

Credit Market Overview



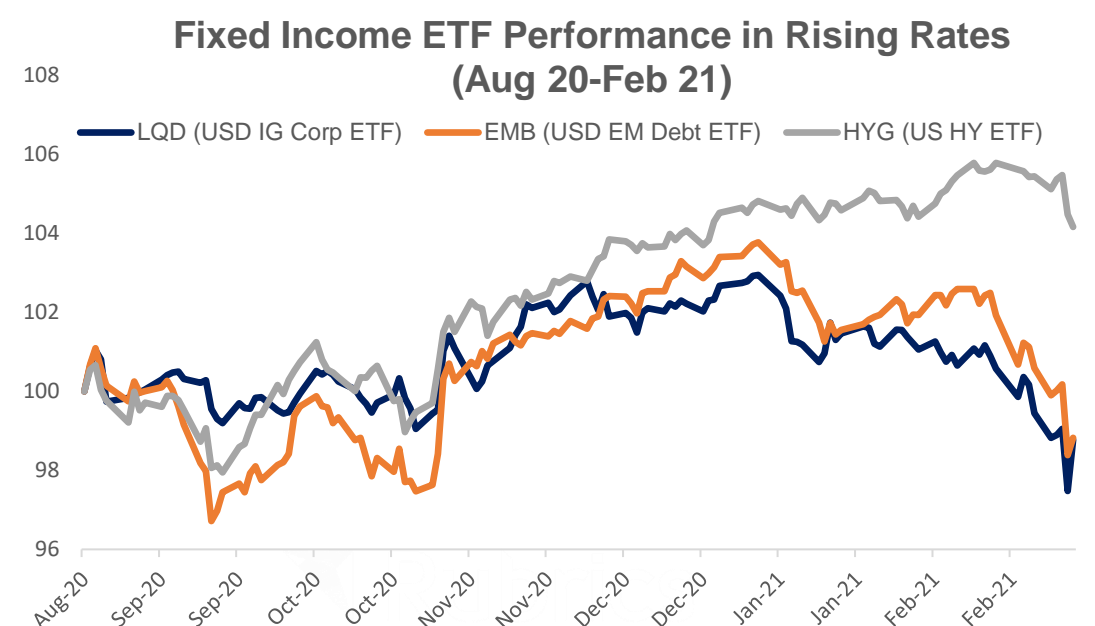
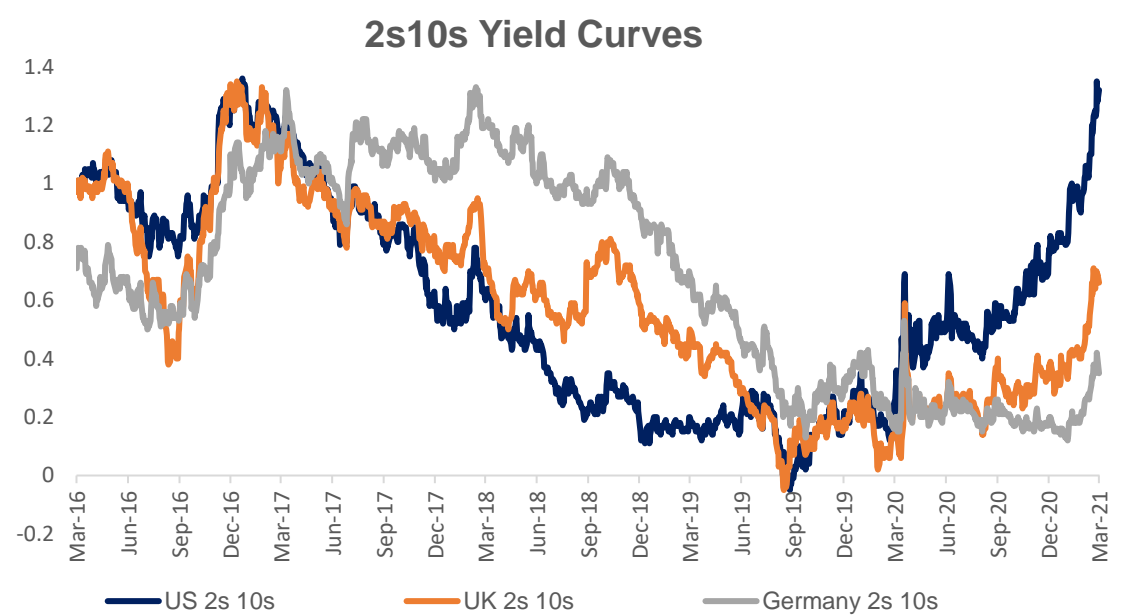
As at 28 February 2021



Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	1.6	0.2	0.2	0.0	-0.3
Global IG Spread (bps)	93	(5.0)	(15.0)	(38.0)	(15.0)
Global HY YTW (%)	4.5	0.1	-0.4	-1.3	-1.5
Global HY Spread (bps)	382	(22.7)	(71.4)	(165.1)	(114.0)
CDS Index Spread Changes					
CDX IG	56	-1	4	-8	-11
CDX HY	310	-11	-3	-52	-64
CDX EM	192	9	18	18	-52
iTraxx Main	51	-2	3	-2	-17
iTraxx Xover	265	-11	4	-55	-48
Sub Fin CDS	118	-5	4	-14	-47
Cash Index Performance (%)					
Global IG Corp Index		-1.45	-1.74	0.46	2.86
Global HY Index		0.13	2.15	5.36	7.18
Global EM USD Index		-1.42	-0.78	0.85	2.73
Higher Beta Sub Sector Performance (%)					
Banks AT1		0.85	1.34	6.51	2.63
Energy HY		2.20	8.69	12.49	13.23
EUR Corp Hybrids		-0.38	0.16	3.37	3.19
Leveraged Loans		0.33	2.40	4.76	6.03
IG Sub Sectors Performance (%)					
Banks Senior		-0.41	-0.22	1.35	2.28
Energy IG		-0.99	-0.49	2.15	0.00
Auto		-0.80	-0.34	2.72	5.42
Utility		-2.55	-4.00	-1.73	1.28
Comms		-1.90	-2.88	-0.44	2.44
Airline		0.68	4.26	9.55	-2.59
Retail		-2.07	-3.37	-1.10	2.88
Currency (Hedged) Performance (%)					
iBoxx USD Corp		-2.61	-3.88	-1.25	2.47
iBoxx GBP Corp		-3.45	-3.04	-0.54	1.64
iBoxx Euro Corp		-0.78	-0.78	1.35	0.98
Maturity Bucket Performance (%)					
Short (1-3 Yr)		0.02	0.24	0.61	2.51
Intermediate (5-10 Yr)		-1.74	-2.18	-1.72	2.42
Long		-4.02	-5.59	-2.87	0.44
Global IG Corp Index Attribution (%)					
Carry		0.12	0.35	0.81	1.88
Duration		-2.01	-3.14	-3.01	-1.14
Spread		0.44	1.05	2.58	2.12
Performance		-1.45	-1.74	0.38	2.86

Headline Moves :

- Rates moves dominated in February, impacting total returns of longer duration strategies.
- GBP IG corporates were the biggest underperformers given the outsized moves in the Gilt market over the month (+49bps in 10 yr yields).
- USD IG also struggled with 10 yr Treasuries moving +34bps on the month – impacting EM high grade USD also.
- EUR IG was a comparative outperformer as Bunds delivered the strongest relative performance over the month with 10 year yields finishing +26bp higher.
- High yield outperformed in aggregate as credit spread compression and carry was sufficient to offset duration linked losses. Higher beta outperformed within this with HY energy and to a lesser extent Bank AT1 enjoying a strong month.



Source: Bloomberg as at 28/02/2021

Market Activity

- Two of the largest underperformers over the month were US investment grade Corporates (-1.45%) and EM hard currency (-1.42%). The duration on these two indices of 7.2 and 6.7 respectively were key drivers behind the underperformance.
- One of the implications of the cheapening is a greater availability of low coupon IG and EM bonds trading at a considerable price discount to par, with many trading in the 80s and 90s.
- EM faced additional headwinds in the month with specific weakness in LATAM. Some of the drivers here included Brazilian populism concerns, and downgrades to Belize and Panama's ratings.
- Meanwhile, US HY, leveraged loans and convertible bond sectors posted positive returns. Beneath the surface in US HY, B and CCC rated bonds outperformed BB bonds. B/CCC rated bonds tend to be shorter duration vs BBs and also account for more of the COVID19 impacted sectors like Airlines, Cinemas and Energy. Prior to February, BB yields were getting close to BBB- yields as IG investors increased their participation in this rating tier.
- Within subordinated bonds, long-call AT1s and Corporate Hybrids experienced some cheapening in light of the steepening of yield curves.

Bloomberg Barclays US High Yield CCC Yields



Source Bloomberg as at 28/02/21

Issuance / Corporate Actions

US High Yield - In the US HY market, a new issuance record was set for the month of February, with Feb-21 seeing \$37.6bn of issuance according to Bloomberg. This comes off the back of a record January for HY issuance.

Crossover credit – Re-opening names were popular as demonstrated by Easyjet which issued \$1.5bn of bonds and saw demand of nearly 6x the issue size. The 7-year bonds priced at 2% in Euros with a coupon of 1.875%.

Green Bonds - Ardagh Metal Packaging sold \$2.8bn worth of green bonds, the largest green issuance in the high-yield market to date.

European Financials – Q4 reporting from several European Banks revealed plans for less subordinated bond issuance this year compared to 2020, particularly in Tier 2 and AT1 formats, this may prove a supportive technical for existing issuance. In February, senior financials issuance dominated bank bond issuance, with it making up nearly 80% the total. There was no issuance from the Insurance sector, but some of this could have been down to earnings blackout period.

Ratings

Potential rising star activity – *Kraft Heinz*, a “fallen angel” whose paper currently sits in the US HY indices might potentially be re-entering the Investment Grade bond indices. This is after ratings agency Fitch placed it on a rating of BB+, watch positive. Should the agency follow through with an upgrade to BBB-, Kraft would be rated IG by two agencies thereby making it eligible for inclusion in IG indices.

Separately, strategists at JPMorgan believe that the next two years could bring \$284bn of “rising stars,” or companies with ratings that get upgraded to investment-grade from junk, according to a note published on February 24th.

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*
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
iBoxx USD Corp	iBoxx USD Liquid Investment Gr
iBoxx GBP Corp	Markit iBoxx GBP Liquid Corp
iBoxx Euro Corp	iBoxx Euro Corporates Overall
Short (1-3 Yr)	Bloomberg Barclays US 1-3 Year Credit Index
Intermediate (5-10 Yr)	Bloomberg Barclays US 5-10 Year Credit Index
Long	Bloomberg Barclays Long US Corporate Bond Index

*Source: Bloomberg

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