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Investments - Flash

The Utilites' Electricity Super-Cycle

An opportunity driven by AI and electrification

After an exceptional run fueled by speculation about energy demand from the digital sector, the industry experienced several waves of short-term pullbacks in 2026. Uncertainties surrounding monetary policy and the maintenance of high interest rates weighed on traditional grid operators. Since the sector is inherently highly indebted to finance its infrastructure, rising borrowing costs are affecting valuations. The S&P 500 Utilities Index has slipped 10% from its February high and is now back at likely technical support levels. So-called "independent power producers" have seen significant declines from their all-time highs. This pullback stems from investors reassessing the exact timeline for the opening of major data centers and unwinding speculative overheating. Some quarters have shown a temporary decline in retail electricity consumption volumes (due to weather fluctuations and cautious household behavior), disappointing the market regarding very short-term revenue growth. In our view, the recent decline offers an attractive entry point, as the long-term fundamentals of energy demand have never been stronger. Electricity consumption in data centers is growing at an unprecedented rate. AI servers require a continuous (baseload) power supply 24/7. This is significantly increasing the value of low-carbon generation capacity (nuclear) as well as fast-start gas-fired power plants to ensure grid stability. Outside the tech sector, electricity demand is rising rapidly due to the electrification of transportation and heating, as well as the deployment of semiconductor and battery factories across the United States. Furthermore, for regulated grid operators, sustained demand growth enables them to secure regulatory approval to invest billions in grid modernization, guaranteeing a predictable and sustainable return on equity. The segment of independent power producers and nuclear energy benefits from selling power on the wholesale market or through direct over-the-counter contracts with tech giants at premium prices. Specialists in selling electricity to consumers and businesses are also capitalizing on price volatility and generating high free cash flows, which can be used to reward shareholders. It appears that recent consolidations offer an attractive new opportunity, combining significant protection against downside risks with exposure to growing energy demand in the United States, which is likely to generate substantial value creation.