OUR TWO CENTS

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NEW ROAD CAPITAL
INVESTMENT MANAGEMENT

On AI: The Market Wants Proof, Not Promises

For the last two years, spending on artificial intelligence was its own reward. A tech giant would announce billions of dollars for data centres, chips and power, and investors would cheer. Bigger budgets signalled bigger ambition. The more a company spent, the more the market seemed to like it.

That has changed.

Today, the same announcements are met with a harder question: what are you getting back?

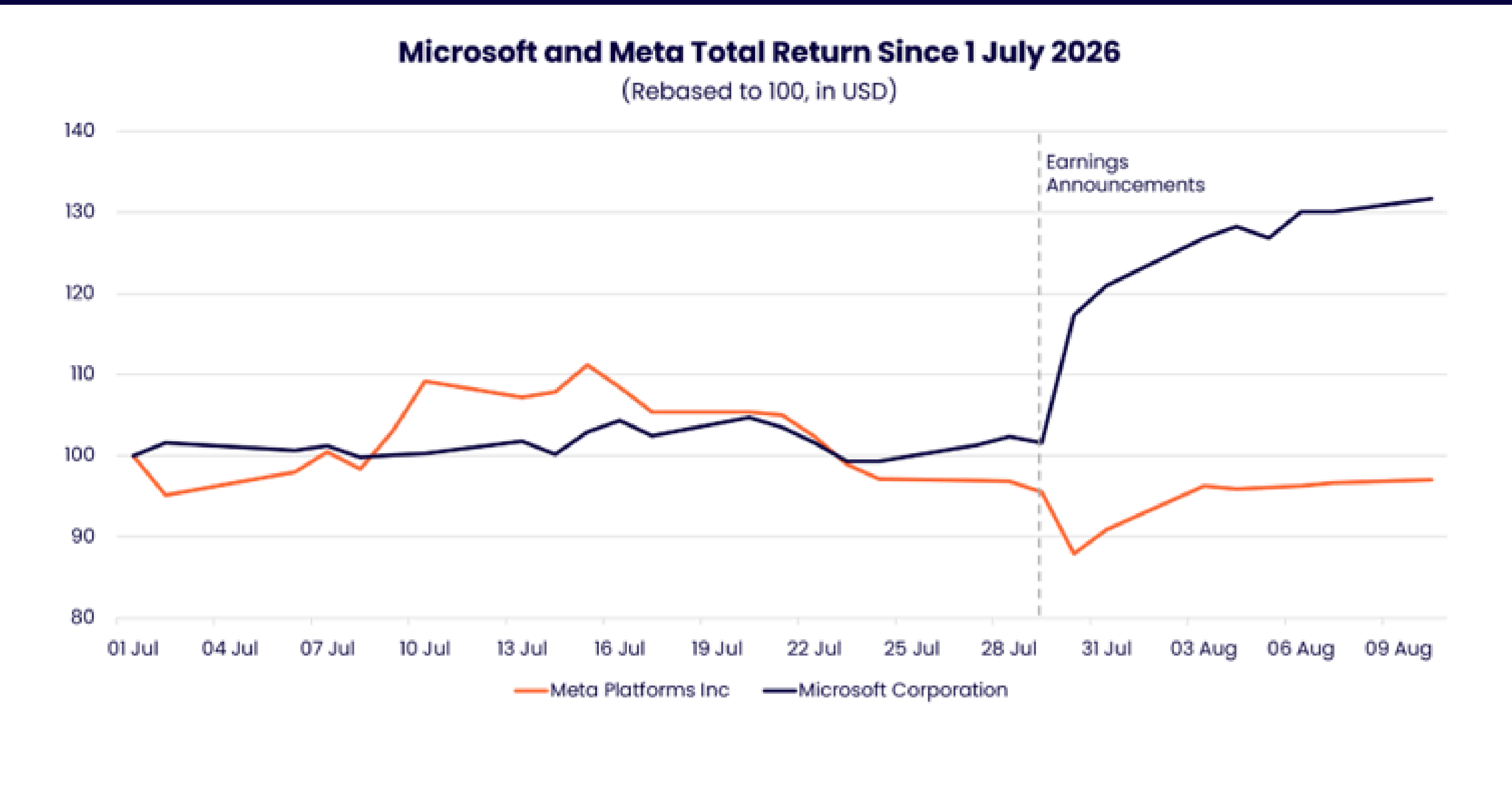
To understand the shift, you first need to understand why the market is so obsessed with the hyperscalers. These are the handful of giants – Alphabet, Microsoft, Amazon, Meta, and Oracle — building the plumbing that AI runs on. They are pouring hundreds of billions into data centres, chips, networking and power infrastructure. Because they are funding the build-out, their spending has become the market's real-time gauge of AI demand. As long as they keep investing, it signals that adoption is accelerating and confidence remains strong.

There are two industry buzzwords worth knowing here. The first is capex (capital expenditure), or how much a company plans to spend building for the future. The second is monetisation – whether that spending actually turns into revenue.

For a long time, the market watched only the first number. Now it watches the second.

The concern is simple. Hyperscalers keep raising their capex guidance, telling us they intend to spend even more, but the market is no longer taking it on faith. It wants evidence that the money already spent is showing up as revenue. When a company lifts its spending plans without enough monetisation to reassure investors, the market gets nervous. Spending is no longer proof of progress.

An example from recent earnings shows this new scorecard in action.



Microsoft demonstrated strong monetisation while easing off on spending – the stock rallied in reaction to the earnings announcement. On the other hand, Meta offered a softer revenue outlook and raised its capex guidance – the immediate share price reaction was a sell-off.

Spend and show a return, and you are rewarded. Spend without one, and you are punished.

This is not a sign that the AI story is breaking down. It is a sign that it is maturing. Early in any technological shift, ambition is enough – investors fund the promise. But promises eventually come due. The market is now doing what it should: asking whether all that investment is earning its keep.

For investors, the lesson reaches well beyond AI. Capital spending tells you what a company believes about the future. Monetisation tells you whether that belief is paying off. Both matter, but only one pays the bills.

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Ansonette's role as an investment analyst at New Road Capital captures her passion for finance and people which aligns with our mission to prioritise the end client's needs. She obtained her BCom Honours degree in Investment Management at Stellenbosch University during which she received the first New Road Capital Academic Excellence Award. She is busy pursuing her CFA charter. Before joining our team, she gained experience as a fixed income analyst. She has a deep appreciation for academic research and is curious about human behaviour and relationships. Outside of work, Ansonette enjoys spending time with her family around the braai, appreciates good food, and is a self-proclaimed wine connoisseur.