

Credit Market Overview



As at 30 April 2021

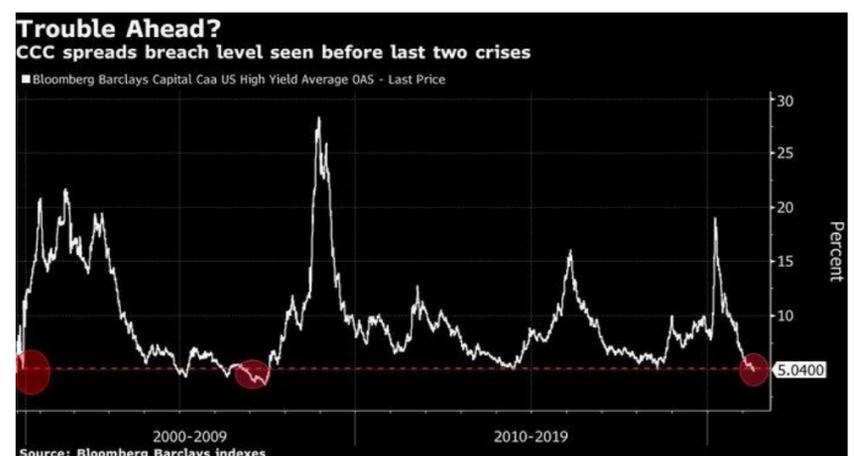


Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	1.66	-0.08	0.25	0.04	-0.68
Global IG Spread (bps)	92	-4	-8	-37	-114
Global HY YTW (%)	4.29	-0.28	-0.21	-1.59	-5.06
Global HY Spread (bps)	355	-23	-53	-194	-544
CDS Index Spread Changes					
CDX IG	50	-4	-6	-15	-36
CDX HY	287	-20	-31	-134	-340
CDX EM	167	-19	-6	-51	-167
iTraxx Main	50	-2	-2	-15	-30
iTraxx Xover	249	-4	-20	-121	-243
Sub Fin CDS	108	-1	-11	-55	-109
Cash Index Performance (%)					
Global IG Corp Index		0.75	-1.72	-0.64	6.94
Global HY Index		1.48	1.29	6.38	18.47
Global EM USD Index		1.33	-1.36	0.99	13.73
Higher Beta Sub Sector Performance (%)					
Banks AT1		-0.11	3.50	8.36	10.80
Energy HY		2.47	4.65	17.61	36.78
EUR Corp Hybrids		0.48	1.09	4.83	9.08
Leveraged Loans		0.45	0.49	4.85	11.58
IG Sub Sectors Performance (%)					
Banks Senior		0.03	-0.19	0.89	5.11
Energy IG		1.27	-1.03	2.58	14.84
Auto		0.84	-0.90	0.93	14.75
Utility		1.67	-3.58	-3.60	3.93
Comms		1.12	-2.75	-2.42	5.35
Airline		0.84	1.47	7.79	17.72
Retail		1.21	-2.64	-2.95	5.45
Currency (Hedged) Performance (%)					
iBoxx USD Corp		1.07	-2.80	-1.91	7.07
iBoxx GBP Corp		0.80	-2.92	-1.36	6.67
iBoxx Euro Corp		0.02	-0.59	0.41	5.42
Maturity Bucket Performance (%)					
Short (1-3 Yr)		0.16	0.10	0.40	2.62
Intermediate (5-10 Yr)		0.96	-2.54	-2.92	3.42
Long		1.73	-4.35	-3.29	8.09
Global IG Corp Index Attribution (%)					
Carry		0.15	0.35	0.81	2.34
Duration		0.32	-2.66	-3.44	-5.45
Spread		0.29	0.59	2.73	8.21
Performance		0.75	-1.72	0.10	5.10

Source: Bloomberg as at 30/04/2021

Headline Moves :

- Real yields retraced a good deal of their year-to-date increase in April (~14bps) as 10yr breakevens continued to move higher coupled with the decline in nominal yields. The result was a strong month for fixed income with both credit spreads and most DM benchmark yields contracting.
- USD fixed income benefitted from the above helping IG corporates recover some of their duration-led year-to-date weakness.
- EUR IG was a notable underperformer as German Bund yields finished the month higher across the curve.
- High yield was once again an outperformer with spread contraction the biggest contributor to returns, while hard currency EM benefitted from the contraction in UST yields as well as spread compression to post strong monthly performance.
- Global junk bond yields closed April approximately 10bps off their 20 year lows (set in February). Within this CCCs continue to outperform BBs with their 13th straight month of gains. High yield energy was once again a strong performer.



Source: Bloomberg as at 30/04/2021

High Yield

- The EUR HY market joined in the issuance party this year, as borrowers sold more than €50bn bonds YTD to the end of April, surpassing the last year-to-date record by roughly €10bn.
- The strength in commodities lifted bond prices of certain issuers within the US HY Metals / Mining space. There were also a number of positive ratings actions for issuers with end-markets ranging from Copper to Steel, as agencies acknowledged progress being made on debt reduction.

Banks

- Bank earnings came in strong with UK and European Banks “taking the baton” from the US Banks the week earlier. The common themes were lower loan loss reserves, higher deal fees from increased capital markets activity and solid capital positions. European bank Tier 2 spreads hit new 3 year highs last week, boosted by the positivity around earnings. The bank sub-financials sector had rallied ahead of Q1 figures, as evidenced by Rabo Bank’s latest EUR AT1 issue which set the lowest ever coupon on a European AT1 (3.1%). This opens the door for other issuers to follow suit with low coupon issuance.
- Legacy bank capital instruments were redeemed in the period by a number of issuers that included Natwest, Soc Gen and Deutsche Bank. Many legacy instruments that remain continue to push higher as market participants predict further attractive tenders/calls.

Emerging Markets

- Heightened political volatility in Peru and Colombia had an impact on the hard currency bonds of both nations. Peru 1.862% 2032 USD bonds (BBB+/A3) currently trade at a cash price in the low 90s, having been impacted by both the broader sell-off in rates and market concerns over a possible socialist leader.

Meanwhile Colombia has seen civil unrest, with public protests against a new tax reform proposal by the government. This proposal is thought to be crucial in stabilising Colombia’s finances, maintaining its credit rating and funding of social programmes.

Issuance/Corporate Actions

Orange tender and new issue PNC8 1.45% issue- Telecommunications firm, Orange tendered for some of its near-term corporate hybrid bonds and issued 500m EUR of new hybrid bonds callable in 8 years at a yield of 1.45% (1.375% coupon issued at 99.437). The deal represents a very attractive cost of subordinated financing for the issuer.

New Corporate Hybrid Issuer – Rakuten - Japanese large cap technology firm Rakuten issued a multi-tranche corporate hybrid – the latest Japanese issuer to enter the hybrid space after Softbank and Japan Tobacco. The firm issued two hybrids:

- Rakuten \$750m Perp. NC5 at Par to Yield 5.125%
- Rakuten \$1b Perp. NC10 to Yield 6.25%

Sustainability/Green Bonds

- **Picard pulls green HY deal** - Picard, the B rated French Supermarket pulled its €1.71bn sustainability-linked bond issue, citing market conditions. This deal was the first European high-yield deal to be pulled in almost a year according to IFR. The three-part issue would have been the largest in that format to be priced in the European HY market.
- **European Real Estate Firm seeks to “requalify” bonds as green** - Gecina launched a corporate action to requalify all of its outstanding bond issues as Green bonds. This appears to be the first transaction of its kind whereby an issuer looks to requalify its existing conventional bonds into a Green format.

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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