Investors Underpricing Impact of Climate-Related Risks, Says BlackRock.

Investors must rethink their assessment of climate-risk vulnerabilities

Asset manager behemoth BlackRock warns that investors are underpricing the impact of climate-related risks and need to rethink their assessment of asset vulnerabilities.

The group, in a major piece of on-going analysis, asserts that while the physical manifestations of climate change are clear, including rising sea levels, and more intense hurricanes, wildfires and droughts, how investors incorporate these risks into their analysis is not.

The research indicates many US markets – particularly electricity utilities, commercial real estate, and municipal bonds – are consistently underpricing physical climate change risks to their business.

'Our early findings suggest investors must rethink their assessment of vulnerabilities,' the BlackRock report states. 'Weather events such as hurricanes and wildfires are underpriced in financial assets, including US utility equities.

'A rising share of municipal bond issuance is set to come from regions facing climate-related economic losses. And many high-risk commercial properties are outside official flood zones.'

Highlighting recent extreme weather events such as wildfires and hurricanes in the US and heatwaves in Europe, as well as rapid technological, social and regulatory change, BlackRock warns climate change poses 'tangible risks to investment portfolios today, not just years in the future'.

'The trend of rising average temperatures is boosting the frequency at which extreme weather events occur, as well as their intensity. These changes are affecting our economy today,' states the report. 'Investors who are not thinking about climate-related risks, or who view them as issues far off in the future, may need to recalibrate their expectations.'

BlackRock says recent beneficial developments in climate and data science have made it easier to analyze climate data effectively.

Brian Deese, global head of sustainable investing at BlackRock says: 'The combination of advances in data sciences, including geolocation data and climate modeling, have allowed us to more precisely assess the investment implications of climate-related risks.

'Many of our clients are long-term investors and, as a fiduciary, we are working to help them integrate ESG factors across an entire portfolio to enhance long-term risk adjusted returns with built-in resilience.'

And climate-related risks pose a threat to the economies – and creditworthiness – of many US state and local issuers, warns BlackRock.

Within a decade, more than 15 percent of the current S&P National Municipal Bond Index by market value would come from metropolitan statistical areas (MSAs) suffering likely average annualized economic losses from climate change of up to 0.5 percent to 1 percent of GDP.

Furthermore, 58 percent of US MSAs will likely suffer annualized GDP losses of 1 percent or more by 2060-2080 under a 'no climate action' scenario.

Florida would be hardest hit, with several towns and cities potentially incurring annual losses of more than 15 percent driven by coastal storms, BlackRock notes. Miami's current annual GDP losses due to extreme weather already account for more than 1 percent.

The report also warns that hurricanes and flooding are key risks to commercial real estate, with nearly 80 percent of commercial properties in Miami and Houston tied to mortgages outside official flood zones, which means they lack insurance.

Other organizations have also been highlighting the issue: The World Economic Forum has cited extreme weather as the most pressing threat facing the global economy in 2019 and the UN has warned of major risks to food security.

APR 10, 2019