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The global investment surge and overlooked opportunities in global small caps

Research & Insights

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Ausbil's global small-cap team discusses a significant global investment surge spanning AI, defence, infrastructure, onshoring and Japanese reflation. This global investment cycle is creating bottlenecks across critical supply chains and presents opportunities for global small-cap companies with specialised capabilities, established competitive positions and underappreciated earnings growth.

15 minute read

Key points

- A multi-year global investment boom is underway, driven by AI infrastructure, defence spending, manufacturing reshoring, power networks and strategic government investment programs.
- The biggest opportunities lie in bottlenecks, not headline spending, as specialised companies with constrained capacity can benefit from stronger pricing power, higher margins and sustained earnings growth.
- AI is creating demand far beyond the model developers, supporting a broad ecosystem of infrastructure providers across semiconductors, cooling, networking, power systems, data centres and clinical research.
- US onshoring and infrastructure investment are generating long-duration growth opportunities, with new manufacturing capacity creating both immediate construction demand and recurring maintenance requirements.
- Japan's reflation and pro-investment policy agenda are unlocking a new growth cycle, supported by inflation, capital expenditure, corporate governance reform and investment in strategic industries.

Q: Can you describe the landscape of opportunity you currently see in global small caps?

A: Today's investment landscape is being shaped by what has been described as a "global investment surge" — a period of substantial capital deployment across the public and private sectors. Capital is being directed towards strategic priorities including AI infrastructure, defence, manufacturing reshoring and power networks, contributing to a significant investment cycle (Figure 1).



Simon Wood
Portfolio Manager - Global Small Cap

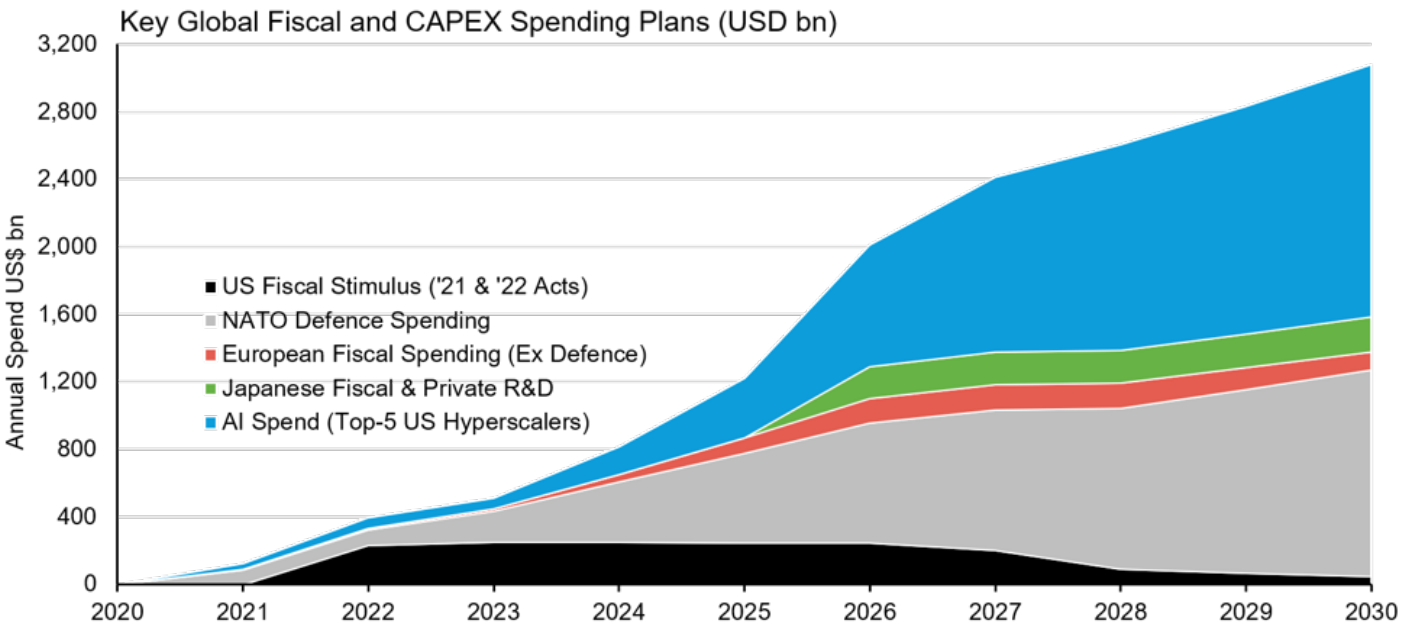


Tobias Bucks
Portfolio Manager - Global Small Cap

About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly- owned subsidiary of New York Life Insurance Company. As at 30 September 2026, Ausbil manage over $22 billion in funds under management.

Figure 1: The multi-faceted boom in global investment



Source: Ausbil, MSCI, Bloomberg, FactSet, Bank of America, September 2026.

The opportunities fall into three key areas: fiscal and defence spending; Japan's reflation and renewed growth; and AI-related investment.

Rising fiscal and defence spending

Several major US fiscal initiatives have created a multi-year investment pipeline rather than a one-off burst of stimulus. The Infrastructure Investment and Jobs Act (2021), Inflation Reduction Act (2022) and CHIPS and Science Act (2022) together represent approximately US$2.1 trillion of spending and incentives spread over almost a decade.

Heightened geopolitical tensions, including Russia's actions in Ukraine, trade-policy uncertainty and conflict in the Middle East, have contributed to increased defence, energy-security and information-security spending commitments. NATO members have also discussed materially higher defence spending targets, particularly in Europe.

Defence supply chains cannot expand overnight. Facilities require security clearance, products need certification, and customers place a premium on reliability. That creates barriers to entry and can support multi-year order books for specialist manufacturers.

The surge in AI as a dominant technology

The largest and fastest-growing component is AI capital expenditure. Figure 1 shows spending by the five largest US hyperscalers, with Bank of America forecasting that these companies could collectively invest more than US$1 trillion in 2027. Those forecasts are extraordinary, and recent company earning seasons nevertheless indicates that spending has continued to increase. AI investment requires chips, memory, high-speed networking, storage, liquid cooling, construction and engineering expertise, as well as substantial power infrastructure. We believe this investment surge may create opportunities for global small-cap companies to deliver earnings growth.

The re-awakening of Japan

Japan is another important part of the story because the spending mix combines fiscal support with targeted private investment. Policy initiatives have encouraged corporate investment in strategic technologies, including advanced manufacturing, AI, energy transformation, defence and security.

> "Heightened geopolitical tensions, including Russia's actions in Ukraine, trade-policy uncertainty and conflict in the Middle East, have contributed to increased defence, energy-security and information-security spending commitments"

Q: Where do you find the opportunities for small companies in these huge secular themes?

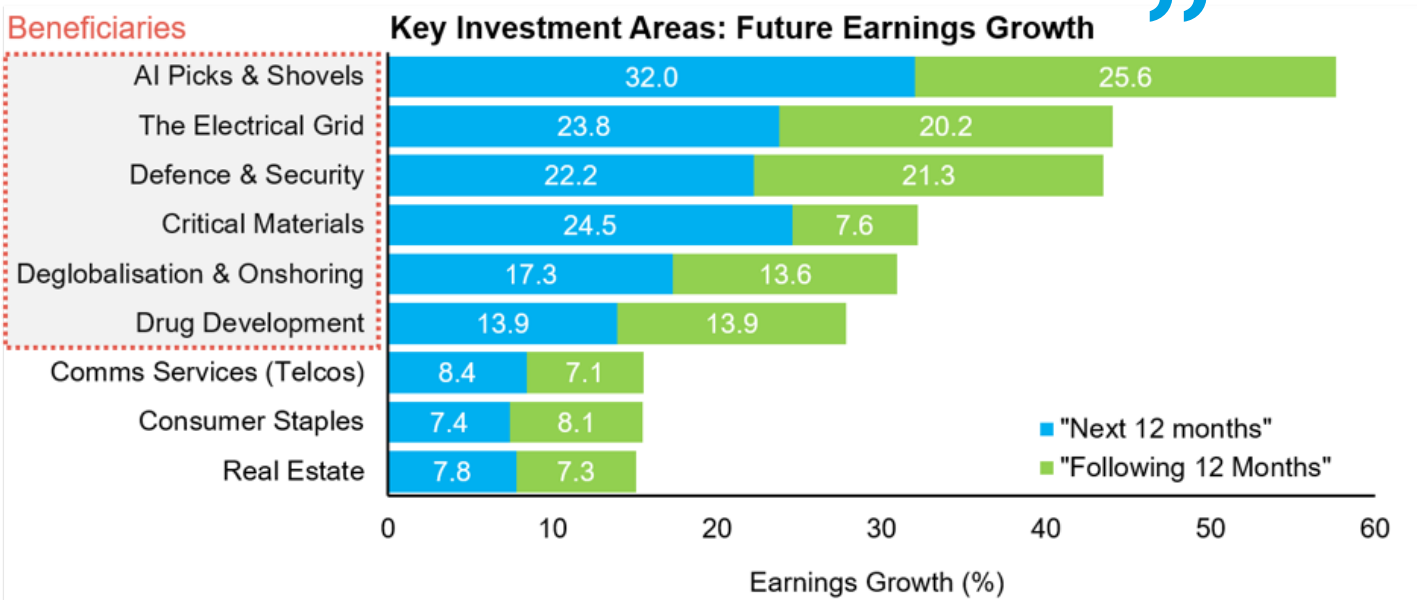
A: While the scale of spending is important, we believe the more compelling opportunity for small companies lies in the bottlenecks it creates. As demand accelerates, specialised products, services and technologies can face capacity constraints, leading to stronger pricing power, earnings growth and attractive industry dynamics.

This is particularly relevant in global small caps, where many companies occupy critical but often overlooked positions within supply chains. These businesses frequently provide the specialised products, equipment and services required to support major investment programs and can be underappreciated by the broader market.

Figure 2 presents forecast earnings growth over the next two years for sectors exposed to the global investment surge, including AI infrastructure, electrical-grid companies, defence suppliers, critical-material producers, onshoring beneficiaries and drug development businesses. These forecasts indicate growth rates above historical levels.

> "While the scale of spending is important, we believe the more compelling opportunity for small companies lies in the bottlenecks it creates"

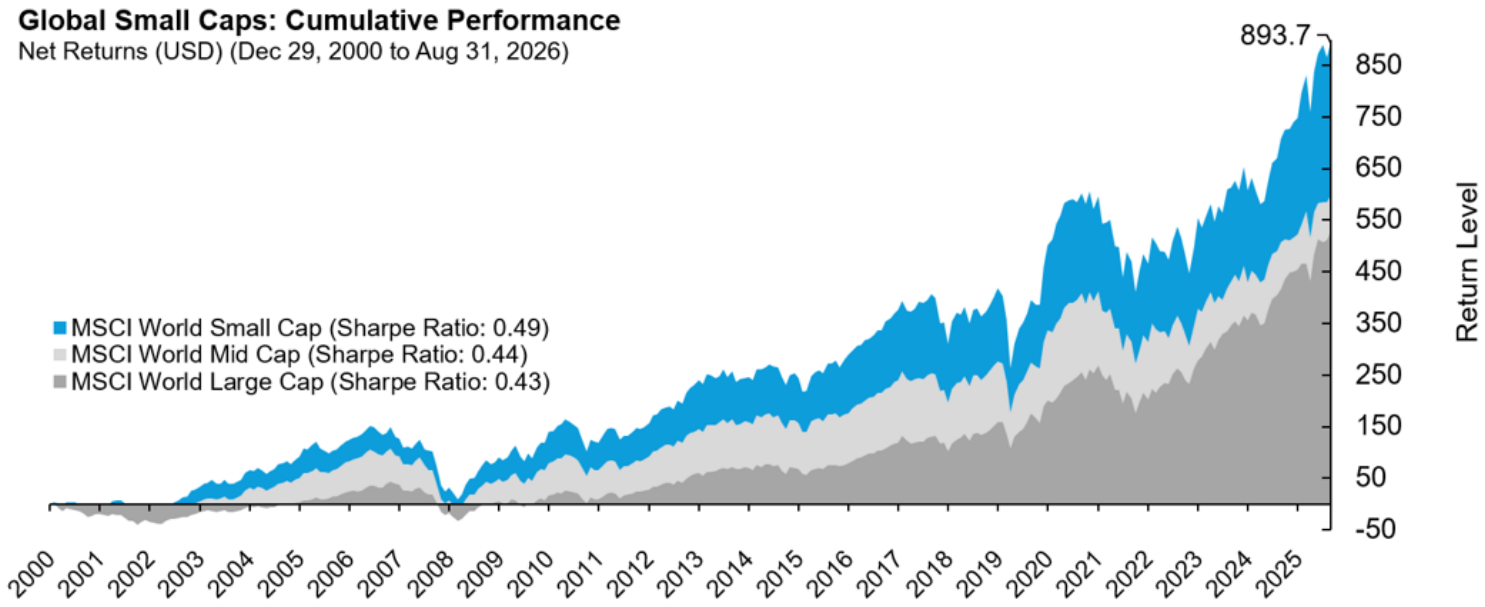
Figure 2: Global Investment Surge supports earnings growth in key areas



Source: Ausbil, MSCI, FactSet as at September 2026.

We believe that the current investment cycle presents opportunity for global small-cap investors. Companies positioned at these key bottlenecks may offer investors exposure to businesses with strong earnings potential. Over the long term, global small caps have delivered attractive returns relative to larger companies, and periods of elevated investment spending can create particularly favourable conditions for value creation (Figure 3).

Figure 3: Global small caps are riding a secular surge in global investment

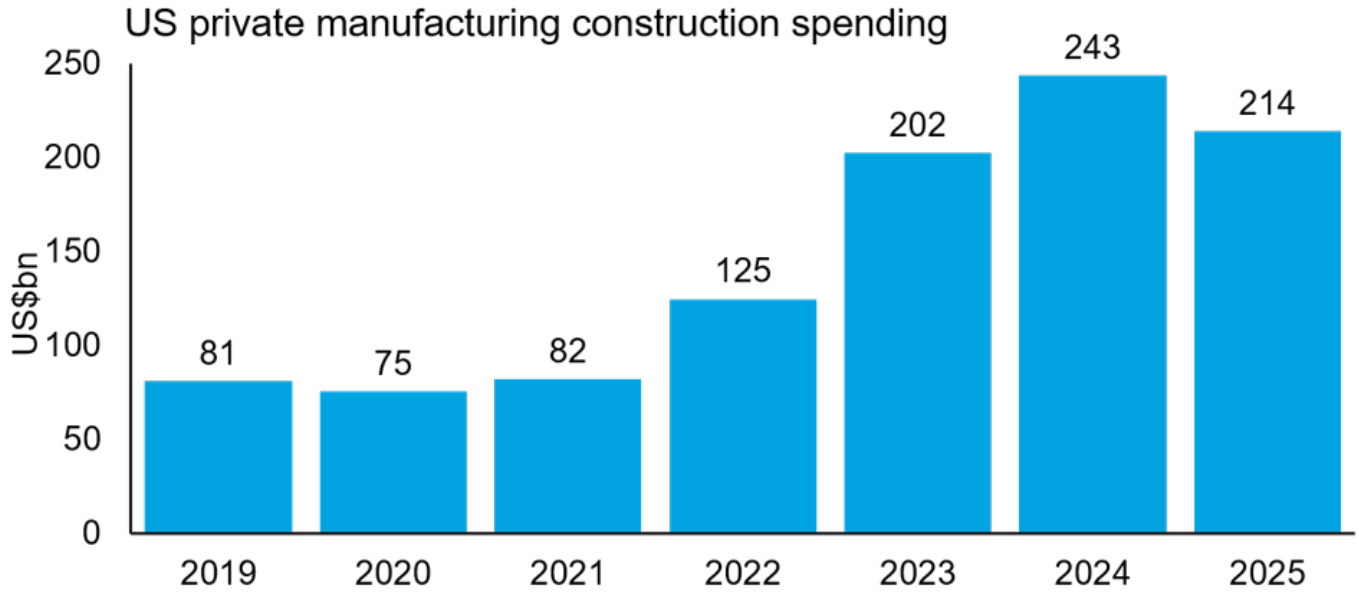


Source: Ausbil, MSCI, FactSet as at September 2026.

Q: How have you been expressing your views on these sectors in the portfolio?

A: Deglobalisation and US onshoring are among the clearest manifestations of the global investment surge. Driven by government incentives and supply-chain resilience initiatives, US private manufacturing construction has almost tripled since 2019, supporting investment in semiconductor fabrication plants, electrical equipment and battery-production facilities. This may create demand for automation, cabling and engineered systems during construction, followed by maintenance, replacement-parts and technical-support requirements once facilities become operational. A number of portfolio holdings illustrate different forms of exposure to this cycle.

Figure 4: Onshoring manufacturing is surging in the US



Source: Ausbil, MSCI, FactSet as at September 2026.

One of our portfolio holdings is a traditional industrial distributor expanding into higher-value automation services. Beyond supplying maintenance products, the business helps customers improve productivity through automation, robotics and machine-vision solutions, creating opportunities to cross-sell engineering services, technical support and replacement parts. In our view, this combination of specialised expertise and recurring revenue streams supports a more valuable and defensible business model than that of a conventional distributor.

The business has an extensive distribution network and access to a broad product range, combining local inventory, technical expertise and rapid fulfilment capabilities that are difficult to replicate. For industrial customers, where downtime can be extremely costly, this network provides a meaningful competitive advantage. It also positions the business to benefit from both new factory construction and the long-term maintenance of installed equipment, supporting a recurring and diversified growth profile.

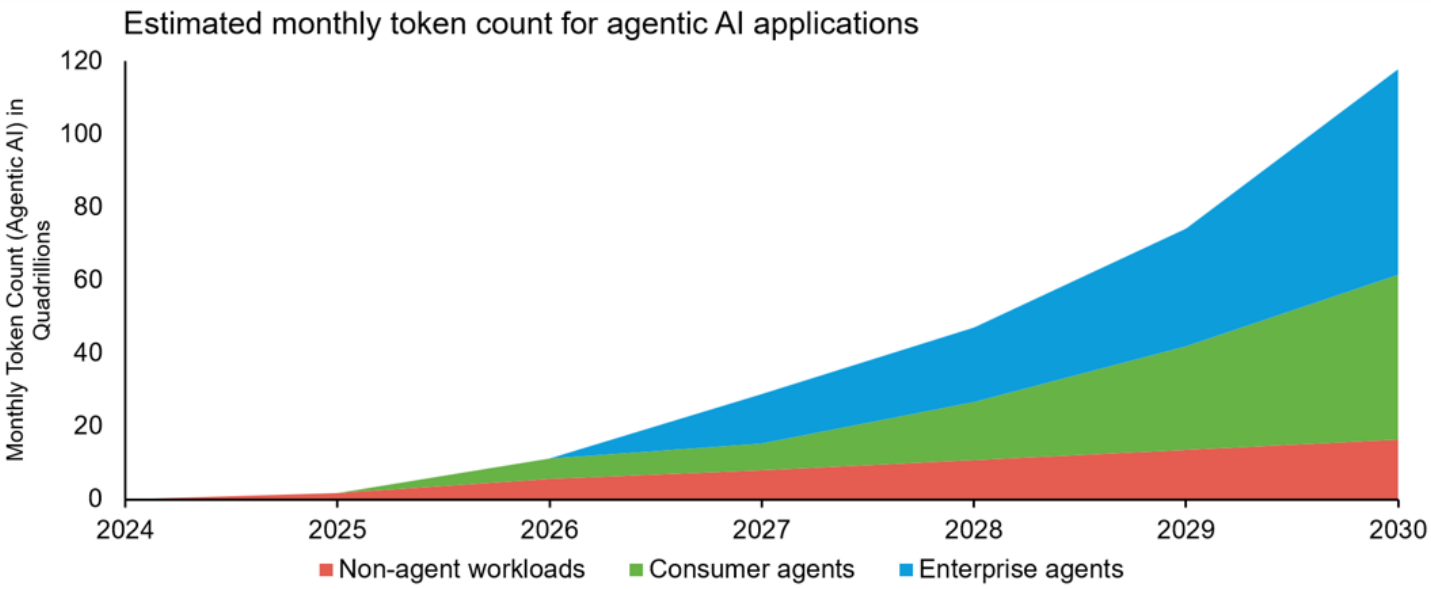
Another company we hold provides another way to benefit from the onshoring and infrastructure investment cycle. As a vertically integrated manufacturer of essential metal and climate-control components, the business supplies critical inputs to electrical networks, data centres, energy infrastructure and building systems. While these products represent a small portion of overall project costs, they are indispensable, and the company's manufacturing scale and supply-chain control help create a reliable, diversified and resilient growth profile.

"One of our portfolio holdings is a traditional industrial distributor expanding into higher-value automation services"

Q: What about the surge in AI investment? How are you exposed as a beneficiary?

A: AI demand is increasingly shifting from training large language models to deploying them at scale through inference. Google reported that monthly tokens processed across its platforms increased from 9.7 billion in May 2024 to 480 billion a year later and 3.2 trillion by May 2026 - approximately 330 times the May 2024 level. Over the same period, Gemini reached 900 million monthly active users, while daily requests increased more than sevenfold year-on-year. Importantly, inference represents recurring consumption rather than a one-off training cost.

Figure 5: Rising token volumes as AI is adopted in everyday use



Source: Goldman Sachs, as at May 2026.

Every additional user, more complex query and increasingly sophisticated AI agent requires greater computing power, often involving multiple reasoning steps and larger context windows (Figure 5). This creates sustained demand for chips, memory, networking, storage, cooling and power infrastructure. As a result, we believe the investment opportunity extends well beyond the model developers themselves and increasingly favours the "picks and shovels" businesses that provide the critical infrastructure underpinning AI adoption.

A number of portfolio holdings are beneficiaries of growth in AI infrastructure, supplying critical physical systems used in modern data centres, including advanced electronic components, liquid cooling, power systems, racks and optical modules. Recent strategic initiatives and expansion into energy infrastructure have further strengthened its growth profile. One portfolio company is Sanmina. The company has reported strong revenue growth and margin expansion, while management has upgraded its outlook. Despite this earnings momentum and rising consensus forecasts, our own growth expectations remain higher. In our view, the market is not fully recognising the company's earnings potential, creating an attractive valuation opportunity in a high-quality business exposed to both AI and energy-infrastructure investment.

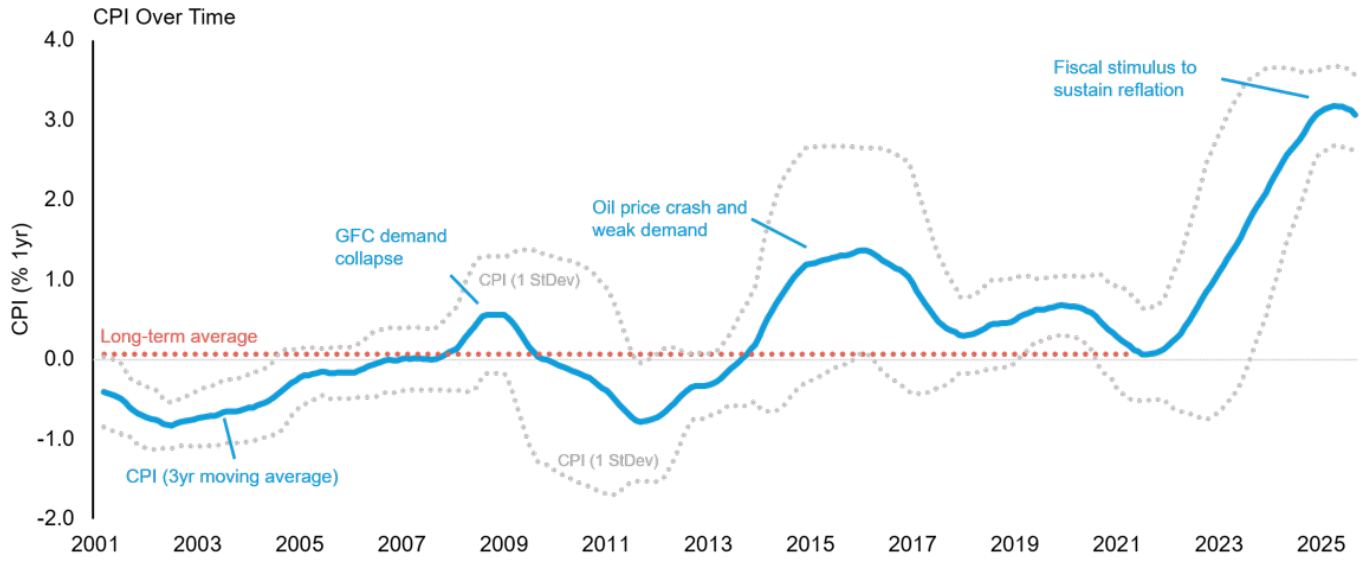
Drug development is another area benefiting from AI, although it is not immediately apparent within the AI value chain. AI-driven drug-discovery platforms are helping researchers identify promising candidates faster and more efficiently, potentially expanding the number of therapies entering development. While this shifts the front end of the discovery process, we believe much of the economic value may ultimately accrue to the companies that validate these treatments through clinical trials.

"Every additional user, more complex query and increasingly sophisticated AI agent requires greater computing power, often involving multiple reasoning steps and larger context windows"

Q: What is happening in Japan that is so exciting? What has changed?

A: After decades of deflation, Japan has finally entered a period of what seems to be sustained inflation – it is effectively the reflation of Japan (Figure 6). For 30 years, Japan's low inflationary environment has seen low interest rates, low to negligible economic growth, and market underperformance. The lack of inflation meant that Japan had become a net exporter of capital as its citizens and organisations sought growth and yield from global markets and governments, while local investments underperformed global peers. Japanese manufacturing and technology sectors, while market leaders, had long been suffering from increased competition across Asia, and especially from China. In a long, deflationary environment there was little to no reward for taking risk, so productive capital was otherwise distracted by global opportunities at the expense of real Japanese economic growth.

Figure 6: The reflation of Japan under a supportive government



Source: Ausbil, FactSet as at March 2026.

Japan has shifted toward a more investment-oriented policy setting. The July 2026 national CPI was 1.9% higher than a year earlier, while the Bank of Japan projected CPI excluding fresh food to rise 2.5% in FY2026. The FY2026 general-account budget totals ¥122.3 trillion, but this should not be interpreted as pure fiscal stimulus. The more investable signals are the public-private programmes in defence, grid resilience, semiconductors, AI and critical minerals, alongside stronger wages and corporate capital expenditure.

Q: How may Japanese companies and their earnings outlook benefit from the new environment?

A: We believe the clearest potential benefit under this new environment is the combination of improving economic growth and corporate profit growth. Companies can raise prices after decades in which price increases were difficult, while wage growth and government support are helping sustain domestic demand. Fiscal priorities in defence, grid resilience, semiconductors, AI and critical infrastructure are also creating multi-year order books for industrial and technology suppliers. At the same time, acute labour shortages are accelerating spending on automation, software and productivity-enhancing equipment.

Corporate governance reform is reinforcing this change. The Tokyo Stock Exchange is pressing companies to earn returns above their cost of capital and to explain how balance sheets will be used. That is encouraging the sale of non-core assets and cross-shareholdings, better business portfolio management, higher dividends and share buybacks, alongside investment in growth. The result is that earnings per share can grow faster than the economy as operating improvement is combined with more efficient use of capital. The key test is durability: reform-led re-rating is valuable, but sustainable compounding still requires organic revenue growth and improved returns, rather than one-off buybacks alone.

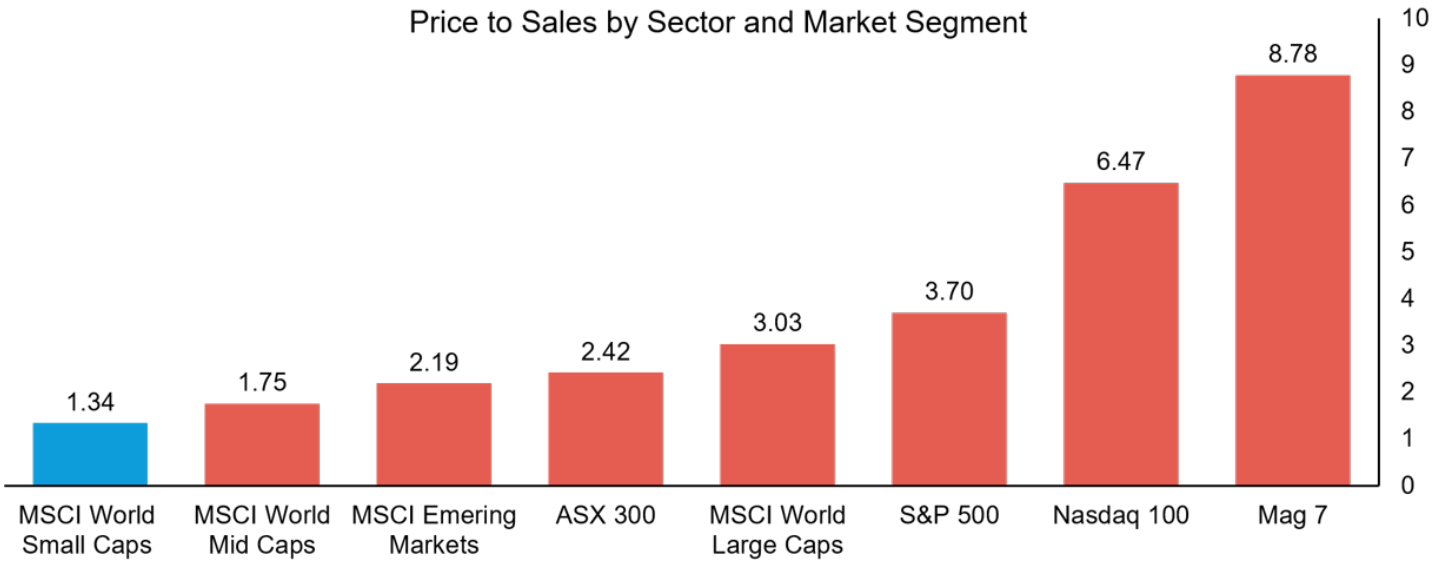
Two of our Japanese portfolio holdings illustrate exposure to policy support and structural demand. The first manufactures power-distribution equipment, industrial automation systems and specialised power supplies used in advanced manufacturing. This provides exposure to grid investment, factory automation and semiconductor capital expenditure. We believe its technology positions and strong end-market demand provide scope for earnings growth through higher volumes, a richer mix and improved operating leverage. The second supplies railway signalling and control systems, fare-collection technology, traffic-management equipment and other smart-mobility solutions. It should benefit from rail renewal, public-infrastructure investment and demand for safer and more efficient transport networks. Its installed base may also generate maintenance and replacement demand. Both are examples of our focus on niche industrial leaders where structural demand is strengthening and improved capital discipline can translate operating growth into better shareholder returns.

Q: Can you summarise the current opportunity in global small caps?

A: While markets remain focused on macroeconomic uncertainty, we believe investors may be underestimating the scale and duration of the current investment cycle. Whether through AI infrastructure, defence modernisation, manufacturing reshoring, energy security or Japan's economic reawakening, capital is being deployed into areas that require specialised products, services and expertise. Our focus remains on identifying high-quality small-cap businesses that occupy these critical bottlenecks, where structural demand, competitive advantages and earnings growth can combine to create attractive long-term shareholder returns. In our view, this environment provides a compelling backdrop for active global small-cap investing and a rich opportunity set for companies whose future earnings potential remains underappreciated by the market.

"Corporate governance reform is reinforcing this change. The Tokyo Stock Exchange is pressing companies to earn returns above their cost of capital and to explain how balance sheets will be used"

Figure 7: Global small caps are showing relatively low valuations



Source: Ausbil, MSCI, Bloomberg, FactSet as at September 2026.

Valuation remains an important part of our investment process because long-term returns are ultimately driven by the price paid. Global small caps provide access to some of the specialist businesses benefiting from the current investment surge, yet the asset class continues to trade at a significant discount to broader equity markets and is among the cheapest on a price-to-sales basis (Figure 7). For us, that combination of underappreciated growth and attractive valuations represents a compelling opportunity: niche market leaders with strong earnings potential available at a meaningful discount to the wider market.

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