Infrastructure Research

January 2025

Infrastructure Strategic Outlook 2025

2025 Market Update

IN A NUTSHELL

– The macroeconomic outlook for infrastructure is favourable in 2025. Interest rates have begun to moderate which should relieve some of the pressure that assets faced over 2024, while econonic growth and inflation are expected to remain supportive to earnings growth. However, risks are weighted to the downside from the uncertainty around a potentially more challenging – and inflationary – trade environment.
– Infrastructure continued to deliver positive returns in 2024 for investors, although we expect performance to improve in 2025. In particular, assets with greenfield development pipelines have faced increased scrutiny under the higher rate environment, boosting investor confidence that valuations are solidifying.
– The relationship between transactions activity and fundraising volumes was made stark over 2024, but as confidence in the M&A market returns, liquidity should increase and infrastructure's fundraising will likely recover.
– The re-election of Donald Trump in the United States has seen uncertainty return. For infrastructure investors, much will depend on the level at which the new administration will intervene in markets, be they global trade markets or domestic clean energy markets.

Infrastructure Strategic Outlook 2025

A More Supportive Environment for Recovery

2025 is set to be a more positive year for the unlisted infrastructure market in our opinion, although 2024 laid much of the groundwork for a recovery to fully take hold. Valuations have remained robust for the market as a whole, and those sectors which have experienced repricing – namely those with high capital expenditure profiles – have now settled and are beginning to attract investor attention. As confidence (and the need to divest) builds, transactions activity likely will tick upwards, releasing liquidity into the fundraising market, satisfying a continued demand from investors to allocate higher levels of capital to the strong performing infrastructure asset class.

1 / Macro Update

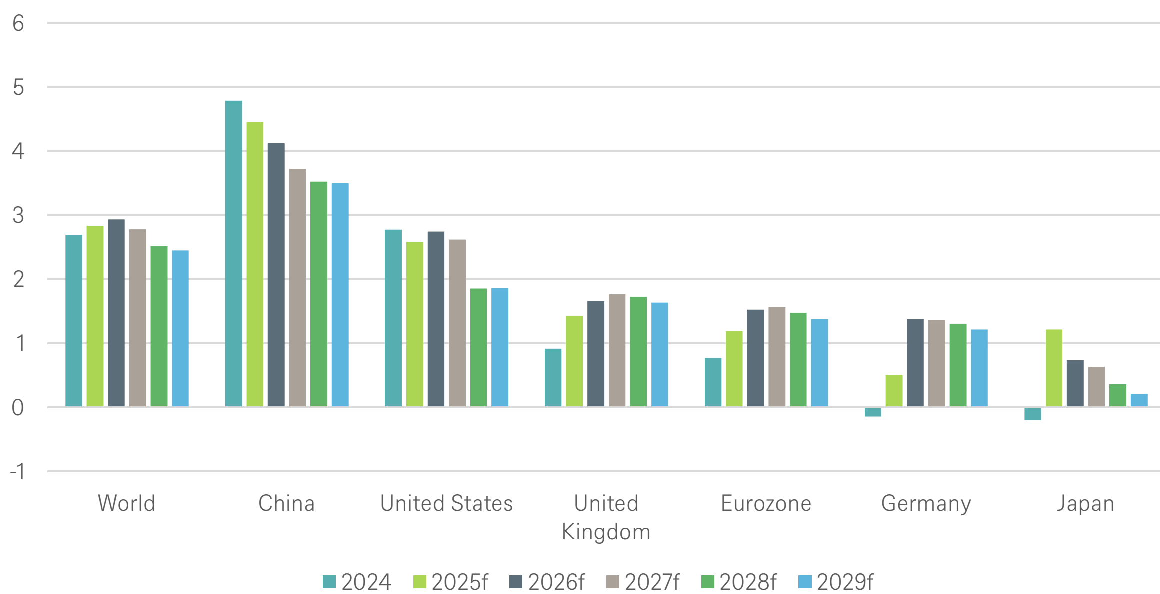
What was a comparatively benign outlook for the global economy following the moderation of inflation and interest rates over 2024, has now shifted to a more defensive stance as markets brace for the potential impacts from tariff-related trade disruptions.

1.1 Focus Shifts to Trade & Growth

With the infrastructure asset class having performed well during the last few years of macroeconomic volatility, prospects for more uncertainty in the global economy is not necessarily a threat to that continuing. However, as seen in the transactions and fundraising markets over 2023 and 2024, perceptions of risk and uncertainty can be damaging by constricting market activity.

In 2025, our outlook is for a more positive global growth environment with inflation having fallen and interest rates in Europe and the U.S. having begun the transition towards the neutral rates. The victory of Donald Trump in the November 2024 U.S. presidential election, however, does raise the prospect of the expected more benign monetary policy and inflationary conditions being derailed through the implementation of numerous trade tariffs towards the end of 2025 (see Section 3.1).

Chart 1: Real GDP Growth Forecasts, % Year-on-year



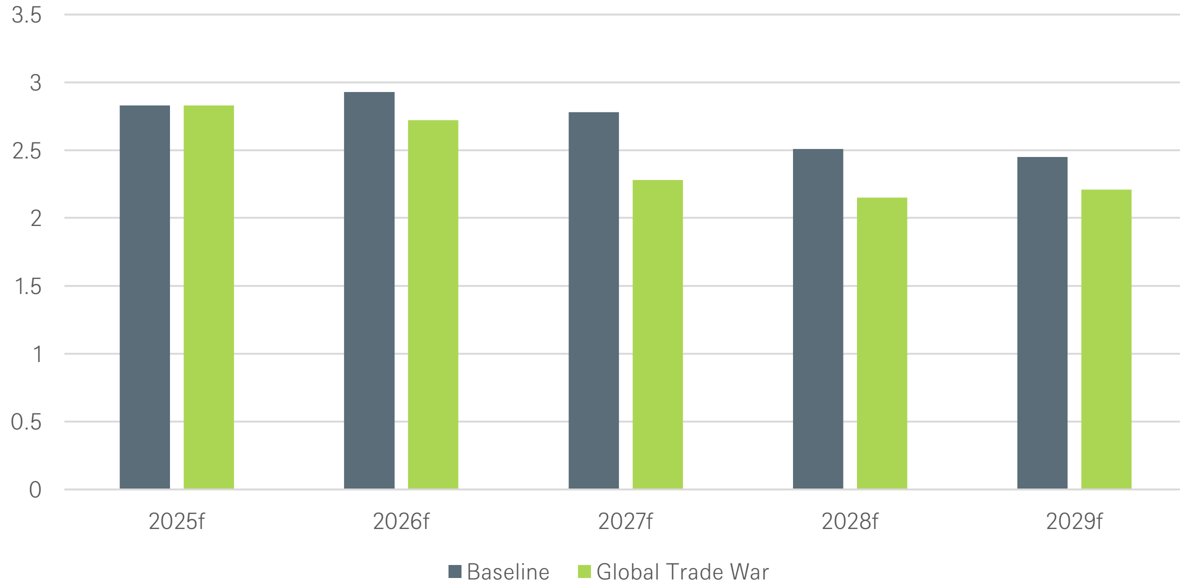
Source: Oxford Economics, December 2024. Note: f = forecast. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance is not indicative of future performance.

A resilient US economy and recovering growth across Europe is expected to lift global economic growth to 2.8% in 2025 and 2.9% in 2026[1] – a marked improvement on 2024, particularly in Europe. That being said, industrial activity in Europe will likely remain a weak spot due to cost pressures and competition from China, while the potential imposition of trade tariffs will pare

[1] Oxford Economics forecast, December 2024.

back fixed investment in economies across Europe, Asia and the Americas with heavy exposure to the US. It is not until late-2025 that the potential direct impacts of new tariffs may take effect, meaning their impact on inflation conditions will likely remain subdued for the time being. The extent to which the US implements new trade tariffs is still an unknown, with most economic forecasters' baseline scenarios now expecting a relatively tempered approach to tariffs from the new Trump administration. The risk of more severe economic policies, including the utilisation of tariffs to the point of triggering a global trade war, does weigh heavily on most investor confidence in many surveys, and would significantly eat into global GDP growth from 2026 onwards (see Chart 2).

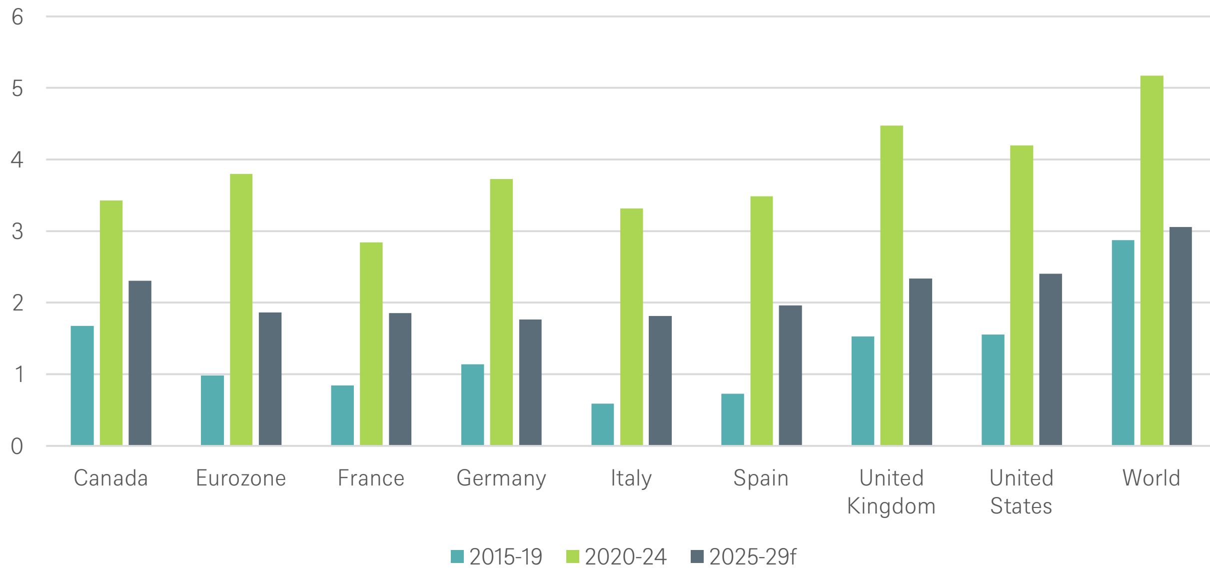
Chart 2: Global Real GDP Growth Scenario Forecasts, % Year-on-year



Source: Oxford Economics, December 2024. Note: f = forecast. The Global Trade War Scenario envisages the US imposing 60% tariffs on Chinese goods imports and 10% tariffs on all other trading partners, phased in over 2026 and 2027. China raises tariffs on US goods imports to 40%; other countries retaliate in full. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

For infrastructure in 2025, a stronger economic growth outlook should be positive for those assets with demand exposure, and with inflation in most European and North American markets hovering at 1%-3%, earnings growth should continue to be supported for those assets with strong pass-through characteristics. Longer-term inflation levels should also remain supportive for infrastructure assets, with average levels of inflation expected to be above those seen prior to the Covid-19 pandemic (Chart 3). As discussed in our 2024 Strategic Outlook, the systemic changes in the global economy around decarbonisation, demographics and digitalisation inherently require higher levels of spending which will be a long-term source of inflationary pressure, but the rapid spike in costs that began post-pandemic and during the 2022 European energy crisis has now largely been contained by central banks. Pockets of inflationary pressures remain in services sectors (most disinflationary forces have been in goods rather than services), and this will be a key risk area to monitor as the new administration takes office in the U.S.

Chart 3: Consumer Price Index, Period Average, % year-on-year

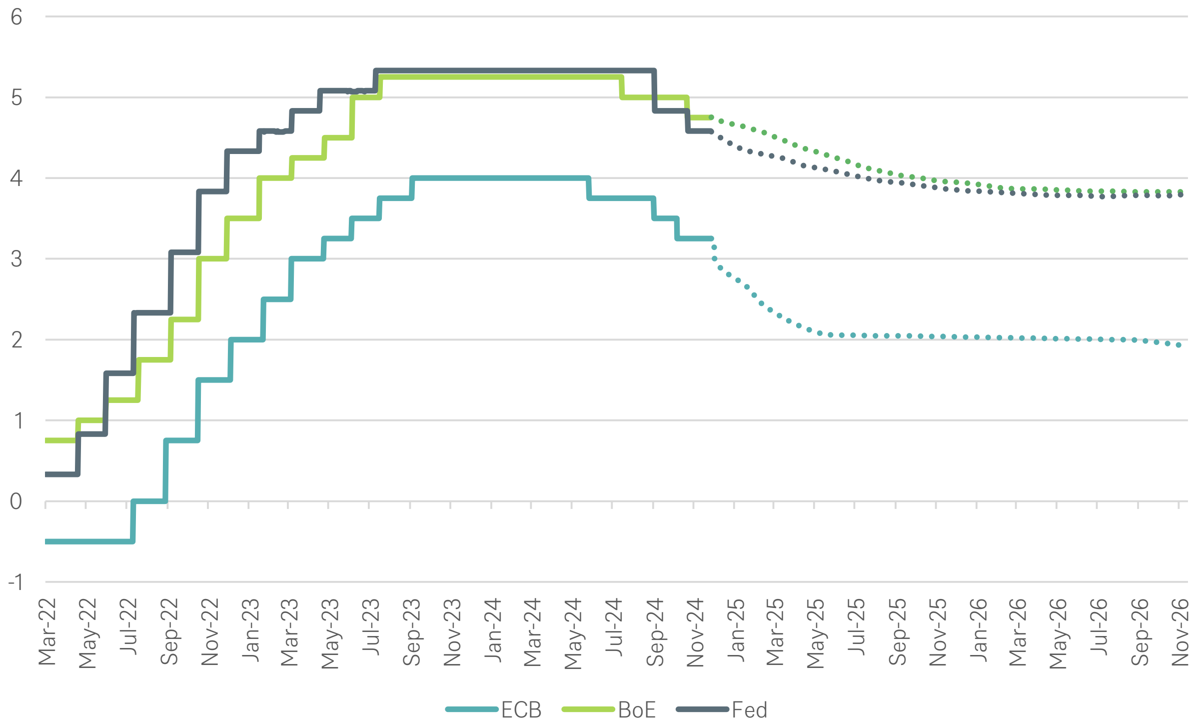


Source: Oxford Economics, December 2024. Note: Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

1.2 Central Banks Face New Dynamics

The European Central Bank, the Federal Reserve and the Bank of England all began to cut their benchmark policy rates over 2024, albeit significantly later in the year than originally expected. This has set the scene for a more buoyant outlook in 2025 as the pressures of higher borrowing costs have begun to lessen across the economy and infrastructure market. Expectations are for a continuation of this cutting cycle, but the market has become more cautious over the scale of easing that will be possible over 2025; U.S. tariffs, deportations and tax cuts, as well as Middle East conflicts and European election results, could all stoke global inflation levels and result in a much more cautious stance towards further rate cuts from central banks. In a worst-case scenario, the inflationary impacts of the Trump administration's potential policies could result in a reversal of the easing cycle.

Chart 4: Central Bank Policy Rate, %



Source: Macrobond as of December 2024. Note: Dotted lines represent futures curves as forecasts for each benchmark interest rate. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

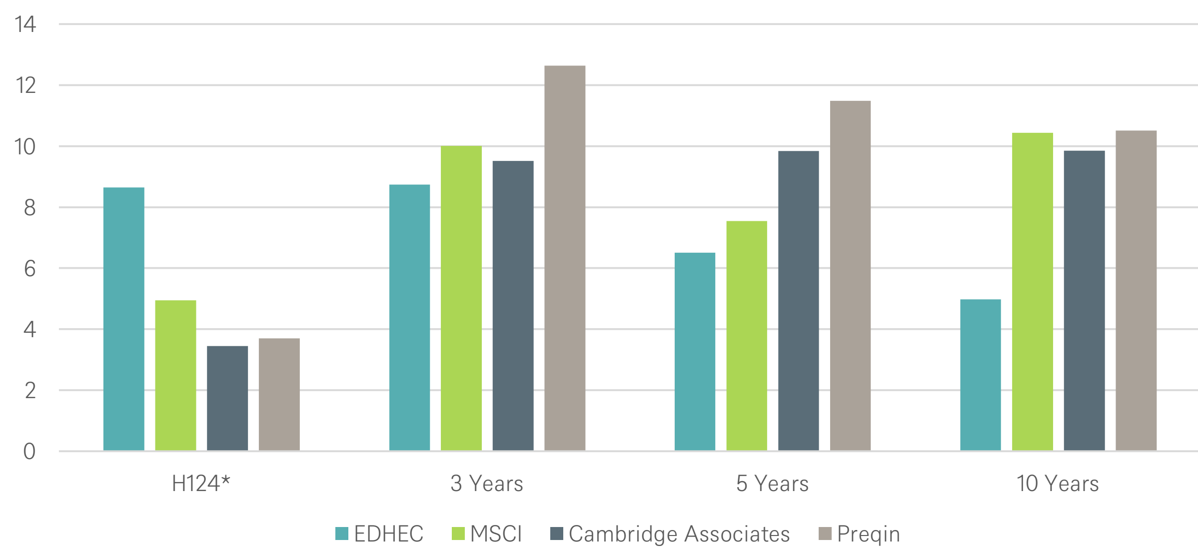
2/ Market Update

Private infrastructure equity total return was under pressure over 2024 as the higher rate environment impacted performance and valuations. However, the impact was relatively contained, and the transaction and fundraising markets have stabilised. Our outlook for 2025 is more positive.

2.1 Performance dampened, but still positive.

Across the various private infrastructure equity benchmarks, the asset class continued to deliver positive total returns over 2024, albeit the impact of the macroeconomic conditions has become more visible than was the case in 2023. Total returns for the first half of 2024 were notably down on the long-term averages for the asset class, although they remained positive. In our 2024 strategic outlooks, we noted that the pressure from the higher interest rate environment would become more acute as inflation levels moderated, exposing businesses to higher costs without a revenue-boost to offset them. With interest rates beginning to come down over the second half of 2024, we expect that performance will have improved over the remainder of the year, bringing the annual figures closer to the market's expected level of return.

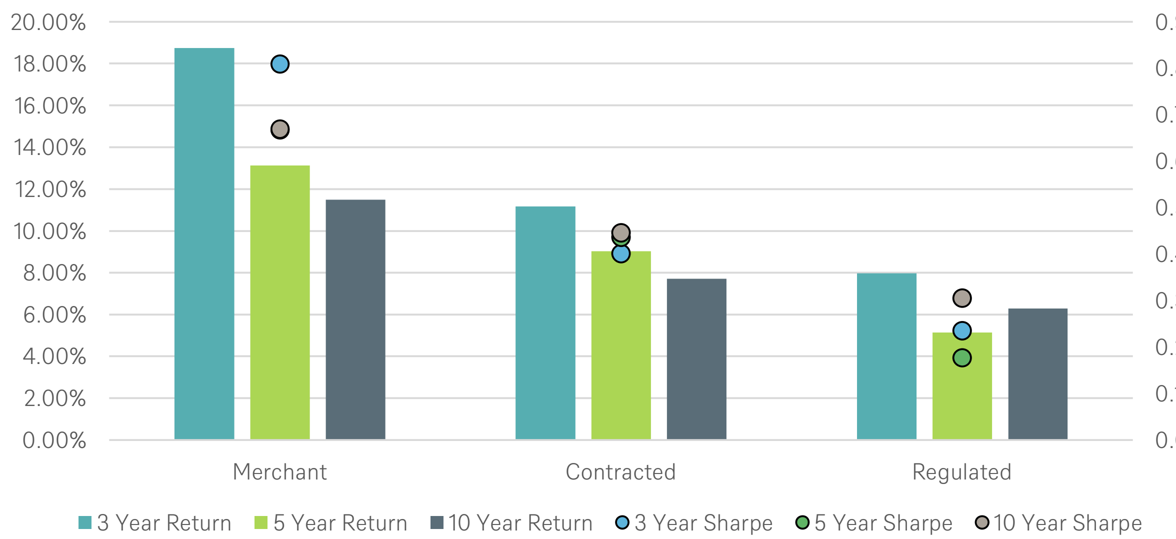
Chart 5: Private Infrastructure Benchmarks, Annualised Total Return, %



Sources: USD, Value Weighted Indices - Preqin Infrastructure Index, EDHEC Infra300, MSCI Global Quarterly Private Infrastructure Asset Index , Cambridge Associates Infrastructure Index. Data accessed December 2024. Note: EDHEC and MSCI data is asset level performance, Preqin and Cambridge Associates show performance of funds they track. *H124 = January-June 2024 data; EDHEC Infra300 is available monthly and shows here total returns as of November 2024, the latest available data at the time of writing. Past performance is not indicative of future performance.

Deciphering the drivers of performance remains challenging and – given the varying methodologies and constituents within infrastructure benchmarks – comparisons should only be made to highlight the market's direction of travel. Factor returns at the asset level are growing in prominence for judging performance, as they allow for a dissection of how much active management versus market conditions have contributed to returns to investors, as well as allowing for more regular valuations[2]. However, looking at which types of businesses have outperformed throughout macroeconomic cycles is also instructive.

Chart 6: Global Infrastructure, Annualised Total Return and Sharpe Ratios, By Business Type, %



Source: EDHEC Inframetrics, Global Infrastructure data, December 2024. Past performance is not indicative of future performance.

Chart 6 shows comparison of total returns and sharpe ratios based on the revenue characteristics of infrastructure businesses. Based on this data, there is benefit to taking on more market exposure within infrastructure, with merchant assets having delivered the highest risk-adjusted return over the timeframes in scope. Notable is that the 3-year sharpe ratio for merchant infrastructure is materially higher than the longer-term data points, highlighting how merchant assets have been the key beneficiaries of the inflation experienced over 2022/2023. As the infrastructure market continues to invest into the energy transition and the requisite new business models – particularly those which look to take advantage of volatility in electricity prices – merchant assets are likely to continue to be able to capture the upside of volatility more easily than other, more stable business types.

Regulated businesses – as expected – offered lower risk-adjusted returns. The 10-year sharpe ratio for these businesses underlines the importance that core infrastructure still has for many investors, as assets which delivered long-term performance. There remains some caution towards regulated businesses as the ripples from the UK water sector continue to be felt across numerous markets. However, there has also been anecdotal renewed interest in some regulated sectors, with investors targeting this long-term value in a market where asset valuations have been negatively impacted.

Contracted businesses have the most consistency in the risk-adjusted returns across timeframes, highlighting how they benefitted from attributes of both other types of infrastructure businesses; flexibility to adjust and grow business plans according to the prevailing supply/demand dynamics, while also having the security of medium- to long-term contracts which typically provide stable underlying revenues. Crucially, the elevated 3-year return profile highlights how indexation in

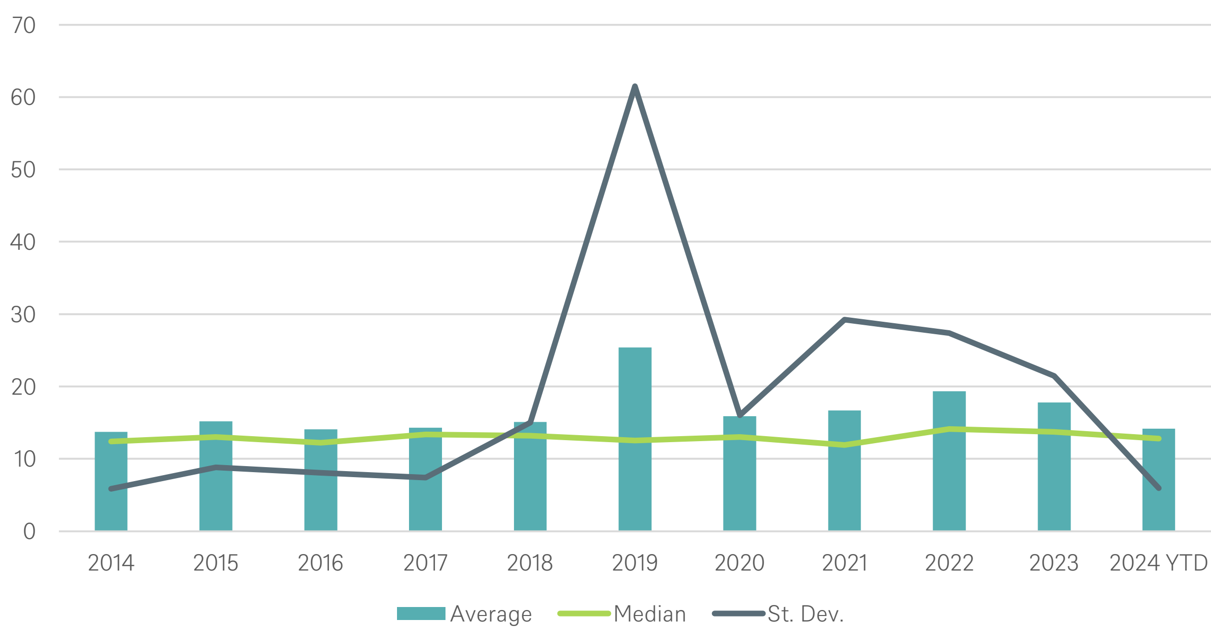
[2] See The Fair Value of Investments in Unlisted Infrastructure Equity, GPIF & EDHEC, September 2024

infrastructure contracts, for example to power prices in data centre leases, potentially can allow for such businesses to create similar characteristics to regulated assets in terms of long-term inflation risk management characteristics.

2.2 Normalization Of Valuations

Over the second half of 2024, the market continued to crystallise the two dominant trends within infrastructure valuations; some assets were immune to the pressures of the higher rate environment and continued to transact at average - or even above - average multiples, while other sectors saw a repricing. The market as a whole has withstood the higher rate environment very well when compared to other asset classes, with the average EV/EBITDA multiple in 2024 being only marginally below the average since 2010. Of course, the infrastructure market was not highly liquid over 2023 or 2024, but notable transactions of high-profile infrastructure assets have seen healthy multiples achieved, in line with or above the long-term historical averages. As such, while there are sectors which are now discounted to their historical prices, overall, the infrastructure market has retained its value.

Chart 7: Closed Infrastructure Transactions, EV/EBITDA Multiples



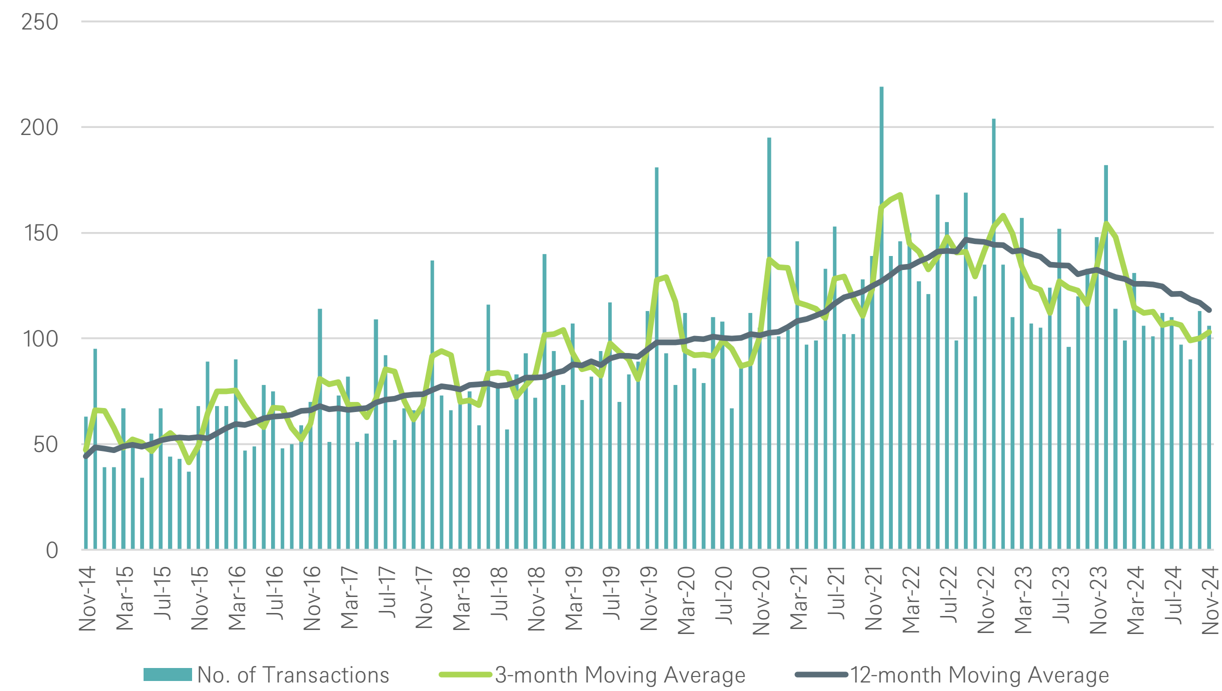
Sources: Realfin, DWS Infrastructure Research, as of December 2024. Note: Aggregated global EV/EBITDA averages are derived from over 1000+ transactions with data available. *2024 YTD = January-November 2024. St. Dev = Standard Deviation. Past performance is not indicative of future performance.

The standard deviation for EV/EBITDA multiples declined over 2024 after a period of elevation, indicating a level of normalization in the market (Chart 7). From 2019 onwards, when the dual forces of increased capital flowing into the infrastructure asset class and the proliferation of more assets with significant development pipelines in the digital and energy transition spaces (which inherently have higher EV/EBITDA multiples), there was a significant increase in the spread of multiples in the sector. Investors were willing to pay a significant premium for development pipelines in high-growth sectors in a low interest rate environment, with the aim of growing the business revenues and exiting a larger asset with a more stable business profile. However, now with higher costs for capital expenditure expected in future, and a number of cost increases, delays and supply chain disruptions impacting development assets, investors are less willing to pay for potential future earnings. With assets in sectors such as renewables developers, fibre companies and electric vehicle (EV) charging infrastructure having seen the most acute repricing across the asset class, but all still having strong long-term secular tailwinds supporting their development, 2025 could present an attractive valuation entry point for assets with strong infrastructure characteristics.

2.3 Transaction Activity

The expected recovery in transaction volumes failed to materialise over the second half of 2024, with the aforementioned delays to interest rate cuts adding to continued perceptions of a buyer-seller gap and limited liquidity. Taking a longer – and more optimistic – view, the continued slump in activity over 2024 actually represents a normalisation of activity following the post-Covid boom in transaction activity and fundraising. However, with more capital than ever being targeted for fundraising and expectations for the asset class's growth continuing to be bullish[3], the transaction market should resume its previous growth trajectory in 2025. The crystallisation of valuations across the more vulnerable sectors and the eagerness to deploy capital is expected to drive transaction activity – although under the new higher rate environment, we expect that due diligence processes to continue to be subject to intense scrutiny to ensure the robust nature of assets being included in portfolios, which should stymie the volume of transactions reaching financial close.

Chart 8: Volume of Closed Infrastructure Transactions, Monthly



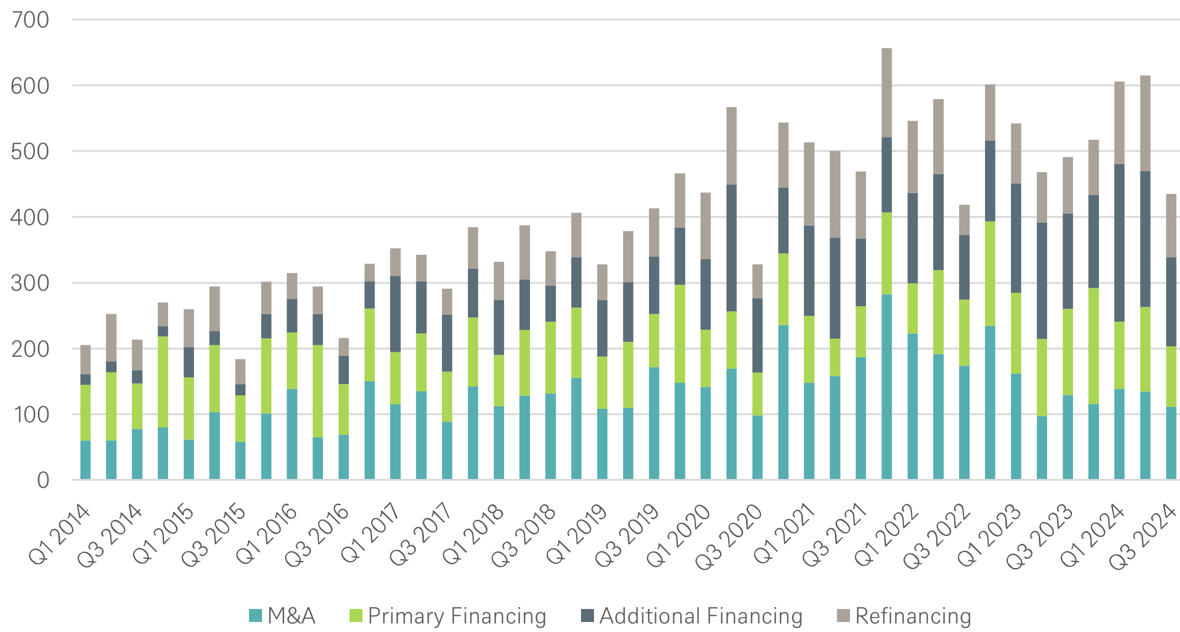
Source: Infralogic, December 2024. Past performance is not indicative of future performance.

Evidencing the impact of the market conditions leading to lower levels of transaction activity, M&A volumes have been suppressed since interest rates began to climb in 2022; asset owners, cautious towards how assets would react under higher interest rate conditions, kept assets off-market, while at the same time appraisals of the economics of development pipelines also altered investment prospects. Somewhat countering this slowdown in the M&A market, the infrastructure financing

[3] See Future of Alternatives 2029, Preqin, September 2024.

market has remained active and in fact grown in terms of the value of transactions reaching financial close. This aligns with the attractive credit profile of the infrastructure asset class and the growing appetite from investors for private credit exposure[4]. At the same time, demand from assets has been growing as owners look to undertake capital expenditure to reduce emissions and increase digitalisation, particularly in sectors like transportation[5].

Chart 9: Closed Infrastructure Transactions, By Deal Type, USDbn



Source: Realfin, December 2024. Past performance is not indicative of future performance.

The 2025 outlook for the M&A market is more positive. With interest rates beginning to moderate, the pressure to deploy capital and return capital to investors will likely start to outweigh the risk aversion that buyers and sellers had respectively built over 2024. Scrutiny will be intense on assets to ensure business performance has been strong and models are robust enough to account for the potential macroeconomic volatility ahead. In this sense, the U.S. M&A market confidence may recover more rapidly than Europe's[6]. There is some anticipation that the new Trump administration may create an investment 'boom' and the economy will perform more strongly than expected, which may tempt buyers to the market sooner rather than later. Conversely, political risk in Europe is currently elevated in key markets like France and Germany.

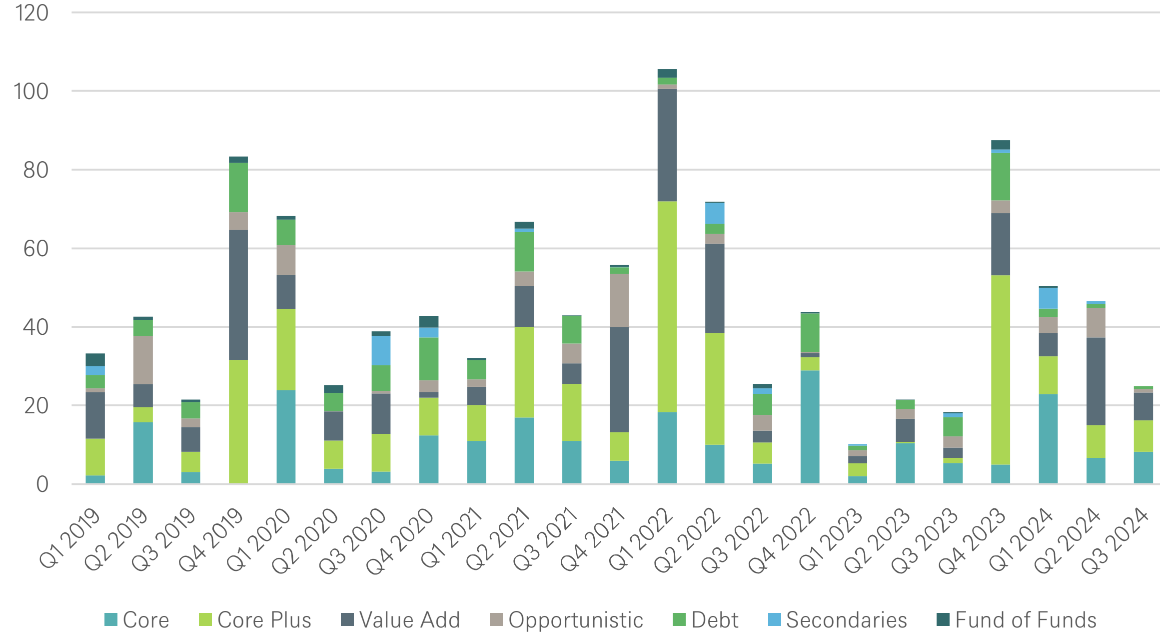
2.4 Fundraising Market

As with the transaction market, infrastructure fundraising over 2024 did not rebound to its previously bullish run. With investor sentiment towards the infrastructure asset class remaining notably positive across a range of surveys[7], the slow pace of fundraising has been driven more by structural factors, rather than appetite. The slowdown in transaction activity has left investors with less capital available to them to commit to new investments, which became one of the chief drivers

[4] See Infrastructure Financing Market Update, DWS, 2024
[5] See Transforming Infrastructure: The Opportunity of Transitioning Airports, DWS, June 2024
[6] See Global M&A Outlook 2025, DC Advisory, December 2025
[7] See Preqin Investor Survey, Global Infrastructure Report 2025, Preqin, December 2024

of fundraising volumes declining in 2024, with the denominator effect taking a less prominent role in allocation decisions than in 2023.

Chart 10: Infrastructure Fundraising by Strategy, USDbn



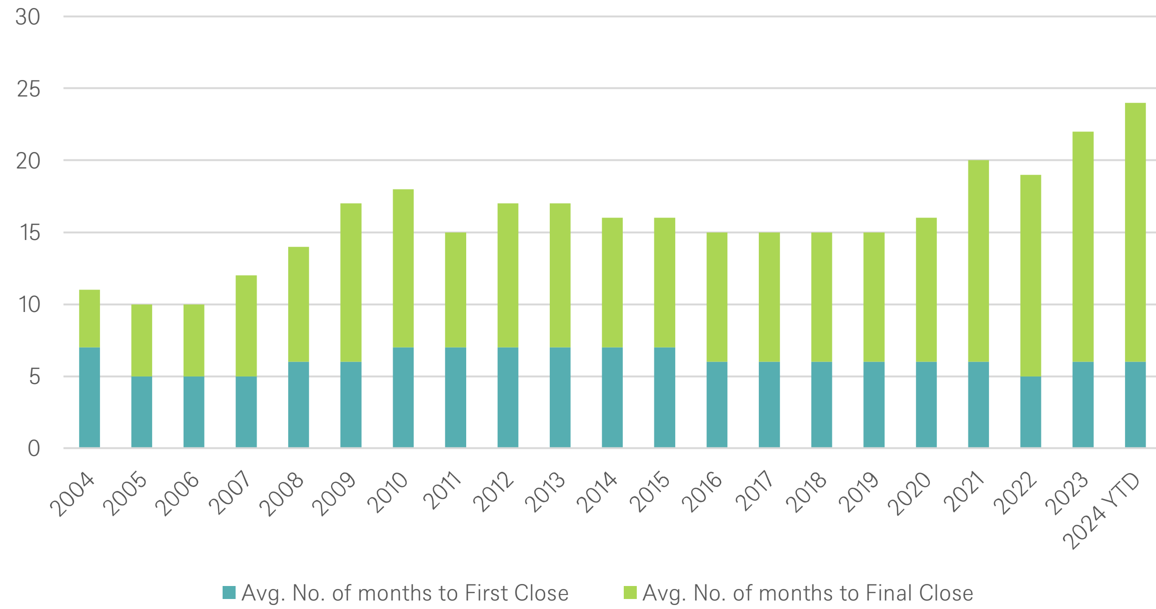
Source: Realfin, December 2024. Past performance is not indicative of future performance.

Compounding this over the closing quarters of 2024, however, has been the backlog of commitments that LPs have had to work through, with prioritisation given to existing relationships. The share of first-time funds raised hit a multi-decade low of less than 7% of capital raised in 2024 through to the end of Q3[8].

In response to this environment, managers have been actively keen to keep the first close window contained, with the 2024 closes not drifting from the historical average despite the slower fundraising environment. However, the final close window has certainly been stretched beyond the norm as GPs look to be as accommodative as possible to LPs which are constrained by process, as well as ensure that target fundraises are met (Chart 11).

[8] Preqin Pro, December 2024.

Chart 11: Average number of fundraising months



Source: Preqin Pro, December 2024. Past performance is not indicative of future performance.

Infrastructure fundraising should be more buoyant in 2025 as the transaction market becomes more liquid and the backlog of investment clears. As with transactions, investors are expected to be more cautious towards funds without track records as sensitivities towards newer infrastructure sectors and business models remain strong even as interest rates lower. While there has been no obvious trend in strategy preference among LPs over 2024 – some preferring the stability of Core, while others the higher-return potential of Value Add – the main discourse in the market remains around the future of ever larger funds. There is the potential for competition among large-cap funds to grow more intense, given the limited number of large-cap assets that are appropriately sized investment opportunities, and that there are now over 25 with target sizes in excess of USD10bn in the 2022-2024 vintages, 8 of which are targeting over USD20bn[9]. If this competition leads to exceptional prices being paid for assets, this could undermine the potential for value creation.

[9] Preqin Pro, Infrastructure Investor, December 2024.

Chart 12: Average EV/EBITDA Multiple, Enterprise Value EUR250-1000mn (LHS) and Enterprise Value EUR2000mn+ (RHS)

Source: Infralogic, December 2024. Note: aggregated EV/EBITDA averages are derived from over 1000+ transactions with data available. Blue lines represent trending average over time. Past performance is not indicative of future performance.

To hedge against this potential challenge to large-cap performance, there has been growing interest from investors in infrastructure's middle market, with a view to benefit from combining large-cap exposure with the value creation potential of midmarket assets. As shown in Chart 12, the concentration of capital into funds that may target larger enterprise value assets will likely exacerbate the long-term trend for these assets to become more expensive. Conversely, due to the midmarket's significant diversity, value has remained relatively stable over the last decade. As we have previously noted, the ability to scale a midmarket asset into a large cap asset is one of the key drivers of midmarket performance, due to the premium large cap investors are willing and able to pay for quality assets[10].

[10] See Infrastructure Strategic Outlook 2024, DWS, January 2024

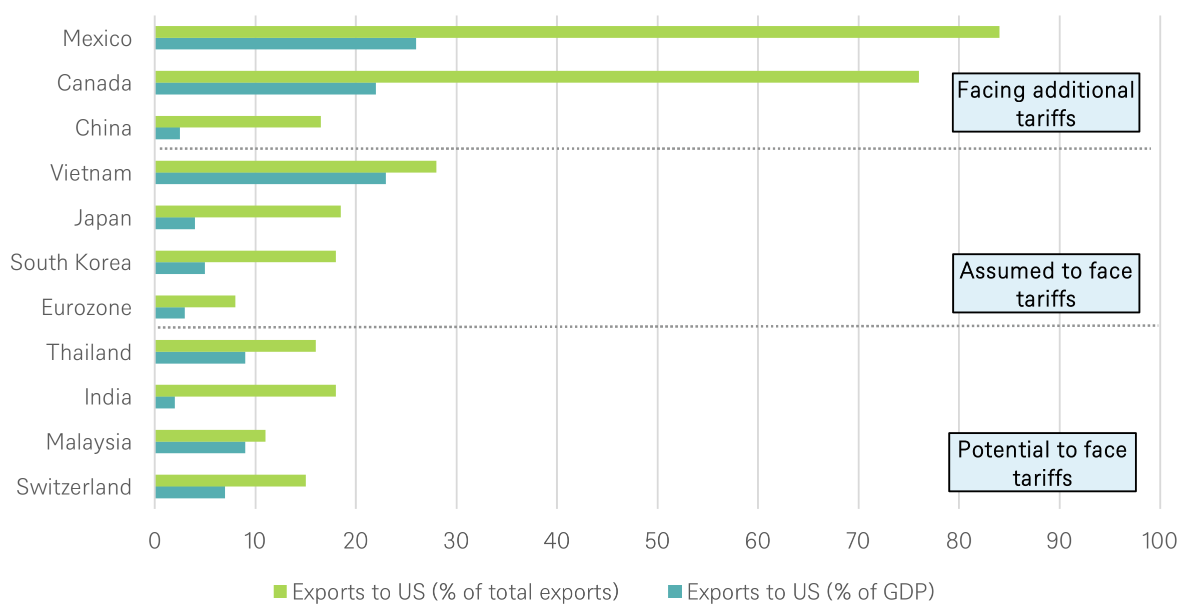
3 / Investment Outlook

Several themes we expect will be prevalent over the year which should remain on investors' radar; the potential impact of the new U.S. administration on the domestic infrastructure market and global trade; the ability of Europe to navigate global competition and domestic politics; and where the digital infrastructure market's trajectory is heading after a bumper 2024.

3.1 Trump's Agenda

Much is still unclear on how the new U.S. administration's trade and domestic policy will eventually manifest. The main transmission avenues for infrastructure and key test of an asset's infrastructure characteristics, are expected to be trade volume and price volatility, and policy intervention in the energy market. The severity of tariff implementation will determine the macroeconomic shockwaves which are sent into the global economy, where inflation will be the chief concern as it may derail the interest rate cutting cycle now underway. Most core scenarios envisage a 'pragmatic Trump', whereby the administration may utilize the threat of tariffs to encourage trade partners to acquiesce, but to avoid the worst of the economic disruption on domestic consumers, only implement a limited number of the tariffs which are in scope.

Chart 13: 2023 Exports to the United States, %



Source: Oxford Economics/Haver Analytics, December 2024. Note: Markets shown have either been stated to be at risk from tariffs by the incoming Trump administration, potentially face tariffs based on historical trade balance dynamics with the United States, or are at risk if trade tariffs are imposed due to their significant economic exposure to trade with the United States. Past performance is not indicative of future performance.

Given the uncertain nature of the tariff regime, most trade forecasts are still assuming on trend growth in 2025 and marginal declines thereafter. However, those economies with a significant trade surplus with the US are the ones most likely in scope for a revision to that trade outlook, particularly in areas such as manufacturing. This should creates downside risk for trade-focused infrastructure in those markets with a high share of exports destined for the US, as well as for any infrastructure assets with demand exposure where economies may slow as a result of a diminished export market. For example, Asian and European freight infrastructure demand may be impacted if the autos sector – which was referenced by Donald Trump during the election campaign as a potential target for tariffs – is included in the new administration's trade agenda. In particular, Germany is the largest exporter of autos to the US in Europe, accounting for around EUR23bn of exports in 2023[11]. That being said, relative to Mexico, Canada and Vietnam, the economic impact of tariffs on the Eurozone economies should be relatively muted, given the small share of GDP exports to the US account for (Chart 13).

In the energy sector, the new administration's impact is expected to be mixed. For oil and gas investors in the US, there could be a windfall from the rollback of environmental standards and an increase in leasing of public lands for extraction. Budget cuts for departments like the Environmental Protection Agency, Department of Energy and the Federal Energy Regulatory Commission also could reemphasize fossil fuel's role in the energy sector. However, it is in the clean energy sectors where there is most uncertainty, with the incentives and tax credits in place for clean technologies under the much-heralded Inflation Reduction Act (IRA) potentially to be targeted for removal.

Table 1: Tax Credits of the Inflation Reduction Act

Tax Credit	Potential Change	Risk Level
Renewable Energy Production Tax Credit	Limiting eligibility, adjusting credit value downwards.	Low: Encoded in tax codes until 2032.
Energy Investment Tax Credit (ITC)	New legislation could repeal or reduce.	Low: Has bipartisan support.
Nuclear Production Tax Credit (45U)	Criteria for eligibility could be narrowed but new legislation needed to repeal or modify.	Low: Has bipartisan support.
Hydrogen Production Tax Credit (45V)	Changes to what qualifies as 'clean' hydrogen.	High: Aligning hydrogen production criteria to include 'blue' hydrogen in addition to green.
Clean Manufacturing Investment Tax Credit (45X)	Changes of scope to include raw mineral extraction to support clean manufacturing sectors like lithium.	Medium: bipartisan support and investment bias towards Republican states, but could be changed to further support mining.
Carbon Capture Tax Credit (45Q)	New legislation could repeal or reduce.	Low: Support high-emissions states that burn coal.
Clean Fuel Production Tax Credit (45Z)	Definitions of eligible clean fuels could be adjusted to narrow the scope.	Low: Incentives on offer boost to Midwestern agricultural producers.
New and used EV tax credits	Could be repealed during the budget-making process, or targeted via executive authority over the Treasury.	High: Administration has stated an anti-EV stance and has argued current system benefits Chinese producers.
Residential Energy Efficiency Tax Credit / Residential Clean Electricity Tax Credit	Range of eligible home improvements could be scaled back during budget negotiations.	Moderate: Popular with consumers.

Source: Sightline Climate, December 2024

[11] Eurostat, ING Research, December 2024

As noted in Table 1, the main protection the IRA has is that much of the funding and tax benefits it makes available have channelled investment into Republican held states, thus any significant changes to its provisions risks would risk impacting the Republican voter base. In the context of the energy transition, however, it is important to note that – as successful as the IRA has been in boosting the attractiveness of the US market to infrastructure investors – consistent policy improvement and formation is needed in the space as technologies and markets mature. In this context, we think it unlikely that further policy like the IRA will be forthcoming from the new administration, potentially eroding the US market's advance as a globally attractive clean energy investment destination. Also important to note is that some states will retain this attraction given their own state-level policy support, and in instances where renewables are now the most cost-competitive energy investment. Ultimately, the market may triumph over policy.

Other potential impacts of the Trump administration's stated policies could include an erosion of efforts to address fiscal deficits as defence spending is prioritized, both due to the likely increase in geopolitical risk and as the US threatens to reduce its defence support for partners.

3.2 Europe's Investment Appeal

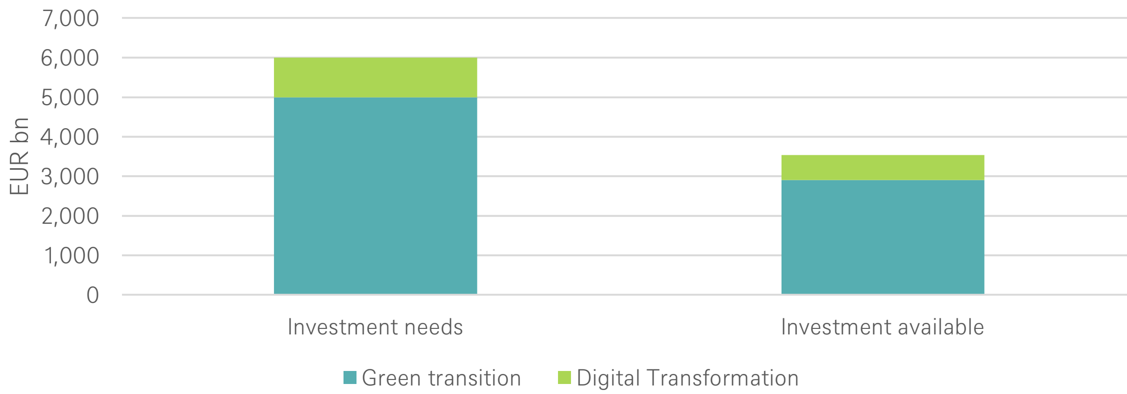
Our long-term conviction that the European infrastructure market is an attractive one for investors remains, even at a time of heighted global uncertainty and indeed political risk in markets like France and Germany. Europe has long been a leader in infrastructure policy, and the re-election of U.S. President Trump, with his commitment to trade tariffs and energy policy change, affirms the attractiveness of European markets.

Over 2025, the threat of tariffs will likely energise European Union (EU) policy makers to ensure that previous initiatives such as the Net Zero Industry Act (NZIA) and EU Chips Plan continue to be pushed forward. At the time of writing French and German governments are in flux, but we remain of the view that there is broad consensus around the strategic drivers of investment need in European infrastructure which insulates investment from political volatility. Further, given recent comments from President Elect Trump regarding the EU's access to US energy supplies, we expect continued focus on policy areas such as REPowerEU, the 2024 Energy Markets Reform and the Renewable Energy Directives, all of which should continue to improve the investment climate and industrial capacity of Europe. In the context of clean energy investment appeal, the comparison between markets where governments are looking to promote and support low-carbon options, versus those which may be looking to reduce support, is important.

That said, ongoing geopolitical risks, including Russia's invasion of Ukraine, continue to highlight the need for European economic transformation and strategic independence in key sectors. The challenges that Europe faces in this regard were identified in recent and important reports from former Italian Prime Minister Letta and former European Central Bank President Draghi[12]. DWS has been highlighting the opportunities that could stem from this need to transform the European economy with the European Transformation initiative[13].

[12] See Future of EU Competitiveness, Mario Draghi for European Commission, September 2024
[13] See DWS, European Transformation Research Hub

Chart 14: Europe's green and digital investment gap



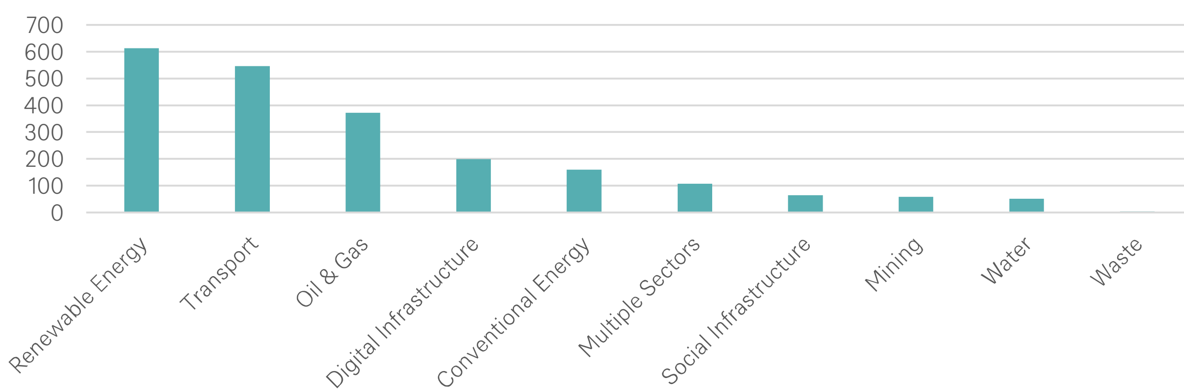
Source: DWS Research Institute, November 2024. DWS analysis based on European Commission (2021-24), NXP (2022), Morgan Stanley (July 2023) Powering Europe. For this chart, Europe is defined at EU-27

Across the European economy, we estimate that investment requirement needs for decarbonisation and digital transformation goals stand at EUR 6 trillion across key sectors. While an impressive EUR 3.5 trillion of this is expected to be funded by the public sector, our analysis finds that Europe has at least a EUR 2.5 trillion investment gap up to 2030. These are typically spread across the buildings, energy, transport, digital, and green infrastructure sectors. Acknowledging this requirement for private capital, more emphasis is now being placed – through reports like Draghi's – on encouraging investors to scale up European businesses to create competitors to rival firms in the U.S. and China.

3.3 Sector Repricing & Data Centers.

There exist numerous tailwinds across infrastructure sectors – long-term in nature and robust against political changes. However, the cycle of the market is important given its ability to create attractive entry and exit points for different sectors, based on their performance, macroeconomic factors, and desirability to investors. As interest rates began to climb in 2023, we saw assets in sectors which had been highly prized begin to see a slowdown in transaction activity. This slowdown, as referenced in Section 2 of this report, was to allow for a repricing of the value of development pipelines, i.e. greenfield investment which aimed to grow the size of a business, but inherently involved capital expenditure.

Chart 15: Active Infrastructure Transactions, By Sector, USDbn

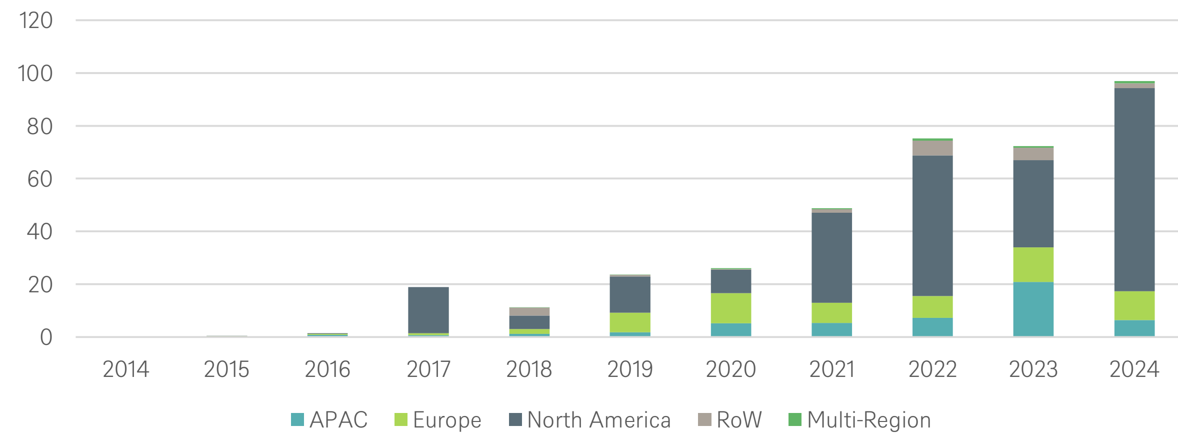


Source: DWS Research Institute, November 2024. Past performance is not indicative of future performance.

With capital expenditure now more expensive, these pipelines have in many cases been rationalised which has brought down the valuations of assets in sectors like renewables developers, fibre businesses, EV charging assets and other small-footprint but large-pipeline sectors. 2025 will be a crucial year for these sectors to see whether the recovery in the broader market is expected to extend to these sectors, with investors potentially looking at the more attractive valuations to gain exposure to long-term growth sectors. More broadly, we continue to see positive interest in the reemergence of transport deals, given the post-Covid recovery now having largely formed and the opportunity to reposition traditional transport assets to become assets aligned with net zero.

A sector which has been comparatively immune to both the slowdown in transaction activity and the repricing pressures has been data centres (DC). The lack of repricing compared to other digital sectors is partly driven by the fact that there are fewer development assets within the DC market, but also due to significant demand for DC exposure from investors. While data points are limited, average private market EV/EBITDA closed transaction multiples in the DC market have remained in the 19-30x range since the start of 2023[14].

Chart 16: Closed Data Center Transactions, USDbn



Source: Realfin, December 2024. Past performance is not indicative of future performance.

2025 will be a crucial year for the European DC market as the region looks to fulfil its economic independence goals with investment into its digital infrastructure. More so than in the U.S., power availability will be a crucial factor for the sector's continued development, with most of the existing DC hubs in the region reaching – if not already at – capacity in terms of powered land availability. This likely will drive investment into a second tier of DC hubs. Italy as a large-but-underserved market, and Spain, given its large solar and wind markets, are emerging as key targets for investors, along with the Nordic markets with their high availability of hydroelectricity, and the North of the UK, home to Europe's largest offshore wind market. Traditionally there has been a focus on latency, although as processing requirements continue to evolve across cloud services and artificial intelligence (AI), there should be activity that is less latency sensitive (such as AI training and learning) that will be suitable to be situated further away from demand centres.

This broadening of the geographic focus of investment could be further supported by growing data sovereignty desires in many European markets. While General Data Protection Regulation (GDPR) in Europe only requires data to be stored to the standards of the EU, not necessarily within an EU market, there are additional national level laws which are increasingly being applied which require some data – such as in the health, financial services and telecommunications – to be stored and processed domestically. Combined with this, we are seeing more governments in Europe support the development of AI data centre clusters with a view to develop national AI capabilities. As the potential of AI as a strategic economic asset continues to evolve, governments wish to develop national strategies to ensure that there is not an overreliance on foreign capabilities. This mirrors trends seen in other infrastructure and economic sectors as global geopolitical conditions have deteriorated in recent years.

[14] Infralogic, December 2024

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