

Credit Market Overview



As at 28 February 2022

Rubrics Credit Market Overview

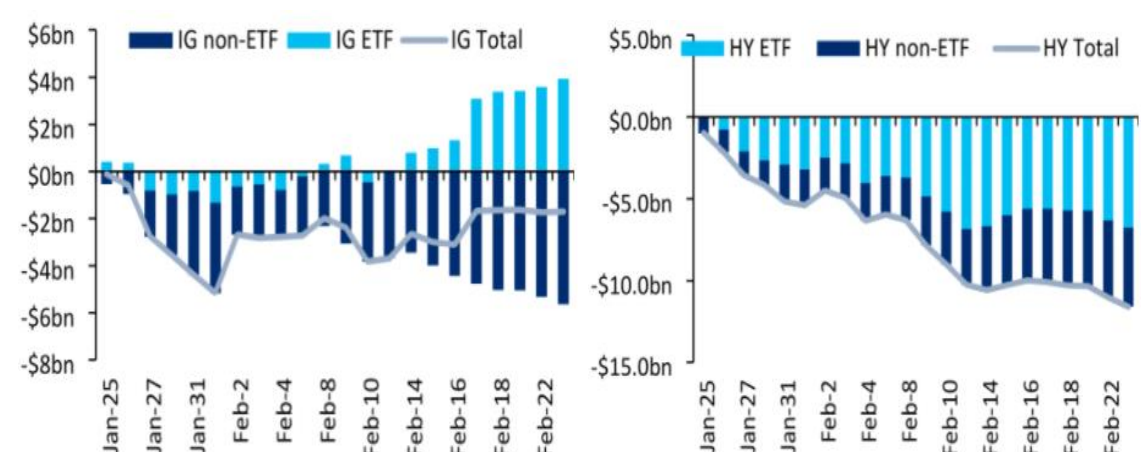
February 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	2.64	0.38	0.81	1.13	1.05
Global IG Spread (bps)	133	25	28	43	40
Global HY YTW (%)	6.26	0.63	0.88	1.92	1.73
Global HY Spread (bps)	469	47	32	103	87
CDS Index Spread Changes					
CDX IG	67	7	10	21	12
CDX HY	365	26	38	90	55
CDX EM	289	77	75	137	101
iTraxx Main	71	12	14	26	20
iTraxx Xover	345	59	57	117	79
Sub Fin CDS	152	25	23	51	34
Cash Index Performance (%)					
Global IG Corp Index		-2.12	-4.76	-5.57	-3.31
Global HY Index		-2.42	-3.04	-5.59	-2.30
Global EM USD Index		-4.54	-6.15	-9.08	-6.48
Higher Beta Sub Sector Performance (%)					
Banks AT1		-3.05	-3.12	-2.18	4.32
Energy HY		-0.47	-0.17	-0.55	6.22
EUR Corp Hybrids		-4.65	-5.87	-7.27	-4.55
Leveraged Loans		-0.54	0.42	0.58	1.78
IG Sub Sectors Performance (%)					
Banks Senior		-1.97	-2.87	-3.59	-2.46
Energy IG		-2.04	-4.89	-5.55	-1.72
Auto		-1.45	-3.51	-4.20	-2.64
Utility		-2.77	-7.06	-7.23	-4.63
Communications		-2.43	-6.68	-7.59	-3.58
Airline		-1.17	-2.13	-2.51	0.08
Retail		-1.83	-5.67	-6.17	-3.70
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		-2.00	-5.37	-6.08	-3.40
Bloomberg GBP Corp		-2.54	-6.88	-7.40	-4.46
Bloomberg Euro Corp		-2.51	-3.91	-5.05	-3.87
Maturity Bucket Performance (%)					
Short (1-3 Yr)		-0.50	-1.27	-1.81	-1.49
Intermediate (5-10 Yr)		-0.83	-3.17	-4.48	-2.92
Long		-3.46	-9.27	-9.30	-4.37
Global IG Corp Index Attribution (%)					
Carry		0.19	0.46	0.75	1.59
Duration		-0.51	-3.14	-3.34	-1.99
Spread		-1.79	-2.08	-3.13	-2.91
Performance		-2.12	-4.76	-5.81	-3.31

Headline Moves :

- A second month of negative returns for global fixed income markets as credit spread widening added to rates volatility
- Persistently high inflation sent short dated government bond yields higher as the market moved to price in several rate hikes and balance sheet reduction by the Federal Reserve
- The other clear driver of volatility over the month was Russia's invasion of Ukraine. As a result of this Euro and GBP credit markets underperformed US IG given the more direct impact of sanctions and generally deteriorating sentiment towards the region
- Another clear underperformer over the month was EM hard currency, with the Bloomberg Global EM USD Index declining by -4.54% with credit weakness and a selloff in rates combining in a negative fashion.
- In CDS markets, iTraxx Xover widened by 59 bps which represented an underperformance of both Sub Financial indices and US High Yield (CDX HY).
- Global IG spreads were not immune from the volatility and closed the month at +133bps, now above the 10-year average of 129bps.
- Commodities continued to rise driven by the invasion of Ukraine. Brent Crude comfortably closed just below \$100/bbl after spiking above that figure during the month. Both Ukraine and Russia are the source of several key commodities and as a result a number of prices surged including Natural Gas, Palladium, Wheat, Aluminum and Sunflower Oil
- The troublesome geopolitical backdrop meant a number of new bond issues were postponed and /or decided not to come to market across IG, HY and EM. For example, in US HY little more than \$9b was priced this month, making it the slowest February since 2016 and the slowest start to a year for issuance since 2016
- From a fund flows perspective, retail investors pulled nearly \$15bn out of US HY funds YTD whereas US IG remained better supported, but has still seen net outflows YTD

1 Month Cumulative Fund Flows (Daily) – IG and HY



Source Citi as at 28/02/2022

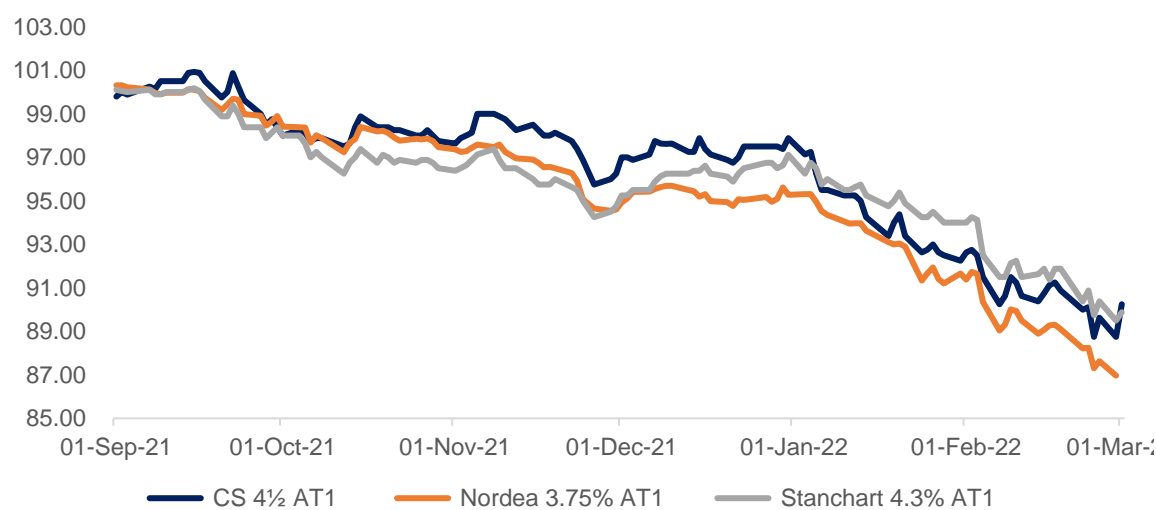
Investment Grade

- European Corporate Hybrids were a particular area of market weakness for a variety of reasons. EUR rates vol, Russian exposed issuers, credit downgrades and short-seller targeted companies all contributed to the cheapening. Even large diversified energy focused companies saw spreads widen which presented opportunities in space

Financials

- Financials were not immune from the risk-off sentiment. The spread on European Cocos in aggregate widened 85bps in the month. Taking the \$AT1 asset class as an example, average offer prices across the IG/Xover names are about 100 and yields to call are 5%. While this is a generalisation it highlights that many bonds are trading at where they were issued or cheaper.
- Certain bonds that came with low reset spreads are trading at cash prices in the 80s now after being issued at par (100).

Low Reset AT1 bond prices



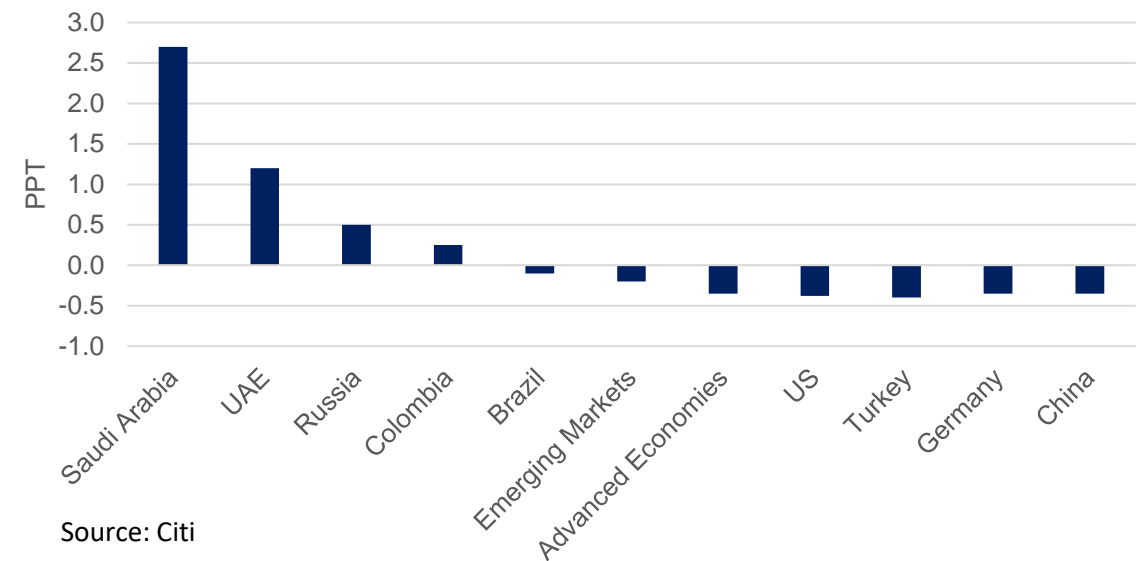
- The legacy “discount” bank bond sector cheapened in the month after DNB bank stated that it would continue to treat its discount perps as a true perpetual instruments. This was after a good run of legacy instruments being redeemed by other issuers such as Lloyds and Natwest

Emerging Markets

- Most Russian and Ukrainian sovereigns, quasi-sovereigns, corporates and banks saw bond prices cut in half in many instances and in some cases more
- In response to the severe sanctions and associated weakening in the Ruble and broader Russian securities markets, the CBR hiked its interest rate from 9.5% to 20%
- As we closed out the month, there appeared to be speculative buying interest at distressed levels in Ukrainian risk assets
- This was as the Ukrainian Finance Ministry talked about the possibility of issuing “War Bonds” to fund its ongoing military effort

- The main knock-on effects in EM of the Ukraine conflict are varying impacts on oil exporters vs importers. The former will benefit from higher oil prices which will help GDP growth in those countries whereas in the latter it will have a negative impact which could push highly indebted countries faster into debt restructuring

Forecasted impact of \$100/bbl oil price in 2022



- China - On a macro policy level it appears that China is enacting a number of easing measures to help the troubled real estate sector: Increased bank lending to the sector, standardizing the use of property pre-sale funds are just some of the measures being carried out across certain cities. However, new concerns keep cropping up at both lower quality (e.g *Zhenro*) and perceived higher quality borrowers (e.g *Shimao/Logan*) which are weighing on sector returns

High Yield

- The higher rated (and longer duration) components of HY continued to underperform the lower rated (and shorter duration) paper, although the differential narrowed in February
- Sector wise, the building and building products sector stood out, widening 28bps in February as investors may have been concerned by the rise in US Mortgage rates to ~4% after a big run up in Home prices
- Bonds from the E&P space outperformed, but continue to offer high yields relative to the extremely supportive backdrop. This is likely driven by the broader move away from financing new fossil fuel exploration and anxieties from the 2014-17 bankruptcy cycle
- There were yet more “Rising Star” ratings activity with Retailers Macy’s and Dillards both being upgraded to Investment Grade by ratings agency Fitch
- The new issue pipeline was quiet but Twitter was a notable issuer pricing \$1bn of 8 year notes
- With all-in yields looking more reasonable nearing 6%, and a North American bias, some may choose to look at the US HY sector again, but credit spreads remain tight compared to historic averages

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	Bloomberg USD Corporate TR Index
iBoxx GBP Corp	Bloomberg Sterling Corporate TR Index
iBoxx Euro Corp	Bloomberg Euro Agg Corporate 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
Long	Bloomberg Barclays Long US Corporate Bond Index

*Source: Bloomberg

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