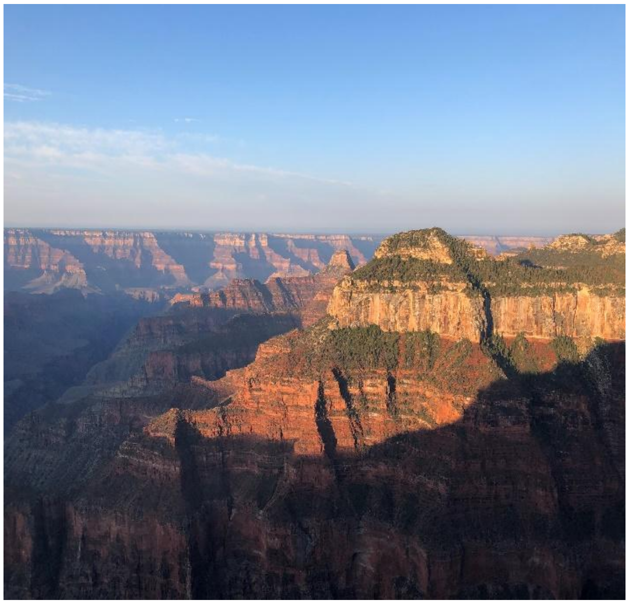
Highlights and Insights

November 19, 2025

Benefit Financial Services Group ‖ 1643 E. Bethany Home Road, Phoenix, AZ 85016 ‖ Phone: 602-997-8882 ‖ www.bfsg-az.com



Inside This Issue

Market Musings:

Artificial Intelligence: Boom or Bubble?

The market's recent rotation out of growth stocks and into more value-oriented sectors such as Healthcare, Energy, and Consumer Staples has raised renewed concerns about the health of the artificial intelligence (AI) trade. While bulls point to recent market action as a healthy repricing of growth stocks (and AI names in particular), critics are becoming increasingly vocal about their contention that this rotation may represent the first domino to fall in the complete collapse of the AI trade. **While advocates of the "AI bubble" hypothesis cite a host of observations and data points to support their thesis, the most referenced arguments appear to be the following:**

1. **AI-related Capital Expenditures are Outpacing Demand:** Proponents of the AI/data center bubble argument posit that spending on data centers and chips, particularly among hyperscalers (e.g. Amazon, Google, Meta, and Microsoft)[i] has far outpaced the immediate, tangible revenue and productivity gains from AI. They argue that this mismatch signals a classic late-stage bubble, as excess capacity could lead to underutilization if AI adoption fails to accelerate, mirroring the early 2000s tech bust.

2. **Valuations Detached from Fundamentals:** Critics argue that that valuations for many AI-exposed companies have risen dramatically, assuming material growth in sales and earnings to justify forward multiples. They further contend that this valuation premium extends beyond tech and tech-adjacent sectors to infrastructure companies and power producers that have exposure to the data center buildout and its material energy requirements.

3. **Circular Investments and Ecosystem Froth:** AI bubble advocates frequently cite concerns about "circular deals" where major AI players such as chip manufacturers or large cloud providers invest in or finance smaller AI model companies that, in turn, purchase their chips or services. Skeptics argue this blurs the lines between customer and supplier, potentially artificially inflating both demand figures and valuations within the ecosystem. They also contend that these circular investments create a feedback loop, making them vulnerable to a single trigger such as regulatory hurdles or economic slowdowns.

While there are certain aspects of the above thesis we find compelling, **we believe that there are convincing counter arguments that ultimately cast doubt on this bearish stance**:

1. **AI Investments are Already Bearing Fruit:** Critics of the massive AI-related capital outlays often point to the Dot.Com era as an example of disastrous overspend, pointing out similarities between current technological and infrastructure investments and those that occurred in the mid to late-90s. We find this comparison to be problematic for a few reasons. First, every significant technological shift in history has required individuals and companies to "bet on the come" by building out capacity in advance of demand. In addition, we view AI as a foundational shift that is already producing widespread adoption across various industries due to its ability to streamline operations and enhance productivity. AI is already generating real revenue for Big Tech[ii] as opposed to stocks in the internet bubble era that were being valued by "clicks" or "eyeballs" due to little or no sales. In short, the AI-boom isn't Pets.com—there are real dollars flowing.[iii]

2. **AI Valuation Premium May Be Warranted:** Turning to valuation, while trading multiples for the largest tech companies may appear elevated in aggregate, there are three important considerations worth noting: 1) current multiples are well below the extreme peaks of the most frequently cited comparison used by AI bears, the Dot-Com era, 2) the rapid pace of earnings growth for some AI leaders has, in some cases, actually resulted in their P/E ratios compressing over the past few years (i.e., there is no "premium"), and 3) high expected earnings growth rates for AI and AI-adjacent companies may account for a significant portion of the premium that investors appear to be paying for these stocks.

3. **Circular Investments Indicate Fragility Rather than a Bubble:** Circular financing is not a unique feature of the AI ecosystem. Prior technological paradigm shifts have also been characterized by circular investment cycles, including the Dot.Com era (which was a bubble) and the cloud computing buildout (which was not). Consequently, our view is that while circular financing is not necessarily indicative of a stock market bubble, it does make the system more fragile if a bubble is eventually formed and bursts. For example, if circular spending collapses at the top of the chain (e.g., hyperscalers slow chip purchases), the entire ecosystem may face a synchronized and pronounced downturn.

While we do not find the AI bubble hypothesis compelling at this juncture, the current market environment is subject to a host of economic uncertainties that could adversely impact AI and data center demand. In addition, technological revolutions are by their very nature highly dynamic, making it nearly impossible to achieve visibility beyond the near to mid-term. Consequently, while we are not persuaded that we are currently in a bubble environment, we must nonetheless be vigilant about looking for indicators that massive AI investments may be unwinding unfavorably. With this in mind, we have compiled the following list of **potential AI bubble warning signs**:

1. **Extreme, Widening Valuation Gaps:** AI beneficiaries (semis, hyperscalers, data-center REITs, power/utility names, integrators) begin to trade at significant premiums relative to their historical multiples. Low quality stocks with very little revenue or marginal AI exposure are rewarded with premium valuations. New, often unprofitable, AI startups or data center developers are able to raise enormous amounts of capital quickly based on concept and hype, rather than proven financials or customer contracts.

2. **FOMO-Driven Retail Frenzy Takes Hold:** Retail investors pile into the winning AI/data center stocks out of fear of missing out (“FOMO”) on the next wave of gains. This buying frenzy would be likely be marked by increased use of margin debt to buy AI-related equities.

3. **Increased Market Concentration Risk:** The majority of the stock market's overall gains are driven by a very small number of AI-dominant mega-cap technology companies. Defensive sectors that are not directly tied to AI (e.g. Consumer Staples and Healthcare) badly underperform the overall market as growth and momentum strategies dominate quality and value-oriented investment approaches.

While this list is by no means comprehensive, it does include three clear advance warning signs that a bubble may be forming, in our view. **The trigger point for the AI bubble bursting would almost certainly be hyperscalers cutting back on AI-related expenditures in response to softer-than-expected AI revenue growth**. By this point, however, it would likely be too late to dramatically cut AI exposure as the damage would already be done. Our aim would be to proactively cut back AI-related exposure in client portfolios if a preponderance of our AI bubble warning signs begins to flash red.

While we remain firm believers in the promise of AI, we must always be on guard to limit downside risk in client portfolios if cracks begin to form in the bullish AI and data center thesis. **In our view, the best defense against a bursting AI bubble, however, is maintaining a highly diversified portfolio of equity holdings**. While we certainly hold stock positions that are directly tied to generative AI and the data center buildout, the vast majority of equities we hold in client portfolios have little or no exposure to these factors. **In the end, we remain focused on capital preservation, even as the AI revolution continues to play out.**

Brent J. Miller, CFA®

Disclosure: Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Benefit Financial Services Group ["BFSG]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from BFSG. BFSG is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the BFSG's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.bfsg.com. ***Please Remember:*** *If you are a BFSG client, please contact BFSG, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently.* ***Please Also Remember*** *to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.*

Disclaimer: Discussion in this newsletter relating to a particular company is not intended to represent, and should not be interpreted to imply, a past or current specific recommendation to purchase or sell a security, and the companies discussed do not include all the purchases and sales by the Firm for clients during the quarter. A list of specific recommendations made by the Firm over the past year can be made available upon request.

---

[i] Hyperscalers are companies that operate large-scale cloud computing infrastructures to provide services such as storage, networking, and computing power. They build massive data centers that allow them to offer highly scalable, on-demand computing resources, which enables businesses to run applications without managing their own physical hardware.

[ii] Examples include: 1) NVDA's significant revenue growth driven by robust demand for GPUs and chips for AI training/inference in data centers, 2) MSFT's Azure AI consumption growth outpacing core cloud, and 3) AMZN's Amazon Web Service's AI-driven demand outpacing capacity.

[iii] We believe the current AI-related CapEx cycle is more analogous to the cloud investment cycle, which lasted from approximately 2006 to 2015. The early stages of the shift to cloud saw capital outlays growing rapidly before material revenue contributions showed up. In fact, the cloud returns didn't show for years—but when they did, they were material and durable, as evidenced by the exponential growth in Microsoft's Azure, Amazon's Amazon Web Services, and Google Cloud.