

Sustainability Podcast

“AI Disruption: The Market’s Verdict”

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Hello and welcome to Sustainability Now, the show that explores how the environment, our society and corporate governance affect and are affected by our economy.

And so for today, we’re stepping a little outside our usual remit to talk about AI disruption. It’s a force that could strengthen or erode companies’ business models, which makes it both an investment risk and an opportunity, and so it’s a topic we didn’t want to miss on the podcast.

And That’s because AI is already changing the world around us, and among many other things, it’s changing how work gets done. And beyond arguably dystopian ideas about universal basic income and the end of the white collar job, AI is actually reshaping every day work. Radiologists can have a software flag a patient’s scan before they’ve even looked at it. Customer service teams are using it to handle routine queries. And with vibe coding, someone with no programming background can describe an app in plain English and have AI build it almost immediately. And so if you’re part of your country’s workforce, you’re probably already wondering whether AI will make your job easier, make it redundant, or a bit of both.

But if you’re an investor, you’re asking a very different question. Not “what does AI mean for my job?” but “what does AI mean for the companies in my portfolio?” And that’s what we’re unpacking today: which companies will come out ahead, which could be left behind, and whether the market has already figured this out.

So, let’s jump right in.

So it’s undeniable that AI has disrupted how companies operate. It’s driving automation and operational efficiencies, and in some cases, that has come with job cuts.

But it’s not just about efficiencies. AI has also opened up real opportunities for companies to innovate, and the examples are endless. Healthcare companies, for instance, have been pouring money into AI-led drug discovery, with funding more than doubling from 2023 to 2025. And we’re seeing similar stories in other industries too, like tech, defense and autos...

And what’s interesting is that AI is disrupting companies, for better or for worse, across sectors and in very different ways. So the question becomes: how is the market responding to all of this? To dig into that, I’m joined by my colleague Liz Houston, out of our London office, she co-authored a recent blog titled “How Has the Market Priced AI Disruption?” And with such a complex question at hand, I wanted to first hear from Liz how they even went about unpacking it. Here’s Liz. Here’s Liz.

Liz Houston

There are tons of questions that investors are trying to answer when it comes to AI. And what we found is that we kind of need to think about each of those questions separately.

What we were looking at with this specific piece of research is the how threatened the company's business model is by AI. So I am I don't.

I don't want to out myself in terms of not being... in terms of my age, but I was an equity research analyst covering consumer during the time when online retail started to become a thing. And what we found was that some business models were very well prepared for the emergence of online retail. And some were not, and some were sort of in the middle, but they managed to adapt to kind of this new reality. So, you know, were you a department store that was just toast? Were you Amazon, which is well set up to kind of drive this big kind of disruptive change in the industry? Or why are you somewhere in the middle where you may be like a sportswear brand or, you know, maybe a Zara that, you know, historically has been physical but is able to transition to being more online as well? So we're kind of asking an analogous question of companies across the market with this disruption potential study that we've done.

And one of the things that really framed our thinking about how we wanted to look at the kind of disruptability of companies was the big sell-off that we had in the market in kind of end January, early February this year, the SaaS apocalypse, as it was termed. And one of the things that was quite obvious was that the companies in the industries that had highly automatable workforces were the ones that performed the worst across the board. So we found industries with the highest automation potential underperformed by the best part of 7% compared to all other sub-industries.

Gabriela de la Serna

OK, so first things first: if you somehow avoided the term back in February, congratulations- but the "SaaS apocalypse" Liz mentioned is what people called the moment software stocks got hammered, because investors suddenly worried AI could eat into those companies' revenues. And what Liz is telling us is that the industries where AI could do the most work were hit hardest, by around 7% compared with everything else. So my next question is, what does "automation potential" actually mean here, and how did Liz and her colleagues go about measuring it?

Liz Houston

This is essentially, could the employees in your company, could the tasks that they carry out be done using AI as of today? And that's not a simple question to answer. First of all, we start by breaking down every single occupation that there is into the underlying tasks that each of those occupations carries out. And then We looked at each of those tasks and we said, could AI do this as of today?

And then we can take what we know about how much a person of each occupation might get paid. And Then if you roll those things all together, you can get to a company level and you can say what percentage of a company's estimated employee costs do we think could be automated as of today using AI.

And then what's quite fun is that once you've done that, you can say, okay, well, that's today's AI automation potential, what we would call kind of language capabilities. So the kinds of AIs that we're all using every day at work. And you can say, well, what if AI could do more?

And then we can say, we're going to go the full physical AI robotic future under a physical capability scenario, how much do we think could be automated then? And what we can see based on this analysis is that if you look across the whole market,

we think that as of today, 44% of costs could be automated. And if you go to a full robotic future, we think 67% of all costs could be automated.

Now, That's not to say that companies would actually be able to deliver on that, because there are new tasks that would be created. I mean, somebody's got to check the output of all of those AI models.

But having said that, the important thing that you can see from the analysis is that the share of automation potential does give you some kind of guide on the potential disruption to any given business model.

Gabriela de la Serna

So, just to recap: the idea is to measure how much of a company's labor costs AI could take over. Across the market, that's around 44% with today's AI, and about two-thirds in a fully robotic future. And the reason that matters is that the more automatable a company is, the more potential there is for clients to think, "You know what, I have everything I need to do this in-house with my own AI models, so I might as well". Or for an AI-native competitor to come along, offer a cheaper version of the same service, and win over its customers.

But I'd imagine a high number isn't the whole story. Two companies could be equally automatable and still end up in very different places, a bit like the Amazon and department store Sears in Liz's retail example earlier. So what makes the difference? That's where the idea of "AI resilience" comes in, so I asked Liz what an AI-resilient company actually looks like. Here's what she told me....

Liz Houston

As I said, we looked at the automation potential of a company as a measure of the potential disruption that it could face in terms of, you know, is it going to see new competitive threats? Are customers going to attempt to do, you know, have a DIY alternative, for example?

There is a, you know, a counterpoint to that, which could be, well, if a company can automate all of its employee costs, then surely that's great for a company because they will just have higher margins as a result and all of the value will accrue to them.

Now, we came to the conclusion that whether or not the value is likely to accrue to the company or likely to accrue to a company's customers or competitors may depend on some kind of fundamental characteristics of its business model.

So essentially, how resilient is a company to this disruption that it might be facing?

And there are a few kind of indicators that we looked at to assess how resilient a company would be. The first is kind of purely quantitative. We looked at how a company's physical asset intensity. So how grounded in the real world is a company? Because the reasoning was that if a company has a lot of physical assets, then it's probably less likely that you would be able to vibe code this company into existence. And then we looked at some more qualitative indicators as well.

So maybe regulatory insulation. So are there layers and layers of regulation as to why this company needs to exist? You know, are there you know, government licensing reasons why this company needs to exist, just to offer it some protection against some of these AI threats. We looked at network effects. So this is cases where this scale that a company has adds to the value.

So there would be, it would be less attractive then for a company to try and do that in-house or it would be more difficult for a competitor to come in. And we looked at cases where there were relatively high switching costs, where moving to an

alternative or moving in-house, would be disruptive or involve a significant cost for customers.

And we combined these together and we came up with our assessment of companies over resilience.

Gabriela de la Serna

OK, so just as a quick recap: Liz has told us what makes a company resilient, things like physical assets, regulatory protection, network effects and high switching costs. And these characteristics may give us an indication of which companies are better placed to keep the gains from AI, and which are more likely to see them go to customers or competitors.

That all makes sense on paper. But does the market agree? Is any of this actually showing up in financial performance? I asked Liz to walk me through what they found...

Liz Houston

If you think about sectors like IT or communication services, these are two of the sectors with the highest kind of automation potential among their existing workforces. We've seen that since late 2023, which is when a lot of the kind of big AI models were released to the public. During that period, we've seen a big difference in cumulative equity market returns between the stronger companies on this resilience classification and the weaker companies. So in IT, we've seen the stronger outperform, the weaker by around 20% cumulatively. And in communication services, it's around 15% cumulatively over that period as well. Okay, so as well as looking at the relative performance of the different levels of resilience within each sector, we wanted to kind of strip it out and look across the entire market. And we ran an attribution analysis to say, once you strip out all of the effects of things like country or size or industry or any of the kind of common style factors that people look at, we wanted to see how much of each company's return could be explained by, first of all, their workforce automation potential. And we kind of tracked that over that kind of three or so year period, starting from late 2023. And as I said, when the first of these models started to be made available to the public.

During that early period, and actually through most of 2025, what we see is that the market looked quite positively at companies with high automation potential. Maybe companies will be able to save on their employee costs. Maybe everyone's going to get much more productive.

And then we get kind of towards Q3 2025, ChatGPT 5 is launched and you can see the market start to think, actually, maybe it's not great that your workforce can be automated. Maybe that's a massive competitive threat. and everything just starts underperforming. So the companies with a high workforce automation potential start to really turn down relative to everything else. And this culminates in, as I mentioned, the SASpocalypse of late January, early February, And then there was this massive step down in terms of the performance of these companies. There has been some recovery since then. But even despite that recent recovery, overall companies with a higher automation potential have underperformed by a couple of percent since late 2023.

Now, as I said, we also ran this analysis for a combined factor, looking at both automation potential and resilience to disruption. So these are the companies

where maybe you would say, actually, there's a chance that they will hold on to some of these productivity gains.

Maybe they won't have to hand them all over to clients or competitors. So including resilience in your analysis of how a company is positioned, has made the difference overall between a company underperforming and a company outperforming during that period. We see for a factor made of the combined score, the cumulative performance has been outperformance of two, 3% during that period. So resilience makes a huge difference to the way in which your company is positioned.

And what I've been describing to you is the language scenario. So it's basically things that AI can do today.

We run it as well for the physical capability scenario. So this is where everything's done by robots. And what we can say is that that's made almost no difference to performance over the last three-year period. So the market is not discounting A robotic future as of today.

The market may be right, it may be wrong, but I thought that was worth noting.

Gabriela de la Serna

So, if there's one thing you need to take away from this episode, it's that when it comes to AI, the question isn't just whether a company can be disrupted. It's also whether it's built to hold up.

And why does that matter if you're an investor? Let's go back to the Amazon and Sears example. You might start off by taking your portfolio and looking at country exposure and see two American companies there, great. Then you look at industry, and okay, they're both retailers. So on paper they look pretty similar, and you'd totally miss the difference in outlook these two companies had as online retail took off.

And we're seeing the same thing with AI. Companies in the same sector can look very different, both in how much of their work AI could automate and in how resilient their business models are, and those differences can be quite meaningful. So if you're only looking at your portfolio through the usual lenses, like country or sector, you could easily miss where the real AI risk sits....

And that is it for this week. A massive thanks to Liz for her take on the news with a sustainability twist. And thanks to you as well for listening and sticking around. The research that we discussed on today's show is freely available on MSCI's website. If you liked this episode, don't forget to subscribe and maybe even share it with a friend or colleague. That's all from me. Thanks again and catch you next time.

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