

The Magnificent Seven Tech Bubble



Source: Bloomberg

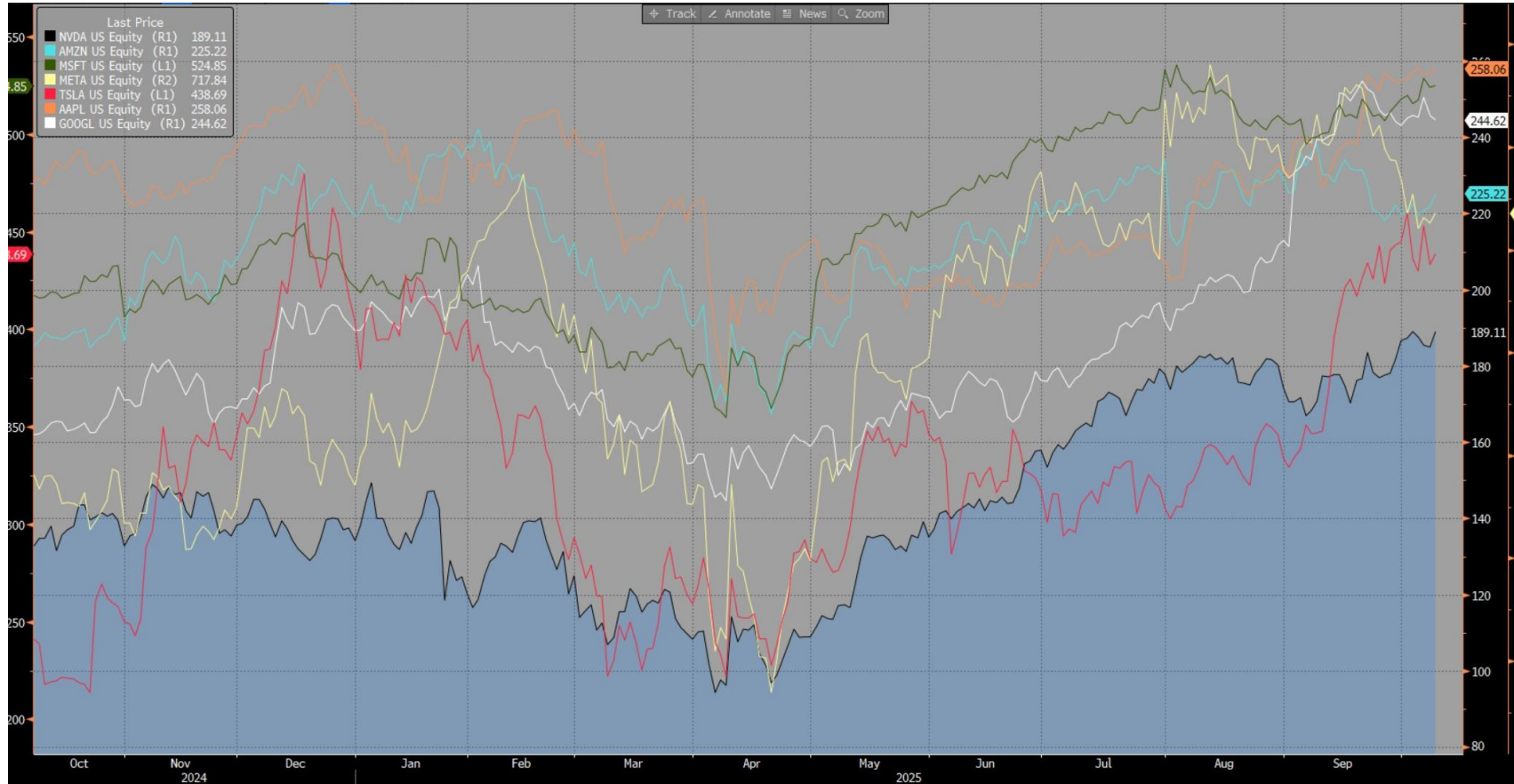
The Artificial Intelligence Surge

The rapid expansion of artificial intelligence (AI) has prompted concerns about a potential market bubble, often compared to the dotcom era of the 1990s. That period resulted in numerous small businesses closing or being acquired at low valuations, alongside significant losses in over-inflated assets. The current environment elicits similar apprehension. As illustrated by the adjacent chart, the "Magnificent Seven"—technology companies each with market capitalisations exceeding \$1 trillion—have experienced substantial valuation growth over the past six months. Nvidia, a leading developer of semiconductor chips essential for AI operations, currently leads this group with a market cap of \$4.469 trillion. The returns anticipated by the markets are considerable and may ultimately prove unsustainable.

Parallels to the Dotcom Era

Further analysis reveals additional similarities to the dotcom bubble. The late 1990s witnessed accelerated construction of fibre-optic networks; in the present, comparable investments are being directed toward data centre infrastructure. Billions have already been allocated to build larger facilities to store and secure the extensive data necessary for AI applications—often preceding any realised profits. Many AI startups have attracted venture capital based primarily on metrics such as website traffic, despite uncertain paths to profitability.

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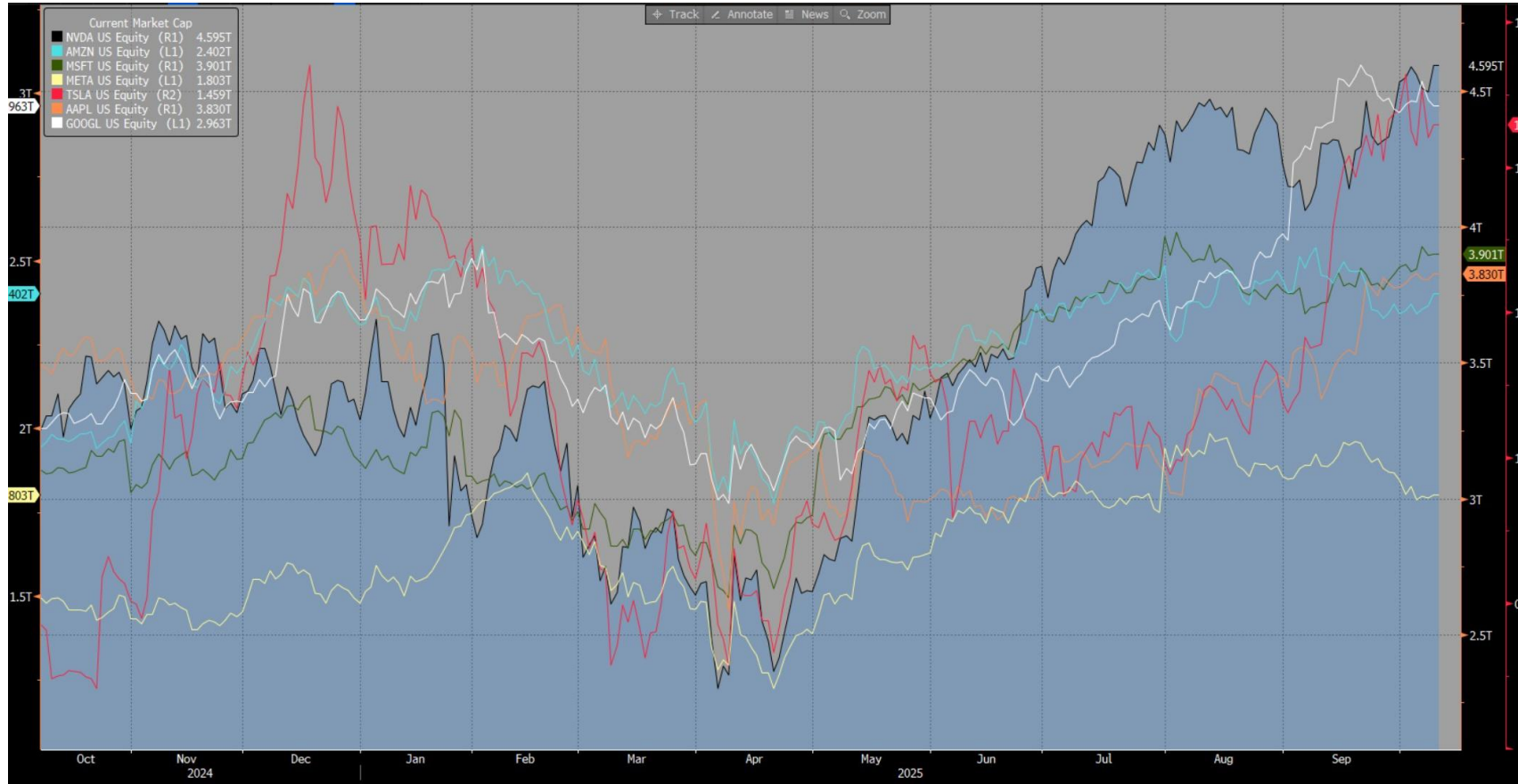


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Market Leadership Amid Uncertainty

Should a bubble materialise, it is likely that only the most established corporations will endure, echoing outcomes from the dotcom crash. The Magnificent Seven—Alphabet, Meta, Amazon, Nvidia, Tesla, Apple, and Microsoft—are well-positioned to weather market volatility due to their diversified product portfolios. For example, Nvidia's semiconductor products serve various markets, including defence and consumer electronics, reducing reliance on AI-centric revenues. Unlike entities such as OpenAI, these firms do not depend exclusively on AI for their business fundamentals, rendering them comparatively secure investments during periods of instability.

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Assessing the Bubble Hypothesis
Determining whether the AI sector is experiencing a speculative bubble remains challenging. Even prominent proponents of AI, such as OpenAI founder Sam Altman, acknowledge that current market valuations may be inflated. Recent developments, including China's DeepSeek initiative, have introduced uncertainty and triggered introspection regarding a potential market correction. If investment momentum continues unchecked, there exists a genuine risk of reaching a tipping point.