

# INSIGHTS

January 2024

An aerial photograph of a river delta, likely the Amazon, showing a complex network of waterways and lush green vegetation. A white rectangular text box is positioned on the left side of the image, containing the title. The background image shows the river branching out into smaller channels, surrounded by dense green forest and some exposed sandy or muddy banks.

## Climate Crossroads: 2024's Top Ten Predictions



## Climate news and developments will be among the most impactful events of the year

“Predictions are difficult, particularly about the future” is a quip attributed to the baseball manager Yogi Berra (and also to the Danish physicist Neils Bohr). Nevertheless, with the new year come the latest predictions from economists and analysts for 2024’s GDP growth, stock market performance, inflation levels and interest rates. As in every year, some of these forecasts will be right and some well off the mark, but in general few, if any, will include climate issues. To fill that gap, we present our “Ten Climate Predictions for 2024” as we believe climate news and developments will be among the most impactful events of the year for business, politics and investment.

The Ten Climate Predictions for 2024 are as follows:

### 1 2024 will be the first year where the average global surface temperature is 1.5°C (2.7°F) warmer than the pre-industrial era.

Warming trends are increasingly visible, but 1.5°C (the revised Paris Agreement target) has been viewed as a line that should not be crossed. 2023 became the warmest year in global temperature data records going back to 1850 and was 1.48°C (about 2.71°F) warmer than the 1850-1900 pre-industrial level<sup>1</sup>. El Nino explains some but not all of the extraordinary jump in temperature. The trend will continue in 2024 as warming accelerates (noted in climate scientist James Hansen’s recent work) pushing the 12-month average to 1.5°C or more<sup>2</sup>. Reaching this marker (albeit on an annual not decadal average basis) much earlier than expected will catalyze broad public attention on climate.

### 2 Climate concerns impact asset values in highly exposed areas and sectors.

Weather related risks will lead more insurers to pull out of exposed markets (e.g., hurricane prone Florida) impacting real estate asset values. Increasing strains on infrastructure (electric grid, water delivery) will impact property losses. While 2023 saw an increase in oil & gas M&A activity, the events of 2024 will put significant scrutiny on the viability of future investments as near-term climate risk becomes more apparent. The events of 2024 will accelerate the shift in narrative from “energy transitions take a long time” to “we cannot afford additional delays.”

### 3 The legal battlefield becomes a major front for climate action.

2024 will accelerate 2023’s groundbreaking legal actions. Last August, a Montana judge ruled in favor of a group of youths’ claims that a stable climate is included in the state constitution’s right to a “clean and healthful environment” – the first-ever constitutional climate case in U.S. history to go to trial.<sup>3</sup> More constitutional climate lawsuits are pending in other states. In September, California’s attorney general filed a lawsuit against five of the largest oil and gas companies in the world — Exxon Mobil, Shell, Chevron, ConocoPhillips, and BP — and the American Petroleum Institute (API) for engaging in a decades-long campaign of deception and creating statewide climate change-related harms.<sup>4</sup> In November, New York state sued PepsiCo accusing the beverage and snack food giant of polluting the environment and endangering public health through its single-use plastic bottles, caps, and wrappers.<sup>5</sup> Earlier in 2023, European foods producer Danone was sued by environmental groups.<sup>6</sup> The potential liability and public nature of these fights will sharpen board and governance attention on climate.

<sup>1</sup> “2023 is the hottest year on record, with global temperatures close to the 1.5°C limit.” Copernicus Climate Change Service, January 2024.

<sup>2</sup> “Groundhog Day. Another Gobsmaekingly Bananas Month. What’s Up?” James Hansen, Makiko Sato, Pushker Kharecha, Columbia University, January 2024.

<sup>3</sup> “Judge Rules in Favor of Montana Youths in a Landmark Climate Case.” New York Times, August 2023.

<sup>4</sup> “California sues five major oil companies for ‘decades-long campaign of deception’ about climate change.” LA Times, September 2023.

<sup>5</sup> “PepsiCo sued by New York state for plastic pollution.” BBC, November 2023.

<sup>6</sup> “French Food Giant Danone Sued Over Plastic Use Under Landmark Law.” New York Times, January 2023.

## 4 Global venture capital inflows to climate solutions rebound and approach 2022's record levels.

Geopolitics, sinking valuations, inflation and rising interest rates hit all areas of growth investing in 2023, with total venture and private equity investment down more than fifty-percent year-on-year.<sup>7</sup> Private funding into climate solutions was also down, but not as far (approximately thirty percent over the same time frame).<sup>8</sup> The warming trends above will drive climate-focused innovation and start-up activity. Traditional VC and corporate VC funding will accelerate through the year with climate solutions taking a larger share of investment dollars.

## 5 The SEC's continued hesitation on mandatory emissions reporting matters less and less as companies face increasing reporting requirements from multiple authorities.

The SEC's final decision on its climate disclosure rule (first proposed in March 2022) may continue to be delayed due to presidential politics and business resistance – but it won't matter. California is moving ahead with laws requiring all companies doing business in California with annual global revenues above certain thresholds to make climate-related disclosures starting in 2026. In Europe, the Corporate Sustainability Reporting Directive (CSRD) requires companies doing business in the EU to disclose how sustainability issues affect its business and the impact of the business's activities on people and the environment. In addition, the EU's Carbon Border Adjustment Mechanism (CBAM) has begun its transitional period, requiring importers to report the embedded greenhouse gas (GHG) emissions of the products they import into the EU. While there will be compromises and further refinement of the above, the clear direction is more mandatory vs. voluntary emissions reporting.

## 6 The turmoil in the carbon markets fades as new regions and countries initiate regulated markets and new standards stabilize the voluntary carbon market.

Major financial centers, i.e., Singapore (Climate Impact X), UAE (Abu Dhabi's ACX, Dubai's Blue Carbon), make carbon markets a growing part of their economic strategy. Throughout the year increasing regulatory scrutiny and oversight begins to calm down concerns around integrity and transparency in the voluntary carbon markets. Regulators and self-regulators (Voluntary Carbon Markets Initiative, the Integrity Council for the Voluntary Carbon Market, Science Based Targets initiative) come together by COP29 (in November in Baku, Azerbaijan) to produce a compromise that sets the stage for globally integrated carbon markets.

## 7 The U.S. position as the largest producer of oil begins to weaken U.S. negotiating leverage on climate change.

Global production of oil and other petroleum liquids has averaged around 100 million barrels per day<sup>9</sup>, and the United States tops the list with almost 20% of production (~18,875,000 barrels per day).<sup>10</sup> U.S. production reached record levels under President Biden and will continue to increase to tamp down inflation in the election year and reduce geopolitical reliance on OPEC and Russian oil exports. While the U.S. will try to claim a more nuanced approach to its high production, its leverage in international negotiations (i.e., encouraging other countries to reduce output) will be significantly weakened as its fossil fuel generation continues.

<sup>7</sup> "State of Climate Tech 2023: Investment Analysis." PwC, October 2023.

<sup>8</sup> "Climate Tech Investment Trends 2023." Sightline Climate, January 2024.

<sup>9</sup> "Oil Market Report – September 2022." IEA, September 2022.

<sup>10</sup> "The Five Biggest Oil Producers – Updated 2022." DW Energy Group, November 2022.

## 8 Climate change becomes a major issue in the 2024 U.S. presidential election – and other global elections – due to widespread and severe weather.

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The long, hot and record summer of 2023 will be surpassed in 2024. Extended heatwaves in Texas and the Southwestern U.S., water shortages in western states, and record rainfalls and flooding in the eastern states will focus U.S. voter attention on climate going into the critical post-Labor Day election season. The contradictions in current U.S. policy will become a larger issue for activists and will impact Democratic turnout among youth voters. The same factors will also impact elections in other nations with summer hot zones (Mediterranean, Western Europe), particularly later in the year, with an estimated 64 countries plus the European Union – almost half of the world population – holding national elections in 2024.

## 9 New records are reached for atmospheric carbon dioxide (CO<sub>2</sub>) levels and overall global greenhouse gas (GHG) emissions with both numbers exceeding their recent increases.

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While 2023's numbers are not yet out, atmospheric CO<sub>2</sub> concentrations are expected to reach 419.2 parts per million ("ppm") – and may cross 420ppm, an estimated 51% above pre-industrial levels.<sup>11</sup> In 2023, the world is expected to emit almost 59 gigatonnes of carbon-equivalent greenhouse gases.<sup>12</sup> Despite notable progress on renewals and the energy transition, these figures will be up again in 2024 – with atmospheric CO<sub>2</sub> crossing the 420ppm marker. GHG emissions will increase by more than in recent years given higher GDP growth, increasing industrialization in developing nations and ongoing conflicts in Ukraine and Gaza.

## 10 Momentum builds for international cooperation on a "Manhattan Project" for carbon capture technologies

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In the spirit of thinking "outside of the box," we close with a less likely (below probable) 2024 event: Recognition of the need for massive and immediate reduction in CO<sub>2</sub> levels leads to an international and cooperative "Manhattan Project" to accelerate carbon capture technologies for global deployment.

<sup>11</sup> "Record carbon dioxide emissions impeding progress on meeting climate goals." NOAA Research, December 2023.

<sup>12</sup> "Have we reached peak greenhouse gas emissions?" Brookings Institute, November 2023.

## Authors

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## About Investcorp

Investcorp is a global investment manager, specializing in alternative investments across private equity, real estate, credit, absolute return strategies, GP stakes, infrastructure, and insurance asset management. Since inception in 1982, Investcorp has focused on generating attractive returns for its clients, while creating long-term value in its portfolio companies by adopting a disciplined investment process, employing talented professionals, and utilizing the resources of a global institution with an innovative approach.

Today, Investcorp manages \$48 billion in assets, including assets managed by third party managers. Investcorp has 14 offices in the US, Europe, GCC and Asia, including, India, China, Japan and Singapore and employs approximately 500 people from 50 nationalities globally.

Investcorp is proud of its commitment to sustainability. Investcorp is a signatory to the United Nations Principles for Responsible Investment ("UNPRI") and the Abu Dhabi Sustainable Finance Declaration, a licensee of the Sustainability Accounting Standards Board (SASB) standards, and a member of the ESG Data Convergence Initiative. Investcorp was a sponsor of the 28<sup>th</sup> Conference of the Parties to the United Nations Framework Convention on Climate Change ("COP28") that took place in Dubai, United Arab Emirates from November 30 to December 12, 2023. Additionally, Investcorp has been a partner of the Abu Dhabi Sustainability Week ("ADSW"), a global platform which brings together government leaders, policy makers, investors and youth to explore ways to tackle climate change. For further information, please see Investcorp's latest ESG report ('Responsible Growth') and visit <https://www.investcorp.com> and follow @Investcorp on LinkedIn, Twitter and Instagram.

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