# Infrastructure in 2025 – Seeking a steady course in choppy markets

## Private markets

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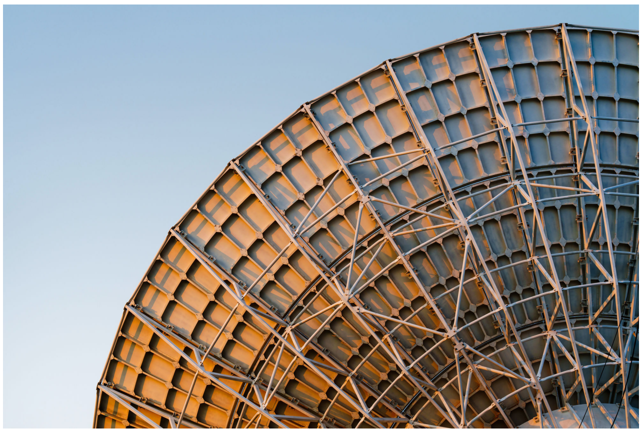
- Transitioning policy priorities in the US and new entrants in the AI scene have raised questions about future demand for infrastructure assets.
- But, in our view, tactical and structural drivers continue to support capital deployment into the asset class.
- We continue to favor a diversified approach across sectors with a focus on digital assets and energy transition themes.



### Introduction

Since President Trump's re-election in November 2024, investors have had to grapple with possible shifts in macro and trade policies across the globe, casting a shadow on the economic outlook.

For infrastructure investors specifically, concerns have arisen around the viability of some infrastructure trends. These include partial or full removal of Biden-era legislations that boosted infrastructure assets in the renewables segment. And new entrants in the AI scene have raised questions about their potential impact on future demand for data centers.

That said, the desire to limit resource and energy dependence is driving deglobalization and onshoring efforts. Some are questioning if the infrastructure hype is fading. We think not.

### Stability in infrastructure

Infrastructure assets typically benefit from high barriers to entry, monopolistic positioning, ownership of tangible assets, and contractual cash flows often tied directly or indirectly to inflation, making them more resilient to economic cycles.

Indeed, the strategy has delivered stable, positive returns over the past few years. As of mid-2024, private infrastructure returned 8.8% over the prior 12 months and 10.3% annually over the prior five years (Fig. 1). We expect this trend of healthy returns to extend into 2025.

### Market dynamics are improving

Soaring interest rates in 2022-23 moderated investor activity. While fundraising remained flat in 2024, volumes are still 45% lower than their peaks (Fig. 2). Dealmaking also contracted 27% since peaking in 2021 (Fig. 3), but the first quarter of 2025 shows signs of recovery, with deal value already reaching 43% of 2024 totals, albeit across fewer deals.

Our 2025 base case of further monetary easing and broad economic resilience supports further infrastructure acceleration in the coming quarters, despite the ongoing US political uncertainty. Importantly, entry multiples offer good entry points, in our view. For example, EV/EBITDA entry multiples for digital infrastructure are at their lowest since 2020 (Fig. 4), while valuations for energy and utilities have declined as well.

**A structural investment story**

Beyond tactical considerations, we think infrastructure is a structurally underfunded sector globally, with an investment gap expected to widen to USD 15tr by 2040 (Global Infrastructure Hub). The current asset scarcity continues to be met with growing demand, spurred by the structural trends of deglobalization, decarbonization, demographics, digitalization, and debt—the 5 Ds—which are now more relevant than ever and reshaping the next decade.

The new US administration’s approach to import tariffs is further polarizing the world, incentivizing countries to accelerate the onshoring of critical infrastructure. Digital infrastructure assets are a key focus since the beginning of the AI revolution and even more since US President Trump’s election. Efforts to transition to low-carbon energy and the broader electrification of the economy are key strategic priorities globally—even in the US with the federal government’s more climate-sceptic bias.

A rising urban population still means more resilient and reliable access to transportation, mobility, water, and power are needed. And all this is happening at the same time the global debt-to-GDP ratio is reaching a new high of 328% (Institute of International Finance), restraining the government’s ability to invest in infrastructure and making private investments all the more important to fill the gap.

New important developments in 2025 need to be addressed, however.

**Should investors reconsider their allocation in digital infrastructure in view of new developments in GenAI?**

Not long ago, in our piece "*Paving the way: Private infrastructure opportunities in a changing world,*" we discussed AI as a key driver of digital infrastructure demand. Indeed, data center projects have seen demand surge last year with occupancy rates over 90% (Cushman & Wakefield), and future capacity mostly pre-leased unlikely to meet demand over the next three years.

The unveiling of Chinese GenAI DeepSeek R1 (as well as other new LLM models in the APAC region) performing at a fraction of the cost of US AI rivals has left investors questioning the future demand for data centers, however.

In our view, data center demand will still be high despite the potential for more efficient training models. McKinsey estimates the global demand for data centers to grow in the double digits at around 22% p.a. in its base-case scenario, but still 18% in the lowest scenario between today and 2030 (Fig. 5), a view we share.

But while demand should stay strong, a bifurcation per type of data center and per location is likely to occur. With potentially more efficient and cost-effective training models, we expect AI development needs to shift from “training” to “inference” as adoption of consumer applications speeds up.

This may result in slightly looser market conditions and lower occupancy rates for “training” data centers as these assets do not need to be close to urban centers and data nodes. “Inference” data centers instead need to be near urban centers. With tight land supply in key markets, such as the US and Europe, a more selective approach to capital deployment may be warranted.

Beyond data centers, we believe investors could seek exposure to the broader digital infrastructure sector. Preqin data show telecom has seen deal value rise in 2024 (Fig. 3). As connectivity is set to increase and mobile data demand looks to triple by the end of the decade, other digital assets like towers and fiber network rollouts offer attractive opportunities to diversify.

**Can energy-transition assets survive with a more limited Inflation Reduction Act (IRA)?**

Almost immediately after his inauguration, President Trump took a number of actions shifting the US policy stance on climate and renewables, leaving investors wondering about energy-transition assets and their viability without US government support.

While there maybe near-term uncertainty, we believe the structural case for the energy transition stands. Renewables are not only essential to meet decarbonization efforts, but also to meet increasing global energy demand. The International Energy Agency (IEA) expects electricity demand to rise 4% annually over the next two years.

Infrastructure investors are noticing the demand trend and finding opportunities; nearly 75% of infrastructure deals in 2024 were energy related (Preqin data). Noteworthy is that the cost of renewables has also reduced significantly over the years, and the levelized cost of renewable energy has been more attractive than fossil fuels since 2015 (Fig. 6).

Moreover, we think a full repeal of the IRA is unlikely. A repeal would still have to pass Congress, the initial bill had bipartisan support, and red states have benefited most from the Act. But we do think there will be consequences. The back-and-forth on climate policies has led to uncertainty about government incentives for solar and wind projects, and impending tariffs could significantly drive up battery prices.

While we foresee short-term uncertainty around incentives, as we explained, solar, wind, and battery storage are part of a structural trend of energy transition. While offshore wind and EV projects may suffer in the US, solar and onshore have become economically viable and form a growing part of the energy mix. Solar is particularly essential, and the IEA expects solar to take over coal as a source of electricity in the early 2030s, based on stated policies.

And while US government support has brought some uncertainty, other governments across the globe remain supportive. Europe's need for energy independence is likely to continue to drive investments in the energy transition. Meanwhile in Asia, Japan has announced an investment plan aiming to reach 38% of renewables by 2030, while China remains the world's largest consumer and producer of renewables.

**What do newly announced European spending plans mean for infrastructure?**

This March, German Chancellor-in-waiting Friedrich Merz proposed a bill to ramp up defense and infrastructure spending, dedicating EUR 500bn to fund infrastructure over the coming decade. For investors, this means there may be additional opportunities in Europe if the bill gets implemented. The German Institute of Economics (IW) estimates that Germany has an infrastructure funding gap of EUR 600bn, and such a plan could be spent across decarbonization, local infrastructure, railways, highways, construction and public transportation, and revamp aging infrastructure (Fig. 7). The EU made similar announcements with the EUR 800bn Rearm Europe plan and the EUR 200bn InvestAI initiative.

If these respective plans get through German government and get unanimous support from EU member states, they could provide a tailwind for European infrastructure. Europe is already a frontrunner in the global private infrastructure market, good for over 40% of deals in 2024, followed by North America and Asia (Fig 8). We note, however, that it is yet to be seen how much funding will actually be made available. Sizable government debt also remains a problem and may limit spending. But funding needs cannot be covered with public spending alone and require private investor participation.

**Our view**

We maintain a constructive view of infrastructure assets in 2025. Adding these to a portfolio brings a vital source of income and stabilization through stable, uncorrelated returns. While we believe that political noise and rapid developments in the AI cycle could trigger some near-term volatility, this does not alter the fundamental reasons why investors should consider adding infrastructure to their portfolios, considering risks. These would include a long-term horizon, illiquidity, regulatory and contract risk, and in the case of renewables grid stability and adverse weather events.

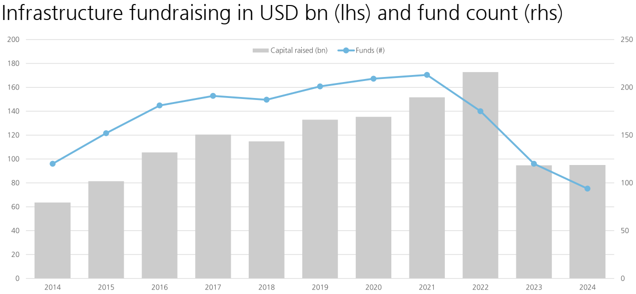
## Fig. 1: Infrastructure returns have shown resilience over time

Trailing returns across private market strategies


Source: Cambridge Associates Benchmarks for global private equity, infrastructure, and private real estate, GREFI for core real estate, and Cliffwater Direct Lending Index for direct lending. Data until 2Q24, UBS, March 2025

## Fig. 2: Infrastructure fundraising was flat in 2024, but still 45% below peak

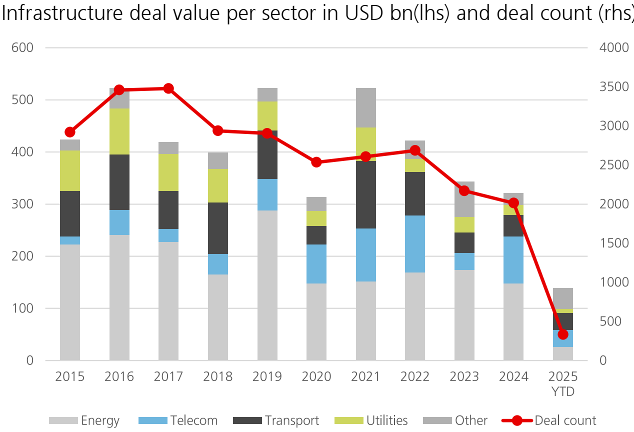
Infrastructure fundraising in USD bn (lhs) and fund count (rhs)




Source: Preqin, UBS, March 2025

## Fig. 3: Dealmaking has contracted since peaks, but 2025 shows signs of recovery in deal value

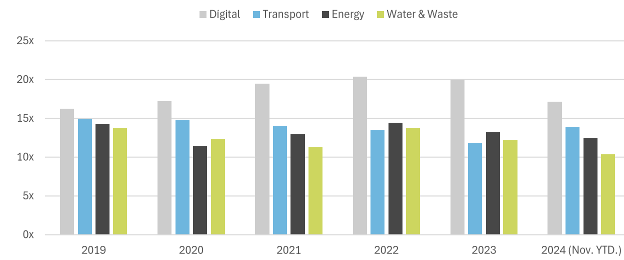
Infrastructure deal value per sector in USD bn(lhs) and deal count (rhs)




Source: Preqin, UBS, March 2025

## Fig. 4: Infrastructure deal valuations have improved

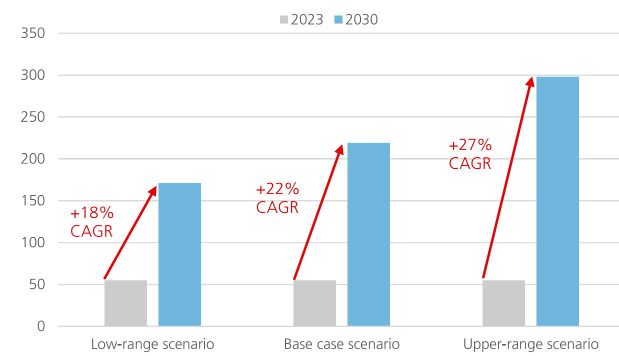
Deal level EV/EBITDA multiples by sector




Source: UBS AM proprietary database (based on 1500+ transactions), March 2025

## Fig. 5: Global data center demand is expected to triple by 2030

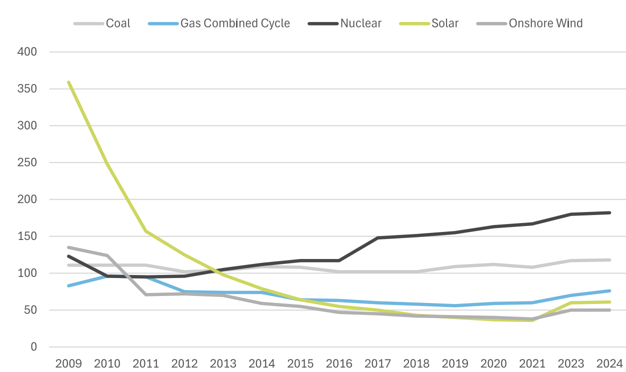
Estimated global data center demand, in GW




Source: McKinsey data center demand model, as of 28 February 2025

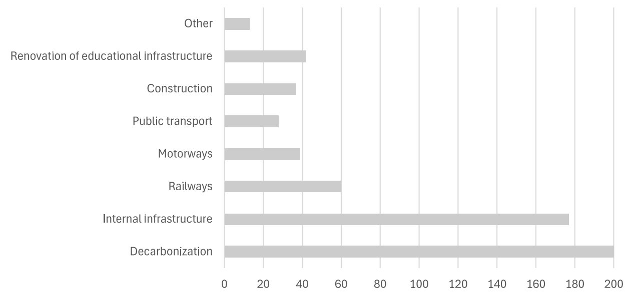
## Fig. 6: Renewable costs of production are more attractive than fossil fuels since 2015

Unsubsidized levelized cost of energy for utility scale generation, in USD per MWh



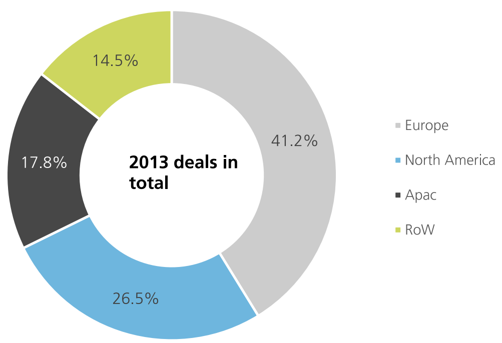

Source: Lazard, UBS, March 2025

Fig. 7: Germany has an infrastructure spending gap of EUR 600bn
Infrastructure spending needs across segments




Source: IW, IMK, as of 2024

Fig. 8: Infrastructure deals by region in 2024
in %




Source: Preqin, UBS, March 2025

## Non-Traditional Assets

**Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments).** Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

# Appendix

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