Perspectives

CBRE Investment Management

As the world slows, infrastructure grows

2022 Listed Infrastructure Outlook

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— A confluence of forces has the potential to support listed infrastructure in 2022.

— We believe we have entered a macroeconomic period that bodes well for infrastructure – a period marked by above average inflation and moderating economic growth.

— We see the potential to reverse a trend in 2021, when the broad market rewarded significant earnings revisions beta. Looking ahead, the durable earnings of listed infrastructure should shine as growth surpasses broad equities in absolute terms, and as broad equity earnings growth decelerates.

— With attractive valuations, differentiated growth and a conducive macroeconomy, the potential total return proposition of listed infrastructure is compelling for 2022 and beyond.

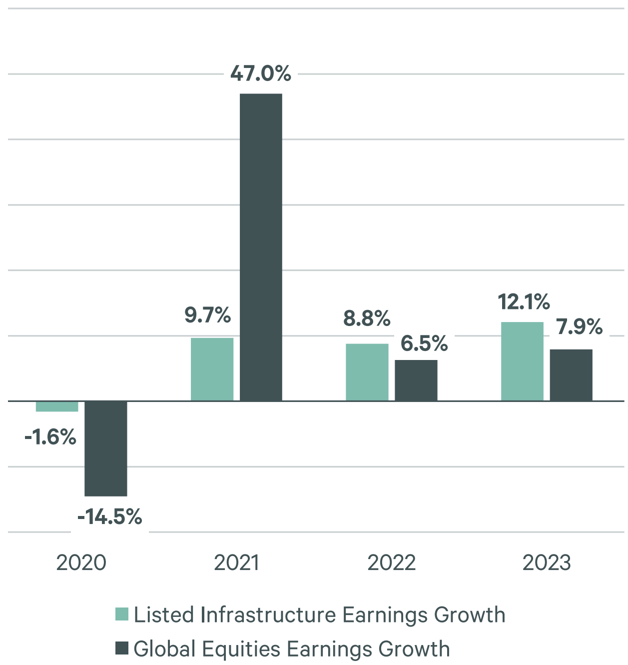
2021 saw robust equity market returns, with new leadership from 2020's laggards, such as the energy and real estate sectors. Throughout 2021, global equity market earnings supported stocks—ultimately, equities delivered ~45% earnings growth, compared to initial expectations of 26%.[1] Against this backdrop of a cyclical rebound and accelerating global earnings, infrastructure lagged, delivering a ~10% earnings increase vs. original expectations of 8.8%. Infrastructure earnings are durable and low-beta, but they are not suited to outperform during a cyclically-charged rebound.

[1] Source: Factset for the ACWI ETF.

Looking into 2022, infrastructure earnings are likely to outpace global earnings for the first time in several years. Broad equity market earnings are set to decelerate while infrastructure maintains strong growth. We forecast ~9% earnings growth compared to broad equity market growth of only ~7%.[2] Global market revisions are moderating (they peaked in Q2 2021) and the pace of broad economic growth is slowing. GDP, industrial orders, consumer confidence and other macroeconomic variables are healthy, but they are unlikely to improve at a faster rate in 2022 than they did in 2021.

Historically, moderating economic growth has been a positive for infrastructure. During such periods, infrastructure has delivered an ~18.5% annualized return, outpacing global equities by 5%. Moreover, during periods of above-average inflation (whether inflation is rising or falling), infrastructure has outperformed global equities by a range of 7-9% based on annualized returns. With these macro factors combined, 2022 is setting up well for the asset class.

Figure 1: Listed Infrastructure Earnings Lagged in 2021... But Leads in 2022 and 2023



Source: Forecasts based on the 2021, 2022 and 2023 average EPS growth rates of the FTSE Global Core Infrastructure 50/50 Index (CBRE forecasts) and the MSCI ACWI ETF (Factset), respectively; actuals per Factset. As of December 31, 2021.

On a fundamental basis, infrastructure's inflation-protected cash flows are accelerating because of its essential endeavors. Companies within global utilities are building hundreds of gigawatts of wind and solar to ensure a clean energy future; such installations hit a new record in 2021, and they are essential to provide power independent of volatile (and expensive) commodities like coal. In the communications sector, secular growth in data from cloud proliferation and the still nascent 5G build-out supports the outlook for data centers and cell towers. The midstream sector should benefit from the return of global economic activity that supports energy demand and volumes on existing assets. There is very limited opportunity for the companies to invest in new infrastructure, which should lead to further consolidation and the potential return of capital across the group. In transports, toll roads, rails and airports should continue to see steady and growing recoveries in traffic post-pandemic. In the coming years, the world will become more immune, and more normalized, to COVID and its variants: as such, global transportation infrastructure is one of the few remaining COVID recovery stories for 2022 and beyond.

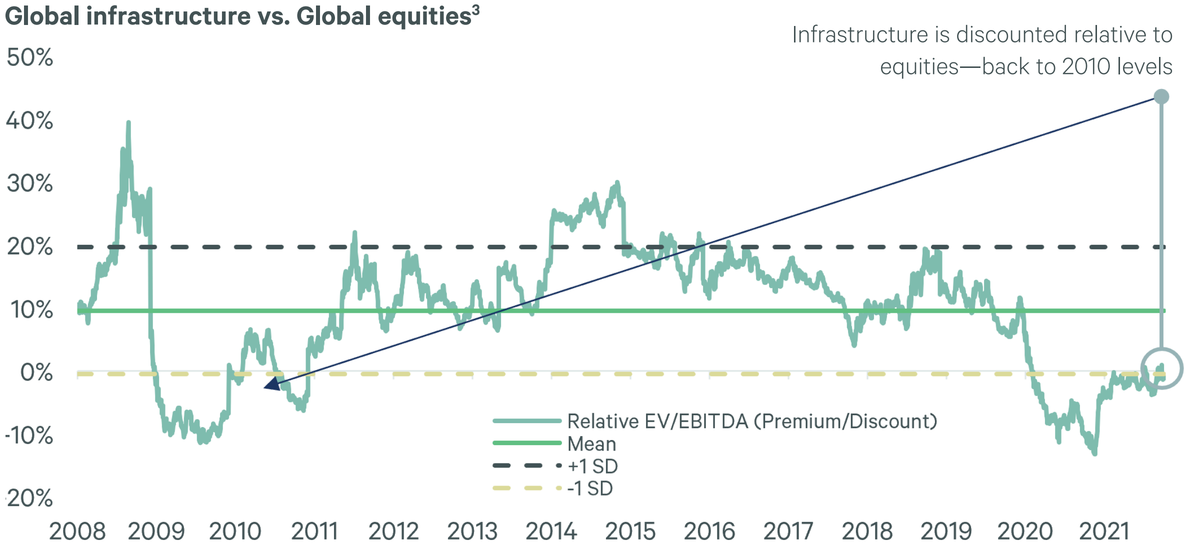
[2] Based on the 2022 and 2023 average EPS growth rates of the FTSE Global Core Infrastructure 50/50 Index (CBRE forecasts) and the MSCI ACWI ETF (Factset), respectively.

The combination of secular growth, from decarbonization, asset modernization and digital transformation, alongside cyclical recovery is occurring just as the listed infrastructure market is trading at a generational-level discount against global equities. Currently, infrastructure is trading 10% below its long-term relative multiple average; this is similar to 2010, when global economic growth also moderated, and just before a multi-year period during which infrastructure outperformed global markets.

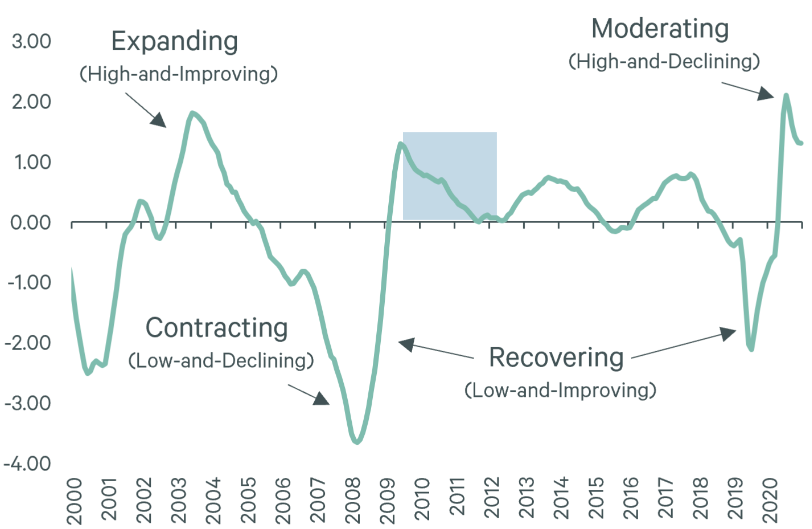
Figure 2: The Set Up

Infrastructure hasn't been this cheap since 2010... when economic growth began to moderate, and infrastructure began to outperform

Relative earnings multiple
Global infrastructure vs. Global equities[3]



U.S. economic cycle indicator[4]



Between June 2010 and August 2012: Infrastructure outperformed by **9.4%**, delivering a **42%** total return.

Since 2000, on an annualized basis, infrastructure has delivered an 18.5% return during periods of economic moderation.

[3] Source: CBRE Investment Management, iShares MSCI ACWI ETF, SPDR S&P Global Infrastructure ETF, ProShares Dow Jones Brookfield Global Infrastructure ETF, Moody's Bond Indices Corporate BAA, FTSE Developed Core Infrastructure Index, FTSE Global Infrastructure Index of 12/31/2021.
[4] Source: The US Economic Cycle Indicator is calculated using the year-on-year change in the Conference Board's Leading Economic Index (LEI), normalizing its history using a z-score, and tracking the 3-month moving average of that z-score. The Economic Cycle is determined by both the level and the change in the indicator, requiring two months in the same cycle in order to confirm a new cycle.
Source: CBRE Investment Management, Conference Board Leading Economic Index (LEI), as of 11/30/2021.

Looking into the new year, we are optimistic that past is prologue. Infrastructure's relative valuation multiple is a coiled spring for the asset class. When coupled with its robust dividend yield, inflation protected earnings growth, and history of outperformance during moderating and inflationary environments—we find today's Listed Infrastructure a compelling prize for investors; it presents multiple ways to win in 2022 and beyond.

Figure 3: Potential Building Blocks for Infrastructure's Future Return

Infrastructure offers:

— A robust and growing dividend yield, with durable, differentiated, double-digit earnings growth

— A history of outperformance during moderating economic growth—18.5% annualized return, and 5% outperformance to global equities.

— A history of outperformance during above-average inflation—7-9% above global equities

— A compressed and compelling valuation: expansion to long-term averages would lift infrastructure equities by ~10-15%.

Source: Dividend yield based upon the FTSE Global Core Infrastructure 50/50 Index and earnings forecasts based on the 2022 and 2023 average EPS growth rates of the FTSE Global Core Infrastructure 50/50 Index (CBRE forecasts). Historical outperformance during periods of moderating economic growth based upon the analysis of the outperformance of the FTSE Global Core Infrastructure 50/50 Index versus the MSCI World during periods as defined in Figure 2. Historical outperformance during periods of above average inflation represents the average of periods when inflation is high and rising and high and falling, using U.S. CPI and UBS Global Infrastructure & Utilities linked to FTSE Global Core Infrastructure 50/50 Index, MSCI World Index as of 12/31/2021. Valuation expansion to historical relative average represents the levered return to equity holders if the current trading multiple of the FTSE Global Core Infrastructure 50/50 Index aligned to the long-term infrastructure relative multiple average compared to the MSCI ACWI ETF.

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