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In Conversation: Willem Sels and Evy Hambro
Gold, Energy and AI: What's Inside the New Global Resource Revolution

Willem Sels:
Hi everyone, welcome to In Conversation with CIO. So I am delighted to be joined today by Evy Hambro, Global Head of Thematic and Sector Investing at Blackrock. Today we will be exploring the forces reshaping commodities from the outlook for gold to AI-driven demand for power and materials, and the renewed focus on energy security and independence and what all of this could mean for markets and investors.

Evy, great to have you with us.

Evy Hambro:
Thank you very much.

Willem Sels:
Now you have spent three decades investing through multiple commodity cycles. What is different about this mining cycle versus past cycles? And what makes you so confident that we are still early in it?

Evy Hambro:
When I look at this cycle and compare it to previous cycles, there are things people need to take notice of.

So when you think about the China commodity cycle from the early 2000, it was just China. China generated more than 100% of the demand growth for commodities at that time. And so the world became very reliant on that demand growth. In that commodity space, the foundations of the cycle are very similar to where we are today, which is one of under-investment into supply over many, many years.

And then we look at the demand side. This one is a global trend for commodities demand growth. It is one being driven by a global capital cycle where we are seeing investments being made into data centers, into robotics, into electric vehicles, charging infrastructure, power utilities, rebuilding the grid.

I mean, it is enormous what it is going on, the batteries that are required to spell to support the intermittency of the power generated by the sustainable sources, wind and solar and so on. So this massive capital cycle that we are in right now is driving commodities demand growth.

When I look at portfolios, most people are under-invested in this space. It is tiny when it comes to people's asset allocation. It is tiny in terms of global capital markets, but it is essential in terms of the global economy.

And I think you need to see that gap starting to close. So we are at the cusp of a capital rotation back towards the resources space.

Willem Sels:
Talking about one specific commodity, which some people think of as a currency, gold has rallied significantly over the last few years. Do you see that (central bank) buying is a structural and multi-year

trend or do you see also broader investor demand coming?

Evy Hambro:
Well, we have definitely seen both. So we have seen broader investment demand and we have seen central bank demand. One of the interesting things about the central bank demand is, I am showing my age here, but when I started in the 1990s, there was consistent central bank selling.

Central banks had been sellers for three decades and they only really stopped disposals of gold, I think the first year was 2010, when we had net central bank buying. So more buying than selling, and there has not been a year since 2010 when there has been net selling. In fact, we have actually had the rate of buying has increased dramatically in the last four years.

And it is not just one central bank that is buying. It is a global trend. And I think the reason for that is what we are seeing in central bank governments is high levels of indebtedness.

And there is a reluctance to cut the spending within government. So the problems that governments faced are going to continue, which means their balance sheets are going to expand and paper currency is going to depreciate further in what it can buy you. So investors are looking for alternatives.

So I am going to buy something else. So gold is an asset people are turning to. It has been a store of wealth for thousands of years. Real assets are also areas where it is infrastructure and to some degree, the right equities are also that kind of protection. So a mixture of all of those things I think is going to do better for you than just having government debt.

Willem Sels:
Now the hot topic AI, it is also a materials and an energy story. So where are the best opportunities there from a sector and geographical perspective?

Evy Hambro:
Yeah, I am not the right person to say to you whether one area is better or worse than the other. But what I can tell you is when I look at the valuation multiples across the entire supply chain, and investors must not lose sight of that.

You know, you cannot build a data center without raw materials or energy and everything that goes with it. So you have to look at the supply chain. Different components of the supply chain trade at different multiples, but they are all exposed to the same trend, which is this one of electrification and digitisation of the global economy. And so if you are buying exposure to a business that is exposed to that trend, you are going to benefit from the trend.

And if you have got all of your eggs in one basket, i.e. just at the end in the data centers or the AI companies, and you are completely exposed to that. If people's view changes, then you are going to be at risk. So you need to be diversified across the supply chain.

I think the material sector looks very, very cheap relative to other parts of it.

But utilities also look good. I think the sustainable parts of the kind of the energy mix. And we know that these investments that the AI companies are making are very power hungry. So can those companies fill the power gap and get a good return.

I think there are lots of opportunities across the supply chain.

Willem Sels:
You talk about power, energy independence is now a matter of national security, whether it is because of the need for power for your AI, or also, obviously, the geopolitical issues that we have seen around the Middle East. How can countries strengthen their energy independence, especially if they are, of course, resource poor?

Evy Hambro:
You cannot build this for, you know, enormous amounts of money and expect it to be a good return for a government. So it has got to be reliable. It has got to be built for the right cost to be able to meet people's needs. I think if you can do that, that will be a great outcome. But it is hard.

And when you think about governments today, they do not have much money. So they will need to do that in partnership with the private sector, not just relying on governments to do this themselves.

Willem Sels:
We need to talk about the weather. El Niño is a weather pattern that is becoming more severe, and climate change also is obviously having an impact on agricultural resilience in particular. Where are the opportunities there for investors?

Evy Hambro:
It is not just thinking about El Niño. It is thinking about the damage to the supply chain that will affect agricultural products.

So if El Niño is going to cause havoc with regards to crop yields, which history is a guide to, at the same time that fertiliser prices and chemicals are difficult to get, but also very, very expensive, something needs to change. And there is an opportunity for investors.

Willem Sels:
Thank you Evy for sitting down with me and connecting the dots between geopolitics and the commodity space. Very interesting for our clients. And thank you.

Evy Hambro:
Great, Willem. Thank you as well.