PGIM

# INVESTING IN ENERGY

## Webinar Summary

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**The energy sector remains a vital part of real asset investing. It can play an important role in a multi-asset portfolio, serving as a diversifying asset class, an inflation or growth hedge, and as a return enhancer to an investor's allocation within the real assets category. PGIM's Institutional Advisory and Solutions (IAS) group recently brought together several thought leaders to discuss the outlook for the sector and where investors may find opportunities. Following are a few highlights from the discussion, which can be viewed here.**

- **Oil & gas aren't going away just yet:** The energy sector is undergoing a structural transformation as the global economy transitions to non-carbon-based energy sources, but traditional energy sources will continue to be needed for some time. While recent returns for renewable energy equipment have far outpaced those of the exploration and production sector, it represents a very small portion of the overall energy sector.
- **An inflation hedge…and more:** Given its important role in driving economic growth, energy will likely continue to be an excellent inflation hedge. Beyond inflation, though, the sector can serve as a geopolitical hedge, can act as a diversification tool as it offers exposure to growth in developing markets, and can offer differentiated returns even in a modest-growth world.
- **The role of COVID:** There is likely to be some permanent impact on the sector as a result of the pandemic, but there also may be positive, offsetting effects. As an example, people returning to the office may shun public transportation and instead drive themselves to work.
- **Longer-term supply issues**: Over the last five years, fuel supply growth has been beyond what energy markets could handle. In the current environment there has been a change in behavior by both the industry and past capital sponsors, which is likely leading to under-investment and a potential supply shortfall in coming years. Rig counts have dropped dramatically in the US and counts haven't responded to the rebound in oil prices. Companies are also limiting capital investments compared with past years.
- **Early days of the transition:** The enormous challenge of getting to net-zero additions of greenhouse gas emissions by 2050 without a major hit to economic growth may lead to a more realistic view that petroleum - cleanly produced - will still play a role in supplying energy to a global population that in many spots is starved for energy. Some of the more overlooked areas of this transition include demand efficiencies, metals and other materials for battery supply and more cleanly produced oil that could offer compelling investment opportunities.
- **ESG:** Bearing in mind that oil will play a role in the transformation of the energy industry, investors should consider the idea that the winners among oil producers will be diversifying into clean-fuel production such as natural gas, renewables and biofuels, a trend already well under way in Europe.

**IAS will be hosting future webinars that will feature other PGIM portfolio managers and analysts from various real asset sectors.**

**For all of IAS' activities in real assets please visit the IAS Real Assets Research webpage here.**

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