

# Credit Market Overview

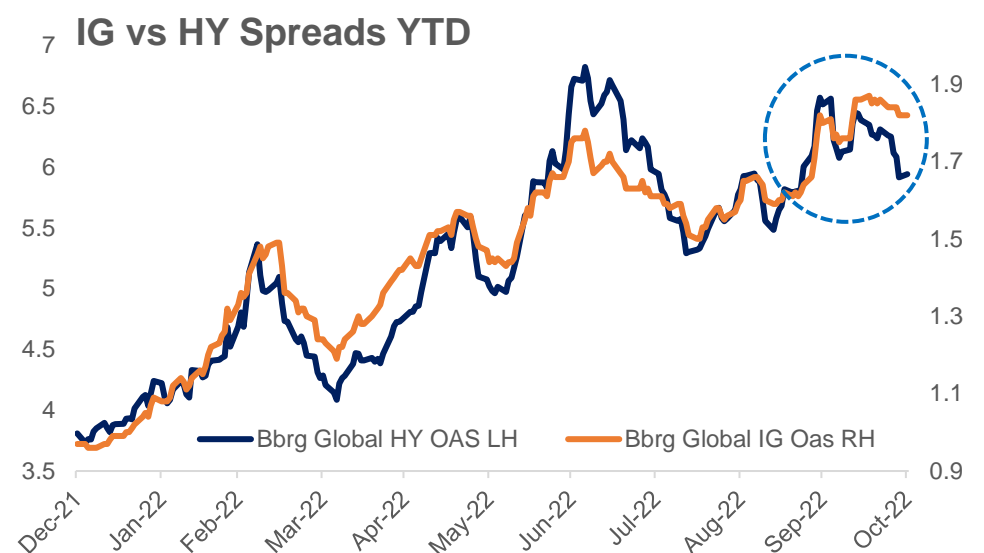


As at 31 October 2022

Measure	Level	1 Month	3 Month	6 Month	12 Month
<b>Cash Spread/Yield Changes</b>					
Global IG Corp YTW (%)	5.57	0.19	1.68	1.83	3.78
Global IG Spread (bps)	182	2	21	40	91
Global HY YTW (%)	10.03	-0.32	1.49	2.62	5.17
Global HY Spread (bps)	594	-57	-4	120	211
<b>CDS Index Spread Changes</b>					
CDX IG	90	-18	9	7	38
CDX HY	520	-89	49	59	215
CDX EM	295	-37	-30	13	109
iTraxx Main	114	-22	13	24	63
iTraxx Xover	555	-86	45	127	309
Sub Fin CDS	219	-52	13	22	106
<b>Cash Index Performance (%)</b>					
Global IG Corp Index		-0.58	-7.94	-7.27	-17.09
Global HY Index		1.98	-3.75	-6.77	-14.54
Global EM USD Index		-0.88	-6.86	-9.27	-21.28
<b>Higher Beta Sub Sector Performance (%)</b>					
Banks AT1		3.17	-5.59	-5.08	-7.43
Energy HY		3.35	-0.60	-0.84	-5.24
EUR Corp Hybrids		1.28	-4.73	-8.50	-16.99
Leveraged Loans		1.64	-0.11	-2.38	-2.34
<b>IG Sub Sectors Performance (%)</b>					
Banks Senior		0.31	-5.75	-5.19	-10.39
Energy IG		-0.50	-8.46	-7.39	-18.89
Auto		-0.05	-5.16	-4.58	-13.08
Utility		-1.70	-10.73	-9.58	-23.21
Communications		-1.05	-11.14	-9.72	-23.76
Airline		-0.32	-3.53	-4.71	-11.51
Retail		-1.47	-10.39	-8.54	-20.58
<b>Currency (Hedged) Performance (%)</b>					
Bloomberg USD Corp		-1.03	-8.98	-7.82	-19.57
Bloomberg GBP Corp		4.36	-11.25	-12.57	-21.21
Bloomberg Euro Corp		0.10	-7.31	-7.49	-14.42
<b>Maturity Bucket Performance (%)</b>					
Short (1-3 Yr)		-0.18	-2.26	-1.71	-4.97
Intermediate (5-10 Yr)		-0.85	-8.26	-6.37	-15.41
Long		-2.25	-14.81	-13.71	-31.04
<b>Global IG Corp Index Attribution (%)</b>					
Carry		0.45	0.97	1.87	1.79
Duration		-0.90	-7.52	-6.48	-12.15
Spread		-0.12	-1.39	-2.66	-6.73
<b>Performance</b>		<b>-0.58</b>	<b>-7.94</b>	<b>-7.27</b>	<b>-17.09</b>

- In line with the broader move in risk assets, October saw a fair degree of spread compression between High Yield and Investment Grade as positive sentiment led to a decent outperformance of the former
- In terms of investment grade, USD was the major underperformer with the long end of the US Treasury curve in particular suffering. 30-Year US Treasury yields were almost 40bps higher on the month. Elsewhere GBP was a significant outperformer as 30-year Gilts recovered from major intra month volatility to finish the month 22bps lower and approximately 120 bps off the intra month highs
- Within higher beta credit, Bank AT1 was a very strong performer over the month continuing its ytd outperformance of other high beta areas like corporate hybrids.

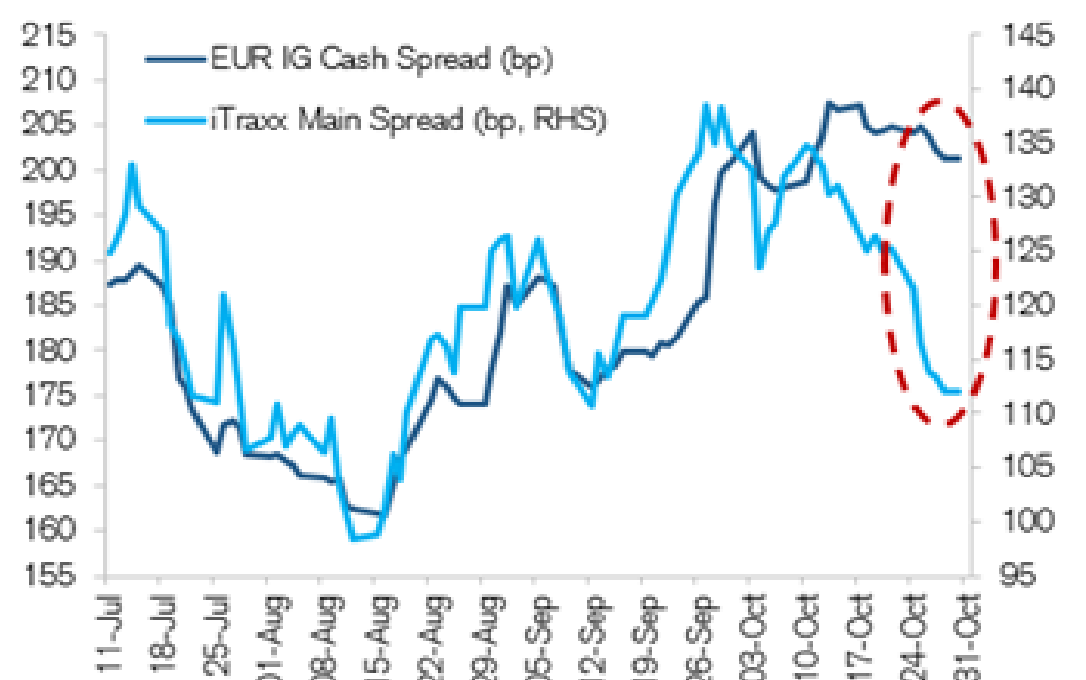
### Compression - IG vs HY Credit Spreads



Source: Bloomberg as at 31/10/22

- In Europe, the Itraxx Main CDS outperformed EUR IG cash credit spreads by some margin as market participants took off hedges towards the end of the month. This has left cash credit looking relatively more attractive vs CDS

### CDS vs Cash Credit Spreads

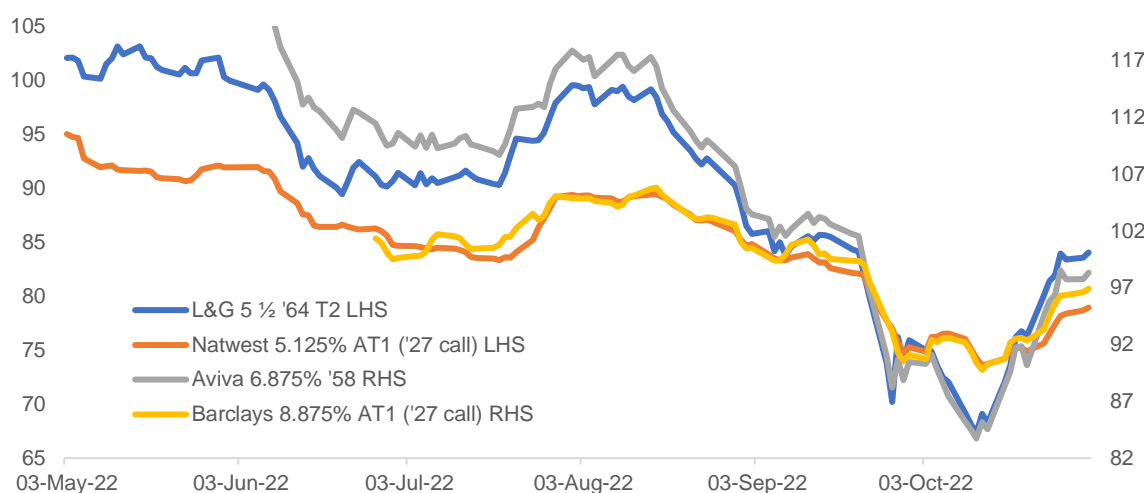


Source: Credit Suisse as at 31/10/22

## Financials

- Q3 earnings season has been largely positive for Banks as they have benefitted from the higher rate environment while increasing their loan provisions in anticipation of expected recessionary conditions.
- In the AT1 space, there were two more non calls of bonds – namely Sabadell and Raiffeisen bank (RBI). The Sabadell AT1 rallied post the announcement and the RBI AT1 was largely unchanged given the news was expected with both now trading on a yield to perpetuity basis instead of yield to call. Elsewhere certain issuers have adopted a more innovative approach to liability management such as UK Challenger Bank Shawbrook which carried out an exchange with holders of its outstanding bond (7.875% coupon) into a new security (12.1% coupon).
- There was further volatility in Credit Suisse bonds as markets reacted to various headlines including a capital increase. Overall, the bonds rallied off the lows driven by the new management team, plans for capital raise, cost cuts and a drying up of sellers of the name.
- The rally in UK Gilts and GBP credit following the resignation of former PM Truss and Chancellor Kwarteng boosted subordinated Banks and Insurance bonds. The new team of PM Sunak and Chancellor Hunt has the market buying into greater effort from the UK Government to “balance the books” – for now.

### UK longer dated Bank and Insurance Bonds



Source: Bloomberg as at 31/10/22

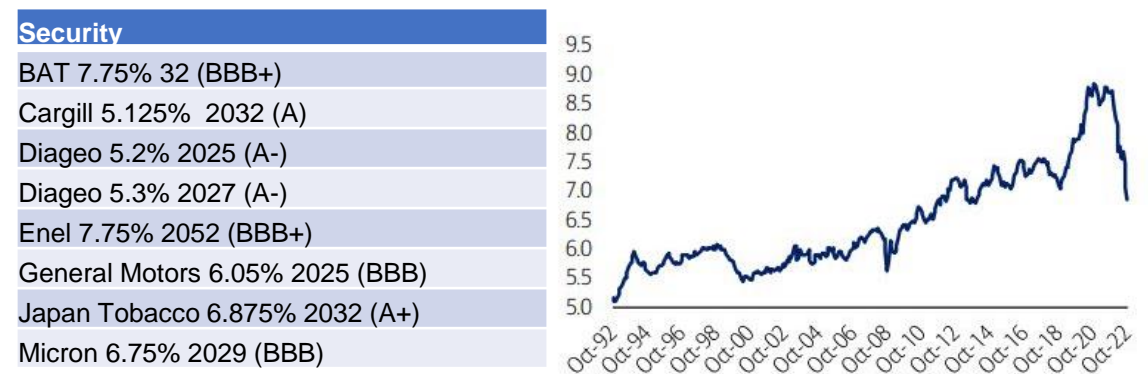
## Emerging Markets

- New issuance is tentatively picking up in EM with a number of mainly Investment Grade sovereigns coming to market. Philippines (BBB), Saudi Arabia (A), Uruguay(BBB) all came to market in October.
- Very large coupon deals are coming back in favour as demonstrated by Latam Airlines’ dual tranche USD bonds. They successfully priced 5 and 7 year with coupons of 13.375% priced at a discount to yield 15%.
- Egypt (large single B issuer) hiked its base rate by 200bps , devalued its currency by 13.75% and announced a staff-level agreement on a 46 month Extended Fund Facility with the IMF worth \$3bn which lifted prices on the Egypt bond curve.
- The sell-off in Chinese assets gathered pace as the 20<sup>th</sup> Party congress offered little hope to a change to the “zero-covid” strategy and the economic direction for China. This has resulted in even the “best” issuers in the China property sector such as Country Garden seeing their bonds trade in high single cents in the Dollar, or a third of where they were trading at the start of October.

## Investment Grade

- The rise in US Treasury yields did not deter large blue-chip issuers from coming to market:

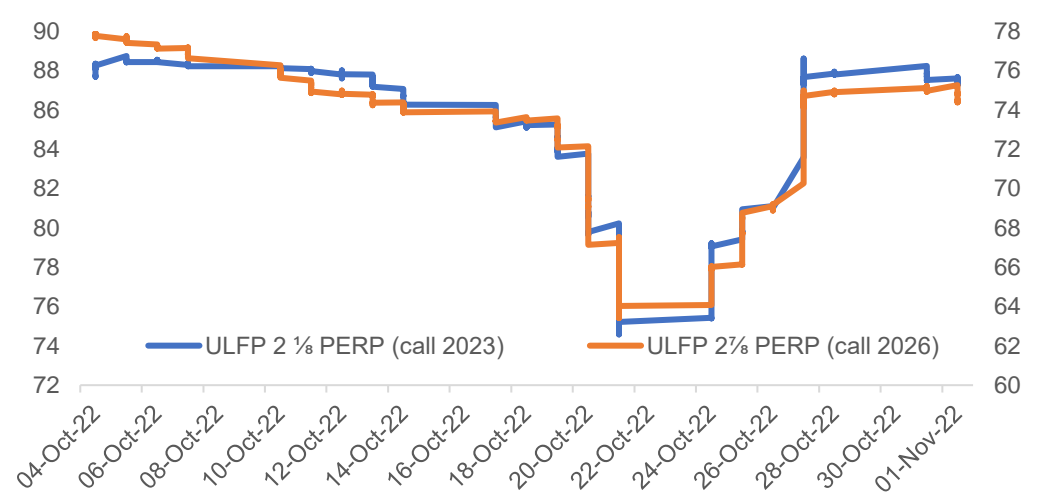
### New issuers in October and benchmark duration



Source: Bloomberg and BofA as at 31/10/22

- Besides higher yields, the other favourable development within IG Corporates has been the reduction in market duration in the Global Aggregate Bond Index (chart above right).
- As the considerable rates volatility subsided in the UK, the new issue market re-opened with caution as Northumbrian Water priced a 12 year deal, the first bond issue post the UK Mini Budget.
- The Corporate Hybrid market saw heightened price volatility in October and dispersion in performance between different sectors. Overall the universe was driven higher by performance of Telcos, Energy and Utility Hybrids. Real Estate and REITs continue to lag the rally although there was some specific positivity in CRE firm Unibail’s corporate hybrid stack after the company announced that it has secured financing needs for more than 36 months, “assuming the reimbursement of the 2023 hybrid.”

### Unibail Corporate Hybrid Performance

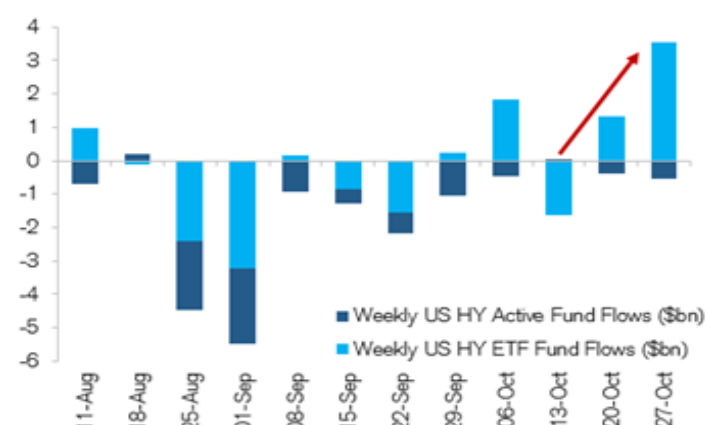


Source: Bloomberg as at 31/10/22

## High Yield

- In a similar development to EM HY, new issues with double digit coupons were common in October. Carnival, Odeon and Enquest were among the issuers to come to market with double digit yields.

## HY Flows



Source: Credit Suisse as at 31/10/22

- High yield bond ETFs saw the biggest weekly inflow this year. According to Credit Suisse, these flows are more to do with changes in the premium/discounts to NAV of HY ETFs which in turn leads to ‘arb’ activity by financial intermediaries. The rally in HY came against a backdrop of rising corporate credit distress in the US. According to Bloomberg, the quantum of distressed debt in Americas rose to \$284.5bn as of the 27<sup>th</sup> of October, which represented the sixth weekly increase.

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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