

Signal from Noise

September 19, 2026

CYBERSECURITY STOCKS WILL SECURE THE AI ERA

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The Federal Reserve just hiked interest rates for the first time since 2023. Worries about the existential threat of AI are growing, with some claiming a 10% chance that AI kills us all within the next decade. Meanwhile, war between the U.S. and Iran looks to be escalating, and evidence suggests that more and more bad actors are using AI to do bad things.

All these headlines weighed on the S&P 500 \$SPY this past week, which finished flat.

But one segment was the clear winner from all this doom and gloom, and that was cybersecurity. Global X's Cybersecurity ETF \$BUG rose 11% in the last week, marking the largest percentage outperformance against the S&P 500 since May 8 — benefiting from all the security risks that arise as AI agents gain greater autonomy.

For enterprises, AI agents mean it has never been cheaper or easier to have their code exploited, their data leaked, or their identities compromised. That's why it has become crucial to rely on cybersecurity companies that can help predict, avoid, and also bring a swift end to agentic attacks if they do happen.

As many already believe that AI is reducing job openings, fears that AI will soon be out of control have contributed to the already growing AI backlash, increasing the calls for regulation. Of course, President Trump doesn't want the U.S. to lose its lead to China in the AI race, so he has pushed back on all these fears. On the other hand, Anthropic Chief Executive Dario Amodei and some of his rivals are recommending that AI developers "pace the frontier," paying heed to these fears.

There's a good chance that calls for a slowdown will fade away, and even if they don't, signs suggest that AI has already become too dangerous. In recent weeks, news outlets have reported that Houthi militants in northern Yemen tried to use Claude for ballistic missiles. Prior to that, OpenAI's agents escaped the company's test environment, finding a way to get on the internet to hack a startup, Hugging Face.

For the purposes of this article, we won't delve into whether it's beneficial for the broader global economy to slow down from making such rapid advancements in AI. Instead, we're going to turn our attention toward the investment opportunities that arise from a world always on alert.

As Nvidia Chief Executive Jensen Huang said, "The reason why there's so much conversation today about cybersecurity is because the industry is getting ready to launch some products." According to him, if the market is "hysterical," that increases demand for cybersecurity products.

Even if such fears ultimately turn out to be overblown, cybersecurity stocks will arguably remain an attractive play – a staple of corporate spending, one might say – because companies won't want to take any chances. Spending on global cybersecurity is expected to increase to more than \$430 billion in 2030 from \$178 billion in 2024, according to Global X forecasts derived from Gartner. It's entirely possible that those estimates are modest because as AI adoption grows, companies might initially underestimate their need for security.

"If we believe that AI is in its early days and is only going to get better and more powerful, combined with the autonomous nature of these attacks, it is absolutely something that every company is going to need," said CrowdStrike Chief Executive George Kurtz during the company's last quarterly earnings call.

With that being said, here's a breakdown of the business models of the top five biggest holdings in \$BUG (by weight). The ETF is also recommended by Fundstrat Head of Technical Strategy as a convenient choice for those interested in a pure-play cybersecurity ETF.

Okta (\$OKTA)

- Okta specializes in the identity and access management space via its distribution, product breadth, and neutrality.
- Executives said they noted an acceleration in annual contract value growth for both workforce identity and customer identity. That's partly because of the threat posed by AI, which has now started to translate into identity modernization initiatives.
- According to Okta president Eric Kelleher, recent surveys they ran across their customers show that 81% of chief information security officers that they talk to are aware right now that they are exposed, with agents deployed in their enterprises where they do not yet have an adequate security platform in place. I would say that's bullish for their stock.
- In the latest quarter, subscription revenue was \$793 million, up 12% from a year ago, and professional services and other revenue was \$12 million, down 33%, for total revenue of \$805 million, up 11%. So the non-subscription segment is just 1.5% of revenue.
- Okta shares are up 119% in 2026, compared to the S&P 500's 12% advance.

Fortinet (\$FTNT)

- Fortinet specializes in network and cloud security. According to executives, its new SASE [Secure Access Service Edge] Firewall addresses the fast-growing areas of SASE, AI, and quantum.
- Executives said in the last quarter that the broader AI adoption and the risks that arise with it "drove both new business and upgrade activity," which supported growth "across hardware, software and attached services."
- Fortinet arguably is in a good spot to benefit from the AI doom and gloom because its strategy focuses on securing data centers, protecting AI-driven applications, and delivering AI-native security operations, providing comprehensive support to those that want integrated platforms.
- It's making more money from services. In the latest quarter, product revenue was \$773 million, up 52% from a year ago, and service revenue was \$1.27 billion, up 14%, for total revenue of \$2.05 billion, up 26%, so service is 62.3% of revenue.
- Fortinet shares are up 118% in 2026, compared to the S&P 500's 12% advance.

Palo Alto Networks (\$PANW)

- Palo Alto also provides network security to enterprises. It said that its Frontier AI Defense Service was the first certified commercial partner for Mythos 5.
- Executives recently highlighted that enterprises are increasingly prioritizing sovereign control of their AI, seeking the ability to independently develop, deploy, and govern AI using their own infrastructure, data, models, and talent.
- In the most recent quarterly earnings, executives said they “expect a major acceleration” for cybersecurity products “as organizations utilize internal telemetry to fine-tune models for bespoke enterprise use cases.”
- In the latest quarter, product revenue was \$738 million, up 28.6% from a year ago, and subscription and support revenue was \$2.67 billion, up 36.2%, for total revenue of \$3.41 billion, up 34.5%. So subscription and support is 78.4% of revenue.
- Palo Alto shares are up 103% in 2026, compared to the S&P 500's 12% advance.

CrowdStrike (\$CRWD)

- CrowdStrike focuses on endpoint security. Every product CrowdStrike sells runs on its Falcon platform.
- Executives said in the most recent earnings call that AI is a tailwind and that they expect to continue to make money from it, especially as AI expands the attack surface.
- CrowdStrike Chief Executive George Kurtz said during the company's last quarterly earnings call: “The world came to understand that cybersecurity is a necessity for AI adoption. New models created a new risk environment with no turning back. Recently, this realization became even clearer with the market's newest adversary, AI agents themselves. We told you this was the future, and this future is now a reality.”
- In the latest quarter, subscription revenue was \$1.40 billion, up 27% from a year ago, and professional services revenue was a record \$71 million, up about 7.6%, for total revenue of \$1.47 billion, up 26%. So professional services are 4.8% of revenue.
- CrowdStrike shares are up 110% in 2026, compared to the S&P 500's 12% advance.

Qualys (\$QLYS)

- Qualys is focused on vulnerability and exposure management. It quantifies cyber risk in business terms, communicates it via executive reporting and ticketing, and eliminates it by patching, mitigating, and tracking. It gives you inside and outside visibility of all assets with an attacker's view of the network.
- Executives recognized in the most recent earnings call that AI has completely changed the game for bad actors. Chief Executive Sumedh Thakar said that “AI is simultaneously becoming the greatest force multiplier and the most formidable challenge cybersecurity has ever faced.” Qualys appears well-positioned to benefit from that increased need for surveillance.
- In the latest quarter, revenue was \$182.2 million, up 11% from a year ago — effectively all of it from its cloud-based subscription platform.
- Qualys shares are up 34% in 2026, compared to the S&P 500's 12% advance.

The \$BUG ETF itself lists 31 holdings as of this writing. Our decision to limit our discussion to the five largest should not be misconstrued as a view that the other 26 are less innovative or somehow less likely to perform well.

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