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Multi-Industry | North America

CoTD: MS Capex Tracker, Data Center vs Everything Else

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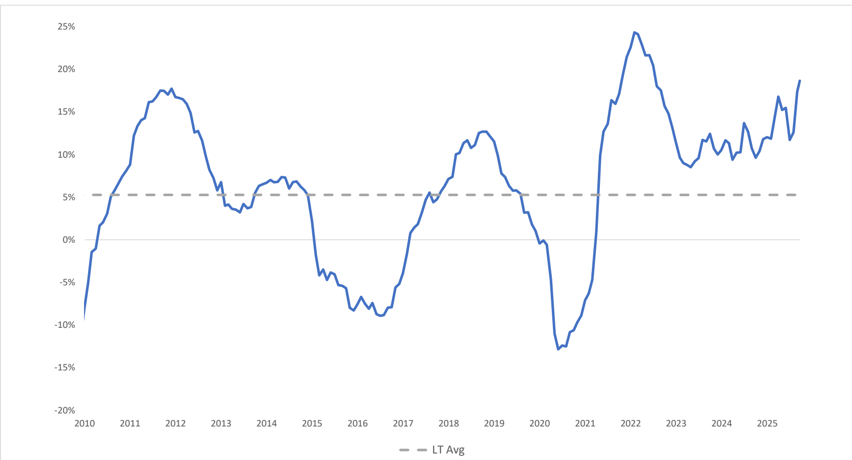
MULTI-INDUSTRY

North America
Industry View **Attractive**

Chart of the Day (CoTD) highlights charts that tie into latest investor conversations, are timely for the macro + company events, or just ones that we find interesting.

Exhibit 1: MS Capex Tracker: US NTM Capex intentions have accelerated through Q3 to +20%, a sharp acceleration from +10% at the start of the year and entirely driven by Data Center



Source: Morgan Stanley Research, Factset

MS Capex Tracker aggregates forecasts across hundreds of companies, separating the data into 14 key verticals.

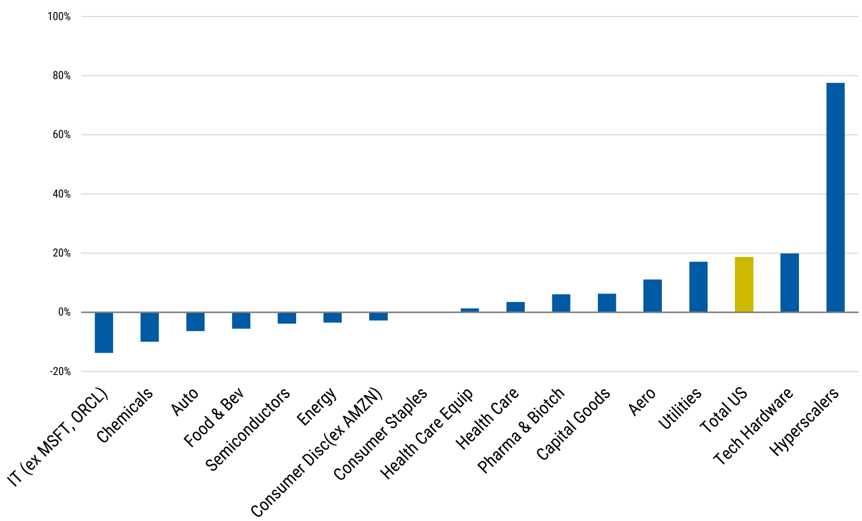
The MS Capex Tracker has further accelerated through Q3 w/ NTM capex now tracking +20%, a step function higher from the already healthy +10% base growth entering 2025 (Exhibit 1). However, as we peel back the onion it becomes clear that positive rate of change is almost entirely driven by US Hyperscalers (Exhibit 2) – in line with the "Data Center vs Everything Else" theme that emerged from Laguna 2025 (link). While Data Center continues to carry the spend, we are seeing 2H'25 positive rate of change on broader non-res and see scope for Mfg Capex to further ramp into 2026 on improved Tariff / policy, in line with our $10T Reshoring Thesis (Deep Dive). The backdrop of strong & improving capex supports our preference for US capex relative to Int'l spend or the short-cycle production economy which is overweight consumer where we remain cautious. **Best positioned: TT, ETN, JCI, VRT, ROK & AYI.** Within short-cycle we see 1H'26 bifurcation between those tied to fixed investment (**ROK, AYI, HUBB**) vs those tied to consumer spend (**LII, CARR, SWK, MMM**).

On the manufacturing side, we see scope for US capex to further ramp as clarity on Tariff rates + rules unlock projects sitting on the sidelines - **the opportunity is sizeable w/ our math suggesting a reshored unit of capex brings 10x profit uplift**

for our US Industrial coverage vs a unit of Int'l capex (link). The objective of Trump 2.0 policy + ongoing trade negotiations is to drive a "strategic rebalance" of the country's $1.2T trade deficit - this can only be accomplished by companies serving the US market via domestic production (both US + Foreign corps) OR increased US exports to its key trade partners - **both options require a higher rate of domestic production + investment and this is where the opportunities lie**. Conversely, this highlights our concern on Int'l capex where we think it will be difficult to justify capacity adds with the biggest buyer pulling back (Reshoring Action Brings a Reaction).

Turning to the respective end markets - NTM capex leaders include Hyperscalers +78%, Tech Hardware +20%, Utilities +18%, and Aero +12% (Exhibit 2). **It is encouraging to see the broad-based capex strength given market concerns that the current upcycle is only driven by semi fabs + data centers.** Laggards include IT (ex MSFT, ORCL) -14%, Chemicals -9%, Auto -7%, Food & Bev -6%, Semiconductors -4%, and Energy -3%. We remain cautious on Process capex w/ commodity prices under pressure -a risk to **EMR** vs guidance calling for sharp organic acceleration (Maintain UW).

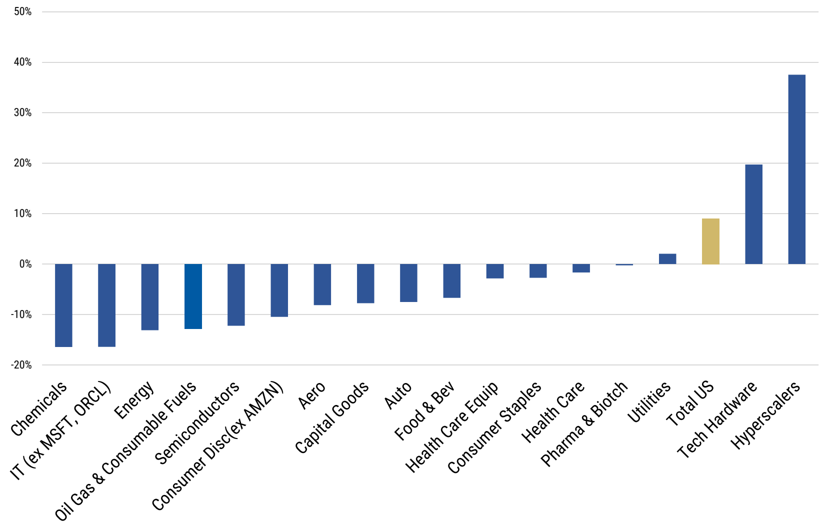
Exhibit 2: Which industries are expected to grow NTM Capex? Strength is broad & led by Hyperscalers, Tech Hardware, Utilities, and Aero (YoY)



Source: FactSet, Morgan Stanley Research.

While overall growth is critical, we believe rate of change + revisions are most impactful for the equities. Exhibit 3 aims to provide capex rate of change (delta between September '25 NTM YoY capex vs September '24). The leaders from a rate of change perspective include Hyperscalers +38%, Tech Hardware +20%, and Utilities +2%. Rate of change laggards include Chemicals -16%, IT (ex MSFT, ORCL) -16%, Energy -13%, Oil & Gas -13%, Semiconductors -12% and Consumer Discretionary (ex AMZN) -11%.

Exhibit 3: Where are NTM Capex forecasts accelerating vs decelerating ?
(September '25 NTM Capex LESS September '24 NTM Capex



Source: FactSet, Morgan Stanley Research.