



GLOBAL X 2026 OUTLOOK

This Side of Paradise

THE NEXT CHAPTER OF
THE ROARING 20s

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This Side of Paradise

THE NEXT CHAPTER OF THE
ROARING 20s

Foreword

At the start of the 2020s, parallels with the Roaring 1920s' technological, economic, and social changes seemed striking. Midway through the decade, we believe the analogy still holds.

A century ago, disruptive tech touched nearly every part of daily life. U.S. automobiles jumped from 7 million in 1919 to 27 million in 1929.¹ The first commercial radio broadcasts and movies redefined media and entertainment.² Electric appliances such as refrigerators and washing machines simplified household tasks.^{3,4} Medical breakthroughs like penicillin and insulin reshaped modern health.^{5,6}

The technological surge triggered a shift in economic and social behaviors. Once-dominant industries like railroads and textiles began multi-decade declines, while the auto manufacturing, electricity, and chemical industries soared.⁷ Productivity increased as assembly-line techniques drove mass production.⁸ New products and personal credit drove the transition to the modern consumer economy, with cars offering new freedoms, appliances creating time, and radios bringing varied perspectives.

The U.S. left the 1920s forever changed. The same might well be true of the 2020s. Automation and AI seem analogous to the 1920s' shift to mass production, but potentially even more powerful, not only for industry but also for consumers with technologies like agentic AI in their hands. The new frontier is not the next town over, but progress in commercial space exploration.

Heading into 2026, we believe investors should keep three broad themes in mind:

- 1. A PROVE-IT MOMENT FOR AI AND MASSIVE CAPEX SPEND**
- 2. A FOCUS ON FUNDAMENTALS AND VALUATION NOT HYPE**
- 3. AN EVOLVING GEOPOLITICAL WORLD ORDER**

Investors should also keep a level head, as the Roaring 20s brought cautionary tales. New consumerism, including ample personal credit, partly contributed to the 1929 stock market crash.⁹ The end of World War I food exports, changes to government agricultural subsidies, and new technology led to food deflation that squeezed farmers and set the stage for the Great Depression.¹⁰ The Fordney-McCumber Tariff of 1922, an initiative intended to ease pressure on farmers and even out production costs, began a costly protectionist cycle.¹¹ Outside the U.S., a post-war industrial boom began for some countries but not others, and attempts to restore the pre-World War I political order created fragility that led to a mix of isolationism and expansionism that culminated in World War II.¹²

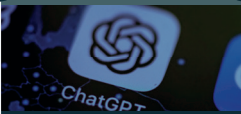
Today, increasingly powerful and uncertain economic and geopolitical forces may have investors thinking history is doomed to repeat itself. We reject that notion, reminding readers that the path from success to failure, boom to bust, and peace to war is complex and not inevitable. Understanding both the promise and peril of rapid change is essential—something Roaring 20s writers like F. Scott Fitzgerald and Ernest Hemingway captured with entertaining clarity.^{13,14} Predicting outcomes amid hyperbolic change is difficult at best, but we continue to believe the technological and economic revolution underway can deliver significant gains.



Overview

Then vs. Now: A Century of Technology in Parallel

1920s-2020s TIMELINE

1920 First Commercial Radio Broadcast 	1921 First Electronically Transmitted Photos 	1922 Insulin Used on Human Patients 	1923 Modern Refrigerator Developed 	1924 Earth-inductor Compass and Radio-Altitude for Aviation 	1925 Demonstrated First Working TV; Quantum Chemistry 
2020 First Mass Use of mRNA Vaccine Technology 	2021 James Webb Space Telescope Launch 	2022 ChatGPT AI Public Release 	2023 First Fully Automated Car Services 	2024 Unmanned Long-Endurance Tactical Reconnaissance Aircraft 	2025 Small Modular Reactors Commercially Ready 

01



► *Economic and Market Mysteries Unraveled*
Secular Change Driving Contradictions
Valuation and Sensitivity to Assumptions
Geopolitics of an Evolving World Order
Strategies for 2026

Economic and Market Mysteries Unraveled

THE BEAUTIFUL AND DAMNED CONTRADICTIONS

THE U.S. ECONOMY HAS BEEN A JUGGERNAUT SINCE 2022—a year when the consensus forecast was recession, though we strayed from consensus late that year.¹⁵

Three years later, the consumer keeps spending and household balance sheets are healthy, on average, though cracks are emerging in certain areas, such as foreclosures.¹⁶ Meanwhile, U.S. companies are more profitable than ever and the massive capital expenditure supercycle marches on.¹⁷ That said, several contradictions complicate forecasting.

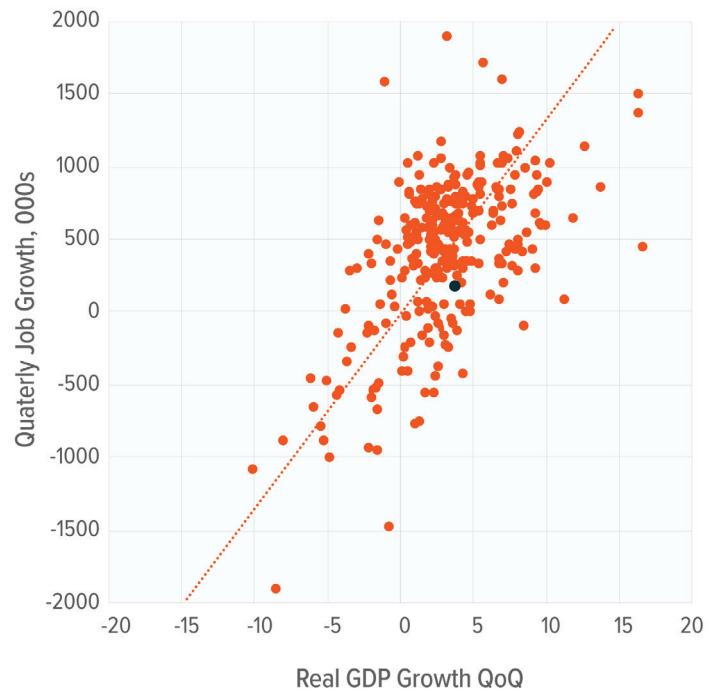
U.S. GDP growth in Q2 2025 was strong, yet job growth was anemic, which is an unusual divergence. Typically, real quarter-over-quarter GDP growth of 3.8% would translate to around 450,000 new jobs.¹⁸ After downward revisions, the U.S. economy only produced about 110,000 new jobs. Explanations for this disconnect include the

no-hire-no-fire economy, reduced immigration, and technological displacement.¹⁹ But the truth might be simpler. Two-year average job growth is in line with long-term expectations, producing about 446,000 new jobs over that period.²⁰ Job growth coming out of COVID was significant, so it's possible the labor market is normalizing rather than slowing.

The jobs slowdown has the Federal Reserve's attention. The primary risk to the Fed's dual mandate of price stability and full employment seems to be in flux. Tariffs may raise prices and slow hiring, though the Fed recently noted that the risks are more balanced. At its press conference in October 2025, the Fed acknowledged that inflation ex-tariffs could be closer to the 2% target.²¹ Also, shelter numbers may be overstating headline inflation. We still believe that the Fed could deliver two 25-basis-point cuts by March 2026, while consensus expectations slipped to June.²²

Consumer health is also sending contradictory signs. Sentiment has been depressed since the post-pandemic reopening in 2022, but spending has remained strong.²³ Retail spending has averaged over 5% since 2022 and grown faster than during the 2000s and 2010s. Also, foreclosure rates as a percent of total loans are quite low at about 0.5%, with 90-day delinquencies running at 0.6%.²⁴

STRONG GROWTH, WEAK JOBS (SINCE 1948)



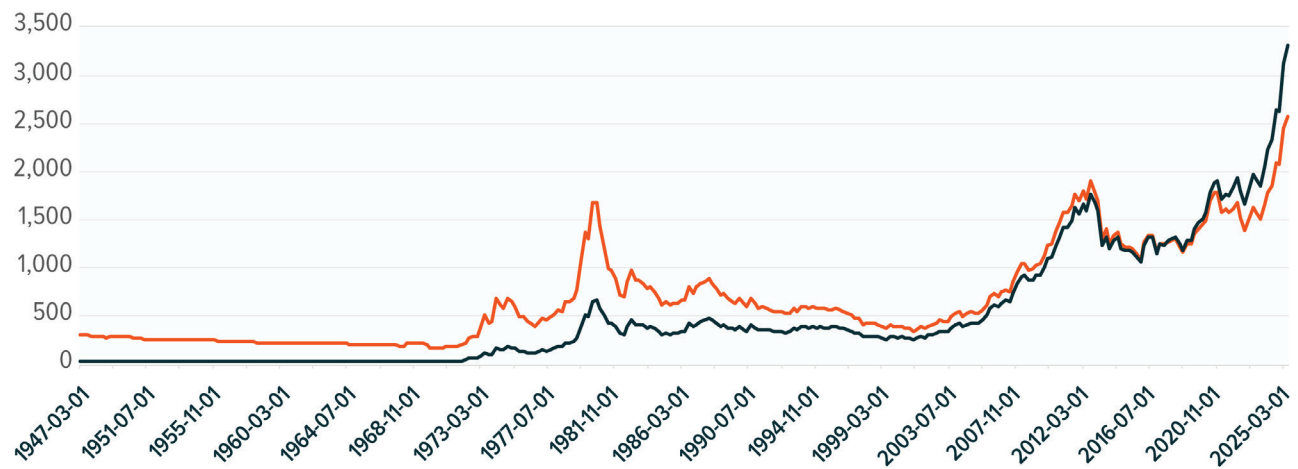
Source: Bloomberg as of September 30, 2025.

Another contradiction is gold's strong performance alongside strong equity returns. Traditionally, gold acts as a safe haven during market volatility. While some central banks increased their gold holdings to diversify away from the U.S. dollar as trade, debt, and growth concerns mounted, gold soared well above its historical inflation-adjusted range.²⁵

We still believe that the Fed could deliver two 25-basis-point cuts by March 2026, while consensus expectations slipped to June.

ACTUAL vs ADJUSTED GOLD PRICES

Adjusted Gold Price — Actual Gold Price



Source: Bloomberg as of November 14, 2025.

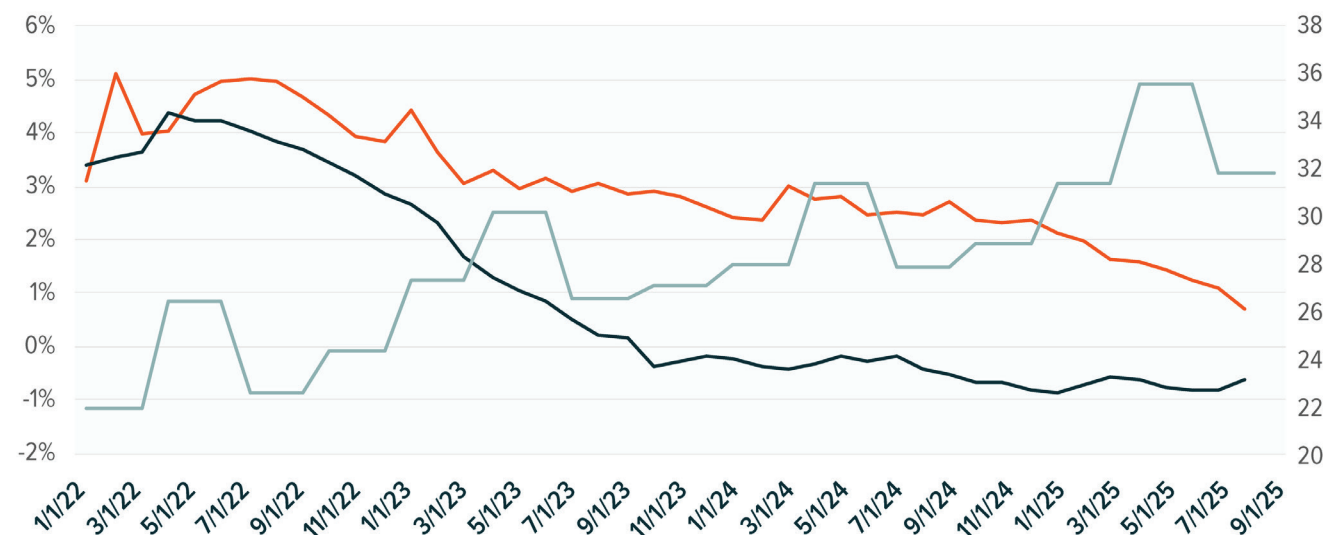
CAPEX TO BUILD INDUSTRIES OF THE FUTURE

The current capital expenditure cycle, which has been critical in sustaining above-trend growth, presents something of a conundrum. The cycle has been driven by investments in AI and automation, yet

U.S. construction and manufacturing employment has declined despite a 17% increase in capital spending over the past three years.²⁶ The question now is whether hiring improves, given the scale of investment and the policy push to strengthen U.S. manufacturing.

SUSTAINED CORPORATE INVESTMENT, DISAPPEARING INDUSTRIAL EMPLOYMENT

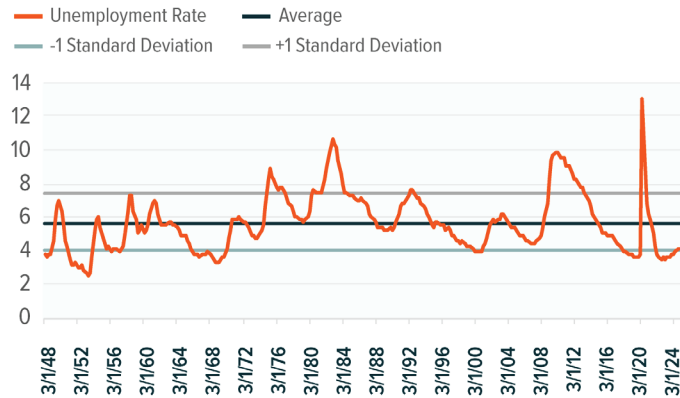
3-Month Change in Construction Jobs, LHS — 3-Month Change in Manufacturing Jobs, LHS
S&P 500 Quarterly CapExp per Share, RHS



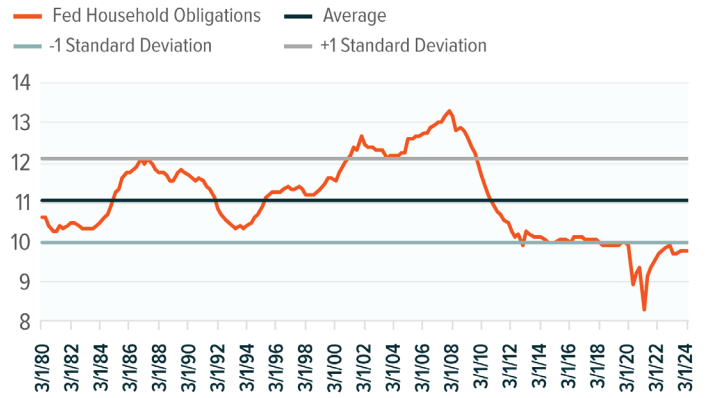
Source: Bloomberg as of September 30, 2025.

Typically, the U.S. economy only falls into recession if one of the three factors breaks down: the labor market hits a serious slump; household leverage becomes unsustainable; or liquidity dries up and funding becomes scarce.²⁷ Another key metric is nominal GDP compared to the 10-year Treasury rate. While the economy is likely more vulnerable to a slowdown relative to the past two years, these critical factors remain reasonably healthy.

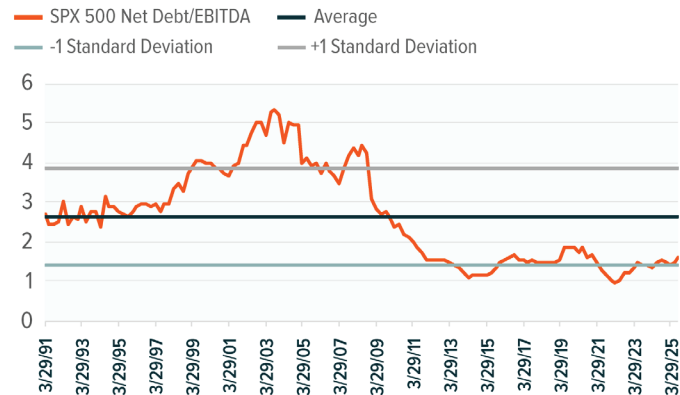
UNEMPLOYMENT RATE



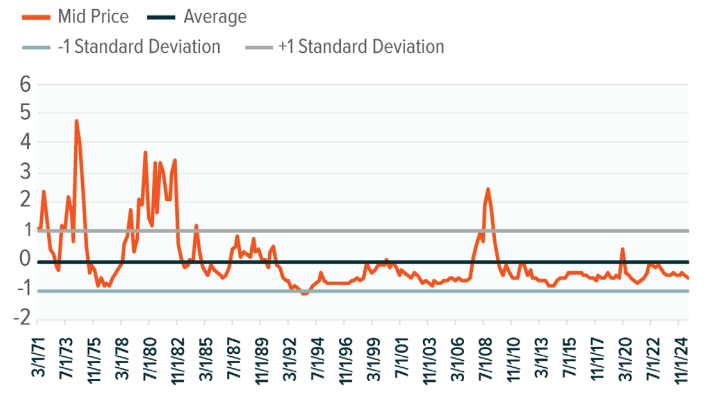
FED HOUSEHOLD OBLIGATIONS



S&P 500 NET DEBT / EBITDA



CHICAGO FED FINANCIAL CONDITIONS



Source: Bloomberg as of September 30, 2025.

Typically, the U.S. economy only falls into recession if one of the three factors breaks down: the labor market hits a serious slump; household leverage becomes unsustainable; or liquidity dries up and funding becomes scarce.

02

Economic and Market Mysteries Unraveled

► *Secular Change Driving Contradictions*

Valuation and Sensitivity to Assumptions

Geopolitics of an Evolving World Order

Strategies for 2026

Secular Change Driving Contradictions

THE CURIOUS CASE OF THE AUTOMATION AGE

THE ECONOMIC CHANGES BROUGHT BY AI, which automates cognitive tasks, and robotics, which automates physical activities, are likely akin to past industrial revolutions.

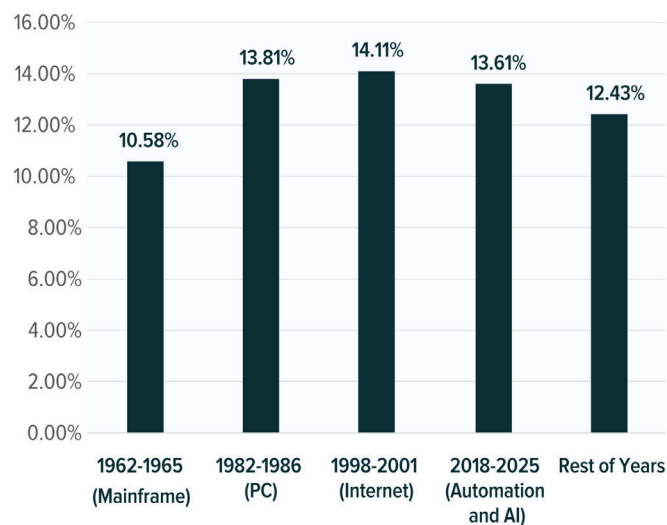
The question weighing on markets and investors is whether investments in these technologies are justified. Not only is the spending likely justified, but the capital investment is consistent with prior innovation booms.²⁸ Current nonresidential investment as a percentage of GDP is below the rollout of the PC and the development of the internet. There could be even more fuel in the tank.

Collectively, the mega-cap tech NYSE FAANG+ companies have spent roughly \$200 billion per year since 2024 to build the infrastructure needed to support AI and automation.²⁹

The pace of deals and announcements in recent months has been staggering. Nearly every major chip manufacturer has announced a significant transaction, underscoring the race to bring more processing capability online.

Performance data show the setup remains pretty favorable for investment. Since Q1 2023, analysts have consistently underestimated S&P 500 corporate profits, largely due to better-than-expected revenue growth and consistent profitability.³⁰ In fact, large-cap companies are very profitable, with margins now approaching 14%.³¹ Despite these strong margins, analysts have also consistently underestimated operating expenses. AI is expected to drive costs savings, which will be critical to assessing the long-term value of these investments.

NONRESIDENTIAL INVESTMENT AS % OF GDP



Source: St. Louis Federal Reserve (FRED) as of October 30, 2025.

CAPITAL INVESTMENT CONSISTENT WITH PRIOR INNOVATION BOOMS

With current nonresidential fixed investment as a percentage of GDP below the rollout of the PC and internet, there could be more fuel in the tank.

Overview

THE 2025 SILICON SPRINT: A TIMELINE OF THE AI CHIP RACE

Source: Bloomberg as of November 14, 2025.

1

AUGUST 22

The U.S. government announced it was converting existing grants into a 10% equity stake in **Intel**.

2

SEPTEMBER 10

OpenAI signed a multi-year cloud contract with **Oracle** (dubbed "Project Stargate") for reportedly around \$300B worth of AI computing capacity.

3

SEPTEMBER 22

Nvidia made a reported \$100B investment commitment to **OpenAI** to help fund the construction of AI data centers.

4

SEPTEMBER 25

CoreWeave expanded its existing infrastructure agreement with **OpenAI** by an additional \$6.5B, bringing the total value to over \$22B.

5

SEPTEMBER 30

CoreWeave secured a \$14.2B AI infrastructure contract with **Meta**.

6

OCTOBER 6

AMD and **OpenAI** announced a strategic, multi-year partnership to deploy 6 gigawatts of AMD GPUs, with OpenAI committing to purchasing bullions in hardware. **Nvidia** made a \$5B investment in **Intel**.

7

OCTOBER 13

OpenAI and **Broadcom** announced a strategic collaboration where Broadcom will design custom chips, reportedly a 10-gigawatt deal.

8

OCTOBER 31

Nvidia secured deals with **Samsung**, **Hyundai**, and **SK Group** in South Korea to deploy over 260,000 GPUs to boost AI and manufacturing capabilities.

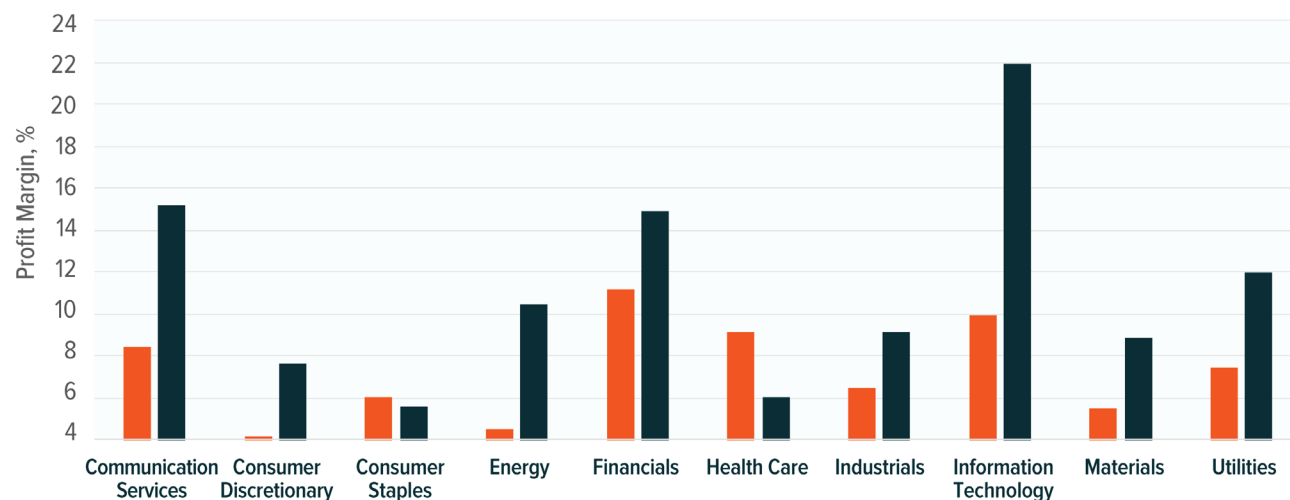
9

NOVEMBER 3

OpenAI and **Amazon Web Services (AWS)** signed a seven-year, \$38B cloud services deal. **Microsoft** announced plans to invest nearly \$8B in data centers and AI in the UAE over the next four years.

MARGIN IMPROVEMENTS SPREADING ACROSS ECONOMY

— 1991-2021 — 2022-2025

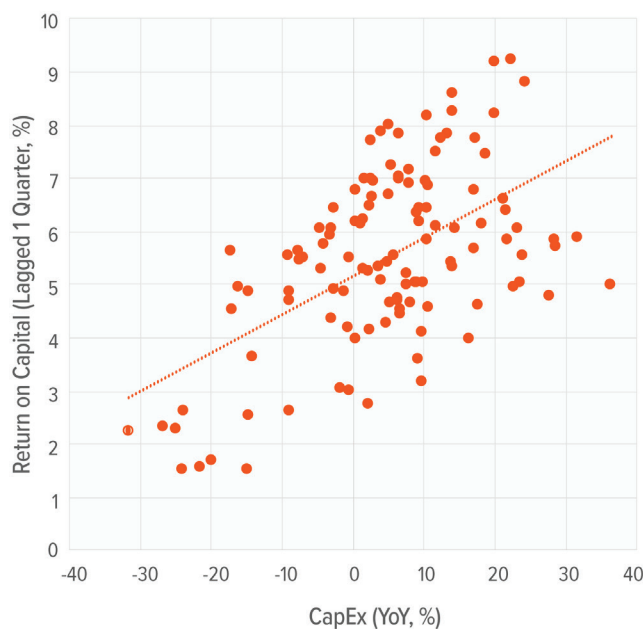


Source: Bloomberg as of November 14, 2025.

For investors, it's notable that companies are usually adept at determining productive investment opportunities. Not every investment works out, but since the mid-1990s, companies generally increase capital spending when the return on capital is favorable.³² While AI infrastructure like data centers has dominated capex recently, the fact that the spending is distributed broadly across the economy is encouraging. For example, the top 10 capex spenders accounted for 38% of investment in the trailing 12-months ending third quarter 2025.³³ That group includes mega caps like Microsoft, Google, and Amazon, but it also includes diverse names such as Exxon, Walmart, NextEra, and AT&T.

While AI infrastructure like data centers has dominated capex recently, the fact that the spending is distributed broadly across the economy is encouraging.

COMPANIES OFTEN KNOW WHEN TO INVEST, 1996-2025



Source: Bloomberg as of November 14, 2025.

CAPITAL SPENDING DISTRIBUTED BROADLY ACROSS THE ECONOMY

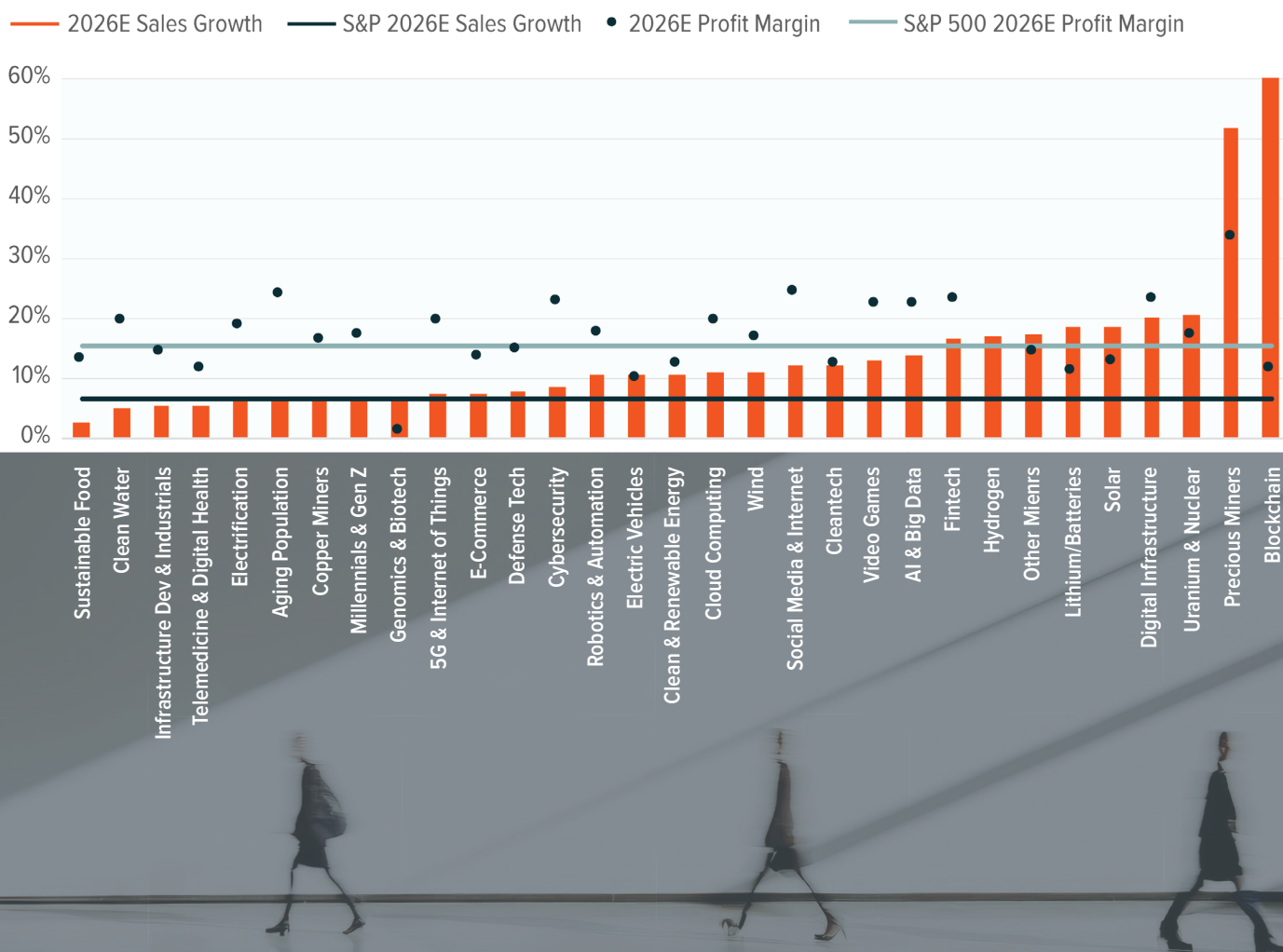
U.S. large caps are generally good at assessing investment opportunities. Capex increases are followed by improved returns on capital, and this investment cycle might follow the same pattern.

THE RACE TO THE MODEL T HUMANOID

The Ford Model T became an icon of efficiency delivered to the mass market. You could get it in any color you wanted—provided it was black. In sharp contrast, today’s technology emphasizes customization. A co-evolution of industrial automation and agentic consumer-focused tools is likely to unfold, helped by the adoption of collaborative robots (cobots), that work alongside humans to complete tasks.³⁴ Signs of this transformation are already evident in the balance sheets of traditional industries. Seemingly stodgy sectors like industrials, materials, and utilities have almost doubled profit margins over the last half decade, helped by automation.³⁵

Several more targeted themes have strong projected revenue growth and sound profitability, including digital infrastructure and parts of the renewable energy market. For example, the AI hardware and software firms supporting data centers and uranium and nuclear providers are expected to generate revenue growth of 14-21%, or at least double that of the S&P 500 in 2026.³⁶ The AI and data centers segments are forecast to deliver profit margins of 16% during that span. Firms tied to increased global competition in the Defense Tech, Cybersecurity, and Robotics themes are forecast to grow revenues by 8-10%.³⁷ The Infrastructure Development, Electrification, and Copper Miners themes are likely to have positive tailwinds.

MANY THEMES MAINTAIN BETTER PROSPECTS FOR 2026 THAN THE BROAD MARKET





Valuation and Sensitivity to Assumptions

TENDER IS THE MARKET

THE PATH OF LEAST RESISTANCE FOR U.S. equities is likely higher, supported by corporate investment that lowers operating costs and reinforces fundamentals alongside lower interest rates.

While mean reversion is a common assumption—especially after three consecutive years of double-digit returns—markets can stay elevated for extended periods. In the 1920s, the Dow moved higher in eight of 10 years.³⁸ In the 1980s and 1990, markets advanced for 134 to 254 weeks in three separate periods, generating returns from 39% to 203%. The advance from 2013 to 2021 lasted 456 weeks and returned over 200%.³⁹

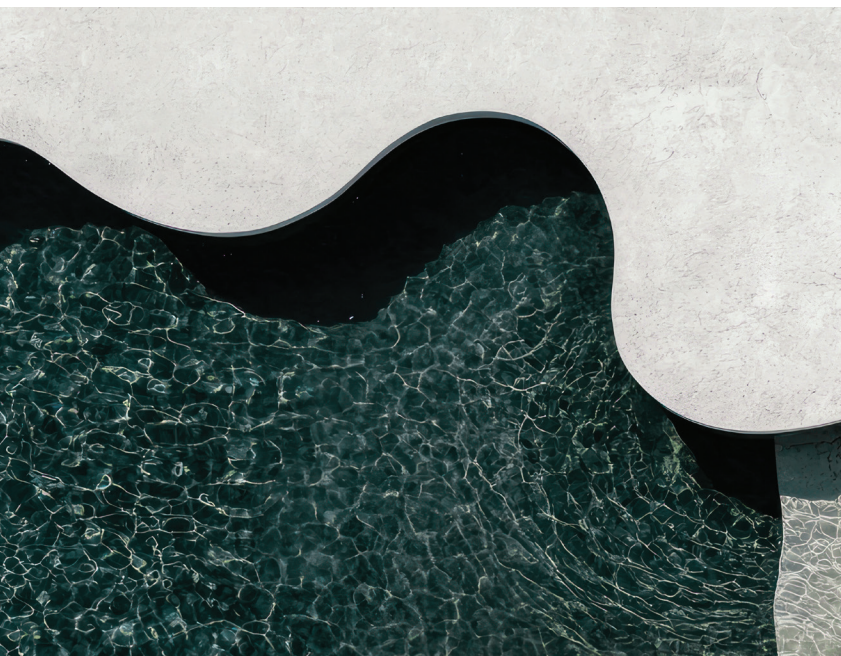
ETF flows showed equities remained a preferred asset class in the first 10 months of 2025, with strong market performance driving \$1.4 trillion of inflows.⁴⁰ Thematic and international strategies attracted interest as investors looked to diversify away from broad indexes amid rising concentration risk and potential valuation risk. Fixed income flows

were high as a percentage of assets, with over \$500 billion of inflows accounting for over 20% of total assets. Commodities and alternatives each had inflows of around \$75 billion.⁴¹ Money markets drew assets, though the pace slowed as the intermediate segment of the yield curve improved.

Growth expectations have fluctuated but held up. The consensus real GDP forecast for 2025 opened at 2.1%, was revised down to a low of 1.7%, and recently edged higher to 1.9%.⁴² Inflation expectations at about 2.7% puts nominal growth at roughly 4.6%, which is lower than the recent trend closer to 6% but still healthy. Consensus expects real GDP to slow modestly to 1.8% in 2026 and then reaccelerate to 2.0% in 2027.⁴³ Importantly, GDP forecasts have consistently underestimated growth since 2022.

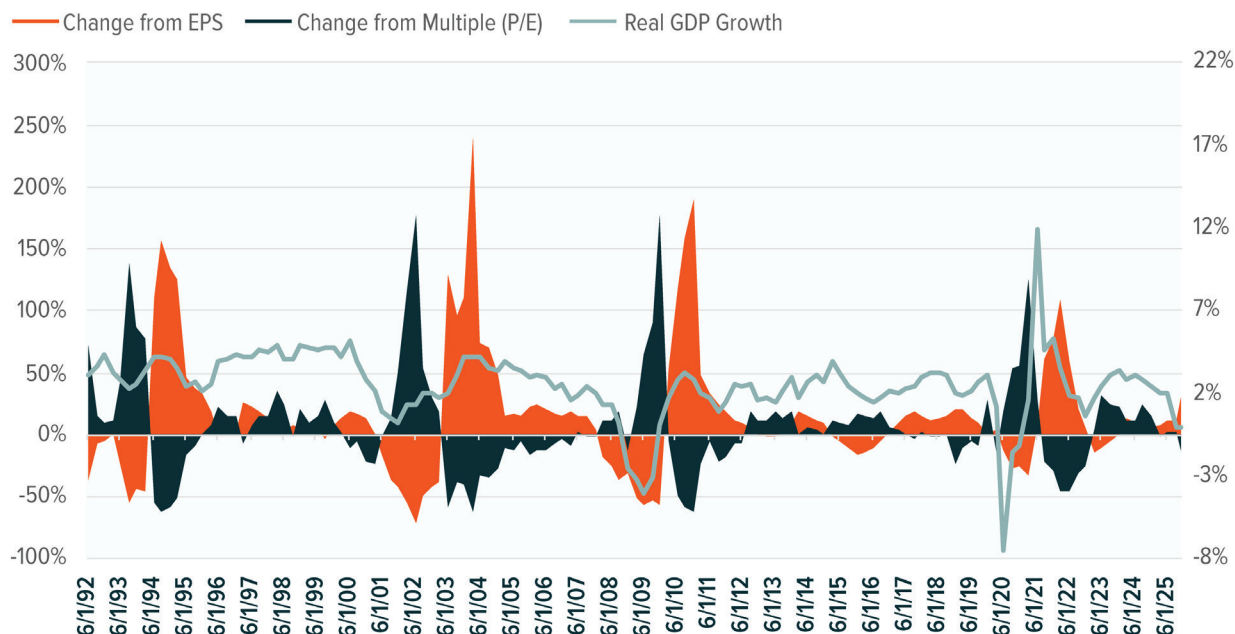
MARKET RESILIENCE AND FURTHER UPSIDE

The modest slowdown in economic growth has likely fueled the perception that expanding multiples and high expectations are responsible for 2025's market advance. The data say otherwise. Earnings have driven the market since 2024.⁴⁴ Multiples are higher but largely in line with improving profit margins, a topic we covered in [The Best Defense Is a Good Offense and Inflection Points at Mid-Year: Favorable Winds, Choppy Seas.](#)⁴⁵ When companies generate more cash flow and margins expand, multiples should adjust to reflect strong future earnings. If margins were mean reverting and multiple improvement unsustainable, expectations for future growth would be propping up the market.⁴⁶ Currently, that is simply not the case, as margin growth has proved sustainable.



The modest slowdown in economic growth has likely fueled the perception that expanding multiples and high expectations are responsible for 2025's market advance. The data say otherwise.

S&P 500 GAINS IN PRIOR YEARS DRIVEN BY EPS



DATA NOT HYPE

Changes in equity valuations can be driven by fundamentals and expectations. Strong corporate performance rather than sentiment seems to be driving valuation expansion.

Source: Bloomberg as of November 14, 2025.

The embedded valuation assumptions appear reasonable. Given consensus cash-flow forecasts for 2026-2028 and the cost of capital just above 10%, markets imply long-term growth or nominal GDP growth of about 4.6%, in line with the 25-year average.⁴⁷ This rate compares with the roughly 6%

nominal growth in the 1980s and 1990s, prior to the era of financial repression, and about the same 6% rate since COVID's end. The S&P 500 has been running topline growth of 4.8% since the start of 2024.⁴⁸

S&P 500 SENSITIVITY ANALYSIS

			Cost of Capital			
			25-Year Low 12/31/2000			25-Year High 9/30/2025
			6.9%	8.0%	9.0%	10.0%
GDP Growth (Terminal Growth)	Bear (-1 SD)	1.6%	6,769	5,808	4,845	4,532
		4.0%	11,780	8,976	6,737	6,118
	25-Year Average	4.6%	14,612	10,466	7,500	6,729
		4.8%	15,902	11,087	7,797	6,964
		5.0%	19,352	12,596	8,476	7,491

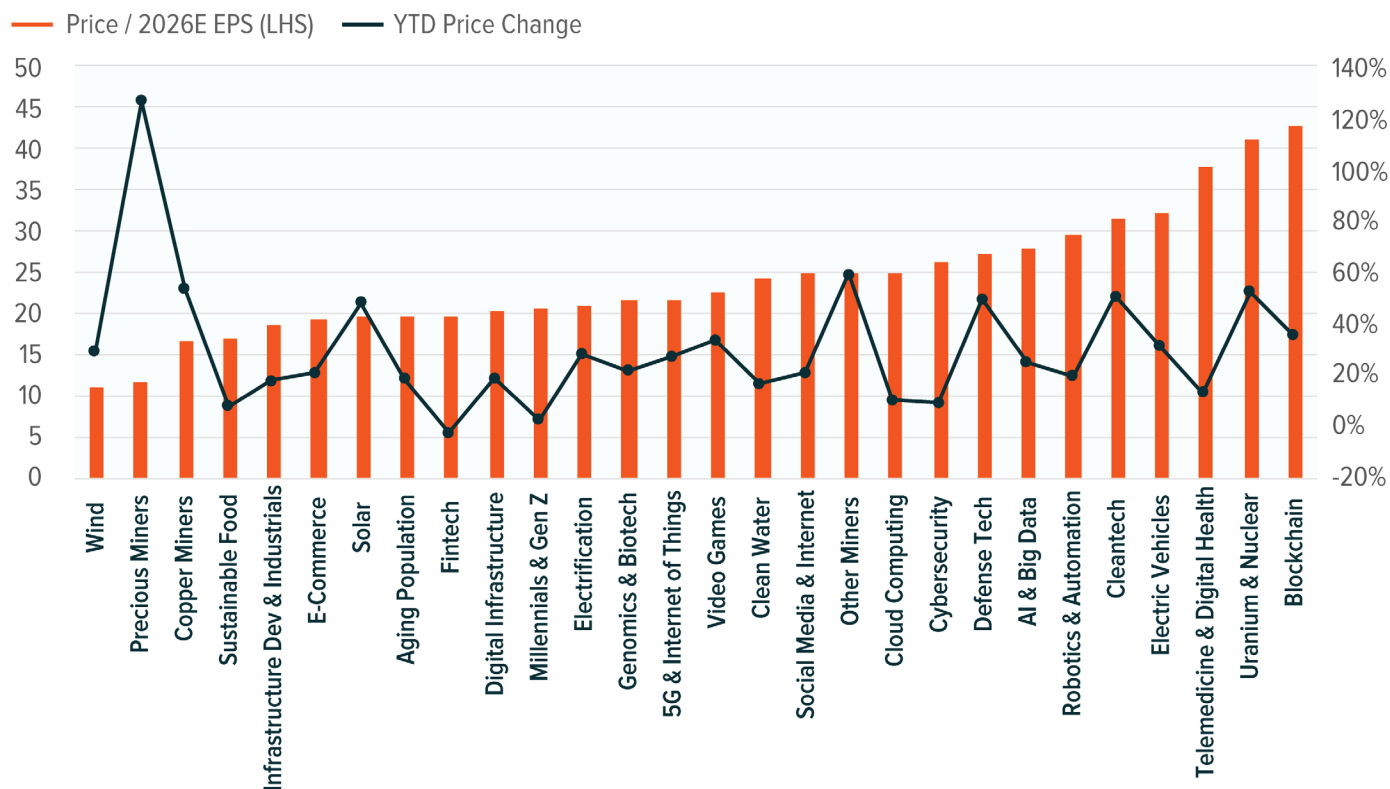
Source: Bloomberg as of November 18, 2025.

This dynamic is why profit margin and productivity matter. If top-line growth holds and companies become a little more profitable through automation, embedded growth assumptions are reasonable. Layer on a 50-basis-point reduction in the cost of capital, closer to 9.5%, and the S&P 500 could advance further in 2026.

Bond rates could play a role. The cost of capital in part tracks the 10-year Treasury, which has traded in a reasonably stable range of 3.5-4.5% in 2025.⁴⁹ Short-term rates at 4% could mean that real rates—the short-term rate less inflation—are above the normal 1% rate. Current consensus is for 25-basis-point cuts in Q1 and Q2 2026, which we believe is too hawkish.⁵⁰ Intermediate-duration bond pricing could remain steady as growth expectations improve, but the Fed's labor market concerns potentially outweigh its inflationary concerns.

Selective themes could offer reasonable valuations or attractive entry points. Digital infrastructure and data centers are currently priced at a discount to the S&P 500 based on 2026 expected earnings, which could be an opportunity to neutralize an underweight to AI or tech.⁵¹ Copper miners sold off on tariff concerns, as China remains a large purchaser, but if the October 2025 trade pact holds, they could offer reasonably priced exposure to AI investment and improved trade relations. Infrastructure development, fintech, and parts of the healthcare themes can all benefit from increased automation.

VALUATION ACROSS THEMES



Source: Bloomberg as of November 14, 2025.



Economic and Market Mysteries Unraveled

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Strategies for 2026

Geopolitics of an Evolving World Order

NO FAREWELL TO ARMS

THE GEOPOLITICAL LANDSCAPE is likely to weigh on markets yet again in 2026, though investors spent much of this year climbing the wall of worry.

Ordinarily, when policy uncertainty is around average, the S&P 500 returns a little above 1% monthly.⁵² As policy uncertainty declines, equities return 5% monthly. A one standard deviation increase in policy uncertainty drives average monthly returns to zero and then negative beyond that. Yet, even with elevated policy uncertainty, equities rallied in 2025.

Tariffs have created inflation and likely proved a modest drag on expansion, but the net economic impact thus far seems modest. Deals with several major trading partners remain elusive with rates hovering from 10%-50%, but the U.S.-China negotiation framework that keeps current trade terms in place offers hope.⁵³ Some parallels exist with the 1920s, when the U.S. passed the Fordney-McCumber Tariff to protect U.S. farmers and

manufacturers after Europe's economy recovered from World War I.⁵⁴ But the global economy is much more intertwined today, and the U.S. is attempting to reach terms with individual countries that include investment or export agreements rather than set a blanket rate.

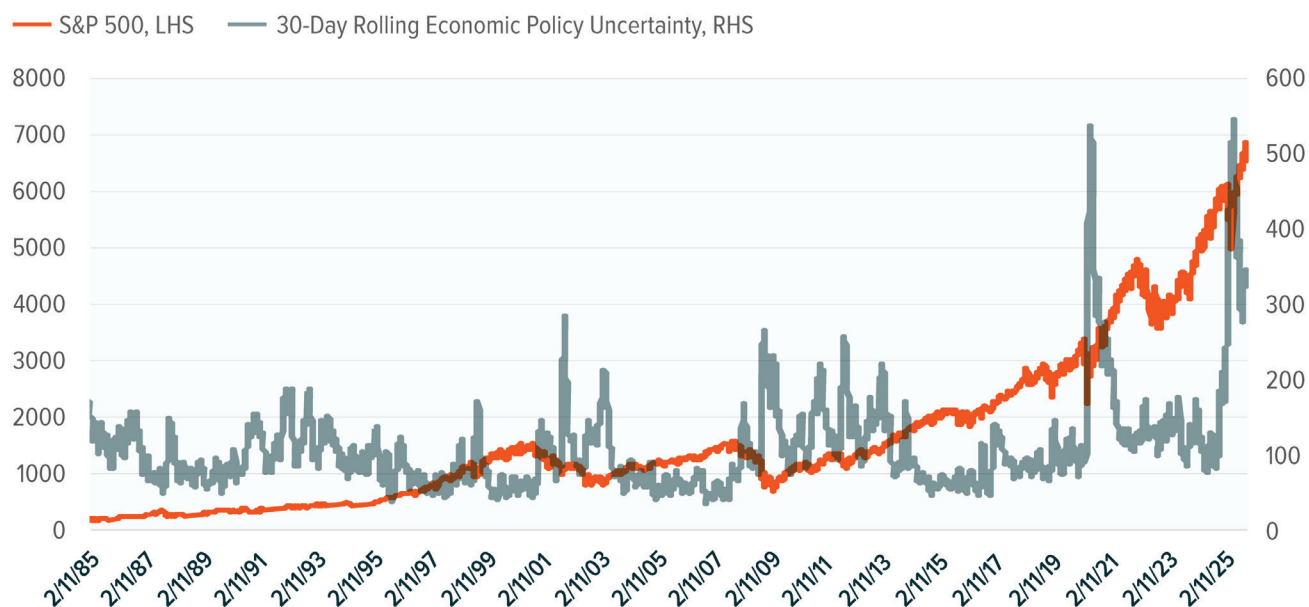
Several trade-related events could impact markets in 2026, including the U.S.-Mexico-Canada Trade Agreement (USMCA), which is up for renegotiation. Discussions were contentious in 2017 and 2018 when the pact was negotiated, and relations between the countries are currently strained.⁵⁵ One of the reasons the White House agreed to the China pause may have been in anticipation of challenges with the North American trade partners.

Another event is the U.S. midterm elections in November 2026. Democrats seem poised to gain

Deals with several major trading partners remain elusive with rates hovering from 10%-50%, but the U.S.-China negotiation framework that keeps current trade terms in place offers hope.

seats, though redistricting and partisan divides within parties add uncertainty.⁵⁶ The Democrats won governorships recently with affordability-focused candidates, so it will be interesting to see if the White House pursues policies aimed at stability ahead of the elections.

US EQUITIES ADVANCE, POLICY UNCERTAINTY ELEVATED



Source: Bloomberg as of November 14, 2025.

CLIMBING THE WALL OF WORRY

Equities typically perform better when geopolitical uncertainty is low. Breaking from this trend, U.S. equities have continued to move higher despite elevated policy uncertainty.



MULTI-POLAR WORLD OR DECENTRALIZED DETERRENCE

Major shifts in regional power dynamics continue. In Asia, Japan has been altering its military toward a more offensive stance, a significant change from the defensive posture it maintained since the end of World War II.⁵⁷ The shift points toward decentralized deterrence, with allies assuming larger roles alongside, or even in lieu of, the U.S. in containing threats. The U.S. is not pursuing an isolationist strategy, but attempting use allies as force multipliers in theaters around the globe.⁵⁸

In the Middle East, Israel's operations against Iranian

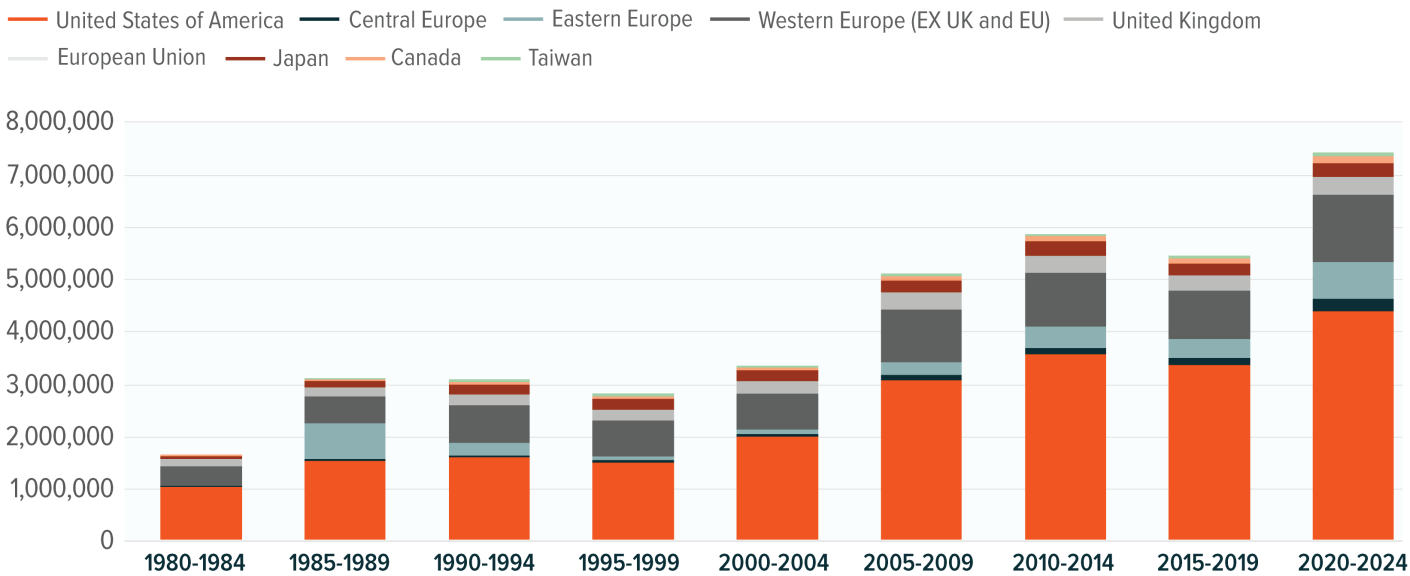
proxies Hezbollah and Hamas, along with the 12-day Israel-U.S. air campaign that culminated in strikes on sensitive Iranian nuclear sites, reshaped the region's power dynamics.⁵⁹ Israel and Turkey increasingly look like potential regional hegemons.

In Europe, defense budgets and spending have risen sharply as the Ukraine-Russia conflict and shifting U.S. influence push the Continent to take a more active role. For years, the U.S. served as NATO's guarantor, effectively underwriting European defense, but now Washington is encouraging greater self-reliance.⁶⁰ The shift better positions Europe for a decentralized deterrence paradigm.

In South America, Argentina’s political leadership survived a series of tight elections and has garnered strong support for continued economic reforms from the U.S.⁶¹ Chile voted in favor of a right-wing party, a major change following efforts to oust conservative leadership in 2019. Markets generally responded positively to those

developments. Meanwhile, Brazil’s relationship with the U.S. is strained due to tariffs. Also, U.S. naval engagements on Venezuelan boats suspected of carrying drugs have tensions elevated.⁶² This conflict ties to Venezuela’s threat to seize territory in neighboring Guyana and U.S. offshore oil resources.

GLOBAL DEFENSE SPENDING CONTINUES TO INCREASE (IN MILLIONS)



Source: Data from SIPRI through 2024.

DEFENSE SPENDING GROWING MORE GLOBAL

Global defense spending has grown meaningfully in recent years as geopolitical tensions rise. The U.S. continues to lead, but partners like Europe and Japan are making larger allocations given regional challenges.

05

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WHAT WOULD GATSBY DO?

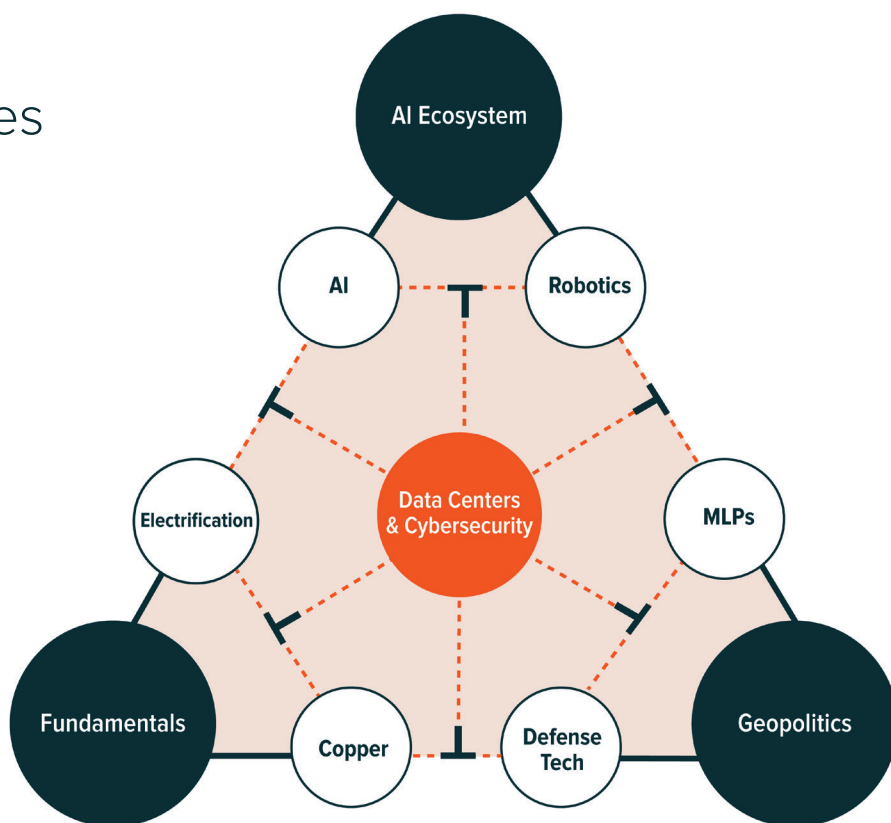


OVERVIEW

We believe there is ample reason for broad optimism on the U.S. economy and risk assets heading into 2026. However, we also believe 2026 sets up for more targeted thematic exposures. To help navigate current conditions, there are three strategies for 2026 investors may want to consider.

Converging Themes

The triangle framework illustrates the macro forces that form interlocking pillars, proving that compute demand, physical infrastructure, and global power dynamics are no longer separate domains but deeply interconnected drivers of the same transformation cycle.



1

THE AI ECOSYSTEM

Automation likely remains critical to future growth and profitability. Think broadly about industries tied to this secular change.

2

FUNDAMENTALS & VALUATION

There may still be themes with attractive valuations and strong fundamentals despite the recent broad market advance.

3

GEOPOLITICS

Shifting landscapes can unearth new opportunities despite elevated uncertainty.

AI'S PROVE-IT MOMENT

The AI ecosystem is likely to remain a compelling investment given the expected impact of automation across the economy. The most direct route is investing in the companies developing and delivering the AI software and hardware solutions.⁶³ Exposure to mega-cap tech is important, but other players are critical to the buildout and adoption as well.

For example, the AI and data-center buildout needs power, making utilities and energy providers critical. Uranium and nuclear power continue to garner attention as dependable base-load options, and deployment of small modular reactors offers the potential for powering data facilities without increasing retail utility bills.⁶⁴ Also, more countries managing their energy costs amid growing demand add an international tailwind. A more conservative option is the Electrification theme, which includes utility companies and grid developers.

FUNDAMENTALS AND VALUATION

Finding attractively valued assets with strong fundamentals has become more challenging as markets have risen, but data centers stand out.⁶⁵ Data storage and processing needs keep hitting new highs, and operators typically benefit from strong margins because switching providers is costly and time-consuming. Low vacancy rates also give them pricing power. This segment still offers a revenue link to AI adoption, but through facility operators and their suppliers, with characteristics similar to infrastructure owners or utilities.

We believe copper miners remain reasonably valued. Materials extraction firms may not offer the best margins given the asset-heavy nature of production.⁶⁶ However, valuations pulled back during the peak of the trade disputes as investors worried that U.S. tariffs might slow China, a major copper customer, or constrain supply creating a backlog. Neither risk has materialized, but the stocks have been slow to reprice. Given rising data-center

demand and broad infrastructure requirements across major economies, copper seems attractive.

U.S. infrastructure valuations look compelling.⁶⁷ The tariffs on steel, aluminum, and copper may support profitability of U.S.-domiciled producers that sell most of their goods within the U.S. market.

THE EVOLVING WORLD ORDER

Technology is becoming a decisive strategic advantage on the battlefield, as evidenced by conflicts in Ukraine and the Middle East. Drone technologies, sensors, satellites, and image-recognition software provide an edge, and many of them now come off the shelves of tech companies rather than being built directly for the military.⁶⁸ This model could lower the cost of production and speeds deployment, potentially supporting margin expansion in an industry traditionally reliant on large platforms such as aircraft carriers or tanks. A related theme is cybersecurity. What was once a cyclical boom-bust business has evolved into a recurring, cloud-based service business.⁶⁹ Many cybersecurity companies are both profitable and rapidly growing.

Energy infrastructure is compelling. The U.S. is now the world's largest exporter of oil and gas, and ongoing tariff negotiations have leaned on higher export volumes as a way to narrow trade deficits.⁷⁰ That dynamic should help drive demand for access to the pipelines that move oil and gas. Traditionally held in a Master Limited Partnership (MLP) structure, these companies can also be c-corps providing more freedom to reinvest revenue and drive improved efficiency.

Robotics and the automation of physical tasks are likely to shape economic leadership in the years ahead. Robots, once limited to auto-manufacturing plants, now appear in more industrial settings and areas like construction, insurance, and utilities.⁷¹ Amazon, for example, has set a gold standard in using robotics to drive efficiency in fulfillment centers. Meanwhile, Google is working to bring self-driving Waymo taxis to multiple U.S. markets.

Appendix

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