

## Global listed infrastructure outlook and sector review - June 2022

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- Listed infrastructure gave up ground but still offered some protection from the sharp market falls in June
- Energy midstream underperformed following strong YTD gains; rising interest rates affected Towers and Utilities
- Toll roads and passenger rail proved resilient

### Outlook

Against a challenging economic backdrop, listed infrastructure remains supported by a number of structural growth drivers. We remain optimistic about the substantial investment opportunities associated with the decarbonisation of the world's energy needs. Utilities, which represent about a half of the listed infrastructure opportunity set, are positioned to derive steady, regulated earnings growth by building solar and wind farms, and by upgrading and expanding the networks needed to connect these new power sources to the end user. Entergy, NextEra Energy and PPL Corp were amongst the US utilities that increased their earnings guidance in June as a result of additional investment in these areas – a welcome contrast to the turmoil seen elsewhere in financial markets.

In the medium term, the roll-out of electric vehicles is then expected to provide an additional boost to utilities – first from investment opportunities associated with linking EV charging stations to the grid; and then from higher overall demand for electricity.

Digitalisation is another key theme for the asset class. Structural growth in demand for mobile data (underpinned by an ever-growing reliance on digital connectivity) continues to support steady earnings growth for Towers and Data Centres, insulating them from the ebbs and flows of the broader global economy. The changes required during the pandemic have already led to a greater reliance on wireless data in many people's everyday lives. The adoption of 5G technology over the medium term will require networks to handle increased data speed, and a much higher number of connected devices. Statistics from the 2022 Eriksson Mobility Report highlighted the continuation of this theme. Key points including global mobile network data traffic growing by 40% during the March quarter of 2022, compared to the same period a year earlier; and the forecast that mobile network traffic will increase at a compound annual growth rate of 29% through to 2027. This bodes well for continued capital expenditure into mobile networks, to the benefit of Towers.

The asset class also continues to receive valuation support from the unlisted market. The expected takeover offer for Atlas Arteria would make it the latest Australian listed infrastructure company to be acquired by private buyers, following the acquisitions of Spark Infrastructure, Ausnet Services and Sydney Airport during the past 12 months. These offers illustrate the appeal that these long life and often unique assets present to sovereign wealth funds, private equity, unlisted infrastructure managers and trade buyers alike.

### Market review

The global listed infrastructure asset class ended the month lower as central bank tightening measures, elevated inflation levels and concerns for lower economic growth rates continued to weigh on financial markets. The FTSE Global Core Infrastructure 50/50 index\* fell by –5.1% while the MSCI World index\* ended the month –8.1% lower.

The best performing infrastructure sector was Toll Roads (+1%), which were supported by the appeal of inflation-linked tolls and the prospect of takeover activity. The worst performing infrastructure sector

was Energy Midstream (-10%), on the view that a slowing economic growth rate would reduce demand for hydrocarbons.

The best performing infrastructure region was Japan (+7%), traditionally viewed as a defensive haven during volatile markets. Its utilities performed strongly on the view that the record-breaking heatwave currently enveloping the country would lead to higher air conditioner usage and increased electricity demand. The worst performing infrastructure region was Latin America (-7%), as investor interest in higher beta areas of the market waned.

\*AUD Hedged Net TR

All stock and sector performance data expressed in local currency terms and sourced from Bloomberg. Data as at 30 June 2022.

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