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Catastrophizing Climate Change

Lobnek Newsletter, May 2019

"Civilization in its present form hasn't got long."

**James Lovelock (1919 -), British scientist, environmentalist,
and futurist best known for proposing [the Gaia hypothesis](#)**



Catastrophizing is a psychiatric condition of cognitive distortion in which a person equates a certain specific negative outcome, were it to occur, as being irrationally “catastrophic” in its consequences. Factors that are known to contribute to a “catastrophizing” mindset include ambiguous situations that arise when there is limited information, experience or understanding of a particular event which means that the actual danger it poses cannot be assessed accurately enough and frequently ends up being blown out of proportion. Catastrophizing also occurs in conditions where awareness and appreciation of what might be lost if an event were to materialize (loss aversion) is such that it causes acute anxiety or when there is fear of the unknown to the point where

it becomes irrational.

Climate change is making headlines today not only because empirical evidence of its devastating effects and consequences are plenty and piling at an accelerating rate, but also because populism-driven politics is taking a hostile stance to the idea of human induced climate change, becoming alarmingly vocal in its attempts to discredit it in every manner possible. Fact is global temperatures have risen 1 degree Celsius since the end of the 19th century when recordings began. It doesn't appear to be a big deal until we look more closely at its effects. Industrialization and global growth over a century would suggest that carbon emissions released into the atmosphere have been occurring at an accelerating pace, which would also mean that global warming is also probably currently rising at a faster rate than at any time before.

Even if we were to maintain carbon emissions at their current levels, it is estimated that global temperatures could rise 1.5 degrees Celsius by 2040 and up to a sweat inducing 4 degrees by the end of the century, a clear threat to life on earth by any objective measure[1]. Even more alarming appears to be the "time sensitive" opportunity cost of doing nothing about it. According to the Global Carbon Project, if we had begun decarbonizing in 2000, a 2% cut in carbon emissions per year would be sufficient to remain safely below the two degrees of warming danger zone[2]. Comprehensive decarbonization today, on the other hand, would necessitate a 5% cut per annum to achieve the same results and around 9% if it is delayed another decade. As the opportunity cost of doing nothing rises over time, it brings us closer to a catastrophic condition because it makes it all the more challenging to actually do something about it.

All this begs the question as why the alarm bells have not been sounding earlier. Why haven't we been "catastrophizing" about climate change now that we know we "missed the boat" with the 2% annual cut opportunity in 2000? Much of the complacency can be explained by the same factors (or lack thereof) outlined earlier that contribute to catastrophizing. Human induced climate change is not an ambiguous event[3], it is happening as we speak and it's not just through anecdotal evidence. Solid scientific evidence is there to back it up. Maybe the problem is that it is not happening at a fast-enough pace to cause greater awareness of the dangers and a sense of panic (which is arguably what we need more of at this stage) to the quality of life that we are losing as temperatures continue to rise. That may very well change as freak weather events become more common.

Perhaps there is another, related cognitive bias at work here that further explains our

relative “passivity” in face of danger. We have been polluting for generations and yet the cumulative effects of this appear to be trivial at best (even more so if we don’t take the last couple of years into account). Part of this is undoubtedly due to technological progress (think air-conditioning, filtering and desalination plants or genetically engineered bug resistant crops) that partially shield us from the actual damages to our environment. The other has to do with the accelerating rate of carbon emissions, meaning that it is only in our more recent history that their effects are really starting to be felt. Through the availability heuristic[4], we are drawing on information that is available to us (our past experience of cause and effect on the environment) and thus dismissing well-established scientific evidence to our own detriment.

If the opportunity cost of doing nothing to counter climate change is rising as time goes by because it means that carbon emissions will have to be cut by a larger chunk every year to remain below the 2 degrees “danger zone”, you can be sure that governments are going to be tackling the problem halfheartedly. Assuming that there is a cost / benefit equation, a degree of tolerance to the ravages of climate change that governments are willing to endure in order to maintain ill-conceived or short-sighted economic objectives, it means that we can expect temperatures to continue rising at least another degree over the next few decades. The trouble with such a scenario is that we are not really in control of anything, we don’t really know the extent of damage that further rises in temperatures are likely to cause. Hard data is lacking, models and simulations can only provide us with partial insights given that such conditions have never been experienced before. This could be a major black swan on the horizon.

Where Do We Go From Here?

A total cynic on weather patterns over the long term would likely reorient their portfolio towards a more significant exposure into commodities. Although commodities are considered scarce resources, scientific progress and technological innovations have succeeded in slowing down the path towards depletion by a significant extent[5]. A possible increase in global temperatures in coming years would certainly pose an additional challenge to maintaining that pace but it is the impact on matters that go beyond the economy that are of greater concern. The ascendance of populism across the globe and most notably in Europe and the U.S. are in no small part a knee jerk reaction to the more recent changes in migratory patterns. A growing proportion of the influx of migrants can be attributed to changing weather patterns that have been disproportionately affecting crop yields in regions that are predominantly under development. If this process

continues to worsen, the migration challenge is unlikely to subside and may actually worsen over time, threatening the liberal/democratic order of western nations by a far greater extent.

Europe will continue to face substantial populism headwinds down the road but the actual impact of this will continue to vary substantially across borders. The vulnerability to populism depends to a large extent on the degree to which the welfare system, acting as a sort of “shock absorber”, is established in a country. Member states with less “developed” social/welfare programs will continue to be less inclined/equipped to stave off the populism onslaught compared to those that have a longer history and tradition with welfare (although they too exhibit a certain degree of vulnerability as seen in France with the yellow vests or Italy with its volatile politics). The “messy” proceedings with Brexit will continue to weigh on the future of Europe but may also act as a warning to others that are thinking of leaving the Union, especially if the economic damage to the UK becomes more pronounced over coming months. Italy is the other “thorn” facing Europe, and although the economic situation is dire, it is unlikely that the government will carry through its more “extreme” campaign promises as this would put undue pressure on the banking system heavily exposed to Italian sovereign debts if risk premiums continue to rise as a result.

The U.S. economy will also be facing multiple challenges as the year unfolds. These will range from the directional uncertainties of a stock market at the end of its cycle, and a Fed that appears less “independent” and with a narrowing scope of policy discretion as a result of Trump’s numerous “interferences”. The countless vagaries and confrontational approach of the country’s leadership will ensure that noise and volatility remain at a crucial juncture of waning stimulus effects. With a backdrop of lessening effect from the corporate tax break and as trade tensions with China^[6] continue to keep markets on the edge, the Trump presidency will be treading an increasingly fine line of maintaining the economy’s course without risking recession, as crucial mid-term elections approach. The Muller report with its somewhat ambiguous conclusions will only contribute to further polarizing the politics at a time when unity and guidance is most needed to steer the economy.

The global markets are also set to face a markedly “growth challenged” environment as oil prices continue to go up, causing substantial headwinds for net importing countries such as China and Turkey already grappling with the combined effects of rising tariffs and lowered domestic consumption rates. Oil is bound to rise even further in coming months, especially as the U.S. takes on a more aggressive stance towards oil exporting foes such as Iran or Venezuela. This together with the cyclically driven interest rate differential that

could expand further in coming months is likely to cause further drag on dollar sensitive emerging markets. The time is ticking, in the short run it is the cyclical constraints that will raise its gravitational pull on markets. The U.S., approaching an election year, will attempt to counter this (in order to avoid a recession) by keeping the stimulus taps open, but this will only postpone the inevitable. In the longer run it is climate change, a challenge that is more of a secular nature, and one in which the window of opportunity appears to be shrinking by the day.

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[1] Two degrees centigrade increase is thought to be a threshold point (known as catastrophic warming) above which the destructive effects of climate change become substantial. See the United Nations “doomsday” report for more on this: <https://www.ipcc.ch/sr15/>

[2] <http://folk.uio.no/roberan/GCB2018.shtml>

[3] Climate change doubters, especially those that have an immediate economic stake in maintaining the status quo, have been for years lobbying and injecting noise to create ambiguity on the topic, similar to big tobacco firms that for years were able to dilute the well-established health hazard risks of consumption.

[4] The availability heuristic is a cognitive bias involving mental shortcut that relies on immediate examples that come to a given person's mind when evaluating a specific topic, concept, method or decision. You can read more about it here: <https://www.nytimes.com/2018/11/27/well/family/the-fallacy-of-the-i-turned-out-fine-argument.html?searchResultPosition=1>

[5] Pesticides and genetic engineering have boosted crop yields whilst increasing efficiency in combustion engines and in harnessing solar power and huge strides in battery storage technologies have removed an ever-greater demand for fossil fuels.

[6] Although an accord might be reached before long, the track record of the current administration suggests that it will be more fanfare than anything of consequence, providing another short-term excuse for markets to rally.

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