GLOBAL STRATEGY PAPER NO. 76

The Post Modern Cycle – Navigating the Capex Boom

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- **The Post Modern cycle is reshaping equity returns.** This cycle marks a transition away from decades of disinflation, deregulation, falling rates and globalisation toward higher macro volatility, rising real rates, greater state intervention and regionalisation. The composition of returns is likely to shift further away from valuation as a driver of returns toward EPS growth.

- **A capex supercycle is taking hold.** The AI revolution is generating a new engine of growth and private sector investment spending. At the same time, a greater focus on energy security and geopolitics is triggering a synchronised surge in public investment. Supply chains are being reconfigured for resilience, raising capital intensity and structurally increasing cost bases, as the cycle shifts from capital-light growth to capital-intensive expansion.

- **Markets are broadening opportunity sets.** The combination of higher private capex demand, to fund the AI boom, and a growing need for governments to borrow is putting upward pressure on the cost of capital, driving higher growth in technology and increasing values of real assets. The result is rising cross-sectional dispersion, increasing the scope for alpha generation.

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The Post Modern Cycle – Navigating the Capex Boom

In our 2022 Global Strategy Paper, *The Post Modern Cycle; Positioning for Secular Change*, we focused on a series of emerging structural changes that we argued would drive a different set of challenges and opportunities for investors compared with previous cycles. We described the period post WWII through to the late 1970s as the '*Traditional' cycle*, which was characterised by high volatility in macro variables. The 1980s saw the emergence of what we describe as the *'Modern' cycle*, dominated by low inflation and macro volatility coupled with the effects of globalisation. The '*Post Modern' cycle* refers to the period post the pandemic when dramatic changes began to occur in economies, geopolitics and technology.

- **The traditional investment cycle (pre 1980s)** was generally short and volatile reflecting booms and busts and periods of high and low inflation and interest rates; investors typically required a high dividend yield to compensate for the risks in equity markets.
- **The 'Modern' cycle (from the early 1980s)** was characterised by more stability and predictability. It benefited from sustained falls in inflation, interest rates and risk premia. Geopolitical tensions eased and supply side reforms accompanied waves of deregulation, the end of capital controls, deeper capital markets and stronger world trade growth. A new era of globalisation drove profit shares of GDP to record highs. Independent central banks and forward guidance contributed to longer and less volatile economic cycles (see Exhibit 2).
- **The 'Post Modern' cycle (post the pandemic)** is likely to be driven by a different set of macro conditions and priorities, implying different styles of investment and opportunities.

Among the changes shaping the shift from the modern to post-modern cycles we included a transition from:

- Disinflation towards reflation;
- QE and zero interest rates towards higher interest rates;
- Lower to higher government debt and cost of capital;
- Globalisation towards regionalisation;
- Low capital intensity towards higher infrastructure spending;
- Growth scarcity towards more diversified growth opportunity.

Since 2022, when we wrote about the Post Modern cycle, other developments - the war in Ukraine and Iran, rise in US tariffs, the emergence of AI, and changes to the geopolitical landscape - have amplified and accelerated many of these nascent themes. In this paper, we examine some of these changes, how the market is reacting and adapting to them, and what investment opportunities they create.

The 'Modern' super cycle, 1982–2007

The stark contrast in some of these drivers becomes more obvious when we look at the dominant trends that shaped financial markets in the 40 years since the peak of global

interest rates in 1982. For economies and equity markets, the key drivers were:

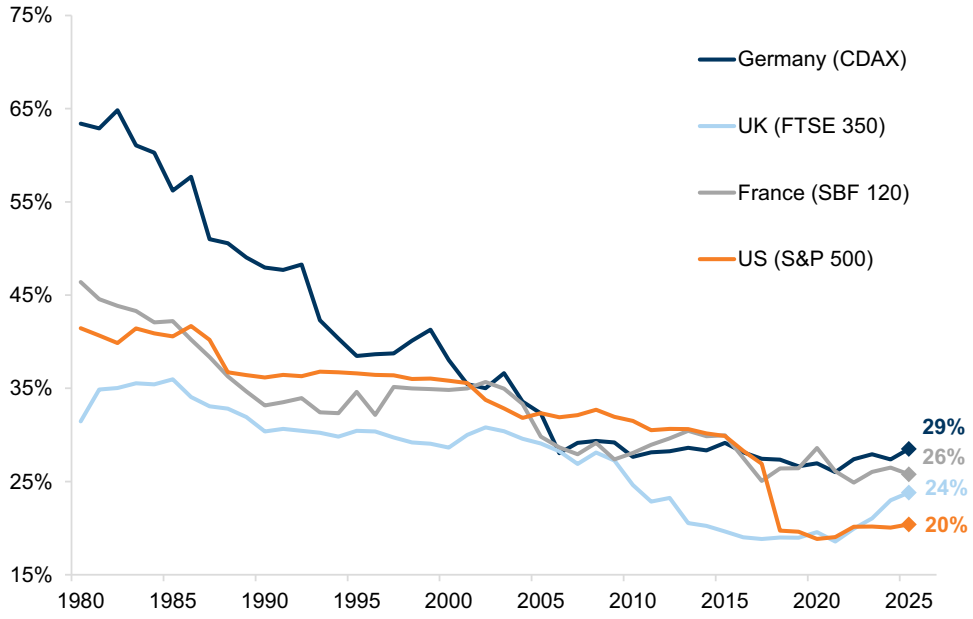
Low valuations and disinflation

The start of this super cycle followed the bruising de-rating and poor returns of financial assets driven by the combination of high inflation and rising rates in the 1970s. At the end of the decade, the so-called Volcker credit crunch had pushed policy rates in the US from around 10% to close to 20%, triggering a recession and a deep bear market; **valuations collapsed and the S&P 500 reached a trough trailing P/E of 7x.** As inflation reached a peak, and interest rates began to moderate, equity and bond markets staged a major recovery.

Supply side reforms and lower taxes

In combination with easing inflationary pressures and lower interest rates, sweeping economic reforms began to emerge. The Reagan and Thatcher 'revolutions' resulted in waves of deregulation, lower unionisation, privatisation, lower taxes and the end of credit controls (Exhibit 1). Eventually, many other countries followed suit, supporting a broader economic recovery.

Exhibit 1: Corporate tax rates fell from 1980s to 2020
Effective corporate tax rate. Historical constituents kept constant before year: 1989 (S&P 500), 1996 (FTSE 350), 2000 (SBF 120 and CDAX)

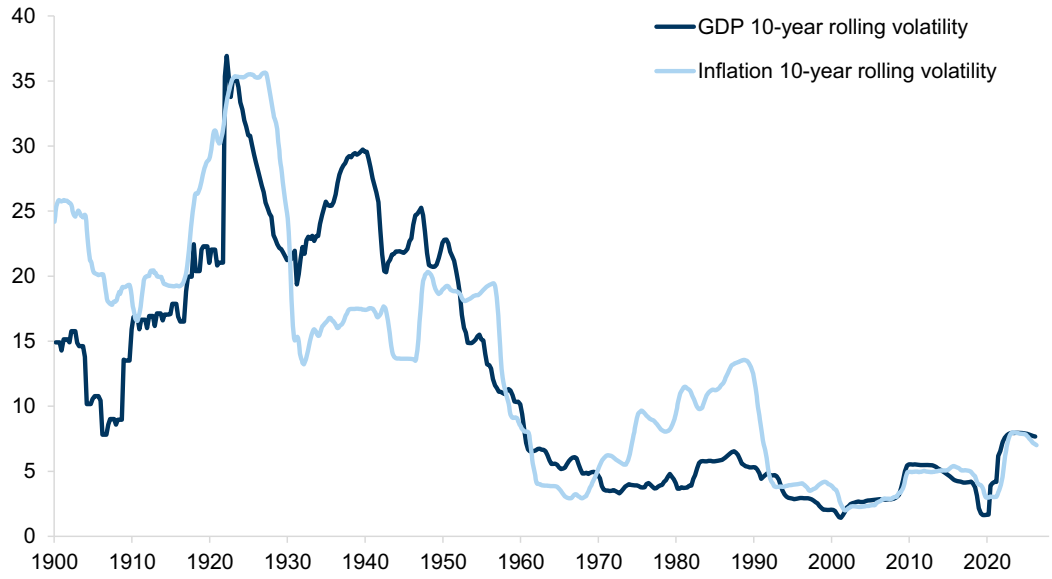


Source: Datastream, Goldman Sachs Global Investment Research

Lower macro volatility

The combination of these factors resulted in a healthier mix between growth and inflation as well as an era of lower volatility in macro variables (Exhibit 2).

Exhibit 2: The 'Modern' super cycle was characterised by lower volatility in macro variables
Data for the US

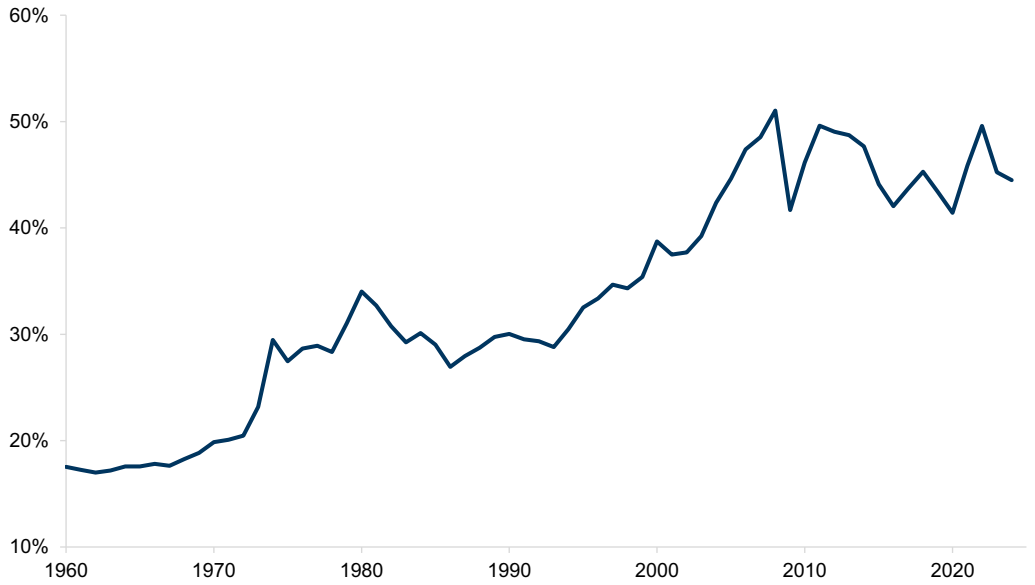


Source: Goldman Sachs Global Investment Research

Lower tariffs and rising globalization

There was a concerted shift towards lower trade tariffs, which, together with the ending of many capital controls, boosted world trade growth and spurred economic integration (Exhibit 3). The 1986 Uruguay Round of GATT was more comprehensive than anything that had come before. It included services and capital as well as textiles and agriculture and was the first time that developing countries played an active role in trade negotiations. This marked the start of a new era of globalisation that expanded rapidly following the collapse of the Berlin Wall in 1989, the signing of NAFTA in 1994, India joining the WTO in 1995, and, finally, China joining in 2001. **Between 1995 and 2010, the pace of world trade growth grew at twice the pace of World GDP.** The outsourcing of manufacturing to lower-cost regions of the world boosted world trade and profit shares of GDP and the cost of importing capital goods back to the West dropped dramatically.

Exhibit 3: World trade growth has increased dramatically in the period of globalisation
World merchandise imports plus exports, % of GDP

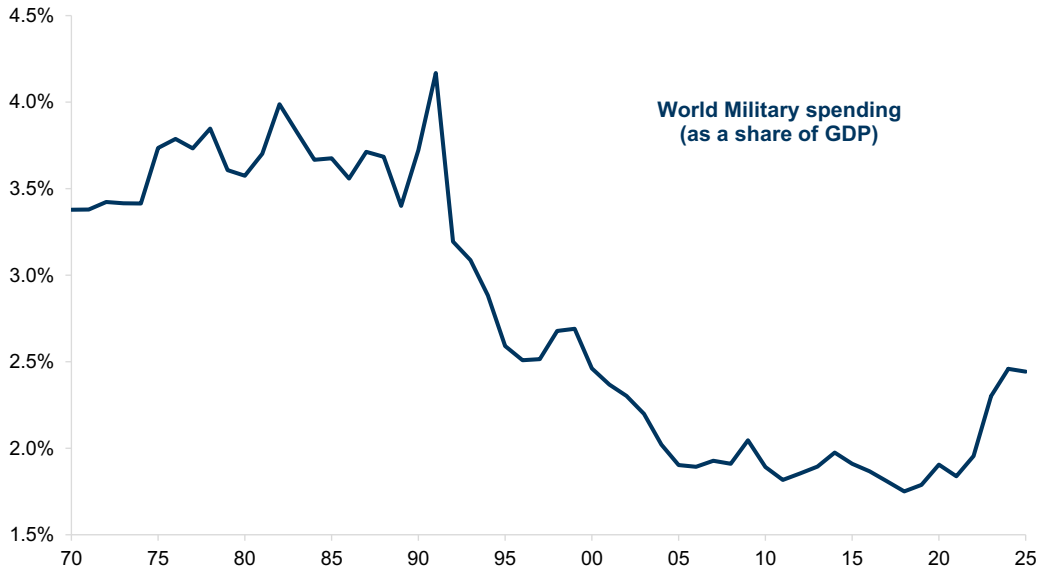


Source: Haver Analytics, Goldman Sachs Global Investment Research

Lower defence spending and falling government deficits

The supply side reforms of the 1980s triggered a trend of smaller governments and less government debt, further supported by the 'peace dividend' that followed the collapse of the Soviet Union. In 1991, President Bush announced plans to scrap US tactical nuclear weapons in Europe and Asia and called off long range nuclear bombers from 24 hour flights. The UK announced its 'options for change' policy of restructuring armed forces in the summer of 1990. US spending on defense fell sharply between 1985 and 1993 and remained flat between 1993 and 1999.

Exhibit 4: Global spending on defence trended downwards during the 'Modern' super cycle
World military spending (as a share of GDP)



Source: SIPRI Military Expense Database, IMF, Goldman Sachs Global Investment Research

The declines in government spending relative to GDP (Exhibit 3) meant that by 1997, under President Bill Clinton, the US recorded a budget surplus for the first time since 1969.

Lower labour and energy costs

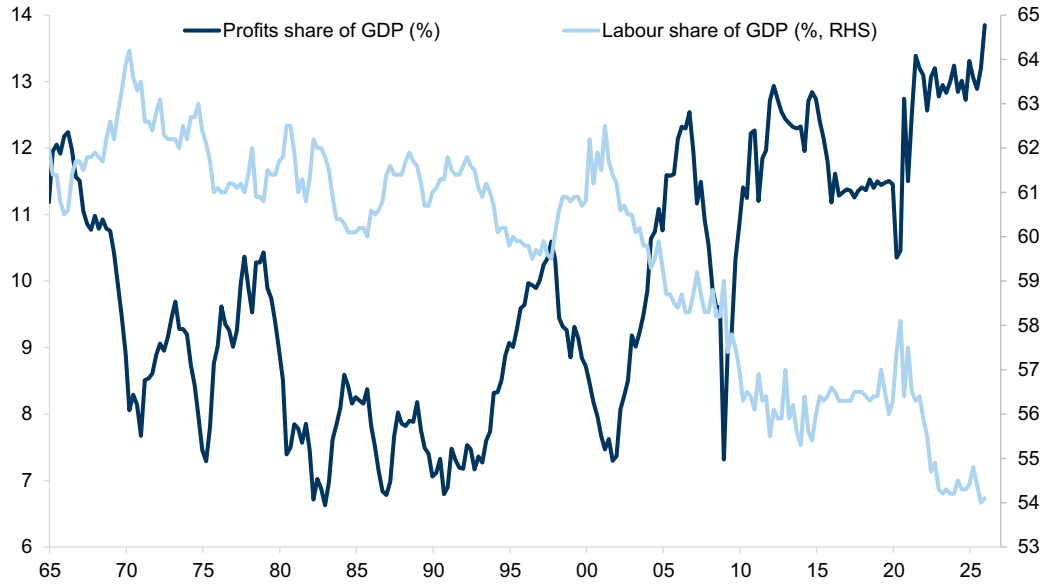
The integration of former Soviet countries into the economies and labour markets of Western Europe was complimented by greater trade ties between the US and Mexico. The trend towards globalisation, supported by both political and technological developments, allowed a significant outsourcing of lower-skilled manufacturing jobs from Western economies. **Between 1990 and 2009, the share of labour compensation in national income fell in 26 out of 30 advanced countries,** with the median labour share of national income falling from 66.1% to 61.7%, according to the OECD. Rapid migration also contributed to this effect. In the UK, for example, the relative price of labour fell by around 20% between 2009 and 2015 as the labour supply increased by almost 4 million or 12.5%, according to the ONS.

Meanwhile, there was also a meaningful decline in energy costs. Significant investment in the 1990s and 2000s meant that there was excess capacity in commodity exploration in the post financial crisis era. The shale gas revolution resulted in record low natural gas prices in the US and had a profound impact on the energy industry. Following the collapse of the technology bubble and then the financial crisis, there were excess energy supplies and cheap prices with little incentive to invest.

Higher corporate profitability and margins

The combination of these factors helped to boost profitability and raised the profit share of GDP (Exhibit 5), facilitating a period of unusually strong returns in equity markets.

Exhibit 5: Labour share declines as profit share dominates in the 21st century
Profits and wages as shares of GDP (%) - US



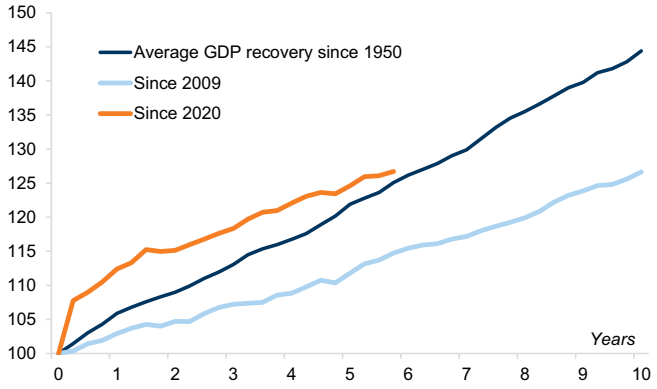
Source: Haver Analytics, Goldman Sachs Global Investment Research

The zero rate cycle – financial crisis to pandemic (2009-2022)

This favourable regime was starkly and abruptly disrupted by the Global Financial Crisis of 2008/9. The economic consequences of this crash were so severe that it heralded a period of unprecedented monetary support. While economies struggled to recover their pre-crisis vigour, the impact of QE and policy stimulus was mainly felt in financial assets, which propelled equity and bond markets to new highs, largely driven by rising valuations.

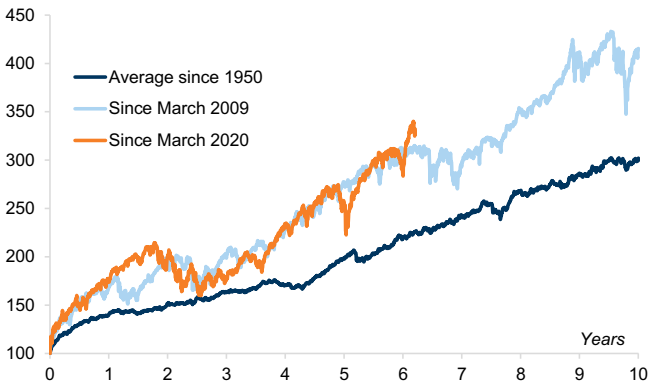
Strikingly, the economic recovery from the financial crisis was weaker than the average recovery since 1950 (Exhibit 6). Nevertheless, the recovery in equity markets following the end of the financial crisis was much stronger than previous cycles (Exhibit 7).

Exhibit 6: While the economic recovery from the financial crisis was weaker than average...
Real US GDP following the end of a recession. Indexed to 100. Average = 9 episodes since 1950 excluding the 2020 episode



Source: Haver Analytics, Goldman Sachs Global Investment Research

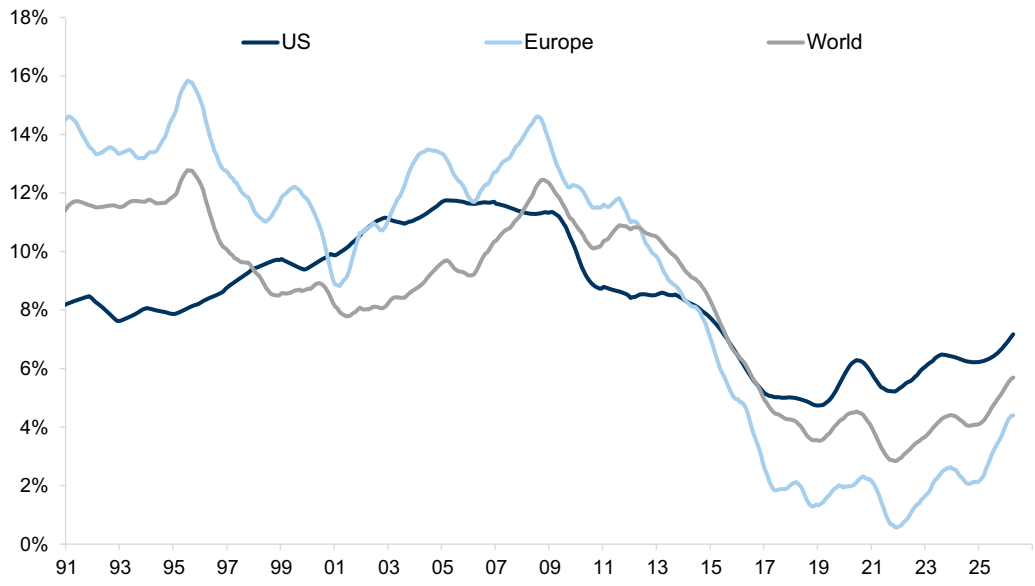
Exhibit 7: ... the opposite was true for financial markets
SPX since the trough preceding the end of a recession. Indexed to 100. Average = 9 episodes since 1950 excluding the 2020 episode



Source: Datastream, Goldman Sachs Global Investment Research

While overall financial market returns were strong (bond and equity markets went up together), the returns became very bifurcated within equity markets. Weak nominal GDP and low inflation resulted in a downward trend of year/year sales growth in the corporate sector (Exhibit 8).

Exhibit 8: Top-line growth has been falling along with declining nominal GDP
yoy sales growth (10y rolling average), Market ex Financials (USD)



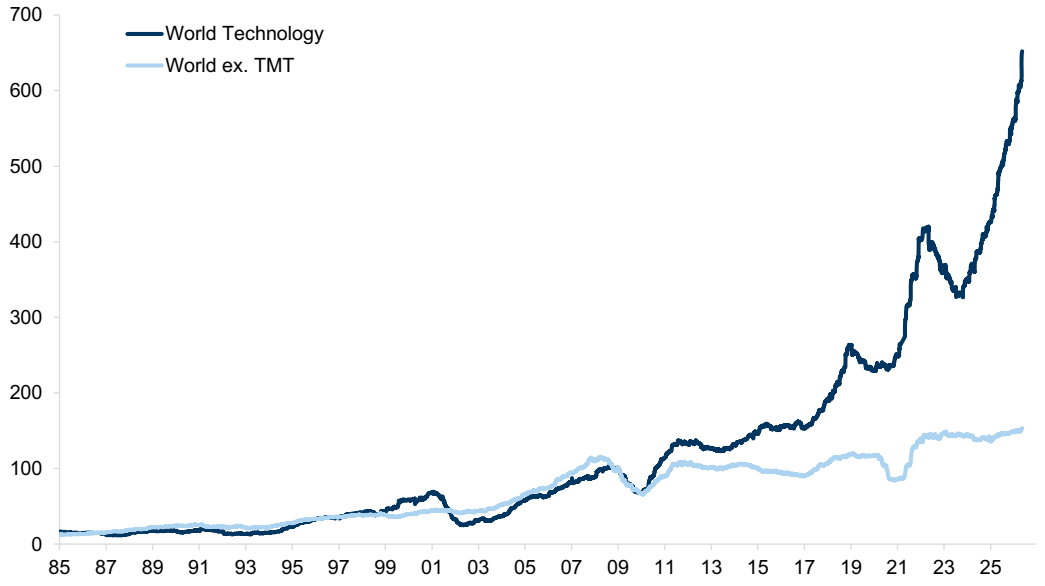
Source: Worldscope, Datastream, Goldman Sachs Global Investment Research

The combination of ultra-low interest rates and low nominal growth resulted in a surge in investment flows into industries (or economies) that could generate growth and rising returns. Given that the US economy recovered more strongly than other regions (particularly Europe which faced a second crisis around its sovereign debt market), investment flows increasingly went to the US, largely flowing into the technology sector where profits began to grow sharply.

While growth assets successively outperformed and valuations increased, the

performance reflected fundamentally stronger profit growth (Exhibit 9).

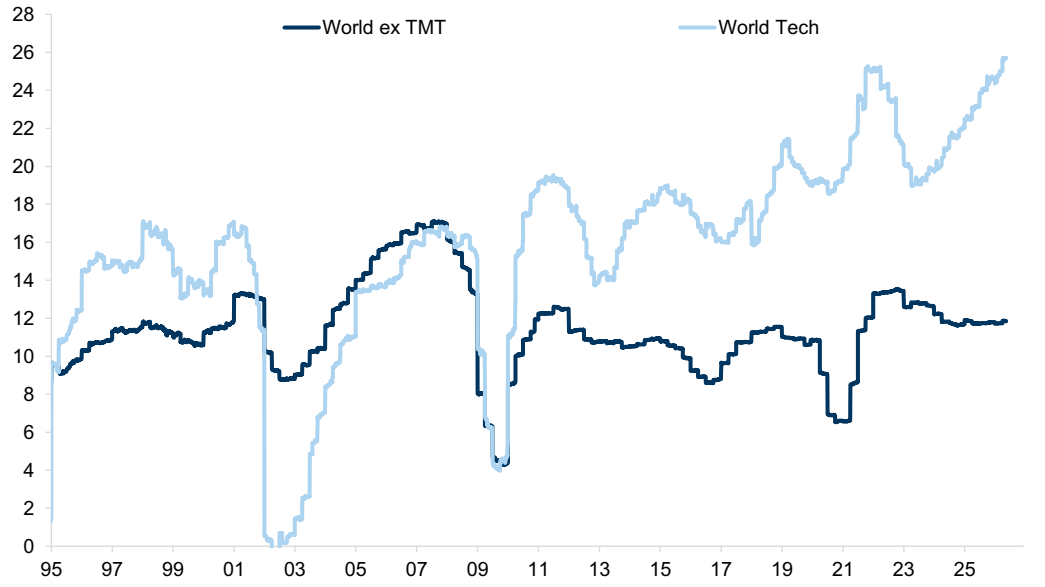
Exhibit 9: The performance of growth assets reflected fundamentally stronger profit growth
12m trailing EPS (USD). Indexed to 100 in January 2009



Source: Datastream, Goldman Sachs Global Investment Research

The technology industry also enjoyed a strong acceleration in ROE (Exhibit 10) driven by pricing power as the world migrated from analogue to digital and demand surged for software applications and cloud computing. The companies providing these solutions benefited from the costly capex that was financed a decade or so earlier in the days of the dotcom boom.

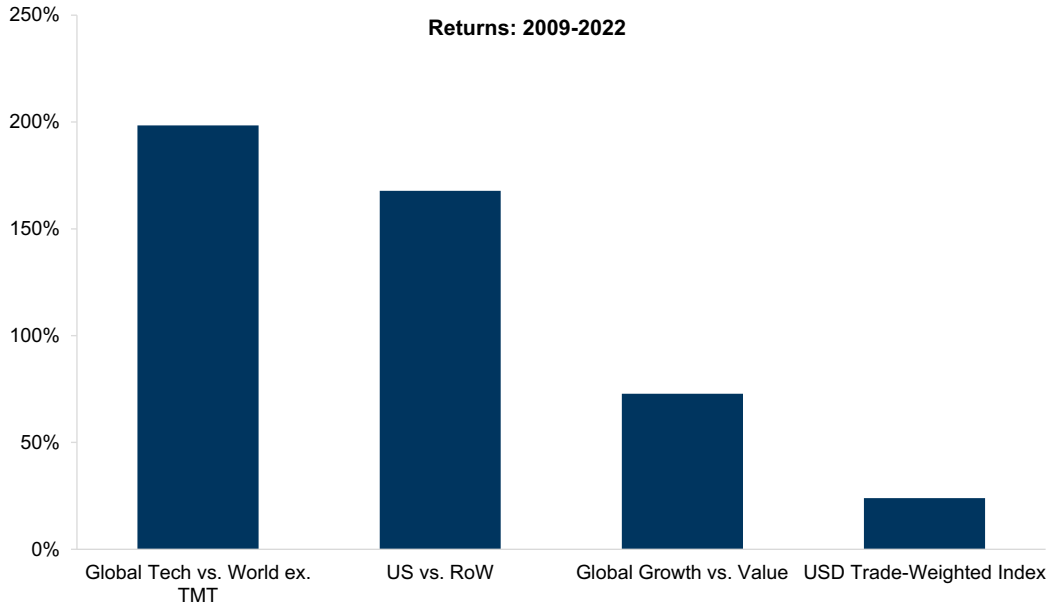
Exhibit 10: The technology industry enjoyed a strong acceleration in ROE
12-month forward ROE (%)



Source: Datastream, Goldman Sachs Global Investment Research

So while the era of zero interest rates generated high equity and bond returns, the spread within equity markets was very wide. **The US consistently outperformed other equity markets, and technology was the strongest driver of returns by sector resulting in growth consistently outperforming value (Exhibit 11).**

Exhibit 11: US consistently outperformed other equity markets, and technology was the strongest driver of returns by sector
Relative price performance (in USD)



Source: Datastream, FactSet, Bloomberg, Goldman Sachs Global Investment Research

From 2022: The 'Post Modern' cycle

As record low interest rates began to rise following the Covid pandemic, structural shifts in several fundamental drivers started to take place:

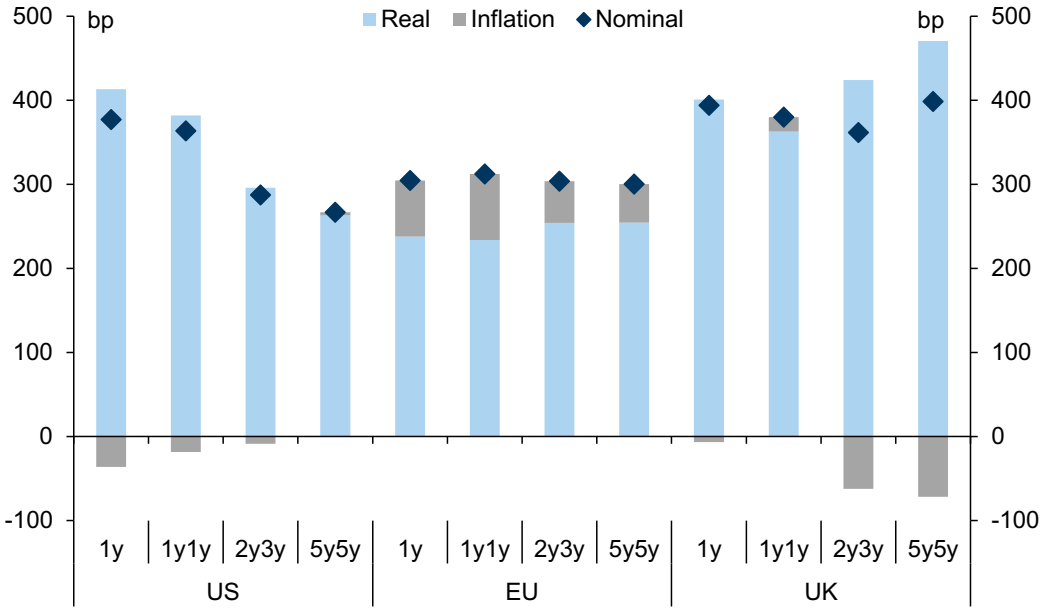
1. **Higher cost of capital. For the first time since the 1970s, the pandemic resulted in rising inflation and, with it, a sharp increase in interest rates.**
2. **Rising government debt. The issues of moral hazard that weakened the case for fiscal support after the financial crisis were no longer relevant.**
3. **Higher tariffs.**
4. **The questioning of the 'rules-based order' that had governed defence and trade relationships over the previous 80 years.**
5. **Secure supply of energy and commodities becoming increasingly important.**
6. **The war in Ukraine and Iran leading to rising defense spending.**
7. **The emergence of AI and the dramatic increase in technology-driven capex.**

The shift in the cost of capital

The supply chain disruption that followed the global pandemic triggered inflationary pressures for the first time this century. In the period that followed the financial crisis of 2008/9, the combination of QE ending and the inflationary effects of the pandemic has

resulted in significant increases in interest rates away from the zero bound (and from below zero in much of Europe). Some of this can be explained by higher inflation following the pandemic, but much of the increase is in real interest rates (Exhibit 12), marking a significant shift from the post financial crisis.

Exhibit 12: Real yields have contributed meaningfully to the rise in longer-term nominal forwards after the pandemic
Nominal yields by component since 1-Sep-21



Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

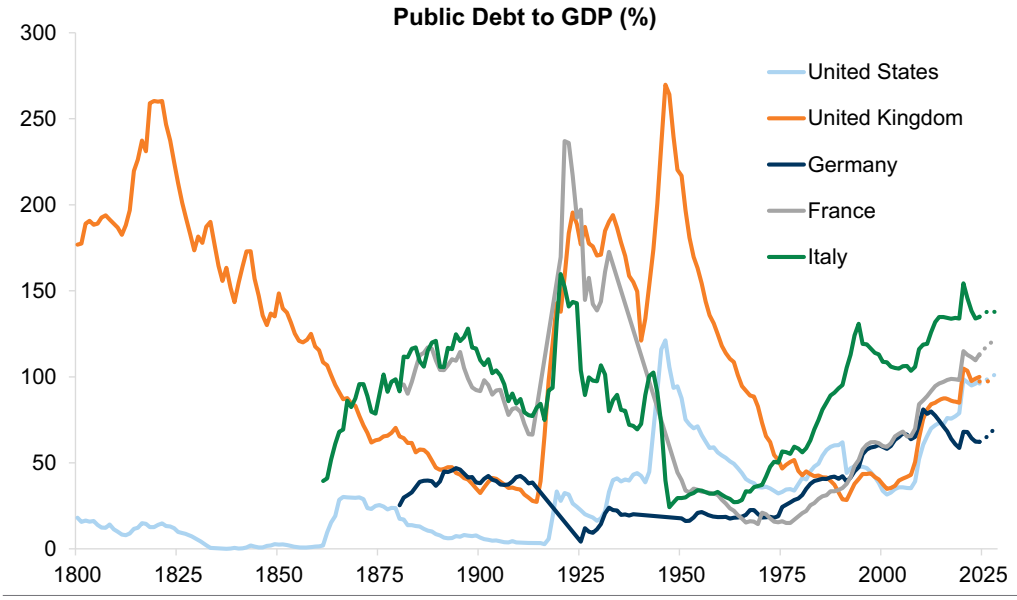
The rise in government debt

Some of the rise in longer-dated interest rates may reflect the growing competition for capital from governments. While government debt levels have been high for some time, the rise since the start of this century has been significant (Exhibit 13). In the US, the ratio of public debt to GDP increased from 55% to 124%[1], the UK from 37% to 95%, the Euro area from 69% to 95% and China from 22% to 102%. Ageing populations have also been a contributor to this trend as has the series of crises that have been addressed through government spending: the financial crisis of 2008/9, the Covid pandemic, the war in Ukraine and, more recently, Iran, have had a cumulative impact on debt levels.

In combination with higher interest rates, this has resulted in interest expenses for most governments taking up a significantly higher share of their spending.

[1] US Gross Federal Debt

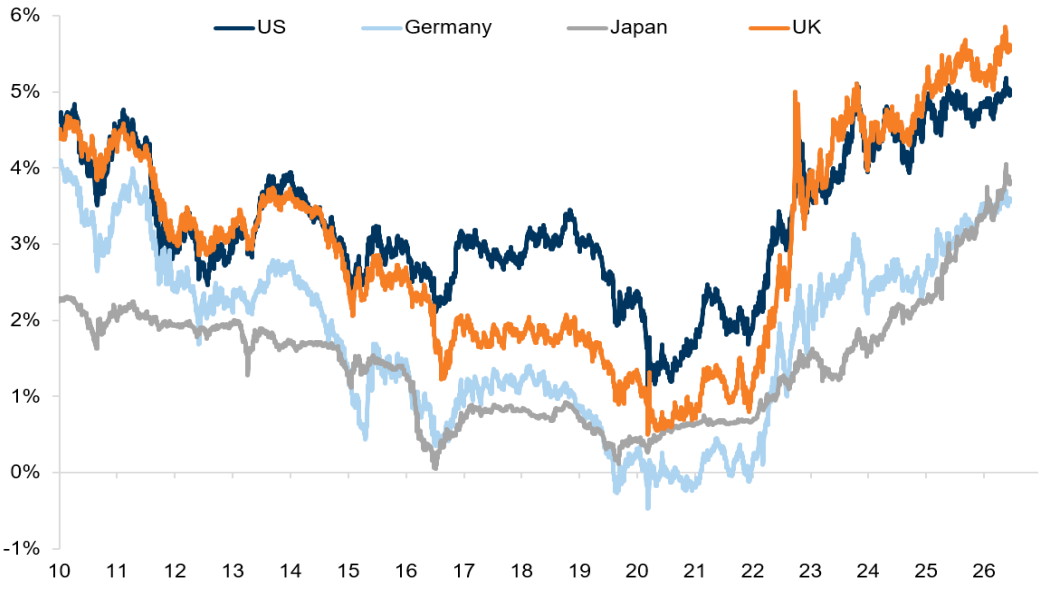
Exhibit 13: Limit to the new cycle: debt has risen
Government debt as a percentage of GDP. Dotted lines are GIR Economics forecasts



Source: IMF, Haver Analytics, Goldman Sachs Global Investment Research

It is difficult to overstate the extent of this shift, particularly in long duration debt markets. **Only a handful of years ago, German and Japanese 30-year bonds enjoyed a zero (or close to zero) interest rate (Exhibit 14), whereas the rates are now close to 4%.** The competition for global capital from governments has increased.

Exhibit 14: Only a few years ago, German and Japanese 30-year bonds enjoyed a zero (or close to zero) interest rate
30-year government bond benchmark yields (%)

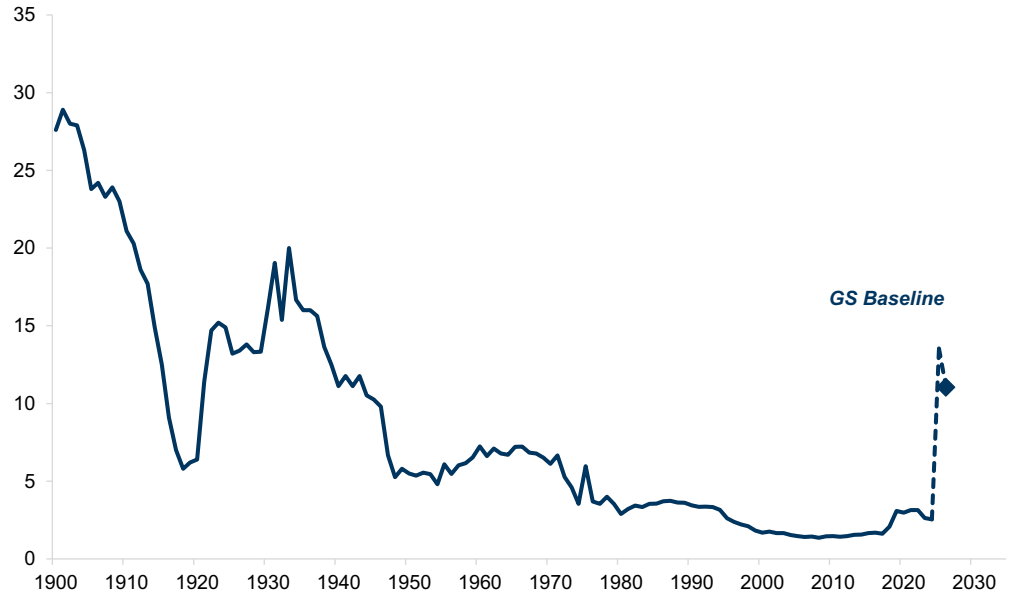


Source: Datastream, Goldman Sachs Global Investment Research

Increased tariffs and slower world trade

Following a multi-decade long decline in effective tariffs, the US administration has increased tariffs to levels not seen since 1930s (Exhibit 15).

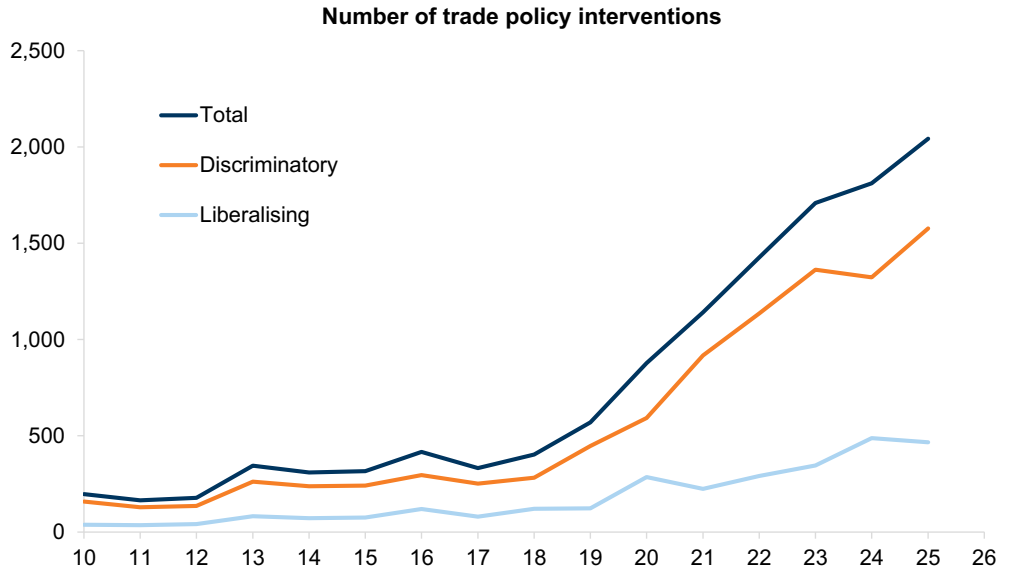
Exhibit 15: The US administration has increased tariffs to levels not seen since 1930s
US Effective Tariff Rate (Customs Revenue as a Share of Goods Imports) (%)



Source: Department of Commerce, Goldman Sachs Global Investment Research

This has resulted in a rising trend of government intervention and restrictions to trade (Exhibit 16). While much of this focuses on manufactured products, the US government's move to restrict certain newly released AI models for foreign nationals is another sign of the Post Modern Cycle: a reassertion of politics and state authority relative to purely technical or market-led frameworks.

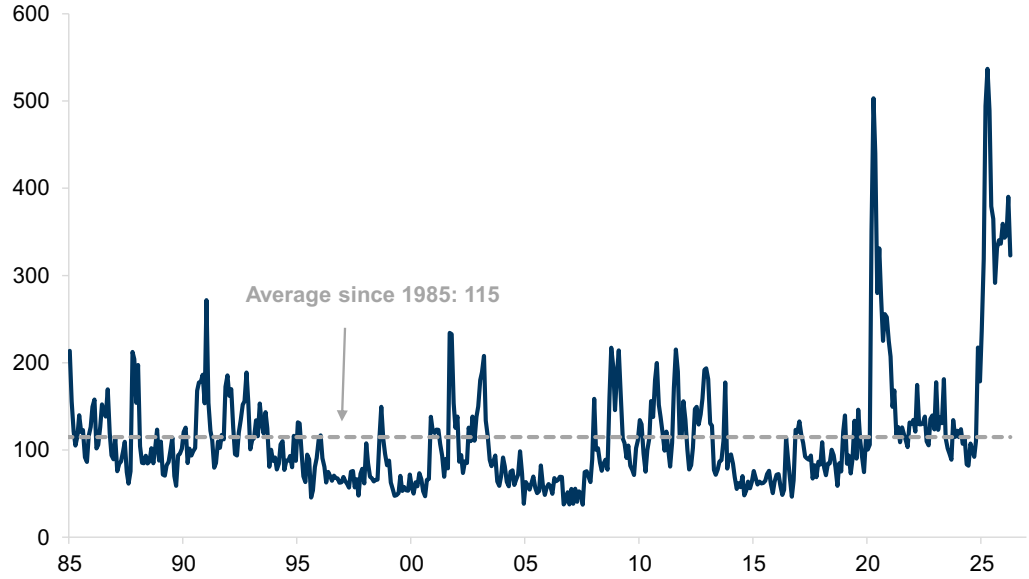
Exhibit 16: We have observed a rising trend of government intervention and restrictions to trade
By year of implementation, globally



Source: Global Trade Alert, Data compiled by Goldman Sachs Global Investment Research

Alongside a firmer trade policy, geopolitical tensions have also increased resulting in a surge in policy uncertainty (Exhibit 17).

Exhibit 17: A multi-year high in policy uncertainty
Headline Policy Uncertainty Index - Baker, Bloom, Davis



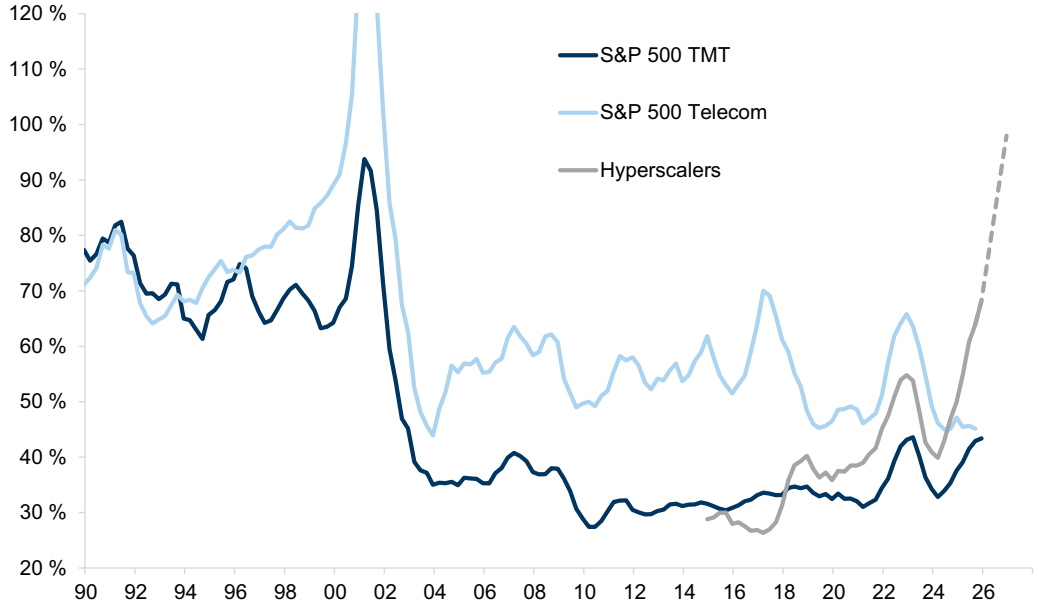
Source: PolicyUncertainty.com, Haver Analytics, Goldman Sachs Global Investment Research

This rise in geopolitical uncertainty, and a questioning of the rules-based order that had governed trade and defence relationships for many decades, is also leading to increasing spending on defence across many parts of the world following years of declining spend that followed the collapse of the Soviet Union in the early 1990s.

The rise of AI and related capex

Finally, the emergence of large language models has spawned an innovation cycle in technology and, alongside this, a renewed requirement for capital spending (Exhibit 18).

Exhibit 18: The emergence of large language models has spawned a renewed requirement for capital spending
Capex as a % of cash flow from operations, dashed line represents 2026 consensus



Source: Compustat, FactSet, Goldman Sachs Global Investment Research

For the first time in many decades, the demand for capital is rising. The private sector is ramping up capex and infrastructure spending in order to support and power the AI revolution, and to build more reliable and robust supply chains. Concurrently, governments are spending more to strengthen capacity in defence and critical infrastructure. A higher cost of capital caps equity valuations, making fundamental earnings growth more important; it should also increase the differentiation of returns across companies, making alpha increasingly important relative to beta.

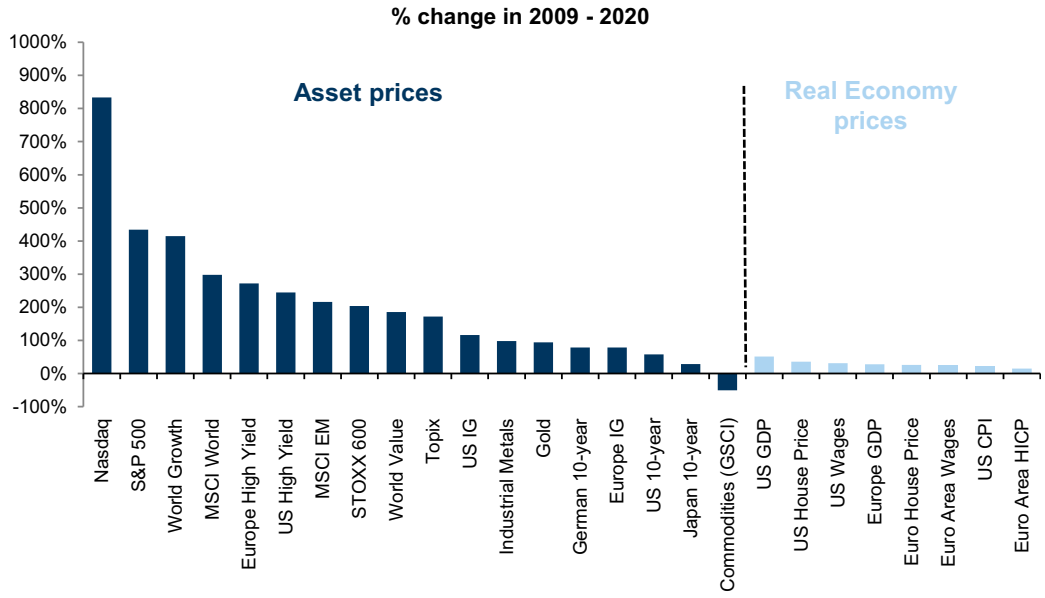
Equity market implications of the 'Post Modern' cycle

For most of the period that followed the financial crisis, the combination of growth scarcity and ultra low discount rates widened the valuation and performance spread between growth companies and those in more mature industries. **Cheap cost of capital meant investors were willing to fund companies with strong growth prospects, particularly in the tech sector, where costs were low. It was a period in which the benefits of the Internet revolution were beginning to bear fruit. Leading companies in software and cloud computing began to grow and scale as the digital revolution deepened. These companies were able to generate particularly high returns on investment and benefited from the capex that emerged during the dotcom bubble a decade earlier.**

In the transition from an analogue to digital world, the scaling effects in technology drove a wedge between the virtual and physical worlds. Investors preferred capital-light businesses that could grow despite weak nominal GDP. The so-called old economy, characterised by excess capacity as well as low returns on capital and weak growth prospects, was largely overlooked. The best asset returns were seen in

long-duration growth areas of the market while 'old economy', real assets and value lagged behind (Exhibit 19).

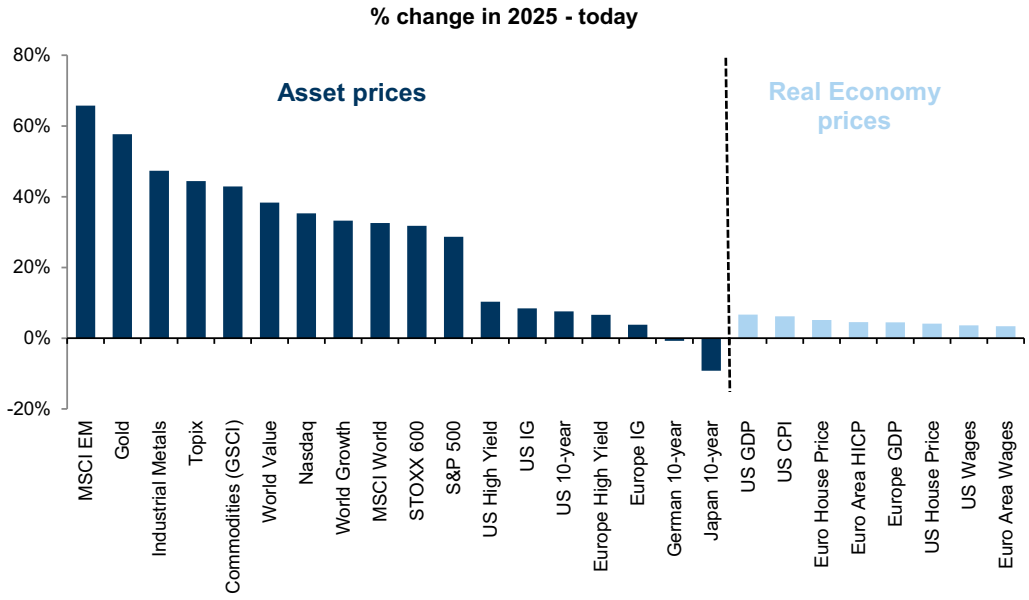
Exhibit 19: After the financial crisis, long duration Growth saw the highest returns, while 'old economy', real assets and Value lagged
Total return performance in local currency - where applicable



Source: Datastream, Haver Analytics, FRED, Goldman Sachs Global Investment Research

Following the pandemic, however, the leadership of assets in the post financial crisis era that favoured long duration growth began to shift (Exhibit 20). Supply constraints started to push up inflation and interest rates. Real assets began to perform better on the back of rising prices, and, within financial markets, leadership started to shift towards areas that had previously been left behind, including industrials, EM, Japan and (until recently) gold.

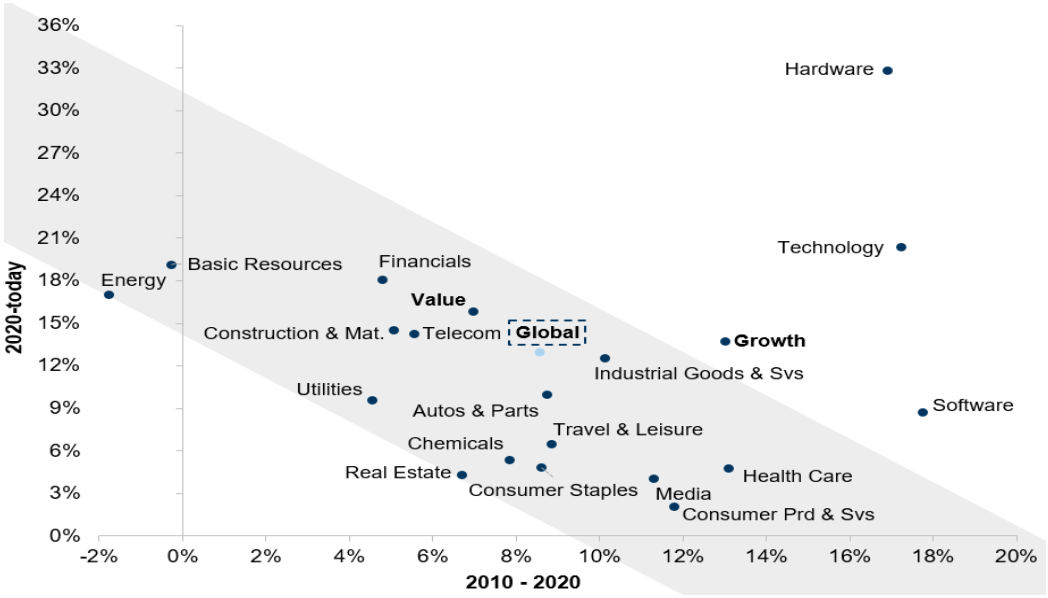
Exhibit 20: Gold, Emerging Markets, Topix, and Value have performed best since 2025
Total return performance in local currency - where applicable



Source: Datastream, Haver Analytics, FRED, Goldman Sachs Global Investment Research

This rotation in performance from the post financial crisis era to the post pandemic era was dramatic. A similar pattern of reversal can be seen in relative sector performance in the decade after the financial crisis compared with the period post the pandemic (Exhibit 21). **The only sector that has remained consistently strong in terms of performance both in the post financial crisis era and the post pandemic era is technology. Nonetheless, the drivers within technology have changed. Software has been weaker than in the previous cycle whereas hardware has been stronger.**

Exhibit 21: A pattern of reversal can be seen when comparing the decade after the financial crisis with the period post the pandemic
Total return performance (annualised) - World sectors and styles

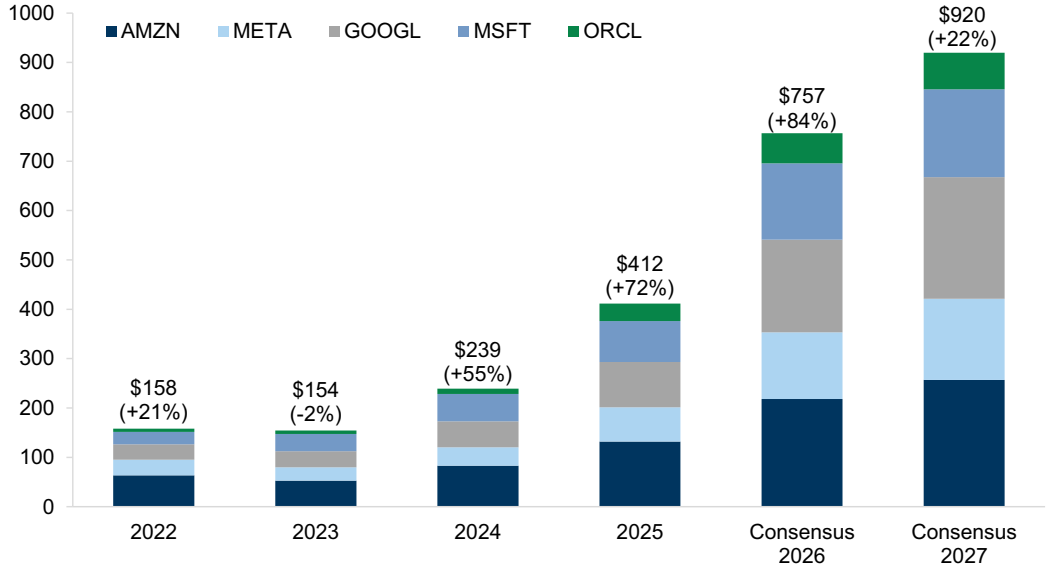


Source: Datastream, Goldman Sachs Global Investment Research

While the inflationary shock of the pandemic triggered a rotation, other factors have also contributed to a shift in the drivers of stock market returns as well as the value attributed to technology hardware and software.

1. First, the hyperscalers dominating the technology space began to rapidly raise their capex spending. In the US alone, S&P 500 companies have reported year/year capex growth of +38% so far in Q1 2026 vs. just +1% for buybacks, a marked shift from the trend over the decade and a half following the financial crisis, when companies were generally rewarded for buybacks but not for capex. The surge in capex spending by the major hyperscalers in the US has been the primary driver. So far this year, consensus estimates for spend of the top 5 have increased by around $80bn to c.$755bn, 80% higher than a year ago (Exhibit 22).

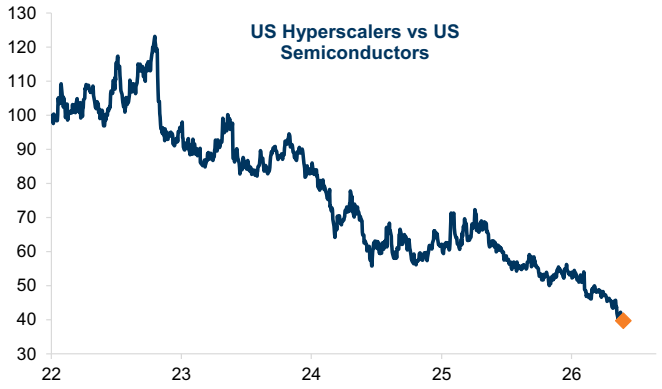
Exhibit 22: AI hyperscalers are expected to spend c.$755 billion on capex in 2026
Hyperscaler annual capex ($bn)



Source: FactSet, Goldman Sachs Global Investment Research

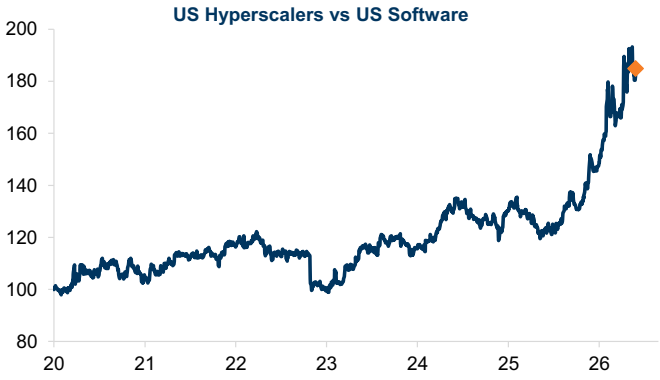
2. As the spending plans of the hyperscalers accelerated following the introduction of large language models, **investors started to question whether these companies could sustain the premium returns on investment and margins achieved in the previous decade, particularly with capex increasingly encroaching on free cash flow**. Confidence in the Magnificent 7's ability to consistently outperform the rest of the US market has begun to be questioned, leading to falling stock correlations and lower valuations. We argued in *The Technology Value Opportunity* that the underperformance of the technology sector is starting to generate attractive valuation opportunities for investors. Finally, we also see value in parts of the growth space. At the same time, there has been a re-evaluation of the semiconductor space, which has seen a sharp increase in relative performance amid seemingly insatiable demand for compute (Exhibit 23). Nevertheless, even as the hyperscalers have lost ground to the semiconductor stocks, the software companies have been the biggest relative losers (Exhibit 24).

Exhibit 23: Chip manufacturers appear to have benefited from AI capex, while investors have questioned the hyperscalers' return on capex
Relative price performance of US hyperscalers (AMZN, META, GOOGL, MSFT, ORCL) versus MSCI USA Semiconductors



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 24: Innovation in agentic AI has raised concerns about disruption to software business models
Relative price performance of US hyperscalers (AMZN, META, GOOGL, MSFT, ORCL) versus MSCI USA Software & Services



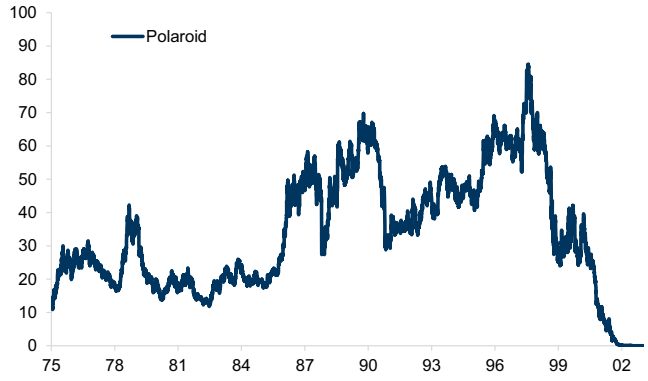
Source: Datastream, Goldman Sachs Global Investment Research

The rapid innovation in large language models and advances in agentic AI have raised concerns about disruption to technology business models (Exhibit 24). Investors are keen to avoid the AI era's version of Kodak, IBM, Nokia, Blackberry and a host of other companies that saw their business models challenged by new waves of innovation (Exhibit 25 and Exhibit 26).

Exhibit 25: Kodak invented the first digital camera in 1975 but filed for bankruptcy in 2012
Stock price indexed to its maximum

Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 26: Polaroid had a monopoly in the instant photography market
Stock price indexed to its maximum

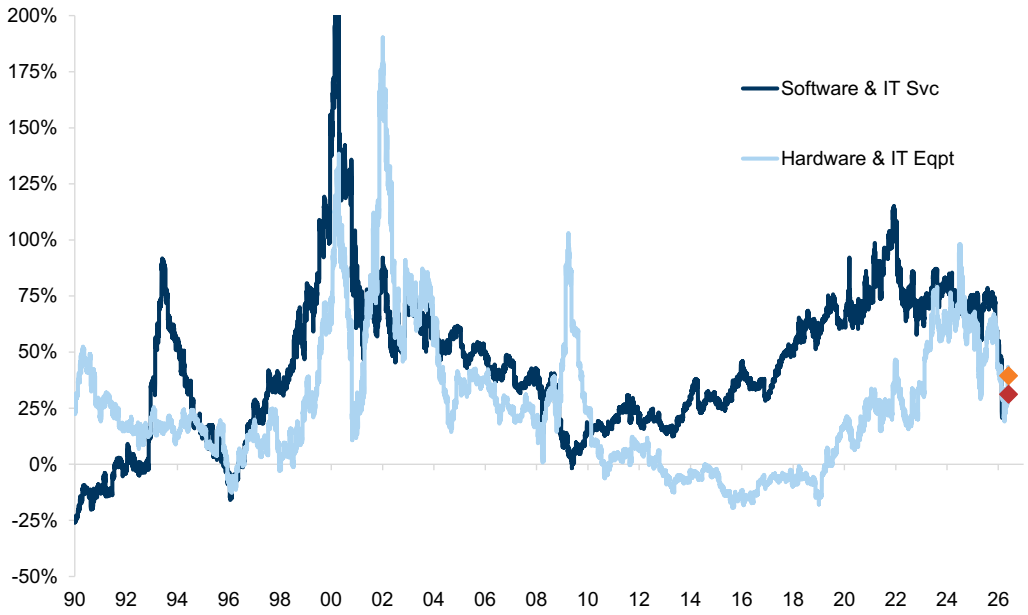


Source: Datastream, Goldman Sachs Global Investment Research

In just a couple of months, the value of the software sector fell by around 5 PE points globally, as investors raised the risk premium associated with future projected cash flows and implicitly reduced the terminal value assumptions. The software and IT sector traded at a roughly 100% premium relative to the global market excluding tech less than 5 years ago, whereas the hardware and IT equipment sector enjoyed a premium of less than 20%. Now, they have converged.

For the first time in a generation, investors started to question the value of long duration growth companies' terminal values which had been previously boosted by solid confidence in their ability to sustain premium growth alongside historically low discount rates (Exhibit 27).

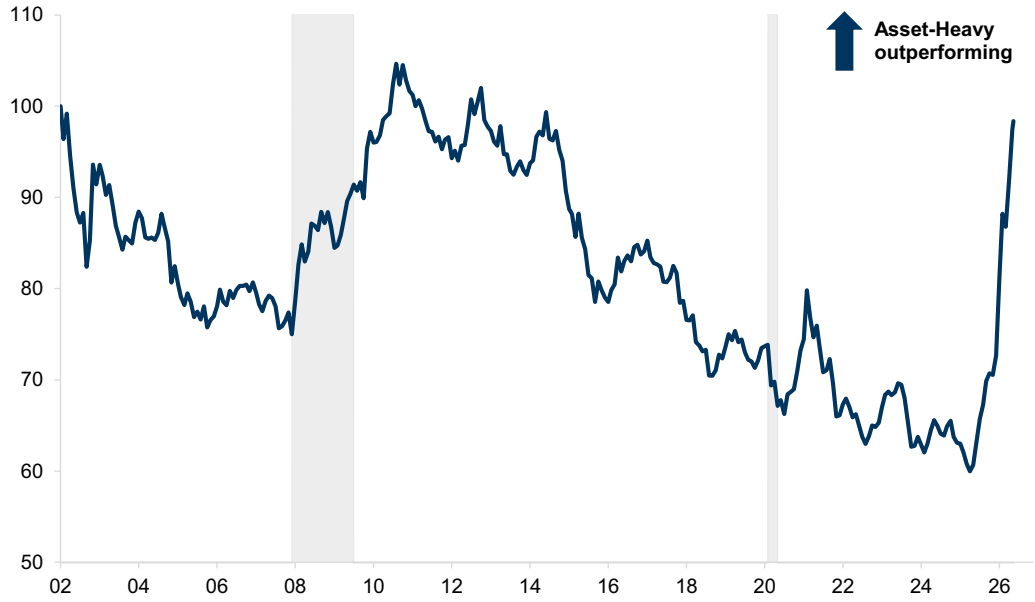
Exhibit 27: Long duration growth companies such as tech names recently derated
Premium/(discount) on 12m forward P/E vs. World ex. TMT. Global Sectors



Source: FactSet, Goldman Sachs Global Investment Research

3. **Third, in the post pandemic era of higher inflation alongside higher nominal GDP, we began to see a structural improvement in revenue growth in many industries which have long been overlooked by investors and where there had been a lack of investment over a long period of time**. After the financial crisis, when growth was scarce, areas that could grow with a high degree of certainty were highly prized, particularly given historically low discount rates. By contrast, the so-called old economy companies were widely overlooked. They suffered from overcapacity in many cases, and, because of the financial crisis, declining returns. There has been a notable shift in the valuation of physical assets, as the fortunes of the virtual and physical worlds have become intertwined for the first time since the rollout and commercialisation of the Internet (Exhibit 28). The growth opportunities for many technology companies are no longer a function of finding solutions to problems in the virtual world through apps and software. Instead, future growth has become increasingly dependent on the physical infrastructure around them. Data centres and energy suppliers have become crucial to their growth plans, leading to a cascading effect where capex spending by the tech giants has spilled into improved growth opportunities across many traditional, value-oriented, old economy industries that had long been overlooked.

Exhibit 28: The fortunes of the virtual and physical worlds have become intertwined for the first time since the rollout and commercialisation of the Internet
Asset-heavy vs. asset-light indexed performance - US stocks

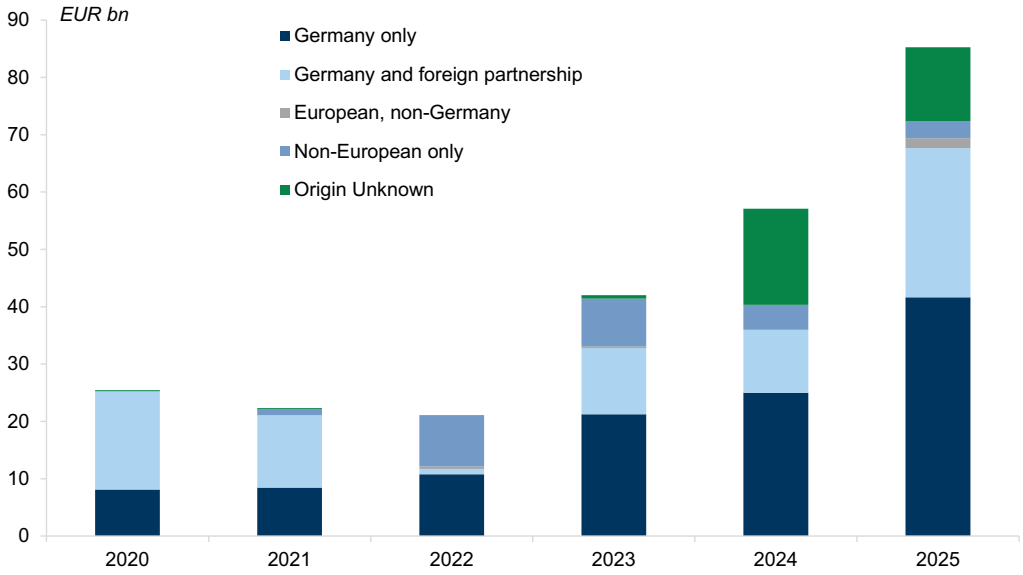


Grey bars indicate recessions.

Source: Datastream, Goldman Sachs Global Investment Research

4. Fourth, as the geopolitical landscape began to shift, governments around the world have ramped up plans for spending in defence and security, which is another source of demand for the old economy. Areas spanning planes to tanks, munitions and even ships have suddenly been in demand, even in countries such as Germany and Japan (Exhibit 29). Investors began to re-rate the value associated with companies in traditional industries that had long been overlooked and where investment had been very weak.

Exhibit 29: In countries such as Germany, defence spending is ramping up
German defence orders by region of origin (EUR bn)

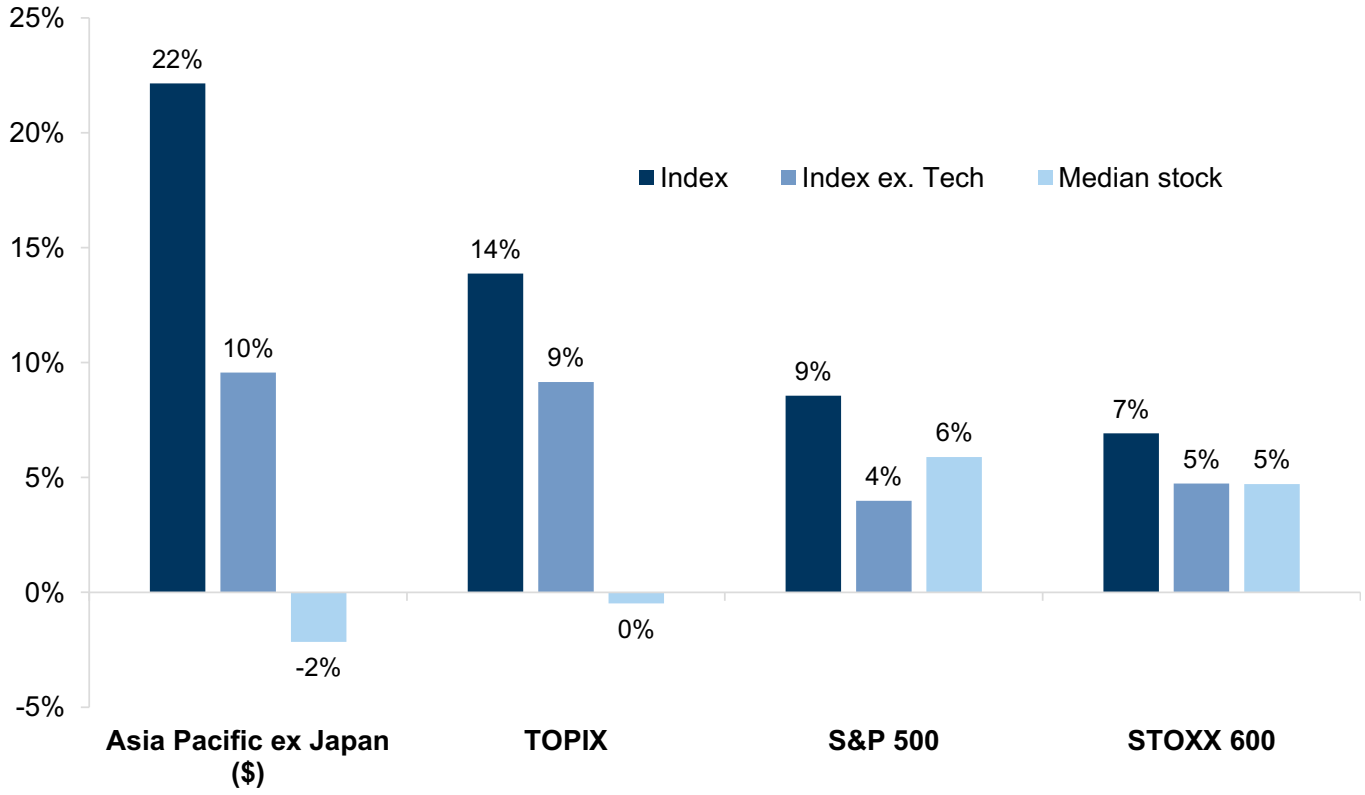


Source: Haver Analytics, Goldman Sachs Global Investment Research

In combination, these factors have also led to a widening of return opportunities for investors. **The 15 years following the financial crisis were characterised by highly bifurcated markets; returns were dominated by the US (vs other markets), technology (vs other sectors), and growth (vs value). We are now in an era where country returns are broadening out. The median stock in each region has experienced smaller returns this year, and the dispersion of returns is very high** (Exhibit 30).

We expect to see lower aggregate growth in markets at the index level, but a more eclectic mix of relative winners and losers across geographies, sectors and factors. This means that investors are likely to have greater prospects for alpha generation and more opportunities to improve risk-adjusted returns through diversification.

Exhibit 30: The median stock in each region has experienced smaller returns this year
Price return in 2026; local currency (APxJ in USD)



Source: Datastream, Goldman Sachs Global Investment Research

Exposure to the capex boom

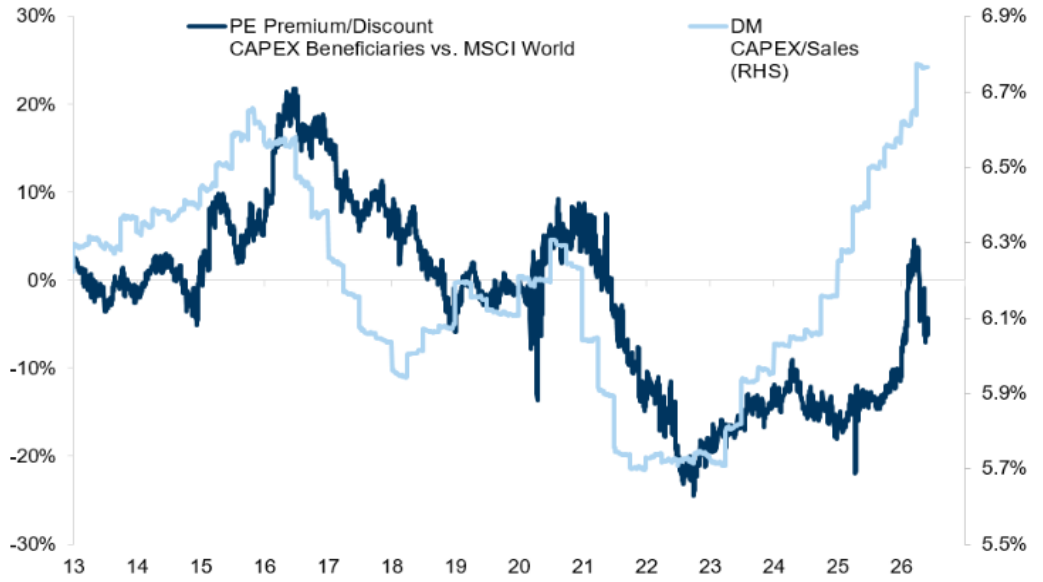
Exposure to the capex boom. We reiterate our preference to invest in companies benefiting from an acceleration in CAPEX (as a theme). Exhibit 31 shows the performance of global stocks with the highest correlation of y/y sales growth with the share of investment in World GDP and the y/y change in the share of investment in World GDP. In the Appendix, we highlight examples of such CAPEX beneficiaries, selecting only companies with a market capitalisation above $10bn and that are Buy-rated by our Equity Research analysts. This is an update of the list first outlined in *The Post Modern Cycle*.

The broad universe of CAPEX beneficiaries is up c.25% year to date, yet the structural backdrop remains firmly supportive. In a regime where exposure to investment cycles is increasingly the key driver of relative returns, such companies offer both cyclical leverage and structural growth.

Structural tailwinds are reinforcing the premium for capital intensity. As discussed, the regime has shifted decisively, with fiscal expansion and geopolitical fragmentation driving a sustained increase in demand for tangible assets and HALO stocks. Supporting this trend, supply-chain re-regionalisation and national security priorities are accelerating investment in infrastructure, energy and industrial capacity. AI adds a further impulse, driving an unprecedented build-out of physical compute, data centres and power infrastructure. This combination is structurally supportive for companies exposed to the capex theme. Consistent with this, the valuation premium of CAPEX

beneficiaries remains tightly linked to the developed markets' capex-to-sales ratio, which has recently inflected higher (Exhibit 31).

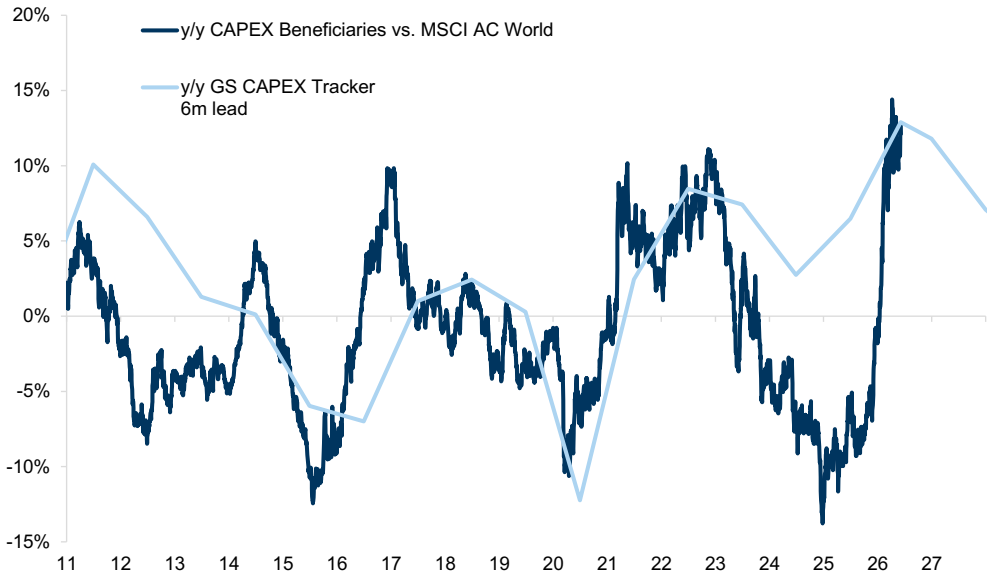
Exhibit 31: The valuation premium of CAPEX beneficiaries remains tightly linked to Developed Markets' capex-to-sales ratio
Relative valuation



Source: Datastream, FactSet, Goldman Sachs Global Investment Research

The cycle is turning and leading indicators remain supportive. The relative performance of CAPEX beneficiaries has been closely correlated with the GS CAPEX Tracker, which captures capex growth across c.4k global companies and 20+ end-markets. Importantly, the relative performance of these companies tends to lead the capex cycle by several quarters, providing an early signal on turning points (Exhibit 33). Current readings remain constructive as investment momentum broadens, including beyond data centres into energy, industrials and infrastructure. This is consistent with a wider shift in market leadership towards capital-intensive sectors, as real assets and productive capacity are repriced.

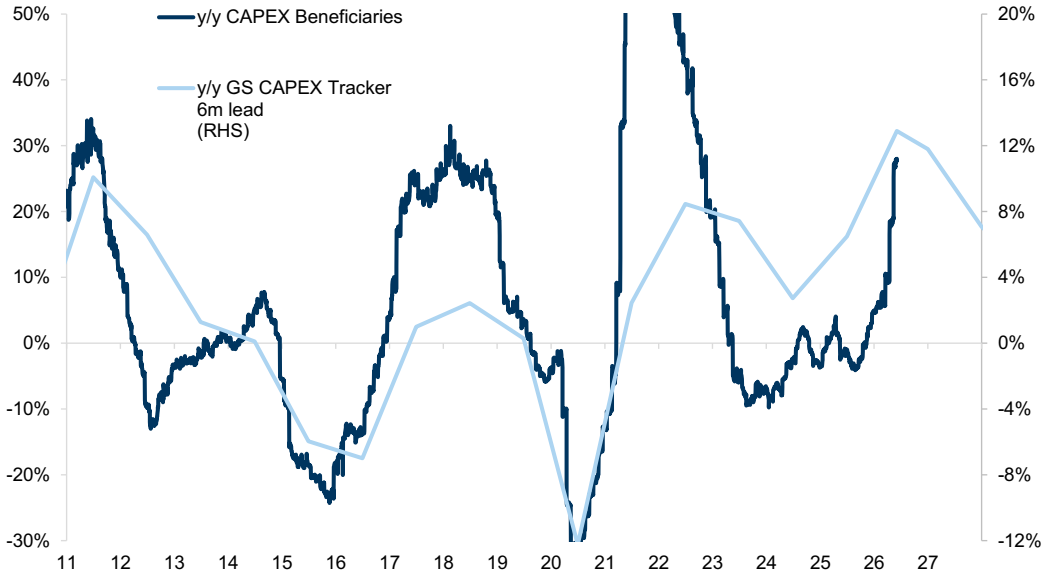
Exhibit 32: The performance of CAPEX Beneficiaries tends to lead the global capex cycle by several quarters
Relative performance y/y



Source: Datastream, FactSet, Goldman Sachs Global Investment Research

Earnings momentum is strong. Performance has been firmly anchored in fundamentals: earnings growth for this universe has been closely correlated with capex and is currently running in the double-digit range, a profile that supports a sustained valuation premium (Exhibit 33). The strength of the earnings cycle reflects both volume growth and improving pricing dynamics in capacity-constrained sectors. Revisions have also turned decisively positive, with consensus earnings up c.25% y/y, reinforcing visibility and durability. In a higher cost-of-capital environment where multiple expansion is more limited, this combination of earnings growth and positive revisions remains a key driver of outperformance.

Exhibit 33: Earnings growth of CAPEX Beneficiaries is closely correlated with global CAPEX
y/y change in EPS



Source: Datastream, FactSet, Goldman Sachs Global Investment Research

A diversified but cyclically tilted exposure. This list is screened on the highest correlation of y/y sales growth with the share of investment in World GDP and the y/y change in the share of investment in World GDP. This provides an effective way to capture the capex cycle, but the sector composition is inherently cyclical: c.30% Industrials, c.20% Commodity producers, c.15% Technology and c.10% Utilities, with the remainder in Chemicals, Construction, Telecoms and Real Estate. By construction, exposure to Consumer, Healthcare and Financials is minimal or non-existent. Similarly, Defence exposure is limited, given its stronger linkage to government spending rather than corporate capex.

To fully capture the capex cycle, in the exhibit below, we highlight targeted baskets aligned with key structural themes: (1) Artificial Intelligence, (2) Defence Spending, (3) Power & Electrification and (4) HALO.

Exhibit 34: Baskets exposed to the global capex beneficiaries theme

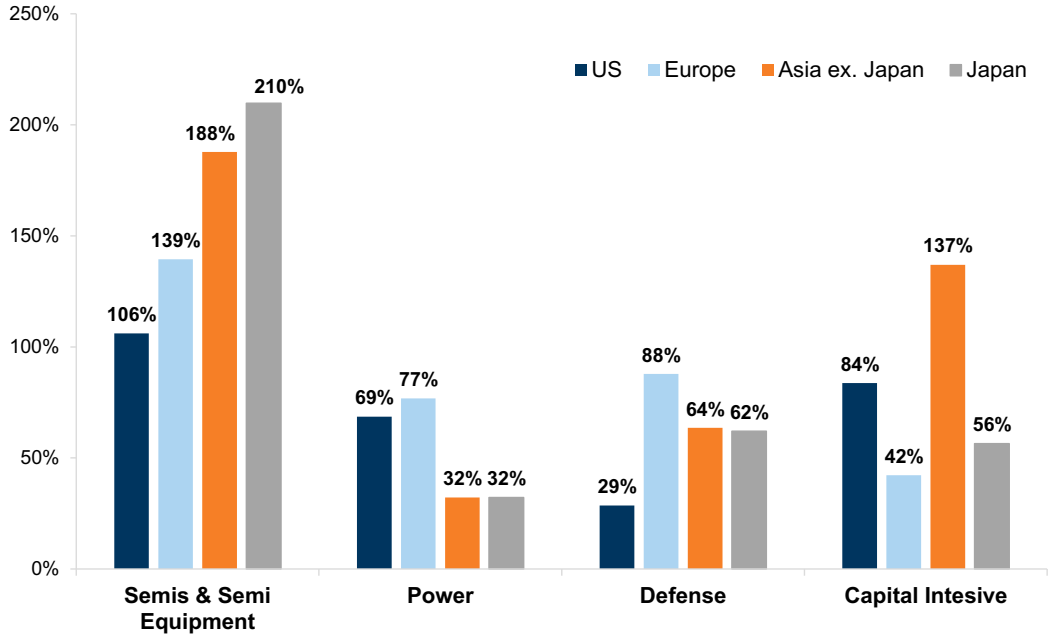
	AI & Digital Infrastructure	Power & Energy Security	Defence & National Security	Infrastructure & HALO
US	- AI Data Centers (GSTMTDAT)*	- Power Up America (GSENEPOW)*	- Defense (GSXUDFNS)* - New Defense (GSXUNDEF)*	- High Asset Intensity (GSTHHAIR) - GS Infrastructure (GSXUINFS)*
Europe	- Semiconductor (GSSBSEMI) - Datacenters (GSXEDATA)*	- Renewable Energy (GSSBRNEW) - Oil & Gas Services (GSSBOILS) - Power Up Europe (GSXEPOWR)*	- Defense (GSSBDEFE) - Civil Aerospace (GSSBCIVA) - New Defense (GSXENDEF)*	- Capital Intensive (GSSTCAPI) - CAPEX Beneficiaries (GSSTCAPX) - Fiscal Infra (GSSTFISC)
Asia	- AIGC Hardware (GSSZAIHW) - AIGC Semis (GSSZAISM)	- Nuclear Power (GSSZNUCL) - Renewables (GSSZEVMT) - Power & Electricity (GSSZPOWE)	- Aerospace & Defense (GSSZADEF) - NonCore Defense Supp (GSSZDEFS)	- Capital Intensive (GSSZHALO) - Asia US Reindustrialization (GSXAUSRE)*
EM	- AI ecosystem (GSXFEMAI)*	- Renewables (GSSZEVMT)	- Aerospace & Defense (MXEF0AD)	- Capital Intensive (GSEMHALO)
Japan	- Critical Tech (GSJPCRTT) - Optical Network (GSXAJONE)* - Semiconductor (GSXAJSEM)*	- Critical Resources (GSJPCRTR)	- Defense (GSJPDFSE) - Economic Security (GSXAJESC)*	- Capital Intensive (GSJPHALO)

* The baskets marked with an asterisk are from our colleagues in Global Banking & Markets.

Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Exhibit 35: Performance since 2025 of indexes and baskets exposed to global capex expansion

Performance since 2025, local currency (USD for Asia ex. Japan) - ICB Sector for Semis; regional GS baskets for Power, Defense and Capital Intensive



Source: FactSet, Bloomberg, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Appendix

Exhibit 36: List of Global CAPEX Beneficiaries (1/3)

Global CAPEX Beneficiaries - Median					35.3	19.6	0.13	0.31
				Price	Market Cap	P/E	Correlation of y/y sales with...	
Name	HQ	ICB Level 2	ICB Level 4	(USD)	(USD, bn)	NTM	World Investment (% of GDP), Level	World Investment (% of GDP), Change
Norsk Hydro	Norway	Basic Resources	Aluminum	11.6	22.7	11.1	0.16	0.12
BHP Group	Australia	Basic Resources	General Mining	44.4	225.5	17.5	0.04	0.10
Lynas Rare Earths	Australia	Basic Resources	General Mining	12.5	12.6	26.2	0.30	0.51
Northern Star Resources	Australia	Basic Resources	Gold Mining	13.6	19.4	11.0	0.44	0.24
Nucor	United States	Basic Resources	Iron And Steel	266.4	60.7	16.8	0.04	0.64
CMOC Group	China	Basic Resources	Nonferrous Metals	2.4	51.1	10.9	0.09	0.47
Mitsui Kinzoku	Japan	Basic Resources	Nonferrous Metals	274.0	15.7	27.7	0.40	0.35
Linde	United States	Chemicals	Chemicals: Diversified	523.6	242.2	28.0	0.22	0.33
Shin-Etsu Chemical	Japan	Chemicals	Chemicals: Diversified	44.9	83.3	23.6	0.31	0.04
BASF	Germany	Chemicals	Chemicals: Diversified	57.3	50.7	17.4	0.06	0.67
Resonac Holdings	Japan	Chemicals	Chemicals: Diversified	105.8	19.1	29.1	0.23	0.61
Asahi Kasei	Japan	Chemicals	Chemicals: Diversified	11.2	15.1	14.3	0.45	0.07
SABIC Agri-Nutrients	Saudi Arabia	Chemicals	Fertilizers	33.9	16.1	12.5	0.30	0.61
Air Liquide	France	Chemicals	Specialty Chemicals	194.8	124.0	25.0	0.16	0.46
Air Products & Chemicals	United States	Chemicals	Specialty Chemicals	281.6	62.7	20.2	0.11	0.53
Sika	Switzerland	Construction And Materials	Building Materials: Other	194.8	31.3	21.1	0.28	0.55
Carlisle Cos	United States	Construction And Materials	Building, Roofing/Wallboard And Plumbing	343.8	13.9	15.6	0.00	0.49
Lennox	United States	Construction And Materials	Building: Climate Control	512.2	17.8	20.2	0.01	0.39
Holcim	Switzerland	Construction And Materials	Cement	93.6	51.8	20.0	0.02	0.29
VINCI	France	Construction And Materials	Construction	145.7	81.6	13.4	0.06	0.26
MasTec	United States	Construction And Materials	Engineering And Contracting Services	363.0	28.7	36.0	0.03	0.17
Chevron	United States	Energy	Integrated Oil And Gas	187.2	372.9	14.0	0.05	0.32
Shell	United Kingdom	Energy	Integrated Oil And Gas	43.2	240.9	8.6	0.07	0.53
Petroleo Brasileiro	Brazil	Energy	Integrated Oil And Gas	9.1	117.3	4.6	0.02	0.15
Eni	Italy	Energy	Integrated Oil And Gas	26.9	76.3	8.9	0.17	0.51
Cenovus Energy	Canada	Energy	Integrated Oil And Gas	28.3	52.8	9.5	0.44	0.62
Repsol	Spain	Energy	Integrated Oil And Gas	26.3	29.1	6.0	0.07	0.41
Galp Energia, SGPS	Portugal	Energy	Integrated Oil And Gas	22.1	16.3	10.0	0.17	0.59
Keyera	Canada	Energy	Integrated Oil And Gas	42.2	11.9	23.9	0.14	0.59
SLB	United States	Energy	Oil Equipment And Services	56.2	84.0	19.2	0.03	0.17
Halliburton	United States	Energy	Oil Equipment And Services	39.6	33.1	15.2	0.02	0.26
Marathon Petroleum	United States	Energy	Oil Refining And Marketing	263.6	76.9	9.7	0.40	0.68
HF Sinclair	United States	Energy	Oil Refining And Marketing	71.3	12.8	8.5	0.07	0.47
Diamondback Energy	United States	Energy	Oil: Crude Producers	192.1	54.0	10.1	0.16	0.75
EQT (US)	United States	Energy	Oil: Crude Producers	51.9	32.5	11.0	0.35	0.41
Ovintiv	United States	Energy	Oil: Crude Producers	57.5	16.1	7.3	0.09	0.31
Kinder Morgan	United States	Energy	Pipelines	31.9	71.1	21.6	0.34	0.68
Targa Resources	United States	Energy	Pipelines	272.6	58.5	23.7	0.20	0.66
MPLX	United States	Energy	Pipelines	56.9	57.7	12.5	0.02	0.00
Cheniere Energy	United States	Energy	Pipelines	241.3	50.6	35.3	0.01	0.18

Prices as of June 12, 2026

Source: Datastream, FactSet, Goldman Sachs Global Investment Research

Exhibit 37: List of Global CAPEX Beneficiaries (2/3)

Name	HQ	ICB Level 2	ICB Level 4	Price (USD)	Market Cap (USD, bn)	P/E NTM	Correlation of y/y sales with...	
							World Investment (% of GDP), Level	World Investment (% of GDP), Change
AerCap	United States	Industrial Goods And Services	Commercial Vehicle-Equipment Leasing	140.0	22.1	8.2	0.11	0.29
Ryder System	United States	Industrial Goods And Services	Commercial Vehicle-Equipment Leasing	280.3	10.8	17.6	0.33	0.43
Smurfit Westrock	Ireland	Industrial Goods And Services	Containers And Packaging	43.3	22.7	16.0	0.13	0.20
BAE Systems	United Kingdom	Industrial Goods And Services	Defense	25.6	75.2	21.4	0.19	0.01
L3Harris Technologies	United States	Industrial Goods And Services	Defense	307.8	57.3	24.5	0.22	0.05
United Parcel Service	United States	Industrial Goods And Services	Delivery Services	108.1	91.9	14.5	0.01	0.73
FedEx	United States	Industrial Goods And Services	Delivery Services	338.3	80.7	14.1	0.11	0.10
Hitachi	Japan	Industrial Goods And Services	Diversified Industrials	29.1	130.8	22.4	0.30	0.06
Parker-Hannifin	United States	Industrial Goods And Services	Diversified Industrials	903.5	113.9	26.6	0.08	0.44
ITOCHU	Japan	Industrial Goods And Services	Diversified Industrials	11.7	81.9	13.5	0.12	0.14
Dover Corp /IL	United States	Industrial Goods And Services	Diversified Industrials	217.4	29.3	19.6	0.07	0.62
Jardine Matheson Holdings	Singapore	Industrial Goods And Services	Diversified Industrials	63.3	18.6	11.2	0.10	0.11
ITT	United States	Industrial Goods And Services	Diversified Industrials	189.1	16.9	22.5	0.10	0.03
Schneider Electric	France	Industrial Goods And Services	Electrical Components	307.1	172.6	25.8	0.10	0.28
Prysmian	Italy	Industrial Goods And Services	Electrical Components	166.6	48.7	27.7	0.04	0.55
Fujikura	Japan	Industrial Goods And Services	Electrical Components	26.6	44.0	34.5	0.32	0.14
TDK Corp	Japan	Industrial Goods And Services	Electrical Components	21.9	41.5	31.6	0.41	0.21
nVent Electric	United States	Industrial Goods And Services	Electrical Components	165.8	26.8	32.5	0.15	0.03
Furukawa Electric	Japan	Industrial Goods And Services	Electrical Components	262.7	18.5	33.0	0.29	0.04
Rexel	France	Industrial Goods And Services	Electrical Components	42.2	12.4	14.2	0.18	0.36
Teledyne Technologies	United States	Industrial Goods And Services	Electronic Equipment: Control And Filter	626.0	29.0	25.0	0.34	0.49
Keyence	Japan	Industrial Goods And Services	Electronic Equipment: Gauges And Meters	453.2	109.9	35.5	0.26	0.14
Keysight Tech	United States	Industrial Goods And Services	Electronic Equipment: Gauges And Meters	350.7	59.9	31.3	0.01	0.70
Xylem	United States	Industrial Goods And Services	Electronic Equipment: Pollution Control	110.1	26.2	19.0	0.32	0.29
Kubota	Japan	Industrial Goods And Services	Machinery: Agricultural	16.9	19.2	13.6	0.55	0.12
Metso	Finland	Industrial Goods And Services	Machinery: Construction And Handling	17.1	14.2	19.5	0.14	0.37
Ebara	Japan	Industrial Goods And Services	Machinery: Industrial	34.4	15.7	26.4	0.43	0.07
Kuehne Nagel Intl	Switzerland	Industrial Goods And Services	Marine Transportation	245.6	29.2	23.3	0.06	0.64
Sherwin-Williams	United States	Industrial Goods And Services	Paints And Coatings	317.3	78.3	25.6	0.18	0.23
PPG Industries	United States	Industrial Goods And Services	Paints And Coatings	119.3	26.6	14.5	0.09	0.55
Accenture	United States	Industrial Goods And Services	Professional Business Support Services	170.3	104.5	11.6	0.35	0.54
Jacobs Solutions	United States	Industrial Goods And Services	Professional Business Support Services	127.0	15.0	15.9	0.04	0.20
Knorr-Bremse	Germany	Industrial Goods And Services	Railroad Equipment	117.8	19.0	21.4	0.03	0.74
Getlink	France	Industrial Goods And Services	Railroads	21.3	11.5	30.3	0.08	0.10
DSV	Denmark	Industrial Goods And Services	Transportation Services	249.5	59.5	22.5	0.06	0.11
Grupo Aeroportuario del Pa	Mexico	Industrial Goods And Services	Transportation Services	23.8	12.0	16.2	0.41	0.27
Saia	United States	Industrial Goods And Services	Trucking	482.9	12.9	38.0	0.35	0.57
TFI International	Canada	Industrial Goods And Services	Trucking	160.6	13.2	26.0	0.11	0.64
Ventas	United States	Real Estate	Health Care Reits	84.6	41.1	105.0	0.13	0.23
SEGRO	United Kingdom	Real Estate	Industrial Reits	10.1	13.6	18.9	0.05	0.06
Mitsui Fudosan	Japan	Real Estate	Real Estate Holding And Development	9.7	26.4	14.3	0.45	0.01
Vonovia	Germany	Real Estate	Real Estate Holding And Development	23.6	20.0	10.7	0.27	0.13
Aldar Properties	United Arab Emir	Real Estate	Real Estate Holding And Development	2.1	16.6	7.1	0.24	0.13
Jones Lang LaSalle	United States	Real Estate	Real Estate Services	300.0	13.9	12.3	0.09	0.36
Invitation Homes	United States	Real Estate	Residential Reits	29.7	17.6	38.4	0.02	0.39
Unibail-Rodamco-Westfield	France	Real Estate	Retail Reits	116.6	16.8	10.9	0.09	0.14

Prices as of June 12, 2026

Source: Datastream, FactSet, Goldman Sachs Global Investment Research

Exhibit 38: List of Global CAPEX Beneficiaries (3/3)

Name	HQ	ICB Level 2	ICB Level 4	Price (USD)	Market Cap (USD, bn)	P/E NTM	Correlation of y/y sales with...	
							World Investment (% of GDP), Level	World Investment (% of GDP), Change
Apple	United States	Technology	Computer Hardware	291.1	4275.9	31.0	0.06	0.19
TD SYNNEX Corp	United States	Technology	Computer Hardware	280.7	22.6	15.5	0.36	0.38
Logitech International	Switzerland	Technology	Computer Hardware	111.0	15.9	19.6	0.12	0.11
Amadeus IT Group	Spain	Technology	Computer Services	59.0	24.9	14.7	0.22	0.27
Capgemini	France	Technology	Computer Services	111.9	19.0	7.6	0.16	0.25
Nebius	United States	Technology	Consumer Digital Services	232.4	58.5		0.03	0.22
Amphenol	United States	Technology	Electronic Components	153.8	189.2	30.0	0.19	0.54
Murata Manufacturing	Japan	Technology	Electronic Components	53.4	97.2	52.7	0.24	0.19
TE Connectivity	United States	Technology	Electronic Components	210.4	61.4	17.2	0.31	0.81
Yageo	Taiwan	Technology	Electronic Components	27.0	55.6	43.5	0.10	0.32
IBIDEN	Japan	Technology	Electronic Components	119.2	33.3	82.6	0.07	0.36
Kyocera	Japan	Technology	Electronic Components	22.9	28.1	36.9	0.12	0.07
Gold Circuit Electronics	Taiwan	Technology	Electronic Components	41.7	21.4	26.6	0.07	0.43
Taiyo Yuden	Japan	Technology	Electronic Components	98.1	12.3	84.4	0.22	0.46
Minebea Mitsumi	Japan	Technology	Electronic Components	26.4	10.6	20.0	0.54	0.19
Lam Research	United States	Technology	Production Technology Equipment	366.8	458.7	46.3	0.13	0.60
Applied Materials	United States	Technology	Production Technology Equipment	567.3	450.4	38.2	0.08	0.57
Tokyo Electron	Japan	Technology	Production Technology Equipment	424.4	191.5	44.5	0.31	0.42
ASM International	Netherlands	Technology	Production Technology Equipment	1174.8	57.4	41.6	0.09	0.48
DISCO	Japan	Technology	Production Technology Equipment	498.7	54.1	49.6	0.22	0.54
Lasertec	Japan	Technology	Production Technology Equipment	274.6	24.6	46.1	0.55	0.20
Broadcom	United States	Technology	Semiconductors	382.1	1817.7	23.2	0.07	0.24
SK hynix	South Korea	Technology	Semiconductors	1414.7	1002.0	6.6	0.10	0.20
Advanced Micro Devices	United States	Technology	Semiconductors	511.6	834.2	50.6	0.20	0.34
Analog Devices	United States	Technology	Semiconductors	417.8	203.5	30.2	0.19	0.50
Infineon Technologies	Germany	Technology	Semiconductors	92.7	120.7	34.5	0.18	0.48
NXP Semiconductors	United States	Technology	Semiconductors	304.9	77.0	19.0	0.33	0.34
Microchip Technology	United States	Technology	Semiconductors	95.2	51.6	28.5	0.03	0.31
Renesas Electronics	Japan	Technology	Semiconductors	27.2	49.3	21.5	0.33	0.38
Hua Hong Grace Semicondu	Hong Kong	Technology	Semiconductors	17.8	30.9	145.5	0.64	0.62
BE Semiconductor Inds	Netherlands	Technology	Semiconductors	366.9	29.1	63.1	0.03	0.49
Oracle	United States	Technology	Software	184.1	529.6	22.5	0.02	0.19
Fortinet	United States	Technology	Software	146.3	107.2	44.7	0.01	0.43
Cadence Design Sys Inc	United States	Technology	Software	385.0	106.2	44.8	0.37	0.17
MongoDB	United States	Technology	Software	342.8	27.6	52.2	0.07	0.64
Orsted	Denmark	Utilities	Alternative Electricity	24.2	32.0	17.6	0.36	0.60
Enel	Italy	Utilities	Conventional Electricity	11.3	112.5	13.4	0.02	0.34
American Electric Power	United States	Utilities	Conventional Electricity	129.2	70.3	19.6	0.04	0.13
Vistra	United States	Utilities	Conventional Electricity	148.0	49.9	14.7	0.36	0.51
Xcel Energy	United States	Utilities	Conventional Electricity	79.2	49.5	18.4	0.06	0.20
PG&E	United States	Utilities	Conventional Electricity	17.0	37.3	9.9	0.24	0.16
Eversource Energy	United States	Utilities	Conventional Electricity	68.7	25.8	14.3	0.18	0.04
E.ON	Germany	Utilities	Multi-Utilities	21.3	55.7	15.8	0.21	0.30
RWE	Germany	Utilities	Multi-Utilities	66.5	49.5	19.2	0.14	0.11
Keppel	Singapore	Utilities	Multi-Utilities	8.3	15.0	19.1	0.02	0.24
Centrica	United Kingdom	Utilities	Multi-Utilities	2.5	11.3	14.0	0.06	0.14
Veolia Environnement	France	Utilities	Water	41.0	30.0	14.4	0.14	0.11
Sabesp	Brazil	Utilities	Water	5.4	19.0	11.9	0.11	0.10

Prices as of June 12, 2026

Source: Datastream, FactSet, Goldman Sachs Global Investment Research

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