



IHS Markit Perspectives Special

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The impact of a potential US infrastructure bill

IHS Markit's Perception Analytics team engages in in-depth discussions with investors and analysts daily. Given recent progress around increasing government spending on infrastructure, we spoke with investors and analysts to understand how potential legislation on infrastructure spending has impacted their investment theses to better understand how the investment community is evaluating the impact. Additionally, the market was probed on how affected companies should be framing conversations with investors about the impact such legislation would have on their business and investment case.

Several investors and analysts assert that a potential infrastructure bill in the US has positively impacted their willingness to invest in related sectors and note the importance of companies cautiously framing how they stand to benefit.

- “Investors, in general, are anticipating the infrastructure bill will be good for demand broadly and are trying to invest ahead of it, but that sentiment has not been fully priced in. It seems like impacted companies have a pretty favorable outlook in general. When speaking with investors, they should be saying that their demand outlook is X and are very confident in that happening, but a potential infrastructure bill would be additional to X. **Companies should not already be baking that spending into their outlook. The companies should frame the conversation to state that they would stand to benefit in volumes and price given the high demand and lack of supply status for many industries.**” *North American sell-side analyst*
- “A potential infrastructure bill is why we are even involved with certain companies, so it has definitely had an impact on our investment outlook. With the expectations that things are going to get fixed in the world, there is a need for infrastructure, so we have gotten involved in certain companies that we view as infrastructure plays. Some of that may be priced in, but there is still upside to these stocks if they can prove that they can execute. For some companies, that increase in interest is obvious, so they are going to have investors coming to them. **It is really about highlight the opportunity for these companies and in their end markets or geographic territories.** That opportunity may already be understood, so they may not have to do too much heavy lifting. For other companies, it would be beneficial to get their story out there

in a way that makes it evident that they stand to benefit from increased infrastructure spending.”
North American investor, Mutual fund (>\$20B EAUM)

- “An expected increase in infrastructure spending has had an impact on my investment thesis for affected sectors. Some of these companies are driven by macro infrastructure spending, so they stand to benefit. **It is important for companies to explain how their business is driven by macro impacts such as this to make sure expectations are appropriately understood.** These companies need to make sure their investor base is educated about that.” *North American investor, Hedge fund (>\$20B EAUM)*

However, some participants assert that the potential passing of an infrastructure spending bill has already been priced in by the market, so there is less upside optionality.

- “**It has been part of our assumption that some type of spending bill would get passed; therefore, it is included in our outlook for the industrials group over the next several years.** I would say that sentiment is at expectations. It is not a positive. Above that, it is not a negative. It is right in line with expectations depending on how this all plays out. It appears to very much be priced in with investors already taking account of some type of bill getting passed.”
North American sell-side analyst
- “Yes, I would say the proposed infrastructure spending bill has made us marginally more bullish on industrials and the construction-facing firms in particular. It is fairly well priced in at this point. **The best thing for companies to do is saying they have been excluding it from guidance.** For the most part, most companies have been doing that. It probably does not help them to get any more specific than that.” *North American investor, Mutual fund (>\$250B EAUM)*
- “Equity markets are about changing expectations. Expectations went from having never even heard of an infrastructure bill to 100% odds of an infrastructure bill. **That has left little room from here for enthusiasm around infrastructure building.**” *North American investor, Hedge fund (>\$1B EAUM)*

Furthermore, many participants remain unsure of the impact that the passing of an infrastructure bill will have and believe it is too early to begin speculating on what stocks stand to benefit.

- “A potential infrastructure bill is definitely a positive for a lot of the names I could invest in, but I am not making any new decisions right now until the rumor is over, and we have to see what actually passes. I do not think it is priced in. One thing that I am looking at and waiting to hear about is the storage investment tax credit. There are a ton of those types of things where if it actually passed, it would cause real estimate revisions. I think those companies have to thread the line. **It is not enough just to say if the infrastructure bill passes, this would be a great positive for our business. To the extent companies can provide further scenario analysis framing, that could be a plus.** It is threading the needle between giving people the tools to understand the impact versus potentially overpromising if things do not happen.” *North American investor, Mutual fund (>\$100B EAUM)*

- “We have a working group on the potential infrastructure spending bill. We do not know the final implications plus it is not finalized to begin with, so it is hard to make decisions until the details are out. We are also not top-down investors. For these things, **you do not know about the timing and where the money is going to go. Everything is still very nebulous at this point.** I think certain companies are going to be very well positioned to claim that they will benefit, but I think there will be skepticism because it is hard to say for sure who the winners and losers are going to be.” *North American investor, Mutual fund (\$40B EAUM)*
- “The spending bill is a little bit of push, but it does not move the needle too much. The government has been talking about this for as long as I can remember and about how we have to redo the airports, the roads, and things like that, yet the economy is doing well even without that. I do not think it is moving the needle too much. What is helpful now is it seems like the current administration is pushing in the right direction in the sense that they are encouraging anything related to technology infrastructure. If you start improving and investing in future of infrastructure, that has a chance to increase productivity for the economy as a whole. These are all plans and have to be voted in. After it is voted in, when is the money actually going to be paid? How a specific company could be benefiting from that will be specific to each company and each industry. It could help us maybe or be negative. I suppose companies can talk about it. It is preferable for us to invest in companies that will do well no matter what. If Congress changes their mind next week and cuts the bill in half, we do not want to be in a company that is going to be hurt from that. **We want to be in on a company that is going to do well no matter what the government will decide. Issuers should not be talking as if this is a done deal.** If a stock performing well is dependent on an infrastructure bill getting passed, then it may not be a great investment.” *North American investor, Pension fund (>\$500M EAUM)*
- “At this point, an infrastructure bill is more speculative. We have seen the kind typical market response of a knee-jerk response in many names as the market is playing on who is going to benefit. When people think infrastructure, they think of bridges and roads. They think heavy machinery. When Biden started talking about the importance of intellectual capital, that threw the market for a bit of a loop. It's a little unclear at the moment. From our perspective, we are long-term investors and are trying to identify long-term secular themes that are going to play out over a decade. Certainly, there is an argument that lagging U.S. infrastructure is the theme. The federal report on the status of our infrastructure is not very good, so there is enormous scope for reinvestment within the U.S. on that front. However, **these things probably take longer to play out. We would not invest in something because we think there is a big infrastructure bill**, but we might invest in something because they have exposure to whatever the elements of this goal that might be long term in nature.” *North American investor, Mutual fund (>\$150B EAUM)*
- “A lot of the stuff is discussed at a high level, so I do not incorporate a ton of upside from a federal spending perspective. I tend to view it as something where these things get approved and take a long time before the money flows out. Anything that is initially talked about gets water down. I view discussions of infrastructure as taking away more downside risk than presenting upside fundamentally. I have more confidence in some of what I am seeing on a state and local basis. The potential bill is a positive, but the degree is uncertain. It feels like Lucy pulling away the football. I think impacted companies should manage expectations on what they think infrastructure could be. It is positive that it provides more stability from a federal basis, which gives people confidence to pursue projects. However, **companies should not give investors some belief that this is going to be some near-term tailwind to their actual performance at this stage.** They should frame it in a way where people view it as upside if it does come. It is good to manage expectations if history has taught us anything.” *North American investor, Mutual fund (>\$1B EAUM)*

- “It is hard to say whether the potential infrastructure spending bill has impacted the interested I have seen from investors in terms of investing in those related sectors. Nobody can answer what it even means to start. I certainly could not answer how much is priced in. Literally no one on the planet can answer that question. **Companies should answer questions and say it is going to help, but that is all you can say.**” *North American sell-side analyst*