

## IS THE AI BUBBLE RUNNING OUT OF BYTES?

*The US corporate reporting season covering the third quarter begins this week. Will this be the last superlative reporting season for the hyperscalers? It appears probable.*

This is [FactSet's assessment](#) for profit growth during the last quarter: *"Earnings Growth: For Q3 2026, the estimated (year-over-year) earnings growth rate for the S&P 500 is 29.6%. If 29.6% is the actual growth rate for the quarter, it will mark the third-straight quarter of earnings growth above 25% for the index."* This earnings growth is concentrated in energy and utilities. Other sectors showing above average earnings are expected to be the Information Technology, Communication Services, and Materials sectors. This mirrors what occurred in Q2. The banking sector is likely to be less buoyant than in Q2. While income was up on a year ago it was down on the previous quarter.

Profit growth is AI and Gulf War related. Good for some bad for everyone else. This report by the [New York Fed](#) together with this summary from [CNBC](#) says it all. *"For the three-year period ended 2025, the portion of families behind on loan payments soared from about 12% in the prior survey to nearly 20%, according to a Fed survey released Friday."* That figure corresponds to 2010 when the economy was beginning to exit the Financial Crisis of 2008. In addition, the FED calculates that one third of families now can't afford to cover a \$400 emergency. On the other hand, the richest gained 19% in wealth while the poorest lost 56% since 2022. Truly a K economy with the K standing for Krap.

The survey covered the three years up to 2025. Another recent FED survey found that conditions worsened over the last twelve months, so the 20% figure has now been surpassed.

### Does AI = Awful Investment?

What we need to look out for over the next month as the reporting season matures is not only the backward-looking data, aka, Q2 2026, but particularly the forward-looking statements. Cloud growth by Amazon, Microsoft and Alphabet will be revealing as will most of the leading AI companies such as Anthropic and OpenAI who use cloud-based computing. Any slowdown in growth may indicate companies are using powerful laptops and desktops to host the open-source open weight less compute intensive LLMs. *"Open-weight models grew from 12% to 32% of token share in 12 months. DeepSeek R1 and Qwen 3 235B alone account for 18% of all traffic — driven entirely by price performance, not marketing."* *"83% of model switches occur within 48 hours of a competitor price drop. DeepSeek V3's January launch triggered the largest single-day model migration in Nova's history — 2.1B tokens shifted in 6 hours."* It seems the concerns raised by a number of experts about the difficulty of swapping LLMs due to embedded software which cannot easily be purged, may be misplaced, at least when it comes to consumer use.

OpenAI is the weak link in the cyber chain. Its turnover came in at \$50 billion annualised rather than the \$68 billion expected by the markets. This is the first but not the last disappointing report. OpenAI is more likely to collapse under its debts and commitments than to pull off its long-awaited IPO (Initial Public Offering). [Anthropic](#) seems to be in better shape as the table below shows. But that does not make it solvent. If Anthropic repeats Open AI's disappointing revenue report, and that cannot be ruled out, despite Anthropic's creative accounting worthy of an AI hallucination, its effect on the markets will be more dramatic. One disappointment can be seen as exceptional, two cannot.

**Table 1.**

| Metric (H1 2026)                         | Anthropic | OpenAI   |
|------------------------------------------|-----------|----------|
| Revenue                                  | \$15.80B  | \$12.60B |
| Gross Margin                             | 50%       | 41%      |
| Compute Cost per \$1 of Revenue          | \$0.62    | \$1.38   |
| Adjusted Operating Margin                | -8.6%     | -114%    |
| Share of Revenue from Business Customers | 78%       | 31%      |

**Table 2.**

| Quarter | Revenue  | Gross Margin | Compute Cost per \$1 of Revenue | Adjusted Operating Income | Adjusted Operating Margin |
|---------|----------|--------------|---------------------------------|---------------------------|---------------------------|
| Q1 2025 | \$0.41B  | 21%          | \$2.41                          | -\$1.58B                  | -385%                     |
| Q2 2025 | \$0.86B  | 27%          | \$1.83                          | -\$1.84B                  | -214%                     |
| Q3 2025 | \$1.34B  | 33%          | \$1.49                          | -\$2.09B                  | -156%                     |
| Q4 2025 | \$2.01B  | 38%          | \$1.27                          | -\$2.47B                  | -123%                     |
| Q1 2026 | \$4.20B  | 43%          | \$0.73                          | -\$1.93B                  | -46%                      |
| Q2 2026 | \$11.60B | 52%          | \$0.58                          | \$0.57B                   | 4.9%                      |
| Q3 2026 | \$17.30B | 57%          | \$0.54                          | \$0.94B                   | 5.4%                      |

Anthropic lost \$7.98 billion in 2025. Extrapolating Q4, Anthropic looks likely to make \$1 billion in 2026, **and this may be as good as it gets**. The return to profitability is due to a fall in its computing costs from \$2.41 in Q1 2025 to \$0.54 in Q3 2026. On the expense side computing costs are unlikely to fall much further, and, on the revenue side, the visible and confirmed stalling of the spend on tokens in the US is bad news for Anthropic reliant as it is on enterprise or business customers. It seems corporations have woken up to the fact that they are not getting the bytes for the bucks they expected, with IT budgets not only groaning but breaking under token spend.

In addition, there are the competitive pressures from cheaper Chinese LLMs which have captured 49% of token sales in the US forcing both Anthropic and OpenAI to offer lower priced tokens. As [this article explains](#), companies are no longer reaching for expensive V8 powered frontier models but are relying increasingly on simpler, cheaper and more manageable LLMs for the simple reason that these LLMs are adequate and being open sourced and open weight, are more navigable.

Even if sustained, an operating margin of 5.4% cannot carry Anthropic's debt burden. Given a margin of 5.4% and [a total investment build out](#) of \$518 billion, Anthropic would require an annual turnover of \$479 billion just to cover its interest payments assuming an interest rate of 5%. The projected annualised turnover in Table 2 for Q3 would yield just \$69 billion or one seventh that needed to justify this spend. One wonders why this does not make overpaid analysts sit back in their chairs and wipe their eyes. One thing is for sure; superintelligence is missing from Wall Street and is unlikely to ever appear there. Greed is to markets what impatience is to car-driving; a crash waiting to happen.

Currently [310 trillion global tokens](#) are bought daily or form part of contracts. These tokens are priced per million, and it is likely that the average [output prices](#) for US and Chinese tokens is around \$1 and for frontier models it is [\\$1.94 per million](#). Taking the frontier model price, this yields a current daily turnover of \$600 million per day, >\$3 billion p.w. and \$160 billion annualised, still only a third of the amount Anthropic alone needs to cover its interest burden. This total correlates with the totals in [this article](#) as well as others.

This compares to the global automotive turnover in 2025 amounting to \$2,750 billion which is 17 times greater a gap token spend is unlikely to close. By 2030 [McKinsey](#) calculates that AI related data centre spending will reach over \$5000 billion (equal to nearly two thirds of the total assets employed by the global car industry) of which 60% represents servers. JP Morgan projects \$5.5 trillion of which [\\$4.1 trillion will be debt financed](#). Assuming a borrowing rate of 5% on this \$4,100 billion, this implies an \$205 billion interest payment a year even before depreciation is considered *“On a larger scale, McKinsey estimates that nearly two-thirds of the cost of data centers comes from GPU servers and data storage, to the tune of \$4.4 trillion (\$4,400 billion) on a global level through 2030.”* If this \$4,400 billion is invested, by 2030 annual depreciation, given a conservative five-and-a-half-year economic life cycle, works out at \$800 billion a year. Accordingly, together with interest payments, by 2030 they could add up to over a \$1 trillion (\$1,000 billion) a year. These figures are so high they cause altitude sickness.

2026 was supposed to be the year when the industry became profitable due to widespread adoption. It may also be the year when reality made an appearance wiping away the hyping. But there is more to the picture. The focus is on how AI spending is adding 1% to the 2% GDP growth rate. Exuberant share prices also result in capital gains, and cashing in some of these gains results in enhanced consumer spending by the top ten percent of income earners.

A [recent study](#) by the FED finds that for every Dollar increase in wealth, 2.7 cents is cashed in each year, a fall from the historical level of 3.3 cents. This relative fall in cashing out is likely due to the more rapid growth in wealth offsetting the relative draw down. Between 2020 and 2025 the market cap of all listed shares rose by \$27.4 trillion compared to GDP growth of \$9.5 trillion. Of this \$27.4 trillion the FED calculates that up to \$1.3 trillion went into personal consumption over these 6 years (0.8% p.a. x 6 years) boosting personal consumption by 20% and GDP by 13.4% over the 6 years. In nominal terms by 2.2% and in real terms by 0.85% similar to a figure I arrived at in earlier articles.

Thus, adding in the combined AI boost to investment and share prices, the GDP benefit is 1.85%. Conversely, a collapse in AI investment and share prices would result in a hit in the opposite direction. Inequality may have boosted GDP, but dialectically, inequality will aggravate any downturn. The US economy is a two-legged stool, unbalanced and prone to falling over. In previous times, when the bottom 80% were responsible for more spending, this buffered recessions because the poor need to keep spending whereas the rich can abandon their private jets, yachts, Rolexes and their Hermes Birkin bags once their paper wealth evaporates.

### **The banking system.**

Two things stand out now that the big four commercial banks have reported, as detailed in the table below, firstly, income from interest has trumped trading or speculative profits for the first time in years, and secondly, that net income though up from a year ago is down from the previous quarter. The

second quarter was boosted by exceptional profits from trading due to rising asset classes. This time high interest rates, particularly those earned by the reserves held with the FED, amounting to nearly \$3 trillion and earning 3.9% yielding \$115 billion annually, has helped reverse the order.

Table 3. (\$millions)

| BANK            | Revenue<br>Q3 2025 | Revenue<br>Q3 2026 | difference | Net income Q2<br>2025 | Net income<br>Q2 2026 | difference |
|-----------------|--------------------|--------------------|------------|-----------------------|-----------------------|------------|
| Citi            | 22,090             | 23,845             | 8%         | 4,478                 | 5,245                 | 17%        |
| Wells Fargo     | 21,436             | 21,870             | 2%         | 5,589                 | 5,951                 | 6.5%       |
| JP Morgan       | 46,427             | 50,172             | 8%         | 14393                 | 15305                 | 6.3%       |
| Bank of America | 29,000             | 30,000             | 3.4%       | 8300                  | 8100                  | -2.4%      |
| TOTAL           | 118,953            | 125,887            | 5.8%       | 32,760                | 34,601                | 5.62%      |
| Income/revenue  |                    |                    |            | 27.54%                | 27.48%                |            |

What is interesting is that the bank most exposed to the consumer market, the one with the most individual deposit and card accounts - Bank of America - was the worst performer. In terms of bad debts only Wells Fargo had significantly larger impairments rising from \$681 million to \$1,029 million. At the opposite extreme JP Morgan's impairments fell from \$3,463 million to \$2,743 million. So no panicked build up reserves against bad debts yet.

Aggregate loan growth to individuals and corporates was modest. According to [FRED, consumer loans](#) were no higher in Q3 2026 than in Q3 2024 despite inflation. [Commercial Real Estate loans](#) were 3% higher while [Commercial and Industrial](#) loans were up 5.9% over these two years. Thus, all three categories fell in inflation adjusted terms. The credit cycle has turned. High interest rates are one symptom. The days of easy money are over with the mood turning from risk off to risk on. [CNBC reports](#) that CoreWeave is paying up to 15% for new money despite being backed by Nvidia. These neocloud companies occupy the most indebted corner of the AI market. They are the inorganic canary in the mine.

## Conclusion.

As I write the Nasdaq is sharply lower though plateauing at the end of business. There are no reports yet from Anthropic's critically important meeting with investors today in the run up to its IPO which one analyst has already called the [most ridiculous](#) of the year. This meeting has the potential to make or break the AI bubble. However, it is likely the meeting will be confidential with details delayed but given the mood of the market today (influenced as well by disappointing inflation data), it appears investors are not expecting positive news from the meeting.

Hell Nino is about to breach 4°C for the first time, the war in Ukraine is moving to a crescendo, in the Gulf the battle drums get louder, and now the AI bubble has turned risky. A perfect storm ignored by Trump as he brags in front of stadia emptied of voters who cannot forgive him for monetising the swamp instead of draining it. And all the while the youth around the world are starting to get increasing restless as the desire and need for change grows.

Brian Green, 14<sup>th</sup> October 2026.

