Battery Solutions: an exciting theme for your 2024 portfolio

Published 17 January 2024

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The WisdomTree Battery Solutions UCITS ETF (VOLT), built in partnership with Wood Mackenzie, offers investors an exciting opportunity to capture the widespread adoption of batteries in energy storage, as well as transportation. The strategy invests in up to 37 different subsectors across four categories of the battery value chain: raw materials, manufacturing, enablers, and emerging technologies. Therefore, it gives investors a thoughtful, yet diversified, exposure across a wide spectrum of innovations. But what makes VOLT a promising investment opportunity for 2024?

1. Falling interest rates conducive for this high growth theme

Battery solutions is a high growth theme. In 2023, VOLT did exactly what you would expect from it in an environment of rising interest rates. For the first 10 months of the year, VOLT was down almost 19%[1]. In November, when markets became more optimistic about a monetary policy pivot, the fund was up almost 11%. And in December, the much anticipated dovish pivot from the US Federal Reserve finally arrived with officials suggesting rates could fall as much as 75bps in 2024. This monetary policy backdrop paves the way for VOLT to thrive.

2. Peak pessimism over China could catalyse a turnaround

China represents around three-quarters of the world's battery market and cannot be ignored when investing in this theme. VOLT caps China's exposure at 25% just like all other countries (except the US, which is capped at 50%). As of 12 December, China held the highest weight in the strategy at just under 22%. There has been a lot of negative sentiment towards China in 2023, given the year started with inflation expectations around China's reopening and economic recovery. Since then, however, expectations have moderated and 2024 starts with much more modest expectations. This means the skew of risks for Chinese stocks is now to the upside.

3. Peak pessimism over metal prices promises upside

Another related story is that of metal prices. Energy transition metals were in a bear market in 2023 largely because of the two points noted above: rising interest rates and negative sentiment towards China, the largest commodity consumer in the world. Raw materials, which refers to the mining of materials like lithium, cobalt, nickel, and others, suffered due to this headwind. Despite strong underlying fundamentals of progress in the energy transition, macro pressures have weighed on these commodities. A turnaround

in metal prices, which could be triggered by falling rates and improving sentiment around China, could provide meaningful support to VOLT.

4. Strong underlying fundamentals offer a lot of hope

Poor market performance has masked the fact that the battery story is on the charge. According to Wood Mackenzie, the US storage market hit a new high in Q3 2023, installing the most capacity in a quarter to date with 7,322MWh becoming operational[2]. Similarly, according to Bloomberg New Energy Finance (BNEF), China's storage build has accelerated in 2023 and could add as much as 21GW/44GWh of new storage capacity this year, twice its cumulative storage installations as of the end of 2022[3]. And, although energy storage can mean a variety of things, batteries represent a large share of all energy storage additions currently. Similarly on transport, global plug-in electric car sales are expected to exceed 13 million in 2023, up from 10 million in 2022[4]. Thus, the fundamentals of the theme remain strong. When the macro headwinds dissipate, we expect the underlying strength to translate into gains for companies within the theme.

5. Possibility of outsized returns from numerous rapidly emerging technologies

The battery theme encapsulates an array of exciting emerging technologies. From batteries being used in decarbonising aviation to mobile energy storage, VOLT casts the net wide across a broad spectrum of promising innovations, any of which can deliver outsized returns for investors if the technology moves from the margins to the mainstream. And, for many such innovations, it is not a question of if, but when. In 2023, Toyota garnered a lot of attention from markets on its claimed breakthrough with solid-state batteries. Roughly a quarter of VOLT's exposure is in such emerging technologies. Due to their strong growth prospects and market interest, which can sometimes drive performance, they often feature notably among the top 10 holdings in VOLT. Given the pace of technological progress in this space, emerging technologies could be among the biggest contributors to VOLT's performance in 2024.

6. A smart process that embeds expertise and sets investors up for success

In a rapidly evolving theme, we believe that embedding industry expertise can be very advantageous. Partnering with Wood Mackenzie has helped us develop the concept of the battery value chain. It allows us to select and weight stocks based on their relevance and attractiveness in the battery theme, rather than their market capitalisation. It also enables the strategy to evolve as the underlying themes evolve. While such expertise cannot always guarantee strong performance, nothing can, they can ensure we offer investors a thoughtful exposure that is representative of the theme and allow them to make informed decisions about where the megatrend is headed.

[1] Source: Bloomberg, referring to the performance of VOLT for the first 10 months of 2023.

[2] Wood Mackenzie 13 December 2023 https://www.woodmac.com/press-releases/us-energy-storage-installations-set-new-record-in-q3-2023/

[3] Bloomberg New Energy Finance (BNEF) as of 23 November 2023.

[4] InsideEVs, as of 09 December 2023.

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