

What if investors get bored of AI?



Toby Warburton

Global Head of Active
Portfolio Management
Systematic Equity

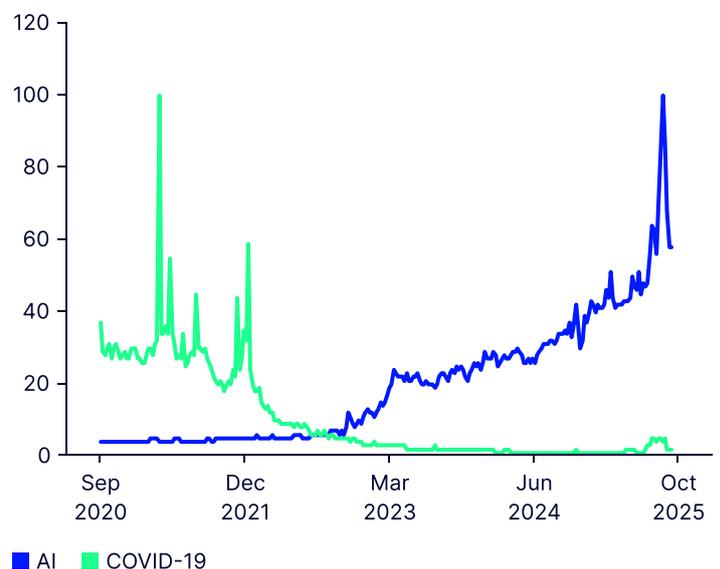
Global equity markets have delivered staggering returns since the end of 2019. What has marked this time period as particularly remarkable is that the gains have been driven almost entirely by just two dominant themes: COVID and Artificial Intelligence (AI). The latest leg in this extended bull run has been fueled by hype around all things AI, although this is hype that has been backed up by significant capital expenditure. But what happens if investors get disillusioned with the AI euphoria?

Since the public release of ChatGPT in November 2022, euphoria around the potential for Artificial Intelligence to transform our lives has exploded. The massive investment and capital expenditure boom around the AI ecosystem has boosted aggregate company earnings and supported stock markets, whilst increasing valuation multiples around the world — this is something we explored last month in [Deconstructing equity returns: Insights for a new rate cycle](#).

More searching for AI

We can build an understanding about the extent to which a theme engrains itself in our collective consciousness through the frequency of web searches for that topic. COVID rapidly burst onto the scene of public awareness in early 2020, following its discovery. After peaking in early April 2020, interest in COVID-19 related searches plateaued and then subsided rapidly after the discovery and global rollout of effective vaccines. The AI theme has been slower to gather momentum, even after the inflection point in November 2022, but searches have been increasing, reaching its most recent crescendo in September 2025, before falling off somewhat (see Figure 1).

Figure 1: Worldwide web search frequency for COVID-19 and AI themes

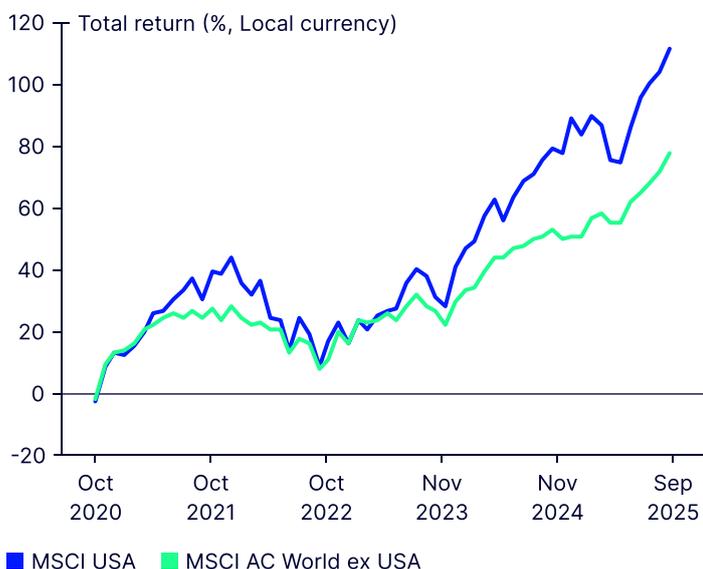


Source: Google Trends, State Street Investment Management. As at October 12, 2025. Search frequency is scaled such that peak intensity for each theme is set to 100.

AI has bolstered US exceptionalism

The boom in AI-related activity has reinforced already established trends around US exceptionalism both in economies and company earnings and returns. The epicenter of the boom in AI interest has firmly been in the US, home to the group of megacap IT hyperscalers investing billions of dollars in AI software and Large Language Model evolution, along with the semiconductor company which has held a near-monopoly on AI-ready chips. The US equity market has dominated the rest of the world over this period, noticeably outperforming from late 2022 onwards (Figure 2).

Figure 2: Total return of US vs All Country ex-US equity markets

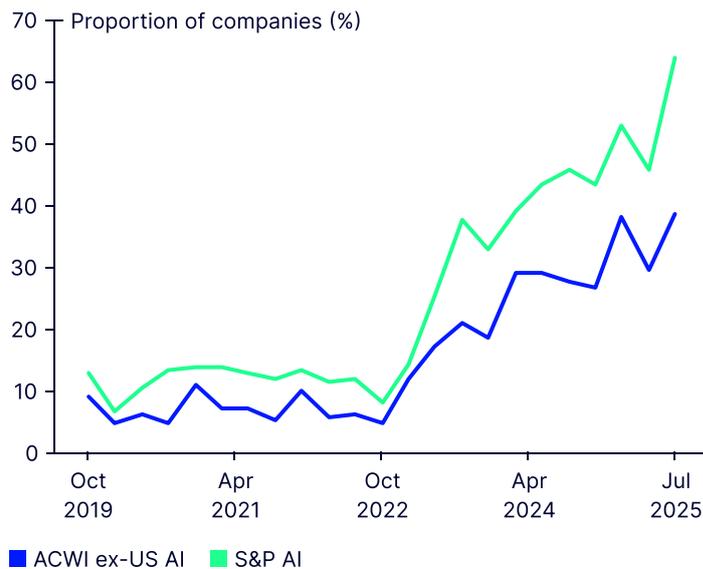


Source: State Street Investment Management, FactSet, MSCI. As at September 30, 2025. Returns are in local currency terms. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

More talking about AI

A very similar picture is seen when considering how important Artificial Intelligence is to listed companies, as measured by the proportion of companies discussing it in quarterly earnings calls. As of the most recent reporting period, 65% of companies in the S&P 500 Index discussed AI and related themes in their earnings calls compared to 43% outside the US. While this reflects the continued lead of the US in the AI space, the numbers for both the US and ex-US regions are still on an upward trend (Figure 3).

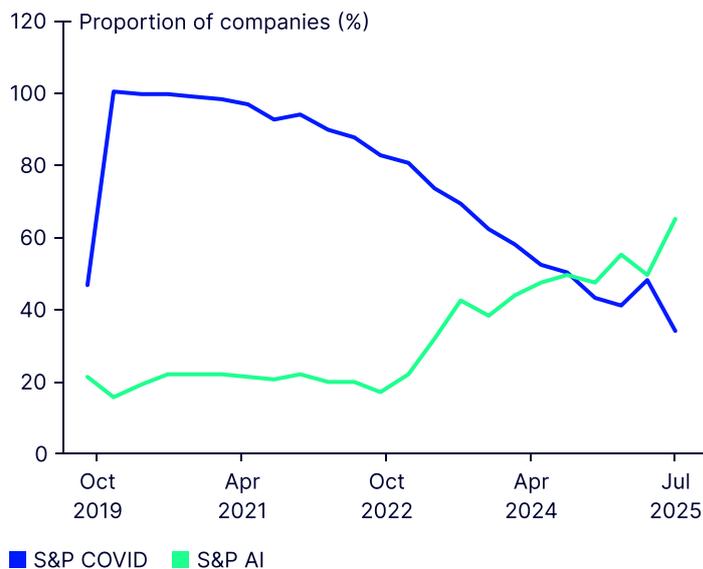
Figure 3: Proportion of companies discussing AI in earnings calls



Source: State Street Investment Management, FactSet, MSCI. As at September 30, 2025.

At the peak of the global pandemic, almost every company reporting quarterly earnings discussed COVID-19 related impacts and uncertainties for their businesses. That has slowly reduced over time, but it is still discussed in more than one third of calls, hinting at the long-lasting impacts from such disruptions (Figure 4).

Figure 4: Proportion of US companies discussing AI and COVID in earnings calls



Source: State Street Investment Management, Factset, MSCI. As at September 30, 2025.

Balancing enthusiasm for AI with earnings, valuations, and risk

Artificial Intelligence has had a real impact in terms of supporting earnings in aggregate, especially in the US. In many ways, this is likely to be a longer-lasting theme in the real economy than COVID, which had a natural break point as a market-driving theme with the discovery of effective vaccines. Despite the genuine earnings-accretive nature of AI to corporates globally, equity market valuations have potentially over extrapolated the benefits and as such valuation multiples have been getting more and more expensive since 2022.¹

With lofty valuations, the risks from disappointment increase. Risks that the heavy investment in AI fails to deliver adequate returns, or even that investors get bored of waiting for the theme to deliver and move their interest on from the AI thematic, could weigh heavily on the valuations of the most exposed stocks and markets. Those chasing a narrow theme on the way up, particularly one that is so tightly

interconnected within a few companies, risk getting fingers burnt on the way down if the direction of travel changes.

We remain excited at the possibilities that AI may bring to companies and economies — indeed we are witnessing benefits to our own productivity. But as investors we stick to our core beliefs, and build diversified, risk-controlled portfolios that capture diverse drivers of return rather than loading up on the hot theme of the day. Our sentiment signals capture some of the benefits that Artificial Intelligence can bring to companies globally, but we balance this with views on valuation and company quality whilst looking for other catalysts that can drive share prices.

To learn more about the views and investment capabilities of the Systematic Equity — Active team, please visit our [website](#).

Endnote

- 1 As outlined in our September commentary: [Deconstructing equity returns: Insights for a new rate cycle](#).

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* This figure is presented as of June 30, 2025 and includes ETF AUM of \$1,689.83 billion USD of which approximately \$116.05 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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