AMERICAS TECHNOLOGY: HARDWARE

Expert Network Series: Data Center & Networking Equipment October 2026 outlook with 650 Group

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We hosted an investor webinar with Alan Weckel, the 650 Group founder and technology analyst on October 23rd, 2026 as part of our Expert Network Series to discuss current trends impacting the data center & networking equipment market.

Bottom line: 650 Group sees durable long-term growth across both the networking & compute industries related to AI adoption. In networking, 650 Group forecasts the DC networking market (including scale out, scale across, scale up, non- AI, and third party optics ex CPO) to grow at a 29% 5-yr CAGR from 2030-35. Against a backdrop of increasing investor debate around open networking standards, Mr. Weckel expects leading branded networking vendors will continue to add value to its hyperscale and neocloud customers because of their expertise in complicated deployments, hardware, and differentiated silicon. In compute, Mr. Weckel expects to see (1) medium term unit growth in x86 servers driven by the need for AI agents to communicate with the application layer; and continued strong (2) ASPs related to higher memory costs & more dense servers. The enterprise/campus networking markets should see strong near-term demand from AI-related security threats, WiFi 7 refresh, and growing IOT devices, though 650 Group is more cautious on the impacts of unfavorable demographics trends (bad for K12 vertical) and increasing competition (Huawei in EMEA, Ubiquiti up market) beyond 2027.

Please see '3Q26E preview on ANET, CLS, FFIV & industry networking model update' for more details on 650 Group's latest industry networking market forecasts.

Key takeaways

- **Growth in scale up is the single largest contributor to 650 Group's outlook for the data center networking market to sustain strong growth beyond 2030**; 650 Group forecasts the DC Networking market (including scale out, scale across, scale up, non- AI, and third party optics ex CPO) to grow at a 29% 5-yr CAGR from 2030-35. HPE and CLS should benefit from being first-movers in the Ethernet scale-up switch for the AMD Helios rack (where their experience in compute is a key point of differentiation), though Mr. Weckel expects the market to become more crowded as the technology matures and scale up solutions

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become more disaggregated. Beyond scale up, 650 Group expects strong double digit % growth in front-end and scale out ethernet switching demand. Despite announcements out of OCP regarding open-networking infrastructure (e.g., Meta IcePack), 650 Group expects leading branded networking vendors will continue to add value to hyperscaler customers because of their expertise in complicated deployments, hardware, and differentiated silicon (CSCO, HPE).

- **DCI market should see growth in both (1) traditional DCI for AI on-ramp; and (2) scale across.** 650 Group defines the DCI market as including both (1) traditional data center interconnect, or "on-ramps" into the cloud; and (2) AI scale-across use cases, where GPU clusters sit across physically separate data centers. This is increasingly relevant as AI factories span multiple buildings due to power, land, and campus-design constraints. In both traditional DCI and AI scale across, the DCI equipment and vendors participants are largely similar. Specifically, 650 Group expects the AI DCI opportunity to grow from ~$500 mn in 2025 to $37 bn by 2030 (+144% CAGR), while the non-AI DCI opportunity will grow from $9 bn to $21 bn (+19% CAGR). The market is split roughly in thirds across transceivers (Marvell, Acacia, Ciena, Nokia), systems (Arista, Cisco, Juniper, Nokia), and transponders/line systems (Ciena, Nokia).

- **650 Group raised its 2026-2030 traditional server forecasts upwards by ~52% on average annually,** driven by both (1) ASP increases from higher memory costs & more dense servers (i.e., core count up from 20-30/server to 200+/server); and (2) net new demand related to agentic workloads. First on price, Mr. Weckel sees growth in the market today related as primarily cost pass through, but expects that enterprises will justify higher prices based on the increased density and performance benefits of the latest generation servers. Second, 650 Group expects to see unit growth in servers (with even stronger core count growth) driven by the need for AI agents to communicate with the application layer; Mr. Weckel views the use case as net new and incremental to the CPU compute market today. Enterprise will continue to be the largest vertical within the CPU market (~50%), followed by hyperscalers (~25%), neoclouds (~20%), and telcos (~5%). 650 Group sees the opportunity the use case for CPUs for neoclouds as most relevant for inference providers, while neocloud that are just focused on training/GPUaaS will have lower CPU requirements. Third, 650 Group expects the markets share split between white box & branded solutions in the neocloud servers market will remain stable in the medium term (i.e., DELL and SMCI not losing share to Taiwanese ODMs), though Mr. Weckel is monitoring how the subset of more tech-savvy neoclouds may move to whitebox over time.

- **650 Group highlighted several near-term tailwinds to the enterprise campus market,** including: (1) incremental IT and security budgets created to address AI-related security threats; (2) Wi-Fi 7 upgrade cycle, as new wireless standards require multi-gig, higher-power switches; (3) IoT/OT expands port demand as there are more IoT gateways, including robotics, building automation, industrial devices, and data-center buildouts which should offset slower PC and handset connections; and (4) enterprise upgrades driven by pre-2020 installed base's end-of-support. 650 Group also flagged some potential headwinds to the enterprise campus market in

2027 and beyond, including: (1) unfavorable demographic trends leading to lower K-12 vertical demand; (2) accelerated competition and ASPs pressure for CSCO and HPE's European business as Huawei taps into the European market and gains shares with lower price offerings; and (3) Ubiquiti moving upmarket, supported by a broader and faster-expanding portfolio than most mid-market competitors.