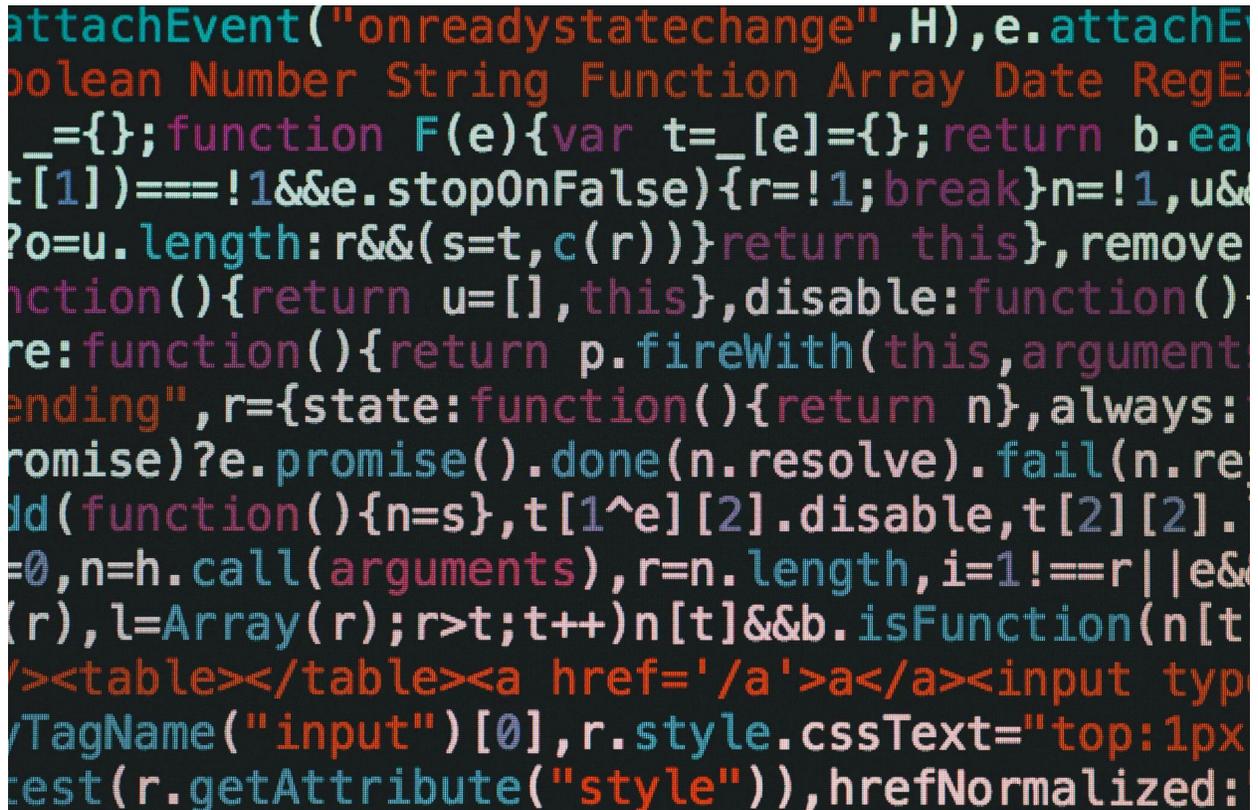


Jan 7 2026

# AI Investment Risk Assessment

## Are we on the road to an AI bubble?

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### Introduction

AI has been a major player in shaping the 2020 decade. AI got integrated in everyday life, in homes, in relationships, in careers and is here to stay. There is no doubt about it, it was a transformation like no other before, people can't imagine now what life would be without it and would feel the extra work payload if it disappeared overnight. The stock market is at an [all-time-high](#) and everyday a new AI startup pops up to intrigue investors minds by automating something that was performed manually by now. Everything sounds and feels optimistic, with no one questioning if it's ever going to end simply because no one wants it to end. The question that I am trying to answer in this report is: *"Are we near the end of the AI revolution or is AI going to benefit us even more?"*

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## The Datacenter Era

For an AI large-language-model (chatbot) to exist, it needs three pillars to base on:

1. A datacenter that is storing all of the training and testing data, with a huge need for valid / clean data to train the AI on without making it biased and inaccurate
2. A huge need for electrical power, often creating methane powered generators to avoid connecting the datacenter power source to the city's electrical grid, because of the high energy consumption\*.
3. A team of researchers to fine-tune the parameters in order to maximize the training results and get a performative AI chatbot.

\*Grid congestion is a major barrier, especially in high-demand regions like Northern Virginia, where power demand is projected to rise from 4,000 MW to 15,000 MW by 2030 potentially half the state's total [load](#). Transmission networks are already saturated, and expanding them requires years of regulatory approval and significant [investment](#). As a result, data centers are bypassing the grid entirely to avoid these delays and ensure immediate access to [power](#).

As of right now, project "[stargate](#)", funded by the American government / Authorised by mr.Trump, gave a staggering amount of 500bn dollars to fund the development of datacenters and train the most performative AI's in the world. The project is already active and in Huston, Texas huge datacenters are being built to support the huge computing power needed to train the AI models. This has severe effects on the world-wide market of computing hardware, making for example the cost of RAM to skyrocket by [3x - 5x](#).

## The ***"Too Much to Spend, Too Little to Gain"*** Paradigm

The huge difference between the tangible productivity gains realized by the broader economy and the actual capital poured into AI infrastructure, made economic analysts from Goldman Sachs, to write a report called "[Gen AI: Too much spend, too little benefit?](#)"

The report mentioned that while bullish / optimistic analysts project massive productivity gains, (Daron Acemoglu, Institute Professor at MIT) Acemoglu estimates that only a quarter

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of AI-exposed tasks will be cost-effective to automate within the next decade. This implies that AI will meaningfully impact less than 5% of all tasks in the near term.

Jim Covello, Head of Global Equity Research at Goldman Sachs, expands on this risk by targeting the cost structure of the technology itself. He argues that for a technology to drive a historical economic transition like the internet or electricity it must offer a low-cost solution to disrupt high-cost incumbents. Generative AI, however, is an "exceptionally expensive" technology designed to solve problems that are often not complex enough to justify the cost.

## **The \$600 Billion Revenue Gap**

The financial sustainability of the AI ecosystem is currently predicated on future revenue expectations that show little sign of materializing. Sequoia Capital's analysis of the "[AI Revenue Gap](#)" provides a quantitative framework for this risk. By late 2025 / early 2026, the gap between the capital expenditure on AI infrastructure (primarily Nvidia GPUs and data centers) and the actual revenue generated by the software ecosystem had widened to approximately \$600 billion.

## **Anatomy of the Crash: Historical Parallels and Systemic Fragility**

The current market environment mirrors previous speculative bubbles with alarming precision. Understanding these historical parallels provides a roadmap for the potential unraveling of the AI market in 2026 and 2027.

## **Michael Burry's "Cassandra Unchained"**

Michael Burry, famous for predicting the Great Financial Crisis, has been vocally warning of an AI bubble through his "Cassandra Unchained" blog. His analysis focuses on "[Supply-Side Gluttony](#)" — the phenomenon where infrastructure is built not to meet current demand, but to satisfy a narrative of future growth.

Burry's Cassandra Unchained Sparks AI Short Debate - AI CERTs:

<https://www.aicerts.ai/news/burrys-cassandra-unchained-sparks-ai-short-debate/>

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Famous "Big Short" investor Michael Burry is betting against AI giants:

<https://cybernews.com/ai-news/michael-big-short-ai-revolution-bubble/>

Why Nvidia's Growth Is Now Tied To Debt-Loaded AI Customers:

<https://www.sahmcapital.com/news/content/why-nvidias-growth-is-now-tied-to-debtloaded-ai-customers-2025-11-20>

## **The Lucent Technologies Analogy**

Burry explicitly compares the current AI boom to the rise and fall of Lucent Technologies during the dot-com era. In the late 1990s, Lucent was the darling of Wall Street, selling massive amounts of telecom equipment. However, it was later revealed that much of this growth was fueled by vendor financing: Lucent was lending money to speculative startups so they could buy Lucent's equipment.<sup>10</sup> When the startups failed to monetize their fiber networks, they defaulted on the loans, causing Lucent's revenue to evaporate and its stock to collapse from \$84 to \$2.

Burry sees the exact same dynamic in 2026. The "customers" driving the demand for GPUs and cloud capacity are often unprofitable AI startups funded by the very cloud providers (hyperscalers) selling them the capacity. This creates a fragile ecosystem where revenue is booked but cash flow is circular. For a telecom company, this signals that the partners and vendors in the AI space may be far less financially stable than their market capitalizations suggest.

## **The Depreciation Trap**

A critical accounting risk identified by Burry is the manipulation of depreciation schedules by hyperscalers. To maintain earnings growth, major tech companies have extended the "useful life" of their server assets from 3-4 years to 6+ years. This accounting trick lowers the annual depreciation expense, artificially inflating net income.

However, the reality of the AI hardware cycle is one of extreme obsolescence. With Nvidia releasing new architectures (Blackwell, Rubin) on an annual cadence, an H100 chip purchased in 2024 is effectively obsolete by 2027. By extending the accounting life of these

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assets beyond their technological relevance, companies are building up a massive "impairment bomb." Burry estimates this understatement of depreciation could amount to \$176 billion between 2026 and 2028. When these assets are inevitably written down, it will trigger a sector-wide repricing of tech/telecom valuations.

GPUs as Collateral — Chip Based ABS by elongated\_musk:

[https://medium.com/@Elongated\\_musk/gpus-as-collateral-chip-based-abs-acf55ac3f135](https://medium.com/@Elongated_musk/gpus-as-collateral-chip-based-abs-acf55ac3f135)

## The "Financial Ouroboros": Circular Financing Risks

The status of the AI market is described by what venture capitalists and economists have termed a "Financial Ouroboros", meaning a snake eating its own tail. This refers to the prevalence of circular financing arrangements that artificially inflate revenue figures across the sector.

### The Mechanism of Round-Tripping:

The mechanism is as follows:

- **Cloud Provider A** (e.g., Microsoft, Oracle, Google) **invests \$1 billion** in **AI Startup B** (e.g., OpenAI, Cohere, Anthropic).
- **AI Startup B** signs a contract to **spend \$1 billion** on **Cloud Provider A's** compute services **over several years**.
- **Cloud Provider A** books this as "Cloud Revenue Growth," **boosting its stock price**.
- **AI Startup B** books the investment at a high valuation, **boosting its prestige and ability to raise more funds**.

While legally distinct from the fraudulent round-tripping of the Enron era (because services are actually delivered), the economic effect is similar: capital is recycled rather than generated from genuine end-user demand. Examples include Microsoft's \$13 billion investment in OpenAI coupled with OpenAI's massive Azure commitments, and Google/Amazon's multi-billion dollar stakes in Anthropic coupled with cloud mandates.

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## **The CoreWeave-Nvidia Nexus**

Perhaps the most concerning example of this is the relationship between Nvidia and CoreWave. Nvidia invested in CoreWave, a specialized GPU cloud provider. CoreWave then used that capital, and billions in debt secured by Nvidia chips, to buy massive quantities of Nvidia GPUs. This boosts Nvidia's revenue. CoreWave then uses the GPUs as collateral to borrow more money to buy more GPUs.

This creates a systemic risk for the entire hardware market. If the value of the collateral (the GPUs) drops due to the release of a new generation of chips, CoreWave (and similar "Neo-Clouds") could face margin calls. This would force the liquidation of hardware inventory, crashing the secondary market price of chips and potentially bankrupting the cloud providers that many enterprises rely on. A telecom company relying on a partner like CoreWave for its AI infrastructure would face sudden service discontinuity or vendor bankruptcy.

### ***Are we near the end of the AI revolution or is AI going to benefit us even more?"***

The report concludes that the ecosystem is fragile, heavily leveraged, and reliant on accounting tricks and circular financing that are unsustainable, mirroring the collapse of Lucent Technologies in the late 90s. Based on the data presented in the report, we are likely nearing the end of the current "AI revolution" phase, transitioning instead into a significant market correction or bubble burst rather than immediate added benefit. The report argues that the industry is trapped in a "Too Much to Spend, Too Little to Gain" paradigm, evidenced by a massive \$600 billion gap between infrastructure spending and actual revenue. With projections showing that less than 5% of tasks will be cost-effective to automate in the near term and systemic risks like "circular financing" creating financial fragility, the analysis predicts a potential unraveling of the market in 2026 and 2027 comparable to the dot-com crash.