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The Inflation Reduction Act Is Spurring Interest in Clean Energy and Climate-Conscious Investing

Renewable energy funds already awash in inflows. How to position your portfolio.

The impending passage of the most significant climate legislation in U.S. history is spurring greater interest in clean energy investments. Equally important, the legislation makes it more likely that more investors will look at how to position their overall portfolios to account for climate risks and benefit from the inevitable transition to a low-carbon economy.

In fact, since hearing the news that Democrats had hammered out an agreement to address climate change as part of their Inflation Reduction Act, investors have been piling into clean-energy funds. In the two weeks prior to the surprise announcement on July 27, clean-energy funds had estimated net outflows of $223 million. Since the climate deal was announced, investors have rushed into this group of 23 funds. From July 28 through Aug. 10, clean-energy funds attracted estimated net inflows of $433.6 million ….

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Fund investors considering an investment in clean energy should keep these points in mind:

1. A clean-energy fund will be more volatile than most diversified funds in your portfolio. While the risk that a clean-energy investment made today will not pan out over the long run seems low to me, renewable energy stocks themselves can be volatile. That's likely to continue until they have reached a more stable growth trajectory, and there has been a shakeout of early winners and losers.

The best way to assure long-term success and mitigate volatility is to choose a diversified clean-energy fund rather than trying to pick a particular winning stock among the range of clean energy sources and related technologies. Here are several choices to consider:

Selected Clean Energy Funds

Fund	3 yr Return (%)	5 Yr Return (%)	3 yr Std Dev.	Exp Ratio	Net Assets ($)
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Invesco Global Clean Energy ETF PBD	27.3	16.8	36.9	0.75	278.6 million
Invesco WilderHill Clean Energy ETF PBW	29.2	25.3	50.6	0.61	1.3 billion
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