

# Is it an AI Bubble? Or Is It Driving Real Market Value?

AI's growth is transforming markets, offering new opportunities and challenges for investors across industries.

AI is the acronym on everyone's lips—and for good reason. The tech sector has long driven equity market leadership, especially in the US, and artificial intelligence is poised to amplify that strength, unlocking new levels of efficiency and innovation.

The rapid rise of AI has pushed equity valuations higher, sparking both optimism and unease. Skeptics draw parallels to the dot-com bubble, while enthusiasts argue that today's leaders are delivering not only the promise of innovation but also profit.

**FIGURE 1** compares global price/earnings (P/E)<sup>1</sup> ratios to net margins.<sup>2</sup> Today's ratio is close to the 20-year average, which suggests that current equity valuations are not inflated but are supported by strong fundamentals. For those concerned that AI is a bubble, where asset prices rise far beyond intrinsic value only to collapse, we say: fear not.

**FIGURE 1**  
**Valuations Track Fundamentals Despite AI Surge**  
MSCI World Index: Valuation-to-Margin Ratio

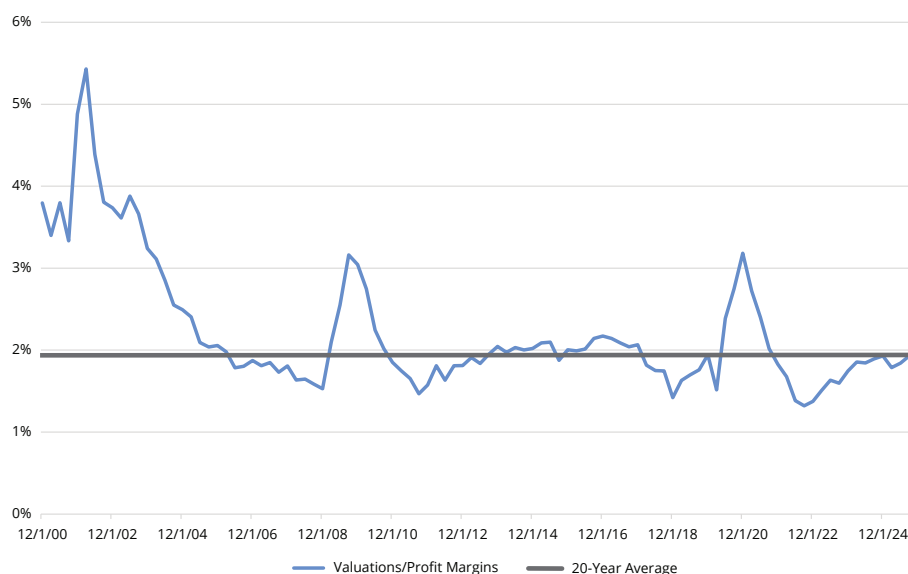


Chart Data: 12/31/00-9/30/25. **Past performance does not guarantee future results.** Indices are unmanaged and are unavailable for direct investment. Trailing 12-month P/E of MSCI World Index divided by trailing 12-month net profit margin of the MSCI World Index (US dollars). The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. For illustrative purposes only. Data Sources: Wellington Management, Refinitiv, and FactSet.

## Insight from sub-adviser Wellington Management



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## Key Points

- AI is fueling market growth, but current valuations are grounded in strong fundamentals rather than speculation.
- The scale and speed of AI investment are creating both opportunities and challenges, especially as infrastructure and cross-industry adoption accelerate.
- A broad, research-driven approach—considering fundamentals, ripple effects, and asset classes—can help investors navigate risks and identify potential winners.

## What This Means for Investors

The scale of AI investment is unprecedented, and the transformative potential of this technology across virtually every industry (and everyday life) is massive. That said, not all AI players will be winners.

In our view, there are a few things to consider when it comes to seeking out the potential beneficiaries of AI investment:

- **Infrastructure:** Despite the massive scale of AI investment, infrastructure is already under strain. There aren't enough data centers with the computing power needed to sustain AI's rapid growth. To fully realize the potential of AI, significant infrastructure buildout will be essential. And that expansion won't stop at tech—it could ripple into sectors such as utilities and energy. In short, the infrastructure demands of AI could create positive investment opportunities well beyond technology.
- **Fundamentals:** US growth is increasingly tied to AI. Infrastructure spending and tech earnings have helped support GDP and equity markets, offsetting the tariff-related drag that might have occurred otherwise. The US economy has become more dependent on its dominant tech sector, raising the stakes for the narrative of US exceptionalism. The higher a sector climbs, the harder it can fall, which makes it critical to stay prudent with AI and tech allocations, focusing on quality and fundamentals.
- **Ripple effects:** Selection beyond tech is essential. Many companies outside the tech sector are already weaving AI into their workflows, though broad benefits have yet to materialize. Still, we see early signs of progress that could grow into meaningful returns as adoption accelerates, and businesses apply AI more creatively across diverse industries.
- **Big-picture thinking:** While public equities often dominate the conversation around AI investing, the opportunity spans multiple asset classes. In private markets, early-stage AI companies can offer long-term growth potential. In fixed income, AI-driven demand for utilities and infrastructure is creating opportunities in related credit. This underscores the need for cross-asset expertise—not just an understanding of the technology itself. An active approach, backed by deep research and broad capabilities, can help investors take a more holistic view of this innovation.



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## What Could Change Our Minds

While we're confident AI and the tech sector aren't presently in bubble territory, several factors could shift the outlook:

- **Capex<sup>3</sup> vs. returns:** Massive AI spending could generate strong returns or lead to overcapacity and declining return on investment.
- **Strategic cross-investments:** These echo patterns from the dot-com era and highlight risks in highly interdependent ecosystems.
- **Federal Reserve policy:** Current interest rates are more supportive than during the dot-com days, but a shift—driven by tariffs or knock-on effects from legislation like the One Big Beautiful Bill Act—could increase bubble risk.

## The Bottom Line

In our view, AI is creating real market value. Investors who approach the opportunity set through the lenses outlined above may be better poised to discern potential winners and losers.

**To learn more about the impact of AI on the market,  
please talk to your financial professional.**

<sup>1</sup> The price-to-earnings ratio measures a company's share price relative to its earnings-per-share and helps assess the relative value of a company's stock.

<sup>2</sup> Net margins show the percentage of revenue a company keeps as profit after covering all its costs.

<sup>3</sup> Capital expenditures are the money a company spends to buy or upgrade long-term assets such as buildings or equipment.

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