TAKING STOCK: HOW TO CONVERT A C- ON U.S. INFRASTRUCTURE TO AN A+ INVESTMENT

Seth Goldman, CAIA, Senior Research Analyst

BLOG POST

March 10, 2021

The United States needs to make a sizable investment in infrastructure if it wishes to retain its competitive edge in the global economy, according to the findings of a recent report by the American Society of Civil Engineers.

To keep up, the U.S. has to close the $2.6 trillion gap in infrastructure investment over the next decade, requiring hefty investments from both public and private quarters. As the economy struggles to get back on its feet after the onslaught of COVID-19, we believe the federal government will likely lead the way, ratcheting up spending on infrastructure to promote job growth. As a result, we expect public-private partnerships, or P3, will play a key role in improving existing and developing new infrastructure. For our clients, this presents a growing opportunity for private capital investments in real assets.

In its report, published every four years, the ASCE provides a comprehensive assessment of 17 major infrastructure categories, assigning a grade of C- to the U.S., a modest improvement from the D+ it got in 2017. The report stresses the need for greater infrastructure spending and warns against inaction: Continued underinvestment in U.S. infrastructure will cost around $10 trillion in GDP, over three million jobs, and over $2.4 trillion in exports over the next two decades, according to the ASCE. It estimates that America's overdue infrastructure bill will cost the average American household $3,300 a year by 2039 if additional investments are pushed further down the road.

At NEPC, we believe the continuing willingness by the federal government to step up spending to bolster economic growth—addressed in our key market theme of *permanent interventions*—will fuel alliances between the public and private sectors. For private asset owners, the prevailing low interest rates make borrowing appealing and are supportive for valuations. However, to view this opportunity set as attractive, private asset owners not only must recoup the cost of building, maintaining and improving infrastructure, but also profit from their investment. At the same time, consumers must be willing to pay rates reflecting the true cost of usage.

To that end, NEPC has identified several occurrences where regulators have undercut asset owners' economics in order to provide consumers with more favorable costs for services such as electricity and water. These pricing constraints underscore the growing need by politicians to appease the populist discontent—referenced in another key market theme, *globalization backlash*—upstaging established political and economic conventions across the world.

As the demand for private capital investments grows, regulators will need to take a measured approach of balancing consumers' best interests with the economic aspirations of private asset owners. At NEPC, we continue to explore suitable investment opportunities within private real assets for our clients. We recommend going with asset managers with a demonstrated expertise in P3 transactions and a strong understanding of the potential regulatory complexities that often accompany governmental involvement. Please call your NEPC consultant to learn more about investment opportunities in private real assets.

DISCLAIMERS AND DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.