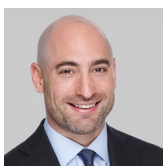




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Megaprojects: A Cross-Sector Industrial Capex Cycle



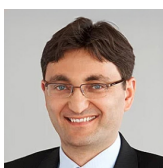
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Key Takeaways

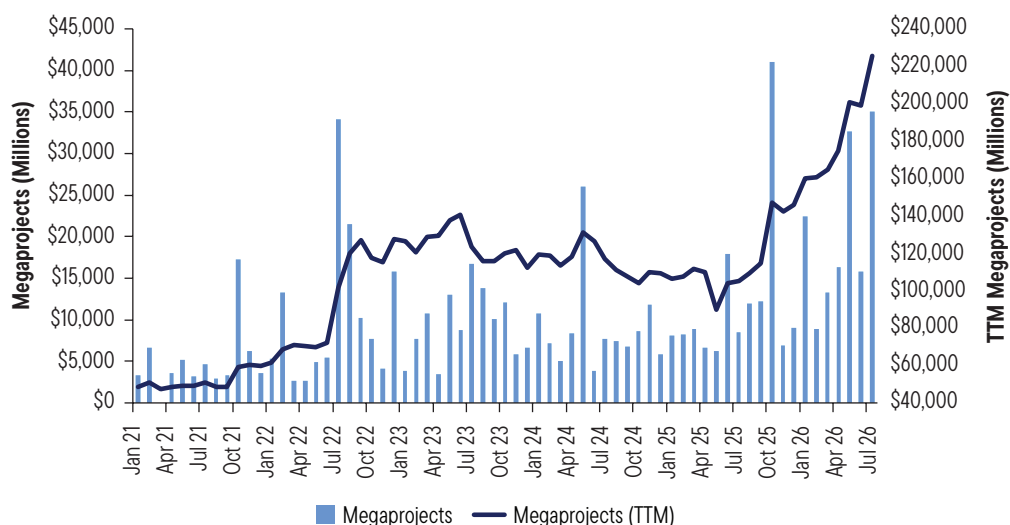
- ▶ Megaproject activity has accelerated significantly since the COVID-19 pandemic, driven by structural investment needs across LNG infrastructure, semiconductors, manufacturing reshoring, public infrastructure, grid modernization and data centers.
- ▶ The cycle remains in its early stages: with most announced projects not yet under construction and revenue conversion often lagging awards by several years, megaproject demand could persist well beyond the initial announcement wave.
- ▶ For investors, the breadth and duration of this capex cycle may support premium valuations for select industrial beneficiaries with strong backlogs, installed-base service opportunities and exposure to mission-critical infrastructure.

The Emergence of the Megaproject Cycle

Megaprojects are large, complex, long-duration investment projects that typically involve the development of major infrastructure, energy, industrial facilities, transportation systems and increasingly, AI data centers and semiconductor facilities.

Megaproject starts accelerated materially following the COVID-19 pandemic as governments and corporations reassessed supply chain resilience, energy security and domestic industrial capacity. A dramatic increase in monthly megaproject starts began in 2022 and has continued into 2026 (Exhibit 1).

Exhibit 1: Megaproject Starts Increased Post-COVID



As of July 2026. Source: Bernstein Research.

Several drivers have contributed to this acceleration, including LNG infrastructure investment, reshoring and manufacturing expansion, grid modernization, federal infrastructure spending and semiconductor investment.

1. LNG and Energy Security

The disruption of global energy markets following Russia's invasion of Ukraine significantly increased European demand for LNG infrastructure. Several large-scale LNG export facilities began construction between 2022 and 2023 and are now entering peak building phases. Representative Gulf Coast projects include Calcasieu Pass LNG in Cameron Parish, Louisiana, near the mouth of the Calcasieu Ship Channel; Port Arthur LNG in Jefferson County, Texas, along the Sabine-Neches Waterway; and Rio Grande LNG at the Port of Brownsville in South Texas (Exhibit 2). Calcasieu Pass began producing LNG in 2022 and entered full commercial operations in 2025, while Port Arthur and Rio Grande remain under construction. Unlike short-cycle industrial demand, LNG facilities require multiyear construction timelines, extensive supporting infrastructure and long-duration procurement schedules.

2. Manufacturing Reshoring and Industrial Policy

A second major driver of megaproject growth is reshoring and manufacturing investment, including steel, GLP-1 manufacturing, semiconductor fabrication and EV-related supply chains.

The CHIPS and Science Act has become a particularly important catalyst. Taiwan Semiconductor Manufacturing's (TSMC) multi-fab campus in Phoenix, Arizona, heavily supported by the Act, represents one of the largest semiconductor construction programs in U.S. history (Exhibit 2). Semiconductor-related construction activity is expected to accelerate further as TSMC develops three additional fabrication plants, two advanced-packaging facilities and an R&D center at or near its existing Phoenix campus.

3. Grid Infrastructure Modernization

Growing power demand and aging infrastructure is also making grid infrastructure upgrades a major driver of megaproject demand. Much of the existing infrastructure is aged and capacity constrained; the IEA estimates grid infrastructure spending could grow at a compound rate exceeding 15% through 2027.

4. Public Infrastructure Spending

The Infrastructure Investment and Jobs Act (IIJA) has materially expanded public infrastructure funding. Transportation and civil infrastructure projects — including highways, bridges, tunnels and transit systems — represent a large component of announced megaproject spending. Examples include the Frederick Douglass Tunnel in Maryland, as well as other major highway and bridge programs, state transportation pipelines and renewable energy transmission infrastructure (Exhibit 2). Public infrastructure projects tend to provide longer-duration revenue visibility than traditional private commercial construction cycles.

Exhibit 2: Sample Recent Megaproject Announcements

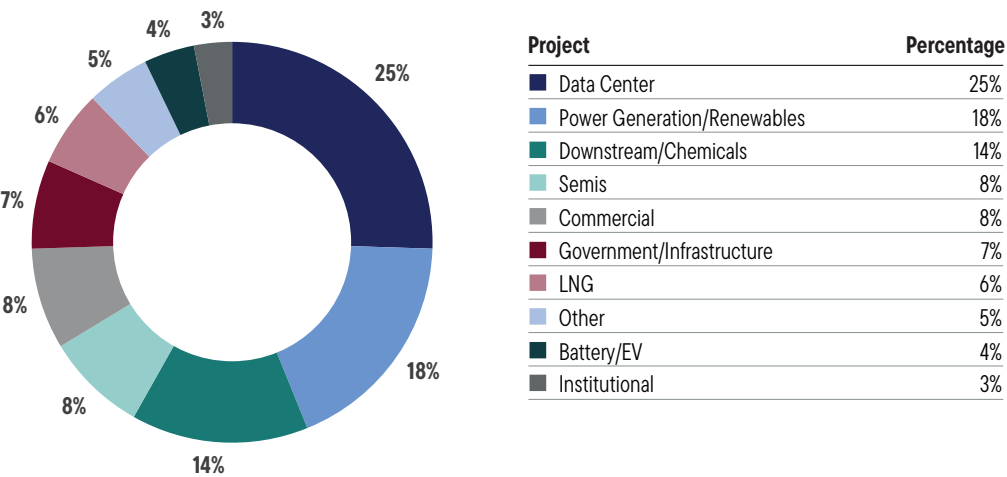
Category	Project	Value (\$M)
LNG	Calcasieu Pass LNG	\$15,000
	Port Arthur LNG	\$12,000
	Rio Grande LNG	\$9,000
Manufacturing Reshoring and Industrial Policy	TSMC (Fab 3, Phase 3)	\$10,000
	Eli Lilly Manufacturing Facility	\$1,700
	Meta Hyperion Data Center	\$7,500
Public Infrastructure	Frederick Douglass Tunnel	\$5,900
	Sunrise Offshore Wind	\$3,500
	Empire Offshore Wind	\$3,000

Source: ClearBridge Investments

Megaprojects Extend Far Beyond Data Centers

Importantly, the market may be overly focused on AI and hyperscale data centers while underestimating the breadth of the broader capex cycle. By some accounts, data centers represent approximately 25% of megaproject end markets, in terms of value announced. Power generation and renewables, downstream chemical projects, semiconductor projects, government and infrastructure projects and LNG projects also make up a substantial amount of the value of total megaprojects over the last five years (Exhibit 3).

Exhibit 3: 2021-2025 Megaproject End Market Breakdown



Source: Wells Fargo. By announced value in dollars. Numbers may not add up to 100% due to rounding.

Even if certain areas moderate over time, other categories may continue to sustain industrial demand. Such breadth creates a more resilient and durable industrial spending backdrop.

This diversification is important for investors, as it suggests the megaproject cycle is not dependent on any single end market. Even if certain areas moderate over time, other categories may continue to sustain industrial demand. Such breadth creates a more resilient and durable industrial spending backdrop.

A Construction Pipeline in the Early Innings

We expect continued growth in non-residential construction starts through at least 2030. As these forecasts occur on top of already elevated spending levels, the industrial economy may be entering a structurally higher plateau of capital intensity rather than a short-lived cyclical rebound. Starts reflect the total value of a project when it breaks ground and thus serve as an important leading indicator for downstream spending that takes place during the lifecycle of a project. Many electrical, automation, and construction companies participate in later stages of a project, and we expect to see them benefit over the next few years.

There is also a significant gap between cumulative megaproject announcements and actual project starts: approximately 75% of announced megaprojects have not yet started construction. Industrial order activity and revenue conversion often lag project announcements by several years. Comfort Systems, for example, is currently converting revenue from orders that were originally booked 2.5 years earlier. As a result, current revenue may reflect earlier project waves and future order activity may remain elevated even if announcements moderate.

Recent management commentary from industrial companies also reinforces the durability of the cycle. Caterpillar has cited one of its best quarters ever from an orders standpoint, supported by both a growing industry and customer confidence. Deere recently raised full-year construction guidance based on strong backlog and customer confidence. Eaton estimates that it would take approximately 15 years to work through its current backlog at 2025 build rates. These comments are particularly important because they suggest that backlog visibility remains elevated even after several years of already strong demand.

A Megaproject Beneficiary Ecosystem

The megaproject ecosystem extends across multiple industrial subsectors:

Electrification and Power Management: Potential beneficiaries include companies involved in switchgear, power quality systems, electrical distribution, transmission infrastructure and backup power. Representative names might include Eaton and Hubbell. U.S. electric utility Entergy and European electric utility E.ON are also good examples.

Thermal Management and HVAC: Cooling intensity is rising significantly due to AI workloads and advanced manufacturing requirements. Potential beneficiaries include Trane Technologies, Carrier, Johnson Controls, Vertiv and Delta Electronics.

Engineering and Construction: Engineering firms and specialty contractors may benefit from elevated project complexity and long-duration backlogs. Representative names mentioned include Jacobs, AECOM, Quanta Services, Comfort Systems and EMCOR.

Industrial Automation: Automation providers may benefit from semiconductor expansion, process industries, LNG facilities and manufacturing reshoring. Representative companies include Rockwell Automation and Emerson Electric.

Construction Equipment and Rental: As megaprojects are large facilities that need to be built, there is potential opportunity across construction equipment and rental companies such as Caterpillar, Deere, Oshkosh, Terex, United Rentals and Herc Holdings.

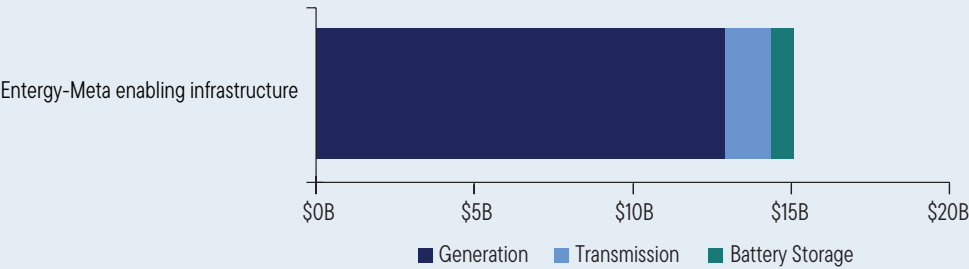
Case Study: Entergy

Data Centers: Entergy and Meta’s Hyperion Campus

Meta’s Hyperion data center campus in Richland Parish, northeast Louisiana, shows how hyperscale development can create a much larger ecosystem of enabling infrastructure. Entergy Louisiana has proposed approximately \$15.1 billion of incremental investment, including \$12.9 billion for seven new natural-gas combined-cycle power plants totaling more than 5.3 GW, \$1.5 billion for approximately 240 miles of new 500 kV transmission and \$0.7 billion for battery energy storage systems (Exhibit 4). The transmission network would connect southern and northern Louisiana with Arkansas, while battery storage would be distributed across three locations. Subject to regulatory approval, construction activity is expected to extend from 2026 through 2031.

The project illustrates how data center investment extends well beyond the physical campus, creating multiyear demand for generation equipment, transmission infrastructure, substations, storage, gas supply and specialized engineering and construction services.

Exhibit 4: Entergy-Meta Proposed Enabling Infrastructure



Source: ClearBridge Investments.

Case Study: Ferrovial

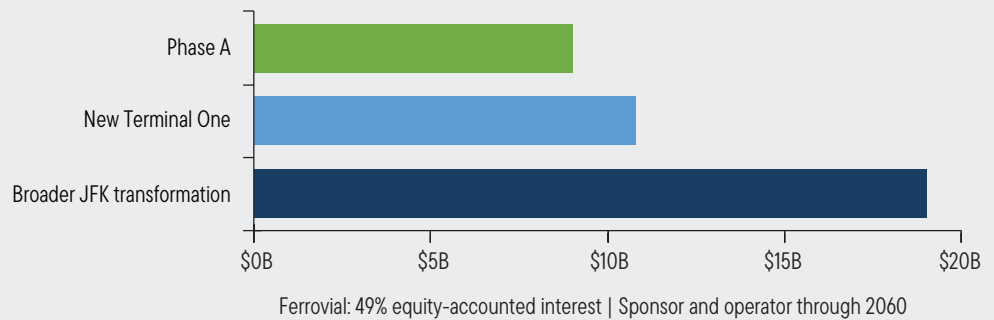
Public Infrastructure: JFK New Terminal One and Ferrovial

The New Terminal One at John F. Kennedy International Airport in New York City illustrates the scale and duration of the current public infrastructure cycle. Roughly \$9.0 billion has been funded for Phase A, while total uses across the full New Terminal One program are estimated at approximately \$10.8 billion. The terminal forms a central component of the Port Authority of New York and New Jersey's broader \$19.0 billion transformation of JFK.

When complete, the terminal will encompass approximately 2.6 million square feet, provide 23 gates and accommodate as many as 23 million passengers annually. Phase A includes the main arrivals and departures hall and the first 14 gates; subsequent phases are expected to extend construction through approximately 2030. Toll road and airport concession operator Ferrovial participates as an equity sponsor and operating partner under a concession extending to 2060. As of March 2026, Phase A was approximately 92% physically complete, with its opening targeted for early 2027.

JFK demonstrates that megaproject activity is not confined to digital infrastructure. It also highlights the long construction periods, phased delivery, complex public-private financing and decades-long operating commitments characteristic of major transportation programs.

Exhibit 5: JFK Capital Program



Source: ClearBridge Investments.

Case Study: Prysmian

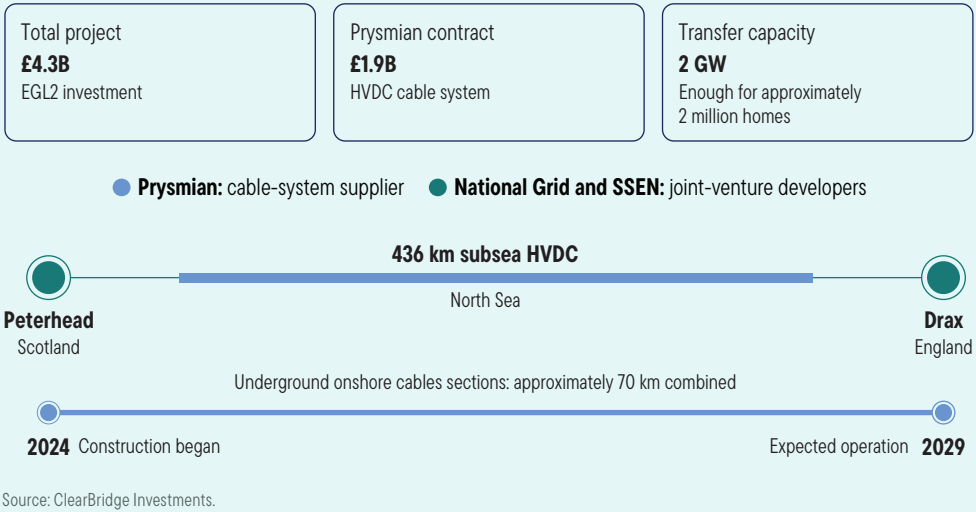
Prysmian and Eastern Green Link 2

Grid modernization creates multiyear demand for specialized equipment suppliers such as leading global cable manufacturer Prysmian. The Italian company was awarded an approximately €1.9 billion contract to provide the high-voltage direct-current cable system for Eastern Green Link 2, an electricity transmission megaproject connecting Peterhead, Scotland, with Drax in northern England (Exhibit 6).

The £4.3 billion project will comprise more than 500 kilometers of 525 kV transmission infrastructure, including approximately 436 kilometers of submarine cable beneath the North Sea and 70 kilometers of underground onshore cable. With 2 GW of capacity — enough to power approximately 2 million homes — the connection is intended to move renewable electricity from Scotland to demand centers farther south. Construction began in 2024, with commercial operation expected in 2029.

This demonstrates how a single transmission megaproject can generate a sizable, long-duration award for a critical component supplier. It also highlights the constrained nature of the HVDC supply chain, where specialized manufacturing capacity, installation vessels and technical expertise create high barriers to entry and support backlog visibility extending several years.

Exhibit 6: Eastern Green Link 2 Project Scale, Route and Timeline



Another underappreciated dimension of the megaproject cycle is the potential for long-tail service and aftermarket revenue.

An Emerging Service Revenue Opportunity

Another underappreciated dimension of the megaproject cycle is the potential for long-tail service and aftermarket revenue. Installed infrastructure bases often create recurring service opportunities that ultimately exceed original equipment revenue over time. For example, once built, data centers will need constant upgrades and replacements, benefiting companies with the largest installed bases over a long horizon. After initial warranty periods, service revenue should accelerate and remain strong as long as data centers are operational — which appears to be decades.

Case Study: Johnson Controls

Converting Megaproject Spending into Service Revenue

Manufacturer of HVAC and related building systems Johnson Controls (JCI) illustrates how megaproject investment can generate revenue well beyond the initial construction phase. The company supplies thermal management systems, building controls and other mission-critical infrastructure to data centers, pharmaceutical facilities and advanced manufacturing plants. Once installed, these systems create opportunities for ongoing maintenance, monitoring, optimization, retrofits and eventual equipment replacement.

Demand from large-scale data center projects contributed to JCI's organic orders increasing 27% year over year in fiscal Q3 2026, while backlog reached a record \$21.0 billion. In the Americas, backlog increased 40% to \$15.9 billion. Services represented ~31% of company sales during the quarter.

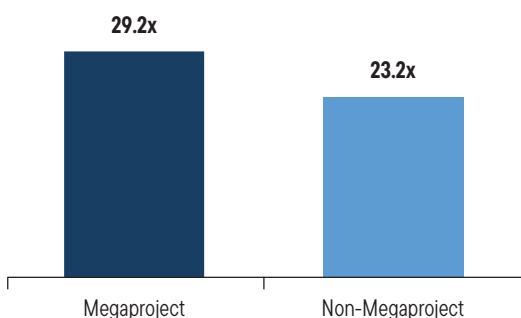
JCI demonstrates an important feature of the current capex cycle: megaproject construction expands the installed base, which can support recurring, higher-value service activity for many years after a facility opens.

Valuation and Risk Considerations

Megaproject-exposed companies in the industrials sector currently trade at premium valuation multiples relative to broader industrials. The first group trades at approximately 27x forward earnings, while their non-megaproject peers trade closer to 23.2x (Exhibit 7).

Exhibit 7: Megaproject Valuation Premium

Forward P/E (Median)

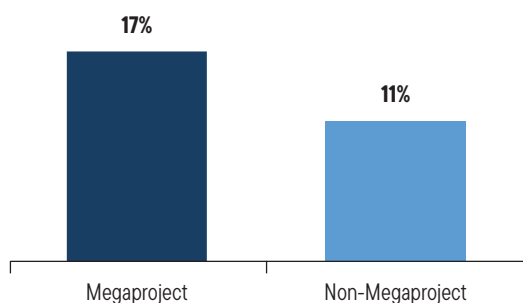


As of August 12, 2026. Source: ClearBridge Investments. Megaproject stocks: VRT, ETN, TT, JCI, CARR; non-megaproject stocks: CR, LII, HUBB, ROK, AME, VLTO, ITW, IR, PH, OTIS, IEX, DOV, FTV, EMR, HON, MMM, DD, ALLE.

However, the premium may be justified given superior revenue growth, superior EPS growth and greater earnings visibility through backlog and recurring service revenue (Exhibit 8). Importantly, some companies may still embed relatively conservative long-term growth assumptions despite the scale of the opportunity.

Exhibit 8: Megaproject Earnings Premium

2026–28 EPS CAGR (Median)



As of August 12, 2026. Source: ClearBridge Investments. See note to Exhibit 7 for constituents.

While the megaproject outlook remains constructive, investors should consider several risks. Policy risks entail the possibility that government infrastructure programs and industrial incentives could change under future political administrations. Cost inflation from labor shortages and supply chain constraints could increase project costs and delay timelines. Data center deployment may ultimately be constrained by disappointing returns and grid capacity limitations. A broader macroeconomic slowdown could reduce private sector capital investment. Also, not all announced projects ultimately proceed to construction. However, the sheer scale of existing announced backlog may provide meaningful cushion even if select projects are delayed or cancelled.

Conclusion

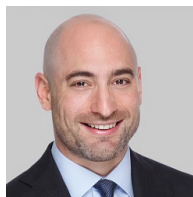
The current megaproject cycle may represent one of the most significant industrial investment opportunities in decades. Unlike prior industrial expansions that were primarily cyclical, today's environment is being driven by multiple overlapping structural forces, such as energy security, AI infrastructure, manufacturing reshoring, electrification, grid modernization, infrastructure renewal and domestic semiconductor production.

Importantly, the opportunity extends well beyond hyperscale data centers: The breadth of announced projects across LNG, transportation, semiconductors, manufacturing and public infrastructure suggests that industrial capital spending could remain elevated for many years. At the same time, a large percentage of announced megaprojects have not yet entered active construction phases, implying that current industrial revenue may still represent the early stages of a much longer cycle.

While valuations for megaproject beneficiaries are no longer inexpensive, premium multiples may remain justified if the cycle proves both broader and longer lasting than the market currently expects.

The current megaproject cycle may represent one of the most significant industrial investment opportunities in decades.

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