



Don't Call It a Comeback: *The Industrial Economy* *in 2026*

White Paper
June 2026



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The Short Version

- U.S. industrial businesses are emerging from one of the **longest downturns on record** – yet beneath the surface, a **structural reordering is underway** that we believe sets the stage for **sustained, multi-year growth**
 - Recent contraction was **unusually prolonged** – manufacturing PMI signaled contraction in 36 of 38 months from late 2022 through the end of 2025, driven by post-COVID destocking, tariff impacts, and persistently soft demand
 - **Headline weakness masked a deeper rotation**: since the mid-1990s, U.S. manufacturing has shifted away from commodity production and toward technology-intensive output – electronics, defense systems, electrical infrastructure, advanced materials, and other products and services that make up the **advanced industrial economy**
- **Five secular tailwinds are now converging to accelerate that shift**: reshoring of critical manufacturing, digitalization and automation, defense investment and modernization, the AI-driven data center buildout, and electrification and grid modernization
 - A **structural rotation of capital** supports these trends – capital allocators are shifting away from the capex-light, software-centric models favored in the last decade, toward asset-intensive, **“Heavy Asset, Low Obsolescence” (HALO)** businesses with high demand visibility and low exposure to technological displacement
- Early 2026 data points to **broadening momentum for industrials**, with manufacturing PMI back in expansion and industrial output climbing – though **reaccelerating inflation and renewed supply-chain pressure warrant caution**
- Cogenuity is actively supporting the **critical components, equipment, and services businesses that stand to benefit from these trends** – partnering with management teams to scale niche leaders through **operational excellence** and **commercial focus**

Why We Wrote This

Our team has decades of experience investing and operating in the advanced industrial economy through multiple economic cycles and has developed this white paper to share our perspectives on trends impacting the sector

About Cogenuity Partners:

We bring **Collaboration and Ingenuity** to partner with management teams to **build advanced industrial businesses**

We are more than simply a source of capital – we are collaborative investment and operating partners with decades of relevant experience across advanced industrial businesses

Our Cogenuity **Collaborative Operations (CoOp) Program™** is a **multi-phased, growth-oriented framework** that combines sector experience, hands-on resources, and strategic networks to help management teams achieve their ambitions in an accelerated fashion, and build world-class businesses

Our Strategy:

- Collaborative partnership
- Customized approach to growing and transforming businesses
- Investing in people, equipment, and systems
- Pursuing organic expansion and high-impact acquisitions

How We Can Help

We combine **deep industrial experience** with **active capital** to scale businesses serving **critical** sectors of the **advanced industrial** economy. Our team members have decades of investing and operating experience across **advanced manufacturing, critical industrial services, infrastructure solutions, and industrial technology**.

Our edge: Embedded partnerships, operational playbooks, and flexible capital to grow niche leaders

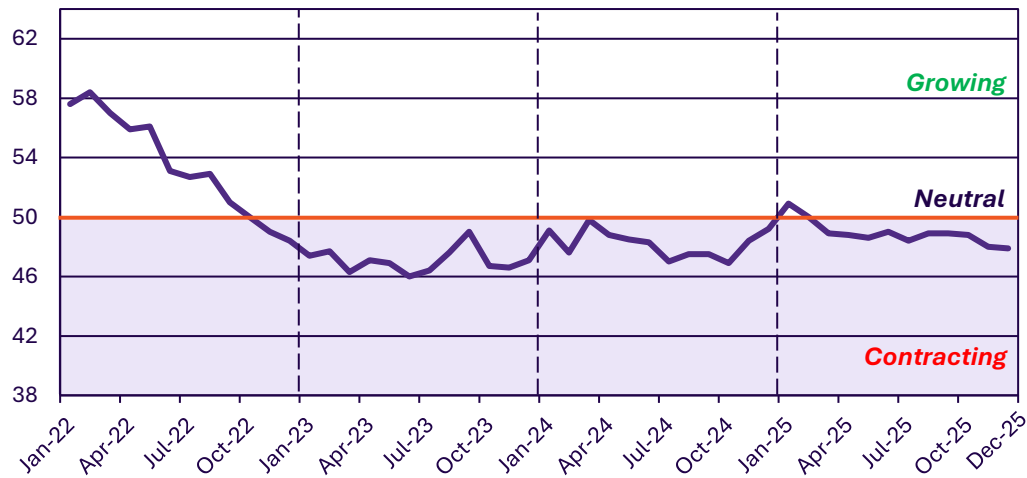
Let's build the future – together.

Three Years in the Doldrums

Manufacturing contracted for much of the last three years

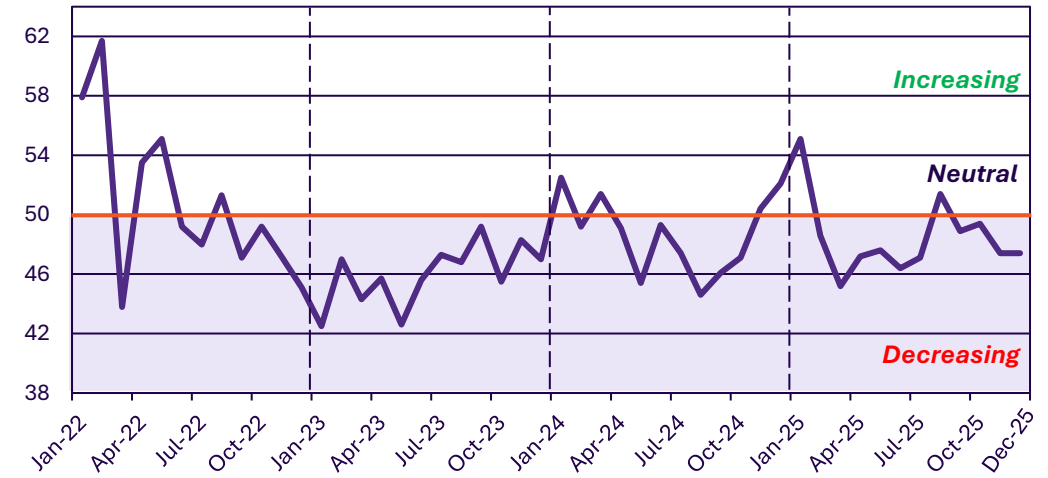
A Persistent Industrial Slump...

ISM Manufacturing PMI



... Driven by Weak Demand

ISM New Orders



- ▶ PMI – a key measure of industrial activity and sentiment – was largely below 50 (contracting) between October 2022 and December 2025
- ▶ The anticipated rebound from post-COVID destocking did not materialize, as customers maintained lean inventory levels amid a soft demand environment
- ▶ New tariffs introduced sudden operational complexity, elevated input costs, and created deep uncertainty for industrial companies and their customers

A Sector on the Sidelines

While the broader economy expanded, industrials endured an unusually long decline

2022-2025 vs. Prior Industrial Declines



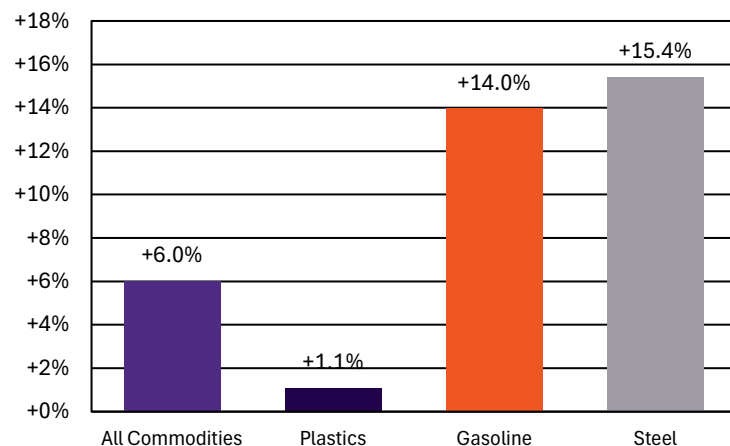
Under Pressure

Rising costs, labor scarcity, and tariff-driven complexity all pressured margins in 2025

- ▶ **Costs surged** – gasoline and steel PPI jumped **+14.0%** and **+15.4%** YoY, lifting input costs
- ▶ **Labor stayed tight** – job openings normalized, but a falling participation rate kept skilled workers scarce
- ▶ **Margins gave way** – revenue outgrew EBITDA as cost inflation exceeded topline gains
- ▶ **Complexity climbed** – new tariffs added sourcing and compliance friction on top of cost pressures

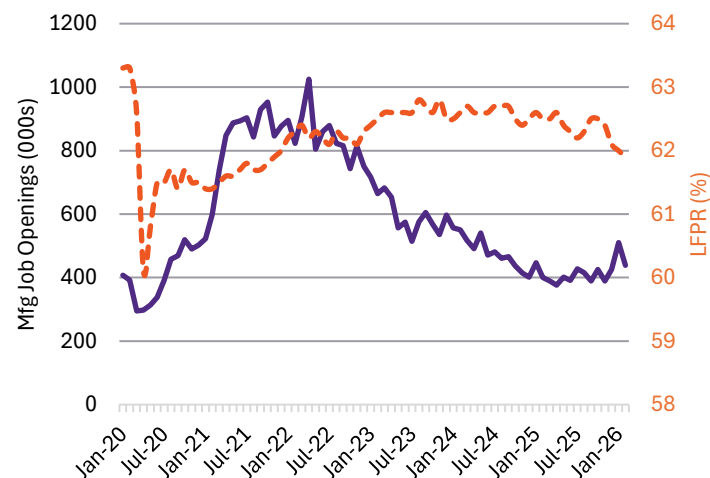
Inflation Has Driven Cost Increases

PPI YoY Inflation By Commodity
(2025 - 2026)¹



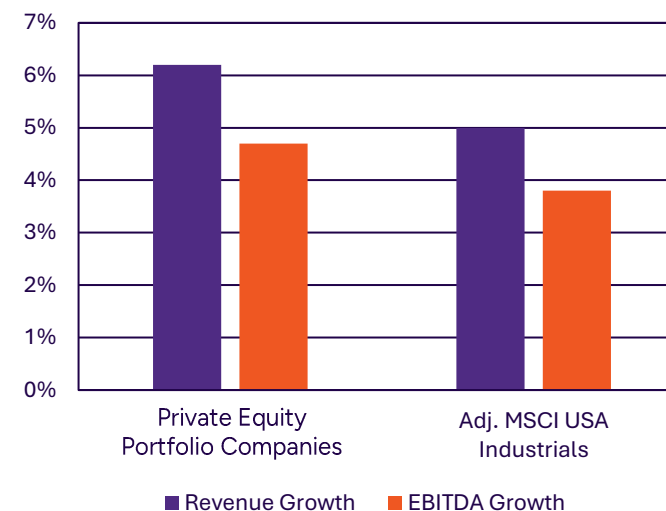
Labor Availability is Challenging

Manufacturing Job Openings vs. Labor Force
Participation (LFPR)¹



Margins Have Compressed

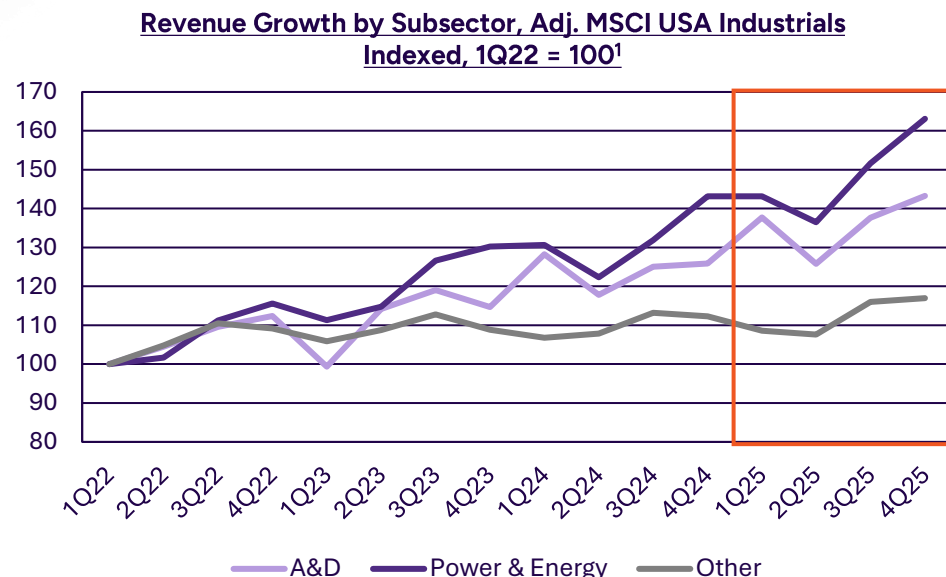
Revenue vs. EBITDA Growth (2025 YoY)²



Sources: (1) Federal Reserve Bank of St. Louis FRED; all commodities are YoY as of March 1st; (2) Kirkland & Ellis, Lincoln International, Pitchbook; represents 6,250 U.S. operating portfolio companies representing over \$250 billion of private capital and reflects MSCI Industrials index excluding rideshare, airlines, and non-industrial professional services (279 U.S.-based public industrial companies), A&D includes defense-oriented government services

A Tale of Two Subsectors

Aerospace & Defense and Power & Energy surged while the rest fell behind



Aerospace & Defense



Power & Energy



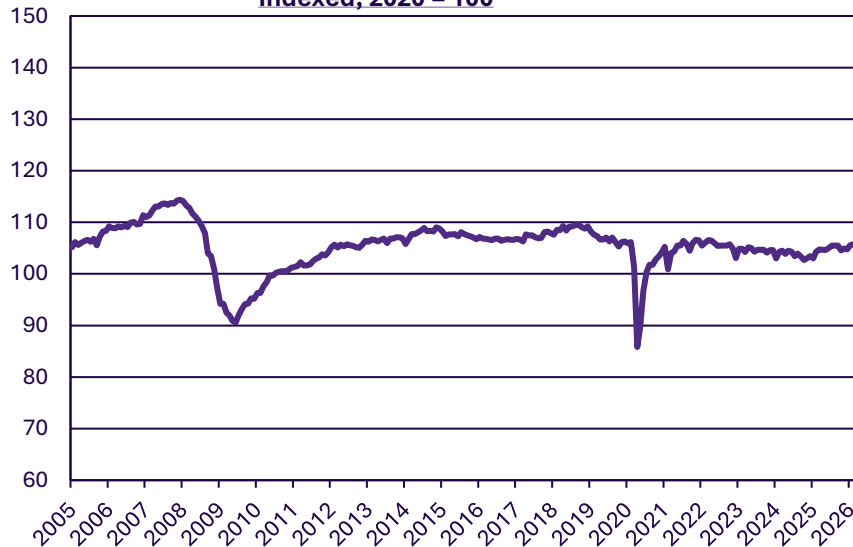
- ▶ Growth in the industrial economy since 2022 has not been broad-based – it was concentrated in aerospace & defense and in sectors supporting the AI buildout such as data center equipment and power & energy
 - Other sectors benefited indirectly, including construction & engineering, safety & security products, and building systems
- ▶ This outperformance is not a short-term trend – it reflects a longer-term restructuring of the industrial economy and the intersection of several secular megatrends

The New Industrial Order

A decades-long restructuring of the American industrial economy is picking up speed

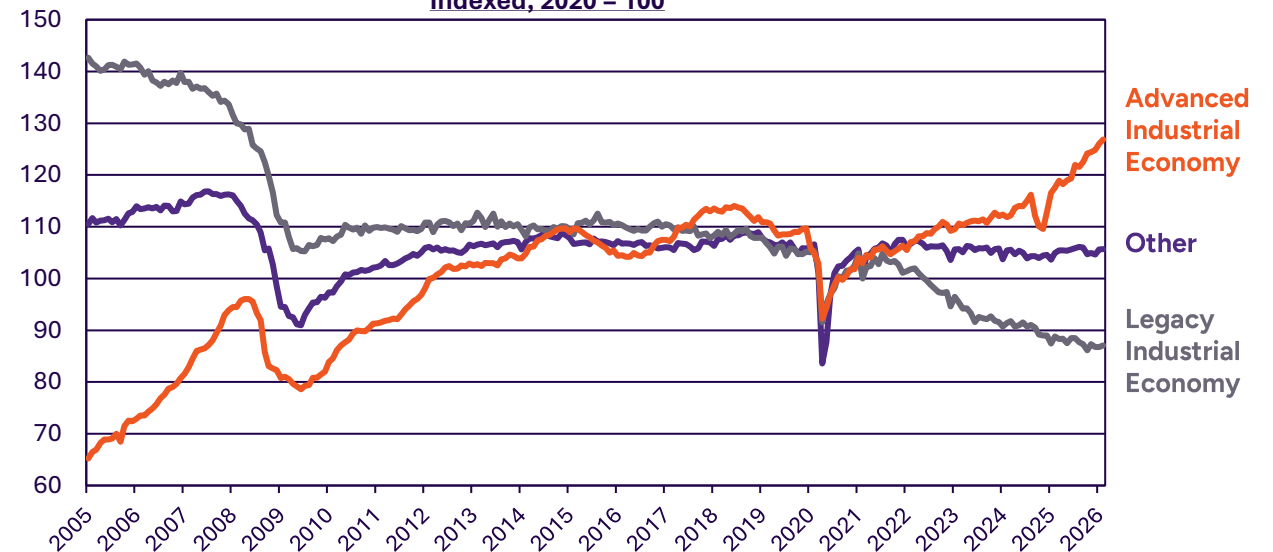
Stagnant on the Surface...

Mfg. Industrial Production
Indexed, 2020 = 100



... But Dynamic Underneath

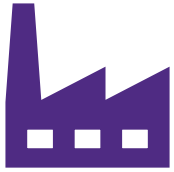
Mfg. Industrial Production
Indexed, 2020 = 100



- ▶ Since the mid-1990s, manufacturing output has rotated away from commodities such as paper, basic metals, furniture – the “legacy” industrial economy – toward technology-intensive production like electronics, defense systems, electrical infrastructure, and advanced materials
- ▶ The Global Financial Crisis and COVID-19 pandemic accelerated this shift, as struggling manufacturers closed their doors and commoditized production shifted to lower-cost regions
- ▶ **This restructuring masked several decades of growth within advanced industrials, which is accelerating as several megatrends coincide**

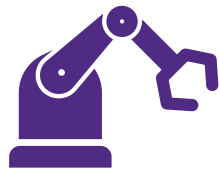
Five Forces Converge

Secular tailwinds are converging in a generational transformation



Reshoring of Critical Manufacturing

- ▶ Supply chain resiliency and trade tensions
- ▶ Localizing mission-critical components and materials
- ▶ Resurgent national industrial policy



Digitalization & Automation

- ▶ Automation, data exchange, and connected intelligence adoption
- ▶ Reinforced by labor shortages and unit economic pressures



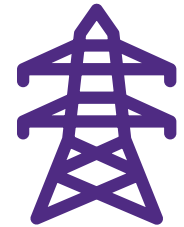
Defense Investment & Modernization

- ▶ Heightened conflict and evolving national security paradigms
- ▶ Unprecedented defense spending and push for self-sufficiency



AI & Data Center Buildout

- ▶ Rapid AI development and deployment
- ▶ Computing needs driving data center construction
- ▶ Accelerating power requirements



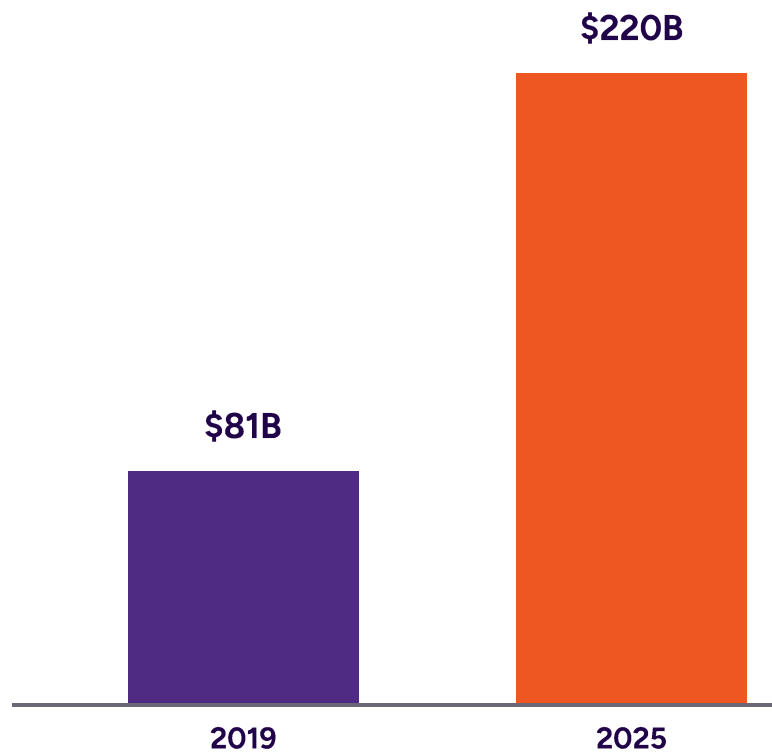
Electrification & Grid Modernization

- ▶ Aging infrastructure requiring upgrades
- ▶ Renewables, EVs, automation, and industrial electrification
- ▶ Data center demand accelerating already strong load growth

Made in America

Supply chain shocks have turned domestic manufacturing from a talking point into a strategic imperative

U.S. Manufacturing Construction Spending (\$B)



What's Happening

- ▶ COVID-19 pandemic exposed deep vulnerabilities in globally dispersed supply chains
- ▶ Geopolitical tensions that followed – including tariff levels on Chinese goods that reached historic highs in 2025 – have accelerated a fundamental reassessment of where and how critical components are produced
 - Fresh impetus for companies to invest in new domestic production capacity across sectors from semiconductors to specialty chemicals to industrial components
- ▶ Not a wholesale return of commodity manufacturing, but targeted and strategic shifts
 - Prioritizing localization of mission-critical engineered components and materials in cases where supply disruption would carry operational or national-security consequences
 - Legislation including CHIPS Act, IRA, and OBBBA further incentivizing investment in America

The Smart Factory Goes Mainstream

Automation and connected production are moving from pilot to plant floor

\$250B → \$400B

Global industrial automation market
2025 to 2030

92%

Manufacturers say smart factory tech will define
competitiveness within five years

+10–20%

Output gains for early technology adopters

What's Happening

- ▶ Industry 4.0 – the integration of automation, data exchange, and connected intelligence – continues to be a defining theme, driven by persistent labor shortages, rising wages, and growing demands for process control and repeatability
 - Necessary to scale production of in-demand products and increase the efficiency of domestic manufacturing
- ▶ Modern advanced facilities are increasingly defined by factory-wide, data-driven systems: continuous monitoring, real-time analytics, and production steps supported by robotics
- ▶ Opportunity is large and growing – manufacturers see this as an existential imperative to maintain competitiveness

A Generational Rearmament

Conflict and economic nationalism are reshaping defense-industrial demand

NATO Has Increased Spending And Targets

All 32

Member states now meet the 2% of GDP floor – a first – with a new 5% target set for 2035

U.S. Spending Surges

\$839B

FY2026 defense bill, including \$4.3B in loans to scale critical suppliers; +44% proposed for FY2027

Allies Mobilize

+20%

Increase in European and Canadian defense budgets in 2025 alone

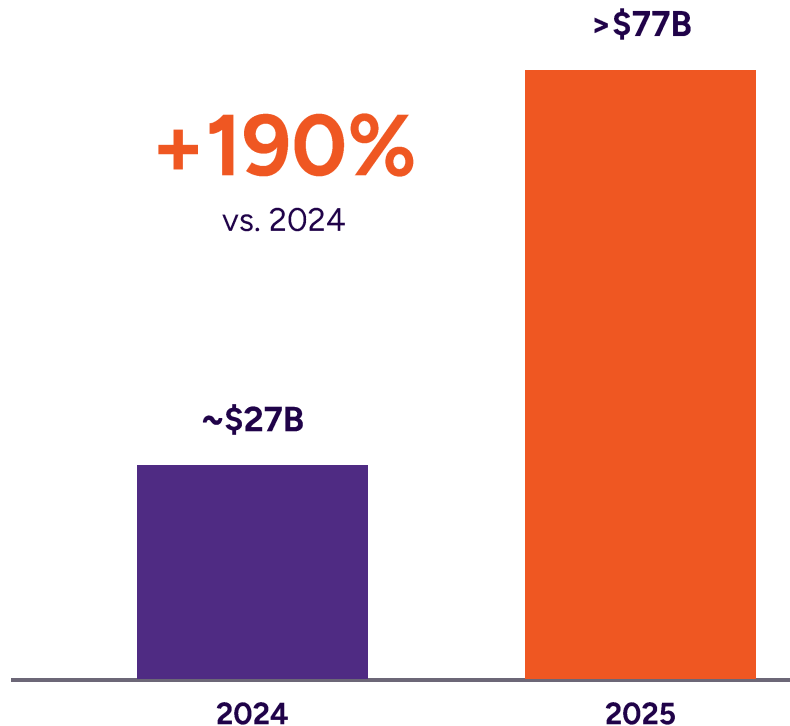
What's Happening

- ▶ Conflicts across multiple regions, combined with reinvigorated economic nationalism and a recalibration of U.S.–China relations, have set off a period of structural tension in global trade and industrial policy
- ▶ Russo-Ukraine war has prompted a historic mobilization of NATO defense spending
- ▶ European and Canadian defense spending has increased materially, as the U.S. underscores expectations for ally self-sufficiency
- ▶ Elevated trade tensions – including export controls – have highlighted the economic and national security risks of concentrated supply chains and created durable policy momentum toward domestic self-sufficiency in defense-relevant manufacturing

AI's Physical Footprint

The compute race is, at its core, an industrial-infrastructure race

U.S. Data Center Construction Starts (\$B)



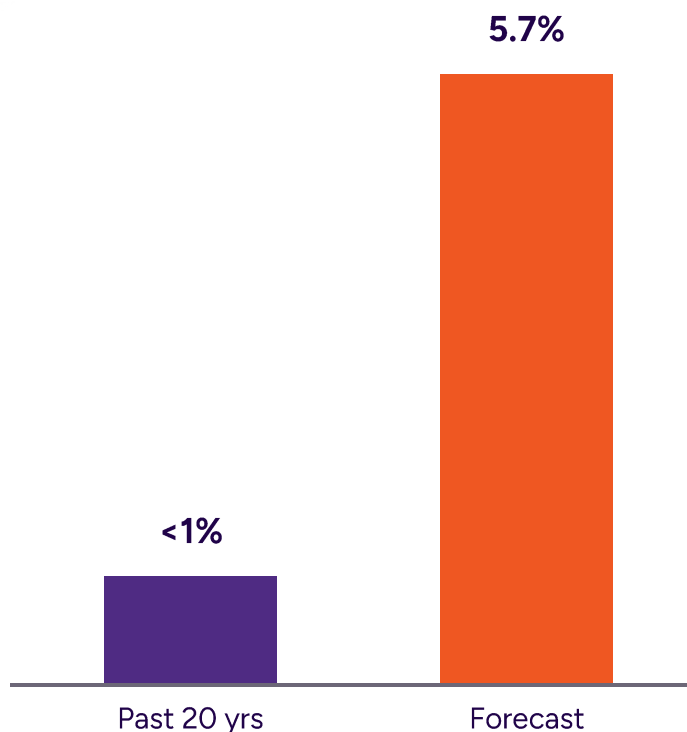
What's Happening

- ▶ Rapid acceleration of AI development and deployment generating a sustained, capital-intensive wave of infrastructure investment with broad implications for advanced industrial businesses
- ▶ Scale is striking – U.S. data center construction starts were up roughly 190% in 2025 vs. 2024, as major technology companies race to build out AI computing capacity
- ▶ Highly asset-intensive facilities, with demanding requirements for specialized electrical systems, mechanical infrastructure, advanced cooling, and on-site power generation and distribution – generating demand for a wide range of equipment and services
- ▶ Power demands of these facilities are adding directly to the strain on existing grid infrastructure, compounding an already-pressing electrification challenge

The Grid Hits Its Limit

Aging infrastructure meets the first real demand surge in two decades

Annual U.S. Electricity Demand Growth



+32% total consumption by 2030; data centers are ~half of the growth

D+

ASCE grade for U.S. energy infrastructure

~70%

Of transformers & lines are 25+ years old

11 hrs

Avg. customer outage time in 2024 (~2x the prior decade average)

\$1.1T+

Projected investor-owned utility capex through 2029 – nearly matching the entire prior decade's \$1.3T in half the time

What's Happening

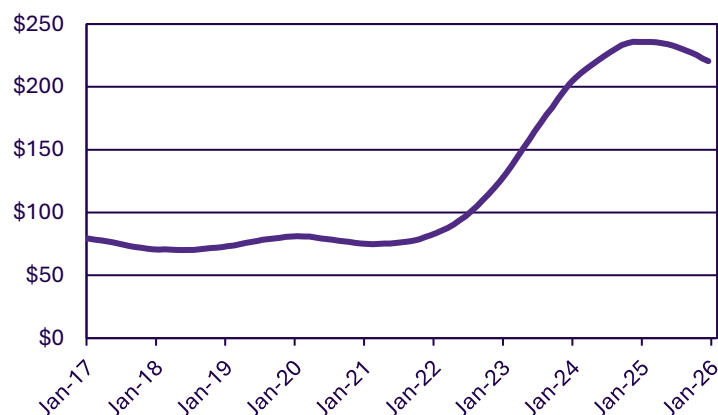
- ▶ U.S. faces a generational infrastructure challenge that predates the AI buildout – and is now accelerating in both urgency and scale
- ▶ Aged equipment and grid infrastructure is already causing reliability challenges at current demand levels
- ▶ Electricity demand is forecast to grow meaningfully after decades of minimal growth, accelerated by AI data centers
- ▶ In response, utilities are plowing capital into the grid to support anticipated demand

The Great Reallocation

Capital is rotating toward physical infrastructure, domestic production, and self-sufficiency

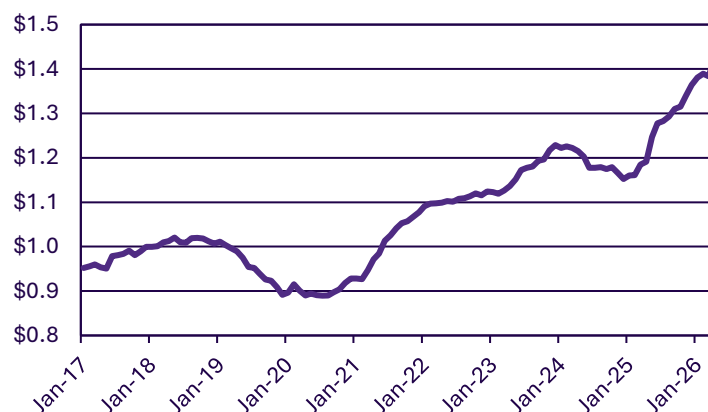
Elevated Manufacturing Construction...

LTM US Mfg. Construction (\$B)



... Increasing Capital Goods Orders...

LTM Capital Goods Orders (\$T)¹



... And Accelerating AI Investments

Mag 7 AI & Data Center Capex²



- ▶ Structural shift toward assets at lower risk of technological displacement – away from capex-light, software-centric models that defined the last decade, to asset-intensive businesses with durable installed bases and long equipment replacement cycles
- ▶ These businesses – popularly framed as “Heavy Asset, Low Obsolescence” models – benefit from defined moats and demand visibility
- ▶ Additionally, they generate significant follow-on demand for critical enabling components, equipment, and services, creating a rising tide for the broader industrial economy

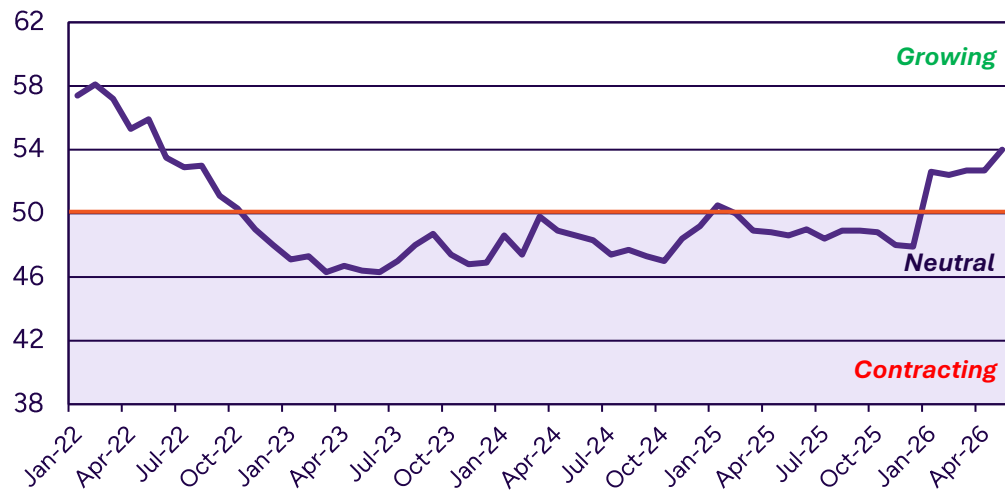
Cautiously Optimistic...

Two key indicators of industrial activity have been consistently positive so far this year

- ▶ After contracting since late 2022, the ISM Manufacturing PMI has held above 50 – the line separating expansion from contraction – in every month of 2026 so far, a run of five consecutive readings
- ▶ Manufacturing output reinforces the signal – production has risen steadily through the beginning of 2026, returning to growth after a multi-year plateau
- ▶ Taken together, two independent gauges are now pointing the same direction for the first time in years, a promising sign of momentum

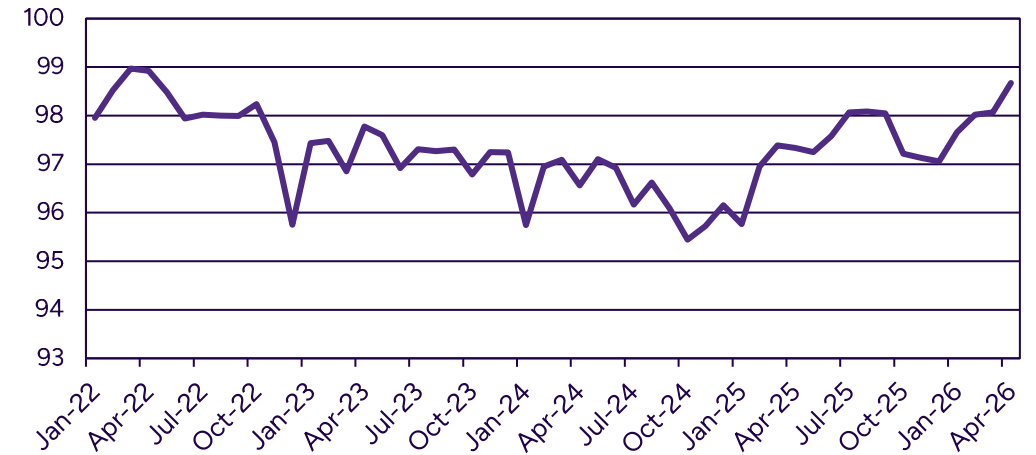
PMI Back in Expansion

ISM Manufacturing PMI



Manufacturing Output Climbing

Mfg. Industrial Production
Indexed, 2017 = 100

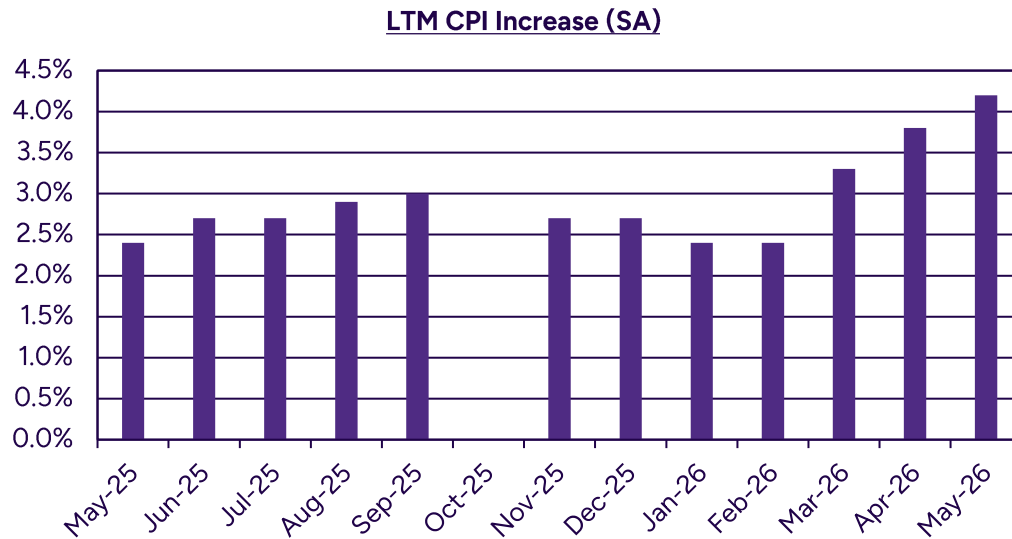


... But Not Out of the Woods

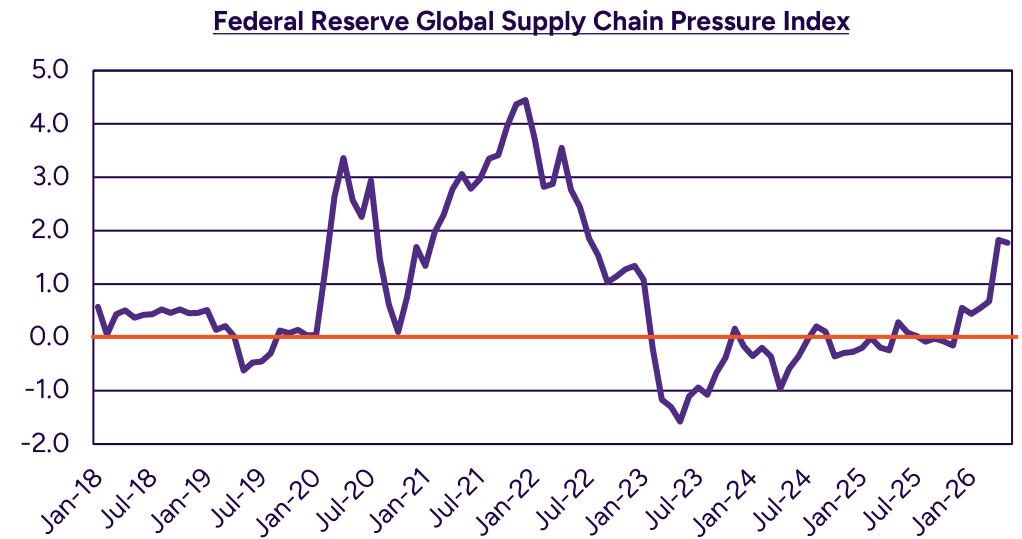
Two risks bear watching: reaccelerating prices and fresh supply chain stress

- ▶ In the last few months, inflation has returned and global supply chains have come under pressure as the war in Iran disrupts oil flow and other shipping activity through the Strait of Hormuz, with a return to normal uncertain
- ▶ While momentum has continued unabated, these factors present risk to a nascent industrial recovery
- ▶ At the same time, they provide additional impetus for domestic self-reliance, defense spending, and energy transition – reinforcing the trends reshaping the industrial economy

Inflation Has Reaccelerated...



... And Supply Chain Pressure Has Reemerged



About Cogenuity Partners

Our team has deep experience partnering with advanced industrial businesses to accelerate growth

Our Team:

19 Professionals

130+ Years of combined private equity experience across Cogenuity's team¹

Select Investment Criteria:

Revenue:

\$25-250M

EBITDA:

\$5-35M

- 1) Critical products & services
- 2) Experienced management teams
- 3) U.S. or Canada headquarters
- 4) Strong revenue growth & margins

Our Philosophy:

We are **more than a source of capital**. We take **pride in our investment and operating partners** working side-by-side with management teams, industry professionals, and advisors to execute on **value creation initiatives and work toward achieving attractive outcomes**

Industrials Experience:

Our team members are experienced investors and operators across the advanced industrial economy:

- Multiple leading companies providing critical products and services across **high cost-of-failure applications and markets**
- **Flexibility in partnership**, including numerous family- and founder-owned businesses
- Deep experience **scaling businesses** across commodity and regulatory cycles

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