With a COP28 deal in hand, CIO anticipates a recovery in investor confidence around many climate- and emissions-related investment themes. (UBS)

What the COP28 climate deal means for investors

13 February 2024, 4:14 pm CET, written by UBS Editorial Team

Last-minute negotiations at the COP28 UN climate summit produced a consensus agreement on Wednesday. For the first time, leaders will call for a global transition away from fossil fuels to meet net-zero emission targets by 2050.

Expectations for a meaningful deal were low after disputes over the use of "phase out" language, which at one point was fully removed and replaced with voluntary options. Instead, the almost 200 nations involved agreed to begin "transitioning away from fossil fuels in energy systems, in a just, orderly, and equitable manner."

The eventual impact of the deal will largely depend on its implementation and funding by individual nations and private industry. But, we see several aspects to the deal that stand out for global investors:

Regardless of the COP28 language, significant support for the fossil fuel phase-out will see this trend accelerate. The fact that all nations eventually accepted a commitment to transition away from fossil fuels is a turning point for emission and climate policy, in our view. Different economies are clearly at varying stages of their transition, with numerous technologies, resources, and capacity across regions. But the long-term decarbonization trend is clear. We continue to expect an "all of the above" energy investment approach to prevail for the foreseeable future, with increasing emphasis on transition planning as illustrated by both COP28 and latest regulatory guidance released by authorities like the UK, Singapore, Hong Kong, and others.

New goals on expanding renewable power and infrastructure will speed up decarbonization. Although not unexpected, the endorsement of the target to triple global renewable energy capacity from 2022 to 2030 will likely drive meaningful progress in decarbonizing power and should help restore market confidence in the renewable energy sector. The pledge implies a fivefold increase in annual capacity additions, according to the Centre for Research on Energy and

Clean Air. COP28 has also brought nuclear power back to the main table, with 22 nations pledging to triple their nuclear power capacity by 2050, and the US leading the research and development commitment for nuclear fusion.

Mobilizing private capital has become the top priority, and policymakers are smoothing the path. COP28 was also notable for a sharp increase in climate funding, from the UAE-led USD 30bn climate initiative to the US contribution of USD 3bn toward the Green Climate Fund targeting developing market emission reductions and climate adaptation. But the broader story here is an increasing recognition that first, private capital is critical, and second, attracting it at scale will require market-rate returns.

So, with a COP28 deal in hand, we anticipate a recovery in investor confidence around many climate- and emissions-related investment themes. We currently see valuation support and favorable dynamics for clean air and carbon reduction investments, based on our quantitative screening. Creating an economy free of carbon emissions and transitioning to clean fuels is a complex undertaking, requiring investments across power generation, energy infrastructure, transport, industry, buildings, and heating and cooling systems. We think investors will gain most through exposure to a number of these themes, given the different stages of development across countries and sectors.

Beyond public markets, investors can tap into energy disruption opportunities in private markets, including in renewable infrastructure development, energy networks, storage, carbon capture, energy efficiency, and circular economy solutions.

Main contributors - Solita Marcelli, Mark Haefele, Stephanie Choi, Jennifer Stahmer, Jon Gordon, Vincent Heaney, Matthew Carter

Read the original report : **What the COP28 climate deal means for investors, 13 December 2023.**