Points of Inflection

September: Physical Constraints Drive the Next Inflections

Equities

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ESG
Environmental
Social
Governance

Grid Equipment Reaches an Inflection

September produced a clearer inflection in Grids & Power Equipment as the global transformer supply shortage began to show early signs of easing. Western manufacturing capacity scheduled for 2027-28 prompted UBS downgrades of several export-oriented Chinese equipment suppliers, marking a shift from a broadly supportive shortage-driven environment toward greater differentiation by geography, technology and end market. Nevertheless, underlying grid investment remains robust: the US launched the SPARK transmission initiative, India approved infrastructure to integrate up to 135GW of renewable energy, and Vietnam and ASEAN advanced reforms intended to address domestic and cross-border grid bottlenecks.

AI Infrastructure Moves from Demand Story to System Redesign

Elsewhere, September reinforced our view that AI-related electricity demand is reshaping the wider power ecosystem. The debate is moving beyond aggregate load growth toward a more specific redesign of data-centre power architecture, including 800VDC distribution, solid-state transformers and integrated liquid-cooling systems. Product roadmaps from global and APAC suppliers now point to staged commercialisation from late 2026 through 2027. At the same time, grid access, water availability and permitting are becoming increasingly important constraints, highlighting that power, policy and infrastructure readiness will determine how much of the announced data-centre pipeline becomes operational.

Supply-Side Constraints are Creating Greater Differentiation

Physical constraints were also increasingly evident across BESS, transition materials and food systems. Near-term storage risks rose as cell shipments continued to outpace installations, although long-term demand remains supported by capacity-pricing reforms, localisation policies and large order backlogs. In critical minerals, water, tailings and reagent availability highlighted potential constraints on Indonesian nickel supply, while copper concentrate markets remained exceptionally tight and rare-earth investment continued to move downstream. A very strong El Niño is also creating divergent regional impacts across agriculture and aquaculture, reinforcing the growing importance of resource availability and supply-chain resilience across the transition.

Transition Theme & Investment Strategy Performance

In September, signs of recovery from last month were eroded with all but three themes returning negative performance. Industrial Energy Efficiency (2.8%) was the top performing theme followed by Automation (0.3%) and Carbon Sequestration (0.3%). Sustainable Materials was the worst performing theme (-7.3%) followed by Methane Management (-5.6%) and Natural Capital Protection (-5%).Despite this, all themes are up on a 3M, 12M and YTD basis except Electrification & Natural Capital Protection. Against a challenging macro environment performance of both the STIS Screen and the MSCI ACWI IMI were negative at -1% and - 1.4% respectively and retains YTD and 12M outperformance of 14% and 19% respectively. Our APAC Transition Best Ideas List has now returned 51% since inception (vs 28% MSCI AC APAC), despite a challenging quarter.

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Summary

Key Inflections

During September, we saw a clearer inflection in Grids & Power Equipment as early signs of easing transformer shortages introduced greater differentiation across suppliers. While underlying grid investment remains robust, substantial Western capacity additions due in 2027–28 are beginning to change the competitive outlook for export-oriented Chinese manufacturers.

- **Grids & power equipment**: The grid-equipment narrative began to shift in September as the global large-power-transformer shortage showed early signs of easing, prompting UBS to downgrade several export-oriented Chinese suppliers. Nevertheless, demand remains strong, supported by AI-related electricity requirements and major grid programmes across the US, India, Vietnam and ASEAN. The opportunity is becoming more differentiated, with greater emphasis on domestic market exposure, software and grid-management capabilities, and technologies such as solid-state transformers.

Reinforcing views

September brought developments that reinforced our existing thematic views across BESS, Industrial Automation, AI & AI Hardware, Net Zero Transition Materials, Alternative Fuels and Sustainable Food. A common thread was the growing importance of physical infrastructure and resource availability: power, grid access, water, raw materials and supply-chain capacity are increasingly determining how quickly transition-related demand can translate into deployment and earnings.

- **Battery energy storage systems (BESS):** Near-term risks increased as battery-cell shipments continued to outpace end-market installations, leading CATL to reduce its September and October production schedules and raising the possibility of further destocking. However, long-term demand remains supported by large supplier order books, capacity-pricing reforms, grid-flexibility requirements and localisation policies. BYD's capacity is understood to be sold out through 2027, while new policies in India, Japan and Malaysia continue to support storage deployment, albeit with increasingly differentiated implications for domestic and Chinese suppliers.
- **Industrial automation**: September reinforced the view that humanoid robotics is moving from technology validation toward commercial deployment and supply-chain scaling. UBS raised its 2026–30 humanoid demand forecasts by more than 70% annually, while APAC suppliers continued to expand capacity across harmonic reducers, integrated joints, sensors and actuators. Nevertheless, adoption remains concentrated in preparatory and relatively low-complexity applications, with high implementation costs and a long commercialisation pathway limiting the likelihood of an "EV moment" before 2030.
- **AI & AI hardware:** The AI power-infrastructure opportunity became more concrete as supplier roadmaps emerged for 800VDC distribution, solid-state transformers and integrated liquid-cooling systems. Power availability is becoming the principal constraint on data-centre deployment, while grid connections, water use, infrastructure obligations and permitting are determining how much announced capacity can become operational. Commercialisation milestones from ABB, Schneider Electric, Legrand, Sungrow and Lite-On point to staged adoption from late 2026 through 2027, alongside NVIDIA's future platform requirements.
- **Net zero transition materials**: Supply-side risks became more prominent across critical minerals. Water scarcity, tailings-storage limitations and reagent availability could constrain Indonesian nickel production, although exposure varies significantly across companies and projects. Copper concentrate markets remain exceptionally tight despite limited new project approvals, while Lynas' proposed acquisition of Meteoric Resources reinforces the strategic focus on diversified heavy rare-earth resources and downstream processing outside China.
- **Alternative fuels:** Renewable-diesel economics strengthened further as geopolitical disruption, tight refined-product markets and greater US regulatory clarity supported margins. Darling and Neste are benefiting from the improved

environment, while greenfield US renewable-diesel construction costs of US$5–7 per gallon represent a significant barrier to new capacity. The key question is whether elevated margins can persist as geopolitical conditions and fuel-trade policies evolve.

- **Sustainable food**: The agriculture outlook improved at the grower level, with stronger sentiment into 2027 and higher seed-pricing expectations, while Seeds remained a bright spot for Nufarm. At the same time, the high probability of a very strong El Niño is creating divergent regional and commodity impacts, including rainfall pressure on Indian crops, drought across Southeast Asia and tighter fishmeal and fish-oil supply following disruption to Peru's anchovy catch. These dynamics reinforce the growing importance of climate preparedness, irrigation, precision agriculture and supply-chain resilience.

Figure 1: Summary Theme Performance, Valuation and Sentiment

	Performance - total return				Valuation - PE						Sentiment			
	1 M	3 M	YTD	12 M	Current PE	1 M	3 M	YTD	12 M	PE / 5Y Ave	EPS 3M	% Buy Consensus	% UBS Buy Rating	Theme Assessment Score
Alternative Fuels	-1.3%	38%	23%	26%	11.7	-1%	-7%	-12%	-13%	6%	0.04	24%	57%	51%
Automation	0.3%	36%	20%	21%	20.1	-1%	-10%	-9%	-14%	-3%	0.02	31%	63%	64%
Building Energy Efficiency	-2.4%	21%	14%	13%	14.6	-5%	-2%	-6%	-6%	-2%	0.00	24%	53%	79%
Carbon Sequestration	0.3%	31%	18%	23%	12.1	-1%	-10%	-18%	-13%	18%	0.02	31%	67%	48%
Circularity	-5.0%	16%	5%	9%	12.9	-8%	-7%	-15%	-10%	0%	0.01	29%	63%	41%
Electrification	-4.9%	7%	-6%	-8%	15.3	-8%	-1%	-11%	-9%	4%	-0.02	30%	50%	69%
Energy Infra	-0.6%	45%	23%	28%	15.9	-4%	-2%	-10%	-9%	4%	0.01	34%	60%	75%
Food System	-4.2%	8%	9%	6%	13.2	-3%	-1%	-1%	0%	8%	-0.01	24%	67%	54%
HVAC	-1.8%	22%	8%	10%	17.0	-3%	2%	-4%	-4%	-1%	0.00	23%	73%	56%
Industrial Energy Efficiency	2.8%	22%	17%	19%	11.6	0%	2%	6%	-1%	-5%	0.04	31%	N/A	50%
Methane Management	-5.6%	7%	-1%	1%	14.2	-7%	-5%	-9%	-9%	1%	0.01	22%	70%	58%
Multi-modal Transport	-4.0%	13%	6%	6%	15.2	-6%	-2%	-3%	-4%	-2%	0.01	24%	61%	75%
Natural Capital Protection	-5.0%	12%	-5%	8%	10.9	-4%	6%	-2%	-1%	2%	0.02	12%	N/A	17%
Pollution Mitigation	-1.5%	26%	16%	16%	19.5	-2%	26%	20%	27%	32%	0.09	44%	N/A	40%
Renewable Energy	-2.6%	22%	6%	9%	14.9	-6%	0%	-7%	-5%	7%	0.01	27%	63%	70%
Sustainable Markets	-3.3%	25%	12%	17%	15.1	-5%	-8%	-11%	-7%	0%	0.01	44%	58%	34%
Sustainable Materials	-7.3%	51%	10%	22%	12.4	-10%	-5%	-17%	-17%	3%	0.00	27%	54%	60%
Water	-2.9%	9%	4%	6%	15.3	-8%	-6%	-7%	-8%	1%	-0.01	24%	59%	54%
Benchmark - MSCI ACWI IMI	-1.4%	26%	13%	17%	15.8	-3%	-12%	-14%	-15%	-4%				

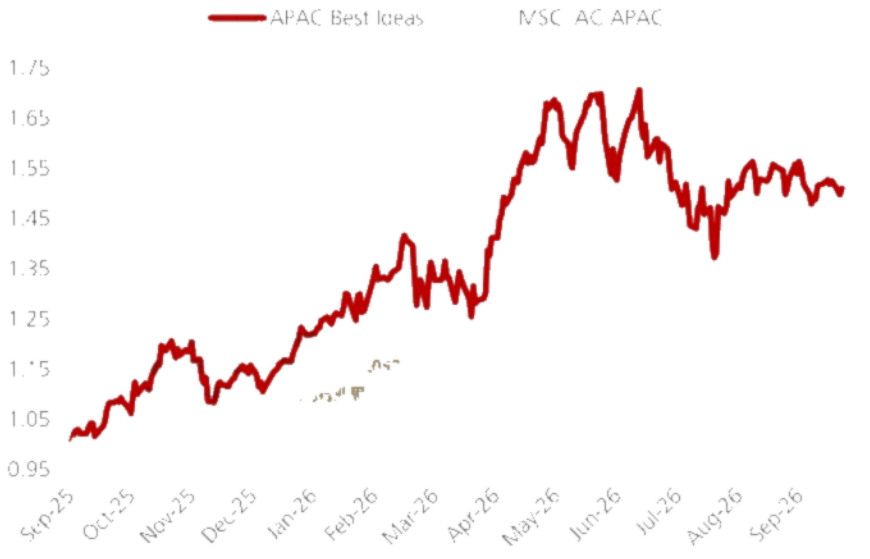
Source: UBS, FactSet - NB: N/A reflects themes with less than 5 covered stocks.

- **Theme Return Performance**: Theme performance went negative in September after a rebound in August, continuing a very volatile 2026. Only three themes had positive returns Industrial Energy Efficiency (2.8%), Automation (0.3%) and Carbon Sequestration (0.3%). All other themes had negative returns during September with Sustainable Materials (-7.3%), Methane Management (-5.6%) and Natural Capital Protection (-5%). All themes are up on a 3M, 12M and YTD basis except Electrification and Natural Capital Protection.
- **Theme Valuations:** September was negative across the board for valuation changes. The least negative 1M revisions to 12mfPE were Industrial Energy Efficiency (0%), Carbon Sequestration (-1%) and Alternative Fuels (-1%). The largest 1M negative revisions are Sustainable Materials (-10%), Circularity (-8%) and Electrification (-8%). Themes trading 20% above their 5Y average PE are Pollution Mitigation (+32%) and no themes are trading materially below their 5Y average PE.
- **Theme Sentiment:** HVAC and Methane Management have the highest average number of UBS Buy ratings. Consensus sell-side Buy sentiment remains highest in Sustainable Markets, Pollution Mitigation and Energy Infra. Electrification and Building Energy Efficiency have the lowest percentage of UBS Buy ratings. For earnings momentum, Pollution Mitigation, Alternative Fuels and Industrial Energy Efficiency had the largest positive changes in 3M consensus revisions to 12mf EPS. Electrification, Food System and Water had the largest negative revisions.

Transition Best Ideas

The APAC Transition Best Ideas List has returned 51% since inception vs 28% for MSCI AC APAC. For more details on our best ideas methodology, please see our Outlook report.

Figure 2: APAC Transition Best ideas Performance



Source: UBS, FactSet. NB: Inception launch date was 12 September 2025. Past performance is not indicative of future results.

Transition Updates

Energy Transition

Energy System Infrastructure - Grids & Power Equipment - inflecting

What shifted this month: The APAC and global grid modernization narrative experienced a structural pivot in late Sep and Oct 2026 as supply bottlenecks for large power transformers began showing early signs of easing, prompting broker downgrades for major Chinese exporters. Geopolitical and regulatory scrutiny continues to intensify, with the EU preparing strict import rules on Chinese liquid transformers that could trigger caps if market share limits are breached by 2028. Concurrently, regional policies are shifting toward managing physical grid limitations and filtering out "phantom" power requests from massive data center pipelines, while governments launch massive public funding programs to mobilize connected cross-border grids and decentralized residential solar infrastructure.

Details:

- **US grid investment received additional policy support**: The US Department of Energy launched the SPARK initiative, representing US$5.25bn of total investment, including US$1.9bn of federal funding, to upgrade transmission infrastructure serving 100mn Americans.
- **Sieyuan Electric and China Exporter Downgrades**: On Sep 20, 2026, UBS downgraded export-driven Chinese grid equipment manufacturers, including Sieyuan Electric, Huaming Power Equipment, and Anhui Yingliu Electromechanical, from Buy to Neutral. This downgrade was prompted by a faster-than-expected narrowing of the global large power transformer shortage as substantial new Western capacity expansions from brands like Hitachi, Siemens Energy, and GE Vernova are scheduled to come online in 2027-28.
- **ABB**: Electrification demand remains highly robust, with UBS forecasting a strong 60% organic order growth for ABB's Electrification division (exceeding consensus of 45%) and a 36% organic order growth at the Group level in Q3 2026. Additionally, ABB launched its "Infinitus" solid-state transformer (SST) range on September 21, 2026, to capitalize on the high-voltage DC power distribution transition for data centers.
- **GE Vernova**: Backlog momentum continues to build, with management expecting total backlog to surpass $200 billion in early 2027 as gas-turbine customers commit capital to secure delivery positions as far out as 2032.
- **Mitsubishi Electric**: During a meeting with the CFO, Kenichiro Fujimoto, Mitsubishi Electric emphasized implementing physical AI in factory automation to boost its solutions and recurring business mix. Furthermore, the software capabilities of its US-based acquisition PCI Energy Solutions can help optimize and trade power, expanding its value early amid AI-driven electricity tightness.
- **India Transmission Infrastructure** (GEC-III): The Indian government approved the Green Energy Corridor Phase-III (GEC-III) scheme to strengthen the Intra-State Transmission System to enable the evacuation of up to 135 GW of renewable energy.
- **Vietnam Power Reforms**: Vietnam passed Resolution 253 to implement its national energy strategy, introducing flexible Power Development Plan 8 (PDP8) adjustments and streamlining construction approvals for Direct Power Purchase Agreements (DPPAs) to resolve structural grid bottlenecks.
- **ASEAN Power Grid**: Singapore and the World Bank Group launched the ASEAN Power Grid Mobilisation Partnership in October 2026 to resolve regulatory and financing bankability hurdles for cross-border electricity trade and wheeling arrangements.

Upcoming catalysts: We are tracking the formal bidding launch for Japan's Long-term Decarbonized Power Source Auction, the scheduled finalization of Thailand's PDP 2026 grid rules, and the execution of Western transformer manufacturing capacity additions.

Energy System Infrastructure - Battery Energy Storage Systems - reinforcing

What shifted this month: The battery energy storage system (BESS) segment reflects a complex near-term transition, characterized by active inventory management and destocking risks over the next 12 months as cell shipments continue to outpace actual end-market installations. In response, major Chinese battery manufacturers like CATL have trimmed their Sep and Oct 2026 production schedules. Despite these temporary headwinds, long-term structural tailwinds remain strong, supported by the rollout of supportive capacity pricing policies, regional grid flexibility mandates, and a major pivot by Korean suppliers toward LFP cells to compete with dominant Chinese players.

Details:

- **CATL Production Adjustments:** To manage inventory levels, CATL revised its scheduled battery production plans downward by 4% in September 2026 and by 1% in October 2026. This comes as the industry debates near-term headwinds from slower-than-expected ESS installation rates and potential cell destocking through 2027.
- **BYD Capacity Backlog**: Despite industry inventory concerns, BYD's energy storage system (ESS) order books remain highly resilient, with the company understood to be sold out of ESS capacity until the end of 2027.
- **EVE Energy Storage Agreement**: EVE Energy secured a massive storage supply agreement, comprising 16 GWh scheduled for delivery in 2027, with an additional 190 GWh of capacity reserved for the 2028-31 period.
- **Korean Cathode Pivot to LFP**: POSCO Future M restructured its supply contract with Samsung SDI, cutting the NCM contract value to KRW21 trillion (from KRW40 trillion) and adding LFP cell supply worth KRW6.1 trillion. This illustrates Korean cathode manufacturers' structural pivot toward LFP to remain globally competitive as US EV demand softens.
- **Japan Domestic Content Mandates**: Japan's Long-term Decarbonized Power Source Auction has introduced strict domestic content rules for its upcoming FY2026 auction (scheduled to open bidding in January 2027). Lithium-ion BESS projects using cells certified under the "Supply Assurance Plan" (which currently includes GS Yuasa, Panasonic Energy, and Honda) will be evaluated first, creating severe regulatory barriers for major Chinese suppliers like CATL and BYD.
- **India BESS Policies and Manufacturing**: India's newly approved Green Energy Corridor Phase-III (GEC-III) scheme incorporates a mandate for deploying 50 GWh of BESS to address grid congestion and intermittency. Regionally, Tamil Nadu finalized its dedicated BESS policy in October 2026, while private player Trontek announced plans to expand its Made-in-India BESS manufacturing capacity to 12 GWh annually by 2028.
- **Malaysia's BESS Framework**: Malaysia is advancing standalone battery storage integration through its MyBeST procurement program and localized safety guidelines, although it continues to work toward integrating storage fully into grid codes.

Upcoming catalysts: We are tracking the timing and implementation details of China's provincial capacity pricing and system operating fee reductions expected around the end of 2026, which could significantly improve BESS project economics. We are also monitoring the initial bidding for Japan's Long-term Decarbonized Power Source Auction in January 2027 under the new domestic-cell rules, and the final rollout of Tamil Nadu's BESS policy portal.

Industrial Transition

Industrial Automation - reinforcing

What shifted this month: Industrial automation trends were reinforced in September, with humanoid robotics moving further from technology validation toward commercial deployment and supply-chain scaling. UBS increased its 2026–30 humanoid robot demand forecasts by more than 70% annually, while APAC component suppliers continued to expand harmonic-reducer capacity and broaden their exposure to integrated joints, sensors and actuators. But UBS analysts still see no "EV moment" equivalent for humanoids before 2030.

Details:

- **Humanoid demand expectations increased:** UBS raised its 2026–30 global humanoid robot demand forecasts by more than 70% annually, reflecting faster adoption in preparatory and relatively low-complexity commercial applications. In non-humanoid robotics, UBS forecasts 2025–30 demand CAGRs of 10% for industrial robots, 25% for collaborative robots, 15% for mobile robots, 20% for service robots and 60% for quadruped robots.
- **APAC component capacity is scaling**: Zhejiang Laifual Drive is targeting harmonic-reducer capacity of 80,000 units per month by end-2026, supported by an order backlog of more than 400,000 units as of 31 July 2026. Leader Harmonious Drive Systems plans to increase monthly capacity from 90,000 units in September to 120,000 units by end-2026 (UBS Report).
- **The supply chain is broadening beyond reducers**: Leader Drive is expanding into integrated joint modules, planetary reducers and specialized bearings, including through its joint venture with SKF (UBS Report). RoboSense plans to begin deliveries of visual-tactile and MEMS tactile sensors in the third quarter of 2026, followed by joint modules in the fourth quarter, while Yaskawa is testing proprietary actuators in humanoid robots developed by Tokyo Robotics.
- **Commercial deployment milestones are becoming more concrete**: Hyundai opened the Robotics Metaplant Application Centre in Georgia as a testbed for Atlas humanoid robots in simulated automotive manufacturing environments and plans to begin deploying Atlas across its manufacturing network in 2028. XPeng has also launched an automated assembly line for its IRON humanoid robots.
- **Traditional automation remains mixed**: While the broader robotics sector is benefiting from AI-enabled automation upgrades, automation demand in selected areas, including lithium-battery manufacturing, remained soft (UBS Report). This divergence reinforces the view that near-term momentum is concentrated in humanoids, physical AI and advanced manufacturing rather than representing a uniform recovery across all automation end markets.
- **Bottlenecks including long road to commercialization and high implementation costs remain**: Industrial applications (about 3% of total applications in 2025) have progressed slowly. UBS analysts point out that high costs remain a primary deterrent for warehouse automation, the average maximum price per unit is estimated at $65k, which is 1.0-2.0x the annual salary of a logistical worker.

Upcoming catalysts: We are monitoring whether humanoid order backlogs convert into shipments and whether planned reducer, actuator and sensor capacity ramps are absorbed without pricing pressure. Key milestones include late-2026 component capacity additions, initial customer feedback on new tactile sensors and joint modules, and evidence of broader humanoid deployment in automotive and other industrial environments. We are also watching whether improving robotics demand broadens into a more sustained recovery in traditional industrial automation.

AI & AI Hardware - reinforcing

What shifted this month: September provided stronger evidence that AI data-center power architecture has more concrete supplier roadmaps. The discussion is shifting from general growth in electricity demand toward a more specific transition from conventional AC distribution to high-voltage DC systems, including 800VDC architectures and solid-state transformers. Product roadmaps from ABB, Schneider Electric, Legrand, Eaton, Sungrow and Lite-On now point to staged commercialization from late 2026 through 2027, while NVIDIA's future platform requirements are helping establish a clearer industry standard. Developments in Australia highlight that grid access, infrastructure obligations and community acceptance are becoming increasingly material to project execution.

Details:

- **Power availability is becoming the principal deployment constraint**: Global data-center capacity is forecast to grow by 25% in 2026 and 20% in 2027, reaching 133GW of operational capacity, while planned and under-construction projects exceed 275GW (UBS Report). UBS identifies electrical-power availability as the primary pacing constraint for high-performance computing deployment (UBS Report).
- **Power, permission and policy are determining deliverable capacity**: Australia illustrates how AI hardware demand may not translate directly into operational data-center capacity. Data-center electricity consumption is forecast to triple by 2030, but project cancellations, grid-connection constraints and tighter requirements around renewable generation, firming, water use and network costs are raising execution hurdles (UBS Report).
- **APAC power demand is rising sharply**: APAC data-center electricity consumption is projected to increase from 260TWh in 2025 to 980TWh in 2030, equivalent to approximately 6% of total APAC electricity demand. On September 4, 2026, Thailand's newly established data center policy board ordered a temporary pause on 166 data center projects, including 49 under construction and 117 awaiting investment approval, pending the finalization of new uniform industry standards covering power and water efficiency (link).
- **800VDC is emerging as a defined industry architecture**: NVIDIA is accelerating the transition toward 800VDC power distribution, with requirements expected to begin with its 2027 Rubin Ultra and Kyber platforms. The architecture reduces conversion stages, heat losses and copper requirements as rack-level power density moves toward the megawatt range.
- **Commercial product roadmaps are becoming visible**: ABB launched its Infinitus integrated source-to-rack DC portfolio, which the company says can improve energy efficiency by more than 5% and reduce the power-infrastructure footprint by 30% relative to conventional AC systems. Schneider Electric outlined an 800VDC roadmap covering 2026–29, while Legrand is targeting commercialization of a hybrid power sidecar in 2027.
- **APAC suppliers are positioning for the transition**: Sungrow is targeting late-2026 production of its 35kV solid-state transformer for US AI data-center applications. Lite-On plans to ramp custom 48V power shelves in late 2026 before transitioning toward customized 800V, megawatt-class architectures in late 2027.
- **The transition is extending into cooling and integrated rack systems**: Liquid cooling is projected to reach approximately 60% of the data-center cooling market by 2028, compared with a historical share of around 7%. LG Electronics qualified its 2.6MW coolant-distribution unit for NVIDIA's DSX AI Factory platform, while Lite-On acquired a 25% stake in DCX Liquid Cooling Systems to integrate cooling capabilities into its power-rack portfolio.

Upcoming catalysts: The principal catalysts are the first commercial deployments and qualification results for 800VDC power systems, the late-2026 production ramp of Sungrow's solid-state transformer, and customer adoption of power-sidecar solutions ahead of NVIDIA's 2027 platforms. We are also monitoring the pace of hyperscaler standardization, supplier qualification, rack-level integration and liquid-cooling adoption, as well as whether grid-connection delays accelerate demand for behind-the-meter generation and storage.

Materials Transition

Net Zero Transition Materials - reinforcing

What shifted this month:Supply-side risks became more prominent across critical minerals, with water scarcity, tailings constraints and reagent availability highlighting potential bottlenecks in Indonesian nickel, while copper concentrate markets remain exceptionally tight.

Details:

- **El Nino & Indo Nickel:** UBS analyzes weather-related disruption risks across the Indonesian metals sector, highlighting that PT Aneka Tambang (ANTM) is comparatively insulated from local water supply crises because it does not sell saprolite ore to the Indonesia Morowali Industrial Park (IMIP) area. The IMIP region reportedly faces a risk of a 40% nickel supply cut due to reduced water availability. In contrast, ANTM's ore sales volume mix indicates that it maintains operational stability, and UBS maintains a Buy rating on ANTM.
- **ANTM conservative 2H outlook**: UBS expresses a conservative stance on ANTM's second-half 2026 outlook, arguing that the guided trends of rising nickel ore sales and stable average selling prices (ASPs) are overly optimistic. Additionally, the high-pressure acid leach (HPAL) project under the EV battery ecosystem joint venture with the CATL consortium remains unfinalized due to volatile sulfur prices.
- **Indo Nickel Bottlenecks:** UBS introduces a proprietary analysis on rising structural bottlenecks in Indonesia's nickel industry, estimating that 29% to 35% of global nickel supply is at risk of disruption between 2027 and 2030, which could lift the global price floor closer to US$20,000 per tonne. Among these bottlenecks, tailings storage capacity limits are projected to put 1% to 9% of global supply at risk of stoppages, while reagent and sulfur availability challenges could delay 4% to 14% of global HPAL-based supply. UBS highlights that these supply deliverability constraints are already impacting ANTM, pointing to evidence of supply cuts and delays in the future Antam-CATL HPAL pipeline driven by narrow project economics, tight sulfur supply, and high limonite prices (HPM).
- **Copper - Catalysts & risks into 4Q26:** In this copper sector review, UBS discusses global macroeconomic drivers that directly impact Capstone as a pure-play copper developer. The copper concentrate market remains extremely tight, with spot TCRC at negative $200/t, while China's refined output is up 4% YTD but showing declining run rates that turned negative year-on-year in July and August. Despite structurally bullish long-term supply-demand dynamics and high copper prices, material new project final investment decisions (FIDs) across the industry have been limited.
- **Rare Earths**: Lynas will acquire Meteoric Resources via an all-scrip deal valued at ~A$968m, adding Brazil's Caldeira project and securing a potential source of heavy rare earths (HRE) feedstock for its expanding LAMP refining capacity. Caldeira is the largest known ionic clay JORC rare earth resource outside China, strengthening Lynas' resource diversification and HRE strategy, with HRE expected to contribute ~20% of revenue from FY28. Alongside its investment in JS Link's Malaysian magnet facility and 10-year supply agreement, the transaction further expands Lynas across the rare earths value chain, although incorporating the acquisition and Caldeira development capex reduces UBS's price target ~7% to A $21/share, with Buy maintained (UBS).
- **DOWA**: UBS maintains Sell on DOWA, as higher zinc and precious-metal prices lift near-term earnings but mask structural weakness in environmental recycling. Recycling earnings are expected to decline as high-margin trace PCB treatment volumes fall sharply from FY3/28, leaving earnings increasingly reliant on elevated precious-metal prices. UBS raises its price target to ¥8,570 but sees valuation as stretched given limited visibility on new growth drivers.

Mobility Transition

Alternative Fuels - reinforcing

What shifted this month: Renewable diesel economics strengthened further, with persistent geopolitical disruption, tight refined-product markets and greater US regulatory clarity supporting margins. This is benefiting incumbent producers such as Darling and Neste, while sharply higher greenfield construction costs create a significant barrier to new capacity

Details:

- **DAR - Strong execution, supportive macro, raise PT:** UBS remains bullish on Darling as renewable diesel economics improve, with DGD margins rebounding from <$0.50/gal to >$2.50/gal, supported by higher RVOs and regulatory clarity. Darling's share of Diamond Green Diesel JV EBITDA is forecast to reach $1.1bn in 2026, well above the prior-cycle peak, supporting UBS's price target increase to $88 from $78. (UBS).
- **Renewable diesel economics:** Following investor meetings in Europe, UBS highlights that Darling's senior management has formally committed to lowering total corporate debt to $3 billion by the end of 2026 or early 1Q27. UBS finds that the cost of building a greenfield renewable diesel facility in the US has risen to $5–$7 per gallon, which acts as a massive entry barrier preventing traditional refiners from adding competing capacity. Additionally, while Darling's 3Q26 DGD sales volumes are guided down by approximately 10% quarter-over-week from the 360 million gallons reported in 2Q26, the 100% SRE reallocation remains a highly positive structural driver for waste oil and tallow feedstock demand
- **Neste**: UBS reports that Neste's Renewable Product gross margin cooled slightly week-over-week, declining by $83 to $1,347 per tonne, in line with broader spot market movements. Despite this minor weekly pullback, UBS highlights that Neste's 3QTD RP margin has averaged $1,213 per tonne, representing a massive premium over the UBS base estimate of $995 per tonne and the VA consensus of $1,076 per tonne. Geopolitical escalations and refined product supply constraints continue to act as supportive structural catalysts, keeping diesel markets tight and underpinning Neste's cash generation.

Upcoming Catalysts: The key question is the longevity of elevated renewable diesel margins, particularly as geopolitical conditions evolve. The durability of China's fuel export restrictions, and whether the US follows with additional measures affecting fuel supply or trade, will be important determinants of how long the current supportive margin environment persists.

Biosphere Transition

Sustainable Food - reinforcing

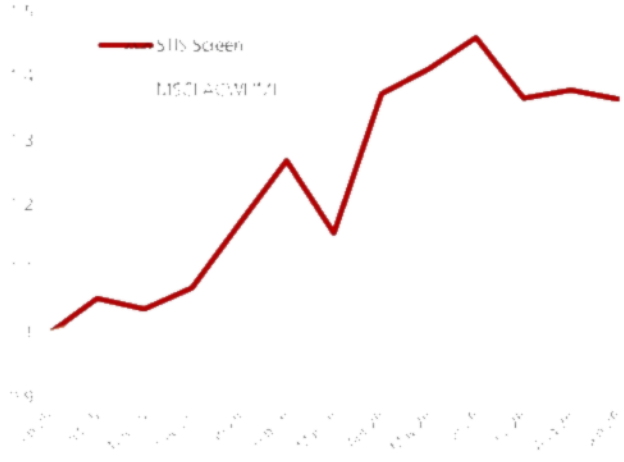
What shifted this month: The outlook for agriculture improved at the grower level, with stronger sentiment into 2027 and higher seed pricing expectations, while Seeds emerged as a key bright spot for Nufarm. At the same time, climate risk intensified, with a 98% probability of a very strong El Niño driving divergent regional impacts, tighter fishmeal and fish oil supply, and pressure on farmer purchasing power.

- **US Ag Value Chain Update:**UBS attended the annual Farm Progress Show in Iowa and the Bayer Crop Science Investor Day and met with a range of companies, mostly commercial teams across the ag value chain, including Seed (Bayer, BASF, Wyffel's, Beck's), Crop Chems (Bayer, BASF, UPL, Helena, Helm), Ag Retail (NTR Ag Solutions, Helena) and Precision Ag/Machinery (Bayer, BASF, Deere, Case New Holland, Carbon Robotics). UBS sees improving grower sentiment into 2027, alongside higher seed pricing and continued competition between Bayer and Corteva in seed traits and licensing. Both companies are advancing short-stature corn platforms, although harvesting challenges and grower education could constrain adoption. Bayer generates >$2.9bn in licensing sales, while Corteva targets ~$1bn of North American out-licensing EBITDA by 2035. Precision agriculture also presents a structural headwind to crop chemical volumes as herbicide application becomes more efficient.
- **LatAm 2Q26 Earnings - Ag**: In response to strong El Nino, UBS finds that agribusiness companies are making early climate preparedness investments, such as Tres Tentos (TTEN) ramping up corn ethanol, soybean crushing, and biodiesel capacity, and São Martinho (SMTO) investing in corn ethanol, biomethane, and irrigation while growing its CBIO sales by 72.4% YoY to 312,000 credits. UBS finds that SLC Agrícola (SLCE) reported five farms achieved a negative carbon balance in Scope 1 and Scope 2 emissions in 2025, and Jalles Machado (JALL) launched a circular initiative to produce liquid fertilizer from production process resources (UBS).
- **NUF strong seeds growth:**UBS trims Nufarm's FY26 EBITDA expectations by 2-3%, as Crop Protection volume growth is partly offset by softer pricing and manufacturing disruptions. However, Seeds remains a bright spot, with EBITDA forecast to rise from A$14mn in FY25 to A$76mn in FY26, supported by Omega-3 and Hybrid Seeds. The Investor Day also highlighted upside from Croplands' precision spraying technologies, which could drive demand for Nufarm's higher-value formulations. UBS maintains its Buy rating and raises its price target to A $3.60 from A$3.50.
- **El Nino update & Research Navigator:** There is a 98% probability of a "Very Strong" El Niño (>2°C) occurring between October and December 2026, with a 75% probability of it reaching historic levels, leading to highly uneven geographic and sector impacts. UBS finds that the FAO Food Price Index (FFPI) rose to 133.3 points in August 2026, up 1.9% MoM and 2.5% YoY, with sugar prices surging 12% due to supply concerns. In terms of regional weather impacts, UBS finds that India's monsoon rainfall fell 12% below normal, stressing vital soybean and pulse crops, while widespread droughts and forest fires hit Southeast Asia. In South America, UBS finds that warming sea temperatures severely disrupted Peru's anchovy fishery, with the catch reaching only 25% of its quota by the close of the main season in August, resulting in extremely tight fishmeal and fish oil supplies and escalating aquaculture feed costs. To capture these dynamics, UBS finds that its analysts upgraded Charoen Pokphand Foods (CPF.BK) and SD Guthrie (SDGU.KL) to Buy, while downgrading Century Pacific Food (CNPF.PH) to Neutral (forecasting a gross margin compression of 130 bps in 2026 and 60 bps in 2027) and Nutrien (NTR.CA) to Sell due to weaker farmer purchasing power and softening fertilizer demand.

Sustainable Transition Update

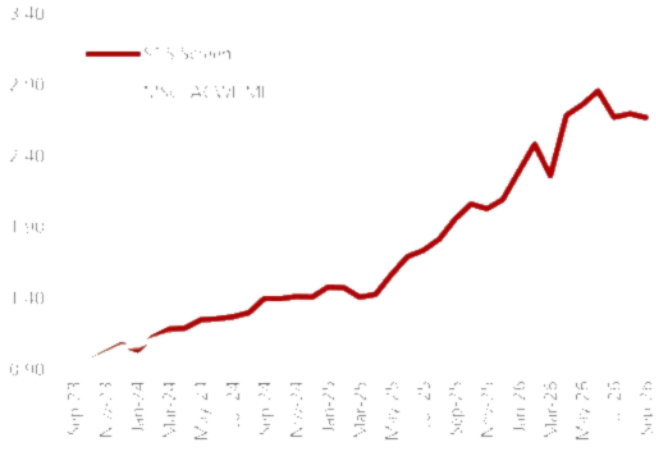
The STIS Global Systematic Screen +27% return YTD: The Sustainable Transition Investment Strategy (STIS) has delivered a 28% return (YTD). Against a challenging macro environment performance of both the STIS Screen and the MSCI ACWI IMI were negative at -1% and - 1.4% respectively. Overall, this equates to a 14.5% outperformance YTD relative to MSCI ACWI IMI. On a 12M basis, the strategy has delivered 36% return vs the benchmark at 16%.

Figure 3: STIS performance - 12M



Source: UBS, FactSet. NB: Inception launch date was 18 March 2025. Past performance is not indicative of future results.

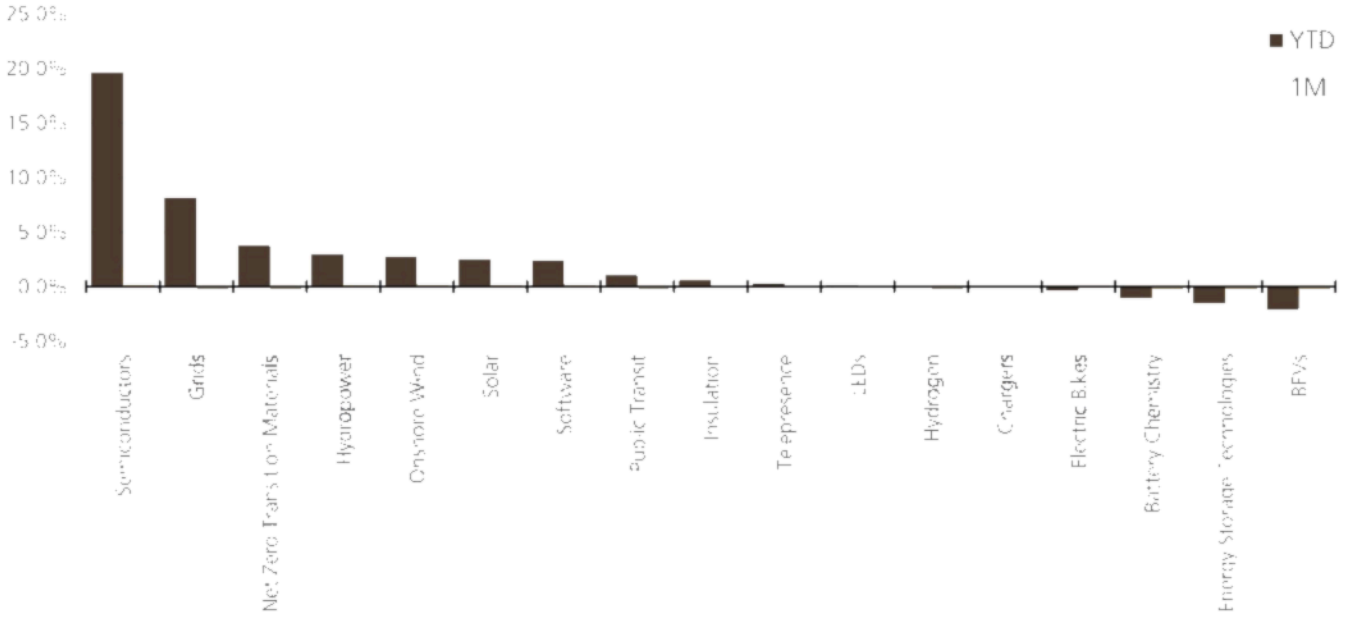
Figure 4: Extension of 3Y back test



Source: UBS, FactSet.

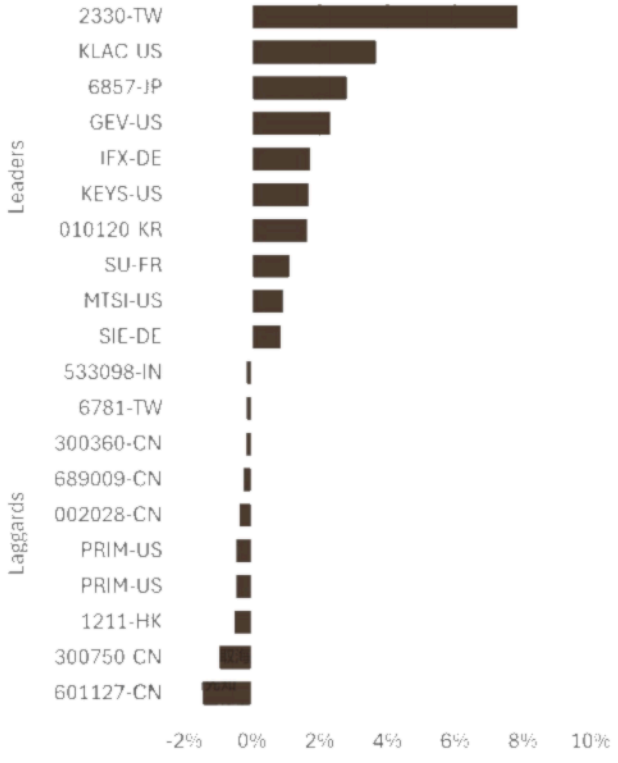
Semiconductors and Grid are the largest drivers of outperformance. Since inception, Semiconductor companies are the principal driver of outperformance, returning 19.6% YTD (1.8% 1M), followed by Grids at 8.2% (-0.2% 1M). On a 1M view, Semiconductors and Hydropower had the largest returns 1.8% and 0.3% respectively. On a weighted return basis, this month KLA Corp led the way followed by TSMC, Keysight Technologies & GE Vernova. Performance headwinds this month were GE Vernova, Wheaton Precious Metals Group and Siemens AG.

Figure 5: Sub Theme Performance Attribution - YTD and 1M



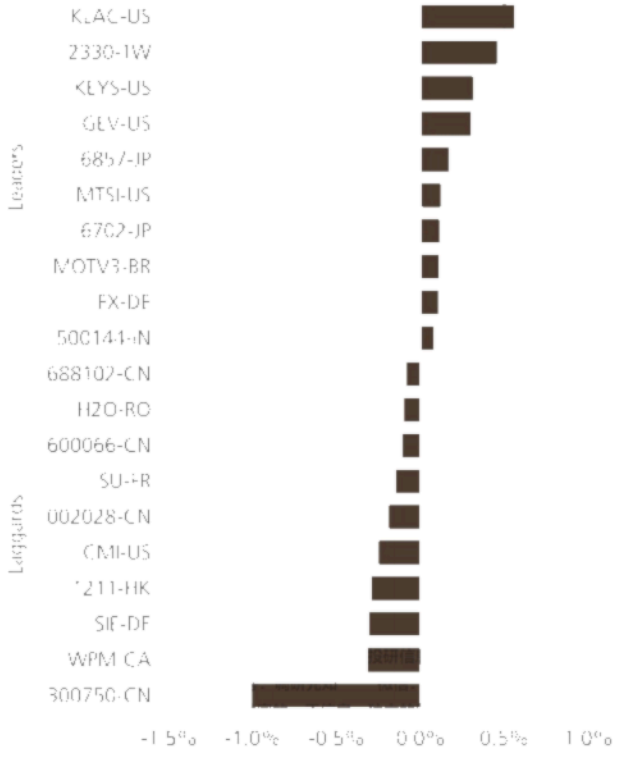
Source: UBS, FactSet - NB: Some companies appear and attribute performance in multiple sub-themes, however there is no duplication of single stock performance attribution at the theme level

Figure 6: Top 10 Leaders & Laggards YTD by weighted contribution



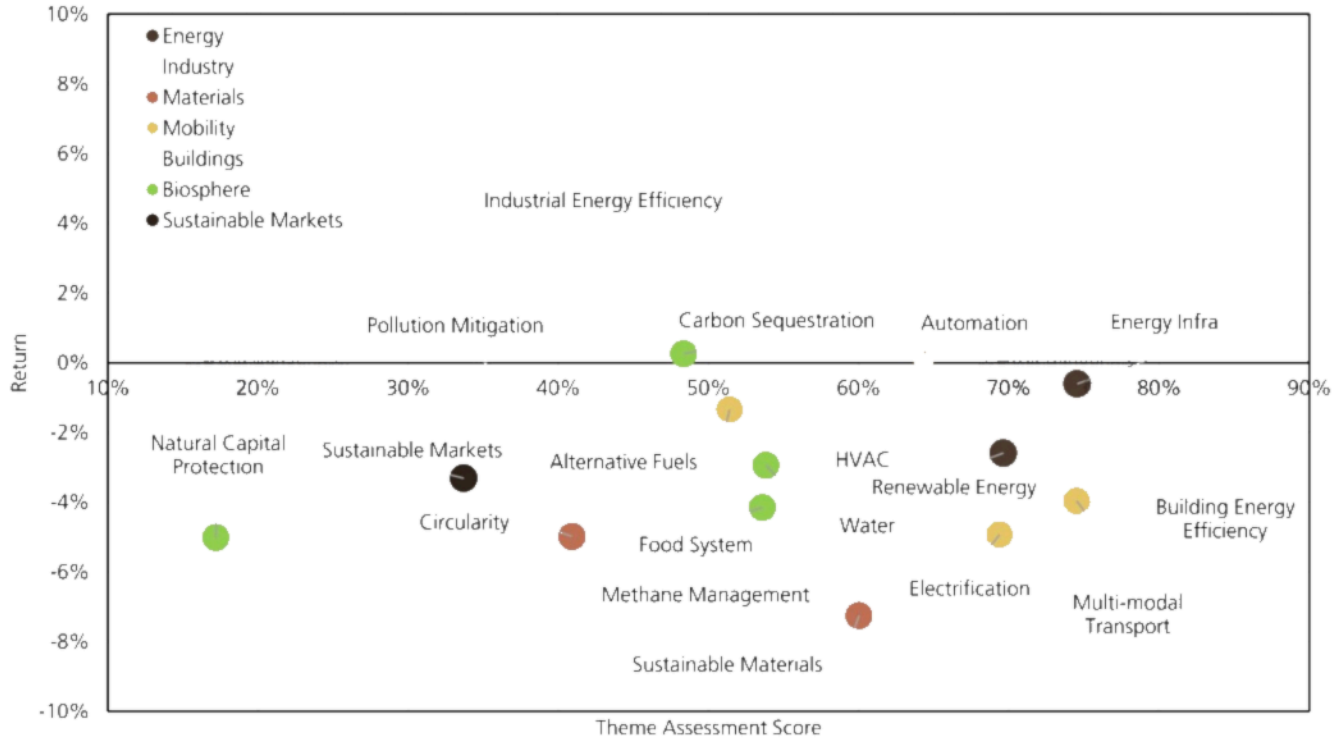
Source: UBS, FactSet

Figure 7: Top 10 Leaders & Laggards 1M by weighted contribution



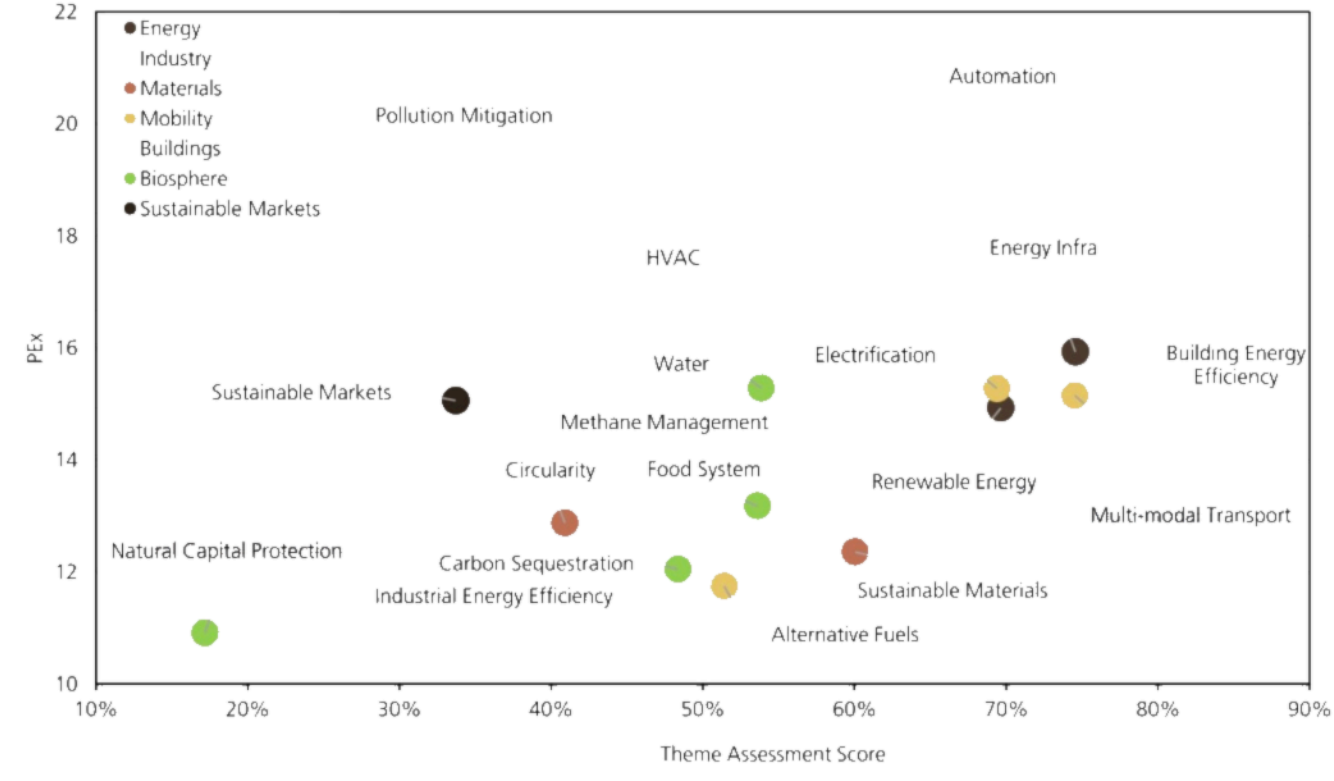
Source: UBS, FactSet

Figure 8: Theme 1M returns vs STIS Thematic Assessment Score



Source: UBS, Factset

Figure 9: Theme Current PE vs STIS Thematic Assessment Score

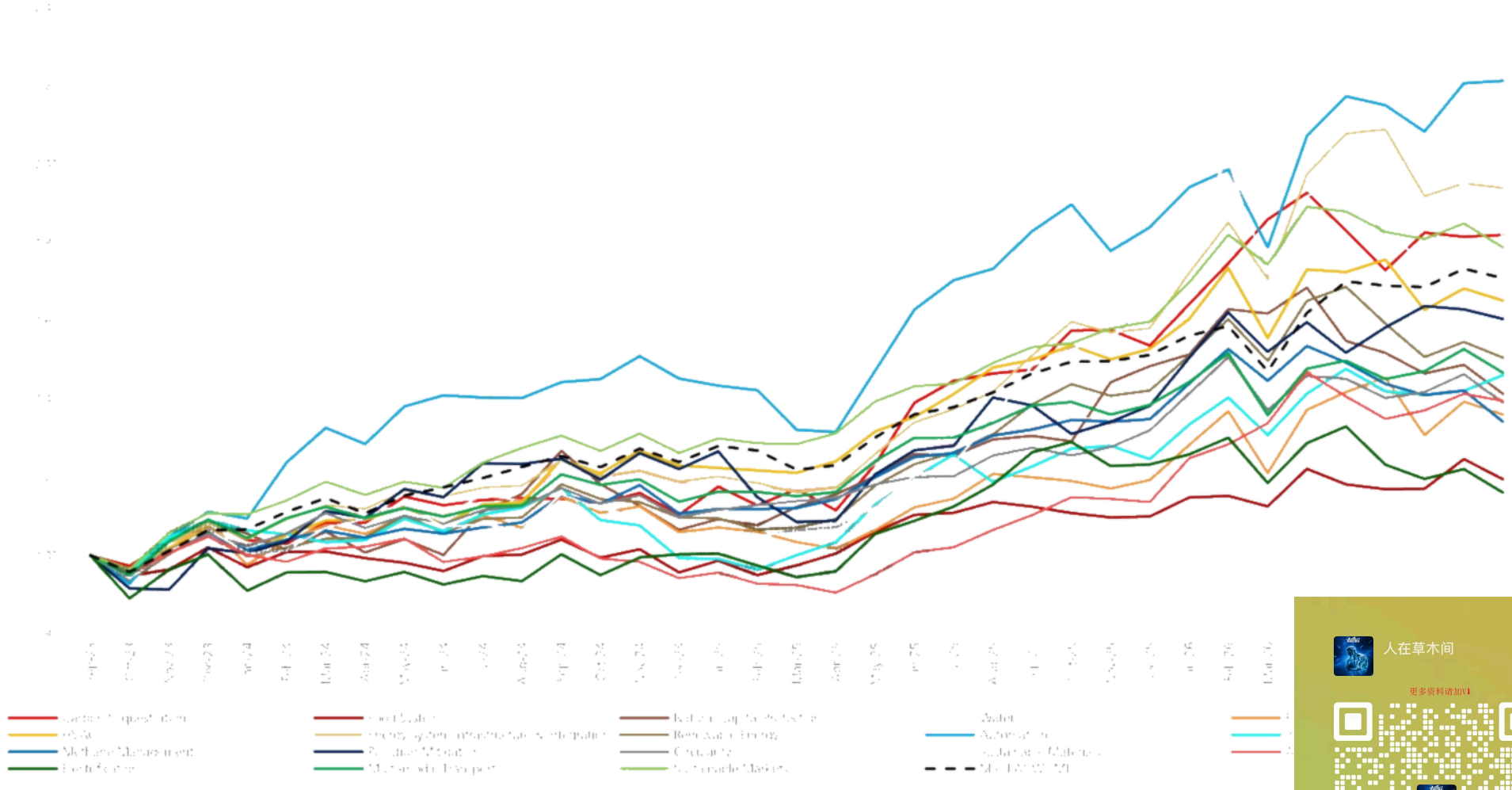


Source: UBS, Factset

Transition Performance Dashboard

Theme Returns

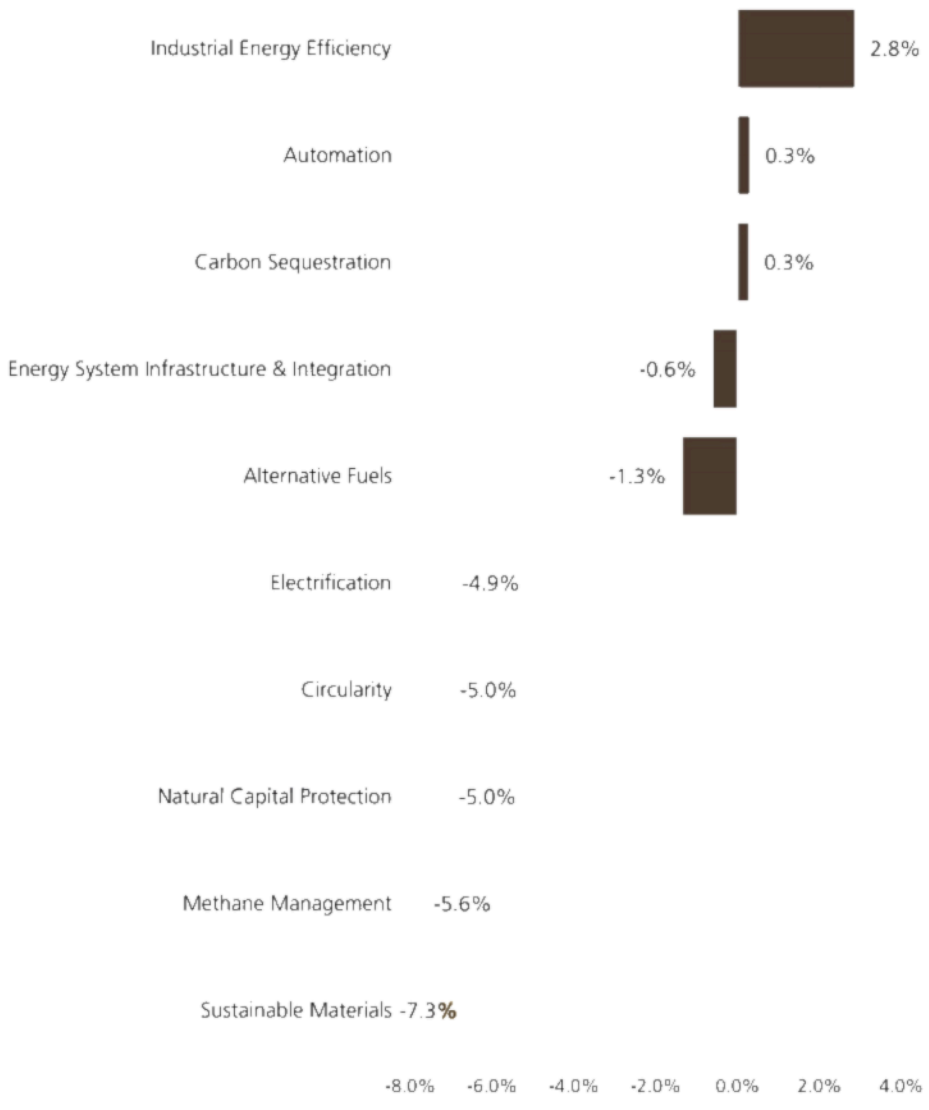
Figure 10: All Theme Returns Performance - Total Return



Source: UBS, FactSet

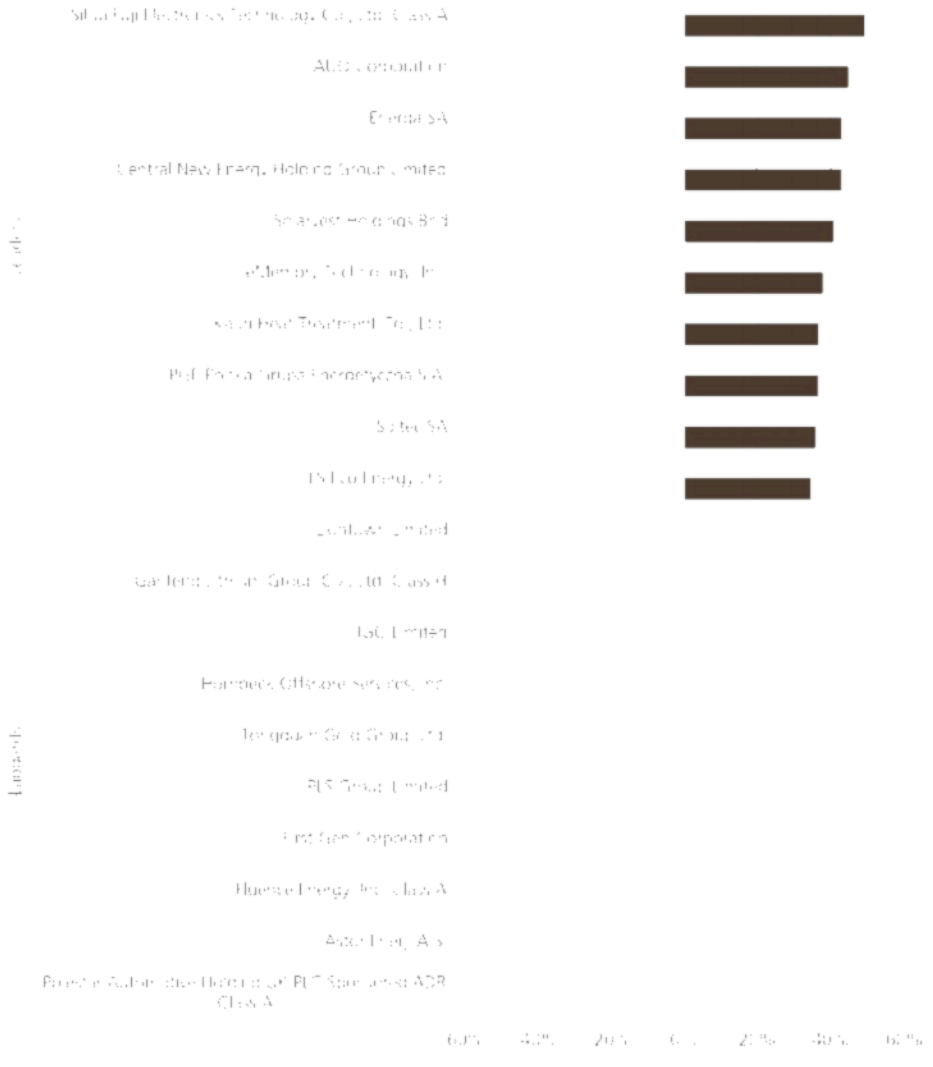
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Figure 11: Top & Bottom Performing Themes (1M total return)



Source: UBS, Factset

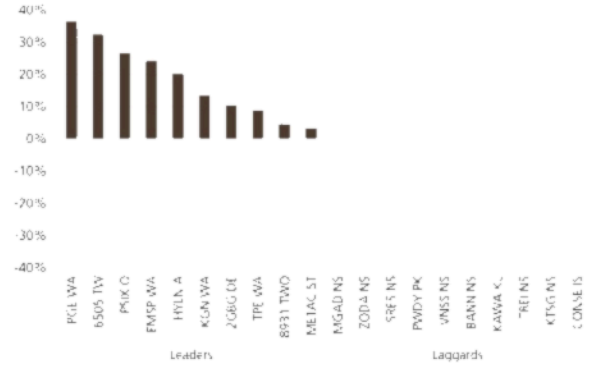
Figure 12: Top & Bottom Performing Companies (1M) >US$1bn market cap



Source: UBS, Factset

Top Performing Themes - Stock Attribution

Figure 13: Industrial Energy Efficiency



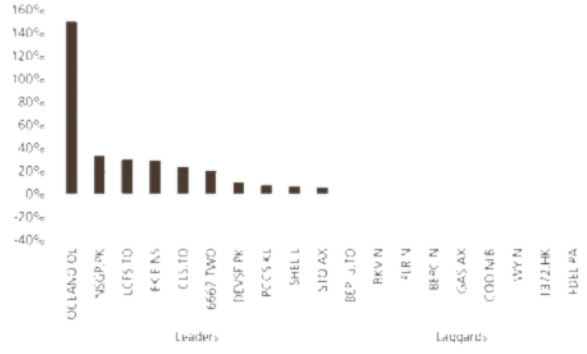
Source: UBS, Factset

Figure 14: Automation



Source: UBS, Factset

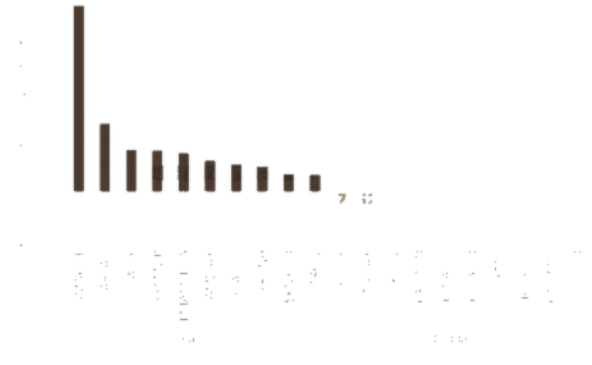
Figure 15: Carbon Sequestration



Source: UBS, Factset

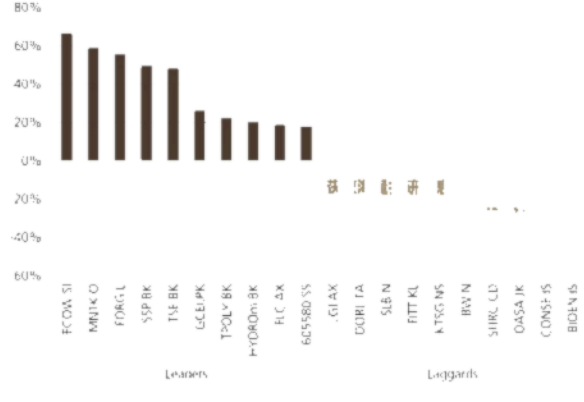
Bottom Performing Themes - Stock Attribution

Figure 16: Sustainable Materials



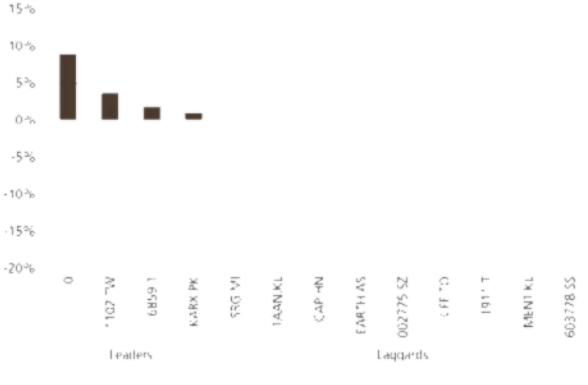
Source: UBS, Factset

Figure 17: Methane Management



Source: UBS, Factset

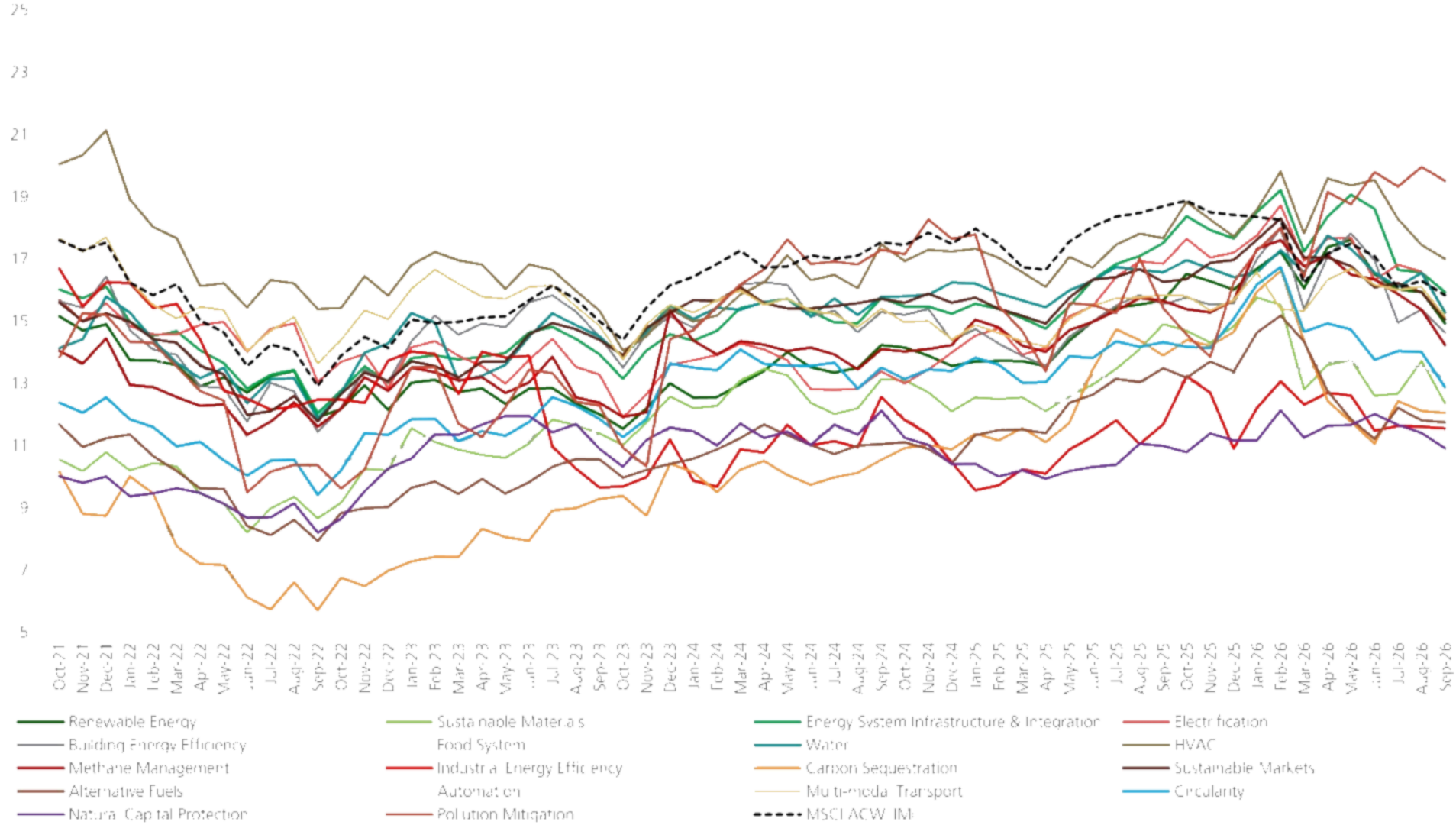
Figure 18: Natural Capital Protection



Source: UBS, Factset

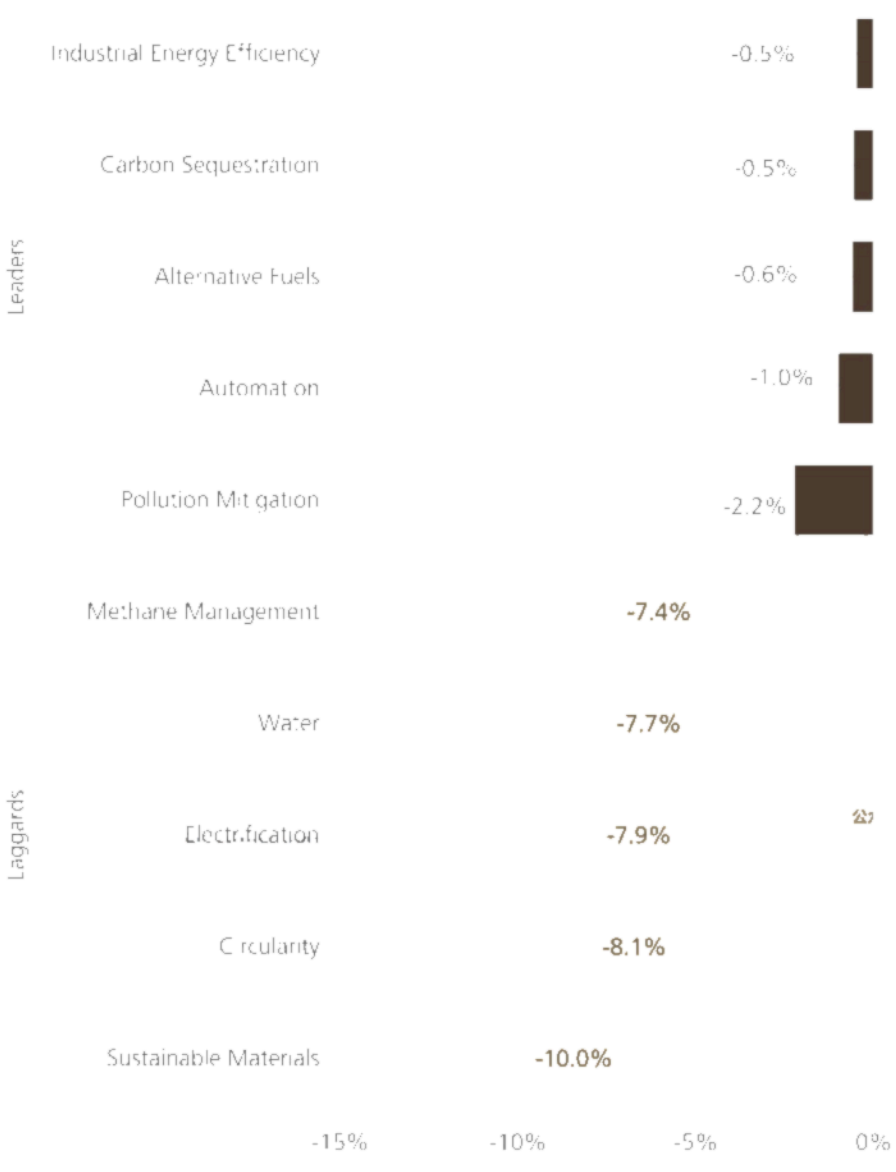
Theme Valuations

Figure 19: Sustainable Transition Theme Valuations (rolling 12mf PE)



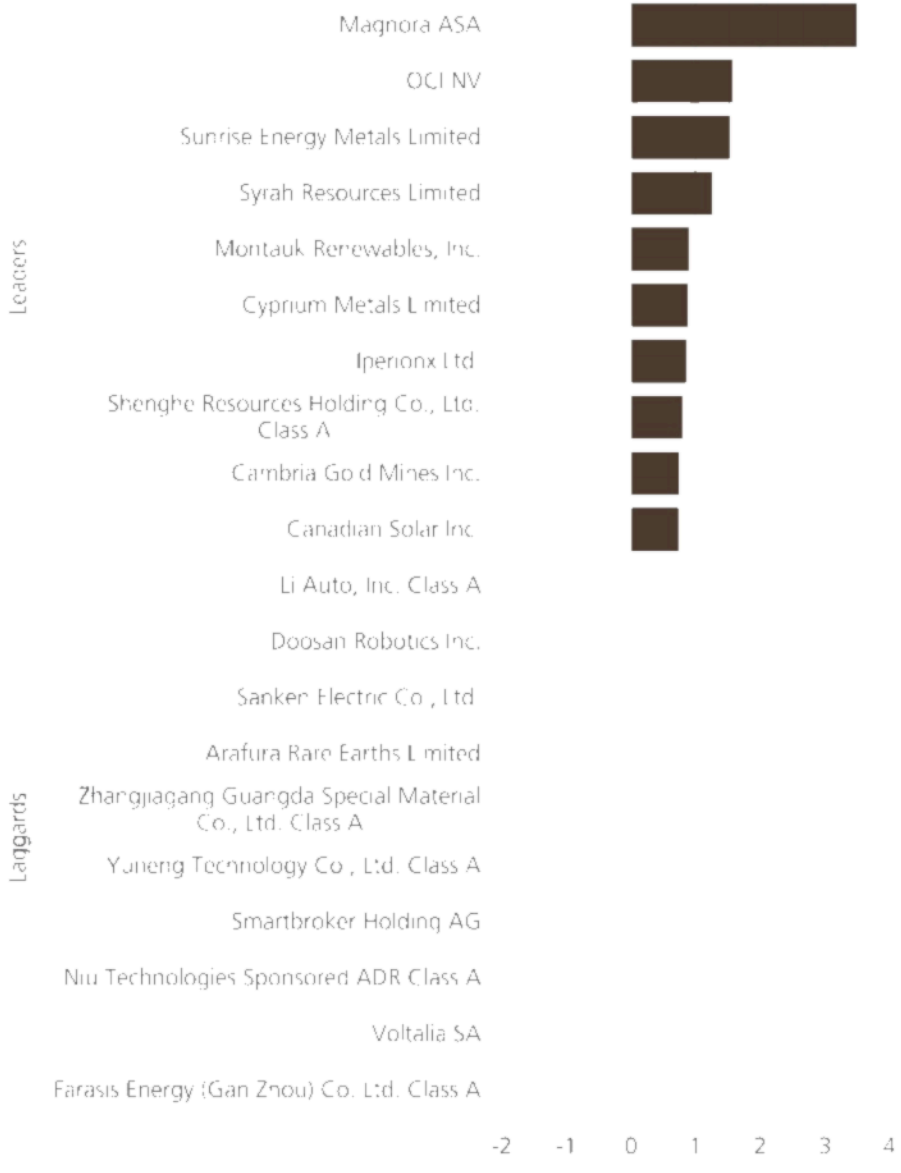
Source: UBS, Factset

Figure 20: Top & Bottom Valuation Changes Themes (1 month change)



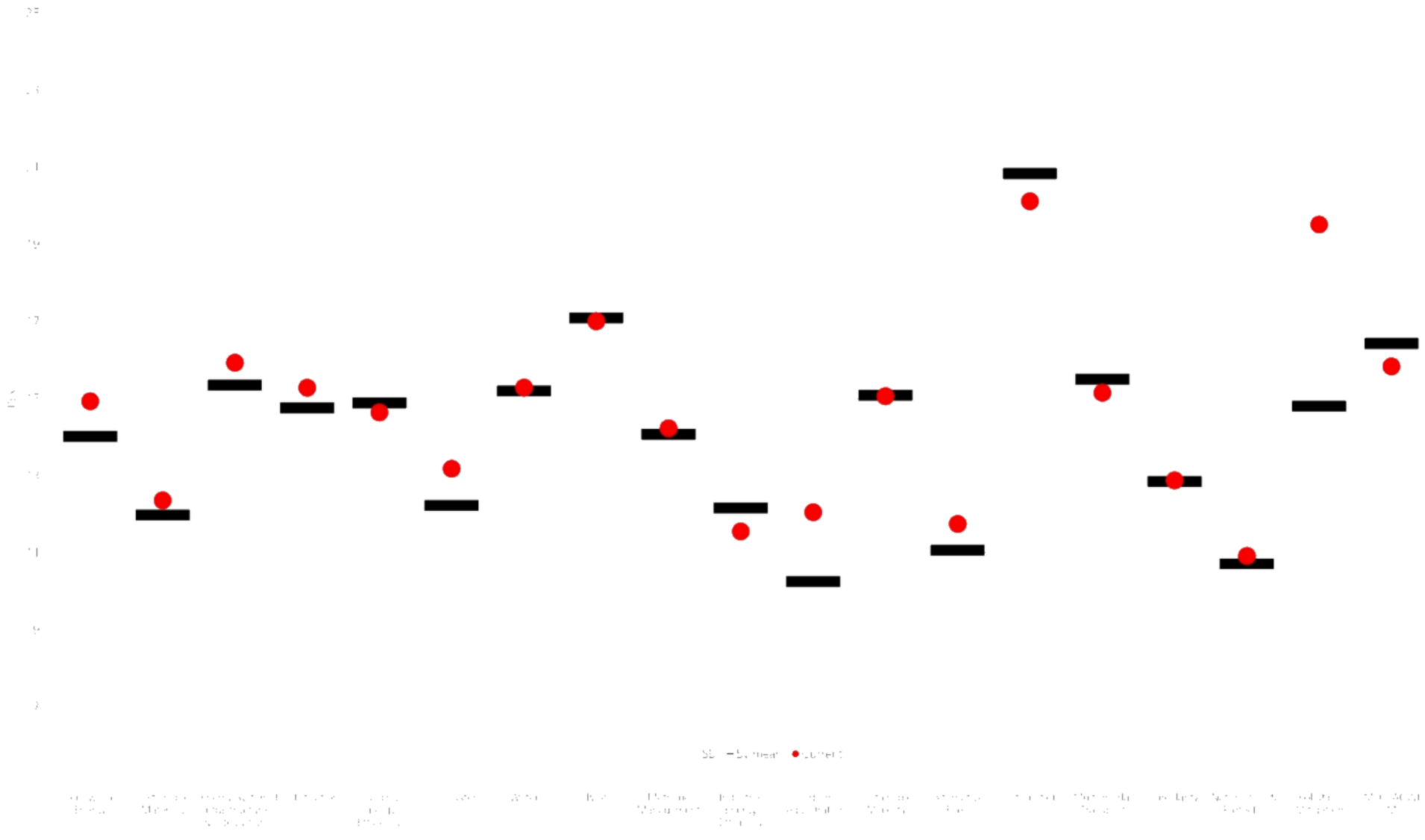
Source: UBS, Factset

Figure 21: Largest changes in 12mf PE: stock level



Source: UBS, Factset

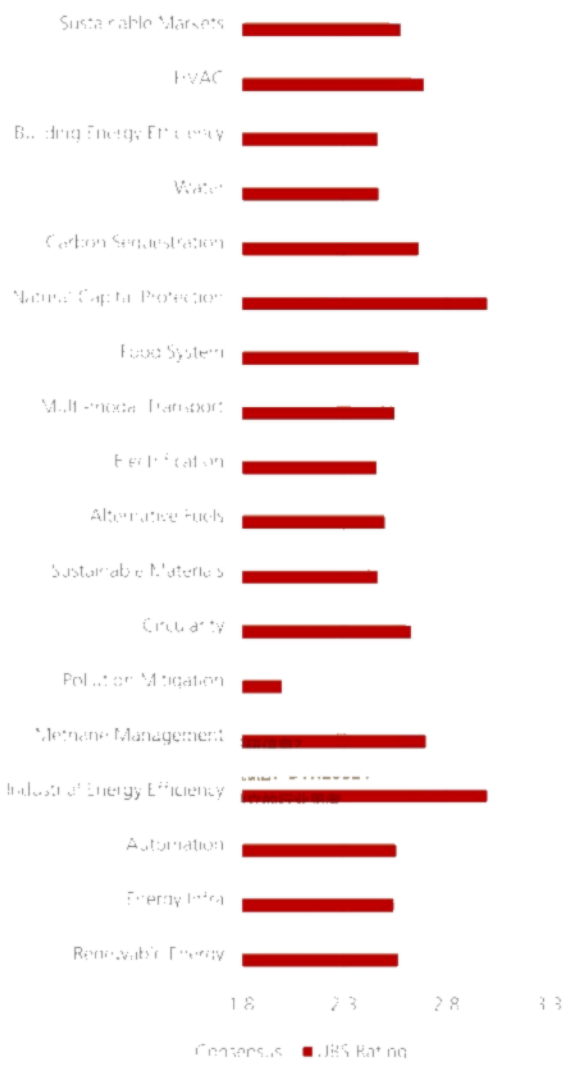
Figure 22: Theme Valuation Range (12mf PE)



Source. UBS, Factset

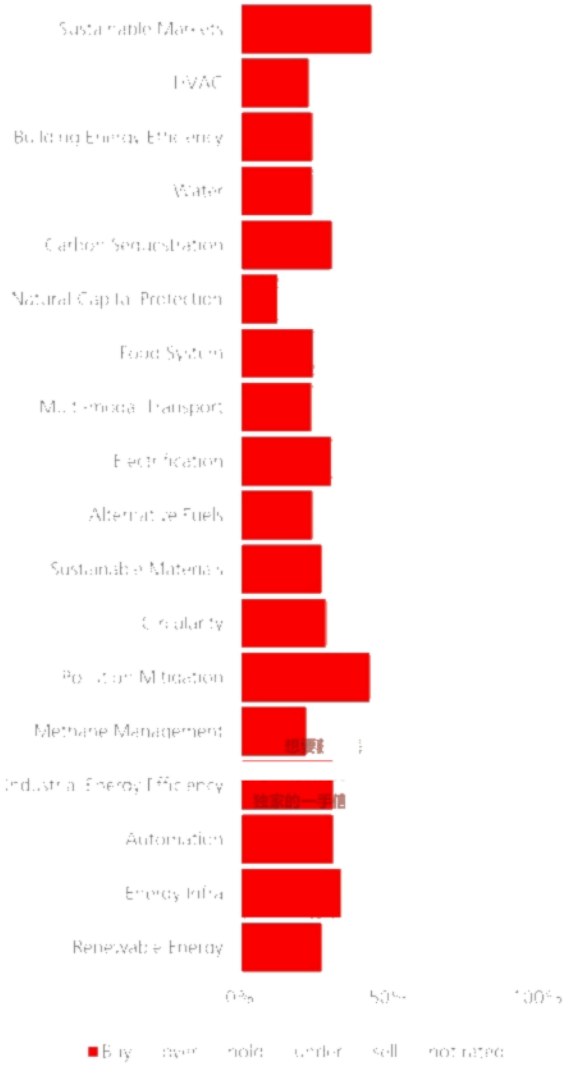
Theme Sentiment

Figure 23: Average Buy Rating



Source: UBS, Factset (NB: ratings are converted into 3-point scale, 1 = sell, 2=neutral and 3=buy - i.e. the closer to 3, the more buy ratings)

Figure 24: Consensus Rating (%)



Source: UBS, Factset

Figure 25: 3M change (%) in 12mf EPS consensus



Source: UBS, Factset

Valuation Method and Risk Statement

The immediate risk in relation to the subject matter covered by UBS's Global Sustainability Team arises from a lack of definition in the field, reflected in the many names and acronyms in use by practitioners: sustainability; responsible investment (RI); socially responsible investment (SRI); ESG (environmental, social and governance) investment; ethical investing, impact investing, etc. The field covers an enormous range of potential issues and, over time, their importance fluctuates. At the time of writing, we believe the issues raised in this research to be relevant to investors, but this may change. Additionally, this research should not be read as a complete or definitive account of all relevant issues for firms. Although we attempt to address all significant or nascent issues, these may not always be apparent, and these may change over time.