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SHANGHAI COMMERCIAL BANK
Since 1950

Instant Thoughts

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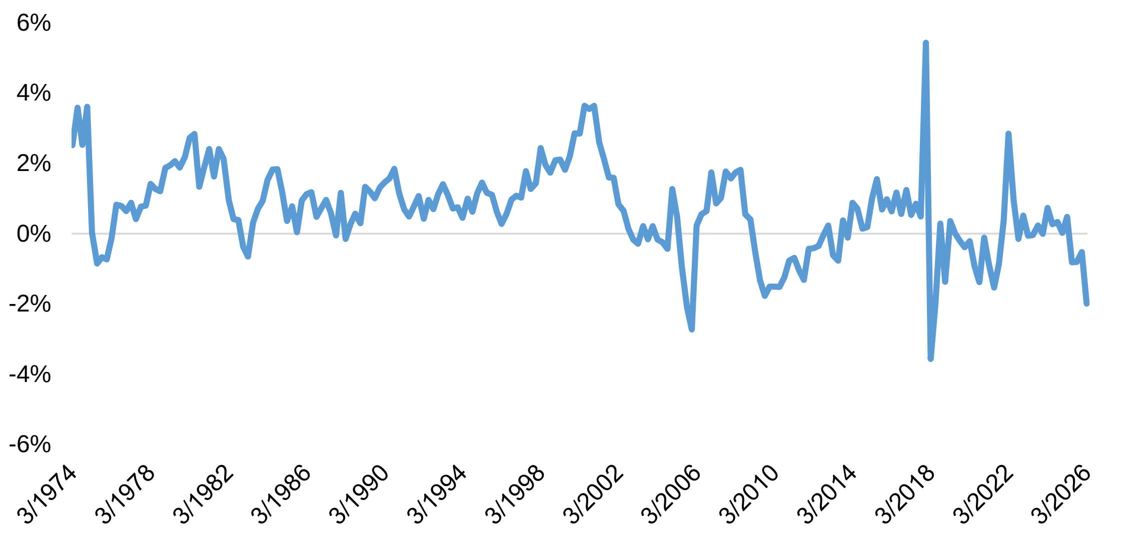
To Infinity and Beyond!

- **Why wouldn't the jarring bond sale programmes from tech titans snuff out the A.I. frenzy?**
- **As a whole, the U.S. business sector is actually earning more than it is shelling out in its ambitious spending plan.**
- **What we learned from the recent capex boom in late 1990s and 2010s, all it will take to knock off balance is a 2% financing gap in the business sector.**
- **A back of the envelope calculation suggests the capex has another 28% headroom before reaching into this thin-air altitude.**
- **Given the plenty of runway in front of us, the enthusiasm for A.I. wave surfing probably won't disappear magically, though some wear-and-tear is almost inevitable.**

Always water the flowers and cut the weeds, Peter Lynch was fond of saying. Apparently, credit holders have nothing to apologize for, with IG spread grinding tighter toward a decade low. Haven't Nvidia, Alphabet, Amazon, and Super Micro recently announced jarring bond sale programmes? Why wouldn't it snuff out the A.I. frenzy?

No one can say that the market is simply divorced from reality. While the narrative of the tech giants mired in debt-funded spending is curdling, the fact is less grim than the original take. As a whole, the business sector is actually earning more organically than it is shelling out in its ambitious spending plan (Exhibit 1). Corporate America, as a net saver, manages to pay its bills without going into debt. That's hardly the textbook setup for a sudden crash.

Exhibit 1: Financing Gap of Nonfinancial Business (% of U.S. GDP)



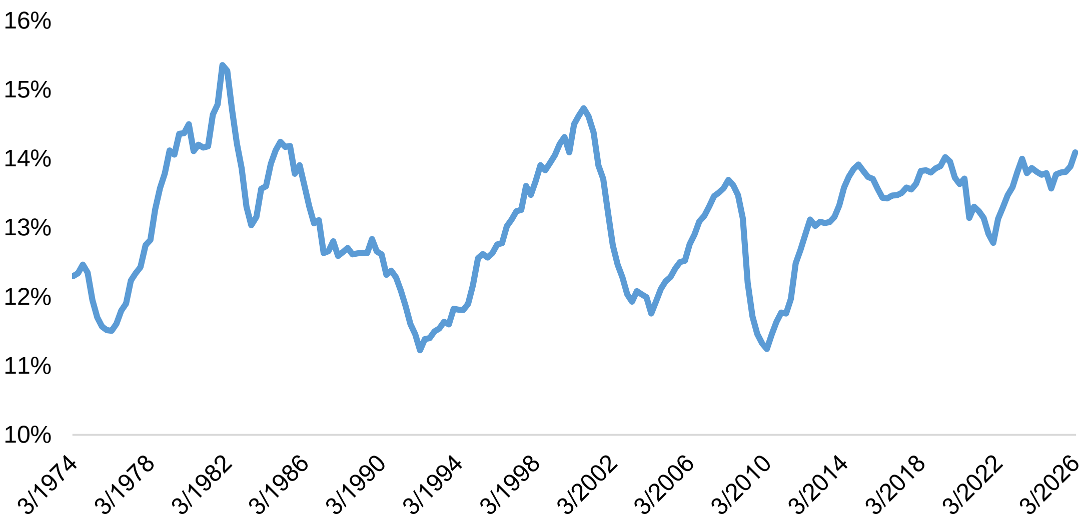
Source: U.S. Bureau of Economic Analysis, Shanghai Commercial Bank

If one wants a preview of where we are headed next, we may find the signals coming from the recent capex spending sprees. The proper question to ask is what killed the cycle.

The prospects of websites commercialization and deregulation of the telecom sector in the late 1990s gaslighted a growing chorus, novices and experts alike, into believing a shoestring budget was suicidal. The application layer (internet companies) was largely funded with equity and infrastructure layer (fiber) was turbocharged in later phases by debt financing. By the third quarter of 2000, capex touched an astronomical level of 14.7% of GDP (Exhibit 2). Eventually, the sagging sales and ever-delaying monetization reshuffled creditors' calculus at bewildering speed.

Harkening back to the 2010s oil bull run, technological breakthroughs in horizontal drilling and fracking unlocked the shale revolution. The frantic capex peaked locally at 13.9% of GDP by 4Q14. The supply glut and OPEC's risky bet to prioritize market share made the sheer scale of over-forking became untenable.

Exhibit 2: U.S. Non-residential Private Investment (% of U.S. GDP)



Source: U.S. Bureau of Economic Analysis, Shanghai Commercial Bank

The ghost is stirring again. All it will take to knock off balance is a 2% financing gap in the business sector. A back of the envelope calculation suggests the capex has another 28% headroom before reaching into this thin-air altitude. Given the plenty of runway in front of us, the enthusiasm for A.I. wave surfing probably won't disappear magically, though some wear-and-tear is almost inevitable.

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