

THE BUBBLE IS NOT IN VALUATIONS

It's in the Productivity Gap

Thorsten Meyer

ThorstenMeyerAI.com

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Executive Summary

22x forward revenue. The Q1 2026 median multiple for AI-exposed listed companies, against 7x for the S&P; 500. Palantir P/S = 86. "AI bubble" appeared in **4,800** English-language articles in Q1 2026, 5x the Q1 2025 volume. NBER (Feb 2026): **90% of firms report zero measurable AI productivity impact**; executives project a **1.4%** gain. The bubble worth worrying about is the one between executive expectation and measured reality — not the one in equity multiples.

Metric	Q1 2026
Median AI-exposed forward revenue multiple	22x
S&P 500 forward revenue multiple	7x
Palantir P/S	86
"AI bubble" mentions, Q1 2026	4,800
"AI bubble" mentions, Q1 2025	~960
Firms reporting AI productivity impact	10%
Firms reporting zero impact	90%
Executive-projected productivity gain	1.4%
Big Four 2026 AI capex	~\$650B
Annual decline in token costs	>70%

1. The Two Bubbles, Distinguished

Bubble	What Pops	Reversibility
A. Asset-price	Multiples compress 22x → 12x	Painful but contained
B. Expectation	Capex stranded, layoffs reversed, org redesigns unwound	Structural; harder to absorb

Bubble A is the one the financial press is debating. Bubble B is the one no one is calling. By the time the measurement catches up, the corporate strategy bubble has already produced layoffs that have to be reversed and capex that cannot be unspent.

2. The 1.4% Number

The NBER working paper (February 2026) sampled 480 firms across 12 sectors.

NBER Survey, Feb 2026	% of Firms
Report measurable AI productivity gain	10%
Report no measurable AI impact	90%
Cite AI in earnings calls or strategic plans	76%
Project future productivity gain (median)	1.4%

A 1.4% productivity gain does not justify a 22x revenue multiple. The valuation premium implies **5–8% productivity gain compounding for 5–7 years**. Executives are projecting less than a third of what their stock prices imply.

“Either executives are managing expectations downward, or they cannot see what the market has priced in. Both readings are uncomfortable. Neither supports the multiple.”

3. Where the Productivity Is Real

Domain	Measured Gain	Notes
Code generation (jr+mid)	20–40%	Real, replicated, durable
Tier-1 customer support	30–50% handle time	Real, quality concerns persist
Document extraction	50%+	Already automated pre-LLM
Marketing content	25–45% time-to-draft	Quality variance high
Research synthesis	15–30%	Real but uneven
Legal contract review	20–35% (narrow)	Real in narrow scope
Healthcare diagnostics	<10%	Significant constraints
General management work	Negligible	No reliable measurement

Aggregate across an enterprise and the firm-level number is small. Token costs falling 70%/yr does not change the arithmetic. Cheaper inputs do not create demand for outputs the workflow does not yet support.

4. The Capex Test

If executives are wrong, three failures occur in sequence:

Phase	Failure Mode
Q4 2026 / Q1 2027	Margin pressure: revenue per employee did not improve
Mid-2027	Capex pull-forward exhaustion; multiples compress for most exposed names
Q4 2027 / 2028	Workforce restoration: senior labor hired back at higher wages

This is not a prediction. It is the observable failure mode if Bubble B materializes.

5. The Indicators to Watch

Indicator	Source	Trigger Threshold
Revenue per employee, AI-exposed	10-K filings	Sustained <2% growth
Forward P/S compression	Listed equity data	22x → 14x
NBER follow-up	Working papers	Projection moving up
Big Four capex revisions	Earnings calls	Q3/Q4 cuts
Open-weight enterprise adoption	Cloud usage data	Rapid migration off closed APIs

If three of five flip negative simultaneously, the bubble has popped.

6. What Leaders Should Do This Quarter

- 1. CFOs:** Demand operational productivity numbers, not strategic narrative numbers, from every BU running AI initiatives.
- 2. Investors:** Disaggregate AI exposure. Picks-and-shovels (NVIDIA, energy, hyperscalers) carries different risk than companies promising margin expansion from AI.
- 3. Boards:** Stress-test the 2027 plan against a 0.7% measured productivity gain. If the plan does not survive that scenario, the plan is the bubble.
- 4. Executives:** Stop pricing AI into the forward look beyond what your data supports. Credibility cost compounds at every quarterly call.

Action	Owner	Timeline
Per-BU productivity audit	CFO + Ops	Q2 2026
Stress-test 2027 plan @ 0.7%	Board + CFO	Q2 2026
Forward-look discipline	CEO + IR	Each call
Disaggregated AI risk model	CIO + IR	Q2–Q3 2026

The Strategic Read

The financial press has spent six months arguing about whether AI is in a bubble. It is the wrong frame. The asset-price story is interesting; the expectation-price story is consequential. The 22x multiple may compress to 12x — unpleasant but absorbable. The corporate strategy bubble produces layoffs reversed, capex stranded, organizational designs unwound.

By end-2026, the 1.4% projection will either prove conservative (no bubble) or prove approximately accurate (Bubble B has popped, even if no headline announces it). **The signal will not be in the equity market. It will be in revenue per employee, four to six quarters from now.**

The bubble nobody is naming is the one between what executives projected and what their workers can actually do.

The signal is in revenue per employee, not in the multiple.

Thorsten Meyer is a Munich-based futurist, post-labor economist, and recipient of OpenAI's 10 Billion Token Award. Two decades managing €1B+ portfolios in enterprise ICT before deciding writing about the transition was more useful than managing slides through it. More at ThorstenMeyerAI.com.

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