Three warnings on the AI valuation boom

A regulator, an investor and a rater.

01 **BIS**
THE REGULATOR

Models the AI race and finds it **over-invests 1.5 to 3 times** the efficient level.

02 **Warren Buffett**
THE INVESTOR

Sitting on a record **$397bn** in cash, he says the market now prefers **gambling**.

03 **S&P Global**
THE RATER

Cut **Oracle** to one notch above junk, on the cost of its AI build-out.

Amar Harolikar
Decision Sciences & Applied AI

The BIS modelled the AI race. It over-builds by design.

1.5 to 3x

The AI race over-invests **1.5 to 3 times** the efficient level. The larger the boom, the deeper the bust.

$879bn
purchase commitments (promises)

$46bn
cash actually deployed

Promises stacked **roughly 19 times** the cash behind them.

- Debt, off-balance-sheet vehicles and **circular financing** (a builder takes equity in an AI lab, the lab promises to buy its compute) fund the build-out.
- That **wires the players together**, so stress in one can cascade through the whole chain.

Why a real technology can still end in a bust.

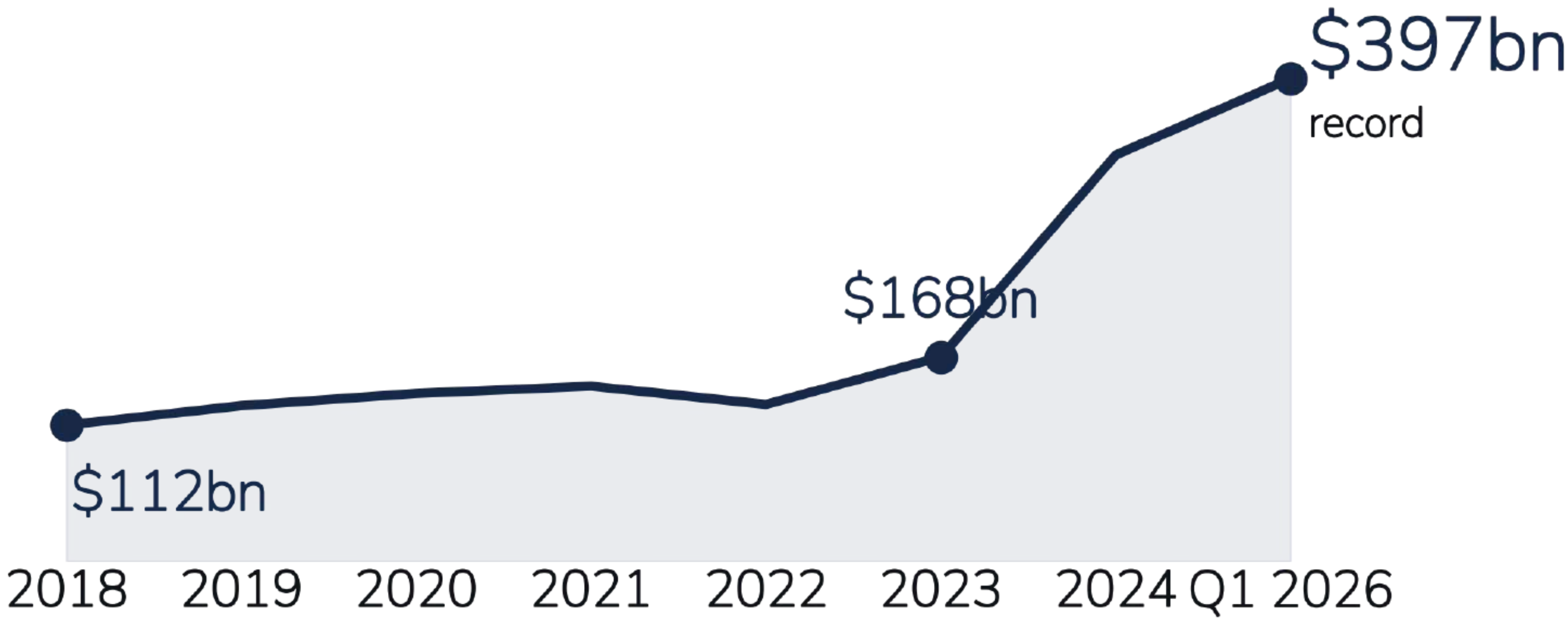
- **It is a contest.** Firms race for a few winner-take-most spots, so each commits far more capital than the likely returns justify.
- **The financing is fragile.** The build-out leans on debt, off-balance-sheet vehicles and non-bank lenders, on top of circular equity-for-compute deals.
- **History rhymes.** Canal mania, railway mania, the roaring 20s, dotcom. Real breakthroughs, and corrections that spread well beyond the sector.

> *"The specialised capital that powers the boom is also what a downturn must liquidate, all at once and into a thin market, so the losses deepen with the sector's own leverage."*
>
> **BIS Working Paper 1367, conclusion**

"It's tough to find values when everybody is preferring gambling."

Warren Buffett · CNBC Squawk Box · 15 July 2026

His answer is to hold. The cash pile is at a record.



Berkshire Hathaway cash and short-term Treasuries, $bn. A record $397bn, mostly Treasuries, up from flat levels for years. Source: Berkshire 10-K / 10-Q (SEC).

> *The market, he says, is now "a church with a casino attached," and one-day options are "gambling."*
>
> Warren Buffett · May 2026 (via CNBC)

S&P cut Oracle to one notch above junk. The reason is the AI build-out.

BBB–

Oracle downgraded to the **lowest rung of investment grade**. One more cut would tip it into junk, though S&P's outlook is stable.

–$42bn

Its projected **2027 free cash flow deficit**, close to double S&P's earlier estimate, driven by AI capex.

~50%

of Oracle's **booked future revenue** rides on a single customer, OpenAI. One stumble in AI lands squarely on Oracle.

Beyond Oracle, the same AI worry has **spilled into private credit**. The BIS notes loans to software firms have grown to 19% of direct lending, right as those firms face AI disruption.

Three warnings, one risk. Borrowed money and concentration.

- **The capital is borrowed and circular.** The BIS maps the web, S&P watches it land on one balance sheet, Buffett refuses to pay the price.
- **The risk sits on a few names.** Half of Oracle's future revenue is one customer, and private credit crowds into the same borrowers.
- **Every prior version ended the same way.** Canal, railway, the roaring 20s, dotcom.

MY READ

Nobody is questioning the technology or what it will do. The question is valuation and the timing of cash. Dotcom is the clearest case I remember, huge valuations on page views, no profit in sight. This time it is users and revenue, better, but still not cash profit. **Until the profit is real, the valuation is the exposed part.**

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