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Two of our climate- and energy-focused investment professionals discuss what the low-carbon transition may look like and how investors can think about the challenges and opportunities it represents.

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The recent energy crisis in Europe, inflated oil and gas prices in the US, and ongoing climate disasters around the world have underscored the need to stay focused on decarbonization. By increasing the amount of energy produced from renewable sources, incentivizing demand-side efficiency, and investing in climate mitigation and adaptation solutions, we believe society can reduce long-term costs, bolster energy independence and national security, and mitigate the worst effects of climate change.

At the peak of Europe"s crisis, in August 2022, European natural gas prices spiked to more than 300 euros per megawatt hour, nearly a 20-fold increase over historical averages.1 Now, owing to a mild winter, demand reductions, and ample gas storage, those prices have somewhat normalized. Market watchers remain concerned about long-term energy affordability, however. The structural themes of lowering costs, boosting our energy security, and improving climate resilience present a host of challenges for policymakers along with important opportunities for investors.

Global clean energy investment could rise to US$2 trillion per year by 2030, based on current policy guidelines.2

While the fiscal and social challenges associated with decarbonization are many, the private sector is one key to overcoming them, in our view. Innovative companies are already finding ways to support the energy transition and help society increase climate resilience. Many of these companies are taking advantage of falling input costs and rising demand. They also have long runways for growth and enormous addressable markets, given that the energy transition and climate change are global issues.

Renewables and electricity infrastructureThe most obvious -- and by some measures, economical -- decarbonization investment theme is renewable energy. Today, the cost to run a new wind or solar farm is less than it is to run a natural gas or coal plant. While the initial costs to install a wind or solar farm are high, useful life of these facilities can be up to 30 years, at almost no incremental cost. Unlike gas or coal production, renewables get cheaper as costs amortize over time. Even if decarbonization weren''t part of the equation, adding more renewables to the energy mix should eventually lower prices for consumers.

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