

# AI Spending Surge Meets Geopolitical Shock: Positioning for an Uncertain 2026

## Equity Markets Q1 2026 Commentary



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The first quarter of 2026 was especially eventful, dominated by two themes: artificial intelligence (AI) and the Iran war. Both have broad implications for equities through 2026 and beyond.

Since OpenAI launched ChatGPT in November 2022, AI and the buildout of its underlying infrastructure have been core drivers of equity returns. Over that period, markets rewarded companies enabling AI's transformative potential and those likely to benefit from it. This quarter, new spending announcements from the largest AI platform companies shifted investor attention from the promise of this new technology to the cost of achieving it.

Concurrently, onset of the Iran war disrupted energy flows and increased market volatility. Effective closure of the Strait of Hormuz and damage to energy infrastructure resulted in a sharp rise in fossil fuel prices, reminding that geopolitical events can quickly reshape growth and inflation expectations, as well as risk appetite. These developments complicate the macro backdrop and reinforce the importance for disciplined portfolio construction.

### Increasing capital intensity of AI

During the quarter, we learned that the scale of investment in data centers – the critical infrastructure for training and running AI models – is far greater than previously thought. Of the big four hyperscalers – Microsoft, Amazon, Google, and Meta – the later three outlined 2026 capital expenditure plans vastly

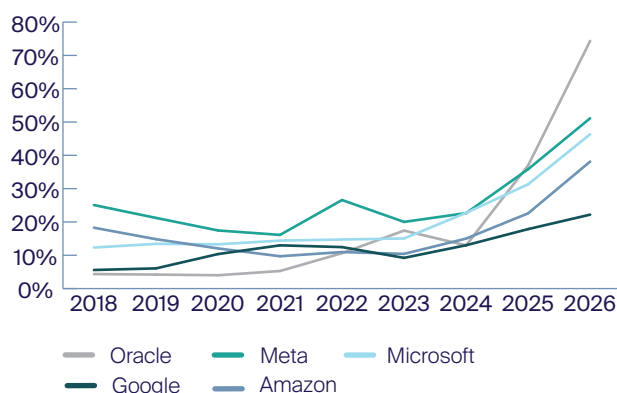
## Key Market Takeaways

- 1 **While artificial intelligence remained a major market driver in the first quarter**, the scale of hyperscaler spending on data centers raised new questions about capital intensity, returns on investment, and valuation.
- 2 The Iran war added a significant new source of market uncertainty due to the disruption of energy markets and the **implications for global growth and inflation**.
- 3 Uncertain outcomes in artificial intelligence and geopolitics **underscore the importance of portfolio diversification and reinforce our preference for resilient companies with strong balance sheets** and adaptability to a wide range of economic environments.

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exceeding prior expectations. They announced a combined \$505 billion in expected spend this year, a 74% increase from a year ago. This matters because markets tend to value asset-light businesses differently from asset-heavy ones. As capital expenditures rise and free cash flow declines, earnings become less predictable and valuation multiples often come under pressure. That dynamic was evident in the quarter, as these companies underperformed the broader market despite accelerating revenue growth.

### Hyperscaler capex margins – from asset-light to asset-heavy



Source: Saturna Capital Research

The market is cautious of this level of spending for two reasons. First, data center returns remain uncertain. AI is already enhancing productivity and showing revenue benefits; however, paybacks have been slow to show up in aggregate through company margins and accelerating GDP growth. While we believe those benefits are coming, the impacts of technology transitions are measured in years.

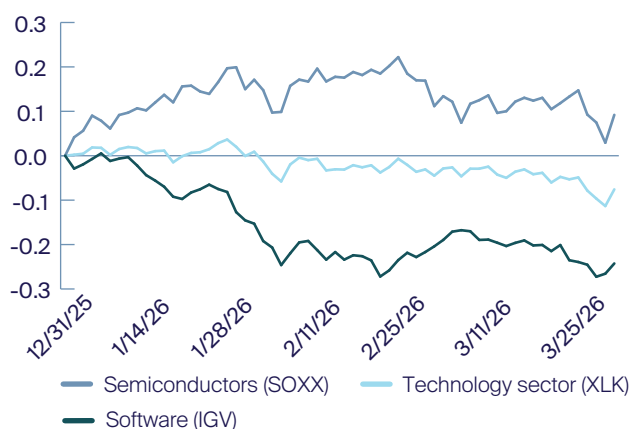
The hyperscalers are immediately monetizing data centers through their cloud businesses, where demand for AI compute is strong. This brings us to the second concern: the ability for the largest AI cloud customers – OpenAI and Anthropic – to continue financing their growth. Both are growing revenue at historic rates for companies of their size, but doing so requires spending more cash than they generate. OpenAI and Anthropic have so far sourced private markets for funding but will eventually be forced to go public, absent changes to their economics. Relying on equity markets for financing introduces an additional layer of uncertainty,

as access to capital ultimately depends on investor risk appetite.

### AI's impact on software

One of clearest AI use-cases is software development. If software can be built, tested, and improved more quickly and at lower cost, competition is likely to increase. That prospect resulted in a sharp selloff among software companies during the quarter, even as semiconductors delivered positive, if volatile, returns.

### SaaSocalypse – Q1 2026



Source: Saturna Capital Research

Disruption is unlikely to be uniform. In our view, companies that control systems of record or essential workflows may remain well positioned. Even as AI agents become more capable, they will still need trusted platforms through which to access data, manage transactions, and execute business processes. Businesses with deep customer relationships, embedded workflows, and mission-critical products may therefore prove more resilient than the market assumes. Periods of technological disruption often widen the range of outcomes between durable franchises and more vulnerable business models. For long-term investors, that kind of dispersion can create opportunity, particularly when volatility causes markets to overgeneralize.

### Broadening market returns

Mega-cap technology companies feature so prominently in US indices that their weakness during

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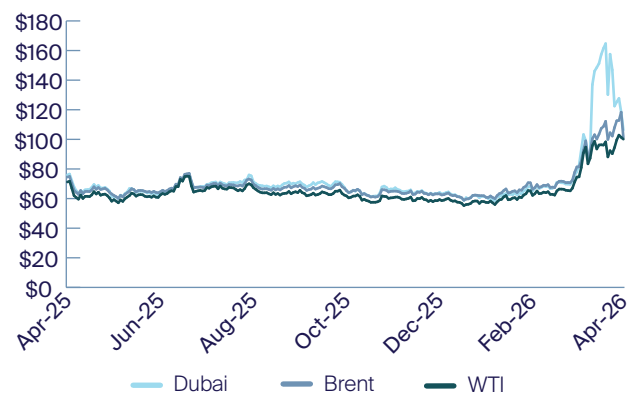
the quarter caused domestic equities to underperform international equities, extending a trend that began in 2025. This dynamic partially reversed in March as the onset of war led to dollar strength, benefiting domestic stocks. Further, equal-weighted equities in the US outperformed their market cap weighted counterparts as performance broadened.

Total return	2023	2024	2025	Q1 2026
S&P 500 Index	26.3%	25.0%	17.9%	-4.3%
S&P 500 equal-weight	13.9%	13.0%	11.4%	0.7%
MSCI EAFE	18.9%	4.3%	31.9%	-1.1%
MSCI Emerging Markets	10.3%	8.1%	34.4%	0.0%

### Iran war: geopolitics and energy markets

One of the greatest constraints to building data centers is access to power. War in the Middle East is a reminder of energy’s integral role in the global economy. Spiking energy prices across the globe threaten the disinflationary macro environment and may prompt central banks like the Federal Reserve and European Central Bank to reconsider their easing cycles. Higher energy costs are likely to pressure near-term consumer spending and weigh on corporate profit margins. Recently, equities have tended to trade inversely with oil prices and rallied into the quarter-end on hopes for an expedient end to the conflict.

### Oil futures contract by region – \$ per barrel



Source: Saturna Capital Research

### Outlook

We expect AI and geopolitics to feature prominently going forward. Spending on AI-related infrastructure is likely to increase again in 2027. The technology is evolving rapidly, from standard one-shot large language models to reasoning models that self-correct and now autonomous agents capable of performing increasingly complex tasks. Each advancement requires more computing power than the last. This trend supports continued investment in the semiconductor, power, and data center ecosystems, even as the underlying economics remain unsettled. As is often the case during periods of technological disruption, we expect the range of outcomes to widen across winners and losers.

Despite AI's importance, the Iran war is the most pressing event for equity markets. The ramifications of persistently high energy prices have economic knock-on effects the world over that is too broad to enumerate here. Regardless the outcome, we see the war supporting themes of electrification, reshoring, and alternative energies, all of which we believe offer upside to our portfolios.

In times like these, you can't predict but you can prepare. For us, that's allocating to resilient companies with adaptable businesses. If energy prices remain high for several months, global growth will slow, and a global recession may result. During the Global Financial Crisis, then-CEO of Texas Instruments Rich Templeton remarked that a recession is a terrible thing to waste. Great companies use economic dislocations to strengthen their position. While we don't yet know whether this will prove to be an economic dislocation, our investment philosophy of owning high-quality companies with low debt will allow us to navigate it.

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