Dual mandates: decarbonization and energy security in the Inflation Reduction Act

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The Inflation Reduction Act (IRA) is one of the most important pieces of U.S. energy legislation in recent history. The IRA’s goal is not only to support clean energy and decarbonization, but also to promote energy security, which is a theme of rising importance following the war in Ukraine and the resulting energy crisis. Listed infrastructure is at the heart of investment to accomplish both decarbonization and energy security, and we see listed infrastructure companies as some of the most direct beneficiaries of the Inflation Reduction Act. We view the following exposures, which represent approximately half of the MainStay CBRE Global Infrastructure Fund, as particularly supported by the IRA and related investment themes:

Figure 1: The potential beneficiary of the Inflation Reduction Act and related investment: decarbonization and energy security exposure within VCRIX

Investment in the themes of decarbonization and energy security has the potential to benefit:

- Global and domestic renewable developers (including utilities)
- Holdings with regulated renewables and battery storage assets
- Nuclear power to the benefit of contracted generation and regulated assets
- Traditional midstream infrastructure focused on essential hydrocarbons with the potential for carbon capture and hydrogen transport

Source: CBRE Investment Management as of 8/31/2022. Figure 1 represents the types and exposure of assets owned in VCRIX that may potentially benefit from the IRA. Portfolio holdings are as of 8/31/2022 and subject to change.
A review of the Inflation Reduction Act and related investment

The Inflation Reduction Act, passed in August 2022, includes $739 billion of spending with $369 billion related to climate change and security. Figure 2 shows major spending items.

Figure 2: The Inflation Reduction Act in detail

<table>
<thead>
<tr>
<th>Major spending items</th>
<th>2022-2031 (USD billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax credits for clean electricity (wind, solar, standalone energy storage, etc.)</td>
<td>$127</td>
</tr>
<tr>
<td>Tax credits and rebates for energy efficiency for buildings (commercial and residential)</td>
<td>$47</td>
</tr>
<tr>
<td>Energy manufacturing and energy security</td>
<td>$37</td>
</tr>
<tr>
<td>Tax credits for nuclear</td>
<td>$30</td>
</tr>
<tr>
<td>Tax credits for hydrogen</td>
<td>$13</td>
</tr>
<tr>
<td>Clean vehicles (new, previously-owned, commercial, etc.)</td>
<td>$12</td>
</tr>
<tr>
<td>Clean fuels (biodiesel, renewable diesel, sustainable aviation, etc.)</td>
<td>$9</td>
</tr>
</tbody>
</table>

Source: Congressional Research Service, Congressional Budget Office, August 2022.

Across the board, these items lend tremendous visibility to investment in the themes of decarbonization and energy security. The extension of renewable investment tax credits for a 10-year period dwarfs the visibility provided by prior tax credit extensions. The new and expanded credits for hydrogen, geothermal, and carbon capture initiatives should continue to increase the competitiveness of technologies that are essential to net zero. New credits across wind, renewables, and nuclear assets should further increase the competitiveness and the cash flow of assets which, even before the Act’s passage, were anticipated to reach 45% of U.S. generation by 2030\(^3\). With increasing renewable development and secured baseload generation, the Act should further solidify U.S. energy self-reliance. Moreover, the development of U.S. energy infrastructure, such as natural gas pipelines and liquefied natural gas (LNG) export facilities, helps to improve the energy security of our allies in Europe, who are diversifying their own energy sources.
Beyond the $739 billion in the IRA, investors should also consider the multiplier effects of the bill. For the IRA, new tax credits for carbon capture, hydrogen, and batteries significantly improve the fundamental case for investment in these technologies. For technologies such as wind and solar, the duration of tax credits and associated visibility should also drive yet more investment. In total, Princeton University’s Rapid Energy Policy evaluation team estimates that the IRA could drive nearly $4 trillion of cumulative investment in American energy supply infrastructure through 2032; this includes CO₂ transport, storage, hydrogen, wind and solar, battery, and EV spending. The takeaway? The $739 billion of spend in the IRA is likely only the beginning. **Figure 3** shows the anticipated growth in energy supply infrastructure both before and after the passage of the IRA.

**Figure 3: Multiplier effect of the Inflation Reduction Act may drive over $4 trillion of capital investment in new American energy investment over the next decade**

Notably, the U.S. does not stand alone in providing investment opportunities for infrastructure. Globally, CBRE Investment Management sees over $100 trillion in investment opportunities in infrastructure over the next two decades, which is spread across the themes of decarbonization, energy security, asset modernization, and digital transformation. Such rising investment, by companies known for regulated or contracted returns, have the potential to lead to rising cash flows for infrastructure companies and dividends for infrastructure investors. When considering the passage of the Inflation Reduction Act and the dual mandates of decarbonization and energy security, CBRE is optimistic for the infrastructure asset class in the years ahead.
Figure 4: Increasing investment drives resilient cash flows

Source: Global Infrastructure Hub, International Renewable Energy Agency (IRENA) and CBRE Investment Management, June 2021. Estimated required investment from 2016 to 2040. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results.

For more infrastructure insights, visit newyorklifeinvestments.com/resiliency. For information about the MainStay CBRE Global Infrastructure Fund (VCRIX), visit the Fund page.
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1. Listed infrastructure is the term used to describe publicly-listed companies that own or operate infrastructure assets. CBRE Investment Management Listed Real Assets LLC, defines an infrastructure company as a company that derives at least 50% of its revenues or profits from, or devotes at least 50% of its assets to, the ownership, management, development, construction, renovation, enhancement, or operation of infrastructure assets or the provision of services to companies engaged in such activities.

2. Traditional midstream infrastructure are physical and organizational structures and facilities that are involved in the processing, storing, transporting and marketing of oil, natural gas, and natural gas liquids.


ABOUT RISK

Before considering an investment in the Fund, you should understand that you could lose money. The investment strategies, practices and risk analyses used by the subadvisor may not produce the desired results.

Investments in infrastructure-related securities will expose the Fund to potential adverse economic, regulatory, political, legal and other changes affecting such investments. Issuers of securities in infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage, costs associated with environmental or other regulations and the effects of economic slowdowns. MLPs carry many of the risks inherent in investing in a partnership. State law governing partnerships is often less restrictive than state law governing corporations. Accordingly, there may be fewer protections afforded investors in an MLP. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The risks of investing in emerging markets include the risks of illiquidity, increased price volatility, smaller market capitalizations, less government regulation, less extensive and less frequent accounting, financial and other reporting requirements, risk of loss resulting from problems in share registration and custody, substantial economic and political disruptions, and the nationalization of foreign deposits or assets. Small and mid-cap stocks are often more volatile than large-cap stocks.

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