

Thematic Series

Are we now on the road to net-zero?

June 2021

Climate change and the transition from fossil fuels to sustainable energy is arguably the most pressing issue facing the world today. Addressing the issue of how the world produces and consumes energy, and the measures that need to be taken to limit the effects of global warming are now at the very top of the world's political agenda.

The latest report by the International Energy Agency (IEA) – Net Zero by 2050: A Roadmap for the Global Energy Sector – outlines a number of recommendations for achieving net zero carbon dioxide emissions by 2050, which will require massive investments and unprecedented levels of international cooperation.

For example, the report recommends a ramping up of renewable energy, which will drive the transformation of the sector. Renewables will account for almost 90% of energy generation by 2050, compared with 29% in 2020, the report said. Other recommendations include further investment in the charging infrastructure for electric vehicles (EVs) to encourage their uptake.

Simon Webber, Lead Portfolio Manager, said:

"It has been astonishing how, in the grip of a global pandemic, climate change has risen to the top of the political and corporate agenda. Important inflection points have been passed in renewable energy and EVs, where these superior technologies have become cheaper than their fossil fuel alternatives and can now be rolled out fast without the need for major government subsidies. However, valuations also rocketed in these parts of the stock market last year, and it is now in other parts of the transition to a zero-carbon economy that we have the highest conviction.

"Limiting climate change to an eventual 1.5°C increase will require the decarbonisation of all industries in time, and an approximately 45% reduction in emissions by 2030. This means the revolution will also need to spread to sustainable foods, clothing, and housing, and these changes have been far less explored by investors. For example, there will need to be a significant shift towards plant-based proteins and there are several emerging companies that have built strong brands in this area.

"The European Union's Green Deal and lots of government regulations are also set to generate a new investment cycle around the upgrading of buildings to be more energy efficient and to use low carbon sources of heating such as heat pumps. These trends are just emerging but have decades of growth ahead of them if we are to truly decarbonise the global economy."

Isabella Hervey-Bathurst, Global Sector Specialist, said:

"One of the most notable features of climate policy over the last couple of years has been the rise of national and supranational 'net zero' targets. Countries and regions adopting these targets include Europe, the UK, China, South Korea, Japan, Canada, South Africa and several US states. Around 70% of global emissions are now covered by a net zero policy. Converting these long-term ambitions into a concrete roadmap of actions and policies is the next step, and this is why the IEA report is an important contribution to the debate.

"What the report makes clear is that deployment of the existing clean technologies needs to accelerate immediately: this is not tomorrow's trend. The looming 'cut off points' for commonplace consumer goods like gas boilers and internal combustion engine passenger vehicles highlights what a stark break from the past the net zero pathway will be. This applies to the investment world too: the past will not be a good guide to the future and there will be big winners and losers from this transition."

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