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The Surprise Bond Sector Which is Unwittingly ESG Compliant.

The US municipal bond market could be an overlooked but strongly developed area for ESG investors to look into, according to a Schroders research paper.

In a white paper, entitled '*Should municipal bonds be a core holding for ESG investors?*', three members of Schroders' bond team looked at inherent characteristics of municipal bonds.

While some US authorities have launched dedicated green bonds, the Schroders report indicates that the $3.8 trillion US municipal bond market is linked to ESG thinking regardless.

'The US municipal market is vital in funding key projects around the country. Many provide the opportunity to allocate to assets aligned with ESG priorities. Municipal debt proceeds often contribute to positive social and environmental improvement.

'State and local governments are essential to developing and maintaining both physical infrastructure (water & sewers, bridges, mass transit, roads & bridges) and social infrastructure (education, health care),' the authors said.

The Schroders team gave the example of a New York City debt issue which was specifically targeted at climate change resilience projects in the wake of Hurricane Sandy.

'The area was damaged due to flooding and storm surge, and the main focus of the funding is to create a network of barriers well above sea level in neighborhoods that are susceptible to flooding. This is just one example of how municipal bonds fund projects around the country that are inherently ESG-focused.'

While the benefits are seemingly evident, the Schroders team said traditional credit analysis should not be jettisoned.

'Working with Schroders' Data Insight Unit, we have developed a proprietary ESG municipal model. It examines and assesses regional, state and local issuers based on 42 unique ESG factors from a variety of sources, including several proprietary metrics.

'As with fundamental municipal bond research, we turn anecdote into evidence while balancing sustainability with valuation. Our ESG model is one of the many tools our analysts use to reach a credit opinion on an issuer.'

Schroders said the munis market has been traditionally popular due to the beneficial tax treatment for investors, as well as the generally high credit quality of the market. 'More recently, investors are seeing the viability of the municipal market as a way to make an impact in communities, instead of traditional philanthropy efforts.'

City Wire

By Chris Sloley

20 Aug, 2019

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