



Denying climate causality won't alter the rapidly changing investment landscape

By Ian Simm, Founder & CEO Impax Asset Management

For those who deal in the universal currency of facts, the extreme polarisation of views on climate issues makes no sense. The political narrative that climate change is a “hoax” willfully ignores economic reality.

Against a backdrop of rapidly expanding demand for energy, the competitiveness of key clean technologies, including renewables, is relentlessly improving. Meanwhile, the financial risks arising from climate-related disasters are too great to ignore: global losses from natural catastrophes totalled US\$320bn in 2024.¹

In this context, it is unsurprising that many risks and opportunities look mispriced, providing fertile ground for active investors with long-term perspectives. Yes, they need to pay attention to likely bumps in the road and remain alert to the changing nature of stranded asset risk. But the opportunities associated with the transition to a more sustainable economy remain fundamentally undimmed.

Rational forces will sustain focus on climate risks and solutions

Markets may be imperfect, but their participants are rational. So, while US Presidential Executive Orders will undoubtedly colour investment decisions, asset owners' increasing interest in economic opportunities arising from climate-driven trends will continue to shape how capital is allocated. Four examples come to mind.

First, insurance markets will adjust to evolving risks through premiums and coverage. More expensive (or unobtainable) insurance ultimately creates incentives for relocation to less vulnerable areas. Pricing could

¹ Munich Re, January 2025: Climate change is showing its claws: The world is getting hotter, resulting in severe hurricanes, thunderstorms and floods.

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drive adaptation by encouraging policyholders to directly reduce risks through measures like managing flammable vegetation in wildfire-prone areas.

Second, capital allocators will continue to enhance risk assessment and management processes as part of their fiduciary duty to factor material risks into decision-making. To ignore the potential impact of changing weather patterns is to recklessly and needlessly amplify exposure to risk of financial losses.

Third, the profile of power markets will continue to evolve as renewables and energy efficiency solutions become cheaper and so gain market share. Four-fifths of newly-commissioned, utility-scale renewable projects globally in 2023 had lower electricity generation costs than fossil fuel alternatives”.² Meanwhile, investments will continue in hardware and software solutions that improve energy efficiency, thereby

reducing users’ energy bills.

Fourth, rising cost-competitiveness ultimately brings emerging technologies into the mainstream. For example, electric vehicles’ (EVs’) share of global car sales rose from 4% in 2020 to 18% in 2023 as they have approached price parity with internal combustion engine cars. In China, small EVs are now cheapest even without subsidies.³

Potential obstacles to progress

The economics and the pace of adoption of clean technologies will inevitably be shaped by external factors.

Trade policy, specifically around the flow of commoditised goods from China that support global demand for key technologies, is central. The price of Chinese-made solar PV modules fell by 40% in 2023 alone, reflecting scale and advanced manufacturing processes.⁴ Import tariffs mooted by

President Trump threaten to raise the cost of utility-scale solar projects by around 30%.⁵

The price and availability of raw materials crucial to the cost-competitiveness of clean technologies are also pivotal. Although demand for transition-critical minerals, including cobalt, copper, lithium and nickel, is rising quickly as grids and energy storage expand and EV adoption grows, forecasts for consumption are out of step with mining supply.⁶ BNEF estimates that US\$2.1tn of investment is needed.⁷

The availability of essential infrastructure is a key focus. Global electricity use is projected to triple by 2050.⁸ Grids need to expand and modernise, but bottlenecks are delaying renewables deployment: 1,500GW of projects in advanced stages of development are stuck in connection queues.⁹

Finally, the evolution of vital skills is critical. In the UK, for example, an

² International Renewable Energy Agency, 2024: Renewable Power Generation Costs in 2023.

³ IEA, 2024: Electric Vehicles. Premium between the sales-weighted average price of electric vehicles and internal combustion engine vehicles, before subsidies, by vehicle size.

⁴ Wood Mackenzie, April 2024: China’s solar growth sends module prices plummeting.

⁵ Ford, N., 5 December 2024. Roaring US solar market hit by higher import costs. Reuters.

⁶ IEA, 2024: Critical Minerals Data Explorer.

⁷ BloombergNEF, October 2024: Transition Metals Outlook.

⁸ Energy Transition Commission, 22 November 2023: Barriers to Clean Electrification – Grids: the critical gap, presentation to Commissioner meeting.

⁹ IEA, 2023: Electricity Grids and Secure Energy Transitions.

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estimated 5,000 to 7,000 new heat pump engineers will be needed each year between 2025 and 2035 to meet installation targets – more than the total number of trained engineers in 2022.¹⁰

Bankruptcy risk from stranded asset exposure is too great to ignore

In the context of the major economic transformation that's underway, investors should pay particular attention to stranded asset risks. The energy sector is particularly vulnerable given the impact of tightening regulations, the growing competitiveness of renewables and heightened geopolitical risk.

Rising risks from extreme weather and natural catastrophes make more properties uninsurable, threatening the viability of government intervention. Private insurers declined to renew 2.8mn residential property policies in California between 2020 and 2022.¹¹ Elsewhere, homes risk becoming uninhabitable due to rising sea levels.¹²

The tightening ratchet of regulation

on energy efficiency is rendering older buildings uneconomical. The commercial property sector is more exposed given higher energy standards, tenant mobility and higher vacancy rates.

And physical assets such as factories are at risk of obsolescence from technological change. Rapid advances in energy efficiency and in chip design mean that, without retrofitting, older data centres are set to become uncompetitive earlier than expected.

Investors can target mispriced risks and opportunities

In this context, and as an active investment manager, Impax is redoubling efforts to identify mispriced assets. Our approach is grounded on developing a detailed understanding of companies' exposure to these rapidly evolving risks and opportunities. We assess their business strategy, risk management and governance processes based on our understanding of economic and physical risks.

It is inevitable that society will adapt to the consequences of climate

change and that efforts to stem its exacerbation will shape markets profoundly. For example, solutions that improve resilience against wildfires such as fire-sensing and monitoring equipment and better-designed surface infrastructure, can reduce their financial and human cost and also provide compelling investment opportunities.

Irrespective of the direction of US policy in this area, I expect such opportunities will only expand as the consequences of climate change continue to hit us. For investors focused on identifying mispriced risks and opportunities arising from structural trends, it is worth remembering the value of patience and conviction in an approach grounded in sober analysis, not political rhetoric. **X**

More insights from Impax

For additional thought leadership showcasing Impax's original thinking on the challenges and opportunities arising from the transition to a more sustainable economy, visit impaxam.com/insights

¹⁰ Nesta, 2023: How to scale a highly skilled heat pump industry.

¹¹ California Department of Insurance, 2025.

¹² Sayers, P. et al, 2022: Responding to climate change around England's coast – The scale of the transformational challenge. Ocean and Coastal Management.



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