ICMA
International Capital Market Association

Executive Committee of the Principles

Exploring structural demand for sustainable bonds: Perspectives from investor practice

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The Green Bond Principles

The Social Bond Principles

The Sustainability Bond Guidelines

The Sustainability-Linked Bond Principles

Climate Transition Finance

Table of Contents

Introduction

Developed by the Executive Committee of the Principles, this paper explores the structural drivers underpinning demand for GSS+ bonds. It aims to provide issuers with a strategic understanding of why these instruments continue to matter to investors and how they fit within investor priorities, allocation dynamics, and engagement practices.

Investor engagement with labelled bonds

Following a decade of rapid expansion, the Green, Social, Sustainability and Sustainability-Linked (GSS+) bond market has matured into a core segment of global fixed income. Investor demand is no longer niche, it has entered a more established phase, marked not only by scale but by a shift in how investors engage with labelled instruments. This is also reflected in new labels having been added to the GSS+ bonds universe, covering Sustainability-Linked Loan financing Bonds and Climate Transition Bonds, as well as thematic bonds for nature, blue and gender equality.

Demand for labelled bonds remains strong: it is structural, disciplined and anchored within mainstream fixed income strategies, reflecting a growing focus on risk management, transparency, stewardship, and long-term portfolio resilience. At the core of this shift sit asset owners, whose evolving perspectives around fiduciary duty, climate risk and long-term portfolio resilience are increasingly shaping how investment managers allocate capital, structure mandates, and engage with issuers across fixed income.

Investors are using GSS+ instruments across core responsible investment strategies to enhance transparency on sustainability – specifically climate risks and opportunities - to meet evolving mandate requirements, and support credible engagement with issuers, anchoring demand in fiduciary and portfolio outcomes, and reinforcing the strategic case for issuance.

Structural demand translates into tangible market effects. As investor expectations become more consistent and embedded – alongside evolving regulatory, prudential and market frameworks – they are shaping issuance behaviour, disclosures, and engagement practices, while positioning sustainability considerations more firmly within capital allocation and risk assessment.

In this context, **GSS+ bonds have become a strategic instrument – enabling issuers to capture deeper, more diversified and resilient investor demand and support disciplined, forward-looking portfolio construction for investors.**

Investors are increasingly seeking instruments that provide transparency on how capital is used or how issuers' sustainability performance is incentivised and monitored. GSS+ bonds respond to this demand by combining risk adjusted returns with defined use of proceeds and/or measurable sustainability performance targets, supported by external reviews and ongoing reporting. This trend also resonates with retail investors, who increasingly value transparency, measurable sustainability outcomes and confidence that their investments contribute to real world impact alongside competitive returns.

The state of the GSS+ bond market

The global issuance of GSS+ bonds reached USD 1.8 trillion in 2025 – remaining relatively in line with 2024 volumes despite regional divergences. Green Bonds have remained the backbone of the sustainable debt market, with Euro denominated bonds remaining the cornerstone of labelled supply.[1]

Some jurisdictions provide regulatory guidance for sustainable bonds while substantially replicating or referring to the voluntary market standard represented by the Principles[2] and complementary standards such as the Climate Bonds Initiative's standard.[3] These standards provide common language and process expectations. Additionally, the EU Green Bond Standard[4] (EU GBS) has introduced a regulatory definition for a sustainable bond label, triggering a flurry of issuances over the course of 2025 and early 2026.

Overall, the market has reached a mature stage driven by strong green growth, tailored transition scaling, stricter reporting standards and rapidly evolving political dynamics.[5]

Developments in the GSS+ market are being shaped by renewed scrutiny of the financial and technical feasibility of underlying sustainability objectives, including climate transition, resilience and social outcomes, across different risk scenarios and sectors. The market has also continued to evolve in format, with ICMA's Climate Transition Bond Guidelines broadening the labelled toolkit available for transition finance.

EMEA and APAC are set to remain the engines of global supply, while targeted use of proceeds innovation – spanning sustainable water management, inclusive growth, and nature conservation – is expected to broaden investor interest and support market deepening. Elsewhere, momentum is also building across regions: MENA continues to channel investments into renewables and clean power; Latin America and the Caribbean are cementing foundations for a stronger sustainable finance ecosystem through the development of regional taxonomies[6]; Canada is advancing its sustainable taxonomy alongside further sovereign green bond development[7]; municipal markets and local policy frameworks continue to support climate and infrastructure investment opportunities in the US[8]; and Australia's new Sustainable Finance Taxonomy[9] may support further market development from 2026 onward.

The current context of heightened geopolitical pressures and oil & gas price volatility also highlights new concerns that further support the issuance of GSS+ bond issuance. These include energy security and supply diversification, strategic autonomy, and the need for electrification.

Taken together, these developments point to a GSS+ bond market that is broader, more resilient, and increasingly defined by quality, credibility, and consistency rather than volume alone. While issuance continues to expand across regions and themes, the more consequential shift lies in how investors assess, select, and engage with labelled instruments. In this context, understanding the changing role of investor expectations is critical to explaining how the GSS+ bond market is evolving.

1 Bloomberg NEF, period ending 31 December 2025 – includes Green, Social, Sustainability, Sustainability-Linked (SL) and Transition Bonds. The figure includes non-financial corporate, financial corporate, government-related, municipal, securitised, sovereign and supranational issuers.
2 ICMA, (2026). The Principles & related guidance.
3 IOSCO, (2025). IOSCO Sustainable Bonds Report.
4 Official Journal of the EU, (2023). EU Green Bond Standard Regulation.
5 CBI, (2025). The $4.4tn Climate Investment Opportunity.
6 Bloomberg NEF, (2026). Middle East and North Africa: Things to Watch in 2026. | ECLAC, (2025). Mapping sustainability in Latin America and the Caribbean: sectoral and energy transition insights from sustainable bonds, 2014-2024.
7 Government of Canada, Department of Finance, (2025). "*Government announces next steps toward made-in-Canada sustainable investment guidelines*."
8 United States Environmental Protection Agency, (2026). "*Municipal Bonds and Green Bonds*." |PRI, (2023). The Thematic ESG Approach in US Municipal Bonds.
9 Australian Sustainable Finance Institute, (2026). The Australian Taxonomy.

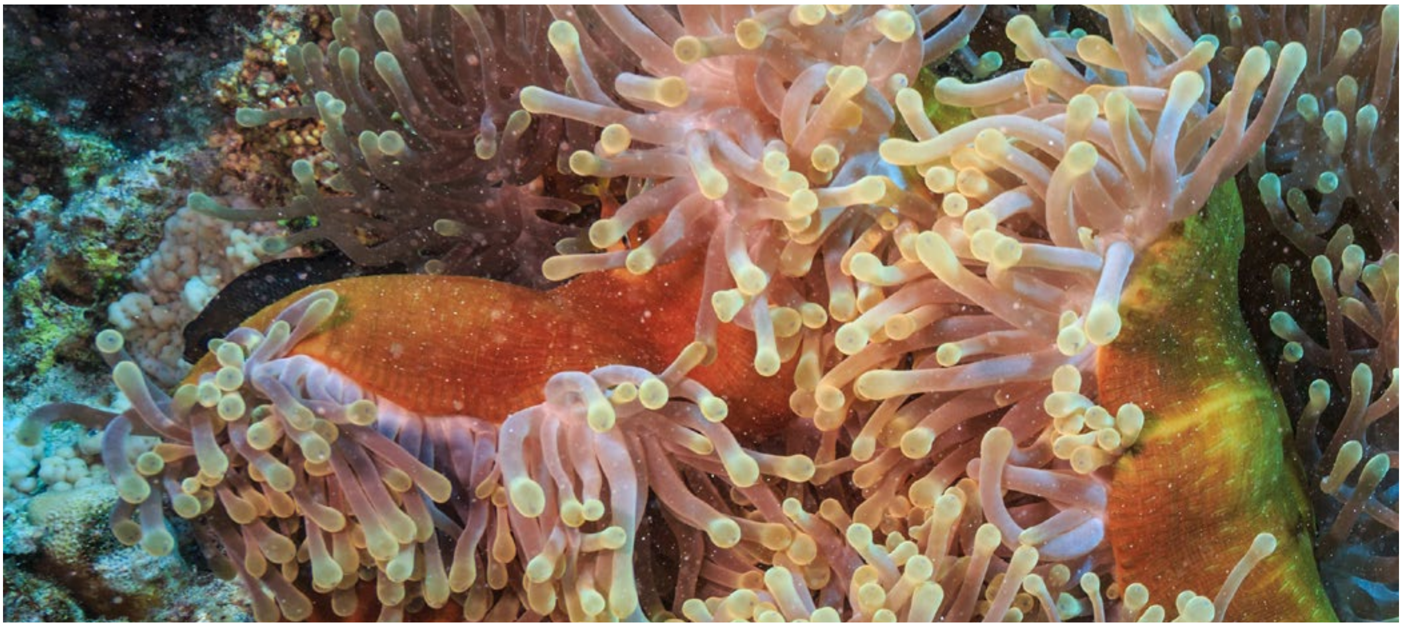
From supply-led to structurally demanded: What the investor shift means for issuers?

The market for GSS+ bonds has traditionally been a supply-driven market; however, as the market has matured, investors have responded with specific approaches to (1) assess the credibility of these instruments from a sustainability perspective and (2) incorporate these instruments into their broader sustainability strategies and specific impact mandates.

Issuers may pursue GSS+ instruments for a range of strategic reasons – such as broadening the investor base, pursuing potential cost-of-capital efficiencies, signalling alignment with regulatory objectives, or supporting resilient access to capital – recognising that these considerations coexist with additional costs and operational requirements.[10] Reflecting this, the UN convened Net Zero Asset Owner Alliance (NZAOA) observes a growing focus on Climate Solution Investments (CSI) as a cornerstone of long term climate risk management – mobilising capital to cut emissions at scale, catalyse clean energy and efficiency solutions, and drive structural, economy wide transformation.[11] While CSIs do not implicitly focus on GSS+ bonds, these instruments could be considered a clear solution for CSI mandates.

In pointing out the benefits of GSS+ bonds, a shifting landscape is observed, whereby buy-side demand drivers for sustainable fixed income securities are gaining momentum. However, the emergence of structural demand for GSS+ bonds is happening at a time of historically tight bond markets, which may be obscuring signs of a potentially lower risk premium.

At the same time, many GSS+ issuers report limited investor engagement on sustainability topics, including impact reporting. In practice, this often reflects established stewardship approaches, whereby investors focus engagement resources on issuers with higher ESG risks or less mature sustainability strategies. As a result, this lower level of engagement with GSS+ issuers is frequently misread as investor disinterest or disengagement, rather than a signal of confidence in an issuer's maturity. The result is a potential market dissonance, whereby participants cannot clearly ascertain the growing importance and benefits of GSS+ bonds.



10 CFO Coalition for the SDGs, (2025). CFO Primer on Sustainable Bonds. | OECD, (2025). Sustainable Bonds – Trends and Policy Recommendations.
11 UNEP FI – PRI, (2025). NZAOA 2025 Progress Report. Since inception, signatories have increasingly allocated to CSIs, with reported volumes reaching USD 743 billion by December 2024 – around 8% of total assets under management.

How do investors utilise GSS+ bonds?

There are various reasons why investors seek GSS+ bonds. In general, GSS+ bonds allow investors to align asset allocations with their own firm-level strategic objectives supporting stable, long-term performance and/or client mandates, while managing risk and achieving competitive returns.

The following table indicates how GSS+ bonds fit into the core responsible investing strategies of investors[12], with thematic investing and ESG integration remaining the most popular approaches amongst investors.[13]

Responsible Investing Strategy	Relevance of GSS+ bonds
ESG Integration	• Offer opportunities for long-term investments in low carbon assets with the potential for continued decarbonisation and improvement. • Can now be held as a core bond allocation, as the GSS+ universe has achieved sufficient depth and liquidity across issuers, sectors and regions, comparable to the aggregate bond market. • Can offer more structured disclosure on sustainability risks and opportunities, notably at project level. • May, in some market environments, provide lower correlations and improved hedging during periods of stress.[14] Many investors view them as risk-mitigating allocations that can support portfolio stability, and in some cases, outperform conventional bonds in volatile markets. • Incorporate sustainability criteria in investment decisions to help mitigate long-term risk, thereby enhancing risk-adjusted returns.[15]
Screening (negative/positive)	• Provide investors with an opportunity to gain exposure at instrument level to entities that they may otherwise need to exclude (i.e. ESMA Guidelines on funds' names using ESG or sustainability-related terms). This supports transition and sustainability outcomes through the financing of decarbonisation projects – such as utilities shifting from high to low carbon energy – and by contributing to portfolio objectives such as adequate diversification alongside allocation to climate solutions or reduction in carbon footprint (notably if there is an adjustment to the bond's carbon value in line with PCAF). • Can facilitate fund requirements for a minimum threshold of sustainable investments (i.e. taxonomy alignment).
Stewardship / Active Ownership	• Create opportunities to address material sustainability topics with issuers, and to track progress through post-issuance reporting requirements. • Allow investors to maintain exposure to higher-risk issuers without shrinking the investable universe, by combining issuance selection with formalised engagement structures. This aligns sustainability policy with fiduciary duty, forward looking assessments, and seeks to create financial value while influencing issuer behaviour. • Including performance-based instruments such as Sustainability-Linked Bonds, are particularly suitable given their forward-looking design, linking financing terms to sustainability performance targets aligned with broader sustainability goals, thereby incentivising real-economy transition when targets are credible.

12 Core responsible investing strategies are: ESG Integration, Screening (Negative / Positive), Stewardship / Active Ownership, Thematic Investing, Impact Investing | CFA Institute, Global Sustainable Investment Alliance, and Principles for Responsible Investment (2023). Definitions for Responsible Investment Approaches.
13 FTSE Russell (2025). Sustainable investment: plateauing or poised for growth?
14 Belguith, R. (2025). Dynamics of Green and Conventional Bonds: Hedging Effectiveness and Sustainability Implication. *International Journal of Financial Studies, 13(2)*, 106. | Khamis, M., and Aassouli, D. (2023). The Eligibility of Green Bonds as Safe Haven Assets: A Systematic Review. *Sustainability, 15(8)*, 1-27.
15 PRI, (2025). Global Responsible Investment Trends: Inside PRI Reporting Data.

Responsible Investing Strategy	Relevance of GSS+ bonds
Thematic Investing	• Provide opportunities to gain exposure to specific themes like biodiversity, health + wellbeing, water, etc. which some asset owners may prioritise and for which asset managers need solutions. • Support impact investors' need to communicate on how they are supporting thematic strategies.
Impact Investing	• Offer a clear solution to pure impact strategies, especially Use of Proceeds Green, Social Sustainability and Transition Bonds. • Deliver robust impact reporting, providing investors with externally verified metrics that support clearer evaluation and communication of fund benefits.

Investors' approaches to GSS+ bonds have moved beyond pure impact investing strategies, which have historically accounted for a relatively limited portion of global assets under management (AUM). Notably, investors have extended sustainability factor integration beyond labelled funds, which is supported by investment policy governance that enables such requirements.[16] By embracing the use of GSS+ bonds to facilitate broader responsible investment objectives, the narrative around the growing structural demand for these instruments becomes better defined.

These investor motivations show that GSS+ bonds are no longer a niche or value-driven allocation. They are increasingly embedded in mainstream fixed income strategies, supporting risk management, stewardship, regulatory alignment, and long-term portfolio resilience. As sustainability considerations become more systematically integrated into investment frameworks, GSS+ bonds shift from an optional overlay to a core strategic instrument, thereby shaping structural demand.

16 ICGN – GISD, (2022). Model Mandate Guidance.

Key benefits of GSS+ bonds for investors

As the GSS+ bond market has matured, investor motivations and allocation practices have evolved accordingly. For issuers, understanding how investors utilise GSS+ instruments in practice is increasingly important, as these dynamics directly influence demand, market access and issuance outcomes.

The following section outlines the key benefits GSS+ bonds offer to investors and, in turn, highlight the structural factors that continue to support investor demand for labelled issuance – providing important context for issuers considering new or expanded participation in the GSS+ bond market:

GSS+ bonds attract dedicated capital pools from asset owners

- GSS+ bonds attract dedicated pools of capital from asset owners – including mandates seeking sustainability disclosure and impact – contributing to broader demand compared to many conventional issues. This is underpinned by major asset owner and manager commitments, including the NZAOA, the Paris-Aligned Asset Owners, and the Net Zero Asset Managers (NZAM) initiative (where a majority of signatories have already set quantitative decarbonisation targets, often emissions intensity based, under the Net Zero Investment Framework (NZIF)).[17]
- Over time, this dynamic is likely to strengthen as GSS+ instruments become more formally embedded within investor and asset owner frameworks. In practice, this may take the form of internal policy requirements, mandate guidelines or portfolio construction parameters that encourage, or in some cases, require a minimum level of exposure to labelled sustainable instruments, for which there is already some anecdotal evidence. This integration reinforces the central role of sustainability considerations in strategic and responsible asset allocation decisions, further enhancing the structural demand for GSS+ bonds and amplifying the market access benefits for GSS+ issuers that can credibly meet evolving investor requirements.
- Asset owners increasingly treat sustainability factors – particularly climate change – as material investment considerations, and are reaffirming strategies designed to manage long-term, non-diversifiable system level risks; for some, portfolio decarbonisation alone is insufficient without real-economy emission reductions enabled through mandates and broader stakeholder engagement.[18] A sizable share of asset owners are using the Paris Agreement to frame investment outcomes, alongside increasingly mature and embedded practices for integrating responsible investment considerations into manager selection.[19] As a result, asset owners have awarded asset managers with bespoke mandates next to (pooled) fund strategies that can evidence tangible sustainability and climate outcomes.[20] Furthermore, stewardship is seen as a primary tool to meet climate commitments.[21]

GSS+ bond disclosures satisfy stewardship requirements

- Where sustainability factors create financial risk, fiduciaries have an obligation to identify and manage them as part of prudent risk oversight. For investment managers, GSS+ bonds can function as a practical bridge between issuer disclosures and investors' rising regulatory, stewardship and client mandate expectations, including under those shaped by cross-border frameworks such as the Sustainable Finance Disclosure Regulation (SFDR).
- GSS+ bonds incorporate structural features – such as a defined use of proceeds, external reviews and ongoing impact reporting – that signal issuers' improved transparency and accountability in managing sustainability-related risks.
- As accountability expectations rise and client mandates diversify, GSS+ bond reporting can enhance credibility and channel incremental demand – particularly for asset owners and other institutional investors needing evidence to support stewardship claims or regulatory filings.[22]

17 UNEP FI – PRI, (2025). NZAOA 2025 Progress Report. | Paris Aligned Asset Owners, (2026). |Net Zero Asset Managers, (2024). Target Disclosures Report 2024.
18 Morningstar, (2025). Voice of the Asset Owner Survey 2025 – Qualitative Insights. | NZAOA, (2025). Addressing Climate Impacts: An overview of NZAOA asset owners' long-term interests and responsibilities.
19 PRI, (2024). Global responsible investment trends: inside PRI reporting data.
20 Morningstar, (2025). "*Investing in Times of Climate Change*". | Morningstar, (2025). "*ESG Funds: 2025 Closes with Continued Outflows Amid Persistent Headwinds*".
21 PRI, (2024). Global responsible investment trends: inside PRI reporting data.
22 OECD, (2025). Sustainable Bonds – Trends and Policy Recommendations.

- GSS+ bonds interact meaningfully with policy mechanisms (such as carbon pricing and enhanced sustainability disclosure) that drive transition risk by providing investors with early signals of regulatory and policy shifts and helping portfolios navigate shifting policy landscapes and periods of market volatility.[23] Enhanced sustainability disclosures from GSS+ bond issuers strengthen PCAF-aligned financed-emissions assessments, giving investors visibility into carbon exposure and transition readiness.[24]
- Selecting portfolio companies and/or instruments that support competitive risk-adjusted returns can be achieved while taking sustainability considerations into account. In this context, stewardship can be expressed through instrument choice and structures that embed accountability, performance incentives and purposeful capital allocation. For sustainability-linked instruments this is typically accomplished with the coupon step-up triggered by a failure to achieve performance expectations in relation to material sustainability risks. Use of proceeds instruments, meanwhile, help finance a low risk, low-carbon future by steering capital toward activities – from climate mitigation and adaptation, as well as social and environmental investments – strengthening resilience across investors and issuers.

GSS+ bond reporting aligns with regulatory regimes

- GSS+ bond issuance can also signal issuer alignment with evolving policy and regulatory frameworks, supporting longer-term risk mitigation.
- Regulation can support demand by requiring sustainability disclosures, taxonomy alignment or stewardship reporting. In addition, ongoing policy discussions around preferential prudential treatment highlight how regulation could, over time, increase investor risk appetite.[25]
- Though sustainability regulation is concentrated in Europe – including the EU Sustainable Finance agenda[26] and the UK's Net Zero Strategy[27] – its effects extend well beyond Europe. Investors and issuers in APAC, the Americas, and other regions are effectively pulled into EU-level transparency requirements by default – whether to access European capital markets or to meet global asset owner expectations. At the same time, regulators in other jurisdictions are tightening their own disclosure rules, pushing the market towards a converging global norm. In this environment, GSS+ bonds stand out and deliver on the type of auditable sustainability information these regimes demand.

GSS+ bonds can serve the long-term interests and responsibilities of investors

- Importantly, asset owners' growing use of GSS+ bonds reflects a long-term risk management approach that accounts for uncertainty around climate policy and transition pathways, rather than an expectation of consistent policy support. In this context, GSS+ instruments are increasingly used to enhance portfolio resilience and manage downside risk associated with delayed, uneven or disorderly transition.[28]
- GSS+ bonds and broader climate-aligned investment strategies are becoming essential tools for asset owners and asset managers as they confront accelerating, long-term climate-related risks.
- Climate change introduces system-level risks that cannot be diversified away and pose a direct threat to financial market stability and long-term economic growth. At the same time, the global climate transition presents a historic investment opportunity, enabling portfolios to benefit from targeted investments in renewable energy, sustainable and circular economy adapted materials, and other clean technologies while leading to better energy security in the future. For investors it is key to provide the best risk-adjusted return for clients based on an expectation of how investee companies will perform in an evolving regulatory, technological, and competitive "playing field".[29]
- Investors must therefore have a strong understanding of issuer's climate-related investment plans and exposures, and reflect this in prudent, forward looking portfolio construction and product design, including where relevant through GSS+ bond strategies or funds.

Incorporating GSS+ bond considerations at the executive strategy level is key for safeguarding long-term portfolio resilience and capitalising on ("just") transition-driven growth.

23 Wang, KH., Li, SM. (2025). Green bonds and carbon prices: a dynamic relationship revealed. *Environment, Development and Sustainability* 27, 28995–29018.
24 PCAF, (2025). The Global GHG Accounting and Reporting Standard for the Financial Industry.
25 OECD, (2025). Sustainable Bonds – Trends and Policy Recommendations.
26 European Commission, (2021). Sustainable finance package.
27 UK Government – Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy, (2022). Net Zero Strategy: Build Back Greener.
28 Morningstar, (2025). Voice of the Asset Owner Survey 2025 – Qualitative Insights.
29 UNEP-FI, (2025). Addressing Climate Impacts - An overview of NZAOA asset owners' long-term interests and responsibilities.

Conclusion

The GSS+ bond market has moved beyond its formative phase. While its evolution continues to reflect market, regulatory and technological dynamics, what increasingly defines its trajectory is the way investors assess sustainability risk, value transparency, and integrate sustainability opportunities and real-world developments into investment decision making.

Far from diminishing the relevance of labelled issuance, this shift reinforces the strategic case for GSS+ bonds as a proven format through which issuers can demonstrate resilience, support engagement, and align with long-term investor expectations.

As investors increasingly integrate these considerations into capital allocation and risk assessment, GSS+ bonds have become a key interface between investor expectations and issuer funding strategies. The format supports investors' need for transparency and engagement while enabling issuers to access diversified demand, strengthen market positioning, and remain competitive in a more selective market. In this context, understanding demand-side dynamics is central to sustaining market access, credibility, and long-term resilience.

Contact details

ICMA Paris
25 rue du Quatre Septembre
75002 Paris
France

PrinciplesHelpdesk@icmagroup.org
sustainabilitybonds@icmagroup.org

www.icmagroup.org