



# ESG INVESTING IN A POST TRUMP WORLD

## Are we likely to see the next growth phase of ESG investing in a post Trump world?

Increasing levels of attention have been given to the style of investing since 1990 when MSCI launched the Domini Social 400 Index (renamed the KLD 400 Index) which according to MSCI is the world's longest running ESG Index. Over the last decade or so since the global financial crisis, the ESG investing has gone through various phases of growth as Ethical, Social and Governance factors have been accorded a greater priority, to the extent that, as a defined style or strategy, it can now arguably be considered mainstream. Notwithstanding the fact that a large number of asset managers have incorporated ESG considerations into their investment process, the main beneficiaries of this surge in popularity has been dedicated ESG fund offerings.

The environmental side of ESG has, in the most part, been predominantly responsible for the expansion in the popularity of ESG investing with climate concerns being central to that expansion. However, recent well publicised corporate scandals - employment practices in Boohoo for example - have highlighted social and governance aspects are equally of importance. Though, with the US electorate electing Joe Biden as the United States' next president the E has once again received considerable focus and has the potential to drive the investment style further.

An article in the November 10th 2020 edition of New York Times based on a Harvard University study identified over 100 environmental rules and regulations that the Trump administration had or is the process of reversing, from emissions and pollution to drilling, extraction and infrastructure, as well as dismantling major climate policies. Biden campaigned on the premise he would reverse these actions, re-joining the Paris Agreement for instance, and make available US\$2trn towards building a modern sustainable infrastructure and an equitable clean energy future.

Additionally, in a global sense, the optimism is with the President-elect's administration implementing new environment policies and stating he will expose non compliers; foreign leaders will be forced to implement their own environmental reforms. The EU has seemingly been the first to act, with European Commission president Ursula von der Leyen announcing after the US election that the EU were willing to cooperate on various aspects of climate change and green finance with a new era of 'transatlantic cooperation' in the future.

Mr Biden will be sure to encounter obstacles in executing his plans, however, particularly at a federal level and Georgia State's runoff elections in early January will decide which party controls the US Senate. A Republican-controlled Senate will make it difficult for him to get planned reform and new legislation through which could stymie a lot of his progressive agenda. Either way, a tight Senate will cause difficulties passing legislation, whilst new regulations can take months or in some instances years to implement; moreover, any proposals will undoubtedly have to go before a largely Trump-appointed federal judiciary.

Biden winning the 2020 US election will undoubtedly lead to an increase in the investment into green or environmentally focused projects both in the US and internationally and in so doing enhancing the opportunity set of an investment theme that has been growing rapidly over the last decade, albeit from a low base. The difficulty, as always when investing, is identifying those industries which will be beneficiaries and avoiding those sectors of the market that could face headwinds from a political standpoint.



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