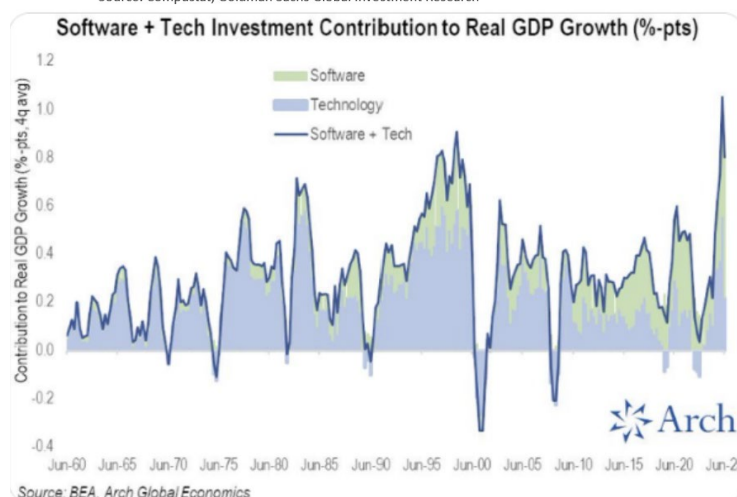
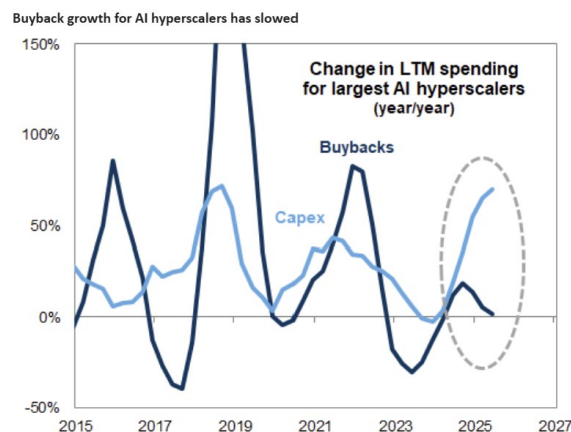


Talk of an AI bubble? That's just a lot of hot air...

We remain constructive on the AI thematic. Sure, price action has been very strong and in short order so some profit taking would not surprise us, but we are sceptical about frequent recent discussion on a 'bubble' and a comparison to the dot.com crash. Unlike the situation in 2000, we believe most of the announced capital spending is well funded, is having a positive impact on the global economy, and should continue to drive global, and in particular Emerging, equity markets.

A significant proportion of the capital expenditure announced to date for data centres has been from global hyperscalers. These companies are some of the largest names in global equity markets and are high margin businesses with strong cash generation. The fact that this spending is from cash flow rather than from fresh equity or debt is positive and marks a contrast between the current cycle and the dot.com era. Furthermore, this spending is having a positive impact on global economic growth. The hyperscalers have historically been relatively capital-light, often spending a significant proportion of free cash flow on share buybacks. Now they are investing, building physical infrastructure, consuming resources and creating jobs. This change in capital allocation is having a positive impact across sector and across global markets.

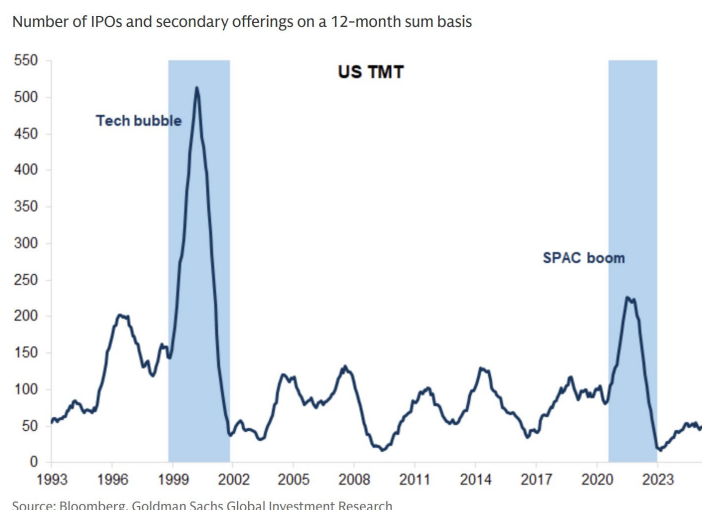


Another concern with the current cycle is that valuation levels are getting lofty. However, compared to the dot.com era, valuations of America's largest companies don't seem excessive (see table below). Furthermore, this cycle hasn't seen a spate of IPOs in early-stage businesses with little or no revenue but with large valuations.



	Market weight	Market Cap (\$ Bn)	*24m fwd P/E
Magnificent 7 (2025)			
NVIDIA	7.8%	4509	26.1
Microsoft	6.8%	3929	27.2
Apple	6.6%	3809	29.1
Alphabet	4.9%	2822	20.8
Amazon	4.1%	2356	24.9
Meta Platforms	2.7%	1552	21.2
Tesla	2.6%	1507	135.2
Magnificent 7 (2025) Aggregate	35.6%	20485	26.8
Tech Bubble Leaders (2000)			
Microsoft	4.5%	581	53.2
Cisco Systems	4.2%	543	101.7
Intel	3.6%	465	42.1
Oracle	1.9%	245	84.6
IBM	1.7%	218	23.5
Lucent	1.6%	206	37.9
Nortel Networks	1.5%	199	86.4
Tech Bubble Leaders (2000) Aggregate	19.0%	2457	52.0

Source: Bloomberg



There are undoubtedly some small parts of global equity markets that are a bit frothy. One example would be companies that are trying to solve the issue of how to power these new datacentres, such as Oklo (small module nuclear reactors), which, as the FT recently highlighted, currently has “no revenues, no license to operate reactors and no binding contracts to power supply” but has a market capitalisation of ~\$18bn.

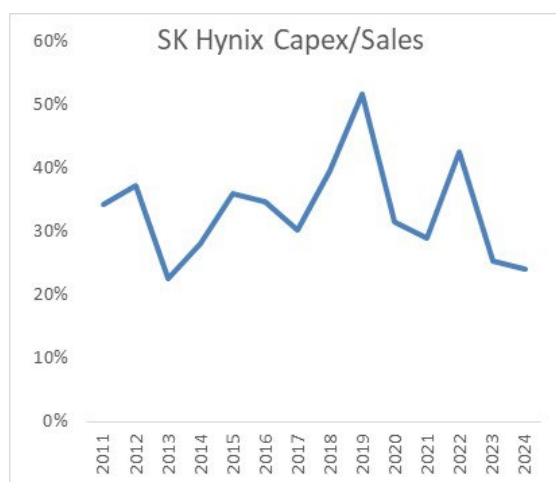
By contrast to Oklo, there are a lot of beneficiaries of the hyperscaler capex that are on very attractive valuation multiples, and many of these are to be found in Emerging Markets. One particular name to highlight in the table below is SK Hynix. The fact the stock is trading on less than next year’s earnings estimates suggests the market is not pricing in sustained earnings growth from hyperscaler capex. Furthermore, we like the fact that the company is being much more disciplined this cycle with regards to capex, which should help maximise returns in this upcycle and limit the lows in any future downcycle.

Look out for our next article, where we will delve deeper into some of the emerging market beneficiaries of AI.



Stock	Name	P/E(2026)	Return YTD(USD)
000660 KS	SKHYNIXINC	7.7x	187.7%
005930 KS	SAMSUNG ELECTRONICS CO LTD	12.3x	92.6%
2317 TT	HON HAI PRECISION INDUSTRY	14.7x	45.6%
BABAUS	ALIBABAGROUP HOLDING-SP ADR	17.0x	99.4%
700 HK	TENCENTHOLDINGS LTD	18.3x	50.8%
MXEF	MSCIEM	15.8x	31.8%
MXWD	MSCIACWI	21.5x	20.2%

Source: Bloomberg



Source: Bloomberg

Biography

Ben Shields | Investment Manager



Ben joined Aubrey in 2020 as one of the three co-managers of the TreeTop Global Horizon Fund, and now jointly manages the TreeTop Convertible International fund. He is also part of the team responsible for capital allocation within Emerging Markets for TreeTop's third-party holdings. With a focus on fundamental research and growth assets, Ben contributes to idea generation for the Aubrey GEM Strategy.

Ben studied at King's College, Cambridge, where he graduated with a degree in Economics. He then started his career in 2010 at Sanford C. Bernstein where he worked as an equity research analyst on the European Chemicals and European Building Materials sectors. He received the CFA designation in 2013. Ben moved to TreeTop in 2013 as an analyst (and later co-manager) of the Global Opportunities Fund.

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