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“CLIMATE CHANGE” THE 21ST CENTURY THREAT TO MARKETS

Climate change has concerned humanity for more than two decades and has picked up tract with younger generations who are preoccupied with their future. This year, the United Nations Climate Action Summit hosted empowering speeches from a number of young activists. But the question remains, how will governments and corporations act on the promises they have made to the public?

The United Nations Climate Action Summit concluded on the 23rd of September 2019 making headlines with a 16-year old’s call for action rather than adequate plans from government leaders. “How dare you?” – Greta Thunberg, a Swedish teen advocating for action against climate change, asked the Summit’s audience of some of the world’s most powerful players.

Although a myriad of world leaders committed to tougher stances on climate change following Thunberg’s speech, two of the biggest offenders of greenhouse gasses did not. India’s PM Narendra Modi increased the nationally determined contributions for renewable energy to 450Gw by 2020; commendable but not meeting the 1.5 degrees Celsius target. China’s Foreign Minister, Wang Yi, made thinly veiled comments towards the USA’s withdrawal from the Paris Accords, but failed to address his government’s lack of commitment to even meeting the 2 degrees Celsius limit.

As is evident to even a passive reader of the news, climate change and sustainability is a trending topic for activist action. What may be less obvious, is that it is posed to make, not only the environment, but financial markets volatile. Aside from the effect that climate change has on agricultural markets, the higher chance of natural disasters increases volatility and risk from mortgage loans (decreasing value of collateral) to insurance plans (increasing chance of payout). This is supported by academic studies, including one conducted by the Federal Reserve.

“If climate change causes more volatile frequent and extreme weather events, you’re going to have a scenario where these large providers of financial products [...] cannot shift risk away from their portfolios” – Rostin Benham, Commodity Futures Trading Commission of the United States

Fortunately, sustainable investing – the process of investing capital into firms and products that make commitment to combat the environmental and social issues prominent today – is becoming increasingly more important. According to Morgan Stanley’s research, 75% individual investors are interested in sustainable investment. Since the creation of UN Principles for Responsible Investment in 2006, the amount of financial investment firms committed to incorporating Environmental Social Governance in investment decisions has grown 96%, according to the Harvard Business Review.

Aside from more and more opportunities to invest into firms measured on their sustainability performance, the financial community has focused on the creation of “green” and environmentally compliant products, such as green bonds. This is certified debt issuance solely for the purpose of financing projects designed to be sustainable – for example, renewable energy sources instead of oil and gas. In May of 2019, the Hong Kong Government released the City’s first green bond in the size of USD 1 billion. Despite the steps towards a better planet, there is much to be improved upon still.

The question of sustainability permeates society not just on an institutional level, but also on an individual one. Nowadays, the corporate world faces pressure from stakeholders to act with more care and consideration for the environment around them. The fashion industry is one of the biggest offenders of perpetuating a cradle-to-grave economy. In 2017, the industry was estimated to generate 1715 million tons carbon dioxide emissions and approximately 90 million tons of waste. In order to understand how firms, cope with the issue of sustainability,
it is useful to investigate the behavior and performance of two key players: Hennes & Mauritz AB (H&M) and Fast Retailing (parent company of Uniqlo).

H&M is the world’s second largest clothing retailer and a well-known “fast fashion” firm – offering 12-16 collections per year. Due to its size, the firm has faced a lot of pressure from interest groups to improve its sustainability and minimize the effect its supply chain has on the environment. The firm launched a conscious collection, designed to address sustainability concerns, which has to date largely been criticized as greenwashing and false advertising. The Norwegian Consumer Authority conducted a report into said collection, concluding that the environmental benefit was vague at best. However, the firm has taken tangible action, such as pledging to stop sourcing leather from Brazil – the production of which has contributed to the Amazonian rainforest fires. H&M’s garment collecting initiative has collected 20,649 tons in 2019. H&M has been ranked 98 for ESG.

Uniqlo is owned by Fast Retailing, which is the third largest clothing retailer. Uniqlo is a Japanese firm that seems to have made bigger commitments to environmental protectionism than its direct competitor, H&M. The firm is currently in the process of developing new technology designed to make the denim manufacturing process more sustainable, aiming to implement it fully by 2020. Uniqlo is also a member of the Better Cotton Initiative. Furthermore, Uniqlo also has a garment collection initiative – from which it distributes clothes to those in need and recycles unwearable items. Fast Retailing, the parent company, is also not without controversy. The company has been criticized for using down feathers, wool and leather without specifying sources, alongside exotic materials. Uniqlo has been ranked 70 for ESG.

The two firms, H&M and Uniqlo, evidently have room for improvement. However, it is difficult to make an accurate assumption of the relationship between stock price and a sustainable corporate strategy due to the number of factors at play. Although there may not be a direct correlation, it would be wise to acknowledge that climate change is no longer in the distant future. There is a newfound demand for sustainability, and with it – avenues for new investment tools.
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