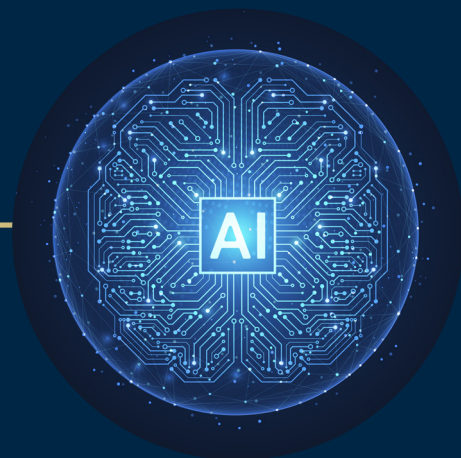


MARKET SIGHT LINES



Artificial Intelligence: Free Markets, Bad Actors, and Economic Transformation

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Artificial Intelligence remains in the news, but more importantly, AI is changing our lives. Millions of people have AI in their hands to help with day-to-day thinking and decisions while businesses across every sector are figuring out ways to use it to provide better products and services more efficiently. And companies that build AI, support its infrastructure, or use it to do things better are creating shareholder value. The research and development, innovation, and speed to delivery of AI represent the latest example of the benefits of free markets and competition. But as with anything else, bad actors can use AI to make trouble, sparking a healthy debate about increased regulation. But despite these worries, AI is already transforming our economy, poised to meaningfully improve productivity and related economic growth. In this Sight|Lines, we check in on the latest AI capabilities, review some of the worries around misuse, and revisit **the case** for AI improving economic productivity.

THE TAKEAWAY: FREE MARKETS CREATED AI, AND DESPITE RISKS FROM BAD ACTORS, WE'RE SEEING THE BEGINNING OF AN ECONOMIC TRANSFORMATION

The development and deployment of AI is a product of free markets and competition, and even though bad actors can use AI, this new technology is poised to drive a significant economic transformation. In summary:

- Until about four years ago, generative AI was in early development and only available in frontier labs.
- But then around 2022, AI models were released to individuals and companies alike.
- Competition drove the AI labs to develop better models, which have improved exponentially.
- But the risks are real too, from fraud and cyberattacks to the worry that AI escapes human control.
- The debate over regulating AI is in full swing, with no federal rules and only narrow state requirements on AI developers.
- The call to “control” AI is drawing support from both parties, raising the odds that rules eventually arrive.
- President Trump just signed a voluntary accord with AI leaders, asking the industry to police itself.
- Studies continue to forecast increased productivity and economic growth, but these usually assume little or no government regulation or controls.

IN-DEPTH: COMPETITION CREATED AI, AND DESPITE BAD ACTORS, AN ECONOMIC TRANSFORMATION IS HAPPENING

Free markets and competition have driven the innovation resulting in the latest AI capabilities, and despite the risks posed by bad actors, this new technology is expected to transform the economy. Going deeper:

- A few years ago, generative AI lived inside research labs most people had never heard of, with competition defining the field:
 - Today's frontier is comprised of previously established big tech companies with some of those early research labs.
 - Other early names that couldn't keep pace have faded.
- Then, starting in late 2022, the labs put these models directly in the hands of people and businesses:
 - Adoption came faster than in past technology cycles: By early 2026, ChatGPT alone was reported to be more than 900 million weekly users, with roughly 92% of the Fortune 500 using it.
 - Business use followed – by mid-2026, workplace seats had passed seven million, up roughly ninefold from a year earlier, and an August 2026 survey found companies now scaling AI across the enterprise rather than piloting it.
- Competing for those users pushed the labs to build better models, and capability has compounded exponentially:
 - One yardstick is how long a model can finish a job, in human work hours, and an exponential curve fits the progress.
 - Frontier models have evolved from being able to successfully handle minutes-long tasks to those roughly two hours in length for GPT-5, and some capacity measures have been improving at close to tenfold a year.
- As capability has grown, so has attention to what can go wrong, from criminal misuse to loss of human control:
 - The near-term list is concrete: Cyberattacks using the models themselves, fraud and deepfakes, strain on local power and water from data centers, and job displacement.
 - AI leaders are highlighting risks, with some vocal about slowing the pace of development, warning that the technology's capabilities are advancing faster than the safeguards needed to control it.
- The debate over regulating AI is in full swing, even with no federal rules on the books:
 - The administration favors open competition and has promised not to stifle AI's growth, while others argue that legal liability and regulation are necessary to limit harm.
 - Twenty-six state attorneys general have asked Congress to act, and California now requires the largest model developers, not businesses using AI, to disclose safety practices.
- Pressure to rein in AI is coming from both parties, raising the odds of regulation:
 - Recent polls signal fear around AI, with majorities in both parties favoring increased legislative focus.
 - AI-related topics, like data center development, will influence the midterm elections, and likely those in 2028 as well.
- This week the administration's answer was to ask the industry to police itself, signing an accord with AI leaders:
 - The accord commits the signing companies to strong internal controls, an outside auditor, and an oversight board.
 - While these steps may be codified into law later, for now President Trump described it as "morally binding."
- Research continues to point to faster productivity growth, but most assume limited controls:
 - Some consultants put potential productivity gains at several percentage points, while federal researchers frame AI more generally as raising the economy's speed limit.
 - The gains anchor on innovation on how work gets done, with limited regulatory constraints.

WHAT WE THINK

Artificial Intelligence is very much in the news these days. Regular people and companies alike are using AI to transform what they do day to day, and these tools are the result of innovation spurred by free markets and competition. Optimism is tempered by worries about what bad actors might do with AI, driving discussions about increased regulation and controls, while elevated valuations among some AI-related companies create the potential for volatility. But for now, binding rules seem less likely, and our base case is that the AI buildout is not slowing down. We continue to see AI improving productivity and supporting economic growth despite regulatory uncertainty. For investors, we would view volatility or dislocations tied to AI-related names as an opportunity to dollar-cost average into the broader AI ecosystem, rather than as a reason to step away from a trend we believe still has room to run.

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