

The Big Cycle Shift: From Asset-Light Dominance to Physical Scarcity, from Growth to Value

Over the past 30 years, equity markets have moved like a pendulum between favouring capital-heavy, asset-intensive businesses (Old Economy) and capital-light, intangible-driven companies (New Economy), as outlined by the below chart.



Source: Carlyle Analysis; Goldman Sachs Global Investment Research. There is no guarantee any trends will continue.

Source: Carlyle. The Old Economy Begins to Take its Revenge. February 2026.

Today, the pendulum appears to be swinging. The move away from globalization to reshoring manufacturing in North America requires rebuilding supply chains and strengthening strategic resource independence. This requires investment in factories, ports, transportation networks and domestic production. Rising global defense spending spurred by the threat of the U.S. pulling out of NATO, reinforces demand for metals, energy and industrial capacity. Electrical grid modernization alone is expected to require hundreds of billions of dollars in North America over the next decade. AI further drives investment in data centres, electricity, land and cooling infrastructure. A decade of capital restraint in asset-heavy business has slowed new supply. In response, the U.S. has embraced protectionism, moved to build, or expand strategic reserves, secured long-term offtake agreements and financed domestic mining and processing capacity.

When supply can't adjust quickly, even moderate demand shocks can create outsized price moves. Inflationary pressures replace persistently low and stable prices, and volatility becomes the defining macro feature. This was evident in the 1970s, when U.S. oil production peaked, and global spare capacity was limited. The 1973 oil embargo and the 1979 Iranian Revolution triggered sharp energy price spikes that rippled through transportation, manufacturing and consumer goods. Policymakers initially tightened gradually, allowing inflation expectations to build before Fed Chair Paul Volcker acted decisively. The result was a series of inflation waves and recessions. Today we see rising risks in the Middle East, questioning of Federal reserve independence and large fiscal outlays and deficits. As the following table demonstrates, in that setting in the 1970s, capital-heavy sectors tied to scarce physical supply outperformed. In addition, during the sideways market of 1966-1982, the value style outperformed the overall index annually, returning 13.4% vs the Index's return of 6.0%.

	10-Yr CAGR (%)	
	Price-only	TR
US CPI	7.4%	
S&P 500	1.6%	5.9%
Dow Transport vs Utilities	4.0%	2.3%
Energy	8.8%	13.8%
Materials	3.3%	7.3%
Industrials	3.3%	6.8%
Discretionary	-1.0%	2.6%
Staples	2.1%	5.9%
Healthcare	1.8%	4.1%
Financials	1.1%	5.2%
Technology	-0.2%	2.5%
Communication	1.3%	8.0%
Utilities	-0.8%	6.8%
Real Estate	n/a	n/a

Source: Scotiabank. Revisiting the 1970s in Charts. March 2022.

Since 2022, there have been early signs of a stealth value rally as the market has broadened out. Energy, materials, industrials and select financials have materially outperformed from their pandemic troughs, even if headlines concentrated on mega-cap technology, masking that shift. Beneath the surface, investors have been re-rating asset-backed businesses. This is consistent with academic financial theory. Research associated with the Fama-French framework suggests that value stocks outperform in environments characterized by higher inflation, tighter liquidity and greater economic cyclicality.

As this regime change occurs, even the asset-light businesses are adapting to this new reality. Mega-cap technology firms once celebrated for scaling without the need for significant capital spending are now deploying record levels of capital into tangible infrastructure. Microsoft, Amazon and Meta Platforms are committing tens of billions annually to hyperscale data centres, power contracts, land acquisition and AI infrastructure. Asset-light champions are becoming asset-heavy. “Growth” is now increasingly dependent on energy, construction, transmission and raw materials. The problem is the physical asset world with scale is very limited, has a long runway and creates a high premium on replacement cost of current assets.

Canada and the TSX stand out as particularly well positioned for this shift. The country possesses significant reserves of energy, base metals, uranium, potash and other strategic resources essential to electrification and industrial rebuilding. The Canadian Government has increasingly supported the development of critical mineral projects, infrastructure investment and energy initiatives. The creation of a Major Projects Office aimed at streamlining permitting, and accelerating nationally significant resource and infrastructure developments strengthens Canada’s competitive positioning. Canada is structurally leveraged to benefit from this pendulum swing back to asset-heavy businesses.

Within this context, Sionna’s portfolio positioning already reflects a deliberate tilt toward the areas most leveraged to this transition and as always, the value style. We maintain significant exposure to mining, infrastructure, and oil and gas companies, businesses with durable asset bases, strong free cash flow profiles and embedded optionality to rising replacement costs. Combined with exposure to Canadian financial institutions capable of funding this capital cycle, we believe our portfolios are positioned for what increasingly appears to be a structural shift rather than a temporary rotation. Canadian markets are well positioned to be rewarded.

After more than a decade of growth dominance fueled by abundant liquidity and disinflation, the balance of evidence suggests a swing of the pendulum, from asset-light to asset-heavy businesses. In this emerging regime, value is not simply participating in the cycle, it is positioned to lead it, and Canada has the natural endowments to lead on the world stage. Sionna's portfolios are ready!

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