



Global Infrastructure Value Strategy



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Key Takeaways

- ▶ Listed infrastructure outperformed global equities for the first quarter as a selloff in software stocks drove a market rotation into more defensive sectors and war in Iran raised inflation fears and underscored a flight to safety.
- ▶ Natural gas utilities and pipelines led the listed infrastructure sectors in our universe; renewables and North American and European utilities also delivered strong returns.
- ▶ Supply disruptions across key energy and commodity markets in the Middle East highlight the resilience of infrastructure assets, many of which operate under regulatory frameworks or long-term contractual structures that allow inflation and cost increases to be passed through to end users over time.

Market Overview

Listed infrastructure outperformed global equities in the first quarter of 2026 as a selloff in software stocks drove a market rotation into more defensive sectors and war in Iran raised inflation fears and underscored a flight to safety.

For the quarter, natural gas utilities and pipelines led the listed infrastructure sectors in our universe; renewables and North American and European utilities also delivered strong returns, helped by rising earnings expectations driven by higher capex needs to support increased power demand, generation mix changes, asset resiliency and modernization programs. GDP-sensitive toll roads, airports and rails also held onto gains; North American freight rails benefited from improved economic conditions, with the Purchasing Managers Index entering expansionary territory for the first time in three years. In Europe, we saw some M&A activity, notably from French electric utility Engie, which acquired UK Electric Networks. Several airport companies, meanwhile, began negotiations for airport charges for their next regulatory cycle; they are proposing to meaningfully step up investments to support traffic growth across their platforms.

The escalation of military tensions with Iran in March led to supply disruptions across key energy and commodity markets, including oil, LNG and other critical resources moving through the Middle East. This contributed to [renewed inflation pressures](#) globally as higher energy, transport and input costs flow through supply chains.

This commodity disruption played out in sector performance in March, with natural gas utilities and pipelines delivering strong returns, North American and European utilities modestly down but still outperforming the major infrastructure indexes and global equities, and GDP-sensitive user toll roads, airports and rails underperforming amid heightened concerns about inflation, consumer spending and overall economic activity.

Performance Overview

On a regional basis, the U.S. and Canada region was the top contributor for the quarter, with U.S. electric utility Entergy the lead performer. Entergy provides services to approximately three million people in Arkansas, Texas, Mississippi and Louisiana; share prices rose with the announcement of another capex raise during its earnings release and on enthusiasm for its converting 8 GW of turbines into more data center deals.

Turning to Western Europe, U.K. electric utility SSE also performed well. SSE is a diversified energy utility headquartered in Scotland and the U.K.'s largest renewable energy generator. It is vertically integrated, operating over the entire supply chain in the U.K., with generation (including hydro, wind, CCGT), electricity networks, and retail businesses (primarily B2B). SSE's share price rose as funding risks diminished and concerns around the U.K. macroeconomic outlook eased.

Engie and U.S. electric utility Constellation Energy were the largest detractors for the quarter.

Engie is a global integrated energy company operating across 30 countries, with activities spanning renewable power generation, battery storage, energy networks, energy services and supply. It owns and operates large-scale, long-life assets across Europe, the Americas and AMEA, supplying power, gas and energy solutions to municipalities, corporates and households, while increasingly focusing on renewables and flexibility. Engie has been a strong performer, and we initiated a position in the quarter as we see further upside driven by a compelling acquisition of U.K. power network UKPN, an increasing visibility on earnings, a strong growth trajectory in renewables and storage, potential upside to new 2026-2028 guidance and an attractive, well-supported dividend.

Constellation Energy 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 was pressured by calls for emergency auctions for electricity at PJM Interconnection, the largest U.S. power grid, which signaled increased future capacity. We believe this reaction is overdone.

Portfolio Positioning

During the quarter, in addition to adding Engie, we initiated positions in Brazilian electric utility AXIA Energia (formerly Eletrobras), Canadian electric utility Algonquin Power & Utilities, Canadian energy infrastructure company Pembina Pipeline, German renewables utility RWE, U.S. electric utility PG&E Corporation and Belgian electric utility Elia.

The largest position among these was RWE, which we bought for its attractive valuation, multiple near-term catalysts and exposure to structural demand and regulatory upside. After a decade of stagnation, European electricity demand is expected to grow at ~3% per annum through 2030. RWE's EPS guidance implies 18% compound annual growth from 2025 to 2027 and 13% from 2025 to 2030 — among the strongest in European utilities, supported by a strong balance sheet and a €500 million buyback completing in the first half of 2026. Within its €35 billion capex plan through 2030, RWE continues to secure growth, most recently winning 6.9 GW in the U.K. offshore wind AR7 auction, with further upside potential from participation in AR8 when bids open in late mid-2026. RWE is also well-positioned to capture rising data center demand across Europe and the U.S., with hyperscaler clean-power requirements driving long-term power purchasing agreements.

We also exited our positions in U.S. electric utilities DTE Energy, where our investment thesis has played out, and WEC Energy, due to caution about upcoming rate cases in an election year and increasing data center pushback in Wisconsin. We sold out of Spanish electric utilities Redeia, following a downgrade in our growth expectations after recent regulatory outcomes, and Iberdrola, where we maintain a positive view, although we see more attractive investment propositions in other European utility companies, specifically Engie and Elia. We also exited U.S. rail operator CSX, and Italian electric utility Enel.

Outlook

In this environment, infrastructure assets continue to be resilient because many operate under regulatory frameworks or long-term contractual structures that allow inflation and cost increases to be passed through to end users over time. As a result, while higher interest rates and macro volatility may create short-term valuation pressure, the underlying cash flow characteristics of infrastructure assets provide inflation protection following periods of geopolitical-driven commodity shocks.

More broadly, we are observing greater appreciation by the market of real assets, given their inflation protection in the current macroeconomic and fiscal backdrop.

Across our holdings, we continue to expect low double-digit internal rates of return over the next five years, underpinned by defensive

dividend profiles and growth outlooks. We believe we are still in the early stages of an accelerated infrastructure investment cycle, driven by expanding mobility needs, rising energy demand, a shifting energy mix and the modernization of networks to enhance resilience against physical asset and environmental risks. We believe these investments underpin durable growth in earnings and dividends for investors.

Portfolio Highlights

We believe an absolute return, inflation-linked benchmark is the most appropriate primary measure against which to evaluate the long-term performance of our infrastructure strategies. The approach ensures the focus of portfolio construction remains on delivering consistent absolute real returns over the long term.

On an absolute basis, the Strategy saw positive contributions from all eight sectors in which it was invested in the quarter (out of 10), with electric utilities, energy infrastructure and rail the top contributors.

Relative to the FTSE Global Core Infrastructure 50/50 and on a U.S. dollar basis, the Strategy outperformed in the quarter, driven primarily by stock selection in the rail and airports sectors. A lack of ports and communication towers was also beneficial. Conversely, stock selection in electric utilities, underweights to energy infrastructure and gas utilities and overweights to airports and toll roads detracted.

On an individual stock basis, the top contributors to absolute returns in the quarter were Entergy, SSE, ONEOK, E.on and TC Energy. The main detractors were Constellation Energy, an underweight to Engie, Aeroports de Paris, Redeia and Algonquin Power & Utilities.

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