

Credit Market Overview



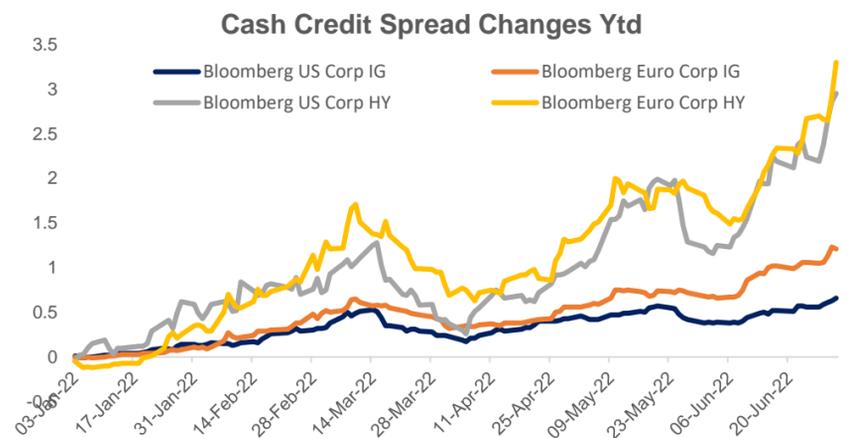
As at 30 June 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	4.34	0.57	1.25	2.48	2.76
Global IG Spread (bps)	175	31	51	78	89
Global HY YTW (%)	9.48	1.89	2.99	4.63	5.26
Global HY Spread (bps)	666	164	238	285	321
CDS Index Spread Changes					
CDX IG	101	22	34	52	53
CDX HY	579	118	203	286	306
CDX EM	338	67	110	151	183
iTraxx Main	119	31	46	71	72
iTraxx Xover	580	142	241	338	334
Sub Fin CDS	128	31	47	74	74
Cash Index Performance (%)					
Global IG Corp Index		-2.74	-6.64	-12.96	-12.88
Global HY Index		-6.99	-10.57	-15.23	-15.38
Global EM USD Index		-4.57	-8.72	-17.14	-18.02
Higher Beta Sub Sector Performance (%)					
Banks AT1		-5.22	-6.32	-9.67	-6.72
Energy HY		-6.38	-8.01	-10.35	-7.43
EUR Corp Hybrids		-9.46	-13.32	-18.71	-18.72
Leveraged Loans		-2.76	-5.30	-5.48	-4.21
IG Sub Sectors Performance (%)					
Banks Senior		-2.64	-5.29	-8.80	-8.83
Energy IG		-3.17	-7.69	-14.09	-13.70
Auto		-2.06	-4.32	-10.28	-10.42
Utility		-2.65	-8.52	-16.57	-16.16
Communications		-3.69	-9.24	-17.44	-17.11
Airline		-2.06	-3.89	-8.79	-8.78
Retail		-2.51	-7.26	-14.62	-14.34
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		-2.80	-7.26	-14.39	-14.19
Bloomberg GBP Corp		-3.38	-7.97	-14.18	-14.58
Bloomberg Euro Corp		-3.49	-7.29	-11.88	-12.39
Maturity Bucket Performance (%)					
Short (1-3 Yr)		-0.89	-0.91	-3.35	-3.72
Intermediate (5-10 Yr)		-1.63	-4.61	-10.71	-11.00
Long		-4.32	-12.80	-22.75	-21.71
Global IG Corp Index Attribution (%)					
Carry		0.31	0.77	0.93	1.58
Duration		-0.99	-3.87	-8.14	-7.86
Spread		-2.07	-3.55	-5.75	-6.60
Performance		-2.74	-6.64	-12.96	-12.88

Headline Moves :

- June represented another trying month for fixed income, so much so that 2022 has so far marked the worst year for the global bond market since 1865 (BofA).
- Once again it was a combination of government bond yield increases and credit spread widening that saw valuations impacted, although the latter saw the largest 1 month widening since March 2020.
- Having reached intra month highs of 3.49%, US 10-Year Treasury yields for example retreated considerably to finish the month at close to 3% as recessionary fears took hold.
- Major credit indices are approaching their widest levels since March 2020. In cash indices, Euro area credit appears to be underperforming the US as a combination of central bank liquidity withdrawal and the stark inflationary backdrop have damaged sentiment. Interestingly the difference is most pronounced in the investment grade space suggesting that ECB liquidity may be the dominant factor.

Credit Spread Widening



Source: Bloomberg as at 30/06/2022

- The wider level of credit spreads has seen a number of loan and bond deals postponed in both the developed and emerging market space.
- This has had knock-on effects on M&A activity with companies unable to finance large leveraged buyout transactions. For example, Walgreens Boots Alliance announced it is to retain its Boots and No7 Beauty Company businesses since “market instability severely impacted financing availability” for bidders with reports suggesting the highest bid was around £5bn vs £10bn expected.
- Another key theme is the shift in power from corporations to the labour force. There are a number of employee groups striking/negotiating higher pay and benefits due to the cost-of-living crises around the world. This has resulted in some corporates offering significant pay rises, e.g. US Airlines United and American offering 14% and 17% raises for its pilots. These changes are sure to have an impact on profit margins.

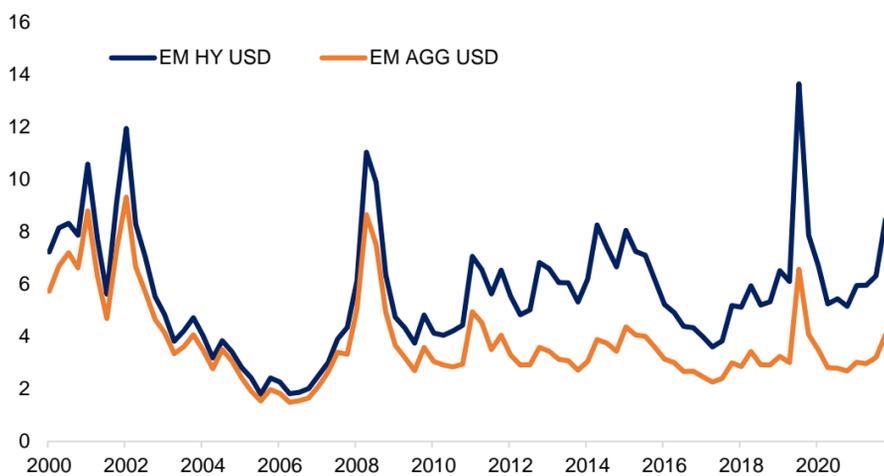
Financials

- Despite the volatile conditions, subordinated financial issuance carried on in UK/Europe; six AT1 deals priced this month vs only one in May 2022, a handful of Bank T2 deals and Insurance T2/RT1s. Source: Citi
- In terms of name highlights, rare issuer *Aviva* issued an inaugural IG rated RT1 with a coupon of 6.875% which tightened from initial pricing but closed the month nearly 10 points lower than where it was issued to yield over 8%
- Credit Suisse and Barclays both issued AT1 with coupons between 8 and 10%. Credit Suisse appeared to issue to finance its AT1 call in July 2022.
- The take-away as per other funding markets is that in order to get deals done, they have to be priced attractively for investors who can currently purchase bonds in the secondary market at high yields and low cash prices.

Emerging Markets

- EM HY spreads have now surpassed levels seen as Russia invaded Ukraine, but remain far off the levels seen during the height of the pandemic.

EM HY vs EM AGG spreads



Source: Bloomberg as at 30/06/2022

- Looking back at H1 2022 returns, EMEA was the worst performer down 22% marred by the Russia/Ukraine conflict. This was followed by LATAM down -16.8% then Asia at -11.9%. In terms of ratings, EM HY underperformed EM IG by 130bps. Sovereigns underperformed, with the bulk of that due to Russia/Ukraine but also nations affected by higher commodities such as Egypt, Pakistan, Sri Lanka and African nations.
- China saw modestly improving data as quarantine periods were reduced and lockdowns were eased. However, this did not translate into significantly better bond prices in the region as credit investors remain in a risk-off stance.
- An area of relative strength was the Middle East, where there was longer dated issuance from the UAE (AA- rated) and a number of corporates and banks in the region. Oman conducted a tender offer for \$1.75bn of bonds near the front end of the curve.

Investment Grade

- Deal execution in Europe has been particularly difficult judged by the more than 70 deals that have been postponed or canceled so far in 2022. That's compared with 37 during the full year of 2021, and 67 in 2020.
- While there is widespread weakness, Corporate Hybrids of REITs, Energy and Utilities sold off meaningfully in June reflecting a mix of idiosyncratic factors and dealer aversion to buying inventory.
- US IG credit spreads are also at a two year high of more than +150bps and the market there is suffering a similar fate in terms of issuance.

High Yield

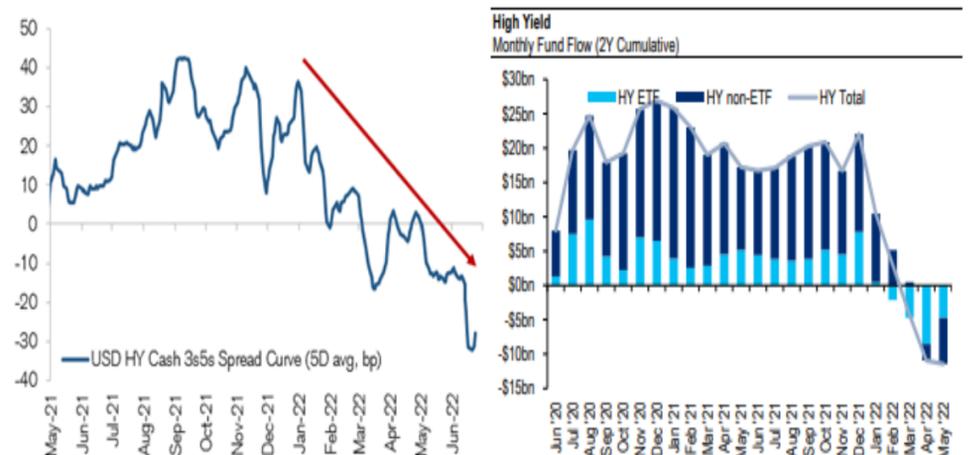
- Xover nearly touched 600bps, wider in tandem with other credit indices. New HY deals that got over the line had to offer significant concessions and yields north of 10%.

Company	Sector	Type	Offer price	Offer yield	Rating
Manuchar	Chemicals	HY Bond	86	11.0%	B3
Intertape Polymer	Packaging	HY Bond	82	14.4%	B2/B
WM Morrison*	Supermarkets	HY Bond	85	10.0%	BB

Source: Bloomberg, * secondary sale to single Investor

- In line with the recessionary theme, cyclical and consumer discretionary sectors saw meaningful weakness, namely sectors like Pubs and Fashion Retailers.
- There were instances of cancelled bond tender buyback offers (e.g. Games maker Ubisoft) which shelved a €500m buyback of its 2023 bond. Ubisoft earlier this month announced its plan to buy back the bonds and issue new ones in an effort to restructure its debt.
- US and Euro HY distress ratios continued rising in June 2022, and now stand at 11.7% and 15% respectively (src: Creditsights). While the US HY distress ratio is still well below its historical average of 18%, the Euro HY distress ratio is now 200 bp above its historical average of 13%
- Short dated HY bonds are underperforming, with recent weakness seeing 3s5s spread curves invert. This weakness is likely being driven by retail outflows, as investors have been selling bonds that are closer to par and have less dollar price upside

Inverted Cash Spreads / US HY Flows



Source: Credit Suisse

Source: Citi

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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