中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

Video subject: Investment Strategy for the AI Era of Capital-Intensive Assets

Video highlights:

- Recent sharp corrections across major Asian indices, including Nikkei 225, KOSPI and TWSE, reflect growing concern over the actual return on investment (ROI) for AI. This marks a pivotal structural shift: the AI narrative is transitioning from a speculative growth story to a rigorous evaluation of sustainable profitability amid massive capital expenditure (Capex).
- To accelerate data centers and server construction, hyperscalers have dramatically scaled up Capex, with aggregate spending projected to exceed $700 billion USD this year—nearly doubling last year's figures. As this expenditure approaches or exceeds operational cash flows, tech giants are issuing massive volumes of corporate bonds to bridge the financing gap.
- This surge in supply has begun widening investment-grade credit spreads. Investors are demanding higher new-issue premiums, which pressure secondary bond markets and reduce overall digestion capacity. This confirms that AI is becoming a capital-intensive, long-duration asset that cannot be fully covered by near-term cash flows. This imbalance increases pressure on fixed income markets and drives up long-term yield risks.
- For fixed income strategy, investors could adopt short-duration bonds, keep the overall portfolio duration between 4 to 6 years, and diversify away from heavy US bond market into other regions, such as Asian bond market, especially Chinese bond market has outperformed major global peers year-to-date.
- For equity strategy, while semiconductor stocks are consolidating, the secular AI theme remains intact. The focus could be shifted across the broader AI value chain:
    - Upstream (Chips): High growth potential but faces intensifying competition and rising geopolitical supply-chain risks.
    - Midstream (Data Centers and Infrastructure): Offers the highest near-term visibility. Demand for power, liquid cooling tech, and networking equipment remains incredibly robust.
    - Downstream (Applications): Shift allocation towards sectors with more mature commercialization of AI applications, such as finance, healthcare, and industrials.
- US inflation data came in below expectations, reducing rate hike odds and likely causing the dollar index to consolidate between 100 to 102 in near term. However, investors should closely monitor the late-July Fed meeting and its five new task forces for guidance on inflation, the balance sheet, productivity, and employment.

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