JGRN: The Macro Case

JP Morgan ETFs (Ireland) ICAV

Green Social Sustainable Bond UCITS ETF

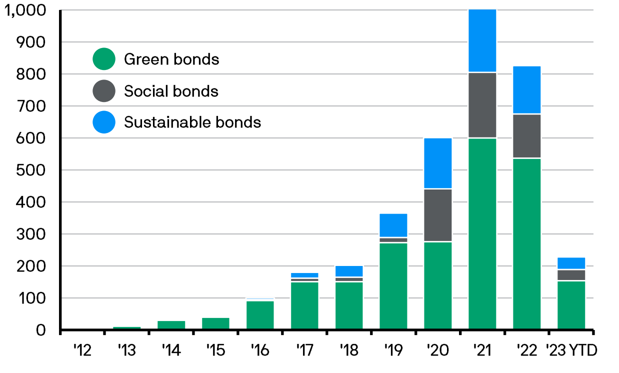
Issuance is ramping up, providing flexibility

Issuance of green, social and sustainable (GSS) bonds has risen dramatically over the past decade. Green bonds continue to dominate the market, making up over half of GSS issuance in 2022. However, social and sustainable bonds have grown in popularity in the past five years, helping investors incorporate ESG considerations other than just environmental concerns. A more mature GSS market also provides flexibility beyond just bond type, with wider choice across issuers, credit ratings, maturities, and seniority. In addition, while European issuers remain the driving force in this market, offerings in North America and Asia Pacific have grown significantly over recent years.

Source: Refinitiv Eikon, J.P. Morgan Asset Management. Green bonds are those where 100% of the net bond proceeds are allocated to green projects. Social bonds are those where the bond proceeds have a focus on delivering positive social outcomes. Sustainable bonds are those where the bond proceeds are directed to a mix of both green and social projects or if the bond coupon/characteristics can vary based on achieving predefined sustainability targets. Data as of 31 March 2023.

Exhibit 1: Global green, social and sustainable bond issuance

USD billions



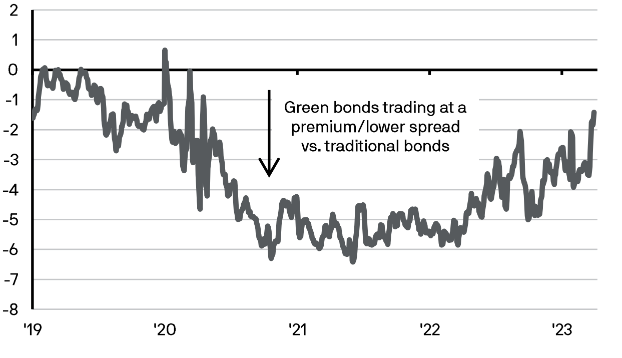
The 'greenium' now makes up a smaller proportion of overall yields

Green bonds typically trade at a premium over non-green bonds with the same characteristics (e.g., issuer, maturity and coupon) – that is, they offer a slightly lower yield. The spread differential between green and non-green bonds is termed the 'greenium' and is sometimes thought to reflect improved creditworthiness, thanks to better sustainability credentials and thus reduced risks. As corporate bond yields have risen, the greenium has remained relatively stable. This means the greenium is shrinking as a proportion of overall yield, and thus investors now pay relatively less of a premium to access green bonds.

Source: Barclays Research, J.P. Morgan Asset Management. Data shown is for a Barclays Research custom universe of green and non-green, USD and EUR denominated investment-grade credits, matched by issuer, currency, seniority and maturity. Spread difference is measured using the option-adjusted spread. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2023.

Exhibit 2: Spread between green and traditional corporate bonds

Basis points



Tilting of future QE purchases could make green bonds more defensive

Several central banks are now explicitly considering ESG factors in their balance sheet management. For example, the ECB announced last year that it would tilt its corporate bond reinvestments towards issuers with better climate scores. This is already impacting the structure of the ECB's balance sheet, and if quantitative easing (QE) was restarted in a future downturn, greener bonds could see an outsized benefit. Given this, in a slowdown green bonds may be more defensive than their non-green counterparts, as any QE-related demand could be larger than their benchmark weighting would suggest. This provides another reason for investors to consider the GSS sector beyond ESG considerations alone.

Source: ECB, ISS, J.P. Morgan Asset Management. Weighted average carbon intensity is calculated by weighting an issuer's carbon intensity score by their share of holdings in the ECB's CSPP and PEPP portfolios. CO_2 equivalent tonnes standardise emissions to allow for comparison between gases. One equivalent tonne has the same warming effect as one tonne of CO_2 over 100 years. Data as of 31 March 2023.

Exhibit 3: Weighted average carbon intensity of ECB corporate purchases

CO_2 equivalent tonnes per EUR million revenue