Rodney's Take

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The Financial World Is Crazy, Too

The political storms in the U.S. have sucked all of the oxygen out of the room, leaving little capacity for talking about anything else. The equity markets are far down the list of topics to discuss at cocktail parties, if we were having such gatherings anymore. But if we can pull our gaze away from Washington, DC, for just a few seconds and turn our attention to Wall Street, we'll see something very unusual.

General Motors (NYSE: GM) is leading the pack.

I didn't think I'd ever put GM at the head of any list, unless the list was about bankruptcy proceedings, lobbying dollars, avoiding taxes, or maybe shifting pension costs to U.S. taxpayers. But there it is, right at the top of the list in the S&P 500, having gained 33% so far this year.

Amazingly, Ford (NYSE: F) is just a breath away, up 31%, and up 17.5% just last week.

You might think that all of GM's debt was washed away a second time or that both companies had scored some "vital to America" designation that gives them special tax status, but that's not the case. Instead, the gains result from plain old investor psychology based on politics and practical issues.

With Joe Biden entering the Oval Office, climate issues are front and center. The new administration is expected to dramatically increase fuel-efficiency requirements for auto manufacturers, which will supercharge their push into electric vehicles (EVs). GM, Ford, and others have tried this space before, with failed adventures like the Volt and Bolt for GM, but those models belong to a best-forgotten past. Tomorrow is about electric pickups, the Mustang Mach-E, and myriad other models driven by a combined investment of more than $50 billion.

Somewhere in the fray, investors realized that Tesla, which plunks out a paltry 500,000 cars per year, can’t physically build enough vehicles to supply the hoped-for flood of demand for plug-in cars. Desperate buyers will flock to vehicles from the likes of GM and Ford, which make millions of vehicles every year and have the dealership and service infrastructure necessary to handle mass EV acceptance.

The possibility of an automotive perfect storm that brings together government regulation and enforcement, massive investments and new model rollouts from car companies, and a wave of consumer demand sounds too good to be true… because it is.

There’s no doubt that President Biden favors policies that address climate change and that he will focus a great deal on upgrading transportation. And it’s obvious that GM and Ford, playing catch-up, are willing to spend several years’ worth of profits to get new EV models out of the door. But demand? Well, that’s a question.

The U.S. government sped up auto demand in 2009 through the Car Allowance Rebate System, the so-called “cash for clunkers” program, and could try the same thing again, giving cash to people willing to trade in their old vehicles for new EVs. But that wouldn't address some of our biggest concerns, such as driving distance and charging convenience.

A recent M.I.T. study showed that, including battery development, EVs are the most fuel-efficient and the lowest-cost vehicles available. That's great, but what about the hassle? Charging a vehicle at home works best if only one vehicle needs a charge at a time and if the process is convenient. What about people who don't park in their garage or who live in an apartment or high rise? As EVs become more common, charging stations in parking lots will be used more frequently. With charging times still measured in at least half-hour increments, this becomes a problem. Waiting five minutes behind one person for a gas pump is annoying. Waiting half an hour behind one person at an electric charging station and then spending another half hour to charge your own vehicle seems intolerable.

When it comes to EVs, we're putting the proverbial cart before the horse.

I'm not alone in recognizing this, which is why the Biden administration has called for half a million new EV charging stations. That's great, but it would mean a tremendous increase in electricity demand, which few states (here's looking at you, California) are prepared to meet. Imagine, during the heat of summer, rolling blackouts that shut down EV charging stations and consumers being instructed to refrain from charging their cars at home to save electricity. That doesn't sound far-fetched.

The government can address several of these issues at the same time by offering purchasing incentives and subsidies to builders of charging stations and by permitting new electricity generation plants. But it's hard to regulate convenience. Until consumers are confident that they can use EVs just as easily as they use gas-powered cars, then the vehicles will remain a niche market.

With this in mind, the recent runs in GM and Ford look out of whack. But on a valuation basis, the companies look like discarded diamonds compared with Tesla. For the time being, we'll stick with charging station company ChargePoint, which is slated to merge with Switchback Energy (NYSE: SBE), a SPAC, on February 11. If we have to build half a million charging stations before we mass adopt EVs, then ChargePoint should be in for one heck of a rally.

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Got a question or comment? You can contact us at info@hsdent.com.