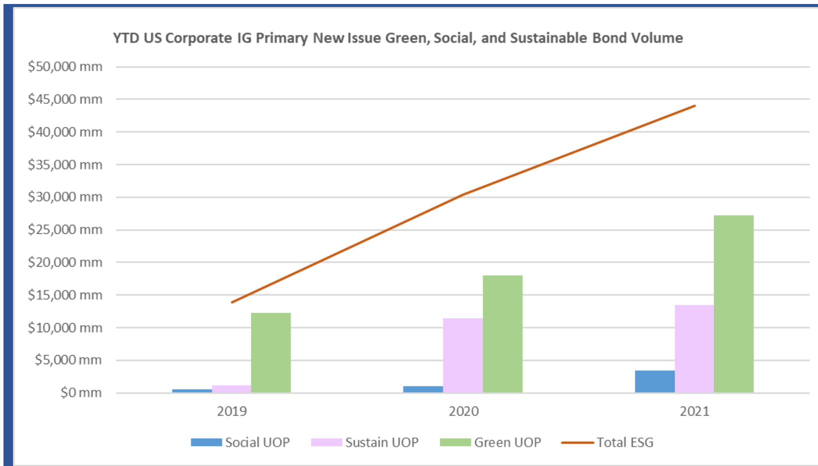
September 2021

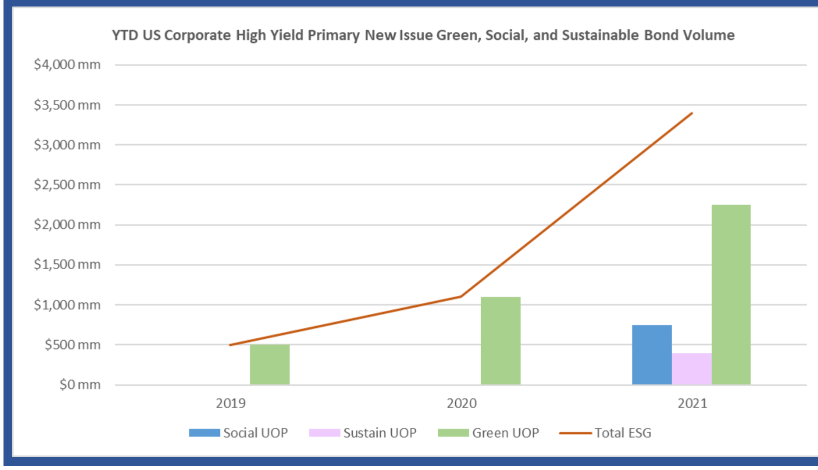
We saw a lot of announcements come out of the United Nations last week relating to ESG, specifically climate change and its impact. Which is why, in this report, we review some of the developments and what it means for markets and issuers here in the United States focusing on…

- The UN's 1.5-degree scenario alignment
- US sectors that are most exposed
- Sustainability and Tax Credits



***Investment Grade**: Over $6.75bn priced in IG US ESG new issue this September. Verizon came to market for its 3rd green issuance pricing its Green 20YR at T+102. Walmart printed its inaugural green bond—issuing $2bn under its framework—as did Analog Devices who issued a $750mm 7YR sustainability linked bond (Academy served as co-manager on both offerings).*

***High Yield**: No new offerings to report (below).*



UN General Assembly, COP26 & 1.5 Degrees

Last week at the UNGA President Biden declared a doubling of US climate funding, while President Xi Jinping announced plans for China to suspend building new coal fired power plants abroad, and now, UN Secretary General Antonio Guterres is affirming 1.5 degrees Celsius as the limit for global warming and called upon all nation's NDCs to meet the 1.5-degrees scenario. The US SEC also released a sample letter that it may look to send to corporate issuers who they feel have not disclosed appropriate levels of information on climate change risk exposure.

UNGA last week was more about preparing for COP26 this November in Glasgow than anything else. In November, the UN Council of Parties will convene in Glasgow to discuss (and look to confirm) operational rules around the Paris Climate Agreement. Agenda items include net zero, the acceleration of coal's phase out, the increase of EV adoption (as well as adaption measures like defense & warning systems) and how to mobilize financing for them. COP26 is also pushing all countries to commit to National Determined Contributions that keep emissions levels within the 1.5- degrees scenario. The 1.5-degrees scenario is important to note as it is the same scenario to which the Biden administration has affirmed US commitment. In the NDC submitted early this past April, the Biden administration aims to reduce US GHG emissions to ~3bn mtCO2e annum —a goal that is 50-52% less emissions from the 2005 baseline—in addition to reaching 100% carbon and pollution free electricity by 2035.

Sector	2010 emissions	2019 emissions	Rate Change
Agriculture	665	669	0.7%
Commercial	422	455	7.8%
Industry	1,415	1,504	6.3%
Electricty	2,312	1,648	-28.7%
Transportation	1,802	1,875	4.1%
Residential	355	379	6.8%
Total	6,971	6,531	

Emissions in the United States...Where should the focus be?

While utilities and electrical generation assets are a focus of decarbonization, it could be the industrials, transportation, and agricultural sectors that are most immediately impacted in the near-term. All of these sectors saw increases in GHG emissions, as compared to electrical generation, which has decarbonized 28% since 2010. In fact, only 19% of US power generation is derived from coal fired plants. Most is generated from natural gas, renewables, and nuclear energy! In Europe a recent study by ESMA found a correlation with green bonds issued and entity level decarbonization—finding that the median carbon intensity of green bond issuers dropped 88% as opposed to 27% for non-green.

		2019 total GHGe	2030 projected GHGe
		6,558,000,000	**3,150,000,000**
Sector	**Percent**	**2019 emissions**	**2030 emissions**
Agriculture	0.1	655,800,000	315,000,000
Commericial & Residential	0.13	852,540,000	409,500,000
Industry	0.23	1,508,340,000	724,500,000
Electricty	0.25	1,639,500,000	787,500,000
Transportation	0.29	1,901,820,000	913,500,000

For the agriculture sector, livestock and crop cultivation are some of the biggest contributors to emissions, whereas fossil fuel combustion is the chief contributor to industrial emissions. However, as we shift to more forms of renewable energy, we could see increases for mineral products and metal production related to the materials used in light electric vehicles and batteries. In 2019, the transportation sector finally eclipsed the energy generation sector for GHG emissions. In the 30 years since 1990, the US transportation sector's yearly emissions has increased over 23%!

Bottom Line

- ***Tax Credit > Govt Spending****: While the Biden administration has proposed a $14bn climate funding plan, the likelihood that it comes to full fruition is low given the current situation in Congress. However, certain proposals including tax-credits for high-voltage power lines, carbon capture, low-carbon hydrogen, heavy & medium duty zero emissions vehicles, charging stations, advanced manufacturing, and energy efficient commercial buildings are a more likely option and will be helpful to these emerging industries and welcomed by early investors.*

- ***ESG Financing & Disclosure****: Issuers (specifically those in the industrial, transport, and agriculture sectors) should first consider how they are planning and communicating any material climate change related risk exposure (physical and transition) as the SEC recently released its sample letter to corporates asking for more clarity in climate disclosure, especially to those releasing more information in their sustainability reports. Simultaneously, issuers should be developing frameworks that allow them to capture investor interest and reduce the cost of capital for sustainable projects and initiatives within their value chains.*

- ***Brittle Power****—China's recent power crunch is more likely a result of labor and coal supply shortages (China for the time being no-longer imports coal from Australia) than its decision to launch a carbon trading program. In shifting energy production to alternative sources, it is important to note that historical reliance on any one energy source can be dangerous, and something policy makers and leaders should be aware of. Notable examples include Venezuela whose hydroelectric capacity was impacted by long-term drought, as well as here in the US when in 1973, the Arab Oil embargo led to a 300% increase in the cost of a barrel of oil, which compounded the stock market turmoil. To help ensure the stable flow of energy, we can look to increase carbon capture as opposed to straight decommissioning.*

Further Resources

SEC Letter: *https://www.sec.gov/corpfin/sample-letter-climate-change-disclosures*

EPA Emissions Tracker: *https://cfpub.epa.gov/ghgdata/inventoryexplorer/*

USNDC: *https://www4.unfccc.int/sites/NDCStaging/Pages/All.aspx*

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