

Transition credit review: H1 2025

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This report is the first in a new twice-yearly series exploring the climate and credit performance of a select portfolio of corporate and sovereign bonds with focus on the opportunities of the energy transition.[1] The series draws on insights from our model portfolio tracked in Co_2liseum, and the associated Quantitative Transition Assessment (QTA).[2] The aim is to spotlight how climate and credit risks are interacting in real time, and what this means for investors focused on transition performance.[3]

In the first half of this year, US-imposed tariffs, economic volatility, and geopolitical tensions influenced market dynamics. These caused government bond curves to steepen, resulting in higher yields for corporate credits, making them potentially more attractive to some investors. Although spreads have since compressed and appear tight, corporate bonds still offer value by bringing relative stability to portfolios, a characteristic typically associated with government bonds.

Key takeaways from H1 2025 include:

- **Steeper rates curves.** Government bonds exhibited higher volatility, with curves steepening across all major markets — particularly Japan and Germany. This translated to higher costs for newly funded transition projects but opportunity for governments that have already issued transition-related debt.
- **Corporate credit outperformed.** Corporate credit outperformed with EUR cash trading at 79bps, which is 23bps tighter than the start of 2025. This creates opportunities for a more developed GSS market compared to US.
- **Utilities: Increased issuance with GSS opportunities.** The sector increased issuance, with green bonds in particular showing stronger performance since the market began to recover. However, overall issuance is expected to slow in the second half of the year.
- **Autos: Transition alignment outperformed.** The Autos sector showed stable performance, with a clear gap emerging between issuers that score well under our QTA methodology and those that do not.
- **Energy: Lower vol, curves connect to long run transition.** In the Energy sector, overall volatility was lower, but differences in climate alignment were still visible: better-scoring issuers like Cheniere are trading with flatter curves, while lower-scoring names like Exxon are trading with steeper ones.

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[1] "The case for transition strategies in credit", AFII, Jun 2025.
[2] "Co_2liseum: Quantitative Transition Assessment (QTA) ranking methodology", AFII, May 2025.
[3] Each Co_2liseum portfolio is hypothetical and each portfolio and the QTA methodology are for informational and educational purposes only. See Disclaimer Notice.

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Macro market performance

Markets had a volatile April and May as a result of Liberation Day.[4] Table 1 shows how credit spreads across major markets have tightened year-to-date (YTD). Euro-denominated bonds are now trading at their tightest levels of the year, averaging 79bps — 23bps tighter than at the start of the year and 37% tighter than the April wides. Credit default swaps (CDS) rallied more quickly after the volatility and have since underperformed. Historically, bonds traded about 25bps wider than their CDS, but that negative basis has now compressed to 14bps. This suggests improved financing conditions and indicates that bond pricing is more closely aligned with issuer credit risk, rather than being influenced by factors like liquidity premiums.

Table 1. Year-to-date (YTD) performance of credit spread, Source: Bloomberg as of 1 Aug 2025.

	DM Bonds		EM Bonds	CDS	
In bps	EUR	USD	Asia USD	EUR	USD
	LECPOAS	LUACOAS	BEUCTRUU	Itraxx Main	CDX IG
Current OAS	79	76	104	53.6	51.3
YTD change	-23	-4	-62	-2.5	2
H1 wide	128	119	167	85	81
H1 tight	79	76	104	51	46.5

At a regional level, Asian emerging markets (EM) outperformed on a spread basis and, because most EM credit is priced off US Treasuries, they have also delivered stronger total returns. EMs need to raise much more capital to fund their transitions, and acting quickly will give them more flexibility. That said, credit and liquidity conditions in EM are very different from the deeper and more mature EUR and USD developed markets, which offer investors a broader range of options.

Markets are trading at tight levels YTD, and with the summer lull we expect conditions to remain calm. However, there is potential for further tightening if macroeconomic data improves. So far this year, corporate credit has been less volatile than government bonds. This suggests a more favourable funding environment for corporate issuers, especially those in euro markets and emerging markets. This offers an opportunity for transition finance, since issuers with credible sustainability strategies may find it easier and cheaper to raise capital than in other periods.

Primary credit markets- GSS supply and trends

Total issuance in bonds, on a rolling semi-annual basis, is higher for H1 2025 than the prior year period, although GSS issuance is lower. This reflects challenges faced by issuers as policy support especially in US has dropped significantly. Figure 1 shows the issuance of US and EUR corporates, with GSS bonds in orange. The labels show the change compared to the previous year.

Overall issuance has been healthy, with EUR and USD vanilla issuance up 28% and 7% from the previous year, respectively. Given the sheer size of US markets, that translates to significant new supply. GSS issuance was muted in US, with Smurfit and Snam being top issuers.

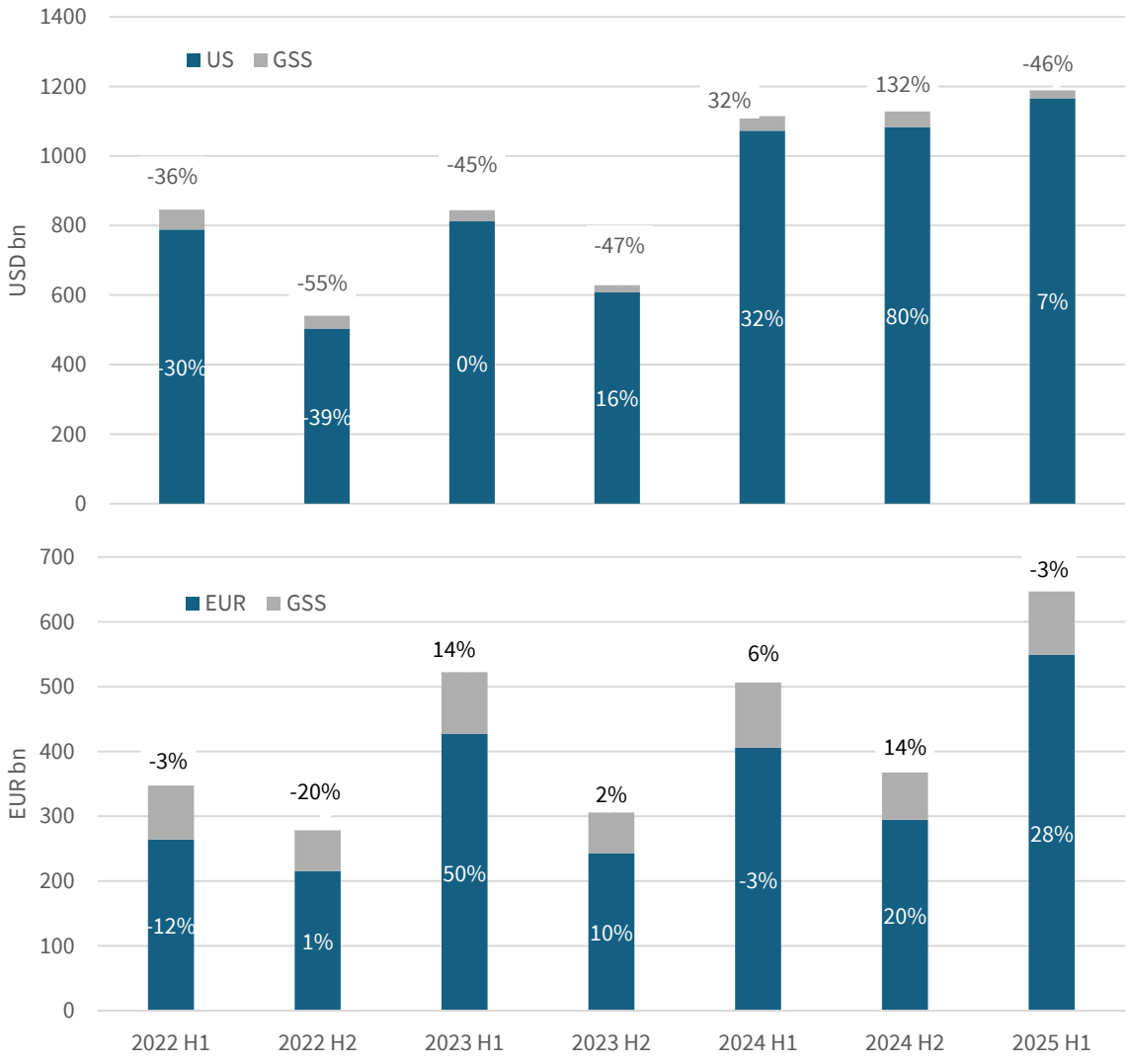
USD-denominated GSS issuance dropped to $22bn in H1 2025 from $30bn in H1 2024. Volumes are unlikely to rebound given current trends, which means green bonds are becoming increasingly

[4] "Green bond performance post Liberation Day", AFII, Apr 2025.

scarce in the USD market. In Europe, GSS issuance is 3% lower, while in the rest of the world supply increased by 28%. Utilities was the exception. Over the last two months, the sector priced close to 8bn EUR of GSS bonds compared to 4bn in 2024.[5] This increased issuance by Utilities is being discussed as a driver towards transition especially compared to the Energy sector which is lagging.[6]

Volkswagen (5.3bn) and Enel (2bn) were the top issuers in the EUR GSS space. Volkswagen is discussed later on in the Autos section, and Enel was covered in our research last year as a case study for SLBs.[7]

Figure 1. Traditional and GSS bonds semi-annual issuance in EUR and USD, in total notional and percentage change vs previous year., Source: Bloomberg as of 01 Jul 2025



[5] Suez, Snam, Engie, RWE, EPH, FCC, London Power, United Utilities, Severn Trent, Teren, Socieatea were the EUR GSS utilities issuers in Jun-Jul 2025.

[6] "Saudi Aramco's dividend cut shows oil majors are entering decline mode", SustainableViews, Jun 2025.

[7] "Enel returns to the SLB market: per angusta ad augusta", AFII, Jun 2024.

Green bond performance

Performance of green vs non-green bonds in H1 2025 is largely similar with few pockets out performance in green bond category, relating to earlier research in the year.[8] Table 2 shows the number of bonds in each category. The assessed universe is limited to bonds that have spread levels below 350bps to strip away outliers while maintaining broad market coverage. The z-spread column shows the current z-spread of each sector and category. This shows, for example, the spread for traditional Consumer Staples bonds is 59bps and for green bonds in the same sector 73bps. YTD change is the net change in spread for H1. Overall performance has been similar across categories. While there have been small instances of outperformance on the green bond side, these can be attributed to factors other than 'greenium' such as differences in duration, rating notches, or bond outstanding size. The only outlier is Energy green bonds, which consists of issuers Preem, Acciona, Neste, and Orlen. Preem was acquired by VARO Energy, a US based corporate, in H1, which caused the former's bonds to rally. Acciona bonds rallied on the back of robust results, with its 30s and 31s tightening by 65bps and 73bps, respectively. Neste and Orlen, both relatively transition-focused energy companies, also performed well in H1 with bonds spreads compressing.

Table 2. Green vs traditional bonds spread performance YTD (in basis points), Source: Bloomberg, as of 30 Jul 2025.

	Non-labelled			Green		
Sector	Count	z-spread	YTD change	Count	z-spread	YTD change
Overall	**3699**	**67**	**-26.8**	**830**	**66**	**-26.4**
Communications	238	70	-18.5	14	80	-20
Consumer Discretionary	289	72	-30.2	49	98	-32.7
Consumer Staples	298	59	-16.2	9	73	-17.9
Energy	114	73	-25.6	12	36	**-64.5**
Financials	1235	68	-33.2	259	40	-28.1
Health Care	243	60	-18.3			
Industrials	414	56	-24.2	46	72	-24.2
Materials	204	62	-24.1	37	67	-27.4
Real Estate	284	91	-29.1	138	97	-26.9
Technology	63	53	-20	5	29	-10.5
Utilities	317	71	-25.8	261	68	-22.6

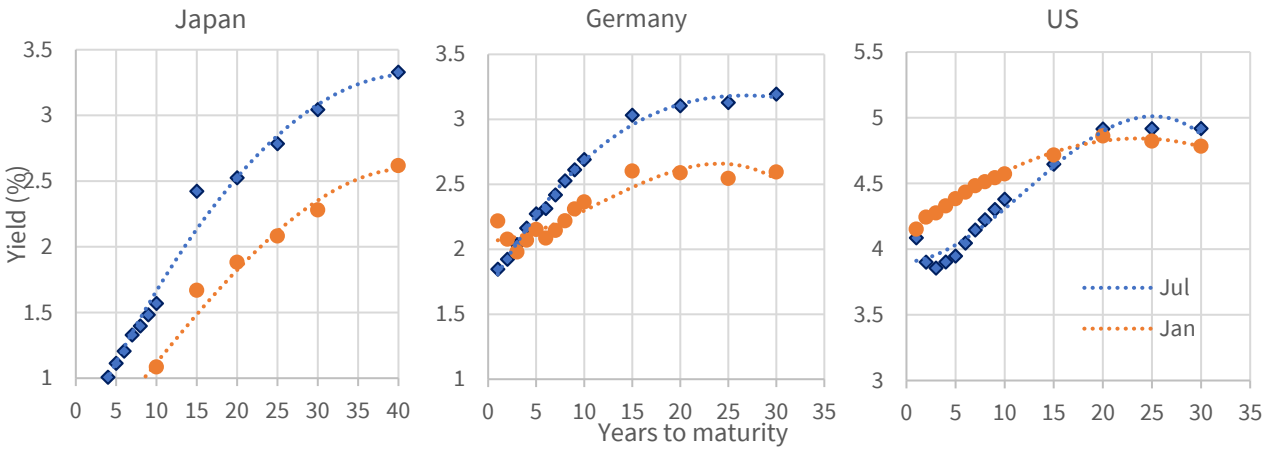
Sector curves

For investment grade portfolios, duration risk and sector exposure are key drivers of credit risk at the issuer level. Duration risk refers to the cost difference between raising long-term versus short-term debt. While rising yields pose a challenge to issuers across the curve, long-term debt is generally preferred because depending on short-term debt introduces rollover risk, which can be costly if macroeconomic shocks occur.

[8] See "Green bond performance post Liberation Day", AFII, Apr 2025, and "Green bond comeback: one month after "Liberation Day"", AFII, May 2025.

Yield curves are used to illustrate duration risk. A steepening curve means an issuer's long-term debt is becoming more expensive relative to short-term debt. For investors holding long-duration bonds, this could translate to portfolio losses.

Figure 2. Sovereign curves YTD, Source: Bloomberg as of 29 Jul 2025



Sovereign curves form the basis for most credit pricing. Figure 2 shows how major sovereign curves have performed in H1. Sovereigns have much longer duration than most other issuers, with curves extending to the 30- to 40-year points. Japan is a prolific issuer in the 40-year bucket. The charts show that sovereign curves have all steepened to varying degrees. The Japan curve steepening has grabbed headlines, increasing 27% in percentage yield terms at the 40-year point, but also substantially at the 10-year point. In the euro area, the long-end of Germany's sovereign curve has widened much more than the short-end. As for the US, the 10-year is actually tighter compared to January levels. However, the spread difference between the 10- and 30-year points (10s30s) has widened to 53bps. Germany's 10s30s spread is also 53bps, while for Japan the difference is 176bps. This shows long-term funding costs for governments have risen across markets, which makes transition funding only viable in the short-term markets. It may also spur better policy support to make long-term funding viable.

Two sectors that are important to the climate transition in more depth: Autos and Energy are discussed next.

Autos sector

Credits issued by Autos companies tightened in H1, by an average 28bps in the EUR-denominated space. Rallies were especially pronounced in the wake of tariff-related news. Here, we will focus on a number of issuers selected for their climate profile using our QTA methodology. [9]

Our portfolio strategy and analytical system, Co_2liseum, provides investors with insights into the climate risks associated with their bond holdings, enabling them to track, analyse, and improve their portfolios' climate performance over time. QTA is the scoring parameter we apply to individual securities and portfolios as a whole, encompassing a range of climate-related factors. Each issuer and instrument is scored on a scale of 1-9 or 0-9, respectively, where 1 corresponds with the 'best' climate performance, based on an issuer's historical emissions and forward-looking assessment of their transition progress.

[9] "Co_2liseum: Quantitative Transition Assessment (QTA) ranking methodology", AFII, May 2025.

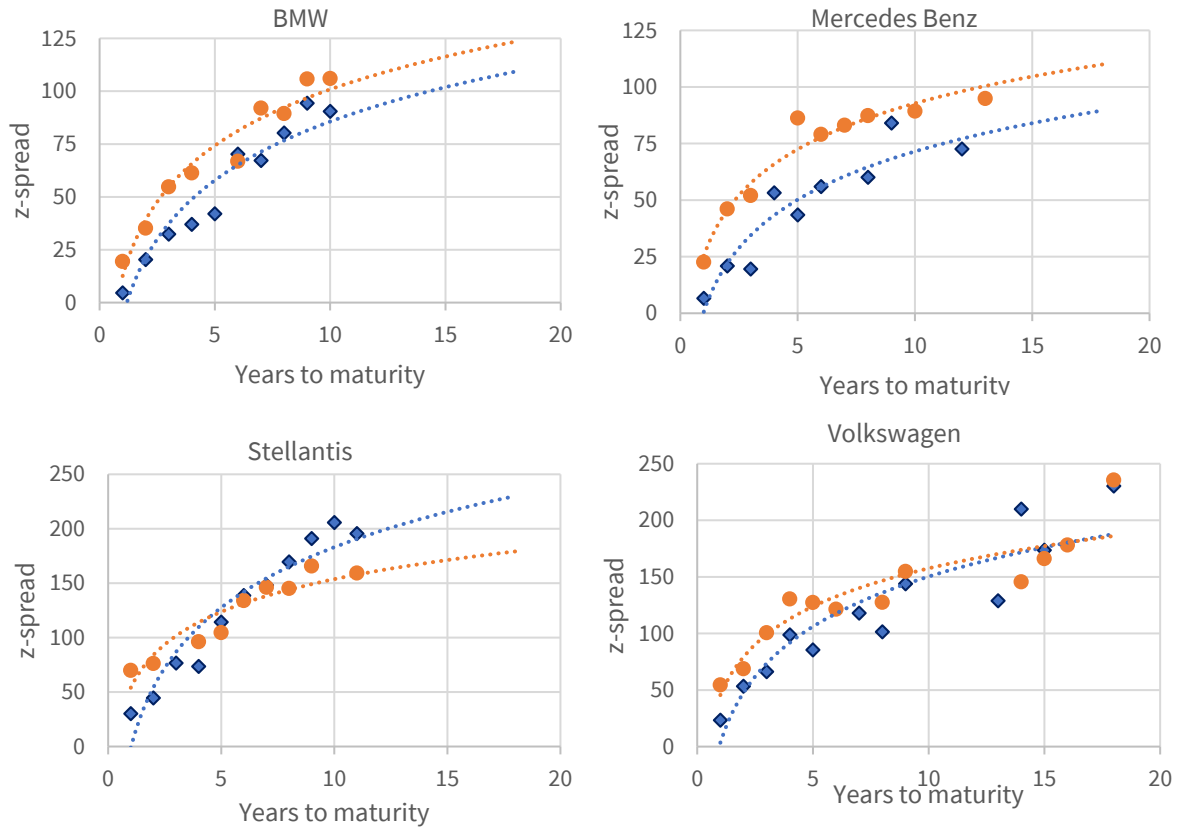
Using the QTA, we identified high-performing issuers and compared them to their worst-performing peers. In Autos, BMW and Mercedes score a 3 and Stellantis and Volkswagen score a 6. This means BMW and Mercedes have a more climate-friendly profile than the latter pair.

Figure 3 shows the yield curves for these companies. The orange line shows the spreads at the start of the year and the blue those as of end-July. We use z-spreads here as they strip away curve effects due to differing government benchmarks, leaving a clean comparison of credit risks.

We can see in the top two charts that both BMW and Mercedes are tighter across the curve relative to Stellantis and Volkswagen, and that the latter two steepened significantly. Stellantis saw long-end widening and short-end tightening, reflecting long-term uncertainty.[10] The company is more US-focused than its peers, meaning its credits track the US Treasury curve (see Figure 2). As for Volkswagen, the long-end of its curve was largely unchanged, suggesting stable market expectations.

To sum up, we observe a clear performance gap among Autos issuers based on their QTA scores. While these scores may not perfectly capture real-time mispricings, investors who were overweight the lower-scoring issuers and underweight in higher-scoring ones would have seen stronger returns in H1.

Figure 3. Performance of selected issuers in Autos sector, EUR. Source: S&P Price Viewer as of 29 Jul 2025.

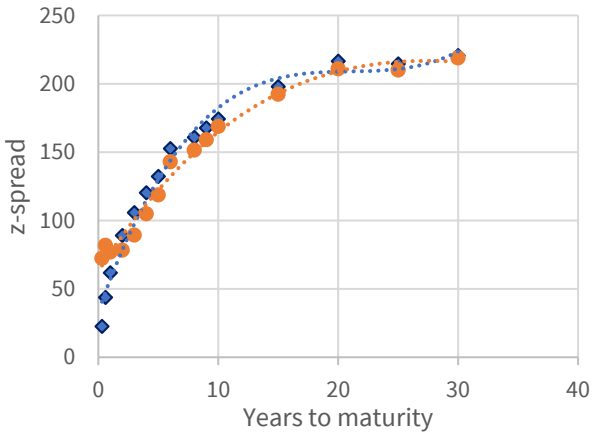


[10] "Autos transition risk pricing: Renault and Stellantis implications for EV adoption", AFII, Jul 2024.

Energy sector

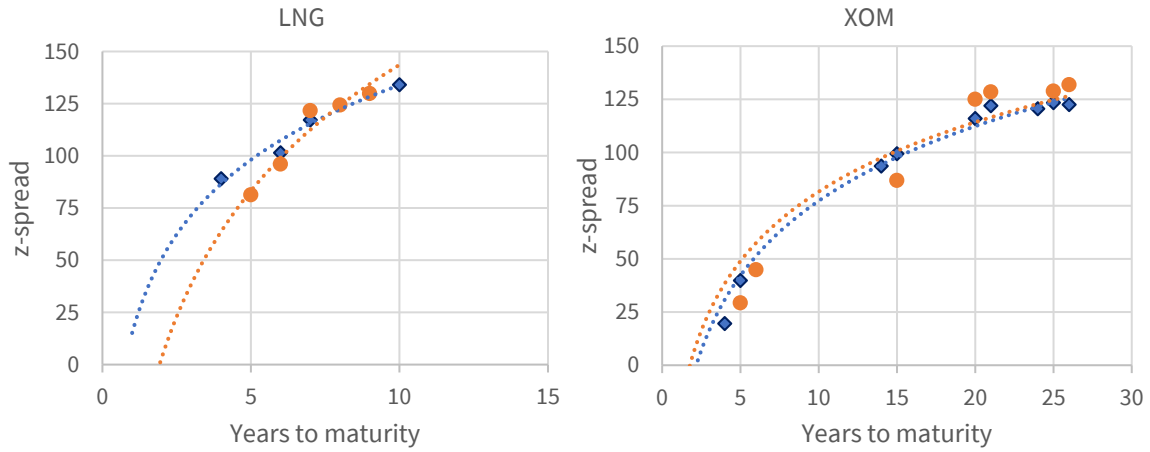
Energy sector issuers have extended the duration of new credits in recent years.[11] This means companies do not have to tap the bond market as regularly, and are somewhat cushioned from short-term credit factors, like declining oil and gas revenues. Energy yield curves have steepened YTD, in contrast to last year's flattening.

Figure 4. Energy sector curve change YTD, Source: S&P Price Viewer as of 29 July 2025.



Using the same QTA methodology, we compare Cheniere Energy, which scores a 6, and ExxonMobil, which scores the maximum possible 9. We see the former's yield curve flattened in H1. However, this only extends to the 10-year point. ExxonMobil has a yield curve out to the 30-year point, and while its short-end has tightened, the long-end has remained stable.

Figure 5. Cheniere and Exxon curve performance YTD selected based on QTA, Source: S&P Price Viewer as of 29 July 2025.



While there was little to differentiate these issuers in H1, it will be interesting to see if QTA scores translate to performance shifts over time.

Both Autos and Energy sectors have tightened outperforming other sectors, their curves though have shown differences. Autos yield curves have steepened more than Energy curves. An analysis through the lens of the QTA shows some differences in performance for issuers within each sector.

[11] "Buyers of long-dated oil bonds beware", AFII, May 2024.

Summary

Spreads remain tight across the market, but corporate bond curves have been less volatile than government curves. European credit has outperformed so far in 2025, with spreads tightening by 23bps YTD and issuance picking up in the first half. In the Autos and Energy sectors, curves have steepened, though we've seen bullishness at the short-end in names like Volkswagen and Exxon, suggesting near-term investor confidence.

For transition-focused investors, this environment presents both opportunities and challenges. Tight spreads and stable corporate curves can support refinancing and new issuance. However, they may also mask underlying climate risks if credit pricing fails to differentiate between high- and low-alignment issuers.

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