S.P. HINDUJA

BANQUE PRIVÉE

Global House View

March 2026

Thoughts of the CEO

"The Industrial Turn in the AI Cycle"

Artificial intelligence continues to dominate market narratives, but the character of that dominance is evolving. Over the past year, equity performance was heavily concentrated in semiconductors, hyperscale platforms, and select software companies positioned at the computational core of AI. That first phase of the cycle rewarded scarcity of compute and control over model infrastructure.

Recent market behavior suggests we are entering a more complex and differentiated stage. In recent weeks, parts of the software universe have experienced sharp drawdowns as investors reassessed disruption risk and valuation sensitivity. At the same time, utilities, energy, materials, and other capital-intensive sectors have materially outperformed. Businesses with tangible assets and infrastructure exposure have regained favor after years of underperformance. This rotation reflects a shift in how markets are interpreting the second derivative of AI.

We could say that AI is moving from code to concrete. As models scale, the limiting factor is increasingly physical. Power generation, grid capacity, cooling systems, transmission equipment, and industrial automation are becoming binding constraints. The marginal dollar of AI capital expenditure is no longer flowing exclusively toward chips and cloud; it is flowing toward transformers, switchgear, thermal management systems, and mission-critical infrastructure. In many regions, access to reliable electricity now determines the pace of AI deployment.

The macro environment reinforces this dynamic. We continue to operate in an environment of relatively higher interest rates, alongside greater geopolitical fragmentation and a stronger emphasis on energy security. In this context, tangible assets and visible backlog pipelines carry renewed strategic value. Capital-intensive sectors are no longer merely cyclical exposures. In several cases, they are central to enabling technological progress.

This does not signal the end of technology leadership. Many core AI companies remain strategically indispensable and financially robust. However, valuation dispersion has widened, and expectations in some segments leave less room for disappointment. As a case in point, the market's reaction to Nvidia's most recent and exceptionally strong quarterly results is instructive. In general, markets are increasingly distinguishing between businesses with durable moats and those more vulnerable in an AI-accelerated world.

For portfolio construction, the implication is balance and selectivity. We maintain exposure to high-quality AI platform and semiconductor leaders with defensible ecosystems. At the same time, we are increasing emphasis on industrial and infrastructure beneficiaries of AI expansion—particularly in electrification, grid modernization, thermal systems, and automation. These businesses sit at the intersection of structural demand and tangible asset intensity, often with improving pricing power and multi-year visibility.

Importantly, this positioning is not defensive. It rather aligns with where the next marginal dollar of AI investment is likely to flow. As AI scales, leadership broadens and value creation diffuses across sectors.

The AI revolution continues. But increasingly, it is being built not only in data centers and code repositories, but in power grids, factories, and industrial supply chains. That shift is reshaping markets, and we are positioning portfolios accordingly.

Yours sincerely,

Fabrice d'Erm

Investment Positioning

Our global portfolios are positioned with a clear objective of capital preservation while achieving steady and sustainable capital appreciation over time. In the current environment of heightened geopolitical and macroeconomic uncertainty, we maintain a **neutral allocation to equities** , focusing on high-quality companies with strong balance sheets and reliable dividend profiles. We intentionally keep lower exposure to high-growth technology companies, which tend to be more sensitive to valuation adjustments and market volatility, while favoring value-oriented stocks with strong fundamentals and cash generation. Our equity allocation is also well diversified geographically, reducing reliance on any single region or economic cycle. While **geopolitical tensions** have increased, equity markets have historically demonstrated the ability to absorb shocks over the medium term. The key variable to monitor will be **oil prices**, as a sustained spike could lead to **higher inflation** , potentially affecting interest rates and equity valuations. Within **fixed income** , we maintain a diversified allocation to investment-grade issuers, prioritizing credit quality and income stability. We also hold an overweight position in **gold**, which we view as an effective hedge during periods of market stress. Overall, we believe our portfolios are built on solid and defensive foundations, capable of navigating the current level of uncertainty, although a major escalation of the Iran conflict would likely require reassessment.

Recent Investment Committee Decisions

We have refined the equity component of our portfolios by executing several fund switches while maintaining our overall equity exposure. Specifically, we updated our India and broad emerging markets holdings and increased our allocation to U.S. dividend-paying stocks.

The Second Derivative of AI

Artificial intelligence is entering a new phase of its investment cycle. What began as a concentrated rally in semiconductors, cloud platforms, and frontier software is evolving into a broader industrial buildout. As AI scales, the primary constraints are shifting from computational capability to physical infrastructure (power generation, grid capacity, cooling systems, water management, construction, and automation). This "second derivative" of AI marks the transition from code to concrete, with important implications for market leadership, capital flows, and portfolio positioning. In this report, we examine where we stand in the AI cycle, who is likely to capture the next marginal dollar of AI capex, and why select industrial companies may offer increasingly attractive and asymmetric opportunities as both enablers and beneficiaries of AI's real-economy deployment.

Where We Are in the AI investment Cycle

The AI narrative has evolved rapidly, but capital markets often compress complex structural shifts into simplified storylines. Over the past 18 months, the dominant storyline has centered on computational acceleration: larger models, exponential scaling laws, and an extraordinary surge in demand for advanced semiconductors and hyperscale cloud capacity. That was the first derivative of AI, i.e. the sharp acceleration in capability that forced corporations and investors to reprice the future.

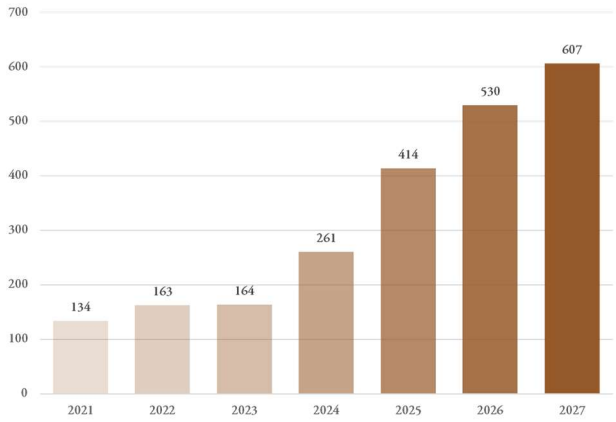
In that first phase , the bottleneck was clear. Compute was scarce. The companies capable of designing and manufacturing high-performance accelerators occupied a position of extraordinary strategic leverage. Hyperscalers that could deploy those chips at scale became indispensable infrastructure providers. Software platforms with privileged access to models captured user growth and investor enthusiasm. Capital flowed accordingly, and market leadership became highly concentrated.

However, technology revolutions do not remain confined to their initial choke points. Once the most obvious constraint begins to ease, even marginally, the system's pressure redistributes. In the case of AI, that redistribution is already underway. The constraint is no longer exclusively about access to compute; it is increasingly about the ability to power, cool, house, and integrate that compute into the physical economy.

To frame the current stage properly, it is useful to think of the **AI investment cycle in phases** . The first phase was proof and validation: demonstrating that generative AI and advanced models could perform tasks at scale with commercial viability. **The second phase** , which has defined the recent period, involved an infrastructure scramble. Corporations raced to secure hardware, sign long-term

supply agreements, and accelerate data center expansion. Capital expenditure was driven not only by projected returns, which remain uncertain, but also by competitive urgency. No major technology firm could afford to be underinvested.

Fig 1: Hyperscalers' Capex 2021-2027E (USD Bn)



Source: Bloomberg

We are now entering a **transitional phase** between infrastructure accumulation and real-world deployment. The next leg of value creation depends less on who owns the most powerful chip and more on **who can integrate intelligence into workflows, industrial processes, logistics systems, and energy networks.** This transition broadens the field of beneficiaries and, importantly, shifts the nature of risk.

The market, which initially rewarded a narrow group of technology leaders, is beginning to reassess the broader ecosystem required to sustain AI at scale. This reassessment is not a rejection of the early winners. Rather, it reflects a recognition that AI is evolving from a digital breakthrough into a capital-intensive system embedded in the physical world. As that happens, leadership broadens and returns become less concentrated.

Understanding this inflection point is critical. **We are not at the end of the AI cycle; we are in its industrialization phase**. The implications for capital allocation and portfolio construction are substantial.

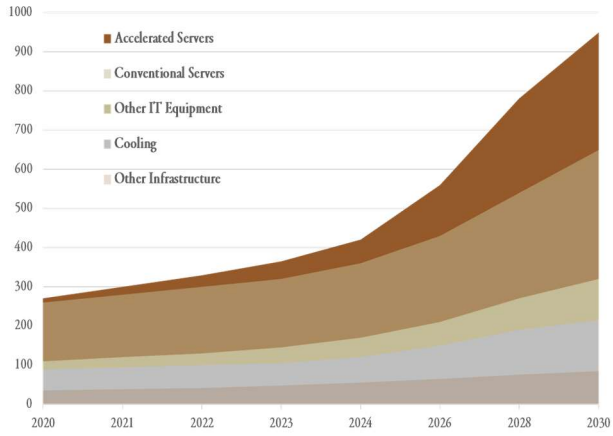
From Code to Concrete: Who Captures the Next Marginal Dollar of AI Capex?

Artificial intelligence may be written in code, but it operates in concrete, steel, copper, and silicon. The next marginal dollar of AI capital expenditure is increasingly being directed toward physical constraints rather than abstract computational ambition.

Modern AI data centers require enormous amounts of electricity. Their power density far exceeds that of traditional enterprise facilities. As model training and inference workloads grow more sophisticated, they run continuously and at high intensity. The resulting load is concentrated geographically, often stressing local grids that were never designed for such demand. In many regions, the limiting factor is no longer the availability of chips but the availability of reliable power.

This reality redirects capital toward utilities, grid upgrades, high-voltage transmission equipment, transformers, and advanced switchgear. Lead times for some of these components have already lengthened. The companies that manufacture and install them occupy a structurally advantaged position: they enable AI clusters to operate at scale. Without them, computational capacity remains theoretical.

Fig 2: Global data Center Electricity Consumption by Equipment 2020-30 (in TWh)



Source: IEA (International Energy Agency, April 2025)

Cooling represents a parallel constraint. As rack densities increase, traditional air-based systems become insufficient. Liquid cooling technologies, advanced thermal management

systems, and specialized HVAC solutions are moving from optional enhancements to mission-critical infrastructure. The engineering complexity involved in managing heat at scale raises barriers to entry and increases switching costs. Providers with technical expertise and manufacturing capacity are positioned to capture an expanding share of AI-related spending.

Construction and engineering firms form another critical link. AI data centers are not generic commercial buildings; they are specialized facilities requiring precision design, redundancy planning, and integration of electrical and mechanical systems. Firms with experience in mission-critical environments are seeing sustained demand as hyperscalers and enterprises accelerate buildouts. The physical footprint of AI requires skilled labor and specialized contractors.

Networking and interconnect infrastructure also remain essential. Moving vast quantities of data efficiently between chips and across clusters is central to AI performance. High-speed optical components and advanced switching equipment are key enablers of scaling. While often grouped under the technology umbrella, many of these products sit at the intersection of hardware engineering and industrial manufacturing.

Beyond infrastructure, AI is increasingly being deployed within **industrial processes** themselves. Advanced automation systems, robotics, machine vision, and predictive maintenance solutions are benefiting from the integration of AI capabilities. Factories become more adaptive. Supply chains become more responsive. Warehouses become more autonomous. In these settings, industrial companies are not merely suppliers to the AI ecosystem, they are adopters and productivity beneficiaries.

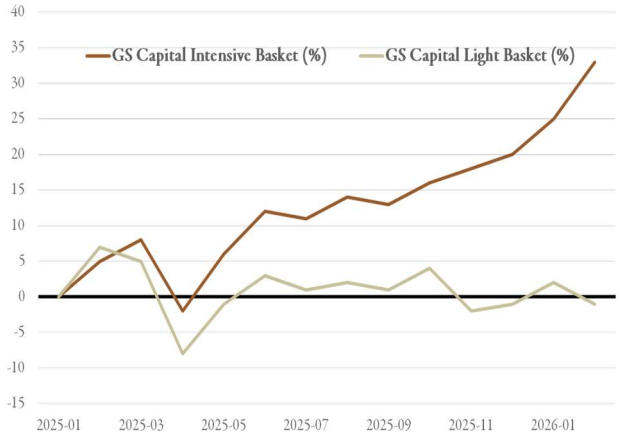
The common thread across these categories is constraint. In the first stage of the AI cycle, compute was the primary bottleneck. In the current stage, the binding constraints are power, cooling, construction capacity, and system integration. **Capital flows toward bottlenecks** . As long as AI demand remains robust, the companies alleviating these physical constraints are likely to capture an increasing share of incremental spending.

This does not imply that semiconductor and platform companies lose relevance. On the contrary, they remain foundational. But the distribution of incremental dollars is broadening. The AI ecosystem is maturing from a narrow technology stack into a **multi-sector industrial network** . Investors who focus exclusively on the digital layer risk overlooking the tangible systems that make the digital layer possible.

Market Rotation and Valuation Asymmetry: Why Industrials Matter Now

Market leadership rarely remains static during major technological transformations. In the early stages, returns concentrate in the most obvious enablers. As the theme matures and capital spreads through the ecosystem, leadership broadens. The AI cycle now appears to be entering precisely such a **rotational phase**, one that is increasingly visible in sector performance and investor positioning.

Fig 3: Outperformance of Capital-Intensive Stocks



Source: Goldman Sachs

Recent market behavior illustrates this shift clearly. Utilities, energy, and materials stocks have emerged as relative winners at a time when AI-related anxiety has gripped parts of the technology complex. In the US, the S&P 500 utilities sub-index has risen more than 10 per cent, while energy stocks have gained more than 20 per cent. By contrast, the S&P 500 software sub-index recently fell to levels not seen since the aftermath of last year's tariff-driven volatility, shedding roughly $1.2tn in market capitalisation in less than a month. Several high-profile US software companies have declined sharply this year, reflecting investor concern that generative AI tools could disrupt traditional business models more quickly than expected.

This divergence is not accidental. Investors are increasingly reassessing the vulnerability of capital-light, highly scalable business models in a world where **AI lowers barriers to entry and accelerates competitive disruption** . Businesses built primarily on intellectual property and intangible assets (historically rewarded in a low-rate environment for their scalability) now face a new question: how defensible are those advantages if AI compresses development cycles and commoditizes certain forms of knowledge work?

In contrast, **capital-intensive sectors are being re-evaluated through a different lens** . Companies with substantial physical assets (power plants, grids, transmission networks, manufacturing facilities, and resource reserves) are perceived as harder to replicate and slower to disrupt. Strategists have begun referring to these as "**heavy asset, low obsolescence** " businesses: enterprises whose value is embedded in tangible infrastructure that cannot be easily displaced by software alone. Goldman Sachs recently introduced a European basket of capital-intensive stocks (Fig.3 in previous page) that has materially outperformed its "capital-light" counterpart this year, reinforcing the empirical evidence of rotation. Similar patterns are visible in emerging markets, where chipmakers, miners, and heavy manufacturers have led benchmark gains.

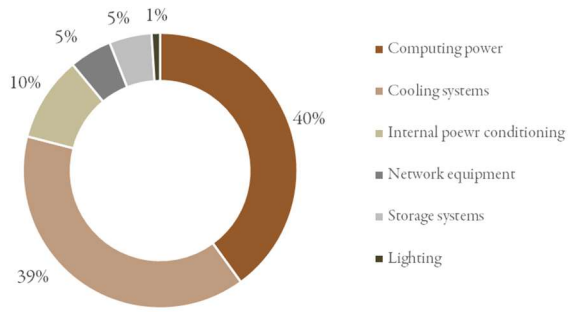
We believe this shift is partly cyclical and partly structural . For more than a decade following the global financial crisis, low interest rates favored capital-light models. When borrowing costs are minimal and discount rates compressed, long-duration growth assets command premium valuations. The post-pandemic rise in interest rates has altered that calculus. Higher discount rates place pressure on stretched multiples, particularly in sectors where earnings are expected far into the future and where competitive risk is rising. At the same time, fiscal and private investment has increasingly flowed toward capital-intensive areas such as infrastructure, energy security, defence, and industrial capacity. These trends intersect directly with the physical demands of AI.

Importantly, the recent volatility in software and related sectors also reflects what some market participants describe as "fear of becoming obsolete." As AI tools improve, investors are questioning whether certain service-based or workflow-based companies may face margin compression or displacement. In crowded trades, sentiment can turn quickly, amplifying price moves. The sharp sell-offs observed in parts of the software universe are consistent with late-cycle positioning dynamics, where investors overconcentrated in complex growth narratives react abruptly to perceived technological inflection points.

Against this backdrop, **valuation asymmetry becomes central.** In the most celebrated segments of the AI ecosystem, expectations remain elevated despite increased uncertainty around competitive durability. Earnings must continue to compound at high rates to justify current multiples. Meanwhile, many utilities, energy producers, grid equipment manufacturers, and specialized industrial suppliers still trade on assumptions rooted in older, slower-growth paradigms, even as they benefit from structural demand tied to electrification and AI data center expansion.

Electrification is particularly compelling. AI-driven power demand compounds existing pressures from electric vehicles, renewable integration, and reshoring of manufacturing. Grid modernization is not optional; it is increasingly mission-critical. Companies supplying transformers, high-voltage equipment, power management systems, and backup generation solutions often operate with long order backlogs and constrained supply. Their revenue visibility can extend years into the future, supported by regulated returns or long-term contracts. Yet market narratives frequently remain anchored to cyclical frameworks that underappreciate this structural support.

Fig 4: Data Centres: Computing & Cooling (% of energy consumption)



Source: Deloitte

Thermal management and mission-critical construction share similar characteristics. AI infrastructure investment is less discretionary than typical commercial real estate development. It is strategic and often underpinned by large, well-capitalized counterparties. Firms that design, build, and equip high-density data facilities occupy defensible niches

that are not easily replicated. As the market rotates toward tangible asset exposure, these segments may continue to attract capital flows.

None of this suggests that capital-light technology businesses are obsolete or unattractive. **But when markets begin to question the durability of intangible moats while rediscovering the resilience of tangible ones, leadership broadens.**

The second derivative of AI is therefore not only technological—it is financial. It is changing how investors price disruption risk, asset intensity, and competitive durability. In an environment where the "things that worked best for 15 years" are now being scrutinized, exposure to heavy-asset, infrastructure-linked businesses provides both thematic alignment with AI's physical expansion and potential valuation support.

As AI scales from digital breakthrough to industrial backbone, the companies owning and operating the concrete, copper, steel, and energy behind the algorithms are moving from peripheral to central in portfolio construction. Recognizing this rotation, and understanding its structural drivers, remains critical to navigating the next stage of the AI investment cycle.

How We Position Portfolios for the AI Opportunity

From an investment perspective, we are gradually reflecting these developments in our portfolio positioning. At SPH, exposure to the AI ecosystem is primarily implemented through actively managed funds and thematic ETFs with holdings across the AI value chain, including semiconductor manufacturers, software platforms and the physical infrastructure underpinning AI deployment.

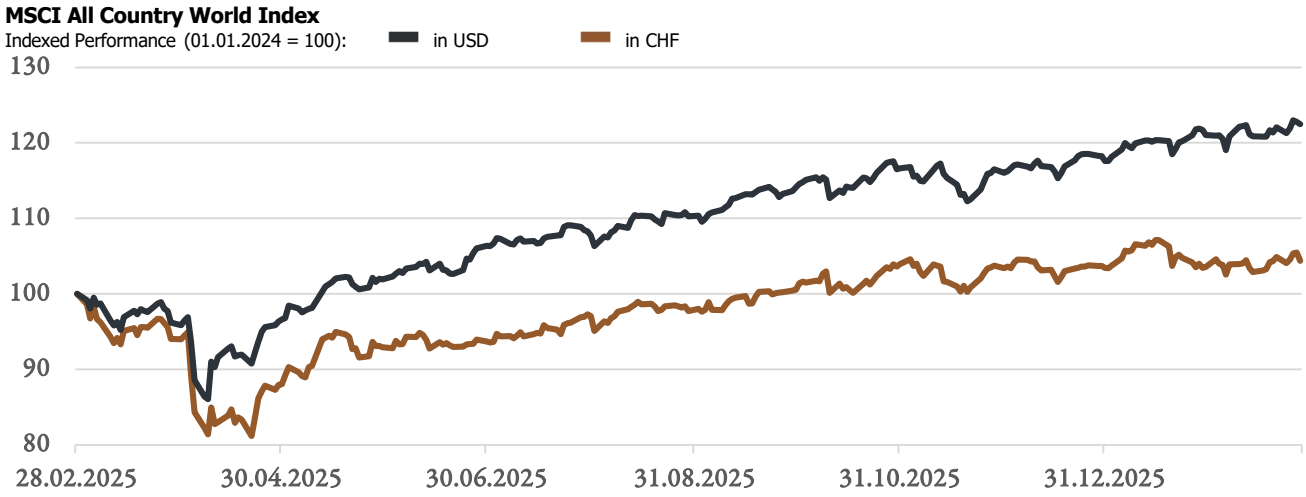
This approach enables us to participate in the long-term growth potential of artificial intelligence while maintaining diversification and a disciplined portfolio framework.

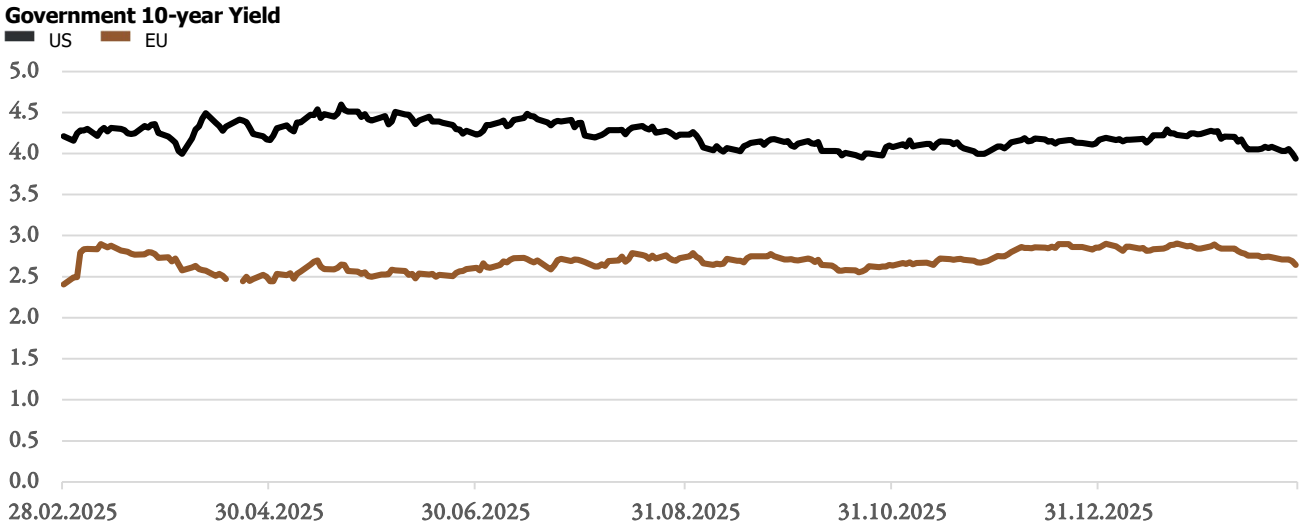
Macroeconomic estimates (per cent)

	GDP Growth			Inflation			Interest Rates	Fiscal Balance
	2024A	2025E	2026E	2024A	2025E	2026E	Current	Current
USA	2.8	2.2	2.5	2.95	2.7	2.7	3.75	-5.3
Eurozone	0.7	1.5	1.2	2.4	2.1	1.8	2.15	-3.0
UK	0.8	1.4	1.1	2.5	3.4	2.4	3.75	-5.1
Switzerland	1.3	1.2	1.2	1.1	0.2	0.4	0.00	0.6
Japan	0.1	1.2	0.8	2.7	3.2	1.9	0.75	-2.3
China	5.0	5.0	4.6	0.2	0.0	0.7	3.00	-4.8
Brazil	3.4	2.3	1.8	4.4	5.0	4.0	15.00	-8.3
India	7.8	6.4	7.5	4.8	4.6	2.0	5.25	-4.5
Russia	3.7	0.9	0.9	8.4	8.8	5.4	15.50	-3.6
World	3.0	3.2	3.1	4.2	3.4	3.3	-	-

SOURCE: Bloomberg

Financial Markets





SOURCE: Bloomberg

Global Asset Allocation Preferences

Global Asset Allocation Preferences					March 2026
Asset Class	**Opinion**	**Constituents**	**Most Preferred**	**Least Preferred**	**Commentary**
Cash	-				Given our constructive view on alternatives and income-generating assets, we maintain only a minimal allocation to cash, holding it primarily for liquidity management and tactical flexibility rather than as a strategic return driver.
Fixed Income	=	**Segments**	IG credit, selective local currency EM	Convertibles	Our positioning in fixed income remains neutral and focused on quality. In the absence of a sharp economic slowdown, government bond returns are likely to remain largely carry-driven, with limited scope for sustained price appreciation given elevated public debt levels and positive term premia. We continue to favor investment-grade corporate credit, supported by solid corporate fundamentals and attractive coupon income, although tight spreads require continued selectivity. We also maintain selective exposure to emerging market debt in local currencies, particularly in countries with improving policy frameworks, while keeping a residual allocation to high-yield issuers with strong balance sheets. Duration exposure remains relatively short, allowing portfolios to retain flexibility in an uncertain interest rate environment. In addition, the escalation of tensions involving Iran has contributed to rising inflation expectations, largely through the potential impact on energy prices, reinforcing the case for maintaining a cautious duration profile.
		Duration	Short-term		
Equities	=	**Markets**	Overweight in EZ (selectively). Emerging markets. Slight underweight in US. Long-term India, and Japan	UK, Latin America	Our stance on equities remains neutral, with a preference for high-quality companies, dividend growers, and value-oriented opportunities. We maintain broad geographical diversification, with selective positioning across regions and a preference within emerging markets for Asia ex-Japan, where earnings dynamics remain relatively supportive. While geopolitical tensions have increased, equity markets have historically demonstrated the ability to absorb shocks over the medium term. The key variable to monitor remains oil prices, as a sustained spike could increase inflationary pressures and weigh on equity valuations. From a sector perspective, we continue to favor financials, insurance, industrials, infrastructure, and other cash-flow resilient sectors, while maintaining a more cautious stance toward areas with weaker earnings visibility. Active stock selection remains essential given valuation dispersion and uneven market leadership
		Styles/Sectors	High quality. Value Europe. Dividend growers. Financials. Selective Industrials. Cash-flow resilient sectors.	Basic resources, Telecoms, Consumer products, Chemical, Auto and Auto parts. US value.	
Alternatives	+		Infrastructure, Gold and industrial metals. Hedge Funds.	Commercial Real Estate.	We remain constructive on alternatives, which play an important role in portfolio construction amid elevated geopolitical and macroeconomic uncertainty. Our allocation favors infrastructure, industrial metals, hedge funds, and in particular, gold. Infrastructure benefits from attractive valuations and inflation-linked cash flows, while commodities provide diversification supported by structural demand dynamics and constrained supply. In particular, we maintain an overweight allocation to gold, which continues to serve as an effective hedge against geopolitical risk, inflation surprises, and financial market volatility. Real estate exposure remains selective, favoring residential, industrial, and specialized segments over structurally challenged office assets.
Opinion	++	very attractive			
	+	attractive			
	=	neutral			
	-	unattractive			
	--	very unattractive			

Opinion legend: (--) very unattractive; (-) unattractive; (=) neutral; (+) attractive; (++) very attractive.

Figure of the Month

260

According to Bloomberg, this is the number of mentions of the term "data centers" appearing in company documents of the Stoxx Europe 600 Construction & Materials Index (30 constituents), at the occasion of Q1 2026 earnings reporting season. It compares with 85 mentions back in Q1 2024, and illustrates how resource-intensive AI is. Construction and materials companies are not typically at the center of technology revolutions. Their earnings calls are usually dominated by residential demand, infrastructure budgets, cement volumes, aggregates pricing, and regional building cycles. The sudden prominence of "data centers" in their corporate communications reflects a structural shift in demand, one that ties the AI revolution directly to the physical economy.

S. P. Hinduja Banque Privée S.A. – A family-owned Swiss Bank with Indian roots.

S.P. Hinduja Banque Privée S.A. is an innovative Swiss bank with roots in India, offering wealth management and investment advisory services to entrepreneurial clients. We partner with clients to create exponential economic and social impact, as our family has aspired to do for over 100 years.

Founded in Geneva in 1994 by Srichand Parmanand Hinduja with a vision to provide clients with a bridge bet- ween East and West, our institution remains the only Indian-owned Swiss bank in history. With an active presence in Switzerland, India, UAE and the UK, S.P. Hinduja Banque Privée offers its clients the reliability of Swiss regulatory oversight, while providing specialized access to high-growth markets.

We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

Contact :
S.P. Hinduja Banque Privée S.A.
Place de la Fusterie 3bis
1204 Geneva - Switzerland

Phone : +41 58 906 08 08
Fax : +41 58 906 08 00
Email : info@sphinduja.com
Website: sphinduja.com

Disclaimer

This report has been exclusively prepared and published by S.P. Hinduja Banque Privée SA ("SPH"). This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or any other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide and/or on an unrestricted basis. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions indicated are subject to change without notice. Some investments may not be readily realizable if the market in certain securities is illiquid and therefore valuing such investments and identifying the risks associated therewith may be difficult or even impossible. Trading and owning futures, options, and all other derivatives is very risky and therefore requires an extremely high level of risk tolerance. Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. SPH is of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we recommend that you take financial and/or tax advice as to the implications (including tax liabilities) of investing in any of the products mentioned herein. This document may not be reproduced or circulated without the prior authorization of SPH. SPH expressly prohibits the distribution and transfer of this document to third parties for any reason. SPH will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

Editorial closing date: March the 4th, 2026