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Why Climate Change Will Wreck the Municipal Bond Market.

It’s going to be worse than 2008.

Unpriced risk undermined the global economy during the financial crisis of 2008. Today, researchers say unpriced physical climate risk will lead to rapid declines in property values — and point out that this is already happening in some Florida markets. They often compare what’s happening now to the run-up to 2008. If the analogy holds, we will likely see disruption in other related financial structures. In particular, as the physical reality of climate change begins to have an effect on the attractiveness of bonds in risky areas, the ability of local governments to raise money to adapt to rapidly changing climate conditions may be undercut.

But comparing the effect of the 2008 unpriced risk on the municipal bond market with the potential effects of physical climate risk shows the suffering will likely be much greater this time. Today, there’s a direct, rather than indirect, connection between risk and public finance markets.

The solution? Last week, Tom Doe, CEO and founder of Municipal Market Analytics, said cities should act now to raise as much money as possible for adaptation before the municipal bond market starts pricing in physical climate risk. It’s only going to get more expensive later, in his view.

Continue reading.

HEATMAP

by Susan Crawford

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