

BILLEN CAPITAL RESEARCH

THEMATIC OUTLOOK

Public Equity Investment Themes for 2026

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Deployment and delivery: AI broadens, the power cycle accelerates and economic security mobilises capital

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Principal risk	AI monetisation setback
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Executive summary

Key takeaways

- **Supportive backdrop, wider dispersion.** Resilient growth, central banks in or near easing cycles and corporate adaptation to tariffs support equities into 2026, but we expect greater dispersion by sector and region and volatility around rates, currencies and geopolitics.
- **AI broadens from enablers to applications.** AI-related capex continues to exceed forecasts; value creation should shift progressively towards the application layer, creating new winners beyond today's largest platforms.
- **Electrification is the second pillar of the capex wave.** Data-centre power demand and grid investment of roughly half a trillion dollars globally in 2026 provide a multi-year tailwind for utilities, grid equipment makers, select industrials and copper.
- **Selective breadth over concentration.** Pair high-quality large caps with fortress balance sheets with small and mid-cap enablers of AI, power and reindustrialisation, which tend to benefit as rate cuts feed through.
- **Regional stance.** The US remains the anchor; Europe offers selective value with defence and infrastructure tailwinds; Japan benefits from governance reform; emerging markets show improving earnings breadth at a discount.
- **Risks to respect, not retreat from.** An AI monetisation setback, sticky inflation, debt and yield volatility, geopolitics and execution of the power build-out are the principal threats to our base case.

Our view

The 2026 equity playbook is shaped by three reinforcing forces: the broadening of AI from infrastructure to applications, the electrification and grid upgrade cycle required to power the digital economy, and a policy-driven reorientation towards economic security that is mobilising capital across defence and infrastructure. These forces support earnings growth and create new leaders across technology, industrials, utilities, and selected financials and health care, even as market concentration and valuations demand more selectivity. Regionally, the United States remains the anchor, Europe offers selective value and policy tailwinds, Japan continues to improve on governance and returns, and emerging markets benefit from technology deployment and better financial conditions.

Key risks—an AI disappointment, stickier inflation, debt and yield volatility, and geopolitics—counsel humility and risk control, not retreat. The practical approach is to stay globally diversified, lean into structural growth where cash-flow visibility is rising, and balance portfolios with quality exposures that can compound across cycles. If 2025 was the year of adoption and anticipation, 2026 is poised to be the year when deployment and delivery start to separate durable winners from the rest.

Exhibit 1 Three reinforcing forces behind the 2026 equity playbook

Qualitative assessment

Force	What drives it	Where we look for exposure
Broadening of AI	AI capex repeatedly above forecasts; early monetisation in cloud backlogs and enterprise productivity	Semiconductors, cloud, networking, software, data management and cybersecurity; the application layer over time
Electrification and grid upgrade	Data-centre power demand; grid investment of roughly USD 0.5trn globally in 2026; policy-directed capital	Utilities with constructive regulation and visible capex; grid and data-centre equipment; copper
Economic security	Higher defence commitments, reindustrialisation, energy security and local-for-local manufacturing	Defence and aerospace, power-system industrials, testing and certification, infrastructure

Takeaway: All three forces are capex-led, which is why we expect earnings leadership to widen beyond today's largest platforms.

Source: Billen Capital Research.

Exhibit 2 Regional equity stance for 2026

Qualitative assessment

Region	Stance	Key supports	What to watch
United States	Core anchor	Healthy earnings growth, innovation and policy support; utilities, banks and health care beyond AI	Elevated valuations make earnings delivery critical
Europe	Selective upside	Defence, infrastructure and grid programmes; discounts in small and mid caps	Utilities' sensitivity to bond yields and policy noise
Japan	Constructive	Governance reform, improving ROE, household flows, weaker currency	Pace of capital-efficiency and shareholder-return gains
Emerging markets	Improving	Broader earnings, faster technology deployment, discounts to developed peers	Path of the dollar and global financial conditions

Takeaway: We pair US innovation with Europe's capex-led recovery and Japan's governance momentum rather than concentrate risk in a single region.

Source: Billen Capital Research.

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Macroeconomic setup for 2026: growth, rates, and the new power cycle

Equities enter 2026 with a broadly supportive macro backdrop, though not without new crosscurrents. Global growth is set to remain resilient as investment accelerates in technology, power infrastructure, and defence, helping to offset softer consumer pockets and uneven housing activity in some regions. Central banks have shifted into, or are nearing, easing cycles, and that should lower financing costs and improve risk appetite over the year, even if long-term yields remain sensitive to fiscal dynamics. Trade policy remains a swing factor, with recently imposed tariffs in the low double digits shaping supply chains and prices; the key point for equity investors is that firms are adapting through diversification and “local-for-local” manufacturing, limiting the macro drag. At the same time, a multipolar world is catalysing policy-led capex in energy security and reindustrialisation, which tends to support nominal growth and widen the opportunity set across regions and sectors.

The other defining macro development is the surge in electricity demand tied to data centres and digital infrastructure. Power needs are rising quickly, with data centres alone expected to consume a materially larger share of US electricity by the mid-2030s, and grid investment projected to run at roughly half a trillion dollars globally in 2026. This introduces both a cost challenge for heavy users and a multi-year profit tailwind for utilities, grid equipment makers, and select industrials. It also underscores why inflation could be bumpier than in the 2010s, as capacity expansions take time and supply chains for key materials remain tight. Against this backdrop, equities should be supported by earnings growth and policy tailwinds, but investors should expect higher dispersion by sector and region and be prepared for volatility around rates, currencies, and geopolitics.

AI, electrification, and the capex wave: from enablers to applications

Artificial intelligence: the opportunity broadens

Artificial intelligence remains the market’s primary engine, but the character of the opportunity is evolving. After several years in which returns were concentrated among a handful of large enablers, the investment wave is broadening into the wider ecosystem, spanning semiconductors, cloud, networking, software, data management, and cybersecurity. Capex tied to AI has repeatedly exceeded forecasts and looks set to remain robust into 2026, while early signs of monetisation are appearing in faster cloud backlogs and productivity gains at the enterprise level. Over the next few years, value creation is likely to shift progressively towards the application layer as organisations move from experimentation to deployment, embedding tools that either lower costs or unlock new revenue streams. That shift should gradually reduce index concentration risk by creating new winners beyond today’s largest platforms.

Electrification: the second pillar

Electrification is the second pillar of the capex wave. Rapid AI adoption and a growing pipeline of industrial megaprojects are boosting power demand, while policy in major economies continues to channel capital into grids and clean generation. Some technologies with long lead times will contribute later in the decade, but renewables, storage, grid automation, and advanced efficiency solutions are scaling now and can address near-term bottlenecks. The investment implications run across public equities: utilities with constructive regulatory frameworks and visible capex, industrials that supply grid and data centre equipment, and materials producers leveraged to

constrained inputs such as copper. A practical caveat is that financing needs are rising across parts of the AI and power ecosystem; if debt markets tighten abruptly, growth plans could be delayed. That is not our base case, but it is a risk to monitor as issuance linked to digital and power infrastructure increases.

Concentration, dispersion, and the case for selective breadth

Market concentration remains elevated, with the largest US companies commanding an unusually large share of global market capitalisation and earnings. History shows such concentration can persist, and recent gains have been underpinned by strong fundamentals rather than purely by multiple expansion. Even so, the most immediate vulnerability is earnings disappointment from leaders whose expectations are high, particularly if AI monetisation proves slower than hoped or if cost curves in key inputs outpace pricing power. This is why dispersion should widen in 2026, both within the leadership cohort and across the broader market, as fundamental execution and balance sheet strength differentiate outcomes.

Selective breadth is the antidote. On one side, high-quality large caps with strong gross margins, resilient end-markets, and “fortress” balance sheets still offer durable compounding, especially where firms can invest counter-cyclically. On the other, small and mid caps show improving prospects as rate cuts feed through, earnings inflect, and dealmaking revives, with “picks-and-shovels” enablers of AI and electrification standing out. Historically, smaller companies have outperformed following the end of rate-cutting cycles, and a healthier M&A pipeline can further catalyse re-rating in parts of the market. Active approaches—fundamental, quantitative, or blended—are well placed to harness dispersion by tilting towards quality and secular growth while avoiding pockets of exuberance. The bottom line is to balance concentration risk with thoughtfully diversified exposures that reflect where capex and profit pools are actually growing.

Regional equity landscape: where the opportunities are

United States: the core engine

The United States remains the core engine for global equities in 2026. Earnings growth looks healthy, aided by innovation, policy support, and improving financial conditions. Beyond the well-known AI beneficiaries, there are attractive dynamics in utilities tied to the power-demand cycle and in banks that have rebuilt capital and improved profitability. Health care also merits attention as policy clarity improves and secular demand drivers reassert. Valuations are elevated relative to history, so delivery on earnings will matter; still, the combination of profit growth and liquidity argues for staying invested while being selective.

Europe: selective upside, different catalysts

Europe offers selective upside with a different mix of catalysts. The region is pivoting towards economic security, infrastructure, and defence, supported by national programmes to rebuild capacity and upgrade grids. Defence commitments have been raised meaningfully over the next decade, lifting equipment spending and providing a structural tailwind to parts of industrials and aerospace. Valuations remain reasonable relative to global peers, with notable discounts in small and mid caps. Sector dispersion is wide: technology screens attractively after a period of underperformance, industrials tied to data centres and grid modernisation are benefiting from secular demand, and utilities have been pressured by higher bond yields and policy noise but look

undervalued in many cases. Banks have re-rated but still trade below long-term averages in several markets as profitability normalises with higher-for-longer deposit rates and better asset quality.

Japan and emerging markets

Japan continues to benefit from governance reforms, improving return on equity, and supportive household investor flows, with valuations more moderate than in many developed markets. The policy mix appears constructive, and a weaker currency continues to aid exporters, while efforts to improve capital efficiency and shareholder returns support the medium-term case. Across emerging markets, the setup is improving as well. Earnings breadth is getting better, technology deployment is accelerating, and valuations trade at meaningful discounts to developed peers. A softer dollar over time and easier global financial conditions would be incremental tailwinds. Within Asia, domestic innovation and policy support in large economies are pushing investment towards technology-intensive manufacturing and AI, while broader regional equity indices stand to benefit from firmer earnings and attractive starting valuations.

Sector lenses, risks, and practical takeaways for 2026

Several sectors stand out for 2026, reflecting the intersection of structural growth and price. Technology remains a core allocation, but investors should recognise that leadership within the stack can rotate. As adoption moves from enablers to applications, software and data-rich platforms that can demonstrate clear productivity gains and pricing power may see improving economics. Industrial companies exposed to power systems, grid equipment, testing and certification, and defence retain strong demand visibility as reindustrialisation and security spending accelerate. Utilities benefit from rising rate base growth, supportive grid investment, and the linkage to data centre power demand, even if policy debates around renewables ebb and flow. Financials show durable profitability in many markets, with banks aided by healthier balance sheets and more rational competition; selected payment and insurance names can add quality growth where underwriting discipline and competitive moats are intact. Health care screens as undervalued after a difficult policy year, and its defensive earnings profile may prove valuable if growth softens. By contrast, the energy complex faces a more mixed outlook as supply growth threatens to outpace demand into 2026 in some scenarios, which could pressure prices and sentiment before longer-term fundamentals reassert.

Exhibit 3 Sector lenses for 2026

Qualitative assessment

Sector	Our view	Rationale
Technology	Core allocation	Leadership within the stack can rotate from enablers to software and data-rich platforms with pricing power
Industrials	Favoured	Power systems, grid equipment, testing and certification and defence retain strong demand visibility
Utilities	Favoured	Rate-base growth, grid investment and linkage to data-centre power demand; income plus investment-cycle exposure
Financials	Selective	Durable bank profitability; payments and insurance where underwriting discipline and moats are intact
Health care	Constructive	Screens as undervalued after a difficult policy year; defensive earnings profile
Energy	Cautious	Supply growth threatens to outpace demand into 2026 in some scenarios

Takeaway: Our preferred sectors share a direct link to the capex cycle; energy is where the near-term supply and demand balance argues for caution.

Source: Billen Capital Research.

Risks to our base case

Investors should also weigh the principal risk factors that could challenge the base case. The most important is an AI monetisation setback in which investment continues but payoffs lag, feeding concerns about oversupply, bottlenecks, or obsolescence. Sticky inflation is another, especially if second-round effects from tariffs or profit-led pricing keep core measures above targets and limit central banks' flexibility, thereby pressuring equity multiples. Elevated public debt loads and persistent fiscal deficits raise the risk of higher term premia and yield volatility, which tends to compress valuations for long-duration equities. Geopolitics remains a wildcard, with US–China relations, tariff regimes, and regional conflicts capable of shifting risk appetite quickly. Finally, the power build-out that underpins many themes depends on execution across permitting, supply chains, and labour; delays here would push some benefits further out.

Exhibit 4 Principal risks to our base case

Qualitative assessment

Risk	Transmission to equities	Leading indicators
AI monetisation setback	Investment continues but payoffs lag; oversupply and obsolescence concerns hit leaders with high expectations	Cloud backlogs, enterprise adoption, AI capex guidance
Sticky inflation	Second-round tariff effects keep core inflation above target, limit easing and compress multiples	Core inflation against targets; central bank guidance
Debt and yield volatility	Higher term premia compress valuations of long-duration equities	Fiscal deficits, term premia, long-term yields
Geopolitics	Abrupt shifts in risk appetite	US–China relations, tariff regimes, regional conflicts
Power build-out execution	Delays push benefits further out	Permitting, supply chains, labour availability
Financing conditions	Abrupt tightening in debt markets could delay AI and power growth plans	Issuance linked to digital and power infrastructure; credit spreads

Takeaway: None of these risks is our base case, but an AI monetisation setback would hit the most crowded part of the market first.

Source: Billen Capital Research.

Portfolio implications

The practical implications for public equity portfolios are straightforward. Stay invested, but be more selective. Blend high-quality large caps with targeted exposure to small and mid-cap enablers of AI, power, and reindustrialisation, recognising that the breadth of winners should increase as deployment expands. Use regional diversification to pair US innovation with Europe's capex-led recovery, Japan's governance momentum, and improving earnings breadth in emerging markets. Complement growth allocations with sectors that offer both income and linkage to the investment cycle—most notably utilities—and identify industrials with advantaged positions in the power and security spend. Where mandates allow, consider a meaningful allocation to structural growth themes across AI, power and resources, and longevity to better capture secular compounding while managing single-segment volatility. Across all of this, emphasise strong balance sheets, pricing power, and operational discipline, the traits most likely to weather policy and rate surprises.

Important disclosures

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