BEYOND INSTITUTIONAL THINKING

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All market data to the close of 28 August 2026

I

Making a market in bonds

28 August 2026 | US 30-year Treasury 5.21% · 10-year 4.72% · Federal debt $40tn

On 19 August the US Treasury doubled the size of its long-end bond buybacks. Long yields fell about ten basis points. By the close on 20 August this had reversed.

The intervention was initially rejected. Markets have a habit of testing the resolve of policy makers. That is the event. The mechanism works like this.

The Treasury raised the maximum size of its liquidity-support buybacks for long bonds from $2bn per round to $4bn. The following day the Secretary spoke.

“We are going to make a market in these,” Bessent said, and the size “could be more than $4 billion per issue.” He said part of it was signalling.

And what he was trying to get the markets to notice is that the yields on long bonds do not reflect the underlying fundamentals. He would like the market to reconsider. And then reprice for lower yields. The jawboning approach, tell the market what you want.

The week before had gone badly at the long end. The $31bn thirty-year auction cleared at 5.216%, the highest since 2001.† On 18 August the thirty-year touched 5.33%, a nineteen-year high. Federal debt passed $40 trillion the same day. The last trillion of it took 154 days.

The twenty-year auction was on the afternoon of the nineteenth, hours after the buyback was doubled. The twenty-year cleared at 5.204%. Indirect bidders — the usual proxy for foreign demand — took 62.9%, about three points below the recent average. The intervention was half a day old and the first auction to test it went badly.

This week the front end repriced for rate rises. The long end is pricing something else. It is not only an American problem. The UK thirty-year is near 5.8%, the highest since 1998. Japan’s super-long yields are at records too.

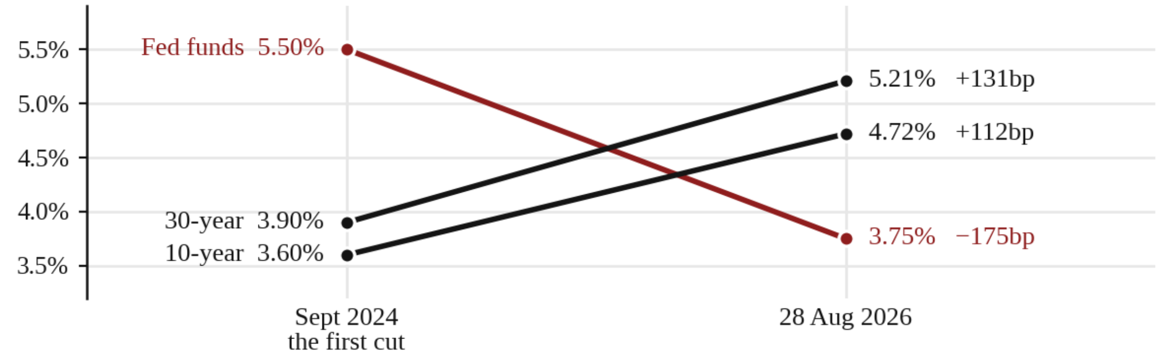
A little indigestion from the size of the feast? Everyone issues long debt into the same finite pool. The game’s afoot.

When central banks and the Treasury seek lower rates does the long end implement their desires, or misbehave? Because keeping control of the whole interest rate curve is the name of the game. Much rests upon it.

Since the Fed began lowering rates in September 2024 it has taken 175 basis points off the overnight rate. Over the same period the thirty-year has gone from about 3.9% to 5.21%, and the ten-year from about 3.6% to 4.72%. In the seven previous cutting cycles since the 1980s the ten-year fell within a hundred days of the first cut. Every one of them. This cycle so far is the exception.

EXHIBIT 1 POLICY RATE AGAINST LONG YIELDS SINCE THE FIRST CUT

The Fed cut. The long end went the other way.



Fed funds is the upper bound of the target range: 5.50% before the September 2024 cut, 3.75% since.
In the seven previous cutting cycles since the 1980s the ten-year was lower 100 days after the first cut. Every one.

The Treasury does not create money like the Fed. Every dollar it spends buying a long bond it must first borrow. So it borrows short and lends long. And accepts the rollover risk incurred.

And the Treasury is not involved with debt retirement but in swapping duration, long for short, knowing you will have to renew them earlier than you thought. Who knows what the market will be offering on that day. But a problem for another day — so it can be deferred.

The Treasury knows that borrowing short and lending long comes with interest rate risk. It increases your sensitivity to movements.

A central bank's promise is their bid has no ceiling. It can print. The Treasury's bid has a ceiling: it is funded by issuance. Bessent said part of his message was signalling.

And he is part right. The Treasury can't really make the market in T-bonds. It can only nudge. So in reality it's all signalling.

But his inference is clear, the price of debt is wrong. The fundamentals are better than the market believes. Please Mr Bond Market, take a look and reconsider.

If the long end will not answer the Treasury, the pressure moves to the central bank — which is where they keep the bazooka. Yield curve control.

The Treasury's intervention has not failed but it does have a half-life. Intervention has a habit of becoming the condition it was meant to cure. Each round makes the next one larger. Just ask any central banker.

Two things worth watching. The buyback cap went from $2bn to $4bn in August. If it goes to $8bn, the intervention is rolling up.

And there's central bank verbiage. Warsh describing the long end as a policy concern rather than a market outcome. That's the bazooka being loaded. They will tell you what they are doing before they do it. Which might work in itself.

Warsh spoke at Jackson Hole on the day this note closed and did not mention the long end at all. Unsurprisingly, far too early for that. But nevertheless the long bond needs to come down. Or with a bit of deft market control, perhaps they can flatten the curve a bit. The tougher the Fed sounds on inflation, the less premium the long bond needs. Still hurting at the longer rates but less noticeable.

The long bond is not misbehaving. It is being asked to fund two trillion dollars a year at below the market. It has a legitimate complaint.

† Though the auction series has a gap in it. The thirty-year was suspended after 2001 and not sold again until 2005, so that comparison steps over four years with no auctions in them.

II

Resin to be cheerful?

28 August 2026 | PureCycle Technologies (Nasdaq: PCT) — $6.50

PureCycle Technologies is not, as far as we know, involved in AI. But it is an asymmetric bet.

An asymmetric bet in a company requires it not just to improve its business but to be revalued on a change in its economics. It is a bet on a different question.

With regard to PCT, today the market asks whether a company can make virgin-grade polypropylene out of rubbish. Within a short time, the bulls trust, it will be asking how many plants it can finance worldwide.

The asymmetric bet in PCT is that it moves from innovative recycler into open-ended platform growth.

WHAT'S IN A PRICE?

What you get as a shareholder is PureCycle's recycling process. Stripping waste polypropylene of colour, odour and contaminant and returning it to a virgin resin product. A perfect circular market.

The production technology and industry trials of product have proven the product grade. Ironton, Ohio, is its singular producing plant. The purification technology was developed and patented in P&G's laboratories and is exclusively licensed to PureCycle. The development by PureCycle of this has been five years to this point.

This is the whole company, and at capacity production at Ironton and a good price for its product, the cash flow will turn positive. But this has not happened yet. Anyone buying Ironton as a going concern is getting a modest chemical business at a generous multiple. Revenues are lagging all the other demonstrably constructive steps.

The bulls would argue you are getting optionality. The price you pay is for the single plant. A fair price if the promised revenues show up.

Product is now shipping but supply contracts must come in.

The exclusivity is real, no one else can do this with this material and the market is presumed endless. Think chocolate bar wrappers and shampoo bottles, coffee cups and car bumpers.

It is also conditional, and the condition is worth spelling out. P&G owns the patents. PureCycle holds them exclusively, but not for a fixed term. The exclusivity they enjoy must be confirmed in action. Each region carries a deadline to begin construction. For Europe and Asia that date is 31 December 2027. Miss it and the licence there becomes non-exclusive.

Thailand is the Asian plant. Financing is due to close at the end of this year, production in 2028. So the timetable is not simply management's ambition. It is a contractual deadline, and they are working against a clock. Some of the urgency is not a choice.

The prize here is the template. Every plant after the first is a scale-up with known quantities — process, yields, customers, and cost per pound of production.

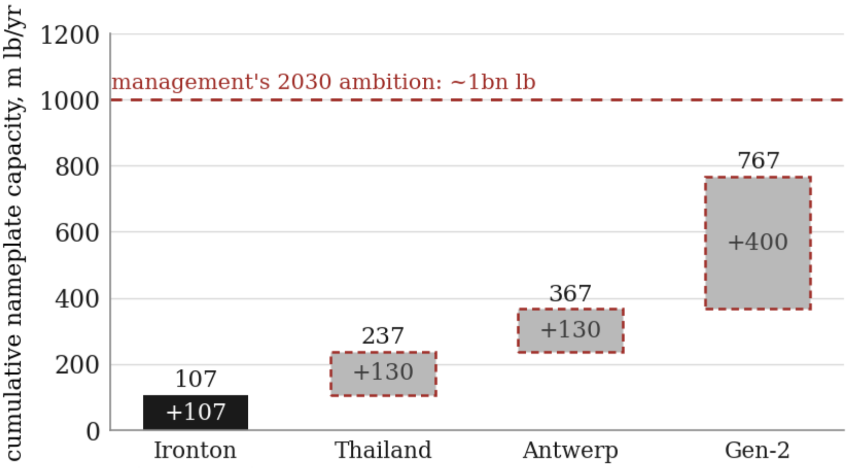
And on management's own long-run arithmetic, for each additional increment of capacity the payback is rapid.

But that is the case they still need to prove. And the time is now.

The first plant is not the solution. Its job is to make the next plant financeable. The next is in Thailand, where financing is planned to close by year-end. Then Antwerp behind it, and a larger second-generation design behind that.

EXHIBIT 1 NAMEPLATE CAPACITY, BUILT AND TARGETED

One plant exists. The rest is the wager.



Solid = operating. Dashed = targeted, not built. Gen-2 shown at the midpoint of PureCycle's indicative 300–500m lb design range.

THE CASE FOR — REGULATIONS AND ENDLESS DEMAND

New Jersey has approved PureFive as certified recycled content and its recycled-content regulations apply in January 2027.

The rules now span three jurisdictions, California, New Jersey, and the EU's Packaging and Packaging Waste Regulation applies from August 2026, setting minimum recycled content for this specific plastic packaging of 10–35% by 2030 and 25–65% by 2040.

Corporate aspiration to include recycled content becomes a compliance deadline.

The users of these materials are packaging of every description. The premium product is pure enough to go into high-spec vehicle applications and thin-film wrappers. The bull case is that demand of that kind does not need to be sold. It needs to be supplied. And it will pay up for it.

Recent balance sheet shoring up. This company is cash negative. Management expects cash breakeven at Ironton at 40–50% utilisation by year end. But management have expected things in the past that haven't happened.

However, the balance sheet can now get them comfortably through to the expected revenue stage. The next few quarters are the proving ground.

A recent equity-and-convertible financing favourably repriced the terms of their old debt. Leaving the company with the best liquidity in its history: $236.9m at 30 June — $165.2m of cash, $59.6m of securities and $12.1m restricted — against roughly $470m of total debt.

Dilution was the price to the equity holders. But survival from a cash flow perspective was assured. The market can now argue about the business rather than the balance sheet. Unequivocally the company must show and tell.

Production has ramped up. Product is shipping. Trials are passed. Regulation is coming. For PCT, supply contracts and revenue must follow.

If the bull case is meaningfully progressed; Ironton commercially successful and financing is closed for the next plant. Then this company enters the open-ended platform growth model. And gets repriced against that model, not just an interesting processing plant.

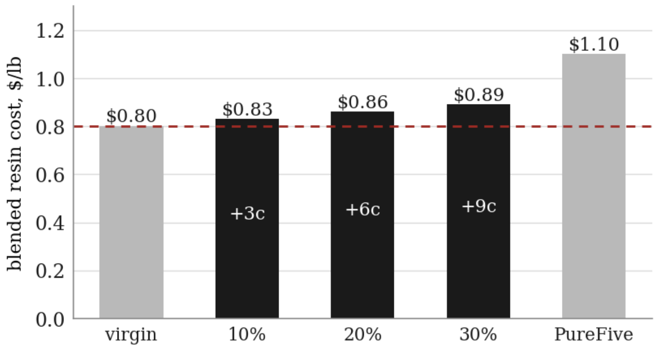
The plant has crossed technical proof. Procter & Gamble has taken first commercial deliveries and holds offtake rights to a meaningful slice of capacity. The resin has passed the hard product grades: oriented film, a Class-A automotive surface.

The production works and produces a product that it needs the industry to pay a premium for. This premium falls considerably when all factors are considered.

PureFive is around $1.10 a pound against virgin at $0.80. At the proportions the rules actually require, the middle user pays four to thirteen per cent more. A hefty tax perhaps but it gains regulatory compliance (and fine avoidance) and some marketing collateral.

EXHIBIT 2 BLENDED RESIN COST AT THE MANDATED BLEND RATES

The premium, as the converter actually pays it



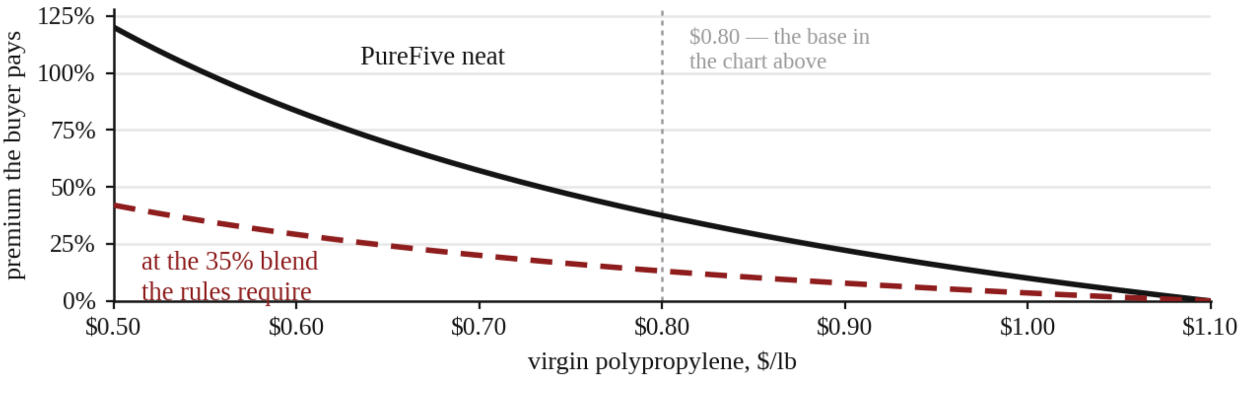
PureFive at $1.10/lb against virgin at $0.80. At the 10–35% blends the regulations require, the resin bill rises 3–10 cents a pound — before any avoided non-compliance cost.

And the premium is a spread, not a price. Virgin polypropylene rose over half in the second quarter of 2026 on monomer tightness. At a dollar the premium is a tenth and the resin sells itself. At sixty cents it is four fifths and every converter re-examines the line.

The bull case does not need a customer to change its mind. It needs propylene to stay dear. The bear case does not need a plant to fail. It needs propylene to get cheap.

EXHIBIT 3 THE PUREFIVE PREMIUM AGAINST THE VIRGIN PRICE

PureCycle is long the virgin price



PureFive held at $1.10/lb. The premium is a spread — it closes as virgin rises and widens as virgin falls. Virgin rose over half in Q2 2026 on monomer tightness.

No one in this market changes supplier quickly. Resin is qualified into a line — trials, specification, a production run that cannot fail — and once it is in, it stays. P&G is the licensor and the co-developer, and it is going one product closure at a time. Each quarter a new line is added to the PureCycle supply. Downy caps in the second quarter, Tide caps in the third, ZzzQuil lids in the fourth.

That is both brake and moat. Why supply contracts take time to come despite the regulation. It is also why ExxonMobil's balance sheet could not replicate this so easily. The incumbent player then in PP recycling, if widely adopted, is likely to be PureCycle.

Management's second-half goal is site-level cash breakeven at forty to fifty per cent utilisation. Manufacturers need reliable output which can be locked up now. They are trusting that customers will be jostling for position and the cash should follow.

The next few quarters will tell.

Thailand holds investment-board fast-track status and advanced plans. Financing and groundbreaking expected by year end.

Should a syndicate of lenders underwrite a second plant on the strength of the first, the argument evolves — not because the platform exists, but because capital is backing it. More money often follows.

The bull case is this. Demand is unlimited and Ironton/Thailand is transformational. The test is now. The test is do the economics work?

THE CASE AGAINST — IRR

Granting the assumption that the technology is proven. The internal rate of return is still too low. Discount even a healthy growth outcome at 15% and it is worth not too much.

The shares are cheap only to an investor who sees what it might be, not one who sees what it is. A company that has never earned a profit. And growth, should it materialise, comes at a cost to the shareholder.

Success is the dilutive case.

How much will PCT need for each financing? Thailand is ~$250m, Antwerp rather more, a second-generation plant $300–450m. This level of project finance needs backers.

There are convertibles that become some 26m shares at $11.08 and the warrants perhaps 24m more shares at a higher price. This creates a burden of proof for the beleaguered shareholder. Company growth must outstrip the share count. A company with negative EBITDA does not project-finance a billion dollars on the strength of one plant in Ohio.

And the preferred, $316m of it, converts around $14.

The better case PCT makes, the more owners there are to share it with, a cruelty of the capital-intensive growth industrial. The upside is the dilutive case. The share count where convertibles are exercised, warrants taken up and the preferred converted grows from 200m to about 272m, and nearer 300m once a further equity raise is assumed.

The company gains capital from this but it's got to employ it without fault. Sixty cents a pound across Ironton's 107m lb of capacity is $64m of contribution. After corporate overhead, perhaps $10m of that survives as EBITDA. The platform earns its return by spreading that overhead across ten plants rather than one. And by building bigger ones.

Ironton is structurally too small to demonstrate the numbers it is meant to validate — the platform case rests on ~$0.60 of contribution per pound across a billion pounds. Whatever the next four quarters show, the investor will be asked to underwrite Thailand on evidence that is suggestive, not iron-clad.

Feedstock is not free at scale. The margin assumes cheap waste polypropylene in perpetuity. At 100m lb a year PureCycle is a curiosity in the scrap market. At a billion it is the marginal bidder. The unit economics of the first plant are not obviously the unit economics of the tenth.

Production improvements and efficiencies suggest they will be low-cost, high-margin. Nearing pure virgin prices. But future projections often assume rosy things.

Manufactured demand attracts manufacturers. If recycled polypropylene earns sixty cents a pound, ExxonMobil and LyondellBasell will notice; regulation creates a mandated market, and a mandated market of that size draws balance sheets PureCycle cannot match. The mandates are themselves political guidelines — recycled-content deadlines have been softened before under industry pressure, and another year of delay is a year for consumers to procrastinate.

This is, the bears will remind us, a risky stock. A glance at the share price will prove this point.

EXHIBIT 4 PURECYCLE SHARE PRICE, FIVE YEARS

Five years of a wager

Weekly close, to 28 August 2026, traced from the daily price series. The 52-week extremes are the figures quoted in this note.

OWNERS AND DETRACTORS

Sylebra Capital — lender, preferred holder, warrant holder and owner of some nineteen per cent — has financed PureCycle through every stumble and restructured on better terms to the company in June.

A decade of underwriting support from the key investor. Either pot-committed or high conviction.

Abundance Wealth Counselors went from a rounding error at the end of last year to roughly an eighth of the company by June, a position amounting to around 13% of its own book.

And short sellers are active too. There are many mechanical reasons why there would be short stock hanging over from the rounds of financing. And there are also mechanical short funds that filter on exactly the kind of characteristics that PCT possesses.

High costs, no profit, small cap. PCT fits the bill.

It is not knowable how many shorts represent an economic view on the company itself rather than structurally short or algorithmically short. But suffice to say, there are doubters.

WHAT IT’S WORTH

Four scenarios, with dilution.

In the first, Ironton fails and the equity is worth approximately nothing.

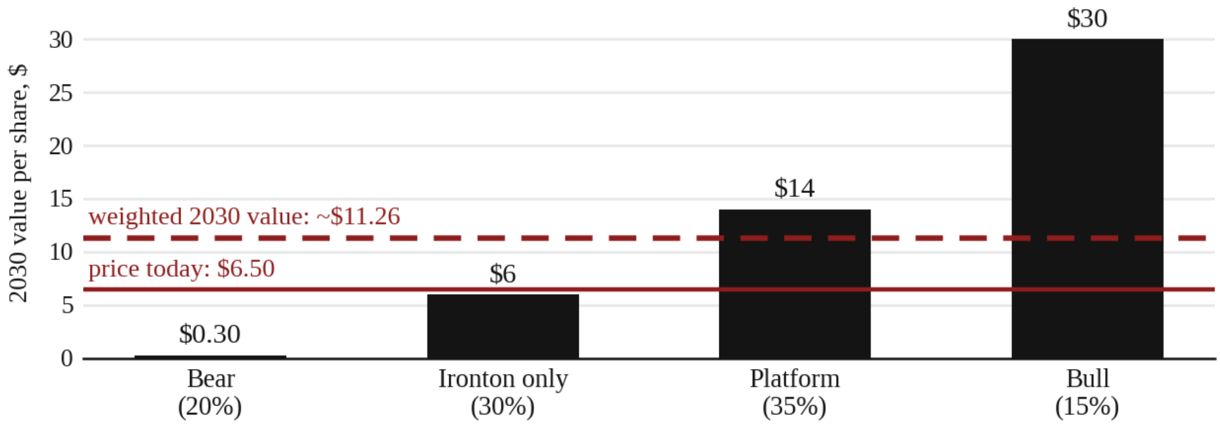
In the second, the plant works and replication is slow — and the shares are worth about what they cost today. Asset = one plant that works. Revenue growth is slow.

In the third the template is proven and replicated, the shares are worth some $14; in the fourth, management’s ambitions are fulfilled and they are worth near $30.

Both are 2030 values, net of debt and fully diluted. The $30 is the billion-pound plan on a mid-teens multiple. The $14 is not half of that — on the same multiple it still needs two thirds of the build. The scenarios sit closer together than the prices suggest.

EXHIBIT 5 VALUE PER SHARE UNDER FOUR SCENARIOS

Four scenarios, fully diluted



Probabilities are the author's. Values are net of debt and fully diluted, and assume the platform is financed and built on the stated timetable.

Weighted, those four scenarios are worth about $11 in 2030. Discount that at the fifteen per cent a risky company requires and it is $6.44 today, against $6.50 in the market. Put the other way: $6.50 compounding to $11 over four years earns just under fifteen per cent. Below the hurdle, but only just. But this precision smooths out the reality.

A bear may assume a holder of the shares sitting still to 2030 while the probabilities sit still.

The bull is expectant of a shift in probabilities. The stock re-rating does not require the platform to be built; it requires the market to believe the platform is buildable.

That belief has a forthcoming test, not four years away but now. It is Thailand's financial close, and revenue from Ironton. The probabilities shift toward the platform case and the company is rerated against that. Venture capital type risk is replaced with growth and operating risk. Still real but less volatile.

The shares, the bull hopes, will end their roller-coaster ride and begin their expected steady accumulation phase. A financed second plant converts PureCycle from a speculation into a capital-projects business and it should get discounted as such — a more stable entity.

But if Thailand slips, the same two mechanisms run in reverse: the platform probability falls, the required return rises, and you have a single-plant company at a generous multiple with $470m of debt.

The distribution is wide in both directions. Yet material progress is evident. As the stock now trades the settlement of this dispute is likely to produce a quick response in either direction. The venture capital risk is still live. It's the investment case that now must be proven to achieve a more stable risk profile.

PureCycle would like it to be recycling utility.

The option is not that PureCycle is worth $30 in 2030. Or zero.

It is that a specific observable event — a lending syndicate agreeing to build the second plant — will likely force the market to re-visit its assumptions. And that the market is currently paying nothing for the possibility.

The Ironton-only scenario is worth $6. The market asks $6.50. Fifty cents is what the option costs.

At $6.50, the market has priced the plant it can see and almost nothing of the company it might become. It is not a bargain. But a fair price for the optionality.

It's show-and-tell time for PureCycle. Open-ended platform growth is the prize.

Reasons to be cheerful?

It's not another AI bet.

III

Circular reasoning

28 August 2026 | Index concentration and circular risks

The current era of high concentration in major indices begins a spiral of ever decreasing circles. And risk supports become interrelated.

Three supports of market pricing and the promise they must keep.

- that passive flows continue, and increase
- that index investment leverage to the anticipated AI payoff, pays off
- and benign credit markets don’t become malignant

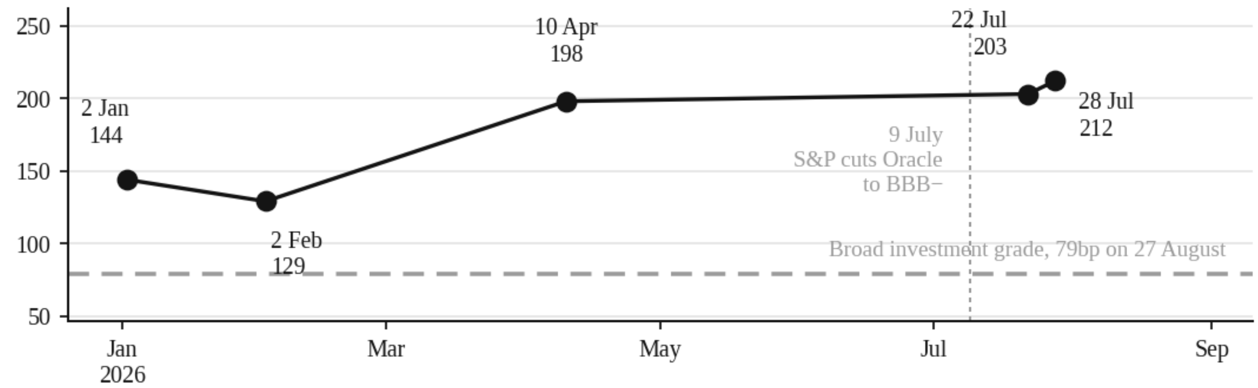
This is no under-analysed boom. The rise of concentration in indices and the leverage to AI outcomes is well known. The specific shift we address here is the shift to AI spend being supported by borrowed money not earnings.

The bond market’s unease about it was the subject of the previous piece.

The bond market is renegotiating terms on AI debt. Insuring it costs more than it did. On Oracle, the largest single AI borrower, that cost has gone past two hundred basis points — the highest it has ever been — from 144 in January and 129 in February. The others have moved the same way, less far.

EXHIBIT 1 COST OF INSURING THE LARGEST AI BORROWER’S DEBT

Five-year credit default swap, basis points



Dated observations, not a continuous series — every point is separately published. The February fall followed the company setting out its financing plan. Broad market: ICE BofA US Corporate index.

This is not a prediction of stress. The price of insuring debt increases the more there is, and Oracle issues the most. A sustained rise in the cost of that money is a different matter. The equity market shrugs and advances on.

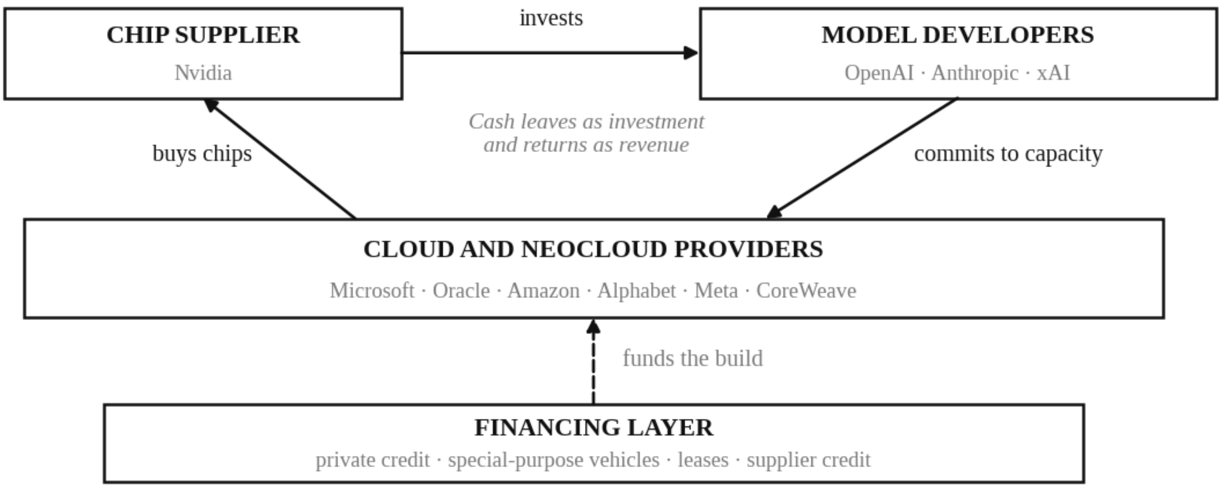
In July S&P cut Oracle to one notch above junk, and put a number on the circularity: roughly half of its $638bn order book is a single private counterparty.

Value is subjective. Price relies on supports. Each one bearing a weight of expectation. And investment expectations across the board, have become unusually uniform. Not in opinion but in the movement of money.

None of this is extraordinary, far from it. But what is unusual is how tightly arranged and interrelated it has all become. And the signals it gives off.

EXHIBIT 2 THE CIRCULAR FINANCING LOOP

The virtuous cycle

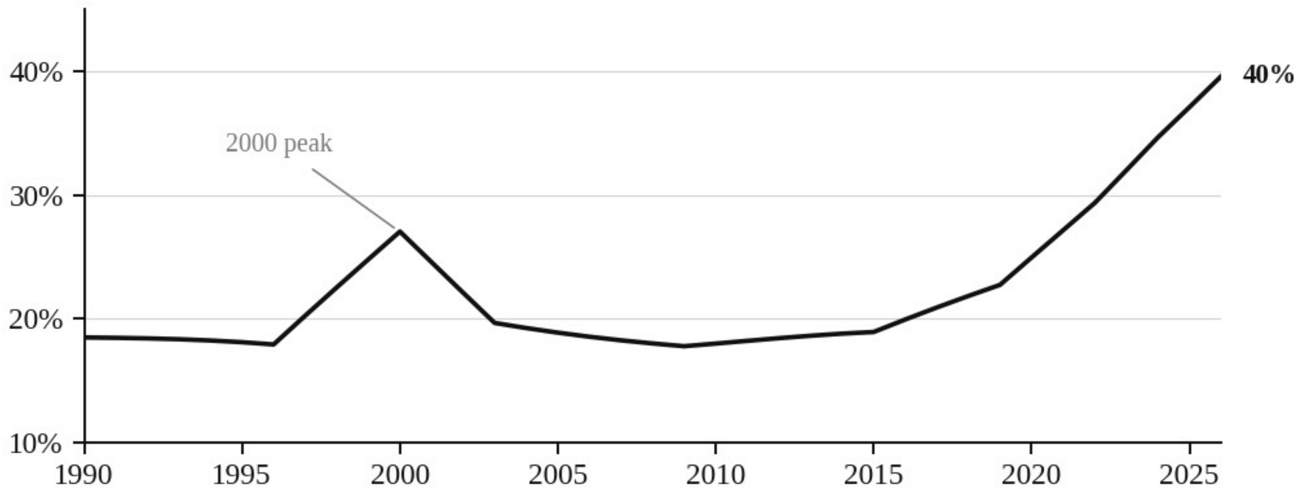


Booked, in part, at each stage. Arrangements of this kind across the industry are estimated north of $800bn. Names shown are illustrative of each role, not exhaustive. Sources: press reporting, 2026. Schematic, not to scale.

The S&P 500 is more concentrated than at any point in its modern history with ten companies making up forty per cent of the index. Passive flows into market cap index funds accelerate the concentration into megacap companies. Index funds passed active in 2019 and now hold close to two thirds of US equity fund money — $15.2tn against $8.6tn. Which are focused primarily on a single bet. Capital spent on artificial-intelligence capacity will earn its return.

EXHIBIT 3 TOP-TEN SHARE OF THE S&P 500

Ten largest companies as a share of index value, 1990–2026



Sources: index provider. Top-ten share of S&P 500 market value, to 27 August 2026.

This expenditure is well documented and unparalleled in scale. Now commitments are no longer met by internal cash flow.

Cash flows produced by the greatest of monopoly businesses, the most profitable and cash-generative companies ever built.

Then there is the bid.

Equities are bought, at the margin, by passive funds. Automatic flows which are price insensitive. It is a 'fixed' bid that has not faltered and has grown in share to dominate. The US indexes are widely owned and the earnings story at the centre depends increasingly on circular internal commitments.

The credit markets have something to say about it.

THE MARKET CONCENTRATES

Five buyers of AI capacity — Microsoft, Amazon, Alphabet, Meta and Oracle — and one seller of chips.

These drive a meaningful share of the whole index's earnings growth. Growth dictated by capital spending.

In the quarter to 26 July, Nvidia sold $96.2bn of hardware, twice what it sold a year earlier, and kept $59.7bn of it as profit. It expects to sell $108bn in the next one.

The seven largest are about a third of the index. At the end of 2018 they were thirteen per cent. It is the highest concentration in the top seven since the Nifty Fifty of the early 1970s.

The reversal of that concentration saw large drawdowns in the leaders.

SUPPORT REGIMES

— Passive flows are a stabilising force and unshaken by events. Market cap weighted index funds are a structural driver of concentration.

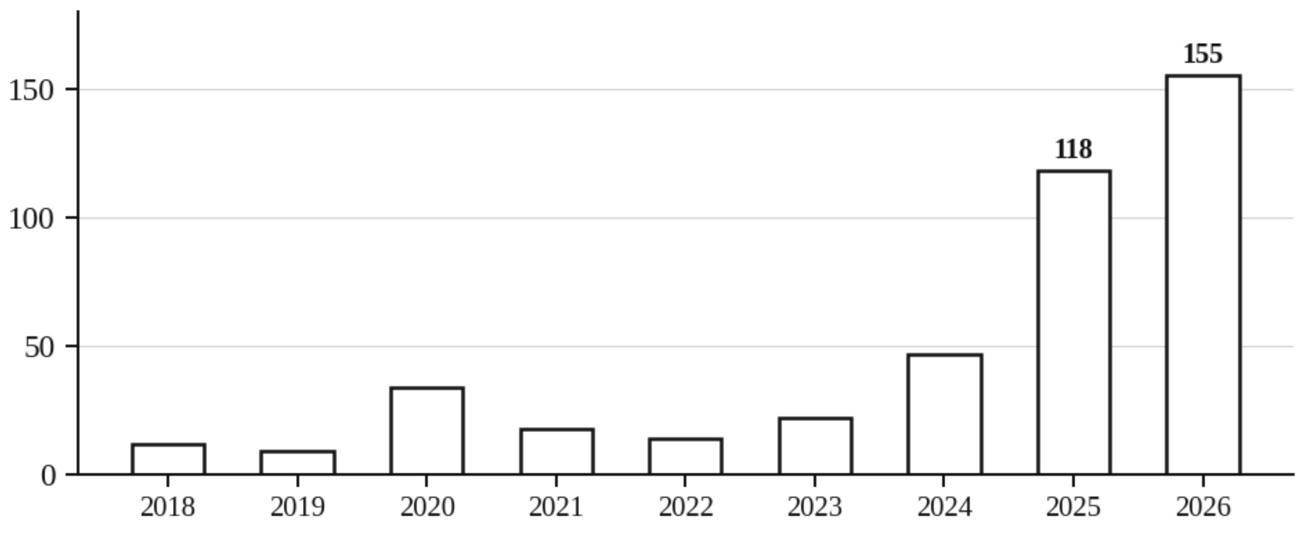
— Concentrated AI-related spend channels into a singular payoff expectation. The biggest monopolies leaning on their separate businesses to participate.

— Well-behaved interest rates.

The cost of money is now the one under negotiation. The bond market is eyeing up a lot of supply and wants a better price on it.

EXHIBIT 4 HYPERSCALER BOND ISSUANCE BY YEAR

Gross bond issuance, five hyperscalers, $bn

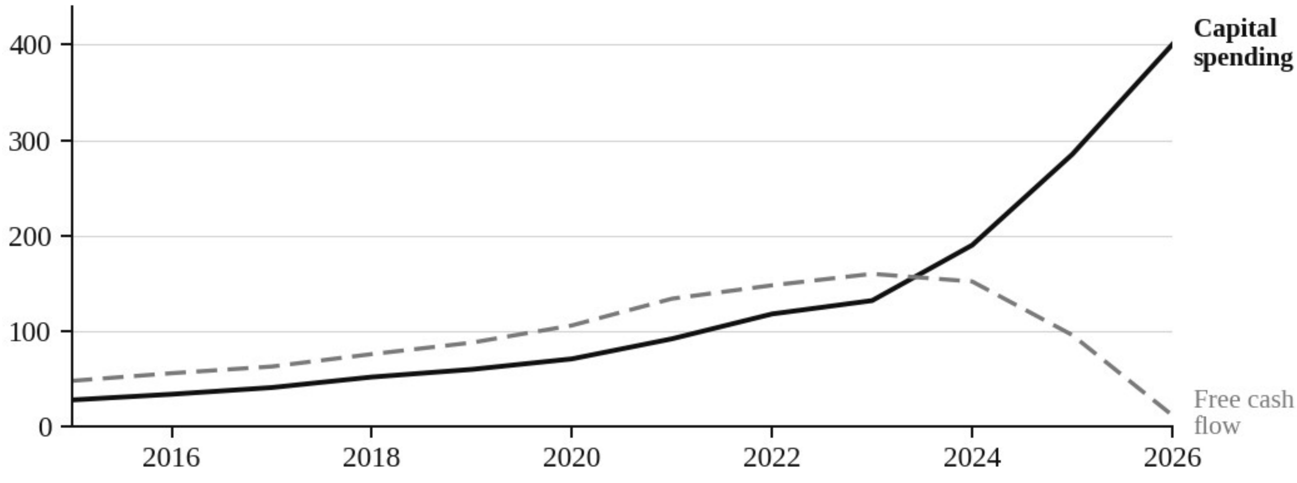


Sources: filings, dealer research. 2026 part-year estimate. Off-balance-sheet financing — vehicles, leases, supplier credit — estimated separately in the trillions.

The shortfall between capital spending and earnings is funded in the bond market. Future spending commitments continue to rise.

EXHIBIT 5 CAPITAL SPENDING AGAINST FREE CASH FLOW

Five hyperscalers, aggregate, $bn



Sources: company filings; 2026 estimated. Five-name aggregate.

The expected earnings stream relies on the promised commitments of the buyers of compute. Some of them AI companies. The start-up leaders are private companies looking to go public. Which, if successful, would be among the fastest aggregations of value in history. The technology is real.

It's also a spending arms race with a presumed one or three winners. Each competitor is leaning on their empires to do it and, increasingly, the credit markets.

Concentration is less visible in its relationships. It relies on circular internal beliefs. That passive flows are uninterrupted. And they continue to concentrate in US indices. And AI spend accelerates. Everyone within the centre must believe the others' spending commitments for the future.

Active private funds hold the off-balance-sheet commitments. Which is marked to market on the assumption of perfect liquidity. Passive funds hold the stock. Everyone commits to spending big.

Markets have always had structural fragilities. And regular tests of them are not hypothetical. The concentration and the passive bid are not new. Non-participation in it has been the real risk.

But knowing they exist is valuable. Knowing how they break and seeing it in real time could be priceless.

THE BOND MARKET WEIGHS IN

The three scenarios the owner and active buyer of hyperscaler debt must handicap.

— All is well. Sheer spending might overcome all obstacles. Big investment pays off and transforms the economy. · Low rates forever.

— Muddle through. Earnings take longer than expected. Volatility rocks the boat. · Middling rates with lots of panicky movement.

— 'Not failure early tech cycle bust.' An interim hiccup along the way. AI is certain to transform our economy but the profound shifts come after a build out bust. · High rates and rising.

The strength-overcomes scenario is currently under test. Muddle through is the most likely path. Historical precedent would tip, overwhelmingly, in favour of the 'not failure but…' outcome. The early cycle clear out. Which is followed by the true transformation promised by the technology.

By any reckoning it is still early in the AI story. The technology will shape everything from here on out. As with all the others that went before it.

MUDDLE THROUGH. KEY BELIEFS.	WHAT IT MEANS — WE MUDDLED THROUGH
Free cash flow across the five turns positive again while capital spending continues	Earnings caught up.
Hyperscaler credit protection stays in range and absorbs new supply	Spreads widening is supply, not stress.
Revenue at the buyers of compute continues to ramp	Circular financing was a bridging loan.
Breadth widens — innovation and smaller cap activity increases	Concentration can unwind in a healthy way.
Passive flows stay positive throughout	The core support remains strong.
Private-equity enjoys continued liquidity	Volatility is tamed.

Should one of the drivers of concentration stutter, disturbances get passed around. This is not to do with sentiment but built into the structure. The coil of concentration. Everything becomes more closely correlated. Market structure can drive drawdowns under certain conditions; sentiment usually catches up later.

‘NO. 3 NOT-FAILURE’ — EARLY INDICATORS	WHY IT MATTERS
Cost of insuring AI debt	Early signs of stress.
Capital spending against cash flow	The gap is what the bond market funds.
Breadth narrowing	Concentration deepening, not unwinding.
Passive fund flows	The support that has never been tested.
Private-market stress	Marks that assume a liquidity nobody has priced.
Interest rates	The discount rate under every one of these.

The supports under this market have been reliable for a long time. Concentration creates correlation and they now all lean on one another.

Return to the three promises at the top. That passive flows continue. That the leverage to AI pays off. That credit stays benign. Each was a separate proposition, held by different people for different reasons. They are now one. Held by the same money, resting on the same handful of names and balanced on the same risk factors.

That is what the tightening coil means. Not that any of them breaks — only that they can no longer break separately. An index fund, a corporate bond fund and a private-credit allocation look like three decisions. They are increasingly one.

And the price being paid for all this? There appears to be lots of borrowed goodwill included.

IV

A rare nugget in the gold business

28 August 2026 | Wesdome Gold Mines (TSX: WDO) — C$33.80 · Gold $4,454/oz · Silver $66.15/oz

Gold at $4,454 and silver at $66 is a repricing of money, not of the metal. Some potential reasons for that are laid out in ‘Making a market in bonds.’ This is about who benefits.

Gold fell three per cent on the Friday this note closed, and silver four and a half, on the Jackson Hole speech that piece ends with.

The mining sector is not renowned for its excellence in capital allocation. Not infrequently a rising gold price gets spent. It funds dilution, acquisitions at the top of the cycle, and capital projects that overrun. Shareholders are supposed to own a leveraged position to the above ground stuff but often get disappointed.

This is a capital intensive, accident prone, business. The rule of law and acts of God mean more to mining than most. Asset appropriation and earthquakes go into the risk factors.

Wesdome is currently the exception, and it is being repriced as one.

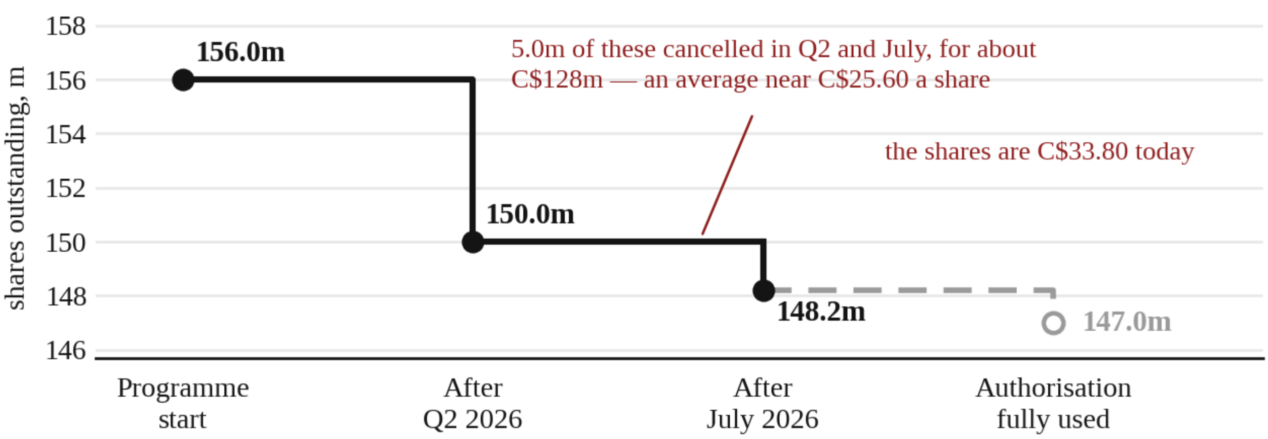
WDO.TO has two mines, both in Canada (and no big board listing in the US, pink sheets only WDOFF). Eagle River in Ontario, Kiena in Quebec. No debt. C$391m of cash at 30 June and roughly C$746m of total liquidity. Second-quarter revenue of C$267m, up 28% on the year. Net income C$94m. Free cash flow C$42m.

It has started paying a dividend — the first in the company’s history, C$0.0306 a quarter and expanded its buyback authorisation to 9.0m shares, about six per cent of the float. Since the programme began it has bought and cancelled 7.8m shares — 5.0m of them in the second quarter and July, for C$128m. The management are acting in the interests of the shareholders, which is a rarity not confined to mining.

To recap; reducing share count, rising gold price, no debt, first dividend and free cash flow. Two mines in the safest mining jurisdiction there is, and a resource growing faster than reserves. Any one of those is unremarkable. All of them at once, in this sector, is the rare part.

EXHIBIT 1 WESDOME SHARES OUTSTANDING

The share count, going the other way



Normal course issuer bid, to 31 July 2026. 7.8m shares purchased and cancelled under a 9.0m authorisation — about 6% of public float. Dashed step is the balance, not yet used. Axis does not start at zero.

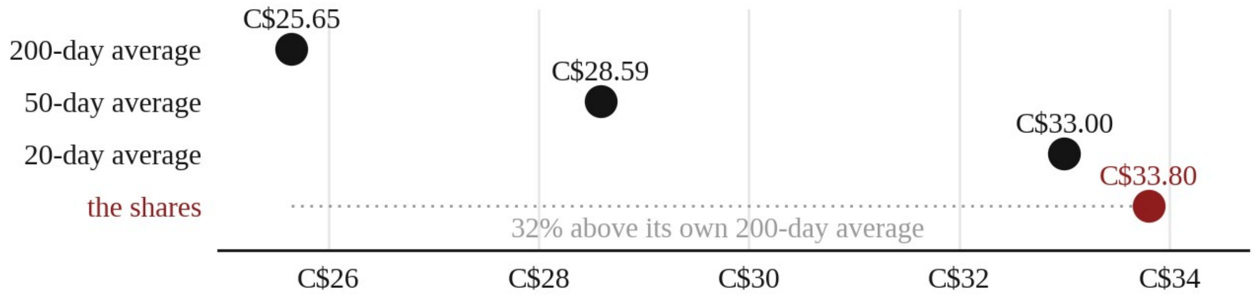
This has not gone unnoticed. The shares have moved from a 200-day average of C$25.65 to C$33.80, thirty-two per cent above it, on a trailing multiple near 12.2 times earnings and a return on equity near 44%. That close is three sessions off a high of C$36.00.

Under thirteen times earnings is not a demanding multiple but it is a risk tied to a single price. Gold bears should turn away.

Twelve and a quarter against a mid-tier average near sixteen — though costs here eat forty per cent of the gold price against thirty for the cohort.

EXHIBIT 2 WESDOME AGAINST ITS MOVING AVERAGES

Repriced, not drifting.



Wesdome against its own simple moving averages, to the 28 August close. A share 32% above its 200-day is being repriced, not carried. Axis does not start at zero.

Mining is about costs. All-in sustaining costs were US$1,763 an ounce in the quarter, up fifteen per cent on the year, with Eagle River running above US$2,000. Free cash flow fell against a quarter in which revenue rose 28%. So the improvement is being delivered by the gold price and by capital discipline. Not at this stage by operations.

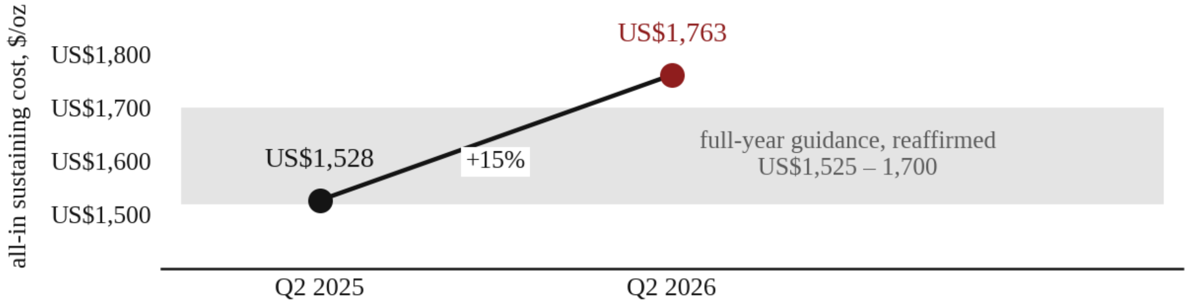
Kiena is where it changes. Production up 28% on the year, the new ramp through to surface, the ventilation project behind it meant to double capacity, and the first Presqu'île stope online in July — which is what reduces the grade variability that has dogged the mine. Nearly sixty per cent of Kiena's year is weighted to the second half.

At Eagle River the mill is fuller and the ore is poorer: throughput up 49%, grade down 43%. Filling the mill is a volume answer to a grade problem. It becomes a margin answer only if the grade returns, which management says it will in the second half.

And there is a number to hold them to. Full-year guidance is US$1,525 to US$1,700 an ounce, reaffirmed this quarter. The second quarter came in at US$1,763. To land inside its own range the rest of the year has to run below it.

EXHIBIT 3 ALL-IN SUSTAINING COST AGAINST GUIDANCE

Costs are above the range management has reaffirmed.



Consolidated all-in sustaining cost. The second quarter ran US$63 above the top of the full-year range. To land inside it, the rest of the year has to run below it. Axis does not start at zero.

A CANDIDATE FOR RERATING?

The proposal is that the share price is beginning to discount a transformed company deserving of a greater premium — not just the unknown future gold price.

That the company is re-rating is a contention. There has been no discovery and no acquisition. Yet it is reducing its discount to peers.

The market is considering pricing Wesdome not as a limited-life two-mine producer but as a cash-generating business that returns capital. Operational ability and extending mine life, with accomplished capital allocators at the helm.

Gold at $4,454 against all-in sustaining costs of $1,763 leaves $2,691 an ounce. That may be all the share price is discounting.

That it is leveraged to the gold price is true of every producer. What is not is that here the shareholder actually keeps it.

Management has been retiring stock. The shares are C$33.80. Buying your own equity a quarter below where it now trades is good capital allocation. If it is sustained. Retiring stock also gets dearer as the price goes up.

And the reserve life is about eight years across both mines. Reserves grew this year and the inferred resource grew faster. No amount of buyback changes the permanent condition of a mining company. You dig up your asset every year and you sell it. Mine life is company life unless proactive.

The bull case does not require costs to fall. But management in mining will always be held to account for rising costs. Nor does it require a rising gold price but it would help. A falling one is kryptonite to any producer. It does require ongoing capital discipline and operational improvements to keep flowing. The bull is hopeful there is no bought deal, no premium acquisition and hopefully no capital restructuring surprise. Which makes it a bet on management behaviour rather than on geology.

The buyback authorisation has 1.2m shares left, which at July’s pace is under a month. What management does when it runs out is the thesis: renew it, or find something else to do with the money.

If the long bond prices confidence in the management of money, gold is what you hold instead of an opinion about that. Wesdome is one of the few places in the sector where owning the metal and owning the margin on producing it are the same thing.

And the market is repricing it for that.

WHAT TO WATCH

Every figure in this issue is marked to the close of Friday 28 August 2026.

MARKET PRICES	28 AUG	1 MONTH	1 YEAR	HIGH
Gold, spot	$4,454/oz	+9.5%	+29.1%	$5,608 · Jan 2026
Silver, spot	$66.15/oz	+14.8%	+66.6%	$121.64 · Jan 2026
PureCycle · PCT	$6.50	+5.3%	−49%	$15.49 · 52-week
Wesdome · WDO	C$33.80	+30.0%	+82% *	C$36.00 · 25 Aug 2026

*Metals are spot at the close; their highs are all-time, both set in January 2026 — gold is a fifth below its own, silver not far off half. Share highs are the fifty-two-week high. * Wesdome's one-year change is to 13 August, the last dated observation; its fifty-two-week low is C$15.94.*

RATES	28 AUG	1 MONTH	1 YEAR
US 2-year Treasury	4.35%	+7bp	+73bp
US 10-year	4.72%	+3bp	+48bp
US 30-year	5.21%	unchanged	+28bp

Over the year the front end has moved nearly three times as far as the long end: the curve flattened while the argument was about the long end. Over the cutting cycle it is the other way round — the Fed has taken 175 basis points off and the thirty-year is 131 higher.

WHAT TO WATCH	28 AUG	WHY IT MATTERS
Treasury long-end buyback cap	$4bn a round	Doubled from $2bn on 19 August. Eight would mean the intervention is rolling up.
Oracle five-year CDS	past 200bp	A record. It fell to 129bp in February on a financing plan, so it can retrace.
US investment grade spread	79bp	Tight. One name at a record inside a market that is entirely relaxed.
S&P rating on Oracle	BBB−	Cut on 9 July. A second cut forces the index funds to sell.
Top ten, share of the S&P 500	40%	A record; 27% at the 2000 peak. Narrowing breadth deepens it.
Passive fund flows	63.8%	Index funds are 63.8% of US equity fund assets. The bid has never met a sustained outflow.
Hyperscaler capex against cash flow	about $400bn	Free cash flow is heading to zero. The gap is what gets borrowed.
Nvidia, next quarter guided	$108bn	The cleanest read on whether the spending continues.
PureCycle at Ironton	$6.50	Cash breakeven at 40–50% utilisation by year end; a plant started by 31 December 2027 or the licence stops being exclusive.
Wesdome's buyback	1.2m shares	Under a month at July's pace. What management does next is the thesis.

Corrections run in the next issue with the original alongside, not quietly amended. Tell me what I have got wrong.

WHERE TO CHECK

Not investment advice. Figures come from primary sources, listed under Where to check. AI assists with retrieval and figures are checked back against source. Mistakes will still get through. We would like to close gaps in reasoning — comments welcome. Errors are mine, and corrections run in the next issue. Know what you own. Ideas come from everywhere, other people's letters included; the research, the structure and the conclusions here are my own. I may hold positions in the securities mentioned. I do not trade them in the week either side of publication.

I · Making a market in bonds

— US Treasury — long-end buyback announcement and August 2026 auction results.

— Secretary Bessent — remarks of 20 August 2026.

— J.P. Morgan — on the 2024 cutting cycle.

Market data to the close of 28 August 2026. Figures are dated, not current, and move quickly.

II · Resin to be cheerful?

— PureCycle — Q2 2026 results and earnings call, 6 August 2026.

— Sylebra Capital — Schedule 13D/A, 12 June 2026.

— Abundance Wealth Counselors — Form 13F, Q1 and Q2 2026.

— EU Packaging and Packaging Waste Regulation; California SB 54; the New Jersey recycled-content statute.

— North American polypropylene rail-car indications, mid-2026.

Scenarios and probabilities are the author's judgement, not company guidance. Market data to the close of 28 August 2026. Price, short interest and the polypropylene reference price are time-sensitive.

III · Circular reasoning

— Index-provider data — top-ten share of the S&P 500 market value, to 27 August 2026.

— Company filings — hyperscaler capital spending and free cash flow. Five-name basis; 2026 estimated.

— Filings and dealer research — bond issuance. 2026 a part-year estimate; off-balance-sheet financing estimated separately.

— Five-year credit default swaps — dated observations, January to late July 2026. ICE BofA US Corporate index for the broad market, 27 August 2026.

— S&P Global Ratings — Oracle Corp. downgraded to BBB−/A-3 from BBB/A-2, 9 July 2026.

— NVIDIA — second-quarter fiscal 2027 results, quarter ended 26 July 2026.

— Investment Company Institute — Active and Index Investing, June 2026.

— Press reporting, 2026 — the arrangements shown schematically in Exhibit 2.

Market data to the close of 28 August 2026. Figures are dated, not current, and move quickly.

IV · A rare nugget in the gold business

— Wesdome — Q2 2026 results release, including the normal course issuer bid and the dividend declaration.

— Wesdome — reserve and resource statement, 2026.

Company financials in Canadian dollars; cash costs and all-in sustaining costs in US dollars. Market data to the close of 28 August 2026. Price, multiple and metal prices are time-sensitive.

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BEYOND INSTITUTIONAL THINKING · ISSUE ONE · 30 AUGUST 2026