

This quarter, we focus our perspective on the Information Technology sector and the drivers behind why it remains fundamentally robust and how the dynamics of value creation are changing.



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"We believe the Mid Cap Strategy is well positioned for the next cycle, one likely to be defined by dispersion, separating companies that merely participate in the AI build from those successfully monetizing AI deployment."

Sector Outlook: The market is pivoting from rewarding speculative growth to demanding profitable scaling and tangible return on investment (ROI) from massive infrastructure investments. We believe the next cycle will be defined by dispersion, separating companies that merely participate in the AI build from those that successfully monetize the AI delivery. Below is a breakdown of the key factors influencing the sector's trajectory.

- **Artificial Intelligence (AI):** AI remains the primary engine of growth, but the narrative is evolving from Training (building models) to Inference (running them) and Application (using them). Hyperscalers (Microsoft, Google, Amazon, Meta, Oracle), AI-native companies (OpenAI, Anthropic) and sovereign nations are locked in an arms race, pouring hundreds of billions into data centers. This is creating a "new super cycle of capex spend" that benefits hardware and infrastructure companies. While this benefits the hardware giants, the derivative opportunity lies in the mid-cap suppliers providing the "picks and shovels" such as power management, electrical and mechanical services which are essential to keep these massive clusters running. Finally, the rise of Agentic AI validates a massive shift in monetization. We are moving away from selling tools that people use, toward selling outcomes that software delivers. This breaks the correlation between revenue growth and headcount, allowing software companies to capture the massive budget previously allocated to human labor wages, not just IT budgets.
- **Cybersecurity:** In an era of AI-accelerated attacks (AI-generated code, sophisticated deep-fake phishing), cybersecurity remains a top boardroom mandate. Enterprises are grappling with a persistent threat landscape while simultaneously managing dozens of security vendors. This is driving a push toward Platformization. Companies that offer unified security across the Cloud, Endpoint, and Identity—simplifying the stack and improving automation—are designed to win significant market share. Spending on security and risk management is projected to see double-digit growth, driven by the persistent threat landscape, ongoing cloud migration, and ever-increasing regulatory compliance requirements.
- **Cloud Computing:** The cloud remains a foundational growth area, but its value proposition is now inextricably linked to AI. The migration to the cloud is re-accelerating because enterprises realize they cannot deploy AI on fragmented, on-premise data. The re-acceleration of cloud migration is now driven by the necessity of Data Modernization. AI models are only effective with clean, organized data, forcing companies to move their fragmented legacy data into agile, cloud-native formats.
- **The Semiconductor Industry:** Semiconductors are the building blocks of the digital economy. Demand for AI GPUs remains insatiable, but hyperscalers (like Amazon, Google, and Microsoft) are also increasingly designing their own custom silicon (ASICs) for internal inference work. Beyond the data center, cyclical markets (automotive/industrial) are bottoming out as inventory gluts clear, setting the stage for a broader recovery.

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