HCM Market Brief: AI Momentum, Market Resilience, and the Risks Ahead

In this episode of the HCM Market Brief, Doug Johnson and Dan Rinck discuss the remarkable resilience of financial markets despite geopolitical tensions, elevated interest rates, inflation concerns, and ongoing uncertainty surrounding the AI investment boom. Their conversation centers on three major themes: why markets continue to rally, whether the AI-driven technology surge resembles the dot-com bubble, and the potential impact of upcoming mega-IPO offerings such as SpaceX, Anthropic, and OpenAI.

The discussion begins with the observation that markets appear nearly unstoppable. Recent concerns surrounding tariffs, inflation, and tensions involving Iran briefly rattled investors but ultimately failed to derail the broader rally. While oil prices remain elevated and interest rates are still relatively high, equity markets have largely shrugged off these headwinds. According to Dan, markets seem to have moved past concerns about Iran entirely, despite ongoing uncertainty and elevated energy prices. Doug notes that even inflation readings tied to higher energy costs have been treated as largely insignificant by investors.

The conversation then shifts to one of the most debated topics in today's market: whether the AI boom resembles the technology bubble of 2000. Doug argues that many comparisons to the dot-com era are overly simplistic. Investors often see rapidly rising technology stocks and assume history is repeating itself, but he believes the underlying fundamentals tell a very different story.

Dan agrees, pointing out that today's leading AI companies are fundamentally stronger than the speculative internet companies of the late 1990s. During the dot-com bubble, many companies had little revenue, no profits, and unclear business models. Today, many AI-related firms are generating substantial revenue and earnings while benefiting from real-world demand. While some stocks have risen dramatically, Dan notes that many of these gains are supported by tangible business performance rather than speculation alone.

The hosts emphasize that AI spending is flowing through to actual financial results. Companies involved in semiconductors, data centers, memory chips, energy infrastructure, and cloud computing are seeing significant revenue growth as businesses race to build AI capabilities. This differs substantially from the dot-com era, when investors often chased concepts rather than proven business models.

Doug reinforces this point by highlighting the strength of corporate earnings. He notes that S&P 500 earnings growth recently approached 21% year-over-year, with expectations remaining strong through the remainder of the year. Corporate profit margins remain near all-time highs, particularly within the technology sector. From his perspective, this earnings backdrop makes it difficult to argue that current conditions are identical to those seen in 2000.

To provide additional context, Doug references research comparing today's market to previous periods of speculative excess. During the peak of the dot-com bubble, 27 companies within the S&P 500 had gained more than 400% over an 18-month period. Today, that number is only seven. Similar periods following the Global Financial Crisis and the post-COVID recovery actually saw more stocks achieve extreme gains than are currently doing so. This suggests that while AI enthusiasm is significant, it may not be as widespread or speculative as many headlines imply.

Another important area of discussion is AI infrastructure demand. Doug references research from 314 Research's GPU Availability Index, which tracks real-time demand for graphics processing units (GPUs), the chips that power AI systems. The data indicates that demand remains extremely strong while supply remains constrained. This imbalance gives chip manufacturers substantial pricing power and suggests that the AI buildout may have further room to run.

Dan expands on this point by explaining that despite massive investments from companies such as NVIDIA and other semiconductor firms, demand for AI computing capacity continues to exceed supply. Data centers remain in short supply, and new facilities face both financial and political hurdles. The continued shortage of computing resources suggests that AI adoption is still in its early stages, with significant infrastructure investments likely ahead.

The hosts acknowledge, however, that risks remain. Doug identifies several factors that could slow the AI-driven market rally. A meaningful resurgence in inflation could push interest rates higher and pressure technology valuations. Another risk would be a significant increase in GPU supply that creates pricing pressure and reduces profitability for AI infrastructure providers. Perhaps most importantly, any slowdown in expected capital expenditures by major technology companies could raise questions about whether AI investments are generating sufficient returns.

The discussion then turns to one of the most anticipated developments in financial markets: the upcoming IPOs of SpaceX, Anthropic, and OpenAI. Doug notes that these offerings could

introduce an enormous amount of new equity supply into the market, potentially exceeding the value of all S&P 500 share buybacks during the year.

The hosts spend considerable time discussing SpaceX, which is expected to be one of the largest IPOs in history. Doug expresses surprise that retail investors will have broad access to the offering through major brokerage firms such as Schwab, Fidelity, and Robinhood. Traditionally, high-profile IPO allocations have been reserved largely for institutional investors.

Dan takes a skeptical view of the offering. He suggests that opening the IPO to retail investors may reflect concerns about generating sufficient institutional demand for such a large valuation. He advises caution, citing his experience observing Facebook's IPO and other highly anticipated public offerings that initially disappointed investors.

Doug then reviews several valuation metrics that raise concerns about SpaceX's pricing. At an estimated valuation approaching $2 trillion, the company would immediately rank among the largest public companies in the world. Yet its projected valuation multiples significantly exceed those of established technology leaders such as NVIDIA and Google. SpaceX's projected price-to-sales ratio, price-to-earnings ratio, and enterprise value-to-EBITDA multiple all imply extremely optimistic future growth assumptions.

Dan acknowledges that SpaceX possesses valuable assets, particularly Starlink, which generates significant revenue and enjoys a strong competitive position. However, he notes that other parts of the business remain highly capital-intensive and unprofitable. Additionally, the inclusion of Grok, Elon Musk's AI platform, adds substantial losses to the overall business. While there is significant long-term potential, Dan questions whether current valuations adequately reflect the associated risks.

The conversation broadens to include Anthropic and OpenAI, whose future public offerings could further reshape the AI investment landscape. Doug notes that opening the financial books of major private AI companies could either reinforce investor enthusiasm or reveal weaknesses that challenge current assumptions about the industry's profitability.

Both hosts believe market participants are still trying to understand AI's ultimate impact on the economy. While some companies are already seeing productivity improvements and efficiency gains, many organizations are still experimenting with how best to implement AI technologies. The long-term winners and losers remain uncertain.

Looking beyond the technology sector itself, Doug suggests that one of the most underappreciated opportunities may lie in companies that successfully use AI to improve productivity rather than directly selling AI products. Even modest efficiency gains across

large segments of the economy could produce significant economic benefits and boost overall corporate profitability.

The episode concludes with a reminder about diversification. While AI-related investments have driven much of the market's recent gains, both Doug and Dan caution against concentrating portfolios too heavily in a single theme. As technology and semiconductor stocks become larger components of major indexes, investors may already have more AI exposure than they realize. Maintaining diversification remains critical, especially in an environment where expectations are high and volatility can emerge quickly.

Overall, the hosts remain constructive on the long-term AI opportunity but emphasize that investors should balance optimism with discipline. Strong earnings, persistent demand for AI infrastructure, and improving productivity trends support the current rally, but valuation risks, market expectations, and the influx of major IPOs could create meaningful volatility in the months ahead.