



Of Course It's an AI Bubble

Anyone paying attention to financial markets can see that the excitement around artificial intelligence is real. The money flowing into the sector is enormous. The valuations are rising fast. And many of the numbers don't seem tied to the actual health of the companies receiving the money. When that happens, investors naturally start asking the same question they've asked in past cycles: *"Is this a bubble?"*

A seasoned financial professional wouldn't dance around it. The signs are familiar. The behavior is familiar. And the risks are familiar. So instead of sugarcoating the situation or making it sound more complicated than it is, it helps to lay things out clearly and plainly.

Yes—there is a strong case that we are in an AI bubble. And understanding what that means can help investors make smarter choices.

Why People Are Calling It a Bubble

An economic bubble doesn't need catchy names or dramatic language. It simply forms when prices rise far beyond what reality can support. In today's AI market, several things stand out.

The first is the sheer amount of money being invested. U.S. venture capital firms put an estimated \$161 billion into AI companies in a year. That's not a small surge—it's two-thirds of all venture spending. No other sector is even close. The second is that many companies receiving this money are not profitable. Some are far from it. Yet they're enjoying valuation jumps that don't match their current revenue, earnings, or realistic short-term outlook.

According to the Financial Times, ten AI start-ups—many still losing money—added nearly \$1 trillion in combined market value in twelve months. That number alone tells a clear story. Investors are buying the future, not the present. Sometimes that works out. Sometimes it ends badly.

How Valuations Became So Stretched

When investors chase a trend, prices can climb at a pace that no financial model can justify. That appears to be happening now. Top AI firms like OpenAI, Anthropic, and xAI have all seen their valuations rise quickly—sometimes in multiple funding rounds in the same year.

Some venture capital firms are assigning revenue multiples above 100x. These valuations make sense only if companies grow at almost impossible speeds without major setbacks. One common example: start-ups with only \$5 million in annual recurring revenue are pushing for valuations above \$500 million. A few years ago, even in generous market conditions, those valuations would have been closer to \$250–\$300 million.

This shift isn't coming from slow, careful analysis. It's being driven by urgency. Investors feel pressure to be part of the next big thing, and they worry that not investing now means missing out on future gains. That pressure can distort judgment.

How Investor Psychology Is Driving the Surge

Financial markets are not just numbers and spreadsheets. They are also shaped by emotion, bias, and group behavior. Right now, the mindset surrounding AI resembles what financial professionals have seen in past speculative cycles.

Investors are showing clear signs of fear of missing out. Boardrooms and fund managers are hearing the same message: "Everyone else is investing—shouldn't we?" When enough people think this way, capital flows in faster than anyone can reasonably deploy it. Some executives describe AI as a technology that "adds a zero to everything." That kind of thinking encourages people to assume unlimited upside. But nothing in markets is unlimited. Not capital. Not growth. And not enthusiasm.

Two Very Different Paths Among Leading Players

The most prominent AI companies are not taking identical approaches. Comparing their strategies helps investors understand the long-term risks.

OpenAI: Growth at Any Cost

OpenAI is choosing speed. It is spending heavily on computing power, chips, infrastructure, and talent. Reports show the company may commit more than \$1.4 trillion to future chip capacity alone. Losses are expected to continue for years. Current projections show operating losses of around \$74 billion by 2028, with no profitability expected until 2030.

This strategy assumes that massive spending today will create dominant market power later. But the plan relies on ongoing investor confidence. If funding ever slows, the company's path becomes much harder.

Anthropic: Slower, More Disciplined Expansion

Anthropic is taking a different route. The company is linking costs more closely with revenue. It is focusing on business clients and showing a declining burn rate. Anthropic aims for breakeven by 2028 without the same level of extreme capital requirements. While still ambitious, this approach reflects a more traditional financial discipline.

These two strategies show the broader choice facing AI companies: chase rapid scale with heavy losses or grow steadily with more predictable spending. A bubble environment often rewards the first group—at least at the start.

Public Markets Are Part of the Story Too

While the biggest valuation jumps are in private markets, public equities are feeling the effects. Companies tied to AI infrastructure—such as Nvidia, AMD, and Microsoft—have seen large increases in market value. These companies have strong businesses outside of AI, but their recent gains have been driven by expectations that AI demand will keep rising.

If private-market assumptions shift, public-market sentiment could shift as well. This is especially important for investors with broad equity exposure, as AI-related companies now make up a large share of major index performance.

How This Cycle Compares to Past Technology Booms

Technology bubbles aren't new. Each one has different triggers, but they follow similar patterns.

- Dot-com era (2000): About \$10 billion (roughly \$20 billion today) went into internet start-ups. Many of those companies disappeared after the crash.
- SaaS peak (2021): \$135 billion flowed into software-as-a-service companies.
- AI cycle (current): Projections suggest more than \$200 billion may be invested in AI companies—more than any past cycle, and concentrated in far fewer hands.

In other words, this is not a small trend. It is the largest tech investment wave ever recorded.

Not Every Expert Thinks a Bubble Is Bad

Financial professionals don't agree on everything and they don't all see bubbles the same way. Some venture capitalists argue that bubbles help push money and talent toward major innovations. They point out that even the dot-com crash left behind lasting businesses—Amazon, Google, and others

Others offer clear warnings. Marc Benioff, CEO of Salesforce, predicts that there will be major failures. He estimates that \$1 trillion in AI investment may be wasted, though he also believes the overall value created could be ten times that amount.

Sebastian Mallaby, a respected venture historian, puts it simply: "If we reach AGI, the spending will be worth it. If we don't, it won't."

What Investors Should Recognize Right Now

Short-Term View

The sector is growing quickly, but the risks are growing just as fast. The market is rewarding companies with scale and strong partnerships. Smaller firms may not survive. A correction is possible, and investors should not assume that today's prices are stable.

Long-Term View

Even if we call this period a bubble, it doesn't mean the whole sector is built on air. Like past technology cycles, AI will likely produce companies and technologies that reshape industries. The challenge is identifying which businesses will still be here after the cycle cools.

For investors, the right approach is patience, realistic expectations, due diligence, and diversification. AI may change how the world works, but that does not guarantee success for every company claiming to be part of the revolution.

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