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Sustainability Trends

QUARTERLY OUTLOOK

April 2025

TREND 1

Companies move to bolster supply chains in the face of global trade disputes

Key takeaways

- **Escalating trade disputes:** U.S. tariffs and target country responses escalate global trade disputes.
- **Companies feel the effects of trade tensions:** Intensifying trade measures and uncertainty about what's next influence corporate financial outlooks.
- **Supply chain strategies evolve:** Companies are bolstering their supply chains to mitigate trade-related risks.
- **U.S. clean energy impacts:** The U.S. clean energy industry is likely to be affected by trade disputes because of insufficient domestic manufacturing capacity.

U.S. tariffs trigger global trade disputes

U.S. tariffs have been the catalyst behind global trade disputes in recent months, with developments moving at lightning speed.

The new U.S. administration first imposed new tariffs on Chinese imports in February 2025, then applied tariffs on Canadian and Mexican imports as well as all steel and aluminum imports. The U.S. also imposed a minimum 10 percent tariff on imports and reciprocal tariffs on close to 60 countries that went into effect April 2, then paused reciprocal tariffs for 90 days on all countries except China a week later. There are likely to be more exceptions and changes. At the time of writing, for example, smartphones and other electronics from China had been exempted from tariffs, at least temporarily.

Many other countries have responded to U.S. tariffs with trade measures of their own. Canada, for example, imposed tariffs on $30 billion of U.S. imports on March 4 and 25 percent tariffs on U.S. steel and aluminum products on March 12. China imposed a 15 percent tariff on U.S. agricultural imports on March 10, which followed others announced by China in February on U.S. imports of liquefied natural gas (LNG), crude oil, and farm equipment, among other goods. China also announced a 34 percent reciprocal tariff on April 4, which it has since raised to 104 percent, in retaliation to the U.S.'s reciprocal tariffs. The European Union (EU) has meanwhile suspended its own reciprocal tariffs for 90 days, matching the mid-April 2025 U.S. position.

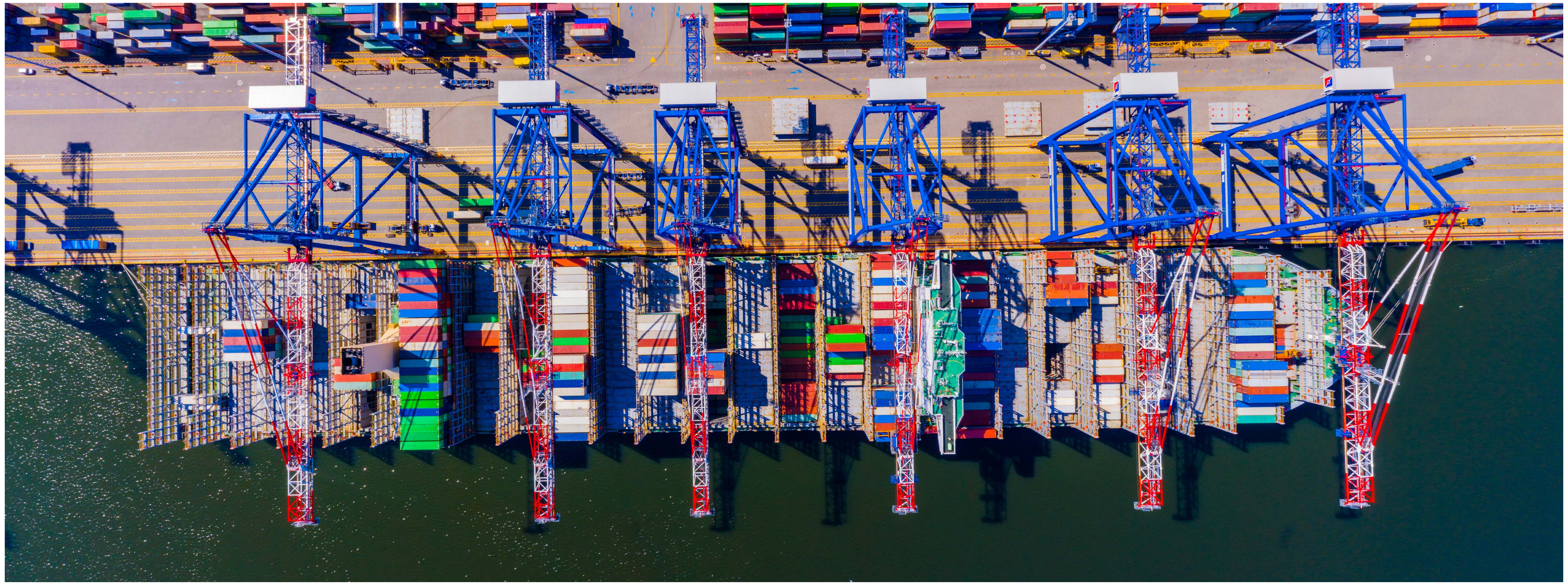
Overall, the global trade situation is highly volatile and changing daily. This lack of predictability of what the next day will bring is sowing uncertainty in the global economy and paralyzing decision-making.

Trade barriers and continuing uncertainty concern companies

Global companies are expected to be heavily impacted by trade barriers, which are up 75 percent at the G20 level alone since 2016. In the most recent U.S. earnings season, companies including Best Buy, Delta, Nike, and Target all expressed concerns that tariffs and associated uncertainty about future action may negatively affect their businesses by raising costs and denting consumer confidence. Delta's CEO said that trip bookings have slowed as consumers assess the impacts of tariffs. Other companies like Alcoa stated they are concerned that tariffs could force them and companies in their value chains to layoff portions of their workforce as a way to mitigate rising costs.

Outside the U.S., companies including Airbus and ArcelorMittal are warning that tariffs are likely to raise their costs and the costs that their customers pay, with Airbus deeming tariffs a "lose-lose." Similarly, BMW warned that it could lose up to $1.1 billion in earnings because of heightened tariffs in 2025. Stock markets also fell globally after the U.S. announced reciprocal tariffs on April 2 and have continued to show volatility – along with bond markets and currencies, including the U.S. dollar – since.

Despite these trade-induced anxieties, some corporate leaders see potential benefits for companies as well. These include Blackstone CEO Steve Schwarzman, who pointed to the potential of tariffs to increase U.S. manufacturing activity as something that would be good for businesses domestically and internationally given the size of the U.S. economy.



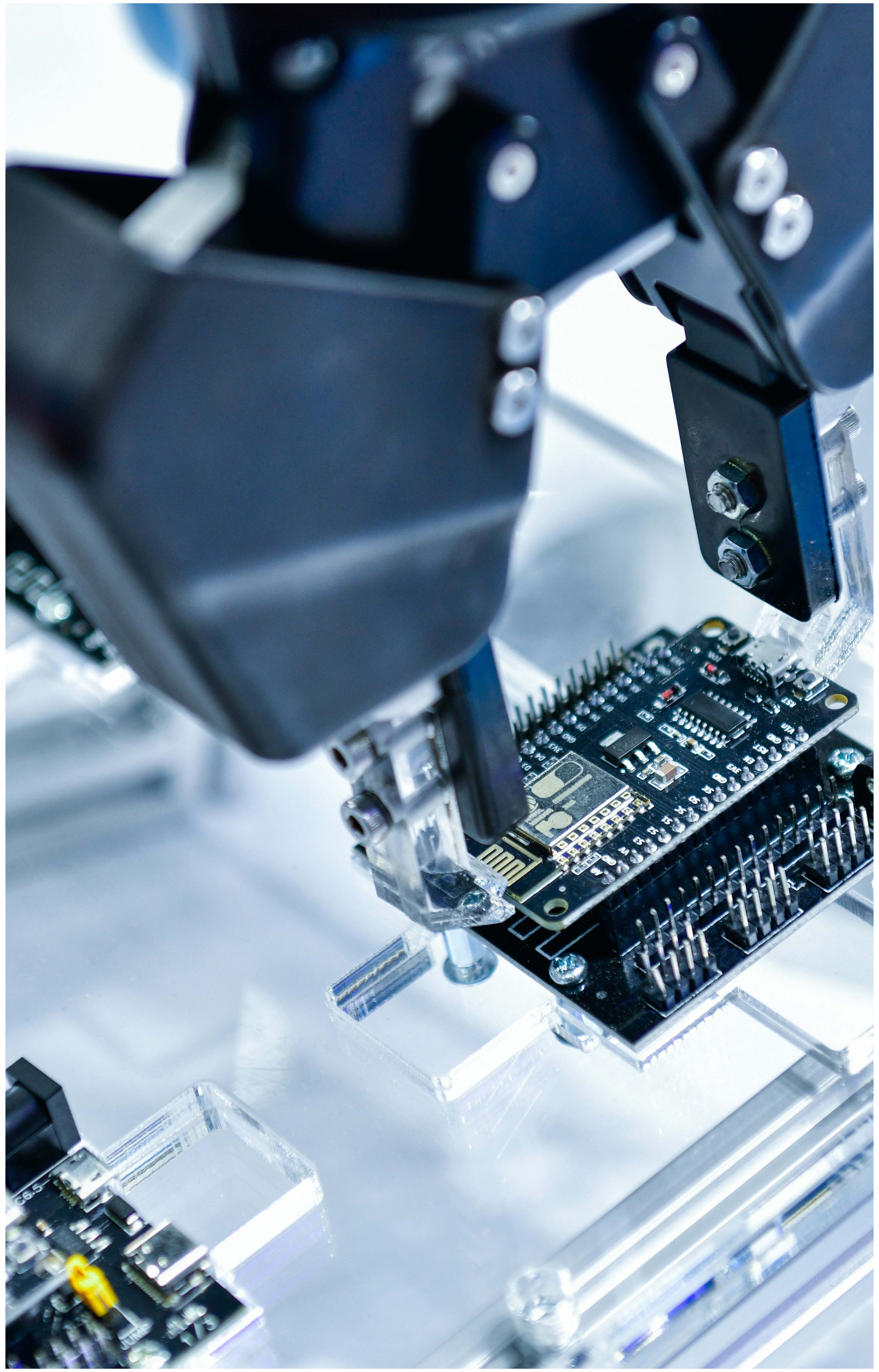
Companies move to get ahead of impacts by bolstering supply chains

Facing global trade disputes, companies are moving to get ahead of potential impacts. Companies exported a record $540 billion in goods from China in the first two months of 2025 before U.S. tariffs entered into force. Chinese companies are also speeding up plans to shift factories to countries in Southeast Asia that may not be as exposed to future U.S. tariffs.

Among U.S. companies, early responses have varied. Apple plans to produce more iPhones in India, which is currently subject to lower tariffs than China. For its part, instead of shifting production out of China, Walmart is asking its suppliers to reduce prices to offset some of the costs of tariffs. These requests led Chinese authorities to summon Walmart leaders to discuss the moves, indicating an unwillingness for Chinese companies to bear the costs of U.S. tariffs instead of U.S. consumers. Walmart has so far continued asking its suppliers to cut prices despite Chinese government pressure.

Another strategy sees international and U.S. companies expanding U.S. production to offset tariff impacts. Novo Nordisk, for example, is planning $6.5 billion in U.S. manufacturing investments in 2025, while Apple plans to invest over $500 billion in the U.S. over the next four years to build and expand factories.

Lastly, some companies are pushing the U.S. for help combating the negative effects of trade disputes. For example, a group of U.S. food and beverage companies including PepsiCo and Conagra asked the U.S. administration for tariff exemptions for ingredients like coffee and cocoa that are not produced domestically.



Similarly, Harley-Davidson is calling on the executive branch to place reciprocal tariffs on imported motorbikes to counter tariffs from other countries on its own products.

A mixed road ahead is likely for the U.S. clean energy sector

The U.S. clean energy sector is likely to be impacted by ongoing trade disputes and related supply chain impacts. Despite efforts by the previous administration to expand domestic manufacturing of clean energy inputs, overall production is still limited, leaving companies to make up the difference with imports.

High tariffs on China will likely translate to significantly higher costs for many inputs needed by the clean energy industry because China dominates clean energy supply chains. Battery storage supply chains could be one of the more vulnerable given that the U.S. imported more than 90 percent of the lithium-ion energy storage cells it installed in 2024 from China. Solar and wind supply chains may be less affected because they are better established domestically, and companies working in this part of the renewables industry have stockpiled inputs in expectation of tariffs.

What this means for companies

- Proactive and flexible adjustments will be necessary: Companies will want to evaluate their business and supply chains for trade-related exposures and make proactive adjustments to ensure resiliency during trade disputes. Where possible, companies may want to identify and invest in alternative suppliers located where tariff-related impacts are minimal.
- Accounting for financial impacts is essential: All companies need to account for the potential economic effects of trade disputes on their business, from likely input cost increases or potentially slower consumer demand and adapt their financial planning to help weather possible disruptions.
- Stakeholder engagement could help minimize impacts: Companies should consider increasing trade-related engagements with relevant stakeholders such as policymakers and trade associations to inform decision-makers of the potential effects on their business and help craft new potential pathways forward.

TREND 2

Investors wrestle with how to evolve sustainable finance approaches

Key takeaways

- **Shrinking net zero finance alliances:** Numerous influential financial institutions left UN-convened net zero alliances, lessening their influence and forcing these groups to consider changes.
- **Push and pull dynamics create tension:** While financing organizations face pressure to stand by sustainability commitments, regulatory changes make some sustainable finance activities more difficult.
- **New sustainability-aligned finance initiatives emerge:** Recent announcements show financial sector and government actors' continued commitments to sustainable finance.

Net zero alliances regroup after financial institution exits

Between December and January, some of the U.S.'s biggest banks exited the Net-Zero Banking Alliance (NZBA), a UN-convened group of banks committed to aligning their finance activities with net zero by 2050. A few Australian, Canadian, and Japanese banks have left the NZBA as well. Contrasting their counterparts elsewhere, several European Union banks reaffirmed their commitments to the NZBA in February.

The moves come at a time of increasing pressure on financial institutions to separate their activities from initiatives that could be seen as having political rather than value creation aims. Reinforcing this view, the Texas Attorney General ended an investigation into some U.S. banks for a potential boycott of oil and gas companies on January 7 after their NZBA exits. New Zealand also opened an investigation into whether NZBA membership equates to cartel activity and thus runs afoul of anti-cartel laws.

The NZBA was not alone in company exits. The Net-Zero Asset Managers Initiative (NZAM), a UN-convened group of asset managers committed to supporting net zero by 2050, also has had multiple member organizations leave since January 2025.

Considering the exits, the NZBA is refocusing its efforts on providing financial support for the energy transition and dropping its requirement that members align their portfolios with the goal of limiting global warming to 1.5°C. Similarly, the NZAM suspended activities earlier this year to consider changes to "ensure NZAM remains fit for purpose in the new global context."

Finance actors face both push and pull factors on sustainable action

Amid alliance changes, finance actors are being pushed by stakeholders to continue to prioritize sustainable action. For example, a group of 27 institutional investors with $1.5 trillion in assets issued a statement in February calling for asset managers to better align their investment activities with climate action.

Organizations are also acting on their own. The UK pension fund The People's Pension removed £28 billion from State Street after the pension fund reviewed its responsible investment policy. The move came shortly after State Street and other financial organizations withdrew from the Climate Action 100+, an investor-led initiative to push companies to decarbonize. Other, mostly European, institutional investors are considering similar moves to better align their relationships with their sustainability and responsible investment values.

In New York City, the city comptroller outlined new plans for how three city pension funds would assess the climate credentials of asset managers. Under the guidance, funds will ask asset managers to consider climate-related risks and opportunities in investment decisions, require portfolio companies to track and disclose Scope 1, 2, and 3 emissions, set net zero goals, and adopt climate transition plans. Asset managers that fail to meet these requirements will have their mandates put out to tender.

Conversely, other stakeholders are pulling finance actors away from sustainable action or making these actions harder. The U.S. Securities and Exchange Commission (SEC), for example, reversed a 2021 rule on shareholder proposals in February, making it easier for companies to exclude proposals that they deem are not economically relevant to their business. The rule had previously driven an increase in sustainability-related proposals. The SEC in February also revised guidance on how asset managers disclose sustainability-related company engagements. Under the revised guidance, asset managers must now file reports about their ownership in the companies that they engage with on sustainability matters.

Despite shifts, actors continue sustainable finance moves

Financial sector actors are continuing to make sustainable finance investments even during this period of policy and market uncertainty. In February, BBVA announced a target to channel €700 billion in sustainable business investment by 2029, more than doubling its previous €300 billion goal. Also in February, Standard Chartered announced that it aimed to mobilize $300 billion in new sustainable finance by 2030.

Beyond general sustainable investments, actors including BNP Paribas Asset Management and Goldman Sachs Asset Management set up additional, more targeted sustainable investment vehicles in March. BNP Paribas created the Venture and Impact platform, an €800 million fund that will invest in activities related to agriculture, nature, and renewable energy, among others. Goldman Sachs Asset Management is focusing specifically on nature and biodiversity with its new Biodiversity Bond, which will hold bonds from companies that are pursuing forest restoration and other types of nature conservation activities.

Governments in Asia are also making sustainable finance moves. Japan's Government Pensions Investment Fund, for example, published new guidelines in late March to support sustainable investments, which it defines as critical to its long-term returns. A week later, China issued its first sovereign green bond (valued at $824 million) on the London Stock Exchange.

What this means for companies

- → Monitor shifts in the sustainable finance landscape: Companies will be better able to navigate shifting terrain if they stay informed about which investors have left sustainability-related alliances or are otherwise changing their sustainability-related investment positions.
- → Assess differences in stakeholder views: Companies can reduce the likelihood of being pinched between stakeholders with contrasting opinions and expectations on sustainability performance by tracking their positions and factoring them into engagement strategies.
- → Take advantage of new opportunities that may emerge: Change often creates new opportunities. Companies should keep scanning for different parties with new interest in sustainability-related investments that may align with their sustainability strategies and investment needs.

TREND 3

Climate targets get a second look as companies take stock of progress and business landscape

Key takeaways

- **Companies reassess and adjust climate targets:** Many companies globally are reevaluating their climate targets as the business landscape shifts, with some scaling back or delaying commitments.
- **Others reiterate climate commitments:** Despite some companies changing their climate ambitions, others are reiterating their commitments to climate action, emphasizing its long-term economic and operational benefits.
- **Target changes likely to face mixed reactions:** Companies that change their climate targets will likely face both positive and negative reactions, while companies that fail to meet targets may face few consequences.

Climate targets go through reassessment and adjustment

A few years ago, a flurry of climate target setting made headlines, as companies defined their ambitions to reduce greenhouse gas emissions. Now, in 2025, many companies are giving these targets a second look to account for progress and the intricacies of a business landscape that, due to recent political evolutions, looks much different than it did just last year.

These reassessments are leading some companies to drop or alter their targets. For example, Wells Fargo discontinued its target to achieve net zero by 2050 for financed emissions, as well as an interim 2030 target. Also, in the finance sector, HSBC moved back its goal to achieve net zero within its operations and supply chain from 2030 to 2050 after supply chain reductions were harder than anticipated.

Retailers have also reconsidered their targets. In February, IKEA moved its target to achieve emissions free home delivery from 2025 to 2028 and changed its ambition from 100 percent emissions free to more than 90 percent. Oil and gas firms have made changes as well. Equinor changed its target to install 12-15 GW of renewable energy by 2030 to 10-12 GW, while Shell dropped its target to increase its renewable energy capacity by twentyfold by 2030.

Other companies are being less public with their target changes. In New Zealand, for example, some companies that had set targets under the Science Based Targets initiative (SBTi) have quietly dropped their targets and left the SBTi after their progress stalled.

Other companies stand by climate targets despite evolving landscape

Despite some companies adjusting climate targets, others are standing by theirs. Archer Daniels Midland's President, for example, said that the U.S. food and commodities firm would stick with its climate targets, noting that climate change is an issue here to stay. Rio Tinto's CEO made similar comments in February, stating that climate targets still make economic sense for the miner's business, as decarbonization helps reduce its exposure to volatile fossil fuel prices and carbon pricing schemes.

Companies are accelerating their climate ambitions too. For example, TotalEnergies bolstered its 2025 emissions reduction targets in March, increasing its target to reduce methane emissions from its facilities by 60 percent (versus 50 percent previously) and reduce its Scope 1 and 2 emissions to less than 37 MT CO_2e (versus 38 MT CO_2e previously).

Although not emissions-related, Lego Group plans to increase its global solar energy capacity by 72 percent in 2025, as it works towards its net zero by 2050 target. At a macro-level, 84 percent of companies reporting to CDP are keeping their climate targets and 37 percent were accelerating them, while 16 percent were decelerating.

The impacts of climate target changes

While the long-term impacts of companies reassessing and adjusting their climate targets remain to be seen, a few recent developments provide clues. One is that companies may relieve political pressure (at least in the short-term) by adjusting targets. After Wells Fargo dropped its financed emissions targets in February, the state of Tennessee stopped its investigation into whether the bank's climate activities violated antitrust and consumer protection laws.

Companies may also face shareholder pushback over their target changes. Forty-eight institutional investors asked BP in February to allow its shareholders to vote on plans the oil and gas major may have to scale back its climate targets. BP subsequently did not include a review of its climate strategy on the agenda for its 2025 Annual General Meeting, a move that drove one shareholder activist to call for a vote against BP's chairman.

Beyond target changes, what impact may missing a climate target, whether adjusted or not, have on a company? Perhaps very little, according to a study in Nature. The study, which examined the targets of over 1,000 companies that ended in 2020, found that of the 88 (9 percent) that did not meet their targets, only three were covered in the media, and there was not a significant market reaction to companies falling short of their targets.

What this means for companies

→ **Adaptability is key to climate strategies:** Companies that account for business landscape shifts within their climate strategies are likely to better adapt to political or economic changes that may otherwise expose them to reputational or operational challenges.

→ **The short-term should not eclipse the long-term:** Companies should be careful not to let short-term challenges distract them from the long-term benefits of climate action, such as new market opportunities, protection from market volatility, and enhanced operational efficiency.

→ **Maintain transparency, maintain trust:** Companies that transparently communicate their climate strategies and any changes they make are more likely to maintain trust among their stakeholders, even with target adjustments.

TREND 4

Companies shift focus towards business imperatives in new era for corporate sustainability

Key takeaways

- **Companies still value sustainability:** Despite political and economic uncertainty, there are signs that companies continue to value sustainability.
- **A refocus on business imperatives:** Companies are adapting their sustainability efforts to better align with business imperatives and drive both sustainability and financial benefits.
- **EU policies could serve as action catalysts:** Changes to EU policies like the Omnibus and Clean Industrial Deal are likely to help companies better align their sustainability initiatives with business imperatives.

Many companies still believe sustainability pursuits pay dividends

Twenty-twenty-five has not been straightforward for corporate sustainability initiatives. With both political and economic upheaval, corporate actors are making or are considering changes to their sustainability initiatives to adapt to new realities. Even so, there are continuing signs that companies still believe that sustainability pursuits pay dividends.

A survey of CFOs at U.S. companies found that even after recent political changes, 44 percent expect to increase sustainability-related investments, while a further 33 percent expect to maintain current investment levels. Another survey of CFOs at companies in the U.S., UK, United Arab Emirates, and India found that even more (92 percent) expect to increase sustainability investments in 2025. Further, 94 percent of these CFOs shared that they now integrate sustainability into their investment decisions, while 69 percent anticipate higher returns from their sustainability investments than those from traditional investments.

Lastly, a survey of Chief Sustainability Officers (CSOs) at U.S. companies found that 90 percent are not changing how they approach sustainability to adapt to the current political landscape. The survey also found that leadership alignment on sustainability as a strategic priority increased by 42 percent from 2023 to 2024.

Companies refocus their sustainability actions on business imperatives

Company beliefs in the benefits of sustainability do not preclude them from reconsidering the focus of their sustainability actions. This reconsideration, which is at least partially spurred by a less supportive political environment and a more turbulent economic outlook, is leading companies to refocus their actions on business imperatives that create value as well as sustainability benefits.

These initiatives are far from uniform. Walmart, for example, is selling compost at more than 600 of its U.S. stores that is made out of food waste from its grocery departments. The move has so far cut the retailer's food waste by 12 percent and is part of its efforts to reduce food waste by 50 percent by 2030. Snack food company KIND transitioned from aboveground to subsurface irrigation for its almond production, saving money by reducing water use by 30 percent, lowering fuel costs, and decreasing disease and weeds.

Energy is a major part of this refocus on business imperatives as well, particularly with growing power demands. In March, a multi-industry group of large energy consuming companies pledged to help triple global nuclear capacity by 2050. The pledge comes at a time when companies are realizing that meeting decarbonization goals while sourcing the increasing amounts of reliable power they need to support growing operations requires on-demand energy sources like nuclear in addition to renewables. While not pledge signatories, U.S. utilities NextEra Energy and Santee Cooper highlight this renewed focus on nuclear, as they work to restart a closed nuclear power plant and resume construction on two unfinished nuclear reactors at an existing power plant, respectively.

EU policy developments could further spur companies to focus on business imperatives

Policy developments in the EU may further encourage companies to realign their sustainability actions with business imperatives. Top of mind is the EU Omnibus. Released on February 28, the Omnibus aims to simplify and streamline the EU's Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the EU Taxonomy, and the Carbon Border Adjustment Mechanism (CBAM). Notably, by reducing the regulatory burden these laws place on companies, the Omnibus is likely to free up internal resources to work on sustainability initiatives that support value creation and company bottom lines.

Another policy development to watch is the EU's Clean Industrial Deal (CID), which aims to boost the competitiveness of energy-intensive industries and the clean-tech sector, while accelerating decarbonization. The CID's focus on supporting innovation across energy, clean products, and circularity will help companies transition to more sustainable business models, bolstering overall performance.

What this means for companies

- **Sustainability and business strategy alignment required:** Companies must align their sustainability strategies with their overall business strategies to ensure their sustainability initiatives contribute to the organization's long-term success.
- **A focus on tangible value creation:** Companies should focus on sustainability actions that deliver tangible business value (whether through cost savings, resource efficiency, etc.) and will help them weather political and economic uncertainty.
- **Leveraging policy landscape for competitive advantage:** Companies should stay abreast of the policy landscapes they operate in and take advantage of opportunities to derive commercial benefits from their evolutions.