2026 Trade: Why Semiconductors Outpaced Software

Prepared By	Email	Date
Eric Filippo	ericfilippo25@gmail.com	October 19, 2026

The first half of 2026 gave investors a clear picture of how the market was initially interpreting artificial intelligence: hardware was viewed as the beneficiary, while software was increasingly treated as a potential casualty.

The thesis was relatively simple. Investors believed increasingly capable AI models could automate portions of software development and reduce the value of some traditional software products. At the same time, continued AI investment required enormous computing capacity, supporting demand for semiconductors. [Retuers]

That difference in expectations created a major performance gap between the two industries.

The iShares Expanded Tech-Software Sector ETF (IGV) fell sharply during the opening months of the year, declining close to 30% from its late-2025 levels by the April lows. Historical pricing shows IGV falling from approximately $105.69 at the end of 2025 to below $75 in April. Meanwhile, semiconductor stocks were considerably stronger as investors continued rewarding companies positioned to benefit from AI infrastructure spending.

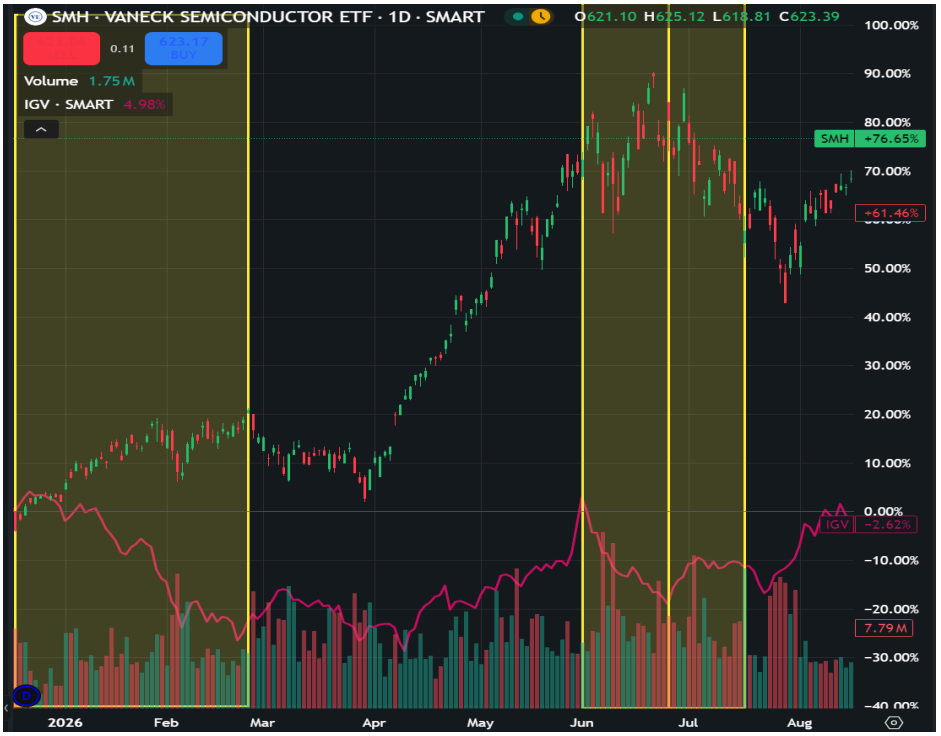


Chart 1: Relative performance of SMH and IGV during the first half of 2026. Source: tradingview.com

The most significant divergence appeared early in the year. Semiconductor equities advanced while software stocks sold off as concerns surrounding AI disruption intensified.

That relationship continued to shift throughout the spring and summer. There were periods when semiconductor strength coincided with renewed weakness in software, followed by stretches where that trade reversed and software recovered while semiconductor equities declined.

Rather than interpreting this as a permanent inverse relationship, I think it is more useful to view it as a reflection of changing investor expectations around who captures the economic value created by AI.

Early in the year, the market appeared to favour the companies providing the infrastructure necessary to build AI. Software companies, meanwhile, had to prove that AI would enhance their businesses rather than make their products less valuable.

What Changed After the April Bottom?



Chart 2: Performance of software and semiconductor ETFs following the April 2026 market low. Source: tradingview.com

Since April, that distinction has become much less extreme.

Both industries have appreciated significantly, suggesting investors have become more willing to consider a second possibility: **AI does not necessarily have to benefit semiconductor companies at the expense of software companies.**

Software businesses can potentially incorporate AI into existing products, increase productivity and create new revenue opportunities rather than simply being replaced by it.

That shift has become increasingly visible. By October, U.S. software stocks had recovered to fresh 2026 highs as disruption fears eased and earnings expectations improved. Reuters reported that expected 2026 earnings growth for the software sector had risen to 20.6%, compared with 13.8% in March. Reuters

What I'm Watching

The most interesting question is no longer simply **"semiconductors or software?"**

Instead, I am watching which companies can demonstrate that AI investment ultimately translates into sustainable earnings growth.

For semiconductor companies, that means proving current infrastructure spending can remain strong enough to justify expectations. This is currently being found in compute makers, such as Nvidia, and AMD

For software companies, it means demonstrating that AI can strengthen their products and economics rather than commoditize them. Twilio and CLoudflare have been great examples of this, as AI is integrated in their platforms. In addition, cybersecurity has acted as a support system to AI, as with more automation means more security. This segment of software has greatly appreciated since the April lows, and has led the market as one of the top performers year-to-date.

The first half of 2026 showed how dramatically sentiment can separate two closely related areas of technology. The second half may be about determining whether that separation was justified.

I would be careful assuming that every advancement in AI must create a winner in semiconductors and a loser in software. Now with more clarity and evidence, the market increasingly appears to be evaluating the two industries on their own ability to monetize AI rather than treating them as opposite sides of the same trade.

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