Ai = All

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Equities

We might all be fed up with the amount of time spent discussing the potential of artificial intelligence (AI) and the number of column inches given over to speculation about the AI endgame. But this is a trend that isn't going away in 2026. In fact, it's only likely to grow. In my view, the fate of AI will very much continue to dictate the performance of the world's stock markets and corporate behaviour in the coming year.

This fact is inescapable when we look at the current state of the market. At the time of writing, all of the top ten stocks by market capitalisation in the MSCI All Country World Index are plays on AI in some form. These include the chip makers powering the revolution, such as Nvidia and Broadcom, and household names like Amazon, Apple and Microsoft, which are at the forefront of AI usage to drive innovation and productivity. In short, if AI continues to perform, the stock market continues to perform. If AI does deliver, US equities will probably do better than the UK and Europe. But if AI starts to disappoint, this could be a significant problem at some point next year.

Artificially inflated?

Given the rapid pace of growth in AI, there is certainly a chance that growth will moderate. Since the public unveiling of OpenAI's GPT models in November 2022, the speed of AI adoption has been phenomenal. OpenAI alone has reached 800 million users in less than two years, a pace that dwarfs the early growth of the internet and other transformative technologies. This rapid rollout has been enabled by the infrastructure such as smartphones, cloud platforms and global connectivity. Ironically, much of this infrastructure is a result of the vast amounts investors ploughed into technology over the last 30 years. Similar to the original late-90s tech boom that spurred this splurge, could we see a bust of a similar magnitude again?

To answer this question, it's probably worth looking outside the 'Magnificent seven' stocks and assessing how AI will affect companies such as the other 493 members of the S&P 500. Sectors ranging from industrials and healthcare, to retail and financials are rapidly integrating AI into their operations, seeking productivity gains, cost efficiencies, and new avenues for growth. Morgan Stanley estimates that AI adoption could translate into annual net benefits of $920 billion for S&P 500 companies, representing about 28% of consensus pre-tax earnings for 2026.[1] And according to the Stanford AI Index, 78% of organisations globally now report using AI in at least one business function, up from 55% in 2023.[2]

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Silicon stimulus

Looking at the effects of the AI industry on the wider economy, data centre construction in the US is estimated to account for almost all the country's GDP growth in the first half of 2025.[3] Encouragingly, the longer-term benefits across the economy should prove inherently deflationary. As companies reduce costs and do more with less, productivity benefits should widen out from the economic boost that is coming from the AI sector itself.

So, with AI making our daily lives easier, boosting corporate profits, supporting markets, and lifting global economic growth, perhaps this time it really is different?

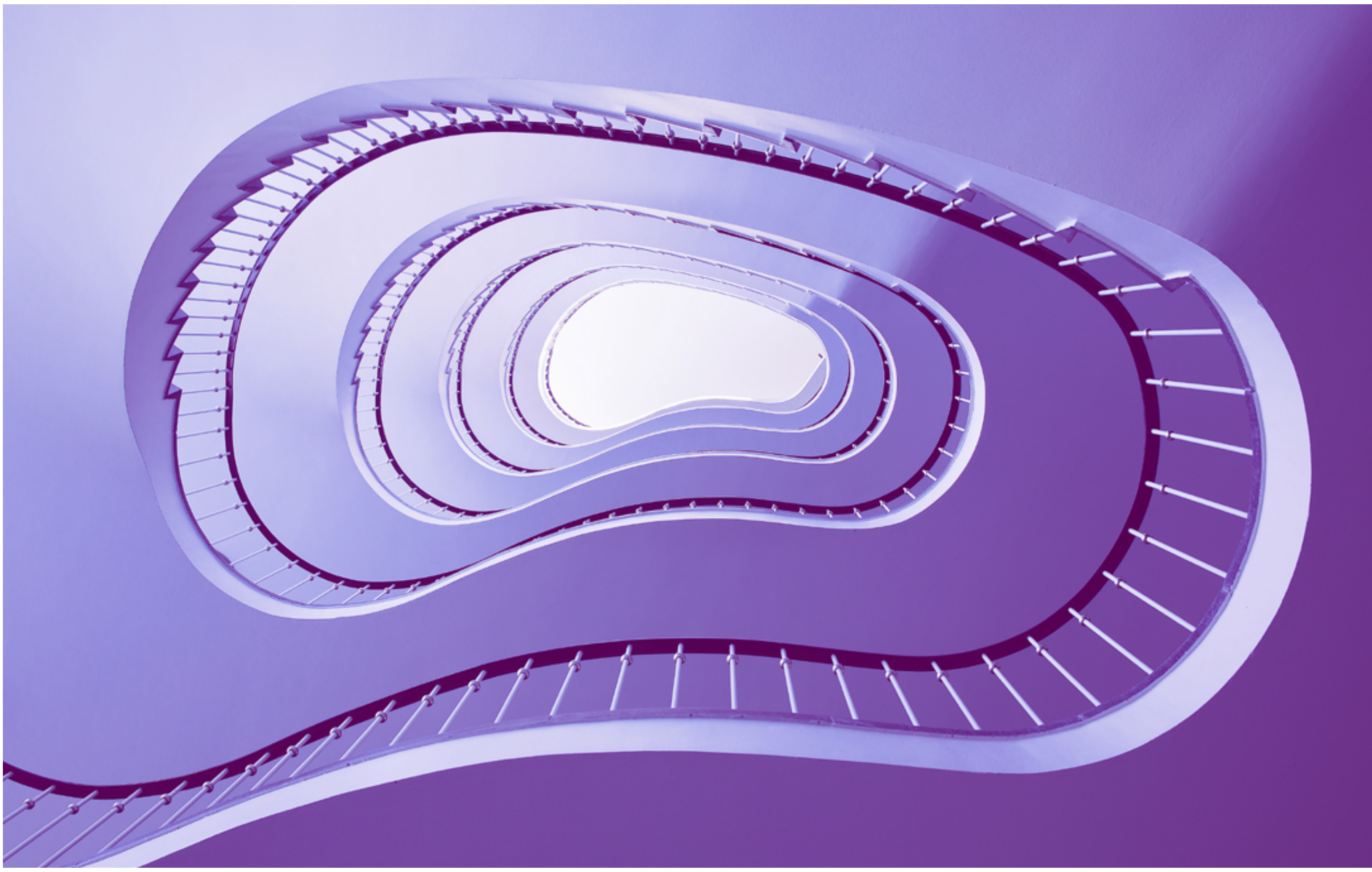
Of course, in reality there are always reasons not to be completely bullish. We are already seeing that there will be winners and losers from the AI boom. After all, one firm's cost savings often equals another's revenue losses. AI tools can now perform tasks that once commanded high fees at a fraction of the cost. At the moment the collapse in pricing is most acute among certain knowledge-based services. As one finance director put it, "What used to cost $1,000,000 now costs $200,000 with Accenture, and ChatGPT can probably do it for $10,000."[4] This year we have seen share prices of various consultancies and software providers prove vulnerable and this trend is likely to broaden across sectors in the coming year.

[1]Morgan Stanley Research: AI Could Affect 90% of Occupations [2]Stanford HAI 2025 AI Index Report (official) [3]Nearly all US growth in 2025 tied to AI and data center-related capital spending | TechSpot [4]AI sets up Kodak moment for global consultants | Reuters

> **We are already seeing that there will be winners and losers from the AI boom.**

Farewell to freeware?

From the perspective of investors, the question most will be asking is 'how soon will we see a return?' The ability to monetise AI is its biggest uncertainty. While Nvidia and Broadcom have found profitable niches in hardware, most AI applications and services remain loss-making, with unclear revenue models. The emergence of Chinese models such as DeepSeek, which offer advanced capabilities at lower cost and are often given away for free, has further complicated the outlook. At some point somebody's going to have to pay for all of this investment, but who and how isn't clear yet.



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Outside the AI industry, there appears to be a growing scepticism about business leaders' ability to foresee the ways in which AI will affect their operations, and to direct investors' capital accordingly. In the UK, estate agency Rightmove was recently punished when it announced a large-scale uptick in AI spending. Its shares lost a quarter of their value due to doubts that AI would enhance the experience of house buyers sufficiently to create the kind of returns forecast by management.[5]

From an economic perspective, the energy consumption required to power data centres is driving up electricity prices, particularly in the US, where they now consume about 4% of total electricity generated - a figure expected to rise sharply by 2028.[6] Labour costs are also increasing, as the construction and maintenance of data centres require skilled workers, many of whom are in short supply.

For 2026, investors must weigh the optimistic case - of productivity gains, new products, and value creation - against the challenges of monetisation, inflationary pressures, and sectoral disruption. If the positives outweigh the negatives, then the 'Magnificent seven' could once again leave the rest of the market in their wake.

But what seems more likely is that there will be something of a shakeout, both among AI companies and in the wider economy, as we get more clarity around the AI winners and losers. During this period, investors will have to position portfolios accordingly and stock picking is likely to come to the fore. Companies best positioned to harness AI's potential or adapt to its disruptive effects are likely to become more obvious. But the avoidance of certain areas will be as critical as finding the winners.

I'm afraid the only thing that is certain is that you're going to carry on reading at least as much about AI in the coming year.

[5] AI's awfully exciting until companies want to use it: Rightmove edition [6] Data Center Energy Demand Could Triple by 2028, Government Report Warns - Newsweek

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