AI's Biggest Winners May Not Be the Companies Building It

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The artificial intelligence revolution may transform the global economy without delivering exceptional investment returns for today's dominant technology companies. **History suggests that the greatest long-term beneficiaries of technological innovation are often the businesses that adopt it, rather than those responsible for developing it.**

Of the 10 most valuable technology companies in 2000, only Microsoft outperformed the S&P 500 over the following 25 years. Four disappeared, while two produced negative cumulative returns. Today's AI leaders could face a similar challenge as competition intensifies, technological advantages diminish, and investors reassess the premiums they are willing to pay for anticipated growth.

Valuation differences have become particularly striking. In 2014, the 500 largest U.S. companies traded at a 15% discount to the next 500 smaller companies. Today, they command an approximately 80% premium. Meanwhile, the valuation gap between large-cap growth and small-cap value stocks has reached extremes that exceed those observed during the dot-com bubble. This creates a potentially attractive long-term opportunity in smaller, overlooked businesses, particularly those capable of using AI to improve productivity and profitability.

Another emerging concern involves the economics of AI infrastructure spending. Technology giants are depreciating expensive AI chips over five to seven years, even though rapid technological advances could shorten their useful economic lives considerably. If those assumptions prove too optimistic, future depreciation expenses or asset write-downs could pressure reported earnings. The larger investment lesson is straightforward: **A revolutionary technology does not automatically make its leading innovators attractive investments at any price.**

Key Takeaways

1) **Innovation and investment returns are different things.** Dominant companies can create enormous economic value while delivering disappointing shareholder returns when investors initially pay excessive valuations.

2) **AI adoption may offer the larger opportunity.** Companies that use AI to reduce expenses, improve productivity, and expand profit margins could capture substantial economic benefits without funding the costly infrastructure behind the technology.

3) **Relative valuations favor neglected market segments.** Small-cap value, midcaps, and emerging-markets value deserve greater attention as valuation premiums for large-cap growth approach historical extremes.

4) **AI infrastructure economics warrant scrutiny.** Accelerated technological obsolescence could undermine depreciation assumptions, increase future expenses, and reduce returns on invested capital.

5) **Valuation creates opportunity, but price confirms it.** Cheap stocks can remain cheap for years. Sustainable relative strength, improving earnings expectations, and successful technical breakouts would provide stronger evidence that capital is rotating toward undervalued opportunities.

Notable Quotes

"Every big technological revolution requires that the customers win more than the innovators."

"I think these 1,400 companies in Russell 2000 value are highly likely to outperform the large cap growth that so utterly dominates our attention these days."

"I'm not saying the AI revolution isn't real, but why not take some chips off the table and put on the unnoticed parts of the market."

Bottom Line

The next great AI investment opportunity may be hiding outside the AI industry itself.

Rather than assuming today's technology leaders will remain tomorrow's best-performing stocks, investors should look for businesses capable of translating AI adoption into measurable improvements in earnings, margins, and free cash flow.

For now, the opportunity is to identify those beneficiaries before the market fully recognizes their potential, while allowing improving fundamentals and price action to confirm the thesis.

The lesson: Don't confuse the companies changing the world with the stocks most likely to reward shareholders.

Source

MarketWatch, October 22, 2026: Markets are pricing in long-term AI winners. This veteran investor says history proves customers win more than innovators.

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