



# ACG Insights: Somewhat Rational Exuberance

- Since the launch of ChatGPT in 2022, equity markets have raced higher on hope and hype around the future of Artificial Intelligence (AI)
- The combination of a new technology and investor exuberance has given rise to talks of a market bubble
- While markets have become historically concentrated in a few stocks that have benefitted from the AI boom, market-level signs of excess are arguably still hard to find
- Investors will have to weigh the risks from pockets of excess in markets with the risk of missing out on further appreciation should the AI boom keep growing

## Introduction

Two well-worn quotes about financial markets feel particularly relevant to the current market cycle. The first is attributed to the famous economist John Maynard Keynes who noted, “the market can stay irrational longer than you can stay solvent.” The second is from investor Peter Lynch who said, “far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost in the corrections themselves.”<sup>2</sup> The Keynes quote gives context to market bubbles, where exuberance and fear of missing out can push prices beyond rational levels for extended periods. Lynch speaks to the other side of the trade, where fear of an impending crash leads investors to derisk and miss out on further market appreciation. If the current hype surrounding Artificial Intelligence (AI) is a bubble, it is perhaps the most widely discussed one in history. There are two immediate questions that come to mind: Is the market, at this point, acting irrationally? And how will AI impact the broader market and economy?

### Exhibit 1: Attention on AI Risks Increasing<sup>1</sup>

<p><b>CFOs Tackle Thorny Calculus on Gen AI: What's the Return on Investment?</b> <i>WSJ, March 2024</i></p>	<p><b>Beware the AI Experimentation Trap</b> <i>HBR, Aug. 2025</i></p>	<p><b>Why AI Isn't Delivering ROI—And Three Fixes That Actually Work</b> <i>Forbes, Sept. 2025</i></p>
<p><b>Spending on AI Is at Epic Levels. Will It Ever Pay Off?</b> <i>WSJ, Sept. 2025</i></p>	<p><b>Where's the ROI for AP CIOs struggle to find it</b> <i>CIO, May 2024</i></p>	<p><b>Why 75% Of Businesses Aren't Seeing ROI From AI Yet</b> <i>Forbes, Jan. 2025</i></p>
<p><b>The AI Profit Paradox: Are Companies Overestimating Their Returns on Generative AI?</b> <i>Financial Content, Aug. 2025</i></p>	<p><b>My AI Investments Haven't Paid Off. Should I Tap the Brakes?</b> <i>HBR, Aug. 2025</i></p>	<p><b>AI investment bubble inflated by trio of dilemmas</b> <i>Reuters, Sept. 2025</i></p>
<p><b>Elliott says Nvidia is in a 'bubble' and AI is 'overhyped'</b> <i>Financial Times, Aug. 2024</i></p>	<p><b>With full speed ahead on AI investment, does ROI matter?</b> <i>Fast Company, June 2025</i></p>	<p><b>This Week in AI: Companies are growing skeptical of AI's ROI</b> <i>TechCrunch, July 2024</i></p>
<p><b>The Hazsh Math of AI: 78% Adoption, 90%+ Disappointment with Generative AI ROI</b> <i>Hackernoon, Sept. 2025</i></p>	<p><b>Why OpenAI May Never Generate ROI</b> <i>Crunchbase, Sept. 2025</i></p>	

<sup>1</sup> Coatue: Public Markets Update 10-2025

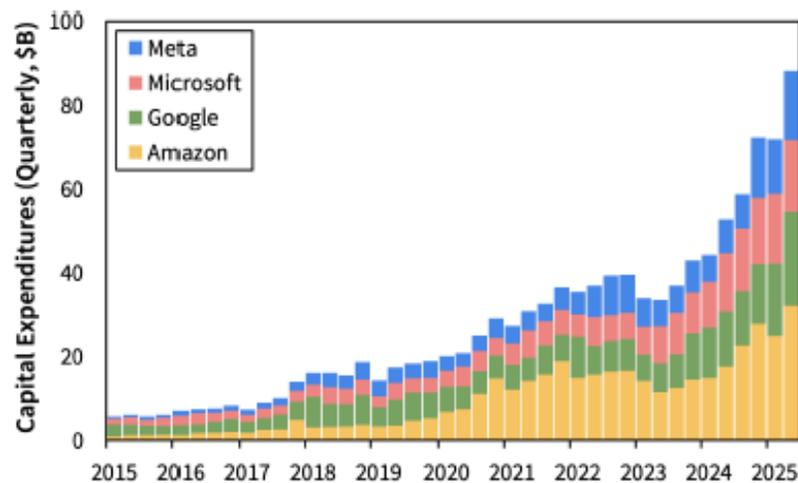
<sup>2</sup> <https://cogentsw.com/investment-management/more-money-is-lost-waiting-for-corrections-than-in-them/>

Definitive answers to these questions are difficult but worth pondering.

### Is the Market Being Irrational?

It will be hard to tell until years from now and there is no perfect indicator or definition of what constitutes a bubble. Broadly speaking, a bubble occurs if market prices and investment activity far outstrip the technology's eventual economic impact. The tech-heavy NASDAQ 100 index is up approximately +22% year-to-date through November - and has annualized at about +29% over the last three years - which is strong but not unprecedented relative to history. Signs of exuberance are more visible in areas of private markets, where AI-related entities are raising money at lofty valuations without much revenue or even clear business models. Part of the nature of venture investment, however, is to bet on vision over current substance.

**Exhibit 2: Big Tech Capex Spending<sup>3</sup>**



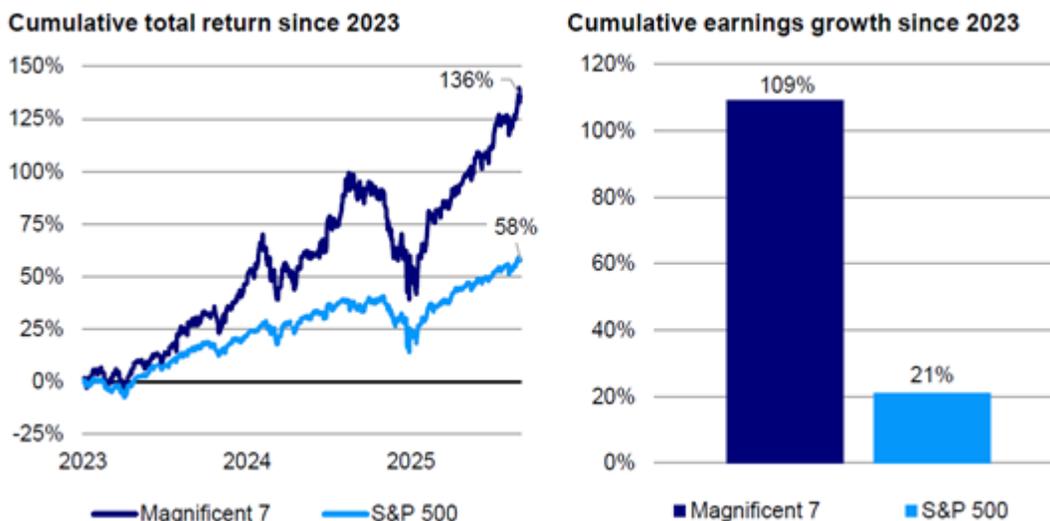
Source: S&P, Sparkline. From Q1 2015 to Q2 2025.

Another aspect of the current boom drawing attention is the amount of money that the large public tech companies are pouring into capital expenditures (capex) like chips and data centers. Companies like Microsoft, Alphabet, Meta, and Amazon have poured billions into physical assets needed to develop, power, and train AI models (Exhibit 2). To this point, these companies have been able to fund capex mostly from free-cash-flow rather than taking on excessive debt. A self-fulfilling loop has emerged to an extent in that hype over AI leads companies to spend, leading to more hype and more spending for fear of being left behind. Some companies, like Meta, have tapped debt markets with complicated structuring to fund data center buildouts. Debt financing is not inherently bad, but rather a capital allocation decision with the expectation that returns will exceed the cost of capital. Investors should be aware that excessive debt will likely be an issue in the AI boom for companies that over-lever themselves to a theme with extremely uncertain outcomes.

So, is the market currently irrational? There are probably pockets where the answer is unequivocally yes, but for the broad market it is difficult to say recent performance has been completely baseless. Exhibit 3 shows earnings at the top of the market have generally justified performance since the launch of Chat GPT in late 2022.

<sup>3</sup> Sparkline Capital, "Surviving the AI Capex Boom"

**Exhibit 3: Earnings Have Justified Prices (so far)<sup>4</sup>**

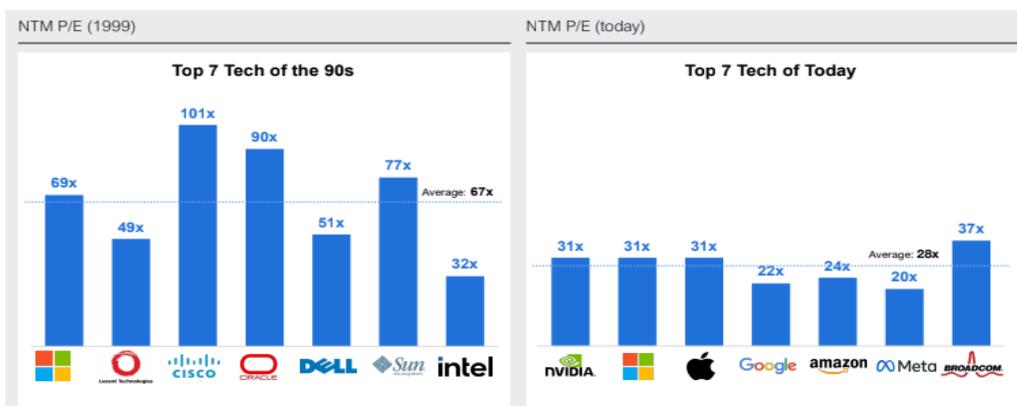


If AI proves to be as transformative as many believe, the eventual beneficiaries will likely include companies no one has yet considered. The challenge with a new technology like AI is not only figuring out how much of the hype will materialize but also use-cases as the technology evolves.

**Comparisons to Other Booms and Bubbles**

This is not the first time in history that new technology has sparked rapid investment and market exuberance. The telecom and internet bubble of the late 1990s through early 2000s has received the most attention in comparison to the current environment. Railroads in the late 1800s after the Civil War have often been cited as another example of an era where rapid expansion and capital outlays transformed the broader economy.<sup>6</sup> Because these were bubbles, it follows that stocks that soared during the early years of each cycle often saw rapid declines as the bubbles burst. The tech bubble, which peaked in 2000, has been the easiest conceptual comparison to AI given the similarities in technologies and the fact that a handful of the companies involved are still around today. The comparisons start to fade after looking past the raw excitement for a new technology. A couple of charts illustrate how much frothier the tech bubble was than the current state of the AI trade. Exhibit 4 shows the multiples afforded to large tech companies in the late 1990s compared to today.

**Exhibit 4: P/E Multiples Relative to the Tech Bubble<sup>5</sup>**



<sup>4</sup> Invesco, Trending Conversations: Are we in an AI bubble?

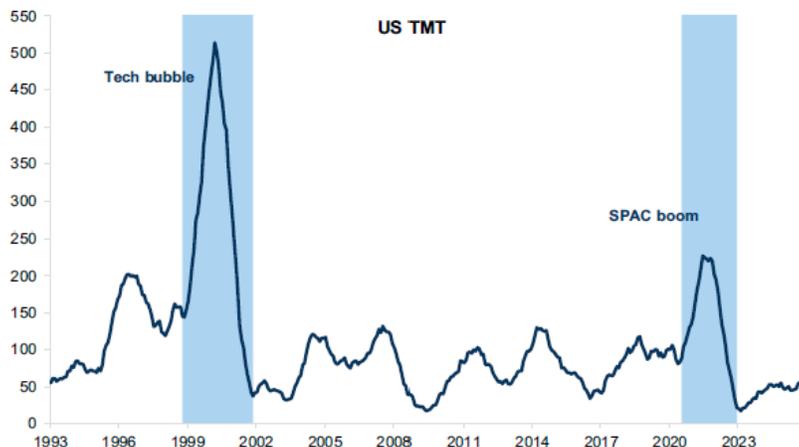
<sup>5</sup> Coatue: Public Markets Update 10-2025

<sup>6</sup> See Derek Thompson at <https://www.derekthompson.org/p/artificial-intelligence-could-be> or Kai Wu at Sparkline Capital “Surviving the AI Capex Boom” for further reading

Investors were willing to pay significantly more back than for future earnings than they are now, which is a good indicator that markets were trading more on hype than reality.

A reliable bubble indicator, or at least a sign of an over-extended market, is whether firms are going public or issuing new shares. Companies are often viewed as the “smart” money and will repurchase stock when it is undervalued and issue more when it is overvalued.

**Exhibit 5: Share Issuance and IPO Activity<sup>7</sup>**



for there to be clear signs of a bubble.

**Where to Look for Irrationality**

If the market has not reached bubble territory in terms of share issuance or valuation, there are other areas to point out that could argue for a bubble. The first is somewhat related to capital expenditures illustrated in Exhibit 2. As shown in Exhibit 6, there has been a circular nature and extreme interconnectivity amongst many of the recent corporate deals in the AI ecosystem. There is nothing inherently wrong with corporate dealmaking and there is no reason to believe the recent wave of deals is dangerous.<sup>9</sup> The broader theme is there are exorbitant sums of money being spent on things related to AI. Does the money involved lead to a wave of AI-related IPO activity from speculative firms looking to cash in on the hype? This type of question will be a better signal of a bubble than corporate dealmaking alone.

As for valuations, there is no hard ceiling where exuberance dies and markets correct. Many of today’s tech companies

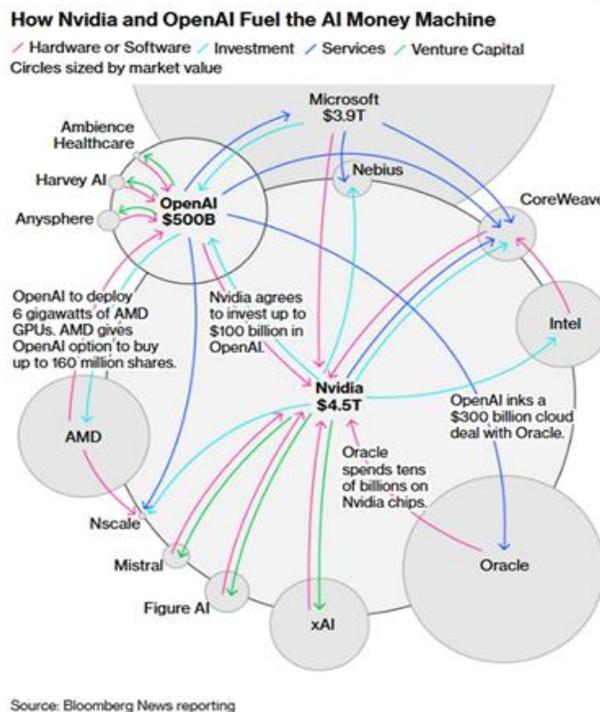
<sup>7</sup> Goldman Sachs Research: Global Strategy Paper no. 73

<sup>8</sup> Bloomberg

<sup>9</sup> <https://www.acadian-asset.com/investment-insights/owenomics/straight-talk-about-circular-deals-in-ai>

During the late 1990s, companies rushed to IPO to cash in on the craze. As shown in Exhibit 5, share issuance and IPO activity are subdued, especially compared to the tech bubble and even the couple of years post-COVID. The metrics alone will not keep the market afloat in the event of an external shock like a recession or a reacceleration of inflation leading to higher rates. But if the worry is that the market is due for a 30-40% decline driven by AI enthusiasm, there will likely need to be much more enthusiasm in the way of unjustified multiples and a jump in net share issuance

**Exhibit 6: Circular Dealmaking<sup>8</sup>**

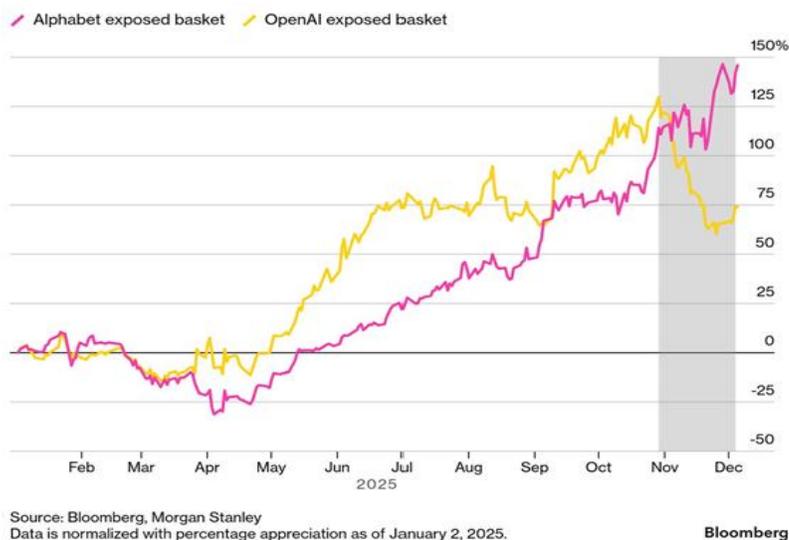


are trading at sales and/or earnings multiples that are elevated relative to history. It’s possible those multiples will be justified if firms can continue to grow and scale either from AI implementation internally or from selling into AI demand externally, as NVIDIA has shown. It’s also possible, and highly likely in many cases, that current multiples are overestimating the growth prospects of many companies. AI technology is still unfamiliar and innovative enough that any academic exercise to place a value on future earnings is conjecture. History and the laws of economics would say individual companies trading at extreme relative valuations will revert to the mean. Outliers within a sector or industry group are a good place to hunt for idiosyncratic signs of irrationality.

**What Comes Next?**

One of the primary goals of diversification is to reduce or eliminate unsystematic (theme or stock specific) risk. There is no doubt that risks are elevated around the U.S. mega-cap tech trade along with specific stocks which have benefited from the AI hype cycle. OpenAI, the developer of ChatGPT, has had the first-mover advantage of launching the first consumer-facing model that the public now associates with AI. Although it is still a private company, OpenAI has used this influence to ink billions of dollars’ worth of deals (Exhibit 6) with other players across the AI ecosystem. With all the money pouring into AI-related projects there is bound to be competition and ultimately winners and losers. Alphabet (Google), as an example (Exhibit 7), recently released a version of their AI model Gemini to strong reviews which led to a swift jump in Alphabet and associated stocks, along with

**Exhibit 7: Divergence of AI Winners/Losers<sup>10</sup>**



a dent to OpenAI’s perceived dominance. It is entirely reasonable to assume there are companies in the AI realm that no one has heard of yet that will be extremely successful in the next 5-10 years. Maybe diagnosing and treating health issues will be completely outsourced to AI models. Maybe the only incremental gain from AI will be more efficient email writing and presentation building. The point is that the range of outcomes is extremely wide.

**Asset Allocation Decisions**

Below are two broad thoughts on how most diversified investors can approach portfolio positioning going forward: The first is that there is still plenty of reason to have exposure

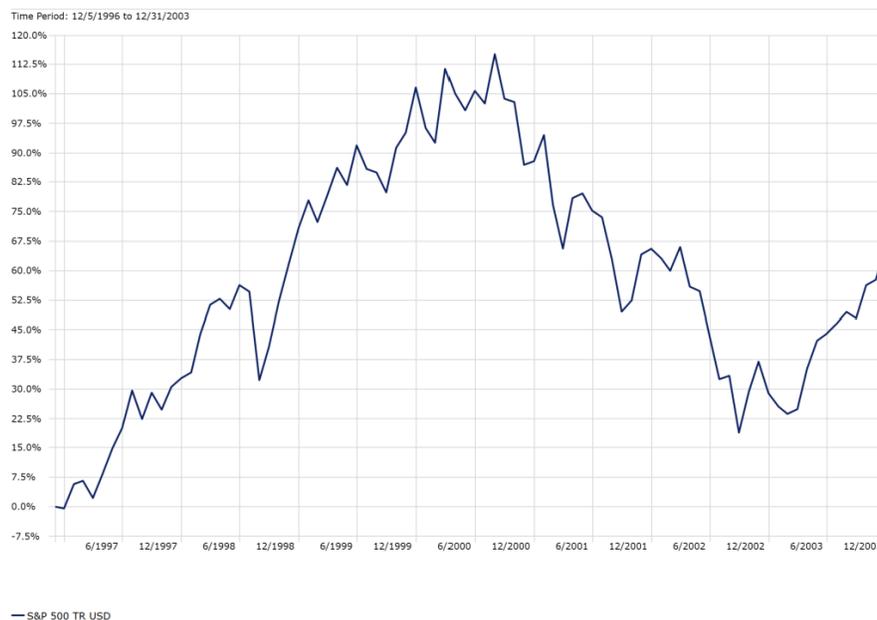
to the AI trade. The core purpose of investing is to participate in the broader growth of the economy and to allocate capital to productive enterprises. There is consensus that AI is a transformational technology, even if the exact nature of the transformation remains unknown. Many sectors of the economy stand to benefit either from directly building the models and infrastructure to power them or by integrating AI to drive operational efficiencies. The AI trade to this point has been concentrated in the U.S. and in the large tech companies that have capital and resources to spend. There are both offensive and defensive arguments to be made for smaller capitalization and international equities. Many portfolios have become too concentrated in the “Magnificent

<sup>10</sup> Bloomberg

7". The optimal weight to U.S. Large Cap is difficult to determine, but there is a high hurdle for these companies to keep growing in line with today's lofty expectations.

The second thought is more behavioral and speaks to Peter Lynch's quote referenced in the introduction. Even if we suspect the market is in a bubble, what is the opportunity cost of getting off the ride too early? Exhibit 8 below is an interesting historical parallel. Alan Greenspan, then the chair of the Federal Reserve, gave a speech in December 1996 which used the phrase "irrational exuberance" in reference to some of the market action at the time. Interestingly, the S&P 500 more than doubled from the time of Greenspan's speech through the peak of the Dotcom boom. After plummeting approximately -45% in the subsequent crash, the index bottomed at a level which was still higher than the price at the time of Greenspan's warning. Ultimately, the market can stay "irrational" longer than many can imagine.

**Exhibit 8: "Irrational Exuberance" Through the Dotcom Crash<sup>11</sup>**



## Conclusion

Hindsight may eventually prove otherwise, but it is currently hard to conclude the broad market is in the midst of a generational bubble. The largest beneficiaries to date in terms of relative market returns have been some of the largest and most profitable companies in the world. A qualifier would be that there are likely dozens of companies whose valuations have been juiced by AI hype that will never grow into those valuations. Investors should monitor capex spending and debt levels for signs that the risk/return profile is deteriorating, either for specific companies or for the market in aggregate. Companies investing heavily in physical capital must generate sufficient return on those investments to keep growing; a state-of-the-art data center with rosy projections today can easily become a "money pit" if forecasts prove overly optimistic.

<sup>11</sup> Morningstar Direct

Regarding portfolio decisions, there is no new or earth-shattering shift in behavior required in considering a possible bubble. Diversification, and how that diversification is achieved, is just as important. If portfolio diversifiers are exposed to pieces of the AI ecosystem, overall diversification may be lower than expected. For investors willing to take more risks and buy into the hype, there is enough evidence for now that AI could be a transformative technology akin to railroads or the internet. How the transformation will separate winners and losers is impossible to predict with certainty. The opportunity cost of completely derisking, however, may be higher than riding the ebbs and flows of this AI-fueled market cycle.

**Disclosures**

*Investing is subject to a high degree of investment risk, including the possible loss of the entire amount of an investment. You should carefully read and review all information provided by The Atlanta Consulting Group Advisors, LLC (“ACG”), including ACG’s Form ADV, Part 2A brochure and all supplements thereto, before making an investment.*

*The information contained herein reflects the opinions and projections of the ACG as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. You should not treat these materials as advice in relation to legal, taxation, or investment matters.*

*Various indices, including, but not limited to the S&P 500 Index, the FTSE 3-Month Treasury Bill Index, and the Russell 2000 index (each, an “Index”) are unmanaged indices of securities that are used as general measures of market performance, and their performance is not reflective of the performance of any specific investment. The Index comparisons are provided for informational purposes only and should not be used as the basis for making an investment decision.*

*Statements herein that reflect projections or expectations of future financial or economic performance of the Fund are forward-looking statements. Such “forward-looking” statements are based on various assumptions, which assumptions may not prove to be correct. Accordingly, there can be no assurance that such assumptions and statements will accurately predict future events or ACG’s actual performance. No representation or warranty can be given that the estimates, opinions or assumptions made herein will prove to be accurate. Any projections and forward-looking statements included herein should be considered speculative and are qualified in their entirety by the information and risks disclosed in the confidential offering document. Actual results for any period may or may not approximate such forward-looking statements. You are advised to consult with your independent tax and business advisors concerning the validity and reasonableness of the factual, accounting and tax assumptions. No representations or warranties whatsoever are made by ACG any other person or entity as to the future profitability of investments recommended by ACG.*