InCred Global Wealth

Insights

AI, liquidity, power and the shape of markets: Seven ideas from the GMO Conference

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We regularly engage with a small group of external investment managers whose thinking we regard as particularly rigorous. GMO is one of the managers we have approved for inclusion in client portfolios, and with whom we maintain dialogue as part of our ongoing due diligence of them.

Recently, we attended GMO's annual conference. GMO is a Boston-based investment firm, founded in 1977, managing approximately USD 68 billion, and known for its long-term, valuation-driven approach and focus on mean reversion, including a track record of identifying major asset bubbles.

We use these discussions to test our own views and to identify where shifts in market assumptions may be most relevant for clients. What follows is a selection of the ideas that stood out.

AI: A system built on uneven foundations

Artificial intelligence is best understood not as a sector, but as a system comprising several interdependent layers: applications, models, hyperscalers and the underlying supply chain.

What is striking is the imbalance between the scale of investment and the level of visible revenues.

- Application-layer revenues are currently estimated at USD 50 billion annually
- Hyperscaler capex is already running at USD 500 billion+ per year
- The "AI trade" has expanded from the "Magnificent 7" to what GMO described as the "Magnificent 37" - roughly one-third of the S&P 500 by weight

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This creates a structural tension. **Revenues must ultimately support the full system, yet capital is being deployed far ahead of monetisation**.

The composition of that investment matters. A large share is growth capex rather than maintenance. If expectations around demand were to shift, the adjustment could be material. GMO illustrated scenarios where capex could fall by as much as 50% if supply and demand normalise.

The defining feature of the current phase is therefore not excess demand, but front-loaded capital intensity. If that adjustment occurs, the impact is likely to be felt first in the most capex-sensitive parts of the system, particularly suppliers and infrastructure providers.

Why this matters: This is not a simple growth story. It is a capital cycle, and cycles defined by front-loaded investment tend to be volatile when expectations change. For long-term capital, this increases the importance of where exposure sits within the system, rather than how much exposure exists overall. The key question is not whether AI grows, but how that growth is funded and where the returns accrue.

Software: Pricing the future, not the present

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This is not driven by current earnings deterioration. It reflects a reassessment of long-term economics.

Three concerns dominate:

- AI reduces the cost of coding
- AI expands capability beyond traditional software
- AI may displace certain categories of software entirely

At the same time, valuation has reset significantly. The sector now trades at its **lowest premium to the market in roughly three decades.**

What is notable is the speed and breadth of repricing. Companies have moved sharply on perceived exposure to AI risk, often without corresponding changes in near-term financial performance.

Markets are therefore attempting to discount structural change well before it is visible in earnings.

Our takeaway is that this increasingly creates a wide gap between potential winners and losers, making software less a sector call and more a question of selectivity.

Why this matters: Price is no longer a reflection of current fundamentals, but of perceived long-term relevance - which increases both dispersion and the risk of sharp, early repricing. For investors with meaningful technology exposure, this raises the importance of distinguishing between durable platforms and those whose long-term economics are more uncertain.

Liquidity: The driver of market stability - and instability

A recurring theme across the conference was the role of liquidity and capital flows in shaping market outcomes. Several underlying supports appear to be weakening simultaneously:

- Private equity distributions have declined sharply
- Private credit is increasingly relying on payment-in-kind rather than cash income
- US buybacks, a key source of demand, are falling as capital is redirected to capex
- The IPO pipeline is building, with a small number of companies alone representing USD4 trillion or more of potential supply

IPOs represent a direct increase in supply to public markets. GMO highlighted that historically, **an increase in supply equivalent to 1% of market capitalisation has been associated with a price impact of roughly 7.5%. With a potential pipeline approaching 5% of market capitalisation**, the scale is meaningful. This creates a situation where improving conditions in private markets can translate into pressure on public market valuations as new supply is absorbed.

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	Possible IPO valuation (USD bn)
SpaceX	2,000
OpenAI	1,000
ByteDance	550
Anthropic	450
Databricks	200
Stripe	200
Total	**4,400**

Figure 2: Potential IPO valuations of leading technology companies
Sources: Financial Times, Bloomberg, Yahoo, Wall Street Journal, GMO

Taken together, declining private market cash flows, rising supply of public equity, and reduced buyback support point to a shift in the balance between supply and demand.

For families with both public and private assets, this creates the possibility that liquidity needs in one part of the portfolio drive decisions in another.

Why this matters: Market behaviour may be determined less by valuation and more by who needs to buy or sell - and when. This reinforces the importance of viewing private and public exposures as part of a single capital system rather than separate allocations.

Power: The constraint beneath the AI narrative

The expansion of AI is often framed in terms of compute and capital. Less attention has been paid to a more fundamental constraint, electricity.

After a decade of flat demand, electricity consumption is rising again:

- Data centres are expected to account for around 50% of incremental demand in the US
- Total data centre electricity usage could rise from 4% to over 10% of demand

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At the same time, infrastructure is not designed for this shift:

- grids are capacity-constrained
- interconnection timelines are long
- transmission is a bottleneck

The scale is difficult to visualise. One example shown was **Meta's proposed "Hyperion" data centre, with a footprint illustrated at a scale comparable to a large portion of Manhattan**.

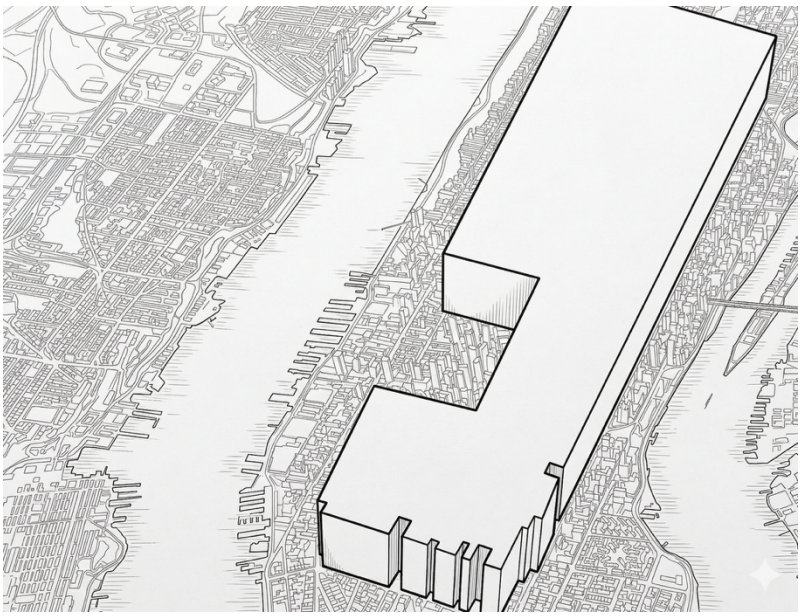


Figure 3: Size of Meta's Hyperion data centre compared to Manhattan
Sources: Meta, GMO

There is also no perfect energy solution:

- Natural gas: scalable but not clean
- Nuclear: clean but slow to deploy
- Renewables: scalable but intermittent

The constraint is therefore physical, not theoretical. This shifts part of the opportunity set away from technology itself towards the infrastructure required to support it.

This dynamic extends beyond power generation itself into the materials required to enable electrification, most notably **copper,** where supply constraints are emerging alongside rising demand.

Why this matters: AI growth is no longer just a question of capital or innovation, but of infrastructure - which introduces delays, bottlenecks and second-order effects. For investors with exposure to real assets, this highlights a less obvious part of the AI opportunity set.

Read our report: AI is scaling faster than the power system built to support it

Copper: The constraint within electrification

Alongside power, another constraint sits at the materials level. Copper sits at the centre of the electrification theme. It is used across data centres, power grids, renewables and energy storage, reflecting its conductivity, durability and versatility.

Forecasts point to more substantial copper shortfalls emerging into the 2030s, as demand continues to rise and supply struggles to keep pace.

Prices have already moved meaningfully, rising from around USD 2.60 per pound in 2018 to over USD 6 more recently. Despite this, supply and demand dynamics remain tight. Forecasts point to modest deficits in the near term and **more substantial shortfalls emerging into the 2030s, as demand continues to rise and supply struggles to keep pace.**

Unlike some other commodities, this is not a broad-based story. While copper faces structural constraints, adjacent metals such as iron ore and aluminum are expected to remain in surplus over similar time horizons.

Copper stands out as one of the **clearest structural opportunities**, with demand rising faster than supply can respond.

Why this matters: Electrification is not only a demand story but a materials story. Where supply cannot respond quickly, pricing power shifts to the underlying resource.

Japan: Reform without growth

Japan represents one of the more compelling examples of how equity returns can be driven by internal change rather than macroeconomic growth and was highlighted as a high-conviction area within GMO's current opportunity set. Over the past decade, Japanese companies have delivered stronger earnings per share growth than the US, despite limited economic expansion.

The drivers are structural and increasingly embedded:

- Independent directors have moved from rare to standard
- Cross-shareholdings have roughly halved
- Buybacks have risen to levels approaching, and in some cases matching, the US
- M&A and take-private activity have accelerated meaningfully

In one example cited, **a concentrated Japanese portfolio with forty holdings saw five companies announce or complete take-private transactions in a single year.**

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What is notable is not just the direction of change, but its persistence. Improvements in governance, capital allocation and balance sheet discipline have been underway for several years and continue to broaden across the market.

Returns are therefore increasingly being driven by corporate behaviour rather than economic growth, with the opportunity set extending beyond headline indices into smaller and less efficient parts of the market.

Why this matters: This is not simply a valuation story. It reflects a sustained shift in how companies are run, providing a source of returns that is less dependent on macro conditions and more driven by internal change. This combination underpins the very positive case for Japanese equities within diversified portfolios.

Value: Opportunity at the extremes

The divergence between value and growth remains pronounced, but the opportunity is not broad-based. Historically, growth outperformance has been driven largely by valuation expansion rather than superior earnings growth. Today:

- Value vs growth dispersion remains near historical extremes
- Deep value trades around the 8th–14th percentile of history
- Shallow value (i.e. less pronounced value) is closer to fair value, or even expensive

The implication is that the opportunity lies in extreme mispricing, not general style exposure.

This is reflected in implementation. Market-neutral strategies (long value / short growth) have delivered approximately 9% annual returns in GMO's implementation over recent years, with limited market beta.

The key shift is from owning value broadly to owning the most mispriced parts of the market. For our clients, this reinforces the role of value as a relative tool rather than a broad allocation.

Why this matters: Value still works, but only selectively - and increasingly through positioning rather than exposure.

What we take from this

These ideas do not point to a single conclusion. They come from different teams at GMO, with different approaches, and are not intended to form a unified view.

Taken together, however, they describe a market environment increasingly shaped by capital intensity, structural constraint and dispersion. In such an environment, outcomes are less uniform and more dependent on where, rather than whether, capital is deployed.

For family wealth, this suggests three areas of focus:

First, **understanding where sensitivity to the capital cycle sits**. In the context of AI, this points towards the parts of the system most exposed to changes in capex, particularly suppliers and infrastructure linked directly to data centre build-out.

Second, **the key distinction is no longer which themes to own, but where risk sits within them**. Within AI, the most capital-intensive parts of the system are also the most exposed to any normalisation in investment, while areas linked to power, grid infrastructure and transmission sit closer to the underlying constraint and may benefit from more durable demand and pricing dynamics.

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Third, **dispersion is now creating structural winners and losers within the same sectors**. In software, this is increasingly visible in the divide between systems that are embedded in workflows and those that are more discretionary. In private markets and credit, it is reflected in the growing gap between assets supported by underlying cash flows and those dependent on continued financing, particularly where payment-in-kind structures are becoming more prevalent.

Across portfolios, this reinforces the importance of liquidity, selectivity, and understanding how different parts of the balance sheet interact under stress.

To summarise. In practical terms, this points towards increased focus on areas most sensitive to changes in the capital cycle, including parts of the market directly exposed to capex trends. It also highlights the growing importance of infrastructure linked to power and grid capacity, where structural demand may translate into pricing power, and a greater distinction within sectors such as software between more critical, embedded systems and those that are more discretionary.

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About the author

Nick Perryman is Vice Chairman at InCred Global Wealth Limited and Chairman of its Investment Committee. He has over 25 years of investment and wealth management experience, holds advanced qualifications in investment management, financial planning and psychology, and was previously a managing director at UBS where he was head of its international business in London and before that head of investment products and services. He is a doctoral researcher at Durham University and an honorary fellow of Royal Holloway, University of London. He is co-author of the book, "Leadership in Wealth: Mastering the opportunities of wealth in your family, firm and society"

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