

# KEYNOTE INTERVIEW

## The changing face of infrastructure debt



*As digital and energy demand soars, Barings' **Richard Parker** outlines the evolving risks and rising opportunities shaping global infrastructure credit markets*

Infrastructure debt is entering a period of renewed prominence, driven by its resilience, diversification benefits and compelling risk-adjusted returns. As institutional investors navigate an environment defined by economic uncertainty, rising digital demand and shifting energy systems, the asset class is proving its value through stable, long-term cashflow and historically low default rates.

Richard Parker, head of EMEA infrastructure at Barings, outlines how a disciplined definition of 'infrastructure' underpins successful investment, why selectivity matters more than ever – particularly in fast-growing digital

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subsectors – and where the most attractive opportunities lie across global markets. From data centres and energy generation to transportation networks and social assets, he examines how evolving capital needs, constrained bank balance sheets and the electrification of economies are reshaping the landscape.

**Q Why should investors consider infrastructure debt?**

Infrastructure debt continues to appeal

to institutional investors, as it offers distinct benefits for diversified portfolios. Historically, infrastructure has shown low correlation to broader macroeconomic cycles, demonstrating notable resilience during periods of significant stress such as the pandemic and global financial crisis. Default and loss rates have also been materially lower than in comparable asset classes, reinforcing infrastructure debt's defensive characteristics.

Another attraction is relative value. Investment-grade spreads are often around 100 basis points wider than similarly rated public market equivalents. When combined with the sector's

low default and loss characteristics, the resulting risk-adjusted return profile becomes very compelling. Infrastructure debt often receives favourable capital treatment, which can be particularly appealing to insurance investors.

Ultimately, infrastructure debt offers long-term, predictable cashflow and has proven resilient across various economic cycles.

### **Q How do you define infrastructure debt, and why is that definition important?**

Defining infrastructure is important given the breadth of the investment universe. Banks, investors and managers interpret it in different ways, but our focus is on tangible real assets with long-term, contracted cashflow and monopolistic or near-monopolistic market positions. These features underpin the stability and predictability that infrastructure debt is known for.

We assess every opportunity against these core criteria. If a business lacks core infrastructure characteristics but is financed with the levels of leverage typical of the asset class – five to six times EBITDA is common – the risk profile can resemble that of highly leveraged corporate credit, which we aim to avoid.

We categorise infrastructure assets into six broad sectors. The first is social infrastructure, which covers government-backed assets such as hospitals, schools and roads. Then there's power generation, which includes gas-fired plants, renewable energy and nuclear. After that we have economic infrastructure involving assets such as airports, ports, rolling stock and toll roads.

From there, there's utilities and pipelines – electricity and gas networks, regulated or contract-based – as well as digital infrastructure, which means data centres, fibre networks and telecoms towers. Finally, we include midstream and storage – for example, assets storing or transporting petroleum products



### **Q How should managers compare investment-grade and high-yield infrastructure debt?**

We invest in both segments. Investment-grade debt represents 80-90 percent of the overall infrastructure debt market and can be a natural entry point for new investors. Deals are typically explicitly rated or structured to metrics consistent with an implied investment-grade rating, while sponsors can tailor maturities to the investor's needs. Relative value versus public markets is typically attractive, and the opportunity set allows for diversification across geographies, sectors, currencies and structures.

High-yield infrastructure debt is more niche. Banks' participation is limited, so access depends heavily on a manager's origination capabilities and relationships with sponsors. The credits are more complex, leverage is higher and the risk profile requires specialist expertise. But the returns are compelling: spreads of 400-450 basis points plus fees can produce all-in yields of 8-9 percent, with the attractive issuer and credit profile inherent within the asset class. That's not far off what some core equity strategies deliver.

Our investment-grade strategy is primarily geared towards insurance clients, while our high-yield strategy is managed through commingled funds. The two are closely linked because they often relate to the same businesses at different stages of their development. For instance, we may finance a business on a high-yield basis earlier in its life cycle. As the sponsor delivers on the business plan and the credit profile improves, the company then refinances into investment-grade debt. We're often involved in both stages, which gives us deep insight into the business and allows the sponsor to optimise its capital structure.

from production to consumption (avoiding commodity price risk). This framework helps maintain consistency and avoid "definition drift" into areas that do not genuinely belong within the infrastructure universe.

A clear, disciplined definition is essential, particularly as the market increasingly includes assets labelled

as 'infrastructure' that seldom exhibit the sector's characteristics. We therefore avoid areas where that definition stretches into assets with material commodity price exposure, unproven or unmitigated volume risk, or other uncertainties that undermine the predictability that infrastructure debt is intended to provide.

Examples include unproven or complex new-energy technologies, early-stage fibre roll-outs reliant on speculative adoption, and co-location data centre developments where occupancy is not secured by long-term contracts. While such projects may offer appealing headline yields, their embedded risks are fundamentally inconsistent with the stable, contracted cashflow we consider core to the asset class.

Maintaining discipline around these boundaries is crucial to ensuring portfolios remain resilient through cycles, while providing greater pricing stability. Because core infrastructure assets benefit from long-term contracted cashflow, essential service characteristics and historically lower default and loss rates, underwriting spreads have proven to be more resilient than those in corporate lending markets. During periods of volatility, when corporate credit spreads can swing sharply, infrastructure spreads typically exhibit less movement, reflecting the sector's defensive fundamentals.

### **Q Which subsectors and regions currently offer the most attractive opportunities?**

We evaluate and pursue opportunities across global markets, though North America and Europe account for roughly 95 percent of the dealflow. The US market is heavily weighted towards energy, including pipelines and power generation across both gas-fired and renewable assets.

These deals are generally well structured and competitively priced, reflecting the maturity of US capital markets. Digital infrastructure, particularly data centres, has grown enormously, with individual data centre financings sometimes exceeding \$30 billion – scale that simply hasn't been seen in Europe. These facilities require vast amounts of power, which entwines their growth to power generation.

However, Europe offers greater sector diversity. In addition to power and digital infrastructure, we see

*“Digital infrastructure – particularly data centres – is expected to dominate dealflow, supported by the surging demand for power”*

substantial activity in transportation assets like airports, ports and rolling stock – far more than what we're seeing in the US. We're also active in midstream assets, particularly gas and petroleum or refined products and chemical storage. Banks have become more constrained in lending to these sectors, often due to ESG considerations, which has pushed pricing up and created attractive opportunities for institutional lenders.

Digital infrastructure is active – representing around 30-35 percent of European dealflow – but varies widely in quality. Many deals in the sector have already encountered challenges, and we expect more to follow. As a result, we're extremely selective, with digital assets representing a very small proportion of our portfolio.

Looking elsewhere, the Middle East is becoming increasingly attractive. We completed our first transaction in Saudi Arabia recently, and we expect to do more in the region as deals tend to be well structured, with attractive pricing relative to risk.

One of the advantages of our global platform is that we can compare opportunities across regions and subsectors. We review more than 300 deals a year and invest in only 40-50. Selectivity is essential, particularly as we look to

build high-quality, diversified portfolios and avoid 'definition drift' or concentration risk in any one area.

### **Q How do you see the opportunity set evolving over the next five years?**

Digital infrastructure – particularly data centres – is expected to dominate dealflow, supported by the surging demand for power. Power generation will grow commensurately, given the vast amount of energy that data centres require. Renewables will continue to play a major role, including baseload generation. Gas-fired plants and a growing emphasis on nuclear will help bridge the gap that renewables alone cannot meet, given the needs of large-scale digital infrastructure. Battery storage is another area of interest, though the technology still carries risk.

Similarly, grid modernisation and electrification are expected to drive significant investment. Whether offshore wind in the UK or grid upgrades across Europe, there's a large and growing need to move power from where it's generated to where it's consumed. Even EV charging infrastructure is constrained by grid capacity.

Transportation infrastructure should also remain active, particularly in Europe, where many countries face decades of underinvestment. Rolling stock in Germany is a good example – public perception assumes high quality, but the reality is quite different.

More broadly, governments across Europe and the US are heavily indebted, making private capital essential to meeting demand. And for the largest transactions, banks simply cannot hold the exposure, which means institutional lenders will be critical to delivering these projects. This dynamic is already playing out, with 2025 the strongest year on record for Barings and early 2026 appearing similarly robust. ■

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