



AI's \$500B Power Shift: Why Hardware, Memory, and Energy Are Crushing Software in 2026

Summary

The AI market has entered a decisive transition. In early 2026, capital is moving away from experimental AI software and concentrating on physical infrastructure—data centers, chips, storage, and power. Hyperscalers including Microsoft, Meta, and Alphabet have committed over **\$500 billion in AI capex**, aimed almost entirely at compute and energy capacity.

At the same time, traditional AI software stocks are under pressure as agentic and open models compress margins. In contrast, memory and infrastructure providers are benefiting from real supply constraints. SanDisk's continued surge reflects a **structural NAND shortage**, not speculation. The message from markets is simple: owning AI output matters less than owning AI capacity.

What It Means

AI is moving from a "demo phase" to an **industrial phase**. Writing text or generating images is no longer impressive; executing AI at scale is what creates economic value. Data centers are becoming AI factories—continuous production systems that require massive storage, networking, and uninterrupted power.

This shift is reinforced by the rise of **Sovereign AI**. Governments are no longer comfortable hosting sensitive national data on foreign clouds. Countries such as India, South Korea, and the UK are accelerating domestic data-center builds, creating long-term demand for local infrastructure regardless of global tech cycles.

In short, software is optional; infrastructure is mandatory.

Investment Strategy

1. Prioritize Physical Moats

Allocate away from thin SaaS models toward companies that control fabrication, memory, and networking. These firms benefit regardless of which AI application wins.





2. The Storage Bottleneck

Maintain exposure to NAND and DRAM leaders such as SanDisk and SK Hynix. Memory supply growth remains below historical averages, while AI model sizes continue to expand.

3. Energy Is Now Core Tech

AI data centers require 24/7 baseload power. Nuclear, grid infrastructure, and cooling are no longer “adjacent plays” — they are mission-critical.

Key Takeaways

- **\$500B+ AI Capex:** Spending is focused on chips, storage, and power—not apps
- **Software Compression:** AI software margins are shrinking under model commoditization
- **Memory Shortage:** NAND and DRAM demand exceeds supply through at least 2026
- **Sovereign AI:** National data centers create permanent infrastructure demand
- **Energy Constraint:** Power availability is the next AI growth bottleneck

Our Take (Outlook 2026) * Speculative

The AI bubble isn't bursting—it's **relocating**. Hype around software is fading because software is easy to replicate. Infrastructure is winning because it is slow, expensive, and scarce.

Over the next 12–18 months, the most durable AI exposure is not in what AI *says*, but in what AI *runs on*. Storage, silicon, and power will define the winners of the next decade.

References

J.P. Morgan – *Outlook 2026: Promise and Pressure* (Jan 2026)

IDC – *Global Memory Shortage Market Analysis* (Dec 2025)

Tom's Hardware – *AI Data Center Storage Demand and NAND Pricing* (Jan 2026)

G42 News – *Sovereign AI and Digital Embassy Models* (Jan 2026)

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