



What if AI Is Not a Bubble?

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In the fourth quarter of 2025, search queries for ‘AI bubble’ surged. Even as bubble concerns grew, Nvidia became the first company to be worth \$5 trillion dollars.¹ The bubble framing has serious advocates. Jeremy Grantham, in GMO’s January 2026 quarterly letter, applies the firm’s two-standard-deviation test and concludes that US equities have been in bubble territory for a prolonged period, noting that AI capital expenditure as a share of GDP is exceeding even the railroad cycle.² Some headlines have shifted to worrying about why it is so hard to spot a bubble in real time.³

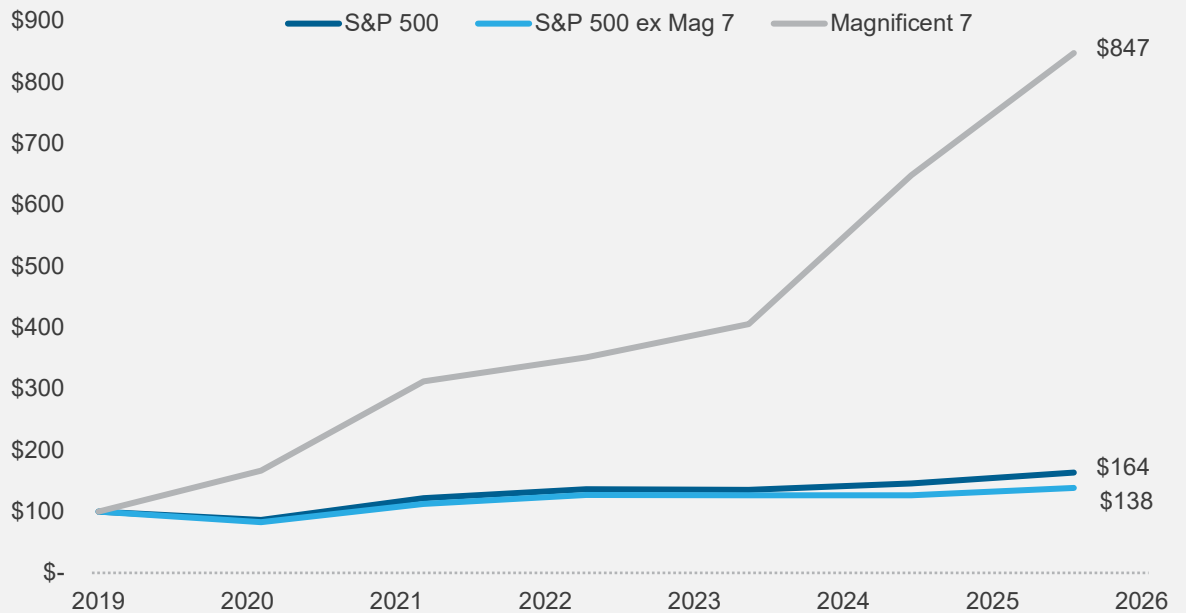
The growth in first-quarter 2026 GDP in the US can be largely attributed to the heavy investment in AI-related infrastructure. The US economy grew slightly above expectations, at 2%, with private investment related to AI accounting for 1.5% of GDP growth.⁴ Fears exist that, just as AI may be distorting the stock market, it is having a macroeconomic impact that is distorting US GDP.⁵ But what if the AI bubble is really an AI boom? Or could it be an AI bust?

There are many definitions of a bubble, and most bubbles have been defined after the event. Typically, asset price bubbles, like a stock market bubble, depend on the growth of borrowing (i.e., credit), combined with widespread enthusiasm or mania.⁶ In general, a stock market bubble will display overvaluation, speculative trading (often on margin), strong inflows, and most importantly widespread public enthusiasm.

Judging the current situation on these criteria, the verdict is far from clear. First, the AI bubble is not dependent on cheap capital. In the current cycle, interest rates are near their highest level in twenty years. While some companies like Meta and Oracle are issuing debt to build out data centers, others are largely able to self-finance through earnings. Spending on AI related infrastructure and computing power has grown six-fold since 2022. Demand for computing power and memory is growing rapidly. In the US AI related capex was approximately \$785 billion dollars. In 2027, AI capex is forecast to reach nearly \$1 trillion dollars according to Moody’s.⁷ Moreover, AI infrastructure is in the strategic self-interest of big tech companies in the US and an issue of national defense. The AI infrastructure build out may be the largest infrastructure buildout in modern human history, spanning the entire energy complex, telecommunications, and computing infrastructure, as well as software AI models and applications.⁸ But as with previous bubbles, the AI infrastructure build out could end with little to show for it.

Figure 1
Earnings Per Share

Source: Bloomberg May 2026.
Index earnings per share
growth of \$100 since 2019.



The portfolio response to a bubble with “winners and losers” is materially different from the response that sees the outcome of a bubble to be “everyone loses.”

But with all of this spending, this naturally leads to questions about company revenue and earnings. In short, they are very strong. Continued earnings growth in recent quarters has quelled some concerns that AI spending would fail to deliver returns. Thus far, the bellwether AI stocks in the Magnificent Seven continue to deliver earnings growth well above the rest of the US stock

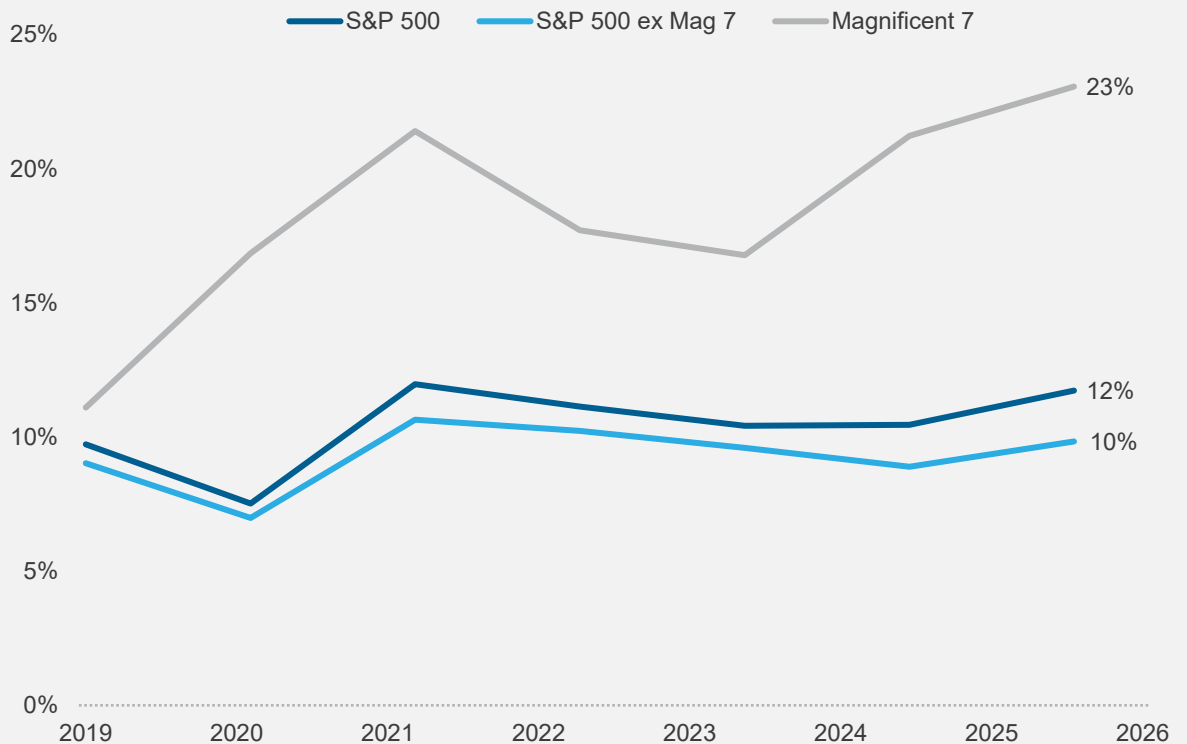
market (see Figure 1). Profit margins for the Magnificent Seven have remained substantially higher than the rest of the S&P 500. (Figure 2).

The Magnificent Seven deliver real revenue and real profits. Forward earnings multiples in the 28 to 30 range are demanding but not in the same category as the 66 times forward earnings of the Nasdaq peak in March 2000.⁹

A more useful question is not whether the spending pipeline gets validated in aggregate but whether it gets validated company by company. Bubble narratives implicitly forecast universal collapse, in the manner of the Dot-com bubble at the turn of the century. The more probable outcome is dispersion: a handful of AI model-layer winners like Anthropic or OpenAI, a larger group of infrastructure and energy beneficiaries with contracted cash flows, and a long tail of speculative application-layer ventures that do not earn back their cost of capital. The portfolio response to a bubble with “winners and losers” is materially different from the response that sees the outcome of a bubble to be “everyone loses.”

Figure 2
Average Profit Margins of the Magnificent Seven

Source: Bloomberg as of April 30, 2026.



AI exposure in institutional investment portfolios might be wider than just high-profile technology company stocks. One widely referenced approach to categorizing AI exposure distinguishes four phases of the value chain: the AI creators like OpenAI and Anthropic, the enablers like data centers, the firms charging for AI features like Microsoft and the businesses that benefit from AI adoption. A potential fifth category of disrupted or displaced businesses like some software companies could number among the losers of the AI boom.

AI pessimism among the general public has been on the rise for several months and over half of planned data centers are now tied up in regulatory red tape. At the state-level, political opposition and limiting legislation have increased. In 2025, opposition either blocked or delayed dozens of data center projects worth approximately \$152B in potential investment. Concerns about energy prices, utility regulations and data centers may play a part in mid-term elections. Opinion surveys and concerns about AI-related job losses appear to be gaining momentum as well.¹⁰

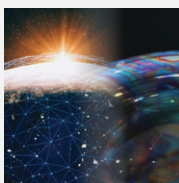
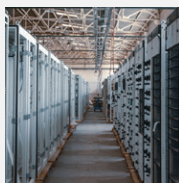
The AI bubble thesis deserves engagement, but the weight of available evidence does not support characterizing the present cycle as a textbook bubble. An AI driven infrastructure boom may have winners and losers as all economic booms do. However, the leading AI companies are profitable and enjoy considerable economies of scale, their valuations are elevated rather

than historically extreme, and the buildout is financed predominantly with equity rather than debt. The most likely path forward is not a 2001-style universal collapse but a wide dispersion of company-level outcomes, in which future earnings validate current spending and pricing for some companies and fail to validate them for others.

End Notes

- ¹ Source: Financial Times, K. Martin, "Year in a Word: AI Bubble," December 22, 2026.
- ² Source: GMO, J. Grantham et al., "Valuing AI: Extreme Bubble, New Golden Era, or Both?" GMO Quarterly Letter, January 2026.
- ³ Source: J. Zweig, "Why Its SO Hard To Spot A Stock Market Bubble," May 8, 2026.
- ⁴ Source: Financial Times, C. Jones et al., "US Economy Growth at 2% Pace in the First Quarter as AI Boom Fuels Investment," April 30, 2026.
- ⁵ Source: Wall Street Journal, G. Ips, "AI is Distorting Practically Everything About the Economy," May 7, 2026.
- ⁶ Source: Kindleberger, Charles P. et al., "Manias, Panics, and Crashes: A History of Financial Crises." 8th ed., Palgrave Macmillan, 2023. Originally published 1978.
- ⁷ Source: Moody's, 'Artificial Intelligence & Data Centers – US: Hyperscalers Capex to Near \$1 trillion in 2027, fueling AI growth, Memory Shortage,' May 2026.
- ⁸ Source: Nvidia, B. Caufield, "'Largest Infrastructure Buildout in Human History': Jensen Huang on AI's 'Five-Layer Cake' at Davos," January 21, 2026.
- ⁹ Source: Goldman Sachs "Why Global Stocks Are Not Yet in A Bubble," October 21, 2025. Goldman Sachs estimates peek forward earnings at 52 times forward earnings for the S&P 500 index. Depending on forward earnings metrics and the focus on tech stocks in the tech bubble forward earnings estimates may vary.
- ¹⁰ Source: Wall Steet Journal, A. Ramkumar, "The American Rebellion Against AI Is Gaining Steam," Mary 19. 2026.

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