



Fixed Income

Sustainable Systematic Credit

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Interest in sustainable investing has exploded in recent years, initially focused on public equity markets, but now evolving into fixed income. We assess various aspects of sustainable investing for public corporate bond markets (both Investment Grade and High Yield).

Using a representative set of sustainability measures spanning environment, societal and governance (ESG) constructs we find: (i) credit spreads are only marginally associated with ESG measures, (ii) ESG measures are only marginally associated with standard return forecasting measures for corporate bonds, and (iii) ESG measures are not reliably associated with future credit excess returns.

While the direct investment impact of sustainability may be unclear/modest, there is still considerable interest from asset owners to ensure credit allocations are sustainable. We find that it is possible to incorporate (i) both static and dynamic exclusion screens, (ii) positive tilts toward more sustainable issuers, and (iii) economically meaningful reduction in carbon intensity, with minimal portfolio distortions. Thus, a well-implemented systematic approach has the potential to offer attractive risk-adjusted returns in a sustainable manner.

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