

Four governors of infrastructure returns – principles for navigating the environment



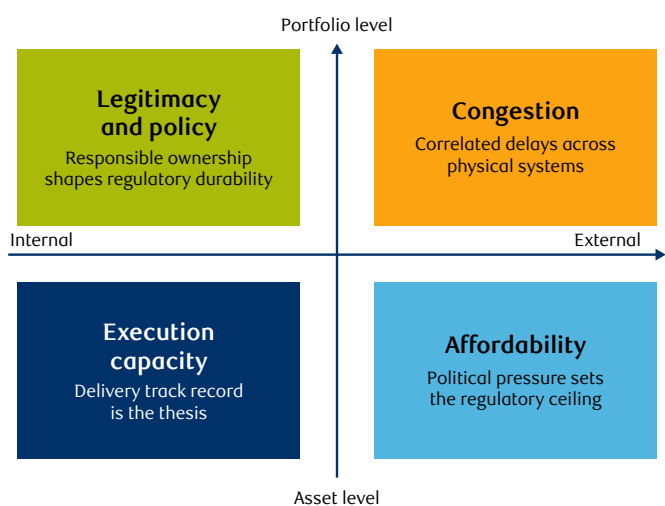
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With the potential for an abundance of capital flows toward the infrastructure asset class, we ask: what determines whether investors will earn the return that they underwrite?

Four governors of infrastructure returns

The [energy shock](#) and the power surge aligning with [data centres investment](#) may be the most visible features of the current environment, but these are also the expression of structural forces that we have been tracking for over a year. We believe that infrastructure returns in this environment are shaped by four governors – forces that determine whether that capital earns the return it underwrites.

Exhibit 1: Four governors of infrastructure returns



Source: RBC GAM

1. Execution capacity

Execution capacity remains a binding constraint in many circumstances. Capital is abundant – McKinsey’s 2026 Global Private Markets report documents record infrastructure fundraising of nearly US\$200 billion in 2025, a 60% increase over 2024.¹ BCC’s parallel analysis confirms that infrastructure is the only major private asset class showing positive fundraising momentum while private equity, private debt, and real estate have all declined.² But in some of the most sought-after opportunities, it is execution (and not capital) that is the challenge. Grid interconnection queues of up to a decade in key markets, permitting backlogs, transformer lead times averaging 18 to 24 months in some jurisdictions, and skilled labour scarcity across engineering trades mean that the assets most sought after are precisely those already built, permitted, and operating. The ability to execute repeatedly and at scale is the critical element of the feasibility of an investment.

¹Source: Kwok, Adrian, Alastair Green, Connor Mangan, Charlie Regan, Kali Na, and Roman Strellov. “Global Private Markets Report 2026 - Infrastructure: Investing to Support Global Growth.” McKinsey & Company, March 23, 2026. <https://www.mckinsey.com/industries/private-capital/our-insights/global-private-markets-report/infrastructure>.

²Source: Schmundt, Wilhelm, Alex Wright, Emmanuel Austruy, Benjamin Entraygues, Lauren Powers, Thomas Bumberger, David Parloungue, Daniel Selikowitz, Jens Sveen Frogner, and Julien Vialade. “Infrastructure Strategy 2026: A Year of Increasing Scale and Diversification.” Boston Consulting Group, March 24, 2026. <https://www.bcg.com/publications/2026/year-of-increasing-scale-and-diversification>.

2. Affordability as a governor of regulatory outcomes

Infrastructure companies delivering a critical product or service are often regulated to ensure that these large-scale companies set a balance between quality of service and affordability. Regulatory bodies do not set allowed returns in a vacuum; they set them under political pressure calibrated to what households can bear. BCG's 2026 Infrastructure Strategy report identifies this explicitly: toll road operators in France and the U.S. face checks on inflation-linked fee increases; grid tariffs are being compressed in multiple jurisdictions; renewable energy subsidies have been curtailed in the U.S.; and port concession terms are being renegotiated.³ The pattern of an affordability constraint, tightened by energy cost pressure, is being transmitted through regulatory outcomes faster than asset valuations are adjusting. The practical implication for underwriting is not that regulated returns are unreliable, but that their sustainability depends on operational performance that justifies the return in the eyes of the communities being served.

3. Legitimacy and policy as leading indicators

Regulatory durability – the degree to which a return can be sustained over a holding period – depends on the perceived fairness of the arrangement between investors and the communities their assets serve. Infrastructure has become visibly distributive: energy bills, water tariffs, and toll fees are now political prices, not just regulated ones. Similar to the affordability governor, the sustainability of a regulatory compact requires ongoing operational legitimacy – demonstrated service quality, community engagement, and genuine delivery against the social purpose of the asset. These risks are mitigated through responsible ownership that considers the impacts on all stakeholders of business decisions.

4. Congestion

AI build-out, grid electrification, defence spending acceleration, and energy supply chain reshoring are all stressing the same physical systems – steel, transformers, skilled trades, grid capacity, permitting offices – simultaneously. Craig Tindale, a private investor and author of the white paper “Critical Materials: A Strategic Analysis”, framed this as a potential “global system failure”; it is a precise description of what happens when multiple critical systems face simultaneous demand shocks that exceed their throughput capacity. The practical consequence is that return compression and execution delays are more likely to be correlated across assets than prior models assumed. Asset selection at the single-asset level is insufficient protection against portfolio-level congestion risk.

Geographic diversification, sector diversification, and an honest assessment of which physical systems each asset depends on are all necessary inputs.

Shaping our approach

These four governors influence the operating framework within which infrastructure returns will be earned – or missed – over an investment period. They are most relevant to infrastructure companies operating within mixed regulatory environments and/or active construction pipelines. Fully contracted, operationally stable assets in mature regulatory regimes face a different risk profile. They shape our approach to investment selection, underwriting, and portfolio construction. Successfully engaging with, underwriting, and responding to these governors remind us of the importance of partnerships and experience. We apply these governors as a stress-test tool for certain types of infrastructure investments, but they are not a universally applicable filter.

Outlook: what has changed, what has not, and what it means

The environment we are navigating so far in 2026 is more complex than the environment of 2025. That is not a reason for alarm – the 25-year record of the asset class has been built through periods of complexity – but we benefit from being precise about what has changed.

What has changed

What has changed is the vividness and immediacy with which structural fragilities have been exposed. The conflict in the Middle East has demonstrated, in real time, that the assumption of frictionless global supply chains was load-bearing for more asset valuations than most models had acknowledged. Even in the optimistic scenario – a negotiated resolution that restores normal energy flows within months – the world that emerges will be one in which energy security commands a durable premium, defence spending trajectories are structurally higher, and the targeting of critical infrastructure as an instrument of geopolitical competition is an established rather than theoretical risk. Russell Napier, an independent financial market strategist and author of “Anatomy of the Bear: Lessons from Wall Street’s Four Great Bottoms”, provides an instructive framework: structural change in financial systems tends to arrive gradually and then suddenly. The arrival of a third active geopolitical front in the span of a few years is the accelerant that converts gradual change into sudden change. We are not predicting specific outcomes; we are positioning for a world in which the range of outcomes is wider.

³Schmundt, Wilhelm, Alex Wright, Emmanuel Austruy, Benjamin Entraygues, Lauren Powers, Thomas Bumberger, David Parlongue, Daniel Selikowitz, Jens Sveen Frogner, and Julien Vialade. “Infrastructure Strategy 2026: A Year of Increasing Scale and Diversification.” Boston Consulting Group, March 24, 2026. <https://www.bcg.com/publications/2026/year-of-increasing-scale-and-diversification>

Monetary policy has become genuinely uncertain in a way it had not been for several years. Central banks are divided: the Bank of Canada and the U.S. Federal Reserve are inclined to look through the energy-driven inflation spike, while the Bank of England and the European Central Bank face dual oil and gas price pressure that makes a looser stance politically difficult to sustain. Meanwhile, the Reserve Bank of Australia hiked rates in two consecutive meetings in February and March. For internationally diversified infrastructure portfolios, central bank divergence is a direct cost-of-capital and currency risk, not merely a macro-observation.

What has not changed

What has not changed is the structural investment thesis. The world requires an estimated US\$94-106 trillion in infrastructure investment by 2040, a figure that has grown rather than contracted as AI-driven power demand, electrification, and deglobalization add new layers of urgency to already-deferred investment backlogs.⁴ Public balance sheets in most developed economies are too constrained to carry a meaningful portion of this requirement alone. The grid is the bottleneck for electrification. Regulated transmission is the solution. Contracted, utility-scale clean energy with integrated transmission is structurally differentiated from merchant generation in a way that has become more visible, not less, as the energy environment has tightened. These are physical facts, not speculative theses.

What it means for investment discipline

What it means for investment discipline is a sharper application of the four governors framework to every underwriting decision. Execution capacity must be demonstrated, not assumed – the question at entry is not whether an asset has a plan but whether the platform acquiring it has a track record of delivering plans in the physical environment that currently exists. Affordability tolerance must be modelled explicitly – the regulatory compact is only as durable as the community’s willingness to sustain it, and that willingness is under more pressure today than it was 18 months ago. Legitimacy requires active management, not passive ownership – responsible governance that considers the impacts on all stakeholders is not a compliance requirement, it is a return driver. And congestion must be analysed at the portfolio level, not just the asset level – correlated delays and return compression across assets that share the same physical systems or regulatory environments are more likely in the current environment than prior portfolio construction frameworks

Principles for navigating the environment

Drawing on the four governors framework and the environment described above, we apply the following principles to investment selection, underwriting, and portfolio management:

Prioritize assets inside physical bottlenecks, not downstream of them.

The companies that benefit most durably from the current environment are those that sit within critical systems – regulated transmission, essential utilities, contracted generation – rather than those that are merely adjacent to high-demand sectors. The distinction matters: a data centre is a consumer of grid capacity; a transmission asset is the capacity itself.

Underwrite regulatory compacts, not just allowed returns.

A regulated return is only as durable as the political and social compact that sustains it. Underwriting must include an honest assessment of whether the asset is delivering – and is perceived to be delivering – against the essential service it provides. Capex that is not demonstrably translated into service quality will face recovery risk regardless of formal regulatory approval.

Treat execution track record as a first-order selection criterion.

In an environment where physical delivery is the binding constraint, the most important question at entry is whether the management team and investment platform have delivered comparable projects in comparable environments. A credible execution track record is the most durable competitive advantage available.

Diversify across the congestion map, not just across sectors.

Geographic and sector diversification that does not account for shared physical system dependencies is insufficient. Assets that compete for the same transformers, the same skilled labour pools, or the same grid interconnection queues carry correlated execution risk regardless of their nominal sector classification.

⁴Schmundt, Wilhelm, Alex Wright, Emmanuel Austruy, Benjamin Entraygues, Lauren Powers, Thomas Bumberger, David Parlongue, Daniel Selikowitz, Jens Sveen Frogner, and Julien Vialade. “Infrastructure Strategy 2026: A Year of Increasing Scale and Diversification.” Boston Consulting Group, March 24, 2026. <https://www.bcg.com/publications/2026/year-of-increasing-scale-and-diversification>

Apply the S-curve discipline to energy transition investments.

As we noted in an earlier paper on [Infrastructure and Disruptive Technologies](#), the essential consumer need and the technological medium that meets it are different things. Power demand is the essential need – durable, politically mandated, growing. The specific technology that meets that demand – wind, solar, gas, nuclear, storage – is subject to cost curve dynamics, policy risk, and competitive displacement. Investments in mature, proven technologies at established points on the cost curve carry different risk profiles than investments in emerging technologies that are still finding their economics. Both have a place in a disciplined portfolio; the discipline lies in knowing which is which at entry.

Closing observation

Infrastructure investing has always rewarded patience, operational discipline, and the willingness to own assets that serve essential functions over long holding periods. What has changed in the current environment is not that proposition, but the urgency with which the world is demonstrating why those assets matter. The energy shock, the grid investment imperative, the data centre power crisis, and the growing recognition that physical systems cannot be substituted by financial engineering have made the case for durable, operating infrastructure assets more legible than it has been at any point in the asset class's institutional history.

The environment is more demanding than it was. The principles for navigating it are clearer than they have ever been.

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