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Infrastructure Investments in Europe: The Big Issues in 2024

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The year 2024 has been off to an interesting start and we expect overall much to happen that will influence the infrastructure markets as well as the opportunities that they present to investors. At the base are five key macroeconomic trends that are defining the environment in which deals are done:

1- Economic Growth

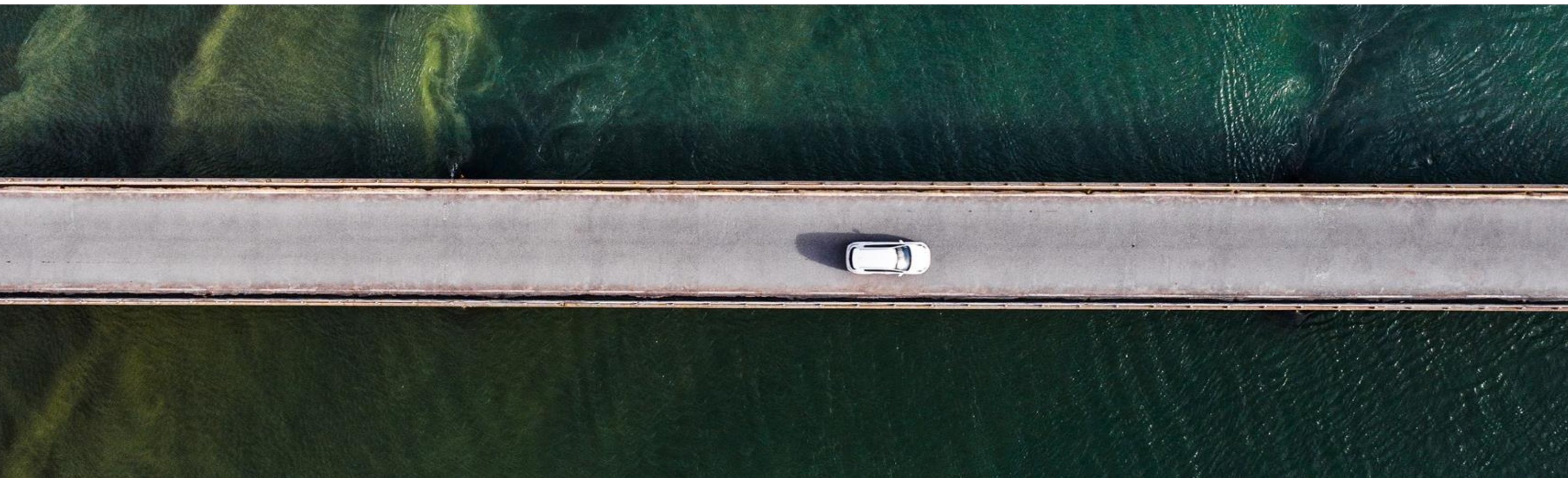
There was stagnation in the Europe in 2023 with GDP growth inferior to 0.5% for the region and several countries sliding into recession, such as Germany, UK, Ireland and Finland. For 2024, only a modest improvement is expected and growth estimates range between 0.5% and 1%.
This is against a background of slow global growth, where the IMF revised its forecast down to slow from 2.4% in 2024 (after 2.6% for 2023) – the third consecutive year of falling global growth. All the while, China is struggling with its own internal issues and the US has ceased to be a reliable source of growth impulses. In consequence, Europe cannot expect favourable economic tailwinds.

2- Inflation

The good news over the past months has been that the significant inflation shocks of 2022 and 2023 are being absorbed. Inflation across Europe has been coming down, mainly on the back of energy prices normalising and secondary shocks – like for example to food prices – being contained. There is now a glide path towards the 2% central bank target in 2024 and many economists expect that there will be more progress from the current levels throughout the year. However, markets remain sceptical as to whether those targets shall be achieved by year-end, particularly as every step towards 2% becomes harder than the one before, all the while inflation expectations keep a certain level of pressure up.

3- External Shocks

The geopolitical landscape remains fragile. While it is notoriously difficult to predict geopolitical events even for the near-term future, we do have a series already stressed spotlight events ongoing: The war in Ukraine is not abating and most experts expect it to continue for much longer; escalating tensions in the Middle East triggered by the events in Israel and Gaza are spreading and containment seems difficult; Iran remains set on further destabilising the region and trying to disrupt international trade via its agents; the US and increasingly also



European relations with China have been deteriorating further and a rapid and decisive turn-around in stressed diplomatic relations remains unlikely. And this is before we start considering other potential flashpoints. In consequence, there is significant potential for external shocks to stress the financial markets, which in turn creates nervousness and volatility.

4- Interest Rates and central bank policy

It has become clear that the rising interest rate environment has ended with peak rates registered in October 2023. However, rather than entering a period of stability with a more or less straight and gradual path towards a lower-rate environment as we had before the shocks of 2022 and 2023, the final quarter of last year was characterised by great interest rate volatility. The 10-year German Bund, usually among the more stable financial instruments in Europe saw its yield fluctuate as much as 50% in Q4, a prime example on how difficult the markets found it to digest all the information and settle on a more stable range.

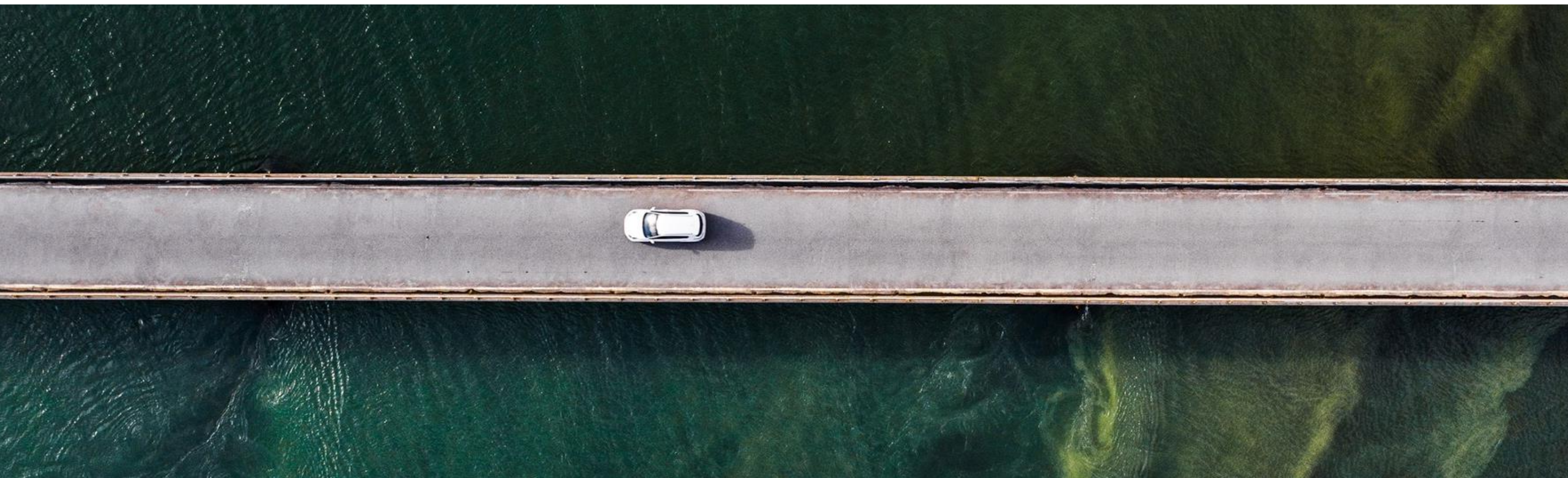
5- Strategic Demand for infrastructure

Infrastructure investments have always had a certain level of strategic importance for any country, but given the particular challenges regarding energy autonomy and digitalisation efforts in Europe, those two areas have become much more pertinent. There are strong economic, social and political tailwinds, especially for energy and digital infrastructure, to upgrade existing installations, expand existing networks and create new infrastructure that can satisfy the growing demands and underpin future growth.

In practice this means that going forward financial markets will have to overcome a series of challenges, both known and unknown, that could derail things quite quickly. 2024 will remain challenging on numerous fronts and the tail risks are considerable, particularly those of a geopolitical nature. Investors know this and are positioning their portfolio exposure accordingly.

For infrastructure this has some important consequences: the defensive nature of the asset class is increasingly used to counter market volatility and the additional spreads due to the illiquidity and complexity premia inherent in those investments protect returns as they put an additional buffer underneath. We see increasing demand across the board, but particularly for infrastructure projects that have strong cash flows and are shock resilient.

The current year might be difficult for investors to navigate, but at least they can find a safer haven in infrastructure.



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Thank you