Risky transition?

There is a rising need for capital to meet green objectives...

Some countries are planning on decarbonizing their electricity generation sectors by 2035 introducing legislation on carbon reduction.[1] (The UK government has created a law for the climate change target of cutting emissions by

78% by 2035 compared to 1990 levels).[2]

More than half of the

US$100tn

investment is required in emerging markets (EMs) – more investment will be needed in the BRICS (Brazil, Russia, India, China and South Africa) than in the G7.[3]

Around

US$20tn

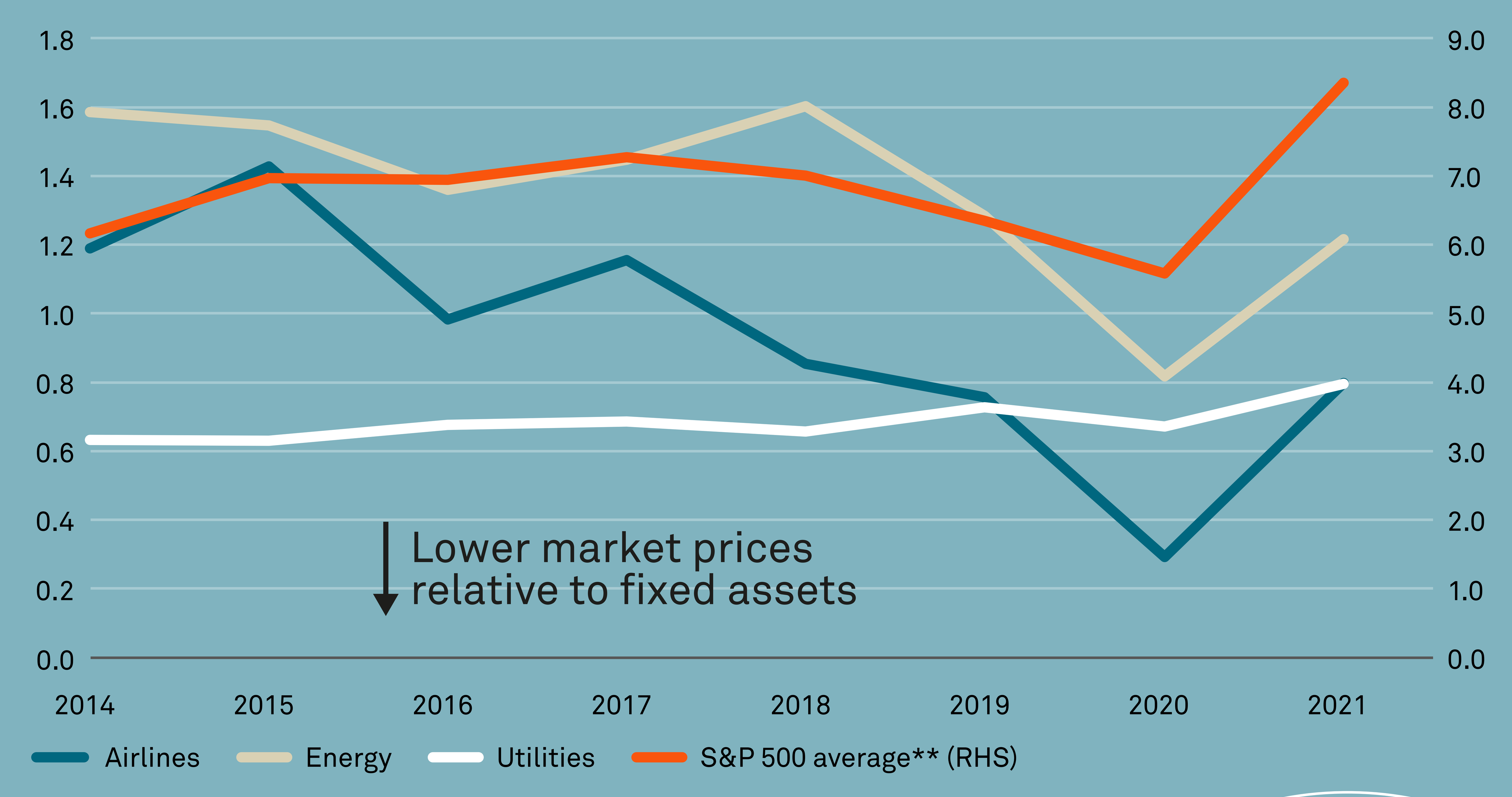
of polluting assets will likely need to be scrapped or retrofitted – energy, utilities and airline sectors face some of the most significant costs involving "stranded" assets.[3]

...with the airline, energy and utilities sectors facing some of the most significant investment needs but also presenting market complexities...

Airlines, energy and utilities industries are asset-intensive – their assets depreciate slowly and a high share of them need replacing to meet net zero.

They also have a lower ratio of market capitalisation to property, plant and equipment (PPE) assets than the market average:[3]

MARKET CAP TO PPE, SELECTED S&P 500 SECTORS
RATIO (BOTH AXES)



**Equally weighted average of all 24 sectors in this study.
Source: Refinitiv Datastream / BNYM / Fathom Consulting. As of September 2022.

...what opportunities might this present?

[1] www.gov.uk. Plans unveiled to decarbonise UK power system by 2035. October 7, 2021.
[2] www.gov.uk. UK enshrines new target in law to slash emissions by 78% by 2035. April 20, 2021.
[3] Source: BNY Mellon Investment Management's report: An investor's guide to net zero by 2050. October 2022.

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Risky transition?

Opportunities and risks may be created depending if US$100 trillion investment is invested under a net zero scenario or business as usual.

The firms which profit most from the transition will not necessarily be the ones making the most of green investment. The sectors that need most of the investment to achieve net zero by 2050, are, it seems, at least in part, being shunned by some investors for the very same reasons.

Not everyone agrees how much capital spending will be required to 'green' the world. It is complicated by things such as technological progress and the fact there is no consensus on precisely what should be considered 'green' investment. For example, if industrial-scale lithium-ion batteries become the primary source of electricity storage, much of the gas infrastructure would be rendered useless and scrapped, resulting in a different level of investment to reach net zero. Likewise, the ability to use existing aircraft will depend on which low-carbon aviation technology becomes established.

Some corporates must either absorb significant losses or will need to be compensated for these necessary losses. This is the greatest challenge in meeting the Paris climate goal. Our analysis also shows the amount of assets that are stranded rises the longer the transition gets delayed.

Shamik Dhar, chief economist at BNY Mellon Investment Management and co-author of the report, An investor's guide to net zero by 2050.

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