

Credit Market Overview



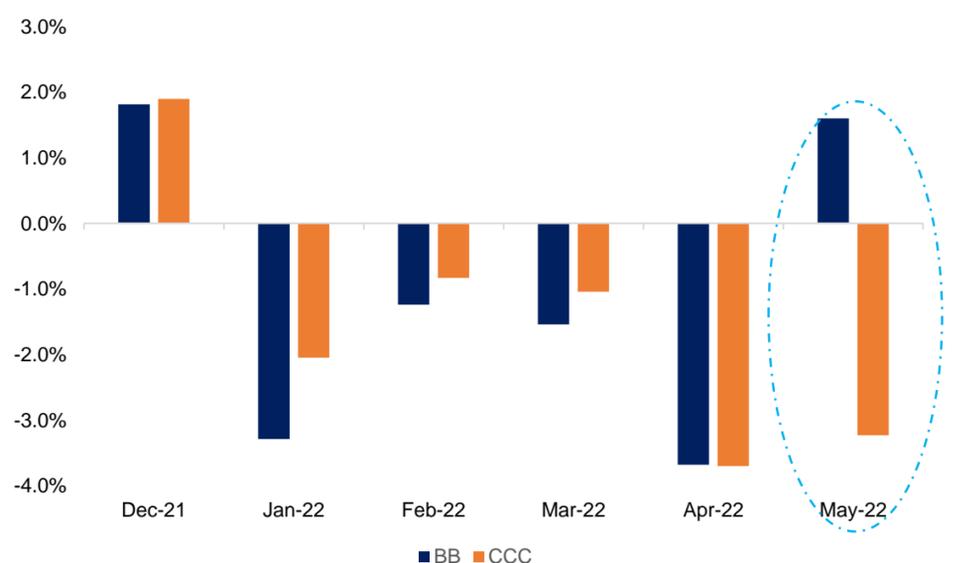
As at 31 May 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	3.77	0.03	1.13	1.94	2.15
Global IG Spread (bps)	144	2	11	39	55
Global HY YTW (%)	7.59	0.19	1.33	2.21	3.28
Global HY Spread (bps)	502	27	33	65	146
CDS Index Spread Changes					
CDX IG	80	-4	12	22	29
CDX HY	461	0	96	134	174
CDX EM	272	-11	-17	57	111
iTraxx Main	88	-2	16	30	37
iTraxx Xover	437	10	93	149	192
Sub Fin CDS	184	-13	32	55	75
Cash Index Performance (%)					
Global IG Corp Index		0.20	-6.09	-10.56	-9.40
Global HY Index		-0.35	-4.45	-7.36	-8.27
Global EM USD Index		-0.02	-6.58	-12.32	-13.48
Higher Beta Sub Sector Performance (%)					
Banks AT1		-0.86	-0.64	-3.75	1.20
Energy HY		1.28	-1.31	-1.48	1.51
EUR Corp Hybrids		-0.98	-4.14	-9.77	-9.51
Leveraged Loans		-2.49	-2.40	-1.99	-1.38
IG Sub Sectors Performance (%)					
Banks Senior		-0.53	-3.47	-6.24	-6.03
Energy IG		1.07	-6.45	-11.02	-9.31
Auto		0.57	-4.99	-8.32	-8.03
Utility		0.48	-8.42	-14.89	-12.18
Communications		1.69	-8.10	-14.24	-11.70
Airline		-0.32	-4.81	-6.84	-5.97
Retail		0.99	-7.31	-12.57	-10.69
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		0.93	-6.99	-11.99	-10.28
Bloomberg GBP Corp		-1.49	-5.78	-12.27	-10.80
Bloomberg Euro Corp		-1.23	-5.09	-8.80	-8.85
Maturity Bucket Performance (%)					
Short (1-3 Yr)		0.67	-1.25	-2.50	-2.97
Intermediate (5-10 Yr)		0.83	-6.33	-9.30	-8.95
Long		1.00	-11.39	-19.60	-15.15
Global IG Corp Index Attribution (%)					
Carry		0.31	0.66	0.92	1.62
Duration		0.02	-5.98	-8.59	-7.00
Spread		-0.13	-0.77	-2.89	-4.02
Performance		0.20	-6.09	-10.56	-9.40

Headline Moves :

- The first half of May looked like a continuation of what has been a very challenging year for fixed income generally. However an intra-month rally in government bonds and risk assets, driven by expectations of a slow down in Fed rate hikes, saw some areas of the fixed income universe post their first monthly gains of 2022.
- While the reality is that inflation remains a major issue – witness recent record inflation numbers in Germany – some temporary respite in rate hike expectations was evident over the second half of the month.
- The US Treasury curve outperformed with a ~30bp rally in 10-year Treasuries from intra-month yield highs. As a result, USD IG corps outperformed their EUR and GBP counterparts.
- The Brent Crude oil price went through \$120/bbl due to a partial ban of Russian oil imports into Europe and the resumption of activity in major Chinese cities following severe lockdowns. The UK went ahead with a “windfall tax” on energy companies, and other nations (e.g. Hungary, India) also announced they are looking at similar initiative to help the consumer.
- The Dollar Index (DXY) posted its first negative return for the whole of 2022 which helped EM indices in particular. While the hard currency EM index closed the month broadly flat, it did stage a 2% rally from intra month lows.
- Other high beta areas of the credit market also enjoyed a positive month for the first time in 2022 including US High Yield corporates. Within this, energy was a strong outperformer while from a ratings perspective BB rated bonds outperformed lower rated issues. This dispersion in performance is suggestive of investor positioning “going up in quality”.

US HY Returns - BBs vs CCCs

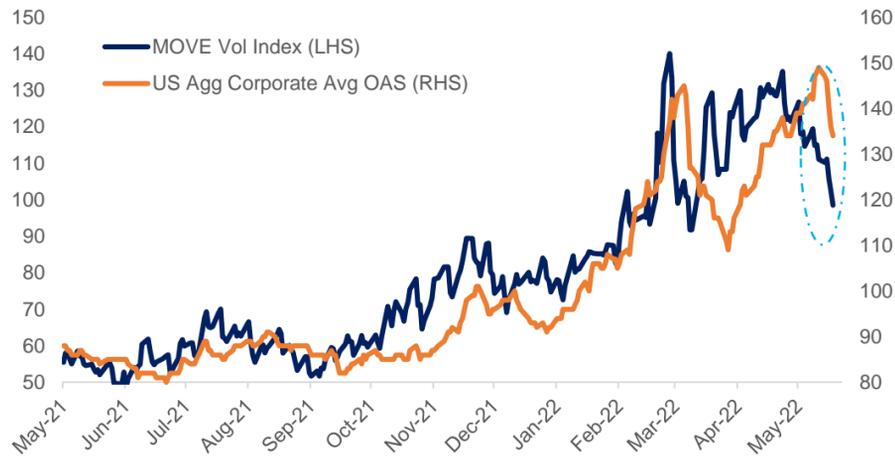


Source: Bloomberg as at 31/05/2022

Investment Grade

- US IG corporate spreads hit a resistance level of +150bps and tightened ~15bps to end the month at around +130bps. This move was driven by several factors; a transition in “market narrative” from inflation to growth concerns (thereby stabilizing rate volatility) and improved sentiment in the Chinese big tech space (which are mostly IG rated – e.g. *Alibaba, Tencent, Baidu*) which coincided with an improving COVID situation in China.

Treasury volatility vs IG Credit spreads



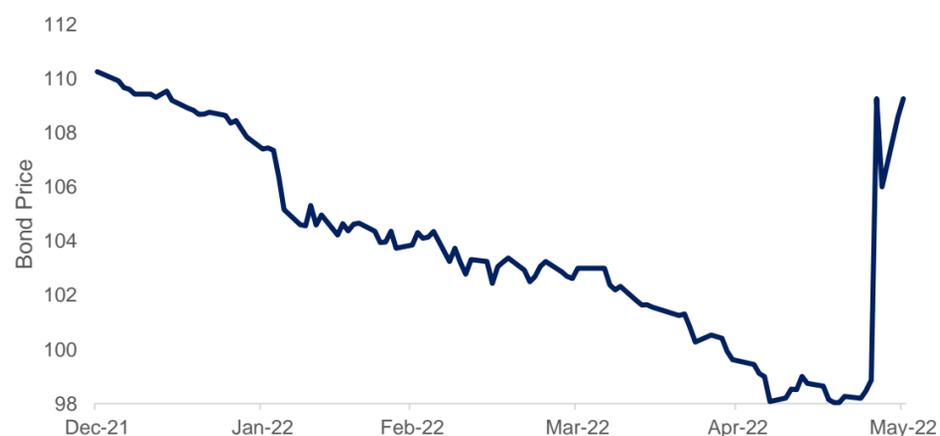
Source: Bloomberg as at 31/05/2022

- Large caps such as *AT&T, Paypal and BP* announced debt tenders in the month. AT&T tendered just under \$9bn of bonds, likely providing much needed relief to some bondholders who may have been looking to generate liquidity.

Financials

- There was a resumption in Bank AT1 issuance with highly rated SEB coming to market with a 6.875% NC5 USD AT1. The final pricing was tightened in from 7.375% and the deal was covered around 10x, illustrating the very strong demand.
- Within Insurance, a number of subordinated bonds were called or tendered in May. Of note was Insurer *Axa's* tender for *old XL Capital* sub bonds which were called at a make whole of +50bps over the reference benchmark which resulted in a 10pt price spike. Insurers were active issuers with new bonds from *Axa, Allianz and Athora Netherlands* generally at wider pricing to prevailing secondary levels.

XL 3 ¼ 06/29/2047



Source: Bloomberg as at 31/05/2022

Emerging Markets

- Rate hikes continue en-masse in the EM world except for outliers Russia (cut) and Turkey (unchanged). Argentina, Mexico, Peru, Egypt and Pakistan were just some of the countries that hiked in May 2022.
- Hard currency EM tightened in ~40bps in the last week of May but was still wider on the month.
- The China Property sector continues to provide negative surprises such as the unexpected debt extension to *Greenland's* June 2022 bond which was trading at 90 prior to the news.

GRNLGR 6.75% June 2022



Source: Bloomberg as at 31/05/2022

- Greenland Holdings* was long considered by market participants to be among China's most resilient due to its links to the Chinese state. The news of Greenland's debt extension follows on from a default from China's 4th largest developer Sunac China.
- Sri Lanka Sovereign defaulted for the first time on record driven by a US dollar shortage, rampant inflation and a chronic lack of fuel, accelerated by the conflict in Ukraine. Following Sri Lanka's travails, the market is keeping a close eye on other sovereigns that could follow a similar trajectory. E.g., Pakistan, where its 2031 bond has dropped more than 30pts vs the end of 2021 due to similar factors.

High Yield

- US high yield fund outflows reached over \$33 billion this year, or nearly 10% of HY assets under management according to Goldman Sachs. This is one of the drivers behind the negligible US HY issuance of just \$2.2bn in May, the slowest month on record going back to 2002.
- The lower risk appetite for the riskiest credits has seen the amount of bonds trading at distressed levels increase. As at 20 May, the number of bonds in the Americas trading at distressed levels rose to nearly \$150bn, which represents the highest amount since December 2020. The list includes new borrowers such as *Carvana* which issued in the HY market for the first time in 2020.
- Occidental Petroleum*, a key beneficiary of the persistently high oil prices upsized its bond tender, to reduce its debt load. The aim of the company appears to be to return to the Investment Grade ratings it enjoyed prior to the pandemic.



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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