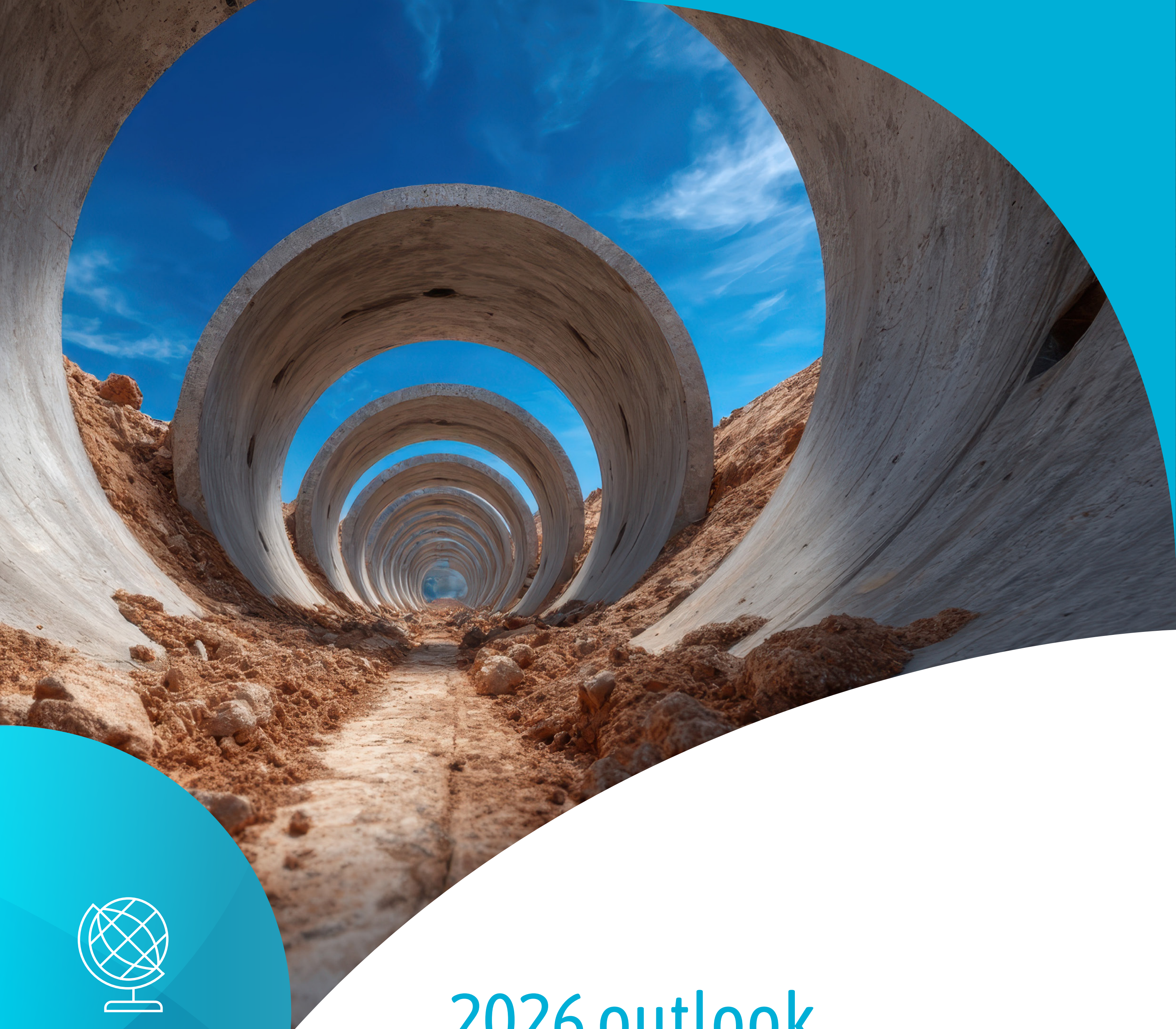


Global Matters

2026 outlook

January 2026

4D infrastructure

A Bennelong boutique

2025 was a year that had it all – 20% equity market drawdowns, global trade wars, heightened economic policy uncertainty, record AI investments and the bombing of nuclear facilities. Despite the volatility that Trump rhetoric and actions brought to markets and life in general, the worst of the trade and economic policy fears were pared back, fundamentals shone through, and markets ended the year at record highs. Global economic growth held up well and inflation continues on a downward trend with most Central Banks getting towards the end of their rate cutting cycles.

In this article, Tim Snelgrove (Investment Director) and Sarah Shaw (Global Portfolio Manager) discuss the key factors currently in play and consider other more recent developments that could impact the global economy over the medium to long term. We highlight several key themes for 2026 and the impact our economic outlook will have on the global infrastructure sector and how it has shaped our portfolio positioning.

Contents

2025 year in review

As we said in our 2025 Outlook, published in January 2025, we "expect moderating growth, inflation and rates." The main themes and risks were Trump 2.0 policy implementation (tariffs, immigration, deregulation and taxes) and geopolitics (Middle East, Ukraine and South China Sea).

More specifically on the former:

> *The new Trump Administration in the US is a major wildcard for the year ahead – both economically and geopolitically, domestically and abroad. While Trump's main campaign policies and threats are known (tariffs, taxes, immigration, deregulation) – the degree of implementation and timing are still fluid.*
>
> *Overall, these factors suggest a scenario of higher nominal US growth, elevated inflation, and favourable domestic drivers for corporate earnings, tempered by the potential downside risks from global trade tensions and geopolitical instability. Outcomes are more uncertain with higher downside risk.*

This played out in the first half of 2025. As a result of April's 'Liberation Day' we saw heightened economic and policy uncertainty – which impacted investor confidence and expectations across the real economy. Trump backed down from his most drastic tariff threats and pushed implementation timeframes constantly – often due to spikes in the US 10 and 30 year yields, which ignited the TACO trade ('Trump Always Chickens Out'). The passing of the One Big Beautiful Bill Act (OBBBA) on July 4th fuelled concerns over the bloated US government debt balance and kept pressure on longer term yields and saw a steepening term premium. Geopolitically, Trump took unprecedented action by bombing Iranian nuclear facilities and maintained a protectionist and isolationist agenda, in particular with China and Europe.

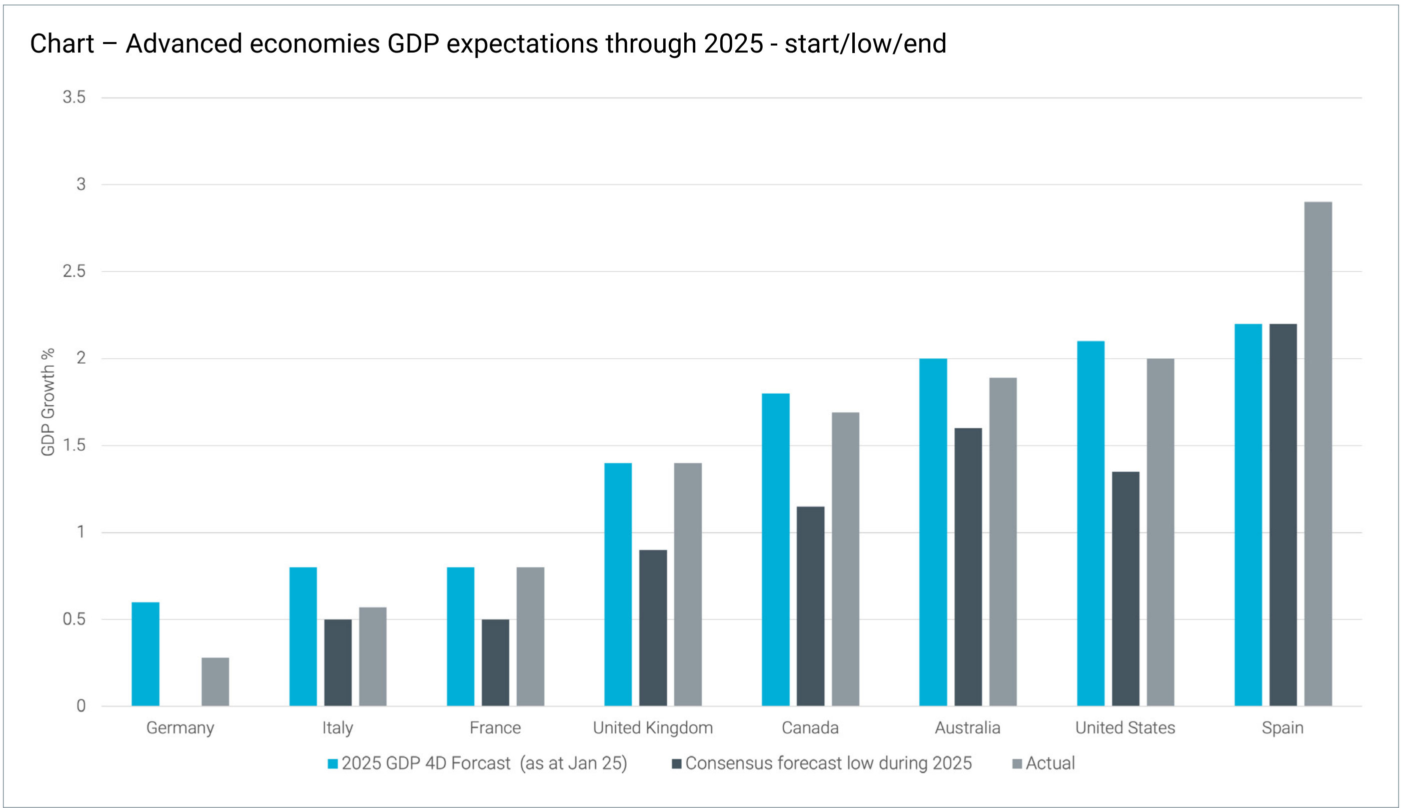
In the second half, we saw an unprecedented government shutdown, lasting over six weeks. While most of the economic impact is temporary (as Federal workers get backpay), there is some impact on consumer confidence feeding into lower spending. More importantly, a delay or outright skipping of official BLS economic data meant the Fed and markets were flying blind and had to rely on alternate measures of economic health. Continued AI capex announcements fuelled the AI and hyperscaler rally to new heights – and continued the theme of the prior few years with US index weights heavily skewed to tech winners, which were also driving index gains. The USD ended the year 10% lower, as Trump's actions raised concerns around the dominance of the USD, as well as central bank diversification into gold, twin deficits, moderating economic growth and rate differentials.

On the geopolitical front, despite Trump meeting with Putin in Alaska in August, and ongoing negotiations all year, a viable solution in Ukraine remains elusive. Trump started 2026 with a swift capture and arrest of Venezuela's president, Nicholas Maduro, with the path forward highly uncertain (encouraging investment, rebuilding infrastructure, maintaining political and social stability, timeframe to increase oil sales etc). At the same time, increasing tension over Greenland puts the NATO alliance at real risk.

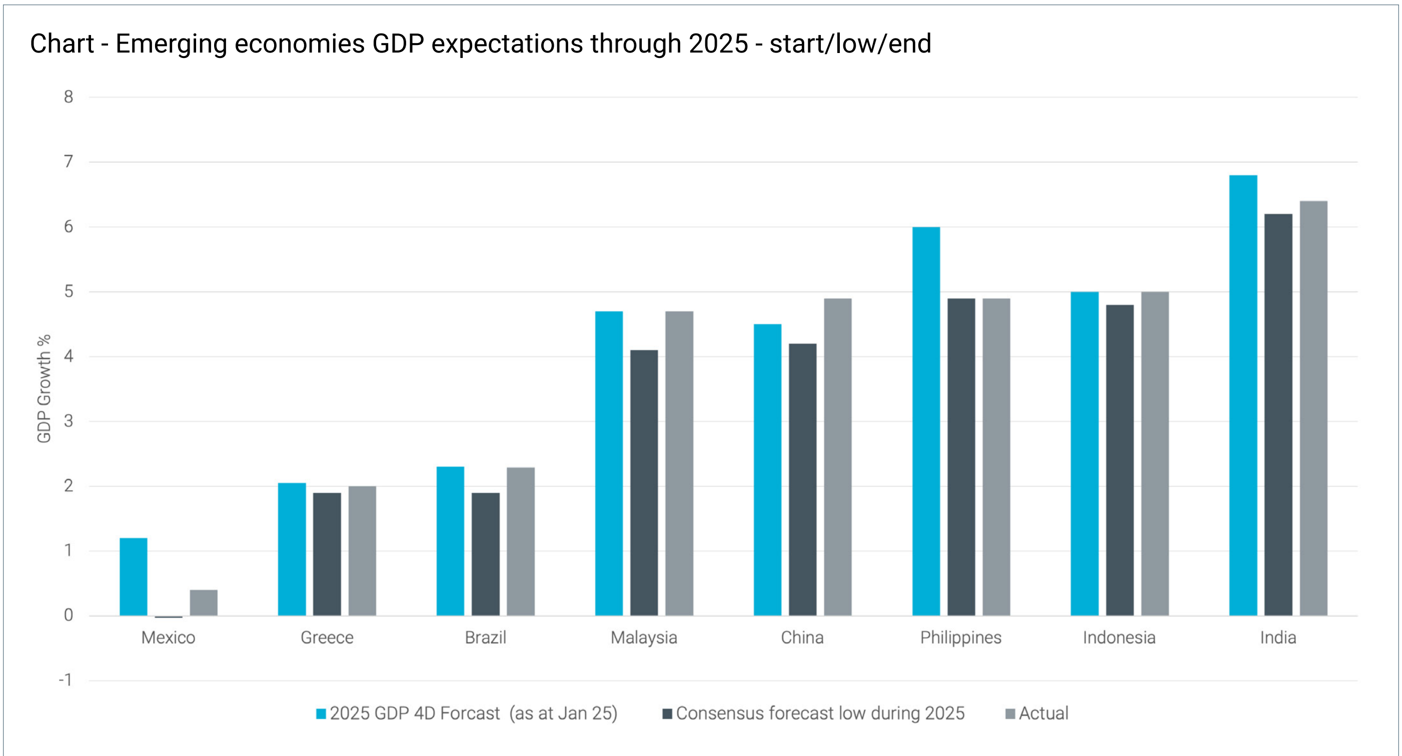
Over 2025 the main macroeconomic variables moved as follows:

GDP growth was much better than feared during the year

The year started with mostly moderating growth expectations across the major economies. These expectations were cut further after 'Liberation Day' with big downward revisions to growth. This was largest in advanced economies, while emerging economies had lower degrees of downgrades through the year (except for Mexico). Most markets ended close to their start of year expectations.



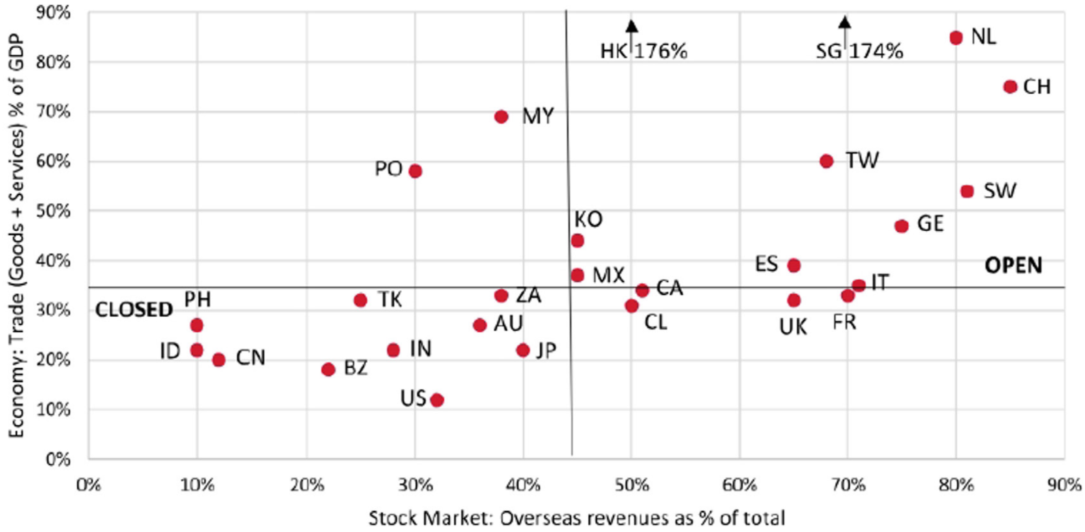
Source: 4D, Bloomberg.



Source: 4D, Bloomberg.

One of the reasons the emerging markets held up well is because most are relatively closed markets. This can be seen when looking at their trade as a percent of GDP versus overseas revenues as a percentage of their overall stock market.

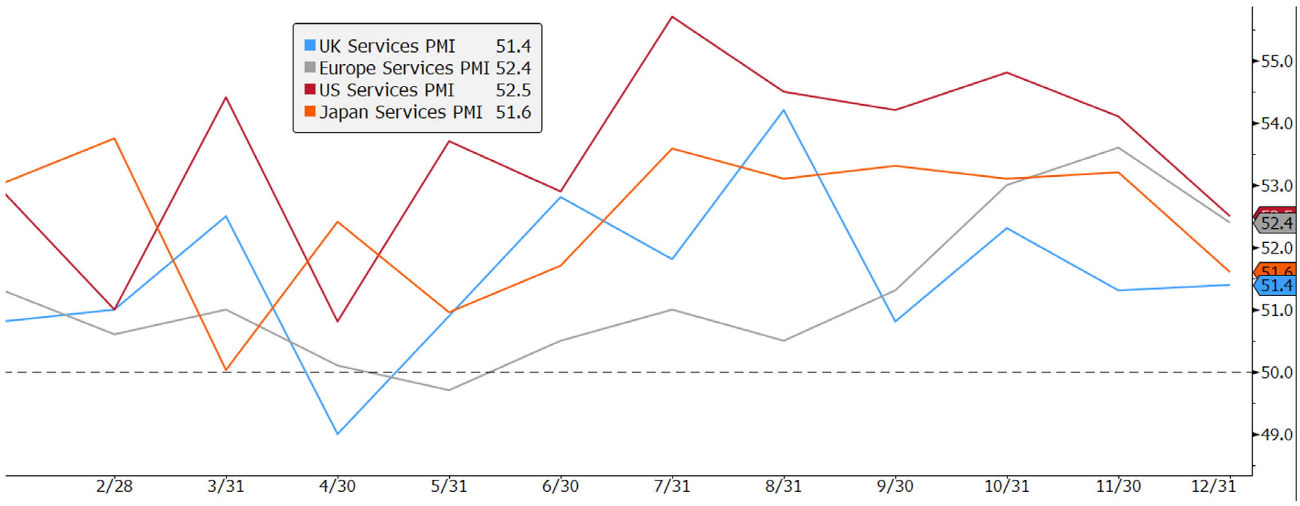
Chart – Most emerging markets are relatively closed



Source: Scotia.

Global growth has remained resilient with global service PMIs remaining in expansionary territory throughout the year (above 50).

Chart – Major western economy service PMIs

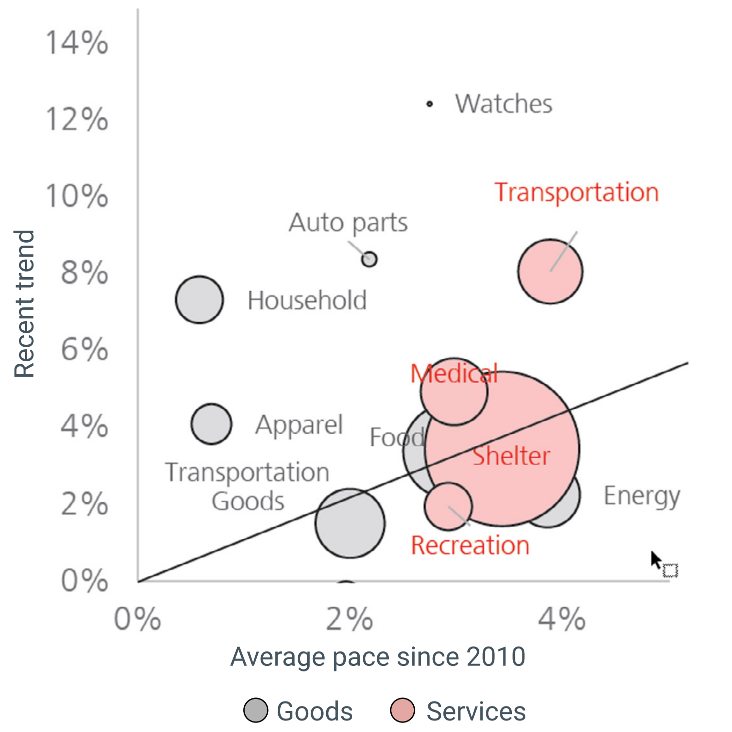


Source: 4D, Bloomberg.

Inflation mostly remaining well behaved

Despite most of Trump's policy agenda being inflationary (tariffs, looser fiscal stance and tighter immigration policy), there was not the tariff-induced spike that many feared earlier in the year. Whether this is just delayed and pushed into 2026 is still unknown – but still a possibility – with most tariff-related analysis showing offshore exporters and US importers and retailers having absorbed most of the tariff hit and not passed these through to consumers via prices (and thus CPI) as yet. Some goods in the US have seen a tariff effect (auto parts, household goods, watches) but the bulk of the CPI basket is in the more domestic focused services and less affected by trade.

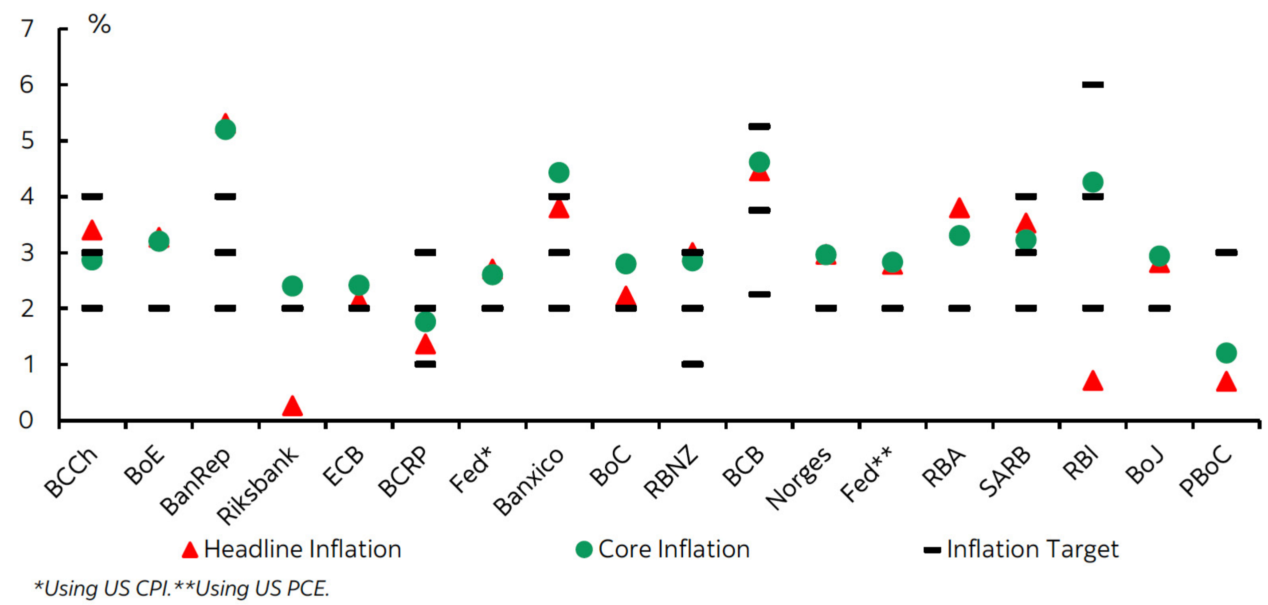
Chart – Modest tariff effect on US CPI; CPI inflation and three month annualised change



Bubble size corresponds to CPI weight, Oct 2025.
Source: UBS.

Inflation in Europe is back within range – and actually at risk of undershooting the ECB target, while the UK remains the most elevated, with small glimmers of hope as to a downtrend. Inflation, after decades of dormancy, is starting to sustainably pick up in Japan, which has led to monetary policy normalisation (via hikes) and the highest long end yields in 30 years.

Chart – Inflation vs Central Bank targets

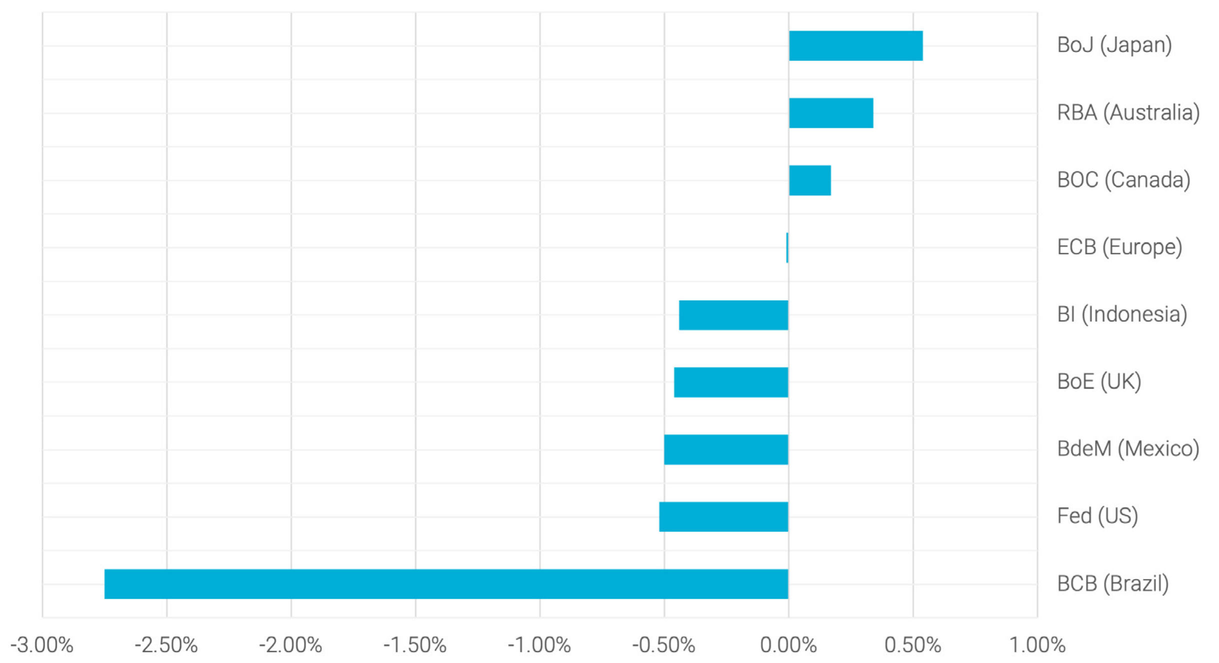


Source: Scotia Economics.

Global policy rates moved lower and close to the end of this cutting cycle

By the end of 2025, most central banks in developed markets (DMs) are near the end of their easing cycles, with the largest cuts in 2025 being by the Fed and BoE. For the Fed, the policy rate is still furthest away from its neutral rate.

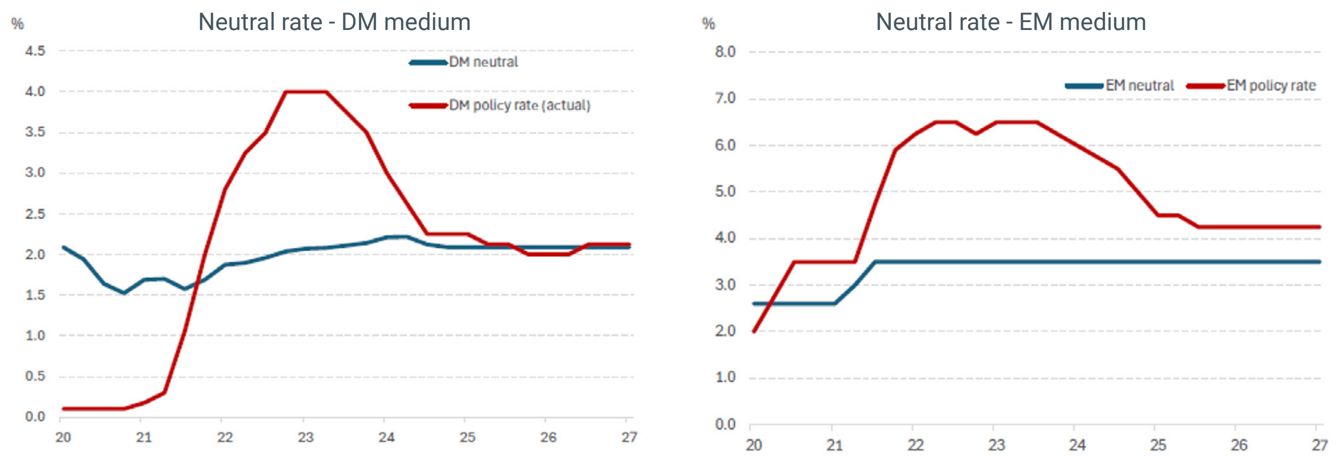
Chart – Market implied policy rate changes by 2026 year end



BCB, Mexico & Indonesia are consensus forecasts, all others are market implied rate cuts.
Source: 4D, Bloomberg.

For emerging markets (EMs), policy rates have fallen significantly this cycle towards 4% but still remain slightly restrictive.

Chart – DM & EM policy rates vs neutral rate this cycle

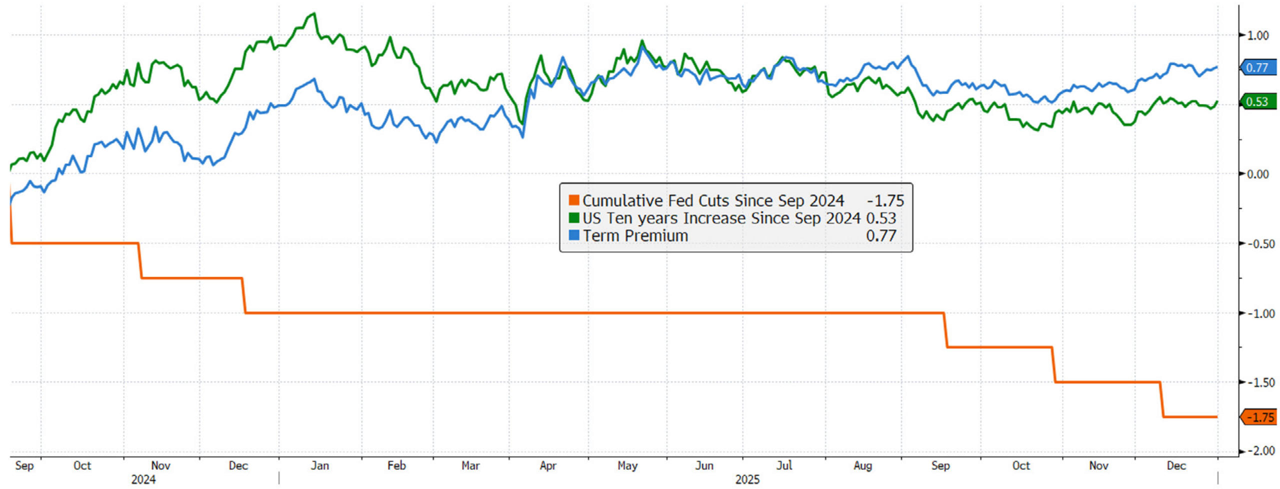


Source: UBS.

Long end yields moved higher driven by higher term premiums

The persistent rise in government debt around the world has remained a central concern to markets in 2025 – and will continue into 2026. This has led to steeper yield curves across the globe, driven by higher term premiums. By the end of 2025, the Fed had cut official rates 175bps (all since September) while 10-year yields increased 53bps and the term premium increased 77bps. Long term yields reflect expected future short-term rates as well as longer-run views on inflation, growth and a 'term premium' for compensating investors for the risk of holding longer dated bonds.[1]

Chart – Changes in US 10 year bond yields since cutting vs cumulative Fed cuts and increase in the term premium



Source: 4D, Bloomberg.

H2 2025 review

In 4D's 2025 'Mid year macro outlook update', published in July 2025, we reviewed the main parts of our 2025 outlook that were confirmed in the first half, and their impact (positive, negative or neutral). We update our analysis for events in the second half 2025 below as well as noting some additional surprises.

	4D January 2025 outlook	First Half 2025 Outcome & market impact (Positive / Neutral / Negative)	Second Half 2025 Outcome & market impact (Positive / Neutral / Negative)
Outlook confirmed	"Growth to moderate globally, but US to remain ahead of its developed peers."	US growth downgraded 60bps to 1.5% for 2025 GDP.	US GDP upgraded to 2%, supported by high income spending ('K shaped' economy).
		Canada & Mexico worse off (-1% to 0%).	2025 Mexico and Canada GDP expectations recovered (+0.5%), USMCA exclusions cushioned the worse feared tariff impact.
		Eurozone stable at 1%.	Upgraded to 1.4%; Spain strong.
	"While inflation continues to fall globally, there is upside risk (tariffs, supply chains)."	Inflation to date has been well behaved in the US and has reached ECB target in Europe.	No upside CPI surprises in US & EU, UK remains elevated and sticky.
		The impact of higher tariffs are yet to arrive in prices.	No large shock (yet), with retailers and offshore exporters taking most of the hit (vs consumer prices).

1 For further discussion refer to '4D News & Views: The impact of a steeper yield curve on global listed infrastructure', 26 November 2025.

	4D January 2025 outlook	First Half 2025 Outcome & market impact Positive Neutral Negative	Second Half 2025 Outcome & market impact Positive Neutral Negative
Outlook confirmed	“Trump’s China tariffs to be manageable, and upside risk to China with a positive stimulus response. Later in 2025 should see more detail on the Universal Baseline Tariff (UBT) and various bilateral concessions given by individual countries to appease Trump, but there is a greater risk of it being watered down and delayed.”	China’s fiscal impulse has been positive, and they have continued to cut rates. The delay in tariffs has benefited them as a result of a frontloading of orders from the US.	Exports have been very strong, but the domestic old economy is suffering from weak consumer demand and continued weak housing/construction sectors.
		April 2 ‘Liberation Day’ – UBT 10% rate in line, but implementation sooner.	Several trade deals (UK, South Korea, India) or frameworks (EU, Vietnam, Philippines, Indonesia) have been announced which lowered reciprocal rates for countries.
		Reciprocal rates across the board were much higher than expected and methodology illogical.	Trade Deal/Framework countries remain at UBT or reciprocal levels (eg Australia 10%).
	“Government debt levels and fiscal deficits will become an increasing concern for the bond market, not only polarising European governments (France & Germany) but there is a risk of higher US yields too with unfunded Trump pro-growth policies.”	OBBBA elevated concerns on the fiscal load, causing US term premiums to keep long-term yields higher despite expectations of Fed cutting policy rates in 2025.	Term premiums have remained steep, and long bond yields across main economies are higher than any time in 2022 and 2023.
		USD weakness (-10%) is often a tailwind for EM equities.	Trend continues lower amid structural reasons.
		EU unity with EU-wide defence spending, and a seismic shift in German fiscal spending (defence & infrastructure) and easing debt brake.	EU & Germany in particular move from announcement to implementation, with expectations they could miss lofty spending targets.
	“Policy rates should continue to be cut, with a shifting focus on protecting growth and employment than inflation.”	ECB continues to cut to support growth (-100bps).	ECB has arrived at its policy target for this cycle – further cuts only if there is a large growth slowdown.
		Fed cuts have been pushed back with higher tariff and economic uncertainty (no cuts in 1H25), with higher long-term yields tightening financial conditions.	Fed cut twice in 2H, even with missing data due to the government shutdown. Focusing on labour market slowdown and transitory expectation of tariffs.
	“Geopolitical risks should continue to cause volatility in 2025, but it’s economic impact will remain uncertain.”	Oil spike during the ‘Twelve Day War’ shows vulnerabilities to inflation spikes and growth shocks.	Intervention in Venezuela and its oil industry has been a surprise, but the impact on oil prices is distant and uncertain.
		Trump has shown tepid support for Ukraine, but little progress has encouraged Europe’s re-armament. Putin’s engagement with Trump hasn’t led to meaningful changes.	A permanent peace solution seems difficult, despite Trump’s Alaska meeting with Putin in August.
Surprises	Negatively	Significantly higher levels of economic uncertainty (tariffs, federal policies) impacting consumer and business confidence.	Trump’s geopolitical forays not slowing down ahead of midterms (Venezuela, Iran, Ukraine, Greenland) – but the impact on markets has remained limited to date.
	Positively	Huge level of EU and German fiscal expansion and relaxing of country debt limits.	AI/datacentre capex growth in the US continued to surpass expectations, with share prices reaching new highs – and wealth impact on US economy via supporting high income consumption.

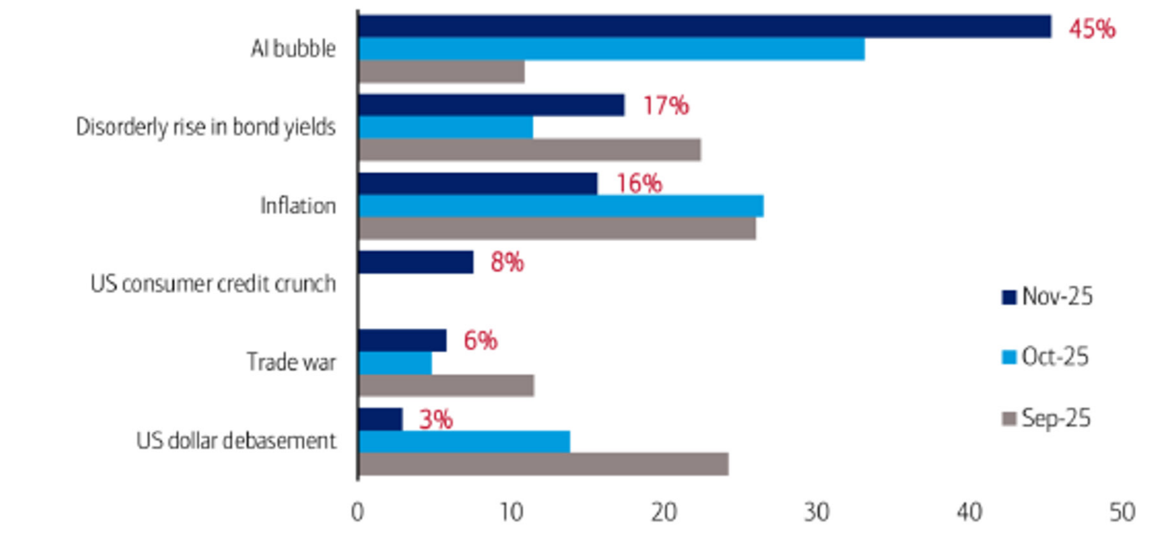
2026 Themes

As we look ahead to 2026, we expect global growth to remain solid, with the potential for Germany to emerge from two years of negative growth. CPI remains sticky in the US, UK and Australia and remain at least two years from central bank target ranges. Long bond yields remain elevated, especially with increased German supply amid fiscal loosening, and higher term premiums.

Several of the main risks going into 2026 carry over from 2025: heightened policy uncertainty, bond market sensitivity to governments' fiscal situations, the impact of tariffs on economies and the rewiring of global supply chains and trade networks. Geopolitical risk remains elevated, notably the US midterm elections, French & UK domestic politics, conflicts in Ukraine and the Middle East and increasing tensions with allied partners over Greenland. These are detailed below.

However, before doing so, it is important to assess one of the largest tailwinds for markets and risk appetite in 2025: the AI 'supercycle' or 'bubble'. According to Bank of America's fund manager survey, most fund managers now see the 'AI Bubble' as the biggest tail risk in 2026. Likewise, Deutsche Bank's fund manager survey delivered similar assessments of the biggest risks to market stability in 2026.

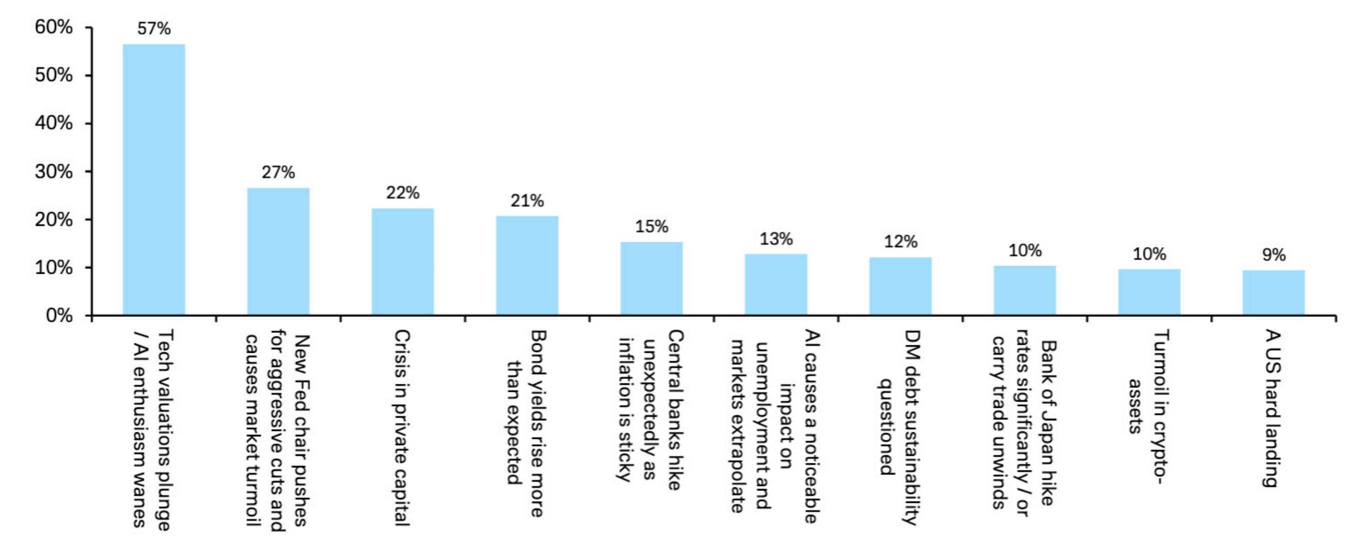
Chart – Bank of America Fund Manager Survey; Biggest tail risks in 2026?



Source: Bank of America

Chart – Deutsche Bank 2026 Fund Manager risks survey

Which if any, of the following do you think pose the biggest risks to market stability in 2026? Please select up to three. Top 10 only included.

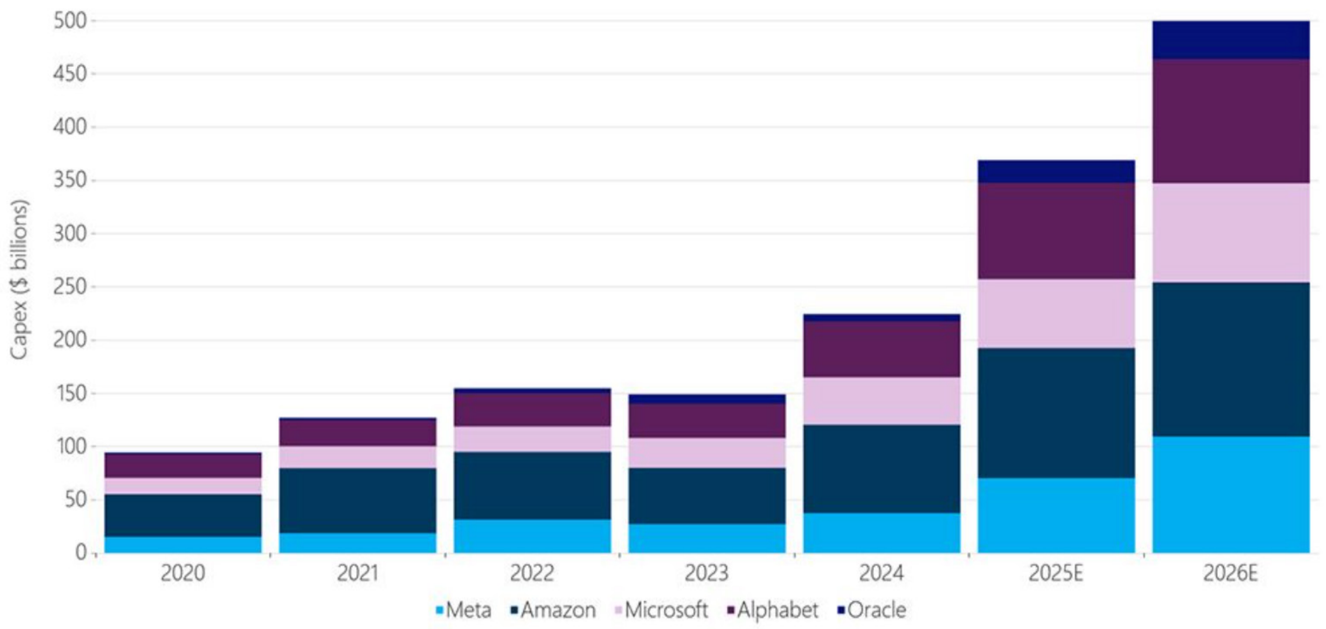


Source: Deutsche Bank.

Theme 1 – AI: is it in a bubble and can it go from tailwind to headwind?

The last year has seen a continued rapid expansion of AI-related capex and associated economic impacts. AI-related investment contributed more to US GDP than consumer spending in 2025, and US tech companies' annual capex tripled from $150b in 2023 to an expected $500b in 2026. Six tech companies alone (Alphabet, Amazon, Meta, Microsoft, Oracle and Nvidia) now account for 25% of all US market capex. OpenAI itself has announced plans to build data centers with over 25 GW of capacity. Given that each GW requires ~$50 billion in capital investment, OpenAI is targeting well over $1 trillion in total capex over the next several years.

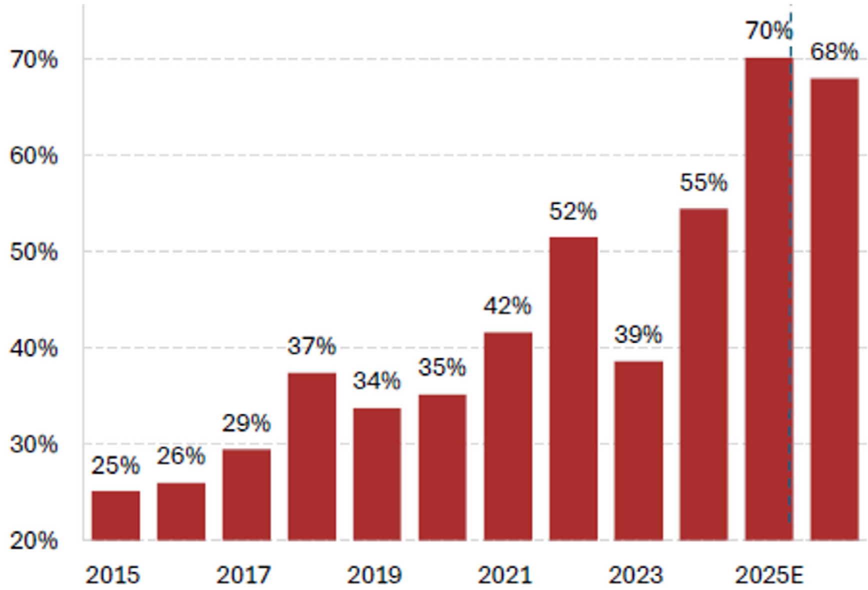
Chart – Hyperscalers' huge capital spending



Source: Barclays.

There have been growing concerns around the risk of overbuilding, large upfront costs and an unknown return on investment for tech companies, as well as uncertainties around debt financing (mostly off-balance sheet) and circular relationships with vendors. Countering this, valuations do not appear at dotcom era levels, service providers are self-funded to date (out of free cashflow), while adoption is still early in the AI paradigm shift but with a revenue models that exists (vs irrational dotcom zero revenue models). However, capex by internet companies is starting to run into cash flow constraints, hence the need for debt funding:

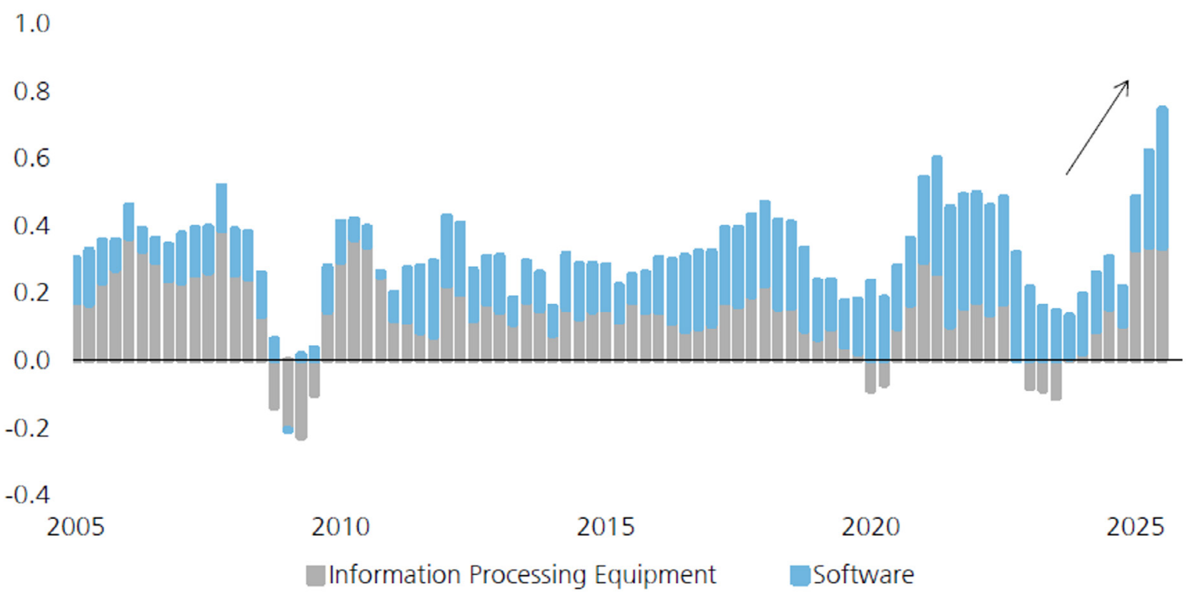
Chart – Internet company capex as % of operating cash flow



Source: UBS.

From an economic perspective, according to the OECD, AI could add between 1% and 2.5% to labour productivity in the next ten years. However, in the short term, aside from the impact from capex announcements (via construction spend more than offshore chip imports), the main economic impact from the AI boom is the wealth impact. Due to the high financial asset ownership in the US, and the concentration of tech in US stock indices, their strong outperformance to date has helped boost high income consumption, even as Main Street struggles. According to Moody's, the top 10% of US earners account for half of all consumer spending – a historic high. In a 'K Shaped' economy, aggregate consumption is still strong despite middle and low income consumers struggling with an affordability crisis, impacted the most from a higher cost of living and the impact of tariffs. This is set to continue as a political hot potato as we approach US midterms in November. Also, just as this wealth creation has been an economic tailwind as tech stocks run, any market correction would similarly have a negative impact and needs to be monitored.

Chart – AI is an increasing driver of real economic activity. Contribution to real GDP growth from IT processing equipment and software investment

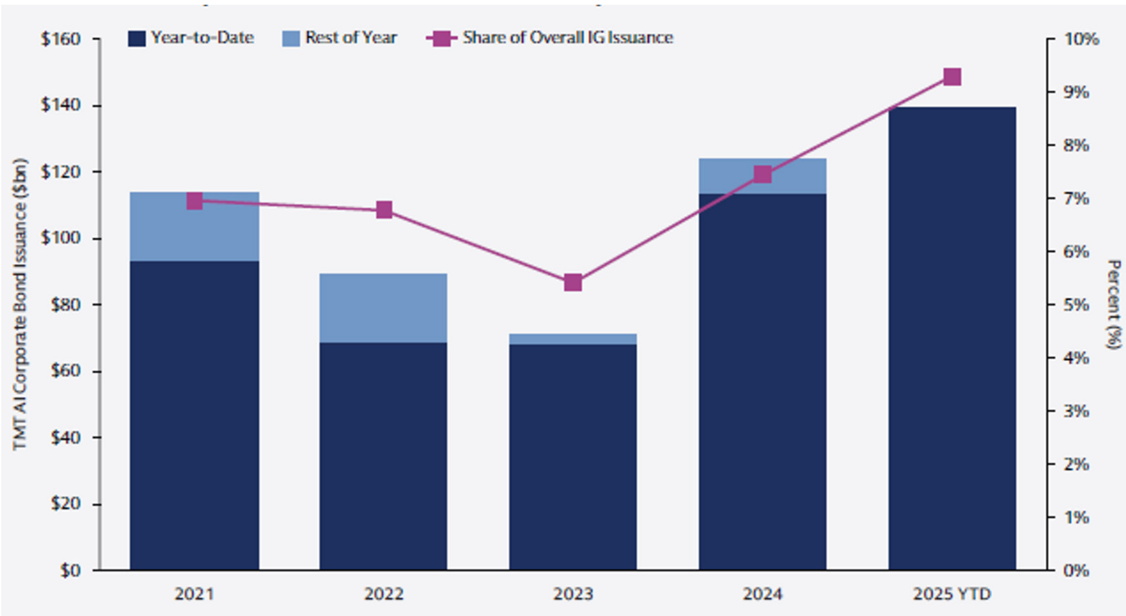


Percentage points, 4 quarter moving average.
Source: UBS.

Power remains an important focal point of the AI theme. Power is the most important resource for data centers– and the most scarce – especially as reasoning models become the norm. For example, according to the University of Rhode Island, GPT-5 consumes 2.5x the energy per prompt as GPT-4. This is already multiples more of GPT-1 which itself is 10x more energy intensive than a google search. Goldman Sachs (GS) estimates that the US and European power industries need over 750,000 additional workers by 2030, battling with demographic changes and limited skilled labour. At the company level, access to talent and labour is a competitive advantage – but is also a key enabler to powering the AI story. GS also estimate that renewable sources of power are over 2.5x more labour intensive than fossil fuels across the lifecycle from manufacturing, construction, installation, operations and maintenance – which only makes the mission more difficult. Power has also become a political hot potato, particularly for the strained middle income household, in a midterm year where affordability is a key topic.

Debt has also been flagged as a main risk to the AI theme. Due to the size of the capex, companies are moving from internally funded models to tapping debt markets (public & private). In 2025, the debt issuance of five hyperscalers was $90bn versus $1.5trn corporate debt issuance – a manageable amount to date. Furthermore, more debt investor involvement is often beneficial as there is greater pressure for clear monetisation strategies and reliable cashflows.

Chart – AI-oriented companies were more active in the corporate bond market in 2025, but not overwhelmingly so



Source: Goldman Sachs.

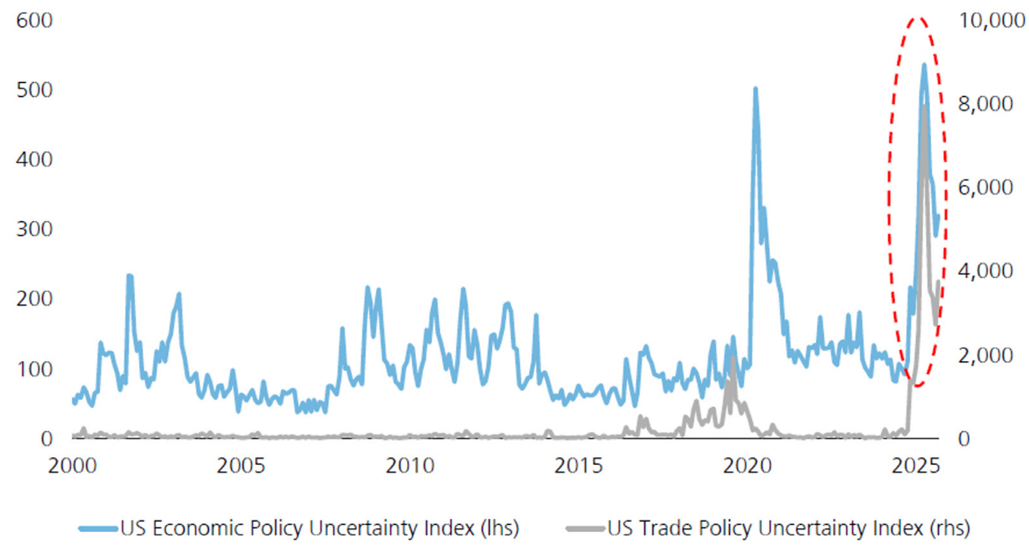
While the AI theme is hot, it doesn't seem quite in bubble territory yet. However, power and debt are key elements of the theme to watch going into 2026 if the thematic is to maintain its strength in powering overall market sentiment and the economy. Also, while the theme is real, expectations on timing of earnings/cash flows realised from the theme could still be a little optimistic. This has been and will largely remain a US centric story into 2026. However, there has recently been increased discussion around the theme in Europe and other regions and this could gain some traction in 2026. Again this needs to be monitored to ensure it doesn't get ahead of itself.

As to the remaining 2026 themes, these largely build upon themes in 4D's 2025 Outlook and Mid Year Update:

Theme 2 – Global trade and tariff uncertainty

There is no doubt economic uncertainties arising from tariff (and other) policies have subsided from their April peak (see below). However, blended effective tariffs are now c13%, up from 2.4% when Trump was elected. As we stated in our Mid Year Update, "even if we are past peak tariff fears on 'Liberation Day', tariffs remain a significantly elevated tax on US consumers and on corporate margins. This will eventually impact US supply chains, margins and inflation". This may finally bite in 2026. Currently, tariffs affect nearly 70% of all US goods imports by value.

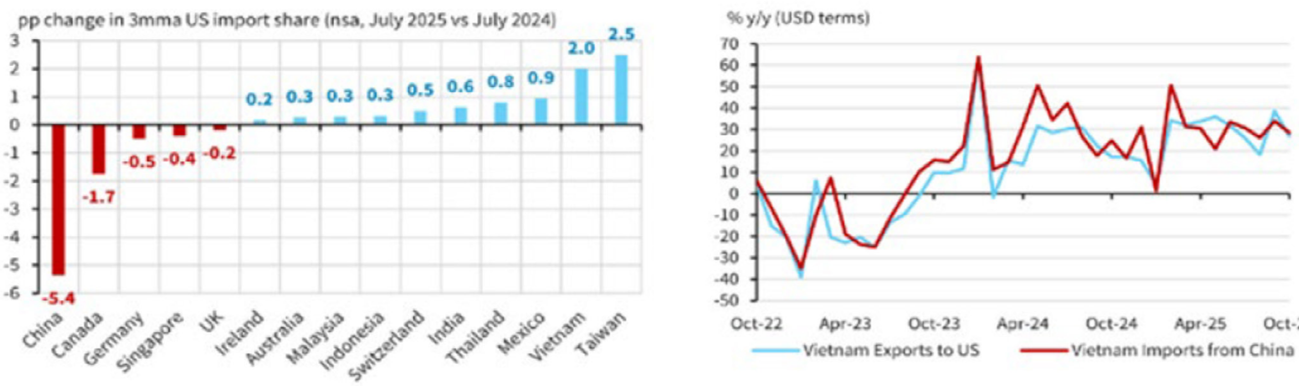
Chart – US Economic and Trade policy uncertainty are off the highs, but still elevated



Source: UBS.

Covid reshuffled supply chains towards security and away from efficiency, while more recently Trump 2.0 has led an isolationist and 'America First' foreign policy. US imports from China have been decoupling since 2018 and accelerated under Trump 2.0, however we have seen in the last year almost 1 for 1 trans-shipment in some countries. Vietnamese imports from China match 1 for 1 the growth in Vietnamese exports to the US. The decline in US imports from China has been offset by gains in ASEAN.

Chart – China rerouting



Source: Barclays.

This begs the question – how long will Trump allow Chinese companies to circumvent tariffs via transshipments or setting up plants in favourable locations? The joint review of the United States Mexico Canada Agreement (USMCA) is due in mid-2026, and regional rules of origin are likely to be a key push by the US. If there is a greater push for rules of origin, and a breaking of this transshipment trend and loopholes, then there is likely to be a much larger impact to trade and economic flows between countries, particularly Chinese export destinations substituting for US end markets[2].

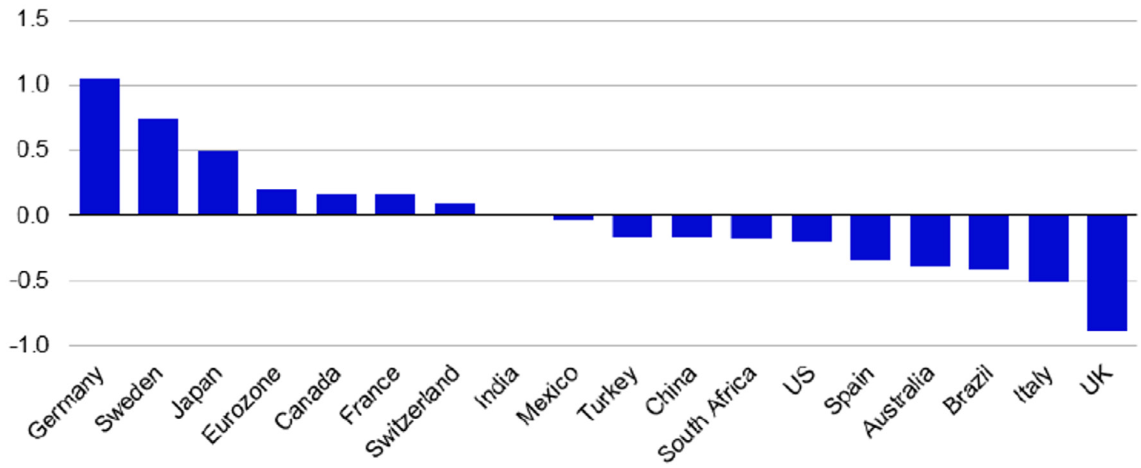
The Supreme Court is set to rule on the legalities of Trump's use of executive orders for reciprocal tariffs (IEEPA rules) from any time in January 2026. While this is headline grabbing and adds some uncertainty, we think Trump will use alternative (yet more complex) ways to implement tariffs under different laws (Section 122, 232 and 301). There is some risk the government may need to issue refunds of collected tariffs to companies, but how this will be done is highly uncertain (potentially $100-150bn). Trump will be highly incentivised to keep the c$300b per year tariff revenue, especially after the concessions made to get OBBBA passed.

2 For further discussion on USMCA refer to '4D News & Views: North America Research Trip', 19 January 2026.

Theme 3 – Bond market sensitivity on long end yields, government debt and fiscal stance

Government debt continues to rise, long yields are broadly higher and term premiums have potential to increase even further. This also has an impact on USD structural weakness, especially considering continued policy uncertainties (such as the Fed independence etc). The fiscal impulse in 2026 is broadly positive, except for Italy, Brazil and the UK (where gilt spikes forced the government to reign in its budget). Germany starts an unprecedented loosening of its fiscal rules to focus on defence and infrastructure spending, while Japan's new PM has also boosted fiscal stimulus (for cost of living). We believe Trump remains firmly focused on the impact of spiking long term yields, and 5% is a key trigger point. From this point of view, the 'TACO Trade' is alive.

Chart – IMF estimate of fiscal impulse in 2026 (% of GDP)



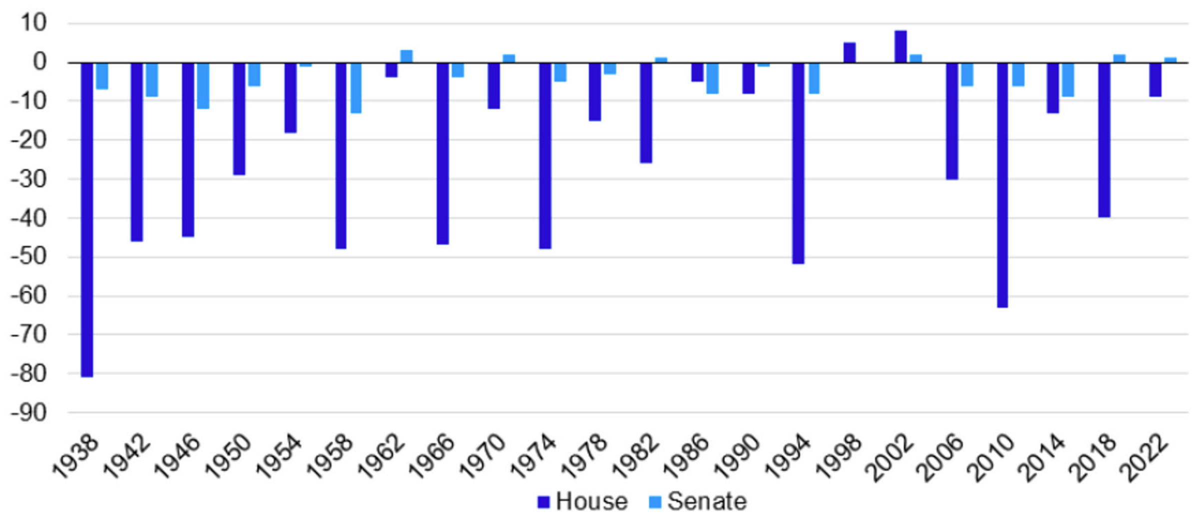
Source: IMF.

Theme 4 – Geopolitics

2025 gave us some big geopolitical flashpoints – but all in all, equity and commodity markets took this in their stride (Iran, Strait of Hormuz, UK and French politics). We are keeping a close eye on these, most importantly to the US which could have policy impact on various economies and portfolio companies.

US Midterm Elections: The key political event in 2026 is the US midterm elections on November 3. History suggests President Trump is likely to lose control of Congress, as the sitting President's party has lost House seats in 20 of the last 22 midterm elections and Republicans currently hold only a one-seat majority. The rare exceptions occurred when Presidents had approval ratings above 60%, far higher than Trump's 41% as of October 2025.

Chart – Seats gained/lost by Presidents party in US mid term elections



Source: The American Presidency Project & Invesco.

This begs the question – does Trump provide more policy stability leading up to November, or does he do the exact opposite knowing he is to lose control of Congress? To date in 2026, Trump has proved highly unpredictable – announcing threats of policy changes for domestic defence companies (banning buybacks and dividends), homebuilders (banning institutional ownership of single-family homes) and financials (capping credit card rates at 10%).

Chart – Senate and House seats – current vs up for election in 2026

	Republicans		Democrats	
	Current	Up for election in 2026	Current	Up for election in 2026
Senate	53	20	47	13
House	220	220	215	215

Source: Development Bank of Singapore.

Politics: The UK and France remain highly uncertain and volatile political jurisdictions. The UK local elections on May 7 will be a key barometer. France will likely bounce around till the Presidential elections in 2027 – but a change of PM, while headline grabbing, won't change political will around annual budgets or a permanent change of will to improve government finances. For both markets, we see it as 'much of the same' – messy, reflected in higher yields and spreads, and structurally long term to fix.

Conflicts: After Trump's negotiating of the Israel-Gaza ceasefire, he no doubt has his aim on finding a resolution in Ukraine (and possibly even getting his long desired Nobel Peace Prize nomination). But Putin proves elusive, even after the Alaska Summit, and Europe is boosting its defence spending rapidly. After Trump's foray into Venezuela, potential flashpoints remain in Greenland (which puts the EU member states between a rock and a hard place) and Iran. There has been some speculation that the Chinese may gain some confidence from Trump's action in Venezuela as to their end game plan with Taiwan.

What does this mean for infrastructure?

Listed infrastructure offers truly global exposure with assets across developed Asia, Europe and North America, as well as EMs. This allows investors to capitalise on in-country economic cycles and gain exposure to domestic demand stories and avoid geopolitical triggers. With economic trends currently diverging, certain regions offer greater relative upside at present, and we can position for this. Within the various sectors we also have economic diversity which allows us to actively position at a fundamental level for all points of the economic cycle, rate cycle or level of inflation.

Moving into 2026, we will be monitoring regional economics and politics closely and positioning ourselves to best capture these at an in-country level. In doing so, we reiterate what we wrote in last year's outlook – and that after the 2025 we just had, this applies more so than ever:

> *We remain conscious of the uncertainty of Trump's administration as he is set to take office – but are mindful that predicting his every move is a fool's game. We look to separate the resilience of the infrastructure asset class from this noise, and we remain optimistic about the long-term fundamentals underpinning the infrastructure investment case.*

Below we set out how we see our main 2026 macro themes and risks playing out by region and sector across the global listed infrastructure universe.

North America

Trump's impacts on GLI sectors in 2025 have been felt acutely in US rail due to tariffs (where volumes are down 0.6% vs other cargoes +3-4%). Canadian rails have also been impacted by higher cross border volumes and non-USMCA products (sector based tariffs), with these tariff-impacted segments accounting for 6-10% of revenues. Positively, Trump has intervened in the highly fragmented trucking industry (a competing form of transport to rail but typically for shorter haul) by trying to kick out non-compliant immigrant drivers. Over the next two years, 5-10% of capacity is expected to leave the trucking market as a result of the removal of up to 200k immigrant drivers. Because rail prices are typically at a 10-15% discount to trucking, higher trucking prices due to the capacity shortage is a tailwind for rail prices.

The midstream sector had a relatively lack-lustre year in 2025 (after a very strong 2024) where the 'drill baby drill' mantra never equated to greater immediate pumping from US fields. Moving into 2026, those who can capitalise on the AI theme and/or LNG developments are best positioned to execute on promised ongoing growth. Longer term, the impact of Venezuelan oil is highly uncertain – but the main risk is to Canadian midstream that pipe heavy oil down to the US refineries and demand centres – where Venezuelan oil may indeed be sent to if Trump reignites the industry. But this will play out over the next decade (if at all), and for the next 4-5 years, the midstream' pipelines are fully contracted so there is little earnings risk.

OBBBA took some wind out of the renewables growth story, but the end result was not as bad as originally feared. Ongoing Trump intervention in the US offshore wind sector (by issuing stop work orders on existing projects being built) remains a 2026 headwind impacting domestic and European renewable companies that have exposure thereto.

Trump's heightened policy uncertainty and elevated term premiums have led to higher global yields, which from a macro perspective have impacted discount rates. The AI theme is crucial to the wealth effect that is holding up US consumption and the K shaped economy and is a continued tailwind for the data centre rollout boosting utility forward earnings out to 2030. We are generally constructive on utilities in North America but again stock picking is key, particularly as we move through 2026 into the mid-term elections.

Affordability concerns have picked up across all North American utilities as companies and regulators contemplate large rate base growth. Gas players suggest they have less affordability concerns than their electric counterparts given smaller and slower growing bills. Trump has started to connect data centres' large power demand with the affordability theme, high residential bills and elections. We look to those states with lower relative bills, higher socioeconomic demographics and more favourable state regulators – such as the Carolinas, Kentucky, Illinois and Iowa. Data centre deals should continue to be announced in 2026, which will continue to support rate base and earnings growth over the medium term – particularly in the Southeast and Midwest.

Europe

The French political quagmire has directly impacted domestically exposed concession names (toll roads and airports) due to an increase in corporate and concession taxes, with the government trying to plug budget holes (legal appeals are still pending). We remain cautious of French exposure into 2026.

In Germany, stimulus will boost defence stocks and overall GDP growth – but there is less of a direct read-through to the wider European contractors. More detail will come as Germany picks up the stimulus spending and we get detail on the plans. Spain continues to grow strongly, but is being driven by domestic demand as tourist flows normalise. Italy, meanwhile, is business as usual within a surprisingly robust political environment.

We remain selective on European user pays prioritising those that are positioned well to realise upside in the new post Covid normal and who can capitalise on more resilient domestic markets and economies into 2026 including Spain, Greece and Germany.

The ongoing theme in Europe we remain particularly excited about is the networks sector where growth outlooks (RAB and earnings) remain very attractive. Across Europe, data centres and the AI theme has only been seen at the margin, with forecasts showing power growth may go 1.2% positive in Europe to 2030 (vs 3.5% in the US), with AI upside offsetting ongoing weak industrial demand. However, while AI is starting to be a tailwind across Europe, it is still in its infancy relative to the US. By contrast we believe European networks remain a unique way to get exposure to increased capex and growth profiles as a result of grid upgrades and the energy transition – both of which have less economic sensitivity or reliance on AI execution. We particularly like those with approved investment plans and funding in place, such as SSE and Iberdrola.

Asia

Despite strong exports, China continues to be weighed down by a weak property sector, higher savings rate and weak household and business confidence holding back the consumer and investment. China ended 2025 with a record trade surplus with the world, having found alternate markets for their goods (or transhipment). Stock selection remains more important than ever in China and we are prioritising those companies with a clear commitment to shareholder returns. We have grown more cautious toward gas utilities due to the cyclical demand, gas price volatility and exposure to weakness in the property sector. By contrast, heading into 2026 we are increasingly comfortable with the solid fundamentals of some of the transport names.

Elsewhere in Asia, we continue to like those names capitalising on core infrastructure growth thematics including the emergence of the middle class, population growth and the utility led energy transition, all of which continue to gain traction across the region and globe.

Latin America

After a steep hiking cycle in 2024-5, Brazil is set to cut rates aggressively 2-300bps as inflation expectations and fiscal restraint take hold. This should be a tailwind for the market, albeit with heightened volatility from the upcoming Presidential elections in October which we are monitoring closely. Valuations remain attractive across transport names, despite a strong 2025, and utility names, particularly those undergoing transformative investment plans (again we highlight the networks across both power and water sectors).

Mexico has come out relatively unscathed from tariffs due to the USMCA, but the review in July 2026 will be fundamental to the country's economic stability and outlook. Mexican airports offer a good mix of tourism, captive VFR (visiting friends and relatives) and the ongoing onshoring/nearshoring thematic and with approved regulatory plans across all three airport stocks they are largely derisked. The airports continue to offer attractive value and we remain exposed. By contrast, we remain wary on the utility front, due to potential political interference.

Conclusion

As we enter 2026 we are reminded that 'the more things change, the more they stay the same'. The main themes and risks from 2025 have carried over into 2026, including high government debt impacting global yields, the AI theme broadening out (as investment plans become funded, power bottlenecks are faced, new regions capitalise on the theme etc), high economic and trade policy uncertainty and the wildcard that is Trump, and a hot geopolitical landscape. Despite this, there is a sense of 'controlled uncertainty', where there is sufficient growth to support earnings and investment plans, even if there are more potential policy surprises and variations between regions.

The near ending of most central bank easing cycles takes the focus to more neutral policy rate settings and a focus on protecting growth, with the health of the US labour market a key area to watch in 2026 for any rapid deterioration. However, valuations across regions and sectors remain attractive and given 4D's ability to invest actively and unconstrained across the listed infrastructure universe, we remain confident in our diversified portfolio with a balanced exposure to macroeconomic risks as we head into 2026.

Appendix 1 - Regional outlooks

Macroeconomic outlooks across regions and countries remains varied and disparate, and we look at each key investible market below.

North America

The US continues to run above the long-term trend of 1.8-2% GDP, even if moderating from a strong 2023 and 2024 and the heightened economic uncertainty from Trump's second term in office. The US is exhibiting a K shaped economy, where high income earners are supporting overall consumption strength (benefiting from positive wealth effect from strong financial assets), while middle-lower income households are suffering from high inflation and a cost-of-living crisis.

The labour market has been weakening since July, with substantial prior month negative revisions – causing enough concern to bring forward Fed rate cuts. The trajectory of the labour market is key for the economy as is the way Trump's immigration crackdown will impact labour supply. Monthly job growth is at pre-recession levels, but initial jobless claims are still far from recession territory. Canadian growth rebounded after a weak Q2, impacted by steel/aluminium sector tariffs, however broadly the impact was much more muted than feared from tariffs due to USMCA exemptions.

2026 Outlook:

- Main 2025 themes carry over: tariff-induced uncertainty, high government debt and yields, sticky inflation, hot AI theme driving market sentiment, wealth impact and underlying economic growth.
- Growth is expected to grind higher despite elevated inflation, in part due to confidence from a certain policy rate outlook.
- Some uncertainty expected from Supreme Court rulings on reciprocal tariffs, and if Trump will find alternate means or issue $150-200b company refunds. Any weakness from this could spur pre-midterm election stimulus from Trump (and upside risk).
- Fed's dual mandate dilemma remains around tariff-induced inflation potential versus low hiring/firing nature of labour market, coupled with heightened independence concerns around a new Fed Chair taking office at the end of May.
- Positive OBBBA impacts peak in 2026 and help high income earners the most.
- The July USMCA renegotiation outcomes is key for Canadian business investment, which has been on hold pending a clearer outlook. Inflation is under control and close to 2% range, with the BOC watching growth and consumer spending into 2026. Canada has started 2026. Looking to shore up alternate trading alliances highlighting the expected uncertainty around the USMCA negotiations.

UK/Europe

The ECB reached the end of its rate cutting cycle in 2025, as inflation went to the low end of target and focus shifted to supporting subdued growth. The June NATO summit saw an EU commitment to investing 3.5% for core defence (personnel/equipment) and an additional 1.5% for strategic resilience (infrastructure, cyber, innovation) by 2035. Germany accelerated this timeline (to 2029) and launched an additional €500b infrastructure and climate investment fund. In the UK, growth remains stuck in low gear and inflation remains sticky (energy base effects, tax changes, food price rises) despite some improvement in Q4 (from 3.8% to 3.2% YoY). Unemployment deteriorated to 4.8%, hitting February 2021 highs. The UK did not fare well from its trade framework with the US, with sector-based trade negotiations still ongoing.

2026 Outlook:

- Well known obstacles persist (notably French and UK politics). France faces credit rating downgrade risks, while PM Lecornu's concession to freeze the pension reform until after 2027 provides a path to a budget compromise, political stability, and ultimately a possible tightening of spreads.
- Upside from German fiscal stimulus may prove slower than anticipated, although any growth is better than their six straight years of flat growth.
- Steeper bund yields (and across Europe) due to higher German issuance. The Coalition remains fragile and local elections in March and September will prove a litmus test. China continues to be a growing threat to German exports (via cheap competing exports despite anti-involution push).
- Strong growth in Spain is being driven by domestic demand and job creation, with post covid growth in foreign tourism stabilising at a new normal. Growth should moderate but is still expected to be relatively strong versus European peers. Fuel and electricity costs remain relatively low, contributing to business competitiveness.
- UK local elections in May will be a key barometer for national politics, especially with little fiscal breathing room. Domestic political developments and global trade are weighing on business confidence. Anticipated fiscal tightening signalled in November's Autumn budget could weigh on growth. CPI likely peaked in September 2025 and will soften to 2% YoY in 2026.
- Risk of European inflation undershooting (strong euro, lower oil prices, wage disinflation). EU manufacturing should be weak in 2026 after a strong 2025 (front loading) – the ECB may get dovish if this is weaker than expected.

China

2025 GDP growth was helped by strong export performance (+6% versus -1% expected). The domestic old economy is still suffering from anaemic demand, weakness in housing and construction, and disinflation. Deflationary pressures continue to be a challenge due to overcapacity and weak consumer demand. Property sales continue to fall, with higher inventories to continue to weigh on prices (no change from 2025). New home prices and existing home prices are down 12% and 20% from their respective peaks in the second quarter of 2021. Investment stalled in the second half of the year as local governments prioritised deleveraging over new investment.

2026 Outlook:

- The rebalancing journey continues away from property development and export-led manufacturing to green tech, AI and consumption-led growth.
- Trade negotiations are ongoing, but China has proven they have the ability to play hardball due to rare earth supply (70% of global production). In the meantime, it will try to influence the 'global south' trading block (ex US/EU) with FDI into China now negative.
- The focus from the 4th Plenum and 15th FYP will prioritise technology, industrial modernisation and domestic consumption.
- Key to watch is the weak consumer demand and sentiment (from weaker property sales) and the degree of stimulus response. Bold reforms remain elusive, held back by their hefty fiscal price tag, especially when local government balance sheets are already under strain.

Latin America

Brazilian growth has slowed with the impact from aggressively hiked rates, with Q3 GDP +0.1% QoQ and Q4 expected at +0.1%. Contrary to the previous few years, fiscal developments have been stable in 2025 after a significant fiscal impulse in 2024. Accordingly, the public sector's primary balance improved from -1.9% of GDP in October 2024 to -0.3% in October 2025. Mexico's economy continues to face headwinds, with Q3 GDP data confirming a quarterly contraction of 0.3% (versus +0.2% in Q1 and +0.6% in Q2). The slowdown is becoming increasingly uneven as services outperform while industrial output remains in contractionary territory. Investment is still weak, reflecting the fiscal drag from the completion of major public infrastructure projects begun under former president AMLO's administration, USMCA renegotiations uncertainty, and the judicial system reshuffle, which all weighed on private investment dynamics.

2026 Outlook:

- Brazilian inflation expectations are decelerating but will remain above BCB target in 2026. The key risk to earlier SELIC easing lies in services inflation, which remains stubbornly high at above 6% YoY in October, reflecting a still-resilient labour market. There is risk of fiscal slippage in an election year (expansion of social programs, tax overhaul etc), which on its own could increase volatility considering the final runners are as yet unknown.
- Mexican growth is projected to accelerate to 1.3% but still below trend. Headline CPI is below Banxico top 4% range (easing food and energy prices) and the Central Bank will remain dovish to support growth. Preliminary USMCA talks have intensified, and in the meantime Mexico tariffs remain below 10% baseline, with US exports around 30% of Mexican GDP.

Appendix 2 - Calendar key dates & potential catalysts

Month	Central Bank Meeting	Geopolitical Events	International events	Other
January	23rd BoJ 28th – Fed Meeting		19-23rd - 2026 World Economic Forum	Supreme Court ruling on IEEPA
February	3rd – RBA 5th – BoE & ECB	4 year Ukraine/Russia anniversary (chance of deal)		Potential US government shutdown
March	17th – RBA 18th – Fed & BoE 19th – ECB & BoJ	National Committee of the Chinese People's Consultative Conference German local elections		
April	28th – BoJ 29th – Fed 30th – BoE & ECB		13-18th – Spring IMF & World Bank meetings	
May	5th - RBA	7th – UK Local elections		End of Fed Chair Powell's Term
June	11th – ECB 16th – BoJ & RBA 17th – Fed 18th – BoE		14-16th – G7 Summit	
July	23rd – ECB 29th – Ded 30th – BoE 31st – BoJ	1st – USMCA Review		
August	11th - RBA			Jackson Hole Symposium
September	10th – ECB 16th – Fed 17th – BoE 18th – BoJ 29th – RBA	German local elections		
October	28th – Fed 29th – ECB 30th – BoJ	4th - Brazilian general election	12-18th – IMF & World Bank annual meetings	
November	3rd – RBA 5th – BoE	3rd – US Midterms		China-US trade truce expires
December	8th – RBA 9th – Fed 17th – BoE & ECB 19th – BoJ			

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