

all angles.

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From Capex to Conviction: Investing Through Disruption and Opportunity

Key takeaways

- **AI is a transformational technology:** Artificial intelligence is a groundbreaking technology that is having a pervasive impact on sectors, companies and consumers.
- **The shift from build-out to adoption:** The AI industry is transitioning from the development phase to a critical adoption cycle, which requires a focus on new growth dynamics and future opportunities.
- **Tech valuations are likely not in a bubble:** We are witnessing significant revenue acceleration across the AI ecosystem supported by early evidence of progress as industries shift from experimentation to real-world adoption and seeing tangible returns.
- **An optimistic outlook that still requires vigilance:** While there is long-term optimism about AI's growth and potential, it is essential to monitor rapid technological changes, market dynamics, and potential risks (e.g., debt financing), while leveraging global research to stay informed.

The shift to a new AI-driven technology platform is transforming the investment landscape through substantial capital expenditures and driving cross-sector implications. In the latest episode of the *All Angles* podcast, Equity Portfolio Manager Brad Mak shares insights on how the AI revolution could impact the future of growth companies, whether tech valuations are in a bubble, and what 2026 has in store.

FEATURING



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From Capex to Conviction: Investing Through Disruption and Opportunity**AI is a transformational technology**

Artificial intelligence is not just another tech trend; it's a fundamental platform shift impacting the entire economy. Incumbent mega-cap companies are investing heavily to defend and expand their profit pools, while a new wave of AI-focused firms is emerging. Importantly, the ripple effects of AI extend well beyond the technology sector, influencing industries such as energy and capital goods. For example, increased demand for data centers is driving renewed growth in energy and infrastructure, transforming these previously low-growth sectors.

Practical Application:

Broaden the growth opportunity set by searching for beneficiaries of AI-driven capital expenditures beyond pure tech companies, such as in sectors like energy or capital goods. Develop a cross-sector perspective to identify resilient opportunities, with durable revenue drivers, as tech giants create downstream opportunities in supply chains, infrastructure and services.

The shift from build-out to adoption

We are at a pivotal moment: the initial "build-out" phase, marked by massive capital expenditures from hyperscalers and supply chain participants, is transitioning to a phase focused on AI adoption and usage. While the build-out phase is expected to last another two to four years, attention is shifting to companies poised to benefit from widespread AI adoption, such as those introducing premium subscriptions or embedding commerce directly into AI-powered applications. Adoption of AI is not just a tech story; it's a catalyst for efficiency across sectors, from health care to industrials.

Practical Application:

Anticipate the next wave of companies that will benefit as AI moves from infrastructure build-out to mainstream adoption, such as firms enabling new business models and those leveraging AI to enhance productivity or reduce costs. Identifying firms positioned to monetize these innovations and tracking enterprise and consumer adoption rates will signal which companies are best positioned for durable growth.

Tech valuations are likely not in a bubble

While tech valuations are elevated, their price-to-earnings ratios are not close to the levels seen in previous tech cycles or other industries. The key debate revolves around whether this growing AI investment will translate into durable revenues and profits. While there is no definitive answer yet, we are seeing significant revenue acceleration across the AI ecosystem, as well as further signs of progress as industries like health care, legal and financial services move from experimenting with AI to actively using it and seeing tangible returns.

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Bottlenecks such as labor shortages and component supply constraints are likely to extend the AI capex cycle, providing greater visibility for investors. However, risks remain, particularly if demand slows or if there is a mismatch between spending and realized revenues.

Practical Application:

Focus on duration and resilience by prioritizing companies with clear, long-term demand drivers, strong balance sheets, and proven leadership, and assess exposure to potential bottlenecks and overcapacity risks. Prepare for multiple outcomes through scenario and pre-mortem analyses (including demand-side slowdowns or supply gluts), stress-test portfolio assumptions, and ensure robust risk management.

An optimistic outlook that still requires vigilance

The outlook for AI and tech-driven growth remains optimistic, but vigilance is warranted. Circular financing among large tech players and the rise of complex debt structures require careful monitoring. While current debt levels are not excessive, the investment team is closely tracking leverage, demand, and the availability of financing. Collaboration across equity and fixed income teams is critical for a comprehensive view of risks and opportunities.

Practical Application:

Stay alert to changes in financing patterns, especially vendor and debt financing in the tech ecosystem. Foster collaboration between equity and fixed income as well as cross-sector analysts to gain a holistic understanding of market developments and potential vulnerabilities.

Conclusion

Growth is evolving, and AI is a catalyst. Success requires a disciplined, long-term approach that is open to change, grounded in rigorous analysis, and attentive to both opportunities and risks across sectors. By broadening the search for growth, anticipating shifts from build-out to adoption, maintaining perspective on valuations, and staying vigilant about financing and risk, investors can build resilient portfolios and capture opportunities that will define the next decade.

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