COLOMA
WEALTH MANAGEMENT

2026 INVESTMENT OUTLOOK UPDATE

Stock markets rose again in the first half of 2026 as AI enthusiasm continued apace. Below we look at the outlook for the second half of the year.

How has Artificial Intelligence (AI) evolved since Chat GPT was launched in 2022?

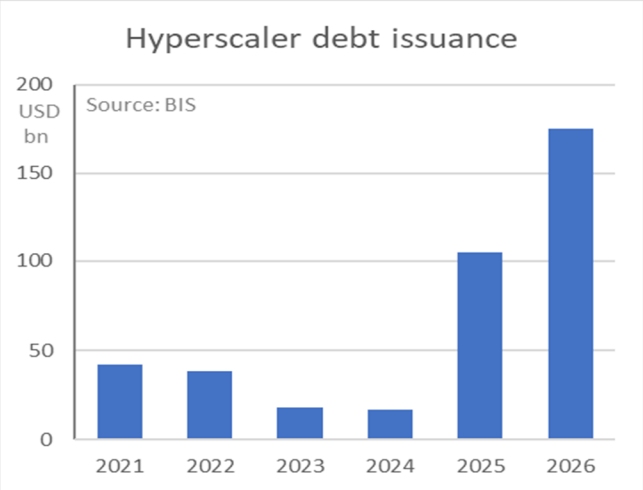
Originally AI came in the form of a chatbot model that was able to summarise text and answer questions. However, the launch of Claude Code in 2025 dramatically changed the AI landscape. It was a model that was able to write computer code and was capable of completing multi-stage workflows. For example, at Anthropic, the company that authored Claude Code, AI now writes 80% of its computer code. The downside is that it uses 10x to 20x more computing power than a chatbot.

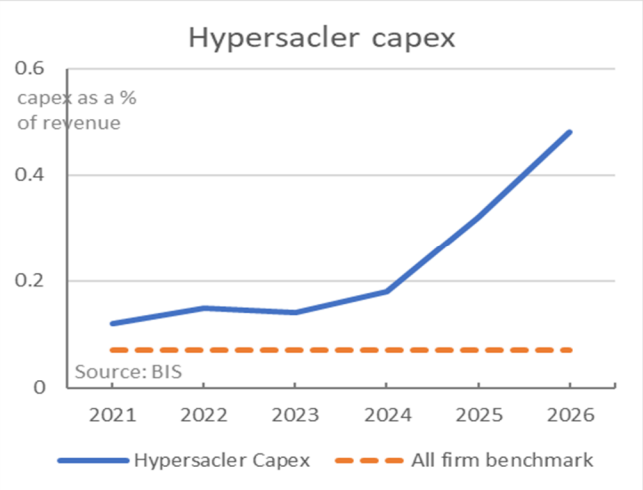
The AI industry has evolved so that while companies such as Open AI and Anthropic build and train AI models the computing power used to run them is rented from the Hypercalers. Hyperscalers are large scale cloud computing providers, such as Microsoft and Alphabet, that offer access to advanced AI chips, data storage and networking. These facilities are collectively known as data centres. As the AI race has unfolded the Hyperscalers have competed with each other to invest ever larger sums of money into data centres. This year they are expected to invest USD 750 bn which amounts to approximately 50% of their revenue (see chart 2).

How are companies adopting AI?

Initially many companies were terrified at being left behind and encouraged employees to use AI as much as possible. Some companies incorporated AI use into employee reviews while other companies had AI leader boards that rewarded maximum usage. However, the approach landed some corporates with enormous bills. One US company ran up a USD 500 million Claude Code bill in just one month while Uber reported that it burned through its entire IT budget in just four months. Instead, companies are now much more focused on cost and Return on Investment. Increasingly corporates use a router that chooses the cheapest model necessary to carry out a task effectively.

CHARTS 1&2: HYPERSCALER DEBT ISSUANCE AND CAPITAL EXPENDITURE AS A SHARE OF REVENUE
(Hyperscalers are Amazon, Alphabet, Microsoft, Meta and Oracle)





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How have the AI companies responded to the new environment?

Open AI's Sam Altman admitted that costs have become a 'huge issue' for corporate customers. So instead of competing on the basis of the technical capability of their models AI companies increasingly compete on the price of their models and the ability of the model to carry out tasks in a cost-effective manner. For example, DeepSeek cut its prices by 75% in May while Meta's near frontier Muse Spark 1.1 model is now 75% cheaper than its equivalent Anthropic model.

What does this mean for the build out of AI infrastructure and Tech?

An AI model price war means that there will likely be less cash to pay the Hyperscalers for data centre capacity. This in turn means that there could be weaker demand for chips and other technology inputs into data centres. It suggests that at some point in the next year Hyperscaler capex plans are likely to come under review. Certainly, the maths of the current investment boom is eye watering. In order to earn a 15% return on their current investments the Hyperscalers need to generate around USD 1 trillion of new revenue. To make these numbers they would need reoccurring annual cloud computing revenue growth of around 80% compared to the circa 40% that they are currently generating.

CHART 3 THE CHARACTERISITCS OF A BUBBLE AND THE CURRENT AI MARKET

CONCLUSION	BUBBLE CHARACTERISITC	CURRENT CONDITIONS IN AI MARKET
✓	Paradigm shift	AI could replace a lot of white-collar work currently performed by humans
✓ ✘	Abundance and availability of credit	There is undoubtedly a lot of money being invested into smaller loss-making AI companies by venture capitalists and large tech companies. However, this has largely taken the form of equity investments rather than debt
✓	Debt used to finance capital expenditure	Originally the large tech companies financed their capital expenditure from cash flow. However increasingly debt is being used (see chart 1).
✘	An increasing disconnection between share price valuations and profits	The valuations of large quoted technology companies range between 20x profits and 30x profits. This compares to Cisco Systems in 2000 that was on over 100x. However, the valuations of some of the smaller loss-making AI companies are rather optimistic
✓	Increasingly broad participation	The Space X floatation garnered a lot of retail investor interest and participation. Open AI and Anthropic are hoping to float later this year or early next year

Has an AI bubble formed in the tech heavy US stock market?

I have updated chart 3 from when I last filled out the table at the start of the year. The main change is that the Hyperscalers have started using debt to finance their capital investments (see chart 1). There was also the Space-X floatation in June which came on an eye-watering 92 x revenue (there are not any profits). All-in-all the US stock market looks to be becoming increasingly bubbly. The one notable fact is that whilst valuations are high, they are not excessive. The market trades on a 1 year forward price to profits ratio of around 21x vs a long run average of 17x. However, if you adjust for the risks associated with the Hyperscaler capex boom perhaps valuations are stretched.

What sort of investment strategy is sensible for the rest of 2026?

For the last four years markets have surfed a wave of AI optimism. Hyperscaler capital expenditure on data centres, and other AI infrastructure, has provided a massive boost to the profitability of many tech businesses. However, as chart 3 illustrates, the US stock market is becoming increasingly bubbly. An emerging price war amongst AI model providers suggests that there will be less money to pay for data centre capacity. This in turn could lead to a more sober assessment by the Hyperscalers of the required level of capital expenditure on data centres and associated AI infrastructure (in 2026 they are expected to spend a staggering USD 750 bn). Such an outcome would then filter down through the technology ecosystem. As a result, I think it is sensible to take some profits on technology shares. Additionally, client portfolios should be diversified across investment styles and geographies. For example, if there is a stock market correction, dividend shares should perform relatively well.

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For information only. Investors should seek professional advice for their own circumstances before making an investment.