ROBECO
The Investment Engineers

2026 SUSTAINABLE INVESTING OUTLOOK

Holding the note

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Contents

The 2026 Sustainable Investing Outlook has been compiled by Rachel Whittaker (Head of Sustainable Alpha Research) and Masja Zandbergen (Head of Sustainability Integration).

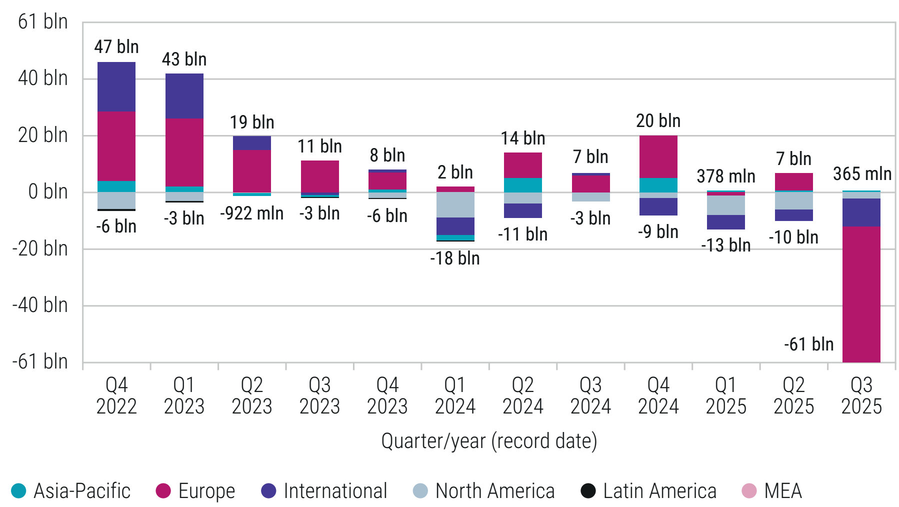
1. Introduction

Sustainable investing (SI) in 2025 hummed a muted tune, with modest net outflows from labeled sustainable open-ended funds and ETFs over the first nine months. The overall trend has been broadly flat for nearly two years (excluding a few exceptional movements) and we see no clear catalysts to change the tempo in 2026. Fund launches continued, at a declining pace, but market growth lifted total sustainable AuM to USD 3.7 trillion by the end of September.[1]

1. Morningstar Global Sustainable Fund Flows: Q3 2025 in Review

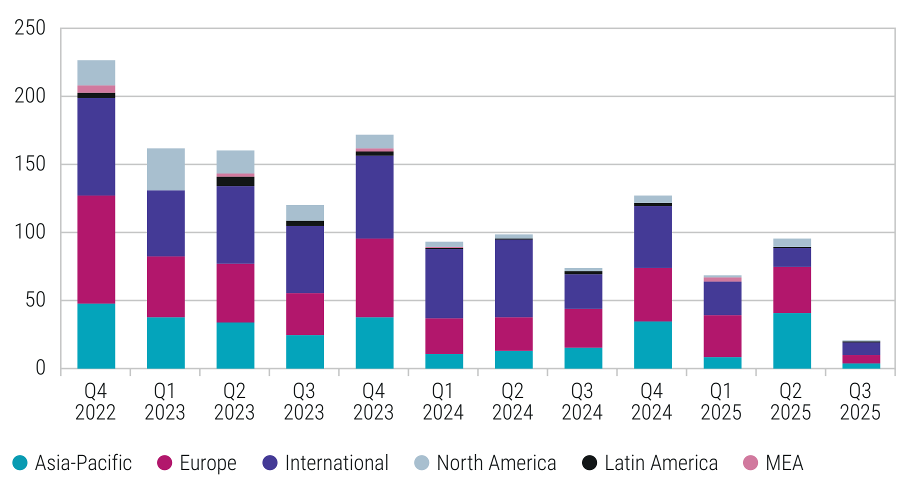
As outlined in our 5-year Expected Returns outlook, we expect increased capital allocation to climate transition strategies in the coming years, with 2026 likely to focus on managing physical climate risks and exploring related investment opportunities. In the near term, sustainable investors are expected to engage more with the security and defense value chain. Following this year's crescendo in AI infrastructure investment and tech stock performance, AI's governance and sustainability impacts will be a growing priority in 2026. Sustainability themes should remain central to mainstream investors as well as sustainable investors. For active owners, unfortunately limitations on shareholder rights in the US continue without resolution.

Figure 1: Sustainable fund flows: Broadly flat since late 2023



Source: Broadridge Global Market Intelligence. Eq/Bonds/MA, ESG Focus only.
Data as of 5 November 2025. Note that Q3 2025 is significantly skewed by a single pension fund transferring assets to a custom ESG mandate; the underlying trend is in line with previous quarters.

Figure 2: New sustainable fund launches continue to decelerate throughout 2025

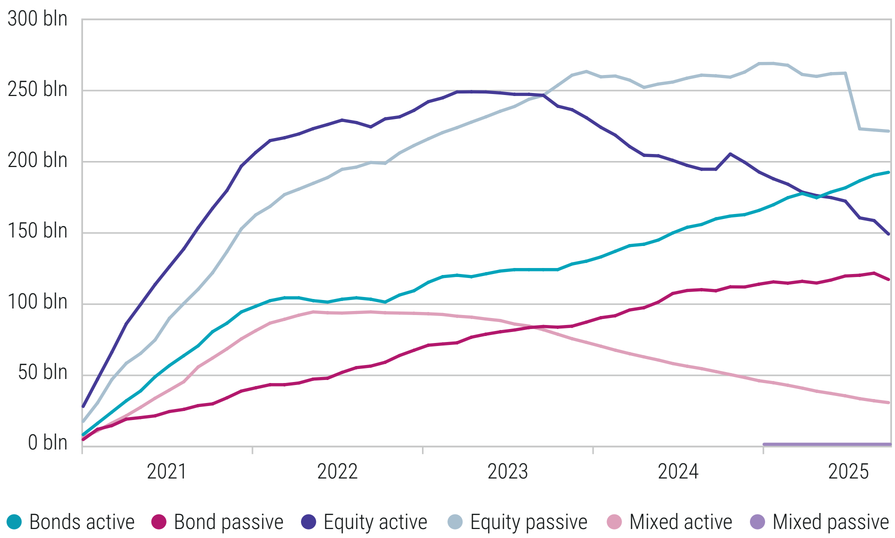


Source: Broadridge Global Market Intelligence. Eq/Bonds/MA, ESG Focus only. Data as of 5 November 2025.

Where is sustainable capital flowing?

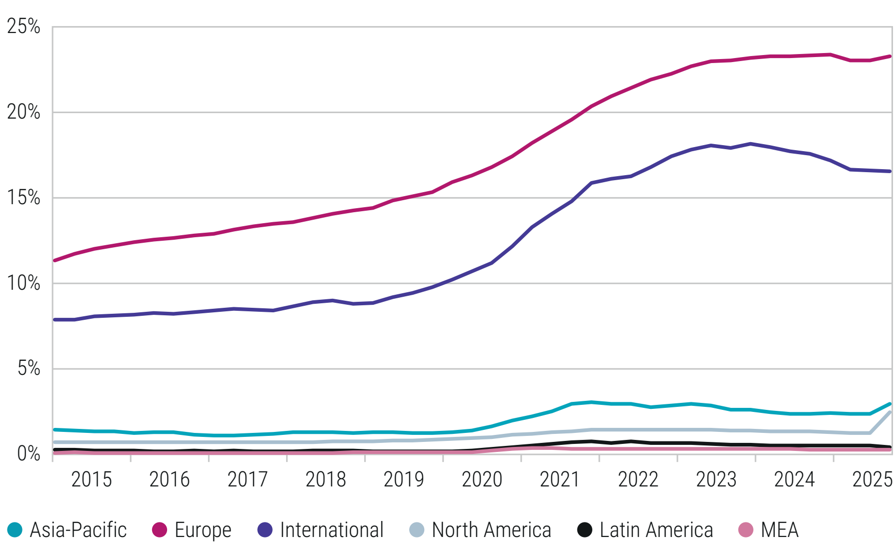
While SI funds have seen outflows globally in 2025, there are areas of relative strength. Sustainable fixed income has been more resilient than equities, and passive strategies have been slightly more stable than active ones. The surge in SI fund flows seen in the early 2020s has clearly cooled, but the trend hasn't reversed. Net flows over the past two years are broadly flat, indicating ESG is not 'dead', as some commentators have suggested, but has rather corrected. We expect sentiment to remain stable over the next 12 months, with geopolitical concerns dominating investor focus. In the US, vocal anti-ESG sentiment appears to be a minority view, while broader investor sentiment seems largely ambivalent.

Figure 3: Outflows in equities, inflows in fixed income



Source: Broadridge Global Market Intelligence. Eq/Bonds/MA, Global, ESG Focus only. Data as of 5 November 2025.

Figure 4: Stabilizing sustainable AuM across regions



Source: Broadridge Global Market Intelligence. Eq/Bonds/MA, Global, ESG Focus only. Data as of 5 November 2025.

A potential area of strength in 2026 is sustainable thematic investing, particularly in clean energy. Performance of major ETFs focused on clean energy and water has recently improved. This may signal a return to favorable conditions and more positive flows.

Figure 5: Thematic equity return indices strengthened in 2025[2]

Past performance is no guarantee of future results. The value of your investments may fluctuate.
Source: Bloomberg. Data as of 4 November 2025. The returns represent average returns for Clean Energy, Solar, Wind, EVs and Water thematic equity indices. Data are in USD.

In fixed income, GSSS (green, social, sustainability, and sustainability-linked) bond issuance slowed in 2025, but total market value now exceeds USD 3 trillion. The Use of Proceeds segment – especially green and sustainability bonds – has shown resilience, while sustainability-linked bonds have lost market share. Financial institutions rebounded, led by APAC and European banks.

Corporate issuance declined, mainly due to reduced activity from developed market corporates, though emerging market corporates helped offset this with active green bond issuance for transition financing. APAC led in first-time issuers globally, a trend expected to continue in 2026 alongside greater standardization and transparency.

In 2025, over 20 green bonds compliant with the Regulation on European Green Bond Standard (EuGBS) were issued, including one sovereign. As the regulation begins applying to funds previously exempt during the transition period, it is expected to drive more standardized disclosures and alignment with the EU Taxonomy. ●

2. The following indices are used:
For Clean Energy: S&P Global Clean Energy Transition Index, NASDAQ Clean Edge Green Energy Total Return Index, WilderHill Clean Energy Index TR, MVIS Global Low Carbon Energy Index TR Net, MSCI ACWI New Energy Filtered Net USD and Solactive Clean Energy Index.
For Solar: Solactive Solar Index and MAC Global Solar Energy Index.
For Wind: Solactive Wind Energy Index, ISE Global Wind Energy Index, WilderHill Wind Energy Index
For EVs: STOXX Global Electric Vehicles and Driving Technology Index, Solactive Autonomous & Electric Vehicles Index, Solactive Battery Value-Chain Index, Nasdaq Global Future Mobility Index and Fidelity Electric Vehicles and Future Transportation Index
For Water: S&P Global Water Index, NASDAQ OMX US Water Total Return Index, NASDAQ OMX Global Water Total Return Index, S&P Gb Water USD Net Total Return Index, Solactive Global Clean Water Industry Index, International Securities Exchange Water Total Return Index

2. Three key themes

- Climate – Focus on physical risks
- AI – Energy use and responsibility
- Defense – To invest or not, and how?

Climate – Focus on physical risks

The global economy is not decarbonizing fast enough to reach net zero by 2050. Carbon emissions continue to rise as income levels grow, and efficiency gains are insufficient to offset this. In 2026, we expect a shift in focus from prevention to preparing for the physical and economic impacts of climate change. The cost of inaction could reach 11-27% of cumulative global GDP, while investing just 1-2% could limit warming to below 2 °C.[3]

BCG and the University of Cambridge estimate that a 3 °C rise by 2100 could reduce cumulative economic output by 15-34%. In Europe, average annual climate-related losses were EUR 44.9 billion (0.2% of GDP) between 2020-2024, with a 54% increase in the 30-year moving average since 2009. Floods caused 47% of losses, storms 27%, and heatwaves 18%. Risks are unevenly distributed and not limited to emerging markets: Slovenia, Switzerland, Luxembourg, Spain and Italy face the highest per capita costs in Europe.

Physical risks affect a different set of companies than transition risks, requiring more targeted research. At Robeco, this is a priority in both research and active ownership. We already engage with companies on climate risk, including utilities conducting site-level assessments and retailers evaluating supply chain vulnerabilities. Engagement on this topic is expected to grow.

Climate adaptation presents investment opportunities as well as risks. In 2026, investors should consider companies involved in nature-based solutions, sea defense reconstruction, air purification, refrigerants, and pharmaceuticals addressing climate-related diseases. Climate-resilient businesses in high-risk regions will also be key.

AI – Energy use and responsibility

The rapid growth of AI has led to a sharp increase in energy use by hyperscale data centers, posing a challenge to global decarbonization efforts. In 2024, data centers consumed around 1.5% of global electricity, with the International Energy Agency (IEA) projecting this will double to 3% (945 TWh) by 2030, while emissions may triple. Although renewable energy is the fastest-growing source for data centers, demand for natural gas and coal-fired generation is also rising. Post-2030, small modular reactors may offer low-emissions baseload power, but for now, hyperscalers are committing to 100% renewable energy and net-zero pathways.

However, not all renewable procurement strategies reduce system-wide emissions equally. To credibly cut CO2, data centers should adopt a 24/7 Carbon-Free Energy (CFE) strategy, tracking clean energy use hourly rather than annually. Research shows 24/7 CFE delivers real emissions reductions due to investment additionality, unlike volumetric or emissions-based approaches still common today. The GHG Protocol's Scope 2 Guidance also recommends 24/7 CFE, and with accounting standards under review, strategies with true additionality may drive competitiveness and market share gains over the next three to five years, especially as reporting standards and customer incentives converge.

3. Too Hot to Think Straight, Too Cold to Panic: Landing the Economic Case for Climate Action with Decision Makers, BCG and University of Cambridge, March 2025.

This industry shift requires sustainable investors to reassess companies with evolving business models. Traditional methodologies rely on historical data, but forward-looking models must reflect future expectations. At Robeco, we've adapted our methodology to assess alignment with Paris goals by adjusting base-year emissions intensity and credibility assessments, offering a more realistic view of net-zero potential by 2050.

Despite AI's double-digit energy demand growth, its overall footprint remains small compared to other energy-intensive sectors. Looking beyond the next 12 months, sustainability scrutiny will expand to include 'Responsible AI'. Clients are increasingly focused on ethical alignment and human rights. We encourage companies to formalize AI principles that promote inclusiveness, fairness, and transparency. With regulatory developments like the EU AI Act, we assess companies' readiness to comply, including risk management and human oversight in high-risk applications. AI also offers positive contributions to environmental and social goals. It can detect patterns in environmental data, improve health analytics, and address complex challenges like climate change. We actively seek companies using AI to advance the UN Sustainable Development Goals (SDGs).

While many companies have adopted ethical AI principles, transparency around implementation remains low. Public disclosures often lack clarity on governance mechanisms for responsible AI development. We continue to engage with companies to improve practices, assess regulatory preparedness, and support AI's role in sustainable development – ensuring innovation contributes positively to society and the environment.

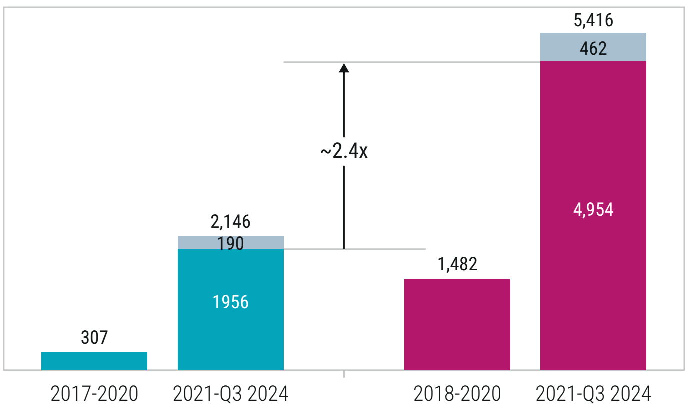
Defense – To invest or not, and how?

In June, NATO raised its defense spending target from 2% to 5% of GDP over the next decade. While sustainable investors have traditionally avoided defense industries due to concerns over human rights abuses, 1.5% of this target is earmarked for national resilience – covering cybersecurity, policing, and infrastructure. This broadens the defense-related value chain, creating growth opportunities that may align with sustainable values and, in some cases, contribute positively to sustainable development.

Over the next year, we expect more clarity on which industries and regions will see increased spending first. Germany and Norway plan to boost defense budgets in 2025 and reach the target early, while Spain, Belgium, and Slovakia remain cautious. Investment opportunities span various asset classes: public companies in security technologies (beyond the obvious players), government bonds as EU states issue debt, and private markets. Notably, McKinsey reported a 500% rise in defense-tech startups between 2021 and 2024 compared to the prior three years. The US currently leads Europe in both startup activity and investor engagement.[4]

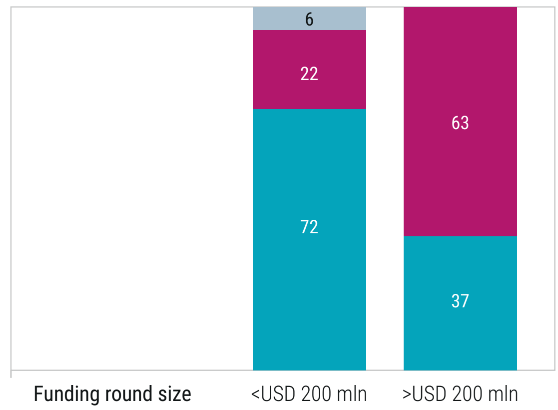
4. https://www.mckinsey.com/industries/aerospace-and-defense/our-insights/european-defense-tech-start-ups-in-it-for-the-long-run

Figure 6: Total venture deal volume for European and US defense tech start-ups (in USD mln)[5]



Source: McKinsey analysis, leveraging data by PitchBook, Inc.

Figure 7: European defense tech start-up funding sources by investor headquarter (in %)



Source: McKinsey analysis, leveraging data by PitchBook, Inc. September 2024. Note: Considering all recorded funding rounds between 2016 and Q3 2024.

Consequently for 2026, we expect to see a pattern of sustainable funds reviewing their exclusion policies to reflect the evolving defense landscape, though most will communicate changes directly to clients rather than make a public statement to avoid misinterpretation. The reality is that all sustainable investors will remain cautious on investing in this industry and even many mainstream investors will continue to avoid products breaching international standards such as the UN Global Compact, particularly ABC weapons (anti-personnel mines, biological/chemical weapons, and cluster munitions). The shift is not solely profit-driven; the defense sector now includes a wider range of industries, enabling more nuanced ethical judgments and investment approaches supported by improved information on this sensitive topic. ●

5. Includes venture capitalists, incubators, business angels, and other venture funding; excludes private equity and corporate funding.
6. Based on data only available until November 2024.

3. What to look out for in 2026

This SI outlook is subdued on all fronts heading into 2026. At the time of writing [November 2025], COP30 is underway in Brazil, focusing on implementing climate commitments and advancing the USD 1.3 trillion climate finance goal for developing countries. Climate adaptation is gaining prominence alongside mitigation, shaping priorities for governments, corporates, and sustainable investors. However, investor participation is lower this year due to logistical challenges and cost pressures, prompting a focus on activities with direct client benefits.

- ## Voting season

  In the upcoming voting season, corporate governance will dominate the US proxy landscape following increased polarization around environmental and social (E&S) issues, new SEC guidance enabling companies to exclude E&S proposals, and legal changes weakening shareholder rights. Early signs suggest US firms may adopt Exxon's Retail Voting Programme, allowing shareholders to opt into automatic board-aligned voting to meet quorum and reduce costs. This is a challenging environment to be an active investor in the US. Some will be discouraged, as evidenced by more departures from the Net Zero Asset Managers Initiative this year and by the very recently reduced commitments expected of signatories.

  Elsewhere, in South Korea the 2026 proxy season will continue to focus on capital allocation and governance reform, with intensified shareholder activism targeting inefficient capital structures and board accountability. And globally, responsible AI is gaining traction. Shareholder proposals are expected to rise, demanding stronger board oversight, transparency, and ethical safeguards amid regulatory scrutiny and concerns over bias, misinformation, and reputational risk.

- ## SI regulation

  On the regulatory front, new developments are slowing with mostly incremental changes. Key upcoming items include the EU's review of the Sustainable Finance Disclosure Regulation (SFDR), which may revise product categorization, enhance Principal Adverse Impact (PAI) indicators, introduce greenwashing safeguards, and improve alignment with the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy. In the US, the SEC Climate Disclosure Rule adopted in 2024 is currently stayed due to litigation and may be repealed. However, state-level mandates, such as California's, will continue to drive climate transparency.

- ## Sectoral trends

  Across sectors, an ESG integration approach identifies both risks and opportunities. In energy and utilities, AI-driven energy demand and renewable technologies will benefit nuclear and electrical equipment industries. In healthcare, the One Big Beautiful Bill Act (effective 1 January) is expected to nearly double the uninsured population, increasing uncompensated care burdens for companies reliant on Medicaid/Affordable Care Act payments. This poses financial risks and threatens access to care, particularly in rural and low-income areas.

- ## Resilient longer-term trajectory

  Despite headlines about an 'ESG backlash', the long-term trajectory of sustainable finance remains undisturbed. We are observing less of a retreat and more of a correction, with no major backdown on core beliefs or support. In this moment, sustainable finance is holding the note: maintaining its core values and commitments event as the tempo shifts and the harmony is challenged.

  Pushback persists in certain regions and on specific aspects of SI, but the growing expectation that sustainable investors articulate a clear rationale (and understand the return implications of integrating impact goals and values into their investment decisions) can only strengthen the case for investing sustainably. Remaining focused on our long-term investment beliefs reinforces the relevance and resilience of sustainable investing: built not on trends, but on science and enduring principles. ●

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