



WILSONS

# Is the Rally in Clean Energy Investing Sustainable?

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Our weekly view on asset allocation.

15 February 2021

# A New Dawn for Cleaner Energy?

Clean energy stocks took off last year, with investors attracted to stocks and commodities associated with renewable energy.

In the lead up to the US election, clean energy ETFs rallied - the iShares Global Clean Energy ETF (ICLN) outperformed the NASDAQ by 9800bp - with a Biden win seen as being a key turning point for the global uptake in renewable energy. So, will Biden's presidency usher in a new dawn for cleaner energy? And can this trend continue over the next decade?

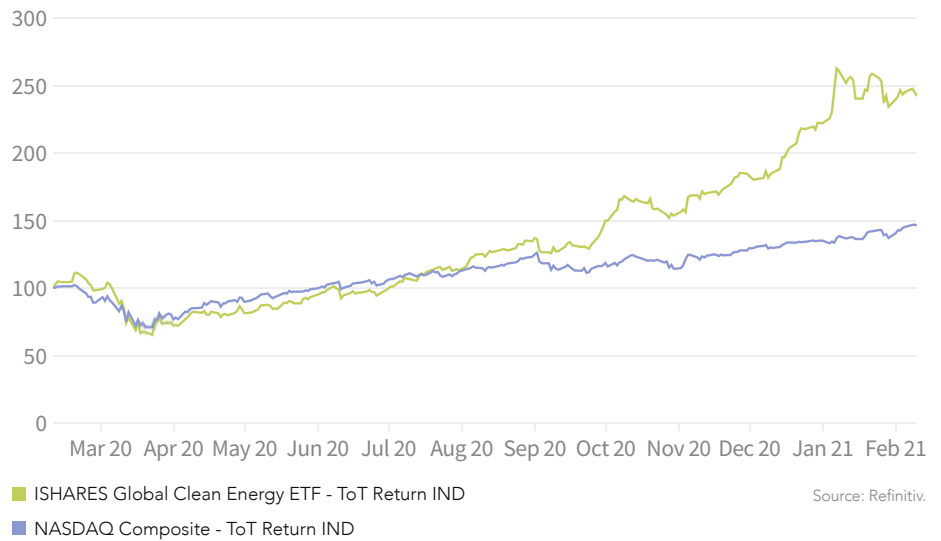
We think Biden should be a catalyst for a meaningful global pivot towards clean energy. With more countries shifting away from fossil fuels, political pressure from the US on other laggard countries could accelerate the pace of change. We believe that clean energy is likely to be an investable megatrend over the next decade and beyond.

## Can Biden Light the Spark for Change?

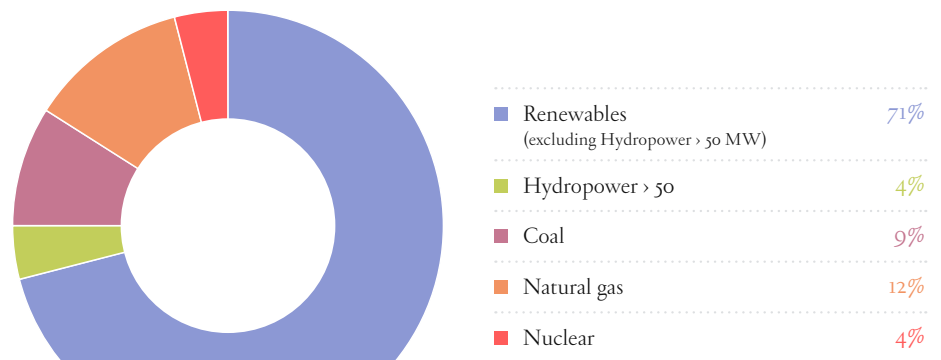
US President Biden has signed a flurry of executive orders since his inauguration at the end of January – more than 3 dozen in his first week as President alone. This included a series of orders designed to address climate change, along with a move for the US to rejoin the Paris climate agreement (something Trump took the US out of).

This was generally expected, as Biden had campaigned hard on climate change leading up to the election and made it one of his key priorities to “ensure the US achieves a 100% clean energy economy and reaches net-zero emissions no later than 2050”. Aimed at limiting new oil and gas drilling on federal lands, these orders are just the start of the long road ahead. While they do not go as far as congressional legislation that future Presidents cannot overturn, they do reinforce Biden's commitment.

**Exhibit 1: iShares Global Clean Energy ETF rallied over 2020**



**Exhibit 2: Investment in new energy is predominately in renewables (% of Total Global Investment in New Power Capacity)**



The next key catalyst will likely be the \$2t green infrastructure plan to be announced in 1H21. This will really let the world know the true magnitude of the change in the US.

While Trump largely ignored climate change, the political landscape has accelerated markedly around the globe. The world is already investing in renewables relative to other forms of

energy, with China and Europe investing heavily in renewable energy over the past 5 years. Although one of the world's worst polluters, China is also a leader in new renewable projects, accounting for more than 30% of the world's investment in renewable energy, more than double the size of the US' investment.

A US energy overhaul would not be enough to turn the tide in limiting global emissions. The US could have zero emissions tomorrow and this would not solve the issue, with 90% of global emissions originating outside of the US. However, the supportive policy changes from the world's biggest economy should add pressure to climate-sceptic world leaders to also pivot and be a catalyst for faster change.

## Signs of Change but Can this Cycle Continue?

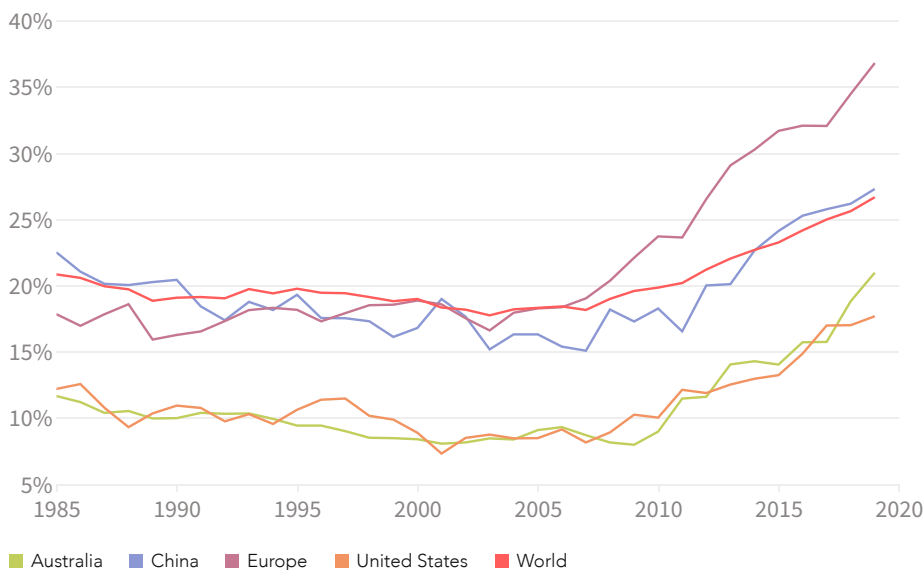
The world does seem to be changing its view on clean energy. Government policy has changed in Europe and Asia, but many countries, like Australia, have not yet set a course to becoming free of fossil fuel. A continuing shift in the global ideologies from consumers, businesses and governments will be essential for this change to endure.

Spending on clean energy could accelerate in the short-term. Governments could direct fiscal spending at clean energy to create jobs and fewer emissions in one fell swoop while interest rates are at record lows.

The shift to electric vehicles (EVs) is a good indicator that consumers want to produce less emissions, with the demand for EVs increasing significantly over the past 5 years due to climate fears. Households who own an EV logically want clean electricity (not fossil fuels) to charge their cars; which puts more pressure on governments to enact change and lower emissions. The shift to EVs is likely to continue throughout this decade, with countries (like the UK) announcing bans on petrol or diesel cars by 2030.

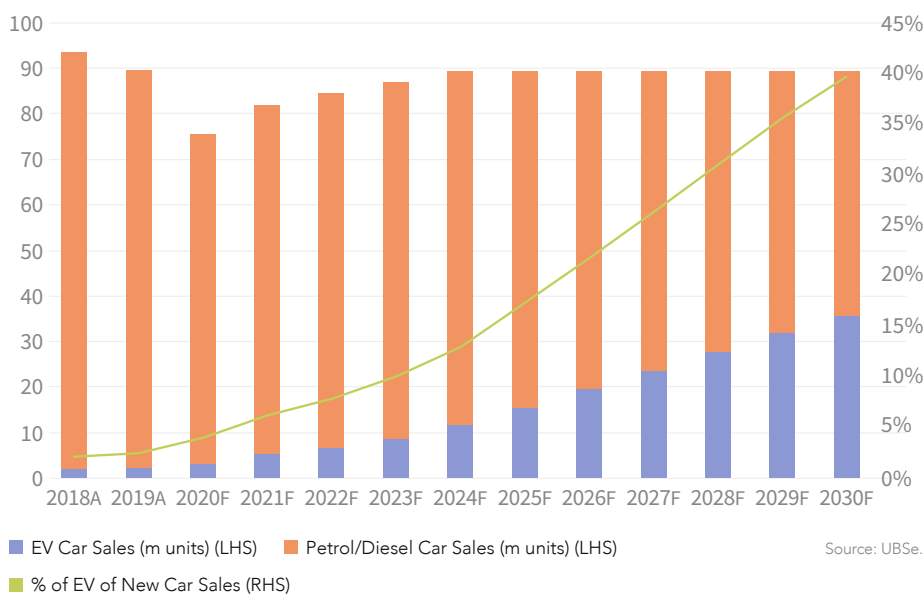
Renewables are becoming cheap, with cost a headwind for clean energy until recently. The International Energy Agency (IEA) states that solar and onshore wind are now one of the cheapest ways of adding new electricity-generating plants in most countries today. For this reason, the IEA believes that wind and solar PV plants will challenge existing fossil fuel plants, forecasting that renewables will account for 95% of the net increase in global power capacity through to 2025.

**Exhibit 3: Share of electricity production from renewables – Europe has accelerated its growth in clean energy since 2016, while the US and Australia still trail the rest of the world (including China)**



Source: BP Statistical Review of World Energy and Ember (2021).  
(Renewables includes electricity production from hydropower, solar, wind, biomass and waste, geothermal, wave and tidal sources).

**Exhibit 4: Electric cars are forecast to become a significant % of car sales over the next decade**



Source: UBSe.

Storage has become less of an issue, though the technology is still evolving. Wind and solar are at the mercy of the weather, however, battery capacity has increased while prices have fallen. Cheap batteries can now store surplus energy when it is sunny or windy to meet network demand when weather conditions are suboptimal. Batteries should continue to improve over the

next decade, which should support renewables growth in energy production and EVs.

With headwinds turning to tailwinds, renewables becoming a primary method of energy production in 10 to 20 years is looking more credible.



# How to Invest in Clean Energy

## Clean energy related resources

The global shift to clean energy is transforming the demand for the commodities used in energy storage, energy generation and EVs. We believe that one of the best ways to invest in renewables is by investing in companies exposed to the commodities used in the production and storage of clean energy.

The World Bank identified graphite, nickel, lithium and cobalt as essential to energy storage in EVs and grid stabilisation. Yet with demand outweighing current production, graphite and lithium production would need to increase by 400-500% of 2018 levels to meet the needs of renewables alone by 2050.

Used in most clean energy technologies and essential in EVs, wind, and solar - copper production would need to increase the most in tonnes to meet future demands. Other metals and minerals like silver, silicon, and zinc are also potential winners from the shift away from the carbon-based economy. At present, the Wilsons Australian Equity Focus List has a significant position in copper play Oz Minerals (OZL).

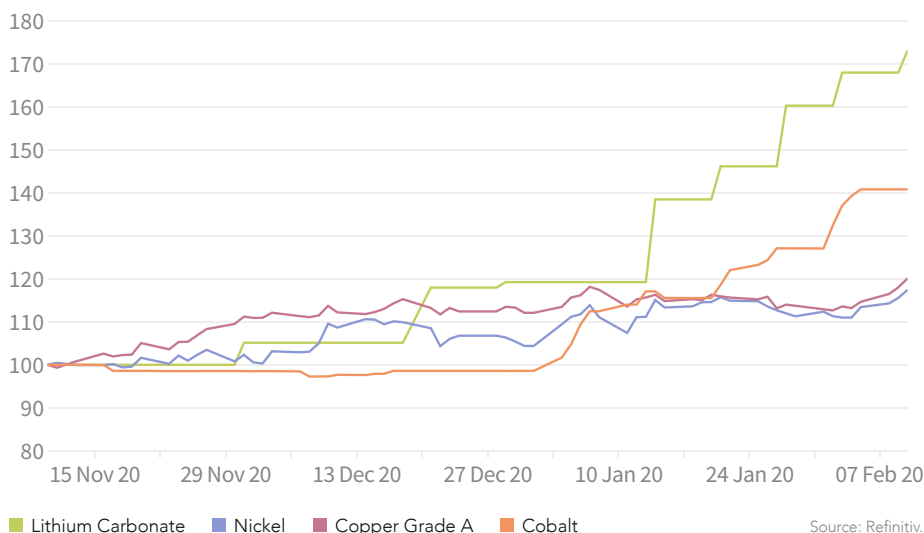
## Resource funds

Funds like Acorn Capital NextGen Resources actively invest in micro, small and mid-cap companies exposed to growth commodities associated with the clean energy transition. Funds like this have expertise in a highly technical area of the market that can be difficult to navigate, while providing exposure to the clean energy thematic. At the end of January, NextGen Resources fund held 35 stocks, of which EV metals was the largest sector at 36%, Gold at 31%, and then Copper at 12%.

## Equity growth funds

Growth funds like Munro Global Growth also provide exposure to clean energy. In January 2021, Munro had a 17.2% weighting towards "Climate". For example, Munro currently has two Danish companies Orsted and Vestas, who both focus on offshore wind. Other funds, like Baillie Gifford and Hyperion, both play this theme through their largest exposure, Tesla.

**Exhibit 5: Lithium and cobalt prices have surged with demand from China for batteries increasing**



**Exhibit 6: ETFs Battery and Lithium ETF (ACDC) started to rally in 2020 after staying relatively dormant for the 18 months before, though this may just be the start**



## Clean energy focused ETFs

ETFs like the iShares Global Clean Energy ETF (ICLN) listed on the NASDAQ, the Invesco WilderHill Clean Energy ETF (PBW) on the NYSE, and the ETFs Battery Tech & Lithium ETF (ACDC) on the ASX provide investors with diversified exposure to stocks that are believed to be integral to the clean energy transition.

It is worth exploring what is under the bonnet before investing in these instruments. The iShares Global Clean Energy ETF (ICLN) is heavily weighted towards utilities (~50%), the Invesco WilderHill Clean Energy ETF (PBW) has a small exposure to utilities (~5%) and instead holds industrials (~40%)

that are clean energy leaning. Different investors may want different types of exposure based on philosophy or current exposures elsewhere.

## Long-Term but Too Powerful to Ignore

While recent gains have been exciting, investors need to have a long-term investment timeframe (5 years+) to invest in this thematic. There will undoubtedly be ebbs and flows around the longer-run trend and new technologies/opportunities will also emerge. However, we see the green energy pivot as a sustainable megatrend that is likely to be too powerful to ignore.

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Recommendation structure and other definitions

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