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BlackRock's Larry Fink Sees Bond Peril for Cities Over Climate Change.

- **'This is going to change the municipal-bond market,' he says**
- **Puerto Rico, Houston, California a reminder of potential risks**

The head of the world's largest asset manager has a message for American cities that don't prepare for climate change: The bond market may not always be so welcoming.

BlackRock Inc. Chairman and Chief Executive Officer Larry Fink said in his annual letter to corporate executives that the risks posed by rising world temperatures will affect "both our physical world and the global system that finances economic growth." He said that includes the $3.8 trillion municipal-bond market, which finances the roads, utility systems and other infrastructure vulnerable to the impacts of devastating storms, wildfires or rising seas.

"This is going to change the municipal-bond market," Fink said in an interview with television network CNBC Tuesday after the release of his letter. "Areas that are more impacted by climate change [are] going to have harder time to finance their debt if they don't focus on the impact of climate change."

Those risks have been drawing increased scrutiny in the state and local government securities market, underscored in recent years by wildfires that scorched California, the severe flooding of Houston and the heavy damage visited on bankrupt Puerto Rico by Hurricane Maria in 2017.

Yet such events have had little if any impact on the price of bonds sold by cities, counties and states, even though many are increasingly highlighting their vulnerability to climate change in prospectuses circulated to investors. That's in part because natural disasters have typically brought an influx of federal aid, which isn't guaranteed if such events become more common in the decades ahead.

In April, BlackRock estimated that within a decade more than 15% of debt in the S&P National Municipal Bond Index will come from regions that could suffer losses from climate change.

In his letter, Fink said BlackRock joined with France, Germany and global foundations to establish the Climate Finance Partnership, an effort to improve financing mechanisms for infrastructure investment.

"The need is particularly urgent for cities, because the many components of municipal infrastructure — from roads to sewers to transit — have been built for tolerances and weather conditions that do not align with the new climate reality," he wrote. He added: every "government, company, and shareholder must confront climate change."

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