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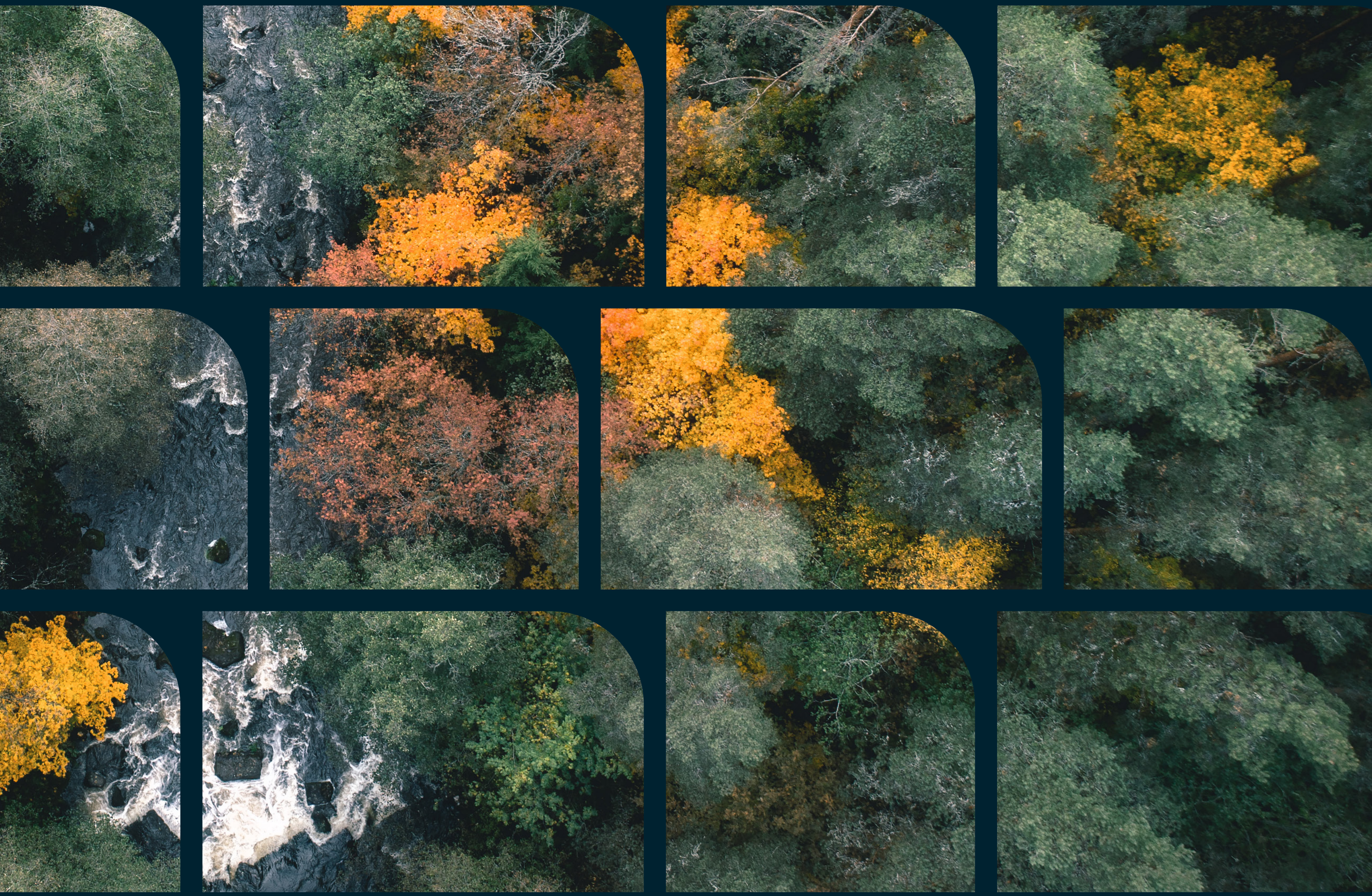
RESPONSIBLE INVESTMENT OUTLOOK

Key themes for 2026



The changing landscape of responsible investing

As we move into 2026, the broader responsible investing (RI) industry is navigating an increasingly complex environment, creating both investment opportunities and risks. Despite the perceived negative news flow throughout 2025, responsible investing is alive and well, as asset owners maintained their commitments to sustainability,[1] and assets managed by sustainable funds remained robust,[2] among other positive dynamics.

We believe that identifying and understanding how megatrends[3] are reshaping the investment landscape has never been more crucial. These forces include the profound changes in global interconnectedness, the growing focus on climate resilience, the acceleration of artificial intelligence (AI) and the shift to low-carbon electrification, all of which have RI implications.

This outlook explores five key themes for the new year, what these dynamics mean for investors and where the opportunities and challenges may appear.

1 AI: sustainability increasingly important to capital allocation

AI demonstrates how transformative technology can be. From what appeared to be a concept only a few years ago, AI is embedded in many every-day functions from internet searches to medical diagnoses. With capital expenditure momentum expected to persist into 2026, the environmental and social implications are growing more urgent in investor conversations and decision-making.

Key financially material factors that investors should focus on include:

- Data centre energy consumption, which is projected to double by 2030.[4] The operational risks related to electricity and water are receiving more attention,[5] while increased AI-driven power demand is starting to influence residential utility pricing and prompting regulatory scrutiny.
- AI adoption is set to accelerate labour market change across industries. While some enterprises may successfully reskill and reposition their workforce to realise efficiency gains and build on, or develop new, competitive advantages, others may struggle, as certain types of business models may potentially be disrupted.

Investors participating in AI's growth are facing a more complex landscape, where sustainability aspects are more closely tied to capital allocation decisions. Shifting industry structures, labour and evolving regulatory frameworks (around data privacy for instance) add further complexity.

Actions to consider

- Integrate financially material sustainability considerations (e.g. clean energy and water consumption, labour shifts, intellectual property, data privacy and regulatory issues) into AI-related investment due-diligence.
- Conduct corporate stewardship engagements tailored to the sustainability considerations specific to AI.

2 Climate change: implementation and capturing opportunities

In 2026, we expect investors to review their climate approach by shifting from mitigation towards resilience and capturing investment opportunities. Three drivers will underpin this shift: a) broader climate scenarios, b) increased focus on physical risks and c) capturing climate solutions opportunities.

Broadening climate scenarios

The majority of institutional investors' decarbonisation targets were set around 2020 – 21 and are now coming into their five-year review windows. Investors are likely to recalibrate net zero strategies in two ways:

- Continue to implement net zero initiatives by balancing decarbonisation goals with other key priorities such as energy security, affordability, geopolitical realities and portfolio risk factors such as inflation and interest-rate sensitivity.
- Broaden climate scenario analysis to include wider temperature ranges, and stress-test portfolio resilience against these, with investors likely to look at 1.5 – 2°C by 2050 alongside more realistic 3°C outcomes.[6]

Increased focus on physical climate risks

We expect investors to accelerate the integration of physical climate risks into asset class and asset-level risk assessments, as the increase in frequency and severity of extreme weather events becomes more pronounced. Examples of such events include supply chain disruptions from floods,[7] agricultural yield collapsing from prolonged droughts, wildfire damage to real estate and infrastructure[8] and more than $100 billion in losses due to hurricanes.[9]

These events have financially material implications for investment portfolios: interrupted revenue streams, damaged physical assets, triggered insurance claims, impaired corporate earnings and asset valuations. According to a recent study,[10] average monthly insurance premiums for commercial buildings, for example, could grow around 9 – 10% annually by 2030 in U.S. states exposed to extreme weather risks.

Capturing opportunities in climate solutions

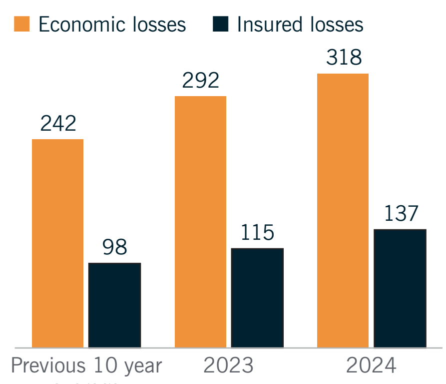
We expect investors to continue to deploy capital in companies with credible climate transition plans, particularly in hard-to-abate sectors, while increasingly pursuing climate solutions opportunities that enable carbon emission reduction and build resilience against climate change impacts.

At Nuveen, our recent Climate Solutions Framework provides a systematic method for classifying and quantifying these climate solutions investments. We adapted our framework from the Global Impact Investing Network's Climate Solutions Investing Initiative, of which we were the lead sponsor and part of the steering committee. The framework gives our clients greater clarity on how Nuveen deploys different types of capital across the risk/return spectrum, what role different investments play in mitigating or adapting to climate change and their geographic footprint in areas of relatively higher or lower local need.

Actions to consider

- Review your climate strategy and climate scenario modelling to align with the latest developments and the pace of the energy transition.
- Incorporate physical climate risk stress-testing in your portfolio management recognising the increase in frequency and severity of extreme weather events, and that geographic diversification may offer limited protection.
- Apply a climate solutions framework across the portfolio, with the goals of assessing current exposure to climate solutions and scaling it further by identifying attractive investment opportunities.

Figure 1: Natural catastrophes ($ billions)



Data source: Swiss Re Institute

3 Public fixed income opportunities and nature-based solutions gain traction

Green, social and sustainability-labelled (GSS) public fixed income bonds have hovered at over $1 trillion in annual debt issuance since 2020, benefiting from maturing frameworks, third-party verification and issuer reporting. In fact, the debt capital raised for the energy transition is considerably larger than equity capital raised,[11] making debt markets a crucial channel for investors to direct capital towards the low carbon energy transition, but also to capture broader sustainable finance opportunities, including nature-based solutions (NbS).

We expect nature to be a key investor theme for 2026, as severe ecosystem losses represent an increasing systemic risk to investment portfolios' risk and return balance. As investors are reassessing their portfolio exposures from the standpoint of nature-risk dependencies and impacts, investment areas such nature-based solutions are gaining more ground.

NbS capture themes such as sustainable forestry, regenerative agriculture and ecosystem restoration, where investment opportunities are underpinned by strong fundamentals, such as:

- Investment returns less correlated with traditional financial asset classes through exposure to environmental markets, income and value appreciation and inflation hedging, which can be additive to portfolio risk diversification.
- Opportunities to benefit from improvement in biodiversity and ecosystem services, which can include carbon, water and ecosystem restoration. As an example, voluntary carbon credits are expected to grow from $1.4 billion in 2024 towards $35 billion by 2030, and potentially up to $250 billion by 2050[12] depending on supply and demand dynamics. Other examples include the mitigation bank credit market in the U.S.
- Technological advancements such as satellite monitoring and AI-enhanced biodiversity tracking enabling impact measurement and verification, facilitating investment assessments and reporting.

Actions to consider

- Assess your portfolio exposure to nature-related risks and opportunities.
- Explore opportunities to improve portfolio returns and diversification through investable solutions in direct natural capital investments and in public fixed income.

4 Navigating regional divergences in sustainable investing

Taxonomies and labelling regimes outside the U.S. are tightening, and communication practices are shifting towards better clarity, simplicity and more inclusive language rather than opaque jargon.

At the U.S. federal level, we expect to see continued anti-ESG efforts so long as Republicans maintain control of the White House and both chambers of Congress. The Securities and Exchange Commission (SEC) looks to be changing course on its ESG disclosure requirements, particularly around climate and ESG-related shareholder proposals. At the U.S. state level, there continues to be a push and pull between anti-ESG and pro-ESG efforts among certain states.

In 2026, the European Union (EU) will be substantially overhauling its sustainable finance disclosure regulation (SFDR), moving from disclosure towards sustainable product categorisation and greater simplification. SFDR 2.0 aims to bring a clearer distinction between investment products with various sustainability objectives and degrees of ESG integration, while a new 'transition' category is being introduced. While it will take time for SFDR 2.0 to come into force, asset managers can start preparing for the transition by reviewing the funds in scope across areas such as the new baseline exclusions limits, data vendor capabilities for the necessary data points.

In Australia, the focus on climate transition planning and nature will continue in 2026. Mandatory climate-related disclosures will expand to more entities, requiring climate transition plans and Scope 3 emissions reporting. The government's initial consultation and work on sustainable investment labelling will inform its transposition into legislation, though its effect will likely start from 2027 onwards.

Recent political crosscurrents and the risks of legal action have made asset managers more careful around how they communicate sustainability capabilities to their clients and prospects. In 2026, we expect the language around ESG to move towards greater simplification, clarity and evidence-based disclosures of financially material sustainability outcomes. Asset managers will increasingly communicate sustainability capabilities through accessible language, positive framing of goals and approaches, along with clarity over abstract terminology and jargon.

Actions to consider

- Redesign your sustainable investment product range and marketing communication strategy for evolving standards, such as EU's SFDR 2.0.
- Review and adapt client and marketing strategy and communication around sustainability towards greater clarity, simplicity and more inclusive and positive language.

5 Shifting grounds on governance

This year marks a significant evolution in U.S. corporate governance, with regulatory shifts likely to shape practices into 2026. The Administration and the SEC are reviewing shareholder proposal rules and process, considering limitations on proxy advisory firms' ability to provide recommendations, and exploring mechanisms to limit how index-fund managers are voting.

Collectively, these developments suggest management teams of U.S. public companies may operate with broader autonomy, facing reduced regulatory scrutiny and diminished shareholder influence. While some companies may welcome this shift, other issuers may have fewer opportunities to gather shareholder feedback. For companies, investors and the broader financial markets, such uncertainty and weakened checks on management can introduce material risks, including potential increases in litigation and operational unpredictability. Financial markets function most efficiently with transparent rules and clear corporate governance frameworks; unpredictability in standards may undermine investor confidence over the longer term.

In this environment, stewardship continues to be important, serving as a critical check on companies' management and ensuring ongoing alignment with shareholder interests to safeguard and enhance long-term value. Amid governance headwinds, we believe active stewardship activities, grounded in constructive engagement with boards and executives on financially-material issues and robust proxy voting, will continue to play a key role in driving transparency, accountability and impact, sustaining value creation for clients.

Action to consider

- Continue to maintain focus on constructive stewardship programs that promote strong corporate governance practices, drive management accountability and create lasting value on behalf of clients.

Set up to succeed

Responsible investing is undergoing important changes that will provide a stronger foundation for the future. Investors must learn how to adapt to this new environment, from identifying opportunities right through to maximising technology to better track metrics. Investors who can navigate the changing responsible investing universe will be well-placed to capitalise on a market that continues to grow.

For more information about RI, visit us at nuveen.com/responsible-investing.

Endnotes

1 Jefferies, Asset Owner 100 by Thinking Ahead Institute
2 J.P. Morgan, Morningstar
3 The Megatrends series | Alternatives | Nuveen
4 Energy demand from AI – Energy and AI – Analysis - IEA
5 2024 United States Data Center Energy Usage Report
6 The Emissions Gap Report 2025 shows global warming based on current policies on track for 2.8C
7 Thailand, Germany etc.
8 California
9 Hurricane Ian for example.
10 Source: Climate change impact on commercial real estate | Deloitte Insights
11 Source: BNEF (BloombergNEF)
12 Frozen Carbon Credit Market May Thaw as 2030 Gets Closer | MSCI

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