

Transition review: March 2026 volatility and oil shock

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March was a month of exceptional volatility and a severe macro shock. The escalation of the Middle East conflict, the oil price move, and rising rate expectations combined to push markets into unfamiliar territory, with credit, rates, and currencies all repricing at the same time. For transition-focused investors, this month was important not simply because spreads widened, but because it exposed how energy shock, geopolitical risk, and climate-sensitive positioning interact in real time.

This review is a reflection during that period, which draws on insights and lessons learned from AFII's model portfolios tracked in Co_2liseum and our associated ranking methodology for assessing climate-risk exposure in credit portfolios[1]. Our aim is to show how market stress, transition risk, and portfolio construction combined during March, and what that means for investors focused on transition performance.

Key observations from the Co_2liseum portfolio analytics are:

- Significant drop in GSS[2] issuance while the regular primary issuance was higher, also a meaningful underperformance of green bonds in portfolios
- Energy sector outperformance has impacted transition oriented portfolios, which are typically underweight the sector due to its higher emissions intensity
- Financials underperforming in the first half, when typically they could have higher exposure in such portfolios, due to their emissions profile
- Green bonds selected via favorable screening strategies bias portfolios toward non-leader credits, which underperformed compared to a credit strategy focused on sector-leading issuers

The broader lesson from the March shock is that transition-oriented portfolios need active management and a willingness to look beyond labels if they are to outperform in stressed markets.

March showed that the market can punish passive assumptions quickly, especially when an energy shock resets the pricing of risk across sectors.

[1] Each Co_2liseum portfolio is hypothetical, and each portfolio and the Co_2liseum methodology are for informational and educational purposes only, and are not an investment recommendation. See our Co_2liseum website here, including our Disclaimer Notice.
[2] Green, Sustainability-linked and Sustainable bonds.

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Primary markets themes

Primary markets remained active in March, but the composition of issuance told an important story about where capital was flowing. Both EUR and USD markets saw record issuance 48% and 25% growth compared to March 2025. This was led by the technology sector and the structural funding needs linked to data centres and AI buildout. Amazon's large 14bn EUR and 37bn USD deals were among the most prominent transactions of the month. The expected increases in emissions from big tech could lead to high carbon exposures which underscores the need to factor in forward looking transition metrics.

Table 1. Primary issuance in EURs for All credit and GSS labelled bonds compared to March 2025, Source: AFII, Bloomberg L.P, accessed 31 Mar 2026.

in bns (% chg last year)	EUR	GSS EUR
Utilities	1 (100%)	0.6 (20%)
Consumer Discretionary	22 (136%)	0.0 (-100%)
Communications	1 (-76%)	
Technology	1 (176%)	
Industrials	7 (40%)	0.0 (-100%)
Consumer Staples	9 (304%)	0.5 (0%)
Materials	3 (-49%)	0.0 (-100%)
Health Care	1 (-83%)	
Energy	4 (32%)	0.0 (-100%)
Total	**48 (48%)**	**1.1 (-75%)**

GSS issuance fell sharply in March, dropping by 75% (slightly down YTD) even as overall EUR issuance rose by 48%, suggesting that timing and funding urgency took precedence over sustainability labels.

In the US, GSS issuance remained subdued, with only LG Chem 500mn issuance in the market, and even the secondary curve of these issuers underperformed ahead of issuance.

Secondary markets themes

Financials underperformance

Financials were one of the clearest underperforming sectors in the first half of March which had an impact on the Co_2liseum model portfolio, as markets reassessed exposures to private-credit stress and insurers affected by war-related claims (SwissRe). The spread basis between senior financials (Snrfin) and iTraxx Main widened materially (5.5bps compared to under 1.8bps in mid-February), signalling stronger risk aversion in the sector.

Subordinated debt underperformed more sharply, as is typical in risk-off regimes, with the basis between sub-financials and senior financials widening significantly by month-end (36bps to 55bps – a 53% move) and with a similar widening in senior and subordinated corporates between iTraxx Main and crossover (190bps to 270bps – a 42% move).

Transition focused portfolios could have higher exposure to financials as they score favourably when looking at emissions intensity or pathways.[3] In Co_2liseum scoring the sector has a middle rank (2 out of possible 1-3)[4]. The intra sector scores which can range from 1-3 again provide mostly 2 and a combined score of 4 for financial issuers out of possible 1-9 with relatively less dispersion. Here the portfolio is exposed towards having higher financials risk purely based on the scoring approach. Higher credit concerns have led to the underperformance in the sector in March 2026. It

[3] For example, Bloomberg Euro Corporate Paris-Aligned Bond(PAB) Index contains 43% Financials, US PAB has 32% and the next sector is around 13%.
[4] For full methodology refer to "Co2liseum transition analytics", AFII, 2026.

came back quickly after private credit concerns ebbed away and higher rates expectations got embedded. However, transition scoring approaches can guide the portfolio towards increased exposures to financials in the portfolios which can inadvertently have more negative impact.

Transition portfolios need to be wary about credit risks that could dominate other factors which can lead to underperformance

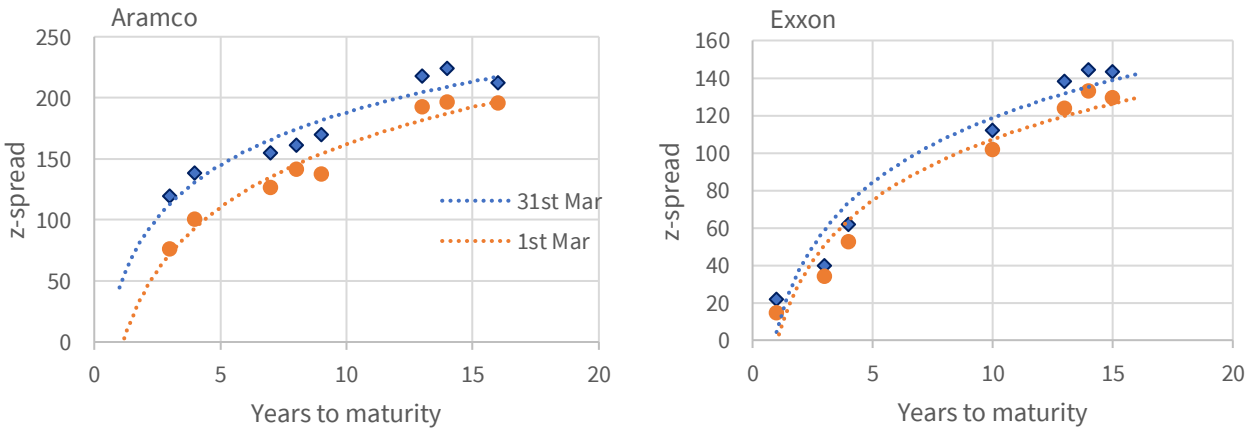
Energy outperformance

The energy sector was the clear relative outperformer, reflecting the oil rally and the market's renewed focus on its direct link to the geopolitical shock (see Table 2). European energy bonds widened 4% compared to the broader market by 13%, and names such as Repsol and Baker Hughes tightened, while renewable -related exposure such as Vestas widened.

Across the sector, curve flattening and mixed issuer performance showed that even within energy, the move was not uniform. In Co_2liseum model portfolio there is less exposure to energy, with steepener positions in general, as we expect curves to steepen when transition risk is priced.

We see different behaviour with Aramco (as shown in Figure 1) with geopolitical risk driving curve flattening, while Exxon's curve steepened. Active management of these positions was necessary as the shorter end of Exxon was stable compared to rest of the curve.

Figure 1. Aramco (LHS and Exxon (RHS) USD curves movement. Source: S&P Price Viewer, AFII, accessed 7 April 2026.



Green bonds performance

A further important theme was the behaviour of green bonds. In the overall shock, **green bonds showed larger spread moves in percentage terms than non-green bonds**, reminding us that labels do not provide uniform protection in a volatile market. Financials and technology green bonds, in particular, widened more than other segments, while European utility green bonds held up better relative to their non-green counterparts. For transition portfolios, this is a useful reminder that climate relevance, credit quality, and market structure all matter.

Green bonds receive a favourable instrument-level score of zero within Co_2liseum by virtue of their use-of-proceeds label, overriding the underlying issuer score. This means a portfolio with a green bond strategy can carry higher credit risk than the opportunistic credit strategy, where positions are selected based on issuer-level transition scores without any instrument-level override, so the underlying transition quality of the issuer is what drives inclusion.

Table 2. Percent spread change in March 2026 and the count of bonds in brackets for EUR issuers. Source: AFII, Bloomberg L.P, accessed: 31 Mar 2026.

Sector	Green	NonGreen
Overall	17.2 (499)	12.9 (2762)
Communications	1.3 (8)	5.9 (257)
Consumer Discretionary	20.2 (42)	17.3 (337)
Consumer Staples	6.9 (7)	6.4 (315)
Energy	3.1 (11)	3.9 (88)
Financials	22.7 (224)	16 (779)
Health Care	14.3 (2)	7.5 (232)
Industrials	18.4 (15)	17.5 (345)
Materials	21.3 (32)	18.2 (171)
Technology	20.9 (3)	16.7 (64)
Utilities	9.8 (155)	13 (174)

Based on our scoring methodology,[4] fully assessed credits performed better than less fully assessed exposures. UoP issuers, for example, had weaker average issuer scores than opportunistic credit positions, suggesting that deeper transition analysis can add value beyond simple label-based screening. On the other side, they could also come back quickly as noted in previous AFII's study during Liberation day shock in April 2025.[5]

Transition risk factoring is not just a reporting tool, but a source of credit differentiation. Also simple screening approaches based only on labelling can lead to material underperformance during periods of volatility.

Conclusions

Higher rate expectations are now more embedded, which could bring more issuance to credit markets before policy action materialises and as markets stabilise. Financials risk has subdued in the last few weeks as markets price private credit risk which should bring relief to transition oriented portfolios with higher exposure to financials. Energy sector continues to outperform and with higher volatility still continuing this works well for the sector. For transition portfolios this means finding more opportunities in the sector and issuers that are leaders in transition.

Green bonds may also recover faster in a volatile environment, particularly where spreads have widened more than fundamentals would suggest. The broader lesson from March is that transition-oriented portfolios need active management and a willingness to look beyond labels if they are to outperform in stressed markets. **March showed that the market can punish passive assumptions quickly, especially when an energy shock resets the pricing of risk across sectors.**

[5] "Green bond comeback: one month after 'Liberation Day'", AFII, 20 May 2025.

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