Proxy P monthly market review

Markets in general

After a strong start of the year, markets were somewhat more turbulent in March. You could simply blame it on profit taking as a result of the stock market rally we have witnessed since Christmas Eve, but as always there are triggering factors. The leading sentiment data has been rather weak after showing some temporary strength after the policy shifts from ECB and Federal Reserve. PMI index (purchase manufacturing index) from Europe, and Germany in particular, has turned south of 50, indicating growth rates of zero percent at best. China and US are showing the same pattern although a bit better in absolute terms. The conclusion drawn by the market is that we are in the middle of an economic soft patch, a slowdown which justifies the policy shift by central bankers. The question is what comes next? In March long rates, like the US 10 years government bond, fell sharply while the short rates did not. This resulted in a pattern of the yield curve often associated with a looming recession. This together with weak sentiment data caused the turbulence. For sure we are in the middle of a slowdown which probably will make earnings growth less impressive this year. But compared to a recessionary environment there will still be earnings. As long as earnings are stable and rates are low there is a strong foundation for the stock market. What the market seems to underestimate is that these mid-cycle slowdowns we have witnessed since the great recession (2009) have suppressed growth, inflation and rates and therefore been rather important for keeping the bull market alive.

Renewable sector

The renewable energy sector shared the same turbulence as the general market in March. The year-to-date outperformers basically turned into underperformers, but on the news front the situation has been a lot more stable. EIA published data showing US net power generation rose by 4 % last year. Gas-fired power generation increased by 13 % and renewable energy (excl. hydro) by 9 %. Coal-fired power dropped by 5 %. Consequently the share of coal in the energy mix declined to 27 %. This development is perfectly in line with expectations and is supportive for the renewable sector. Goldman Sachs published an optimistic report on off-shore wind which is supported by the views of companies like Vestas and Siemens Gamesa. As a result of substantially lower investment costs for off-shore wind, countries like US, Japan and France are expected to start sizeable auctions in the medium-term resulting in 15-20 % growth p.a. in the segment in the next couple of years. We share the view that off-shore will outperform on-shore in terms of growth in the next couple of years.

Electrification of the personal vehicle fleet is always a hot topic. The main obstacles are price, battery capacity, charging infrastructure and speed of charging. In March Tesla announced an update of their V3 Supercharger which will fully charge a Tesla Model 3 in 15 minutes. But Tesla is not alone, *Ionity*, a consortium controlled by VW, Ford, BMW and others say that they are rolling out chargers in the European markets this year that will fully charge a Porsche Taycan in 4 minutes. The Porsche Taycan was, by the way, subscribed by 20,000 customers on release, corresponding to a one year production and now Porsche is planning on doubling the capacity. Bloomberg New Energy Finance published a report showing that cost of lithium-ion batteries has fallen by 35 % to USD 187 per megawatt-hour in the last 12 months. We acknowledge the development that all other previous predictions are underestimating the rate of change in the *Storage Tech* sector.

Oil and Natural Gas sector

In spite of a more volatile market environment the oil and gas sector had a positive development in March. Oil prices reached USD 68/60 per barrel (Brent/Crude), which was somewhat higher than in February. OPEC announced they are cancelling their April meeting, showing the market they are determined in their strategy on keeping production on a level which makes inventories tight and supporting backwardation of the oil price curve. It seems like their strategy is working because inventories surprised on the down side in March. This is particular interesting in current environment with somewhat slower growth corresponding to lower demand growth.