

U.S. Election 2024: Biden's Energy/Climate Policies At A Crossroads

- The two presidential candidates have vastly different energy policies and opposing views on climate change.
- A Harris victory would mean a continuation of the Biden Administration's climate and energy policies, which would favor renewable/green energy stocks and industrial sub-groups leveraged to the buildout of clean energy infrastructure and grid modernization at the expense of the conventional energy sector.
- Under Trump, efforts to decarbonize would slow, and there would be an easier regulatory environment for fossil fuels, with conventional energy companies and automakers benefiting, while the share prices of renewable/green energy and industrial firms linked to clean energy investments would weaken on fears that some of the government subsidies supporting these investments will be at risk.
- However a full-scale repeal of the climate provisions of the Inflation Reduction Act is unlikely, even in a Republican-sweep scenario.
- The actions of either candidate will have a limited impact on oil prices, which are determined in international markets and are influenced by a number of other factors including global economic prospects, geopolitical events, and the behavior of producers.

Energy and climate policy are near the top of the list of issues that could face changes depending on election outcomes. The two presidential candidates differ on how to address climate change and energy security. Vice President Kamala Harris is an anti-pollution advocate, who as a California Senator, sponsored the Green New Deal, a sweeping set of proposals that were designed to transition the U.S. economy away from fossil fuels, and which failed to win approval in Congress. She cast the tiebreaking vote that resulted in the passage of the Inflation Reduction Act (IRA), President Joe Biden's signature climate legislation. Former President Donald Trump, on the other hand, is a climate skeptic who supports the development of fossil fuels, extensive rollbacks of environmental regulations, and a scaling back of renewable energy policies.

This report analyzes the contrasting energy/climate policy agendas of the two presidential candidates and their potential impacts on the energy sector and other associated groups.

The two presidential candidates differ on how to address climate change and energy security

Policy Platforms

Below, we provide an overview of the main elements of the energy/climate policy positions of each candidate.

Harris

Harris has been deliberately ambiguous about her energy/climate policy goals to avoid alienating fossil fuel advocates in the key battleground state of Pennsylvania, as well as young voters who support tackling climate change. Although she no longer favors a ban on fracking, Harris is likely to maintain an adversarial stance towards the fossil fuel industry. As president, she would adhere closely to the Biden Administration's climate policies and likely would pursue the following objectives:

- Spending the available funds from the IRA and the bipartisan infrastructure bill passed in 2021, which also contained environmental and climate investments.
- Defending and implementing the various rules enacted by President Biden to fight climate change, including policies that limit greenhouse gas emissions from coal-fired plants and reduce tailpipe emissions from cars and trucks.
- Reining in oil development on public lands by limiting lease sales, increasing the royalty rates that fossil fuel companies pay the government to drill on public lands, and delaying the permitting of pipelines.
- Continuing to provide subsidies that promote the adoption of electric vehicles (EVs) and the transition to green energy.

Harris is likely to maintain an adversarial stance towards the fossil fuel industry

Trump

Trump's energy policies are focused on championing the growth of the domestic fossil fuel industry, with the goal of lowering the cost of energy and reinforcing U.S. energy independence/dominance, to the ostensible benefit of American industry. If elected, he has pledged to withdraw the U.S. from the Paris Climate Agreement for a second time. Most of Trump's energy policies are the opposite of those that would be pursued by Harris and include:

- Boosting domestic oil and gas production by making it easier for companies to obtain drilling permits and leases on federal lands and waters, offering tax breaks to oil, gas, and coal producers, and speeding up the approval of natural gas pipelines.

Trump's energy policies are focused on championing the growth of the domestic fossil fuel industry

- Promoting U.S. energy exports and ending the pause on new LNG natural gas projects.
- Rescinding the unspent funds under the IRA and dismantling parts of the law, including repealing some of the tax credits for renewable energy and EVs.
- Weakening the powers of the Environmental Protection Agency (EPA), rolling back federal environmental regulations designed to cut pollution from fossil fuel-burning power plants, reversing the automobile emission standards issued by the Biden Administration, and lessening restrictions on PFAS ("forever") chemicals.

Trump wants to end the pause on new LNG natural gas projects

Table 1 provides a summary of the major energy/climate policies of Harris and Trump, and their potential impacts on the energy sector and other related industries, which we examine in greater detail in the next section.

Table 1 Summary Of Energy/Climate Policy Proposals And Their Impact On The Energy Sector And Other Associated Groups

Proposal/Policy Stance	Candidate	Impact On Energy Sector And Related Groups	Comments
Implement the provisions of the IRA in a manner that is consistent with fighting climate change	Harris	Positive for renewable energy companies, EVs, and industrials leveraged to the buildout of renewable energy infrastructure and grid modernization; long-term positive for utilities	Subsidies for renewable energy and EVs could be modestly expanded in a Democratic-sweep scenario
Keep restrictions on oil and gas drilling on public lands and waters	Harris	Negative for the broad energy sector at first, but may be positive in the longer term if decreased supply levels contribute to higher oil and gas prices	Oil production grew rapidly under Biden, underscoring that lower lease approvals do not spur an immediate drop in output
Continue efforts to reduce greenhouse gas emissions through the actions of the EPA	Harris	Negative for oil and gas producers, chemical companies, ICE vehicle manufacturers, and utilities with coal-fired plants	The overturn of the Chevron Doctrine will expose the EPA to more court challenges
Boost domestic oil and gas production by reducing the regulatory burden on fossil fuel industries	Trump	Positive for the broad energy sector in the near run, but may be negative over the longer term if increased supplies pressure oil and gas prices	Not clear that oil and gas producers will follow Trump's directive to produce more given their embrace of greater capital discipline in recent years
Rescind the unspent funds under the IRA and repeal certain tax credits and subsidies for renewable energy and EVs	Trump	Negative for renewable energy companies, EVs, and industrials leveraged to the buildout of renewable energy infrastructure and grid modernization; long-term negative for utilities	Easier to accomplish with Republican control of Congress; even so, a full repeal of the IRA is unlikely given that several Republican states are benefiting from the law's climate investments
Weaken the power of the EPA and roll back environmental regulations	Trump	Positive for oil and gas producers, chemical companies, ICE vehicle manufacturers, and utilities with large carbon footprints	Mostly achievable through executive actions, but it could still take time to roll back environmental regulations given the rulemaking process and likely legal challenges

Outcomes And Implications

Figuring out which candidate's policies are better or worse for the fossil fuel industry is less straightforward than it appears at first blush. As president, Harris would continue to promote green energy investments at the expense of hydrocarbon growth. However, the barriers to drilling that she would espouse could support oil and gas prices, to the benefit of the energy sector's profits. While a Trump Administration would seek to ease restrictions on drilling activity, the resultant increase in supplies may hamstring commodity prices all other things being equal, with detrimental effects on the profits of oil and gas producers.

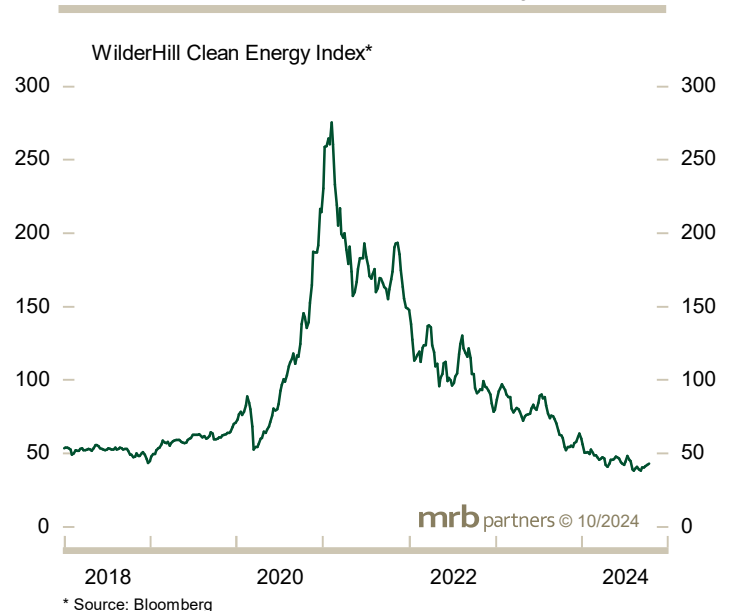
Furthermore, there are a raft of other factors that could overwhelm the policies of either candidate in driving the performance of the energy sector including the global economic outlook, geopolitical events, industry dynamics, domestic political realities, and anti-regulation courts.

Overall, the impact of a Harris presidency on the energy complex is likely to be more muted. Harris would continue to enforce/implement the Biden era climate and energy laws, and if the Democrats control both Congressional chambers, they could pass additional climate-related legislation, although any new policies would be minor in scale compared with what has been enacted during Biden's term in office.

Renewable/green energy plays such as solar, wind, and EV stocks would likely see a relief rally if Harris were to win the election. After surging in 2019-2020, clean energy stocks, as depicted by the WilderHill Clean Energy Index, have reversed all of their prior gains in recent years due to higher interest rates, disappointing earnings results, and investor apathy towards small caps (chart 1). Sentiment towards the group has remained cautious ahead of the election due to concerns that a potential victory by Trump could put funding for renewable/green energy projects in doubt. Assurances that subsidies for the transition to clean energy will remain in place could spur a rebound in their performance.

In addition, a host of industrial companies would continue to benefit from the green energy provisions of the IRA and the bipartisan infrastructure package. These include engineering and construction firms that specialize in the buildout of renewable

Chart 1 Clean Energy Stocks Have Been In A Bear Market Since Early-2021



Harris will continue to enforce/ implement the Biden era climate and energy laws

Assurances that subsidies for the transition to clean energy will remain in place could spur a rebound in the performance of renewable/green energy stocks

energy infrastructure, companies in the electrical equipment sub-group that provide transmission systems to modernize power grids, and firms supplying climate-control systems (i.e. HVAC equipment) that improve the energy efficiency of buildings and homes to help meet long-term decarbonization goals.

The [impact of a Harris victory on utilities](#) would be more nuanced. Regulated utilities, which comprise most of the sector, are allowed to earn returns on capital investment. Therefore, they would potentially see long-term revenue tailwinds from the increased spending to modernize power grids and build out renewable energy sources that would continue to be supported under a Harris Administration via the grants and subsidies provided by the IRA. However, in the near run, the sector would face higher decommissioning costs and asset impairment charges associated with greater regulatory pressure to retire coal-fired plants.

Conversely, the conventional energy sector and its main sub-groups (i.e. integrated oil & gas, E&P, energy equipment & services, oil & gas storage and transportation, refining, and coal producers) would fare less well under a Harris presidency, all else being equal. Attempts to slow the growth of hydrocarbons would continue with Harris in the White House. Such efforts will include delaying the issuance of drilling permits and making it more costly for oil & gas companies to drill for fossil fuels by keeping royalties for production on federal lands and waters high. The Arctic National Wildlife Refuge (ANWR) in Alaska would also be kept off limits and delays in approving new fossil fuel infrastructure such as pipelines would persist. By the same token, these measures, to the extent that they limit supply growth, could actually be positive for energy prices and the earnings of the sector in the longer run.

Harris' support for clean energy policies would also maintain pressure on traditional automakers to transition to selling more electric cars, although earlier this year, the EPA gave the industry more time to comply with tougher new tailpipe emission standards in a recognition that the public adoption of EVs will take longer to materialize. While the more gradual roll out of the new pollution standards will provide some breathing room for traditional automakers, they will continue to face a difficult transition away from producing internal combustion engine (ICE) vehicles.

That said, efforts to decarbonize the economy will continue to face limitations. For example, some of Biden's executive orders including the temporary pause on LNG export permits have been challenged in the courts. Legal challenges are expected to



The conventional energy sector and its main sub-groups would fare less well under a Harris presidency, all else being equal

Efforts to decarbonize the economy will continue to face limitations

increase in the wake of the U.S. Supreme Court's recent ruling overturning the Chevron Decision. The new ruling asserts that judges should be responsible for interpreting ambiguous federal laws, rather than deferring to federal agencies. The demise of the Chevron Deference is expected to provide new avenues for industries to challenge their regulators and could weaken the authority of agencies such as the EPA.

According to the American Petroleum Institute, only 24% of oil and 11% of natural gas output are produced on federal lands and waters, which limits the ability of policymakers to influence production and investment levels. Indeed, U.S. oil production has grown strongly under the Biden Administration and is near an all-time high despite policies favoring green energy development (**chart 2**).

The strong expansion in the industry's output in recent years partly reflects the delayed impacts of leasing and permitting that occurred prior to Biden's tenure in office. As **chart 3** highlights, **new leases issued increased significantly during Trump's term as president, which has spurred drilling during the years of the Biden Administration, even as new lease sales have fallen sharply under Biden.** Growth in New Mexico's Permian Basin has also been an important contributor to overall U.S. oil production growth. **The wheels for New Mexico's emergence as a significant Permian producer were set in motion long before Biden took office and have been sped up by technological advancements in oil extraction, reinforcing that federal policies have their limits in influencing production and investment levels.**

A Trump victory would have almost the opposite impact on fossil fuel and green/renewable energy companies. Trump's pro-hydrocarbon agenda would benefit the broad energy sector and its constituent sub-groups. His plans to offer tax

Chart 2 Oil Production Has Reached An All-Time High Under The Biden Administration

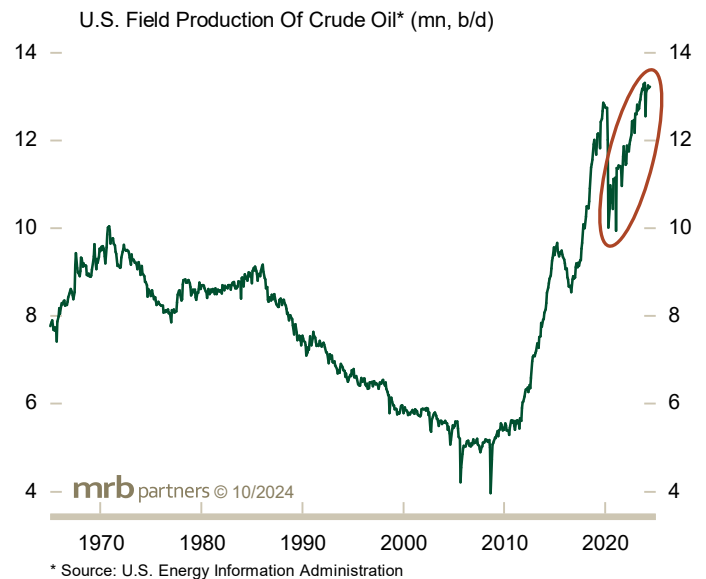
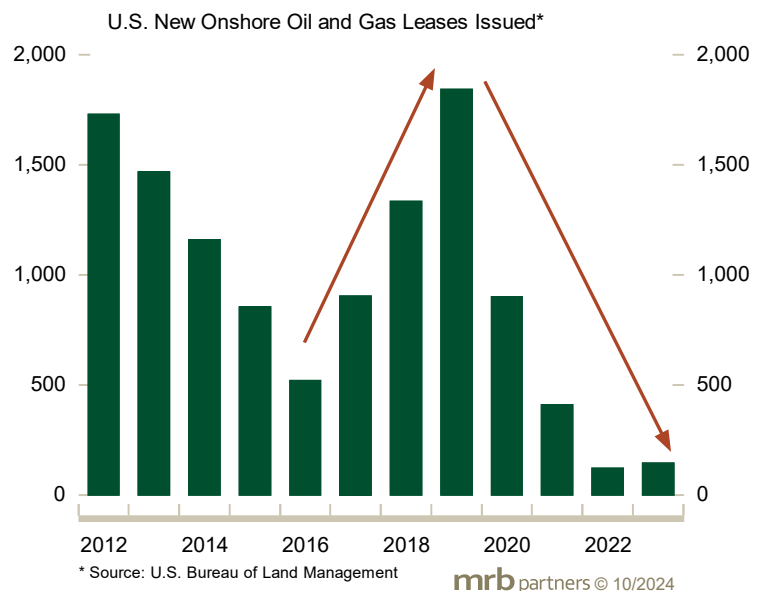


Chart 3 Lease Sales Rebounded During Trump's Term, But Have Slowed Under Biden



breaks to the fossil fuel industry and accelerate permitting would lower operating costs for oil and gas producers and spur more drilling activity. The latter would boost the sales of energy equipment & service companies who would see U.S. demand for drilling rigs and oilfield services pickup. Midstream energy companies (i.e. MLPs) would also benefit from the speedier approval of natural gas pipelines under a Trump Administration, while the lifting of the moratorium on new licenses for LNG terminals would open up new export opportunities for LNG producers.

While Trump would be friendlier towards the energy complex, his policies could lead to a potentially wider range of outcomes for energy prices and the sector. More drilling could put downward pressure on oil and gas prices, if it leads to faster supply growth. However, it is far from certain that producers will respond to a more relaxed regulatory environment with an aggressive increase in production given their greater embrace of capital discipline in recent years and concerns that Trump's friendlier policies could prove short lived (i.e. flip again after future elections).

Irrespective of the impact of Trump's energy policies, his plans to impose tariffs on imported goods into the U.S. would be bearish for oil prices to the extent that the protectionist trade policies dampen global economic growth and weigh on oil demand. On the other hand, a second Trump term could also lead to the re-imposition of heavy sanctions against Iranian oil exports, which would be supportive of oil prices.

These factors underscore that there would be many crosscurrents impacting the outlook for oil prices under a Trump victory, thus adding complexity to forecasting how his policies will ultimately impact the energy sector.

Trump's desire to weaken the EPA's authority and pledge to dismantle the climate rules enacted by the Biden Administration would potentially reduce regulatory burdens and costs for a wide swath of companies, ranging from ICE vehicle manufacturers to chemical producers and utilities with relatively large carbon footprints. While such efforts met with mixed success during his term as president, a second Trump Administration could be more effective at implementing a sweeping agenda to roll back federal environmental regulations given the U.S. Supreme Court's conservative supermajority and the recent overturning of the Chevron Doctrine.

In addition, unlike when Trump was elected president in 2016, this time there are well documented plans by conservative loyalists to handcuff the EPA with significant budget and staff cuts. Regardless, major changes to environmental regulations would still be subject to legal challenges and require following the rulemaking process, which could take years, rather than months to work through.

Trump's policies could lead to a wider range of outcomes for energy prices

A second Trump Administration could be more effective at implementing a sweeping agenda to roll back federal environmental regulations

On the flip side, renewable/green energy companies would face greater uncertainty under a Trump victory, especially if Republicans also sweep the Congress. Trump has vowed to rescind all of the unspent funds earmarked for climate provisions in the IRA. If armed with Republican majorities in the House and Senate, he could seek to roll back the clean energy programs in order to help fund an extension of the tax cuts expiring in 2025. Such actions would put EV tax credits at risk and jeopardize the subsidies supporting the buildout of renewable energy projects, thus casting uncertainty over the earnings prospects for EV makers, solar and wind companies, utilities, and industrial firms with exposure to clean energy infrastructure.

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However, even in the event of Republican control of the Congress, a full-scale rollback of the IRA climate provisions is unlikely given that the investments funded by the law are benefiting GOP districts. Furthermore, there is support among some Republican lawmakers for preserving tax credits for green technologies such as hydrogen and carbon capture.

Table 2 lists the potential winners and losers under each candidate based on the above discussion.

Table 2 Potential Winners And Losers Under Each Candidate's Energy/Climate Policies

Harris Victory		Trump 2.0	
Winners	Losers	Winners	Losers
Solar, wind, and EV companies Electrical Equipment Engineering & Construction Building Products (HVAC companies)	Broad energy sector Chemicals ICE vehicle manufacturers	MLPs, LNG Producers Energy Equipment & Services Coal producers Chemicals ICE vehicle manufacturers	Solar, wind, and EV companies Electrical Equipment Engineering & Construction Building Products (HVAC companies)

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Final Word: Harris and Trump have vastly different energy policies and opposing views on climate change. A Harris victory would mean a continuation of the Biden Administration's climate and energy policies, which would favor renewable/green energy stocks and industrial sub-groups involved in the buildout of clean energy infrastructure and grid modernization (i.e. engineering & construction, electrical equipment, and building products) at the expense of conventional energy companies. Under Trump, efforts to decarbonize would slow, and there would be an easier regulatory environment for fossil fuels, with the conventional energy sector and traditional automakers benefiting, while the share prices of renewable/green energy and industrial companies linked to clean energy investments would likely weaken, especially in a Republican-sweep scenario. That said, the trajectory of oil and gas

***A full-scale
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prices and the prospects for the energy sector's earnings are much more likely to be determined by global macro forces and geopolitical factors, rather than the policies of the two candidates.

For now, we remain overweight the energy sector based on our view that oil prices have discounted an overly-pessimistic outlook for global economic growth. Energy stocks are also a hedge against rising geopolitical tensions in the Middle East.

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