

The Short View



The Short View is our new publication offering insights on key macro and market stories, designed to promote discussion and debate.

ESG finance: are SLBs facing a final reckoning?

11 December 2025

Sustainability-linked bonds (SLBs) are an intriguing area of the ESG market. Their promise to support companies' environmental ambitions faces a reckoning that will say much about the state of transition finance in 2026.

1. Initial promise gives way to scepticism

SLBs burst onto the corporate debt market in 2021, promising a new approach to ESG debt financing and creating new opportunities for issuers and investors. However, greenwashing fears have since led to doubts and a retrenchment.

2. Product design entails conflicts

As they are conceived, SLBs should provide an incentive for companies to steadily decarbonise and align their practices with the goals of the Paris Agreement. But the penalties for failure create a dilemma for ESG investors.

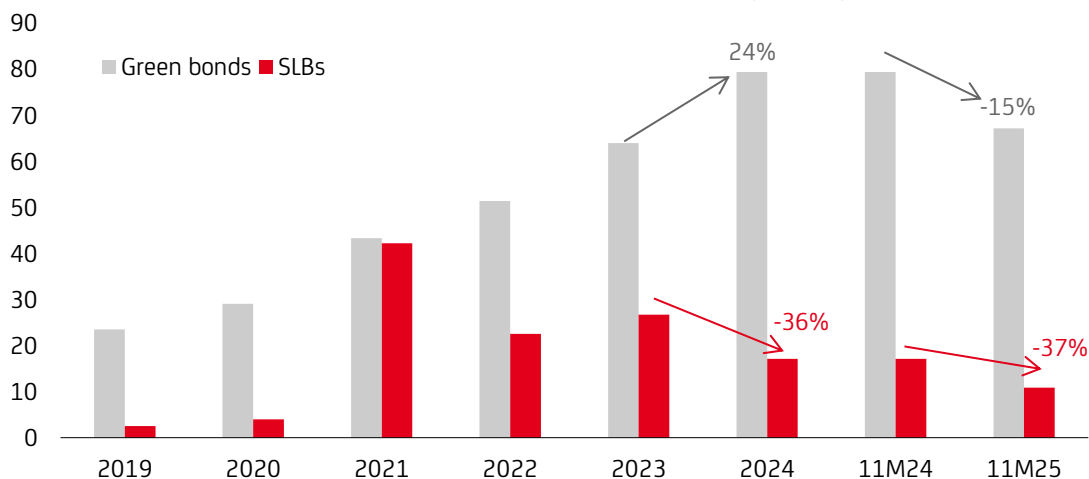
3. A major test (and an opportunity) is coming in 2026

In 2026, a record number of SLBs will be tested for compliance with their targets. This will be revealing for the future of the product and of transition finance in general, but it will also create short-term opportunities for astute buyers.

The rise and fall of sustainability-linked bonds

SLBs are a relatively new category of ESG debt that was launched with an Enel bond in 2019. In contrast to the more typical use-of-proceeds ESG bonds (i.e. green, social and sustainability bonds), the proceeds from SLBs can be used as the issuer wants, rather than being tied to specific investment targets, so long as the issuer commits to reaching certain key performance indicators (KPIs) in the coming years. If the SLB issuer fails to meet these targets, it must pay investors penalties, typically in the form of a coupon step-up on the bond. The product exploded onto the corporate debt market in 2021 following the publication of ICMA's [Sustainability-linked Bond Principles](#), which gave a disclosure framework for the instruments and an official stamp of approval from a major financial association. In 2021, USD 96bn of SLBs were issued, slightly more than half of which were denominated in EUR. At this high-water mark, SLBs accounted for 45% of the EUR-denominated ESG corporate bond market, which nearly equalled the issuance volume of green bonds.

ISSUANCE OF SLBs HAS LAGGED THAT OF GREEN BONDS SINCE 2021 (EUR BN)



Source: Bloomberg, The Investment Institute by UniCredit

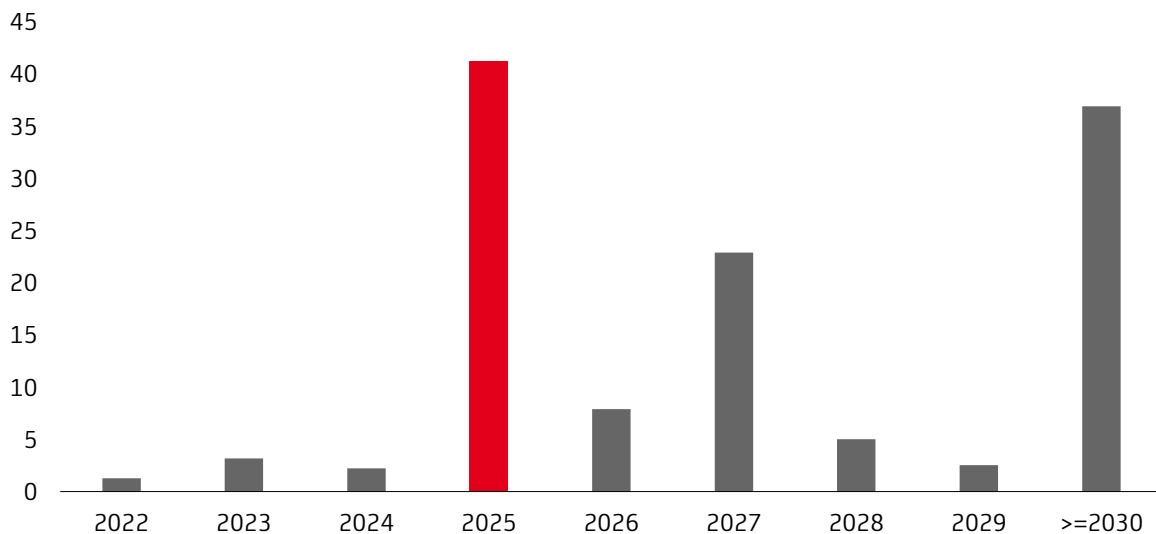
However, starting in 2022, investors and the financial media increasingly began to express reservations about these initial deals as allegations of greenwashing circulated. Often the KPI targets were seen as too easy to meet and suspicions grew that the product was not driving the change in corporate behaviour that ESG investors were seeking. As these doubts increased, some investors declined to buy new SLBs, leading to a 47% drop in EUR issuance in 2022. Despite a modest recovery in 2023, the contraction continued in 2024 and 2025. It is also telling that this decline in issuance has taken place against the backdrop of sustained growth in green bond issuance through 2024 (in 11M25, the issuance volume of EUR-denominated green bonds was down 15% against a tough yoy comparable base). In 11M25, SLBs accounted for only 13% of the EUR-denominated ESG corporate market, compared to 82% for green bonds.

Are SLBs fatally flawed?

The unique product construction of SLBs in focusing on gradual, multi-year corporate transformations rather than on more immediate, targeted investment projects has made SLBs a key instrument of transition finance. The industry background of issuers is much more diverse than for green bonds, where around half of issuers are utilities (vs. closer to 30% for SLBs). Many SLB issuers come from higher-polluting and hard-to-abate sectors (e.g. oil, electrical equipment manufacturing, transportation), where decarbonisation requires gradual transformations as climate technology develops. SLB issuers can therefore pursue a progressive sustainability agenda over time, with the goal

of ultimately meeting the goals of the Paris Agreement before 2050. Despite the early negative publicity, the effectiveness of SLBs in steering companies toward Paris-aligned transitions has not been tested in any robust way. Although Enel, which remains the largest SLB issuer globally, recently ended its SLB program, it credited SLBs with helping it to raise its renewable capacity generation to 73% in 2024 from 41% in 2015, putting it on track to meet its net-zero emissions goal by 2040. Financial reporting in 2026 on the 2025 business year will mark a crucial test for the product, as a much higher volume of bonds' KPIs will be tested than ever before. Much depends on the outcome of these tests. If investors believe that SLBs are helping to achieve sustainable corporate transformations, these reports could give the asset class new impetus, if not, they could add to persistent doubts about the product and steer it further towards obsolescence.

VOLUME OF BONDS WITH UPCOMING KPI TRIGGER DATES (EUR BN)



Source: Bloomberg, The Investment Institute by UniCredit

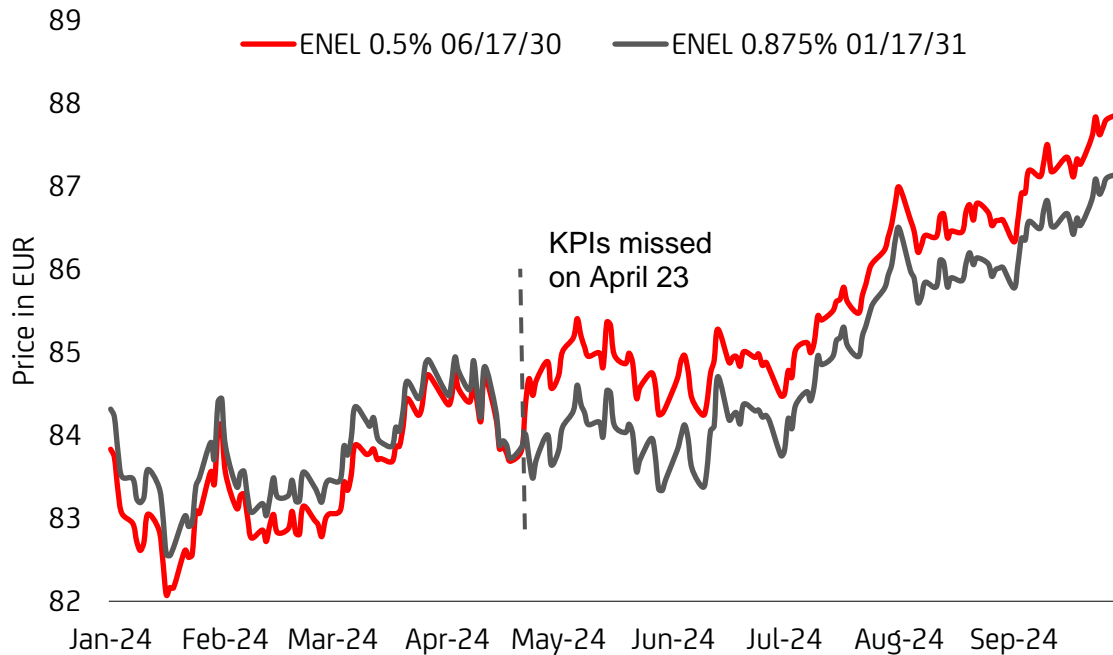
We believe that a potentially fatal flaw with SLBs involves their product construction and the related incentives for investors. SLBs have largely been marketed to the ESG investor base as a product that can expand their portfolios away from the more clustered industry profiles of green bonds by adding companies from higher GHG-emitting industries that have ambitious sustainability objectives. However, from the perspective of an ESG investor, it is problematic that extra compensation comes from a company's failure to achieve its sustainability agenda. If companies do not meet their targets, an investor can be caught holding bonds that are viewed as inadequate in terms of their sustainability profile. SLBs retain their ESG label if the company fails to meet its KPIs. On the other hand, if nearly all companies meet their targets, then accusations of greenwashing would be impossible to avoid.

Transition finance goes on trial in 2026

The coupon step-ups that are typically part of SLB profiles do have real economic value in the event that a company misses its KPIs. Perhaps because SLBs are a relatively young debt product with relatively low outstanding volumes, there is no sign of investors assigning an option value to potential coupon step-ups (which would make the bonds more expensive than their standard peers). In fact, SLBs have tended to trade at wider spreads than comparable standard bonds. Since a significant share of the large amount of bonds with upcoming KPI triggers will probably miss their KPIs, we see an interesting opportunity for investors to overweight these bonds. Despite early criticisms of KPI targets being too easy to reach, a number of companies have already failed to achieve them, resulting in additional remuneration being paid to investors. This feature should be attractive at a time when credit spreads have reached especially tight levels. The chart below shows the performance of an Enel SLB that missed its KPIs (in red) relative to

an unaffected SLB (in black). The SLB that missed its KPIs immediately experienced a price increase to factor in the coupon step-ups. This price advantage persisted in the following months. Similar opportunities to take advantage of missed KPIs should increase in 2026, as it does not appear that investors are pricing the value of potential coupon step-ups considering the non-existent (or even negative) pricing advantage of SLBs relative to standard bond peers.

ENEL BOND ON WHICH KPIS WERE TRIGGERED OUTPERFORMED ITS PEER



Source: Bloomberg, The Investment Institute by UniCredit

As a wave of KPIs is tested in the coming months, the future of SLBs as an ESG product category should become clearer. If their reputation does not recover during this process, then one leg of transition finance is likely to collapse. So far, standard penalties for failing to meet KPIs remain at around 1% of total bond face value. Some growth in penalties might show greater urgency from issuers. In addition, evidence that KPIs are guided by higher quality data that encourage meaningful changes in corporate behaviour would also raise confidence in the product. It is unclear what could take the place of SLBs at this point (sustainability-linked loans appear to face similar doubts). Nevertheless, finding a set of tools to separate companies in polluting industries that have ambitious decarbonisation initiatives from those that do not is an important aspect of sustainable finance. Simply eliminating heavily emitting industries from portfolios leads to more volatile outcomes as unbalanced portfolio construction is bound to result in skewed performance relative to benchmarks over time. If market-based solutions, such as SLBs, prove that they are not fit for purpose, then market participants, regulators and rating agencies will need to work together to improve corporate disclosure in a way that allows ESG investors to better gauge environmental ambition and that provides corporations with incentives to improve their sustainability profiles over the long term in the way that the SLB format has attempted to do.

Author

Jonathan Schroer CFA, Credit Strategist - ESG (UniCredit, Munich), jonathan.schroer@unicredit.eu

Editors

Edoardo Campanella, Director and Chief Editor of The Investment Institute, edoardo.campanella@unicredit.eu
Francesco Maria Di Bella, FI Strategist (UniCredit, Milan), francescomaria.dibella@unicredit.eu

UniCredit S.p.A

The Investment Institute by UniCredit, Piazza Gae Aulenti, 4, I-20154 Milan
www.the-investment-institute.unicredit.eu

Legal Notices

Glossary

Terms used in the report are available on our website: <https://www.the-investment-institute.unicredit.eu/en/glossary>.

Marketing Communication

This publication/video constitutes a marketing communication of UniCredit S.p.A., UniCredit Bank Austria AG, Schoellerbank AG and UniCredit Bank GmbH (hereinafter jointly referred to as the “UniCredit Group”) is addressed to the general public and is provided free of charge for information only. It does not constitute investment recommendation or consultancy activity by the UniCredit Group or, even less, an offer to the public of any kind nor an invitation to buy or sell securities. The information contained herein does not constitute an investment research or financial analysis since, in addition to the lack of content, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

UniCredit Group, including all its group companies may have a specific interest in relation to the issuers, financial instruments or transactions detailed herein. Relevant disclosures of interests and positions held by UniCredit Group are available at: <https://www.the-investment-institute.unicredit.eu/en/conflictsofinterest-positiondisclosures>. Any estimates and/or assessments contained in this publication represent the independent opinion of the UniCredit Group and, like all the information contained therein, are given in good faith on the basis of the data available at the date of publication, taken from reliable sources, but having a purely indicative value and subject to change at any time after publication, on the completeness, correctness and truthfulness of which the UniCredit Group makes no guarantees and assumes no responsibility. Interested parties must therefore carry out their own investment assessments in a completely autonomous and independent manner, relying exclusively on their own considerations of the market conditions and the information available overall, also in line with their risk profile and economic situation. Investment involves risk. Before any transaction in financial instruments please refer to the relevant offering documents. It should also be noted that:

1. Information relating to the past performance of a financial instrument, index or investment service is not indicative of future results.
2. If the investment is denominated in a currency other than the investor’s currency, the value of the investment can fluctuate strongly according to changes in exchange rates and have an undesirable effect on the profitability of the investment.
3. Investments that offer high returns can undergo significant price fluctuations following any downgrading of creditworthiness. In the event of bankruptcy of the issuer, the investor may lose the entire capital.
4. High volatility investments can be subject to sudden and significant decreases in value, being able to generate significant losses at the time of sale up to the entire capital invested.
5. In the presence of extraordinary events, it may be difficult for the investor to sell or liquidate certain investments or obtain reliable information on their value.
6. If the information refers to a specific tax treatment, it should be noted that the tax treatment depends on the individual situation of the customer and may be subject to change in the future.
7. If the information refers to future results, it should be noted that they do not constitute a reliable indicator of these results.
8. Diversification does not guarantee a profit or protect against a loss.

The UniCredit Group cannot in any way be held responsible for facts and/or damages that may arise to anyone from the use of this document, including, but not limited to, damages due to losses, lost earnings or unrealised savings. The contents of the publication – including data, news, information, images, graphics, drawings, brands, and domain names – are owned by the UniCredit Group unless otherwise indicated, covered by copyright and by the industrial property law. No license or right of use is granted and therefore it is not allowed to reproduce its contents, in whole or in part, on any medium, copy them, publish them and use them for commercial purposes without prior written authorisation from UniCredit Group unless if purposes of personal use only.