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# On RI investing the US is once again the land of opportunity

While one in every three dollars in the US is managed following sustainable investment strategies, and the nation is the world's largest country issuer of green bonds, there remain significant opportunities for growth. Early signs indicate the Biden administration could provide a 'turbo boost'.

When it comes to climate change, the intentions of President Biden's administration could hardly be clearer: within hours of assuming power he had announced that the US would rejoin the Paris agreement.[1] Since then the US has announced targets in line with Article 4 of the Paris Agreement to cut emissions to 50%-52% below 2005 levels by 2030 and to achieve carbon neutrality by 2050.[2]

There has been similar positive impetus in responsible investment (RI). Biden's choice as head of the National Economic Council, Brian Deese, is an expert in sustainable investing. Further, Biden has created the position of climate tsar on the National Security Council. Most crucially, he has also begun to roll back key regulations introduced in the Trump era which were designed to discourage investments based on environmental, social and governance (ESG) criteria.

Earlier this year the Department of Labor announced it would not enforce a requirement for plan sponsors such as 401(k) providers to take and document certain steps to confirm that they were not sacrificing financial returns when devoting money to environment, social and governance -focused investments.[3] Separately, having voted in 2020 against requiring certain disclosures relating to ESG, the Securities and Exchange Commission (SEC) is now preparing a framework of rules to govern ESG reporting.[4]

Despite a pushback against ESG investing under the Trump administration, the sector is well-poised. At the start of 2020, total US domiciled assets under management following sustainable investment strategies[5] had grown to $17.1 trillion, up from $12 trillion at the start of 2018 and representing a third of all assets under professional management.[6]

Institutional investors make up a large proportion of this, accounting for $6.2 trillion at the end of last year, with public pension funds representing more than half that total.[7]

Sustainable funds in the US also continue to attract record inflows. In 2020, flows into US open-ended and exchange-traded sustainable funds hit $51.1 billion, more than double the year before and almost 10 times the level of 2018, both of which were record years.[8] According to research from Morningstar, investments into sustainable funds represented 24% of total flows into US stock and bond funds in 2020.

The Covid-19 pandemic, combined with the 2020 election result and growing concerns over climate change, are likely to support continued strong investment flows into sustainable funds.

When it comes to green finance, the US also boasts a vibrant market. In green bonds, it tops global rankings with $51.1 billion of issues in 2020, according to Climate Bonds Initiative.[9] However, Germany and France, in second and third place with $40.2 billion and $32.1 billion of issuance respectively,[10] have more developed green bond markets relative to the size of their economies, in part because both countries have launched benchmark-setting sovereign green bonds.

To date, there has been a reluctance by the US Treasury to follow suit. But, given Biden's commitment to tackling climate change, analysts are closely watching whether the current US government will soon commit to launching a green bond, a move which would add further impetus to the market.

Even so, counting all cumulative debt issued, the US remains the world's largest single country issuer of green, social and sustainability (GSS) bonds, buoyed by multiple repeat issues of green and social bonds by Fannie Mae, a large guarantor of mortgages. In fact, Fannie Mae is the largest green issuer in the US: by the end of Q1 2021 it had launched 4,200 deals totalling $94 billion.[11]

Green bonds have a significant role to play in transitioning the US to a greener economy. Globally, energy was the most popular use of proceeds of green bonds in 2020, followed by low carbon buildings and low carbon transport. The US is little different. Since the inception of the US market, buildings have been the leading use of proceeds of green bonds followed by renewable energy.

Despite this, the US economy remains heavily reliant on fossil fuels. Last year the country was the largest oil and natural gas producer globally, and in 2019 82% of primary energy production in the US came from fossil fuels – down from just 86% in 1990.[12]

But the Biden administration has set ambitious targets for change. Currently, almost two thirds of electricity generation comes from fossil fuels. Under the US decarbonisation policy, Biden has set a goal to reach 100% net neutral electricity by 2035. This should help underpin further strong growth in US green bonds.

There is certainly massive growth potential. Despite its size, GSS debt represents only a tiny proportion of debt markets and, in the US, just 0.6% of the $46 trillion US bond markets.[13]

To date, the largest green bond from a non-financial corporate is the $1.5 billion issue by Apple in 2016, the proceeds of which were used for renewable energy and energy and water efficiency projects. Indeed, companies like Apple, Microsoft, Berkshire Hathaway and Visa are viewed as leaders in sustainability, helping propel the US to 13th place in a global ranking of 48 countries, according to the latest Morningstar Sustainability Index.[14] However, Europe continues to lead this index with the Netherlands, France and Finland the top three countries in the world when it comes to corporate-level sustainability.

It is clear the European Union (EU) has progressed further than the US when it comes to sustainable investing. This has been partly through the European Green Deal which is aiming for European climate neutrality by 2050, and EU Taxonomy rules which require financial services firms to disclose how products fare in terms of environmental sustainability.

Despite a strong global position in green bonds and sustainable investing, it is time for the US to play catch up. From roll backs of anti-ESG rules to the US government's $2 trillion climate plan, the early signs from the Biden administration for both green finance and responsible investment are positive.


**Source:**

1 https://www.state.gov/the-united-states-officially-rejoins-the-paris-agreement/

2 United States of America Nationally Determined Contribution, April 21, 2021.

3 U.S. Department of Labor Backtracks on Controversial Trump-Era ESG Rules, *ESG Today*, https://www.esgtoday.com/u-s-department-of-labor-backtracks-on-controversial-trump-era-esg-rules/

4 SEC to Move Quickly on Proposed ESG Disclosures, *The National Law Review*, https://www.natlawreview.com/article/sec-to-move-quickly-proposed-esg-disclosures

5 US SIF counts two main strategies as sustainable investing: ESG incorporation (applying various environmental, social and governance (ESG) criteria in investment analysis and portfolio selection) and filing shareholder resolutions on ESG issues.

6 The US SIF Foundation's Biennial "Trends Report" Finds That Sustainable Investing Assets Reach $17.1 Trillion, *US SIF*, https://www.ussif.org/blog_home.asp?Display=155

7 Sustainable and Impact Investing – Institutional Investors 2020, *US SIF*, https://www.ussif.org/Files/Trends/2020%20Trends%20Report%20InfoGraphic%20-%20Institutional%20Investors.PDF

8 A Broken Record: Flows for U.S. Sustainable Funds Again Reach New Heights, *Morningstar*, https://www.morningstar.com/articles/1019195/a-broken-record-flows-for-us-sustainable-funds-again-reach-new-heights

9 https://www.cnbc.com/2021/02/11/sustainable-investment-funds-more-than-doubled-in-2020-.html

10 Record $269.5bn green issuance for 2020: Late surge sees pandemic year pip 2019 total by $3bn, *Climate Bonds Initiative*, https://www.climatebonds.net/2021/01/record-2695bn-green-issuance-2020-late-surge-sees-pandemic-year-pip-2019-total-3bn

11 North America State of the Market 2021, *Climate Bonds Initiative*, https://www.climatebonds.net/files/reports/north_america_sotm_final.pdf

12 North America State of the Market 2021, *Climate Bonds Initiative*, https://www.climatebonds.net/files/reports/north_america_sotm_final.pdf

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14 Morningstar Sustainability Atlas, *Morningstar*, https://www.morningstar.com/content/dam/marketing/emea/shared/guides/Sustainability_Atlas_2021_April.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=22496

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