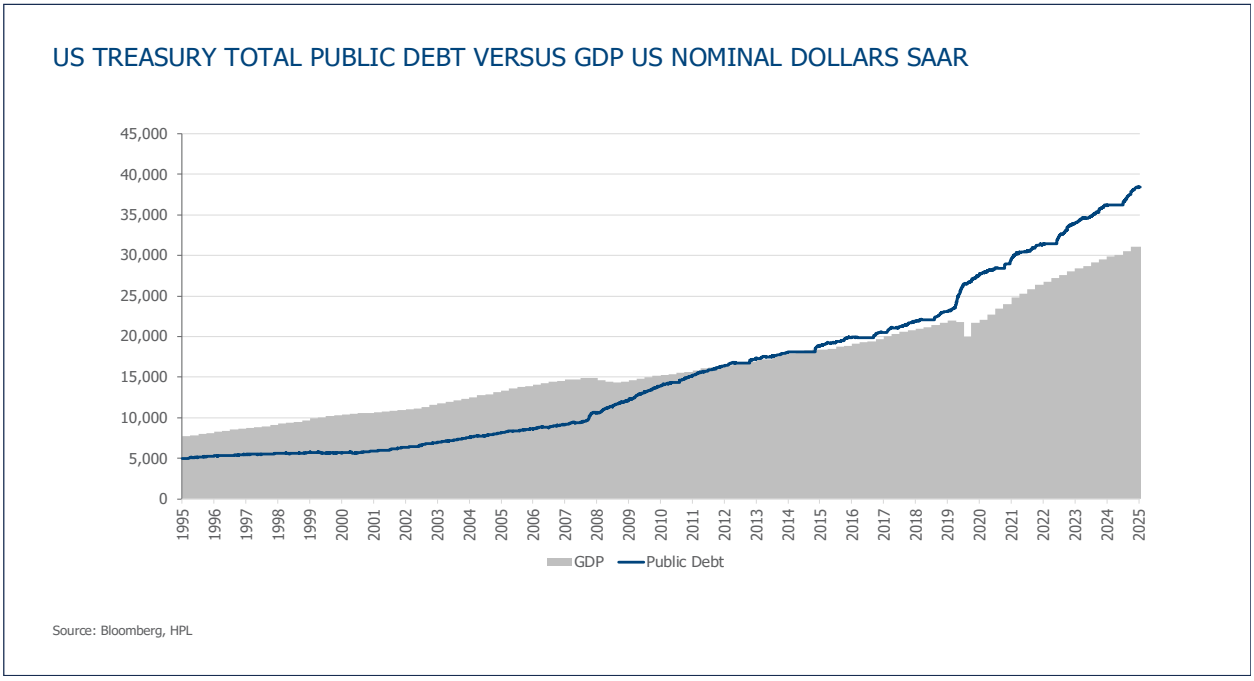
Holowesko Partners Ltd.
December 2025

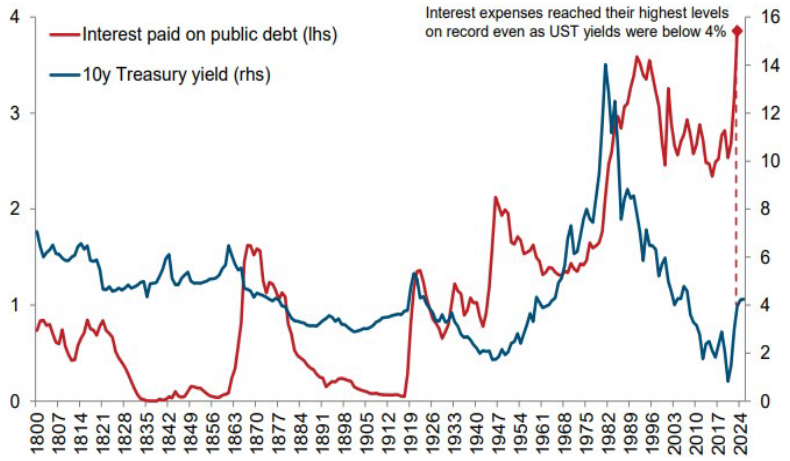
Government debt is an accident waiting to happen. We are not sure what the catalyst will be, but the rise in debt and deficits cannot continue unchecked without government inflating their way out of the problem, or establish, serious interest rate manipulation and potentially capital controls.

According to CLSA, global debt hit US$346 trillion dollars in 3Q, 2025, rising about $677 billion each week. The US and China accounted for roughly 33% of the increase. The growth in American debt has far outpaced the growth in the economy ever since the Federal Reserve lowered rates to almost zero after the Financial Crisis in 2008.



Interest payments are now over 16% of Federal revenue and close to 3% of GDP. This trend is unsustainable.

INTEREST PAID ON PUBLIC DEBT VERSUS 10 YEAR TREASURY YIELD



Source: IMF Public Finances in Modern History database, Global Financial Data, Inc., Federal Reserve Board, Haver Analytics, Goldman Sachs GIR

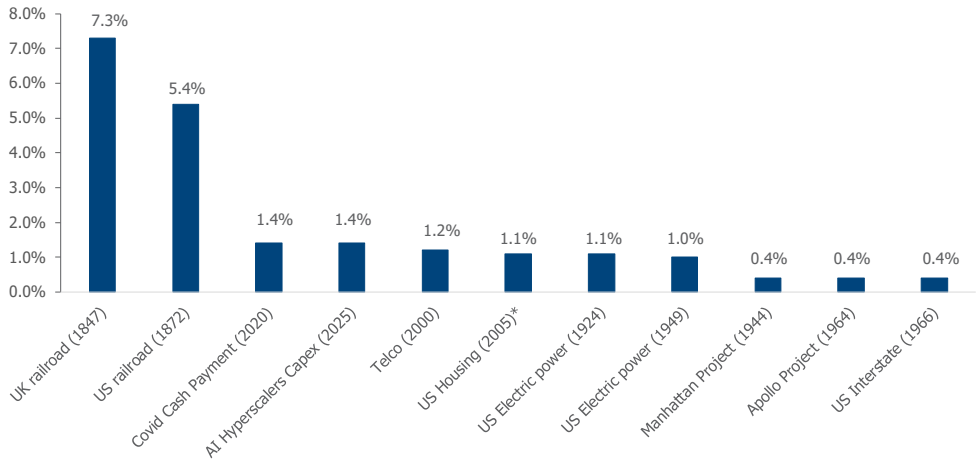
This debt is mainly at the government level and the size of the debt market means that any major disruption will have an impact on all financial markets.

Private equity marked-to-made-up valuations. With the equity markets at all-time highs, it's strange there aren't more IPOs of private equity positions. Perhaps there are two main reasons. With growing sales of positions between private equity participants, it's quite possible that positions are held/priced at levels that are not realistic in public markets. Additionally, PE firms would generate higher fees if they sold existing holdings to new funds they managed with new client capital. According to Stepstone, 35% of Private Equity exits in H1 2025 have been achieved through a continuation fund. To say there are conflicts of interest is an understatement regardless of the possibility that the sector may be rife for lawsuits in the future. Private equity may be a big source of selling in the future and something to monitor.

OpenAI needs 20% of current US electrical capacity, equivalent to 250 nuclear plants at a cost of $10 trillion, according to the High-Tech Strategist. The old "we'll leave the lights on for you" jingle from Motel 6 might be getting harder to accomplish in the US.

ONE OF THE LARGEST CAPEX CYCLES IN US HISTORY

Capex as a Percentage of GDP



Note: * % above long-term average of 4.5%
Source: NBER, CRS, A. Odlyzko, BLS, BNP Paribas Exane estimates.

We believe AI is a transformative technology that will require historic levels of capital investment.

Is it a bubble? Certainly not the technology itself. While the potential of AI is undeniable, it is far less clear how it will ultimately be applied, what the commercial impact will be, which companies will see profitability increase, and which will face competitive pressure. Markets are currently pricing in durable free cash flow among technology companies supporting AI. Technology has accounted for nearly 60% of earnings growth in the US, and AI-related capex spend is now all the rage for investors.

The issue comes down to returns on this vast capex. On some estimates, the hyperscalers (large technology companies that operate massive computing infrastructure and provide global data centers and AI) will have $2.5 trillion in AI assets by the end of the decade. Assuming a depreciation rate on the assets of 20% (5-year replacement cycle) there would be a $500 billion annual depreciation expense, more than these hyperscalers' profits in 2025. So the issue of return on capital spent is still a very open topic and the financial gains from the spending have to be extremely large.

If you believe in AI, you also must expect higher electricity costs, and also greater demand for things needed to provide that electricity, including copper. Commodities and materials are benefiting from growing consumption globally, efforts to increase alternative sources of energy (EVs, renewables and battery storage), governments trying to secure commodities as strategic assets, and the almost unrealistic demand for electricity to power data centers (which themselves require a variety of commodities – especially copper). According to analysts, an AI chip rack contains 2 miles of copper cables. Combined with robotics and defense spending, copper demand is expected to grow 50% over the next 15 years.

Offsetting this growing demand is slow supply, constrained by geopolitics, the long-time frame it takes to bring mines on-stream and other regulatory and environmental hurdles. Rio Tinto claims that in the 1990s it took six years from discovery to production, a process that now takes over fifteen years.

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