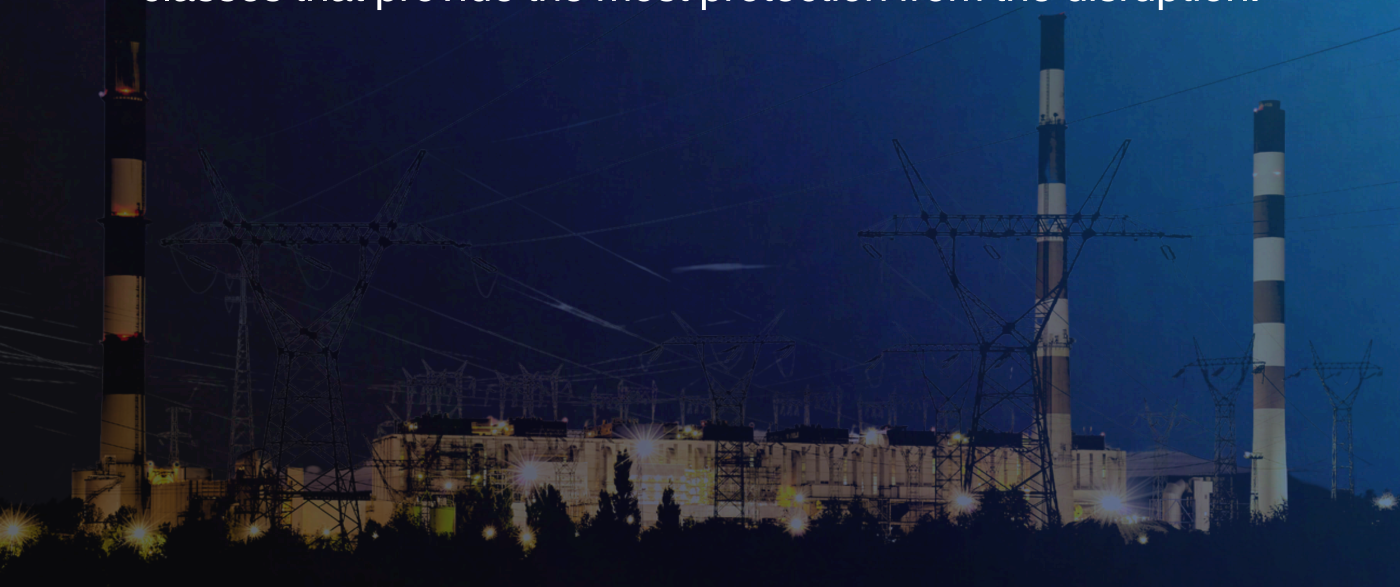
A&M INFRA & CAPITAL PROJECTS BY ALVAREZ & MARSAL

Tariff Impact:
Key Themes and Likely Winners in the Energy Infrastructure Sector

The energy infrastructure sector is deeply intertwined with the global economy and, by extension, global trade. The shifting trade dynamics in recent months will significantly impact both the operational and financial performance of these assets, shaping their viability and attractiveness to investors.

Much of the impact of these recent developments – unsurprisingly – will be negative, reflecting lower trade volumes and wider economic uncertainty. The IMF recently downgraded its global growth forecast, predicting a drop to 2.8% in 2025 and 3% in 2026, citing the swift escalation of trade tensions and “extremely high levels” of policy uncertainty.

But it may also prompt a refocusing of investments into asset classes that provide the most protection from the disruption.



Here are some key themes we see emerging against this challenging backdrop:

1. Lees demand… and investment

The expected drag on economic activity will affect demand and investment in the overall market, although some asset classes may benefit in the new environment (more on that later). The IMF expects “global growth to decline and downside risks to intensify” as tariffs are imposed.

Chart: Growth outlook revision for selected countries in 2025 and 2026 (Source: IMF, A&M analysis)

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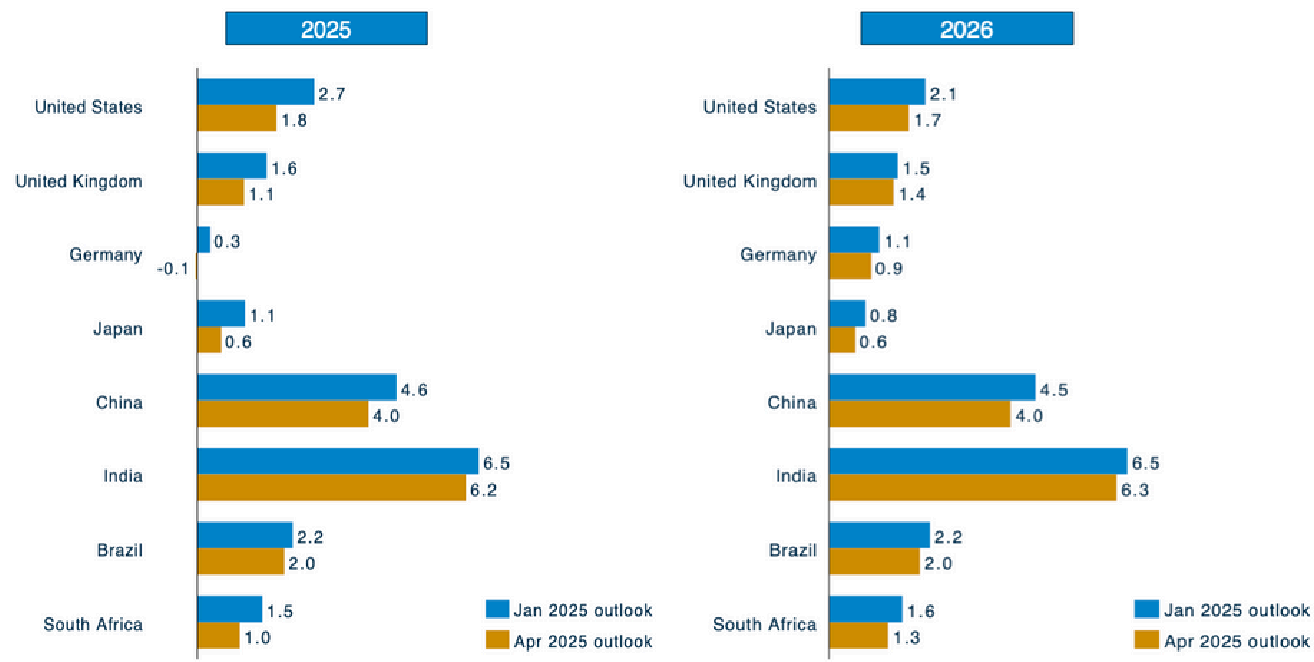


https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025

Rising sovereign bond yields are another sign of negative sentiment, while pockets of elevated inflation persist in developed economies, adding to the challenges. Investor demand for “safe havens” may lead to a significant withdrawal of liquidity in capital markets and thus put the brakes on deal flow. A prolonged period of rapidly changing policy positions and unpredictability will only worsen sentiment. More specifically for the energy infrastructure sector:

- An economic slowdown will dampen demand for key energy products such as electricity, gas, and oil, with a follow-on impact on energy infrastructure throughput and revenue generation.
- Merchant assets participating in competitive markets, such as thermal power generators, will be particularly vulnerable as lower demand hurts market prices, potentially harming the profitability of these assets.
- In a severe downturn, market prices may fall below the levels required to sustain a reasonable return on investment for many merchant assets, putting financial pressure on asset owners. This in turn may lead to reduced investment in new projects and the mothballing or closure of existing ones.

The combination of the above concerns have already combined to result in a significant slowdown in funding during Q1 2025, compared to the same period in 2024.

2. Supply chain disruptions and development risks

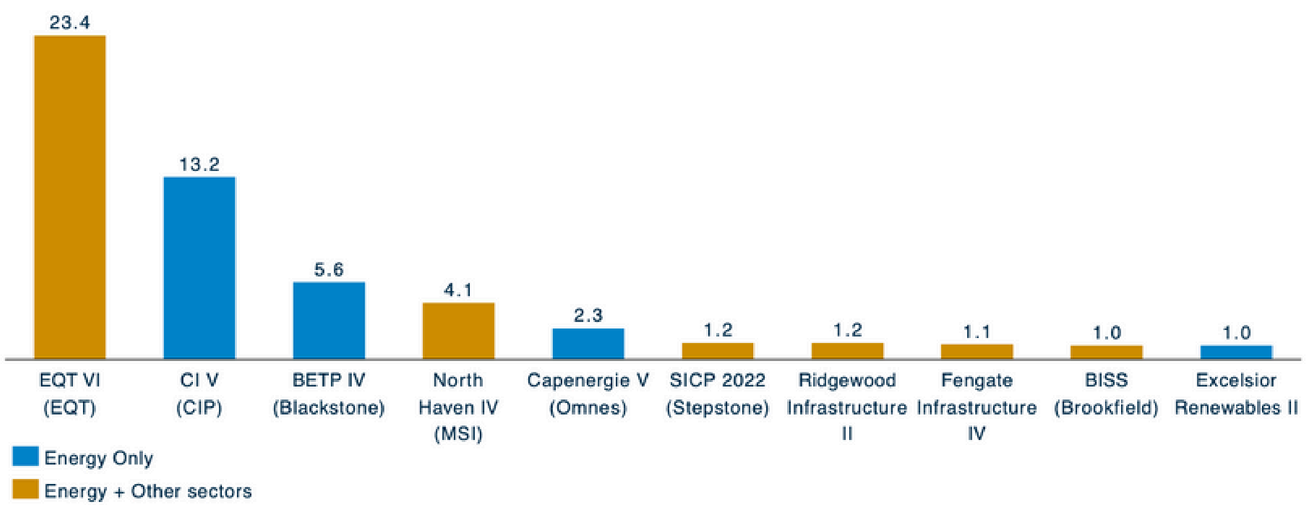
Price inflation and supply chain disruptions will pose significant challenges to the supply side of energy infrastructure, such as the following:

- Project costs are likely to increase across the board, from development to construction to operation & maintenance, driven by higher tariffs, more complicated sourcing of materials, labour shortages and higher regulatory hurdles (such as local content requirements).
- Rising costs will also extend to financing, with higher interest rates increasing the cost of debt and equity. The financial viability of energy infrastructure projects, particularly those with tight profit margins, will be strained.
- Heightened development risk associated with project delays and cost overruns may lead to an increase in risk premiums for energy infrastructure projects, which investors will demand to see reflected in higher equity returns or in more extensive risk management programmes.
- Higher development risk premiums can also deter investment in new projects, slowing the pace of energy infrastructure development and modernization and the wider energy transition.

3. A return to core (and local) infra?

Despite the challenges, there remains a strong interest in infrastructure investment at present, evidenced by the tens of billions of dollars raised by recently closed flagship funds of EQT, CIP, and others for example.

Chart: Funds closed above $1 billion in Q1 2025 (Source: A&M analysis)



Some asset classes stand to gain more from the new environment than others, such as:

- Core infrastructure assets: With revenues typically linked to inflation, core assets such as regulated electricity and gas networks are deemed to offer better downside protection in this environment. They often operate under regulatory frameworks that allow for periodic revenue adjustments and compensation for cost under-recovery. Additionally, there may be an activity boom in countries such as Germany and the U.K. due to recognition of the urgent need to upgrade their networks to facilitate the energy transition.
- Local infrastructure assets: In the challenging global trade environment, investors will be pressed to "buy local". Asset owners and developers who have been proactive in reshoring and nearshoring their supply chains in recent years stand to benefit, as their exposure to tariffs and other cross-border concerns (such as currency fluctuations) are minimised.

A note of caution, however. The medium-term outlook for core assets may be less secure should the current landscape persist.

Lower energy demand can reduce throughput for the networks and a downward revision of allowed revenues, resulting in a rethink of asset expansion projects and other major capital expenditures. Additionally, investors may not find the low returns of regulated assets attractive enough and may be reluctant to commit significant amounts of capital to modernize these assets.

How A&M can help

At A&M, we are harnessing our industry expertise, strong restructuring heritage and wide network to develop tailored solutions for clients navigating this challenging infrastructure landscape. These include:

- Global Trade & Tariff Disruption Center of Excellence provides real-time trade and tariff policy monitoring, integrated financial & operational impact analysis and data-driven decision support.

  https://www.alvarezandmarsal.com/expertise/trade-and-tariff-disruption

- Procurement and Supply Chain offerings, ranging from global strategic sourcing to procurement transformation and tariff and inflation recovery.

  https://www.alvarezandmarsal.com/expertise/supply-chain-services

- National Security, Trade & Technology offerings provide comprehensive global trade compliance solutions, market entry strategies, and real-time insights on regulatory and geopolitical risks.

We provide top-of-the-range pre- and post-deal support to our clients in the infrastructure space across finance, tax, technical, ESG, economic/regulatory, IT and operational matters. Our experts help investors explore more flexible deal structures and proactive de-risking strategies, supported by up-to-date project data.

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