

Corporate greenium in the euro market: visible premium and lower volatility

Amid growing interest in green bonds, the question around 'greenium' is certain to interest capital market participants for a long time. Our analysis concludes that corporate green bonds denominated in euro show spread premium and overall volatility lower than their plain vanilla grey equivalents



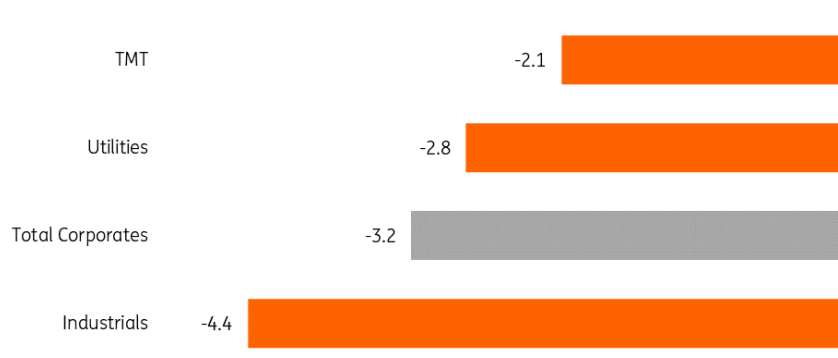
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Greenium confirmed, although disparities remain the norm

With investors and issuers more eager to take part in the sustainability bond market, the greenium subject has become a recurrent focal point. Do green bonds offer any advantage to issuers and investors in comparison to plain vanilla grey bonds? Do green bonds trade inside their own curve?

The answer is yes. Our analysis, conducted in March 2022, shows that globally, corporate green bonds are priced 3 basis points tighter than their plain vanilla grey bond comparables. Three basis points may not seem a lot but this has to be put in perspective with the very large size bonds corporates issue on the markets (for the EUR Investment Grade market, between €350m and €2bn).

Corporate green bond spread premium per sector (in basis points)

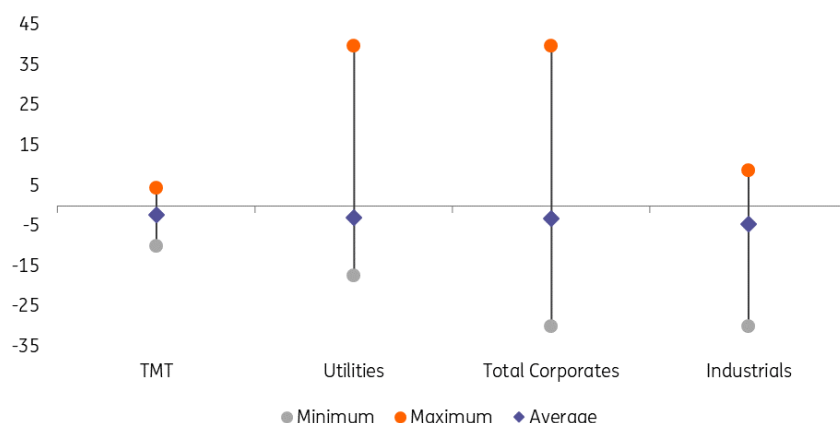


Source: Markit, ING

The greenium varies slightly from sector to sector and is not easy to interpret. However, industrials, with a 4 basis points greenium, include issuers that offer green bond curves trading significantly inside their own grey bond curves. Some of these corporates are within the automotive industry. The favouring of automakers' green bonds over grey bonds could indicate large support from investors for sustainable mobility investments in comparison to traditional mobility products, which are largely associated with pollution issues.

If the global picture proves again the existing greenium for corporate bond issuances, the details also show strong disparities within green bonds in terms of discounts and premiums. For instance, within the utilities sector, the maximum discount (green bond spread above the grey curve) stood at 37 basis points. This demonstrates that not all green bonds offer greenium – on the contrary. The lack of greenium cannot always be explained, but when an explanation is plausible it often relies on the size of the bond (too small or too large) or the investors' perception of the green bond framework or the company's sustainability profile. In some rarer cases, the lack of greenium can also be due to issuers exclusively issuing green bonds over the past few years, leading to the pricing of both curves, green and grey, at the same level.

Corporate green bond spread maximum premium and discount per analysed sector vs. grey bonds (in basis points)



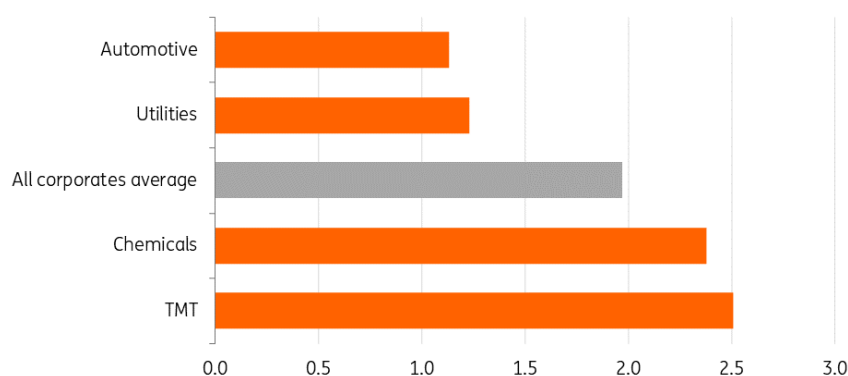
Source: Markit, ING

Corporate green bonds benefit from a lower spread volatility

Our second analysis, looking at green and grey bonds' volatility on the euro market between January 2021 and March 2022, brings another insight. Our corporate bond universe constituted of 130 corporate senior bonds and shows that green bonds have less volatile spreads than grey equivalents, in every sector we analysed: utilities, TMT, automotive and chemicals.

Overall, between January 2021 and March 2022, the corporate senior green bonds of our universe showed average volatility of 0.06 compared with 0.13 for the grey bonds (expressed as standard valuation). Corporate bonds' overall volatility is relatively low in comparison with other financial products such as stocks. However, the outcome of our analysis shows that corporate grey bond spreads are proportionally twice more volatile than green bond spreads.

Grey bond spreads volatility vs. green bond equivalents per sector (x) January 2021-March 2022



Source: Markit, ING

The European Union's sustainability targets for 2030 and 2050 and the recent RePowerEU package

that puts emphasis on the emergency [to switch to clean energies](#) will continue to support green bond issuance in the coming years. In parallel, investors' demand for green and other forms of sustainable bonds has only intensified with growing dedicated funds. For capital markets, the question around greenium will remain in the spotlight, however, bond performance is certainly not the only motivation behind the green bond label.

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