Green/ESG high yield bonds issued by US corporates trade up in secondary

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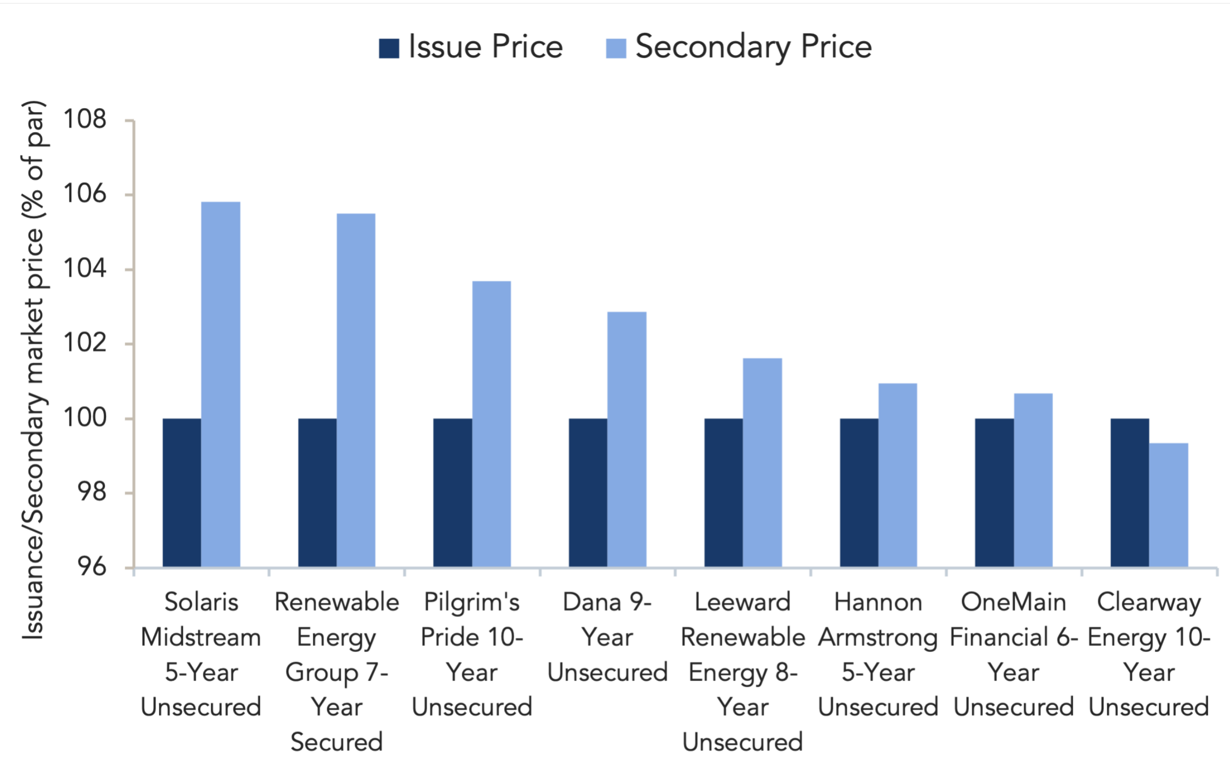

Source: Dealogic, Markit

Green and environmental, social, and corporate governance-linked high yield bonds issued in US dollars have taken off in the first half of 2021 as more issuers opt to adhere to the Green Bond Principals in order to tap into a growing pool of environmentally conscious investors who believe that applying such standards to portfolios has the potential to increase returns. While the market for green bonds has been around since 2008, US corporate issuers are just now becoming prominent players in the market dominated primarily by overseas companies and government agencies.

Before this year, USD-denominated green and ESG bond issuance failed to surpass USD 5bn in any quarter, often amounting to just one or two issuances. The quarterly figure has spiked to over USD 16bn in 1Q21 with USD 15.3bn issued across 32 deals in 2Q21 – more than a 10x improvement over the year-ago level. A more environmentally friendly administration in the White House and increased pressure from activist investors are helping to push ESG lending into the spotlight.

Since pricing its USD 350m debut green bond offering in June 2019, **Hannon Armstrong (HASI)**, a renewable energy real estate investor, has been a frequent US corporate issuer, tapping the high yield market four additional times for USD 1.925bn in incremental debt since, with proceeds often slated for eligible investments in green projects.

Due to the increasing prevalence of funds constrained by ESG-requirements, green bonds can attract investors that would otherwise be barred from investing in a similar, non-green asset. In addition, the relative scarcity of US corporate issued green and ESG high yield paper represents a relatively new and growing segment of the market for investors to diversify risk across geographies.

Indicative of this demand, several recent US corporate issued green HY bonds were upsized during syndication. HASI's latest issue, a USD 1bn unsecured note due 2026, was upsized by USD 250m during syndication. Similarly **Renewable Energy Group** saw its 5.875% secured paper upsized by USD 50m to USD 550m before pricing last month. Other borrowers such as **Solaris Midstream** saw pricing tighten from initial talk, in this case landing at 7.625% – well tight of talk in the 8%-8.25% range.

In all three instances, the notes have traded at a premium in the secondary market, moving up to 100.95, 105.50, and 105.82, respectively.

(Past performance is no guarantee of future results.)