

## US asset manager Davis says US ESG investments are "ostensibly neutral"

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The inauguration of the Trump administration has created headwinds for ESG (environmental, social and corporate governance) investment, which places emphasis on the environment and sustainable society. Bill Davis, a portfolio manager in charge of ESG investment at the U.S. asset management company Hennessy Funds, believes that under the new administration, the term ESG will be used less and companies will tend to take a neutral stance on the surface.



Bill Davis

--From the perspective of ESG investment, what changes have there been since the Trump administration took office?

"The term ESG itself has become somewhat political, so it is being used sparingly. However, many investors around the world and in the United States continue to be concerned about climate change risks and corporate governance. Companies have not stopped working toward a sustainable future and energy. What has changed is that they have stopped making these aspects public. The movement toward a sustainable economy will continue to grow."

"Geopolitical turmoil will continue and will affect all companies around the world. There will be winners and losers. Successful companies should be well aware of these changes. With the growing divide (between conservatives and liberals), companies may be reluctant to reveal their views on ESG. It is much easier to remain neutral."

--What do you think about companies' stance on DEI (diversity, equity, and inclusion) policies?

"At Costco Wholesale (a membership-based mass retailer), following strong appeals from management, the company decided to maintain its DEI initiative at its general

shareholders meeting in late January, and has seen an increase in customer traffic and sales. Meanwhile, Target (a retailer) has seen a decline in customer traffic and a weak stock price since announcing in late January that it would scrap its DEI initiative. Costco made a wise decision, while Target's thinking may have been naive."

--As an increasing number of large tech companies are dropping their DEI initiatives, criticism of Tesla CEO Elon Musk's political stance is growing.

"While each company's approach will vary, diversity is a vital part of America's success. Consumers will determine the ultimate trajectory of a company. What's happening now with Tesla shows that."

"They've alienated their previous customers and now they have to rely on Trump to encourage anti-EV buyers. If there was ever a discussion about the importance of ESG investing, Tesla is the perfect example. Their failure to govern has eroded the value of their brand. It's just tragic."

--Some people believe that Tesla is not just about EVs, but also has autonomous driving (AV) technology and robotics.

"Tesla is a promising AV company. Even after the recent share price decline, it trades at a price-to-earnings ratio of 75-80 times. But sales in 2024 are only about 1% higher than the previous year, product announcements tend to be delayed, and the company has a CEO who is not focused on the business, which are enough reasons to cast a shadow over Tesla's prospects."

--The Magnificent Seven (M7) large tech stocks, which include Tesla, are losing momentum as market drivers.

"Looking back, over the past two years, most of the movement in the S&P 500 stock index (used by many institutional investors as an investment indicator) up until the end of 2024 was driven by M7. Now, with economic uncertainty and slowing growth, investors have begun to consider shifting to value stocks. This January-March period was exactly that moment. In general, this is not a downturn, but a return to normal operations."

--Will the U.S. government's policies have any impact on ESG investment itself?

"It has less to do with ESG and much more to do with investor sentiment. Tariffs are not good for investors. The market has seen earnings expectations for the consumer discretionary sector fall. It's not just the tariffs that are making investors nervous; immigration policy and the Department of Government Efficiency (DOGE) initiative are making investors nervous."

[Interviewer: NQN New York = Inaba Mina]



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**Shu Yamaguchi**

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**Another Perspective** Davis' point that "Costco decided to maintain DEI and saw an increase in customers, while Target decided to eliminate DEI and saw a decrease in customers" is important. Modern society is not feudal, and the president is not a king. Ultimately, it is the market and customers that decide the rise and fall of a company. Companies must avoid "incurring the displeasure of customers who want a better society" rather than "incurring the displeasure of Trump and being hated." The presidential term ends in four years, but the market lasts forever. President Trump has become a major source of uncertainty, and in such a situation, "whether or not you have an unwavering management policy based on a solid philosophy" will be tested. It is in times of great storm that the thickness and flexibility of a tree's trunk is tested.

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