GSFM FUNDS MANAGEMENT

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GSFM Symposium: AI, risk and valuation gaps

Investors need to look beyond traditional asset classes and approaches as shifts across global markets create new opportunities and challenges for portfolio construction, according to leading investment managers speaking at the GSFM Investment Symposium this month.

The Symposium brought together investment experts to examine the forces reshaping markets, from changing equity and bond correlations and valuation opportunities in Australian small and mid-caps, to the evolution of artificial intelligence, the growth potential across Asian markets and the increasing importance of infrastructure and private markets.

AI – the one trade that matters?

The growth and potential of AI has dominated markets since 2023, but Nick Griffin, CIO at Munro Partners, said the world is still only at the start of the AI story.

“There’s a lot of talk about whether we’re in an AI bubble and our view is this is a boom, not a bubble. AI is the next big platform shift, and it's only just beginning, so we believe this is a very good time to be investing,” he said.

“The shift to agentic AI is now taking off, and at a scale that we've never seen before in human history. But it’s still in its early stages – nothing grows like this at the end of its life, only at the start of its life.

“Investors who are concerned about whether current valuations are sustainable or when AI companies will start delivering on their promises should ask themselves this: Are people using a lot of AI? The answer is unequivocally yes. The next question is: are they going to use more AI? The answer is yes. AI is a general-purpose technology applicable to every industry worldwide. Currently we're probably using less than five per cent of all the AI we are going to use in the next decade, so there is enormous upside still ahead.”

Kevin Hebner, global investment strategist at TD Epoch, agrees that AI is a long-term story but said investors should also prepare for ongoing market volatility.

“Our view is that AI is the third industrial revolution and that brings opportunities, but investors should keep in mind there will be booms and busts along the way so they need to construct resilient portfolios.

“Comparable examples from the past, such as the growth of railways, electricity, and autos, show there are multiple booms and busts during these kinds of cycle, so it's important to create portfolios that are resilient, which means diversification - across the entire AI stack, geographies, and market cap.

“It's also important to de-hype portfolios. There's a lot of hype and concentration in portfolios, for example towards tech momentum. So portfolio construction, risk management analysis, and constructing resilient portfolios are critical, and it's more difficult than it's ever been before,” he added.

Kristin Ceva, senior portfolio manager at Payden & Rygel, said the growth of AI is also playing out in fixed income markets around the world.

“In fixed income markets, government issuance is expected to hold relatively flat over the next couple of years. But the area of fixed income that is really growing is AI financing, which is becoming more of a credit and fixed income story. In 2027, AI financing is expected to be around $600 billion as focus shifts from being equity-led towards credit becoming a larger percentage of the overall pie,” she said.

“As this plays out, it will have implications for yields, which will move higher, and credit spreads will potentially move higher as well. This makes it a longer-term positive story for savers and fixed-income investors.

“Fixed income also has an important role to play as a diversifier away from the AI trade. With the US equity market so dominated by AI assets, emerging market debt looks increasingly attractive. Many emerging markets are looking strong at the moment, having moved quickly to control inflation and supported by very resilient growth as well as improving external financing, better current-account balances and stronger foreign-reserve buffers.”

Alec Small, portfolio manager at Payden & Rygel, says the outlook for fixed income is very favourable.

"There's an adage in investing: do you want to eat well, or do you want to sleep well? The point being that a portfolio needs both, and bonds are the sleep-well side of it."

"What has changed is that investors are now being compensated properly for sleeping well, in a way they haven't been for a number of years. Everyone wants your money right now, and when capital is scarce it has a price. That price is the yield. It's a long way from the years after the financial crisis, when there was too much capital and not enough compelling places to put it, and lending to governments earned you very little after inflation."

"The AI build-out needs to raise more than a trillion dollars next year, and those estimates have only moved one way in 2026: up. The hyperscalers get most of the attention, and deservedly so. They stepped up materially this year, to around $300 billion of bond issuance, and we expect that elevated pace to continue.

But the incremental growth is coming from everyone else: data centres, neoclouds, the AI labs, plus new equity and IPOs. That is a lot of supply for the market to absorb, and it is one of the bigger reasons investors are being paid more to lend today."

"And it's not just a US story. We look at real yields, which is simply what you're paid after inflation, and we compare each market against its own ten-year history rather than against each other.

On that basis, yields are elevated right across the market, in the US, in other developed markets and in emerging markets. For a stretch of the last decade, investors in some of those markets were effectively paying for the privilege of lending. That has reversed everywhere."