Research @ Citi Episode 87: Citi's TMT Conference Insights – AI's Real World Reckoning & Beyond

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Opening Voice-Over (00:00)

Welcome to a special edition of the Research @ Citi podcast.

We are recording right at the close of the 2026 Citi Global Technology, Media and Telecom Conference where cutting-edge technology companies and innovators throughout the globe provided the latest on emerging trends, new technologies and future advancements.

To share what's trending and what's new, here's your guest host, Heath Terry.

Heath Terry (00:25)

Hi, I'm Heath Terry, Head of Global Technology and Communications Research at Citi. We're coming to you today on the heels of our 2026 TMT Research Conference in New York City. I'm joined here by my colleague, Omar Ahmed, Head of U.S. Sales for Citi.

Omar, we had 250 companies here, over 2,000 investors over the course of three days. Just incredible content. Thank you so much for taking the time to be here.

Omar Ahmed (00:54)

Heath, great to be here with you on the Research @ Citi podcast.

As ever, it's been a great three days, and I think the halls have felt as busy as they have been over the last two or three decades we've been hosting the conference. I think one of the things that really became apparent to me over the last three days as a key theme to take away is that the shift away from the discussions on demand for AI towards where it's going to be monetized has really been brought home.

Is that something you've observed, and what would you say otherwise the key takeaways are for you at a high level?

Heath Terry (01:28)

Yeah, I think that is easily one of the biggest themes that we've seen over the course of the three days. And I think there are a lot of other things that come off of that when you get into the individual companies or different subsectors around technology.

To be clear, this was all about enterprise adoption of AI accelerating, right? We had this conference this time last year, and it was still something that was very much in question. And I think the biggest thing is, we have moved from “How are enterprises going to adopt this? Are they going to adopt it? Is there going to be enough demand?” to a lot more of the specifics of “Are they going to use open or closed models? Are they going to use data-center capacity? Are we going to be able to build enough data-center capacity for what they're going to build? Does the rising cost of inference allow them to continue to earn a meaningful return on the investments that they're making?”

And so we've gone from these big, high-level questions down to the specifics of actually implementing this, and all the challenges and difficulties that come along with that. And I think that, for me, that was probably the biggest theme: just how much more specific and nuanced I think the conversation around AI has gotten in the last year.

Omar Ahmed (02:54)

There's a lot of topics you just mentioned there that I want to double kick into as we go through this conversation. It's interesting: As we approach the conference, I think two of the biggest questions we heard from investors were around semis and software, sectors that have been quite the journey over the last six, 12, 18 months. Semis, the question was, “Is it a pullback that people should be buying?” And software: “Can the recovery continue?”

I think it's interesting: Over the last couple of days, what became clear on the semis front was that investors remain cautiously selective. And remain cautious around semi-cap, where memory remains an anchor, and some of the hardware names.

Software, perhaps a little bit of the same dynamic, albeit I think the one-way trade that was the melt-up, if you will, has come to an end. And investors are now taking a bit of a barbell approach. On the one hand, zoning in on the software names that are AI beneficiaries, which are sensors that are becoming a bit more easy to identify. It's been a trend over the last couple of days.

And then, on the other hand, sharpening pencils on where application names may have a setup that remains too bearish for the prospects. Is that something that you've heard around the corridors?

Heath Terry (04:29)

Yeah, I think so. I mean, look, in all of the sessions that I attended or the ones that I hosted, I think a lot of it came back to exactly that, right? We have had this very binary trade of investors thinking about it in terms of either “you’re long semis and short software” or “you’re long software and short semis.” And that has basically been the trade around AI really since the beginning of the year. And we've seen both sides of it with the software recovery here over the last three months being fueled by the declines that you've seen in semis.

I guess what I keep coming back to — because your point about good news being good news again — for the most part, fundamentally, nothing has really changed. And I think that in and of itself is the thing that's driving this, is there was this expectation that software was going to see this meaningful underperformance, that analysts would have to cut their numbers, that growth was going to slow, that profitability was going to decline.

And for the most part, we just really haven't seen that. There are certainly some exceptions, but for the most part, software as a whole has done well. Certainly, the consumption names have done well. Maybe some of the application names have been a little bit more challenged.

But just that stability, I think, has caused buyers to come back to software at a time when there has been some concern about the strength of the semi trade because it is so reliant, particularly, on the frontier-model companies. And we've had this three-month period now where the open-source models have gained ground against the frontier models.

And we were following that all the way up until really last week. And I don't think it's a coincidence that with our conference that trade seems to be shifting back at the same time as we have now gotten the latest generation of these more-performant, more-economical frontier models that have people thinking actually maybe the West is going to lead this again and we're not just going to see this commoditization driven by open models.

And so, I think because of that underlying view around frontier vs. open source, people are willing to hear good news again as it relates to that broader AI infrastructure trade.

Omar Ahmed (07:14)

It's interesting you went to frontier vs. open source because that's where I wanted to take the conversation next. And, as you point out, it feels like not only has the debate on that dynamic itself shifted, but also it's got the implications for the broader space, as you pointed out.

As it pertains to the dynamic itself, the competition between open source and frontier, what have you heard over the last couple of days?

Heath Terry (07:45)

I mean, we were lucky enough to have some of the leading frontier-model-based applications here, as well as some of the most important, especially Western open-source model builders here. We also have the company here that actually built the data center where these open-source, where the frontier models, the latest frontier models, are being trained and built on top of a cluster of over 100,000 Grace Blackwell NVIDIA chips.

And so we got every perspective over the course of the last three days. And honestly, it's probably going to be one of those things where we're still piecing apart the things that were said over the last three days over the weekend, into next week, to try and fully have an appreciation for what was said.

But I think the two things that I took away from it is open source is a massive driver of efficiency for enterprises adopting this.

The new routing technologies that you're seeing, this whole model where you've got a drop-down menu of 10 different models and you as the end user have to decide which one — and “Do I want to use frontier here? Do I want to use an older frontier? Maybe I'm using open source here?” — it never made sense that that was being left to the end user. And now you have these more-sophisticated routing technologies that companies are developing that are optimizing for both the answer that the user needs to get as well as the cost that goes into it.

And what that's doing is it's driving significant efficiencies in the spend per query — or the spend per token or per task, depending upon how you want to look at it — for the end enterprise user. That had to happen, right?

We have gone through this period over the last 12 months where the cost of AI has gotten more expensive. Technology is not supposed to get more expensive over time — it's supposed to get cheaper over time. And we haven't had that really for the last year. And there are some signs that because of routing, because of open source, and then because of these frontier models that have come out within the last week that seem to be more efficient on a tokens-per-query basis, that we're moving in the right direction to trigger that Jevons paradox that we've bet so much on: that if costs come down, the volumes will increase so much that you still get revenue growth.

And I think that's where the debate sits on this right now. And I think the way that it seems to be falling, coming out of the last three days, is going to be favorable for that broader AI infrastructure trade. Because as much as people like to think of open-source or open-weight models being cheaper, or being free in some ways, the reality of it is all of these models consume tokens. They all consume infrastructure capacity.

Omar Ahmed (10:55)

There's something I'd like to investigate a bit further. When we think about the cost of computers, as you say, what goes into it? We've got supply-chain bottle-necking, we've got infrastructure bottle-necking, we have power bottle-necking.

How should investors be thinking about that triumvirate? And maybe if you can give us a sense also of what we heard from the semi-cap names over the last few days who obviously sit at the heart of some of the most acute bottle-necking within their space?

Heath Terry (11:25)

So the bottlenecks are not getting any easier — they, as you said, exist at power, they exist at labor, they exist at the electrical-equipment side of things. They exist, certainly, throughout the memory, CPU, GPU stack that has to exist.

And for most of the companies that were presenting here, that's a very positive thing because it means pricing power. And so it's why these companies are seeing record margins. It's why you're seeing the revenue growth acceleration that you are. The market is clearly still debating what to pay for this, because I think there is a lot of skepticism in the market on how long this lasts.

Memory companies aren't supposed to have 90% gross margins. And so how long you're willing to underwrite that as an investor has a lot to do with what you're willing to pay for these stocks and these companies. That memory piece is a big part of the question around semi-cap equipment.

I do think ultimately what we heard here over the last three days is demand is still so incredibly strong that our capacity to build all of this is going to require that it takes longer than the market seems to be expecting. This is not going to be a two- or three-year cycle. This is going to be a three-, five-, maybe 10-year cycle before we see things really start to normalize around this.

And that means you're going to need a lot of infrastructure built. All of this is relying on our ability to build capacity. There's been a lot of restraint around that from the companies in that space, but you're now starting to see new entrants who have less of that same sort of restraint and I think that that ultimately means that we're going to see a lot more demand, we're going to see a lot of incremental growth.

Omar Ahmed (13:24)

I agree with that.

Changing gears a little bit, we spoke about what at least I perceived to be a bit of a barbelled approach to how investors are looking at the software space. And you spoke about how obviously there's been a dynamic between being long semi, short software and perhaps flipping that around as we head through second quarter of this year.

Outside of maybe what impact AI has had on the software space, what have we heard from within the software subsectors that you think is maybe changing the narrative out there from a fundamental perspective?

Heath Terry (14:00)

I think from a fundamental perspective it really depends on the software company.

If you are an infrastructure company that is benefiting from the growth and all of this agentic traffic that's happening, all of the data consumption that's happening, this has all been wildly positive for you.

If you are an application-layer company that has largely built its business by being a user interface on top of a database, then the messaging has obviously been a lot more challenging. But even those companies are developing the agentic AI tools and the suite of AI that's needed to drive incremental growth in this.

And so I think the positive that we've heard is from a lot of those application-software companies has been that those AI tools that they're building are getting traction, that their customers are using them, that they're willing to pay for them. And what was, I think, thought to be this sort of “SaaS-pocalypse,” to use the cliche of, “Well, everybody's just going to vibe-code their own version of everything,” I think we all now realize that that was never really realistic.

But I think the question really comes back to you because that's the fundamental side of it. But so much of this is going to be driven by sentiment. And I'd really be curious how you've seen investor sentiment as you talk to all the clients that are here around that software space. And as a classic sort of technology investor thinks about the multiples that they're willing to pay for these things, how do you feel like that sentiment is changing?

Omar Ahmed (15:49)

I think there's been clearly a dramatic change in the multiple that people are willing to underwrite within the sector over the last 12, 18 months. I think the compression in that multiple has probably slowed over the last six months. And as we've approached the conference, and as people begin to think about where they want to be positioned within the space, it's become much less about the multiple as the driving factor of their investment decision and more about the earnings momentum.

We can see that in various indicators around factors, and I think it dovetails with some of the commentary we've heard out of this conference in that there's becoming much more of a disparity in the earnings trends, earnings momentum between the various companies within the subspaces of software, but also across the sector. And as you know from your time in the industry, it's really when we begin to see divergence intra-sector that it becomes an interesting space for people to revisit it. And I think it feels like the setup for software particularly is reaching that point.

Heath Terry (16:58)

Yeah. That’s interesting.

Omar Ahmed (17:02)

Of course, this isn't just a tech conference. I was looking through my notes from last year and outside of the tech space, I think one of the dominant themes in media and maybe even telco was M&A.

My sense was that this year, not quite as dominant a theme, obviously outside of broadcasters where scale is important. But it felt to me that investors were focused a bit more on the fundamentals.

On the ad names, I think it seemed like the mood music was surprisingly positive, particularly on out of home.

On the consumer, there was definitely a sense that there's a significant appetite remaining for premium content and actually, somewhat surprisingly, continued interest in sub models.

And then in telco, you know, there's more pricing discipline than there has been perhaps previously, more focus on operating fundamentals, but maybe that is a feature of less competition or perceived less competition. And it's a dynamic I'd love to investigate with you a bit further. Because maybe there's a debate on this, but if there is a perception that there's less competition amongst telco incumbents, there's definitely a debate of whether investors should be considering increasing competition coming from new disruptors, the satellites.

I know that's something you've been speaking to investors about quite a bit over the last three or four months. Would love to hear your sense of how we and investors should be thinking about that.

Heath Terry (18:44)

I think there is an incredibly broad spectrum of what investors are having to pay attention to within the telecom space because there is this existential, longer-term threat that is perceived to be out there from satellite, new entrants, and disruptive technology. You know, one of the companies that we had here at the conference today is the only company that actually has an orbital data center in space right now. So, you know, this is not pure science fiction. This stuff does exist in reality. It's just not at scale yet.

And so the question is, If you can get the economics right, how much of a threat to the existing model is it? There's still some technological challenges, particularly for the level of service that people expect from their telecom provider or from their internet provider, that I think provides a lot of protection.

And I don't think the industry fully has an answer for that. I mean, I see the investors in the room, the disbelief that crosses their face whenever they hear the word “femtocell,” right? Like we all went through that a long time ago, and so we know how that generally plays out.

And so I do think, similar to what software investors had to go through, is you will get to a point where that existential threat has maybe faded into the background because it is more of a five- to 10-year sort of threat, and we get back to looking at the cash flows, the subscriber growth, the economics, the churn rates that ultimately drive the fundamentals of these companies. And I think that ultimately means we'll see a healthier stock-price environment for those.

Omar Ahmed (20:46)

And so, five-, 10-year trend, what are some of the signposts that investors should be keeping their eyes out for in terms of proving or disproving some of the consensus views that are out there?

Heath Terry (21:01)

So I think that the biggest thing will be from a technology standpoint, the ability to build terrestrial capacity to support the orbital infrastructure.

Because particularly when you're talking about direct-to-device, when you're talking about real cell-phone connectivity, it's not an either-or situation. If you're going to use orbitals, there needs to be terrestrial capacity as well, and we'll see how the regulators allow that, how the existing spectrum infrastructure allows for that. Whether it's something that can be partnered into, but over that five- to 10-year period, do early-adopter customers start to switch? Do they start to churn off? Do they find enough utility out of these other services that they're willing to walk away and turn off?

Kind of in the same way that we saw consumers and households go through when you started getting rid of landlines and going mobile-only. There's potentially a transition. And I think over that five- to 10-year period, it's going to be watching for a lot of the same sort of signposts that we saw during that transition.

But the thing that I would come back to you to ask — and maybe as a vehicle to close things out — is this conference, because of when it falls and the number of years that Citi has done it, has become, for a lot of investors, their year-end to-do list. It sets the tone for what the next four months is going to look like as we go into the end of the year.

With what you've seen over the last three days, what do you think most investors who are going to go back to their desks tomorrow are going to have on their to-do list? What's the homework for them over the weekend based on what they learned over the last three days?

Omar Ahmed (23:14)

It's a great question. I think the overarching theme — and this applies across the TMT space and the subsectors — is really trying to understand in detail, bringing in what they've learned over the last three days, where we're seeing AI-enabled growth rather than AI-enabled efficiency gains at the enterprise level, and who are the winners from that, who are the losers from that, and how does that filter down in the sector?

I think it's been a debate that is not fresh from this conference. It obviously was being discussed as we approached the summer and continued into the conference, but I think we've heard that narrative from so many companies here that I think people, as I said earlier, are sharpening pencils on the specific theme and really think about that.

I would love to hear your view. You've sat on both sides of the fence. What would you have been doing if you were going back to the other side tomorrow?

Heath Terry (24:16)

I think most people will be going back tomorrow trying to figure out exactly that positioning question, of how much of the movement that we've seen between sectors, this rotation of outperformance, has been driven by positioning vs. fundamentals.

One of our colleagues, I think, put it really well, where in a lot of cases, investors were less paying attention to what was on the stage than to who else was in the room around them.

And those software rooms being fuller than the semis rooms or vice versa, depending upon the specific company, I think there's just so much uncertainty in the market, and understandably so, the directions that things are going in. I think people are really much more interested in what the other person's thinking necessarily, at least in the short term, than they are really focused on the fundamental piece.

I do think over the next few weeks, as we get closer to earnings, it'll come back to fundamentals. But that positioning debate feels like it's going to be where most people are spending their time over the next few days.

Omar Ahmed (25:38)

That's great. Great to be here with you, Heath.

Heath Terry (25:42)

Thanks for doing this. And we've got 362 days until the next one!

Omar Ahmed (25:47)

Fantastic! Look forward to it!

Heath Terry (25:49)

This episode was recorded on Sept. 10, 2026. You can find previous Research @ Citi Podcasts wherever you listen to podcasts. And don't miss our other weekly podcast series, the Markets Edition. Thanks so much, everyone.

Disclaimer (26:02)

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