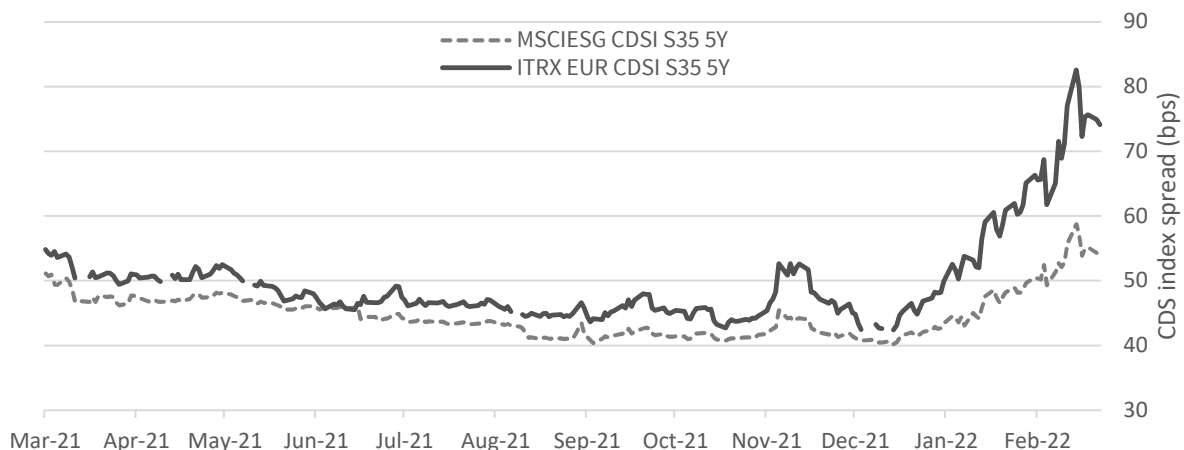


UnFortunate: iTraxx Main S35 vs ESG version

Ulf Erlandsson (*)

Figure 1. iTraxx ESG index vs iTraxx Main (S35 for both, see comments below). Source: AFII, Bloomberg.



We note that the iTraxx ESG index S35 has significantly outperformed its Main counterpart during the first months of 2022. The indices started the year trading at a spread of 40/42bp (ESG/Main; for a spread of 2.2bps) and are now quoted at 54/74 (spread of 19.7bps). In the overleaf page, we briefly analyze the source of this underperformance, namely through the ESG index exclusion of a number of European coal/gas-utilities such as Fortum (+193bps/407%)¹, Engie (+47/132%), EDF (+55/103%) and E.ON (+36/94%), and some more Russia exposed companies (Carlsberg +47/185%, Louis Dreyfus +164/170%). Underweights in the ESG index that has capped outperformance is more of a mixed bag but notable are BAE (defense, -2/-3%), Shell (+7/20%) and BP (+20/40%), Glencore (+45, 38%) and a number of alcohol and luxury goods related names.

If we were to derive any correlation between this performance and what ESG factors have driven the outperformance, it would be that direct emitters of CO2 and hence price-takers in terms increased fossil fuel prices have suffered credit-wise, which makes sense not least out of a general inflation context. The linkage through the Governance factor and Russia is less clear, for example, BP and Shell have taken significant write-downs in the context of Russian activities but still outperformed the broader index. Please contact the team to discuss.

Note: the iTraxx ESG index is quite illiquid so far. We have applied this analysis also for the latest index, S36, but there are discrepancies between levels recorded in the data and implied spreads such that skews look unreasonably large. The Bloomberg screen on S36 Main vs ESG looks flat over this time period, however, we suspect that that picture might be misleading. Refer to “[ESG in CDS indices](#)”, AFII, 14 Aug 2020, for overview.

¹ All levels are quoted in absolute as well as percentage changes to reflect beta effects.

Credits excluded from ESG index					Main index except ESG exclusions						
Issuer	Spread	Old spread	Change	Abs chg	Issuer	Spread	Old spread	Change	Abs chg		
Average	91.7	54.7	68.3%	37.0	Index avg	74.2	50.7	50.6%	23.5		
ESG exclusion underperformers	Fortum Oyj	241	48	407%	193	Main index underperformers	Pearson PLC	200	78	156%	122
	Carlsberg Breweries AS	72	25	185%	47		Credit Suisse Group AG	128	59	118%	69
	Louis Dreyfus Co BV	261	97	170%	164		Unilever Finance Netherlands BV	34	17	101%	17
	Engie SA	82	35	132%	47		Alstom SA	143	72	99%	71
	Electricite de France SA	108	53	103%	55		Henkel AG & Co KGaA	37	19	96%	18
	E.ON SE	75	39	94%	36		BASF SE	53	27	93%	26
	Mercedes-Benz Group AG	81	47	73%	34		LANXESS AG	115	60	92%	55
	Volkswagen AG	118	68	73%	50		Wolters Kluwer NV	39	20	91%	19
	Enel SpA	105	61	71%	44		Allianz SE	46	25	82%	21
	Continental AG	135	80	68%	55		Cie de Saint-Gobain	72	40	82%	32
	Naturgy Energy Group SA	105	62	68%	43		Koninklijke DSM NV	32	18	81%	14
	Holcim Ltd	121	74	62%	47		Solvay SA	90	50	81%	40
	British American Tobacco PLC	111	70	59%	41		Cie Financiere Michelin SA	59	33	80%	26
	Diageo PLC	37	23	59%	14		Centrica PLC	119	67	79%	52
Iberdrola SA	73	46	57%	27	ING Groep NV	71	40	78%	31		
ESG exclusion outperformers	Airbus SE	89	60	49%	29	Main index outperformers	SES SA	111	87	28%	24
	Sodexo SA	50	34	49%	16		Kering SA	36	28	27%	8
	Stellantis NV	156	106	47%	50		GlaxoSmithKline PLC	32	25	26%	7
	Danske Bank A/S	92	63	47%	29		Banco Bilbao Vizcaya Argentaria SA	58	46	26%	12
	Barclays PLC	85	59	43%	26		EDP Finance BV	78	63	25%	15
	Pernod Ricard SA	33	23	41%	10		Intesa Sanpaolo SpA	86	70	23%	16
	BP PLC	70	50	40%	20		TotalEnergies SE	40	33	23%	7
	Imperial Brands PLC	111	79	40%	32		Equinor ASA	34	28	23%	6
	Glencore International AG	163	118	38%	45		Anglo American PLC	131	108	21%	23
	HSBC Holdings PLC	67	49	36%	18		Vodafone Group PLC	77	64	20%	13
	Sanofi	30	22	34%	8		Telefonica SA	82	69	19%	13
	Heineken NV	37	28	34%	9		Vivendi SE	90	77	17%	13
	Deutsche Telekom AG	52	40	29%	12		Smurfit Kappa Acquisitions ULC	69	59	17%	10
	Tesco PLC	87	68	27%	19		Unibail-Rodamco-Westfield SE	146	127	15%	19
	Bayer AG	76	60	26%	16		AstraZeneca PLC	37	32	15%	5
	Anheuser-Busch InBev SA/NV	71	57	25%	14		Koninklijke KPN NV	91	82	11%	9
	LVMH Moet Hennessy Louis Vuitton SE	34	28	21%	6		Repsol SA	70	64	9%	6
	Shell PLC	42	35	20%	7		British Telecommunications PLC	103	117	-12%	-14
BAE Systems PLC	48	50	-3%	-2	Carrefour SA	79	100	-21%	-21		

IMPORTANT DISCLAIMER:

This report is for information and educational purposes only. The Anthropocene Fixed Income Institute ('AFII') does not provide tax, legal, investment or accounting advice. This report is not intended to provide, and should not be relied on for, tax, legal, investment or accounting advice. Nothing in this report is intended as investment advice, as an offer or solicitation of an offer to buy or sell, or as a recommendation, endorsement, or sponsorship of any security, company, or fund. AFII is not responsible for any investment decision made by you. You are responsible for your own investment research and investment decisions. This report is not meant as a general guide to investing, nor as a source of any specific investment recommendation. Unless attributed to others, any opinions expressed are our current opinions only. Certain information presented may have been provided by third parties. AFII believes that such third-party information is reliable, and has checked public records to verify it wherever possible, but does not guarantee its accuracy, timeliness or completeness; and it is subject to change without notice.

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 www.anthropocenefii.org or follow us using the hashtag #anthropocenefii.

