

# Infrastructure: the engine of defensive growth opportunities



Infrastructure provides the robust, defensive qualities investors appreciate, providing diversification and also limiting the downside when you need it. At the same time, the lesser-discussed but powerful side to infrastructure investment is access to secular growth trends. Trends including electrification, Artificial Intelligence (AI) and data centre expansion, and growth and penetration in renewable energy generation are a few driving forces for infrastructure businesses. For investors, infrastructure represents an opportunity to play into key secular trends in a lower-risk way.

## The electricity growth engine

Electrification and rising electricity demand together comprise one of the most prevalent trends in markets and the economy. Within this trend, AI and data centre growth are key drivers. This year alone, the value of the US stock market has grown by US\$7 trillion<sup>1</sup>, or 14%. This growth is driven by the Magnificent Seven tech firms, which accounted for 40% of this gain. Underlying this rise are growing expectations for AI as a transformative technology for economies, along with fast-growing projections for data centre demand to boot. Should this growth in demand continue as anticipated, it will require immense energy consumption, and this consumption is only expected to accelerate. The current outlook is for US data centre power loads to nearly double by 2035, from around 40 GW in 2025 to close to 80 GW<sup>2</sup>.

<sup>1</sup> S&P 500 index. Data as at 23 September 2025.

<sup>2</sup> Bloomberg.

Image: iStock

## ... without the volatility

There are several ways to gain exposure to this powerful trend. Some strategies, such as outright development of data centres or merchant power generation, come with more risk. The common issues here are intensive capex and limited regulation, which leave any investment exposed to a potentially significant slump, as well as share price volatility.

Instead, we view investment in regulated utilities as the opportunity to gain exposure to this trend while reducing these risks. For these companies, capital investment to meet higher demand from AI and data centres is supportive of earnings. Due to their regulatory structure, regulated utilities are allowed to earn an agreed rate of return on their capital expenditure (their rate base). This capex is increasing significantly in many cases to meet higher projected demand from data centres. We also see the regulated nature of these businesses as providing protection for capital. Having an agreed rate of return means that these earnings are not tied to the price of power. For investors, this provides protection should data centre and power demand growth not meet lofty expectations.

## Unexpectedly robust renewable energy investment

Robust momentum in renewable energy investment is another key trend in markets. Investment in this area has had remarkable staying power in 2025, despite changing political rhetoric. Global investment in renewable energy is expected to reach US\$780 billion in 2025, up 2.6% from 2024. Wind and solar are expected to cover over 90% of the increase in global electricity demand this year<sup>3</sup>. While the breakneck pace of 2015-2024 has abated, the outlook is for ongoing solid investment growth, reflecting improving project economics and availability of renewable technologies. The share of renewables in global final energy consumption is forecast to increase to nearly 20% by 2030, up from 13% in 2023<sup>3</sup>.

### ... through a regulated lens

To gain exposure to this trend, the most obvious avenue would be to invest in renewable energy development, such as the building of wind projects. This approach comes with significant risks, including cost escalation and abrupt policy changes, for which a construction project may have limited protection. A far lower-risk way to access this demand is through regulated utilities.

Strong power demand suggests more capex will be required at regulated utilities – across the energy mix. Renewable energy is an especially attractive option to meet some of this demand as it is relatively quick to bring

online, while long lead times on new gas make it a less-ready option. This suggests that ongoing, solid growth in renewable energy capex should continue at regulated utilities over the coming years. This investment supports performance for such companies. As we've noted, more capex means a higher rate base and therefore earnings.

From a financial viewpoint, regulated utilities are largely agnostic to the source of new generation capacity. Should there be some shocks to the system, such as major shortages of componentry (for example, wind turbines or solar panels), we could see a reallocation of future capex away from renewables. Instead, these companies could refocus on other sources of energy for electricity production – such as gas, for which there are also large pipelines of potential projects.

In our view, infrastructure, when properly defined, is a defensive asset class that provides the opportunity for real growth. Through this asset class, investors can access secular trends while mitigating their exposure to risk.

<sup>3</sup> International Energy Agency.

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