OPEN BOOKS

ESG reporting goes mainstream

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There are an increasing number of reasons for companies to consider improving their sustainability performance.

While a growing trend over recent years, 2020 has seen a surge in investors seeking to include ESG issues in their assessment of company stocks. This is driven by a range of factors from younger people seeking to take a more values based approach to investment, to an avoidance of downside risks. When Blackrock, with $7t in assets, announced that it was building sustainability into all its lending going forward, that sent a strong signal to large corporates.

Much of the change is also driven by the climate crisis and the potential for major risks to investment portfolios. It is also influenced by consumer sentiment, which in turn has influenced the pension funds. The divest movement has been gaining traction. In April 2020, a total of 1,192 institutions and over 58,000 individuals representing $14 trillion in assets worldwide had begun, or committed to, a divestment from fossil fuels.

Institutional investors, such as pension funds and insurers, represent long-term beneficiaries who have a natural interest in preserving wealth in their investment portfolios. In this agenda, extra-financial factors ("ESG") have a key role to play. There is a growing consensus in the financial community that taking ESG issues into consideration is consistent with the fiduciary duty of investors when it impacts financial returns. ESG issues such as climate change, resource scarcity, misaligned executive compensation or corruption for instance, can have material impacts on long-term investment portfolio performance

CIRCLE THE WAGONS

The rise and rise of protectionist policies

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Protectionism is on the rise everywhere. 60 of the world's largest economies have adopted more than 7,000 protectionist trade measures (on a net basis) since the financial crisis in 2008. Whilst the US takes the headlines in terms of the protectionist policies it has (and intends to) implement, it is argued that the EU has become harder for non-member countries to trade with it. The so called 'populist age', starting with the inauguration of Donald Trump, has seen an acceleration of trade distortions.

Recent rise in protectionist measures reverses a 50 year trend toward trade liberalisation. Surveys suggest that business see a trade war as one of the top global risks. A Bank of America / Merrill Lynch survey found 1/3 of businesses expected protectionist measures to be the new normal - and with the possibility of including intellectual property and control of key technologies.

Since 2018, the Bank of England estimate that trade barriers between US and China have contributed to a slowdown in global growth - with direct effects on trade flows, supply chains and costs - also leading to greater business uncertainty. Imposed trade tariffs are now estimated to equate to £300bn.

The UK has a relatively high risk of being affected by protectionism implemented by other countries, having a 57% dependency on trade as a percentage of GDP. The UK has been classified as the world's eighth biggest victim of protectionist trading measures since 2009, but it is not blameless for the rise of protectionism, with many of its own protectionist policies.

Governments around the world may turn even more protectionist in the near term as they try to limit the economic damage from the coronavirus pandemic. Deborah Elms, executive director at consultancy Asian Trade Centre told CNBC's "Capital Connection. "As countries get nervous about food stocks and food supply, food security, they're going to stop allowing the export or restrict the import of food products," she added.

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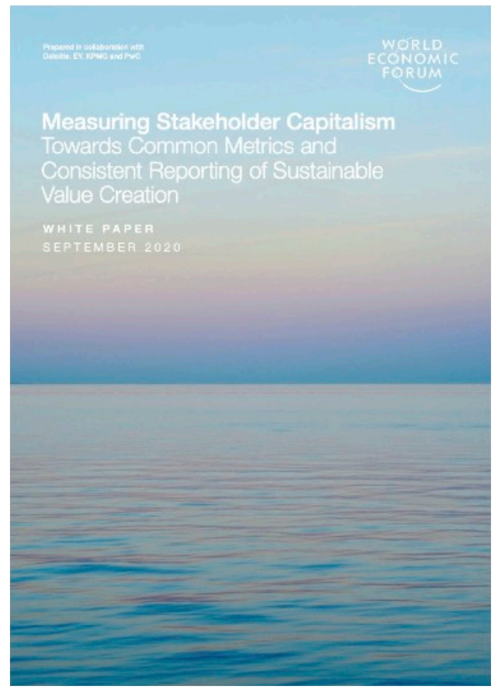

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