



# Causeway

## Notes from the Road: The New Infrastructure Cycle

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Recent research travel across Europe, the United States, and Asia revealed a consistent message to Causeway investment professionals: a new global investment cycle is underway. Artificial intelligence and electrification are reshaping industries, while geopolitical realignment is influencing where capital is deployed across sectors—from semiconductors to power grids to financial systems.

### AI's Supply Chain Squeeze

Brian Woonhyung Cho, Fundamental Portfolio Manager

Across Japan, Taiwan, and Korea, the AI semiconductor boom remains constrained by supply.

Travel across the region highlighted a consistent theme: AI infrastructure demand continues to outpace supply, with constraints in memory, advanced packaging (how chips are connected and assembled), and key electronic components.

#### **AI growth is still supply-constrained**

Across the hardware supply chain, companies consistently described customer orders well above current production capacity. Rising processing and energy requirements in next-generation AI servers are driving higher content across memory, passive components, power and cooling systems, and advanced packaging. As a result, suppliers reported strong order visibility and increasing pricing leverage.

#### **Memory investment is accelerating—but relief is distant**

Amid a historic memory shortage, all three major DRAM (dynamic random-access memory) suppliers are accelerating capacity investment, driving stronger orders for semiconductor equipment. However, new fabrication plants will take years to ramp up, meaning meaningful supply relief is unlikely until late 2027.

#### **Key Takeaways**

- **AI infrastructure demand continues to exceed supply.** Semiconductor capacity constraints—particularly in memory, advanced packaging, and electronic components—are extending the current technology investment cycle.
- **Policy and capital flows are shifting.** In Europe, policymakers are pushing to keep more savings invested domestically to fund strategic industries and economic growth.
- **Capital investment is accelerating globally.** From semiconductor fabs in Asia to power grids in the United States, companies are ramping up spending to support the next generation of digital and energy infrastructure.



Equipment lead times are lengthening and pricing is rising modestly, suggesting the semiconductor investment cycle may remain elevated and accelerate into 2027.



**Brian Woonhyung Cho**

Fundamental Portfolio Manager

### **Memory inflation is reshaping device markets**

Tight memory supply is pushing up component costs across PCs and smartphones. High-end devices remain relatively resilient, but low- and mid-tier segments are facing pressure as manufacturers absorb higher bill-of-materials costs. Several companies suggested that limited access to memory could also shift share among device vendors.

### **AI disruption of software remains a key debate**

Investor conversations focused on AI's potential impact on software, videogames, and IT services. Company perspectives were more measured: while AI is expected to improve developer productivity and lower certain production and delivery costs, enterprises still face significant modernization and data integration work before AI can be deployed at scale. In some cases, companies noted that AI may increase—rather than replace—software development output, allowing more products and features to be released.

#### ***Causeway fundamental view:***

Causeway global and international value portfolios have exposure to the buildout of AI infrastructure and the broader semiconductor investment cycle. Holdings tied to memory and other essential chip components may benefit as data centers expand, while exposure to large cloud providers should provide participation in the growing need for computing power to support AI.

In IT services, we expect a shift from a headcount-driven business model toward more IP- and outcome-based delivery. While AI-driven productivity gains may create near-term pricing pressure, they should expand the scope of services and support longer-term growth opportunities for the industry.



## Europe Wants Its Capital Back

Conor Muldoon, Portfolio Manager

European policymakers and financial leaders increasingly share the same goal: keep more of Europe's vast savings invested at home. Through capital markets reform and industrial policy, the region is working to redirect trillions of euros toward its own banks, companies, and strategic industries—particularly to support defense, innovation, and digitization of the economy. Geopolitical pressures are reinforcing this shift, pushing Europe to strengthen its internal market and economic resilience. Recent policy developments signal growing momentum to improve competitiveness and deepen the single market for investment capital.

### **Europe's banks are in good health**

European banks generally are operating with strong capital, limited credit risk, and solid profitability. Across meetings in Paris, executives repeatedly noted that Europe has far less exposure to private credit than the US, leaving balance sheets better positioned if stress emerges in that asset class—an important foundation as Europe seeks to channel more investment through its financial system.

### **A generational shift in commercial banking**

One large French bank pointed to a wave of ownership transitions among mid-sized European businesses. As founders retire and companies change hands, banks with advisory, lending, and capital markets capabilities expect to deepen relationships with the next generation of owners, helping keep financing and strategic advice within Europe's banking system.

### **Redirecting Europe's savings**

Policymakers and regulators repeatedly highlighted the push for a Savings and Investment Union, aimed at keeping more European household savings invested within the bloc. New investment rules already require a large share of certain capital flows to remain in Europe, potentially redirecting hundreds of billions of euros into regional markets. The focus is increasingly on channeling this capital into domestic investment rather than exporting it abroad.

### **Europe's policy: from regulation to strategic autonomy**



**Conor Muldoon, CFA**

Fundamental Portfolio Manager



The tone in Paris felt notably different from even a year ago. Officials framed Europe’s choice starkly: adapt or fall behind in defense, energy, and technology. Industrial policy and strategic autonomy are now central priorities, supported by efforts to reduce fragmentation and make it easier for companies to operate and scale across the region. The launch of the EU’s “One Europe, One Market” agenda highlights that policymakers are beginning to act on long-standing competitiveness concerns and move toward a more integrated capital market.

*Causeway fundamental view:*

In this context, the most compelling opportunities lie in well-capitalized, pan-European and multi-market banks that combine strong fee franchises with disciplined cost control and visible capital return stories. These banks help companies raise capital through equity and debt markets and stand to benefit from the rerouting of European savings. At the same time, technology is improving efficiency and supporting margins. Despite this, many are still valued as “old Europe,” even as their earnings trajectories are strengthening.

## America’s Power Surge



**Ryan Greenwald, CPA**

Fundamental Research Analyst

### Ryan Greenwald, Fundamental Research Analyst

My meetings with utilities, power producers, and equipment suppliers highlighted the scale of the challenge facing the US electricity system. Data centers, electrification, and industrial reshoring are driving a step-change in power demand that an aging grid and generation fleet were not built to support. The result is a wave of investment across generation, transmission, and grid infrastructure, with policy debates, affordability concerns, and supply constraints shaping how that buildout unfolds.

**Utilities are entering a stronger growth cycle**

Sector growth expectations continue to move higher as companies incorporate accelerating load growth into their outlooks. The median US utility annual earnings growth forecast has moved from 5–7% historically to nearly 8% today, with room for further increases as spending on data center-related infrastructure begins to flow through into earnings.



### **Data centers are reshaping the power market**

Political focus on electricity affordability is pushing hyperscalers toward “bring your own generation” models, ensuring new demand funds new supply. Utilities that can build new power supply and show clear benefits to customers appear best positioned. Merchant power producers who have relied on selling existing power at premium prices may face a more challenging path.

### **Market structure will determine the winners**

In vertically integrated markets, utilities that own their power plants can structure agreements where large customers help fund new infrastructure while lowering costs for residential customers. In competitive markets, where power is purchased and passed through to customers, tight supply has led to price spikes and increased political scrutiny. As new power supply is built in these markets, the value of existing assets may come under pressure.

### **Supply constraints are extending the cycle**

The cost of new gas-powered plants has more than doubled in five years, with turbines, engineering contractors, and skilled labor all in tight supply. Manufacturers expect turbine production slots through 2029–2030 to be sold out by year-end, suggesting the current investment cycle could extend well into the next decade.

#### *Causeway fundamental view:*

Utilities in Causeway global and international value portfolios should benefit from rising electricity demand, driven in part by data center growth, and the investment required to expand power generation and grid infrastructure.

Companies with strong balance sheets and operating in supportive regulatory environments appear best-placed to capture these opportunities in the US and internationally.

## **Conclusion: Identifying Opportunities in an Emerging Investment Cycle**

Across regions and sectors, our research points to a new infrastructure cycle underway, driven by AI, electrification, and geopolitical priorities. In Europe, this is increasingly accompanied by a deliberate effort to redirect domestic savings toward funding defense and innovation, and to build a more competitive, integrated capital market. Our fundamental investment process is designed to identify inflection points—when industry conditions are improving but valuations have yet to fully reflect the upturn. Today, across multiple geographies, we see evidence of those conditions taking shape.

Travel remains central to our fundamental research process. Meeting with companies, policymakers, and industry participants provides context that cannot be captured in data alone. It reveals bottlenecks, shifts in behavior, and emerging opportunities before they are widely recognized. These first-hand



insights reinforce our view that the next phase of the cycle is already underway yet still underappreciated by the market, creating compelling opportunities to generate attractive returns for our clients.

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