Developed Markets Infrastructure Income Model

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Key Takeaways

- Equity markets took a defensive turn in February amid uncertainty over President Trump's economic and trade policies; although infrastructure's defensive nature helped it outperform global equities for the month.
- Utilities across several regions led performance in the ClearBridge infrastructure universe. By contrast, sectors more sensitive to GDP growth were weaker.
- The Strategy remains tilted somewhat defensively, toward utilities, though not purely for reasons of defense, as peak bond yields have left utilities undervalued and with very strong growth profiles, particularly in the U.S., driven by AI data centre power demand, industry decarbonisation and resiliency spending.

Market Overview

Equity markets took a defensive turn in February amid uncertainty over President Trump's economic and trade policies. The unveiling of DeepSeek, a Chinese generative AI model with reportedly lower development costs and less need for computing power of comparable AI tools, sowed some seeds of doubt in the AI trade, further contributing to a market rotation and a welcome broadening of market leadership.

Infrastructure's defensive nature helped it outperform global equities for the month. Utilities across several regions led performance in the ClearBridge infrastructure universe. These companies were favoured for their lower economic sensitivity as the threat of border taxes hurt investor confidence.

By contrast, most sectors more sensitive to GDP growth were weaker. An increasing likelihood of reciprocal tariffs has weighed broadly on economic growth outlooks, and infrastructure sectors like rails and energy infrastructure were lower as a result. Trade concerns notwithstanding, North American rails are seeing early signs of a volume turnaround. A rotation out of the AI trade also weighed on natural gas pipelines, which have performed well on the AI power demand narrative. Renewables continued to be weaker as clean energy policies are expected to be more challenged under the Trump administration. Toll roads and communication towers, by contrast, had positive months overall.

Overall, this was a strong month for infrastructure in which its defensive strengths were on display in a volatile and uncertain market. We expect a continued broadening of market leadership to add further support for our infrastructure portfolios in the coming months.

Portfolio Highlights

Our global listed infrastructure strategies outperformed global equities and relevant infrastructure benchmarks for the month.

On a regional basis, the U.S. and Canada (+1.50%) was the top contributors for the month, with U.S. electric utilities Entergy (+0.46%) and OGE Energy (+0.31%) the lead performers. Entergy is a pure regulated electric utility, providing services to approximately three million people in Arkansas, Louisiana, Texas and Mississippi. During the month, Entergy raised CAGR guidance on additional load growth which was viewed favourably.

Oklahoma Gas and Electric (**OGE**) operates the largest utility business in Oklahoma, U.S. OGE's share price strength was due to the potential upside to CAGR from the Stillwater Project.

Canadian infrastructure company Gibson Energy (-0.20%) and U.S. electric utility Constellation Energy (-0.44%) were the largest detractors.

Gibson Energy (**Gibson**) is an oil midstream logistics provider in Western Canada and the U.S. Gibson's share price weakness was attributable to the departure of its highly regarded CFO, and uncertainty regarding the company's medium term growth strategy under the new CEO, with some concerns around the need for M&A to establish a new growth platform given the maturity of the capex cycle for oil storage build out in Western Canada.

Constellation is primarily a nuclear generation company and is the largest producer of carbon-free electricity in the U.S., serving states including New York, Illinois, Maryland, Pennsylvania and New Jersey. The company's combined generation capacity is more than 32 GW and 90% of annual output is carbon free. Constellation's share price was impacted by market concerns around the company's AI spend, with the DeepSeek release. While a short-term cooling off of share price was not unexpected given the strong share price performance over the last 12 to 18 months, we view the long-term fundamental prospects for nuclear and gas-fired generation as favourable and supporting higher valuations.

During the month, we initiated a position in U.K. electric utility SSE. We also used the opportunity to crystallise some gains and exited our positions in U.S. renewables utility NextEra Energy Partners, U.S. communications company American Tower and U.S. electric utility Eversource Energy.

All returns are in local currency.

Positioning and Outlook

We expect robust global growth in 2025, in particular in the U.S., with moderating inflation through the first part of the year. Uncertainty surrounding Trump policies will affect both the economic and market outlook for the year. We have the ability within our portfolios to tilt toward more defensive positioning through our exposures to regulated and contracted utilities, or to take on some more economic sensitivity through exposure to GDP growth and the business cycle, through energy infrastructure, airports, rail and toll roads, for example. Today we are tilted somewhat defensively, toward utilities, though not purely for reasons of defense. We find utilities undervalued at present, as peak bond yields have resulted in multiples coming down in that space, although the utilities themselves have very strong growth profiles, particularly in the U.S., driven by AI data centre power demand, industry decarbonisation and resiliency spending. At the same time, European utilities with transmission businesses are getting additional capital expenditure approved by their regulators and are seeing returns tick up as well.