On the Minds of Investors

November 2021

COP26: Not a failure, not a success

The global leaders from around 200 countries that convened for the COP26 summit had a stark warning from scientists ringing in their ears. If limiting global warming to less than 1.5 °C versus pre-industrial levels was to remain within reach, swift and decisive action at COP26 was required. While several new announcements were made in areas including coal, deforestation and methane emissions, progress fell short of the scale and specificity required to give us confidence that disruptive climate outcomes can be avoided.

WHAT HAVE WE LEARNED?

As the practicalities of reaching net zero become clear, governments are finding the short-term economic costs unpalatable. Massive change is required to reach net zero emissions, which in the short term is likely to involve considerable economic cost. Finding new jobs for many of the roughly 30 million people involved globally in the fossil fuel sector is one clear example. The short-term costs are making governments hesitant in committing to ambitious targets. This was evident in statements from leaders in the emerging world, who stressed that climate ambitions must be balanced against economic goals. The summit did see some new commitments: of particular note was India's pledge to reach net zero by 2070 and to triple the usage of renewable energy by 2030, while the announcement that the US and China will cooperate on emission cuts was also encouraging. Yet the reluctance of both China and India (among others) to join global commitments on coal power and methane emissions sent a clear message: the energy transition will not be prioritised above economic progress, unless wealthier nations are willing to take into account their high cumulative emissions since the beginning of the industrial revolution and ramp up their support to help with the economic costs. In the developed world, several countries have upgraded their climate targets this year but current levels of emissions when judged on a per capita basis often compare much less favourably to emerging markets, especially for the US. In addition, analysis from Climate Action Tracker highlights that the UK is the only major developed nation to have policies and targets deemed "almost sufficient" to limit warming to below 1.5 °C, with no wealthy nation's plans currently being ranked as sufficient.

Developed markets will provide more financial support to the emerging world, but it's not coming quickly. In 2009, wealthy countries committed to make USD 100 billion a year available from public and private sector sources to the developing world by 2020. But this target was not met. While accelerating the available levels of financing was a key priority of the conference, it still looks like the USD 100 billion target will only be reached in 2023.

AUTHORS

Karen Ward
Chief Market Strategist for EMEA

Hugh Gimber
Global Market Strategist

The onus will fall on the private sector to drive change. Our other key takeaway is that governments are reluctant to be the ones inflicting the economic pain. Agreement on the rules for a new global carbon market was encouraging, but the lack of progress on setting a global carbon price was a major disappointment. In the absence of clear government solutions to drive change, the focus – and indeed the key breakthrough – was the agreement to ensure the financial system will deploy capital in a manner consistent with climate objectives. The Glasgow Financial Alliance for Net Zero, an initiative tabled by Mark Carney, saw over 450 financial institutions commit more than USD 130 trillion of private capital to support the net zero transition. Yet governments will still have a key role to play here: a combination of policy incentives and clearer guidance on future regulation will be necessary to enable the financial sector to effectively put its capital to work.

Investors will need to pay more attention to the climate risks in their portfolio. Even when assuming that current pledges are implemented in full and on time, restricting global warming to 1.5 °C still appears unlikely based on analysis from across the scientific community. The potential for macroeconomic disruption, not just in carbon-intensive industries but extending across the economy, will increasingly need to be factored in by long-term investors. Physical climate risks, most acute in the emerging markets, will sadly also warrant careful consideration.

EXHIBIT 1: KEY DEVELOPMENTS AT COP26

	Policy pledges announced	Signatories
Coal power	• End all investment in new coal power generation • Phase out coal power in the 2030s (developed markets), or 2040s (emerging markets)	• More than 40 countries, but excluding the US, China and India
Methane	• Cut methane emissions by 30% by 2030, versus 2020 levels	• More than 100 countries, but excluding China, India and Russia
Electric vehicles	• All sales of new cars and vans to be zero emission by 2035 (developed markets), or 2040 (emerging markets)	• More than 30 countries, but excluding the US, China and Russia
Finance support for EM	• New target to meet the goal of USD 100 billion in financing for developing countries	• Included in the COP26 Glasgow Agreement
Forests	• Halt and reverse deforestation by 2030	• More than 100 countries, covering over 90% of the world's forests

Source: UKCOP26.org, J.P. Morgan Asset Management. Data as of 12 November 2021.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

LV–JPM53436 | 11/21 | UK | 09n1210411125324

J.P.Morgan
Asset Management