

Transition credit review: H2 2025

Kamesh Korangi [(*)]

This report explores the credit performance and transition themes that developed in the second half of 2025, following our H1 report.[1]

AFII's twice-yearly Transition Credit Review series draws on insights from the model portfolios tracked in Co_2liseum, and the associated Quantitative Transition Assessment (QTA) — our ranking methodology for assessing the climate risk exposure of credit portfolios. Our aim is to spotlight how climate and credit risks are interacting in real time, and what this means for investors focused on transition performance.[2,3,4]

In this edition, we provide a brief macro review along with primary market issuance for GSS (Green, Sustainable and Sustainability-linked) bonds and their spread performance. [5] Moving onto key themes, we explore the stability of energy sector curves in light of a weaker oil price environment. We then look at renewable energy performance, using Orsted credit as an example. Finally, we present an example of a transition strategy revival with HA Sustainable Infrastructure Capital (HASI)'s junior subordinated debt, an interesting development in the US market.

Big tech AI capex is expected to grow by 36% to USD600 billion in 2026.[6] From a transition perspective, we expect demand to grow in the high emission-intensive industries as capex ramps up, as seen particularly in Utilities (incremental electric demand) and as we expect to see in Industrials and Materials.

Highlights from H2 2025 include:

- **Energy sector curves have been stable despite weak and volatile oil and gas prices. As commodity markets expect a 'super glut' next year, this could have credit implications.**
- **Utilities are best positioned to invest as data centre demand drives infrastructure needs. This sector is also the largest issuer of GSS bonds, with stable performance.**
- **European corporate credit continues to outperform sovereigns, while Fed rate cuts bets support USD denominated debt and US Treasuries.**
- **Transition leaders identified using the QTA methodology generate better returns and lower volatility.**

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[1] "Transition credit review: H1 2025", AFII, Aug 2025.
[2] "The case for transition strategies in credit", AFII, Jun 2025.
[3] "Co_2liseum: Quantitative Transition Assessment (QTA) ranking methodology", AFII, May 2025.
[4] Each Co_2liseum portfolio is hypothetical and each portfolio and the QTA methodology are for informational and educational purposes only. See Disclaimer Notice.
[5] Note there are no social labelled bonds as they are less relevant for transition strategies.
[6] "Technology: Hyperscaler Capex 2026 Estimates", CreditSights, Nov 2025.

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(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org). Author for contacts: kko@anthropocenefii.org

Macro market performance

In H2, credit markets traded at historically tight spreads with limited volatility. Trading occurred in a limited range of 15bps compared to around 44bps in H1. Table 1 shows how credit spreads across major markets have tightened year-to-date (YTD). From July onward, EUR credit continued to perform, with 13bps of tightening, while US credit — with its more technology/AI focus — has repriced, leading to underperformance of 8bps. Credit default swaps (CDS) markets have also become more liquid due to increased investor interest in hedging large debt issuances for AI capex needs.[7] Rate cut expectations are priced in on the US side. The final rate cut for 2025 was delivered recently, and going forward the market has slightly lower expectations on the size of future reductions. In contrast, on the EUR side of the market this tempering of expectations has not happened, meaning if EUR inflation turns out lower it could help EUR credit. The fiscal support of increased infrastructure spending in Europe is another positive factor for this market.

Table 1: Year-to-date (YTD) performance of credit spread, Source: Bloomberg L.P., last accessed: 04 Dec 2025.

In bps	DM Bonds		EM Bonds	CDS	
	EUR	USD	Asia USD	EUR	USD
	LECPOAS	LUACOAS	BEUGOAS	Itraxx Main	CDX IG
OAS	78	78	62	52	51
YTD change	-24	-2	-18	-4.1	1.7
H2 wide	91	85	76	59	57
H2 tight	76	72	60	50	47

At a regional level, Asia emerging markets (EM) performed on a spread basis with 18bps of tightening compared to 4bps in H1. EM markets are slated to increase USD net issuance next year, with lower US rates and some USD refinancing due in 2026. This should help fund some larger issuances that are needed to upgrade EM infrastructure such as electricity storage and grid facilities.

Primary credit markets: GSS supply and trends

The second half of 2025 was strong across all categories. As noted earlier, the macro expectations of further rate cuts provided broadly favourable conditions. For this report, vanilla and GSS corporate bonds issued in EUR or USD are the focus.[8]

Figure 1 shows the half yearly issuance of bonds in each category with the percent change from the same period last year. Overall issuance is up 36% compared to the prior period in the USD market and up 29% in the EUR market. The market was active, as issuers took advantage of tight spreads and the pricing in of rate cuts. In the EUR GSS category, issuance was up 17% compared to H2 2024.

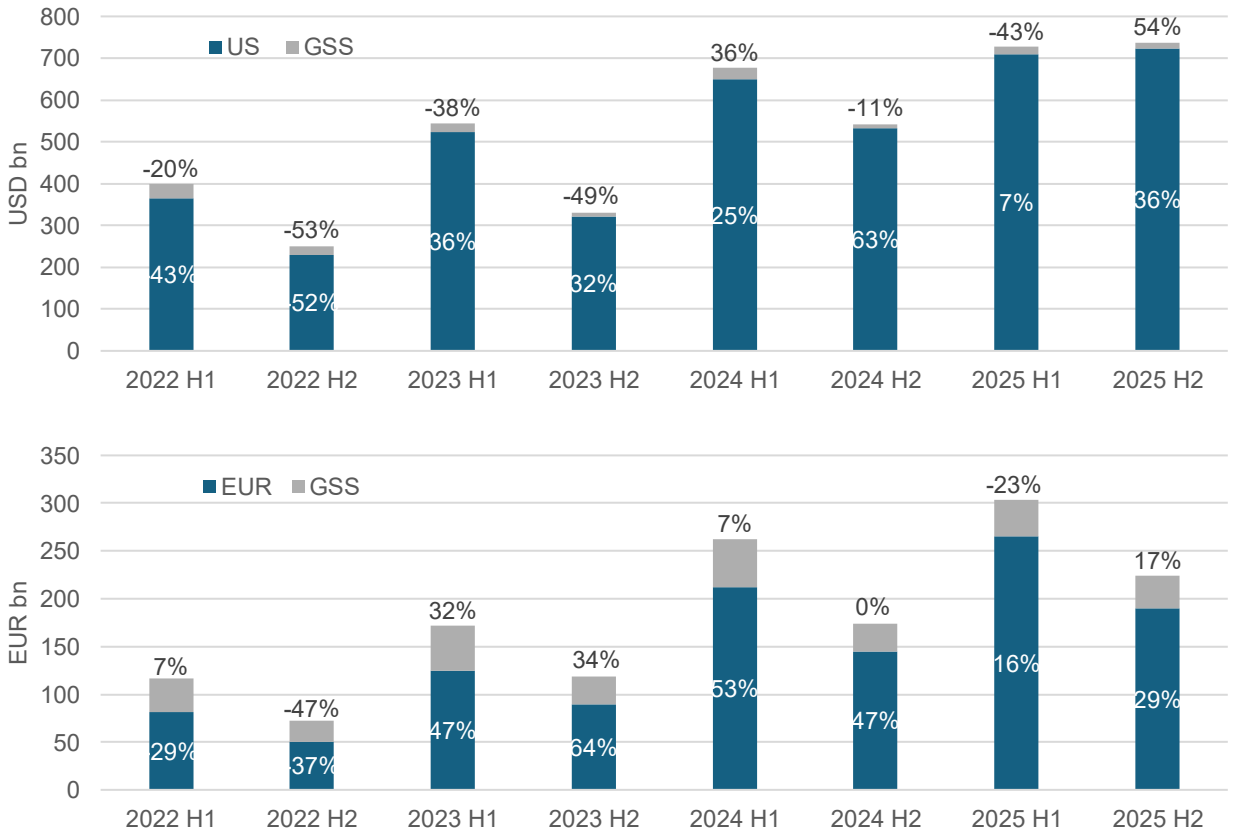
In the EUR market, the largest increase was due to US issuers (reverse Yankee issuance) given lower borrowing costs (after swapping back to USD), and better currency dynamics for EUR.

[7] "Credit Default Swaps spike — some AI firms now riskier than banks before the 2008 crash", Economic Times, 18 Nov 2025.

[8] The other criteria are minimum deal size of USD200 million USD equivalent and bonds that have maturity type either bullet or callable. For GSS, it is bonds that have green, sustainability-linked, and sustainable bonds indicators on in Bloomberg.

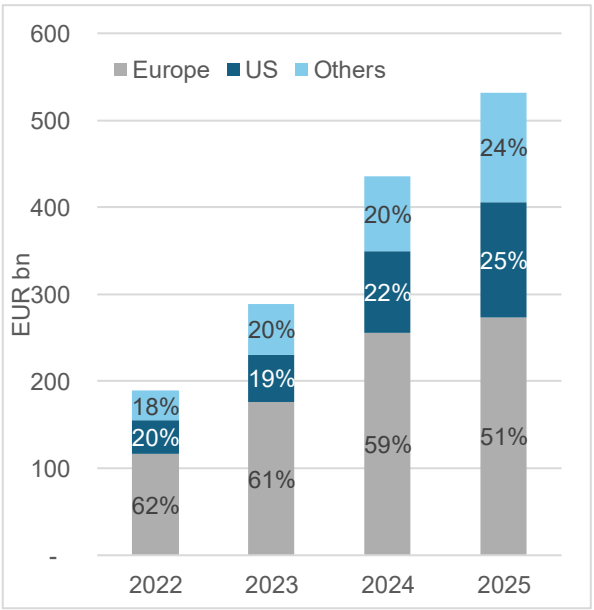
European issuers have largely maintained their levels of borrowing or slowed their pace of issuance, as shown in Figure 2. US issuers made up 25% of EUR denominated debt in 2025.

Figure 1 Traditional and GSS bonds semi-annual issuance in EUR and USD, Source: Bloomberg L.P., last accessed: 03 Dec 2025.



The top issuers in the USD and EUR markets were Meta (USD30 billion) and Alphabet (EUR13.25 billion) respectively, reflecting the overall surge in Technology sector issuance. The top GSS issuers were VW (EUR9.1 billion), Smurfit (USD4.4 billion), and TeraWulf (USD3.2billion USD). TeraWulf was a first-time, high-yield issuer in the data centre segment. Its bonds benefited from the financial backstop Alphabet provided for the lease obligations connected to the data centre. TeraWulf bonds performed well on the break (+1.5pts) and continues to trade higher.

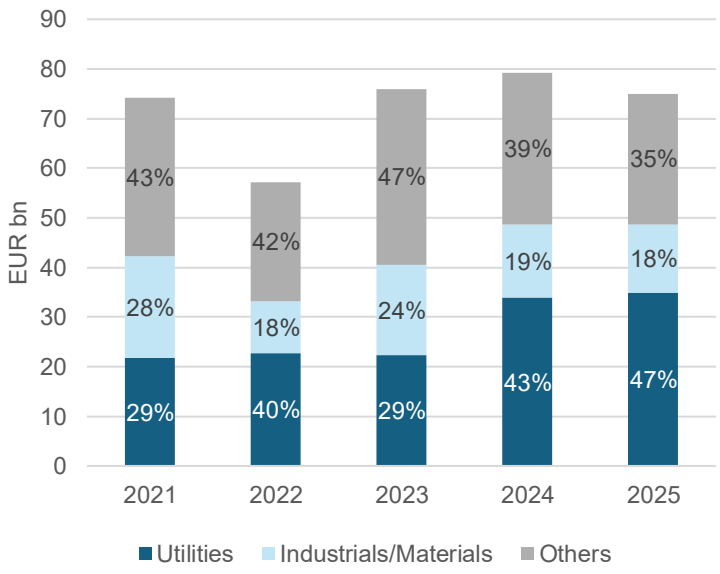
Figure 2: US issuers increasing borrowing in EUR markets, Source: Bloomberg L.P., last accessed: 04 Dec 2025.



GSS growth sectors

In recent years, Utilities have dominated GSS issuance to satisfy capex needs and to make new investments, including transition-related upgrades. **The sector is now 47% of the GSS issuance in the EUR primary market and averages 35% in the smaller USD31 billion GSS market in the US.** Other sectors in the heavy industries, such as Industrials and Materials, have not really utilised labelled bonds. However, with changing dynamics around data centre build out and a focus on efficiency of production — be it in Chemicals or Mining or Industrial manufacturing — these sectors are likely to increase their issuance in this GSS sector.[9]

Figure 3: GSS issuance of heavy industries versus other sectors, Source: Bloomberg L.P., last accessed: 03 Dec 2025.



Tighter spreads also drive infrastructure spending. Increased trade tariffs by the US and other nations caused unprecedented volatility earlier in the year. However, they are now much better understood and as tariff dynamics stabilise they could provide further impetus for tightening.[10] GSS issuance initially stumbled, but has come back in the second half as markets have priced in these changes.

Heading into 2026, the primary market is well positioned for further growth, driven by debt-funded capex in the US. The lagging GSS market could follow as issuers looking to signal better environmental terms to investors and diversify their funding bases.

Secondary credit markets performance

Transition strategies need to be tracked in GSS and also in vanilla bond performance. As sentiments shift over sustainability factors it could show up in unexpected places. Sectors that were unfavourable could be become attractive or vice versa. Table 2 shows the number of EUR denominated bonds for each sector, and for GSS and non-GSS. It further shows for each category

[9] "Supply Chains Struggle as Energy Transition Drives Surging Demand for Metals", Bloomberg NEF, Dec 2025.

[10] "Green bond comeback: one month after "Liberation Day" ", AFII, May 2025.

the current OAS spread and the change in the percent change in spread in H1 and H2 2025 (end of Nov 25).[11]

Table 2 : GSS vs non-GSS bonds performance, Source: Bloomberg L.P., last accessed: 03 Dec 2025

	Non-GSS				GSS			
Sector	Count	OAS	H1 chg	H2 chg	Count	OAS	H1 chg	H2 chg
Overall	2,605	75	-9 %	-18 %	657	86	-9 %	-19 %
Communications	243	85	**-1 %**	**-15 %**	19	95	**8 %**	**-18 %**
Consumer Discretionary	240	71	-10 %	-23 %	50	88	-13 %	-20 %
Consumer Staples	287	70	-6 %	-18 %	29	76	**-1 %**	**-22 %**
Energy	83	72	-8 %	-20 %	18	87	**-18 %**	-18 %
Financials	587	73	-15 %	-16 %	138	74	-17 %	-18 %
Health Care	236	70	-7 %	-20 %	6	61	0 %	-21 %
Industrials	384	72	-9 %	-17 %	48	88	-8 %	-16 %
Materials	166	78	-11 %	-11 %	42	90	-7 %	-11 %
Real Estate	172	102	-8 %	-19 %	129	106	-4 %	-19 %
Technology	54	66	-6 %	-19 %	5	77	-9 %	-20 %
Utilities	153	80	-9 %	-21 %	173	85	-9 %	-19 %

Performance overall has been uniform, with more spread tightening across categories in H2, of around 18%, compared to 9% in H1. Most sectors had similar performance, demonstrating a lack of dispersion. This presents challenges for active portfolios, while benefiting passive ones.

There are a few performance differences to note. French corporate bonds were one outlier. In the wake of political turmoil in the middle of the year, French government bond spreads increased, and are now the widest among EUR currency economies. This also affected French corporates. **Consumer Staples and Communications sectors with more French exposure in GSS underperformed in H1 but turned around significantly in H2.** The Communications sector has underperformed the market, with only modest tightening — although the GSS side saw a more significant turnaround in H2. Telefonica (TELEFO), NTT, Orange (ORAFP) were the main issuers that contributed to this performance. Carrefour (CAFP) and Pernod Ricard (RIFP) widened the most and then tightened significantly in the second half. Materials underperformed in the second half, Chemicals industry being the main contributor, with Air Liquide (AIFP) leading that industry move wider.

Uncertainty around GSS bonds was in evidence too, with a 23% drop in primary activity in H1 2025, as shown in Figure 2. **As sentiment normalised in H2, activity picked up in both primary and secondary markets helping GSS bonds largely perform in line or slightly better than non-GSS bonds.** This bodes well for the start of next year, as newer label bonds (such as transition bonds) and a relaxing of sustainable finance disclosure definitions provide tailwinds. [12]

[11] The assessed universe is limited to bonds that have spread levels below 350bps to strip away outliers while maintaining broad market coverage. The USD universe, though larger, does not have enough of a representative sample for GSS bonds, so there is no similar table for them.

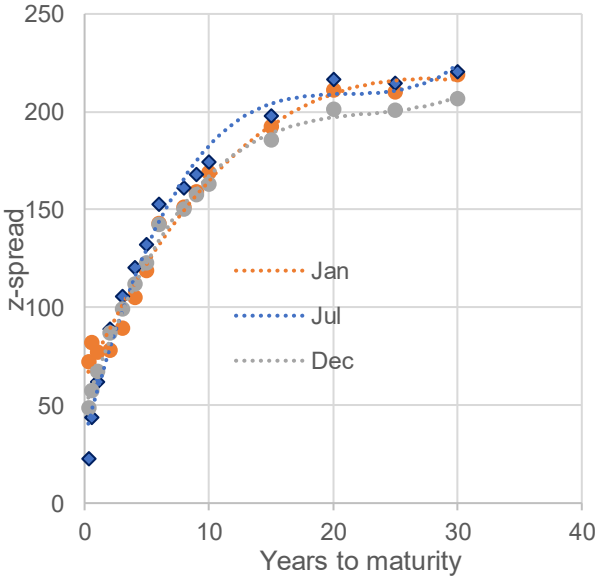
[12] "Have SLBs found their SFDR home?", AFII, Nov 2025.

Overall, performance is very similar across sectors other than Materials. This reflects lower dispersion across sectors, given spreads are tight. Active strategies will struggle to outperform in this environment, while passive strategies should benefit.

Energy sector

This sector performed well in H2. Curves were stable and resilient despite low oil prices. As noted in the last review, Energy sector issuers have extended the duration of new credits in recent years.[13] This means companies do not have to tap the bond market as regularly, and are somewhat cushioned from short-term credit factors, like cyclical decline in oil and gas revenues. In H2, there was no repeat of the H1 steepening of curves seen from January to July (as shown in Figure 4). In H2, there was more tightening at the longer end while the shorter end was unchanged (indicating bull steepening). There was surprising resilience and stability in spreads.

Figure 4: Energy sector curve changes, Source: Bloomberg L.P., last accessed: 03 Dec 2025.



Other contributing factors could be a credit-friendly uptick in M&A, especially around asset sales from the majors.[14,15,16] Next year, a slowing of growth by conventional companies, coupled with weaker crude prices, could contribute to a super glut.[17] This could develop into a credit story, if not among the major companies then among the high-yield corporates which are dependent as service providers or mid-stream operators (Tickers: VENLNG, NFE, VENTFGL).

Revival of renewables

The renewable energy industry, which is part of the larger Energy sector, has had a good year, despite the removal of policy support especially in US.[18] The sector total return in the EUR market was 3.2%, driven by pure-play operators (Orsted, Acciona, and Vestas). This was better than the conventional Energy bonds market, as shown in Table 3.[19]

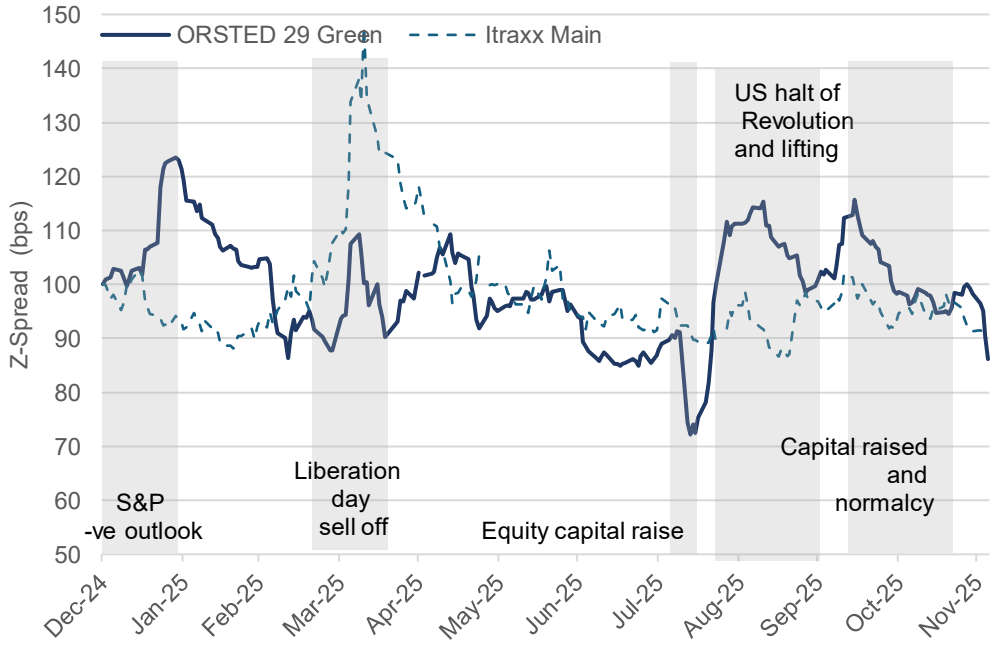
Table 3: EUR Renewable performance against Energy sector, Source: Bloomberg L.P., last accessed: 04 Dec 25

Sector	YTD total return
Energy non-GSS	2.9 %
Energy GSS	3.9 %
Renewable Energy	3.2 %

[13] "Buyers of long-dated oil bonds beware", AFII, May 2024.
[14] "TotalEnergies Sees Debt Pile Falling Further on Asset Sales", Bloomberg, Oct 2025.
[15] "BP in advanced talks to sell $8bn Castrol unit to US group Stonepeak", FT, Dec 2025.
[16] "Private equity circles big oil's pipelines as Majors hunt for cash", oilprice.com, Dec 2025.
[17] "Oil market faces 'super glut' as supply surge hits prices", FT, Dec 2025.
[18] "World Energy Outlook 2025", IEA, Nov 2025.
[19] Limited to bonds with outstanding of at least USD250 million and workout maturity of two years or more, and investment-grade rated by at least one of the rating agencies.

At the start of 2025, the renewables industry faced headwinds with policy uncertainty after the US elections. Investments in the industry collapsed and confidence took a hit. To illustrate this, we use the performance of the ORSTED green bond against the general market (Figure 5). This highlights a period of higher volatility which was not correlated with the market. After a capital raise in October 2025, the bonds have performed well and are now trading tighter to the market. Periods of such uncertainty are when investors have better prospects of returns, because pricing reacts to events and opinions on the consequences of these events are quite diversified.

Figure 5: ORSTED 1.5 29 (XS1721760541) against EUR credit spread performance with normalised spreads (starting at 100), Source: Bloomberg L.P, last Accessed: 04 Dec 2025.



Looking ahead, European renewables are attracting more investments as the US takes a back seat.[20] However, events in the Technology sector are providing a tailwind to renewables regardless of the policy direction of the US. This is because of the demand for new data centres and electrification. Along with Utilities, which already play a major role in this transition, there is now a fundamental argument for renewable energy providers to scale investments.

Transition portfolio strategies

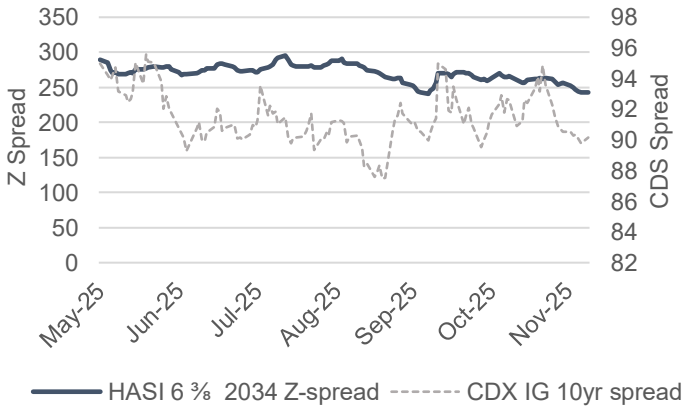
HASI vs CDX

AFII's model portfolios track market developments very closely, at the ISIN level. As noted in earlier analysis, there is an sufficient amount of USD GSS bonds for investors that are focused on climate risk optimisation. However, there are still opportunities as the US market offers diversity. For example, HA Sustainable Infrastructure Capital ("HASI") (BBB- rated) issues green debt to fund transition-related investments. HASI is a publicly listed specialty finance company/REIT with investments in climate and sustainable infrastructure assets. The bonds have traditionally traded wider to financials of a similar rating (suggesting a large green discount). In the last few months, it has outperformed similar duration credit. Figure 6 shows the performance of the HASI 2034 (15% tighter) against similar duration credit spread index (5% tightening).

[20] "Global Renewable Energy Investment Still Reaches New Record as Investors Reassess Risks", Bloomberg NEF, Aug 2025.

HASI also issued a subordinated bond (BB rated) in mid-November with a very long maturity of 2056, which is not common in the market. The bonds performed well (+2.3pts). These structures are complicated to analyse, but given the spread pickup, performance, and alignment with transition, they should be looked at more closely.

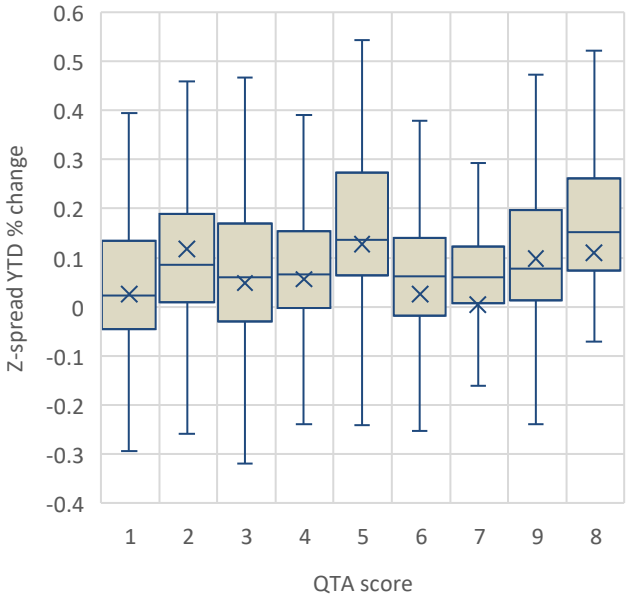
Figure 6: HASI USD green 2034 recent outperformance against similar duration credit, Source: Bloomberg L.P., last accessed: 04 Dec 2025.



Better credit performance of transition leaders

Our QTA methodology is based on classifying transition leaders and laggards with both backward-looking and forward-looking data. There is a case to be made that transition leaders offer lower volatility and higher returns, when bucketing for spread changes and QTA scores in USD currency debt. The methodology ranks every issuer on a 1-9 scale, with 1 being most transition-aligned and 9 least transition-aligned. It uses backward-looking GHG intensity data and forward-looking datasets from TPI/SBTi to assess the trajectory of every issuer.

Figure 7: USD issuers QTA scores and YTD spread return distribution, Source: S&P Price Viewer & AFII, last accessed: 08 Dec 2025.



Year-to-date spread returns performance is shown in the box whisker plot in Figure 7 for USD issuers' bonds (approx. 7,500). The middle line in the plot shows the median and the x mark the average, while the top and bottom lines of the box illustrate the 20 and 80 percentile values. The lines show the extent of outliers. The longer the lines, the larger the range of returns, indicating higher volatility. The figures show the bonds of issuers with the best possible QTA value of 1 score a much more -vs spread change (spread tightening/ positive returns) compared to other scores.[21]

These bonds also have lower volatility, bounded in a smaller range and skewed towards a more positive series of outcomes than negative ones. Issuers scoring 2/3/4 QTA values score similarly, with volatility ranges that are mixed. The spread levels also have a similar pattern, showing a preference for quality. Using transition as an investment factor could drive portfolio performance while also producing impact, just as markets are reshaping in line with the themes discussed earlier in the review.

[21] QTA score of 1 in US region consists of 37 issuers in Technology, Communications and Health care sectors.

Conclusions

Bond markets have had one of their best years on a total return basis. Spreads are at all-time tights, and the rates outlook has become supportive. This has led to much higher bond issuance compared to previous years, and even large high-yield issuances reflecting favourable conditions. GSS issuance performed well, especially in the renewable energy sector in H2. The data centre build is the largest driver of growth, which in turn is spurring other sectors to become efficient and scale to meet this demand. **These could mean higher revenues for sectors with greater emissions intensities, such as Utilities, Industrials, and Materials**.

The Energy sector has also performed and maintained stable curves despite weaker crude oil prices. Continued weakness could turn into a credit story as supply chains disrupt and service providers, particularly high-yield corporates, become vulnerable.

In the US, the lack of GSS issuance has not hindered transition, and novel structures are being used to fund long-term transition investments. Innovation could evolve, and with evidence of transition leaders outperforming the fundamentals are also aligning.

In conclusion, the overall outlook is positive as transition becomes a matter of substance, not just virtue signalling.

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