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PUTTING TRUMP IN PERSPECTIVE: IS IT THE END FOR SUSTAINABLE INVESTING?

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As Donald Trump's second presidential term looms, there are fears that all is doomed for sustainable investment. We are more optimistic. There will of course be trials and tribulations ahead, but a period of justifiable, and in some parts, required, challenge should be welcomed.

Donald Trump's sweeping victory in November's Presidential elections, and the Republican's soon-to-be dominance in Congress, sent chills through the sustainable investment world. But four years on from Trump's last stint in the White House, the world has moved on: for business, sustainable regulations now form the certainty upon which industries rely, while in the form of Elon Musk, the White House will soon contain the world's most successful green industrialist.

SETTLING SCORES?

Amendments to the Inflation Reduction Act (IRA) are expected to top the incoming president's to-do list, but on closer inspection, changes look likely to be modest, with wind power and EV tax credits the focus. Trump describes wind power as "horrible", while the removal of EV tax credits would benefit his new ally, Elon Musk, hobbling Tesla's weaker subsidy reliant competitors.

It is notable how elements of the IRA in fact dovetail with bipartisan goals around re-industrialisation – plus 60% of the tax credits benefit Republican states. Likewise, tax credits for carbon capture and storage enable the prolongation of oil and gas supply, honouring Trump's promise to industry executives.

Leaving the Paris Accord is another obvious move, providing an easy political win, and a symbolic blow to the agreement at a time of fraying geopolitical support. While many US companies pledged support for the Paris Agreement after Trump's withdrawal last time out, we suspect companies will be quieter this time; 'green hushing' is upon us.

Meanwhile, we expect a re-escalation of using human rights as a trade barrier with China, with forced labour accusations used to increase tariffs. Furthermore, we anticipate a reversal of the temporary rule relaxation in the IRA around local green procurement requirements, effectively stopping US companies from claiming IRA tax credits unless they buy from local supply chains. Combined, these could contradict Trump's inflation-reduction commitments.

DEREGULATION DERAILED?

With many clean energy trends now at such scale, and so competitive on price, Trump's ability to de-rail the global energy transition is limited. Indeed, Patrick Pouyanné, CEO of TotalEnergies, recently said that removing climate regulation "will not help the industry, but on the contrary, it will demonise, and then the dialogue will be even more antagonised". European oil majors desire a stable clean energy regulatory environment as they begin to transition their business models, not a 'wild west' that potentially creates excess supply in the face of weaker demand.

Harm caused by anti-trust issues has also started to dominate the sustainable investment agenda over past few years, with the US Federal Trade Commission taking a firmer approach. We see this trend declining under a pro-business, reduced-regulation Trump administration, notably in artificial intelligence. Meanwhile, despite Trump's tense relationship with technology firms, we expect him to take a combative stance against the EU's heavy fining of US technology firms, the Corporate Sustainability Reporting Directive, and the carbon border adjustment mechanism.

TAKING RESPONSIBILITY

On responsible investment itself, we anticipate a continued acceleration away from ethical rationales being used to justify already antiquated exclusionary approaches, and a re-emphasis on clear financially driven motivations for incorporating ESG considerations into investment decisions. We can also expect a more interventionist SEC, who will strike out shareholder resolutions proposed for AGMs which are viewed as being too activist. For fund managers, misinterpreting these nuanced shifts and the grey areas involved risks underperformance.

It is, of course, a great irony that had the sustainable business and investment practices – against which Trump rails – been implemented in the 1990s and 2000s, the societal platform on which he has won, namely lower living standards and rising inequality for the lower- and middle-income populations in developed nations, wouldn't have existed[1].

Irony abounds some of Trump's potential health policies, too, with certain Robert F. Kennedy Jr aims – the reduction of chronic diseases like obesity and diabetes through healthier diets – aligning with common sustainable investment viewpoints. However, the White House's historic inability to deliver large scale health change, in the face of significant bureaucratic and lobbying powers and an existing base in regulations, suggests impact here will be limited.

Despite areas of genuine concern, we don't expect Trump's second term to be universally negative for sustainable investment. It's worth remembering that his first term saw a trebling of investment into sustainable funds – although the US still only accounts for just 10% of global sustainable assets[2] – and growth in renewable electricity production from 17% to 21%[3]. There will be some tension points around climate, but the US is not the world; US policy can only influence markets so much and for so long and the economic and business-model arguments underpinning sensible sustainable investing are much too strong to be ignored.

For all the noise and debate, one thing is clear: sustainable investing is here to stay.

[1]Branco Milanovic: Global Inequality: A new approach for the age of globalisation (2010).

[2]JP Morgan (2024).

[3]Bloomberg New Energy Finance (2024).

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