

Credit Market Overview



As at 30 November 2022

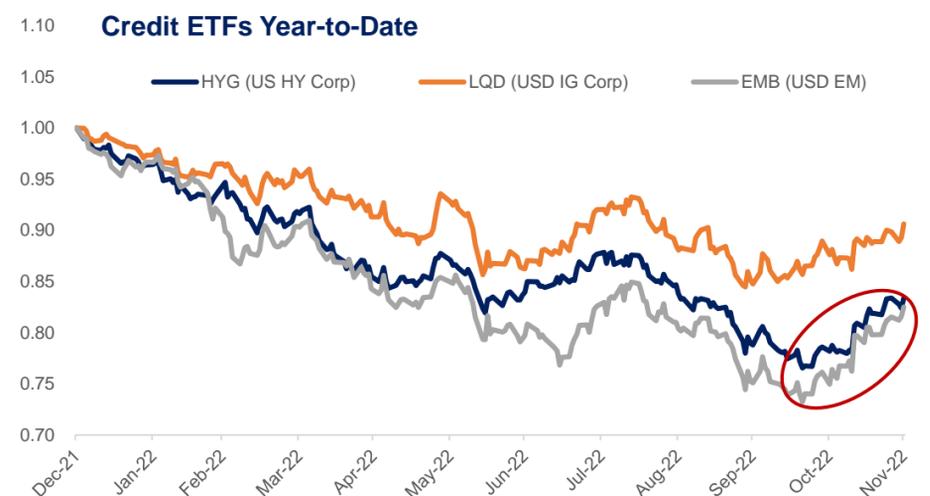
Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	5.00	-0.57	0.49	1.23	3.17
Global IG Spread (bps)	154	-28	-6	10	49
Global HY YTW (%)	9.23	-0.80	0.25	1.63	3.84
Global HY Spread (bps)	545	-49	-37	43	108
CDS Index Spread Changes					
CDX IG	76	-15	-17	-4	18
CDX HY	452	-68	-81	-9	125
CDX EM	226	-70	-101	-45	12
iTraxx Main	92	-22	-28	4	34
iTraxx Xover	459	-96	-129	21	213
Sub Fin CDS	103	-20	-27	6	35
Cash Index Performance (%)					
Global IG Corp Index		4.39	-0.88	-3.40	-13.60
Global HY Index		4.27	1.52	-2.44	-9.63
Global EM USD Index		6.63	-0.15	-3.23	-15.16
Higher Beta Sub Sector Performance (%)					
Banks AT1		1.79	-1.21	-2.54	-6.19
Energy HY		1.43	1.70	-0.69	-2.16
EUR Corp Hybrids		3.33	0.28	-4.52	-13.85
Leveraged Loans		1.59	0.31	1.71	-0.32
IG Sub Sectors Performance (%)					
Banks Senior		2.21	0.07	-2.58	-8.66
Energy IG		5.36	-1.00	-3.47	-14.11
Auto		3.46	-0.18	-1.84	-10.01
Utility		5.83	-2.42	-4.76	-18.94
Communications		6.28	-1.67	-5.65	-19.09
Airline		2.34	-0.93	-2.16	-8.85
Retail		5.70	-1.67	-4.28	-16.31
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		5.18	-1.38	-3.94	-15.46
Bloomberg GBP Corp		4.21	-0.90	-7.51	-18.86
Bloomberg Euro Corp		2.81	-0.50	-3.71	-12.18
Maturity Bucket Performance (%)					
Short (1-3 Yr)		1.24	-0.31	-1.16	-3.63
Intermediate (5-10 Yr)		3.72	-1.63	-3.68	-12.64
Long		9.08	-2.69	-6.81	-25.08
Global IG Corp Index Attribution (%)					
Carry		0.46	1.13	1.89	1.83
Duration		2.22	-2.39	-4.62	-11.80
Spread		1.70	0.39	-0.67	-3.63
Performance		4.39	-0.88	-3.40	-13.60

- November saw a strong rally in risk assets, long duration government bonds and the biggest weakening in the DXY Dollar index since 2010 (5% decline). Comments from the Federal Reserve comments on the moderation of size of future interest rate hikes were a chief catalyst. This was backed up to some extent by weakening US economic data and lower than expected November European inflation data, while China “re-opening” actions/support measures were also supportive
- USD fixed income outperformed as the yield contraction in the US yield curve was greater than elsewhere. Long dated US investment grade corporate debt - with maturity greater than 10 years - surged nearly 10% in November, on track for its biggest leap since December 2008. This same sector had plunged more than 24% in 2022 YTD due to the rapid rise in US Treasury yields.
- The GBP credit market roared back into action after a long 6-week hiatus in the lead up to and then following the disastrous UK Mini-Budget. The Gilt market was also better supported as evidenced by the Gilt linker sold in the week ended 25 November being the most oversubscribed deal.

Issuer	Sector	Deal Size	Book Coverage
Severn Trent Utilities Finance (Sust.)	Utility	£400m	8.50x
Commerzbank (Tier 2)	Bank	£350m	6.57x
GreenSquareAccord (Sust)	Housing Assn.	£400m	4.33x
Credit Agricole (SNP)	Bank	£750m	2.00x
UK Gilt Linker	Govt	£1.50b	11.20x

Source: Bloomberg as at 30/11/22

- High beta sub sectors performed well in aggregate with Eur corporate hybrids in particular making up for some of the year-to-date losses previously experienced.

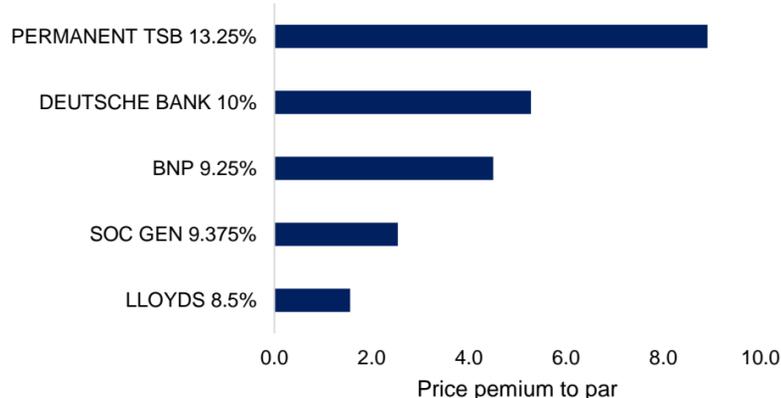


Source: Bloomberg as at 30/11/22

Financials

- Sub Financials were very much part of the beta rally as recently issued high coupon AT1 paper all traded up to 8 points higher vs issuance levels.

Recent AT1 Bond Price Performance



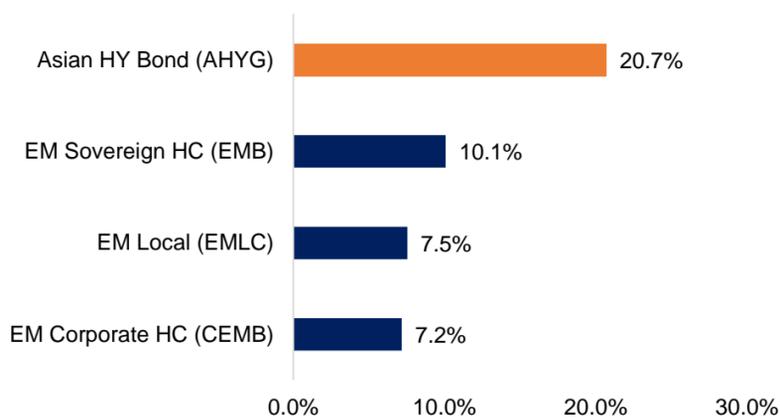
Source: Bloomberg as at 30/11/22

- Another corporate action trend was that of small/midsize firms opting for *exchange offers* instead of calling bonds that have an upcoming call date. Portuguese Bank *BCP*, UK Credit card provider *NewDay* and specialist lender *IPF* were just some of the issuers choosing this route. *Credit Suisse* bonds were notable underperformers despite a \$4bn capital raise and the “risk-on” rally in Sub Financials..
- Over €55bn was issued in the UK/European Financials sector with some of the use of proceeds directed towards pre-financing upcoming maturities and calls, thereby reducing call risk on certain larger names. Insurance bond issuance made up a small proportion compared to Banks which dominated. The large quantum of new issuance was helped by cash proceeds from large debt tender offers like that for HSBC where £1.4bn of its bonds were tendered.

Emerging Markets

- EM activity was dominated by the China Real Estate sector which has benefitted significantly from the re-opening actions/headlines and banking support measures for the sector originated by the Chinese state.

EM Bond ETF Total Return in Nov-22



Source: Bloomberg as at 30/11/2022

- Bonds from China Real Estate issuers such as Country Garden have risen nearly 50pts in some cases from mid single digit bond prices. This has been driven by the top-down sector support being transmitted by the Chinese Banks and Insurance companies to the Real Estate sector, substantially reducing default risk.
- Other parts of EM rallied strongly too but that did not stop new restructuring announcements from over-indebted nations, for example Ghana proposed a possible debt restructuring involving large haircuts to foreign bondholder debt.

Investment Grade

- November 2022 saw over €130bn in new IG bond sales across UK and Europe, a record November for issuance. November's tally was about 30% higher than sales in September, traditionally the second half's busiest month.
- Senior unsecured was complemented by subordinated corporate hybrid issuance. Large, seasoned corporate hybrid issuers such as Telefonica, Orsted and EDF came to market with high coupon, high step issuance that was well received by investors. However, hybrids in the real estate continue to underperform as firms in that space contend with higher rates.

Security	Ccy	Amt Out	Reset Spread	Px as at 30 Nov	YTC	YTM
Air France 6.5%	EUR	305m	1,300	100.96	6.3	12.76
EDF 7.5%	EUR	1bn	486	101.53	7.2	7.32
Orsted 5.25%	EUR	500m	262	101.45	5.0	5.11
Telefonica 7.125%	EUR	750m	432	104.37	6.2	6.64

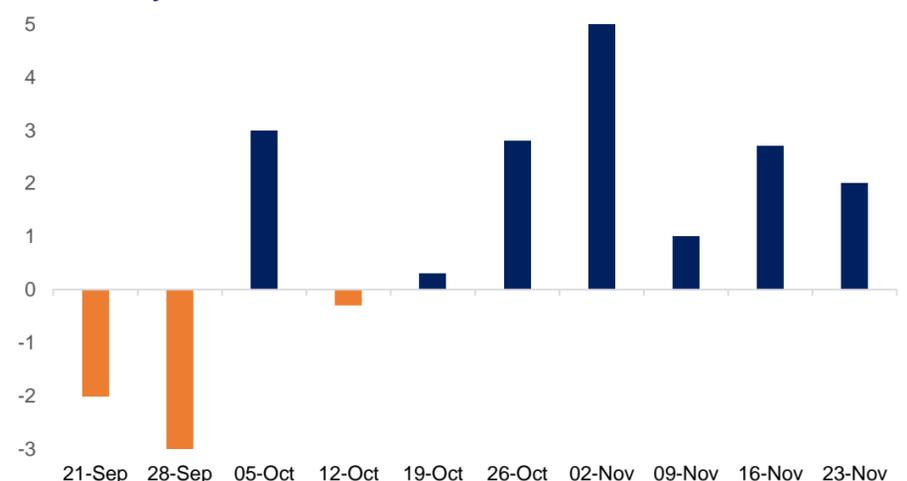
Source: Bloomberg 30/11/2022

- The US IG market was buoyant with over \$100bn of issuance printing including a Jumbo \$8.5bn multi tranche from Amazon
- Due to the kinks in the US Treasury curve there were some interesting opportunities cropping up. For example A rated Mercedes issued multi tranche in USD, but due to the shape of the curve, its 2-year bond came at a higher yield than the 3-year bond.

High Yield

- US high yield experienced 6 consecutive weeks of inflows between 19 October and 23 November – buoyed by the lower than expected CPI print in the US.

US Weekly HY Bond Fund Flows



Source: Morningstar via Pitchbook

- Performance-wise US high yield advanced for the second consecutive month which was the first time the market saw back to back monthly increases since July/August 2021. The gains were broad based across all ratings, with higher quality outperforming – BB bonds returned 2.36% with yields falling 36bps to 7%. Meanwhile, CCCs, posted more modest gains of 0.13% reflecting the preference for better credit quality from market participants ahead of a possible recession.
- Despite the positive flow momentum and performance, US HY issuance was muted with only \$9bn printing - the lowest total since Nov-2018.
- In Europe, the iTraxx Xover credit index rallied more than a 100bps vs the end of October and has in fact rallied 230bps compared to the recent peak of 670bps at the end of September.

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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