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MSCI 2023 ESG & Climate Trends to Watch report identifies new risk landscape for investors

Report highlights how geopolitical and economic change, regulation, and technological innovation could shape ESG and climate finance

NEW YORK – December 6, 2022 – Rising geopolitical tensions, soaring inflation, and regulatory change underpin MSCI's 11th annual ESG & Climate Trends to Watch report – an analysis of more than 30 emerging risks set to impact corporations and investors worldwide in 2023 and beyond.

Powered by research conducted by MSCI ESG Research analysts worldwide, the MSCI 2023 ESG & Climate Trends to Watch report highlights how global debates about what ESG and climate investing is now will impact what ESG and climate investing could be in 2023. The expanse of emerging ESG and climate issues will increase the number of financial risk considerations for both companies and institutional investors, such as pension funds, sovereign wealth funds, endowments, and asset managers.

Key themes covered in the 2023 list of 32 ESG and climate investing trends include:

- **Innovations in the supply chain**, including the prospects of tracking goods through blockchain technology and the mining of e-waste that could reshape the dynamics of controversial raw material sourcing;
- **Changing governance**, with exploration of how new corporate board demographics could play a role in say-on-climate and other proxy voting trends;
- **Responses to regulation**, including tangible impacts of new rules on asset managers, institutional investors, and corporations;
- **Work life changes**, such as the proliferation of railroad strikes and labor rights movements globally;
- **New frontiers in measurement and transparency**, with insurers and banks set to expand scope of emissions tracking;
- **Emergence of new investments**, ranging from lab-grown commodities to carbon as an asset class;
- **And turning points for ESG assets,** including green bonds and nuclear energy.

ESG and climate investing were thrust into new spotlights in 2022. Global regulators introduced rule proposals aiming to reduce greenwashing in the fund industry, in addition to introducing requirements for financial institutions to conduct climate stress tests, deforestation-free market-access rules, and potentially mandatory requirements to report on the Sustainable Finance Disclosure Regulation (SFDR)'s Principle Adverse Impact indicators. At the same time, politicians increasingly amplified partisan views on the concept of ESG.

With 2022 policymaker debates in backdrop, investors will also continue to evaluate how the climate crisis will impact their portfolios in 2023. The latest MSCI Net-Zero Tracker shows that listed companies will deplete their share of the global emissions budget for limiting temperature rise to 1.5°C by December 2026[i].

For example, researchers explained in the ESG & Climate Trends to Watch report that the ongoing war in Ukraine and record levels of inflation globally may limit near-term pressure to reduce global greenhouse-gas emissions as governments prioritize energy security and affordability. However, MSCI ESG data reveals that major power companies are keeping their eyes on longer-term decarbonization trends and expanding deployment of renewables.

Meggin Thwing Eastman, Managing Director and Global ESG Editorial Director at MSCI, said: "Just as the world started to recover from the global pandemic at the start of 2022, it was hit with a series of climate disasters, a major war in Europe, spiraling inflation globally, and a cost-of-living crisis. Our annual ESG & Climate Trends to Watch report examines how these significant geopolitical and macro risks will transform the ways in which investors evaluate the impact that companies in their portfolios have on society and their bottom line. ESG risk is financial risk, and the ESG and climate research showcased in today's report was conducted to support investor needs to synthesize previously unseen risks and incentivize companies to better manage both emerging issues and the longstanding, expansive threat of the climate crisis."

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About MSCI Inc.

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data, and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

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[i] The calculation in the October edition of the MSCI Net-Zero Tracker reflects listed companies' share of the global budget for limiting the rise in average temperatures to 1.5°C, as of Aug. 31, 2022.