# Businesses risk falling behind as climate adaptation investments lag amid rising global temperatures



As the warm weather enveloping London serves as a poignant reminder of summer’s benedictions, it also starkly contrasts with the troubling climate data emerging from various scientific sources. The Copernicus Climate Change Service recently reported that over the last 21 months, global temperatures have consistently exceeded 1.5°C above pre-industrial levels, underscoring an unsettling trend in climate change.

This upward trajectory in temperatures has sparked a crucial conversation around climate adaptation, compelling businesses to reassess their strategies with a sense of urgency. While many companies publicly acknowledge the risks posed by climate change, a significant disconnect remains. A survey conducted by the European Investment Bank revealed that while 66% of EU businesses recognised threats from climate impacts, only 22% had an adaptation strategy in place. This paradox raises questions about the cognitive biases influencing corporate decision-making.

Behavioural economists point to a variety of psychological factors at play. For instance, the “status quo bias” leaves organisations tethered to traditional practices, whilst “herding behaviour” discourages individual companies from taking bold steps unless their competitors do the same. Perhaps most notably, the “optimism bias” may lead business leaders to underestimate the likelihood of adverse outcomes, a concept articulated by the late Nobel laureate Daniel Kahneman, who noted that executives often exhibit a reluctance to confront uncomfortable realities.

Despite this disconcerting landscape, a growing number of voices within the financial sector are beginning to advocate for a robust investment in climate adaptation strategies. New research from the London Stock Exchange Group has illuminated a potential goldmine in this arena, indicating that companies whose operations are tied to adaptation solutions raked in revenue of $1 trillion last year. However, it is worth noting that these figures encompass a broad spectrum of businesses, many of which derive only a fraction of their income from climate resilience efforts; for instance, “green building” revenues alone accounted for $424 billion.

For investors interested in adaptation-focused opportunities, emerging start-ups are becoming more accessible, but larger investments in public markets remain fraught with complexity. Analysts at Jefferies constructed a portfolio of 115 publicly listed companies with significant exposure to adaptation solutions. Their findings revealed that while this group outperformed the iShares Global Clean Energy exchange-traded fund by 53% over the past five years, they approximately matched the broader MSCI World index. This lack of dramatic divergence hints at both the challenges in the adaptation sector and the overall volatility in clean energy investments.

The urgency surrounding climate adaptation is echoed by the European Commission’s heightened focus on the topic under the leadership of President Ursula von der Leyen. Tasked with developing a comprehensive policy package, the commission aims to expedite investment into resilience strategies that may prove less vulnerable to political pushback than energy transition spending. Notably, as disasters become increasingly commonplace—evidenced by the recent floods in Spain and wildfires in Los Angeles—government interventions may catalyse much-needed investment.

Furthermore, Sarah Kapnick, head of climate advisory at JPMorgan, posited that firms should view climate adaptation not merely as a protective measure, but as a strategic investment opportunity that can confer competitive advantages over time. Among those taking heed are electric utilities, particularly following past calamities like the 2019 bankruptcy of PG&E due to infrastructure failures contributing to wildfires. PG&E has now received a credit rating upgrade, a testament to its improved risk management practices.

As temperature anomalies become the new normal, businesses recognising the imperative of climate adaptation now stand at a crossroads—not just to mitigate risks but to seize lucrative opportunities. This evolving landscape serves both as a cautionary tale and a clarion call for decisive action, highlighting the need for strategic foresight in navigating the ever-warmer world ahead.

### Reference Map

1. Paragraph 1: [[1]](https://www.ft.com/content/b0c2d8c0-d1d2-4bbd-99d6-a305b38220e5), [[2]](https://www.copernicus.eu/en/news/news/copernicus-global-climate-report-2024-confirms-last-year-warmest-record-first-ever-above), [[3]](https://www.ft.com/content/f17d09af-8f44-409a-b1dc-ad33a0792446), [[4]](https://www.apnews.com/article/92c46dfd01133f14c437c5d2bf5a5f8b)
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3. <https://www.ft.com/content/f17d09af-8f44-409a-b1dc-ad33a0792446> - This Financial Times article discusses the unprecedented rise in global temperatures, noting that the 12-month average through April 2025 reached 1.58°C above pre-industrial levels. It emphasizes the urgency for companies to invest in climate adaptation measures to mitigate future risks.
4. <https://www.apnews.com/article/92c46dfd01133f14c437c5d2bf5a5f8b> - According to the European climate agency Copernicus, Earth is set to experience its hottest year on record for the second consecutive year, reaching over 1.5 degrees Celsius (2.7 degrees Fahrenheit) of warming compared to pre-industrial levels. This relentless increase in temperatures is attributed to the continuous rise of greenhouse gases in the atmosphere.
5. <https://www.axios.com/2025/05/08/april-temperature-records-2025> - In April 2025, Earth experienced its second-warmest April on record, surpassed only by April 2024, according to data from the EU's Copernicus Climate Change Service. Using the ERA5 dataset, Copernicus reported that global temperatures last month were 1.51°C higher than the 1850–1900 pre-industrial average.
6. <https://www.reuters.com/business/environment/2024-was-first-year-above-15c-global-warming-scientists-say-2025-01-10/> - In 2024, global temperatures exceeded 1.5°C above pre-industrial levels for the first time, nearing the threshold set by the Paris climate agreement. The World Meteorological Organization confirmed that 2024 was the hottest year on record, with a temperature rise of 1.6°C.
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