# Global ESG & Sustainability Sentiment

## Navigating Complex Cross-currents in 2025

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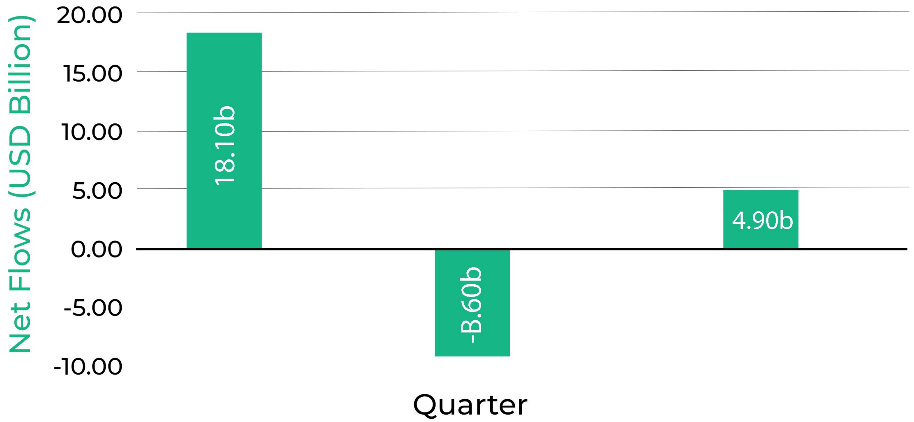
The global ESG and sustainability landscape in 2025 presents a paradoxical picture-facing significant political headwinds while simultaneously experiencing uneven business tailwinds. This 'ecosystem reset' reflects muted communications but deeper integration, shaped by polarization and regulatory fragmentation.

### MIXED FUND FLOW
### SIGNALS POINT TO MARKET RECALIBRATION

Global sustainable fund flows in 2025 have experienced dramatic volatility, reflecting the sector's current turbulence. The first quarter of 2025 witnessed record outflows of $8.6 billion, marking a sharp reversal from the $18.1 billion in inflows during Q4 2024. However, Q2 2025 showed signs of recovery with $4.9 billion in net inflows, suggesting resilience rather than capital flight1.

### Global Sustainable Fund Flows: Q4 2024 - Q2 2025




*Source: Morning Star Sustainability Fund Flows Data

This volatility primarily stemmed from first-time European outflows since at least 2018, while U.S. outflows continued for an eleventh consecutive quarter. Despite these challenging flows, global sustainable fund assets remained relatively stable at $ 3.16 trillion as of March 2025, indicating that market appreciation helped offset redemption impacts2.

### United States: Political Headwinds
### with Federal Retreat and State-Level Divergence

The return of the Trump administration has created the most significant anti-ESG political environment to date. Key challenges include:

- ☑ Withdrawal from the Paris Agreement for the second time
- ☑ Executive orders dismantling DEI initiatives across federal agencies
- ☑ Rollback of clean energy subsidies & environmental regulations (One Big Beautiful Bill Act)
- ☑ Exit of six of the largest U.S. banks from the UN-sponsored Net-Zero Banking Alliance

Notably, about 18 Republican-led states have enacted anti-ESG legislation, while some states like California have moved in the opposite direction with pro-ESG regulations. This has created a fractured regulatory landscape where companies face conflicting requirements across jurisdictions.

## Europe

### Continues Leadership with Scaled-Down Ambition

Europe remains a leader in ESG regulation, though recent efforts have focused on scaling down ambitions citing feasibility and competitiveness:

- ☑ Corporate Sustainability Reporting Directive (CSRD) implem-entation continues
- ☑ Enhanced greenwashing enforcement by ESMA as a top supervisory priority
- ☑ Mandatory climate disclosures expanding across EU jurisdictions
- ☑ Omnibus regulations focusing on reduced scope of compliance and timeline adjustments

## Asia-Pacific:

### Currently Small but Showing Momentum

The Asia-Pacific region is demonstrating momentum in ESG adoption:

- ☑ 19 APAC jurisdictions have climate-related financial disclosure regulations
- ☑ 13 jurisdictions have adopted or drafted ISSB-aligned standards
- ☑ 134% regional growth in companies setting science-based targets (end of 2023 & Q2 2025)
- ☑ China leading globally with 228% growth in validated science -based targets. (end of 2023 & Q2 2025

## Corporate Response:

### Strategic Recalibration, Not Retreat

Despite political pressures, corporate commitment to sustainability remains surprisingly robust. Key findings include:

- ☑ 88% of companies globally see sustainability as a value creation opportunity
- ☑ 68% of chief sustainability officers report stable sustainability budgets
- ☑ 80% of sustainability executives are adjusting strategies. 52% are refining sustainability language rather than abandoning programs
- ☑ Companies with validated science-based targets represent 41% of global market capitalization

Companies are adopting "quiet progress" approaches—maintaining internal commitments while moderating external communications. This includes substituting charged terms like "ESG" with "sustainability" or "resilience" and focusing more heavily on demonstrating return on investment.

## Investor Sentiment:
### Resilient Demand Despite Volatility

Individual investor interest in sustainable investing remains remarkably stable

- ☑ 88% of investors globally are interested in sustainable investing
- ☑ More than half plan to increase sustainable investment allocations
- ☑ 99% of Gen Z and 97% of Millennials express interest in susta-inable investing

Institutional investors are also maintaining course, with 96% also believe governments should stay committed to achieving net-zero emissions, yet 50% reported declining confidence in governments' support over the past year.

### Despite Volatility, ESG Holds Long Term Promise

Despite short-term volatility in the first half of 2025, ESG funds continue to deliver strong results in the longer term. Over the longer term, they have consistently outperformed traditional funds, with $100 invested in December 2018 growing to $136 compared to $131 for traditional funds, underscoring the compelling business case and greater resilience of sustainable investing


### Sentiment Analysis

| Region | Overall Sentiment | Key Drivers | Outlook |
|---|---|---|---|
| Europe | Cautiously Optimistic | Regulatory leadership, some simplification efforts | Continue advancement with adjustments. Retains leadership |
| Asia-Pacific | Positive | Rapid ISSB adoption, strong growth in commitments | Becoming a serious player in the global sustainability market |
| United States | Polarized / Mixed | Federal retreat, state-level divergence, corporate resilience | Fragmented landscape with business-led progress |
| Global Corporate | Resilient Commitment | Business case remains strong, corporate resilience | Sustain existing approaches despite political challenges |
| Global Investors | Resilient Commitment | Both Institutional & Individual Investors maintaining course. | Depends upon the regulatory landscape & sustainable investments performance |

### Emerging Themes Shaping the Future

Emerging themes shaping the future of sustainability include climate adaptation & resilience as more companies face physical climate impacts. Nature and biodiversity are gaining focus, driven by global frameworks and anticipated regulations promoting ecosystem preservation. Technology integration through AI and blockchain is transforming ESG reporting and monitoring, though it also introduces new sustainability challenges related to energy consumption, water usage and increased emissions.

## Our View:
## ‘Reset’ Rather Than ‘Retreat’

The ESG and sustainability landscape in 2025 is experiencing ‘reset’ rather than ‘retreat’. While political headwinds create near-term turbulence & communication challenges, the underlying business drivers-risk management, operational efficiency, investor interest, & regulatory requirements in Europe and Asia - are likely to remain strong.

The current environment represents a necessary recalibration where companies are moving from aspirational commitments to demonstrable results, from broad ESG claims to material risk management, and from public relations to operational integration. This evolution signals more of a retreat than a reset.

Looking forward, the most successful organizations will be those that can navigate political volatility while maintaining long-term strategic focus, demonstrate clear business value from sustainability investments, and adapt their communication strategies to diverse stakeholder expectations across different jurisdictions. The fundamentals of ESG—managing environmental and social risks while maintaining strong governance—remain as relevant as ever, even if the terminology and approach continue to evolve.

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