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WM Chief Investment Office

From climate risks to investment opportunities

February 2021

The past year has been historic in terms of global efforts to slow the pace of climate change. A record number of investors, companies and governments committed last year to a “net zero emission” target by 2050, including Japan, China, South Korea and more recently, the United States.







Scientific studies show global warming can be kept well below 2 degree Celsius if the world combines forces to achieve this net-zero emissions target.

Policymakers see implementing a new wave of green policies as key to rebuilding the global economy. This includes the “Green deal” in Europe, which makes electrification of transport a central part of the program, and Biden’s proposed “Build back better” plan, which targets investment in modern sustainable infrastructure and clean economy.

The global climate movement got a further shot in the arm from the victory of Joe Biden as the US President. Biden’s proposed environmental policies are some of the boldest in US history.



President Biden's climate and environmental justice proposal during his campaign includes a Federal investment of USD 1.7trn over the next ten years, leveraging additional private sector and state, and local investments of more than USD 5.0trn

|  <p>0 net carbon emission by 2050</p> |  <p>Sustainable infrastructure</p> |  <p>Reduce risk of climate change</p> |  <p>Hold polluters accountable</p> |  <p>Make environment justice a priority</p> |  <p>Clean technology</p> |
|---|--|---|--|---|--|
| Key initiatives | Proposals | | | | |
| The US to achieve 100% clean energy economy and reach zero net carbon emission by 2050; interim target of decarbonising the US power sector by 2035 | <ul style="list-style-type: none"> • Reduce greenhouse gas emissions from transportation via new fuel economy standards • Incentivise 100% clean energy and zero-emission vehicles • Establish new appliance- and building-efficiency standards; invest in clean efficiency buildings, including 4m retrofits | | | | |
| Incorporate climate risks into infrastructure investments | <ul style="list-style-type: none"> • Invest to create a modern, sustainable infrastructure – from roads and bridges, to energy grids, buildings, power sector and auto industry | | | | |
| Rally the world to mitigate the threat of climate change | <ul style="list-style-type: none"> • Get major countries to commit and adhere to climate targets; integrate climate change into trade, foreign policy and national security | | | | |
| Hold polluters accountable | <ul style="list-style-type: none"> • Require all public companies to disclose climate-related financial risks and greenhouse gas emissions in their operations and supply chains • Propose legislation requiring polluters to bear the cost of their pollution | | | | |
| Make environment justice a priority across all federal agencies | <ul style="list-style-type: none"> • Federal agencies to develop solutions for environmental injustices • Allocate 40% of clean energy investment to disadvantaged communities | | | | |
| Accelerate the deployment of clean technology throughout the economy | <ul style="list-style-type: none"> • Reduce the carbon footprint of the US building stock by 50% by 2035 • Create incentives for rapid development of clean energy innovations across the economy • Deploy >500,000 new public charging outlets by the end of 2030 • Ensure the US agricultural sector is first to achieve net zero emissions | | | | |

Source: <https://joebiden.com/>

The Biden administration added proponents of climate change to lead its ambitious agenda:



Janet Yellen

Appointed as Treasury Secretary. She has long held the view of climate change as a threat to the financial system. She supported an international climate treaty in the 1990s and backed the idea of taxing carbon emissions while returning proceeds back to its citizens. She will have a crucial role in orchestrating the government's approach to climate risk and resilience. Within her scope, she will be in a position to oversee tax credits, with options to direct incentives towards renewables and carbon capture technologies.



John Kerry

The Former Secretary of State has been appointed Special Presidential Envoy for Climate, a first cabinet-level climate position with a seat at the table on the National Security Council.



Brian Deese

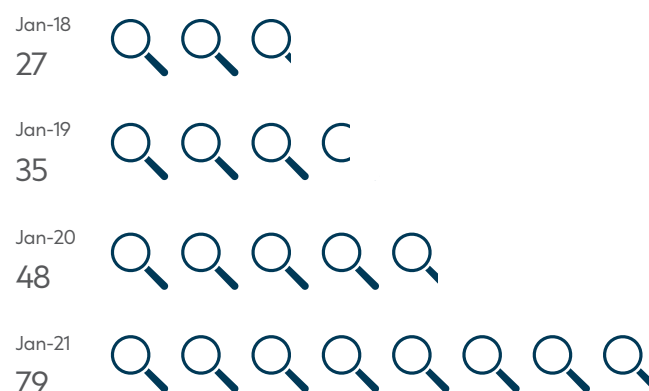
Who will be leading the National Economic Council, was previously the head of BlackRock's Sustainable Investing team that focuses on identifying drivers of long-term returns associated with ESG issues. In his previous role under the Obama administration, he served as the President's senior advisor for climate and energy policy, with notable work centred on negotiating the Paris Climate Agreement.

Where policy goes, capital follows

Increased government, business and consumer interest in sustainable development is likely to drive a significant reallocation of capital in the coming decade. The UN-convened Net-zero Asset Owner Alliance of institutional investors, representing over US\$100 trillion in assets under management, made a bold, public commitment to transition investment portfolios to net zero greenhouse gas emissions by 2050. This suggests Environmental, Social and Corporate Governance (ESG) factors will likely have an increasing impact on the long-term returns of assets as the structural shift towards a low carbon environment accelerates.

Google search for ESG has surged worldwide

Year/search trends



Source: Google, Standard Chartered

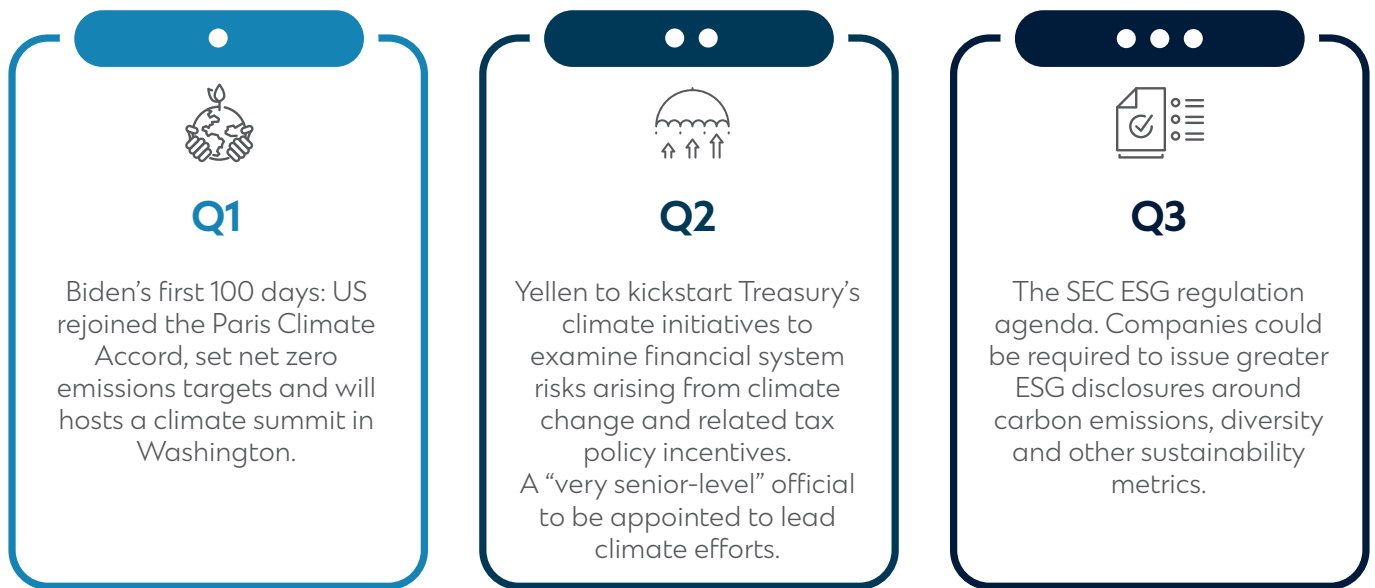
Risks and opportunities from climate change

There will be winners and losers from this multi-decade transition. According to Trucost, some 90% of CO2 emissions are concentrated in just five industries, including utilities, oil and gas, transport and some manufacturing activities. There could be significant risks on corporate profitability or asset values if companies fail to adapt their business model or get caught short by an abrupt shift in climate policies.

On the other hand, companies which provide solutions to reduce carbon emission, including clean energy producers, low carbon power generation equipment makers, electric vehicles and efficient energy storage technologies, are likely to be winners.

Beyond the headline climate announcements, the table below summarises the developments to watch out for in the current and coming quarters as Biden elevates climate change in all facets of policymaking.

Potential upcoming developments



Source: Bloomberg, Financial Times, Standard Chartered

Our thematic ideas on climate investing and emerging new technologies are catching the winds in the sail in 2021.

Investment themes related to electric vehicles, clean technology, solar and wind power have strongly outperformed global equities since December 2020. Medium-to-long-term investors may want to consider gradually increasing their exposure to climate solutions to future proof their allocation as the world transits towards a low-carbon economy.



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