

AI: Valuation signals

Joseph Wu, CFA – Toronto

The segment of the equity market more directly tied to AI has undergone a notable valuation adjustment amid sharper scrutiny of AI capex durability, monetization timelines, and lingering disruption risks.

Valuation reset

The narratives around AI continue to oscillate between enthusiasm over its transformative potential to concerns about the scale of capital expenditures (capex), monetization, and disruption risks.

With capex by eight of the largest U.S. tech companies expected to exceed [\\$1 trillion in 2027](#), according to Bloomberg, we view skepticism around the AI investment theme as healthy and warranted. But it is equally important to recognize that markets have not remained static. Valuations have already adjusted meaningfully to reflect various uncertainties and risks.

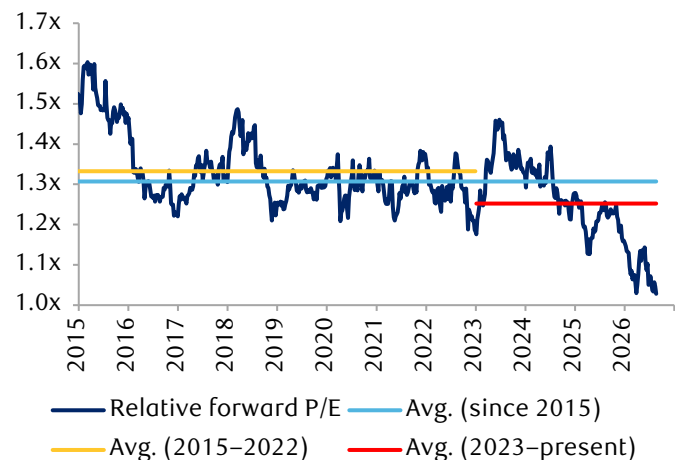
A broad basket of tech and AI-related companies now trade at roughly 20x forward earnings, down almost 30 percent from 28.5x in October 2025 and well below its 24.5x average since 2015. The relative valuation correction has been just as pronounced. From 2015 to 2025, this AI cohort commanded an average forward price-to-earnings premium of 30 percent to the S&P 500. That premium has fallen sharply, bringing the group close to parity with the broader market (see chart).

Trillion-dollar themes

The potential drivers behind this valuation reset can be broadly distilled into several interconnected themes.

Valuation premium has almost vanished

Broad AI basket vs. S&P 500



Note: Broad AI basket includes the S&P 500 Info Tech sector (70 percent) and equally weighted Amazon, Alphabet, and Meta Platforms (30 percent). The different averages in the chart contrast two distinct periods around the AI cycle. The 2015–2022 average premium (1.33x, 33 percent) captures the period before the start of the AI investment cycle. The 2023–present average premium (1.25x, 25 percent) captures the period after the start of the AI investment cycle.

Source - RBC Wealth Management, Bloomberg; data through 8/21/26

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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Priced (in USD) as of 8/26/26 market close (unless otherwise stated). Produced: 8/27/26, 15:46 ET; Disseminated: 8/27/26, 15:55 ET

The first concerns the capex cycle runway and financing. For much of the past three years, the largest tech companies were able to fund their investment programs from internally generated cash flow. That equation has changed as capex has grown much faster than cash flows. Major hyperscalers retain strong balance sheets and ample access to capital, but rising capital intensity means debt and other external financing are becoming more important to the AI buildout. This makes the investment cycle more sensitive to the cost of capital and the willingness of investors and lenders to provide funding. According to one of our third-party research providers, year-to-date AI capex debt issuance has already surpassed \$250 billion, nearly doubling last year's pace.

Next is monetization. For the capex cycle to remain durable, several things have to happen. Hyperscalers need to generate faster revenue growth and attractive returns from data centers (cloud computing services) that exceed their cost of capital. Innovations in AI products and services need to continue apace in order to drive adoption and increase compute demand. And enterprises need to convert AI experimentation into measurable improvements in sales, costs, or productivity. We think the Q2 2026 earnings season provided some encouraging signs that the demand side remains healthy. Microsoft, Amazon, and Alphabet—the three largest cloud infrastructure providers and the biggest AI spenders—all reported accelerating revenue growth, strong margins, and record backlogs.

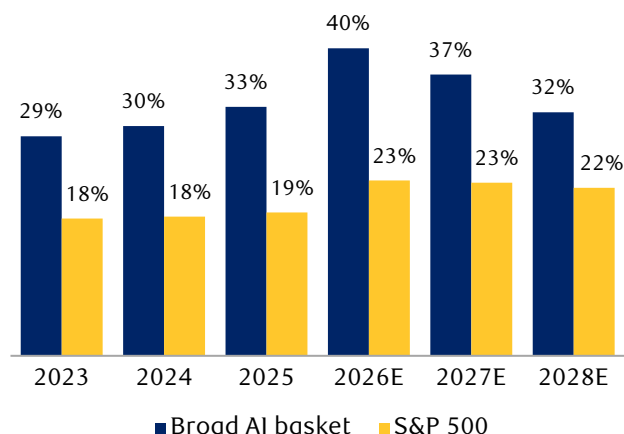
We think sustained momentum in financial results will be crucial to bolster confidence that AI spending can generate adequate returns on invested capital. This has implications for the biggest initial beneficiaries of the AI boom, the infrastructure suppliers—particularly semiconductor and memory chip makers, which have captured an outsized share of the economic benefits so far through extraordinarily high profitability. But because tech hardware industries have a long, cyclical history of steep corrections after periods of peak demand, the market is understandably assessing whether current profitability represents a durable increase in earnings base or a temporary windfall that could fade as supply constraints ease.

Finally, disruption risks will likely linger. Software has been at the epicenter of early concerns and valuation pressure recently, but AI could reshape business models across a much wider range of industries over time. Meanwhile, the unit economics of AI products and applications remain unproven, with lower-cost models from Chinese developers adding another layer of complexity for markets to digest.

Burden of proof

We believe AI has the potential to become a foundational technology for the economy, with applications spanning consumers and businesses. But the optimism that has

Can Tech companies keep their return on equity advantage?



Note: Return on equity is a measure of how well a company uses equity capital, calculated by dividing net profits by average shareholder equity.

Source - RBC Wealth Management, Bloomberg consensus estimates; data through 8/21/26

propelled AI stocks higher since 2023 has given way to a more discerning and disciplined environment.

Despite strong adoption and growth trends, valuations for the AI equity complex have compressed as market participants have become more conscious of the enormous capital requirements, uncertain monetization paths, and wide dispersion of potential long-term outcomes associated with a rapidly improving technology still in its early stages. Markets tend to price such uncertainty by demanding a larger margin of safety, and we think that adjustment appears to have taken place to some extent. Whether today's valuations, which appear more reasonable to us, have adequately discounted those risks and the probability of less favourable outcomes will take time to determine.

As the AI investment theme enters the "show me" phase, we believe each quarterly reporting season should help provide additional evidence on whether capital spending is producing commensurate revenue growth and cash flows. For valuations to stabilize or return to a premium, we think markets will need to see the companies most directly linked to AI continue to demonstrate durable demand momentum, improving monetization, and an ability to sustain above-market profitability over the long term (see chart above).

UNITED STATES

Tyler Frawley, CFA – Minneapolis

■ **The price of AI inference is falling rapidly.** The Silicon Data LLM Token Expenditure Index, a usage-weighted measure of the effective price paid per million tokens, has fallen 49% from its late May peak of \$2.07 to just \$1.06 today. **The decline reflects both falling prices and the growing availability of increasingly capable lower-cost models.** As the performance gap narrows, businesses have greater incentive to route simpler workloads to cheaper models and reserve the most expensive frontier models for tasks where their incremental capabilities justify the premium. For companies operating at the frontier, that could become an increasingly difficult dynamic, in our view. The better cheaper models become, the harder it is to maintain pricing power by simply offering the most capable model.

■ We discussed this dynamic in the July 9 Global Insight Weekly's feature article (["The commoditization of AI models and compute"](#)), making the case that models and compute could increasingly behave more like commodities as enterprises focus on controlling costs. The recent decline in token prices provides another indication that this process may already be underway. The implications for providers of LLMs could be significant. They are spending heavily to maintain their lead while simultaneously facing pressure to lower prices, creating, in our view, a more difficult path to strong and durable profitability unless falling prices are offset by substantial growth in usage. **Lower inference costs should accelerate AI adoption and make more use cases economically viable**, particularly as agentic AI increases the amount of inference required. However, this scenario relies on a substantial volume increase, which might not entirely counterbalance the erosion of pricing

AI token prices collapse as low-cost models gain share

Average price per million tokens



Source - RBC Wealth Management, Bloomberg; data range 12/1/25–8/25/26; Silicon Data LLM Token Expenditure Index

power. For investors, we think **the key question remains whether growth in AI usage can outpace the deflation in the price of intelligence.** If it cannot, we continue to believe the ultimate value created by AI may accrue less to the companies building the models and more to the businesses using them to improve productivity and reduce costs.

CANADA

David Iacono, CFA & Brett Feland – Toronto

■ **The unexpected failure of U.S. and Canada negotiations on trade terms last week** allowed President Donald Trump's threatened 50% tariffs on certain subsets of Canadian imports to take effect. Prime Minister Mark Carney cited last-minute U.S. demands—including restrictions on Canada's ability to negotiate other trade agreements—as his reason for terminating talks and recalling negotiators. In response to the U.S.'s Section 338 tariffs that came into force, Carney **announced matching 50% tariffs on Canadian-bound U.S. steel, aluminum, and other goods** on Tuesday, affecting more than 700 American-made products worth approximately US\$20 billion annually—roughly 6% of total U.S. exports to Canada. These counter-tariffs take effect September 8. The Canadian government also announced **CA\$7.5 billion in support for affected workers and businesses**, including loans, financing programs, and enhanced employment insurance eligibility. While certain sectors will face significant tariff impacts, the overall effect on the Canadian economy appears likely to be relatively contained based on current developments.

■ RBC Economics estimates that the new U.S. tariffs affect approximately 5% of Canadian exports to the U.S., or roughly 0.4% of Canadian GDP. The average effective tariff rate on Canadian imports has doubled to 6% from 3%, though more than 80% of goods flowing from Canada to the U.S. still trade tariff-free under CUSMA. Canada remains among the U.S.'s lowest-tariffed trading partners, though future developments could alter this picture. **We think these tariffs are more likely to weigh on Canadian growth than to fuel inflation.** This dynamic lends support to our view that the Bank of Canada (BoC) will keep interest rates on hold for at least the remainder of 2026. The market currently expects rate hikes from the BoC starting by early 2027, but given the risks to growth from these new tariffs, the BoC may opt to delay hikes even further, depending on how macroeconomic data evolves over the next few months. Rate cuts, on the other hand, remain unlikely in our view, as they would provide limited support to the tariff-impacted subsectors of the economy.

UK & EUROPE

Frédérique Carrier – London

- **Economic data in Europe continued to point to the region's resilience.** Coming off a strong July, economic activity in August remained healthy, if not quite buoyant. The Eurozone Composite Purchasing Managers' Index rose marginally to 52.1, beating expectations, and was up from 52.0 in July. This is a noteworthy performance in light of the re-escalation of the Middle East conflict, extreme hot weather, and low water levels. These are affecting the major waterways of the region, such as the Rhine River, a corridor carrying close to 300 million tonnes of freight annually to Germany's key industrial clusters.
- **A highlight of this economic data release was notable improvement in the German manufacturing sector.** It benefited from both defense spending and a data center buildout, two factors which are likely to continue to support economic activity.
- **While economic activity is stable in the eurozone, risks to energy prices and inflation remain tilted to the upside.** Inflation numbers, scheduled to be released Sept. 1, should offer further insight into these pressures. Beyond this, RBC Capital Markets expects elevated natural gas prices to register mostly next year, when storage sites need to be refilled, typically from April to October, for the following winter. This is in contrast to many commentators who expect gas prices to ease when winter demand drops off in early 2027.
- **For now, markets are pricing in a 97% probability of a European Central Bank (ECB) rate increase in September.** That would keep the ECB within its 1.75%–2.50% neutral rate range. While markets are divided on another rate hike in December, RBC Capital Markets expects the ECB to forgo it then, but maintain its hiking bias into 2027, with a further hike possible at that point.

Bloomberg APAC Semiconductors Index has rebounded around 20% in one month



Source - RBC Wealth Management, Bloomberg; daily data 8/27/25–8/27/26

ASIA-PACIFIC

Jasmine Duan – Hong Kong

- **Asian equities have largely recovered this week, led by semiconductor strength following NVIDIA's (NVDA) upbeat earnings guidance.** A Bloomberg index tracking Asian semiconductor stocks has rebounded by around 20% in one month. We think NVIDIA's robust sales outlook reassured investors that AI spending momentum remains intact, countering recent concerns about potential deceleration in the AI infrastructure cycle.
- **Chinese large language model makers have made progress recently.** Z.AI's (2513 HK) GLM-5.3-Flash model rose to the top of SAGE Benchmark Rankings over the weekend, lifting the stock's share price by more than 12% on Thursday. Priced at \$0.15–\$0.50 per million tokens, the company said in a statement that it expects to soon rival Anthropic's offerings at a fraction of the cost. Z.AI claims the model operates exclusively on domestically manufactured chips within a newly completed data center, underscoring China's push toward technological self-sufficiency in AI infrastructure.
- **Concurrent momentum came from peer MiniMax (100 HK), whose H1 2026 revenue surged 280% to US\$116.6 million, with annual recurring revenue hitting US\$800 million in August.** However, strong revenue growth masks underlying concerns. The company competes via budget-friendly models rather than frontier-level offerings. Its latest model, M3, offers competitive per-task pricing, but scored lower on intelligence compared with several domestic peers. Investors think MiniMax's strength could lie in certain consumer applications: its H3 video model rivals ByteDance's Seedance for creative studios, while consumer tools such as companion apps and workspace agents are generating revenue momentum.
- **Kioxia (285A JP), a Japanese NAND flash memory chipmaker, is partnering with SanDisk (SNDK) to invest over ¥5 trillion (US\$31 billion) across six years to expand Japanese NAND flash memory production.** Kioxia expects a Japanese government subsidy to cover approximately one-third of expansion costs, reinforcing Japan's strategic positioning as a leader in semiconductor technology. We think the expansion also reflects intense demand from tech giants securing multiyear contracts, and competitive pressure from South Korean and Chinese peers.

MARKET Scorecard

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -1.1% return means the Canadian dollar has fallen 1.1% vs. the U.S. dollar year to date. USD/JPY 159.29 means 1 U.S. dollar will buy 159.29 yen. USD/JPY 1.6% return means the U.S. dollar has risen 1.6% vs. the yen year to date.

Source - Bloomberg; data as of 8/26/26

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	7,675.70	2.5%	12.1%	18.7%	36.7%
Dow Industrials (DJIA)	53,463.88	1.9%	11.2%	17.7%	29.6%
Nasdaq	26,130.20	3.0%	12.4%	21.3%	47.4%
Russell 2000	3,005.90	2.5%	21.1%	27.4%	35.5%
S&P/TSX Comp	36,813.65	4.5%	16.1%	29.9%	57.7%
FTSE All-Share	5,866.59	0.5%	9.6%	16.9%	28.7%
STOXX Europe 600	656.41	1.1%	10.8%	18.4%	26.7%
EURO STOXX 50	6,470.74	1.8%	11.7%	20.2%	32.1%
Hang Seng	25,652.97	-0.9%	0.1%	0.5%	44.1%
Shanghai Comp	3,912.52	2.1%	-1.4%	1.1%	37.0%
Nikkei 225	66,262.16	3.0%	31.6%	56.3%	73.9%
India Sensex	77,472.94	-0.8%	-9.1%	-4.1%	-5.2%
Singapore Straits Times	5,721.59	1.7%	23.1%	34.8%	68.5%
Brazil Ibovespa	174,586.26	-1.9%	8.4%	26.7%	27.5%
Mexican Bolsa IPC	66,191.11	-1.1%	2.9%	13.9%	24.5%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.645%	-9.0	47.8	38.3	82.9
Canada 10-Yr	3.656%	-0.8	22.3	19.4	60.0
UK 10-Yr	5.031%	-1.9	55.2	29.1	111.9
Germany 10-Yr	3.234%	2.8	37.9	51.1	98.6
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.87%	1.0%	0.3%	2.6%	5.3%
U.S. Investment-Grade Corp	5.39%	0.9%	0.1%	2.4%	5.9%
U.S. High-Yield Corp	7.21%	1.0%	2.7%	5.1%	13.7%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,591.48	13.5%	6.3%	35.3%	82.3%
Silver (spot \$/oz)	68.00	18.1%	-5.1%	76.1%	127.4%
Copper (\$/metric ton)	14,505.94	4.8%	16.5%	48.7%	58.1%
Oil (WTI spot \$/bbl)	81.79	-3.4%	42.4%	29.3%	5.6%
Oil (Brent spot \$/bbl)	87.32	-3.1%	43.5%	29.9%	7.2%
Natural Gas (\$/mmBtu)	2.87	4.3%	-22.2%	5.5%	46.5%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	99.1420	-0.8%	0.8%	0.9%	-1.7%
CAD/USD	0.7207	1.1%	-1.1%	-0.3%	-2.8%
USD/CAD	1.3875	-1.0%	1.1%	0.3%	2.9%
EUR/USD	1.1655	1.1%	-0.8%	0.1%	4.4%
GBP/USD	1.3596	0.8%	0.9%	0.9%	3.1%
AUD/USD	0.7174	2.2%	7.5%	10.5%	5.9%
USD/JPY	159.2900	1.2%	1.6%	8.1%	10.2%
EUR/JPY	185.6500	2.3%	0.9%	8.2%	15.1%
EUR/GBP	0.8572	0.2%	-1.7%	-0.7%	1.3%
EUR/CHF	0.9385	0.9%	0.8%	0.3%	-0.7%
USD/SGD	1.2716	-0.9%	-1.1%	-1.1%	-2.5%
USD/CNY	6.7221	-0.5%	-3.8%	-6.0%	-5.6%
USD/MXN	16.9541	-2.2%	-5.9%	-9.2%	-12.6%
USD/BRL	5.1510	1.5%	-5.9%	-5.2%	-6.3%

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