PORTFOLIO ANALYSIS

Transition credit review: shock and recovery, YTD 2026

Kamesh Korangi* | 28 Jul 2026 | 10 minute read

SUMMARY

- **Energy sector cashflow windfall leads credit markets performance with US issuers performing well compared to EU issuers, transition factors underperforming.**
- **In Autos, better transition-oriented issuers continue to perform well though regional disparities are emerging.**
- **Utilities capex is forward-looking, instrument-level scores are important**
- **Green discounts exist in the secondary market but are structurally limited by liquidity.**
- **US (0.85%) and EU label issuance share fell even as total supply hit a record.**

This review examines the transition themes emerging in the global credit market so far this year and assesses how they are feeding through to credit performance, building on our previous analysis.[1] We find that the market performance of key credits has diverged by currency as much as by sector, and that the relationship between an issuer's transition readiness and spread performance does not hold uniformly across sectors.

AFII's Co_2liseum portfolio analytics methodology is used to gauge relative transition performance.[2] The Co_2liseum score quantifies every issuer on a scale of 1-9 where 1 indicates the strongest transition position (leaders) and 9 the weakest (laggards). It also produces instrument-level scores that adjust for instrument type and portfolio duration. For this review, only issuer-level scores are used.

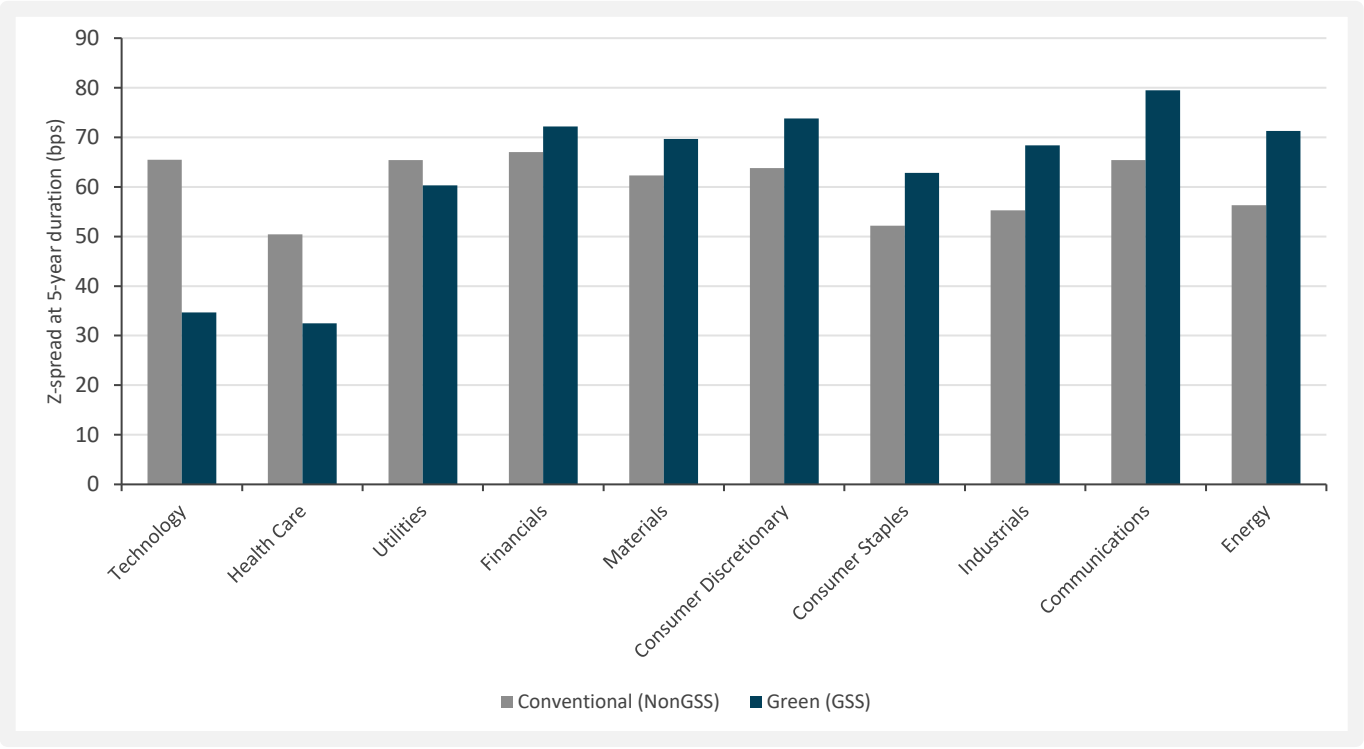
Co_2liseum's analysis reveals that YTD market performance split into two distinct phases: a first-quarter oil shock (lasting from 2 January 2026 to 31 March 2026) and a subsequent recovery through to 24 Jul 2026. However, sector, currency, and transition-score effects diverged across Energy, Utilities, Chemicals, and Automotive.

This review is built around three established credit dimensions: fundamentals, instrument valuations, and technicals. On fundamentals, we analyse issuer-level drivers including cash flow generation in Energy, capital expenditure trends in Utilities, and input cost exposure across Chemicals and Autos, with performance attribution further segmented by Co_2liseum score and duration. On instrument valuations, we assess spread differentials across Green, Sustainability, Sustainability-Linked, Transition (GSST)[3] instruments at both the sector and issuer level compared to conventional bonds. On technicals, we examine sovereign yield volatility, corporate spread dynamics, yield curve positioning, and primary market issuance trends to evaluate prevailing market conditions.

[1] "Transition review: March 2026 volatility and oil shock", AFII, 15 Apr 2026.
[2] For full methodology refer to "Co_2liseum transition analytics", AFII, 2026.
[3] Social bonds are not included as they are not related to transition.

*Author to contact: kko@anthropocenefii.org. See important disclaimer.

Figure 1. Labelled versus conventional z-spread by sector, EUR, restated to a common 5-year duration (bps). Source: AFII analysis, Bloomberg L.P, S&P Price Viewer, accessed 24 Jul 2026.1



In brief

- Energy cashflow windfall drives credit performance which diverged by currency of issuance. USD names tightened the most (10bps) and led the recovery phase while EUR issuers offered low volatility.
- In Utilities with higher share of forward-looking capex, issuers with higher Co_2liseum scores still outperformed lower-scoring peers, tightening by around 2bps over the period. This likely reflects the sector's higher share of GSST issuance, which is more directly aligned with transition activities.
- In the Autos sector, higher scoring issuers underperformed by 6bps, suggesting that weaker transition positioning is associated with weaker spread performance. They also face high uncertainty over switch to EV/hybrids and value offering preferences.
- Restated to a common five-year duration, green bonds trade wider than conventional instruments in seven out of 10 sectors. The only clear greenium appears in Utilities (5.1bps tighter on 174 green issuers); the other tighter readings are driven by just a few issuers. The pricing advantage for labelled bonds is the exception, not the rule.

Transition fundamentals[4]

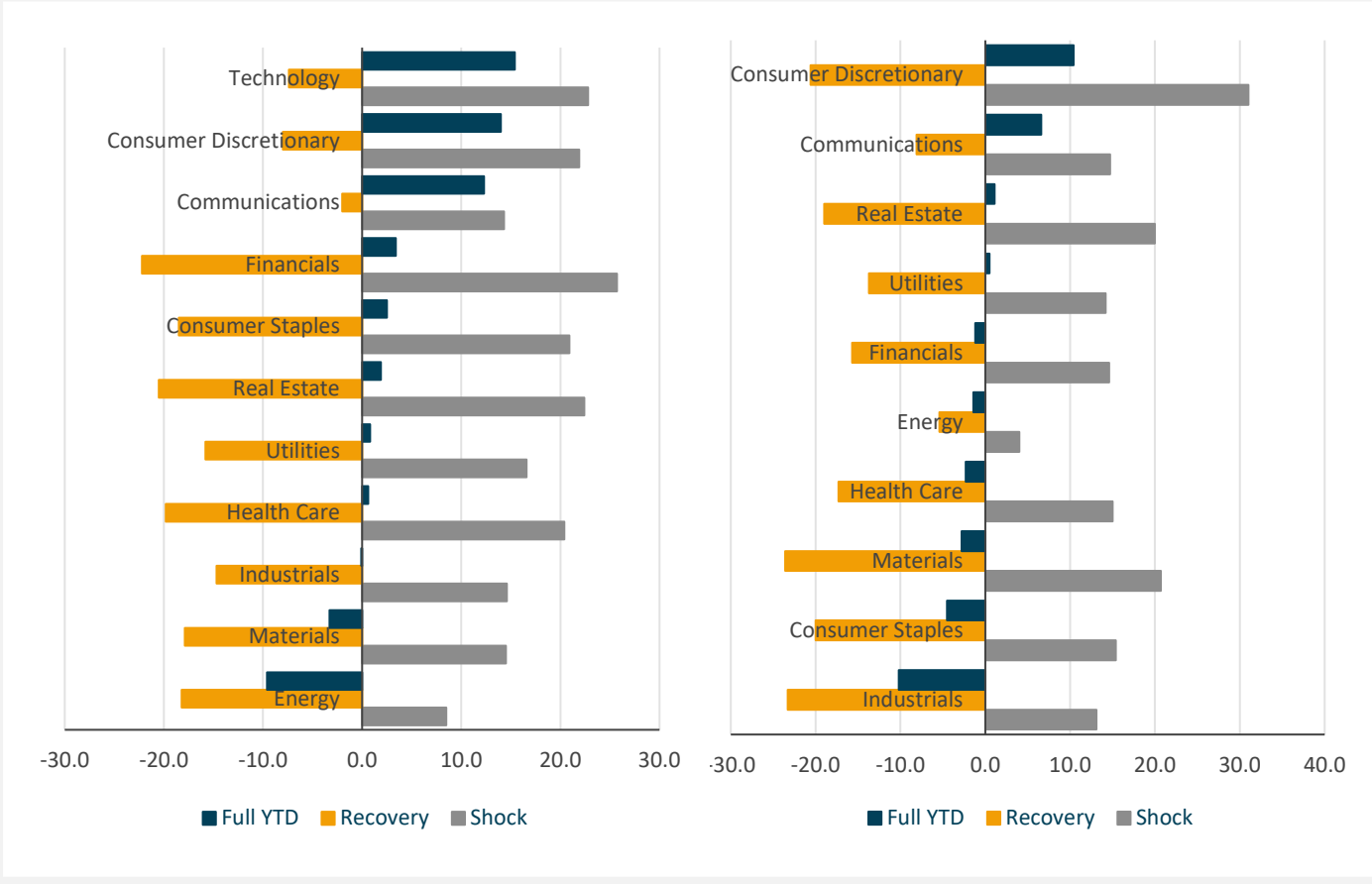
Climate transition risk can be assessed through five fundamental credit risk drivers: **cash flow resilience, capex requirements, operating and costs resilience, asset stranding risk, and financing conditions.** For each driver, a representative sector is analysed using the Co_2liseum transition score to measure transition risk, while YTD performance is used to assess market outcomes.

In this report, the first three risk drivers are studied using the Energy, Utilities, and Autos and Chemicals sectors. In Energy, operating cash generation has changed significantly since the US-Iran conflict began, driven by price volatility, supply disruptions, and shifts in profitability. In Utilities, capex is increasingly being used for transition activities rather than maintenance of existing assets. In Autos and Chemicals, operating and cost resilience has been challenged by significant volatility year-to-date. In Autos specifically, geopolitical risks, tariff policies, and supply chain pressures have taken a toll, while in Chemicals, rising input costs due to supply chain issues are having a potentially negative impact.

Market performance across the two phases

BBB 5-year spreads widened across every USD and EUR sector during the first-quarter oil shock (2 January 2026 to 31 March 2026), then most sectors rallied through the recovery phase to 24 July 2026. In USD,

Figure 2. Sector 5-year BBB spread change by phase, USD (bps, LHS) and EUR (bps, RHS). Source: AFII analysis, S&P Capital, accessed 24 Jul 2026.



[4] To compare sectors and issuers, and to adjust for different credit factors, a fundamental credit curve spread quant model was constructed (Nelson-Siegel-Svensson formula with sectoral/rating boundaries). This provides a proxy like what individual CDS spreads provide. The rest of the analysis uses this modelled spread to compare issuers or sectors which is much cleaner than individual bonds. Over 9k bonds (IG Corps, EUR&USD) were used in the model to construct uniform Z-spread curves.

Energy tightened the most over the full year (9.6bps net: 8.5bps wider in the shock, 18.2bps tighter in the recovery), while Technology widened the most (15.4bps net). In EUR, Industrials tightened the most (10.2bps) and Consumer Discretionary widened the most (10.4bps). Technology is the standout USD laggard of the year, 15.4bps wider net, and the same sector whose 5-year curve steepened most, consistent with its longer-duration, higher-beta profile.

Cash flows: Energy leads credit markets on windfall

Here we cover 23 BBB issuers, shown in Figure 5. Almost all USD BBB Energy issuers score in the medium or high Co_2liseum bands. No companies in this sector have low scores (meaning a high transition readiness), so a low-versus-high comparison is not meaningful here. Full year moves by Co_2liseum scoring band are as follows: med (n=9, -6.3bps); hi (n=14, -8.6bps).

Figure 3. Cash flows (Energy): 5-year BBB move by Co_2liseum score bucket, USD (bps). Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.

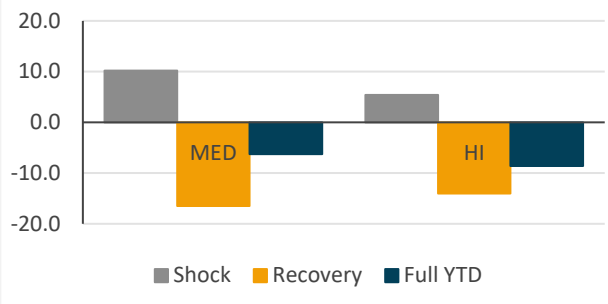
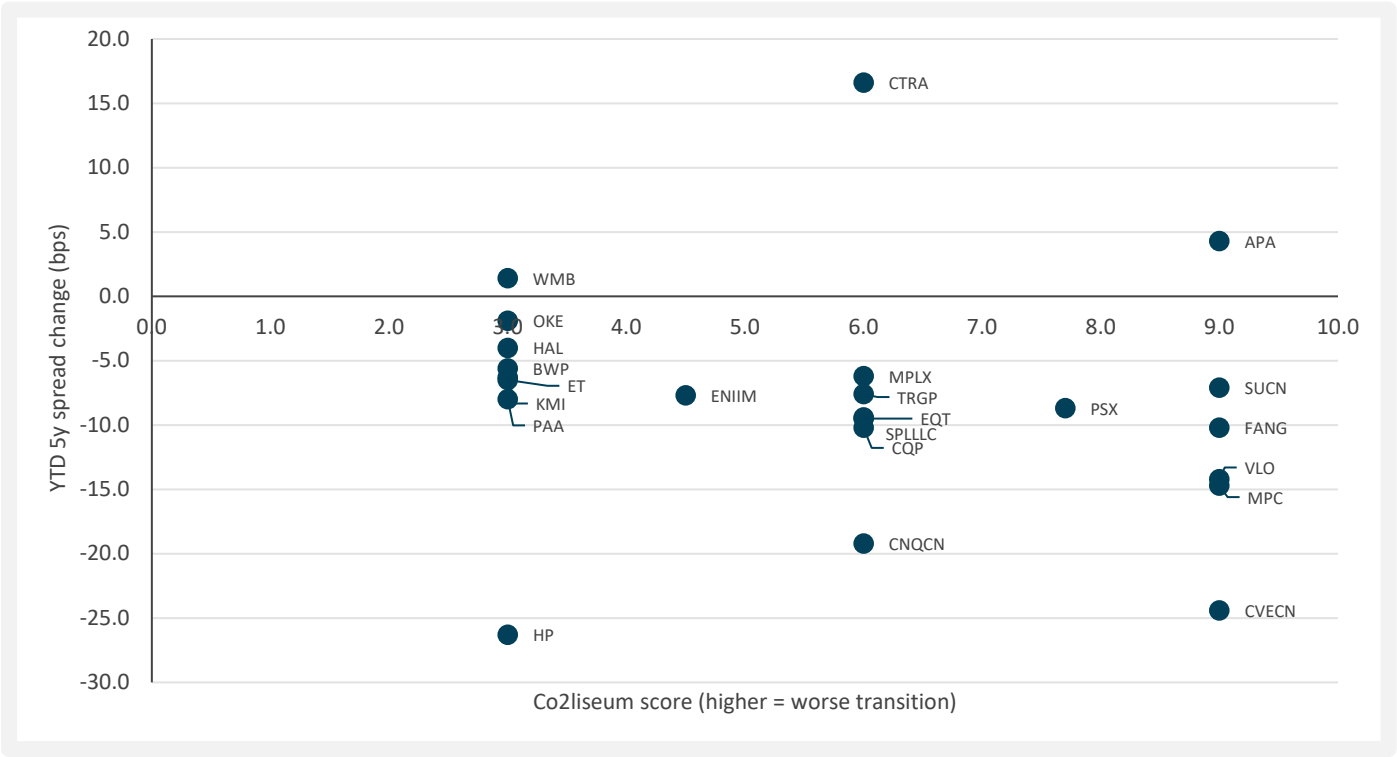


Figure 4. Cash flows (Energy): Co_2liseum score versus full-year spread change, issuer level. Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.



The largest individual full-year moves were Helmerich Payne Inc (-26.0bps, score 3.0); CENOVUS ENERGY INC (-24bps, score 9.0); CDN NAT RES LTD (-16.5bps, score 6.0); Coterra Energy Inc (+16.6bps, score 6.0).[5]

The Helmerich Payne (HP) Inc shorter end outperformed after deleveraging, which is credit positive for existing bonds. The oil price surge helps as a tailwind but did not meaningfully impact the longer end for HP.

The high scoring issuers have performed well in the USD market, suggesting transition factors have not weighed on spreads. The above scatter plot shows similarly range in spreads (volatility) in performance

[5] Fitted 5-year spread for each issuer based on their bonds, with minimum of four bonds outstanding.

across scoring bands, going against expectations that stronger transition leaders would exhibit lower volatility. Cashflow windfall in the sector improved their earning and credit profiles year-to-date. However, it does imply higher inflation expectations which could impact later in the year [6].

Capex: Utilities forward-looking capex supports transition and AI demand

Utilities is a sector with a more forward-looking, transition-oriented capex than most, and one spending increasing amounts to support rising demand. About 80-85% of new generation in the US is in renewables.[7] Across a population of 33 issuers, those with the highest Co_2liseum scores tightened by 2.5bps more than those with the lowest YTD. The largest individual full-year moves were The AES Corp (+31bps, score 6.5); Natl Fuel Gas Co (-17bps, score 6.0); CMS Engy Corp (+22bps, score 6.5); Eversource Energy (-13.0bps, score 2.6).

Figure 5. Capex (Utilities): 5-year BBB move by Co_2liseum bucket, USD (bps). Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.

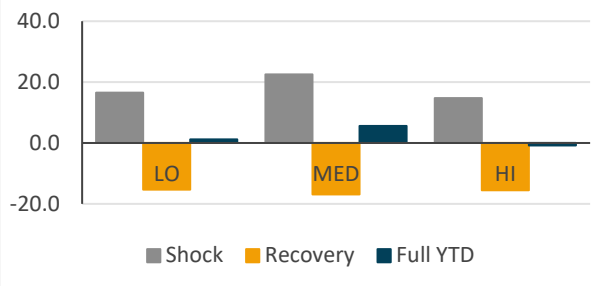
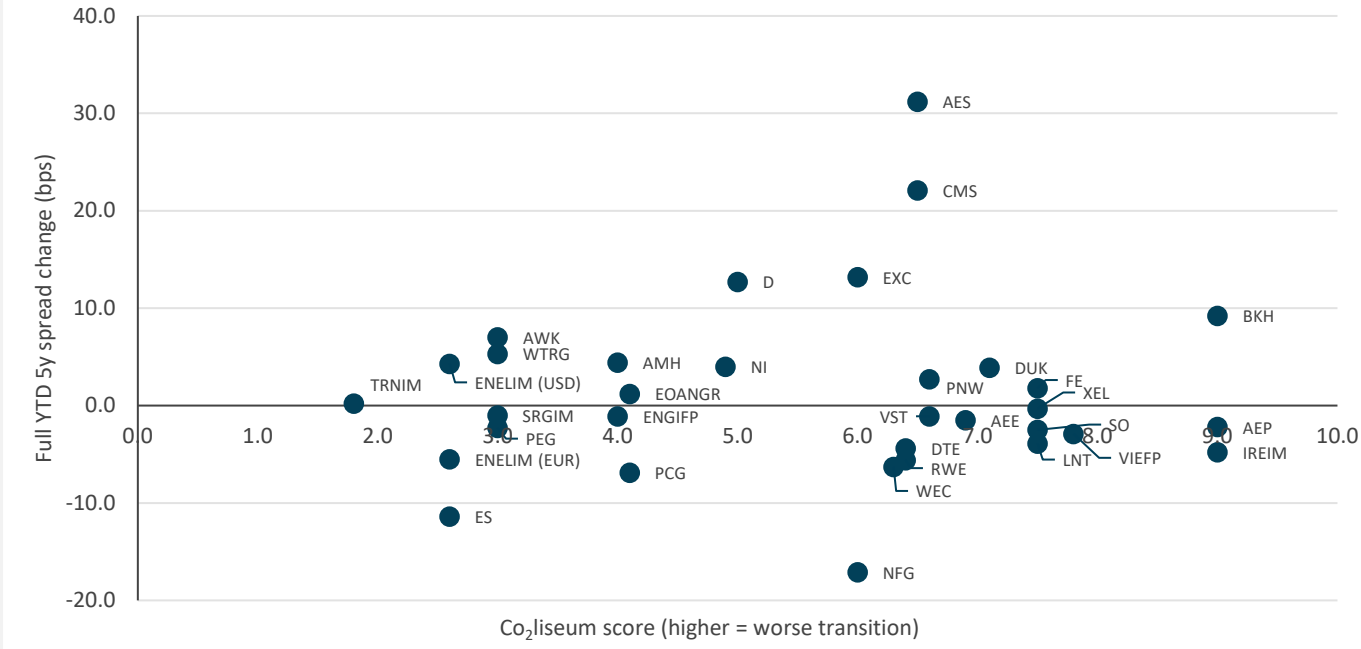


Figure 6. Capex (Utilities): Co_2liseum score versus full-year spread change, issuer level. Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.



The conclusion for Utilities is broadly the same as Energy sector. However, GSST bonds account for a significantly larger share of issuance in Utilities (51% in European IG, 13.7% in US IG)[8], resulting in a more

[6] "Iran war windfall puts Big Oil on collision course with Trump", FT, 9 Jul 2026
[7] "US Credit Sector Overview: Utilities", MNI, 22 Jul 2026.
[8] Utilities sector GSST share is roughly **6–7x higher** than the broader index in USD (13.7% vs 2.1%) and approximately **3x higher** in EUR (50.9% vs 17.6%). The indices are Bloomberg Pan-European Aggregate Index (LP05TREU), Bloomberg US Corporate Bond Index (LUACTRUU), 24 Jul 2026.

transition-aligned profile at the instrument level. When accounting for both label and duration, Co₂liseum scores are lower, supporting a positive transition position. [9]

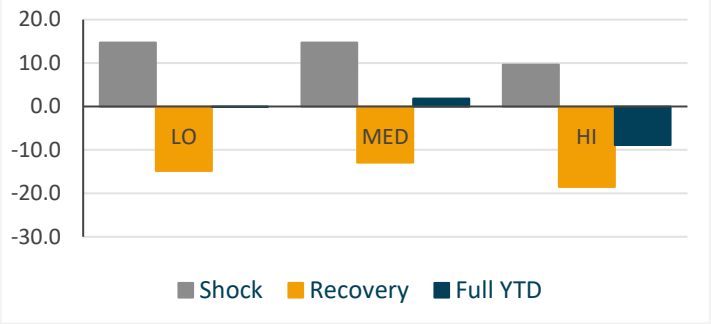
Operating costs and resilience: Chemicals and Autos

Here, we use a transition lens to examine how the Chemicals and Autos sectors were affected by input cost volatility and inflation YTD, and how these influenced credit performance.

Chemicals: Commodity suppliers' turnaround with rising cost inflation

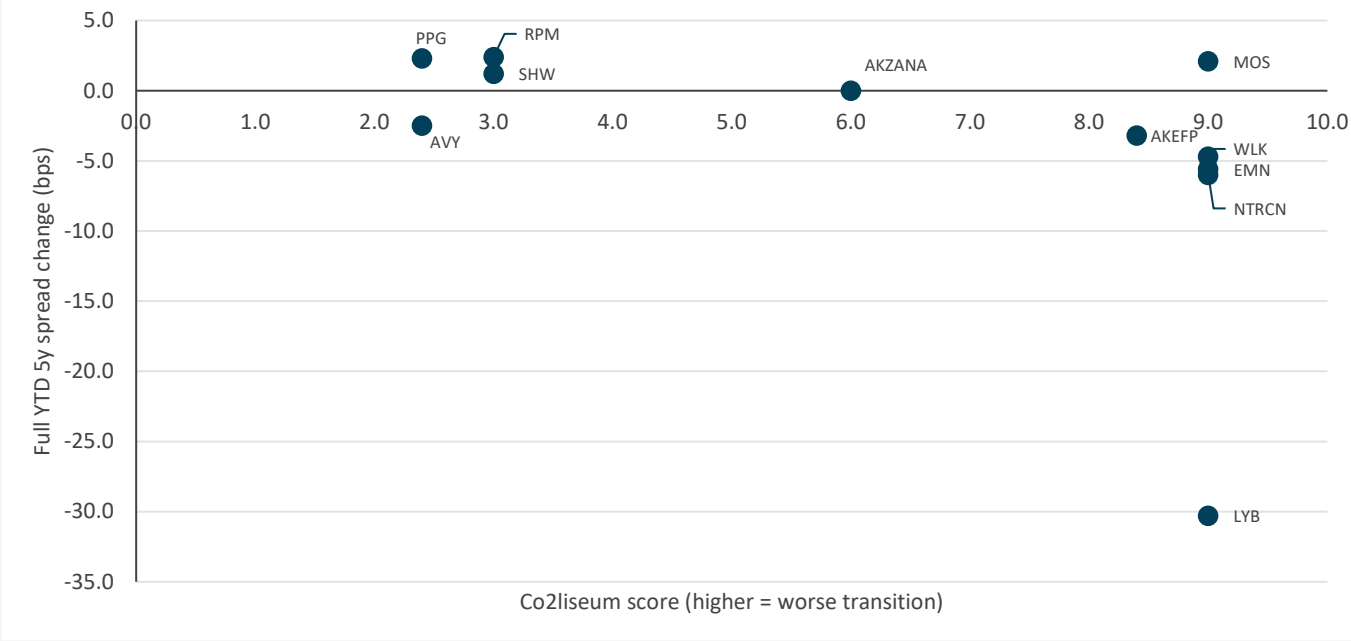
Issuers with higher Co₂liseum scores tightened more than those with the lowest scores by 9.7bps over the full year for the 11 issuers shown in Figure 9. The largest individual full-year moves were LyondellBasell (-30bps, score 9.0); Nutrien Ltd (-6bps, score 9.0); Eastman Chem Co (-6bps, score 9.0); and Westlake Corp (-5bps, score 9.0).

Figure 7. Costs (Chemicals): 5-year BBB move by Co₂liseum bucket, USD (bps). Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.



The recovery in spreads has been stronger led by commodity chemical suppliers. They underperformed last year and benefited with tightening supply this year on the back of Iran war. LyondellBasell was the underperformer last year but has

Figure 8. Costs (Chemicals): Co₂liseum score versus full-year spread change, issuer level. Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.



recovered and is now the best performer since the start of 2026.[10] Westlake has performed similarly well but

[9] Under the Co₂liseum scoring methodology, use of proceeds bonds have a score of 0 and sustainability-linked bonds have their score notched down if they are ambitious. Full methodology on www.co2liseum.com and freely available for fixed income professionals.
[10] +46bps Z-spread widening on 5-year duration in 2025, Bloomberg, Dec 2025.

may now be overrunning its improvement.[11] The lower-scoring names are speciality chemicals and are generally more defensive. Spreads for this segment were also influenced by M&A, especially for AKZANA.

Automotive: Tariff tailwinds favour US autos as Japanese issuers lag transition progress

Autos exhibited a notable divergence in performance by Co_2liseum score. Our analysis covered nine BBB issuers with 5-year spreads and Co_2liseum scores across both USD and EUR. YTD to 24 July, issuers with the highest Co_2liseum scores underperformed those with the lowest by 6bps. The largest individual full-year moves were Stellantis NV (EUR +36bps, score 6.0); Aptiv Swiss Ltd (+15bps, score 3.4); Volkswagen NV (+7.5bps, score 5.8) as shown in Figure 10. Stellantis' underperformance is a long-running story originating with their fundamental credit deterioration which was analysed in our previous Autos sector update.[12]

Figure 9. Costs (Automotive): 5-year BBB move by Co_2liseum bucket, USD (bps). Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.

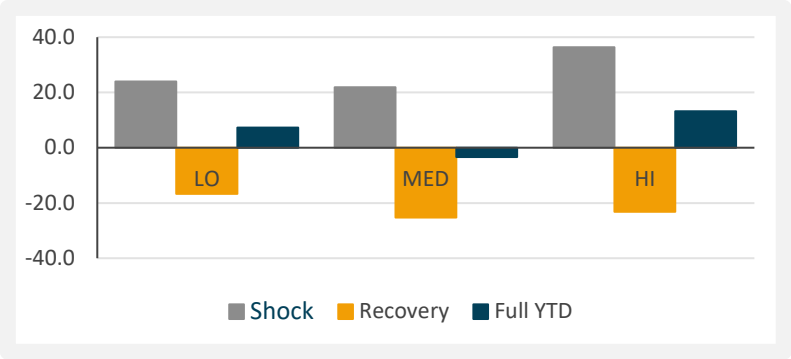
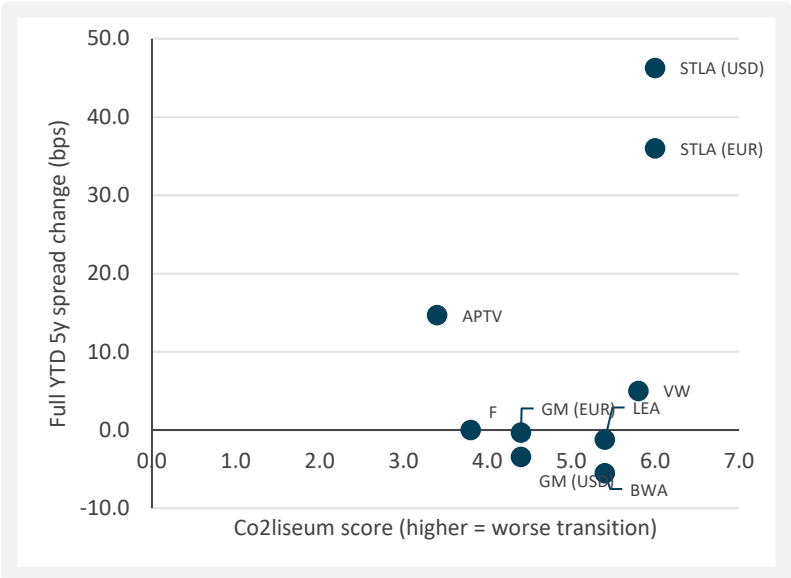


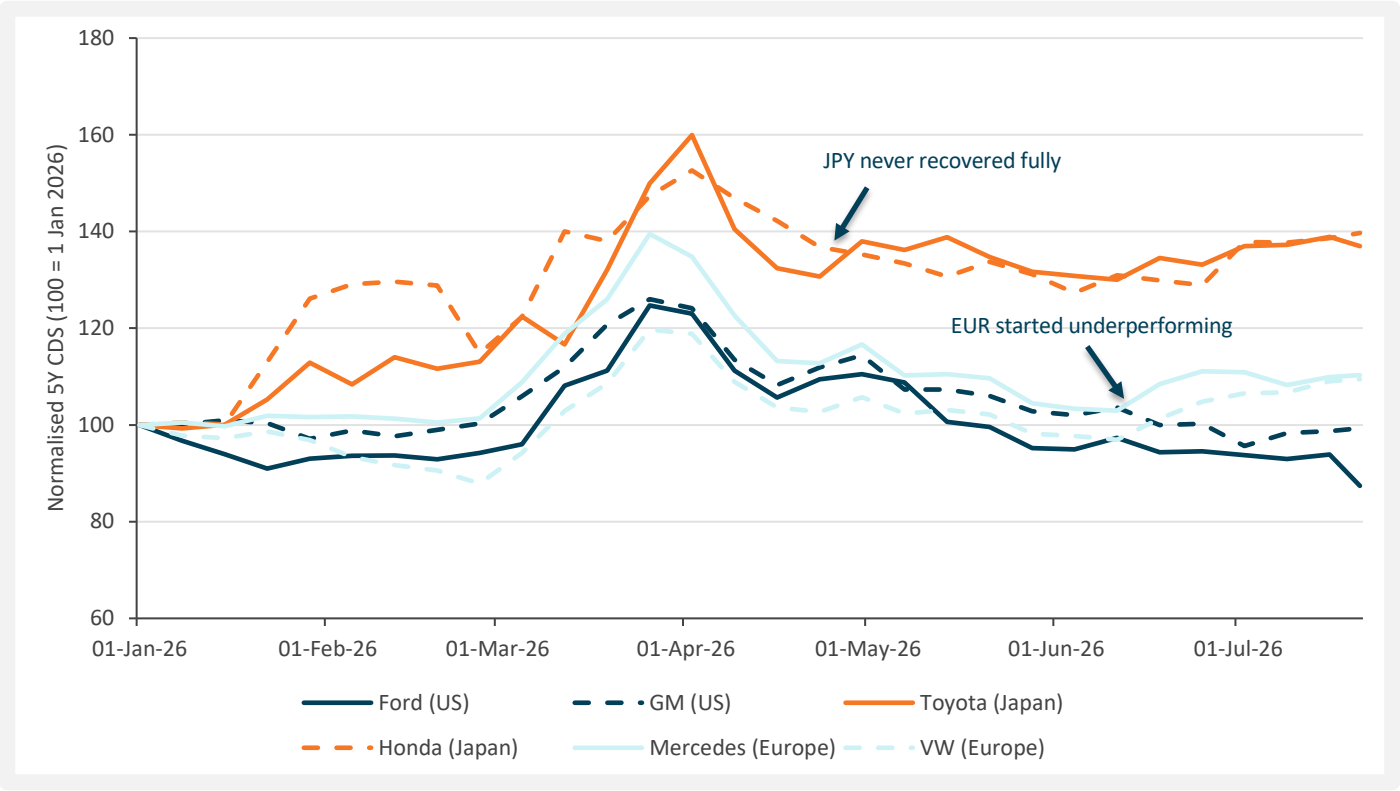
Figure 10. Costs (Automotive): Co_2liseum score versus full-year spread change, issuer level. Source: AFII analysis, S&P Price Viewer, accessed 24 Jul 2026.



Regional Auto credit shows divergence from the market side (Figure 11). On a 5-year CDS index rebased to 100 at the start of 2026, Japanese names have underperformed the most. As of July 10, Toyota is at 137 and Honda at 140, a spread widening of 37.0% and 39.7%, respectively, since the year began. US names are the most resilient: Ford has tightened to 87 (a 12.6% fall) and GM is broadly flat at 99, which is consistent with the effects of tariff protection of the domestic market and the ongoing strength of US consumers. European names are in between, with Mercedes at 110 and VW at 109 (both about 9.8% wider), each of which is taking the competition, including from Chinese manufacturers in their export markets, head on.[13]

[11] "Moody's changes Westlake's outlook to stable from positive", Investing.com (Moody's Ratings), 31 Oct 2025.
[12] "Autos transition risk pricing: Renault and Stellantis implications for EV adoption", AFII, 29 Jul 2024.
[13] "Europe Car Sales Growth Slows as Inflation Pressures Mount", Bloomberg, Jun 2026.

Figure 11. US, Japanese, and European Autos: normalised 5-year CDS, index rebased to 100 at the start of 2026. Source: AFII analysis, Bloomberg L.P, accessed 10 Jul 2026.

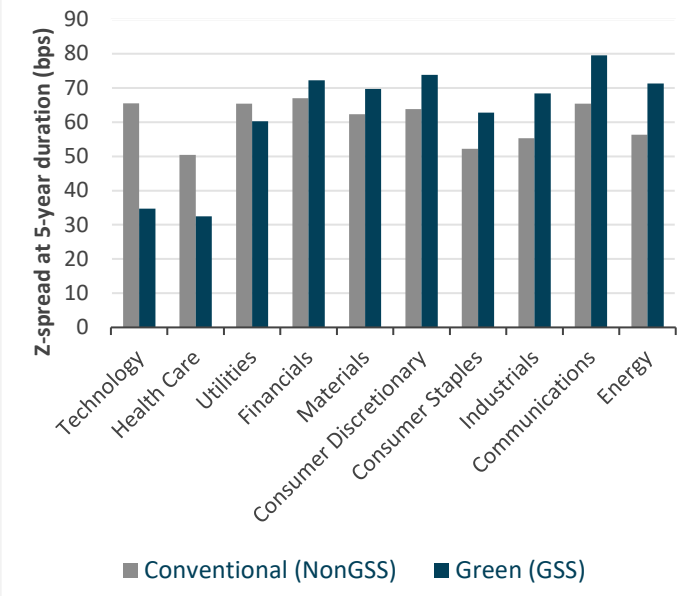


The Autos industry remains under pressure versus the market because the EV/hybrid transition is still unsettled, policy support is uneven, and higher fuel prices improve the relative economics of EVs while reinforcing demand for lower-cost Chinese OEMs.[14]

Instrument Valuation

Green (GSS) and conventional (Non GSS) z-spreads are only comparable when duration is adjusted. Because sector medians are at different durations (3.9 to 5.7 years), each is normalised to a common 5-year duration along the EUR sector curve before the spread difference is calculated. On that basis, the greenium is not broad-based: green bonds trade wider than conventional in seven out of ten sectors. The only clear greenium is in Utilities, where green bonds trade 5.1bps tighter on a large sample (174 green issuers against 143 conventional).

Figure 12. Green versus conventional z-spread by sector, EUR, restated to a common 5-year duration (bps). Source: AFII analysis, Bloomberg L.P, S&P Price Viewer, accessed 24 Jul 2026.

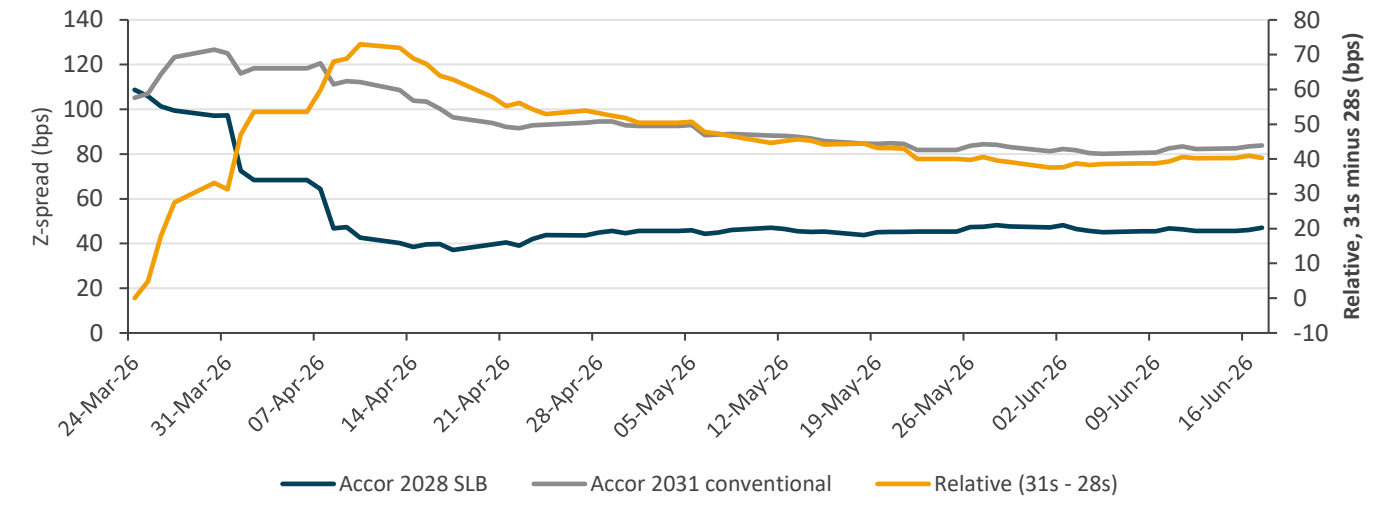


[14] "Electric car sales surge as high oil prices drive shift away from fossil fuels", European Commission, 16 Jun 2026

The other tighter readings, Technology (five green issuers) and Health Care (six green issuers), rest on very few green issuers and carry little weight. The largest green discounts are in Energy (15.1bps wider, 13 green issuers); Communications (14.0bps wider, 21 green issuers); Industrials (13.1bps wider, 38 green issuers). Long-term credit betas are close between the two groups (0.62 to 0.74), so these are spread-level differences, not a systematically different sensitivity to the market.

Sustainability-Linked Bonds (SLBs) with step-ups are still being priced slowly. Accor's 2028 SLB, which carries a 25bps coupon step-up effective November 2026, traded about 4bps wider than the issuer's conventional 2031 bond on a Z-spread basis at the end of March, as if the step-up carried no value. Over the following weeks, the 2028 improved sharply to trade around 40bps through the 2031: the market did eventually price the step-up, but with a lag of weeks rather than all at once. [15]

Figure 13. Accor SLB (2028) versus conventional (2031) Z-spread, EUR, with the relative (2031 minus 2028) on the right axis (bps). Source: AFII analysis, Bloomberg L.P, accessed 10 Jul 2026.



Technicals and risk

Sovereign versus credit

Fixed income risk so far this year has been driven by interest rate volatility, rather than by spread changes. On a rolling 30-day window, the government index has run at 3.4bps a day of volatility on average, peaking near 4.5bps, against about 1.3bps for USD credit and 1.3bps for EUR credit as shown in Table 1.

Sovereign volatility has therefore been roughly 2.6 times that of corporate spreads: investment-grade credit has been the calmer leg, with the swings coming from the government curve.

Table 1. Rolling 30-day volatility of daily moves, government index versus corporate credit (bps per day) Source: AFII analysis, Bloomberg L.P, accessed 10 Jul 2026.

Series	Average	Peak	Latest
Government	3.4	4.5	2.8
USD credit	1.3	2.0	0.8
EUR credit	1.3	2.6	0.7

[15] "Accor SLB re-prices on target miss", AFII, 23 Feb 2026.

Duration and curve shape

Curves are becoming steeper in credit. Table 2 shows the YTD changed in slope. A steeper curve raises the term premium demanded to hold that duration. USD BBB 2s5s steepened in every sector over the full year to 24 July 2026, so extending duration now costs more spread. Technology steepened the most of any sector, its 2s5s 16.7bps steeper, because it now issues long duration and trades as a higher beta due to the AI expansion. Oracle CDS performance in credit markets has become the market view on AI build up and debt impact.[16] That mirrors its place as the widest USD sector in the year as shown in Figure 1. Technology is also an overweight in ESG/climate-focused portfolios and this risk makes the case for active management as the sectors will expand in passive corporate bond indices.[17]

Table 2. Curve shape change by sector, USD BBB, full year (bps) Source: AFII analysis, S&P Price Viewer, accessed 10 Jul 2026.

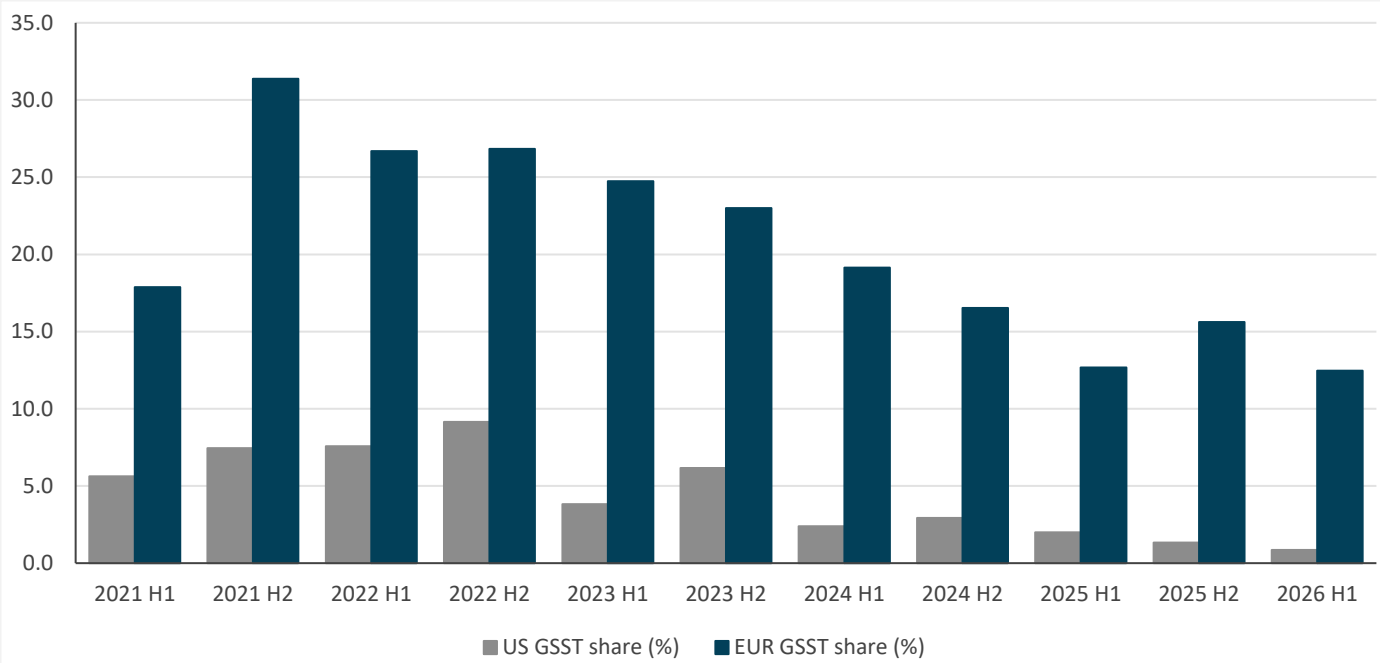
Sector	2s5s change	5s10s change
Materials	4.1	4.6
Energy	6.4	4.7
Financials	6.7	5.5
Health Care	9.5	7.6
Industrials	10.1	5.6
Utilities	12.0	6.3
Consumer Discretionary	12.7	6.5
Consumer Staples	12.7	8.9
Real Estate	12.8	4.9
Communications	13.3	9.5
Technology	16.7	7.9

Supply

US labelled (GSST) issuance fell to 0.85% of USD corporate supply in 2026 H1, down from 1.99% in 2025 H1, while EUR GSST share was 12.46% against 12.67% in 2025 H1. Total corporate supply reached USD1,328bn in 2026 H1, with a further USD69.9bn priced in 2026 H2 to 10 July 2026.[18]

[16] "Oracle Credit Risk Hits Near 18-Year High on AI Debt Load Angst", Bloomberg, 20 Jul 2026.
[17] "Mapping sustainable investing: Exploring ambiguities and consistencies among sustainable indices", Journal of Environmental Management, Bolognesi et al., 2024
[18] The population includes only corporates excluding financials, with at least 200mn USD issuance and tracks only EUR and USD denominated debt.

Figure 16. US versus EUR GSST share of corporate issuance (%) and total corporate supply ($bn). Source: AFII analysis, Bloomberg L.P, accessed 10 Jul 2026.



Conclusions

Year-to-date, market performance of key credits has diverged by currency as much as by sector. Energy was the best-performing sector in USD (10bps) on the back of record cashflows while EUR issuers offered lower volatility. Autos have underperformed the market with regional disparities forming and evidence of uncertainty over EV switching and value offerings, weighing on performance of these issuers. Chemicals saw a turnaround in the commodity producers outperforming speciality chemicals who tend do well on transition. Within these sectors and currencies there is wide dispersion in transition credit which makes case for selection.

The relationship between Co_2liseum score and spread performance does not hold uniformly across sectors. In Utilities (2bps) and Chemicals (9bps), issuers with the highest Co_2liseum scores tightened more than their lower-scoring peers over the full year; in Autos the opposite held, with the highest-scoring issuers underperforming by 5bps. Utilities capex is forward looking and analysing these capex plans across sectors would present a better view of transition instead of labels. Energy has too few low-scoring issuers to support a low-versus-high comparison at all. This illustrates how score-based positioning needs sector context, not a single global rule.

Valuation and supply signals point the same way. Once restated to a common 5-year duration, green bonds trade wider than conventional instruments in seven of the ten sectors covered, with a clear greenium only in Utilities (5bps tighter): the labelled-bond premium is the exception, not the rule. US labelled (GSS) issuance fell to 0.85% of USD corporate supply in 2026 H1 even as total corporate supply reached USD1,328bn: meaning transition-labelled structures are a shrinking share of a growing market.

Version log

Date	Comment
28 Jul 2026	Document ready to publish

Important disclaimer:

This report is for information and educational purposes only. The Anthropocene Fixed Income Institute ('AFII') does not provide tax, legal, investment, accounting, or any regulatory or regulated advice or services. This report is not intended to provide, and should not be relied on for, tax, legal, investment, accounting, or regulatory or regulated advice or services. Nothing in this report is intended (i) as investment advice, as an offer or solicitation of an offer to buy or sell, or as a recommendation, endorsement, or sponsorship of any security, company, issuer, or fund or (ii) to express a particular investment proposal in respect of a financial instrument or an issuer, or (iii) to propose a particular investment decision in respect of a financial instrument or an opinion as to the present or future value or price of any financial instrument or (iv) to recommend or suggest any investment strategy.

AFII is not responsible for any investment decision made by you. You are responsible for your own investment research and investment decisions. This report is not meant as a general guide to investing, nor as a source of any specific investment recommendation. Unless attributed to others, any opinions expressed are our current opinions only. AFII does not take into account your own circumstances or assets and AFII assumes no direct or indirect responsibility or liability for any investment decisions you make, and you remain fully responsible for your own research, legal and regulatory compliance, and decisions.

Certain information presented may have been sourced from third parties. AFII believes that such third-party information is reliable, and has checked public records to verify it wherever possible, but does not guarantee its accuracy, timeliness or completeness; and it is subject to change without notice. Any reference to an issuer's creditworthiness or likelihood of positive or negative performance in the current or future market is purely observational and should not be taken as a recommendation, endorsement or advice in relation to such issuer or its securities. AFII is a non-profit organisation that provides fixed income investors with the insights and tools they need to align their portfolios with ambitious climate and nature targets.

For more information about the Institute, please visit www.anthropocenefii.org.