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Asset Management

Energy security as the driver for Europe's green transition

It may be an unintended consequence of geopolitical tensions, but energy supply disruption may end up accelerating Europe's transition toward a more self-sufficient energy system, while sharpening the investment case for green bonds.

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Recent energy shocks have exposed a persistent limitation in Europe's economic model. Despite steady progress on decarbonisation, the region still imports more than half of its energy[1], leaving it exposed when supply is disrupted. The effects feed quickly through the economy, raising costs, slowing growth and placing pressure on public finances. Episodes of geopolitical tension, whether linked to Russia, the Middle East or global trade, tend to bring that weakness to the fore.

The framing of the energy transition is also shifting. Climate policy remains important, but energy security and economic resilience have become central to the investment case. For investors, this changes the lens through which capital is allocated and underlines the long-term case for green bonds as a core component within fixed income portfolios.

Europe's energy vulnerability

When energy prices rise sharply, the economic impact is usually swift. During the 2022 energy crisis, wholesale gas prices in Europe rose to more than ten times their long-term average at the peak[2], feeding through into inflation, eroding industrial competitiveness and weighing on growth. Governments responded with large-scale support measures, adding further pressure to already stretched public finances. The broader lesson is becoming harder to ignore. Reducing emissions remains a priority, but it no longer captures the full picture. Energy independence is just as important as energy transition and is already shaping policy decisions and investment flows.

The narrative shift: from climate ambition to energy security

For years, renewable investment has been framed through the lens of climate policy. That framing is still relevant, but the need for energy security has become more urgent. Projects that might previously have faced slower permitting or fragmented policy support are therefore moving more quickly through approval processes. Fiscal backing is becoming more consistent, and private capital is being drawn in at greater scale. Energy diversification is therefore taking on a different role, no longer seen purely as an environmental objective, but as part of the economic infrastructure necessary to support stability and growth.

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[1] https://www.bbc.co.uk/news/articles/c4g8k8vq8gno

[2] https://cepr.org/voxeu/columns/silver-lining-european-energy-crisis-energy-efficiency-productivity-and-potential

The new investment case for green bonds

The scale of investment required to support this shift is considerable. Recent estimates suggest Europe may need to invest more than EUR 600 billion a year in energy infrastructure through to 2030 to meet its climate and security objectives[3].

Expanding renewable generation is only one part of the picture. Transmission networks need to be upgraded, storage capacity has to increase, and new forms of low-carbon baseload supply are being developed alongside improvements in efficiency and electrification. Green bonds have become a natural financing tool. They provide a way for governments, supranationals and corporates to fund large infrastructure programmes while offering investors clear visibility over how capital is deployed. That transparency, combined with the long-term nature of the underlying assets, is broadening their role within fixed income markets.

The asset allocation shift

Over the past decade, the green bond market has expanded quickly, with annual issuance rising from under USD 50 billion in 2015 to more than USD 650 billion in 2025[4]. The next phase of growth is likely to be shaped by a different set of drivers. Climate ambition remains part of the story, but energy security and economic resilience are set to become increasingly influential in determining how capital is allocated.

This shift is supported by a combination of factors that are beginning to align more cohesively. Policy frameworks are evolving in a way that brings energy security and decarbonisation closer together, creating more consistent support for investment. At the same time, the scale of capital required is increasing, as governments and companies respond to the need for more diversified and resilient energy systems. Institutional investors are also playing a larger role by demanding more long-duration, asset-backed opportunities within fixed income portfolios.

For investors, this is already feeding through into portfolio construction. Issuance is expanding across a broader range of sectors and issuers, and the market is becoming more integrated into core fixed income allocations. As depth and liquidity improve, green bonds are increasingly being assessed alongside conventional credit, tied more directly to the financing of essential infrastructure rather than as a separate category.

Summary

Geopolitical tensions often produce unintended consequences. In this case, the renewed focus on energy security could help accelerate Europe's shift toward a more resilient and diversified energy system. For fixed income investors, this changes how the green bond market is understood. What began as a climate-led initiative has become deeply intertwined with the financing of essential infrastructure, supported by a clearer alignment between political imperatives, economic priorities, and the need for energy self-sufficiency. In every sense, green bonds now have a far greater role to play within long-term investment strategies.

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[3] https://energy.ec.europa.eu/news/commission-launches-strategy-accelerate-clean-energy-investment-2026-03-10_en
[4] https://www.climatebonds.net/news-events/press-room/press-releases/sustainable-debt-market-nears-usd7-trillion-aligned-issuance-demonstrating-strong-global-momentum

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