

Spotting net zero's investment opportunities

4 November 2022

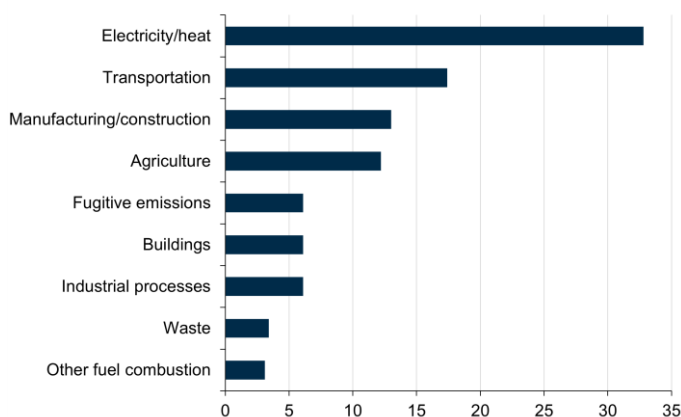
Brian Davidson



- As delegates arrive for the start of the COP27 climate conference, hoping to agree a plan for allocating the huge sums of climate finance promised by richer nations to help poorer nations transition to net zero, Fathom has positive news for investors – achieving net zero opens up a wealth of investment opportunities, especially in emerging markets
- \$100 trillion or so of investment in non-polluting fixed assets is required to reach net zero by 2050 in what is likely to be the largest redeployment of capital in history, as Fathom explained in a study published in collaboration with BNY Mellon Investment Management last week (accessible via the link at the bottom of this note)
- More than half of this investment is needed in emerging markets, while the energy and utilities sectors account for nearly half of all the green capital investment required in the corporate sector
- Those organisations and households making the investments will benefit by updating their capital stock, and in some cases from lowering running costs, but they won't necessarily be the ones that profit most¹
- The greatest beneficiaries are likely to be the manufacturers and suppliers of the components used to make non-polluting fixed assets such as renewable electricity infrastructure, electric vehicles (EVs) and low-carbon heating systems
- This will include the makers of capital goods and intermediate goods; the mining sector will also benefit as demand soars for metals and minerals used for transition-related technology (e.g., lithium)

Global greenhouse gas emission breakdown by activity

Per cent of total, 2019



Source: CAIT / IPCC / BNYM / Fathom Consulting

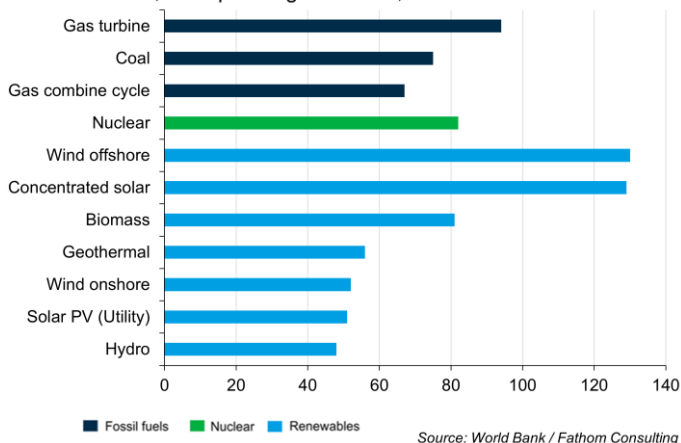
1. And in some cases, they may face costs if they need to scrap existing capital, or if the green capital is more expensive to run than the dirty capital it replaces. This will vary by sector, according to the technology in question and future price changes in that technology, as well as future price changes in the cost of running dirty capital. These variables are all subject to much uncertainty – forecasting them was beyond the scope of this study.



- To take advantage of the investment opportunities and manage the risks, investors need to understand how the nature of investment is going to change – this requires a grasp of where emissions come from and what needs to be done to reduce them (Fathom has the tools and expertise to help in this regard)
- Gaining this understanding will involve monitoring how the price of buying and operating low carbon capital evolves, and how readily it can be deployed at scale; any price changes will affect the speed of the transition, and the pace at which opportunities and risks arise
- Renewable electricity is a good example, since the price of solar panels and other renewable electricity technology has fallen a lot faster than expected and is now cheaper, on average, than electricity generated by fossil fuels
- How fast the price of other green technologies, such as carbon capture and storage, continues to fall will determine how soon the associated transition-related investment opportunities and risks arise

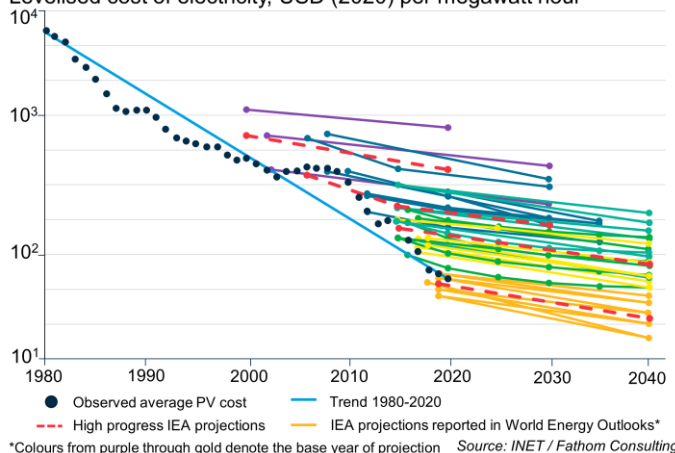
Levelised cost of energy

Median values, USD per megawatt hour, 2020



Historical solar PV cost forecasts

Levelised cost of electricity, USD (2020) per megawatt hour



- Incumbents from all sectors, but especially energy and utilities, will play a key role in making net zero a reality; but if they fail to make the necessary green investment, then new players undoubtedly will



This series of notes summarises the key findings of Fathom Consulting and BNY Mellon Investment Management's pioneering, in-depth report, An investor's guide to net zero by 2050, which explores the spending on fixed capital to achieve net-zero carbon emissions by 2050.

Aimed primarily at investors, the report also assesses the opportunities and risks likely to emerge from what is set to be the largest redeployment of capital in history.

An investor's guide to net zero by 2050, by Brian Davidson, head of climate economics at Fathom Consulting, and Shamik Dhar, chief economist at BNY Mellon Investment Management, was published on 25 October 2022.

[Access the full report](#)

Further reading:

[Net zero transition may require scrapping \\$20 trillion of 'dirty' assets](#)

[\\$100 trillion needed to meet Paris goal – in context](#)

[An investor's guide to net zero by 2050: key takeaways](#)



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