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Beyond labels

Investment performance through a sustainability lens

Contents

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Key Takeaways

- The considered ESG equity indices have delivered positive absolute returns across all major regions YTD in 2026, but their performance relative to overall market indices varied considerably.
- Country and sector allocation matter, but constituent selection and exclusions can have the greatest impact on ESG index performance.
- ESG is therefore best assessed as an additional risk-management and portfolio and index construction layer rather than a separate market call.

01

Macro & markets: overview for 2026 so far

Markets overall: markets initially performed positively in January and February 2026, with the MSCI World rising 3.0% (total return, in USD) by the end of February, but sentiment quickly deteriorated after strikes on Iran began on February 28. The subsequent market reversal during March left the MSCI World approximately 3.5% lower over Q1. Fears around energy supply disruption triggered a sharp rise in oil prices. The resulting increase in inflation expectations weighed on both equities and fixed income markets as investors began to price in a greater risk of renewed policy tightening. Brent crude rose by 94% in Q1, ending March at over USD118.35/bbl.

Precious metals traditionally associated with safe-haven demand, like gold and silver, had initially benefited in early 2026 from geopolitical uncertainty, robust central-bank purchases and strong investor demand. Gold recorded a particularly strong start to the year and was trading at around USD5,400/oz at the beginning of the Iran crisis compared to approximately USD4.300/oz at the start of the year. However, the sharp rise in oil prices triggered a significant repricing of inflation and interest-rate expectations during March, leading to unusually high volatility in precious metals markets and contributing to a subsequent decline in gold to below USD4,000/oz, a fall of more than a quarter from peak levels. Silver experienced even larger price swings than gold, reflecting its higher sensitivity to shifts in investors sentiment, before entering a volatile period of consolidation as investor inflows and physical scarcity moderated.

During Q2, as immediate supply concerns eased and an interim US-Iran agreement emerged, oil prices retraced sharply and stagflation concerns moderated. Equity markets recovered strongly with the S&P 500 delivering a total return of 15.2% and the STOXX 600 gaining 11.9% (in USD and EUR, respectively) for the quarter. For both indices, this marked their strongest quarterly performance since Q2 2020.

This equity market recovery, however, was not broad-based and did not prove wholly durable at the beginning of Q3. During Q2, market leadership became increasingly concentrated in AI-related technology industries, semiconductors and selected Asian markets. While the MSCI World Index recovered 12.2% (in USD) during the quarter, the Philadelphia Semiconductor Index and the South Korea's KOSPI gained 88.0% and 67.9% respectively. Taiwan and Japan also strongly benefited from their exposure to the global semiconductor and hardware supply chains. Elsewhere in Asia, Chinese (CSI 300) gains were more modest in Q2.

The market environment became more challenging in July. When Iran-related hostilities recommenced mid-month, and worries grew around tech sector investment levels, markets fell back with particularly marked falls in the previously high-performing South Korean market. Since then, with AI-related market volatility, regional performance differentials have changed.

The Iran conflict and the resulting concerns over energy security reinforced the strategic importance of reducing dependence on imported fossil fuels and strengthening the resilience of domestic energy systems, particularly in Europe and parts of Asia. While the oil price shock initially benefited conventional energy producers, it also highlighted the potential economic and geopolitical advantages of expanding renewable energy generation, energy storage capacity and electricity infrastructure. As this underlined, the transition of energy systems from fossil fuels to renewable energy sources is increasingly viewed not only through the lens of environmental objectives, but also in terms of energy security, system resilience and long-term strategic autonomy.

The continued rapid expansion of AI and digital infrastructure brought renewed attention to electricity as a critical growth factor. As discussed in our **PERSPECTIVES Special – The New Age of Electricity**, growing demand from AI, digitalisation and broader electrification trends is creating substantial investment needs across power generation, transmission networks, grid modernisation, storage technologies and energy-efficiency solutions. This has been reflected in market performance, with companies active in renewable energy, grid infrastructure and energy-efficiency technologies posting solid returns since the start of the year as shown by the S&P Clean Energy index being up by almost 27.8% (as of July 24).

All these developments shaped the performance of ESG investments during the first seven months of 2026. In our 2025 **PERSPECTIVES Special – ESG Investment Performance: Drivers and Management**, we had highlighted how ESG benchmarks' performance is driven by underlying sector, factor and regional exposures. The performance of ESG equity indices so far this year shows this is still very much the case. Building on that analysis, this year's publication reviews the performance of ESG equity indices against traditional overall market indices, broadens the discussion to include the evolving labelled bond landscape (green, social, sustainability and sustainability-linked bonds) and provides an outlook for the coming twelve months.

02 ESG vs. traditional equity market indices

For the purposes of this report, ESG equity performance is assessed using the MSCI Selection index suite and compared against the respective broad-market MSCI benchmark indices.

We use these indices as a practical and widely recognised proxy for ESG equity investing, given their broad market coverage and transparent methodology. However, they represent only one segment of a much larger and more diverse investment universe, which encompasses a wide range of approaches, including best-in-class, thematic, impact, transition and other ad-hoc strategies, each with different objectives, portfolio construction methods and performance characteristics. Consequently, the results presented in this chapter should not be interpreted as representative of the entire available investment landscape, but rather as an illustration of how one widely used ESG index methodology has performed relative to traditional market benchmarks.

According to this methodology, since the end of 2025, ESG equity indices have delivered positive absolute returns across all major regions (for the period to July 24). Japan delivered the highest absolute return, with the MSCI Japan Selection Index gaining 15.0%, followed by Europe at 10.8%, the US at 6.7% and EM at 6.5% (in local currency).

The same picture holds when extending the time horizon to the last 12 months (i.e. from July 24, 2025 to July 24, 2026), with solid performance across all regions. Japan remained the top performing ESG equity index on a 12-month basis with a gain of over 30.9% over the last 12 months, followed in this case by EM (19.1%), Europe (17.9%) and US (16.0%).

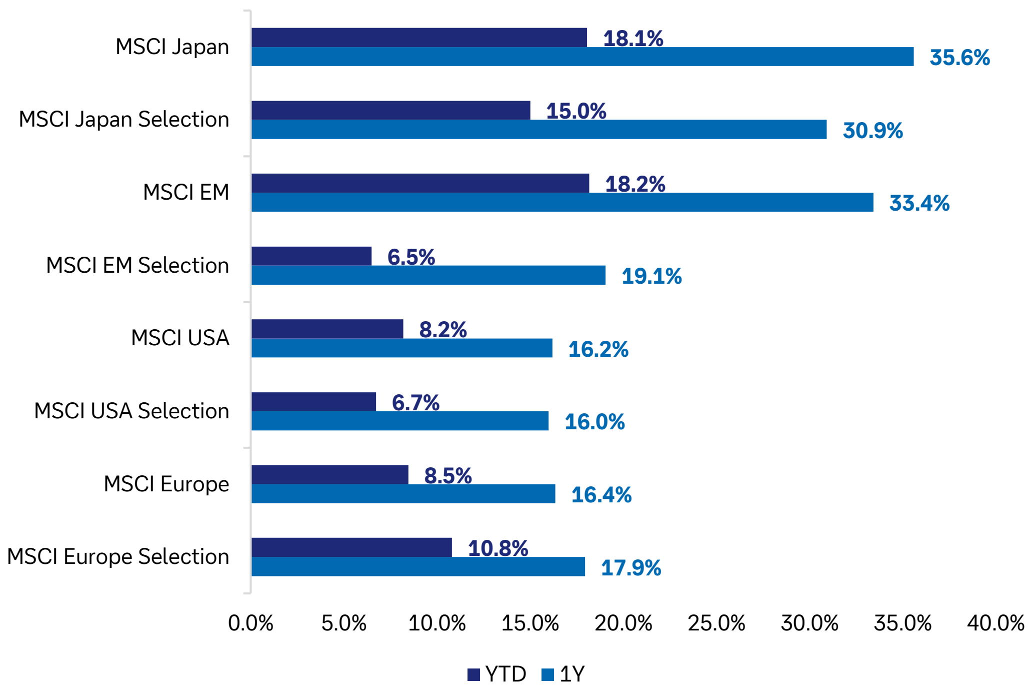
ESG indices' relative performance to overall market indices was however mixed. On a YTD basis (to July 24), Europe was the only region where the ESG-filtered index outperformed, with the MSCI Europe Selection Index gaining 10.8% versus 8.5% for the overall index (the MSCI Europe). In the US, performance of the MSCI USA Selection was slightly behind the MSCI USA performance, at 6.7% versus 8.2%. In Japan, the ESG-filtered equity index underperformed its benchmark, returning 15.0% (MSCI Japan Selection) against 18.1% (MSCI Japan).

Lastly, in emerging markets (EM), the ESG index's underperformance was more marked, with MSCI EM Selection gaining 6.5% while the benchmark rose 18.2% (MSCI EM).

To summarise, as **Figure 1** shows, the European ESG equity index was the only one to outperform over both a YTD and 12-month basis vs. the overall market only. In the US, performance was broadly in line with the parent index on a 12-month basis, while ESG indices in Japan and EM underperformed their traditional benchmarks.

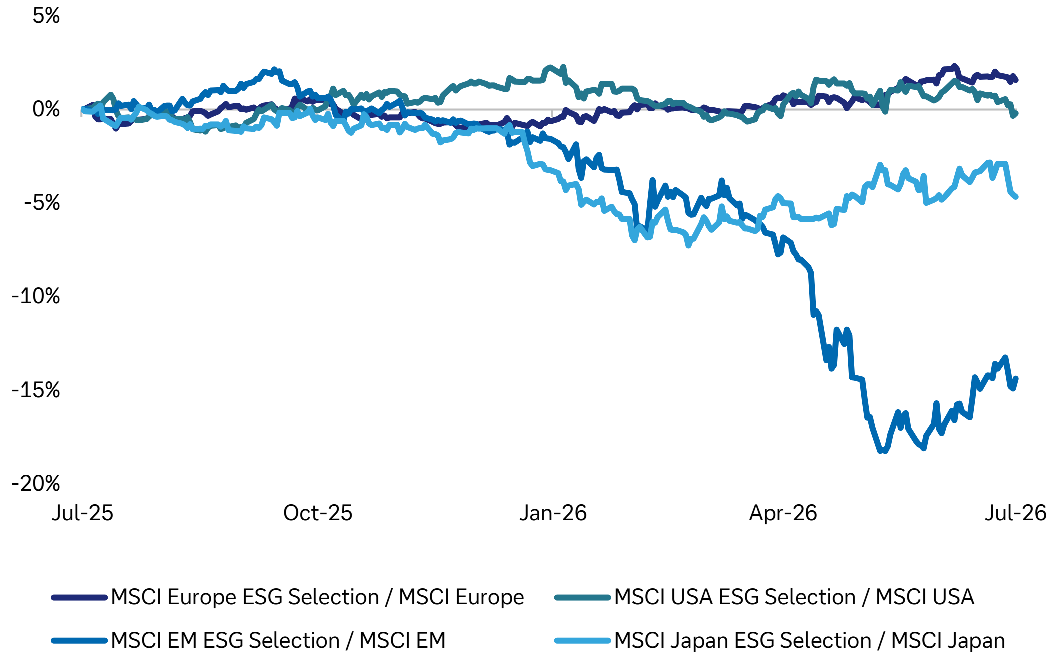
Figure 2 takes a slightly different perspective on the issue by showing how ESG indices vs. broader market differentials have evolved over the last 12 months. In both Europe and the US, ESG indices' performance stayed generally close to overall market indices. But the EM ESG index followed a markedly different trajectory, with relative performance deteriorating sharply from the beginning of 2026 and underperformance accelerating further during Q2 before only a partial recovery in July. Japan also experienced weaker relative performance during H1 2026 and into July, although the magnitude of the gap vs. overall market indices remained considerably smaller than for EM.

Figure 1: MSCI Selection equity indices vs. traditional broad indices, 1Y and YTD 2026 performance in local currency



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 24, 2026.

Figure 2: Relative performance of MSCI Selection indices vs. benchmark indices (in local currency)



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 24, 2026.

03

ESG and performance drivers

Unlike strategies designed to pursue specific sustainability-related objectives or thematic exposures, the MSCI Selection indices can be viewed as traditional market-capitalisation benchmarks enhanced with an additional **ESG risk filter**. The methodology starts with applying a series of ESG screens to the respective broad market parent index, excluding companies involved in selected business activities, firms facing severe ESG controversies and issuers with weaker ESG assessments. The remaining universe is then ranked according to MSCI's ESG ratings and industry-adjusted ESG scores, allowing companies to be evaluated against sector peers rather than a single cross-market standard.

A defining feature of the methodology is its attempt to preserve the broad characteristics of the underlying market. MSCI seeks to maintain sector exposures broadly in line with the parent benchmark index by selecting the highest-rated companies within each sector and targeting inclusion of approximately 50% of the sector's free-float market capitalisation. **The objective is therefore not to build a thematic sustainability index, but to improve the ESG profile of the index while maintaining broad market representation and relatively low tracking error.**

As we have noted in the past, however, the resulting indices are not in practice exact replicas of the structure of their parent benchmarks. The exclusion of certain companies, combined with the preference for ESG leaders within each industry, inevitably **alters the distribution of weights** across individual stocks. While the methodology seeks to remain sector-neutral, meaningful deviations in sector and country exposures nonetheless unavoidably emerge. These differences may appear modest in isolation but can become important drivers of performance over time, particularly when the excluded companies are concentrated in specific industries or markets.

Changes in market concentration are another potential consequence of the indices' ESG filter. Because the Selection indices retain a smaller subset of securities than the parent benchmarks, the surviving constituents are reweighted upwards, resulting in larger positions in companies with stronger ESG profiles. This increases the influence of individual stocks on index-level returns and can amplify the impact of company-specific developments. For example, on June 30, 2026, the top ten constituents accounted for 35.2% of the MSCI Europe Selection Index compared with 21.7% of the MSCI Europe Index. Similar patterns are evident in the US (46.5% versus 35.5%) and EM (55.2% versus 40.2%), illustrating how the ESG screening process can increase concentration risk despite its objective of maintaining broad market representation. Consequently, relative performance differences between ESG and the broader parent indices frequently reflect not only sector and country allocation effects, but also the larger influence of a relatively small group of highly rated ESG leaders.

The spread of companies with high ESG ratings is also highly uneven across regions. Europe continues to be the global leader, accounting for the largest share of the world's highest-rated companies despite representing a much smaller portion of global equity market capitalisation than the US. Out of the 331 companies globally rated AAA within the MSCI AC World Index, 125 are European, compared with 97 in Asia and 88 in the Americas (as of March 2026). Europe also dominates the upper ESG tiers more broadly, with almost nine out of ten European companies achieving a rating of A or higher, reflecting the region's long-standing emphasis on sustainability disclosure, corporate governance and stakeholder engagement.

The **distribution of ESG ratings within rating bands** also reveals important regional differences. While Europe is heavily concentrated in the AAA, AA and A categories, Asian companies are more evenly distributed across the rating spectrum. Asia accounts for a substantial share of both highly rated and lower-rated firms, with particularly large representations in the BBB, BB, B and CCC categories. The Americas occupy an intermediate position, with a significant number of highly rated companies but a less pronounced skew towards top ESG ratings than Europe.

Importantly, **the ESG ratings landscape is also not static**. According to MSCI data, in 2025 Japan and China together accounted for nearly half of all ESG rating upgrades in the region, highlighting ongoing progress in governance standards, disclosure quality and sustainability practices. Rating improvements were particularly concentrated in the Information Technology, Industrials and Financials sectors, suggesting that ESG progress is increasingly linked to operational excellence, governance improvements and supply-chain management rather than solely environmental policies.

In the following section, we examine these allocation differences in greater detail, highlighting the key sector, country and concentration effects that have shaped the performance of the main MSCI Selection indices relative to their traditional benchmarks. All sector allocation data in this section are as of June 30, 2026, the latest available, but performance data runs to July 24, 2026.

Europe: At the sector level, the MSCI Europe Selection index benefited from a modest overweight in Information Technology (11.2% versus 10.1% in the benchmark broad market index, MSCI Europe, as of June 30, 2026. This was Europe's best-performing sector over the last twelve months and on a YTD basis (+49.7% and 32.0%, respectively). However, this advantage was partly offset by the underweight in Energy (-1.2 ppt), a sector that has also delivered solid returns over 1 year horizon and YTD (+41.3% and

+33.8% respectively, in the period to July 24). Finally, the MSCI Europe Selection index's underweight to Industrials (-1.2 ppt) contributed positively as the sector lagged the broader European market (measured by MSCI Europe Index), while the contribution of the Health Care's overweight (+0.9 ppt) has been mixed over the period.

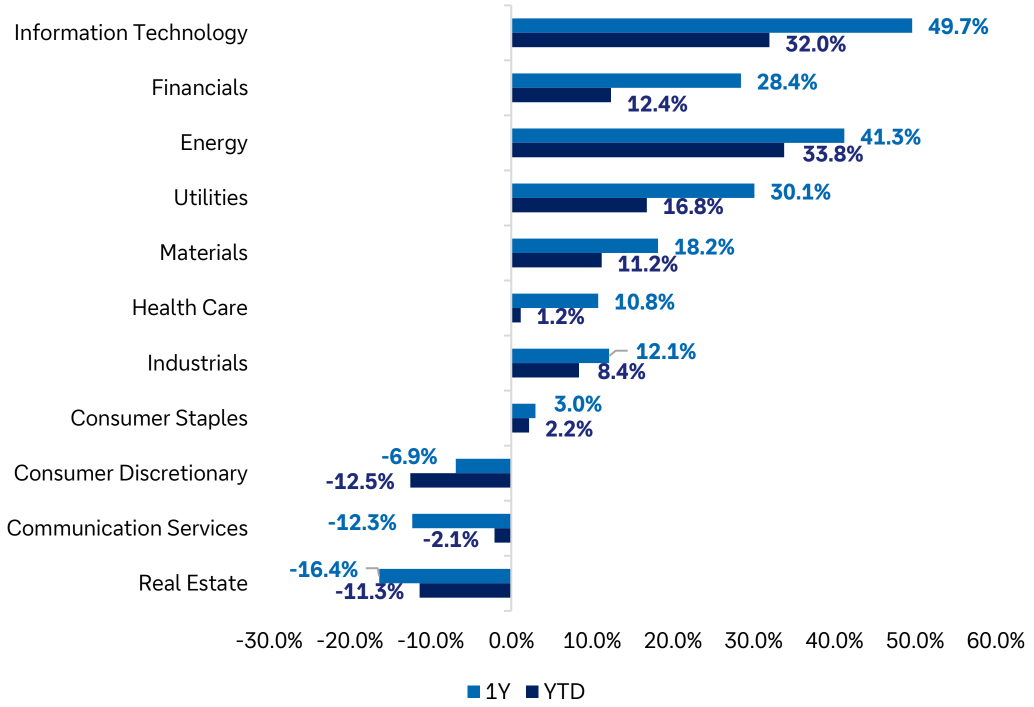
Country allocation provided an additional source for overperformance in the period under consideration. The ESG Selection index maintained a significant overweight to the Netherlands (14.9% versus 9.8% in the benchmark, as of June 30), the strongest-performing major European market over the last year and so far in 2026 (+52.2% and 32.3%, respectively, as of July 24). At the same time, it held a substantial underweight in Germany (7.0% versus 13.4%), which was the among the weakest-performing major European markets among the major European countries.

Lastly, the **higher concentration** in the MSCI Selection Europe index, relative to the parent MSCI Europe index, proved to be another supporting factor. The top ten holdings account for **35.2%** of the Selection index (as of June 30), compared with **21.7%** for the MSCI Europe Index. This increased exposure to the strongest-performing segments of the European market and amplified the benefits of the favourable country allocation.

US: As noted above, the US ESG-filtered equity index, the MSCI USA Selection performed broadly in line to its parent index over the last 12 months. However, it has underperformed it since the beginning of this year.

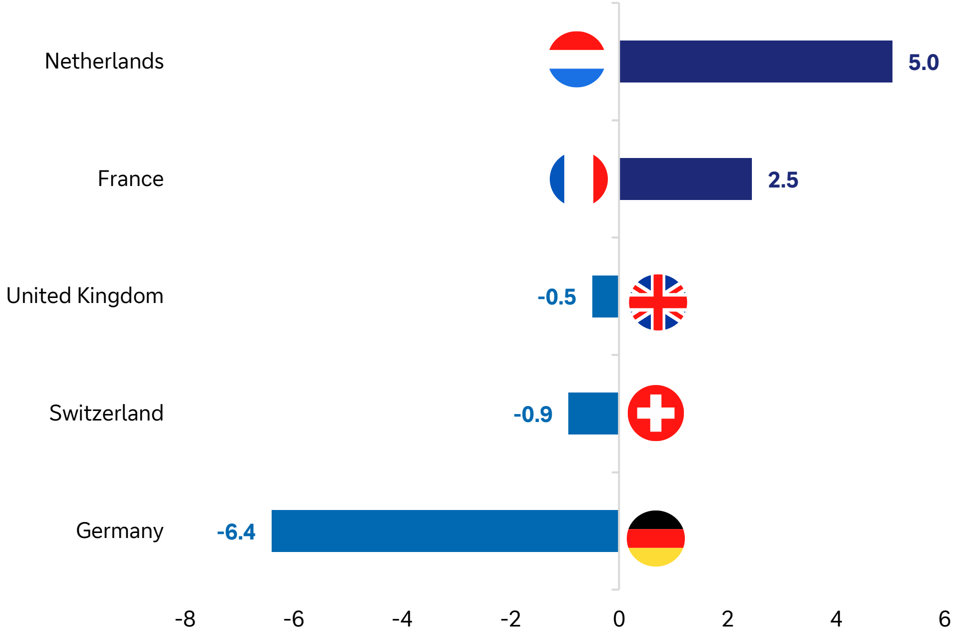
From a sector perspective, the 12-months underperformance appears less attributable to broad sector allocation and more to differences in **portfolio concentration and stock selection** resulting from the ESG screening process. Sector allocation may become more relevant as a way of explaining YTD underperformance.

Figure 3: MSCI Europe - Sectors performance over the last 12 months and 2026 YTD



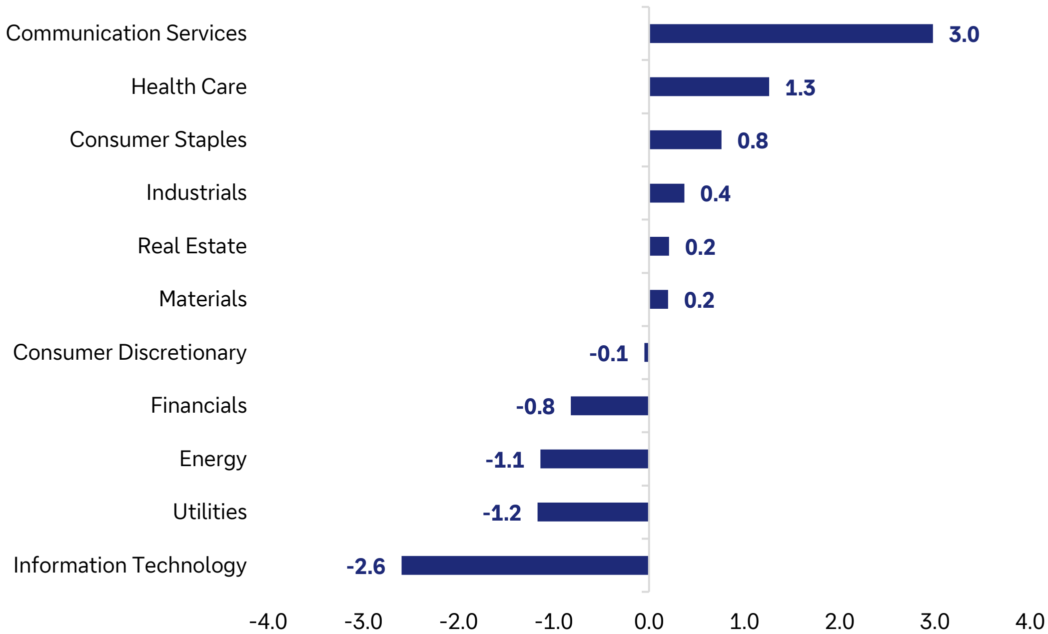
Source: LSEG Datastream, Deutsche Bank AG. Data as of July 24, 2026.

Figure 4: Differences in selected country weights, MSCI Selection Europe - MSCI Europe (in ppt)



Source: Blackrock, Deutsche Bank AG. Data as of June 30, 2026.

Figure 5: Differences in sector weights, MSCI Selection USA - MSCI USA (in ppt)



Source: Blackrock, Deutsche Bank AG. Data as of June 30, 2026.

The USA Selection index maintained a **lower weighting in Information Technology** (34.8% versus 37.4% in the parent overall index, as of June 30), a sector which remained a key driver of US market returns. Similarly, it had a lower weighting in Energy (1.9% versus 3.1%), a sector that benefited in the period from higher oil prices and geopolitical tensions. These headwinds were only partly offset by the USA Selection's higher exposure to Communication Services and Health Care sectors. Overall, however, sector allocation differences appear insufficient to explain the index's relative performance on their own.

Relative performance was influenced however not only by sector allocation but most importantly **by differences in the individual stock composition** of those sectors. As mentioned, the top ten holdings account for 46.5% of the MSCI USA Selection Index, compared with 35.5% of the MSCI USA Index. This suggests that stock selection effects within sectors were likely more important than traditional top-down sector positioning and may explain the ESG Selection index's relative underperformance since the start of this year.

Emerging Markets: relative underperformance seems to have been driven less by sector allocation and more by the **country positioning and the ESG screening process** itself. While the MSCI EM Selection index maintained a broadly similar sector profile to the parent broad market index, the MSCI EM the exclusion of certain large benchmark constituents and the resulting shifts in country weights within the index had a meaningful impact on relative returns.

Sector exposures between the two indices – the MSCI EM Selection and the broader MSCI EM – are broadly similar. The Selection index has maintained only a slightly higher weighting in Information Technology (46.0% versus 45.3% in the benchmark, as of June 30), suggesting that sector positioning was not the primary source of underperformance. Some other sector differences were larger in absolute terms but ultimately of secondary importance from a performance perspective. This is because EM returns during the period were overwhelmingly driven by the semiconductor and broader Information Technology complex, which dominated both index performance and market leadership across the region.

Instead, the key differentiator here was the **different country weights** between the ESG and the broader parent index, and, more importantly, the impact of the ESG screening process on **individual stock selection**.

As noted above in Section 3, the Selection indices apply business-involvement screens, controversy assessments and ESG-rating criteria, before selecting approximately 50% of the free-float market capitalisation within each sector based on ESG characteristics and industry-adjusted ESG scores. As a result, the Selection indices exclude or underrepresent certain benchmark constituents while increasing exposure to others.

In a period when EM returns were unusually concentrated among a handful of large technology-related companies, the resulting exclusions had a significantly greater impact on relative performance than they would have in a more broadly-driven market environment. While the Selection index maintained broadly similar sector exposures to the parent benchmark, the ESG selection process altered exposure to some of the benchmark's most important individual performance contributors within those sectors. Consequently, in this period, the index captured less of the upside generated by the companies that ultimately dominated benchmark returns.

The MSCI EM Selection index also maintained a significant **underweight to South Korea** (20.7% versus 23.7% in the parent index, as of June 30), which (despite recent Korean market falls) has remained costly as the KOSPI was still up 58.8% YTD as of July 24 (in local currency). While Korean equities recently corrected alongside global semiconductor stocks following an exceptionally strong AI-driven rally, South Korea remained one of the best-performing major markets during the period.This effect was partly mitigated by the index's overweight in Taiwan (33.7% versus 27.3% in the parent index), which also benefited AI investment cycle.

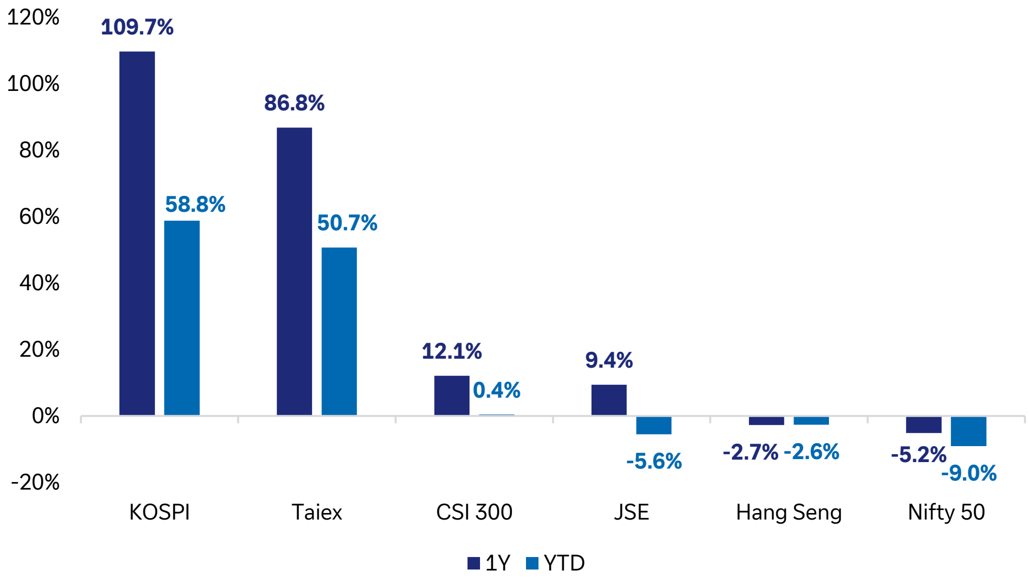
The MSCI EM Selection index's **overweight to China** (21.7% versus 19.0% in the parent index) also did not assist performance as overall Chinese market performance remained relatively subdued compared with other major Asian and developed markets.

Japan: The performance gap between the MSCI Japan Selection and its parent index has been modest and the two indices are highly aligned from a sector perspective. The Selection index shows only minor deviations from the benchmark, including small overweights in Communication Services and Materials and modest underweights in Industrials, Financials and Consumer Discretionary. Taken individually, these allocation differences appear too limited to explain the entirety of the underperformance.

This leaves individual stock **constituent selection and concentration** as the most plausible explanations for the weaker relative returns of the MSCI Japan Selection vs. the MSCI Japan. The MSCI Japan Selection Index retains only 84 constituents, compared with 168 in the parent benchmark and the top ten holdings account for 45.7% of the Selection index, compared with 30.2% in the parent benchmark, highlighting how the methodology concentrates exposure within sectors even while leaving overall sector weights largely unchanged.

Finally, part of the MSCI Japan Selection's underperformance may also reflect the diminishing importance of **corporate-governance reform** as a source of excess returns. Governance improvements have been one of the defining drivers behind the rerating of Japanese equities over recent years but as they have become more widespread the positive governance characteristics that historically distinguished ESG-selected companies may provide a smaller relative advantage than in the past. However, recent concerns about proposed further changes to corporate rules suggest that this could reemerge as a differentiator in future.

Figure 6: Performance of selected emerging markets equity indices
(in local currencies)



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 24, 2026.

04

ESG-related fixed income markets

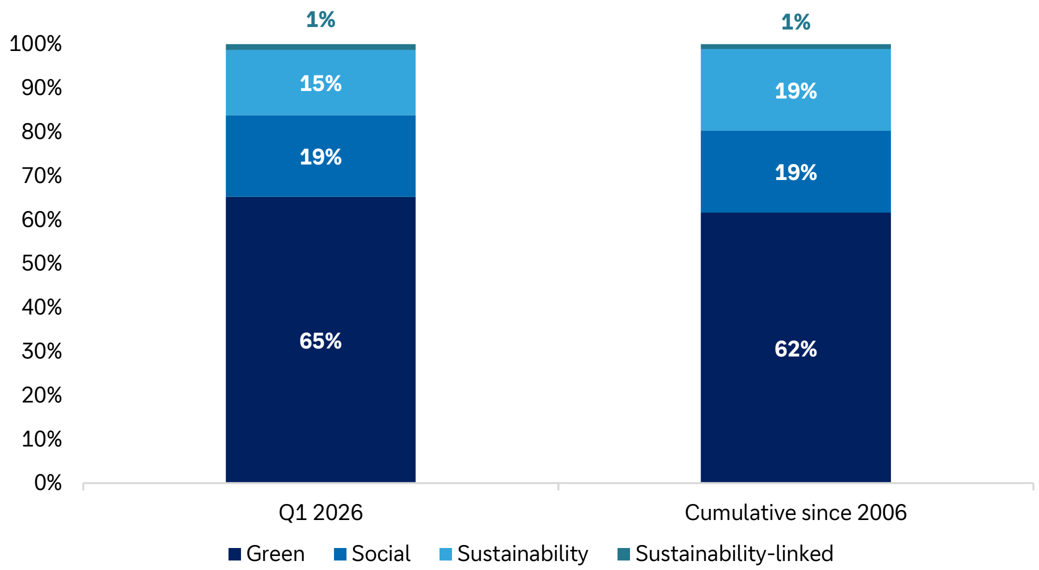
The issuance of labelled bond categories, including green, social, sustainability and sustainability-linked (GSS+) bonds as per the Climate Bonds Initiative (CBI), exceeded USD1tn in 2025 for the third consecutive year, while cumulative aligned issuance since the beginning of 2006 approached USD6.8tn globally. Bonds classified as green bonds remained the largest segment, accounting for nearly two-thirds of issuance in 2025, while issuance of sustainability bonds reached a new record high.

According to the CBI, aligned GSS+ issuance totalled USD230bn in Q1 2026, modestly lower YoY on a like-for-like basis. However, issuance classified as green bond issuance on Q1 2026 rose 5% YoY to USD150bn and accounted for approximately 65% of total quarterly issuance. Bonds classified as social bonds also recorded positive growth on a YoY basis, in Q1 2026, while sustainability-linked bonds remained a relatively small but improving segment.

To evaluate the performance of the ESG-related fixed income market, we use the **Bloomberg MSCI Global Aggregate and Green Bond ESG SRI Index**. The index is derived from the **Bloomberg Global Aggregate Bond Index**, the standard benchmark for global investment-grade fixed income, which includes sovereign, government-related, corporate and securitised bonds across developed and emerging markets.

The ESG SRI index applies a multi-step screening process. Issuers are assessed according to MSCI ESG ratings, controversy scores and business-involvement criteria, with exclusions applied to issuers associated with certain controversial activities, severe ESG controversies or insufficient sustainability characteristics. In addition, the methodology incorporates a dedicated green bond allocation component by ensuring that at least **10% of the index market value is allocated to green bonds**, while maintaining broad diversification across the global investment-grade bond universe.

Figure 7: Shares of GSS+ debt instruments in total GSS+ issuance, Q1 2026 and cumulatively since the beginning of 2006 (in USD billion)



Source: Climate Bond Initiative, Deutsche Bank AG. Data as of July 24, 2026.

As a result, the Bloomberg MSCI Global Aggregate and Green Bond ESG SRI Index plays a role in fixed income that can be seen as broadly comparable to that of the MSCI Selection indices in equities. The key difference is that the fixed income index also incorporates an explicit allocation to green bonds, allowing it to serve as a proxy for the broader sustainable bond market. The sustainable index contains approximately 10,658 securities, compared with 19,976 in the traditional Bloomberg Global Aggregate Bond Index.

Using these indices, the **recent relative performance of the Bloomberg MSCI ESG SRI bond universe has been broadly in line with traditional global bonds**. The Bloomberg MSCI Global Aggregate and Green Bond ESG SRI Index and the Bloomberg Global Aggregate Bond Index have delivered around +1.1% over 1 year and -0.7% YTD (to July 24), suggesting that the ESG/SRI and green-bond tilt did not materially alter headline returns over the period. This is consistent with the very **similar risk profile** of the two underlying indices: both show an effective duration of 6.16 years, while average weighted maturity is almost identical at 8.08 years for the sustainable index versus 8.11 years for the traditional aggregate index.

The **maturity distribution** also remained broadly comparable across the two benchmarks. The sustainable index maintained a slightly higher exposure to the 3–5 year and 7–10 year maturity buckets, while showing a modestly lower allocation to the 5–7 year segment.

Sector and issuer allocations also differ only marginally. The sustainable index has a somewhat higher exposure to sovereign bonds (56.6% vs. 52.9% as of June 30) and a slightly more concentrated issuer profile, with the top issuers accounting for 54.9% of the portfolio compared with 51.5% for the traditional benchmark. It also allocates a larger share to Chinese government bonds (10.5% vs. 6.3%) while maintaining a very similar exposure to US Treasuries (19.5% vs. 19.1%). These differences may have provided a modest benefit during periods of rising global yields, as Chinese sovereign bonds proved relatively resilient to the inflation and interest-rate repricing that followed the Iran conflict. However, their overall impact on performance likely remained limited.

05

Outlook and conclusion

Over the next 12 months, ESG-screened investment indices' relative performance is likely to remain closely tied to index construction arising from the additional ESG-risk metrics. At the equity level, sector and country weights, together with differences in constituent selection and concentration, will determine how each ESG Index captures (positively and negatively) prevailing overall market drivers. For sustainable bonds the key drivers are likely to remain duration and corporate spreads.

Europe: The MSCI Europe Selection Index should benefit from positive earnings momentum in AI-related supply chain companies, given the sector is the largest overweight in the Selection index, compared to the traditional benchmark. However, the Selection index's relative underweights to Industrials at sector level and Germany from a country perspective could prove a drag over the remainder of 2026 if infrastructure spending, defence investment and fiscal stimulus support a broader European recovery. Lower Energy exposure may also weigh on the Europe Selection Index if oil prices stay elevated, though this should matter less if energy markets normalise. The Europe Selection index's relative overweight to the Netherlands is still supportive, given the market's semiconductor exposure. Overall, the outlook is constructive, but the scope for further relative outperformance of the Europe Selection Index looks quite limited.

US: The MSCI USA Selection Index remains well aligned with our constructive view on AI and digitalisation, despite its lower exposure to the Information Technology sector compared to the parent benchmark. Its more concentrated allocation to a limited number of large-cap technology and communication services companies that should remain key beneficiaries of AI capex build out represents a risk as well as an opportunity and the index maintains modest relative underweights in several sectors for which we maintain a constructive view, including Financials (-0.8 ppt) and Utilities (-1.2 ppt).

As discussed in our recent **PERSPECTIVES Viewpoint Equity – Semiconductor stocks reset but AI demand holds**, the recent correction in semiconductor equities appears to reflect a moderation in valuations following a strong rally rather than a material deterioration in underlying AI-related demand. If this assessment proves correct, the USA Selection Index's more concentrated allocation to a limited number of large-cap technology and communication services companies could support relative performance, given that many of these businesses remain among the key beneficiaries of AI-related investment spending and infrastructure build-out.

If US market leadership broadens beyond the largest AI beneficiaries and increasingly includes financials, utilities, industrials or energy-related segments, the overall parent index, the MSCI US, may be better positioned to capture the rotation.

Relative performance of the USA Selection vs. the parent index is therefore likely to depend not only on concentration effects and constituent selection, but also on whether equity-market gains remain narrowly focused on the largest AI-related companies or broaden across a wider range of sectors.

EM and Asia: We remain generally constructive on EM, particularly across Asia, where AI-related investment, semiconductor demand and ongoing improvements in corporate governance continue to provide support, as discussed in our recent **PERSPECTIVES Special - Emerging structural themes across Asia**. In this context, the MSCI EM Selection Index's underweight in South Korea remains a potential headwind should Korean equities will outperform again following their recent marked decline alongside global semiconductor stocks, given the country's strong exposure to memory chips and AI hardware. However, the higher allocation to Taiwan partly compensates for this positioning and should continue to benefit if demand for advanced semiconductors remains robust. In addition, the EM Selection Index’s relative overweight to China could become a source of support should further Chinese policy stimulus, improving corporate fundamentals or other factors prompt a broader recovery in market sentiment toward this market.

Overall, relative performance vs. the MSCI EM is likely to remain driven by both country allocation and stock selection. As market leadership remains concentrated, the possible impact of the ESG screening process on constituent selection could prove particularly important for the EM Selection Index.

Japan: We have a positive view on Japanese equities overall. The market should continue to benefit from strong earnings, particularly in Technology and Financials, supported by AI and semiconductor demand, investment in automation, monetary policy normalisation and ongoing corporate reform. As the MSCI Japan Selection Index is closely aligned with its parent benchmark at the sector level, it should participate in these broader market tailwinds. Relative performance is therefore likely to depend mainly on constituent selection rather than allocation effects, with governance factors something to watch. Overall, our outlook for Japan remains positive, but the case for sustained ESG outperformance relative to the parent benchmark appears less compelling than in the past.

ESG-related fixed income : The compared ESG-labelled bond and traditional global bond indices (the Bloomberg MSCI Global Aggregate and Green Bond ESG SRI Index and the Bloomberg Global Aggregate Bond Index) continue to exhibit very similar duration and maturity profiles, meaning performance is likely to remain closely linked to the broader interest-rate environment. A preference for shorter and intermediate maturities, together with elevated fiscal spending and increased government bond issuance, would keep longer-term yields under upward pressure, representing a modest headwind for green bond indices with a somewhat greater exposure to longer-dated securities.

Looking beyond cyclical factors, the ESG-labelled bond categories continue to expand their role within global fixed income, supported by issuance from sovereigns, supranationals and corporates. The market has broadened considerably in recent years, with more than 400 new issuers entering in 2025 across 109 countries. Duration, credit quality and issuer composition should remain the primary performance drivers, while the continued development of labelled bond markets reflects broader changes in financing practices across sovereign, supranational and corporate issuers.

Overall, the findings of this report confirm that ESG is best assessed as a **risk-management and portfolio and index construction layer** rather than as a separate market call. ESG filters can help investors capture environmental, governance and supply-chain risks, but they also alter country weights, sector exposures and constituent selection. Consequently, relative performance will depend on whether these portfolio differences align with the prevailing market drivers. The experience of 2026 so far demonstrates that index construction matters more than a broad judgement on ESG as an investment approach.

In an environment increasingly shaped by energy security, electrification, AI-driven infrastructure demand and evolving governance standards, ESG data may provide additional information on selected environmental and governance factors that may not be fully reflected in traditional financial analysis alone.

Appendix

Glossary

Bbl is a standard oil-market barrel abbreviation, equal to 42 US gallons.

Bloomberg Global Aggregate Bond Index is a broad global investment-grade fixed income benchmark covering government, corporate and securitised bonds.

Bloomberg MSCI Global Aggregate and Green Bond ESG SRI Index is a sustainable fixed income benchmark applying ESG/SRI screens and a green-bond allocation.

Brent crude is a grade of crude oil used as a benchmark in oil pricing.

Capex refers to capital expenditure, money invested by a company in acquiring, maintaining or expanding long-term assets.

Climate Bonds Initiative (CBI) is an international organisation focused on climate-aligned bond markets and green finance.

The **CSI 300** Index consists of 300 A-shares traded on the Shanghai and Shenzhen stock markets.

Duration measures show the sensitivity of the price of a bond to a change in interest rates, expressed in the number of years that a bond takes to be repaid through its internal cash flows.

An **Emerging Market (EM)** is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet all developed market criteria.

Energy is an equity-market sector covering companies involved in oil, gas, energy services and related activities.

ESG investing pursues environmental, social and corporate governance goals.

EUR is the currency code for the euro, the currency of the Eurozone.

Fixed income refers to debt investments such as bonds that typically provide regular interest payments.

Free-float market capitalisation is the market value of a company's shares that are freely available for trading.

Green bonds are bonds whose proceeds are used to finance projects with environmental benefits.

GSS+ bonds refers to green, social, sustainability and sustainability-linked bonds.

The **Hang Seng Index (HSI)** includes the 50 largest companies traded on the Hong Kong stock exchange.

Investment-grade (IG) bonds refers to bonds rated as having relatively lower credit risk.

JSE refers to the Johannesburg Stock Exchange or its associated South African equity-market indices.

KOSPI is a benchmark South Korean equity index.

Labelled bonds are bonds identified by a specific sustainability use or framework, such as green, social or sustainability bonds.

Market capitalisation is the total market value of a company's outstanding shares.

Maturity is the date when a bond's principal is due to be repaid.

The **MSCI AC World** Index captures large- and mid-cap companies across 23 developed- and 23 emerging-market countries.

The **MSCI EM** Index captures large and mid cap representation across 24 emerging markets countries.

MSCI EM Selection Index is an ESG-screened emerging-markets equity index based on the MSCI EM parent benchmark.

MSCI ESG ratings assess companies' exposure to ESG risks and their management of those risks using categories such as AAA, AA, A, BBB, BB, B and CCC.

The **MSCI Europe** Index includes large and mid-cap firms from 15 European countries.

MSCI Europe Selection Index is an ESG-screened European equity index based on the MSCI Europe parent benchmark.

The **MSCI Japan** Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI Japan Selection Index is an ESG-screened Japanese equity index based on the MSCI Japan parent benchmark.

Appendix

Glossary

MSCI Selection indices are ESG-screened equity indices designed to improve ESG profiles while maintaining broad market representation.

MSCI USA Index is a US equity index covering large and mid-cap companies in the American market.

MSCI USA Selection Index is an ESG-screened US equity index based on the MSCI USA parent benchmark.

The **MSCI World** Index captures large and mid-cap representation across 23 developed markets countries.

The **NIFTY 50** Index is a benchmark Indian equity index representing the weighted average of 50 stocks over 12 sectors.

Overweight means holding a higher allocation to a country, sector or security than its benchmark weight.

Philadelphia Semiconductor Index is an equity index tracking major semiconductor companies.

The **S&P 500** Index includes 500 leading US companies capturing approximately 80% coverage of available US market capitalization.

S&P Clean Energy Index is an equity index tracking companies involved in clean and renewable energy.

Securitised bonds are debt securities backed by pools of financial assets such as mortgages or loans.

Social bonds are bonds whose proceeds are used to finance projects with positive social outcomes.

Sovereign bonds are bonds issued by national governments.

SRI means socially responsible investment, an approach that applies ethical, social or sustainability screens to investments.

The **STOXX Europe 600** Index includes 600 companies across 17 European Union countries.

Sustainability bonds are bonds whose proceeds finance a combination of environmental and social projects.

Sustainability-linked bonds are bonds whose financial terms are linked to the issuer achieving defined sustainability targets.

Supranationals are institutions created by multiple governments to finance public-policy or development objectives.

Taiex is Taiwan's benchmark equity index.

Tracking error measures how closely an index or portfolio follows its benchmark.

Underweight means holding a lower allocation to a country, sector or security than its benchmark weight.

US Treasuries are bonds issued by the US government.

USD is the currency code for the US Dollar.

USD/bbl means US dollars per barrel, a standard quotation for oil prices.

USD/oz means US dollars per ounce, a standard quotation for precious metals prices.

Year-over-year (YoY) compares a figure with the same period one year earlier.

Year-to-date (YTD).

Appendix

Historical performance

	29.07.2021 – 29.07.2022	29.07.2022 - 29.07.2023	29.07.2023 - 29.07.2021	29.07.2024 - 29.07.2025	29.07.2025 - 29.07.2026
MSCI Europe Selection	-6,5%	8,3%	9,2%	-0,6%	18,6%
MSCI Europe	-6,1%	8,8%	8,2%	7,0%	17,2%
MSCI USA Selection	-7,5%	11,6%	20,8%	15,7%	14,4%
MSCI USA	-8,7%	11,0%	19,2%	17,2%	14,6%
MSCI EM Selection	-21,0%	4,2%	6,7%	20,2%	14,9%
MSCI EM	-18,2%	5,2%	7,5%	14,6%	28,0%
MSCI Japan Selection	-0,6%	16,1%	22,4%	5,1%	32,5%
MSCI Japan	0,9%	18,0%	20,9%	4,1%	37,0%
MSCI World	-12,6%	10,6%	14,0%	16,3%	16,6%
S&P Global Clean Energy Index	-1,7%	-18,7%	-22,9%	-2,3%	23,5%
MSCI Europe Financials Index	-5,5%	18,1%	17,0%	32,9%	27,1%
MSCI Europe Industrials Index	-10,9%	13,3%	15,8%	23,4%	11,4%
MSCI Europe Health Care Index	7,4%	0,1%	15,9%	-16,1%	15,9%
MSCI Europe Information Technology Index	-17,6%	12,6%	20,3%	-3,2%	37,4%
MSCI Europe Consumer Staples Index	3,5%	-2,4%	-8,0%	-1,4%	8,3%
MSCI Europe Consumer Discretionary Index	-16,2%	20,2%	-8,1%	-4,4%	-3,9%
MSCI Europe Materials Index	-13,0%	3,4%	4,2%	-3,4%	19,9%
MSCI Europe Utilities Index	-1,8%	2,4%	1,3%	13,9%	25,9%
MSCI Europe Energy Index	40,1%	4,6%	8,8%	-7,9%	38,2%
MSCI Europe Communication Services Index	-1,7%	-6,1%	8,3%	16,6%	-4,6%
MSCI Europe Real Estate Index	-35,9%	-28,9%	26,4%	-0,8%	-14,3%
MSCI United Kingdom Index	7,5%	2,6%	7,9%	9,7%	19,9%
MSCI France Index	-2,8%	14,0%	-0,7%	6,1%	7,4%
MSCI Netherlands Index	-14,6%	12,0%	12,1%	-2,9%	41,9%
MSCI Switzerland Index	-8,4%	0,1%	5,6%	-1,1%	20,1%
MSCI Germany Index	-21,0%	16,9%	7,6%	26,8%	1,4%
Taiex	-13,8%	15,3%	28,2%	4,7%	72,6%
KOSPI	-24,4%	6,4%	6,0%	16,8%	75,3%
CSI 300	-14,0%	-4,3%	-15,1%	22,5%	10,8%
Hang Seng	-23,4%	-1,2%	-13,4%	48,1%	1,1%
Nifty 50	8,7%	14,5%	26,4%	-0,1%	-2,3%
JSE	-0,9%	13,9%	3,2%	22,4%	11,4%
Philadelphia Semiconductor Stock Index	-11,0%	29,8%	32,1%	12,8%	82,0%

Source: Deutsche Bank AG, LSEG Datastream; Data as of July 29, 2026.

Appendix

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