Canaccord Genuity
Wealth Management

ESG investment commentary
September 2024

Key highlights this month

- August was a volatile month for global equity markets with stocks again reacting negatively due to continued fears of a recession in the US and the unwinding of the 'carry trade' (borrowing or selling a low-yielding currency to fund the purchase of a higher-yielding currency) in Japan
- Bond markets and defensive sectors proved more resilient during the market rotation
- ESG risk models all performed well on a relative basis, with healthcare and water themes offsetting weakness in technology
- Models generally performed in line or ahead of non-ESG benchmarks, with lower risk-strategies faring better due to greater exposure to fixed income and alternatives.

After several torrid years, clean energy investments have been performing better, with the S&P Global Clean Energy Index outperforming the S&P 500 since early July.

Portfolio performance

All ESG strategies were ahead or in line with their benchmarks in August.

Sustainability and thematic investing in lower risk profiles

After several torrid years, clean energy investments have been performing better, with the S&P Global Clean Energy Index outperforming the S&P 500 since early July. Despite significant policy support and heavy investment in the clean energy sector, investors have not seen these efforts fully reflected in portfolio performance over the past few years. The reasons are clear: clean energy investments are highly dependent on government spending and are particularly sensitive to interest rate changes. Additionally, they are cyclical, with many classified as utility stocks, which tend to decline when rates rise. Another factor has been the issue of overcapacity. In response to the Russian invasion of Ukraine, Europe secured vast quantities of all energy types, including renewables, leading to a surplus, which has persisted.

Despite these short-term obstacles, the long-term outlook for clean energy - especially solar - remains bright. COP28 set a target to triple global renewable power capacity by 2030. Renewables are on track to surpass coal as the dominant source of electricity generation by next year and are projected to account for over 42% of global electricity generation by 2028, according to the International Energy Agency. China is leading the way, expected to contribute nearly 60% of new renewable capacity globally by 2028. Meanwhile, the Middle East and North Africa are rapidly expanding their renewable infrastructure and falling costs have made renewable energy even more competitive.

However, challenges remain in certain sectors of clean energy, particularly in the wind industry in Europe and North America. Supply chain issues, rising costs and slow permitting have hindered

growth, with offshore wind seeing particularly disappointing projections. This highlights that clean energy investing is likely to remain cyclical and volatile. But given the strong long-term potential, this higher risk could lead to greater rewards for some of the active managers we use. On the flip side, areas like grid modernisation and data centre expansion, driven by trends in Artificial Intelligence and reshoring of global supply chains, are seeing strong investment flows. Upgrading the grid is critical to the energy transition and offers active investors attractive opportunities in this rapidly evolving landscape.

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Changes

We made no changes during the month.

Positioning

We have a neutral position in equities, a marginally overweight position in fixed income and a marginally underweight position in alternatives. Geographically we continue to have over half of our equity exposure in the US, and an overweight to developed Europe, particularly the Nordic economies.

Outlook

We continue to have conviction that despite August being a volatile month, the general trend of falling interest rates and market rotation from the 'magnificent seven' (the mega-cap tech stocks, Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla) remains intact and this will provide a better backdrop in some of the sustainability-oriented business we own.

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