

Outlook 2026: Innovation from promise to production

- AI has shifted from the pilot phase to generating meaningful revenue and aiding productivity.
- Technology diffusion provides new opportunities across robotics, healthcare, and security.
- Elevated valuations and rising capital expenditures remain areas of concern

The Innovation Age enters a pivotal era where the promise of artificial intelligence is rapidly shifting from experimental pilots to scalable, revenue-generating solutions. While AI remains the focal point, its adoption has broadened well beyond the technology sector, driving a robotic renaissance, new healthcare innovations, and modern defense solutions. This wave of innovation offers a diverse landscape of opportunity—from the digital infrastructure powering these advancements to the software orchestrating the digital economy. Further, at technology's frontier edge, new innovations are driving opportunities in quantum computing, nuclear energy, and space.

The AI Era: Shifting from pilots to production

Notwithstanding increased scrutiny of capital requirements and the valuation of related companies, artificial intelligence (AI) progress accelerated in 2025. AI models not only got smarter, but they also became more useful. Following a similar pattern as in previous computing eras from the mainframe to the cloud, as the technology advanced, AI adoption has broadened well beyond the technology sector. From defense to healthcare, AI usage is proliferating throughout the economy. While it's likely too early to attribute entirely to AI, it is worth noting that US non-farm business sector productivity jumped to 4.9% in 3Q25 from 1.9% a year earlier.

Importantly for investors, AI applications are also generating meaningful revenues. There are now more than 25 startups generating at least USD 100 million in annualized revenue from AI applications. OpenAI reported that the firm reached USD 20 billion in annualized recurring revenue (ARR) in December 2025 up from USD 6 billion in at the end of 2024. Similarly, Anthropic announced they had reached USD 10 billion in ARR at the end of 2025. In total, the top 10 private AI software companies generated an estimated USD 44 billion in ARR in 2025, up 152% year on year. In a short period of time, many of these AI startups would rank among the top 20 of publicly listed software providers.

The success of AI startups, coupled with expanding enterprise and industrial AI usage, drove continued investment. Venture investment in AI nearly doubled in 2025 to USD 225.8 billion according to CB Insights. The three largest US hyper-scalers generated nearly USD 274 billion in cloud computing revenues in 2025, up 27% year-over-year – an acceleration from the 25% growth reported in 2024.

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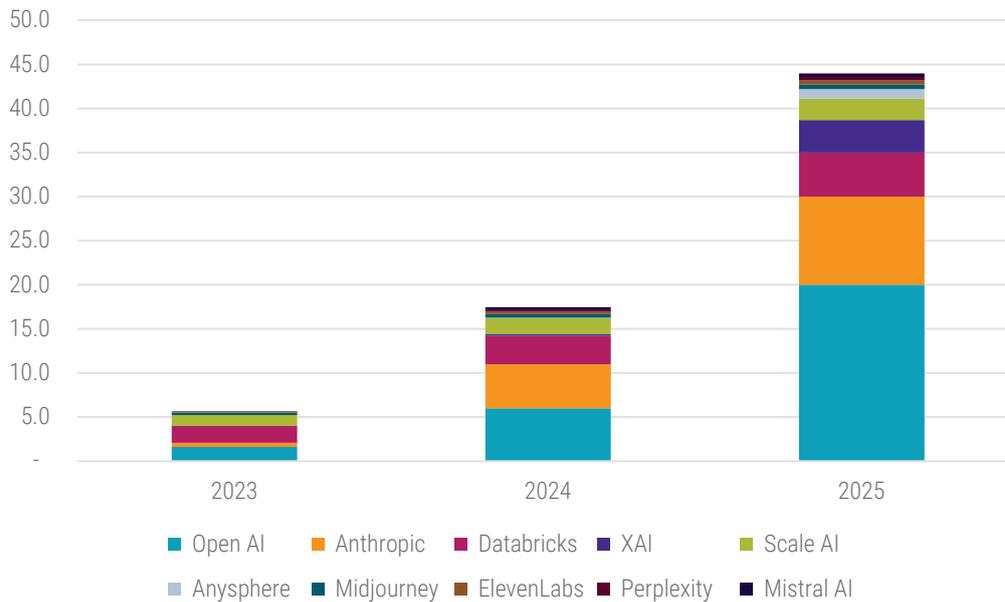


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Figure 1 – Private AI company annualized recurring software revenues. USD billions



Source: Company reports, CB Insights, January 2026

Moreover, in each earnings report, cloud computing executives consistently reported that demand outpaced capacity. As a result, cloud providers continue to increase capital investment plans. Across US hyper-scalers, newer cloud entrants, and platforms in China, capital expenditures in 2026 are forecast to reach USD 670 billion, up 37% year on year.

“The AI opportunity is expanding globally

While the release of DeepSeek’s R1 model last year was framed primarily as a threat to US dominance, for global investors, the burgeoning Chinese AI ecosystem also presents an opportunity. Put another way, it does not have to be a question of China or the US, but rather investors have the opportunity to participate in both the Chinese and the US AI markets. Moreover, the AI opportunity is expanding globally. Industry research group EpochAI has tracked more than 200 notable AI models trained with at least 100 billion trillion (10²³) floating point operations (FLOPs) including those released in China, the US, France, Germany and Saudi Arabia.

Embodied AI: The robotic renaissance

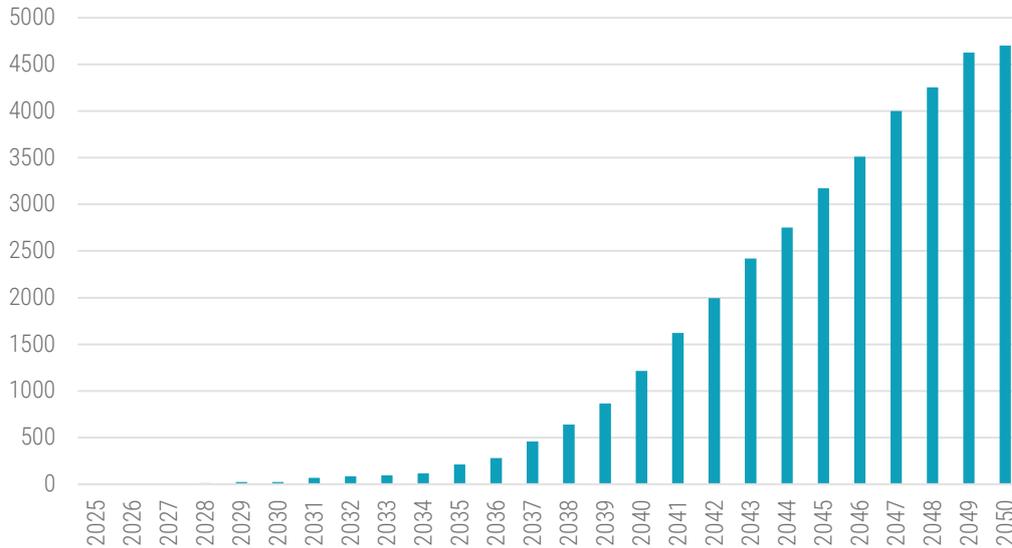
Production bottlenecks, labor shortages, and geopolitical risks have driven renewed interest in automation and reshoring manufacturing closer to home. While the desire to reinvigorate domestic manufacturing is not new, follow-through with significant investment spending has been less robust until recently. In the US, despite a policy shift towards tariffs and away from incentives, investment in manufacturing facilities rose 3-fold over the last 4 years to an estimated USD 213 billion in 2025. According the International Federation of Robotics (IRF), the 4.7 million industrial robots in operation around the world equates to just 177 for every 10,000 manufacturing industry workers. After 2 years of sluggish growth, the IRF expects new industrial robotic installations will begin to accelerate in 2026.

Robots are not only getting more plentiful; driven by AI they are getting smarter too. During a presentation last year, Nvidia CEO Jensen Huang declared robotics a ‘multi-trillion-dollar opportunity’ as the company announced its Cosmos foundation model platform for what the company dubs ‘physical AI.’ Where robots were previously trained for specific tasks, AI enables the machines to learn through simulations and on the job training. AI powered robots are thus able to respond dynamically to real-world conditions and perform a wider array of tasks. As a result, AI is poised to transform robots from rigid tools into versatile assets with greater utilization and improved return on investment.

The fusion of AI and advancements in mechanical engineering have also accelerated development in humanoid robots which could be trained to work in numerous environments rather than fixed locations. In addition to large

OEMs like Hyundai and Tesla, development in the space has been broad based in startups like Figure in the US and Unitree in China. CB Insights notes that the venture investment into industrial humanoid robotics tripled in 2024 to USD 1.2 billion. Morgan Stanley predicts, perhaps optimistically, that the humanoid robotic market could reach USD 4.7 trillion by the year 2050.

Figure 2 - Annual humanoid robot revenues, USD billions



Source: Morgan Stanley, April 2025

The Application Layer: Software orchestrates our digital world

Absent the guiding direction of software, technology is little more than an inert assembly of silicon and metal wire. Often unseen and increasingly taken for granted, software provides the critical orchestration of the digital world – from bank transactions to transport navigation. Bolstered by strong margins, high growth, and recurring revenues, the software sector has historically delivered above-average returns.

However, despite resilient growth, a combination of government budget reviews, shifting trade policies and growing concern that artificial intelligence could disrupt rather than augment established software providers drove significant underperformance for the group. In 2025, the Bessemer Emerging Cloud Software Index fell 6.7% while the Philadelphia Semiconductor Index rose 38.9%. Weakness in the sector has intensified in 2026.¹

Pressure on the software sector began early in 2025 as the Trump administration’s budget cutting efforts led to concern software contracts with the government were at risk. Throughout the year, advancements in AI by the likes of OpenAI and Anthropic prompted worries that the technology could replace rather than augment traditional software applications like customer service and employee record keeping. Further, the success of AI-assisted coding tools sparked concern that in addition to competition from AI startups, corporate customers could also develop their own in-house applications. While AI promises to revolutionize how software code is created, it does not remove the need for software itself.

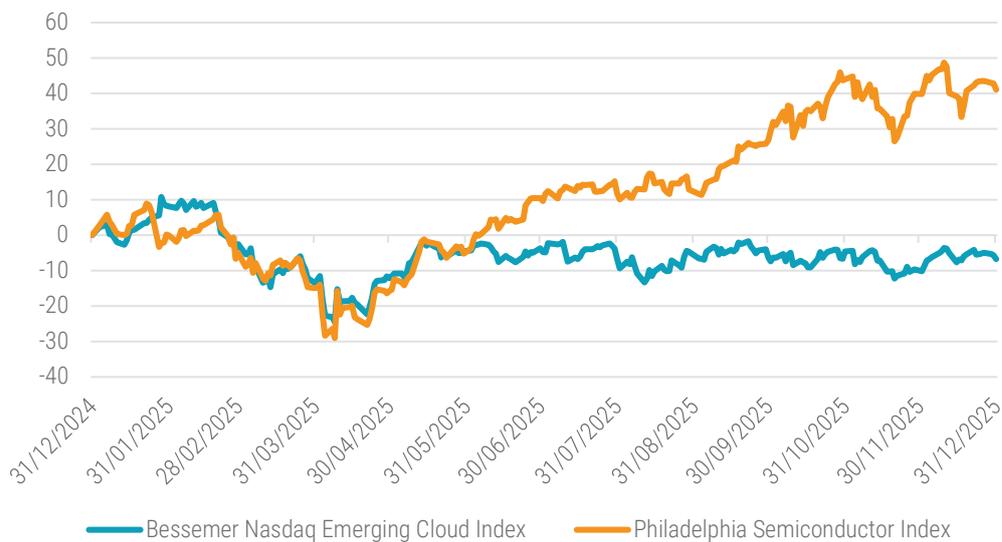
“AI promises to revolutionize how software is created

Reassuringly, there is so far little evidence that the AI risks weighing on the software industry have materialized in results. While the market has reacted negatively, sales and earnings from those that have reported 4Q25 results have been above consensus estimates. Notably, research firm Gartner projects software sector revenue will accelerate from 11.9% annual growth in 2025, to 15.2% in 2026. Most importantly, where incumbent software vendors were slow to embrace the cloud as Software-as-a-Service (SaaS) providers entered the market, today’s SaaS

¹ Trillion-Dollar Tech Wipeout Ensnarers All Stocks in AI’s Path – Bloomberg – 5 February 2026

leaders have moved rapidly to incorporate AI within their own applications and to provide new AI-driven capabilities. For instance, both Salesforce and ServiceNow have each reported more than USD 500 million annual recurring AI feature revenues already. Looking forward, further evidence that AI applications are contributing to software results will be key to regaining investor confidence.

Figure 3 – Performance of Software-as-a-Service providers vs. Semiconductors



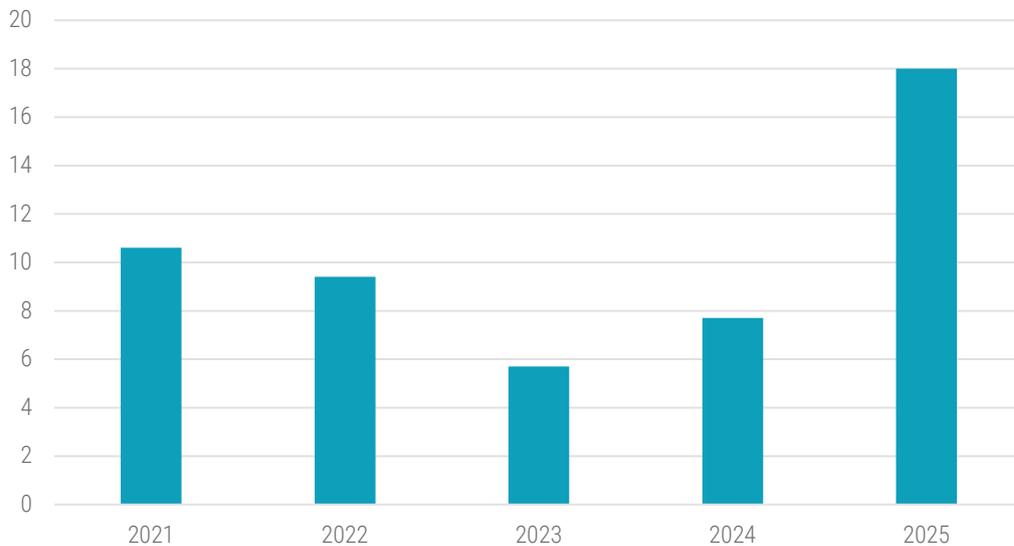
Source: Bloomberg, January 2025

The Fortress Economy: Secure Everything

From cyber-attacks on the digital economy to physical attacks on sovereign nations, elevated risks continue to place security at the top of both government and corporate agendas.

Increased digitalization, fragmented systems, and rising geopolitical tensions have contributed to a doubling in cyberattacks over the last four years according to the International Monetary Fund (IMF). Alarmingly, cyberattacks have increasingly targeted government networks and critical infrastructure. For instance, the disruption of operations at Heathrow, Brussels, and Berlin airports in September 2025, caused by a ransomware attack, demonstrated the physical impact of cyber threats. While AI is enabling more adaptive and efficient security systems, bad actors have also proven adept at incorporating the technology. According to a 2025 House Committee on Homeland Security report, one in six data breaches is now driven by artificial intelligence, with attackers using the technology to craft highly sophisticated social engineering campaigns. Similarly, recent breakthroughs in quantum computing have sparked concern the technology could break existing cryptography algorithms. As a result, research firm Gartner estimates that cybersecurity spending growth jumped from 13% in 2024 to 15% in 2025.

From Ukraine’s fleet of tank-busting drones to Donald Trump’s proposed Golden Dome missile shield, technology is playing an increasingly critical role in defense. A deepening multipolar rift in the world order coupled with an imperative to modernize has driven a historic rise in global defense budgets, which are projected to exceed USD 3 trillion by 2027. The conflict in Ukraine has demonstrated that lower-cost, AI-enabled systems can devastate expensive legacy platforms. The advent of software-defined hardware has elevated code as a critical differentiator for defense systems. This technological disruption is fueling a boom among defense startups with venture capital jumping 145% in 2025 to USD 17.9 billion according to CB Insights. Agile entrants like Anduril in the US and Helsing in Germany are challenging established incumbent defense primes with autonomous, mass-producible systems.

Figure 4 – Global defense technology venture funding, USD billions

Source: CB Insights, January 2026

Digital Infrastructure: the backbone of the digital economy

The foundation of the next-generation digital economy relies on the scaling of three interdependent verticals: the high-speed networks that transport exploding data volumes, the infrastructure required to power and cool AI, and a modernized smart grid as everything from automobiles to home heating systems go electric.

The digital economy has created an explosion in data transmission that at times strains both wired and wireless networks. Over the last five years global data traffic expanded at a compound annual growth rate (CAGR) of 20%, reaching an estimated 522 exabytes per month in 2025. Looking ahead, Ericsson forecasts that global mobile data traffic will more than double by 2030 with next generation 5G networks expected to carry 80% of this load. This relentless deluge of data compounded by the shift toward bandwidth-intensive video and real-time AI applications is creating increased demand for expanded fiber and wireless "pipes" as well as new storage capacity.

The rise of Generative AI has altered infrastructure requirements, shifting focus from general-purpose computing to power-dense, high-performance compute clusters. The real estate firm JLL projects that global data center capacity will effectively double between 2025 and 2030, and need 200 gigawatts (GW) extra power generation capacity to service these next generation AI data centers. While this shift places immense strain on energy resources, rapid innovations in semiconductor efficiency are expected to mitigate the total energy footprint over time. However, the immediate challenge remains "time to power," where utility interconnection queues have stretched. In addition, modern data centers require a new approach to cooling. Technology consultancy firm Omdia forecasts that worldwide data center cooling sales will double from USD 8 billion in 2024 to USD 16 billion in 2028. The share of liquid cooling is forecast to increase from 17% in 2024 to 33% in 2028.

To support this digital ecosystem alongside broader electrification trends like electric vehicles (EVs) and home heat pumps, the legacy electrical grid requires a comprehensive overhaul. The "Smart Grid" represents the convergence of digital intelligence and electrical infrastructure, allowing for two-way energy flows, real-time load balancing, and the integration of distributed renewable assets. Goldman Sachs estimates that approximately USD 720 billion in grid spending will be required worldwide by 2030 to upgrade transmission lines and generation capacity to meet these evolving demands.

Health Innovation: Technology diffusion is improving care

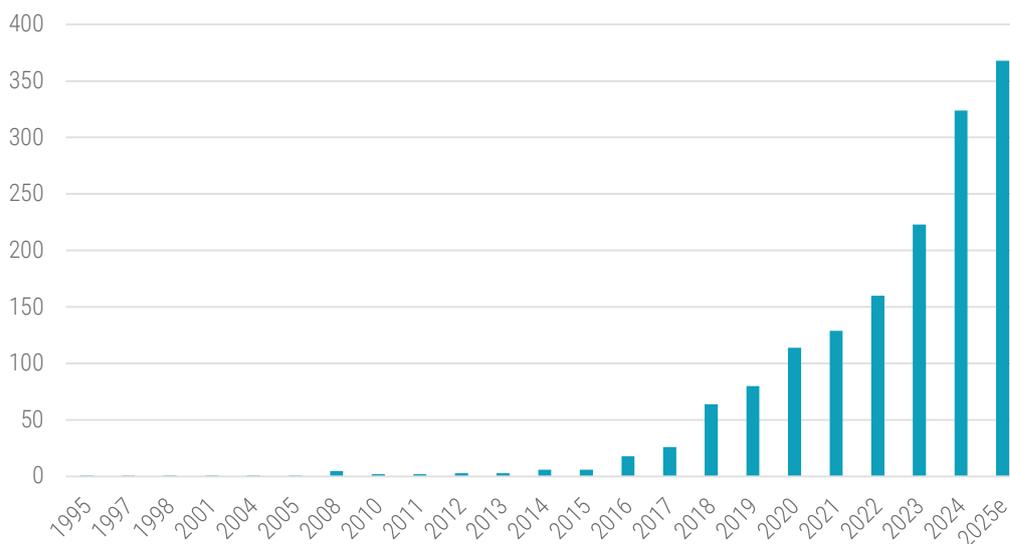
Speaking at the World Economic Forum last year, the Nobel laureate and CEO of Google DeepMind, Demis Hassabis, said the company was preparing to submit AI-designed drug candidates into clinical trials. That milestone marks a shift from theoretical to operational reality for the emerging technology. AI discovery methods hold particular promise in the treatment of rare diseases where deciphering complex biological interactions has historically been considered cost-prohibitive relative to the opportunity. Notably, building on the success of DeepMind's AlphaFold which revolutionized the study of protein structures, the company's latest release, AlphaGenome deciphers the complex "dark matter" of DNA to predict how specific genetic mutations drive disease, paving the way for faster diagnostics and the design of targeted gene therapies.

“AI drug discovery methods hold particular promise

Healthcare expenditures account for 9.3% of GDP among OECD member nations, and 17.2% in the US. As a result, even marginal gains in efficiency could provide enormous impact. For instance, the Commonwealth Fund estimates that paperwork alone may account for 30% of America's excess per capita health spending. Even without the potential to discover novel medicines, AI is already assisting physicians. For instance, AI-enabled voice transcription apps, such as those from Abridge and Microsoft transform consultations into structured, EHR (electronic healthcare record) ready notes. A 2025 study conducted by London's Great Ormond Street Hospital found that these so-called ambient AI technologies led to a more than 50% reduction in documentation time for clinicians. Shifting healthcare professionals time away from administrative burdens should not only reduce costs but also improve patient outcomes.

AI is also already enhancing a broadening array of medical devices. In 2023, the US FDA approved 324 AI-enabled medical devices, up from just six in 2015. For instance, Medtronic's Guardian Connect is an AI-enhanced continuous glucose monitoring system for diabetes management. It uses machine learning to predict glucose trends and provide alerts for potential hypoglycaemic or hyperglycaemic events. Beyond AI, technology diffusion is enabling an expanding field of consumer medical devices from the US approval of Apple's AirPods as an over-the-counter hearing aid to Oura's sleep and wellness monitoring ring. These wearable technologies enhance preventive care. Unlike traditional check-ups that capture a single health snapshot, continuous monitoring enables clinicians to spot silent risk indicators early.

Figure 5 – Number of AI enabled medical devices approved by US FDA



Source: Stamford 2025 AI Index

New Frontiers: Quantum, Nuclear, and Space

At the leading edge of innovation lie technologies that are transitioning from moonshots to strategic imperatives.

Going quantum

Recognizing the 100-year anniversary of Werner Heisenberg's pioneering paper on quantum mechanics, the United Nations declared 2025 as the International Year of Quantum. Indeed after, Google in 2024 demonstrated that its Willow quantum chip could perform a benchmark calculation in five minutes compared to the theoretical 10 septillion years it would take a classical supercomputer, interest in the field has spiked. In addition to a group of publicly listed quantum startups, large technology platforms including Amazon, Microsoft, and Nvidia each run quantum technology programs. Notably, two of the leading firms that have deployed quantum computing systems are both more than 100 years old, IBM and Honeywell. Similar to AI, quantum computing holds great promise to unlock discoveries in everything from drug discovery to nuclear fusion. Quantum computing also poses a significant risk that the technology could break the code of cyber security systems – spawning a new field in post-quantum cryptography.

The second atomic age

At the dawn of the first atomic age, optimists conceived of a world powered by cheap, abundant, emission-free nuclear power. Plagued by historically high construction costs, several well-known disasters, and related low public support, nuclear fission's share of energy generation has declined from 16% of global power generation in 2005 to less than 10% currently. However, recent breakthroughs in nuclear fusion coupled with advancements in small modular reactors and investments from leading technology platforms, bring renewed hope for the industry. Moreover, to power AI data centers, US technology platforms including Meta and Microsoft have signed new deals with nuclear power operators to secure dedicated capacity. According to the International Energy Agency (IEA), more than 60 nuclear reactors are currently under construction with the potential to generate more than 70 gigawatts (GW) of new capacity.

“Most space industry opportunities exist closer to earth

Over the last few years, there has been a renaissance in space technology, much of which is led by private companies. In 2025, there were 321 successful orbital launches around the world, and more than half of those were completed by a single private company – SpaceX. In its short history, SpaceX has revolutionized spaceflight by developing reusable rocket boosters that return to Earth and land upright – helping to reduce launch costs by 90%.

Figure 6: A SpaceX launch



Source: SpaceX

While SpaceX founder Elon Musk speaks excitedly about colonizing Mars, most space industry opportunities exist closer to earth. For instance, services like Starlink, Iridium, and OneWeb provide data connectivity to remote areas. In addition, much of the existing infrastructure in space are decades old, and services like GPS are being replaced to improve accuracy and prevent jamming.

In summary

Investment in digital innovation remains a dominant market theme supported by multiple growth drivers. Although increased scrutiny of business models, the scale of planned capital investments and the valuation of AI related companies, has more recently pressured performance and increased volatility. As we have laid out in this outlook, the velocity of innovation and the rapid pace of adoption suggests the thesis remains well-supported. So, while we are cognizant of very real near-term risks and tactically managing our portfolio to mitigate them, we believe the current market volatility may present opportunities for the long term.

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