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Sustainable Bonds in 2026: Resilient Issuance, New Sources of Growth

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SUMMARY

- Global sustainable bond issuance could reach record issuance in 2026 led by Sovereign, Supranational, and Government-Related Agencies including U.S. municipal issuers.
- Sustainable bonds issued in U.S. dollars grew in the first half of 2026, but supply is limited compared to the global market and marked by a steep decline in U.S. corporate sustainable issuance.
- Financing for data centers and other digital infrastructure related to artificial intelligence (AI) are growing sustainable bond segments.
- Credit quality, use of proceeds, environmental impact, and reporting standards remain critical for investors assessing sustainable bond offerings.

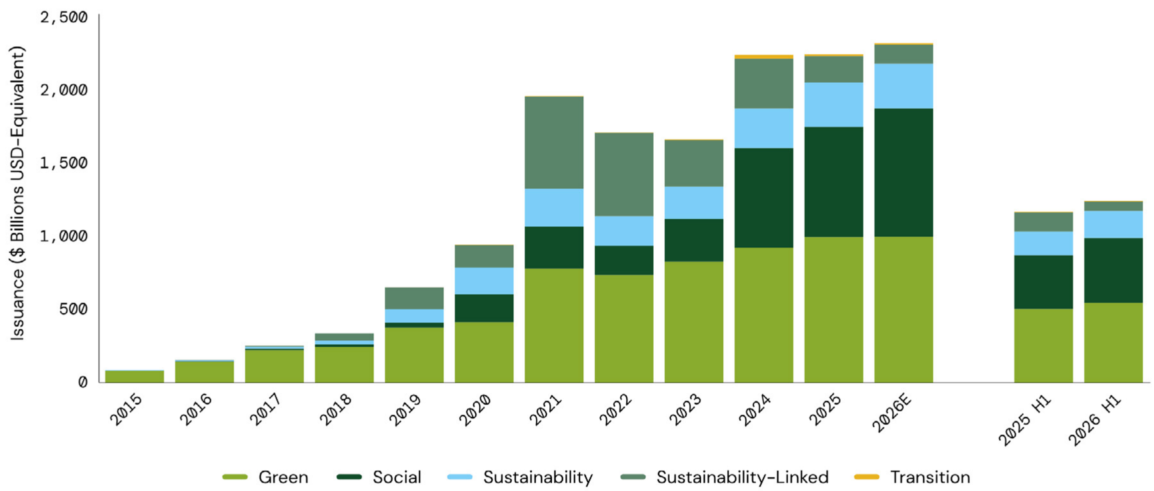
Global sustainable debt[1] issuance remains resilient in 2026 despite policy uncertainty and softer corporate supply. Bloomberg Intelligence expects issuance to exceed $2.3 trillion, potentially a record, supported by Sovereign, Supranational and Government-Agency borrowers as well as U.S. municipal issuers financing housing and infrastructure projects.[2] Although growing, the U.S. dollar (USD)-denominated sustainable bond market is concentrated in the securitized sector and USD corporate sustainable bond issuance has declined significantly since a peak in 2021. At the same time, the opportunity set is evolving, as data centers and structured credit create new sources of green labeled debt.

In our research of sustainable bonds, we believe it is important to look beyond the label to the credit quality of the issuer, use of proceeds, and the potential environmental and social benefits of the transaction.

Sustainable Issuance Remains Strong

Bloomberg Intelligence forecasts green and social bonds to be the largest contributors to sustainable debt issuance this year. Growth is less uniform in 2026 than during the last decade. Corporate sustainable issuance through May declined 28 percent globally and 44 percent in the Americas.[3] Meanwhile, government-related borrowers are increasing issuance and shifting the composition of supply toward Sovereigns, Agencies and Supranationals. The supply of sustainability-linked bonds as well as transition bonds has been limited (See Figure 1).

FIGURE 1: GLOBAL SUSTAINABLE DEBT ISSUANCE



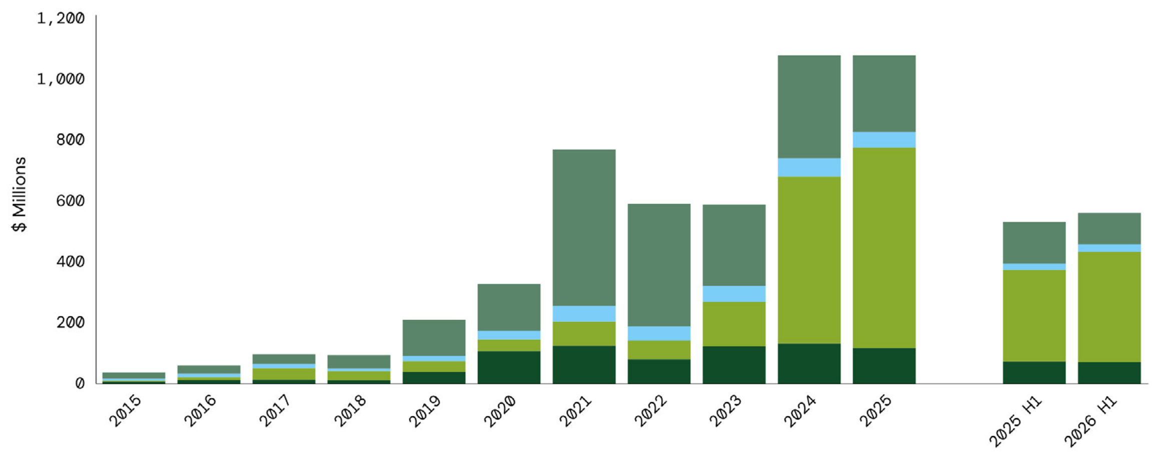
Source: Bloomberg Intelligence, as of June 1, 2026.

1. The sustainable bond market consists of 1) green, social, sustainability (GSS), and transition issuance, which are also known as labeled or use of proceeds bonds; and 2) sustainability linked bonds, where an issuer's coupon payment is linked to sustainability targets. An important distinction between the two types of securities is that a labeled bond is issued for environmental or social projects, while a sustainability linked transaction can be used for general purposes. A sustainability bond finances both environmental and social projects. A transition bond would be issued by a high emitting company to help it decarbonize.
2. Bloomberg Intelligence, Sustainable Finance 2026 Midyear Outlook — Debt, June 30, 2026.
3. Bloomberg Intelligence, Sustainable Finance 2026 Midyear Outlook — Debt, June 30, 2026.

U.S. Dollar Market is Growing but Corporate Issuance is Down

The U.S. dollar sustainable debt market is also growing, largely driven by increased issuance of Government National Mortgage Association (Ginnie Mae) sustainable labeled pools. Labeled securitized bonds accounted for 61 percent of total issuance in 2025, with Ginnie Mae accounting for 40 percent (Figure 2). The underlying mortgages are mainly guaranteed through government programs, including FHA and VA, that promote homeownership for first-time buyers, veterans, low-income households and underserved communities.

FIGURE 2: USD SUSTAINABLE ISSUANCE



Source: Bloomberg Intelligence, as of June 1, 2026.

Like the global market, the supply of corporate sustainable bonds issued in dollars has also decreased substantially. After hitting a record $514 billion in 2021, corporate issuance declined by 51 percent to $252 billion in 2025. Issuance is also down 24 percent for year-to-date 2026 compared to the same period in 2025 (Figure 3).

FIGURE 3: SUPPLY OF CORPORATE BONDS ISSUED IN U.S. DOLLARS

Source: Bloomberg Intelligence, as of June 1, 2026.

USD-denominated sustainable bonds from supranationals and municipalities have remained relatively stable over the past five years. Trends in these two sectors are covered in more detail below.

Supranational Issuers Continue to Issue Labeled Debt to Fund Sustainable Development

Supranationals or multilateral development banks (MDBs) remain significant sources of green, social, and sustainability (GSS) bonds. The International Bank for Reconstruction and Development (IBRD), the World Bank's original lending vehicle established in 1944, ranked among the largest sustainable debt issuers through midyear 2026, with $20.3 billion of year-to-date issuance, according to Bloomberg data presented by Wells Fargo.[4] A $6.0 billion World Bank benchmark sustainable development bond in May 2026 illustrates the scale these issuers bring to market.[5,6]

In 2026, Breckinridge is engaging with supranationals about their sustainable development programs and plans for issuing labeled debt. One issuer that we spoke with mentioned that GSS bonds generally represent 10 to 15 percent of total annual funding needs.

Data Center Issuance is Expanding the Green Bond Market

Digital infrastructure emerged as a significant source of green bonds in 2026. As development and expansion of AI technology continues, data centers could account for two-thirds of U.S. electricity-load growth over the next decade, according to Wells Fargo Corporate and Investment Banking. Labeled bonds offer a wider financing opportunity for AI capital expenditures.

In one example, a major digital infrastructure and data center provider offered more than $4.5 billion of green bonds in April 2026. Issuance was associated with data center development and highlighted design features such as closed-loop liquid cooling systems intended to minimize local utility stress. The campus drew local scrutiny after county records indicated roughly 29 million gallons of unmetered water were utilized during early construction before a smart-meter billing discrepancy was resolved.

Structured credit also expands the sustainable bond opportunity set. Priced in February 2026, a green asset-backed securitization (ABS) valued at more than $830 million[7] was the first time a major credit rating agency awarded a top AAA credit quality rating to a hyperscale data center ABS deal. The project's green eligibility criteria focus on sustainable design, energy and water efficiency, and low-carbon construction.

Breckinridge's Approach to Data Center-Related Green Debt

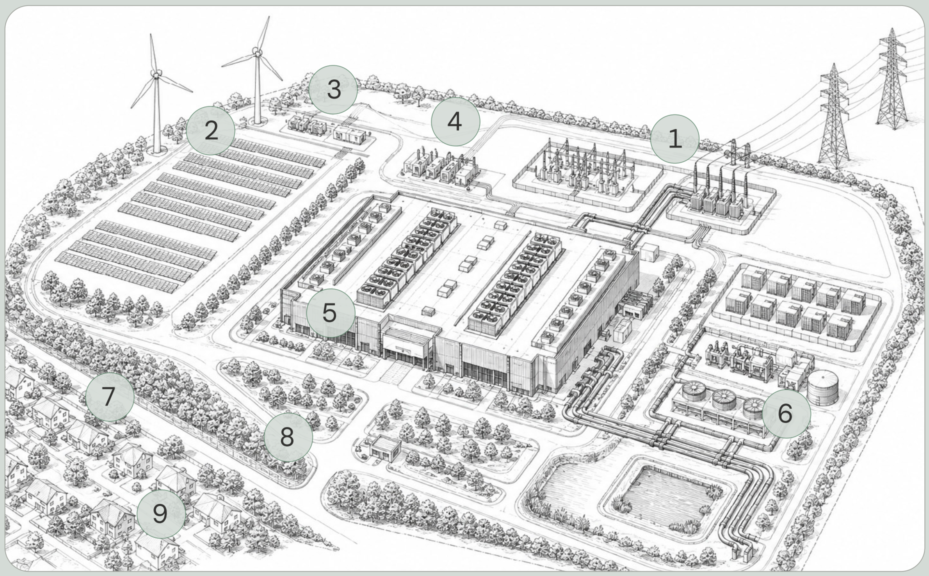
Data center (DC) bonds are single or multi-asset project financings that involve constructing a shell that will house compute for the purposes of AI, often tenanted by a hyperscaler. Breckinridge's credit analysis of a DC will typically involve assessing the construction risk, power availability and cost, amortization, lease renewal risk, termination risk, creditworthiness of the tenant, and technological obsolescence, among other factors.

4. Wells Fargo Corporate & Investment Banking (CIB, Global Sustainable Finance: 1H 2026 Update, August 2026).
5. Ibid.
6. World Bank Sustainable Development Bonds are categorized by Bloomberg as sustainability bonds as their use of proceeds is for both environmental and social purposes.
7. Ibid.

While Breckinridge recognizes that data center-related debt is expanding the market, its analysis acknowledges that a green label alone does not establish environmental quality. Green data center debt requires transaction-level scrutiny. Data centers may face headline and reputational risks, particularly as they relate to labeled bonds. If green-labeled data center debt aligns with ICMA principles,[8] then we are more likely to view it as a credible structure. Alignment requires establishing and reporting on eligible projects including renewable energy, energy efficiency, pollution prevention, and sustainable water management.

Breckinridge investment analysis of data center-related green bonds tends to favor green buildings, energy efficiency, renewable energy and water-related investments, supported by the company's broader sustainability practices. We think green data center labels also need to check all or some of the following boxes:

1. Use of existing grid capacity
2. Additional generation such as solar, wind and batteries
3. Minimal or low natural gas additions
4. Non-diesel back-up power
5. Ability and willingness to curtail usage during peak demand
6. Closed-loop liquid cooling system
7. Distance from residential to mitigate noise pollution
8. Not located in a water-stressed region
9. Direct linkage to reducing customer bills



Areas of investment concern can stem from environmental and reputational risks associated with data centers, power usage effectiveness (PUE),[9] and impact reporting.

Breckinridge investment analysis of data center bonds, whether green-labeled or not, may consider physical climate risk as an additional lens. Our research typically includes a risk assessment of the geographic area to the extent that higher-level data is available at the city or county level on key climate perils (e.g. wildfire, hurricane, earthquake, flood, heat and drought risks). With single asset project risk, property insurance, force majeure coverage and tenant guarantees can mitigate some risks. We may also consider the primary tenant's sustainability and climate risk profile through a review of material sustainable risk factors including total energy consumption, physical climate value-at-risk (VaR) and scope 3 emissions reporting.

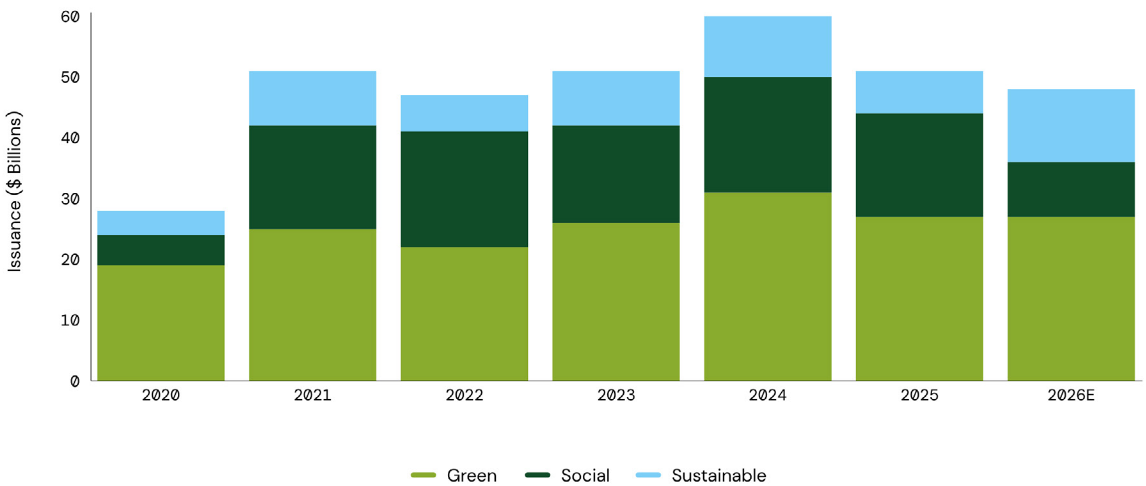
8. The International Capital Market Association (ICMA) established The Green Bond Principles (GBP) in January 2014 to enable capital-raising and investment for new and existing projects with environmental benefits. The GBP seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment. GBP-aligned issuance should provide transparent green credentials alongside an investment opportunity. By recommending that issuers report on the use of Green Bond proceeds, the GBP promote a step change in transparency that facilitates the tracking of funds to environmental projects, while simultaneously aiming to improve insight into their estimated impact. The GBP, updated as of June 2025, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, arrangers, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP emphasize the required transparency, accuracy and integrity of the information that will be disclosed and reported by issuers to stakeholders through core components and key recommendations.
9. For example, a PUE of 1.5 means that for every 1.0 unit of electricity consumed by servers and equipment, 1.5 is used for lighting, HVAC, and other energy needs. The closer a data center's PUE is to 1.0, the more energy efficient it is. For context, a data center REIT that Breckinridge covers produced a PUE of 1.37 in 2025, a 5.3% improvement from 2024. It has a goal of achieving 1.33 by 2030.

Municipal Sustainable Debt Remains an Established Market

U.S. municipal bonds represent a relatively mature segment of sustainable fixed income, providing financing across housing, utilities, transportation and other public-purpose infrastructure. U.S. municipal GSS issuance moderated after reaching a record $60 billion in 2024, declining 16 percent to $51 billion in 2025.[10] Approximately $24 billion was issued through June 2026.[11] Labeled bonds represented 9 percent of overall municipal issuance since 2020.

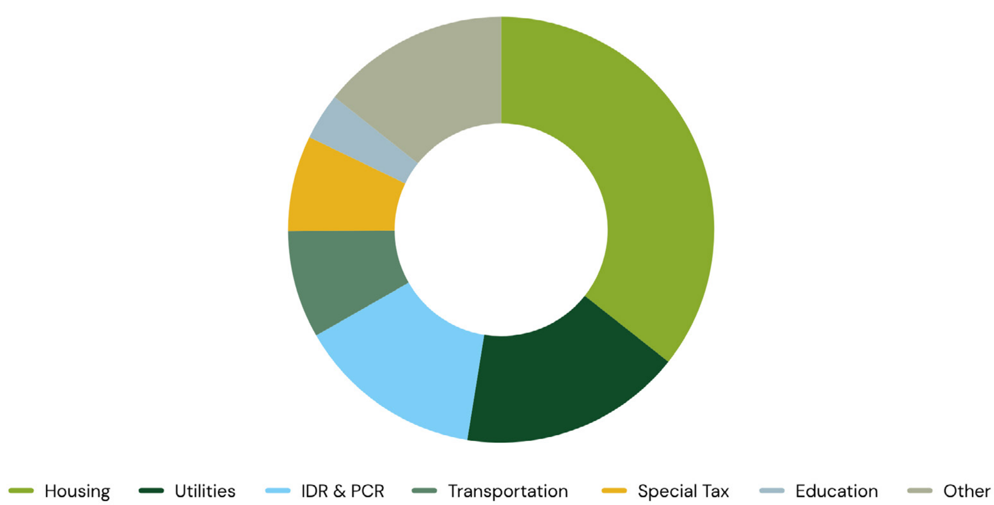
Municipal sustainable debt also provides exposure to sectors with direct environmental and social uses. Housing accounted for 36 percent of GSS issuance over the last 5 years, followed by Industrial Development/Pollution-Control Revenue bonds and Utilities (See Figures 4 and 5). Issuance is geographically concentrated, with California, New York, and Massachusetts representing 62 percent of the market.[12]

FIGURE 4: MUNICIPAL SUSTAINABLE BOND SUPPLY



Source: Barclays Sustainable Investing, ESG Bond Issuance, 23 July 2026, p. 15, Bloomberg.

FIGURE 5: SUSTAINABLE MUNICIPAL BOND ISSUANCE BY SECTOR SINCE 2020



Source: Barclays Sustainable Investing, ESG Bond Issuance, 23 July 2026, p. 15, Bloomberg.

10. S&P Global Ratings, Moody's Investors Service, Inc., and Securities Industry and Financial Markets Association (SIFMA) data, as of August 15, 2026.
11. RBC Capital Markets, *U.S. Municipal Sustainable Debt Market Update*, April 2026, Bloomberg New Energy Finance (NEF) data, as of March 31, 2026. Data excludes Fannie Mae, Freddie Mac and Ginnie Mae.
12. Ibid.

Sustainable Bond Investment Implications in 2026

The sustainable bond market is changing. While USD corporate issuance is down, supranationals provide scale, municipals offer an established source of public-purpose and infrastructure financing, and data centers and securitized assets are creating newer sources of green supply. In the end, we believe disciplined credit analysis and independent assessment of sustainability characteristics including use of proceeds remain essential. Breckinridge will continue monitoring and analyzing sustainable debt markets, adapting to evolving issuance trends and impact considerations.

The content is intended for investment professionals and institutional investors.