When Iron Beats Code: The Industrial Supercycle and the Return of the Real Economy

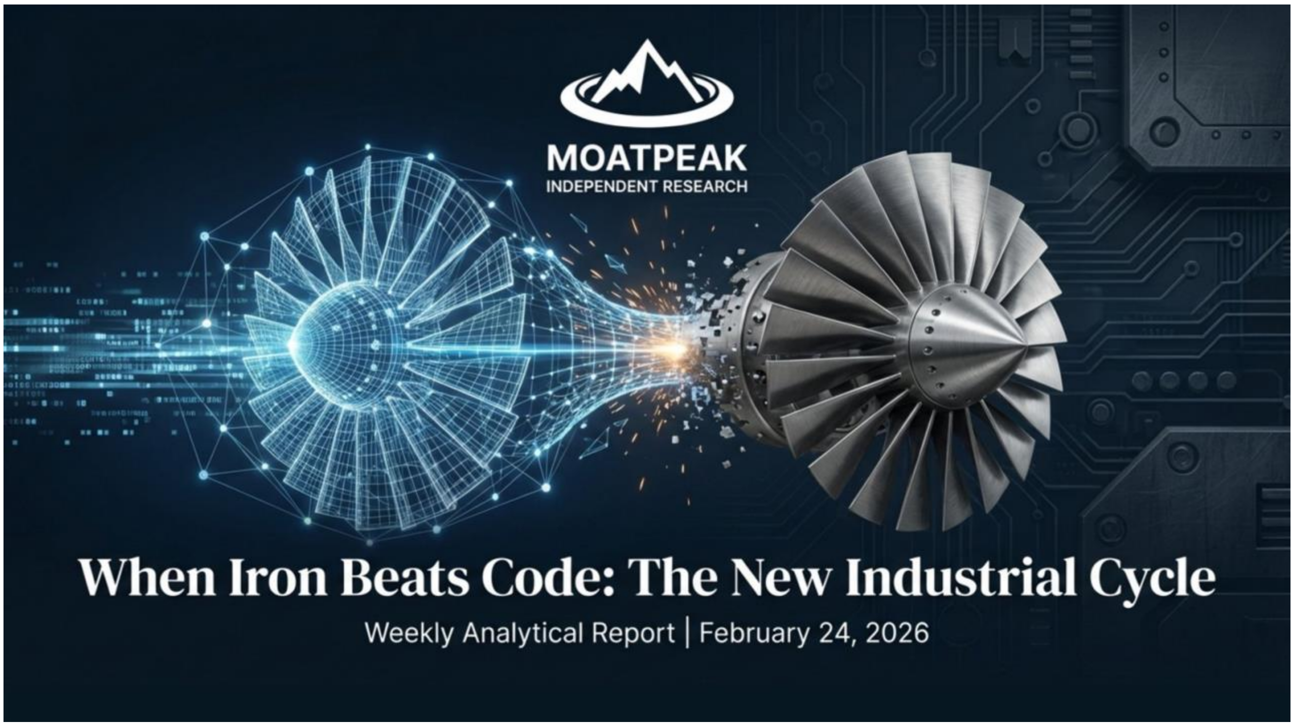

Figure 1. Cover – when iron beats code

Key takeaway: Our central thesis is a regime shift toward physical constraints and real-asset bottlenecks that underpin AI and defense spending.

1. Executive Summary: The Physical Reality of the AI Revolution

At MoatPeak, we see the 2026 regime shift as defined not by the brilliance of algorithms, but by the physical limits of the hardware that hosts them. The market is moving from a period of virtual "AI-multipliers" to a reality in which iron beats code.

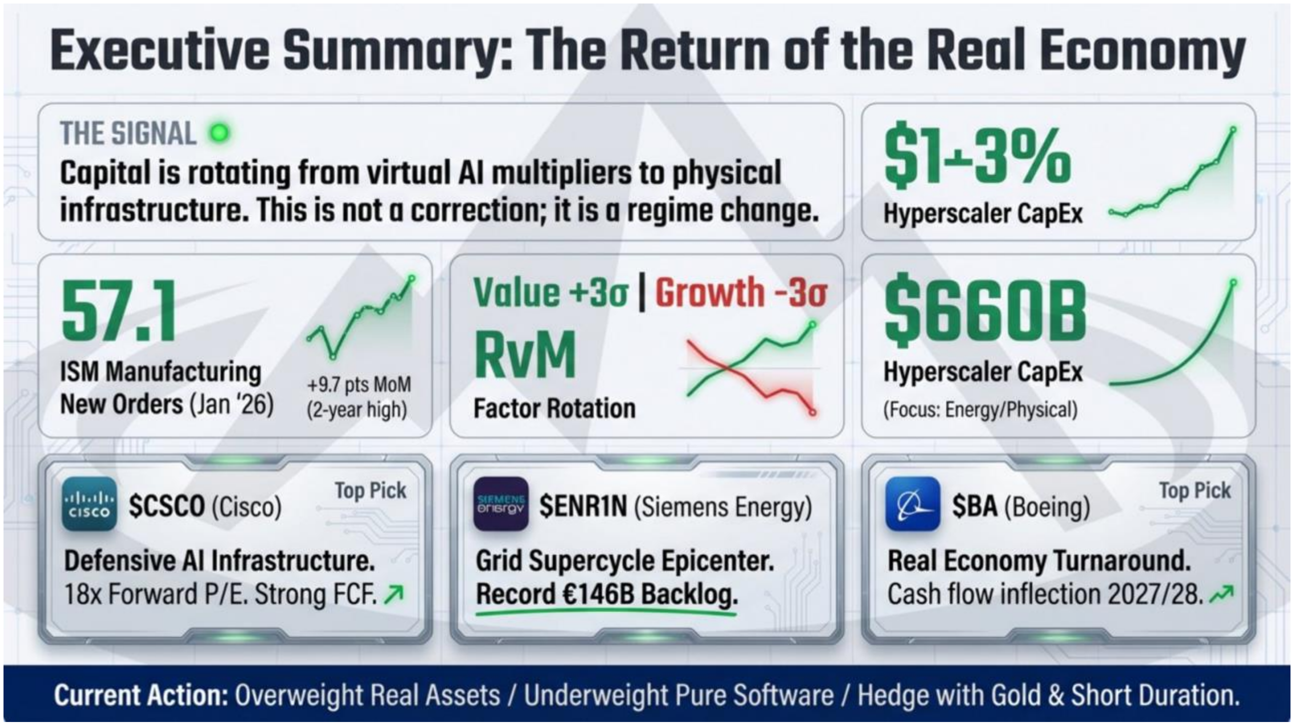

Figure 2. Executive summary – return of the real economy

Key takeaway: Capital is rotating from virtual AI multipliers toward physical infrastructure, where bottlenecks create more durable moats.

This is not a simple sector rotation. It is a fundamental realignment of the capital cycle. The last decade was dominated by software narratives; the strategic pivot of 2026 is about the physical infrastructure—power grids, turbines, manufacturing capacity—needed to sustain digital expansion.

We are moving away from a "Growth at any cost" mindset toward identifying "Quality Earnings in Physical Assets." Structural bottlenecks in energy and defense now provide a far more durable moat than richly priced software subscriptions.

The key question for us—the "So What" layer—is the widening gap between loud software hype and quiet, relentless industrial hard data. While the consensus obsesses over the next version of large language models, our work focuses on a simple but critical truth: physical production does not scale like code.

The structural shortage in electrical transformers and the multi-year backlogs for gas turbines are emerging as the real constraints on future AI performance. We see a powerful convergence of three forces—AI infrastructure demand, global defense re-armament, and grid modernization—forming an industrial supercycle. This transition is enabling sophisticated investors to capture value as capital exits virtual assets and returns to the tangible economy.

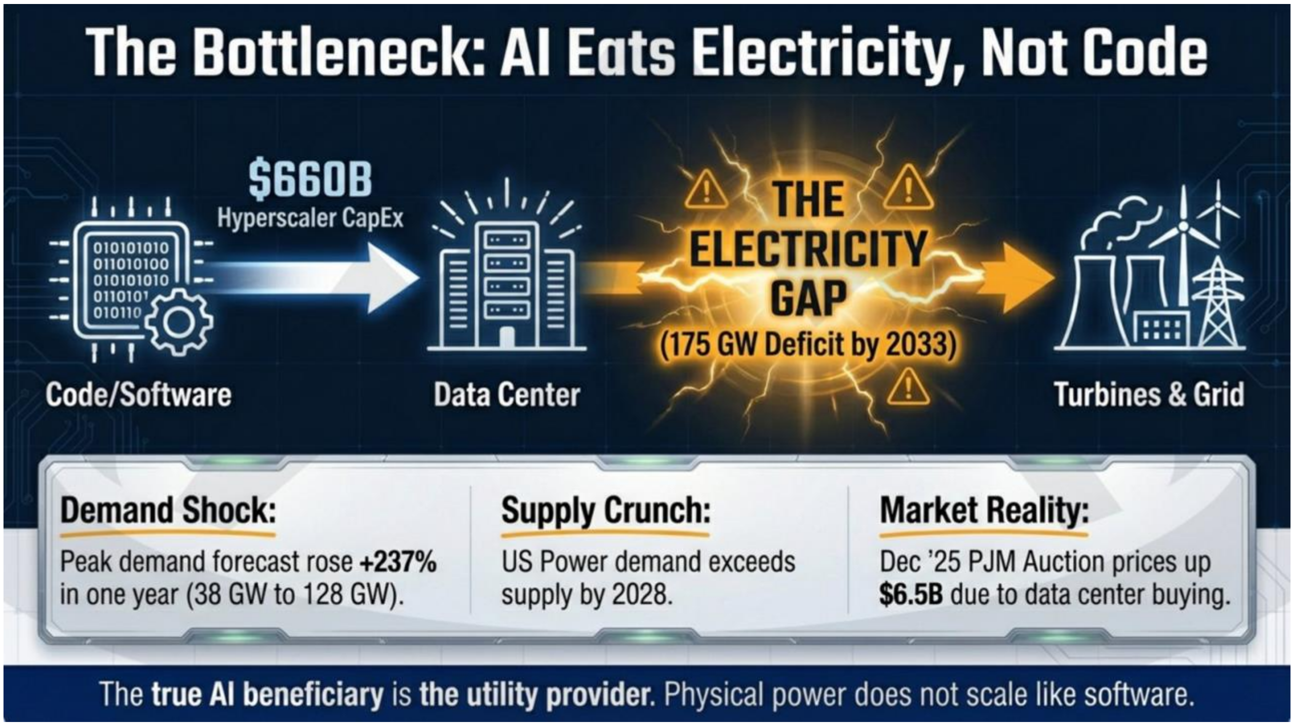

Figure 4. The bottleneck – AI eats electricity, not code

Key takeaway: As hyperscaler capex rises, electricity and grid capacity become binding constraints; transformers and turbines determine AI scaling.

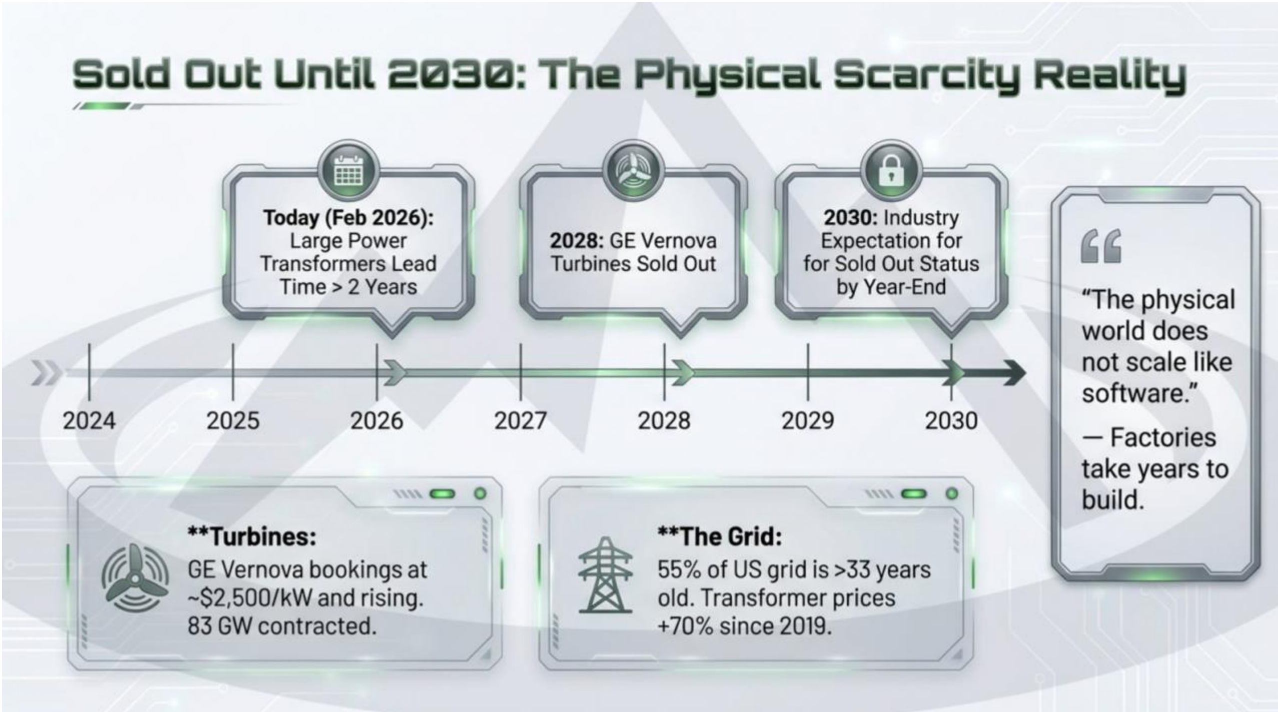

Figure 5. Physical scarcity reality – transformers, turbines, and grid age

Key takeaway: Transformer lead times and turbine backlogs imply multi-year scarcity that supports pricing power across critical grid equipment.

2. US Market Impact: The Three-Sigma Factor Dispersion

The recent volatility in factor performance is, in our view, a definitive regime change signal, not a routine pullback.

We are observing cross-factor dispersion at roughly the 99th percentile, a three-sigma move based on Barclays data that we have not seen in decades. Capital is leaving Growth, Momentum, and Low Volatility in favor of Value at speed.

Year-to-date, the Growth factor is down -5.2%, while the Value factor is up +7.6%. Under the surface, the market is acknowledging that the industrial "Real Economy" is now generating stronger momentum than speculative software multiples.

Analytical Deep Dive: The Hard Data Signal

This industrial resurgence is not a narrative—it is backed by hard data. The ISM Manufacturing New Orders Index jumped to 57.1 in January 2026, its highest level since February 2022. A single-month surge of +9.7 points is a statistically meaningful signal of stronger future US GDP.

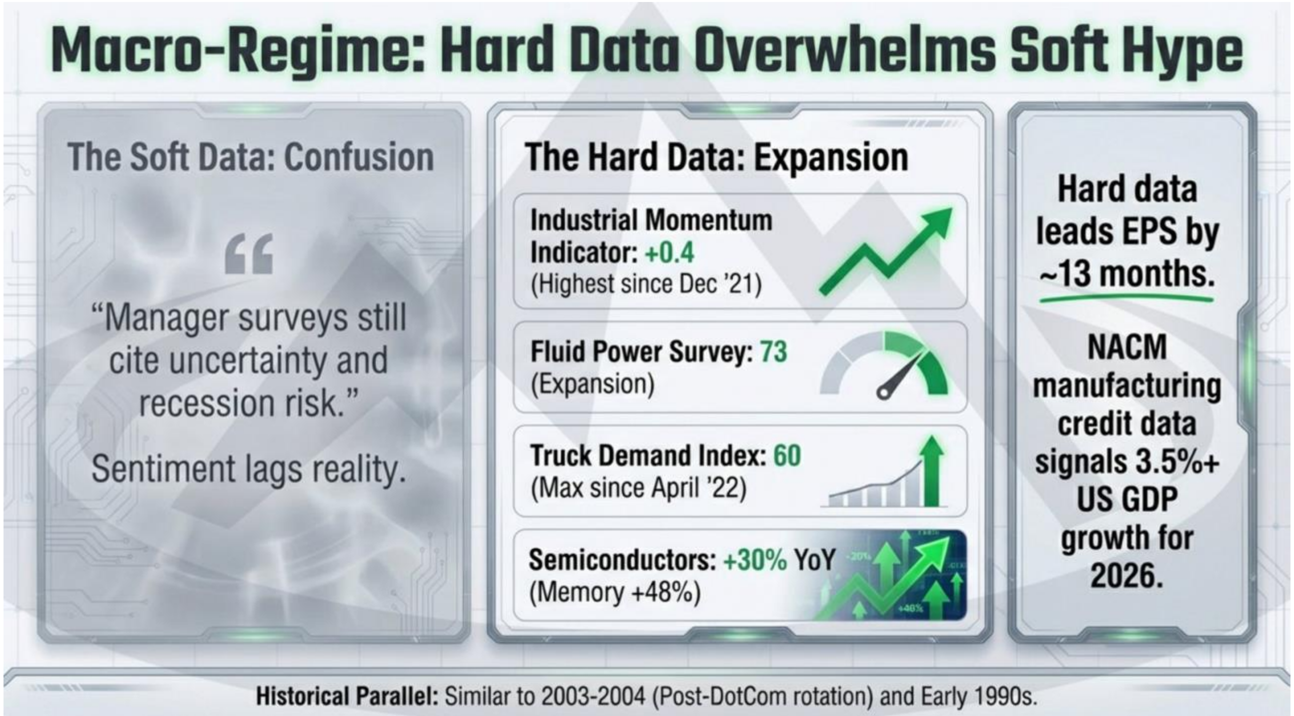

Figure 3. Macro regime – hard data overwhelms soft hype

Key takeaway: Industrial indicators are accelerating, and hard data is leading the market narrative despite soft-survey caution.

The NACM manufacturing credit index, which tracks real sales volumes, is now pointing to US GDP growth of 3.5% or higher in 2026. This is further corroborated by the Fluid Power Survey at 73 (deep expansion territory) and the Truck Demand Index at 60, its highest level since early 2022.

BofA Industrial Momentum and Financial Assets

The BofA Industrial Momentum Indicator has risen to +0.4, its highest reading since late 2021. Historically, this indicator has led global earnings growth by about 13 months, suggesting that the hard-data bottom is behind us.

In financial markets, the S&P 500 and Nasdaq are now wrestling with this factor rotation, while bond yields (e.g., $TLT, $IEF) remain sensitive to the inflationary pressures of a re-industrializing economy. The numbers are no longer speculative: capital equipment orders are up +3.4% year-over-year, confirming that the US is entering a multi-year, capex-intensive expansion.

3. Europe and Global Market Dynamics: Re-industrialization and Defense

Globally, capital is being redirected by two powerful imperatives: energy scarcity and sovereign security.

In Europe, the “Return of the Real Economy” is anchored in a large-scale shift toward defense and energy independence. At the NATO summit in The Hague, member states set a new 3.5% of GDP defense spending target. We expect this to trigger a “crowding out” effect: engineering talent, manufacturing capacity, and raw materials will increasingly be directed toward state security, leaving fewer resources available for civilian grid projects.

The EU’s SAFE (Security Action for Europe) initiative adds another layer, with a potential $178B earmarked for weapons procurement and defense manufacturing infrastructure. We see this as a long-duration driver of industrial demand.

The German Military Pivot and Commodities

Germany is emerging as a central pillar of this trend. Its 2026 defense budget has risen to €82.69B, and when we include special funds (Sondervermögen), total military spending is approaching €108B.

This implies persistent demand for metals and high-end engineering, placing structural pressure on global supply chains. Reflecting this, Goldman Sachs describes the ongoing rally in gold as driven by “insurance demand” for the broader commodity complex.

We expect structural deficits in copper and silver, as the global power grid build-out and defense sector compete for the same inputs. In our view, this keeps price discovery biased to the upside across key industrial metals.

4. Sectoral Analysis and Key Ticker Deep Dives

In this environment, the market is rewarding companies with large order backlogs, visible cash flows, and real assets, rather than “pure-play” software names with negative or minimal free cash flow. Industrials, Energy, and Materials are increasingly capturing the capital rotating out of overvalued technology.

$CSCO (Cisco Systems): The Defensive AI Infrastructure Play

Cisco’s FQ2 results came in at $15.3B in revenue, beating consensus. The more important story is the $2.1B in AI-infrastructure orders from hyperscalers, a 62% QoQ increase. These orders anchor Cisco firmly in the AI infrastructure stack.

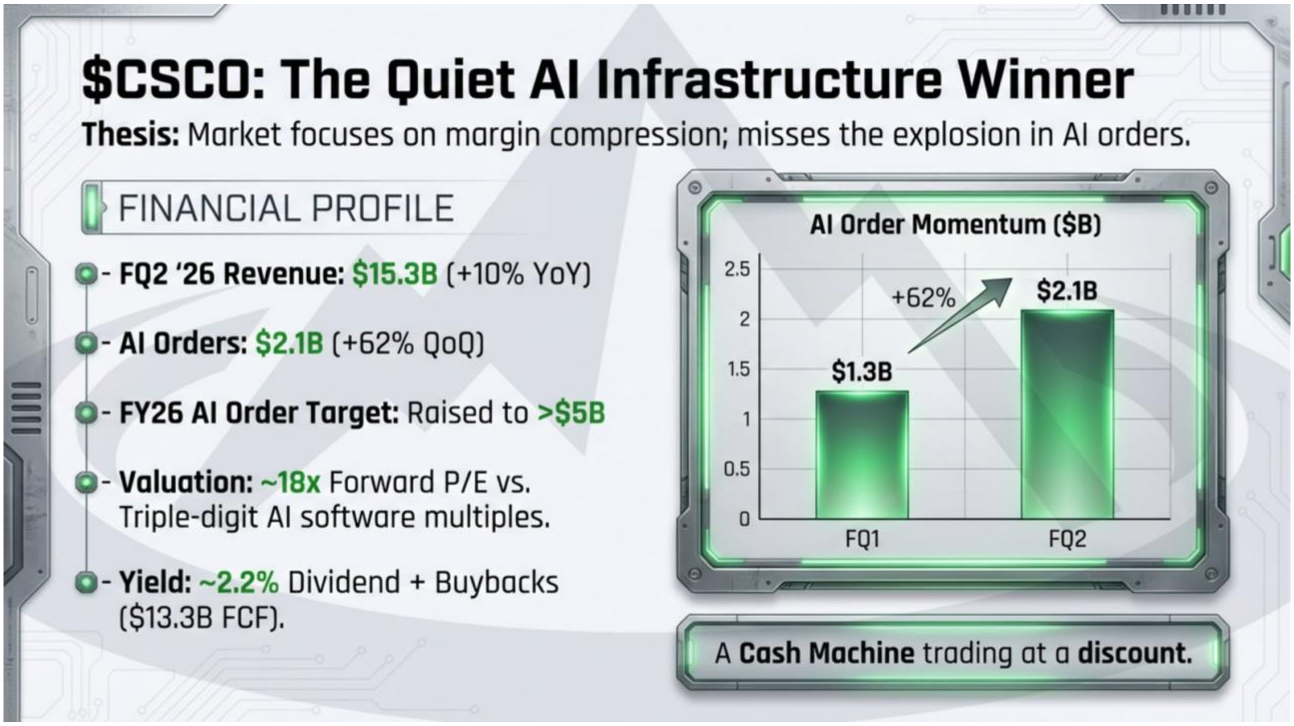

Figure 6. Cisco – the defensive AI infrastructure play

Key takeaway: Cisco's AI-infrastructure orders and FY26 target underscore its position in AI networking, with tangible earnings visibility versus software multiples.

Despite that, the stock fell 11% to about $76.85—a move we classify as "Marginal Dissonance." The sell-off was driven by temporary memory pricing dynamics and a hardware mix shift that weighed on gross margins.

Morgan Stanley still sees a base-case target of $91, supported by the multi-year "Cat 9K refresh cycle" in Cisco's core networking business, which accounts for roughly 70% of revenue. At 18x forward P/E with $14B+ in free cash flow, we view $CSCO as trading at a significant discount to software peers such as $PLTR or $SNOW, while offering more tangible earnings visibility.

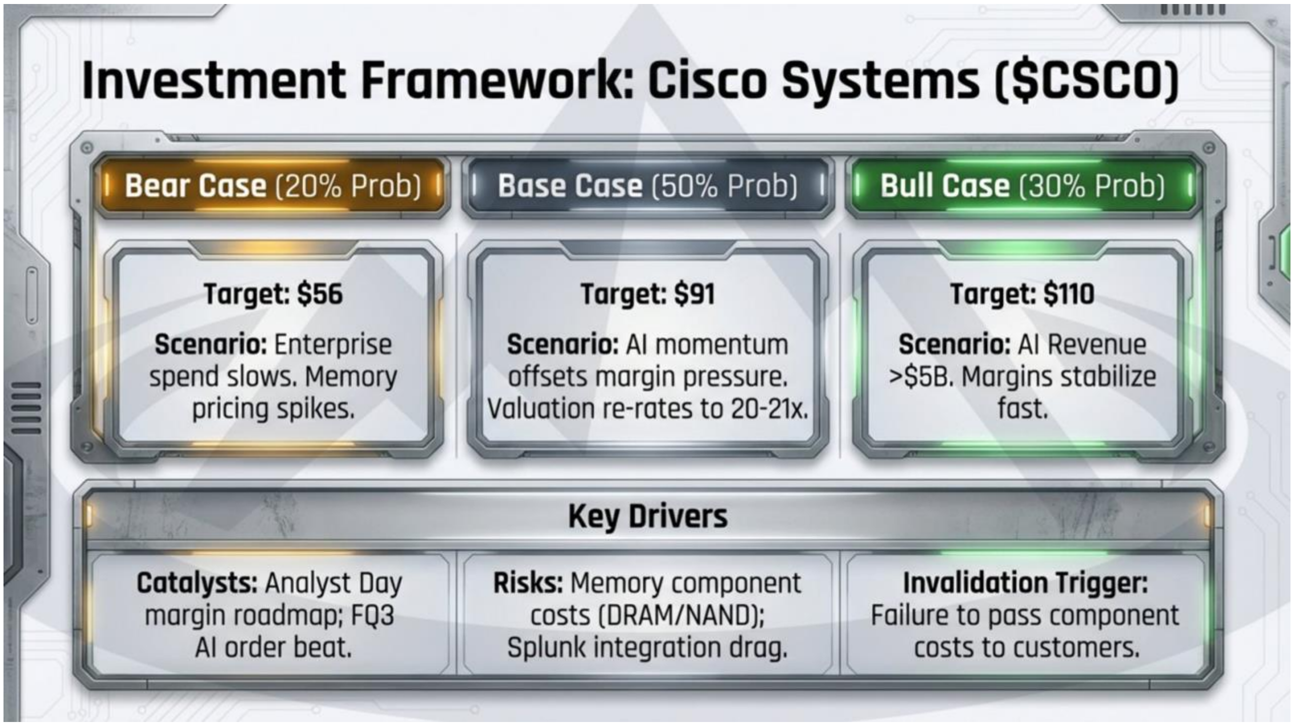

Figure 7. Cisco investment framework – scenarios and key drivers

Key takeaway: The upside case relies on sustained AI order momentum and refresh-cycle demand; key risks include margin pressure and execution.

$ENR1N (Siemens Energy): The Grid Supercycle Leader

Siemens Energy has just posted what it itself calls a “historical” quarter, with €17.6B in new orders and a €146B total backlog. In our view, it is the primary beneficiary of the grid supercycle.

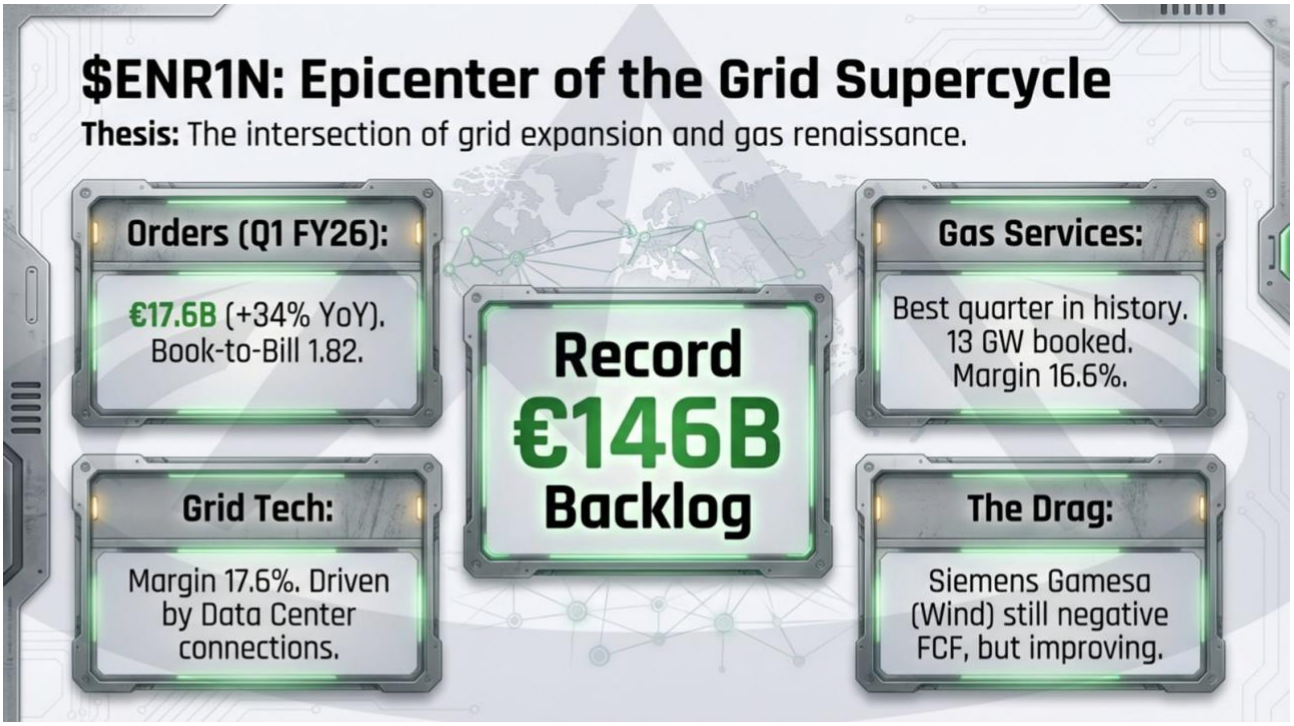

Figure 8. Siemens Energy – epicenter of the grid supercycle

Key takeaway: Record orders and a €146B backlog position Siemens Energy as a primary beneficiary of grid modernization and AI-driven power demand.

In a single quarter, the company booked 102 gas turbines, representing 13 GW of new capacity. Data centers alone account for 22 GW of the 80 GW gas turbine commitments, and these turbines are effectively sold out through 2028.

We see roughly a 2x multiples gap between $ENR1N and peer $GEV (GE Vernova). As Siemens Energy converts its backlog into high-margin revenue, we expect a significant valuation re-rating to follow.

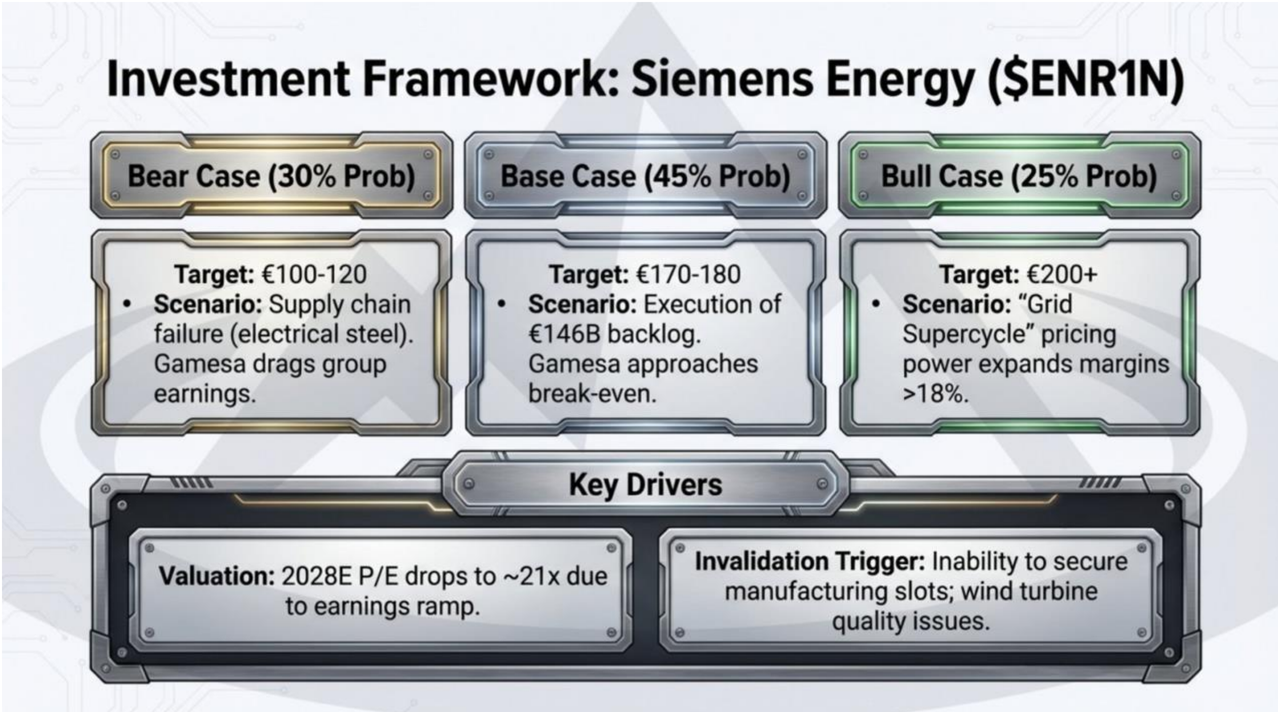

Figure 9. Siemens Energy investment framework – scenarios and key drivers

Key takeaway: Backlog conversion and margin expansion can drive a valuation re-rating; the key risk is delayed delivery or execution constraints.

$BA (Boeing): The Industrial Turnaround Story

Boeing is in the midst of a strategic turnaround. It has reported its strongest January order intake since 2012, including a high-profile Delta Air Lines order for thirty $787-10 aircraft.

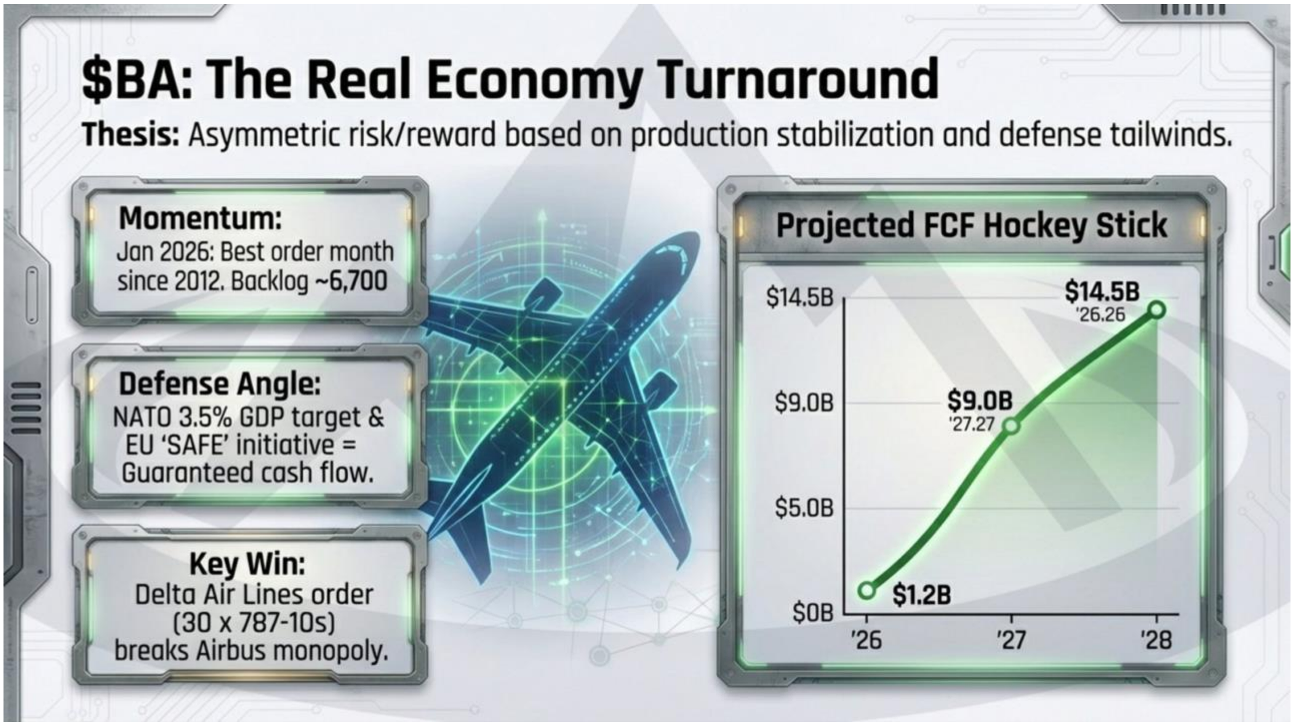

Figure 10. Boeing – the industrial turnaround story

Key takeaway: Boeing's reset targets a multi-year free-cash-flow inflection as production stabilizes and supply-chain control improves.

A key part of this reset is Boeing's move to reintegrate Spirit AeroSystems, bringing greater stability and control to a previously fragile supply chain. Analyst models now increasingly show a "hockey stick" free cash flow profile, moving from about $1.2B in 2026E to $9.04B in 2027E, and $14.57B by 2028E.

As 737 MAX production ramps toward 47 units per month, Boeing's Defense, Space & Security segment provides a stabilizing, high-visibility earnings base that supports the broader commercial recovery.

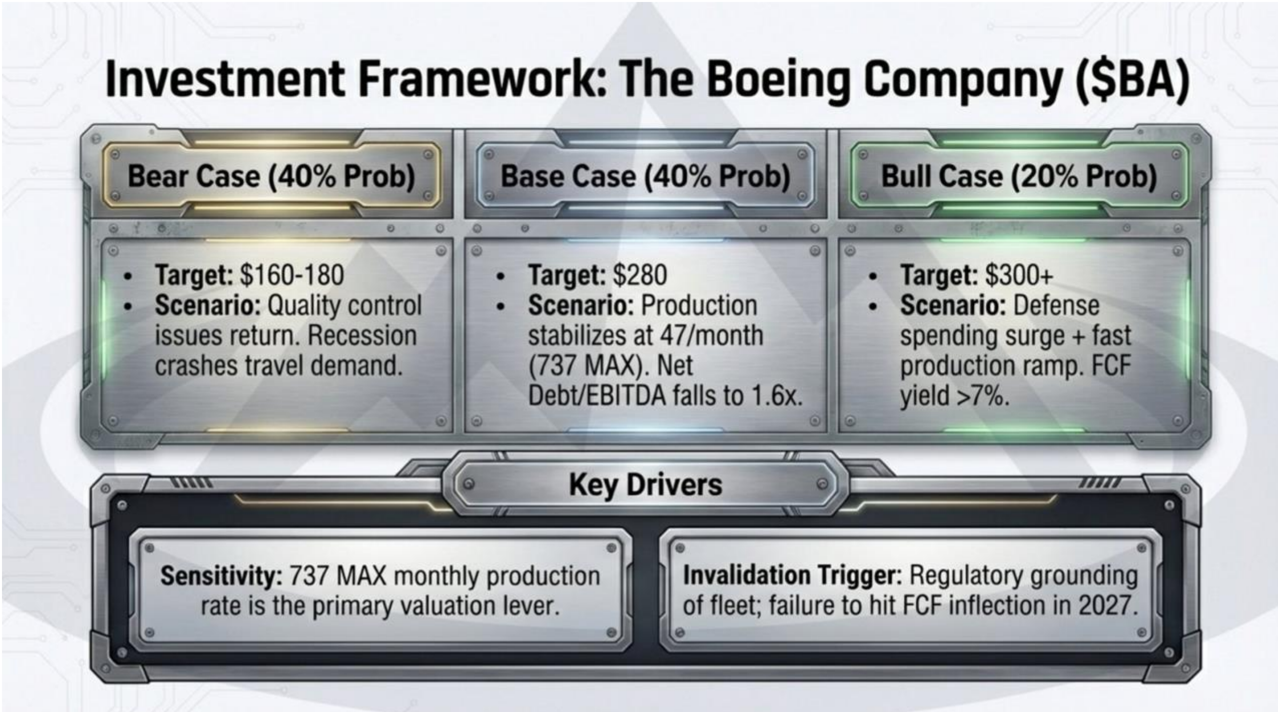

Figure 11. Boeing investment framework – scenarios and key drivers

Key takeaway: The bull/bear balance is driven by the MAX ramp and cash-flow execution; defense provides a stabilizing earnings base during the recovery.

5. The “Grey Rhinos”: Systematic Risks and Ignored Signals

While we are constructive on the industrial outlook, we are equally focused on the “Grey Rhinos”—high-probability, high-impact risks that are too often ignored.

Figure 12. Risk radar – systematic risks and ignored signals

Key takeaway: Even with strong industrial momentum, electricity constraints, credit fragility, and geopolitical shocks remain key downside risks.

The most pressing bottleneck is the projected 175 GW US power deficit by 2033. With lead times for large transformers now exceeding two years, the physical grid simply cannot expand at the same pace as hyperscalers' software ambitions.

This introduces a very real risk: at some point, AI demand hits a hard physical ceiling, forcing hyperscalers to cut capex guidance and recalibrate expectations for AI-driven growth.

Credit Vulnerabilities and Factor Fatigue

The financial plumbing behind this cycle is also under strain. Around $33B in capital is now tied up in CLO ETFs that have never been tested in a genuinely high-rate credit cycle.

We are starting to see "signals before the noise." A BlackRock private credit CLO recently failed an Over-Collateralization (OC) test, forcing a fee waiver. Blue Owl's failed fund merger highlights growing liquidity mismatches between NAV and market prices.

In parallel, we see the risk of "Factor Fatigue." Even within a structural rotation to Value, some small-cap industrials may start to outrun their fundamentals, leaving late entrants exposed if earnings fail to catch up with elevated multiples.

6. MoatPeak Scenarios and Probabilities (12–24 Months)

Our 12–24 month outlook incorporates both the strong industrial momentum and the emerging credit and infrastructure risks.

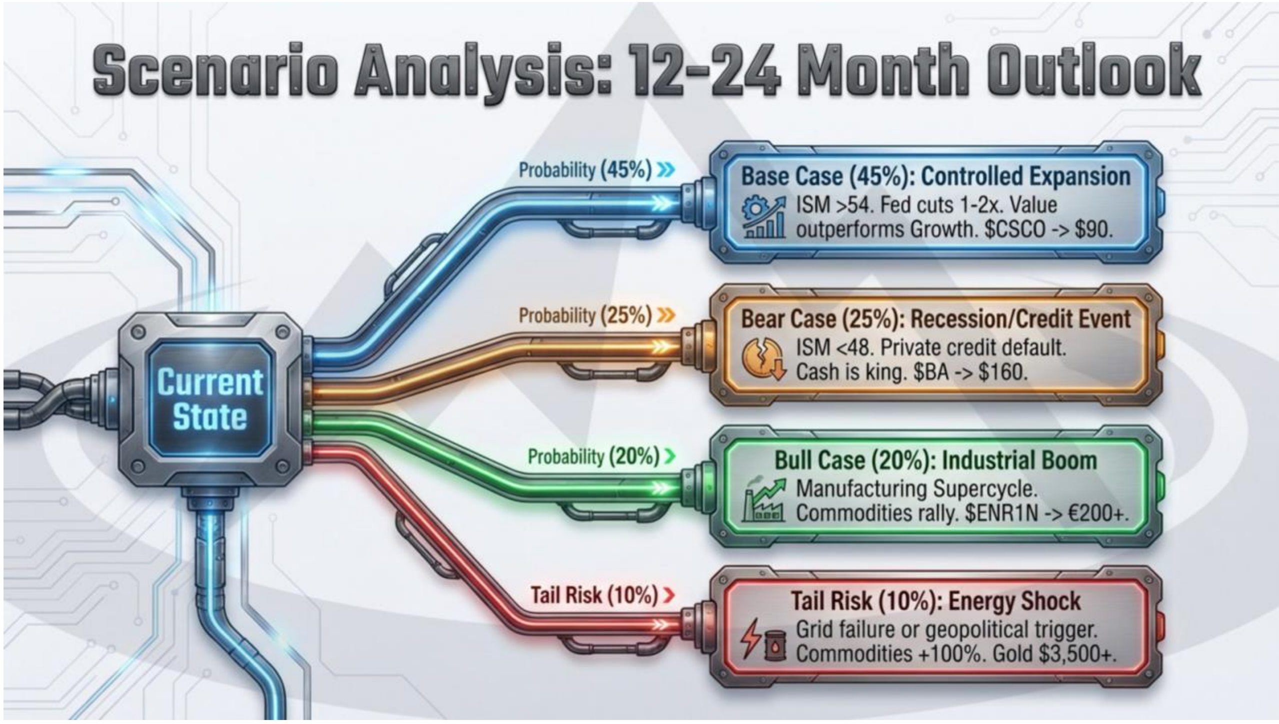

Figure 13. Scenario analysis – 12–24 month outlook

Key takeaway: Base-case controlled expansion remains most likely, but bear and tail-risk outcomes justify hedging and disciplined sizing.

Base Case (45%): Controlled Expansion

In our base case, ISM New Orders remain above 54, and hyperscalers realize 80%+ of their planned AI capex. We see $CSCO advancing into the $85–90 range as the campus-refresh cycle plays out. In this environment, quality industrials lead the market, supported by steady margin expansion and disciplined capital allocation.

Bull Case (20%): Industrial Super-Boom

In a bullish outcome, ISM exceeds 58, and structural commodity deficits drive copper and silver to record highs. Siemens Energy ($ENR1N) moves above €200 as management raises guidance off the €146B backlog. A combination of reshoring, government infrastructure bills, and defense spending adds a second powerful layer of demand, amplifying the industrial upcycle.

Bear Case (25%): Credit Event and Recession

In our bear case, ISM falls below 48. A “DeepSeek moment 2.0” disrupts the AI narrative and forces hyperscalers to aggressively slash AI capex. Rising defaults in private credit—particularly in the CLO market—trigger a liquidity crunch. Under this scenario, $BA could retreat into the $160–180 range as renewed cash burn concerns resurface.

Tail Risk (10%): Supply Chain / Energy Collapse

Our tail-risk scenario centers on geopolitical shocks to critical infrastructure. Attacks on energy facilities or power grids would drive gold to $3,500+, while physical assets would turn volatile but ultimately become the only credible store of value during reconstruction.

7. MoatPeak Insights: The Synthesis Protocol

Our core conclusion—what we call the "MoatPeak View"—is straightforward: infrastructure scarcity is the new alpha.

We advocate a "Long Siemens Energy / Short AI-Software" pair trade. The rationale is that software is increasingly commoditized by rapid model iteration, while the physical "iron" required to run those models remains structurally scarce, capital-intensive, and slow to replicate.

At MoatPeak, we consistently prioritize Facts (backlogs, ISM readings, confirmed turbine orders) over Estimates (scenario probabilities, long-dated forecasts). The 3.5% NATO defense target is not just a military statistic; it is a powerful catalyst for industrial crowding-out, keeping pricing power elevated for industrials and raising the cost of capital for purely virtual businesses.

In our view, the shift from generic "Growth" to "Quality Earnings in Physical Assets" is a regime change, not a trade. It is structural, not tactical.

8. Strategic Implications for the Retail Investor

Recognizing the return of the real economy is, in our view, the single most important investment judgment an individual investor can make in 2026.

From here, we believe portfolios should be built around a few clear principles.

Portfolio Rebalancing and Exposure

We see merit in gradually reducing concentration in Mega-cap Tech and increasing exposure to Quality Industrials with verified order books and backlogs. No individual sector, including Industrials, should exceed 25% of total exposure, in order to manage the inherent volatility of a capex-heavy cycle.

Hedging through Non-Discretionary Infrastructure

We treat gold and grid infrastructure assets such as $ENR1N and $GEV as non-discretionary hedges. Electricity demand is effectively inelastic, which gives these assets defensive characteristics during economic slowdowns and credit shocks.

Execution Strategy

Our preferred approach is a phased entry over 3–6 months, allowing investors to navigate ongoing factor dispersion instead of trying to time a single entry point. The focus should remain on companies with strong pricing power, high-visibility cash flows, and real leverage to energy and manufacturing bottlenecks.

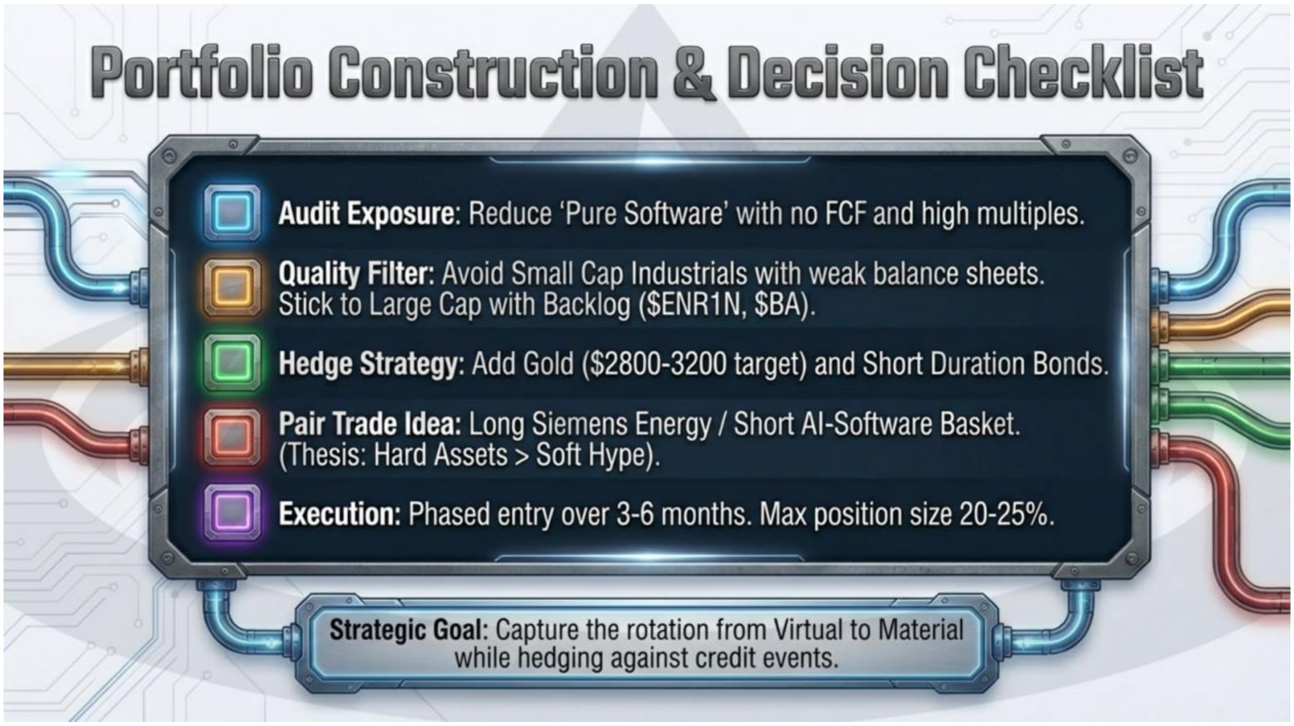

Figure 14. Portfolio construction – decision checklist

Key takeaway: Rebalance toward backlog-backed industrials and grid assets, cap sector concentration, and phase entries to manage factor dispersion.

The real economy is back at the center of the capital cycle. For investors willing to look beyond the screen and into the steel, the future is made of iron.

Figure 15. Closing perspective – iron beats code

Key takeaway: The cycle is shifting toward scarce physical infrastructure; investors should focus on pricing power and high-visibility cash flows tied to bottlenecks.

Appendix

Disclosures and disclaimer (from the slide deck).

MoatPeak — Independent Research

MoatPeak is an independent macroeconomic and sector-focused research platform dedicated to helping investors navigate complex market regimes through scenario-based analysis, institutional synthesis, and disciplined risk frameworks.

Our research integrates insights from global investment banks, asset managers, and macroeconomic data sources, translated into clear, actionable perspectives for long-term, strategic investors.

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Figure 16. Disclosures and disclaimer

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