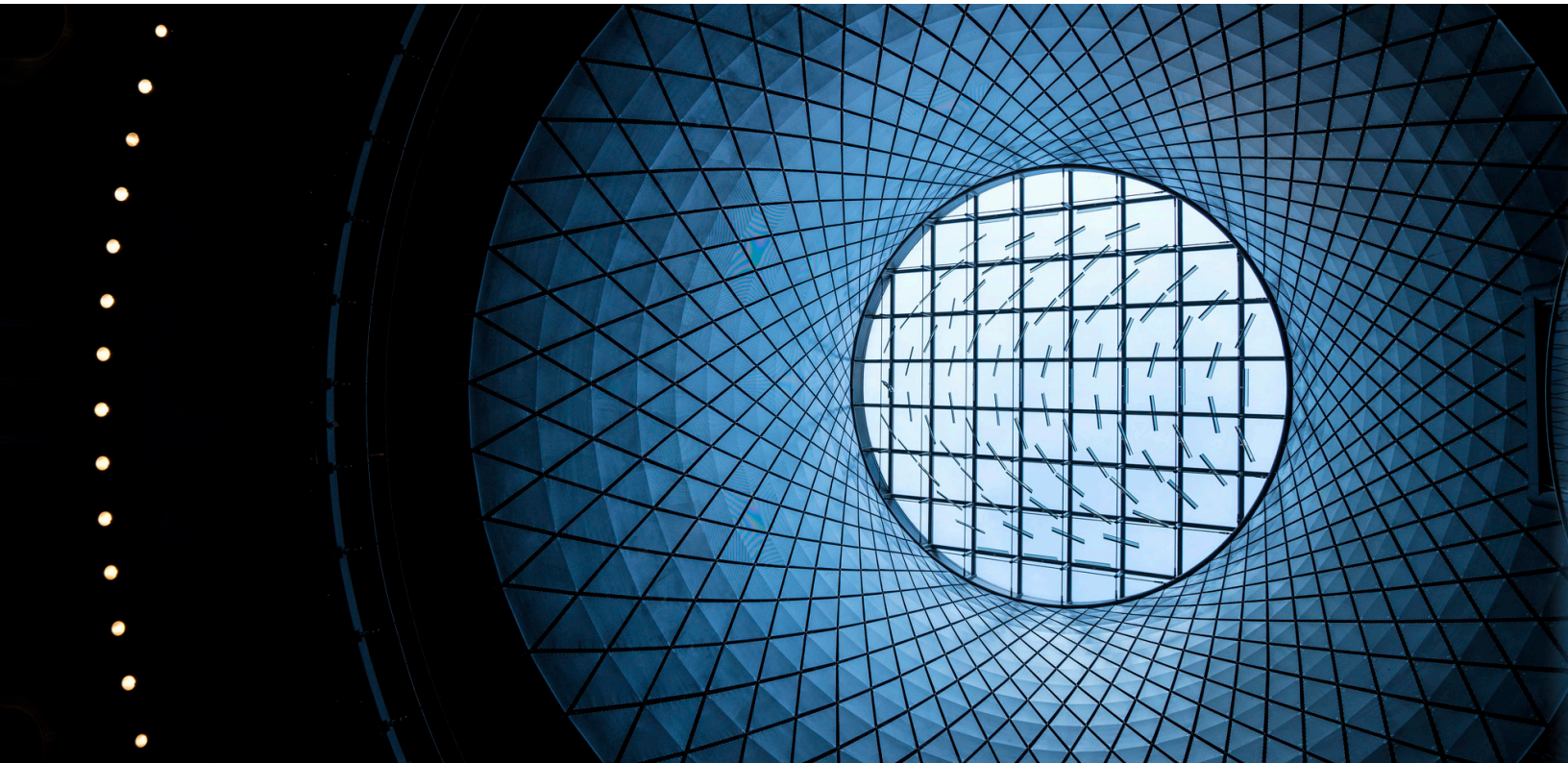


Quick take: We remain confident in the current infrastructure buildout

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Mickey Ganguly, Associate Portfolio Manager, Equities



The rapid evolution of artificial intelligence (AI) is reshaping the technology sector, with unprecedented investment in infrastructure and a significant shift in market leadership. In this Q&A, Mickey Ganguly, Associate Portfolio Manager, Equities, discusses the latest trends in AI infrastructure, the diverging fortunes within the technology sector, and current market valuations.

Key takeaways

- AI infrastructure investment is accelerating
- Market leadership is shifting with the technology sector
- Current technology valuations are supported by fundamentals

What are the recent developments with respect to the ongoing AI infrastructure buildout?

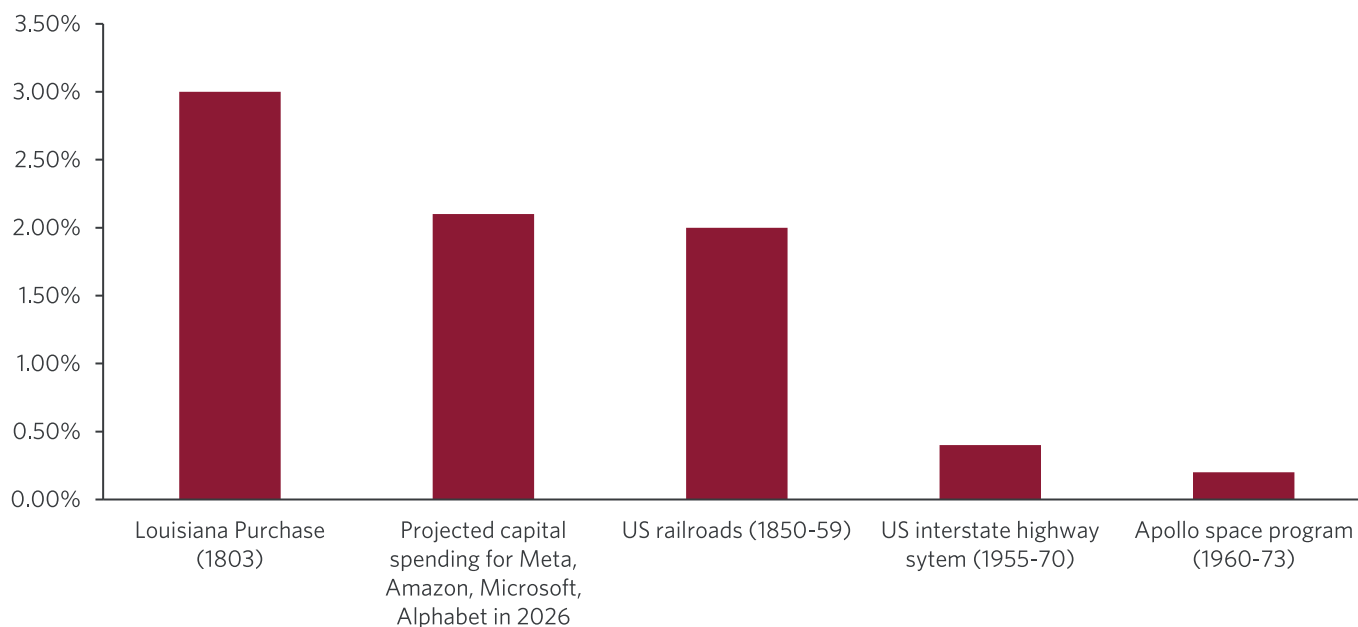
The AI buildout phase has continued to accelerate, and this year is no different. After Q1 results, we saw the core hyperscalers – Amazon, Microsoft, Alphabet, and META – commit over \$700B in data centre capex. Amazon led the pack, with \$200B committed, followed by Microsoft and Alphabet at ~\$185B. META also raised their capital commitment to ~\$135B.

Our view is infrastructure spend will continue to increase over the medium term as we enter the inferencing stage, where enterprises start seeing meaningful return on their capital. This view is further supported by industry estimates of >\$1T infrastructure spend in 2027.

While over the last 2-3 years, the AI winners have been companies such as Nvidia and the hyperscalers, over the last twelve months the conversation has shifted to the broader market with cyclical companies catching a bid and strongly rallying YTD. The poster child of this phenomenon are memory stocks, where some names have posted triple digit gains this year. Given the demand cycle, there is not enough supply to meet the unrelenting demand for memory which is a critical component as we enter the inferencing phase.

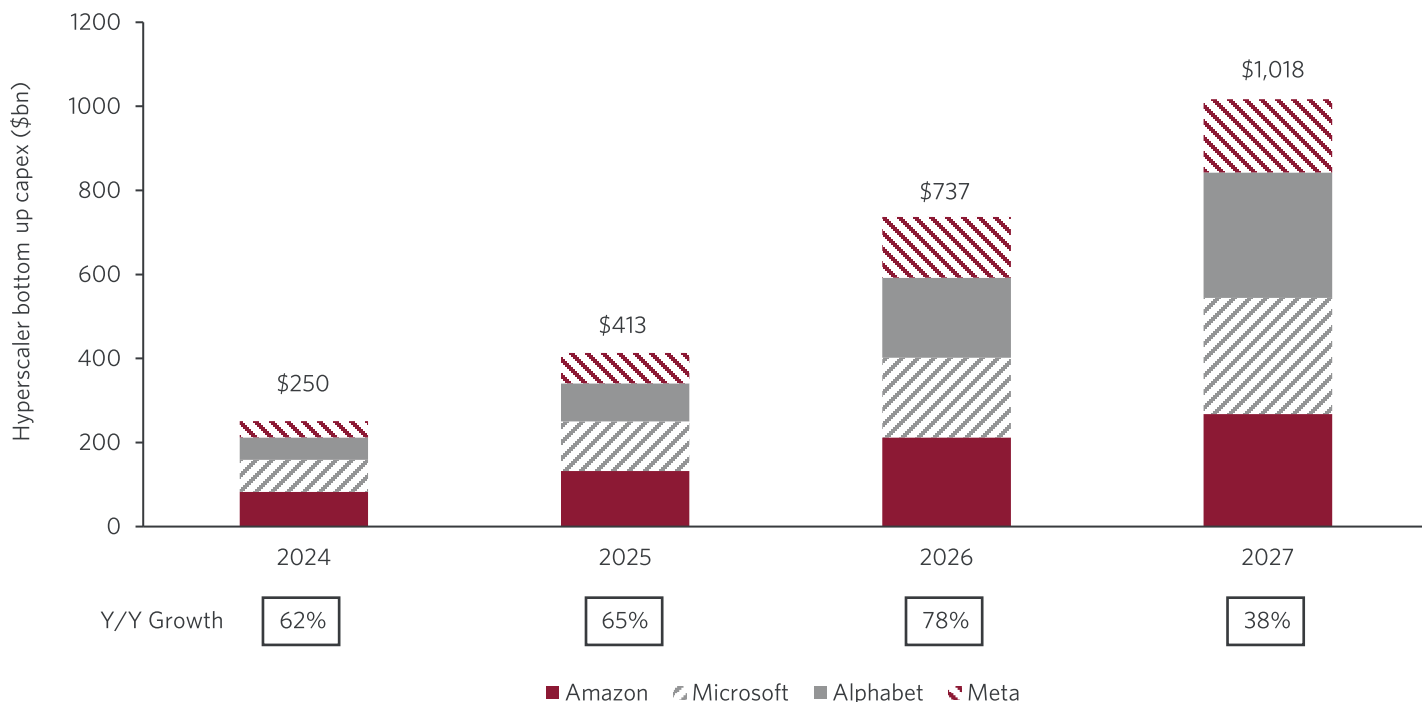
Similarly, we also see a supply crunch for power. With the unprecedented scale of this buildout, we see ample opportunities in the picks and shovels of the AI infrastructure buildout (along with the more traditional AI players).

Spending as a percent of GDP



Sources: Wall Street Journal, February 7, 2026. National Archives and Measuring Worth (Louisiana Purchase); companies (Tech capital spending); Visible Alpha (projected Microsoft capital spending) Louis P. Cain (US railroads); Robert Gordon (US interstate highway system); Planetary Society (Apollo); Wall Street Journal Calculations.

Hyperscaler capex growth



Source: Morgan Stanley, May 17, 2026. Company data. Morgan Stanley Research estimates. Note: AMZN = Total company capex excluding proceeds from property and equipment sales and incentives.

The technology sector is not homogenous, with some companies benefiting from the AI boom while others are under threat. Can you explain what's driving this divergence?

2026 has seen one of the most aggressive rotation out of software into the AI picks and shovels. We believe this rotation is warranted as we have clear line of sight into the demand and pricing cycle of the infrastructure buildout players. In contrast, we believe the selloff in software indicates the market's unease with the existential threat AI represents for their business models.

In the past, software companies had predictable growth and profitability profiles. The per seat revenue model allowed software companies to participate in the growth of their clients while retaining pricing power due to low competition. The proliferation of AI native companies threatens the core pillars of legacy software companies.

AI native software companies are utilizing a usage/outcome-based model and can launch new capabilities at lightning speeds. In this new regime, we are increasingly cautious on software stocks as even the largest of moats have begun to shrink. The aggressive nature of the software selloff this year highlights the need for money managers to remain informed and agile to identify and incorporate trends into their investment decisions. In this environment, active management is critical to ensure investors are not adversely impacted by aggressive selloffs as seen in the software sector.

The technology sector has rallied strongly throughout 2026. Some are suggesting the current market is “feeling like the last months of the 1999-2000 bubble”. Can you share your thoughts on valuation concerns?

We believe there are fundamental differences between the dot-com era and the current technology sector rally. The dot-com bubble saw speculative investing into companies with no clear path to profitability. Investors were paying premium multiples for companies on dubious metrics such as eyeballs landing on a website.

In contrast, the current rally in the technology sector is backed by some of the largest global companies with strong balance sheets and financial health. Not only are these companies generating strong revenue growth, but we are also seeing earnings growth accelerating.

In terms of valuation, at its peak, Nortel traded at over 100x forward P/E while NVDA today trades at <25x forward P/E. When we adjust for growth, Nvidia’s valuation becomes more attractive where the company is trading at a PEG ratio of 0.4x vs the S&P500 at ~1.0x. While the 1.0x PEG ratio for S&P500 seems attractive, the index’ earnings growth is mostly concentrated in the technology sector with the sector driving >40% of the index’ earnings growth. Without the tailwind of the technology sector, an equal weighted S&P500 earnings growth drops to 12% vs 22% for the market-cap weighted index.

While the technology sector has rallied YTD, this has been supported by robust earnings and top line growth which has led to the unprecedented allocation to AI capex as companies start to realize returns on their invested capital. We remain confident in the current infrastructure buildout and the earnings potential of the companies that are deploying capital strategically to drive higher growth.



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