

## **Why the S&P 500's AI Boom Masks a Fragile Economy**

Konnor Fortini

*The Revere* Economy Section

February 15, 2026

On January 28th, the Standard & Poor's 500 (S&P 500), the index that tracks the stock performance of the 500 leading companies in the United States, reached an all-time high, crossing 7,000 points ([Chauhan & Nishant](#)). This milestone can be attributed in part to investor confidence in the advancements in artificial intelligence (AI). Many companies in the index have leveraged their resources and invested heavily in AI; 28% of the S&P 500 are the leading AI companies ([Di Pizio](#)). Investors are confident that these multi-billion-dollar investments in AI will generate significant returns, yet at this stage, returns have not materialized. While the number of AI products increases exponentially each day, the amount a consumer spends decreases. 92% of Americans have significantly cut back on spending in 2025, including essentials such as groceries and healthcare, while 49% have dipped into savings just to get by ([PR Newswire](#)). The S&P 500 is not indicative of consumer finances in this country; it is a measure of investors' perceptions of American corporate performance. Thus, investor confidence in AI companies does not translate to improved consumer financial health, highlighting a disconnect between stock market performance and the economic realities faced by many individuals. Without consumer spending, these "top-player" companies do not gain the capital necessary to recoup their billion-dollar investments in AI. Considering the top 10 accounts for 40.7% of the S&P 500's weight, more than double that of a decade ago, the S&P 500's share price is closely tied to the performance of these companies ([RBC](#)). The unwarranted investor confidence is driving the S&P 500's skyrocketing; however, sooner or later, the AI companies will realize that the American people are not at a point where buying AI products is in the cards. The S&P 500's record high is less a verdict on the economy than a bubble built on AI hype, where a few dominant tech firms inflate valuations faster than actual productivity and real-world household finances can catch up.

Today, everyone has heard about the supposed positive impact AI will have on the world, yet most people *still* do not interact with AI in a meaningful way. While it has been helpful in fields such as medicine and computer science, the average consumer just opens ChatGPT, asks a question, and then logs off. AI has become the market's dominant story, and stories can move prices faster than fundamentals, showing clear signs of value expansion. Value expansion occurs when investors pay more for each dollar of a company's earnings, causing the share price to rise faster than the underlying business fundamentals. It is mainly driven by investor optimism, and that is the case with AI. Reuters analysts found that "Tech earnings, powered by AI boom, are largely expected to drive U.S. corporate growth in the fourth quarter, with the sector's profit projected to rise about 27%, compared with an estimate of a 9.2% increase overall for S&P 500 companies," indicating the S&P 500's heavy reliance on AI hype ([Chauhan & Nishant](#)). Jared Bernstein, Former United States Chairman of Council of Economic Advisers, compares the AI hype to the dotcom bubble, stating, "We point out that the share of the economy devoted to AI investment is nearly a third greater than the share of the economy devoted to internet-related investments back during the dotcom bubble. So, we think there are enough analogies there to make the call." The AI hype/bubble may eventually pop, revealing the arguable revenue stream AI currently has. As the former Intel CEO Pat Gelsinger put it: "Are we in an AI bubble? Of course! ... Of course we are. I mean, we're hyped, we're accelerating, we're putting enormous leverage into the system ([CNBC](#))."

When it comes to non-AI company shares, prices reflect real consumer spending, which is currently masked by the "top-heavy" distribution of the S&P 500. The recent S&P 500 weight distribution has been unusually narrow, with record highs being driven disproportionately by a small group of AI companies, while other stocks are seeing far less benefit. Forbes states that the

Magnificent Seven (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) contributed a cumulative 68.4 percent gain to the S&P 500, roughly doubling what investors would have earned without their outsized impact ([Brock](#)). A common factor among all these companies is their heavy investment in AI, which has led to their share prices rising as AI is where investor confidence lies today. Yet, when looking at the S&P 500 Equal Weight Index, it outperformed the standard S&P 500 by about 1.05% annually until the AI boom in 2022. Since then, the index has underperformed, as the Magnificent Seven's returns have overshadowed the rest of the index ([Invesco](#)). AI stocks have been siphoning away capital and resources from other sectors, leading to a widening gap in performance between AI-driven companies and those in traditional sectors. The S&P 500 is being inflated by investor confidence in the high concentration of AI companies, creating a significant disparity in performance between the top performers and the broader market. As more capital flows into AI, other sectors may struggle to attract necessary investments, ultimately affecting overall market stability.

The AI hype is inflating valuations and accelerating innovation, but many households are growing more financially stretched, meaning the consumers that companies need to monetize AI are unable to afford their new products and services. While AI services like ChatGPT and Google Gemini are free, this has also made profitability difficult for AI companies. OpenAI is expected to lose \$44 billion over the next 3 years, suggesting that investor confidence is not correlated with AI companies' fundamentals ([Laird](#)). A significant 77% of Americans are worried that AI could endanger humanity. Additionally, a survey on the level of trust Americans have in AI across various industries revealed that none of these sectors received a positive trust score, with finance and healthcare receiving the lowest ([YouGov](#)). Thus, we are at an impasse: AI services are not profitable for corporations, and the vast majority of Americans do not trust

AI. All these things are signs that AI is not “living up” to its hype, yet its share price continues to rise due to investor confidence.

Investors are pricing AI as if today’s spending will quickly translate into sustained, high-margin revenue, yet profitability and scalable monetization remain unseen. While some AI companies, such as Loveable, that use AI to solve a real problem, the Magnificent Seven are investing in AI partly out of competitive necessity, inflating valuations faster than earnings can justify. If AI-driven revenue does not arrive on the timeline investors hope for, the S&P 500’s top-heavy structure makes it likely the share price will fall. In that light, the S&P 500’s recent record highs indicate an increasing gap in investor excitement about AI’s potential between large corporations and the American public that keeps the economy going.

## References

- Ablin, Jack. "Market Update 12/17/25: 2026 Outlook: Is AI a Bubble?" *Cresset*, 17 Dec. 2025, [cressetcapital.com/articles/market-update/market-update-12-17-25-2026-outlook-is-ai-a-bubble/](https://cressetcapital.com/articles/market-update/market-update-12-17-25-2026-outlook-is-ai-a-bubble/).
- Brock, Catherine. "S&P 500'S Weight in Mag 7 Stocks Passes 30%. Is This a Diversification Risk?" *Forbes*, 26 Aug. 2025, [www.forbes.com/sites/investor-hub/article/sp-500-weight-mag-7-stocks-diversification-risk/](https://www.forbes.com/sites/investor-hub/article/sp-500-weight-mag-7-stocks-diversification-risk/).
- Chauhan, Shashwat, and Niket Nishant. "S&P 500 Breaches 7,000 Points for the First Time, Lifted by AI Optimism." *Reuters*, 28 Jan. 2026, [www.reuters.com/business/finance/sp-500-crosses-7000-points-first-time-lifted-by-ai-optimism-2026-01-28/](https://www.reuters.com/business/finance/sp-500-crosses-7000-points-first-time-lifted-by-ai-optimism-2026-01-28/).
- chloetjada. "The 'Great Narrowing': S&P 500 Concentration." *RBC Wealth Management*, 23 Jan. 2026, [rbcwealthmanagement.com/en-us/insights/the-great-narrowing-sp-500-concentration](https://rbcwealthmanagement.com/en-us/insights/the-great-narrowing-sp-500-concentration). Accessed 22 May 2026.
- Di Pizio, Anthony. "These 5 Artificial Intelligence (AI) Stocks Make up 28.8% of the Entire S&P 500 Index." *Nasdaq.com*, 2025, [www.nasdaq.com/articles/these-5-artificial-intelligence-ai-stocks-make-288-entire-sp-500-index](https://www.nasdaq.com/articles/these-5-artificial-intelligence-ai-stocks-make-288-entire-sp-500-index).
- Invesco. "Three Compelling Reasons to Consider S&P 500 Equal Weight." *Invesco*, Invesco, 23 Jan. 2025,

[www.invesco.com/apac/en/institutional/insights/etf/three-compelling-reasons-to-consider-s-and-p-500-equal-weight.html](http://www.invesco.com/apac/en/institutional/insights/etf/three-compelling-reasons-to-consider-s-and-p-500-equal-weight.html).

Munjal, Mayank, and Vineet Sanchdev. “Just How Big Is the AI Investment Wave?” *Reuters*, 5 Dec. 2025,

[www.reuters.com/graphics/USA-ECONOMY/AI-INVESTMENT/gkvlqbgxkpb/](http://www.reuters.com/graphics/USA-ECONOMY/AI-INVESTMENT/gkvlqbgxkpb/).

Ramsey Solutions. “The State of Personal Finance in America Q4 2025.” *Ramsey Solutions*, 4 Aug. 2025,

[www.ramseysolutions.com/budgeting/state-of-personal-finance?srsId=AfmBOopyxI3CL5Qgi0byOBNJuEWXPIRvgvWy9nkarWnKfXS7wm5M\\_ftJ](http://www.ramseysolutions.com/budgeting/state-of-personal-finance?srsId=AfmBOopyxI3CL5Qgi0byOBNJuEWXPIRvgvWy9nkarWnKfXS7wm5M_ftJ). Accessed 22 May 2026.

Randewich, Noel, and Pranav Kashyap. “S&P 500 Flirts with Record High; Chipmakers and Small Caps Jump.” *Reuters*, 2 Feb. 2026,

[www.reuters.com/business/us-stock-futures-slide-commodity-rout-rattles-markets-2026-02-02/](http://www.reuters.com/business/us-stock-futures-slide-commodity-rout-rattles-markets-2026-02-02/).

USAFacts. “Why Aren’t Americans Saving as Much as They Used To?” *USAFacts*, 30 May 2025, [usafacts.org/articles/why-arent-americans-saving-as-much-as-they-used-to/](https://usafacts.org/articles/why-arent-americans-saving-as-much-as-they-used-to/).

Yip, Jaures. “Are We in an AI Bubble? Here’s What Analysts and Experts Are Saying.” *CNBC*, 21 Oct. 2025, [www.cnbc.com/2025/10/21/are-we-in-an-ai-bubble.html](http://www.cnbc.com/2025/10/21/are-we-in-an-ai-bubble.html).