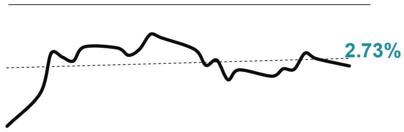
CDT August 2026 – An AI Mountain of Worry.

Market Update.

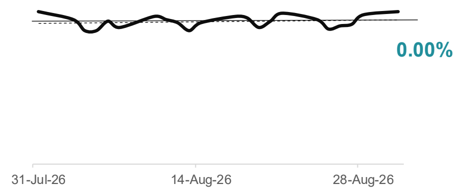
S&P 500 Total Return Index

17,220.43



10yr. Treasury Yield

4.75%



S&P 500 Excess Earnings Yield

-1.42%

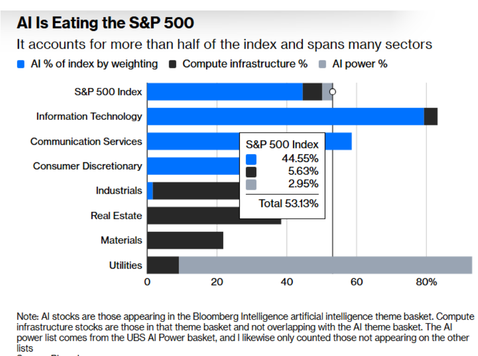
S&P 500 Normalize Earnings Yield - 10yr. Treasury rate

Risk is Expensive

*Source: Seeking Alpha, Federal Reserve, CDT

Keep climbing the Mountain. There is an old adage on Wall St. that bull markets climb a wall of worry - - *there is always something to worry about but the stock market keeps marching higher*. Year after year, decade after decade there is always an excuse for investors not to buy stocks. Episodes of inflation, recessions, wars, pandemics, deficits have played on repeat throughout history and yet it seems that the more pernicious the possible threat sounds, the higher future stock market returns go.

Every day, the American economy grows ever more dynamic and there is a robustness in that diversity, which we believe plays a major role in the economy's ability to work through these trials and tribulations. As the health of one sector wanes, the strength of another builds. The stock market for its part, is supposed to reflect that dynamism, but today something is different. Markets are highly concentrated in a specific theme and sector, and that wall of worry isn't a wall at all – it's a mountain. This amount of concentration in the stock market is unprecedented and threatens the ability of the system to endure new challenges.



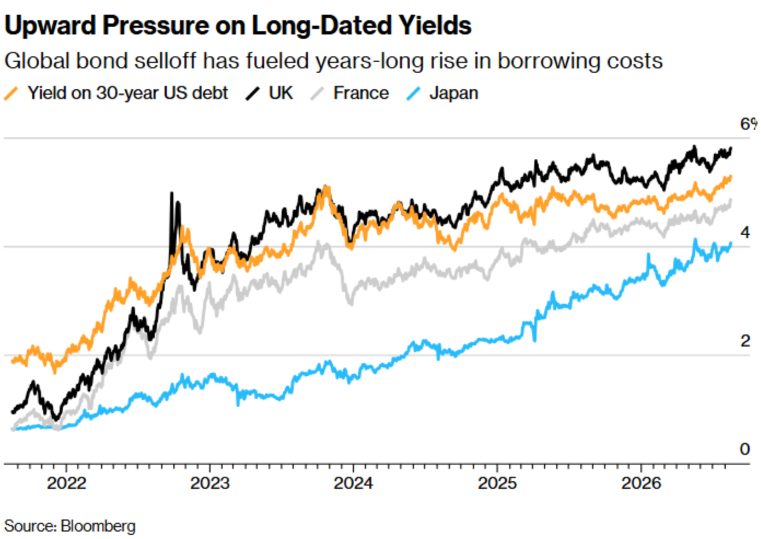
54% of the S&P 500 Index.

The AI Mountain of Worry. Behind closed doors, the AI mania is no longer discussed as a possibility, but an accepted truth. Hints of that reality are slowly leaking into the public sphere with even Sam Altman, the CEO of OpenAI expressing *measured* concern.

> *I am seeing the first signs of what feels to me like unsustainable silliness of you know random new neoclouds popping up. People claiming that they are going to build gigantic, massive compute next year that I think they don't have the revenue to support a buyer.*
>
> - **Sam Altman**

This month, the evidence of stress in the circular AI economy continued to mount. The biggest problem is the lack of profits or even the trajectory thereof. The Wall Street Journal reported that in Q2-2026, while the whole world was tokenmaxxing their IT budgets, OpenAI's operating losses accelerated (Article). **-$12.3B** against **$6.7B** in revenue, a tidy **-183%** margin. At this rate of increased cash burn, it is increasingly difficult to imagine how OpenAI will be able to finance its **$1T+** in AI infrastructure related promises. In that context, for the foreseeable future, capital raising is OpenAI's only option, but financial conditions are tightening and the market's tolerance for continuous capital raises is being tested.

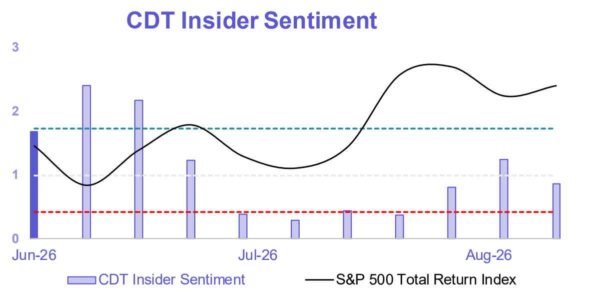
In the bond market, the tightening is most evident in the long bonds. All over the world, long-term bonds are now demanding the highest yields in recent history. At home, the 30-year Treasury recently rose to 5.31%, its highest yield in nearly two decades (Article). While in Japan, their 10-year bond surpassed 3%, its highest figure since 1996. This steady increase in the cost of debt is a signal from the market that the era of abundance is over. And for those that believe that the equity market will be more forgiving than the bond market, we have a bridge to sell you. An IPO of OpenAI, a cash burning start up that is in a legal battle with Apple for egregious IP theft (Article) and has a growing executive turnover problem (Article) is just not likely.



We don't know how this story will end, but what we can tell you for certain is that without cash flow either generated internally from profits or externally from investors (debt or equity), OpenAI is at best going to be faced with tough options. Deliberately shrink to eventually grow by restructuring its costly frontier research operations is one option, but this comes with the threat of losing its edge to competitors, particularly open-source models. Another option is to sell out to a bigger benefactor like Microsoft or Amazon. In either event, a highly concentrated market riding high on the AI theme is not going to be happy.

All the while, Meta continues to insist on spending **$140B** on AI models that their own company does not even use (Article) and the entire system is ever more leveraged ever. With five months left in the year, Goldman Sachs at the beginning of August, estimated total year-to-date AI related debt issuance of **$500B** (Article), while back in July Nikkei research suggested that **$1.65T** of debt is now sitting on and off the books of Meta, Oracle, Amazon, Microsoft and Alphabet (Google). Has anyone stopped to ask, if OpenAI (and likely Anthropic) are not profitable, who is going to pay for all this spending?

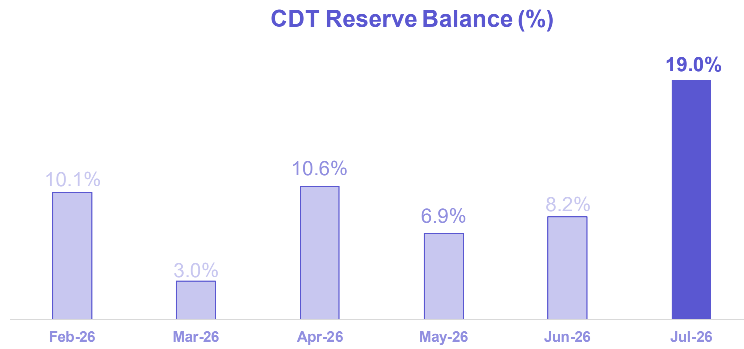
Above The Clouds.



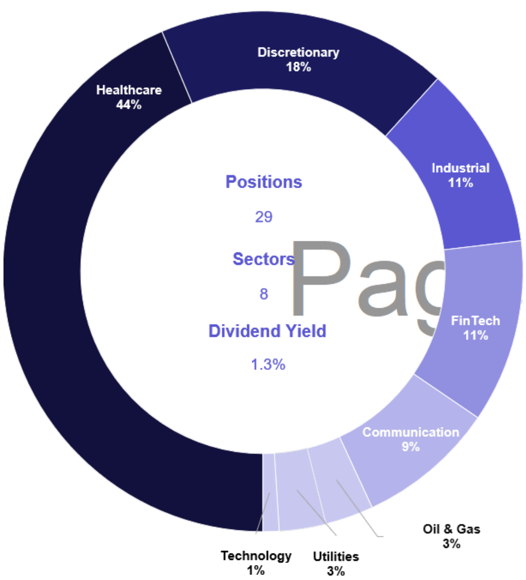
Normal

- Transaction Value: -13.9%
- Transaction Volume: -15.5%

*Year-Over-Year Rate of Change



Playing in a Different Sandbox. We are not pessimists. We believe in the powerful wealth generating force that is equities and owning interests in businesses that benefit and serve society. However, we are also very comfortable in being different. In our mind, if the sandbox where all the kids are playing is crowded, well then, it is time to find another sandbox. Because AI has captured the attention and wallets of investors for so long, there are corners of the market (sandboxes to extend the metaphor) that have been ignored and that ignorance is our opportunity.



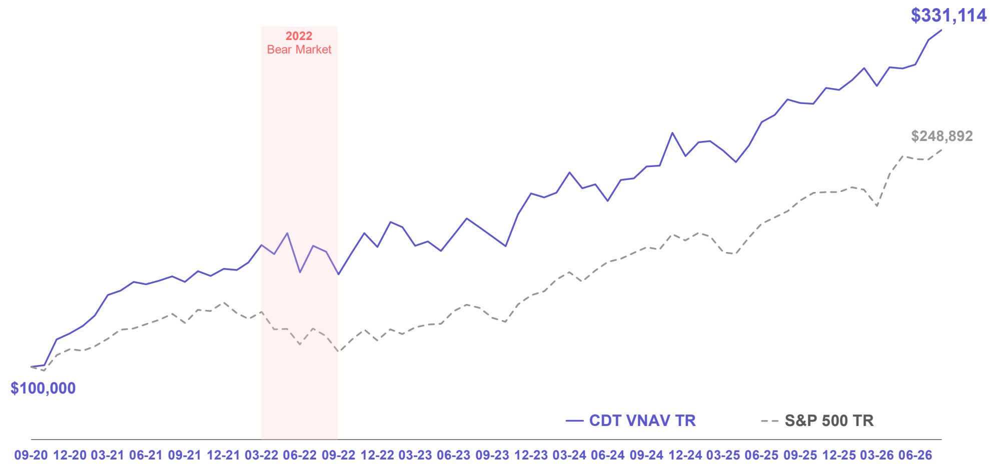
Today, we hold 29 positions in 8 sectors, and our AI exposure is ***minimal*** compared to the broader market indices. Yet despite a significant reserve drag, we continue to outperform the averages. The difference between our portfolio of stocks and the stock market is that we allow insider activity to direct our attention not price - and today, we see little to no high conviction insider purchase activity related to the AI trade. While publicly the executives of these AI outfits are pumping their stock with outlandish claims, their actions say something entirely different -- *Do as I do, not what I say.*

For our part, against this awkward overpriced and concentrated market backdrop, we continue to restrain our risk taking. Our quantitative framework remains steadfast in indicating that this restraint is warranted and we have reserved accordingly.

We look forward to updating you again in October.

VNAV Performance.

	August - 2026	Year-to-Date	Since Inception (Sep 2020)	Sharpe Ratio
CDT VNAV (Net of fees)	**+2.10%**	**+14.18%**	**+231.11%**	**1.78**
S&P 500 Total Return	+2.73%	+13.14%	+148.89%	



Monthly Performance

• CDT VNAV CAGR	1.7%
• S&P 500 CAGR	1.3%
• Monthly Upside Capture	130%
• Monthly Downside Capture	85%

2022 Bear Market

• CDT VNAV Total Return	+9.1%
• Low	-2.3%
• S&P 500 Total Return	-15.3%
• Low	-23.9%

Best Regards,

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