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Q1 2026 Market Commentary
Scenarios, Narratives, and Reality
Adam Bernstein, Impact Analyst

Sometimes, we are asked why we focus on climate-related investments at a time when AI-driven demand is accelerating, and climate ambition and policy appear to be retreating in the U.S. We do not view these forces as competing. In many cases, rising electricity demand from AI and digital infrastructure reinforces the same system-level constraints around energy, infrastructure, and reliability that underpin our climate investment themes. Here are a few, non-exhaustive reasons why we choose to focus on climate-related themes:

1. **Our primary focus is adaptation and resilience:** Across much of the world, core infrastructure is aging, undersized, or no longer built for current operating conditions. Economic growth depends on reliable systems, but when infrastructure runs near capacity, inefficiencies show up fast. Electricity grids illustrate this clearly. As grid congestion has increased, marginal power has become more expensive, transmission bottlenecks have worsened, and grid failures have risen. These stresses do not remain abstract; they flow directly into higher electricity prices for consumers and businesses. Over time, persistent congestion and rising costs tend to act like a magnet, pulling capital back toward infrastructure assets. Investment has become a means of restoring reliability, relieving bottlenecks, and stabilizing prices. This dynamic — not climate rhetoric or ideology — is what ultimately drives capital formation across many climate investments.

2. **We invest in long-term themes:** Markets today are heavily influenced by short-term narratives, policy headlines, election cycles, and shifting sentiment, that often move much faster than underlying capital cycles. Short-term policy dislocations can therefore create attractive entry points for long-term investors. For example, even if U.S. headlines suggest a retreat from low-carbon energy assets, global capital allocation reflects the practical realities of an evolving energy system. For investors willing to look through near-term uncertainty, these moments often present opportunities.

3. **Policies and narratives come and go, but economics determines winners:** Energy systems ultimately evolve around cost, reliability, and security. Those requirements do not disappear when political sentiment shifts. As a result, technologies and companies that solve these issues continue to attract capital. Per our last commentary, prioritizing energy security and reliability can lead to more decarbonization. The positive policy environment and investment thesis for nuclear energy is a case-in-point.[1]

As thematic investors, we look at major shifts occurring at the global systems level. Such change can provide alpha opportunities that are often overlooked by cap-weighted indexes, which, by design, reward historical winners. In contrast, a well-grounded thematic approach provides forward-looking exposure to less crowded, often cheaper segments of the market, while avoiding the concentration risks that build up in passive portfolios. In this context, climate-related investments continue to prove themselves to be a strong source of thematic alpha. We believe we have identified economically grounded opportunities

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within climate that can resonate with a range of beliefs and align with varying portfolio risk appetites. Conversely, investing through rigid ideological constraints, from any direction, can lead to misunderstandings that unnecessarily limit the investable universe and therefore potential returns.

CLIMATE INVESTING PERFORMANCE

At the start of 2025, we outlined our thematic focus across climate adaptation, resource scarcity, energy addition infrastructure, and energy efficiency. These themes were selected to align with long-term system pressures around energy demand, infrastructure constraints, and resilience, rather than short-term policy narratives.

This chart helps show how that framework has translated into outcomes. It compares two equity-only thematic portfolios on the left – our Gitterman Managed Model and Climate Alpha – against traditional equity benchmarks on the right, across one-, three-, and five-year periods.

Starting with the Gitterman Managed Model, which represents a more diversified and tactical expression of our themes, you can see consistent outperformance versus both the S&P 500 and MSCI ACWI across all three-time horizons.

Next to that is Climate Alpha, which reflects a more concentrated, high-conviction implementation focused on a narrower set of long-term climate themes. While returns are lower than the broader managed model, performance has remained competitive versus U.S. and global equity benchmarks, on both a gross and net basis.

What's important is how these returns were generated. They were not driven by excessive leverage or momentum exposure. Volatility and drawdowns have remained broadly in line with traditional equity benchmarks, highlighting the role that real-asset- and infrastructure-linked exposures can play in improving portfolio efficiency.

Taken together, the data reinforces a core point of our thematic framework: when climate-related investments are grounded in economic fundamentals and system-level demand, they can contribute meaningfully to long-term equity returns without materially compromising risk characteristics.

These results reflect persistent capital needs tied to energy, infrastructure, and adaptation – dynamics we expect to remain relevant well beyond any single market cycle.

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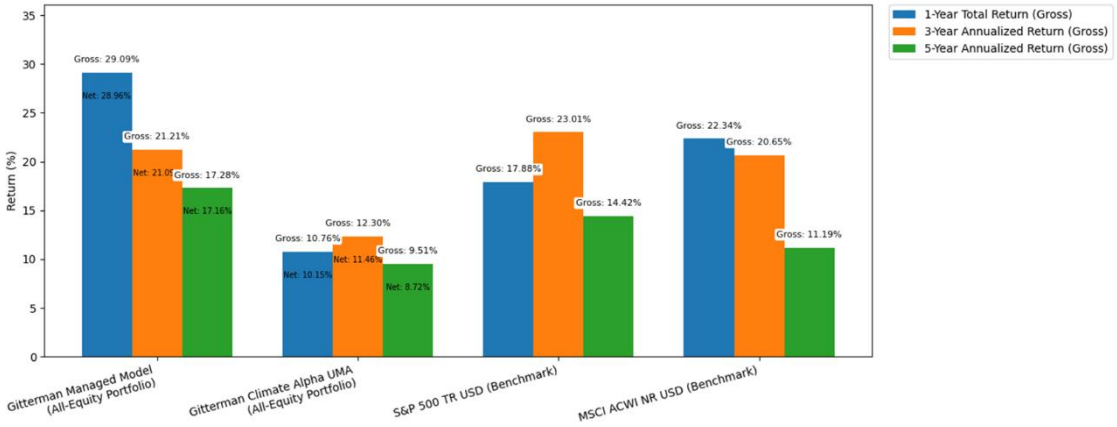
Thematic Portfolio Performance vs. Traditional Portfolio Performance



Source: Bloomberg, Morningstar Direct, data as of 12.31.25. This analysis compares the performance of select all-equity portfolios and equity benchmarks for illustrative purposes. The Gitterman Managed All-Equity Model is a hypothetical portfolio constructed to facilitate an apples-to-apples comparison with broad equity benchmarks. Because Gitterman does not manage a live all-equity portfolio, this model was created by proportionally scaling the equity allocations of the firm's Aggressive model and holding those allocations constant over time. Net returns for the hypothetical model assume a 0.10% annual expense to approximate implementation costs. The Gitterman Climate Alpha UMA is an actual, live portfolio managed within a separately managed account structure and reflects a 0.25% annual management fee. Gross returns are shown for comparison alongside net returns for Gitterman portfolios where applicable. Benchmarks shown include the S&P 500 Total Return Index and the MSCI ACWI Net Return Index, which are unmanaged and do not reflect fees or expenses. Hypothetical performance has inherent limitations, including the benefit of hindsight, and does not reflect actual trading, liquidity constraints, or market impact. Results shown may not be indicative of future performance. Past performance does not guarantee future results. This material is provided for informational purposes only and does not constitute an offer, solicitation, or recommendation to buy or sell any security or investment strategy. Investors should consider their individual objectives, risk tolerance, and financial circumstances before making investment

THE EVOLVING ENERGY STORY

One of our key theses is "Energy Addition," a scenario where, despite increasing integration of renewable energy sources, global dependency on fossil fuels is not decreasing proportionately as total energy consumption continues to grow. We are instead in a state of addition, where we are continuing to add primary energy sources to keep up with increased demand.

Because of this reality, we believe that adaptation and resilience are unavoidable investment priorities. We have also often questioned the viability of "Net Zero" as a policy goal, but especially as a foundation for portfolio construction. Granted, we will not achieve important ambitions with a half-hearted approach, but such an enormous goal requires a lot to go right in a world that delivers regular curve balls. We do not offer "Net Zero portfolios" because they often conflate low aggregate portfolio emissions with real-world impact. Buying, selling, or excluding securities or sectors does not change actual emissions, only ownership. Moreover, some energy-intensive sectors with currently high emissions create materials and solutions that low-carbon energy systems depend upon.

As energy security and economic concerns have moved higher on the global agenda, Net Zero ambitions are facing growing political and social friction. While decarbonization modeling is still widely used, recent updates to long-term climate outlooks, and their accompanying narratives, increasingly reflect the complexities of real-world execution.

The IEA: Emphatic Uncertainty?

This year's World Energy Outlook report from the IEA states, "There is no single storyline about the future of energy, which is why the World Energy Outlook presents multiple scenarios, none of which is a forecast."[2]

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In our opinion, this statement is not controversial, but it appears to be the most explicit comment on implicit complexity in an IEA World Energy Outlook report since 2020 (let us know if you disagree). Emissions-driven scenarios are built to explore questions and provide directional answers. They are not intended to be detailed policy or investment roadmaps. This is partly because they cannot model all of the factors that may determine outcomes.

The IEA gets criticism from many regions and organizations, whether for its underestimation of solar power's growth or its calls for peak oil. Yet, despite uncertainties (and the opinions of varying agendas) we see several clear trends in the most recent WEO report, with which we can align:

- Energy demand continues to rise, with electrification being the biggest growth area globally.
- Different countries face different demand drivers and do not have homogenous supply access or domestic infrastructure. Countries will seek varied avenues to meet their needs, requiring diverse generation sources, storage, and infrastructure solutions.
- Adaptation and resilience must be part of energy decision making. This includes considering cybersecurity as well as physical climate risk.
- Resource scarcity risks are rising across energy systems, but their impacts are difficult to model precisely due to concentrated supply chains and non-linear disruption risks.

Will We Get Adequate Grid Investment?

As discussed previously, emissions-driven scenarios cannot comprehensively model all facets of various mineral and grid-related dependencies. Generally, within decarbonization scenarios, grid infrastructure and related materials are treated as enablers that can evolve as needed, despite bottlenecks, rather than hard constraints that could derail the trajectory. However, supply constraints for even niche materials could cause significant barriers to low-carbon energy deployment. A recent study from the Colorado School of Mines found that price and availability shocks for critical minerals could mean that "existing generation assets remain online longer than expected, while new capacity expansion slows significantly." Moreover, "…extreme price shocks to major metals such as aluminum, copper, steel, and zinc are the most disruptive due to their substantial share of generation and transmission costs. However, the complete unavailability of a broader set of materials, including those with lower cost shares but essential to technology manufacturing, can produce disruptions of similar magnitude by outright preventing deployment."[3]

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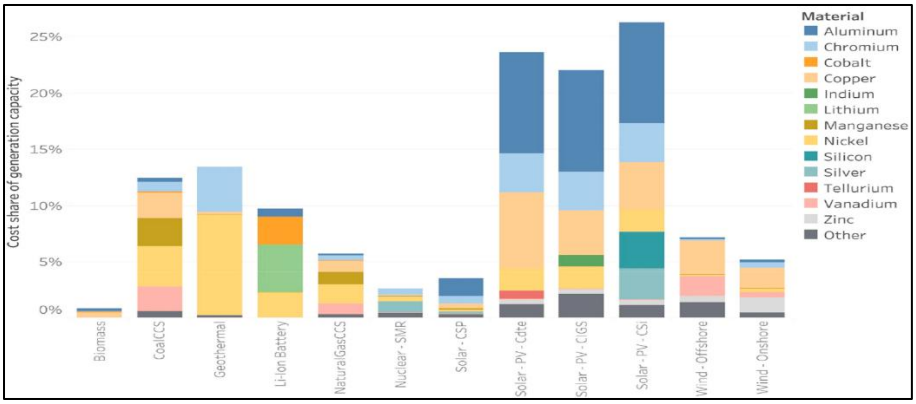
Average Share of Capital Costs by Material by Electricity Generation Technology



Source: https://www.sciencedirect.com/science/article/pii/S0301420725001497

Emission scenarios have emphasized falling Levelized Cost of Energy (LCOE) of renewables relative to other generation. However, grid costs can rise in a non-linear fashion even where low-cost power is installed. The IEA notes the mismatch: "Deploying clean power is now cheaper than ever, but securing electricity supply still implies greater investment in grids, the creation of viable business models, and policy support."[4]

Even before ChatGPT arrived on the scene at the end of 2022, grid challenges were gaining more scrutiny. The IEA's World Energy Outlook of 2022 specifically noted: "Transmission bottlenecks are already creating numerous inefficiencies," with developed economies facing particularly long permitting delays.

Grid and storage investment needs were stated as $770 billion per year under the Stated Policies Scenario, or STEPS (an exploratory framework used by the IEA that reflects how the global energy system is likely to evolve based on policies that governments have already implemented), and as nearly $1 trillion per year under the Announced Pledges Scenario, or APS (which reflects how the global energy system is likely to evolve based on stated long-term promises).

In the U.S., the Princeton University Zero Lab released a report in September 2022, *"Electricity Transmission is Key to Unlock the Full Potential of the Inflation Reduction Act."*[5] It contextualized the grid as the primary enabler, and constraint, to achieving the goals of the IRA. While the IRA has been rolled back, along with related decarbonization goals, the grid issues did not simply disappear. Climate policy arguably shined a bigger light on a long-standing problem, with even more powerful lights switching on since AI use became an everyday habit for many Americans.

Various countries are now prioritizing grid investment such that total spending is expected to exceed $400 billion in 2025. This is notable, but is considerably below the IEA scenario estimates from the 2022 report. And what about the enablers and constraints underpinning this investment? Critical hardware, such as transformers, is in such high demand that "…prices and lead times for key grid components have nearly doubled in the past five years."[6] Materials constraints and investment opportunities therein will be subject to a deeper investigation in a future quarterly commentary.

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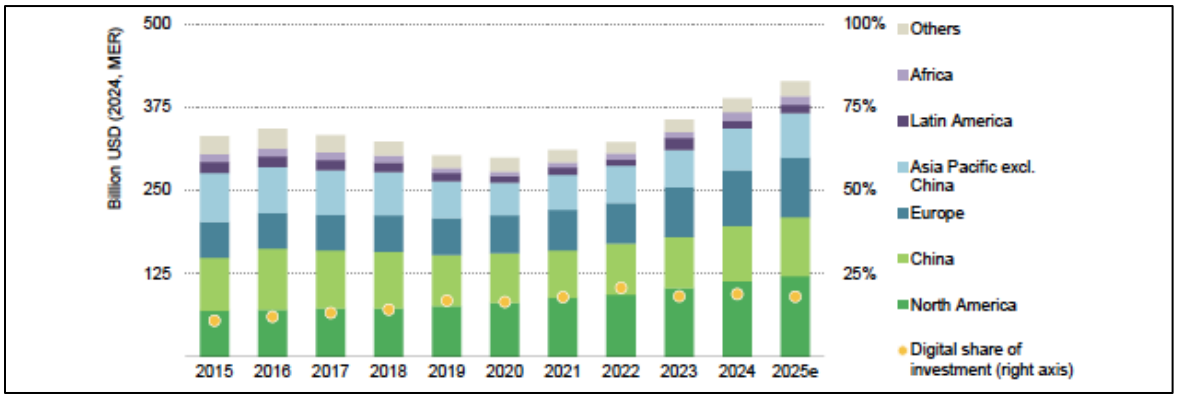
Global Grid Investment: 2015 to 2025e - IEA



Source: IEA, S&P Capital IQ

At the policy level in the U.S., at the policy level, grids are increasingly viewed as an AI/data center issue. Various Presidential Executive Orders were issued in 2025 that aim to reduce obstacles to data centers and related energy infrastructure, including permitting.[7] It remains to be seen whether an AI/economic focus versus a climate-focus will be the bigger accelerant for grid spending. Regardless, low-carbon solutions such as solar and battery storage will be beneficiaries of an enhanced grid, alongside nuclear power and natural gas.

Across generation, transmission, and distribution, Deloitte believes "…utilities face a pivotal year in 2026, as converging pressures demand that they scale both smarter and faster."[8] A range of business models is being deployed to finance projects and upgrades. Deloitte concludes that, "capital strategy is likely to be measured less by gross spend and more by capacity per dollar and bill impact per incremental megawatt. Utilities that can blend self-financed projects with partnerships, securitized financing, and outcome-based models will likely deliver more capacity, faster, without overburdening customers."[9] Some utilities delivered double digit returns in recent years given their role in AI. This could well continue into 2026 as the sector further evolves from a primarily defensive investment allocation into a major economic and alpha enabler.

"No Single Storyline"

As we laid out the start of this piece, and underlined by the IEA, looking at energy transition (or energy addition) solely via a U.S.-centric lens could lead to conclusions that could cost significant returns. This is true for innovation as well as demand and supply. "For most of the 20th century, a useful heuristic held: To glimpse the future of technology, look to America. For energy technology, that is no longer true. In 2000, China accounted for roughly 5% of clean energy patents filed. Today it's three-quarters."[10] We discussed China's energy transition trajectory in our prior commentary, specifically noting its increasing nuclear energy footprint, innovation, and its challenge to U.S. global leadership.[11] However, we are not diminishing U.S. energy innovation capabilities, which may well be jolted into higher gear given the "AI race."

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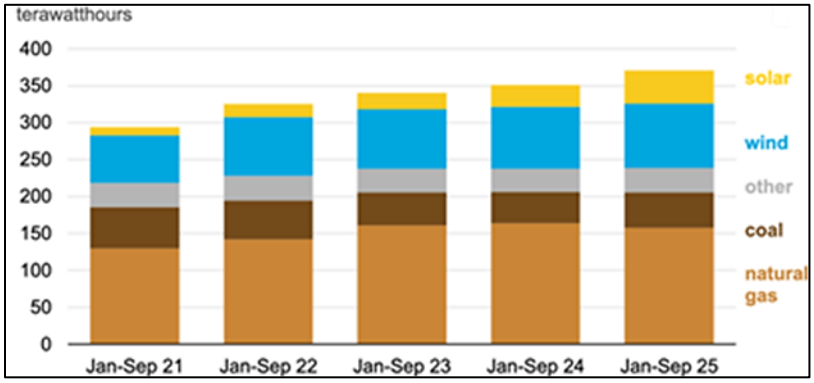
But there are plenty of other market signals that demonstrate the importance of a global view. Wind power is a case in point. In the U.S., the wind industry is having a tough time. In December 2025, the Trump Administration paused leases for five projects "offshore of New York State, Connecticut, Rhode Island, Massachusetts, and Virginia. Around 5.8 gigawatts of offshore wind were expected to come online in the U.S. between 2025 to 2029—enough to power millions of homes across the Eastern Seaboard." One of the reasons given was defense-related, stating "… that clutter from wind turbines in the line of sight of defense and civilian radar systems can cause interference and lead to false alarms."[12] However, wind remains an important generation source globally, despite challenges facing offshore wind.

Even within the U.S., there is no singular story. The main Texas grid, operated by the Electric Reliability Council of Texas (ERCOT), experienced "the fastest electricity demand growth among U.S. electricity grids between 2024 and 2025" and is increasingly fueled by renewables. "Since 2023, wind and solar generation, especially utility-scale solar, have been the fastest-growing sources of electricity in ERCOT and are increasingly meeting rising demand."[13]

ERCOT Electricity Generation by Source (2021-2025)



Source: US Energy Information Administration

As for solar, its acceleration continues on a global scale with particular regional pockets of expansion. Per the IEA, "…mapping the new geography of demand onto the distribution of global energy resources reveals that, by 2035, 80% of energy consumption growth occurs in regions with high quality solar irradiation. This is a sharp contrast with the past decade when medium to low solar regions drove half of the growth."[14]

Batteries are another area where growth and innovation are poised to continue. The Energy Storage Association (now part of the American Clean Power Association) released a scenario in 2017 in which battery storage would reach 35 GW by the end of 2025. This was described as "undoubtedly ambitious."[15] However, just as solar energy growth has been underestimated, perhaps the same is true for batteries? Certainly, U.S. installations reached, and then exceeded, 40 GW in Q3 2025.[16]

Costs also continue to decline across renewables and storage as "global average prices of both solar PV and electric vehicle batteries fell by more than 80% between 2014 and 2024."[17]

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CONCLUSION

So, we agree with the IEA. There is "no single storyline about the future of energy." But let us return to our initial discussion: why we invest the way we do, and specifically, why we focus on climate-related themes. It is simple: climate and thematic investment, more broadly, offer attractive long-term, risk-adjusted returns. We agree with the conclusions of a piece co-written by Aniket Shah of Jefferies which states that the goal of sustainable investing "is maximizing long run risk-adjusted returns…. Financial markets are an efficient discount mechanism that links the long-term to the present, so the sustainable investment community should be obsessed with this connection between the present and the long-term."[18] Successful investing, therefore, requires a clear understanding of how long-term structural forces are being mispriced today. That philosophy underpins our 2026 investment themes; climate adaptation, energy infrastructure, energy efficiency, and resource scarcity, which sit at the intersection of long-duration trends, current system constraints, and economic reality. Rather than undermining our thesis, the complexity of the transition strengthens it. Fragmented pathways and uneven progress create mispricing and delay capital deployment, increasing the future value of the assets we invest in. Importantly, much of what we have witnessed to date reflects an "addition economy," not a full transition. Even so, the progress already underway is meaningful.

Climate Investment Tailwinds: [19]

- Solar costs have fallen roughly 99% over the past two decades, and wind costs by over 60% in the last decade.
- Battery adoption is accelerating rapidly.
- In the real economy, roughly $2 is now invested in low-carbon solutions for every $1 invested in hydrocarbons.
- Hyper-scalers have become some of the largest buyers of clean power purchase agreements globally.

And yet, this has occurred before a true transition economy has fully emerged.

In our view, the "glory years" of climate investing are still ahead. Ignoring these structural shifts—driven by economics, infrastructure needs, and system reliability—risks missing some of the most durable investment opportunities of the coming decade.

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