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Muni Bonds Face Climate Change. And Investors Are Ignoring the Risks.

The municipal-bond market has long been considered a haven: U.S. investors could buy bonds issued by states, cities, counties, and agencies and enjoy steady, tax-free income and rock-bottom default rates. More recently, overseas investors—particularly those combating negative yields at home—have been drawn to U.S. munis for their positive yields and a currency that's rising against theirs.

But there's a long-term risk looming in this $3.8 trillion market: Climate change raises the credit risk of an issuer by damaging its assets and tax base. Within a decade, absent efforts to curb emissions, according to BlackRock, more than 15% of the S&P National Municipal Bonds index will come from metropolitan issuers that probably will suffer climate-related losses of 0.5% to 1% of gross domestic product a year.

Probable losers include the Gulf Coast, the South Atlantic seaboard, and Arizona. Florida tops the list of danger zones; BlackRock estimates that Miami eventually could lose up to 4.5% of GDP a year.

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Barron's

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