

THE AI PARADOX

Reflection Albin Kistler AG

Juni 2026

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attractive investment returns.

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In a remarkably short period of time, artificial intelligence has evolved from a futuristic concept into a major economic megatrend. Few technologies currently inspire such high expectations. Companies are investing heavily, investors are closely following developments, and many observers anticipate significant productivity gains across large parts of the economy. Indeed, there are compelling reasons to believe that AI will fundamentally change how companies operate and create value. Yet, particularly during periods of technological enthusiasm, it is worth taking a sober look at a simple but crucial question: who will ultimately capture the economic value being created?

There is by no means an automatic link between technological progress and attractive returns. An innovation can create enormous value without the companies making the largest investments today, ultimately generating the most attractive returns. This is precisely what lies at the heart of the AI paradox.

At present, vast sums are being invested worldwide in the expansion of AI infrastructure. Data centers are being built, semiconductor production capacity is being expanded, and power and network infrastructure are being upgraded. The major technology companies are currently investing on a scale that exceeds that of many previous technology cycles. The central question, therefore, is not whether AI will be technologically transformative, but whether the returns generated will be sufficient to justify these investments over the long term.

At first glance, the answer appears to be yes. AI applications are spreading rapidly. Companies are increasingly integrating them into their operations, and tangible productivity gains are already becoming visible across a wide range of activities. Text can be generated more quickly, data can be analyzed more efficiently, and software can be developed at greater speed.

This still does not answer the crucial question of whether the providers of this technology will ultimately generate attractive returns. The value created for users may be significantly greater than the revenue captured by technology providers. If an employee saves several hours of work each week through the use of AI, substantial value is created for that employee's company. Yet the price paid for the corresponding application is often comparatively low. As a result, a large share of the value created accrues to the user rather than the provider.

Over the long term, however, high levels of investment can only be justified if companies are able to capture a sufficiently large share of the value they create. Productivity gains alone do not guarantee attractive returns on capital.

Competition is another important factor. The AI market is already characterized by the presence of several financially strong players, while open-source models are becoming increasingly capable. If AI solutions become more standardized and interchangeable over the long term, adoption may continue to grow even as pricing pressure intensifies. In such a scenario, the social and economic significance of the technology would increase, while providers' profitability could fall short of expectations.

Another aspect is often overlooked in the current debate. The profits currently generated by many companies along the AI value chain ultimately depend on the enormous investments being made by major technology companies. Manufacturers of semiconductors, providers of networking equipment, storage solutions, data center infrastructure, and energy suppliers are currently benefiting from exceptionally strong demand for AI-related capacity.

Over the long term, however, this level of investment can only be sustained if the companies making these investments generate attractive returns on capital. If the major technology companies were to conclude that their multibillion-dollar investments cannot be monetized adequately, a slow-down or reduction in spending would be a logical consequence. In that case, not only would investors in platform providers be affected, but also numer-

ous suppliers whose growth and profitability currently depend, directly or indirectly, on the AI investments of the hyperscalers.

The long-term success of today's winners along the AI value chain ultimately hinges on a single question: can the vast investments in AI generate sustainably attractive returns on capital?

A look at economic history warrants caution. The internet created immense value for businesses and consumers and became one of the defining technologies of recent decades. Yet it remained unclear for years where along the value chain the greatest economic returns would ultimately be generated. Many of the biggest winners emerged only later, building new business models on the foundations that had already been laid. History never repeats itself exactly, but it reminds us that technological progress does not necessarily translate into economic success.

Against this backdrop, it is entirely possible that the biggest winners of the AI era will not be found where the largest investments are being made today. Instead, the main beneficiaries may be companies that successfully integrate AI into existing business models, thereby becoming more productive, more efficient, and better able to serve their

customers. At the same time, some of the future value creation may arise from new products, services, and business models that do not yet exist or are still in their infancy. In that case, the benefits of the technology would be broadly distributed across the economy, while providers of infrastructure and AI models might capture only a limited share of the resulting value in the form of profits.

The decisive question, therefore, is not whether AI will generate substantial economic benefits. There is ample reason to believe that it will. The more important question is where along the value chain these benefits will ultimately be monetized. Current enthusiasm in the capital markets reflects the assumption not only that AI will enhance productivity, but also that the companies making the largest investments today will be able to capture a significant share of the resulting value creation.

Whether this assumption will ultimately prove correct is far less certain than current market sentiment implies. This is the true AI paradox: AI may generate enormous economic benefits without the resulting value creation accruing to the companies making the largest investments today.

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