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Congress Passed the Infrastructure Investment & Jobs Act. What Does This Mean for Investors?

On Friday, November 5th, the House passed the Infrastructure Investment and Jobs Act (IIJA, Bipartisan Infrastructure Bill) by a 228-206 margin, sending it to President Biden's desk to be passed into law. After passing the Senate in early August, the bill sat with the House, awaiting a vote as moderate and progressive Democrats negotiated the details of an accompanying reconciliation bill (the Build Back Better Act, BBBA) that would invest in clean energy and social infrastructure. Progressives were reluctant to vote for the IIJA without having finalized and secured support for the Build Back Better Act, which both party factions were (and still are) in disagreement on. Last week, however, after moderates voiced their explicit intention to come to an agreement on the second bill, enough progressives voiced their support for the bipartisan bill for Speaker Pelosi to feel comfortable bringing it to a vote. President Biden is likely to sign the IIJA into law in the coming weeks as Democrats continue to make progress on the BBBA.

The Infrastructure Investment and Jobs Act

The IIJA passed without any changes from what the Senate passed in August. The bill contains $550B in new appropriations over the next ten years. Repurposed COVID-19 relief funds will pay for $205B of the bill, while other offsets include tighter IRS enforcement and recouping fraudulent or unused unemployment insurance payments. The bill directs funding to following categories:

Transportation & Transit

- Roads, Bridges & Highways ($121B) – Directs new funds to roads, bridges, highways, and related key transportation projects. Includes funding to repair and retrofit related infrastructure, and to invest in connected cars, sensor-based infrastructure, transit integration, commerce delivery and logistics, smart traffic, smart grids
- Rail ($66B) – Expands Amtrak and addresses Amtrak backlog, modernizes Northeast Corridor rail line, and increases the reach of rail to new areas including cities
- Public Transport ($47B) – Modernizes bus/rail fleets and replacing many with zero-emission options, expands public transit to areas without available options, and improves supporting transit infrastructure
- Airports ($25B) – Increases the capacity and accessibility of airport terminals, replaces aging airport infrastructure, and improves air traffic control towers and technology
- Ports & Waterways ($17B) – Electrifies port infrastructure, bolsters port efficiency, and invests in projects that increase the resilience of ports to rising sea-levels, flooding and weather events

CleanTech & Clean Energy

- Power Infrastructure & Clean Energy ($73B) – Supports deployment of smart grid technologies and battery storage, green hydrogen, carbon capture technology, hydropower, wind power, and solar power

- Electric Vehicle Charging Stations ($7.5B+) – Builds out electric vehicle charging infrastructure, specifically focusing on installing chargers along highway corridors, in towns and cities, and in hard-to-reach rural or disadvantaged areas
- Low-Emission Buses & Ferries ($7.5B+) – Invests in electric and low-emission buses and ferries

Water Infrastructure & Environmental Remediation

- Water Distribution, Sourcing, & Storage ($63B) – Replaces lead pipes, funds wastewater, and invests in water treatment, monitoring, and sustainability. Further invests in water storage, water recycling, and desalination technology
- Environmental Remediation ($21B) – Addresses the impacts of legacy pollution by cleaning up superfund and brownfield sites as well as plugging orphaned oil/gas wells

Digital Infrastructure & Resilience

- Broadband ($65B) – Expands reach of broadband internet to more Americans, stipulating high-speed download/upload speeds and latency low enough to support real-time applications
- Cybersecurity & Resilience ($50B) – Bolsters the country's resilience to cyberattacks, specifically for infrastructure related to transportation, electric grids, and water infrastructure. Improves the resilience of physical infrastructure to the impacts of climate change

Reconciliation Bill (Build Back Better Act)

The most recent version of the Build Back Better Act (BBBA) seeks to spend $1.75T, including $555B for fighting climate change and clean energy, $400B for childcare and preschool, $200B for expanded child and earned income tax credits, $150B for affordable housing, $150B for in-home care access, $130B for Medicaid and Affordable Care Act subsidy expansion, and $40B for worker training and higher education.

The timeline for the Build Back Better reconciliation package is more flexible now that it is decoupled from the IIJA. On Saturday (11/6), House Democrats set the rules governing debate on the bill but pushed back on holding a vote until the Congressional Budget Office (CBO) has a chance to gauge the economic impact of the package. At the earliest, the CBO may deliver projections by 11/15, three days before the House goes on recess for Thanksgiving. After returning from this recess, Democrats would only have 10 legislative days to move the bill through the House and the Senate if they hope to pass it by yearend.

Although House Democrats are crafting a version of the bill that would satisfy Senate moderates, Joe Manchin and Kyrsten Sinema, Senator Manchin recently indicated that he may push for major changes to the framework. This could delay passage as any changes made in the Senate would send the bill back to the House for approval. Impending deadlines for federal funding and the debt ceiling will also complicate progress, with federal funding and the government's ability to pay down debt expiring 12/3. With several congressional recesses and conflicting deadlines, the reconciliation bill is unlikely to pass until December.

Regardless, we believe Democrats are negotiating in good faith. Moderates have committed to pushing through a reconciliation package and we remain optimistic that both factions of Democrats will come to an agreement.

Investing in U.S. Infrastructure Development

Infrastructure in the United States is chronically underfunded and deteriorating. The Infrastructure Investment and Jobs Act represents the most significant investment in infrastructure in the country's history and will serve as a remedy to these issues for many years to come. The potential for additional spending on clean energy and social infrastructure from the Build Back Better Plan could take this a step further. In our view, such spending will translate to revenues for companies involved in infrastructure development and that derive a significant share of their revenues from the U.S. Additionally, this spending could also translate into boosted revenues and sentiment for companies relevant to themes such as Clean Water, Hydrogen, Renewable Energy Production + CleanTech, Autonomous & Electric Vehicles, Internet of Things, Cybersecurity, and Data Centers and Digital Infrastructure.

Expected Beneficiaries of U.S. Infrastructure Spending

Construction & Engineering: Companies involved in the planning, design, and construction of infrastructure related to transportation and transit, housing, power and clean energy infrastructure, water infrastructure, and digital infrastructure could see heightened revenues on the back of this spending.

Products & Equipment: Companies that produce, distribute, or lease products and equipment that serve as components across the above infrastructure areas could realize additional revenues from large-scale federal funding:

- Transportation, Transit & Housing: Relevant products include those related to mixing and paving asphalt/concrete as well as traffic management, signage, and safety for roads, highways, and bridges; railcars, barges, axles/couplers, and used in waterways, rail, and public transit; and construction equipment including cranes, aerial work platforms, and materials-handling and earthmoving vehicles/equipment.
- CleanTech & Clean Energy: Relevant products include those related to power transmission and electrification such as electrical wiring, connectors, insulators, meters and measurement systems, power structures and distribution poles, transformers, circuit breakers, enclosures, arresters and bushings, electric control boxes and related components; electric vehicle charging station components; and clean energy components like structural wind towers.
- Clean Water Infrastructure: Relevant products include water distribution pipes and protective lining, pumps, valves, water meters, filtration systems and membranes,
- Digital Infrastructure: Relevant products include wiring and cables for data and related power transmission, connectors, contacts, and communication towers and related components.

Raw Materials & Composites: Companies that produce or supply raw materials and composites (or chemicals) that comprise infrastructure across the above infrastructure areas could derive new revenues from the spending carved out in the bill.

- Transportation, Transit, & Housing: Relevant materials and composites include concrete and asphalt for roads, highways, bridges, and transportation structures; aggregates that comprise composites like concrete/asphalt or are used as stand-alone materials; and metals like steel and aluminum which are used in structures and for reinforcement across transportation infrastructure.
- CleanTech & Clean Energy: Relevant materials and composites include metals and alloys like copper, aluminum, nickel, brass and other metals used in electrical transmission; as well as plastics used for electrical insulation.
- Clean Water Infrastructure: Relevant materials, composites, and chemicals include concrete, copper, plastics and other materials used to make water distribution pipes; sealants and coatings for distribution and storage infrastructure; and chemicals used in water treatment like calcium carbonate.
- Digital Infrastructure: Relevant materials and composites include metals and alloys like copper, aluminum, and other metals used in data transmission cables; as well as steel and aluminum for communications towers.

Industrial Transportation: Companies that transport products, equipment, and materials used in transportation infrastructure could benefit from heightened freight volumes intended for use in infrastructure projects.

- Transportation & Transit: Industrial transportation companies might see longer-term benefit from the government footing the bill for billions of dollars of capital expenditure on the rail networks they operate on, as well as from expanded networks allowing for the improved and increased freight delivery.

Other Expected Thematic Beneficiaries

- The Internet of Things and Autonomous & Electric Vehicles themes could benefit from funding directed to connected cars, sensor-based infrastructure, transit integration, commerce delivery and logistics, and smart traffic.
- The CleanTech, Renewable Energy and Autonomous & Electric Vehicles, Hydrogen themes could benefit from increased electrification and emissions reduction efforts across transportation areas, as well from improvements to energy efficiency and funding for smart grids.
- The Renewable Energy and Hydrogen themes could benefit from federal support and/or investment in clean energy sources and green hydrogen.
- Clean Water theme could benefit from investment in clean water infrastructure, including federal investment in water distribution, water filtration and treatment, wastewater management, and new water extraction methods like desalination.
- The Cybersecurity and Digital Infrastructure themes could benefit from increased spending on cybersecurity and digital infrastructure like broadband.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

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