For professional clients only
May 2024
Monthly Perspectives
[Fixed Income]

Green, Social and Sustainability Bonds

Strong sovereign issuances continue

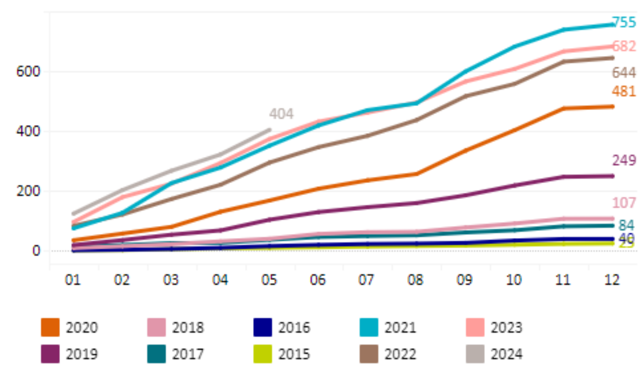
• With $404bn of issuance over 2024, the GSS universe continues its steady growth and stands at $2.9tn. 60 new issuers joined the GSS market in 2024.
• Recent uptick in inflation and wages in the Eurozone fuelled speculation that the ECB may not be able to cut rates as much as expected this year. In the US, employment data suggested the first signs of slowdown in the job market.
• The sustainable bond universe delivered 0.45% over the month and -1.39% YTD in EUR hedged terms.

Johann Plé, Senior Portfolio Manager
Rui Li, Portfolio Manager

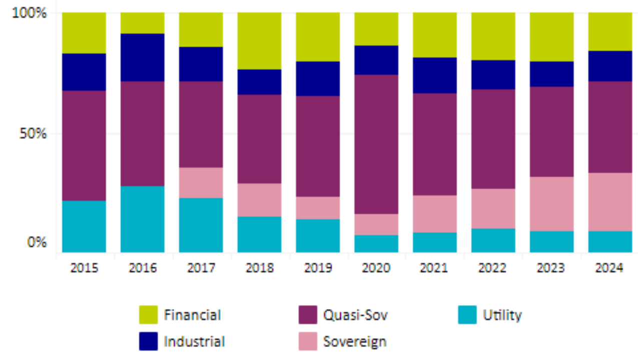
What's happening?

	Key developments	Key figure
Green Bonds	As end of April 2024, Green Bond issuances reached $259bn, with a strong contribution from Sovereign bucket accounting for almost half of the issuances. In this space, Italy led the pace with 35%, followed by Great Britain. In terms of Corporates, the diversification continues in 2024 with Banking and Utilities being on top. In terms of currencies, the share of USD continues to shrink, representing only 14% of 2024 issuances.	+$**65**bn over May $**259**bn YTD (+11% vs 2023) **41** new issuers YTD $**1.74**tn Market value
Social Bonds	We saw limited amount of issuances over the month in the Social Bonds space, with relatively important contribution from Sovereigns, with Chile being the only issuer. During the month, the contribution of Asia and Emerging countries accounted for 58% of issuances and kept the positive trend in this region. In terms of currency, EUR represents around 53% of 2024 issuances, followed by USD at 25%.	+$**5**bn over May $**55**bn YTD (+2% vs 2023) **8** new issuers YTD $**480**bn Market value
Sustainability Bonds	Steady issuances continue for Sustainability bonds in 2024 bringing the overall market size at around $737bn. Monthly issuances were well diversified in the Sovereign side, with Philippines and Thailand leading the pace. In the Corporate side, while Banking sector share remained important, the other sectors represented around 43% of monthly issuances.	+$**13**bn over May $**90**bn YTD (+5% vs 2023) **11** new issuers YTD $**737**bn Market value

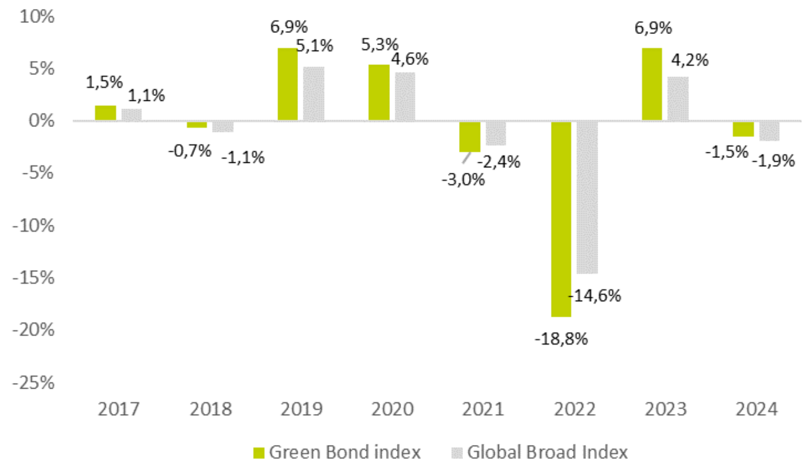
GSS bonds issuance evolution (in USD bn)



GSS Bonds issuance by Sector (in USD bn)



- **Calendar Performance Comparison**

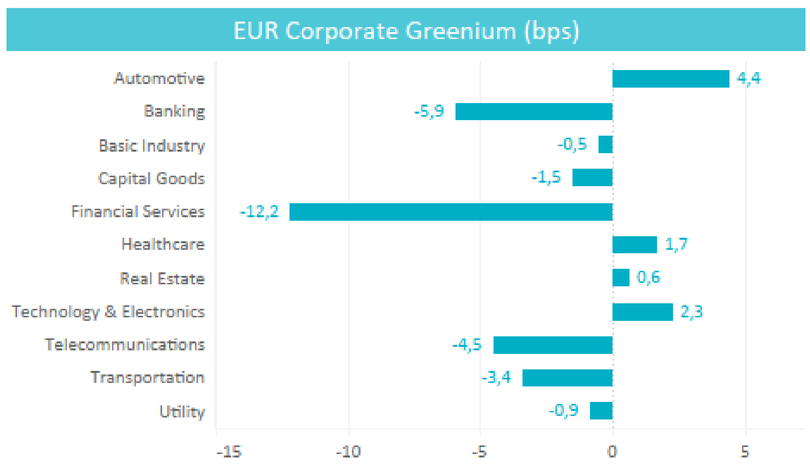


Green Bonds Universe **outperformed** conventional Universe for **5 years** out of 7

Source : AXA IM, Bloomberg as of 31/05/2024

- **What about the Greenium ?**

We observe an average of **-2,3bp Greenium** in the EUR Green Bond Market



While Greenium is becoming **less and less relevant** globally, sectorial differences remain and offer **arbitrage opportunities**

Source : AXA IM, Bloomberg as of 31/05/2024

Portfolio Positionning and Performance

Key Strategies		Performance
Term structure	During the month we reinforced our long duration position mainly through Euro Rates accompanying the rate sell off by the end of the month.	+
Asset Allocation	We maintained our preference for credit over sovereign-related debts.	+
Region	During the month we kept our neutral position on European Periphery countries and added a slight overweight on Emerging countries.	=

Outlook

Recent uptick in inflation and wages in the Eurozone fueled speculation that the ECB may not be able to cut rates as much as expected this year. In the US, employment data suggested the first signs of slowdown in the job market.

Rates have shown a significant divergence between the US and the EUR, with bund yields drifting higher, approaching 2.7%, while UST yields pulled back from its peak in April. Although valuations continue to appear attractive in the EUR, uncertainty on the inflation front could keep market volatility elevated. In this context, tactical duration trades remain our preferred option.

Credit spreads have disregarded rates volatility and tightened by another 5bps. Current risk appetite remains strong on the back of resilient economy and attractive overall yield levels. The initiation of central banks' cutting cycles should also be supportive to the asset class. However, potential risks such as geopolitical uncertainty and stagflation fear could dampen current sentiment.