



Investing with Impact | January 27, 2026

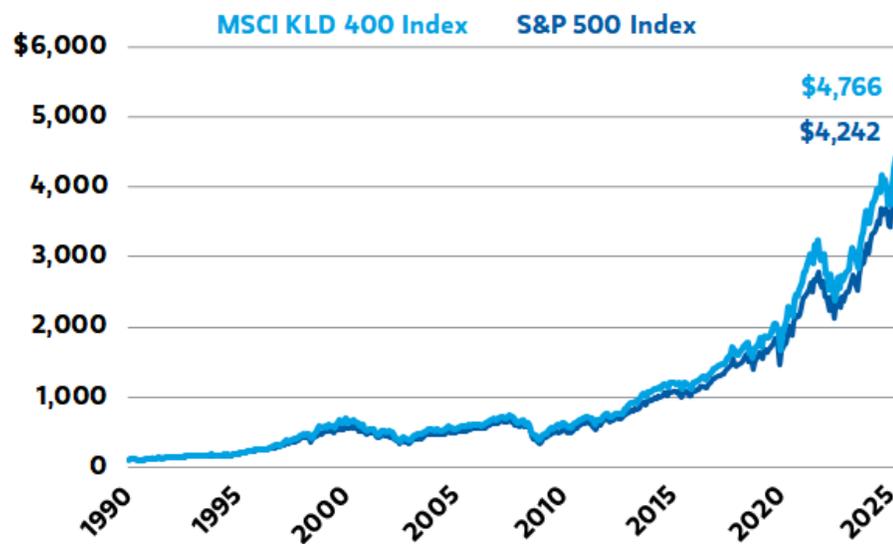
Impact Outcomes

Ten Sustainable Investing Trends for 2026

In this quarter's edition of *Impact Outcomes*, we highlight 10 trends that we expect to shape sustainable investing in 2026.

Despite what some headlines have suggested, global sustainable fund assets under management (AUM) continued to reach new highs last year,¹ with US AUM growing from \$6.5 trillion in 2024 to \$6.6 trillion.² From a performance perspective, while 2025 proved challenging for active management, with a relatively narrow set of names driving a meaningful share of returns for the S&P 500 Index, over the year, the MSCI KLD 400 Index, the longest-running sustainable index, modestly outpaced the S&P 500 (see Exhibit 1). In 2026, investors are thoughtfully considering how public narrative, emerging sustainability trends and technology shifts will shape the future of sustainable investing. Inside are 10 trends that we are focusing on this year.

Exhibit 1: Indexes That Incorporate Sustainable Factors Have Generally Performed in Line With, or Better Than, Conventional Indexes.



Note: Past performance is no guarantee of future results. The index returns are illustrative and shown for comparative purposes only. They do not represent the performance of any specific investments. An investor cannot invest directly in an index.

Source: Bloomberg, MSCI, Morgan Stanley Wealth Management as of Dec. 31, 2025

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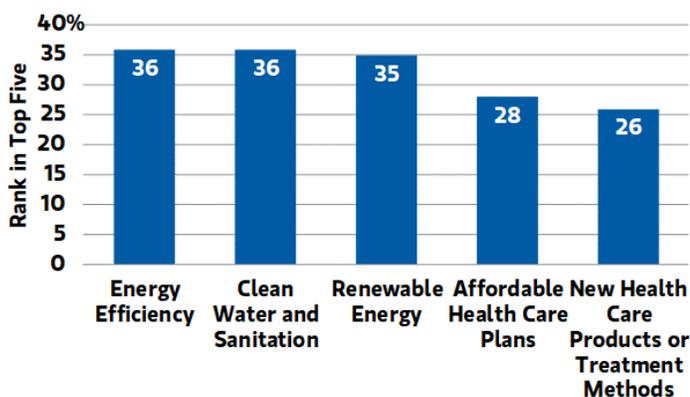
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1. Strong Investor Demand for Real World Impact

Globally, both individual investors and asset owners plan to increase their allocations to sustainable investments in the coming years.^{3,4} According to recent surveys from the Morgan Stanley Institute for Sustainable Investing, the key motivation for this growth is conviction that sustainable investments offer returns comparable to or better than those of traditional options.^{5,6} Overall, investors remain focused on opportunities that can drive real world impact, such as climate action and health care (see Exhibit 2).

In 2025, we saw the strongest growth in [customizable](#) sustainable solutions. We also see more investors pursuing deeper impact by prioritizing values alignment as their *primary* investment decision consideration, an approach we refer to as “impact first.”

Exhibit 2: US Individual Investors Rank Interest in Investment Opportunities Across Environmental and Social Themes

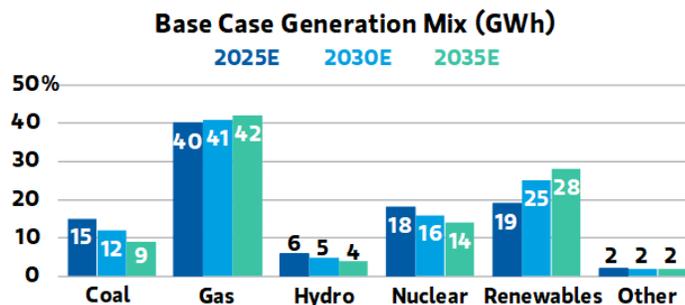


Source: Morgan Stanley Institute for Sustainable Investing as of January 2025

2. Renewable Energy Persistence Amid Policy Uncertainty

The 2025 repeal of the Inflation Reduction Act’s (IRA’s) renewable energy incentives in the One Big Beautiful Bill Act (OBBBA) was more benign than some anticipated, and 2026 rate cuts may create a more constructive backdrop for this sector.⁷ Importantly, global renewable energy generation surpassed coal for the first time in 2025,⁸ and renewables accounted for 93% of US grid additions.⁹ We expect renewable energy to play a critical role in meeting the unprecedented power demand for AI data center growth (see Exhibit 3).

Exhibit 3: Renewables Are Projected to Generate the Majority of US Power Additions Over the Next Decade



Source: EIA, Morgan Stanley & Co. Research estimates as of Oct. 28, 2025

3. The Intersection of Sustainability and AI

Technological advancements are often core components of successful corporate sustainability strategies.¹⁰ We anticipate AI capabilities to further facilitate integration of sustainability considerations throughout business models. For example, insurers, governments and companies are leveraging AI climate risk models and analytics to combat the consequences of extreme weather and natural disasters.

At the same time, investors have inevitably raised questions regarding AI risks and responsibilities, particularly pertaining to job displacement, bias and intellectual property infringement.¹¹ There is also focus on the environmental impact of AI, primarily the potential for increased emissions, energy consumption and natural resource usage. We will be monitoring the evolution of investor expectations and potential regulations to identify responsible AI use.

4. The Strengthening Case for Climate Resilience and Adaptation

More than half of global companies report that climate-related events negatively affected operations and business in the past year,¹² and according to S&P Global Sustainable1, companies that do not actively address climate risks may face \$1.2 trillion of annual costs in aggregate in the 2050s.¹³

We believe that companies proactively implementing adaptive measures, such as water management or sustainable agriculture projects, may be better positioned to manage climate risk and disruption. The material impact of sustainability initiatives was a key theme at Morgan Stanley’s 2025 Sustainability Leadership Summit, which we summarize in our June 11, 2025, edition of [Impact Outcomes](#).

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5. The Enduring Need for Affordable Housing

An estimated 18 million new housing units will be required to meet demand over the next decade in the US.¹⁴ As constrained housing supply perpetuates ongoing affordability challenges, there is a need for greater investment in affordable housing. Investments that support the development, preservation and financing of workforce and affordable housing have the potential to address critical social needs while targeting stable cash flows.

Our colleagues' July 16, 2025, report, "[AlphaCurrents Macro: Housing in the Next Decade](#)," outlines housing trends, focusing on affordability and potential solutions.

6. Employee Ownership as a Tool for Economic Inclusion

Employee ownership means that a broad base of employees—beyond executives—have a financial stake in their company, sharing in profits and growth through various structures like employee stock ownership plans (ESOPs), worker cooperatives or employee ownership trusts (EOTs). These models give workers a direct interest in the business's success, fostering engagement, aligning goals and allowing owners to transition out while preserving the company's legacy, which may be particularly relevant as a generation of business owners plan for succession.

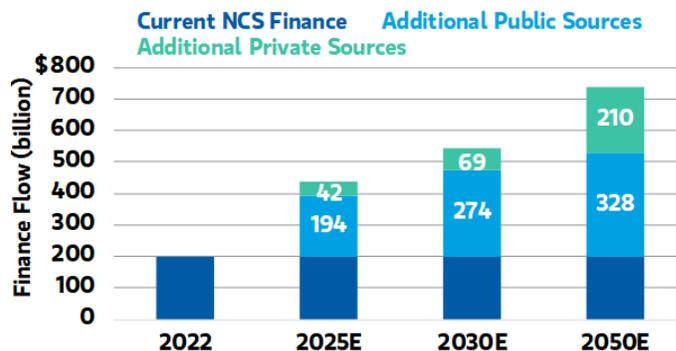
The potential impact of adopting employee ownership models is also significant beyond the business level, creating economic value for workers and their communities.¹⁵ For example, if 30% of all US private firms were to adopt an ESOP holding just 10% of company shares, the average wealth of the bottom 50% of Americans would quadruple from approximately \$24,000 to \$96,000.¹⁶

7. The Continuing Growth of Natural Capital Investing

Over half of global GDP depends on nature, yet natural resources and biodiversity are under strain. As the physical consequences of environmental degradation become more tangible, more capital will be needed to protect and restore natural assets, especially in private markets (see Exhibit 4).

In our Oct. 22, 2025, Investment Primer "[Natural Capital Investing: Supporting Nature-Positive Outcomes](#)," we explore how natural capital investing connects environmental stewardship with economic value.

Exhibit 4: An Additional \$538 Billion Investment in Natural Capital Solutions (NCS) Is Needed by 2050



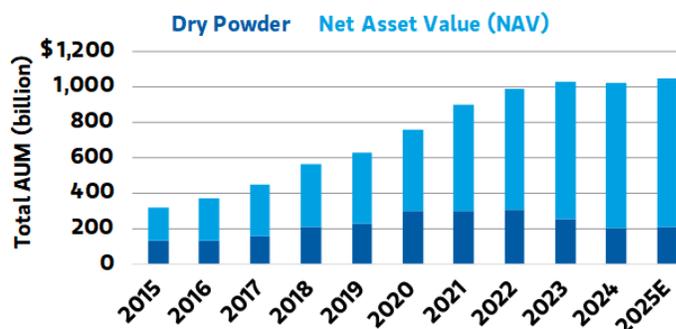
Note: As of 2022, private and public funding accounted for \$35 billion and \$165 billion, respectively. The projected share of private and public finance relative to annual NCS finance is expected to average 18% and 82%, respectively, until 2030. However, private NCS finance as a percentage of annual funding is expected to rise to 33% by 2050. These estimates have been used to extrapolate additional public and private funding through 2030 and 2050. There is no guarantee that these estimates will be accurate. Source: UNEP as of Dec. 9, 2023

8. Expanding Private Market Opportunities

We have observed steady investor demand for private market solutions across sustainable themes. Private market investments promote portfolio diversification and may offer greater alignment between investor intent and impactful outcomes. Despite macroeconomic pressures slowing fundraising and deal activity in recent years,¹⁷ global private market impact AUM has trended upward over the past decade, reaching \$1.05 trillion as of March 2025 (Exhibit 5).

In 2025, assets in alternative products on the Investing with Impact Platform grew almost 50%. Considering this growth, we enhanced Morgan Stanley Impact Quotient® (Morgan Stanley IQ®), our patented¹⁸ and award-winning¹⁹ impact reporting tool, to include private market impact reporting. We also highlight actionable investment approaches in our Nov. 19, 2025, publication, "[Climate Action Implementation Guide: A Road Map for Private Markets](#)."

Exhibit 5: Global Private Capital Impact AUM Has Doubled Over the Past Decade



Source: PitchBook, Morgan Stanley Wealth Management Investing with Impact as of March 31, 2025

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9. The Ongoing Power of Investor Influence

We have observed more investors wanting to use the power of their capital to impact company behavior. On the Investing with Impact Platform, 42% of asset managers leverage tools to “influence” companies in their portfolio, ultimately changing corporate behavior through shareholder engagement practices like proxy voting.

Read more about how asset managers are influencing companies on investors' behalf in our Sept. 16, 2025, edition of [Impact Outcomes](#).

10. Focus on Data-Driven Reporting

We recommend that investors understand what they own and how these holdings align with their unique values. The start of the year is an opportune time to review this within a broader financial plan. Morgan Stanley Impact Quotient® (Morgan Stanley IQ®) helps clients understand the impact of their investments. Alongside a Morgan Stanley Financial Advisor, Morgan Stanley IQ® can facilitate tailored, on-demand impact reporting to help curate more informed, meaningful conversations throughout 2026 and beyond.

Morgan Stanley in the News

- **Morgan Stanley's Institute for Sustainable Investing** shared an [MS.com article](#) outlining its latest institutional edition of [Sustainable Signals](#) surveying asset managers and owners, who expect growth in allocations to sustainable investments, with climate adaptation and resilience increasing in prominence.
- **The Morgan Stanley Thoughts on the Market podcast** released an episode, "[AI Sparks New Economics for Electricity](#)," which discusses how the unprecedented demand to power AI is set to transform the power industry for years to come.
- **Morgan Stanley Inclusive & Sustainable Ventures** welcomed its [2025 cohort](#) of technology and AI-driven startups and nonprofits that are providing scalable solutions across sustainability, health care, resource efficiency, manufacturing, caregiving and affordable clean energy.

Endnotes

- ¹Morgan Stanley Institute for Sustainable Investing, "Sustainable Funds Beat Traditional Funds in First Half of 2025," September 8, 2025, <https://www.morganstanley.com/insights/articles/sustainable-funds-outperform-traditional-first-half-2025>.
- ²GreenMoney, "Executive Summary: US Sustainable Investing Trends Report, Key Highlights from the US SIF 2025 Survey," December 26, 2025, <https://greenmoney.com/executive-summary-2025-us-sif-trends-report/>.
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- ⁸World Economic Forum, "Renewables Overtake Coal," October 15, 2025, <https://www.weforum.org/stories/2025/10/renewables-overtake-coal-energy-news/>.
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- ¹⁶CapShift, "Employee Ownership: An Investor's Guide to Workforce Empowerment and Economic Equity," *CapShift*, 2026, <https://capshift.com/explore/deep-dive-into-employee-ownership-an-investors-guide-to-workforce-empowerment-and-economic-equity/>.
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- ¹⁸Morgan Stanley Impact Quotient®, US Patent No. 11,188,983.
- ¹⁹Aite-Novarica Group's Digital Wealth Management Impact Awards (9/2022), based on January 1, 2021–March 31, 2022 period. For criteria and methodology, go to <https://datos-insights.com/press-release/aite-novarica-group-announces-winners-2022-digital-wealth-management-impact-awards/>.

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Disclosure Section

IMPORTANT DISCLOSURES

For index, indicator and survey definitions referenced in this report please visit the following: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

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ESG investments may also be referred to as sustainable investments, impact aware investments, socially responsible investments or diversity, equity, and inclusion (“DEI”) investments. It is important to understand that ESG definitions and criteria used within the industry can vary, and ESG ratings of the same subject companies and/or securities can vary among different ESG ratings providers for various reasons including differences in definitions, methodologies, processes, data sources and subjectivity among ESG rating providers when determining a rating. Certain issuers of investments including, but not limited to, separately managed accounts (“SMAs”), mutual funds and exchange traded funds (“ETFs”) may have differing and inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. Further, socially responsible norms vary by region, and an issuer's ESG practices or Morgan Stanley's assessment of an issuer's ESG practices can change over time.

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DEI Signal was launched in response to increasing evidence demonstrating the importance of diversity, equity and inclusion (DEI) in the workforce. Companies are increasingly evaluating their cultures and practices related to gender and racial equality in order to attract and retain top talent, and investors are increasingly asking for this data to be disclosed while seeking to invest with asset managers who are making progress on improving diversity. Recognizing the importance of data transparency to measuring and driving progress, and in alignment with the Inclusion pillar of the Investing with Impact framework, we are collecting over 30 data points from our asset management partners, who, combined, manage roughly 70% of global assets under management. DEI Signal was created as a framework for analyzing the data in a holistic way. The questions focus on policies to support inclusive and diverse workplaces, diverse representation and disclosure. Through these questions, DEI Signal seeks to increase transparency on diversity statistics and shepherd greater diversity and inclusion across the industry.

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