DECEMBER 2025

Artificial intelligence: are short-term valuation fears missing the big picture?

Artificial Intelligence (AI) has recently become the defining theme of global markets. From powering breakthroughs in natural language processing to enabling autonomous systems, AI is reshaping industries at an unprecedented pace. However, as valuations soar and capex surges, concerns about an "AI bubble" dominate many investor conversations. So are we witnessing another dot-com moment? Our view is that short-term volatility is inevitable, but the long-term potential of AI remains vastly underappreciated. Indeed, the current market cycle is by no means the endgame, but rather a potential foundation for many years of transformative growth.

Michael Heldmann
CIO Equity

Short-term risks

The numbers are impressive. Global AI-related capex is expected to exceed USD 400 billion in 2025 alone, with multi-trillion-dollar investments projected over the next five years. Hyperscalers, semiconductor giants, and data center operators are dominating this spending spree. Meanwhile, the so-called "Magnificent Seven" accounts for 75% of S&P 500 returns (and nearly 90% of capex growth) over recent years, now representing over 30% of the index – a concentration that is, by most measures, higher than during the peak of the dot com bubble.

Some bubble indicators are flashing, with capex intensity currently at 50–70% of EBITDA and AI revenues far below the levels needed to justify current spending. Indeed, Bain estimates USD 2 trillion per year in AI revenue by 2030 would be required to sustain today's investment pace. And history offers us some sobering parallels.

Railroads in the 19th century and fiber-optic networks in the 1990s were transformative technologies that initially delivered poor returns for early over-spenders. The danger is that a mid-term correction could trigger a tech-led market pullback.

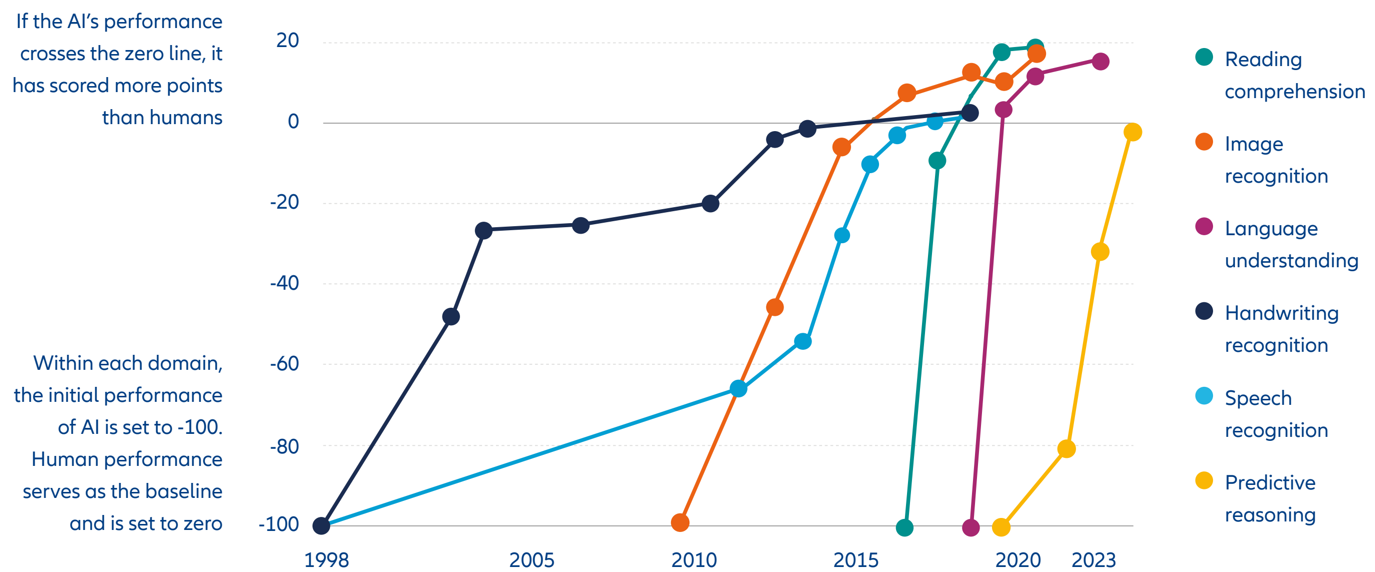
Looking beyond the current cycle

Despite these risks, the structural case for AI remains highly compelling, with at least three dimensions giving cause for a positive medium- to long-term outlook.

First, technology spend continues to accelerate, spurred by drivers that are not limited to specifically AI applications. Second, AI's performance breakthroughs continue to be impressive. Having recently surpassed human performance in several domains, leaps in predictive reasoning continue, and not at an incremental rate: they represent a huge acceleration in the pace of technological change.

Third, we remain in the very early stage of AI development. Today's applications are relatively narrow, specializing in specific tasks such as generating text. However, the coming decade will see huge advancements, especially in human-supervised AI where electronic systems assist in decision-making across a broad swathe of industries. It is estimated that we may approach "general intelligence" by the middle of this century, and this decades-long runway means opportunities for innovation – and investment – are far from exhausted.

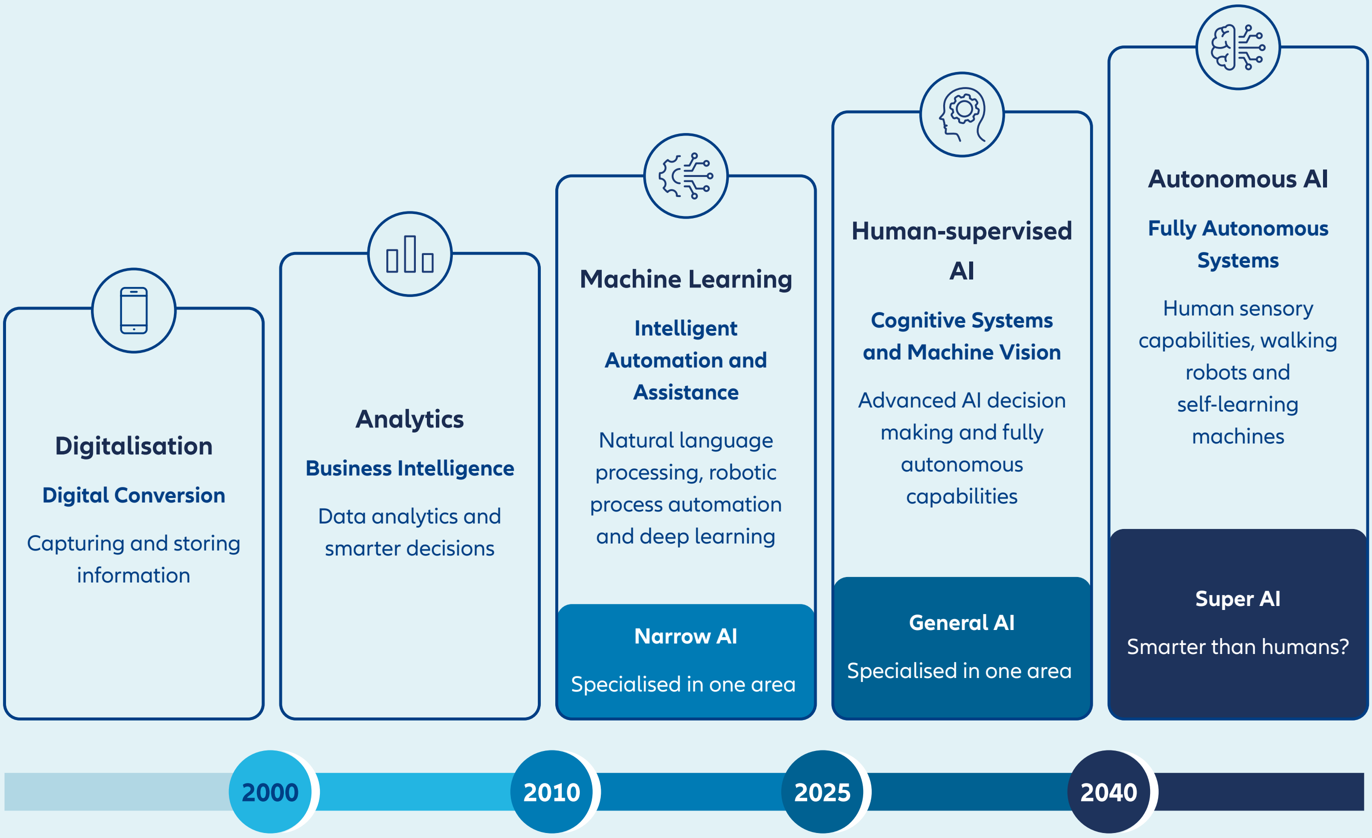
Exhibit 1: Test results of AI systems on various abilities compared to human performance



Note: for each ability, the initial value for AI in the first year is always set to -100, even if better performance is achieved later in the same year.
Source: Kiela et al. in Dynabench: Rethinking Benchmarking in NLP (2021) and Plotting Progress in AI (2023).

Exhibit 2: Still at the beginning of the AI revolution

AI could approach human intelligence in the next 10-15 years



Source: Allianz Global Investors, Voya Investment Management, 2025. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement. There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

So while comparisons with the dot com era are tempting, these can be misleading and there are several key differences. For instance, much of the recent capex funding for AI is coming from cash flow, not speculative equity issuance, as was very much the case in the late-1990s. In addition, the market structure is very different with only a few big players possessing the scale necessary to build AI infrastructure. Furthermore, the contemporary prevalence of cloud computing means that capacity management can be much more dynamic, mitigating risks of oversupply. Finally, while we are certainly seeing some froth in venture capital valuations, the spillover to public equity markets has been limited.

So, while corrections will certainly occur, these factors suggest that the underlying trends remain durable.

The dangers of concentration

Despite our sanguine medium- to long-term view, market participants should still expect volatility as overcapacity and ROI compression triggers some resets in valuations. Investors should look towards beneficiaries over builders; software firms and innovators at the application level may begin to offer better risk-adjusted returns than infrastructure-heavy hyperscalers and hardware firms. Along this line, diversifying beyond the megacap extremes – such as the "Magnificent Seven" – will also be prudent. Concentration risk is very real. And investors should also prepare for the coming "post-reset" era, where the key beneficiaries of the capex boom will emerge stronger and with more entrenched competitive advantages.

Over the long term, this technology has great potential but will also present significant challenges to societies and global geopolitics. Even though some scenarios may be worrying, we believe that the threat of AI fully replacing humans in the near future is smaller than feared by some. As much as we see narrow AI's usefulness being currently underappreciated, the difficulty and time to completion for human-level performance – in terms of complex planning and execution – is likely higher than currently suggested by simple benchmarks. This ultimately means that enhanced productivity might come faster than expected, while a broad negative impact on employment and wealth distribution might take longer to materialise and therefore be better mitigated.

December 2025 LDS-250250

MACS-P-15790722