AS AT 31.07.2024

Market Review

Global equities did very well in the first half of July, supported by the fall in bond yields triggered by renewed expectations of key rate cuts. As often happens, expectations for the US Federal Reserve's (Fed) monetary policy were the determining factor that led several equity indices (not only in the US) to set new records.

There was then a significant correction. This first hit large tech stocks and prompted some debate about the relevance of artificial intelligence as an investment theme and even more fundamentally, the valuation levels of some stocks after their impressive run of previous months. The 'Magnificent 7' index (the representativeness of which can be discussed) illustrates the movements in recent weeks. These seven biggest US IT stocks that had surged the most lost 12.8% between 10 July (when they were at an all-time high and up by 50.9% year to date) and 25 July. The index then stabilised before rebounding on 31 July when the Fed's monetary policy committee confirmed a likely cut in US policy rates in September.

Technology stocks were not the only ones to struggle in July, which reinforced the assumption of profit taking on stocks, sectors or indices that had outperformed significantly so far. Equity fundamentals remain favourable, as shown in particular by the strong earnings momentum.

Fund Performance & Portfolio Activity

Fund Performance

In July, the BNP Paribas Energy Transition fund rose by +3.31% (Classic, Capitalisation share class, net of fees, NAV-to-NAV with dividends reinvested, in EUR), outperforming its long-term reference benchmark (MSCI ACWI) which returned +0.64%.

Largest contributors

Relative to the long-term reference benchmark (MSCI ACWI) and our thematic reference indicator, our biggest positive contributor to relative performance in July was our holding in Sunnova. Sunnova reported a strong Q2 2024 result with cash generation higher than market expectation and the company also increases cash generation targets for FY (Full Year) 24, FY25 and FY26. More importantly, the company expects to generate $850m of cash until the end of FY26. Including the $250m cash currently sitting in its balance sheet, this is more than enough to address the maturities due in 2026. We continue to maintain our high conviction in Sunnova and see the upgrade in cash guidance from the company supporting our view that the market underappreciates its ability to generate cash as they benefit from the Investment Tax Credits (ITC) and the bonus credits and has a number of levers to pull to address the 2026 maturities.

SunRun was the second biggest contributor to positive performance relative to the MSCI ACWI and also contributed positively to performance versus the thematic reference indicator.

Relative to both the reference benchmark (MSCI ACWI) and our thematic reference indicator, our exposure to

Source: BNP Paribas Asset Management as at 31 July 2024. **Past performance is not indicative of current or future performance.** The above views represent our judgement as at the date of this report and may be subject to change without notice. Any economic and market trends/forecasts are not a guide to future performance of the fund. The funds/securities mentioned above are for illustration only and shall not constitute any investment advice. Calendar year performance: 2023: -25.77%, 2022: -35.22%, 2021: -16.85%, 2020: 188.38%, 2019: 2.55%

Siemens Energy also contributed positively to performance, as did our holding in Tesla.

Siemens Energy performance benefited from a positive read across from its main peer, GE Vernova, after it reported a strong Q2 result and raised FY 2024 guidance citing strong performance from electrification/grid business. Siemens Energy is also seeing strong momentum in its grid technology business as the Head of the Grid Technology mentioned in his interview with the Financial Times in early July that he expects the business to get to €18-20bn revenue by 2030, which implies a 14-16% CAGR (compound annual growth rate) 2023-2030.

Largest detractors

Relative to both the thematic reference indicator as well as the long-term reference benchmark (MSCI ACWI) amongst the largest detractors were Fluence Energy, Renew Energy and Vertiv. Vertiv performance was negatively affected by a broader sector rotation while underlying demand for data centres and associated infrastructure continues to be strong. It reported a strong Q2 result beating expectation and raised FY24 outlook.

Key Portfolio Activity

In July, we remained invested in our higher conviction solar and storage names that we had increased exposure to since May given more attractive risk/reward. We initiated on Hangzhou First Applied Material, the largest solar film producer with a leading market share globally, and a meaningful cost and scale advantage that also leads to higher gross margins than peers. We see a more favourable set up in the second half for the Chinese solar industry after industry association and National Energy Administration called for measures to address industry overcapacity issue and we have seen some signs of industry consolidation recently.

We tactically took profits on Tesla before Q2 earnings as we see potential downside to margins while EV deliveries remain more challenging this year as the company prepares to launch a low cost model next year and robotaxi in the longer term. We also divested from Albemarle as we continue to see pressure on lithium price as inventories continue to build up in China while companies have not announced meaningful production cuts yet, but we remain constructive in the long term.

Fund Outlook

The environmental theme continues to be challenged despite record low valuations and significant catalysts in sight. Despite the Fed leaving interest rate unchanged in the July meeting (we had strongly argued that Fed should have cut 25bps given the weakness in the data), rate cuts are now firmly on the agenda as the market is pricing in interest rate cuts of 130bps by the end of the year (as of 05/08/2024) after weak job data and a higher unemployment rate than expected in the US.

We see a very favourable setup for the clean energy space in the second half of the year marking a reversal of what has challenged the thematic in the past 3 years, given:

1. Interest rates: Rate cuts firmly on the agenda (Bank of England cut rates by 25bps in their July meeting)
2. Excess demand: Demand for renewable energy remains strong as shown by the good Q2 earning season

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so far

3. Valuations: continues to stand at all-time lows
4. Breadth: Markets broadening out to areas with value and energy transition thematic being one of the least crowded themes in the market
5. Politics: Market not pricing in the increasing probability from Democrats and Kamala Harris on the US presidential election. Having gone by largely un-noticed by investors is Trump's recent U-turn and support for electric vehicles and several moderate Republicans (John Curtis, Utah, and John Giles, Arizona voicing support for a continuation of the climate policies within the Inflation Reduction Act (IRA).

We believe that the longer-term secular thematic and direction remains unchanged with tangible evidence of strong demand for renewable energy capacity across solar, wind, energy storage driven by a significant rise in power demand from broader electrification and data centre build out, linked to the Artificial Intelligence ("AI") theme. We have also seen Mergers & Acquisitions (M&A) pick up in the clean energy space and power prices in the US continues to rise making an even stronger case for cheaper alternatives.

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DISCLAIMER

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