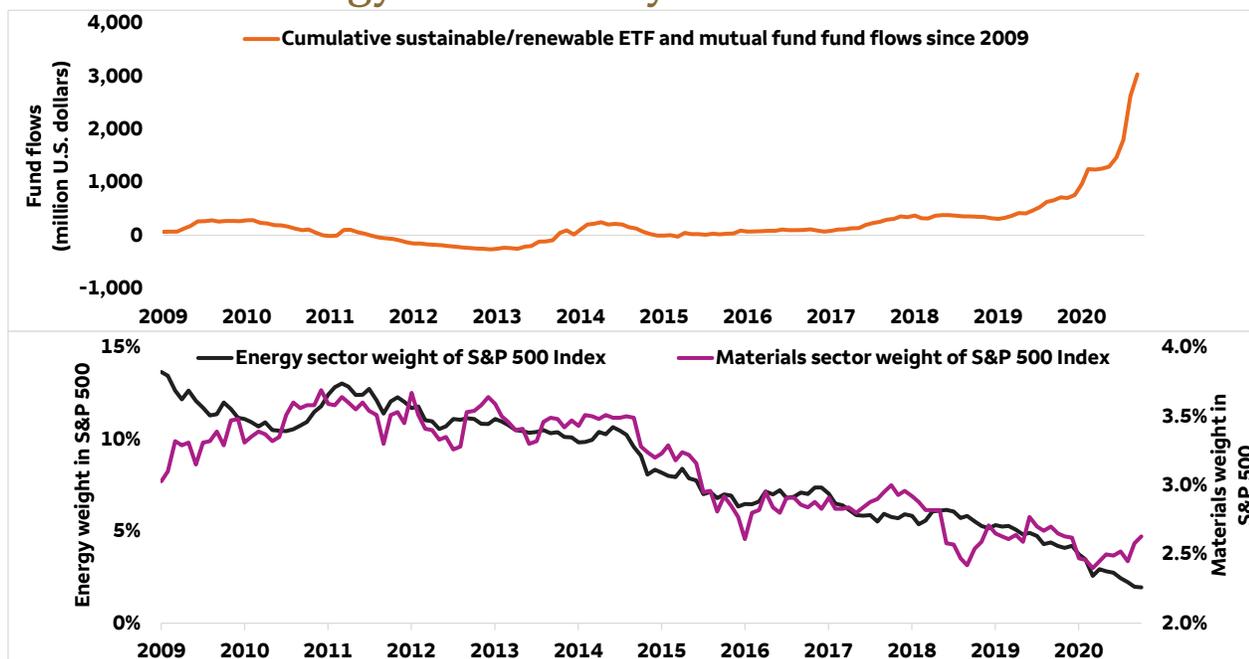


## Renewable energy's breakout year



Sources: Bloomberg, © 2020 - Morningstar. All Rights Reserved<sup>1</sup>, Wells Fargo Investment Institute. Fund flows calculated by summing cumulative flows for the 22 funds which Morningstar categorized as "Sustainable Investment - Renewable Energy" as of October 26, 2020. Energy sector is the S&P 500 Energy sector. Material sector is the S&P 500 Materials sector. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

### Fund flows into sustainable/renewable funds (top) and S&P 500 Energy and Materials sector weightings (bottom)

The declining black line (bottom chart) shows that investors have been slowly exiting Energy sector stocks for about a decade. Some blame the rise of renewables, but the real culprit — in our opinion — has been the commodity bear super-cycle, which began in 2011. Since 2011, nearly all commodity prices have fallen. The Materials sector (purple line) has largely suffered the same fate as Energy over the last decade.

In recent months, however, Materials have begun to rally, while Energy continues to fade. We think this new divergence of fates may be tied to investors' increasing appetite for renewables-related stocks. The orange line (top chart) shows that money flows into renewable exchange-traded funds (ETFs) and mutual funds have tripled to \$3 billion over the last year.

#### What it may mean for investors

We believe that some of the 2020 rush of money into renewables likely came from selling traditional energy stocks. While fossil fuels still generate 80% of U.S. energy, seeing investors put such serious skin in the green stock game is a positive sign for the future of renewables-related investing.

**John LaForge**, Head of Real Asset Strategy; **Austin Pickle**, CFA, Investment Strategy Analyst

This chart was excerpted from *Real Assets In Depth: "2020—A tipping point for green energy"* (November 16, 2020).

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Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

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