

Industrials Reimagined: How AI, Electrification, Defense, and Infrastructure Are Reshaping the Opportunity Set

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Q&A with Brannon Cook, Portfolio Manager and Global Industrials Analyst

Industrials have often been viewed as cyclical, value-oriented businesses tied closely to traditional economic activity. Today, however, the sector is being reshaped by a set of powerful secular forces that are creating growth opportunities across market capitalizations, geographies, and investment styles.

In this Q&A, Brannon Cook discusses why industrials have become more compelling, how AI-related data center demand is flowing through the physical economy, and where infrastructure may fit in client portfolios.

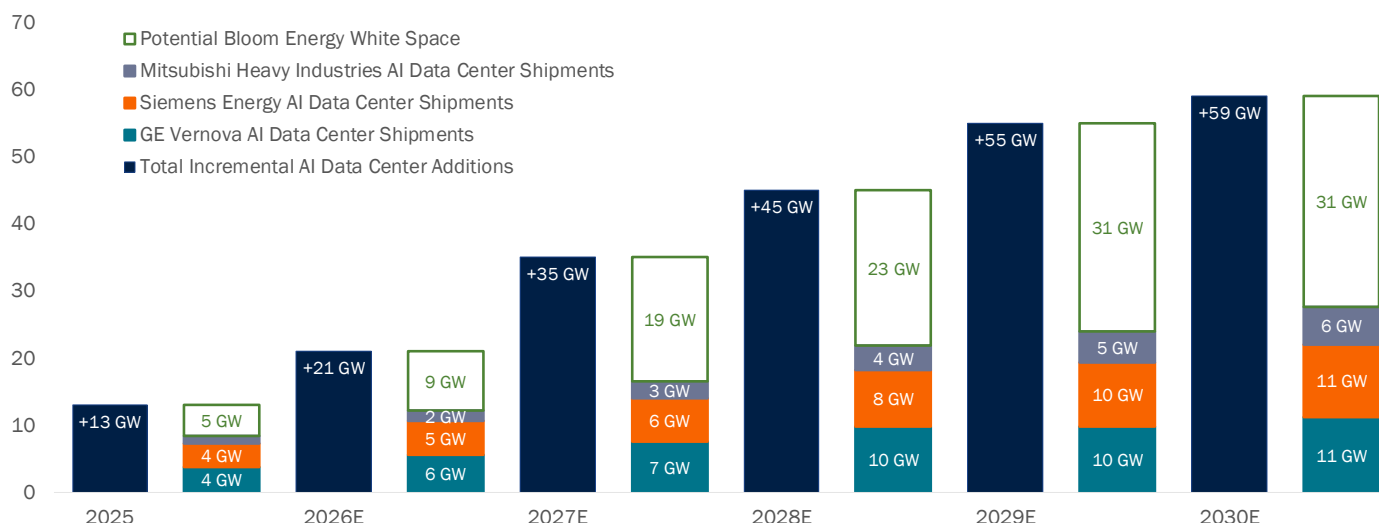
Why are industrials attracting renewed investor interest?

Q: Industrials have historically been rooted in value strategies. What is driving the recent increase in exposure across portfolios?

A: The sector is benefiting from several secular growth drivers that could persist through the remainder of the decade. Data center growth is among the most visible (shown below), but it is only one part of the story. Electrification and decarbonization are reshaping energy systems, while U.S. megaprojects are supporting a new wave of domestic manufacturing investment. Global defense recapitalization is creating another long-duration demand cycle, and air travel continues to benefit from rising GDP per capita and increasing travel penetration in emerging markets.

Taken together, these forces are broadening the opportunity set within industrials. While some end markets remain cyclically depressed, others are experiencing unusually strong visibility and growth, creating a more differentiated backdrop than a typical industrial cycle.

Forecasted Data Center Growth Expected to Fuel Demand for Incremental Power



Source: Jennison, Company Reports. Figures after 2025 are estimates.

How is AI-driven data center demand affecting industrial companies?

Q: Where is data center growth creating the most meaningful industrial demand?

A: Data centers are driving outsized growth across four major areas: power, construction, HVAC, and electrical equipment. Power is especially constrained because many data centers face long interconnection delays before they can connect to the grid. As a result, hyperscalers are increasingly exploring onsite power solutions, including gas turbines, diesel engines, fuel cells, and other alternatives.

The ripple effects are significant. Data centers require large-scale construction, scarce skilled labor, extensive cooling systems, and substantial electrical equipment to distribute power across the site. HVAC providers, for example, are seeing data centers become a much larger share of revenue, with long-term aftermarket service needs creating a durable tail of recurring demand.

Can value investors still find opportunity in a growthier industrial backdrop?

Q: With many industrial companies benefiting from secular growth, how can investors still find value?

A: The value opportunity often lies in companies where the stock price does not yet reflect improved fundamentals. Turnarounds are particularly attractive when a company has strong end-market exposure but has been mismanaged or under-earning relative to its potential. Johnson Controls was cited as one example: a company with relevant HVAC and data center exposure, but also a history of conglomerate complexity and operational underperformance. A new leadership team and operational improvements have created a path for better execution.

Importantly, the sector is not uniformly strong. Broader industrial activity has been weak for several years, and areas such as transportation, autos, housing-related industries, and consumer-linked industrial markets remain more challenged. That dispersion creates opportunities to identify businesses with improving fundamentals before the market fully recognizes them.

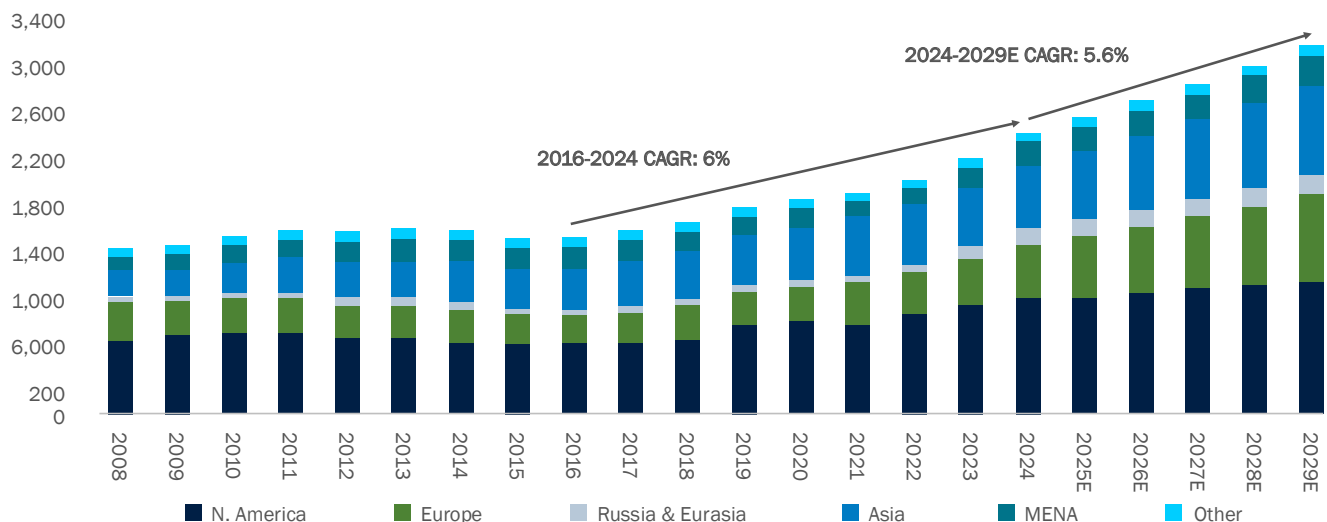
What is changing in defense?

Q: How is the current defense growth cycle different from previous cycles?

A: The current environment reflects a broad global rearmament cycle across the U.S., Europe, Asia, the Middle East, and other regions. Europe is especially notable given years of underinvestment in military capability. Germany, for example, had thousands of main battle tanks in the 1980s but far fewer today. Rebuilding those capabilities could take a decade or more, providing unusually long visibility for selected defense companies.

Global Defense Spending is Expected to Soar

World defense spending, 2008 – 2029E (current \$, bn)



Source: The Military Balance, Renaissance Strategic Advisors, as of May 2025. Figures after 2024 are estimates.

Defense technology is also evolving. Autonomous systems, drones, naval platforms, and software-enabled defense capabilities are attracting significant investment and startup activity. While the path for every company remains uncertain, the direction of travel is clear: governments are prioritizing defense readiness, and capital is flowing into new technologies that could reshape the industry.

Why is infrastructure compelling today?

Q: How do these industrial themes translate into the infrastructure opportunity?

A: Many of the same secular forces that support industrials also support infrastructure. Utilities benefit from rising electricity demand. Midstream energy infrastructure benefits from the need for natural gas to support data center power. Communications infrastructure can gain exposure to data center-related assets. Even traditionally “sleepy” infrastructure categories are becoming more dynamic as AI and electrification increase demand for physical assets.

The infrastructure strategy focuses on companies with fixed assets, high barriers to entry, inelastic demand, inflation-linked pricing, and often regulated or contractually supported revenue streams. Examples include toll roads, airports, rail networks, utilities, and midstream assets. These characteristics can provide equity-like return potential with lower volatility, while also offering inflation protection and liquidity relative to private infrastructure exposures.

Q: What are the key investment takeaways?

A: In our view, industrials are no longer just a cyclical value category. The sector is increasingly tied to some of the most important investment themes of the decade: AI infrastructure, electrification, reshoring, defense modernization, aerospace demand, and infrastructure renewal. That does not mean every industrial company is attractive. Dispersion remains high, and valuation discipline is still essential. But for investors willing to look across style boxes and market capitalizations, the sector offers a deeper and more dynamic opportunity set than it has in many years.

The fundamental characteristics of infrastructure create attractive income and capital appreciation potential:

High barriers to entry	■ High development costs, regulation and geography serve as barriers to entry ■ Capital intensive, large-scale projects ■ Limited competition ■ Prices are a function of the regulatory or concession framework
Inelastic demand	■ Essential services ■ Lower sensitivity to the business cycle
Stable cash flows	■ Stable user demand ■ Long-term revenue certainty (long-lived assets) ■ Contractual and regulated revenue streams provide predictability
Inflation pass-through mechanism	■ Contractual and regulated pricing may provide inflation protection relative to other real assets (e.g., REITs, commodities, timber, etc.) ■ Concessions permitting rent escalations linked to CPI ■ CPI-linked long-term contracts ■ Nominal regulated allowed rate of return
Regulated / government oversight	■ Regulated nature can often serve to enhance cash-flow predictability and lower financial risk



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Brannon Cook is a global infrastructure portfolio manager and research analyst covering global transportation and related industries. He joined the firm in 2008. Previously, Brannon was with J.P. Morgan Chase & Co., where he was a vice president and senior analyst covering transportation and industrial companies. Before moving to equity research, Brannon worked at J.P. Morgan Chase & Co. as an analyst within the mergers and acquisitions group. He received a BSBA from Washington and Lee University.

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