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Disconnected: Examining the low correlation of returns between data center REITs and AI stocks

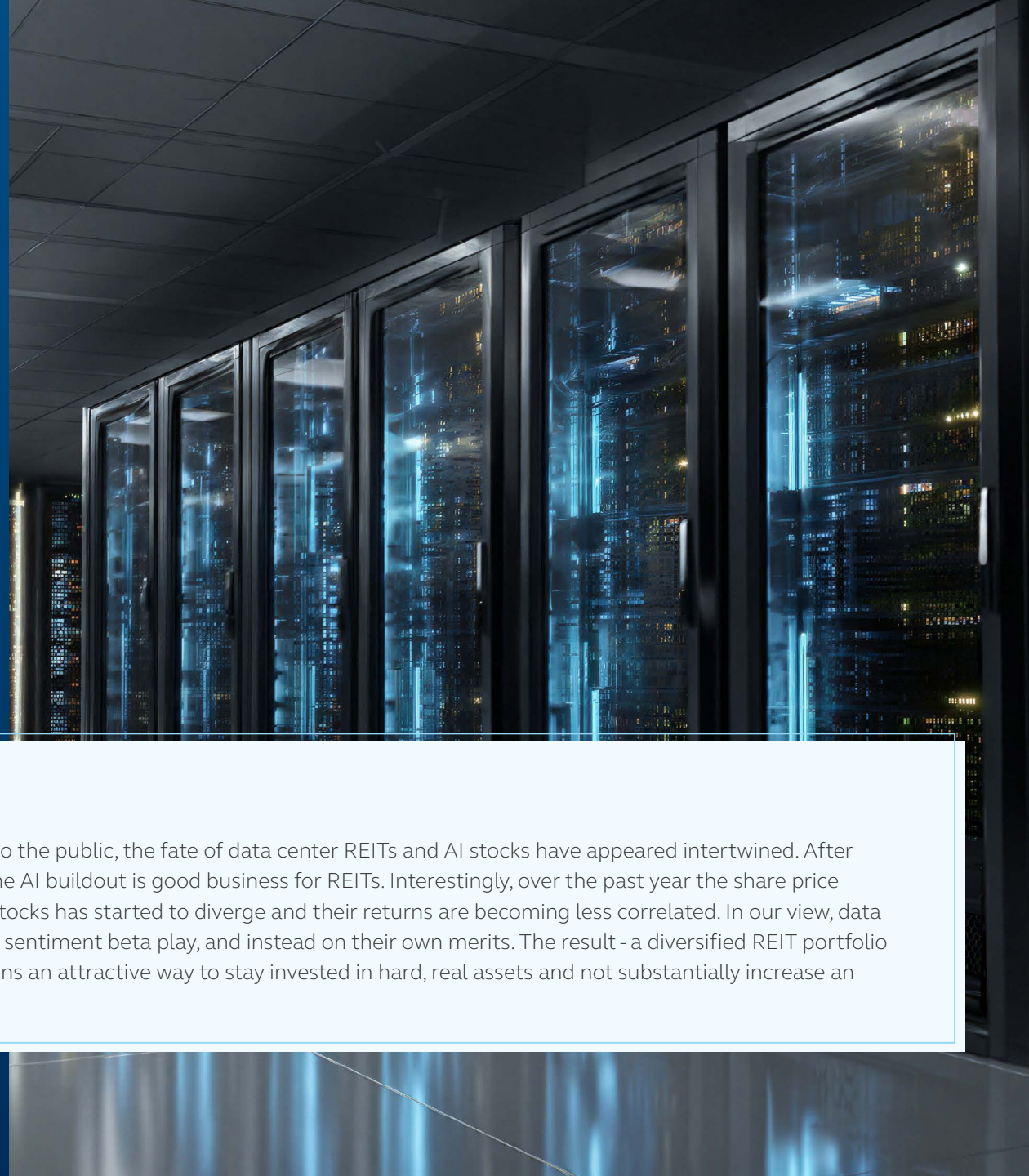
Data center REITs trading on their own fundamentals



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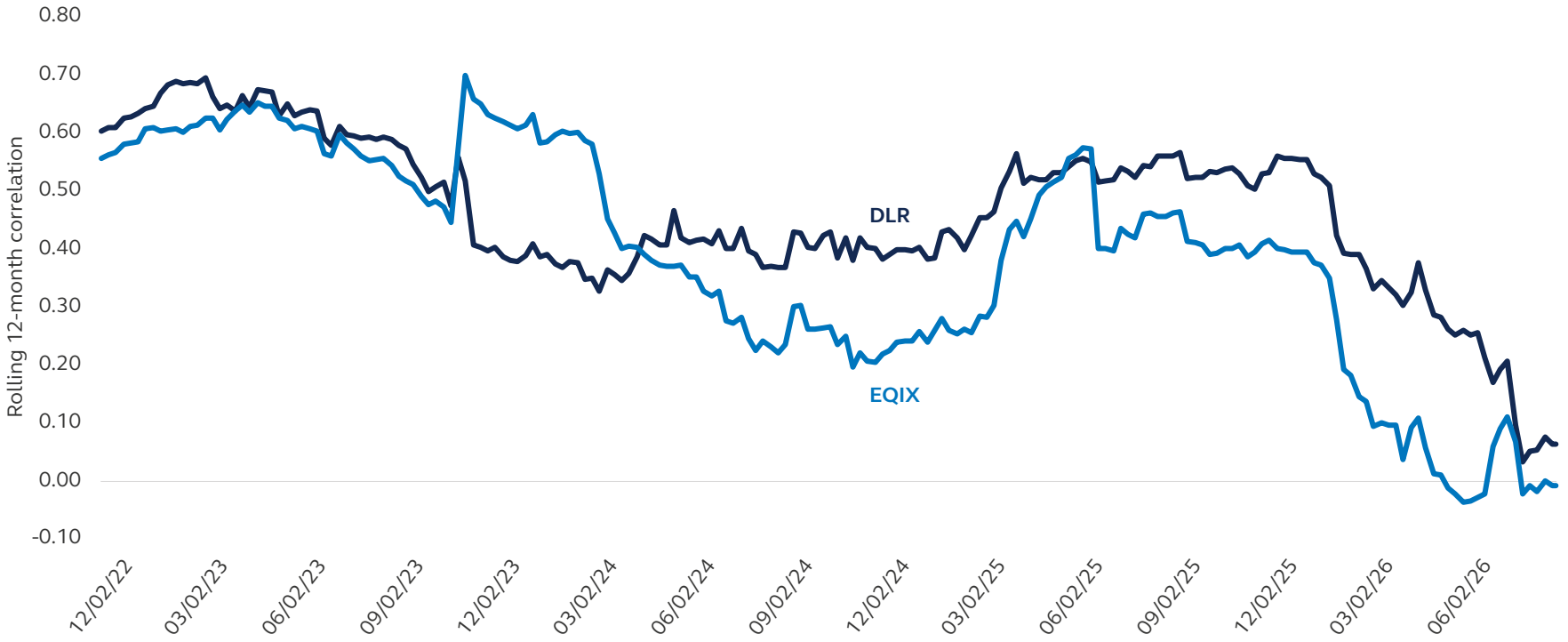
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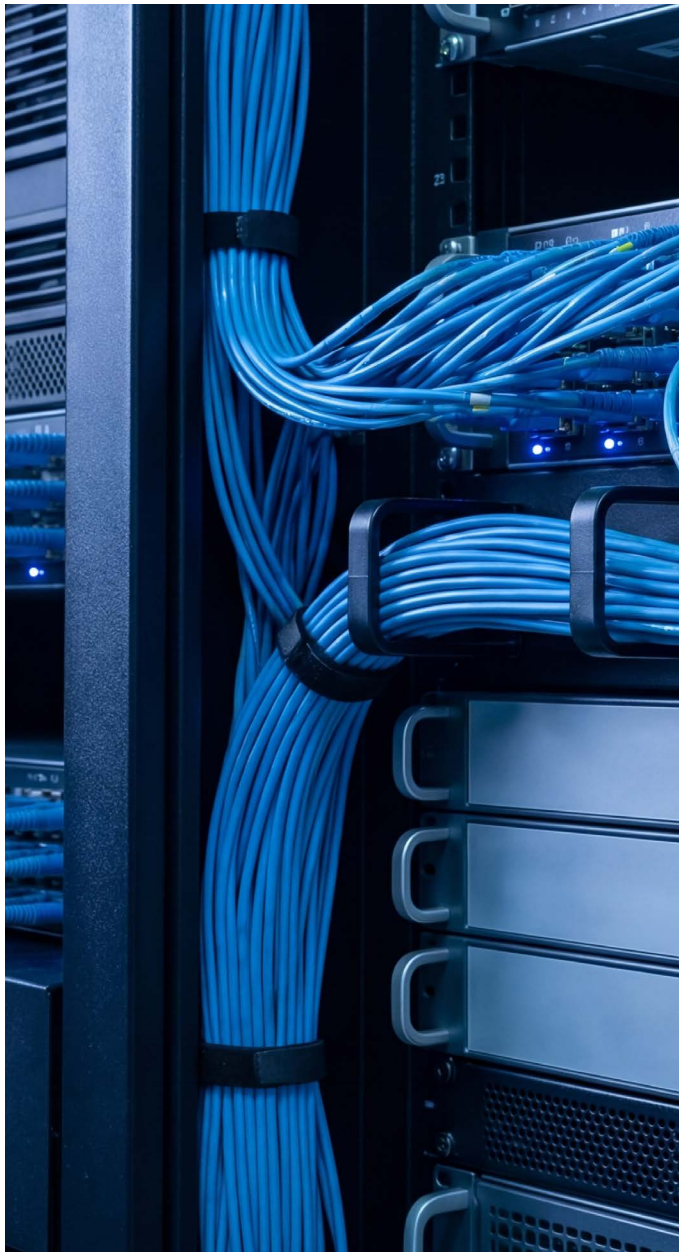
Key takeaway

Since OpenAI first released ChatGPT to the public, the fate of data center REITs and AI stocks have appeared intertwined. After all, selling the “picks and shovels” of the AI buildout is good business for REITs. Interestingly, over the past year the share price behavior of data center REITs and AI stocks has started to diverge and their returns are becoming less correlated. In our view, data center REITs are trading less like an AI sentiment beta play, and instead on their own merits. The result - a diversified REIT portfolio with large data center exposure remains an attractive way to stay invested in hard, real assets and not substantially increase an investor’s exposure to AI risks.

EXHIBIT 1: The correlation of U.S. data center REITs to AI-focused stocks is approaching zero



Rolling correlation of the two largest U.S. listed data center REITs, Equinix, Inc (ticker: EQIX) and Digital Realty Trust (ticker: DLR), against a composite of seven hyperscalers and AI-focused stocks (AMZN, MSFT, GOOGL, META, ORCL, NVDA, BABA). Source: FactSet weekly return data through 31 August 2026.

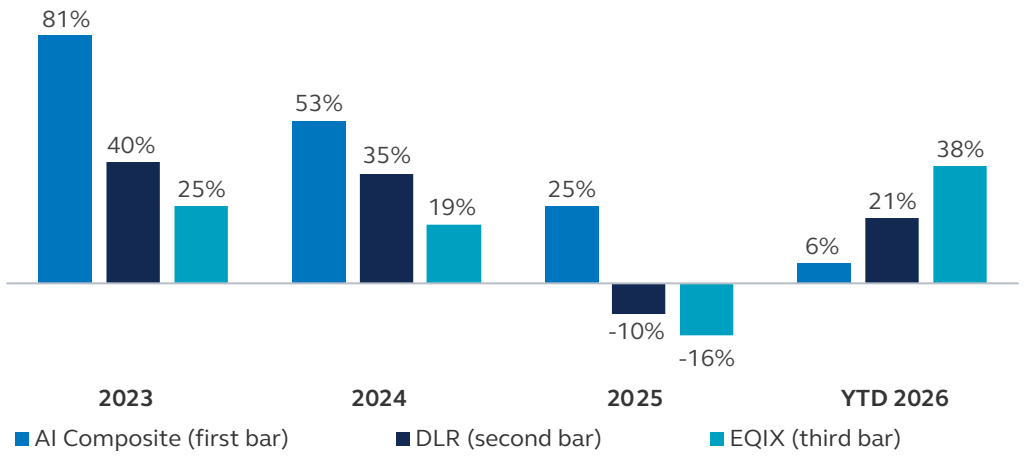


Differentiation and divergence in data center REITs and AI stocks

In 2025 the disconnect between data center REIT and AI stocks returns started to emerge, resulting in a breakdown in correlations. This recent drop is not a flaw in the AI or data center investment thesis, but a feature of market forces differentiating between the business models of REITs and AI companies. We believe the most impactful forces are: 1) investors understanding the timing and magnitude of AI investments on REIT earnings, 2) the market pricing AI capital spending as good for the landlord but risky for the spender, and 3) physical data center capacity became genuinely scarce, handing pricing power to the owners of existing data centers. We discuss each of these themes in further detail below.

1 **Current AI-related economics are narrow and elongated for REITs.** When AI related demand flows to data center REITs, it arrives on a very different timetable than it does for AI technology companies. REIT revenue comes primarily from contractual rents, power charges, and colocation or interconnection fees. These revenues are durable but constrained by lease terms, available capacity, and lengthy construction timelines, producing steady rather than rapid earnings growth. Hyperscalers, by contrast, monetize AI adoption more directly and often build their own facilities, particularly in remote AI training markets where REIT exposure is limited. Hyperscaler AI spending also goes toward GPUs, servers, and utility infrastructure – none of which is landlord rent. As a result, technology stocks capitalize AI enthusiasm much faster than real estate cash flows. This divergence was evident in 2025, when the two large U.S. data center REITs returned -14%, while AI-related stocks gained 25%, reflecting investor frustration with the REITs' slower earnings payoff.

EXHIBIT 2: AI and data center REIT returns by year



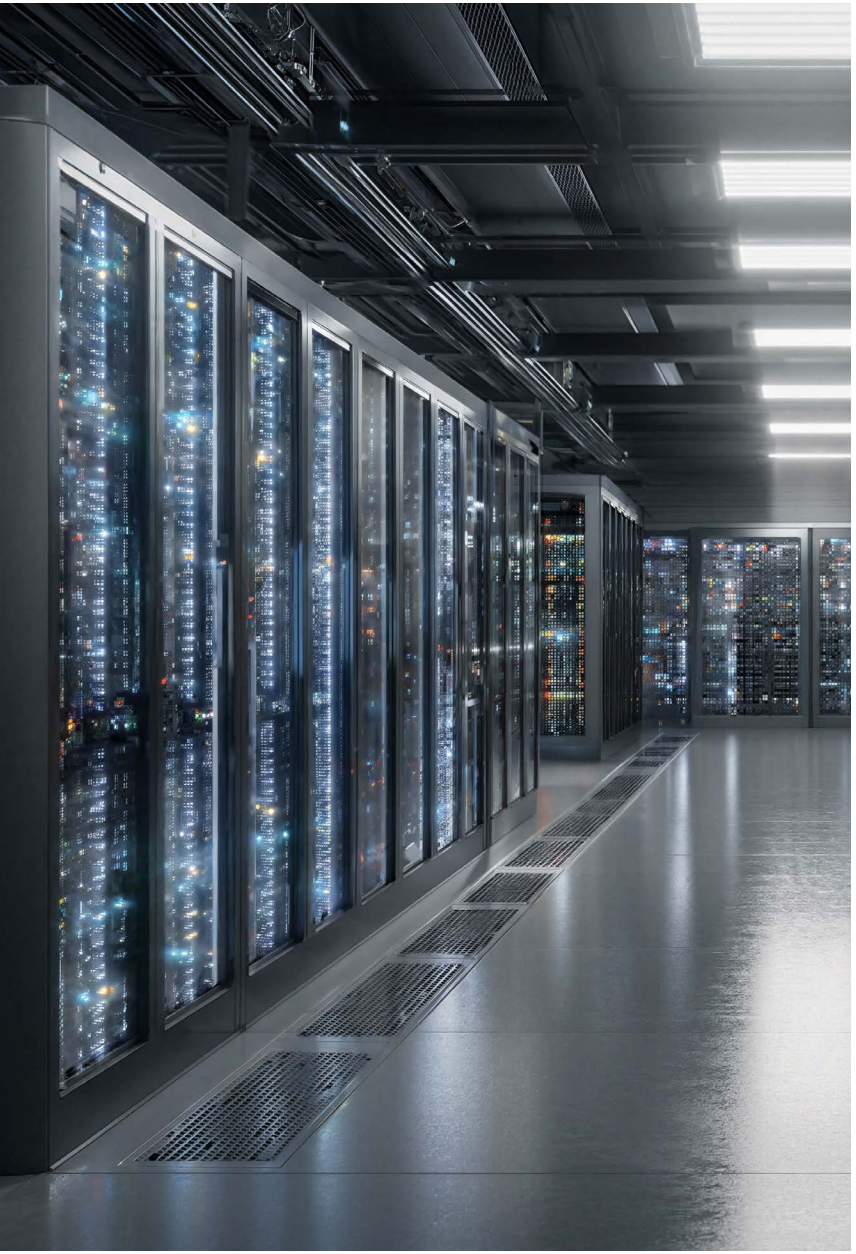
Source: Factset, As of 31 August 2026.

2 **Good for the landlord, questioned for the funder.** A second driver of the lower correlation in 2026 is the market's attitude toward AI capital spending flipped. Where investors once rewarded any hyperscaler willing to spend aggressively, they began paying up for spending that arrives with contracted demand attached and punishing spending that does not. In a single month, roughly $2.3 trillion was wiped off the Magnificent 7 as investors grew anxious about when the enormous outlays would earn a return.*1

For REITs, that same capital spending looks very different. A hyperscaler's lease is the landlord's contracted revenue — a dollar of AI capex that pressures a hyperscaler's valuation can support the valuation of the data center REIT receiving it. When the market debates the funders' returns while continuing to reward the landlords' secured rents, the two groups are always going to move apart and that has been to the benefit of data center REITs.

3 **Capacity scarcity handed pricing power to the owners.** The third force is physical scarcity. Data center supply is now constrained not by capital but by power, with utility hook-up timelines running over four years in many US markets and construction decelerating even as demand stays strong. The result is record-low vacancy and limited supply through 2030 – driving pricing to unprecedented highs.

Scarcity is exactly what turns a landlord's position into pricing power. It shows up directly in the earnings results that moved these data center stocks in 2026 as large earnings beats, record renewal spreads on leases, and robust pre-leasing of future developments were rewarded with large share price gains year-to-date. The large rise in data center rents should keep cash flows growing as REITs capture the large mark-to-market opportunity on expiring in-place leases in coming years. **In other words, data center REITs spent the year decoupling from the AI trade because they were being repriced on their own improving economics — scarcity, leasing, and earnings revisions — rather than on swings in AI sentiment.**



Could negative correlations persist if market sentiment for AI unravels?

If AI enthusiasm were to break, the likeliest pattern is a two-stage response. In the first phase of any risk-off shock correlations typically rise — almost everything sells off at once, and data center REIT price multiples are likely to de-rate alongside the AI tech names. We believe data center REITs could experience a shallower sell-off and may outperform after the initial shock, supported by contractual leases from a diversified set of users and a large pre-leased backlog of committed developments.

Said differently, even if AI spending proves not to be as robust as the market once assumed, it's unlikely to have an impact on the durability of data center REIT cash flows. If the pullback brings falling interest rates as economic growth weakens without the support of AI investment, the rate sensitivity of REITs would be a tailwind, too. The large caveat or downside risk is that a prolonged or fundamental retrenchment in AI investment could eventually reach the REITs through their tenants — slowed leasing or walk-aways, with wholesale operators more exposed than interconnection-led ones. In short, low correlation on the way up does not guarantee low correlation on the way down, but the business model of data center REITs is a durable one to provide some cushion.

The bottom line for investors

Data center REITs offer genuine, contractual participation in the AI build-out, yet their returns are governed by a different engine: contractual and durable cash flows from leases, beneficiaries of AI capital spending, and — as 2026 made plain — their own company-specific catalysts.

That combination — real exposure to AI-driven demand, but with return drivers that do not move in lockstep with the AI trade — is what makes these companies attractive in a diversified listed real estate portfolio. Owning the physical backbone of the digital economy, especially for what comes next as AI enters the inference stage and latency sensitive applications, is a core initiative for many data center REITs. Importantly, we believe the best outcomes can be achieved by accessing this exposure with a skilled and experienced manager to select the best opportunities and appropriately manage risk exposure within a diversified listed real estate portfolio.

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*1 CNBC. https://www.cnbc.com/2026/06/30/magnificent-7-stocks-sell-off-investors-grow-jittery-on-ai-spending.html.

Risk Considerations

Past performance does not guarantee future results. Investing involves risk, including possible loss of principal. Real estate investment options are subject to some risks inherent in real estate and real estate investment trusts (REITs), such as risks associated with general and local economic conditions. Investing in REITs involves special risks, including interest rate fluctuation, credit risks, and liquidity risks, including interest conditions on real estate values and occupancy rates. international investing involves greater risks such as currency fluctuations, political/social instability, and differing accounting standards.

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