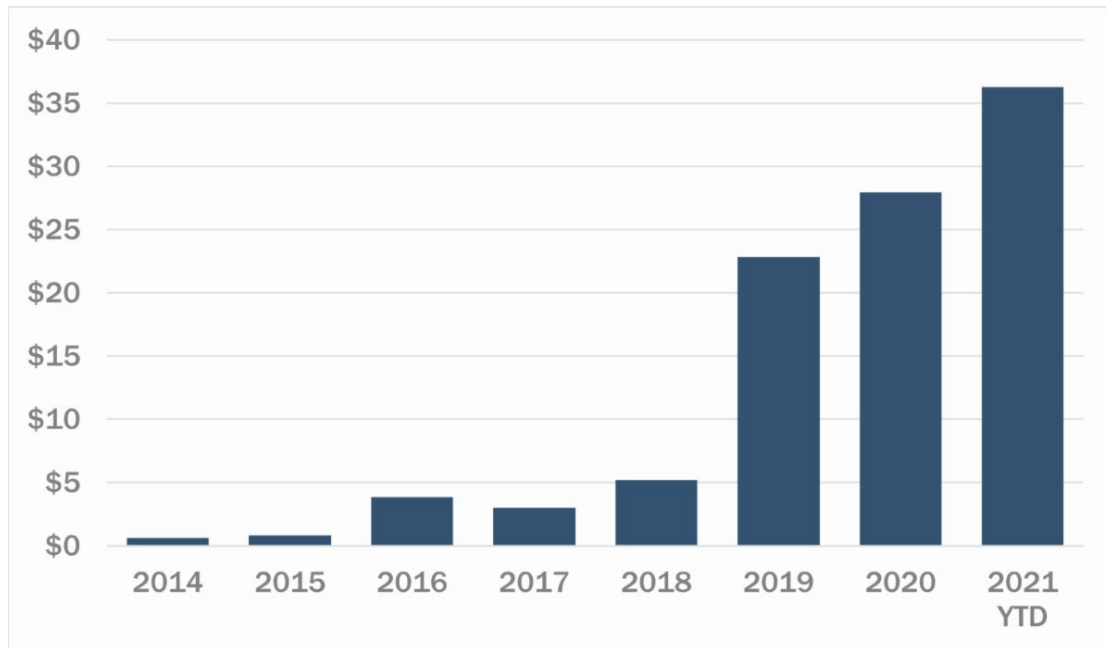


MARKET COMMENTARY

Fig. 1: US Corporate Green Bond Issuance (\$ billion)



Sources: Bloomberg, Mill Creek

Green bond issuance has continued apace in 2021 as mainstream investors remain focused on ESG-related initiatives. A green bond is a security whose proceeds are used specifically for climate and environmental purposes such as electric vehicle development and renewable energy projects. The first green bond was issued by the European Investment Bank (EIB) in 2007, but it wasn't until six years later that the market took off. Issuance has grown by 49% since 2015 and industry experts estimate total volume will exceed \$1 trillion by 2023¹.

The US green bond market is dominated by agency mortgage-backed securities (to finance green mortgage loans) and municipal bonds. However, participation by large corporations such as Apple, Pepsi and Tesla has grown steadily over the past two years as borrowers use green bonds to finance ESG initiatives *and* raise their profile with the public at large. Earlier this month, for example, Walmart priced its first green bond, a \$2 billion offering, which was the single largest issuance to date. Proceeds will be used to further Walmart's sustainability targets of becoming emissions free by 2040 and using 100% renewable energy to power buildings and long-haul trucks. Also this month, Verizon (first telecom to partake in the market) raised a \$1 billion green bond marked for sustainability and diversity initiatives. The company's September 2020 green bond has already funded \$994 million of renewable energy projects estimated to save 1,562,810 metric tons of carbon dioxide annually, or the equivalent of that produced by 283,873 homes' electricity use over one year. Similar to most green bond borrowers, Walmart's and Verizon's progress will be continuously monitored by a third-party auditor.

Green bonds still make up a small percentage of the overall fixed income market, but we believe interest in climate initiatives is set to accelerate over the coming decade. It remains to be seen whether this increased interest will drive relative outperformance over the long run, but the growing and rapidly evolving space of climate finance provides active bond managers with new territory in which to uncover potential value for client portfolios.

[1] Climate Bonds Initiative

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