

AI Market Cascade

28-Industry Synthesis Report

Scenario: Base case / Current trajectory / Crisis

Average 5yr RVS: 1.96x

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Executive Summary

Our Crisis Scenario modeling reveals a single, critical finding: a severe market downturn will dramatically accelerate the separation between AI-powered winners and structurally challenged losers. The core insight is that AI acts as a fundamental amplifier, not a universal savior. In a credit-constrained environment, capital will flow only to companies demonstrating clear, AI-driven ROI, while industries with weak fundamentals will be starved of the investment needed to adapt.

The undisputed winners are the industries forming the backbone of the AI economy. **Pharma - Biotech & AI Drug Discovery (#1, 2.80x 5-year RVS)**, **Big Pharma (#2, 2.72x)**, **Semiconductors - Chip Design (#3, 2.59x)**, and **Software - Cloud & AI Platforms (#5, 2.51x)** dominate the rankings. Their advantage is twofold: they either produce the core components of AI (chips, cloud infrastructure) or use AI to fundamentally reshape value creation (drug discovery). Even in a crisis, the demand for their output is non-negotiable for the rest of the economy to function and grow.

Conversely, a cohort of industries faces an existential threat. **Utilities (#28, 0.25x)**, **Comm & Prof Services (#27, 0.72x)**, **Food, Beverage & Tobacco (#26, 0.61x)**, and **Media & Entertainment (#25, 0.81x)** are the most vulnerable. Their low scores are not just a function of the cyclical downturn; they reflect a structural crisis. AI either directly automates their core business model (Comm Services), commoditizes their product (Media), or introduces new systemic risks (GLP-1 drug impact on Food & Bev). For these sectors, the crisis model shows a deep decline with little to no recovery.

The one action to take now: Check your portfolio's exposure to industries with large, negative cross-industry effect drivers. In this crisis model, where cascade effects are amplified 1.5x, industries like **Media (-0.0900 driver score)** and **Comm & Prof Services (-0.0900)** are importing negative pressure from the rest of the economy. This is a hidden vulnerability that traditional single-sector analysis will miss.

The Bull Case: Where AI Creates the Most Value

The top of our rankings is dominated by industries where AI is not just an efficiency tool, but a core driver of revenue and competitive advantage. Their high scores are overwhelmingly powered by a **+0.1200 cross-effects driver**, the highest in our model. This indicates their growth is a direct function of demand from every other industry trying to adopt AI.

The leading pack includes:

- **Pharma (Biotech #1, Big Pharma #2):** With 5-year RVS scores of **2.80x** and **2.72x** respectively, Pharma's bull case is the clearest. AI is enabling entirely new drug design categories and slashing development timelines. This isn't theoretical; it's happening now with companies like Recursion Pharmaceuticals running experiments at 100x traditional speeds.
- **Semiconductors (Chip Design #3, Foundry & Equipment #7):** These industries are the essential "picks and shovels" of the AI gold rush. **Chip Design (#3, 2.59x)** is at maximum acceleration, with a velocity score of 1.00, driven by Nvidia's 80%+ market share. **Foundries (#7, 2.33x)** like TSMC are irreplaceable monopolies essential for manufacturing those chips.
- **Software (Enterprise SaaS #4, Cloud Platforms #5):** Cloud providers are the delivery mechanism for enterprise AI, with Azure AI growing over 50% YoY. Their **2.51x RVS** reflects a massive competitive moat built on \$200B+ in annual capex. **Enterprise SaaS (#4, 2.58x)** is successfully up-selling AI features for 30-100% price premiums, deepening customer lock-in.

The key surprise is how high "old economy" sectors score. **Energy (#8, 2.36x)** and **Banks (#9, 2.43x)** are not tech companies, but they are massive beneficiaries. The AI data center boom is creating unprecedented electricity demand, a direct tailwind for energy producers. For banks, AI unlocks the immense value of decades of proprietary transaction data, a moat that fintech startups cannot replicate.

The Bear Case: Where AI Destroys or Redistributes Value

The eight industries with below-average 5-year scores (less than 1.96x) fall into two categories: those where AI actively destroys the existing business model, and those where it simply fails to overcome poor fundamentals. The crisis scenario punishes both harshly.

Value Destruction: Structural Threats

These industries face a permanent impairment of their business model because AI automates their core value proposition.

- **Comm & Prof Services (#27):** With a 5-year RVS of **0.72x** that drops to **0.53x** by year 10, the model is unambiguous. The "billable hour" for tasks like research, coding, and analysis is being directly automated by AI. The core product is being devalued in real time.
- **Media & Entertainment (#25):** Generative AI has collapsed the cost of content creation, leading to oversupply and commoditization. This structural shift is why the 5-year RVS is a grim **0.81x**. The industry's reliance on IP and distribution moats is being fundamentally challenged.

Value Redistribution & Stagnation

For this group, AI isn't the primary threat, but their inability to harness it effectively in a low-growth environment is.

- **Utilities (#28):** The model's lowest-ranked industry at **0.25x**. While data centers create demand, the bear case is that utilities are too slow and regulated to meet it. The risk is that hyperscalers will bypass the grid with on-site generation, leaving utilities with the stranded assets and none of the upside.
- **Food, Beverage & Tobacco (#26):** This industry's **0.61x** RVS reflects a dual threat. It's a low-growth, GDP-linked category where AI offers only marginal optimization. More critically, it faces a structural demand shock from GLP-1 weight-loss drugs—a direct, negative cross-industry effect from the Pharma sector.

Cross-Industry Cascade Effects: The Hidden Story

Our model tracks 170 cross-industry effects, which become the dominant factor in a crisis scenario. Individual company execution matters less when powerful cascades are reshaping entire value chains. Here are the four most significant effects we are tracking.

Cascade Effect	Source Industry (Amplifier)	Impacted Industries	Effect
Data Center Ecosystem Buildout	#5 Cloud Platforms #3 Semiconductors	#8 Energy, #13 Capital Goods, #28 Utilities, #19 Materials	Massive positive demand signal for power, electrical equipment (HVAC), construction, and copper. Utilities are the laggard due to their inability to build capacity quickly enough.
Enterprise Knowledge Automation	#4 Enterprise SaaS	#27 Comm & Prof Services	AI "copilots" in software from Salesforce and Microsoft directly automate tasks previously outsourced to consultants, ad agencies, and staffing firms, creating a direct headwind.
Accelerated Drug Discovery	#1 Biotech & AI	#2 Big Pharma, #6 Healthcare Equipment, #26 Food & Beverage	A positive feedback loop where AI discoveries fuel Big Pharma's pipeline. A major negative externality is the GLP-1 impact on food consumption, a direct hit to the Food & Bev sector.
Content & IP Commoditization	#5 Cloud Platforms	#25 Media & Entertainment	The widespread availability of powerful generative AI models on cloud platforms lowers the barrier to content creation to near zero, collapsing the pricing power of traditional media companies.

The most powerful **cascade amplifiers** are **Cloud & AI Platforms** and **Semiconductors**. Their capacity and innovation are the primary inputs that dictate the pace of AI adoption—and disruption—across all other 26 industries.

The 5-Year vs. 10-Year Divergence

Looking beyond the 5-year horizon reveals critical divergences. Some industries face a near-term crisis followed by a potential recovery, while others see their fortunes fade continuously. This distinction is crucial for positioning capital today.

The Shakeout & Recovery Story: Media

Media & Entertainment (#25) is the clearest example of a potential turnaround. The industry is crushed in the near term, with scores falling from **0.85x** at 1-year to **0.81x** at 5-years. This is the period of painful disruption as AI commoditizes content. However, the 10-year RVS rebounds to **1.39x**. This suggests that after the initial shock, new business models built on hyper-personalization and radically lower production costs will emerge, allowing survivors to capture value.

The Long Decline: Professional Services

In contrast, **Comm & Prof Services (#27)** shows a steady, inexorable decline. Its 5-year RVS of **0.72x** worsens significantly to **0.53x** over 10 years. Our model indicates the automation of knowledge work is not a temporary shock but a permanent, structural replacement of the industry's core business model. There is no recovery on the horizon.

The Unambiguous Winner: Enterprise SaaS

Enterprise SaaS (#4) shows the opposite pattern: strong and accelerating. Its high 5-year score of **2.58x** explodes to **4.09x** by year 10. The logic is clear: AI copilots integrated into core workflows create deepening lock-in. The more a company uses an AI-powered CRM or ERP, the more valuable it becomes and the harder it is to leave, creating a compounding advantage over time.

Portfolio Implications

This analysis is not investment advice. It is a framework for stress-testing your portfolio against the disruptive force of AI in a crisis environment. Your portfolio should be able to answer the following questions.

Key Questions for Your Portfolio

1. If you hold stocks in the bottom 5 industries (Utilities, Comm Services, Food/Bev, Media), what is your thesis?

Is it based on pre-AI assumptions like stable dividends or brand moats? Our data suggests these factors may no longer be reliable. For **Utilities (0.25x)** and **Comm Services (0.72x)**, the model points to a structural impairment of the business model, not a cyclical downturn.

2. Are you overexposed to the "AI Cluster"?

The top of our list is a concentrated bet on Pharma, Semis, and Software. While these are the long-term winners, their high correlation means they will be extremely volatile in a downturn. Can your portfolio withstand a significant near-term drawdown to capture the long-term upside?

3. Have you identified the "stealth winners"?

Most investors are focused on Nvidia. Our model highlights non-obvious, second-order beneficiaries that may be undervalued. **Energy (#8, 2.36x)** benefits directly from data center power demand. **Insurance (#10, 2.46x)** uses AI to price risk more effectively in a volatile world. These industries offer a different risk/reward profile than the high-flying tech leaders.

4. Is your timeline aligned with the industry's trajectory?

An investment in **Media (#25)** requires a 10-year outlook and the stomach to endure a 5-year shakeout. An investment in **SaaS (#4)** is a bet on compounding growth that strengthens over time. Ensure your holding period matches the industry's specific AI adoption curve.