News & Views

2026 mid-year update & outlook

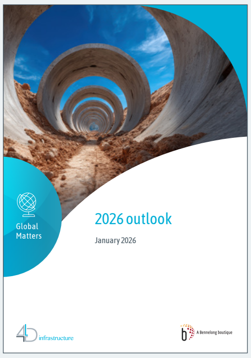
July 2026

4D infrastructure

A Bennelong boutique

Introduction

In our Annual 2026 Outlook in January we discussed what the year ahead could bring. Reflecting upon the risks and opportunities we highlighted, and the events of the last six months, the central tenets of our outlook have held true:



Several of the main risks going into 2026 carry over from 2025: heightened policy uncertainty, bond market sensitivity to governments' fiscal situations, the impact of tariffs on economies and the rewiring of global supply chains and trade networks. Geopolitical risk remains elevated, notably the US midterm elections, French & UK domestic politics, conflicts in Ukraine and the Middle East and increasing tensions with allied partners over Greenland.

(4D January 2026 Outlook)

The first half of 2026 witnessed its fair share of shocks and surprises:

- A fresh Middle East conflict and a Strait of Hormuz closure, briefly cutting global oil supply and reviving energy security fears before a shaky June truce began to stem the damage.
- Inflation has been stickier, not softer – the energy shock added to already-elevated core CPI in the US and Europe, pushing price pressures further from central bank targets.
- A sharp turn in the interest rate narrative – from 'flat to cut' across the board to a genuine two-way debate, with several central banks already raising policy rates and others expected to do so before year end.
- Political upheaval in the UK (Starmer's resignation and Andy Burnham's ascent) and continued paralysis in France, keeping European political risk elevated.
- In the lead up to the November US midterms, consensus is building around a divided Congress.
- China's growth is holding up on export strength, even as domestic demand and the property sector remain weak.
- The continued reordering of global supply chains and trade networks around security of supply rather than efficiency (exacerbated by the energy shock).

Despite all of this, risk assets have proven relatively resilient, supported by strong corporate earnings, and an AI investment cycle that continues to run ahead of expectations. By contrast, despite very strong fundamentals and a good start to the year, real assets have lagged broader markets. We believe this is a buying opportunity for select infrastructure names.

What’s happened so far in 2026

We review below the main parts of our 2026 Outlook that were confirmed in the first half, and their impact (positive, negative or neutral), as well as several surprises that arose. Our assessment below is purely on the economic impact, while we discuss whether our infrastructure names are detrimentally impacted or can mitigate or capitalise on these themes later on.

	4D January 2026 outlook	First Half 2026 Outcome & market impact Positive / Neutral / Negative
Outlook confirmed	“Global growth to remain solid, with the potential for Germany to emerge from two years of negative growth.”	US GDP growth has proven resilient, tracking close to 2% and above the long-run 1.8–2% trend despite tariff and energy headwinds, with the K-shaped economy and AI wealth effect continuing to support high-income consumption. While on balance positive, the widening of the wealth disconnect is a growing concern.
		Germany’s exit from stagnation is proving slower than hoped – positively we continue to expect a return to growth, however this growth has been downgraded to ~0.5% as fiscal stimulus deployment lags and the energy shock hit the industrial core; the infrastructure boost remains a 2027+ story.
		Eurozone growth has been mixed – Q2 PMIs turned negative on the energy shock and Chinese competition, though the periphery (Spain, Italy) continues to outperform the core.
	“CPI remains sticky in the US, UK and Australia and remains at least two years from central bank target ranges.”	The Iran conflict and Hormuz closure had a big headline inflationary impact on energy importing regions (North Asia, Europe), leading to upward CPI shocks in 2026. It also exacerbated affordability concerns around the globe. It remains uncertain as to the level of second round impacts across the broader economy (wages etc).
	“Long bond yields remain elevated, especially with increased German supply amid fiscal loosening, and higher term premiums.”	German Bund supply and fiscal loosening kept yields elevated.
		US yields tracked higher, reaching a 15-month peak of 4.66% on inflation fears, geopolitical risks and fiscal concern. US government debt and deficits remain on an upward path, keeping structural pressure on long-end yields.
	“Tariffs remain a significantly elevated tax on US consumers and on corporate margins. This will eventually impact US supply chains, margins and inflation. This may finally bite in 2026”	The US consumer remained resilient, despite the added pressure at the pump. This was supported by wealth effects and the K shaped economy. Most of the tariff-induced inflation uplift has been absorbed.
	“The Supreme Court is set to rule on the legalities of Trump’s use of executive orders for reciprocal tariffs (IEEPA rules) from any time in January 2026. While this is headline grabbing and adds some uncertainty, we think that Trump will use alternative (yet more complex) ways to implement tariffs under different laws (Section 122, 232 and 301).”	While positively the Supreme Court ruling banned reciprocal tariffs, new mechanisms are currently being introduced, largely leaving the overall average tariff in line. This has reduced overall tariff uncertainty, but tariffs remain in play as expected
	“UK and France remain highly uncertain and volatile political jurisdictions. The UK local elections on May 7 will be a key barometer. France will likely bounce around till the Presidential elections in 2027 – but a change of PM, whilst headline grabbing, won’t change political will around annual budgets or a permanent change of will to improve government finances. For both markets, we see it as ‘much of the same’ – messy, reflected in higher yields and spreads, and structurally long term to fix.”	France remains politically paralysed; PM Lecornu’s pension reform freeze has averted a full crisis; growth has been downgraded 40bps to 0.6% and credit-rating risk is unresolved. Recent news about Le Pen’s ability to take part in future elections is something we will monitor closely.
		Large surprise in UK politics, with PM Starmer’s resignation and Andy Burnham’s likely replacement. This introduced a more interventionist fiscal and public ownership agenda, raising fiscal-risk and market-volatility concerns into the Autumn Budget.

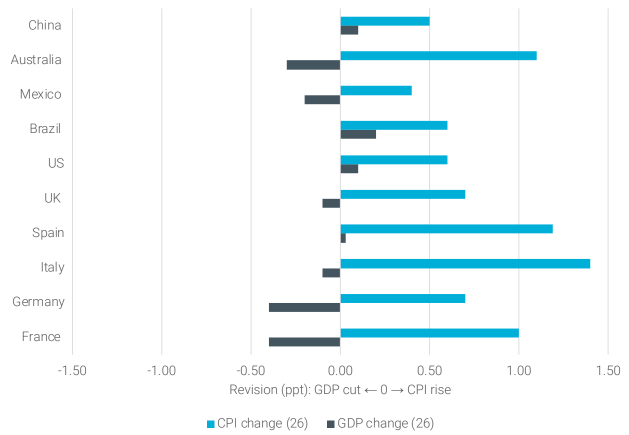
	4D January 2026 outlook	First Half 2026 Outcome & market impact Positive Neutral Negative
	"After Trump's foray into Venezuela, potential flashpoints remain in Greenland and Iran. There has been some speculation that the Chinese may gain some confidence from Trump's action in Venezuela as to their end game plan with Taiwan."	Iran, not Greenland, was the major flashpoint of 1H26.
		Greenland and Taiwan tensions have remained a slow-burn background risk rather than an acute flashpoint.
	"The joint review of the United States Mexico Canada Agreement (USMCA) is due in mid-2026, and regional rules of origin are likely to be a key push by the US. If there is a greater push for rules of origin, and a breaking of this transshipment trend and loopholes, then there is likely to be a much larger impact to trade and economic flows between countries."	On 1 July the US confirmed it would not renew the USMCA, shifting instead to rolling annual reviews. The existing agreement remains in force until 2036, and tighter rules of origin and security are key negotiating points.
		Annual reviews keep a permanent layer of negotiation noise over Canadian and Mexican business investment and FDI, with Section 232 investigations (steel, aluminium, copper, autos) running in parallel.
	The Iran war and Strait of Hormuz closure was the major, and ongoing, geopolitical shock of 1H26 with economic ramifications	Brent spiked from ~$79 to $120, before a shaky truce, SPR and inventory buffers and demand response helped prices retreat faster than feared.
		The energy shock added materially to core inflation and delayed rate-cutting cycles.
		Ongoing risk to near-term food security globally as fertiliser levels ahead of crop planting became scarce – could be compounded by El Niño below.
		The conflict has injected fresh urgency into the strategic autonomy, defence and energy security agenda for Europe.
Surprises	Very strong El Niño event emerged (among the strongest since the 1950s)	This weather event brings an elevated food and commodity inflation risk across the globe with a more direct impact potentially in places like India, Thailand, Brazil and Australia. It also increases the risk of weather-related events such as wildfires, droughts, floods and water security.

We expand on a few of these developments with our favourite charts.

Theme 1 – GDP estimates down and CPI up

The energy crisis sparked by the Iran War broadly led to GDP downgrades and CPI upgrades for 2026 and 27, with the greatest impacts on those countries that remain net energy importers.

Chart - 2026 GDP and CPI moves: January vs June



Source: 4D, Bloomberg.

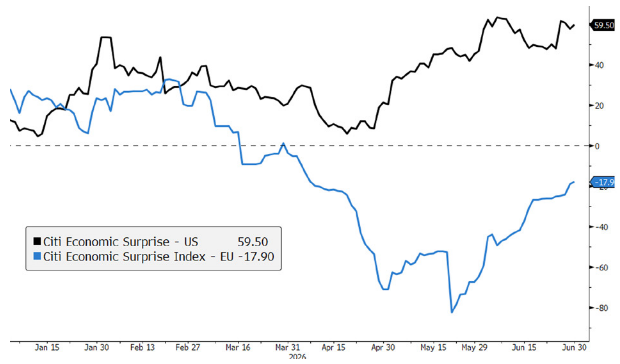
Chart - GDP & CPI revisions and levels across major portfolio countries

	26 GDP Change	27 GDP Change	26 GDP	27 GDP	26 CPI Change	27 CPI Change	26 CPI	27 CPI
France	-0.40%	-0.20%	0.60%	0.90%	1.00%	0.26%	2.30%	1.86%
Germany	-0.40%	-0.40%	0.60%	1.10%	0.70%	0.27%	2.70%	2.30%
Italy	-0.10%	-0.15%	0.60%	0.70%	1.40%	0.26%	2.80%	1.96%
Spain	0.03%	0.00%	2.23%	1.80%	1.19%	0.36%	3.29%	2.36%
UK	-0.10%	-0.30%	1.00%	1.10%	0.70%	0.48%	3.20%	2.58%
US	0.10%	0.10%	2.10%	2.10%	0.60%	0.00%	3.40%	2.50%
Brazil	0.20%	-0.10%	1.90%	1.80%	0.60%	0.10%	4.60%	4.00%
Mexico	-0.20%	-0.20%	1.10%	1.80%	0.40%	0.10%	4.10%	3.80%
Australia	-0.30%	-0.58%	1.90%	1.70%	1.10%	0.33%	4.20%	2.90%
China	0.10%	0.10%	4.60%	4.40%	0.50%	0.20%	1.20%	1.20%

Source: 4D, Bloomberg. Red indicates worsening of GDP & CPI relative to other countries; Green indicates relatively better GDP & CPI conditions.

Underlying economic data after the Iran War also bifurcated across countries, with the US surprising to the upside, while the EU block continues to surprise to the downside, albeit with country nuances.

Chart – Divergent growth and economic surprises across regions; Citi Economic Surprise Index

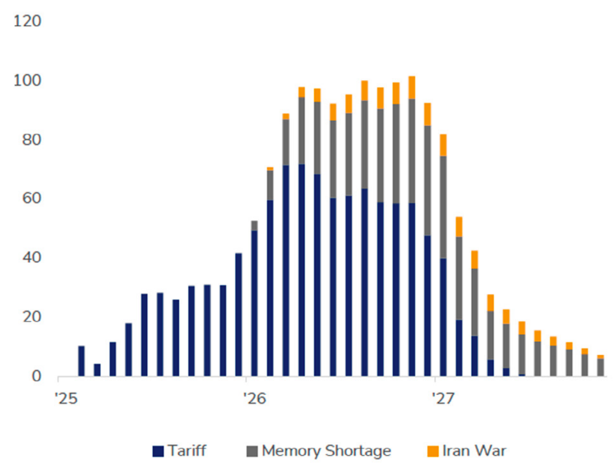


Source: 4D, Bloomberg.

Theme 2 - Higher inflation but for how long?

The outlook for inflation is very important, even as oil retraces after an Iran War peace deal MoU in June. This is because there is a risk of second round effects to inflation that take longer to show up, where energy costs bleed into wages, services and core inflation and food inflation becomes a 2027 story. The ECB's Lagarde has been particularly cautious on this front, in June stating that the recent surge in inflation was not "small and temporary" enough to be "looked through"[1]. This is particularly important for interest rate outlooks.

Chart – Contribution to YoY Core PCE from Tariffs, Memory Shortage and Iran War (bps)



Source: Wolfe Research, Haver Analytics, April 2026.

While one-year inflation expectations have mirrored the oil price swings, five-year forward inflation has not been impacted.

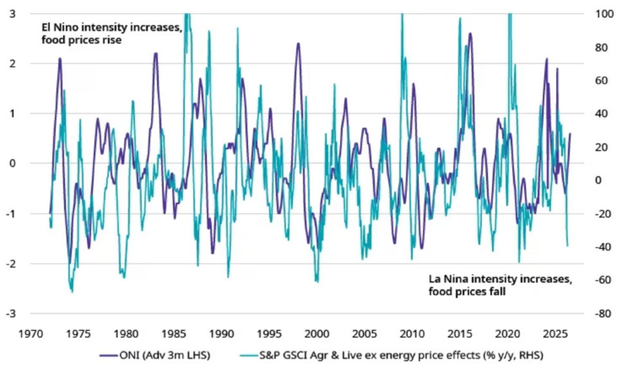
1 https://www.euractiv.com/news/iran-war-shock-significant-but-unlikely-to -last-says-lagarde/

Chart – US one year inflation swaps vs five year forward inflation estimates

Source – 4D, Bloomberg.

One new – and increasing – risk on the inflation outlook is the upcoming El Niño which has recently been declared as potentially among the strongest since the 1950s. As per the World Meteorological Organization (WMO) Secretary-General Celeste Saulo "we need to prepare for a potentially strong El Niño event which will exacerbate drought and heavy rainfall and increase the risk of heatwaves both on land and in the ocean". This shock coincides with the Hormuz closure that impacted fertiliser supply. India is exposed through the risk of a weak monsoon season which underpins its annual GDP and inflation basket. It also has impacts on the Brazilian planting season and 2027 crop yields.

Chart – A rising Oceanic Niño Index usually results in higher global food prices

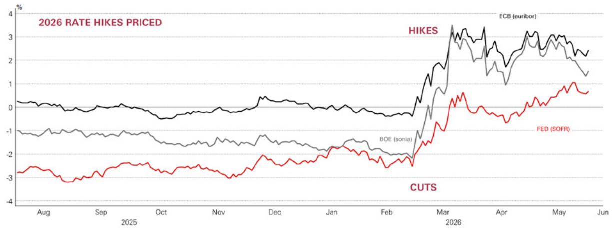


Source: LSEG.

Theme 3 - Changing interest rate outlook

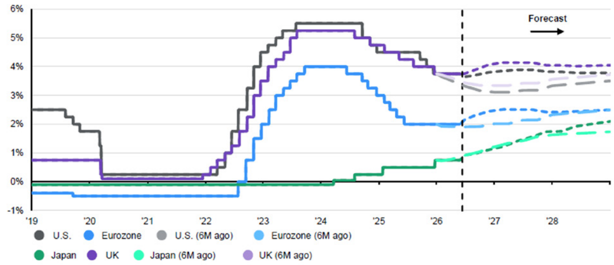
The changing growth and inflation outlook prompted a big swing in rate outlooks across most regions – from the start of the year, the market went from expecting two rate cuts by the BoE in 2026 to three hikes in the depths of Iran War uncertainty. Likewise, the ECB went from no changes to three hikes and the Fed from two cuts to one hike.

Chart – Changing 2026 rate path expectations



Source: HSBC.

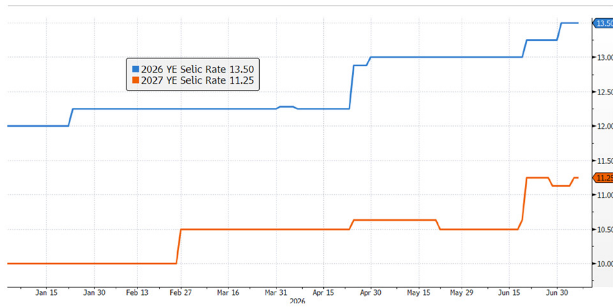
Chart – Changes in policy rates and forecasts vs Dec 2025



Source: JP Morgan.

Brazil has also had a dramatic change in rate expectations, due to the combined factors of resilient growth, increased inflation expectations and less perceived fiscal discipline by the government. At the start of the year, the Selic rate was 15% and the Bloomberg forecast was for year end 2026 Selic to be 12% (-300bps of cuts), and an additional 200bps in 2027. By June 2026 expectations were 13.50% (-150bps of which half has been cut so far in the first half with three 25bp cuts) and 11.25% by year end 2027. This shows that there are still cuts to come, they are just pushed back into next year.

Chart – Brazil 2026 and 2027 rate cut expectations pushed out



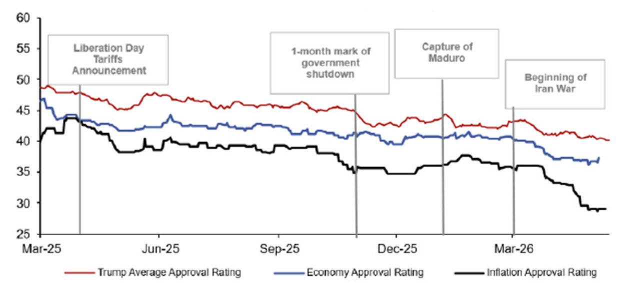
Source: 4D, Bloomberg.

Theme 4 – Heightened geopolitical calendar

The US midterms (November 3), European elections and the far-right's continued momentum, a fragile Ukraine ceasefire, ongoing domestic political upheaval in the UK and France, and simmering tension points in Greenland and Taiwan have all kept geopolitical risk elevated – even before accounting for the Iran conflict itself. Markets are increasingly having to price a denser, more continuous calendar of political risk events rather than isolated shocks.

But 2026 has also proved that markets are quick to look through geopolitical upheaval and we are cognisant of not getting carried away with short term noise at 4D.

Chart – Trump, economy and inflation approval ratings

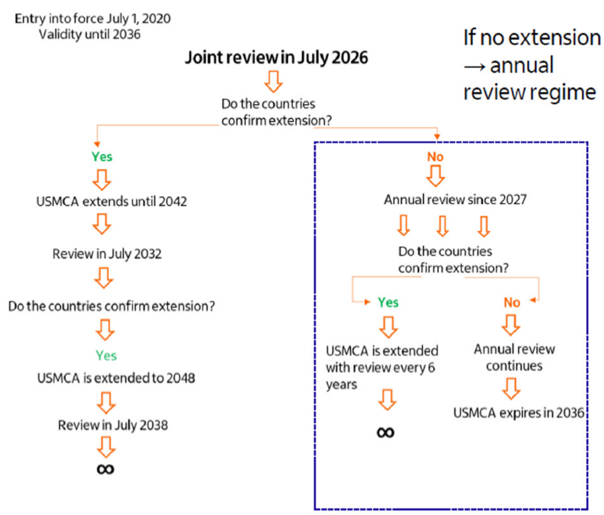


Source: Natixis.

Theme 5 – USMCA uncertainty

In early July 2026, the US confirmed it was not renewing the USMCA and it was shifting to rolling annual reviews. This was largely expected with the existing USMCA to remain in place until 2036.

Chart – USMCA review timeline
(1 July 2026 confirmed in blue)



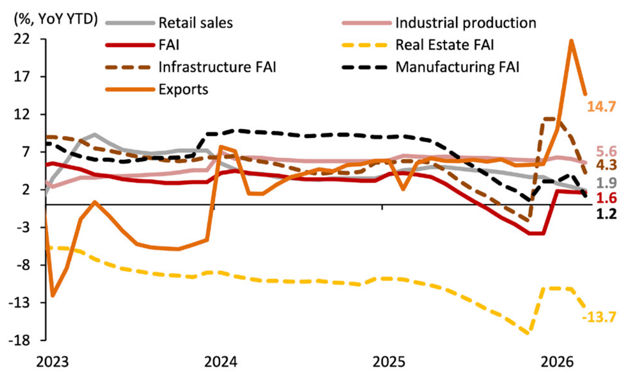
Source: Itau.

Mexico and Canada are already benefiting from USMCA exemptions, with around 80% of Mexico's exports to the US remaining duty free. This gives both countries a clear advantage compared to those regions with heavier tariffs. The ongoing concern, and overhang, for both countries is that extended talks will hinder additional long term fixed asset investment into the countries (such as building new factories and supply chains). But we see this as a negotiating stick for President Trump, who is also pushing for concession around security (cartels, drugs and immigration) as well as uneven tariffs across sectors.

Theme 6 - China's dual track

China has continued to track a dual path in its economy. Short term, the economy remains cyclically weak – there remains muted investment, ongoing property sector weakness (inventory, prices and sales), and rising household and business savings as sentiment stays depressed.

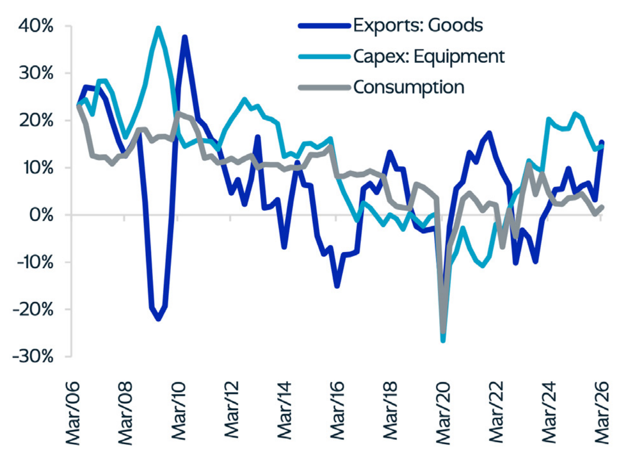
Chart – China economic activities



Source: DBS.

However, the structural pivot toward green tech, AI, advanced manufacturing and export diversification is increasingly visible in the data, and strong export volumes (aided by an AI-related electronics upcycle) kept headline growth close to 5% in Q1.

Chart – New sector capex boom boosting exports, while consumption lags



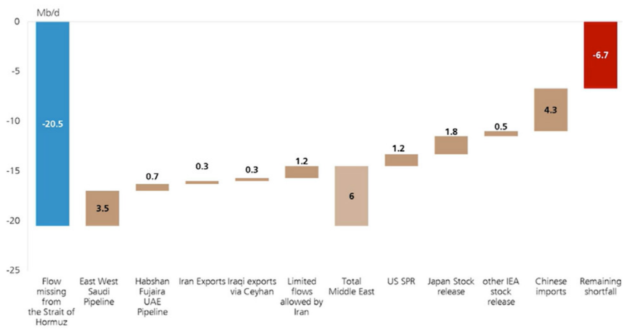
Source: KKR.

Theme 7 – Energy and resilient supply chains

Despite oil (WTI) rallying over 70% from mid $60s to over $110 in the second month of the Iran War, the extent and duration of the energy price shock was actually less severe than many analysts feared at the start of the war. Particularly considering the closure of the Strait was longer than most expected, and towards most analysts' bear cases.

There are several factors why the oil and gas price shock did not go as high – and for as long – as many feared. Firstly, the oil market entered 2026 in surplus (as opposed to deficit in the start of the 2022 Ukraine War), which meant inventories had room to absorb the shock. China's import restraint and use of strategic reserves withdrew demand accounting for a quarter of lost supply, while a surge in US exports and release of Japanese and US strategic reserves also helped. The oil market was more dynamic than many feared, and China's build-up of inventories and ability to cut demand was underestimated.

Chart – Pipeline flows, China demand reduction and stock releases



Source: UBS.

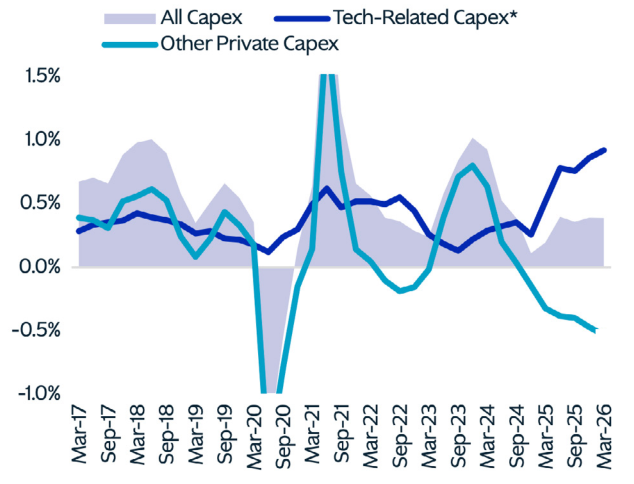
Secondly, the Iran War has reinforced the need for the resiliency of supply chains by both companies and countries. This has only accelerated since Covid and reorders the priorities of cost efficiency below security and resiliency of supply chains. We expect this to continue reshaping global trade routes and supply chains.

Theme 8 – Revisiting AI; still the tailwind but power and debt are the restraints

In our January Outlook, our first theme asked whether AI was in a bubble and could flip from a tailwind to headwind. Our conclusion then was that the theme was hot but not yet in bubble territory, that expectations on the timing of realised earnings were optimistic, and that power and debt were the two elements to watch in 2026. Six months on, that framework has held up well – and both of those watch items have moved to centre stage.

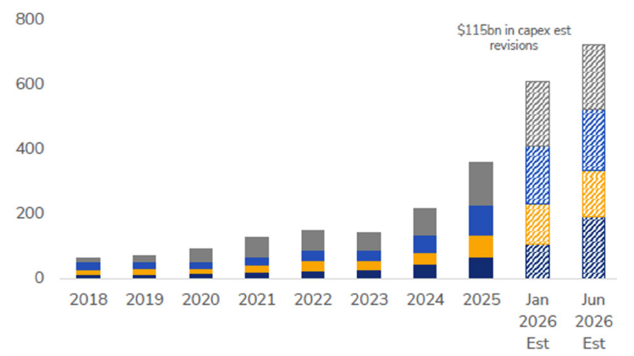
The capex cycle has again outrun expectations, with 2026 full year estimates increasing $115bn by June versus January estimates. AI capex has been the single biggest offset to the Iran War energy shock – supporting US growth, profits and market leadership even as consumption, labour markets and non-tech investment look less convincing.

Chart – Capex contribution to US GDP growth



Source: KKR.

Chart – Hyperscaler capex spending



Source: Wolfe Research.

The debt shift we flagged in January is now a key focus of markets. Hyperscaler bond issuance is running at $230–240b for 2026 (versus ~$90b in all of 2025), and tech now accounts for ~18% of all US investment grade issuance. Importantly, financing capacity has so far proven adequate, and leverage remains manageable, but this becomes a more acute risk in 2027 as supply grows further. Tracking this theme is important for the K shaped wealth impact, as well as longer term utility earnings momentum.

Importantly we note that this remains a US centric theme. While ultimately we can see the rest of the world capitalising on the AI investment growth thematic, this is not imminent, with hurdles to overcome in other regions before data centre build out can become a reality. For example, European data centres are growing at half the global rate due to significant grid congestion, grid connection timelines of up to 10 years and regulatory complexity with permitting. Structurally higher energy costs in some European markets are also a significant disadvantage for European data centres versus US peers.

What next for 2H 2026?

At a global macroeconomic and policy level, 4D believes there are several key areas to monitor that will drive markets for the rest of the year:

- Implementation of the Iran truce and Hormuz reopening. The June framework is a genuine de-escalation, but Strait traffic has yet to normalise and inventory buffers are now much thinner. At the time of publication, this truce also remained fragile with Iran and the US again exchanging shots. If the 'solution' holds, the world slowly returns to a fragile but normalised supply model, energy passes from headline shock to base effect, countries continue to move towards energy independence supporting domestic investment and the rate debate can shift back toward growth. If it doesn't, there is far less cushion than at the outset of the Iran War in February.
- The Fed and the credibility test. Under new Chair Warsh, we expect rates on hold rather than a hiking cycle, but the market has swung a full 75bps (from 50bps of cuts to a hike priced by year-end). The two metrics to watch are core inflation pushing through 3.5% and real wage growth turning positive. The ECB and BoJ are biased toward further 'insurance' hikes.
- The November 3 US midterms. Consensus is building around a divided Congress (House to Democrats, Senate a longer shot). Employment and affordability are the key metrics and variables to watch across contested districts, and any pre-election weakness could spur stimulus from Trump. As with most things Trump-related, it remains unknown if a divided government means more or less policy uncertainty in 2027.
- Near term political posturing. Expect ongoing populist rhetoric in the UK, France and Brazil as elections loom. While this can add near term volatility, the majority will be noise with extreme rhetoric and vote winning policies very difficult to actually implement while maintaining much needed fiscal positions.
- El Niño into 2027. One of the strongest events since the 1950s is now expected to persist through November, layering food and agricultural commodity inflation risk (India, Thailand, Brazil, Australia) on top of an energy shock that has not fully passed through – a key upside inflation tail for 2027 and a direct risk to EM rate-cutting cycles.

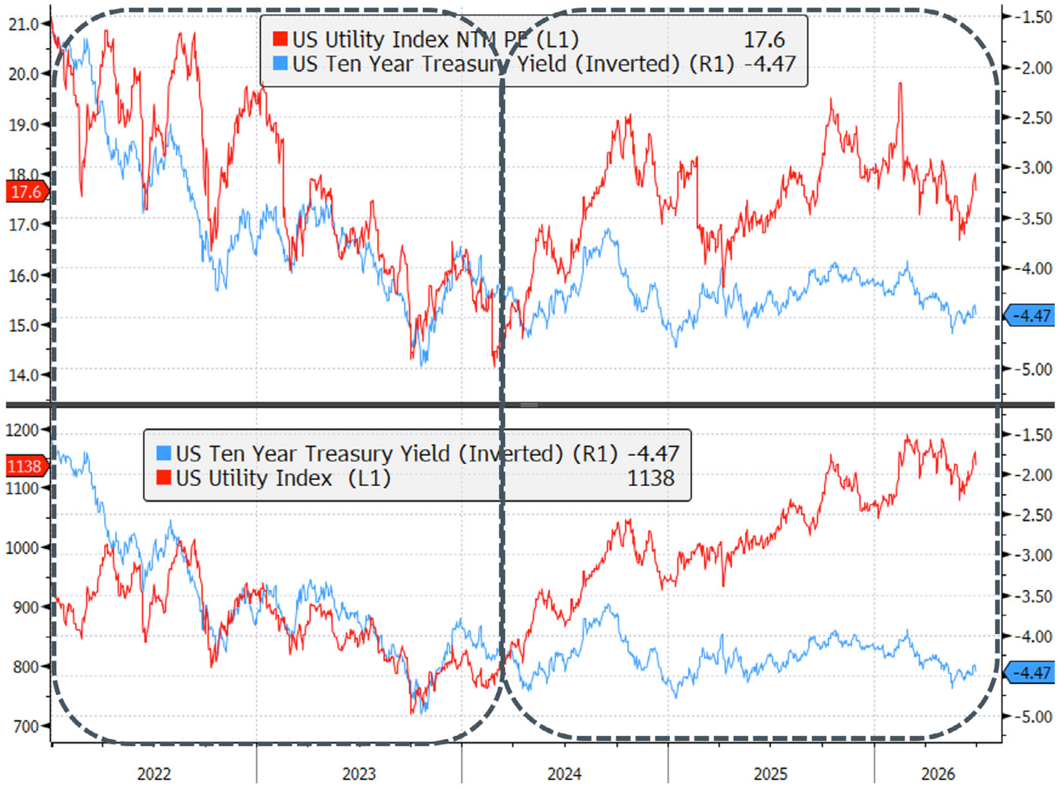
What does this mean for infrastructure?

Infrastructure, interest rates and inflation: three dynamics that are commonly linked, but often in an incomplete manner that do not reflect the full story of their correlation. Importantly, perceived negative economic surprises can prove to be value accretive for infrastructure stocks given certain assets' ability to mitigate or capitalise on economic shifts.

User Pay assets (toll roads, airports, ports, rail) are geared to GDP growth and carry embedded inflation protection in their tariffs, while within Regulated Utilities the return model matters more than the sector label. Real rate utilities (Europe, Brazil) pass inflation and rate rises through to earnings via formulaic resets, while nominal rate utilities (historically the US) have been the true bond proxy. Active management across this spectrum, and across regions, is how we look to smooth the impact of persistent inflation and a higher-for-longer, more volatile rate environment on the portfolio.

Importantly, even the US – the historical home of the 'bond proxy' trade – is being reshaped by a multi-year investment super-cycle. AI-driven data-centre demand is lifting utility earnings growth well above trend, decoupling US utility share prices from the tight inverse correlation with the 10-year Treasury yield that defined 2022-23. We remain invested in select high quality US names on this basis, while staying alert to the risk of disappointment if execution, financing or affordability pressures bite before the growth fully materialises.

Chart – US Utility PE v 10 yrs and US Utility Index v 10 years (inverted)



Source: 4D, Bloomberg as at June 30 2026.

Further, listed infrastructure offers truly global exposure, with opportunities across developed Asia, Europe and North America as well as emerging markets. This allows an active manager to capitalise on in-country economic cycles and gain exposure to domestic demand stories, while diversifying away from any single macro or interest rate outcome.

Below is how we see our main 2026 macro themes and risks playing out by region and sector across the global listed infrastructure universe, in light of the developments of 1H26:

North America

The Iran war and the associated repricing of US rate expectations have pushed long bond yields higher for longer. All other things being equal, this does have an impact on infrastructure valuations and in particular utility valuations that do not have a direct or formulaic pass through of inflation and/or rates. However, the AI-driven investment super-cycle continues to dominate and boost the earnings story for North American utilities, with annual AI-related capex from the hyperscalers tracking toward US$1 trillion, with the associated increased power demand boosting rate bases. While the return spread to bonds may be compressed relative to history, the earnings growth remains elevated due to much stronger investment needs.

Affordability is becoming the key swing factor across companies and jurisdictions: rising residential bills from data centre driven grid investment are increasingly a political issue heading into the November 3 midterms, and we continue to favour states with lower relative bills, higher socioeconomic demographics and constructive regulators. Further, gas utilities may offer some diversification as they too capitalise on the demand theme but have less affordability overhangs given the relative share of wallet of the gas bill compared to electricity.

US rail remains the segment most exposed to tariff-related trade disruption, though tighter trucking capacity (from immigration enforcement reducing driver supply) is a structural tailwind for rail pricing and resilient demand is supporting volumes. Midstream pipelines remain largely insulated from near-term oil price volatility given multi-year contracted volumes, though the medium-term outlook for heavy crude flows is being reshaped by Venezuela-related supply uncertainty and LNG export terminals going live.

US towers is the sector least insulated from the current macro environment, with valuations squeezed by elevated yields and earnings squeezed by inflation. However, unlike the utilities, they are not compensated via strong investment pipelines.

Europe

Europe is a clear beneficiary of the shift toward real rate utility models in a higher, stickier inflation world. Formulaic, inflation-linked returns are proving their worth just as the ECB delivered its first rate hike since September 2023. Networks and grid operators with approved investment plans offer a relatively low-risk way to access the European electrification and energy security capex super-cycle. The UK and Italy remain our preferred jurisdictions for regulated network exposure, supported by inflation protection, proactive regulators and in the case of the UK, strong Regulatory Asset Base (RAB) growth. While we do look through the political posturing and do remain confident in the fundamentals of UK water companies, we have grown more cautious given the near term risk of adverse government intervention.

Despite the ongoing Middle East conflict, select European airports remain attractive. Our recent trip through the region alleviated concerns around jet fuel supplies and confirmed buoyant demand into the summer season. European airports also benefit from inflation pass-through which is attractive into 2027. In particular we favour exposure to Spain and Greece supported by strong ongoing relative growth and a favourable passenger mix for the current economic and geopolitical environment.

Germany's fiscal build-out (the €500b infrastructure fund and defence spending exemption from the debt brake) remains supportive medium-term, though execution continues to run behind original expectations. Public investment is only expected to reach 3.6% of GDP by 2027, with near-term industrial weakness from the energy shock and Chinese competition weighing on the read-through to contractors looking to capitalise on the opportunity.

France's political and fiscal paralysis continues to directly impact concession names (toll roads, airports) via higher corporate and concession taxes as the government looks to plug budget holes, with legal appeals still pending. Despite value, we are more cautious of those names more exposed to the French domestic situation.

By contrast, we remain positive on Greece economically and the infrastructure opportunity. The scale of the Greek infrastructure investment opportunity is significant and our recent visit to Athens reinforced the view that it is materially underappreciated. This is driven by Greece's economic renaissance, the influx of EU fiscal stimulus and the Greek government's strong support for accelerated infrastructure investment as a structural driver of GDP and productivity growth. One of our highest conviction positions is Gek Terna, which benefits from high quality concessions, and is leveraged to the Greek macro renaissance and this compelling infrastructure opportunity.

Asia

In China, strong export volumes have supported port throughput, but a weak property sector, elevated household savings and soft consumer confidence continue to weigh on domestic demand linked names. Our exposure to China is currently limited to those names that can capitalise on the economic upside through exports and AI while we remain more cautious on those that are linked to domestic demand and the property sector such as the gas utilities.

Elsewhere in Asia, exposure in Malaysia and India is capitalising on the long duration growth thematics supporting the infrastructure investment super-cycle. These opportunities are largely insulated from the current macro outlook through regulation and policy support.

Latin America

Brazil remains a core overweight, even with rate cut expectations being pushed out into 2027. Every infrastructure asset in Brazil enjoys an explicit annual inflation hedge, many of which are compounding over the asset life. This means the current macro outlook of GDP growth upgrades and elevated inflation can actually be value accretive despite the higher interest rate environment. We do expect volatility ahead of the October 2026 presidential election, but the market has already more than priced in a Lula victory and valuations remain too attractive to ignore in our view. We remain exposed to selective high value transport names and utilities undergoing transformative investment programmes in both the power and water/sanitation space.

Brazil is a key country to watch regarding El Niño which could see significant regional dislocations – historically El Niño has seen high rainfall and flooding in the South while the North is in severe drought. The read-through is constructive for electric utilities, which have historically posted robust demand growth as a result of the temperature anomalies. Of risk is the agricultural sector depending on regional precipitation levels with both periods of above average yield and productivity losses. Counter intuitively, a lower global yield could benefit export markets as pricing improves and this supports pricing for rail and road transporters. However, clearly crop losses or severe yield disruption would likely have a detrimental impact on volumes for all. Given Brazil's growing importance in the global soybean and corn supply, crop impacts here will have wider reaching implications economically and in terms of food security. The current base case is still for record crop levels in 2026/27 for Brazil, but this is clearly something we are monitoring closely.

Elsewhere in Latin America, we remain constructive on the Mexican airport space despite what has been a difficult start to the year. Passengers have been weaker than expected as a result of a slower return of Pratt and Whitney aircraft, cartel violence, Trump immigration policies and record levels of sargassum disrupting tourism in core tourist destinations. Despite lowering FY estimates we see these impacts as short term with the longer term demand outlook robust, a very supportive regulatory environment and valuations very attractive.

Conclusion

The first half of 2026 has been a reminder that infrastructure's old 'bond proxy' label was never the full story. Today, the portfolio remains diversified across geographies and sectors, with a heavy bias to quality – strong balance sheets, superior management teams, and companies actively capitalising on the long-term growth thematics supporting the asset class for decades to come.

In an environment of resurgent inflation and higher-for-longer rates, we continue to favour User Pay assets geared to GDP growth and inflation pass-through, and real rate utilities (Europe & Brazil) that are more demand-immune but pass through inflation and rates. We retain select high quality US utility exposure to capture the AI driven investment super-cycle, while recognising that this thesis carries execution, financing and affordability risk if growth disappoints or rates stay elevated for longer.

We remain acutely aware of in-country cyclical and geopolitical risk and are actively managing the portfolio to protect and capitalise as conditions evolve. Should the Middle East stabilise further and the current fragile equilibrium hold, we would expect broad-based support for the infrastructure asset class as a whole. Should it not, active management of the User Pay/Regulated Utility and real/nominal rate splits remains our primary tool for navigating the divergence.

For more insights from 4D Infrastructure, visit 4dinfra.com

Get in touch

4Dinfra.com

client.experience@bennelongfunds.com

1800 895 388 (AU) or 0800 442 304 (NZ)

Appendix 1 - Regional outlooks

Macroeconomic outlooks across regions remain varied and disparate. Below we summarise, for each key investible market, where our January 2026 Outlook stood and how the first half has changed it.

North America

US

- January outlook: 2025 themes carry over (tariffs, high government debt, sticky inflation, hot AI); growth grinding higher above trend.
- 1H update: growth resilient and upgraded despite inflation eating real incomes – the K-shaped economy and AI wealth effect roll on. Inflation has moved away from target (headline 4.2% YoY in May, highest since 2023), so cuts are off the table; the rise in yields reflects front-end repricing, stronger growth and productivity more than disorderly term premium. Warsh's credibility means higher for longer into the midterms; watch core CPI through 3.5% and real wages turning positive as the two triggers that would force hikes.

Canada

- January outlook: USMCA outcome is crucial, business investment on hold, consumer spending the 2026 growth driver.
- 1H update: Annual USMCA reviews are noisy but still important. Exemptions cushioned the worst tariff fears; GDP ~1.2% in 2026 with a soft labour market (unemployment 6.5-7%). Unlike the US, underlying inflation is well behaved and below target, letting the BoC sit on the sidelines. The mortgage refinancing cliff is a slow-burning consumption headwind.

UK/Europe

Eurozone

- January outlook: disinflation continuing, ECB done cutting, front-loaded exports to fade.
- 1H update: the energy shock hit hard – Q2 PMIs turned negative, and the ECB hiked 25bps (its first since September 2023), pushing its 2% target out to 2028 while cutting 2026/27 growth to 0.8%/1.2%. Core-periphery divergence is widening: the energy-intensive, China-exposed industrial core is underperforming while Spain and Italy outperform on domestic demand and services.

Germany

- January outlook: 2026 the litmus test for turning the fiscal war chest into growth.
- 1H update: it is failing the early tests – growth halved to ~0.5% as energy costs hit industrial production and Chinese competition intensifies; public investment ramps only gradually (3.2% of GDP in 2025 to 3.6% by 2027). September state elections will test the fragile coalition.

France

- January outlook: gentle acceleration, budget compromise via the pension-reform freeze.
- 1H update: paralysis and fiscal slippage persist - GDP cut to 0.7%, credit-rating risk unresolved, consolidation slower than planned, with a wait and see freeze on investment ahead of the 2027 presidential election.

UK

- January outlook: low growth, sticky inflation, cautious BoE, May local elections the barometer.
- 1H update: politics delivered a shock with Starmer's resignation and Burnham's ascent bringing an interventionist agenda (public ownership of Thames Water, bus fare caps) that raises fiscal risk and market volatility into the Autumn Budget; unemployment has deteriorated to 4.8%.

Spain & Italy

- January outlook: Spain strong but moderating; Italy consolidating.
- 1H update: Spain remains Europe's strongest performer (Q1 +2.7%) helped by the regularisation of 500-840k residents and the final ~€17.5b year of NGEU funds, though higher energy prices threaten summer tourism. Spanish elections could see a positive swing. Italy is weaker (FY ~0.6%) on high gas reliance and wider sovereign spreads, with Meloni early-election risk building for April 2027.

Asia

China

- January outlook: rebalancing to tech/consumption, rare-earth leverage, weak domestic demand the main challenge.
- 1H update: a strong export led start (Q1 ~5%, AI electronics upcycle) but the external/domestic split is widening – retail soft, credit growth at two-decade lows, property still falling with worsening inventory. Two decades of oil stockpiling insulated China from the Middle East shock. Watch the stimulus response to weak consumption and US/China tech escalation, where rare-earth leverage (c.70% of global production) has hardened.

Japan

- January outlook: wage and food inflation keep the BoJ hiking; Takaichi stimulus adds fuel.
- 1H update: BoJ hiked to 1% in June with CPI near 2%, and the debate has shifted to where neutral sits (possibly 2%); GDP trimmed to ~0.5-0.7%.

India

- January outlook: coordinated fiscal/monetary easing to support above trend, domestically driven growth.
- 1H update: the Iran war exposed India's energy sensitivity (inflation, current account, rupee, margins), forcing the RBI to hike to defend the currency instead. Foreign institutional ownership is at a 15-year low, while El Niño is the key monsoon/food/GDP risk into 2027.

Indonesia

- January outlook: synchronised fiscal and monetary support lifting growth above 5%.
- 1H update: growth downgraded on oil and the rupiah, BI hiked 100bps to defend the currency, and net exports are falling despite the commodity bull market. Fiscal discipline signals and November's capital market reforms are the potential catalysts, with investor positioning very light.

Latin America

Brazil

- January outlook: subdued growth, decelerating inflation, BCB easing from Q1, election-year fiscal slippage the risk.
- 1H update: a large turnaround with the BCB nearly done, with upward inflation risk dominating (IPCA >100bps higher than at the start of the year) and easing expectations collapsing from ~300bps to 150bps. Stronger growth, services resilience and household consumption are not helping the doves. The October 4 election, the Banco Master corruption scandal and 2027 harvest/fertiliser food inflation tail risks are the volatility flash points, much of which appears already priced in.

Mexico

- January outlook: growth accelerating to 1.3% (still below trend), Banxico dovish, USMCA review the key event.
- 1H update: growth keeps undershooting on soft domestic demand, weak employment and low consumer confidence, with fiscal and ratings restraints intact. USMCA annual review trajectory is the pivotal event for FDI momentum.