

## Sustainability Now Podcast

### The Sustainability & Climate Trends to Watch for 2026

Transcript: 12 December 2025

#### **Bentley Kaplan**

Hello and welcome to the weekly edition of Sustainability Now, the show that explores how the environment, our society and corporate governance affects, and are affected by our economy. I'm Bentley Kaplan, your host for this episode. And on today's show, we are going to get into our Sustainability & Climate Trends to Watch for 2026. Our team of researchers has spent the past few months poring over data, debating, discarding ideas, having surges of inspiration and ultimately picking out five trends that we think will be front and centre in the year ahead.

From a resilient energy transition, to asset-level physical risk in private infrastructure, to central banks and investors drawing bold circles around material sustainability data, to governments raising their ownership stakes in public companies, we think 2026 will have a lot of moving pieces. So, thanks for sticking around, let's do this.

So, every year since 2012, when I was just a wee lad, we've been looking at the sustainability and climate trends that we think are going to dominate headlines, or at least connect them, in the upcoming year. And in some cases, we pick trends that aren't strongly tied together, or ones that aren't necessarily anchored in time. But this year is a little different. Because the trends we're watching in 2026 have a whole lot to do with what's just happened in 2025. Now, as usual, there's a whole team of authors behind the Sustainability and Climate Trends to Watch but I sat down with Liz Houston, the editor and very much the driving force behind this year's paper. Now Liz, you can see things from a high level. It does seem like this year, our trends all emerged through some seismic shifts in 2025 and there's also this divergence between policy and market forces and that's having some implications for both sustainability and climate. So maybe for those not familiar with the paper, could you give us a summary and some of the high-level takeaways?

#### **Liz Houston**

A hundred percent. 2025 has been a massive break year, I would say in terms of climate and sustainability. So maybe in previous years certainly for the last 10 or so, you might want to say there's been a steady march of government and institutional progress towards more incorporation of climate and sustainability – certainly climate has been a bigger focus. But 2025 was a just a massive change in terms of all that. So, governments have just got new priorities, new strategic priorities. They're looking at supply chains. They're looking at defence, they're looking at AI. I was kind of going back through the headlines of 2025 and it was April, so like eight months ago that we all suddenly went OK, let's just redesign all supply chains globally. That feels both a long time ago and also no time at all. But that's just

kind of one of the major events that we've all been dealing with in 2025 and a reason why this trends has been such a break year and so very much defined by the current time that we live in.

One thing that I think is important to mention and a big driving force behind these trends is that just because governments might have these new strategic priorities, it doesn't mean that climate and sustainability stop being material. It would be nice if you could ignore something and it would go away, but it doesn't work like that. What we've seen is money and markets still gravitating towards good performers and opportunities and markets pricing risk accordingly, but it's really had to be investors and other market participants kind of stepping in to pick up the slack and kind of try and work out what's material for themselves in the absence of or maybe this lack of policy and government support going forward.

**Bentley**

Yeah. We can start picking through this idea of priorities or policy shifting, but in its place, there isn't really a vacuum like some people may have thought, or even feared that there might be – we're actually seeing money and markets pushing things forward in the space that this policy has left open.

And a great place to start with this idea is the energy transition. Because maybe a couple of years ago you had increasingly robust policy support. EVs, renewables, clean tech infrastructure – it was all getting a friendly boost. But we've seen some really hard turns in key markets, to the extent that investors may be feeling a little bear-ish about the transition in general. Without that supportive policy, are we still going to see the momentum behind these green or clean tech fizzing out? What's the data telling us?

**Liz**

Sure. So yes, big policy rollback in certain areas when it comes to energy transition and on the surface of it, you would have been forgiven for being quite bearish, yes. But then along comes this thing that we don't have a trend to talk about this year – AI – and you see a massive acceleration in the demand for energy to power all the data centres. And so, what have we seen in well actually throughout the kind of particularly the second-half of this year, we've seen a massive boost in the performance of clean energy stocks – so they've been outperforming quite dramatically.

But what we're watching through 2026 is the impact of commercial readiness on different types of low carbon technologies. So, in the absence of policy support, not all transition technologies are going to do well. Some of them are just not commercially viable yet to be able to succeed without that kind of policy support. So thinking things like sustainable aviation fuels or something like that. Compare and contrast that with something like EVs, where they are almost at cost parity. They are commercially ready. They are ready to go right now they. They don't need policy support, they can rely on market dynamics. So, what we did as part of this analysis was we put together a framework to understand which kinds of low-carbon technologies might be ready to go and which ones are not so ready to go, and what you see is that there is a big difference in the market performance of companies that have exposure to commercially viable solutions and companies that are maybe exposed to kind of other types of low-

carbon technologies or other kinds of green revenues. And in the absence of further policy support in 2026, we see this gap just continue to widen like this jaw is really opening up between energy transition that's effective and ready to go now and other kinds of green technologies which are not at that commercially viable stage yet.

**Bentley**

I think it's kind of pointless to try and describe charts or graphs from in an audio format, but you and I know but know about this one, having seen the paper already. And we see this very clearly in one of the graphs – how commercial viability of clean tech is a huge differentiator. I'll mention how to get the paper at the end of this episode and everyone can peruse these charts at their leisure. But take our word for it – there is a very clear trend here in understand how commercial viability is driving returns for these clean tech companies.

Liz, you mentioned technology like sustainable aviation fuel. That's an example of a transition technology which still need a lot of support to reach commercial feasibility, they might be staring down a longer timeline than it was previously. But for things like renewable energy, particularly in energy-hungry markets, the future is very much now and there is a lot of momentum pushing things forward.

But another area where the future is now is physical risk. We've spoken lots about different climate hazards on the podcast over the last year, from heat waves, to flooding, to how we can model those risks and why specific location data is becoming so important. So, it's not surprising that we're flagging physical risk in our trends paper. But Liz, maybe you could kind of focus us on what type of investor should be paying attention here.

**Liz**

I mean, I think there are a couple of reasons why this is particularly an issue for investors. When I say investors for this, we're really talking about asset owners. So the people putting kind of allocating money, putting it to work. One, it is that technology thing. So it's AI – we now are able to model out risks in a way that we haven't been able to previously because modelling out risks on an asset-by-asset basis requires an awful lot of data, and really only now are we able to do that for the first time. And realistically the other reason why this is particularly an issue now is investors are justifiably, really quite concerned about the potential for physical risk. I mean, they are looking at potentially the policy backdrop and looking at what temperature scenarios they should be pricing in for the long term and maybe that scenario is getting worse now compared to where it would have been a couple of years ago.

We did a study earlier this year where we looked at the publicly listed assets of major asset owners globally, and the reason that I that I really wanted to follow this up with something looking at the private assets universe is because if you're an asset owner and you're putting money to work and you're committing money to private equity in 2026, you're tying that up for 10 years. And, you know, given trends in the way funds are going potentially longer. So you have to start thinking now about what the potential climate scenario is going to be in minimum 10 years as you're looking to commit capital now.

We also wanted to particularly look at infrastructure-type assets within private funds, within the private funds data universe that we looked at because those are the kinds of businesses where the asset is the thing. It's not intangible assets, it's not, you know, IP, it's not, you know, easily movable business. You're talking about ports, hospitals, schools. These are the things that if you are constructing now, you really have to be making them resilient and thinking about what your potential tail risk could be in 10-15 years' time.

**Bentley**

It's actually this combination, like you say, between actual tangible, infrastructure assets, big, heavy things, and also about the growth in private capital funds, where less liquidity and longer time horizons make physical risk more meaningful. Kind of being wise to this intersection between physical hazards, private assets and infrastructure might be a key differentiator moving into the year ahead.

And actually, for both the energy transition trend and this one on physical risk, they both highlight how we think that financial considerations, rather than policy muscle is going to bring the energy transition and physical risk more concretely in mainstream investment planning. And Liz, to be fair, it's probably misleading to suggest that all policy momentum that was previously driving climate and sustainability into the conversation has all evaporated. Because there are some places where we see stability. Central banks, as you know, quite an important player in financial markets, from what we see they're quietly, but very much sticking to their guns when it comes to something like climate risk.

**Liz**

So what's interesting about central banks is not so much where they've moved, maybe with a couple of exceptions. It's the fact that they haven't necessarily moved. So while you might have seen policy makers kind of roll back on some of their commitments, the group that is very much focused on financial stability and material risk at a system level – they're still very much considering climate as an important factor that markets should be concerned about.

I mentioned potentially one exception there, maybe unsurprisingly in the EU, we have seen the ECB move to actually impose a penalty on one of the banks under its jurisdiction because it felt that they weren't integrating climate risks sufficiently and they weren't carrying out a sufficient materiality assessment of their own climate-related risk. And it's that continued focus on material risk that I think is the important signalling factor here. So it's not a compliance issue, it's not about oh you you've got a fine, you have to pay it. It's more that the central bank continues to be concerned about the material downside risk to the financial system from banks not adequately considering climate risk.

**Bentley**

Yes, so in essence, central banks aren't looking at climate risk from a kind of virtue signalling, or political angle, but very much from a prudential standpoint. Maybe a sign that climate risk, or data is reaching a new point of maturity. And one that commercial banks might find increasingly harder to avoid.

And that actually rhymes a little with what we're seeing in corporate sustainability reporting – our next trend for 2026. It's not only central banks that are homing in on these material sustainability topics, but investors too.

And it's not restricted to climate risks either – we might be seeing a market consensus over what sustainability data should be reported by companies, or what data investors need for their own risk management or investment strategies. Not necessarily the wide-ranging requirements of some of the more ambitious disclosure frameworks, but a much tighter subset of datapoints that link more concretely to financial outcomes.

### **Liz**

Yes. So I completely agree. It is this refocusing around a smaller kind of subset of disclosure items of indicators that are considered to be really material and really important for being able to understand how well a company is performing, how well it's managing its material risks. So if we look back at the 2025 proxy season, for example, shareholders in U.S. companies were moving to back the kinds of sustainability proposals that were kind of grounded in this material reality and rejecting ones that were super prescriptive, like asking for way too much, that wasn't necessarily relevant, or even rejecting those that were contrarian. At the same time, you've seen in listed companies, improved valuations, lower cost of capital for the kinds of companies that are clearer with their sustainability disclosures. So you've got a bit of a kind of carrot and stick approach there in how investors are moving to kind of secure the access to that to the data that they need.

And it does appear to be working, which is reassuring and quite cheering amongst all of the chaos. So, we still see disclosures on climate targets increasing globally and we still see disclosures on employee turnover increasing globally and those sound like two very different things. They are. But what unites them is that we know that they're both linked to financially material risks. The kinds of things that are linked with long-term equity market outperformance reduce risk of major drawdown and in corporate credit, we know that those risks are linked with lower incidence of adverse credit events.

### **Bentley**

Right, and this was actually something we touched on earlier in the year for this podcast. The idea that that investor focus on sustainability and climate isn't falling away, but rather coalescing, and focusing. And it's a really key outcome for the US proxy season that you touched on there - the continued low support for any "contrarian" shareholder proposals, which are those that push back against sustainability or climate norms that have been established in the market.

So for central banks and investors, both are kind of looking to shore up some central core of material sustainability indicators, data that should always be reported, even if governments may be rolling back from some policy pressure that was there previously. But then for the last trend, we see that governments, in some very specific places are stepping very much forward, exerting more influence in industrial policy, through rising ownership of public companies.

**Liz**

Yes. So this is played out by the data at a big picture level. But I think even just anecdotally it's quite easy to see that governments are particularly in the West and the developed markets are taking a more active role in some of their industrial policy. So, we've seen governments like the US take a 10% stake in Intel. We've seen some small rare earth minerals companies be the subject of investment. And we've seen defence related companies like Eutelsat in the EU, get government investment as well. And in the short term, certainly in a lot of those cases it's been very supportive for share prices. But what we wanted to do was point out potentially the long-term risks of increased government ownership for minority investors. So we looked back over the last 10 years and looked at the relationship between the size of the state's shareholding in a company and its 10-year total shareholder return.

And what we found is that even after correcting for kind of region and sector, every 1% increase in the amount of a company that the state owned was associated with a half a percentage point decrease in the 10-year TSR. Why is this? It's because if your majority or kind of primary shareholder is the state, often the state has competing priorities around things like job creation or as I said, industrial policy that might not be totally compatible with the interests of minority shareholders. So as we see state ownership of private companies increase, maybe that's something that investors want to be looking out for.

The same is not true in the credit space, so for bondholders, maybe they want to give a great big cheer because we did find that over that same period, if the state owns at least 10% of your company that was associated with a much lower risk of adverse credit event. I guess when one of your shareholders can print money that that makes it a pretty good guarantee that you're going to be able to pay your coupons.

**Bentley**

And that is it for the week, the month and the year!

A massive thanks to Liz for her take on the news with a sustainability twist.

The paper we've discussed is free to read and to download on MSCI.com. Its full name is "sustainability and climate in focus – trends to watch for 2026". It's to the point, very readable, and has a neat selection of charts, thanks to the toil and sweat of our great design and marketing teams. Treat yourself to some holiday reading, and if you can't quite get enough, we'll also be hosting a webinar on the 20<sup>th</sup> of January. Liz will be there, I will too, and so will a few of the paper's excellent co-authors.

And speaking of co-authors, Liz has fronted for the team, but I want to give a shout-out to the whole gang. So, kudos Laura Nishikawa, Anthony Chan, Guilherme de Melo Silva, Simone Ruiz-Vergote, Guido Giese, Katie Towey, Abdulla Zaid, Chris Cote, Elchin Mammadov, Mathew Lee, Jakub Malich, Jonathan Ponder and Yoon Young Chung. You are all superstars.

And with that thanks made, I also want to say a very BIG thank you to our listeners after the end of a long, interesting year. We hope we've kept you entertained and informed through 2025 and we can't wait to do so again in 2026.

So, stay safe, get some rest, have some fun, indulge in the good things, and we'll catch you again, bright-eyed and bushy-tailed in January.

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