneficiaries of four of the largest and most profitable businesses in the world (MSFT, GOOGL, AMZN, META) all ordering chips at once and competing to be first in AI. Profits have been inflated for the suppliers because of this competitive situation.

On the other side of today's capex boom, when peak spending is over, expect these four companies to be extremely aggressive with an expanded set of chip makers (see section above) and other suppliers on prices, terms and quantity which ratchets back profitability of these suppliers. Sales and volume probably decline, margins should revert back to historical average or lower, and profits likely decline materially along with shrinking multiples which could result in many stocks down 50-75% or more. We believe it is not a matter of "if", but "when".

Google Taking Share Rapidly

Investors should also expect some companies to go bankrupt. For instance, how can OpenAI compete with the Google machine longer term considering Google has huge cash flows, produces their own chips and have more access to everybody through Google and YouTube. On top of that, Google Gemini seems to improve their offering way faster than anyone else these days. You can see on the next page that they have been grinding away at market share with OpenAI being the loser.

Gen AI Website Traffic Share: Last 12 Months as of May 2026



Source: @similarweb on X (Twitter), accessed June 2026

Technologically, we saw Google completely transformed AI caching by introducing Context Caching and making major breakthroughs in TurboQuant AI efficiency. These updates dramatically reduce token costs and memory overhead….Google researchers developed a mathematical algorithm that **compresses the model's Key-Value (KV) cache memory by an average of 6x. This allows you to run models at a fraction of the memory footprint and speeds up attention computation by up to 8x without sacrificing accuracy.**

OpenAI Won't Survive – Our Prediction

OpenAI losing market share to Google (mass market) and Claude (enterprise market) is a bad starting point for OpenAI ahead of an IPO. Needing to re-vamp their app plus considering cutting prices are signs of a complex competitive dynamic impacting them negatively. Are we really going to get an OpenAI IPO if they continue to lose to Google and Claude? We say no. If there is no IPO, we think that OpenAI in the current form of a standalone company won't survive and even has a chance of going bankrupt.

Sam Altman has not been proven in meeting moments like this, in fact we think he is weak relative to his competition which adds further risk to OpenAI. **Many people have criticized him and his management style, the below was compiled by Gemini:**

- **Elon Musk:** The Tesla and xAI founder co-founded OpenAI with Altman but later became one of his most vocal critics. Musk filed a major lawsuit against Altman, claiming the company abandoned its nonprofit safety mission. Musk has frequently attacked Altman on X (formerly Twitter), publicly referring to him as "Scam Altman" and a "swindler".,
- **Helen Toner:** *A former member of the OpenAI board of directors, she stated publicly that Altman obstructed board governance for years by deliberately withholding information, misrepresenting facts, and outright lying.*
- **Ilya Sutskever:** *Former Chief Scientist and co-founder of OpenAI, who left the organization. Sutskever reportedly compiled internal memos documenting a consistent pattern of deception by Altman, which contributed to Altman's temporary ouster by the board in late 2023.*
- **Gary Marcus:** *A cognitive scientist and prominent artificial intelligence critic, he has frequently published pieces denouncing Altman's business practices, criticizing his advocacy for AI regulation as a means of establishing a monopoly, and accusing him of dishonesty.*
- **Dario Amodei:** *The CEO and co-founder of competitor Anthropic—and former VP of Research at OpenAI—implicitly targeted Altman by stating he left OpenAI because he simply "did not trust him". Amodei has publicly advocated that "trustworthy actors" in AI need to unite to force "untrustworthy actors" to adopt safety standards. In past internal communications, Amodei explicitly wrote, "The problem with OpenAI is Sam himself".*
- **Mira Murati:** *The former Chief Technology Officer of OpenAI described Altman's leadership style as "toxic". According to internal disclosures, she accused Altman of using a playbook where he would tell people exactly what they wanted to hear to get his way, and if that failed, he would actively undermine them or destroy their credibility.*
- **Todor Markov:** *A prominent AI safety researcher who jumped ship from OpenAI to Anthropic, Markov filed a legal brief accusing Altman of outright lying to employees. He revealed that Altman claimed to have no knowledge of controversial non-disparagement clauses that threatened to strip departing employees of their equity, despite leaked documents proving Altman had personally signed off on them.*

Compiled via Google Gemini

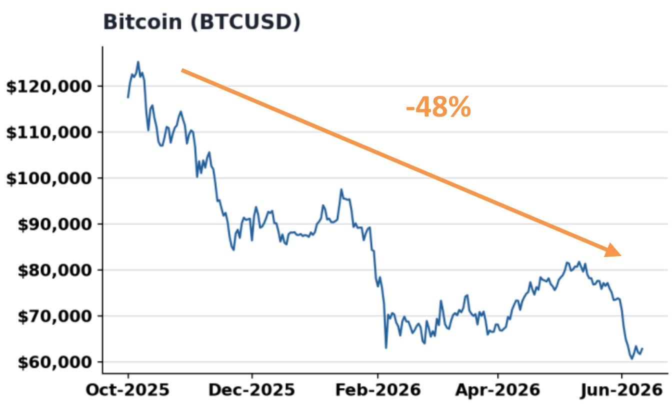
Downside Grows in AI Investments

The bottom line is the odds of making a great return on those AI investments is very close to 0% as a group in my opinion. You, dear investor, should expect a massive amount of write-downs at one point in the future. Also, we likely see significant rise in depreciation each year for many years to come (which should hurt earnings) along with reduced Free Cash Flow because of capex. The capex is just too enormous to get a respectable return anytime soon.

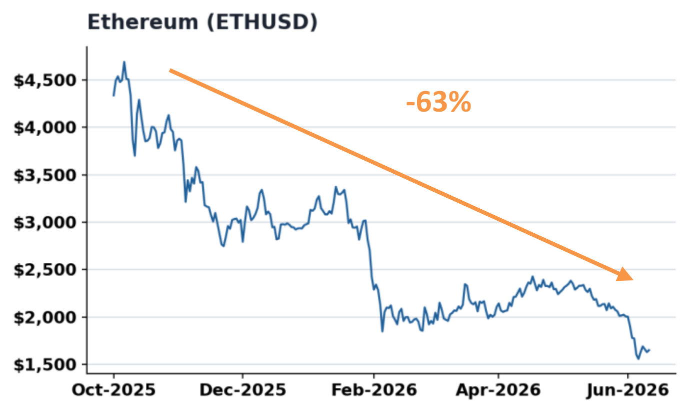
Once the cycle turns on the other side, it is easy to calculate 50% to 90% decline in the stock prices (the drop in sales, margins and multiple combination should be as dramatic as the current rise).

The Bear Market That Nobody's Talking About!

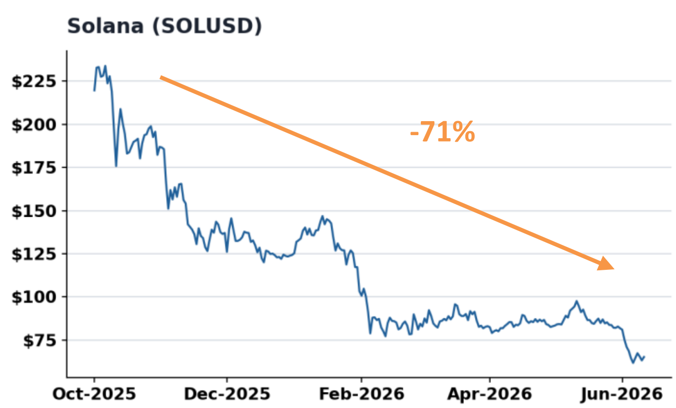
First, let's look at the crypto world. Since the October 10th, 2025 crypto wipeout, when over 1.6 million accounts got liquidated, the crypto universe has continued to trade lower. Bitcoin is down about 48%, Ethereum is down 63%, and from the recent tops, Solana is down 71%.



Source: Bloomberg, Intraday June 11th, 2026.

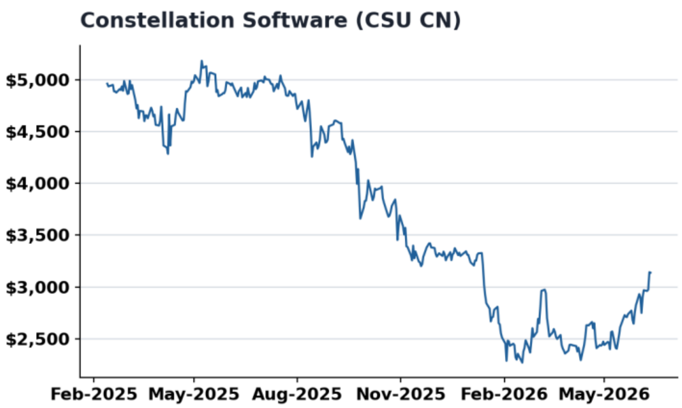


Source: Bloomberg, Intraday June 11th, 2026.



Source: Bloomberg, Intraday June 11th, 2026.

Unrelated or stocks perceived to be affected by AI are sold to finance the AI buying frenzy.



Source: Bloomberg, Intraday June 11th, 2026.

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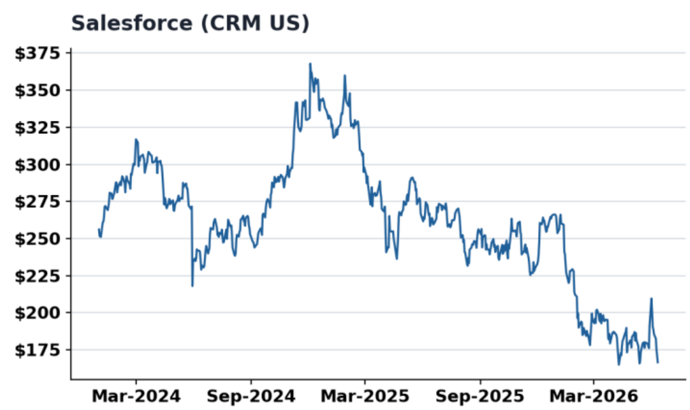
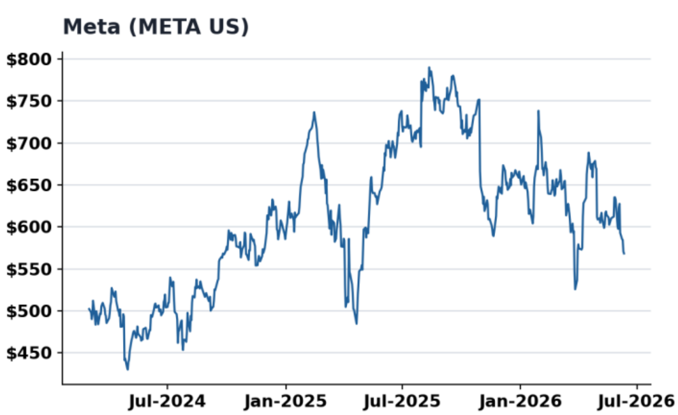
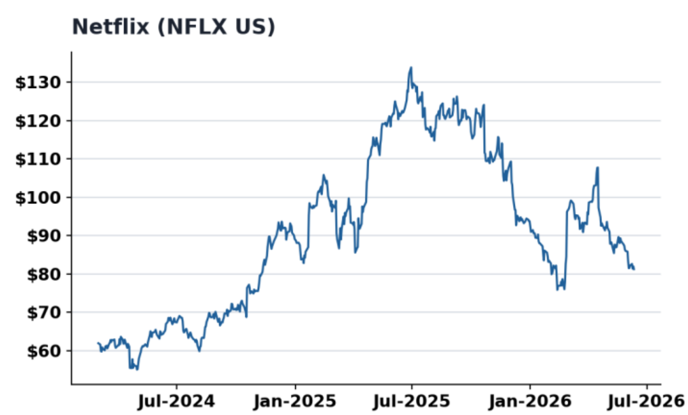


Source: Bloomberg, Intraday June 11th, 2026.

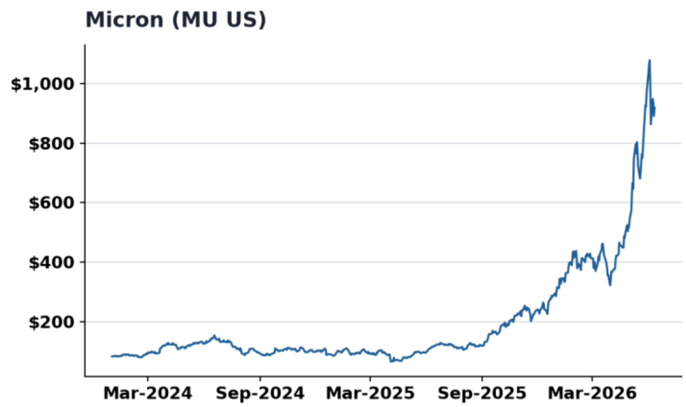


Source: Bloomberg, Intraday June 11th, 2026.



Source: Bloomberg, Intraday June 11th, 2026.

Stocks like Toromont and Caterpillar which indirectly benefit from the AI spending have been bought and trade at the top of the range of historical multiples. And stocks that directly sell into the AI capex boom trade at multiple times the previous peak valuation (Micron, Celestica, DELL, SanDisk, etc) and have the most downside once the capex cycle turns down.



Source: Bloomberg, Intraday June 11th, 2026.

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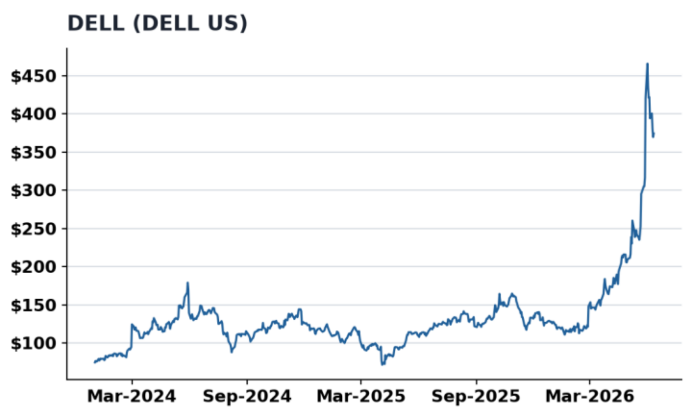

Source: Bloomberg, Intraday June 11th, 2026.

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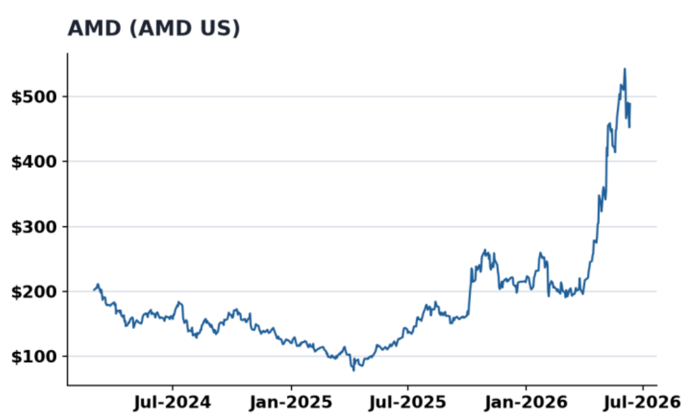


Source: Bloomberg, Intraday June 11th, 2026.

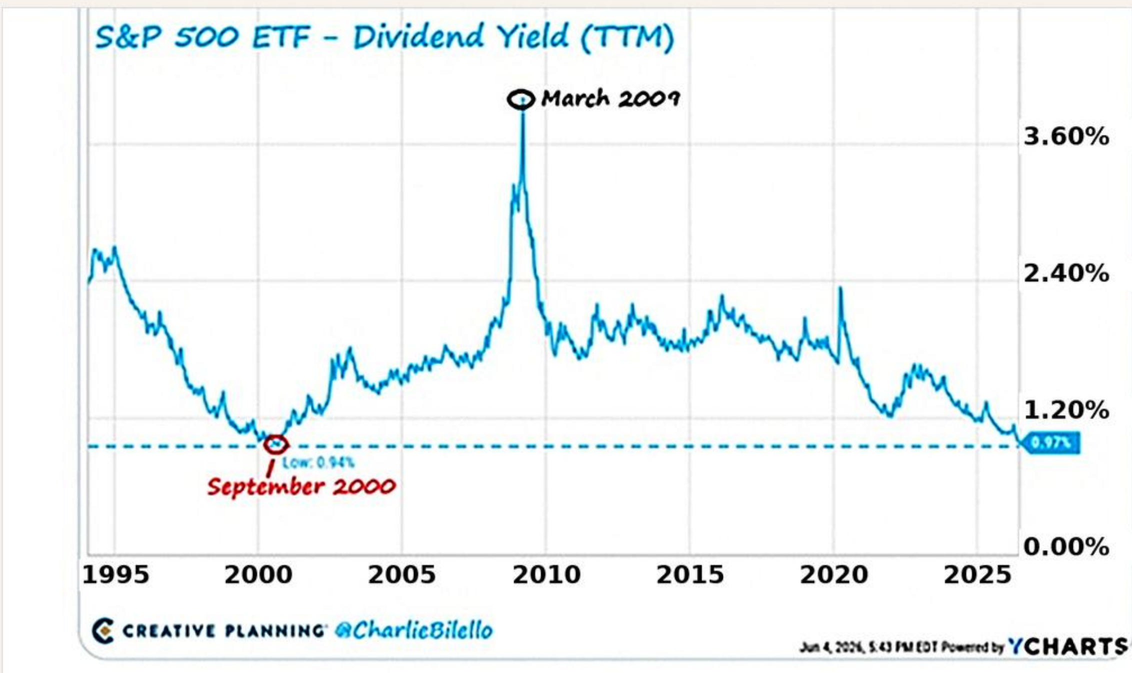
Source: Bloomberg, Intraday June 11th, 2026.

Market Valuation Is at An Extreme

On the next few pages, we present recent charts we have seen which help to show the extremes of the current market valuations. It should be clear to all investors, risks of downside is much higher than average and the upside much lower than average.

Charlie Bilello
@charliebilello

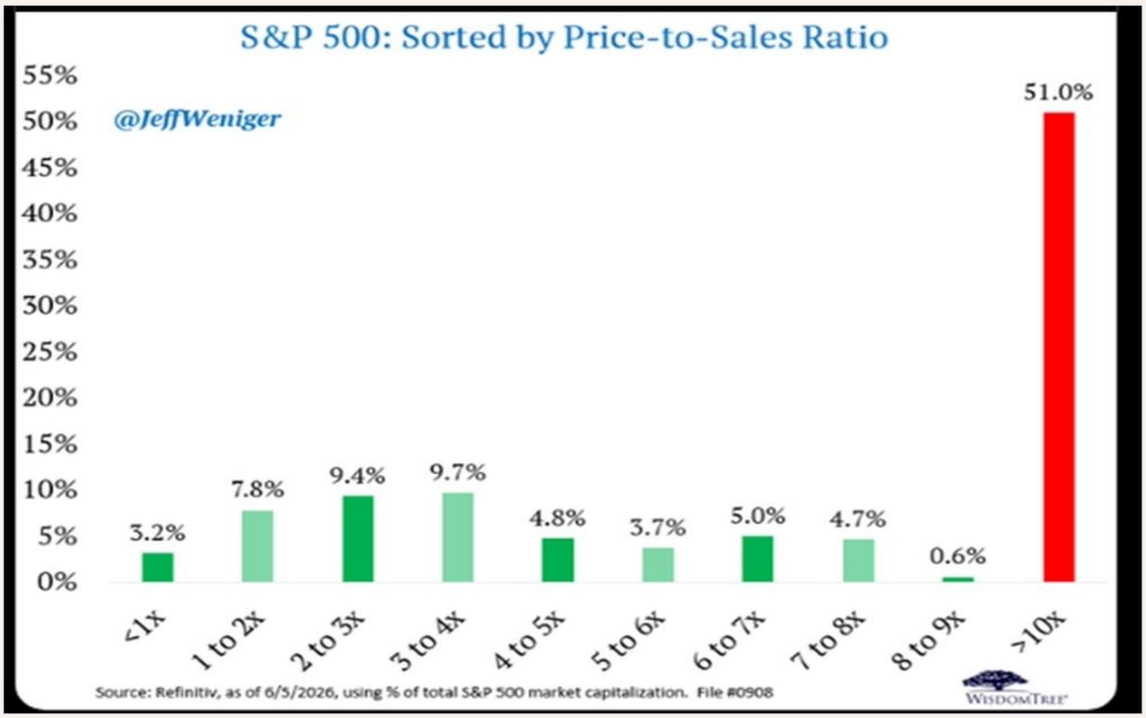
The Dividend Yield on the S&P 500 ETF moved below 1% this week and is fast approaching the all-time low yield of 0.94% in 2000. $SPY



Source: @charliebilello on X (Twitter), accessed June 2026

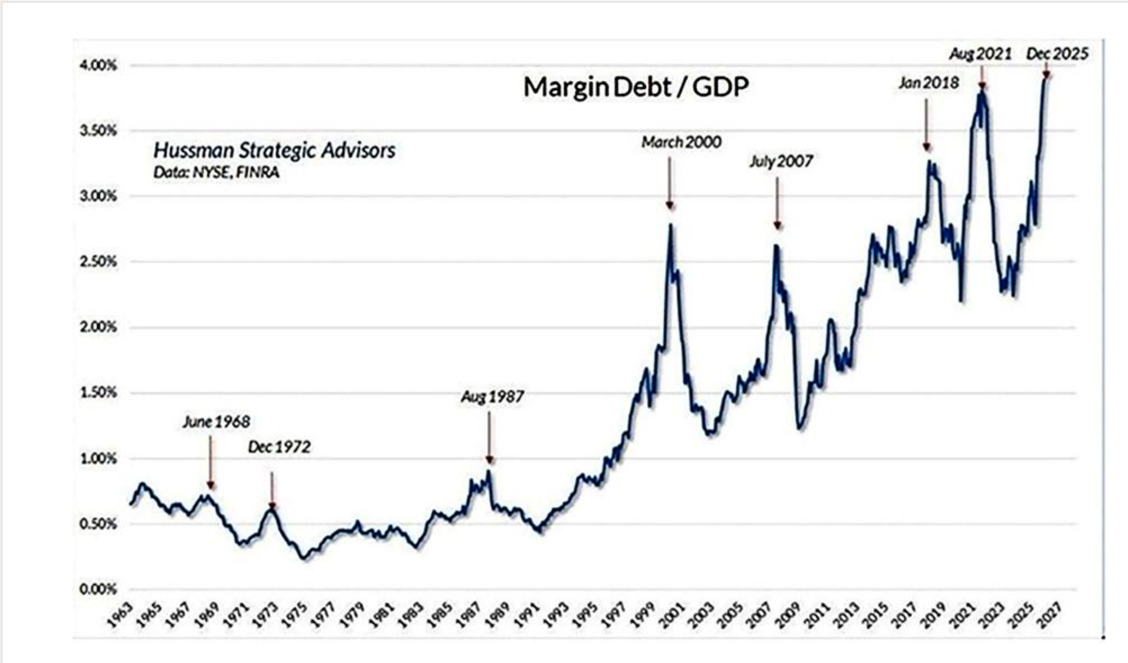
Jeff Weniger
@JeffWeniger · Jun 5

More than half the S&P 500's total value is now in stocks priced above 10x sales. This was once considered an outlandish valuation, as it leaves little room for error. The list includes Nvidia, Apple, GOOG, MSFT, Broadcom, Tesla, Micron, Eli Lilly, AMD, Oracle and 57 more.



Source: @JeffWeniger on X (Twitter), accessed June 2026

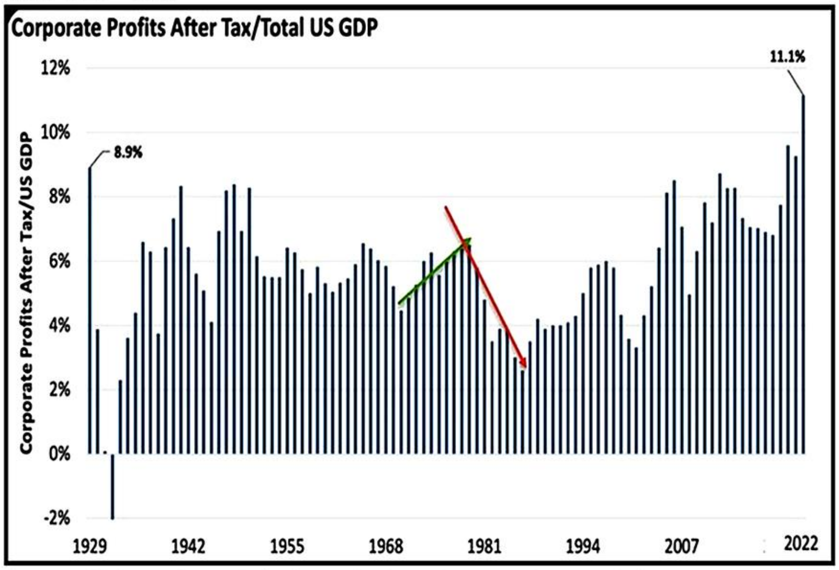
Investors are aggressively positioned long equities



Source: Hussman, "Equilibrium and the Dentist in Poughkeepsie."

Corporate profits are at record as % of GDP – traditionally a mean reverting statistic

Figure 14: US Corporate Profits after Tax as a Percentage of Total US GDP from 1929 – 2023



Source; Kailash Capital, St. Louis Federal Reserve, Fortune Magazine

Beyond these charts we also see:

1) The FED is going to be different going forward

Don't forget Kevin Warsh is likely to shrink the Fed balance sheet, which pulls liquidity from the system.

2) Sign of maximum level of exhuburance when you see this in a prospectus for almost a $2 trillion company. Thank you very much.

"to make life multiplanetary, to understand the true nature of the universe, and to extend the light of consciousness to the stars**"**

Or crazy headlines like this:

Financial Times

Goldman Sachs expects SpaceX's AI revenue to increase 100-fold by 2030

Projections by Wall Street bank underpin the $1.78tn valuation group is pitching in IPO

Added to the crazy headlines are record 2X and 3X single stock ETFs as retail investors look to get more long.

Macro-Economic and Other Issues

Private Credit & Private Equity are also an Issue

What's going on in private lending and private equity – many people want to redeem.

In a recent interview, Jeffrey Gundlach said "...the withdrawal requests from private credit are going to be WAY higher in June than they were in March." We encourage all our readers to watch the full interview. He does a very good job explaining why these products could potentially have a seismic effect on our capital markets. His warning is worth paying attention to considering he's one of the best bond gurus in the world.

> **Some of the interesting takeaways from Gundlach on private credit:**
>
> 1. "Private Credit is a total unmitigated disaster and it's going to get worse."
> 2. "...the marks are not real marks... at best you have a moving average situation..."
> 3. "...everybody is in it, there is no incremental buyer, there are only incremental sellers."

If he's right, the problems are only going to get bigger from here.

Deficits Out of Control

We continue to see the fiscal path of much of the Western world slowly going off the tracks. Two points on this:

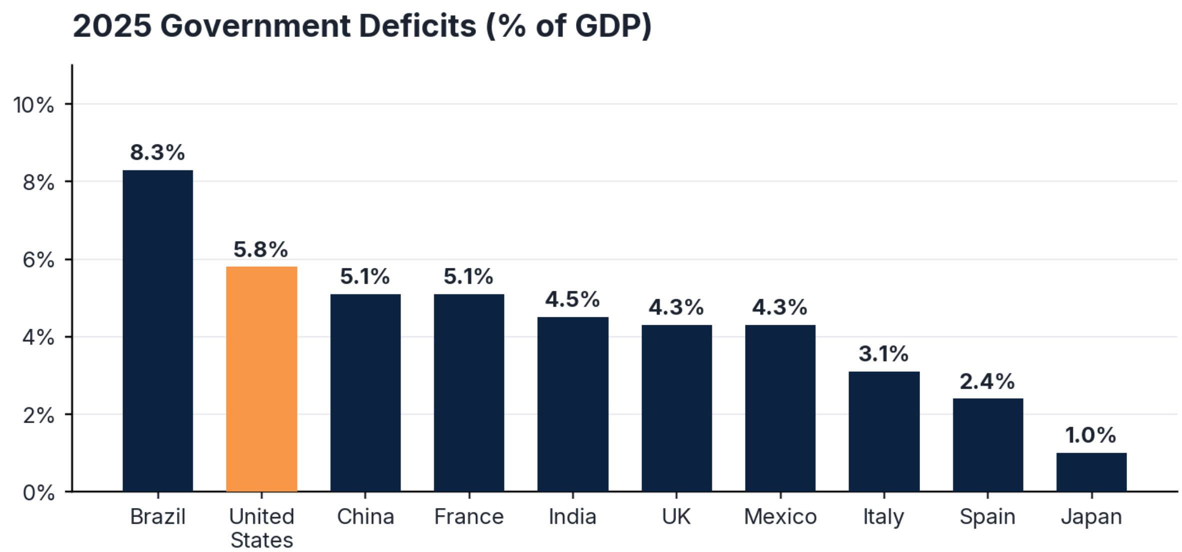
1. Interest Payments

The U.S. paid about $223 billion in interest in 2015. Fast forward a few years later, after averaging a ~$2 trillion deficit for the last 6 years, the interest payment is now about $1 trillion and going to $1.4 – $1.8 trillion by the early 2030s, according to the official projections. Compare that to U.S. Federal revenues of $5.23 trillion for fiscal 2025. Clearly, the trend is unsustainable.

Like Gundlach said in the recent interview: **what if rates go up during the next recession?**

2. Deficits & Debt

U.S. deficits are expected to be close to $2 trillion per year or higher for many years in the future, remaining around 5.8% of GDP before moving above 6% in the early 2030s. Take a look at the deficits of some other countries around the world:



Sources: See "Deficit chart sources" in the Sources section.

Most of those countries have too much debt already. The deficits are clearly not sustainable and are likely to get a lot worse in the next recession. To us, this means there is no room to maneuver for policy makers.

The K economy

The economy is already in a recession for half the population. When we see weak consumer stocks, it is not a surprise to us many are down, considering the "K"-shaped economic data. The highest-earning consumers have been growing their earnings and spending at an accelerating rate, while the middle and bottom tiers have been struggling. The top 10% now represent about 50% of the consumption in the US – the highest number ever recorded.

Portfolio Positioning

The bottom line is the hopes of investors in AI are at an extreme level currently and valuation metrics are at the top of the range. In addition, speculation is rampant (one day options; rapidly growing leverage ETFs; ridiculous valuation of IPOs). How much longer this will last and how much higher these stocks could go is very hard to predict. What is clear to us, is that the risk is very high today and the potential for downside is substantial. Once the AI spending starts to plateau and/or go down, then all bets are off. Expect a very large correction or bear market.

Once this bear market starts, the economy should be hit further by the negative wealth effect loop. Remember 10% of the population represents roughly 50% of the consumption in the USA. Furthermore, this correction/bear market would likely create a recession, which would push high deficit and debt to an even higher level. This would not be good for most stocks.

It is time to lighten up on the risky stuff. Our portfolio continues to have low gross and net exposures along with some market puts.

Jean-Francois Tardif
President & Portfolio Manager

Sources

1 Fortune, Uber burned through its entire 2026 AI budget in four months.

2 Invest Like The Best, Uber CEO on AI, Autonomous Vehicles, and the Future of Transportation.

3 Bg2 Pod, All things AI w @altcap @sama & @satyanadella. A Halloween Special. 🎃🔥 BG2 w/ Brad Gerstner

AI Capex sources

Alphabet - Alphabet; SpaceX IPO - SpaceX.; Anthropic, Series H; OpenAI, $122; Rumored IPOs

Deficit chart sources

Bloomberg — France; India Budget; UK OBR; Bloomberg — Mexico; Bloomberg — Italy; Spain Hacienda; S&P Global Ratings.

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All performance data contained represents past performance. The Fund's returns are not guaranteed and past performance may not be repeated. An investment in the Fund may be subject to commissions, trailing commissions, management fees and expenses. The posted rates of return are net of all fees and expenses and are the historical monthly compounded total returns of the share class indicated but do not take into account possible sales or redemption charges or income taxes payable.

The Fund has an opportunistic investment mandate. Therefore the Fund's composition can differ significantly from the S&P/TSX Composite Total Return index due to varying fund net exposure and the Fund's ability to invest in stocks not in the S&P/TSX Composite Total Return index. Timelo has listed the S&P/TSX Composite Total Return index as a benchmark because it is widely known, followed, and well-understood as a benchmark by Canadian investors. Readers should note that the S&P/TSX Composite Total Return index does not include operating charges, transaction costs, nor expenses related to an account's investments which may affect comparisons between performance.

As you're aware our offering memorandum provides that we may cover/sell all stocks mentioned in this report if we feel it is advisable to do so at any time