The AI Divide

How markets are splitting in 2026

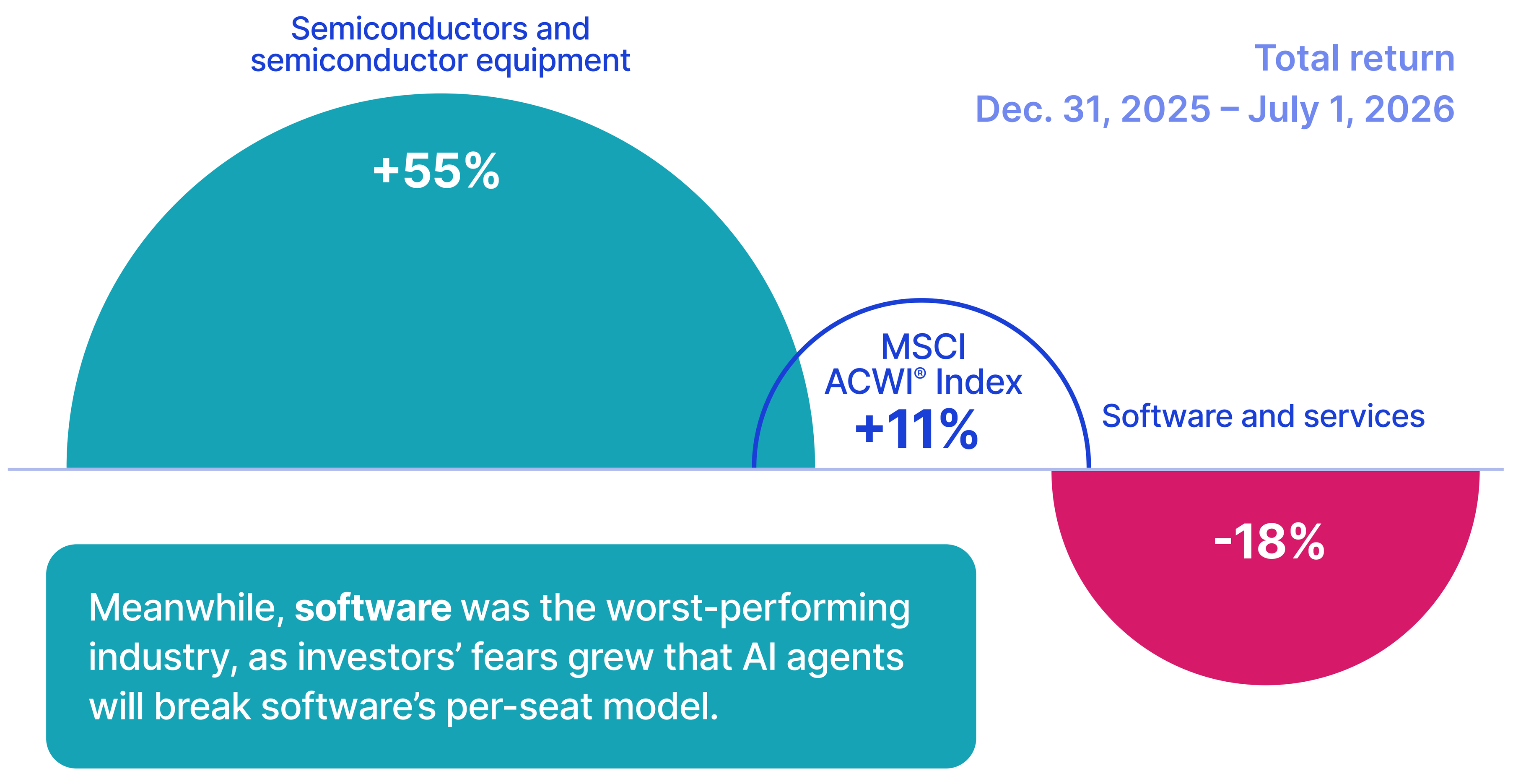
MSCI

Despite wars, energy shocks and geopolitical uncertainty, AI has become the biggest force shaping markets in 2026.

But AI's impact has been far from uniform, creating a divide across markets.

Highs and lows in public markets

AI infrastructure drove public market performance in the first half of 2026, with semiconductors leading all industries.



Meanwhile, **software** was the worst-performing industry, as investors' fears grew that AI agents will break software's per-seat model.

Source: MSCI index data (gross total return, USD).
Past performance - whether actual, backtested or simulated - is no indication or guarantee of future performance.

How could the megacap IPO wave affect investor exposure?

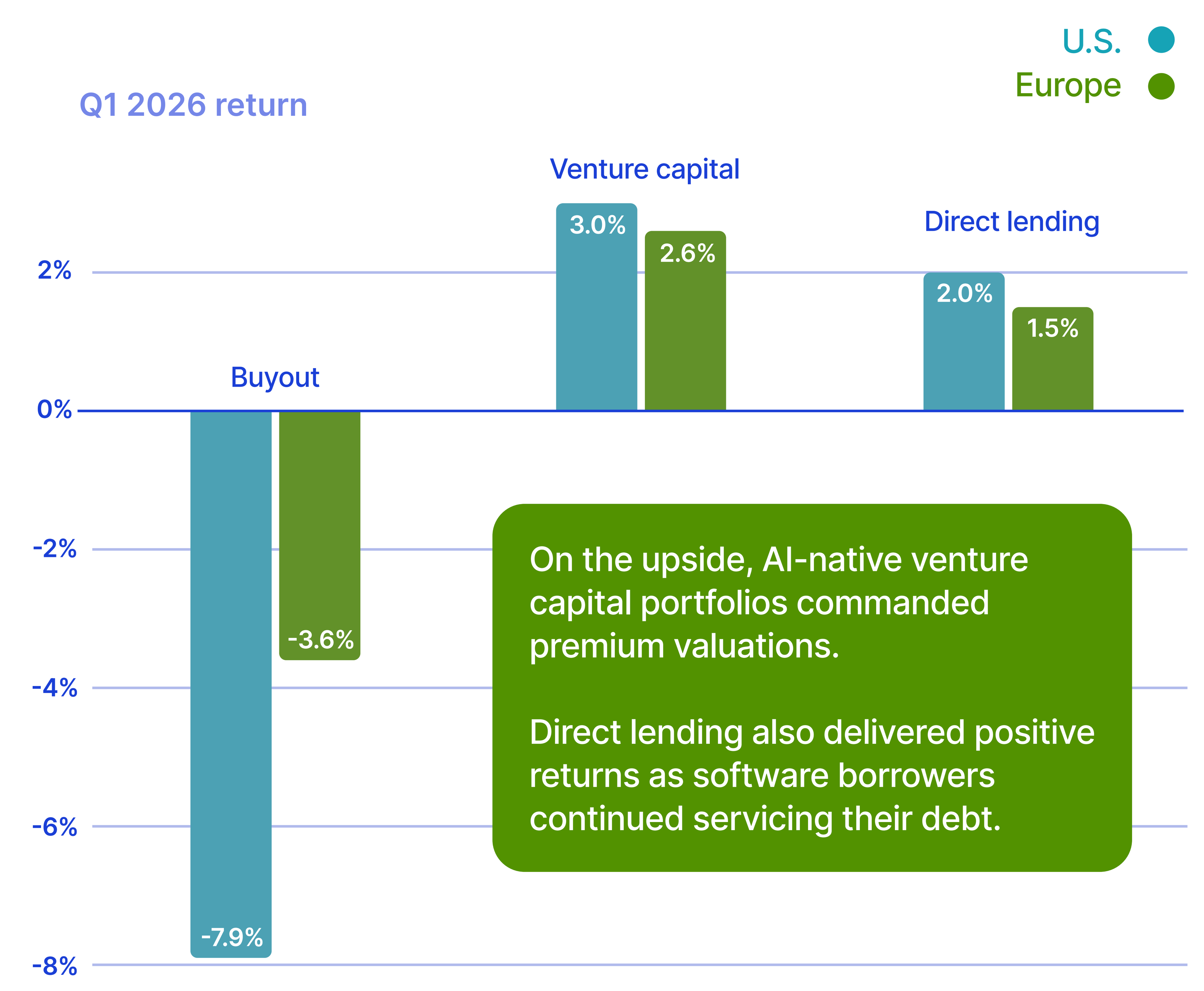
MSCI modeled a hypothetical U.S. IPO wave, including those of large AI-adjacent companies. The results were less dramatic than headlines suggest.

- Add <2% to U.S. market cap
- Result in <2% industry weight changes
- Lower concentration in the 10 largest stocks

Simulated inclusion of the ten largest constituents of the MSCI All Country Venture-Backed Private Company Index in the MSCI USA Index, based on 25% free-float assumption. Industry groups follow the Global Industry Classification System (GICS®). Weights renormalized post-inclusion. GICS is the industry-classification standard jointly developed by MSCI and S&P Dow Jones Indices.

Not all software is created equal

The AI divide is also visible in private markets. For instance, buyout portfolios holding legacy software have underperformed.



On the upside, AI-native venture capital portfolios commanded premium valuations.

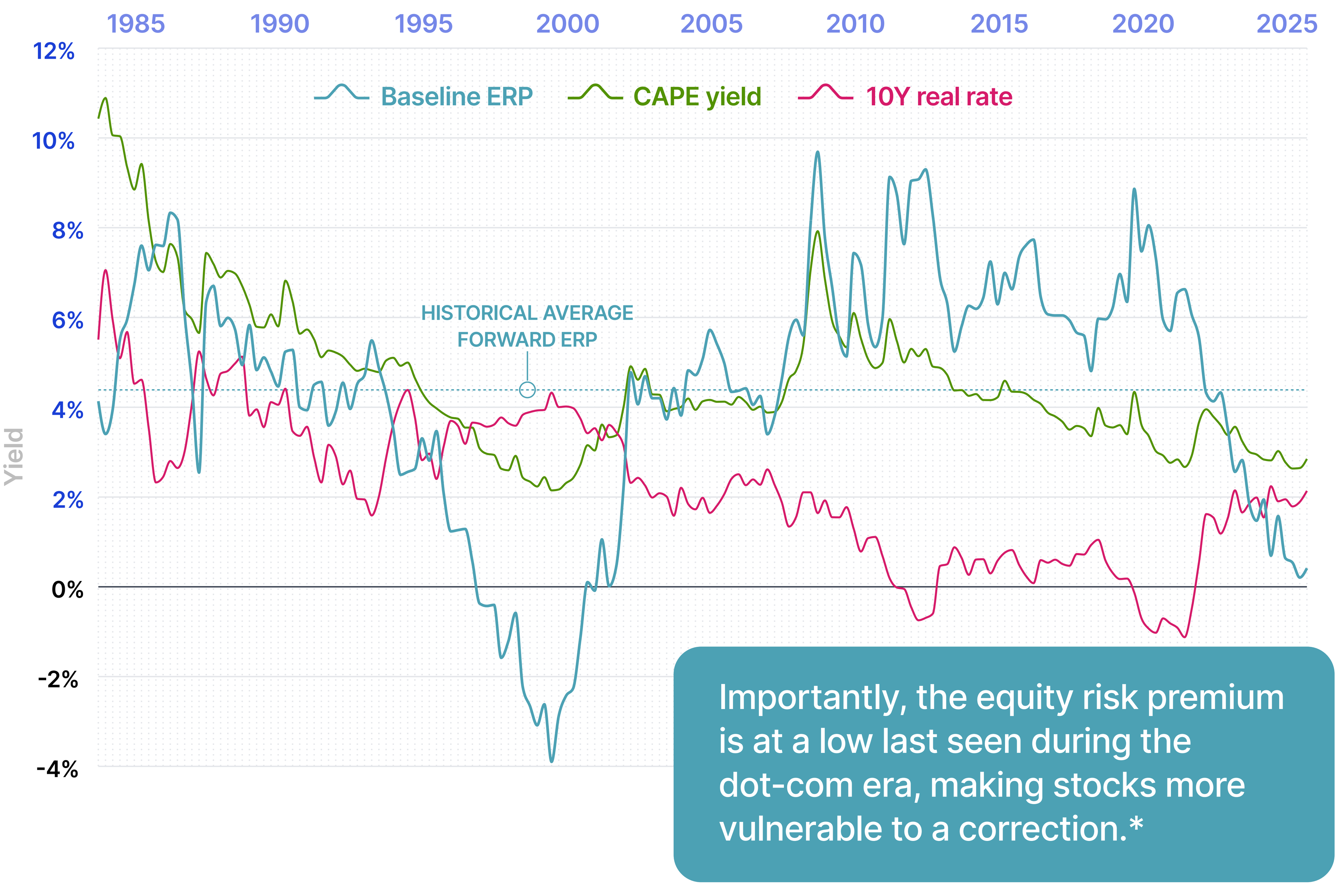
Direct lending also delivered positive returns as software borrowers continued servicing their debt.

Source: MSCI Private Capital Solutions. Returns represent Q1 2026 time-weighted rate of return for holdings-level indexes for the MSCI Buyout, Venture Capital and Direct Lending Indexes. U.S. figures are USD-denominated; European figures are EUR-denominated. "Software" refers to the MSCI software sub-industry classification within information technology.

Stock returns are under pressure

Strong AI valuations and relatively high real rates have reduced investors' reward for taking on stock market risk, a term known as the equity risk premium.

Equity risk premium over time



Importantly, the equity risk premium is at a low last seen during the dot-com era, making stocks more vulnerable to a correction.*

Data from March 31, 1984, to March 31, 2026. MSCI's forward ERP reflects the expected return premium needed to reconcile market prices with macro fundamentals. A low premium corresponds to high market prices relative to future cash flows and suggests both lower long-term returns and a higher risk of a near-term market correction. Traditional valuation measures like the price-to-earnings ratio also indicate that valuations are high, but accounting for changing growth expectations and higher real rates significantly amplifies the signal. For more details, refer to The MSCI Macro Finance Model.

A balancing act for markets

Strong AI earnings have supported stock prices so far, but high valuations and real rates leave little room for disappointment. If earnings growth falls short of expectations, stock prices could come under pressure.

Explore the midyear outlook from MSCI for a deeper look at what's shaping markets for the rest of 2026.

Read the full report

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