

AI: Temporary trend or enduring opportunity?—Part I

By senior investment analysts, covering the technology sector:

[Sofia Hou](#), [Phil Lorenz, CFA](#), [Sid Nargundkar, CFA](#), [Mark Sigal](#) and [Sean Usechek](#)

Artificial intelligence (AI) can be described as the simulation of human intelligence processes by machines to learn, reason and act. It is rapidly emerging as a transformative force in both corporate and consumer sectors. As we explore the long-term outlook for AI companies, it's essential to recognize the balance between the opportunity of AI advancements and the potential challenges that lie ahead. We are witnessing a pivotal moment in AI development, where the implications of these technologies are just beginning to unfold.

The current AI landscape: Is AI a bubble?

Turning to history for context, it's important to compare today's AI boom to the tech bubble that burst in the early 2000s. While the cyclical nature of the late 90s was characterized by short-term speculation, it's essential to recognize that the dot-com era also identified many long-term trends that were simply ahead of their time—often by 10 to 15 years. Today's concerns, such as infrastructure overbuild and the commoditization of large language models (LLMs), echo some of the underlying issues from that period.

However, the current AI boom reflects long-term trends that are less influenced by economic fluctuations. The promise of today's AI technologies is significant, particularly with advancements in LLMs like OpenAI's ChatGPT or Google's Gemini, which have rapidly gained traction and demonstrated transformative potential across various sectors. These technologies enhance operational efficiencies and enable new applications that were previously unimaginable. Alongside this promise, there are inherent risks.

Concerns about the autonomy versus intelligence of AI systems highlight the need for human oversight to prevent unintended consequences. And as AI technologies advance, the potential for misuse—such as biased algorithms or data breaches—also increases. Ethical considerations, including data privacy, accountability and the implications of automation on employment, must be addressed to ensure sustainable growth in the sector. Furthermore, the regulatory landscape is evolving. Governments and organizations are grappling with how to manage the rapid pace of AI development while safeguarding public interests. But this complex interplay of innovation, risk and regulation sets the stage for an exciting and challenging environment for investors and stakeholders alike.

Implications of evolving AI developments

The influx of recent AI-related headlines serves as a reminder that this landscape is dynamic and ever-changing. The emergence of China's DeepSeek, with its groundbreaking cost reductions in AI processing, triggered a knee-jerk reaction from investors. While DeepSeek's innovations will enhance productivity for specific AI workloads, these improvements will ultimately lead to increased spending on AI hardware and software, rather than a decrease.

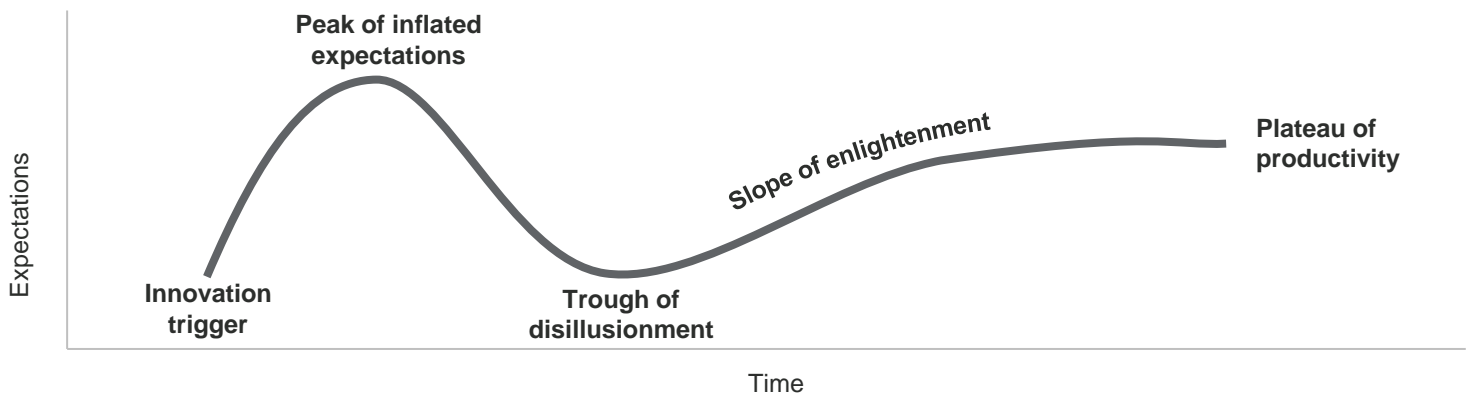
In fact, recent evidence shows that major cloud service providers like Microsoft, Amazon and Google are already planning to invest more in their AI infrastructure in response to these DeepSeek advancements.¹

From an international and geopolitical perspective, the risk of tariffs could impact AI developments, depending on the country or industry involved. Tariffs on countries like China or Taiwan, where much of the AI hardware is produced, could increase costs for AI companies or have the potential to disrupt global supply chains. Conversely, tariffs could encourage greater domestic production of AI-related hardware, reducing reliance on foreign suppliers. However, building up domestic capacity takes time and investment.

Long-term investment approach

As investors, while it's important to be aware of current headlines and incremental data points, we focus on understanding how near-term news impacts a company's long-term fundamentals. Historical patterns suggest that the impact of technology is often overestimated in the short term and underestimated in the long run, as seen in Exhibit 1. Companies enabling AI, as well as those leveraging AI for operational enhancements, are likely to drive significant long-term economic impact and return on investment (ROI) for investors.

Exhibit 1: Hype cycles in technology



Source: [DevIQ - Amara's Law](#).

Our investment approach remains a fundamental one and focuses on buying companies with defensible business models and holding them for the long term. We prioritize high-quality companies at reasonable valuations, which has led to low turnover and greater tax efficiency. As we would with any other stock in our portfolios, we apply the same rigorous fundamental analysis to AI companies.

While we are bottom-up investors, we value companies that will benefit from long-term, sustainable trends. Currently, we are primarily focused on the enablers of AI technology, while also assessing the long-term value creation potential of AI integration, ranging from productivity enhancement to revenue generation. Although there will undoubtedly be headlines and noise that create short-term fluctuations in AI-related companies, our focus will remain on the fundamentals as we seek opportunities that volatility may present.

What does the future hold?

Investments in infrastructure over the past few years have laid the groundwork for today's AI advancements. Specifically, companies that recognized the potential of AI early on have been building the necessary data centers, computational resources and networking capabilities to support AI applications. This proactive approach positioned them to capitalize on the rapid growth of AI technologies.

In the short term, larger companies like Microsoft, Google, Meta and Nvidia seem to be the best positioned to capitalize on AI advancements due to their positioning and cash flow.

Their capacity to invest heavily in research and development enables them to maintain a competitive edge, while smaller players may struggle to keep pace. Over time, other technology entities, such as enterprise software companies, will also be able to monetize AI products.

Looking ahead, companies that invest in infrastructure should be better equipped to adapt to changes and meet the increasing demand for AI-driven solutions. We believe key trends, such as the widespread availability of LLMs and decreasing costs for AI services, will also shape the AI landscape. The integration of AI into existing business models will become increasingly important, as companies seek to leverage these technologies for competitive advantage.

But with the rise of innovation comes potential risks. The emergence of these technologies raises questions about data privacy and the ethical implications of automation, which must be addressed to ensure sustainable growth. Additionally, the uncertainty surrounding true ROI remains a critical consideration for investors, as companies must navigate the balance between innovation and monetization.

As AI technologies continue to evolve, the market will likely see a verticalization of AI applications, with specialized companies emerging to address specific industry needs (such as healthcare and finance). This verticalization will create opportunities for firms that can effectively navigate the complexities of AI integration while managing the associated risks.

Conclusion

While the AI sector presents exciting opportunities, it is essential to approach investments in this space with a long-term perspective. The relationship between innovation and market dynamics will shape the future of AI investments, making it crucial for investors to remain informed and adaptable. Ultimately, while short-term volatility may persist, the long-term outlook for AI remains robust. As we continue to monitor developments in this space, the potential for AI to drive significant economic impact and transformation remains a compelling narrative for the future and within our portfolios. In our upcoming follow-on piece, we will take a deeper dive into specific investment opportunities within the AI sector, highlighting areas where investors may capitalize on this revolutionary technology.

For more information on investment opportunities and challenges within the artificial intelligence space, please contact a member of your CIBC Private Wealth team.

1. Bloomberg, Tech giants expected to ramp up AI spending spree after DeepSeek, March 17, 2025.

CIBC Private Wealth Management includes CIBC National Trust Company (a limited-purpose national trust company), CIBC Delaware Trust Company (a Delaware limited-purpose trust company), CIBC Private Wealth Advisors, Inc. (a registered investment adviser)—all of which are wholly owned subsidiaries of CIBC Private Wealth Group, LLC—and the private banking division of CIBC Bank USA. All of these entities are wholly owned subsidiaries of Canadian Imperial Bank of Commerce. This document is intended for informational purposes only, and the material presented should not be construed as an offer or recommendation to buy or sell any security. Concepts expressed are current as of the date of this document only and may change without notice. Such concepts are the opinions of our investment professionals, many of whom are Chartered Financial Analyst® (CFA®) charterholders or CERTIFIED FINANCIAL PLANNER™ professionals. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER™ in the U.S. There is no guarantee that these views will come to pass. Past performance does not guarantee future comparable results. The tax information contained herein is general and for informational purposes only. CIBC Private Wealth Management does not provide legal or tax advice, and the information contained herein should only be used in consultation with your legal, accounting and tax advisers. To the extent that information contained herein is derived from third-party sources, although we believe the sources to be reliable, we cannot guarantee their accuracy. The CIBC logo is a registered trademark of CIBC, used under license. Approved 3613-25. Investment Products Offered are Not FDIC-Insured, May Lose Value and are Not Bank Guaranteed.