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summaries

SIGMA INVESTMENT COUNSELORS

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THE RISE OF ELECTRIC VEHICLES

I recently had the opportunity to return to Shanghai to visit my parents and family. During my three weeks stay I noticed significant changes compared to my last visit in November 2019. As an investment advisor, keeping up with global market trends is essential. A key trend that particularly caught my attention was the rising popularity of China's domestically produced electric vehicles (EVs). This development, in my view, is not only crucial for China but also carries important implications for global markets and investors, signaling a notable shift in the automotive industry.

This shift is clearly evidenced by the increasing dominance of Chinese EV manufacturers. Companies like BYD, NIO, Xpeng, and Li Auto are now overshadowing traditional U.S. carmakers in the Chinese market. Whereas U.S. cars were once a common sight on Shanghai's streets, they are now becoming increasingly rare. Occasionally, a GM Buick or Cadillac might appear, but Ford vehicles are almost entirely absent. In contrast, Japanese and European brands like Toyota and BMW continue to dominate the combustion engine car market.

This shift is not accidental but a result of deliberate policy choices. The Shanghai municipality plays a pivotal role in promoting EVs. By offering substantial subsidies and financial incentives, EVs have become more accessible to average consumers. A prime example of this is the BYD premium brand EV SUV. Priced around $48,000, thanks to government subsidies, it is significantly more affordable than its American combustion engine counterparts. For comparison, the Cadillac XT5, a popular American model, costs about $62,000. This price difference is significant in a market where price sensitivity is a crucial factor in consumer decisions.

Moreover, Shanghai's policies favor EVs by making obtaining license plates for gasoline cars difficult. There's an annual cap on new license plates for gasoline cars, and those in need of a plate for a fossil fuel car must enter a lottery with only an 18% success rate. Successful applicants also face an additional cost of approximately $13,000 to secure the license plate. In contrast, electric car owners are exempt from both the lottery and this fee. This exemption further enhances the appeal of electric cars for consumers. The promotion of EVs extends beyond Shanghai, as similar policies have been implemented across the country.

The Chinese government is strongly motivated to promote electric vehicles (EVs) for several key reasons. First, EVs play a crucial role in reducing air pollution and carbon emissions, aligning with China's environmental goals. Additionally, advancing EVs and related technologies such as battery innovation, AI for smart vehicles, and renewable energy integration is central to China's ambition to become a leader in emerging technologies.

Most importantly, in my view, China's drive towards EVs is also motivated by its aim for energy independence. Unlike the United States, which can largely meet its oil needs domestically, China is heavily dependent on oil imports. As the world's second-largest oil importer, this reliance exposes China to geopolitical risks. For instance, escalating tensions with Taiwan could lead to international sanctions, particularly from the U.S., jeopardizing China's oil supply. Transitioning to EVs, powered by domestically produced electricity, strategically lessens this dependence. Thus, this shift addresses not only environmental and technological goals but also is a critical component of China's national security strategy.

The rise of China's EV industry is significantly reshaping its role in the global automotive market. This shift poses a considerable challenge for U.S. automakers in China, which has the world's largest car consumer market. The future success of U.S. automobile companies depends on their ability to innovate and adapt to the unique demands of the Chinese market. Embracing these changes is crucial for maintaining a competitive edge in an evolving global automotive landscape.

As we approach 2024, and in concert with my colleagues at Sigma, we wish you a wonderful holiday season and a prosperous New Year.

Wenma Gorman, CFA, CFP®

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

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