Ivory’s Economic Outlook

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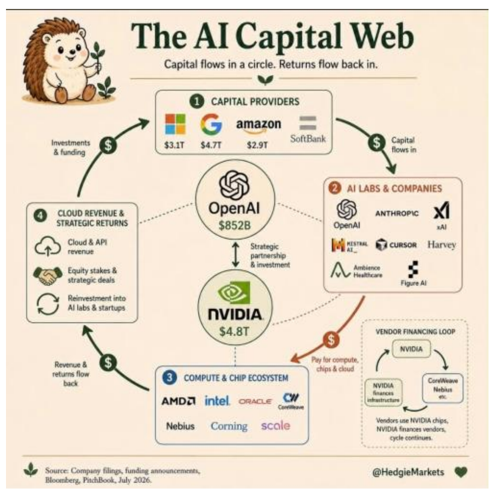
“I'm not offended by all the dumb blonde jokes because I know I'm not dumb. I also know I'm not blonde."

Dolly Parton, Philanthropist

My son ran track in the Junior Olympics as a child and won the silver medal at the 2008 national meet in the 4x400. He also came in 4th in the country in the 4x100. My namesake went on to run varsity track at DeMatha Catholic High School as a freshman, running alongside future NFL players and several Division I athletes, at least until he got his driver’s license (and a girlfriend) his junior year. After that it was a wrap.

He did, however, attempt to play football in a local Pop Warner league in middle school. The coaches knew he was on the second fastest relay team in the country and thought he was the missing piece. The next gridiron superstar was a standout when they had on shorts and a tee shirt, but things changed when they put on the helmets and shoulder pads. Football is a game of aggression. You have to relish physical contact, the feeling of air coming out of your opponent’s body when you hit them, the compression of shoulder pads on kneecaps and their body collapsing upon impact. Football, as one can imagine, is much different than track and field.



I knew from the first day of padded practice that he was in trouble - these were the meanest 10-year-old kids I had ever seen. He had never been hit like that, and to be honest, I’m not sure I had been either. At the end of the season he told me he should have been the starting wide receiver. I told him he was the worst kid on the team. Then I reminded him that he once played violin at the White House and was one of the fastest kids in the country. And then I got out of the car so I could make dinner.

History likes to repeat itself and I unwittingly became my dad. Some things don’t change and I can’t help but notice that valuations don’t have an alarm clock and attempting to time common sense is a riskier proposition than convincing a 16-year-old kid to forgo his beleaguered 2003 Nissan Altima in favor of 5am track practices on a college campus. As the saying goes, you can’t stop the waves, but you can learn to surf, even if surfing is a skill few people ever master without falling a few times.

Artificial Intelligence is here to stay. We might not like the implications for the job market or the environment, but companies aren't going back to building spread sheets and marketing presentations by hand. This technology demands extraordinary resources. For context, Amazon is building a massive data center in Carlyle Indiana, and when they are done, will demand twice as much energy as the city of Atlanta[i]. In fact, it's estimated that existing data centers have already raised wholesale electricity prices by 3% to 5% nationally, which may grow to 20% by 2028[ii]. That's why your energy bills are going up.

There is also the question of how these companies are intertwined and whether the AI buildouts increasingly resemble circular financing. Microsoft owns 27% of OpenAI, the parent company of ChatGPT. In return, Open AI has contracted to buy $250 billion of Microsoft's Azure cloud services[iii]. In this instance, the customer is funding the supplier who funds the customer. Imagine a salesman lending his customers money to buy his product. Turns out you don't have to; it's already happening.

There's a similar dynamic with Nvidia that sells the chips that make the whole system possible. The company has invested $30 billion in OpenAI[iv] who has promised to use Nvidia chips that will generate $150 billion to $200 billion in revenue for Nvidia[v], who for what it's worth, recently raised $500 billion from Wall Street to build data centers for its customers that will buy Nvidia chips and will use those same Nvidia chips for collateral even though the chips have a two-year lifespan[vi].

I don't want to single out one or two companies, so very briefly, Oracle, SoftBank, a company called CoreWeave and a few others, have similar arrangements, each depending on Open AI to make lots of money, despite the company losing $12.3 billion in the second quarter alone[vii]. The revenue the customer needs to repay the supplier who financed the customer hasn't materialized, at least not yet.

My son's history books, back when students used books, taught him that Chinese laborers helped build the American railways. I wasn't there, of course, but something tells me they didn't have Gatorade and yoga classes to rejuvenate aching joints and muscles. Instead, they brought oil rendered from the Chinese water snake to treat chronic pain. Rich in omega-3 fatty acids, the laborers successfully treated arthritis and bursitis that accompanied the backbreaking work they did day in and day out.

The American dream is free, but the hustle is sold separate. Sarah Anne Lloyd wrote a great article "Snake Oil Wasn't Always a Scam" where she explains how hucksters began using rattle snakes as a substitute in the absence of the Chinese water snake, adding mineral oil, beef fat and turpentine to pawn it off as the real thing. They went even further, claiming their oil cured rheumatism, deafness and who knows what else. This is where the term "snake oil salesman" comes from.

The railroad that the Chinese workers built, thanks to their snake oil relieved joints, was genuinely one of the most transformative infrastructure buildouts in human history. The book "Capital Returns: Investing Through the Capital Cycle: A Money Manager's Reports 2002-15", however, details how the original investors were largely wiped out. By the end of 1894, one-third of all railroad mileage in the United States had passed through receivership.

Yet still, all was not lost - think about how much money these railroads generated for other companies by lowering transportation costs and allowing producers to sell goods nationwide without internal tariffs or trade barriers, creating a massive domestic economy. Better market access allowed factories to scale up production and use labor and materials more efficiently while strategic rail junctions and hubs grew rapidly into major commercial cities like Chicago, Atlanta, and St. Louis. Nobody cared if AOL went bankrupt, unless you owned AOL, because the internet made it easier to conduct business. My guess is artificial intelligence follows the same path as previous disruptive technologies.

That's not to say it's an easy path. These data centers are expensive, and the AI industry is expected to spend upwards of $1 trillion a year[viii]. At the same time, Uncle Sam has to borrow $2 trillion a year to fund his budget deficit while refinancing $9.7 trillion in maturing securities at higher interest rates in fiscal year 2026[ix]. This money has to come from somewhere and there's only but so much of it and that creates competition for capital.

I won't get too much into the weeds on this except to say the snake oil salesman would stand in awe of how the United States manufactures money to finance its spending problem. In fact, the notion that the government prints money and reduces our purchasing power is just an acceptable part of life, like how local municipalities use photo enforcement tickets as an additional income stream hidden by the side of the road. We don't even debate the arrangement anymore. I mean, what would be the point?

There is undoubtedly a race for cash. On one side is the massive AI data center spending and on the other is deficit spending by the government, both of which have the potential to increase interest rates. After all, if two people attempt to borrow the same dollar, the person lending the dollar will likely charge more for the privilege.

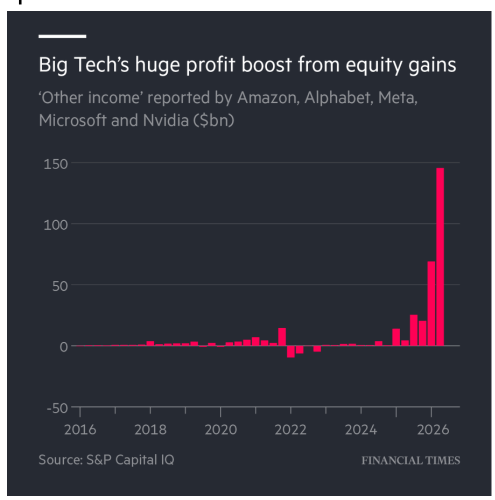
Now let me get a little bit into the weeds: things cost more money. All things. The things we wear, the things we drive, the things we eat and whatever else gets us through the day. The technical definition for this dynamic is called inflation. My Reagan era textbooks taught me that things cost more money because there is too much money floating around the system and chasing the same goods and services. In this case, AI data centers and the government want more stuff. To combat higher prices the Federal Reserve historically increases the cost of money by raising interest rates to reduce the demand for more stuff. The problem is the economy really needs everyone to keep buying.

We are caught between a rock and hard reality. The economy is doing fine if measured by rising corporate profits[x]. The average American isn't fairing so well because of inflation, but that's a conversation for another time. What is noteworthy is that rising corporate profits are good for financial assets and rising interest rates are bad for financial assets.

Hang in there, I'm about to land the plane. When AI infrastructure investments are one-third of GDP growth[xi], nobody wants that cash cow to get slaughtered and so investors welcome the spending that causes inflation. At the same time, the government simply cannot afford to raise interest rates and reduce inflation any more than the guy making $50,000 a year can afford to pay 20% on a $15,000 credit card. And while all of this is going on, the W2 paycheck and fixed income community is mad as hell at how much it costs to buy food and want the weeds to stop growing.

The term Catch-22 came from a Joseph Heller novel written in 1961 that describes a request from a WWII pilot who requests mental evaluation for insanity to avoid a dangerous mission, only to find out that his request in and of itself would be considered an act of sanity and grounds for denial. Treasury Secretary Scott Bessent is essentially our fighter pilot who will navigate this dangerous mission whether he likes it or not and will so with mixed signals.

It's estimated that 25% of the S&P 500 is invested in Amazon, Alphabet, Meta, Microsoft and Nvidia, all tied to Open AI. They reported a combined $160 billion in "other income" in the 2nd quarter which is essentially equity gains in each other's stock[xii]. This represented 56% of their entire net income for the quarter. Fortunately, there is an equally weighted S&P 500 option that gives each of the 500 companies an equal weighting so as AI makes the economy more efficient and profitable for everyone, investors own something that spreads the love.



Gold prices dropped in the second quarter because they don't pay a dividend and fell out of favor when interest rates went up. Nobody likes to lose money, even in the short term, but it is rebounding because the market read Joseph Heller's novel and thinks it's only a matter of time before the Fed takes the easy way out, ignores the W2 paycheck and fixed income community, and prints like there's no tomorrow, despite overwhelming evidence that the next day is almost here.

Bitcoin dropped because hedge funds poured a lot of money into the bitcoin ETF (bullish) and correspondingly bet that the price of bitcoin would go down (bearish). They took what's called "the spread". It's the equivalent of buying a car for $10 and selling them across the street for $11, except they borrowed $90, put up $10 of their own money and bought 10 cars instead of one. Over time everybody followed suit and the trade became less profitable, plus the cost to borrow money went up. When the hedge funds exited the trade, we only saw them selling the bitcoin ETF which made the price go down, but we didn't notice that they were also closing the other side of the trade where they bet against the price of bitcoin. With that leverage now out of the bitcoin trade and the dollar becoming less valuable from expected money printing, bitcoin is rebounding.

My son confided in me that one of the reasons he wanted to play football is because I played. This was indeed a teaching moment. I looked at him and said, "First, failure is good if you learn something, and second, Joe Paterno never came to my house because I was too skinny to play college football". This is a complicated set up with triumphs, disappointments, turbulence and real consequences for anyone who wants to get rich buying every railroad in sight. There's no need to panic. It'll all sort itself out in due time like the internet, even if we fall off the surf board every now and then.

[i] Here's How the AI Crash Happens; The Atlantic; 10/30/2025
[ii] Power-Bill Fears Drove Virginia's First-In-Nation Data Center Tax; Forbes; 7/13/2026
[iii] OpenAI shakes up partnership with Microsoft, capping revenue share payments; CNBC; 4/27/2026
[iv] Nvidia CEO Huang says $30 billion OpenAI investment 'might be the last'; CNBC; 3/4/2026
[v] Nvidia's Huang Says OpenAI Data Center Could Generate $600 Billion in Revenue; Barron's; 8/17/2026
[vi] Nvidia lines up $500 billion in financing as CEO Jensen Huang tells CNBC his chips are 'investable asset'; CNBC; 8/10/2026
[vii] OpenAI's Second-Quarter Sales Show Tepid Growth Compared With Anthropic; Wall Street Journal; 8/18/2026
[viii] Goldman Sachs Global Institute
[ix] United States Government Accountability Office
[x] Earnings Are Beating Wall Street's Boldest Expectations. What Comes Next.; Barron's; 8/11/2026
[xi] How the AI Investment Craze Is Keeping the Global Economy Afloat; Wall Street Journal; 8/27/2026
[xii] Big Tech profits get $160bn boost from gains on stakes in other AI companies; Financial Times; 8/30/2026