InfraRed+Insights

Grappling with today's policy shifts

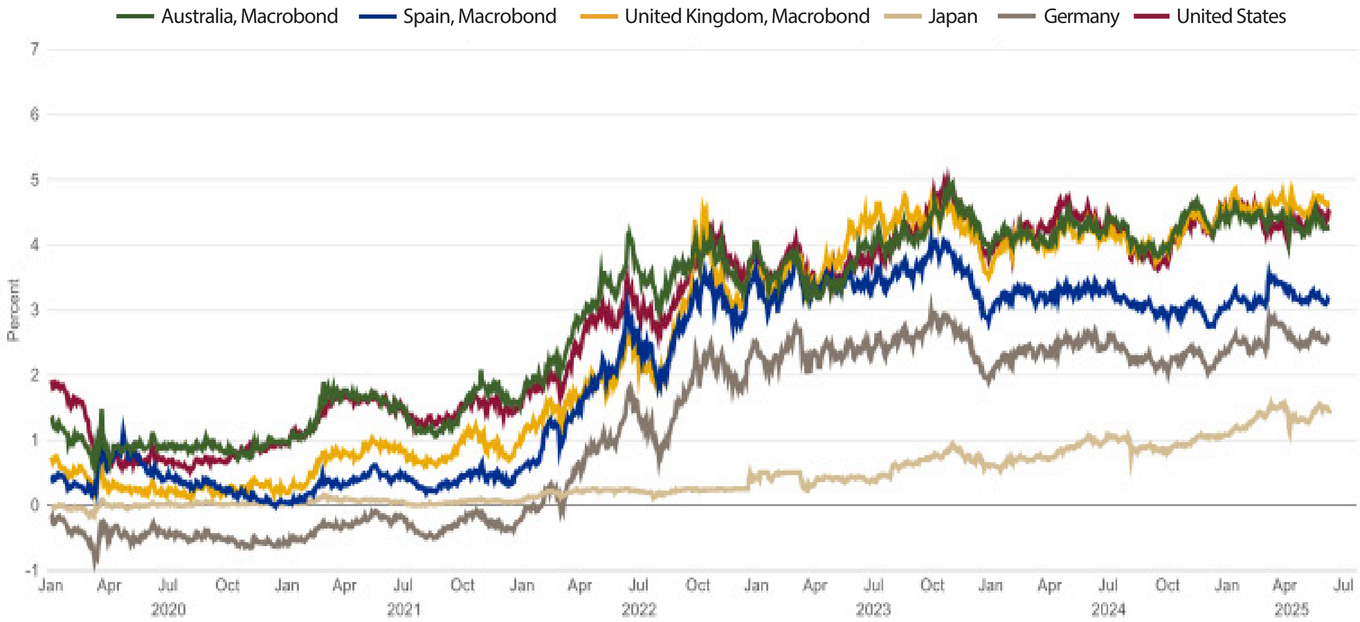
Why global geographical diversification could prove more important than in the past for infrastructure investors.

Historically, from an attribution analysis perspective, after hedging currency risk, sector and strategy have been more important in determining infrastructure portfolio performance than geographic exposure across mature markets.

However, today, in comparison to what investors have experienced over the last decade, the growing divergence in fiscal and trade policies across developed markets have become an increasingly important consideration for infrastructure investors, in our view.

Policy fragmentation reshapes portfolio risk: As nations respond differently to geopolitical pressures and trade polarisation, we are observing a gradual shift in government bond spreads across developed markets. This likely reflects an increasingly fragmented global policy environment and highlights the importance of geographic diversification in infrastructure investment decisions.

10-year Government Bond Yields - Advanced Economies



Source: U.S. Treasury, Macrobond as of 10/06/2025

The ongoing reshuffling of global trade is expected to create both winners and losers. In 2025, the spread between government bond yields in mature markets widened to approximately 400 basis points from about 200 basis points in 2020. Consequently, changes in the risk-free rate determined by country risk factors could significantly influence discount rates and asset valuations, becoming a crucial factor for determining whether portfolios outperform or underperform.

Diverging economic paths and "Risk-Free" rates: Global trade barriers, rising tariffs, and the reconfiguration of supply chains can have uneven impacts on countries. In the short-term, these factors generate uncertainty and can swiftly change investors' preferences, even when there are no fundamental changes to the market or policy environment.

In the medium-term, as trade becomes a less significant growth driver, fiscal policy may need to play a larger role in bridging growth gaps. However, governments' fiscal capacities vary significantly, with bond markets likely exerting greater influence on pricing country risk across developed nations than in recent history. In the long-term, access to transformative technologies like artificial intelligence is expected to shape growth trajectories and Debt/GDP ratios, adding an extra layer of complexity for investors to evaluate.

Global diversification: Our recent discussions with infrastructure investors, indicate a growing trend toward diversifying portfolios across developed markets.

Moreover, while adjusting allocations in response to short-term policy changes is understandable, more investors are recognising the importance of adopting a fundamental and "through-the-cycle" approach to assessing country risk. They are separating political noise from actual fundamental shifts in country risk. The example of the recent gradual de-escalation of U.S. tariffs is timely.

Relying on short-term policy shifts for investment decisions may lead to misalignments in risk-reward for long-term investors.

In our view, global strategies enabling managers to select and arbitrage between different markets also based on geopolitical, macroeconomic and market factors, may have a competitive advantage over regional strategies going forward. The same may be true for optimising sector exposure, as megatrends may continue to develop unevenly across different regions, in our view.

SPOTLIGHT

United States opportunistic yet still strategic: In 2025, interest in U.S. infrastructure has waned due to uncertainties surrounding tariffs and policies, with market sentiment often influenced more by political noise than fundamentals. Although many investors remain reactive and cautious, some view tariff uncertainty as a temporary issue and identify potential opportunities in short-term market dislocations. The renewables sector exemplifies this outlook; despite regulatory uncertainty, it may offer rewarding opportunities for investors with available liquidity.

Moreover, the U.S. remains the largest and most comprehensive infrastructure market globally and is favourably positioned for productivity gains from AI and technological innovation, underpinning its growth potential and maintaining its role as a crucial component of diversified investment portfolios.

Europe slow but steady: In Europe, cautious optimism prevails within a conventional policy environment, supported by stable regulatory frameworks that underpin infrastructure investment. Although growth is generally slow, fiscal support in countries like Germany fosters long-term prospects, while Southern Europe demonstrates improved fiscal stability compared to the 2010s. With inflation trending down, accommodative monetary policy further supports the environment.

The fragmented European market presents opportunities, particularly in the mid-market segment, allowing investors to explore newer infrastructure sectors such as edge data centres, battery storage, and heating and cooling decarbonisation.

United Kingdom charting a path to post-Brexit stability: Having faced unique post-Brexit challenges, the UK is now actively pursuing stronger integration through strategic deals that enhance European relations, supporting defence and trade. Despite economic sluggishness and inflation risks, the UK's increased fiscal policy discipline has positioned it as an attractive safe-haven prospect for investors amidst uncertainties in other developed markets, particularly the U.S., leading to expectations for a gradual decline in long-term government bond yields.

Central to fostering innovation and development is the "Mansion House Accord," which will channel pension fund capital into vital infrastructure projects. This initiative underscores the UK's commitment to leveraging private investment, facilitating collaboration between public entities and private investors to unlock new opportunities and ensure critical projects receive necessary support.

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