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WEEKLY ANALYSIS

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LOWER INTEREST RATES WILL BOOST ALTERNATIVE ENERGIES

An unavoidable theme penalized by interest rates. A volatile but successful sector. Falling inflation and new interest-rate cycle favorable to the sector. Profit growth in excess of +20%/year. Significant discounts vs. S&P 500 and Nasdaq.

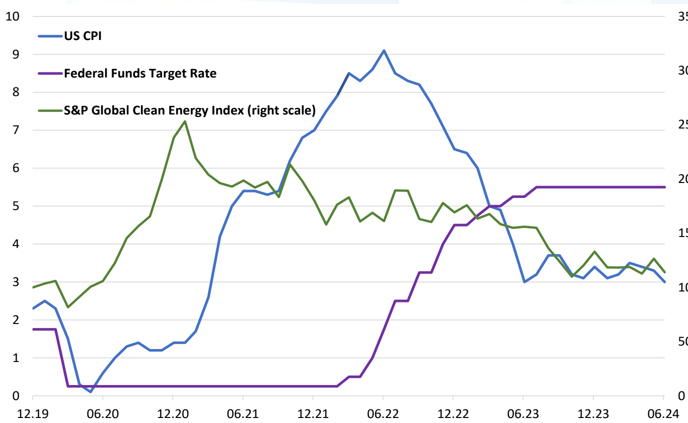
Key points

- Energy transition is an unavoidable theme, penalized in the short term by rising interest rates.
- Attractive but volatile investment opportunities
- Inflation breaks positive momentum in 2021
- S&P Clean Energy outperforms Global Energy
- Main reasons for sudden price collapse
- Investor fatigue creates opportunities
- 1st rate cut will boost alternative energies

Energy transition is an unavoidable theme, penalized in the short term by rising interest rates.

The theme of energy transition was particularly popular with investors in 2019-2020, when the S&P Clean Energy Index was up +41.5% and +138.2%, and governments' determination to set concrete targets was supported by announcements of exceptional budgetary support. Recently, inflationary trends and rising financing costs have had a negative impact on the investment climate and on the sector's stock market performance until 2023. Over a long period since 1999, the sector's annualized growth rate has been +9.9% (S&P500 +7.4%), underlining the value of participating in the development of green infrastructure. In recent years, extreme meteorological phenomena with catastrophic effects of various kinds have once again borne witness to the disastrous effects of global warming, which is becoming increasingly obvious to all. Increasing climatic upheavals, such as extreme droughts and devastating floods, provide further support for the determination of governments and the global CO_2 emissions reduction target adopted by most developed countries. Without being called into question, the targets set in both Europe and the USA are nonetheless suffering from the damaging trend in inflation and the highly penalizing rise in interest rates and financing costs, affecting both demand and supply. The energy transition to clean, renewable energies is therefore still firmly underway, with no major risk of being called into question, but it is temporarily threatened by financial and economic parameters that have been evolving negatively since 2021, and which now seem likely to have finally reached their climax with the peak in US interest rates in October 2023. These regulations will have a lasting effect on value chains, which will also be strongly impacted by the competition induced by the various support measures adopted by governments. These measures will support the emergence of new technologies and the targeted development of alternatives of various kinds. But they may also lead to the relocation of activities, or to the introduction of tariff barriers to protect exports from China to Europe and the USA, for example. The energy transition is unlikely to be linear and smooth. It is likely that certain obstacles or changes in direction and strategies will temporarily disrupt a trend that nevertheless seems clearly unstoppable. In fact, we're already seeing a few reactions here and there from political decision-makers, who are sometimes backtracking on certain objectives or on the means to achieve them.

US CPI, Fed Funds, S&P Clean Energy Index



Sources: Bloomberg, BBGI Group SA