

Monthly Product Strategy

September 2026



 **AmWealth**

Group Wealth Management

MONTHLY FOCUS

Market Opportunities & Signals

The \$40 Trillion Growth Bet

America's debt looks enormous. It may not matter as much as you think.

Your 30-Second Briefing

- **US\$40 trillion is a huge number, but debt cannot be judged in isolation.** Investors never assess a company by borrowings alone; they look at earnings, assets, growth, funding costs and what the debt is financing.
- **America is not paying today's market yield on the whole debt stock.** Its average interest cost on publicly held federal debt is around 3.4%, with higher rates feeding through gradually as bonds mature.
- **Debt has helped finance America's productive capacity before.** Public funding helped seed the internet, satellite navigation and foundational wireless technologies. Today's equivalents may be Artificial Intelligence ("AI"), semiconductors, energy and advanced manufacturing.
- **The real risk is not US\$40 trillion itself.** It is debt growing faster than the productive economy underneath it.

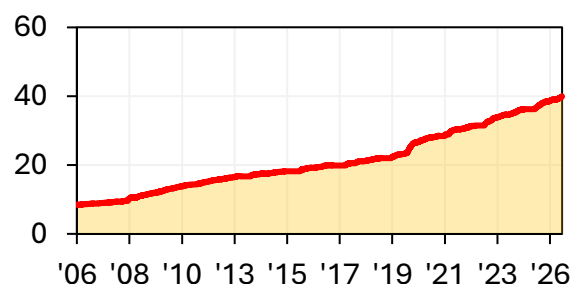
\$40 Trillion. Now What?

US federal debt has crossed US\$40 trillion. It is an extraordinary number, and an easy one to sensationalise.

But imagine being told that a company has US\$100 billion of debt. Would you immediately conclude that it is overleveraged? Probably not. You would ask how large the company is. What does it earn? How quickly are earnings growing?

Record Highs

US Treasury Total Outstanding Debt (US\$, tr)



Source: Bloomberg, 28 August 2026

What assets does it own? What interest rate does it pay? When does the debt mature? And perhaps most importantly: What did it borrow the money to build?

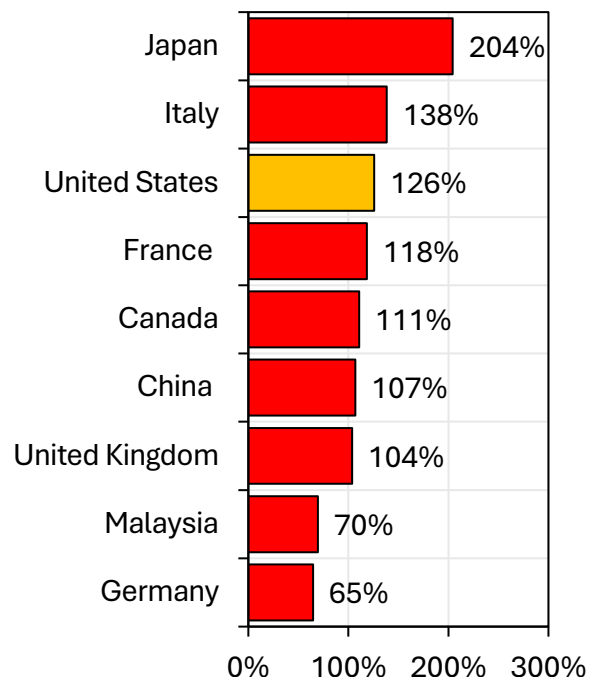
Only then could you decide whether US\$100 billion was reckless or perfectly manageable. The same logic should apply to governments. US\$40 trillion tells us how large the liability is. It tells us very little about the economic machine standing behind it.

Publicly held US debt is roughly 101% of Gross Domestic Product ("GDP"). On broader international measures, America's government debt is around 126% of GDP, high, but not wildly out of line with other large, developed economies.

America is leveraged. That is not the same thing as being insolvent. The more useful question is whether the economy supporting that leverage can continue to grow.

High Debt Levels? US Is Not Alone

G7 Countries Explosive Debt-to-GDP (%)



Source: IMF - Fiscal Monitor (April 2026)

The Debt Is Cheaper Than the Headline Suggests

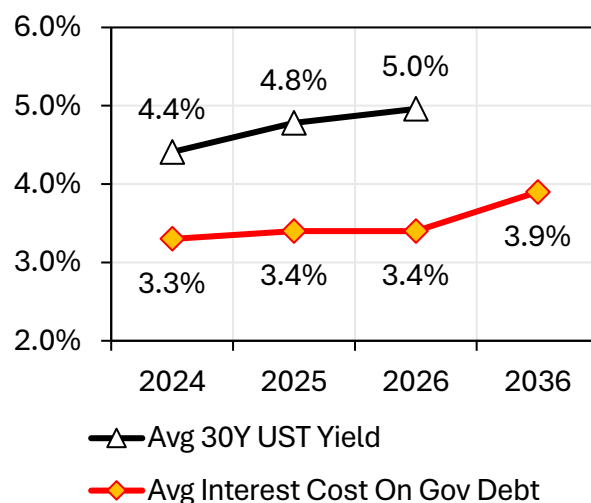
The next misconception is that today's roughly 5% long-term Treasury yield applies to the entire US debt pile. It does not. The average interest rate actually paid on publicly held federal debt is closer to 3.4%. Why? Because US\$40 trillion does not refinance tomorrow morning. Older bonds mature gradually, so higher market yields take years to work their way through the average cost of the debt.

The corporate analogy works here too. A company may issue a new bond at 5% while still carrying billions of older debts at 3%. Its marginal borrowing cost has risen. Its whole balance sheet has not suddenly repriced.

That difference gives America something valuable: time for the denominator to grow.

Elevated Yields, But Costs Under Control

30Y UST Yields vs Avg. Federal Debt Interest Rate



Source: FRED, Congressional Budget Office (28 August 2026)

Which Raises the Bigger Question: What Is the Debt Supporting?

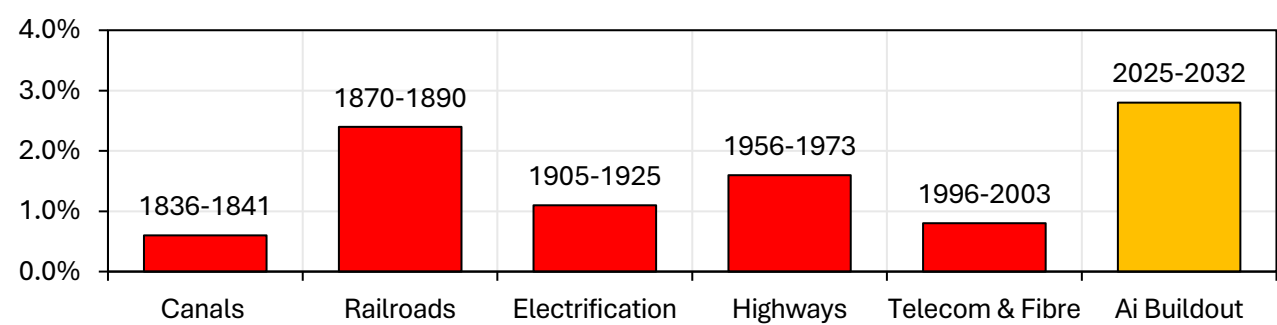
Not every borrowed dollar is productive. Federal spending also finances healthcare, pensions, defence, income support and interest itself. It would be misleading to pretend America borrowed US\$40 trillion to build laboratories and data centres.

But fiscal capacity also allows governments to finance projects that private markets may struggle to fund initially, particularly research and infrastructure where the commercial payoff is uncertain or decades away.

America has done this remarkably well before. Early government-funded computer networks helped lay the foundations for the internet. Government-funded satellite navigation began as defence infrastructure before becoming indispensable to smartphones, aviation, logistics and agriculture.

America’s Next Growth Engine Is Capital Intensive

Capex as % of GDP



Source: Bloomberg, Columbia Business School (10 August 2026)

Public research also helped underpin cellular networks, Wi-Fi, semiconductors and modern communications infrastructure. Government did not build Amazon, Uber or the iPhone. It funded some of the science and infrastructure that allowed those businesses to exist. Public capital absorbed the early uncertainty. Private capital turned it into an industry.

AI May Be the Next Version of That Story

The next US growth cycle is unusually capital hungry. Artificial intelligence (“AI”) requires far more than software. It needs chips, semiconductor plants, data centres, electricity generation, transmission grids, cooling systems, fibre networks and critical minerals. Reshoring needs factories. Automation needs robotics and machine tools. Defence modernisation needs satellites, sensors and advanced electronics. That means America could be moving from an asset-light digital economy into a new cycle where software and physical infrastructure reinforce each other.

The government does not need to finance all of this. Its most valuable role may simply be to fund research, infrastructure and early capacity that makes larger amounts of private investment viable. Government takes the first risk. Markets scale the return.

That has been a powerful American formula before.

Can Productive Debt Actually Help Pay for Itself?

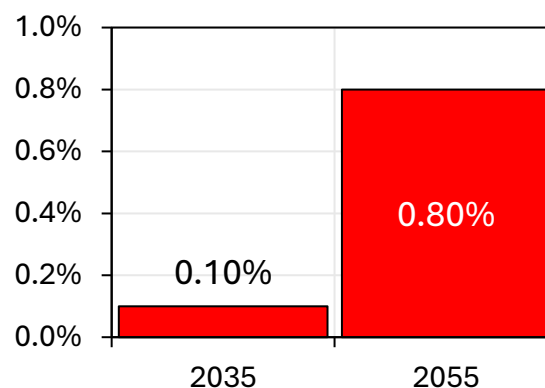
Sometimes. The Congressional Budget Office has modelled an additional US\$300 billion of federally funded research and development financed through borrowing. At first, deficits increased.

But the additional research raised productivity. By 2055, real GDP was estimated to be 0.8% larger than otherwise, while the larger economy eventually generated enough additional revenue to offset part of the initial fiscal cost.

That does not mean every government programme pays for itself. It means borrowing must be judged partly by what exists on the other side of the balance sheet.

The Payoff Takes Time

Increase in GDP through Federal R&D Financing



Source: Congressional Budget Office (30 July 2025)

Infrastructure. Technology. Higher productivity. New businesses. Higher incomes. A larger tax base. And ultimately, a larger economy capable of carrying more debt.

America Does Not Need to Pay Off \$40 Trillion

The US will probably never reduce federal debt from US\$40 trillion to zero. It does not need to. Governments refinance their liabilities continuously. The objective is to stop the debt burden from growing faster than national income. Real productivity expands output. Moderate inflation increases nominal GDP and tax receipts.

Fiscal reform can narrow structural deficits. And long debt maturities slow the transmission of higher interest rates. There is still a limit. Current projections show publicly held debt continuing to climb relative to GDP over the coming decade. Interest costs are also taking an increasingly large share of government revenue. So, adjustment will eventually be necessary. But there is a difference between fiscal discipline and fiscal self-harm.

Fix the Debt Without Killing the Growth

America eventually needs to restrain structural deficits. But aggressively cutting research, infrastructure and productive investment to make next year's deficit look better could be the sovereign equivalent of a company cancelling its best growth projects simply to improve one quarter's free cash flow. The smarter path is growth-first consolidation. Protect high-return investment. Improve inefficient spending. Gradually reform taxes and programmes whose costs are compounding faster than the economy. And allow productivity and nominal growth to do part of the fiscal work. Politics will increasingly force that debate.

The November 2026 midterm elections provide the next checkpoint, while bond markets, Congress and an independent Federal Reserve provide additional constraints on fiscal excess. The debt path is not guaranteed to continue untouched forever. Eventually, the arithmetic forces choices.

Why Austerity Is Not a Free Lunch

Those choices matter beyond the United States too. A severe US fiscal contraction would weaken domestic demand, reduce imports and tighten financial conditions globally. America remains a major source of consumption, capital and technological innovation for the rest of the world.

Its public funding has also helped create technologies whose returns spread far beyond US borders. The internet is a global infrastructure. Satellite navigation is a global infrastructure. Semiconductors and wireless communications underpin practically every modern economy. So, the answer is not endless deficits. But neither is abruptly starving the investment engine that helps expand global productive capacity. The destination should be fiscal discipline. The route should preserve growth.

Now Think About a 40x P/E

This is where the investor analogy becomes useful again. Why would anybody buy a stock at 40 times earnings? Because nobody paying 40x believes today's earnings are the final earnings. Suppose a company earns US\$1 per share and trades at US\$40.

That is 40x earnings. If earnings eventually double to US\$2 while the share price stays at US\$40, the valuation falls to 20x. The price never had to fall. The denominator grew into it.

History Lesson: The Economy Grew into the Debt

Debt-to-GDP Eases as Economy Expands

Selected Fiscal Year	1946	1974
US Outstanding Debt	\$249.1 bn	\$343.7 bn
Nominal GDP	\$227.5 bn	\$1.55 tr
Debt/GDP	106%	23.8%

Source: Congressional Budget Office, US Bureau of Economic Analysis, FRED (28 Aug 2026)

US sovereign debt is obviously not a P/E ratio. GDP is not corporate earnings. But the underlying logic is strikingly similar. US\$40 trillion looks terrifying if today's economy is treated as the permanent denominator.

It looks different if artificial intelligence, automation, energy investment, advanced manufacturing and future industries make the American economy much larger over the next decade. That is why the headline debt number cannot be separated from growth. A 40x company is dangerous when the earnings never arrive. A highly indebted country is dangerous when the growth never arrives.

US\$40 trillion is not the end of the analysis. It is the beginning of the valuation exercise.

Weekly Wealth Solutions Highlight

Scan the QR Code to access the **AmBank Wealth Digest** and download our weekly wealth solutions.



KEY DEVELOPMENTS

AI, Inflation and the Federal Reserve (“Fed”)

As AI investment continues to exceed expectations, the Fed is signalling it may keep rates higher for longer if inflation remains sticky. At first glance, the two stories seem at odds. They may be part of the same story.

AI is emerging as America's next major growth engine, much like the internet and mobile revolution before it. The buildout of data centres, semiconductors, power infrastructure and automation requires enormous investment today, but those investments are designed to boost productivity and expand the economy tomorrow.

The challenge is timing. This spending can create inflationary pressure in the short term by increasing demand for labour, energy and industrial inputs. That leaves the Fed balancing two objectives: containing inflation today while allowing the foundations of future growth to be built.

Viewed this way, higher rates and heavy AI spending are not necessarily conflicting forces. Businesses are investing in a larger economy tomorrow, while the Fed works to prevent that investment boom from overheating the economy today.

This matters for the debt debate. The real question is not whether the US owes US\$40 trillion, but whether the economy can continue growing beneath it. If AI delivers the productivity gains many expect, a larger and more productive economy can support a larger debt burden over time.

Bottom line: America's debt story may ultimately be a growth story. AI has the potential to become the next engine of productivity and economic expansion. The Fed's role is simply to ensure that the journey from investment to growth does not create more inflation than the economy can absorb.



Fund Ideas

Your Wealth, Our Best Personal Wealth Solutions

Nomura Global Shariah Semiconductor Fund

Artificial intelligence may be one of the clearest examples of how productive investment can transform economic growth. As governments and private companies continue investing in data centres, advanced computing and AI infrastructure, semiconductors remain at the centre of this expansion.

- **Direct Exposure to the AI Buildout** through leading global semiconductor companies powering AI, cloud computing and advanced computing applications.
- **Benefit from Long-Term Capital Investment** as spending on chips, data centres and digital infrastructure continues to accelerate.
- **Shariah-Compliant Access to Innovation** by investing in companies enabling the next generation of technological productivity and economic growth.

Bottom line: Invest in the technology powering the next wave of economic expansion.

Note: Intended for sophisticated investors only, as defined under applicable Malaysian laws and guidelines. Please refer to the Fund Prospectus for Nomura Global Shariah Semiconductor Fund, dated 25 July 2022, available at www.nomura-asset.com.my, and the latest supplemental document, if any, before investing.

AmGold Plus

While the long-term growth story remains compelling, investors may also wish to hedge against the risk that debt rises faster than economic growth. Gold and other precious metals have historically served as a store of value during periods of fiscal uncertainty; inflation concerns and market volatility.

- **Portfolio Diversifier and Risk Hedge** during periods of economic uncertainty, inflation concerns or market stress.
- **Supported by Multiple Demand Drivers** including central bank reserve accumulation, jewellery demand, industrial applications and investment demand.
- **Alternative to Fiat Currency Risk** as investors seek assets that are less dependent on government fiscal policies or debt dynamics.

Bottom line: Own a strategic hedge while the market debates whether growth ultimately keeps pace with debt.

Note: Intended for sophisticated investors only, as defined under applicable Malaysian laws and guidelines. It is not intended for retail investors. Please refer to the Information Memorandum for AmGold Plus Fund, dated 30 December 2025, available at www.aminvest.com, and the latest supplemental document, if any, before investing.

Bond Ideas

United States Treasury Note/Bond 3.75% 15/11/2043

The US\$40 trillion debt headline has raised concerns about America's fiscal sustainability. However, debt is only one side of the equation. If the US economy continues to benefit from investment in artificial intelligence, infrastructure, energy and advanced manufacturing, a larger and more productive economy could help support the debt burden over time.

For investors who believe the market may be underestimating America's long-term growth potential, the US Treasury 3.75% 2043 represents a direct way to express that view. Rather than betting on a specific company or industry, investors gain exposure to the US government's ability to refinance its obligations and expand the economic base underpinning the debt. Overall, it offers an opportunity to align with the view that growth, productivity and innovation can remain powerful forces in sustaining America's fiscal position.



HSBC Holdings PLC 5.874% 18/11/2035 Tier 2 Subnotes

For investors seeking an alternative source of income that is less directly tied to the US debt narrative, HSBC Holdings offers exposure to one of the world's most diversified banking franchises. The group generates earnings across Asia, Europe, the Middle East and the Americas, providing broad geographic diversification and multiple drivers of profitability.

While the security carries Tier 2 subordinated status, investors are compensated with a higher yield from a globally systemically important bank backed by strong capital and liquidity positions. Overall, it offers attractive income potential while providing diversified exposure to global economic activity rather than relying solely on the US growth and fiscal outlook.

Note: Indicative prices and yields may change without notice. Bonds are not deposits and are subject to credit, interest-rate, market-price, liquidity and foreign-exchange risks. Callable bonds may be redeemed early. Tier 2 instruments are subordinated and may be subject to loss-absorption or regulatory action. Investors may lose some or all of their invested capital. Credit ratings may change and should not be solely relied upon.

Structured Ideas

The debate surrounding America's US\$40 trillion debt burden ultimately comes down to one question: can investment today generate enough productivity and economic growth tomorrow to support a larger economy? If artificial intelligence, digital infrastructure and advanced manufacturing become the next engines of growth, investors can participate through different parts of this investment cycle.

Structured Investments: Iren Ltd & Yangtze Optical Fiber & Cable JSC

Iren Ltd provides exposure to the growth side of the equation. As demand for AI computing power accelerates, the company stands to benefit from rising requirements for data centre capacity, high-performance computing and digital infrastructure. It is a direct way to participate if AI drives the productivity gains and economic expansion needed to justify today's investment spending.

KIKO Autocallable | Monthly Coupon Payout | Underlying: Iren Ltd

Ticker	Currency	Tenure	Strike	Knock Out	Knock In	Coupon
IREN US	MYR	6M	98.0	98.0	65.0	20.1% p.a.

Note: Historical Pricing (27 August 2026) Please check with your respective RM's for updated pricing.

Yangtze Optical Fibre & Cable (YOFC) offers a different perspective. Rather than betting solely on America's ability to convert investment and debt into future growth, YOFC provides exposure to China's digital and communications infrastructure buildout. As AI adoption expands globally, demand for fibre networks and data transmission capacity should continue to rise regardless of whether leadership ultimately resides with the US or China.

KIKO Autocallable | Monthly Coupon Payout | Underlying: Yangtze Optical Fiber & Cable JSC

Ticker	Currency	Tenure	Strike	Knock Out	Knock In	Coupon
6869 HK	MYR	6M	85.0	102.0	56.5	30.0% p.a.

Note: Historical Pricing (26 August 2026) Please check with your respective RM's for updated pricing.

Together, the two ideas provide flexibility. Iren offers participation in the US-led AI growth story, while YOFC provides exposure to China's digital infrastructure ecosystem as an alternative source of long-term growth. One expresses confidence in the American productivity narrative; the other offers diversification through China's ongoing technology and connectivity expansion.

Note: This structured investment is not principal protected. The stated coupon or payout is subject to the product terms and conditions and is not a guaranteed investment return. If a knock-in event occurs, investors may suffer substantial loss of principal based on the performance of the underlying share. Investors are also exposed to issuer credit risk, market risk, foreign-exchange risk and limited liquidity. Early redemption may limit the total coupon received. Please read the applicable term sheet and disclosure document before investing.

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