Will Trump Rhetoric Trump Sustainable Investing?

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Interest in sustainable investing is expanding at a rapid pace among institutional and retail investors around the world, but Donald Trump's climate-change rhetoric has left some investors concerned about the implications of his presidency.

Before we discuss that possibility, let's delve into the definition of sustainable investing, which means many things to many people.

Acronyms such as ESG (environmental, social, and governance), RI (responsible investing), and SRI (socially responsible investing) are used interchangeably.

In addition, terms that describe the integration of religious or moral beliefs in portfolio management—social investing, ethical investing, values-based investing, mission-based investing, and socially conscious/aware investing—are also widely used.

While there is no single definition of sustainable investing, we can say it is a type of investing that relies on environmental, social, and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.

When did it all begin? Governance considerations (the G in ESG) have been widely integrated into investment decisions for decades, in part because the risks of poor governance are well understood and frequently reinforced by high-profile corporate scandals (such as Toshiba's accounting shenanigans and Volkswagen's monumental deception of environmental regulators). However, environmental and social factors (the E and S in ESG) didn't become popular among U.S. investors until the 1960s and 1970s.

There's certainly evidence that sustainable investing works. Consulting firm Mercer, for example, has published an analysis of 36 academic studies that examine the link between ESG factors and financial performance, and the results are compelling: 20 of 36 studies indicated a positive relationship between ESG factors and financial performance, while only 3 studies showed evidence of a negative relationship.

While further research is needed to quantify the benefits of sustainable investing, demographic trends are certainly propelling it to the forefront of investor awareness. Millennials, in particular, tend to focus more on sustainability than previous generations, viewing themselves as global citizens who have a responsibility to make the world better. All else equal, they will choose a brand or decide where to shop based on a company's commitment to environmental and social issues. There is also evidence that they will pay a premium for brands associated with sustainability.

These preferences have not been lost on investment managers, brokerage firms, and service providers, who have responded with a plethora of ESG-themed research and products in recent years. Among the more interesting and potentially influential developments are the ESG fund ratings systems introduced by Morningstar and MSCI in 2016, which allow investors to compare funds across different sustainability metrics based on underlying holdings.

But the presidential election has created uncertainty for sustainable investors, because it raises concerns about what U.S. environmental policy will look like over the next four years. In particular, Trump's victory has cast a shadow over ongoing efforts to combat global climate change. There are legitimate concerns about the United States withdrawing from the Paris Agreement based on Trump's campaign rhetoric and Republican Party unification behind his anti-climate stance.

While an important element of leadership has seemingly been lost with Trump's election, there is still momentum behind the low-carbon transition regardless of policies that the incoming administration may adopt. For example, investments in clean energy have gained momentum in recent years due to lower costs and increased focus on pollution. More broadly, we believe it is unlikely that investors will stop seeking sustainable solutions because of Trump. In fact, his election may actually bolster interest in ESG factors as investors seek to offset his policies.

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