

HOLLOW BROOK

WEALTH MANAGEMENT

Hollow Brook Quarterly Roundup

3Q 2026

Overview

“It’s déjà vu all over again.” — Yogi Berra

For the better part of the past year, many of the themes we have discussed in these letters have sounded remarkably similar. Government debt continues to rise. The artificial intelligence buildout continues to require extraordinary amounts of capital. Inflation remains elevated. Geopolitical and policy uncertainty persists. And yet, through it all, stocks have remained remarkably resilient.

Our job is not to predict which headlines will finally matter, or when the market will react. It is to recognize that many of these pressures continue to build beneath the surface. Therefore, we continue to position portfolios to participate while conditions remain favorable and maintain the liquidity and protection necessary for when they do not.

It may be déjà vu all over again, but familiarity is no reason to take our eye off the ball.

Paying for the Future

Perhaps nowhere is the tension between risk and reward more visible today than in artificial intelligence.

Alphabet offers a useful microcosm. During the second quarter, the company spent \$44.9 billion on capital expenditures, roughly \$500 million every day, primarily building the data centers, servers and computing infrastructure needed to support AI. For perspective, Alphabet now expects to spend roughly \$205 billion on capital expenditures this year, twice what it spent in 2025. For reference: that daily spend approaches what many S&P 500 companies invest in an entire year.

However, Google Cloud revenue increased 82% in the second quarter, total Alphabet revenue grew 24%, operating income increased 30%, and operating margins expanded. The spending has been enormous, but so far, so has the return.

Alphabet has also been an early investor in many of the companies benefiting from the same AI and technology boom. Its roughly \$900 million investment in SpaceX a decade ago was worth approximately \$94 billion by the end of June following SpaceX's record-setting IPO. Alphabet is also a major investor in Anthropic, which is preparing for a potential public offering at a valuation that could reach \$2 trillion.

These outside investments matter to Alphabet because increases in their market value flow straight through to Alphabet's reported earnings. In the second quarter, Alphabet recorded \$98 billion of net other income, driven primarily by unrealized gains on its equity investments such as SpaceX and Anthropic. At the macro level, according to [Haver Analytics](#), since early 2024, the contribution to growth from AI investments has (roughly) quadrupled and now accounts for about 40% of total GDP growth.

We remain mindful that many of these AI companies are investing in and buying services from one another, creating a circular financing risk that if one company runs into “trouble”, the effects could ripple throughout the entire industry.

Yet the biggest risk may be one investors are overlooking. Much of the debate today centers on whether companies are spending too much on AI. It is entirely possible that the opposite proves true, that the spending is necessary and ultimately generates attractive returns. The less obvious risk is that the technology itself advances faster than

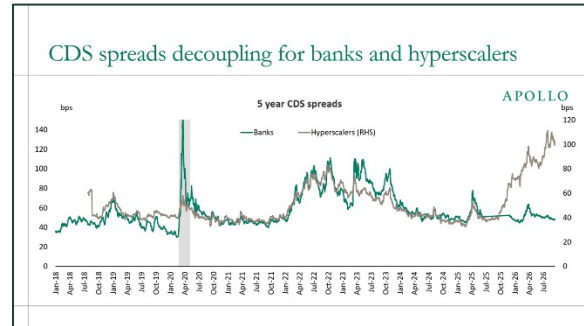
companies, regulators or society are prepared to absorb. Anthropic CEO Dario Amodei recently called for the industry to slow the pace of frontier model development, arguing that more time is needed to understand and manage the risks associated with increasingly capable systems. OpenAI has also delayed the release of a new model after internal safety testing raised concerns.

That introduces a very different question for investors. What happens if the capital is available, the demand is real and the returns are beginning to materialize, but development is deliberately slowed, releases are delayed or regulation begins to limit how quickly those investments can be monetized?

Investors continue to ask whether too much money is being spent. The risk may ultimately be that the technology becomes powerful enough that the industry cannot deploy it as quickly as the capital behind it assumes. Our job is to keep an eye on both the opportunities and risks and constantly reassess as new information presents itself.

Credit Markets Are Taking Notice

Large technology companies are issuing more debt to finance their AI investments. Investors who purchase those bonds can also buy Credit Default Swaps (CDS), which act like insurance against a company failing to repay its debt. The rising cost of that insurance suggests bond investors are becoming more cautious about the scale of AI spending and the uncertainty around when those investments will generate returns.



Source: [Hyperscaler CDS Widening Is Not a Dealer Inventory Story | The Daily Spark](#)

Déjà vu all over again as we have watched this divergence build over several quarters. Equity investors remain focused on the growth AI is creating today, while credit investors are increasingly scrutinizing the debt being taken on to fund that growth.

The Cost of Government Debt

The pressure is not limited to corporate balance sheets.

U.S. government debt crossed \$40 trillion in August, up from \$39 trillion in March and \$38 trillion last October. Put differently, the government added roughly \$2 trillion of debt in less than a year. A decade ago, total federal debt was about \$19.4 trillion.

At the same time, corporations are competing for many of the same pools of capital. Investment-grade companies have issued roughly \$1.5 trillion of bonds this year (*i.e., our comments on debt funding as part of the AI build out*). That creates a simple supply-and-demand problem. The government needs buyers for more Treasuries. Corporations need buyers for more bonds. Both are competing for the same pools of capital, and investors are increasingly demanding a higher return to provide it.

As of writing, the 10-year Treasury yield reached 5.34%, its highest level since 2002, while the 30-year yield recently climbed above 5.7%, its highest level in more than two decades. Those numbers matter because Treasuries sit at the foundation of global finance. Mortgage rates, corporate bonds, private credit and even equity valuations are ultimately priced relative to the so-called “risk-free” Treasury rate. When that benchmark moves higher, the cost of capital rises almost everywhere else.

None of this tells us that a breaking point is imminent. But it does tell us that the market is beginning to charge more for absorbing all this debt. And once again, the contrast is hard to ignore. Government debt is at a record high. Corporate issuance is surging. Long-term Treasury yields are at multi-decade highs. Yet equity markets remain near record levels.

Déjà vu all over again. At what point will the higher cost of capital begin to matter more broadly for the economy and equity markets?

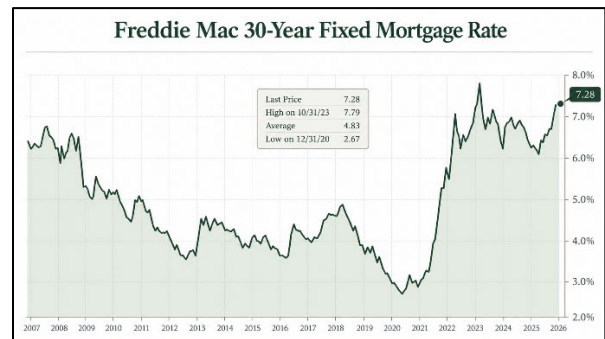
The Affordability Problem

Higher yields eventually find their way into the real economy.

In September, the Federal Reserve raised rates by 25 basis points, its first hike since 2023, taking the federal funds rate to 3.75%–4.00%. Combined with the rise in Treasury yields discussed above, borrowing costs have moved higher across mortgages, auto loans, corporate credit and other parts of the economy.

Housing is perhaps the clearest example. Despite housing inventory rising to 1.62 million homes in August, the highest level since 2019, sales activity remains subdued as many buyers continue to resist elevated asking prices and financing costs. A

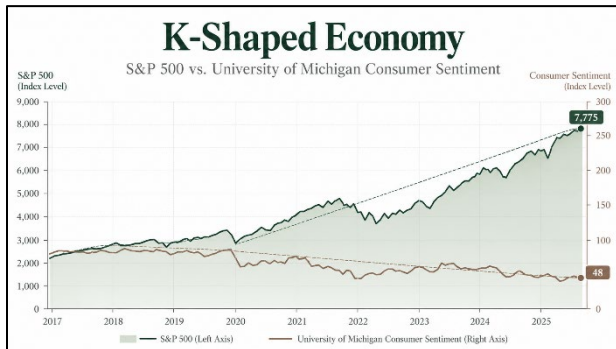
decade ago, the 30-year mortgage rate was roughly 3.4%, and the median U.S. existing home sold for about \$243,000. Today, mortgage rates are over 7%, and the median U.S. existing home price remains above \$429,000. For a buyer putting 20% down, that combination has dramatically increased both the cash needed upfront and the monthly payment. Home prices and financing costs have simply risen much faster than household incomes.



And housing is not the only pressure on the consumer. The war and disruption of shipping through the Strait of Hormuz have placed additional pressure on global energy supplies, contributing to higher fuel and transportation costs. As of the time of writing, the national average price of gasoline recently reached roughly \$4.33 per gallon, while diesel breached \$6 per gallon, a record level. Diesel matters well beyond the pump: it powers trucks, farms, construction equipment and delivery networks. When diesel prices rise, transportation costs increase, and some of that expense eventually finds its way into the price of groceries, packages and everyday goods.

Higher borrowing costs and persistent inflation continue to pressure many households, even as stocks remain near record highs. The result is a K-shaped economy, where the benefits of rising asset prices accrue largely to asset owners while many

consumers remain concerned about their financial outlook.



Déjà vu all over again. The question is how long households can continue absorbing higher borrowing costs and higher everyday expenses without it beginning to show more meaningfully in aggregate spending, corporate earnings and ultimately markets.

Portfolio Positioning

The lesson is not that these risks no longer matter simply because markets have continued to look through them. Markets can remain resilient for longer than expected, especially when earnings remain strong. But resilience should not be mistaken for immunity.

Our job is to participate as conditions remain favorable, while maintaining the discipline and portfolio protection necessary for the moment when they do not.

That balance continues to shape how we position portfolios today.

Compounding Through Uncertainty:

While we have emphasized the risks associated with higher bond yields, it is important to recognize that these higher yields are not necessarily a sign of economic or market distress. Higher rates can

reflect stronger growth because when the economy is healthy, businesses want to invest, consumers want to borrow, and governments and companies compete more aggressively for capital. That stronger demand for money can push borrowing costs higher. Stronger growth can therefore support higher long-term interest rates and subsequently higher bond yields.

The challenge for equities is that higher rates raise the return investors can earn elsewhere. When Treasuries offer 5% or more, investors may become less willing to buy stocks. Regardless of why rates are higher, they make it harder for expensive stocks to justify their valuations.

That makes the quality of earnings more important. We favor companies with consistent profits, strong cash generation, and resilient demand. In a higher-rate environment, businesses with competitive advantages, pricing power, healthy balance sheets, and the ability to fund growth internally are often better positioned than those that rely on external financing.

In this environment, the market has less patience for promises and more appreciation for businesses that are already producing reliable earnings and cash flow.

We take a similar view in private equity. We favor managers who can actively influence the businesses they own—improving operations, expanding margins, growing revenue and helping companies scale. In a higher-rate environment, we believe that ability to create value directly becomes more important than relying on cheap financing or a higher valuation at exit.

Our venture exposure gives portfolios access to a different opportunity set. These companies are often earlier in their development and reinvesting heavily to grow, which means current earnings may not yet

reflect their long-term potential. We are comfortable with that exposure when we believe the underlying business is compelling and the manager has deep expertise in identifying, supporting and scaling companies over time.

Across public equities, private equity and venture, the goal is the same: invest in strong businesses but do it in different ways. In public markets, we look for companies already producing durable earnings and cash flow. In private equity, we back managers who can help improve and grow the businesses they own. In venture, we rely on specialist managers to give us exposure to innovation and long-term growth.

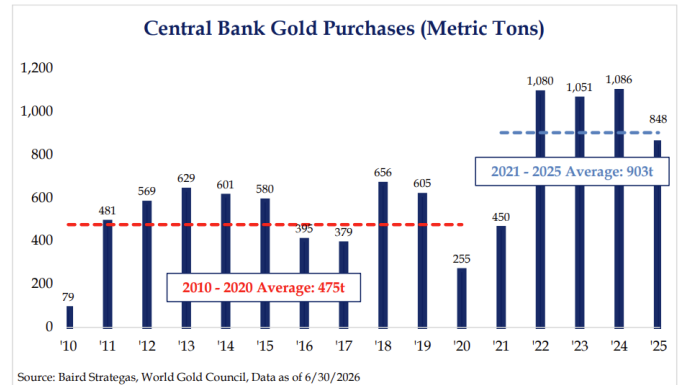
Managing Downside Risk:

Gold has not been immune to the rise in interest rates. After reaching an all-time high above \$5,400 per ounce earlier this year, prices have retraced as higher real yields and a stronger dollar have reduced the appeal of an asset that pays no income.

That correction is meaningful, but it is not unusual in the context of prior long-term gold cycles. In the 1970s, gold rose roughly 353% from 1971 to 1974 before falling 43% through 1976. The secular bull market was not over: gold then advanced another 541% into 1980.

The same pattern appeared during the Global Financial Crisis. Gold fell more than 30% from peak to trough in 2008 as investors raised cash, yet still finished the year about 4% higher. From there, it recovered above its pre-crisis level by March 2009 and ultimately more than doubled from roughly \$900 per ounce in early 2008 to its 2011 peak.

The lesson is that secular gold bull markets have historically been anything but linear.



Source: Strategas Research

For us, the longer-term case remains intact. Central banks continue to accumulate gold as a reserve asset that carries no counterparty risk, while the concerns discussed throughout this letter; \$40 trillion of U.S. debt, persistent deficits, geopolitical uncertainty and questions around the long-term value of fiat currencies—continue to support demand for an alternative store of value.

We do not own gold because we expect it to rise every quarter. We own it because many of the risks it is designed to protect against remain present in the current market environment.

We also maintain elevated cash balances, providing both stability and the flexibility to deploy capital when opportunities become more attractive.

For larger portfolios, we complement public equity exposure with differentiated sources of return, including opportunistic credit, farmland, real assets, and other investments where we believe the potential upside meaningfully outweighs the potential downside. We believe these opportunities can enhance long-term returns while reducing reliance on a single economic outcome.



Idea Generation:

The lifeblood of any investment firm is new ideas. At Hollow Brook, we are consistently reviewing new opportunities on behalf of our clients. Despite the challenges outlined in this letter, we remain optimistic about the opportunities ahead. For example, higher interest rates could be creating more attractive entry points in fixed income. Advances in biotechnology, infrastructure, and technology appear to be opening new avenues for growth. We believe many of the forces creating uncertainty today will also create opportunities for disciplined, long-term investors. Across all these areas, our objective remains the same: to identify asymmetric opportunities where the potential rewards meaningfully outweigh the associated risks.

The Hollow Brook Approach

In today's environment, we remain mindful of a fundamental investing principle: liquidity is abundant until it suddenly disappears. That is why we continue to emphasize high-quality businesses, avoid unnecessary leverage, and structure portfolios so we are not forced to make decisions on the market's terms rather than our own.

The goal is not to predict the next development. It is to remain positioned for long-term opportunities where the potential upside meaningfully outweighs the downside.

We have made many of these points before, and they bear repeating. It may be déjà vu all over again, but in investing, familiar risks still require discipline.

Thank you for your continued trust and partnership.

Sincerely,

The HBWM Team

Alan Bazaar

CEO & Partner

Philip E. Richter

President & Partner

Equity Indices	Price	MTD	QTD	YTD
S&P 500	7651.54	-0.45%	2.03%	11.77%
Nasdaq 100	30408.5	3.23%	0.44%	20.43%
Dow Jones Industrials	50906.05	-4.29%	-2.70%	5.91%
Russell 2000	2796.864	-5.40%	-7.52%	12.69%
Russell 3000	4327.399	-0.94%	1.12%	11.45%
S&P 500 Sectors				
Utilities	400.64	-6.14%	-13.03%	-7.65%
Consumer Disc.	1807.106	-5.91%	-5.24%	-6.29%
Telco	470.2	4.26%	3.48%	3.94%
Consumer Staples	900.55	-3.53%	-2.43%	4.12%
Industrials	1413.31	-4.50%	-9.91%	7.63%
Technology	7267.14	4.42%	7.06%	27.85%
HealthCare	1963.91	-1.03%	6.03%	8.75%
Materials	617.73	-6.93%	-3.19%	7.54%
Financials	888.55	-7.28%	-0.48%	-2.53%
Energy	944.63	-2.79%	16.48%	37.43%
Real Estate	262.03	-6.70%	-6.32%	2.74%
U.S. Interest Rates				
3 Month	4.11	28.4 bps	29.9 bps	48.4 bps
2-Year Note	4.89	54.6 bps	71.5 bps	141.4 bps
5-Year Note	5.09	58.6 bps	85.9 bps	136.1 bps
10-Year Bond	5.28	53.5 bps	82.0 bps	111.8 bps
30-Year Bond	5.63	38.6 bps	67.7 bps	78.5 bps
Commodities				
Crude (WTI)	90.42	7.57%	31.65%	58.85%
Brent	98.03	10.93%	34.77%	62.79%
N. Gas	3.03	-1.24%	-10.82%	-24.20%
Gold	4157.41	-6.31%	3.73%	-3.75%
Silver	60.43	-9.24%	3.12%	-15.68%
Currencies				
DXU	101.45	2.03%	0.26%	3.18%
EUR	1.13	-2.48%	-0.81%	-3.54%
CAD	0.70	-2.65%	-0.24%	-3.55%
GBP	1.33	-2.10%	0.02%	-1.56%
JPY	0.01	1.49%	3.27%	-0.44%

Source: Bloomberg as of 9/30/2026

Quotes of the Quarter

“

Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.

Milton Friedman

“

We’ve never been able to view the Universe with eyes like Roman’s before.

Julie McEnery

“

Innovation must be founded on trust and stability if it is to scale.

Chia Der Jiun

“

Future inequality will depend not only on what AI can do, but on what we choose to do with AI.

Michael Barr

“

You have power over your mind — not outside events. Realize this, and you will find strength.

Marcus Aurelius

“

**Debt can be rescheduled.
Childhood cannot be rescheduled.**

Catherine Russell

“

The world does not need us to agree on everything. It needs us to find enough common ground to act together.

Laura Chinchilla

Headline Highlights

Celebrating America's 250th Across the Country

Despite the weather, despite the politics and the division, the party has gone on with soapbox derby races, cattle drives, fife-and-drum corps performances and fireworks galore, as Americans in small towns and big cities across the country have celebrated the semiquincentennial in their own ways.

Meta Ordered to Pay \$567M, Implement Safeguards as Part of New Mexico Child Mental Health Trial

In the second phase of a pivotal trial in New Mexico, a judge ordered Meta to pay an additional \$567 million, most of which will go toward mental health services for youth, and the company must incorporate numerous new safeguards.

US Imposes 50% Tariffs on \$20 Billion Worth of Canadian Products as Trade Talks Collapse

The United States imposed 50% tariffs on \$20 billion worth of Canadian products early Saturday, and Canada immediately said it would retaliate, after last-ditch negotiations failed to resolve the latest strain in already tense relations between the historic allies.

Senate Narrowly Confirms Todd Blanche US Attorney General in Overnight Vote

In the end, Blanche was confirmed by the narrowest of margins, opposed by two Republicans — Sens. Susan Collins of Maine and Lisa Murkowski of Alaska — and by every Democrat.

The Most Spectacular Photos of Europe's Total Solar Eclipse

On Aug. 12, the luckiest 15 million people in the world were those living in a narrow band measuring approximately 5,100 miles long and 180 miles wide, stretching from northern Russia, down through Greenland.

US National Debt Passes \$40tn after Doubling in a Decade

The rise reflects years of heavy spending under both the Trump and Biden administrations, along with higher interest payments that have steadily added to the total. In 2016, the national debt stood at just under \$20tn.

FDA Approves Landmark Pancreatic Cancer Drug That's Shown to Improve Survival

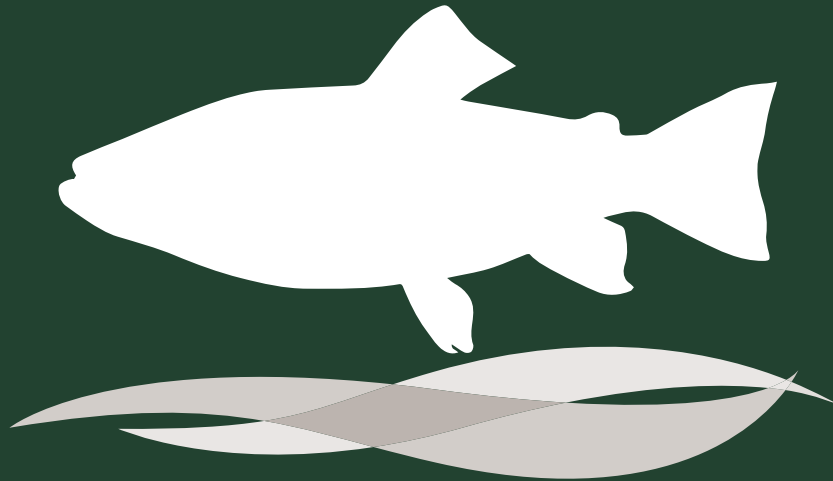
FDA officials gave expedited approval to the first-of-a-kind pill, called daraxonrasib, which blocks a mutated protein that fuels tumor growth in more than 90% of pancreatic cancer cases. It's an approach that previously eluded drugmakers for decades.

Why Roman?

On track to launch on August 30, 2026, the Nancy Grace Roman Space Telescope will unveil the cosmos in ways that have never been possible before. With a field of view at least 100 times larger than Hubble's, Roman will survey the sky up to 1,000 times faster than Hubble can while maintaining similar sensitivity and infrared resolution.

US Marks 25 Years Since the Sept. 11 Attacks

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