



Electricity stocks: Ready to bounce?

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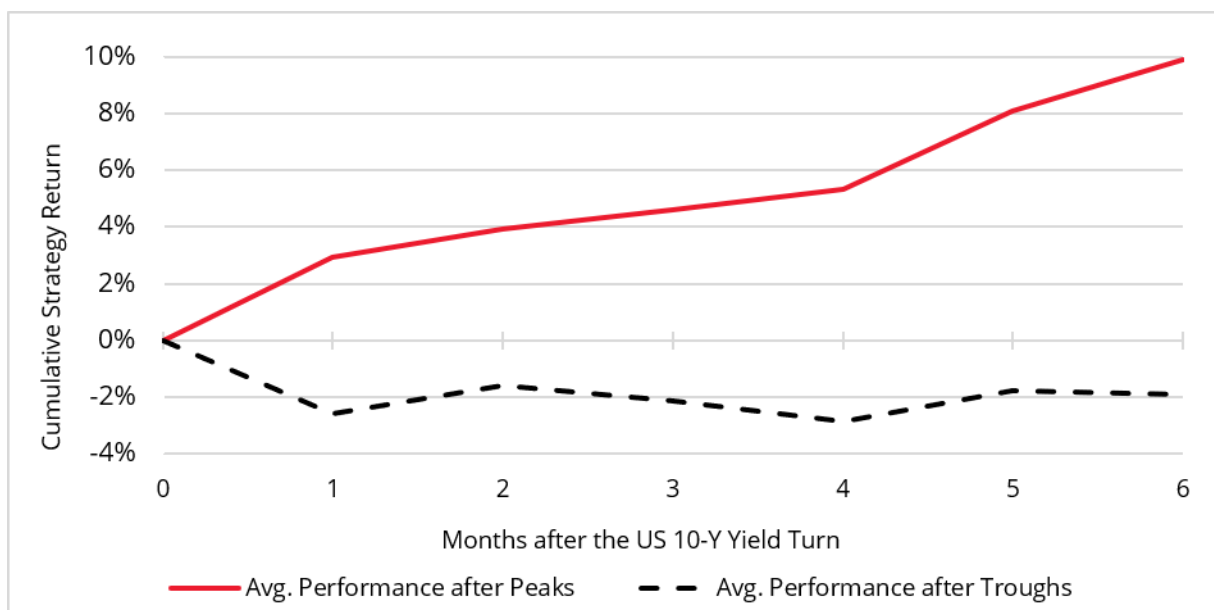
Against a backdrop of high interest rates and heightened uncertainty, we examine whether recent market volatility has created an attractive investment opportunity in the electricity sector. In environments where growth is accelerating, and valuations appear to be approaching trough levels, history suggests that the electricity sector has the potential to perform well once interest rates peak.

The market generally regards utilities and renewables as interest rate sensitive sectors, given their long-duration cash flows and relatively high gearing. As a result, when long bond yields peak, as is the case this year, the sector has come under pressure irrespective of company fundamentals. We have therefore seen broad weakness in the US utility index, down 14.4%¹ since early June, while the renewables and clean energy sector has also been falling, with the S&P Global Clean Energy Transition Index down 29% over the same period¹.

Against this backdrop, we examined whether the market has been mistaken and the reaction excessive. We analysed the correlation of the Redwheel Next Generation Power Infrastructure Strategy (NGPI) with interest rates, over 5-10 years. The correlation ranged from -0.4 to -0.3, indicating only a moderate negative correlation².

In addition, we sought to understand how the Strategy performed when interest rates peaked and troughed since inception². In the chart below, we show average performance six months after an identified peak or trough event between December 2015 and August 2026. From the interest rate peaks, the Strategy generated an average return of 10% in the subsequent six months. For example, in October 2023 the Strategy rose 10.4% six months after the US 10-year Treasury yield peaked at 4.99% (and rose 26.9% 12 months after the peak). Interestingly, the skew appears positive for the Strategy: following interest rate troughs over the same period, it declined by less than 2% on average after six months.

Chart 1: Redwheel NGPI Strategy - Performance after US 10-y Treasury yield peaks and troughs



Source: Redwheel, September 2026. Past performance is not a guide to future results. The information shown above is for illustrative purposes only. From December 2015 to August 2026, we identified 6 peaks and troughs. A peak is the highest point in the period that was not surpassed in the subsequent or prior 6 months; for troughs, where the lowest point was not surpassed. Performance is shown net of fees and is the average performance 6 months post peak or trough event.

¹ Source Bloomberg, September 2026

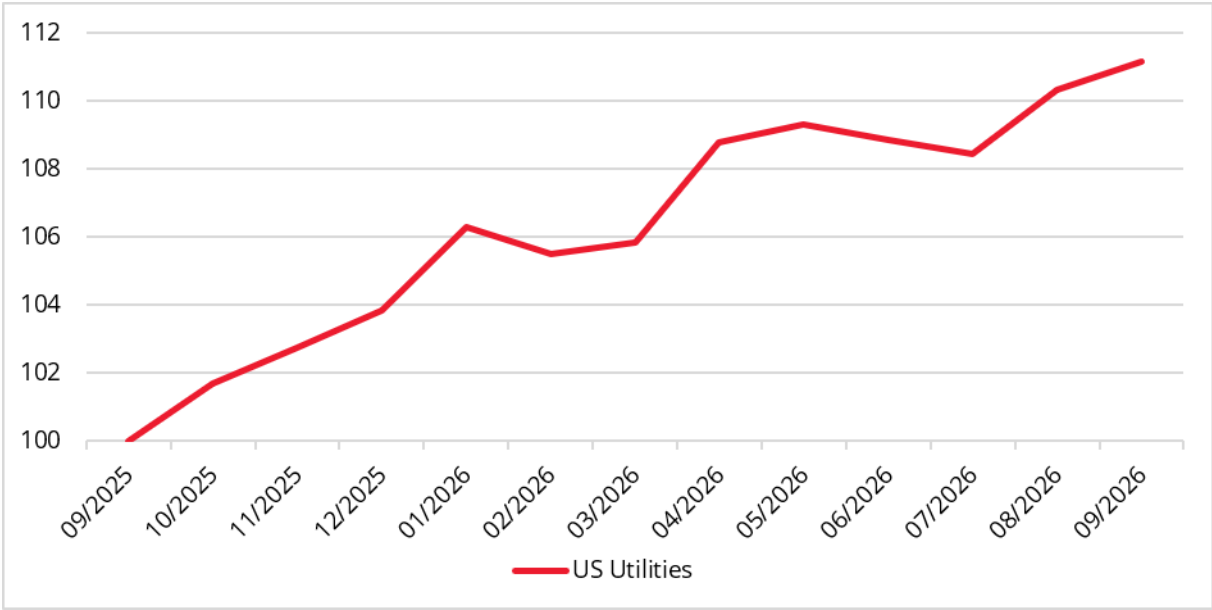
² Source: Redwheel, September 2026

This analysis suggests that, historically, peaking interest rates have offered attractive entry points for investors. That would be enough of a signal on its own, but the dislocation caused by interest rates comes at a time when fundamentals are strong.

Attractive fundamentals

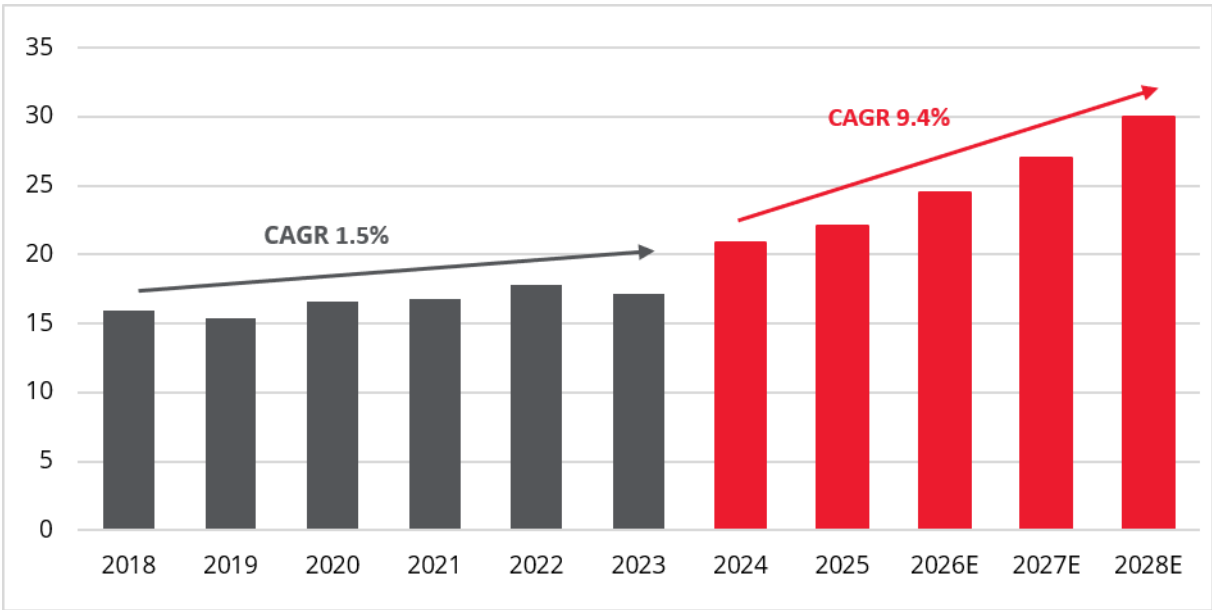
As shown in the charts below, US earnings revisions have been positive in the past 12 months and have accelerated since June, supported by strong first-half results and improved outlooks. Positive earnings revisions feed an already accelerating earnings growth picture for the sector.

Chart 2: US Utilities - Earnings revisions for the last 12 months



Source: Bloomberg, September 2026. Past performance is not a guide to future results. Indexed to 100.

Chart 3: US Utilities - Earnings per share from 2018 (USD)



Source Bloomberg, September 2026. Past performance is not a guide to future results. Forecasts and estimates are based upon subjective assumptions.

Anecdotally, the chairman of Iberdrola recently indicated that the company could possibly grow earnings by at least 10% per year through 2030.³ Nextera⁴ has stated it expects to grow earnings by at least 9% per year through 2035. These comments suggest that the two largest companies in the sector globally anticipate growing faster for longer. We would expect that to translate into premium valuations but the market disagrees: as earnings have accelerated and share prices weakened, valuations have compressed near 10-year lows, which has historically been a strong signal for investors.

Chart 4: US Utilities - 1-Year forward PE



Source: Bloomberg, September 2026. Past performance is not a guide to future results. Forecasts and estimates are based upon subjective assumptions.

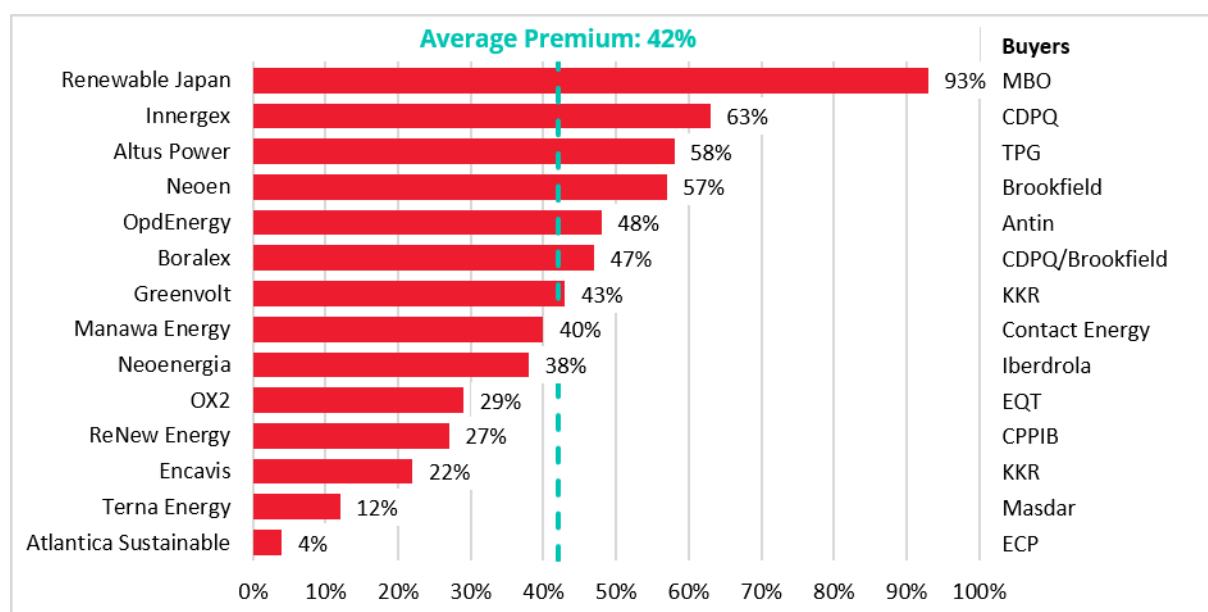
We believe the current weakness is an attractive opportunity for investors looking to gain or increase exposure to the sector, particularly in light of past M&A activity that has taken place in similar periods of weakness.

Prepare for M&A

In the absence of a rebound in stock prices, M&A activity could increase, as it did during the sector’s previous down cycle in 2023-2024. As private equity investors tend to have longer-term horizons and can refinance at lower rates over their holding period, they look at short-term dislocations as great buying opportunities. Across the sample presented below, the average acquisition premium was 42%⁵.

³ BTIG Investment Bank August Utilities, Renewables, Infrastructure and Energy daily commentary
⁴ NextEra website: <https://www.investor.nexteraenergy.com/news-and-events/news-releases/2026/05-18-2026-123054903>
⁵ Source: Bloomberg and Company Announcements

Chart 5: Recent Take Private Activity: Premium over share price 3 months prior to the offer



Source: Bloomberg and Company Announcements. Past performance is not a guide to future results. The information shown above is for illustrative purposes only.

In our investment universe, we have identified the following companies⁶ as potential acquisition targets. The selection reflects not only their valuations but also the fact that they are at a strategic or operational inflection point that Private Equity might better appreciate than a stock market gripped by short-term uncertainties and high interest rates.

Table 1: Potential acquisition targets (Financials):

	Market Cap (USD bn)	3-month Stock Performance	1-yr fwd PE Valuation (x)		1-yr fwd EV/EBITDA (x)	
			Current	Past 3-y average	Current	Past 3-y average
Ormat	5.6	-18%	36.3	37.4	11.9	12.2
Northland Power	4.1	1%	15.9	18.0	7.1	18.3
Algonquin	3.9	-16%	12.4	14.6	9.3	11.5
ERG	3.8	-5%	15.7	18.4	9.7	9.0
Drax	3.6	10%	14.8	8.7	5.9	4.6
Solaria	2.4	-26%	9.4	13.5	7.8	10.4
Scatec	1.6	1%	14.3	24.0	8.4	8.2
Renova	0.5	-15%	17.2	25.9	10.4	11.2

Source: Bloomberg and Redwheel, 28 September 2026. The information shown above is for illustrative purposes only. Forecasts and estimates are based upon subjective assumptions about circumstances and events that may not yet have taken place and may never do so.

⁶ Source: Bloomberg and Redwheel, September 2026

Table 2: Potential acquisition targets (Redwheel analysis):

	Shareholding	Position	Why now
Ormat	No controlling shareholder	Global leader in geothermal	EGS inflection: potential to multiply the US market size potential by 20x in the next 2-5 years
Northland Power	No controlling shareholder	Collection of international assets incl. offshore wind	End of high capex period
Algonquin	No controlling shareholder	Regulated utility in 13 US States, non-core Int'l assets	Change of domicile from Canada to the US creating an overhang from selling Canadian investors
ERG	Family likely to accept attractive bids	Largest listed independent renewable developer/operator in Italy	Strong balance sheet, in need of leadership
Drax	No controlling shareholder	Large baseload net zero UK operator	Datacentre opportunities: monetize land and generation capacity, extend the life of the assets
Solaria	Family likely to accept attractive bids	Datacentre play through land, connection and generation	Datacentre opportunities
Scatec	No controlling shareholder	Leading developer/operator in EM and frontier markets	Equinor selling its last 8% stake, EBITDA doubling in 2 years
Renova	No controlling shareholder	Largest listed independent renewable developer/operator in Japan	BESS acceleration, weak JPY for a global acquirer

Source: Bloomberg and Redwheel, September 2026. Forecasts and estimates are based upon subjective assumptions about circumstances and events that may not yet have taken place and may never do so.

Key risk

The principal risk to this thesis is that interest rates continue to rise. If the US 10-year Treasury yield moves towards 5.5%, 6.0% or higher, the sector could experience further valuation pressure and another leg down.

Conclusion

We believe that this is an opportune time for investors to look for entry points in the sector. Historical analysis suggests that periods around peaking interest rates have in the past preceded attractive performance, although we cannot guarantee that this would be the case in the future. However, sector fundamentals are supportive, the earnings trajectory is positive, and valuations are near historical lows despite a stronger growth outlook.

CONTACT US

Please contact us if you have any questions or would like to discuss any of our strategies.

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