J.P.Morgan
Asset Management

Selecting stocks for an environmentally sustainable future

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Even before COP26, the relevance of sustainability has been increasingly obvious to governments, companies, consumers and investors. Building a more sustainable world is both an urgent task, with the increasing focus on decarbonisation goals by 2030, and a long-term one that will span decades.

Sustainability is driving decisions at all levels of the economy. Consumers are increasingly opting for more sustainable choices in their daily lives, from reusable shopping bags to plant-based meat substitutes. Companies are factoring sustainability into their long-term investment plans, such as incorporating goals to achieve net zero carbon emissions and reduce waste. And governments around the world are making policy decisions to support and encourage the transition to a low carbon economy.

At J.P. Morgan Asset Management, we believe that to be successful investors, this massive secular shift must be incorporated into investment decisions. That's why we started to incorporate sustainability into our investment processes years ago, and why we expect to grow our sustainable investing capabilities significantly in the coming years. Also, with our clients increasingly demanding that their money be managed in ways that target environmental, social and governance (ESG) factors, the pressure on companies and investment portfolios to act sustainably will increase further.

INVESTING TO PROTECT THE ENVIRONMENT

Following COP26 in Glasgow, climate and environmental topics are top of mind for many investors. Within climate, the challenge of cutting carbon emissions has moved high up on the sustainability agenda as one of the largest and most pressing themes. The global effort to limit the rise in temperatures will span several decades and require trillions of dollars of new investment across a wide range of economic activities.

Decarbonisation requires significant investment in the development and deployment of renewable energy sources. Wind and solar power currently account for less than 10% of the global energy supply; we expect these sources to triple their contribution by 2030 and become the dominant sources of energy by 2050.

Decarbonisation will result in a general shift towards electrification, a trend that will drive growth across many industries. Electric vehicles will be one of the most visible signs of this change. One million electric vehicles currently drive on US roads; that number could increase to 17 million by 2030, when we expect a quarter of all vehicles sold to be electric – up from just 6% today. All those electric vehicles will need to be charged, meaning the current supply of 100,000 charging stations in the US will have to increase by at least 20 times.

Charging stations are just one type of infrastructure where we expect to see significant investment and growth. Less visible to consumers but just as essential are power grids. These critical pieces of infrastructure need to be both expanded and updated to incorporate renewable sources of energy. Electrification and other efficiency innovations will also spur activity in other types of infrastructure, such as commercial and residential buildings, where more efficient construction will help drive down energy consumption.

Improvements in efficiency will impact sectors ranging from infrastructure to agriculture. Technology will have a large role to play in making many industries more sustainable. In agriculture, for example, the adoption of precision farming techniques has the potential to cut the use of weed killer by 90%.

IDENTIFYING INVESTABLE IDEAS

We share the enthusiasm of our clients for these exciting new trends, which will transform the global economy over the coming decades. As investors, we are committed to finding the best investable ideas. Already, we see some over-excitement and potential bubbles in some areas of the market. We believe that a long-term theme, such as sustainability, requires taking a long- term view, and we invest in companies only after thorough research that incorporates detailed ESG analysis while employing discipline on valuation.

Transitioning to a sustainable economy requires enormous investment. By taking ESG factors into account in all our portfolios, we – and our clients – can help ensure that capital flows to the companies that are building a more sustainable future.