ClearBridge
A Franklin Templeton Company

Developed Markets Infrastructure Income Model

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Key Takeaways

- Strength in infrastructure was concentrated in the U.S., where GDP-sensitive energy infrastructure benefit from expectations of greater oil and gas production raising volumes for pipelines.
- Resilient economic data, potentially reflationary policy, such as tariffs from the Trump administration, and recent slight upticks in inflation have put some upward pressure on bond yields in recent weeks, causing some weakness in rate-sensitive sectors.
- We believe we are still seeing a catch up of the gap between infrastructure earnings and total returns since 2022 and we believe the defensive characteristics of infrastructure will remain valuable in what we expect to be a more volatile market in the near-term.

Market Overview

Trump's election win in the U.S., along with a Republican sweep of Congress, was widely applauded by the market and seen as rekindling its animal spirits. Specifically, the prospect of lower taxes and less regulation bolstered hopes for continued positive economic momentum, increased M&A activity and greater corporate profits. Positive investor reception to business-friendly nominees to key economic and financial positions in the new administration helped maintain the market rally through the month.

Infrastructure also made positive gains, though more modest than broad equities in a risk-on month. Strength in infrastructure was concentrated in the U.S., where GDP-sensitive energy infrastructure benefit from expectations of greater oil and gas production raising volumes for pipelines. U.S. rail performed well on hopes of stronger economic growth and lower corporate taxes.

At the same time, resilient economic data, potentially reflationary policy, such as tariffs from the Trump administration, and recent slight upticks in inflation have put some upward pressure on bond yields in recent weeks, causing some weakness in rate-sensitive communication towers. Renewables continued to be weak on concerns of a potential roll back in U.S. Inflation Reduction Act provisions.

Elsewhere, U.K. water utilities had a strong month driven by expectations that their final regulatory determinations, due by year end, will see the companies delivering on environmental improvements, requiring capital investments that we expect will grow their asset bases and earnings.

Latin America meanwhile was the weakest region, as Brazil's central bank gave its benchmark interest rate another hike in early November.

Portfolio Highlights

Our global listed infrastructure strategies underperformed global equities and most infrastructure benchmarks for the month.

On a regional basis, the U.S. and Canada (+1.32%) was the top contributor for month, with U.S. electric utility OGE Energy (+0.34%) and Canadian gas utility Enbridge (+0.31%) the lead performers. Oklahoma Gas and Electric (**OGE**) operates the largest utility business in Oklahoma. Its share price rose on positive sentiment around data centre investments in Oklahoma, with the company benefitting if the Stillwater project goes through.

Enbridge owns and operates one of the largest oil and gas pipeline networks in North America. The company also owns regulated gas distribution utilities in Ontario, Canada. The gas sector has performed well following the U.S. election, where the newly elected administration is expected to have a constructure policy stance toward oil and gas. Separately, the rapid growth in AI and data centres in the U.S. is driving higher power consumption, and therefore need for gas-fired generation. Enbridge's natural gas pipeline network is well-positioned to support that growth.

U.S. renewables utility NextEra Energy Partners (-0.10%) and Portuguese renewables utility Energias de Portugal (-0.18%) were the largest detractors.

NextEra Energy Partners (**NEP**) is a growth-oriented contracted renewables company formed by its sponsor and general partner NextEra Energy (**NEE**) to own, operate and acquire contracted renewable energy generation assets located in North America.

Energias de Portugal (**EDP**) is an integrated utility based on the Iberian Peninsula, operating electricity distribution, generation and energy supply businesses. It has a growing exposure to global renewables, primarily onshore wind farms, through its 83% owned subsidiary EDPR. EDP also operates electricity distribution and generation businesses in Brazil.

Trump's victory in the U.S. election put into question the outlook of renewables businesses, which impacted NEP and EDP negatively.

During the month, we initiated positions in U.S. energy infrastructure company ONEOK and French toll road operator Vinci. We also exited our positions in Spanish gas utility Enagas and Spanish electric utility Iberdrola.

All returns are in local currency.

Positioning and Outlook

Looking ahead, we expect some volatility related to policy uncertainty, in particular as the year of global elections wraps up and given an uncertain forward path for bond yields.

We believe we are still seeing a catch up of the gap between infrastructure earnings and total returns since 2022 and we believe the defensive characteristics of infrastructure will remain valuable in what we expect to be a more volatile market in the near-term.

Opportunities continue to be widespread across the infrastructure landscape, with utility fundamentals some of the best we have ever seen. The market is still massively underestimating the growth in electricity demand driven by AI and data growth, as well as any pro-growth fiscal policy that would boost manufacturing. Utilities with exposures to these strong themes, and a high likelihood of earnings upside surprises, look well positioned.