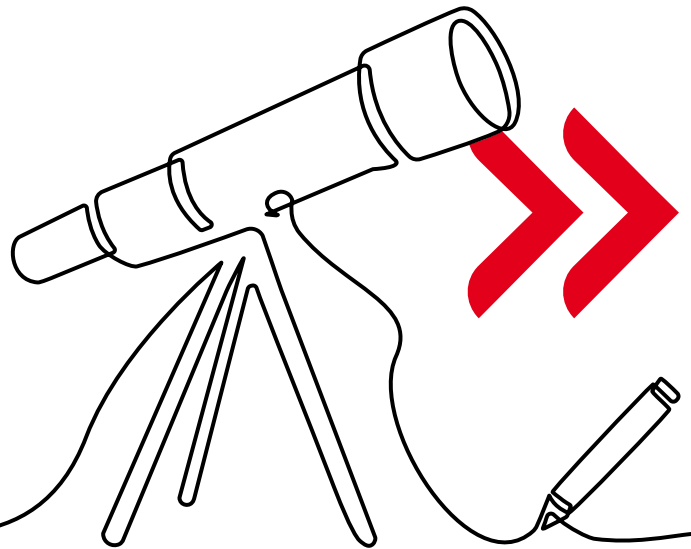


The Long View



The Long View is our new publication offering insights on key global issues that will shape tomorrow's world.

ESG: Markets lead where policy lags

27 August 2025

Despite political setbacks in sustainability ambitions globally, European companies demonstrate that economic success and sustainable practices can coexist—a promising indication for the future.

1. Economics is powering sustainability more than politics

Political momentum behind climate action has been waning in many countries, but economic incentives are now the predominant driver of development in renewable energy and sustainability investment.

2. Innovation makes sustainability smart business

Innovation and competitiveness are at the heart of sustainability. This is nothing other than smart economics. Companies and regions are prioritising clean energy to achieve cost efficiency and future-proofing, regardless of ideological motivations.

3. Companies with high ESG rating outperform

Analysis of the MSCI Europe Index confirms that companies with strong ESG ratings, particularly those with a large market capitalisation, have delivered significant financial outperformance over the past six years. These firms contributed the majority of the Index's robust 64% performance, confirming that sustainability and investment performance go hand-in-hand.

Introduction

Despite rising climate risks and economic losses from natural disasters, the political momentum behind climate action has been waning in many countries. However, driven less by ideology and more by economic incentives, many countries are still pursuing environmental goals. Sustainability offers some clear economic advantages, regardless of political trends.

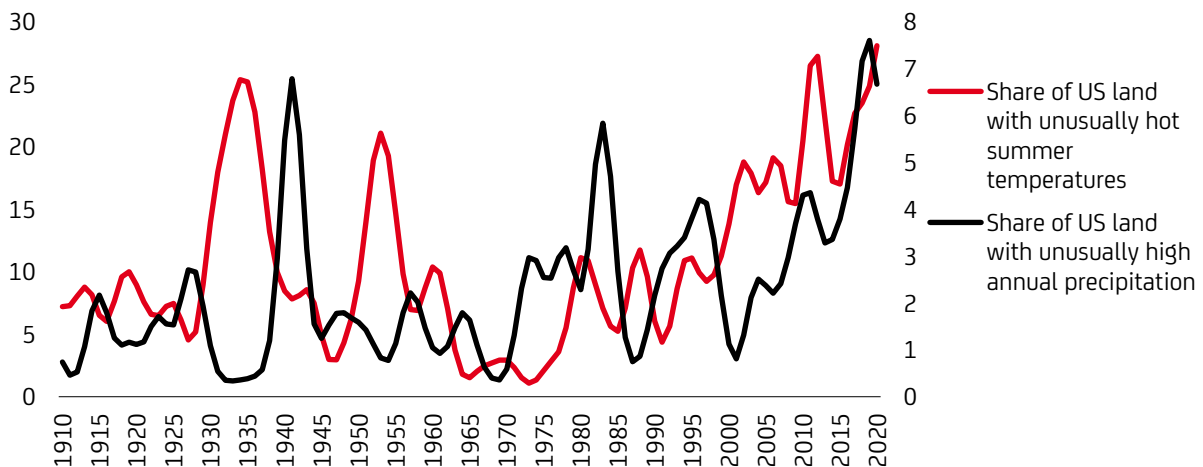
In the US, federal environmental regulations have been rolled back, but states, like Texas, continue investing in renewable sources of energy for economic reasons rather than climate concerns. In Europe, climate-policy momentum has slowed due to political and economic pressures, but a strong regulatory framework remains in place, including the Fit for 55 package, the European Union Emissions Trading System (ETS), the Carbon Border Adjustment Mechanism (CBAM) and carbon-capture and storage (CCS) directives, through which the EU aims to achieve climate neutrality by 2050. China is key to global climate goals. Although publicly it is not focused on such goals, it is a world leader in terms of global clean-energy investment, driven by both ecological and economic factors.

Given this uneven global landscape, a key question remains: Does ESG performance translates into financial value? The short answer, based on our analysis of the MSCI Europe Index, is a resounding “Yes”.

US clean-energy growth is being driven by the states, not federal policy

While there is no doubt that the frequency of extreme weather events is increasing and that the associated economic costs are enormous, the responses of individual countries vary greatly. In the US, there is a clear pattern of increasingly hot summers and wetter years with annual precipitation above long-term historical averages (Chart 1).

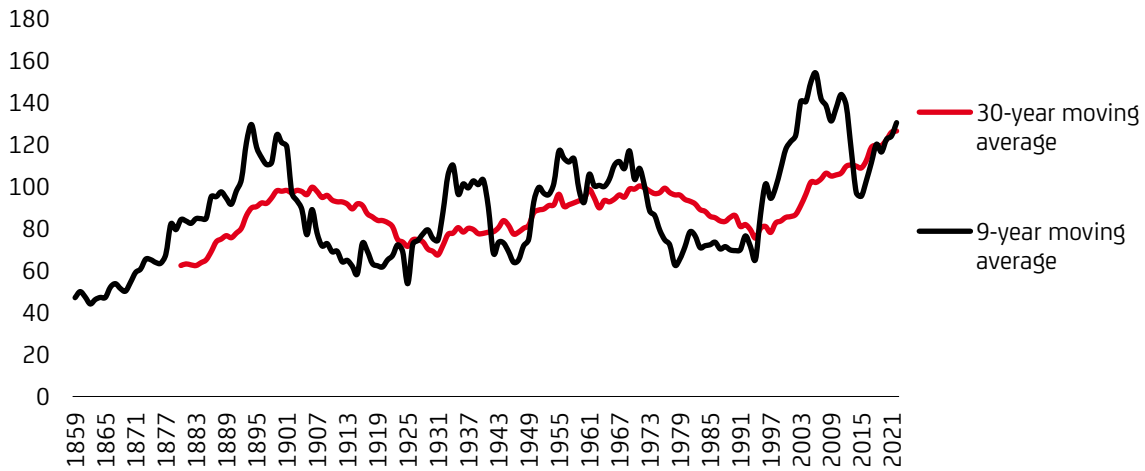
CHART 1: THE TREND TOWARD HOTTER SUMMERS AND WETTER YEARS IN THE US



Source: Our World in Data, Saltmarsh Economics, The Investment Institute by UniCredit

At the same time, the frequency and intensity of tropical cyclones are rising (Chart 2), which shows accumulated cyclone energy, a metric widely used to assess the overall strength and activity of tropical storms.

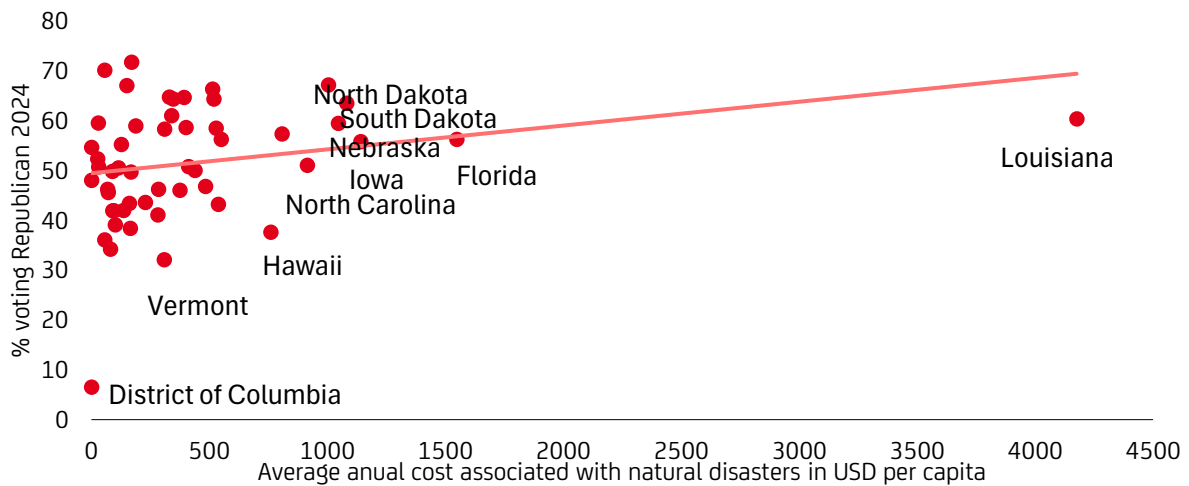
CHART 2: ACCUMULATED CYCLONE ENERGY OF NORTH ATLANTIC HURRICANES



Source: Our World in Data, Saltmarsh Economics, The Investment Institute by UniCredit

Cyclone energy is just one example of the many factors driving up costs associated with environmental disasters. In the past few months, severe wildfires have impacted some US states, while devastating floods have hit others. In that context, comparing the economic costs associated with natural disasters with voting behaviour by state is interesting. Chart 3 shows that, in states with a high percentage of Republican voters (who tend to be more sceptical about global warming), economic costs related to damage from natural disasters (measured both as a share of state GDP and per capita) tend to be higher.

CHART 3: ECONOMIC COST ASSOCIATED WITH NATURAL DISASTERS ARE HIGHER IN REPUBLICAN STATES



Source: National Centre for Environmental Information, Saltmarsh Economics, The Investment Institute by UniCredit

At first glance, it appears that the segments of the US population most affected by the consequences of climate change show less interest in addressing the issue through political action. The recently and narrowly passed One Big Beautiful Bill Act waters down several environmental-protection measures. These include cuts to renewable-energy tax credits associated with wind and solar energy production, electric vehicles and charging stations, as well as a ten-year delay in implementing methane emission fees. The bill also expands coal leasing on federal land and reduces royalty rates for extraction. Additionally, the US formally withdrew from the Paris Agreement and suspended its international climate finance commitments.

Interestingly, however, states like Texas, which is often seen as politically disengaged from climate policy, have installed significantly more renewable-energy infrastructure, such as solar panels, than states that are typically viewed as champions of sustainability. Between 2013 and 2023, Texas emerged as a clear leader in renewable-energy growth among US states, adding more than 112mn MWh of renewable-electricity generation capacity. This dramatic expansion brought the share of renewables in Texas's overall energy mix to around 30% by 2025. The largest contributor to this growth was wind power, which alone accounted for 84mn MWh of the increase. Texas is certainly profiting from AI's hunger for energy, which, for reasons of cost efficiency, is often met with solar power.

However, this is also a signal that, even in states that are not ESG-focused, decisions are being made in the spirit of sustainability, driven purely by economic considerations. Oklahoma, Kansas and Iowa are among the states with the highest amounts of new renewable-energy-generation capacity over the past three years. This trend highlights that the US energy transition is driven more by economic opportunity than by climate policy.

Europe's climate ambitions rest with regulatory strength, but policy momentum is mixed

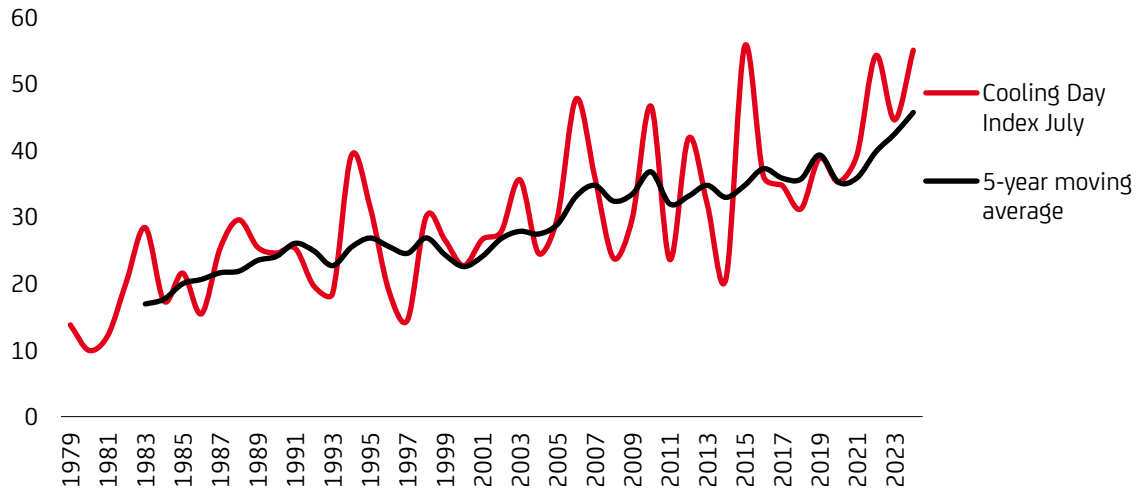
On the other side of the Atlantic, the will to tackle climate change has also lost momentum. Europe, once a very vocal global leader in climate policy, has recently softened its stance. Rising living costs and fears of job losses have triggered political backlash, prompting policymakers to scale back climate ambitions. Moreover, high upfront costs and complex regulations often hinder implementation, despite the long-term profitability of green investments.

Adding to this, energy security concerns since the Ukraine war have led some countries to prioritize immediate fossil fuel access over ambitious climate action, while strong industrial lobbying warns that stricter rules could increase costs and reduce competitiveness. In short, although climate action is economically prudent in the long run, short-term pressures and political caution lead to policy hesitation.

As a result of these concerns, the EU has delayed several key Green Deal initiatives and eased environmental regulations for industries, such as agriculture and automotive manufacturing. However, a pathway remains open for further progress on climate policy, as the frequency of extreme weather events in Europe is increasing due to global warming. Eurostat recently released detailed data on cooling days (days when average temperatures exceed 24°C) for all EU27 countries and approximately 1,500 NUTS-3 regions up to December 2024. This cooling-day index measures how much temperatures surpass a comfortable 21°C, highlighting stark differences between southern European countries, like Cyprus and Greece, which have high cooling-day values, and northern countries, such as Sweden and Finland, which have very low values. NUTS-3 regions provide a granular view of local climate trends, showing how extreme heat varies within countries, aiding targeted climate adaptation and policy efforts.

For the EU27 as a whole, between July 1979 and July 2024, the cooling-day index rose from 13.8 to 55.9, a relatively large increase, which implies that some regions are now experiencing much warmer summers than a few years ago. Chart 4 shows the cooling-day index for the EU27 each July since 1979, using a five-year moving average to better highlight the underlying trend.

CHART 4: THE TREND TOWARDS HOTTER SUMMERS IN THE EU27



Source: Eurostat, Saltmarsh Economics, The Investment Institute by UniCredit

Even in Europe, a feasible path toward achieving decarbonisation will remain a key political priority in an effort to avoid escalating economic costs. The urgency of this is underscored by events like the recent wildfires in southern France, which serve as a reminder of the importance of this transition.

The EU's regulatory climate framework is still in place, providing a coherent and binding foundation for its transition toward a climate-neutral economy. The European Climate Law legally commits member states to a net emissions reduction of at least 55% by 2030 and full climate neutrality by 2050. This is supported by the Fit for 55 legislative package, which includes the ETS, the CBAM and binding National Energy and Climate Plans. Additionally, the EU's CCS Directive and Industrial Carbon Management Strategy establish a legal basis for large-scale decarbonisation through technological solutions.

The EU's Sustainable Finance Disclosure Regulation (SFDR), which significantly affects the asset-management industry, is poised to accelerate the reallocation of capital towards a greener and more sustainable future. By mandating transparency with regard to environmental and social characteristics as well as sustainable investment objectives, the SFDR not only enhances the comparability of financial products but also compels asset managers to adopt credible ESG strategies. This regulatory shift reinforces the principle of double materiality, ensuring that both financial performance and environmental impact are considered in investment decisions. In essence, SFDR transforms sustainability from a marketing narrative into a measurable and enforceable component of institutional capital allocation.

In the long run, the economy stands to benefit significantly from these regulations, as their positive effects extend far beyond disaster mitigation. Climate investments offer numerous benefits. They can lower energy costs over time through improved efficiency and local energy production, strengthen Europe's energy independence by reducing reliance on fossil fuel imports, boost European competitiveness in global clean-tech markets through green innovation, and create new jobs in renewable energy, construction, and green technology sectors.

China is a surprising leader in renewable energy

In contrast to Europe's widening gap between planned and actual climate action, China has emerged as more ambitious than many expected in terms of its commitment to green energy. In 2024 alone, China invested approximately USD 940bn in clean energy, according to the Centre for Research on Energy and Clean Air. This is almost equal to global fossil-fuel investments over the same period. China added 373mn kilowatts of renewable capacity last year, representing 86% of all newly installed power capacity. China now leads the world in solar energy generation, with installed capacity of 887mn kilowatts, over half the global total.

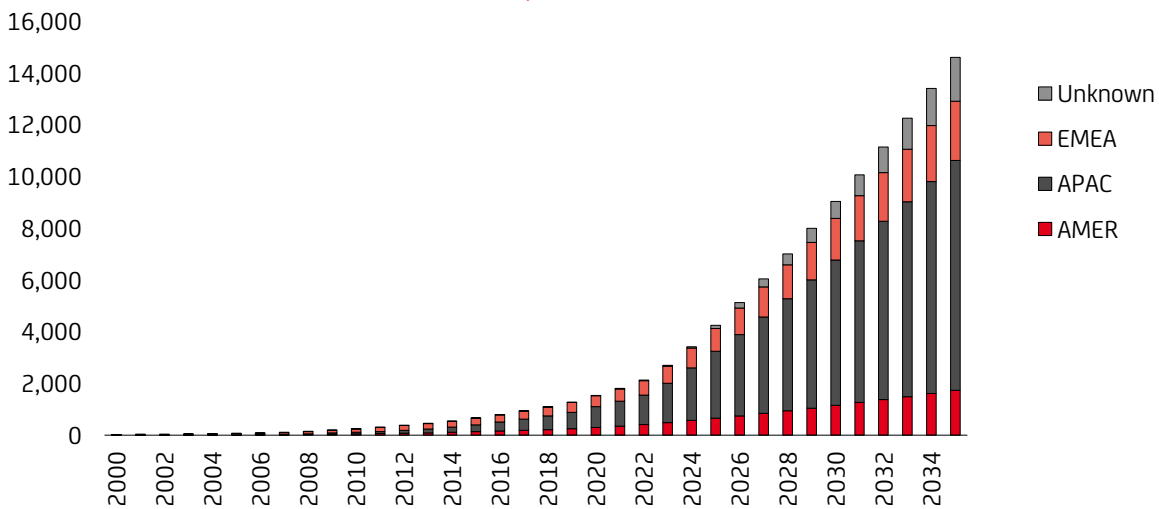
China’s wind-power capacity has also grown substantially, reaching nearly 521mn kilowatts. Notably, China achieved its 2030 renewable-energy target six years early, by mid-2024. The clean-energy sector now contributes around 10% to China’s GDP, led by booming industries such as those that produce electric vehicles and solar panels. Projects like the massive Solar Great Wall in the Kubuqi Desert are set to generate 100 gigawatts of solar power by 2030. Investments in ultra-high-voltage grid systems have enabled more-efficient integration of renewables across regions. Despite its continued reliance on coal, China’s aggressive push toward clean energy has positioned it as a global leader in the green transition.

What financial markets tell us

The motivation behind investing in renewable energy, whether politically or economically driven, is ultimately secondary. What matters is the outcome because one thing is certain: the world’s demand for energy is continuously growing, especially as a result of innovation in AI, digitalisation, electric vehicles and the expansion of industrial production.

The worldwide energy trend seems to be bending towards environmental friendliness. Even if a country is not focused on being “green”, the economic benefits of becoming green are enough to encourage more renewable energy in places with high energy needs (Chart 5).

CHART 5. SOLAR INSTALLATIONS IN KEY REGIONS, IN GIGAWATTS



Source: Bloomberg New Energy Finance, The Investment Institute by UniCredit

Note: AMER refers to North, Central, and South America; APAC covers Asia and the Pacific region; and EMEA comprises Europe, the Middle East, and Africa.

Investments in renewable energy make sense not only from a climate-risk perspective but also from a purely economic standpoint. Energy efficiency directly translates into lower energy costs. Nevertheless, what does it look like to take a social and governance perspective into account? And is investing in renewable energy and prioritizing ESG factors a sound economic strategy?

The drive towards energy efficiency, as mentioned, directly translates into lower energy costs, a benefit that is also very significant for energy-intensive industries in energy-intensive sectors, such as information technology (especially AI). Moreover, focusing on the social dimension of ESG, especially on employee relations, has been shown to positively impact financial performance. Satisfied employees demonstrate greater innovation and productivity, while improved recruitment and retention reduce hiring and training expenses. A positive workplace culture also helps companies maintain resilience during economic downturns, ultimately strengthening long-term profitability.

From an investor’s perspective, strong corporate governance is equally critical. Transparent decision-making processes and clear accountability mechanisms reduce the risk of fraud and mismanagement. Aligning executive compensation with shareholder interests ensures management is motivated to drive sustainable growth, while effective board oversight supports robust strategic planning and regulatory compliance. In sum, ESG considerations have evolved beyond mere moral concerns. They now constitute a crucial component of business strategy, offering companies a competitive edge and investors greater confidence in long-term value creation.

Economic considerations driving investment in good climate policy include improved profitability, risk management, and equity performance. Research shows that firms with strong ESG performance exhibit better financial metrics such as higher Return on Invested Capital (ROIC), Economic Value Added (EVA), and lower Debt-to-Equity (D/E) ratios, leading to stronger balance sheets and sales growth. Additionally, companies with higher ESG scores benefit from a lower cost of capital due to greater resilience to sustainability-related risks, which reduces financial risk and enhances long-term returns.

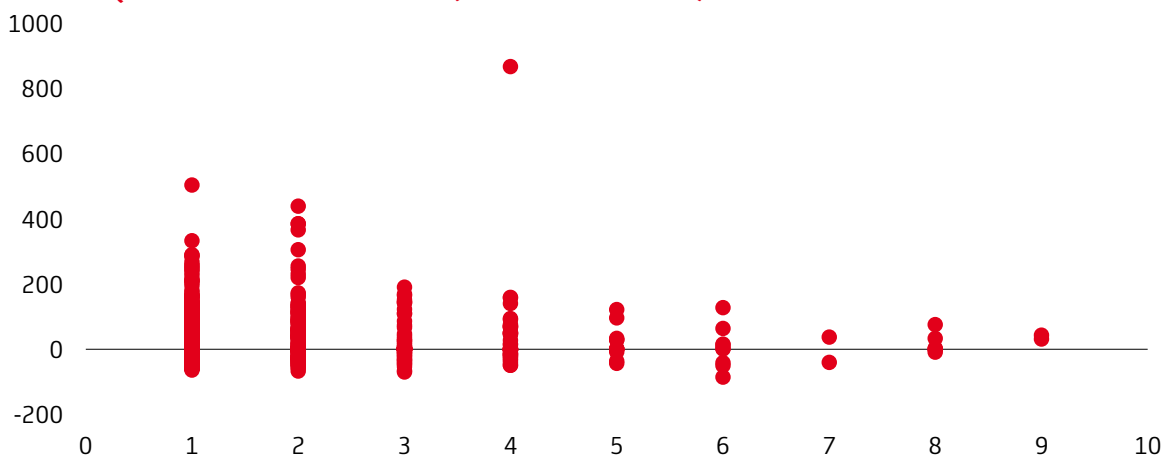
European equities demonstrate the economic efficiency of integrating ESG know-how

In attempt to prove this, we performed a simple analysis of the European equity market. We combined ESG scores from the data provider Institutional Shareholder Services (ISS), ranging from 1 (best) to 10 (worst), with the six-year performance of each company within the MSCI Europe Index for which ISS scores were available (sample size: 556 equities). For the analysis, we selected a six-year period – from July 2019 to July 2025 – to capture a range of major macroeconomic and geopolitical disruptions, including the COVID-19 pandemic, the outbreak of the war in Ukraine, the subsequent inflation crisis and the effects of the Trump administration’s tariffs.

Thus, incorporating these events was intended to serve as a robust stress test of the financial relevance of ESG scores. No exclusion criteria were applied, to ensure an objective analysis not influenced by country-specific interpretations of sustainability. Instead, only the quality of ESG practices, as reflected by ESG scores, was intended to serve as the relevant influencing factor within each sector.

Our analysis confirmed that the MSCI Europe Index contains a substantial number of companies with high ESG ratings and none with a score of 10 – the worst ESG score, according to ISS methodology. This was not surprising, as European companies are shaped by both social ESG-related pressure and high regulatory standards. Similarly, the finding that there was no consistent performance pattern across the individual ESG-score segments, particularly within the large clusters of ESG scores of 1 and 2, was also in line with expectations (Chart 6).

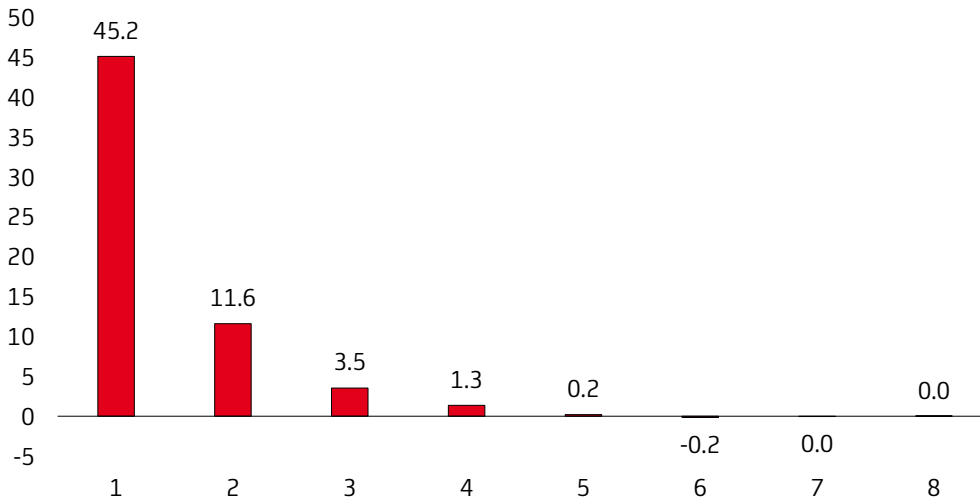
CHART 6: EQUITY RETURNS BY ESG SCORE (JULY 2019-JULY 2025)



Source: ISS, Bloomberg, The Investment Institute by UniCredit; calculation by Schoellerbank Invest; x-axis: ESG score (1 [best]-10 [worst]); y-axis: absolute performance of single stocks

However, the results became particularly insightful when we incorporated market-capital-weighted performance data from the MSCI Europe Index. Here, a significant correlation emerged between strong ESG ratings, company size and financial success in terms of performance over the past six years. Within this period, the performance of the MSCI Europe Index had been at about 64%, while the companies with ESG scores of 1 and 2 were responsible for 56 percentage points of that performance (Chart 7).

CHART 7: SHARE OF EQUITY OUTPERFORMANCE BY ESG SCORE (JULY 2019- JULY 2025)



Source: ISS, Bloomberg, The Investment Institute by UniCredit; calculation by Schoellerbank Invest; x-axis: ESG score (1 [best]-10 [worst]); y-axis: summarised performance contribution from single stocks in each ESG category.

Our analysis implies that ESG-leading companies with economic success demonstrated by market capitalisation are associated with growth stories. The market capitalisation of a company tends to reflect its financial success because more consistently profitable firms attract greater investor confidence over time. Companies in Europe that integrate sustainability into their strategies benefit from supportive regulations and government incentives, enhancing their growth prospects. Sustainable companies also enhance their return potential through greater attention to long-term climate risks and by positioning themselves to tap into long-term revenue streams, making them more attractive to investors. As a result, firms with strong financial and ESG performance tend to achieve higher market capitalisation.

Thus, the global shift toward renewable energy and sustainable business practices is increasingly being driven by economic rationale and is not only dependent on political will. This is reflected in our analysis of the MSCI Europe Index, which confirms that smart companies with strong ESG performance are not only aligned with regulatory and societal expectations but also deliver superior financial returns, proving that sustainability and profitability go hand-in-hand.

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