

Beyond the AI bubble narrative

Understanding AI's
true market potential

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Bubble or breakthrough?

It is impossible to escape talk of an AI bubble. Valuations are punchy, capex spending is high, and the real productivity gains from AI are yet to be fully realized. Many investors and commentators point toward an inevitable crash.

Yet beyond the headlines, demand for AI is strong, and growing. Enterprise AI spending continues to build, and recent better-than-expected earnings from foundational players such as Nvidia suggest hype – at least for now – is justified.

In its latest report, Invesco interrogates the dominant bubble narrative. Drawing comparisons with the dot-com era, it points to tangible earnings growth, healthier balance sheets and meaningful adoption rates – factors that set today's market apart from previous market crashes.

The AI boom will inevitably create both winners and losers, and the report underscores the importance of diversified portfolios. With just a handful of companies driving most gains, investors face tough choices: reduce concentration risk and potentially dilute exposure to future returns or ride the wave and accept a higher level of uncertainty. Bubble or no bubble, investors must anticipate volatility and balance optimism with caution to benefit from this unique moment.

The “Ask the Expert” section of this report delves into broader structural risks to the AI market, distinguishing long-term winners and losers, and how new AI innovations may shift dynamics.



Alexandra Brown

Content Lead
Savvy Investor

Report Sponsor

About Invesco



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James Anania, CFA
Investment Strategist
Invesco

James Anania is an Investment Strategist at Invesco, responsible for developing the economic and financial market views of the firm's Strategy & Insights team. Prior to Invesco, he began his career at Goldman Sachs, where he advised private wealth advisors on asset allocation and portfolio construction. James is a CFA Charterholder and earned a bachelor's degree in economics from the State University of New York at Geneseo. He holds the Series 7, 63, and 66 registrations.



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just a challenge
that's not
been rethought
properly.

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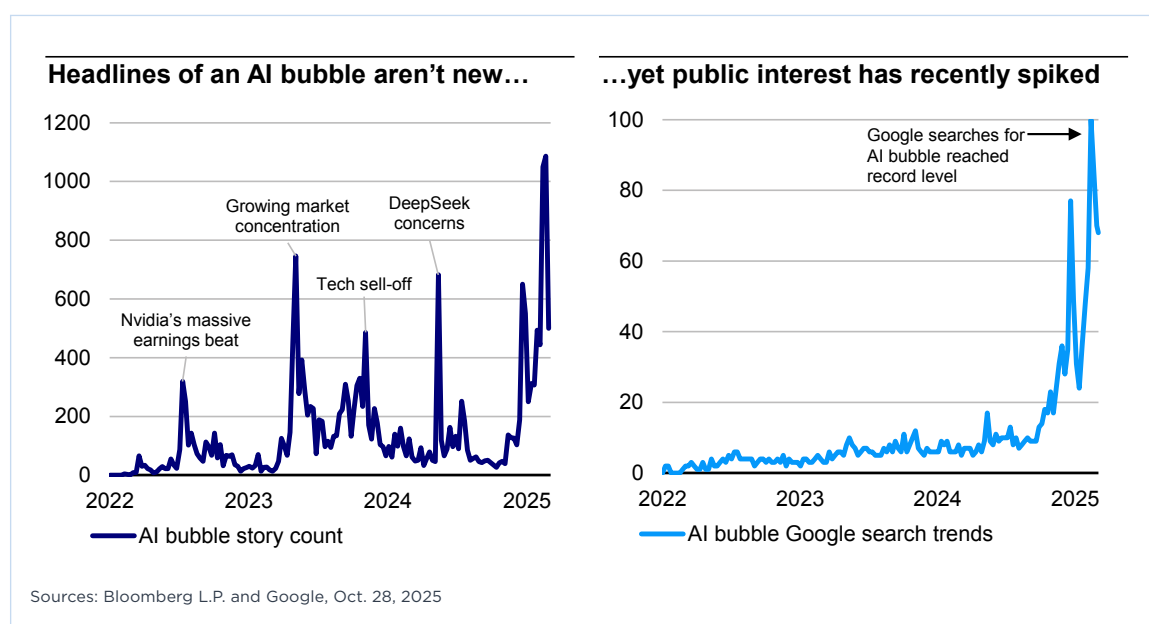


Five key insights

As part of its “Trending Conversation” series, Invesco’s latest report explores the AI related stocks driving the market rally and uses data to challenge the dominant AI bubble narrative. The paper explores key considerations investors should keep in mind to avoid overconcentration risk and create resilient portfolios that can weather future volatility.

1. Investor fears of an AI bubble continue to simmer

“While concerns about an AI bubble aren’t new, recent data has shown a sudden rise in media attention.”

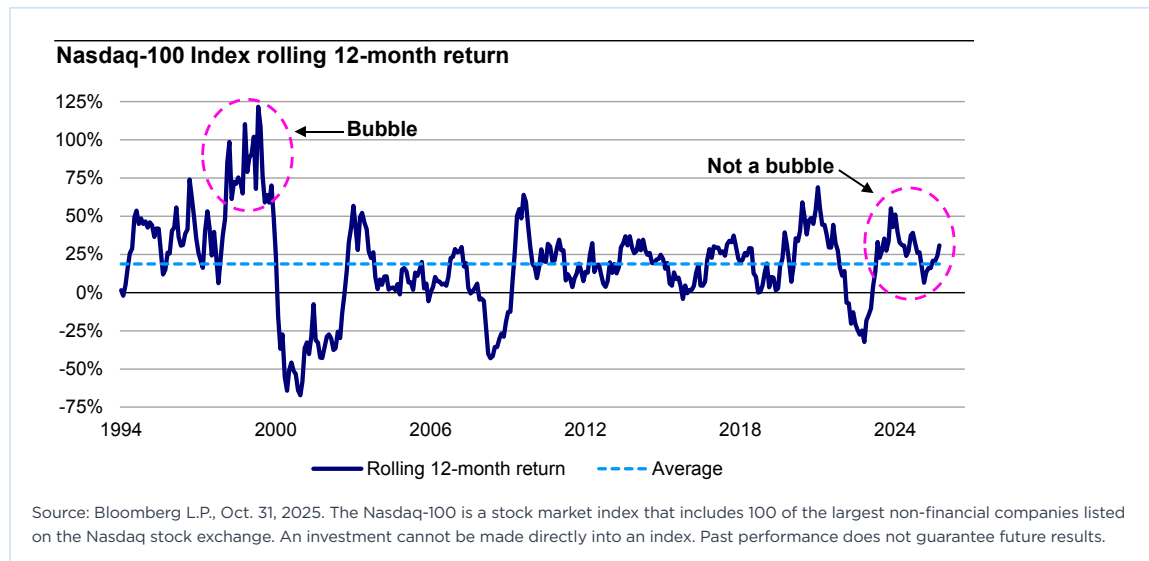


While recent better-than expected earnings have allayed some fears, AI stocks are not in the all-clear. Valuations are stretched, leading many to conclude that a sharp market correction is inevitable. Concentration risk is particularly high, with fears that interdependence between key players is making true diversification harder to achieve. That said, these fears are not reflected in investor allocations. This suggests that beyond the headlines, investors are willing to accept a high level of risk to benefit from the significant upside potential.

“Comparisons [with the dot-com bubble] seem unfounded”

2. Is history repeating itself?

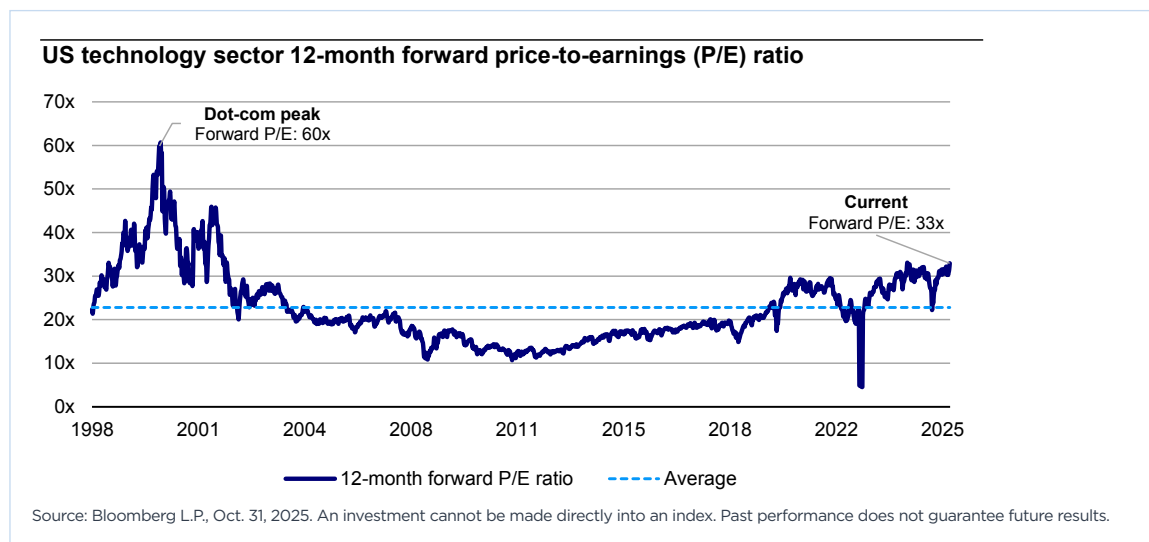
“Comparisons [with the dot-com bubble] seem unfounded, as the tech-heavy Nasdaq-100 Index returned more than 75% annually for much of the late 1990s, whereas recent performance has been closer to historical averages.”



Parallels with the dot-com era are common: both the internet and AI are technological breakthroughs with significant long-term potential that can distort short-term valuations. But many of the similarities are overstated. Unlike the internet leaders of the 90s, many leading AI companies are generating significant cash flows and are selling in demand products and services. In context, recent performance is not that dissimilar to historical averages.

3. Are valuations justified?

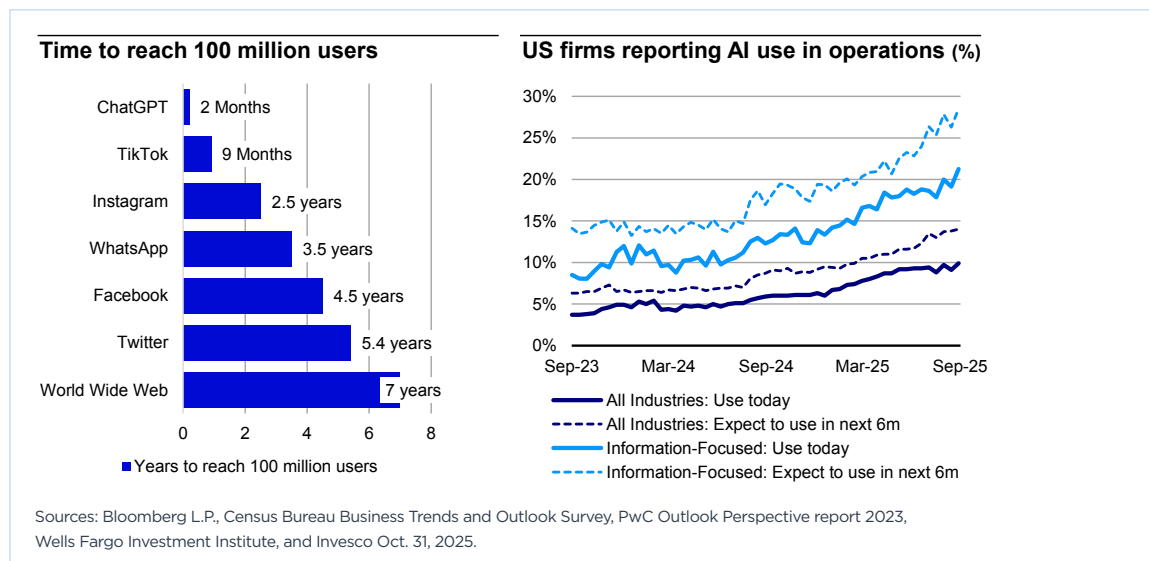
“While the forward P/E ratio of the U.S. technology sector is currently above its long-term average, strong earnings have kept valuations relatively in check. This was not the case during the dot-com era.”



While valuations are high, earnings growth is real, not hypothetical. P/E ratios are significantly below the peaks seen in the late 90s and early 00s. The fundamentals appear much more favorable this time around.

4. Beyond the hype, is AI truly transformative?

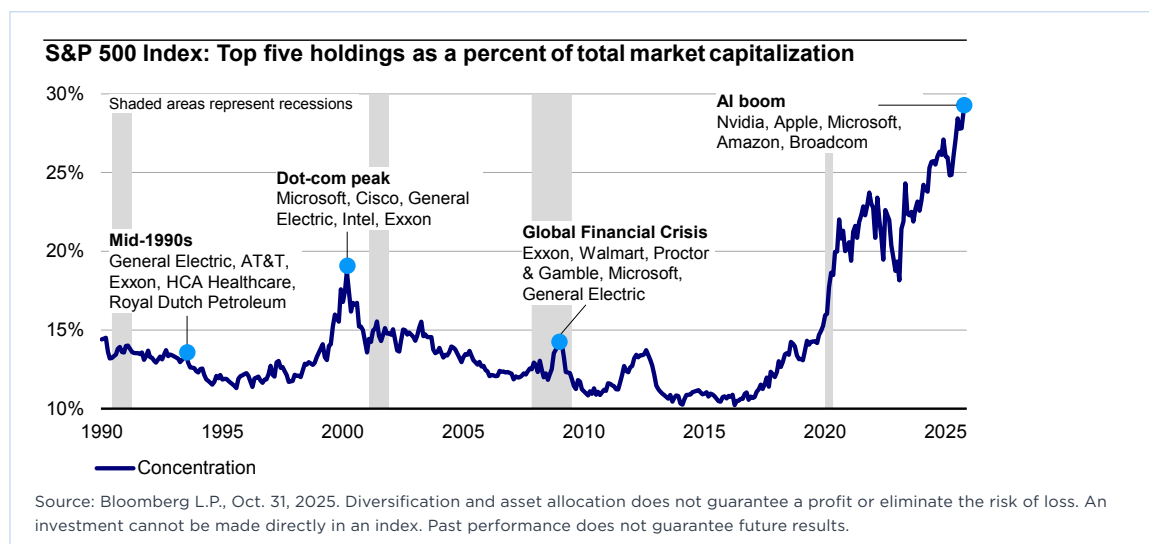
“No technology in recent history has been adopted faster than AI. AI applications have hundreds of millions of daily users and businesses continue to integrate the technology into their operations.”



Enterprises and consumers alike are embracing the AI opportunity at record speed, and there are no signs that appetite is waning. With new innovations and applications such as Agentic AI still emerging, there remains significant untapped potential.

5. The myth of diversification

“Five stocks currently account for a record high 30% of the S&P 500. This means the performance, and risk characteristics, of an index comprised of 500 companies is increasingly tied to the fate of just a few stocks.”



Five stocks currently account for a third of the S&P 500. But there is no guarantee these companies will continue to dominate years into the future. Diversification has never been so important, or hard to achieve. New circular funding models, whereby companies invest in their competitors' supply chains, is making it even harder for investors to achieve meaningful diversification. Allocators remain heavily invested in the big AI stocks, suggesting that they are taking a risk-adjusted approach to avoid missing out entirely on returns.

Diversification and asset allocation do not guarantee a profit or eliminate the risk of loss

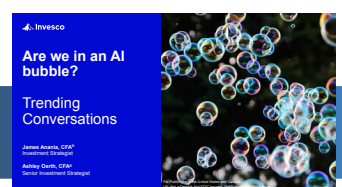


Conclusion

This comprehensive report from Invesco uses data-driven storytelling to analyze the reality of the AI boom beyond the dominate bubble narrative. Leveraging insights from previous technology cycles, the authors of the paper highlight similarities, and crucially key differences, that make this a unique moment for investors.

The opinions expressed are those of the authors, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

[View the full paper](#)



Bubble talk

Alexandra Brown, Content Lead at Savvy Investor talks with James Anania, Investment Strategist at Invesco on recent AI earnings, structural risks to the market, and the emergence of Agentic AI.



Interviewer
Alexandra Brown
Content Lead
Savvy Investor



James Anania, CFA
Investment Strategist
Invesco

Alexandra Brown: To what extent do Nvidia's stronger-than-expected earnings validate that underlying AI demand is genuine, expanding, and not merely cyclical or hype-driven?

James Anania: Nvidia's third-quarter earnings beat wasn't exactly a surprise. Hyperscalers like Meta and Microsoft had already signalled massive AI infrastructure spend, not just in their own Q3 reports but throughout 2025. This appeared to be reflected in Nvidia's encouraging forward guidance as well. The results and outlook together confirm that AI demand has been genuine and is poised to remain strong moving into 2026.

Recent earnings also support the view that AI is a secular theme not a cyclical one – especially when you consider recent policy support from the U.S. government. The One Big Beautiful Bill Act (OBBA) includes provisions specifically intended to accelerate AI-investment and bolster energy infrastructure. The government has also provided research grants to foster AI innovation and taken stakes in AI-related companies of strategic importance.


While hype has undoubtedly fuelled investor interest, the scale and urgency of current spending, suggest that AI is being seen as a transformative technology rather than a passing fad.

AB: As complex financing structures among major AI players make diversification harder, how can investors ensure their AI exposures remain sufficiently diversified to avoid concentration risk?

JA: Market concentration is certainly a growing risk for investors. Five stocks alone now account for a record-high 30% of the S&P 500 Index. This means that many investors – either through direct ownership of individual stocks or indirectly through fund holdings – are far more exposed to certain companies than they might realize. Portfolios that appear well-diversified may be heavily tilted to just a handful names. This leaves investors vulnerable to company-specific risks.

It's especially important to diversify now because, in my view, the primary AI beneficiaries could shift over time from tech-focused AI

“Recent earnings also support the view that AI is a secular theme not a cyclical one – especially when you consider recent policy support from the U.S. government.”



“The greatest structural risk faced by the U.S., in my view, is the lack of energy available to power both existing infrastructure and new AI data centers.”

“hyperscalers” and “enablers” to more industry-wide AI “adopters.” Positioning for that potential shift likely means looking beyond the large-cap growth names that have dominated the initial AI build-out towards the more cyclical and small-to-mid cap parts of the market. These are the areas that stand to benefit most from greater AI integration and where relative valuations are currently most attractive, in my opinion.

AB: Beyond elevated valuations, which structural risks pose the greatest threat to the current AI cycle?

JA: The greatest structural risk faced by the U.S., in my view, is the lack of energy available to power both existing infrastructure and new AI data centers. Building new energy capacity is a slow process, entailing lengthy permitting processes and construction plus a current shortage of critical equipment. These constraints take time to resolve and could potentially slow the pace of AI development simply because U.S. power supply cannot keep up with AI power demand.

Efforts are underway to address this challenge through public-private partnerships across the U.S. government and industry. China faces fewer energy limitations, which could allow it to eventually outpace the U.S. in AI technology.

AB: If AI infrastructure providers still have meaningful growth runway, what frameworks can investors use to identify the most compelling downstream beneficiaries?

JA: The AI infrastructure build-out has resembled a modern-day gold rush. First movers like Nvidia, Meta, Microsoft, Amazon, and Alphabet have captured much of the attention, but less visible AI enablers – those providing the essential “picks and shovels” so to speak – potentially stand to benefit as the AI build-out progresses. These include companies powering and cooling data centers as well as supply-chain related companies.

The next opportunity could come from AI adopters, or the firms that successfully integrate AI to automate operations. These adopters will likely span industries from finance and business services to manufacturing and logistics and everything in-between – reinforcing the case for greater portfolio diversification.

AB: If today’s dominant AI companies may not be tomorrow’s leaders, what indicators can help investors distinguish long-term winners from potential losers?

JA: History shows us that market leadership tends to change over time. Unfortunately, the path of innovation is difficult to predict – the dominant companies of tomorrow may not even exist yet! As investors, distinguishing long-term winners and losers is perhaps best done on a relative basis. The question boils down to what companies today are best positioned for the future?

The answer is two-fold: First, companies with strong, established businesses and high barriers to entry are likely better positioned than firms entirely reliant on the AI-theme. Second, companies that demonstrate capital discipline and prioritize ROI are likely to outperform those that overinvest relative to their financing source. Companies with durable business models, diversified income sources, and solid fundamentals are almost always better positioned for the future than those with speculative growth, concentrated revenue streams, and questionable balance sheets.

AB: Are we moving toward a “winner-takes-all” market structure, or will value ultimately disperse across the AI stack?

JA: Leading AI companies often act as if they’re in a “winner-takes-all” arms race. This has possibly been driven by a fear that underinvesting in the AI build-out could ultimately prove more costly. However, a true winner-takes-all market structure seems unlikely. Many of these same firms operate

as quasi-monopolies in their respective markets. While they sometimes compete in areas (most recently, AI), they largely serve distinct functions within the economy. The apparent race to develop the best large language model seems unlikely to change that.

As the infrastructure build-out matures and new AI models become cheaper, faster, and more powerful, the final phase may favour companies that successfully integrate AI into their operations rather than those that built its foundation. This could result in value increasingly dispersing across the AI stack, moving from today's infrastructure and model providers to downstream AI adopters as the initial build-out nears completion and adoption rates accelerate.

AB: Is increased consolidation the next phase of the AI market's evolution, and what signals should investors watch?

JA: Dynamics may be more nuanced than simple consolidation. In public markets, shareholders are unlikely to tolerate continued AI spending if future expected returns fail to justify the scale of investment. Some companies appear better

positioned than others to sustain high levels of AI capex, but few can afford to compete indefinitely. For that reason, a more accurate description could be "capitulation," where certain firms begin to scale back AI investment. The key signal to watch is whether the pace of AI capex continues or begins to decelerate.


Even if spending does moderate – which seems inevitable at some point – the good news is that existing infrastructure will remain valuable. Moreover, capital that might have previously gone towards data centers may be redirected to other productive uses (e.g. housing, education, healthcare, etc.). In my view, a slowdown in AI capex could potentially result in market volatility, it doesn't appear to represent a meaningful risk to the economy.

AB: How might the emergence of agentic AI alter the development path of the broader market?

JA: High-performing agentic AI models have the potential to revolutionize the modern workforce. Though still in their early stages, these models appear to be a key long-term goal of current investment due to their ability to automate tasks at scale. Fully functioning agentic AI would likely create strong incentives for businesses to integrate the models into their operations given the tangible efficiency and cost-saving benefit they could provide. The emergence of agentic AI could mark the inflection point where AI adopters become the primary market beneficiaries versus the AI hyperscalers and enablers of today.

AB: Are we seeing AI productivity gains appear in broader company earnings/country GDP yet? If not, when can we expect to?

JA: Survey data shows that firms who have integrated AI into their operations have indeed reported increased productivity. Self-reported survey data also indicate workers have found meaningful reductions in time spent on some tasks by using AI tools. However, at an economy-wide level, the results are less clear as U.S. productivity has been rising since 2020, well before generative AI went mainstream in 2023. Moving forward, as enterprise AI adoption continues to rise and business leaders increasingly encourage its use on the job, the consensus among economists is for U.S. productivity growth to accelerate meaningfully over the next decade.



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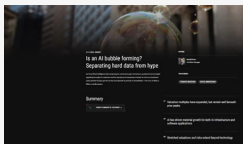
Our top picks of AI papers



Exploring Artificial Intelligence

Invesco | August 2025

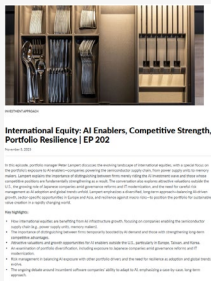
This report explores artificial intelligence from definition to the driving forces behind the recent acceleration in innovation, Invesco's predictions around the growth of AI, and its impact on economies and markets.



Is an AI Bubble forming

Robeco | November 2025

As the artificial intelligence computing era continues to gain momentum, questions have emerged regarding the scale of investment and the valuations of companies involved.



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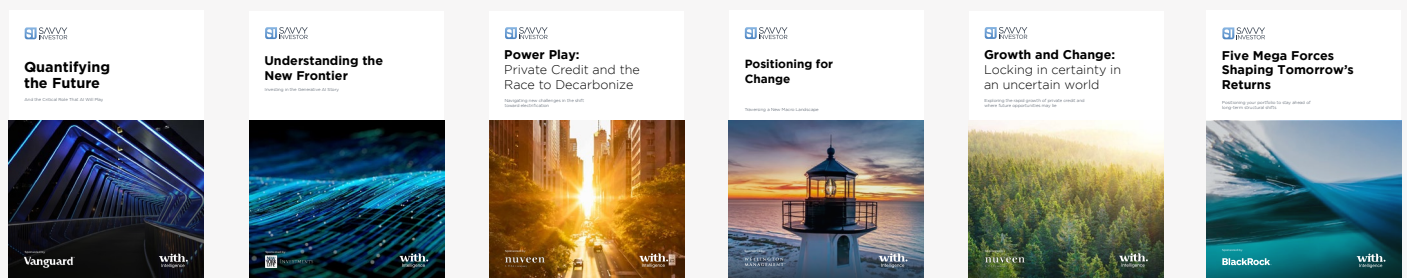
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