# Climate Pulse Climate change risks and opportunities

By Mamadou-Abou Sarr



## The heat

COP 27: One step forward and two steps back?

The 27th United Nations Climate Change Conference, also known as the Conference of the Parties or COP27, took place in in Sharm El-Sheikh, Egypt, amid high expectations that meaningful progress in tackling the climate crisis could be made.

In 2015, the landmark Paris climate accord agreed to limit global warming to below 2 degrees Celsius (°C) above pre-industrial levels, preferably to 1.5°C. The seven years since have been the hottest ever recorded. The impacts of climate change are already being felt in the form of rising sea levels which led to major floods - such as those recently in Pakistan and Nigeria, and devastating wildfires seen in Australia and the US.

Despite the growing sense of urgency about the need to tackle the climate crisis, the latest summit was another harsh reminder that the move from policy commitments to practice is complicated on the global stage.

A UN Climate Change report published a couple of months ago shows that individual countries' efforts remain insufficient. It found that the combined climate pledges of 193 Parties under the Paris Agreement would put the world on track for only around 2.5°C of warming by the end of the century. There was no real sign of improvement at COP27.

One major step forward, however, came in the form of an agreement to create a 'loss and damage' fund.

Such a development seemed highly unlikely at the beginning of the summit because, in more than 30 years of climate talks, such a measure had proved a

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step too far for developed countries, who feared they could expose themselves to a flood of compensation claims.

This "loss and damage" fund's objective is to provide finance towards recovery and rebuilding of affected poorer countries. While I am pleased that the fund recognises climate inequalities, I remain sceptical on whether the funding will ever become reality, as well as the mechanism for financial flows and its monitoring.

After all, past commitments such as the 2009 commitment to mobilize \$100 billion annually in climate finance for developing countries by 2020 still yet to be fulfilled.

At the same time, we also took two steps back.

Firstly, the Summit did not commit a more ambitious target to lower emissions, nor did it outline any substantial potential steps to reduce emissions. There is some relief that the Paris Agreement's 1.5°C goal was not scrapped.

Secondly, there was no agreement on 'phasing down' fossil fuels beyond coal-fired power which was agreed at last year's COP26 in Glasgow. Remarkably, this was the first time a fossil fuel had been explicitly mentioned in an agreement text. Calls to extend this wording to more broadly cover fossil fuels remained unanswered.

Overall, the conclusion of the COP27 left me with mixed feelings and questioning what it would take to move from climate commitments to climate action.

It is fair to say that the lingering economic effects of the pandemic and the war in Ukraine, which has disrupted the energy supply chain and caused prices to soar were real challenges going into the summit.

So, perhaps a fairer test of resolve will come at next year's summit, in Dubai. Though the result in Egypt was not as pioneering as it could have been, I am hopeful that soon climate will be promoted from the backburner and no longer play second fiddle to other geopolitical concerns. I believe that the continued politicisation of climate change in countries including the US is a subject of confusion for investors with regard to the resolve for companies to tackle the climate change concerns.

The Sharm El-Sheikh final text referenced the need to transform the financial system to enable it to tackle climate change. I fear this will prove impossible if policymakers continue to avoid their responsibility to tackle the problem head-on.







### **Carbon Capture**

Carbon Capture and Storage (CCS) is set to have a major role to play in helping decarbonise the global economy.

CCS involves collecting the carbon dioxide produced by the burning of fossil fuels for power generation or industrial activity, such as steel or cement making, before it enters the atmosphere.

The greenhouse gases collected are then stored deep underground. The most likely sites for storage include saline aquifers or depleted oil and gas reservoirs.

Should this technology be successfully rolled out at scale, it could allow the continued use of fossil fuel burning with much lower greenhouse gas emissions trapped in the atmosphere. The International Energy Agency (IEA) says it could contribute up to 20% of emission reductions in a net-zero emissions scenario.

## The pulse

#### **Equity Indexes**

As of 11/30/22		Performance (Net total return)			,	As of 11/30/22	Risk (Annualized Standard Deviation)				
	Year to date	3 Year	5 Year	10 Year	Since Nov 29 2013 (Annualized)		3 Year	5 Year	10 Year	2013 (Annualized)	
MSCI WORLD	-14.51%	7.53%	7.35%	9.53%	7.80%	MSCI WORLD	20.31%	17.82%	14.37%	14.86%	
MSCI WORLD CLIMATE CHANGE	-18.44%	7.63%	7.71%		8.39%	MSCI WORLD CLIMATE CHANGE	20.69%	18.10%		15.04%	
MSCI WORLD LOW CARBON LEADERS	-15.01%	7.48%	7.40%	9.74%	7.87%	MSCI WORLD LOW CARBON LEADERS	20.31%	17.85%	14.43%	14.90%	
MSCI WORLD CLIMATE PARIS ALIGNED	-17.95%	6.80%	7.41%		8.57%	MSCI WORLD CLIMATE PARIS ALIGNED	20.66%	17.97%		14.95%	
MSCI EM (EMERGING MARKETS)	-18.95%	0.14%	0.42%	2.07%	1.89%	MSCI EM (EMERGING MARKETS)	20.69%	18.73%	16.69%	17.20%	
MSCI EM (EMERGING MARKETS) CLIMATE CHANGE	-20.22%	0.02%	0.54%		2.30%	MSCI EM (EMERGING MARKETS) CLIMATE CHANGE	20.72%	18.88%		17.23%	
MSCI EM LOW CARBON LEADERS	-18.15%	0.23%	0.65%	1.93%	1.65%	MSCI EM LOW CARBON LEADERS	34.00%	28.06%	22.26%	23.22%	
MSCI EM CLIMATE PARIS ALIGNED	-19.79%	1.20%	0.16%		2.23%	MSCI EM CLIMATE PARIS ALIGNED	20.63%	18.77%		17.14%	
SOLACTIVE GBS DEVELOPED MARKETS LARGE & MID CAP INDEX	-14.70%	7.36%	7.25%	9.50%	7.77%	SOLACTIVE GBS DEVELOPED MARKETS LARGE & MID CAP INDEX	21.11%	17.85%	14.59%	15.03%	
SOLACTIVE ISS ESG DEVELOPED MARKETS PARIS-ALIGNED BENCHMARK INDEX	-17.18%	5.94%	6.44%			SOLACTIVE ISS ESG EMERGING MARKETS PARIS-ALIGNED BENCHMARK INDEX	20.20%	17.08%			
SOLACTIVE ISS ESG DEVELOPED MARKETS CLIMATE TRANSITION BENCHMARK INDEX		6.47%	6.71%			SOLACTIVE GBS DEVELOPED MARKETS LARGE & MID CAP INDEX	20.40%	17.22%			
SOLACTIVE GBS EMERGING MARKETS LARGE & MID CAP INDEX	-16.73%	0.58%	0.07%	2.76%	2.55%	SOLACTIVE GBS EMERGING MARKETS LARGE & MID CAP INDEX	-19.50%	17.01%	15.24%	15.47%	
SOLACTIVE ISS ESG EMERGING MARKETS PARIS-ALIGNED BENCHMARK INDEX						SOLACTIVE ISS ESG EMERGING MARKETS PARIS-ALIGNED BENCHMARK INDEX	;				
SOLACTIVE ISS ESG EMERGING MARKETS CLIMATE TRANSITION BENCHMARK INDEX	(					SOLACTIVE ISS ESG EMERGING MARKETS CLIMATE TRANSITION BENCHMARK INDE					

#### **Fixed-Income Indexes**

As of 11/30/22		Perforn	nance (Ne	t total ret	turn)	As of 06/30/22	Risk (Annualized Standard Deviation)				
	Year to date	3 Year	5 Year	10 Year	Since Nov 29 2013 (Annualized)		3 Year	5 Year	10 Year	Since Nov 29 2013 (Annualized)	
MSCI USD HY CORPORATE BOND	-11.57%	0.30%	1.76%	5.27%	1.85%	MSCI USD HY CORPORATE BOND	11.57%	8.74%	7.63%	9.24%	
MSCI USD HY CLIMATE CHANGE CORPORATE BOND	-12.23%	0.27%			1.74%	MSCI USD HY CLIMATE CHANGE CORPORATE BOND	9.88%			7.99%	
MSCI USD IG CORPORATE BOND	-14.94%	2.46%	0.81%	3.70%	0.78%	MSCI USD IG CORPORATE BOND	8.62%	6.79%	5.77%	7.17%	
MSCI USD IG CLIMATE CHANGE CORPORATE BOND	-14.96%	2.52%	0.79%		0.76%	MSCI USD IG CLIMATE CHANGE CORPORATE BOND	8.27%	6.56%		6.92%	

 $Source: MSCI Inc- \underline{https://www.msci.com/} \ ISS ESG-\underline{https://www.issgovernance.com/esg/ratings/} \ Solactive AG-\underline{https://www.solactive.com/indices/} \ Solactive AG-\underline{https://www.solactiv$ 



## Climate Pulse

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