

# Sustainable Finance: Integrating ESG in Global Financial Markets

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# Outline

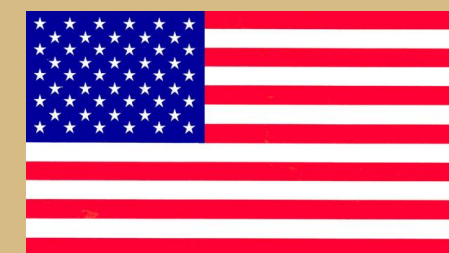
- 1** Introduction
- 2** Objectives and Methodology
- 3** ESG in Financial Markets
- 4** ESG and Risk Management
- 5** Conclusions

# Introduction

*What if investments could generate not only financial returns but also help build a more sustainable future?*



**Focus:**



# Objectives and Methodology



- Analyze **how ESG is being integrated** into global financial markets
- Evaluate **whether ESG is a trend or a structural shift**
- Understand ESG's impact on **risk management and valuation models**



- **Literature review:** academic papers, industry reports, regulatory frameworks
- **Quantitative analysis:** Bloomberg, Climate Bonds Initiative and more
- **Case studies:** ESG implementation and risk management



# ESG in Financial Markets

1

**DEBT MARKETS**

2

**EQUITY MARKETS**

3

**ALTERNATIVE  
INVESTMENTS**

4

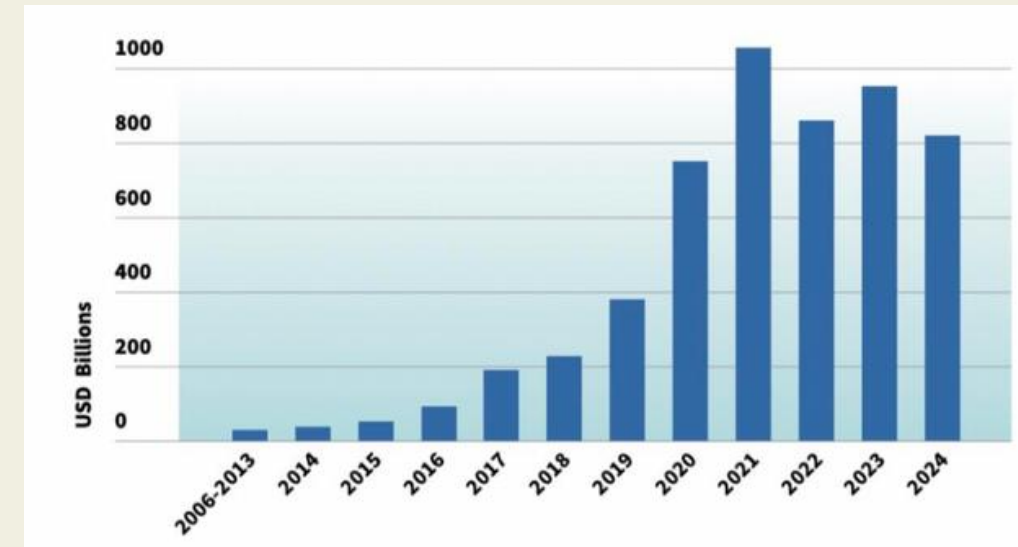
**ESG LENDING**

ESG now spans across all major financial markets

# 1 Debt Markets

- Cumulative Green, Social and Sustainability (GSS) bond issuance reached \$5.4 trillion by 2024.
- 1. Green bonds (62% total cumulative), 2. Social (19%) and sustainability bonds.
- Issued in over 40 currencies — but EUR (44%) and USD (19%).

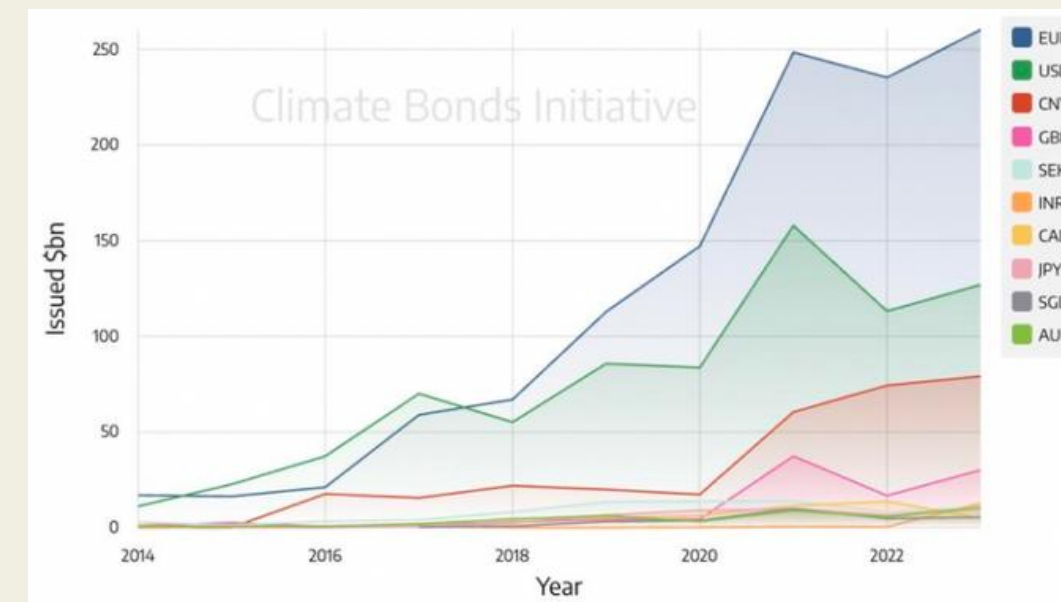
- **Key issuers:** sovereigns, supranationals, and corporates.
- **Key investors:** institutional investors (pension funds, insurance companies, sovereign wealth funds...)



GSS Issuance Volumes, 2006-2024  
Source: Climate Bonds Initiative, 2024.

**\$5.4T**

GSS bond  
issuance



GSS Bond Issuance by Currency, 2014-2023  
Source: Climate Bonds Initiative, 2024.

**40% EUR**  
**19% USD**

Issuance by  
currency

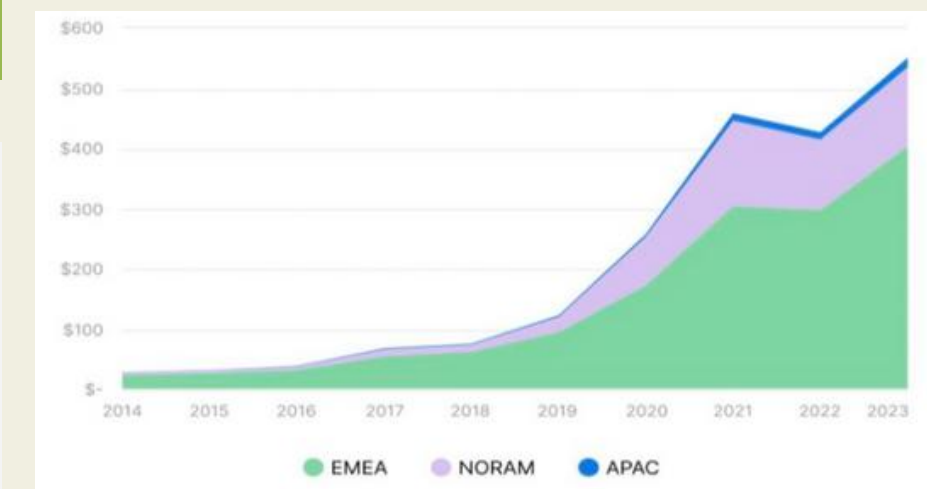
## 2 Equity Markets

### INSTITUTIONAL INVESTORS

- Broader access and engage more actively: direct ESG analysis and engagement
  - **Positive screening:** select top ESG performers
  - **Negative screening:** exclude controversial sectors (e.g. tobacco, fossil fuels, weapons...)
  - **Thematic investment:** focusing on themes/sectors/projects (e.g. clean energy firms)
- Marketing efforts

### RETAIL INVESTORS

- Access through packaged products: ESG mutual funds, index funds, exchange traded funds (ETFs)



Total ESG ETFs AUM (\$bn), 2014-2023  
Source: Trackinsight, Funds Society, 2024.

# 3 Alternative Investments

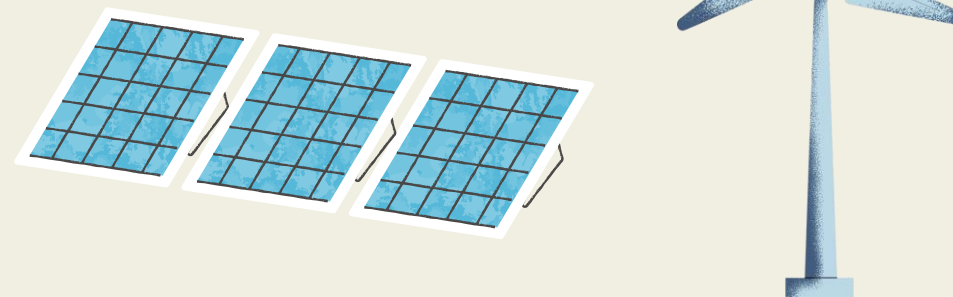
## Real Estate

LEED-certified projects have increased x20 in a decade



## Renewable Energy

Leading sectors in energy finance (1. Solar, 2. Wind)



## Green Bonds

## Public-Private Partnerships (PPPs)

## Power Purchase Agreements (PPAs)





## 4 ESG Lending: Private Financing



€220 b / 2030



€700 b / 2029



€100 b / 2027



€65 b / 2025

### ESG Lending Target / Year

### Why?

- Strategic risk management
- Reputational concerns
- Client demand
- Regulation

# ESG and Risk Management



## RISKS:

- 🌍 Climate Risk (e.g. natural disasters)
- 👥 Social Risk (e.g. fair pay, safe working conditions)
- 🏢 Governance failures (e.g. fraud, data breaches)

## INTEGRATION:

- Discounted Cash Flow (DCF) models
- WACC calculations
- Bond spread analysis
- Tools: scenario analysis, stress testing

## BANKS AND

## DOUBLE MATERIALITY:

- How their activities impact environmental and social issues
- And how ESG risks affect their own financial stability

# Key Findings

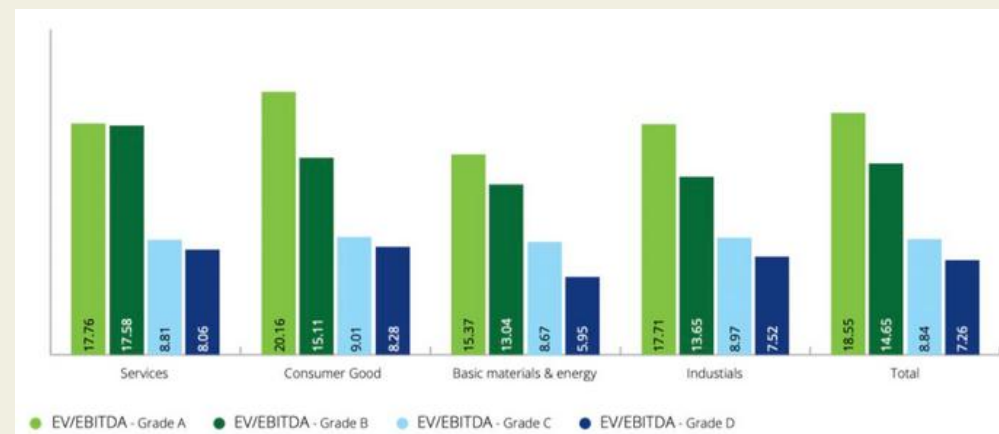
1

## BETTER ESG PERFORMANCE = FINANCIAL STABILITY

- Lower volatility, better credit ratings

2

## FIRMS WITH HIGHER ESG RATINGS TRADE AT PREMIUMS



EV/EBITDA  
Multiples by ESG  
Rating and Sector

Source: Deloitte,  
2024.

3

## INVESTORS ACCEPT LOWER YIELDS ON GREEN BONDS

- Lower financing costs → “greenium” effect

4

## ESG PRODUCTS DON'T COMPROMISE RETURNS

- Minimal return difference between ESG ETFs and non ESG ETFs



# Conclusions

1

## ESG IS HERE TO STAY

- But the momentum is cyclical (e.g. U.S.A. ; EU's regulatory simplification)

2

## EMBEDDED ACROSS MARKETS

- Present in all asset classes & new ESG ecosystem (rating agencies, consultants...)
- Different access for retails and institutional investors

3

## INFLUENCING FACTORS

- Regulation and reputational pressure; financial risk analysis

4

## KEY CHALLENGES

- Greenwashing; poor data quality & lack of comparability; diverging global standards

5

## LOOKING FORWARD

- AI and real-time ESG data

# Thank you.

Maite Macías Cazorla

Defensa

Trabajo Fin de Grado

Relaciones Internacionales

