

Long Story Short

Long Story Short is our CIO Equity newsletter highlighting key equity-market developments and trends. In this edition, we spotlight Artificial Intelligence (AI) and introduce our new ‘AI bubble meter’—a confidence index designed to help investors navigate the broader AI cycle.

The story

AI is not yet a bubble. Our new ‘**AI bubble meter**’ shows an improvement in the AI confidence index to a better risk-reward profile for February 2026, suggesting a potential 5–10% return for the AI theme over the next 3–6 months.

Long or positive implications

With the improvement to a better risk-reward profile, we recommend an offensively defensive positioning in AI—balancing cyclical semiconductors such as AI accelerators, semicap equipment and foundries with defensive internet exposure to both US and Chinese platforms, alongside early AI adopters in global healthcare. Strong seasonality in the first half of the year also provides additional support for big tech.

Short or negative implications

With AI adoption rates accelerating, we remain cautious on traditional business models that face heightened disruption risks, particularly across hardware, legacy software and other service-related sectors.

Index forecasts

Index	12m forecast	Upside to target ¹
S&P500	7,800	13%
Nasdaq 100	29,600	16%
Euro Stoxx 50	6,300	6%
FTSE 100	10,500	4%
Hang Seng	28,900	8%
Nifty 50	29,500	18%
Nikkei 225	54,000	0%

Source: Standard Chartered

Note:

1. Based on 23-Jan-2026 closing levels

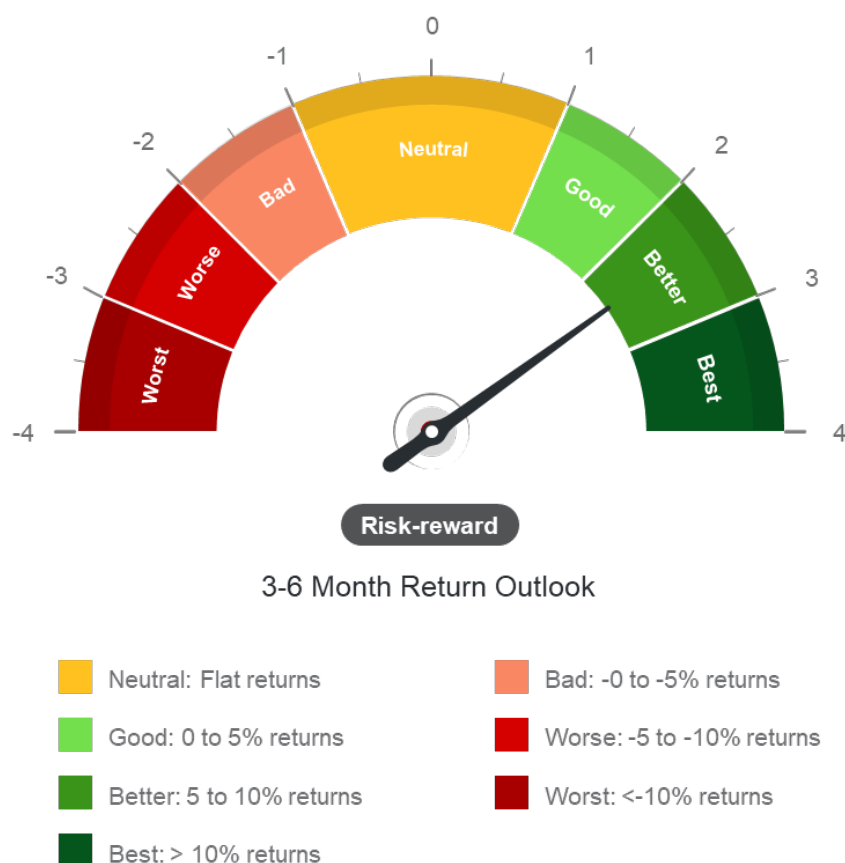
Introducing “AI bubble meter”

Global equity markets have had a mixed start to 2026 amid escalating geopolitical tensions. With the US Q4 2025 reporting season underway, we expect the results to reaffirm the positive earnings-growth backdrop supporting global equities. Nevertheless, despite the prospect of double-digit earnings growth in 2026, investor sentiment remains fragile given the evolving geopolitical landscape and lingering concerns around the AI narrative.

Although AI continues to drive global markets in its fourth year of the rally, questions around whether it represents a bubble remain top of mind for investors. While we do not believe AI is a bubble at this stage—supported by strong underlying earnings growth and still-reasonable valuations—we are introducing our ‘AI bubble meter’ in today’s newsletter to help investors better navigate the AI landscape. As shown in Fig. 1, the ‘**AI bubble meter**’ tracks an AI confidence index ranging from Worst (<-3) to Best (>+3), derived from systematically weighing five key industry catalysts against five key risks.

Long story short, for the month of February 2026, our AI bubble meter is showing a progress in the confidence index from 2 to 2.5, indicating an improvement from “good” to “better” risk-reward profile. This suggests a potential 3-6 month return forecast of 5-10% for the AI theme in our view. Furthermore, the improvement in the

Fig. 1 AI bubble meter



Source: Standard Chartered

confidence index also suggests bubble fears are overdone from the recent lows of October to December 2025. Nevertheless, investors should not be complacent and instead, follow our “**AI bubble meter**” on a regular basis to gauge AI investment opportunities and risks.

Investment implications: With the confidence index improving to a ‘better risk-reward’ level, we believe investors are best rewarded by adopting an offensively defensive stance. On the offensive side, opportunities remain strongest within cyclical semiconductors—including AI accelerators, semicap equipment and foundries. On the defensive side, we continue to favour internet platforms in both the US and China, as well as early AI adopters in global healthcare. From a size perspective, big tech also offers solid near-term potential, supported by strong first-half seasonality. At the same time, with AI adoption rates accelerating, we remain cautious on traditional business models facing disruption risk, particularly across hardware, legacy software and other services industries.

Understanding our “AI bubble meter”

We plan to update our systematically measured ‘**AI bubble meter**’ regularly, with the needle reflecting the AI confidence index across seven risk-reward buckets. The overall index is derived by weighing the scores of AI’s five key catalysts against its five key risks—each assessed on a 1–5 scale, supported by quantitative inputs and a qualitative overlay. The five key AI catalysts include:

- Capex trends
- Adoption rates
- EPS revisions
- Quality of growth and
- Big tech’s commitment

Meanwhile, the five key AI risks in our view include a) disruption risk; b) valuation risk; c) funding risk; d) regulation risk; and e) other risks. In the following pages, we present our latest assessment of these AI catalysts and risks.

The table below illustrates how our 'AI bubble meter' has evolved each month over the past three-plus years. Encouragingly, after solid earnings revisions—and supported by recent improvements in valuation and AI adoption-rate scores—the confidence index has continued to rise, reaching 2.5 for February 2026.

Table 1: **How have our AI catalyst and risk scores evolved over time?**

Catalysts and risks scores since December 2022

	AI bubble meter	Capex trends	Adoption rates	Earnings revision	Quality of growth	Big tech's commitment	Total catalyst score	Disruption risks	Valuation risks	Funding risks	Regulation risks	Other risks	Total risk score
Dec-22	1.0	2.5	0.5	2.5	2.5	2.5	10.5	2.0	1.0	1.5	2.5	2.5	9.5
Jan-23	1.0	2.5	1.0	3.0	3.0	2.5	12.0	2.5	1.5	2.0	2.5	2.5	11.0
Feb-23	1.5	3.0	1.0	3.0	3.0	2.5	12.5	2.5	1.5	2.0	2.5	2.5	11.0
Mar-23	2.0	3.0	1.5	3.5	3.0	2.5	13.5	2.5	1.5	2.0	2.5	3.0	11.5
Apr-23	2.5	3.0	1.5	3.5	3.0	2.5	13.5	2.5	1.0	2.5	2.5	2.5	11.0
May-23	2.5	3.0	1.5	3.5	3.0	3.0	14.0	2.5	1.5	2.5	2.5	2.5	11.5
Jun-23	2.5	3.0	1.5	3.5	3.0	3.0	14.0	2.5	1.5	2.5	2.5	2.5	11.5
Jul-23	2.0	3.0	1.5	3.5	3.0	3.0	14.0	2.5	2.0	2.5	2.5	2.5	12.0
Aug-23	1.5	3.0	1.5	3.0	3.0	3.0	13.5	2.5	2.0	2.5	2.5	2.5	12.0
Sep-23	1.0	3.0	1.5	3.0	3.0	3.0	13.5	2.5	2.0	2.5	3.0	2.5	12.5
Oct-23	1.0	3.0	1.5	3.0	3.0	3.0	13.5	2.5	2.0	2.5	3.0	2.5	12.5
Nov-23	2.0	3.0	1.5	3.5	3.0	3.0	14.0	2.5	1.5	2.5	3.0	2.5	12.0
Dec-23	1.5	3.0	1.5	3.5	3.0	3.0	14.0	2.5	2.0	2.5	2.5	3.0	12.5
Jan-24	2.0	3.0	1.5	3.5	3.0	3.0	14.0	2.5	2.0	2.5	2.5	2.5	12.0
Feb-24	2.0	3.0	1.5	3.5	3.0	3.0	14.0	2.5	2.0	2.5	2.5	2.5	12.0
Mar-24	1.5	3.0	1.5	3.5	3.0	3.0	14.0	2.5	2.5	2.5	2.5	2.5	12.5
Apr-24	1.5	3.0	1.5	3.5	3.0	3.0	14.0	2.5	2.5	2.5	2.5	2.5	12.5
May-24	1.5	3.0	1.5	3.5	3.0	3.0	14.0	2.5	2.5	2.5	2.5	2.5	12.5
Jun-24	1.0	3.0	1.5	3.5	2.5	3.0	13.5	2.5	2.5	2.5	2.5	2.5	12.5
Jul-24	1.0	3.0	2.0	3.5	2.5	3.0	14.0	2.5	3.0	2.5	2.5	2.5	13.0
Aug-24	1.5	3.5	2.0	3.0	2.5	3.0	14.0	2.5	2.5	2.5	2.5	2.5	12.5
Sep-24	1.5	3.5	2.0	3.0	2.5	3.0	14.0	2.5	2.5	2.5	2.5	2.5	12.5
Oct-24	2.0	3.5	2.0	3.0	3.0	3.0	14.5	2.5	2.5	2.5	2.5	2.5	12.5
Nov-24	2.0	3.5	2.0	3.0	3.0	3.0	14.5	2.5	2.5	2.5	2.5	2.5	12.5
Dec-24	1.5	3.5	2.0	2.5	3.0	3.0	14.0	2.5	2.5	2.5	2.5	2.5	12.5
Jan-25	1.5	3.5	2.0	2.5	3.0	3.0	14.0	2.5	2.5	2.5	2.5	2.5	12.5
Feb-25	1.0	3.0	2.0	2.5	3.0	3.0	13.5	3.5	1.5	2.5	2.5	2.5	12.5
Mar-25	1.0	3.0	2.0	2.5	3.0	3.0	13.5	2.5	1.5	2.5	3.5	2.5	12.5
Apr-25	2.5	4.0	2.5	2.5	3.0	3.0	15.0	2.5	1.0	2.5	4.0	2.5	12.5
May-25	3.5	4.0	2.5	3.0	3.0	3.5	16.0	2.5	2.0	2.5	3.0	2.5	12.5
Jun-25	3.5	4.0	2.5	3.0	3.0	3.5	16.0	2.5	2.0	2.5	3.0	2.5	12.5
Jul-25	3.0	4.0	2.5	3.0	3.0	3.5	16.0	2.5	3.0	2.5	2.5	2.5	13.0
Aug-25	3.0	4.0	2.5	3.0	3.0	3.5	16.0	2.5	3.0	2.5	2.5	2.5	13.0
Sep-25	2.5	4.0	2.5	3.0	3.0	3.5	16.0	2.5	3.5	2.5	2.5	2.5	13.5
Oct-25	1.5	4.0	2.5	3.0	2.5	3.5	15.5	2.5	3.5	3.0	2.5	2.5	14.0
Nov-25	1.0	4.0	2.5	3.0	2.5	3.5	15.5	2.5	3.5	3.5	2.5	2.5	14.5
Dec-25	1.0	4.0	2.5	3.0	2.5	3.5	15.5	2.5	3.5	3.5	2.5	2.5	14.5
Jan-26	2.0	4.0	3.0	3.0	2.5	3.5	16.0	2.5	3.0	3.5	2.5	2.5	14.0
Feb-26	2.5	4.0	3.0	3.5	2.5	3.5	16.5	2.5	3.0	3.5	2.5	2.5	14.0

Source: Standard Chartered

Despite the short history, our back-testing indicates that the AI confidence index has shown solid predictive power for 3-month forward returns across the broader AI theme. Using the Nasdaq 100 as a proxy, the correlation between our AI bubble meter and subsequent market performance has been consistently around or above 0.5.

Against this backdrop, we derive the following 3–6-month return expectations for the AI theme across seven buckets aligned to the AI confidence index. While these expectations are based on a relatively short history for the AI cycle, we believe that a systematic framework such as our '**AI bubble meter**'—which evaluates key AI catalysts against key risks—provides a more objective lens to help investors navigate the rapidly evolving AI landscape.

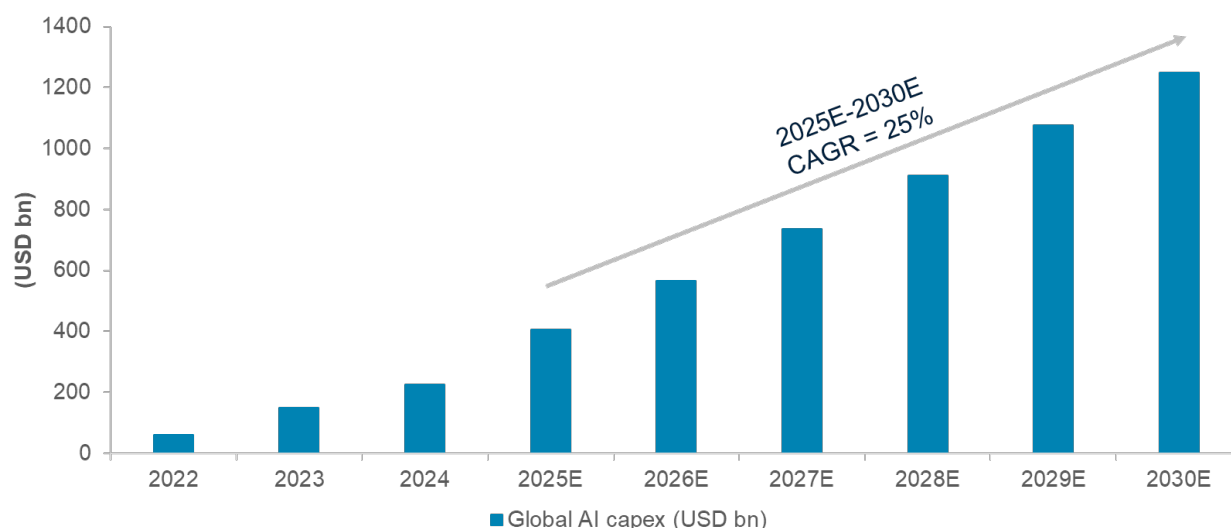
Flat returns	0 to 5% returns	5 to 10% returns	>10% returns	0 to -5% returns	-5 to -10% returns	<-10% returns
Neutral	Good	Better	Best	Bad	Worse	Worst
(index score of -1 to +1)	(index score of +1 to +2)	(index score of +2 to +3)	(index score of >3)	(index score of -2 to -1)	(index score of -3 to 02)	(index score of <-3)

Key AI Catalysts

1. **Capex trends:** AI capex spending has been a key pillar of the structural AI theme over the past three years. Despite concerns around aggressive buildouts, we see no meaningful signs of a slowdown: we still expect 40% y/y growth in 2026E and a solid 25% CAGR between 2025–30E. With ongoing Q4 2025 results likely to reaffirm the strong capex outlook, our capex-trend score remains unchanged at 4 for February 2026, consistent with January (on a 1–5 scale).

Fig. 2 Strong AI capex trends to continue in 2026 and beyond

Global AI capital expenditure over years

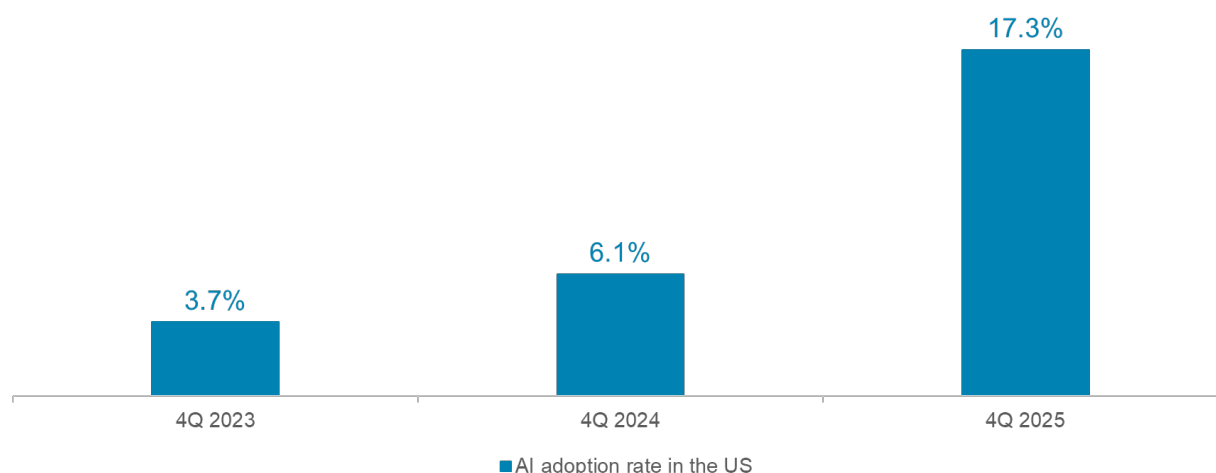


Source: Company reports, FactSet, Bloomberg, Standard Chartered

2. **AI adoption rates:** We believe AI adoption rates, as measured by US Census Bureau data, continue to trend higher, with the latest readings indicating adoption in the 15–20% range in the US. This remains a 'glass-half-full' starting point in our view as we expect a strong acceleration ahead. Accordingly, we maintain our AI-adoption-rate score at 3 for February 2026, unchanged from the previous month.

Fig. 3 AI adoption rates are on an accelerating path

AI adoption rates in the US

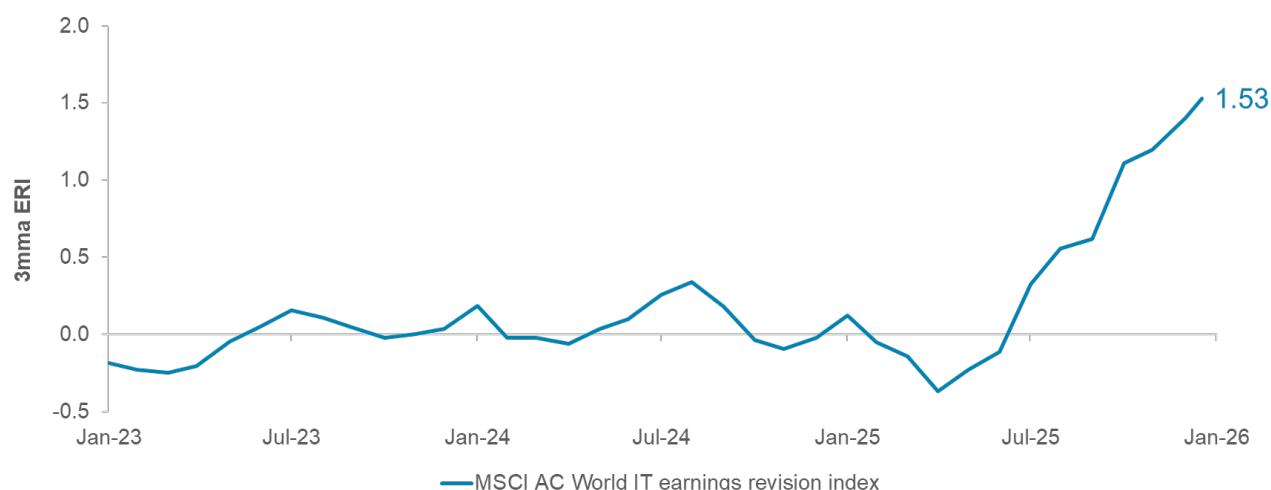


Source: US Census Bureau, Standard Chartered

3. **Earnings revision:** Despite recent market volatility, earnings revisions for AI-related companies remain solid, led by strength across the semiconductor industry. Over the past month, we have seen a further pickup in positive revisions, as reflected in the data below. Consequently, we are raising our earnings-revision score from 3 to 3.5 for February 2026.

Fig. 4 Earnings revisions remain solid for tech companies led by cyclical industries

Earnings revision index for MSCI AC World IT index



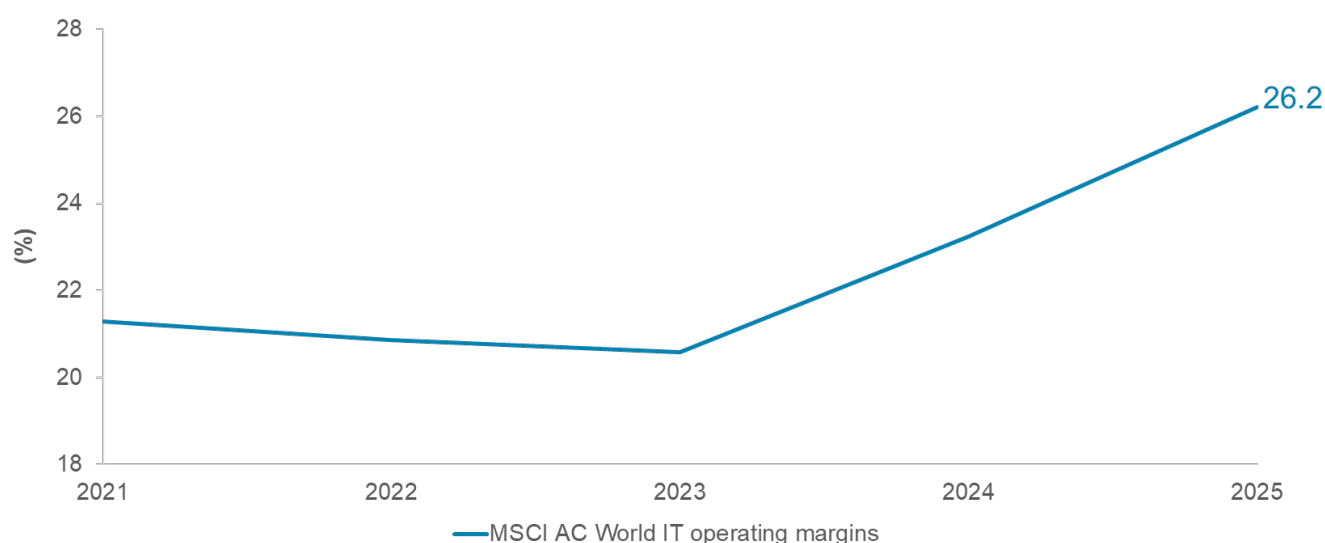
ERI: (numbers of upward revision / numbers of downward revision) -1

Source: FactSet, Bloomberg, Standard Chartered

4. **Quality of growth:** While there are many ways to assess the quality of growth across the AI theme, we place particular emphasis on margins for AI-related companies, as they capture pricing power, operating leverage and overall efficiency. Margin trends remain steady, as reflected in the operating-margin profile of IT companies shown below. Accordingly, we maintain our quality-of-growth score at 2.5 for February 2026, unchanged from the previous month.

Fig. 5 Margins edging higher for overall tech due to changing mix and cyclical tailwinds

Operating margins for MSCI AC World IT index

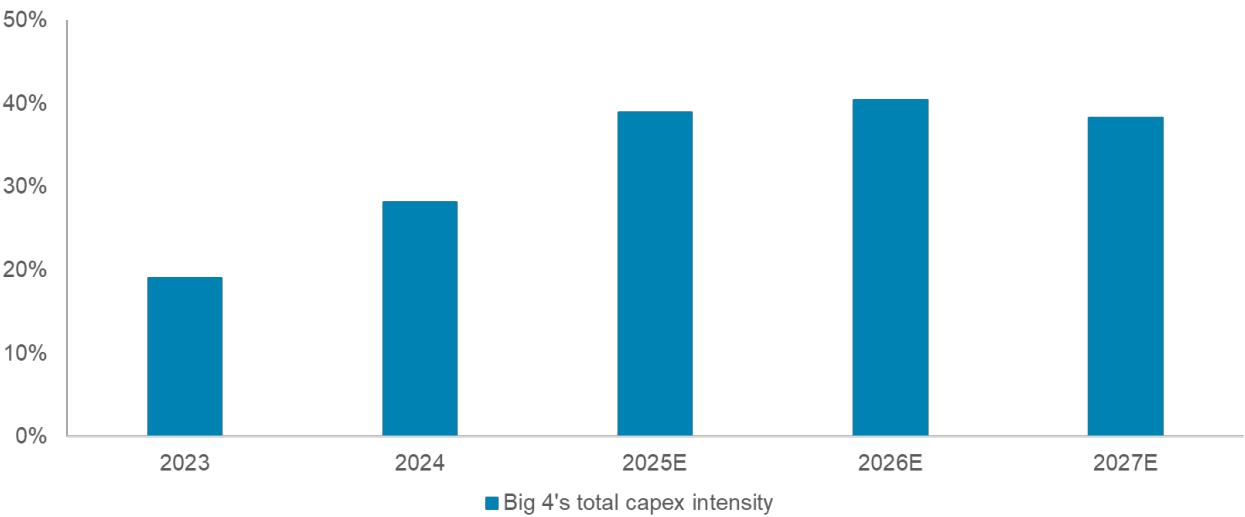


Source: FactSet, Bloomberg, Standard Chartered

5. **Big tech’s commitment:** Big tech has been instrumental in driving the global AI boom, supported by its first-mover advantage and substantial capital expenditure in this capex-intensive industry. We see no indication that this commitment is slowing—strong capex intensity (capex-to-sales) continues to reinforce their sustained investment momentum. Accordingly, we maintain our big tech commitment score at 3.5 for February 2026, unchanged from the previous month.

Fig. 6 Capex intensity for Big-4 Tech firms remains elevated showing strong commitment

Total capital expenditure intensity (capex/revenues) of Big-4 Tech



Source: Company reports, Bloomberg, Standard Chartered

Key AI Risks

1. **Disruption risk:** For a nascent and fast-evolving industry like AI, disruption remains one of the most significant risks. The sharp correction in January 2025 underscored these concerns following the emergence of low-cost Chinese models such as DeepSeek. As shown in the table below, the top 15 models ranked by the Artificial Analysis Intelligence Index as of mid-January 2026 reflect the gradual rise of low-cost models. While Chinese models have undoubtedly gained traction, we believe the leading models continue to be predominantly US-based. Admittedly, investor nerves around potential disruption persist—including the possibility of a major DeepSeek upgrade or new entrants. However, we maintain the view that the AI market is large enough to accommodate multiple winners, and that disruption risk remains manageable for now. Accordingly, we keep our disruption-risk score at 2.5 for February 2026, unchanged from the previous month (on a scale of 1–5).

Fig. 7 Large language leaderboard shows the US leadership but China is narrowing the gap

Market is big enough for everyone to grow in AI showing manageable disruption risks

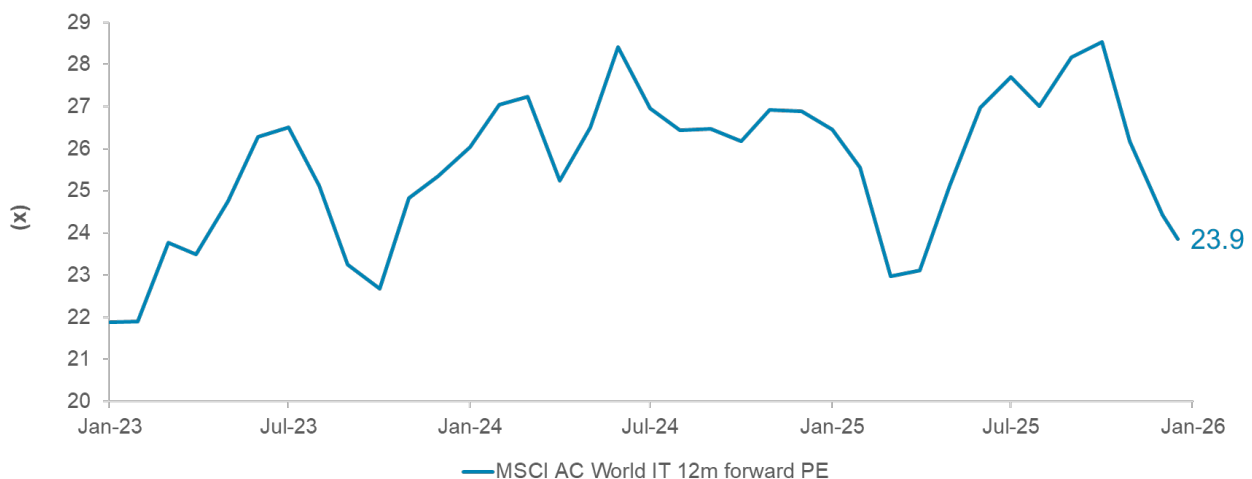
	Company	Model	Region	Artificial Analysis Intelligence Index
1	OpenAI	GPT 5.2	US	51
2	Anthropic	Claude Opus 4.6	US	49
3	Alphabet	Gemini 3 Pro	US	48
4	Z.ai	GLM 4.7	China	42
5	DeepSeek	DeepSeek V3.2	China	41
6	xAI	Grok 4	US	41
7	Kimi	Kimi K2	China	40
8	Xiaomi	MiMO V2	China	39
9	MiniMax	MiniMax-M2	China	39
10	Kuaishou	KAT - Coder- Pro V1	China	36
11	Amazon	Nova 2.0 Pro	US	35
12	Byte Dance	Doubao Seed Code	China	33
13	Alibaba	Qwen3 Max	China	32
14	LG	K- EXAONE	Korea	32
15	Baidu	Ernie 5.0	China	29

Source: Artificial Analysis, Standard Chartered

2. **Valuation risk:** Admittedly, AI and broader tech valuations are not cheap relative to other sectors. While valuations spiked in late 2025, the muted performance of the AI theme in Q4'25 has helped bring them back to more reasonable levels, as shown below. For February 2026, we therefore keep our valuation-risk score unchanged at 3, in line with the previous month.

Fig. 8 Valuation for tech stocks remain reasonable

12-month forward P/E for MSCI AC World IT index

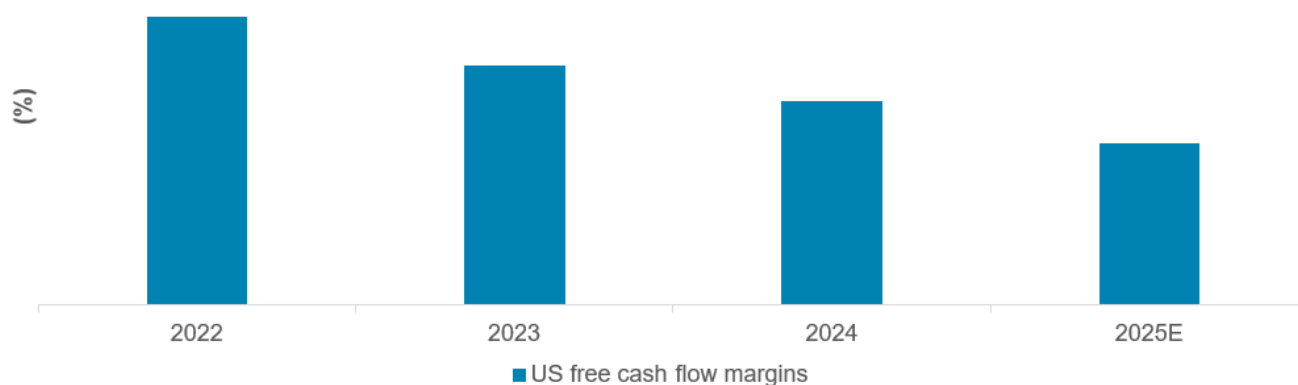


Source: FactSet, Bloomberg, Standard Chartered

3. **Funding risk:** Rising funding risks have clearly contributed to the muted performance of AI-related companies in late 2025, driven by circular-deal structures and heavy long-term capex commitments. This has pushed CDS spreads for affected companies sharply higher, while broader free-cash-flow margins across US equities have also been steadily declining, as shown below. The good news is that funding risks for the AI sector remain far from alarming. We continue to see a credible pathway toward monetisation for most AI companies, and cash-flow generation among leading platforms remains robust. In our view, funding concerns appear overstated. Accordingly, we maintain our funding-risk score at 3.5 for February 2026, unchanged from the previous month.

Fig. 9 Declining free cash flow margins show some funding stress in AI but manageable

Free cash flow margins for US equities on declining path due to elevated capex spend



Source: FactSet, Bloomberg, Standard Chartered

4. **Regulation risk:** Given AI's implications for regulatory areas such as privacy, inflation and employment, we see elevated regulatory risks for the industry over the long term. That said, near-term risks appear more manageable, supported by the positive economic impact AI could deliver. Against this backdrop, most governments are currently adopting an enabling stance toward AI rather than a restrictive one, likely reflecting the belief that its benefits outweigh its potential risks. A case in point is the recent US executive order introduced in late 2025, shown below. Overall, we view regulatory risk for AI as relatively subdued at present and maintain our regulation-risk score at 2.5 for February 2026, unchanged from the previous month.

Fig. 10 Global AI regulatory environment is still benign despite increasing policy action

Manageable risks from the Dec 2025 AI-related executive order (EO) in the US

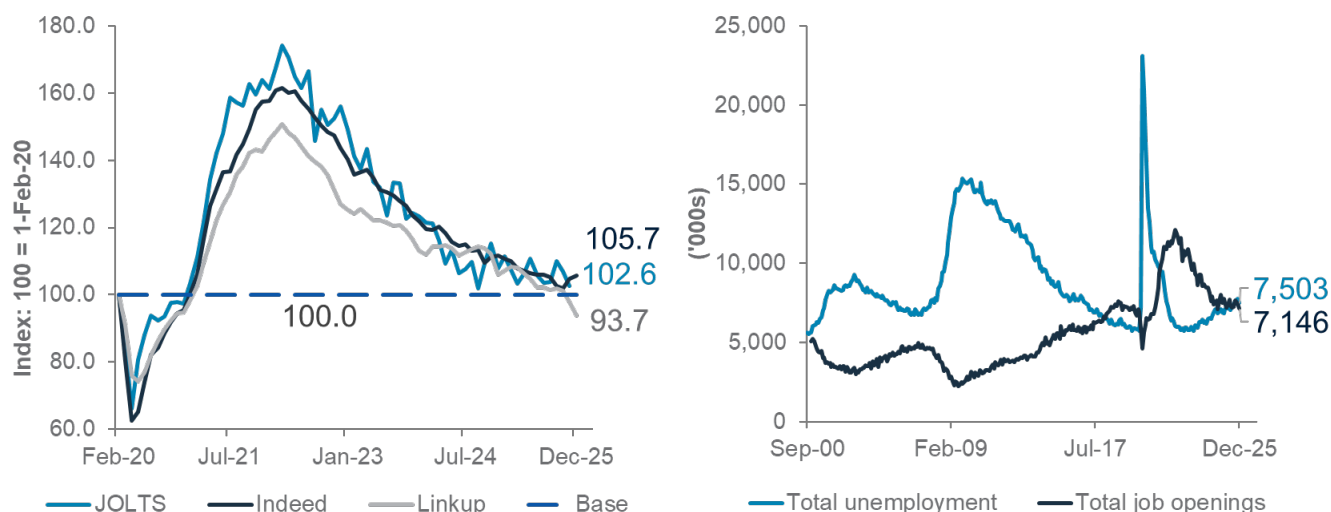
EO Section	Task
AI Litigation Task Force	Attorney General start task force to sue States over burdensome AI laws.
State Law Report	Commerce Secretary prepare report on onerous State AI laws.
BEAD Funding Restrictions	Commerce Secretary make States with onerous AI laws ineligible for broadband funds.
FCC Disclosure Preemption	FCC make "reporting and disclosure" standard for AI models that preempts.
FTC Unfair/ Deceptive Actions	FTC preempt State laws that require alterations to truthful AI model outputs.
Prepare Federal Law	Develop federal law that preempts conflicting state law.

Source: FactSet, Bloomberg, Standard Chartered

5. **Other risks:** These risks include macro, geopolitical and other related uncertainties. Despite some macro concerns, we believe the monetary backdrop—supported by further expected Fed cuts in 2026—remains broadly favourable for the AI investment case. Accordingly, we maintain our ‘other risks’ score at 2.5 for February 2026, unchanged from the previous month.

Fig. 11 Fed to cut rates to 3% by December 2026 to support a cooling job market

As job market slows and tariff impact on inflation remains limited, we see three 25bps Fed rate cut by end-2026



Source: Bloomberg, Standard Chartered

Sundeep Gantori, CFA, CAIA
Chief Investment Officer, Equities

Daniel Lam, CFA
Head, Equity Strategy

Fook Hien Yap
Senior Investment Strategist

Michelle Kam, CFA
Investment Strategist

Jason Wong
Equity Analyst

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