HSBC Asset Management

Lower-carbon steel

Oxymoron or investment opportunity?

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For professional clients only

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Steel is the most widely used metal in the world,[1] essential for infrastructure, transport, and power grids. It also contributes nearly 10% of global carbon emissions.[2] With steel demand set to rise due to global economic and power growth, decarbonising steel production is critical. Although often overlooked compared to critical minerals and other transition resources, lower-carbon steel technologies are advancing rapidly, and trade policies are supporting the shift towards lower-carbon steel.

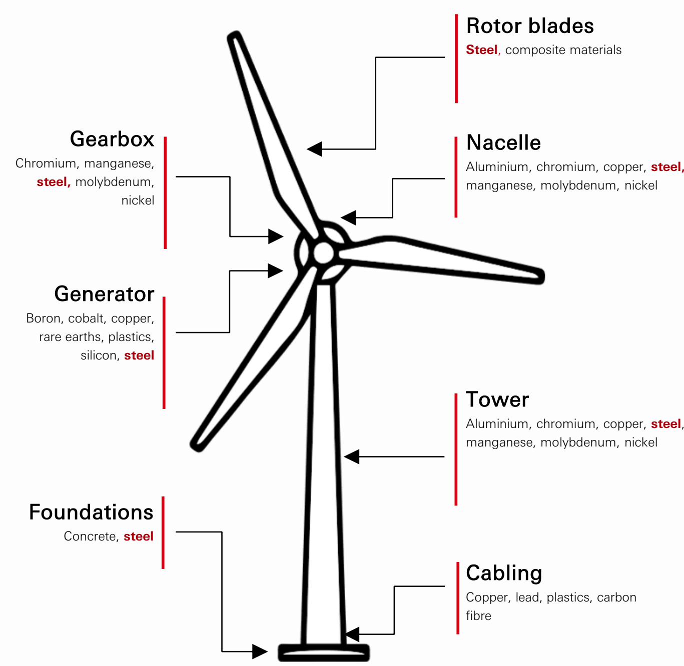
High growth potential and market opportunity

The demand for steel is set to surge as economies invest in more energy, more cities, and new technologies such as Artificial Intelligence (AI). Meanwhile, as recycled scrap steel prices decline, the EU's Carbon Border Adjustment Mechanism (CBAM) begins and major tech and auto corporations advance with their net-zero transition plans, the market for lower-carbon steel is suddenly indicating attractive value.

Financial performance of lower-carbon, higher-rated ESG steel producers

Over the past four years, steel companies with better ESG scores and leaders of lower-carbon steel manufacturing, have outperformed their industry peers by about 30%. This outperformance is partly attributable to their greater exposure to European and US equity markets, which have delivered stronger returns, as opposed to the underperforming steel sectors in China and Latin America.[3] Notably, the European and US markets are recognised for having the lowest carbon intensity globally within the steel industry, supported by robust initiatives and technology that promote lower-carbon production.[4] We believe that investors focusing on companies with strong ESG businesses and a commitment to lower-carbon steel will continue to achieve excess returns, while also supporting the transition to a sustainable, low-carbon economy.

Steel and other raw materials used in wind turbines



Alternative energy systems (e.g. wind turbines), are materials intensive, requiring 2-8x more steel than traditional energy systems producing the same quantity of power.

Source: HSBC Asset Management, World Nuclear Association (2024)

1. Thyssenkrupp (2023). *Strongest metals*
2. World Steel association (2024), *World Steel in Figures - 2024.*
3. HSBC Asset Management, November 2025.
4. IEA (2023), *Iron & Steel – IEA.*

The global energy transition is reshaping economies as the world shifts from traditional based power sources like oil, gas and coal to electricity. This is creating new investment opportunities. While critical minerals such as copper and rare earths have been in the spotlight, steel – a key material for infrastructure, alternative energy and emerging technologies – offers untapped potential. This paper highlights our positive outlook for the steel sector and why steel companies prioritising lower-carbon[5] steel production are an active bet. Finally, we explore the link between lower-carbon steel, strong ESG practices and investment opportunities.

1 **Sector view:** Steel is the backbone of the modern economy, supporting industrial growth in urbanisation, renewable power and the digital economy, reinforcing our positive outlook on the steel sector.

2 **Stock selection:** With trade restrictions encouraging domestic, lower-carbon-steel, and growing lower-carbon steel demand from automotive, construction and technology corporations focused on reducing their carbon emissions – we estimate a lucrative ~7%-15% 'Green Premium' of additional profit margin for lower-carbon steel producers selling to EU and US markets.

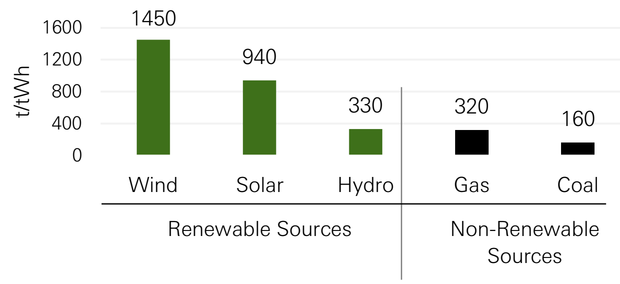
3 **Responsible Investment value:** Effective Responsible Investment integration, supported by active ESG analysis and insightful engagement, can unlock significant value in the steel sector. For example, we observed ~40% outperformance of a European ESG-leading steel company in our portfolio, relative to peers, in the three-month period after it abandoned its plans to acquire a higher-carbon steel plant.

5. For the purposes of this paper, 'lower-carbon steel' refers to steel that is manufactured with technologies like 'Electric Arc Furnace' (EAF) route which reduces carbon emissions (CO_2) relative to the traditional steel making processes using the 'Blast Furnace-Basic Oxygen Furnace' method. The term is an oxymoron because steel contains carbon by definition – steel is the alloy of iron and carbon. The 'lower carbon' processes we refer to - reduce harmful carbon *emissions* (CO_2) in the production process - while injecting enough carbon responsibly to produce 'lower carbon' [emitting] steel. Other associated industry terms for 'lower-carbon steel' include 'green steel', 'near-zero steel' or 'responsible steel'.

Sector outlook: The demand for steel in the modern economy

- **Alternative energy:** Alternative energy sources (e.g. wind, solar, hydro) are one of the fastest-growing sources of electricity, now accounting for nearly 40% of global supply. These energy systems are very materials intensive with a wind turbine requiring 8x more steel than traditional energy systems producing the same quantity of power.[6] Despite the extra materials and steel required, onshore-wind has become the cheapest form of energy.[7] With global wind power demand expected to triple by 2030,[8] ensuring a reliable supply of steel is crucial.

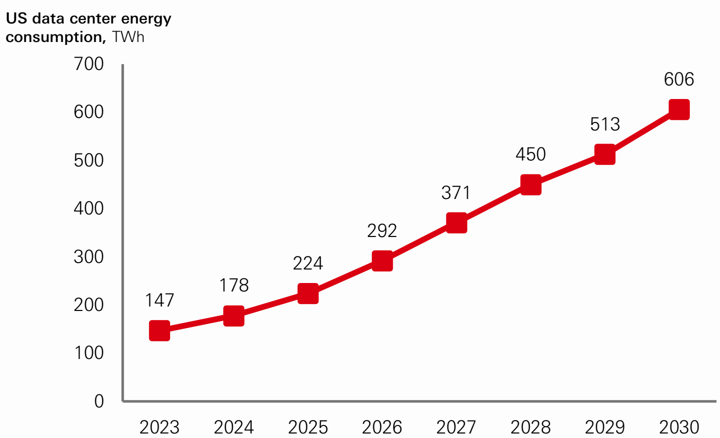
Tonnes of steel (t) required, per TwH of energy, per energy source



Source: World Nuclear Association (2024)

- **Artificial Intelligence (AI)/Data centers:** The rapid adoption of AI and the data centers used in AI operations add another layer of demand for steel. Data centers require significantly more steel (up to 30 to 40 pounds per square foot)[9] than traditional commercial buildings such as the Empire State Building which required only ~5 pounds of steel per square foot when it was constructed in 1931.[10] The extra steel required for data centers is used to support not only the structures themselves, but the cooling and power systems required to operate the data centers.

Terawatt-hours (TWh) of electricity demand



	2023	2024	2025	2026	2027	2028	2029	2030
Share of total US power demand, %	3.7	4.3	5.2	6.5	8.0	9.3	10.3	11.7

What commodities are needed to build a datacentre?

- Copper
- Lithium
- Rare earths
- PGMs
- Chrome

- Cement
- **Steel**
- Copper
- Aluminium
- Glass

Where will this power come from in 2030?

- Copper
- Aluminium
- Cement
- Silver

- Aluminium
- **Steel**
- Rare earths
- Copper

- **Steel**
- Boron
- Copper
- Graphite
- Glass

Sources: McKinsey & Company, HSBC Asset Management July 2025. For illustrative purposes only.

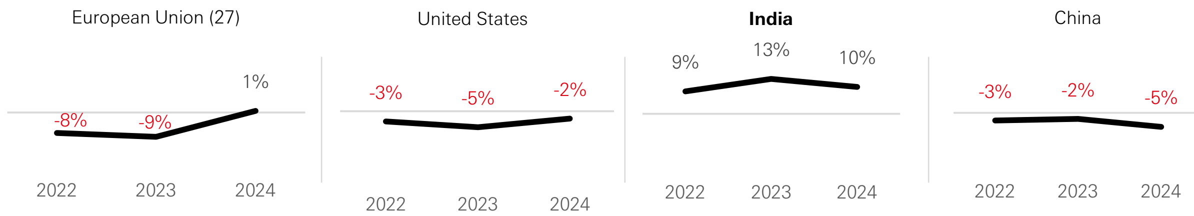
- **Urbanisation and infrastructure:** By 2050, the number of megacities is projected to grow from 44 to 67 globally,[11] with India alone expecting a 6% compound annual growth rate (CAGR) in steel demand through 2035 as its urbanisation rate accelerates.[12] Steel is vital to building the bridges, railways and skyscrapers that will accommodate this global urban expansion.

6. HSBC Asset Management, World Nuclear Association, (2024). *Mineral Requirements for Electricity Generation*
7. Lazard, (2025). 'Lazard Levelised Cost of Energy
8. IEA, (2024). *Renewables 2024 – Wind*
9. DataCentre Magazine (2025). *The Role of Steel in Today's Data Centre Industry*
10. PBS, (2001). *BUILDING BIG: Databank: Empire State Building.*
11. Oxford Economics, (2024). *Rise of new megacities will drive global urban growth*
12. McKinsey & Company (2025). *Strengthening the future: Steel for growth and resilience.*

Market Growth – Emerging Markets (India)

World steel demand per capita of major economies

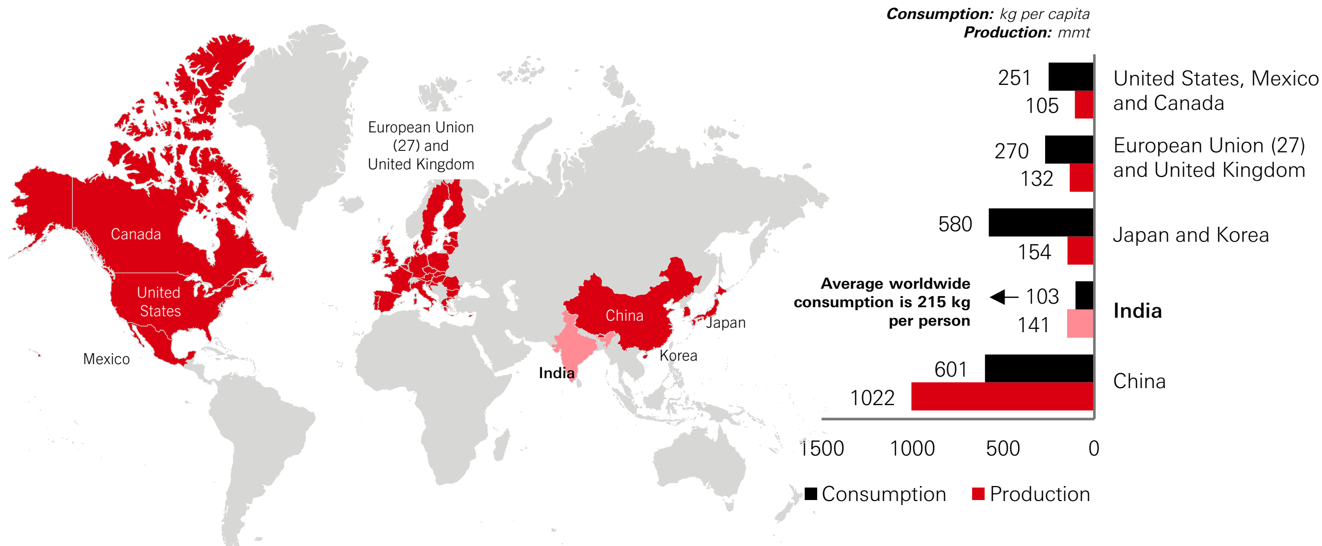
Apparent steel use per capita year over year % change: 2021-2024



Sources: HSBC AM, WorldSteel Association

India is poised to quadruple its steel demand from 103 million tonnes in 2021 to 430 million tonnes by 2050[13] driven by urbanisation, infrastructure projects, and a young population. With per-capita steel consumption of 103 kg in 2024—still 52% below the global average of 215 kg—India has significant potential for market expansion.[14]

Major steel-producing regions worldwide (2024)



Source WorldSteel Association (2025), HSBC Asset Management

13. Climate Group SteelZero (2023), *India Net Zero Steel Demand Outlook Report*
14. World Steel association (2025), *Sustainability Indicators Report 2025*

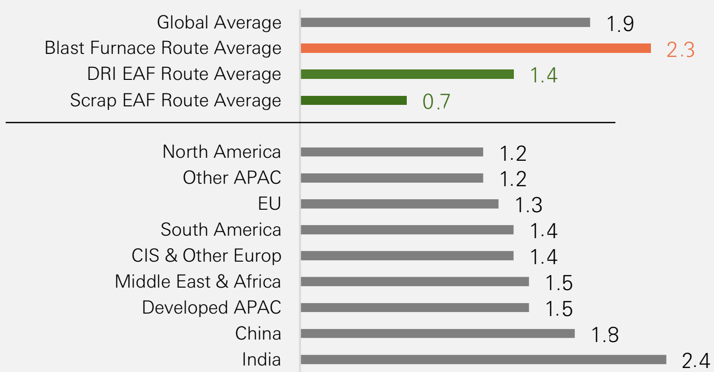
Stock Selection: Lower-carbon steel

Why global trade and consumer demand make lower-carbon steel an attractive bet

- **Trade:** The Carbon Border Adjustment Mechanism (CBAM) in Europe (effective 1 January 2026) and Section 232 in the United States (reinstated in 2025) are each boosting demand for domestic, lower-carbon steel by taxing higher-carbon imports. CBAM is a European Union tax policy which imposes a tariff for higher-carbon emitting industrial imports (e.g. steel, cement, electricity) encouraging EU companies to buy lower-carbon steel. While CBAM targets higher-carbon imports specifically, Section 232 taxes all imported steel. Given that North American-produced steel has the lowest carbon intensity globally – with the majority of its steel produced via the lower-carbon EAF route – Section 232 is effectively taxing any imported steel at a much higher rate (50%; 25% for UK steel only),[15] higher than any CBAM scenario. Since most imported steel is of higher carbon intensity than US steel, Section 232 has effectively insulated the US domestic market, furthering the production of US lower-carbon steel. In different ways, Section 232 in the US and CBAM in the EU are two fiscal policies driving support for lower-carbon steel companies across major markets.

Steel manufacturing emissions intensity by region

(tonnes of CO_2 per tonne of steel)



CIS: Commonwealth of Independent States

Sources: HSBC Asset Management, JP Morgan (2021), World Steel Association (2025)

Elsewhere, despite India's growth potential, it has the world's highest carbon intensity in steel production (2.4 tCO_2/tonne)[16] and faces related import costs, including a projected ~€2 billion tax from the EU's Carbon Border Adjustment Mechanism (CBAM) by FY30 for exporting higher-carbon steel to the EU. [17] To address this, India plans to cut steel carbon emissions to 2.2 tonnes CO_2/tonne by 2029-30, with 45% of steel production powered by renewables.[18] Additionally, by 2050, India's projected renewable energy resources will enable cost-efficient hydrogen production positioning it as a leader in lower-carbon steel produced via hydrogen (H2-DRI-EAF).[19]

With lower-carbon steel demand in India projected at 179 million tonnes by 2050, [20] which would surpass current overall production (e.g. 149 million tonnes in 2024),[21] driven by its growing renewable energy resources, the country is set to become a key supplier to carbon-conscious markets.

- **Corporate Transition plans:** Despite growing anti-ESG rhetoric in the US and other regions, major corporations are still committed to buying lower-carbon steel to meet tightening carbon regulations and align with investor and consumer expectations. General Motors, for example, in support of its active net zero targets, is prepared to pay 20% more[22] for lower-carbon steel – and along with its other 27 First Movers Coalition members has pledged to buy at least 10% lower-carbon steel annually by 2030.[23] Similarly, Amazon, to meet its net zero targets, has partnered with SSAB for lower-carbon steel for its data centres, while Microsoft and Google have teamed up with Nucor to develop business models that promote clean energy.[24] By paying a premium for lower-carbon steel, automakers and tech companies pre-empt tightening carbon regulations, meet shareholder expectations, secure scarce lower-carbon material, and enhance brand equity—all while adding only a marginal cost (e.g. a 40% premium on steel prices increase automobile costs by just 1–2%).[25]

As fiscal policies take effect and shareholder expectations increasingly align with the transition to a low-carbon economy, demand for lower-carbon steel is expected to grow significantly.

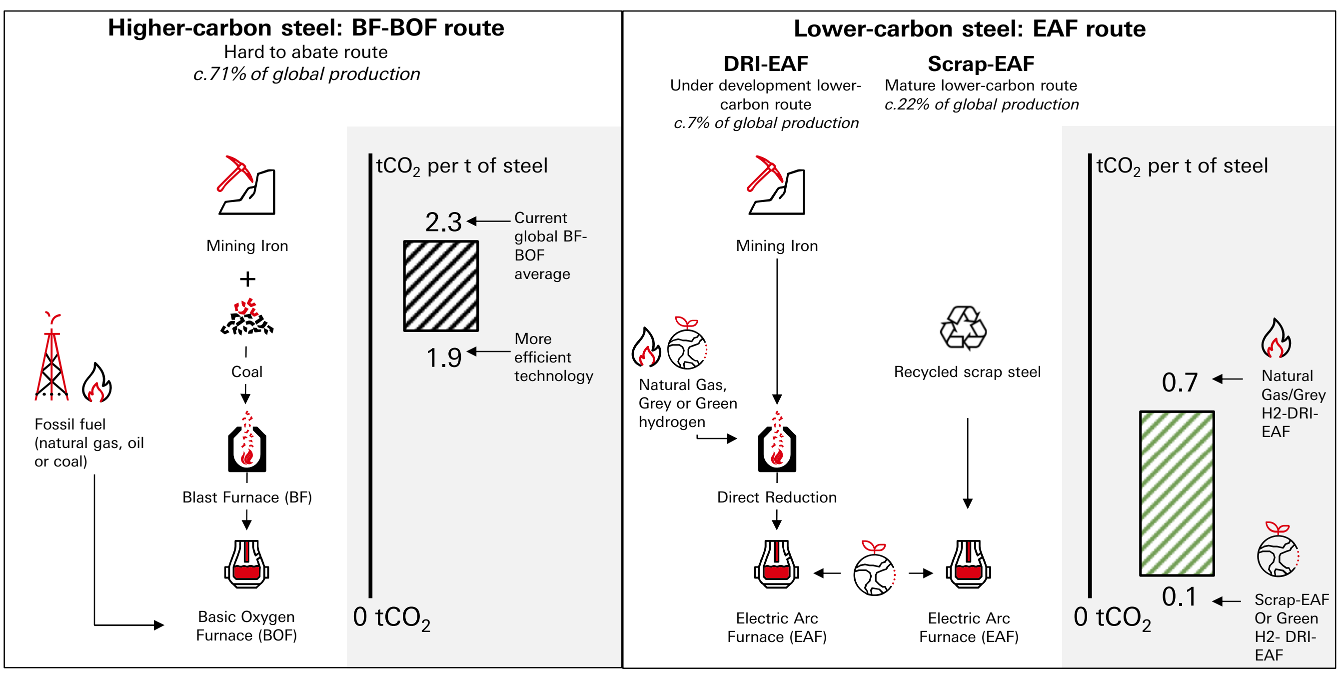
15. Council on Foreign Relations, (2025), *A guide to Trump's Section 232 Tariffs*
16. JP Morgan (2021), *Green steel deep dive*
17. EY Parthenon, WWF, CI-GBC, (2025), *Unlocking green steel demand*
18, 19. Bloomberg NEF (2025), *Green Steel Stalls Amid Bleak Cost Outlook, Low Demand*
20. EY Parthenon, WWF, CI-GBC, (2025), *Unlocking green steel demand*
21. World Steel association (2025), *Sustainability Indicators Report 2025*
22. General Motors (2023), *Sustainability Report*
23. World Economic Forum (2025), *First Movers Coalition*
24. Data Centre Dynamics (2024), *Google, Microsoft and Nucor partner for new energy tech PPAs*
25. DataQuest (2025), *How Automotive and Other Sectors Create Green Steel Demand*

Lower-carbon steel: A path to decarbonization

Despite its importance, global steel production is still highly carbon-intensive, contributing 8% of global carbon emissions (CO_2).[26] Most of the world's steel is produced via traditional Blast Furnace-Basic Oxygen Furnace (BF-BOF) steelmaking, which emits 2.3 tonne of CO_2 /tonne of steel.[27] In BF-BOF steelmaking, coal – a very high-carbon emitting energy resource – is used as the reducing agent to convert iron into molten iron within the Blast Furnace. The molten iron is poured into the Basic Oxygen Furnace and oxidised, releasing even more CO_2. However, steel's recyclability and Electric Arc Furnace technology means that a lower-carbon production route exists and is already used in nearly 30% of global production.[28] Emerging technologies (Direct Reduced Iron) indicate a potential acceleration of lower-carbon steel production, presenting a unique opportunity for sustainable investment.

Lower-Carbon Steel Technologies[29]

- **Scrap-Electric Arc Furnaces (EAF):** EAFs can utilise recycled scrap steel thus avoiding the higher-carbon emitting process of using coal to convert iron to steel in a BF-BOF process. The recycled (secondary) steel is melted in an EAF and converted into crude steel. When using 100% scrap as a raw material, and powered by alternative energy sources (e.g., wind, solar, hydro), the carbon emissions are reduced by nearly 100% relative to BF-BOF steelmaking.
- **Direct Reduced Iron (DRI) with EAF (DRI-EAF):** With global scrap availability expected to lag projected steel demand by 2050, primary (iron ore based) steel production remains an essential, long-term resource. Below are two commonly referenced methods of DRI-EAF, with varying carbon intensity reductions:
  1. **Natural Gas/Grey hydrogen (H2) DRI with EAF (NG/Grey H2-DRI-EAF):** In this method, which amounts to about 7% of global production[30], hydrogen created from natural gas (e.g. methane/CH_4), or the methane directly, is used as a reducing agent for the iron ore instead of coal. Natural gas used to produce hydrogen is carbon intensive, but by avoiding any coal inputs, NG/Grey H2-DRI-EAF production can reduce carbon emissions by up to 70% compared to traditional methods (e.g. BF-BOF) – from 2.3 to 0.7 tonne of CO_2 per tonne on average when the EAF process is powered by renewable energy sources (e.g. wind, solar, hydro).
  2. **Green Hydrogen DRI with EAF (Green H2-DRI-EAF):** Green H2-DRI-EAF is an emerging steel technology which uses green hydrogen (hydrogen that is extracted from water using renewable energy), instead of natural gas or coal as a reducing agent, emitting only water vapor and no carbon emissions. When the EAF is also powered by renewable energy, Green H2-DRI-EAF can produce near zero carbon steel, reducing greenhouse gas emissions by almost 100% compared to traditional methods (e.g. BF-BOF).



Sources: HSBC Asset Management, WorldSteel Association, World Economic Forum, Global Energy Monitor, as of November 2025.

26. Unless otherwise noted, carbon emissions refers to Carbon Dioxide (CO_2) and not Carbon Dioxide Equivalent (CO_2e) which considers all greenhouse gases which contribute to global warming. The quantity of emissions from steel-making of greenhouse gases other than CO_2 is negligible (Source: TPI 2021), particularly for lower-carbon steel technologies. The risk for pollutants such as methane and other emissions is significantly higher in higher-carbon production routes that use coal, but also material when natural gas is used. However, the purpose of this paper is to encourage investment towards the lowest-carbon steel opportunities which can reduce all forms of pollution significantly.
27. 28. World Steel association (2025), *Sustainability Indicators Report 2025*
29. There are other lower-carbon steel technologies, some of which use other types of lower carbon hydrogen (e.g. blue hydrogen) but we focused on the few technologies that are already material in global production, and/or that we believe are most likely to grow global production and help the steel sector transition to net zero.
30. World Economic Forum (2024), *WEF Net Zero Industry Tracker – 2024_Steel*

Cashing in on the Green Premium when selling to EU/US customers

We believe lower-carbon steel will yield high profit margins as input costs – related to cheaper energy and higher scrap steel availability – decrease, and demand for premium-priced, lower-carbon steel rises. Trade restrictions will also boost the price for lower-carbon steel. For example, under CBAM in the EU, steel consumers (e.g. automakers, construction companies) could face additional costs of EUR120[31] per tonne at the current carbon price of ~EUR 80 per tonne for buying higher-carbon steel, offering a competitive advantage for steel producers to charge higher prices for lower-carbon steel when selling to European customers. Already, in anticipation of CBAM perhaps, the price of EU HRC[32] steel has risen above its 5-year historic average.[33]

> *This raises an important question on the profitability in the steel sector: how much of a premium would customers be willing to pay for lower-carbon steel considering tariff costs, sustainable goals and consumer preferences?*

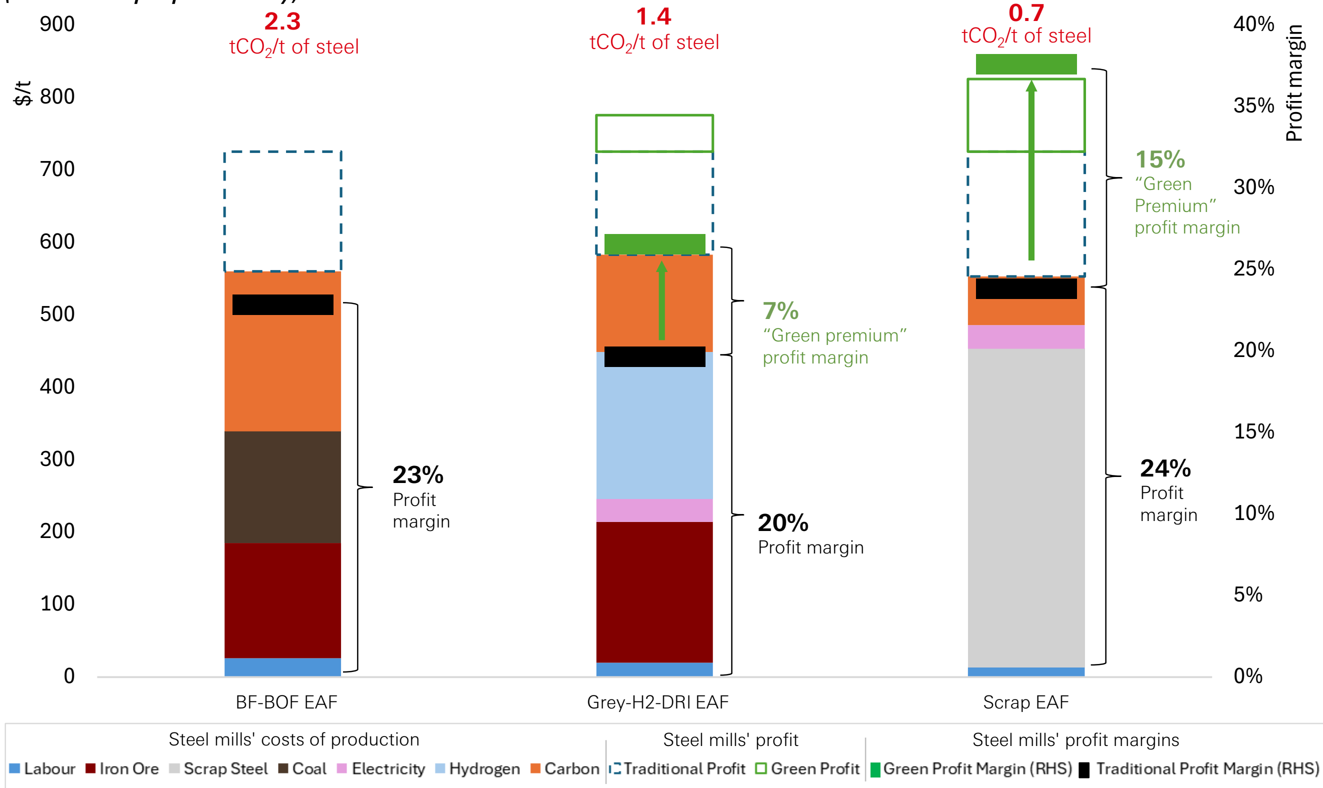
Based on our analysis of CBAM, consulting with different steel companies, and considering the carbon intensity of various active (e.g. material in global production) steel technologies, we conservatively assume that currently, steel producers selling to EU customers (to avoid CBAM costs and meet their corporate transition plans) or US customers (to meet their corporate transition plans) can charge a modest green steel premium of USD 50 per tonne (EUR 48 per tonne) for Grey[34]-H2-DRI EAF steel and USD 100 per tonne (EUR 96 per tonne) for Scrap-EAF steel. These estimates consider the increased CBAM tax coupled with buyer demand, customer sentiment, current steel prices and operational costs. We ignore transport costs and market price nuances as this analysis is illustrative only. These are also guide estimates, acknowledging that some of the tax cost maybe absorbed by the steel companies, and/or that the assumptions of increased buyer demand and customer sentiment – particularly in the US - maybe weaker than expected. However, conservativism aside, we expect these premiums to grow rapidly, perhaps doubling or tripling by 2035.

We leverage these estimated premiums to illustrate - on the next page - the % profit margin that an EU or US steel company could potentially gain from selling to their customers.

31. We estimated a simple example that at the current EU ETS carbon price of EUR 80/tonne CO_2 as of November 2025, and using a ~1.5tonne CO_2 differential in carbon intensity between higher-carbon steel (e.g. BF-BOF at 2.3tonneCO_2) and benchmark lower-carbon steel rate (e.g. EAF at 0.7tCO2), this would incur a value added consumption tax for EU steel consumers of ~€120 (1.5tonneCO_2*€80/tonneCO_2). In this calculation, for simplicity and comprehension, we've ignored many aspects of CBAM including the allowance phase out, benchmark lower-carbon steel rates and assumed the imported higher-carbon steel does not have any foreign carbon tax that can offset the CBAM tax when considering imported steel. The calculation is merely for reference, and we acknowledge in our green premium simulation that the CBAM tax could be lower than this for 2026 and/or could be assumed by the steel maker. It should also be noted that the CBAM tax will rise as designed until 2034 which would only increase the potential green premium for steel makers selling to Europe, though we analyse only the short-term view. We also note that while there is general support from European steelmakers for CBAM, questions remain about its effective implementation, second-order trade impacts for exports outside of the EU and loopholes by not counting scope 2 emissions.
32. HRC (Hot Rolled Coil) Steel is steel in its rolled form to ease transport and storage before manufacturing into specific uses.
33. Morgan Stanley (November 2025)
34. We used Grey-H2-DRI EAF steel technology to illustrate the cost components of Green–H2-DRI EAF, a true near zero carbon steel making technology, even though Grey-H2-DRI-EAF is not a commercially active steel-making production method. If the carbon cost is set to 0, and Green Hydrogen can lower in cost to the levels listed in the table on the next page, the reader can envision the potential green premiums of this fledgling technology.

As the chart and table below show, our estimated premiums would lead to an increase of c7% profit margin (27% from 20%) for Grey-H2-DRI-EAF (a stepping stone for Green-H2-DRI-EAF which produces near zero carbon) and a c15% (38% from 24%) profit margin for Scrap-EAF steel. Traditional BF-BOF steel has no carbon emission savings and therefore zero 'Green Premium' profit. This represents a clear advantage for steel companies transitioning to cleaner, more sustainable steel production.

Estimated green premium financials upside for EU/US steel companies - current (November 2025) cost assumptions *(illustrative purposes only)*



	BF-BOF	Grey-H2-DRI EAF	Scrap EAF
Raw material preparation	Iron Ore + Coal	Iron Ore + Grey Hydrogen	Scrap Steel
Energy source	Coal	Electricity	Electricity
$ - US Dollar			
Revenues ($/t)	**725**	**725**	**725**
Price of US HRC Steel ($/t)	725	725	725
Costs ($/t)	**560**	**583**	**553**
Iron Ore Cost ($/t)	159	195	0
Price of Iron Ore [62% Fines for BOF, 65% Pellets for DRI] ($/t)	*99*	*122*	
Quantity of Iron Ore per tonne of steel	*1.6*	*1.6*	
Scrap Steel Cost ($/t)	0	0	440
Price of Scrap Steel ($/t)			*400*
Quantity of Scrap per tonne of steel			*1.1*
Coal Cost ($/t)	154	0	0
Price of Coking Coal ($/t)	*197*		
Quantity of Coking Coal per tonne of steel	*0.8*		
Grey Hydrogen Cost ($/t)	0	202	0
Price of Grey Hydrogen ($/kg)		*3.7*	
Quantity of Hydrogen per tonne of steel		*54*	
Electricity Cost ($/t)	0	32	32
Price of Electricity ($/kWh)		*0.07*	*0.07*
Quantity of Electricity per tonne of steel		*450*	*450*
Carbon Cost ($/t)	221	134	67
Price of EU Carbon ($/t)	*96*	*96*	*96*
Emission per tonne of steel	*2.3*	*1.4*	*0.7*
Labour Cost ($/t)	26	20	13
Profit per tonne of steel ($/t)	**165**	**142**	**172**
Margin (%)	23%	20%	24%
Green Steel Premium ($/t)	**0**	**50**	**100**
Profit per tonne of steel ($/t)	**165**	**192**	**272**
Margin (%)	23%	27%	38%

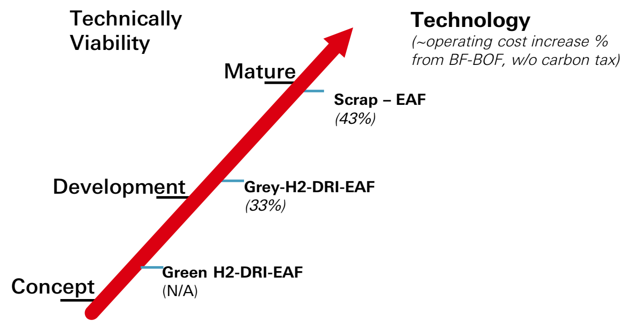
Sources: HSBC AM as of November 2025; Bloomberg; Eurofer (2013), *Iron Ore and the European steel industry*; sandbag (2022), *Starting from scrap*; CRM Alliance, *What is Coking Coal And Where Do I Use it?*; SteelWatch (2025), *Why smart use of green hydrogen is critical for steel decarbonization*; US Energy Information Administration (EIA), Electric Power Monthly; Nemag, *How switching to an electric arc furnace affects your grab productivity*; ScienceDirect (2018), *Assessment of hydrogen direct reduction for fossil-free steelmaking*; Institute for Energy Economics and Financial Analysis (2022), *The facts about steelmaking*; InCredEquities (2023), *HEG Limited, Decarbonization shift and dawn of a new era*

Challenges and Opportunities

Key Challenges

The transition to lower-carbon steel faces significant challenges despite its long-term potential.

- **High production costs:** Hydrogen-based steel production remains expensive. Hydrogen-based methods require higher-grade iron ore which is scarce (3-4% of total supply),[35] and green hydrogen currently costs over USD 6/kg, well above the breakeven price of USD 2/kg required in Green-H2-DRI-EAF steelmaking.[36] Capital costs are significant too, as a new H2-DRI-EAF plant costs up to 30% higher than a traditional BF-BOF operation.[37]
- **Infrastructure and energy needs:** Green hydrogen-based steelmaking would require a significant expansion of renewable energy infrastructure. For instance, converting all steelmaking in Europe to green hydrogen-based processes would increase electricity demand by 10%.[38]
- **Technological maturity**: While EAF steel is commercially viable, hydrogen-based direct reduction of iron (H2-DRI) technology is still in its early stages. Scaling this technology will require public-private sector collaboration and significant R&D investment.[39]



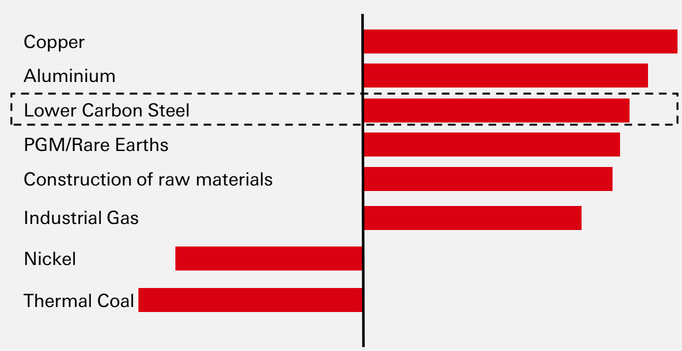
Figures are illustrative only to show the key challenges	BF-BOF	Grey-H2-DRI EAF	Scrap EAF
Operating Cost w Carbon Tax	560	583	553
Operating Cost w/o Carbon Tax	338	449	486
% increase in cost relative to BF-BOF	-	33%	43%

Source: HSBC Asset Management. Extracted from 'green premium' analysis on previous page.

Turning Point

Despite these challenges, the market is approaching a turning point. In 2020, it was estimated that carbon prices would need to hit USD 67 per ton (EUR 64 per tonne) to make lower-carbon Green-H2-DRI-EAF steel commercially viable.[40] Today, as of November 2025, the EU ETS carbon price is approximately USD 96 (EUR 80) per tonne, creating favourable conditions for low-carbon steel production.

Investment Outlook



Bars are for illustrative purposes only
Source: HSBC Asset Management, December 2025

Scrap EAF steel makers like Nucor – with double digit EPS CAGRs for the past 5-, 10 and 25- year periods - have already shown that profitable lower-carbon steelmaking is possible[41] utilising Scrap EAF technology. However, hydrogen-based iron ore reduction (H2-DRI) steel production remains critical, as Boston Consulting Group forecasts a 0.3% scrap shortfall in supply relative to demand by 2030.[42]

Early adopters of lower-carbon steel are well-positioned to capture market share, build brand loyalty and meet growing demand for sustainable materials.

35. OECD (2025), *OECD Steel Outlook 2025*
36. BloombergNEF (2023), *Green Hydrogen to Undercut Gray Sibling by End of Decade*
37. International Renewable Energy Agency (2021), *Making the Breakthrough – Green hydrogen policies and technology costs*
38. OECD (2025), *OECD Steel Outlook 2025*
39. Bank of America (2023), *Primer: Hydrogen Steelmaking*
40. International Renewable Energy Agency (2023), [Gielen et. al (2020)] *Towards a Circular Steel Industry*
41. Nucor (October 2025). *Why-Invest*
42. Boston Consulting Group. *Shortfalls in scrap will challenge the steel industry*

ESG frameworks identify strong steel companies

An Environmental, Social, and Governance (ESG) framework is essential for evaluating investment opportunities in the steel sector. ESG factors help identify leaders in lower-carbon steel production while addressing key risks, including:

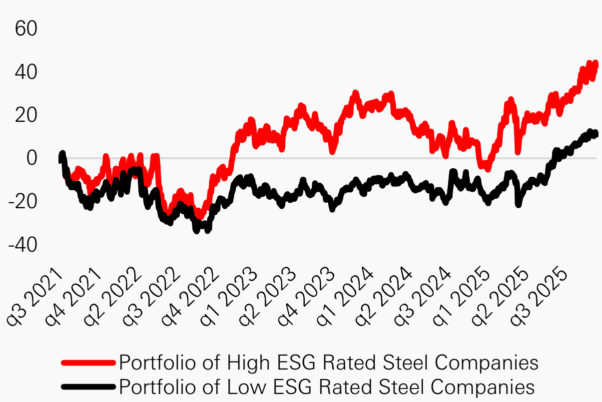
- **Transition Risk:** Failure to adapt to rapid technological changes and shifting consumer behaviour by not prioritising lower-carbon steelmaking.
- **Health & Safety:** Workplace injuries and fatalities, which can be prevented by strong governance and operational control.
- **Water Stress:** High water stress and dependency which can be minimised through recycling and use of non-freshwater sources, which reduces environmental impact while enhancing cost efficiency.
- **Pollution Control:** Harmful air pollutants such as sulphur dioxide (SO_2), methane (CO_4) and nitrogen oxides (NOx) produced during the steelmaking process, which can be significantly reduced through effective plant maintenance and the adoption of lower-carbon steel production methods.

Financial performance of higher rated ESG steel producers

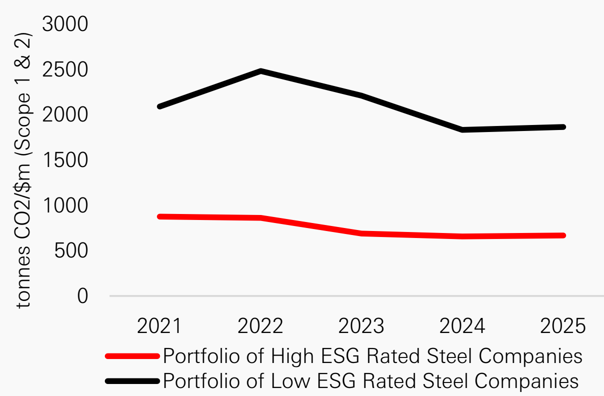
Over the past four years, global mid and large cap steel producers with higher ESG ratings have outperformed their industry peers – those with lower ESG ratings - by around 30%. This outperformance is primarily attributed to their exposure to regional and industry markets, rather than their ESG scores alone. Exposure to the EU, US and Japanese markets – markets that are supporting lower-carbon steel production - and less exposure to the China and Latin American steel industries explained much of the return differential between the higher-rated ESG steel producers and the lower-rated ESG steel producers. After controlling for regional and industry returns though, the direct impact of ESG ratings on recent returns within the steel sector remains inconclusive.

Despite various factors influencing performance, it is notable that the higher-rated ESG steel companies, which have a higher portion of lower-carbon steel production - as demonstrated by their significantly lower carbon emissions over the same period – have performed well relative to peers. We expect this outperformance to continue as the markets for lower-carbon steel accelerate.

Total Returns (Sep 2021 – Sep 2025)
ESG Score High Low Comparison – Steel Producers:



Carbon emissions intensity of portfolios in ESG High Low Comparison: (Annual Average Weighted Average Carbon Intensity scopes 1 and 2, 2021-2025)

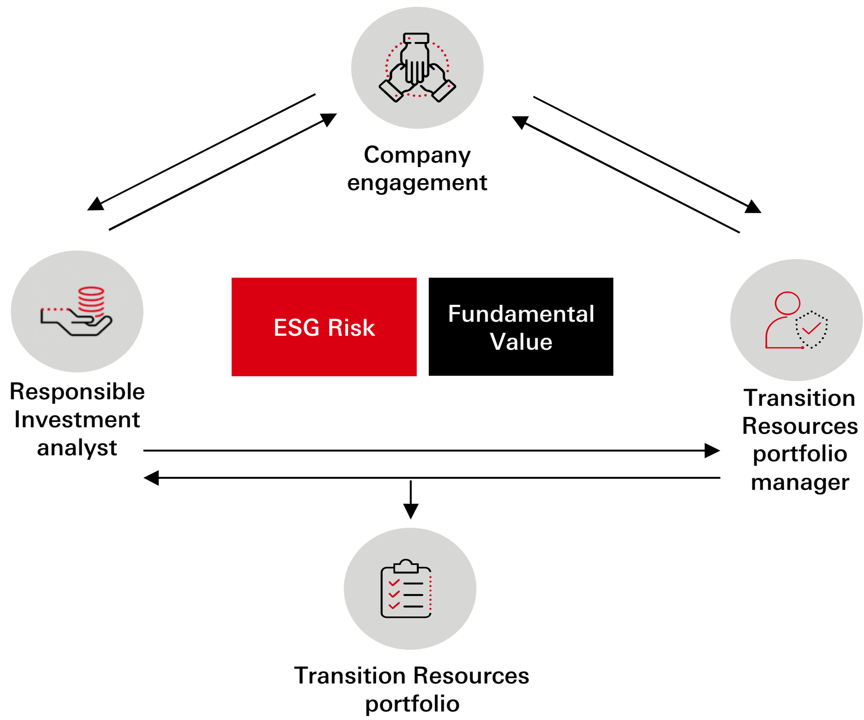


Source: HSBC Asset Management, November 2025

Note: To evaluate the total returns performance of higher-rated ESG performers vs their peers within the steel sector, 42 mid-cap and large-cap steel producers with MSCI ESG score coverage were identified. The sample size of 42 companies is insufficient for a comprehensive factor analysis, and controlling for regional effects showed no evidence that ESG ratings influenced excess returns. This observational analysis simply shows that companies producing lower-carbon steel and operating in lower-carbon steel markets tended to have higher ESG scores and better returns over the last four years. This analysis is intended solely for illustrative purposes and does not predict future performance. Further details are in the appendix.

HSBC Asset Management capabilities: An investment process for the climate transition

At HSBC Asset Management, we integrate responsible investment practices with active equity research to identify value. While ESG scores can provide indicative risk measures, they can be inaccurate and outdated. Active management and fundamental company analysis are essential to uncover where steel companies stand in their lower-carbon steel transition and how effectively they address sustainability risks relevant to steel makers.

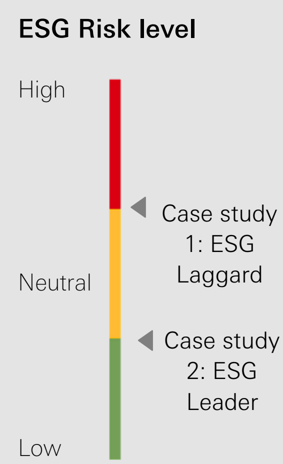


Understanding sustainability risks and their impact on returns:

Leaders vs. Laggards in the Steel Sector

Our Responsible Investment analysts and Transition Resources portfolio managers evaluate sustainability risks and opportunities to identify market leaders and laggards in the steel sector. On the following page, are two examples of steel companies with contrasting sustainability profiles, along with our risk assessments:

- In the first case study, the company received negative scores for its climate transition and health and safety practices, and a neutral score for its environmental impact. Overall, it was assigned a risk rating of "Laggard".
- In the second case study, the company achieved positive scores for its climate transition and health and safety practices, and a neutral score for its environmental impact, resulting in an overall rating of "Leader“.



Through close monitoring of the company’s climate transition strategy in the second case study, we observed significant recovery after it abandoned plans to acquire a higher-carbon BF-BOF plant and recommitted to its decarbonisation strategy, reinforcing our own investment conviction.

Source: HSBC Asset Management. These examples are provided for discussion and illustrative purposes only, and do not constitute investment advice.

Key theme	**Case study 1: ESG Laggard** EU Steel Company, market cap $30bn	**Case study 2: ESG Leader** EU Steel Company, market cap $7bn
Overall ESG risk level	HIGH	LOW
Climate transition	This company set an ambition to achieve net zero by 2050 and has made strides by reducing Scope 1 and 2 emissions by 46% since 2018, largely by selling higher carbon-footprint assets and transitioning 25% of its 2024 crude steel production to electric arc furnaces (EAF), up from 19% in 2018. Investments include USD 11 billion in decarbonisation initiatives, such as EAF construction in Europe and the US and renewable energy projects totalling 2.3GW in India, Brazil, and Argentina. However, a more comprehensive decarbonisation plan is needed to accelerate progress resulting in a high-risk climate transition assessment.	A pioneer in lower-carbon steel production, this company is integrating hydrogen-based steel production and high-grade iron ore to achieve zero-carbon operations. Science-based targets validated by the SBTi include reducing absolute Scope 1, 2, and 3 emissions by 47.9% by 2033 and 93% by 2045 compared to 2018 levels, with a commitment to reach net zero by 2045. The company is replacing coal-based blast furnaces (responsible for 90% of its direct emissions) with EAF technology, investing in lower-carbon clean steel production, and expanding its renewable energy capacities. These initiatives aim to align with the Paris Agreement and ensure long-term resilience in a market shaped by climate regulation resulting in a low-risk climate transition assessment.
Health & Safety	Despite a 2024 audit and new safety measures, the company's safety performance remains a concern, with 13 fatalities reported that year. While its lost time injury frequency rate (LTIFR) improved to 0.70 (below the global average of 0.78), the company's safety culture lags industry leaders, indicating operational inefficiencies and risks for shareholders which concludes our high-risk Health & Safety assessment.	With a goal to become the world's safest steel company, the firm achieved zero fatalities in 2024 and reduced its LTIF to 0.75 (from 0.87 in 2023). Rigorous monitoring and reporting, combined with strong leadership and accountability, have driven significant improvements and subsequently resulted in a low-risk assessment regarding Health & Safety.
Water Stress & Pollution control	The company is focused on reducing its environmental impact, achieving our neutral risk assessment in pollution control and water usage. In 2024, it upgraded its environmental data systems and allocated USD 219 million for 17 environmental project upgrades. We also note significant improvements in 2024 compared to 2023: dust emissions intensity dropped by over 50%, NOx emissions decreased by ~13%, SOx emissions fell by ~33%, and net water use reduced by ~17%. Despite the good progress, the company's lack of low-carbon steel production indicates continued levels of pollution.	The company's blast furnaces are among the most carbon-efficient globally and its new lower-carbon plants will only reduce its environmental footprint. Yet pollution control still needs improvement, leading to a neutral risk rating. In 2024, particulate matter emissions (non-gaseous pollutants) rose by 9%, and NOx emissions increased by 6% from the prior year. Most of its facilities face low water stress, and 2024 water levels declined by 3% from the previous year.

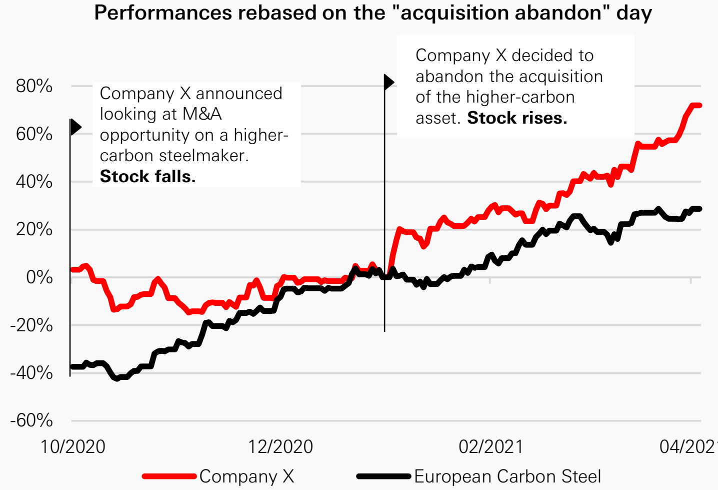
Impact of potential higher-carbon steel acquisition on price performance and subsequent rebound

(Case Study 2: ESG Leader continued)

In October 2020, investor sentiment took a hit after news that the company was considering acquiring a higher-carbon steel company focused predominantly on BOF-BF steel making. This led to the company's shares underperforming its peers by 55% over the next three months.

In mid-January 2021, the company announced its decision to abandon the acquisition, citing its commitment to lower-carbon steel. It stated that future mergers and acquisitions would align with its objective to lead in lower-carbon steel production. Following this announcement, the company's stock surged, becoming the top performer in its peer group for the rest of the quarter. This case shows how a commitment to lower-carbon steel in the EU market can deliver higher returns.

Performances rebased on the "acquisition abandon" day



*European Carbon Steel bucket includes ArcelorMittal, Thyssenkrupp, Salzgitter, Tenaris, Voestalpine

Source: HSBC Asset Management, as of April 2021

By comparing these companies, it's clear that a proactive, fundamental approach to researching ESG and climate goals reveals a clearer picture of company risks and can help in part explain market performance.

Source: HSBC Asset Management. These examples are provided for discussion and illustrative purposes only, and do not constitute investment advice.

Stewardship: driving impact together

Investors have a role to play in driving improvements in ESG and company performance. Active engagement, such as advocating for decarbonisation targets and improved safety standards, helps steel producers align with global sustainability goals. Below, we highlight two recent engagement initiatives that showcase our active stewardship approach.

Engagement case study 1: Asian steel company

Focus areas: climate change, human rights, and health & safety

Progress status	Current status (X)
Issues raised	
Addressing some of our concerns	X
Addressing all our concerns	
Engagement Complete	
Stalled progress against objectives	

Key Challenges: High greenhouse gas (GHG) emissions, lack of science-based targets, high rates of fatalities and injuries, and human rights controversies.

Actions & Outcomes: In a series of engagements, we raised concerns about the company's emissions and health and safety record. The company has since committed to using 100% renewable energy by 2030 and increased its use of scrap material. However, challenges remain, including delays in the commercialisation of green technologies and ongoing safety incidents. We are closely monitoring progress and maintaining engagement to encourage further improvements.

Engagement case study 2: European steel company

Focus areas: decarbonization strategy and health & safety

Progress status	Current status (X)
Issues raised	X
Addressing some of our concerns	
Addressing all our concerns	
Engagement Complete	
Stalled progress against objectives	

Key Challenges: Lack of a detailed strategy for transitioning to lower carbon steel making and persistent health and safety issues.

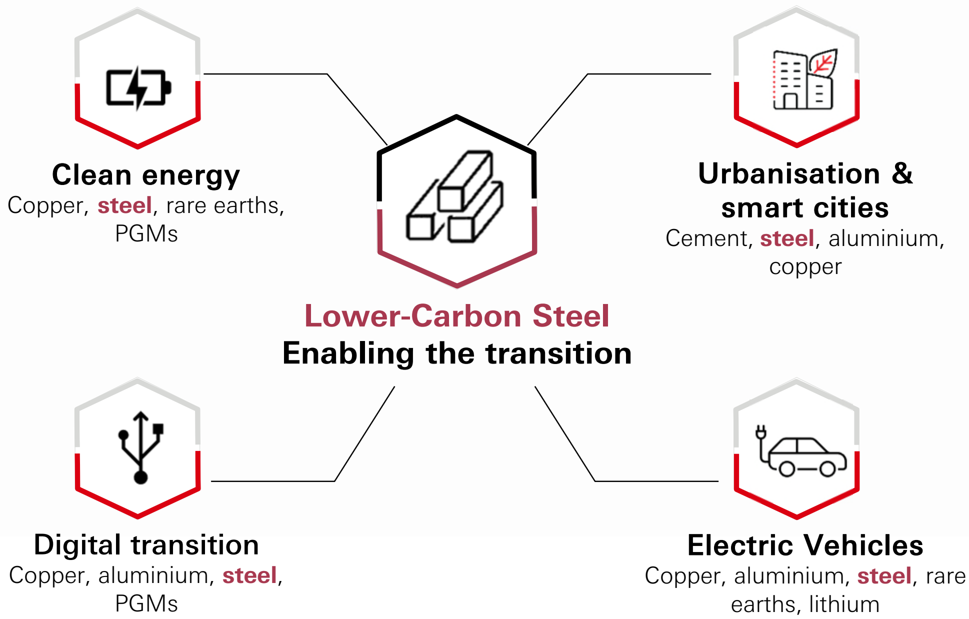
Actions & Outcomes: We engaged the company leadership to advocate for a clear plant-by-plant decarbonisation plan and improved safety measures. The company has conducted a third-party safety audit and implemented a three-year safety reset, though progress has been slow. We continue to work with the company to drive transparency and improvements.

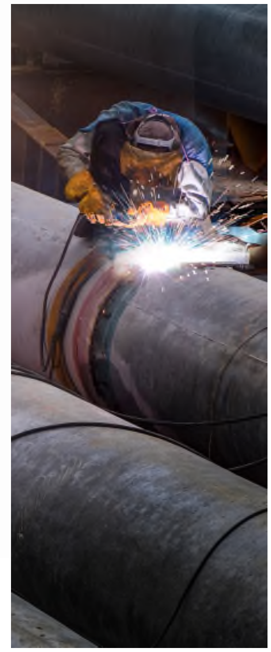
Our engagement efforts have shown the importance of active dialogue in driving change, ensuring that steel companies are better prepared for the climate transition while mitigating operational and reputational risks.

Source: HSBC Asset Management. These examples are provided for discussion and illustrative purposes only, and do not constitute investment advice.

Conclusion

Investing in lower-carbon steel companies is a valuable opportunity within the transition to an electric economy





The transition to an electric economy is a materials intensive process, and as with many other commodities, steel sits at the heart of this change. Whether it is changing the way we live, the power we consume, the data we process or the way we move people and goods around the world - steel will be a critical material that enables this change to happen. Today we produce 1.8 billion tonnes of steel annually, with almost 2/3 of this coming from Emerging Markets such as China and India.[41] We have already noted that India alone is forecasted to see 6% annual CAGR steel demand through 2035.

As cities expand, and power demand rises, we will need to consume substantially more steel. This power demand will necessitate supply from all power sources including renewable energy sources, all which require steel. Wind-based power for example, consumes almost 8x the amount of steel as a fossil fuel plant producing the same amount of power. These new power sources alone will drive up the demand for steel as we increase the amount of power in the energy system over the next 25 years to help us decarbonise, urbanise and support new technology (AI).

But how do we do this in a way that is sustainable and reduces carbon emissions, of which the steel industry is responsible for 8% of emissions annually? The transition away from traditional higher-carbon Blast Furnaces, a technology that by some estimates has been around since the 1200's, to Electric Arc Furnaces will present challenges and opportunities but, as we have discussed, Direct Reduced Iron technology, scrap steel recyclability and renewable power, provide a clear pathway exist to reducing carbon emissions from c.2.3 tonnes CO_2/tonne of steel to 0.5 tonnes of CO_2 or lower. SSAB, for example, uses hydrogen reduced iron ore in an Electric Arc Furnace to produce near-zero emission steel which will be used in GE Vernova onshore wind turbines, showcasing a combination of technology, clean energy and innovation by steel companies and their supply chain to be at the forefront of this transition to a low-carbon world. There are challenges to this change particularly towards funding, regulation and the availability of scrap steel or renewable power, but as we have discussed the industry turning point is now.

At HSBC we believe that the combination of a thorough research-driven understanding of the challenges and opportunities from this transition alongside a deep awareness of the sustainability risks, can unlock hidden value in the companies we seek to invest in. The energy transition is a long-duration thematic, and this approach will reveal numerous investment opportunities along the way. Steel might be all around us; but its true value in the form of lower-carbon steel, is on the verge of skyrocketing.

41. HSBC Asset Management, Arcelor Mittal (2023)

Appendix

Total Returns Analysis: ESG Score High Low Comparison – Steel Producers

To evaluate the performance of higher-rated ESG performers vs their peers within the steel sector, the MSCI ACWI Index was first filtered to include only companies that were a) tagged to the "Steel" GICS sub-industry b) within MSCI score coverage c) receiving the majority of their revenues related to steel manufacturing. Further refinement involved cross-referencing with Bloomberg's BICS L3 'Steel-Producers' categorisation and assessing each company individually to verify their business divisions related to steel manufacturing. Companies with Enterprise Value including Cash (EVIC) and/or Market Cap less than USD 2 billion were excluded to control for size factor. Subsidiaries and/or entities involved in mergers or acquisitions during the period were also omitted. This process identified 42 global mid and large-cap steel producers over the 4-year period, which were categorised into High ESG and Low ESG portfolios based on MSCI's ESG ratings monthly during the performance period. The previous month's score was used to construct the high-low portfolio categorisation to control for look-ahead bias. Historical returns, inclusive of dividends, were calculated and charted over the past four years, a period chosen due to the availability of MSCI ESG ratings for the sample companies throughout this timeframe.

The authors would like to thank the following contributors for their involvement:

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- Shehani Nolla - Senior ESG Research Analyst
- Sophie Lu - Global Head Heavy Industry Decarbonisation
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