



October 2025 – Build AI and They Will Come?

“In financial markets, a bubble occurs when the level of investment in an asset becomes persistently detached from the amount of profit that asset could plausibly generate.”

— Jared Bernstein and Ryan Cummings, *The New York Times*

Great Opportunity or Bubble About to Burst

It is said that two things you can always count on are death and taxes. Today we would add a third – media coverage of AI.

AI capital spending has been the major driver of the U.S. economy in 2025. According to Harvard economist Jason Furman, over 92% of U.S. GDP growth in the first half of 2025 was a result of AI investments. Further, over 60% of the increase in the S&P 500 year-to-date can be attributed to a handful of AI-related companies. Today, AI is the economy and the stock market. This trend is expected to only accelerate in the coming years, with Gartner, Inc. estimating that global AI capital expenditures will exceed **\$2 trillion** in 2026.

The question is whether these investments will pay off. According to *Barron's*, OpenAI, a private company and one of the leading AI companies, needs at least \$1 trillion in capital or 3.4% of the US GDP to build out the data centers it currently has planned. How will this huge expenditure be financed? Even if OpenAI is the largest initial public offering of all time, it would still not be enough. OpenAI currently loses an estimated \$20 billion a year and has told investors that it does not expect to be profitable until 2029. It will need to issue significant amounts of debt and equity to finance its investments.

OpenAI is not the only company planning massive data centers. Many other competitors have similar plans. Amazon, Microsoft, Google, and other deep-pocketed companies are lined up to invest hundreds of billions of dollars to expand their data centers. While the investment required to build data centers is extreme, it pales in comparison to other challenges, such as finding the electricity to run them. A single data center often requires the same amount of electricity as a small city, and although investors are looking at many sources of electricity, including solar, nuclear, and geothermal, the only energy source that can be quickly deployed is natural gas. This need has important implications for the oil and gas industry, electric utilities, and the companies that will build the data centers, transmission lines, and the power plants that will power them.

All of this seems encouraging for companies in the supply chain for AI. While we believe this is a segment that we should invest in, it is also a place to be careful. Not every company that is involved in AI will prove to be a winner. Many have seen their stock prices skyrocket so high they could prove to be poor investments far into the future; in addition, some will fail completely. We believe it is far too early to pick winners and losers.



For now, the market has rewarded companies making big announcements and investments with massive gains, often overnight. To name a few:

- Broadcom (a legacy semiconductor and networking company we expect many people have never heard of) is up over 100% in one year and is now the seventh largest company in the world. It is now twice the size of JP Morgan Chase with about a third the profits.
- Palantir (a software company specializing in government, defense, and counterintelligence and which has only been public six years) is up over 300% in one year and is now almost worth more than Chevron and Boeing combined!
- Oracle (a legacy database company catering to large corporations) recently announced a new contract with OpenAI and gained more value in two hours (~\$250B) than the full value of McDonalds, IBM, or American Express. Said more simply, the market attributed more value to Oracle in two hours than American Express has built over 175 years.

These moves can be very exciting for investors, but we believe they are not to be taken lightly. We have seen exuberant periods around new technologies in the past, and our view is that many of these companies should be viewed with caution. We are sure some will be good investments, but until we are able to see evidence of profitability it is an exercise in speculation.

The question then is how should we, as investors, participate in the AI boom?

One popular approach, and one we agree with, is to buy the “picks and shovels” needed to provide AI. These include the companies (such as EQT, Eagle Materials, Caterpillar, and NextEra Energy) that will construct the data centers, produce the required components, run the associated power plants, and supply the fuel to generate electric power.

Another approach is to invest in the mega-cap tech companies (such as Google, Amazon, Microsoft, and Meta) that are investing heavily in AI but also have other successful business units that can support the company and produce the cash it needs to fund these investments.

Lastly, as you know from reading many of our letters, we are firm believers in maintaining a diversified portfolio of stocks across various sectors of the economy and never letting any one position or sector become too concentrated to maintain balance.

We do think the AI boom is real. Some companies will prove to be wonderful investments. Others will fall short. We are happy to be patient and position your investments in areas we think will benefit regardless of who the eventual winners will be.

As always, we welcome your comments and questions and thank you for your trust in us.