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WEALTH MANAGEMENT

INVESTMENT STRATEGY

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US Policy Pulse

Pricing the Politics of Power

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In this report, we discuss energy needs across the US, private and public sector drivers, and the impact of the evolving energy narrative on markets and the economy.

Key Insights:

- The US is home to 45% of the world's data centers. Rising electricity costs, partly due to artificial intelligence (AI) data centers, are pressuring affordability ahead of the midterm elections, despite the US producing record levels of energy.
- Natural gas continues to be a crucial energy source. At home in the US, one-third of AI-driven power demand can be met by natural gas, while abroad, US natural gas exports to Europe have quadrupled since late 2021.
- Retail gas prices are up 3% this year ahead of the midterms, mainly driven by geopolitical tensions, but abundant global supply may cap potential price rallies.
- Consistent with our call since December 2024, and despite policy pressure, clean energy stocks have been outperforming traditional energy by over 45% since Inauguration Day 2025.
- Nuclear energy is gaining market traction as an alternative but reliable and consistent energy source, driven by bipartisan support and energy-intensive data center needs from the AI hyperscalers.

The US energy narrative in 2026 is defined by a paradox. America is producing record amounts of oil and exporting record volumes of natural gas, while electricity costs are rising in key regions, pressuring affordability and catapulting energy pricing as a defining political issue ahead of the midterm elections. This situation has escalated as the surge in data center construction has become a pivotal public and private sector priority supporting the US role as the global leader in AI development. The rapid adoption of AI has resulted in 5,427 AI-related operational facilities calling the US home as of late 2025, which accounts for roughly 45% of all data centers globally.

This proliferation has notable implications for households and the economy. According to Bloomberg analysis, energy costs in localities near data centers have risen 267% versus 2020 levels. The rising cost of energy is likely to become a critical issue during the midterm elections, with affordability one of the top campaign concerns. We expect that the sharp upward pressure on energy costs is likely not only to garner community-level pushback but to encourage state and

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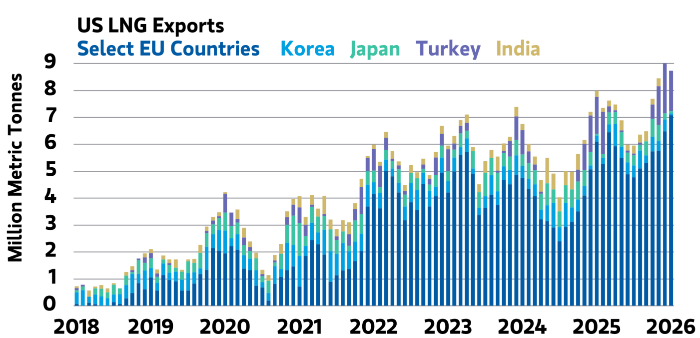
A Guide to the One Big Beautiful Bill Act local governments to embrace an "energy addition" versus "energy transition" policy, potentially making a stronger case for renewables and alternative energy. This phenomenon is already occurring, and policy response at the federal level has included a renewed emphasis on deregulation and domestic production. The administration has sought to boost domestic energy production by expediting permitting and reducing regulations for oil, natural gas, nuclear power and other renewables.

In this report, we examine how rising US energy demand, affordability pressures and technology are encountering a deregulatory agenda leading up to the midterm elections—reshaping the outlook for natural gas, oil, clean energy and renewables.

Natural Gas: The Beneficiary of Geopolitics and AI

Among traditional fuels, natural gas stands out as structurally advantaged. Robust demand for US natural gas from Europe has emerged as the EU continues to diversify its energy sources away from Russia, quadrupling US natural gas exports to major European countries since late 2021 (see Exhibit 1). Importantly, natural gas exports serve a dual purpose: Economic and geopolitical. We expect natural gas exports to continue to be integral to ongoing trade negotiations with countries potentially subject to renewed tariff pressures.

Exhibit 1: Trade Negotiations May Include LNG Exports

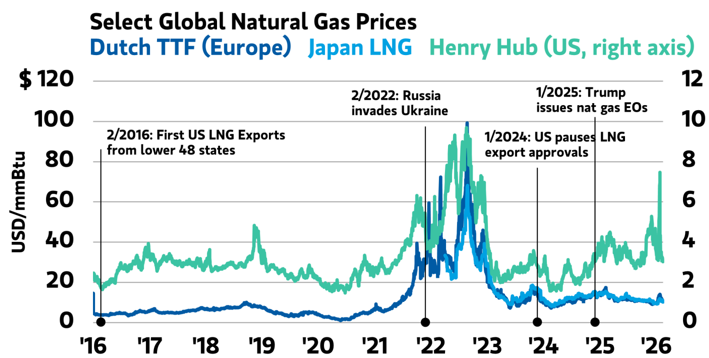


Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 17, 2026

The second structural tailwind is domestic load growth. Additional load growth—the increased demand required to power—drives tailwinds for natural gas via demand from data centers, generative AI, industrial onshoring and broader electrification trends. In fact, Morgan Stanley & Co. Research analysts forecast that data centers and generative AI will make up 75% of incremental load growth through 2030. They also estimate that around 30% of AI-driven power demand can be met by natural gas. Furthermore, the US Energy Information Administration estimates that LNG export capacity will double by the end of the decade, as more than 11 LNG pipelines under construction are expected to come online during this period.

Expectations for more capacity may drive increased supply, which is a key component in addressing energy-affordability issues. Robust production in 2025 and 2026 has mostly stabilized US natural gas prices versus those of the rest of the world, following the supply shocks of 2022 and excluding the spike caused by the recent northeast winter storm (see Exhibit 2). US Henry Hub natural gas prices have averaged $3.23/mmBtu over the past 10 years, and we expect higher production to place downward pressure on consumer costs.

Exhibit 2: Greater Production Has Mostly Stabilized Natural Gas Prices



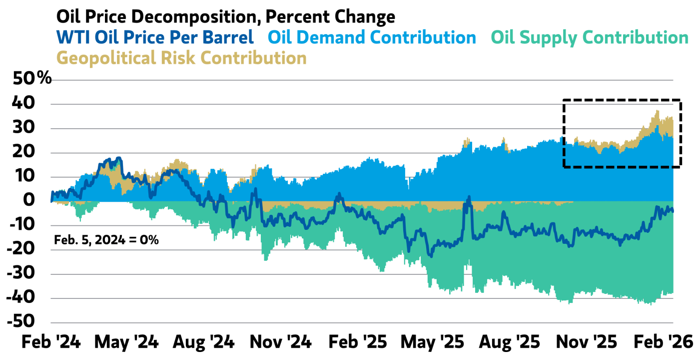
Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 17, 2026

Importantly, natural gas offers dispatchable capacity that complements renewables. In regions facing grid stress, gas-fired production provides reliability during peak demand versus inconsistent renewable output and is likely to be positioned as a bridge resource as communities turn to greater renewable adoption. That said, state-level regulatory hurdles create a patchwork dynamic: Export capacity may expand, but infrastructure buildout faces localized resistance. The result is a structurally constructive natural gas backdrop—tempered by regulatory fragmentation and domestic affordability pressures.

Oil: Record Production Meets Midterm Elections

Oil markets in 2026 reflect a different tension between geopolitics and underlying supply fundamentals. While there is strong policy support to increase drilling, it is met with weak price incentives. For example, West Texas Intermediate (WTI) crude oil prices have risen 13% so far in 2026, driven by several geopolitical catalysts (see Exhibit 3). These include US-Iran tensions, US sanctions on Russian oil producers and the placement of secondary tariffs on India for importing Russian oil, as well as US military action in Venezuela. All these factors have temporarily impacted global crude supply and contributed to higher prices, with WTI currently at around $65 per barrel. Despite the geopolitical risk premium, global oil supply remains abundant, likely capping the potential for any sustained price rally.

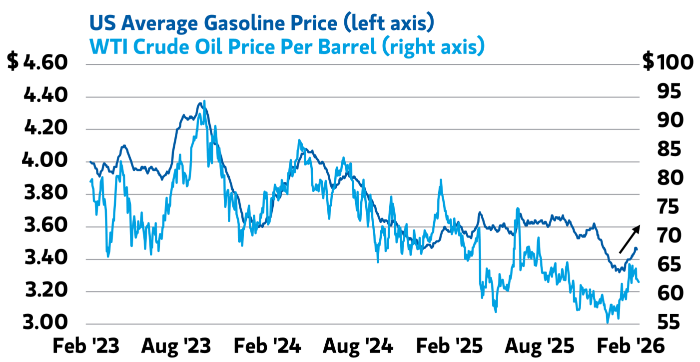
Exhibit 3: Geopolitics Has Contributed to Higher Oil Prices This Year



Source: Bloomberg Economics, Morgan Stanley Wealth Management Global Investment Office as of Feb. 17, 2026

MS & Co. Research anticipates a global oil surplus of 1.9 million barrels per day in 2026, driven by greater US and non-OPEC supply growth, and forecasts a WTI crude oil price of $56 per barrel by year-end 2026. In fact, recent surveys from the Federal Reserve Bank of Dallas and the Federal Reserve Bank of Kansas City suggest that producers, on average, need WTI crude prices to be $61 per barrel for drilling to be profitable, and WTI crude needs to reach $75 per barrel for a substantial increase in drilling to occur. If prices return to their cycle lows of $55–$60 from late 2025, producers may be disincentivized from accelerating production.

Exhibit 4: Rising Gasoline Prices This Year Could Influence the Midterm Elections



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 17, 2026

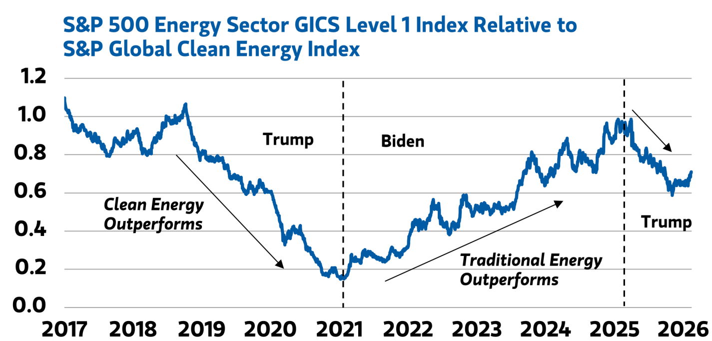
When viewing this dynamic from the US consumer perspective and against the midterm election backdrop, lower oil prices become a policy goal, as the price of gasoline is often seen as a proxy for inflation and cost-of-living pressures. Despite average retail gasoline prices falling by about 4% since the start of President Trump's second term, they are up 3% so far in 2026, tracking the rise in WTI crude oil (see Exhibit 4). The administration has responded to growing affordability concerns and seeks to alleviate pressure at the gas pump in the near term through deregulation and expedited permitting. However, despite these efforts, further US crude oil production may be limited, as it already sits near record highs, with the US now the largest producer, accounting for 16% of global supply. US peak production may limit the administration's ability to curtail rising gas prices, which could negatively impact Republican Party prospects in the midterms. For this reason, we expect the Trump administration to continue focusing on lowering oil and gas prices, among other items.

Clean Energy and Renewables: Headwinds From Policy, Tailwinds From Demand

Clean energy and renewables face what we view as an inverse challenge: Policy ambiguity meets structural growth. President Trump's energy rhetoric has notably created headwinds for the clean energy industry, with solar, wind and other alternatives coming under scrutiny. However, the nation's immense energy needs, propelled by data centers and AI, have shifted the narrative from clean energy as an environmental policy to clean energy as a potential additional energy source well-positioned to mitigate rising costs for consumers.

We have long held that clean energy's performance is less a function of partisan alignment and more a reflection of the macroeconomic and interest rate environments. Our thesis is driven by several observations: Clean energy stocks outperformed during Trump's first presidency, when interest rates were lower, while traditional energy outperformed during Biden's term, when rates were higher and oil prices were elevated, indicating that macroeconomics and interest rates are key drivers of relative performance. In other words, over the long term, clean energy stocks remain sensitive to interest rates, with many companies benefiting from lower borrowing costs, which support research, development and capital expenditure. These dynamics challenge the assumption that Trump is inherently positive for traditional energy versus clean energy (see Exhibit 5).

Exhibit 5: Clean Energy Has Been Outperforming Under Trump Again

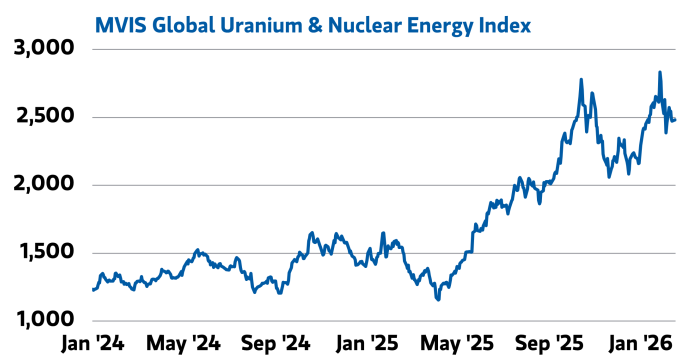


Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 16, 2026.

Importantly, the structural case is also providing tailwinds for renewables and nuclear, reinforced by load growth realities. MS & Co. Research projects that renewables could increase their share of the US energy mix from 9% in 2025 to 12% in 2035, and their share of power generation from 19% to 28% over the same period. Renewables and nuclear reemerged as a relief point for AI's energy bottlenecks. Unlike renewables, nuclear provides consistent, reliable and carbon-free baseload power, making it more attractive as a strategic and enabling power source for AI infrastructure and potentially as a bipartisan point of agreement in Congress.

The public's approval and political dynamics are critical to the pace of nuclear development, as rapid adoption may offset grid pressure as data centers are brought online. Importantly, AI hyperscalers—extremely large companies that build scalable data centers to provide computing resources like cloud services—have entered into power purchase agreements with utilities providers to secure long-term grid and nuclear energy access for a fixed price, effectively helping to finance new projects. Other public-private partnerships have emerged, and increased regulatory support from the federal government has pushed nuclear-related stocks to all-time highs in recent months (see Exhibit 6). For example, President Biden's nuclear energy deployment strategy aimed to quadruple US nuclear energy capacity by 2050. Furthering this goal, President Trump issued four executive orders aimed at promoting deployment of nuclear technology in May 2025. One of them grants more responsibility to the Department of Energy and to the Department of Defense for development of nuclear energy, while another seeks to fast-track construction by reforming the Nuclear Regulatory Commission and establishing strict 18-month deadlines for new reactor licensing and renewals.

Exhibit 6: Nuclear Has Benefited From Supportive Policy Action and Increased Power Demand



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 17, 2026

Investment Conclusion

The rising cost of energy, even as domestic energy production remains near a record level, is likely to become an important election issue ahead of the 2026 midterms. Roughly 45% of the world's data centers are in the US, and energy costs in localities near data centers have risen substantially, pressuring affordability. We expect natural gas production to be increasingly important in supplementing data center and AI infrastructure energy needs; we also anticipate greater natural gas exports to Europe and Asia, which have quadrupled since 2022. Geopolitics plays a role as well: Retail gas prices are up about 3% for the year to date, following WTI crude oil prices, largely reflecting heightened US-Iran tensions, sanctions on Russian oil producers and US action in Venezuela. However, ample global supply may limit further upside. Meanwhile, clean energy stocks have outperformed traditional energy stocks by more than 45% since Inauguration Day 2025, despite policy headwinds, consistent with our call since December 2024. Nuclear energy is also gaining traction as a reliable and consistent power source, and stock performance is being driven by bipartisan policy support and growing demand from AI hyperscalers and data centers.

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Benchmark Definitions

MVIS Global Uranium & Nuclear Energy Index - MVNLR covers the largest and most liquid companies which are active in the uranium and nuclear energy sector. The index is reviewed on a quarterly basis, float market capitalization weighted, and the maximum component weight is 8%.

S&P 500 Energy Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period. The parent index is SPXL1. This is a GICS Level 1 Sector group.Intraday values are calculated by Bloomberg and not supported by S&P DJI, however the close price in HP is the official close price calculated by S&P DJI.

For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

Glossary

Artificial Intelligence (AI) A field of study that seeks to train computers to process large amounts of unstructured information in a manner similar to human intelligence, capable of performing tasks such as learning and problem solving.

Risk premium is the return in excess of the risk-free rate of return an investment is expected to yield.

Risk Considerations

Investing in foreign markets entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks. **Investing in currency** involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies. **Technology stocks** may be especially volatile. Risks applicable to companies in the **energy and natural resources sectors** include commodity pricing risk, supply and demand risk, depletion risk and exploration risk.

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