

# Climate change doesn't care what we think about it

By Bruno Bertocci

EARLY in my investment career, a senior colleague said to me: "Stocks don't care what you think about them," meaning that my opinion on a stock had no bearing on how it was going to behave.

That was an extremely valuable insight because all too often, individuals think that their opinions influence real-world outcomes, leading to very serious mistakes.

Climate change is the same. What individuals think about it is not going to change the fact that we can observe, in real time, that climate change has real-world consequences.

Let's start with the influence of climate change on near-term weather. Scientists are debating whether the warming of the oceans and other phenomena are increasing the number and frequency of hurricanes, tornadoes, fires and other natural disasters. We may or may not be able to tease out a scientific model that proves a connection with absolute certainty.

## Natural disasters

But the markets don't care whether we can build a model or not. What we can observe is that there has been a building boom in Florida's coastal areas; that hurricanes have caused hundreds of billions of dollars of damage; and that homeowner insurance is hard to get and much more expensive than in the



rest of the US.

Florida homeowners face serious obstacles when it comes to homeowners insurance. Many insurers have reduced their presence in Florida through non-renewals and limited writing of new business.

In addition, 16 companies have voluntarily withdrawn from the state, including AAA, Bankers Insurance, Centauri Insurance and Lexington Insurance. A further 16

insurers have gone insolvent since 2017. Still, other companies such as Liberty Mutual have not responded to quote requests for Florida ZIP codes, and Farmers Group has stopped writing new policies statewide.

All this market volatility has left homeowners saddled with higher costs and a tough time finding the coverage they need.

Proprietary data from insurance

company Insurify reveals that Florida homeowners already pay an average annual insurance premium of US\$11,759 a year. This is the highest of any state, and rates are likely to rise even more next year.

## Insurance markets

The insurance markets don't care whether anyone thinks climate change is real or not, whether the Florida home insurance market is

**A flooded housing development after a rain storm in Kentucky, US. Increasingly, climate change is thought to have real-world consequences.** PHOTO: AFP

flawed, or whether it was bad planning to build on barrier islands. All it knows is that hurricanes have increased in frequency and power, and that the losses sustained require much higher insurance rates.

The energy markets don't care whether anyone really believes that wind turbines kill birds and whales, cause cancer, or any other unconventional ideas. All it knows is that the wind blows hard in Texas, a major oil producing state, and that wind turbines are very profitable.

The Texas Comptroller of Public Accounts notes that Texas is a 17-year leader in US wind-energy production, accounting for more than a quarter of all US wind energy; more than 40 megawatts of production; and 25,000 jobs that pay more than US\$100,000 a year. Some 28 per cent of all electricity in Texas is generated by wind, and its marginal cost is often the lowest in the state.

Climate change doesn't care whether or not people prefer internal combustion cars over electric vehicles (EVs). What we observe is that EVs are now about 9 per cent of the US auto market – up from 5 per cent in 2022 – and that EVs and hy-

brids together are now about 30 per cent of the auto market.

As unit prices drop, batteries become cheaper, and charging infrastructure grows, the percentage of EVs will rise.

The market does not care if anyone objects to the rise of EVs or that the trend can be marginally influenced by incentives.

Objecting to horseless carriages as devil wagons did not work. Just like early EVs, the first vehicles were curiosities owned by wealthy eccentrics. It took a while for them to become ubiquitous, but the trend was irreversible because they were cheaper, better and faster than horse-drawn carriages.

What is the lesson in all this? That the markets, the real world, and the economy do not care if anyone believes in climate change or not.

There are direct consequences of climate change, many of which we aren't yet able to observe. But the real world is already adapting and changing because of the immediate consequences of climate change.

Climate activists can stop worrying about people who don't believe in climate change. They can stop worrying because climate change doesn't care what anyone thinks.

The writer serves as chair of the CFA Institute ESG Technical Committee