



As we close out 2025, talk of market bubbles is all around us including “circularity” in Artificial Intelligence spending that is bandied about daily.

There are many potential areas for concern in regards to the AI capex cycle, here are a few. The AI trade has recently taken a worthwhile pause as investors question the circularity of agreements among the majority of the players. It seems as though all participants are taking stakes in OpenAI and its peers as they order hardware from their new-found partners. OpenAI agrees to order \$300 billion in Oracle computing power while the Stargate Project (which includes Oracle) plans to spend \$500 billion in data centers. Meta expects its AI spending will reach \$600 billion, presumably with companies including CoreWeave, Nvidia, AMD, and Oracle. Nvidia plans to invest \$100 billion in OpenAI while OpenAI commits to purchasing Nvidia Graphics Processing Units (GPUs). The list goes on. Are all these deals worthy of fretting about? Perhaps, yet circularity is not limited to this corner of business, and we might note that other industries have historically behaved similarly. In fact, are most industries also not dependent on their verticals for them to succeed? We can point to similar co-dependency arrangements across industries.

There is an additional concern regarding these behemoths, Alphabet, Meta, and the like, incurring significant capital and financing costs without hopes of a quick payoff. This arms race is financed with debt, some of which is being issued “off-balance-sheet”, as Meta and Oracle have done, to give the

appearance of healthy financials. This tactic isn’t all too dissimilar to the poster child for off-balance-sheet financing of a generation ago: Enron. We aren’t suggesting that Meta and Oracle are a house of cards as was Enron. We are suggesting, however, that the companies’ accounting tricks indicate that they are likely overstating profitability. And while the debt may be off the balance sheet, interest payments must still show up on the income statement. There are legitimate reasons for concern from the declining transparency of such structures.

At the end of it all, we are left to wonder whether 2026 indeed will look more like 2002 and the likes of Worldcom, Global Crossing, and Enron, or whether it will be more comparable to the early stages of the internet in the late 1990s where companies like Intel, Netscape, and AOL led their respective industries. Netscape was later acquired by AOL, Intel is currently facing an existential crisis and AOL became Warner Brothers which is today selling itself to the highest bidder. This, perhaps not surprisingly, includes funding from Oracle’s founder —talk about circularity. Cisco’s stock recently made headlines for surpassing its prior highs of twenty-five years ago. Some may recall Cisco as the dot-com era’s Nvidia, yet of all that era’s mega-caps, only one has made a repeat appearance, that being

Microsoft. It took Microsoft nearly seventeen years to surpass its highs from late 1999. All others have either disappeared or become shadows of their former selves. As it has in the past, history is likely to rhyme.

The froth surrounding AI is worrisome as this circularity sums to a few trillion dollars. Yet legitimate use-cases for Generative AI or ASI, as Artificial Super Intelligence seems to be the next frontier, should not be under-estimated. We expect many of our holdings to benefit from efficiencies created by AI without having to incur many direct costs.

Perhaps an area of greater concern revolves around private markets, i.e. private equity and private credit. To put AI concerns in perspective, private credit markets are multiples larger than recent AI industry investments which many are apprehensive towards. We worry more about private credit markets given the daily liquidity requirements which are not being matched with the illiquid nature of underlying investments. This is a classic definition of an asset-liability mismatch. It's not as if private credit investors can sell out of an investment on a whim. They have to find willing buyers at willing prices. When such an illiquid and mis-matched structure is combined with retail investors' often fickle nature, we must take pause to consider negative consequences. Not so long ago, private equity and credit markets were the domain of institutional investors. Recently, however, growth has come from making such vehicles available to retail investors. Given today's magnitude of funds in the asset class, what used to be called shadow finance is anything but. Systemic risks should not be entirely ignored in this now prevalent part of the financial markets.

Prediction markets are yet another development that gives us pause. In our opinion, prediction markets are often little more than glorified gambling. Perhaps that is why companies like DraftKings are joining the fray. For those unfamiliar, prediction markets offer the ability to bet on certain outcomes—say, a football game—but also national and local elections, climate conditions, the Grammy and Golden Globe awards, essentially anything imaginable. If you can think of an event you believe will take place, you can very likely place your bet and reap rewards—if you are proven right—or take your losses if you're wrong. Kalshi bills itself as the prediction market for trading the future while Polymarket bills itself as the world's largest prediction market. These two largest venues are followed closely by PredictIt, Robinhood, Interactive Brokers, and former sports betting apps like DraftKings and FanDuel, all angling for a piece of the action.

Are prediction markets a form of investing? Since the majority of prediction market events are binary—you either win or you lose—this strikes us as anything but investing.

It is estimated that last year Polymarket generated nearly \$20 billion in volumes while Kalshi generated nearly \$10 billion. In 2025, the overall market generated volumes between \$40 and \$50 billion. The size and magnitude of utility are a far cry, however, from the suitability of anyone wagering on specific events in their brokerage accounts. This coming year will usher in the ability to place nearly any sort of prediction market bet in one's brokerage account. It is this ability for anyone to speculate on essentially any event with unprecedented ease and the levels currently being devoted to such an endeavour that gives us pause.

With so much interest and capital being placed in unprofitable, illiquid or speculative ventures, we take solace in subscribing to a necessary counter-balance. We seek to invest in areas that have few, if any, of the above attributes.

Instead, we prefer companies with improving capital requirements and profit margins, discretionary cash flows or sometimes limited re-investment opportunities. The market never fails to provide us with opportunities across sectors.

We're delighted to stick to our knitting where investor attention tends to be low and rewards much more predictable and certain.

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