

Credit Market Overview



As at 31 August 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	4.51	0.62	0.74	1.87	3.00
Global IG Spread (bps)	160	-1	16	27	70
Global HY YTW (%)	8.98	0.45	1.39	2.72	4.64
Global HY Spread (bps)	582	-16	80	113	216
CDS Index Spread Changes					
CDX IG	92	12	13	25	46
CDX HY	533	62	72	168	257
CDX EM	327	0	55	40	175
iTraxx Main	120	19	32	49	75
iTraxx Xover	588	79	151	243	343
Sub Fin CDS	129	20	32	48	77
Cash Index Performance (%)					
Global IG Corp Index		-3.05	-2.54	-8.48	-13.58
Global HY Index		-1.15	-3.90	-8.18	-13.32
Global EM USD Index		-0.54	-3.09	-9.46	-17.68
Higher Beta Sub Sector Performance (%)					
Banks AT1		-2.73	-1.35	-1.98	-4.12
Energy HY		-0.86	-2.35	-3.63	-4.16
EUR Corp Hybrids		-1.83	-4.79	-8.74	-15.37
Leveraged Loans		1.16	1.39	-1.05	-0.47
IG Sub Sectors Performance (%)					
Banks Senior		-3.73	-2.65	-6.02	-9.39
Energy IG		-2.59	-2.50	-8.79	-13.85
Auto		-1.70	-1.66	-6.57	-10.49
Utility		-3.19	-2.40	-10.62	-17.08
Communications		-3.95	-4.04	-11.82	-18.51
Airline		-0.34	-1.24	-5.99	-8.34
Retail		-3.67	-2.65	-9.77	-15.34
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		-2.93	-2.60	-9.41	-14.91
Bloomberg GBP Corp		-6.68	-6.68	-12.07	-18.58
Bloomberg Euro Corp		-4.23	-3.22	-8.15	-12.79
Maturity Bucket Performance (%)					
Short (1-3 Yr)		-0.74	-0.85	-2.09	-3.86
Intermediate (5-10 Yr)		-3.26	-2.08	-8.28	-12.39
Long		-4.50	-4.23	-15.14	-23.03
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

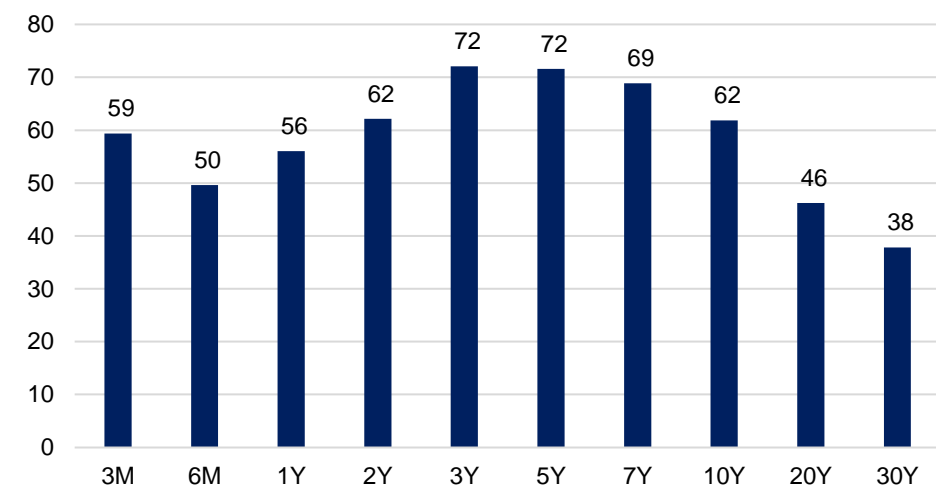
Headline Moves :

August 2022 was another volatile month for Fixed Income with most of the volatility concentrated in the UK and Europe.

The iBoxx GBP and Euro indices underperformed the US iBoxx corporate indices. Most of the weakness in the UK was due to the significant widening of Gilt yields based on an expectation of surging high double-digit inflation driven by the energy price cap.

Fed Chairman Jerome Powell eliminated any doubt in people's minds about whether the Fed would keep tightening financial conditions to bring down inflation, based on his comments at the Jackson Hole symposium. The market had pre-empted some of this hawkishness by sending the 10 year US Treasury wider by 60bps and the DXY Dollar Index gained 2.6% in August.

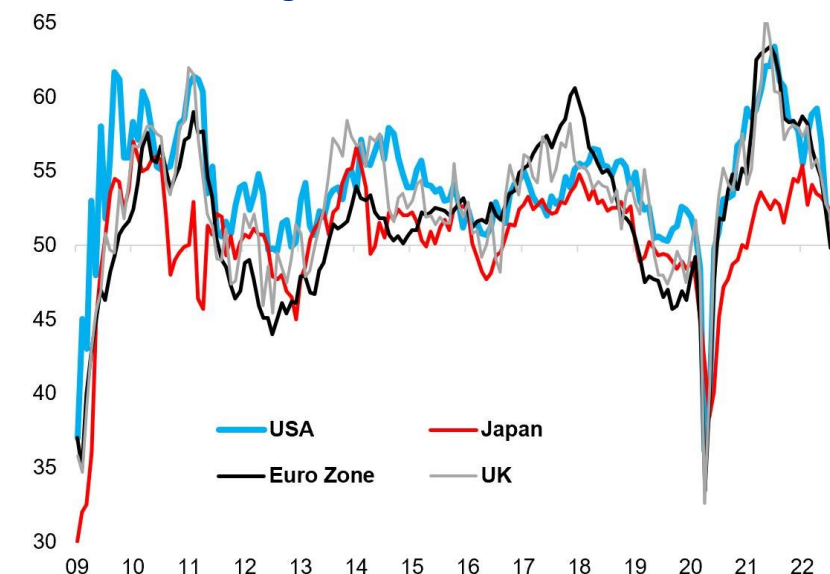
Monthly movement in US Treasury Yields - August



Source: Bloomberg
Within Credit indices, Xover widened 79bps to +588bps predominantly on fears of a likely recession in Europe driven by Gas shortages. EM HY spreads tightened in August based on the progress of IMF agreements for indebted nations (e.g., Egypt, Pakistan) and a significant rally in higher quality China Property names boosted by stimulus measures including credit support for issuers in the sector.

August saw weakening PMI data from a number of major contributors to global GDP which increases the challenge for Central Banks looking to tame inflation into a weakening global economy.

DM Manufacturing PMIs

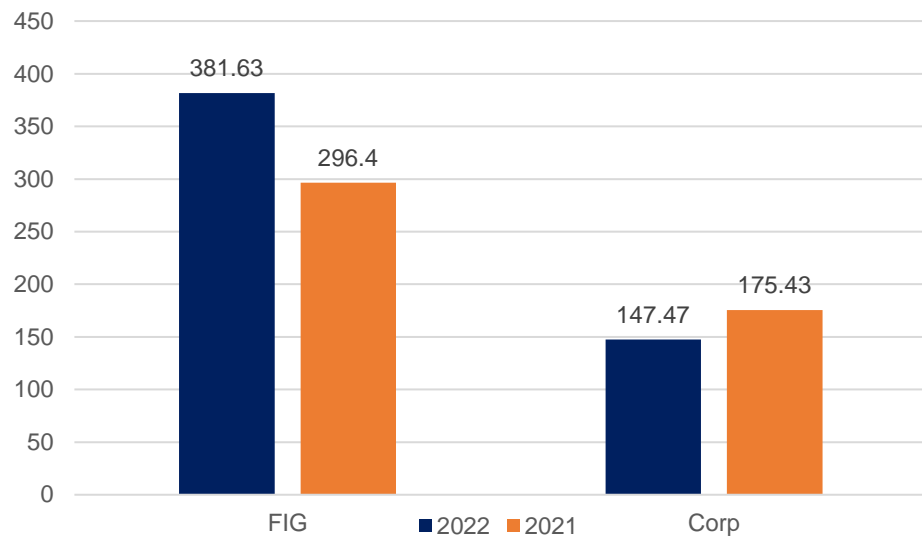


Source: Top down charts, Markit, Datastream

Financials

Financials issuance has been very strong YTD, such that it is 29% higher YoY in Europe whereas Corporate issuance is running 16% behind last year.

European Issuance



There has been a range of issuance comprising of Senior bonds going all the way down to AT1s for national champions like BNP Paribas and Barclays. Due to the higher rate environment and wider credit spreads, many Tier 2 subordinated bonds are pricing where AT1s used to price during the past few years, below are some examples:

Recent T2 Issuance

Security	Issuer	Ccy	A Px	A YTC	Nxt Call	Rating
BKIR 7.594 32	Bank of Ireland	GBP	100.00	7.5	09/06/2027	BBB/BB+
CMZB 6½ 32	Commerzbank	EUR	99.93	6.5	09/06/2027	BBB-/BB+
SOCGEN 5¼ 32	Soc Gen	EUR	100.00	5.3	09/06/2027	BBB-/BBB
WSTP 5.405 33	Westpac	USD	96.65	5.9	08/10/2032	BBB+/A-
ANZ 5.906 32	ANZ	AUD	100.33	5.8	08/12/2027	BBB+/A-
SHBASS 4% 32	Svenska Handelsbanken	GBP	95.83	5.6	08/23/2027	A-/A+
INTNED 4¼ 33	ING Group	EUR	96.87	4.7	05/24/2028	BBB/A-
RABOBK 3¾ 32	Rabo Bank	EUR	98.71	4.2	08/30/2027	BBB+/A-

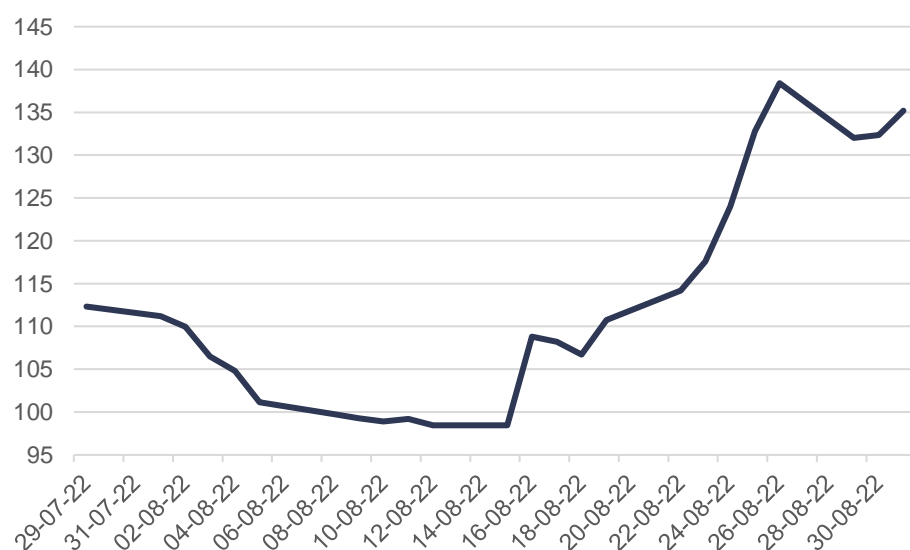
Source: Bloomberg as at 31 August

Emerging Markets

EM bond markets outperformed DM in August, driven by outperformance by HY EM credits. Distressed EM Sovereigns that are nearing the approval of new IMF programs saw bonds rally (e.g. Egypt, Pakistan and Sri Lanka).

Larger China Property developers' bonds rallied as PBOC implemented various stimulus measures such as cutting rates and an Insurance guarantee for newly issued real estate bonds.

China USD Property Bond ETF (3001 HK)

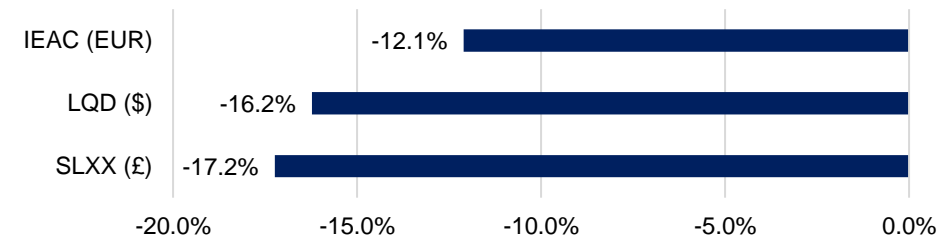


Source: Bloomberg as at 31 August

Investment Grade

- The BoE announced that it will sell £200m of bonds per week starting in September 2022. The BOE will only auction off bonds maturing on or after Apr 6, 2024. Excluding the debt which will mature before April 2024, it has bonds with a nominal value of around £13 billion to sell.
- In the UK, rising gilt yields and credit spreads have sent borrowing costs for IG rated companies above 5% on average, for the first time in a decade.

IG Bond ETF performance for different currency markets YTD



Source: Bloomberg as at 31 August

- The European IG Bond ETF (IEAC -5%) underperformed its HY comparator (IHYG -3.8%) as the duration sell-off impacted IG more than HY.
- In the European Corporate Hybrid space, Global Pharma company; Merck KGAA announced it is going to tender for two of its corporate hybrids below par. Through the transaction the company expects to reduce its EU3.0b hybrid capital portfolio by up to EU250m. This follows on from Real Estate Hybrid issuer Heimstad which bought back hybrids at deeply discounted prices in the prior month to restore confidence in its liquidity position.
- In Europe, many companies have sought alternative financing venues as judged by the record €16bn of volume in the Schuldschein market in the first half of 2022. Schuldschein is a privately-placed, medium to long-term, unsecured debt governed by German law. At least 10 new Schuldschein transactions came to market in August including ESG-linked transaction for largest ZF Friedrichshafen, the European Auto parts maker.

High Yield

- Half year results showed that HY Energy companies continue to churn out excess free cashflows, lower net leverage and boost liquidity positions. The difficulties of drilling new fields means that E&P companies continue to deploy cash towards debt reduction and share buybacks. The poster-child for this is Occidental Petroleum (OXY) owned by Berkshire Hathaway, but several other Energy companies are executing a similar strategy.
- US CCC spreads went through 1000bps again as they did in July 2022 likely representing tighter funding markets.

CCC Spreads



Source: Bloomberg as at 31 August

- Meanwhile, Fitch reported that loan defaults in August were the highest since October 2020. Healthcare/pharmaceutical accounted for the majority of August defaults. Year-to-date default volume is \$17.6 billion, triple the amount at this time last year.

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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