State of Play

18 November 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. As the curtains are drawn on the climate conference in Glasgow, our State of Play article reflects on the key agreements reached, gauges progress made, and assesses the potential shortfalls.

The challenge of reaching consensus

After 15 days and the best part of 40,000 delegates from 197 countries around the world, the largest political conference ever held in the UK concluded having run into extra time in an attempt to reach agreement on phasing out the use of coal (which is responsible for 40% of global annual carbon dioxide emissions). Alok Sharma, the COP26 President, was disappointed at the last-minute intervention by China and India to downgrade 'phasing out' to 'phasing down' (in reference to the use of coal).

In some respects, this provides a clear example of the difficulties faced when trying to agree commitments to tackle climate change between different countries at various stages of economic development. The consensus is that they all agree on the need to tackle climate change, but how to meet this challenge and by what date, and at what cost is where the key disagreements lie. As State of Play examined two weeks ago, developing countries like India would argue that the UK, US, and Europe have been polluting the planet for much longer and on a much bigger scale. Therefore, committing to stopping the use of coal in the short-term puts countries like India at a big disadvantage unless richer countries are prepared to compensate them for this course of action.

The COP26 aim to 'keep alive' the target of limiting global warming to 1.5C above temperature levels before the industrial revolution remained in the balance as several agreements were reached during the 15 days, but not enough to secure this limit. Whilst the commitments made in Glasgow help towards this goal, the devil is in the detail - indeed most commitments made at COP26 will have to be self-policed as only a few countries are making their pledges legally binding.

What else has been agreed in Glasgow?

A new global agreement, the Glasgow Climate Pact, was reached with the aim of reducing the worst impacts of climate change. The agreement sets out the global agenda on climate change for the next decade. Before this agreement, countries would not have had to resubmit new climate plans until 2025, leaving a shrinking window in which to slow the pace of global warming. However, some leaders and leading campaigners say it does not go far enough. As part of the agreement, countries will meet next year to pledge further major carbon cuts with the aim of reaching the 1.5C goal. Current pledges, if fulfilled, will only limit global warming to about 2.4C.

More than 100 countries agreed to a 30% cut in methane emissions by 2030, although China, Russia, and India, three of the biggest emitters, have refused to sign up. Methane is currently responsible for a third of human-generated warming, so although the omissions are a disappointment it is still positive progress. In addition, leaders from more than 100 countries, representing approximately 85% of the world's forests, have agreed to end deforestation by 2030. Previous initiatives like this one have failed in the past to stop deforestation in part because of a lack of finance to back a plan. This agreement has better funding but again, it is unclear how countries will be held to account in keeping their promises.

An unexpected declaration was made by the US and China (the two biggest emitters of greenhouse gases) as they vowed to work together and co-operate on climate change action. The European Union and the United Nations both welcomed the news but activists including Greenpeace claimed it was unworkable until concrete action has been agreed. Their joint statement said they would work together to achieve the 1.5C temperature goal set out in the 2015 Paris Agreement. According to China's climate envoy, the declaration was agreed following some 30 meetings with the US over the past 10 months leading up to the summit.

The importance of the private sector

The world's largest financial players announced $130tr of private capital to decarbonise the economy. This sum, if realised, is over 1,000 times bigger than the $100bn a year wealthy countries committed to finance climate-related projects in the developing world at the Paris summit in 2015. The

British Government also outlined plans to make the UK 'the world's first net-zero aligned financial centre'.

Sustainable investing has grown in popularity as investors want to play their own part in shaping a better future. Investment markets, regulators and consumers are increasingly demanding more information about how companies are managing climate risks and pursuing opportunities to help contribute to reaching net zero in the future. Private finance has a huge role to play in encouraging the right behaviours and changes needed to support policy commitments by central governments and to finance the transition to a low-carbon economy.

Market reaction

Investment markets have gradually risen during the two weeks of the summit, more influenced by positive jobs numbers and strong corporate earnings data than anything said or agreed in Glasgow. The challenge for governments is a question of credibility. Many promises have been made by politicians in past climate conferences without any hard evidence of following through on these commitments. Investors and financial markets independently assess opportunities and trends without taking much notice of the speeches that are made.

Find out more!

Click **here** to read our latest A Month in the Markets, where our Head of Multi-Asset Solutions Stefano Amato looks at how key themes impacted markets in October.

Note: Data as at 16 November 2021.

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