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Press release

The sustainable bond market: 2022 review and outlook for 2023

While global bond issuance has been impacted by the geopolitical context, sustainable bonds (green, social, sustainable and sustainability-linked bonds) have shown resilience in 2022 and are expected to trend higher in 2023, according to Crédit Agricole CIB's ESG Fixed Income Research team. Impact investing has a bright future ahead of it, as sustainability has become a top priority for governments, businesses and investors.

Conflict in Ukraine and the energy transition: a short-term brake but a long-term accelerator

The conflict in Ukraine and energy crisis which followed have made clear that accelerating the energy transition is not only needed to fight climate change but that it is also key to ensure energy security and reduce dependency on third countries and volatile fossil fuel prices. Investing in the energy transition is therefore more relevant than ever. But the crisis and the risk of economic recession have triggered some short-term contradictory dynamics for ESG which could persist in 2023 according to Crédit Agricole CIB's ESG Fixed Income Research team.

On the policy side, the willingness to accelerate energy transition reforms could face some resistance due to the fear of increasing the economic and regulatory burden on companies and households already affected by the crisis. On the fiscal side, there could be tensions between the use of resources for emergency measures or to invest in the energy transition, particularly within a context of increased costs. On the corporate side, the economic recession, higher operating and financing costs and increased political interference could delay the timing of investment in clean technologies.

Looking at the bright side, the greening of ECB monetary policy and increased ESG integration on investors' side could favour resilience of green investment even in difficult economic conditions,

especially if accompanied by demand for green products and services to reduce energy consumption. Indeed, appetite for investing in the opportunities borne of the energy transition remains massive. This can also be seen in business reorganisations and capital structure reshaping, through which corporates and private investors are pushing the accelerator further to align with the requirements and opportunities of the energy transition.

Slower but resilient sustainable bond market growth in 2022

Down by 20% compared to 2021, sustainable bond issuance (green, social, sustainable and sustainability-linked bonds) has suffered from the Ukraine crisis along with unfavourable market conditions that similarly hurt conventional bond markets. The supply from non-financials has been more severely impacted than other issuer types (down 35% compared to 2021). That said, on a brighter note, sustainable bonds have showed resilience over the year. In the EUR bond markets, the share of sustainable bond issues out of the total supply has continued to progress (c.35% in the non-financial credit space vs 25% in 2021).

Sustainable issuance up 30% in 2023

According to Crédit Agricole CIB ESG Fixed Income Research, global sustainable bond issues could reach EUR880bn in 2023, up 30% compared to 2022. Issuance pick-up is expected from non-financial corporates on the back of cash balance running down and loan markets unlikely to be accessible the same way as they were in 2022. There will also be more maturities to refinance. Sustainable supply from financials should keep the same pace of growth as that observed in prior years. On the SSA side, sustainable issuance is also expected to improve and should benefit from increased Next Generation EU disbursements.

In terms of currencies, around 50% of issues is expected to be denominated in EUR and 20% in USD.

Global sustainable issuance evolution* and 2023 forecast (EURbn)

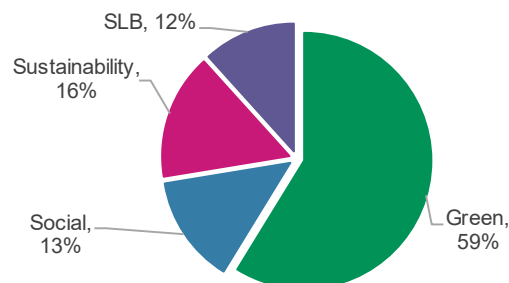


Source: Bloomberg, Crédit Agricole CIB

*US Municipals and US Mortgages, 144 securities excluded and only listed companies reported

**Cumulated issuances as of 15 November 2022 and published in Crédit Agricole CIB Sustainable Outlook 2023 on December 5th, 2022

Overall forecast sustainable issuance by product in 2023 (%)



Source: Bloomberg, Crédit Agricole CIB

Although sustainable bond premium or “greenium” analysis will remain relevant in 2023, justified by supply-demand imbalances and still difficult to compare information on ESG performance and objectives at issuer level, investors are increasingly looking beyond bond contents to focus on issuers’ strategies. From regulation on ESG data disclosures to the ECB green tilt and its issuer-based climate score approach, the momentum around ESG integration with increased focus on the environment is strong, announcing a gradual shift from greenium to ESG risk premium.

According to Damien de Saint Germain, Head of Credit Research & Strategy at Crédit Agricole CIB: *“As disclosures improve alongside regulatory requirements and corporates shift their operations to comply with a greener paradigm, ESG integration into the investment process is set to accelerate. Amid growing volatility, and as risk premium returns to the financial markets, we expect investors to be more discriminating between climate leaders and laggards. Over 2023, we take the view that ESG will play a key role in alpha generation.”*

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About Crédit Agricole Corporate and Investment Bank (Crédit Agricole CIB)

Crédit Agricole CIB is the corporate and investment banking arm of Credit Agricole Group, the 12th largest banking group worldwide in terms of tier 1 capital (The Banker, July 2021). Nearly 8,600 employees across Europe, the Americas, Asia-Pacific, the Middle East and Africa support the Bank's clients, meeting their financial needs throughout the world. Crédit Agricole CIB offers its large corporate and institutional clients a range of products and services in capital markets activities, investment banking, structured finance, commercial banking and international trade. The Bank is a pioneer in the area of climate finance, and is currently a market leader in this segment with a complete offer for all its clients.

For many years Crédit Agricole CIB has been committed to sustainable development. The Bank was the first French bank to sign the Equator Principles in 2003. It has also been a pioneer in Green Bond markets with the arrangement of public transactions from 2012 for a wide array of issuers (supranational banks, corporates, local authorities, banks) and was one of the co-drafter of Green Bond Principles and of the Social Bond Guidance. Relying on the expertise of a dedicated sustainable banking team and on the strong support of all bankers, Crédit Agricole CIB is one of the most active banks in the Green bonds market.

In 2022, Crédit Agricole CIB is the leader in Green, Social, Sustainability and Sustainability-Linked Bonds (#1) in EUR, with **7.9%** market share. (Source Bloomberg)

At the end of 2022 (as of YTD), Crédit Agricole CIB is one of the leaders in Green, Social, Sustainability and Sustainability-Linked Bonds all around the world with **5.03%** market share since 2017. (Source Dealogic)

Crédit Agricole CIB is committed to the climate and supports its customers in their energy transition and their decarbonization strategy, in accordance with the societal project of the Crédit Agricole group.

Since market inception, Crédit Agricole CIB as lead-managed around 500 benchmark Green, Social and Sustainability bonds, incl. a large number of the inaugural transactions and innovations in the market. Crédit Agricole CIB has a long-term commitment to promote green finance with a consistent organisation across the teams, from origination to distribution.

For more information, please visit www.ca-cib.com