

From AI to Space

Five forces reshaping next-generation tech

The first phase of artificial intelligence (AI) was defined by technological breakthroughs. We think the next phase will be defined by infrastructure, commercialization and where AI creates lasting economic value. These are the five shifts we're watching most closely.

1 | AI Is Breaking the Adoption Curve

The AI investment cycle is accelerating faster than any technology platform in history. Falling inference costs are making AI accessible to a much broader range of applications, and we're seeing demand increase as costs come down. At the same time, hyperscalers continue to invest unprecedented amounts in data centers, networking and compute to support that demand.

What stands out to us is how quickly the cycle is unfolding. AI is compressing decades of technology adoption into just a few years. Adoption, infrastructure investment and commercialization are happening in parallel rather than sequence, creating one of the largest infrastructure buildouts the technology sector has experienced.

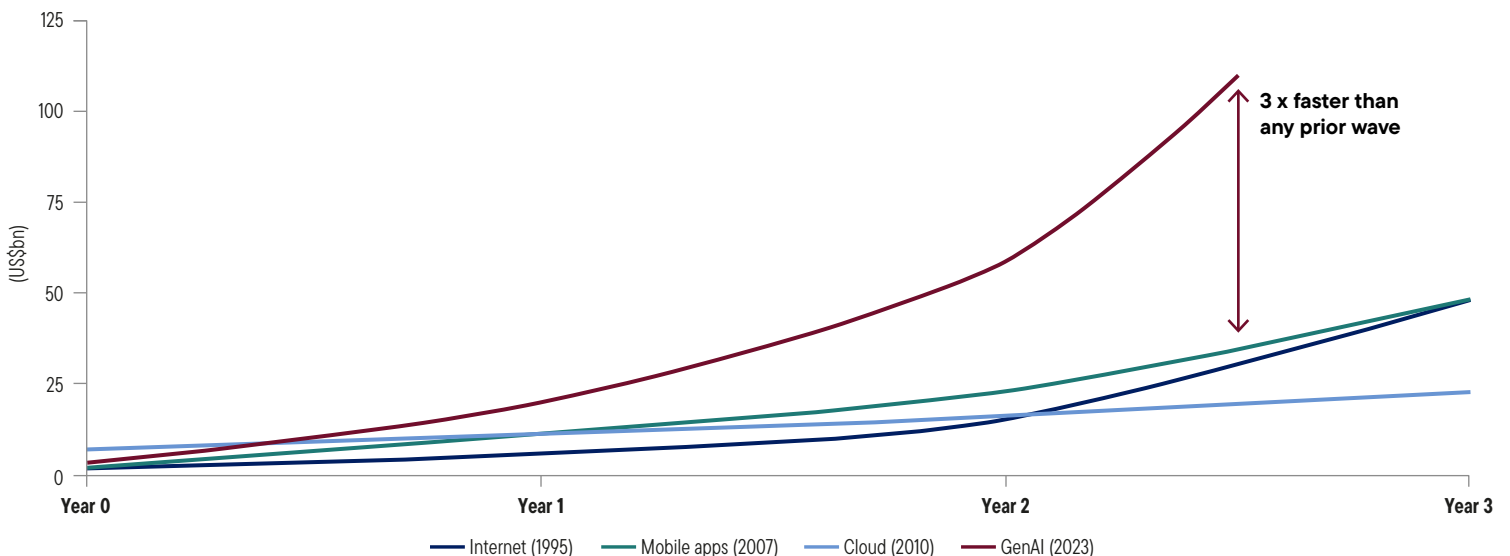
Perspective from
Franklin Equity



Matthew Cioppa, CFA
Portfolio Manager
Franklin Equity

Realized Revenue Trajectory Time-Aligned to Year Zero

\$bn/Year, Adjusted for Inflation



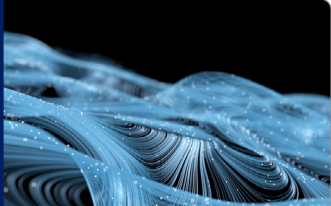
Sources: Exponential View analysis; US Commerce; company filings; UBS; US Bureau of Labor Statistics. Note we use the first full year of revenues so have started GenAI measurement from 2023.

2 | The Next Constraint Isn't Intelligence, It's Infrastructure

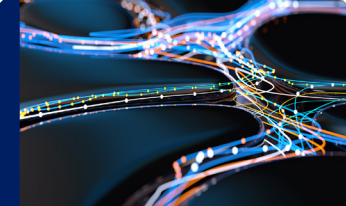
As AI moves from experimentation to widespread adoption, the challenge is no longer building better models; it's deploying them at scale. That depends on compute, connectivity, power and, over time, space.

We increasingly view these as one infrastructure ecosystem rather than separate markets. More capable AI doesn't create demand for compute in isolation; it drives demand across the entire stack. More compute requires more networking, more power and greater connectivity.

AI at Scale Requires:



Compute
Train and run increasingly sophisticated models.



Connectivity
Move vast amounts of data with low latency.



Power
Reliable, scalable, affordable energy to meet the requirements of AI infrastructure.



Access to Space
Extend communications, connectivity and, ultimately, computing beyond terrestrial networks.

3 | Space Becomes Part of the Stack

As AI scales, it demands more compute, which in turn requires more networking and more power. We think space ultimately becomes part of that infrastructure stack, extending communications, connectivity and compute beyond what terrestrial infrastructure alone can provide.

SpaceX is a good example of how that transition is unfolding. Rather than building a single launch business, it has developed complementary platforms across launch, communications and AI infrastructure. We think that reflects a broader shift as commercial space evolves into another layer of the infrastructure supporting an AI-driven economy.

We have followed companies like SpaceX while they were still private, which has also influenced how we think about these changes. It has given us an earlier perspective on how new technologies and infrastructure platforms develop, often years before they're fully reflected in the public markets.

Commercial Space Is Becoming Core Tech Infrastructure



Connectivity
Global connectivity anywhere on earth



Launch & Logistics
Access to space and in-space logistics that enable the ecosystem



Data & Infrastructure
Building the backbone for the data-driven economy



Defense and Mission-Critical Infrastructure
Critical capability for national security and resilience



Future Compute
Enabling compute at scale on Earth and in Orbit

4 | AI Moves into the Physical World

The first phase of AI was largely about making knowledge work more productive. We think the next phase is much broader. As AI models become more capable and the infrastructure supporting them continues to mature, intelligence is beginning to move into the physical world through robotics, autonomous systems and intelligent machines.

One area that is still early is robotics. Markets such as China are already showing how quickly adoption can accelerate as costs improve and the technology becomes commercially viable. We think that's a pattern we'll increasingly see across manufacturing, logistics, healthcare and other parts of the physical economy.

5 | The Next AI Race Is Execution

The first phase of the AI cycle rewarded companies that developed models, semiconductors and cloud infrastructure. As AI becomes more capable and more accessible, we think the opportunity broadens to businesses using AI to improve productivity, automate workflows and create better products and services.

That's how technology platforms typically evolve. The first wave builds the platform. The next wave uses it to reshape entire industries. We think that transition is already underway.

The Bottom Line

The market has spent the last few years focused on what AI can do. We think the more important question is where AI creates durable economic value.

History suggests technology platforms don't create just one generation of winners. Infrastructure comes first. Applications follow. Entirely new industries emerge over time. We think AI is entering that next phase.

For long-term investors, we believe the opportunity is becoming less about owning AI and more about identifying the businesses that AI will transform.

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