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Renewables Under Trump: Likely Better than Expected

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Key Takeaways

- ▶ While the new Trump administration creates elevated risk as it shifts clean energy policy, our view is that any changes to the Inflation Reduction Act (IRA) — which we expect to be less than the market anticipates — will ultimately have a muted impact on the short- and long-term renewables outlook.
- ▶ Given Republican support for the IRA, the slim majority in Congress will make it difficult for Trump to enact meaningful cuts.
- ▶ Demand for renewable energy will continue to be strong regardless of policy changes due to factors such as AI, as we think the market overlooks the changing electricity demand for renewable energy.

Muted Impact on Short- and Long-Term Renewables Outlook

It has been an active first few weeks in office for U.S. President Donald Trump, and true to expectations, policy uncertainty remains high. Infrastructure investors have been watching closely as, while there are some expected policy tailwinds, concern has grown over potential headwinds from the new administration, particularly for renewable energy utilities.

While we acknowledge elevated risk and volatility as Trump shifts clean energy policy, our view is that any changes to the Inflation Reduction Act (IRA) — which we expect to be less than the market anticipates — will ultimately have a muted impact on the short- and long-term renewables outlook. As such, we remain comfortable with our existing contracted renewables exposure.

Onshore wind and solar, for example, are particularly leveraged to production tax credit (PTC) and investment tax credit (ITC) subsidies. The funding package under the IRA extends across multiple technologies and applications, with onshore wind and solar tax credits being only a portion of the total package. While there have been significant headlines about Trump rolling back subsidies, there has been no substantial commentary regarding the potential elimination of the PTCs and ITCs. So far, Trump's focus has been on curtailing subsidies outside of the PTC and ITCs, such as EV tax credits and, more recently, reviewing loans from the Department of Energy. We believe this is important signalling regarding the priorities of the Trump administration.

Offshore wind is the only area in contracted renewables we believe is at significant risk. This is a clear distinction from onshore wind and solar, as the administration has halted the issuance of any new offshore wind leases following Trump's pre-election comments opposing it (which requires more extensive federal government involvement).

Tax Credits May Moderate to Historical Norms Yet Remain Growth-Friendly

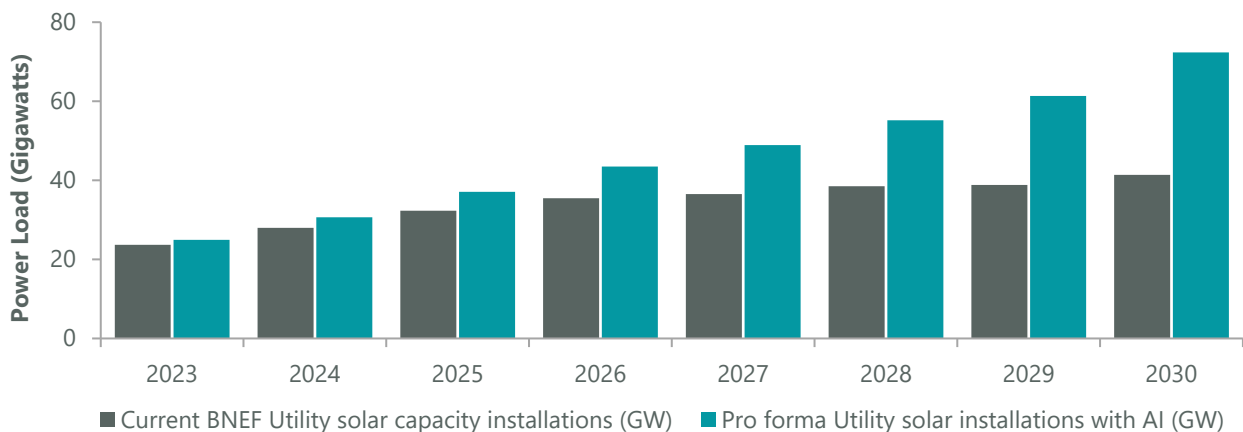
Do we think Trump will leave the PTC and ITC credits alone? These credits could be rolled back somewhat, as the new administration looks for sources of funds to extend the Tax Cuts and Jobs Act of 2017 and other policy priorities. However, we think the cuts will be moderate and not impact the long-term outlook for key renewable players.

The duration of the PTC and ITC subsidies may be reduced from their current 10+ year duration to something shorter, such as five years. Recall that PTC and ITCs existed prior to the IRA; a moderation back to older norms is a reasonable assumption. However, we think it still represents an attractive backdrop to incentivise investments. Onshore wind and solar projects (with the PTC and ITC framework) worked perfectly well under Trump in his first term, and we think it will be the same in his second term.

In addition, removal of the PTC and ITC provisions would need to be approved by Congress (Trump cannot do this under executive order), where many Republican members are key beneficiaries of these tax credits to their states. In fact, last year 18 House Republicans signed a letter of support for the IRA, highlighting some of the general economic benefits and jobs to many Republican states. Given this, the slim majority in Congress will make it difficult for Trump to enact meaningful cuts to the IRA.

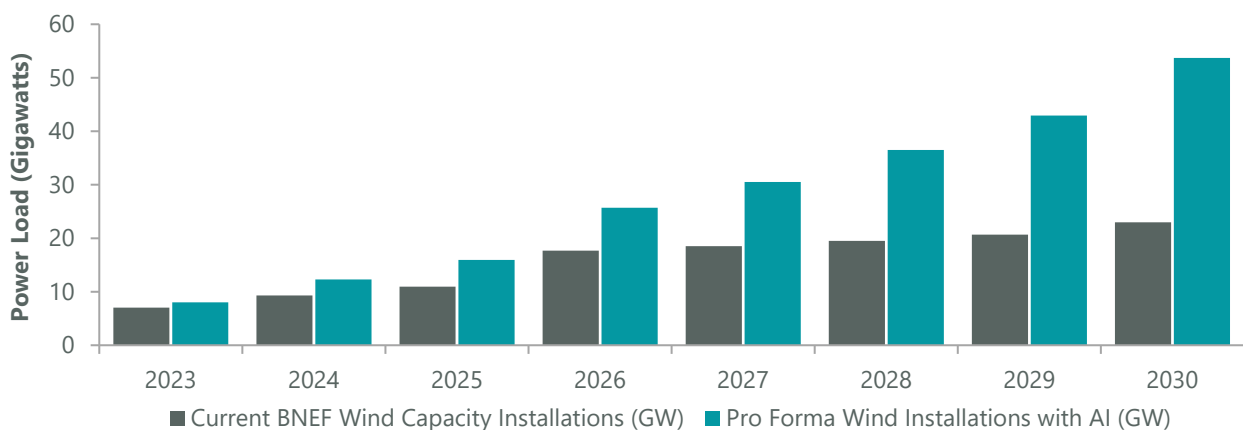
It is worth noting that NextEra Energy, among the largest renewable energy companies in the world, has expressed confidence in its ability to continue to meet development targets even under a more draconian scenario. As risk around IRA repeal has been discussed extensively over the last 18 months, companies have been able to adjust accordingly.

Exhibit 1: U.S. Solar Installations Propelled by AI



Source: ClearBridge Investments, WFG, EIA, BNEF, 2024.

Exhibit 2: U.S. Wind Installations Propelled by AI



Source: ClearBridge Investments, WFG, EIA, BNEF, 2024.

Lastly, demand for renewable energy will continue to be strong regardless of policy outcomes. We believe the market overlooks the growing demand for electricity from renewable sources (Exhibits 1 and 2), much of which is being driven by the increasing electricity needs of the large language models driving AI adoption. Even in a scenario where 50% of electricity demand is met through natural gas and nuclear power, renewables growth will need to accelerate meaningfully; by some estimates, we would see renewables' compound annual growth rate almost doubling.

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