

Credit Market Overview



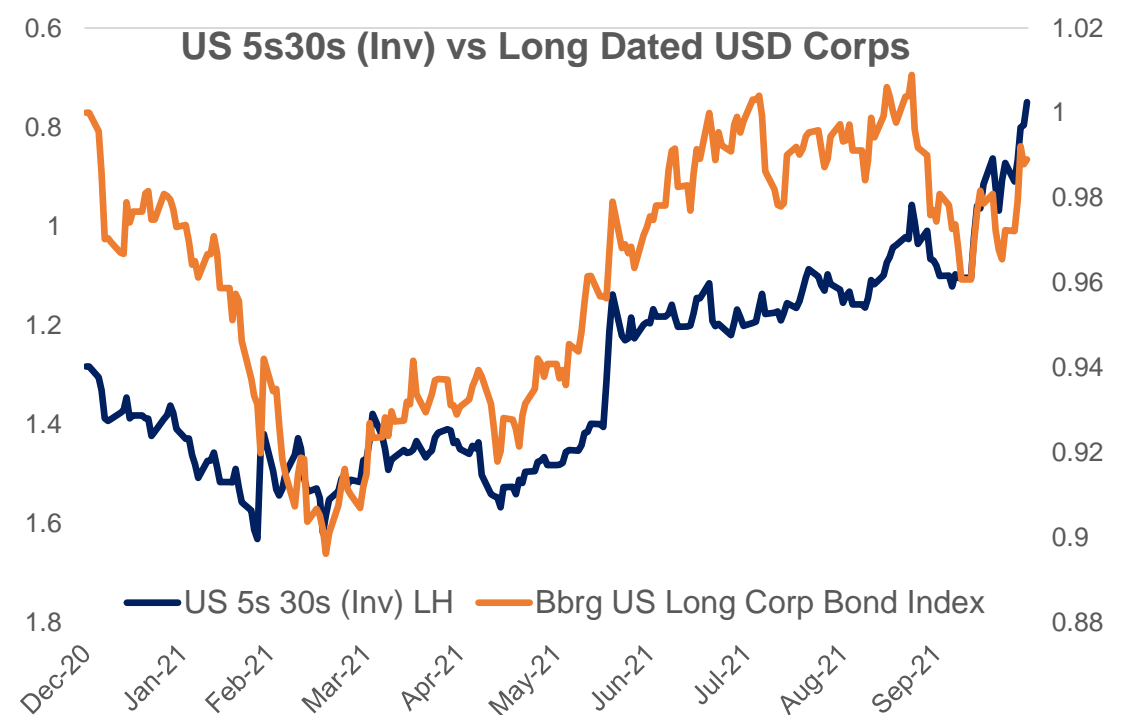
As at 31 October 2021

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	1.79	0.14	0.33	0.13	0.17
Global IG Spread (bps)	91	3	2	0	-37
Global HY YTW (%)	4.86	0.20	0.46	0.50	-1.10
Global HY Spread (bps)	383	1	6	25	-169
CDS Index Spread Changes					
CDX IG	52	-1	3	2	-13
CDX HY	305	3	12	17	-116
CDX EM	186	4	22	19	-32
iTraxx Main	51	1	4	1	-15
iTraxx Xover	262	8	25	13	-108
Sub Fin CDS	113	3	10	5	-50
Cash Index Performance (%)					
Global IG Corp Index		-0.08	-1.27	1.63	1.74
Global HY Index		-0.53	-0.50	1.04	9.07
Global EM USD Index		-0.42	-1.12	0.67	3.01
Higher Beta Sub Sector Performance (%)					
Banks AT1		-0.16	1.25	4.46	13.07
Energy HY		0.47	2.33	5.77	27.46
EUR Corp Hybrids		-0.67	-1.05	0.36	5.72
Leveraged Loans		0.00	1.23	1.66	7.07
IG Sub Sectors Performance (%)					
Banks Senior		-0.69	-1.27	-0.08	0.84
Energy IG		0.42	-0.56	3.89	7.92
Auto		-0.14	-0.92	1.06	2.86
Utility		0.75	-0.98	3.46	1.40
Communications		0.48	-1.36	3.64	2.26
Airline		0.00	0.29	2.12	11.00
Retail		0.32	-1.16	2.38	0.56
Currency (Hedged) Performance (%)					
iBoxx USD Corp		0.35	-1.29	3.17	2.28
iBoxx GBP Corp		0.63	-2.09	0.56	-0.01
iBoxx Euro Corp		-0.73	-1.79	-0.39	0.04
Maturity Bucket Performance (%)					
Short (1-3 Yr)		-0.34	-0.35	-0.12	0.43
Intermediate (5-10 Yr)		-0.65	-2.11	0.65	-1.35
Long		1.50	-0.90	6.26	4.55
Global IG Corp Index Attribution (%)					
Carry		0.14	0.37	0.83	1.62
Duration		0.01	-1.48	0.80	-2.61
Spread		-0.22	-0.15	0.00	2.73
Performance		-0.08	-1.27	1.63	1.74

Headline Moves :

- October 2021 saw several records being broken across different markets
 - Global bonds posted their biggest annual decline since at least 2005 – BBG Index data
 - The Bloomberg Commodity Spot Index soared to a record high
 - US WTI Crude Oil jumped to the highest level since 2014
 - Chinese High Yield bond spreads reached new wides
- Widespread curve flattening over the month saw significant outperformance of longer dated corporate indices over short dated ones (+1.5% vs -0.34%)
- Credit spreads held in well over the month despite the considerable volatility in rates markets. Negative performance in high yield was driven almost entirely by the move out in rates in the 0-5 yr segment of government curves
- Key issues that continue to dominate the credit landscape include supply chain problems, wage inflation, impact of China property fall out, recovery from COVID-19 and a difference in rate hike expectations between the US and other nations
- In another sign of high volatility, thermal Coal prices ran up 150% from the lows seen in August 2021, only to then close the month some 50% off those highs as Chinese officials indicated they would intervene to ease thermal coal prices
- In Europe, Bloomberg noted that out of 1,147 bonds issued in the first three quarters in the year, 956 have fallen in price (83%) driven mainly by rising bund yields
- US corporations have announced north of \$900bn in share buybacks this year and are set to go through the \$1 trillion mark by the year end, with many of these being funded by debt issuance in the credit market

Curve Flattening Favouring Long Dated Corps



Source: Bloomberg as at 31/10/21

Financials

- On the whole, US, UK and European Banks reported robust figures for Q3 with better capital positions being driven by lower loan loss provisions
- The renewed confidence from bank management teams is evidenced in the number of share buybacks announced by issuers that include BNP, Bank of America HSBC and Westpac
- Figures from insurers have on the whole been positive, with reinsurers like Swiss Re posting better than expected performance vs expectations with respect to natural disasters this year
- A sharp widening in UK Gilt and Australian yield curves and bond fund outflows created more opportunities in the cross-currency space within sub financials in particular

Emerging Markets

- Many EMs continued to hike rates, following a trend seen in prior months in response to higher inflation
- However, some major EM currencies such as the BRL continue to underperform on idiosyncratic factors despite the scale of rate hikes. It was only Turkey who cut rates over the period

Country	Change	Country	Change
Azerbaijan	+50bps to 7.00%	New Zealand	+25bps to 0.50%
Brazil	+150bps to 7.75%	Paraguay	+125bps to 2.75%
Chile	+125bp to 2.75%	Peru	+50bps to 1.50%
Colombia	+50bps to 2.50%	Poland	+40bps to 0.50%
Czech Republic	+75bps to 1.50%	Romania	+25bps to 1.50%
Hungary	+15bps to 1.80%	Russia	+75bps to 7.50%
Iceland	+25bps to 1.50%	Tajikistan	+25bps to 13.25%
Jamaica	+100bps to 1.50%	Turkey	-200bps to 16.00%
Kazakhstan	+25bps to 9.75%	Uruguay	+25bps to 5.25%
Moldova	+85bps to 5.50%	Zimbabwe	+2000bps to 60.00%

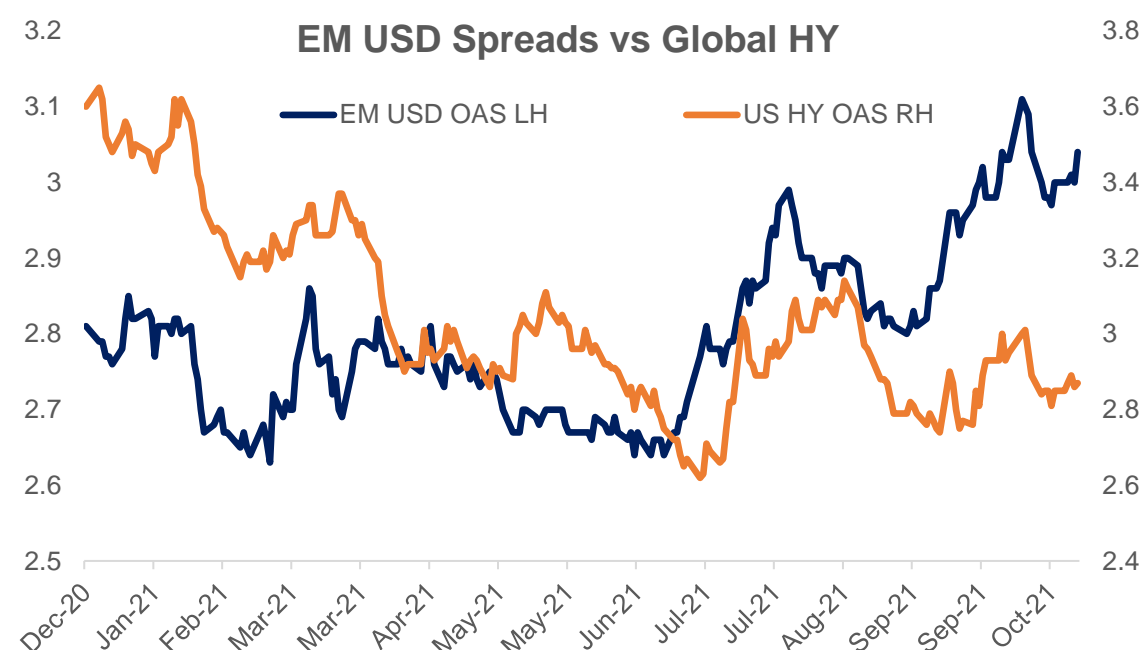
Source: Bloomberg as at 31/10/21

- The Chinese HY Property sector continues to be under strain led by Evergrande, despite the issuer making good on its coupons during the month. The average price of bonds rated B or below have halved compared to the start of the year to around 50 cents in the Dollar. Analysts at Bloomberg estimate that this equates to a default rate of about 8% as at the end of October 2021
- The short-term outlook for the sector looks challenging due to the narrowing refinancing channels in the absence of any policy easing measures from the Chinese State

High Yield

- The HY market had its 85th new issuer YTD with Roblox (Games company) coming to market
- Distressed credit spreads widened by 18bp to 1,666 bp, weighing on returns, which were -1.0% for the month according to Credit sights
- There was a high profile “rising star” in the HY space with Netflix raised to investment grade by credit ratings agency S&P
- The cinema sector, one of the worst hit areas of the HY market, saw some respite with ComScore reporting that October 2021 was best month for the US Domestic Box office since the onset of the pandemic
- US HY spreads continue to outperform EM. The difference is mainly due to China Property but also cheapening in larger EM sovereign issuers like Ghana and Brazil

EM Underperforming US High Yield



Source: Bloomberg as at 31/10/21

Green/Sustainable bonds

- Global ESG bond sales have reached \$1trn as at the end of October, almost double the \$538bn issued during FY 2020 according to Bloomberg data
- Issuers that came to market over the period included Tesco and the UK Govt (second Green Gilt) while notable upcoming issuers include Teva, who are looking to issue around \$4bn of sustainability linked bonds.

Supply Chain Snippets

- In corporate reporting, there were diverging fortunes on display with respect to global supply chain issues. Apple reported \$6bn of supply related headwinds in the last quarter and is expected to incur more in the current quarter
- Meanwhile, shipping firms have been performing well as demonstrated by Hapag Lloyd’s preliminary EBITDA estimate of \$7.8bn for the first nine months of 2021. This compares to around \$2 bln for the same period in 2020

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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