COHEN & STEERS

Infrastructure tailwinds could get boost from $2T Biden plan

by Ben Morton

The President's proposal would add fuel to infrastructure themes in clean energy, data growth and an economic recovery, potentially strengthening an already attractive environment for listed infrastructure businesses.

Positive implications for listed infrastructure

On March 31st, President Joe Biden proposed over $2 trillion in spending and tax credits to fix deteriorating roads and bridges, modernize America's power grid, accelerate the transition to clean energy, expand the reach of high-speed internet service, and address other areas of need such as education, housing and health care. Though the plan in its current form appears unlikely to gain Republican support, we believe a modified version may be passed by the Democratic-controlled Congress using the budget reconciliation process, which would put a potential signing in late 2021 or early 2022.

We see the proposed spending package and tax changes as a clear positive for listed infrastructure, tying into key themes we've highlighted over the past year in decarbonization, data growth and the transport recovery:

- Direct benefits for renewable energy developers and electric utilities, primarily through tax incentives
- Potential for new revenue opportunities for cell tower and data center companies due to a larger addressable market for wireless carriers
- Added boost to economic growth prospects, potentially supporting many segments of listed infrastructure (particularly railways, marine ports, toll roads and airports)

EXHIBIT 1

How key provisions could benefit listed infrastructure

	Provision	Impact	Potential beneficiaries
$2.4T	Total proposed spending	Supportive of stronger economic growth and higher inflation	Most subsectors, especially transportation infrastructure
$100B	Power infrastructure	Renewable energy growth opportunities	Electric utilities, renewable energy developers
$100B	Digital infrastructure	New rural opportunities for digital expansion	Cell towers, data centers
$111B	Water infrastructure	Opportunities for water quality improvements	Water utilities
$621B	Transportation infrastructure	Greater attention to need for additional investment	Railways, toll roads, ports

At March 31, 2021. Source: whitehouse.gov, Cohen & Steers. The mention of specific sectors is not a recommendation or solicitation for any person to buy, sell or hold any particular security in a sector and should not be relied upon as investment advice. See page 4 for additional disclosures.

KEY TAKEAWAYS

Electric utilities with wind, solar and transmission assets are potential direct beneficiaries from new tax incentives and rising demand for renewables

Economic stimulus could support higher throughput for transportation infrastructure and midstream energy

A higher corporate tax rate would likely have materially less impact on infrastructure companies (particularly utilities) than most other sectors of the market

Expanding support for renewable energy

Direct benefits may come from tax credits and increased demand for clean energy

Funding for renewables, transmission and electrification could benefit electric utilities

The proposal includes a 10-year extension of renewable credits (likely inclusive of energy storage), new tax credits for electric transmission projects, and support for electric vehicle credits and electrification of new buildings. Because of "refundability" of tax credits in the plan, renewable developers would essentially receive cash in lieu of simply booking credits. Furthermore, the proposal could drive stronger demand for renewables by reducing already-low costs for wind and solar power, making them a more competitive option as utility companies gradually replace the power generation from retired coal plants. These factors could directly benefit electric utilities and improve return potential for renewable developers.

Targeting 30 gigawatts of offshore wind power by 2030

Concurrent with the infrastructure proposal, the administration expanded on its efforts to support offshore wind, calling for $12 billion a year in capital investment on both the east and west coasts. This includes new lease sales in the shallow waters off Long Island and the New Jersey coast—a 19,000-square-mile area known as the New York Bight—which was classified as a new priority Wind Energy Area. This development could be a major positive for infrastructure companies developing large-scale offshore wind projects.

A step toward cleaner water

The plan includes $111 billion to replace lead pipes and upgrade the U.S. water distribution system. We believe the overall need is likely substantial enough to accommodate both additional public spending and private investment, drawing attention to the opportunity for upgrading the water supply system.

Benefits from economic stimulus and broadband expansion

Indirect benefits may come from a stronger economy and new digital infrastructure revenue opportunities

Potential for increased throughput for transportation infrastructure

Added fiscal stimulus should contribute to a stronger economic recovery over time, indirectly supporting higher volumes and cash flows for transportation infrastructure such as freight rails, airports, marine ports and toll roads. More government spending could also lead to higher inflation. Notably, most infrastructure assets are regulated or concession based, with pricing mechanisms that allow for periodic rate increases linked to inflation. These cost pass-through mechanisms historically have led the asset class to perform well in periods of higher-than-expected inflation (Exhibit 3).

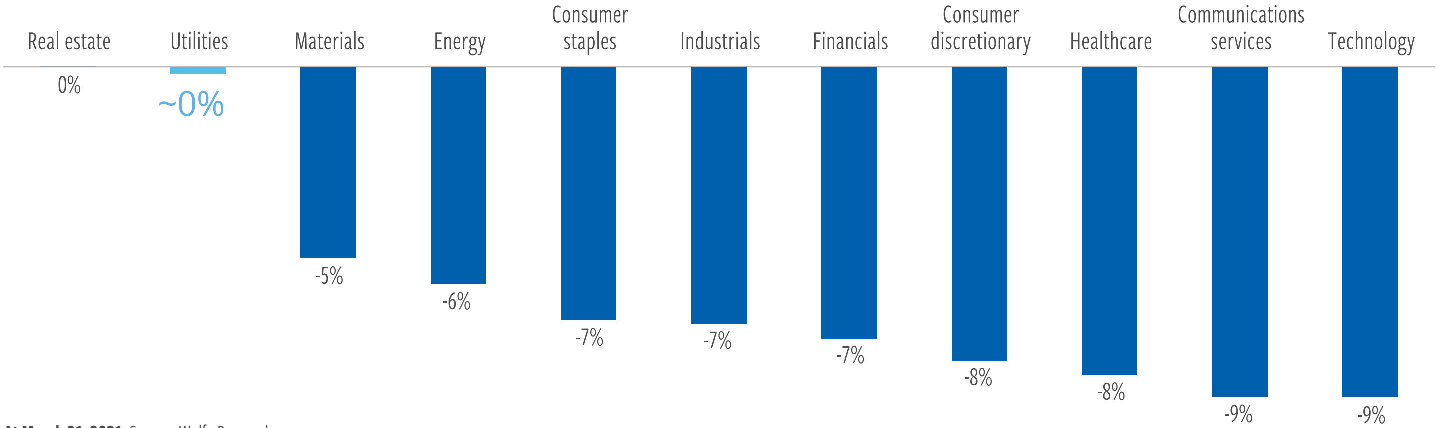
Cell tower owners may benefit from expanded broadband access

The Biden plan includes $100 billion to provide high-speed broadband access to underserved communities and rural areas. By expanding the addressable market for telecom providers, this investment could indirectly benefit cell tower and fiber-optic companies, potentially creating new revenue opportunities over time.

EXHIBIT 2

Utilities likely among the least affected by a corporate tax hike

Estimated change in earnings per share based on proposed 28% corporate tax rate, by sector



At March 31, 2021. Source: Wolfe Research.
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EXHIBIT 3

Inflation sensitivity

Beta to unexpected inflation 1991–2020

5.2 Global listed infrastructure

Infrastructure has historically outperformed its long-term average by 5.2% for every 1% that inflation exceeded the prior-year expectation

0.8 Global equities

-0.8 U.S. Treasuries

At December 31, 2020. Source: Bloomberg, Thomson Reuters Datastream, Cohen & Steers proprietary analysis.
Data quoted represents past performance, which is no guarantee of future results. Data above is for illustrative purposes only and does not reflect the performance of any fund or account managed or serviced by Cohen & Steers. There is no guarantee that investors will experience the type of performance reflected above. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. Inflation beta calculates the linear regression beta of 1-year real returns to the difference between the year-over-year realized inflation rate (U.S. Consumer Price Index) and lagged 1-year ahead expected inflation (University of Michigan Survey of 1-Year Ahead Inflation Expectations), including the level of the lagged expected inflation rate. Linear regression is a statistical method that models the relationship between a dependent variable and one or more explanatory variables. See page 4 for index associations, definitions and additional disclosures.

Limited impact from proposed tax increases

To fund the plan, President Biden has proposed raising the corporate tax rate to 28% from 21% (along with other tax changes). However, many infrastructure companies (particularly utilities) have the ability to pass tax increases on to consumers in the form of higher bills, and they are therefore less likely to be affected by a higher corporate tax rate, in our view.

Enhancing an already strong case for infrastructure allocations

We believe the renewed focus on infrastructure comes at a particularly attractive time for investors looking to add diversification and inflation sensitivity to their portfolios:

- **Secular and cyclical investment themes:** The digitalization of economies and the shift to renewable energy offer potential long-term growth opportunities in infrastructure, while fiscal and monetary stimulus and vaccine distribution are supporting an improving macroeconomic backdrop.
- **Relative value opportunity:** Global listed infrastructure is as cheap as it has been in over 10 years relative to global equities, with asset class cash flow multiples currently at a discount (compared with a typical 1–2x multiple point premium).[1]
- **Potential portfolio benefits, including inflation defense:** Historically, global listed infrastructure has delivered 62% of the upside of global equities and just 51% of the downside, potentially helping to reduce overall portfolio volatility.[2] Listed infrastructure may also help position portfolios for unexpected rising inflation due to its inflation-linked cash flows (Exhibit 3).

(1) EV/EBITDA spread of global infrastructure minus equities was -1.3x at March 31, 2021, compared with a pre-pandemic average premium of 1.3x (2011-2019). Represents ratio of enterprise value to earnings before interest, taxes, depreciation and amortization using current fiscal-year estimates.
(2) Performance relative to the MSCI World Index in periods of positive returns (upside capture) or negative returns (downside capture) over the 10 years ended 12/31/2020. Source: FTSE, MSCI, FactSet. See page 4 for index definitions and additional disclosures.

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