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Sustainable Bond Issuance Could Wane in 2022, Long-Term Outlook Still Bright.

Green, social, and sustainability bond issuance was $203 billion in the first quarter, down 11% on a sequential basis. Market observers say that the decline is attributable to the Federal Reserve boosting interest rates and Russia's invasion of Ukraine, among other factors.

However, a temporary issuance blip doesn't derail the long-term outlook for sustainability-linked bonds and related fare, indicating that when central bank tightening cools, the SPDR Bloomberg SASB Corporate Bond ESG Select ETF (RBND) could be an exchange traded fund to consider.

Citing macro headwinds, Moody's ESG Solutions said "we now anticipate GSSS bond volumes will be roughly flat compared with last year's total, with around $1 trillion of issuance for the whole of 2022. At an instrument level, we now forecast $550 billion of green bonds, $125 billion of social bonds, $175 billion of sustainability bonds and $150 billion of sustainability-linked bonds."

RBND debuted in November 2020 and tracks the Bloomberg SASB® US Corporate ESG Ex-Controversies Select Index. That index avoids bonds issued by companies that could be considered controversial. The bulk of the ETF's 447 holdings are dollar-denominated, investment-grade fare.

RBND's option-adjusted duration is 7.68 years, putting it in intermediate-term territory. While that's not short enough to be immune from rate hikes, intermediate-term bonds are usually the least correlated to stocks, indicating that RBND offers some portfolio diversification benefits. Additionally, the fund can act as a core fixed income holding for investors looking for sustainable bond solutions. Fortunately, the overall trajectory of that segment remains attractive despite the aforementioned 2022 hurdles.

"We continue to see many drivers supporting growth in the sustainable debt markets despite weaker issuance in the first quarter and our expectations for suppressed issuance the remainder of the year," added Moody's. "The need for climate mitigation and adaptation financing, accelerated decarbonization efforts to achieve net zero goals, growing regulatory attention on sustainability and a continued focus on the interconnectedness of environmental and social objectives will all support the sustainable debt markets over the long term."

About 55% of RBND's holdings are rated AAA, AA, or A, and the fund is reflective of the fact that more non-financial issuers are entering the green/sustainable bond markets, as financial services debt accounts for just 34.43% of the fund's portfolio.

"From a sectoral standpoint, nonfinancial corporates held a leading share of green bond issuance in the first quarter, with issuance of $52 billion representing 50% of the global total, up from a 37% share of market in the last quarter of 2021 and 42% during Q1 2022. Following non-financial corporates, financial institutions accounted for $27 billion, or 26% of global green bond issuance," concluded Moody's.

ETF TRENDS

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