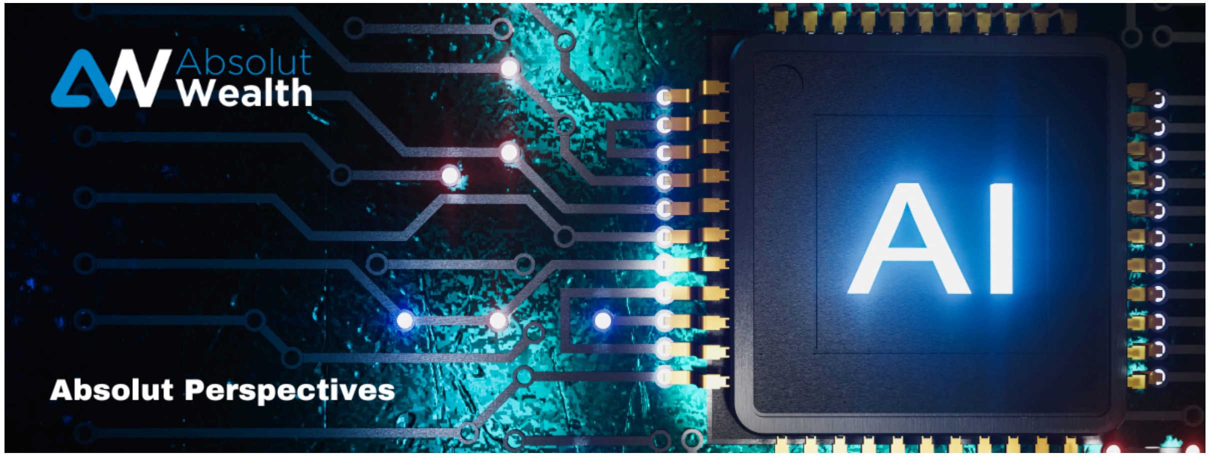
May 2026



The Silicon Gold Rush: Making Sense of the AI Boom

Richard Harris | May 2026

When future historians look back at the first half of this decade, the rise of artificial intelligence will almost certainly stand out as the defining market story. A handful of companies, most of them American and most of them in or adjacent to the semiconductor industry, have added trillions of dollars in market value in a matter of quarters, driving global indices to record highs and capturing the imagination of investors in a way that few themes ever have. For anyone trying to make sense of why markets continue to climb despite so much uncertainty, AI is the single biggest part of the puzzle.

That said, the story is more nuanced than the headlines suggest. Behind the staggering returns lies a genuine technological shift, with real revenue and productivity gains. Yet, there are also uncomfortable parallels to previous market episodes that ended less happily. Both sides of the story deserve fair consideration, and in this month's newsletter we will aim to provide more clarity around it.

At its core, the AI boom is a story about computing infrastructure. Training and running the large language models that power tools such as ChatGPT, Claude and Gemini requires enormous amounts of specialised computing power, far more than traditional applications have ever consumed. This computing power is provided by graphics processing units, or GPUs, originally designed for video games but uniquely well-suited to the mathematics of modern AI.

A small number of companies are at the centre of this build-out. Nvidia designs the most sought-after GPUs and has become the largest company in the world by market capitalisation, with a value of roughly $5 trillion at the time of writing. Taiwan Semiconductor Manufacturing Company, better known as TSMC, physically produces the most advanced chips for Nvidia and controls over 90% of the world's leading-edge chip manufacturing capacity. Broadcom, ASML, Advanced Micro Devices, and a constellation of memory, networking and cooling specialists complete a supply chain that has, almost overnight, become one of the most valuable industrial complexes in modern economic history.

The scale of the spending is difficult to overstate. The largest American technology companies – Microsoft, Alphabet, Amazon and Meta (often referred to as the hyperscalers)—collectively spent roughly $400 billion on capital expenditure in 2025, the majority directed towards AI-related infrastructure. For 2026, their combined budgets have increased to between $660 billion and $700 billion, with much of the additional outlay allocated to GPUs, data centres, electricity supply agreements and the buildings to house them. To put this figure in context, it is broadly comparable to the entire annual economic output of a country such as Belgium or Switzerland, being spent by just four companies on a single category of investment in a single year.

So, What is All of this Money Actually Doing

It is reasonable to ask what all this expenditure is actually achieving on the ground. There are several broad areas where AI is already producing visible commercial results.

In the world of **software and productivity**, AI assistants are now embedded in word processors, email applications, spreadsheets and developer tools, helping employees draft, summarise, analyse and write code. Many businesses report meaningful efficiency gains, particularly in customer service, marketing, software engineering and routine administration.

In **science and medicine**, AI systems are accelerating drug discovery, improving the interpretation of medical scans, assisting in genome research and helping to design new materials. Many of the

In **industry and finance**, AI is being deployed in logistics, manufacturing quality control, predictive maintenance, energy management, fraud detection and risk assessment. Across the consumer landscape, recommendation engines, translation tools and content generation features have quietly become part of everyday life for billions of people.

In short, the underlying technology is real, the use cases are real, and the productivity it enables is increasingly measurable. That is what separates the current cycle from a purely speculative episode and is, in our view, the most important point to hold onto when reading the more breathless headlines.

A Reasonable Pause for Concern

History, however, encourages humility. Markets have a long-standing habit of correctly identifying a transformative technology and then overpaying spectacularly for the privilege of owning it.

The late 1990s provide the most obvious comparison. The internet was, in every meaningful sense, the transformative technology its proponents claimed. However, the companies that ultimately captured most of its value were not those that dominated the headlines in 1999. Many of the era's darlings either went out of business or saw their share prices fall by 70%, 80% or more before the dust settled. As Steve Jobs put it, "innovation distinguishes between a leader and a follower" – and being early is not the same as being a leader.

The dotcom episode is far from the only example. Several commentators have recently drawn parallels between today's conditions and other major peaks of the past century, including the Wall Street crash of 1929, Japan's asset boom that peaked in 1989, the internet bubble of 2000 and China's 2007 equity bubble. In each case, a genuine economic story was accompanied by concentrated leadership, stretched valuations, and euphoric sentiment, and the eventual correction was both deeper and longer lasting than most had thought possible.

With that history in mind, there are a few specific concerns worth keeping in mind today. **Firstly**, on several widely watched measures, the US market is now trading at levels last seen at the peaks of previous manias. The S&P 500 currently stands at approximately 28 times its earnings of the past year, well above its long-term average of around 18 times. This is not a sell signal in itself, but it does mean that the margin for disappointment has narrowed considerably.

Secondly, the return on this enormous wave of capital expenditure remains uncertain. The hyperscalers rapidly. In early 2025, a Chinese laboratory called DeepSeek released a model performing close to the leading American systems at a fraction of the training cost, triggering a one-day loss of nearly $600 billion for Nvidia – the largest single-day drop in any company's history.

Thirdly, several widely followed gauges of market behaviour are now at levels typically associated with excessive optimism. Much of the market's recent strength has been driven by a very narrow group of names; despite indices regularly reaching new highs, only a small fraction of individual stocks are doing the same. Sentiment surveys among professional investors show notably bullish readings, and even the US corporate bond market is now unusually weighted towards technology issuers.

Lastly, the sheer scale of technology listings expected this year is noteworthy. US IPO activity in 2026 is on track to be dominated by a small group of very large AI-related companies whose combined private-market valuations now approach $4 trillion, including SpaceX, Anthropic and OpenAI. Many of these businesses remain loss-making and continue to consume cash rapidly. Historically, periods of unusually heavy IPO activity – particularly when they involve unprofitable companies entering at elevated valuations – have tended to occur towards the end, rather than the beginning, of a market cycle.

A Measured View, and Where We Stand

None of the above is intended to suggest that the AI investment theme is unfounded, as it clearly is not. Genuine technological progress is being made, real value is being created, and the companies leading the way are, in many cases, exceptionally profitable businesses with real and durable competitive advantages.

The point is simply that two things can be true at once. The technology can be transformative, and the share prices can be priced for perfection. The use cases can be real, and the timing of profitability can disappoint. Past manias around railways, radio, electricity, and the internet were all, in hindsight, correct about the technology but wildly wrong about the immediate returns. Investors who held on through the noise tended to do well in the end, but the journey was rarely smooth.

History also shows that the unwinding of a market narrative is often accompanied by a rotation in leadership. After each of the previous bubbles mentioned, the sectors and asset classes that recovered first were often not the previous winners, but rather the more defensive areas of the market and the segments that had been quietly overlooked during the preceding boom. We are not predicting any such outcome here, and the timing of these events is famously unpredictable, but the pattern is consistent

For long-term investors, the appropriate response is neither uncritical enthusiasm nor reflexive scepticism, but balance. Exposure to the theme through diversified, well-considered holdings, with an awareness that the path from here is unlikely to be straightforward, is, in our view, the sensible course. At Absolut Wealth, we continue to position client portfolios to participate in the genuine progress of this remarkable era without becoming overly dependent on any single narrative continuing indefinitely. Prudence is often a necessary tactic on positioning when euphoria around an investment theme becomes extreme.

Market Update

US equity markets extended their rally in May, with all three major indices reaching new record highs by month-end. The S&P 500 gained 5.15%, while the Nasdaq-100 surged 10.49%, driven by continued upside surprises in AI-related technology earnings. Meanwhile, the Dow Jones Industrial Average rose 2.78%. The month also marked a historic leadership transition at the Federal Reserve: Jerome Powell chaired his final FOMC meeting in late April, and Kevin Warsh was confirmed by the Senate in May as the 17th Fed Chair, formally taking office on 15 May. Inflation data surprised to the upside, with the April PCE price index, released late in May, rising to 3.8% year-on-year and core PCE reaching 3.3%. This effectively eliminated remaining expectations for rate cuts in 2026, with markets increasingly pricing in the risk of rate hikes by year-end. Heightened geopolitical tensions in the Middle East, alongside rising inflation, pushed the US 10-year Treasury yield from 4.3% to a mid-month high of 4.69%, before moderating to 4.43% by month-end.

European equity markets delivered modest gains, supported by improving risk sentiment as US–Iran peace negotiations showed tentative progress, despite ongoing volatility. The STOXX Europe 600 rose approximately 3.98% for the month, extending its recovery from March lows. Germany’s DAX gained 3.34%, while France’s CAC 40 increased 0.84%. Both the European Central Bank and the Bank of England left interest rates unchanged at their May meetings, as policymakers balanced persistent energy-driven inflation pressures against weakening growth. Revised eurozone inflation data for March was reported at 2.5%, above the initial estimate.

In Asia, Japan’s Nikkei 225 rallied strongly, gaining approximately 11.88% in May, supported in part by optimism around a potential reopening of the Strait of Hormuz. Bank of Japan Governor Kazuo Ueda reiterated that policy decisions must account for persistently low real interest rates, reinforcing expectations of gradual policy normalisation. In contrast, Chinese markets lagged, with the Shanghai

Commodity markets saw a sharp reversal, with oil prices declining significantly on the back of improving geopolitical sentiment. Brent crude fell from $116 per barrel at the end of April to approximately $91 by late May, a drop of 20%, as reports indicated a potential reopening of the Strait of Hormuz and partial resumption of tanker traffic. WTI crude declined 15% to around $86 per barrel. Gold prices eased 1.76% over the month to trade near $4,500 per ounce, consolidating within a narrow range as expectations of higher-for-longer interest rates offset support from ongoing geopolitical uncertainty.

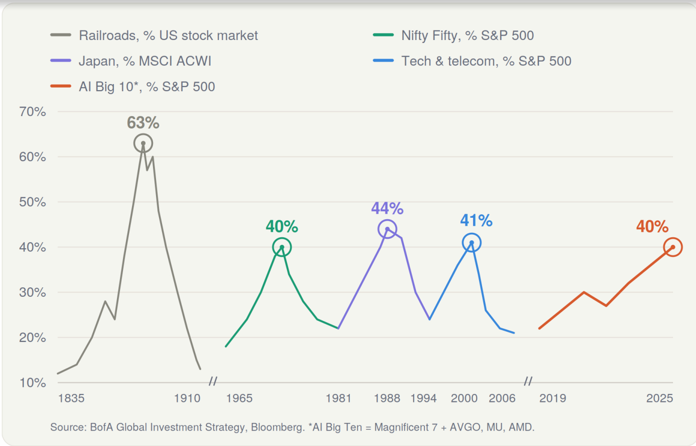
Locally, the JSE experienced continued volatility driven by shifting geopolitical narratives but ended the month marginally lower. The Top 40 Index rose nearly 4% in early May amid improved risk sentiment following ceasefire developments, before reversing to close down 0.38% by month-end as uncertainty persisted and domestic economic pressures weighed on sentiment. Headline CPI for April rose to 4%, reflecting the full impact of fuel price increases implemented on 1 April. In response, the South African Reserve Bank raised the repo rate by 25 basis points at its May meeting. The rand strengthened from R16.66/USD at the end of April to approximately R16.19/USD by month-end, supported by lower oil prices and improved global risk appetite.

Chart of the Month

The world's largest companies have never appeared so similar. Eight of the ten largest now carry an "AI" label, led by Nvidia at a staggering $5.5 trillion – and together, "AI's Big 10" account for about 40% of the entire S&P 500. We have seen similar peaks before railroad stocks reached 63% of the US market around 1900, Japanese equities made up 44% of global indices in the late 1980s, and tech and telecom reached 41% at the height of the dot-com bubble in 2000. Each time, the boom eventually ended, followed by years in which new market leaders emerged. That does not mean a reversal is imminent. But it is worth asking: how much of your "diversified" portfolio is really dependent on a single bet?

Top 10 largest global stocks

Stock		Market Cap
Nvidia	AI	$5.5tn
Alphabet	AI	$4.8tn
Apple	AI	$4.4tn
Microsoft	AI	$3.1tn
Amazon	AI	$2.8tn
Broadcom	AI	$2.0tn
TSMC	AI	$1.9tn
Saudi Aramco		$1.8tn
Tesla	AI	$1.6tn
Meta	AI	$1.6tn



""*Buy on the cannons, sell on the trumpets.*"- Baron Rothschild

---

Absolut Wealth Management is an FPI Approved Professional Practice™

Our mailing address is:
Absolut Wealth Management