MARKET INSIGHT
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MISLEADING NARRATIVES, ESCALATING RISKS

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WHEN SYSTEMS STRAIN

Ray Dalio - CIO of Bridgewater Associates - identifies five long term forces shaping societies and markets, all marked by rising volatility. He notes how growing risk in one area can trigger instability in others.

Debt levels and servicing costs are climbing globally, raising concerns about how power shifts as the global asset/liability balance tilts. Political polarisation is widening, with an entrenched left–right divide and a growing refusal to compromise. The global order appears less stable as established norms erode, and new alliances form amid heightened geopolitical tension. Natural events, especially severe weather, are increasing in frequency and impact. Meanwhile, technology, driven above all by rapid advances in AI, is accelerating faster than institutions can adapt.

2025 will likely be remembered as the year the public relations battle over sustainability was decisively lost in the U.S., with Morningstar reporting 11 consecutive quarters of ESG fund outflows in the U.S. retail market alone. Much of the anti ESG sentiment rests on the claims that sustainability is a "woke left wing agenda" with no role in real finance founded on flawed science and alarmist fake news.

This is a compelling narrative for some, strengthened by several high profile greenwashing cases. However, greenwashing is not evidence that sustainability science is broken; it is evidence of persistent incentives to miss-sell products, a long standing feature of financial markets. From a systems science perspective, the picture remains clear: humanity and the economy are deeply dependent on nature's goods and services, and ecological systems are under growing pressure. Tipping points are coming into view, driven partly by increased intensity and frequency of weather related events.

Weather risk carries a market price. The reinsurance sector provides the most reliable long term signal of rising natural catastrophe costs. Both Munich Re and Swiss Re report a growing share of uninsured losses and note that some sectors and regions are now effectively uninsurable.

CUTTING THROUGH THE NOISE

Within the private wealth sector, some firms incorrectly "sell sustainability" as a moral imperative or as a discretionary add on. This is inaccurate and misleading. Incorporating sustainability into a private wealth portfolio requires a pragmatic assessment of each client's AUM, risk and return expectations, and sustainability motivations (or lack thereof), as well as the investable universe of sustainability aligned assets.

"Weather risk carries a market price."

For clients seeking direct real world sustainability impact alongside returns, private markets offer the strongest opportunity set. However, not all clients have the AUM or the illiquidity budget required to make such allocations. For the typical private client liquid portfolio, impact opportunities are largely limited to indirect outcomes via green economy equities and bonds. Investors in public securities can express sustainability preferences through hard exclusions, although these choices tend to be market neutral from an impact perspective.

SCALING EXPOSURE TO THE GREEN ECONOMY

Data from LSEG indicates that the global green economy was valued at USD $7.9 trillion - around 8.6% of listed equity markets - in 2025. Viewed as a single super sector, the green economy would rank fourth in sector size after technology, industrials, and healthcare.

In fixed income, the green bond market has remained resilient, with record issuance of USD $672 billion in 2024 and more than USD $620 billion in 2025, roughly 10% of total annual issuance.

Across both asset classes, the investable green economy opportunity set is still modest but growing. For clients interested in sustainable wealth management, it is helpful to look past greenwashing headlines and focus on the underlying science. From there, an incremental, portfolio wide approach that scales exposure in line with the expanding opportunity set is both sensible and effective.

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