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BBGI CLEAN ENERGY 100 USD INDEX AND STRATEGY

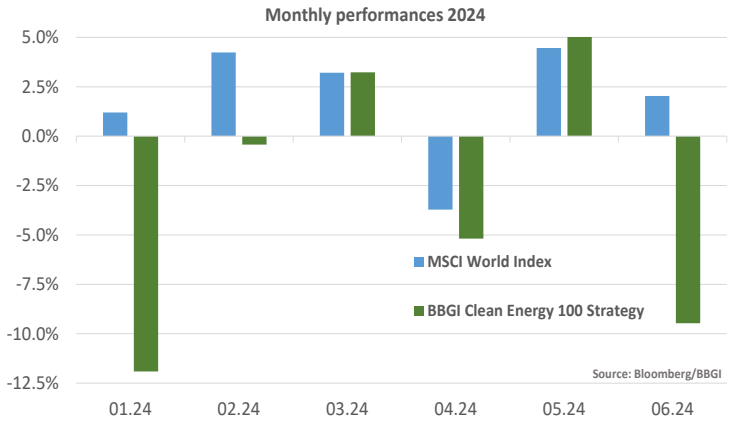
A BBGI Exclusivity since 1999

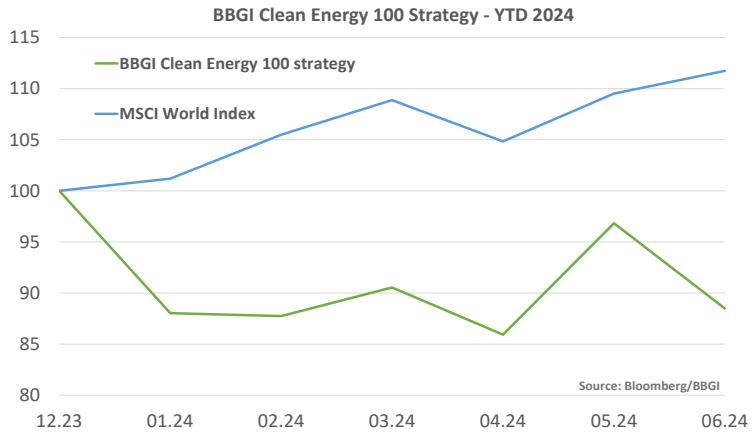
June 2024

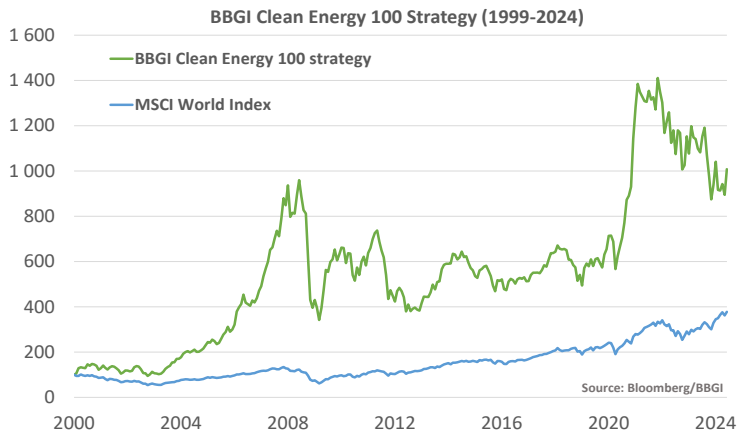
Annualized performance of +9.49% since 1999

Renewable energies take profit in June

	June	YTD
BBGI Clean Energy 100 strategy:	**-9.47%**	**-11.99%**
BBGI Solar Sector:	**-12.72%**	**-23.33%**
BBGI Wind Sector:	**-3.89%**	**+14.90%**
BBGI Biofuel Sector:	**-7.01%**	**-28.47%**
BBGI Energy efficiency Sector:	**-9.79%**	**-8.79%**







Investment climate commentary:

The cycle of tightening monetary conditions in the eurozone, unfavorable to alternative energies, has reached its inflection point and is about to reverse in the United States. Lower key interest rates will reduce financing costs and capitalization rates. In June, the consumer price index recorded its first monthly contraction of -0.1% since May 2020, which could prompt the Federal Reserve to begin a rate-cutting cycle after raising rates eleven times since 2022. The first cut, scheduled for September, could exceed -0.25%. This development is extremely favorable for the alternative energy sector, which is highly sensitive to interest rates, and marks a turning point after several difficult years. What's more, the upcoming presidential election in the United States could play a significant role in the adoption of renewable energy sources in the country. Indeed, the two candidates have opposing views on the subject. Democratic candidate Kamala Haris, if elected, is likely to be even more restrictive than Joe Biden on the issue of fossil fuels, which could act as a catalyst for the market. Donald Trump, on the other hand, is likely to be very vehement against the inflation reduction act.

Current valuations of companies in the sector are not overvalued, offering an attractive entry point for investors anticipating improved fundamentals in 2025. The S&P Global Clean Energy index has gone from a PE of 74x in 2022 to 22x in 2023 to 16x for 2025, offering a 22% to 40% discount to the S&P 500 (20.4x) and Nasdaq (27x). Expected earnings growth is +26.6% for 2024 and +23% for 2025, versus +12.7% and +8.1% for the S&P 500. A new growth cycle is on the horizon for the alternative energies sector.

The systematic diversified strategy of the BBGI Clean Energy 100 Index has produced an annualized return of +9.49% since 1999 against +5.89% for the MSCI World

Comments by sector:

Solar: -12.72%

The US presidential elections will play a key role in the growth of renewable energy installations. We expect his administration to maintain the status quo on clean energy policies, both domestically and internationally. The current Vice President should continue to promote the energy transition, as she did last year in celebrating the anniversary of the Inflation Reduction Act. She also pledged $3 billion to a climate aid fund and declared that the US would triple its renewable energy capacity by 2030 during her participation in COP28, replacing President Biden. We note that she may be tougher on fossil fuels than her predecessor, given her record as a California senator. The Inflation Reducion Act has generated strong growth in generating capacity across the country, distributed in a bipartisan way: almost 50% of new sites are located in Republican states. However, the risk of a full repeal persists should Trump win the election. First Solar, the leading manufacturer of solar modules in the United States, is developing new plants in Ohio and Alabama to benefit from tax credits, for example. The law has also prompted foreign manufacturers to relocate their operations to the USA. For example, Meyer Burger has moved its production from Germany to the USA due to more advantageous conditions. Aggregate sales of our U.S. solar peer group are expected to grow by around 30%, reaching $31 billion in 2026 according to consensus forecasts. We believe that a rise beyond $40 billion is conceivable, driven by increased demand for solar and battery storage solutions.

Biofuel: -7.01%

Biofuels are currently affected by oversupply concerns, but US mandate requirements offer more potential than expected, which could support the market in the second half before a tax credit adjustment in 2025. Margins for renewable diesel could recover towards $1.25 per gallon thanks to the recovery in RIN credit prices. Ethanol's correlation with gasoline indicates weaker demand, although RIN credit support may narrow its gap with petroleum fuels, while corn prices help maintain margins. The tax credit change planned for next year, targeting US production exclusively, provides an incentive to reduce emissions and also applies beyond biomass diesel. The forthcoming elections introduce uncertainty as to the evolution of renewable fuels policy, as economic expansion in this sector requires mandates or subsidies to be viable.

Energy Efficiency: -9.79%

Currently, around 70% of the world's steel production uses the BF-BOF (blast furnace-oxygen furnace) process. Switching to the production of recycled steel via electric arc furnaces (EAF) can reduce emissions by 95% compared to the BF-BOF process, provided the EAF is powered solely by renewable electricity and operates exclusively with scrap. However, impurities in scrap and its limited availability could restrict its use for high-end steel products, limiting the share of recycled steel to around 37% by 2050. In the long term, to achieve zero net emissions, the industry will need to adopt alternative production methods. Hydrogen could represent the most cost-effective solution for producing zero-emission steel by 2050. Green hydrogen, produced by electrolysis powered by renewable energies, can transform iron ore into iron in a direct reduction (DR) furnace, which is then smelted in an EAF powered by renewable electricity. This process is already available, although natural gas is currently used as the raw material. The industry is working to replace natural gas with hydrogen in DR furnaces, and to develop new hydrogen-ready DR-EAF furnaces. For newer BF-BOFs or DR-EAFs not suitable for hydrogen, carbon capture could be an option for reducing emissions. However, this technology entails additional costs and may generate residual emissions requiring compensation.

Wind: -3.89%

Global wind power installations should reach a record level in 2024, with around 125 gigawatts, surpassing the 117 GW of 2023. We anticipate double-digit growth for the period 2025-2026. China is expected to account for more than half of new capacity this year, with Goldwind, the country's largest turbine manufacturer, forecast to increase revenues by 10%, according to consensus forecasts. Growth expectations are slightly more optimistic for European manufacturer Vestas, and we see potential for most equipment suppliers to beat analysts' forecasts in 2025-2026. Group earnings, mainly dominated by Vestas, could see a significant rebound due to lower steel prices and higher turbine prices. Indeed, Vestas sales, grew at a compound annual growth rate of over 15% between 2018 and 2021. The company looks well positioned to return to a similar growth dynamic between 2024 and 2026, driven by high turbine prices and increased orders.