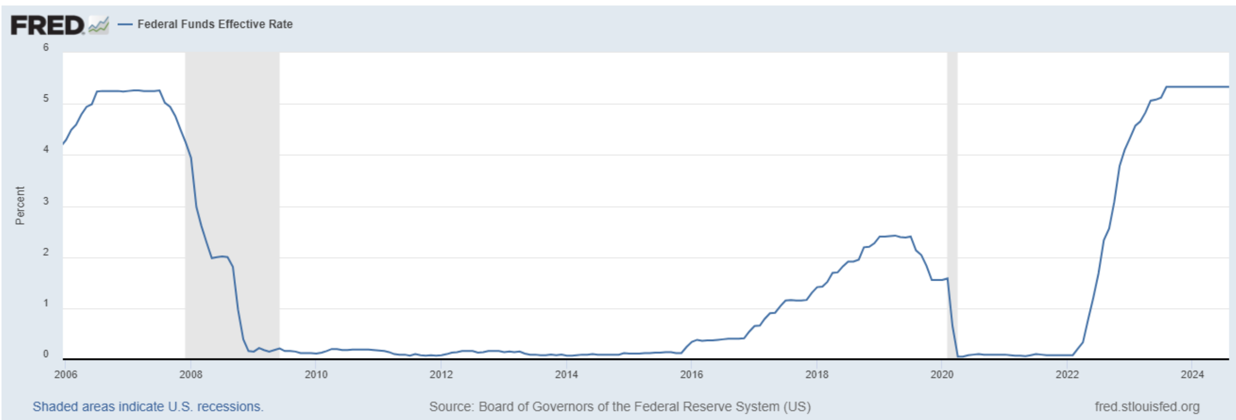
Looking Past Short-Term Rate Cuts - What Matters for Renewables
September 17, 2024
Alex Rodrigues

The U.S. Federal Reserve is in the spotlight this week as it debates whether to cut rates by 25 or 50 bps. After maintaining near-zero interest rates from 2008 until late 2015, and again from 2020 during the COVID-19 pandemic, the Fed began raising rates aggressively in 2022, the fastest pace in decades, to combat inflation. Now, as inflation begins to ease and economic indicators suggest potential hardships, the Fed aims to achieve a soft landing by cutting rates, with a potential reduction of 25 or 50 bps.

I see short-term rate cuts, whether 25 or 50 basis points, as no more significant than the broader long-term variables that affect renewable energy assets.

Renewables, unlike thermal generational, have comparatively large upfront investments and low operating costs—a crucial capex/opex ratio shift that underscores the importance of focusing on long term variables.



While short-term interest rates undoubtedly affect an investor's cost of capital, swap rates, and gradually tax equity yields, it's essential to stay focused on long-term factors that align with the lifespan of the assets we are developing. Key long-term considerations include the 10- and 30-year Treasury yields (which is still inverted), commodity prices (natural gas, which has dropped 75% in the past 24 months), technological advancements, evolving regulatory environments, global energy security challenges, and increasing energy demand. These long-term factors are crucial in understanding the broader impact on renewable energy investments.