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The AI Arms Race: What the Sceptics are Missing — and What They are Not

Richard Harris | February 2026

Numbers, when they reach a certain scale, lose their power to shock. And so, it is with the capital expenditure figures now flowing out of America's largest technology companies. In 2025 alone, the combined capex of Alphabet, Amazon, Meta, and Microsoft exceeded $320 billion – a figure that, placed in context, dwarfs the GDP of many countries. For the financial year 2026, early guidance suggests this figure will rise further, with estimates placing the total above $600 billion. The question every serious investor should ask is not simply whether this spending is real – it clearly is – but whether it is rational, and what it will ultimately mean for the companies making these investments, their shareholders, and the broader economy.

The prevailing narrative in many investment circles is one of scepticism, with critics drawing comparisons to the dot-com era and questioning whether the promised returns from artificial intelligence will ever materialise at the scale needed to justify the outlay. This scepticism is not without merit, but it is also incomplete. To understand why the world's largest technology companies are spending at an unprecedented pace, one must first understand where the money is going and the structural logic behind these decisions.

Where the Money is Going

The majority of AI capital expenditure is not being directed towards software or research teams. Most of it is being invested in physical infrastructure: data centres, the land they occupy, the power systems needed to operate them, and the specialised silicon at their core. Nvidia's H100 and H200 GPUs – currently the gold standard for AI training workloads – cost between $25,000 and $40,000 each, and the largest AI training clusters now require tens of thousands of these units working together. Meta has publicly disclosed plans for a cluster that will consume over one gigawatt of power. For context, one gigawatt is approximately the output of a large nuclear power station.

total cost. Microsoft has committed to spending $115 billion on data centre construction in 2026, with a significant portion allocated to the United States. Amazon's AWS has announced similar ambitions, while Google has pledged $180 billion for the calendar year. These are not speculative allocations – they represent infrastructure already under construction or under contract. Interestingly enough Apple has only pledged $13 billion to AI, let's see if this bet pays off.

Why it is Happening — and What are We Missing?

The most important thing to understand about this spending is that it is not driven by optimism alone – it is driven by fear. The technology industry has a long memory, and the executives running these companies have seen rivals fall because they hesitated at critical moments. The lesson that leaders such as Satya Nadella, Sundar Pichai, and Mark Zuckerberg have internalised from the histories of Kodak, Nokia, and Blockbuster is simple: the cost of underinvesting in a paradigm shift almost always exceeds the cost of overinvesting.

What sceptics often miss is the nature of the competitive moat being built. AI models are not merely software products – they are capabilities deeply intertwined with the infrastructure on which they run. A company that builds a superior data centre estate today creates a structural advantage that compounds over time as its models improve with greater access to compute. The barriers to entry being established are not intellectual or algorithmic; they are physical and financial. A well-capitalised startup or foreign competitor cannot replicate a $400 billion infrastructure build in a matter of months. This is infrastructure as a competitive moat, and it is a moat that deepens with every passing quarter.

Moreover, the revenue opportunity is not purely hypothetical. Microsoft's Copilot integrations are already delivering measurable productivity gains for enterprise customers. Google's AI overviews are changing the economics of search. Amazon is embedding AI into every layer of its AWS offering, with early indications suggesting significantly higher customer spend among AI-adopting clients. The capex is not being deployed into a void – it is being invested in products already generating early commercial signals, and I, previously sceptical, am starting to see the future prospects for revenue generation more clearly.

Let’s Take a Look at the Other Side of the Equation and the Risks of Overshooting

It would be remiss to present the above story without acknowledging the very real risks of what may ultimately prove to be a collective act of industrial overconfidence. History offers cautionary examples. In the late 1990s, telecoms companies spent hundreds of billions laying fibre optic cable in anticipation of internet traffic that, while it did eventually materialise, it arrived far later than expected. Many of those companies went bankrupt waiting. The infrastructure they built, sold for cents on the dollar through bankruptcy proceedings, ultimately enabled the internet boom – but the original investors were largely wiped out in the process.

The parallel is imperfect but instructive. Several risks deserve serious consideration. First, the timeline for AI-driven revenue generation may be significantly longer than markets are currently pricing in. Enterprise adoption of transformative technology is notoriously slow, constrained by regulatory uncertainty, integration complexity, and workforce resistance (as can be seen in AI adoption among friends, family, and many companies). If the capex Supercycle continues at its current pace while commercial returns lag, free cash flow generation – the engine of shareholder value for these companies – will come under significant pressure.

the current scaling approach – throwing more compute at larger datasets – will continue to yield proportional improvements indefinitely. If the models plateau before commercial use cases scale, the infrastructure built to train them will be dramatically overprovisioned.

Lastly, the energy demands of this build-out are becoming a major geopolitical and regulatory concern. Several US states and European regulators are beginning to push back against the power consumption associated with large data centres, introducing permitting and procurement risks that could impede deployment timelines.

The Investment Implication

The debate about AI spending is likely to intensify in the coming months as investors seek evidence that these substantial investments are delivering returns. The companies themselves are aware of the pressure. In their latest earnings calls, both Alphabet and Meta addressed their increasing capital expenditure, arguing that the long-term potential justifies the short-term costs. Whether or not you agree, the fact that they felt compelled to justify these expenses indicates that even their own shareholders are beginning to lose patience.

One thing is clear: the companies building this new technological infrastructure are committed. They are among the most intelligent and experienced organisations in the world, led by people who have witnessed previous technology booms and busts. It is unlikely they are all making the same significant mistake, as some sceptics suggest. However, the returns on their investments may take longer to materialise, be less evenly distributed, and encounter more challenges than optimists anticipate. For long-term investors, the AI spending surge is not a reason to panic – it is a reason to watch carefully which companies are building genuine, lasting advantages, which are overspending, and whether the systems being built now will still be relevant a decade from now.

As the world around us continues to evolve at a remarkable pace, we're committed to staying ahead by embracing the power of artificial intelligence. We see AI not as a replacement for human insight, but as a tool to enhance it — helping us analyse information faster, identify new opportunities, and deliver greater value to our clients. Our goal is to thoughtfully integrate these technologies into our processes so we remain adaptive, informed, and ready for the future.

Market Update

U.S. equity markets delivered a mixed performance in February, with headline indices masking a significant rotation beneath the surface. The S&P 500 declined 0.87%, the Dow Jones edged up 0.17%, and the Nasdaq 100 fell 2.32%. The sell-off in mega-cap growth stocks was pronounced, with the Magnificent Seven collectively dropping 6.88%. Conversely, the broader market strengthened considerably: the S&P 500 Equal Weight Index gained 2.69%. The Federal Reserve maintained its policy rate unchanged, while the 10-year Treasury yield fell 30 basis points to 3.94%—its largest monthly decline in a year. On the labour front, nonfarm payroll employment unexpectedly increased by 130,000, with the unemployment rate declining to 4.3% from 4.4% in December.

European equity markets significantly outperformed their U.S. counterparts in February, supported by a strong corporate earnings season, a weaker dollar, and relief after the U.S. Supreme Court struck down a significant portion of President Trump's tariffs. Germany's DAX advanced 3.04%, France's CAC 40 posted strong gains of 5.59%, and the UK's FTSE 100

edged up to 1.9% in February from 1.7% in January, approaching but remaining just below the European Central Bank's 2% target.

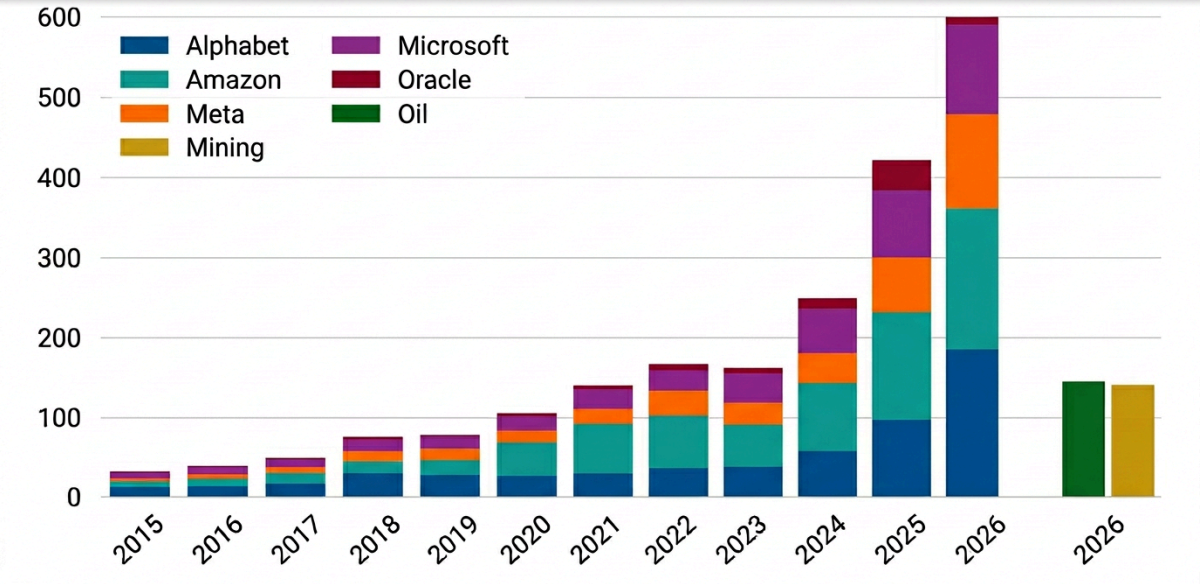
In Asia, Japan's Nikkei 225 surged 10.37% to multiple record highs during February, supported by the continued "Takaichi trade" following the prime minister's landslide lower house victory. Hong Kong's Hang Seng retreated 2.76% after January's strong rally, weighed down by profit-taking and renewed concerns over domestic demand. The Shanghai Composite rose a modest 1.09% as China's official manufacturing PMI fell to 49.0 in February, slipping below the 50-point expansion threshold, partly reflecting the extended Lunar New Year holiday.

Commodity markets were defined by sharp moves across precious metals and rising geopolitical risk premiums in energy. Gold gained 7.3% in February, marking its thirteenth monthly advance in the past fourteen months, as falling Treasury yields, a weaker dollar, currency debasement and escalating U.S.–Iran tensions supported safe-haven demand. Silver experienced extreme volatility, plunging approximately 27% over the month. Platinum (+11.87%) also saw significant swings, as elevated prices raised concerns about demand substitution toward palladium (+7.38%). WTI crude oil rose 2.78% in February following large gains in January, as heightened geopolitical risk surrounding U.S.–Iran negotiations and warnings for ships to avoid Iranian waters in the Strait of Hormuz supported prices.

South African assets extended their strong run in February, driven heavily by surging precious metal and resource prices. The JSE Top 40 Index (+7.19%) reached an all-time high of 120,296 on the final trading day of the month, with the Resources 10 Index once again leading performance, up 13%. The rally was principally driven by mining dual-listed stocks, gold producers, and PGM names, as rand-denominated metal prices soared. The rand strengthened against the U.S. dollar by 1%, supported by firm commodity prices and a well-received Budget speech. Headline CPI dipped to 3.5% in January from 3.6% in December, remaining comfortably within the 1 percentage point tolerance band of the South African Reserve Bank's revised 3% target.

Chart of the Month

The chart below shows AI hyperscaler capex rising almost exponentially in the last few years to an estimated USD 600 billion in 2026 as Alphabet, Amazon, Meta, Microsoft and Oracle dramatically scale spending on AI as a theme, far surpassing traditional capital-intensive sectors like oil and mining, at about USD 150–170 billion for the year. We are seeing structural deficits in many base metals as a result and these commodities are an integral part of technology production.



"The stock market is a device for transferring money from the impatient to the patient."
Warren Buffett

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