FMBusinessDaily

Will the energy transition become an investment megatrend this year?

2 years ago

Insight from Nigel Green, deVere Group CEO and founder

This year could be the year we see the energy transition become one of the investment megatrends as interest rates around the world will likely be slashed.

Although central banks across the globe are still holding rates steady for the moment, predictions are mounting that rate cuts will get underway in the first half of 2024.

Looking back to last year, global investment in the low-carbon energy transition increased by 17% to hit $1.77 trillion, within China again the largest market within the sector, according to a report published by research provider BloombergNEF (BNEF). This is despite an overall growth slowdown in the Asia Pacific region.

Indeed, the APAC region has been at the forefront of investment growth in the global energy transition for several years, yet this growth decelerated last year.

Although China is still the largest market for overall investment at $676 billion, the US, EU and UK outpaced China with a combined investment of $718 billion last year. In order to align with BNEF's Net Zero Scenario, energy transition investment would need to average at $4.8 trillion each year between 2024 and 2030, which is nearly triple the total investment recorded in 2023.

The UK alone would need to almost double the $72 billion spent on energy transition technologies last year between 2024 and 2030 to align with the scenario.

The report also showed an investment of $135 billion in the global clean energy supply chain, including equipment factories and battery metals production for energy technologies last year. This compared to an investment of $46 billion in 2020.

Substantial upfront capital is needed for investment in renewable energy infrastructure, such as utility-scale solar and wind farms. Consequently, when interest rates are high, the return on investment for energy transition projects can suffer an adverse impact. As a result, developers may wait to initiate new projects.

In addition to major transitional initiatives, industries are exploring alternatives to traditional fuels with reduced carbon emissions, like blending hydrogen and natural gas. This strategic change is driven by a dual focus on environmental conservation and economic sustainability.

That said, during times of higher borrowing costs, the focus typically shifts towards financial considerations, likely affecting the pace of investments in environmentally friendly technologies.

Indeed, the transport sector, which is set for innovations in electric vehicles (EVs), hydrogen-powered vehicles, biodiesel, and compressed natural gas has encountered a series of problems in justifying new projects during times of increased interest rates.

Furthermore, higher rates have become an additional pressure for consumers.
The appeal of adopting electric vehicles or investing in residential solar diminishes when faced with higher borrowing costs.

When it comes to consumers, the financial implications of these choices become more obvious, likely impacting the speed at which sustainable technologies are adopted.

Nevertheless, despite the stumbling blocks, there is still a highly positive outlook for the shift to sustainable energy.
The enduring importance of the long-term investment outlook is highlighted, as businesses remain committed to environmental goals, while governments worldwide provide financial support to facilitate the transition.

So, as we look ahead to the remainder of this year and beyond, we will likely see a change in narrative. Whereas the energy transition has previously been affected by high interest rates and inflation, it’s likely that we’ll see a rise in investments towards energy transition initiatives.

Coupled with the increasing global emphasis on environmental sustainability, 2024 may mark the beginning of a significant megatrend in energy transition investments.