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Infrastructure's Essential Assets Have Expanding Ambitions

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Key Takeaways

- Infrastructure's defensive characteristics, income potential and structural growth opportunities strengthen the case for a strategic portfolio allocation.
- AI, electrification and network modernization are driving a multiyear investment cycle that can support growth in infrastructure earnings and dividends.
- Selectivity remains essential, as sound regulation, cost recovery and strong balance sheets help determine whether capital spending translates into shareholder returns.

Infrastructure has long been valued for its defensive characteristics, income potential and ability to protect against inflation. Essential assets such as electricity networks, pipelines, railways, airports and toll roads typically benefit from high barriers to entry and predictable revenues. Yet today's opportunity extends beyond defense. Artificial intelligence (AI), data center construction, electrification, energy security and the modernization of aging networks are creating significant investment requirements. This combination of resilience and structural growth suggests infrastructure may deserve a more strategic role in portfolios.

The Traditional Infrastructure Proposition

The defensive case for infrastructure should be familiar: many infrastructure businesses provide essential services for which demand is relatively insensitive to economic conditions. Their revenues are often established through regulation, long-term contracts or concession agreements; this supports stable cash flows and dividends.

Infrastructure can also provide long-term inflation protection. Regulated utilities can recover prudently incurred expenditure through customer tariffs, while toll roads, airports and pipelines frequently have inflation-linked pricing mechanisms or contractual escalators. These adjustments can take time, meaning infrastructure share prices may initially weaken when inflation and bond yields rise. Over longer periods, however, higher costs and financing conditions can be reflected in tariffs, allowed returns and nominal earnings. Total returns for infrastructure have tended to follow earnings growth (Exhibit 1).

Exhibit 1: Earnings Growth, Not Yields, Drives Long-Term Results



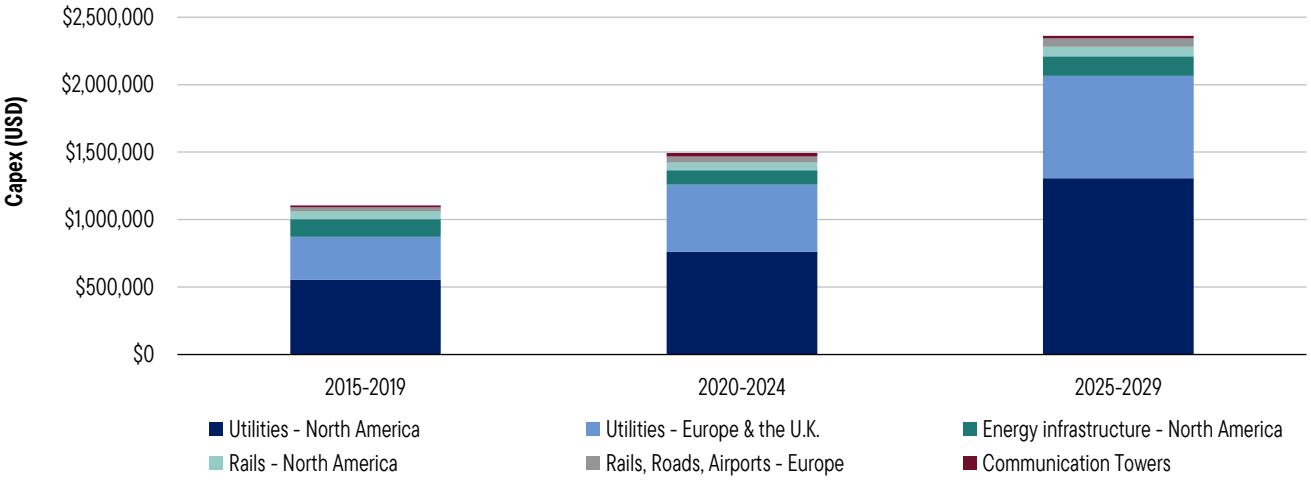
As of September 30, 2026. Source: ClearBridge Investments, Global Listed Infrastructure Organisation (GLIO). Shows GLIO VettaFi Global Index annual EBITDA growth versus GLIO VettaFi Global Index annual total returns. 2026 YTD: Earnings growth based on ClearBridge estimates; total return based on the latest published GLIO VettaFi Global Listed Infrastructure Index - Total Return.

The Emergence of a Structural Demand Cycle

Infrastructure capital expenditures are being driven by more than the replacement of existing assets, however. Electricity demand is accelerating as transport, manufacturing and heating become increasingly electrified, in part to allow renewable energy to power that electricity as part of the energy transition. Governments and companies are also seeking more secure and diversified energy supplies, while aging networks must be replaced and strengthened against extreme weather and other physical risks.

These forces are creating a broad investment cycle encompassing generation, transmission, distribution, pipelines, storage, railways and communications networks. ClearBridge believes infrastructure remains in the early stages of an accelerated investment cycle driven by rising energy demand, changing mobility needs, the evolving energy mix and network modernization (Exhibit 2). This investment can support multiyear growth in regulated asset bases, earnings and dividends.

Exhibit 2: Infrastructure Capex Super Cycle Is Just Beginning



As of May 2026. Source: ClearBridge Investments, FactSet consensus data. Based on stocks in ClearBridge's investable infrastructure universe.

AI, Electrification and the Grid

AI is commonly presented as a technology-sector opportunity, but its development also depends on physical infrastructure. Data centers require substantial electricity, together with transmission connections, substations, cooling systems, water, fiber networks and reliable backup generation.

This makes the electricity grid a critical link between several structural trends. Networks must connect new renewable generation, accommodate larger and less predictable loads and manage two-way flows created by distributed generation and storage. At the same time, data centers require dependable power around the clock, supporting investment not only in renewables but also in nuclear generation, natural gas infrastructure, battery storage and other sources of firm power.

The opportunity is significant, although it must be assessed selectively. Data center projects can face permitting delays, grid connection constraints and questions over who ultimately bears their costs. Expectations for hyperscaler demand may also prove too optimistic in some locations.

How Investment Becomes Earnings and Dividends

Large capital requirements do not automatically translate into shareholder returns. The crucial question is whether companies can invest at attractive returns and recover their costs through regulation or contracts.

For regulated utilities, approved expenditure generally expands the rate base on which the company earns an allowed return. Pipelines and other contracted assets can secure long-term customer commitments before construction begins. User-pays infrastructure may fund investment through tariffs linked to inflation or traffic volumes.

The quality of the regulatory framework, balance sheet and management team therefore matters as much as the size of the investment opportunity. Affordability is an important constraint: regulators and politicians must balance infrastructure reliability with the effect of higher tariffs on households and businesses. Poorly structured projects can leave shareholders carrying construction, financing or political risk. This argues for an active approach to investing in infrastructure.

Resilience Across Inflation and Interest Rate Regimes

Listed infrastructure can be sensitive to changes in bond yields. Higher fixed income returns compete with infrastructure dividends, while rising discount rates reduce the present value of long-duration cash flows. This can create short-term pressure even when operating fundamentals remain sound.

Over time, however, the earnings response may become more supportive. Regulators can recalibrate allowed returns to reflect financing conditions, while contractual escalators and tariff reviews can raise nominal revenue. Existing assets may also become more valuable as replacement and construction costs increase. This is essentially a sequencing issue: valuation adjustments frequently occur before higher allowed earnings become visible.

The Case for a Strategic Allocation

Infrastructure should not be viewed simply as a bond proxy or a tactical shelter during equity-market weakness. Its potential portfolio role now combines essential service resilience, income, dividend growth, inflation linkage and participation in a long-duration capital investment cycle.

Nor is infrastructure a single macroeconomic trade. Regulated utilities, contracted pipelines and GDP-sensitive airports, railways and toll roads respond differently to changes in growth, inflation and interest rates. Diversification across these business models can create multiple sources of return.

The asset class's traditional defensive foundation therefore remains relevant, but it is no longer the whole story. As infrastructure becomes essential to AI, digitalization, electrification, energy security and economic resilience, we believe its role is shifting from a peripheral diversifier to a strategic portfolio core.

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