

# Adapting to shifting global trade dynamics

We have entered a new phase in the geopolitical and policy landscape, bringing a fresh layer of uncertainty but also opening the door to new opportunities. Two forces are shaping the outlook for infrastructure for the rest of 2025: the shift in the perceived macroeconomic environment and the apparent stabilization of infrastructure transaction pricing and performance.

## The macro landscape

Currently, there is a broad consensus that the global economy is weakening. A global recession is not our base-case scenario, but the economy is increasingly challenged by trade tensions.

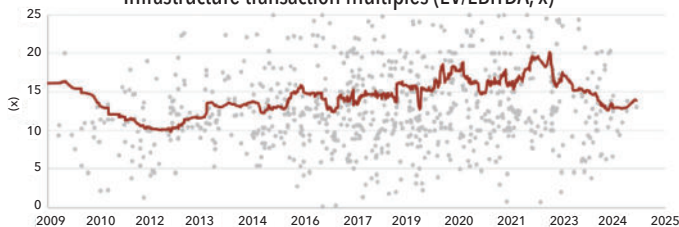
The U.S. tariffs are adding increased complexity to the outlook. These actions have contributed to heightened market volatility, softer investor sentiment and weakening trade flows, broadening the downside risks to global growth. Inflation has continued to decline across most advanced economies, yet it appears to remain sticky in the U.S., and tariffs may lead to a rebound in inflationary pressures. Therefore, central banks, particularly the Fed, now appear more cautious. Despite uncertainty on short-term rates, long-term yields are proving stickier than what many expected, providing a clear indication that inflation and fiscal policy uncertainty are influencing the outlook of long-term investors.

## Infrastructure's resilient performance

Infrastructure has demonstrated performance resilience over recent years, outperforming other alternative asset classes despite rising interest rates. Assets with inflation-linked revenue streams, particularly within core strategies, have continued to provide stable cash flows.

At the same time, infrastructure equity, particularly in the core space, has been repricing. This has primarily been driven by a widening in interest rates, creating compelling entry points. Data for the first half of 2025, including market transaction multiples, suggests that valuations in the private infrastructure space may have begun to stabilize, following several quarters of downward adjustment.

Infrastructure transaction multiples (EV/EBITDA, x)



Sources: InfraRed Capital Partners, InfraLogic, December 2024. Past performance is not indicative of future returns.

We believe that the impact of higher interest rates may have now largely been reflected in pricing where transactions are closing. However, we anticipate that the influence of elevated discount rates on asset cash flows and valuations may continue in the short-term, especially for assets undergoing refinancing.

In our view, the reset in pricing has enhanced the relative attractiveness of infrastructure across the capital stack, particularly for long-term investors seeking stable income and inflation indexation. Moreover, sticky inflation may continue acting as a tailwind by providing potential upside to future cash flows for core infrastructure assets with inflation-linked revenue streams.

## Infrastructure allocations shifting

We forecast that in H2 2025, average entry returns for core infrastructure equity will be approximately 10 percent, a level that represents a material improvement compared to the recent historical average, which was closer to 8 percent. Value-add infrastructure strategies are expected to generate 14.2 percent returns. Core-plus infrastructure equity is forecast to deliver 12.1 percent. The premium offered by core-plus strategies over core strategies has somewhat compressed, driven in part by many core assets, such as utilities, requiring increased capex because of energy transition, thus increasing their return targets.

Private infrastructure, long-term entry return assumptions by strategy (% 10Y)



Sources: InfraLogic, Scientific Infra™ and Private Assets, used under permission, data as of May 2025. Debt returns equal buy-and-hold entry yields, estimated from InfraLogic deal database. Equity indices are derived from Scientific Infra™ and Private Assets for Advanced Economies, including core infrastructure index, core-plus infrastructure index and opportunistic infrastructure index. Net returns. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialize.

There has been a noticeable pivot toward strategies with higher return targets. Value-add strategies accounted for nearly 40 percent of fundraising in Q1 2025, highlighting investor confidence in their growth potential driven by secular tailwinds. Energy transition and digitalization trends continue to drive the growth of investment opportunities, particularly across the mid-market and newer infrastructure sectors at the lower end of this space. These market segments are gaining in investor appetite, as they look for return-enhancing opportunities.

## Geographical diversification essential

We see an increased risk of volatile economic growth, inflation and policy divergence going forward. In our view, a globally diversified investment approach, with increased strategic focus on a combination of mature markets, such as Europe, North America and Australia, may contribute to mitigating emerging policy and trade risks. For infrastructure investors, in the short-term, this may require cautious assumptions for transport and energy deals, and a more selective approach to assets with an exposure to global demand and trade, such as ports. Amid changing global trade dynamics, geographical diversification may become more important than ever.

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### CORPORATE OVERVIEW

InfraRed Capital Partners is a leading international mid-market infrastructure asset manager. Over the past 25 years, InfraRed has established itself as a highly successful developer, particularly in early-stage projects, and an active steward of essential infrastructure. InfraRed manages \$13 billion of equity capital for investors around the globe and combines a global reach, operating worldwide from offices in London, New York, Madrid, Sydney and Seoul, with deep sector expertise from a team of more than 160 people.

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