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Investment Resilience in a Changing Climate

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SUMMARY

- Structural climate change can reshape the economics of an industry.
- Shifting weather-related risks are structural forces that can reshape demand, capital requirements and business economics across sectors.
- A systematic investment process that includes forward-looking factors can differentiate opportunities created by changing structural forces, including climate change.

> *"The extreme summer we are experiencing now may become the new normal."*[1]
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> — **Professor Tim Palmer,** Oxford climate physicist, discussing western Europe's exceptionally hot and dry summer and the wildfires in France and Spain. *Science Media Centre, July 30, 2026*.

The summer of 2026 brought extreme heat and severe droughts to Europe. Overall European land temperatures for June 2026 ranked as second highest on record for the month, sitting just behind June 2019.[2] Area burned by wildfires in France this summer is estimated to be six times the 20-year average.[3] It is more than twice the average in Spain. Other European countries, notably Italy (1.3 times more burned area than the 20-year average), are experiencing elevated wildfire events.

Europe is not the only continent facing extreme weather-related changes, but it is the continent warming fastest.[4] What does the critical challenge of extreme heat mean for investors? Forward-looking quality analysis does not stop with today's financial statements. Weather-related risk, for example, is a structural force that can create investable demand across economic sectors.

Investing Amid Structural Change

As an illustrative example, tourism contributes approximately 10.5 percent to 13 percent of Italy's gross domestic product (GDP), when measuring both direct and indirect economic impacts.[5] Tourism can help illustrate why increased extreme heat and drought events could cause changing and declining revenue flows as they affect travel patterns and seasonality for tourism-dependent economies, while altering operating costs, capital requirements, and asset values. These changes can occur long before their effects become obvious in trailing financial results.

If the available travel calendar is asymmetrical, a shift in seasonal tourism is not revenue neutral. The revenues of eight weeks of summer tourism in Italy may not be fully recouped via the shorter winter breaks that many working-age tourists from America have available. The impact of lost revenue will also be complicated by new capital requirements. In Europe, for example, many historic buildings lack modern air conditioning. The European Commission acknowledges that current financing is insufficient to respond to estimated adaptation needs of approximately €70 billion per year through 2050.[6]

Capital spending is expected to be massive across a range of climate related resilience needs, including air conditioning, building controls, distributed energy, grid modernization, heating, insulation, low-impact refrigerants, ventilation, water system infrastructure and more.

1. Climate scientists theorize that the Super El Nino effects on parts of Europe may be a precursor of a world that is 2°C to 3°C above baseline temperatures. Climate science maintains that a global temperature rise of 2°C to 3°C above pre-industrial baseline levels represents a severe and dangerous tipping point for the Earth's climate.
2. "Copernicus: Record heatwave brings hottest June for western Europe during second-warmest June globally," Copernicus Climate Change Service (C3S), July 9, 2026. C3S provides authoritative information about the past, present, and future climate in Europe and the rest of the World.
3. "Fact Check: Human activities ignite most wildfires, but climate change is making them more extreme," *Reuters*, August 6, 2026, and the European Forest Fire Information System (EFFIS), as of August 15, 2026.
4. *The Guardian* reported Western Europe recorded its hottest June-to-July period in modern history, driven by stationary high-pressure heat domes. The Copernicus Climate Change Service reported average land temperatures soaring well past historical norms, with nighttime cooling offering little relief. Attribution studies by World Weather Attribution noted that the extreme temperatures would have been statistically impossible without human-induced climate change.
5. "Italy welcomes more than 185 million visitors as tourism surges 7.1% in record year 2025," TripByTrip, June 2, 2026.
6. EU needs to invest €70 billion per year in climate adaptation up to 2050, European Commission, January 23, 2026.

Looking Beyond Today's Financials

> *"While some economic impacts of climate change are already being felt, the impacts of future changes are projected to be more significant and apparent across more sectors of the economy."*
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> — **U.S. Fifth National Climate Assessment (2023),** Chapter 19, "Economics," p. 19-6[7]

Climate change represents a megatrend that will likely create a riskier future, shaking many forward-looking assumptions. Investing in stocks is, by its nature, a forward-looking endeavor, best married with evidence from the past. In a riskier future world, the evidence of resilient business models will be key; businesses that can protect margins, maintain balance sheet strength, effectively allocate capital, and continue growing dividends no matter the shifting structural forces, such as physical climate risk. In a word, quality investing looks for business models that are resilient.

Breckinridge research analysts assess and consider various types of forward-looking information and data toward this end, which may include issuer filings, the current macro environment, third-party research or publicly available data, and direct dialogue with issuers.

Analysts also integrate material sustainability factors into our fundamental credit research process to help us assess and price issuer risk. This approach enables our analysts to gather and evaluate diverse pieces of information to formulate a comprehensive investment thesis.

Breckinridge's High Quality Dividend (HQD) Strategy and Sustainable High Quality Dividend (SHQD) Strategy each incorporate this proprietary forward-looking credit research into a rules-based security selection process to identify companies with strong financial fundamentals and a commitment to dividend growth.

SHQD also applies a forward-looking assessment that identifies securities with above-average sustainability ratings considering sector- or industry-relevant criteria. As one might expect, because the sustainability criteria can alter security selection, SHQD may own different securities and weightings from HQD. Importantly, we've engaged with several executive teams on their sustainability policies and bring that lens into the overall rating.

Physical climate risk is a structural force that can affect business economics. While it is incredibly hard to predict how severely climate will affect society and economies in the decades ahead, it stands to reason that the companies with the strongest business models, returns on capital and visibility (often translated into dividend growth) have the best chance at showing their own resilience to climate change.

7. Since 2015, and the ratification of Paris Accords, decarbonizing or fighting climate change has been classified as a megatrend: a global driver of change. The Report of the UN Economist Network for the UN 75th Anniversary: Shaping the Trends of Our Time examines five megatrends, including climate change, demographic shifts, urbanization, the emergence of digital technologies, and inequalities, that are affecting economic, social and environmental outcomes.

The content is intended for investment professionals and institutional investors.