Market update: Recent performance of high carbon emitters in CSPP

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Earlier this month we observed that the combination of tighter monetary policy and a commitment to reduce the climate impact of the ECB's asset holdings, would likely lead to underperformance of the most carbon-intensive issues in the CSPP portfolio.[1]

The FT have since reported on the "void" that even just the end of CSPP purchases, let alone any potential sales, will leave in the corporate bond market.[2] VoxEU, the policy portal of the Centre for Economic Policy Research, published a report supporting asset tilting in the CSPP incorporating climate considerations.[3] The flows coming from the ECB, both absolute and portfolio tilts, will continue to be a major flow in the corporate bond market.

We want to review the relative performance of these issues to see if these flows have begun to impact the market.

We observe an outperformance for carbon intensive issuers in Mar/Apr of this year, most likely driven by elevated oil prices following the invasion of Ukraine. We see a reversal since mid-May, and an underperformance of carbon intensive issuers in this last 6-week period.

Carbon intensive sub-portfolio

Our earlier analysis identified that the carbon footprint of the CSPP portfolio was highly concentrated; the top-25 fossil issuers comprise 90% of the total footprint of the portfolio.

We have run an analysis on the CSPP portfolio to identify issues of benchmark 5y maturity. For the broader portfolio we have identified all bonds with maturity 2027. For the top-10 emitters previously identified we looked at maturities between 4y and 6y to expand the search slightly. This creates a focus list of five major carbon emitters whose performance we can analyse.

Figure 1. CO_2 emissions of CSPP holdings. Source: AFII, ECB, Bloomberg.

Ticker	Issuer name	No. of bonds in CSPP	Total nominal (EURmn)	Bond	Scope 1+2 (+3)CO2e Mtpa	CO2/ Nominal	Scope 1
RDSALN	Shell International Finance BV	15	15,250	XS1135277140	986	64.6	60.0
TTEFP	Total Capital International S.A.	18	16,300	XS2153406868	730	44.8	34.0
GLENLN	Glencore Capital Finance DAC	3	2,050	XS2228892860	383	187.0	33.7
ENIIM	ENI Finance International S.A.	17	14,600	XS1551068676	365	25.0	64.3
REPSM	Repsol Europe Finance	8	5,350	XS2035620710	179	33.4	19.4

[1] "Wind down (of CSPP) is Coming.", AFII, 8 Jun 2022
[2] "End of ECB stimulus to leave demand 'void' in corporate bond market", FT, 8 Jun 2022
[3] "Central banks, climate change, and economic efficiency", VoxEU, 10 Jun 2022

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Due to this benchmark maturity restriction, the list of carbon-intensive issuers doesn't exactly align with our previous analysis, for example BPLN only had bonds with maturity 2040 and so have not been included. We remind the reader that while the CSPP portfolio universe is publicly available, the size of individual holdings is not. For this analysis we have considered a single unit of each issue. This gives us a carbon intensive sub-portfolio, and a benchmark to which we can compare.

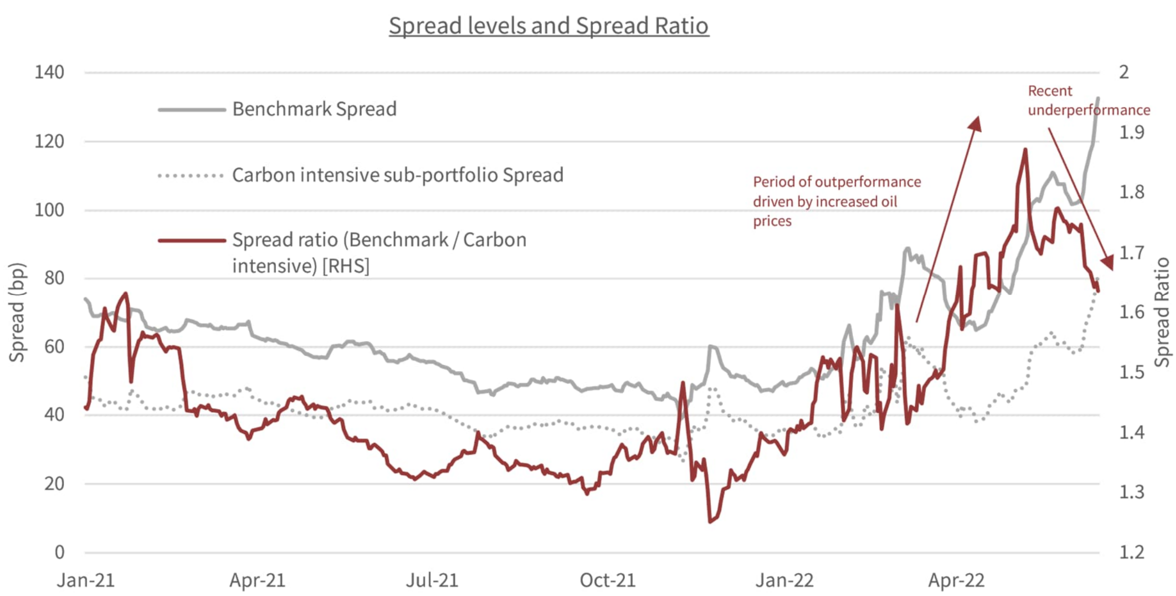
Figure 2. Average portfolio characteristics for samples carbon intensive portfolio and benchmark. Source: AFII, Bloomberg.

	Carbon intensive sub-portfolio	Benchmark Portfolio
Count of issues	5	210
Average Maturity (yrs)	4.9	5.0
Average Spread (bp)	81.1	132.7
Median Rating	A-	BBB+

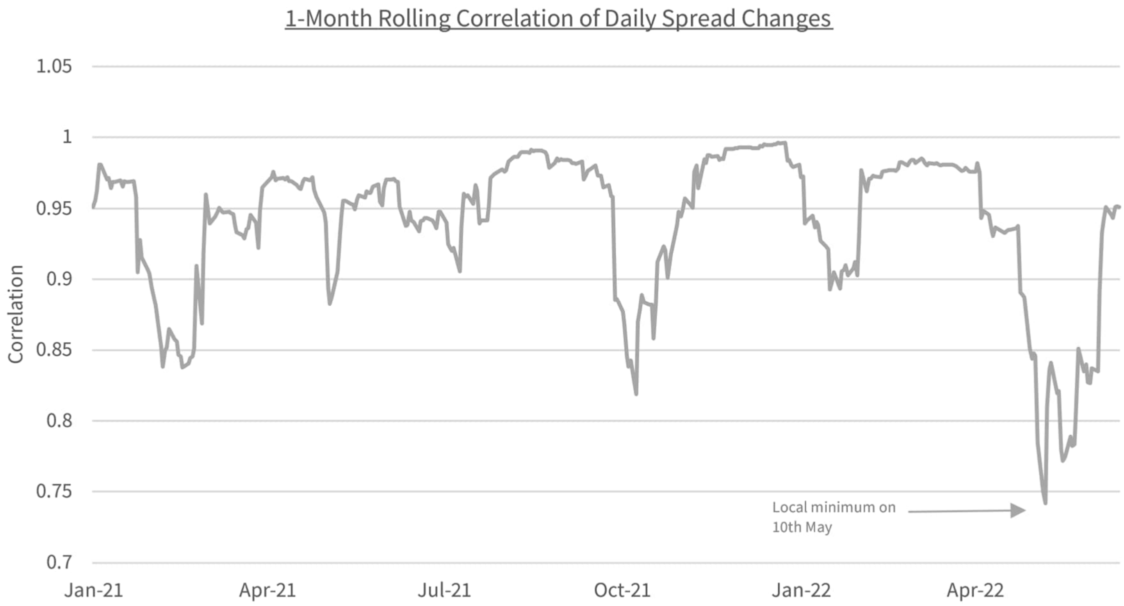
Relative performance

For simplicity we have considered the ratio of the spreads to observe relative performance. We have also looked at the 1-month rolling correlation.[4]

Figure 3. Spread and correlations of returns for our benchmark 5y CSPP portfolio, and a Carbon intensive sub-portfolio. Source: Bloomberg.



[4] Where the bond was issued within the period, we have estimated spread for the full period by extrapolating using average portfolio spread moves.



As Figure 3 shows, since the invasion of Ukraine we have seen an outperformance of our carbon intensive portfolio likely driven by the increase in oil prices. Since May we have seen a reversal with carbon intensive issuers underperforming. This has been against a backdrop of consistent market widening throughout both periods. We also observe a local drop in rolling correlation between the portfolios at the inflection point. Since 10th May when the rolling correlation hit its minimum, both portfolios have widened dramatically, indeed approaching 1:1. The benchmark moved 42bp on a starting spread of 90bp. The carbon intensive top five moved 32bp starting from only 48bp.

The Anthropocene Fixed Income Institute is a non-profit organization "to monitor, advocate for and influence the impact of the fixed income and bond markets in the age of human induced climate change." For more information about the Institute, please visit wwww.anthropocenefii.org or follow us using the hashtag #anthropocenefii.