

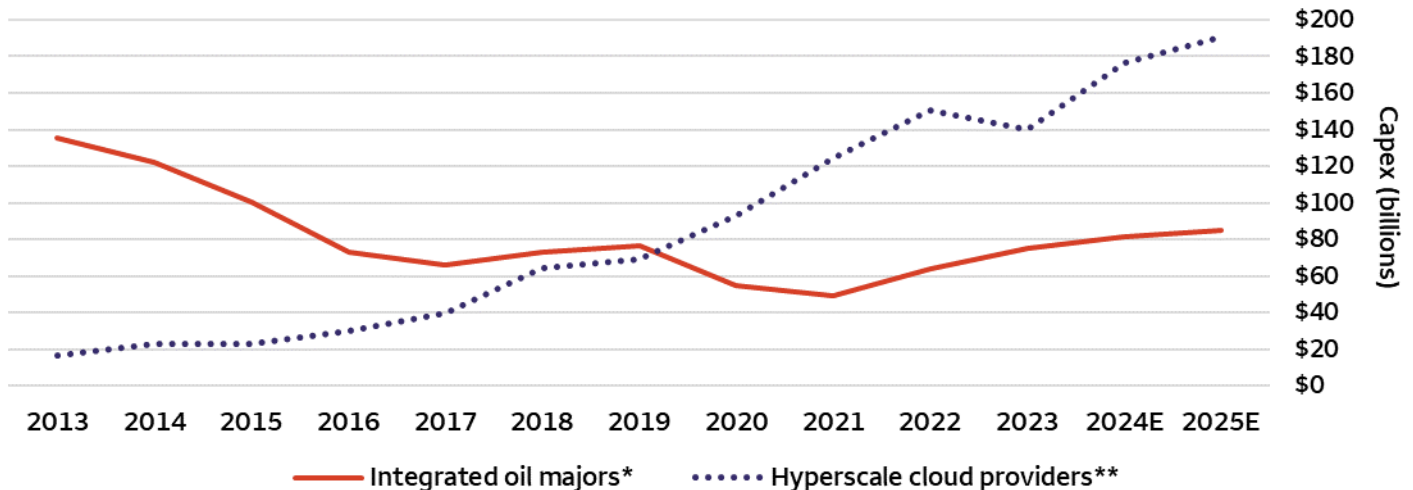


Chart of the Week

Weekly market analysis on key market indexes

March 12, 2024

Growing data center investment matters for Industrials



Sources: FactSet and Wells Fargo Investment Institute. Based on calendar year data; 2024 and 2025 data represent consensus estimates from FactSet. Capex = capital expenditures. *Four largest global integrated oil majors by market capitalization (BP Plc, Chevron Corporation, Exxon Mobil Corporation, Shell Plc). **Four largest cloud infrastructure companies by market capitalization (Alphabet Inc., Amazon.com, Inc., Meta Platforms Inc, Microsoft Corporation). Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

Hyperscale cloud providers' increasing capex leading to meaningful downstream impacts

Investors remain intently focused on the latest happenings in the world of semiconductors, and we can understand why. To that effect, we would point out that the largest driver of this enthusiasm — rising demand for data center construction — has trickle-down effects across the Industrials sector. Based on company disclosures, we believe that for those involved, this end market represents anywhere from a low-single-digits percentage of revenue on the low end to a mid-teens percentage on the high end.

For a broader perspective, we would note that capex for the four largest hyperscale cloud companies began to exceed those for the four largest integrated oil majors (notoriously capital-intensive) in 2020 and are expected to increase to more than double by 2025 (see chart). McKinsey & Company projected in its January 2023 report, “Investing in the rising data center economy”, that U.S. data center electricity consumption would grow roughly 10% annually from 2023 – 2030.

What it may mean for investors

Bottom line — data centers now represent a meaningful end market for a growing number of companies in the Industrials sector, on which we are favorable. We expect that increased demand for electrification, cooling, and back-up power supply in support of data centers should be tailwinds for select companies in the Electrical Equipment, Building Products, and Industrial Machinery sub-industries.

Larry Pfeffer, CFA; Equity Sector Analyst, Industrials

Excerpted from *Investment Strategy Report* (March 4)

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Definitions

Integrated Oil: BP Plc, Chevron Corporation, Exxon Mobil Corporation, Shell Plc

Hyperscale Cloud Providers: Alphabet Inc., Amazon.com, Inc., Meta Platforms Inc, Microsoft Corporation

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