

## Infrastructure Strategic Outlook H2 2025

### 2025 Half-Year Market Update

#### IN A NUTSHELL

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- Global tariffs and policy unpredictability have reduced investment confidence, leading to downgraded growth forecasts. Overall, Europe is positioned well from a tariff-risk perspective given its infrastructure is largely orientated to serve the Single Market.
  - Infrastructure continues to deliver strong long-term returns, with full-year 2024 total returns figures largely confirming the asset class has weathered recent years of macroeconomic volatility well.
  - Transaction activity in infrastructure is gradually recovering in 2025 after a subdued 2024. Valuation confidence is improving, driven by stabilising multiples. Data centres are leading deal flow, now comprising nearly 14% of transaction value. Investor focus on DPI and fund lifecycle pressures are expected to further boost deal volumes.
  - Policy support, including Germany's EUR500bn fund and EU initiatives, is attracting capital to strategic sectors like clean energy and digital infrastructure.
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### Infrastructure Strategic Outlook H2 2025

#### Uncertainty Damages Prospects, But Market Moving Ahead

The second half of 2025 presents a complex but cautiously optimistic outlook for infrastructure investors. While global trade tensions and policy uncertainty have dampened economic growth expectations, infrastructure continues to demonstrate resilience. Europe stands out as a region of relative stability and opportunity, supported by accommodative monetary policy, robust policy momentum, and strong investor interest.

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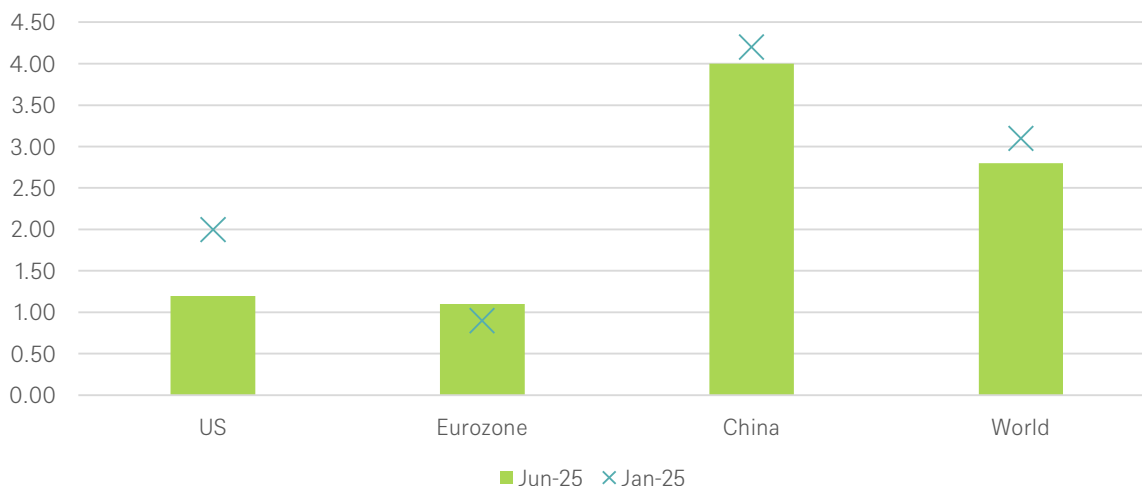
# 1 / Macro Update

Infrastructure's ability to offer downside protection from slower economic growth will be crucial for the remainder of 2025 and into 2026. While direct tariff impacts are relatively muted in Europe, uncertainty has eroded investment confidence which will drag on economic growth.

## 1.1 Trade Environment Undermines Growth

Softer levels of investment due to global trade uncertainty has now been baked into a downwardly revised 2025 and 2026 economic growth scenario. The macroeconomic outlook envisaged at the start of the year was one of relatively supportive conditions for the European infrastructure market – accelerating growth, interest rates continuing to move towards more accommodative levels and inflation becoming more benign. However, as we noted at the start of the year, the risks to the growth outlook were weighted to the downside based on the electoral promises of the Trump administration to implement trade tariffs. This downside risk materialised rapidly, with tariff actions from the U.S. going beyond targeting key trading partners and instead being applied globally, as well as reciprocal tariffs being implemented against the U.S. from multiple large trading partners.

Chart 1: GDP Real Growth, 2025 Forecast and Revisions, % Change y-o-y

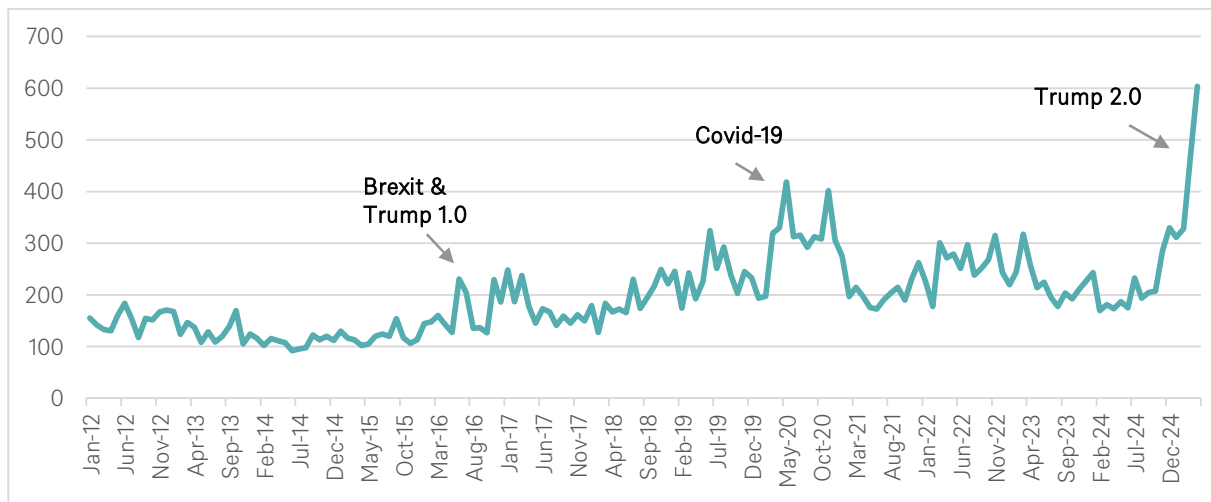


Sources: Haver Analytics, Bloomberg Finance L.P., IWF, DWS Investment GmbH as of May 2025. Forecasts are not a reliable indicator of future results. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Since then, ongoing negotiations between the U.S. and other markets – and the pausing and unpausing of tariffs during these discussions – has left the global economy in a state of unease and uncertainty (Chart 2). With the wide range of potential outcomes from ongoing trade negotiations, we expect that there will be a further reduction in business investment that will continue to drag on growth, to the extent that this will likely remain the primary driver of the growth slowdown, rather than the impacts of tariffed goods themselves.

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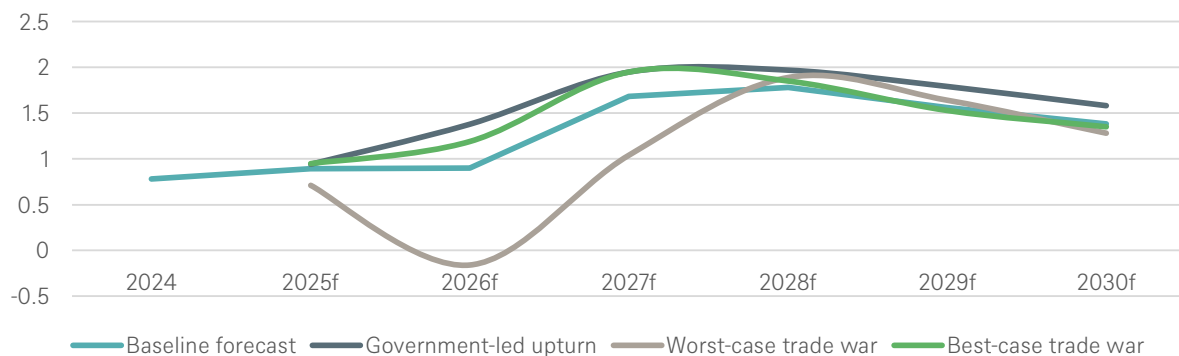
Chart 2: Global Trade Policy Uncertainty Index



Source: Economic Policy Uncertainty, June 2025. Past performance is not indicative of future performance.

The medium-term outlook for economic growth is less clear and as such it is worth highlighting a range of potential trajectories. As it stands and as a core scenario, the trade war has had a double impact on Europe: higher tariffs and high trade uncertainty. The uncertainty has capped Europe's growth prospects in 2025 and 2026. More positively, loosening fiscal policy in Germany and other member states should support growth in the Euro area. This more positive news for growth, a consequential shift in attitude towards investment in Europe, could lead to a more bullish growth scenario in which the Trump policies push Europe to support economies through state-led renewal which would likely involve further spending on infrastructure (see section 3). However, this upside scenario is countered by a downside case, which given recent months of erratic trade negotiations, is equally likely to play out. If trade negotiations are unsuccessful and the 'Liberation Day' tariff regime is reinstated against major trading partners, this would significantly damage global and European growth prospects. Even though the European economy has a lower share of GDP related directly to US exports, underperformance within the global economy will also dent European growth prospects.

Chart 3: Eurozone GDP Real Growth Scenarios, % Change y-o-y



Source: Oxford Economics Scenarios Service, June 2025. F=forecasts. Forecasts are not a reliable indicator of future results. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

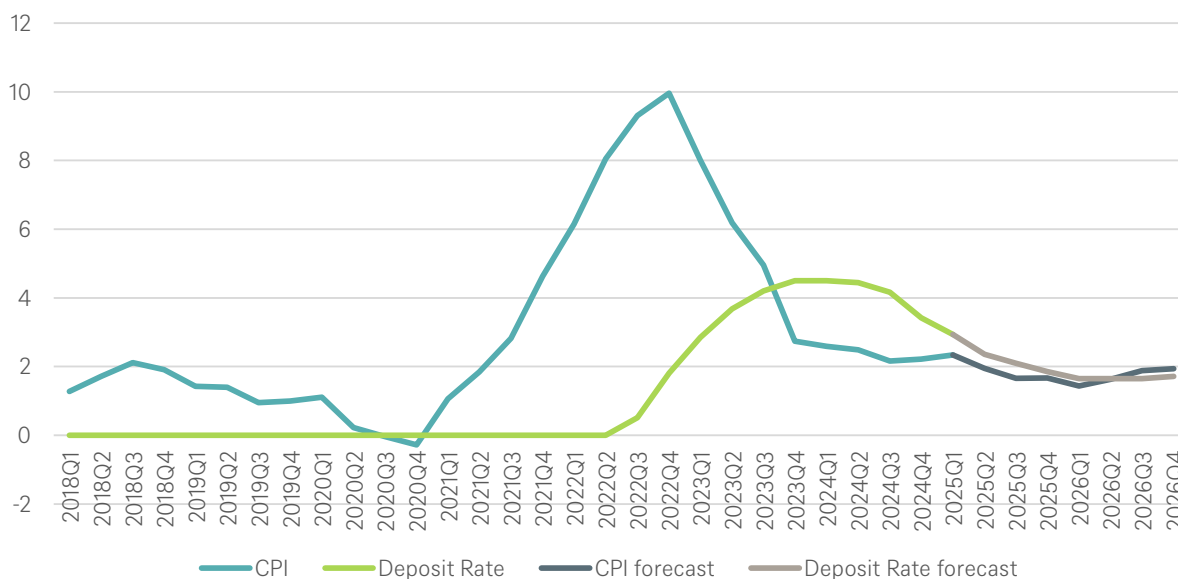
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## 1.2 Inflation & Rate Environment

At the time of writing, events in the Middle East present a significant unknown factor for the inflation outlook. Energy prices drove the inflationary-spike of 2022 and the risk of energy supplies for Europe that come from the Persian Gulf being disrupted could become a factor in driving prices higher once again.

Prior to the escalation of political risk in the Middle East, the outlook for inflation and interest rates in 2025 presented a mixed but cautiously optimistic picture, particularly within the European context. After higher inflation and interest rates were central to infrastructure's performance over 2023 and 2024, in 2025, inflation in Europe has been steadily aligning with the European Central Bank's (ECB) 2% target – with only minor persistence in service-related sectors – which has enabled the ECB to adopt a more accommodative monetary stance. Our expectations are for rates to be cut a final time to 1.75% in 2025 and maintained at that level, ending the cutting cycle in Europe. In contrast, the U.S. Federal Reserve has faced constraints due to a still-strong economy, likely limiting it to a single rate cut in 2025 and instead shifting the focus of cuts to 2026. While the inflationary impact of potential tariff escalations remains uncertain, resulting pressures are expected to be more pronounced for U.S. consumers than in Europe, given the relatively limited trade in goods (see Section 3). Overall, the prevailing macroeconomic conditions – moderate growth, declining interest rates, and stable inflation – should be viewed as supportive for infrastructure investment as cost pressures for businesses moderate. As mentioned above, however, the range of potential macroeconomic outcomes from tariff negotiations and the Middle East conflicts could usher in a new wave of uncertainty to infrastructure markets.

Chart 4: European Central Bank Policy Rate & Eurozone Consumer Price Index (CPI), %



Source: Oxford Economics as of June 2025. Q2 2025 onwards represent forecast data. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

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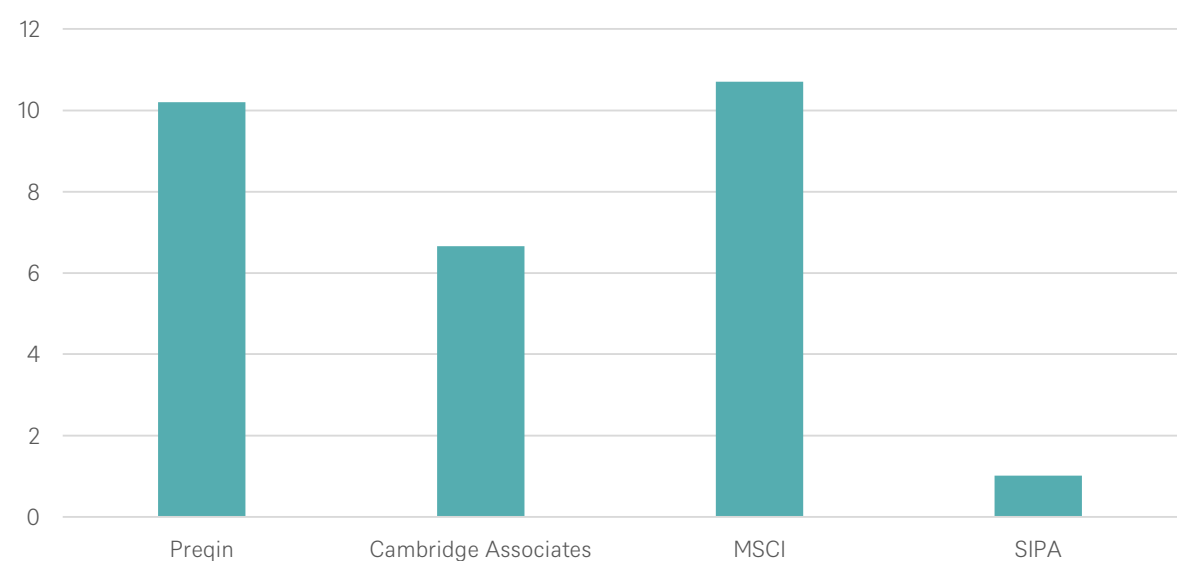
## 2/ Market Update

Our outlook for 2025 remains positive in terms of market momentum, but performance will likely be dampened by softer than expected economic growth. Fundraising for infrastructure has had a strong start to the year – notably in Europe.

### 2.1 Market Performance

With full-year data for 2024 now reported by the various private infrastructure equity benchmarks, our expectation from the 2025 Strategic Outlook released at the start of the year has played out – the asset class experienced more varied performance last year. Total returns for 2024 notably vary (Chart 5), from those benchmarks that are in line with historical average returns for the asset class, to those which show a much weaker year in 2024. The Scientific Infrastructure & Private Assets (SIPA) Infra300 returned just over 1% for the full year – despite having tracked higher over the first three quarters – highlighting the methodological differences that drive its performance relative to the other benchmarks. Higher interest rates over the first half of the year and moderated inflation saw the cost pressures on some assets grow, undermining profitability.

Chart 5: Private Infrastructure Equity Benchmarks, 2024 Total Return, %

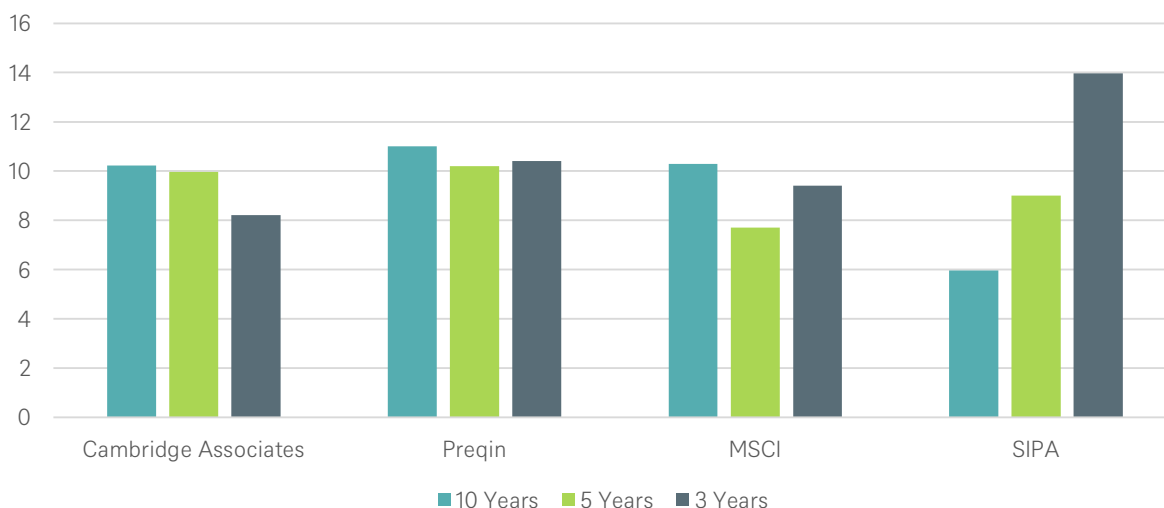


Sources: USD, Value Weighted Indices - Preqin Infrastructure Index, SIPA Infra300, MSCI Global Quarterly Private Infrastructure Asset Index , Cambridge Associates Infrastructure Index. Data accessed June 2025. Note: SIPA and MSCI data is asset level performance, Preqin and Cambridge Associates show performance of their constituent funds. Past performance is not indicative of future performance.

Looking at longer-term performance analysis (chart 6), the infrastructure asset class has continued to exhibit strong performance throughout numerous challenging economic periods. All benchmarks show positive short-, medium- and long-term total returns inclusive of the Covid-19 pandemic and associated recession, the 2022 energy crisis and resultant inflationary period, as well as the higher interest rates that followed. The decorrelation from wider financial markets, driven by the unique nature of the assets and strong market positions, alongside strong cash generative profiles of operational infrastructure businesses, has maintained a consistent high-single digit to low-teens total return for broad market, diversified exposure to the asset class.

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Chart 6: Private Infrastructure Equity Benchmarks, Annualised Total Returns, %



Sources: USD, Value Weighted Indices - Preqin Infrastructure Index, SIPA Infra300, MSCI Global Quarterly Private Infrastructure Asset Index, Cambridge Associates Infrastructure Index. Data accessed June 2025. Note: SIPA and MSCI data is asset level performance, Preqin and Cambridge Associates show performance of their constituent funds. Past performance is not indicative of future performance.

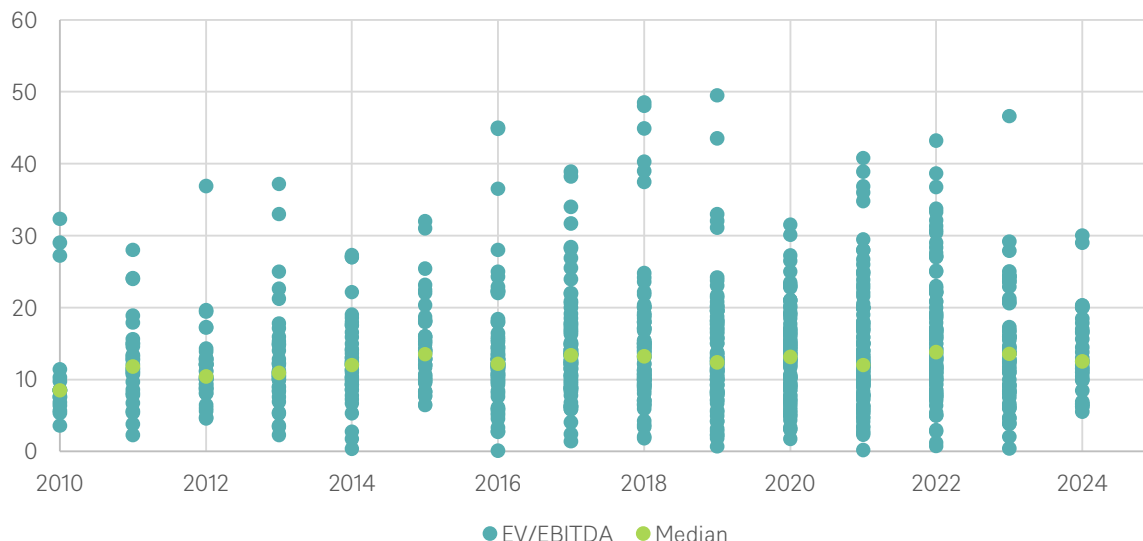
Looking forward, as discussed in Section 3 below, the macroeconomic uncertainty will likely limit the upside potential for returns over the second half of 2025 and into 2026. With investment levels having been paired back – particularly from industrial clients which are often key clients for infrastructure assets – there could be a softening of demand in certain trade-exposed segments. Overall, the macroeconomic conditions or our core scenario will be supportive to returns – particularly the fall in interest rates. However, the caution seen in the wider economy may limit the pricing upside that infrastructure may be able to capture in economies that are growing more rapidly or where confidence and certainty are higher. The demand for Core and Core+ asset profiles that offer essential services from secure market positions will have greater levels of protection from softer demand, while less mature infrastructure sectors may see more pressure from economic weakness.

## 2.2 Infrastructure Valuations

While the transaction market has remained comparatively subdued in 2024 and the first half of 2025 (relative to 2022 levels of activity), there has continued to be valuation data supporting our view of a moderation in EV/EBITDA multiples in very specific segments, but of overall price stability in the market (Chart 7). Since 2023, rising interest rates have led to a narrowing of valuation ranges, particularly affecting capital-intensive sectors that previously commanded high multiples based on growth expectations. These sectors have since been repriced to reflect increased financing costs and more conservative growth assumptions. Across the asset class, growth components within business plans are under heavy scrutiny and it is likely that given the macroeconomic backdrop, this will continue to be the case over the remainder of the year.

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Chart 7: Closed Infrastructure Transactions, EV/EBITDA Multiples



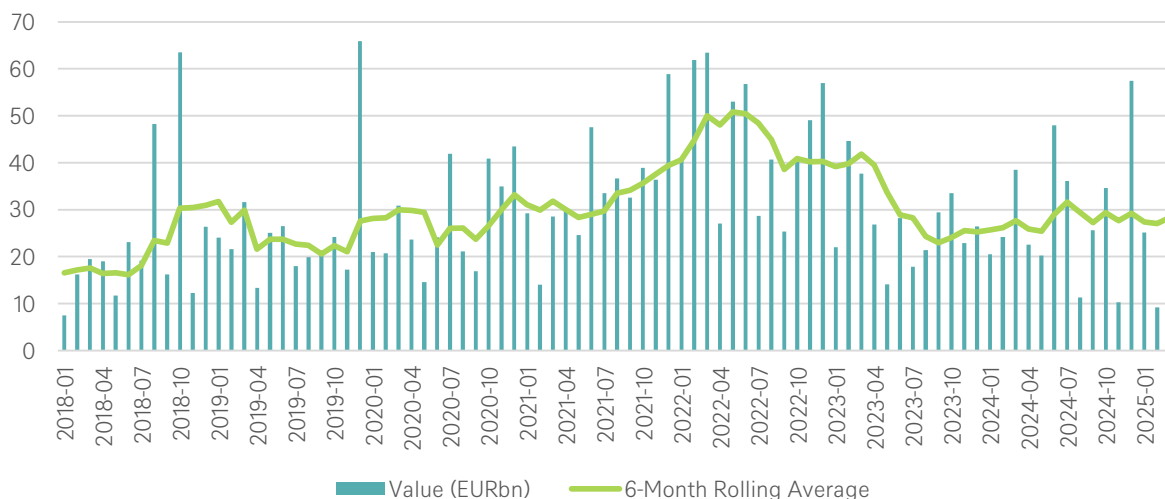
Sources: Infralogic, DWS Infrastructure Research, as of June 2025. Note: Aggregated global EV/EBITDA averages are derived from over 1000+ transactions with data available. \*2025 = January-May 2025. Past performance is not indicative of future performance.

2025 could present an attractive valuation entry point for assets with strong infrastructure characteristics, but have experienced some repricing in recent years due to the higher interest rates impacting their growth profiles. We maintain that in sectors such as renewables developers, fibre companies and electric vehicle (EV) charging infrastructure all still have strong long-term secular tailwinds supporting their development. In a European context, the more uncertain global political and economic environment is adding further tailwinds to these strategic infrastructure sectors given their centrality in achieving European energy security and digital independence (see Section 3).

## 2.3 Transaction Activity

The first half of 2025 has continued to see a gradual increase in activity in the infrastructure M&A market after its stabilisation in 2024. The subdued activity in 2024 was largely attributed to the lingering effects of elevated interest rates and a lack of comparable transactions, which led to a very cautious and due diligence-focussed buyers' market. While the lack of comparable transaction data will likely linger a little longer, more confidence in valuations will see greater transaction volumes in 2025 and data indicates this is underway (Chart 8). Furthermore, other factors which should drive transaction activity over the remainder of the year include a renewed focus from investors on Distributed to Paid-In Capital (DPI) metrics given the need for capital to be recycled into new fund vintages. While sellers will still look to target optimal market conditions for disposal and avoid pressurised sale processes, funds coming towards the end of the lifecycle, combined with the need to deploy new capital that has been raised in recent years, will also propel the market to become more active.

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**Chart 8: Value of Closed Infrastructure M&A Transactions, Monthly**

Source: Infralogic, June 2025. Past performance is not indicative of future performance.

From a market timing perspective, we may see that the recovery in activity is not even across all sectors; those assets with international trade exposure or tariff risk may be kept off the transaction market until a clearer long-term picture emerges. Again, as discussed below, European assets are more insulated than other regions globally from trade disruptions and so we expect that the transport sector recovery will continue to gather pace. Nonetheless, certain segments—such as data centres, transport assets outside of international freight, and energy transition infrastructure—are expected to remain active and attract capital due to their alignment with long-term thematic trends and supportive market conditions. As we have previously noted, data centres have one of the strongest current demand profiles in infrastructure and have been largely immune from any pressure on EV/EBITDA multiples. In 2024, data centres accounted for over 12% of the value in the infrastructure transaction market and as of mid-June 2025, that figure has risen to nearly 14%<sup>1</sup>. In 2015, data centres accounted for less than 0.2% of transaction value in the infrastructure market<sup>2</sup>.

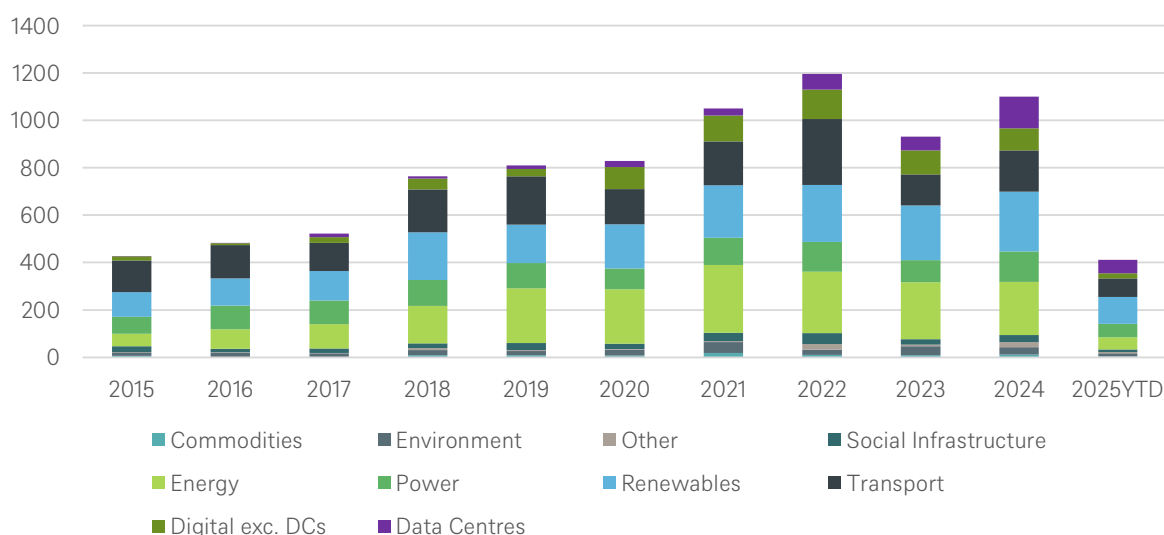
<sup>1</sup> Infralogic, June 2025.

<sup>2</sup> Infralogic, June 2025

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Chart 9: Closed Infrastructure Transactions, By Sector, EURbn



Source: Infralogic, June 2025. 2025YTD = January-June reported transactions. Past performance is not indicative of future performance.

In a turnaround from our analysis at the start of the year, there could be growing momentum behind the European transaction market, while the U.S. market contends with greater uncertainty. Political risk in Europe has subsided and we see significant momentum behind pro-investment policies and government spending commitments for infrastructure. At the same time, the U.S. clean energy market faces the combined challenges of a supply chain that relies heavily on potentially highly tariffed Chinese imported equipment (particularly battery storage) as well as the 'One Big Beautiful Bill' which could add significant complexity for investors to access the attractive investment tax credits that have driven the market in recent years. While certain states will remain attractive, federal support for clean energy is likely to remain challenging for the foreseeable future. Midstream infrastructure and data centres – the other two major drivers of the U.S. market – continue to remain attractive.

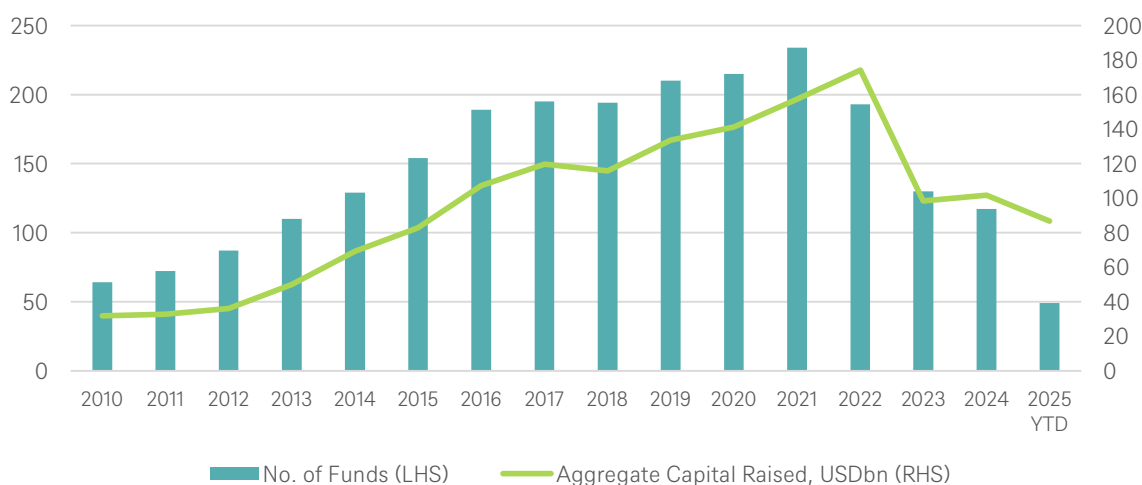
## 2.4 Fundraising Market

Potentially ending the delayed onset of a market turnaround, 2025 looks set to improve on 2024's overall capital raise for infrastructure, with USD86bn raised as of June 2025, nearing the USD101bn raised in the previous year with still six months to go<sup>3</sup>. Nonetheless, the fundraising market still lags levels seen in 2022 as the market remains constrained by available capital and cautious, highly selective investors which are favouring scale, diversification, and differentiated strategies from mature platforms in the uncertain macroeconomic climate.

<sup>3</sup> Preqin Pro, June 2025.

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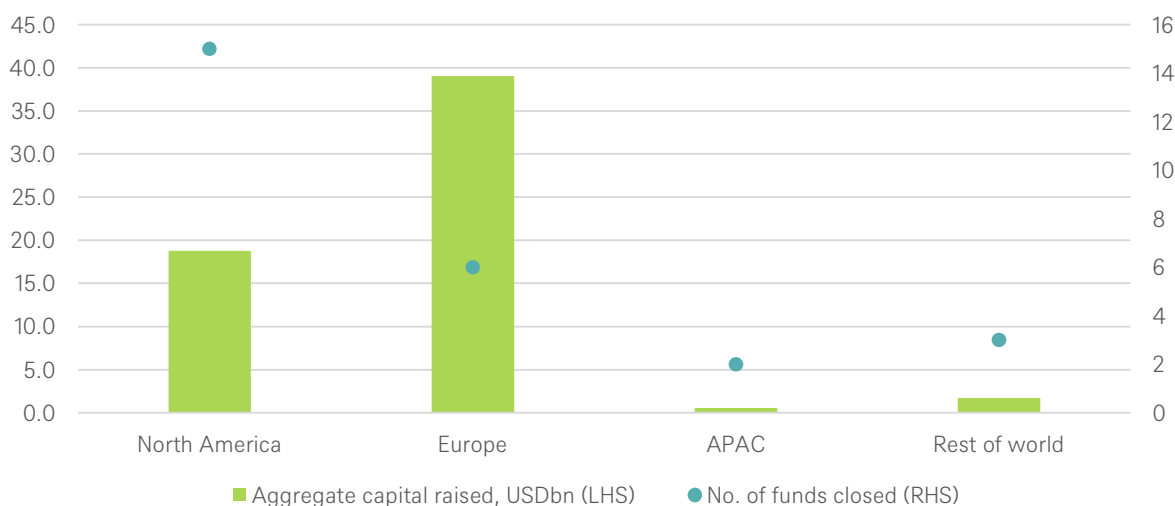
Chart 10: Global Infrastructure Fundraising



Source: Preqin Pro, June 2025. Past performance is not indicative of future performance.

The choices investors make will likely continue trends allocating capital towards large managers – indeed we have seen the number of fund launches decline despite more capital being raised, indicating an increase in fund size. After a number of years of allocating towards larger managers, we expect investors will look to complement this exposure with more midmarket funds targeting assets with more of a growth profile, noting the ability of these funds to access better value deals and sell into the larger funds – a value creation pathway more challenging for large cap managers<sup>4</sup>.

Chart 11: Q1 2025 Infrastructure Fundraising, By Region



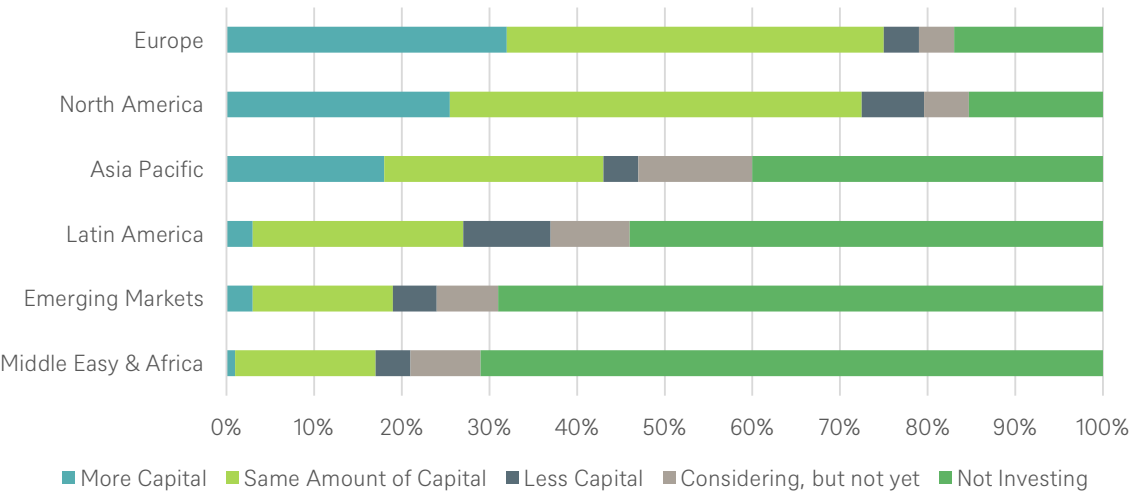
Source: Preqin Pro, June 2025. Past performance is not indicative of future performance.

<sup>4</sup> DWS, 2025 Infrastructure Strategic Outlook, January 2025

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Similarly, following several strong years for North American-focussed fundraising we expect that the combination of growing tailwinds in the European region combined with caution towards the U.S. market, as outlined above, will see Europe outperform from a fundraising perspective over 2025. We have seen a shift in various infrastructure investor sentiment surveys away from U.S. exposure and towards Europe and this is now starting to manifest in infrastructure fundraising numbers<sup>5</sup>. In Q1 2025, Europe emerged as the leading region for infrastructure allocations (Chart 11). European focussed capital raised amounted to nearly USD40bn in Q1 2025, eclipsing North America’s USD18.8bn raised<sup>6</sup>. With most institutional investors remaining below target allocations, we expect that Europe will be a key beneficiary of greater inflows as the market continues to recover.

Chart 12: Geographic Infrastructure Investment Intentions, Institutional Investors



Source: Cornell University’s Brooks School of Public Policy and Hodes Weill & Associates, LP, 2025 Institutional Infrastructure Allocations Monitor, June 2025. Note: Survey conducted January-May 2025, with responses from 115 international institutional investors.

<sup>5</sup> See Infrastructure Investor LP Perspectives 2025 Survey.

<sup>6</sup> Preqin Pro, June 2025

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## 3 / Investment Outlook

At the start of 2025, we noted that Europe's investment appeal was likely to be amplified given the new U.S. administration's uncertain policy outlook. Combined with resilience of the market in the face of trade tariffs, the greater policy and investment momentum in Europe over the first half the year lays the groundwork for attractive vintages of funds currently seeking European exposure.

### 3.1 European Infrastructure & Tariffs

From a tariff resiliency perspective, we expect that the main risks to European infrastructure businesses come from a prolonged period of economic weakness, rather than direct tariff exposure. Most European infrastructure is orientated towards serving the EU's Single Market and as we highlighted at the beginning of the year, less than 5 percent of Eurozone GDP is directly linked to exports to the U.S. This makes the European infrastructure market significantly more insulated from tariff impacts than other markets and regions which have economies and infrastructure networks heavily orientated towards servicing the U.S. market.

Of course, disruption to sectors like European autos and pharmaceuticals which are more in focus for direct tariffs is likely to impact some freight and logistics infrastructure, although again this will likely be concentrated on international freight hubs rather than the wider infrastructure market. To fully assess the potential worst-case scenario for the European infrastructure market should a 'Liberation Day'-style tariff regime be reimplemented, DWS undertook in-depth sector analysis, the summary of which is seen in Table 1.

The impacts of such tariffs – as highlighted in the downside scenario in Section 1 – on the European infrastructure market can be categorised across three distinct time horizons. In the short term, the effects would be concentrated in sectors directly subject to tariffs or those with immediate exposure through clients and customers affected by such measures. These impacts are typically operational and sector-specific, reflecting immediate disruptions in supply chains or trade flows. Over the medium term, the consequences become more systemic, stemming from broader macroeconomic repercussions such as recessionary pressures, subdued growth, heightened inflation volatility, and increased uncertainty around interest rate trajectories. These conditions can dampen investor sentiment and delay capital deployment. In the long term, the tertiary effects of tariffs are expected to manifest through structural policy responses and a reconfiguration of global trade relationships. This includes shifts in strategic alliances, regulatory frameworks, and investment priorities, all of which could reshape the landscape for infrastructure development and financing across Europe.

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Table 1: Qualitative Assessment Of Severe Tariff Scenarios On European Infrastructure Sectors

	Sector	Direct Tariffs	Tariff Macro Impact	Long Term Policy Outlook
Transport	Public Transport			
	Freight Rail			
	Airports			
	Ports			
	Toll Roads			
Energy	Renewables Generation			
	Gas			
	Nuclear			
	Developers			
	Bio-energy			
Digital	Data Centres			
	Towers			
	Fibre			
Social	Health			

Source: DWS Infrastructure Research. Table Note: Green = positive impact, Grey = neutral impact. Blue = negative impact – May 2025. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.

#### Key Tariff Analysis Highlights

- **Direct tariffs:**
  - Overall, there is a relatively limited U.S.-Europe nexus on infrastructure equipment, rolling stock, renewable energy components etc.
  - Infrastructure with direct exposure to the transportation of tariffed goods will see the most immediate impact. Most infrastructure should have contractual protection to prevent immediate revenue pressure but shifting trade patterns likely to be quite rapid for externally focussed international ports and freight infrastructure.
  - Data Centres in Europe source some cooling equipment and technology from the U.S. given its dominance in the data centre market, potentially increasing greenfield asset development costs.
- **Tariff Macro Impacts:**
  - The downside risks for infrastructure come from the weaker economic picture. Infrastructure should not have elastic demand, but over the medium term a prolonged period of economic weakness may limit the pricing power assets have at the point of contract negotiations. As we have discussed before the nature of contracted infrastructure should mitigate risks assets from short-term demand weakness, but prolonged economic weakness due to tariffs would start to limit the upside revenue opportunities for those assets. Merchant assets would feel that pain more immediately.
  - We note that some public transport assets tend to be counter cyclical in nature, whereby in times of economic pressure public transit like buses and rail make a cost-effective alternative to private travel.
  - Clean energy equipment exports from Asia may be reorientated away from the U.S. and towards Europe, lowering project development costs. This could also work to undermine the development of European clean energy manufacturing in the short term.
- **Long Term Policy Outlook**
  - As discussed below (Section 3.2), the relationship between Europe and the U.S. since the start of the year has already energised European policy makers to act on improving investment into strategic sectors. In a more severe tariff environment, we would expect all infrastructure sectors that support energy security, digital independence and manufacturing capacity to benefit from further national or EU level support.

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- Given the U.S. is now a major supplier of LNG to Europe, we expect there to be renewed focus on reducing imported petroleum products and fuels in the European energy mix through the development of further renewable energy and more rapid phasing out of fossil fuels.

### 3.2 Europe's Investment Renewal

The theme of European transformation has been highlighted by DWS since 2022<sup>7</sup>, and in October 2024, this view was reinforced by influential reports by two former Italian prime ministers, Enrico Letta and Mario Draghi, that underscored the urgency of addressing structural challenges in competitiveness, energy, and artificial intelligence. While European policymaking is often characterised by its consensus-driven and long-term orientation, it has also been criticised for its slow pace. However, in this instance – energised by politics in the U.S., the European policy response has been notably swift. Since the publication of those reports, national governments have rallied behind the cause, and from January 2025, a series of significant policy announcements have been made, signalling a shift toward a more agile, efficient, and sustainable European economic model.

This momentum is reflected in a suite of EU-level initiatives:

- The EU Competitiveness Compass (January 2025) lays out a five-year agenda to improve the business environment, promote clean technology, and support industrial decarbonisation. It includes revised M&A guidelines, simplified rules for pan-European businesses, and targeted state aid for strategic sectors.
- The InvestAI programme (February 2025) aims to mobilise EUR20bn for AI gigafactories (hyperscale data centres supporting AI model training) and broader support for AI start-ups, data infrastructure, and industrial AI adoption.
- The Clean Industrial Deal introduces a new framework to accelerate renewables, decarbonise heavy industry, and develop clean manufacturing capacity, while the Affordable Energy Action Plan focuses on reducing electricity taxes, improving permitting, and incentivising demand-side flexibility.

Complementing these policy shifts is a notable change in fiscal attitudes among Europe's largest economies. Not all economies will be able to increase spending dramatically, but several major ones have now signalled a significant boost to capital investment in the infrastructure space. The U.K. recently announced a GBP725bn 10-year infrastructure strategy, and Germany has committed to a EUR500bn infrastructure fund, including EUR100bn earmarked for climate-related projects. The German fund is notable given the shift away from the fiscal conservatism of recent years; new capital for the fund is already beginning to feature in the German government budget. This fund, approved by both the Bundestag and Bundesrat, will be deployed over 12 years and is constitutionally backed by Germany's 2045 climate neutrality target. It will support a wide range of infrastructure initiatives – from traditional transport and municipal upgrades to energy efficiency, EV charging, and hydrogen infrastructure.

This public capital is not expected to crowd out private investment. Instead, it is designed to target large-cap, core infrastructure networks like rail and grids. It is expected, as discussed in the upside macroeconomic scenario in Section 1, that the investment will stimulate broader economic activity and support private capital in the infrastructure markets where it has a greater presence, such as more commercial sectors like digital infrastructure, renewables, and energy efficiency.

Although these measures are still in the early stages of implementation, further clarity is expected throughout 2025 and 2026. The key takeaway is that Europe is responding decisively to both internal challenges and external pressures – just as it did during the eurozone and energy crises – demonstrating its capacity to act swiftly and strategically. This proactive stance is aimed at ensuring Europe's long-term resilience, competitiveness, and autonomy in an increasingly uncertain global environment.

<sup>7</sup> See DWS European Transformation Research Hub

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