Barrow Hanley: Not all AI stocks look like AI stocks

By Perpetual Asset Management
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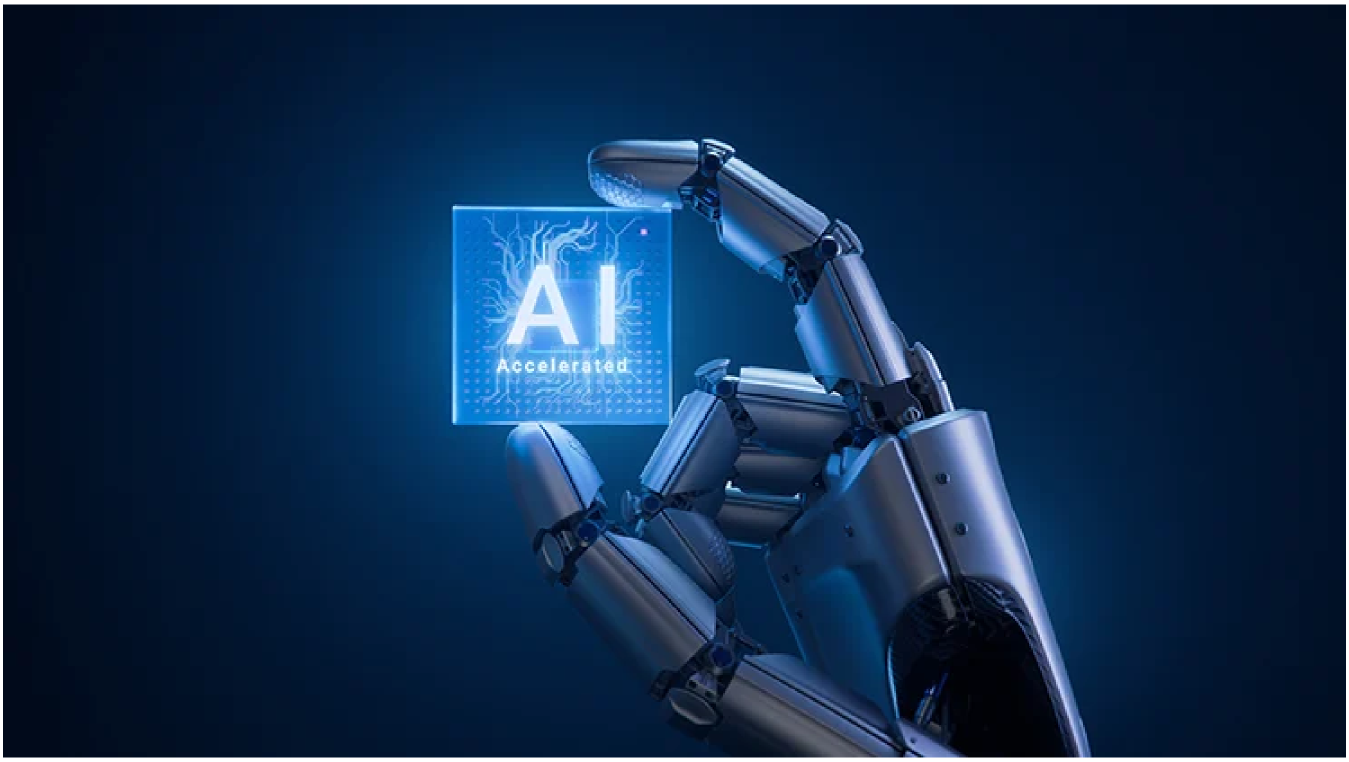

The real winners of the AI boom are shaping to be regular industrial companies – Barrow Hanley's CORY MARTIN explains where he is finding investment ideas

- Power, cooling and industrials can be AI winners
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"Not all AI stocks look like AI stocks," says Barrow Hanley chief executive and portfolio manager Cory Martin.

In fact, many of the recipients of global AI spending – power, cooling, copper and utility companies – are proving to be better investments than the high-profile technology names most closely associated with the theme.

"We're bottom-up, value-oriented," says Martin.

"We want to own the recipients of the capex and the enablers or the builders of the data centres."

He says it is a mistake to associate the AI boom only with big tech.

"In reality, it's all the enablers, which are just regular companies."

Martin was speaking at the on-demand webinar Global markets in flux: Where long-term value is emerging. Barrow Hanley funds are distributed in Australia by Perpetual Group.

AI spending winners

Martin says an early signal that AI spending was driving strong investment outcomes came from Barrow Hanley's investment in Vertiv, a provider of cooling systems for data centres, when the shares were trading at US$12.

"This is way before the AI hype," Martin says.

"We just bought it simply for cloud support, thinking data centres were going to grow… mid-single digits.

"It was a little mid-cap industrial company – turns out the stock is now US$348.

"We sold it a long time ago, but that was a real shot across the bow. Like, wait a second, there's a huge, unprecedented amount of capex coming – where are we in all this?"

Martin says Barrow Hanley has since found AI-linked opportunities across cooling, optical networking, power, utilities and data-centre infrastructure.

He also points to copper as an area where investors are not fully understanding the AI-demand.

"I think copper is maybe underappreciated because everybody's focused on neural networks and fibre optics," Martin says.

"To push data through an optical fibre ... requires a connector that has copper in it.

"We just bought the largest copper manufacturer in the world, Freeport-McMoRan."

Value investing discipline

Martin says the key to sensibly participating in AI upside is taking a disciplined value approach.

"We spend as much time on the downside – and if we're wrong, how bad can it get – as we do on the upside," he says.

That has led to caution on parts of the market where AI may create disruption rather than opportunity.

"The no-go zone right now is anything that we can identify to be a potentially disrupted company by the agentic AI," Martin says.

"Growth managers have to own software because they can't miss that – it's too big. But a value manager doesn't have to own it.

"How am I smart enough to predict whether this SaaS company is going to be disrupted? The old Buffett saying is if it's in the too hard bucket, just move on to something else," Martin says.

He says that also means not allowing geopolitical instability to derail investment decisions.

"Markets go up two-thirds of the time. If your underlying managers are doing their job and you're diversified, then ignore this macro noise and stick to your plan," he says.

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