Commentary

Is Tech Cyclical?

"For that day" – Joubert in Three Days of the Condor

Patrick Lau, PEng, CFA Lead Portfolio Manager of NCM Global Income Growth Class
Cumberland Investment Counsel Inc., affiliate of NCM Asset Management Ltd.

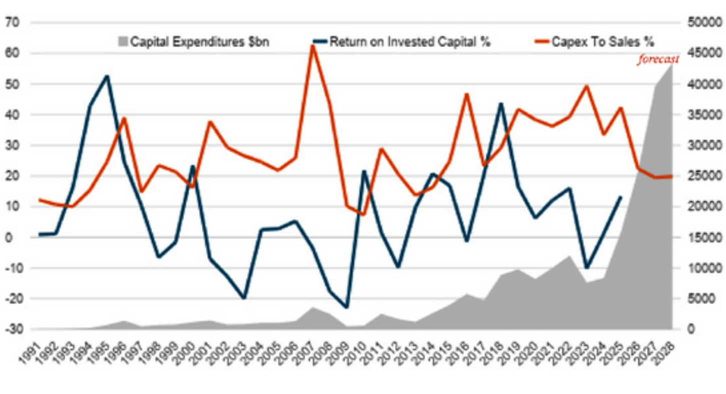
As at June 24, 2026

Historically technology has always been cyclical whether due to product cycles, Windows upgrades or the technology, media and telecom bubble. (Is the name Nortel still triggering?) In this regard it is not too different from commodities like oil & gas or gold that most Canadians are familiar with. We need to look no further back than Covid when everyone needed – immediately – a new computer, smartphone or tablet just so we could Zoom to talk to each other.

Cycles usually start when there is a sudden surge in demand and/or some supply constraint which leads to spikes in pricing followed by capacity responses. Often buyers order more than they need when they see their orders not fully filled – sometimes double or triple ordering. Another telltale sign is when there are a bunch of companies in the industry launching IPOs. One colleague of mine uses his mother: "When my mom starts asking about a stock, that's always the top!"

CHART 1

When capex surges, it tends to lead to losses as reflected in negative ROIC



Source: FactSet

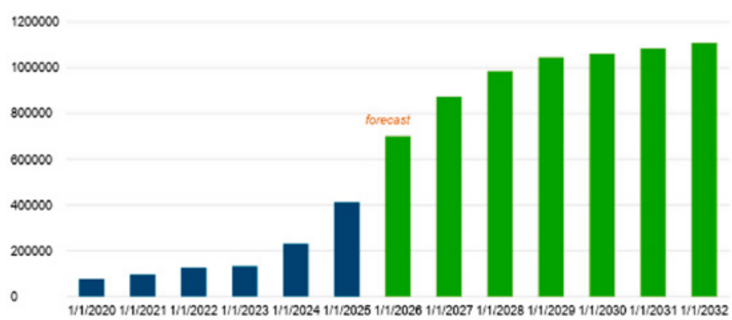
At the moment anything AI are exhibiting practically all the signals above whether it is graphics processing units (Nvidia, AMD, etc), memory (Micron, Hynix, etc), hard disk drives (Western Digital, Seagate, etc), server assemblers (Dell, HP, etc) networking (Cisco, Arista, etc), electronic manufacturing services (Celestica, Jabil, etc), gas turbines (GE Vernova, Siemens Energy, etc), engines (Caterpillar, Cummins, etc), and… the list is long indeed. Numerous market strategists have pointed out that the current bull run in the market is largely driven by technology.

What are arguments against the cycle peaking? Because of the current severe shortage in semiconductors – in particular DRAM & NAND – chipmakers like Micron & Sandisk are seeing an unprecedented level of pricing power. These vendors are traditionally price takers despite the memory industry has evolved from highly fragmented to an oligopoly. Not only that, the scuttlebutt is that these memory players are able to get large upfront cash payments from customers covering at least one year of sales. As shown in the chart above, despite skyrocketing capex, their capex to sales ratios have not risen to historical peaks.

Right now the surge in demand is far surpassing industry capacity along the entire supply chain. Everyone is doing all they can to ensure they can get enough to meet their needs. Hyperscalers capex are projected to be (Calendar Year Estimated) cy26e ~$700bn going to cy27e ~$900bn then onto cy28e ~$1tn. If you believe Nvidia's CEO, he's quoted as saying cy30e ~$3-4tn. So the Bloomberg projections below are too low!

CHART 2

Bloomberg estimates hyperscalers capex will taper off just above $1tn but Nvidia says it should be $3-4tn



Source: Bloomberg, Globe & Mail

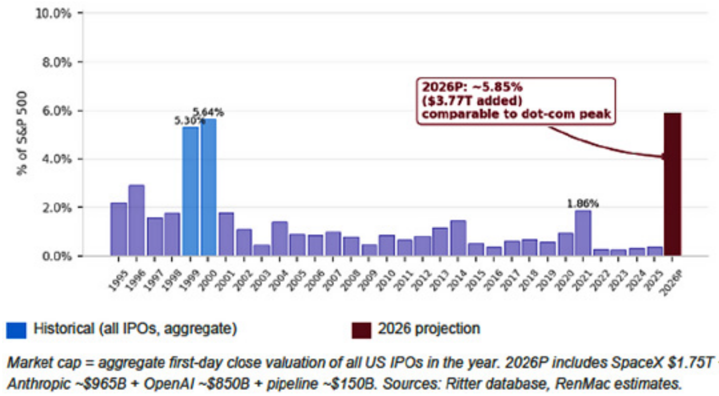
It should be remembered that even if Jensen Huang is right, the old adage "what goes up must come down" will eventually apply. In tech land, things don't have to come down to drive stocks lower. All it takes sometimes is slowing growth.

What could ultimately bring about this slow down? Debt issuances to fund this capex are expected to more than double to $570bn this year and rise to $1tn in 2027. Because of surging token costs, many major companies like Amazon, Walmart, Uber and even Cisco & Meta, are reportedly reining in employee AI use. Despite software development is generally seen as exactly the kind of job that would be cannibalized by AI, tech industry experts like Gartner are saying AI coding costs will overtake an average developer's salary. Maybe more people will focus on the very real environmental impact of these huge installations. Crusoe, a developer of data centres for the likes of OpenAI & Microsoft, has apparently delayed the construction of one. Any company will have to demonstrate to their shareholders a return on their AI spend… one day.

CHART 3

Annual US IPO market cap added as % of S&P 500 total market cap

Coming tech IPOs will surpass TMT



Source: RenMac

To cash in on the present AI euphoria, the projected IPOs coming to market will surpass the TMT peak in percentage market cap terms. Many observers have noted that most of these deals are only floating a tiny portion of their shares, e.g. less than 5% for SpaceX, suggesting the impact to the market is not that much. However, one can be certain more float will eventually come to the market.

When will the day of reckoning be you ask? I'm writing this on June 24, 2026, and today does not look like the day – Micron just reported another big "beat and raise" and their stock is surging +12% aftermarket as I type.

REFERENCES

https://www.reuters.com/business/global-ai-debt-issuance-top-500-billion-2026-morgan-stanley-says-2026-06-10/

https://finance.yahoo.com/sectors/technology/articles/microsoft-data-suggests-using-ai-225900743.html

https://www.gartner.com/en/newsroom/press-releases/2026-06-24-gartner-predicts-ai-coding-costs-will-surpass-average-developer-salary-by-2028-as-token-consumption-surges

https://www.ft.com/content/1d37cc08-e0aa-45a4-a45d-4ad282529314?shareType=nongift

https://teaching.uwo.ca/genai/posts/2025/article_16.html

https://www.theglobeandmail.com/investing/markets/markets-news/Motley%20Fool/35241609/ai-spending-could-reach-4-trillion-by-2030-here-are-3-must-own-stocks-if-it-does/

https://finance.yahoo.com/markets/stocks/articles/spacexs-puny-free-float-sparking-093501922.html

https://www.brookings.edu/articles/the-future-of-data-centers/

https://www.imdb.com/title/tt0073802/quotes/?item=qt0344728

Exane strategist Dennis Jose May 8, 2026

NCM DIVIDEND SOLUTIONS	F	A	T6	F6
PDF NCM GLOBAL INCOME GROWTH CLASS *Global Equity Balanced*	NRP 1000	NRP 1001	NRP 1006	NRP 1009

NCM Asset Management Ltd.

Head Office 1800-333 7th Avenue S.W., Calgary, AB T2P 2Z1 | 310-99 Yorkville Avenue, Toronto, ON M5R 3K5

client services: (877) 531-9355 | toll-free: (877) 431-1407 | info@ncminvestments.com | ncminvestments.com