

Quick Take: U.S. climate policy – anticipation but uncertainty

November 2020

Prospects for U.S. Climate Policy Change

- President-elect Biden has an ambitious environmental policy agenda. It includes rejoining the Paris Agreement, decarbonizing the electricity sector, review of carbon regulations, and climate-related stimulus. However, prospects for major policy change remain unclear, particularly given that the make-up of Congress has yet to be resolved.

Nuance Matters

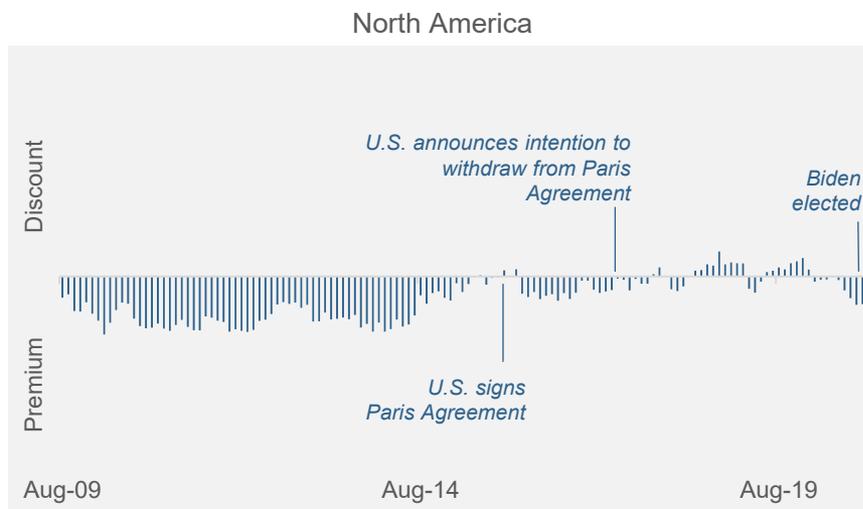
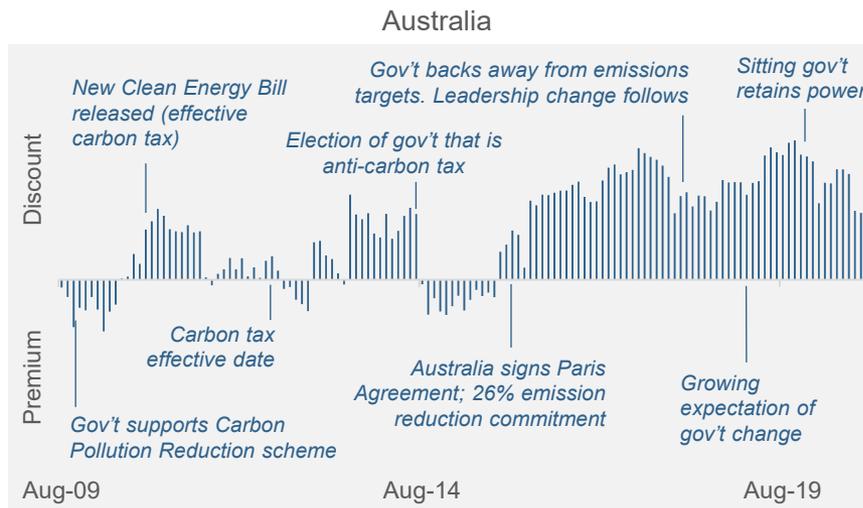
- The uncertainty highlights the importance of incorporating climate and other ESG considerations into the investment process — and the value of nuance and dynamism in doing so.
- Market pricing of carbon-related assets provides a case in point. In Australia, for example (top chart), stock prices have for years reflected a material discount for carbon-related assets. But that discount has varied over time with the prevailing policy stance. In contrast, we haven't yet seen a carbon discount in North America (bottom chart). It remains to be seen how evolving expectations for U.S. environmental policy affect the pricing of carbon-sensitive stocks there. Failure to account for how the market is pricing carbon may distort perspective of valuations.

We are an Engaged ESG Investor

- Acadian was a signatory to the 'Paris letter' in 2017, which urged G20 countries to maintain their commitment to the Paris Agreement and to implement policy measures to achieve emission targets. We are intently monitoring U.S. policy developments, and our systematic process is designed to adapt to shifts as they occur.



Carbon Pricing in Equities



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Source: Acadian Asset Management LLC. Estimates of carbon pricing reflect proprietary models. For illustrative purposes only. Every Investment program has the opportunity for losses as well as profits. Past results are not indicative of future results.



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