Insights into responsible investing



Wealth Management

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Responsible investing trends to watch in 2025

According to a recent survey,¹ almost 80% of both asset managers and asset owners anticipate that assets under management (AUM) in responsible investing will rise in the next two years. Additionally, the survey found that when asked to rank specific environmental and sustainable solutions, investors across North America, Europe and the Asia Pacific region prioritize investment in renewable energy, energy efficiency and climate adaptation.

Advancing energy transition financing

Deloitte identified financing for corporate decarbonization as an area that could see significant growth in the future, and the green energy transition could represent a \$50 trillion investment opportunity in the decades ahead.² As reported by Bloomberg, investment in the energy transition worldwide grew 11% from a year earlier and hit a record \$2.1 trillion in 2024.³ Although green bonds represent a small portion of the overall bond market, they continue to be vital in supporting the energy transition going forward.

A shift toward private equity

Global investors are redirecting their attention to the energy transition, particularly focusing on opportunities provided by private markets. MSCI research found that, over the past five years, a portfolio of private investments in renewable energy, electric vehicles and energy storage generated a 123% return, vastly outperforming the 57% return from similar publicly traded companies. Furthermore, MSCI found that private low-carbon investments grew faster, at a 17% annual rate versus the 12% return for public companies.⁴

Environmental impacts of AI

The growth of artificial intelligence (AI) also is having an increased environmental impact, including rising energy demand for data centers and accelerated water usage

for cooling purposes. Investors may focus more on the social risks associated with AI, such as data integrity and privacy concerns. Using biased or low-quality data to train AI models can skew outcomes and affect performance. Additionally, the tightening of privacy regulations is limiting access to data, and new, AI-specific laws are likely to be introduced in response.

Evolution of the voluntary carbon market

At the 2024 United Nations Climate Change Conference (COP29), significant progress was made with the approval of international carbon market standards, which enables the formal exchange of carbon credits between nations and businesses.⁵ This development could mark a pivotal moment for carbon markets in 2025. MSCI forecasts that the voluntary carbon markets could grow from \$1.5 billion in 2024 to \$35 billion by 2030 and potentially reach up to \$205 billion by 2050.⁶

Fragmented landscape of ESG disclosures

Environmental, social and governance (ESG) disclosure requirements vary by region, with the European Union's Corporate Sustainability Reporting Directive (EU CSRD) demanding more robust disclosures compared to U.S. and Canadian equivalents. This inconsistency in regulation might create uneven opportunities for investment analysis by investors and consumers of ESG data. Companies without robust ESG disclosures could face pressure from institutional investors to enhance their reporting.⁷

In conclusion, with increasing regulatory pressures, technological advancements and environmental challenges, responsible investing remains top of mind for investors.

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Understanding physical climate risks

Record-breaking temperatures continue—the summer of 2024 was the hottest on record globally.⁸ From heat waves in India to floods in Europe and hurricanes in North America, the impact of a changing climate has been felt across the globe. According to an MSCI survey, 83% of market participants expect extreme weather to damage infrastructure and harm the macroeconomy.⁹

What are physical climate risks?

The Task Force on Climate-related Financial Disclosures, in its final recommendations,¹⁰ divides climate-related risks into two categories: transition risks and physical risks.

The International Financial Reporting Standards (IFRS) S2 disclosures¹¹ define climate-related physical risks as those resulting from climate change that can be eventdriven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, droughts or heat waves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature that could lead to rising sea levels, reduced water availability, biodiversity loss and changes in soil productivity.

Restoration costs

According to the National Centers for Environmental Information, the U.S. is experiencing an increased number of natural disasters with losses exceeding \$1 billion, even after adjusting for inflation. There were 27 such events in 2024, a total greater than in the period from 1980 to 1990.¹² Meanwhile, the Canadian government reported 10 major weather events in 2024 with combined damages surpassing CA\$7 billion.¹³ According to Astute Analytica, the global market for disaster restoration services totaled \$41.3 billion in 2023 and it projects the market to reach \$76.8 billion by 2033.¹⁴ This market includes the demand for insurance protection, reserve funds and more specialized financial instruments like catastrophe bonds.

The impact on insurance

As the warming climate increases the frequency and severity of extreme weather events in highly insured regions like Europe and the U.S., businesses and homeowners may face rising insurance premiums or, in the worst-case scenario, find their properties uninsurable. Due to increasing losses from recent extreme weather events, many insurance agencies in areas such as Florida and California have already scaled back their coverage leaving many property owners uninsured.¹⁵

Green bonds

To be prepared for unexpected natural disasters, many companies are investing in adaptation projects to become more resilient, using funding from the green bond market. Such projects include air cooling, water harvesting, drone transport for search and rescue or temporary flood barriers. MSCI research showed that by 2023, 18% of utilities' green bond proceeds financed adaptation projects.¹⁶

Catastrophe bonds

Catastrophe bonds (CAT bonds) allow insurers to transfer risk to capital markets. Investors can face huge losses if a predefined catastrophe hits but stand to gain if it does not. The global market for CAT bonds reached \$46.5 billion in the first half of 2024, according to Swiss Re.¹⁷

Impact on investors

It is important to recognize the potential impact of physical climate risks when making investment decisions, as the growing frequency and intensity of natural disasters underscore the potential severity and magnitude of such downside impacts.



EVs: The road to greater environmental sustainability?

Road vehicles are responsible for nearly 28% of total emissions in the U.S.¹⁸ and 22% in Canada,¹⁹ making the transition to electric vehicles (EVs) a crucial component of decarbonization efforts. According to the International Energy Agency (IEA), nearly 17 million EVs were sold in 2024, accounting for more than one in five cars purchased worldwide, marking a 20% year-on-year rise largely due to sales in China.²⁰ Many countries like Canada²¹ and the UK²² have committed to achieving 100% zero-emission vehicle sales by 2035.

Mining and production

Manufacturing any car comes with a significant carbon footprint, and McKinsey found that producing an EV generates 40% more emissions than for a gasolinepowered vehicle.²³ This is primarily due to the energyintensive process of producing the large lithium-ion batteries that power EVs, which accounts for most of the greenhouse gas emissions during production. The mining of the raw materials used in the batteries (e.g., lithium, cobalt and nickel) also has environmental impacts including habitat destruction, water pollution and significant energy consumption.

Active life of a vehicle

While gasoline-powered cars continually emit carbon over their lifespan, EVs do not release emissions once on the road. At some point in the life of an EV, its total carbon footprint becomes smaller than that of an equivalent gas-powered vehicle. Exactly when that occurs varies by the vehicle and where it is driven.^{24, 25, 26} Research showed the two footprints converge after an average of 1.5 years.²⁷ A University of Michigan study²⁸ found that light-duty battery electric vehicles—including sedans, SUVs and pickup trucks—have approximately 64% lower cradle-to-grave life-cycle greenhouse gas emissions than gas-powered vehicles. The overall carbon footprint also depends on the energy mix used to charge the EV. If the electricity powering the EV comes from renewable sources such as wind or solar, the impact is much lower compared to fossil fuels. As countries and regions transition to cleaner energy grids, we believe the benefits of EVs should become even more profound.

Battery recycling and disposal

Recycling EV batteries allows valuable materials such as lithium, cobalt and nickel to be extracted from the battery and reused in the production of new batteries.²⁹ This helps reduce the environmental impact of EV batteries and conserves valuable resources. While some limitations to recycling exist today, ongoing research aims to improve the process and the rate of EV battery recycling. Moreover, it's possible that many EV batteries may be repurposed for power grid energy storage.³⁰

Challenges and market dynamics

The EV market in Europe and the U.S. is significantly slowing down due to tariffs on Chinese-made EVs. Amid industry pressure to mirror U.S. tariffs, Canada also imposed a 100% tax on Chinese-made EVs in 2024 to stop a flood of Beijing-subsidized cars from entering the country.³¹ Since most of the tax is likely to be passed on to the consumer, it would effectively double the price of Chinese EVs, including Tesla models manufactured in China.

While EVs represent a promising step toward a more environmentally sustainable future, they are not a perfect solution. As the industry evolves, with cleaner energy for charging and improved recycling processes, EVs will likely play a vital role in creating a world with environmentally sustainable transportation.

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