



## Are There Cracks Appearing in the AI Story?

As so often happens in markets, falling prices change attitudes more quickly than anything else. AI stocks have corrected over the last 6 weeks or so and, consequently, sentiment towards the group has soured quite markedly. Investors are asking, is the AI story over or is this the pause that refreshes?

The AI story is clearly not over, in fact it's just beginning, but that doesn't mean that stocks have not got ahead of themselves in terms of pricing in future earnings and infrastructure wins. As with many big investment phases, stocks often race to price in blue sky scenarios only to get brought back down to earth with the realities of life. It's probably fair to say that this is what is happening right now to Open AI, once the darling of the whole AI story.

Open AI has publicly announced that it will spend about \$1tr in AI infrastructure spend, announcements which were initially lauded, as the company was seen as being the pioneering leader in the AI race. Fast forward to today and some of those announcements are under scrutiny. Where will the money come from? Is it mainly debt financed? When will there be a return on this investment? All questions that are casting a pall on the story.

Oracle is another AI build out story that has been rejected by investors. The stock is down around 45% from its recent peak as investors fear that a leveraged balance sheet and debt-financed capex spend is a risky proposition. Just yesterday, Blue Owl Capital pulled out of a \$10bn deal to back its next datacentre facility. So, there are reasons to be more circumspect about the AI story and be a lot more selective about investments in the theme.

It's important to remember though that even the biggest innovation cycles have their dips. Cisco Systems was one of the key stocks in the 1990s Internet boom, and returned 75,000% over the decade, but it too had periods of going sideways and corrected significantly, up to 50%. on several occasions.

So, what has this meant for our exposure to AI? We have reduced our exposure tactically in the belief that it's prudent to take some profits for now. We are reinvesting the cash in more cyclical parts of the market, consumer discretionary, financials and industrials. We are bullish for 2026, and it is our view that the economy will see an acceleration in growth whilst inflation starts to fall. This means a goldilocks scenario of real growth which is typically very supportive of equity prices. Critically, it's the early cyclicals that tend to perform well in this environment, and this is why we have pivoted the portfolio to include those parts of the market that have been ignored thus far but that we believe are poised to do much better.

**Felix Wintle, Fund Manager, VT Tyndall North American Fund, 18 December 2025**

Source: Bloomberg.

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