Q: Is there a bubble in clean energy stocks today?

Brian Lockhart: I believe so, and I say that even after many of the stocks have been cut in half. The majority of the companies in this category will never reach a commercialization that allows them to be even remotely profitable. These companies survive on a mixture of ESG mandates and quasi-government funding because they are not commercially viable, but that does not stop them from attracting capital. You are just beginning to see similarities to the internet bubble when it burst with high profile companies being forced to restate their earnings reports. Plug Power just recently stated they are going to restate every quarter going back to 2019. This will be disastrous for the stock and they are not alone. Another blue chip in the clean energy space is Fuel Cell, who recently reported their latest earnings. The company lost $.15/share or $47 million in the latest quarter on sales of just $4.9 million. I will admit it is impressive to be able to lose almost $50 million in less than $5 million in revenue, but their revenues are falling double-digits quarter after quarter.

I have no doubt that some companies will find commercial viability and be part of the long-term transition to more renewable power. Picking those companies in today's landscape is particularly difficult and may lead to very poor returns as a category.

Clint Pekrul, CFA: Like with most risky assets today, you could make the argument that valuations are elevated for clean energy stocks. If you look at the S&P Global Clean Energy Index, which tracks the performance of clean energy related businesses in both developed and emerging markets, the current price-to-earnings multiple is just under 30. Compared to the historical price-to-earnings multiple of roughly 16 for the S&P 500 Index, valuations in the clean energy sector seem a bit frothy. Companies like Nio and Nikola traded at astronomical multiples in January. Green energy companies like Vestas and Seimens traded at multiples of 100 times earnings. All this momentum sent the S&P Global Clean Energy Index higher by roughly 300% off the March 2020 lows.

Indeed, the sector has now pulled back about -20% from its January highs as the momentum trade from 2020 has waned. I do not think the underlying fundamentals in this sector remotely justified the valuations we experienced. There is likely more risk to the downside despite the recent pullback, based solely on rich valuations. However, the clean energy trade is not just a passing fad. We are not reverting to fossil fuels. There are overriding political and cultural forces at play with this trade. You just have to be mindful of the price you pay to invest.