The Investment Institute
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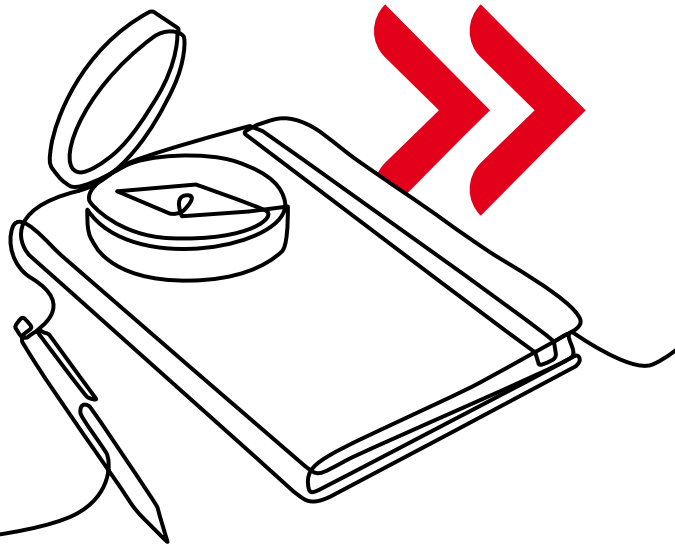
Letter from the Editor

It is beginning to look like the dotcom era



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Letter from the Editor is our weekend read, which looks at the big picture, one question at a time.

The dotcom bubble analogy has been widely used in recent years to describe AI. It was never the right framework for understanding the buildout of foundational models or the infrastructure behind them. But it is becoming increasingly relevant at the application layer. As AI spreads across industries, a myriad of entrepreneurs will attempt to build disruptive businesses on top of the technology, yet only a minority will succeed. A possible risk scenario could involve a wave of failed applications and weaker-than-expected demand for computing power, placing part of today's infrastructure investment cycle under pressure.

Hello from the Investment Institute!

It was AI week.

Anthropic filed its S-1 for a November IPO. Whether the company is valued at USD 1.5tn or more, investors should recognize that this remains a risky investment. There is growing concern that a major AI-related incident might be a matter of time. When it occurs, it could trigger a regulatory backlash that would erode today's lofty valuations. Meanwhile, the last few days have been quite turbulent in the AI sector, both in Asia and the US -- but we remain constructive on the broad AI investment case.

Given all these developments, what went largely unnoticed outside the community of economics geeks was the launch of Econvitals last week – an AI platform created by Harvard's Jason Furman – that generates daily and weekly macroeconomic reports written autonomously by Claude. It is a tangible example of how AI will disrupt knowledge-intensive industries. The Econvitals briefings would normally require a team of 20 analysts.

Furman oversees the platform in his spare time, with the support of two college students. The result is remarkable. In the words of economist Olivier Blanchard: “A definitive follow”.

You might think it is odd for someone running a think-tank to advertise a tool that could disrupt the analyst profession. It is not. What Jason produces is high-quality, traditional macro-data tracking, precisely the type of research we decided to discontinue when we launched The Investment Institute 18 months ago. Already then, it was clear that AI would become a formidable competitor in this space. Thus, we went through one of the most radical overhauls of a research team in the financial industry that I am aware of, moving up the value chain towards a thematic approach and away from routine content – while developing a brand-new research offering across all media channels with a focus on high quality.

Econvitals is interesting beyond my own research world because it sends a signal of things to come more broadly. In 2024, Sam Altman, CEO of OpenAI, argued that one-person unicorns would soon emerge and that "the future of startups could be one person and 10,000 GPUs." Econvitals offers a glimpse of what he meant – even though Furman considers it a public good and is not charging a fee. Similar services are likely to emerge across a wide range of knowledge-intensive industries, attracting capital, fuelling investor enthusiasm and creating an increasingly competitive landscape.

In that sense, this moment feels reminiscent of the late 1990s, when the spread of the internet sparked hopes of a "new economy" characterised by high productivity gains. It was the shift from general-purpose technology (the internet) to its applications (dotcom companies) that fuelled the bubble. Now, investor attention will increasingly shift from the AI infrastructure and foundational models to applications – specialised AI companies that automatise entire content-production processes.

This brings me to the question for today's *Letter*: **Are we entering the AI equivalent of the dot-com era?**

Bubble, what bubble?

For more than a year, discussions about AI have revolved around the thorny question of whether a bubble is emerging. While one can argue with certainty that there is a bubble only once it bursts, traditional financial indicators, such as P/E ratios, never clearly screamed of a bubble.

The challenge has also been to find the right historical comparison for the different layers of the AI stack. For some time, the dot-com bubble seemed like a natural analogy. But it was flawed. The main beneficiaries of the AI boom so far are not speculative startups with unproven business models, but highly profitable, cash-generating and mature tech giants (Meta, Microsoft, Alphabet, etc.). While these companies have become less cash-rich and are taking on more debt to finance investment, their financial solidity remains unquestioned. Moreover, no one can deny that the technology exists and is powerful. At the model layer, however, the risk is commoditisation, with large language models becoming increasingly similar and difficult to differentiate. ChatGPT and Claude are essentially the same product.

The dotcom analogy is becoming relevant

When looking at the AI infrastructure layer (data centres, cloud capacity and AI chips), the dotcom comparison is inadequate again. Here, the risk is not developing a weak product but overinvestment by hyperscalers (Microsoft, Amazon, Oracle, etc.) to outcompete one another. The most relevant parallels in this respect are the great infrastructure booms of the past: the expansion of US railroads between 1865 and 1890 or the telecom and internet build-out of the late 1990s.

The dotcom comparison becomes relevant when looking at the application layer – where AI is applied to specific sectors. The emergence of platforms such as Econvitals suggests that we may soon see a dot-com-style proliferation of AI-native companies built on top of the underlying models. This application layer has so far attracted less attention, as investors remain focused on chips, data centres and foundational models. Yet it may prove to be the most dynamic and disruptive part of the AI ecosystem.

Then and now

Platforms such as Econvitals offer an early glimpse into what this future might look like. The cost of launching a sophisticated knowledge business is collapsing. Teams that once required dozens of analysts, programmers and researchers can now be replaced by a handful of people equipped with powerful AI tools. Econvitals, for example, runs on 500,000 lines of code that were entirely written with AI. It took six months to reach today's output. In the pre-AI era, developing such a platform would have taken three years and a team of twenty people (engineers, data scientists and economists).

As barriers to entry fall, entrepreneurial experimentation with AI is likely to explode, but so will competition to reinvent entire industries. Just as the internet gave birth to thousands of startups in the late 1990s, AI may trigger a wave of new companies across research, consulting, law, education, healthcare and countless other knowledge-intensive industries. As was the case thirty years ago, some firms will emerge as dominant winners. Amazon, eBay and Yahoo were among the success stories of the internet age. But many others disappeared. Pets.com (an online retailer for pet food and supplies) went public in February 2000 and was liquidated just nine months later.

However, there is a crucial difference between the dot-com era and today's AI boom. Most failed internet companies were capital-intensive businesses. They required large marketing budgets, warehouses, physical infrastructure and hundreds of employees. Their survival depended on a constant flow of external funding. When capital markets closed, many businesses collapsed. The new generation of AI-native firms looks very different. A single entrepreneur equipped with AI coding assistants, design tools and automated marketing systems can build products that previously would have required dozens of software engineers, analysts and support staff. So rather than an investment boom we might support an entrepreneurial boom.

Risk factors

The structural differences between internet and AI companies imply that if a bubble (something not inevitable) were to emerge in the application layer, it may not burst for the same reasons as the dot-com bubble. Internet-era companies were often characterised by weak economics and consumed vast amounts of capital. Today's AI startups tend to be far leaner and can become profitable much more quickly. This will not be a repeat of Pets.com. The risks lie elsewhere:

- **Intellectual property issues.** Much of the current wave of AI applications relies on ingesting, processing or repackaging content created by others. Media groups, publishers, authors, artists and software developers are increasingly challenging the use of copyrighted material for AI training and commercial applications. An AI research platform trained extensively on proprietary financial analysis, a legal assistant built on copyrighted legal databases, or an educational service based on protected content might face intellectual property disputes that could impair their business. *The New York Times* sued OpenAI and Microsoft, alleging the unauthorised use of its content for AI training, while the Authors Guild, together with writers including John Grisham, have brought copyright claims over the use of books in AI models. If an AI platform is denied access to the specialised knowledge it needs for training, it immediately loses any market value. Anthropic recently agreed to pay a USD 1.5bn class-action copyright settlement to authors and publishers after using over 7 million pirated books from shadow libraries to train its Claude AI chatbot. Small AI companies would certainly struggle with costly IP-related lawsuits.
- **Economic concentration.** The most successful AI applications may ultimately be winner-takes-most businesses. If every entrepreneur has access to similar foundation models, competitive advantage will depend less on the model and more on the brand, reputation, proprietary data and trust. Econvitals illustrates this point. Its value comes from the credibility, expertise and reputation of Jason Furman. In a world where content generation becomes abundant, trusted curators, recognised experts and established brands may capture a disproportionate share of the economic value. Furman not only oversees the platform, he also produces content himself. And for some people, that is still the most valuable part of the platform. MIT professor Ivan Werning recently tweeted: "I subscribed for the non-AI part (of Econvitals), Jason's commentary". There were AI platforms for economic research even before the launch of Econvitals. But they never gained attention precisely because there was not a big a name behind them. By making Econvitals freely available, Furman is killing competition in that area upfront.

- **Political and social backlash.** Every major technological revolution creates winners and losers. The more successful AI becomes, the more professions it will challenge. As job displacement becomes more visible in sectors where AI replaces labour instead of augmenting it, pressure for regulation will intensify. This is already becoming apparent in publishing and research. Many academic journals and publishing houses require authors to disclose the use of generative AI and refuse to publish pieces that were not only written by AI but even edited by it. This is a clear way for editors and academics to preserve their professional roles. In the future, for example, regulators might ask financial institutions not to use AI tools to produce research that might affect investment decisions as it becomes increasingly difficult even for AI developers themselves to know what happens behind the black box of an AI model – whether it is driven by biases that can influence investor decisions. Interestingly, some sort of guild-style reaction to Econvitals is emerging. Research firm MacroPolicy Perspectives released a statement saying "We have a serious issue with AI output presented without attribution of the myriad professional forecasters informing it or recognition of the professionals at the statistical agencies that compile the data".

What's next

Given the differences between the AI and the internet eras, a potential burst of a bubble would also be different. The dotcom bust occurred because internet companies burned through vast amounts of financial capital, hired aggressively and spent heavily on marketing without establishing clear paths towards profitability. When investor funding dried up, many ran out of cash and went bankrupt, ultimately destabilising financial markets.

The transmission mechanism of an AI bubble at the application layer would be very different. The critical input is not financial capital but compute power. An abundance of AI applications generates demand for model inference, encouraging foundation-model providers and hyperscalers to invest ever larger sums in GPUs, data centres and power infrastructure. If many of these applications ultimately fail to attract paying customers or generate sustainable revenues for the three reasons discussed above, demand for AI services could fall short of expectations.

Unlike during the dotcom bubble, startup failures would likely not destabilise financial markets given their light capital structure. Instead, a crisis could manifest through excess capacity across the AI ecosystem, underutilised data centres, weaker returns on AI infrastructure and growing pressure on the business models of companies that have committed hundreds of billions of dollars in anticipation of future demand. And looking beyond AI companies with small teams and little capital, there are a variety of AI companies that do rely on lending and venture capital. If they fail for the reasons mentioned above, they could cause a form of financial instability not different from what we observed in early 2000.

Regardless of whether this potential bubble at the application layer emerges and bursts, I would like to make a final point. Econvitals is not just a reminder of how disruptive AI can be for entire professions but also that AI is unlikely to replace what makes human presence essential. In many fields, it will automate routine tasks and commoditise knowledge. But this will make creativity, judgment, originality and trust more valuable.

The challenge increasingly lies in doing what machines cannot do and to become a new Furman rather than aspiring to build a new Econvitals. We should welcome a world in which AI removes repetitive tasks and frees up time for higher-value activities. And as content becomes abundant and indistinguishable, people may place greater value on the human premium, the expert insight and the personal credibility machines cannot easily replicate.

Enjoy your weekend!

Edo

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