PERREGRINATION

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PEREGRINE
WEALTH

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WHEN POLITICS DISTORTS THE CYCLE

George Herman
Chief Investment Officer

As 2026 begins, the global economic narrative has taken a more constructive turn. Consensus growth expectations have improved meaningfully across major regions, buoyed by a rare alignment of supportive forces: renewed fiscal stimulus, the long-awaited turn in the interest-rate cycle, and continued capital expenditure linked to artificial intelligence (AI). Together, these dynamics have restored confidence that growth and earnings can once again justify elevated equity valuations.

Yet this is not a conventional cycle. While the outlook has brightened, the signals guiding markets have become increasingly distorted. Politics, rather than economics, now exerts an outsized influence on capital flows, valuations, and investor behaviour. The result is a market environment that looks stronger on the surface, but more fragile if you dig a little deeper.

A MORE SUPPORTIVE GROWTH BACKDROP

The improvement in growth expectations is neither accidental nor superficial. Governments, constrained for years by inflation and rising borrowing costs, are once again deploying fiscal policy as a tool to support economic activity. Infrastructure and defence spending, along with industrial policy, are replacing austerity as the dominant theme.

At the same time, inflation has moderated sufficiently to allow central banks to shift their posture from restrictive to supportive. Rate cuts are now being priced in, not as a response to economic stress, but as a catalyst for renewed momentum.

Overlaying these cyclical forces is a structural one. Investment in AI continues at pace, extending well beyond early adopters into broader corporate and industrial ecosystems. AI-related capital expenditure is no longer viewed solely as speculative; it is increasingly tied to productivity gains, margin resilience, and longer-term earnings growth.

VALUATIONS SUPPORTED, BUT NOT FORGIVING

Equity markets have responded accordingly. Valuations remain elevated, particularly in developed markets, but are increasingly defended by earnings expectations rather than multiple expansion (where valuations increase while growth remains modest) alone. This distinction matters. It suggests a market attempting to ground optimism in fundamentals.

However, the margin for error is thin. Leadership remains concentrated, expectations are high, and investor tolerance for disappointment is low. Earnings growth and margin resilience do seem to be broadening beyond just the Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) which is very positive for the entire equity universe.

WHEN POLITICS CROWDS OUT THE CYCLE

Geopolitics has moved from the periphery to the centre of market decision-making. Trade policy, regulation, fiscal choices, and strategic competition between nations now interfere directly with historical economic relationships.

Markets are no longer responding cleanly to growth, inflation, or monetary policy alone. Instead, they oscillate between optimism and caution as political narratives shift.

GOLD AND THE PRICE OF UNEASE

It is against this backdrop that gold has continued its ascent. The strength of the gold price is not a rejection of growth optimism; it is a reflection of unease.

Investors are participating in risk assets while simultaneously seeking protection against policy error, fiscal excess, and geopolitical rupture. Gold has become the hedge of choice in a world where political outcomes are harder to model than economic ones.

DISCIPLINE IN A DISTORTED WORLD

Periods like this demand perspective. When politics interferes with cycles, and narratives shift rapidly, discipline becomes the investor’s greatest asset.

At Peregrine Wealth, our multi-scenario approach is designed precisely for such environments. We participate in opportunity, but we do not rely on a single outcome.

Enjoy this edition of Peregrination.

KEY THEMES FOR 2026 – NAVIGATING A FRAGILE GLOBAL ECONOMY

Maarten Ackerman
Chief Economist

Last year was a bit of a lucky packet on the economic and market front. Despite United States (US) President Donald Trump being a polarising influence on the global landscape, a number of positives emerged and surprised in the second half of 2025.

As is customary, we like to start the year by exploring the key themes that Peregrine Wealth (PWL) believes will present both opportunities and risks for the markets and your investments in the coming year. Before we get there, however, let's look at which of 2025's themes will continue to play out in 2026:

- Trump 2.0 Making America Great Again (MAGA) will spill over into 2026. This year, however, the tone will be slightly different.
- Geopolitical fragmentation and trade wars was also not a once-off theme and will continue to play a significant role throughout 2026.
- The energy transition and President Trump's continued push for fossil fuels is another theme that will impact markets over the next few years.
- The rise of artificial intelligence (AI) and tech investments was an incredibly strong theme and tailwind in 2025. This rise is part of the reason that the world and US economy were much more resilient against US tariffs last year and it underpinned productivity greatly. We believe this theme will continue to be central to the economic landscape in 2026.

PWL'S KEY THEMES FOR 2026

In addition to the aforementioned themes, the PWL team believes that the following factors will impact how markets react in 2026.

Theme 1: Economic Fragmentation

Economic fragmentation is becoming more structural (causing long-term shifts in the global economy). It is about countries moving away from a singular globalised economy back towards regionalisation. This theme took shape during the pandemic, and was enhanced by the Russia-Ukraine war, but it was the Trump tariffs that entrenched it. Countries are being forced to look at other trading partners beyond China and the US, often closer to home, and, as such, we are seeing a greater diversification of supply chains. In addition, as long as tariffs remain elevated, there is a risk that trade wars will escalate, sparking further disruptions to global supply chains.

Theme 2: AI-driven boom and productivity

A carryover from 2025, the AI-driven boom, and the resulting increase in productivity and capital expenditure (CAPEX) investment will remain a structural growth driver globally. It will underpin corporate investments and tech infrastructure build-out (growth, development and expansion) of AI this year. The AI capital expenditure cycle in 2025 – which we expect to continue into 2026 – underpinned corporate profit and productivity gains in that sector, making it the biggest shock absorber against prevailing market uncertainty.

Included in this theme are the labour market disruptions which will result from AI and the increased regulatory scrutiny that will come to the fore in 2026. US productivity also falls under this theme. While productivity is not solely an AI issue, when you compare US productivity to that of the European Union (EU) and Japan for example, AI has considerably increased US productivity and underpinned CAPEX spend, giving the US a competitive edge.

Theme 3: The energy transition and competition for resources

Energy security is another enduring theme from 2025. Last year we saw a commodity run and, while there were different contributing factors – like uncertainty over the dollar – it was mostly linked to the global energy transition from fossil fuels to clean energy, including demand for electric vehicles. This transition will keep commodity prices strong throughout 2026, as demand for copper, lutetium, and uranium will continue to increase, having a direct impact on the commodity markets.

In addition, we are seeing a race between China and the US over rare earth elements, and this will continue throughout the year, possibly impacting how global trade and trade wars play out. While the momentum for renewables grows, President Trump will still continue to be pro-oil and this will impact metals, like platinum – used in combustion engines – and oil prices.

Theme 4: Geopolitical multi-polarity

Linked to economic fragmentation, this theme centres around rival economic blocs like the G7 versus BRICS, or the US versus Europe versus China. These dynamics, also observed in 2025, will keep shaping trade, as well as security dynamics around the globe into 2026, adding to policy uncertainty and elevating market volatility. In 2025 we saw instability and riots especially in Europe – most notably in France. In late 2025, French President Emmanuel Macron visited China and, warning of the associated risks, said the world is witnessing the beginning of the disintegration of the current international order. This suggests that the global economy is in for another tough year politically, even more so than 2025, as markets now focus on global politics and economies seek to develop alternative trading relationships.

Last year, Europe developed the Europe Weimar Plus (Weimar+), which is an expanded group of major European countries (France, Germany, Poland, United Kingdom, Italy and Spain) aimed at boosting European strategic autonomy. Concurrently, the US continues in “isolation mode” under the MAGA banner, which has resulted in a number of “America First” policies which are compounding the world’s current challenges. In 2026 we can expect intense rivalries around resource competition, which will add to the redefining of global alliances.

What will impact how the US fits into the global framework is the November 2026 mid-term election. This takes place two years into President Trump's second term. With his popularity dwindling on the back of increased costs of living, the longest US government shutdown in history that resulted in a large number of federal workers losing their jobs, and the fact that he didn't consult the government before attacking Iran or Venezuela, we believe President Trump's "red sweep" will be tested. The US's protracted government shutdown despite Trump's red sweep, also indicates that there is no longer consensus within the Republican Party. These elections are therefore likely to see a shift in the US power balance.

History shows us that anytime there has been a strong sweep, red or blue, in the prior election, when the mid-term elections come around that sweep has been diluted. That subsequently dilutes the power of the US president who then cannot execute policies with the same support enjoyed in their first two years of power. This is concerning, as President Trump has shown a disregard for established norms and is likely to continue acting unilaterally. Such behaviour risks heightening tensions within the United States and escalating geopolitical pressures globally.

Theme 5: US Federal Reserve independence and the dollar's reserve status

The independence of the US Federal Reserve (Fed) will come under pressure. The Fed is arguably the "global central bank", as it determines US monetary policy, which effects the dollar – the reserve currency for the bulk of global trade. The Fed facing political interference from Trump could result in increased volatility in interest rates and currencies.

Jerome Powell's term as Chair of the US Federal Reserve concludes in May 2026. While discussions around his successor have intensified, President Trump has indicated that he has already identified a nominee. Markets are increasingly speculating that Trump may appoint a close ally, raising concerns about the Fed's independence. Such an appointment could accelerate monetary easing beyond what economic conditions warrant, potentially leading to premature interest rate cuts. This, in turn, could fuel market volatility as investors react to a faster-than-expected shift in US monetary policy. PWL and the global markets will be watching this development closely.

Theme 6: Debt sustainability

Concerns around sovereign debt sustainability, which was already on the cards in 2025, will become more of an issue in 2026. This theme will become particularly relevant in the US since it did not achieve the federal savings it hoped for from the Department of Government Expenditure (DOGE) cleanup exercise. US debt is going to be put under pressure because President Trump's Big Beautiful Tax Bill, which was to be partially funded by DOGE savings, is going to cost the US government a lot of money, meaning US borrowing will continue to increase. This, however, is not only a US issue. Across the world, government debt is increasing, and the debt servicing costs and the resulting fiscal fragility will challenge both advanced and emerging market economies.

Theme 7: Concentration of equity markets in US

The concentration in equity markets in the US is becoming an issue. Over 75% of the market capitalisation of listed companies are located in the US. Of these companies, the Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) make up around 35% of US equity market capitalisation, and this number is growing. This tech dominance is going to face some scrutiny in 2026. PWL will keep a close eye on this trend, along with the interconnectedness of these companies, something we believe present some risk because if one falters, it will ripple through the tech sector and global markets as a whole.

A BRIEF GLOBAL OUTLOOK

The US: More resilient than anticipated

By the end of 2025, it was confirmed that the US economy was more resilient than markets anticipated at the start of the year. This resilience was aided by the US evolving into a tech economy. Where typically, the US used to rely on the US consumer for economic growth, US GDP is now further supported by the massive CAPEX spend by AI-related companies, a trend that shows no signs of abating. So, the US will probably continue to slow towards capacity growth of around 2% for at least the next three years. Given its recent growth north of 3%, slowing down to 2% is not a calamity and presents a healthy growth environment.

The US, however, is facing some challenges. Its job market is under pressure, US inflation remains above target, and the question of central bank independence is a cause for concern. The Fed will probably want to cut rates given the softness in the labour market, but not too fast, as US inflation remains sticky and is sitting above the Fed's target. It is for this reason that if the wrong person succeeds Jerome Powell as Fed Chair, and interest rates are cut too quickly, this could result in the US economy overheating, potentially causing a recession.

Europe, including the UK: Ageing populations and low productivity hurting growth

Looking at Europe, including the United Kingdom (UK), we see that the region had a good pickup in economic growth in 2025, largely on the back of the increased fiscal spend to meet the North Atlantic Treaty Organisation's (NATO's) defence targets. However, this growth is not sustainable as it is a 'once-off' spend on what is termed non-productive investments, unlike productive investments like the building of infrastructure of roads and factories.

Europe is not benefitting from the technology boom as it is significantly behind the US in its AI CAPEX. In addition, the region lags the US in terms of productivity. When it comes to manufacturing, Europe is not only being hurt by US tariffs, the region is suffering under more competitive Chinese imports, especially electric vehicles, that are much more affordable than their European equivalents. As a result, we're seeing a sharp decline in European export sales, as even Chinese consumers are increasingly opting for more affordable local alternatives.

Europe is also dealing with an ageing population, increased populism due to its large immigrant population, and social unrest which is further hurting regional economies. What's more, they are still dealing with excessive energy prices as the Russia-Ukraine war rages unabated on their doorstep.

Despite the rebound in European growth in 2025, given the challenges listed above, we believe that the region will battle to achieve anything above 1.5%, which is a significant discount to the US's growth of 2%.

China: Consumers are not spending at capacity

China is also experiencing structural issues. The country has an ageing population, and it is stuck with a situation of more supply than demand, given strong manufacturing outputs. This has resulted in deflation, and the country is struggling to increase domestic consumption.

The reason for this lacklustre household consumption is that Chinese families living in urban areas have traditionally put their wealth into property. Many of these families own at least two properties because they lack confidence that the Chinese government will refrain from intervening in the private sector or over-regulating equities in ways that disadvantage minority shareholders. With most of consumer wealth sitting in property, the country is seeing an overcapacity of property which has resulted in property prices declining, meaning these investments are now in negative territory. When the wealth impact is negative, people feel less wealthy, which puts pressure on consumer confidence and as a result, people reduce spending aggressively. It is for this reason that China is seeing pressure on private consumption.

To counter this, the Chinese government is trying to stimulate the economy where it can. This is because if it can get consumption to play a bigger part in the economy, through the buying of goods and services, then China can become a lot less reliant on the global economy, making it more self-sufficient.

Despite consumer spending being down, Chinese exports are up and are looking healthy, making manufacturing the key driver of the Chinese economy. Interestingly, the Chinese are no longer exporting the bulk of their products to the US, which was previously China's largest export market. In 2025, exports to the US experienced a double digit decline due to Trump's tariffs.

We expect China's growth to level out at about 4% which although lower, is still reasonable given the state of the global economy at this time.

The global economy in summary

In 2026, the PWL outlook, given all the dynamics from the various regions, is that the global economy will experience growth around 2.5%, which is slightly down from 2025 levels and definitely below the average of the last 10 years which stood at around 3.5%. This is because of existing trade friction, along with the change in the global trading landscape where economies transition to new trading partners.

Nevertheless, the AI-driven investment boom will provide a buffer and support the global economy in terms of growth. We believe that growth of around 2.5% is a good number for the world to get through this transition phase.

The PWL strategy

In this environment, PWL will stick to its investment philosophy. There is a lot of misleading and false information in the marketplace, but it is our job to filter out the noise and determine what is sentiment and what is fundamental. We will stick to the PWL investment strategy with its four investment pillars – the future is uncertain and will surprise, valuations matter, diversification is important, and focus on a financial plan that works for you and the resulting asset allocation – as a guide to take us through a very volatile environment and ensure we do the right things at the right time. In addition, our focus will be on mitigating risk in an extremely fragile and volatile world.

Looking back at 2025, it's clear that prevailing themes and underlying fundamentals do not always translate into market outcomes. Equity markets, for example, delivered a notable upside surprise despite what the fundamentals suggested. It is precisely in environments where there is a disconnect between economic signals and market behaviour that we need to remain vigilant. Ultimately, our investment team must navigate carefully to mitigate risks while still positioning to capture available opportunities.

ASSET VALUATION SIGNALS

Harold Strydom
Investment Strategist

Scenario modelling has formed part of Peregrine Wealth's investment philosophy for over two decades, and it enables us to better understand potential market outcomes and construct stronger portfolios. The Peregrine Wealth Investment Management team has a core or "High Conviction" scenario based on a three-year view, which is expressed as macroeconomic and market assumptions, including economic growth, inflation, interest rates, price-earnings multiples, and credit spreads, to list a few. Based on these assumptions, our asset valuation models produce expected returns for various asset classes. This section is used to summarise our High Conviction view and the resulting asset signals.

HIGH CONVICTION SCENARIO: MEDIUM-TERM EXPECTED RETURNS

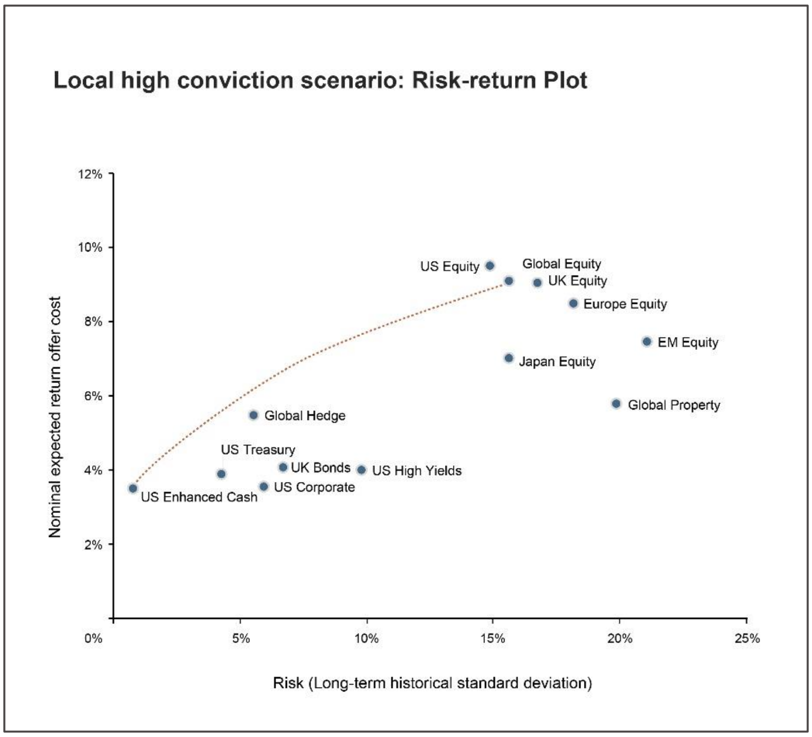
Our High Conviction scenario continues to reflect an environment in which the global economy grows close to its potential over the next three years, supported by a broad shift towards easier monetary policy and still-accommodative fiscal settings. We have raised our global growth assumptions, with the United States (US) expected to grow above capacity, and both Europe and China showing signs of improvement. Inflation is falling across most regions and is assumed to return to central bank targets. Against this backdrop, further interest-rate cuts are expected from the US Federal Reserve and the Bank of England, while Japan remains an outlier where policy normalisation is ongoing and another rate hike is likely.

Bloomberg consensus (aggregated forecasts from financial analysts, compiled by Bloomberg) anticipates exceptionally strong earnings growth for 2026 across most regions. Our valuation models point to more moderate outcomes, though still supportive of equity markets. US valuations remain elevated as conditions underpinning the secular bull market remain firmly in place, while the valuation gap between the US and both Europe and emerging markets (EMs) narrowed during 2025. On a medium-term basis, global equities – across all major regions – are rated neutral.

As interest rates move lower, cash becomes less attractive. Government bond yields in most markets are now close to our fair-value assumptions and are therefore rated neutral. Credit spreads remain historically tight and below fair value, yet the combination of resilient global growth and strong corporate balance sheets continues to provide support. The US dollar weakened through 2025 and, while we continue to view the currency as being in a longer-term secular bear phase, a near-term rebound remains possible.

The United Kingdom's outlook has improved modestly, supported by clearer disinflation trends and expectations of further rate cuts from the Bank of England. Inflation continues to ease towards target, helping stabilise financial conditions and providing some relief to households and businesses. Gilt yields have moved lower as markets price a smoother policy-easing cycle, while still reflecting pockets of volatility linked to fiscal uncertainty. Credit markets remain well supported, with tight spreads underpinned by solid corporate balance sheets. UK equities continue to screen attractively on valuation grounds, with sentiment improving and earnings expectations firming across several sectors. Medium-term expected returns for UK assets remain neutral.

The chart below shows the three-year expected return versus the historical standard deviation of each asset class, based on our High Conviction scenario.



NEAR-TERM ASSET CLASS VIEWS

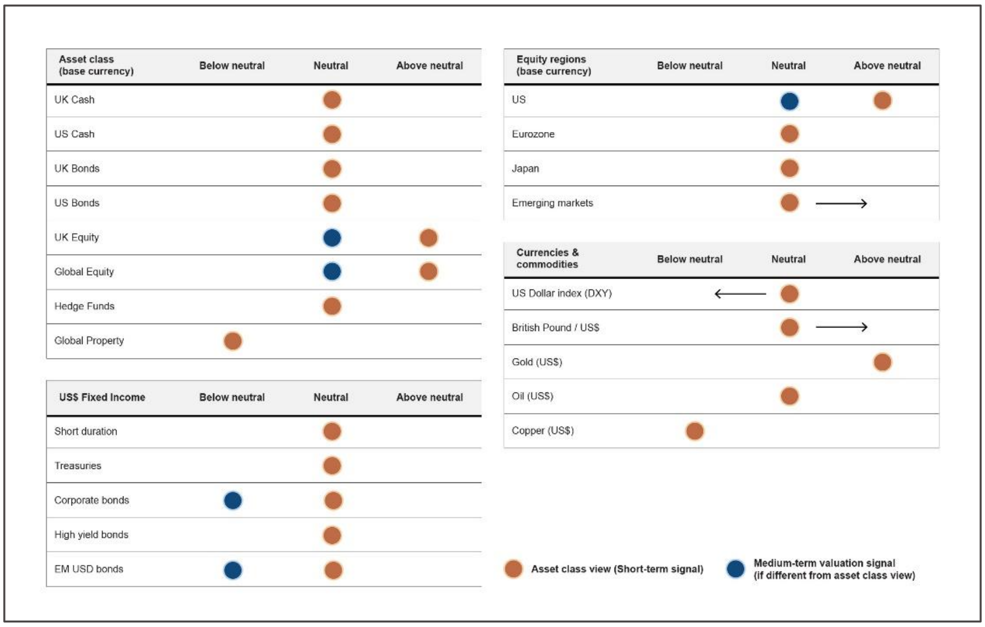
Our investment process is anchored by a High Conviction macroeconomic scenario and the corresponding expected returns for asset classes. This foundation helps us form expectations about how markets should behave. However, we are keenly aware that short-term market behaviour frequently deviates from these expectations. We have long recognised that medium-term, valuation-based signals are often poor guidance for short-term asset performance.

To address this, we've developed a range of tools and indicators to enhance our short-term analysis. These include a close examination of market dynamics, cross-asset correlations, and currency and commodity trends, and several other technical factors. These insights help us adapt our views and make more informed short-term decisions.

The diagram below gives a visual representation of how these two parts of the process play into each other.

In addition to our top-down (looking at the broader market) analysis, we integrate the bottom-up (company) insights provided by our analysts. Their detailed research on individual companies and sectors plays a crucial role in shaping our overall views. When bottom-up analysis reveals fundamentals that diverge from market signals – positive or negative – we take this into account in refining our positioning. This dynamic approach allows us to balance macroeconomic factors with granular insights, ensuring our investment decisions reflect both the broader market environment and underlying characteristics of individual assets.

Our latest asset class views are summarised below. The orange blocks represent the short-term views from the team, sometimes with an additional arrow if a Neutral view has more up or downside potential. Where the High Conviction scenario medium-term signals are different from the short-term views, it is indicated in blue. To determine the signal as Neutral or Above and Below, the model compares expected returns to what investors have historically required from these asset classes. For example, a Neutral Outlook implies a real expected return range of -0.5% to 1.5% for US Cash, 0.5% to 3.5% for US Bonds, and 3.5% to 8.5% for Global Equity. Views are expressed in the base currency of each asset class; currencies views are expressed separately.


Asset class (base currency)
Below neutral
Neutral
Above neutral
UK Cash
US Cash
UK Bonds
US Bonds
UK Equity
Global Equity
Hedge Funds
Global Property
US$ Fixed Income
Short duration
Treasuries
Corporate bonds
High yield bonds
EM USD bonds
Equity regions (base currency)
US
Eurozone
Japan
Emerging markets
Currencies & commodities
US Dollar index (DXY)
British Pound / US$
Gold (US$)
Oil (US$)
Copper (US$)
Asset class view (Short-term signal)
Medium-term valuation signal (if different from asset class view)

THE AI REVOLUTION: A NEW PARADIGM FOR TECH INVESTING

Nishlen Govender
Portfolio Manager

Artificial Intelligence (AI) is currently driving a transformative technology revolution, spearheaded by the world's most influential technology companies - notably the **Magnificent 7** (Apple, Microsoft, Alphabet, Amazon, Meta, Nvidia, and Tesla) along with critical semiconductor players like AMD and Broadcom. For investors, the pace of innovation can feel overwhelming, yet the current market dynamic offers a refreshing departure from previous speculative cycles. Unlike the frenzied "Dot-Com" bubble of three decades ago, today's market is characterised by **rationality and scepticism**, with share prices rising primarily on tangible earnings growth rather than blind hype.

The Magnificent 7: Turning innovation into income

The leading technology titans have placed AI at the core of their business strategies, and for many, the results are already visible in their financial statements. This is not abstract future technology; it is a suite of tools – from generative AI chatbots to smarter cloud services – that are currently boosting engagement and efficiency. Some examples of what we are seeing include:

- **Meta (Facebook)**: Meta has utilised AI to significantly improve user engagement and advertising precision. After a period of declining advertising prices in 2023, AI-driven content recommendations have helped reverse this trend, with advertising prices rising 14% in the first quarter of 2025. This suggests that AI is successfully rejuvenating Meta's core platforms.
- **Microsoft and Amazon**: Both giants have leveraged AI to re-accelerate their massive cloud computing divisions. After a slowdown in 2023, revenue growth for Microsoft Azure and Amazon Web Services rebounded toward 20% by late 2024, which was directly attributed to clients adopting AI services and modernising infrastructure.
- **Alphabet (Google)**: Despite early fears that AI might disrupt its search dominance, Alphabet has successfully integrated AI features into search and cloud services. The company

maintained a solid 12% revenue growth in early 2025, proving that it could innovate without losing its user base.

- **Tesla**: Tesla represents the more speculative side of the AI story, with its valuation heavily tied to autonomous driving and robotics. However, the market has shown limited patience with the company as its core car business has faced pressure and the stock has experienced reality checks, reminding investors that fundamentals must eventually justify the hype.

The examples above highlight some of the core benefits that we have seen but also the market's intense scrutiny of companies like Tesla. An important factor here is that we have multi-trillion-dollar companies that are still able to grow revenue and profits by double digits. This is a new dynamic as large companies are typically mature and are, therefore, at the end of their growth phase. The market pessimism we are seeing is about investors trying to digest this new paradigm.

The ghost of dot-com past: Why this time is different

For many investors, the current AI surge evokes memories of the 1990s Dot-Com bubble, where companies with no profits saw their valuations skyrocket before collapsing. However, current data suggests we are not witnessing a repeat of that era, for several key reasons:

1. Reasonable valuations: During the 2000 peak, the four largest tech companies traded at roughly 70 times forward earnings. Today's AI leaders, commonly known as the "hyperscalers", trade at approximately **25 to 30 times forward earnings**. While these are premium valuations, they are far from the extremes seen in the late 90s and are much closer to sustainable long-term levels.

2. Immense earnings power and cash flow: Unlike the startups of 2000 that ran on hope, today's tech titans are some of the most profitable businesses on earth. Their AI investments are largely **funded by internal profits and strong balance sheets,** rather than speculative debt. Even with massive AI spending, these companies are expected to grow earnings by approximately 18% over the next year.

3. Selective investments: The market has become highly discerning, rewarding companies that show **durable cash flow and proven franchises**. In 2023, the stock gains of the Magnificent 7 closely mirrored their actual earnings rebounds. For example, Meta's profit jumped nearly 70% following a year of cost-cutting and AI refocusing, justifying its stock price recovery in that year.

The "show me" market: Proof before profits

One of the most encouraging signs for investors is that the market is making companies **earn their higher valuations**. We are seeing a pattern where valuation multiples expand only *after* a company provides proof of concept.

Alphabet's trajectory is a prime example. Its stock lagged until it demonstrated that AI-powered search results and new cloud chips were not only functioning but thriving. Similarly, **Microsoft's valuation only saw a step-change** after successive quarters proved that users were willing to pay for Copilot's AI features and that cloud growth was re-accelerating.

Even **Nvidia**, which saw its stock triple in early 2023, grew into its valuation. By late 2023 and 2024, Nvidia's profits had quadrupled, bringing its price-earnings (P/E) ratio back down to a more reasonable range despite the higher share price. This confirms that while anticipation plays a role, the market remains anchored to fundamentals.

The hardware backbone: The "shovel" sellers

While the Magnificent 7 dominate the headlines, the companies providing the physical infrastructure for AI are also seeing unprecedented demand.

- **Nvidia:** As the premier maker of AI accelerator chips (GPUs), Nvidia is the biggest direct beneficiary of this technology boom. Nvidia's CEO, Jensen Huang, has projected $500 billion in AI chip sales over 2025 and 2026, driven by a fundamental shift from general computing to AI-focused processors.
- **AMD:** Serving as Nvidia's chief rival, AMD is benefiting from "insatiable" demand as cloud providers seek to diversify their hardware. AMD's executive leadership has dismissed bubble fears, arguing that AI is in its infancy and long-term demand justifies the current buildout (growth, development and expansion).
- **Broadcom:** This company provides the "plumbing" of the AI revolution – specialty chips and networking gear that connect thousands of processors. Broadcom's stock rose roughly 55% in 2025 as it became essential infrastructure for companies like OpenAI.

Critical risks: The power bottleneck

No prudent investment strategy is complete without acknowledging the hurdles. The most pressing challenge for the AI boom is **infrastructure capacity – specifically electric power**.

AI models require staggering amounts of electricity. A 2024 United States Department of Energy report warned that mega-scale AI facilities are straining electrical grids, leading to years-long lead times for new projects. Gartner predicts that by 2027, **40% of existing AI data centres will face operational constraints** due to power shortages.

This "power wall" could have several implications for investors:

- **Scaling limits:** If power hookups are delayed, billions of dollars in AI hardware could sit idle.
- **Increased costs:** Rising electricity demand will likely drive-up prices, potentially squeezing the profit margins of cloud providers or slowing user adoption.
- **Execution risk:** The winners of the next phase will be the companies that manage their energy expansion intelligently, securing long-term power deals or innovating in energy-efficient chip design.

Strategic takeaways for investors

The current environment suggests we are working within a **mature and discerning market** that rewards quality over hype. For long-term investors, this leads to several key conclusions:

- **Focus on quality:** The primary beneficiaries of AI so far have been established companies with competitive moats (competitive advantages that protect a company's long-term profits and market share from rivals) and real earnings. At Peregrine Wealth (PWL), we look for businesses that have durable cash flows and real user demand.

- **Execution is key:** The market has no "free passes". If a company over-invests in AI without achieving returns, its stock will be penalised. Continuous monitoring of how AI translates into revenue or cost savings is essential.
- **View corrections as opportunities:** Because the market is hyper-vigilant, it tends to self-correct quickly when it is overly exuberant. For investors, pullbacks in high-quality AI names, driven by temporary sentiment rather than fundamental decay, may provide attractive entry points.
- **Diversification matters:** While the Magnificent 7 have led the charge, the benefits of AI are expected to broaden into other sectors like industrials and finance as they deploy these tools to boost productivity.

Conclusion: Bullishness with a seatbelt

The narrative of the recent AI revolution is one of **rewarding innovation but with sustained scepticism**. The stock market is behaving like a concerned citizen – excited about the potential of AI but quick to demand proof before offering a reward.

For the retail investor, this is perhaps the best possible scenario. You can participate in a world-changing growth story while knowing that valuations are, for the most part, anchored in reality. By rewarding proven success and policing over-exuberance, the market is ensuring that AI's advances translate into **real, sustainable shareholder value**.

The growth of AI is not a short-lived fad but a decade-long transformation. Investors have been conditioned to be sceptical, and even pessimistic, about any market that goes up but it is crucial to understand that this tech rally is underscored by excellent fundamentals. The market has been largely rational at pricing AI companies and that is important to acknowledge – PWL is respectful of markets and is careful at calling exuberance irrationality. There are always risks to consider but, for now, we are happy holders of high-quality AI related names.