

WEEKLY STRATEGY Perspectives



Private Wealth

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It Ain't Over Yet

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"Everybody in the world is a long-term investor until the market goes down."

- Peter Lynch, renowned portfolio manager of Fidelity's Magellan Fund

The Through Line: Investors are nervous in spite (or perhaps because) of another jaw-droppingly good earnings season that helped propel stocks to all-time highs. In a lengthy list of worries, two are tied for the top spot: sustainability of the all things AI trade and rising long-term bond yields. AI has dominated the market psyche for many quarters. As businesses and citizens settle into using the technology (or not), welcoming data center construction (or not) and fretting about job losses, investors are left to ponder how – or whether – to continue participating in the theme. We frame key aspects of the debate and offer context to help illuminate the way forward.

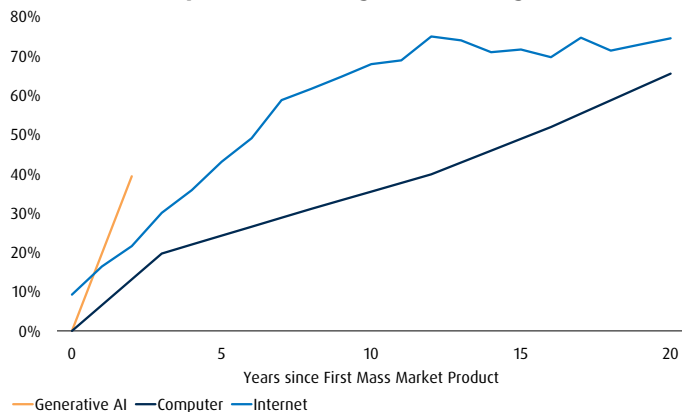
The big bang

Machine learning (a.k.a. artificial intelligence) has been in use for decades. However, the introduction of ChatGPT barely four years ago thrust the technology into the public spotlight – and public consumption – faster than any previous invention. Unlike the early days of the internet 30-plus years ago (when the infrastructure to support its use was not yet fully built out), we now have the technology to instantly explore this new marvel by simply clicking "download app." *Just five days after launchⁱ, the application had enticed one million users and in just two months captured 100 million.ⁱⁱ* While the company doesn't (yet) disclose detailed data, industry sources put active weekly users at 900 million by February of this year.ⁱⁱⁱ In short, **the speed and scale of adoption was inconceivably quick, setting off a wide range of knock-on impacts that continue to reverberate through the global economy – and markets.**

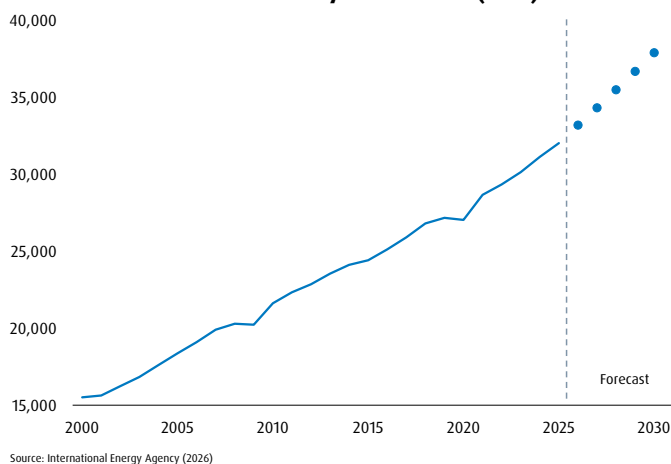
The need for speed... and plenty of infrastructure

For starters, the rapid exponential growth in end-user demand highlighted gaps and bottlenecks in the ability to service it. Dedicated data centers with powerful specialized processing chips and stacks of additional memory chips (plus the electricity to power it all) were required – and quickly. The IEA (International Energy Agency) estimates global energy capacity will need to double in the next 10 years: not just to accommodate AI but also to meet the needs of the broader business community and replace that which was decommissioned, outdated and/or in need of repair. In the U.S., the need for infrastructure (including but not limited to energy supply) to support reshoring and reindustrialization policies exacerbates the choke points.

Adoption Rate of Digital Technologies



Global Electricity Generation (TWh)



Sources: St. Louis Federal Reserve (2024); ⁱComputer introduction year assumes 1981 when IBM PC released, Current Population Survey (1984-2003); ⁱⁱInternet introduction year assumes 1995 when NSF decommissioned NSFNet and allowed the internet to carry commercial traffic, International Telecommunication Union (1995-2021); ⁱⁱⁱGenerative AI introduction year assumes 2022 when ChatGPT released, Real-Time Population Survey (2024).

U.S. Federal Reserve Chairman Kevin Warsh highlighted some of these issues in his prepared remarks at Jackson Hole last week:^{iv}

- “The potential for substantially higher growth is on the rise. Ever expanding pools of capital are pouring into AI-related infrastructure of all sorts. A kind of hyper-Moore’s law seems to be playing out. Scaling laws, too, are changing both the method and speed of innovation.”
- “Reports put annualized token sales for the two leading labs alone at more than \$100 billion – an increase of 500-plus percent from a year ago.”
- “Business capital expenditures – the seed corn of future economic growth – are rising rapidly. The four-quarter change in investment in equipment and intangibles has been around 9%, its highest growth rate since 2021. More than half of the cap-ex growth this year can likely be ascribed to the buildout related to AI.”

The challenge facing investors

Investor participation in the AI theme has clearly shifted from the early days when the only prerequisite was who could spend the most on data centers. A rolling series of intra-theme mini bubbles and busts has occurred, prompting large swings in subsectors (e.g., chips and software) as investors tried to figure out how to position themselves for long-range success.

It is tempting for stock investors to try to “play” a theme by figuring out a stock or industry subsector to add to portfolios – and seek guidance by finding a prior period to model on. But there simply aren’t relevant prior eras to use for reference points. **Many key aspects are very different, including the speed of end-user adoption, the seemingly limitless number of applications across virtually every area of human endeavor, the underwriters of the buildout (cash-flowing seasoned companies versus the government) and the sheer scale.** Datacenter spending is slated to reach over \$1 trillion in the next 12 months.^v A recent PricewaterhouseCoopers LLP (PwC) report estimates data center buildout (alone) could reach over \$30 trillion^{vi} by 2050. The report points out that the need for spending will keep rising since core components of data centers must be replaced/refreshed every four to six years.

Yet, identifying the prime beneficiary of that spend is difficult.

Chair Warsh’s Jackson Hole comments further fleshed out this challenge: *“It’s not obvious where the returns on capital will land or on what timescale. Early on, how much of the surplus goes to owners of scarce assets – AI labs, chipmakers, energy producers, and cloud providers? Over time, how much of that value accrues to business and consumers?... Likewise, we don’t yet know the equilibrium price of the tokens. Might there be a heterogeneity of tokens, such that growing sums will be paid for access to the best models at the frontier? Will token prices for older models fall to the level of their marginal cost?”*

Most business models and operational processes will need rethinking

It’s super early in a cycle that is unlike anything we’ve ever seen, a cycle moving at warp speed and touching most aspects of every business, consumer and global citizens’ lives. Who underwrites the cost, receives the profits and provides financing are all variables in a complicated and evolving calculus. Notably, companies are not standing still – they’re racing to develop chips, build semiconductor and data center capacity and conduct strategic acquisitions that broaden product offerings. They’re patching cybersecurity loopholes and making active decisions re partnerships and types of models deployed, plus finding white space in new end markets.

Two of the biggest current debates are around the use of open or closed frontier models – and around the need for everyone to deploy the models that are most cutting edge (and energy/cost intensive). Key existing U.S. providers like Anthropic and OpenAI have closed models that generate some of the highest scores on measurement metrics. Their current business model structure may not be ready if AI models quickly become commoditized. That can happen either because a bulk of businesses decide that slightly older, more seasoned models can perform the majority of work satisfactorily or because of competition from newer and cheaper entrants. China is pushing open-source models (racing to the finish) bolstered by heavy subsidies, which already makes the issue a bit more challenging.

Quicker commoditization could lead to short-term market indigestion – but could also drive higher end use. Called the “Jevon’s Paradox,” we saw this in technicolor after the iPhone was launched at the same time that memory prices fell. This allowed sophisticated – and increasingly easy to use – supercomputers attached to the palms of our hands 24/7/365.

Build it (if you can) and they will come

Data centers have become a hot-button issue for the U.S. midterms. Inflamed rhetoric is liable to spill into the financial and popular media as campaigns escalate toward Election Day, possibly tainting investor sentiment against AI investment. **It’s important to differentiate between election-year rhetoric and economic fundamentals.** Several states that previously accepted data centers (e.g., Pennsylvania and Texas) have now started to talk about temporary pauses in response to political pressure. **Slowing the pace (moderating, not stopping) could be considered healthy, especially in terms of alleviating the bottlenecks in memory chips and energy access, which are pushing inflation higher.**

The race to get infrastructure up and running continues to accelerate and will likely cover years, not months or quarters. The competition is as much with China as it is with other large language model (LLM) providers. **For investors, watching backlogs relative to sales will be an increasingly important metric to monitor** (like Alphabet’s nearly \$100 billion annualized cloud run rate relative to a \$525 billion backlog^{vii}).

Will AI take my job?

Many types of jobs will be lost – while many more will be created. This is the nature of business evolution. At the start of the 1900s, more than half the nation lived on farms; today the farm population percentage directly involved in agriculture is in the low single digits, yet we produce substantially more food. Similarly, manufacturing jobs peaked the late 1970s and have been steadily declining since.^{viii} Transition and change is the natural state. That said, business leaders and policymakers would be wise to proactively arm employees with the skills and support necessary to make the transition. We are still sorting the employment ramifications. But after last year's heightened rhetoric (some of it caused by tech company leadership talking "jobsmageddon" in interviews) we are seeing stabilization. In some areas, employers must hire/rehire to manage the amplified work flow created by AI. Employees increasingly require keen management skills (even solo engineers who have no direct reports now need manager-like skills in order to oversee multiple AI-agent projects) and people skills (so they can spend more productive time with clients and prospects). "Forward deployed engineers" are evidently all the rage. Ernst & Young has set aside \$100 million in bonuses to spread among employees who exhibit finely tuned people and adaptability skills.^{ix}

Implications for investors: about those not-so boring bonds

A lot of angst arose this past week over the steady push upward in bond yields. We wrote about this issue a couple of weeks ago ([WSP: Not-So-Boring Bonds](#)), pointing out that one contributing factor to the rise could be increased competition for investor attention from hyperscaler debt issuance. In addition, equity markets are entering the psychological (not necessarily statistical) spooky season of September and October ([WSP: Myth-Busting](#)). Stock investors who fear increased volatility may sideline part of the year's profits to wait things out in cash and short- and intermediate-term bonds.

Bottom line: while it's early in the AI race to pick single-stock or even single-subsector winners, the technological rollout and its impacts on global economics and capital markets will be felt for years to come. No matter where investors are placing their hard-earned dollars, some aspect of the business will likely be directly or indirectly impacted by the changing landscape. The companies tracked by the S&P 500 Composite Index have shifted substantially in recent decades; technology and communications services companies now make up nearly 50% of the index. Thus, even a passive investment in a fund that tracked the index would produce substantial exposure to the AI trade.

Near-term markets will probably continue to struggle in their efforts to absorb the enormous implications of the AI investment story. From model creators, providers of infrastructure components, and cyber security firms to end users, the race is early and the winners are far from the finish line. **Yet, watching the process unfold and strapping in for the ride is worth the effort 'cuz it Ain't over yet.**

Next week in North America

A lighter data week than this week. Bond markets have the potential to stay spicy because all Fed governors are in a formal blackout (quiet) period ahead of the FOMC's rate-setting meeting the following week. Investors will scrutinize the PPI and CPI reports closely, attempting to game out whether the Fed will hike or hold. Futures markets are currently pricing a hike at 70% odds. No eco reports for Canada next week; the U.S. House and Senate are both on recess (a.k.a. not much for the markets to do other than speculate about Fed action and ponder the AI trade).

Monday 9/7:	U.S. Markets closed for Labor Day Holiday Canada none scheduled
Tuesday 9/8:	U.S. NFIB Small business optimism, Consumer credit Canada Bloomberg Nanos confidence
Wednesday 9/9:	U.S. MBA Mortgage applications, ADP weekly employment Canada none scheduled
Thursday 9/10:	U.S. Weekly jobless claims, PPI, Existing home sales, Wholesale inventories Canada none scheduled
Friday 9/11:	U.S. CPI, University of Michigan consumer sentiment, Household net worth, Federal budget balance Canada none scheduled



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Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index.

ⁱ Number of ChatGPT Users (January 2026)

ⁱⁱ ChatGPT User Statistics 2025-26: 56+ Data Points on Users, Growth, Countries, and Revenue

ⁱⁱⁱ *ibid*

^{iv} Keynote remarks by Chairman Warsh at the 2026 Jackson Hole Economic Policy Symposium - Federal Reserve Board

^v 2026 Market Outlook for Global Data Centers | JLL Research, Global investment in AI infrastructure to hit US\$31.6 trillion through 2050 | PwC

^{vi} Where \$31.6 trillion of capex flows in the era-defining AI build-out | PwC

^{vii} *Google Cloud Statistics: Market Share & Competition Report 2026 - TechnologyChecker.io; Alphabet Q2 2026 earnings: revenue up 24%, Cloud surges 82%

^{viii} U.S. Manufacturing Employment: A Long-Term Perspective

^{ix} Ernst & Young to award \$100 million in bonuses for employees who show people skills - CBS News