

# Q4 2025 earnings: AI disruption vs. traditional fundamentals

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Artificial intelligence (AI) investment continues to reshape markets while traditional sectors face mixed fundamentals and heightened uncertainty.



The fourth quarter of 2025 revealed a market increasingly defined by AI's transformative impact across sectors. While AI-related investment drove exceptional results in technology, utilities and select industrials, traditional cyclical businesses faced a more nuanced landscape of tariff uncertainty, input cost pressures and questions about long-term competitive positioning.

For investors, this earnings season underscores the importance of selective positioning. The opportunities lie in identifying companies with durable competitive advantages and exposure to multiyear secular trends, while carefully evaluating those facing potential disruption or margin pressure.

## **Financials: Fundamentals strengthen as activity accelerates**

The financial sector delivered one of its strongest quarters in recent memory, supported by multiple reinforcing trends:

- **Net interest income:** Expanded across the banking complex, supported by a constructive rate environment and disciplined deposit repricing.
- **Credit quality:** Remained benign, with credit card charge-off rates trending lower, defying fears of consumer credit deterioration.
- **Capital markets:** Investment banking revenues surged as a robust M&A and advisory pipeline finally converted into realized fees.

- **Wealth management divisions:** Also contributed meaningfully, reflecting ongoing trends in financial advice and the great wealth transfer.

Alternative asset managers continued to see fundraising momentum and fee-related earnings growth, even as realization income remained episodic. While technology grabs the headlines, financials are proving they can deliver reliable growth through solid execution and favorable macro conditions.

### **Technology: The AI divide deepens**

The technology sector remains defined by the AI investment supercycle, which showed no signs of decelerating. Custom AI accelerator demand from hyperscale customers drove extraordinary semiconductor revenue growth, with backlogs stretching into 2027.

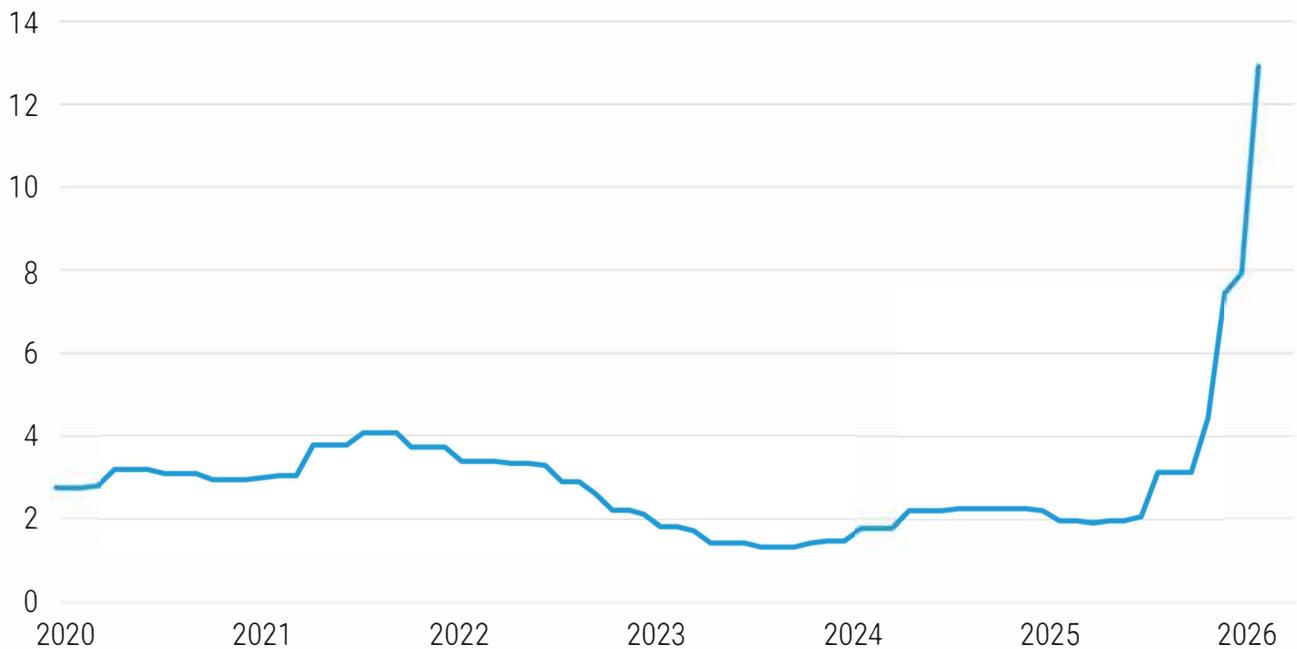
However, the bifurcation between AI and non-AI spending became more pronounced. Non-AI semiconductor revenue remained flat, and traditional end markets such as PCs and smartphones showed only modest recovery.

Within enterprise software, a striking disconnect emerged between fundamentals and stock performance. Companies delivering solid quarters saw shares punished as investors fixated on whether products would remain relevant in an AI-native workflow. Conversely, companies perceived as AI beneficiaries received premium multiples bearing little relationship to near-term earnings.

A significant headwind emerged across the hardware complex: memory costs surged, with dynamic random access memory (DRAM) prices up 200% to 300% and NAND up 100% to 150% year over year, compressing margins for server, storage and PC manufacturers.

## AI demand drives surge in hardware cost

Monthly contract prices of DRAM (\$)



Source: Bloomberg. Data as of February 20, 2026. DRAM is represented by DDR4 memory chip (2400/2466 8Gb 1Gx8).

### Industrials: Uneven recovery with AI bright spots

Industrials reflected cautious optimism. Improving demand signals, including a stronger January PMI reading, pointed toward an early-stage cyclical recovery, though the impact has been uneven across end markets. AI-related demand proved to be a powerful tailwind, with companies exposed to data center and infrastructure buildouts reporting surging backlogs and accelerating orders.

At the same time, investors began assigning premium valuations to AI-adjacent revenue streams, raising questions about sustainability if supply constraints ease or demand normalizes. While AI disruption concerns surfaced in industrials, they appear less acute than in software-heavy sectors, given the physical nature of products and entrenched customer relationships that characterize much of the group.

### Health care: A sector of haves and have-nots

Health care delivered a nuanced quarter, highlighting an increasingly bifurcated sector:

- **Pharma and distribution:** Results were broadly solid, often exceeding expectations. Drug distributors successfully navigated contract renegotiations, mitigating policy-related headwinds. Investor crowding in pharmaceuticals and the distributors has become a notable theme, as the combination of defensive growth characteristics, strong free cash flow generation and insulation from macro volatility has drawn significant capital into what is increasingly viewed as one of the more reliable growth pockets in health care.
- **Medical devices:** Results were mixed as procedure growth trends normalized following a period of post-pandemic catch-up demand.
- **Managed care:** This subsector continues to grapple with a mismatch between premium revenue and medical cost trends. Elevated medical loss ratios and utilization rates in Medicare Advantage and Medicaid populations remain a concern. This subsector continues to grapple with a mismatch between premium revenue and medical cost trends. In addition, investors are increasingly questioning the viability of government-sponsored programs as growth engines.
- **Life science tools:** Companies continued searching for a demand inflection. While biotech funding improved and early-stage research stabilized, these signals have not translated into broad-based order recovery.

#### **Utilities: The AI infrastructure beneficiary**

Perhaps the most profound shift is occurring in the utilities sector. Traditionally a slow-growth defensive play, utilities are being transformed by the AI infrastructure buildout.

Load growth forecasts have been revised dramatically upward, driven by data center commitments backed by signed agreements. Capital plans are expanding to support this growth, with some utilities projecting rate base growth in the high-single to low-double digits through the end of the decade.

Regulatory frameworks appear well designed to protect existing ratepayers, ensuring new customers bear their fair share of infrastructure costs. The primary risk now lies in execution — specifically permitting and construction timelines — rather than demand.

#### **Materials, energy and real assets: Structural challenges persist**

The materials sector remained under pressure. Global petrochemical margins deteriorated, with olefin spreads posting negative EBITDA for a third consecutive quarter as capacity additions overwhelmed demand growth. The outlook for 2026 calls for gradual improvement, but a return to midcycle profitability appears distant without meaningful capacity rationalization.

In energy, natural gas producers benefited from tightening supply-demand dynamics and growing power generation demand tied to data centers, while oil-weighted producers faced a more cautious crude outlook despite improving capital discipline. Within real assets, data center REITs continued to post strong fundamentals, while residential and retail REITs showed signs of stabilization amid slowing new supply.

### **The bottom line**

Recent earnings confirmed that AI is not just a technology story, but a force reshaping multiple sectors of the economy. While earnings fundamentals across much of the market remain sound, the dispersion in outcomes is widening and valuation frameworks are increasingly influenced by perceived exposure to durable secular growth. As companies look further into 2026, selectivity remains critical, with the balance between opportunity and risk hinging on execution, policy developments and the sustainability of today's investment cycles.

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