

Green Bonds Quarterly Update

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What has been happening in your market?

2023 saw Green Bonds have its strongest year of issuances in 8 years with \$422bn, with 89 new issuers joining the market. The market value of the asset class now stands at \$1.6 trillion, with more than 700 issuers. We think this helps strengthen the diversification and increase liquidity for Green Bonds market, moving it away from a niche investment area to a credible mainstream alternative to conventional bonds.

Today, the market is split relatively evenly across financials, corporate and government bonds. January 24 issuances at around \$64 billion or the all-time high compared to the same period in previous years. We have already seen 7 new issuers join the market this year, particularly in sectors like automotive and utilities.

What is your outlook?

We expect the trend of strong issuances levels to continue in 2024, with more issuers coming into the market. This activity is partly a reflection of the recognised need to invest in the transition to a low carbon economy. It is also a result of the additional perception of the asset class, as factors such as current geopolitical turmoil emphasised the need for energy autonomy and mitigating against climate impact.

The strong client interest, coupled with the increasing regulatory push, should further enhance the dynamic of Green Bonds market.

The current high yield environment also offers investors a potentially attractive entry point for Green Bonds. The universe, with around 6 years of duration, should allow investors to benefit from upcoming rate cuts from major central banks, as well as from attractive valuations in the credit sector.

Why do you believe investors might be interested in the asset class?

The green bond universe has outperformed the conventional global bond universe 5 years out of 7¹. This track record and the diversification the asset class now offers helps green bonds be considered as a credible alternative to global bonds. This is also seen by the fading greenium: As of 31st December 2023, the average euro greenium stands at 3 basis points, a negligible number considering the current level of yields.

Green Bonds may also offer a variety of alpha sources. In a pure Green Bond strategy, alpha may be generated from duration management as well as geographical, sector and issuer allocation. Alongside this, the asset class is now deep enough that it can offer investors different approaches to reflect their needs from short duration to more flexible and dynamic strategies.

Source : AXA IM, as of February 2024

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¹ Source: AXA IM, Bloomberg, as of 31/01/2024 based on calendar years.