View in browser

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

September 17, 2024

This Week: ESG suffocating EU companies; Black & Decker backs off DEI; An Eye on Energy discusses global oil markets and the Fed.

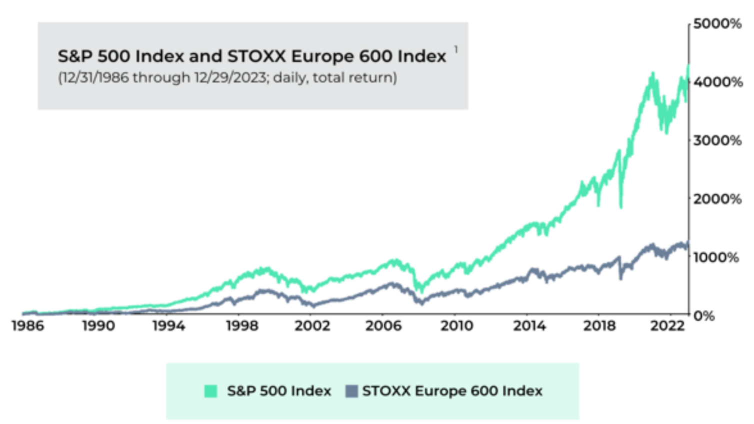
ESG Suffocating EU Companies

ESG is killing European companies' competitiveness, Bloomberg reported last week.

Catch Me Up: More than a half century ago, Europe adopted stakeholder capitalism—a system in which companies are expected to serve people, planet, and shareholders on roughly equal terms. While any supposed benefits for people and planet are debatable, the effect on shareholders seems clear: ESG is a drag on corporate performance. Americans have known this for years, but finally, Europeans may be catching on.

Costly Regulations: As Strive has explained, the European ESG regime is complex and costly. Just one of the EU's regulations, for example, will compel companies to measure and disclose “more than 1,000 data points on everything from water consumption to boardroom diversity in supply chains, with more requirements to come.” “Most companies are absolutely suffocating in the amount of data capture they have to do,” a former sustainability head at Deutsche Bank AG told Bloomberg.

The Bigger Picture: As both Bloomberg and Strive's own research has noted, Europe's largest companies have significantly lagged behind their American counterparts, with American companies soaring at twice the rate of European companies in the last two years.



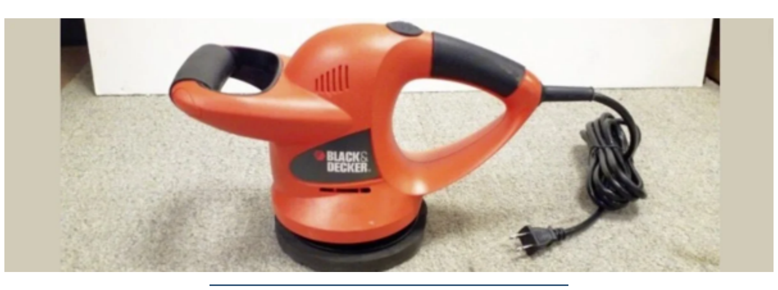
1.Bloomberg, 2023. Total return assumes reinvestment of dividends. Past performance does not guarantee future results. One cannot invest directly in an index; for informational purposes only. This is not investment advice, and one should conduct their own diligence on any investment, including the risks associated, before making an investment decision.

The Pushback: After years of acquiescence, the European business community is now pushing back.

- French oil giant TotalEnergies said the company was considering cross-listing its shares in the U.S. "in part because ESG policies in Europe have more weight."
- Dutch brewer Heineken told Bloomberg the money it spends on ESG compliance has grown at an "exponential" rate.
- British consumer goods company Unilever scaled back environmental and social pledges in April, amid deteriorating share price.
- The European Round Table for Industry, whose members' combined sales top $2 trillion annually, told Bloomberg that excessive regulations are “accelerating loss of competitiveness” and warn that companies' prospects “are better outside Europe.”

Go Deep: Read Strive's white papers on the cost of stakeholder capitalism and how the EU regulations may impact U.S. companies to learn more.

Black & Decker Latest Company To Back Off DEI



Toolmaker Stanley Black & Decker is the latest company to pull back from its its DEI initiatives following public pressure, USA Today reports.

Pulling the Plug: Per the outlet, Black & Decker sent an internal memo to employees last week informing them that the company was scrapping its DEI program and would no longer be submitting data to the Human Rights Campaign. Market watchers had previously noted that the company had taken down most of the DEI content on its website, including racial quotas and pages touting "equity trainings" for employees.

Hammering the Pro-Customer Message: Prior to its retreat, Black & Decker had been spotlighted by Consumers' Research for prioritizing politics over customers. Conservative Robby Starbuck had also privately reached out to company executives last week, increasing pressure on the company to act.

Drilling Down on Shareholder Value: The changes come as the company faces troubling times, with share prices down in recent months as the company "shutters plants and distribution hubs in a bid to trim $2 billion in costs and turn a profit." At Strive, we don't think any companies should engage in costly and often-legally-dubious DEI programming; but for a company looking to trim $2 billion in costs, there's simply no excuse. We're glad to see that Black & Decker agrees.

IBM Gets the Message; Reduces China Risk

IBM has closed some of its China operations following falling Chinese revenue and heightened geopolitical risks, The Epoch Times reports.

A Strategic (and Geographic) Shift: In August, IBM announced in a virtual meeting with China-based research and development employees that the division was moving to other countries. IBM also stated it planned to add research and engineering roles in India.

The Rationale: The piece cites Beijing's "delete America" policy as a potential factor, as the Chinese Communist Party has made it a priority to replace American-based technology with homegrown counterparts, citing national security concerns. The authors also note rising geopolitical tensions with the U.S. more broadly, as well as IBM's falling China-based sales.

A Broader Trend: IBM's move follows more than thirty other companies—including Apple, Google, Black & Decker, Nike, Hasbro, L.G. Electronics, Sharp, Dell and Intel—which have all recently reduced or eliminated their presence in China.

China Risk As Investment Risk: Strive has long recognized China risk as investment risk and urges the companies we invest in to do the same. It's encouraging to see that IBM has taken the message to heart.

Global Oil Markets and the Timing of the Federal Reserve

The intricate relationship between global oil markets and Federal Reserve policy has become increasingly significant in today's economic landscape.

Last week, persistent economic concerns impacted market expectations around oil demand growth, such as uncertainty around the U.S. labor market and decelerating oil demand growth due to poor Chinese and German economic data.

Germany and China, two major global economies, are concerned about the growth of oil demand. Germany, Europe's largest economy, is grappling with stagnant growth, declining industrial output, and ongoing energy cost challenges, potentially reducing its oil consumption.

Meanwhile, China's post-COVID recovery has been slower than expected, with its property sector crisis, rising youth unemployment, and manufacturing contraction signaling broader economic challenges. As the world's largest oil importer, China's economic slowdown significantly impacts global oil demand.

These combined factors create uncertainty in oil markets, put downward pressure on prices, and influence decisions by major oil producers like OPEC. The economic performance of these two countries serves as a crucial indicator for oil market participants and policymakers, including the Fed, as they assess global financial health and its implications for inflation and monetary policy.

On September 10, after OPEC reversed its 2024 demand forecast by only 80,000 barrels, the market slid 4% to $65 for the first time since December 2021.

A rise in oil prices could unsettle expectations that the Fed will achieve its 2% inflation target in an undersupplied oil market. The Fed may exercise more caution if a sudden oil shortage arises.

While concerns about economic growth are prevalent, the Fed will be acutely aware of the potential impact of its decisions regarding market sentiment. Depending on what the Fed does, the cost of living prices, including housing and shelter costs, or a decline in the labor market could shift.

The Fed faces a balancing act as it navigates the complex interplay between global oil markets, inflation targets, and overall economic stability. Market participants and policymakers alike will be closely watching for signs of changing oil demand patterns, mainly from financial powerhouses like China and Germany, as well as any shifts in OPEC+ production strategies.

Strive CEO to Speak at NY Principled Business Summit

This week, Strive CEO Matt Cole will be presenting at Liberty Ventures' Principled Business New York Summit, where he and fellow speakers — including Joe Lonsdale, John Mackey, Steve Forbes, and more — will discuss ways to better represent, advocate for, and collaborate in capitalism.

Learn more here.

The Best of the Rest

Additional stories about ESG investing, company happenings, and more.

- Fifteen state treasurers urge Costco, Walmart to decide whether or not to sell abortion pill based on business considerations; letter criticizes NYC Comptroller for politicizing the issue by demanding retailers begin selling the pills as soon as possible.
- House Financial Services Committee holds hearing on ESG; learns that "nearly 78% of publicly traded manufacturers are concerned that th[e] increase pressure on ESG topics from proxy firms and other third parties will 'increase costs for public companies, divert management and board time and resources, and endanger long-term value creation.'"
- Exxon pledges to continue to fight "abuse" of shareholder proposal process; unafraid to use litigation to "hold [activists] to the rules."
- Fearless Fund closes racially-discriminatory grant contest as part of legal settlement with conservative group challenging the program.
- 2024 State of the U.S. Semiconductor Industry Report released by the Semiconductor Industry Association; cites rising demand for chips, but argues policy action is needed to continue current momentum.
- New survey shows most Americans fear they'll lack retirement savings; more than 90% of Americans believe there is a retirement crisis and just 22% of respondents were very confident they'd have enough saved.

Know someone who might enjoy this newsletter? Be sure to share it with them. Not signed up and want to receive your own weekly copy of The Fiduciary Focus? Click here to sign up.

Who Are We?
Strive is one of the fastest growing asset management firms. Our mission is to maximize value for our clients by leading companies to focus on excellence. **Click here** to learn more.

What Makes Strive Different?
While many asset managers push companies to focus on other stakeholders such as employees, suppliers, the environment and society at large, we live by a strict commitment to shareholder primacy — the belief that **the purpose of a for-profit corporation is to maximize long-run value for investors. Click here** to learn why shareholder primacy is so important.

How Does Strive Maximize Value?
Our corporate governance team engages with the companies in which our clients are invested to advocate for the pursuit of excellence in corporate America. We are aggressively apolitical when it comes to utilizing our corporate governance tools and demand that companies focus exclusively on delivering long-term financial value for investors. The corporate governance team also determines how to cast our shareholder votes at annual meetings and special elections, evaluating each proposal through the lens of maximizing financial return.

Our research team conducts deep analysis of macro economic trends, market developments, and industry- and company-specific metrics to identify potential risks and opportunities for our clients. We then incorporate the results of this research into our engagement and voting strategy, and share it with our clients in the form of white papers and market research reports so they can make the most educated investment decisions possible.

Strive, 6555 Longshore St, Dublin, OH 43017, United States