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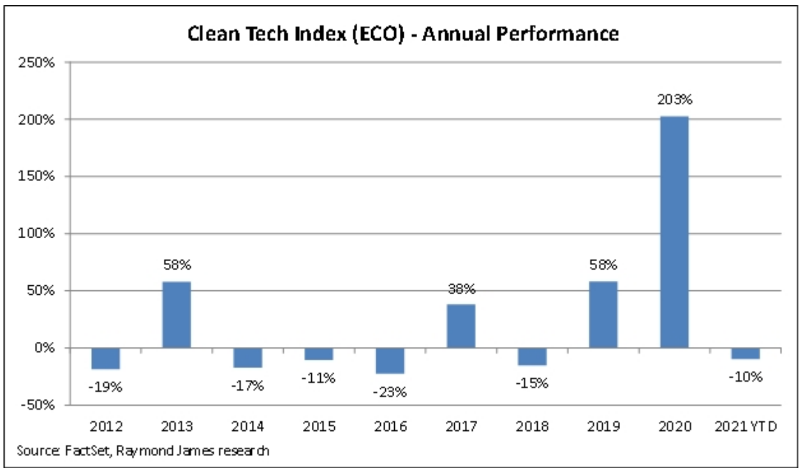
https://raymondjames.bluematrix.com

# RENEWABLE ENERGY AND CLEAN TECHNOLOGY

## Euphoria Subsides, Inflation & Yields in Focus; Upgrading ... , ....

The clean tech sector over the past six months felt rather underwhelming: a bit like a solar farm on a cloudy day. The WilderHill Clean Energy index (ECO)posted a 2Q downtick of 5%, bringing its first half decline to 10%. But, we hasten to add, this follows a 2020 surge of 203%, meaning that the average clean tech stock is still up nearly three- fold versus January 2020. All in all, we remain of the view - similar to what we wrote three months ago - that the sector is currently trading in a more rational manner as compared to the ultra-euphoric highs of late 4Q20 / early 1Q21.




In the context of the first prolonged period of value outperforming growth in many years, clean tech saw momentum-fueled euphoria subside over the past six months. By contrast, as shown below on the left, oil and gas stocks are having their proverbial moment in the sun - a textbook example of value coming back into favor. Within clean tech, in fact, a similar dynamic is playing out: on the whole, the loftiest story stocks (e.g., in hydrogen and electric vehicles) are underperforming year-to-date; whereas the more mature, value-type names (e.g., in ethanol and water technology) are outperforming. On a more fundamental level, plenty of company-specific headlines created pressure for clean tech stocks that had been (in some cases, still are) at or near peak valuation levels. This reflects a healthy, appropriate return of investor focus on actual business performance rather than sentiment.

- First, in common with numerous other industries, most of the verticals in clean tech are susceptible, in varying degrees, to the global surge tanks, water infrastructure) are all illustrations of this. As we await the latest commentary vis-a-vis cost inflation on the upcoming 2Q calls, it

  is worth underscoring that all of this is manageable - and, in any case, transitory.

- ● Second, and also by no means unique to clean tech, there is a backdrop of modestly higher interest rates. We emphasize the "modest" part, because a 10-year Treasury yield of 1.4% - considerably lower compared to as recently as mid-2019 - is hardly the end of the world. Renewable power project developers (including yieldcos) and other companies dependent on debt financing can easily manage the uptick in yields, especially as the debt market's risk premium for clean tech businesses continues to compress.

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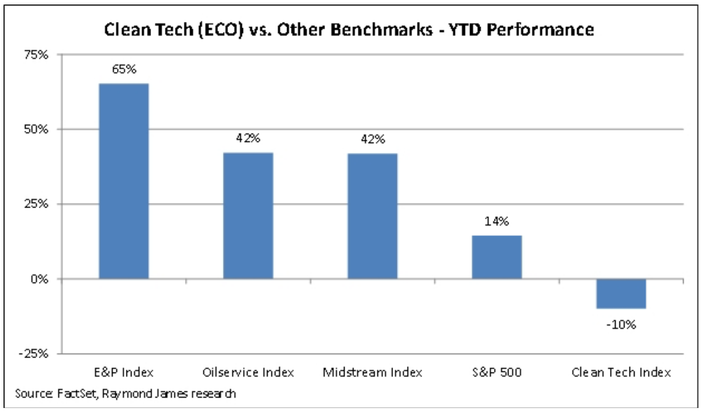


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