



The AI Trade Didn't Fade. It Split.

Through the third quarter of 2026 the AI trade looked like one bet. Inside it, software rose 52.7% while chips fell 15.2%. An investor who held all 21 names earned a positive return with the smallest fall of any series, while bond investors quietly charged the hyperscalers more than the market.

**+52.7% and
-15.2%**

AI software and AI chips over the same fifteen weeks, 30 June to 15 October 2026: one theme, 67.9 points apart

+8.1%

Return from holding all 21 names together, with a largest fall of 6.5% and half the volatility of the chip and software legs

2x

Pace at which three hyperscalers' bond spreads widened against the broad US investment-grade index; one issuer widened more than eleven times as fast

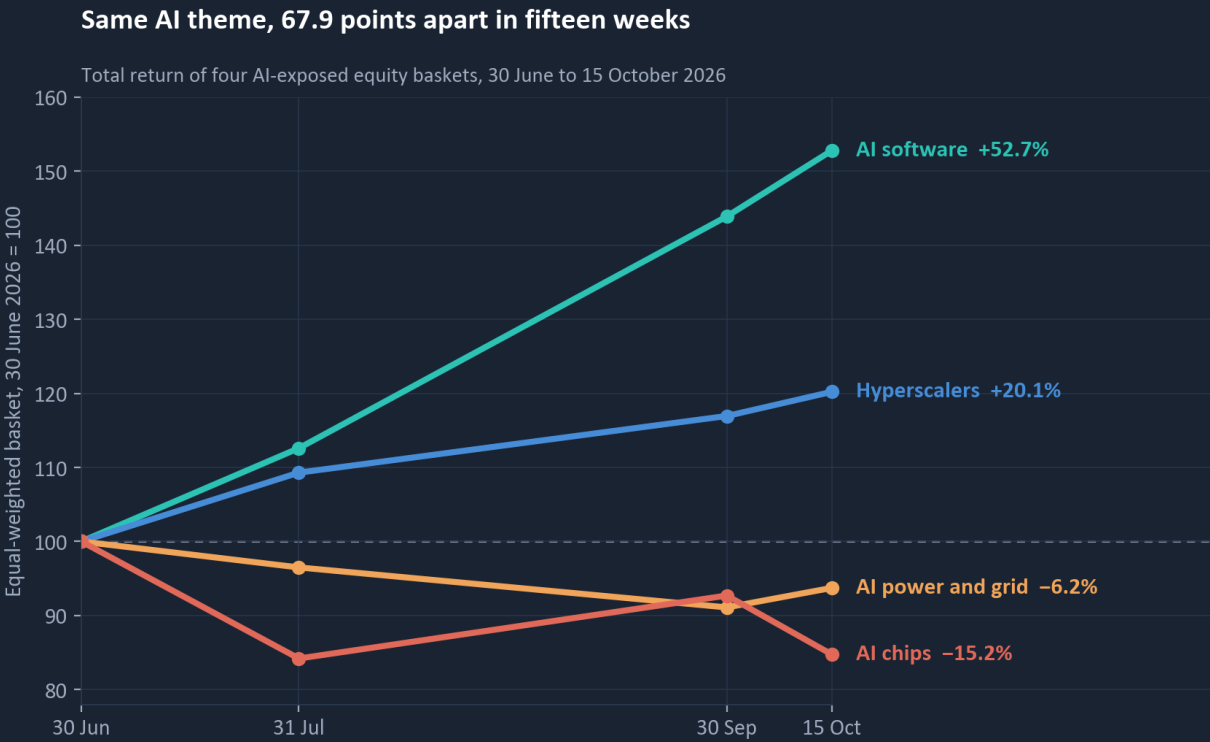
THE FINDING IN ONE LINE

The AI trade did not end in the third quarter, it rotated: the four legs moved on different forces, so the investor who held the whole universe earned a smoother positive return than anyone betting on one leg, while the bond market began to price the hyperscalers' build-out as a sector risk of its own.

Three Horizons Capital, Portfolio Analytics. Equity and bond data to 15 October 2026; investment-grade index to 14 October 2026; growth nowcast to 30 June 2026. US dollars.

01 The AI trade did not fade in the third quarter; it split four ways

Most portfolio conversations still treat AI as one exposure. We tracked it as four: AI chips (six chip designers and equipment makers), AI software (four enterprise software and data-platform companies), the hyperscalers (the four largest cloud and AI platform companies) and AI power and grid (seven power generation, grid equipment and utility names). Each basket is equal-weighted and rebuilt every trading day from 30 June to 15 October 2026, 76 trading days in all.



Source: Three Horizons Capital analysis, US dollar total returns. Lines join the four period-end levels.

BASKET	JULY	AUGUST TO SEPTEMBER	1 TO 15 OCTOBER	FULL PERIOD	ANNUALISED VOLATILITY	LARGEST FALL
AI chips	-15.8%	+10.1%	-8.6%	-15.2%	43.8%	-21.9%
AI software	+12.6%	+27.8%	+6.2%	+52.7%	44.2%	-8.7%
Hyperscalers	+9.3%	+7.0%	+2.8%	+20.1%	27.5%	-9.8%
AI power and grid	-3.5%	-5.6%	+2.9%	-6.2%	24.5%	-10.1%

Chips sold off sharply in July, recovered part of the fall through September, then gave it back in October. Power and grid derated steadily all quarter. Software rallied in every sub-period and finished 52.7% higher. Fifteen weeks after starting from the same level, the best and worst legs of the same theme stood 67.9 points apart.

02 Software led on return; the hyperscalers led on steadiness

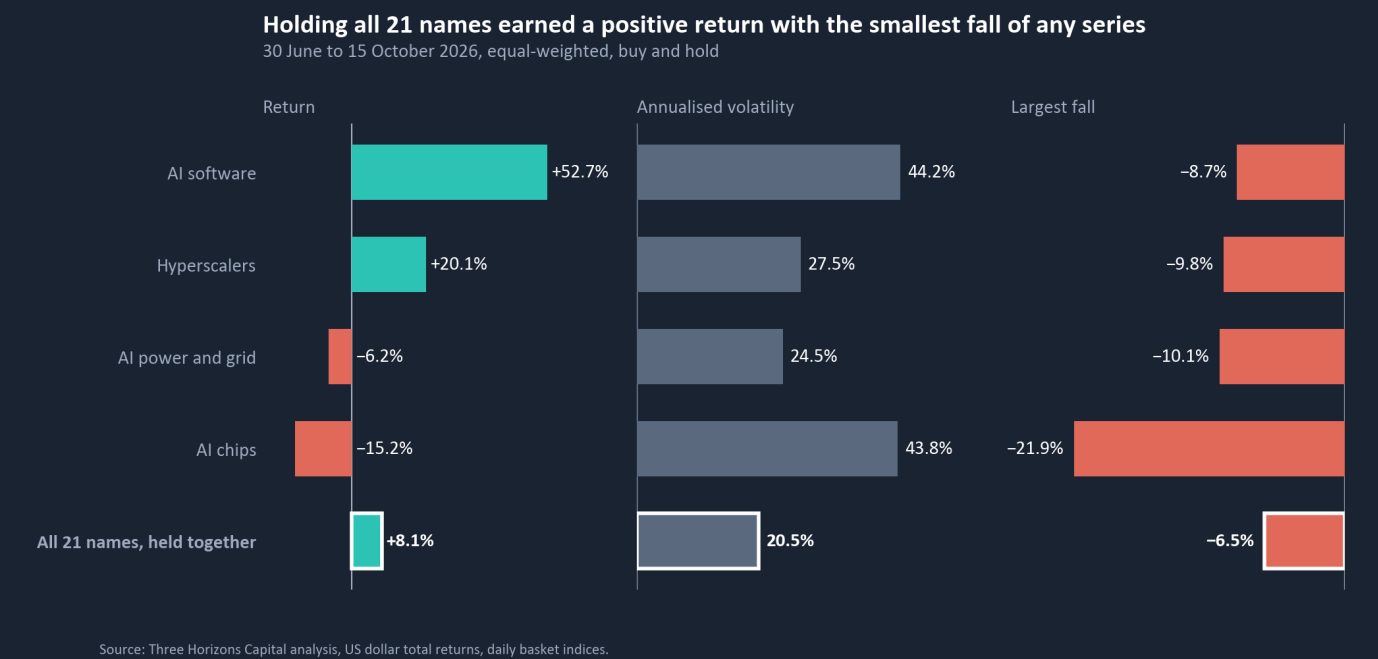
The common framing is that the hyperscalers led the AI trade. On total return over the period, they did not: software returned 52.7%, more than two and a half times the hyperscalers' 20.1%.

What the hyperscalers did deliver was the steadiest path of any leg that rose. Their annualised volatility was 27.5%, against 44.2% for software, and their largest fall was 9.8%. That is a quality and stability result, not a magnitude one, and it matters for which question an allocator is asking. A manager running a concentrated growth sleeve wanted software. A manager whose clients judge them on drawdown wanted the hyperscalers.

03 The legs moved on different forces, which is why holding all of them worked

The daily returns show why the four paths diverged. Chips and power and grid moved together, with a correlation of +0.57: both were exposed to the same unwind in capital-spending sentiment and positioning. Software moved against both, at -0.13 with chips and -0.23 with power and grid: it was where the money went. The hyperscalers sat in between, at +0.14 to +0.30 with each of the other three.

Four legs driven by different forces is the textbook condition for diversification to pay. So we built a fifth series: all 21 names held in equal weight, never rotated, never rebalanced.



PORTFOLIO	FULL PERIOD	ANNUALISED VOLATILITY	LARGEST FALL
All 21 names, held together	+8.1%	20.5%	-6.5%
Best single leg, AI software	+52.7%	44.2%	-8.7%
Worst single leg, AI chips	-15.2%	43.8%	-21.9%

The composite earned 8.1% with half the volatility of the chip and software legs and the shallowest fall of all five series. It gave up most of software's gain, which is the honest cost. It also avoided all of the chips' loss, and it needed no view on which leg would win. A rotation story only pays the investor who times it. The whole universe paid the one who did not.

WHY THE FULL BASKET MATTERS

An earlier, five-name version of the power and grid basket showed a third-quarter fall of 14.1%. Completed to its intended seven names, the fall is 8.9%. The partial basket overstated the decline by more than half. Basket-level conclusions are only as good as the constituent coverage behind them, and the seven-name definition is now the standing basket we track.

04 Bond investors repriced the hyperscalers at twice the market's pace

Equity markets were not the only place the AI build-out was being priced. We measured the option-adjusted spread on 3 to 10 year US dollar bonds issued by five hyperscale companies, and compared the move with the broad US investment-grade index over the same window.



SERIES	30 JUNE 2026	14 TO 15 OCTOBER 2026	CHANGE
Broad US investment-grade index	76bp	84bp	+8bp
Three hyperscalers, average	45.8bp	61.4bp	+15.6bp
One hyperscale issuer	139.5bp	232.5bp	+93.0bp

Three of the hyperscalers widened by 13 to 20bp each, an average of 15.6bp, roughly twice the index's 8bp. That is a sector-specific repricing layered on top of the general drift in credit, not simply a reflection of it. One issuer stands apart. Its spread rose 93bp, from 139.5bp to 232.5bp: more than eleven times the index move and roughly six times its peers' average, enough to put it in a different risk tier. A fourth hyperscaler's spread appeared to tighten by 4.1bp, on only three to five bonds, too thin a sample to read either way.

For an allocator, the point is not the size of the move. It is that the equity and bond markets were telling two different stories about the same companies in the same quarter: the hyperscalers' shares rose 20.1% while their lenders asked for more.

05 The growth backdrop stayed above trend

The divergence did not come from a weakening economy. Our own growth nowcast, taken at each quarter's close rather than waiting for the delayed official release, puts US real GDP growth at 2.27% in the first quarter of 2026 and 3.03% in the second, an average of about 2.65% for the half year, above the pre-2026 trend. The nowcast is a top-line estimate. Breaking that growth down by driver, including how much came from AI-related capital spending, is the next step in this series.

06 What we would do with the book

Hold AI as a sleeve, not a single theme bet. Over the quarter the four legs were driven by different forces. A sleeve built across all four earned 8.1% with a 6.5% largest fall. A single-leg bet earned anything from -15.2% to +52.7%, with volatility above 40% on the chip and software legs.

Know which leg you actually own. A fund labelled "AI" can be any of the four. Look through to the segment mix before judging a manager's quarter, and before attributing their result to skill or to a leg that happened to rally.

Read the bonds alongside the shares. Hyperscaler spreads widened at twice the market's pace while the shares rose. Separating the sector move from the market move, and spotting the single-issuer outlier, is what tells you whether credit risk is building inside an equity theme.

Check the basket before trusting the conclusion. A two-name gap in one basket overstated its fall by more than half. The same discipline applies to any thematic index or peer group.

SO WHAT FOR ALLOCATORS

Stop asking whether the AI trade is over. Ask which part of it your portfolio owns, whether the forces driving those parts are the same, and what the bond market is saying about the companies your equity managers are buying.

07 What we measured

Baskets. Four equal-weighted baskets of US-listed AI-exposed equities: six chip designers and equipment makers, four enterprise software and data-platform companies, the four largest cloud and AI platform companies, and seven power generation, grid equipment and utility names; 21 names in all. Each constituent's US dollar total return is rebased to 100 at 30 June 2026 and averaged across the basket every trading day to 15 October 2026 (76 observations). Volatility and largest fall come from these daily indices. The composite equal-weights all 21 names.

Credit. Average option-adjusted spread across 3 to 10 year US dollar bonds of five hyperscale issuers, with the government spread used where the option-adjusted figure is unavailable, at 30 June and 15 October 2026. Benchmark: the broad US investment-grade corporate index, 30 June and 14 October 2026. The fourth hyperscaler is excluded from the average on a thin sample of three to five bonds.

Growth. Three Horizons Capital's own dynamic factor nowcast of US real GDP growth, read at each quarter's close.

Limits. Buy and hold, no transaction costs, no intra-period rebalancing. Comparisons are basket to basket, not against a broad equity benchmark. The period chart joins period-end levels. The nowcast is a top-line estimate, not the final official release. This is a record of one quarter, not a forecast.

Prepared by Three Horizons Capital from its own data platform. For professional investors. Not investment advice.

If this is useful

We build this kind of look-through, across equity segments, credit and macro, for portfolio teams who need to know which part of a theme they own and what it is costing them. If that is the question in front of you, it is the work we do.