

# Credit Market Overview

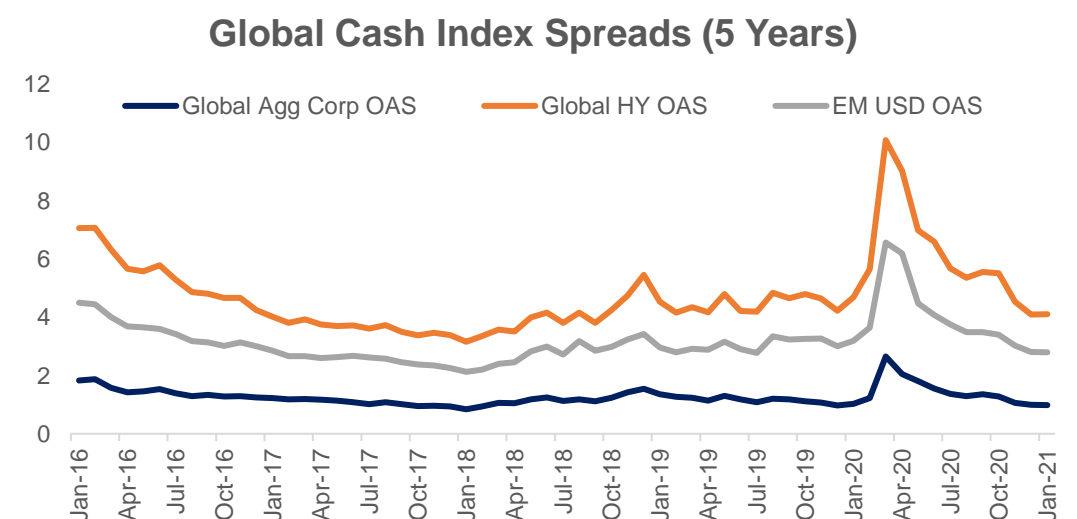
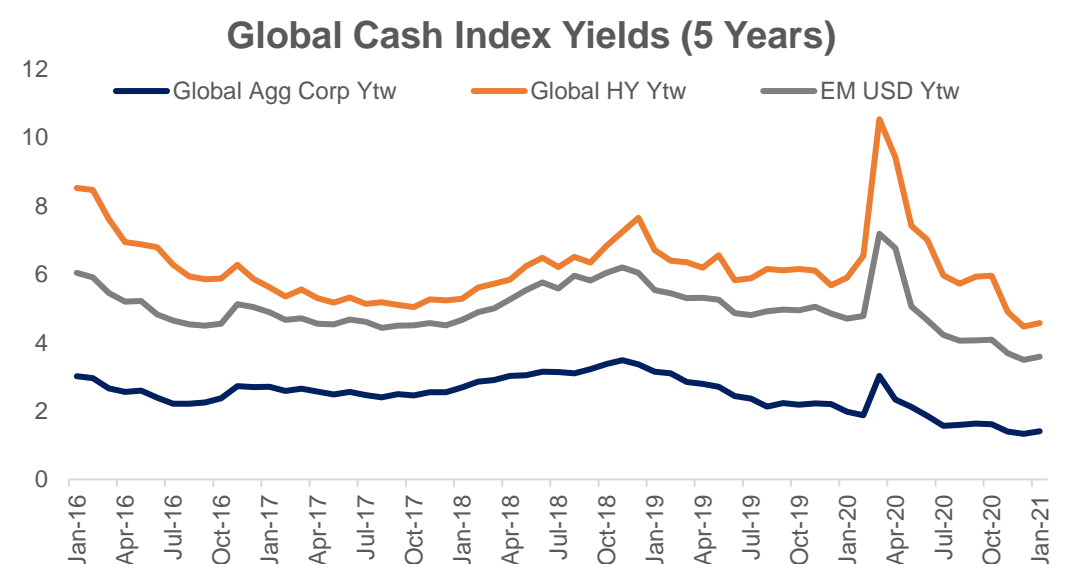


As at 31 January 2021

Measure	Level	1 Month	3 Month	6 Month	12 Month
<b>Cash Spread/Yield Changes</b>					
Global IG Corp YTW (%)	1.4	.06	(.19)	(1.9)	(.61)
Global IG Spread (bps)	99	(1)	(29)	(37)	(20)
Global HY YTW (%)	4.6	.10	(1.36)	(1.42)	(1.23)
Global HY Spread (bps)	411	2	(141)	(156)	(41)
<b>CDS Index Spread Changes</b>					
CDX IG	56	5	(8)	(12)	6
CDX HY	318	24	(101)	(116)	11
CDX EM	173	21	(47)	(18)	(23)
iTraxx Main	52	4	(11)	(7)	6
iTraxx Xover	269	25	(87)	(91)	40
Sen Fin CDS	63	4	(20)	(8)	9
Sub Fin CDS	118	6	(40)	(30)	4
<b>Cash Index Performance (%)</b>					
Global IG Corp Index		(0.79)	1.85	1.16	5.23
Global HY Index		(0.03)	6.58	6.72	5.32
Global EM USD Index		(0.85)	3.74	2.86	4.01
<b>Higher Beta Sub Sector Performance (%)</b>					
Banks AT1		0.67	4.58	8.68	(0.36)
Energy HY		1.43	15.16	11.50	2.84
EUR Corp Hybrids		(0.21)	4.20	4.85	2.23
Leveraged Loans		0.98	4.80	5.78	3.62
<b>IG Sub Sectors Performance (%)</b>					
Banks Sen		(0.06)	1.11	1.99	2.41
Energy IG		(1.19)	4.96	2.31	1.08
Auto		(0.01)	2.70	3.66	5.91
Utility		(1.47)	1.65	(2.06)	6.53
Comms		(2.07)	1.47	(1.41)	6.60
Airline		1.45	7.12	10.64	(2.28)
Retail		(1.59)	0.89	(0.99)	6.88
<b>Currency (Hedged) Performance (%)</b>					
Global IG Corp USD		(0.84)	2.72	1.53	6.34
Global IG Corp EUR		(0.12)	1.08	2.36	1.47
Global IG Corp GBP		(0.63)	2.33	1.78	4.50
<b>Maturity Bucket Performance (%)</b>					
Short (1-3 Yr)		0.04	0.46	0.74	3.15
Intermediate (5-10 Yr)		(0.73)	0.57	(0.38)	6.35
<b>Global IG Corp Index Attribution (%)</b>					
Carry		0.11	0.41	0.79	1.98
Duration		(0.98)	(0.69)	(2.47)	2.97
Spread		0.07	2.14	2.85	0.28
<b>Performance</b>		<b>(0.79)</b>	<b>1.85</b>	<b>1.16</b>	<b>5.23</b>

## Main moves over the month:

- USD Libor fell to record low in January. The three-month LIBOR rate for USD was set at 0.20188% on 29 January, below the previous low of 0.20488% reached on Nov. 20.
- Longer duration USD fixed income underperformed due to a rise in long dated US Treasury yields.
- In credit indices, European sub financials outperformed Xover, US HY, and EM over the month.
- IG and EM bonds underperformed HY due to the shorter aggregate duration in the HY index. The aggregate US HY bond yield rose 13bps in the month to 4.6% after hitting a record low of 4.10%.
- The CCC sector was the best performer within US HY and posted its 10th straight month of positive returns.\*
- Within higher beta credit, leveraged loans outperformed broad HY, EM and financials. Flows data seems to suggest some switching out of HY funds into leveraged loans.



Source: Bloomberg as at 31/01/2021 \*Source: Bloomberg



## Issuance / Corporate Actions

### IG issuance – Blockbuster deal from 7-Eleven

- 7-Eleven Inc (the convenience store retailer) raised a \$10.95 bn eight-part transaction in the US IG market. The proceeds are said to be used to finance the company's acquisition of U.S. convenience store and gas station chain Speedway LLC. It's longest tranche (2051 maturity) priced at T+105bps to yield 2.819%.

### US High Yield issuance broke January Record

- January US HY issuance came in at just over \$50 bn, making it the highest for any January on record, according to data compiled by Bloomberg. Average January HY issuance has been c. \$20bn over the past 4 years.

### ESG issuance sees some interesting first-time issuers

- A range of issuers came to market including Tesco, Chile and EDP.
- It was Tesco's first sustainability bond which was a €750m issue with an 8.5-year maturity and 0.375% coupon. Chile issued \$4.25bn in Euro and USD markets this month with its 30-year euro bond the largest ever social sovereign bond from the LATAM region. EDP issued a green corporate hybrid with a 1.95% coupon callable in 5.5 years.

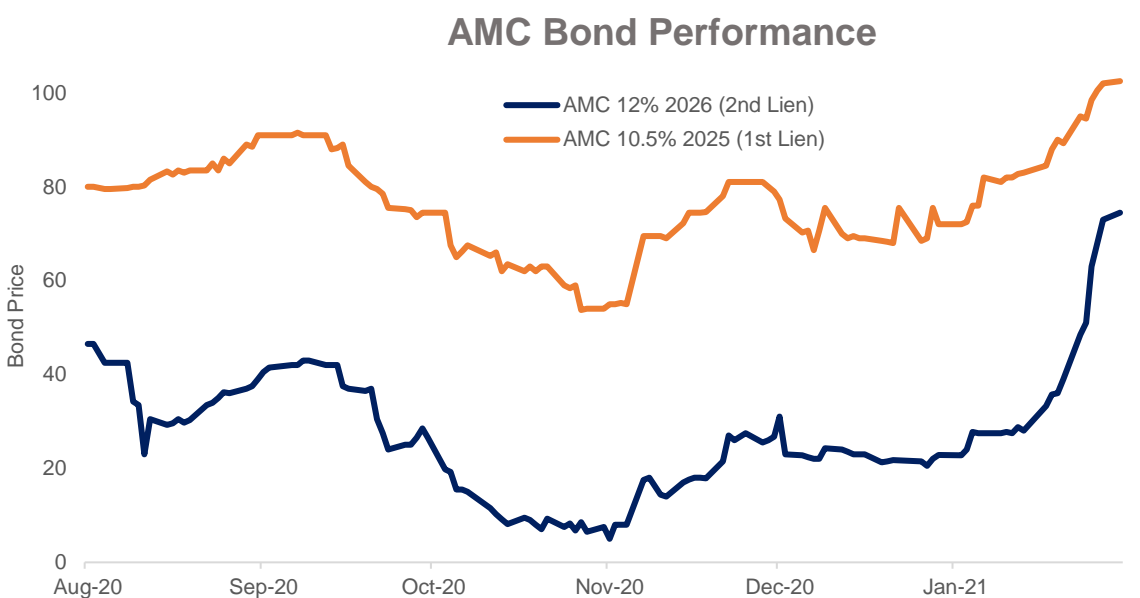
### Sub Financials – Legacy issuers continue to redeem legacy debt

- Companies that issued call notices in the month for subordinated paper included Allianz, BBVA, BNP Paribas and Svenska Handelsbanken.
- Svenska were the first AT1 issuer in 2021 to issue a call notice whereas BBVA and BNP are retiring legacy Tier 1 Bank Capital. This has been a common theme since EU and UK regulators guided towards redeeming legacy style debt in favour of issuing newer, compliant bank capital.

- Citigroup note that bank bond issuance is down nearly 40% compared to the same point last year and is around 30% below the 4-year average supply. This sits in stark contrast to the large volumes in the US HY market, although it is still the first month of the year and things could change.

### “Hot-stocks” also see moves in credit

- There was some less pronounced but notable action in some of the companies caught up in the battle between 'Redditors' and Hedge Funds in the last week of January.
- Bonds from cinema chain AMC rallied very strongly as the company raised equity and one of its convertible notes got converted into stock. There were equity type moves in the companies' bonds.



Source Bloomberg

- There were big moves in other companies with high levels of short interest such as American Airlines, Transocean and Bed, Bath and Beyond.

Measure	Index Description
Global IG Corp YTW (%)	Bloomberg Barclays Global Agg Corporate YTW
Global IG Spread (bps)	Bloomberg Barclays Global Agg Corporate OAS
Global HY YTW (%)	Bloomberg Barclays Global High Yield Corporate YTW
Global HY Spread (bps)	Bloomberg Barclays Global High Yield Corporate OAS
CDX IG	MARKIT CDX.NA.IG.35 12/25
CDX HY	MARKIT CDX.NA.HY.35 12/25
CDX EM	MARKIT CDX.EM.34 12/25
iTraxx Main	MARKIT ITRX EUROPE 12/25
iTraxx Xover	MARKIT ITRX EUR XOVER 12/25*
Sen Fin CDS	MARKIT ITRX EUR SNR FIN 12/25
Sub Fin CDS	MARKIT ITRX EUR SUB FIN 12/25
Global IG Corp Index	Bloomberg Barclays Global Agg Corporate Index
Global HY Index	Bloomberg Barclays Global High Yield Corporate Index
Global EM USD Index	Bloomberg Barclays EM USD Aggregate Index
Banks AT1	Bloomberg Barclays European Banks Coco Tier 1 TR Index
Energy HY	Bloomberg Barclays High Yield Energy TR Index
EUR Corp Hybrids	Bloomberg Barclays Corp Ex Financial Hybrid Capital Securities 8% Capped
Leveraged Loans	S&P/LSTA US Leveraged Loan 100 Index
Banks Sen	Bloomberg Barclays Banking Senior TR Index
Energy IG	Bloomberg Barclays IG Energy TR Index
Auto	Bloomberg Barclays IG Auto TR Index
Utility	Bloomberg Barclays IG Utility TR Index
Comms	Bloomberg Barclays IG Communications TR Index
Airline	Bloomberg Barclays IG Airline TR Index
Retail	Bloomberg Barclays IG Retail TR Index
Global IG Corp USD	Bloomberg Barclays Global Corporate USD TR Index
Global IG Corp EUR	Bloomberg Barclays Global Corporate EUR TR Index
Global IG Corp GBP	Bloomberg Barclays Global Corporate GBP TR Index
Short (1-3 Yr)	Bloomberg Barclays US 1-3 Year Credit Index
Intermediate (5-10 Yr)	Bloomberg Barclays US 5-10 Year Credit Index

\*Source: Bloomberg

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