



Navigating Disruption via Infrastructure and Value

Key Takeaways

- The rise of AI is creating major demand for power, water, data center infrastructure, industrial equipment and commodities, opening up multiyear opportunities across infrastructure and value-oriented sectors.
- Regulated utilities, energy infrastructure and other essential assets have held up well amid geopolitical tension because of their stable cash flows, inflation pass-through and long-term contractual or regulated earnings base.
- Rather than chasing obvious winners, active investors can find attractive opportunities in companies with forward-looking management, self-disruption capability and exposure to underappreciated parts of global supply chains and secular themes.

A Q&A on Resilience, AI and the Energy Transition

Disruption is shaping the market environment today, most acutely driven by artificial intelligence (AI), the energy transition and geopolitical tensions. For investors, the challenge is how to navigate such a fast-changing backdrop. Do you invest directly in the disruptors, or are there ways to position portfolios for resilience and alpha through this environment? ClearBridge Client Portfolio Manager Yan Teh recently sat down with Portfolio Manager Shane Hurst from the Global Infrastructure team and Portfolio Manager Grace Su from the Global Value team to find out.

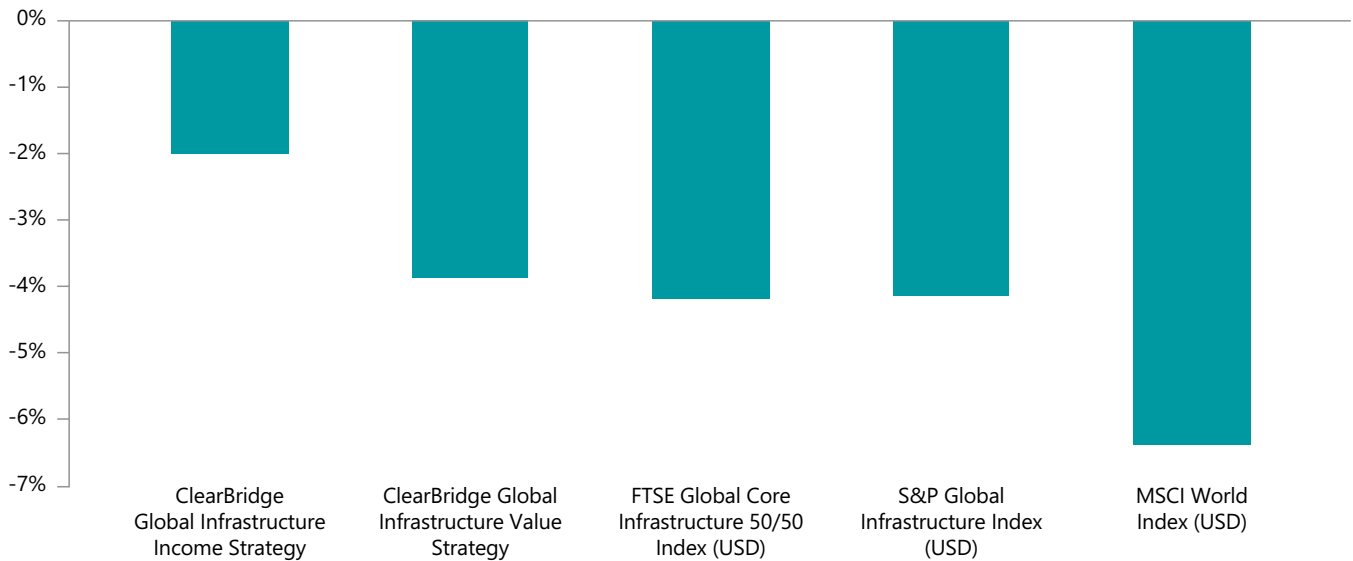
Yan Teh: How has infrastructure performed amid the volatility and the Middle East conflict, and which infrastructure sectors are most exposed and most resilient? What underpins infrastructure’s stability?

Shane Hurst: Infrastructure displayed its characteristic resilience in March following the onset of the war in Iran, with major indexes outperforming global equities. Our infrastructure portfolios also exhibited resilience relative to global equities on a gross basis (Exhibit 1). Most of our exposure lies in our airports, which tend to be anywhere from 6.5% to 10% of the portfolios. Airports have seen some disruption: probably less travel due to the uncertainty as well as some Middle Eastern airlines flying less to airports, especially in Europe. Outside of airports, 62% to 65% of the portfolios are regulated utilities, whether they be electric, water or gas, and these tend to pass through a lot of the noise, including inflation. Energy infrastructure and gas companies that invest in large oil and gas pipelines in North America have performed well.

Tailwinds for these companies have been further accentuated by higher commodity prices and the risk around energy security; this likely means greater amounts of drilling in North America and more investment in the infrastructure that transports that commodity.

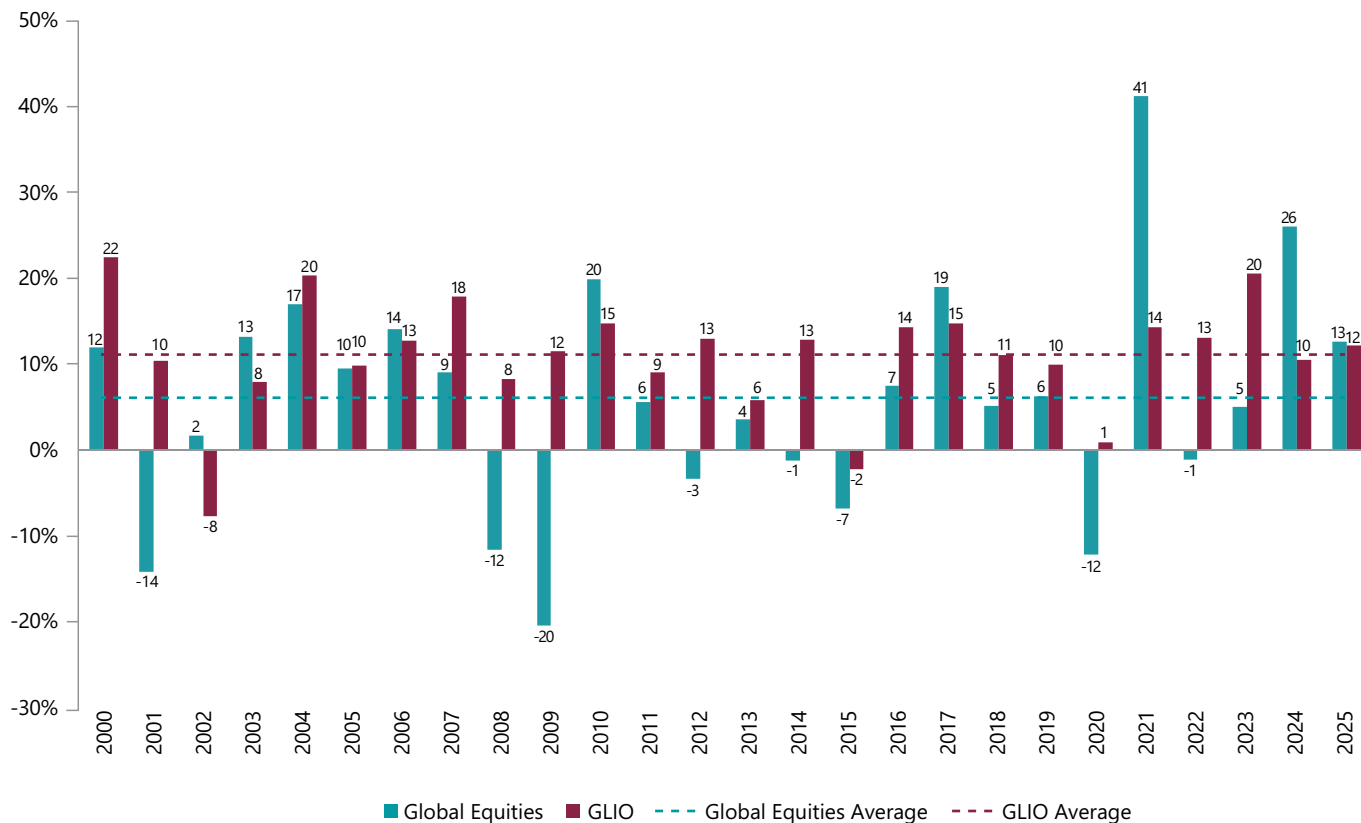
The listed infrastructure companies in our universe own essential service, monopoly, long-term, concession-based assets. Over 90% of our portfolio can directly or indirectly pass through inflation. Global equities tend to be far more volatile in terms of earnings. Over the last 25 years, year-over-year earnings growth in global equities has been negative eight times. For global listed infrastructure, that’s only happened twice over that time period (Exhibit 2). This is because of the stability of cash flows that are underwritten by contracts and regulation. This forms a very stable base for earnings and dividends.

Exhibit 1: Infrastructure’s Relative Resilience in March 2026



As of March 31, 2026. Source: ClearBridge Investments, FactSet. Strategy returns are gross of fees in local currency.

Exhibit 2: Infrastructure Earnings Have Seen Stability



As of Dec. 31, 2025. Source: Global Listed Infrastructure Organization (GLIO). Shows GLIO VettaFi Global Listed Infrastructure Index and MSCI World Index.

Yan Teh: In a market shaped by AI, the HALO (hard-asset, low-obsolescence) trade and geopolitical tensions, what gives you confidence that value improvers, global value stocks with improving sustainability characteristics, can still deliver resilient returns?

Grace Su: AI, the HALO trade and geopolitical uncertainty all play toward value investing and put the market directionally in our favor. We often use the analogy that value sectors are more correlated with the analog world or physical world: physical assets, commodities, industrial equipment and the things used to build physical assets. That contrasts with growth investing, which is often more correlated with the digital economy.

I think we're at a crossroads right now with AI in particular, because AI is such a step-function change in demand for things like power, water and physical infrastructure. These are areas that were not in focus and were underinvested in over the past two decades, so capital is now flowing back in our direction, particularly in data center picks and shovels companies, hard assets, commodities, industrials and equipment names. We think this has multiyear tailwinds because the physical world scales linearly; it does not scale exponentially. When you're building a factory or semiconductor fab, that takes bricks and shovels, time and energy. That under-capacity is going to be with us for quite some time, and it bodes very well for value stocks. On the geopolitical side, if we're in a world where we need more redundant capacity for security, that is also very good for investment in the physical world and the value-based sectors where we spend our time.

Yan Teh: What differentiates a company that can adapt to AI from one that becomes a value trap?

Grace Su: When assessing companies exposed to AI-driven change, we look for a forward-looking management team that is always looking over its shoulder for the next thing that could possibly harm the business. We also like management teams that are willing to disrupt themselves. That is very difficult to do because most of these companies have large profit pools to defend, so it can be hard to rip the Band-Aid off and compete when there is technological change or some aggressive shift in the business that they need to adapt to.

At the portfolio construction level, we invest in some areas that are more controversial, and the consumer sector is a good example today. A lot of consumer sub-segments were cheap and have gotten cheaper as the market focuses on inflation, job-loss risk and wealth disparity; homebuilders are one area we think is attractive, with U.K. homebuilders trading at 60% to 70% of book value and U.S. homebuilders. We are also looking at related suppliers and areas that supply into electric vehicles, where negativity has built up in sectors we think still have long-term growth prospects. Beyond looking for forward-thinking management teams, we also want to make sure we are diversified in our portfolio management approach. We invest in different types of improvement. Some are more deep value, where the market is reassessing the future of the business. Others are more opportunistic, where a company has missed a product cycle, faced regulatory change or experienced pressure on its business model, but the issue is not necessarily permanent. In those cases, the company can adjust and adapt more quickly, and the timescale of improvement is shorter than a deep value opportunity. Balancing different types of improvement helps diversify the risk to any particular theme.

Yan Teh: How is rising power demand from AI changing the opportunity set within listed infrastructure?

Shane Hurst: AI-related power demand is further enhancing what were already particularly strong tailwinds in the sector. One of the earliest tailwinds, post-COVID, was the onset of decarbonization via government initiatives. Certainly, that has led to electrification and the rolling out of renewables: this is a multi-trillion-dollar, multi-decade thematic capex super cycle. In 2010, asset bases generally grew up to 2% per annum in the space. Now, they're growing at over 10% per annum and should at least for the next five years. That's being driven by capital investment in aging infrastructure, improved resiliency — protecting against physical asset risks from storms and fires — and the realignment of supply chains.

AI and data growth more broadly certainly create an insatiable appetite for power. We're seeing power consumption at data centers grow 20% to 25% annually out to 2030. There is also investment in the infrastructure that surrounds data centers; we get exposure to this through both regulated utilities and oil and gas pipelines, as well as water infrastructure.

Importantly, the convergence of two global disruptions — AI and elevated geopolitical conflict — is altering funding dynamics for AI and electrification to the benefit of listed infrastructure. Amid geopolitical tensions, government defense spending is rising. This acts as a constraint on public infrastructure spending and entails a greater reliance on the private sector — listed infrastructure companies with strong balance sheets — to fund growth in areas like AI and electrification. The physical scarcity and monopolistic characteristics of infrastructure in a world of AI disruption also make the asset class very attractive. That is drawing capital to the listed markets.

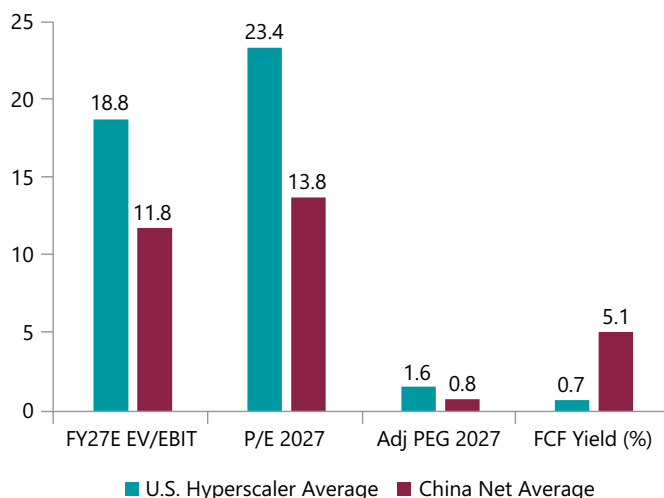
These factors are translating into structural earnings growth for infrastructure. What does that mean? For a regulated utility in the U.S., its capex gets approved by a regulator and rolled up into a regulated asset base, and then investors earn a return on equity, generally anywhere from 8.5% to 12% per year, until the life of that asset is fully depreciated. Increasing capex flows directly to earnings upgrades. Around 2010, U.S. utilities grew at probably 3.0% to 3.5% per year, plus a dividend yield of roughly 4.0%. The total annual return expected out of the sector was anywhere from 7% to 8%. Today, many of our regulated utilities grow at 8.0% to 8.5%.

Yan Teh: To wrap up, how do you access secular themes like AI or energy transition without chasing the obvious winners?

Grace Su: The good thing about being a global investor is that our sample set and total addressable market are much wider than those, say, of a pure U.S. investor or an investor solely in any local market. Even though the AI theme is driven by U.S. hyperscalers, the manufacturing ecosystem behind it is global. That allows us to look up the food chain into components and manufacturing, and across geographies, to find interesting ways to play the same theme. We cast a wide net when it comes to stock selection.

We also try to look at areas of the market that people are not paying as much attention to. A good example is the Chinese AI market, where big internet platforms are trading at roughly half the P/E multiple of companies like Alphabet or Microsoft — an incredible discount to the U.S. market. At the same time, these companies have world-leading large language models. Consensus is that they may be six months behind the U.S. models, but not very far behind, and the open-source models are already very dominant around the world. They also have a large addressable market internally, so when all of this is commercialized, the potential growth and market opportunity may be much bigger than many people anticipate.

Exhibit 3: Chinese Hyperscalers Discounted to U.S. Counterparts



As of May 28, 2026. Source: Bloomberg, Visual Alpha. Companies constituting the U.S. Hyperscaler Average include Microsoft, Meta Platforms, Alphabet and Amazon.com. Companies constituting the China Average include Baidu, Alibaba and Tencent Holdings.

We try to be one step ahead. Several of the electrification names in our portfolio were bought many years ago because we were focused on the energy transition theme. One example would be Vertiv, a leading manufacturer of electrical equipment, where our initial thesis was predicated on its enablement of energy efficiency in buildings. Today, Vertiv is widely regarded as a main beneficiary of the data center boom, but in early 2022 when we acquired the stock, it was a fairly new listing (spun out of Emerson Electric in 2019) with little management track record. Investors were worried about revenue concentration (70% exposure to data centers) and margin pressure due to post-COVID inflation and supply constraints, but we liked its focus and expertise. Because there was no AI data center demand then, the market traded Vertiv like a pure cyclical stock and after a profit warning sold it down to a low-teens P/E, which we felt was incredibly attractive compared to larger peers like Eaton trading at 20x. Our bet was that the stock could re-rate to peer-level multiples with better execution and margin improvement. Of course, since then AI data center demand has skyrocketed and added a whole new dimension to the investment thesis.

Yan Teh: What I'm hearing, then, is a global approach that includes listed infrastructure and value stocks can help investors broaden opportunity sets, reduce concentration risk and diversify away from the narrow dominance of U.S. mega cap growth. Global infrastructure and value exposures benefit as they navigate disruption from AI, the energy transition and geopolitics through rising demand for power, electrification, industrial capacity, supply chain resilience and energy security. At ClearBridge, we believe this can create more balanced return profiles and portfolios that may prove more resilient as market leadership broadens over time.

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