16th September 2022

Elston Insights

Infrastructure in focus: building back better

- Infrastructure spending to stimulate growth
- Beyond the US, this is a global trend
- Accessing the infrastructure beneficiaries

Infrastructure spending to stimulate growth

Increased global infrastructure spending could help stimulate slowing growth. This way of kick-starting the economy has been used in previous recessions across the world since the 1930s.

In the US, one of the key slogans of the Biden presidential was to "build back better". That commitment fostered the Infrastructure Investment & Jobs Act (IIJA), passed on November 2021 that creates over USD 1 trillion of infrastructure investment of which USD 550bn is new spending. The top five sectors for investment are road network, power infrastructure, rail infrastructure, broadband and water supply. Additionally, to support further the transition to clean energy, a new act passed in August 2022 cleverly branded as the "Inflation Reduction Act" will provide (in addition to reduced healthcare costs), reduced clean energy costs (via tax credits) and additional investment in clean energy for residential solar, wind and battery storage.

Beyond the US, this is a global trend

In addition to US spending, other governments are also looking to support economic growth with infrastructure spending.

In China, the Government is preparing for allocating up to CNY7.2bn (USD 1.1 trillion) to infrastructure spending to support the post-lockdown economy.

In the UK, the growing realization that our energy security has vulnerabilities is leading to invigorated policy-making to increase resilience. This has given further impetus to national infrastructure strategies to have more substance than in the past.

Accessing the infrastructure beneficiaries

Whilst institutional investors can invest in funds that provide access to private market opportunities in infrastructure, individual investors can invest in the securities of infrastructure companies to harness this theme.

With such significant investment coming into infrastructure worldwide in coming years, we look at three ETFs that provide access to this theme.

1. Infrastructure equities: investors can access exposure to global infrastructure equities via funds like the iShares Listed Infrastructure UCITS ETF (LON:INFR). With shares of over 200 infrastructure companies held within the fund, this is a convenient way of access this theme without taking stock-specific risk.

2. Infrastructure equities and bonds: for investors wanting a lower-volatility approach relative to infrastructure equities, the SPDR Morningstar Multi-Asset Global Infrastructure UCITS ETF (LON:GIN) tracks an index which consists 50% of global infrastructure equities and 50% global infrastructure bonds. This better reflects the key characteristics of infrastructure investing – the regular income funded by typically inflation-linked tariffs and tolls, as well as the equity value.

3. Energy transition: significant investment in coming years will be directed to companies enabling the transition to Net Zero. The iShares Global Clean Energy UCITS ETF (LON:INRG) provides broad exposure to this theme.

Summary

Whilst governments look to build back better, investors can attempt to build their portfolios back better by considering listed infrastructure securities for potential inclusion as a diversifier.

As we move into a "worst case scenario" for UK inflation outlook, a structural rethink how risk profiling relates to asset allocation, and how best to adapt asset allocations for inflation is necessary to protect client outcomes for the short- to medium-term.

Henry Cobbe, CFA

Head of Research

Elston Consulting

For all our Research & Insights on Alternative Assets, visit:

https://www.elstonsolutions.co.uk/insights/category/alternative-assets

Find out more

For more insights and information on research, portfolios and indices, visit:

www.elstonsolutions.co.uk or NH ETF<Go>

www.elstonsolutions.co.uk

ABOUT ELSTON

We research, design and build investment solutions with and for asset owners, managers and advisers.

Our Research & CPD focuses on multi-asset strategies, index funds and ETFs.

NOTICES

With reference to the European Union Directive 2014/65/EU on markets in financial instruments ("MiFID II"): this Report does not provide a recommendation for an action, provides information freely available for public consumption and does not therefore constitute "Research" as defined by MiFID II. This is because this report contains purely factual information on one or several financial instruments or issuers and does not explicitly or implicitly recommend or suggest an investment strategy. It does not therefore constitute an investment recommendation as defined within the meaning of Article 3(1)(35) of EU Markets Abuse Regulation ("MAR"), in conjunction with Article 3(1)(34) of MAR. For further information, please refer to ESMA guidance ESMA70-145-111 Version 12.

With reference to the European Union's Market Abuse Regulation (Regulation (EU) 596/2014): we warrant that the information in this report is presented objectively, and the following commercial interests are hereby disclosed: Elston Consulting Limited creates research portfolios and administers indices that may or may not be referenced in this report. If referenced, this is clearly designated and is to raise awareness and provide purely factual information as regards these portfolios and/or indices.

An "Index" is a Regulated Benchmark. An "Index Portfolio" is not a regulated benchmark but a research portfolio of index-tracking investments with a periodic rebalancing scheme.

All company, product and service names and trademarks used in this article are for identification purposes only and are the property of their respective owners, and their usage does not imply endorsement.

This document is not an advertisement or financial promotion. It is provided for informational purposes only and is not intended to be an offer or solicitation, or the basis for any contract to purchase or sell any security or other instrument, or for Elston Consulting Limited to enter into or arrange any type of transaction as a consequence of any information contained herein.

This document is issued by Elston Consulting Limited registered in England & Wales, registration number 07125478, registered office: 1 King William Street, London EC4N 7AF.

© Elston Consulting Limited. All rights reserved No unauthorised reproduction.