Putting plans into action

10 ESG Themes for 2023

In 2023, investors will likely want to see ESG intentions actioned, despite macroeconomic headwinds. Investor, corporate and sovereign commitments, boosted by regulatory impetus, have entrenched ESG in the investor mindset. In this slide show, Barclays Research analysts highlight the 10 ESG themes likely to dominate equity and credit markets in 2023.

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Theme 1

Regulatory and legal action ramps up

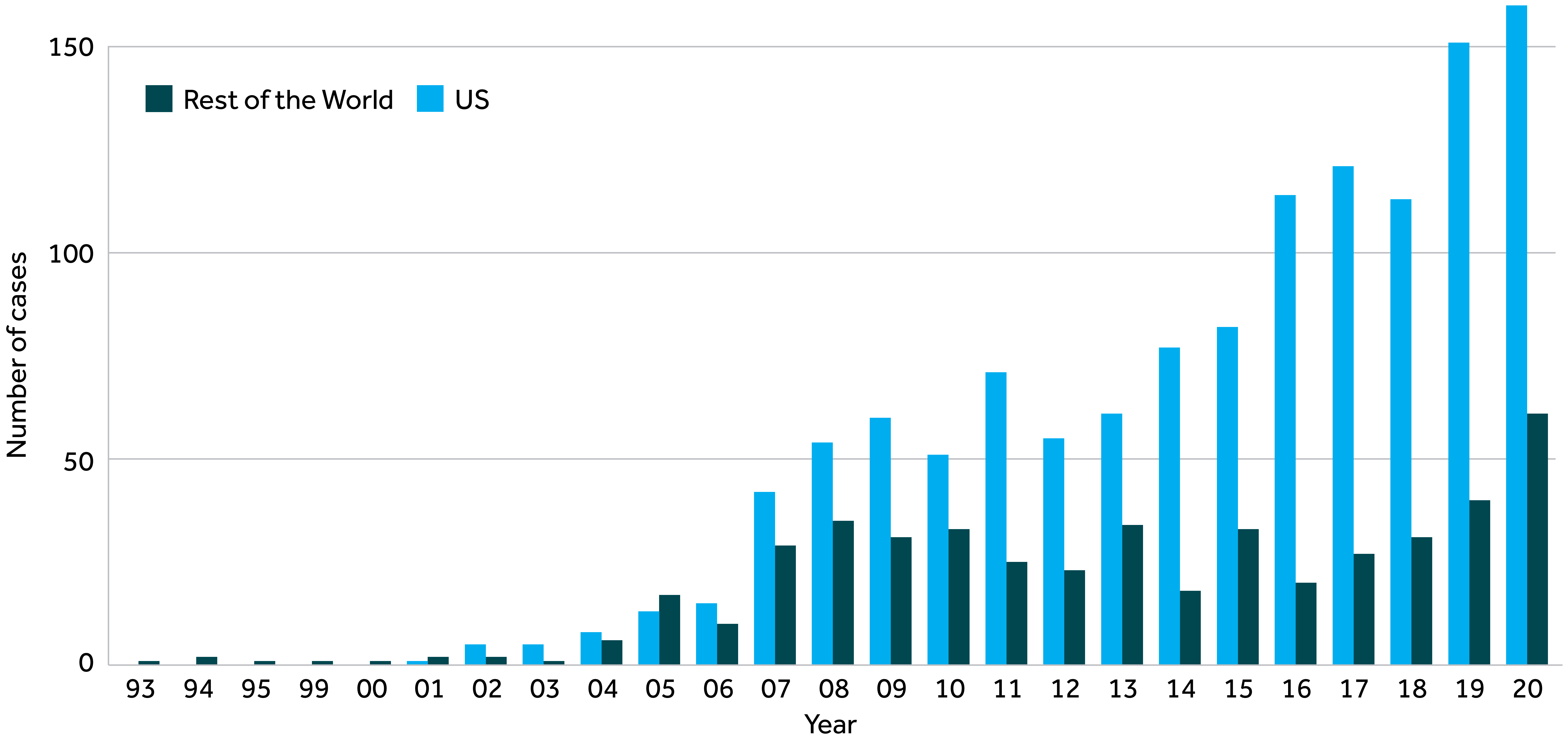
To qualify ESG claims, regulators require or will soon require certifiable reporting and disclosures

Expect

A data deluge triggered by Europe's SFDR and imminent Corporate Sustainability Reporting Directive.

Legal challenges to multiply as scrutiny rises over climate-related government policies, corporate ESG strategies, and claims related to working conditions, business practices and net-zero emissions.

Increasing number of climate related cases globally



Source - Grantham Research Institute, LSE, Sabin Centre, Columbia University, Barclays Research

Theme 2

Human rights move up investors' agendas

Society increasingly expects markets to have a social conscience

Supply chain due diligence

Human rights issues across company supply chains are in the spotlight as more regulations call for investor assurances on corporate social safeguards.

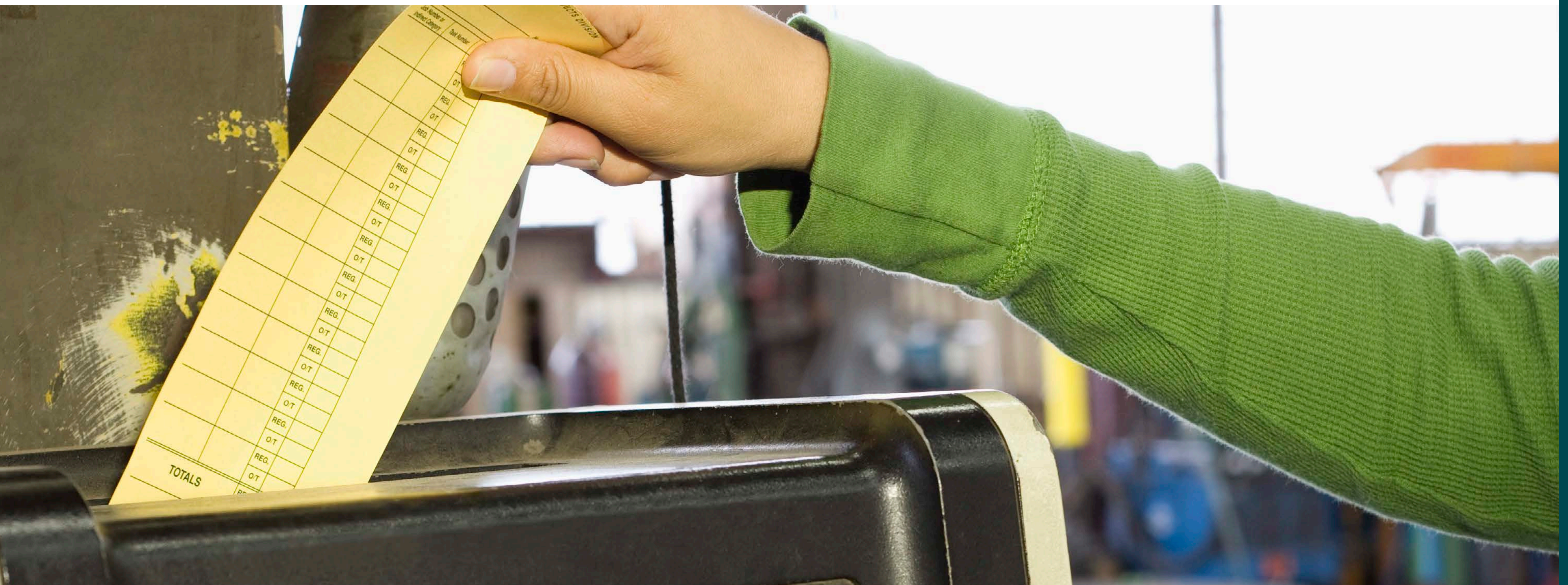
Fact checks

To assess complex global supply chains, investors will rely more on data vendors that provide detailed corporate assessments on supply chain resilience, security and exposure to risks.

Theme 3

Labour relations remain in focus

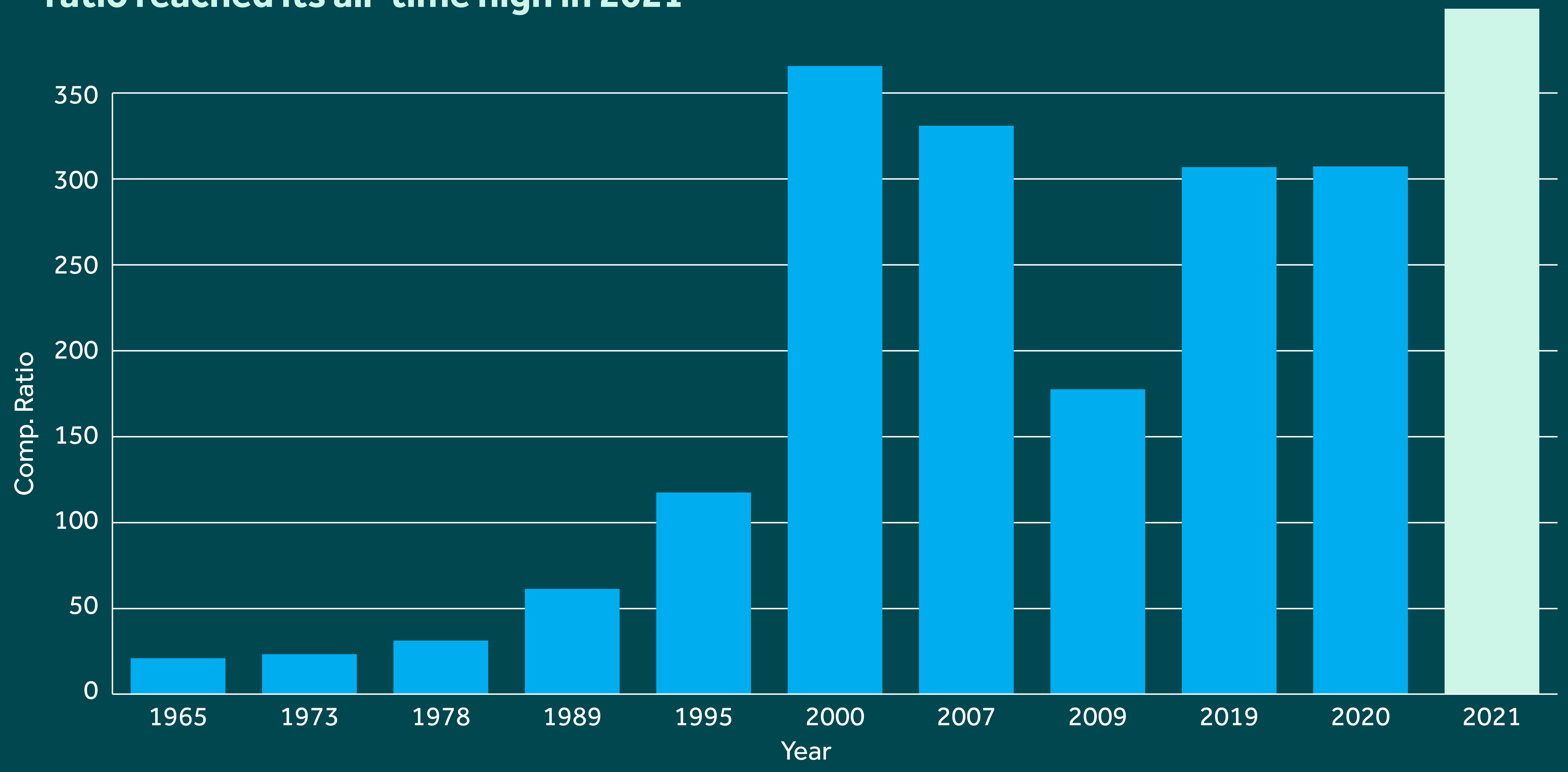
Staff shortages, wage demands and strikes concern investors, as does the impact of COVID-19 on worker preferences



Power shift

Skill shortages and falls in immigration have led to historically high job vacancies in the US and Europe. Together with rising inflation and living costs, this is fuelling worker wage demands and industrial action, causing global supply chain bottlenecks.

US CEO-to-worker compensation ratio reached its all-time high in 2021



Source - Economic Policy Institute

Theme 4

Governance and sustainability goals are key

Management will be held more accountable for ESG performance

Societal expectations of businesses shift

More companies are linking executive compensation to ESG objectives, such as: health and safety; diversity, equity and inclusion; and net zero targets.

Rise in shareholder engagement

Investors want to be viewed as more than proxy voters, they want a say in corporate ESG ambitions.

84% of investors say a lack of climate change risk mitigation disclosure and performance should result in a vote against directors.*

*"2022 Edelman Trust Barometer" Edelman. https://www.edelman.com/sites/g/files/aatuss191/files/2022- 01/2022%20Edelman%20Trust%20Barometer%20FINAL_Jan25.pdf

Theme 5

ESG faces a new economic reality

There will be ESG wins and losses from economic turmoil

A boost for clean energy

The energy crisis and the war in Ukraine sped up the transition to clean energy and cut its costs.

90%

of the cheapest energy in the world is now renewable electricity.*

A rise in carbon emissions

Recent energy access and affordability policies increased global carbon emissions.

Governments and corporates may scale back ESG initiatives to cut costs.

$4 trillion

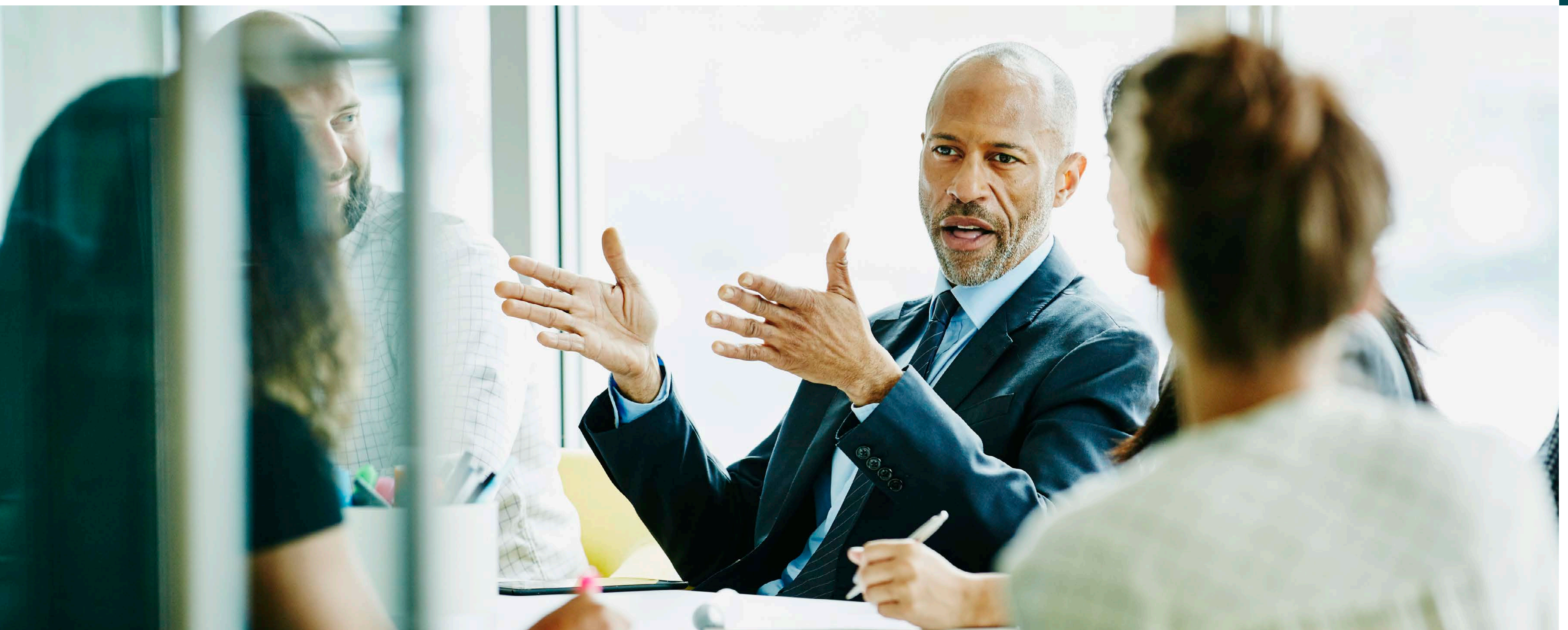
of global investments are needed by 2030 to meet the Paris Agreement. With tax revenues falling and borrowing costs rising, this may not be achievable.**

*IEA (2022). Net Zero by 2050 - Analysis **Rocky Mountain Institute (2022). The Energy Transition Narrative

Theme 6

Commitment checks: the devil is in the detail

Proving progress towards ESG goals remains a challenge



Calls for greater transparency

Scrutiny of corporate sustainability roadmaps will increase, and questions are being asked about how companies are monitoring and financing their transition to net zero.

This surveillance will grow as asset managers and owners push to shift their Scope 3 emissions to net zero.

43%

of firms surveyed in our 2022 Corporate Survey, disclosed that they had not yet calculated the cost to the business of getting to net zero emissions.

Source - ESG Research: 2022 Corporate Survey Results: Getting Serious on ESG

Theme 7

Innovative solutions for decarbonisation gain traction

Interest in decarbonisation technologies grows in 5 key areas:

Solar cells are due to enter mass production this year with China potentially fulfilling up to **30%** of global demand.[*]

There are promising developments in electric vehicle battery technology and recycling.

Energy security has shifted attention to nuclear power, with the International Atomic Energy Agency expecting global net capacity to more than double to **873GW** by 2050.[**]

Renewable energy growth has created demand for utility-scale energy storage.

There is a rise in public and private support for carbon capture, utilisation and storage. And, although direct air capture costs up to **$342 USD/tonne**, its rapid development should bring costs down and expand carbon markets.[***]

*"Accelerated TOPCon technology advancement changes demand for EVA and POE resin," Infolink Global total solar forecasts by Bloomberg NEF

**"Energy, Electricity and Nuclear Power Estimates for the Period up to 2050," IAEA, 2022

*** Barclays Research: Carbon pricing: not sufficient to achieve climate goals

Theme 8

Climate adaptation to become more costly and important

Adapting to extreme weather events caused by climate change requires significant funding and adds risks to some sectors, such as construction and insurance

$1.8 trillion

of adaptation investments by 2030 can result in up to

$7.1 trillion

in benefits.*

*"Tipping or Turning Point: Scaling Up Climate Finance in the Era of COVID19". Green Climate Fund. 14 October 2020.

Who funds climate adaptation is moving up the agenda in 2023.

Opportunities in adaptation solutions

While companies in many sectors will have to evolve their business models to account for climate change, significant growth opportunities exist for companies offering adaptation solutions.

Theme 9

Regional differences come to the fore

Approaches to ESG differ by region

Different parts of the world have different regulations, policies and targets for ESG, and investors and companies take different approaches to ESG depending on their location. For investors buying into multiple regions, the cost of compliance is mounting.

Top 10 themes

		Europe	US	Asia
1	Regulatory and legal action ramps up on detailed disclosures	◆	◆	◇
2	Human rights move up the investor agenda	◆	◆	◆
3	Labour relations remain in focus	◆	◆	◇
4	Governance and sustainability goal will be key	◆	◆	◇
5	ESG faces a new economic reality	◆	◆	◆
6	Commitment checks: the devil is in the detail	◆	◇	◇
7	Innovative solutions to decarbonisation gain traction	◆	◆	◆
8	Climate adaptation becomes more costly, and more important	◆	◆	◆
9	Regional differences come to the fore	◆	◆	◆
10	Account for unpredictability: scenario analysis becomes even more important	◆	◆	◆

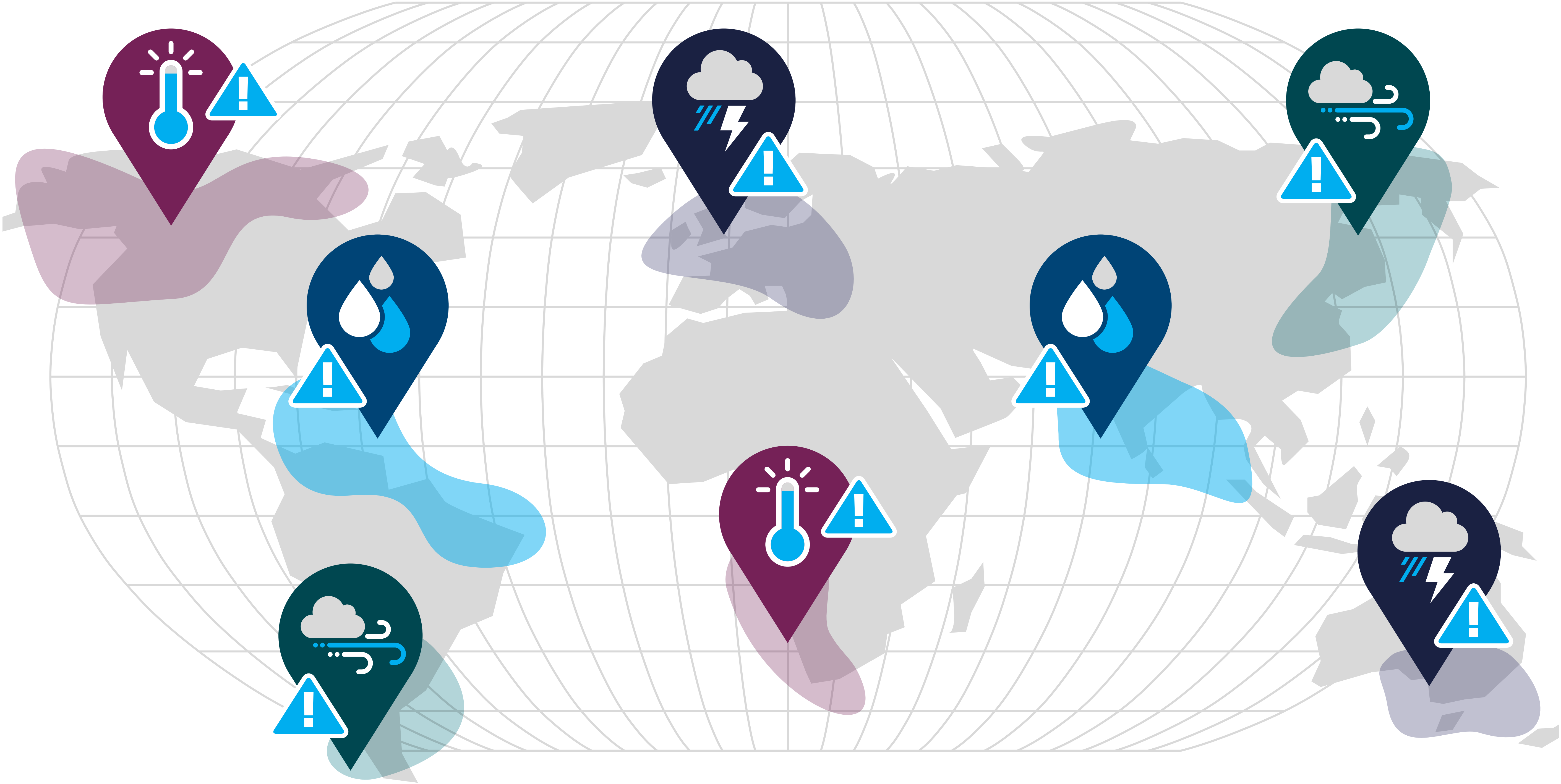
Theme 10

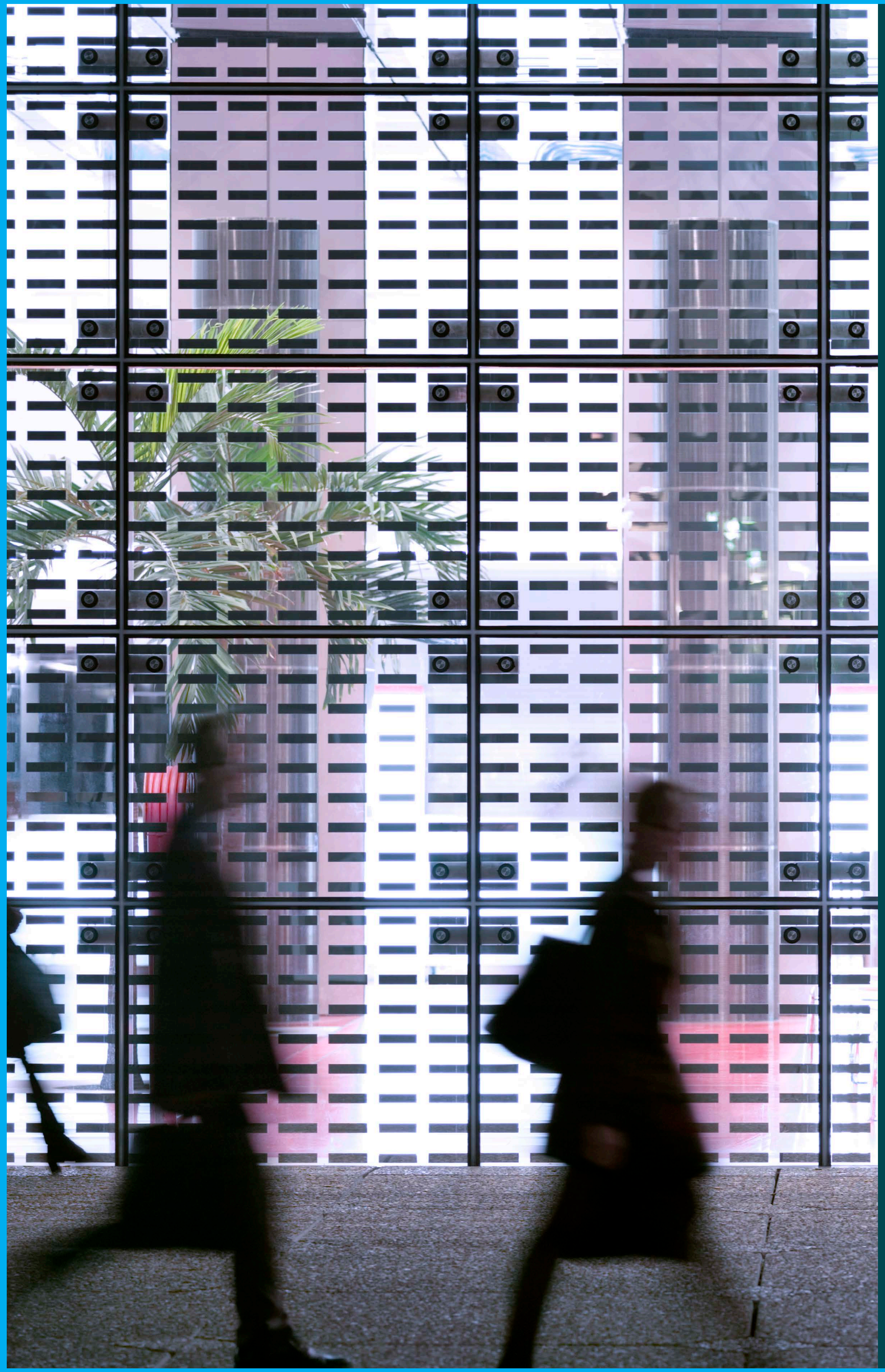
Account for unpredictability: Scenario analysis becomes even more important

There are benefits and dangers to be found in global uncertainty

Uncertain geopolitics and risks associated with social unrest, disease, food security and extreme weather events are being built into ESG scenario analysis.

On the upside, a global carbon pricing model could drive more certainty on future climate policy, sustainability and regulation.





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Our Research analysts' view

2023 is the year investors, regulators and governments want to see plans for ESG turned into actions that can be independently monitored and verified.

While in the past, the environment has often taken precedence over the social and governance aspects of ESG, this year each will be given equal attention.

With the macroeconomic risks and the continuing volatility around energy security, 2023 will be a tricky year for investors trying to focus on ESG. But, by continually tracking these 10 key themes it should be possible to optimise returns and make a positive impact on the planet.

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