15th March 2021

Going Green

Climate change and the ever-noticeable effects thereof, have continued to remain relevant in the ongoing public discourse. With the recent election of Joe Biden to the US Presidency, we have noticed a significant swing in global momentum in recognizing the importance of climate change. Whilst climate change debate has been ongoing for many years, significant advancements in technology have begun to emerge, such as electric vehicles.

In this newsletter, we look at a couple of factors influencing global capital markets plus a short description on the current corporate credit markets.

Biden announces $1,9 trillion Climate Change Plan

As a liberal idealogue, US President Biden consistently has favored the clean energy sector over traditional oil and gas sectors. Campaign promises by Biden, include reversing President Donald Trump's various policy enactments, through halting oil and gas exploration on federal land, enacting programs to promote the use the use of clean energy in the transportation, electricity generation and building sectors. This also extends to increasing the possibilities and opportunities in the infrastructure sector alongside making an impact on climate change.

Currently investors are focused on the upcoming $1,9 trillion stimulus program, which is set to be released within the coming months. This second recovery package should assist in the economies infrastructure and increase clean energy efforts and combat climate change. With this plan we are expecting the following industries to benefit from the increased capital expenditure:

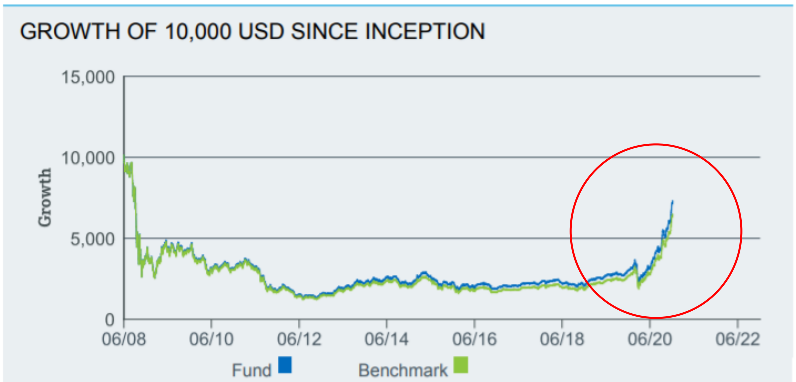
- Industrial firms,
- Material firms,
- Small-Cap businesses, and
- Wholesales.

Multi-national organizations have begun to allocate significant capital to investing in clean energy technologies. Examples include:

- Amazon in 2020, launching a $2 billion climate change fund, to invest in. clean energy and other technologies. The fund's aim is to meet carbon reduction goals of the Paris Climate Agreement by 2040. The fund will invest in aged and brand-new businesses, that have the capability to assist in the protection of the planet.

- Ford announcing that they will be investing $1 billion in a plant in Germany, to assist by 2030, in making in Europe, all their vehicles electric. This investment targets a zero-emissions capable, all-electric motor experience. They are transforming their Cologne facility, the home of their European operations for the past 90 years.

**iShares Global Clean Energy ETF performance*



The Growth of $10,000 chart reflects a hypothetical $10,000 investment and assumes reinvestment of dividends and capital gains. Fund expenses, including management fees and other expenses were deducted.

With governments around the world announcing plans to move away from gas and diesel, Ford and other counterparties are all trying to ramp up the electric car manufacturing to challenge the current electric vehicle leaders, Tesla.
With these announcements and the known enthusiasm for clean energy that Biden promotes we have a seen a major upward drive in this sector throughout global markets and believe that this will continue.

A New Commodity Supercycle?

Since October 2020, as global markets have normalized, commodities prices, such as oil, base, and industrial metals, have rebounded strongly, should this continue for an extended period, we may be witnessing a supercycle (Thus supporting a new commodity super cycle).

A supercycle can be defined as an extended period of booming demand for a wide array of commodities, leading to a surge in their prices followed by a collapse of demand and eventually prices. The last supercycle occurred in the mid-2000's before the global financial crisis and peaked in 2008 as China grew to become a commodity powerhouse.

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The present rally in commodities, has been driven by stimulus spending and the weaker US Dollar. China continues to drive demand, for most commodities, owing to its rapid recovery from the COVID-19 pandemic.

Major analysts, including JP Morgan, have likened the present commodity rally to the 'roaring 20's'. They point out, that the price of commodities, such an oil and platinum, will continue to rise, on the back of constrained oil supplies and demands for metals needed for renewable energy infrastructure, batteries, and electric vehicles.

Veteran commodities investor and chairman of Beeland Interests Inc, Jim Rogers, states:

> *"Oil's future would still be looking good 10 years from now, energy transition will find strong support from governments across the globe, while agriculture would still be one of his favorite investment picks."*

How frothy is the Credit Trade?

Beyond discussions relating to stretched ICT equity valuations, another talking point, is the corporate credit position. Whilst the COVID-19 pandemic has caused a major recession, and V-shaped recovery, the credit market has remained at relative low levels whereby many corporates have raised significant amount of debt, and debt issues continue unabated. These debt levels are significantly higher, than pre-March 2020, albeit at significantly lower costs. During the 2020 pandemic the US investment grade debt sales totaled $1,225 billion for a year, which was more than double the previous year.

These frothy markets have sparked worries of a bubble, specifically in European assets. The recent equity rally and stretched valuations in the European market. We have seen a growing disconnect between prices and the economic reality in various sectors corporate credit markets.