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President Trump and sustainable investing: Top questions answered

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Investors ask how President Trump's policies affect sustainable investing. CIO responds.

This is an update to an article published on 12 February, providing additional information on empirical evidence around DEI programs and corporate performance.

Investors continue to ask CIO a wealth of questions about the second Trump administration's impact on sustainable investing (SI). In this and subsequent articles, we address the most pressing queries on a regular basis.

The top three questions at present are first, how will climate policies change given President Trump's withdrawal from the Paris Agreement? Second, how will the termination of several federal diversity programs affect corporate strategies and social investments? Third, will multilateral development bank (MDB) cooperation and the performance of MDB bonds suffer in light of President Trump's stance on international agreements?

Are climate strategies still viable given the US withdrawal from the Paris Agreement?

Yes, climate remains a viable investment area, in our view. Despite US policy shifts, renewable energy makes growing economic sense, with solar and wind cost competitive with gas in many US regions. Private capital now drives 54% of global climate funding, outpacing public sources and insulating some of the effects from reduced US government support. We believe investment opportunities still exist in energy efficiency and infrastructure, especially in transmission and distribution linked to CIO's "Power and resources" portfolio. Regardless of fuel source, energy efficiency and infrastructure investment needs are clear, driven by aging infrastructure and consistent energy demand growth. Transmission and distribution segments, which are less sensitive to policy changes, also present growth opportunities.

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. Examples might include other companies in the industrials, materials, and consumer staples sectors.

Will a more inwardly focused US hurt MDB bonds?

Multilateral development bank (MDB) bonds, 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. For instance, the US has about 16% of the total voting power on the World Bank's International Bank for Reconstruction and Development, followed by Japan, China, Germany, France, and the UK.

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 tight spreads to highly rated government bonds. They offer slightly higher yields than US Treasuries, with an illiquidity premium of 11 basis points for 1-5 year maturities. MDBs are supported by multiple countries, with many focused on European or Asian countries whose agendas depend less on President Trump. CIO rates them Attractive due to their resilience and potential for steady returns. Investors can continue to benefit from MDB bonds' stability and diversification effects in their portfolios.

What's next for investors in DEI?

Diversity, equity, and inclusion (DEI) remain important for both financial and social reasons. Companies focusing on DEI can enhance employee recruitment and retention, impacting long-term financial performance. While President Trump's policies may shift corporate messaging, the underlying economic value of DEI persists, in our view.

Extensive studies from McKinsey over the past 10 years show a continued benefit to diversity. The most recent study in 2023 shows companies in the top quartile for gender and ethnic diversity in executive teams are 18% and 27%, respectively, more likely to outperform financially. As companies revamp or eliminate their DEI programs, it may be even more important for investors to pay attention to how companies discuss supporting employees and connecting with communities around them. In addition to strong DEI policies, investors should look for companies with dedicated practices related to employee and community engagement as they may be a proxy for DEI policies. Companies leveraging these approaches may offer better resilience through both trade-induced volatility and across the business cycle.

Where to find out more?

For more insights, explore CIO's latest sustainable investing publications, such as the flagship *Sustainable Investing Perspectives* and *What do Trump's executive orders mean for climate? (24 January 2025).* We also encourage sustainability-focused investors to look at our new executive order tracker to review the investment implications of President Trump's actions – please check out *POTUS47: Executive Order Tracker* for regular updates.

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