

How markets are missing the biggest populist movement of all

It is an interesting time to be an investor – everyone is talking about politics and how they are affecting markets.



Saker Nusseibeh
Chief Executive Officer

Whether it is Brexit, the Trump administration or upheaval in some emerging markets – everyone has a view on what it means for the economy.

But really, these are all relatively short-term and isolated events.

The most important political decision of our time is yet to be taken, but when it is, it will have a profound impact not just on markets, but on how each of us lives our lives – and I don't think many investors have figured this out.

At the start of October, the Intergovernmental Panel on Climate Change (IPCC) published a devastating report on how we must limit the atmosphere warming to just 1.5 degrees above industrial levels or risk a cataclysmic environmental catastrophe.

The report provided a stark warning, highlighting that we are currently on course for a 3 degree increase unless we drastically change our industrial and commercial habits.

While we have heard similar warnings before – manmade climate change is not a recent phenomenon – this time, something seems to have changed.

Did you notice how the IPCC's report was covered at the top of every news channel? That is because the media has realised that the public is on board. From rejecting drinking straws to this month's plastic-free Royal Wedding, society is embracing the challenge to reduce the negative impact it has on the planet.

While environmental, social and governance (ESG) investment has been largely driven by forward-thinking investors – and we at Hermes not only count ourselves in that number, but as one of the vanguards

leading the charge – it has taken years to bring these ideas into the mainstream. Compare this with the current furore about plastic use, most especially single use plastics, which has been fuelled by societal momentum and grown much more quickly.

The UK government has now realised it needs to not only get in line with society on this issue, but incorporate it into regular policy discussions and legislation. Whilst the UK government has already taxed plastic carrier bags, with a coffee cup levy seemingly not far away, if it was to react to the IPCC's call and begin enacting laws aimed at preventing the advance of manmade climate change, it would have huge ramifications on thousands of companies – and their shareholders.

The IPCC paper recommends cutting consumption of meat – how would that impact fast food chains and their suppliers? What about the environmental cost of producing cheap cotton and other fabrics? How would that hit short-term fashion retailers?

It is relatively easy to see how cutting back our use of fossil fuels leaves oil giants with a "stranded asset" problem. One can then model it by calculating what they think is going to be left in the ground once limits on burning oil, gas and coal, have been established.

However, what is less easy, is the ability to model the business impact of a revolution in customer demand, taste and consumption. Not enough attention is being paid to how significant this shift will be, not just to global retailers, but their entire supply chains too.

Conversely, if we as a society took the decision to change our defined contribution pension defaults to sustainable investments, it would have a far more significant impact over the long-term than any of the government's efforts, which can at times seem half-hearted or late to the game.

My daughter tells me that although the stance Hermes takes on ESG is commendable, in the grand scheme of things I am "missing the point".

I increasingly think she is right.

ESG – or investing in the right things for the right reasons and reaping the financial rewards – has become part of the UK’s investor landscape and it is immensely gratifying that it has just been accepted into a trustee’s fiduciary duties by the Department for Work & Pensions.

But this is not about ESG. It is about the momentum that is changing society’s consumer habits. It has already started and it is going to be big. We are going to see a profound shift in what people buy and how – this shift is coming soon, and at pace.

This type of popularist movement is bigger than anything we have seen before, and has the power to unite – rather than divide – society.

It is up to us as investors to see it coming – and keep one step ahead.

As responsible investors – and by which, I mean responsible not just to the planet, but to our own customers, too – it is imperative that we are stewards of capital. We need to talk to and engage with the companies in our portfolios about their plans to adapt to changing consumer demands.

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PRO0496 0004874 10/18