



Beyond the 'AI' Box

Implications of aggressive capex growth

Fiera Capital Apex team

The evolution of growth equity investing

Artificial intelligence is catalyzing one of the most ambitious investment cycles in modern technology history. While the long-term implications for productivity and innovation are significant, the nearer-term questions for equity investors are more nuanced: how durable are returns in increasingly capital-intensive business models, how quickly do competitive advantages erode, and where does growth become mispriced?

History does not repeat, but it can **rhyme**. There are faint signs of a repeat of the tech bubble from 2000.

There have been several headlines about the disruption of AI on various industries – these span from decimation of the Software businesses to Wealth Management firms to data providers to logistics firms.

Divergence within the technology sector

For instance, evaluating the performance of the software sector ETF, **IGV**, relative to that of the semiconductor sector ETF, **SMH**, there is approximately 80% difference in performance between these broad-based technology sub-sectors over the last 12 months – a divergence amongst two important areas of technology we have not seen in recent years.

Generative AI tools such as **ChatGPT**, **Copilot** and **Claude** are proliferating in software development but we see the promise still being ahead of reality. Productivity gains and adoption coexist with hype, skepticism and interaction challenges.

Spending approaching dot com era levels

By the end of 2025, investment in tech equipment and software reached 4.4% of Gross Domestic Product (GDP) – close to the peak of the dot-com bubble. The expectations and guidance are for the five

hyperscalers – **Amazon, Google, Meta, Microsoft** and **Oracle** – to have about \$2 trillion in AI-related capital expenditure by 2030 (\$650 billion announced for 2026). At the same time, tech related assets depreciate at a fast clip. Assuming a 20% annual depreciation rate, equating to about \$400 billion, this is approximately equivalent to the combined profits in 2025 for these hyperscalers. What is not known is how the market will react to the change in business models of extremely profitable, scalable, asset-light entities to lower profitability, lower free cash flow margins and higher capital intensity – unless there is a dramatic increase in profitability in the short-term which we see as an unlikely scenario. There will be a vacuum in the growth and profitability trajectory as the spending ramps up.[†]

This mindset reflects an extreme, high-stakes approach to artificial intelligence investment, with capital allocation increasingly prioritized speed and scale over near-term efficiency. As capital expenditure accelerates, free cash flow profiles across the largest spenders are likely to compress before any meaningful monetization emerges. The market response may hinge less on headline investment levels and more on tolerance for a prolonged air-pocket in growth and profitability as business models transition from asset-light to capital-intensive. Expectations for a sharp inflection in free cash flow from 2027 onward assume flawless execution and rapid commercialization – leaving little margin for error should returns materialize more slowly or competitive dynamics intensify.

“I’m willing to go bankrupt rather than lose this race.”

– Larry Page, founder of Google

Is AI leadership sustainable?

AI companies have justified aggressive capital investment as necessary to secure first-mover advantage. In practice, such advantages tend to matter most when supported by strong network effects, meaningful economies of scale, or legal protections, conditions that largely do not apply to AI.

Unlike social media platforms, AI users interact with the system itself rather than with one another, limiting network effects. Moreover, expanding AI usage requires substantial ongoing investment in data centers and energy, constraining scalability. Finally, many AI models rely on widely available transformer architectures and open-source frameworks, making them relatively easy to replicate.

As a result, the AI industry increasingly resembles airlines: capital-intensive, highly competitive, and structurally commoditized, where first-mover advantage offers limited and often temporary benefit. Compute-level competition is rising with the prospect of five-plus providers of AI accelerators within a few years. For mainstream AI tasks, choice of high-quality large language models (LLMs) is growing. AI coding assist leadership is rotating with each leapfrogging advancement. The commoditization of the foundational elements of AI puts increasing urgency up the technology stack to drive return on investment with new applications.

Mark Zuckerberg characterized spending hundreds of billions of dollars on AI **as a smaller risk than underinvesting.**

[†]This is not a recommendation to buy, sell or trade in any of the investments or companies mentioned.

Portfolio positioning implications

Our approach to growth equity investing is grounded in the belief that innovation alone is not sufficient to create durable shareholder value. Periods of rapid technological change often reward restraint, selectivity, and a clear understanding of how capital intensity alters long term economics.

Rather than concentrating exposure in areas of the AI ecosystem most vulnerable to commoditization and margin compression, our portfolios focus on businesses with exposure to a broader set of secular themes and are reinforced by attractive fundamental characteristics.

From a portfolio construction perspective, this results in a deliberate balance between risk awareness and growth potential across our portfolios. We are modestly tilted toward companies with solid fundamentals: more stable margin profiles, strong cash generation, lower earnings variability and reasonable valuations.

Importantly, this positioning does not reflect a negative stance on AI. We view artificial intelligence as an enabling technology – one that will increasingly be embedded across industries – rather than a standalone investment category. The critical question for investors is not who spends the most, but who converts technological adoption into sustainable returns on capital.

This discipline has been a defining feature of the Fiera Apex growth equity platform. Across market cycles, our portfolio management process emphasizes fundamental validation over narrative momentum, valuation awareness alongside growth potential, and diversification across multiple, uncorrelated growth drivers. In an environment where capital is becoming more expensive and execution risk is rising, we believe this approach is particularly well suited to institutional portfolios seeking long term participation in growth without undue reliance on any single theme.

IMPORTANT INFORMATION

[†]Source: BCA Research as of 12/31/25.

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