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# INVESTMENT THEMES FOR THE NEXT DECADE

**INVESTMENT STRATEGY GROUP**

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Mike Halloran is an Equity Strategist with more than 25 years of experience as a strategist, mutual fund analyst, and investment banker. He analyzes all asset classes with particular emphasis on equity research.

Mike received his M.B.A. from Carnegie Mellon University and is a former aerospace research engineer with engineering degrees from the University of Florida and University of Pittsburgh.

This piece reviews the major secular investment trends that we believe will influence the economy and markets in the coming years.

## MAJOR INVESTMENT THEMES FOR THE NEXT DECADE

1. Advancements in artificial intelligence (AI) highlight the transformative potential of technology. There were already many secular trends in place for the Technology sector, including e-commerce and increased internet usage, cloud computing, big data and advanced analytics (led by AI), automation, advanced communication systems, and cybersecurity. As a result of the pandemic and, more importantly, AI advancements, these trends have accelerated, benefiting the Technology sector. We see these trends as sustainable and critical for enhancing productivity and economic growth in the coming years.
2. The implementation of advanced AI solutions by corporate America requires significant computing capacity, leading hyperscalers (major cloud computing providers) to commit to massive investments in data centers. This is benefiting many industries, from technology to energy (see special box on data centers).
3. The Communication Services sector also benefits from secular AI and other technology trends, with firms potentially well-positioned as consumers spend more time online and advertising dollars follow.
4. Health Care remains well positioned amid secular trends driven by aging demographics and technological advances.
5. Firms from many other sectors of the economy that were already leaders in successfully implementing advanced technology should see their competitive advantage enhanced in the coming years as they continue to lead in technology implementation.
6. The accelerating shift toward clean energy has implications for many sectors, especially Energy, Materials, Utilities, and Industrials, which are discussed below.
7. While clean energy represents a headwind for oil and gas firms, fossil fuels meet approximately 80% of today's energy demand, and oil and gas firms remain critical to the economy, with traditional energy demand expected to persist for the foreseeable future.
8. Pandemic-induced supply chain disruptions, coupled with geopolitical tensions with China and the current trade policy, are causing many firms to consider "onshoring" or bringing manufacturing back to the U.S. This is leading to a U.S. manufacturing renaissance that has the potential to benefit many sectors of the U.S. economy.
9. The Financial sector (particularly banks) is a major beneficiary of interest rate normalization (short-term interest rates lower than long-term rates), which resulted from lower inflation that allowed the Federal Reserve to lower short-term interest rates. This provides a favorable backdrop for financials in the coming years.
10. We continue to favor high-quality companies with strong balance sheets and the ability to grow cash flow and dividends, offering exposure to the above secular themes.
11. As always, we recommend that investors stay invested in a well-diversified portfolio with periodic rebalancing, keeping in mind the above secular themes.

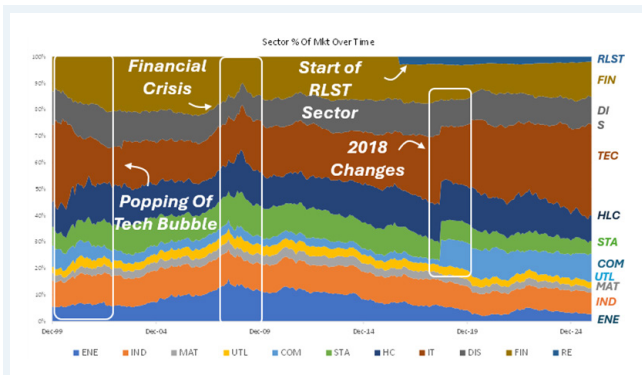
## ECONOMIC SECTOR IMPACT OF OUR MAJOR SECULAR THEMES

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies (market capitalization of a firm is the number of its shares multiplied by the stock price). This index is further divided into 11 sectors designed to represent different parts of the economy.

Stock prices are forward-looking and reflect a firm's perceived future profits. A large market capitalization implies large future profits. Taking this one step further, the size and growth of a sector reflect its perceived importance to future economic activity.

Consequently, we can learn a lot about the potential direction of the economy by sector analysis. Technology is by far the largest sector of the S&P 500 Index, and the products and services it provides are having a major influence on firms within all other sectors. Leading firms across industries are excellent at adopting and efficiently utilizing technology to optimize their business models.

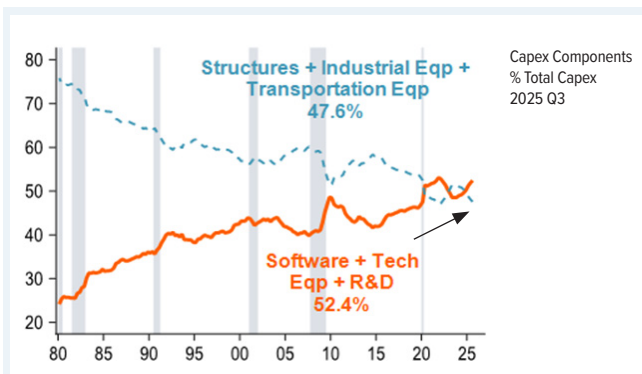
Chart 1: Sector Weights Shift as Perceived Importance to Economy Changes



Source: Janney Investment Strategy Group; Piper Sandler Companies, Data as of December 2025

The following section reviews the major secular themes we expect to develop in each sector of the economy over the coming years. It highlights the importance of technology across all parts of the future economy.

Chart 2: Growing Importance of Technology for Business Investment



Source: Janney Investment Strategy Group; Piper Sandler Companies



**Technology (30% of S&P 500 Index):** The Technology sector has many secular drivers that provide potential for significant future growth.

The Technology sector has many secular drivers that provide potential for significant future growth. While AI breakthroughs are dominating headlines, other important secular drivers have been in place including:

- Greater connectivity (smart phones, unlimited data plans, and ever more sophisticated communications networks)
- Global acceleration of e-commerce
- Further gains in computing power (an important enabler of artificial intelligence)
- Growth of big data and the need for data analytics
- Cloud computing which entails allowing a third party to handle your computing needs
- Internet-of-things which is leading to ubiquitous smart devices
- Cybersecurity which remains critical due to ever increasing threats

Importantly, the cost and ease of implementing these advanced technology solutions continue to come down over time. The ability to apply technology solutions is growing rapidly because of:

- Advanced communication systems that allow for new applications
- Massive amounts of data being generated
- The ability to use computing power and advanced analytics (led by AI) to analyze the data

Cloud computing enables low-cost, secure data storage, computing power, and analytical expertise for all sectors of the economy.

The pandemic accelerated these secular drivers. Many online activities, including work-from-home, remote learning, e-commerce, and increased internet usage, have seen sustained growth due to the pandemic, benefiting the Tech sector.

In contrast to the late 1990's tech bubble, many tech firms today have strong balance sheets and quality earnings. This healthy cash position supports future investments and dividends. The sector's large cash balances and low debt levels, along with resilient secular drivers, have made it a higher-quality, less cyclical sector.

Business investment in the U.S., boosted by 2025's One Big Beautiful Bill, which included major corporate investment incentives, has additional support from the CHIPS and Science Act. The Tech sector is a major beneficiary of these onshoring drivers. The pandemic-related global supply

chain disruptions, renewed tensions with China, and current trade policy are additional catalysts for increased U.S. technology investment.

Semiconductors, Software, IT Services, and Internet Services are all benefiting from the secular trends mentioned above. Cybersecurity also represents a secular growth opportunity for software and technology, in general.



**Health Care (13% of S&P 500):**

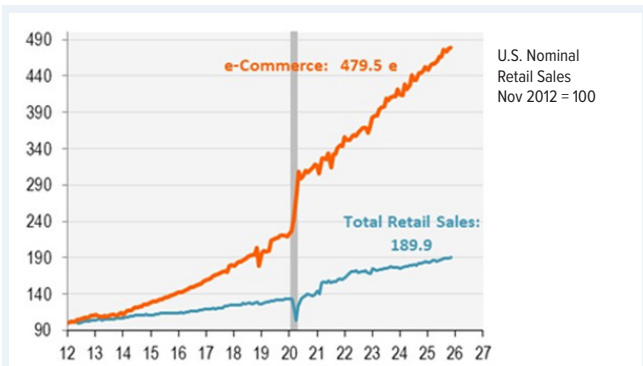
Aging demographics and the need for more prescriptions and procedures as we age are major tailwinds for the Health Care sector. However, industry-leading firms within health care are heavily dependent on advanced technology, now led by AI. Technology plays a critical role in drug and medical device development. At the same time, insurers and service providers utilize big data and advanced analytics to optimize their business operations and control health care costs.



**Communication Services (9% of S&P 500):**

Many firms in this sector benefit from secular technology trends. The best-in-class firms in this sector engage a growing number of users, collect massive amounts of data from them, and analyze it with state-of-the-art techniques, led by AI. Advertising and consumer dollars continue to flow toward these firms that are increasingly able to quantify their worth to businesses and consumers—at the expense of traditional media.

Chart 3: E-commerce Demonstrates Technology’s Major Economic Impact



Source: Janney Investment Strategy Group; Piper Sandler Companies, Data as of December 2025



**Consumer Discretionary (11% of S&P 500):**

The shift to online retailing has been the sector’s major secular theme. Developing a first-class online presence is critical for success, with some firms much better positioned than others. This transition involves utilizing many of the advanced technologies mentioned above and requires significant investment. Retailers that haven’t been successful at making this transition continue to face a major headwind.

Housing never completely recovered after the 2008 financial crisis and now faces the headwind of high interest rates. We expect the coming years to show improvement,

especially as interest rates continue to normalize with lower inflationary pressures. We see opportunities in housing-related stocks amid pent-up demand from millennials who are now in their home-buying sweet spot.



**Financials (13% of S&P 500):**

Financials are beneficiaries of interest rate normalization (short-term interest rates lower than long-term rates), which resulted from lower inflation that allowed the Federal Reserve to lower short-term rates. We expect this to provide a favorable backdrop for financials in the coming years, with banks’ all-important net interest income (banks borrow at short-term interest rates and loan at long-term rates) the major beneficiary.

Valuation is relatively favorable, and firms in the sector are leveraging technology as a major driver of their competitive advantage. These well-positioned firms have significant scale, allowing them to make the necessary technology investments. They have access to massive data and the ability to analyze it with advanced analytics. The pandemic has accelerated the shift from brick-and-mortar to online banking, benefiting technology leaders.

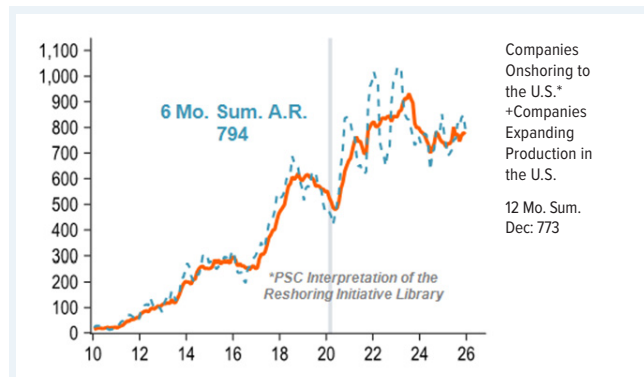
Well-positioned firms in this space have diversified business models that include traditional banking, investment banking, and wealth management. These business models are proving their worth with diverse revenue streams that provide stable earnings and operational flexibility.



**Industrials (9% of S&P 500):**

Best-in-class industrials are leveraging technology to automate factories, optimize supply chains, and gain other efficiencies. Railroads and logistics firms have established scale and barriers to entry that should support their future profitability. Defense firms remain critical for national security and are beneficiaries of heightened tensions with China, Russia, and Iran. Industrials are also beneficiaries of reshoring because of pandemic-induced supply chain disruptions, geopolitical tensions with China, and current trade policy.

Chart 4: Onshoring is an Important Secular Theme



Source: Janney Investment Strategy Group; Piper Sandler Companies (PSC), Data as of December 2025

Many industrial firms are involved in commodity extraction, transportation, and energy-efficiency improvements. They are directly involved in and impacted by the movement toward clean energy, with many well-positioned for the transition.



**Consumer Staples (6% of S&P 500):** Best-in-class staples firms have global brands that stand the test of time. These firms are defensive because demand for their products is relatively immune to the business cycle, thus providing stable earnings that support growing dividends. They have tremendous expertise in utilizing technology to optimize sales and global supply chains while minimizing other costs. These factors have the potential to provide for the future success of the sector's blue chips.



**Real Estate (2% of S&P 500):** Technology and warehouse REITs are major beneficiaries of secular technology trends, including AI and cloud computing, and the move away from brick-and-mortar retailing. Retail REITs continue to face the headwind from the shift to online retailing, which accelerated during the pandemic. Commercial REITs remain under pressure from work-from-home and hybrid work arrangements that have become permanent features of the workplace.



**Utilities (2% of S&P 500):** Utilities are major beneficiaries of significant data center energy demand. In addition, Utilities are experiencing a shift in their business model due to clean energy requirements. Historically, utilities pass through to retail customers the cost of fossil fuel used to generate electricity (about 40-50% of a typical bill). With renewable energy, customers don't pay a fuel charge; instead, they pay a cost that allows utilities to recapture their investment in renewable generation.

The investment needed for both data centers and clean energy is projected to be substantial in the coming years, while investment in the electric grid is also projected to be massive due to substantially higher electricity usage. Consequently, higher investment is causing many utilities to see their long-term earnings growth rates increase, which should ultimately benefit the valuations they receive from investors.

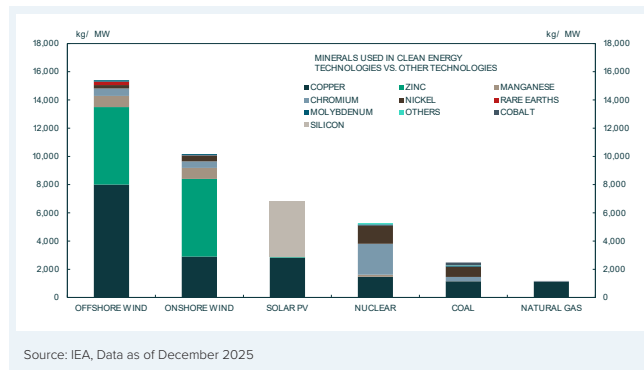


**Materials (2% of S&P 500):** The last decade saw the Material sector under secular pressure from China's economic slowdown and excess capacity. We expect a major shift in the future as years of underinvestment should ultimately lead to a tighter supply of many commodities, while the transition to clean energy sources requires significant commodity inputs.

Studies by the World Bank and International Energy Agency (IEA) point to significant demand for base metals and other materials needed for the transition to clean energy. A typical electric car requires six times the mineral inputs of a conventional car, and an onshore wind plant requires nine times more mineral resources than a gas-fired power plant. Metal and mining firms appear well-positioned for the higher demand expected to persist for decades.

Meanwhile, firms in the sector that provide significant value-add to their final products and successfully utilize advanced technologies remain well positioned. These best-in-class firms have created competitive advantages that should remain sustainable in the future—despite the cyclical nature of this sector.

Chart 5: Significant Clean Energy Demand for Metals



**Energy (4% of S&P 500):** This notoriously boom-or-bust sector continues to face many crosswinds. The success in developing shale oil and gas has impressively led to energy independence for the U.S. While this success led to excess global productive capacity, OPEC+ and shale producers have shown discipline in bringing on new supply, which has supported prices and profitability.

Meanwhile, growing concerns about climate change are causing a secular shift toward alternative energy and electric vehicles, with these technologies becoming cost-competitive with traditional oil and gas. Solar and wind energy producers should see significant growth in the coming years, with low-cost producers well-positioned.

While major shareholders are pressuring traditional oil and gas firms to show they can transition their business models to a low-carbon world, traditional energy sources will be in demand for the foreseeable future. Fossil fuels account for approximately 80% of today's energy demand, and oil and gas firms remain critical to the economy, providing a flexible, diverse source of power.

Major oil companies are developing carbon-capture and sequestration systems and investing in clean energy, which should help them transition to a low-carbon world.

Longer term, natural gas will continue to play a key role in energy production, as it produces less carbon than other fossil fuels and can be used for base-load electricity generation.

Nuclear power is enjoying a resurgence, given its low carbon footprint and the massive power requirements for AI data centers, with hyperscalers signing long-term contracts with nuclear power providers. Significant investment is also taking place to develop small modular reactors, which show promise of providing large amounts of carbon-free energy.

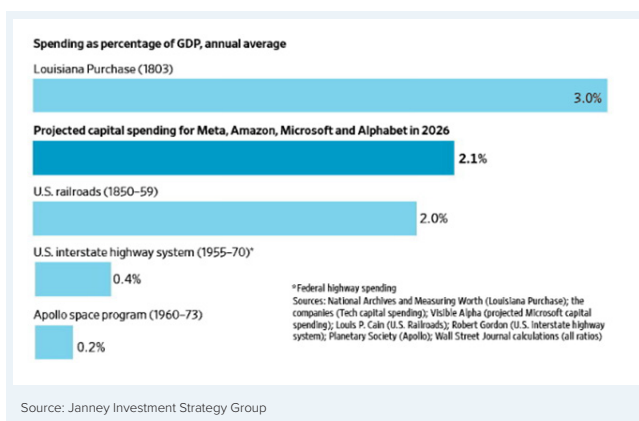
## Importance Of Data Center Buildout

Data centers are critical physical infrastructure that power virtually every digital activity today, from cloud computing and streaming to financial transactions. They store, process, and transmit the massive flow of data that underpins the economy. The major driver today is AI computing.

The power of AI models and their adoption by corporate America are leading to significant productivity gains, which explains why hyperscalers (major cloud computing providers) are making massive investments in data centers (over \$700 billion in 2026 alone). Corporate America buys capacity on the hyperscalers' systems where AI requires significant computing capacity. Given the very positive quantifiable results of AI implementation, demand for hyperscalers' capacity is so strong that it has led to unprecedented investment by the hyperscalers—see Figure 1.

Many industries are benefiting from this massive investment, from technology to energy firms. The overall U.S. economy is also a beneficiary of this activity, given the scale of this investment.

Figure 1: Perspective of Unprecedented AI Data Center Investment



Please refer to our Sector Strategy Spotlight reports for additional details on all the sector themes discussed.

Please contact your Janney Financial Advisor for actionable investment ideas related to the themes in this report.

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