Global listed infrastructure sector review and outlook

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- Global listed infrastructure offered some stability during a volatile start to the year
- The energy midstream sector was supported by strength in energy markets; airports gained on hopes of easing travel restrictions
- Longer-duration infrastructure stocks, notably towers, were affected by rising interest rate expectations

We believe European, Asia Pacific and Latin American operators of toll roads represent exceptional value at current levels, with traffic volumes proving significantly more resilient than those of other transport infrastructure assets. While new coronavirus variants have clouded the near-term outlook, we remain confident that toll roads will lead a return to normal demand levels as economic activity levels continue to pick up.

We also like large-cap North American freight rail operators, which are unique and valuable franchises. Their wholly owned track networks are high-quality infrastructure assets that can never be replicated. They typically operate under duopoly market conditions, with significant numbers of captive customers such as grain, chemical and auto producers giving them strong pricing power over long haul routes. Improving operating efficiency provides further scope to grow earnings.

In the airports sector, the emergence of the Omicron variant underscored how vulnerable many airlines remain to coronavirus-related disruption. However, we like higher quality European operators, such as Spain's AENA, whose passenger mix is tilted towards leisure and VFR (visiting friends and relatives) travellers. These categories could see numbers rebound sharply as travel restrictions are lifted.

We remain conscious of the structural headwinds companies in the energy midstream sector could face as net zero initiatives gather pace.

Market review

The global listed infrastructure asset class held up relatively well as the prospect of interest rate rises and looming geopolitical tension sparked market turbulence. The FTSE Global Core Infrastructure 50/50 index* returned -2.7%, while the MSCI World index* ended the month -5.1% lower. *AUD Hedged Net TR

The best performing infrastructure sector was Energy Midstream (+10%), as the recovering global economy continued to support sentiment towards these companies. Higher energy prices, owing to mounting concerns that Russia was planning to invade Ukraine, provided an additional tailwind. Airports (+2%) gained on the view that Omicron travel restrictions in Europe would soon be lifted.

The worst performing infrastructure sector was Towers / Data Centres (-13%) as investors digested news that interest rates may rise more quickly than had previously been anticipated. During the month the US Federal Reserve signalled that it was planning to raise US interest rates “soon” in a bid to combat high inflation. The Water / Waste (-8%) sector also lagged, led lower by bond yield-sensitive US water utilities.

The best performing infrastructure region was Canada (+5%), reflecting strong gains for its Energy Midstream stocks. The worst performing infrastructure region was Australia / NZ (-7%). Interest rate concerns and spiking Omicron case numbers in Australia, where coronavirus cases had previously been low, weighed on sentiment towards its transport infrastructure stocks.

*AUD Hedged Net TR

All stock and sector performance data expressed in local currency terms and sourced from Bloomberg. Data as at 31 January 2022.

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The firm operates as a standalone global investment management business with offices across Europe, the Americas, and Asia Pacific. First Sentier Investors' expertise spans a range of asset classes and specialist investment sectors focused on delivering sustainable investment success based on responsible investment principles.

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