# THE SHORT AND LONG

Weekly Bulletin

# Why the macro data says AI is not a bubble

AUGUST 4, 2026


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## TAKEAWAYS

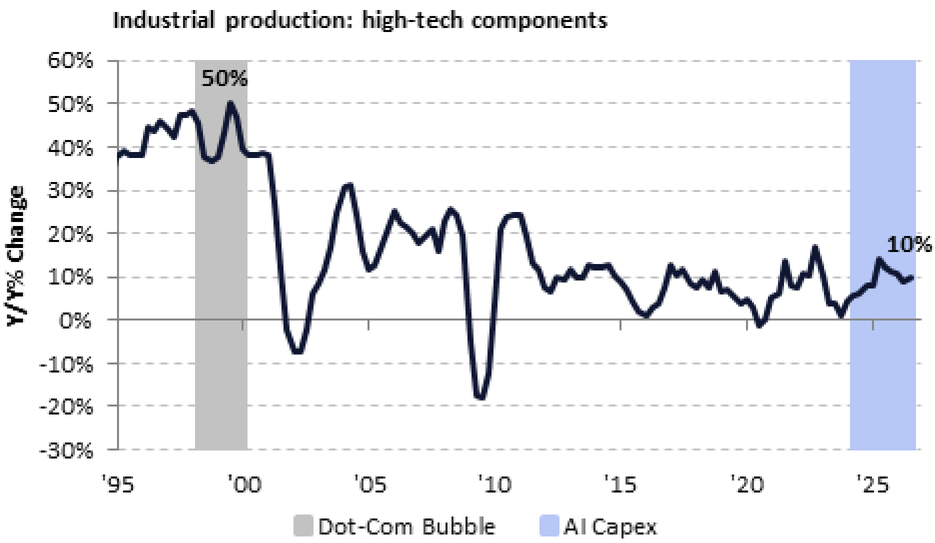
Contrary to the corporate profit margin squeeze seen during prior investment bubbles, aggregate margins today are holding near all-time highs. The total corporate interest burden is only 1.3% of output[1], roughly a third of levels in the Dot-com and housing bubbles[2], and a 60-year low. U.S. corporations enter this investment cycle from a position of profitability and balance sheet strength.

Companies fund today's capital spending from internal cash flow rather than debt and equity issuance. While production of high-tech goods is strong at 11% year over year[3], this compares to roughly 50% during the Dot-com bubble. Like corporate fundamentals, the macroeconomic data does not suggest AI is a bubble, and this points to potential opportunities for long-term investors.

Three Federal Open Market Committee (FOMC) members dissented in favor of a rate hike. With some policymakers appearing to lose patience with above-target inflation, the balance of risks favors tighter policy. That view keeps us cautious on extending duration in fixed income.

## THIS WEEK IN CHARTS

**FIGURE 1: High-tech production growth is far more moderate today than during the Dot-com bubble**




Source: Haver Analytics as of August 3, 2026.

## LOOKING CLOSER

The production of high-tech goods is strong, adding significantly to U.S. growth. However, high-tech production growth of 11% year-over-year in June 2026 is far more moderate than the roughly 50% growth reported during the Dot-com bubble.

[1] Haver Analytics as of July 29, 2026.
[2] The dot-com bubble was a late-1990s stock market bubble driven by speculative investments in Internet-based companies, peaking in March 2000 before collapsing dramatically. The housing bubble was a period of rapid, unsustainable increases in home prices, driven by speculation, easy credit, and investor demand, which ultimately collapsed and triggered a global financial crisis.
[3] Haver Analytics and Bloomberg as of July 29, 2026.

**Corporate margins and balance sheets separate today from prior bubbles**

The question around a bubble is becoming more prevalent. We usually respond by conducting company by company and sector by sector analyses. We also compared today's macro data against the two most recent investment bubbles, the late 1990s Dot-com boom and the mid 2000s housing boom.

Start with margins. Profits as a share of output give us a macro level read on corporate profitability. In both prior bubble periods, that measure fell as margins compressed, and companies responded normally, by cutting investment and cutting labor. Today, margins sit at high levels and show no sign of rolling over, which explains the impressive earnings companies keep reporting.

Aggregate corporate balance sheets tell a similar story. Investors focus on how much debt companies issue to fund investment, so we looked at the interest burden measured by corporate interest payments as share of output. During the prior two bubbles that burden averaged roughly 3.1% and climbed. Today it sits near 1.3%, a 60-year low, and it continues to fall.

A low interest burden exists despite higher interest rates. Companies managed their liabilities well and termed out debt while rates were low, so total debt carries a light interest cost today. Balance sheet strength, not leverage, funds the current cycle.

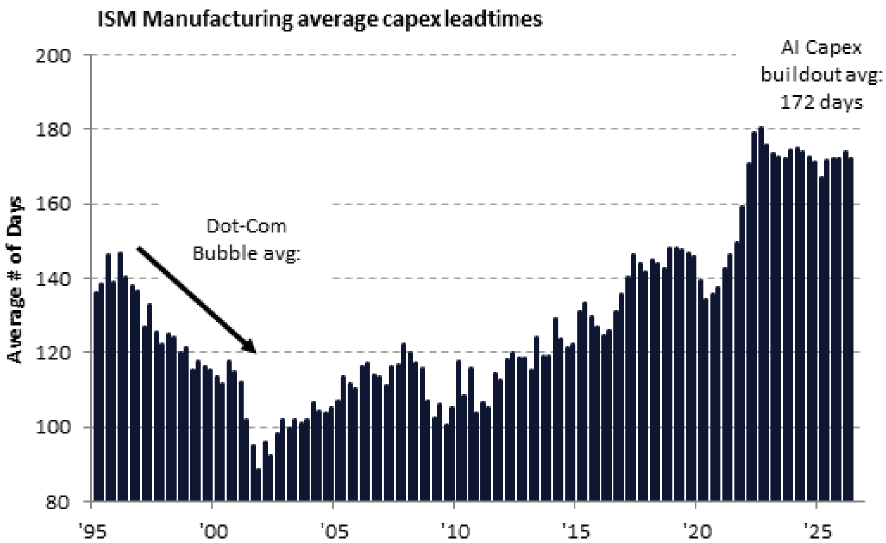
**Bottom line**: Prior bubbles arrived with compressed margins and a rising debt service burden, and today we see neither. Corporate America enters this investment cycle from a position of profitability and balance sheet strength.

**Capital spending shows discipline, and cash flow pays for it**

Investment in the high-tech complex looks strong, and we want to keep that strength in perspective. The Federal Reserve's industrial production report tracks a high-tech segment covering computers, semiconductors, and communications equipment. That segment has grown about 11% year over year. During the Dot-com bubble, it grew near 50% year over year, and demand never arrived to absorb the output.

Capital expenditure (capex) lead times point in the same direction. Lead times measure how far in advance companies commit to capital investment. During the Dot-com bubble, those lead times shortened as conviction faded. Today they run historically long, and they show no sign of shortening (Figure 2).

**FIGURE 2**: Unlike the Dot-com era, capex commitments are long



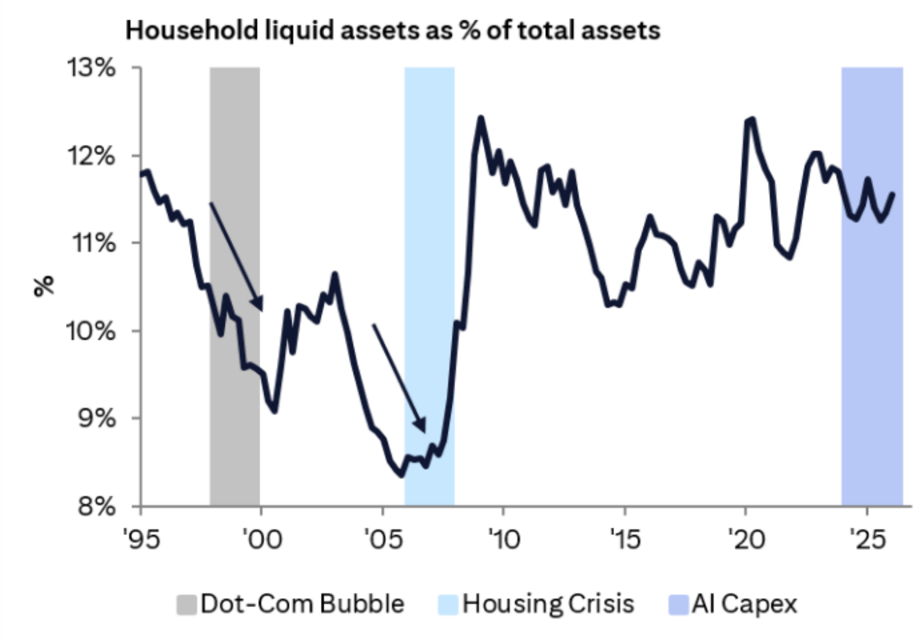

Source: Haver Analytics as of July 29, 2026.

How companies pay for that spending also matters. In the Dot-com bubble, companies financed capex through debt and equity issuance, and the financing gap between capex and internal cash flow widened. Today, although some large cap Technology names report negative free cash flow, the corporate sector runs a financing surplus in aggregate, meaning cash flows still exceed capital spending even at these investment levels.

Investor positioning and valuations round out the picture. Households hold high levels of liquid assets relative to their total assets today, while both prior bubbles featured the opposite as households concentrated into Technology stocks and then into housing (Figure 3).

On valuation, S&P 500 Information Technology forward multiples peaked near 62 during the Dot-com bubble. That multiple has averaged around 38 during the AI capex cycle and moved lower in recent months, and consensus forecasts point to further contraction by 2027 due to strong expected earnings growth.

**FIGURE 3**: Households sharply reduced their liquid asset share during the Dot-com and housing bubbles




Source: Haver Analytics as of July 29, 2025.

**Bottom line:** Today's capital spending runs strong, self-funded overall, and forward committed, and it looks nothing like the debt financed overbuild of 1999. We disagree with the parallels investors draw between the AI buildout and prior investment bubbles. Macroeconomic trends related to the AI buildout support the message from company fundamentals that the current environment is supportive of equity risk.

**The Fed leans hawkish, and we still expect a hike next**

The Fed left policy unchanged and delivered a short statement with no forward guidance, the new standard under Chairman Warsh. However, while June brought no dissents, the July meeting brought three, all favoring a rate hike.

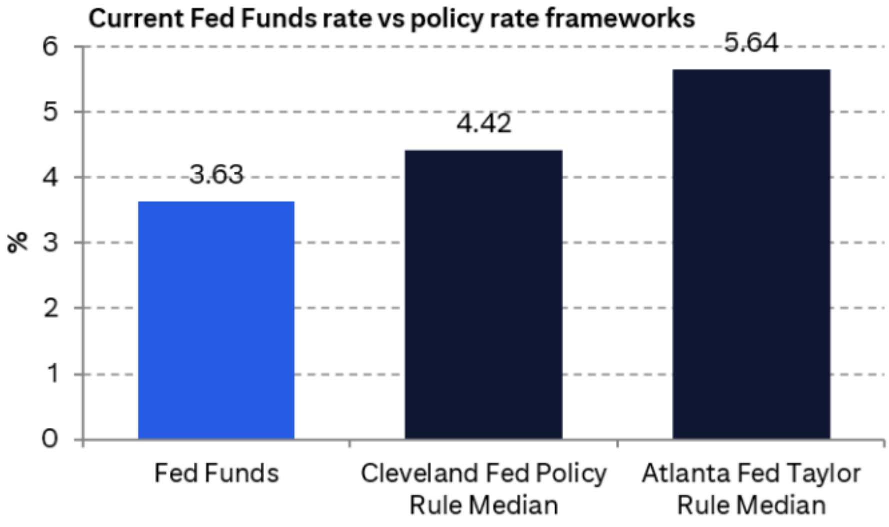
Timing makes that shift interesting because June inflation data, released ahead of the July FOMC meeting, came in fairly benign. The dissenters focused on the duration of above-target inflation rather than the latest report. Inflation has now overshot the Fed's target for over five years, and several FOMC members appear to be losing patience with that record. Their written dissents argued the case clearly and questioned if there is sufficient policy restraint to return inflation to target.

Taylor Rule[4] recommendations also suggest the current policy setting is too loose (see Figure 4). The Cleveland Fed's average across seven rules recommends a 4.4% policy rate versus the current rate of 3.6%. The median recommendation of 30 rules in the Atlanta Fed's Taylor Rule heatmap is 5.6%.

[4] The Taylor Rule is a monetary policy guideline that prescribes the federal funds rate based on the deviation of actual inflation from the target inflation rate and the output gap, which measures the difference between actual potential GDP.

We are not advocating for mechanically following a policy rule, but there is evidence that the current Fed funds rate is too low. We continue to expect the next move from the Fed to be a rate hike rather than a rate cut. The onus is now on the economic data to prevent more FOMC voters joining July's three dissenters and pushing the majority to increase rates. Ahead of the next FOMC meeting on September 16, the CPI reports on August 12 and September 11 will be an important focus.

**FIGURE 4**: Fed Funds rate remains below rule-based benchmarks




Source: Haver Analytics as of July 29, 2025.

Market reactions to the latest FOMC meeting have raised questions about the Fed's inflation-fighting credibility, but we think these are overstated. This is not 2022, when the Fed fell behind the curve and moved aggressively to catch up. Five-year inflation breakevens from Treasury Inflation-Protected Securities (TIPS) are up only two basis points since the Fed meeting, to 2.2%. Since Kevin Warsh took over as Fed Chairman, breakevens have fallen roughly 30 basis points while real yields have risen about 40 basis points. Markets appear to anticipate tighter policy rather than a loss of inflation control.

**Bottom line**: Market based measures of inflation expectations remain well anchored, but amid an extended inflation target overshoot and with monetary policy too accommodative, the balance of risks favors more tightening. That view keeps us cautious on extending duration in fixed income portfolios.

[4] The Taylor Rule is a monetary policy guideline that prescribes the federal funds rate based on the deviation of actual inflation from the target inflation rate and the output gap, which measures the difference between actual potential GDP.

| | What happened | What's ahead |
|---|---|---|
| **ECONOMIC DATA** | **U.S.**<br>Q2 GDP of 1.5% was softer than expected behind drags from trade, but consumer spending was solid and capex was strong.<br>June core PCE prices cooler than expected, bringing Y/Y reading to 3.3% from 3.4%.<br>University of Michigan consumer sentiment rose to highest level since February. | **U.S.**<br>Employment report for July.<br>Services Institute for Supply Management (ISM) for July. |
| | **Global**<br>Eurozone Q2 GDP expanded 0.4%, beating estimates. Flash HICP rose to 2.9% in July, matching estimates. | **Global**<br>China and Taiwan imports/exports for July.<br>Eurozone Producer Price Index (PPI) and retail sales for June . |
| **POLICY** | **U.S.**<br>Fed held rates unchanged but three FOMC members voted to hike rates. Markets see a better-than-even chance of a hike at the September meeting. | **U.S.**<br>U.S. conducted retaliatory airstrikes against Islamic Revolutionary Guard Corps (IRGC) targets but further strikes uncertain due to munition shortage concerns |
| | **Global**<br>Bank of Japan (BoJ) left rates unchanged but reaffirmed preference to continue raising rates as inflation runs risk of overshooting.<br>Bank of England (BoE) held rates steady in a more hawkish 6-3 vote, but Bailey gave cautious growth remarks which attracted attention.<br>Japan & Korea conducted FX intervention to buy JPY & KRW. | **Global**<br>BoJ minutes from June meeting<br>Brazil central bank rate decision<br>Hamas reported to have agreed to disarm, Trump claims "historical agreement" imminent, deal details uncertain. |
| **MARKETS** | **U.S.**<br>AI compute/capex demand narrative was supported by hyperscaler earnings this week with AMZN, MSFT delivering results better than expected and health capex guidance. META and AAPI lagged after disappointing guidance and FCF results. | **U.S.**<br>15% of S&P market cap set to report, centered around Tech, Industrials, and Health Care. |
| | **Global**<br>South Korean equities seeing increased volatility as Samsung +20.8%, SK Hynix +25.5%, TSMC +10%, all driven by Amazon and Microsoft capex confirmation. | **Global**<br>Anthropic joins OpenAI in announcing its AI models had escaped and hacked company systems. |

Source: Bloomberg as of August 4, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

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In last week's Bulletin, we looked at why global equity markets have priced in more uncertainty than the macro backdrop currently warrants. We also looked at impressive Q2 earnings growth and why markets are rewarding companies based on capital intensity and macro sensitivity.

**July 20, 2026 | The Short and Long Podcast**

In the third episode, "AI, Quantum, and Cybersecurity; From Breach to Resilience," host and Chief Investment Officer of Citi Wealth Kate Moore speaks with Fatima Boolani, Co-Head of U.S. Software Equity Research, Citi Research, and Anneka Gupta, Chief Product Officer at Rubrik, on how today's cybersecurity threats require continuous adaptation in prevention and resilience and covers questions every investors should be asking right now around cybersecurity in the age of AI. Watch on **YouTube, Apple**, or **Spotify** and subscribe for future episodes.

**July 14, 2026 | The Short and Long: Q3 Macro Investment View**

Citi Wealth's quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report delivers a breakdown of forces shaping global markets, how they impact potential investment opportunities, and provide guidance across asset classes.

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|---|---|---|---|
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| Highest quality | Aaa | AAA | AAA |
| High quality (very strong) | Aa | AA | AA |
| Upper medium grade (Strong) | A | A | A |
| Medium grade | Baa | BBB | BBB |
| **Not Investment Grade** | | | |
| Lower medium grade (somewhat speculative) | Ba | BB | BB |
| Low grade (speculative) | B | B | B |
| Poor quality (may default) | Caa | CCC | CCC |
| Most speculative | Ca | CC | CC |
| No interest being paid or bankruptcy petition filed | C | D | C |
| In default | C | D | D |

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- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
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