

Investing in the green economy 2025

Navigating volatility and disruption

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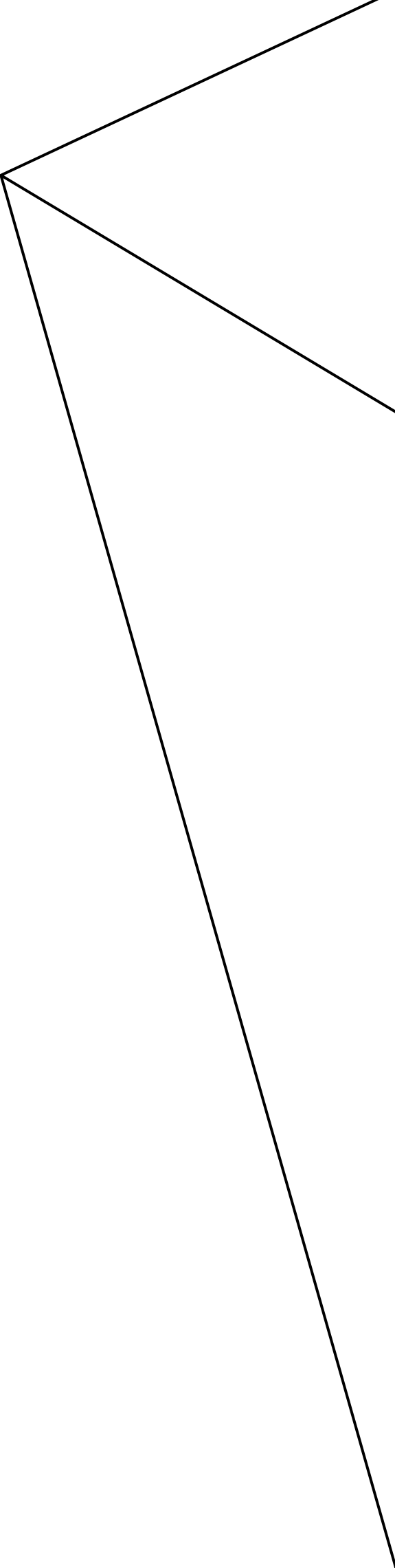
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We used various LSEG proprietary sustainable investment data in our analysis, including [Green Revenues data](#), [climate data](#), [green bonds data](#), [Lipper fund flows and holdings](#), [commodities](#) and [FTSE Russell indices](#).



Executive summary

LSEG data shows that revenues from green products and services across our coverage now exceed US\$5 trillion for the first time.

The global green economy is valued at US\$7.9 trillion as of Q1 2025, or 8.6% of listed equity markets. In fixed income, the US\$2.9 trillion green bond market has remained robust with record new issuance of US\$572 billion in 2024 – a 10% per annum increase.

Short-term performance remains turbulent amid geopolitical tensions, shifting trade policies and rapid technological change, including advances in artificial intelligence. As measured by the FTSE Environmental Opportunities All Share Index, green equities started 2024 underperforming their benchmark, the FTSE Global All Cap Index. However, they recovered in the second half to close the year in line with the market. Year-to-date¹, they have underperformed the market by 3% in challenging market conditions.

Long-term drivers – the energy transition, growing investment in adaptation and resilience, and other environmental pressures – nonetheless continue to underpin strong growth. The market capitalisation of the green economy has expanded at a compound annual rate of 15% over the past decade – second only to the Technology sector. Green equities have delivered 59% of cumulative outperformance since 2008, outperforming their benchmark in 54% of all rolling 12-months and 70% of all five-year periods².

If considered a standalone sector, the green economy – now spanning 50 markets globally – would be the 4th largest sector, after Technology, Industrials and Healthcare³. Energy Management and Efficiency constitutes both the largest and best-performing sector, representing 46% of the global green economy. While the Americas lead in market capitalisation, Asia generates most of the global green revenues (44%), and green revenues from Emerging Markets are growing nearly twice as fast as Developed Markets.

This year’s spotlight chapter examines how increasing spending on adaptation and resilience is emerging as a new growth vector for the green economy.

In response to escalating physical climate risk and extreme weather events, governments are establishing adaptation plans and allocating public spending to support their implementation. Corporates are also taking actions with 34% of large and medium-size listed companies referencing adaptation measures in their annual disclosures⁴. With adaptation finance flows growing at a four-year CAGR of 21%⁵, companies with exposure to adaptation solutions – totalling a green revenue of over US\$1 trillion in 2024 – are poised for growth.

The green bond market could provide a useful tool to finance climate adaptation. LSEG analysis of over 12,000 green bonds reveals that over a quarter of the eligible use-of-proceeds categories are linked to adaptation and resilience investments.



Despite market turbulence, long-term drivers continue to underpin strong growth in the green economy.

The green economy

Valued at
\$7.9T
current market value
in USD (Q1 2025)

Covers
50
markets &
nearly every
industry

¹ As of 15th April 2025.
² Compared to the benchmark FTSE Global All Cap Index.
³ Based on ‘Supersector’ under the industry classification system [FTSE Russell ICB](#).
⁴ In the FTSE All World Index universe, which covers over 4,000 companies across advanced and emerging economies.
⁵ CAGR refers to compound annual growth rate. Adaptation finance grew from US\$35bn in 2018 to US\$76 bn in 2022. This includes largely international flows from advanced economies to emerging and developing economies, and finance provided by national development finance institutions. 2022 is the latest year for which comprehensive data is available. Climate Policy Initiative (2024). [Global Landscape of Climate Finance 2024](#).

Introduction

The green economy consists of companies that provide products and services with environmental benefits – from renewable energy and clean water to energy-efficient buildings and recycling services. These solutions span entire value chains and are essential for addressing climate change as well as broader environmental challenges.

According to LSEG research, addressing climate change will require a cumulative investment of between US\$109 trillion to US\$275 trillion by 2050, which will flow into the green economy⁶.

The **6th edition of the Investing in the Green Economy report** helps investors navigate the short-term volatility and identify long-term growth drivers of the green economy amid ongoing global uncertainty. It examines the size, growth, composition and financial performance of the global green economy across asset classes.

The report is based on LSEG's proprietary Green Revenues data, which provides a bottom-up assessment of more than 20,000 listed companies worldwide. It classifies business activities and quantifies associated revenues across 133 green products and services categories, as defined by the Green Revenues Classification System. The report also leverages FTSE Russell index solutions – which have been powered by green revenues data since 2008 – to enable granular tracking of the performance and valuations of the green economy. In addition, the report uses other proprietary LSEG datasets, including climate data, Lipper fund flows and holdings, fixed income data and commodities data.

The report is divided into five sections

Section 1. State of the green economy

Overview of the overall size, growth and performance in the short and long term.

Section 2. Investment characteristics of the green economy

In-depth analysis of performance, valuation and characteristics of green equities and bonds.

Section 3. Spotlight: Climate adaptation solutions – An emerging industry?

Investment opportunities arising from climate change adaptation.

Section 4. Investment strategies incorporating the green economy

Green thematic fund flows, green economy exposure of SDR labelled funds and green economy in climate focused indices.

Section 5. Composition of the green economy

Breakdown of the green economy by industry, region, country and developed vs emerging markets, including green capital expenditure analysis.

⁶ FTSE Russell (2022). *Green Equity Exposure in a 1.5°C Scenario*.

The green economy has been associated with increased financing of environmental solutions – from reducing greenhouse gas emissions to managing waste and addressing soil, water and air pollution.

Over the past decade, revenues from green products and services within our equities coverage have more than doubled to over US\$5.1 trillion in 2024 (Figure 1).

The expansion has been even faster in valuation terms. Between 2014 and 2024, the market capitalisation of the green economy grew at a compound annual growth rate (CAGR) of 15% – second only to the Technology sector, which expanded at 18% CAGR (Figure 2).

As of Q1 2025, the global green economy, if considered as a standalone sector, would account for 8.6% of listed equities with a combined market capitalisation of US\$7.9 trillion. This would make it the fourth largest sector by market capitalisation, following Technology, Industrial Goods and Services, and Health Care.

The green economy also extends beyond public equities, encompassing infrastructure, commodities, private equity and fixed income markets. Notably, the green bond market, which finances the procurement of green products and services, reached a record high of US\$572 billion annual issuance in 2024, marking a 10% increase from 2023. As of Q1 2025, the total outstanding value of green bonds stood at US\$2.9 trillion, which underscores the scale and maturity of this asset class.

Figure 1. Green economy 2009–2025

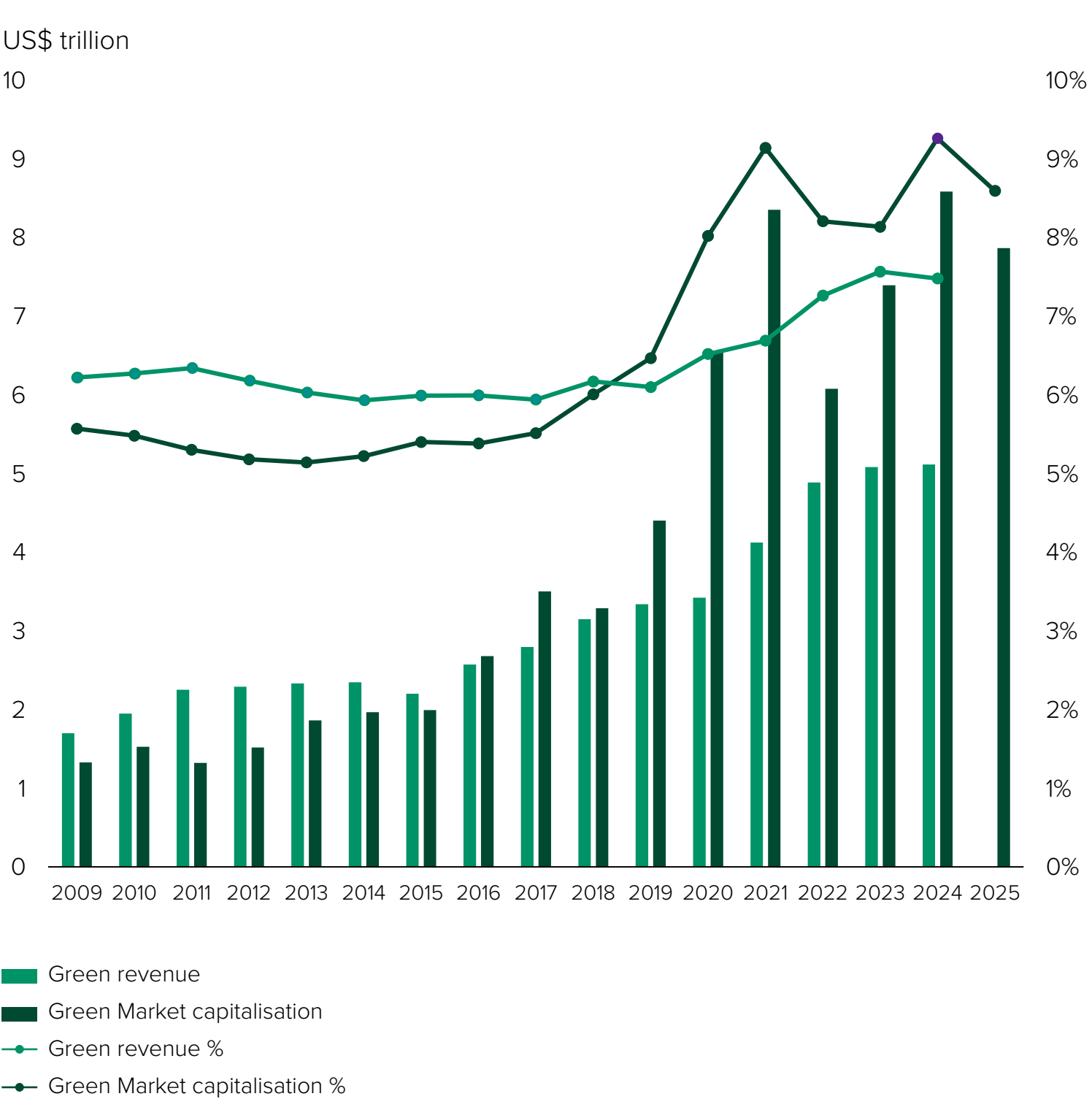
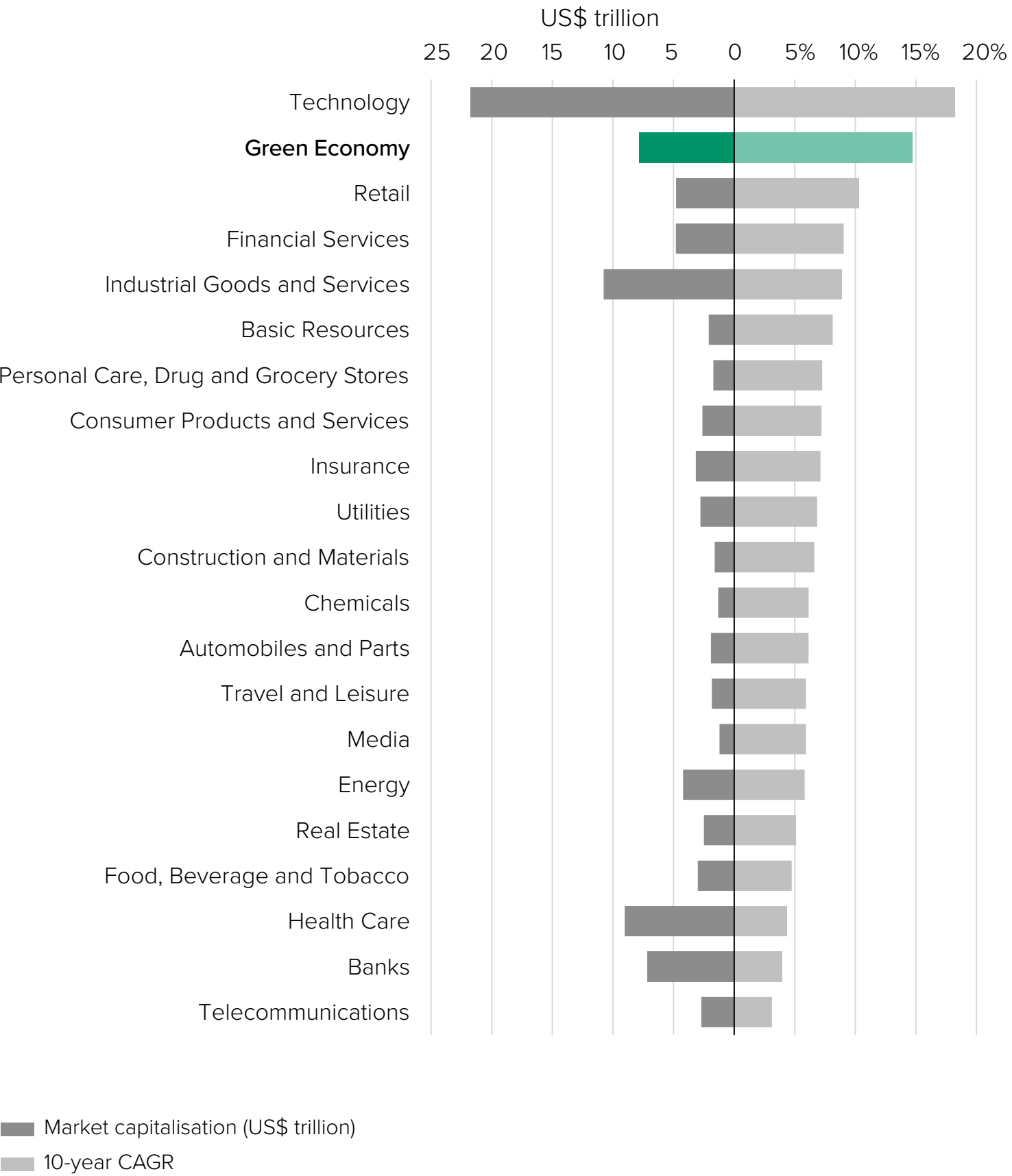


Figure 2. Market capitalisation value and 10-year growth rate – Green Economy compared with ICB sectors



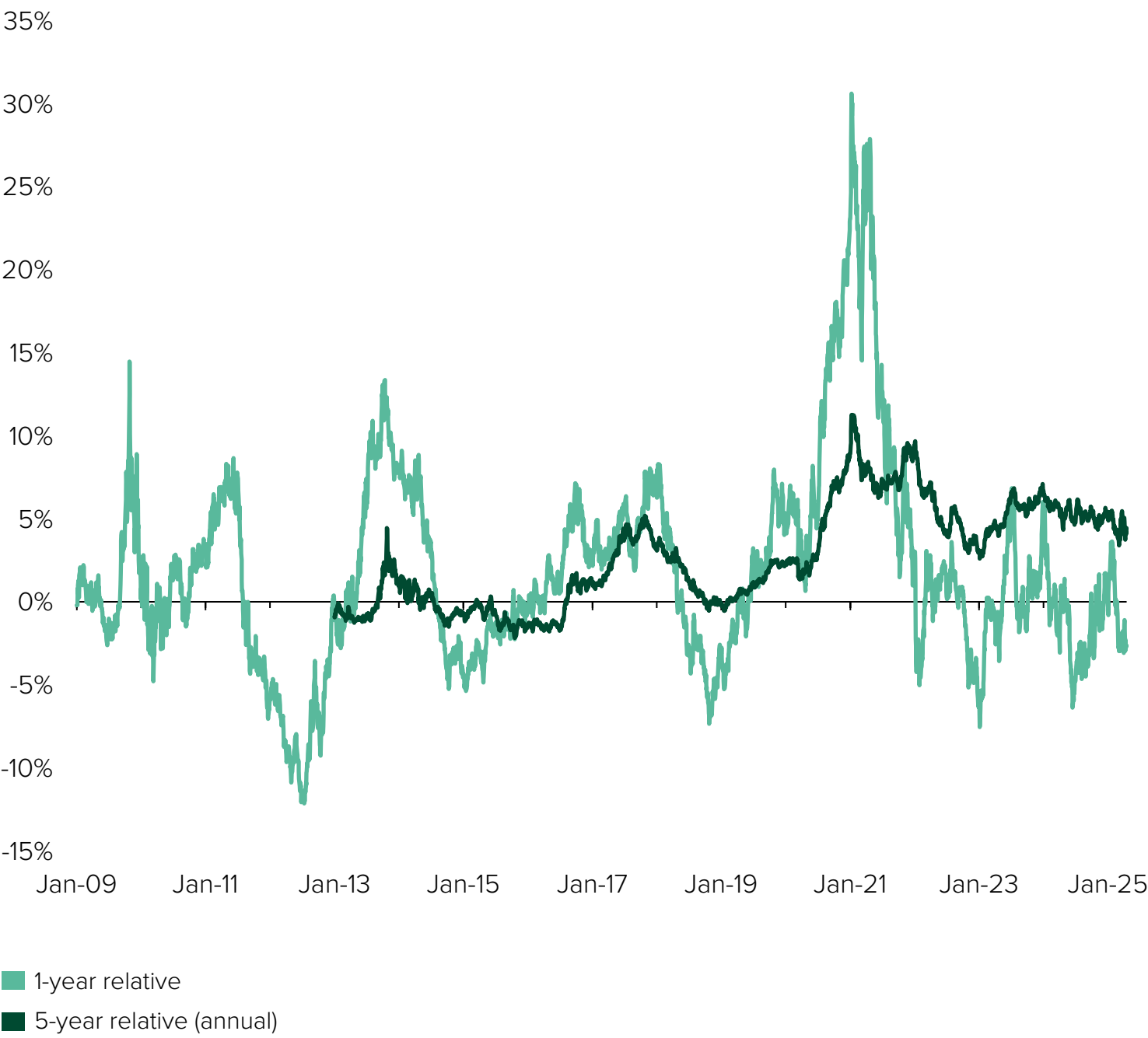
Source: LSEG Green Revenues data as of April 2025. LSEG free float market capitalisation data as of April 2025. LSEG Revenue data as of December 2024.
Note: Green revenue-weighted market capitalisation, calculated by aggregating market capitalisation multiplied by company green revenues. Based on the latest Green Revenues data (financial year 2023 or 2024) and the free float market capitalisation as of April 2025.

Long-term growth amid short-term volatility

Green industries have demonstrated strong long-term performance but remain prone to short-term volatility. They tend to exhibit a positive beta to broader markets and typically outperform during market rallies but underperform in downturns.⁷ This pattern is influenced by both the cyclical nature of the capital goods sectors, which form an important part of the green economy, and by shifts in government policy. The latter can amplify market swings through changes in subsidies, regulation and trade policy.

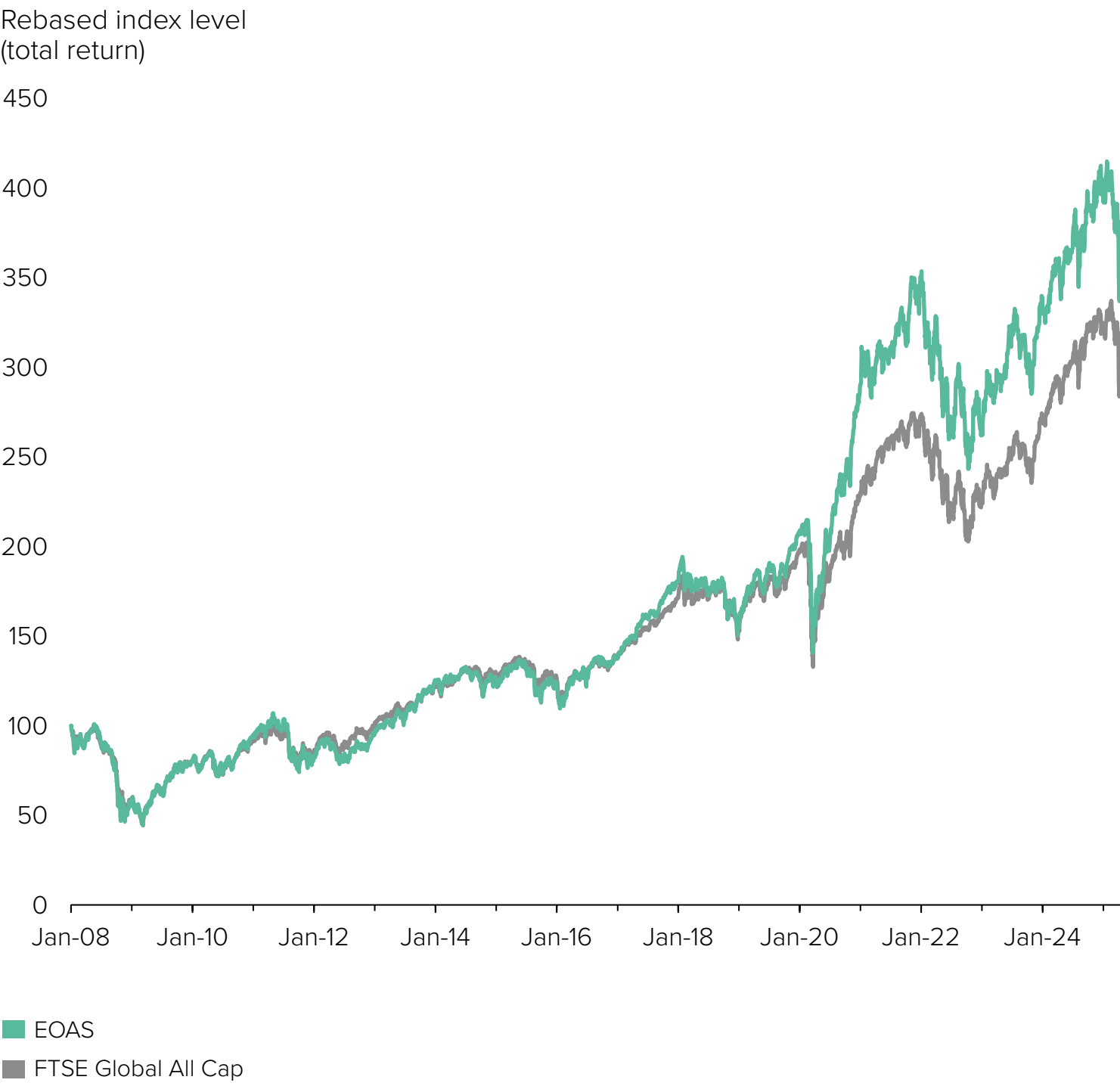
Figure 3 shows the rolling 12-month performance of the FTSE Environmental Opportunities All Share Index (EOAS), a representative basket of green equities and a reliable proxy for the green economy. In 2024, EOAS started the year outperforming its benchmark – the FTSE Global All Cap Index – by 5%, then dropping to -6% in June. It then recovered to finish the year roughly in line with the broader market. In contrast, long-term performance has been more stable, with a five-year annualised rolling return of +5.6% on average since 2020. Since 2008, the EOAS has outperformed the benchmark by 59% (Figure 4).

Figure 3. One-year and five-year rolling relative performance of the green economy



Source: FTSE Russell index performance data from January 2008 to 15th April 2025.

Figure 4. Long-term performance of the green economy vs the market



Source: FTSE Russell index performance data from January 2008 to 15th April 2025.

⁷ Examined in [Investing in the Green Economy 2023](#) report.

In general, equities offer greater potential for long-term capital growth but can be more volatile and sensitive to market cycles.

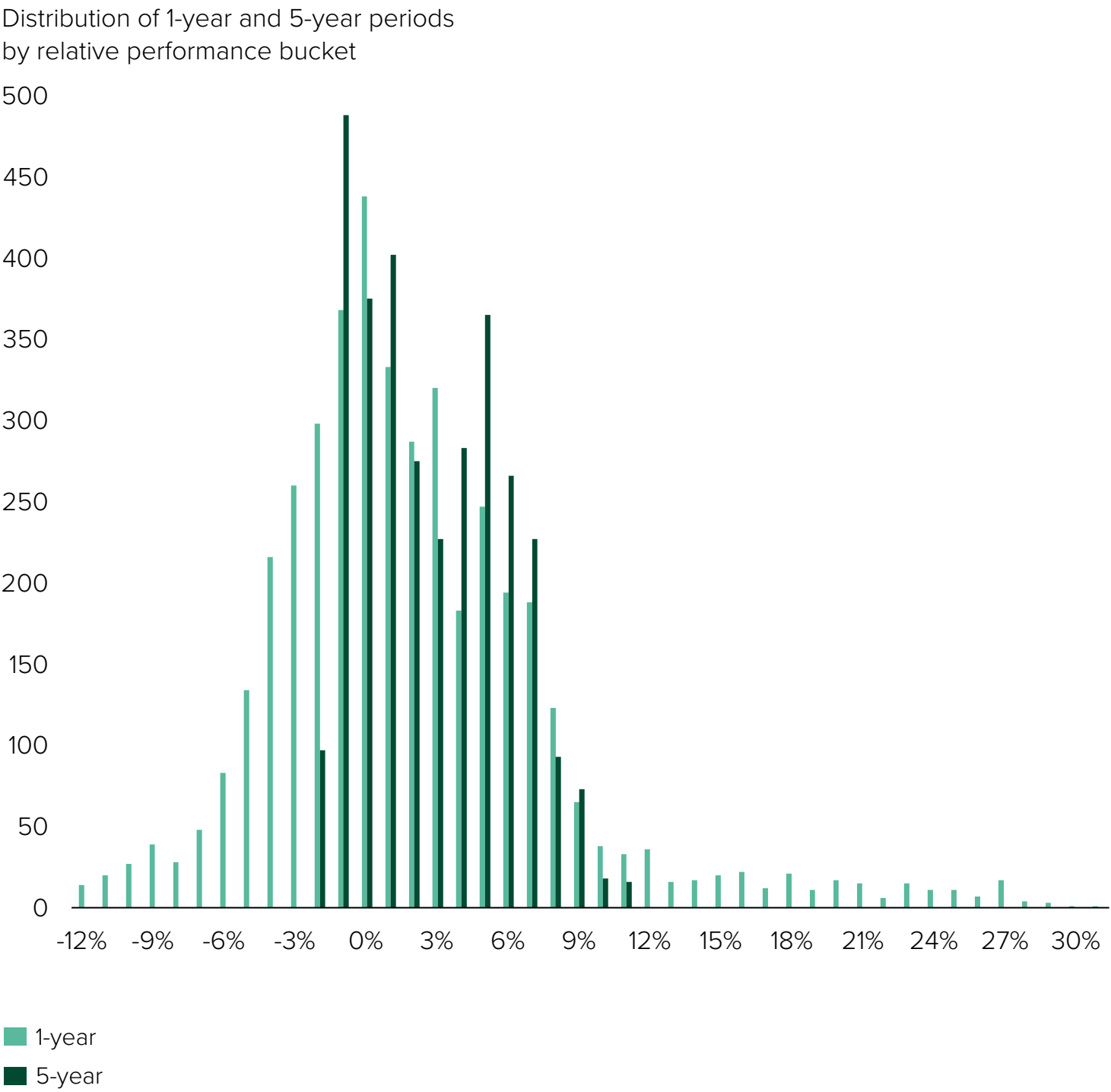
This is also true for green equities, which may provide more upside opportunity, but are likely to be more volatile compared to the broader market. Although green bonds typically have more limited upside than green equities, they usually have less volatile performance, more stable income and lower risk.

Green equities: volatile performance skewed toward positive

This pattern of volatility is illustrated by the FTSE EOAS index that has outperformed its benchmark, the FTSE Global All Cap, by 59% since its launch in 2008 through to 15th April 2025. But the 12-month rolling relative performance has seen large swings, from 31% ahead of the market in early 2021 to 12% behind the market in mid 2012 (Figure 3).

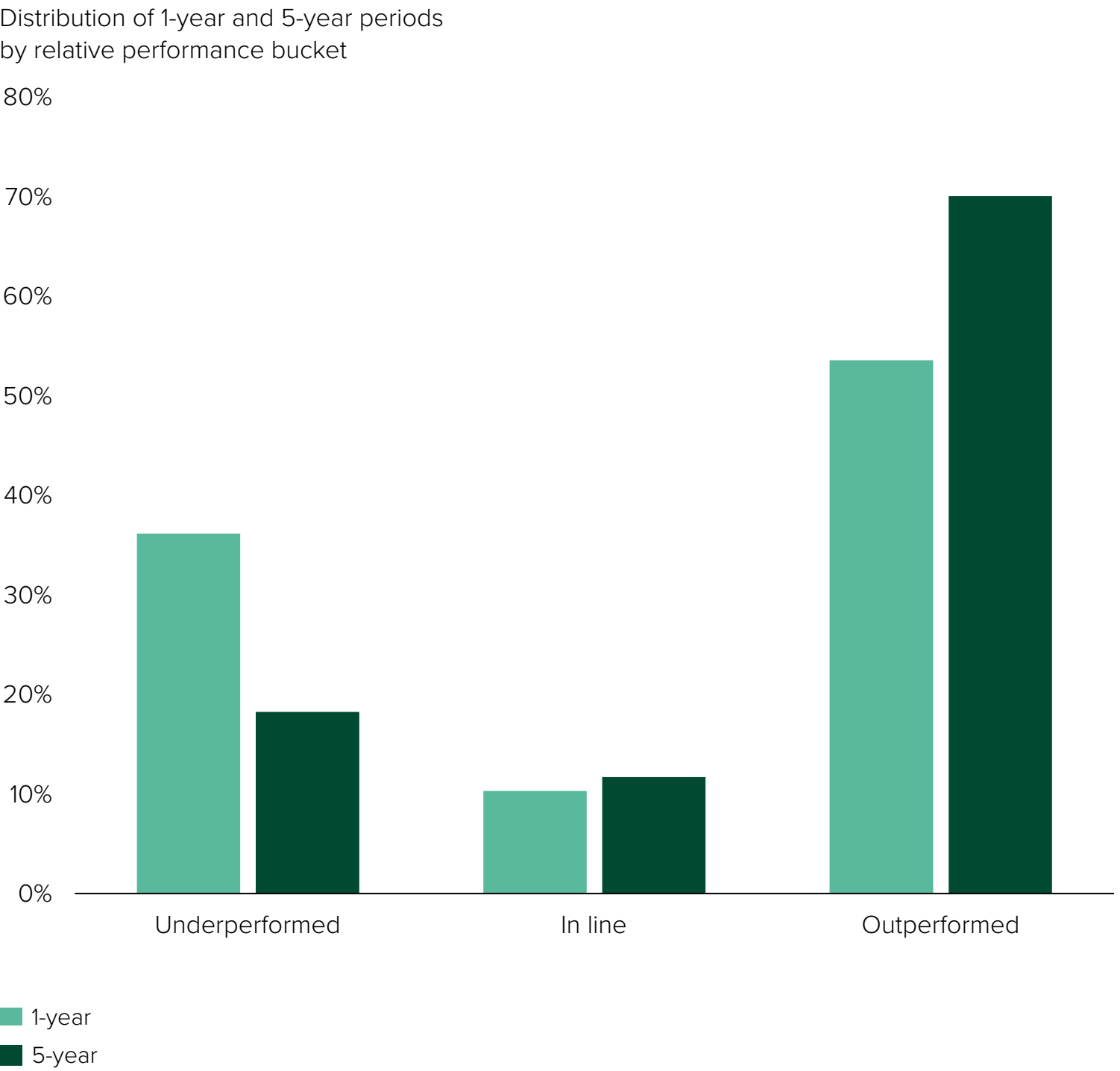
Analysing the distribution of 12-month relative performance for all periods between 2008 and 15th April 2025, shown in Figure 5, we find an average outperformance of +2%, with a long tail of positive relative performance from 2020 and 2021, and a shorter tail of negative performance. When examining 5-year returns, the skew towards positive performance is even more pronounced. Overall, the green economy outperformed for 54% of all the 12-month periods and 70% of all 5-year periods (Figure 6).

Figure 5. Distribution of relative performance of green equities



Source: FTSE Russell data from January 2008 to 15th April 2025

Figure 6. Split of periods out- and underperforming the market over the long term



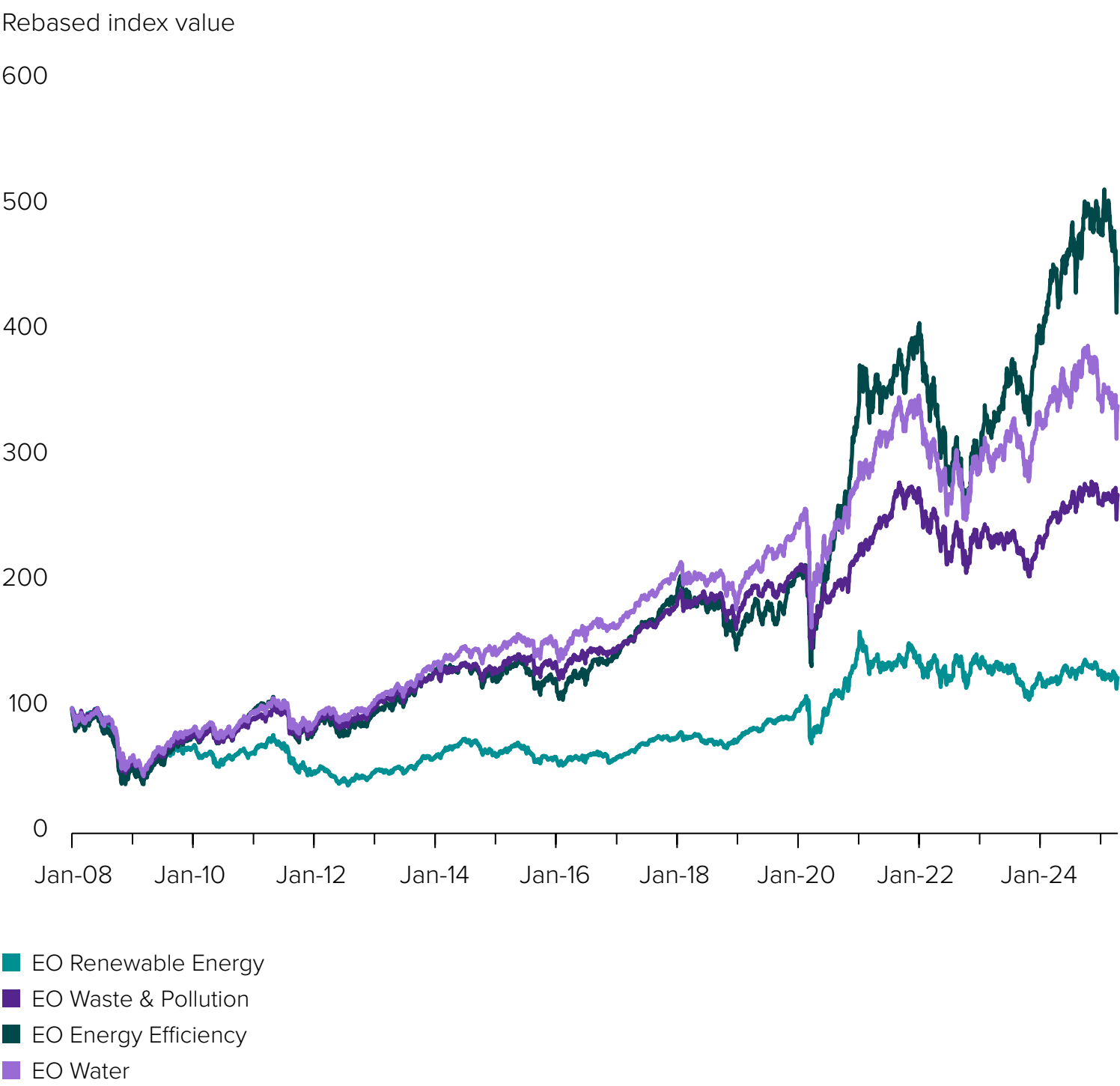
Source: FTSE Russell data from January 2008 to 15th April 2025

Which parts of the green economy perform best

Another way to analyse the financial performance of the green economy is by comparing the performance of its different sub-sectors, as captured by FTSE Environmental Opportunities Sector Indices⁸, shown in Figure 9. The Energy Efficiency sector stands out as the best long-term performer and the top-performing sub-sector in 2024. As the largest sub-sector in the green economy, it covers diverse solutions from building insulation to high-efficiency semiconductor chips.

In contrast, the Renewable Energy sector, despite the sharp rise in global renewables installation rates, particularly for solar power, remains a long-term underperformer. Factors such as interest rate exposure, volatile government support, and falling prices have been impacting the long-term profitability of renewable energy equipment manufacturers.

Figure 9. Performance of the green economy sub-sectors



Source: FTSE Russell data as of 15th April 2025



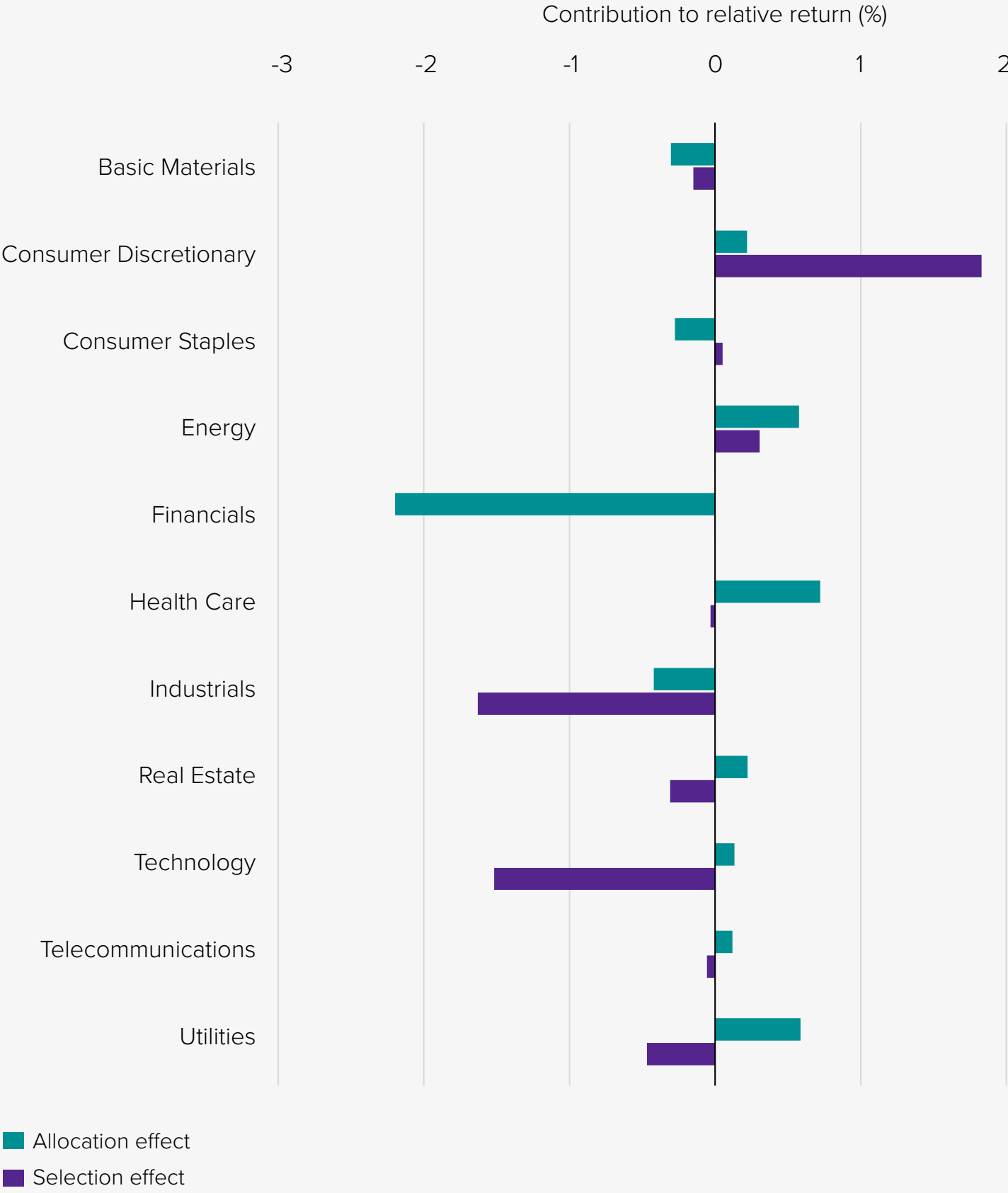
The green economy outperformed the Energy sector in 2024 and has outperformed Energy for the majority of the period since 2022, except for two brief periods of underperformance (trailing 12-month) associated with short-term spikes in oil price.

⁸ Environmental Markets Index Series

Attributing green economy performance to ICB Industry exposure

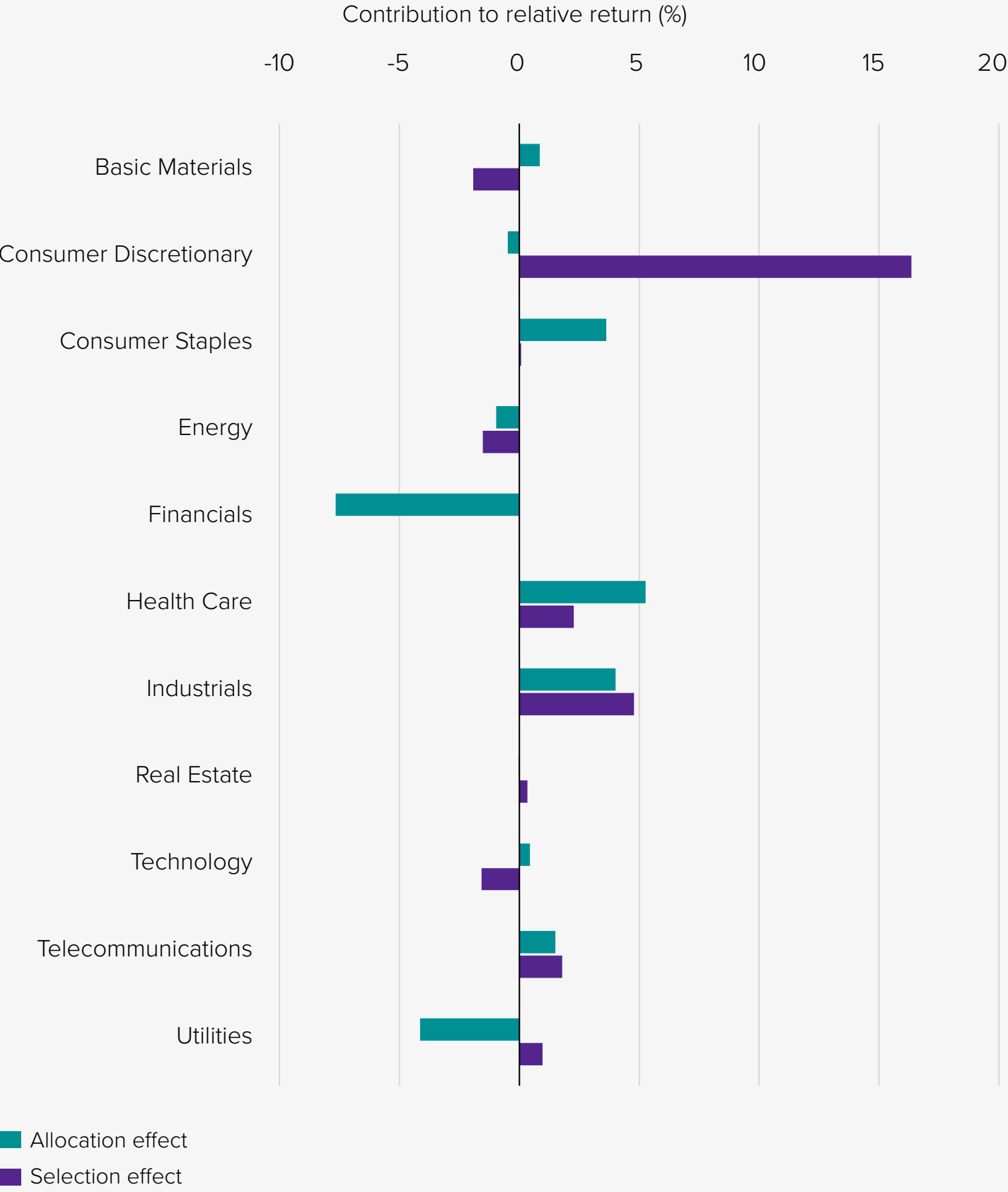
Analysing the green economy through conventional industry classifications such as ICB reveals that companies providing green products and services come from various sectors. This impacts the performance characteristics of the green economy. Using Brinson attribution by ICB Industry, we can understand some of the key drivers of the green economy’s performance relative to the broader equity market over one-year and five-year periods. This analysis highlights that exposure to companies involved in energy transition has been the primary driver over the last five years.

Figure 10. One-year attribution of green economy vs FTSE Global All Cap



Source: FTSE Russell data as of 15th April 2025

Figure 11. Five-year attribution of green economy vs FTSE Global All Cap



Source: FTSE Russell data as of 15th April 2025

