Investing in a Warming World

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As investors increasingly seek to reduce the carbon exposure of their portfolios, measuring progress accurately has become just as important as setting climate objectives. Yet many widely used portfolio carbon metrics—including carbon footprint and carbon intensity—can improve simply because equity market valuations rise, even when underlying corporate emissions change relatively little.

In this paper, we examine how popular carbon metrics differ from financed emissions and explain why these measures capture different aspects of climate risk and portfolio decarbonization. While relative carbon metrics remain valuable for comparing portfolios and measuring benchmark-relative carbon exposure, they may overstate progress when used as time-series measures of decarbonization. Financed emissions, by contrast, provide a more direct connection to real-world emissions outcomes.

The paper also explores the implications for climate-aware portfolio construction, comparing fixed decarbonization pathways with benchmark-relative approaches and discussing how equity extension portfolios may allow investors to reduce net carbon exposure while preserving market exposure.

Download the full paper to learn how different carbon metrics can influence portfolio decarbonization decisions and why combining multiple measures may provide a more complete view of climate-related investment progress.

This document is not intended to, and does not relate specifically to any investment strategy or product that AQR offers. It is being provided merely to provide a framework to assist in the implementation of an investor’s own analysis and an investor’s own view on the topic discussed herein.

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