

For investment professionals only

## Why momentum for climate action is growing

Randeep Somel, fund manager, M&G Investments

In what has been a very volatile start to the decade for global society, it is vital that we do not lose sight of the long-term challenge of climate change.

Urgent action is needed this decade if we are to change the trajectory of carbon dioxide (CO<sub>2</sub>) in the atmosphere, and so limit the rise in global temperatures.

## Climate solutions.... more than just renewables?

Over half of global CO<sub>2</sub> emissions are caused by power generation, so the transition to renewable energy is critical to combatting climate change.

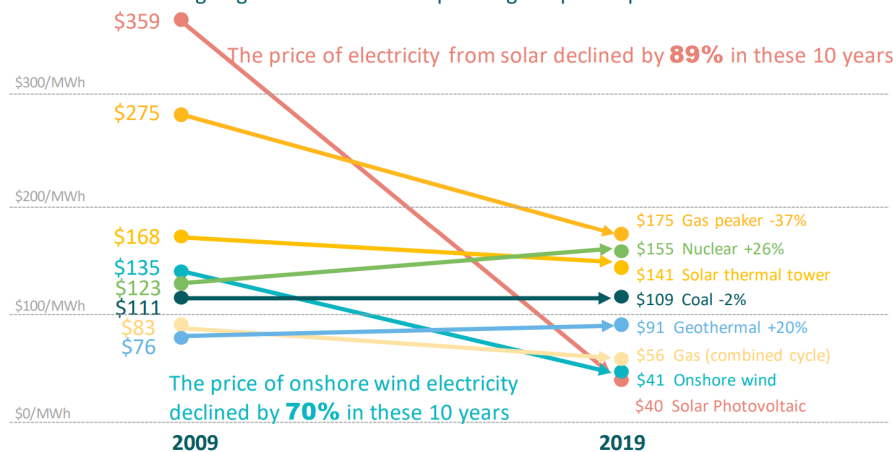
While subsidies for renewable power have been in the process of being phased out for some time, this is a positive step, not a negative one. As scale has increased and technology has improved, solar and wind generation are now highly competitive, even without support.

The cost of solar generation is only one-tenth of what it was a decade ago. Even after recent declines in natural gas prices, both solar and onshore wind are now cheaper alternatives to generating electricity using natural gas<sup>1</sup>.

## Decarbonizing power

### The price of electricity from new power plants

Electricity prices are expressed in 'levelized costs of energy' (LCOE). LCOE captures the cost of building the power plant itself as well as the ongoing costs for fuel and operating the power plant over its lifetime



Source: Lazard Levelized Cost of Energy Analysis, Version 13.0. OurWorldinData.org, December 2020.

Yet renewable energy alone will not be able to address the climate emergency. We need to look at other sources of carbon emissions and invest in solutions.

Buildings are one of the biggest consumers of energy, for instance, but improved technology enables them to be more efficient today. By way of example, Danish-listed company

<sup>1</sup> [Projected Costs of Generating Electricity 2020 – Analysis - IEA](#)

ROCKWOOL provides stone wool insulation that can vastly reduce the energy consumption of homes and offices.

Moving to a more circular economy will play a significant role in reducing emissions. By 're-using, reducing and recycling', we can cut landfill waste and reduce the virgin materials required for new products. An example is US-listed decking producer Trex, which makes outdoor decking from recycled plastic as a lower-emission alternative to traditional timber decking.

According to some estimates, up to 45% of non-energy greenhouse gases could be addressed by moving to a circular economy<sup>2</sup>.

### **The US and China: Enter the Eagle and the Dragon**

I believe the prospects for global progress towards addressing climate change were transformed in the space of six short weeks in 2020.

On 22 September 2020, President Xi Jinping of China announced that China would adopt more vigorous climate-related policies and measures. In practice, these would see China achieving a peak in carbon dioxide emissions before 2030 and carbon neutrality before 2060.

Then, on 3 November 2020, the US elected President Joe Biden who made climate change one of the key planks of his campaign. Since taking office, he has returned the US to the Paris climate agreement and plans to restrict oil and gas drilling on public lands and waters, among other initiatives.

While European governments have taken a lead on climate action, the awakening of both the Chinese and US governments will provide the much-needed impetus to reach our carbon targets over the coming decades.

For long-term investors concerned about climate change, I believe now is the time to focus on clean energy, green technology and the circular economy. These will be key areas for investment and growth as we transition to a carbon neutral world over the coming decades.

The views expressed in this document should not be taken as a recommendation, advice or forecast.

**For financial advisers only. Not for onward distribution. No other persons should rely on any information contained within.** This financial promotion is issued by M&G Securities Limited which is authorised and regulated by the Financial Conduct Authority in the UK and provides ISAs and other investment products. The company's registered office is 10 Fenchurch Avenue, London EC3M 5AG. Registered in England and Wales. Registered Number 90776.

---

<sup>2</sup> [Completing the Picture - New paper tells how the circular economy tackles climate change \(ellenmacarthurfoundation.org\)](https://ellenmacarthurfoundation.org)