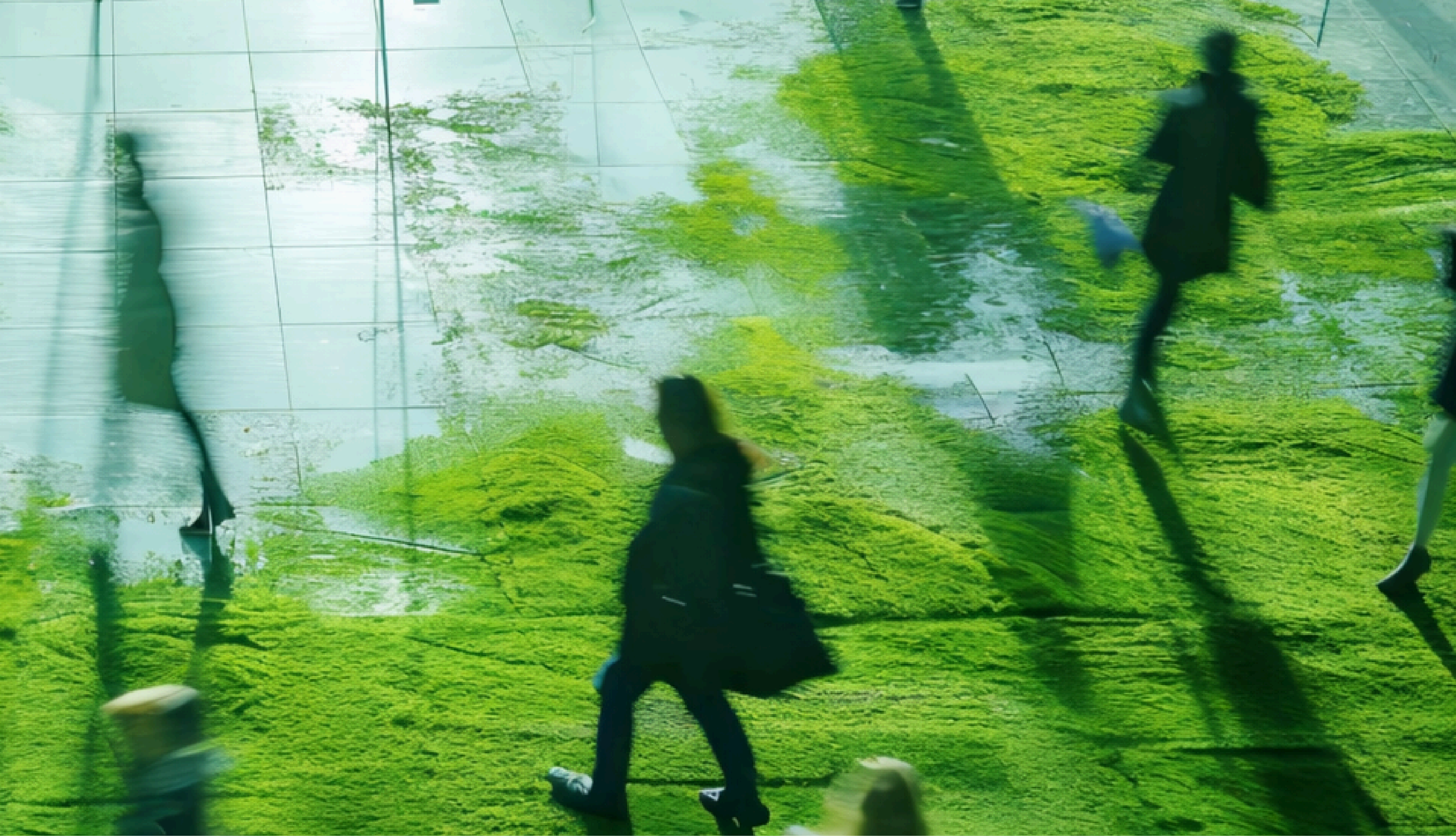
forética

2026 ESG TRENDS



INTRO

2026
ESG FORÉTICA TRENDS

2025 has been a turning point for Europe and for the progress of sustainability in an increasingly fragmented global context. Geopolitical tensions, pressure on economic competitiveness, and the questioning of multilateral consensus have marked a shift in priorities in public and political debate, with a growing focus on strategic autonomy, security, and economic stability.

On the environmental front, the world has accepted that the goal of limiting global warming to 1.5°C is now out of reach, although every tenth of a degree still matters. The energy transition continues to move forward, but it does so in a more complex environment, characterised by increased competition for critical resources, geopolitical tensions, and a rise in the physical risks of climate change, with impacts that are increasingly visible on health, infrastructure, and economic activity.

From a social perspective, structural gaps affecting cohesion and trust in institutions are intensifying. Rising housing costs, child poverty, an ageing population, and the transformation of the labour market driven by technology are shaping a scenario of greater social vulnerability. In this context, companies are taking on a central role as agents of stability, opportunity, and resilience.

In terms of governance, 2025 closes a key cycle of regulatory review in Europe. Regulatory deflation is redefining the ESG framework and shifting the focus from compliance to the strategic integration of sustainability as a lever for competitiveness, innovation, and value creation. This 2026 ESG Trends Report analyses the five key factors that will shape next year's agenda and, most likely, the rest of the decade, during which sustainability will remain a decisive factor for Europe's future.

TREND #1

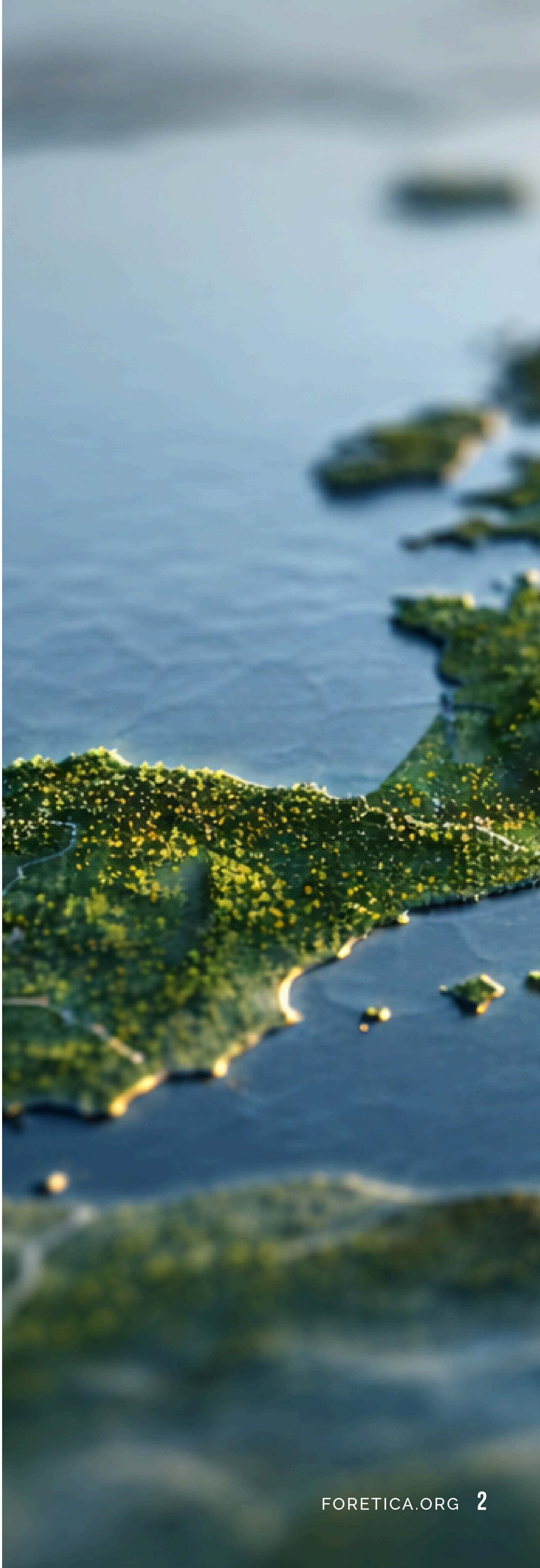
EUROPE'S STRESS TEST: SUSTAINABILITY AS A COMPETITIVENESS STRATEGY

By 2026, Europe reaches the end of a long process of "regulatory deflation" in sustainability. The EU has recalibrated the sustainability regulatory framework to reduce complexity, clarify requirements, and improve the usefulness of disclosures—while preserving the core ambition of the European sustainability model. This political process, driven by divergent positions across the Commission, Parliament, and Council, has been volatile and often frustrating for companies. Many firms prepared extensively for requirements that were later suspended, delayed, or substantially modified, exposing a critical misalignment between political cycles and corporate implementation cycles.

The sustainability community has become polarized between maximalists , who view any flexibilization as a threat to the integrity of the European ESG model, and reductionists, who believe the burden remains excessively high—particularly for smaller companies or sectors with limited technical capacity. Much of the tension stems from the legal uncertainty created when rules change shortly after firms have invested heavily in compliance.

Despite this turbulence, regulatory pressure is only one driver of sustainability. Markets, investors, customers, and global supply chains continue to demand ESG integration regardless of legal applicability. The larger challenge, however, is geopolitical. Europe now operates between two opposing global models:

- **The United States**, advancing a deregulatory and unilateralist agenda prioritizing energy security (including hydrocarbons), military superiority, and AI leadership.
- **China**, emerging as a dominant "electrostate" with monopolistic control of critical minerals, renewable hardware, and cleantech manufacturing capacity.



Europe's strategic dilemma is acute: it maintains high sustainability ambition, but faces structural disadvantages—higher energy prices, lower productivity, demographic pressures, dependence on external suppliers, and increasing geopolitical risks. Its economic productivity gap with the U.S., driven largely by lower output per hour worked, limits Europe's global influence and constrains its capacity to lead the sustainability agenda.

Ultimately, Europe's sustainability future depends on its ability to relaunch economic growth and reinforce competitiveness through energy autonomy, industrial innovation, and talent development. Sustainability must shift from being a compliance burden to becoming a platform for competitive value creation.

STRATEGIC PRIORITIES FOR BUSINESS

1. Orient sustainability toward competitiveness and value creation.
2. Reinforce low impact, energy independent business models.
3. Minimize geopolitical vulnerability in global supply chains.

TREND #2

THE YEARS WE LIVED DANGEROUSLY: FINANCIAL MARKETS REASSESS ESG

For nearly two decades, sustainable finance benefited from a “virtuous tandem” : ESG aligned assets outperformed and offered lower volatility. This fueled rapid growth in sustainable funds and higher valuations for ESG leaders. But three forces have disrupted this pattern:

Geopolitical and energy insecurity: Russia's invasion of Ukraine exposed Europe's dependence on external energy sources, triggering a revalorization of fossil fuels and slowing the netzero transition.

Polarization and political hostility : In the U.S., the MAGA driven backlash against ESG resulted in intimidation of asset managers, regulatory constraints, and the withdrawal of public pension mandates. This significantly reduced U.S. demand for sustainable investment vehicles.

The AI energy boom : The accelerated expansion of artificial intelligence massively increased demand for electricity, data centers, semiconductors, and water—redirecting investment capital away from longterm green assets.

These factors weakened ESG fund inflows and valuation premiums. However, the overall impact remains superficial: although the number of funds decreased following restructuring by major asset managers, the total volume of sustainable assets is still 17% higher than a year earlier , and sustainable bonds reached record issuance in 2025. Fixed income markets—particularly green and sustainability-linked bonds—show strong resilience.

A deeper challenge is market concentration. A handful of megacaps, particularly in AI, now drive overall index performance. This dynamic penalizes ESG and governance quality factors, which tend to underweight fossil fuels, defense, and certain tech giants. As a result, even historically strong strategies (e.g., governance + financial quality) underperformed in 2024–2025, despite fundamentals remaining sound.

ESG performance has diverged geographically. European ESG funds remain dominant (85% of global sustainable AUM), while U.S. sustainable funds have experienced twelve consecutive quarters of net outflows. AsiaPacific and emerging markets show positive momentum.

2026 could mark a turning point: most negative drivers appear to have been priced in, and the longterm business case for sustainability—rooted in energy transition, climate adaptation, and social stability—remains robust.

STRATEGIC PRIORITIES FOR BUSINESS

1. Anticipate a return to fundamentals: governance, longterm value, and financial quality.
2. Reassess the business case for sustainability in a valuedriven market.
3. Capture opportunities from renewed momentum in sustainable finance.

TREND #3

THE SOCIAL FRACTURES THAT DIVIDE US

Societies are entering a new “romantic” era marked by emotional politics, identitydriven narratives, polarization, and declining trust in institutions. Economic conditions have deteriorated structurally: global growth has slowed to half its 1960s pace, while volatility has increased 3.5fold. Opportunity is scarcer and more uncertain.

Global inequality between countries has improved due to the rise of emergingmarket middle classes, but inequality within advanced economies has widened , especially for younger generations. Spain exemplifies these tensions:

- **Youth impoverishment** : income and wealth accumulation lag far behind those of older generations.
- **Housing crisis** : young Spaniards need 8–12 years to save for a down payment, even under optimistic assumptions.
- **Child poverty** : 30% of Spanish children live in poverty—one of the worst rates in the EU—creating longterm deficits in health, education, and future productivity.
- **Welfare state bottlenecks** : aging populations drive unsustainable growth in pension and healthcare spending, crowding out investment in infrastructure, innovation, and the green transition.

The magnitude of these social challenges outstrips the fiscal capacity of many states. As a result, citizens increasingly expect companies to play a subsidiary role in addressing social issues. Young talent attraction, employability, community stability, and market demand are all affected by social fragility. Companies cannot remain on the sidelines.
Investment in upskilling and reskilling becomes the most powerful form of modern social protection—improving employability, wage trajectories, and resilience in a volatile labor market.

STRATEGIC PRIORITIES FOR BUSINESS

1. Reevaluate the role of the private sector as an actor in addressing social challenges.
2. Invest in large-scale upskilling and reskilling.
3. Prioritize youth, housing, and child poverty as long-term social action areas.

TREND #4

FAREWELL TO 1.5°C: EVERY TENTH OF A DEGREE STILL MATTERS

Ten years after the Paris Agreement, the world is off track. CO_2 emissions continue rising (except during the pandemic), and staying below 1.5°C would require limiting cumulative emissions to 170 Gt CO_2—equivalent to shutting down fossil fuels entirely by 2030. This is no longer plausible.

Two key "peaks" remain elusive:

- Coal consumption, still rising, especially in China.
- Oil demand, likely to plateau only around 2030 and decline slowly thereafter.

Geopolitics is accelerating divergence: defense spending has surged in Europe, crowding out green investment; the U.S. has stepped back from climate leadership; China dominates renewable technologies and critical minerals.

With current policies, global warming is projected to reach 3°C, or 2.5°C in more optimistic policy implementation scenarios. Meanwhile, oceans appear to be warming faster than expected, increasing physical risks.

Climate related natural disasters are intensifying. In the first three quarters of 2025, global losses reached $203 billion, with a 70% protection gap (uninsured losses). Companies face growing exposure: listed firms alone could lose $1.3 trillion in asset value.

Adaptation must become a central pillar of climate strategy. Insurance coverage, resilient infrastructure, and preparedness for extreme weather are urgent priorities.

Despite challenges, the transition continues to advance: renewable energy has grown for 23 consecutive years, covering 70% of global electricitydemand growth; electric vehicles represent 20% of global sales; heat pump adoption is accelerating.

Yet risks remain: underinvestment in electricity grids, AIdriven demand spikes, and geopolitical dependence on China for critical minerals and cleantech manufacturing.

STRATEGIC PRIORITIES FOR BUSINESS

1. Accelerate low impact decarbonization.
2. Map geopolitical risks to renewable technology supply chains.
3. Prioritize adaptation—insurance and resilient infrastructure—before costs escalate.

TREND #5

WATER: A GIFT FROM THE SKY, AND A CENTRAL 21ST CENTURY RISK

Water is both a biological necessity and a civilizational cornerstone. While Earth has abundant water, usable freshwater is increasingly scarce, volatile, and unevenly distributed. Today:

- 2 billion people lack access to safe drinking water.
- Global water stress stands at 18%, with many basins far above this threshold.
- Climate change disrupts not only water availability but its predictability —producing alternating patterns of extreme drought and intense flooding.
- In 2024, 91% of economic losses from major natural disasters were waterrelated.

The combination of demographic growth, rising living standards, dietary shifts, and hydrological volatility creates systemic risk for health, economic activity, food systems, infrastructure, and geopolitical stability.

A largescale response is required across three dimensions:

1. Reducing water demand Agriculture accounts for ~80% of Spain's water use; urban consumption for ~18%; industry for ~3%. With existing technologies, the EU estimates potential water extraction reductions of 26–57% .

2. Modernizing water infrastructure Investment is needed to increase resilience against droughts and extreme rainfall, reduce leakage, enable reuse, and improve treatment systems capable of managing contaminants.

3. Expanding supply via lowimpact technologies : Scaling water reuse, aquifer recharge, and desalination (where viable), combined with renewable energy and brine-management solutions.

Because water is a public good under strict regulatory governance, public–private collaboration is essential for resilience, investment planning, and basin-level management.

For companies, water must move from an operational concern to a strategic risk factor tied to product value, processes, supply chains, and local license to operate. Leading organizations are already shifting from water neutral to water positive approaches, aiming to deliver net benefits to local water systems.

STRATEGIC PRIORITIES FOR BUSINESS

1. Reassess the materiality of water across the entire value chain.
2. Develop contingency and resilience plans for extreme water scenarios.
3. Advance toward water-positive models where feasible.

LIVE

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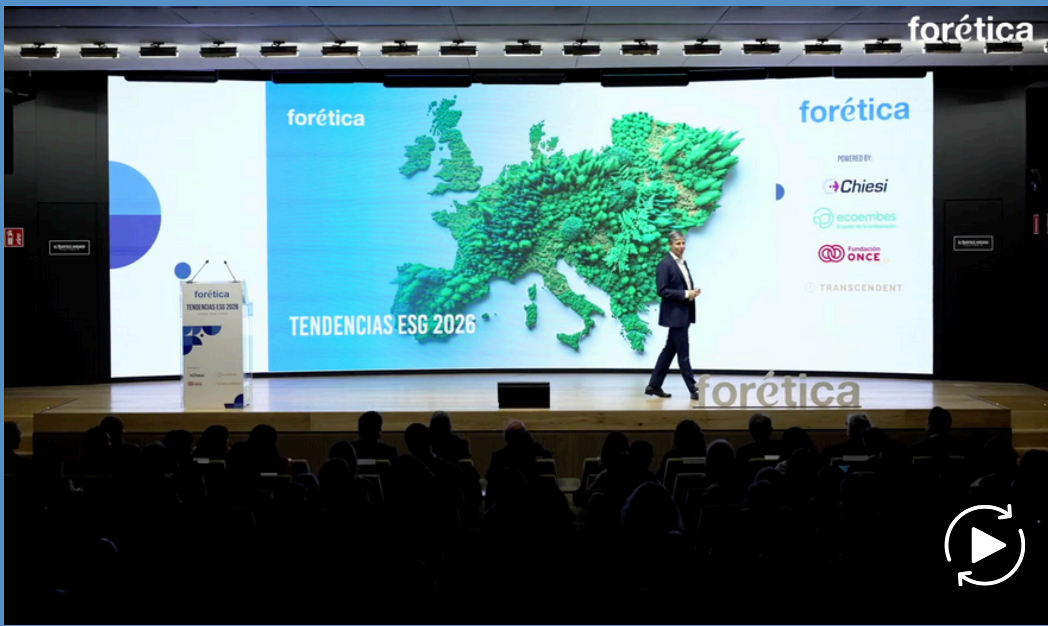

ABOUT

Forética is the leading organization in sustainability and corporate social responsibility. Its mission is to integrate social, environmental, and good governance aspects into the strategy and management of companies and organizations. It currently has more than 200 member organizations.

Forética is the Spanish representative of the World Business Council for Sustainable Development (WBCSD) and leads the Spanish Business Council for Sustainable Development to accelerate action to address ESG challenges. In addition, in Europe, Forética is the national partner of CSR Europe and is part of Spain's State Council for Corporate Social Responsibility.

Forética was founded in 1999. It later launched the SGE 21 Standard, the first ethical and socially responsible management system. Today, more than 150 companies and organizations are certified under the Standard in Spain and Latin America.

THANKS

Thanks to the more than 200 member organizations that are part of Forética for their commitment and contribution to sustainable development. In preparing and producing this report, the daily work and dedication of the entire Forética team has been essential (in alphabetical order): Alba Pantoja, Ana Gómez, Andrea Subero, Beatriz Laso, Begoña Pascual, Blanca Andrés, Cecília Guizzo, Esther Gómez, Irene Alcocer, Irene Barquero, Jaime de la Hoz, Jorge Motino, Lucero Balarín, Natalia Montero, Pablo Fernández, Regina Zavala, Ricardo Trujillo, and Sofía Bergareche.

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