Has Trump Killed Profits From Renewables?

Retrieved Tuesday 13th of June 2017 05:45:19 PM

The dust has settled on Donald Trump's momentous Parisian climate agreement pull-out. It's a good time to reflect on what this means for your investments.

Is now a good time to ditch renewables?

I'd like to think that *Exponential Investor* is well placed to answer that. Energy, and environmental limits, are two key themes of our coverage. Presently, the two are intertwined intimately – and that's a global problem. Most of your energy currently comes from dirty fossil fuels – despite recent surges for solar and wind.

Fossils are non-renewable – so you can only dig them up once. We could exploit unconventional sources – but this will likely raise costs. Further, fossils are damaging the climate, just as surely as they are risking our health, via air pollution. No amount of tweeting about Chinese hoaxes will change physics.

You might think that I'd be deeply troubled by Trump's decision. I'll admit, it's not good news – not least because multilateralism is important for keeping the world a (relatively) cooperative and peaceful place.

When it comes to the climate impacts of Trump's Paris pull-out, I'm relaxed

The US decision is politically significant, but its climate effects will be muted. The US is a big emitter, but it's only a part of the global total. What's more, the global political tide is against Trump. Even oil majors, such as the far-from-blameless Shell and ExxonMobil, have criticised his decision. Condemnation from the general business community has been broadly universal. Firms from Facebook to Kellogg's have lined up to criticise Trump's decision – and they're hardly small users of energy. Then there's the civic level: states and cities all over the US are sticking to their guns on climate: Hawaii, LA, New York and California have all reaffirmed their commitments, in various ways. Even Pittsburgh – specifically called out by Trump, in his withdrawal speech – immediately hit back at the president's decision. Simply put, much of the political change is already locked in – regardless of The Donald's attempts to turn back the clock.

Despite momentum from cities and firms, it's hard not to see a future in which US emissions will be affected by the decision. Expect a legislative, regulatory and fiscal dismantling of climate incentives – and a commensurate investment impact. Globally, this is problematic – but not catastrophic. The US is important to the climate, but it's not the whole story. Unburdened by a laggard US, the rest of the world is potentially free to forge a tighter, more ambitious deal. If this does happen, my expectation is that this could more than offset the increased American emissions. Furthermore, US presidents are a bit like colds – even the worst of them passes, eventually. It's unlikely that Trump's abrasive approach will be followed by all subsequent administrations – so expect a delay, not a termination, in US climate action.

But, as we've said before, the real story here isn't political – it's economic. Yes, you can do a lot with energy efficiency. For example: taxation is a big reason why people choose smaller, more efficient cars. However, the key reason that we're currently locked into an economy based on fossil fuels is that they're cheap (for now). Using them more efficiently might alleviate the problem – but will not solve it.

Renewables are the game-changer

As we're fond of saying in *Exponential Investor*, the world of energy is rapidly changing. Take the UK, for example: last Wednesday lunchtime saw renewable energy sources supply half of UK electricity demand, for the first time. Add in nukes, and the country topped 70% low-carbon electricity.

While subsidies have played a role, the key long-term economic driver is the price of solar. Currently, the world's cheapest *new* electricity is from solar power – not fossils. That balance is only tipped in sunnier places, and only in the daytime (presently, storage is possible, but costly). Furthermore, legacy fossil plant is often still cheaper than renewables – as the capital costs are sunk, and only operating costs need now be factored into the decision.

However, the price of solar is falling like a stone. It's halving every seven years – as improving technology, and economies of scale, impacts on costs. This means there's an ever-expanding space within the energy economy, where solar is the cheapest option. This will expand geographically, as well as in other ways. When coupled with storage and high-voltage transmission lines, solar will expand temporally – further into twilight hours, and darker seasons. The ability for solar to stand independently of grid infrastructure means that it will be an increasingly attractive option for powering remote applications – everything from parking meters, to African villages. Unlike wind, solar is cheap at small scale, and there are no real limits on the amount of power we could ultimately tap.

As Margaret Thatcher famously said: you can't buck the market

The increasing economic competitiveness of renewables means that Trump's attempt to revive fossils is utterly doomed. Despite the world's increasing population, the writing's on the wall for this industry. Coal, the dirtiest fuel of all, will be first to go. Already, the UK power sector is hardly using any at all – and we also use trivial amounts for heating. Only specialist applications, such as metallurgical coal, are safe in the medium-term.

Similarly, in recent weeks, we've seen a sudden, seismic transformation in the auto industry. Shocked to the core by Tesla's meteoric rise, and shaken by the dieselgate backlash, the world of big auto has suddenly pivoted to embrace the electric car revolution. Ford, Volvo and Volkswagen are leading this corporate pirouette – but even the laggards are soon to follow. That's going to damage the oil industry's prospects, in the medium-term. Gas will stick around for a while, as it's a flexible bridge fuel – and the gas grid can also accommodate lots of renewable energy. (Check out ITM Power, for an example of power-to-gas technology.)

So, how can you profit?

Frankly, the investment strategy I'd recommend is unchanged by Trump's Canute-like attempts to turn back the renewable energy tide. Solar + storage is coming, whether he likes it or not. You should continue to clear out fossil fuels exposure from your portfolio, and make sure you're leveraged to the renewables revolution. And, as for climate impacts, you should still be preparing for a very bumpy ride – Paris, or no Paris. International action on mitigation won't be enough to stop serious climate impacts, and geoengineering is now our only viable option for reducing the problems.

If you're looking for specific investment opportunities, take a look at our "white diesel" information update. It will tell you how to configure your portfolio to take advantage of a key renewable energy commodity.

What do you think will happen to energy, after the US leaves Paris? Please do let us know your views – andrew@southbankresearch.com.

Best,

Andrew Lockley
Exponential Investor