PATRIZIA
Impact of Trump Tariffs on Infrastructure Stocks

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Overview

Trump's tariffs, particularly the sweeping 10% baseline tariff on all imports and higher rates on specific countries, have broad implications for U.S. and global markets. While the most immediate and visible effects have been on technology, retail, and manufacturing stocks, infrastructure stocks are also affected, though the impact is nuanced and sector dependent.

By their nature tariffs disrupt global supply chains, making it harder and more expensive to source essential materials and equipment. This can lead to delays in maintenance cycles, longer lead times for critical components (such as transformers for power grids or cooling systems for data centers), and even shortages. For example, the U.S. imports over 80% of its large power transformers, and tariffs on steel have further constrained supply, increasing both costs and procurement times.

Sector	Short-term Impact	Long-term Impact
Construction/Materials	Higher costs, margin pressure	Potential demand from re-shoring
Utilities/Renewables	Input cost inflation, delays	May benefit from domestic buildout
Rail & Road	Lower import volumes	Benefit from increased domestic transport
Ports	Lower global trade volumes	Uncertain, depends on trade flows
Energy Infrastructure	Volatility from global demand	Sensitive to macroeconomic trends

Transportation Infrastructure

Ports, highways, and freight corridors have seen demand-side risks as tariffs reduce trade flows and dampen GDP growth. This has led to lower utilization and a reassessment or shelving of new projects that relied on robust growth projections. These sectors saw immediate pressure due to concerns about reduced trade volumes and higher costs for imported materials. However, U.S. rail and road stocks could benefit in the longer term if tariffs drive re-shoring of manufacturing and increasing domestic freight volumes. The potential for a lower corporate tax rate (proposed at 15%) could also offset some of the negative impacts, leading to a net positive for rail stocks over time.

Railroad operators are facing pressure as CSX Corp. prepares to report first-quarter earnings, amid economic uncertainties caused by President Trump's recent tariffs and extreme weather conditions.

- The transportation sector has significantly underperformed the broader market, with the Dow Jones Transportation Average dropping 19.8% year-to-date in USD terms (-21.05% in GBP terms). Trump's tariffs, particularly a 145% rate on Chinese goods, have raised concerns about trade volume reductions.
- While railroads may have some insulation, they are still susceptible given that about 40% of U.S. rail traffic is tied to global trade. CSX may be less affected, as it focuses on South America for grain exports and has minimal coal shipments to China.
- Weather-related disruptions, including snow and flooding, also hampered first-quarter performance.
- CSX's carloads fell 1% year-over-year however some demand strength in areas like fertilizers and intermodal traffic compensated for this, as customers rushed shipments ahead of tariff hikes. Despite ongoing challenges, analysts maintain cautious optimism regarding select carriers in the sector.

Most US rail companies are more exposed to tariff-related declines in freight volumes, especially for goods moving from ports to demand centres. Canadian Pacific Kansas City and Union Pacific, have significant revenue exposure to Mexico, and automotive cargoes are particularly vulnerable to tariffs. However, the overall impact is somewhat mitigated by the potential for nearshoring and increased domestic manufacturing, which could benefit US rail in the medium term.

Revenue Exposure By Country/Region

Total LTM Revenue C$14.5B

	% of Tot. Rev.	% Chg (Y/Y)	3 Yr Trend
Canada+*	47.7	-10.0	
United States	34.3	1.1	
Mexico	18.0	37.4	

Figure 1: Canadian Pacific Kansas City, Source Factset

Revenue Exposure By Country/Region

Total LTM Revenue $24.2B

	% of Tot. Rev.	% Chg (Y/Y)	3 Yr Trend
United States+*	87.6	-0.9	
Mexico	12.4	6.6	

Figure 2: Union Pacific, Source Factset

Transportation and Warehousing

This sector is exposed through its dependence on imported vehicle parts and energy, as well as its role in facilitating cross-border trade. Air transportation is particularly vulnerable due to its reliance on foreign parts and maintenance supplies.

Thanks to the fund's focus on regulated businesses and geographical diversification, many of our holdings were largely shielded from the effects of the tariffs. Both **East Japan Railway Company (JR East)** and **Central Japan Railway Company (JR Central)** are regulated entities within Japan's railway sector. Japan's railway industry is overseen by the **Ministry of Land, Infrastructure, Transport and Tourism (MLIT)**, operating under the Railway Business Act. This legislation mandates that railway operators obtain licenses for their services and adhere to safety and operational standard. While fare adjustments are permitted within approved upper limits, operators must report any changes to the MLI. This regulatory structure ensures stability and predictability in the operations of companies like JR East and JR Central.

The recent tariffs introduced by the Trump administration primarily target goods such as automobiles, steel, and aluminium. Since JR East and JR Central focus on domestic passenger rail services and do not export goods to the U.S., they are not directly affected by these tariffs. Their revenue streams are largely insulated from international trade fluctuations, emphasizing their domestic operational focus.

Beyond transportation, both JR East and JR Central have diversified their business portfolio. They engage in real estate development, retail operations, and tourism-related services, often centered around their railway stations. This diversification reduces their reliance on any single revenue source and further shields them from external economic shocks, including international trade disputes.

Aena, another holding in our portfolio is Spain's primary airport operator, remained relatively unaffected by the recent Trump administration tariffs that impacted many global airport stocks. Aena operates under a regulated framework in Spain, which includes predetermined airport charges and investment commitments outlined in the Airport Regulation Document (DORA). This model offers revenue stability and predictability, insulating the company from short-term market volatilities.

In 2024, Aena reported a historic net profit of €2.03 billion, an 15% increase from the previous year. Such strong financial performance, coupled with positive growth forecasts, has bolstered investor confidence, making Aena's stock more resilient amidst global market fluctuations. Despite global trade tensions, Spain's air travel sector has shown robust growth. Aena projected a 3.4% increase in passenger traffic for 2025, aiming for approximately 320 million travellers. This growth is supported by a record 246 million seats reserved for the summer season, indicating strong demand within Europe and from other regions less affected by U.S. trade policies.

Utilities

Electric Utilities

Electric utility stocks have generally remained resilient amid the market volatility triggered by the tariffs. Investors have sought refuge in these regulated utilities due to their stable revenue models and consistent demand. For instance, companies like National Grid, Consolidated Edison, and Exelon Corp experienced stock gains following the tariff announcements. However, the tariffs have led to increased costs for imported materials essential for infrastructure projects, such as steel and aluminium, potentially impacting future investments in grid modernization and clean energy initiatives.

For energy infrastructure, tariffs on imported steel and electrical components have exacerbated existing bottlenecks, such as shortages of transformers and grid equipment. This not only raises costs but can also delay necessary upgrades or expansions, impacting reliability and efficiency.

Utilities, especially those investing in large-scale renewable projects, face higher input costs due to tariffs on imported materials and equipment, potentially squeezing margins and delaying projects. The executive order's tariffs are likely to have a notable impact on the energy and infrastructure sector. Much of the U.S. renewable energy industry depends on imported components—such as solar panels, mounting systems, inverters, steel blades, and batteries—from regions like Southeast Asia, China, and the EU. Several key suppliers, including Vietnam, Cambodia, and Thailand, are now subject to some of the highest tariff rates. As a result, the cost of building and operating many renewable energy projects in the U.S. could rise significantly.

However, regulated utilities tend to be able to pass some of these increased costs on to consumers through rate adjustments, mitigating the impact on their profitability, though this can depend on regulatory frameworks and political considerations. Ultimately, the specific exposure and sensitivity to tariffs will vary based on each company's business operations, supply chain, and market environment.

Crucially, in our portfolio **E.ON** stands to gain from the German government's planned infrastructure investments, particularly in energy grids and digital infrastructure—areas where E.ON plays a key role. Its core business is highly regulated and concentrated in Europe, which has shielded it from the effects of the Trump administration's tariffs, which primarily target goods imported into the U.S. rather than European utility services.

E.ON has risen by approximately 35% year-to-date, supported by strong earnings momentum, growing dividends, and strategic positioning in the energy transition. The company reported an EBITDA of €13.0 billion for 2024 and expects further growth in 2025. It also benefits from record investments into its energy networks and the broader European decarbonization push.

Gas Utilities

Gas utilities have faced mixed effects from the tariffs. While natural gas itself was largely excluded from the new tariffs, the increased costs of infrastructure materials due to tariffs on steel and aluminium could affect pipeline expansion and maintenance projects. Additionally, the broader economic slowdown resulting from the trade tensions may dampen industrial demand for natural gas, potentially impacting revenues for gas utilities.

Within our European allocation, we've focused on Snam, which is Italy's primary operator for natural gas transportation, storage, and regasification. Its revenues are largely derived from fully regulated activities, ensuring stable returns. The company is majority-owned by CDP Reti, a state-controlled entity, reflecting its strategic importance in Italy's energy infrastructure.

The regulated nature of Snam's operations, combined with its focus on domestic infrastructure, insulates it from the direct impacts of U.S. trade tariffs.

Midstream Energy

While oil and gas imports may be exempt, the broader economic uncertainty and potential for retaliatory tariffs can affect energy demand and infrastructure investment, leading to volatility in related stocks.

Water Utilities

Water utilities, being highly regulated and essential service providers, have shown relative stability during the tariff-induced market fluctuations. The tariffs have had a limited direct impact on water utilities, as they are less reliant on imported materials compared to electric and gas utilities. However, any increase in costs for infrastructure components could affect capital expenditure plans and, consequently, future rate adjustments.

In summary, while utility stocks have generally provided a safe haven during the recent market turmoil, the tariffs have introduced challenges related to increased infrastructure costs and potential demand fluctuations, which could impact long-term growth and investment strategies within the sector.

Construction (Residential, Commercial, and Civil)

Construction is highly sensitive to tariffs on steel and aluminium, as these materials are essential for building structures, bridges, tunnels, and rail lines. The U.S. imports a substantial portion of its steel and aluminium, so tariffs directly raise input costs, leading to project delays, cancellations, and higher prices for end users. Small and medium-sized construction firms are especially at risk, as they have less capacity to absorb cost increases.

The introduction of tariffs has led to significant price volatility for construction and maintenance materials. This unpredictability complicates budgeting and long-term planning for infrastructure operators, who may need to set aside larger contingencies or renegotiate service contracts to account for fluctuating costs. The uncertainty can also result in higher bids from contractors and more conservative project management, further raising operational cost. The most acute impacts are seen in construction-heavy, energy, and transport infrastructure, where rising input costs and reduced demand have led to project delays, cancellations, and margin compression. Policy uncertainty continues to drive market swings and cautious investment behaviour.

Projects under construction or in late-stage planning have faced sharply rising costs due to tariffs on steel, aluminium, transformers, and cables. This has led to cost overruns, delays, and in some cases, outright cancellations. Existing assets are experiencing margin pressure from increased operating expenses, and some marginal projects have become unviable.

As our focus is on core infrastructure, the portfolio has no exposure to the construction sector.

Global Strategies to Mitigate the Impact of Tariffs

- **Diversification:** Investors are increasing diversification across regions and sectors to manage volatility and hedge against region-specific risks.
- **Inflation Hedges:** With tariffs contributing to higher inflation, there is greater interest in real assets, and infrastructure sectors that can pass on costs or benefit from inflation-linked revenues.
- **Monitoring Policy and Earnings:** We are closely watching policy developments and corporate earnings to assess how infrastructure companies are adapting to tariffs, adjusting strategies as new information emerges
- **Shift Toward Domestic Supply Chains:** Tariffs on steel, aluminium, and key components have increased costs for U.S. infrastructure projects, especially in renewables and telecom. This has prompted investors to favour companies with robust domestic supply chains or those able to pass on higher costs to customers.
- **Focus on U.S.-Centric Revenue:** Investors are increasingly prioritizing infrastructure firms with predominantly U.S.-based revenues, as these are less exposed to direct tariff costs and retaliatory measures. Utilities and industrials with domestic operations are seen as more resilient.

Portfolio Positioning Amid Tariff-Driven Market Volatility

The imposition of broad tariffs, particularly on imported materials like steel, aluminium, and electrical components, has introduced cost pressures and uncertainty across many infrastructure sub-sectors. However, our core infrastructure portfolio is composed primarily of regulated utilities and essential services with limited exposure to the transportation sector. This positioning provides resilience in a challenging environment shaped by trade tensions and supply chain disruptions.

Regulated electric and gas utilities have shown relative stability due to their predictable cash flows, ability to pass some input cost increases to consumers via rate adjustments, and minimal reliance on international trade flows. Water utilities have also remained largely insulated from tariff-related impacts due to their low dependence on imported materials and their essential service nature.

In contrast, transportation infrastructure—especially rail and freight—has experienced notable underperformance, driven by declining trade volumes and higher material costs. By limiting exposure to the cyclical part of this sector, the portfolio has avoided much of the volatility seen in transport-linked equities.

Overall, the focus on domestic, regulated infrastructure assets provides both defensiveness and inflation protection, positioning the portfolio to weather some of the short-term headwinds while maintaining long-term growth potential.

Find out more

For more information, please contact your local Fidante Partners Business Development Manager, call the Fidante Partners Adviser Services team on 1800 195 853 or visit us at www.patrizia.ag/en

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