

Capicraft Newsletter Third Quarter 2026

Scarcity in a digital world

An ill omen has surfaced again in Budapest. Ínség-szikla. The hunger stone. Its name recalls the historical link between low river levels, drought and famine. This August, it reappeared. Further downstream, the river again exposed German warships sunk at Prahovo in 1944. In Bulgaria, even possible mammoth bones were discovered. The river brings old things to the surface, reminding us that famine is only one of the Four Horsemen of the Apocalypse.

By the end of July, the Danube's water level in Budapest had fallen below the previous record low set in 2018. A low river soon becomes an expensive economic problem, even in a modern economy. Cargo vessels carry lighter loads, crops come under pressure and power stations struggle to obtain enough cooling water. Hungary's Paks nuclear power plant had to reduce output. By the end of August, all four reactors were back at full capacity, but the lesson remains: one bottleneck can disrupt food supplies, transport and electricity at the same time. ^[1]

And there is no shortage of bottlenecks at the moment.



Ínség-szikla in the Danube at Budapest. Photo: Gábor Szabó / We Love Budapest — archive photograph [Source](#)

Even today's AI build-out cannot take place entirely in cyberspace. A data centre's promise of future revenue is of little use if electricity, land, cooling or the necessary equipment cannot be secured in time. Like energy infrastructure, data centres are also vulnerable to physical destruction. Russia was reminded of this on 8 and 9 October, when Ukrainian drones struck two of Yandex's data centres, in Sasovo and Kaluga. ^[15]

As the market commits hundreds of billions of dollars to this digital future, physical supply determines how much can actually be built, at what cost and for what return. The AI story is inseparable from the physical economy. Our portfolios must reflect that.

The quarter in numbers

After a difficult second quarter, our portfolios regained ground in the third. The Global Creator returned 5.34% in dollar terms, against 0.23% for the comparable global multi-asset high-equity category. The Capicraft multi-asset portfolio returned 4.75% in rand terms, against 0.54% for the South African multi-asset high-equity category.

Strategy or comparison	Currency	Quarter 3	Year to date
Capicraft Global Creator	USD	5.34%	6.48%
Global multi-asset high-equity category	USD	0.23%	4.92%
Capicraft multi-asset portfolio	ZAR	4.75%	5.35%
SA multi-asset high-equity category	ZAR	0.54%	1.76%
JSE All Share Index J203	ZAR	-1.01%	-6.32%
All Country World Equity	USD	1.91%	13.36%
MSCI Developed Market Government Bonds	USD	-2.96%	-4.10%

Third-quarter and year-to-date returns as supplied. USD returns are in dollar terms and ZAR returns in rand terms. ASISA categories: Global Multi Asset High Equity and South African Multi Asset High Equity.

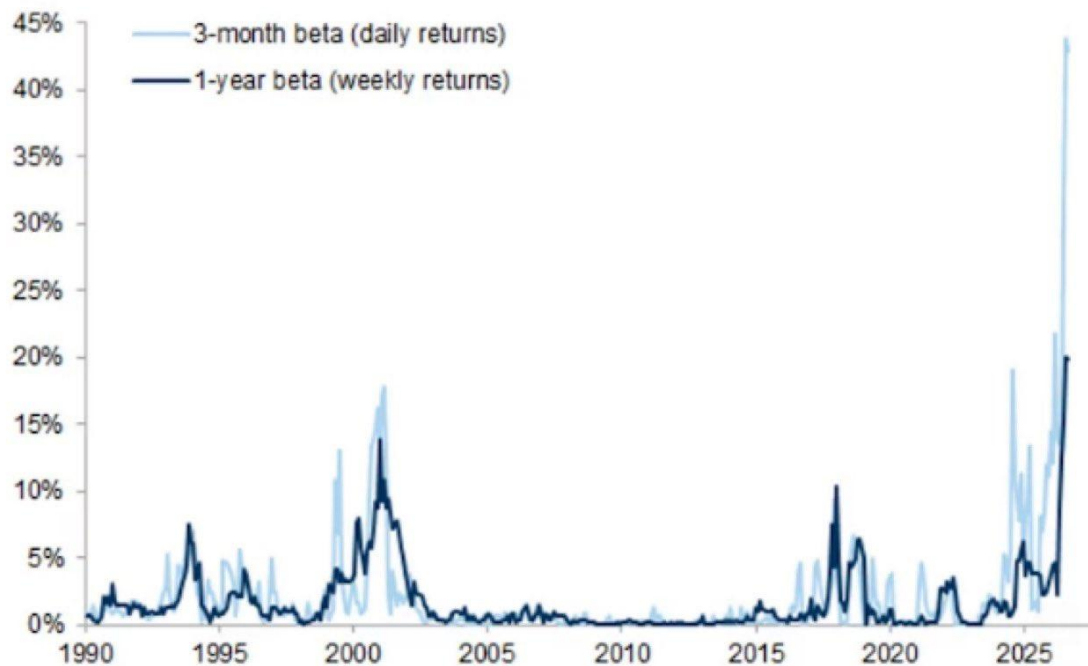
Both strategies are consequently ahead of their comparable categories for the year to date. The Creator still trails the global equity index's 13.36%, however. A better quarter does not erase the frustration of the year as a whole. We must acknowledge the recovery while still accounting for where we have fallen behind.

That gap relative to the global equity index brings us to the enormous claim the AI build-out is making on capital. It affects an investor's choices even without a direct investment in AI.

The index and the rest of the market

AI now influences far more than the share prices of a few technology companies. It affects where capital is invested, how much new credit is created and which parts of the physical economy are expanded. Its scale and interconnectedness make it a systemic risk if the expected returns fail to materialise.

The accompanying Goldman Sachs chart shows how unusually the equity market is already behaving. On the short-term measure, almost 45% of S&P 500 stocks have a negative beta to the index. Over the relevant measurement period, their returns therefore tended to move in the opposite direction to the index. The longer measure, using a year of weekly returns, is around 20%.^[2]



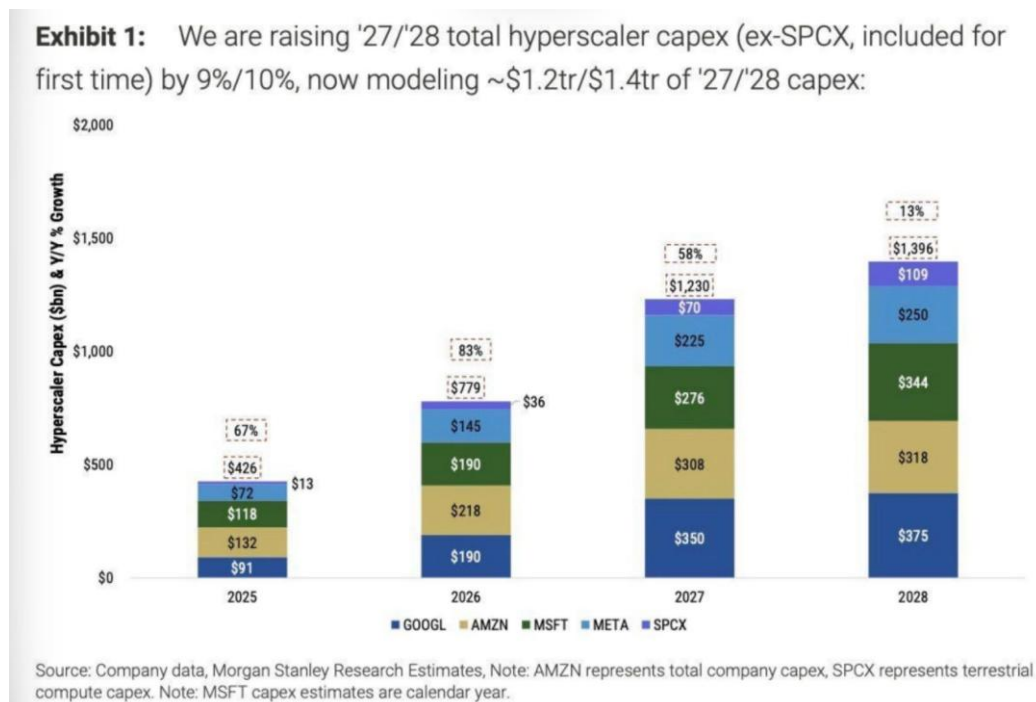
Share of S&P 500 stocks with a negative beta to the index. Light blue: three months of daily returns. Dark blue: one year of weekly returns. Source: Goldman Sachs, supplied chart.

This does not mean that all these shares fell over the period. It does show that the index and large parts of its own membership are following very different paths. A small group of heavyweights can create the impression of a strong market even when many businesses are having a very different experience.

That concentration is frustrating for an investor looking for value elsewhere. It also creates opportunities when good businesses fall out of the spotlight. We continue to look for businesses with sound economics, responsible management and valuations that leave room for a less than perfect future. But the concentration of capital extends beyond equity markets. It also changes who gets the money and equipment needed to expand.

The build-out and its physical inputs

The scale of the build-out is hard to ignore. Morgan Stanley's accompanying estimates put the combined capital expenditure of Alphabet, Amazon, Microsoft, Meta and SpaceX at \$779 billion in 2026, \$1,230 billion in 2027 and \$1,396 billion in 2028. That is roughly \$3,400 billion over three years from this group alone. Oracle and many other developers and infrastructure providers are excluded. ^[3]



Morgan Stanley's capital expenditure estimates for 2026–2028. Amazon represents total company spending; Microsoft is measured on a calendar-year basis; SpaceX covers terrestrial computing capacity. Source: company data and Morgan Stanley Research, supplied chart.

Not all of this is exclusively AI spending. The technology companies also have existing businesses to expand and maintain. Even so, the figures show how much capital is now being committed to a relatively small group of companies and their expansion plans.

Copper makes the link to the physical economy particularly clear. S&P Global estimates that data centres' own annual copper requirements could rise from 1.1 million tonnes in 2025 to 2.5 million tonnes by 2040. The associated power and grid infrastructure could require another 1 million tonnes a year by then. Together, that is about 3.5 million tonnes a year. These estimates include AI and other data centre uses, and depend on how much capacity is actually built. ^[6]

That demand lands in markets where supply responds slowly. The IEA already identifies bottlenecks in gas turbines, transformers and grid connections, among other things. More computing capacity also requires more power and cooling. ^[7]

When the large technology companies urgently need the same equipment at the same time, they bid against one another for limited capacity. This pushes up prices and can extend delivery times. Other industries using the same electricity, copper, transformers and technical skills also pay more or wait longer. The cost pressure spreads through the rest of the economy.

The bill grows for the AI companies themselves as well. A higher spending estimate does not necessarily mean more capacity; it may mean that the same capacity has become more expensive. More capital is tied up before the first revenue is earned. Unless future profits keep pace, the return on capital falls. Delays make matters worse, as financing costs continue while revenue is postponed.

Strong physical demand therefore does not necessarily translate into better shareholder returns. Valuation, the capital cycle and who captures the economic value remain decisive.

The credit market foots the bill

The credit market is funding an increasing share of the bill. According to a Financial Times report in early October, based on Morgan Stanley's analysis, AI-linked debt financing for 2026 had already reached about \$466 billion. This broad measure includes more than the technology giants' own bond issuance. Financing fell back to \$23 billion in September, from \$113 billion in June. **The demand for capital is large; financing is not unlimited.** ^[4]

Then there are project companies, joint ventures, long-term leases and guarantees. BIS research shows how these structures connect technology companies to private credit funds, insurers and bank financing. The economic obligation can remain even when the debt does not sit directly on the technology company's balance sheet. ^[5]

If the expected returns disappoint, the adjustment can therefore extend far beyond share prices. New credit may become harder to obtain, construction projects may be postponed and orders for equipment and materials may fall. **The technology can keep improving even as the capital cycle turns.**

That risk also affects suppliers of copper and energy. If the AI build-out slows sharply, their prices and earnings prospects can weaken. Our exposure to real assets must therefore rest on a broader foundation than the next data centre project.

Hormuz is one part of the network

While AI increases the demand for energy, war disrupts its delivery. In the Gulf, considerable effort is going into restoring oil exports. Exports recovered significantly during September, partly through alternative routes and ship-to-ship transfers. The recovery came with very high transport costs, however, and fresh attacks are already threatening the flow. More barrels moving does not yet mean that the supply chain is functioning normally. ^[6]

The wider problem also extends beyond Hormuz. Red Sea routes and export infrastructure remain exposed; the Black Sea conflict affects oil and grain exports; and Ukrainian attacks are reaching Russian refineries deep inside the country. Attacks at Novorossiysk even disrupted operations at two major grain terminals during August. An agreement over one strait will not resolve all these risks. ^[9]

We have already written about rebuilding inventory buffers. Damaged facilities also need to be repaired, safe transport must be available and the right product must reach the end user. Reopening, repair and normalisation are different stages.

After all, we do not fill our vehicles with crude oil. We fill them with petrol and diesel.

That is why we are cautious about reading the entire energy picture from the Brent price. According to the IEA's October report, Middle Eastern exports of refined products were still below half their pre-war levels. Global diesel exports in September were 700,000 barrels a day lower than a year earlier, despite the recovery in crude flows. ^[8]

Diesel transmits costs through much of the physical economy. It affects the farmer's tractor, the mine's equipment, the building site and the truck delivering the product to the customer. A diesel shortage can therefore sustain inflationary pressure even when crude prices send a calmer message.

According to the IEA, damage to more complex refinery units can take six to eight months to repair. High product prices do not mean that every refiner benefits: expensive crude, transport and inadequate feedstock supplies can squeeze margins. The investment opportunity lies in the right part of the chain, with access to the necessary inputs and capacity. ^[10]

From energy to the next harvest

Sulphur and fertiliser receive far less attention than oil, but their trade flows are particularly concentrated. Argus puts Hormuz's share of global seaborne sulphur trade at nearly 50%. UNCTAD estimates that about a third of seaborne fertiliser trade normally passes through the strait. These are shares of trade flows, not of total global production, but the vulnerability is substantial. ^[11]

The EIA also estimated that the initial Hormuz disruption affected about 20% of global LNG supply. The price effects differ across markets: US gas and imported LNG in Europe or Asia need not follow the same path. This can create opportunities for US businesses that use gas as a production input. ^[11]

Gas is an important input for nitrogen fertiliser; sulphuric acid is used in phosphate fertilisers and certain metal processes, among other applications. When energy, chemical inputs and transport become more expensive or less available at the same time, the pressure feeds through to food production. The FAO warns that late fertiliser deliveries can affect subsequent harvests. A missed application window cannot be bought back by a later diplomatic agreement. ^[11]

Weather adds another risk. The World Meteorological Organization's October outlook anticipates a further strengthening of El Niño towards year-end. The effects differ by region, but this increases the importance of weather and agricultural supply risks. ^[12] The Danube shows how vulnerable the entire food chain can be to a shortage of water: from the harvest to the power and transport needed to get it to the consumer.

We therefore remain overweight real assets, with exposure extending beyond upstream oil. Refined fuels, gas and agricultural commodities each have their own supply chains and profit drivers. The opportunities also differ within these industries.

Bunge is one example in our portfolios. Its global network buys, transports and processes grains and oilseeds, connecting producers with consumers. Shifting trade flows can create opportunities to make better use of that network. Profits still depend on volumes, processing margins and execution; a higher grain price alone does not guarantee a better investment. ^[13] That is why we also hold grain and maize contracts.

Our exposure to sugar and sugar producers fits the same argument. Sugar cane is also used to produce ethanol, strengthening the link between food and energy. ^[14] Weather and input costs affect the harvest and the producer's margin. A poor harvest can support the sugar price while reducing an individual producer's volumes. We therefore seek exposure where the valuation and the business's ability to produce profitably make sense together.

Why long-dated nominal bonds now have a place

For the first time since we began managing multi-asset portfolios in 2018, we have added a small exposure to long-dated nominal government bonds. This addresses the other side of the same argument: what happens if spending and demand for credit in the AI build-out fall sharply?

The starting yield, at more than 5% a year in dollar terms, is now attractive enough to consider this exposure. Its portfolio role is equally important. Alongside our exposure to energy and other real assets, long-dated nominal government bonds offer a potential source of returns when growth and inflation cool.

If the AI spending cycle weakens and credit conditions tighten, economic demand may cool. If this also brings down inflation and long-term interest rates, the fixed nominal payments of high-quality bonds can become more attractive and their prices can rise. This can add value precisely when parts of our existing portfolios come under pressure.

This does not change our longer-term view. We still do not expect a return to the disinflationary investment environment of the 2010s. High debt, geopolitical fragmentation and the cost of greater energy security remain features of a rapidly changing world. Within that longer transition, there can still be sharp growth slowdowns and periods of lower inflation.

Supply risks keep the position small. As long as diesel and other essential inputs remain scarce, inflation can prove stubborn. A sustained bond rally has a firmer foundation when that pressure eases. If higher long-term interest rates themselves trigger the AI sell-off, shares and bonds can initially fall together. That is why we also have explicit shock absorbers in our portfolios.

In the meantime, we earn a yield and add an asset that can help under a different outcome. We will reassess the exposure as the balance between starting yield, inflation risk and the rest of the portfolio changes.

The hunger stone reminds us that even the most modern economy still depends on very old conditions. Capital can finance a data centre, but the project does not exist in a vacuum. It still needs materials and energy, and even credit is not unlimited. We therefore remain overweight real assets and add a small bond position to give the portfolio better balance. Your capital needs room to grow without everything depending on the success of one vast build-out.

Your investment partner
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Sources

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