Flash Economics

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Which shares should you buy given developments in artificial intelligence?

Investors can choose between buying shares of:

- AI users;
- Companies that supply AI model developers;
- AI model developers.

We believe:

- That AI developers will face a decline in return on capital given the enormous investments (in data centers, graphics cards, etc.) they have to make;
- That the significant size of the investments required will affect developers of large language models (LLMs) more than those of specialised models;
- That the AI model market will be oligopolistic, meaning that AI model developers will hoard the profits generated by the introduction of AI at the expense of AI users;
- That the demand (for graphic cards, electricity, water) associated with AI will be considerable, even though significant progress has already been made in terms of consumption by the latest language models made public.

As a result, we believe it is more effective to buy:

- Shares in companies that supply AI model developers (Nvidia, electricity suppliers).
- Shares in developers of specialised AI models rather than shares in developers of large language models or AI users.

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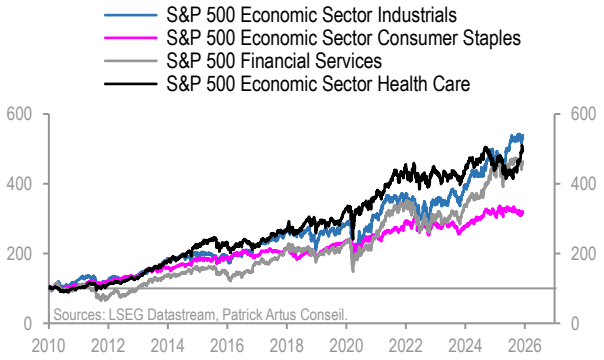
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Three categories of shares that investors can buy

1. The first category is artificial intelligence users

This includes industries such as financial services, consumer staples and healthcare. Chart 1 shows the stock market indices for these sectors in the United States.

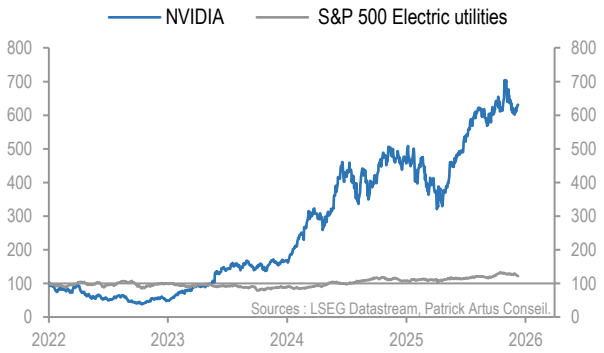
Chart 1
United States: Stock market indices (01.01.2010 = 100)



2. The second category comprises companies that supply AI developers

These suppliers include Nvidia and companies in the energy sector; Chart 2.

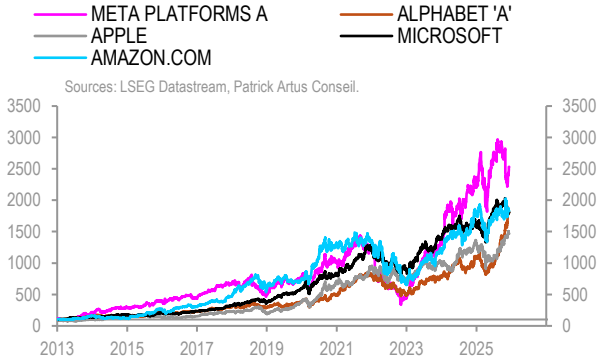
Chart 2
United States: Stock market indices (01.01.2022 = 100)



3. The third category is AI model developers

These developers include Microsoft, Alphabet, Meta, Amazon, Apple; OpenAI and Anthropic are not listed. Chart 3 shows the stock market indices for these companies.

Chart 3
United States: Stock market indices (01.01.2013 = 100)



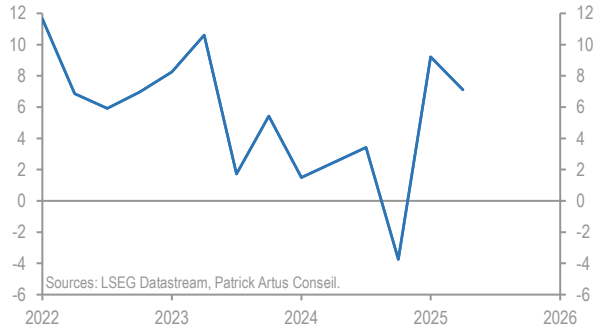
How can we analyse developments in the AI market?

- **The investments required to develop AI are considerable**

Gartner estimates that **$1.479 trillion will have been invested in AI development by 2025** ($455 billion in services and software, $268 billion in servers, $209 billion in semiconductors, etc.). Microsoft, Alphabet, Meta and Amazon will have invested nearly $400 billion in AI (in data centres, graphic cards, etc.).

We are starting to see the effect of these investments on total business investment in the United States (**Chart 4**).

Chart 4
Real private non-residential gross fixed capital formation
(Q/Q, annualised)



The problem is that it is highly doubtful that these massive investments will generate additional profits that will maintain the profitability of the capital of companies developing generative AI models.

- **The significant size of the investments required is more applicable to the development of general language models (LLMs) than to specialised models designed for a specific task.**

- **The AI model market will be oligopolistic.**

Indeed, a small number of companies will share this market. **This means that the profits associated with the use of AI will be hoarded by AI providers** (who could charge high prices) to the detriment of AI users.

However, this will be less true for specialised models performing a specific task.

- **The demand (for graphic cards, electricity, water, etc.) associated with AI will be considerable.**

Summary: So, which shares should you focus on?

The above suggests buying:

- **Shares of companies that supply AI developers** (Nvidia, electricity and water suppliers, etc.);
- **Shares of developers of specialised AI models**.

One should be more cautious about:

- **Shares of AI users** (if the profits are monopolised by AI model suppliers);
- **Shares of companies that develop large AI models** (due to the size of their investment needs).

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