Embracing the Electrification of Vehicles

Earlier this month, The Economist magazine's cover story declared "The Death of the Internal Combustion Engine". Beyond this article, we have found evidence of a broader acceptance of the eventual electrification of the passenger vehicle across multiple industries and companies, in spite of U.S. President Donald Trump's decision to pull the United States out of the Paris climate accord which could have had negative implications on this electrification movement.

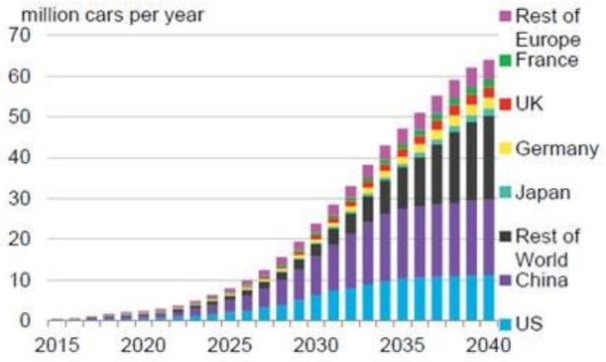
Instead, auto manufacturers are increasingly embracing the electrification of their product lineups. Some near-term cautiousness is warranted given very dramatic valuation changes within the electric vehicle (EV) supply chain, and, of course, the Economist's infamy for signaling a contrarian view, however we believe the longer term trend is indeed 'your friend', in this case.

We have seen other countries double down on the Paris climate accord and also shift their countries away from gas and diesel powered vehicles through legislation. In just the past month, we have seen both the United Kingdom and France announce plans to ban the sales of gas and diesel powered vehicles by 2040. China has also made great strides towards electrification, with its most recent "Five Year Plan" mandating an ambitious 8% of new car sales to be electric by next year, and 12% by 2020. This would still put the country behind Norway, where 29% of new auto sales are electric, and a record 42% of new cars registered in June were electric.

Meanwhile, auto manufacturers are responding to the regulatory movement and consumer demand in kind. In early July, Volvo became the first traditional automaker to set a date for the complete phase-out of combustible-engine-only models, announcing that all new models would be fully electric or plug-in hybrids by 2019. In the same month, Tesla began rolling out its first Model 3's, the $35,000 mass market car with a 310 mile range, while BMW announced plans to begin building a fully-electric version of its iconic Mini by 2019, as well as a fully electric BMW X3 by 2020.

These recent developments offer concrete evidence that the transition to a sustainable economy is irreversible, even by a U.S. Presidency that has rolled back climate-friendly initiatives. Rather, as electric cars become more economic, extend their ranges, and as more charging infrastructure is installed, we believe there is tremendous upside potential for the adoption of electric vehicles to exceed most forecasts.

Figure 1. Annual global EV sales by market



Source: Bloomberg New Energy Finance, as of July 2017

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