

Active is: Investing for real-world change

Four themes that make the European Green Deal an opportunity for investors

by David Finger , Daniel Staudegger | 07/10/2020  

Summary

The European Green Deal outlines the ambition of the European Commission to transition towards a more sustainable and digital economy; which themes are most likely to benefit from this shift?

Key takeaways

- The EU Green Deal is a blueprint that will push all industry sectors towards more sustainable business models
- The shift towards sustainability will require significant financial investment, providing opportunities for investors
- The growing universe of firms enabling the transition towards a more sustainable economy can be grouped around identifiable investment themes
- A thematic approach, featuring strategies focused on a political, social or environmental growth trend, could help investors better identify potential winners and losers

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The Green Deal is a comprehensive new strategy from the European Commission (EC) that aims to ensure the European Union leads the rest of the world in transitioning towards a green and digital economy. The Green Deal is likely to inform the EU's actions for decades to come and will open up new investment opportunities – and it may make sense for investors to consider the opportunities thematically. We have identified four major, interlinked investment themes that we expect to benefit from the Green Deal:

1 Decarbonisation

To achieve its ambitious climate targets, the EU will make decarbonisation of its economy a priority, with a focus on industries responsible for the highest share of greenhouse gas (GHG) emissions. The Green Deal's stated aims include:

- Building out of renewable energy sources – in lockstep with power storage systems and smart and interconnected energy networks
- Decarbonising the transport sector and the modernisation of heavy industries
- Promoting sustainable, resource-efficient and high-quality agriculture

- Encouraging member states to start a “renovation wave” to increase the energy- and resource-efficiency of buildings

2 Circular economy

The Green Deal also calls for wider adoption of a “circular” economic model, which decouples economic growth from resource use and thereby increases energy- and resource-efficiency. The EU envisions products that are designed to be durable, repairable, reusable and recyclable. It also intends to increase its own capabilities around waste collection, processing and recycling. In addition, the Green Deal aims to create an internal market for secondary raw materials.

3 Preserving and restoring ecosystems and biodiversity

The EU’s guiding principle for the Green Deal is that “all policies should contribute to preserving and restoring Europe’s natural capital.” Direct focus areas include forestry, sustainable agriculture without the use of harmful substances, and a sustainable “Blue Economy”, which unlocks the full potential of aquatic and marine resources while ensuring healthy and resilient seas and oceans.

4 Digitalisation

Digital tools will be essential to establishing the Green Deal and driving its impact. Technology enables several key functions, including:

- Monitoring progress on the targets to facilitate swift, evidence-based decision making
- Raising awareness and empowering consumers by increasing transparency of product sustainability characteristics
- Increasing the energy- and resource-efficiency of various processes through automation and digitalisation. To unlock the full potential of the new technological landscape, the rollout of 5G infrastructure will be a prerequisite for the EU’s digital transformation

The Green Deal is tied to major funding and trade initiatives

The Green Deal arguably began as environmental policy, but it is now much bigger than that – an EU-wide set of policies, action plans and principles that are tied to major funding and trade initiatives.

For example, although the Covid-19 pandemic set back the implementation timeline for the Green Deal, the European Recovery Fund – which EU leaders agreed on in July in response to the pandemic – gives an additional boost to the agenda by unlocking further funding and helping the EC ensure that recovery plans and the Green Deal are aligned.

The Green Deal also gets a major source of financing over the next decade from the EUR 1 trillion Sustainable Europe Investment Plan. Roughly half of this amount will be provided directly from the EU budget. The remainder will be mobilised by the InvestEU programme, which is designed to align financial support from the EU, development banks, national governments and private investments.

In addition, the Green Deal is central to the EU’s foreign relations strategy. The Green Deal is closely aligned with the UN Sustainable Development Goals (SDGs) and the Paris Agreement, and the EC hopes to encourage other regions to follow its path towards sustainability in support of these ambitions. Diplomatic engagement and strategic partnerships will be an essential part of this effort, as will the EU’s trade policy – the EC proposes that all future trade agreements include a binding commitment to ratify and effectively implement the Paris Agreement.

The Green Deal represents such a profound shift from how the EU’s economy currently functions that it has been dubbed “Europe’s man on the moon moment”. It will have significant implications for millions of EU citizens but will also create opportunities for those private investors willing to contribute towards making this vision a reality.

Take a deeper dive into the Green Deal

This article is excerpted from a paper that explores the Green Deal in more detail. To read more, [download a PDF version](#).



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Daniel Staudegger is currently in Allianz Global Investors' Global Graduate Programme, which he joined in 2019. As part of the programme he works across a range of different teams to gain broad experience across the organisation. He is particularly interested in supporting the integration of sustainability factors into the investment process and, during a spell in the Thematic Equity team, he analysed the impact of the European Green Deal on investment cases.

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Summary

Financial markets could remain volatile as we head towards US elections in November – particularly with the prospect of a contested result. But this could provide a tactical opportunity for investors to add risk to portfolios, or to further diversify their holdings.

Key takeaways

- The build-up to a US election is typically characterised by market volatility, and this year it has been exacerbated by the Covid-19 pandemic; any legal or constitutional challenges to the election result would likely add to market uncertainty
- President Trump's Covid-19 diagnosis adds greater uncertainty to an already volatile period – but volatile markets could provide investors with tactical opportunities
- If we see a definitive election result and favourable developments in the fight against Covid-19, we expect a broader set of sectors and regions to benefit in 2021 – beyond the large-cap US tech stocks and growth themes that have done well this year

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