

# Green Bond Market Update

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Welcome to this latest video about green bonds. We will provide you with an update on the market dynamic, the outlook, and highlight the opportunities we are currently seeing in this asset class.

## **What is happening in the green bond market?**

First, let's start with buoyant primary market activity, a potential source of opportunities. 2024 green bond issuance started on a strong footing. At the end of May, we already had more than \$250bn green bond issuances year to date, up by close to 10% compared to 2023's record pace. This brings the total market size to close to \$1.8tn with more than 740 issuers.

This momentum relies on a strong dynamic on the credit side and an increasing foothold of sovereign issuers, accounting for more than a third of this year's issuances. On the credit side, banks, utilities, as well as auto, telecom, real estate and basic industry sectors have all been very active this year. While on the sovereign side, most European countries now regularly issue green bonds and build an entire curve, we are seeing further activity beyond the main players however, it is worth mentioning other countries such as Chile, Indonesia, and new joiners like Japan, Iceland and Australia.

## **What is the outlook for green bonds?**

It's an interesting time for green bonds. Inflation is decelerating and central banks are starting to cut rates. Growth remains weak but is bottoming out in the euro area. Looking at past cycles of monetary policy easing, broad global exposure to bonds such as the green bond universe tends to behave well over the past 2 years that followed the last ECB (European Central Bank) hike, delivering on average close to 18% return<sup>1</sup>. This time might be different but for now this trend holds true with green bonds already delivering 5.3% since last September, more than the 4.2% delivered by the conventional broad market<sup>2</sup>.

## **What are the opportunities you are seeing in the green bond universe?**

Renewable energy projects continue to grab the largest share of green projects, followed by carbon transport and green buildings. Those projects are key to support the transition to a low carbon economy as they directly aim to produce clean energy or reduce energy consumption. Yet, green bonds go beyond carbon reduction and can target broader environmentally friendly projects such as waste recycling or biodiversity preservation.

The transparency provided by green bonds when it comes to identifying environmentally friendly projects and measuring their benefit through clear and reliable KPIs remain, we believe, a key strength and it comes at no additional cost.

Beyond environmentally friendly projects that aim to deliver positive and measurable impact, green bonds are now also offering yields at historic highs.

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<sup>1</sup> Source: AXA IM, Bloomberg based on data from 06/10/2000 – 06/10/2002 & 04/07/2008 – 04/07/2010.

<sup>2</sup> AXA IM, Bloomberg as of 11 June 2024

As at the end of May, the green bond universe offered 3.65% yield hedged into euro, a level comparable to conventional bond market yields. The green bond market is not a niche market anymore. Instead, green bonds may offer an attractive way to gain exposure to the bond market through a well balanced and diversified exposure to high quality issues, while also providing positive environment impact.

Thank you for watching this video and we'll keep you updated about the green bond market evolution.

Source: AXA IM as of June 2024

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