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Investment Institute

Market Commentary

Weekly perspective on current market sentiment — January 29, 2025

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Last week's S&P 500 Index: +1.7%

Future industrial-power demand

Key takeaways

- As we try to look multiple years into the future, we believe development expenditures aimed at artificial intelligence (AI) will increase dramatically.
- Our view is that future industrial-power demand is set to soar in the coming decade, and we see opportunities today that offer the potential to take advantage of these growing trends.

Believe it or not, the topic of this week's commentary was determined a number of days ago, well before last weekend's news hit the headlines that a startup Chinese AI company seemingly could make the whole process of running generative AI models much more efficient and cost effective. In fact, virtually all of the equity-market turmoil (and bond-market price rally) that kicked off this week's trading was due to nervous investors selling the shares of companies that have some of the largest valuations on the planet. These are many of the same companies that have carried the S&P 500 Index to record highs over the last year or more. But we also note that the share prices of a number of companies in the Utilities and Industrials sectors that are tied to AI in varying degrees also took a beating early this week.

New, disruptive technologies often motivate entrepreneurs to enter the fray with their own interpretation and more cost-effective technologies. But the fact remains that the Chinese company's product rollout late last week mentioned only the cost of training the software, not the likely very much larger costs to develop the product's architecture and collect the data that the product processes. As we try to look multiple years into the future, we believe such development expenditures aimed at AI will increase dramatically as the data centers that house the computers and the power-grid upgrades to power those computers are constructed. A report from Vertiv Holdings suggests that data-center construction will grow at a 10% to 13% clip from 2024 through 2029. We expect data-center construction to be the main driver of increased U.S. power demand in coming years. The Electric Power Research Institute estimates that by 2030 data centers will consume 9% of total generated domestic electricity versus just 4% currently.

We expect several of our currently favored sectors to benefit from the AI push and increased demand for industrial power that we believe will accelerate in the years ahead. The favored Industrials and Communications sectors along with Energy (rated most favorable) should all see increased opportunities for revenues and earnings from the rollout and buildup of AI infrastructure. Demand for energy to produce electricity will largely likely come from natural gas.

From an Energy sector perspective, power-generation needs should drive demand for fuels from various sources, but largely from the large U.S. verified reserves of natural gas. Some renewables are also likely to be deployed for power generation. The infrastructure to provide enough power to meet projected needs will be built by companies in the Industrials sector. Think of the equipment needed to construct and operate a data center. Bulldozers, track hoes, and dump trucks are just a small sample of the industrial equipment needed for construction. Then there are the HVAC (heating, ventilation, and air conditioning) and electrical-system components installed in the data centers.

Our view is that future industrial-power demand is set to soar in the coming decade, and we see opportunities today that offer the potential to take advantage and benefit from these growing, long-term trends.

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Forecasts and estimates are based on certain assumptions and on views of market and economic conditions which are subject to change.

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