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Barclays Says Green Bond Investors Pay More for Less Liquidity.

- **Findings imply that most green bond investors are buy-and-hold**
- **Demand for the securities is strong enough to weigh on yields**

Demand is so strong for green bonds, or debt that funds environmentally friendly projects, that investors are accepting lower yields for securities that are harder to trade, according to Barclays Plc.

Barclays looked at trading volumes across U.S. dollar and euro-denominated investment-grade markets, and found that green bonds trade less often than corporate bonds in general. Meanwhile, new environmentally friendly bonds tend to yield about 0.04 percentage point less, even after record issuance of the securities, Barclays strategists led by Charlotte Edwards and Bradley Rogoff wrote in their report.

The results confirm what investors have long suspected: that more investors in green bonds are of the buy-and-hold variety, including pension funds, asset management arms of insurance companies and mutual funds, rather than active traders. But the findings also imply that if many investors decide to liquidate their holdings at some point, they may be disappointed by demand in the secondary market.

Newly issued green bonds denominated in U.S. dollars do trade more often than the broader market, Barclays found, but after three months that shifts, with the environmentally-linked debt trading with reduced frequency. For euro-denominated debt, green notes trade less than average from the start.

Paying Up

Borrowers are taking advantage of the robust demand to fund environmental projects. Corporations and governments globally have sold a record $411 billion of green bonds so far this year, compared with $234 billion raised in all of last year, data compiled by Bloomberg show. Global sales of environmental, social and governance bonds are also at a record and are expected to hit $1 trillion by end of this year.

Firms have long been able to get cheaper funding by selling green bonds, but even with record issuance that benefit has only shrunk marginally, by just 1 basis point from the peak of 5 basis points earlier this year. Barclays expects demand to support a greenium of 4 basis points to 5 basis points over the medium term, assuming elevated issuance.

The strategists screened the U.S. high-grade market for green bonds trading with yields well below similar non-green debt, on the thinking that the divergence “is likely not justified” longer term.

“For holders of green bonds who are less concerned about the green label, swapping into similar maturity non-green bonds makes sense, in our view,” wrote the strategists.

Bloomberg Green

By David Caleb Mutua

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