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Green Bond Issuance Dips in Q1, but Long-Term Picture Remains Bright.

The coronavirus pandemic hindered issuance of green bonds in the first quarter, but market observers still see a bright long-term outlook for the asset class, which bodes well for ETFs such as the VanEck Vectors Green Bond ETF (NYSEArca: GRNB).

GRNB tracks the S&P Green Bond Select Index, which is "comprised of labeled green bonds that are issued to finance environmentally friendly projects, and includes bonds issued by the supranational, government, and corporate issuers globally in multiple currencies," according to VanEck.

"Global sustainable bond issuance totaled $59.3 billion in the first quarter of 2020, 32% lower than the fourth quarter of 2019, as the economic and financial fallout from the coronavirus crisis began to spread," said Moody's Investors Service in a note. "A precipitous drop in green bond issuance was the main driver of the steep decline in sustainable bond volumes. Record quarterly social bond issuance and steady sustainability bond issuance somewhat mitigated the decline."

Green bonds are debt securities issued to finance projects that promote climate change mitigation or an adaptation or other environmental sustainability purposes. The new breed of green bonds gained momentum in the global market ever since the European Investment Bank issued the first green bond in 2007.

International Outlook

Companies outside the U.S. are major issues of green debt as are sovereign issuers, which diversifies GRNB's geographic exposure.

"Emerging markets sustainable bond issuance totaled $7.7 billion in the first quarter, its lowest level since Q1 2018," notes Moody's. "Despite economic challenges associated with the coronavirus in the coming months, we continue to see strong potential for sustainable bond growth throughout EM economies over the long run given their susceptibility to ESG risks and huge investment needs to finance sustainable development."

Low oil prices may appear to deter green investing, but in reality, the opposite may prove true. Plus, GRNB's portfolios are highly rated with the bulk of its holdings residing deep into investment-grade territory while many traditional energy issues carry junk ratings.

"Green bond volumes declined to $33.9 billion, a steep 37% decline compared with the first quarter of 2019 and an even greater 49% decline compared with last year's fourth quarter. More positively, social bond issuance totaled $11.9 billion, a new quarterly record, while sustainability bonds registered a strong $13.4 billion total," according to Moody's.

ETF TRENDS

by TOM LYDON on MAY 13, 2020