Australia's biggest pension fund to cut stocks exposure on AI fears

AustralianSuper warns of 'maturing' US tech cycle and worries over high valuations

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Australia's largest pension fund is planning to reduce its allocation to global equities next year, amid signs that the artificial intelligence boom in the US stock market could be running out of steam.

John Normand, head of investment strategy at the A$400bn (US$264bn) AustralianSuper, told the Financial Times that not only did valuations of big US tech companies look high relative to history but the leverage being used to fund AI investment was increasing "very rapidly" — as was the pace of fundraising through mergers, venture capital and public listings.

"I can see some forces lining up that we are looking for less public equity allocation at some point next year," Normand said in an interview.

"It's the basic intersection of the maturing AI cycle with a shift towards Fed[eral Reserve] tightening in 2027."

Normand's comments come with the tech-heavy Nasdaq Composite index up about 19 per cent so far this year after rises of about 43 per cent and 29 per cent in the previous two years — despite growing speculation among some investors that the boom in AI capital spending has pushed some valuations to unsustainable levels.

Chip giant Nvidia has doubled from its April low following President Donald Trump's so-called "liberation day" US tariff announcements and is up more than 30 per cent this year to leave it with a price/earnings ratio of 43 times.

Google parent Alphabet has leapt about 60 per cent and is trading at about 30 times earnings.

International stock indices are dominated by US equities, particularly Big Tech and AI — with the so-called Magnificent Seven US megacap tech stocks alone accounting for about one-quarter of the MSCI World index.

Across its portfolio, AustralianSuper at present has its largest overweight position relative to the index in international equities at 3 percentage points higher than its benchmark

allocation.

Normand said he did not think AIlinked stocks were yet in a bubble but, since October, he had been diversifying the fund's overseas equity allocation by adding more exposure to listed infrastructure companies.

"There are different ways you can diversify in listed and unlisted markets . . . we took the decision to first diversify through a listed infrastructure index because it's quite easy to execute," Normand said, adding that achieving the same level of diversification in private markets "takes more time" given the nature of the assets.

AustralianSuper is not alone in its caution on AI. A number of UK pension funds are cutting back their exposure to US equities amid concerns over the market's growing concentration in a small number of megacap tech stocks and the risk of a bubble.

Schemes have been shifting allocations to other geographic regions or adding protection against falling stock prices.

John Graham, chief executive of Canada's largest pension fund, CPPIB, told the FT this month that he was "worried about the concentration risk" in US equity markets and was "knowingly underweight" AI in the C$777.5bn (US$563bn) fund's allocation to American assets.

Looking ahead to next year, Normand said he expected to add more exposure to private equity, which has suffered from a lack of funding in recent years after a rapid rise in interest rates hampered dealmaking and lowered the distributions paid back to investors, prompting many to pull back from the sector.

"I think next year will be the year where by the end of 2026 PE [private equity] will deliver more than public equities and that'll be a big change," he said.

Private equity groups raised $592bn in the 12 months to June, their lowest tally for seven years, according to data from Preqin.

Geographically, the former JPMorgan strategist said he doesn't have "strong views", noting a "tendency to think that the US can no longer lead because of the policy dynamics in coming out of Washington or because of the maturing of the AI cycle.

"All that may be true but it doesn't mean some other region in the world is going to lead consistently enough to be worth overweighting on a mediumterm basis," he added.

Normand also thinks there is an "underlying vulnerability" in bond markets because investors are at present only pricing in one quarter percentage point interest rate increase for the Fed in 2027 — whereas history suggests the central bank normally lifts rates by more than that in the year after an easing cycle.

"When that repricing occurs, it would tend to impact expensive assets the most," Normand said.

He added that the expensive assets "tend to be centred around tech sector and AI theme — it doesn't mean this is the end of the story, it just means we have to be mindful of the risks that we manage".