# Why the energy transition is poised for a re-naissance in 2024

Published 27 March 2024

**Wood Mackenzie**
Wood Mackenzie

## Key Takeaways

- $US1.7 trillion was invested into clean energy in 2023, 65% more than into fossil fuels, and as the energy transition accelerates this gap will continue to widen.
- Wood Mackenzie expects more than 610 gigawatts (GW) of new wind, solar and energy storage capacity to be built across Europe by 2030 alone in a base case and more aggressive climate action would require an even bigger capacity build out this decade.

In 2023, the clean energy industry witnessed one of the toughest years in its short history. Supply chain issues, the energy crisis prompted by Russia's invasion of Ukraine and the ensuing ramp of interest rates and inflation hit all entities across the natural resources value chain. Clean energy bore the brunt of these global tensions more than other sectors in this space. By the end of last year clean energy stocks were down and underperforming against the overall market and their energy market peers.

2024 has begun on a different note. The macroeconomic indicators for the global economy and key markets are increasingly positive. The clean energy investment landscape remained quite robust through the 2023 headwinds and that's a solid foundation for further expansion, especially as new routes to market open up. COP28 gave the energy transition a boost, in terms of new commitments, and demand across the clean energy value chains is showing signs of life. 2024 could well prove to be a renaissance for the energy transition.

## Macroeconomic investment conditions improving

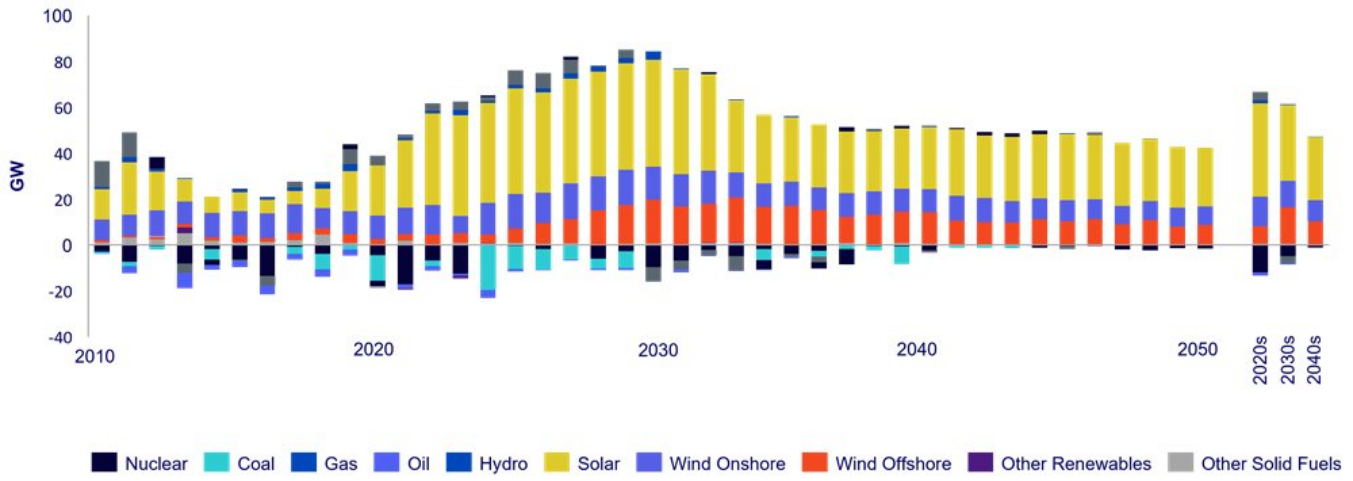
Central bank interest rates are likely to get cut after two years of aggressive hikes. Investment delays have resulted in pent-up capital, with investor appetite for the power and renewables opportunities afoot across Europe. Although rates may drop slower than most onlookers wish, we expect the soft-landing outlook with resettling of interest rates to spur on investment activity once again.

## Clean energy investment foundation is strong

Although investment sentiment in relation to fossil fuels has shifted recently, to make them somewhat fashionable again as energy security has been reprioritised, the energy transition and investment into clean energy has not slowed down. $US1.7 trillion was invested into clean energy in 2023[1], 65% more than

into fossil fuels, and as the energy transition accelerates this gap will continue to widen. Wood Mackenzie expects more than 610 gigawatts (GW) of new wind, solar and energy storage capacity to be built across Europe by 2030 alone in a base case and more aggressive climate action would require an even bigger capacity build out this decade.

**Figure 2: EU 27, UK & Norway – net capacity additions.** Strong focus on change by 2030 delivers a surge in renewable investment, 613 GW of low carbon capacity in needed to reformat the system by 2030.




Source: Wood Mackenzie, 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

## More routes to market opening

In addition, routes to market for renewables are also reopening. Government administrations are increasing auction ceiling prices to ensure they bring much needed wind and solar capacity to market once again. For instance, after no successful bids in 2023, the UK Government is increasing its offshore wind auction ceiling price by 66% from £44/MWh to £73/MWh to spur on the market once again.

Power purchase agreement[2] (PPA) markets are also set to strengthen. Solar PPA volumes came back in 2023 after a slump in 2022, due to an uncertain market with major policy shifts, such as windfall taxes and high-price pressures. On the other hand, wind PPA volumes continue to slump, with a cost premium to solar and longer development lead times. However, as these issues subside, this market should also pick up in 2024.

## Batteries moving to centre stage

Meanwhile, recycling electrons to enable renewables is now a strong growth market across Europe. Battery energy storage, a technology often underestimated and misunderstood, finally takes off. Solar hybridization[3] ramps up and as the market matures primary applications move to trading and arbitrage, the largest value pools in power markets. Wood Mackenzie forecasts the 34 gigawatt hour (GWh) installed base in 2023 to grow ten-fold by 2032.

## COP28 boost

COP28 will be remembered as one of the most important COPs and a decisive moment in the fight against climate change. There are two main reasons for this assessment.

COPs are judged on the deals reached and COP28 meant business. The World Climate Action Summit brought together high-level talks amongst 154 Heads of State and Government, and 22 International Leaders on 1-2 December. The event brought forth new deals on loss and damage – the liability payments no other COP has been able to deliver on – plus new deals on the potent GHG methane and technology specific accords on renewables, nuclear and carbon capture. Two weeks later, the talks closed with an unprecedented acknowledgment of the need to transition away from the fossil-fuelled energy system. It's taken about 30 years of negotiation to get such a statement. From Rio, to Kyoto, to Paris, climate change talks have never been able to reach agreement on this point. The importance of bringing the cause of climate into the agreed response is a watershed and a major boost for the energy transition.

## Conclusion

The potential for a renaissance is not without risk. All eyes are hoping for an acceleration of interest rate reductions. If reductions do not materialise this will push the market back. Renewable power markets in Europe continue to be agonisingly coupled with gas prices setting the underlying power price. Another unsettling event on wider global geopolitics could have detrimental consequences on energy prices for this sector and slow down this much needed upturn. And yet, with robust macroeconomic fundamentals, capable value chains and policy tailwinds, 2024 has kicked off with increased expectations that the promise of the energy transition will be realised in the year to come.

## Sources

[1] Source: International Energy Agency (IEA)

[2] A power purchase agreement is a long-term contract between a generator of electricity, who supplies the power, and a customer, who is the offtaker. Customer types include utilities, corporations or governments.

[3] A hybrid solar system allows the output of a solar system to be first fed into a hybrid inverter and battery storage system before any generation is delivered to the grid, thereby allowing the producer to retain a portion of output for selective own use or sale.

## Important Risks Related to this Article

# IMPORTANT INFORMATION

**Marketing communications issued in the European Economic Area ("EEA"):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements

regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. Wood Mackenzie The views expressed in this blog are those of Wood Mackenzie, any reference to “we” should be considered the view of Wood Mackenzie and not necessarily those of WisdomTree Europe. Wood Mackenzie, a Verisk Analytics business, is a trusted source of commercial intelligence for the world's natural resources sector. Wood Mackenzie empowers clients to make better strategic decisions, providing objective analysis and advice on assets, companies and markets. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a

separate class of shares ("Shares”) representing each fund. Investors should read the prospectus of WT Issuer (“WT Prospectus”) before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares. WisdomTree Multi Asset Issuer PLC WisdomTree Multi Asset Issuer PLC (the “Issuer”) issues products under a Prospectus (“WTMA Prospectus”) approved by the Central Bank of Ireland, drawn up in accordance with the Directive 2003/71/EC. The WTMA Prospectus has been passported to various European jurisdictions including the UK, Italy and Germany and is available on this document. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in Malta This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority. For Investors in Monaco

This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.