

US corporates see a decent greenium too

While US corporates have been late starters, many now have skin in the ESG issuance game. A greenium is part of the package, but not necessarily the central reason for ESG issuance. In terms of liquidity, bid/offer circumstances for ESG lines are no different to grey ones, and sometimes a shrinking greenium on wider spreads can be indicative of good liquidity



View of Central Park in New York City

Source: Shutterstock

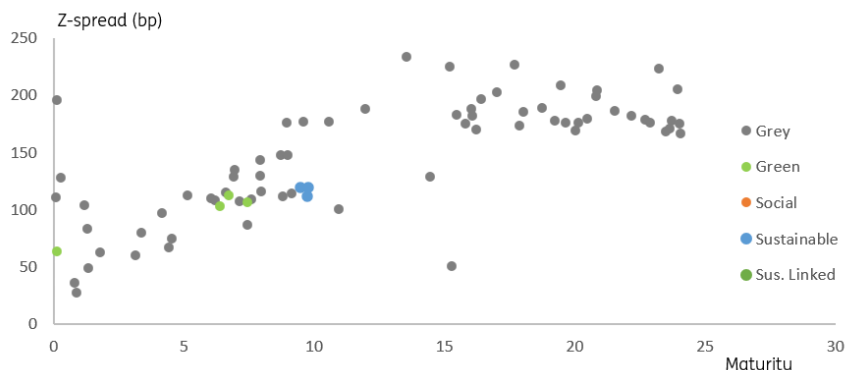
US corporate ESG issuance spans the full spectrum

Environmental, social, and corporate governance (ESG) issuance in the USD-denominated corporate space has been steady over the past number of months. Typically, US corporate names are more likely to issue ESG paper in USD-denominated products, whereas European names are more likely to issue EUR-denominated ones. We find that USD-denominated ESG bonds are just as likely to manage a greenium as EUR-denominated ones. Multinational or global names have been open to issuance in both currencies, and others.

The baseline expectation is for new issuance in USD-denominated ESG bonds to commence with a greenium. The greenium is typically in single digits, and often in low single digits. Some don't have a greenium to speak of at all, but there are not many examples of ESG bonds trading at a

significant concession to surrounding grey issues, barring bond peculiarities to do with coupon size or unusual holding characteristics.

Example of ESG issuers in the energy space



Source: Macrobond, ING estimates

The spectrum of the type of ESG issuance has also been wide and ranging. Green bonds remain the most popular ESG vehicle, but there is an ongoing smattering of sustainability and sustainability-linked issuance happening on an ongoing basis too. And there has been some US corporate social bond issuance too – not much, but it helps complete the full array. The growth area of late has been in sustainability-linked issuance, although green issuance continues to dominate.

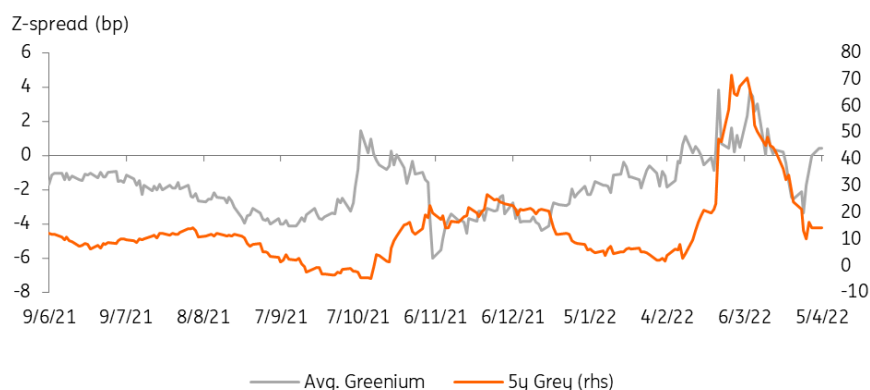
It has also been quite a wide-ranging market in terms of sector. ESG issuance in autos remains popular, and in energy, which is reflective of the quest to be seen as more ESG responsive than they might have been historically. ESG issuance has also been spanning other sectors ranging from food and beverage, real estate, transport, technology, pharmaceuticals and finance, and across a myriad of maturities all the way out to 30yrs, with the 10yr being the most popular.

ESG may be buy and hold, but there's no evidence they lack liquidity

We find that the ESG lines do tend to end up at accounts that are more minded to hold the paper on books rather than churn them through numerous buy/sell opportunities. At the same time, there is no clear evidence of a difference in bid/offer spreads in ESG lines relative to grey ones. While there may be individual and unique circumstances where there is a difference, in the vast majority of cases there is no discernible difference based on where traders price them on the secondary market.

In certain situations, there has been some evidence of greeniums in US corporate paper shrinking as credit spreads widened, especially during the recent spate of widening seen at the end of February and early March when the Russia/Ukraine war really hit the marketplace. While this would suggest that ESG lines suffered from a degree of illiquidity, in many cases it has been the opposite. In fact, the ESG lines were the easier ones to get liquidity from and were thus more prone to be used as a selling vehicle when liquidations were required, causing them to underperform. As the widening became less panicky, most of the greeniums that had shrunk tended to subsequently re-assert themselves.

Example of movement of credit spread alongside the greenium (energy sector)



Source: Macrobond, ING estimates

The greenium is persistently there, and helps, but is not not dispositive

Issuers of ESG lines and claims of ESG compliance will receive increasing credibility among investors and other stakeholders as we face the US Securities and Exchange Commission disclosure requirements that are set to be implemented in the coming years (we expect they will). While these will require quite a considerable amount of time and effort to apply, they will at the same time help to assuage sporadic greenwashing accusations. And indeed can help switch on some ESG issuance for some corporates that have not done so yet.

The greenium attainable is an attractive aspect to help take some corporates over the line. However, it has not been the determining factor for most US issuers. There could well be questions on the logic of ESG issuance were they to persistently trade at a discount to grey bonds. But for now, that does not tend to be the case. Rather the ESG market tends to come with a virtual guarantee of tight launch versus adjacent grey lines, and typically through to exhibit a greenium.

Moreover, our analysis of the secondary market shows that the greenium persists, with ESG lines tending to remain through adjacent grey yields as they roll down the curve. The basis point differential is also not that responsive to maturity, although that clearly means that the value of the greenium is more pronounced for longer maturities when expressed in price terms. A happy medium remains in play where issuers are keen to issue and investors invest at yields that tend to be through grey lines.

Author

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.