(UBS)

Sustainable investing: Trump 2.0 Presidency implications

06 November 2024, 7:45 pm CET, written by UBS Editorial Team US Editorial Team

The Associated Press declared that former President Trump is set to re-enter the White House, and the Republican Party will regain control of the Senate. The House is still undecided. While some votes may be recounted, we recommend that investors assume a Trump presidency.

What does it mean for international climate investing and sustainable and impact investing more broadly?

As we detailed in the **ElectionWatch Sustainable Investing Perspectives report**, a Trump Presidency and "Red sweep" outcome has mixed impact on sustainable investing depending on the area of focus. Most importantly, we note that despite campaign rhetoric and headlines, the performance of sustainability-focused strategies has historically been more impacted by macro conditions than the party governing from the White House.

On climate investments, we look at US domestic and international policy. On a domestic level, the Inflation Reduction Act has been a significant boost to activity across sectors from renewables, carbon capture, and electrification, especially in states that voted for the Republican candidate. This also matters to global investors who have been finding opportunities with US-listed and private companies. We do not expect a wholesale reversal of the IRA, although parts related to EV credits could be at risk. However, a potential slowdown in disbursement from the Department of Energy seems likely.

A continuation, or possible broadening, of tariffs against China might impact US companies working toward climate solutions which have reliance on China for inputs, although we note that the relative impact here is muted compared to the status quo given existing tariffs from the Biden administration.

A swift reversal of environmental policies from the Environmental Protection Agency could be possible, following the steps of the first Trump presidency. We believe the impact of a potential reversal would not be immediate in market terms, in particular as some expectations on environmental performance are embedded in the market. For example, energy companies likely retain their focus to reduce methane leakage from operations. For global investors, with time a reduction of environmental policies in the US might mean needing to differentiate among companies leading on practices by going above and beyond.

The US Election outcome may not bode well for international climate negotiations, as COP29 (the United Nations Climate Change Conference) is set to open in Azerbaijan next Monday. Trump withdrew the US from the Paris Agreement during his last tenure, which was reversed by Biden. Negotiators will go into the meeting likely assuming the same action from the US, which could cast a shadow over any decisions. The challenge is also funding: Under the Biden administration, annual international climate finance coming out of the US reached an estimated USD 11bn in 2024, which accounted for ~10% of the current USD 100bn pledge in funding provided by rich countries to emerging markets. Comparatively, when Trump was previously in office—and when he withdrew from the Paris Agreement—this was less than USD 3bn. The impact of any US pullback would be most severely felt in emerging markets, which are both more vulnerable to climate risk and face the biggest funding gap to build resilience.

We also see possible impact for US-domiciled strategies that are explicitly marketing their focus on sustainability, impact, and ESG. We believe it now seems unlikely that the SEC would push forward with rules requiring climate disclosure from companies. A reminder to investors that large US companies with operations in Europe are subject to EU sustainability-related disclosure requirements; thus, visibility of data should continue.

We might see additional scrutiny on the use of ESG terms and an elevation to the national level of what has thus far developed as state-by-state legislation. Yet, given the state level action of the past 24 months, we have seen managers of SI-focused strategies retain their focus on investment fundamentals tied to sustainability and spend less time on marketing. This might be positive for the maturation of the field overall, although near-term outflows and further consolidation of the number of available options are likely, in our view.

Takeaways for investors:

- A Trump 2.0 outcome is likely to represent more of a status quo for sustainable investing strategies and their performance than is widely anticipated by the market. We do not expect a wholesale reversal of the IRA and note that the investment thesis around the climate and energy transition remains robust. That said, near-term volatility is likely as the market digests the news.
- The outcome may not bode well for international climate negotiations, perhaps casting a shadow over the COP29 meeting which starts on Monday. It seems likely that President Trump withdraws the US from the Paris Agreement again, which could imperil US commitment to international climate funding. We believe this could impact emerging markets the most.
- For US investors, the state-level debate on ESG and sustainability-focused investments might rise up to the federal level, with potential more scrutiny from the SEC. This might result in further outflows in the near term. Over time, we would expect investors focused on sustainability to further focus on the fundamental investment drivers and move away from marketing efforts, which would be a step forward in the maturation of the space.

For more, see **Sustainable investing perspectives: Trump 2.0, real estate risk, and global biodiversity summit**, 6 November, 2024.