Green, Social and Sustainability Bonds

Q1 2024 GSS issuance sets new historical high

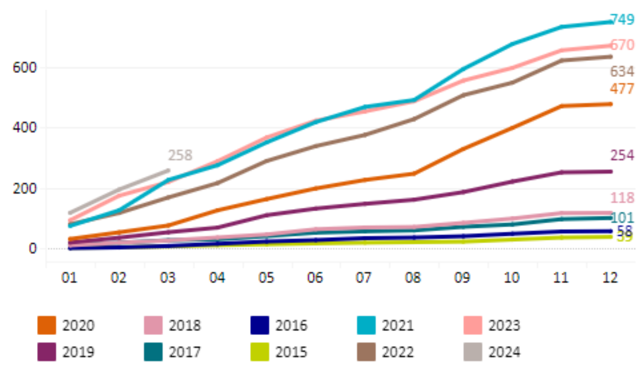
• With $258bn of issuance over 2024, the GSS universe continues its steady growth and stands at $2.8tn. 24 new issuers joined the green bond market in 2024.
• While inflation continue its bumpy but declining trajectory, the latest US job report came with a strong upside surprise, adding yet another episode of uncertainty to possible June rate cut scenario.
• In this context, the sustainable bond universe delivered 1.03% over the month and -0.32% YTD in EUR hedged terms.

Johann Plé, Senior Portfolio Manager
Rui Li, Portfolio Manager

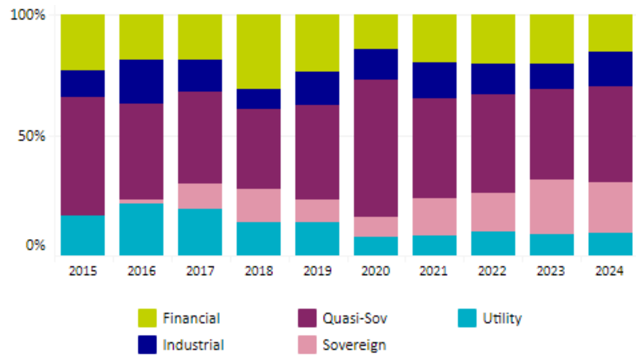
What's happening?

	Key developments	Key figure
Green Bonds	First quarter of 2024 was once again concluded with record high green bond issuances with $160bn. New 24 issuers already joined the market, increasing the diversification. March issuances came to confirm the declining share of USD (13.6% of 2024 issuances). On a corporate side, the diversification continues with Basic Industry, Telecom and Automotive being particularly active. In the sovereign segment, Germany, Italy and Belgium led March issuances.	+$43bn over March $160bn YTD (+14% vs 2023) 24 new issuers YTD $1.68tn Market value
Social Bonds	Over the month, 2 new issuers joined the market from Indian financial sector, bringing YTD issuances up to $42bn. The 2 new issuances, that will mainly finance affordable housing, socioeconomic advancement and empowerment projects, came to reinforce already growing share of Emerging countries in the market. In terms of currency, EUR represents around 53% of 2024 issuances, followed by USD at 26%.	+$8bn over March $42bn YTD (+33% vs 2023) 2 new issuers YTD $482bn Market value
Sustainability Bonds	Solid issuances continue for Sustainability bonds in 2024 bringing the overall market size at around $660bn. While YTD issuances are less diversified on the corporate segment, the picture in terms of currency remains very balanced. In terms of regions, while the Europe leads the market, Asia and Emerging countries continue their significant contribution to the market with 16.4% of 2024 issuances.	+$11bn over March $57bn YTD (+17% vs 2023) 3 new issuers YTD $658bn Market value

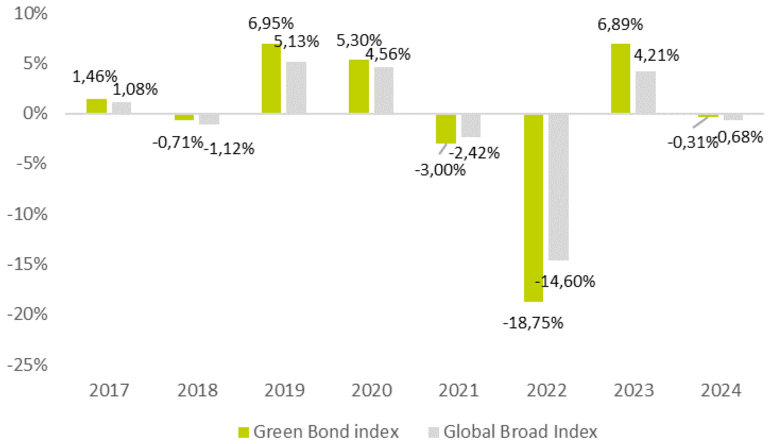
GSS bonds issuance evolution (in USD bn)



GSS Bonds issuance by Sector (in USD bn)



- **Calendar Performance Comparison**

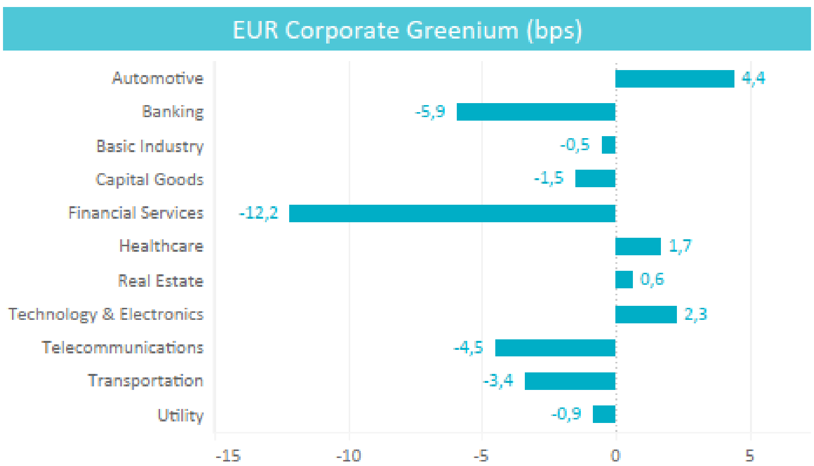


Green Bonds Universe **outperformed** conventional Universe for **5 years** out of 7

Source : AXA IM, Bloomberg as of 31/03/2023

- **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 31/03/2024

Portfolio Positionning and Performance

	Key Strategies	Performance
Term structure	During the month the duration has been tactically managed, mainly through EUR, in the context of rates being rangebound.	+
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 held an slight underweight on Emerging countries.	=

Outlook

Both the European Central Bank and the US Federal Reserve have maintained a cautious approach during their March meetings, signaling that the first rate cut is most likely to happen in June. The narrative of a "soft landing" for the economy seems to be well supported by slightly improved growth, stable unemployment, and a gradual decrease in inflation.

Rates have fluctuated within a narrow range in response to economic data releases and central bank actions. Valuations appear relatively fair in the EUR, but less so in the US due to its stronger economic environment. In the short term, rates are likely to remain range bound, but upward pressure could reemerge if the market begins to question the timing of the first rate cut as June approaches. Tactical duration trades are preferred at this stage before taking significant long-duration positions.

In the credit market, spreads have further tightened, embracing the June cut narrative. Resilient economy and strong risk appetite should continue to be positive to this asset class. However, idiosyncratic risks are increasing and could undermine current appetite for credit.