

Sector Alert

Information Technology sub-sector changes

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Summary

We are upgrading the Communications Equipment sub-sector to favorable from an unfavorable rating. The accelerating growth in artificial intelligence (AI) workloads is placing significant demands on networking traffic and networking infrastructure. We are upgrading our outlook on the Technology Hardware, Storage & Peripherals sub-sector to favorable from neutral. We are optimistic that personal computer (PC) unit demand trends have largely normalized, and the supply-demand environment for hard-disk drives remains favorable. We are downgrading the Information Technology (IT) Services sub-sector to unfavorable from neutral. We remain favorable on Semiconductors and Semiconductors Materials & Equipment.

Information Technology sub-sector guidance changes

Sector guidance	Favorable sub-sectors	Neutral sub-sectors	Unfavorable sub-sectors
Neutral	Communications Equipment, Technology Hardware, Storage & Peripherals , Semiconductors, Semiconductors Materials & Equipment	Electronic Equipment & Instruments, Software	IT Services

Source: Wells Fargo Investment Institute; sub-sector guidance from Global Securities Research and sector guidance from Global Investment Strategy. As of February 19, 2026. Guidance changes announced in this report in bold text.

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Revising our outlook on Communications Equipment sub-sector to favorable from unfavorable

We are upgrading the Communications Equipment sub-sector to favorable from unfavorable. The accelerating growth in AI workloads is placing significant demands on networking traffic and networking infrastructure. Increasing groups of AI clusters are comprised of thousands of graphic processor units (GPUs) linked by high-speed networking architectures. Networking remains, in our view, a critical bottleneck that is being addressed by hyperscalers¹ in order to support AI scalability in AI data centers as AI workloads continue to expand rapidly.

Two different networks are often referred to when AI workloads are involved. The front end of the network connects users to storage and general-purpose servers within the data center. The front-end networking opportunity is expected to grow at a 10% compound annual growth rate (CAGR) over the next few years. The back-end network handles high-speed, high-volume data connections between GPUs within an AI-focused data center. The back-end networking opportunity is expected to grow at 40% CAGR over the next few years.

Over multiple decades, Ethernet, a wired network specification standard, has been used for network connectivity. Ethernet remains the predominant networking architecture used for front-end networks. Over the past decade, InfiniBand has emerged as a competing open standard networking architecture. InfiniBand has historically served as the preferred networking architecture for back-end networks. In recent years, cloud computing companies have been adopting Ethernet networking architecture.

Future AI networking infrastructure growth is expected to be driven by opportunities from scale up, scale out, and scale across networking architectures. Scale up, referred to as vertical scaling, involves adding more computing power, memory, and storage capacity to existing servers to maximize performance of a single node. Scale out, referred to as horizontal scaling, adds more servers across racks to the network to handle higher AI workloads. Scale across networking involves a high-performance networking architecture that covers multiple data center sites while minimizing latency.

We also expect that networking demand will be supported by the start of a new multi-year, multi-billion-dollar campus refresh cycle. Much of the installed base is coming to end of support with many end-of-life products. Further, many campus customers are becoming increasingly focused on modernizing their network infrastructure to include new security solutions.

Revising our outlook on the Technology Hardware, Storage & Peripherals sub-sector to favorable from neutral

We are upgrading our outlook on the Technology Hardware, Storage & Peripherals sub-sector to favorable from neutral. We are optimistic that PC unit demand trends have largely normalized following a period of pull forward in PC unit demand during the depths of COVID during the 2020 – 2021 timeframe. International Data Corporation (IDC) estimates 2025 worldwide PC shipments increased 8% year-over-year to 284.7 million units driven by an enterprise upgrade cycle from Windows 10 to Windows 11 based PCs and a rush to upgrade PC hardware before 2025 tariffs took effect. However, due to particularly higher memory storage component costs being passed on to consumers by PC manufacturers in the form of higher prices, IDC projects 2026 worldwide PC shipments will decline in the 5% – 9% range.

Storage providers appear to be benefiting from a very tight supply-demand environment. Improving demand is being secured with longer-term commercial arrangements for the next few years as hyperscale customers plan ahead for their storage capacity needs. We expect the shift from hard-disk drives targeting PCs to high-capacity hard-disk drives

1. Also known as hyperscale cloud service providers, are companies that develop and operate a large network of data centers to facilitate cloud computing.

addressing rising AI-focused data center demand from hyperscale customers to continue. The hard-disk drive storage industry remains rational from a pricing and manufacturing supply perspective.

We expect accelerating AI infrastructure capital expenditure investments to broaden AI demand beyond cloud service providers to sovereign and to enterprise customers. We expect enterprise customer adoption of AI will help drive demand for AI servers and incremental demand for storage peripheral solutions.

Revising our outlook on the IT Services sub-sector to unfavorable from neutral

We are downgrading the IT Services sub-sector to unfavorable from neutral.

The markets have pinpointed the IT services industry as potential victims of generative AI. Investors continue to debate over whether generative AI will commoditize IT consulting services businesses, reduce barriers to entry and lower margins of established incumbents, or instead allow IT consulting services companies to find new ways to generate incremental revenue streams. Potential near-term headwinds to the IT Services sub-sector include business process outsourcing companies preventing disruption risk from generative AI. This led to multiple quarters of various IT service company bookings and guidance missing investor expectations. Further, we acknowledge risks that higher IT spending allocated toward generative AI initiatives could place pressure on other areas of the overall IT spending budget, including IT services spending.

Where to invest

We are upgrading our outlook on the Communications Equipment sub-sector to favorable as networking infrastructure remains, in our view, a critical bottleneck that is being addressed by hyperscalers in order to support accelerating growth in AI workloads. We are also upgrading our outlook on the Technology Hardware, Storage & Peripherals sub-sector to favorable as hard-disk drive storage providers which we believe benefit from greater visibility from large hyperscale customers planning for their AI-led storage needs.

Communications Equipment, Technology Hardware, Storage & Peripherals, IT Services Equity recommendations

Ticker	Company name	Sub-sector/Sub-industry	Market cap (billions)	Price	Dividend	Dividend yield	Estimated NTM EPS	NTM P/E	Core	DSIP	Growth	Focus	High Yield	SMID	Value
AAPL	Apple Inc.	Technology Hardware Storage & Peripherals	\$3,874.1	\$263.88	\$1.04	0.4%	\$8.77	30.1x	X	X	X	X			
ACN	Accenture Plc Class A	IT Consulting & Other Services	\$135.3	\$219.89	\$6.52	3.0%	\$14.36	15.3x	X	X					
ANET	Arista Networks, Inc.	Communications Equipment	\$179.5	\$142.58	\$0.00	0.0%	\$3.63	39.3x	X		X				
CSCO	Cisco Systems, Inc.	Communications Equipment	\$303.6	\$76.85	\$1.68	2.2%	\$4.36	17.6x	X	X		X	X		
HPE	Hewlett Packard Enterprise Co.	Technology Hardware Storage & Peripherals	\$29.2	\$21.97	\$0.57	2.6%	\$2.47	8.9x					X		
IBM	International Business Machines Corporation	IT Consulting & Other Services	\$241.5	\$258.31	\$6.72	2.6%	\$12.51	20.6x	X						
MSI	Motorola Solutions, Inc.	Communications Equipment	\$75.8	\$457.76	\$4.84	1.1%	\$16.96	27.0x	X	X		X			
WDC	Western Digital Corporation	Technology Hardware Storage & Peripherals	\$96.3	\$284.11	\$0.50	0.2%	\$11.58	24.5x							X

Sources: FactSet, Wells Fargo Investment Institute. Prices and data as of February 17, 2026. NTM = next-twelve-months. EPS = earnings per share. Estimated NTM EPS source is FactSet.

Global Securities Research List Descriptions:

The **Core List** includes a wide range of what we view as high-quality companies. In general, the list may have representation across all 11 sectors and exposure to stocks with varying levels of maturity, valuation, and cyclicity. The Core List assumes a long-term holding period and can be used to build or supplement a well-diversified equity portfolio.

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