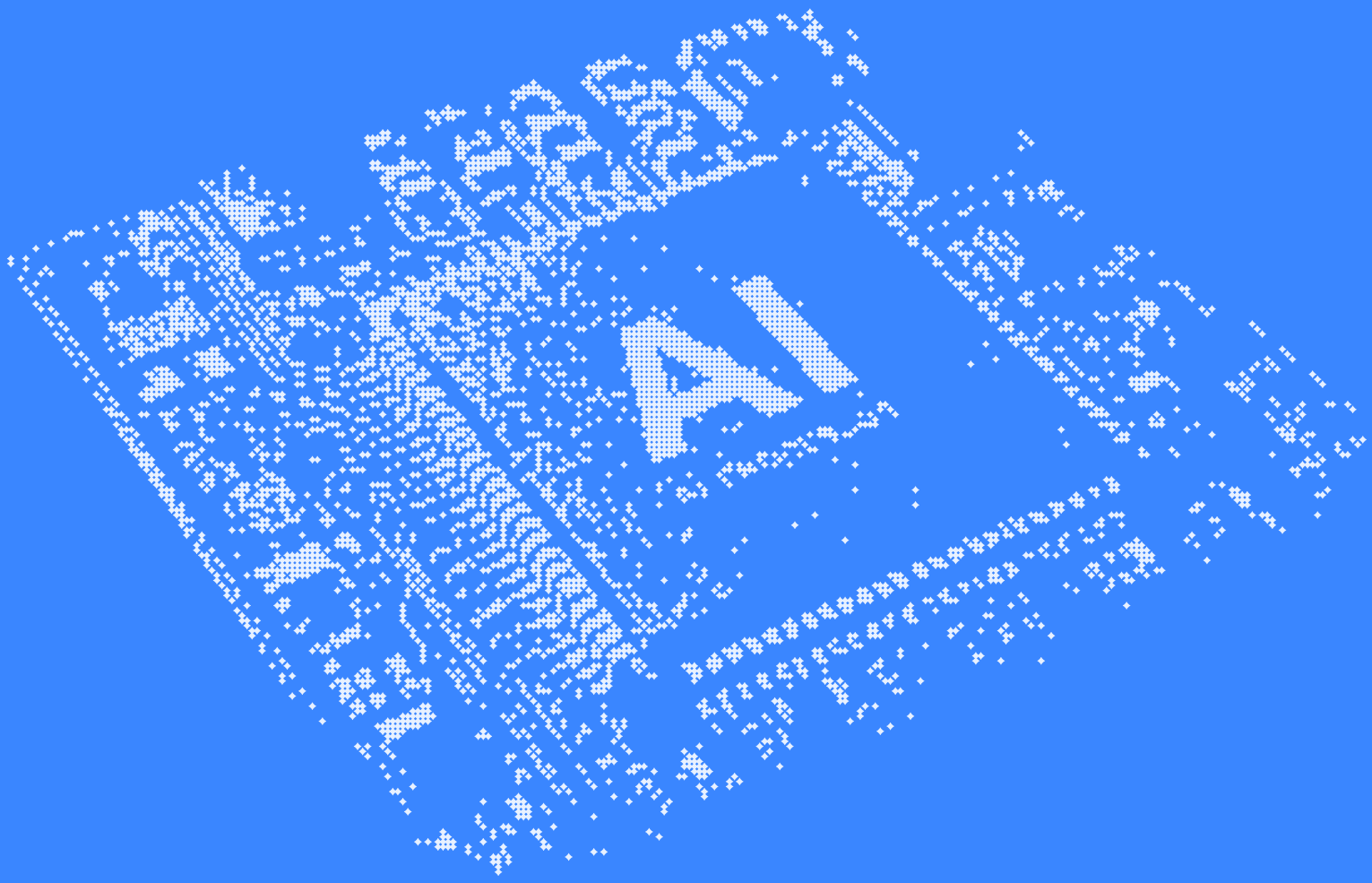
Investment OUTLOOK

July 2026



A monthly round-up of GLOBAL MARKETS *and trends*

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Investors and firms just can't get enough of AI

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INVESTORS *and* FIRMS *just can't get enough of* AI

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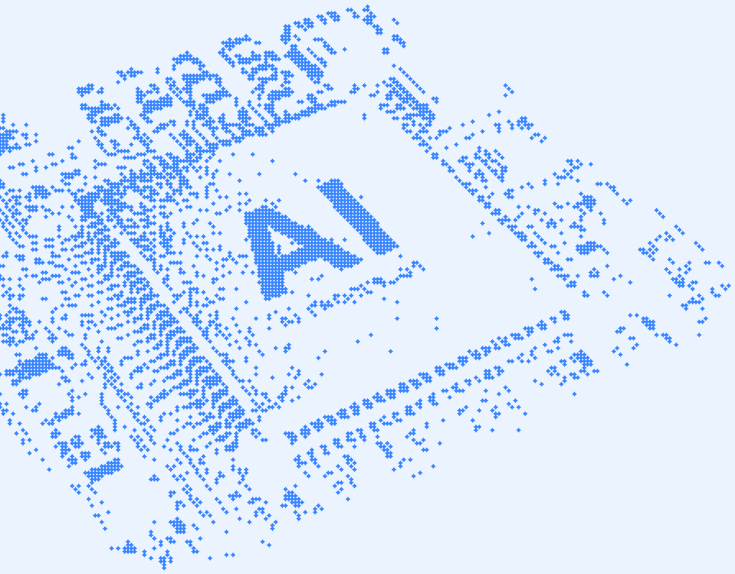
Summary

Artificial Intelligence (AI) investment remains strong, driven by booming semiconductor demand, data-centre expansion and rising business adoption. Indicators show AI usage and profitability accelerating across industries, supporting high tech valuations. Despite market and interest-rate risks, earnings growth and sustained corporate spending suggest the AI boom still has momentum and long-term potential.

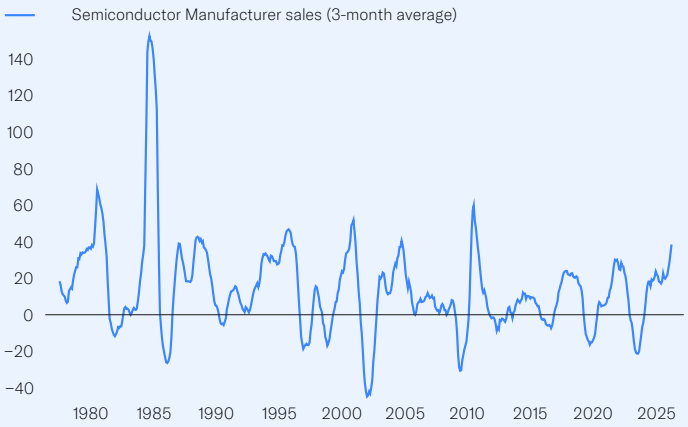


AI and the return of the 1980s tech supercycle

Back in the 1980s, the electro-synth band Depeche Mode was a regular fixture in the UK charts. Their hit dance-floor filler "I Just Can't Get Enough" sums up how investors feel today about AI and the semiconductor chips that power it.

Global semiconductor sales are currently rising at an exceptionally strong 94% annual rate.[1] The only comparable period of stronger growth came in the mid-1980s, when the launch of the IBM PC, alongside home computers for the mass market (who remembers the ZX Spectrum?) and early digital devices (i.e. the first "brick" mobile phones), drove a surge in demand for memory chips and microprocessors. That boom followed a double-dip US recession earlier in the decade, creating powerful cyclical and structural tailwinds as computing adoption accelerated.

Global semiconductor sales (%YoY) on a 3-month moving average



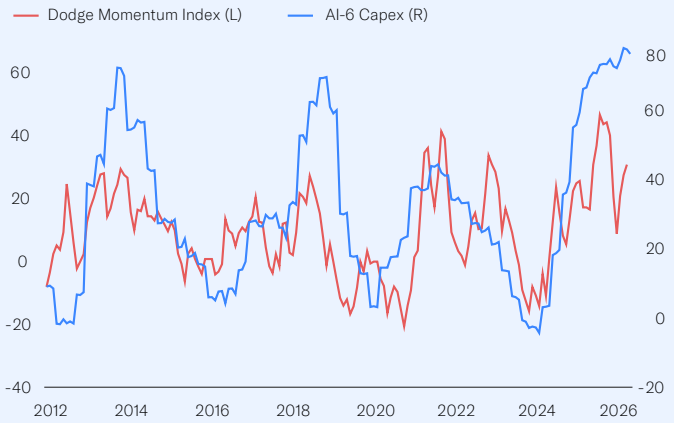
Source: LSEG Datastream / Evelyn Partners. Data as at 23 June 2026

Today, a similarly powerful dynamic appears to be underway. There is little evidence that appetite for AI is slowing in any meaningful way. Demand for compute power (and the chips that enable it) continues to strengthen. Here we examine several indicators that guide our view on the AI theme, starting with infrastructure buildout, moving to adoption and finally, to improving profitability.

Infrastructure build-out indicators look firm

The Dodge Momentum Index (DMI) offers a timely gauge on planned early-stage non-residential construction in the US. Historically, the DMI tracks analysts' consensus estimates for capital expenditure for large AI-related companies. While not necessarily a lead indicator of future AI-driven capital expenditure, the DMI supports the credibility of current consensus expectations and reinforces the view that investment in AI-related infrastructure continues to expand.

US Dodge Momentum Index and AI-6 CapEx (%, YoY)



Source: LSEG Datastream / Refinitiv. Data as at 23 June 2026. *Dodge Momentum Index is a key gauge of future non-residential construction activity, produced by Dodge Construction Network

A complementary signal comes from Korean and Taiwanese export data, which serve as a useful proxy for global semiconductor demand. In May, Korean and Taiwanese combined exports grew 52% from a year ago, showing resilient demand tied to AI and data centre build-outs.[2]

Taken together, firm DMI levels and solid tech-related exports indicate that hyperscaler capital expenditure remains firmly in growth territory.

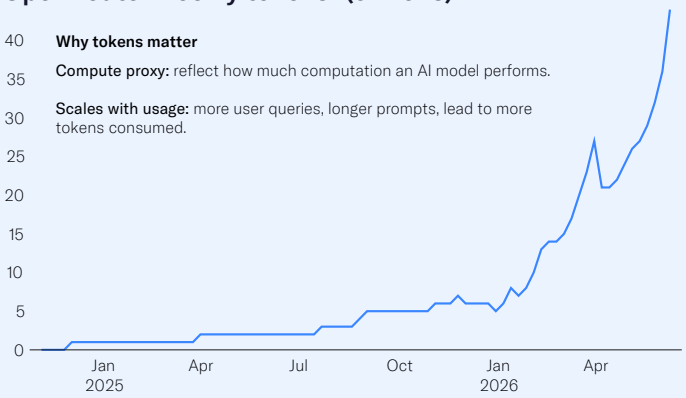
AI adoption continues to broaden

According to the US Census Bureau's biweekly Business Trends and Outlook Survey (BTOS), AI adoption among businesses has continued to rise steadily. In late May, 20.7% of firms reported already using AI in at least one business function, while a further 23.7% said they plan to adopt AI within the next six months.[3]

Despite this upward trend, overall penetration remains relatively low, especially when compared with the near-universal adoption of foundational technologies such as the internet across US businesses. This gap suggests AI is still in the early stages of diffusion rather than a fully embedded general-purpose technology.

One way to move beyond survey-based measures and capture real-time adoption intensity is through token usage. Tokens are the basic units of data processed by AI models: effectively, the inputs and outputs that represent the computational work required to generate "intelligence". Because cloud providers typically charge on a per-token basis, token volumes provide a direct usage-based measure of AI deployment in practice, rather than simply whether firms report using AI.

OpenRouter weekly tokens* (trillions)



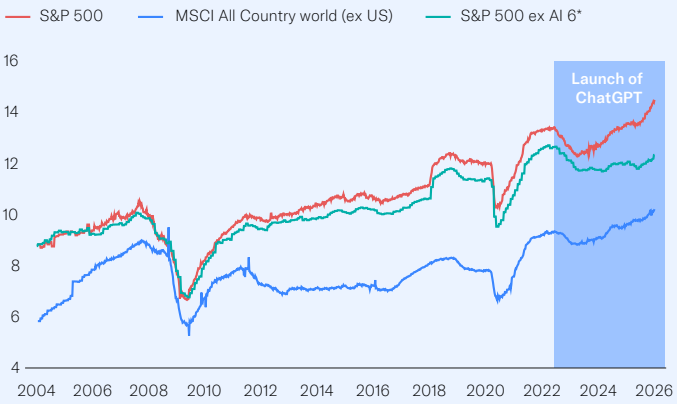
Source: LSEG Refinitiv. Data as at 23 June 2026. *basic unit of text for AI models. Input & output are both tokenised. Cost & usage are tied to tokens.

Improving corporate profitability

It is worth noting that the profitability of globally listed companies has been rising steadily for decades and well before the widespread adoption of artificial intelligence. Globalisation and the increasing use of technology have long supported corporate profits. AI now appears to be accelerating these structural trends even further.

Importantly, this improvement in profitability (measured by profit margins) is no longer confined to the technology sector. It is broadening across markets. For example, profit margins for the S&P 500 excluding the largest technology companies have risen to a record 13.2%.[4] Outside the US, the trend is similarly strong, with profit margins for the rest of the world reaching a new high of 11.8% and showing little evidence of weakening.[5]

Listed equity profit margin (12m forward earnings as a % sales)



Source: LSEG Datastream / Evelyn Partners. Data as at 23 June 2026.
*AI-6: Microsoft, Oracle, Alphabet, Amazon, Meta Platforms, Nvidia

Valuing the AI boom

Massive spending on artificial intelligence is driving a sharp rise in the market valuations of technology companies globally.

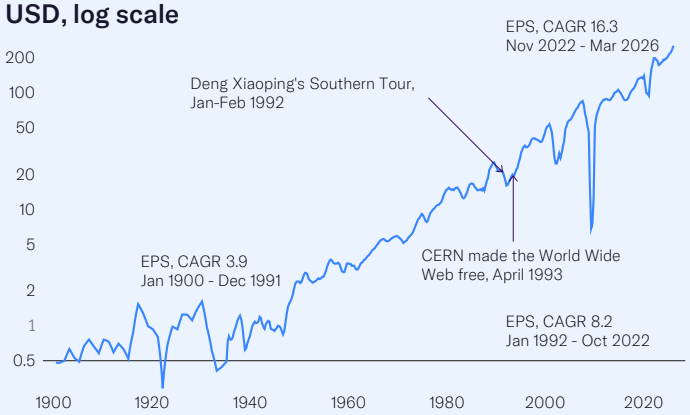
In Asia, semiconductor manufacturers have emerged as some of the world's most valuable firms. South Korean chipmakers SK Hynix and Samsung Electronics are now valued at well over a trillion US dollars each, while Taiwan Semiconductor Manufacturing Company, or TSMC, is approaching a $2 trillion market capitalisation.[6] All three companies are essential suppliers of the advanced semiconductors needed to support the huge wave of investment in AI datacentres and computing infrastructure.

In the US, Nvidia has become the world's most valuable listed company, with a market capitalisation exceeding $5 trillion.[7] Nvidia alone is now worth more than the combined value of the UK stock market. Yet despite its extraordinary rise, Nvidia trades on a 12-month forward price-to-earnings ratio of around 20 times: a valuation that appears reasonable relative to the pace of earnings growth.[8]

More broadly, earnings growth across the US equity market has accelerated. The long-term trajectory of S&P 500 earnings per share, or EPS, shows how structural shifts in the global economy have reshaped corporate profitability over time.

From 1900 to January 1992, when Deng Xiaoping's Southern Tour accelerated China's integration into the global economy, reported S&P 500 EPS grew at an average annualised rate of 3.9%.[9] Following the launch of the World Wide Web in 1993, and supported by globalisation and digitisation, EPS growth accelerated to 8.2% annualised through to October 2022.[10]

S&P 500 12-month reported Earnings Per Share, USD, log scale



Source: LSEG Datastream / Evelyn Partners. Data as at 26 June 2026.

The next major shift arrived in November 2022 with the launch of OpenAI's ChatGPT, an AI chatbot that understands and generates human-like text. Since then, reported S&P 500 EPS growth has accelerated further, reaching an annualised rate of 16.3%.[11]

For investors, the key point is that the sharp rise in AI-related share prices has been matched by a similarly powerful acceleration in underlying earnings growth.

Looking through market risks

Equity markets were volatile in early June following the release of stronger-than-expected US non-farm payroll data. The release heightened concerns that the Federal Reserve could keep interest rates higher for longer, placing pressure on bond markets, at least briefly.

Nevertheless, the Fed futures markets currently expect around one quarter-percentage-point rate hike by the US central bank over the next two years.[12] Traders' expectations are broadly consistent with the forecasts from the Fed's rate setting meeting in mid-June.

Number of US Fed 25bps hikes priced in by the Fed Futures market in next 2 years

Source: LSEG Datastream / Evelyn Partners. Data as at 23 June 2026.

Moreover, this expected modest tightening is in stark contrast to the aggressive rate increases seen from early 2022, when the Federal Reserve raised rates by more than five percentage points over a two-year period. Those increases were driven by the post-pandemic inflation surge and higher energy prices following Russia's invasion of Ukraine. On balance, rising interest rates appear manageable for financial markets.

There is also uncertainty around whether investors have sufficient capital to absorb the expected wave of equity issuance tied to potential IPOs from high-profile companies such as SpaceX, OpenAI and Anthropic. Despite the scale of these prospective fundraisings, Goldman Sachs estimates that total US equity supply, including IPOs, will amount to roughly US$1.1 trillion, still below projected corporate share buybacks of approximately US$1.3 trillion.[13] In other words, net corporate demand for equities (calculated as buybacks minus issuance) is still expected to remain positive, unlike the negative net supply backdrop seen at the peak of the dot-com bubble in 2000.

For now, resilient investment, accelerating adoption and rising profitability all suggest that the AI trade still has strong momentum. Essentially, investors and companies alike "just can't get enough" of AI.

Speak to us

Sources

[1,2,4,5,6,7,8,9,10,11,12] LSEG, Evelyn Partners

[3] Business Trends and Outlook Survey, US Census Bureau

[13] Corporate equity demand should outweigh record IPO supply in 2026, Goldman Sachs, 29 May 2026

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