

August 2026

Two episodes this past two weeks say a lot about how this market leverage can create havoc. Situational Awareness, the AI-focused hedge fund run by Leopold Aschenbrenner, went from a reported \$45 billion in assets to a forced sale of its holdings to Citadel after a semiconductor rout erased roughly \$3 trillion in chip-stock value; four times leverage turned a survivable drawdown into margin calls. The Yen slid to a four-decade low near 164, forcing the first coordinated US-Japan intervention in years and a looming BOJ hike.

The AI capex boom is increasingly being funded off balance sheet, and the gap between reported and economic leverage continues to widen. Moody's raised its estimate of hyperscaler data-center lease commitments to \$1.2 trillion in July, up from \$969 billion in February, with more than \$820 billion tied to facilities still under construction. Microsoft and Meta's off-balance-sheet commitments are multiples of its long-term debt (table below). Even Alphabet, long viewed as having the cleanest balance sheet of its peers, disclosed a \$40 billion commitment tied to a new Blackstone joint venture. While these off-balance-sheet commitments are supported by implied future revenues, the market appears to be pricing in the upside while giving less weight to the associated balance-sheet and execution risks.

July payrolls fell 23k against a consensus for 83k jobs added while May and June were revised down a combined 103k. Unemployment ticked down to 4.1% for the wrong reason with participation slipped to 61.4%, the lowest in five years. Government jobs fell 53k, mostly local education. Leisure and hospitality shed 40k as June's World Cup boost unwound, while private payrolls still rose 30k. The report gives the FOMC room to skip a September hike on labor grounds, but doesn't resolve the inflation side, and the two are pulling apart.

June inflation readings gave a mixed signal: headline CPI cooled to 3.5% and core held flat at 2.6% on falling energy prices, while core PCE, the Fed's target, decelerated only modestly to 3.3% from 3.4%, still above its 2% target. Despite this, inflation expectations remain reasonably anchored. July CPI is reported later this week and with the PCE report that follows, carries more weight than usual for a Fed with no forward guidance. A hot print keeps a September tightening in play, while a soft one lets the Fed stand pat and focus on the trend.

At its July meeting, FOMC held at 3.50-3.75% on a 9-3 vote, and for the first time this cycle the dissents ran hawkish with three regional presidents wanting a hike. Chair Warsh has dropped forward guidance and told markets they need to "play the ball, not the referee." We find that confusing, since the Fed could be considered the ball in that analogy, as dropping forward guidance doesn't remove its influence, only the signal markets used to get ahead of the whistle. Chair Warsh's alternative frameworks may prove appropriate, but the task force results aren't due until December, leaving him boxed in by the old toolkit. Bond volatility is up and likely to stay elevated, especially if the markets are forced to interpret every data release as the only driver to Fed policy.

	Unrecognized AI / Infrastructure Commitment (\$B) *	Prior Year (\$B)	YoY Change	L/T Debt Outstanding	Comittments / LT Debt
Microsoft **	329	235	1.4x	31	10.6x
Alphabet ***	\$85 leases + \$44 guarantees	24 (lease only)	3.6x (lease)	96	1.3x
Meta	628	81	7.8x	84	7.5x
Amazon	229	159	1.4x	129	1.8x
Oracle	273	46	5.9x	122	2.2x

Uncommenced leases + purchase/construction commitments

** 2025 includes leases + construction/purchase commitments; 2026 reflects leases only as Microsoft did not refresh the contractual-obligation table.

*** Prior year guarantees not reported

Dates: Microsoft, Alphabet, Meta and Amazon = 6/30/26; Oracle = 5/31/26.

Source: Company filings, Bloomberg

Market Update

Product Views

Rates: the 10-year is back above 4.60% and the 30-year is holding above 5%, with the 2-year near 4.20% after Friday's jobs report pulled the front end lower. Real yields are the more interesting story: 10-year TIPS-implied real yields near 2.2%-2.3% are doing part of the Fed's job for it, echoing Warsh's point that nominal and real yields are already tightening financial conditions without a rate move. The risk for duration is real yields grinding higher on renewed Hormuz risk or a hot CPI print, which would tighten mortgage and corporate borrowing costs even with the Fed on hold, arguing for adding duration on those back-ups rather than chasing rallies.

Credit: Corporate earnings and balance sheets remain solid, but the credit story right now is a supply story more than fundamentals. Amazon, Alphabet, Meta, and Oracle had issued roughly \$194 billion of bonds by early July, up 79% year over year, and market expectations projects the five hyperscaler total reaches \$250 billion in 2026 and \$400 billion in 2027. The market is pushing back as 78 of the 91 hyperscaler bonds priced this year trade wider than at issuance, with a median widening near 22 basis points. Alphabet's newest deal, a \$25 billion, ten-tranche offering priced in early August, still cleared more than four times covered, but initial spread talk on the 40-year (around 155 basis points) came notably wider than the 95 basis points Alphabet printed on a similar tranche in February. Even one of the strongest balance sheets in the group is paying up for funding now. Combined with the off-balance-sheet growth discussed earlier, we are extremely cautious adding to these names.

Securitized: Agency MBS are structurally insulated from the AI credit story working through corporates. Its risk is government-guaranteed credit risk plus prepayment and rate volatility, not AI capex payback assumptions, and agency OAS has stayed comparatively well-behaved even as the MOVE index has picked up on Fed-communication and yen-intervention noise.

Last 12 Months (%)



Last 12 Months (bps)

