

Credit Market Overview



As at 30 September 2022

Rubrics Credit Market Overview

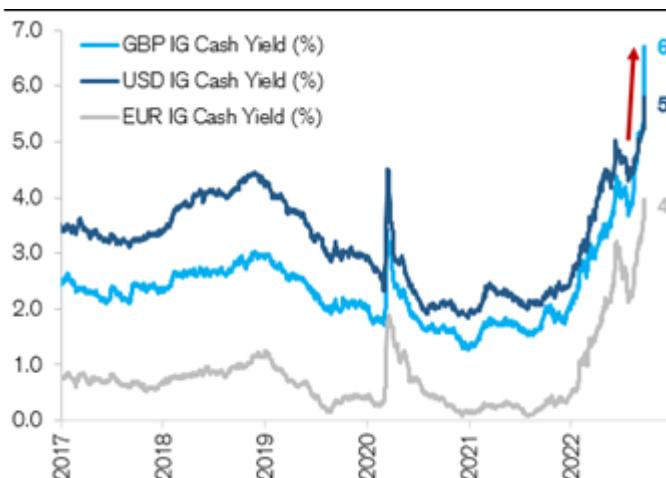
September 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	5.38	0.87	1.04	2.29	3.73
Global IG Spread (bps)	180	20	5	56	92
Global HY YTW (%)	10.34	1.36	0.87	3.85	5.68
Global HY Spread (bps)	652	70	-14	223	270
CDS Index Spread Changes					
CDX IG	108	16	7	41	55
CDX HY	610	77	31	234	308
CDX EM	331	4	-8	103	149
iTraxx Main	135	15	16	62	85
iTraxx Xover	641	53	61	303	396
Sub Fin CDS	148	19	20	68	92
Cash Index Performance (%)					
Global IG Corp Index	-4.49	-4.30	-10.65	-16.67	
Global HY Index	-4.53	-1.36	-11.79	-16.64	
Global EM USD Index	-5.53	-4.06	-12.42	-20.92	
Higher Beta Sub Sector Performance (%)					
Banks AT1	-5.93	-2.08	-8.27	-10.41	
Energy HY	-2.99	1.19	-6.92	-7.89	
EUR Corp Hybrids	-4.18	0.76	-12.66	-18.59	
Leveraged Loans	-2.85	1.29	-4.08	-3.92	
IG Sub Sectors Performance (%)					
Banks Senior	-2.40	-2.42	-7.58	-11.29	
Energy IG	-5.56	-4.91	-12.22	-18.14	
Auto	-3.47	-3.08	-7.27	-13.16	
Utility	-6.20	-5.96	-13.96	-21.29	
Communications	-6.50	-6.84	-15.45	-22.59	
Airline	-2.89	-2.08	-5.89	-11.22	
Retail	-5.58	-5.72	-12.57	-19.14	
Currency (Hedged) Performance (%)					
Bloomberg USD Corp	-5.26	-5.06	-11.95	-18.53	
Bloomberg GBP Corp	-8.88	-11.99	-19.00	-24.03	
Bloomberg Euro Corp	-3.32	-3.06	-10.12	-15.14	
Maturity Bucket Performance (%)					
Short (1-3 Yr)	-1.35	-1.31	-2.21	-5.12	
Intermediate (5-10 Yr)	-4.35	-4.79	-9.17	-15.24	
Long	-8.74	-8.65	-20.34	-28.40	
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	.

- September 2022 saw fixed income market volatility surge in both the rates and credit markets as global quantitative tightening and rate hikes continued apace
- Europe and Denmark's base rates moved into positive territory after spending many years at negative rates. There is still work to be done on reaching the neutral rate according to ECB's Lagarde who said borrowing costs will be raised at the next "several meetings" to ensure inflation expectations remain anchored.
- Rates market volatility was led by the UK Gilt market which saw 100bps + intraday swings in the long end and 50bps+ intraday swings in shorter maturities.
- Within Credit, several benchmarks hit notable levels:
 - US IG cash credit spreads broke to new YTD highs of +164bs
 - US HY yields passed 10%
 - Europe Itraxx Main CDS hit 135 (highest since euro debt crisis in 2012)
 - European Xover CDS nearing pandemic wides

- The rise in government bond yields and credit spreads has sent yields on DM IG to the highest in 5 years

IG credit bond yields



Source: Credit Suisse

- To shelter from the volatility, more money has been flowing to short term "risk free" securities such as 1 year US T Bills (yielding 4.0%) and the Fed's Reverse Repo Facility which pays around 3.0% and had taken in a record sum of \$2.4 trillion as at end of September.
- The tail end of the Q2 earnings season highlighted weakness in a broad range of sectors including automakers/used cars, chemicals, consumer discretionary, transport & logistics and semiconductors.
- Despite staff shortages in certain sectors, sectors such as tech and startups are seeing an increasing number of job cuts, which could shift the market focus from high inflation to rising unemployment.

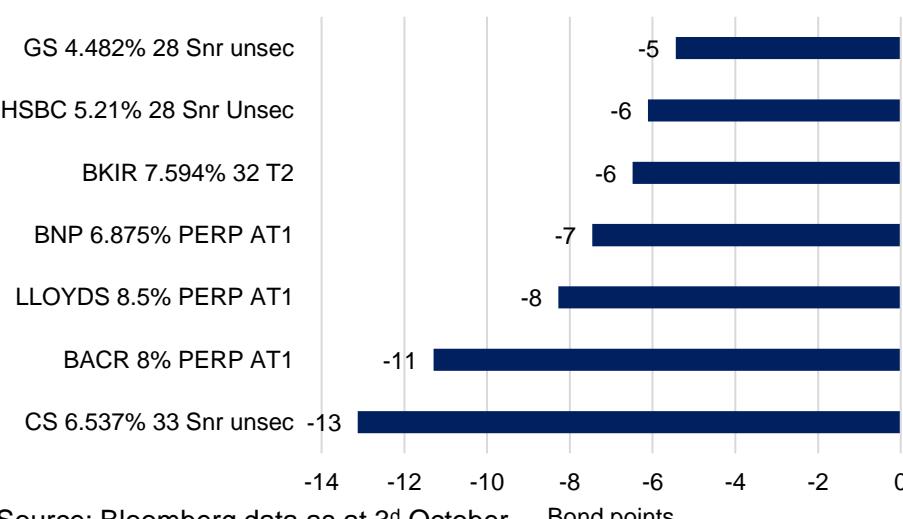
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Financials

- UK / European Sub Financial bond prices weakened due to heightened volatility in UK banks, idiosyncratic risk in Credit Suisse and wider risk-off in higher beta credit assets. Spreads on the BBG Global CoCo Banking Index widened to 550 bps which is 100bps off the wide of March 2020 and nearly 140bps higher than its historical average (going back to 2014).
- There was a non-call of an AT1 (Bank Novia Scotia \$ 4.65% perp), which was largely expected due to the low reset. It was an interesting development since the coupon re-racked higher and became an AT1 floating rate note such that its coupon will reset each quarter thereafter.
- Lloyds Bank announced an “any and all” tender offer for its £1.05bn Lloyds 7.625% (2023 call) £ AT1, a previously tendered security. Tenders on AT1 are rare with Standard Chartered the only other major issuer to tender for an AT1 in the past.
- There was some indigestion in recent new financial bonds after a record August for issuance. Even bonds with large coupons have cheapened significantly due to continued rates/credit volatility and fading risk appetite:

Price changes for bonds issued in August-22



Source: Bloomberg data as at 3rd October

Emerging Markets

- Emerging market nations played their part in the global hiking cycle. Colombia, Mexico, South Africa and Kenya were some of the nations that hiked interest rates in September. Brazil paused its interest rate hikes after 12 straight hikes and Egypt's Central Bank also paused.
- There was some loss of momentum for the Russian forces in the Russia/Ukraine conflict as the Ukraine army advanced towards the East of Ukraine. Furthermore, there has been mass migration out of Russia into neighboring nations following the call-up of 300k reservists for the Russian army.
- These developments have had little notable effect on Ukrainian/Russian bond prices of late, but it is notable that certain Russian Sovereign and Corporate USD bonds have gained around 30-40pts from the lows seen in May and June this year.

Russia 12.75% 2028 USD Bond

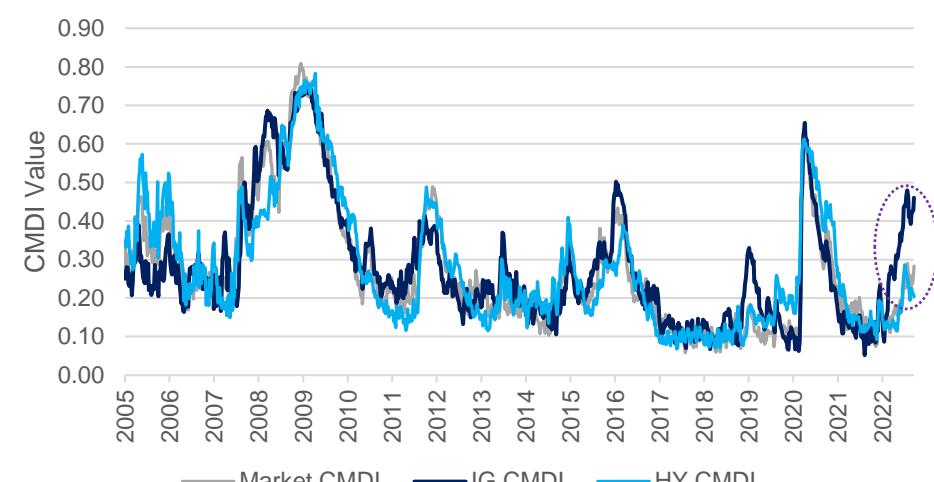


Source: Bloomberg

Investment Grade

- IG credit markets are having to deal with the sell-off in duration, heightened GBP market volatility and more recently a resumption in widening of credit spreads. Nearly 90% of all US IG bonds are trading below par compared to only 4% a year ago.

NY FED Corporate Bond Market Distress Index



Source: NY Fed, September 2022

- IG market distress as judged by the Fed's CMDI index has accelerated above HY market distress. Levels of distress in IG has only historically been surpassed by the '08 GFC, 2016 commodity crash and the worst of the pandemic (March 2020)
- Surging borrowing costs and fund outflows have led to a slowdown in IG bond issuance. The average yield on Bloomberg's benchmark high-grade now stands at 5.38%, just off the highest since 2009.
- Call/tender activity has picked up with a number of IG rated Corporate Hybrid issuers tendering for existing issues; American Movil, BHP, Telia, KPN, Heimstaden Bostad. Interestingly American Movil tendered for a EUR Hybrid callable next year, then utilized the “clean up” call to call the remainder of the bond early.
- A window of issuance opened in Corporate Hybrids in the month which saw issuers like Enbridge, KPN and Telia come to market.
- The tail-end of earnings season revealed some disappointing updates from bellwethers such as FedEx, Nike, Next and Micron. Issues cited included lower profit guidance, higher supply chain costs and a jump in inventories which will result in discounting.

High Yield

- US HY posted the worst ytd losses on record as at end of September and generated negative returns for the second consecutive month.
- Average yields on US HY have surpassed 10%, with CCCs now offering 15% with spreads at a two year high of 1100bps.
- Serial debt issuer Carnival issued a poor earnings report which sent its shares to the lowest since 1992. Contracting consumer budgets are weighing on the HY consumer discretionary sector which is likely to impact credit spreads further
- The year-to-date bond sales in the US junk bond market is \$87b, the lowest since 2008. Financing has been tricky with LBO debt executed in 2021 stuck on balance sheets of arranger banks. There were glimmers of hope as \$8.55bn of Citrix HY debt was offloaded from Banks' balance sheets, but this was not followed up by any successive deals due to the severely diminished investor appetite.

ESG

- Barbados sovereign issued a \$146.5m dual currency “blue loan” following in the footsteps of Belize which issued \$364m blue bond. The bond was guaranteed by the IDB which helped reduce the funding costs for Barbados. Blue bonds are used specifically to finance projects related to ocean conservation. On a related note, nearby Caribbean nation Barbados has discussed with the IMF the possibility of using Carbon Credits to pay off its debt.

Index Description

September 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

September 2022

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