

UBS House View Briefcase

How can investors profit from a green recovery? **13 July 2020**

Chief Investment Office GWM

Key message

Governments around the world have been boosting investment in green projects as part of an effort to revive growth following the COVID-19 pandemic. We expect this to add further momentum to sustainable investing, supporting already robust investor interest in sustainable opportunities in equities, credit, and private markets. Sustainable portfolios held up well in the last drawdown, and the shift is here to stay over the longer term, in our view. So we see plenty of potential in sustainability and recommend investors to seek exposure to it.

House view

01 **Governments and central banks have shown a strong commitment to a "green" recovery from COVID-19.**

- Governments around the world have been adding funding to green projects, as part of the stimulus efforts intended to revive economies follow COVID-19 lockdowns.
- An analysis in the Wall Street Journal calculated the world's top 50 economies were putting USD 583bn into boosting green efforts.

02 **This growing policy support provides an extra impetus for sustainable investing in equities, credit, and private markets.**

- Increasing government support for SI comes at a time when there is already growing appetite in investing in SI assets from both private and corporate investors.
- Inflows into global equity ETFs have been very volatile through 2020, according to Morningstar data, whereas ESG ETFs have seen steady, cumulative investor flows.
- At the 23 March low for global equities, 21 out of 28 ESG-focused ETFs outperformed, and that outperformance against traditional cap-weighted ETFs has persisted into the recovery.

03 **So we recommend investors buy into opportunities in the sustainable space.**

- Investors can replace a portion of their traditional portfolio with sustainable alternatives, such as green bonds and firms that lead on ESG criteria.
- They can also seek longer-term opportunities aligned with the United Nations' Sustainable Development Goals such as healthtech and renewable energy, and impact private market strategies such as in oncology.

New this week

Christine Lagarde has promised to put green objectives at the heart of the European Central Bank's EUR 2.8tr asset purchase program. The ECB president said she wanted to "explore every avenue available in order to combat climate change."

One liner

Sustainability is increasing in relevance as a consequence of the COVID-19 pandemic, creating opportunities for investors.

Did you know?

- The European Parliament is committed to the Green Deal, with plans to invest in renewables, clean transport, sustainable food, and shortening and diversifying global supply chains. This will support ongoing investment in sustainable industries.
- China topped the list for labeled green bonds in 2019 in terms of issuing amount, with CNY 386.2bn (USD 55.8bn) recorded, up 33% from CNY 282.6bn in 2018.
- The Chinese government pledged CNY 10bn to build electric vehicle infrastructure.

Investment view

We expect a diversified portfolio of SI equities and bonds to perform overall in line with conventional strategies. While ESG leaders and improvers approaches offer more defensive characteristics, we think allocations to ESG themes and ESG engagement equities and high yield bonds will be the cornerstone of growth and return opportunities. To read more about buying into sustainable opportunities, [click here](#).

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