

Credit Market Overview



As at 31 March 2022

Rubrics Credit Market Overview

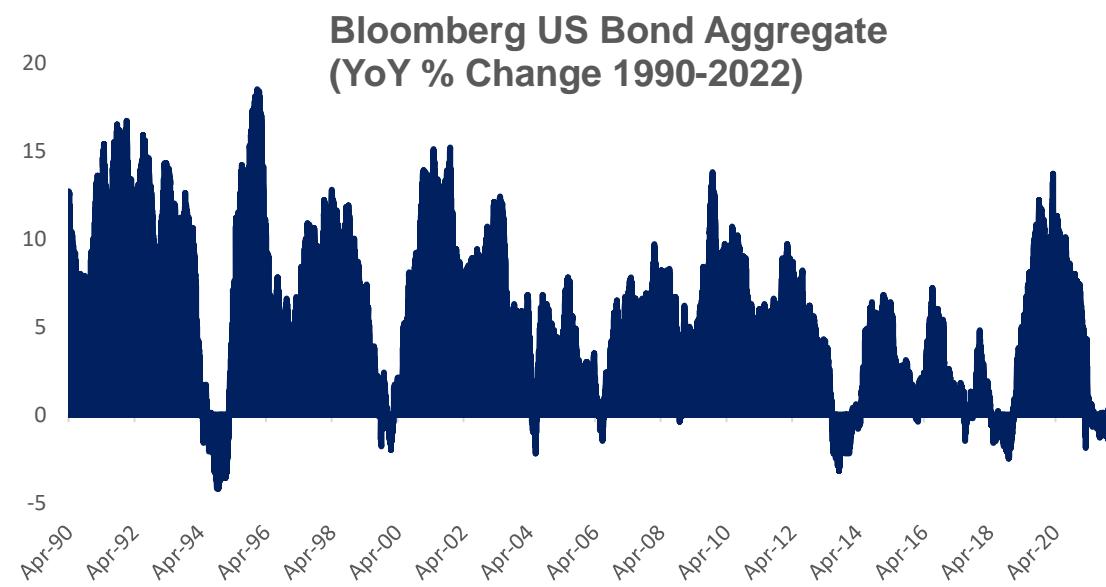
March 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	3.09	0.45	1.23	1.44	1.35
Global IG Spread (bps)	124	-9	27	36	29
Global HY YTW (%)	6.49	0.23	1.64	1.83	1.85
Global HY Spread (bps)	428	-40	48	47	48
CDS Index Spread Changes					
CDX IG	67	0	18	14	13
CDX HY	375	10	82	74	68
CDX EM	229	-60	40	47	43
iTraxx Main	73	2	25	23	21
iTraxx Xover	338	-6	97	85	86
Sub Fin CDS	153	1	45	43	44
Cash Index Performance (%)					
Global IG Corp Index	-2.16	-6.77	-6.73	-4.42	
Global HY Index	-0.62	-5.21	-5.50	-2.60	
Global EM USD Index	-2.34	-9.23	-9.70	-7.51	
Higher Beta Sub Sector Performance (%)					
Banks AT1	0.52	-3.58	-2.34	2.07	
Energy HY	0.43	-2.55	-1.04	6.75	
EUR Corp Hybrids	0.13	-6.22	-6.78	-5.36	
Leveraged Loans	0.22	-0.18	0.17	2.30	
IG Sub Sectors Performance (%)					
Banks Senior	-0.76	-3.71	-4.02	-3.40	
Energy IG	-1.86	-6.94	-6.74	-2.30	
Auto	-2.75	-6.23	-6.35	-4.43	
Utility	-2.55	-8.80	-8.52	-4.50	
Communications	-2.49	-9.04	-8.44	-4.50	
Airline	-3.00	-5.10	-5.67	-2.87	
Retail	-2.57	-7.93	-7.52	-4.48	
Currency (Hedged) Performance (%)					
Bloomberg USD Corp	-2.52	-7.69	-7.48	-4.20	
Bloomberg GBP Corp	-1.08	-6.75	-6.20	-5.36	
Bloomberg Euro Corp	-1.20	-4.96	-5.58	-5.23	
Maturity Bucket Performance (%)					
Short (1-3 Yr)	-1.22	-2.46	-2.97	-2.60	
Intermediate (5-10 Yr)	-3.41	-6.40	-6.67	-4.55	
Long	-2.78	-11.41	-10.11	-4.26	
Global IG Corp Index Attribution (%)					
Carry	0.22	0.47	0.83	1.74	
Duration	-3.02	-5.24	-4.90	-4.06	
Spread	0.63	-1.99	-2.66	-2.10	
Performance	-2.16	-6.77	-6.73	-4.42	

Headline Moves :

- This is now the longest (600 days) and largest (-7.7%) correction in the Bloomberg US Bond Aggregate since 1996
- In what was another difficult month for fixed income, the US bond market underperformed with the Federal Reserve the most conspicuous of the DM central banks in attempting to fight the global inflation problem
- Despite the move higher in long end US yields (10-year US Treasury yields rose by some 51bps), it was the front end which saw the greatest appreciation with yields on 2-year treasuries (for example) rising by 90bps over the month. This pronounced flattening in the yield curve has many commentators suggesting a recession is on the way
- Elsewhere many other bond markets broke through significant levels during the month including French 10-year government bond yields moved above 1% (as did 30-year Japanese government bonds), 30-year Australian government bond yields hit 3% while 5-year German Bunds temporarily breached 0.50% having been as low as -0.40% at the start of the month
- As a result most fixed income indices continued to struggle during March. As per the above, USD IG Corporates underperformed relative to EUR and GBP given the relative moves in the US yield curve
- EM hard currency assets underperformed once more through a combination of increasing US yields as well as idiosyncratic risk related to the Russian invasion of Ukraine – the Bloomberg EM US Aggregate Index has returned -9.23% ytd
- Other higher beta parts of the credit spectrum held in reasonably well all things considered. Despite considerable intra month volatility Bank AT1s finished the month strongly to deliver a positive performance in line with other risk assets. Similarly High Yield Energy continued to outperform helped by the fundamental backdrop and shorter duration/higher spread characteristics of the underlying bonds

US Fixed Income Performance



Source: Bloomberg as at 31/03/2022

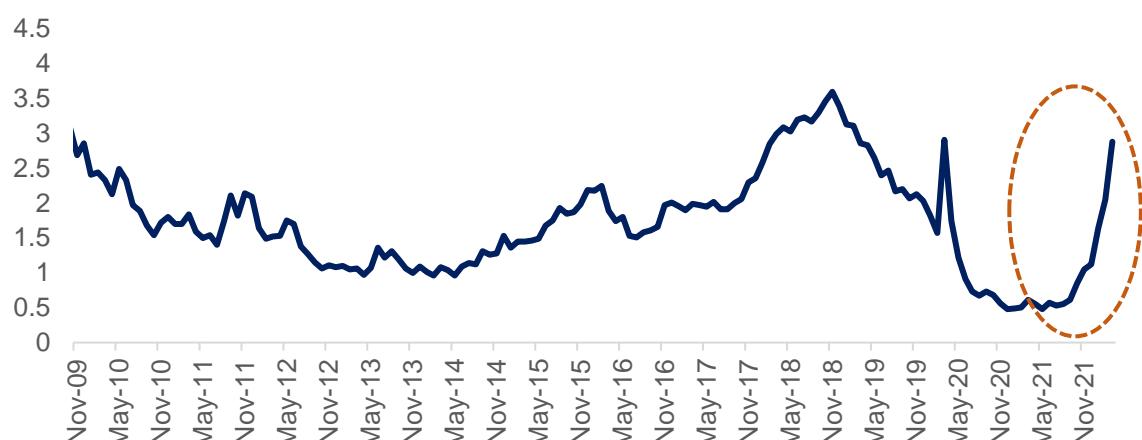
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Investment Grade

- US IG spreads rose to as much as 145bps two weeks into the Russia/Ukraine conflict, although they have since retreated ~30bps to +116bps
- A new development is the rise in yields in front-end credit, which has largely been driven by the rates market

US Corporate 1-3 Yr Yld



- Despite the significant intra-month volatility, the US IG market saw robust issuance of \$230bn which was well above the Bloomberg consensus expectations of \$135bn
- Notable deals in the month included \$30bn for Magallanes Inc (owner of WarnerMedia Spinco asset), Berkshire Hathaway (\$4.5bn) and a number of high grade US Energy firms including Conoco Philips that issued very long dated debt (30 years)

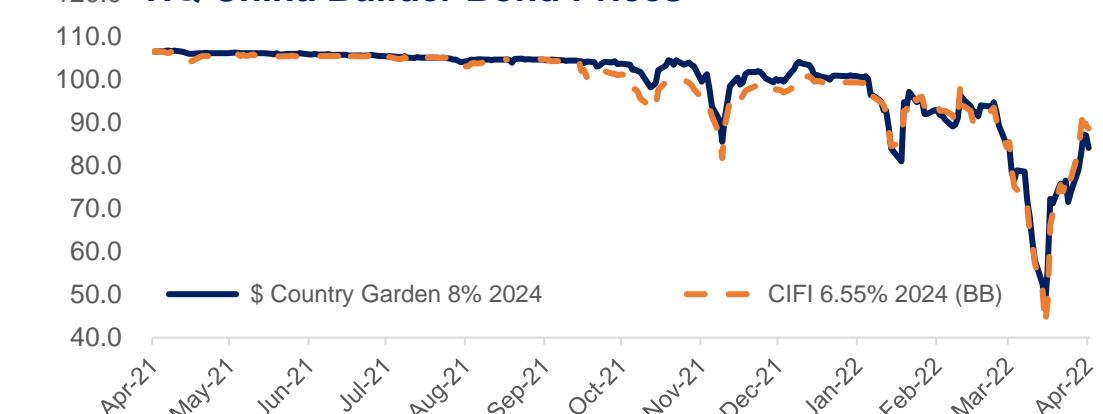
Financials

- Financials credit weakened on account of the Ukraine conflict with the market initially concerned of the impact of Russia exposure on their operations. 5 year Sub Fins CDS index touched 200bps before sentiment rebounded strongly with spreads ending the month tighter circa 50bps tighter
- The major UK/European Banks reported manageable exposure to Russia, ultimately benefitting from the large capital buffers they have been required to build by the relevant macro prudential authorities since GFC
- During the early stages of the conflict, it was mostly senior short dated bank paper that was issued but in the last few weeks increased market confidence resulted in the re-opening of subordinated new issue flow in structures such as DB T2 and AT1, Intesa AT1 and Rabo Bank AT1
- A large factor in why these deals got done was the significant amount of AT1 issuance which has been called/redeemed in the quarter (~13bn in nominal terms) creating a stronger technical demand backdrop
- In a show of strength, certain issuers bought back/tendered debt while bonds were trading off their highs, such issuers included Lloyds Bank, Aegon and Georgian Bank TBC

Emerging Markets

- EM bond market volatility was elevated in a number of regions. Major commodity importers such as Egypt, Pakistan, and Turkey saw significant price swings as markets weighed up the impact of disruptions to key commodities like oil, grains and wheat
- In a similar fashion to other high beta credit sectors, EM HY spreads tightened in from intra month highs of 850 to around 630bps. This opened the door to a number of large EM debt new issues; Turkey, Nigeria, Egypt, Philippines and Indonesia. Egypt's debut Samurai JPY denominated issue demonstrated diversity of the funding that large performing EM nations can access even in stressed periods
- China Property bonds were on a two-week loss streak into mid-March which quickly reversed after Chinese state authorities made a number of supportive easing comments. The volatility appeared to be most elevated in the highest rated China Builders, which also had the quickest snap back

HQ China Builder Bond Prices

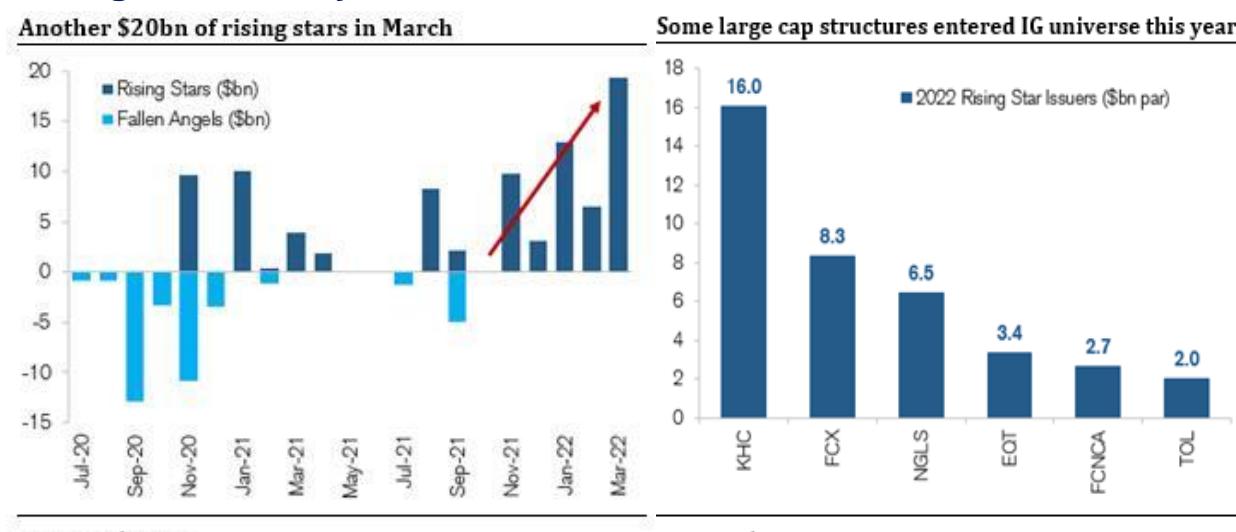


- Away from bonds, a number of currencies were devalued, intentionally in the case of Egypt and Sri Lanka and unintentionally in the case of Russia. These devaluations will have direct impacts on inflation

High Yield

- A number of deals were postponed due to a mix of unfavourable pricing for corporates and a lack of appetite from investors. In spite of this there were a number of instances where HY issuers tapped other forms of lending, e.g. American Axle and Avis tapping credit lines and Hertz issuing in the secured ABS market.
- Kraft Heinz continued the trend of rising stars that went back into IG index while there was also a degree of consolidation in the US energy patch due to extra FCF due to lack of new drilling

Rising Star Activity



Index Description

March 2022

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

IMPORTANT INFORMATION

March 2022

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