Ascentis
Asset Management

Q4 Market Commentary

October 2025

The Ricky Bobby Economy: If You Ain't First, You're Last

Artificial intelligence (AI) is no longer just an investment theme – it has become a national race. In the United States and China, the arms race for generative AI, large language models, and compute infrastructure is now the ultimate economic priority. Washington's *America's AI Action Plan*, released in July 2025, frames the race in explicit terms: it aims to clear away regulatory barriers, supercharge investment in AI infrastructure and talent and assert U.S. leadership. The plan calls for deregulation, new incentives and workforce training, and directs agencies to roll back existing AI-related rules while investing heavily in data centers, semiconductors and the power grid. It even links federal funding to state deregulation and emphasizes that the United States must modernize its national grid to meet the rising energy demands of advanced AI systems. In the film *Talladega Nights,* the fictional driver Ricky Bobby lives by the motto, "If you ain't first, you're last." That line was meant to be a joke. In today's AI economy it has become policy.

History Rhymes: Railroads and the AI Build-Out

To understand the stakes, it helps to recall the 19th-century railroad boom. Harris Kupperman (Kuppy), the founder of Praetorian Capital, so brilliantly illustrated the relationship in his most recent letter, "*An AI Addendum*". Railroads were our first great network technology. They unlocked the interior of the continent, connected markets and cut transportation costs. But the private sector could not finance thousands of miles of track on its own. Massive land grants, subsidies, and credit guarantees from the federal government underwrote the entire enterprise. The bubble collapsed spectacularly in the Panic of 1873, but the rails remained and the national economy flourished. Today's AI build-out is a modern replay of that saga. Instead of rails and telegraphs, it is GPU clusters, hyperscale data centers, high-voltage transmission lines and fibre. Hyperscaler giants such as Amazon, Google, Microsoft, Meta and Oracle have pushed their capital expenditure to roughly 60 per cent of operating cash flow, with AI-related projects now representing almost 30 per cent of all S&P 500 capital spending. Much of this spend is being financed from cash flows rather than borrowing, but the scale of the investment – tens of billions of dollars per quarter – is beyond the capacity of private balance sheets alone.

Building a modern data center is extraordinarily expensive. A new greenfield data center can cost between $7 million and $12 million per megawatt of commissioned IT load. A 60 MW site therefore costs roughly $420 million to $770 million, with electrical systems alone comprising 40 to 45 per cent of total development cost. That excludes the cost of land, building shell, transmission upgrades and back-up generators. The hyperscalers have been able to fund this spending so far, but the energy and resource intensity of AI is raising new challenges.

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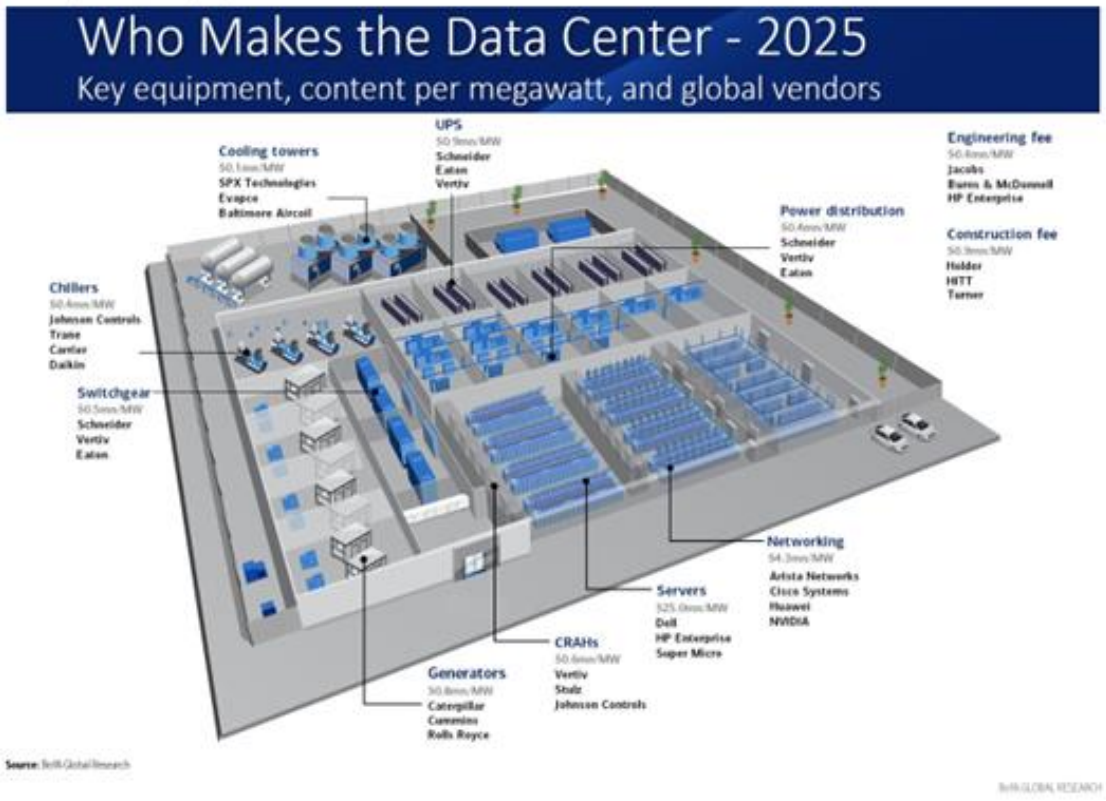
A 2025 RAND report warns that global AI data centers could need an additional ten gigawatts of power capacity in 2025 – more than the total power capacity of the state of Utah. If exponential trends continue, AI data centers may require 68 GW by 2027, nearly a doubling of global data center power requirements from 2022. The report cautions that the United States leads the world in AI compute but faces severe power shortages; failure to address these bottlenecks may force firms to build data centers abroad, undermining U.S. competitiveness and increasing security risks. Energy infrastructure and permitting are therefore not just engineering problems – they are national security issues.

The capital intensity of the build-out is best illustrated by the pieces that go into a single data center. Chillers, switchgear, cooling towers, uninterruptable power supplies, power distribution units and networking equipment all have to be scaled at once. The figure below, from BofA Global Research, shows the array of equipment needed for a typical 2025 data center. Each megawatt of capacity requires tens of millions of dollars in hardware, engineering services and construction fees. The companies that supply these components – from generators and switchgear to servers and networking hardware – and the metals and materials needed will be at the center of the AI industrial boom.

Exhibit 1: Who Makes the Data Center - 2025
Estimated capex costs of $39mn per megawatt



Data center equipment and vendors

The capital investment required to make sure that the US wins the AI race is too large for the private sector to handle alone. As Kuppy points out in his letter, the numbers simply don't make sense. Major fiscal support is required. The economy is already completely dependent on AI spending. As the financial times points out:

"Lately, this optimism has become a self-fulfilling prophecy. The hundreds of billions of dollars companies are investing in AI now account for an astonishing 40 percent share of US GDP growth this year. And some analysts believe that estimate doesn't fully capture the AI spend, so the real share could be even higher.

AI companies have accounted for 80 percent of the gains in US stocks so far in 2025. That is helping to fund and drive US growth, as the AI-driven stock market draws in money from all over the world, and feeds a boom in consumer spending by the rich.

Since the wealthiest 10 percent of the population own 85 percent of US stocks, they enjoy the largest wealth effect when they go up. Little wonder then that the latest data shows America's consumer economy rests largely on spending by the wealthy. The top 10 percent of earners account for half of consumer spending, the highest share on record since the data begins."

Policy Misalignment: Fiscal Gas and Monetary Brakes

At the heart of the Ricky Bobby economy is a profound misalignment between fiscal and monetary policy. On the fiscal side, the U.S. government is running wartime-level deficits to subsidize AI, re-shore industry and support households. Meanwhile, monetary policy remains restrictive. The Federal Reserve is expected to cut interest rates only modestly as they remain reluctant due to above target inflation. Core inflation is projected to stay around 3 per cent. In other words, fiscal policy is pressing the accelerator even as monetary policy is driving with a foot on the brake. The result is macroeconomic volatility.

For households and small businesses this misalignment shows up as high borrowing costs. The interest rate on marketable government debt averaged around 3.4 per cent in mid-2025 – more than double its level in 2022. Mortgage rates remained near 7 per cent, credit card rates north of 20 per cent, and auto loans around 8 per cent. Yet government spending continues at a rapid pace, raising the spectre of an "immaculate transfer" of resources from the private to the public sector. Fiscal hawks warn that failure to control deficits risks higher inflation, skyrocketing interest rates and a fiscal crisis. Without coordination, policy makers risk choking off the very credit needed to finance the AI build-out.

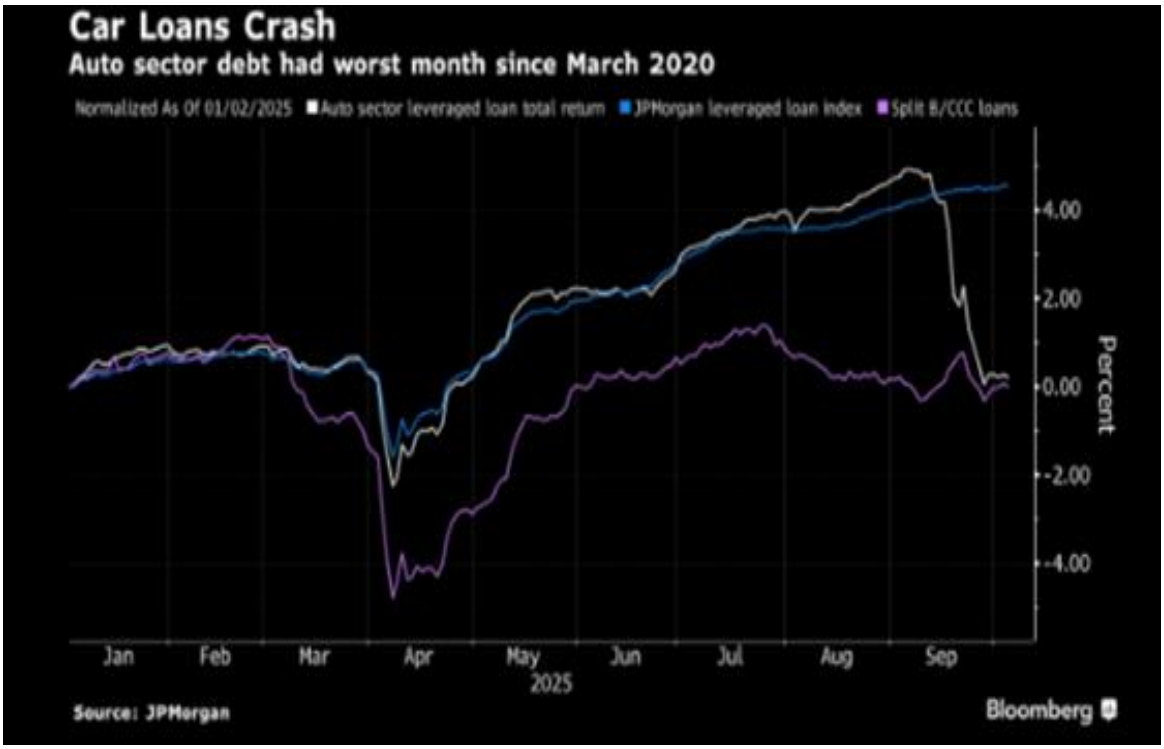
Ultimately, the "fiscal dominance" trend is likely here to stay as monetary policy is too slow to respond to changing economic conditions. Politicians must get elected and the easiest path to maintain the "illusion" of economic growth is to "print more money", especially when the Federal Reserve is restrictive in the face of slowing economic growth.

Cracks in the Credit Market: Auto Sector Distress

Early warning signs of credit stress have emerged. In September 2025, auto-parts maker **First Brands** filed for bankruptcy protection, shortly after subprime auto lender **Tricolor Holdings** also declared bankruptcy. Although both collapses had idiosyncratic triggers, they rattled credit markets and raised concerns about the financial health of low-income households. Portfolio managers noted that spreads on certain consumer asset-backed securities widened significantly following the news. Analysts observed that lower-income consumers were being squeezed by high interest rates, weak labour markets and tariffs, leading to rising delinquency rates. Subprime lenders like Tricolor cater to borrowers with thin credit files; they sell used cars and finance them to largely low-income Hispanic communities. The spike in defaults among these borrowers underscores the fragility of consumer credit and the risk that a handful of defaults could trigger contagion.

Credit spreads outside of autos remained tight for much of 2025, but the situation could change quickly. While investment-grade and high-yield bond markets were relatively stable, spreads on the automobile asset-backed securities index widened more than 20 basis points in September. The underlying message is clear: pockets of credit are under strain, and a misstep in the AI race – such as an energy bottleneck or policy error – could expose hidden vulnerabilities in private credit funds.

The chart below shows how auto sector leveraged loan returns suddenly diverged from the broader leveraged loan index and high-risk split B/CCC loans. Auto sector debt suffered its worst month since March 2020 as the bankruptcies rattled the market.



Auto sector debt and leveraged loan returns

Freight Recession and Heavy Truck Sales

One of the most reliable leading indicators of economic health is the market for heavy trucks. These class 8 vehicles haul everything from construction materials to consumer goods; when sales decline, it often signals a slowdown in industrial activity. U.S. heavy truck sales fell to their lowest level in four years in mid-2025, down more than 15 per cent year-over-year. Class 8 sales were projected to drop around 12 per cent for the full year, with inventories piling up and orders at a 16-year low. Elevated inventories, tariffs on steel and imported components, and the expiration of clean-energy incentives have made fleet operators cautious. Analysts note that steep declines in heavy truck sales have preceded past recessions. While some argue that a shift toward services and technology has reduced the indicator's predictive power, the current drop sends a clear warning that manufacturing and freight demand are weakening.

The broader freight sector confirms this message. The Cass Freight Index, which measures shipment volumes, plunged nearly 9 per cent year-over-year in August 2025, marking the 29th consecutive monthly decline. Heavy truck sales have been falling steadily since 2023 and this prolonged contraction suggests a freight recession. Freight volumes are down despite fiscal stimulus and infrastructure spending, implying that private sector activity is slowing even as government spending remains elevated. This divergence underscores the fragility of growth.

The first chart below shows the Cass Freight Index over the past two decades, with the recent downturn circled in red. The second chart illustrates U.S. heavy truck sales through several business cycles, highlighting how sharp declines often coincide with recessions.

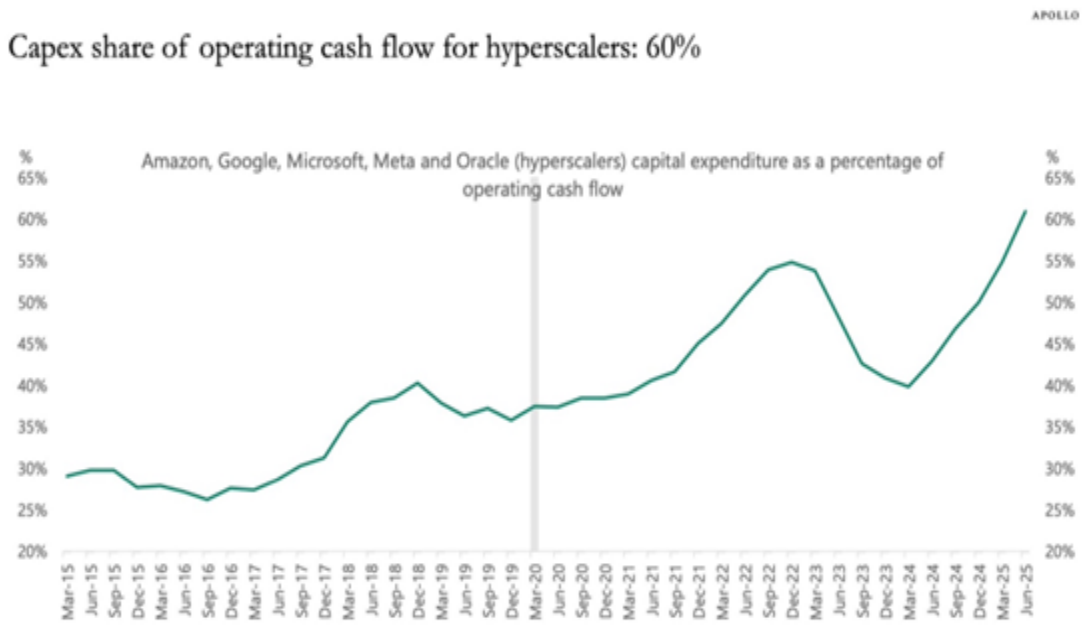
Cass Freight Index

U.S. heavy truck sales and business cycle

Hyperscalers and the Capex Surge

The AI boom has propelled a capex surge among technology giants. Data from Bloomberg and Apollo show that Amazon, Google, Microsoft, Meta and Oracle increased their capital expenditure to around 60 per cent of operating cash flow by 2025. Mill Creek Capital Advisors observes that hyperscaler capex devoted to AI now represents almost 30 per cent of all S&P 500 capital spending and that nearly 70 per cent of these firms' revenues are being directed to AI investment. These companies have the cash flows to sustain such spending – but they are also relying on high equity valuations to fund stock-based compensation and maintain access to capital markets. Should monetary policy remain restrictive for too long, or should credit markets tighten, even these giants could face funding constraints.

The following chart illustrates how the hyperscalers' capital expenditure as a share of operating cash flow has surged to about 60 per cent, nearly double the level of five years earlier.

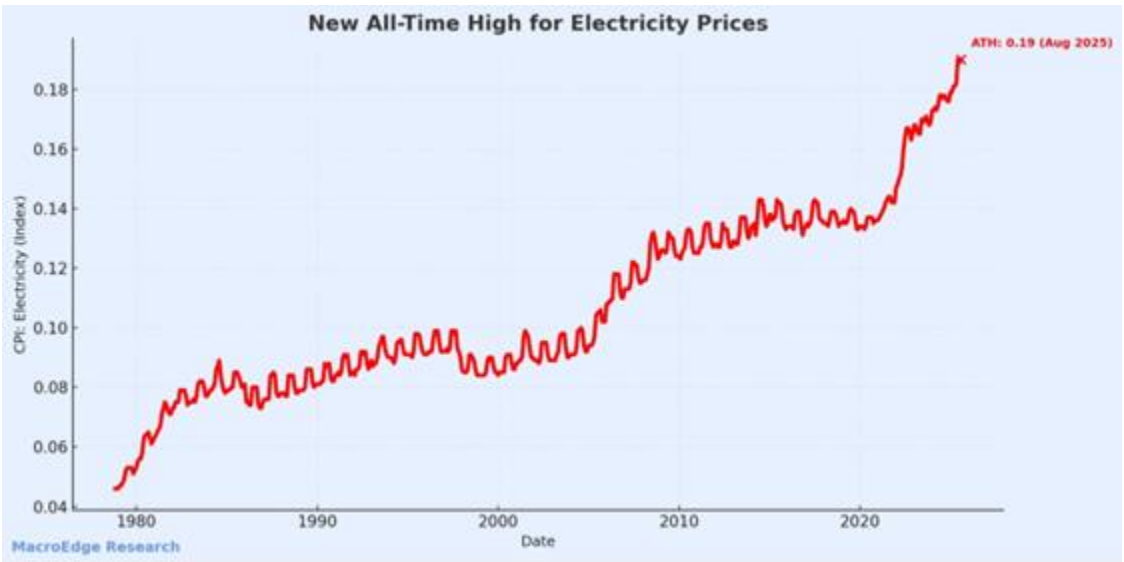


Capex share of operating cash flow for hyperscalers

Energy Costs and Inflation Pressures

The energy squeeze is already evident in price data. The U.S. Energy Information Administration (EIA) forecasts that retail electricity prices will rise 13 per cent between 2022 and 2025 and continue increasing faster than overall inflation through 2026. Regions with already high electricity costs could see even larger increases. In August 2025 the Bureau of Labor Statistics reported that the electricity index rose 6.2 per cent over the past year, even as the broader energy index increased just 0.2 per cent. Natural gas prices jumped 13.8 per cent. These figures indicate that electricity is not only becoming more expensive but also more volatile. As AI data centers proliferate, they will place additional strain on grids, potentially driving prices higher and raising inflation expectations. Energy inflation complicates the Federal Reserve's task: cutting rates aggressively could reignite generalized price pressures but keeping rates high risks stalling investment.

The chart below shows the U.S. Consumer Price Index for electricity reaching a new all-time high in August 2025.



New all-time high for electricity prices

Logistics Slowdown and Leading Indicators

Beyond trucking and freight, other leading indicators point to slowing growth. Permits for new industrial construction have slowed as companies wait for interest rates to fall. Labor market data is weak as well with the number of unemployed continuing to climb and job growth continues to fall. Meanwhile, regional economic indices such as the New York Fed's Weekly Economic Index, though still positive, have trended lower as consumer spending softens and inventory accumulation slows. With fiscal stimulus scheduled to peak in 2026 and monetary policy only gradually easing, the risk is that private credit conditions worsen before growth reaccelerates.

The Real Asset Opportunity: Bottlenecks and Supercycles

Despite these challenges, there is a silver lining. Every technological revolution has sparked a boom in **real assets** – the tangible infrastructure that underpins innovation. The railroad boom created fortunes in steel, timber and land. The post-war highway build-out generated opportunities in construction, asphalt and automotive suppliers. The electrification of the 20th century spawned utilities and materials giants. The AI age will be no different. Power capacity is the most binding constraint on AI expansion. To overcome it, the United States must invest in generation (nuclear, gas and renewables), transmission lines, transformers, voltage regulators and large-scale battery storage. These projects will require copper, aluminium, steel, cement, specialized semiconductors and rare earth minerals. Companies that own or develop these assets may enter a multi-decade supercycle driven by structural demand.

This opportunity extends beyond energy. Industrial real estate – especially hyperscale data center campuses and logistics hubs – will benefit from rising rents and scarcity. Water rights, which are critical for cooling, will become more valuable. Mining and metals companies with exposure to copper, lithium, uranium and nickel stand to gain from the electrification and battery boom. Infrastructure operators such as pipelines, railroads and ports will gain pricing power as capacity tightens. In the context of investment portfolios, these real assets offer both inflation protection and participation in the AI growth story. They also provide diversification away from pure technology risk.

Outlook and Portfolio Positioning

At Ascentis, our **GRIP** framework – Growth, Risk appetite, Inflation and Policy – guides our asset allocation. On **Growth**, leading indicators remain soft. Heavy truck sales and the Cass Freight Index point to slowing industrial activity. Corporate profits outside of technology are under pressure, and our proprietary sentiment indicators have rolled over. On **Risk appetite**, credit spreads are low at the index level but mask stress in pockets such as subprime autos. Equity positioning is concentrated in a handful of Mega cap AI winners. Trends may be positive, but cracks are present underneath, and we must be ready to respond when the trend changes. On **Inflation**, the trend is lower, but electricity prices are rising, and wage growth remains elevated. Easing policy and positive improvements in growth could usher in accelerating inflation. On **Policy**, fiscal expansion and monetary restriction are at odds. Surveys suggest only modest rate cuts in 2025, but the real policy lever may be much needed infrastructure investment.

Given this backdrop, we remain cautiously constructive but selective. We continue to recommend a defensive core in high-quality, cash-rich companies that can weather a slowdown. We also believe strongly that liquid trend-following strategies should be incorporated to manage downside risk and capture potential outliers. Furthermore, we recommend increasing allocations to real assets – energy infrastructure, industrial real estate and commodities – to capture the bottlenecks of the AI age. We recommend an underweight in levered credit and private credit funds, where mark-to-model valuations may mask risk.

Conclusion: Winning the Race Without Crashing

The Ricky Bobby economy is exhilarating but unforgiving. We are living through a technological revolution and an unprecedented arms race for compute. Governments are pouring money into AI infrastructure, while central banks try to restrain inflation. The result is a world where credit conditions can change overnight and where power and materials – not code – are the limiting factors. The collapses of First Brands and Tricolor remind us that credit stress often surfaces first at the margins. The freight recession and heavy truck sales slump warn that the private economy is slowing. Meanwhile, hyperscaler capex continues unabated, and power demand threatens to overwhelm grids.

Staying invested is essential but so is being selective. Real assets – energy, infrastructure, materials, land and water – are the foundation of the AI future and are likely to experience a secular bull market. Policy alignment between fiscal and monetary authorities is critical to avoiding a credit accident. Investors should recognize that the AI supercycle is ultimately a real asset supercycle. Winning the race requires building the tracks, power lines and cooling towers that keep the engine running. In the immortal words of Ricky Bobby, “If you ain’t first, you’re last.” With careful positioning and a focus on bottlenecks, we aim to stay first – without crashing.

Sources

- The following articles and reports informed the analysis in this letter:
- A Reuters report on the bankruptcies of First Brands and Tricolor Holdings and the resulting stress in consumer credit markets.
- Reuters coverage of consumer asset-backed securities and widening credit spreads in September 2025.
- Reporting from *The Economic Times* on U.S. heavy truck sales, inventories and class 8 orders.
- A note from InvestorsObserver describing the decline in the Cass Freight Index and the prolonged freight recession.
- Analysis by Apollo Global Management (using Bloomberg data) showing hyperscaler capital expenditure reaching about 60 per cent of operating cash flow.
- Research by Mill Creek Capital Advisors noting that hyperscaler capex on AI constitutes nearly 30 per cent of all S&P 500 capital spending and consumes a large share of revenues.
- The Dgtl Infra report breaking down data center construction costs and the share of electrical systems in total development spending.
- The RAND Corporation's report on AI compute and power requirements, including estimates of incremental gigawatts needed through 2027 and regional permitting challenges.
- Economic analysis from the Cato Institute warning that large fiscal deficits could lead to inflation, higher interest rates and a fiscal crisis.
- The SIFMA mid-year survey summarizing economist expectations for Federal Reserve rate cuts, recession probabilities and core inflation through 2025.
- Forecasts from the U.S. Energy Information Administration (EIA) on retail electricity price increases from 2022 to 2025.
- The Bureau of Labor Statistics (BLS) consumer price index release describing year-over-year changes in the electricity and natural gas indices.

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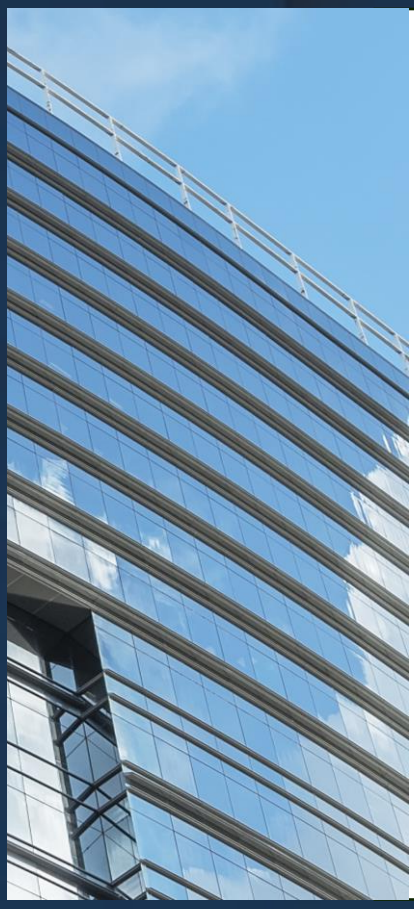

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