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Why Europe's power and resources opportunity can cope with AI jitters

Investment strategy insights

Author: Matthew Carter, Strategist, UBS AG London Branch

- Power and electrical infrastructure stocks have been caught in the repricing of AI-related investments, as investors question the pace, cost, financing, and location of data center development.
- But committed projects, multiyear equipment backlogs, and demand from electrification and energy security suggest that a slower or more geographically dispersed buildout would not end the investment cycle.
- We favor a diversified approach spanning power and resources equities, operational infrastructure with visible income, and broad commodities.



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The digital economy has a physical foundation. Data centers need electricity, cooling, backup generation, and connections to the grid. Electrification requires transmission networks and storage. Building these systems also requires copper, aluminum, and other essential materials.

Investors have recently questioned whether the scale of artificial intelligence (AI) spending can be sustained. Power and electrical infrastructure stocks fell sharply as markets reassessed how changing US politics could affect data center permitting, grid access, water consumption, and development costs. Higher interest rates and concerns about whether AI investment will generate sufficient profits have also added to the pressure.

These risks are real. More demanding regulation could delay projects, raise costs, or move development to different locations. Higher financing costs can also reduce the value of companies and infrastructure assets whose returns lie far in the future. But tighter rules are more likely to change where and when capacity is built than eliminate the underlying need for electricity and enabling infrastructure.

Projects already under construction or in advanced planning have substantial capital committed. Equipment suppliers continue to report healthy orders and multiyear backlogs for transformers, switchgear, gas turbines, cooling systems, and backup generation.

Proposed US data center capacity of around 400 gigawatts also significantly exceeds our intentionally conservative assumption of roughly 90 gigawatts being built by 2030. This leaves room for weaker or less executable projects to be postponed or canceled without undermining the wider investment cycle.

Demand is also geographically diverse. The US remains an important engine, but recent earnings indicate strong momentum in Asia and other international markets, alongside early signs of recovery in European automation and construction. European industrial companies can therefore provide exposure not only to domestic investment but also to spending on electricity systems, automation, and infrastructure around the world.

The opportunity extends beyond AI

Power and resources should not be treated simply as an indirect technology trade. Electricity demand is also being supported by factors including industrial electrification, the

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modernization of aging grids, and energy security.

Europe illustrates the scale of the requirement. The European Commission estimates that annual energy investment must rise to approximately EUR 660bn between 2026 and 2030, compared with an annual average of around EUR 240bn between 2011 and 2021.

The investment case nevertheless reaches well beyond the Eurozone. Grid constraints, rising power consumption, and the need for reliable generation are global issues. Middle Eastern economies are also investing in power generation, renewable energy, data centers, transport links, and economic diversification.

How to invest

We like investing selectively across power and resources equities. We favor diversified exposure across equipment and solutions providers, utilities, infrastructure facilitators, and raw material producers. This can capture activity throughout the electricity value chain rather than depending on a single technology, market, or regulatory outcome.

Investors should prioritize companies with strong finances, pricing power, healthy order books, and the capacity to complete projects. A combination of low-cost passive exposure and active management may help balance broad participation with the need to distinguish between stronger and weaker businesses.

Consider established private infrastructure. For investors with long time horizons and the ability to accept limited access to their money, private infrastructure can provide exposure to power networks, renewable generation, storage, digital infrastructure, and supply chain resilience. We favor diversified "core" and "core-plus" assets, meaning established facilities with relatively predictable revenues, sometimes combined with measured operational improvements.

Existing assets with long-term contracts or regulated income generally offer greater cash flow visibility than development-stage projects that must still secure permits, financing, power, and customers.

Private infrastructure remains exposed to leverage, valuation uncertainty, high fees, limited disclosure, and illiquidity, so manager selection and position sizing are important.

Broaden commodity exposure. Industrial metals such as copper benefit from investment in grids, electrification, and AI infrastructure, while constrained supply supports the longer-term outlook. Because leadership can shift rapidly between energy, metals, precious metals, and agriculture, we favor diversified and actively managed exposure rather than relying on one commodity or geopolitical outcome.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
In line: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: The tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Appendix

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