Banking & finance *Opinion / World Opinion*

Nicholas Spiro

Macroscope | 4 reasons fears of an AI-fuelled stock market bubble are overdone

While many believe the stock market is in an AI-induced bubble, there are factors that paint a more optimistic picture

Reading Time: **3 minutes**

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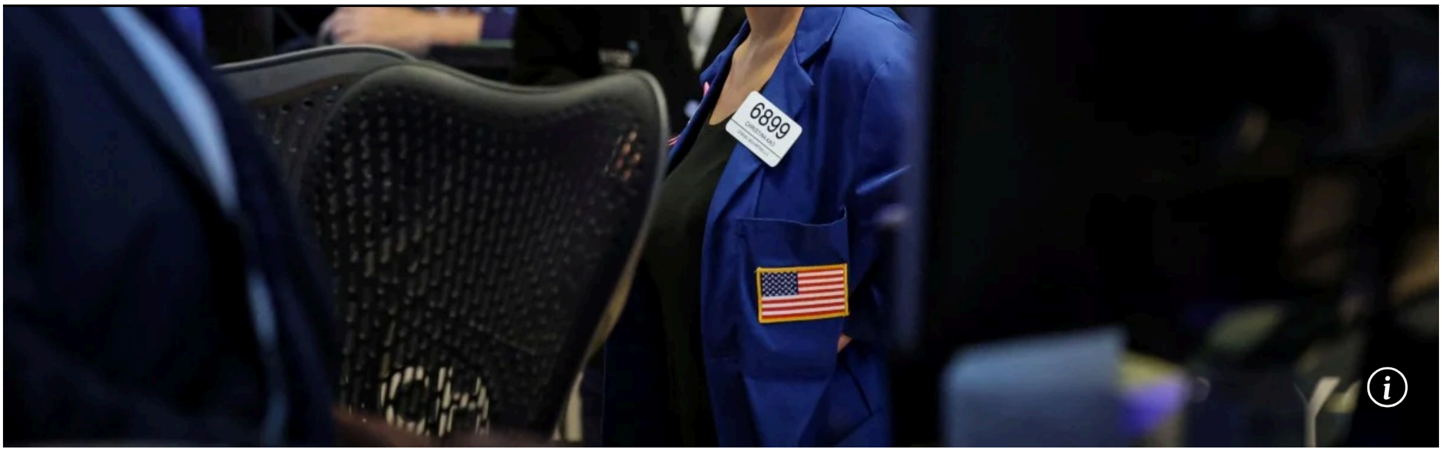

Nicholas Spiro

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Global equity markets are on a tear. The MSCI World Index, a gauge of stocks in advanced economies, has risen 33 per cent to an all-time high since US President Donald Trump paused his "reciprocal" tariffs on most of America's trading partners on April 9.

While Trump's tendency to back down has buoyed sentiment, the driving force behind the rally is the hype around generative artificial intelligence (AI). In the US, which has a 72.4 per cent weighting in the MSCI World, the market capitalisation of the benchmark S&P 500 index has increased by US$21 trillion since the launch of ChatGPT, a popular AI chatbot, in November 2022.

More strikingly, just 10 companies account for over half the rise in the value of US stocks. The upward revision to earnings growth for the S&P 500 next year is entirely attributable to the "Magnificent Seven", the group of leading US technology firms. Earnings expectations for the rest of the 493 companies in the index have not budged, denoting "an extreme degree of concentration in the S&P 500", said Torsten Slok of Apollo Global Management.

According to Societe Generale, the top 10 stocks account for a third of the S&P 500's earnings and a fifth of the MSCI World's profits. "Such concentration might look impressive on paper, but it comes at a steep price: the erosion of diversification, leaving portfolios increasingly exposed to a narrow slice of the market's fate," Societe Generale said.

It is the fate of AI that is the most hotly debated topic in markets right now. Many analysts, investors and academics believe the AI-fuelled stock market is in a bubble. According to the findings of the latest Bank of America Global

Fund Manager Survey on October 14, 33 per cent of respondents believed an AI equity bubble was the biggest “tail risk” for markets, up from 11 per cent in the September poll. An overweight position in the Magnificent Seven stocks, moreover, was considered to be the most popular trade.

Jensen Huang praises China AI progress

Nvidia CEO Jensen Huang praises China’s AI progress following chip sales approval

Some investors admit that the surge in investment in AI has created a bubble, typically defined as a phase marked by a dramatic escalation in asset prices whereby valuations become detached from the realistic prospects and earnings power of the assets in question.

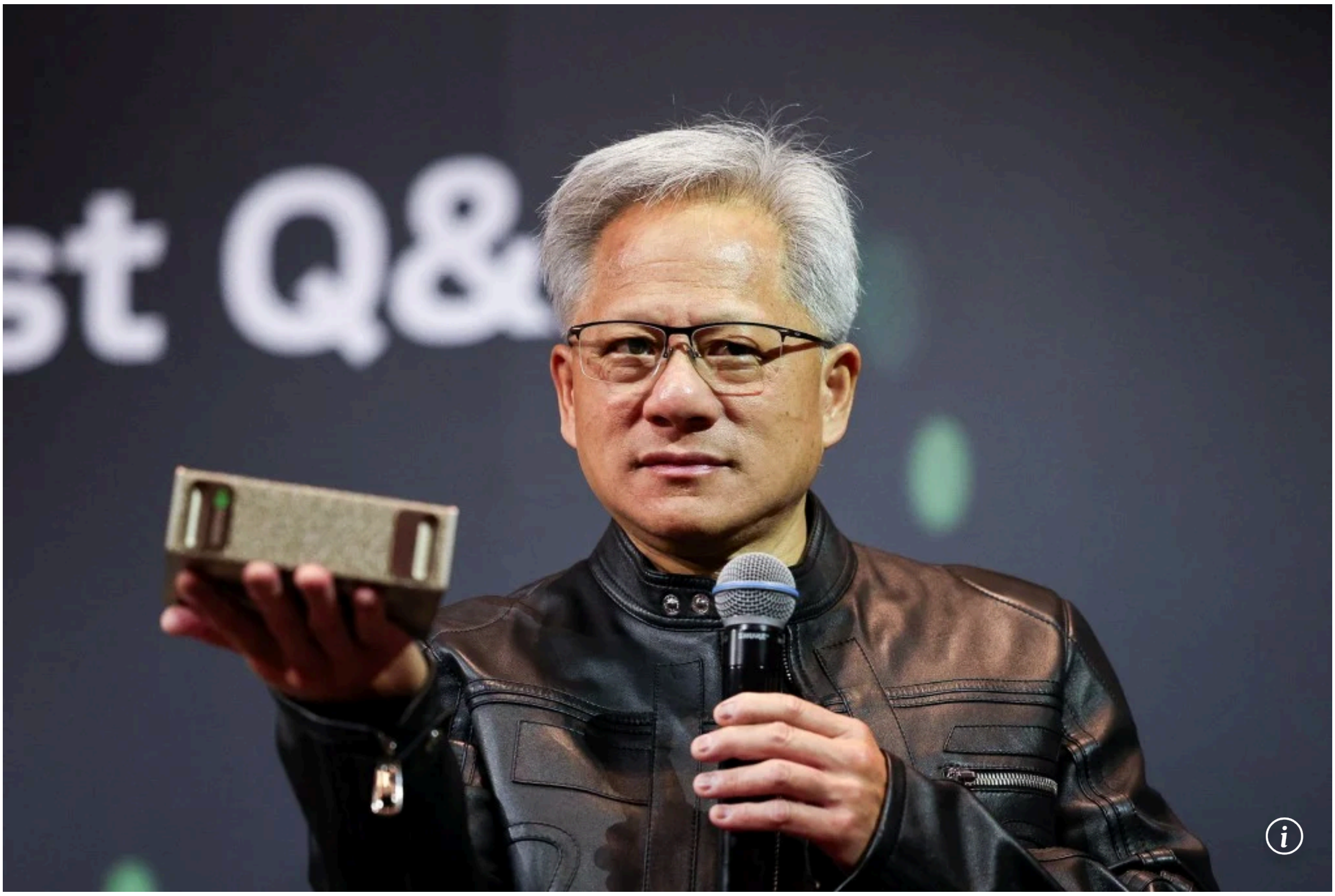
Artificial intelligence *Opinion / World Opinion*

Andy Xie

Opinion | Why the clock is ticking on the Fed-fuelled AI bubble

AI is being sold as the latest tech frontier and a key area of US-China competition, but one day the money inflating the bubble will run out

Reading Time: **3 minutes**



Andy Xie

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The AI bubble is entering extra time by walling in money and sharing it among key players. As profitable firms plug money back into loss makers, the net cash requirement for the bubble circle is being minimised for the collective loss. The next step is for profitable companies to sell stocks to raise cash and pump it into loss makers.

However, this extra time is likely to be measured in quarters, not years. It is possible that the US government will pump borrowed money into the bubble next, which could eventually destroy the market for US Treasuries.

WorldCom was caught committing financial fraud during the dotcom bubble. Fraud might appear to be an important source of money to keep these bubbles going, but if Cisco had invested massive amounts of money into WorldCom, there would have been no need for fraudulent activity. It seems the dotcom bubble players were not very sophisticated; otherwise, none would have gone to jail.

Nvidia recently reached an agreement to invest US$100 billion in OpenAI to support new data centres and other AI infrastructure. On its balance sheet, US$100 billion in cash will switch to an equity stake in OpenAI, while its chip order book is likely to rise by more than US$100 billion as the money could be leveraged by OpenAI in a leasing deal. Wall Street will hail the good news for Nvidia and push its share price higher.

OpenAI's latest flagship AI model, GPT-5, has disappointed some as it isn't much of an improvement on the previous version. But with so much money sloshing around, the company has the resources to pursue artificial general intelligence – essentially a digital god. In that case, a US$500 billion valuation for OpenAI might be a conservative estimate. After all, how much is God worth? That would be more good news for Nvidia, which would book billions in capital gains and thus justify more investment in OpenAI.

During the dotcom bubble, unprofitable companies were still raising money despite having no real prospect of becoming profitable. The market could only buy their nonsense for so long. But if they had spent their money buying something from a single source – Cisco, for instance – that company could have been valued at trillions of dollars, raising huge sums and investing them back in these unprofitable companies, which would send the money back to buy more stuff. The bubble could have lasted longer.

05:00

Does the arrival of China's low-cost DeepSeek mean the end of Nvidia's chip dominance?

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