Developed Markets Infrastructure Income Model

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Key Takeaways

- Infrastructure made solid gains in January, trailing global equities, which largely shook off the escalating trade and policy uncertainty that has come with the first weeks of U.S. President Trump's second term.
- On a regional basis, Latin America saw a rebound amid hopes that President Lula would exercise more fiscal discipline.
- The Strategy is 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

Infrastructure made solid gains in January, trailing global equities, which largely shook off the escalating trade and policy uncertainty that has come with the first weeks of U.S. President Trump's second term.

On a sector basis, GDP-sensitive North American rails and European toll roads performed well. Among North American rails, volumes remain solid and expectations continue for a recovery in pricing later in the year.

Enthusiasm for data centre buildouts continued to support utilities, in particular in the U.S. However, we saw some concerns emerge during the month relating to the development of a cheaper and more efficient AI model from China – DeepSeek. While we are still assessing the ultimate implications of DeepSeek, we think any moderation in energy demand from AI and data centres due to potentially more efficient AI models will likely be minor and temporary, and we see no change in business prospects for companies serving the world's growing power needs. These continue to be driven by strong trends such as industry decarbonisation, resiliency spending and onshoring. Among utilities in January, we also saw some bifurcation between those U.S. utilities with Eastern and Southern U.S. exposure, which performed well, and California utilities, which traded down on concerns over potential wildfire liabilities. We have no exposure to California utilities in the Strategy so are not impacted by the wildfires.

The main negative performers in the month were renewables, which have come under pressure as Trump's victory has put into question the fundamentals of renewables businesses and potentially higher-for-longer interest rates are pressuring longer-duration stocks.

On a regional basis, Latin America saw a rebound amidst hopes that President Lula would exercise more fiscal discipline.

Portfolio Highlights

Our global listed infrastructure strategies underperformed global equities, though performed in line with relevant infrastructure benchmarks for the month.

On a regional basis, the U.S. and Canada (+1.48%) was the top contributor for the month, with U.S. electric utilities Constellation Energy (+0.94%) and Entergy (+0.43%) the lead performers. Constellation Energy (**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 rose during the month with the highly accretive Calpine acquisition. The Calpine deal gives Constellation access to a gas generation fleet in the fast-growing Texas market, where Constellation does not have a meaningful presence. We see prospects for Constellation to strike data centre deals with these assets, similar to the Microsoft deal on its nuclear assets, which was announced in September 2024.

Entergy is a pure regulated electric utility, providing services to approximately three million people in Arkansas, Louisiana, Texas and Mississippi. Load growth around the Gulf Coast continued to be robust during the month, helping sentiment, while Entergy's generation business is also a potential winner amid data centre buildouts. In late 2024, Entergy announced a deal with META, where META would build data centres in Louisiana, and Entergy would construct new gas-fired plants to power META's facilities. For Entergy, this translated to an upgrade to the investment and earnings outlook for the company.

U.S. energy infrastructure company ONEOK (-0.13%) and U.S. renewables utility NextEra Energy Partners (-0.55%) were the largest detractors.

ONEOK is one of the largest diversified energy infrastructure companies in the U.S., owning and operating an extensive network of natural gas liquids (**NGL**), natural gas, refined products and crude oil assets. Weaker volumes in the Bakken region following cold weather conditions contributed to ONEOK's underperformance in January. Performance was also impacted by expectations of rising global supply, which softened the oil price outlook.

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. NEP's share price fell due to a capital restructure that was viewed as disappointing by the market.

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, however. 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. We believe there is some upside there, as well as in U.K. water, where a final decision on investments in the next five years from the regulator should be supportive.