

# Credit Market Overview

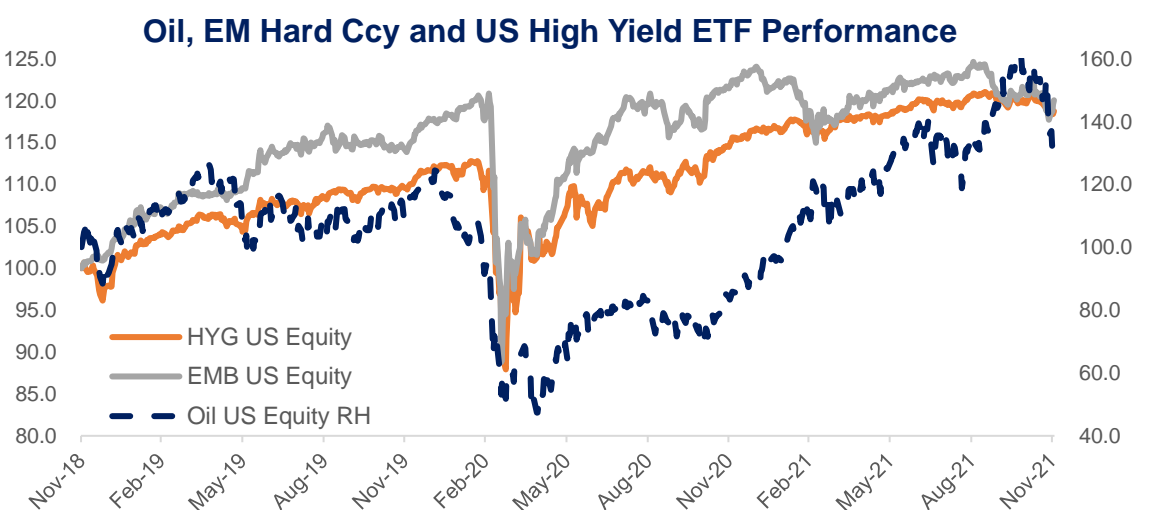
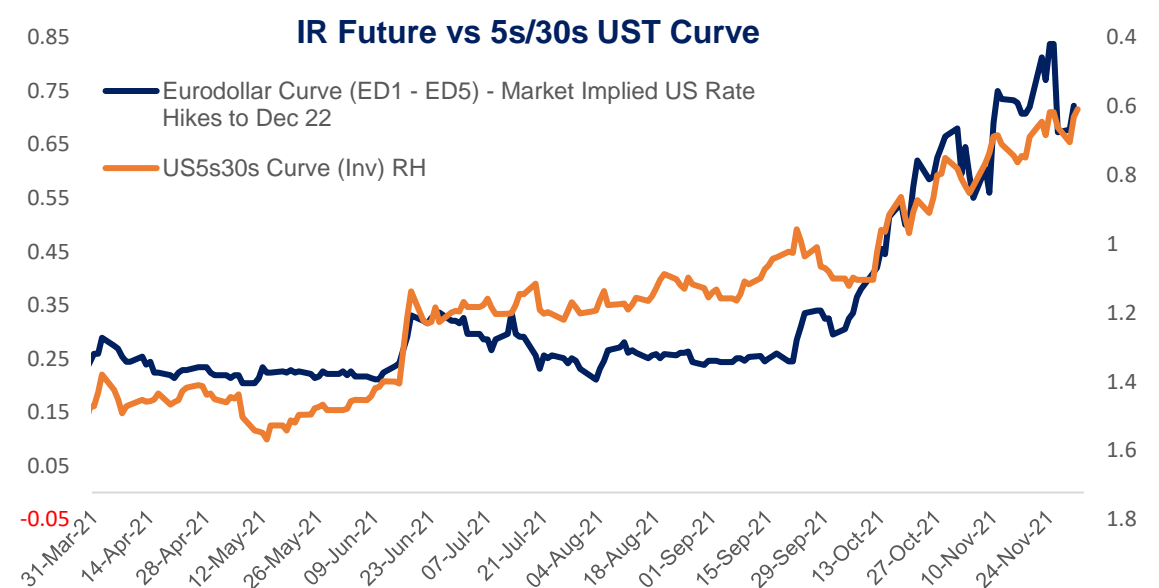


As at 30 November 2021

Measure	Level	1 Month	3 Month	6 Month	12 Month
<b>Cash Spread/Yield Changes</b>					
Global IG Corp YTW (%)	1.83	0.04	0.32	0.21	0.43
Global IG Spread (bps)	105	14	15	16	-2
Global HY YTW (%)	5.38	0.52	1.04	1.07	0.48
Global HY Spread (bps)	437	54	72	81	-16
<b>CDS Index Spread Changes</b>					
CDX IG	57	5	11	7	7
CDX HY	328	23	52	40	24
CDX EM	214	28	62	54	50
iTraxx Main	57	7	12	7	8
iTraxx Xover	288	27	60	41	23
Sub Fin CDS	129	16	28	20	16
<b>Cash Index Performance (%)</b>					
Global IG Corp Index		0.17	-0.85	1.30	-0.24
Global HY Index		-1.40	-2.63	-0.98	2.94
Global EM USD Index		-1.07	-3.12	-1.32	-1.13
<b>Higher Beta Sub Sector Performance (%)</b>					
Banks AT1		0.45	0.97	5.14	9.13
Energy HY		-1.76	-0.38	3.03	15.65
EUR Corp Hybrids		-0.43	-1.48	0.29	1.56
Leveraged Loans		-0.47	0.16	0.63	3.78
<b>IG Sub Sectors Performance (%)</b>					
Banks Senior		0.28	-0.73	0.22	0.20
Energy IG		-0.50	-0.69	1.92	2.82
Auto		-0.07	-0.72	0.32	0.55
Utility		0.26	-0.18	3.19	-1.49
Communications		0.14	-0.98	2.96	-1.12
Airline		-0.64	-0.38	0.93	6.62
Retail		0.29	-0.54	2.14	-1.35
<b>Currency (Hedged) Performance (%)</b>					
Bloomberg USD Corp		0.06	-0.75	1.94	-0.53
Bloomberg GBP Corp		1.19	-0.56	1.67	-0.27
Bloomberg Euro Corp		0.19	-1.19	-0.06	-0.69
<b>Maturity Bucket Performance (%)</b>					
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
<b>Global IG Corp Index Attribution (%)</b>					
Carry		0.15	0.38	0.81	1.40
Duration		1.06	-0.11	1.66	-1.79
Spread		-1.04	-1.12	-1.17	0.15
<b>Performance</b>		0.17	-0.85	1.30	-0.24

## Headline Moves :

- Volatility across markets gathered pace in late November as fears around a new COVID variant, Omicron, and more hawkish comments from Fed Chair Powell resulted in a notable flattening in UST curves.
- The US 2s/10s curve flattened by 18bps to 0.88% - the flattest level since early January 2021 - while the 5s30s curve flattened by a further 11 bps to move back to pre COVID levels of 0.62%.
- The 26bps decline in 30-year Gilts led strong outperformance for investment grade GBP corps on an index level versus EUR and USD.
- The US dollar index (DXY) strengthened +2.0% in November, putting pressure on a number of different markets across EM and Commodities.
- Oil prices were significantly weaker with WTI falling some 21% and Brent Crude by 16%. Given much of the EM and HY universe is exposed in some way to oil prices, this had a second order impact on these sectors. High yield energy was unsurprisingly an underperformer in the higher beta space while hard currency EM also struggled.
- Global corporate IG credit spreads widened 14bps to 105bps, erasing year-to-date spread tightening, while Global High Yield widened approximately 54bps, similarly erasing previous 2021 tightening.
- US HY distressed credit spreads widened by 227 bp to 1,893bps and returned -6.2% for the month, and CCC rated US debt generated monthly losses of 1.4% (versus BBs at -0.9% and Bs at -1.0%).



Source: Bloomberg as at 30 November 2021

## Financials

- A handful of large issuers came to market to tender for legacy bank capital securities in November – e.g. BNP, Lloyds and Standard Chartered.
- Meanwhile, more contemporary subordinated bank/insurance instruments such as AT1 and RT1 experienced broad weakness over the month, creating some interesting entry levels for new buyers.

**Bloomberg Global CoCo Banking Average OAS**



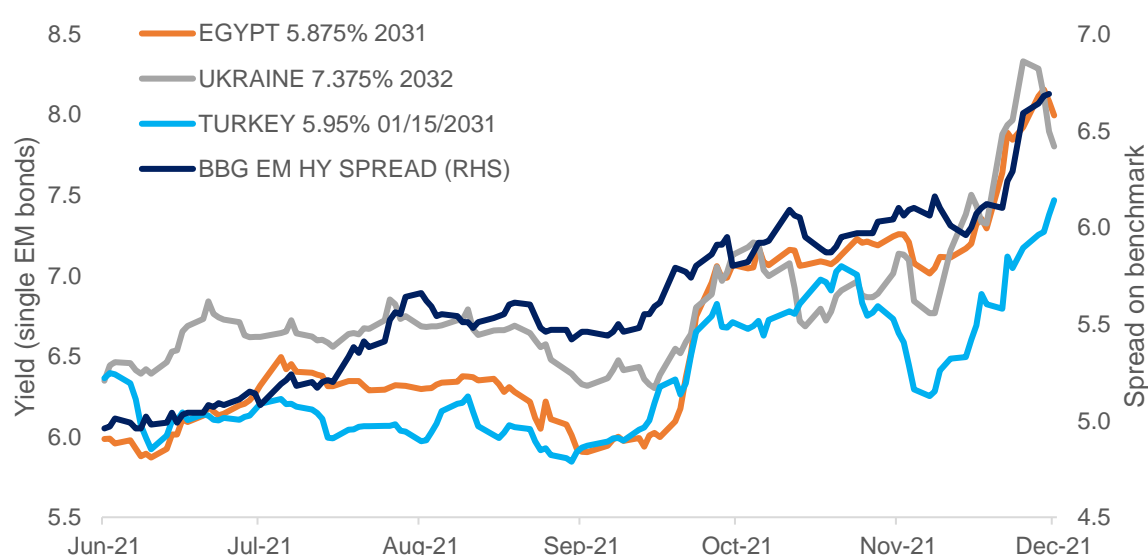
## Emerging Markets

- Emerging market nations saw more rate hikes throughout November:

Country	Change
Czech Republic	+125bps to 2.75%
Dominican Republic	+50bps to 3.50%
Ghana	+100bps to 14.50%
Hungary	+30bps to 2.1%
Jamaica	+50bps to 2.00%
Korea	+25bps to 1.00%
Lesotho	+25bps to 3.75%
Mexico	+25bps to 5.00%
Pakistan	+150bps to 8.75%
Paraguay	+125bps to 4.00%
Peru	+50bps to 2.0%
Poland	+75bps to 1.25%
Romania	+25bps to 1.75%
South Africa	+25bps to 3.75%
Turkey	-100bps to 15%
Uruguay	+50bps to 5.75%
Zambia	+50bps to 9.00%

- A number of different situations outside of the China Property sell-off resulted in a broad cheapening of EM assets. Themes included higher inflation, higher energy costs and worsening geopolitical tensions (e.g. Ukraine/Russia border troop build up). Perhaps most strikingly, Turkey's leader Recep Erdogan continued to vow to keep interest rates low which saw its currency weaken a further 40%. Sovereign CDS spreads widened above 500bps for the first time in a year while sovereign hard ccy spreads also moved out quite aggressively.

**Select EM HY Sovereigns**



Source: Bloomberg as at 30 November 2021

- The spread moves in Asian High Yield bonds were more muted than in October but absolute spread levels remain highly elevated, such that the Asia (ex Japan) HY USD index widened by 7bps in November to remain extremely elevated at 1377bps.
- The China High Yield sector had a more constructive month due to a range of factors:
  - ❖ Reduced land auction prices in certain cities
  - ❖ Relaxed regulations around pre-sale proceeds) in certain cities (e.g. Chengdu)
  - ❖ Increase in onshore bond issuance (since \$ market largely closed). November saw 3 times the amount issued in October and represented the first growth in issuance for over four months
  - ❖ Attempted asset sales, debt exchanges/re-profiling and refinancing from alternative sources (e.g. convertibles/onshore) in order to meet debt obligations in the dollar market

- In line with the Chinese State's "common prosperity" initiatives, a regular occurrence in November was a founder/chairperson of a Chinese Property company using their own personal wealth to assist in repairing balance sheets.

## Investment Grade

- Within the EUR space, there was additional spread widening evident as a result of M&A interest from PE companies.
- Confirmed approaches for Telecom Italia\* and Alstria in addition to purported approaches for British Telecom saw bonds of these issuers widen as the market priced in possible debt finance 'take-private' scenarios.

## High Yield

- US High Yield bonds fell 1% in November. This was only the second month in 2021 in which the gauge has posted a negative total return and its worst showing since September 2020. Reasons for the sell off are thought to include fears over the new Omicron variant and more hawkish comments by Fed Chair Powell with respect to tapering.
- In spite of this issuance did not disappoint with over \$24bn being printed during the month with well known issuers like Hertz coming back to the market to issue bonds.

\*Telecom Italia is HY rated

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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