

Strategic: Go sustainable

Go sustainable

Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

Why? Sustainable investing can deliver competitive returns and alignment with sustainability goals. While the Trump administration's policies on climate, diversity, and multilateral organizations may weigh on parts of the SI market, opportunities still exist. We favor diversification across asset classes, exposure to less-policy-sensitive areas (like ESG leader equities), and exposure to private impact investments (subject to their unique risks).



Source: Gettyimages

CIO identifies a number of transformational innovations that look set to shape global equity markets in the years to come. Each is closely linked to sustainability. *Artificial intelligence*, *Power and resources*, and *Longevity*, which represent CIO's three Transformational Innovation Opportunities (TRIOs), are all themes that invest in companies addressing challenges and opportunities across varied fields like resource efficiency and food and water security to rising clean energy demand. These topics align with the priorities driving the global sustainability transition. We therefore believe the secular case for investing in a diversified sustainable portfolio approach across equities, bonds, hedge funds, and private markets remains firm.

Nevertheless, greater investor caution has arisen over questions about how the Trump administration's policies may affect sustainable investing. The first 100 days of the second Trump administration ended with the US president signing more executive orders over the period than any other president in the past 50 years. These executive orders and other policies have brought major layoffs, spending freezes, deregulation efforts, and a strong shift in priorities and status quo. In our Executive Order Tracker, we note that over 70% of executive orders signed as of 28 May have either an environmental or social impact. Just one example of shifts in the US landscape is [non-profit business group E2's estimate](#) that canceled investments from planned US clean energy initiatives this year total over USD 15.5bn since January and have cost at least 12,000 jobs this year.

While some sustainability-related policies may be rolled back in the years ahead, we do not anticipate wholesale changes to the fundamental case for sustainable investing and continue to see attractive growth opportunities.

All major asset classes, including equities, bonds, hedge funds, and private markets, offer sustainable options, which historically have shown similar return characteristics to traditional investments, though risk characteristics differ particularly for alternatives. While we expect volatility to persist as the Trump administration's agenda evolves from trade policy toward deregulation efforts in the second half of 2025 and beyond, we believe that the longer-term performance of diversified sustainable investing strategies will be driven more by investment fundamentals and the economic environment than by politics.

In stocks, we believe investors can consider the equities of companies that are demonstrating improvements or leadership in environmental, social, and governance (ESG) principles, as well as ESG engagement strategies.

ESG leader strategies aim to be sector-neutral, meaning global performance isn't driven by sector or country tilts. This may help navigate a US political environment where the performance difference between perceived policy winners and losers widens. ESG leaders have shown resilience through less favorable policy periods in the past.

ESG leaders, as an investment screen, correlate with growth and quality equity factors. As such, they typically enjoy

a valuation premium compared to benchmarks. This is also justified by consistent empirical research that shows a positive relationship between companies' management of sustainability issues and their financial performance (Friede, et al. 2015, Whelan, et al. 2021).

ESG improvers are companies that are demonstrating positive momentum in addressing ESG risks and opportunities. They are not yet "leaders" but their performance on various ESG criteria shows signs that they could become leaders in the future. Momentum is a well-known strategy in the investment industry. It consists of buying stocks that have an upward trending price and selling those that have had poor returns in recent months, based on the tendency of the price to move in the direction of the trend.

Within engagement strategies, we believe investors should diversify into sectors beyond climate that exhibit strong economic fundamentals and have a proven ability for engagement on sustainability to drive higher profits and real-world change. While we acknowledge that this approach has faced challenges from shifting regulations and a bias toward small- and mid-cap companies that have historically suffered in times of high interest rates or economic uncertainty, we reiterate that this remains the only public market strategy with impact investing potential. As the practice broadens in the industry, investors explicitly seeking impact investing goals should remain critical of manager selection, ensuring engagement is targeted and accountable.

In fixed income, we like bonds issued by multilateral development banks (MDBs) or those with stated green intentions, as well as credit strategies with an active approach.

MDBs are supranational financial institutions backed by multiple sovereign governments, with the purpose of supporting economic, social, and environmental development, mostly in emerging countries. Many, especially those issued by the World Bank, have the US as the largest guarantor or capital contributor. As such, the country has the largest voting power on new projects or developments.

However, even the withdrawal of the US from multilateral institutions to focus on domestic or bilateral relationships should not derail MDB bonds. They have strong fundamentals, appealing yields, and resilience to weakening in the credit quality of their member countries, so they do not trade at a credit risk premium over benchmark government bonds like US Treasuries in USD or German Bunds in EUR. They do, however, offer some extra yield over government debt given lower market liquidity for the largest institutional investors. This ranges from 5 to 30 basis points (bps) across the cycle depending on the bond tenor and overall market volatility. Investors can continue to benefit

from MDB bonds' stability and diversification effects in their portfolios, in our view.

In alternatives, risk-tolerant investors can consider sustainable hedge funds. Such funds incorporate ESG factors into their investment processes, aiming to exploit market inefficiencies related to ESG issues. They thus may offer differentiated investment opportunities.

And in private markets, we believe impact investments in climate technology that aim to help companies meet their decarbonization commitments, reduce overall greenhouse gas emissions, and drive the overall transition to a low-carbon economy represent a significant investment opportunity, with clean energy solutions alone representing a market of USD 650bn annually by 2030, according to our estimates. We see the most attractive commercial opportunities in technologies that serve sectors that are hardest to decarbonize: electricity and heat, industry, buildings, transportation, and agriculture. These sectors are critical to the economy and major contributors to emissions.

Nonetheless, private market investors need to consider risk factors like leverage, potential defaults, and concentration risks. Investing in private market vehicles also requires a tolerance for illiquidity and comes with limited disclosure and control over holdings.

For those looking to invest in climate tech, CIO sees opportunities in funds focusing on early-stage and growth-stage companies, providing the capital needed to scale their technologies and bring them to market. We believe such funds have the potential to deliver venture-like returns, while also generating measurable environmental impact.

Moreover, investors can explore co-investment opportunities, which allow them to invest alongside experienced fund managers in specific deals. This approach provides access to high-quality assets and the ability of seasoned investors, enhancing the potential for strong returns. Additionally, secondary markets offer liquidity options for investors looking to exit their positions or rebalance their portfolios.

More resources:

[Sustainable investing perspectives: Power shortages, UN Ocean Conference, and US bill impact on renewables](#)

[POTUS47: Executive Order Tracker - 7th Update](#)

Appendix

Risk information

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

Generic investment research – Risk information:

This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in

general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Additional Disclaimer relevant to Credit Suisse Wealth Management

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Version A/2025. CIO82652744

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.