

What does a Trump win mean for the energy transition?

Mark Lacey, Head of Thematic Equities at Schroders

The election outcome has added another layer of potential short-term pain for the energy transition sector. However, the long-term need to transition our energy system away from fossil fuels has not changed and we continue to see a robust growth outlook for companies across the universe even in a scenario where US climate policy reversals play out to their most extreme.

The election result does not change the fact that renewable energy solutions have become increasingly competitive with fossil fuels, that electric vehicles are becoming ever more compelling with respect to their capabilities and cost, or that energy storage solutions have now become bankable.

It will not change the fact that we are seeing new pockets of electricity demand globally for the first time in decades, particularly from AI-related data centre expansion, but also increased heating and cooling needs too and it will also not change the fact that many major corporates want their operations to be 100% fossil fuel free in the very near future.

It will not change the fact that energy security remains a concern globally, and that renewable power is at least part of that solution, or that many economies globally are rapidly accelerating their deployment of renewables, including India and the Middle East, with growth that can help offset any potential weakness in the US.

And it will not change the fact that this year will mark the first year that global average temperatures will end up more than 1.5C above pre-industrial levels, and that longer-term climate ambition globally must still be addressed.

We acknowledge that if certain policy actions in the US are taken under the new administration – which are by no means guaranteed given the significant investment and jobs the renewable energy industry creates within the US – then we could see lower US growth short-term and further potential earnings disruptions. We also accept that the outcome of other elections globally this year have highlighted that other issues such as defence and inflation have perhaps become priorities over decarbonisation short-term.

But the longer-term, and more powerful forces of investment and technology adoption should not be forgotten, as they will be what ultimately drives the value of sustainable energy companies longer-term. Politics and sentiment will always experience cycles, but industries and businesses with competitive products can still adapt and thrive. Indeed, let us not forget that US wind and solar installations increased 50% between 2016 and 2020 when Donald Trump was last in office, with global renewable installations more than doubling over the same time.

Stepping back, the bigger picture for the sector is still that: long-term growth expectations for the sector remain robust, and that even with potential US market disruption short-term, we are approaching the bottom of the capital and earnings cycle for several key energy markets and stocks. Energy transition equities have outgrown the wider market from an earnings perspective over the last five years, and they are forecast to continue to do so over the next few years as well. With through-cycle earnings growth the best indicator of long-term investment returns, the fundamental set up still looks robust from here.

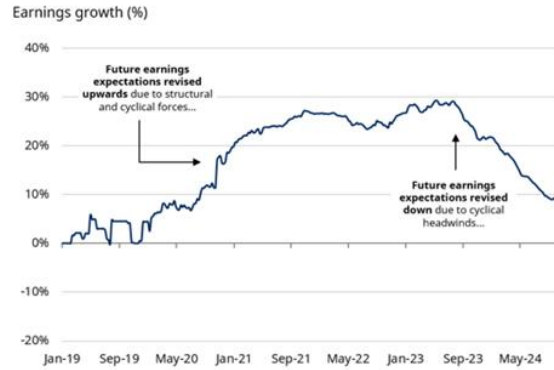
Earnings have outgrown wider equities over the long-term

Even if expected earnings have been trending downwards over the last two years

2YF EBITDA growth for the global energy transition universe* over time¹



2YF EBITDA revisions for the global energy transition universe* over time¹

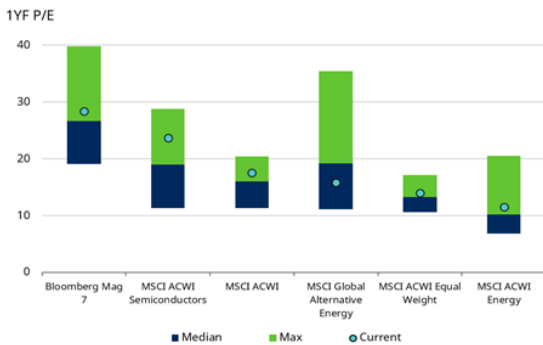


For illustrative purposes only and should not be viewed as investment guidance. Past performance is not a guide to future performance and may not be repeated. The value of investment can go down as well as up and is not guaranteed. The return may increase or decrease as a result of currency fluctuations. Source: Bloomberg, Schroders - 31 October 2024. ¹Average represents an equally weighted average for selected companies in the Schroder Global Energy Transition "tracked universe", which is comprised of selected companies from the "full universe" with available data. Based on consensus estimates for 2YF EBITDA and 2025 EBITDA using Bloomberg Data. Change in earnings expectations is the average change from 1 January 2019 to 31 October 2024 for the universe.

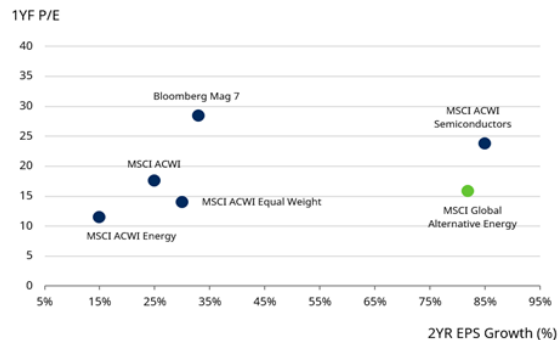
Energy transition valuations

Relative valuations now look quite attractive compared to other thematic areas

Current and historic forward earnings multiples across various equity market indexes¹



Average forward multiples and growth rates across various equity market indexes²



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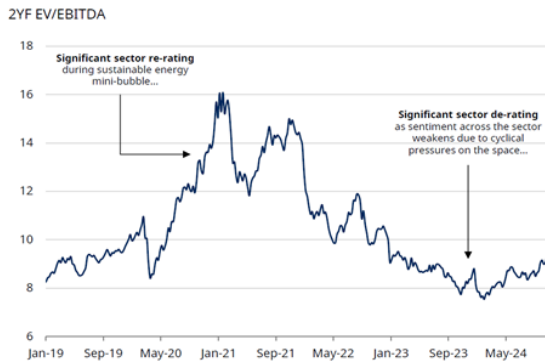
We also firmly believe that some of the valuations we now see across the universe look exceptionally attractive following the recent moves, particularly if you still believe in the long-term earnings growth view above.

The market capitalisation of various businesses across the space are now back to their COVID-19 lows, despite underlying earnings and cash flow being materially higher than at that time. While we acknowledge that the US election poses further short-term earnings risks, the extent to which valuations have contracted feels extreme to us. Over the last three years we have seen valuations across the sector re-trace sharply, with the sector now trading at a significant discount to wider equities, particularly relative to their fundamental growth. Although short-term reactions can always push valuations lower (as we have seen over recent days), we believe that sustainable energy equities are already more than discounting any potential fundamental impact from this election when taking a longer-term view.

Energy transition valuations

Valuations have returned to attractive levels on an absolute and relative view

Average 2YF EV/EBITDA for universe*1



Relative 2YF EV/EBITDA against wider market*2

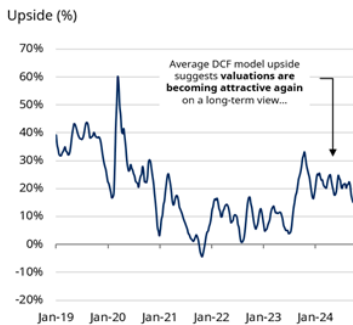


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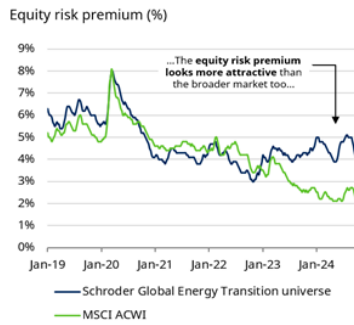
Energy transition valuations

Our company models suggest value is emerging and equity risk premia is improving

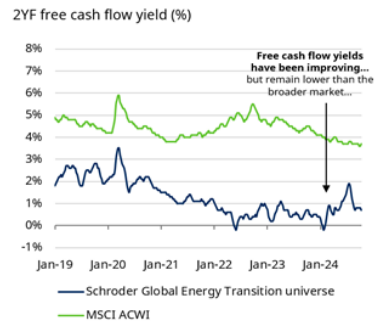
Average company model upside for energy transition universe*1



Average equity risk premium for energy transition universe*2



Average 2YF free cash flow yield for universe*3



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We would stress that investors should still be prepared for near-term volatility. With cyclical headwinds still in place (interest rates, weak consumer demand, etc.) and potential new policies disruptions to come, there is still some uncertainty ahead near-term. This may mean we do not see an immediate recovery – but instead have to be patient and wait for earnings visibility longer-term. But if you believe, as we do, that in three to five years, the world will be installing more renewables, selling more EVs, and building more storage, even with a less favourable US leadership regime, then the long-term outlook for sustainable energy equities still looks robust from here – especially with valuations across the sector now very much reset.

Our key focus going forward is to be on watch for potential earnings inflections across the universe as this investment cycle bottoms, and we believe this is now the most important driver for future near-term returns. While the election may have some impact here in the very short-term, potentially pushing the recovery for some sectors and companies to the

right to a degree, we think it will be relatively limited when the dust settles, and we believe that when earnings do stabilise and eventually turn, the attractive valuations in the market today create potentially very attractive risk-reward.