ClearBridge
A Franklin Templeton Company

"Real Income" That Can Endure, and Grow, Through Australian Inflation

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Key Takeaways

- In a persistently inflationary environment, resilient and growing income is critical to long-term total returns.
- Listed Real Assets offer attractive income characteristics, supported by inflation linked pricing power, essential-use demand and cash flows that can grow over time.
- Diversifying across Real Asset sectors, geographies and business models can help reduce income volatility and mitigate "income shocks."
- Structural tailwinds such as population growth, electrification and data demand, support the outlook for sustainable, inflation-aware income growth.

Income That Endures

Inflation remains a defining feature of the current investment environment. Australia's latest CPI data showed that headline inflation rose 4.6% in the 12-months to March 2026, with the CPI rising 1.1% in March alone[1].

For income focussed investors such as retirees, we believe that income should always be the major driver of total returns over a cycle. In an environment of persistent inflation and the elevated rate uncertainty, dividend sustainability and dividend growth matters as much as ever in that equation.

The key challenge for these income-focussed investors is not just finding high yield; it is finding income that can remain resilient across the cycle and grow over time to preserve real purchasing power without taking uncompensated risk. To us, this means investing in companies with fundamental income strength, not just a high spot yield but companies where revenue and income can grow faster when inflation increases, balance sheets and hedging that can mitigate higher funding costs, and business models with less cyclical demand.

Listed Real Assets, such as property, infrastructure and utilities, score well on these points due to their strong pricing power, essential-use demand, and contractual or regulated cash flows that can reprice through the cycle. Many operate under inflation linked regulated frameworks, have CPI-linked contracts, or user-pays models that allow cash flows to reprice over time, and offer essential services.

Diversification That Delivers

Diversifying the sources of income (across sub-sectors, geographies and business models) can reduce the risk of "income shocks" when a single theme or asset-type faces pressure.

[1]Australian Bureau of Statistics (ABS), "Consumer Price Index, Australia," Price Indexes and Inflation statistics release, accessed May 8, 2026, www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

Listed Real Assets are not a single sector. Alongside the more traditional property, infrastructure and utilities names, they also include businesses that own long-life, essential-use assets such as transport corridors, logistics real estate, high-quality retail precincts, regulated networks and increasingly, digital infrastructure and increased electrification.

The common thread is that many of these Real Assets have mechanisms that can support inflation-linked or inflation-aware cash flows over time, helping to diversify portfolio income and potentially support income growth through inflation. A number of Real Assets (particularly tollroads and some retail landlords) actually have inflation plus or "higher of" mechanisms which can see cashflow growth permanently improve from even temporary spikes in inflation.

Another important consideration is that population growth and urbanisation increase baseline demand for all types of essential services, providing higher utilisation, stronger tenant demand, and greater ability to capture price growth over time. Population growth, alongside energy demand and data growth, are secular megatrends that underpin our diversified Real Asset portfolio holdings.

Opportunities in Focus

We see many sectors and stocks within our Australian listed Real Asset universe (and selective global developed markets) as well-positioned to help support recurring cash flows through a range of economic outcomes. Some examples are listed below:

- **Mobility and freight: the arteries of the economy:**

  User-pays infrastructure and freight networks can offer resilient, long-life exposure where cash flows can reprice through volume, tariffs and contract structures linked to inflation, with stocks such as **Transurban Group**, **Aurizon Holdings** and **Atlas Arteria** well positioned to benefit.

- **Essential precincts and selected property exposures:**

  High-quality retail precincts and daily-needs real estate can benefit from population growth and entrenched consumer needs. In many cases, leases include structured rent reviews (fixed, CPI-linked and/or market reviews), and when replacement costs rise, leasing spreads can improve as landlords seek to recover higher construction and fit-out costs through higher rents. Examples include **Scentre Group, Vicinity Centres** and **HomeCo Daily Needs REIT**.

- **Digital infrastructure:**

  The data economy needs physical assets. Data centres, fibre and critical communications infrastructure provide the physical backbone exposure of the digital economy and support its rapid growth. As such, data growth is a real-asset story.

  With strong demand and high build-cost inflation, rent levels and leasing spreads can improve in parts of the market, particularly where new supply is constrained by power availability, land, and development lead times. **Digital Realty** (United States) and **Chorus** (New Zealand, dual listed on the ASX) offer strong leverage to this.

- **Energy infrastructure and utilities:**

  Energy demand is evolving, not disappearing. Electrification, network investment, reliability requirements and the transition build-out are transforming what was once a low-growth sector into a more dynamic, inflation-leveraged growth opportunity.

  Essential-use energy networks and integrated utilities can provide defensive cash flows, particularly where balance sheets and regulatory/contract settings are supportive. In the right circumstances, inflation can support revenue resets (through regulated asset bases or contracted escalators) and help underpin dividend growth. Examples include **APA Group, AGL Energy** and **Contact Energy, Meridian Energy, Genesis Energy** (New Zealand, both dual listed on the ASX).

Conclusion

Inflation persistence and policy uncertainty can reward portfolios that combine diversification with rents or pricing structures that grow faster with elevated inflation. Listed Real Assets can provide differentiated cash-flow drivers, and, when selected and constructed thoughtfully, an attractive foundation for income that can grow through inflation over time.

The ClearBridge Australian Real Income Strategy is designed around these principles, aiming to reduce income concentration and mitigate income shocks while growing the dollar value of income over time.

About the Author

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- 31 years of investment industry experience
- Joined firm in 2011
- Bachelor of Commerce from the University of Melbourne
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