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Sheet 1 / 1

FUNDS International tensions and rising interest rates have triggered a portfolio turnover that penalises companies actively combating climate change. But for managers, the outlook remains steady.

It's just an energy drop

by Paola Valentini

The bill has arrived. Italian households are now discovering how much more they have to pay after the gas price hikes of recent months. These increases can be as much as 200% in the winter months. The winds of war blowing from Moscow to Kiev have taken the markets on a rollercoaster ride, causing energy prices to soar, with oil prices grazing the $100 mark. Meanwhile, RBC AM conducted a survey among 500 European managers and consultants – including 103 Italians – showing that 97% of Italians (93% Europe-wide) believe that megatrends will play a crucial role in portfolio management over the next 35 years. In particular, 77% (66% Europe-wide) of respondents expect the most promising long-term trend to be climate change and scarcity of resources. So it's no surprise to see the launch of a flurry of new mutual funds, in anticipation of an upcoming wave of green startups. (....) In the early part of the year, funds exposed to climate change and the fight against coal mining performed badly, as opposed to instruments that invest in traditional energies like oil and so on; but it is true that performance improves greatly on an extended time horizon, especially for climate-related sectors. With the focus centred squarely on energy transition issues, one has to ask whether this is the right time to invest in funds exposed to climate change and coal mining opposition.
Angelo Meda, Head of Equities at Banor SIM, points out that on 14 July 2021 the EU presented its “Fit for 55” plan, also known as the Green Deal, containing legislative proposals to achieve a 55% reduction in 1990 greenhouse gas emission levels by 2030, and the further goal of carbon neutrality by 2050. “This announcement drove up the shares of companies exposed to the energy transition and renewable energies, confirming expected growth rates for the future and giving evidence of the political and institutional will to step up the fight against climate change. But only six months later, the situation is in turnaround: renewable energy stocks have since lost more than 30% on average, while oil companies and coal producers have enjoyed double-digit rises,” says Meda. Does this mean the wind has changed? “Certainly not: the estimates say that energy transition will need double-digit growth over the next decade to get close to its targets. But you have to remember that the transition isn't a case of unplugging one wire and plugging in another; it will take time and the right technologies to ensure a smooth changeover. And if we factor in the tensions over the Ukraine, where a good 20 per cent of Europe's gas passes through on its way from Russia, we have to expect years of energy price volatility – something we are already witnessing in 2022,” explains Meda. “From an equity point of view, we must therefore gauge the risks of the energy transition from both angles: the bullish side, driven by higher energy costs in these volatile years, and the bearish side, knowing that the fossil fuel share in the energy mix is destined to shrink anyway”.