

ESG outlook

Investment themes and trends for 2021

As we emerge from the unprecedented year that was 2020, it seems aspects of the abnormal are here to stay. The coronavirus triggered a global pandemic that fundamentally reshaped how society and the economy operates, both in times of crises and as we shift back towards virus-free life. In terms of ESG, the pandemic accelerated many pre-existing trends, triggering a growth in awareness and inflows towards ESG-related investments on a scale not seen before.

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Looking to 2021, Covid remains the dominant factor influencing the news, markets and the way we live our lives. The same applies to the world of ESG investing. But there are plenty of other influential factors at play behind the headlines. Here are our eight themes and trends to watch for over the year ahead.



Action on ESG policy & regulation

Governments, central banks and regulators around the world will continue to take action to embed ESG factors into law. We're predicting a particular emphasis on 'greenifying' the financial system and designing fiscal stimulus plans with green recovery as a core feature.

Having led the charge in this area, Europe should see some regulation come into force in 2021. Other regions have indicated that they will most likely follow a similar path in terms of developing taxonomies and standards. While welcomed, we believe efforts will be most impactful if harmonised and standardised globally wherever possible to ensure efficient market functionality.



The rise of the 2 Ds – data & disclosure

Accelerated by the ESG regulatory push, the need for data – obtained transparently – is a trend set to continue. Data discussion topics are likely to be dominated by availability, timeliness, comparability and quality.

We expect those who collect, interpret and disseminate data are also set to face closer scrutiny in 2021. This will impact those who deal with ESG ratings and scores, as well as those who develop disclosure standards.

We are also anticipating the enabling role of technology (big data, AI, geospatial) taking on new importance.



Covid has led to a material decrease in consumption rates and has shown society it is possible to consume less and still be content, placing a greater value on nature and intangibles.



Don't forget the G – the rise of stewardship

The 'G' – governance – has always been important, but we're anticipating it having an increasing emphasis on stewardship factors, which place duties on investors to play their role in enabling a more just and sustainable future. We're expecting to see the development of 'systematic stewardship' – referring to the rise of systematic ESG risks and the need for collective action to address them.



Social issues remain in focus

The pandemic brought issues of equality, as well as health and wellbeing, to the fore. In 2021, we're expecting to see an ongoing adjustment, with employers experimenting with new flexible models of working and making a greater effort to engage, motivate and support staff. Efforts will also need to increase in terms of addressing social justice and inequality more strategically, in our view, with human rights issues moving into the spotlight.



Expanding the E – climate & beyond

In 2021, we're expecting to see more 'net zero' pledges as organisations commit to alignment with the Paris Agreement. Pandemic impacts led to the postponement of the 26th UN Climate Change Conference in 2020, which will now take place in November 2021 and continue the scrutiny of governments across the world, critiquing the scale of their ambition. With the prospect of a more climate-change friendly US administration under Joe Biden's leadership, there is renewed confidence that the world's largest economy will re-enter the Paris accord and put the US back on a low-carbon path.

We're also expecting a widening of emphasis under the 'environment' banner beyond energy and transport to encompass land-use change – both in the context of climate change and taking into account the emphasis created by the Covid crisis in terms of how people interact with nature. With this expansion, we expect to see more activity around nature and biodiversity and the concept of nature-based solutions linked to the theme of sustainable commodities.

Another environmental concept heightened by the coronavirus to watch for in 2021 is the circular economy and resource efficiency. Covid has led to a material decrease in consumption rates and has shown society it is possible to consume less and still be content, placing a greater value on nature and intangibles.





2021 is also likely to bring greater debate and discussion about what can be done to promote 'transition finance' - financial support that helps high-carbon companies implement long-term changes to become greener.



ESG fixed income goes mainstream

While ESG investment principles have been slowly incorporated into asset classes beyond equities, we believe 2021 is likely to be the year where the fixed income market will move toward centre stage.

Engagement efforts expanded beyond corporate issuers to sovereigns and municipalities during 2020, and we can expect to see more of this to come. Sustainable finance in the form of the ESG-labelled bond market should continue to surge, as innovation helps align issuers and investors around their sustainability goals and objectives. While proceeds-led issuances (e.g. green, social and sustainability bonds) will continue to play a role, we're predicting fledging sustainability-linked bonds broadening the opportunity set by opening up the types of issuers which can participate.

The pandemic has given the social bonds market a boost and this will likely continue into 2021 in tandem with efforts to tackle health and social welfare. 2021 is also likely to bring greater debate and discussion about what can be done to promote 'transition finance' - financial support that helps high-carbon companies implement long-term changes to become greener. Diversification can also be expected with greater participation from issuers in emerging markets, as well as in terms of issuer credit quality with more sub-investment grade companies getting involved.



Beyond ESG - impact investing to deliver real-world outcomes

Now is the time for a greater emphasis on going beyond 'business as usual' to identify actions to deliver real-world outcomes. We predict investment strategies that centre on positive impact will rise in popularity.



Risks vs. opportunities

The business case for ESG investing has been largely dominated by a focus on downside risk management. But as sustainable, thematic and impacting investing receives a greater share of airtime in order for investors to evidence their contributions to real-world outcomes, this should create significant investment opportunities across multiple sectors.

While uncertainty remains as to how 2021 will pan out, all factors suggest ESG investing should continue to build momentum. The pandemic has firmly dented the 'it's too hard' excuse, as the world has shown us what is possible regarding the pace and scale of change when faced with an existential threat. We believe the challenge now will be to ensure we have the right data, tools and framework to deliver on tangible actions. 2021 should - and must - set us on a journey to rebuild society in a green and just way.

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