FLASH NOTE

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Sustainable investing, the new 'safe haven'?

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As everyone learns to adapt to – and define – the 'new normal', there is a strong case to suggest sustainable funds offer potential.

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Sustainable businesses will emerge even stronger from the crisis

During times of crisis, investors used to retreat into tried and trusted safe havens, such as gold or long-dated government bonds, while sustainable investing was viewed as a fashion or something of a luxury during uncertain times. I have even heard the argument that investors have too much on their minds right now to consider sustainable investing.

This thinking belongs in the past. Companies taking care of their stakeholders while monitoring externalities are benefiting from their commitment. Funds investing in companies with strong environmental, social and governance (ESG) policies have outperformed their benchmarks not only this year but over recent years[1]. From a risk management perspective, backing those companies is logically the right decision to make.

And this is just the start. We are already witnessing a major change in corporate behaviour: hundreds of companies have been forced to publicly re-assess their relationships with their customers, employees, suppliers and the wider community. Recent research[2] has evidenced those which performed well during the height of the COVID crisis have demonstrated superior product, health, safety and workforce policy scores. Firms that truly value their stakeholder relationships will be well placed to emerge stronger from this crisis.

> It is now our governments' and everyone's responsibility to make sure this really happens

Alliance for a green recovery

Some market participants and some EU Member states suggest that environmental-related targets may be suspended indefinitely. For instance, the Cop26 climate talks have been postponed until 2021, but there needs to be more concerted efforts not to derail the EU Green Deal and provide as much green spending as possible in the economic recovery plan. For this reason, Carmignac joined the Members of the European Parliament (MEPs) and the CEOs of large corporations and asset managers in the 'EU Alliance for a Green Recovery' to support and accelerate the transition towards climate neutrality and healthy ecosystems. It is now our governments' and everyone's responsibility to make sure this really happens.

Social responsibility is unleashing companies from the shackles of short-termism

It's increasingly likely that in an environment where cutting dividends is both financially prudent and 'the right thing to do', we could see more companies investing into solutions both innovative and virtuous instead of maintaining investment in legacy businesses that we know offer decreasing profitability. Forward-thinking firms now have the opportunity to capitalise on their prime positions being unleashed from the shackles of short-termism.

We are learning to adapt to this new equation and are trying to define a new normal. In this environment, sustainable investment funds are confirming their efficiency in managing underlying risks and delivering more resilient returns, precisely because they support and finance companies acting for the wellbeing of the planet and society. For investors, there's a clear rationale and opportunity to consider sustainable investment funds as we believe these are the investments capable of delivering robust returns in a post-COVID environment.

For more information on Carmignac's responsible investment approach, visit our dedicated page:

Responsible investment at Carmignac

[1] As measured by MSCI Europe, Emerging and USA equity indices vs corresponding same regions MSCI ESG Leaders indices year-to-date, 1 year, 2 years, 3 years, 5 years as of 05/05/2020.
[2] Research by Bank of America Merrill Lynch (BofAML) covering the period 19/02/2020-20/03/2020.