AI & Metaverse strategy

AI infrastructure demand surges as trade risks recede and corporate adoption rises

- Global equity markets rose in July, supported by US trade deals and strong earnings start
- The strategy outperformed the global equity market, led by strength in AI infrastructure
- Added to AI infrastructure exposure; exited select semiconductor, software, and auto names

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What's happening?

Global equity markets were strong in July, the MSCI All Country World Net Total Return Index returning 1.4% in USD terms. Markets benefitted from improved investor sentiment and reduced risks of a trade wars following announcements of US trade agreements, including with Japan and the EU. The US administration also passed the OBBBA (One Big Beautiful Bill Act), which may help support US economic growth in the quarters ahead.

Within AI, the second quarter earnings season got underway during the month, delivering a strong increase in hyperscaler capex plans, with estimates for calendar year 2025 capex by Microsoft, Google, Amazon, Meta, Oracle and Coreweave collectively up 11% during the month from $356bn to $394bn and for calendar year 2026 up 22% from $376bn to $460bn.

This build is now being underpinned by explosive inference demand, training demand no longer shouldering the burden on its own. This is a much healthier situation and reflects positively on the key question of the return on investment for AI that has accompanied AI capex during the past couple of years.

For example, OpenAI's ChatGPT reached around 700 million weekly active users as at the end of July, up from around 400 million in February this year, while Google processed 980 million AI inference tokens in July, double the rate of 480 million in May and almost 100x the rate of around 10 million in early 2024. Indeed, boosted by accelerating enterprise AI demand, Google Cloud saw revenue growth accelerate to 32% year-on-year in Q2 from 28% in Q1, while Microsoft Azure and other cloud services saw revenue growth accelerate to 39% for the quarter from 33% in the previous quarter.

AI-related revenues further downstream remain a much more mixed picture, with the unmistakable signs of disruption emerging alongside opportunity. For example, while AI innovators like Palantir and ServiceNow (both held in the strategy) are seeing AI-driven revenues accelerate, bell-weathers in software and services, from Adobe to Accenture are experiencing stock declines as they fail to demonstrate enough benefit from AI to offset the growing risks of encroachment from competitors harnessing AI to deliver offerings at significantly lower cost.

Portfolio positioning and performance

The AI & Metaverse strategy outperformed the MSCI All Country World Index during the month. We believe active investment management is essential in these conditions and our strategy captures opportunities across both AI infrastructure (enablers) – companies enabling the use of AI – and AI innovators (applications) – companies using AI. During July, both sub-themes contributed positively to the strategy's return with AI infrastructure the stronger of the two, contributing about three-quarters of the strategy's return.

Within AI infrastructure, the biggest positive contributors were Nvidia, AMD and Arista Networks, all three companies benefitting from the aforementioned growth in AI capex plans. Nvidia's supply chain issues earlier this year are now solved enabling strong shipments of Blackwell GPU solutions, while AMD's product slate for 2026 looks increasingly encouraging. Furthermore, both companies will be able to ship to China once again, following the removal of recently introduced US government restrictions.

The biggest detractors in AI infrastructure were ARM, ASM and Confluent. All three companies faltered after reporting earnings during the month. ARM articulated a slightly weaker short-term outlook than expected based on smartphone and IoT weakness, but we remain confident in its structural drivers, while ASM suffered alongside other semiconductor production equipment providers from Chinese demand expectations. Confluent reported a disappointing further deceleration in cloud revenues caused in part by a large customer switching to an in-house solution.

Within AI innovators, the biggest positive contributors were Roblox, Palantir and Synopsys. Roblox reported results well ahead of expectations as its hit game Grow-a-Garden – now one of the most successful games in history – helped drive 51% sales growth year-on-year. We see an excellent opportunity for Roblox as the leading modern game platform to use AI for game development and discovery to enhance its position. Palantir posted impressive results in early August with revenue growth accelerating to 48% year-on-year from 39% year-on-year in the first quarter, driven in particular by US commercial up 93% year-on-year, reflecting we believe the coming strength in enterprise AI usage and Palantir's trailblazing position in helping companies deploy AI. Synopsys benefitted during the month from clarity around its ability to sell EDA products in China following recent uncertainty from US government restrictions and the official closing of its acquisition of Ansys.

The biggest detractors in AI innovators were Spotify, Procept Biorobotics and Netflix. Spotify and Netflix reported earnings displaying encouraging business performance and remain strategically well positioned as AI innovators, however, they somewhat missed very high expectations for earnings, having had a good run in recent months. Procept fell during the month as it announced a CEO transition, however we remain optimistic on the opportunity for their robotic solution for prostate surgery.

In terms of market capitalisation, the strongest part of the overall market was mega-cap with MSCI ACWI companies with market capitalisation over $500bn returning 5.2% in USD terms during the month. This was largely due to the aforementioned strength of demand for AI infrastructure. The strategy is underweight mega-caps based on its next generation approach, nevertheless the strategy's mega-cap holdings outperformed those of the benchmark during the month, returning 6.6% in USD terms.

During July we initiated positions in Datadog, Oracle, Credo Technology and Amphenol. We believe Datadog represents an underappreciated opportunity within AI infrastructure software, enabling companies to monitor and manage AI models and agents and demonstrating a strong revenue growth contribution from AI native customers. Oracle has seen a strong recent improvement in the strategic prospects for its cloud infrastructure business through its partnership with OpenAI, which we believe will enable it to particate strongly in the AI infrastructure in the years ahead. Credo Technology holds leadership in active electrical cables for usage within the scale-out of AI compute and a growing opportunity for them in optical solutions, while similarly Amphenol has exceptional strengths in datacenter networking and connectivity equipment.

During the month, we sold Qualcomm, SK Hynix, ASM, Mongo DB, Tesla, and CyberArk. Despite Qualcomm's positive diversification from mobile phone semiconductors into broader faster growing areas such as automotive and IOT we believe we can access better structural AI exposure in other semiconductor companies, which we implemented by increasing our weight in Nvidia. Likewise, for Micron and ASM, we see better current opportunities elsewhere in AI infrastructure, particularly in the case of SK Hynix given the strong run year to date for memory stocks.

We held more significant concerns about Mongo DB leading us to sell our holding, having seen a sharply more competitive environment within databases, including the recent strong growth of open-source Postgres, which we believe could weigh on growth. Likewise, we held growing concerns around slowing autos sales and the current quality of management execution at Tesla. Finally, we sold CyberArk, the privileged access and identity security provider, after Palo Alto announced an agreement to acquire the company at a 26% premium.

Outlook

Market sentiment is improving as trade agreements are largely being settled well below the worst possible outcomes and the risks of trade wars are receding. That said, there remain important details yet to be confirmed on a number of the agreed deals and, of critical importance, a deal with China is required before we can definitively move beyond this period of tariff uncertainty.

In the meantime, during earnings season so far, we have generally seen resilience of company results, which is reassuring, and companies driving success through AI in particular are being well rewarded.

The economic outlook for the second half of the year remains a key question for investors as policy uncertainty created so far this year may yet leave its mark on the economy. However, we are confident that the structural drivers unleashed by AI will produce strong business and stock performance for those companies on the right side of this theme

Investment Strategy

Our strategy of investing in companies across AI infrastructure and AI innovators provides a diversified approach to capturing the gains of AI. We believe AI is a once-in-a-generation general purpose technology with high return on investment (ROI) opportunities across the whole economy. We are focused on investing in companies that can deliver superior stock returns by unlocking these opportunities and possessing strong barriers to competition.

We believe the accelerating use of AI in the economy so far this year underlines the strong potential of the investment strategy. At the same time, whilst most – if not all – companies will use AI in the coming years, not all will win through AI. Indeed, many will be disrupted by its emergence, as we believe is beginning to be reflected in the stock market. As such, we believe an active and dynamic investment approach to AI is essential, as we implement in this strategy.

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