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Pricing Climate Risks: Evidence from Wildfires and Municipal Bonds - Brookings

Abstract

How do financial markets respond to anticipated climate-driven wildfire risk? Using high-resolution meteorological forecasts, land use data, and U.S. municipal bond spreads, we find that municipalities facing greater future wildfire exposure already incur higher borrowing costs: A one standard deviation increase in projected wildfire risk raises primary (secondary) market spreads by 14 (26) basis points – over 40% of the sample mean. Impacts are significantly larger in areas with higher minority populations and greater reliance on local revenue. Our study contributes to the broader literature by introducing a new approach to identifying the financial effects of evolving climate risks.

View the working paper.

View slides.

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