



AI Infrastructure Shakeout: Why Hardware Wins While Software Wobbles

Summary

The AI market has split into two clear worlds: software apps and physical infrastructure. While software giants like Microsoft and ServiceNow dropped 16% this month due to fears that agentic AI will replace traditional roles, the hardware sector is booming. AI infrastructure spending is projected to exceed \$500 billion in 2026, shifting attention from chatbots to chips, storage, and energy. SanDisk shares surged 19% amid a global NAND memory shortage. The takeaway is simple: the AI bubble isn't in the technology itself but in companies that lack their own hardware and power capabilities.

What It Means

We are entering the "Industrial Phase" of AI. Investors and markets are no longer impressed by AI that can just generate text or images; they want the "Physical AI" that can execute tasks in the real world and the "Backbone" infrastructure that stores and powers massive amounts of data. Tesla and Hyundai moving humanoid robots into warehouse trials shows this pivot from software to tangible execution.

"Sovereign AI" is becoming a strategic priority. Nations are reluctant to place critical data on foreign clouds, fueling demand for local "Digital Embassies" and sovereign data centers. This creates high-margin opportunities for providers offering regional AI infrastructure with full control.

For investors, the lesson is clear: the "shovels" (chips, storage, energy) are now more valuable than the "gold" (apps). The NAND and DRAM shortage will persist into late 2026, granting strong pricing power to companies that can scale production. Hardware and energy providers are set to capture the bulk of AI-driven revenue growth.

AI software is under pressure. Many thin, cloud-based apps are being "compressed" by cheaper, agentic models that require far less human oversight. Only a few top-layer applications that generate real revenue will survive the shakeout, while the rest may struggle or vanish entirely.





Investment Strategy

- **Focus on Physicality:** Shift capital from SaaS (software as a service) to HaaS (hardware as a service).
- **The Storage Play:** Accumulate leaders in memory and NAND like

SanDisk (SNDK) and Samsung for high demand and pricing leverage.

- **Energy Exposure:** AI data centers are massive energy consumers; consider energy infrastructure and nuclear plays like Cameco that power 24/7 AI operations.

Key Takeaways

- **SanDisk Surge:** Stock hits all-time highs on record AI storage demand.
- **Software Compression:** Traditional AI software faces downward pressure from cheaper, agentic models.
- **Infrastructure Spending:** Nvidia, Microsoft, and other hyperscalers push \$500B+ in AI capex.

- **Sovereign AI:** G42's Greenshield model becomes a benchmark for national AI control.
- **Memory Crisis:** NAND and DRAM supply growth lags historical norms, driving higher prices.
- **Humanoid Arrival:** Tesla Optimus robots enter large-scale production this year.
- **Energy as Tech:** Stable power grids are now a critical bottleneck for AI expansion.

Our Take: (Outlook 2026) * Speculative

The AI hype is fading, but the AI economy is becoming serious. 2026 marks the "great shakeout" where thin software apps struggle and hardware, storage, and energy leaders gain dominance. If you control the infrastructure and the power, you control the next decade of AI growth. Investors should prioritize physical assets, sovereign AI solutions, and companies that deliver real, scalable AI outputs.

References

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