

Responsible finance: green assets in the red but still attractive

The slump in financial markets since the start of the year has hit green-rated fixed-income and equity indices especially hard. Underperformances have reflected the make-up of each individual sub-index and how each is affected by the energy crisis. Meanwhile, Europe has approved several initiatives to address climate issues this year, boosting the appeal of green assets in the medium term.

Green indices hampered by their component mix.

In an environment of high volatility, stoked by geopolitical risks and monetary policy tightening, green equity and fixed-income indices have been marked down particularly hard. MSCI Global Environment, the flagship index for climate-friendly equities, has lost 30% year to date, compared to 2% for global equity index. The underperformance can be largely explained by the make-up of the indices and the type of company that dominates the sector. Most are growth stocks, young or small companies not yet in profit but seen as good prospects. And it is precisely such growth stocks that have suffered most from this year's challenging trading environment. Growth stocks are less well-established companies and often need to raise external funding for their projects, which makes them most vulnerable to uncertainties and rate hikes. A similar composition effect can be seen in fixed-income. The nature of green bond markets meant they fell by 30%, underperforming a benchmark index which was itself down 20%. Most green bonds have long maturities - more than 10 years - and so suffered bigger markdowns when yields rose.

Some green assets have underperformed more than others.

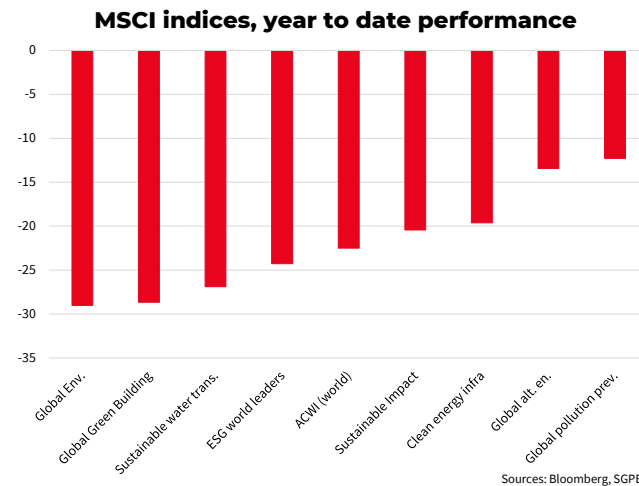
Drilling down into the green index reveals big discrepancies in the way different sub-indices have performed. While the green index as a whole lagged the market, some of its components outperformed (Chart 1). The most obvious outperformers were energy assets, which fell less sharply than the benchmark thanks to some favourable implications of the energy crisis in developed economies. Note too that, sub-sectors aside, the steep underperformance by the total green index is partly attributable to heavy exposure to just one company, Tesla, which makes up more than 40% of the index.

Recent political decisions mean green assets are still attractive, particularly in Europe.

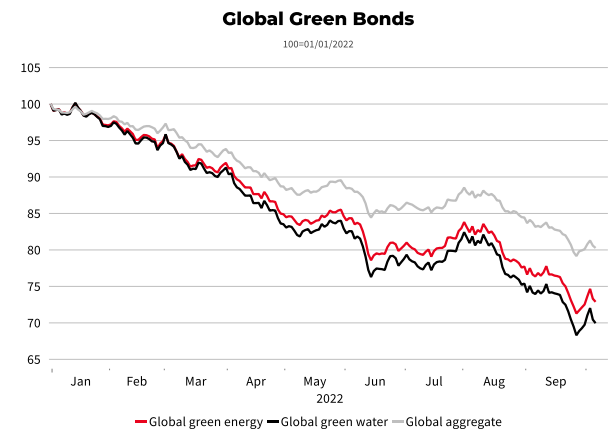
Despite a still tricky economic environment, we remain bullish on green securities medium term. The Ukraine war should prompt a ramp-up of investment in Europe energy transition. Such investments will be further encouraged by recent political initiatives (Next Generation EU, Fit for 55). Finally, the ECB's announcement in July that it would gradually "green" the assets on its balance sheet, should be good for the relative value of green assets as a class.



Green equity indices have posted different performances



Green bonds have been particularly affected by its long duration



Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (07/10/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

OUR MACRO COMMENTS

Events of the week



OPEC+ members decided this week to reduce their oil production by 2 million barrels per day. This reduction is intended to adjust to the decline in global demand for oil, against the backdrop of a sharp slowdown in the global economy. The objective is to allow oil prices to stabilize, while the barrel of Brent crude went from \$107 three months ago to \$85 before this decision.



The release of the August job vacancies figure in the US revived the financial markets at the start of the week. Down 1 million over 1 month, it helped fuel hopes of an earlier Federal Reserve pivot, as it suggests that the US labour market is cooling, while the Bank of Australia itself is slowing the pace of its rate hikes. However, the fall in the September unemployment rate to 3.5% announced on Friday somewhat dampened these hopes.

Figures of the week



- ISM manufacturing PMI (September)
- ISM non-manufacturing PMI (September)
- Job Openings (August)
- Unemployment rate (September)
- Trade balance (August)



- Retail sales (YoY, September)



- Trade balance (August)



- Monetary Policy Decision

	Actual	Forecast	Previous
ISM manufacturing PMI (September)	50.9 ↓	52.9	52.8
ISM non-manufacturing PMI (September)	56.7 ↓	56.4	56.9
Job Openings (August)	10.05M ↓	11.1M	11.17M
Unemployment rate (September)	3.5% ↓	3.7%	3.7%
Trade balance (August)	\$-67.4B ↑	\$-68B	\$-70.5B
Retail sales (YoY, September)	-2% ↓	-2.2%	-1.2%
Trade balance (August)	€0.6B ↓	€7.3B	€4.9B
Monetary Policy Decision	2.6% ↑	2.85%	2.35%

The week ahead

Monday



Current balance (August)

Tuesday



Unemployment (September)

Wednesday



Gross Domestic Product (August)



Industrial production (August)

Thursday



Inflation (September)

Friday



Inflation (September)



Retail sales (September),
Consumer sentiment (October)

Sources : Macrobond, 7 October 2022.

MARKET PERFORMANCES

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	0,65	0,66	-0,58	-0,59	-0,57
USD SOFR O/N	3,04	2,98	1,54	0,05	0,05
JPY TONAR O/N	-0,05	-0,07	-0,01	-0,02	-0,01
GBP SONIA O/N	2,19	2,19	1,19	0,19	0,05
CHF O/N	0,62	0,56	-0,15	-0,71	-0,72

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,62	2,75	1,69	0,20	0,16
10Y Bund	1,96	2,33	1,23	-0,21	-0,16
10Y BTP	4,44	4,59	3,05	1,17	0,93
10Y JGB	0,23	0,24	0,21	0,07	0,07
10Y Bonos	3,22	3,33	2,29	0,56	0,46
10Y Swiss	1,01	1,48	0,78	-0,13	-0,11
10Y Gilt	4,01	4,01	2,07	1,02	1,07
10Y USNote	3,76	3,72	2,93	1,52	1,53

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,05	3,26	2,09	0,33	0,19
EUR Corporate Baa	4,47	4,60	3,35	0,66	0,50
GBP Corporate Baa	5,32	5,38	3,23	1,52	1,43
USD Corporate Aaa	4,69	4,71	3,79	2,13	2,05
USD Corporate Baa	5,89	5,90	5,03	2,60	2,42
USD EM aggregate	8,06	8,07	7,16	4,33	4,25

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	93,71	5,0%	-6,0%	18,6%	15,9%
Or, USD/oz	1 716	3,4%	-1,3%	-6,2%	-2,6%
Copper, USD/metric ton	7 605	4,3%	0,9%	-21,4%	-16,3%
Platinum, USD/onz	924	10,0%	7,1%	-4,4%	-2,4%
Palladium, USD/onz	2 314	12,2%	18,8%	17,0%	22,2%
Silver, USD/onz	20,44	11,9%	6,3%	-11,5%	-8,3%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	0,99	3,7%	-2,6%	-12,5%	-14,1%
EUR/CHF	0,97	2,8%	-1,8%	-6,2%	-9,3%
USD/GBP	0,89	-4,4%	5,9%	20,4%	20,7%
USD/JPY	144,76	0,1%	6,7%	25,7%	30,1%
USD/BRL	5,23	-2,4%	-3,7%	-6,1%	-4,9%
USD/CNY	7,11	-1,2%	6,0%	12,0%	10,4%
USD/RUB	60,74	4,2%	-3,5%	-19,0%	-16,2%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	974	3,1%	-3,0%	-16,0%	-11,4%
Eurostoxx 50	3 448	3,4%	0,8%	-19,8%	-14,1%
Dax 40	12 517	2,7%	-0,6%	-21,2%	-16,4%
CAC 40	5 985	3,8%	1,2%	-16,3%	-7,8%
FTSE 100	7 053	0,7%	-0,8%	-4,5%	0,8%
SMI	10 478	2,5%	-3,3%	-18,6%	-9,4%
SP500	3 783	1,7%	-1,6%	-20,6%	-13,3%
TOPIX	1 913	3,1%	3,1%	-4,0%	-1,5%
iBovespa	117 198	8,1%	18,7%	11,8%	6,0%
Hang Seng	18 088	4,9%	-16,2%	-22,7%	-24,5%
Sensex 30	58 065	2,6%	8,0%	-0,3%	-1,9%
MOEX	-	-	-	-	-
CSI 300	3 805	-0,6%	-14,0%	-23,0%	-21,8%

Source: Bloomberg, on 7 October 2022.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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