Source: UBS

Infrastructure investments offer stability and attractive returns

30 April 2024, 3:03 pm CEST, written by Daniel Kalt

Good infrastructure is central to the functioning of the economy and society. Investments in infrastructure can promote stable returns with decent inflation protection as well as diversification benefits within a portfolio.

Perhaps when you return to Switzerland from abroad, you become aware of the excellent quality of the infrastructure here. A punctual and dense public transport network, water that can be drunk directly from the tap throughout the country, or the luxury of having waste collected right outside your door week after week. Excellent infrastructure is one of the reasons for the high quality of life as well as the high competitiveness of the Swiss economy. Therefore, investments in infrastructure are central and encompass a wide range of physical systems and facilities that are essential for the functioning of a society. This includes transport infrastructure (road and rail networks, bridges, airports), utility facilities (water, electricity, gas), telecommunications, and social infrastructure (schools, hospitals).

Over the past years, investment vehicles that invest in infrastructure have established themselves as an extremely attractive asset class. For Swiss pension funds, a separate infrastructure quota was even created within the framework of the applicable investment guidelines (BVV 2) in 2020. However, private investors can also benefit from the numerous advantages that the increasingly accessible investment solutions for infrastructures offer. This includes that infrastructure projects generally generate stable and predictable cash flows. Many projects are secured by long-term contracts or government regulations that provide a constant source of income. This makes them particularly attractive in uncertain or volatile market phases. Infrastructure investments also often offer natural protection against inflation. The revenues from these investments are often linked to the inflation rates in a country, meaning that the cash flows also grow with rising inflation. Due to their low correlation with traditional asset classes such as stocks and bonds, infrastructure investments can contribute to the diversification of a portfolio. They can reduce the overall risk of the portfolio and improve the return-risk ratio. Last but not least, the social aspects of infrastructure investments should not be overlooked. Especially in less developed countries, such investments significantly contribute to social and economic development. They create jobs, improve quality of life, and promote economic growth. Moreover, the major megatrends, such as the transition to renewable energies, digitalization, and urbanization, are driving growth in this sector.

Given the advantages mentioned, it is advisable to consider infrastructure investments as part of a diversified investment portfolio. Investors should also consider the specific risks and characteristics of this asset class, including the often long capital commitment period. Additionally, it is important to pay attention to the sustainability of the projects, as sustainable infrastructure investments are increasingly in demand and can potentially drive higher long-term returns.

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