

Green bond performance post "Liberation Day"

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The announcement of the US administration's tariff policies on 2 April 2025, termed "Liberation Day", led to a sell-off across all risk assets globally. Bond markets showed dramatic moves with US Treasuries falling the most since 2001 and credit CDS benchmark Itraxx Europe moving from 65 to 85bps, levels last seen in 2023.

Table 1. Composition of investment grade corporate bond market (Bloomberg LP05TREU and LUACTRUU indices), with amount outstanding in $bn, count of bonds and avg duration. Source: Bloomberg, AFII, accessed 10 Apr 2025.

EUR	Green			NonGreen			USD	Green			NonGreen		
	Amt$	Count	Dur	Amt$	Count	Dur		Amt$	Count	Dur	Amt$	Count	Dur
Index	344	479	4.8	2527	3522	4.5		120	186	7.2	7148	7965	7.3
Communications	6	9	5.5	181	279	5.6		7	7	8.1	518	369	10.8
Consumer Disc.	25	31	4.1	208	255	3.5		5	6	5.9	420	528	6.6
Consumer Staples	3	6	6.5	189	324	5.2		5	4	7.3	459	545	7.8
Energy	3	5	4.8	58	116	4.6		0	0	0	492	576	9.5
Financials	150	194	3.5	935	1213	3.6		9	12	3.5	2178	1846	4.9
Health Care	1	2	2.8	172	246	5.1		3	4	10	835	848	12.7
Industrials	8	15	6.7	217	402	4.7		3	5	5.8	536	768	7.4
Materials	14	22	6	98	155	4.7		11	16	7.8	206	308	8.4
Real Estate	35	60	6.2	114	194	6.9		24	41	6.3	240	436	5.8
Technology	2	2	6.9	29	38	4.9		7	7	6.1	581	509	6.8
Utilities	97	133	6.2	219	299	5.8		46	84	24.7	682	1232	10.2

Against this backdrop, we took the opportunity to evaluate a market maxim, that green bonds show lower volatility compared to traditional bonds.[1] Green bonds are becoming a larger share of the bond market with total outstanding at $2.9 trillion.[2] Green bond issuance has shown significant year-over-year growth since 2018, with a particularly strong surge in recent years when markets have been unstable. However, this is the first time the corporate green bond market has experienced this kind of sell off, even outstripping the pandemic. This provides an opportunity to see how they have performed.

We tested bonds' performance across the broad Bloomberg Pan aggregate European (LP05TREU) and US (LUACTRUU) credit indices, examining labelled green bonds and traditional non-green bonds as two categories.

The market composition is shown in Table 1 with the European index having around EUR 2.8trn outstanding across both categories. The average duration of EUR green bonds is slightly longer than non-green, at 4.8 years compared to 4.5 years, while in USD they are similar. There is a greater

[1] "ESG - Green bonds exhibit lower volatility and higher liquidity than non-green bonds", ABN Amro, 27 Mar 2025.

[2] "Growth of the green bond market and greenhouse gas emissions", BIS, 11 Mar 2025.

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number and size of green bonds in EUR versus USD. Financials and utilities have more green bonds issued than other sectors.

Bond spread performance

To ascertain the difference, we compared the Z-spread percent change for 10 days ending 10 April (the larger the change, the more volatile the bond). A 20% widening in the market was the norm.

First, we observe that labelled bonds showed a slightly lower Z-spread percentage change (volatility) than non-green.

Focusing on two sectors that have significant green bond issuance, utilities and financials, the utility sector performed well across both non-green and green, with the least widening of 15.1% to 17.4% in EUR, and around 12% in USD bonds.

In the EUR financial sector, it is evenly distributed, while in the US, there seems to be modest outperformance of green bonds.

Table 2. Percentage median change in z-spread of the bonds in the last two weeks. Source: Bloomberg, AFII, accessed 10 Apr 2025.

Sector EUR	Green	Non-Green	USD	Green	Non-Green
Index	20.8	22.3		19.5	19.6
Communications	29.5	20.6		16.3	16
Consumer Discretionary	25.2	29		35.9	25.4
Consumer Staples	20.3	20.4		21.2	19.9
Energy	18.9	29.5		NA	24.2
Financials	22.1	22.1		25.8	27
Health Care	28.8	24.1		19.5	16.3
Industrials	23.8	24.4		28.1	18.4
Materials	20.3	27.5		25	21.8
Real Estate	23.9	16.3		25.3	22.5
Technology	15.1	14.4		29.5	24.6
Utilities	17.4	15.1		12.1	12.2

Looking at energy, we see a wider gap between green and non-green, with green significantly less volatile than non-green. However, there are a small amount of green bonds issued and, out of those five bonds, two of them caused the outperformance. Considering the sector has very few green bonds, it is hard to draw compelling conclusions.

Market beta comparison

Next, we compare the performance through betas. For the market we used the Global Aggregate credit index (LGDRTRUU). Beta is the coefficient of the market return when regressed over the individual bond returns, which is often due to yield changes, of which one part is spread and the other is interest rate moves.

We consider the short-term beta (st β) from the tightest levels of 10 February to 10 April. We also compare this with the longer-term beta (lt β) from April 2024 until February 2025. The beta is calculated from the returns of individual bonds to the given market index.

The market beta is 1. Anything higher indicates the sector to be more volatile than the market and below 1 is less volatile.

At a market level, the EUR long term betas are generally less volatile than the index with 0.565 as the beta while the USD long term beta is larger and close to the market at 1.

In the short term, USD markets appear riskier with a beta of around 1.5, which could be read as 50% more volatile. Here, the green bonds in the utility sector had a much higher beta. However, their percentage spread change was one of the lowest. In Table 1, we can see that the utilities sector has the highest duration in the US compared to EUR, which would have impacted the beta more than the spread deterioration alone.

Green bonds had a higher beta in the European market in the health care, industrials and materials sectors. The other sectors had more sell-off in non-green bonds, which overall leads to lower beta for green bonds in Europe, which agrees with the earlier studies. In the USD market, due to the broad selloff, we see higher betas among green bonds as well. Green bonds in the utilities sector had the largest market beta of 2.035, while the financial sector was relatively subdued, where green bonds performed better.

When comparing the European and US markets, the EUR bond spreads had a large widening, but performed better. Rates markets also play a role in overall credit performance. As markets recover, outperformance is coming from European markets, with German Bunds being seen as a safe haven while the US Treasury volatility continues to impact US credit.

Table 3. Median short-term (10 Feb 2025 to 10 Apr 2025) and long term (10 Apr 2024 to 10 Feb 2025) moved compared with Global Credit market index. Source: Bloomberg, AFII, accessed 10 Apr 2025.

	Green		NonGreen	
	st β	lt β	st β	lt β
EUR				
Index	0.271	0.567	0.284	0.565
Communications	0.180	0.540	0.222	0.617
Consumer Discretionary	0.321	0.555	0.328	0.517
Consumer Staples	0.203	0.701	0.232	0.608
Energy	0.160	0.601	0.203	0.535
Financials	0.257	0.510	0.292	0.528
Health Care	0.251	0.502	0.177	0.578
Industrials	0.361	0.663	0.278	0.570
Materials	0.310	0.629	0.294	0.589
Real Estate	0.528	0.613	0.655	0.684
Technology	0.003	0.681	0.143	0.570
Utilities	0.178	0.644	0.334	0.647
USD				
Index	1.526	1.013	1.406	0.988
Communications	1.313	1.035	1.600	1.167
Consumer Discretionary	1.232	0.870	1.423	0.942
Consumer Staples	1.540	1.048	1.454	1.019
Energy			1.507	1.030
Financials	0.993	0.708	1.140	0.817
Health Care	1.671	1.183	1.655	1.248
Industrials	1.256	0.938	1.427	0.990
Materials	1.501	1.013	1.491	1.002
Real Estate	1.523	0.978	1.277	0.903
Technology	1.381	0.912	1.376	0.951
Utilities	2.035	1.576	1.635	1.149

Overall, we did not find conclusive evidence for green bond preference in the market. While we did see lower volatility in the form of lower beta in green bonds in most sectors in Europe, the market selling is indiscriminate, and if there is a natural preference for green bonds, it will materialize during the recovery, when we expect they will be quicker to come back.

We will continue to monitor the market to see how bonds and particularly green bonds perform in the next phase as the tariffs shift and markets are stabilising. We will aim to look at individual issuers to further understand these moves and track the differences over time in later studies.

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