An investor's guide to net zero by 2050: key takeaways

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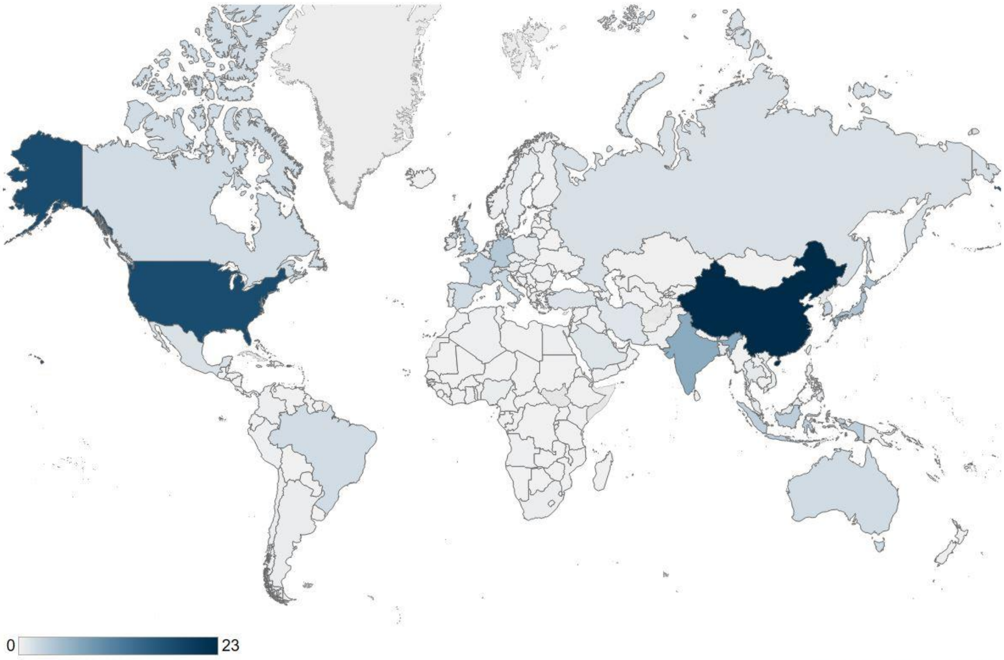
- $100 trillion needs to be invested in specifically 'green'[1] assets for the goal of net zero by 2050 to be achieved, new research by Fathom Consulting and BNY Mellon Investment Management has found – a vast figure, but possible

Global green investment spending, by location*
Per cent of global total



*Net zero 2050 scenario

Source: BNYM / Fathom Consulting

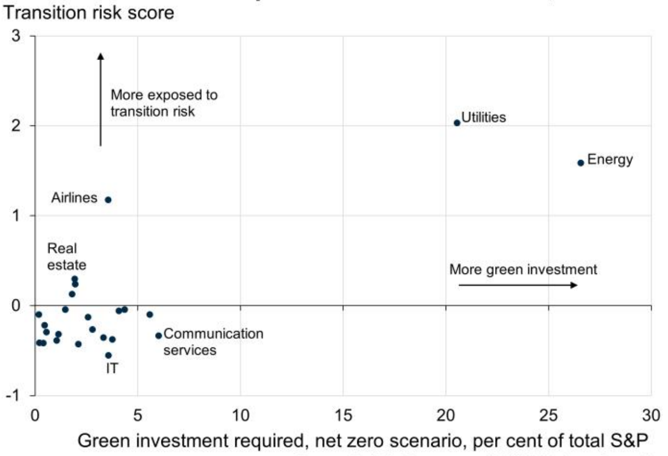
- This figure is not the cost of preventing climate change; in fact, this investment will create enormous opportunities for businesses and investors and in some cases lower costs for the firms and households making those investments[2]

1. Green assets are assets that are not directly responsible for generating greenhouse gas emissions when used but provide the same economic function as comparable assets that do generate greenhouse gas emissions when used (electric vehicles or heat pumps instead of petrol-powered cars or gas-powered boilers, for example).
2. In some cases, the cost of buying and operating green capital is cheaper than running 'dirty' capital. These costs depend on numerous factors which are impossible to predict with certainty. Currently, some green assets are more expensive to run than dirty assets, since the technology is in its infancy or expensive. But these costs are expected to fall over time – the speed at which they do will depend on the resources allocated to their development. Assessing these costs was not the objective of this study.

Continued

- The biggest beneficiaries are likely to be the firms and sectors providing the inputs necessary for this investment to happen, such as the makers of intermediate goods, the mining sector and owners of raw materials used in the transition
- There are risks and costs, however, and nearly $20 trillion of polluting assets will need to be scrapped or retrofitted at a cost before they reach the end of their useful lives; other risks include exposure to carbon taxes and the speed at which decarbonisation will be required
- The utilities and energy sectors are most exposed to these so-called transition risks and are also relatively CO2 intensive; yet nearly half of all corporate sector green investment needs to be done by firms in these sectors

Green investment required and transition risk, S&P 500



Source: Refinitiv Datastream / BNYM / Fathom Consulting

- Investing in a manner consistent with the Paris climate accord does not, therefore, require shunning the energy and utilities sectors; instead, investors should seek out companies in those sectors that are willing to make the requisite green investment
- Green investment needs to be scaled up significantly from current levels if the Paris climate goal is to be met, meaning that the boom in ESG and/or climate-related products may have a lot further to run
- More than half of the transition-related investment spending needs to take place in emerging markets, which typically have less access to capital; this creates opportunities, especially investors looking to make a positive impact for climate or ESG purposes

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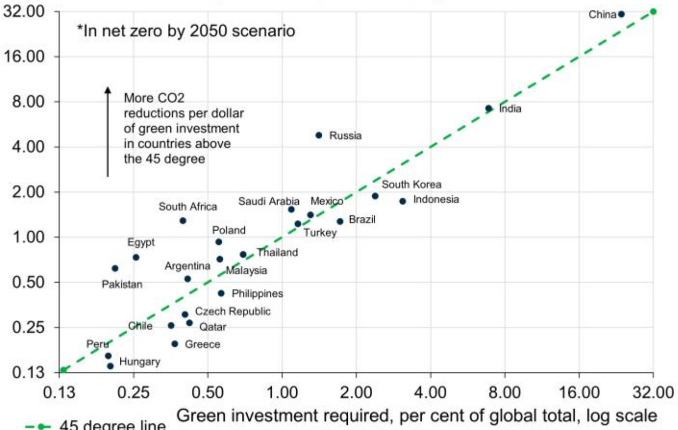
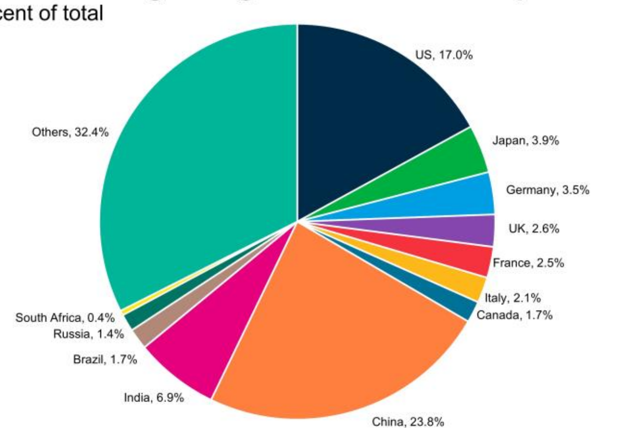
EMs green investment required* vs CO2 emissions
CO2 emissions in 2019, per cent of global total, log scale



Source: Penn World Table / Refinitiv Datastream / BNYM / Fathom Consulting

Breakdown of global green investment required*
Per cent of total



*Net zero 2050 scenario G7, BRICS and others

Source: BNYM / Fathom Consulting

This is the first in a series of notes which summarises the key findings of Fathom Consulting and BNYM's pioneering, in-depth report An investor's guide to net zero by 2050*. Themes outlined here will be developed in more depth in subsequent notes. The report assesses the capital spending requirements associated with the goal of net zero by 2050 and the relevant investment opportunities and risks that would emerge from this investment. The report was written for financial professionals and institutional investors.*

An investor's guide to net zero by 2050, by Brian Davidson, Head of Climate Economics at Fathom Consulting, and Shamik Dhar, Chief Economist at BNY Mellon Investment Management, was published on 25 October 2022.

Access the full report

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Further reading:

The bumpy road to climate transition

Allocating the world's carbon budget

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