

Key findings and overview of what the market thinks

Physical risk rising: A majority (57%) of respondents agree broadly that climate-related physical risks are creating economic fallout and growing in severity sooner than current climate scenarios anticipate, with an additional 36% of respondents saying that climate change will have a significant economic impact in the future.

Divergence on emissions: Roughly half of respondents say they expect that emissions would peak within the coming decade while the other half say they expect emissions to rise indefinitely.

Peak oil?: Similarly to emissions, nearly one-third (30%) of respondents said that oil consumption would peak in the next 10 years, while just over one-third (33%) of respondents said they expect consumption of oil to increase indefinitely.

Uneven progress: Roughly three-quarters of respondents say that Europe, Japan and Canada, respectively, would be either somewhat or very likely to meet their climate commitments by 2050. The U.S., China and India, in contrast, would be either somewhat or very unlikely to meet their climate pledges by 2050.

Paris Agreement threshold increasingly beyond reach: Overall, 69% of respondents say that a net-zero economy by 2050 appears to be unlikely.

A hotter world: 27% believe that global temperatures will remain under a 2°C (3.6°F) rise by 2100, while 38% believe that the world will warm by 3°C (5.4°F) or greater, including 8% who indicated a catastrophic 5°C (9°F) or more.

Climate risk not priced in: A plurality (48%) of respondents say that the prices of financial assets do not reflect climate risks, compared with 41% who said that financial assets partially reflect such risks, and 7% who said that prices capture climate risks fully.

Some impact on investment decisions: Just over one-third (34%) of respondents said that climate change has had a major impact on the allocation of assets in their portfolio, but more (42%) said it has had a moderate impact.

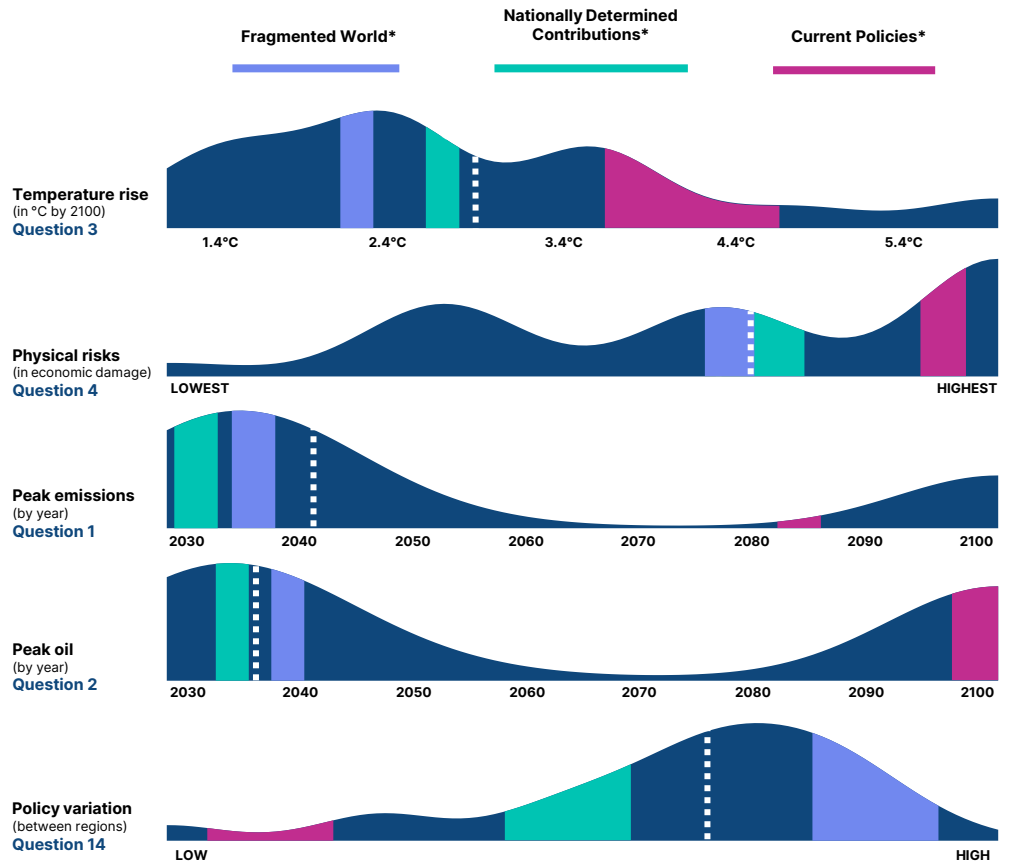
Transition risk of sectors: More than two-thirds (67%) of respondents say they expect oil companies to underperform the market as a whole over the next 10 years because of climate transition risk, while a majority (56%) said they expect companies in the aviation industry and half of firms in industrials to underperform because of transition risk as well.

Migration, geopolitics and tipping points: Respondents largely agree on the origin and destination regions of likely migration flows. A plurality (42%) of respondents say that moderate to high levels of global warming could trigger both environmental and geopolitical tipping points, with those in Europe and Asia expecting more severe impacts than in North America.

For more findings from our Climate Risk Outlook Study, visit msci-institute.com/cros

What the market thinks: Respondents' expectations versus common climate scenarios (n=350)

Stylized visualization of survey results.



Source: MSCI Sustainability Institute

* Scenarios from "NGFS Scenarios for central banks and supervisors."

■ Median answer

A world united on physical risk but divided on emissions.

The survey shows that physical risk matters a lot to participants across financial markets, who anticipate that governments will invest in adaptation. It also shows a divide between market participants who expect global greenhouse gas emissions to peak soon and those who expect such emissions to grow indefinitely. These reflect two very different futures.

As political pressures grow and the risks of physical climate impacts intensify, capital allocators must remain agile, ready to navigate both the opportunities and challenges that this uncertain future presents.

Overview of what the market thinks

The survey paints a picture of a market aware of climate risks but divided on when and how severely these risks will manifest. Respondents anticipate a world where the transition to a low-carbon economy is delayed, with significant regional and sectoral disparities. This creates both risks and opportunities for capital allocators.

Policy ambitions and confidence

Survey responses reveal a skepticism of government-led climate commitments, particularly for major emitters like the U.S., China, India, and Russia. These countries are seen as unlikely to meet their long-term decarbonization goals. Respondents have higher expectations for Europe, Japan, and Canada, where stronger political frameworks and regulatory environments inspire greater confidence in achieving climate ambitions.

Reading between the lines, across multiple survey questions, we can infer concerns that political ambition — especially in countries facing regular elections — might override climate ambition. As experts noted during discussions, governments may be forced to prioritize short-term, vote-winning policies over long-term climate goals. This potential dislocation between political cycles and climate action raises the risk that climate ambitions could be scaled back or delayed when electoral or economic pressures intensify.

This helps explain the divergence in global views on policy ambition and crucially how two wildly divergent emissions views can exist against a backdrop of consensus on country-level ambitions: while there is acknowledgment of ambitious goals, there is skepticism about how well these commitments will endure over time.

Emissions and temperature outcomes: an even split in expectations

Among the survey's most significant findings is an even split between respondents who believe global greenhouse emissions will peak soon and those who believe emissions will continue to rise indefinitely. This divide creates two distinct scenarios for global emissions trajectories. Those in the "peaks soon" group expect greater likelihood about the ability to reduce emissions, while the "never peaks" group sees indefinite emissions growth, which contributes to an outlook of far higher global warming.

This bifurcation in views is critical when considering temperature outcomes. Respondents who expect emissions to never peak generally forecast higher temperature rises by the end of the century, with many projecting 3-4°C or more. On the other hand, those in the "peaks soon" camp expect more moderate warming, though still beyond 2°C, aligning with scenarios like the NGFS's "Current Policies" path, which suggests global temperatures will rise beyond 3°C without additional action.

Sectoral implications

Sectors such as oil and gas, industrials, and aviation are seen as lagging in decarbonization, with respondents skeptical about these industries' ability to meet science-based net-zero targets by 2050. Investors anticipate that these high-emission industries will face substantial transition risks, with potential mispricing in current asset valuations. By contrast, sectors like consumer goods, real estate, and utilities are viewed more optimistically, with respondents expecting these sectors to be better positioned for decarbonization.

Physical risks and geopolitics

Respondents overwhelmingly believe physical risks from climate change are already impacting the global economy, with 56% stating that these risks are currently significant. This suggests that extreme weather events, such as hurricanes, wildfires, and floods, are already causing substantial economic disruptions. Many respondents expect these impacts to intensify, particularly in vulnerable regions, leading to severe infrastructure damage, forced migrations, and heightened geopolitical tensions.

Climate-driven migration is expected to reshape global demographics, with drought and extreme weather forcing people to leave vulnerable regions such as the Middle East, Sub-Saharan Africa and South Asia for more resilient regions like North America, Europe and Australia/New Zealand. The movement of people could trigger significant geopolitical and economic shifts that can have long-term implications for investors in infrastructure, real estate and regional markets.

Financial markets and pricing in

Despite increased awareness of climate risks, nearly half (47%) of respondents believe that climate risks are still not fully priced into current asset values. Only 7% believe that these risks are fully priced in, highlighting a disconnect between market beliefs about our climate future and current market behavior. Respondents see the mispricing particularly acute in sectors like oil and gas and aviation, where transition risks are substantial but not yet fully reflected in asset prices.

While some respondents say they have observed market reactions to climate-related news such reactions remain the exception rather than the rule. This suggests that markets may be underreacting to the full spectrum of climate risks, particularly in terms of long-term physical impacts and transition risks.

Study purpose and approach

What climate future do investors and other capital-markets participants envision when making decisions? The findings in this report address that question.

Investors and capital allocators make daily decisions about the value of financial assets without knowing fully how other market participants view:

- The trajectory of climate policy
- The pace of the energy transition
- The impacts of climate-related hazards.

This report provides a snapshot of these expectations to help investors benchmark their strategies relative to the broader market.

The report can benefit risk analysts and corporate decision-makers who aim to understand market sentiment on climate risks. Knowing how market participants view opportunities and challenges tied to a changing climate and the transition to a low-carbon economy may also inform decision-making by policymakers.

The report does not predict outcomes or probabilities, nor does it aim to assess investors' understanding of the drivers and impacts of climate change based on what the latest science tells us. The report also does not relay investors' assessments of climate policies or technologies or views on either the effectiveness or likelihood of success for any particular pathway.

Background

This report provides a snapshot of how financial market participants currently perceive climate risks and opportunities, particularly regarding the transition to a low-carbon economy and the physical impacts of a warming world.

The findings set out in the report come from a survey conducted by MSCI that asked more than 350 senior institutional investors, asset managers and risk management professionals for their views about the effects of climate change on investments with the goal of obtaining insight into areas of consensus and divergence within current market expectations of the most likely future scenario. We supplemented the questionnaire survey with panels and interviews of more than 30 experts from finance, policy and academia to test and validate how the responses inform a scenario that reflects market expectations.

Having a snapshot of current market thinking is crucial to the investment community, as many climate scenarios currently used in financial markets are driven by regulatory supervision or based on scientific ideals rather than reflecting market behavior.

Methodology

The survey of 350 industry professionals representing asset owners and managers, banks and insurers was conducted online by a leading market research firm on behalf of the MSCI Sustainability Institute and MSCI's Climate Risk Center during July and August 2024. The survey included respondents from every region to help ensure responses that reflect regional differences, expectations across sectors, and institutional priorities. The questionnaire was translated into several languages, including Mandarin, Japanese and Korean. The survey was not limited to climate specialists to help provide a market-wide view.

The survey was designed to elicit a range of views of held by market participants regarding possible a possible climate future, with 40 questions that touched on:

- Decarbonization trajectories
- Temperature rise
- Economic damage
- Government climate ambitions
- Pricing of climate risk by the market

The questionnaire aimed to balance completeness with the time necessary for participants to answer questions. Hence in some parts of this report we needed to infer and estimate reasons or rationale for a view expressed.

To help us validate these areas of interpretation, we conducted expert panels and interviews with more than 30 participants from the fields of climate science, economics, finance and engineering who provided qualitative insights from real-world experiences and practical considerations.

The MSCI Sustainability Institute is the source for all exhibits in this report.