



# GLOBAL LISTED INFRASTRUCTURE

## Market Commentary

### Q3 2019

#### EXECUTIVE SUMMARY

- Listed infrastructure extended its strong performance in 2019 with a 2.3% return in the third quarter.
- Institutional investors continue to be attracted to infrastructure assets that produce stable, visible returns from essential assets that support daily functions of the economy.
- We remain positive on the outlook for continued solid returns. The combination of secular trends, the need to invest to maintain and upgrade existing infrastructure, and discounted valuation positions the asset class to continue to deliver strong returns.

#### OUTLOOK AND STRATEGY

Institutional investors continue to be attracted to infrastructure assets that produce stable, visible returns from essential assets that support daily functions of the economy. Predictable cash flows drive growing income streams that are attractive in a market where macro uncertainties are heightened and yield is scarce. Listed infrastructure offers immediate exposure to those high quality assets at a discount to the valuations at which those same assets trade in the private market. The combination of discounted valuation and lower trading volatility than global equities make listed infrastructure a powerful complement to both private infrastructure and global equity allocations.

We remain positive on the outlook for listed infrastructure returns. Investment needs continue to create opportunities for infrastructure companies to deploy capital at attractive returns, driving growth in earnings and dividends. There are also secular themes we believe will support growth even in an uncertain economic environment, including most notably: (1) decarbonization in energy supporting renewable and natural gas infrastructure investments, and (2) rapid data growth globally resulting in organic growth for companies that facilitate transmission, processing and storage of data.

The combination of secular growth trends, the need to invest to maintain and upgrade existing infrastructure, and discounted valuation positions the asset class to continue to deliver strong returns.

## MARKET PERFORMANCE REVIEW<sup>1</sup>

Listed infrastructure extended its strong performance in 2019 with a 2.3% return in the third quarter. Americas led the way in the quarter up 5.6% which was driven by strong U.S. returns. The U.K. finished flat while Emerging Markets and Continental Europe were down. Developed Asia was down -3.7% in the quarter. Sovereign 10-year treasury yields around the globe fell during the quarter as quantitative easing and rate cuts continued in major economies.

The performance of infrastructure stocks in the Americas continued to be strong in the third quarter, lifting global infrastructure to another quarter of positive returns. Utilities were a strong performer in both countries and had high single-digit returns. U.S. towers continued to trade higher and significantly outperformed. Midstream underperformed global infrastructure in the U.S. and Canada; however, the group ended positive in Canada whereas it lost ground in the U.S. After a great first half of the year, both the U.S. and Canadian rail sector lagged and finished negative as volumes continue to slow.

The U.K. remained flat. The water and satellite industries finished positive. Continental Europe was mixed across sectors. Satellites and Towers outperformed sharply. Regulated and integrated utilities underperformed. Transportation was the big laggard as airports, ports, rail, and toll roads were the four worst performing infrastructure groups in Europe, reflecting weaker economic outlook for the region.

Developed Asia was the worst performing region due to difficult conditions in Hong Kong and underperformance in Australia, its largest weighted country. Hong Kong's protests continue to have a lingering impact on the nation's broader market. Australia's transportation sector brought down performance as toll roads gave back some gains after a strong first half of the year. Japan outperformed due to gas utilities and rail.

## IMPORTANT DISCLOSURES

<sup>1</sup>All discussion of performance of infrastructure stocks refers to the UBS Global Infrastructure & Utilities 50-50 Index - Net of Withholding Taxes through 02/28/2015 and FTSE Global Core Infrastructure 50/50 Index - Net of Withholding Taxes from 03/01/2015-09/30/2019.

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The FTSE Global Core Infrastructure 50/50 Index provides exposure to infrastructure as defined by the Industry Classification Benchmark (ICB) and adjusts the exposure to certain infrastructure sub-sectors. Company weights are limited to 5%. The UBS 50/50 Index is an unmanaged market-weighted index which consists of infrastructure and utility companies from developed markets whose floats are larger than US \$500 million. PA10222019