Principal
Asset Management℠

Principal Real Estate

Global listed infrastructure outlook

Five reasons to buy GLI in 2025

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Introducing our 2025 outlook

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When the books closed on global markets at year end 2024, even the most steadfast investors in listed infrastructure (GLI)—us included—have been forced to face the sobering reality that GLI has underperformed global equities by a whopping 6.5 percent annualized over the prior five years.

Of course, it hasn't all been painful, though we sometimes find ourselves pining for the increasingly distant 2022, when listed infrastructure's inflation-protecting characteristics fully met the moment and GLI outperformed global equities by 14 percent. We also felt good about how the first nine months of 2024 evolved, with various central banks embarking on rate cuts and as U.S. utility and energy investors participated in the wave of generative AI enthusiasm. Although the most recent asset class performance has been frustrating, our team reached an important investment performance milestone last year—our five-year track record—and (mostly!) had fun doing it.

As we turn the page to a new year, the long-term risk and return profile of GLI continues to support its inclusion in portfolios.

Specific to 2025, we offer five reasons to be a buyer of the asset class:

1. Today's valuations offer an attractive entry point for long-term investors
2. We expect fundamentals will continue to be strong
3. A lot was priced into markets post-U.S. election, and some near-term reversion could benefit pockets of GLI
4. It may be a good time to complete your private infrastructure allocation with GLI
5. Diversifying your equity exposure continues to make sense

We conclude with a brief discussion of the main reasons investors may wish to remain on the sidelines for one more year.

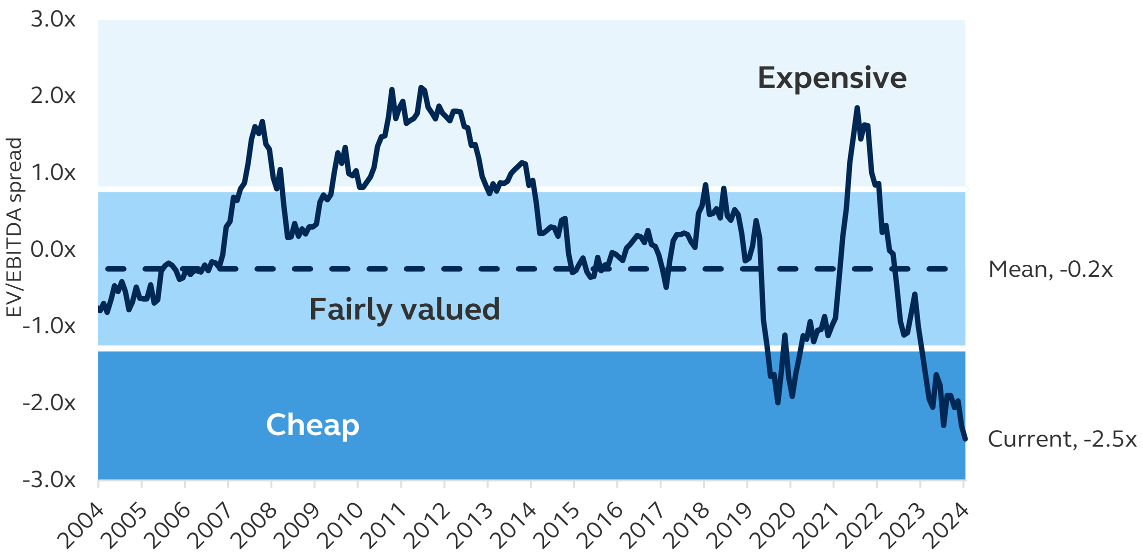
References to asset class performance are as of 31 December 2024. Listed infrastructure is represented by the FTSE Global Core Infrastructure 50/50 Index. Equities is represented by the MSCI ACWI Index.

REASON 1

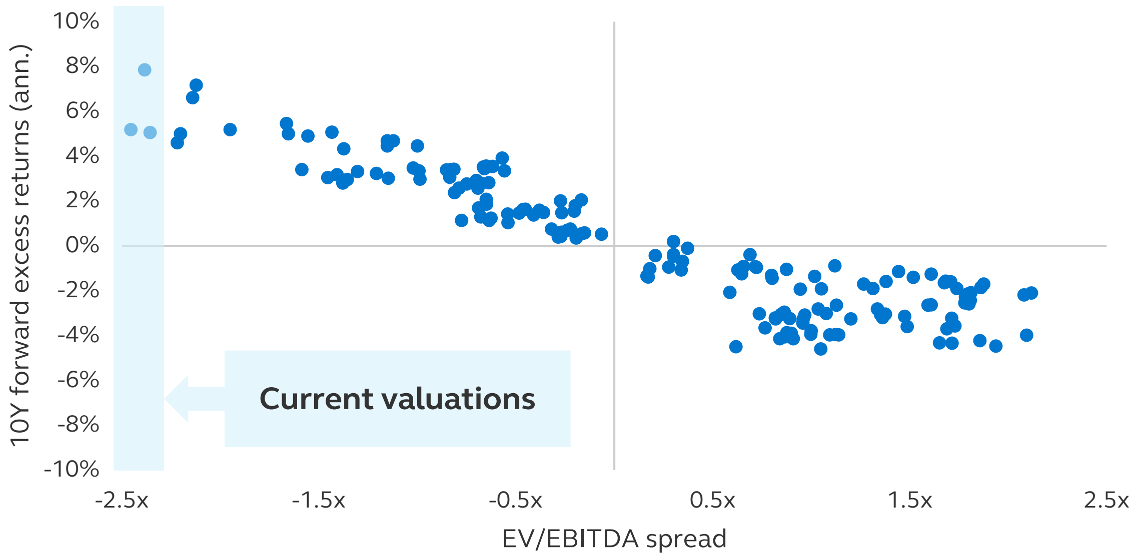
Listed infrastructure is cheap, offering a compelling entry point for long-term investors

Listed infrastructure is cheap relative to equities. We've been saying that for a while now—since mid-2023. As time passes, we find ourselves with less conviction in what current valuation levels say about the short-term potential of the asset class, but with more conviction in today's entry point as an avenue for achieving attractive, long-term returns. If you look at the historical relationship between trading multiples and forward 10-year returns, it's quite strong. At current valuation levels, we think investors at least need to acknowledge the possibility that global equity returns could be fairly modest over the next decade. For GLI, however, the long-term looks much more promising from here.

Listed infrastructure has not been this cheap relative to global equities in the past 20 years



Today's valuation levels offer a positive signal for the long-term outperformance of listed infrastructure



As of 31 December 2024. Source: FactSet. Enterprise Value (EV) to EBITDA price multiples are used to measure valuations. The EV/EBITDA NTM spread and the forward excess returns are of the FTSE Global Core Infrastructure 50/50 index minus the MSCI World index. Indices are unmanaged and do not take into account fees, expenses, and transaction costs. It is not possible to invest in an index.The right chart shows valuations data points from 31 December 1999 to 31 December 2024. Expensive and cheap valuations are represented by spreads higher or lower than one standard deviation from the mean, respectively. Fair value is represented by valuations between one standard deviation from the mean. Past performance is not indicative of future performance and should not be relied upon to base an investment decision.

REASON 2

Company fundamentals are expected to remain strong

Our most recent conversations with investors have been dominated by questions about our rate outlook. However, while GLI does exhibit sensitivity to rates, particularly when the market makes a swift adjustment to the future rate outlook as it did in the fourth quarter of 2024, the relationship between interest rates and different areas of the market isn't constant over periods as long as a calendar year. That U.S. energy and utility stocks enjoyed a strong run through most of 2024 on the back of rising expectations for power demand linked to generative AI was the most recent reminder that fundamentals still matter.

In terms of what fundamental developments the next 12 months will bring, we expect U.S. utilities to sign more agreements to meet data center demand, which has the potential to drive earnings growth rates higher at some companies. The U.S. natural gas outlook should also remain robust, with physical demand in 2025 supported by new liquefied natural gas export facilities coming online and planned coal generation retirements. Further, while excitement around rising demand for power and natural gas have been less relevant for infrastructure names outside the U.S. to date, we see scope for this to emerge as a more important theme in other markets as soon as this year. In transportation, airport traffic continues its post-pandemic strength, and we are watching for a potential inflection in North American rail volumes. We also think that for areas of GLI that have been most rate sensitive of late—cell phone tower operators and renewables stocks—there are potential catalysts on the horizon outside of rates that could drive positive momentum.

Despite the market narrative, the relationship between rates and GLI performance has varied over the last five calendar years

	Change in U.S. rates		Returns		
	Fed Fund	10Y Treasury	GLI	Global equities	GLI excess returns
2020	-1.50%	-1.00%	–	+	–
2021	0.00%	0.59%	+	+	–
2022	4.25%	2.37%	–	–	+
2023	1.00%	0.00%	+	+	–
2024	-1.00%	0.69%	+	+	–

As of 31 December 2024. Source: FactSet. Returns data is showing FTSE Global Core Infrastructure 50/50 and MSCI ACWI indices. Plusses and minuses represent positive and negative total and excess returns, respectively. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Fundamentals should continue to trend positively in many areas of the listed infrastructure market

Updates to watch for in 2025

U.S. utilities	• New data center agreements • Upward revisions to earnings growth rates
North American energy infrastructure	• Robust natural gas outlook to continue • Potential permitting reform in the U.S.
Europe/UK utilities	• Final agreements on historic levels of capital investment • Clarity on funding needs
APAC utilities and energy infrastructure	• Upgrades to natural gas and power demand expectations • Positive margin evolution for Chinese gas utilities
Global cell phone tower operators	• New shareholder remuneration policies • Asset sales • Potential inflection in U.S. leasing activity in H2
Global transportation	• Strong airport passenger traffic • Potential inflection in North American freight volumes

As of 31 December 2024. Source: Principal Asset Management.

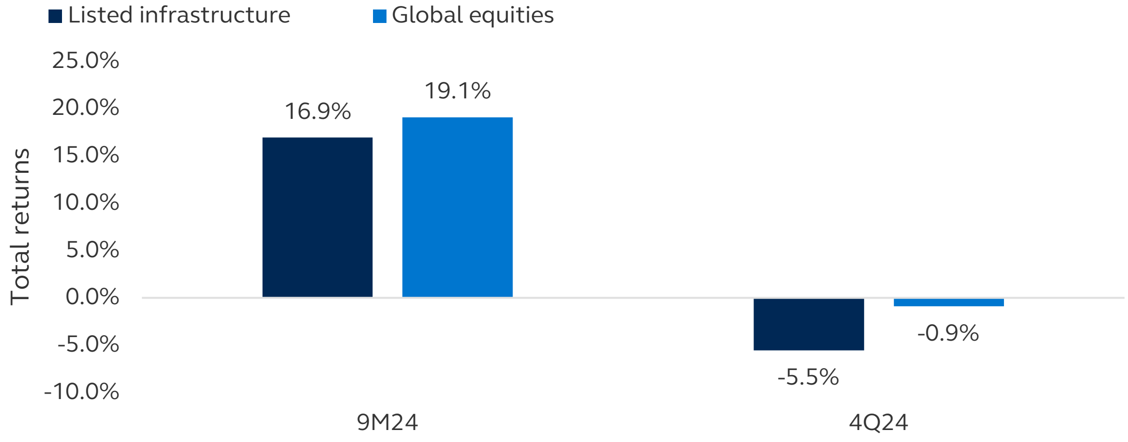
REASON 3

Near-term reversion of some ‘Trump 2.0’ trades could benefit pockets of GLI

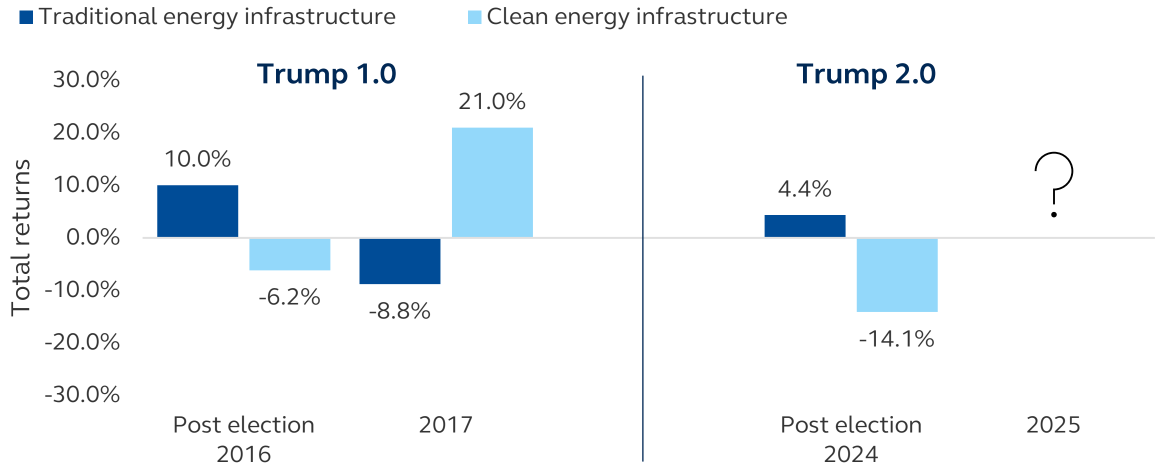
A Republican sweep in the U.S. presidential election unleashed strong performance from pro-growth areas of the market to end 2024, including potential beneficiaries of tax cuts and deregulation, at the expense of much of the GLI opportunity set. We see the impact of policies to come from President Trump’s administration as more balanced than market pricing implied to start 2025, and believe the potential positives of tax cuts, deregulation and ‘America first’ impulses must be weighed against the potential negative impacts of tariffs and a rising Federal deficit. The strength of the underlying economy and labor market, as well as the specific policies enacted and the timing of those policies, will matter a lot for growth and inflation outcomes in 2025.

We also note that the sharp divergence in the performance of clean energy stocks relative to traditional energy infrastructure post- the U.S. election reminded us a lot of what we saw in 2016. 2017 offered a great buying opportunity for renewables-exposed names, and those who did not chase traditional energy infrastructure were rewarded. While we do expect that the new administration will seek to repeal some provisions of the Inflation Reduction Act of 2022, our base case remains that tax credits supporting onshore wind and solar investment—the most meaningful aspect of the legislation for listed infrastructure companies—will remain in place. We therefore wouldn’t be surprised to see renewables stocks catch a bid once that outcome becomes clearer.

Events of the final quarter in 2024 had a significant impact on full year returns for listed infrastructure



Post- U.S. election performance of energy infrastructure looked a lot like 2016, and it ultimately proved an opportunity



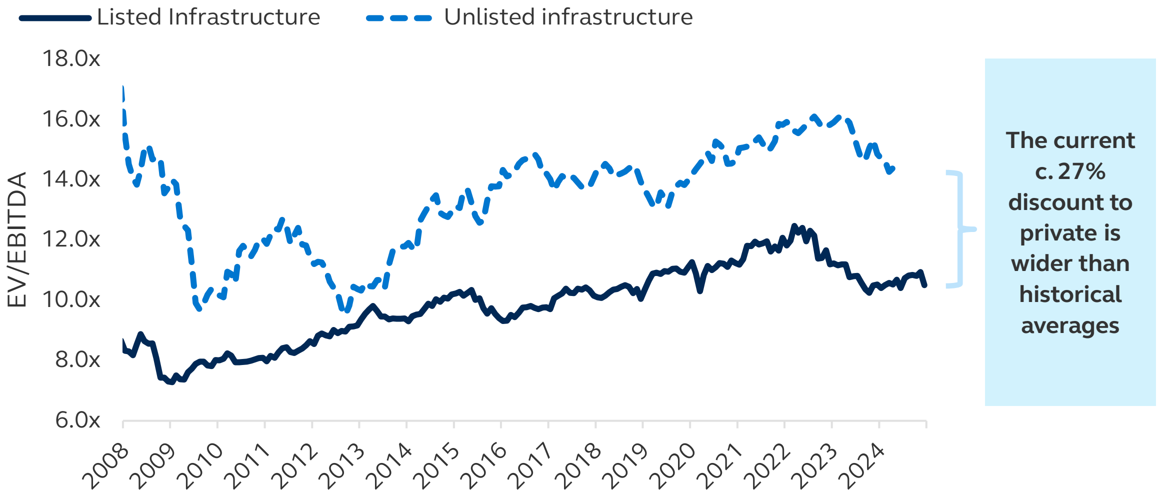
As of 31 December 2024. Source: FactSet. Listed infrastructure is represented by the FTSE Global Core Infrastructure 50/50 Index. Equities is represented by the MSCI ACWI Index. Traditional energy is represented by Alerian MLP Infrastructure Index. Clean energy is represented by the S&P Global Clean Energy Index. Past performance is not indicative of future performance and should not be relied upon to base an investment decision.

REASON 4

For investors looking to round out their private equity infrastructure exposure, GLI offers core assets at attractive relative valuations

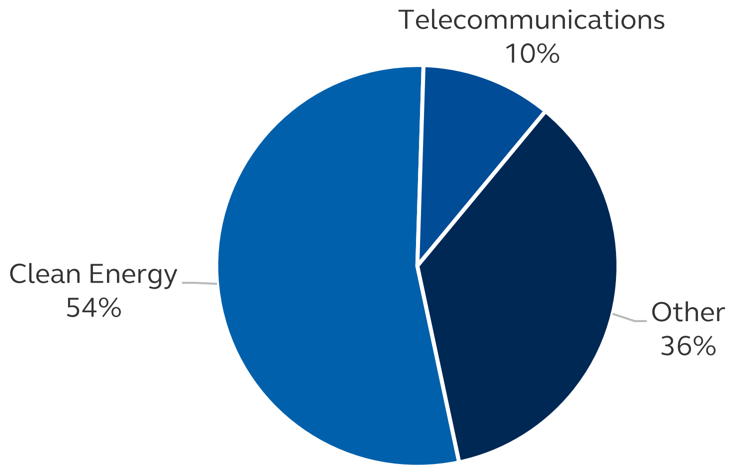
GLI screens at a discount to private equity infrastructure that is wider than historical averages, as it has for much of the post-COVID period. Recent private markets survey data also reveals that core private infrastructure remains out of favor, with investors showing a preference for higher returning private equity or debt strategies in the current interest rate environment. Strategies targeting the clean energy transition and data centers have also been in vogue, even as those investments may offer a different risk profile than traditional regulated assets. At the same time, GLI's asset risk profile remains consistent with investor expectations for core infrastructure. Based on our recent conversations, we are optimistic that 2025 could be a year of more institutions recognizing GLI as a cheaper way to access core infrastructure assets.

Listed infrastructure offers attractive relative value vs private equity infrastructure



As of 31 December 2024. Source: FactSet, Macquarie Asset Management. Straight average enterprise value (EV) to EBITDA price multiples are used to measure valuations for listed infrastructure (FTSE Global Core Infrastructure 50/50 index) for comparability with private transaction data. Macquarie Asset Management private EV/EBITDA data is based on 1,138 data transaction multiples for deals that reached financial close between January 2008 and June 2024. The dataset is diversified by sector, including transport, utilities, digital infrastructure, renewables, energy, and diversified. Indices are unmanaged and do not take into account fees, expenses, and transaction costs. It is not possible to invest in an index.

Recent private equity infrastructure transactions have been less focused on traditional core assets, suggesting a gap listed infrastructure can fill



As of 22 January 2025. Source: Preqin. Data based on 1,988 private infrastructure transactions from 1 January 2024, to 22 January 2025.

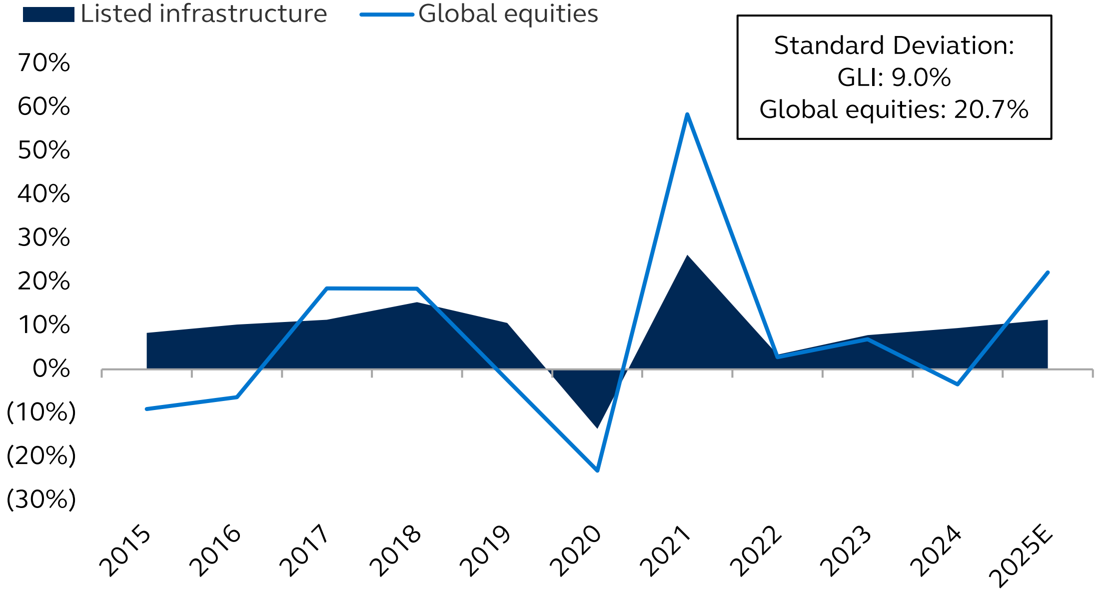
REASON 5

Given index-level valuations, diversifying your equity exposure continues to make sense

In today's market environment we are reminded of the quote from Sir John Templeton, "The only investors who shouldn't diversify are those who are right 100% of the time."

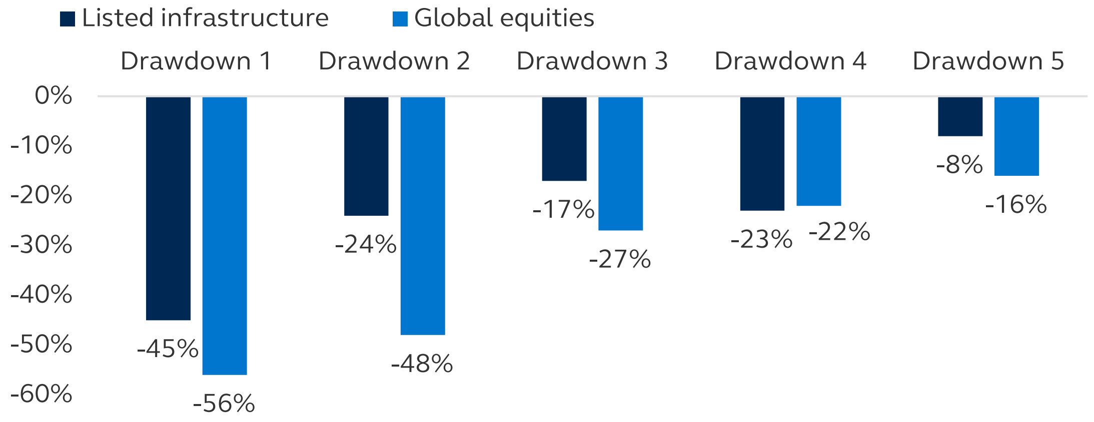
With many areas of the equity market priced for perfection, we aren't ready to throw in the towel on the diversifying role GLI can play in a portfolio just yet. The stable earnings and cash flow growth of listed infrastructure businesses, along with GLI's income-generating potential and inflation-linked revenue streams offer a unique value proposition in investor portfolios. Listed infrastructure also has a strong track record of outperformance during large equity market drawdowns.

Listed infrastructure businesses are fundamentally less volatile than global equity business



As of 31 December 2024. Source: FactSet. Earnings growth from the FTSE Global Core Infrastructure 50/50 and MSCI ACWI indices.

Listed infrastructure drawdowns have typically been less than equities



	Date range
Drawdown 1	October 2007–February 2009
Drawdown 2	March 2000–September 2002
Drawdown 3	December 2021–September 2022
Drawdown 4	November 2019–March 2020
Drawdown 5	February 2018–December 2018

As of 31 December 2024.Source: FactSet. Top 5 drawdown periods going back to the earliest available data across asset classes (1995). Listed infrastructure is represented by a 50/30/20 blend of MSCI ACWI Utilities Index, MSCI ACWI Transportation, and the Alerian MLP Index through March 2015, and the FTSE Global Core Infrastructure 50/50 Index thereafter. The FTSE index launched in March 2015. Global equities represented by MSCI All Country World Index. Past performance is not indicative of future performance and should not be relied upon to base an investment decision. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

CAVEATS TO OUR 2025 OUTLOOK

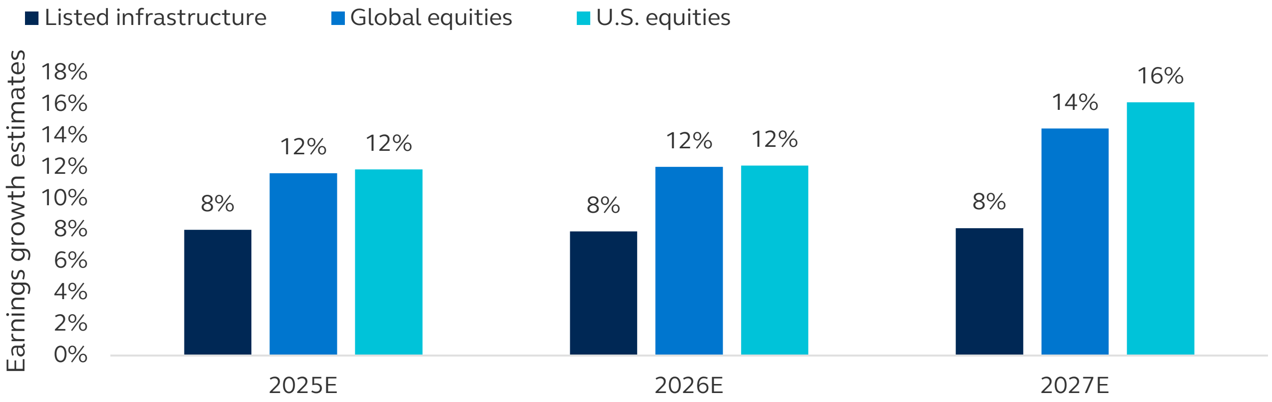
Expect GLI to continue to lag if the U.S. economy and/or earnings growth accelerates

We think there are two primary, interrelated reasons why investors may be wise to ignore GLI in favor of other public equity investment opportunities for one more year: if the U.S. economy, and/or earnings growth, accelerates from here.

Consensus expectations point to above trend earnings growth for U.S. and global equities in 2025, and in each of the next two years. While these expectations can of course change quickly, should this outcome materialize, we believe it is reasonable that GLI may again struggle to keep pace with other equity opportunities.

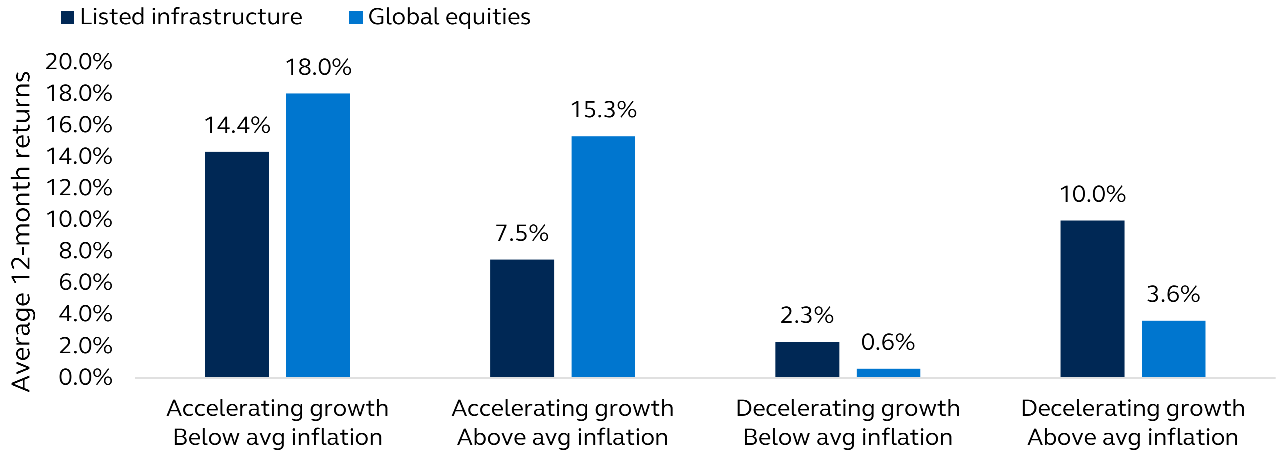
We also reference the economic regime framework that helps us shape our asset class views. Consistent with what we've seen historically, if the U.S. economy accelerates in 2025, we would expect GLI to again lag. Listed infrastructure has historically underperformed equities when economic growth accelerates, albeit still delivers positive, absolute returns.

Current consensus expectations point to GLI earnings growth again lagging that of other public equity opportunities



As of 31 December 2024. Source: FactSet. Earnings growth from the FTSE Global Core Infrastructure 50/50, MSCI ACWI, and S&P 500 indices.

Listed infrastructure typically underperforms when economic growth accelerates, albeit still delivers positive absolute returns



As of 31 December 2024. Source: FactSet. Growth represented by yoy change in real U.S. GDP growth. Inflation represented by the yoy change in U.S. core CPI. Listed infrastructure is represented by a 50/30/20 blend of MSCI ACWI Utilities Index, MSCI ACWI Transportation, and the Alerian MLP Index through March 2015, and the FTSE Global Core Infrastructure 50/50 Index thereafter after its launch. Global Equity is represented by MSCI All Country World Index. Past performance does not guarantee future results. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

Important information

Risk Considerations

Investing involves risk, including possible loss of principal. Infrastructure issuers may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, operational or other mishaps, tariffs and changes in tax laws, regulatory policies and accounting standards. Foreign securities involve special risks, including currency fluctuations, lower liquidity, political and economic uncertainties and differences in accounting standards. Some international securities may represent small and medium-sized companies, which may be more susceptible to price volatility and may be less liquid than larger companies.

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