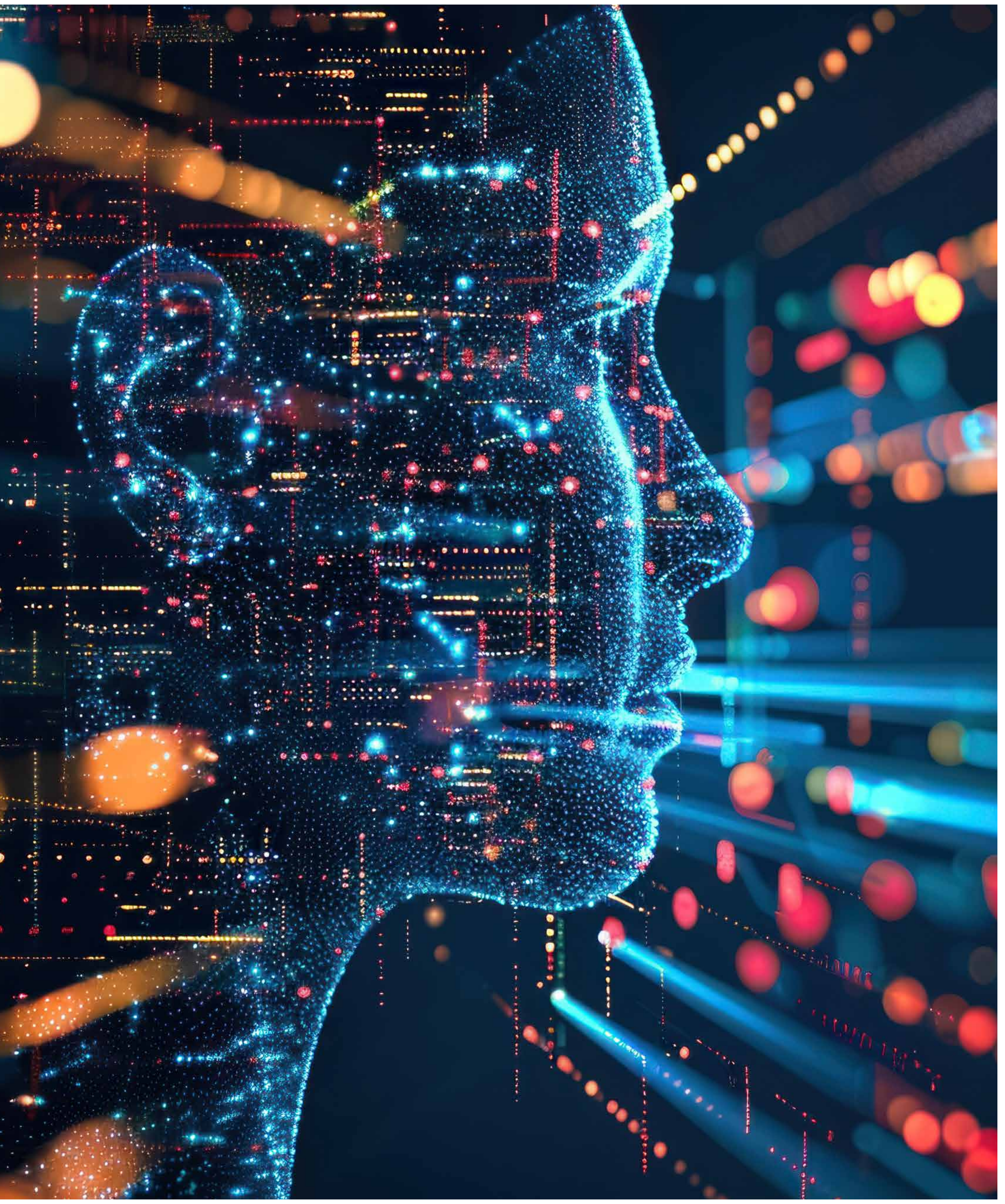
Sector Theme 02

The AI Revolution

The AI Revolution: Unveiling the Multi-Stage Transformation



STAGE
01

The Infrastructure Buildout

The evolution of artificial intelligence (AI) is unfolding in multiple stages with significant implications across equity markets.

The first stage centered on the large infrastructure buildout by the "Magnificent Seven" to support the compute power needed for training large language models (LLMs).

This stage saw a massive capital expenditure boom, fueling gains in Nvidia Corp and other semiconductor companies as they provided specialized chips critical to AI development.

STAGE
02

Expansion of the Infrastructure Value Chain

In 2024, the AI theme expanded beyond semiconductors to further parts of the infrastructure value chain and energy requirements.

Data center growth, the backbone of AI infrastructure, became a key driver of themes in utilities, natural gas, and uranium equities.

This growth was fueled by optimism surrounding a potential nuclear renaissance to power the energy-intensive data centers required for AI operations.

KEY TAKEWAY

Navigating the Multi-Decade Path of AI Adoption

The evolution of AI is progressing through a multi-stage development process with transformative implications for equity markets.

From the initial infrastructure buildout to the current expansion of value chains and the anticipated monetization via software applications, each phase presents distinct opportunities and risks.

As investors navigate this journey, it is essential to remain mindful of historical parallels and to approach AI-driven opportunities with a balance of optimism and caution.

Our View

In 2025, early signs of a shift in focus emerged as the market began to question whether the massive infrastructure buildout would pay off through software applications. A notable milestone was Salesforce's announcement of "Agentforce," a labour automation offering initially targeted at customer service. This announcement may have marked the starting point for a broader race to develop AI-driven software applications.

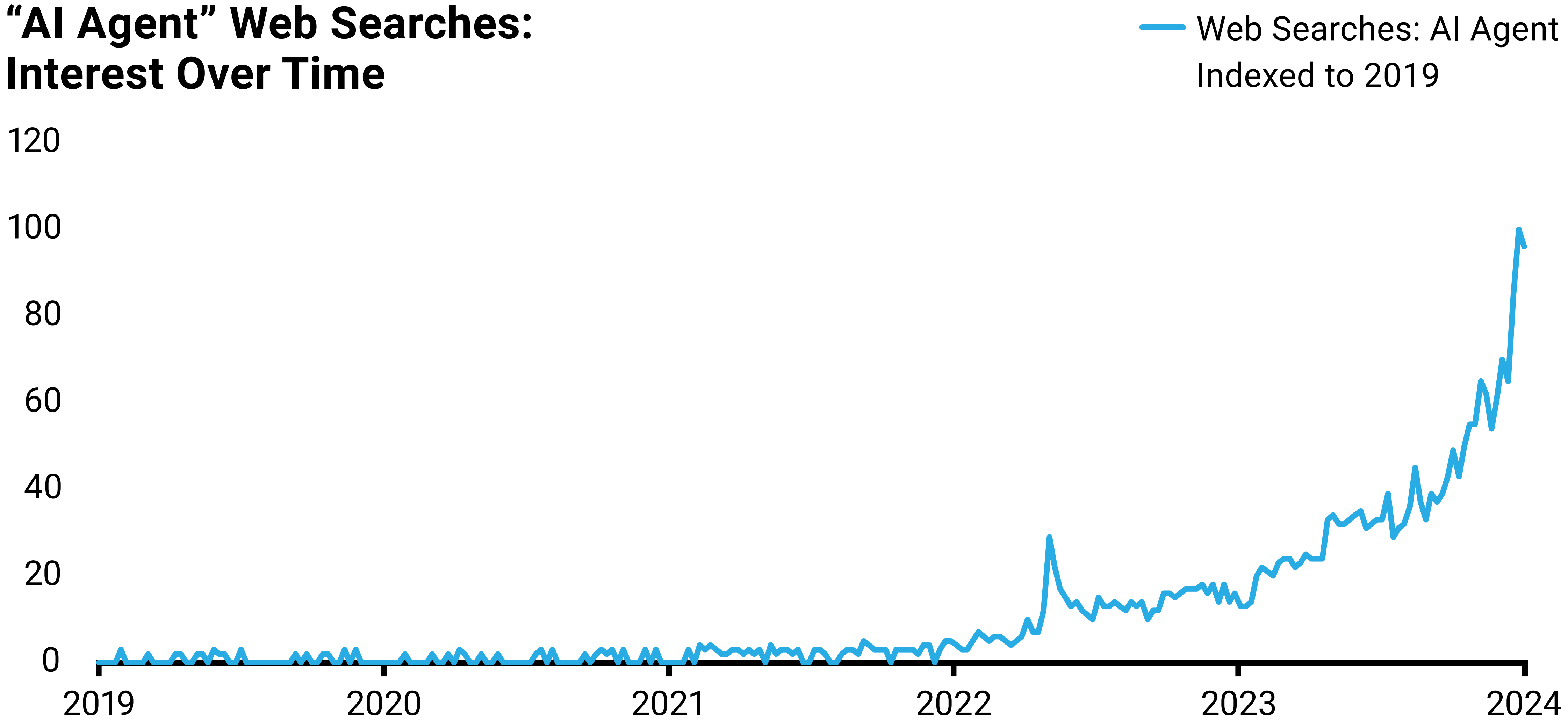
Early success cases in AI software deployment have the potential to spark market froth. If the market gains conviction that AI software can replace labour in a relatively short time span, it could fuel an AI bubble, driving valuations higher for software companies and perceived winners in this space.

Parallels to the Dot-Com Era: Risks and Cautionary Notes. While enthusiasm for AI has the potential to drive an asset bubble, some parallels to the dot-com era are emerging. During that period, inflated expectations and valuations were driven more by hype than by financial fundamentals. Similarly, the current AI frenzy could lead to over-exuberance as valuations stretch beyond what is justified by near-term profitability.

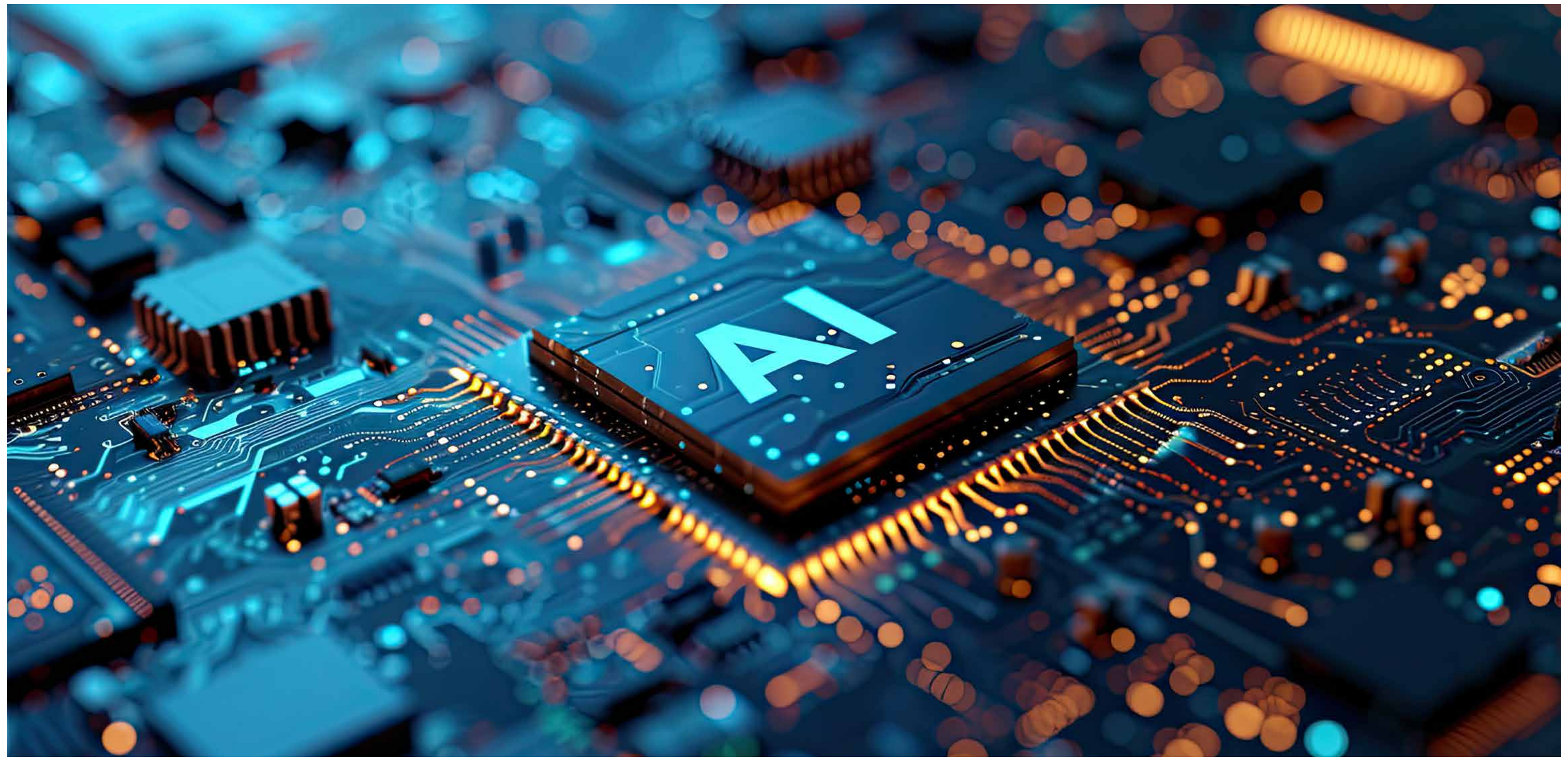
Investors should remain vigilant, as history shows that excesses tied to new innovations can emerge in equity markets. As with the internet boom, the path of AI adoption and monetization will likely span multiple decades. While the ongoing AI arms race has initiated a capital spending boom, its long-term profitability remains uncertain.

FIGURE 3

"AI Agent" Web Searches: Interest Over Time



Source: Google Trends, Picton Mahoney Asset Management Research. Dec 2019 to Dec 2024.



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