PRESS RELEASE

01. July 2024

Stock Markets Underestimate Climate Risks, Finance Experts Say

- **Researchers survey around 2,000 finance professionals worldwide (CFA)**

Bonn, Mannheim, 01.07.2024 – **68 percent of international finance experts think that stock prices currently do not reflect climate risks adequately. This is the result of an online survey of nearly 2,000 international investment experts conducted by economists. The researchers also find that the political leanings of finance professionals influence their climate risk evaluations. These findings are published by the EPoS Economic Research Center at the Universities of Bonn and Mannheim in the discussion paper "Mental Models in Financial Markets: How Do Experts Reason About the Pricing of Climate Risk?".**

"We surveyed finance experts from the USA, Europe and Asia who are recognized as 'Chartered Financial Analysts' and we were surprised by the results," says Florian Zimmermann from the EPoS Economic Research Center. "The majority thinks that climate risks are currently underestimated in the stock market. At the same time, however, more than 10 percent of respondents say that markets currently overestimate climate risks. So there is definitely a lot of disagreement among finance professionals." Asked about the reasons for this inadequate assessment, opinions also differ.

Causes of mispricing
Many experts argue that other market participants have distorted views on the importance of climate risks and consider this the key reason why mispricing exists. The researchers find that the political leanings of professionals influence their views on the pricing of climate risks: Finance professionals who feel they belong more to the political left believe that other market participants underestimate climate risks. Conversely, respondents who feel they belong more to the political right think that other market participants overestimate climate risks.

Decarbonization of the economy
"The findings of our study are relevant to the current efforts to decarbonize the economy," says Zimmermann. Financial markets are highly important for the efficient transition away from fossil fuels. Market participants assess climate risks and play a key role in determining the extent to which capital flows into climate-damaging business models or economic sectors. "The result of our survey, that most experts believe that climate risks are currently mispriced, is a cause for concern," says Zimmermann. "Our finding suggests that considerable efforts are still needed to improve the evaluation of climate risks."

PRESS RELEASE

Better risk management required

The Federal Financial Supervisory Authority in Germany has called on the financial sector to be more sensitive to climate risks for a long time. In addition, the European Central Bank has been warning banks in the eurozone for years to better identify and manage climate risks. Failure to do so could result in fines. The deadline for the banks expires at the end of the year.

"It is high time that climate risks were adequately assessed and priced in the financial sector and on the stock market," says Zimmermann. "This is a key prerequisite for the successful transition to a more climate-friendly economy."

The presented discussion paper is a publication without peer review of the Collaborative Research Center Transregio 224 EPoS. Access the full discussion paper here: https://www.crctr224.de/research/discussion-papers/archive/dp569

Find the list of all discussion papers of the CRC here: https://www.crctr224.de/research/discussion-papers.

Authors

Rob Bauer, Professor of Finance, Maastricht University, Director, European Center for Sustainable Finance
Katrin Gödker, Assistant Professor, Department of Finance, Bocconi University
Paul Smeets, Professor of Sustainable Finance, University of Amsterdam
Florian Zimmermann, Professor of Economics, University of Bonn, Research Director, IZA and member of EPoS Economic Research Center

The Collaborative Research Center (CRC) Transregio 224 EPoS

Established in 2018, the Collaborative Research Center Transregio 224 EPoS, a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

Press Contact

econNEWSnetwork
Sonja Heer
Tel. + 49 (0) 40 82244284
Sonja.Heer@econ-news.de

Contact

Prof. Dr. Florian Zimmermann
Department of Economics
University of Bonn
florian.zimmermann@iza.org