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Global Software, U.S. SMID-Cap Software

Bernstein Software: How crowded is software as we enter H2'26?

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This update on the status of 'crowdedness' within our covered Software / SaaS companies builds on research done by our Quant Team on crowding in stocks across regions and sectors. We believe it has implications for stock selection, portfolio construction and risk management.

Software has become less crowded, and now stands well below its historical average over the last 25 years (Exhibit 3). On a per-name basis, our coverage is quite mixed. Cloud consumption infrastructure linked names like DDOG and TWLO now lead the pack in crowding, with most cybersecurity names also remain on the crowded side (we think this is driven by expected demand tailwinds from perceived/real experienced AI Risks, Mythos / Glasswing news, regulation such as on OT, etc.). Hyperscaler names (ORCL, MSFT) remain crowded but are less crowded compared to history. In contrast, seat-based Application SaaS (line-of-business, end-user tools) remain out of favor, as investor concerns around GenAI-driven competition and potential seat / pricing compression continue to weigh on the group's longer-term growth outlook. But since Oracle and SAP reported, apps are seeing a rebound.

Crowding is an important consideration for downside risk mitigation, diversification and subsequent returns. Crowding describes stocks that are already broadly over-weight in the portfolios of active managers. Bernstein's Quant Team has found that the risk-reward of these stocks can skew lower than expected.

Balancing crowded trades with uncrowded positions can help mitigate downside risk. While losses associated with crowding are episodic, historically in months when draw-downs to crowded trades are most severe, the least crowded stocks offer protection in the form of negatively correlated returns. Times of market stress or uncertainty can trigger de-risking and simultaneous selling of crowded trades, with illiquidity on exit exacerbating draw-downs. In months when the VIX rises to above average levels, the most crowded trades underperform the least crowded by -40bps a month (Exhibit 31). But H1'26 seems to be an outlier, with crowded stocks outperforming uncrowded stocks by 12.8% in the overall market, and an even bigger outperformance of 50.9% in the TMT sector (Exhibit 32). Most of this outperformance in TMT is likely driven by strength in semis and hardware sectors, which have been more crowded than the overall TMT sector (Exhibit 2).

Crowding in the tech sector has remained above average on a cross-sectional basis (Exhibit 33), and is above average levels when compared with its own history by share of stocks (Exhibit 35). However, within tech, **software is well below its historical average crowding levels, which creates (we believe) investment opportunities, but one must be selective.** We analyzed the relative crowding of the 30 largest software and internet companies and present these findings in the note along with the relative crowding scores of the 10 stocks that are most and least crowded. Within our coverage, DDOG became the most crowded company, followed by PANW, TWLO, ORCL and OKTA. Our least crowded names are CRM, GTLB, HUBS, and ADBE.

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BERNSTEIN TICKER TABLE

			3 Aug 2026		TTM		Adjusted EPS			Adjusted P/E (x)		
			Closing	Price	Rel.							
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
ADBE (Adobe)	O	USD	251.34	379.00	(46.8)%	USD	20.95	24.99	29.15	12.0	10.1	8.6
MSFT (Microsoft)	O	USD	487.65	647.00	(29.5)%	USD	17.28	19.96	24.01	28.2	24.4	20.3
ORCL (Oracle)	O	USD	141.85	325.00	(63.8)%	USD	7.63	8.57	12.86	18.6	16.6	11.0
CRM (Salesforce.com)	U	USD	185.95	173.00	(46.8)%	USD	12.52	14.53	15.60	14.9	12.8	11.9
SAP.GR (SAP)	O	EUR	165.04	273.00	(53.2)%	EUR	6.10	7.71	8.72	27.0	21.4	18.9
SAP (SAP)	O	USD	189.65	319.00	(53.6)%	EUR	6.10	7.71	8.72	26.9	21.3	18.9
SNOW (Snowflake)	M	USD	307.53	250.00	31.5%	USD	4,684	6,228	7,927	23.7	17.8	14.0
WDAY (Workday)	O	USD	165.05	216.00	(47.1)%	USD	9.23	11.15	13.95	17.9	14.8	11.8
NOW (ServiceNow)	O	USD	114.19	248.00	(59.0)%	USD	3.50	3.92	4.69	32.6	29.1	24.3
TEAM (Atlassian)	O	USD	103.71	295.00	(62.8)%	USD	3.68	5.78	7.07	28.2	18.0	14.7
DDOG (Datadog)	M	USD	273.60	226.00	85.2%	USD	2.05	2.69	3.37	133.2	101.9	81.1
ZM (Zoom)	M	USD	98.25	103.00	18.9%	USD	5.92	6.47	6.86	16.6	15.2	14.3
OKTA (Okta)	O	USD	141.57	141.00	28.9%	USD	3.50	3.91	4.64	40.4	36.2	30.5
TWLO (Twilio)	M	USD	196.59	183.00	36.8%	USD	4.89	5.88	6.89	40.2	33.4	28.5
MDB (MongoDB)	O	USD	357.97	449.00	45.0%	USD	2,464	3,035	3,626	11.4	9.3	7.8
GTLB (GitLab)	O	USD	35.59	60.00	(39.2)%	USD	0.96	1.00	1.34	36.9	35.6	26.5
PANW (Palo Alto Networks)	O	USD	347.13	253.00	88.4%	USD	3.43	3.63	4.89	101.3	95.6	70.9
NET (Cloudflare)	M	USD	282.74	136.00	22.6%	USD	0.92	1.33	1.73	305.8	213.3	163.3
CRWD (CrowdStrike)	M	USD	202.54	103.00	62.0%	USD	0.93	1.25	1.66	217.2	162.7	121.8
FTNT (Fortinet)	M	USD	163.21	102.00	48.2%	USD	2.76	3.62	4.11	59.2	45.1	39.7
S (SentinelOne)	O	USD	20.05	19.00	(8.8)%	USD	0.20	0.36	0.59	100.0	55.2	33.8
ZS (Zscaler)	O	USD	154.46	224.00	(65.3)%	USD	3.28	4.21	5.42	47.2	36.7	28.5
HUBS (HubSpot)	O	USD	239.92	381.00	(73.0)%	USD	9.70	13.16	15.79	3.6	3.0	2.5
SPX			7,736.52									
EDME			1,630.85									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

SNOW, MDB estimate is Revenues (M); SNOW, MDB, HUBS valuation is EV/Sales (x); MSFT, ORCL, CRM, SNOW, WDAY, ZM, OKTA, MDB, GTLB, CRWD, S base year is 2026;

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

GLOBAL SOFTWARE:

2026 has seen a major reshuffle of crowding, with the application names falling out of favor due to the SaaS Apocalypse narrative, while consumptions fared a little better. The overhanging Gen AI disruption concern has also made the software sector as a whole far less crowded as compared to its historical average.

Oracle's crowding has come down, as has its valuation after peaking in 3Q25, but still remains the most crowded name in the Global Software coverage and 4th most crowded in our joint coverage. Crowding has retreated since Oracle put out the impressive 5Y guide as concerns around the scale of the datacenter build-out and the company's capital constraints and execution have overhung not only Oracle but its hyperscaler peers. However, despite negative sentiment, Oracle continues to deliver solid results. In addition, the new management team is giving more color, commentary and details to help investors under the value they are creating. We like the stock as revenue growth is going to accelerate driven by 1) OCI growth; 2) ERP suite and 3) Autonomous Database / multi-Cloud database. Operating margins should be relatively stable. Looking 5-10 years out Oracle could be many times larger on most factors investors care about. Given the current valuation and the upside opportunity as the company executes this is a stock investors should at least be doing work on, if not building a position.

Microsoft is the second most crowded stock in our Global Software coverage but the 7th most crowded as the data pull. Normally the most crowded stock across coverage, its crowding has retreated recently due to concerns around CAPEX, ROI and success of Copilot. However, Microsoft has delivered on all metrics in the most recent quarter, a first step in disproving the bear case . We like the setup for the stock going forward. Microsoft is trading at a discount to its historical multiples, and we continue to believe the stock is undervalued when one considers 1) MSFT's ability to deliver stable GAAP margins in the mid 40s; 2) downside risk protection; accelerating Azure growth, 3) decelerating CAPEX growth; and 4) accelerating Office 365 Copilot paid adoption. Even if we see some bubble like behavior in parts of AI, this is a stock that every investor should have significantly in their portfolio.

MongoDB ranks #3 in crowding in the Global Software coverage and 9th in joint coverage, though being a more volatile stock its crowding score tends to fluctuate. In the near-term, the consumption strength at MongoDB builds on the positive performance we saw at other platform vendors. We believe MongoDB's conservativism built into guidance and AI commentary sets up the stock well for further beat. We continue to think that MDB has the right product to benefit from AI adoption.

SAP ranks #4 in the Global Software crowding score within the Global Software coverage and 11th in joint coverage. SAP, like most of enterprise software, has been hit recently by concerns about AI eating the enterprise app market. We strongly disagree and the recent quarterly results are validating this. Applications such as ERP are not going to be internally developed and especially complex large enterprise ERP. More recently there is also a concern that cloud migration has come to an end, which we also disagree and which the stable / slight increase in CCB validates. As EPS and FCF growth are going to be the drivers of the stock, we see it as a compounder and given depressed valuation this is a good opportunity to increase ownership of the stock.

Snowflake, once the least crowded stock has improved to #5 in our coverage and 13th in joint coverage. While we agree that the Snowflake database will be accessed more frequently if the data in Snowflake is used for Gen AI inferencing, we are not convinced that using their Gen AI tools and their data federation capabilities are the answer especially given the competition. We choose to remain on the side line as we worry about the long-term growth prospects, where the core market, data warehousing, has Cloud saturated and competition has increased.

Workday ranks #6 in the Global Software coverage and 16th in joint coverage. The stock has been left in a penalty box since growth slowed to the mid-teens, and the company provided underwhelming long-term guidance, which was most recently revised to delivering13-14% revenue CAGR through FY28. While recent results stabilized, it continues to be a show-me story. Given the durability of the business, margin improvement and potential upside from AI, we continue to like the story longer term but watch for additional data and clarity, likely at their October Workday Rising conference and Financial Analyst Day.

Salesforce's crowding score has fallen quite dramatically, and now ranks #7 in crowding in the Global Software coverage and 19th in joint coverage. The stock is interesting and controversial. We believe the CRM market and the company's organic growth opportunities are reaching Cloud saturation and naturally slowing into the mid to high single digits. While AI could be a longer term incremental tailwind, it is likely also a headwind as competition increases with investors are turning negative on Gen AI impact in certain segments such as customer service and data analytics. Adding to the concern is what management does and whether a very large / expensive acquisition could happen relatively soon.

Hubspot's crowding score has declined drastically since mid-2025 and is the second least crowded stock in both Global Software and our joint coverage. As an SMB focused stock and a CRM software provider, the stock became less loved amid heightened macro uncertainties and the concern of AI disruption. While we like the stock longer term, recent guidance and product strategy changes could present some short-term overhangs and delay revenue upside. We will be watching for more clarity in their upcoming earnings.

Adobe has remained the least crowded stocks since 2025, ranking last among the Global Software coverage. While the stock had been the darling of software investors for many years, it has lately become a more controversial stock as growth slowed and investors worry whether that was due to increasing competition or impact from Gen AI. Adding to the concern and uncertainty is the fact that both the company is in the process of selecting both a new CEO and new CFO. Overall, the near term uncertainties might make it difficult for investors to see Adobe's long-term value. As such Adobe remains a show-me story that is ripe for a reset. However, we believe Adobe can still deliver stable financials results in the near-term, This, coupled with washed out multiple and the buyback program at hand, limits the downside risk.

SMID-CAP SOFTWARE - IT INFRASTRUCTURE/DEVELOPER:

ServiceNow used to be one of the consistently most crowded names in software, but sentiment has turned negative in 2026. This likely reflects a combination of factors: recent acquisitions have raised questions about the durability of organic growth, concerns that AI spending could displace portions of enterprise SaaS budgets, and investor capital rotating toward consumption-driven names with accelerating revenue growth stories in H1'26. However, we expect sentiment to improve in H2'26 as organic growth remains resilient, acquisitions are integrated successfully and drive broader platform adoption, and AI offerings continue to gain traction. Longer term, we believe ServiceNow will maintain its leadership in enterprise workflow automation and see significant upside potential.

Datadog has seen its crowding score reach an all-time high, driven by investor enthusiasm around its revenue acceleration over the past five quarters. This acceleration has been supported by both increasing enterprise cloud workloads and rapid expansion among AI-native companies. While we expect revenue growth to remain strong in Q2'26, that could be the top with Q3'26 more stable and a meaningful deceleration in Q4 and into 2027 due to tougher year-over-year comparisons starting in Q3, partial churn from its largest AI-native customer in Q3 starting to impact revenue in Q4, a digestion air pocket moving through their 2nd largest AI customer in Q3 revenue, and moderating AWS engagement trends in the metrics we track in May-June creating an air pocket that impacts Q3 ARR added and Q4 revenue recognition (more details here). As the revenue deceleration comes into focus, we expect investor enthusiasm to cool and the crowding level to moderate.

Atlassian's crowding score has remained depressed over the past year, as the bearish narrative around GenAI disrupting developers and developer tools has continued to weigh on sentiment, placing the stock in the market's "penalty box." Despite consistently delivering beat-and-raise results and reporting healthy seat expansion across its customer base, investor perception has been clouded by inorganic growth contributions from recent acquisitions, as well as the complex and difficult-to-model dynamics surrounding Data Center end-of-life and related accounting changes. As these near-term overhangs fade, however, we believe Atlassian's position as a leading platform for project and work management remains highly durable. It may even become an "AI winner" if its platform investments offering ways to measure and manage AI usage productivity and reduce AI Coding Agent token consumption proves successful. Over the longer term, we view Atlassian as a potential 10+ year compounder and one of the enduring winners in software (more details here).

GitLab's crowding score has turned negative since Q3'25 similar to Atlassian, pressured by bear narrative around GenAI competition risk and a deceleration in revenue growth rate in its FY27. But this deceleration is largely due to a couple of headwinds that GitLab faces in FY27: ~200-250bps of headwinds from the previous round of pricing increase, ~100bps of seat-based compression due to the US Federal DOGE right-sizing in 2025, and a ~300bps headwind airpocket in 3-year contract renewals caused by poor demand in the period just after COVID ended in calendar '22-23 (more details here). But as those headwinds mostly alleviate in the second half of this year, we expect its revenue growth rate to improve and return to 20% + next year.

Twilio has seen improving sentiment and a return to positive crowding following its 2025 Investor Day, where management reinforced its focus on the core Communications platform and highlighted strong customer growth among AI-native startups. Organic revenue growth has accelerated for six consecutive quarters, benefiting from robust cloud consumption trends that have also driven strength across hyperscalers and other consumption-based software companies. A bullish narrative has also emerged around voice becoming a key interface for AI, with Twilio well positioned as a critical provider of voice communications infrastructure. While we expect Twilio to continue benefiting from broader cloud adoption trends, we remain more cautious on the long-term growth opportunity associated with its voice AI offerings.

Zoom's crowding score has moved to neutral to slightly positive since late 2025 as investors increasingly focused on its investment in Anthropic, with some viewing the stake as a potential source of upside. However, enthusiasm moderated after the company disclosed the relatively small size of its investment in its latest 10-Q filing, leading crowding levels to normalize (details in our note here). We remain on the sidelines, as the path to durable long-term growth remains uncertain, with newer product initiatives still in their early stages and ongoing concerns that value-destructive M&A could weigh on investor sentiment.

SMID-CAP SOFTWARE – CYBERSECURITY:

CrowdStrike is perceived as one of the higher quality names in security with a well recognized leadership position in the largest and one of the growthiest pillars of cybersecurity attached to their endpoint security ownership (e.g., Threat Intelligence / ITDR / AIDR, AI Enabled SOC, Identity). Investors seem to agree as the stock is up ~80% over the past year with crowding so heavy it actually breaks our analysis (part of our analysis is fund flows, but it is so deeply owned we think it has been hard for investors to accumulate more). It continues to have significant success as companies continue to modernize and move to a cloud-first infrastructure, and it appears AI has actually driven even more energy for the remaining ~1/2 of enterprises still on legacy Antivirus endpoint protection to modernize to an EDR platform like CrowdStrike. When companies modernize, we anticipate CrowdStrike will continue to win an unfair share as it seems to have overcome its technical outage and, in fact, leveraged its response to further burnish its reputation. They are well positioned to be a beneficiary of AI-induced cybersecurity demand tailwinds. Net Net: if we ignore valuation, CrowdStrike would be one of our favorite cybersecurity companies to own given its strong position. The big issue? Its valuation is hard to justify. Even our premium to rule-of-40 regression multiple doesn't meet the hefty multiple for the stock, leading to unfavorable entry price. And we worry that investors are expecting hockey stick accelerating growth similar to what hyperscalers have seen, but unfortunately we think this is operationally unlikely — their products don't have the type of consumption growth benefits those cloud infrastructure companies see. Instead, products are sold on 6-9 month sales cycles, with POCs / bakeoffs, and implementation efforts by customers. CrowdStrike (like most cybersecurity) are largely constrained by human commercial capacity to sell more rapidly. We think holding in near 25% growth they see today is a huge success, but worry this may actually be disappointing for momentum investors, and cause the stock price to sour in H2.

Palo Alto Networks is a well-loved potential cybersecurity platform consolidator, and first standalone cybersecurity vendor to cross $100B in market cap (in 2023) which parallels its strong crowding score. We like its platformization pitch and believe that they have the right product mix to execute it with specific customer segments (though product maturity varies across product types). Its greatest success seems to be adjacent to its historic network security starting point, such as in virtual firewalls, SASE, Next Gen SIEM / Threat Intelligence / ITDM, and SecOps. Other areas have had less traction, such as investments in Cloud Security and endpoint. We believe its recent acquisition of CyberArk likely will help its platformization approach by now offering attractive identity products, but we remain less certain how well it will progress in some of those other end-to-end platform areas. While we last saw the crowding slightly came back as the story started proving out, its strong fit to solving top priorities due to AI-induced risks driven by expected demand tailwinds from perceived/real experienced AI Risks, Mythos / Glasswing news, and regulation such as on OT have increased the stock's crowding. We continue to like Palo Alto relative to other stocks in cybersecurity because it is one of the few likely to accelerate materially from the AI-demand — their network security business has product purchase dynamics that can be most similar to consumption-like-demand that grows with infrastructure scale. And its CyberArk acquisition we think could prove advantaged both with timing and better commercial execution.

Zscaler was well liked for its pioneering SSE offering and redefining network security. It helped many organizations implement secure work from home policies during COVID driving massive tailwinds, and 2/3 of its growth coming from net new customers. But competitors were licking their lips, and the space became relatively crowded quickly, with 2023 seeing Microsoft's SSE announcement and Palo Alto's continued focus on SASE causing investors to worry about their pricing power and new customer headroom. We shrugged that off at initiation, as we believed Zscaler should continue to succeed vs. these entrants — we don't think those entrants are targeted at Zscaler's core global enterprise customers. Instead, the big overhang we worried about was a commercial transformation that we see as a good strategy (moving towards a farming sales model to increase NRR as their platform breadth expanded), but that also continues to miss a key component: hunters that would land net new customers. In addition, a real direct competitor did emerge: Cloudflare. Cloudflare had the technical capability for quite a while but not the commercial capability to execute. Between these two issues (sales and competitive), net new customers has plummeted to <¼ of Net New ARR. It is hard to maintain strong growth on only expansion of existing customers, which forced our hand on a downgrade late in 2025. But we were also clear, the company remains valuable and will not go to 0, particularly if they can change their sales capability on hunting — thus when the stock price plummeted, we upgraded them. The company realizes this sales capability requirement is needed, but feels they can't change their sales compensation mid-year, so the more balanced emphasis on hunting will be a 2027 opportunity. We will now are watching to see if the company can demonstrate it can also accelerate new customer wins. These two sales motions are needed to keep growth rates in the mid-to-high teens range for the next several years, and allow us (and investors) to raise our model. Separately, with more emphasis on AI-related cyber spend, many CISOs have focused on other areas within cyber (like identity, endpoint, and email security) at the cost of verticals like SSE. This has left Zscaler in a less narrative benefited area relative to others.

SentinelOne was a hoped for winner of CrowdStrike's outage, with crowding up late in 2024 and into early 2025, but as earnings came in and benefits were not seen, this crowding turned sour, and went negative by the calendar 4th quarter of '25. SentinelOne failed to materially gain share following CrowdStrike's outage or outperform on other tailwinds for the overall endpoint market. Fast-forward to the 1st calendar quarter of '26 at the same time its perceived most direct comp, CrowdStrike, trumpeted strong AI-driven demand we saw SentinelOne remain more conservative on communication. Not surprisingly we saw crowding go even more negative. With weak Q1'27 earnings, investors seem to be more concerned about the business as witnessed by its ~8% drop in stock price the following day. We continue to believe the easiest to see upside is the potential for acquisition, something that several suitors have been interested in historically — we think they are an asset that would make a lot of sense for several large strategics.

Fortinet is the cybersecurity workhorse which continues to hold integrated hardware and software close to its heart. After a positive crowding score in the 1st half of 2023, we saw Fortinet's crowding score go down in the 2nd half of 2023 and staying negative until the end of Q3 of 2024 due to concerns around billings growth and threat of Microsoft in hopes for software expansion areas such as SASE. More recently a possible hardware refresh cycle had moved crowding to a neutral stance, but poor earnings that included communications challenges late in 2025 impacted the crowding score negatively. Fast-forward to the 1st quarter of this year, and their fortunes went strongly in the positive direction as a combination of pricing increases and demand for OT cybersecurity due to AI risks have accelerated their product growth strongly. We continue to worry that their revenue growth acceleration has peaked, and as it slows in future quarters the crowding might turn right back around.

Okta's crowding score went negative post COVID as growth rate plummeted and had no end of deceleration (and narrative worries around competitive) in sight. It didn't help that they made a large acquisition, Auth0, that they fumbled commercial integration on, then had a series of embarrassing hacks where Okta was at partially blamed. 2023-2025 proved to be crucible for them — could they get their commercial act together, their communications act together, and their product roadmap actor together. Coming out the other side we are increasingly optimistic. We saw the line of sight to bottoming of growth, and leaned in on the stock starting early 2025 which was joined by an improving crowding score… sadly DOGE happened, creating a 100bps headwind exiting calendar Q3'25, so the acceleration was put on pause for a couple added quarters. This caused crowding to go negative again. We now see the real acceleration coming, and both us and investors seem to be leaning back in with crowding back up. Agentic AI could be a strong tailwind for the company's identity solutions, and we agree their long-term revenue story continues to have strong potential.

Cloudflare is well-liked by growth investors and is owned for the promise it holds. We agree, particularly liking their Act I (CDN/DDoS) business (~90% of revenue) and Act II (SSE) business. The first indexes really nicely to AI-driven increases in Cloud Native workloads, as we've been reporting in our AWS/DDOG modeling. The second was struggling to take off, as buyers wanted real commercial hand holding and trust they had someone to call when they needed help after buying — the company had a couple failed attempts, but has now succeeded, and we think over the last year has demonstrated strong trajectory.
But on the other hand, we think investors also believe there is a large promise in the Act III ("Workers" Headless software architecture platform). This is where we deviate. We are believers in the vision that Headless as a product architecture will be an incremental winner vs. Cloud Native (and earlier legacy platforms), and this is seen via priority recommendation by AI Coding agent platforms. BUT we worry Cloudflare is in a disadvantaged position to win this opportunity vs. alternatives (their proxy network and technology architecture strategy has an innovators dilemma attached to it). If there was less value in the stock price for Act III, we think Cloudflare would be a VERY attractive investment opportunity, but for now we are not fortunate to have that setup. As a result we deviate in our investment recommendation from the crowding seen in the company.

DETAILS

Based on the significant interest and readership in our prior crowding reports, we are providing an update on the status of 'crowdedness' within the software and SaaS space. This report is intended for both PMs and analysts to help in risk mitigation and optimized portfolio construction. As a final note, this report reflects the GICS industry framework, where the legacy Telecom sector is expanded into the new Communication Services sector with the addition of Media and selected Internet names (such as Alphabet and Meta).

Given concerns around "SaaS Apocalypse" and AI disruption risk on software, unsurprisingly software names have become uncrowded and overall valuations have taken a hit, especially when compared to its own history over the last 25 years (Exhibit 3). Infrastructure software and Cybersecurity has held up much better than enterprise application software but the recent solid results, including SAP and Microsoft earnings, combined with a realization that the impacts of AI will take longer (or may not materialize) has increased interest across software and over the last few days driven a rally in enterprise application software and the hyperscalers.

Amid this challenging period we see some major reshuffling in the rankings of the software companies within the sector (Exhibit 1):

- **Datadog** is now the most crowded stock in our coverage universe, with its crowding score reaching an all-time high. This reflects growing investor enthusiasm for consumption-based software companies, which have benefited from the acceleration in cloud usage since Q4'25. Datadog's position has been further strengthened by its leadership in cloud-native observability and its success in winning AI-native customers. Several frontier model developers and large AI labs have become meaningful users of the platform, driving increased consumption as they scale increasingly complex AI workloads.

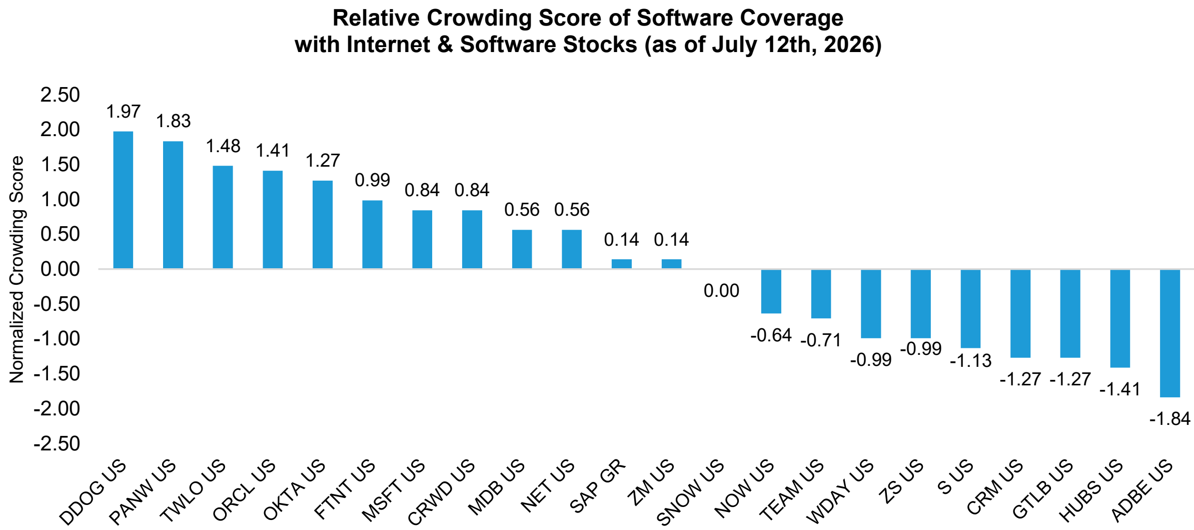
- **Palo Alto Networks** ranks #2, as its platformization strategy continues to gain traction with customers seeking to consolidate cybersecurity vendors. The recent acquisition of CyberArk further strengthens the platform by adding a leading identity security offering, enhancing PANW's ability to deliver a broader, more integrated security stack. The ongoing shift toward vendor consolidation remains a key tailwind, while increased investor focus on the company's AI security vision through Mythos and rising cybersecurity budgets have provided additional support for both sentiment and crowding levels.

- **Twilio** ranks #3, benefitting from many of the same cloud consumption tailwinds that have supported Datadog's recent performance. The longer-term growth narrative has also improved. Management has highlighted 20%+ growth in the Voice business, driven by rising adoption of voice-based AI applications within enterprises and growing demand from AI-native startups that are embedding voice capabilities directly into their products. As voice increasingly becomes a core interface for AI interactions, investors are viewing Twilio as a potential beneficiary of the broader expansion of AI-driven communications workloads.

- **Oracle** ranks #4 across coverage, down from #1 in 3Q25. Crowding increased when Oracle put out its impressive 5Y guide as concerns increased for everyone building AI datacenters and especially for Oracle around the scale of the datacenter build-out, the company's capital constraints and execution. However, despite negative sentiment, Oracle continues to deliver solid results in recent quarters and the new management team is giving more color, commentary and data to help investors better understand the value they are creating. Based on our analysis we believe that Oracle's capital raise so far can support most, if not all, of the funding needs necessary for the build-out. With good execution Oracle could deliver many times larger on revenue, profit and FCF over the next 5-10 years.

- **Microsoft** ranks #7 across coverage, at the time this data was pulled. Only 2 quarters ago it was #2 and prior to that #1 for many quarters. Microsoft's drop in crowding has been driven by concerns that 1) Azure growth was not accelerating; 2) CAPEX was high and increasing; and 3) Copilot would not be successful. This past quarter (Link) Azure is accelerating and beating expectations (43% growth vs consensus 41%) and management guided above the street for next quarter (45% vs ~41% for consensus). CAPEX guide for CY26 was down as reported and flat excluding an accounting change. While Copilot paid seats grew 33% QoQ last quarter (3QFY26) and 50% this past quarter (4QFY26). Given the massive move in the stock since earnings we would expect that if all the data was available Microsoft would move up in crowding.

EXHIBIT 1: **Current relative crowding score among within software coverage**



Source: MSCI, Factset, Bernstein analysis

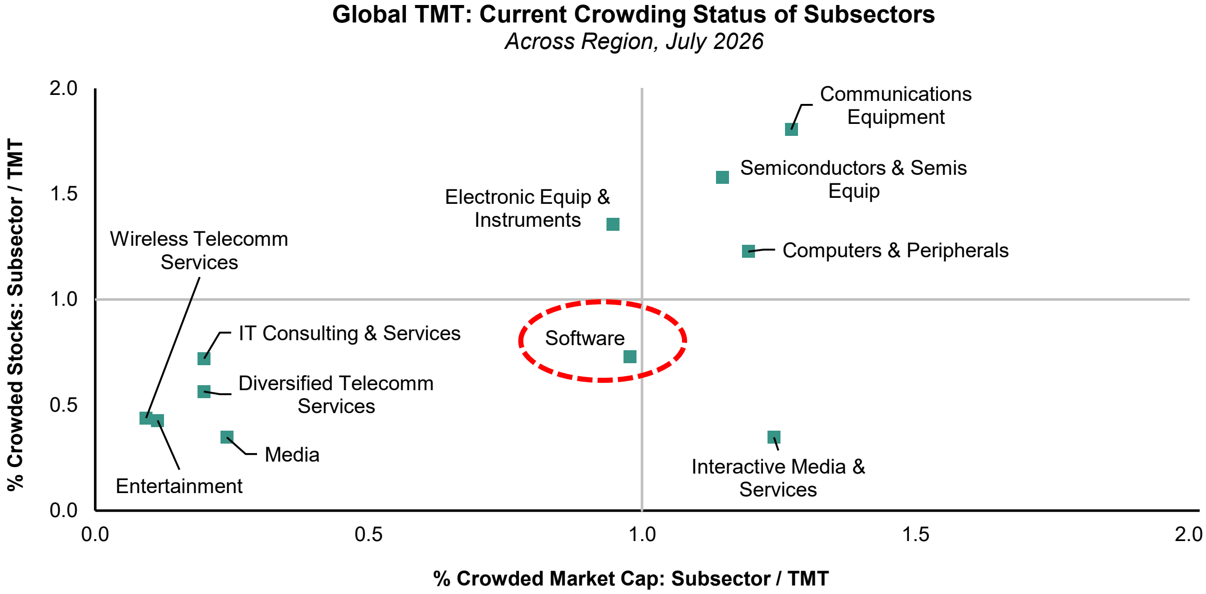
IS SOFTWARE A GOOD PLACE TO INVEST?

Software was once among the most crowded sectors within TMT, but it has become less crowded this year compared with the broader TMT universe, mostly due to the "AI loser" narrative (Exhibit 2). Software has had a bumpy run over the past few years. It was first perceived as the AI winner during the initial Gen AI hype in late 2023, and, as the hype retreated in 2024 and IT spending on certain projects were squeezed to accommodate new AI projects, software became less crowded. In 2025, while many projects that were delayed started to go live, the narrative around AI's impact on software has almost done a 180 and become more controversial. As agentic AI emerge and becomes more real in late 2026, the initial reaction of software being the beneficiary of Gen AI has turned into suspicion around whether software will be replaced by Gen AI. As a result, software having declined significantly within the past couple years relative to its historical "crowdedness". **Software now stands near the bottom of its historical average crowding levels over the last 25 years (see Exhibit 3)**. Perhaps not surprisingly, the crowded sectors in TMT are dominated by semis and hardware, with software dropping to the negative side of the relatively "crowdedness" (Exhibit 4).

Despite the short-term bearish sentiment, we believe software in general is still a good place to invest. While individual companies could (and are likely to be impacted by Gen AI disruptions), software and especially enterprise application software should do quite well. The belief that enterprises are going to build their own software using Gen AI is way over-rated both in terms of how long it will take for the technology to deliver enterprise class applications and how likely enterprises are to take on the additional risk (Putting the SaaS Apocalypse in Context). The bigger risk is the potential in specific sub-sets of the market (e.g. help desk) where people are replaced by automation decreasing seats and whether vendors will be able to make up the lost revenue by charging for usage of the agents. The other area of risk is point solution software that does not manage system of record data or have significant semantic knowledge and can relatively easily be coded using the latest tools. For deep dives on Generative AI and our opinion on its effects on different software segments, we recommend you read our BlackBook: Scaling Intelligence: The Generative AI Handbook.

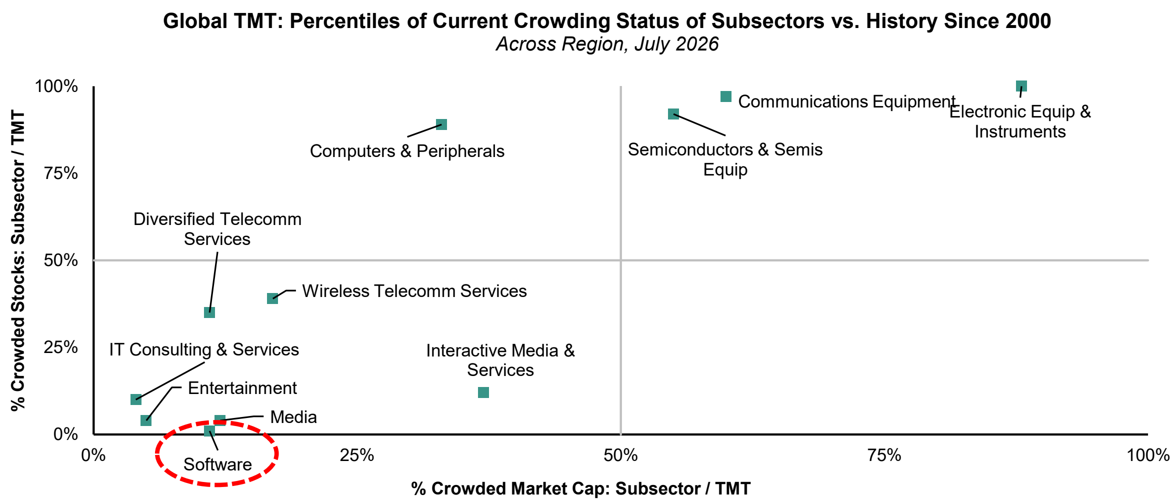
Moreover, many parts of software (e.g. ERP, HCM and IaaS/PaaS) will continue to see a tailwind from a major business model transition — license/maintenance moving to Cloud/subscription. However, we'd like to caution investors that portions of the Cloud transition are approaching where growth slows as the majority of on-premise workloads have moved to the Cloud and the remainder will take a lot more time due to legal, regulatory, business, performance and other reasons. This can be seen in the Customer Relationships Management, email and collaboration markets even though up-sell is still a big opportunity in parts of these markets.

EXHIBIT 2: **Software sector has flipped to the relatively less crowded side among TMT subsectors**



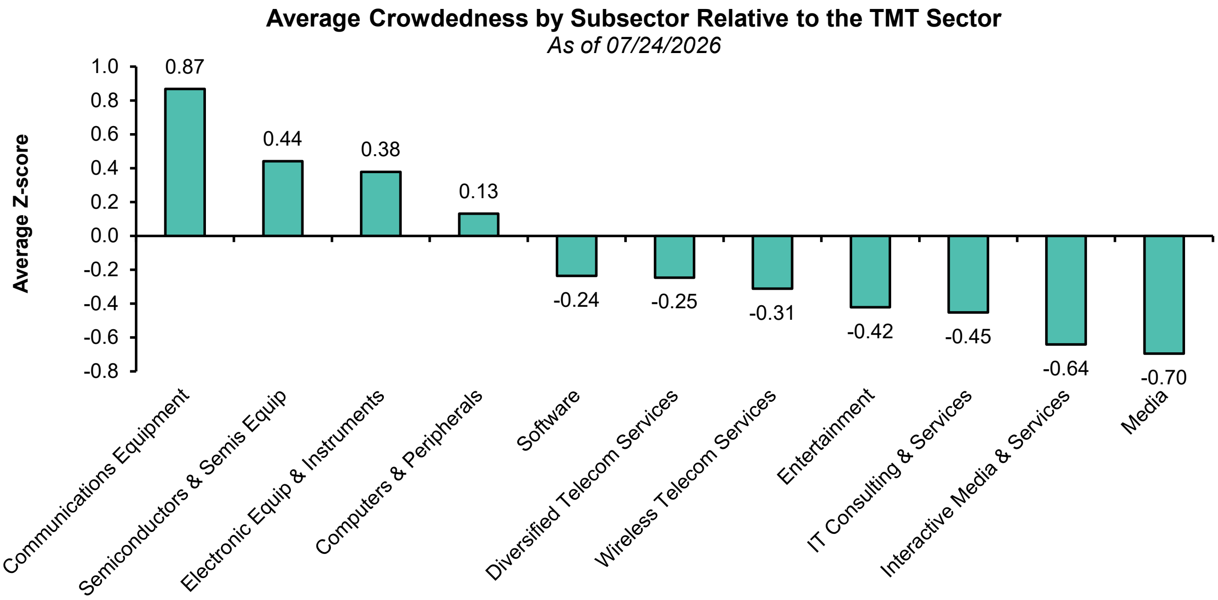
as of 7/24/2026
Source: MSCI, Factset, Bernstein analysis

EXHIBIT 3: **...but when compared to its own crowding history over the last 25 years, software is well below average**



as of 7/24/2026
Source: MSCI, Factset, Bernstein analysis

EXHIBIT 4: **Software is now on the negative side in terms of crowdedness among TMT sectors, with the crowded sectors being dominated by semis and hardware.**



We first calculate the z-score of each TMT stock's raw crowding score relative to the TMT sector (i.e. number of standard deviations from sector average), and then calculate the equal-weighted average z-score for each subsector.
Source: MSCI, Factset, Bernstein analysis

WHAT ARE THE MOST CROWDED SOFTWARE STOCKS?

Looking at the software names (see Exhibit 5), we observe some major shuffling in the ranks across our coverage.

Consumption names, infrastructure software and cybersecurity have claimed the top rankings while SaaS names have fallen out of favor. Datadog has now become the most crowded stock across coverage. Palo Alto rose to #2, followed by Twilio and Oracle. On the other hand, some of the traditionally more crowded names, namely the SaaS players, have become uncrowded due to concerns around AI disruption. Notably Microsoft has also fallen out of favor due to various concerns around SaaS disruption, Capex and ROI, even though as we write this note Microsoft is seeing a rebound as the company delivered a surprising quarter with Azure and Office 365 Copilot acceleration and flat CY 26 CAPEX guide.

In Global Software, traditionally crowded stocks have retreated significantly in ranking. Oracle, once the most crowded stock in late 2025, has fallen to #4, while Microsoft, traditionally the most crowded stock across both coverage, ranks only #7, a ranking we have not seen for the longest while. Meanwhile, other traditionally crowded names like CRM and Adobe are becoming the least crowded stocks in our coverage. The drop in the crowding score for most of the names in coverage comes from the concerns that:

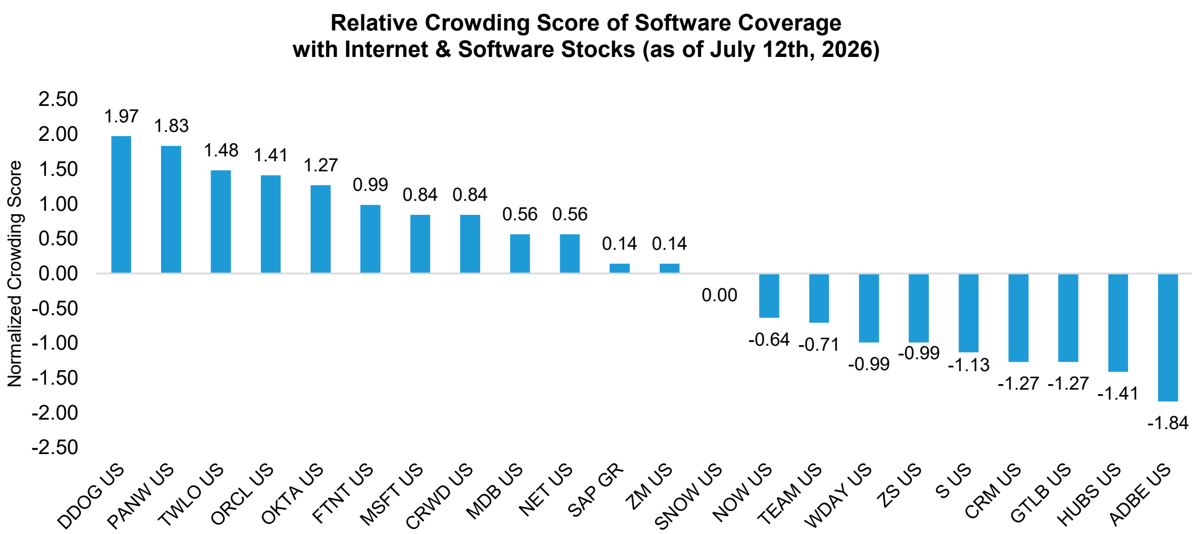
- Whether SaaS players will become obsolete and replaced by AI coded solutions
- Whether Generative AI might have negative impact on some seat-based models.
- The timeline for AI adoption at the SaaS vendors could take longer than many expected
- Hyperscaler Capex and ROI
- Is there an AI bubble?

In the SMID-Cap names, DDOG has become the most crowded name driven by its recent revenue acceleration and investor exuberance around the rapid expansion seen in its “Born-in-AI” customer cohort. Even beyond software, Datadog now ranks as the most crowded name within the largest 30 software and internet companies (Exhibit 6). TWLO has also seen a meaningful increase in crowding, joining Datadog as one of the 10 most crowded names across large-cap software and internet (Exhibit

7). Both companies are benefiting from their consumption-based business models, the recent acceleration in cloud adoption, and growing investor confidence in their AI-driven revenue opportunities, all of which have reinforced the bullish narrative. In contrast, seat-based SaaS names such as NOW, TEAM, and GTLB continue to carry negative crowding scores amid concerns related to the broader AI disruption bear case. TEAM and GTLB have faced greater pressure than NOW given their closer ties to the developer ecosystem and the limited monetization of their AI offerings to date.

On the cybersecurity side, PANW remains one of the most crowded quality compounders. Meanwhile, crowding has increased for both OKTA and FTNT, albeit for different reasons. For OKTA, investor interest has been driven by the growing importance of agentic identity management as enterprises look to secure AI agents. For FTNT, stronger revenue growth has been supported by recent hardware price increases, heightened focus on Operational Technology (OT) security, and rising demand for network appliances tied to ongoing data center infrastructure buildouts. Names with high valuation like NET and CRWD are less crowded as they have seen valuations that are hard to justify given competitive worries. We believe the low crowding model score for CRWD in particular is probably underestimated. The calculation of crowding score is backward looking, taking into account what happened over the last quarter. However, we believe CRWD is an outlier and that the stock is actually hugely crowded because: 1) the company can't take more institutional money as it's already at max allocation in funds; and 2) sell-side ratings are lower because of high valuations discussed above. Therefore, CRWD crowding is probably inverse to its score. On the other hand, the crowding for ZS and S have become negative as both are not well liked by investors given their recent soft earnings and more challenged competitive dynamics longer term.

EXHIBIT 5: **Current relative crowding score among within software coverage**



Source: MSCI, Factset, Bernstein analysis

To help investors better understand our coverage in relationship to its peers in software and internet:

- **30 Largest Companies Relative Crowding:** We analyzed the relative crowding of the 30 largest software and internet companies and present these findings in Exhibit 6.
- **10 Most/Least Crowded Large Cap Software & Internet Stocks:** We present the relative crowding scores of the 10 stocks that are most and least crowded, respectively, in Exhibit 7.

EXHIBIT 6: **Relative Crowding within the 30 Largest Software and Internet Companies by Market Cap, as of 07/24/2026**

Relative Crowding within the 30 Largest Software and Internet Companies by Market Cap
As of July 24, 2026

Ticker	Company	Market Cap (USD Mil)	Percentile Among Top 30
DDOG US	DATADOG A	87,352	97%
PANW US	PALO ALTO NETWORKS	262,594	94%
CDNS US	CADENCE DESIGN SYSTEMS	90,072	91%
GOOGL US	ALPHABET A	3,864,360	88%
ORCL US	ORACLE CORP	330,717	81%
ADSK US	AUTODESK	44,257	81%
FTNT US	FORTINET	112,742	81%
META US	META PLATFORMS A	1,510,999	75%
RDDT US	REDDIT A	32,233	71%
MSFT US	MICROSOFT CORP	2,834,363	67%
CRWD US	CROWDSTRIKE HLDGS A	185,627	67%
APP US	APPLOVIN CORP A	132,009	62%
MSTR US	STRATEGY A	25,731	59%
SAP GR	SAP	195,988	52%
DSY FP	DASSAULT SYSTEMES	30,355	52%
PLTR US	PALANTIR TECHNOLOGIES A	293,985	52%
ZM US	ZOOM COMMUNICATIONS A	25,928	46%
FICO US	FAIR ISAAC CORP	29,353	42%
9888 HK	BAIDU (HK)	36,203	39%
700 HK	TENCENT HOLDINGS LI (CN)	505,736	36%
CSU CN	CONSTELLATION SOFTWARE	40,140	33%
NOW US	SERVICENOW	103,324	30%
NBIS US	NEBIUS GROUP A(NL)	60,488	26%
WDAY US	WORKDAY A	34,782	23%
INTU US	INTUIT	81,950	20%
1024 HK	KUAISHOU TECHNOLOGY B	23,561	17%
SNPS US	SYNOPSYS	71,543	10%
ROP US	ROPER TECHNOLOGIES	37,809	10%
CRM US	SALESFORCE	133,883	10%
ADBE US	ADOBE	90,989	4%

Source: MSCI, Factset, Bernstein analysis

EXHIBIT 7: **10 Most/Least Crowded Large Cap Software & Internet Stocks (>$5B market cap), as of 07/24/2026**

10 Most / Least Crowded Software and Internet Stocks (>$5B Market Cap)
As of July 24, 2026

10 Most Crowded:		Std. Dev from Software & Internet Avg.	10 Least Crowded:		Std. Dev from Software & Internet Avg.
RBRK US	RUBRIK A	2.61	OTEX CN	OPEN TEXT CORP	(2.49)
FROG US	JFROG LTD	2.41	SNAP US	SNAP A	(2.05)
DOCN US	DIGITALOCEAN HOLDINGS	2.26	ADBE US	ADOBE	(1.91)
DDOG US	DATADOG A	1.98	4704 JP	TREND MICRO	(1.74)
PANW US	PALO ALTO NETWORKS	1.83	4716 JP	ORACLE CORP JAPAN	(1.66)
IDCC US	INTERDIGITAL	1.69	DBX US	DROPBOX A	(1.62)
WULF US	TERAWULF	1.69	HUBS US	HUBSPOT	(1.48)
CIFR US	CIPHER DIGITAL	1.64	GTLB US	GITLAB A	(1.48)
CDNS US	CADENCE DESIGN SYSTEMS	1.54	AUTO LN	AUTOTRADER GROUP	(1.41)
TWLO US	TWILIO A	1.47	SNPS US	SYNOPSYS	(1.33)

Source: MSCI, Factset, Bernstein analysis

GLOBAL SOFTWARE: LOOKING AT EACH COMPANY IN OUR COVERAGE AND HOW CROWDED IT IS VERSUS HISTORY

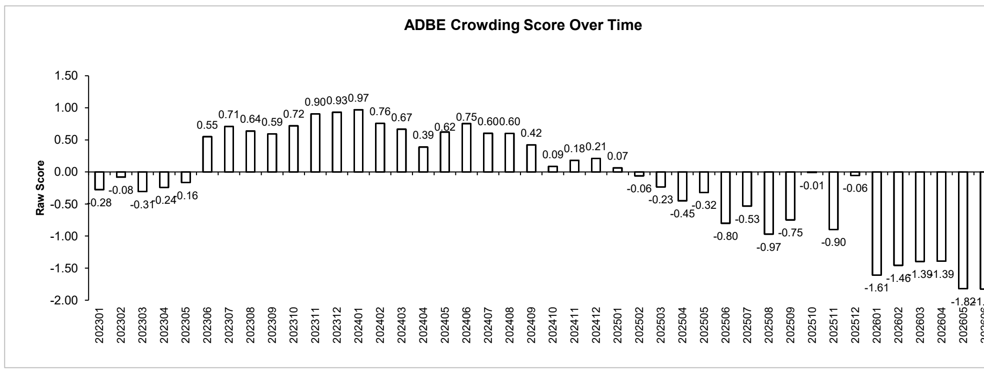
Adobe

Adobe, once one of the most crowded stocks, became the least crowded stock in our coverage (Exhibit 8). While the stock had been the darling of software investors for many years, it has become a very controversial stock due to concerns around Gen AI disruption to Creative Cloud, risks to seat-based pricing model and general competition concerns.

Since 2024, Adobe has disappointed investors through a combination of poor communication and soft revenue growth and guidance. In 2026, although results seem to stabilize over the last two quarters, the stock continues to be out of favor due to 1) CEO and CFO transitions add more near-term uncertainty; 2) the broader AI disruption concerns continues; 3) company plans to delay monetization plan to drive customer acquisition/adoption (Adobe 2Q26: good quarter, but increased uncertainties

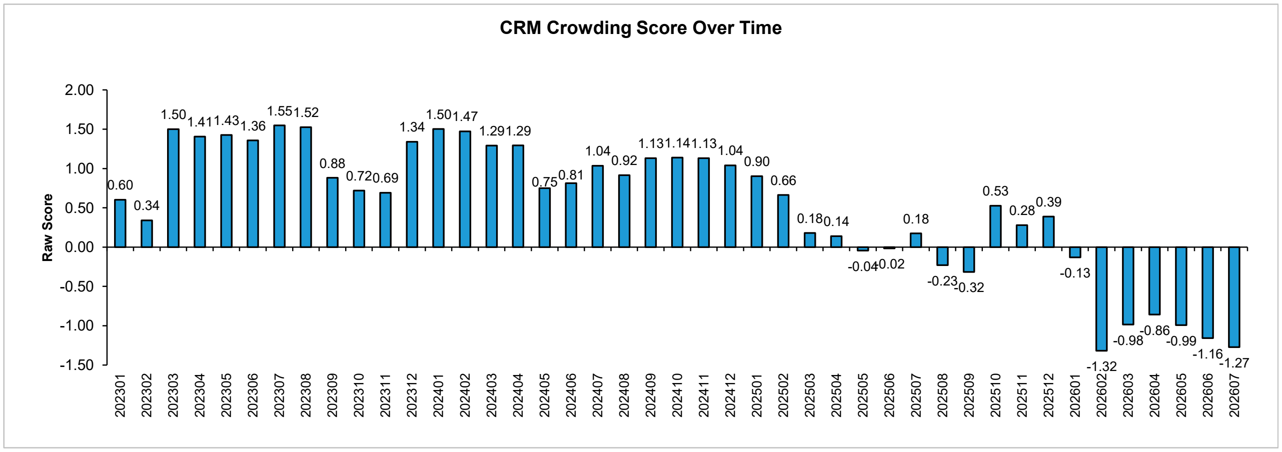
Overall, the near term uncertainties might make it difficult for investors to see Adobe's long-term value. As suc
a show-me story that is ripe for a reset. However, we believe Adobe can still deliver stable financials results in t
This, coupled with washed out multiple and the buyback program at hand, limits the downside risk and if the ne
gives more color and details this could become an interesting stock.

EXHIBIT 8: **Adobe Crowding Since Jan 2023**



We believe that Salesforce can grow subscription revenue in the mid to high single digits near term, slowing further over time and that the ability to drive margins will become constrained. Plus, the possibility of large / expensive M&A remains a concern. However, we disagree with the broader concern that Gen-AI would destroy SaaS business model rather it is an incremental headwind. We believe that platform vendors like Salesforce are positioned to deliver AI functionalities and monetize them within their core CRM business. If CRM can deliver and maintain stability in revenue growth and stay disciplined with acquisitions, at this valuation investors may decide the risk-reward could look increasingly attractive. With not a lot of clarity, we choose to remain Underperform.

EXHIBIT 9: **Salesforce Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

Microsoft

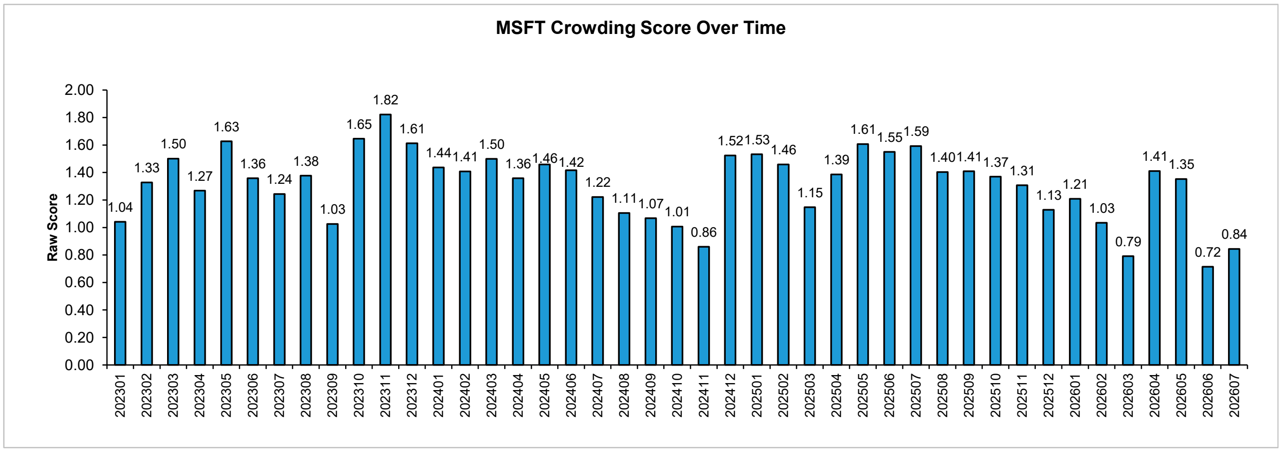
Microsoft, which used to be consistently the most crowded stock across coverage, has become much less crowded, ranking #7 in our joint coverage and #2 in the Global Software coverage (see Exhibit 10). Note that the crowding data was cut off right before Microsoft's most recent 4Q26 earnings, and given the stellar results Microsoft's crowding might increase in the coming months. In general, the stock had fallen from favor over prior couple of quarters because their CAPEX investment did not seem to be translating smoothly into revenue creating concerns on the value of the investment, and compared to the accelerations happening at other hyperscaler peers some investors stepped to the sideline.

However, Microsoft delivered in the most recent quarter (4FQ26), with Azure growth accelerating to 43% (vs consensus of 41%) and guiding to further Azure acceleration (45% next quarter vs consensus 41%), Copilot paid seat accelerated to 30M (50% QoQ growth), and CAPEX guide unchanged (Microsoft 4Q26: Breakout !!! not stagnation.). This at least temporarily disproved the bear thesis that was going around since 2FQ26 when investors saw Microsoft's Capex accelerating but not accelerating Azure growth. In fact, we laid out all the possible scenarios in our deep-dive Microsoft: Could the bear case in fact be the bull case? and concluded that Azure growth will accelerate. It took 2 more quarters than we expected but Microsoft delivered.

While it will likely take a couple more solid quarters to fully disprove the bear thesis, this is a solid start. Management also expects to remain FCF positive in FY27 while many of the hyperscaler peers have turned FCF negative and some have raised debt and/or sold equity. By saying so Microsoft has set the tone that there is a limit to how large cash CAPEX will be next year and how their cash generating capabilities will be strong.

We like the setup for the stock going forward. Microsoft is trading at a discount to its historical multiples, and we continue to believe the stock is undervalued when one considers 1) MSFT's ability to deliver stable GAAP margins in the mid 40s and 2) downside risk protection. Even if we see some bubble like behavior in parts of AI, this is a stock that every investor should have significantly in their portfolio.

EXHIBIT 10: **Microsoft Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

Oracle

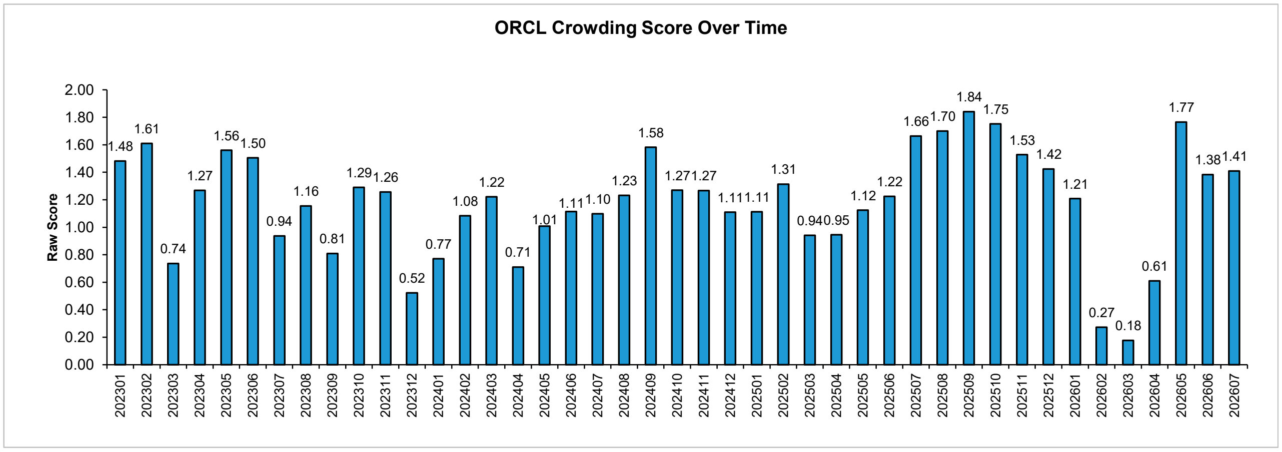
After a stellar run in 2024 and 2025, Oracle's crowding has come down a bit in 2026 but still remains the most crowded name in the Global Software coverage which is likely surprising to many. Compared to its own history Oracle crowding peaked in 3Q25 (Exhibit 11), when RPO jumped and Oracle put out an impressive 5-year guide driven by OCI growth acceleration (Oracle: Implications of updated OCI guidance ($144B in FY30) over the next 5 to 10 years). Crowding has since retreated as some investors digest the scale of the datacenter build-out and are concerned with the company's capital constraints and execution. At the same time, negative sentiment around OpenAI as competitors showed strength also influenced Oracle's stock, as some consider them on the same boat given OpenAI will be the biggest customer of OCI.

However, despite various negative reports around OCI datacenter delays, Oracle has delivered solid results in the past few quarters (Oracle 4Q26, Oracle 3Q26), showing that they are executing well towards their FY30 targets with no major hiccups or obscured data points. OCI growth is accelerating (92% y/y in 4FQ26) and even the already impressive RPO is still growing ($638B, up 363% Y/Y). In addition, the new management team is giving more color and data, and we expect even more details, likely in the upcoming Financial Analyst Day.

The remaining overhang on the stock is investor's continued concern around Oracle's Capex and the necessary capital raise that, some worry, would affect the health of the company's balance sheet. In 4Q26, Oracle announced an additional ~$20B capital raise sometime in CY27, on top of the $45B - $50B debt and an equity program they have already announced. In our most recent deep-dive Oracle: The story is better than we thought, with better upside potential, we modeled out the revenue, margin, and Capex and FCF trajectories and believe that Oracle's capital raise so far can support most, if not all, of the funding needs necessary for the build-out.

More importantly, we look at the potential long term impact of Cloud and AI on Oracle. We expect Oracle's growth to accelerate for the next few years; revenue and operating profit growth will accelerate, and once growth slows FCF margins will rebound and the value created for investors will be substantial. Looking 5–10 years out Oracle could be many times larger on most factors investors care about.

EXHIBIT 11: **Oracle Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

SAP

SAP had been a relatively crowded stock until this year, when Current Cloud Backlog (CCB) growth decelerated in 4Q25 and the broader SaaS Apocalypse narrative (Exhibit 12) impacted the stock. It is now ranked 4th in crowding within the Global Software coverage, behind hyperscaler and database names but ahead of other SaaS names, as ERP is still considered relatively safer compared to other SaaS segments, and SAP still has the cloud transition story anchoring its future growth. SAP is traditionally well owned within its traditional European ownership, as its cloud transition story with steady EPS and FCF growth is rather resilient from macro volatility. While this normally grants it a valuation premium, the recent derating presents a good opportunity to build ownership.The fact that SAP delivers critical solutions for some of the largest / most complex companies in the world limits the downside risks and should result in the stock outperformance.

SAP delivered a good Q2 (Link), with a better than expect Current Cloud Backlog (CCB) growth rate and margins below expectations. Management reiterated FY guidance, other than operating income as the recent acquisitions will negatively impact operating income. We see the CCB strength positively and are not worried about the in-quarter margins as software companies can easily manage margins if they are focused (which SAP is). We believe that management has learned and is being conservative in their approach to guidance and commentary - constantly stating how the setup for meeting guidance has improved without leading investors to expect a beat. We see this as a very smart approach given macro etc

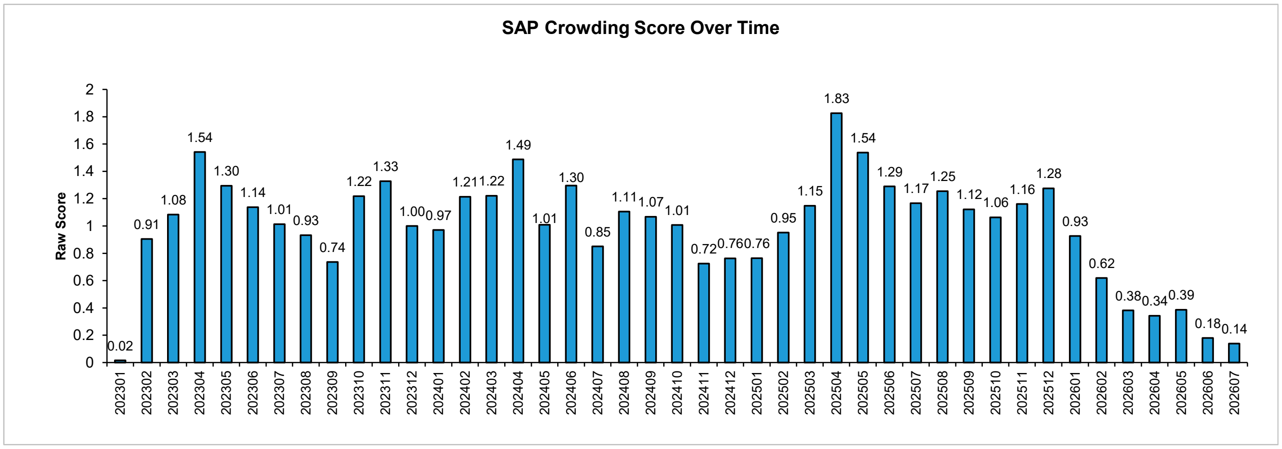
SAP, like most of enterprise software, has been hit recently by concerns about AI eating the enterprise app market. We strongly disagree, applications such as ERP are not going to be internally developed and especially complex large enterprise ERP. AI today is a driver of the Cloud transition for SAP and will be a long term driver of revenue growth. The other concern following the 4Q25 results was that the Cloud transition / margin improvement was near the end. We addressed both concerns in the note SAP: Why we believe the bear case is wrong and detailed why we believe it is not the case. In the most recent quarters, CCB growth has stabilized (SAP 2Q26) and while the AI bear thesis would take time to be disproven, we have argued in length here Global Software: Putting the SaaS Apocalypse in Context why the concerns are overblown.

Overall, we continue to think that SAP is fundamentally a Cloud transition and margin improvement story, and they are executing well on both counts. As a reminder, The SAP thesis consists of:

- **Existing customer revenue lift**: SAP is moving existing customers to the Cloud and capturing 2.5x or greater revenue lift with the size of the lift driving up sales of SaaS solutions and platform usage.
- **New customers**: SAP is capturing new customers. ERP is moving to the Cloud, and we estimate that ~40% of the on-premise installs are using solutions that do not have a viable Cloud offering.
  - We wrote a joint note discussing the opportunity for new customers and new workload growth from the supply chain opportunity (SAP: Supply Chain, a strategic growth driver through 2030).

- **Margins**: SAP will not only drive efficiency with scale, they have the opportunity to drive operating leverage and operating efficiency. We believe the combined effect is the ability to drive 100 to 300bps per year of margin improvement each year through CY28 and possibly CY30.

EXHIBIT 12: **SAP Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

Snowflake

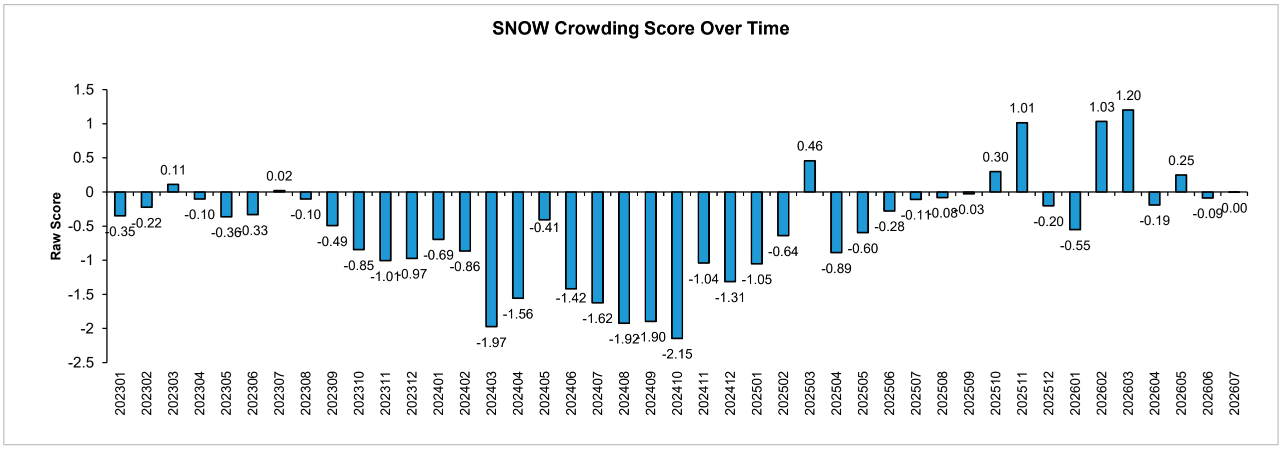
Snowflake, once the least crowded stock in the Global software coverage, has climbed up the rank to being the middle within our coverage (Exhibit 13). Snowflakes's crowding score has improved as there is an argument for it to be a Gen AI beneficiary. In fact, although Snowflake's growth rate has decelerated meaningfully over the years, its growth re-accelerated in the most recent quarter driven by the consumption increase in the core platform as customers migrate workloads faster as well as a meaningful increase in AI revenue led by products like Coco (Cortex Code) and Snowflake Intelligence.(Snowflake 1Q27: A strong start to FY27)

While we agree that the Snowflake database will be accessed more frequently if the data in Snowflake is used for Gen AI inferencing we are not convinced that using their Gen AI tools and their data federation capabilities are the answer. With the shift to Iceberg data storage, data in Snowflake is more easily available externally and Snowflake sits on 3 of the biggest Gen AI technology investors / innovators (Microsoft Amazon[1] , and Google). The concern we have is why use Snowflake AI when you have access to the broadest and most mature Gen AI capabilities from the hyperscale Cloud provider on which you are running Snowflake and all of which have added data federation capabilities? In addition, we wonder if long term as traditional on-premise data moves to the Cloud and the Cloud providers all add improved data storage and manipulation, data federation (also called zero copy), and AI capabilities the need for Snowflake decreases?

While it is too early to know the answer, we are encouraged by the innovation and execution focus under the new CEO. However, we remain concerned that competition is increasing in their core market. Newer initiatives are still in the early stages, and we need to see sustained data points before assuming meaningful future growth contributions. Therefore, we choose to remain on the sidelines

[1] Amazon and Alphabet are covered by Bernstein US Internet team.

EXHIBIT 13: **Snowflake Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

Workday

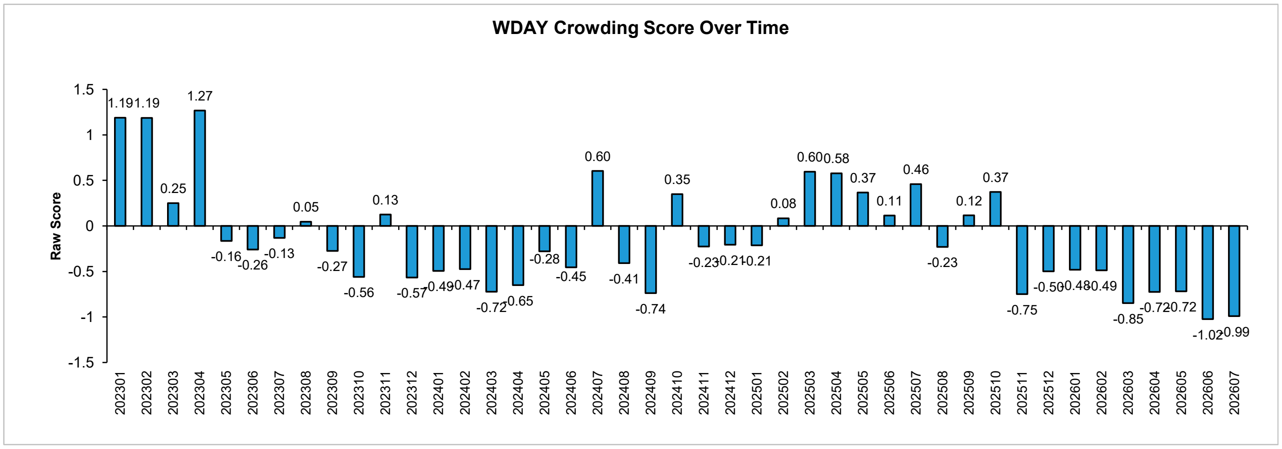
Workday's crowding score has first declined since late 2023, stabilized in most of 2024 and 2025, and started to decline again in late 2025 (Exhibit 14). The stock started to get less crowded when growth started to slow from 20+% to high teens in FY24. The company then issued two-year guide (FY26 and FY27) of mid-teens growth, but subsequently guided for only 14% growth for FY26, which left investors perplexed and has put the stock in the penalty box since. During the 2025 Investor Day, the company has revised mid-term guidance to grow 13-14% CAGR through FY28 (WDAY Analyst Day Quick Take) with significant margin improvement and return of cash.

In 1FQ27, Workday delivered a healthy quarter showcasing stable and consistent growth. Revenue grew 14.3% and 2Q guide was slightly above consensus. Key metrics in the quarter remain healthy, with cRPO up 15.5%. AI ARR reached $500M (including Sana) this past quarter and management noted strong traction in consumption buildup which will positively impact 2H and more in FY28 (Workday 1Q27: good start, more to watch). While stable quarters are a good start, for the stock to ultimately work, investors will want to see 1) growth acceleration and 2) validation of AI success. While it continues to be a show-me story until one of the two catalysts happens, we think low valuation provides downside protection with upside optionality.

With Aneel returning as CEO the focus on innovation and AI should increase substantially. Investors are going to be looking, especially at Workday Rising in October for the company to showcase meaningful AI innovation and more details on how this will drive monetization and growth.

Fundamentally, we think that the existential concerns many have about system of record businesses like Workday are overblown. While it would take time to disprove the bear thesis and see growth inflection, given depressed multiple, steady and healthy results should help strengthen investor confidence and drive stock performance in the near term. Given the durability of the business and margin improvement potential, we continue to like the story. We will be watching for more data and details to validate our thesis.

EXHIBIT 14: **Workday Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

MongoDB

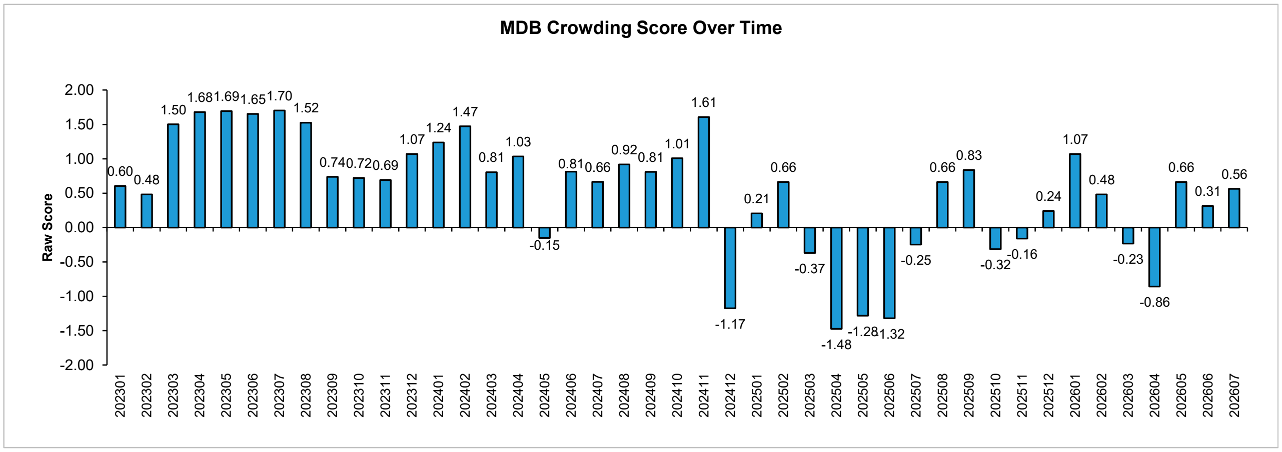
MongoDB's crowding score has fluctuated since late 2025 (Exhibit 15), but as the other names in our coverage have become less crowded it currently ranks as the 3rd most crowded stock in Global Software coverage. While consumption names fared much better than SaaS names during the AI disruption narrative, MongoDB's management conservatism in annual guidance and subsequent guide and raise has created volatility in its crowding between quarters.

In 1Q27, MongoDB beat on all key metrics and raise full year revenue growth guidance from 17% to 19%. Atlas cloud revenue grew 29% and Non-Atlas ARR grew 13% YoY. Non-GAAP operating margin was 18%, up 2pts YoY. MDB also raised its FY27 GAAP and non-GAAP operating margin guidance by 2pts. NRR stepped up by 1pp YoY to 121%. We believed investors wanted to see bigger guidance raise, but we view both the conservative guidance and the relatively measured AI commentary as prudent and in line with MDB's historical cadence. We continue to think that MDB has the right product to benefit from AI adoption. (MongoDB 1Q27: Strong quarter, Muted reaction)

During the 2025 Investor Day, MongoDB guided to high-teens revenue CAGR supported by 20+% Atlas, and 20+% PF margin, for the next 3-5 years, which in our view is a well-balanced medium term target with substantial upside potential (MongoDB Analyst Day 2025 — our key takeaways).

We initiated on MongoDB in 2023 (see: MongoDB: Growth could surprise on the upside. Initiating at Outperform). We like MongoDB as a long-term holding due to its exposure to a large and fast growing non-schematic database market. Management highlighted a small but accelerating contribution from Frontier (AI) labs and AI-native customers, but did not elaborate further. Overall, given the strong demand environment and MDB's execution, we continue to like MDB's prospects for delivering healthy beat-and-raise through FY27. However, narratives around AI adoption may drive volatility.

EXHIBIT 15: **MongoDB Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

HubSpot

HubSpot's crowding score has declined drastically since June 2025 and is now the second most uncrowded stock among the Global Software names (Exhibit 16). As an SMB focused stock and a CRM software provider, the stock became less loved amid heightened macro uncertainties and the concern of AI disruption.

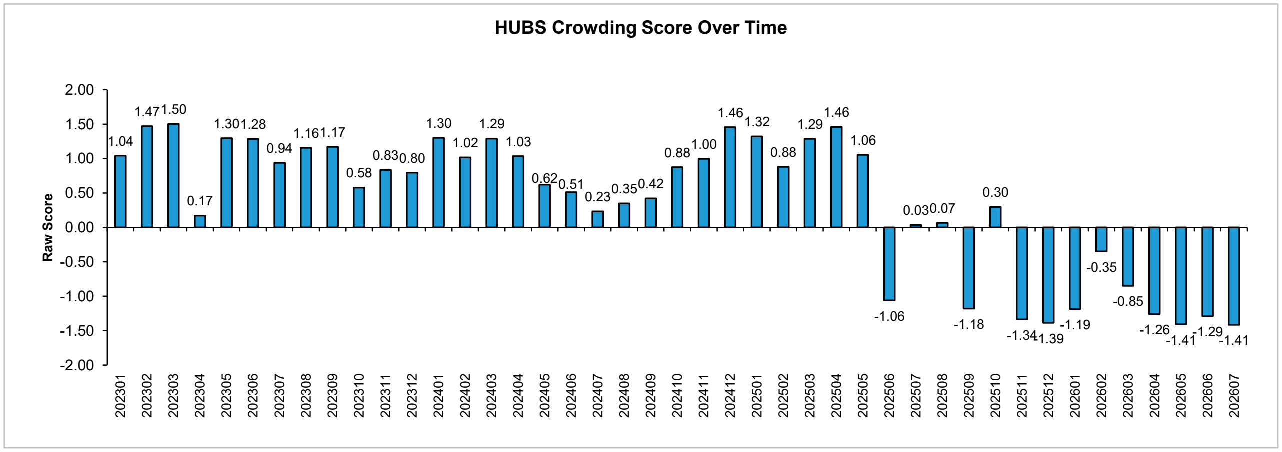
In 1Q26, HUBS delivered solid results, but provided underwhelming guidance and commentary for the rest of the year. In the Last quarter, HUBS had shared an optimistic outlook, indicating growth acceleration through FY26. 1Q26 results nicely beat guidance/consensus, and HUBS raised FY26 guidance, but the guidance raise didn't fully reflect the extent of the beat in 1Q. Management also called out AI-products related pricing changes, longer trial periods, sales cycle elongation and sales training efforts – which delay some of the revenue upside. (HubSpot 1Q26: Good beat, not enough raise). Investors saw these comments as red flags that there could be an underlying growth issue, but we believe the company is working through, as are most software companies, the best way to drive adoption and monetization in an AI forward world rather than a fundamental threat to the business as the bears would argue.

In the near term, given the market sentiments, we think the stock will be in the penalty box until we see a strong growth revision. Longer-term, our thesis on HUBS remains intact. As a reminder, our long-term thesis is based on HubSpot's position as a consolidation platform in the SMB segment ((HubSpot: It is time. Upgrading to Outperform))

- **A dominant CRM player in the SMB space:** Among full-suite CRM vendors, HubSpot is the go-to choice for SMBs. We like HubSpot's positioning because, at the lower end of its segment, it is perceived as a more premium solution in terms of functionality compared to other SMB vendors, which reduces pure price competition risk. Meanwhile, at the upper end of HubSpot's segment, expanding customization features at a reasonable price should help HubSpot gain market share, as it is perceived as simpler to use and more modern.

- **HubSpot can also further gain share by consolidating point solutions:** There is a long tail of point solution providers in Marketing and Customer Service, and HubSpot has been outgrowing the market and its larger peers. While it is common for businesses to use multiple vendors to achieve desired outcomes, recent years have seen a trend toward consolidation, which has benefited HubSpot and full-suite CRM vendors in general: 1) Preference for a platform product is even stronger among SMB businesses, as cobbling together point solutions requires extra IT resources; 2) HubSpot has been successful in promoting lower total cost of ownership by consolidating multiple point solutions into one CRM platform; 3) With increasing emphasis on cross-department collaboration, data analytics, and AI, consolidating data onto one platform

EXHIBIT 16: **HubSpot Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

SMID-CAP SOFTWARE: LOOKING AT EACH COMPANY IN OUR COVERAGE AND HOW CROWDED IT IS VERSUS HISTORY

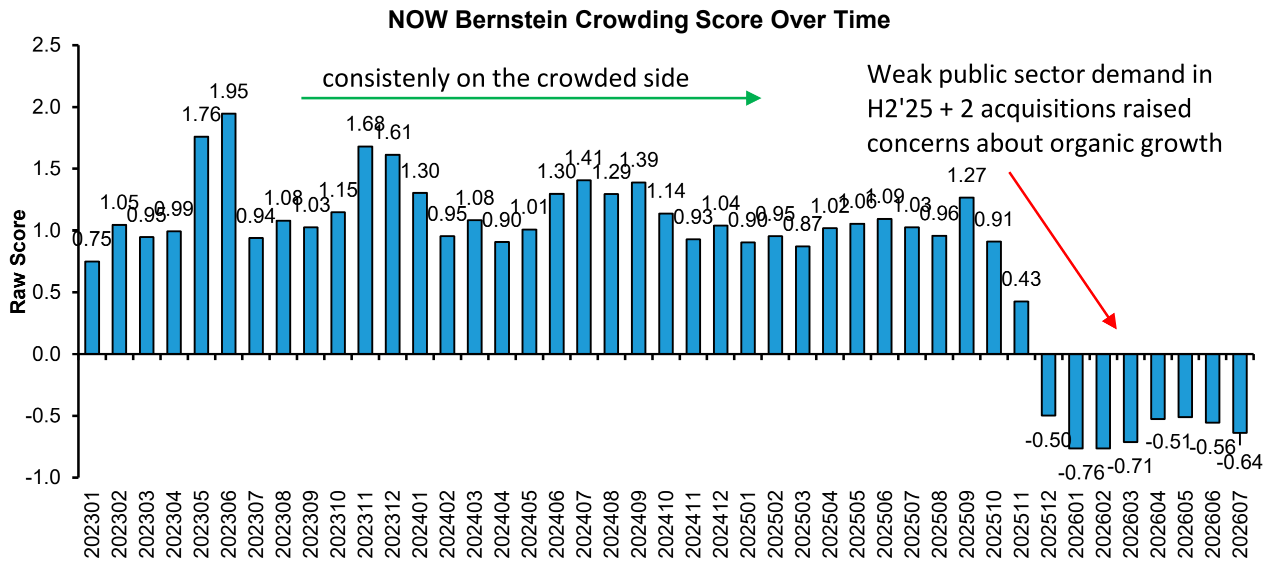
ServiceNow

ServiceNow has been a darling growth and margin story, with a long track record of consistent growth and reliable beats vs. management guidance. Perhaps it is not surprising that the company has had a long history of crowding and hence the focus used to be really around the variation between periods of crowding and more crowding. Especially during periods such as Q2 2024 where the sector as a whole was impacted by macro concerns and experience volatility, ServiceNow was treated by some investors as a bit of a “safe harbor” (link to our note).

While ServiceNow’s AI product launches were successful and gained strong customer traction, the company faced a more challenging macro backdrop in 2025. Uncertainty stemming from DOGE-related policy discussions and tariff announcements early in the year was compounded by a U.S. government shutdown in October, which persisted as a headwind into the second half. As a result, ServiceNow’s public sector business experienced pressure in Q3 and Q4 2025, with deal cycles lengthening and one government agency ceasing operations. At the same time, the company's acquisition activities in late 2025 (Moveworks, Armis, Veza) sparked investor concerns about the sustainability of its organic growth profile, with some questioning whether ServiceNow was increasingly relying on M&A to drive growth. The acquisitions of cybersecurity firms Armis and Veza further raised questions around integration execution and the company’s ability to expand successfully into the cybersecurity market. Together, these factors weighed on investor sentiment, driving both the stock price and crowding score lower beginning in Q3 2025. Notably, the crowding score turned negative for the first time in our dataset.

Year-to-date, sentiment has remained subdued following Q1 results that suggested a deceleration in constant-currency organic revenue growth, while the increase in the company’s 2026 AI ACV target to $1.5 billion failed to meaningfully improve investor confidence. However, we believe sentiment is likely to improve in H2 2026 as public sector demand remains resilient, the government pipeline continues to build, and ServiceNow’s recent acquisitions become fully integrated into the platform, enhancing the value of its core offerings and driving future revenue growth.

EXHIBIT 17: **ServiceNow Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

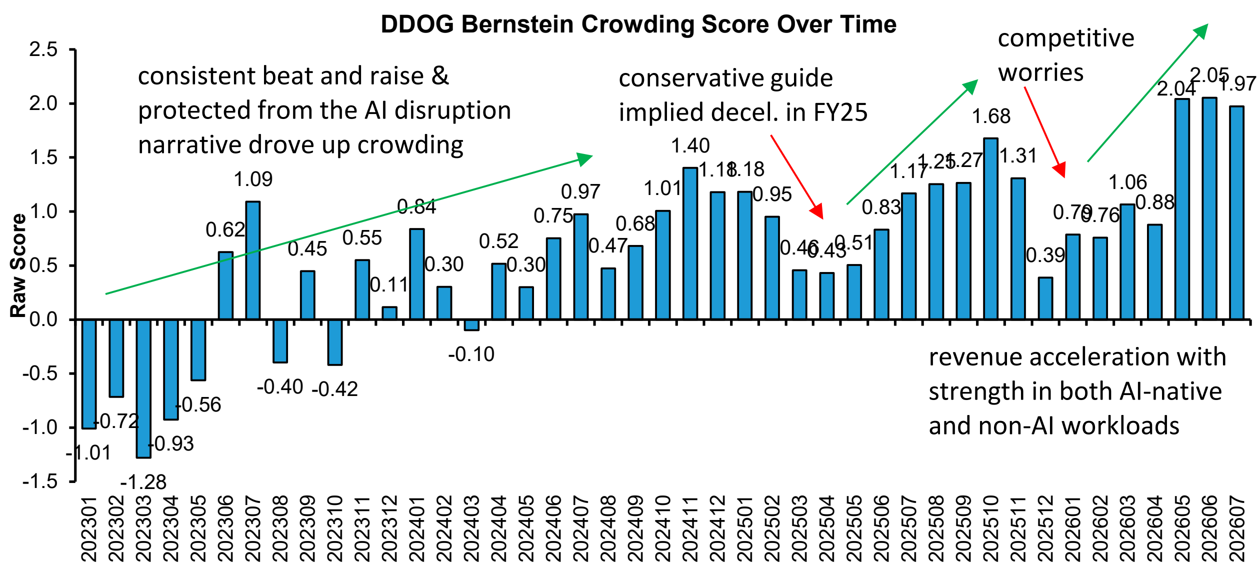
Datadog

Datadog has had many swings in its stock price and crowding due to the boom bust cycle of investors psychology around excess bullishness and at other times excessive fear around fundamentals. Its connection to AWS has become a signal that we and investors watch for closely and sometimes leads to excess bullishness or fear before its quarterly results. See our most recent note on strong correlation for Datadog to AWS revenue here. Historically, Datadog's stock price and crowding levels have tended to rise when investors anticipate revenue growth acceleration, such as after the Q3'23 earnings release when management raised FY23 revenue guidance, and from May to October 2025 as growth reaccelerated. Conversely, crowding has typically declined when growth was expected to slow, as seen around Q2'23 and Q4'24.

In 2026, Datadog's crowding score started at relatively low levels following weaker-than-expected 2025 revenue guidance. However, stronger revenue acceleration in Q1'26 drove both the stock and crowding score higher. The acceleration has been supported by increased enterprise cloud workloads and strong growth within its "Born-in-AI" customer cohort. As adoption of AI coding tools and AI agents expands, and key customers such as OpenAI and Anthropic continue to report triple-digit ARR growth, expectations for Datadog to benefit from AI-driven consumption growth have steadily increased, pushing crowding to its highest level since 2023.

That said, we caution investors against becoming overly exuberant. We expect revenue growth to decelerate in the second half of 2026 and into 2027, driven by a difficult comparison against strong Q3 and Q4 2025 results, partial churn from its largest "Born-in-AI" customer that is expected to weigh on Q4 revenue, and a slowdown in the AWS engagement metric we track, which signals softer growth in non-AI cloud workloads. While AI remains a meaningful tailwind, overall growth is likely to moderate from current levels (more details in our note).

EXHIBIT 18: **Datadog Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

Atlassian

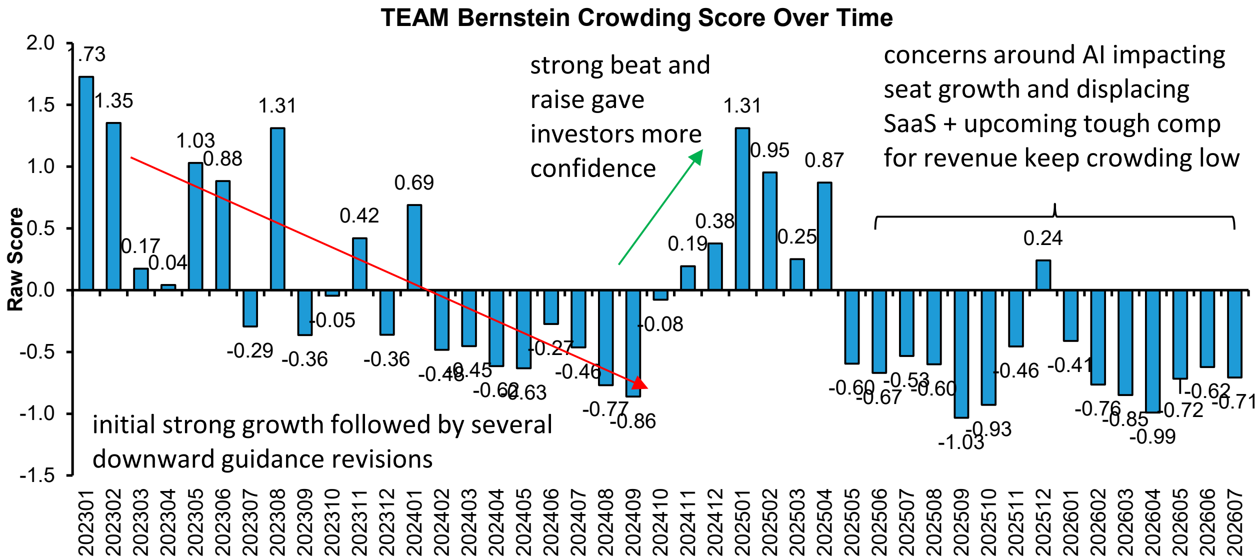
Atlassian was a fairly crowded name in early 2023. Both Cloud and Data Center revenues had been growing at over 40%, benefiting from Server customers migrating to Cloud or Data Center. But in February 2023, Atlassian announced their growth estimates were not sufficiently conservative, and they further reduced guidance for the current fiscal year, and declined to provide updated guidance for the following year. We believe the rapid reduction in crowding seen in April 2023 and continued low crowding score through the end of 2023 represents investors' increased caution out of this print. Management continued to reiterate that the only issue was stalled hiring from macro, yet everything else around demand and upgrades remain as healthy as normal. But over the course of 2024, management has had to further bring down cloud growth guidance, dampening investors trust in the leadership and the narrative. The continued challenging macro environment puts a further dampener on seats growth which historically drove half of Atlassian's growth. With the server end of life behind them, investors are less confident about future cloud revenue growth as long-term guidance had been brought down 3 times now.

Towards the end of 2024, we started hearing many of our clients interested in the name again because it was "cheap" relative to historic multiples, and the strong beat and raise in FY25Q1 gave investors a bit more confidence in the company's 20%+ FY27 CAGR guidance provided in their most recent investor day. And combined with the multiple expansion across the software sector, Atlassian's crowding score started recovering towards the end of 2024.

In January 2025, the crowding score shot up to a historic high with the company keeping its beat and raise cadence in its FY25Q2 earnings. But the high crowding level didn't last very long. With the elevated macro uncertainties around April and the DOGE actions in early 2025, the whole sector came down and reached a bottom in April. While the software sector started to recover after the announced tariff pauses, the sentiment around Atlassian remained negative with a disappointing FY25Q3 results in May. Its Cloud revenue beat was thinner than past couple quarters and both Data Center and Marketplace missed guidance.

Mid-2025 earnings bounced back and guidance was strong for FY26, but crowding didn't improve (and the stock price reflects this). Other than a brief increase in its crowding score in December 2025, Atlassian has remained one of the least popular names in software. We understand there remains a lot of anxiety about GenAI and eventually Agentic AI's impact on software developer hiring — as a seat based product, investors worry about tail risk. In addition, questions continue about competitive intensity or even whether Atlassian really can add more revenue sources going forward. The company will also start to lap a tough comp for its Data Center revenue in FY2027 due to the accounting change, making it harder to demonstrate the durable core growth amid all the noises. As a result, its crowding level remains depressed, for now.

EXHIBIT 19: **Atlassian Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

GitLab

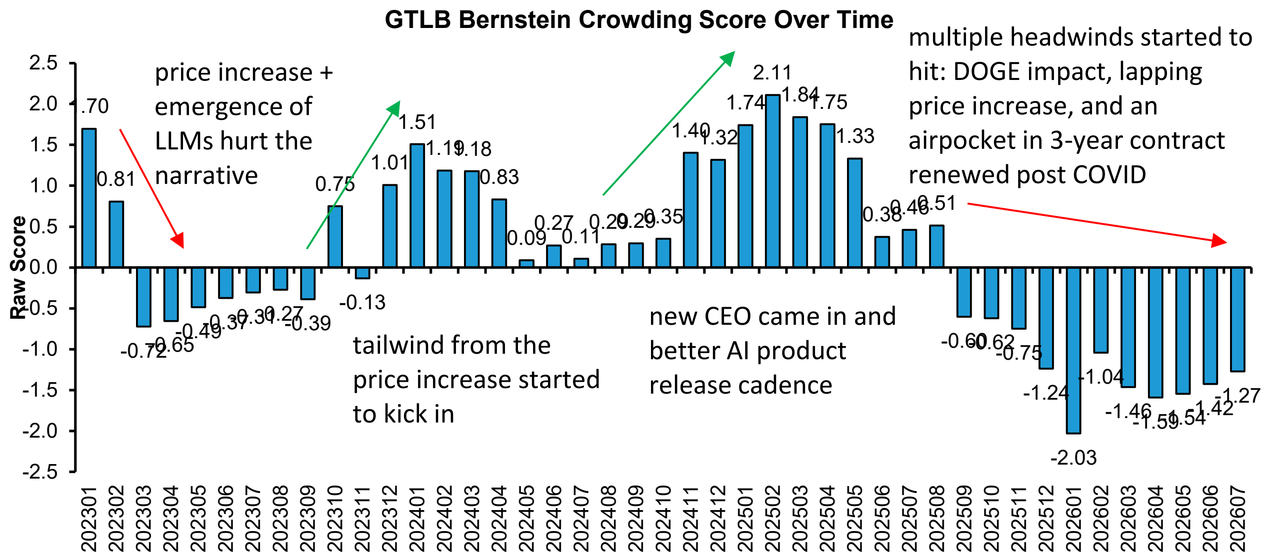
Post COVID, GitLab remained quite growthy, maintaining QoQ rates of expansion similar to 2021 into the 2nd half of 2022, and the SaaS offering remaining at nearly 100% growth (or above) for all of 2022. Then a double whammy hit their stock in March 2023 that dropped crowding — the announcement of price increases happening at the same time as LLM models exploded into the public scene. There were already concerns that GitLab's product price was higher than that of their perceived competitor, Microsoft's GitHub, so pricing increases alone were a source of concern. And added to it, GitHub's Copilot LLM offering partnered with OpenAI, and investors quickly grew anxious that GitLab was falling behind competitively.

But some of these concerns were squashed, with early December 2023 GitLab reporting Q3 that demonstrated continued resilience in the face of price increases and competitive worries, and saw a large bounce in stock price. This carried forward into early 2024, but struggled as company guidance for FY25 was low and management communications were confusing, causing the stock to drop sharply. This improved somewhat after the FY25Q2 earnings as they demonstrated a beat/raise with some hopefulness of the positive impact from pricing and anticipated new big product releases around GitLab Duo. And this optimism lasted into the end of 2024 with the company delivering an expanded beat in its FY25'Q3 earnings in December and sharing the strong demand they are seeing with Duo Enterprise and self-hosted release.

In December 2024, GitLab had a change in its CEO with the founder stepping down to focus on his health. The new CEO Bill Staples did a good job in his first quarter as a CEO to lay out a strong narrative for GitLab's unique position in an increasingly competitive developer tool market. The company displayed major customer wins like AWS, Anthropic, Zscaler, Barclays and had another strong of $100K+ customer net adds in FY25Q4. But its crowding score came down in CQ2 as macro uncertainties and potential federal headwind started to kick in.

The crowding level remained negative from late 2025 into 2026 as the company guided to a sharp deceleration in FY26 revenue growth due to couple headwinds as we laid out in this note: ~200-250bps of headwinds from the previous round of pricing increase, ~100bps of seat-based compression due to the US Federal DOGE right-sizing in 2025, and a ~300bps headwind airpocket in 3-year contract renewals caused by poor demand as COVID ended in calendar '22-23. Additionally, the accelerated layoff in tech sector and GitLab's recent restructuring introduced new risks and uncertainties in the near term. But as those headwinds alleviate in the second half of this year, we expect the revenue growth rate to inflect from Q3 and go back to 20%+ growth rate in CY2027.

EXHIBIT 20: **GitLab Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

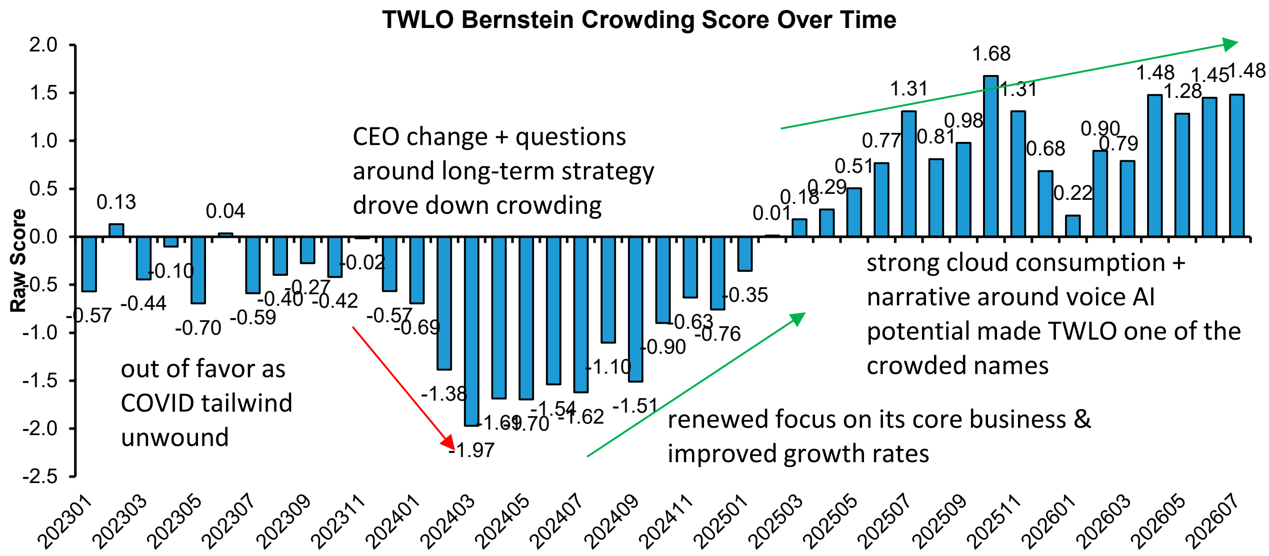
Twilio

Twilio was a COVID darling with large institutional trading activity late '20 and early '21. But as COVID abated, Twilio went out of favor as global uncertainties were brought to surface and more and more investors began to question how much of the organic growth that made Twilio a COVID darling was indeed driven from a COVID tailwind. The company also faced softness in certain consumer-exposed sectors, leading to decelerating revenue growth. But while that seems like a story to maintain very low crowding scores, the actual crowding remained more balanced throughout 2023. This may reflect continued "love" and a belief the company is "cheap".

In 2024, there was a change in CEO in January yet long term questions remained around what the strategy would now be (as they divested many of their underperforming software assets) and what would be the strength of the remaining business. This drove down crowding, and we heard many investors remained on the sidelines, with Twilio being a "show me" story for management to prove they can re-accelerate fundamentals. But as 2024 wore on, and the company showed an improving growth rate and focus back on their core business, placing some ill-fated acquisitions behind them, investors confidence grew. We think this was particularly supported by a "cheap" relative stock price vs. most other cloud software winners. By the start of 2025, their strategy became clearer and investors drove up their stock price in January post investor day as a result.

The positive momentum extended through 2025 and into 2026, with revenue growth rate continuing to accelerate. As we have seen in the revenue acceleration from the hyperscalers and consumption names like Datadog, cloud consumption trends have remained robust since late 2025. This wave of new cloud workloads has also benefited Twilio, with its organic revenue growth trending above 10% for the past six quarters. The story around voice being the new interface for AI and Twilio's role as a critical infrastructure provider for voice communications positions the company to benefit from increasing adoption of voice-enabled AI applications, adding another layer of optimism to the stock narrative. While the crowding score continued to increase, the concern around a compressing gross margin started to emerge since its Q1'25 earnings release. The management emphasized that they can drive both revenue growth acceleration and margin improvements, but it will not be an easy task to manage.

EXHIBIT 21: **Twilio Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

Zoom

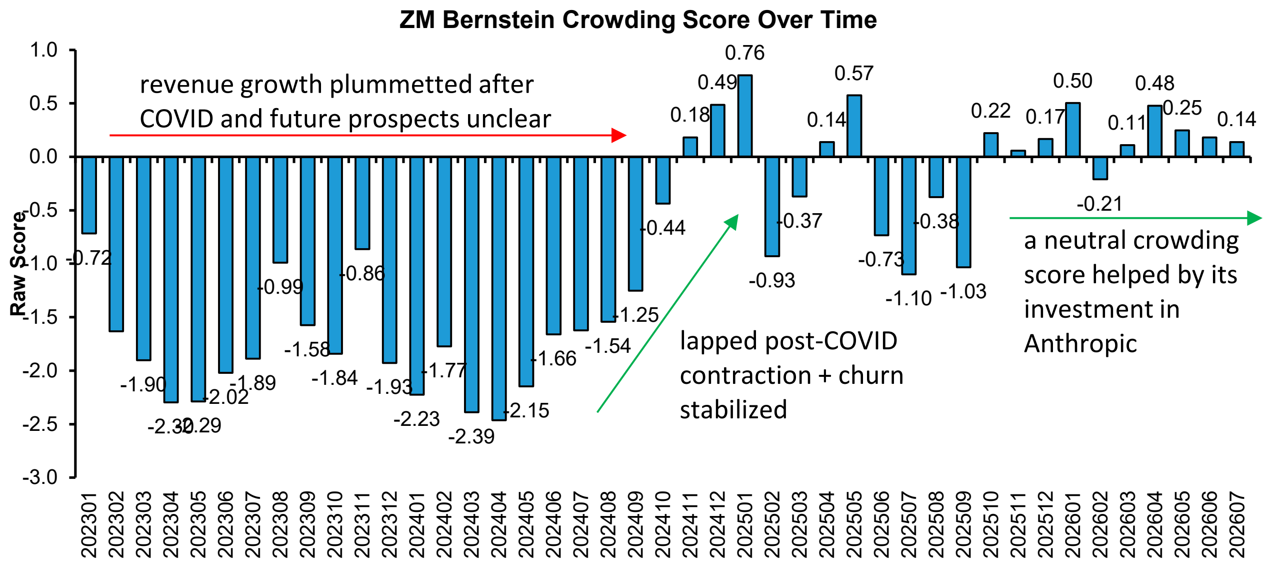
Entering COVID, Zoom was already a well liked company and showed higher crowding scores going into the period. But then during COVID its top line growth exploded, and this also seems to have created some uncertainty with investors who backed off and reduced their crowding. Finally, emerging from COVID, when it became clear that revenue growth rates would plummet and future prospects were difficult to see, crowding has gone steeply negative and remained negative for most of the past 2 years.

From late 2024, the company started to gain some investors' confidence as the Online segment churn rate started to stabilize around 3% and the Enterprise revenue growth rate bottomed in FY25Q2 and started to reaccelerate to high single digits. The company's expansion into the contact center market also started to show some progress with the number of Contact Center customers growing at over 80% YoY in FY25Q3. The unbundling of Microsoft Teams from its Office Suite due to antitrust regulations in Europe also helped Zoom's narrative.

The positive crowding faded in early 2025 as the company delivered the narrowest beat vs. any recent quarter since mid-CY22 in FY25Q4, and its full year revenue growth guidance was also a modest 3%. The sentiment improved a bit in May as the company's FY26Q1 result showed slow but durable growth and $10-15M revenue benefit from its recent pricing increase on its Online segment. More recently, the crowding score has moderated toward neutral territory as investors have increasingly focused on Zoom's investment in Anthropic. While not a core driver of the investment thesis, the stake has provided incremental valuation support as Anthropic's valuation has continued to rise through recent funding rounds, helping to renew investor interest in the stock.

We remain on the sidelines, as there is still the overhang of a possible large M&A, but see some hope for their AI offerings and new product releases to be enough to maintain same levels of revenue or slight single digit growth.

EXHIBIT 22: **Zoom Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

CYBERSECURITY

CrowdStrike

CrowdStrike has been one of the strongest execution stories in cybersecurity. Success of its endpoint protection platform offering helped replace existing endpoint protection solutions, and now it is building a broader platform offering. It is a well-loved brand and one of the largest IT outages in history in July made it a household name. CrowdStrike was starting to gain prominence as a gold standard cybersecurity name and was well-owned name with investors looking for cybersecurity exposure. It reached its peak crowding score towards the end of 2023. In June 2024, CrowdStrike was included in the S&P500 which led to incremental dollars flowing into the stock and thus, the crowding score shooting up. However, just 1 month later, CrowdStrike pushed a faulty update to its sensor agent causing a global outage across Microsoft systems. This is billed as one of the largest IT outages ever.

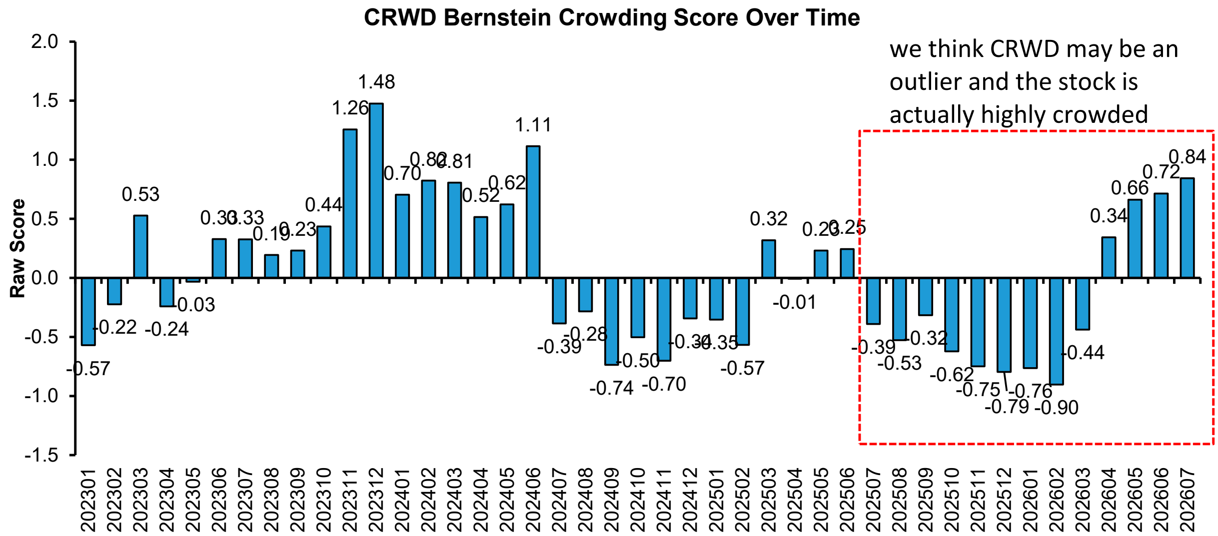
CrowdStrike fell ~45% from its peak price in July to the trough in August 2024 as investors digested the potential risk to the business (everything from the cost of remediation to customer growth/churn). As active managers reduced their exposure to CrowdStrike, its crowding score fell dramatically. Management at the Fal.con conference just after the outage tried their best to assuage concerns on pipeline impact and launched their "Financial services" offering aimed to complementing their Falcon flex program. Since then, the company has delivered strong results proving their point, as they saw success with the flex program in addition to customer commit packages (to ameliorate impact on affected customers).

As we sit here in 2026, the post-outage recovery story is largely complete. Customer retention remained strong, platform adoption continued to expand, and CrowdStrike successfully repositioned itself beyond endpoint security as a broad security operations platform. The stock has not only recovered its outage-related losses, but has also returned to trading at premium growth multiples, supported by investor enthusiasm around AI-enabled cybersecurity and platform consolidation.

In fact, investor confidence has rebounded to such an extent that CrowdStrike once again exhibits characteristics of a highly crowded position. While traditional crowding metrics may not fully capture this dynamic, ownership among growth investors appears elevated, and many funds already hold meaningful positions. As a result, incremental demand becomes increasingly dependent on either continued fundamental upside or expanding ownership from new investor cohorts rather than increased allocations from existing holders. At the same time, valuation remains a key point of debate, with many investors acknowledging best-in-class execution while questioning how much future growth is already reflected in the share price.

Therefore, we continue to view CrowdStrike as somewhat of an outlier within crowding frameworks. Although quantitative crowding indicators may not always register extreme levels, the stock arguably remains highly crowded because: 1) the company can't take more institutional money as it's already at max allocation in funds; and 2) sell-side ratings are lower because of high valuations discussed above. Therefore, CRWD crowding is probably higher than its score reflects.

EXHIBIT 23: **Crowdstrike crowding score since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

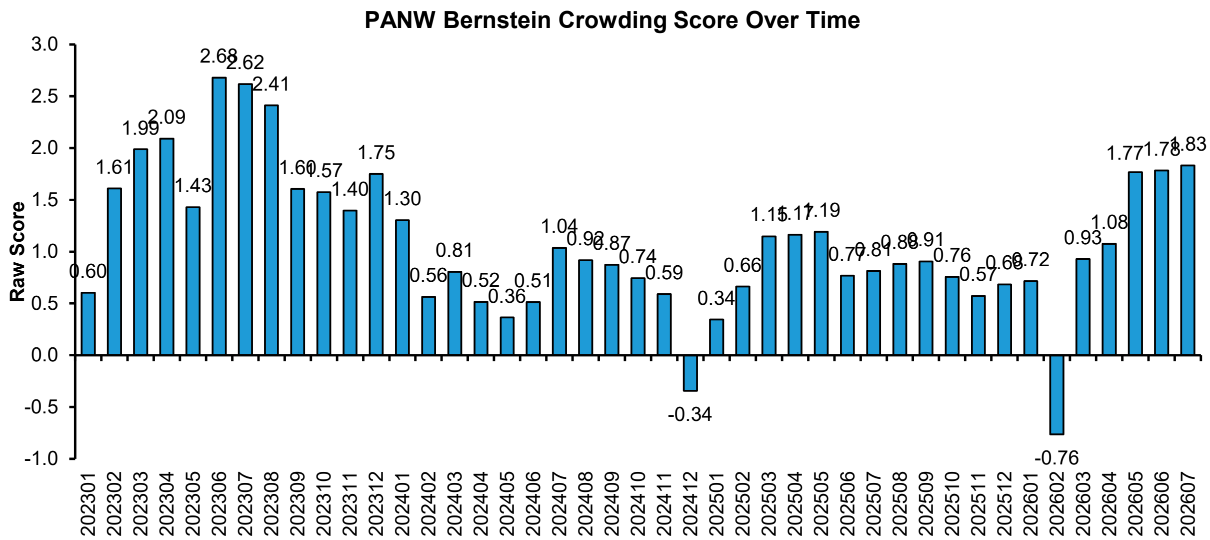
Palo Alto Networks

Palo Alto Networks has been considered as a strong, bankable name in security by both investors and CISOs and not surprisingly its crowding score reflects the same… but a realization about the maturing nature of firewalls has been creeping into investor sentiment for some time, and PANW has been vocal on its plans around reducing hardware exposure. This precipitated a reset of strategy earlier in 2024, shortly after the prior strategy was released in 2023, causing some worry and uncertainty in investors, particularly because the new strategy suggested short term growth deceleration matched to a "trust us" future re-acceleration. This drove a drop in the stock price and crowding in the 1st half of 2024 (although being a well-loved name, it remained positive).

In more recent quarters, the company has showed good progress on ramping their new strategy, driving up investor confidence and both the stock price and crowding. We believe CrowdStrike's high valuation will continue to help in some rotation of investor dollars towards PANW as a safe pick and due to the continued share gain on the core firewall refresh cycle. Its recent acquisition of CyberArk caused some pullback, but with the deal closing and result announcements, we see recovery as investors received more deal information and got comfortable about revenue and cost synergies associated with the deal that could easily cover the premium paid and added execution risks caused by the deal.

As execution improved, both the stock price and crowding levels recovered, re-establishing PANW as one of the preferred large cap cybersecurity investments. Management's strategy of encouraging customers to consolidate vendors onto broader Palo Alto platforms has increasingly resonated in an environment where enterprises remain focused on reducing security complexity and maximizing returns on cybersecurity spending.

EXHIBIT 24: **Palo Alto Networks crowding score since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

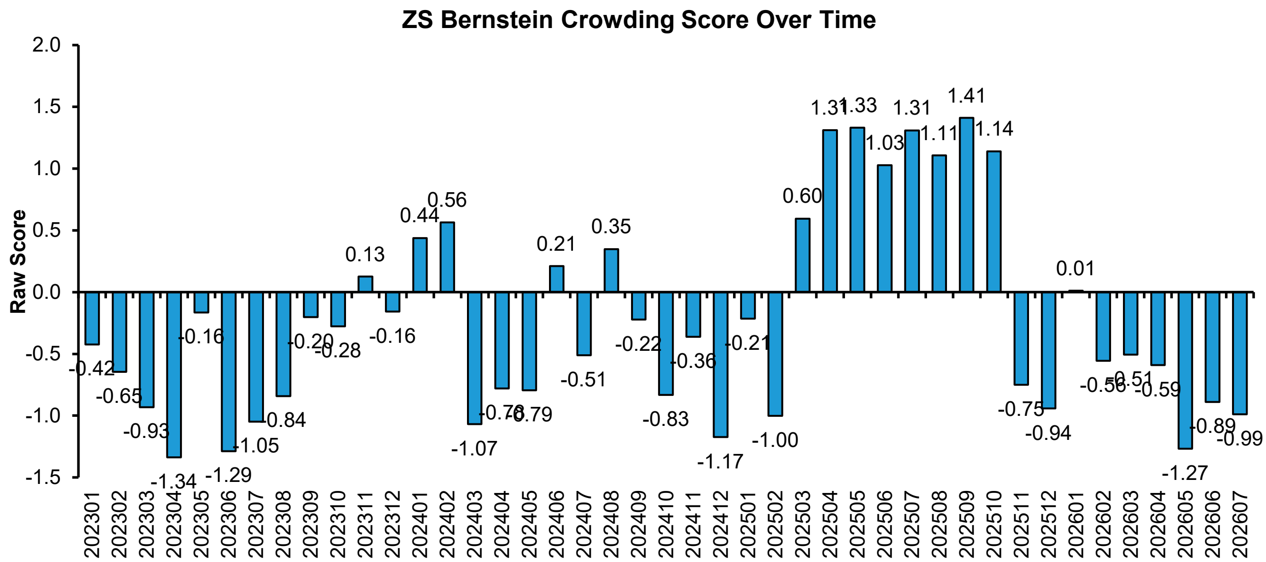
Zscaler

Zscaler is the champion of the zero trust, SASE market. It created the category and introduced to the market, a novel architecture for network security which is inherently more secure as it helps prevent horizontal movement within a network even if a malicious user somehow breaks in. Further, it provides a better VPN experience to WFH / remote employees by reducing network latency. Though the high growth enabled by structural drivers such as cloud transition (and some temporary COVID tailwinds) made SSE an attractive market and many network security players started to see it as a critical offering to future-proof their business. However, the attractiveness of the market has led to strong competition. This has led to some venture funded startups such as Netskope and Cato Networks to enter the SSE market. Further, Palo Alto launched Prisma Access 2.0 and is doubling down. These competitive pressures combined with return to work policies that some firms are starting to implement have led to concerns around a slowing SASE market. These fears led to negative investor perceptions by mid-2023 and a strongly decelerating crowding score. But as 2023 evolved it became more clear ZS was able to maintain pricing premium and their incremental new customers showed no signs of slowing.

However, early 2024 saw Zscaler announce a change in their commercial strategy, and hiring of a new head of sales (not to mention the turnover of some old talent). The company guided this would be a material headwind to expansion and new customer growth through the year, and that things would eventually rebound (which is a setup we don't think many investors like), not to mention some guidance on billing that was confusing to investors (who don't track billings waterfalls very closely) causing the crowding to fall sharply. Then, in 2025, crowding turned positive as investors realized the decline in billings growth was not indicative of revenue growth decelerating.

As we sit here in 2026, the crowding has turned negative because of soft earnings by the company in the recent quarters that has been exacerbated by concerns about competition as well as less emphasis on spend in the category due to prioritization of other verticals following AI and Mythos in particular.

EXHIBIT 25: **Zscaler crowding score since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

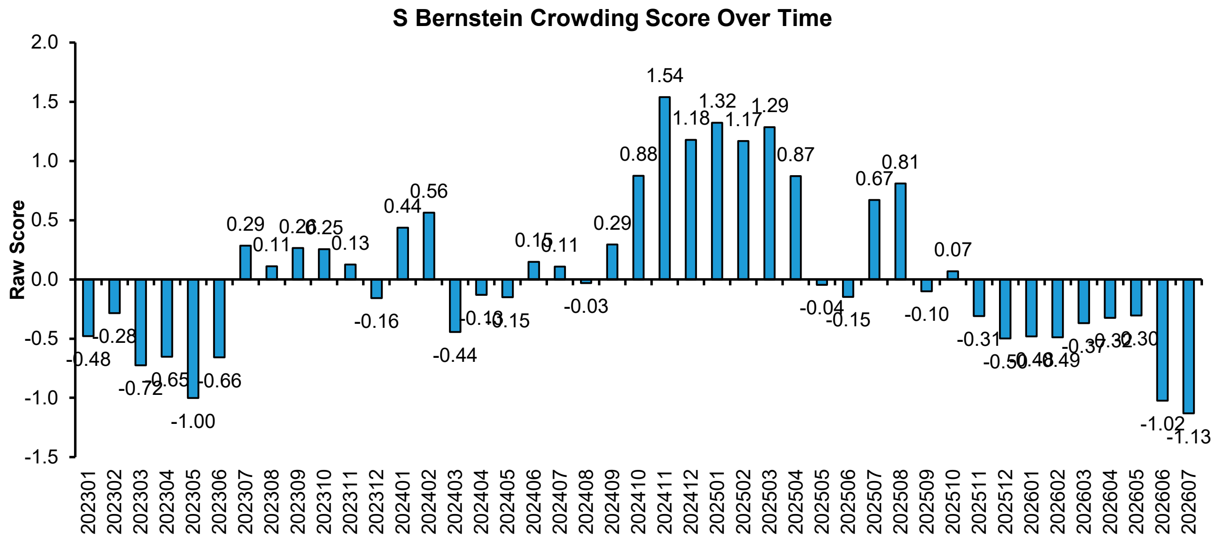
SentinelOne

SentinelOne IPO'd in 2021 as the highest valued cybersecurity IPO at the time, but has struggled to be the long term investor's preferred buy as it's market leading endpoint offering continues to live in the shadow of Crowdstrike (and Microsoft). Further, many investors we speak with continue to wonder about the real success of their product expansion vectors (that often mirror Crowdstrike's) and express concerns about leadership churn. And the company remains only near break even on FCF, and there are worries it may struggle to get much better. All we think these resulted in lower crowding scores for SentinelOne in 2023.

However, as SentinelOne continues to demonstrate strong execution and stabilizes its executive leadership (including a splashy new CFO hire), some of these concerns are starting to work their way out and crowding has become a bit more neutral to positive. And this was only further enhanced by the Crowdstrike outage in July 2024 — investors wondered if this would be a catalyst for increased inclusion in buyer RFPs and win rates vs. Crowdstrike as SentinelOne tries to move up market into enterprise. SentinelOne management had pointed to early momentum they are seeing in the top of the funnel from the Crowdstrike outage, though they shied away from adding any of that to their guide as they predict that it will be a longer term opportunity as enterprise sales cycle take longer to close.

As a result of the outage and SentinelOne's expected market share gain, crowding scores shot up in late 2024 and early 2025. However, after last earnings as SentinelOne failed to show results of this market share gain and when the positive impact from CrowdStrike outage wasn't obvious to see, investors lost confidence in the story. The company still hasn't materially delivered strong results over the past several quarters, which means it still hasn't gained investors' trust, hence its continued negative crowding.

EXHIBIT 26: **SentinelOne crowding score since Jan 2023**



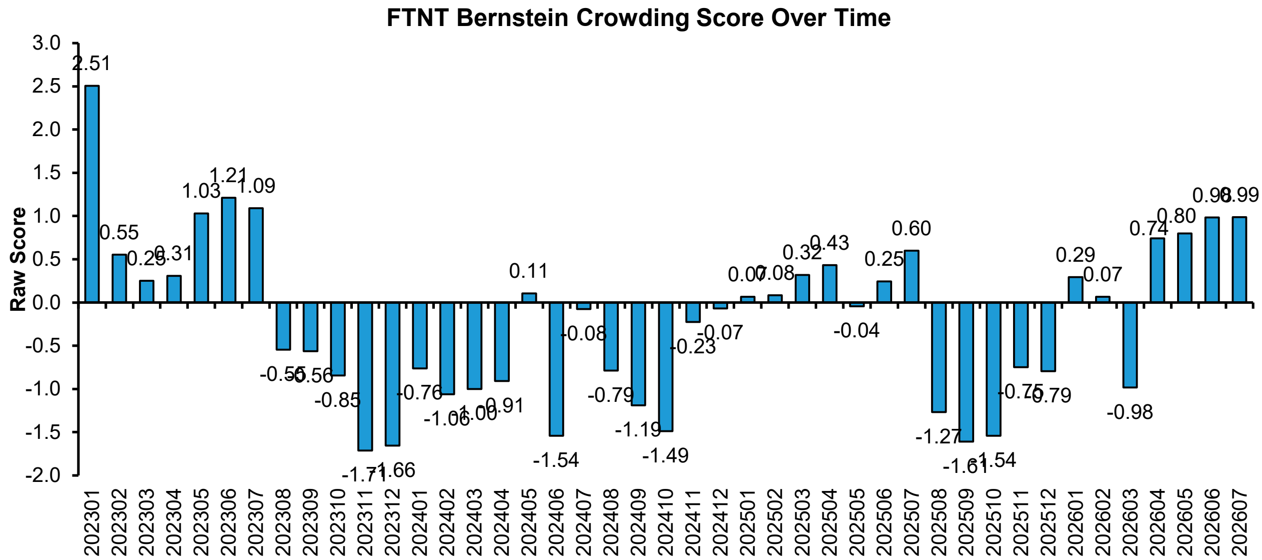
Source: MSCI, Factset, Bernstein analysis

Fortinet

Fortinet remains one of the few hardware centric security players in our coverage and thus, the stock's fortunes are highly dependent on the hardware refresh cycles. Fortinet was a beneficiary of the COVID chaos as customers scampered around to reinforce their cybersecurity defenses. Fortinet's in-house development teams and supply chain strengths meant that it was less impacted vs. peers from some of these operational disruptions. Then, Fortinet gained share in the firewall market and grew at 30%+ in FY22 and maintained 25%+ YoY growth leading up to H2'23. In its seasonally strong Q3/Q4 last year, FTNT decelerated, with top-line growth slowing to early teens. Therefore, it is no surprise that the crowding score trended down in this period.

In 2025, management's comments that we're already halfway in the refresh cycle brought down the importance of one of the major catalysts for the stock. However, more recently following the emphasis on OT investments and additional cyber spend by companies (especially given the hardware exposure of the business), crowding has turned positive for the business.

EXHIBIT 27: **Fortinet crowding score since Jan 2023**



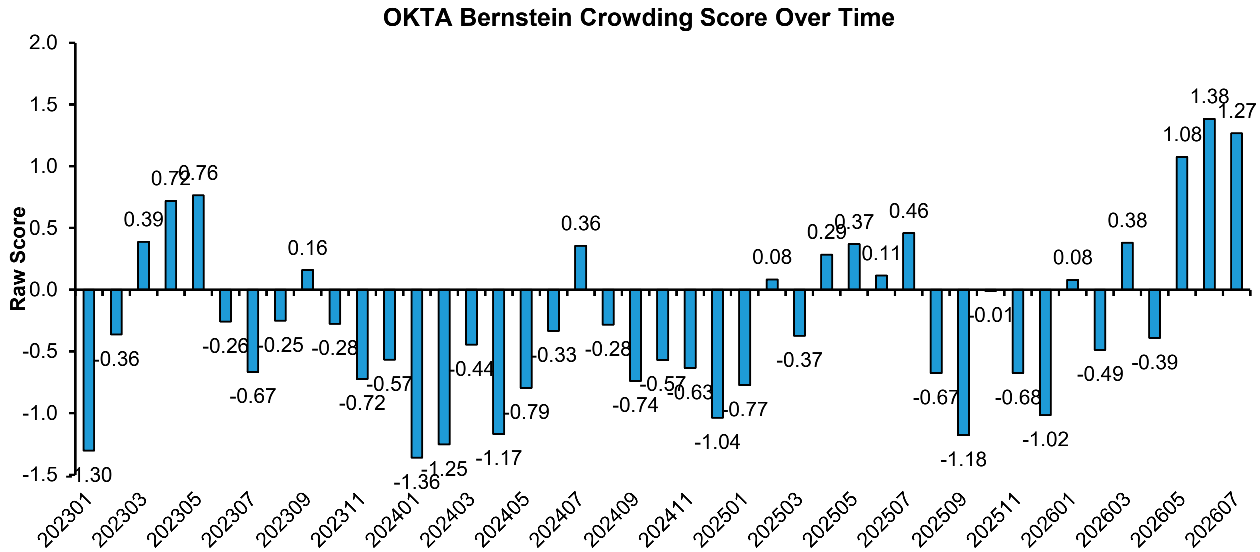
Source: MSCI, Factset, Bernstein analysis

Okta

Okta was a strong growth story entering and through COVID... but then in March 2021 the company announced its agreement to acquire Auth0, shattering the confidence from investors in the company's ability to drive organic growth. Moreover, the company began facing weaker margins than a growth investor would like to see. 2022 then introduced the additional weight of macro risk, as a decent portion of Okta's business is consumer-exposed (the CIAM business), as well as a sharp drop in revenue growth in the quarters announced in July and October. As 2023 started we heard more investors attempting to get more constructive on Okta, with the company announcing more efforts to reduce costs and increase margins again at earnings in March; as well as a belief the company's mid-to-high teens growth guidance is too conservative, and there is line of sight to 20%+ growth, particularly built on reported strength in the CIAM product. This may have generated some improvement (if we can call it that) to less negative levels of crowding. But come October'23 there was a major cybersecurity breach reported and the shares gave back those gains — this caused the stock's crowding to sharply decline as both the sell side and buy side became less constructive on the stock, hitting bottom around January 2024.

Since then, and up to a few months ago, OKTA had failed to deliver strong results. However, with lapping COVID cohort and the effects of DOGE, results turned positive. This was further supported by additional identity investments due to AI.

EXHIBIT 28: **Okta Crowding Since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

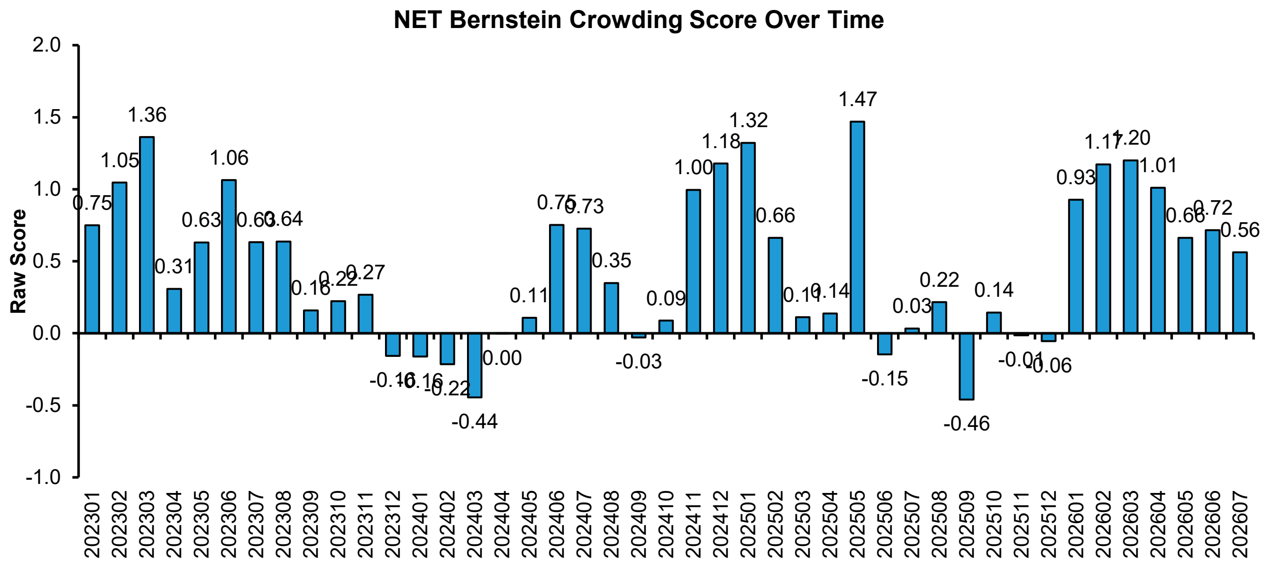
Cloudflare

Cloudflare IPO'd in 2019 and its developer focused GTM with a unique architectural approach to building out a global CDN (optimized for delivering web applications, not streaming content like other CDNs are better suited for) and building additional services on top of it at minimal incremental cost resonated well with the investor base. Cloudflare has built an impressive underlying architectural stack which lends itself well to build security services on top. Cloudflare has focused on doubling down on the network security services offering firewalls, SASE offerings. However, its offerings are early from a product maturity perspective as compared to some mature standalone SSE players. Investor community has rewarded the stock for the promise it holds by unlocking value for customers by delivering SSE services. Further, its workers platform promises to be the application development platform of choices for applications built on the edge. As a result crowding remained generally positive in first few quarters of 2023. But crowding started to decline in the end of 2023 as this enthusiasm eroded in the face of continuously declining NRR that seemed to be contrary to the upsell thesis that the management was pitching.

By Q1'24 the top-line growth slowed to ~30% YoY, a new low. This was despite concerted efforts from management to revamp the go-to-market team and perhaps led to incremental investor pessimism leading to an even further declining crowding score. This started turning around by summer of 2024 as tailwinds from AI native application development appear to have resulted in developers adopting the edge platform to build their initial iterations of applications leveraging inference capabilities.

As we sit here in 2026, the AI thesis has become a far more significant component of the Cloudflare story than most investors anticipated. Management increasingly describes AI as a fundamental re platforming of the Internet, and Cloudflare has positioned itself as critical infrastructure enabling AI applications, agents and inference workloads at the edge. The company has expanded Workers AI, AI Gateway and a broader suite of AI-focused services while leveraging its global network footprint as a competitive advantage. While we believe Cloudflare still needs to prove that it'll win this space, investors are excited about this opportunity as seen by its massive multiple, contributing to its positive crowding scores.

EXHIBIT 29: **Cloudflare crowding score since Jan 2023**



Source: MSCI, Factset, Bernstein analysis

WHY TECH INVESTORS SHOULD BE CONCERNED WITH CROWDING

Based on research by our Quant Team, we see that investors can overestimate their portfolio's diversification when only considering traditional metrics such as market cap, sector, geography, etc. or other common factors such as valuation or momentum. In brief, reasons why we believe crowding is an important mis-priced risk factor include:

- Crowded stocks, while often performing inversely to the market, exhibit high levels of pair-wise correlation to other crowded trades during inflection points, volatility spikes, or de-risking events.
- Crowded stocks react less positively to good news but more negatively to bad news compared to un-crowded stocks.
- Traditional backward-looking risk metrics (e.g., trailing vol, beta) underestimate the future volatility of crowded stocks in many cases because crowded stocks are the consensus trade. They are very stable in the near term, but volatility can go substantially higher later when investors with shared beliefs about the stock head for the exits en masse if a crack in the common thesis develops. Illiquidity on exit exacerbates the speed and magnitude of drawdowns.

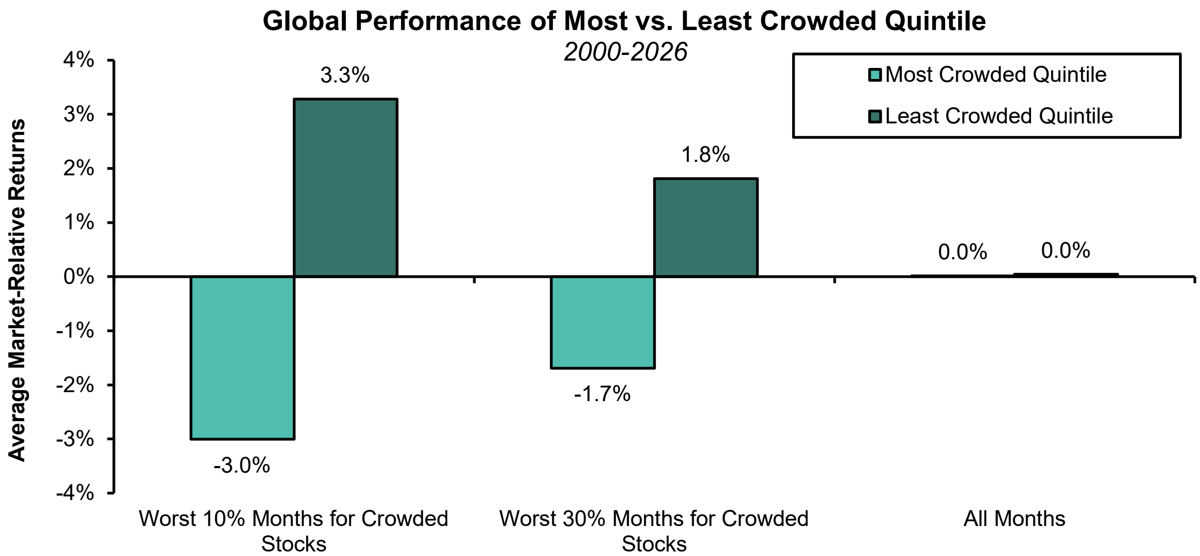
As a result, we believe it's important for investors to include crowding as a consideration in their portfolio, in order to improve diversification, mitigate downside risk from news flow, and potentially enhance returns as out-of-favor stocks benefit comparatively from good news.

UNDERSTANDING THE IMPORTANCE OF CROWDING

Historical Performance of Crowded vs. Uncrowded Stocks

Exhibit 30 shows the performance of stocks ranked at the top and bottom quintiles of the Bernstein Crowding Model. Crowding is a risk factor, not an alpha factor. That is, the level of crowding itself does not have immediate implications on the timing of potential future underperformance. What's worth noting is that although the underperformance of crowded trades is episodic, in months when drawdowns in crowded trades are the most severe, the least crowded stocks offer protection in the form of negatively correlated returns. Exhibit 30 shows that in the 10% of months over the last 25 years that produced the largest underperformance of crowded trades, the most crowded quintile returned an average of -3% relative to market. During these same months, the least crowded quintiles outperformed the market by 3.3%.

EXHIBIT 30: **Historically, in months when drawdowns in crowded trades are most severe, the least crowded stocks offer protection in the form of negatively correlated returns**



Source: MSCI, Factset, Bernstein analysis

Losses associated with crowding are episodic. The key is volatility. Times of market stress or uncertainty can trigger de-risking and simultaneous selling of crowded trades, with illiquidity on exit exacerbating drawdowns. In months when the VIX rises to above average levels, the most crowded trades underperform the least crowded by -0.4% a month (Exhibit 31). On average, these spikes in volatility happen three times a year. We would recommend continuing to exercise caution with crowded trades.

EXHIBIT 31: **The underperformance of crowded trades is consistent with periods of elevated volatility**

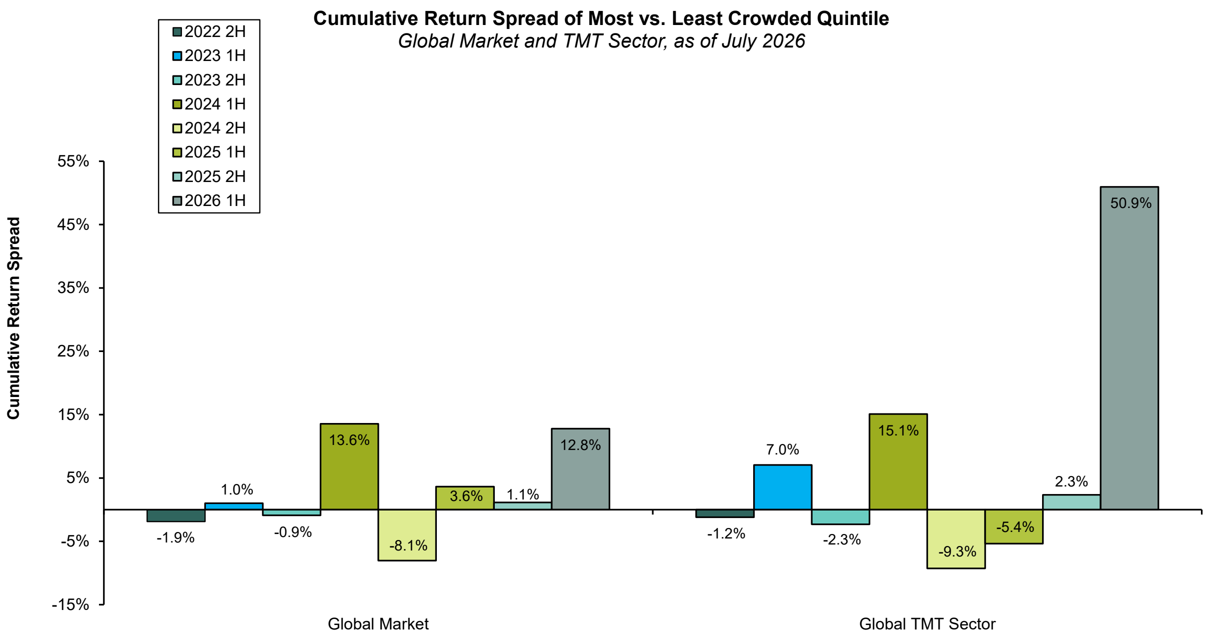
Performance of Most vs. Least Crowded U.S. Stocks
In Months When VIX Spiked Above 20

	Number of Months with Vix Spike	Average Returns (%)	
		High VIX Months	All Months
2011	6	-0.5	-0.1
2012	3	-1.4	-0.6
2013	0	-	0.1
2014	0	-	-0.6
2015	1	0.4	0.8
2016	2	-2.0	-1.9
2017	0	-	0.9
2018	2	2.0	0.3
2019	0	-	0.3
2020	10	0.9	1.6
2021	4	-3.4	-0.7
2022	12	-1.4	-1.4
2023	3	-0.2	-0.7
2024	0	-	0.8
2025	3	1.6	0.9
2026	1	-0.2	0.8
Average	3	-0.4	0.0

*2026 is through July 24, 2026

Source: MSCI, Factset, Bernstein analysis

EXHIBIT 32: **So far through 2026, especially in the TMT sector, overall crowded trades have meaningfully outperfromed the least crowded stocks.**

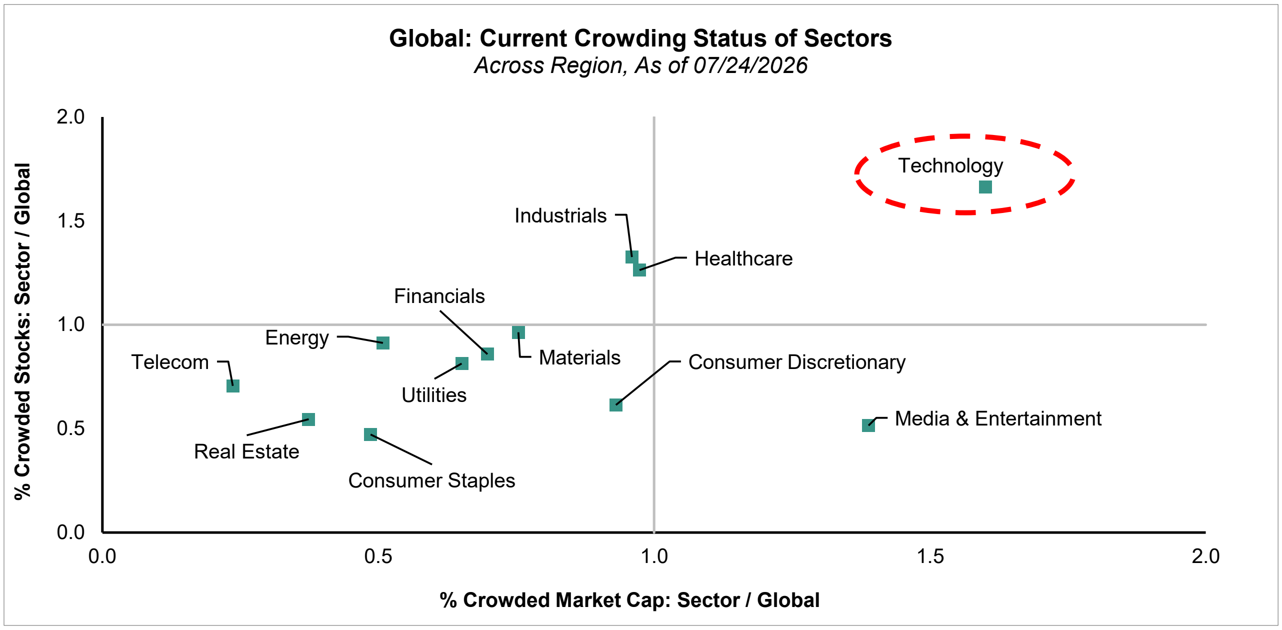


Source: MSCI, Factset, Bernstein analysis

CROWDING BY SECTOR

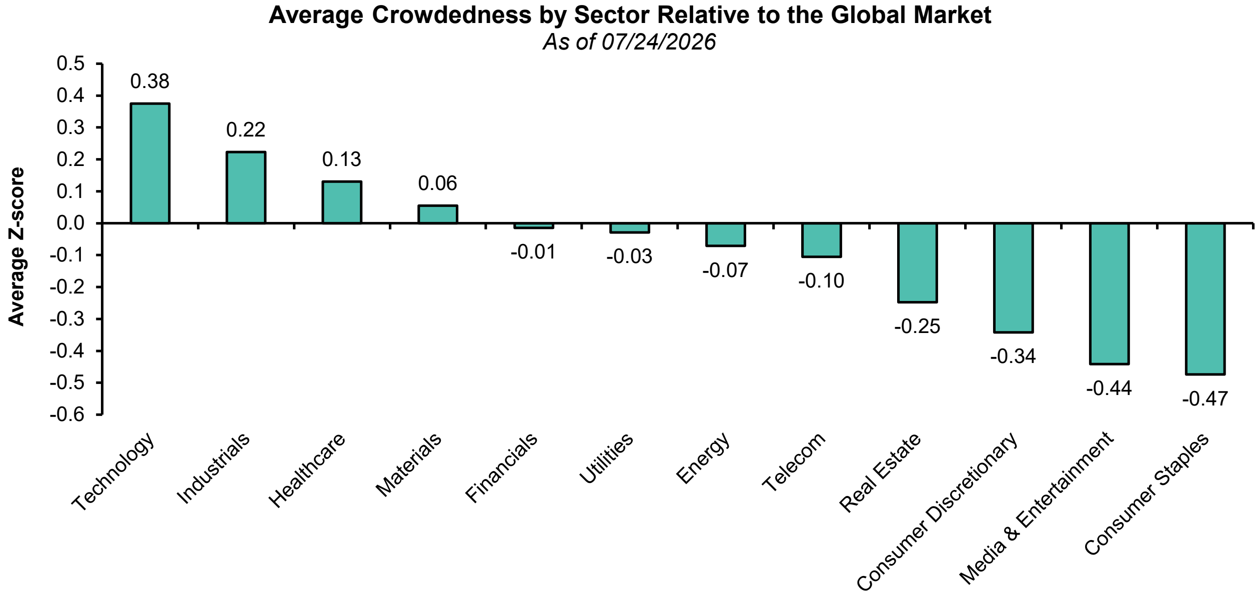
Exhibit 33 illustrates the relative crowding of stocks by sector globally, both on an equally weighted basis (i.e. each stock counts equally within the sector) on the y-axis and based on market cap weighted crowding on the x-axis. On an equal weight basis, Technology and industrials are the two most crowded sector cross-sectionally. Note this methodology looks at how heavily concentrated stocks in the top quintile of crowding are in each sector. Put differently, it illustrates which sectors have the highest concentrations of crowded stocks, rather than providing an average crowding for the sector as whole. An average would not be as useful because crowding is a tail risk, so it doesn't matter across the whole distribution. Exhibit 34 presents the z-score of each sector's crowding score relative to the global market.

EXHIBIT 33: **Concentration of Most Crowded Stocks by Sector**



We define a stock as "crowded" if it has a raw crowding score in the top quintile of global stocks. Here we plot the ratio of each sector's crowding percentage relative to that of the overall market (i.e., 20% for overall market since we define 'crowded' as top quintile). In this analysis the Communications sector is split into 'Media & Entertainment' and 'Telecom' based on GICS subsectors.
Source: MSCI, Factset, Bernstein analysis

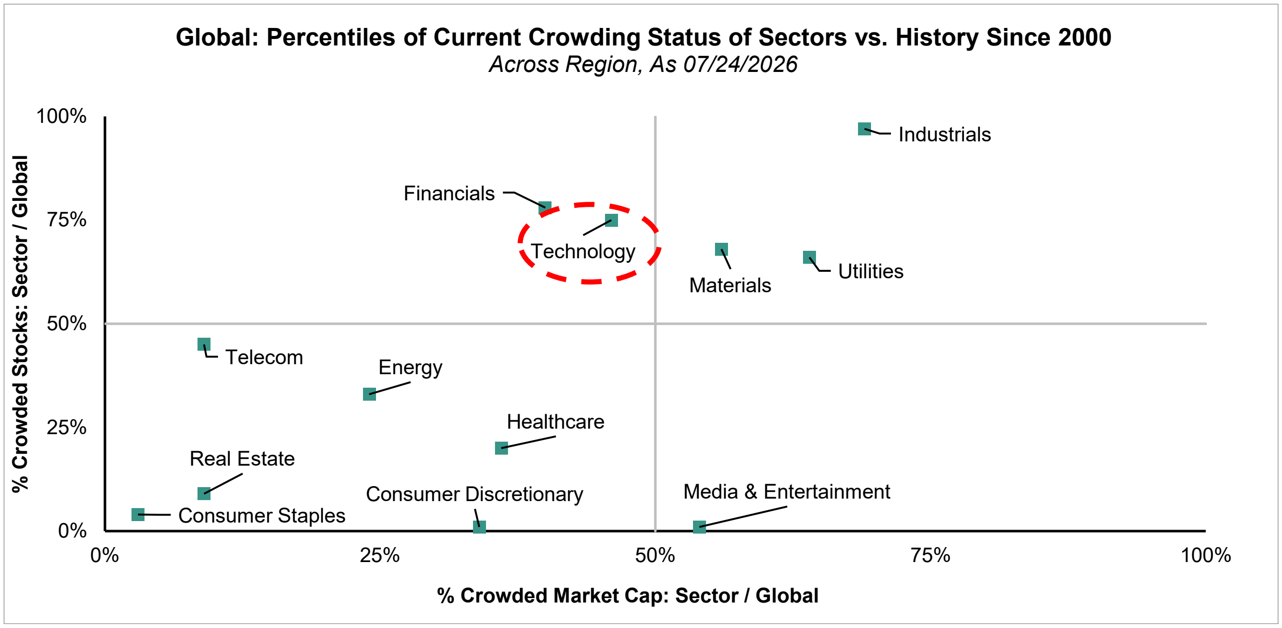
EXHIBIT 34: **Technology is also the most crowded sector measured by average raw crowding score**



We first calculate the z-score of each stock's raw crowding score relative to the global market (i.e. number of standard deviations from market average), and then calculate the equal-weighted average z-score for each sector.
Source: MSCI, Factset, Bernstein analysis

While understanding sector crowding relative to the market is important, we believe it is equally important to look at the historical context, given that some sectors tend to be perpetually crowded versus others but may not be crowded when compared to their own history. Usually, high dispersion sectors like technology tend to be crowded more often than low dispersion sectors like utilities because higher return dispersion means better stock picking opportunities for active managers. In analyzing the last 24 years of crowding data, presented in Exhibit 35, we illustrate that technology is above the average level of crowding relative to its own history by share of crowded stocks but is slightly below the average level of crowding relative to its own history by market cap of stocks.

EXHIBIT 35: **Technology is above average levels of crowding relative to its own history by number of crowded stocks but is slightly below average levels of crowding by market cap of stocks**



We define a stock as "crowded" if it has a raw crowding score in the top quintile of global stocks. Here we plot the ratio of each sector's crowding percentage relative to that of the overall market (i.e., 20% for overall market since we define 'crowded' as top quintile) and compare to its own history since 2000. In this analysis the Communications sector is split into 'Media & Entertainment' and 'Telecom' based on GICS subsectors.
Source: MSCI, Factset, Bernstein analysis

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