

# Credit Market Overview



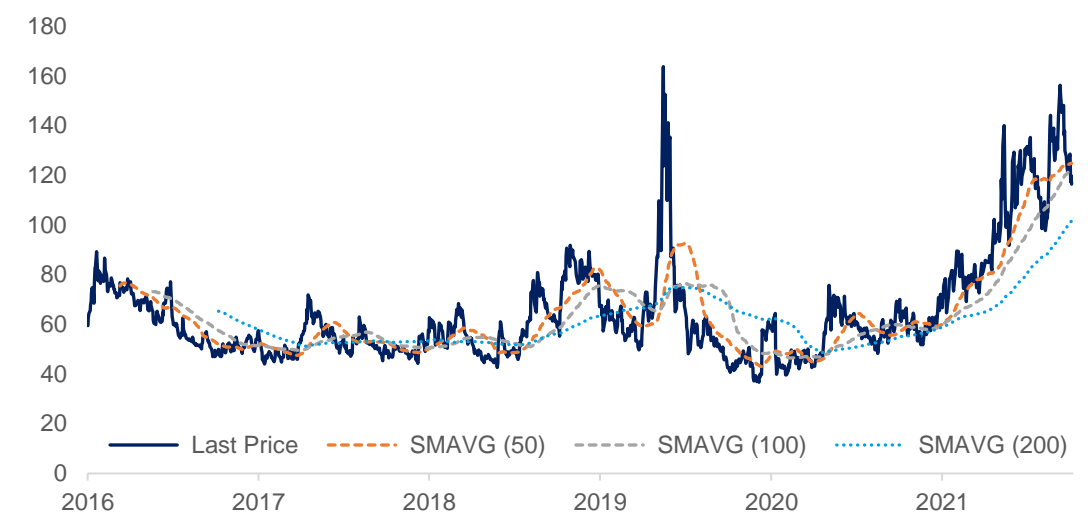
As at 29 July 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
<b>Cash Spread/Yield Changes</b>					
Global IG Corp YTW (%)	3.89	-0.45	0.15	1.63	2.43
Global IG Spread (bps)	161	-14	19	53	72
Global HY YTW (%)	8.54	-0.94	1.13	2.91	4.13
Global HY Spread (bps)	598	-68	123	176	221
<b>CDS Index Spread Changes</b>					
CDX IG	80	-21	-3	20	31
CDX HY	471	-108	10	132	179
CDX EM	327	-12	42	115	162
iTraxx Main	100	-19	10	41	53
iTraxx Xover	509	-70	82	223	264
Sub Fin CDS	110	-19	8	43	55
<b>Cash Index Performance (%)</b>					
Global IG Corp Index		3.35	0.72	-7.60	-11.09
Global HY Index		4.52	-3.13	-9.37	-11.65
Global EM USD Index		2.11	-2.58	-13.11	-16.43
<b>Higher Beta Sub Sector Performance (%)</b>					
Banks AT1		7.01	0.55	-2.31	-0.72
Energy HY		5.21	-0.25	-3.26	-2.45
EUR Corp Hybrids		7.12	-3.97	-11.36	-13.78
Leveraged Loans		3.07	-2.27	-2.71	-1.03
<b>IG Sub Sectors Performance (%)</b>					
Banks Senior		3.86	0.59	-4.31	-6.14
Energy IG		3.37	1.17	-8.27	-11.88
Auto		2.14	0.61	-6.33	-9.19
Utility		3.56	1.30	-10.23	-14.82
Communications		3.74	1.59	-10.43	-15.38
Airline		1.18	-1.22	-6.77	-8.00
Retail		3.66	2.06	-8.05	-12.41
<b>Currency (Hedged) Performance (%)</b>					
Bloomberg USD Corp		3.24	1.28	-8.54	-12.61
Bloomberg GBP Corp		3.50	-1.49	-8.18	-13.02
Bloomberg Euro Corp		4.70	-0.19	-6.51	-9.31
<b>Maturity Bucket Performance (%)</b>					
Short (1-3 Yr)		0.79	0.56	-1.85	-3.12
Intermediate (5-10 Yr)		2.90	2.06	-5.98	-9.74
Long		4.81	1.29	-14.21	-19.79
<b>Global IG Corp Index Attribution (%)</b>					
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
<b>Performance</b>		<b>-2.74</b>	<b>-6.64</b>	<b>-12.96</b>	<b>-12.88</b>

## Headline Moves :

- Most global government bonds rallied in July driven by the market's perception that the Federal Reserve would pivot with respect to rate hikes sooner than previously anticipated.
- This resultant move also drove down rate volatility (as judged by the Merrill Lynch MOVE index). This buoyed credit assets, which generally tend to perform better during periods of lower rate volatility. However, as seen by the 200-day moving average, rate volatility still appears to be in a long-term uptrend.
- Italian BTPs were one Government sector that underperformed due to the current election volatility.

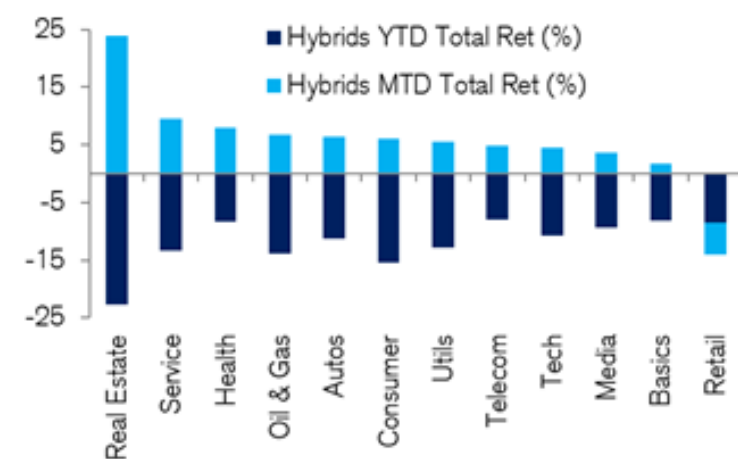
### Rates volatility (MOVE Index)



Source: Bloomberg

- Breaking down the most notable moves in Credit:
  - CDS Indices – CDX HY tightened in 108bps and Xover tightened 70bps. Investment Grade indices tightened in ~20bps in both US and European CDS. The moves in EM were less pronounced with CDX EM only tightening in 12bps.
  - Within cash bonds; Global HY bonds rallied 4.5% and Subordinated Credit (EUR Corporate Hybrids and Bank AT1s) rallied strongly, both returning above 7% in July. EM HC sovereign bonds underperformed, generating only a +2.1% return.

### Real Estate Corporate Hybrid Returns led the pack



Source: Credit Suisse

- Duration – 10+ year bucket generated +4.8% return compared to +2.9% for intermediate and +0.8% for short dated bonds.
- Currencies – European Credit (+4.7%) outperformed US (+3.2%) and GBP Credit (+3.5%). The moves in European Credit were said to be supported by ETF arb flows and Insurers buying Credit as active managers continued to see outflows.\*
- Outside of credit asset classes the most notable moves in the month were in the Euro currency (-2.6%), WTI Oil (-6.7%) and Copper (-3.5%). It is notable that WTI has declined by 20% since highs of ~\$120/bbl seen in June, which if the trend continues could have implications for inflation data.

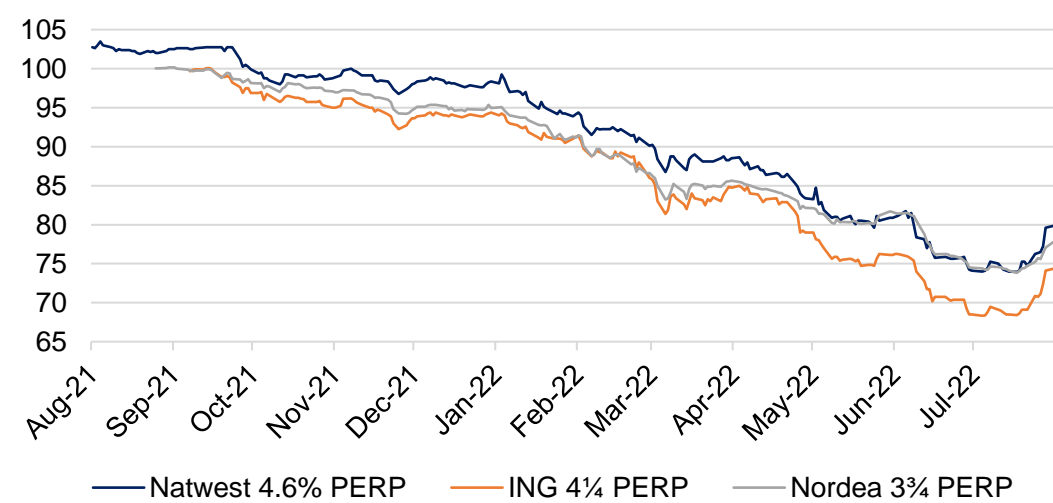
\*Source: Credit Suisse



## Financials

- A quiet month in terms of issuance due to earnings season. On the whole, results from the large Banks were positive. Some broad trends include:
  - No major strains in loan books yet
  - Good results in FICC trading divisions, reducing some of the shortfall seen in M&A and deal related revenues
  - Higher net interest income for banks such as Lloyds due to the higher base rates
- As stated earlier, European Bank AT1s generated a +7.0% return in July. At the end of July, the average yield to worst was 7.9% and a price of 91.7. Longer dated, low coupon AT1s are generically up +5pts from the lows

### Longer duration AT1s bounced in July

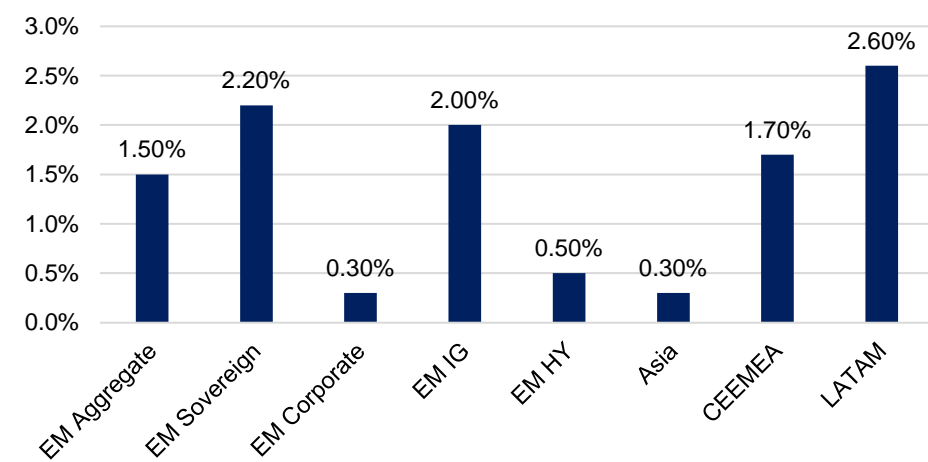


Source: Bloomberg

## Emerging Markets

- EM bond markets underperformed DM markets in July. However, the aggregate EM bond sector grinded out a positive +1.5% return in July, its first positive month in 2022

### EM HC Credit Return – July 2022

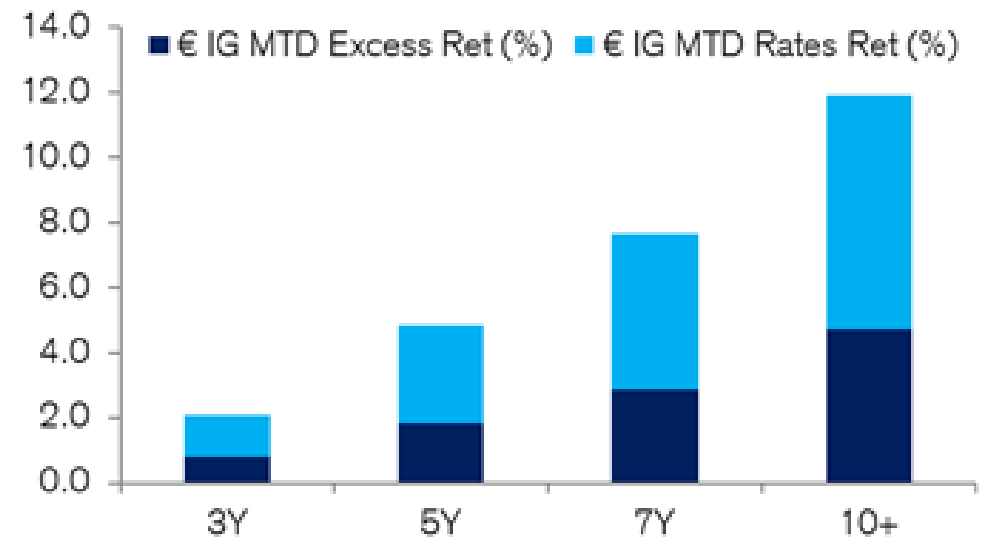


Source: Bloomberg, Seaport

- This is despite a difficult flows backdrop for EM assets this year. The FT highlighted that EM (Equities & bonds) outflows totaled more than \$38bn over the past five months, which is said to be the longest stretch of net outflows since records began in 2005.
- Breaking down the performance, EM Sovereigns outperformed Corporates and EM IG outperformed EM HY, and regionally LATAM was the outperformer. The likely reason for the outperformance of these individual components is duration, since EM Sovereigns, EM IG and LATAM are all longer duration.
- Ukraine filed its formal request to delay bond payments by two years and change the coupons on its GDP warrant instruments which has seen most of its dollar bonds trade down to ~20 cents in the Dollar.
- Despite the positivity in LATAM, IG rated nation Panama saw its spreads widen due to economical and political unrest driven by surging inflation and dissatisfaction with the current administration. Panama is yet another nation to experience protests and rioting due to similar factors, joining nations like Sri Lanka and Peru.

## Investment Grade

- European IG credit posted one of its best ever monthly returns, generating +4.7% in July. Credit spreads were 30bps tighter over the month, led by Hybrids which were up a more impressive 90bps.
- The significant rally in German Bunds pushed all-in yields tighter from around 3.5% to 2.4%.
- 10+ years € duration bonds posted total returns of +12% during July, unwinding some of the weakness experienced by longer duration assets throughout 2022.



Source: Credit Suisse

- There was a small uptick in green bond issuance with both GM and SSE two of the companies issuing Green bonds towards the end of July.
- US IG issuance is humming along and is only 7% below 2021 levels. Interestingly, most of YTD issuance has been concentrated in the 10 and 30 year duration buckets.

## High Yield

- July was the best month for US HY bonds since 2011, returning 5.9%, testing the recessionary narrative pervading markets.
- The move tighter in HY could be attributed to Fed Chairman Powell opening the door for more modest rate hikes and secondly a better than expected Q2 earnings season so far.
- Drilling into the components, BBs gained +6.1%, Single Bs +6.0% CCC +5%. BB rated yields fell 115bps which was the largest monthly decline in two years.
- Despite the positivity around credit spreads, US HY bond issuance was muted, with July only printing \$1.8bn, the lowest July total since at least 2006
- There was a similar story in the European HY new issue space. Issuers are having to offer new issues at a large discount to par in order to get deals over the line.
- For example, 888 Holdings (online gaming and betting operator) issued €400m of bonds at a price of 85 with a fixed coupon of 7.558% which resulted in a yield of more than 11%.
- Another tactic from larger asset managers has been to snap up LBO debt from Banks who priced debt at par earlier in the year and are now selling those same bonds in the 80s to get them off their balance sheet. An example of this type of transaction has been in UK Supermarket Morrison's bonds.
- US HY saw retail fund inflows during every week of July and in the week ending 27<sup>th</sup> July posted the largest weekly inflow in two years (\$4.83B inflow)



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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