ECONOMIST IMPACT

Exuberance and exposure: Institutional investors and the AI boom

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Contents

Foreword from Xtrackers by DWS

As a leading provider of investment solutions, we are proud to support this latest study by Economist Impact. The report explores one of the most influential forces currently reshaping capital markets and the world beyond: the accelerating rise of artificial intelligence. It emphasises the growing influence of institutional investors in this evolving ecosystem.

The findings highlight a dynamic that is both promising and fragile. Investors clearly recognise AI's long-term potential to transform fields such as productivity and innovation. However, recent market momentum and concentrated equity exposure are creating vulnerabilities that should not be underestimated. Geopolitical dependencies, the pace of technological innovations and the scale of capital flowing into AI and its infrastructure all contribute additional layers of complexity.

Against this backdrop, professional risk management and disciplined portfolio construction are becoming increasingly important. It is encouraging to see that institutional investors are preparing for potential volatility by strengthening governance, enhancing liquidity planning and maintaining clarity in their strategic allocations.

At Xtrackers by DWS, we see the report's insights as a valuable contribution to the ongoing discussion around how investors can position themselves for an AI-driven future. Long-term success will depend on the ability to navigate both the opportunities and the risks of this technological shift. We thank Economist Impact for this insightful analysis and look forward to continuing the discussion on how institutional investors can help shape the next phase of AI's development.

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About this research

Exuberance and exposure: Institutional investors and the AI boom is a report by Economist Impact, supported by Xtrackers by DWS. The report examines how institutional investors are shaping—and potentially amplifying—the AI investment boom and balancing long-term conviction with short-term fragility as they prepare for a likely market correction.

The report is based on a global survey of 300 institutional investors from North America, Europe and Asia—including pension funds, insurers, sovereign wealth funds, endowments, family offices and government agencies—conducted in February and March 2026.

Executive summary

Institutional investors are no longer bystanders in the artificial intelligence boom; they are helping to drive it. Their vast pools of capital make them natural financiers of AI's most expensive assets, from hyper-scale data centres to training systems. But these investments carry distinct risks: high upfront costs, rapid obsolescence and growing geopolitical strain across supply chains.

Those risks raise a broader question. How durable is the current AI investment cycle? AI's boom resembles past waves of industrial investment: vast, transformative, but prone to overreach. **Institutional capital is not only funding the build-out of AI infrastructure; it may also magnify the next technology downturn.**

This report examines how institutional investors are navigating that tension. Drawing on a global survey of 300 institutional investors, it explores what is driving allocations, how investors would respond to a sharp correction and how portfolios are positioned to capture AI's longer-term gains.

Key findings of the research:

01 The AI investment boom is fragile, driven in part by market momentum rather than economic fundamentals.

More than 70% of respondents identify at least one momentum-driven factor—such as recent stockmarket performance or highly concentrated returns among a handful of dominant firms—as a key driver of investment. In other words, rising prices are helping to justify further investment. Yet the longer-term case is more grounded: about half cite long-term productivity gains as the main motivation, while only 14% expect short-to-medium-term cost savings. The boom rests on a mix of conviction and momentum—an unstable combination.

02 Investors expect a sharp correction in AI equities—but may not be able to absorb losses of that scale.

Nearly 80% expect AI equities to fall by at least 20% in the next 12-18 months, yet fewer than 1% say they could withstand a drawdown of that magnitude. Despite this, more than 80% express confidence in their portfolios, though many qualify this as only "somewhat confident". This mismatch suggests resilience may be overstated.

03 Portfolios are already heavily exposed to AI—mostly through equities—creating meaningful concentration risk.

Around two-thirds of respondents say that 25-50% of their equity portfolios include AI-related companies, higher than for fixed income or alternative investments.

Equity exposure runs across the ecosystem, from infrastructure providers to developers to adopters. Holdings are most concentrated in infrastructure and passive funds, suggesting a preference for indirect bets. Even so, roughly one-third of investors report that AI-linked equities are overweight relative to their strategic allocations, leaving portfolios exposed to AI valuation swings. Heavy equity exposure raises the risk of false diversification: if valuations fall together, diversification may offer less protection than expected.

04 Institutional investors are preparing for volatility, but many plan to buy rather than retreat if valuations fall.

Governance measures—such as stricter investment-committee oversight and pre-defined rebalancing triggers—are the most widely adopted strategies. Few plan to reduce exposure. Instead, most expect to increase allocations if valuations fall. Investors are positioning themselves as opportunistic buyers in a downturn, not defensive sellers.

05 Investors expect AI to generate returns across many sectors, although technology and finance remain the primary beneficiaries.

Technology is widely seen as the sector most likely to deliver the largest AI-driven investment gains. The financial services sector also ranks highly, as investors anticipate efficiency gains and new AI-enabled financial products. Some regional investors, particularly in Asia-Pacific, expect stronger gains in sectors such as media and logistics. Even so, expectations remain anchored in sectors already closely tied to the technology.

06 Investors are betting heavily on the US to win the race for AI supremacy.

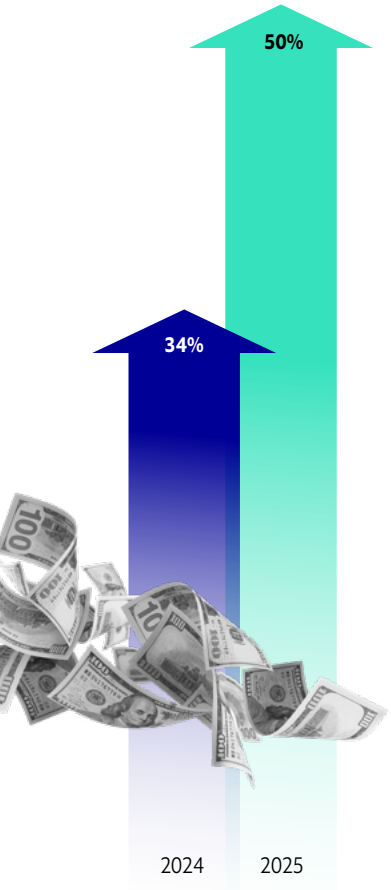
More than 40% of respondents expect the largest returns to come from the US over the next five years, far ahead of any other market. China trails significantly at 13%, suggesting investors may be underestimating its role. Overall, expectations are skewed towards developed markets: 27% expect the highest returns there, compared with just 13% for emerging markets.

Institutional investors are becoming central to the AI ecosystem—as both financiers and users of the technology. Their exposure has grown quickly, especially through equities, even as they recognise that valuations may be fragile. Rather than retreat, they are preparing for volatility: tightening governance, maintaining diversification and positioning themselves to seize opportunities in a downturn.

Yet this confidence rests on the assumption that any correction will be contained. In reality, concentrated equity exposure and tightly integrated markets leave portfolios vulnerable to a broader repricing. As long-term stewards of capital, institutional investors will shape not only their own returns, but also market stability—and the pace of future AI investment itself.

The AI gold rush

AI firms' share of global funding



AI has become the dominant theme in global investment—and an increasingly crowded one. In 2025 it accounted for nearly half of all funding worldwide, up from 34% a year earlier.[1] Total investment exceeded US$200bn, a rise of about 75% year on year. Public markets echo this enthusiasm. In the US, more than half of the S&P 500's returns in 2025 came from technology stocks, buoyed in part by AI spending.[2]

Capital is not merely flowing into AI; it is flooding every layer of its stack. Investors are backing everything from foundational models and data centres to enterprise software and robotics. Nor is the interest confined to technology firms. Finance, healthcare and logistics companies are drawing capital as investors bet that AI will reshape business models and productivity. Venture capitalists, private-equity firms, sovereign wealth funds and big-tech companies are all joining the rush.

Among them, institutional investors are becoming more prominent. Sovereign wealth funds, pension funds, insurers and family offices control trillions of dollars—making them well suited to an industry that demands both vast sums and patience. They are taking direct stakes in infrastructure providers, a route that offers scale and diversifies exposure.

Sovereign wealth funds, in particular, have emerged as some of the most visible backers of AI. MGX, backed by Abu Dhabi's Mubadala, committed US$40bn—alongside BlackRock, Microsoft and Nvidia—to acquire Aligned Data Centres, one of the largest AI infrastructure deals to date. Singapore's sovereign investor Temasek also participated. Such deals underline both the scale of ambition and the concentration of capital behind it.

Their involvement brings geopolitics to the fore, which may prove to be the weakest link in this boom. Recent tensions in the Middle East have sharpened concerns, not least because they are straining the finances of some of AI's largest benefactors in the Gulf.

Cracks beneath the surface

Beyond geopolitics, the AI investment story is already showing signs of strain. The technology promises large productivity gains, and valuations have risen accordingly.

[1] 6 Charts That Show The Big AI Funding Trends Of 2025. Crunchbase News. December 16th 2025. Available at: https://news.crunchbase.com/ai/big-funding-trends-charts-eoy-2025/
[2] The S&P 500 Is Expected to Rally 12% This Year. Goldman Sachs. January 9th 2026. Available at: https://www.goldmansachs.com/insights/articles/the-sp-500-expected-to-rally-12-this-year

Some recent deals hint at exuberance. In 2025 the largest technology companies spent more than US$400bn on AI-related capital expenditure.[3] In February 2026 OpenAI raised US$110bn in a single funding round, backed by a consortium of technology firms.[4]

These are vast, forward-looking bets on a rapidly evolving technology whose commercial returns remain uncertain. Many institutional investors surveyed for this report expect a sharp correction in valuations in the near term. These concerns are not confined to investors: Gita Gopinath, former deputy managing director of the IMF, has warned that enthusiasm for AI may be inflating asset prices, drawing comparisons with the dotcom era.[5]

Understanding what is driving this surge in investment is therefore critical. Momentum plays a part, but so do expectations of long-term gains. Despite their existing exposure through public equities, many institutional investors say they will increase allocations if valuations fall. In other words, they are preparing not to retreat from a downturn, but to buy into it.

Whether that strategy proves prescient remains uncertain. It may also deepen the cracks now emerging. Institutional investors must decide whether they are financing an industrial revolution—or inflating a bubble.

From portfolio to process: AI in investing

AI is not only reshaping portfolios but altering the entire investment process. Its strongest foothold is in analytical and decision-support functions rather than execution. About 40% of institutional investors surveyed use AI in asset screening, stress testing and portfolio construction, where it can augment human judgement without replacing accountability. Adoption in trading remains lower—under 30%—reflecting both regulatory constraints and the continued need for human oversight.

Firms such as Bridgewater Associates, a large hedge fund, illustrate this shift. It is increasingly using machine learning to refine macro signals and test hypotheses.[6] UBS Asset Management has integrated AI in portfolio construction, which helps improve diversification by identifying hidden relationships between positions.[7] The fact that nearly two-thirds of investors report moderate-to-advanced AI literacy suggests growing familiarity, but also points to a gap between perceived capability and full integration into core workflows.

Hidden risks

AI also introduces new risks. As institutions draw on similar data and models, behaviour may become more correlated, particularly during periods of market stress. This could lead to more uniform behaviour in markets and amplify price swings. Competitive advantage is therefore shifting towards firms with proprietary data, strong engineering capabilities and the ability to embed AI across their processes. Larger institutions are better placed to do this. State Street Global Advisors, for example, uses AI and natural-language processing to analyse large datasets—an approach that is harder for smaller managers to replicate.

AI may also be changing how institutional investors behave. Faster, more frequent insights risk shortening investment horizons, nudging even long-term investors towards more reactive behaviour. In this sense, AI is not just transforming decision-making—it is altering the dynamics of markets themselves.

[3] Big Tech's AI expansion: From investment to scalable returns. RBC Wealth Management. February 3rd 2026. Available at: https://www.rbcwealthmanagement.com/en-us/insights/big-techs-ai-expansion-from-investment-to-scalable-returns
[4] OpenAI's $110 billion funding round draws investment from Amazon, Nvidia, SoftBank. Reuters. February 27th 2026. Available at: https://www.reuters.com/business/retail-consumer/openais-110-billion-funding-round-draws-investment-amazon-nvidia-softbank-2026-02-27/
[5] Gita Gopinath on the crash that could torch $35trn of wealth. The Economist. October 15th 2025. Available at: https://www.economist.com/by-invitation/2025/10/15/gita-gopinath-on-the-crash-that-could-torch-35trn-of-wealth
[6] Global Outlook: Our CIOs on Modern Mercantilism, AI, and Managing Money Today. Bridgewater. Available at: https://www.bridgewater.com/research-and-insights/artificial-intelligence
[7] Applying AI in multi-asset investing. UBS Asset Management. Available at: https://www.ubs.com/global/en/assetmanagement/insights/investment-outlook/articles/applying-ai.html#multi-asset

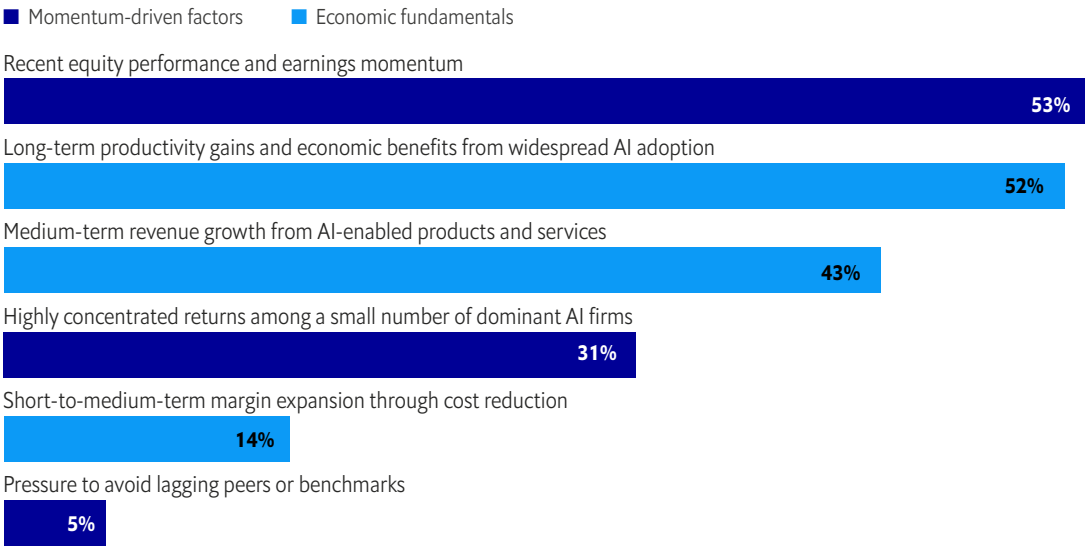
Boom or bubble: the durability of the AI investment cycle

The trajectory of AI investment is contested, but three broad views dominate. One sees a sustained super-cycle, with continued heavy spending on chips, data centres, models and applications. Another expects steady expansion, driven by incremental productivity gains. A third foresees a sharp correction, defined in this report as a fall in equity valuations of 20% or more. Which path prevails will depend on what is driving the boom: market momentum or economic fundamentals.

Long-term conviction, short-term fragility

More than 70% of respondents attribute the AI investment boom to at least one momentum-driven factor, including recent stockmarket performance and highly concentrated returns among a few dominant firms. This indicates that valuations are being driven, at least in part, by market momentum rather than economic fundamentals, suggesting the current cycle may be more fragile than it appears.

Figure 1: Drivers of AI investment: hype versus fundamentals



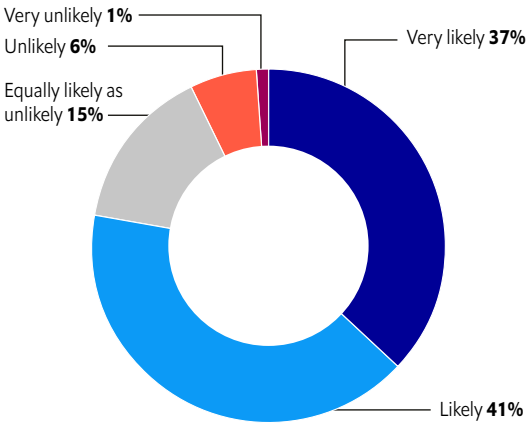
Source: Economist Impact survey

Longer-term interest in AI rests on stronger foundations. About half of respondents cite *long-term* productivity gains and economic benefits from widespread AI adoption as the main support for the current investment cycle. By contrast, only 14% point to *short-to-medium term* margin expansion through cost reduction as a key driver. The result is a clear tension: investors are betting on future gains that have yet to materialise, leaving current valuations exposed if expectations fall short.

A correction ahead?

Do institutional investors believe AI is over-valued? The survey points to a clear answer: most expect a correction. Nearly 80% of respondents believe AI valuations could fall by 20% or more within the next 12 to 18 months. More than one third say such a correction is "very likely" (see Figure 2). The sentiment is strongest in the US, where 46% hold this view, compared with about one-third in Europe and Asia. This may reflect the concentration of AI-driven gains among a small number of large US firms, placing the market closer to the epicentre of valuation risk.

Figure 2: How likely is a 20% AI sell-off in the next 12-18 months?



Source: Economist Impact survey

Investors identify a few potential catalysts. Geopolitical disruptions that put AI hardware supply chains and energy supply at risk are seen as the most likely trigger. Recent tensions in the Middle East, including the conflict involving Iran, underline these vulnerabilities. The Gulf's sovereign wealth funds, such as Mubadala and Qatar Investment Authority, are among the most active investors in AI infrastructure; they could face constraints if energy export revenues weaken. A slowdown or withdrawal of capital from such players would dent investment momentum. More broadly, geopolitical risks—from US restrictions on semiconductor exports to China, to the concentration of chip production in Taiwan, and mounting energy demands from data centres—could disrupt both the pace and economics of AI investment.

Other risks point to weaknesses in current valuations. Two of the three most cited triggers are AI revenues failing to scale as expected and tighter regulatory constraints on deployment. The former is particularly telling. Despite heavy investment, returns remain uncertain. Only 6% of organisations report achieving payback within a year; even among top performers, just 13% do so.[8] Research by Economist Impact suggests that near-term gains are likely to come from cost savings and productivity improvements, while more transformative benefits, such as revenue growth and innovation, will take longer to emerge.[9]

Whether AI proves to be a sustained boom or a speculative bubble will depend on how quickly expectations translate into earnings. If revenues lag, a correction may do more than reset valuations. It could test the resilience of institutional investors' portfolios already heavily exposed to AI.

[8] AI ROI: The paradox of rising investment and elusive returns. Deloitte. October 22nd 2025. Available at: https://www.deloitte.com/global/en/issues/generative-ai/ai-roi-the-paradox-of-rising-investment-and-elusive-returns.html
[9] Beyond the balance sheet: The new CFO mandate. Economist Impact. Available at: https://impact.economist.com/trade-geopolitics/the-cfo-mandate

Concentration risk meets confidence

Institutional investors face a distinct challenge in the AI boom. Unlike other market participants, they must meet long-term obligations—such as pension liabilities and insurance payouts—through stable, diversified returns. The key question is therefore not just how much they stand to gain from AI, but how vulnerable their portfolios are to a sharp correction in valuations.

To answer this, it is necessary to examine how they are investing. Institutional investors are taking direct stakes across the AI ecosystem, including infrastructure providers, technology developers and firms adopting AI (see Figure 3). These are preferred to more indirect routes such as project finance, private credit or corporate bonds. Passive index funds are the main exception, offering diversified exposure to AI equities.

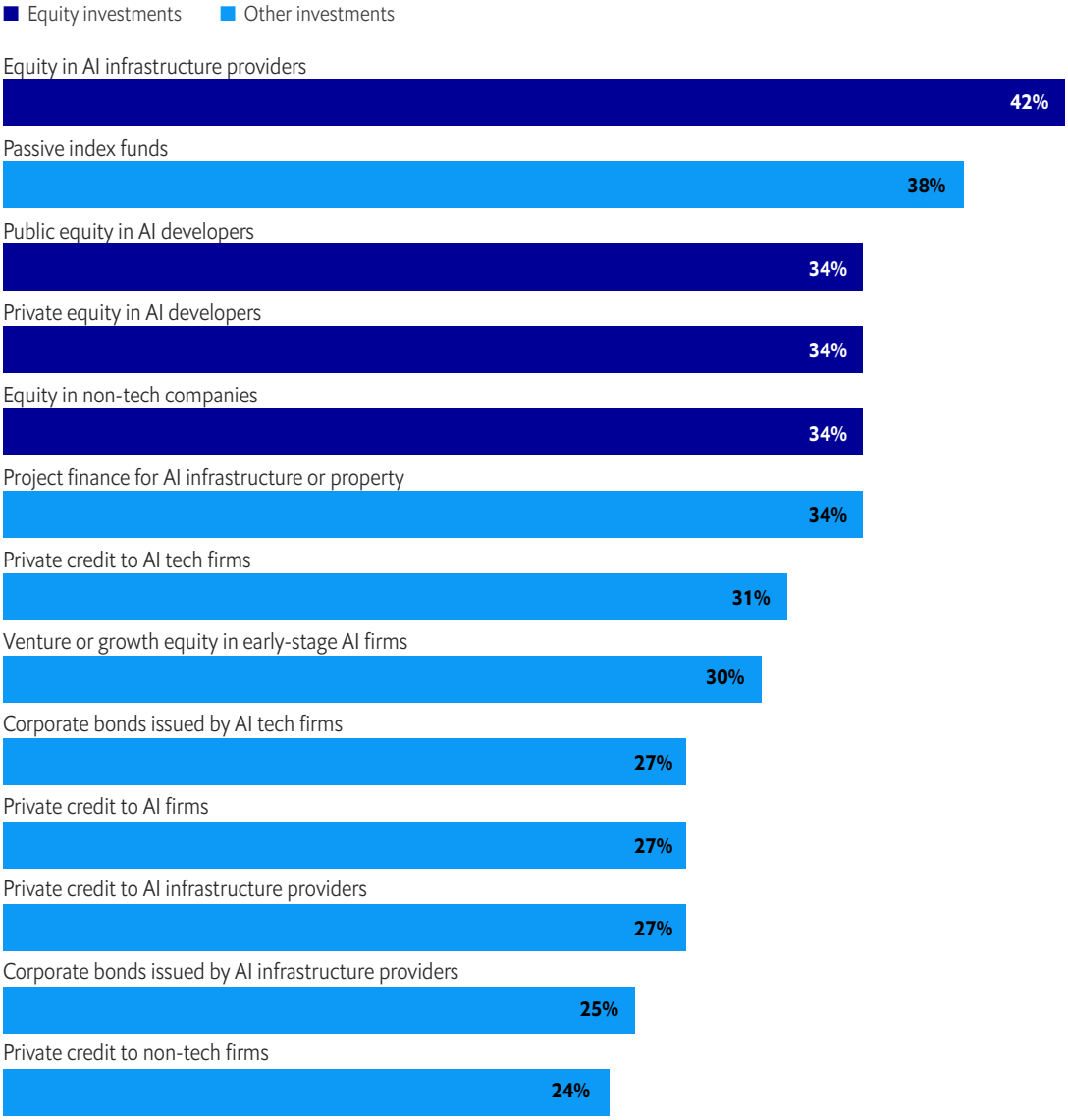
The most popular approach is equity investment in AI infrastructure providers. This supports the view that institutional investors favour second-order beneficiaries over direct bets on technology developers. Such assets are seen as more stable, as they benefit from overall growth in AI regardless of which firms ultimately prevail.

Nearly half of respondents in North America hold equity in AI infrastructure providers, compared with just under 40% in Europe and Asia-Pacific. These investments require large amounts of capital and long time horizons, making them well suited to institutional investors. Recent examples include pension fund AustralianSuper's US$2.2bn investment in DataBank and asset manager BlackRock's participation in Aligned Data Centres alongside sovereign wealth funds such as the Kuwait Investment Authority and Temasek.[10,11]

[10] Australian pension fund leads $2bn DataBank raising amid AI frenzy. Reuters. October 15th 2024. Available at: https://www.reuters.com/business/finance/australian-pension-fund-leads-2-bln-databank-raising-amid-ai-frenzy-2024-10-15/

[11] Temasek joins Microsoft, BlackRock and MGX to develop AI infrastructure. Reuters. June 12th 2025. Available at: https://www.reuters.com/world/asia-pacific/temasek-joins-microsoft-blackrock-mgx-develop-ai-infrastructure-2025-06-12/

Figure 3: Where institutional capital is flowing in AI



Source: Economist Impact survey

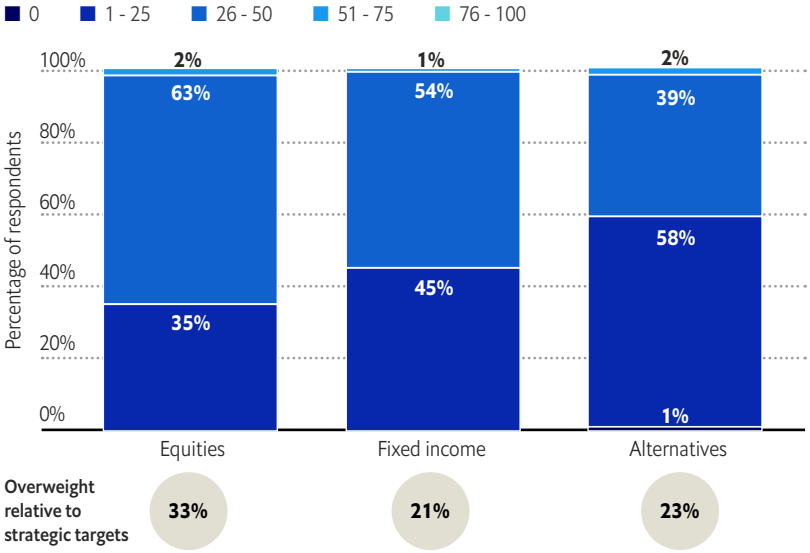
The concentration in equities is striking. Close to two-thirds of respondents report that AI-related investments make up 25-50% of their equity portfolios. One-third say they are overweight equities relative to strategic targets, compared with just over 20% for fixed income or alternatives (see Figure 4).

This creates significant concentration risk. Equity markets are highly sensitive to changes in expectations, meaning a correction could lead to rapid portfolio drawdowns. Overweight positions also suggest that allocations have drifted from long-term targets, often in response to recent market performance—raising questions about portfolio resilience.

Regional differences are notable. In Asia-Pacific, 72% of investors report that AI accounts for 25-50% of their equity portfolios, compared with 54% in Europe and 62% in North America. Around 40% of investors in North America and Asia-Pacific are overweight equities, compared with just 18% in Europe. This leaves Asian investors particularly exposed to swings in AI valuations.

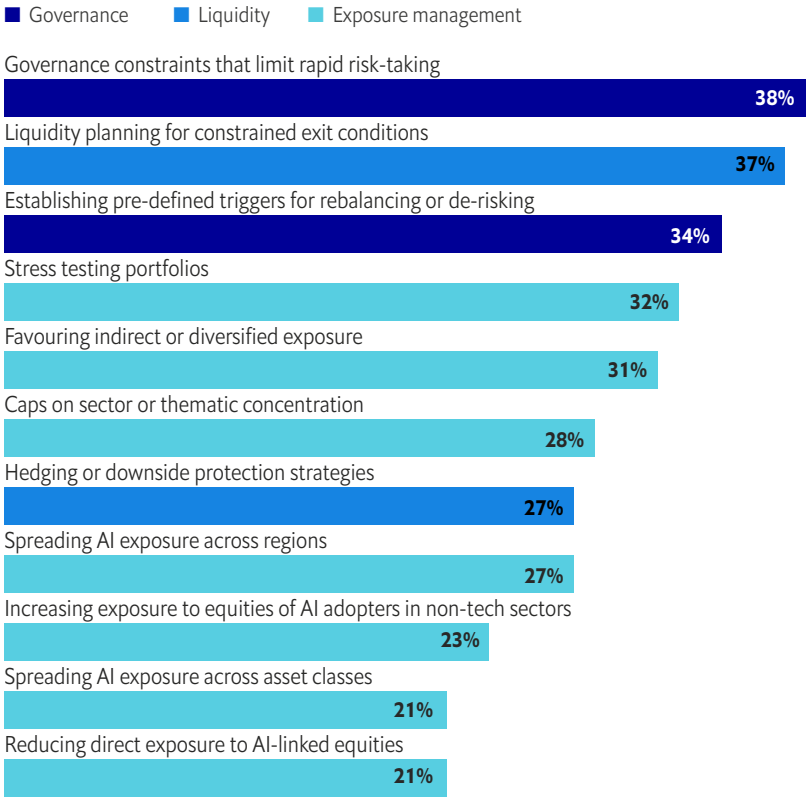
Figure 4: AI investment share of portfolios and status against strategic allocations

Share of portfolio (%)



Source: Economist Impact survey

Figure 5: How investors are preparing for an AI market correction



Source: Economist Impact survey

Confidence in the face of risk

Despite the exposure, institutional investors believe their portfolios can withstand a sharp correction. More than 80% are confident, though many qualify this as only "somewhat confident".

But their confidence may be overstated. Nearly two-thirds of respondents say they could tolerate a portfolio drawdown of 10-15%. Fewer than 1% say they could withstand losses of 20% or more. Yet most anticipate a correction in AI valuations of that magnitude in the near term. The mismatch between expected and tolerable losses is stark.

Preparation without protection?

This apparent confidence reflects how investors are preparing. Most are not reducing exposure; they are strengthening processes. Governance measures—such as investment-committee oversight and pre-defined triggers to rebalance portfolios—are the most commonly adopted strategies. On average, 36% favour such approaches, compared with 26% who rely on exposure management, such as stress testing or limits on concentration. Only 21% report cutting exposure to AI-linked equities.

This approach suggests investors are preparing to respond to a downturn rather than to avoid one. Governance may improve decisions under stress, but it does little to reduce underlying risk.

Liquidity planning, also used widely, offers a more tangible buffer. Higher liquidity reserves and limits on illiquid holdings can help institutions meet obligations and avoid forced selling during market stress. They also provide flexibility to rebalance or deploy capital when valuations fall.

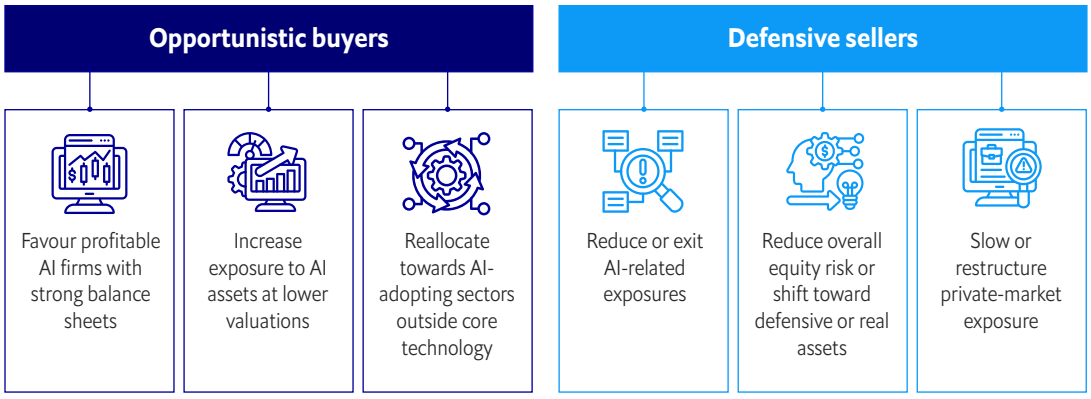
Efforts to reduce exposure through diversification are more limited. Only 27% are spreading investments across regions, and 21% across asset classes. For these investors, these strategies raise the risk of "false diversification", where portfolios appear diversified but remain exposed to the same underlying risk.

These vulnerabilities matter because a correction is unlikely to remain contained. Nearly 40% of respondents expect an AI-driven downturn to spill over into global equities, and almost 30% anticipate broader market disruption. With equity markets closely integrated—and increasingly driven by a small number of AI-linked firms—a sell-off could spread quickly. Even so, few investors expect a systemic shock. Only 5% foresee disruption across asset classes, suggesting that the breadth of potential spillovers may be underestimated. If so, the consequences could be severe: a sustained 10% shock, modelled by EIU, would reduce real GDP in the US by 2%.

The overall picture is one of operational readiness but limited protection. Investors may be well equipped to manage a downturn once it begins, but remain exposed to its initial impact. However, few plan to retreat. Instead, many intend to lean in. Nearly one-third say they will increase exposure to AI assets if valuations fall, while 30% would shift capital towards AI-adopting sectors outside technology. Reducing equity exposure is among the least favoured responses.

This reflects a deeper conviction: that AI will deliver long-term gains, even if the path is volatile. Our final chapter examines how investors are positioning themselves to capture those gains.

Figure 6: Opportunistic buyers vs defensive sellers



Source: Economist Impact survey

Positioning for long-term gains

Institutional investors are preparing for long-term gains from AI despite the risk of a downturn. Their willingness to increase exposure at lower valuations reflects the belief that AI will deliver substantial economic returns over time. The sectors and markets they favour offer a clearer view of how that conviction is shaping portfolios.

The winners of the AI race: sectors and markets

Investors expect AI to generate returns across a wide range of sectors, reflecting expectations of broad-based productivity gains from its adoption. They remain most optimistic about the technology sector, which sits at the centre of AI development and investment. Since the launch of ChatGPT in 2022, the sector has attracted vast sums of capital, as firms race to commercialise AI applications. Developers such as OpenAI, Anthropic, xAI and Databricks have been among the main beneficiaries, receiving nearly 60% of all AI venture funding in 2025.[12] For investors, these firms represent the most direct route to capturing AI's upside—albeit with higher risk.

Beyond technology, financial services stands out as a leading beneficiary. Investors expect AI to drive efficiency gains in areas such as risk modelling, fraud detection and customer service, while enabling new products and revenue streams.

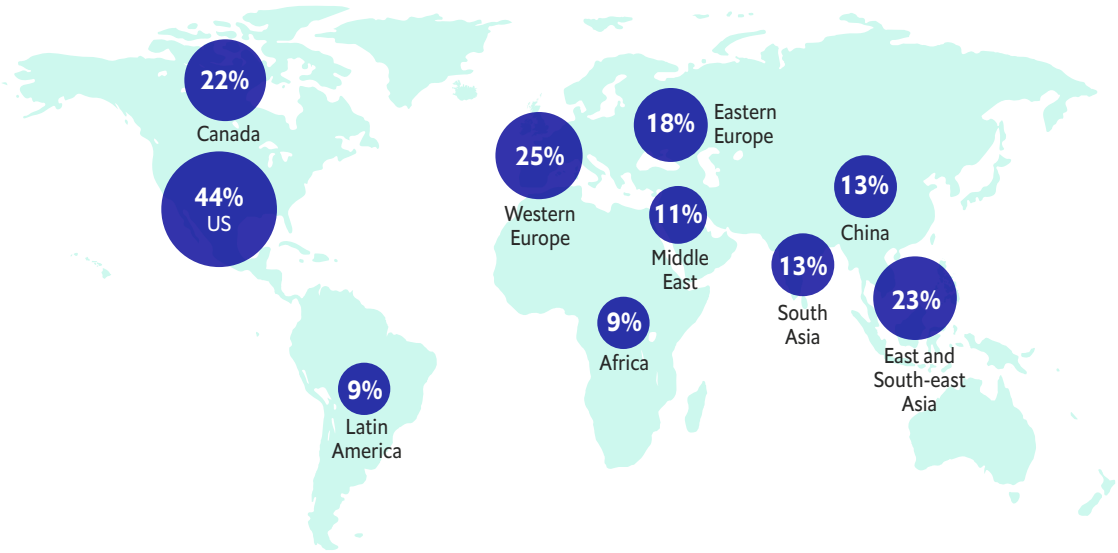
Regional differences are also emerging. Investors in Asia-Pacific are more optimistic about returns in sectors such as media and logistics. The latter reflects the region's central role in global supply chains, where firms are adopting AI to manage rising trade costs and operational complexity.[13]

[12] AI Startups Raised $97 Billion in 2025 and Most of It Went to Five Companies. a3i. December 15th 2025. Available at: https://www.allaboutai.org/articles/analysis/AI-Funding-97-Billion-2025-Analysis
[13] Trade in Transition 2025 Global Report. Economist Impact. 2025. Available at: https://impact.economist.com/projects/trade-in-transition/pdfs/Trade_in_Transition_Global_Report_2025.pdf

With regard to markets, investment expectations remain heavily concentrated. Institutional investors expect the US to deliver the largest AI-related returns over the next five years. More than 40% of respondents identify the US as the top market, far ahead of Western Europe and East and South-east Asia, each cited by roughly a quarter. The US is home to some of the world's leading AI companies and secured 79% of global funding for AI in 2025.[14] The strong performance of technology stocks has also reinforced this view, with AI-related investment playing a growing role in driving US equity markets.

China, by contrast, attracts far less confidence. Only 13% of respondents expect it to generate the highest returns, including just 16% of investors in Asia-Pacific. This gap suggests investors may be underestimating China's role in the AI race (see Figure 7). The release of DeepSeek's R1 model in early 2025 took markets by surprise, with performance reported to be competitive with leading frontier models despite significantly lower training and deployment costs.[15] The development triggered a sharp reassessment of valuations across AI-related equities and raised expectations of intensifying price competition, particularly as more cost-efficient models enter the market. So, despite geopolitical constraints, China remains a major centre of AI development, with strong capabilities in deployment, talent and domestic adoption.

Figure 7: Where institutional investors expect AI returns to come from over the next five years



Source: Economist Impact survey

[14] 6 Charts That Show The Big AI Funding Trends Of 2025. Crunchbase News. December 16th 2025. Available at: https://news.crunchbase.com/ai/big-funding-trends-charts-eoy-2025

[15] A year on from DeepSeek shock, get set for flurry of low-cost Chinese AI models. Reuters. February 12th 2026. Available at: https://www.reuters.com/world/china/year-deepseek-shock-get-set-flurry-low-cost-chinese-ai-models-2026-02-12/

The data also point to a widening global divide. On average, 27% of respondents expect the highest returns to come from developed markets, compared with just 13% from emerging ones. This raises questions about the distribution of AI's benefits. Differences in access to capital, infrastructure and regulatory support are likely to shape outcomes, potentially widening the gap between global "AI leaders" and the rest.

Betting on resilience

Institutional investors are acutely aware of the risk of a downturn in the AI investment cycle, yet remain confident they can withstand it. Their preparations—focused on governance, liquidity and rebalancing—suggest they expect a correction to be contained and short-lived, rather than a systemic shock that undermines AI's long-term promise.

That confidence may be misplaced. Exposure to AI is heavily concentrated in equities, the asset class most sensitive to shifts in sentiment and valuation. Many institutional portfolios are therefore vulnerable to a broad repricing, particularly if AI-related assets fall across markets at the same time.

This matters because institutional investors are not typical risk-takers. Unlike venture capital or private equity firms, they must deliver stable, long-term returns to meet pension liabilities and insurance obligations. A sharp and prolonged drawdown would therefore have consequences beyond financial markets—affecting retirement incomes, for instance, and financial stability more broadly. In addition, as some of the largest providers of capital to the AI ecosystem—particularly sovereign wealth funds—these investors play a critical role in sustaining future investment. If losses are deeper or more persistent than expected, their capacity, and willingness, to fund the next phase of AI development could be curtailed.

The result is a paradox at the heart of the AI boom. Institutional capital is helping to build the infrastructure of the AI economy, yet its growing exposure may also amplify the risks of a downturn. Whether these investors prove to be stabilising long-term backers or accelerants of volatility will depend on how the cycle turns—and how quickly AI delivers the economic returns they expect.

Glossary

Asset classes and instruments

- **Equities**: Shares of ownership in a company that are traded on stock exchanges.
- **Fixed income**: Investments (such as bonds) that provide regular interest payments and return of principal at maturity.
- **Alternative investments**: Assets outside traditional categories like stocks and bonds, including private equity, hedge funds, and real assets.
- **Passive index funds**: Investment funds that aim to replicate the performance of a market index rather than actively select securities.
- **Private equity**: Investments made directly into private companies or buyouts of public companies not listed on stock exchanges.
- **Venture capital**: A form of private equity that provides funding to early-stage, high-growth companies.
- **Corporate bonds**: Debt securities issued by companies to raise capital, typically paying fixed interest.
- **Capital expenditure (CapEx)**: Funds used by companies to acquire or upgrade physical assets such as equipment or infrastructure.

Valuation and risk

- **Bubble (asset bubble)**: A market condition in which asset prices rise far above their intrinsic value, often followed by a sharp decline.
- **Concentration risk**: The risk of losses arising from having a large portion of a portfolio invested in a single asset, sector, or theme.
- **Drawdown**: The peak-to-trough decline in the value of an investment or portfolio over a specific period.

- **Liquidity**: The ease with which an asset can be bought or sold in the market without affecting its price.
- **Exposure (investment exposure)**: The amount of a portfolio invested in a particular asset, sector, or risk factor.
- **Indirect exposure**: Investment in an asset or theme through related companies or funds rather than direct ownership.

Portfolio construction and allocation

- **Asset allocation**: The strategy of dividing investments across different asset classes (such as equities, bonds, and alternatives) to manage risk and return.
- **Strategic allocation**: A long-term target mix of assets in a portfolio designed to meet investment objectives and risk tolerance.
- **Overweight (position)**: A situation where a portfolio holds a higher proportion of a particular asset or sector than its benchmark or target allocation.
- **Rebalancing**: The process of adjusting a portfolio's asset mix back to its target allocation by buying or selling assets.
- **Diversification**: An investment strategy that spreads capital across different assets or sectors to reduce overall risk.
- **False diversification**: A situation where a portfolio appears diversified but is still exposed to the same underlying risk factors.
- **Opportunistic buying**: A strategy of purchasing assets when prices fall in anticipation of future recovery.
- **Defensive positioning**: A strategy focused on preserving capital by investing in lower-risk assets or reducing exposure to volatile sectors.

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