



# Climate Transition Risk for Bondholders

## Credit ratings and the impact of the green transition

### AUTHOR:

**Michael Penn**

+44(0) 7073 0764  
michael.penn@absolute-strategy.com

Additional research assistance:

### Macro ESG Team

**Richard Mylles**

+44(0) 7073 0753  
richard.mylles@absolute-strategy.com

**Matt Cocker**

+44(0) 7073 0763  
matt.cocker@absolute-strategy.com

### The Climate Transition Impacting Markets Today

Climate change is often considered a long-term issue, not within most investors' investment time horizon. However, the transition to decarbonise is impacting economies and markets today.

### Which Economies Most at Risk of Disorderly Transition?

The ASR Transition Risk Scorecard ranks 48 economies according to their ability to transition and decarbonise. Unsurprisingly DM>EM, but there are outliers:

Worst DM's: Australia, Canada, US; Best EM's: Korea, Greece and Chile

### Climate and Sovereigns Upgrades/Downgrades

Sovereign credit ratings do not appear to have accounted for the costs of the transition. The Key chart plots Physical vs Transition Risks and colour codes credit ratings green (high quality) to red (low quality). Which ratings are most at risk?

High climate risk vs credit rating: Gulf, Australia, Canada, Netherlands, Belgium  
Low climate risk: Ireland, Japan, Chile, Hungary

### RELATED RESEARCH:

[Green labelling - why it matters](#), 11th Jan 2022

[Chinese & Indian Paths to Net Zero](#), 22nd Dec 2021

[The resistance to rising carbon prices](#), 21st Dec 2021

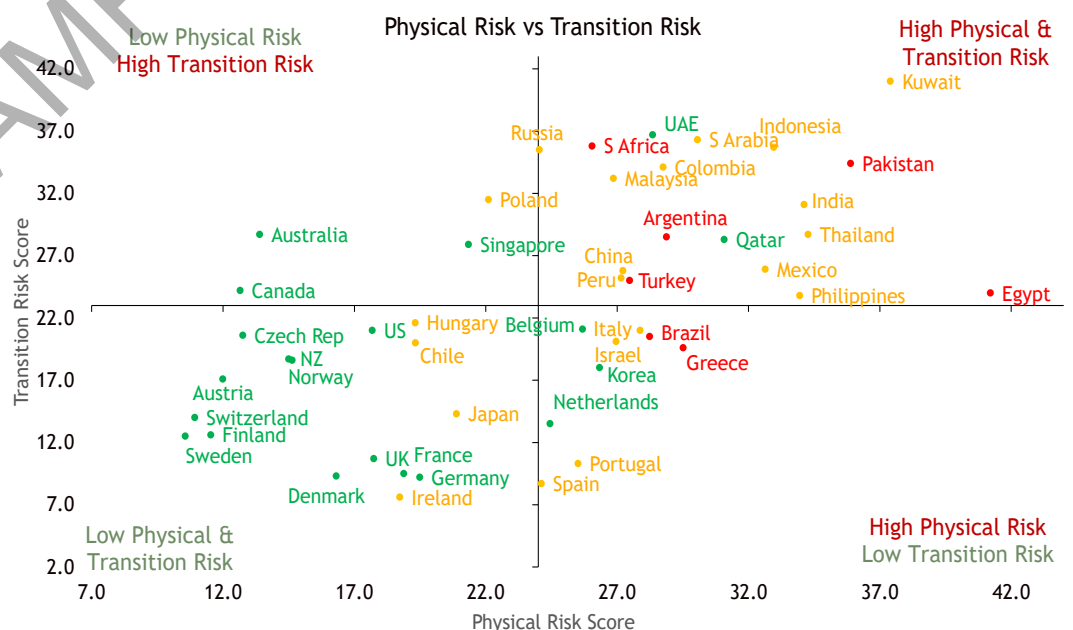
[The "First Fuel" of Decarbonisation](#), 15th Dec 2021

[A Changing Climate for Sovereign Risk](#), 10th Dec 2021

[How public opinion shapes Green Transition pathways](#), 3rd Dec 2021

[Macro ESG: An Investment Framework](#), 29th Nov 2021

### Key chart: Physical and Transition Risk vs Moody's credit ratings



Credit Ratings- Green: Prime and High Grade; Orange: Medium Grade; Red: Non Investment Grade

Source: ASR Ltd. / Datastream from Refinitiv