Research @ Citi Markets Edition: Focus on Data Center Demand, Not Headwinds

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Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Scott Chronert (00:03)

Hi, I'm Scott Chronert, Head of U.S. Equity Strategy here at Citi Research. Welcome to Research @ Citi Markets Edition, covering various topics at work within the U.S. equity markets.

With me today is Mike Rollins, who covers the Communication Services and Communication Infrastructure Services at Citi Research. Mike's sector is quite extensive and includes wireless, cable towers and satellites. But I've asked Mike to join today to discuss another subsector he covers: data centers.

Mike and I go way back, well over 20 years, and I like to think that he was covering data centers before they were a thing. And so I think his level of knowledge and acumen on this is unparalleled. Welcome, Mike. Thanks for joining.

Michael Rollins (00:41)

Thanks for having me, Scott. Great to see you, as always.

Scott Chronert (00:45)

So we've had a little bit of volatility in the markets recently. I'd like to just kick this off with a quick summary of where things stand in the markets. The S&P has sold off about 10% quarter to date, with the semiconductor industry group leading that, down about 37%. When you do the index math, semis started the quarter at about a 20% weight. So all told, a large chunk of the aggregate S&P drawdown can be attributed to semis.

Now, the data-center buildout has been much discussed, and semis have been at the heart of it, as they play into that AI-infrastructure buildout. So when you get concerned about data centers, the natural place to go is semis first and foremost.

So let's step back, take it very high level. How are you seeing the setup at this point, Mike, given all of the noise that we've been navigating, whether on the financing front, on the post-blue sweep midterm elections, and more recently, some of the other semiconductor news?

Michael Rollins (01:36)

So Scott, at a high level, I would say there's three big themes that we're trying to think about and track as we look at the demand for data centers. And with our global colleagues, we've been focusing on global demand. We measure that in terms of IT loads, so megawatts and gigawatts.

And the three themes that we're really focused on are, one, that the chips have to go somewhere. So trying to think about from the chip side of the equation, what the demand is for these high-performance chips, including the AI chips, and what that means in terms of the power required to run them.

The second thing that we've been monitoring with our global colleagues is the infrastructure supply chain. And that's everything from power generation to all of the physical infrastructure that goes into a data center, as well as the IT infrastructure.

And then the third is end-market demand. And this is a really important one. It's the hardest, frankly, in terms of having a comprehensive set of data points, but just trying to think through the demand growth, that end-user demand that's pulling the need for all of this capacity.

Now, as we look at all three of these together, we still remain upbeat on where demand is for data centers. One data point, for example, is that already year to date, according to datacenterHawk, there's been global leasing of about 38 gigawatts. Our annual forecast is 35 gigawatts, so we've already exceeded the annual forecast for the first nine months of the year.

So thinking about then commencements, we were looking for about 16 gigawatts, and that's still our number for this year. And that should double, roughly, to about 33 gigawatts of commencements next year. And so what's happening is the lead times of bookings to billings, it's building up. There's more of a backlog. And that's consistent with the way that we've been looking at the category for now several months.

Scott Chronert (03:48)

OK, so the way we've been thinking about this, Mike, from my perch, looking at the semiconductor industry group as an example, and the broader AI playbook here, is the market's already discounting a lot of ‘26 and ‘27 fundamentals. It's pretty visible, as you suggest.

But what this has done, when we look at the multiple compression in the semiconductor space, it tells us the market's very uncertain about the persistence of this AI demand. So when you have a circumstance — we'll leave the financing component aside for now

and focus on some of, I'm going to call it “societal pushback” — how do you rectify what we're seeing currently with the long-term trajectory and this notion of persistence? Perhaps if you do get a push down some form of political compromise, what does that do to your projections on this?

Michael Rollins (04:39)

So thinking about your question, that's where end-market demand is so important as a subject. And if we go back several months ago, to the takeaways from our AI summit, that was really focused on enterprise agentic AI. And just that we were on that precipice of this acceleration of the enterprise adopting these workloads and getting deeper in from the early use of AI — which we learned at that summit was a lot of coding. And a lot of the use was coding for a whole range of different applications.

And what's really exciting today is the consumerization that has actually started with AI, with new forms of agents that are just very simple for customers and end users to engage with. And we think that as you get into this world of agents, that is going to pull a lot of demand for these resources, because these workloads just can sit in the background and work on their own. And it's interesting to read about these examples where AI agents are talking to other AI agents.

So I think that the demand side, we're at this early point but we're seeing really encouraging early usage. We're seeing really strong growth in demand for tokens. And we're seeing where this could potentially multiply, too, and different maybe from some other technology implementations.

What's exciting about this is it feels like there are very measurable benefits for consumers and for enterprise users. You can look at a return on capital or return on investment or the efficiency gains, and it just feels like we're in the very early stages. But that's what gets us excited. So then when you ask this question of persistence, you know, we do think that these demand drivers support further acceleration in what I would call the bookings trend of global data-center demand.

So thinking about it just in rough numbers, this year we had 35 gigawatts of bookings. We think next year is 40. And in ‘28, we get to 45. And what's going to start happening is the backlog is going to start coming through more quickly as you get through that ‘27 into ‘28 period. And relative to some of the questions about approvals and some of the questions about the state and municipal level, as we get further from the midterm elections I think we'll see more balance in the environment because there are real concerns and questions that people have raised.

Like one of our colleagues went to a zoning meeting, for example, to listen to the conversation. But there's a lot of addressable answers, investments in communities, job creation. And so there's real opportunities from data-center development that we think will support a more balanced outcome for the opportunity to continue to develop. And so we would expect a more balanced narrative in the future.

Scott Chronert (07:41)

OK, so what you're describing here is a circumstance where what we've got is pretty much fully utilized and will be, given what we know about current backlogs. We've got this demand for AI compute. The way you're describing it, it is almost early innings in terms of its launch pad here.

And so, the path of least resistance, all things considered, is going to be towards finding some workable solutions that enable further data-center development over the years to come, I guess.

Michael Rollins (08:10)

Yes.

Scott Chronert (08:11)

How do you think about U.S. vs. international on that? Any major point of demarcation?

Michael Rollins (08:15)

So what's super interesting is U.S. continues to be a leader. When we talk with our data-center companies that we cover, one of the interesting pieces of feedback is that the U.S. is significantly ahead. When we asked about, for example, the setup for '27, the expectation is U.S. demand continues to lead, but then EMEA, APAC should start catching up over the next few years.

So we'd expect global demand to be favorable, but U.S. still, at least for the next 12 months, seems to still be in a leading position in terms of the pace and gigawatts of development.

Scott Chronert (08:51)

We could go on for much longer — I've got questions as long as my arm here to ask. But just to wrap it up and see if I can't summarize this correctly: So we're looking at a circumstance right now where we can talk about what the market's discounting in terms of its expectations for buildout and some of the component companies that go into data centers. But what you're describing is that the path that we have to begin to presume here is one of compromise.

We're going to need to see ongoing data-center development to meet the growing use case for AI and related AI compute. And we're going to have to, I guess at some point here, trust that the politicos and the other forces at work will find that balance between what works for the data-center operators and the local communities that they potentially influence. Would that sum it up pretty well?

Michael Rollins (09:42)

I think so. And one of the other data points that we're tracking, which I think is helpful, is asking about the persistence and early absorption. We ask these data-center

companies how quickly the energy that's allocated is ramping as the companies put in the IT infrastructure and basically light up their infrastructure. And so the anecdotal comments that we've received has been that those ramp-up periods and utilization rates of energy have been very good.

So another data point, just the power and the capacity that's getting out there is getting quickly absorbed. And so, from several different vectors, we feel like the demand is still good. And then, yes, there'll be more compromise in the future in terms of how this gets done.

Scott Chronert (10:26)

OK. And so, we've been of the view on this AI boom vs. bubble discussion, this isn't a bubble the way we think about the tech bubble. What we think we're looking at is an AI-related boom, but where the pattern is going to evolve and change and go down different directions.

But it comes back to, “Is the use case for AI still in a position where it's growing and ultimately generating revenues?” And it sure seems like that's the case.

So I think we can wrap this up with, per your perspective, some comfort that we still have a long ways to go in terms of this buildout. And it's a function of this growing demand for AI compute, as you described.

This podcast was recorded on Nov. 23, 2026. Thanks for joining today and be sure to be on the lookout for our next markets podcast featuring Dirk Willer, Citi's Head of Global Asset Allocation. Also to be sure to watch for our other Research @ Citi podcast series, which you can also view on the same channel. Thanks, and have a great day.

Disclaimer (11:22)

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