

What to watch: Commodities signal manufacturing slowdown, bad weather increased utility bills in the US and private equity finding its footing again

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In summary

Commodity prices point to a manufacturing slowdown. Industrial commodity prices have seesawed since the escalation of trade tensions in April 2025 as investors weigh weakening demand against supply disruptions. While gold prices have been surging amid growing uncertainty, oil prices have sunk -14% in the first nine months of 2025 because of oversupply and weak demand. OPEC+ has paused planned output hikes for early 2026 to avoid a price collapse but with output still high and consumption limp, we expect Brent crude to average USD69/bbl in 2025 (down from USD81/bbl in 2024) and in the current environment, there are risks to downside to our USD66/bbl forecast for 2026. Meanwhile, copper prices have bounced back after the "Liberation Day" shock (+25% ytd, back above USD10,000/ton) as a series of mine disruptions tightened supply. Higher copper prices are in turn raising aluminum prices as sectors such as automotive increasingly shift to using the cheaper metal – despite its lower conductivity. Overall, current metal prices suggest that industrial production “should” be 2% to 10% lower than current levels. We expect a modest +3% rise in base metal prices for 2025 while global industrial production should slow down to +2% y/y (down from +3% in 2024).

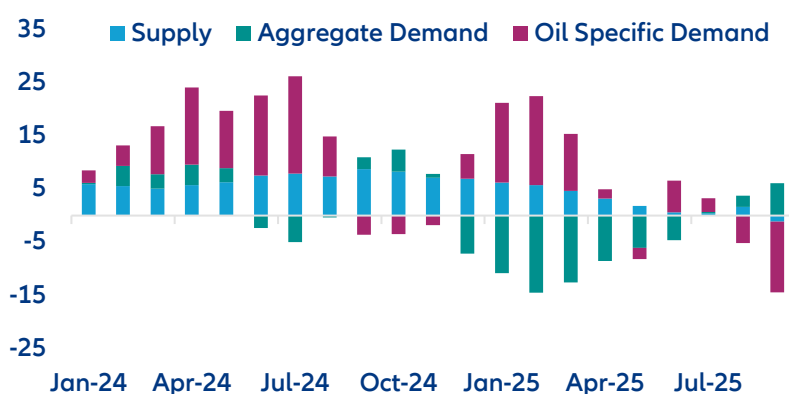
US electricity price surge: Mostly weather and the aging grid (and not so much AI) to blame. American electricity bills are climbing at a fast pace (+4.2% y/y, January-September, nearly 1.5pp above overall inflation). But the AI boom and energy-hungry data centers are not to blame. In Virginia, the largest data center hub, a +14% demand surge coincided with only a 1 cent/kWh increase in electricity prices. The real culprits are frequent extreme weather events, which are forcing utilities to spend billions on repairs to restore services, and the enormous ongoing capital investment cycle to renew America’s aging electric grid. In 2025, capital spending should reach USD209bn, nearly double what it was a decade ago. While these investments improve reliability and enable growth, they unavoidably push rates higher in the near term. Based on implemented or proposed price hikes by over 60 utility companies (covering over 83mn customers), we estimate that the average US household should or is already facing an average increase of close to USD12 per month in their electricity bills, which could increase US CPI by +20bps by end-2026.

Is private equity finding its footing again? Global deal-making accelerated in 2025, with Q3 marking the busiest period since 2021 and large transactions dominating once again. Confidence is cautiously returning across the US and Europe as valuations have stabilized and portfolio performance remains solid. We expect returns to remain at around 10% for PE buyouts through 2026 and 2027, supported by steady economic growth, low borrowing costs and healthier public equity valuations, which keep IPOs and exits within reach. But liquidity remains the primary constraint. Distributions to investors are lagging, and fundraising has slowed for a third consecutive year. The stock of uninvested capital, which has long served as a safety cushion, is now beginning to shrink. To bridge this gap, managers are turning to continuation vehicles and NAV-based financing, innovations that keep capital flowing even as traditional exits remain scarce. The result is a more deliberate and disciplined cycle. All in all, private equity is moving forward again, but with greater patience, balance and focus on long-term value creation.

Commodity prices point to manufacturing slowdown

Oil prices remain under heavy pressure from oversupply while demand also continues to weigh negatively. Oil prices have trended lower throughout 2025, pressured by trade tensions and a glut of crude, despite occasional geopolitical price spikes. Brent crude fell about 14% in the first nine months of 2025 amid ample supply and sluggish demand. By late October, Brent briefly slid close to USD 60/bbl on mounting oversupply fears. Oil prices have trended lower throughout 2025 (-14% in the first nine months of 2025; close to USD60/bbl in late October) pressured by trade tensions and a glut of crude, despite occasional geopolitical price spikes. In early April, prices sank to their lowest since 2021 after US-China tariff escalations stoked fears of a sharp global downturn. Yet, OPEC+ producers aggressively unwound past cuts, raising output targets by roughly 3mn barrels per day (about +2.5% of global supply) since April. This flood of crude has far outpaced demand growth – which stands below 1 mb/d – leaving the market awash in surplus. By October, Brent’s slide forced OPEC+ to “blink”: The cartel paused planned output hikes for early 2026 to avoid a price collapse. That policy shift, alongside fresh US sanctions on Russian crude exports, helped oil rebound modestly to about USD65/bbl by early November. Nonetheless, with output still high and consumption limp, the market balance remains fragile. We find that over the recent period, supply- and oil-specific demand factors have contributed to decrease oil prices by about USD8-9/bbl over the last 12 months (Figure 1). Looking ahead, Brent crude should average USD69/bbl in 2025¹ (down from USD81/bbl in 2024).

Figure 1: Oil price shock decomposition

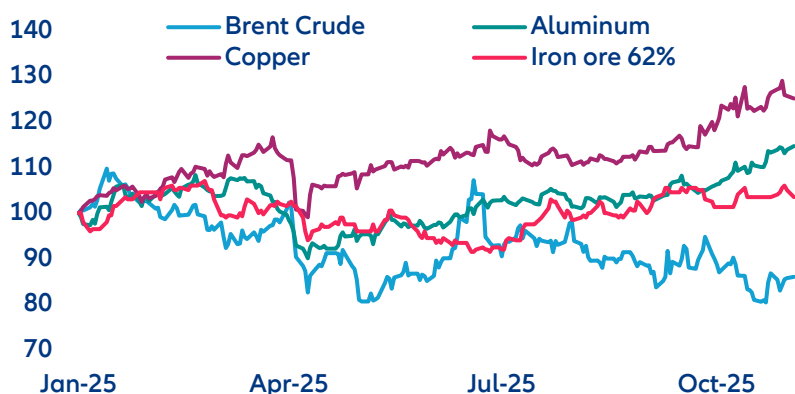


Source: Allianz Research

Some industrial metals have defied the gloom, thanks to supply tightness, not demand strength. Industrial commodity prices have seesawed since April 2025 as investors weigh weakening demand against supply disruptions (see Figure 2). Base metal prices initially plunged in Q2 2025 under the same recession fears that hit oil. Copper dipped to a 17-month low in April as traders braced for a global manufacturing slump. But by mid-year, the narrative shifted. A series of mine disruptions flipped the copper market from expected surplus to deficit, igniting a sharp rally. Copper has surged roughly 25% ytd, climbing back above USD10,000/ton – its strongest level in over 16 months. This upswing can mostly be attributed to accidents at major mines in Indonesia, Congo and Chile that removed significant output, tightening supply sooner than anticipated. Aluminum prices have also been trending upward recently, also as a consequence of high copper prices, since aluminum can be used as a cheaper substitute for copper, though it is less conductive. For example, an increasing number of firms in the automotive industry have been substituting copper with aluminum (up to 10% of volume). Meanwhile, iron ore prices have been relatively stable over the course of the year; after a dip in Q2 2025, prices recovered and now hover around January levels as a result of sluggish demand from end-use industries such as automotive and construction.

¹ We follow Kilian et al. (2011) and estimate a SVAR model to decompose the contributions of different shocks to oil prices. This model is designed to analyze the impact of three key shocks on the real price of crude oil: oil supply shocks (disruption in crude oil production), aggregate demand shocks (global economic activity influencing the demand for commodities) and oil specific demand shocks (shifts in precautionary demand due to uncertainty about future oil demand).

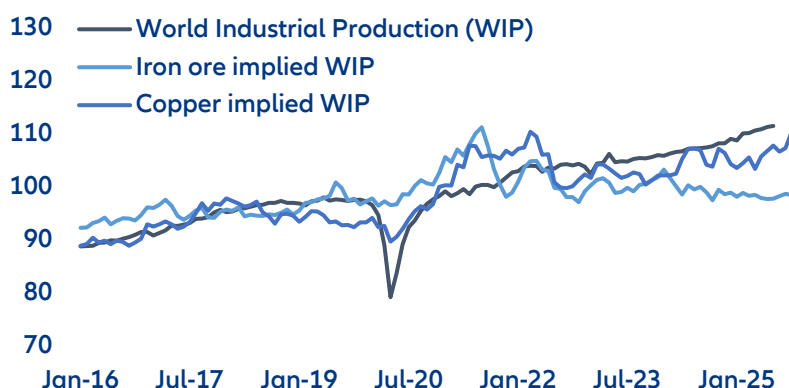
Figure 2: S&P GSCI Commodity price indices (Jan.25 = 100)



Sources: LSGE Datastream, Allianz Research

Current metal prices suggest global industrial production to slow to +2% y/y down from +3% in 2024. Overall, our metal-price implied level of global industrial production suggests that industrial production “should” be 2% to 10% lower than current levels, according to copper prices and iron ore prices, respectively. Historically, industrial metal prices have been a good indicator to assess global industrial production (see Figure 3). Nevertheless, iron ore prices and industrial production seem to be in a growing disconnect since 2021. According to iron ore prices, either they have to catch up, or manufacturing activity should come down. Overall, we expect base metal prices will notch a modest +3% rise in 2025 while we estimate that global industrial production should slow down to +2% y/y (down from +3% in 2024).

Figure 3: Global industrial production and metal-price implied productions

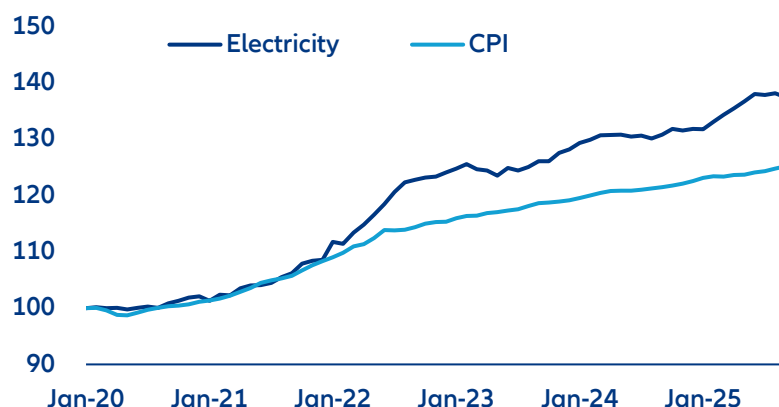


Sources: IMF, Allianz Research

US electricity price surge: Mostly weather and the aging grid (and not so much AI) to blame

American electricity bills are climbing at their fastest pace in decades. Following Europe’s energy crisis, electricity has become significantly more expensive in the US. On average, US residential electricity prices jumped +27% from 2019–2024, outpacing the 19-20% rise for commercial and industrial rates. But since the start of 2025, both households and businesses have been forced to absorb even higher costs (Figure 4). Customer electricity prices rose about +4.2% y/y nationally on average from January 2025 to September – nearly 1.5pp above the overall inflation rate – with residential rates averaging 17.5 cents/kWh in September, up +5.1% from a year prior. Utilities across 49 states have pursued rate increases this year. Regulators have been inundated with utility requests, pushing pending rate cases to their highest level since the 1980s. These increases are broad-based, cutting across all consumer segments.

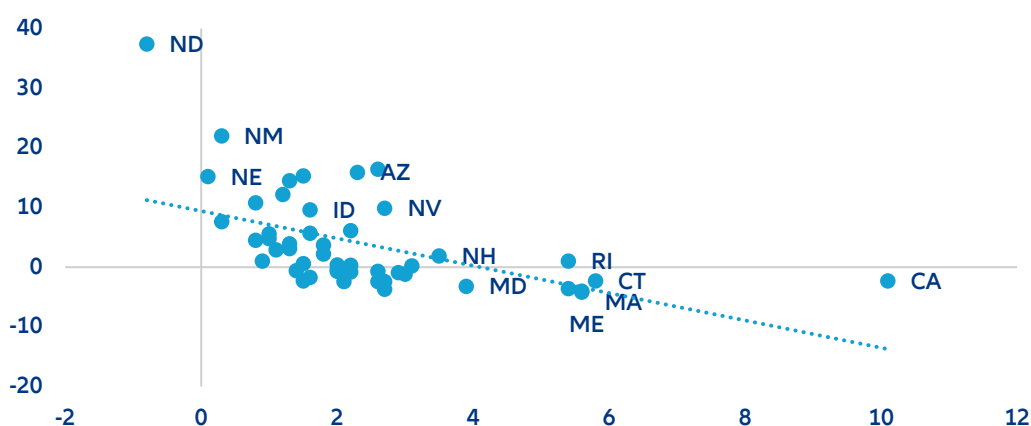
Figure 4: Electricity vs CPI in the US (Jan. 2020=100)



Sources: BLS, Allianz Research

The boom in artificial intelligence and cloud computing has spurred a wave of energy-hungry data centers, but their role in rising electricity prices appears exaggerated. In aggregate, data centers still account for a small fraction of US power consumption, making it hard to blame data centers for much of the increase in consumer rates. A new study² even found that states with faster electricity demand growth – often due to new tech facilities – tended to enjoy lower price inflation, while states with flat or falling demand saw sharper price hikes. For example, North Dakota’s electricity load jumped +40% in recent years (thanks in part to an explosion of data centers and cryptocurrency mining), yet power prices there fell by about 1.3 cent/kWh. In Virginia, the country’s largest data center hub, a +14% demand surge coincided with only a 1 cent/kWh increase in electricity prices. By contrast, California’s demand shrank slightly and its electricity prices rose over 10 cents/kWh – the steepest increase nationwide. The counterintuitive dynamic comes down to fixed costs: a growing customer load allows utilities to spread hefty infrastructure expenses over more kilowatt-hours, easing rate pressure. This isn’t to say big server farms have zero impact – in pockets like New Jersey (part of the data center-heavy PJM grid), bills did jump +22% last year amid surging tech power demand. And as AI data centers scale from 50 MW to monster 1,000 MW facilities, some regions are feeling the strain. Overall, however, the biggest drivers of recent rate hikes lie elsewhere and America’s power inflation isn’t simply an “AI problem”.

Figure 5: Electricity price change (US cents, x-axis) vs change in customer load (%) – 2019-2024



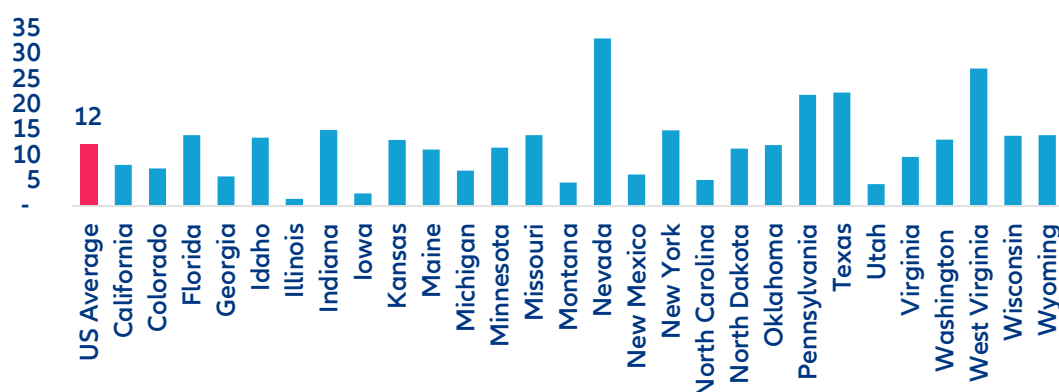
Sources: Lawrence Berkeley National Laboratory, Allianz Research

² Wiser et al. (2025), “Factors influencing recent trends in retail electricity prices in the United States”, *The Electricity Journal* 38(4)

Successive extreme weather events are amplifying utility bills as companies recoup the cost of repairs and grid hardening. Hurricanes, winter storms and wildfires can drive up electricity rates both through immediate recovery surcharges and longer-term infrastructure investments. When disaster strikes – toppling transmission lines or frying substations – utilities spend billions to restore services and then seek to pass those expenses to customers. Last year, for instance, a major hurricane decimated Houston’s power grid, requiring months of costly emergency reconstruction. In California, Pacific Gas & Electric and others are now spending billions to bury power lines and improve wildfire safety after catastrophic fires, and roughly 40% of California’s recent electricity-price increase over five years was attributed directly to wildfire-related costs. In a five-year span, real electricity prices jumped +6.2% in California (the highest of any state), largely due to wildfire liability and grid-hardening expenses. Across the West, droughts and heatwaves drive utilities to invest in resilience, while the Southeast faces frequent hurricane damage. The impact on customers is twofold: first, through special storm-recovery riders on monthly bills and later via higher base rates as utilities reinforce infrastructure. Severe weather events raise rates not just through immediate repairs but via infrastructure hardening, operational expenditures and liability insurance costs in the aftermath.

Behind these rate hikes also looms the massive price tag of modernizing America’s aging electric grid. Utilities are in the midst of an historic capital investment cycle to replace old equipment, expand capacity and integrate cleaner energy – and customers are footing the bill. In 2024, US investor-owned electric companies poured a record USD178bn into their networks, the 13th straight yearly increase in capital spending. In 2025, that figure is projected to reach USD209bn, nearly double the industry’s annual spend of a decade ago. About 80% of this capex goes into transmission lines, distribution systems and other infrastructure upgrades, which then earn a regulated return via customer rates. The build-out is only accelerating: over USD1trn in grid investments is expected over 2025-2029 as companies strengthen wires, add renewable connections and meet new demand. Virtually every state is pressing forward: In Q2 2025, alone US regulators took 758 policy actions in favor of grid upgrades. The dilemma is that while these investments will improve reliability and enable growth (and indeed, they expand utilities’ rate base, bolstering long-term earnings for investors), they unavoidably push rates higher in the near term. Based on implemented or proposed price hikes by over 60 utility companies (covering over 83mn customers) from January to July 2025, we estimate that the average US household should or is already facing an average increase of close to USD12 per month in their electricity bills. This would contribute to a +20bps impact on US CPI by end-2026.

Figure 6: Estimated increase in electricity bill for consumer by state (USD/month)

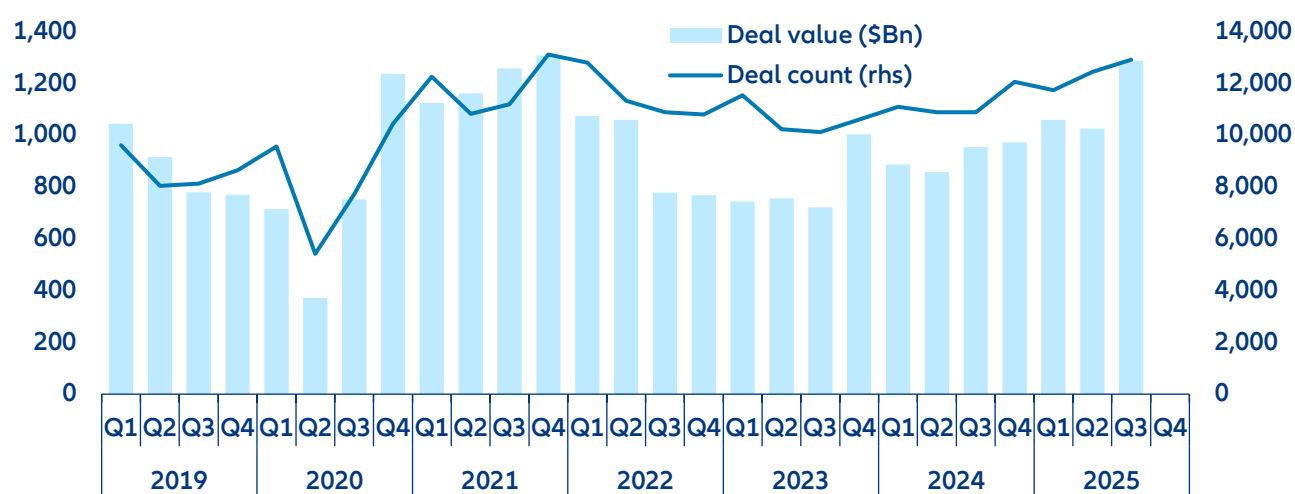


Sources: Center for American Progress, Allianz Research

Is private equity finding its footing again?

Following two challenging years, private equity has started to regain its footing. Deal activity and valuations have stabilized, performance is holding up across most strategies and a sense of cautious optimism is returning to both the US and European markets. However, liquidity remains constrained, fundraising is selective and exits are uneven. The asset class is no longer frozen, but it is far from exuberant. Across regions, dealmaking accelerated into the second half of 2025 as interest-rate cuts and narrower bid-ask spreads helped revive large transactions. In this regard, global M&A activity has demonstrated significant strength in Q3, marking the strongest quarter since late 2021. Megadeals exceeding USD1bn accounted for over half of the total value, underscoring a notable surge in high-value transactions. Once again, private equity sponsors were among the primary drivers, indicating a renewed confidence in take-privates and corporate carve-outs (Figure 7).

Figure 7: Global M&A deal activity by quarter



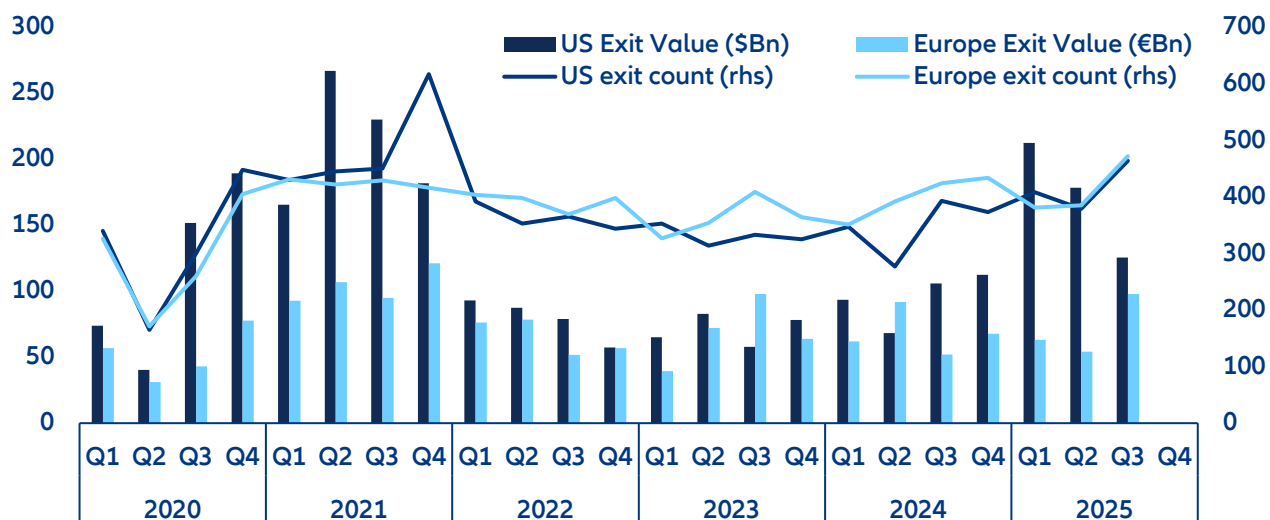
Sources: Pitchbook, Allianz Research

In the US, private equity has shifted from a standstill to steady motion as confidence in the market slowly returns. Dealmakers are gaining momentum in technology, healthcare and business services. The revival of large take-privates, once emblematic of the boom years, shows that financing markets are open again to quality credit. Exit activity is picking up as sponsors trade assets with one another or roll them into continuation funds, maintaining liquidity even though IPOs remain scarce. However, fundraising paints a more selective picture, with investors concentrating capital in established franchises, leaving newer entrants to fight for attention in a crowded field. The result is a polarized landscape where mega funds and highly specialized managers attract most of the inflows, leaving less for the middle ground. Performance has stabilized accordingly, and returns are solid but not spectacular, with buyout and growth strategies delivering consistent mid-single-digit gains. After the turbulent resets of 2022 and 2023, valuations appear healthier, risk-taking is more disciplined and the market is more stable. All in all, America's private equity engine is running again, not at full throttle, but with the measured strength of an industry that has learned restraint and adapted to a new reality.

Europe's private equity market is steadily regaining its rhythm after a prolonged pause. Dealmaking has accelerated across the continent, with a renewed appetite for upper-mid and megadeals, often driven by US sponsors redeploying transatlantic capital. Following a subdued 2024, the pipeline of large transactions is filling up again. This is supported by more predictable financing costs and greater alignment between buyers and sellers. Exits, Europe's former weak spot, are finally showing signs of improvement as secondary buyouts and recapitalizations dominate activity and help restore liquidity across portfolios. However, fundraising remains the slowest piece of the puzzle. Investors continue to favor established buyout franchises in the EUR1-5bn range, while emerging managers, as in the case of the US, continue to face extended closing cycles and tougher due diligence. Yet, beneath this surface caution, the foundations appear stronger. As the ECB and the BoE have cut rates, direct

lenders have returned to the market in force, competing fiercely on structure and pricing. Combined with easing inflation and a modestly firmer economic outlook, these tailwinds are closing the valuation gaps that froze deal flow in 2023. All in all, Europe is not racing ahead, but it is moving with renewed confidence, a quieter, steadier comeback built on slightly lower leverage, better discipline and a genuine reopening of opportunities (Figure 8).

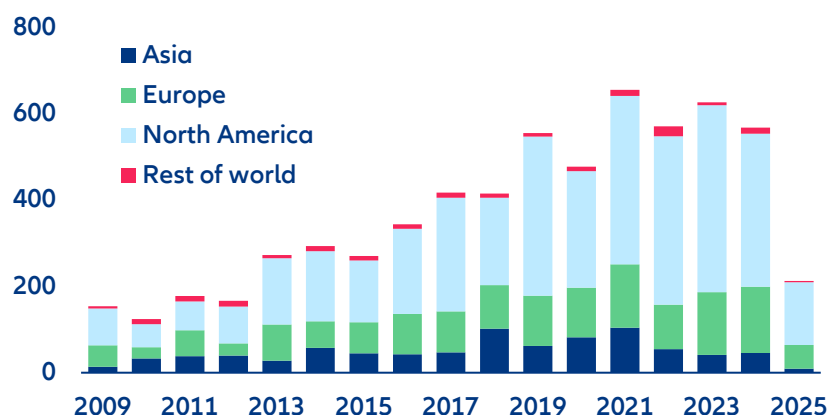
Figure 8: Global PE exit values and counts



Sources: Pitchbook, Allianz Research

Liquidity has emerged as a critical concern for private equity worldwide. Fundraising momentum has slowed for a third consecutive year, with total capital raised running well below 2024 levels and, for the first time since 2010, the industry's stock of "dry powder" beginning to shrink. This is less about fading investor interest and more about a structural mismatch: Since 2018, private equity funds have called capital faster than they have returned it, leaving many investors heavily exposed to illiquid assets and cautious about new commitments. To address this challenge, managers have devised innovative solutions, such as converting assets into continuation vehicles, utilizing NAV-based financing or selling LP stakes in the secondary market. By 2025, these transactions have become frequent, underscoring their critical role in maintaining capital circulation. This evolution is not a temporary workaround; it marks a fundamental shift in how private markets handle liquidity. This shift may prove as transformative for the next decade as the rise of leverage was for the last (Figure 9).

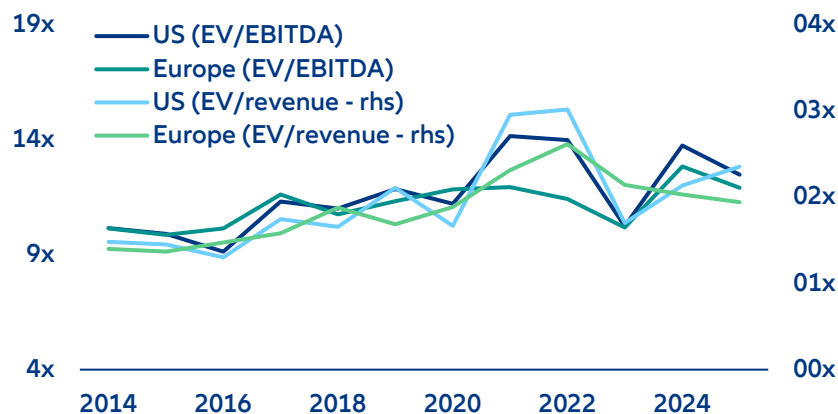
Figure 9: Global PE fund raising in (\$ Bn)



Sources: Pitchbook, Allianz Research

Valuations in private equity have stabilized at a more sustainable level, marking a clear break from the exuberance of the post-pandemic years. Buyout pricing multiples are currently at comfortable levels within their long-term averages, and the performance gap between top and bottom managers has widened, indicating that asset values are being marked more realistically. The industry seems to have shifted its focus towards enhancing operational efficiency, strengthening financial margins and its digital capabilities. In today's business environment, the focus on value creation has shifted from financial engineering to execution. This entails streamlining costs, building pricing power and enhancing efficiency within portfolio companies. This is particularly evident in healthcare, business services and infrastructure-linked sectors, where private equity has re-established itself as a long-term owner driving transformation rather than chasing short-term valuation gains (Figure 10).

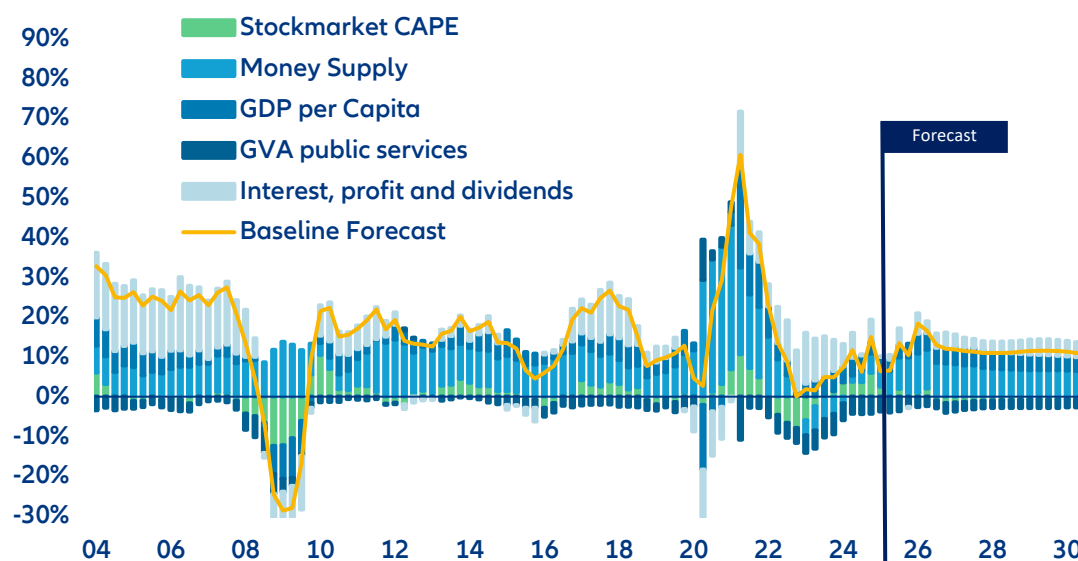
Figure 10: Global PE buyout multiples



Sources: Pitchbook, Allianz Research

Growth is the tide that lifts all boats. While private equity returns are largely driven by fundamental developments as deal flow, valuations and IPOs, its overall activity very much depends on the macroeconomic environment, notably economic output, credit availability, government activity and business sentiment. Even if the private market exhibits less immediate responsiveness compared to its public counterpart, a clear pattern emerges in economic shifts. Private equity returns tend to be highest during economic expansion phases as growth environments create favorable conditions for portfolio companies and exit markets. This is most visible following the global pandemic in 2020, with year-over-year returns that consistently exceeded 50%. Private equity performs best in environments where growth, confidence and liquidity align. When the economy expands and companies earn solid profits, investors become more optimistic, deal activity rises and exits, such as IPOs or strategic sales, are easier to achieve. Supportive monetary policy and low interest rates further strengthen the market by reducing borrowing costs for leveraged buyouts and encouraging investment. In contrast, when government spending grows rapidly or public programs absorb too many resources, private capital can be crowded out, especially in sectors like healthcare or infrastructure. In simple terms, private equity tends to thrive when the private sector is driving growth and financing is accessible, and it slows when the state takes a larger economic role or the cost of capital rises (Figure 11).

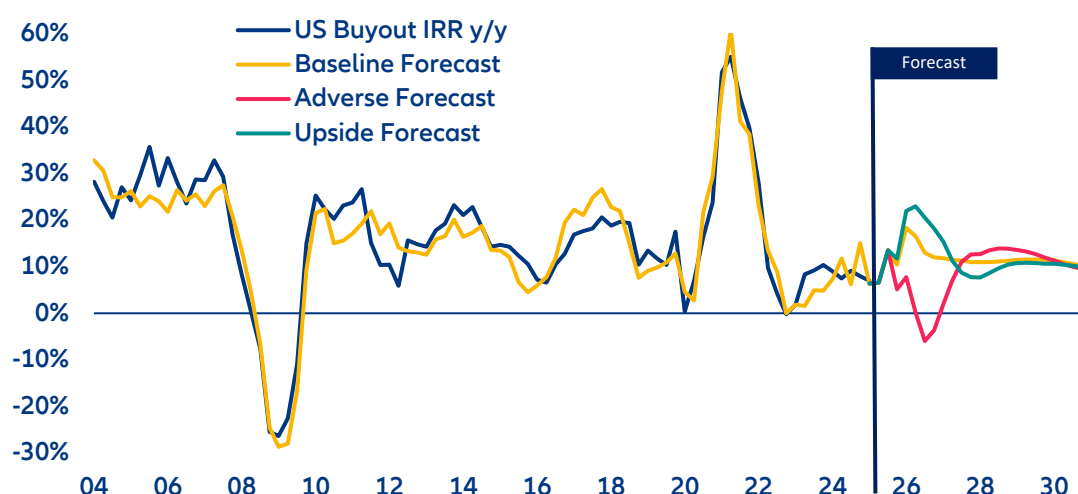
Figure 11: US private equity return decomposition (y/y%)



Sources: Oxford Economics, Allianz Research

Private equity is closely linked to the overall economy, and its future outlook over the next five years will depend on how global growth and policy developments unfold. In our baseline scenario, the asset class is likely to continue to recover through mid-2026, supported by firm GDP growth, still-accommodative monetary conditions and rising equity valuations that sustain IPOs and investor confidence. Returns are likely to stabilize at approximately 10%. In a favorable scenario, trade tensions may ease and market sentiment may improve, potentially boosting growth and valuations further, with returns potentially exceeding 20% before gradually stabilizing as liquidity tightens. Conversely, a renewed trade shock, marked by higher tariffs and disrupted supply chains, could trigger a temporary downturn, with returns dipping to about -6% in mid-2026 before rebounding as policy support resumes (Figure 12).

Figure 12: US private equity return by scenarios (y/y%)



Sources: Cambridge Associates, Oxford Economics, Allianz Research

Private equity remains a cornerstone of long-term investment portfolios, valued for its ability to drive operational efficiency, harness private-market innovation and provide stability through market cycles. The asset

class continues to generate significant returns, particularly in technology, energy transition and digital infrastructure, where private ownership can facilitate transformation. However, the near-term landscape is defined more by discipline than exuberance. Deal activity and portfolio performance are showing signs of improvement, supported by lower rates and resilient earnings. Yet, liquidity remains tight and distributions to investors are likely to recover only gradually. Institutional capital is flowing selectively, favoring experienced managers with strong realization records and balance-sheet prudence. In both the US and Europe, private equity is advancing with a renewed sense of maturity. It is moving away from the fast-money dynamics of the last cycle toward a model rooted in fundamentals, long-term value creation and operational depth. In today's market, sustainable performance is less about speed and more about discipline, which may prove to be private equity's greatest strength.

These assessments are, as always, subject to the disclaimer provided below.

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