JUPITER WEALTH

How the AI Story Unfolds

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Artificial intelligence (AI) is driving a transformative change globally, evolving from knowledge-based tools like chatbots to sophisticated agents capable of executing complex, multistep workflows. The emergence of agentic AI could potentially expand the reach of AI to all facets of daily human life, and especially so in business. From semiconductors and AI chips, cloud service providers to data centre energy infrastructure, investors have clamoured all year to reach opportunities surrounding AI.

Investors are now waiting to see whether AI agents help the tech companies grow their total addressable market and monetize this opportunity. Over time, agentic AI is likely to make deeper sector-specific impacts, particularly in areas such as healthcare, legal services, finance, risk monitoring and content marketing. Multi-agent AI systems may also gain prominence due to their scalability and ability to handle complex operations like supply chain management and transportation. Quantum computing remains of interest to investors since it enables simultaneous and intricate calculations much faster than current supercomputers.

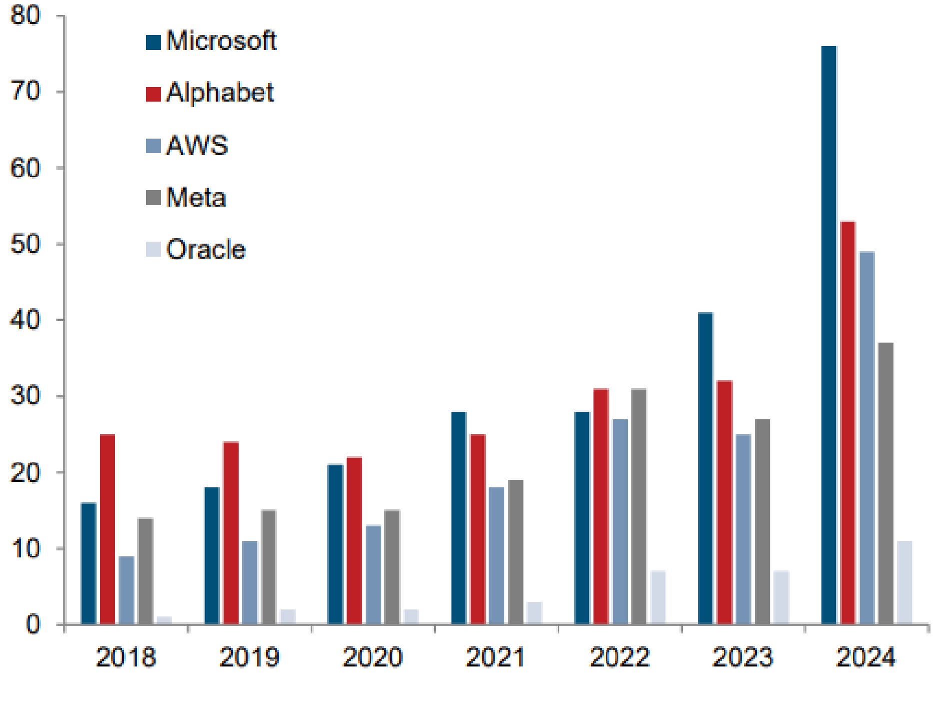
While the technology holds promising economic value in the next 5 to 10 years, near-term challenges must be addressed. What are the concerns markets have around AI valuations and what do they mean for our portfolios?

The AI Jitters

2025 saw a steep rally among tech stocks. S&P 500 reached all-time highs as excitement around the rapid rise of artificial intelligence (AI) lifted market sentiments through most of the year. The Magnificent 7 (i.e. Apple, Microsoft, Amazon, Alphabet, Meta, NVIDIA and Tesla) by November 2025, constituted about 37% of the S&P 500. This makes the markets particularly vulnerable and sensitive to any chatter around AI being a bubble.

As the Q3 2025 earnings were announced it became clear that these large companies plan to collectively spend nearly $400 billion this year on AI infrastructure. On the back of this, markets grew uneasy about the absolute quantum of the AI capital spend by the hyperscalers. This has been an emerging trend over the last 7 to 8 years, and the cumulative capex is now at unprecedented levels.

AI infrastructure capex spend by company, $bn

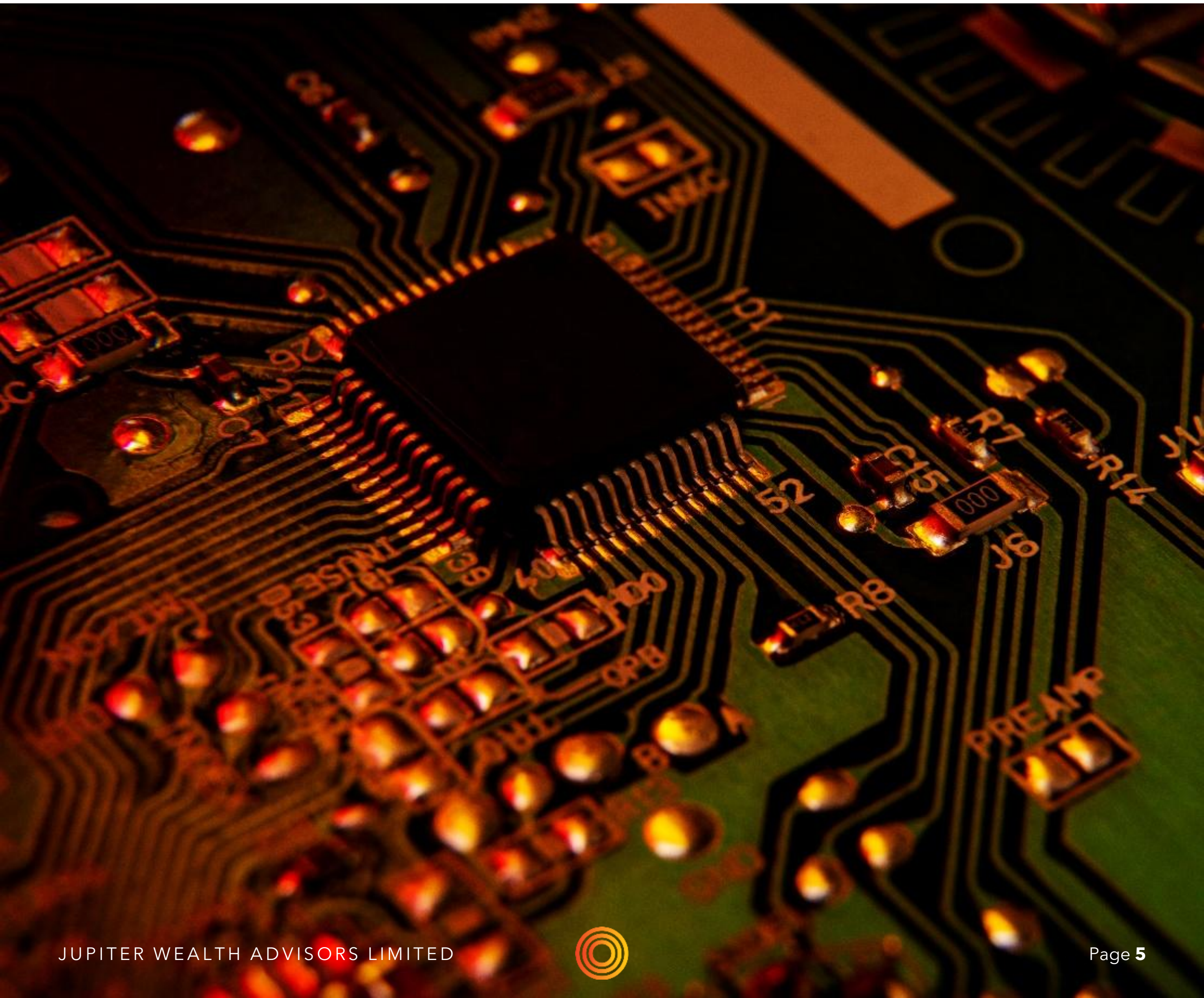


Source: Company data, Goldman Sachs GIR.

There were also concerns over circular trades amongst the top AI companies i.e. buying GPUs, leasing cloud capacity and signing multi-year computing contracts largely with each other. Some questioned the fundamental economics of the heavy AI capital investments in context of the already high valuations, and what revenue it would take to justify them. This was despite Nvidia's last results announcement in November 2025, where the company reported record sales and strong guidance.

The Bond Issuances

Big tech firms, that previously relied on cash reserves for the large capital spends, also started turning aggressively to the debt markets. Since September 2025, public bond issuance by the hyperscalers hit nearly $90 billion, with Google owner Alphabet raising $25 billion in bonds, Meta $30 billion, Oracle $18 billion, and Amazon $15 billion, according to Reuters. AI infrastructure-related financing is set to be the dominant theme in credit markets in 2026.



Is this similar to the Dotcom Bubble of the 1990s?

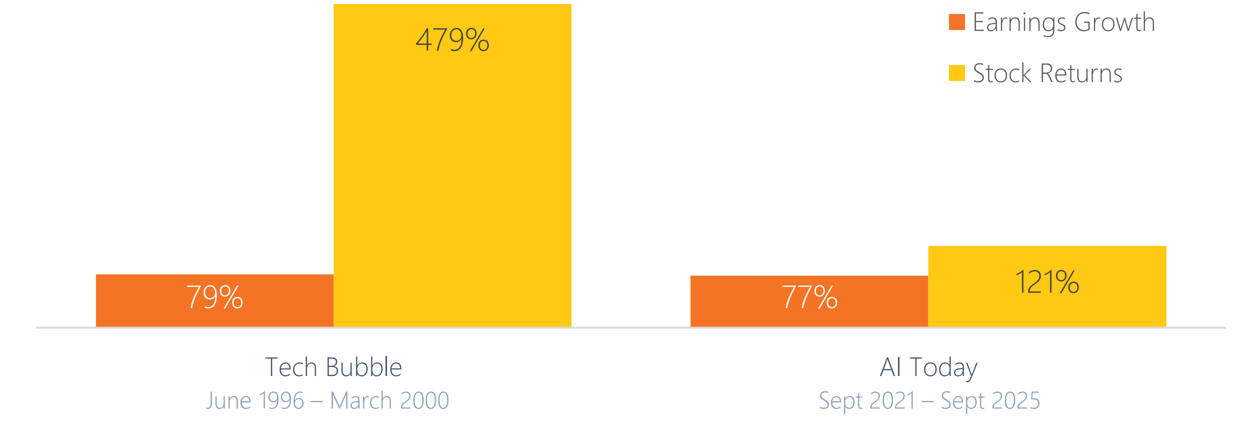
While there could be some similarities with the dot-com bubble of the 90s, there are many differences too.

To begin with, it must be noted that while valuations at the moment do look elevated, these valuations are not just driven by expanding multiples. We are also seeing earnings growing. For instance, across the Mag 7, the earnings over the last 5 years have grown 2x while the stock prices have gone up 1.61x.

During the dotcom bubble, earnings growth was not always commensurate with the market enthusiasm. For example, from 1995 to 2000, Cisco's stock price increased 40x whereas earnings grew only 8x. On the other hand, over the last 5 years, Nvidia's stock price increased 14x whereas earnings grew 20x.

Earnings keeping pace with the stock returns

Earnings growth and performance (%)



Source: Refinitiv from the dotcom bubble 30-Jun-1996 to 31-Mar-2000, and AI today from 30-Sep-2021 to 30-Sep-2025. Represented by S&P500 Information Technology Index.

The median 24-month forward P/E ratio for the Magnificent 7 tech stocks is 25x, based on consensus forecasts. This is roughly half the equivalent valuation of the biggest seven companies during the dotcom bubble. Enterprise value to sales (EV to sales) ratios are also considerably lower than those of dominant companies in the late 90s.

Secondly, enterprise adoption of AI is gaining traction. KPMG's AI Survey for Q3 2025 shows average enterprise AI investment rising 14% from Q1 to $130 million, supported by visible productivity and profitability gains from AI use cases.

According to CBRE, the vacancy rate in North America's data centre markets has reached a record low of 1.6% in H1 2025. Demand for compute continues to far outpace supply.

The capital spends by the top AI stocks have been large, but it is important to see the capex as a percentage of their revenue as well as their cash from operations (CFO)

Capex done by MAG7 as % of CFO

Years	Capex (Mn $)	Capex as % of Revenue	Capex as % of CFO
Last 12 mths	350,694.00	15.78%	48.9%
2024	239,122.00	12.28%	39.1%
2023	162,043.00	9.33%	34.1%
2022	169,289.00	10.49%	40.0%
2021	143,700.00	9.91%	36.5%
2020	103,980.00	9.33%	32.3%

Capex done by Hyperscalers as % of CFO

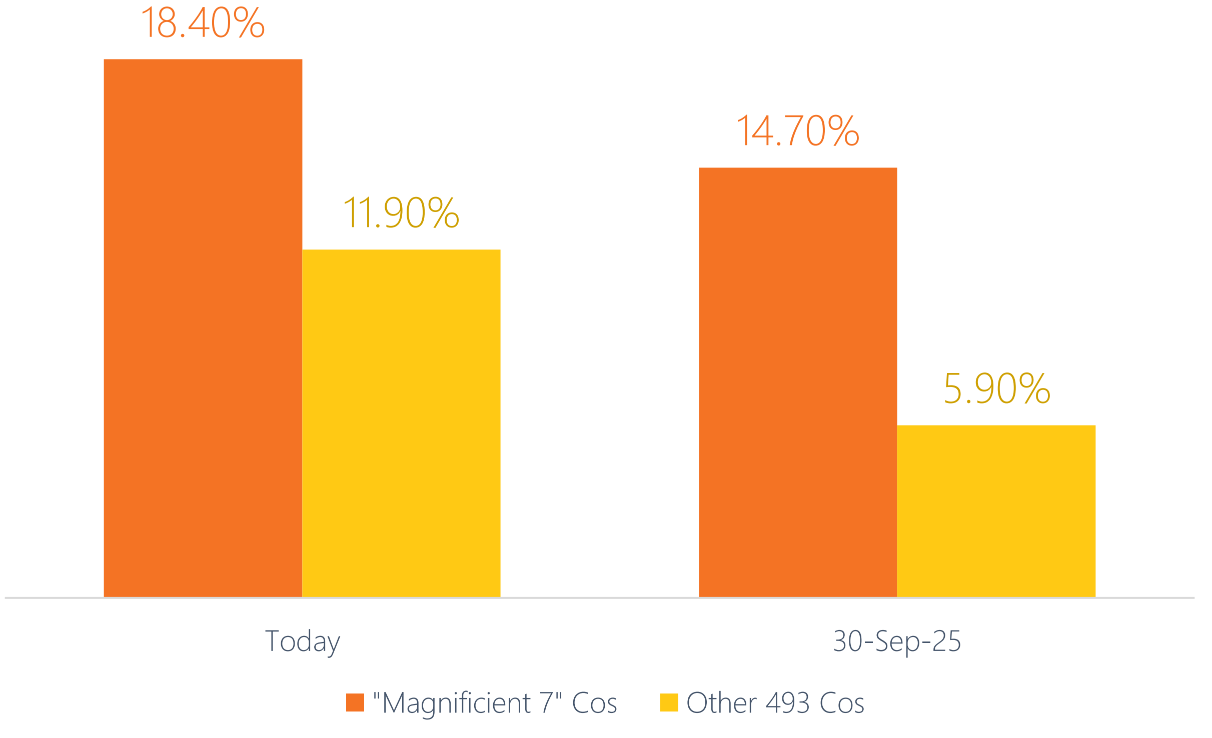
Years	Amazon	Apple	Google	Meta	Microsoft	Nvidia	Oracle
Last 12 m	92%	11%	51%	58%	47%	5%	102%
2024	72%	8%	42%	41%	38%	4%	37%
2023	62%	10%	32%	38%	32%	32%	51%
2022	136%	9%	34%	62%	27%	11%	47%
2021	132%	11%	27%	32%	27%	19%	13%
2020	61%	9%	34%	39%	25%	10%	12%

Some of the top hyperscalers have extremely strong balance sheets, cash flows and staggering profit growth. This financial strength provides a buffer that was often absent in companies during the dotcom bubble.

Further, the Q3 2025 results from the Mag 7 companies continue to be encouraging, which indicates that the growth momentum is still on a solid footing. Despite the disappointments from Tesla and Meta, the rest of the group pulled their weight. Alphabet, Microsoft, and Amazon continued to support the story that demand for AI is thriving.

S&P 500 Q3 earnings growth (Y/Y): "Magnificent 7" vs. other 493

Source: FactSet



AI as a theme also has many moving components, and each of these need to be evaluated individually.

In summary:

The caution around AI is not unwarranted. The scale of spending is enormous and some assumptions involved in the valuations may be overstated. On the other hand, the fundamentals of many high quality AI stocks show healthy earnings growth and momentum. As this story unfolds, quality is key. Investors would be wise to focus on high quality names and strong balance sheets, while avoiding names which are over-leveraged on the AI play.

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