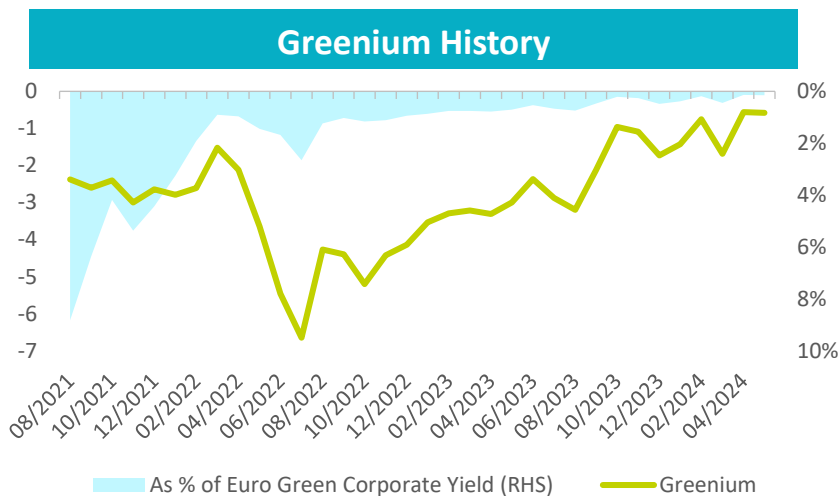


Why greenium may no longer be a source of worry

Johann Plé, Senior Portfolio Manager

Green bonds are often associated with greenium, a premium to pay for the sustainable bonds compared to conventional bonds equivalents. In the past, greenium was a common aspect of investing in green bonds as it reflected supply-demand imbalances. When we looked across sectors, those with more issuers – and therefore more choice for investors – tended to have a lower greenium than those where there were less options for investors. Today, on average, greenium has become insignificant, as we now estimate it to be less than 0.02%.



Source: AXA IM, Bloomberg as of 31 May 2024

This suggests that greenium can materialise more on a case by case basis than at sector or market level, which we believe adds to the reasons taking an active and selective approach to investing in green bonds. The reason that greenium has become less relevant is because the universe has grown significantly over the past years.

With a market value of \$1.8 trillion at the end of May, the green bond universe is now well diversified across sectors and issues. We are still seeing strong new issuance levels and new joiners, which continue to help level out the supply/demand imbalance that the green bond market experienced in its early years. The negligible greenium reflects this diversification, and, we believe, helps demonstrate that the green bond market is not a niche market anymore. Instead, green bonds may offer a unique opportunity to have access to global bonds while aiming to have a positive impact.

Source: AXA IM as of June 2024

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