

Net-zero Notes

The great re-invention

Sustainability

Global

New questions and new answers

Investors worry about growing and protecting wealth for the future. They must make good decisions about the value creation potential of assets. Factoring in sustainability is central to this because it links outcomes to people. If people do not thrive, social stability is threatened, economic activity is unlikely to reach full potential which affects growth expectations and the political economy. As expectations around economic growth and productivity fluctuate, so does the market value of financial instruments.

But the global sustainability agenda is at a crossroads, and that means it's time for re-invention. What will this look like? Three questions need to be answered now, and these are different to what investors were asking a few years ago.

Then: What are the stock ideas? Now: What's the value disruption potential?

Going forward, sustainability analysis is set to move from looking at environment, social and governance as topics for stock selection purposes, to identifying how an issue plays out across asset classes, with the resulting value disruption linkages. These linkages overlap between country economics, fixed income, and equities, as set out in Figure 1. Stock ideas remain important but are not the only priority.

Then: What are the ESG topics? Now: What is the most material value driver?

Since many issues affect people, now, the trick for investors is to identify which ones are the most material from a value impact perspective and prioritise them.

Delivering a net-zero framework is the most material issue for the sustainability agenda, because it plays out across three interlinked relevant categories – emissions control, financing the transition and inclusive resilience. These have widespread relevance across geographies and sectors. In addition, how well institutions are governed matters for the speed of decarbonisation delivery.

Then: How will policy play out? Now: What is the economic incentive?

Given our current geopolitical backdrop, the speed of delivering a global net-zero operating environment will be driven by economics rather than politics.

Our job in Global Research is to add value by focusing on the relevance and applicability in financial markets of actions that deliver net-zero outcomes. To do this well, we must focus our efforts on the issues that could disrupt value creation the most. The idea is that we identify the value creation or destruction potential linked to these issues and anticipate how they could play out. We think controlling emissions, funding a transition, and factoring in social equity to build inclusive resilience against the future effects of a warming planet are the most important issues for investors to care about.

We launched 'The Net-Zero Navigator', a new flagship monthly bringing together insights across asset classes and geographies from our Global Research team.

Zoe Knight

Global Head, Sustainability Research & Integration
HSBC Bank Middle East Ltd, DIFC
zoe.knight@hsbc.com
+971 508951407

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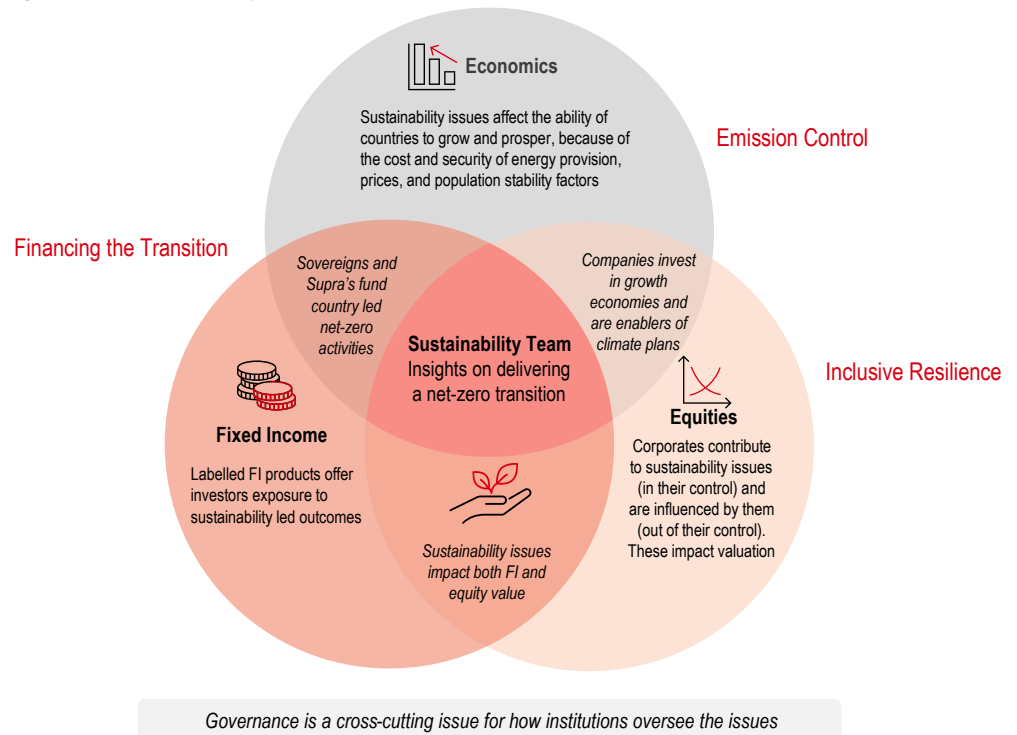
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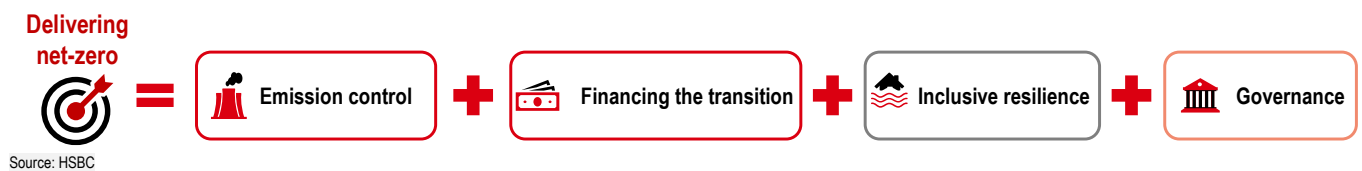
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Figure 1: Sustainability is a cross-asset consideration



Source: HSBC

Figure 2: Delivering net-zero is the most material issue



Disclosure appendix

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Issuer of report

HSBC Bank Middle East Ltd, DIFC
 PO Box 30444
 DIFC, Dubai UAE
 Telephone: +971 4 5623465
 Fax: +971 4 4267397
 Website: www.research.hsbc.com

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