UBS

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Investment Research

Why invest in power and resources now?

UBS House View Briefcase

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Key message

Despite higher recent volatility amid AI and policy concerns, CIO estimates sustained increases in electricity demand from industries such as artificial intelligence, data centers, electric vehicles (EVs), and the electrification of heating and industrial processes. So, we like investing in public and private companies providing power generation equipment, the utilities sector, services providers to utilities firms, and those supplying raw minerals needed for energy storage and electrical infrastructure.

House view

01 **Despite recent volatility, we expect sustained and significant investment to meet the world's rising electricity demand.**

- The advent of DeepSeek and reports of canceled data-center leases led to a recent derating in data-center-linked companies despite no material change to their earnings guidance.
- But growing electrification needs linked to AI, electric vehicles, and decarbonization look set to endure.
- CIO estimates the electrification of the global economy will require around USD 3 trillion in annual investments by 2030.

02 **This opens multiple investment opportunities across the electrification value chain.**

- CIO's "Power and resources" portfolio includes exposure across companies that directly sell products vital to the electricity value chain, are investing in power generation capacity, support grid resilience, or otherwise enable electricity demand to be met.
- For risk-tolerant investors, we also like private equity and infrastructure opportunities supporting data-center growth and energy transition infrastructure.

03 **Essential materials and select metals are also appealing.**

- The demand for essential materials such as copper, lithium, and aluminum is set to rise thanks to electrification and energy transition.
- Supply bottlenecks and geopolitical factors may limit metals' availability, putting upward pressure on prices.
- We therefore like companies engaged in the extraction and processing of critical raw materials.

New this week

Accounting firm EY projects that Europe will have more than 50 million electric vehicles (EVs) by 2030, 15% of the total vehicle stock. It notes that "by 2030, flexibility resources across Europe will need to more than double to keep pace." EVs constitute one of the most affordable, scalable and flexible solutions to localized energy needs, while also lowering the price tag for network investment. This is key given that Europe's power demand is expected to exceed 4,500 TWh by 2050.

One liner

We believe rising energy demand, the growth in AI, and electrification trends will create investment opportunities linked to power and resources in public and private markets.

Did you know?

- The US Energy Information Administration projects US power demand rising around 20% annually in 2024 and 2025. Increased demand from artificial intelligence and data centers is augmenting growing power needs from homes and businesses, as they use more electricity for heat and transportation.
- Major tech companies are expected to invest over USD 250 billion in capital expenditures (capex) to expand data-center capacity by 2025, with leading firms anticipating a year-over-year growth rate exceeding 45%.
- The IEA expects global demand for certain metals to increase nearly tenfold by 2050. For example, demand for copper alone could rise by an additional 100,000 metric tons annually from data centers.

Investment view

AI power usage, industrial electrification, and decarbonization are set to spur electricity demand. We see value in diversified investing in stocks across the electrical equipment, materials, and utilities sectors, as well as private market investments in data center and energy transition infrastructure.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
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