ClearBridge
A Franklin Templeton Company

Infrastructure Outlook: AI, Decarbonization and Policy Tailwinds in 2026

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Key Takeaways

- The explosive rise of AI and data centers is driving unprecedented demand for electricity and gas, leading utilities to invest heavily in smart grids, reliability and efficiency.
- Structural tailwinds like decarbonization, network upgrades and climate-proofing are fueling long-term capital expenditure cycles.
- Essential service assets such as utilities are resilient to economic volatility, with earnings stability supported by long-term contracts and regulatory frameworks. Even in uncertain macro environments, infrastructure stands out for its defensive characteristics and steady returns.

Listed infrastructure has seen strong returns in 2025, helped by AI-driven demand for power from electric utilities and gas infrastructure. We sat down with ClearBridge Portfolio Managers Charles Hamieh, Shane Hurst and Nick Langley to discuss how AI growth and other drivers of infrastructure returns — capex to replace aging facilities and equipment, resiliency spending, onshoring and global fiscal and monetary policy — are positioning the asset class for 2026 and beyond.

What is your general outlook for infrastructure in 2026?

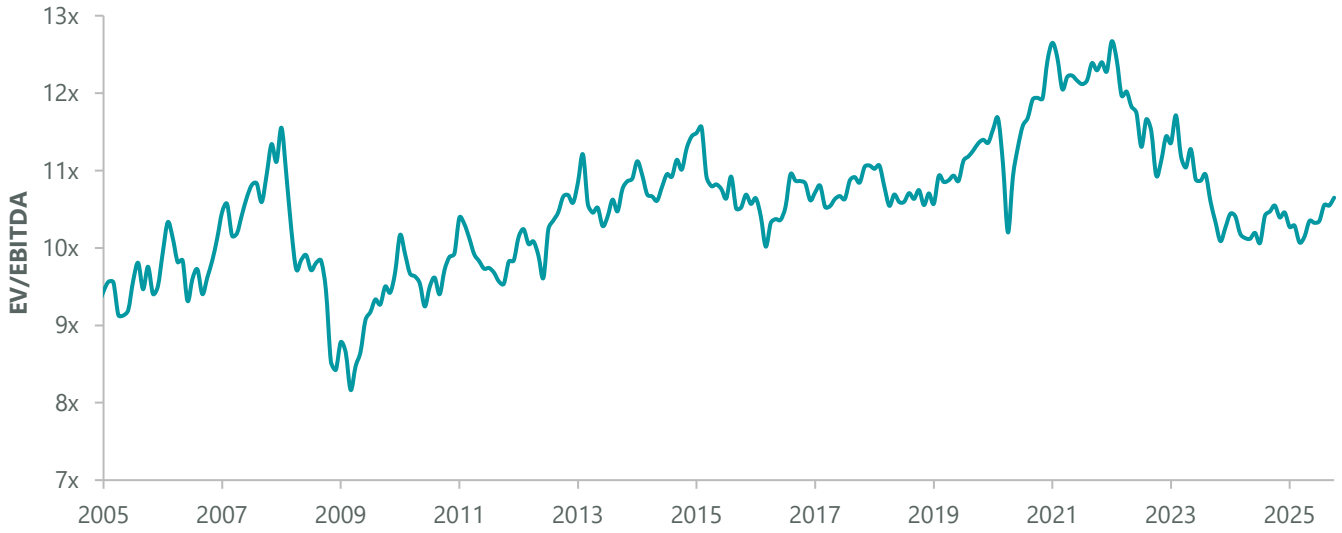
Nick Langley: Infrastructure is benefiting from structural tailwinds such as decarbonization, investment in aging network infrastructure to improve resiliency, and AI and data center growth, which is driving power demand. These will all be in play in 2026 and beyond, and we don't think they are being captured by markets, so infrastructure valuations are attractive, especially given the length and transparency in their spending and returns (Exhibit 1). Most of our exposure is in the U.S., where utilities are experiencing unprecedented regulated earnings growth generated by increases in their asset bases because of this enormous capital spending. The outcome is that utilities are trading at the lower end of their EV/EBITDA range over the last decade while generating significantly higher earnings growth. In addition, the fiscal environment is positive, especially in the U.S. and Europe, and global monetary policy is generally neutral to easing. So, we think infrastructure is very attractive for 2026 and our portfolios are well-positioned.

Do you expect the AI tailwind to continue for infrastructure?

Shane Hurst: The need to power AI and the growth of data and compute it entails has led to explosive power and gas demand. Electric and gas utilities are investing heavily in building smart grids with improved demand response and in reliability and efficiency. Utilities have also greatly benefited: they are deploying large amounts of capex in the development and ongoing operation of data centers. Tech sector capex for new data centers is expected to total US$6.78 trillion by 2030. The base case for global data center power demand growth is 22% compounded annually to 2030, while investment in data center construction should rise to US$49 billion per year

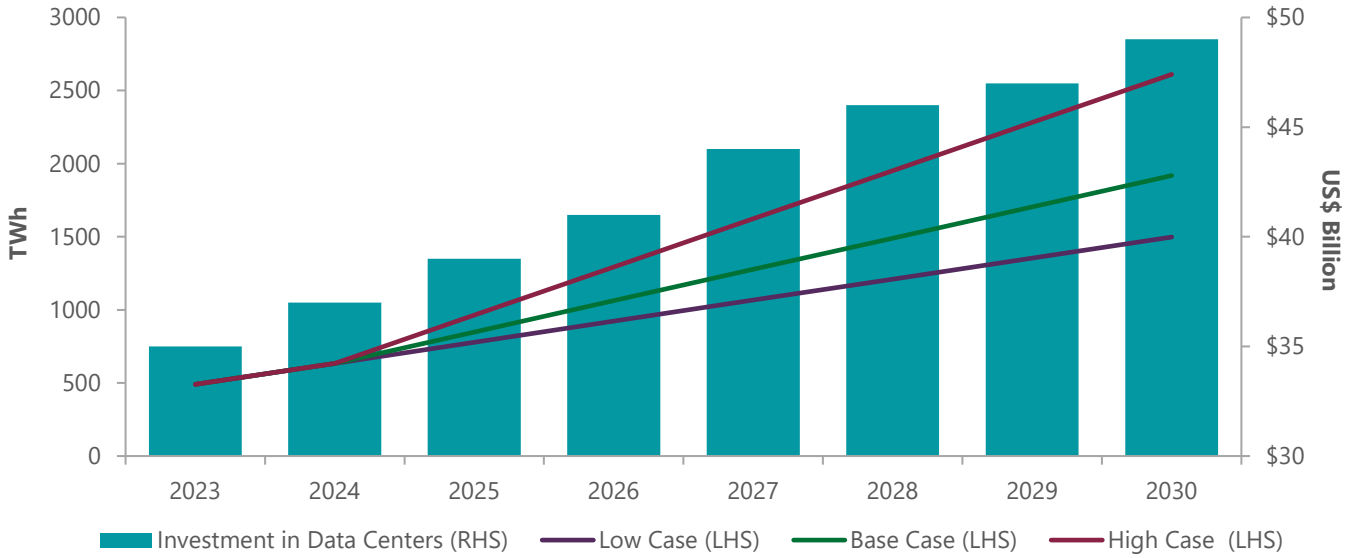
by 2030 (Exhibit 2). According to the International Energy Agency (IEA), in the U.S., data centers are on course to account for nearly half of electricity demand growth through 2030 — largely driven by AI usage.

Exhibit 1: Listed Infrastructure Sector Consensus EV/EBITDA



Historical trend using FY1 EBITDA. As of Sept. 30, 2025. Source: ClearBridge Investments, FactSet.

Exhibit 2: Global Data Center Power Demand Leading to Investment



As of Sept. 30, 2025. Source: Internal Research, McKinsey, IEA, Morgan Stanley, WFG, BNEF, EIA. Investment is construction only and does not include equipment.

What are some risks to this AI tailwind that you're monitoring?

Charles Hamieh: Hyperscalers have generally struck 15- to 20-year contracts where the utility supplies the infrastructure (including power) and gets an attractive return on its equity, normally in the range of 9%–12%. For existing projects, the utility is 100% protected and will receive a return on its investment. That also means that current guidance upgrades are structural and have transparency out 7–10 years.

Risks we're monitoring include pressure on residential customer bills through higher power prices, which becomes political and may lead to concern that data center growth is bad for utility customers in general. Also, electricity

grid constraints, in the form of delays in interconnection agreements, power plants and approvals. Supply chain and construction delays could mean cost increases, insufficient labor or lack of specialized equipment. There's a chance, although I believe a small one, that some type of meaningful change in technology might also translate through to significantly more power efficiency and less power demand. Finally, funding constraints on the growth in data centers, while very unlikely, would lead to a slowdown in growth.

Nuclear is back in the discussion as a clean-emission power source. How are you thinking of pure-play nuclear and other utility opportunities that have exposure to nuclear generation?

Charles Hamieh: Along with gas, nuclear generation is the only base load 24/7 traditional generation currently being built. Nuclear also has the added benefit that it is clean. The downside is the longer lead time on builds, but if the small modular reactors model can be proven, this form of generation will be far more prevalent in the next decade. We have exposure to pure-play nuclear providers like Constellation Energy in the U.S. as well as other utilities with nuclear in their power mix across the U.S. and Canada as well as in Spain.

How are you assessing risk and reward across developed and emerging market geographies right now?

Shane Hurst: We monitor a global universe of listed infrastructure opportunities and run detailed scenario analysis. Often the skew of outcomes is wider for emerging market companies than for those in developed markets. Right now, the plethora of opportunities in developed markets — due to network investments, AI growth and public policy support, as well as insufficient returns and governance concerns in emerging markets — means we only have a small amount of emerging market exposure. That sits in Brazil, where regulation is modeled on the U.K., utilities provide upside in cost rationalization and there are attractive power demand thematics. Company fundamentals are underpinned by very attractive dividend yields and risk-adjusted returns.

What are the main sustainability themes you see driving infrastructure returns in 2026 and beyond?

Nick Langley: Decarbonization and the clean energy transition continue to drive investment into renewables globally as well as retirement of carbon-based generation such as coal. While certainly some of the hype has come out of the market, most countries and many of the largest companies still have clear decarbonization targets. Much of the spending required to meet these targets is related to poles and wires networks, nearly all of it earning regulated returns. Further climate-proofing and spending on physical asset risk mitigation has been a large feature of capex plans, especially in places like California and the U.S. Gulf Coast. Global utilities are major beneficiaries of these trends.

Resource efficiency and nature-positive infrastructure are also important for our U.K. water companies, as they roll out their next five-year capex plan. Stepping back, the global water infrastructure gap is large. Aging systems, climate change (droughts and floods), and rising demand mean many regions need major upgrades. Governments and regulators are increasingly prioritizing water quality, reliability, resilience and efficiency, as we saw in the recent U.K. regulatory review. This received further positive support through the Cunliffe review, which aims to support water quality, water company performance and efficiency into the future.

How are macro factors like inflation, interest rates and government debt shaping the relative attractiveness of listed infrastructure versus private markets?

Shane Hurst: While over 90% of our portfolios can directly or indirectly pass through inflation, listed markets often react to surprises in inflation data. With inflation in 2025 largely subdued, outside of periods like April where there were concerns tariffs may be inflationary, inflation has had a limited impact. In April, as the market sold down on tariff expectations, listed infrastructure investors were able to use this volatility to position in high-conviction names that were only impacted by beta, not fundamental changes. Investors in unlisted infrastructure could not have taken advantage of this opportunity, given the lack of liquidity and the time it takes to execute a deal.

The large government debt burden has led to a greater reliance on the private sectors for growth initiatives, as government spending focuses on areas such as defense. That has led to improved siting and approvals of projects and more constructive regulation in some regions.

If we see a more volatile macro environment in 2026 — slowing growth, divergent monetary policy — how do you expect infrastructure to perform, and where could investors find resilience?

Charles Hamieh: Defensive, essential service assets such as utilities are regulated and not dependent on the business cycle, so they will be resilient. Structural drivers have seen capex locked in for the next five if not 10 years, with long-term capex plans. So, slowing short-term growth will have minimal or no impact on earnings and earnings growth.

Slowing growth and muted inflation normally lead to lower bond yields. In that type of environment, infrastructure and utilities should perform well. Lower bond yields would also reduce funding costs for their large capex plans. Our flexible asset allocation allows us to adapt to any divergent monetary policies across geographies and gives us the ability to follow where the value is located. Defensive exposures such as utilities would perform better than GDP-exposed infrastructure such as toll roads, airports and rail assets.

Ultimately, the key here is that volatility will create opportunities for us, given infrastructure is an essential service asset class.

Which sectors or regions are offering the most compelling infrastructure investment opportunities?

Nick Langley: We are heavily exposed to global electric utility companies, given the trends discussed above. North American gas pipelines are also compelling, with expansions driven by the need to satisfy new gas-fired plants (that stabilize the grid and supply power to data centers) and LNG export needs. High-efficiency gas generation will also help stabilize grids as they decarbonize. Global renewables and energy storage solutions are likewise benefiting from the need for more power (driven by coal-fired generation retirements and data center demand growth) and to decarbonize grids. Finally, user-pays infrastructure in Europe looks attractive where, in many cases, airports and toll roads are hitting capacity. This is creating a greater need for investment to expand capacity and generating attractive returns.

Conclusion

The outlook for infrastructure in 2026 remains robust, driven by the accelerating demand for power and data fueled by AI, as well as decarbonization and network investment to replace aging infrastructure, improve resiliency and support onshoring and supply chain realignment. Utilities and GDP-sensitive infrastructure assets such as airports and toll roads are positioned to benefit from long-term contracts, regulatory support and essential service status, which provide earnings stability even in volatile macro environments. While risks such as grid constraints, political pressures related to affordability and supply chain challenges persist, opportunities abound in developed markets, especially in North America and Europe. Ultimately, we believe infrastructure stands out as a resilient asset class, offering attractive returns and defensive qualities amid shifting economic conditions and rapid technological advancements.

About the Authors

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