

## Are We in an AI Bubble?

### Key Takeaways

- Strong gains and **massive investment in a handful of AI stocks** have led to bubble concerns.
- The market currently **exhibits mixed signals, with hints of excessive risk-taking** but not yet the "critical mass of mania" seen in previous bubbles.
- While it appears we are not in a bubble yet, high levels of market concentration and increased competition in the AI space suggest the **financial stakes are rising fast**.

Artificial Intelligence (AI) has sparked strong market gains and massive investment over the past few years. The Magnificent 7 are the leading group of U.S. technology companies (Alphabet/Google, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla) in the AI race. Three years after OpenAI kick-started the generative AI rush with the launch of ChatGPT, this group has seen 300% gains compared to the S&P 500 index, which gained 100%<sup>1</sup>. As they have experienced outsized gains, these seven companies now make up over 35% of the S&P 500's value<sup>2</sup>. That's huge. All of this sounds frothy.

History shows that innovative technologies, from electricity to the internet, can fuel fierce competition and speculative bets that can turn into a bubble. In addition, while today's massive spending on AI infrastructure lays the groundwork for future usage, investors are also unsure how this technology will be used and if it will yield revenues down the road. This has led to skepticism and raised the question of whether we are in an AI bubble.

Google's Gemini defines a stock market bubble as "a situation where stock prices rise far above their actual values – driven by irrational exuberance rather than fundamentals like earnings or economic performance". I suppose it's comforting to know that AI got that right.

However, to be clear, spotting when we are in a bubble is challenging. If we knew with certainty how to spot a bubble, it would be easy to avoid it or, even better, prevent it from happening. It's even harder to know the stage of the bubble. So all we can do is make our best assessment of what's similar and different today to past bubbles and share a few of the signals to keep an eye on. To be honest, the signals are mixed today.

### Bubble Watch

**When AI spending starts to slow.** Investment spending in the dot-com era rose similarly in the 90s. Spending peaked in 2000 and began to tumble in the months leading up to the dot-com crash. Today, the leading AI companies have tripled their annual capital investment (capex) spending from \$150 billion in 2023 to what could be over \$500 billion in 2026<sup>3</sup>. For the first time in history, in the first half of 2025, AI's contribution to GDP growth equaled all of U.S. consumers' spending contribution to GDP growth<sup>4</sup>. This is remarkable since consumer spending on average drives 70% of economic growth. AI investment is currently around 1% of GDP. Historically, investments for disruptive technologies (e.g., electricity, communications) peaked at 2%–5% of GDP<sup>5</sup>. This shows that, as large as the AI capex has been to date, it could still grow from here.

**When AI adoption fails to grow.** U.S. Census Bureau data show that around 10% of businesses are using AI to produce goods or services today. Studies expect this level to rise to 14% within the next six months<sup>6</sup>, a critical milestone for further acceleration. Broader adoption will be key to monetizing the AI spend to date.

**When profitability turns.** So far, the massive growth in the Mag-7 companies has been driven by fundamental growth rather than irrational speculation about future growth. Unlike the dot-com bubble, Mag-7 companies are highly profitable, and the growth is largely financed by cash, not just debt and speculation<sup>7</sup>. Today, more companies are profitable and generating positive cash flow, while a smaller cohort are not.

**When borrowing costs are rising.** Today, the Federal Reserve is continuing to cut interest rates. Additionally, the premium for borrowing money in the technology sector as a whole has remained steady. However, select companies that are less prudent are seeing rising costs. This is a healthy sign that the markets are not complacent.

Overall, when looking at today's signals, we don't see any flashing red warning signs. Some are yellow, while some signs are still green. The market currently exhibits mixed signals, with hints of excessive risk-taking but not yet the "critical mass of mania" seen in previous bubbles.

## What Can Investors Do?

While it appears we are not in a bubble yet, high levels of market concentration and increased competition in the AI space suggest the financial stakes are rising fast. Here are some considerations for navigating this challenge.

**Maintain perspective.** The dot-com crash wiped out many firms, but it also gave us the internet we rely on today. Similarly, today's AI frenzy doesn't mean that the underlying technology is just hype and will likely mint the next generation of companies. In the late 1990s, it was hard for investors to imagine a future that would bring Netflix to their personal devices when they were returning videos at Blockbuster.

**Diversification.** Investors can consider expanding beyond a concentration in large-cap AI stocks to include other sectors that haven't enjoyed the same gains in the U.S. markets or even expand to international markets.

**Focus on fundamentals.** Seek companies with strong balance sheets, clear profits, and a viable business plan for monetizing AI, not just those with the highest hype.

**Maintain liquidity.** Holding some cash or lines of credit provides a buffer against potential volatility and allows one to capitalize on opportunities if a market correction occurs.

**Plan.** Most importantly, have a plan based on one's risk tolerance and time horizon, and avoid emotional decisions driven by market euphoria or fear.

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<sup>1</sup> FactSet. Nov 2022-Nov 2025

<sup>2</sup> FactSet. Data as of 11/30/2025

<sup>3</sup> JPMorgan Outlook for 2026

<sup>4</sup> Apollo. Renaissance Macro Research.

<sup>5</sup> JPMorgan Outlook for 2026

<sup>6</sup> UBS. Year Ahead 2026 Outlook

<sup>7</sup> FactSet.

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