

WEEKLY STRATEGY Perspectives



Private Wealth

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Reassessing the AI Trade: Beanie Baby or Birkin bag?

"Fashions fade. Style is eternal."

– Yves Saint Laurent, legendary French luxe fashion designer

The Through Line: Recently heightened volatility is prompting investors to question the durability of the AI trade, which has undergirded a significant portion of market and economic activity over the past four years. Is it a fad waiting to crash (like the Beanie Baby pop culture craze of the late 1990s), or is it a sustainable trend that has more room to run (like the wait-listed Hermès Birkin bag, a global symbol of exclusivity)? We outline the issues and clues they hold for the path forward.

Yearning for a simpler time

Ah, for the good old days when all we had to worry about from quarter to quarter was which hyperscaler planned the biggest increase in AI capital expenditures. Things are A LOT more complicated now. Concerns about financing, demand, pricing power, return on investment, margins, the potential for mass job displacements and rogue AI agents are dominating the discourse.

As if fretting about the fundamentals isn't enough, data centers have become the poster child for all things citizens hate or fear about the new technology. They are also a political football in the run-up to U.S. midterm elections November 3. The moving parts are many – and the road ahead is likely to remain bumpy while the industry (as an economic force and an investment) continues to sort itself out. Nevertheless, **we believe the overarching thesis remains intact: once this technology is deployed it will have major beneficial implications for growth, productivity and the wellbeing of humankind.**

It's still early days and plenty of twists and turns lie ahead. The situation is especially challenging for investors, who prefer a quick (and often overly simplistic) zero-sum analysis (who wins? who loses?). Realistically, it's still too early to tell definitively – but reassessing things from a 10,000-foot vantage point may offer some clues.

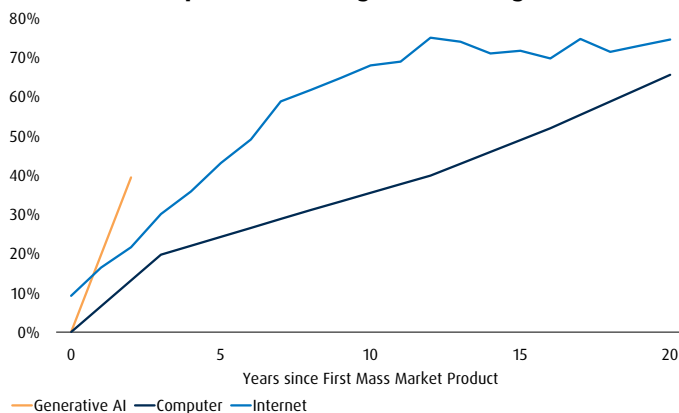
Nearly incomprehensible size, scale and scope

Although machine learning (a.k.a. artificial intelligence) has been around for decades, the introduction of ChatGPT in November 2022 thrust it 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 can now instantly explore this new marvel by simply clicking "download app." **Just five days after launch,**ⁱ

ChatGPT attracted 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 Meta's personal AI agent, Muse, launched less than two months ago and boasted 10 million users in the first 40 days.^{iv}

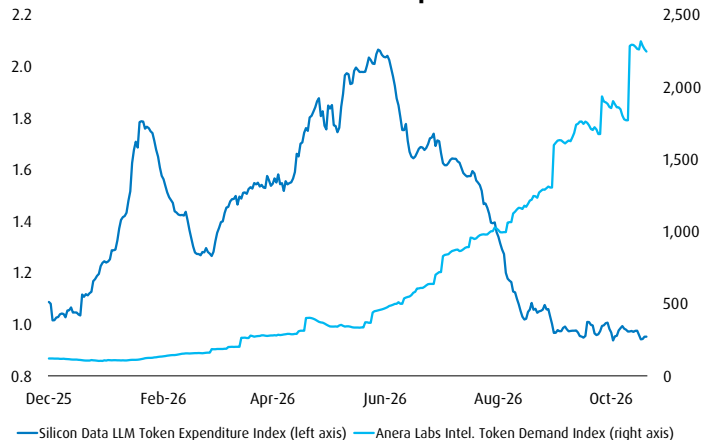
Corporate adoption is growing quickly too. An August 2026 McKinsey study found that **40% of companies with more than \$1 billion in annual revenue were already scaling (not just experimenting with) AI across their organizations. Last year the number was just 27%.**^v In short, the breadth, depth and speed of adoption has been inconceivably quick, setting off a wide range of knock-on impacts that continue to reverberate through the global economy – and markets. **No matter how much anxiety the headlines trigger, this technological genie is out of the bottle for good.**

Adoption Rate of Digital Technologies



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

Token Demand vs. Expenditure



Source: Bloomberg L.P. (2026), as of 10/20/2026

Data center dynamics

The exponential growth in end-user demand highlighted both major gaps in the ability to service it and bottlenecks in core components. Enter the need for more processing infrastructure, a.k.a. data centers.

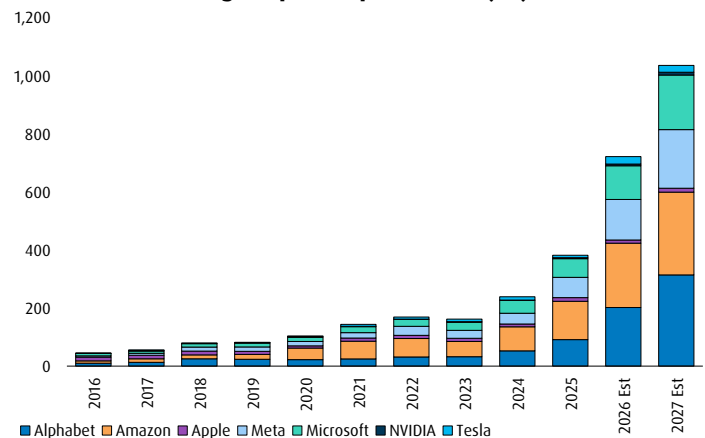
Data centers have been in existence for decades (that's what the cloud runs on after all). Amazon, Microsoft and (to a lesser extent) Google have provided much of that processing horsepower. But training and running frontier AI models require specialized facilities chockfull of the most advanced graphics processing units (GPUs) and substantial quantities of memory processing chips. Access to the energy and chips has been in notoriously short supply as the hyperscalers siphoned demand from other users in the race to build capacity. This classic supply/demand imbalance has grown so acute in the near term that it is acknowledged to be one of the contributing factors pushing inflation and bond yields higher.

Hyperscalers make especially enticing customers – particularly for the chip companies – because they are willing to sign longer-term contracts and able to fund purchases largely from operating cash flow and strong balance sheets. More recently, tech companies have been using their often-underleveraged balance sheets and strong credit ratings to access financing in the debt markets too, further pressuring bond yields to the upside.

Announced data center spending is slated to reach over \$1 trillion in the next 12 months.^{vi} A recent PricewaterhouseCoopers LLP (PwC) report estimates data center buildout (alone) could reach over \$30 trillion^{vii} 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.** That said, recent pushback in many markets against data center expansion has run headlong into the arms of political operatives thus slowing and redirecting the process.

We've been told the buildout of capacity to support AI will rival other major infrastructure developments like railroads, canals and interstate highways, yet **half or less of the announced capacity this year has broken ground.**^{viii} We would argue that's actually helpful – though investors remain nervous about how to treat the information.

Mag7 Capital Expenditures (\$B)



Data based on respective company's fiscal year. Source: Bloomberg L.P. (2026).

Scaling processing capacity is hard thanks to permitting, construction, labor and parts complications. The perpendicular growth projections for data center build seemed too optimistic in the face of mounting constraints (even before the NIMBY – not in my back yard – movements gained momentum). Stock traders may have initially reacted negatively to news of slowdowns for various projects and markets before reassessing. They came to understand that **“slowdown” does not equate to “dead stop.” Demand is still there.**

Bond yields and inflation

Interestingly, bond traders have seemed cheered by the potential for a slower pacing of AI buildout, inferring it means there will be fewer tech companies accessing the credit markets. Yields on intermediate and longer U.S. Treasury bonds have *dropped* in the last couple of weeks despite consumer and producer inflation reports that came in hotter than expected and oil prices that hover near \$100 per barrel.

A slightly slower pace of buildout could also be constructive for the inflation picture, facilitating a more measured building process that eases the demand, allowing supply more time to catch up. Less upward pressure on yields and inflation theoretically gives the Fed a bit more breathing room so that FOMC members don't feel compelled to continue hiking policy rates.

Silver linings: what is going/could go right?

After four years of market gains largely underwritten by AI, investors are watching for signs of spoilers. The slightest whiff of anything that seems awry prompts volatility. We also wouldn't be surprised to learn that hedge or algorithmic fund rebalancing around certain themes is adding to price swings (similar to the Situational Awareness reboot earlier this summer). To counter the fear, we offer a few observations:

- **Reasonable valuations.** Tech stock valuations such as price to forward earnings in general remain below levels that have prevailed over the past three years thanks to strong earnings but less robust movement in stock prices. This suggests investors have already discounted a variety of potential outcomes (e.g., leveling margins or slowing AI buildouts).
- **Careful investors.** Investors across asset classes remain quite discerning in their parsing of risk and potential returns. AI companies that have debt-laden balance sheets are greeted skeptically while those perceived to be spending wisely, building backlogs and generating revenue are rewarded.

- **Solid business progress.** Backlogs for the key players relative to demand remain strong; we will get updated reads on each of them in the next few weeks.
- **Much needed infrastructure CapEx.** After decades of underinvestment, substantial improvements to infrastructure – roads, bridges, highways, ports, ships, rails, enhanced automated manufacturing facilities, energy grid improvements – are already in flight, with more to come. If anything, continued progress is constrained by lack of labor and parts – NOT insufficient demand.
- **Diversifying the electric grid.** The significant demand placed on the energy grid plus higher fuel prices are prompting a revival in all types of energy, including accelerating renewables and clean(er) energy sources. Alternatives like fusion and nuclear are also in play alongside improved batteries and automated manufacturing.
- **Firming hiring trends.** Remember the jobs apocalypse? Firms that are the most active integrators of AI are finding their hiring is steady to up – even for entry level jobs, though job descriptions and skills required have shifted.
- **Broadening market action.** Fingers crossed, but as tech has been under pressure in recent days, other industries are stepping up to help broaden market actions. Healthcare, financials, and smaller-cap stocks are doing their best to pick up the baton.
- **Everyone needs an AI strategy.** Every business is in a race to figure out its own AI strategy in much the same way that the dotcom era of the 1990s forced every company to develop an internet strategy. This, plus the substantial infrastructure investments should form key underpinnings for productivity-enhanced growth.

Implications for investors

We are in the early days of a game-changing technological revolution that will touch every aspect of existence. Investors, business leaders, workers and citizens will all be impacted, whether they are overt users of the technology or not.

From an investment standpoint, it is difficult – if not impossible – at this juncture to determine who the eventual winners/losers will be or where the profits will ultimately accrue. After all, in the early days of railroads, autos and even tech companies, thousands of businesses came (and subsequently went) before the industries matured.

So, what's an investor to do? First, remember that even owning a passive index fund – especially a large-capitalization blue chip fund like the S&P 500 Composite Index – means roughly half of your holdings have exposure to AI. Consider spreading exposure by adding AI-adjacent vectors or those that will benefit from being users (presuming costs to implement continue to come down at the same time as use cases become increasingly clear). AI is broader than just software or business services: it has implications for space, energy, healthcare diagnostics, automated manufacturing, sensors in homes, equipment, bridges and buildings, custom drug development and millions of other applications yet to be discovered.

Ultimately, we think AI is neither Beanie Baby nor Birkin bag. At this juncture, there is no bubble waiting to burst to negate all the prior investments (Beanie Baby) since demand remains many multiples of current capacity and has already shown a propensity to increase when prices decrease. Nor do we expect the industry to end up like a Hermès Birkin bag – loftily priced, narrowly produced and only available to a select few.

Next week in North America

Central banks in both the U.S. and Canada announce their rates decision on Wednesday. Our House view calls for a hawkish hold in the U.S. and an increase of 25 basis points in Canada. We also get important reads on GDP in both countries. PCE and a host of consumer spending data won't be available until the day after the Fed meeting. Therefore, we can expect a frenzied search for clues to help forecast the central bank's rate move (hold or hike) at its December meeting.

Monday 10/26:	U.S. none scheduled Canada none scheduled
Tuesday 10/27:	U.S. Durable goods, S&P Cotality Case-Shiller Home Price Index, New home sales, Conference Board Consumer confidence Canada Wholesale sales
Wednesday 10/28:	U.S. FOMC Rates decision and Press Conference, Trade balances, Wholesale and Retail inventories Canada BoC Interest rate decision and press conference
Thursday 10/29:	U.S. Weekly jobless claims, Advance GDP, PCE, Personal income, Consumer spending Canada Average weekly earnings
Friday 10/30:	U.S. Employment cost index, Chicago Business Barometer Canada GDP, Budget balance



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Precious metal investing involves greater fluctuation and potential for losses.

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} Meta's Muse app tops 10 million US downloads in 40 days - 9to5Mac

^v The State of AI: Global Survey 2026 | McKinsey

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

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

^{viii} The AI Build-Out Is Becoming the Biggest Economic Bet in U.S. History - WSJ