HSBC Private Banking

Video transcript

Our Chief Investment Officer: Investing in a sustainable future

Joanthan Sparks: In this video, I'll be answering a question that we've been hearing a lot of recently. And that is, how do I invest in a sustainable future? We'll also be answering a similar question, and that is given the interest in sustainable investing last year, what does this mean for the outlook?

The number of products for sustainable investing has broadened to suit most people's needs. A portfolio can be constructed in a way that removes certain companies, so that's negative screening. Conversely, a portfolio could be made so it includes certain companies, so this would be positive screening. So perhaps a company that is very low on carbon intensity.

A more focused approach can be achieved through impact investing. This is where your investments are tied to a specific goal or outcome, perhaps those aligned to the United Nations Sustainable Development Goals.

Thematic investments differ in a way that they're not aligned to an ESG score, it’s more about what is the underlying growth potential, or the structural trend that these companies are aligned to. So think of clean energy is an example of this.

Now, it's in these thematic investments there's been a lot of investor interest over the last 12 months or so. Now, it always used to be the case that actually we would always be arguing why you don't have to sacrifice returns for a more sustainable investment portfolio. But now clients are actually asking, is there a potential bubble forming? Now if we actually break this down and look at whether there is a bubble forming? First, we have to look at the growth outlook. Now, is this sustainable in itself? In the US, President Biden has committed the economy to becoming carbon neutral by 2050. The same is true for the EU. And actually in China, they're targeting 2060. So these are some very ambitious goals, there's going to have to be a lot of investment along the way, plenty of opportunity. There's other factors that have also led investors to pile into some of these more growth heavy stocks. And that is because interest rates have been very low. So as interest rates go down, investors tend to have a preference for more growth orientated equities. And of course last year, we saw a big fall in interest rates. Now, there's a less justifiable explanation as well for some of the strong performance in some of these stocks and that is through retail investor and some stretch positioning that's come around what you call story stocks or meme stocks. Now here, actually, some of this positioning has actually started to unwind. And that's why over the last month or so, it's been quite a volatile sector. But the good news is, we think now that the sector is beginning to price in more of the longer-term structural returns. And this is really what we're interested in. In fact, actually often the way we approach this theme is to look at active management, because an active manager can sidestep some of the speculation and instead focus on what the actual earnings outlook is. So in this case, they will look for some sustainable returns over the long term. They can also look at the governance as well, because a well-managed company tends to outperform and you've got less chance of some nasty surprises further down the line. If you'd like to discuss ways in which you can invest in a sustainable future, please contact your Investment Counsellor or Relationship Manager.