Last week, the Institute for Energy Economics and Financial Analysis issued a report criticizing BlackRock, the world's largest fund, for making bad bets on the fossil fuel industry that cost the firm billions of dollars. What I found significant was less the plight of Blackstone's shareholders than the fact that the energy firms weren't doing very well. One category consisted of firms that, like GE, had made big investments in producing gas turbines. Those firms ran into trouble when the rapid growth of renewables hammered the expected growth rate for natural gas. Another company consisted of the major oil companies. Exxon Mobile ended up with the same share price as it had ten years earlier, at a time when the market as a whole made bundles of money. Like GE, Exxon had made a big bet on natural gas, only to be disappointed by the results. Chevron did better, but still got only about 40% of the returns for the market as a whole. Utilities like Duke Power, which is heavily reliant on coal, also underperformed the market.

There has been considerable empirical research on how climate risk affects financial values. A recent paper by Patrick Bolton at Columbia and Marcin Kacperczyk at Imperial College fits into a growing body of empirical literature on the issue. The upshot is that investors demand higher returns for holding stock in carbon-intensive companies because these investments come with added risk. I know that "higher returns" sounds like a good thing. But think of it this way: if you're selling stock in a risky company, you're going to have to lower the value of the stock to make up for the rest. That way, investors will actually get higher returns if things work out well. So higher investor returns means lower stock prices, holding the company's prospects constant. Some types of carbon risks impacted returns at the company-by-company level, but other types only influenced judgments about an industry as a whole. The evidence also suggested that information about climate risks is only slowly becoming available and understood by investors, which suggests that prices may not yet fully reflect risk levels.

I'll mimic all those politicians who say "I'm no scientist" by making it clear that I'm no finance expert. But the market does seem to be confirming that the future of these companies is dicey. If that's right, it's a point in favor of the divestment movement, because it supports the argument that a wise investor, not to mention an ethical one, might steer away from those stocks. Or at least, there may be enough doubt about these stocks that a pension fund manager who wanted to divest wouldn't be violating any fiduciary duties.

From a policy point of view, the most significant take-away is that placing heavy reliance on carbon-intensive industries could be a risky economic strategy. The

market certainly doesn’t seem to think that fossil fuels will be eliminated by 2030, but it seems none too confident about their future.