a.s.r.

a.s.r. real assets investment partners and a.s.r. asset management

What is the impact of Trump II on Infrastructure Investments?

Immediately after his inauguration on January 20, President Trump, in his second term, swiftly began signing a large number of Executive Orders. In the areas of energy and infrastructure, he has announced new policies primarily aimed at dismantling parts of his predecessor Biden's legacy. What will be the impact of this on infrastructure investments?

Executive Orders and Headlines

President Donald Trump wasted no time at the start of his presidency. In the first week of his second term alone, he signed 37 Executive Orders, three of which were directed at the energy sector:

1 "Unleashing American Energy"
2 "Declaring a National Energy Emergency"
3 "Unleashing Alaska's Extraordinary Resource Potential"

Media headlines have focused on the priority given to initiatives for exploring new fossil fuel reserves: "Drill baby, drill." Conversely, the development of alternative energy sources, such as wind and solar energy, seems to be hindered. To understand these developments in context, it is important to know why Trump is proposing these measures.

During Trump's first term, a package of tax measures, the 'Tax Cuts and Jobs Act' (TCJA), was adopted. These measures will expire in 2025, and Trump wants to extend them. For this, USD 4.5 trillion is needed over the next 10 years. Funding for this amount is being sought by dismantling parts of the IRA and cutting back on it. The IRA, the 'Inflation Reduction Act' is a package of (subsidy) measures to promote clean energy and energy efficiency, established during Biden's administration.

Executive Orders and Renewable Energy

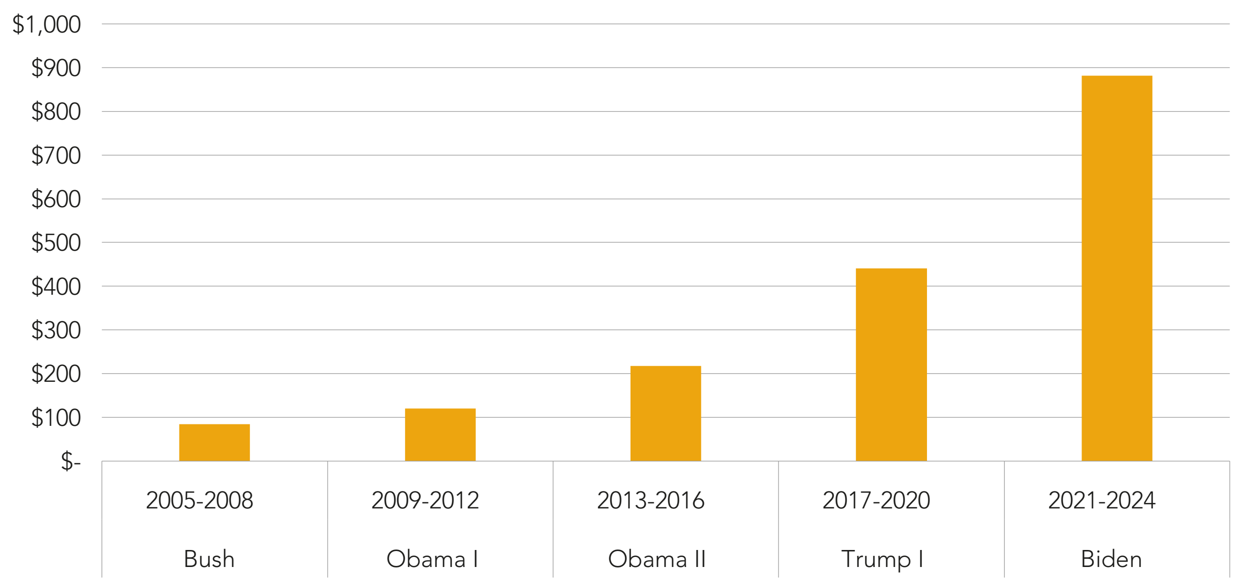
In the three aforementioned Executive Orders, two aspects of the 'Inflation Reduction Act' that are now being halted stand out:

1. **Subsidies for electric vehicles (EVs) are being abolished.**
   This is particularly disadvantageous for car manufacturers. Most manufacturers have heavily invested in the development of EVs in recent years. The direct impact on infrastructure investments is that the rollout of 'EV-charging' may be delayed.
2 **Federal land can no longer be used for wind and solar parks.**
   This also includes the waters around the US; Trump was already not a fan of offshore wind farms. To put this in context: 98% of the permits granted for onshore wind concern private land, only 2% of the permits are for federal land. These latter permits are now being halted.

Based on what we currently read in the Executive Orders and the context that accompanies them, the impact on the generation of new renewable energy seems very limited.

Developments in Renewable Energy in the US

The question is to what extent Trump's Executive Orders will actually lead to a break in the trend of the energy transition. We think it will not be that drastic. Firstly, we note that investments in the energy transition began during the Bush Jr. administration in the 2000s and have doubled with each new presidential term, including Trump's first term:

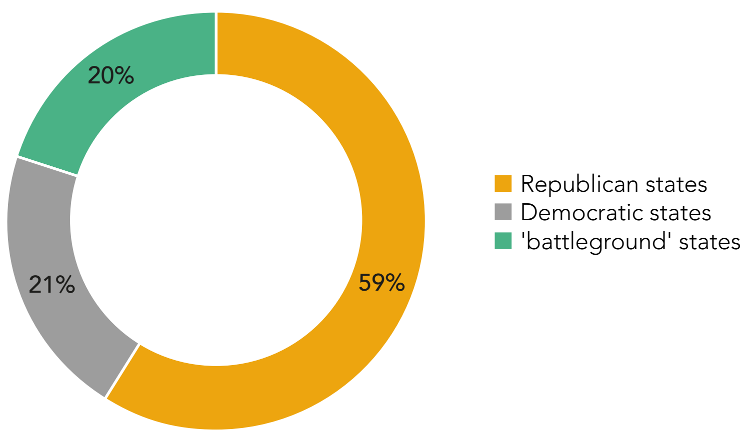


Source: BNEF Energy Transition Investment Trends 2024

There is not necessarily a link between government policy and these investments, except during Biden's tenure with the establishment of the IRA in 2022.

Secondly, a significant portion of the investments in the energy transition has ended up in so-called Republican states and 'battleground states.' In places where investments have been made, a lot of (permanent) employment has been created. It is therefore not surprising that parts of the IRA have support from both sides of the electoral spectrum.

Where have the IRA Tax Credits gone?



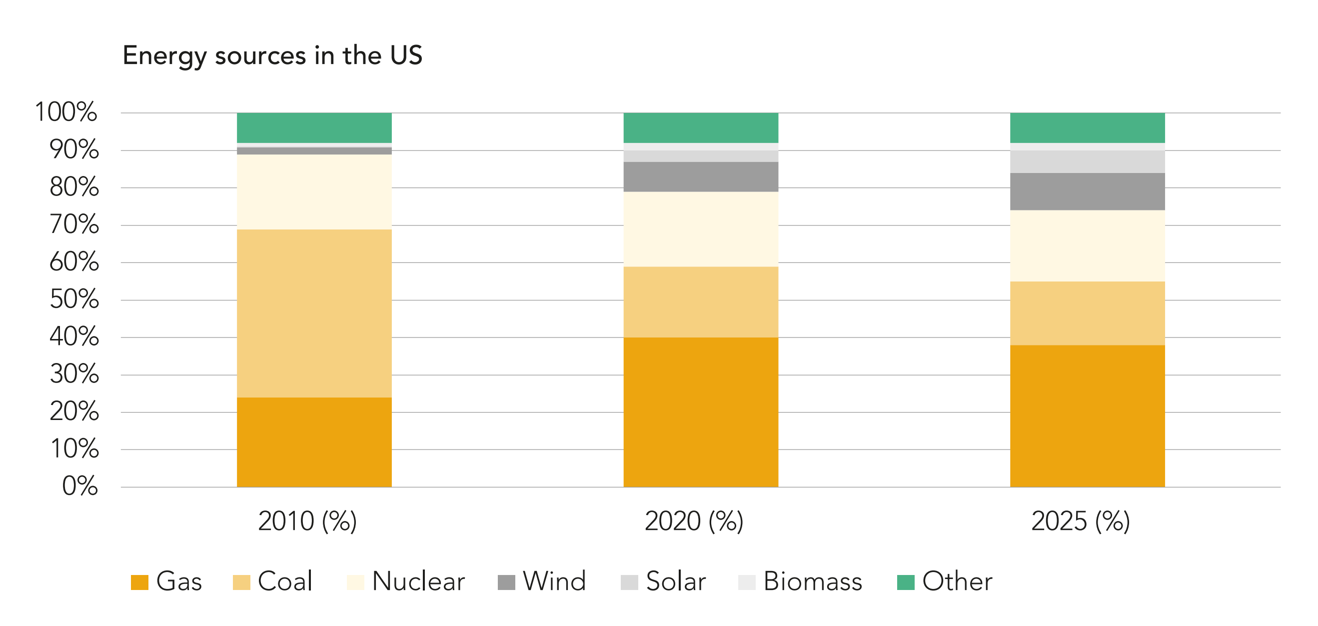
Source: BNEF Energy Transition Investment Trends 2024

In 2024, 78% of respondents supported the growth of solar energy and 72% supported wind energy. The distribution between Democratic and Republican voters is growing, but on both sides of the voter spectrum, the majority is positive (solar: 91% Democrats vs. 56% Republicans, wind: 88% Democrats vs. 56% Republicans)[1].

The majority of the American population, both Democratic and Republican voters, supports renewable energy. In Congress, almost all Democrats support continued investment in renewable energy, and 18 Republicans have openly backed the IRA in a letter to the Speaker of the House of Representatives, Mike Johnson. There is still political support for continued investments in renewable energy sources.

Thirdly, we note that the demand for electricity is expected to increase significantly in the coming years. Research firm Bain expects electricity demand in the US to increase by 26% by 2028 compared to 2023. The expected demand is growing faster than the expected supply of electricity, and much faster than the supply has increased in recent years. Nearly half of this growing demand for energy is attributed to the planned construction of 'data centers' needed to facilitate rapid developments in 'AI.' Even if this growth, after the introduction of 'DeepSeek,' turns out to be less than previously thought, there will still be a significant energy demand to meet the higher electricity needs. This demand is also much greater than what can be met by an increase in the supply of energy generated by oil and gas alone.

An important advantage of renewable energy, such as solar and wind, is that it becomes operational faster than new fossil and nuclear initiatives. Additionally, the costs of using renewable energy are (much) lower than those of gas (20%, on a non-subsidized basis). Pumping more gas and oil through new installations is very capital-intensive. Finally, with more supply, the price will drop, making it no longer profitable for oil and gas producers to pump more oil and gas.



Source: IEA

1 Source: Pew Research, June 2024

Impact on Attractiveness, Investability, Return Expectations, and Capital Flows

Overall, our current assessment is that the impact of Trump's Executive Orders on the further development of renewable energy in the United States will not be significant. New plans for the construction and improvement of infrastructure will likely continue. Renewable energy has a serious place at the energy table. The combined share of various renewable energy sources in the total energy mix of the US has doubled since 2014 to approximately 25%, mainly at the expense of coal and oil[2].

However, investors are currently taking a wait-and-see approach. Capital flows to infrastructure investments are slightly decreasing or being paused. This is expected to be temporary. What also plays a role are the proposed tariffs that Trump plans to impose on the United States' trading partners. These can affect the costs of raw materials and thus business results. In our opinion, this will have a greater impact on broader investment decisions by investors, especially in the short term.

2 Source: US Energy Information Administration, www.eia.gov. Electric Power Monthly, January 2025.

For more information, please contact:

Bart van Merriënboer
senior portfolio manager Infrastructure at
a.s.r. real assets investment partners
bart.van.merrienboer@asr.nl

Iwan Peters
senior investment strategist at
a.s.r. asset management
Iwan.peters@asr.nl

Publicatiedatum: 17 February 2025