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The Carlyle Compass

By Jeff Currie

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Welcome back to **The Carlyle Compass***, your weekly newsletter that brings together the latest research and market insights from our global team. This week's edition features guest author Jeff Currie, Chief Strategy Officer of Energy Pathways at Carlyle, and explores the forces shaping energy markets and how the next phase is being driven by energy security. Download the full report, ['The New Joule Order' here.]() Received this email as a forward? [Subscribe here]().*

Security is now paramount. The energy transformation is on the cusp of reaccelerating. Nuclear and renewable energy are likely to continue to expand rapidly in the years to come. Fossil fuels, however, will also expand—just more slowly—as natural gas replaces oil and coal fades. Climate concerns, however, will not be the main driver of The New Joule Order. It will be driven by the quest for security, with nations creating a diversified energy mix of joules across multiple sources to insulate themselves (and investment portfolios) from geopolitical, macro, and financial risks.

Security drives higher returns and faster transition. Fossil fuels are attractive as they can be traded. If trade is under threat, then so are fossil fuels. Non-fossil fuels are generally not traded and hence are local. These types of fuels thus become more demanded when security is paramount, which historically drives a more profitable, cleaner, and faster transition. The security-motivated transition (1973-1993) seen after the first oil crisis was about the same - if anything, 30 basis points per annum faster - than the Net Zero-motivated transition of 2010-2024.

“Peak Oil” has already arrived as “Peak Trade.” Fossil fuels are not disappearing any time soon. However, we are now likely seeing “Peak Oil Trade,” particularly from China. If consumers are able, they will try to reduce their imports of fossil fuels, which in most cases will mean increasing their supply of nuclear and renewable energy. The green premium has already faded and the market is in search of a security premium.

The investment thesis is strong. Investors have been overly fixated with how energy is produced at the expense of how it is consumed (i.e. levelized cost of energy (LCOE) over return on equity (ROE)). But all consumed energy is the same—it’s a joule. Produced energies differ—a molecule of oil, an electron of electricity, a tonne of coal. The legacy of the Net Zero 2050 investment boom (arguably, 2010 through 2021) is that it made renewable energy cost competitive, but did not resolve system bottlenecks. Instead, malinvestment and grid congestion followed. As a result, forward demand expectations suggest that some energy sources for joules, particularly fossil fuels and nuclear energy all remain substantially underinvested relative to forward demand expectations.

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