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*Even with green bonds still representing the main component, social bonds and sustainability bonds have also gained ground in the ESG market*

# ESG bond market bound to deliver another record year of growth

**Global ESG bond markets are bound to deliver another record year of new issuance volumes, led by broad-based dynamic activity in all its major segments. In the first nine months of the year, combined global issuance of green, social, sustainability and sustainability-linked bonds were already equal to 145% of global ESG bond supply in full year 2020.**

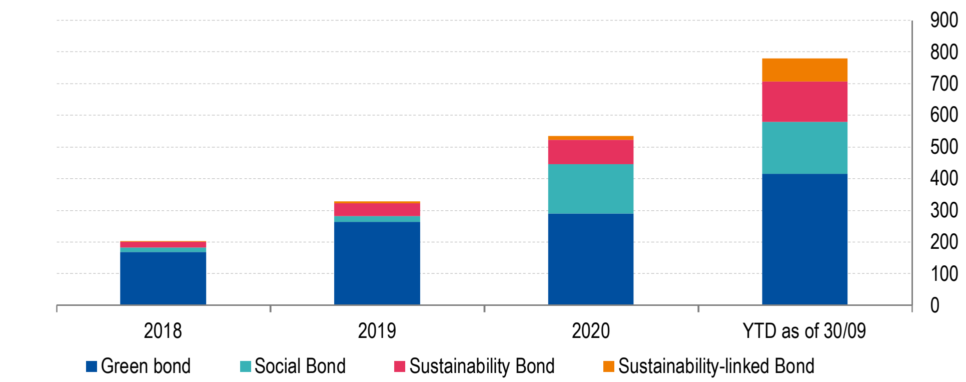
The tremendous acceleration in the path of issuance activity in the very last few years was led first by **green bond** issuance, which grew from just USD 11bn in 2013 to USD 285bn in 2020 and to roughly USD 400bn as of September this year. Growth by segment is even greater than the mere numbers would indicate. Even with green bonds still representing the main component of the ESG market, a look at the first chart shows that **social bonds and sustainability bonds** have also gained ground in importance, especially in 2020, and their contribution has surged further to almost half of overall ESG issuance on the year to date. Finally, issuance of sustainability-linked bonds **(SLBs)**, although still low compared to other segments, accelerated rapidly from just USD 11bn last year to USD 72bn as of September.

The **Covid-19 pandemic crisis** has produced relevant impacts on issuance dynamics over the last two years. Leading to a sharp decline in primary bond market activity in some of the first months of 2020 (like March, for example) it indirectly contributed to a subsequent acceleration of issuance volumes in following quarters. Furthermore, issuance of **social bonds** to finance and refinance funds utilised to respond to the pandemic has accounted for a large share of global ESG-bond issuance in the past two years, with EU the largest issuer of social bonds, as it sought to refinance loans provided to EU member-states under the SURE program exclusively by issuing social bonds. Another remarkable impact of policy response to the pandemic crisis will take place in the **green bond** segment, as, according to EU announcements, this segment should represent roughly 30% of overall **NGEU funding.**

One of the main takes from the analysis of supply figures of the last two years is the increased role of the **public and supranational sector,** especially in the green and social bond segments, but also in sustainability bonds. New sovereign presence and supranational activity in primary markets drove most of the surge in outstanding debt, helping to improve **liquidity** through larger deals and to extend **average duration** through longer-dated bonds.

The **euro is the number-one currency** in which ESG bonds are issued, representing almost 50 per cent of overall supply, as EUR-denominated bonds accounted for 45% of the green-bond sector and an overwhelming 72% of the social-bond segment in first three quarters of 2021. This share is even expanding, whereas the share of EUR-denominated bonds in the sustainability-bond sector was only 32% in 9M21. In the following section, we will provide more colour on the dynamics and major drivers of each of the four major segments of ESG bond markets.

### 1/ Growth in ESG supply, by market segment




Source: Bloomberg, Amundi Research, Data as of end October 2021

## Green bond highlights

As shown by Chart 1, green bond issuance still accounts for the largest share of new ESG bond supply this year. As of September, global green bond issuance amounted to more than USD 400bn, up by 43% vs full year 2020. Both private and public sectors were quite active. Chart 2 shows that corporates and financials kept playing an important role, as in previous years, but public and supra sector volumes also accelerated remarkably, thanks to several European sovereign issuers, which issued large amounts of liquid green bonds, while EU just

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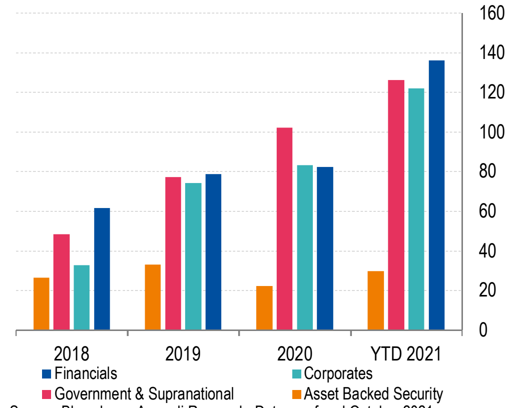
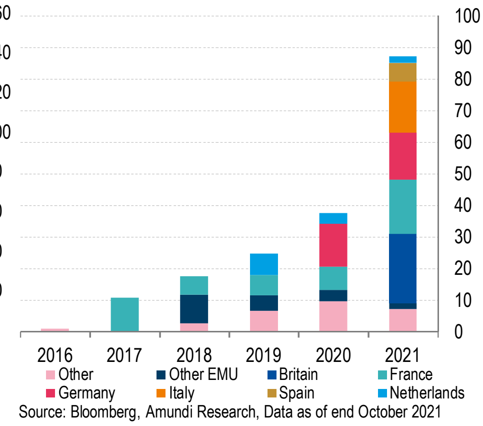
began its activity in this segment in Q3. The largest issuers on the year to date were the UK (close to USD 22bn), France (with USD 17.0bn) and Germany (close to USD 15.0bn). Periphery countries were active, too, for the first time with inaugural deals, as Italy and Spain issued green bonds in the regions of USD 16bn and USD 6bn, respectively. European sovereign issuers totalled almost USD 90bn in supply, while issuance by supranationals will be further pushed in Q4 by the inaugural green EU bond, which was placed in mid-October.

**2/ Green Bond supply, by issuer sector**




Source: Bloomberg, Amundi Research, Data as of end October 2021

**3/ Sovereign Green Bond issuance**




Source: Bloomberg, Amundi Research, Data as of end October 2021

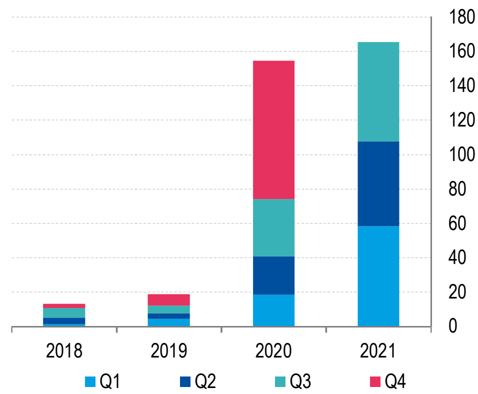
## Social and sustainability bonds highlights

*The euro is the number-one currency in which ESG bonds are issued*

Social-bond issuance reached almost USD 170bn in 9M21 and therefore already exceeded full year 2020 issuance (USD 155bn). In both years, supranationals and agencies contributed the lion's share of the record amount, while the private sector continued to play a more limited role. EU SURE bonds related to the Covid-19 pandemic, in the first place, cumulated more than EUR 100bn between Q4 2020 and H1 this year, while CADES, the second-largest issuer of social bonds, added USD 31.7bn of bonds to total social-bond supply in 1H21 and USD 5.9bn in 3Q21. The frontloading of large parts of bond supply in 1H21 did not come as a surprise, as the EU wanted to focus on NGEU funding in 2H21. Besides supranationals and agencies, financial issuers were also quite active in this segment, issuing roughly USD 25bn worth (15% of global social bonds issued in 9M21), whereas non-financial corporate issuance of social bonds amounted to a smaller amount of USD 8bn, or just 5%. However, corporates were quite active in sustainability bonds (which combine green and social projects), with a market share of 18%, which, coupled with financials' 27%, drove the private sector contribution to a remarkable 45%, amounting to USD 58bn in 9M21, almost double the amount issued in full year 2020 (USD 31bn). We may expect an increasing number of corporates and financials to combine social and green expenditures in a sustainability-bond format, as social topics are becoming more relevant and as social expenditure can also be used to fill in the gaps when a sufficient amount of eligible green assets is not available to tap the green bond market.

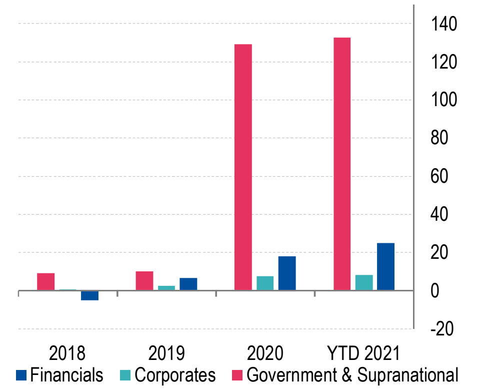
Supranationals took the lead in this segment and issued USD 36.7bn (27.8%) of sustainability bonds, which is why the three largest issuers are from this segment. The International Bank for Reconstruction & Development was the largest issuer, with USD 20.6bn, followed by the Asian Infrastructure Investment Bank, at close to USD 6.0bn, and the International Development Association, with USD 4.3bn.

**4/ Social bond quarterly issuance**




Source: Bloomberg, Amundi Research, Data as of end October 2021

**5/ Social Bond issuance mostly driven by supranationals**




Source: Bloomberg, Amundi Research, Data as of end October 2021

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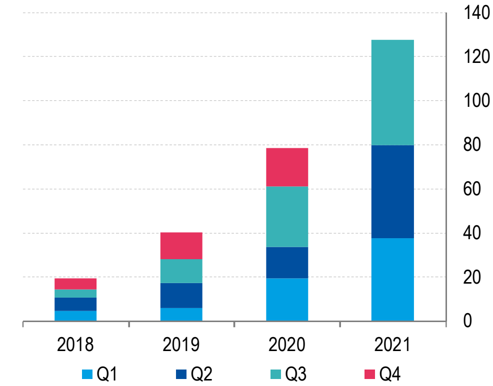
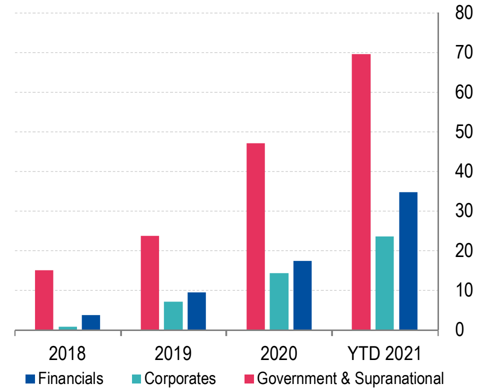
6/ **Sustainability bond supply, by quarter**




Source: Bloomberg, Amundi Research, Data as of end October 2021

7/ **Sustainability bond supply, by issuer sector**



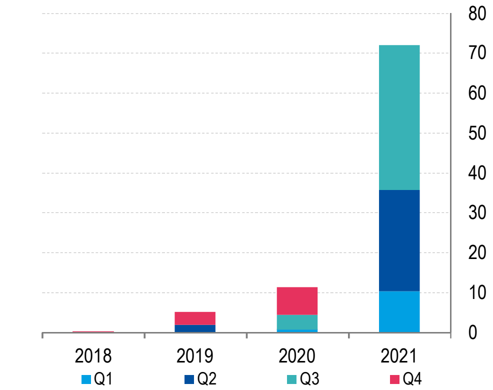

Source: Bloomberg, Amundi Research, Data as of end October 2021

## SLB highlights

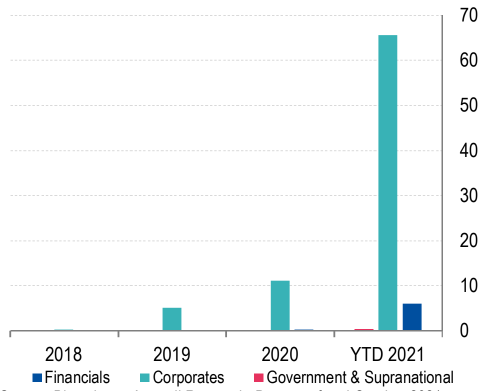
*2022 is likely to be another year of strong growth for the ESG bond market*

SLBs represent an increasingly important part of the effort to finance a global transition towards climate neutrality, and the rapid uptake of this instrument type is the result of a broadening range of entities (in particular corporates), seeking access to sustainable finance that is not immediately tied to a specific pool of eligible projects. As a result, issuance activity in the SLB market picked up significantly in 2021, amounting to roughly USD 70bn in 9M21, seven times the volume recorded in FY20. A look at the quarterly trend shows a sort of exponential progress, with Q3 equalling H1 volumes, while the following chart shows the dominant role of corporates in driving this segment's growth. The strong dynamic in this segment has been supported by continuing issuer diversification, with 25 inaugural issuers in Q1, more than 50 newcomers in Q2 and further 23 in Q3. Sector diversification has improved too, as, despite the dominant initial role of utility companies, an increasing number of issuers from other sectors have been issuing inaugural SLBs.

8 & 9/ **SLB bond supply by quarter and by issuer sector**




Source: Bloomberg, Amundi Research, Data as of end October 2021




Source: Bloomberg, Amundi Research, Data as of end October 2021

## What about 2022 trends?

*Corporates are expected to remain quite active in all segments, probably to accelerate their Sustainability-linked bonds volumes*

2022 is likely to be another year of strong growth for the ESG bond market, combining the role played from corporates, supra & agencies issuers, as has been the case for a number of years, with significant supply also from sovereigns in both DM and EM regions.

We may expect corporates to remain quite active in all segments, but as this year has shown, probably to accelerate their SLB volumes incrementally. Supra and agencies will keep contributing to market growth but probably at a slower pace than in the past two years, which was driven by the strong, prompt policy response to the pandemic crisis. After the remarkable role played by SURE bonds in the social segment in just a few quarters, we may expect the highest percentage of bonds to come with a green label, thanks to the arrival of the EU's NGEU green bonds. Supra will likely be the driving force behind ESG issuance, but agencies should also be strong issuers. Finally, both DM and EM sovereigns are likely to focus on ESG issuance (and in particular green bonds) in 2022, as the green transition grows in political importance. We may expect both inaugural green benchmarks by new sovereigns already reportedly considering to tap the ESG market, and a growing presence from sovereigns already involved, the latter mainly European issuers. The same combination of new entrants and additional supply from active issuers may be expected from EM sovereigns, too.

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## Major ESG bond market segments

**This box provides the reader with definitions of different types of ESG bonds mentioned in the piece**

**Green bonds:** sometimes called "environmental bonds". This is a (non-bank) bond loan issued on the financial markets by a company or a public entity (community, international agency, etc.) to finance projects contributing to the ecological transition. The difference, compared to traditional bonds, lies in the commitments made by the issuer on the one hand, on the precise use of the funds collected, which must relate to projects having a favorable impact on the environment, and, on the other hand , on the publication, each year, of a report giving investors an account of the life of these projects.

**Social bonds:** bonds that raise funds for projects with positive social aims in the areas of affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security and socioeconomic advancement and empowerment.

**Sustainability bonds:** the segment combines green and social assets. The proceeds of these bonds finance a combination of both green and social projects, activities or expenditures.

**Sustainability-linked bonds (SLB):** SLBs are linked to the issuer's overall sustainability strategy and its progress in this area. In this respect, they are forward-looking, performance-based instruments. Typically, this results in a structure in which the bond coupon can vary depending on whether or not the issuer achieves predefined sustainability or ESG objectives.

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