

Credit Market Overview

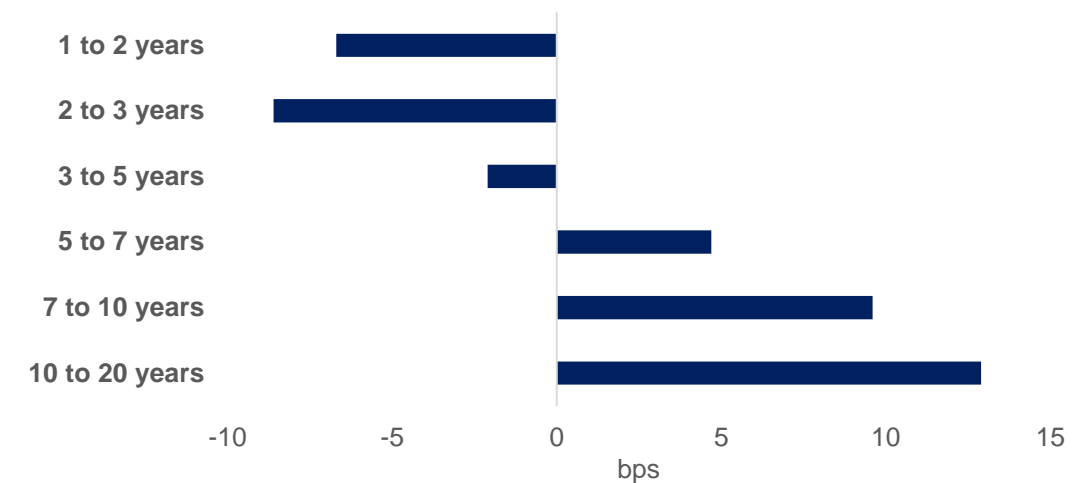


As at 28 February 2023

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	5.23	0.50	0.23	0.72	2.59
Global IG Spread (bps)	135	2	-19	-25	2
Global HY YTW (%)	9.14	0.51	-0.09	0.16	2.88
Global HY Spread (bps)	495	-3	-50	-87	26
CDS Index Spread Changes					
CDX IG	76	5	1	-16	9
CDX HY	463	33	10	-71	97
CDX EM	241	19	15	-86	-47
iTraxx Main	80	0	-12	-40	9
iTraxx Xover	414	-1	-45	-175	168
Sub Fin CDS	88	0	-14	-41	7
Cash Index Performance (%)					
Global IG Corp Index		-2.41	0.33	-0.55	-8.98
Global HY Index		-1.40	2.44	4.00	-4.51
Global EM USD Index		-2.23	1.75	1.60	-8.01
Higher Beta Sub Sector Performance (%)					
Banks AT1		-0.30	2.69	1.45	-0.56
Energy HY		-1.62	0.93	2.65	-1.08
EUR Corp Hybrids		-0.72	1.41	1.70	-7.19
Leveraged Loans		0.12	3.68	4.01	2.92
IG Sub Sectors Performance (%)					
Banks Senior		-1.07	0.20	0.27	-5.77
Energy IG		-3.62	0.05	-0.95	-9.65
Auto		-1.80	0.36	0.18	-6.40
Utility		-3.93	0.23	-2.20	-12.58
Communications		-4.02	-0.08	-1.75	-13.36
Airline		-0.08	2.75	1.80	-4.30
Retail		-3.49	-0.71	-2.37	-11.91
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		-3.18	0.26	-1.13	-10.43
Bloomberg GBP Corp		-2.51	-0.31	-1.20	-13.13
Bloomberg Euro Corp		-1.44	-1.04	-1.54	-9.56
Maturity Bucket Performance (%)					
Short (1-3 Yr)		-0.69	0.49	0.18	-1.91
Intermediate (5-10 Yr)		-2.91	-0.51	-2.13	-10.24
Long		-5.45	-0.08	-2.77	-17.49
Global IG Corp Index Attribution (%)					
Carry		0.39	1.25	2.26	2.64
Duration		-2.68	-2.11	-4.41	-11.48
Spread		-0.13	1.19	1.61	-0.14
Performance		-2.41	0.33	-0.55	-8.98

- Sticky global inflation and better than expected economic data pushed up expected terminal rates across major developed markets. As a result, global bond yields moved higher in February led by the US with yields on 10 and 30 year US Treasuries approaching 4%.
- Yields in credit have risen too with IG yields hitting 5.23% which is the highest outside of October 2022 and the 08/09 GFC. Meanwhile Global HY yields hit 9.14% (per the Bloomberg Global High Yield Index)
- The rise in longer dated govt bonds put pressure on longer dated credit as judged by its underperformance vs shorter dated credit.

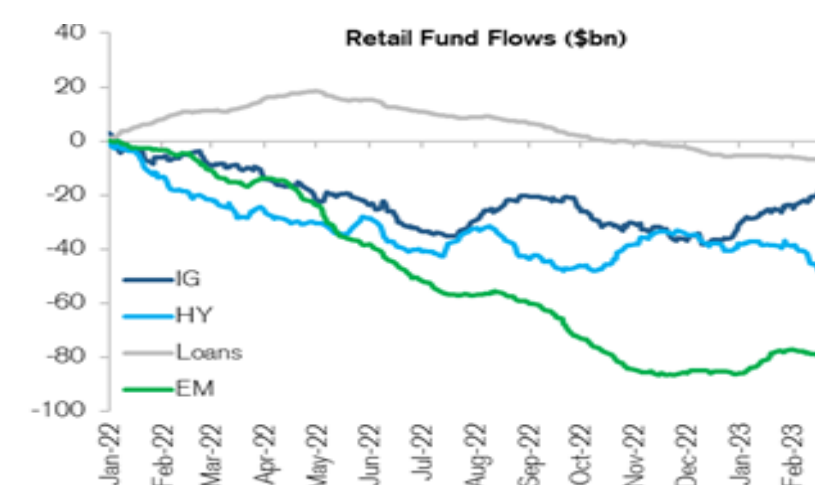
OAS on US IG Corporates (1 Mth Chg)



Source: Bloomberg as at 28/02/23

- In terms of notable moves, CDX High Yield spreads widened 33bps and CDX EM widened 19bps in the month. Within IG cash credit, duration was the key driver of underperformance, and saw sectors such as Telcos and Utilities underperforming the most. Shorter duration IG credit sectors (Banks and Airlines) outperformed while higher beta areas also held in reasonably well (e.g. Bank AT1 and EUR corporate hybrids).
- Within mutual fund flows, there was a bias towards Investment grade over High Yield and EM. Furthermore, as short dated T-Bills and CDs are now offered at higher yields, investors have been switching to these types of securities instead of holding money in low yielding bank accounts.

YTD Retail Fund Flows

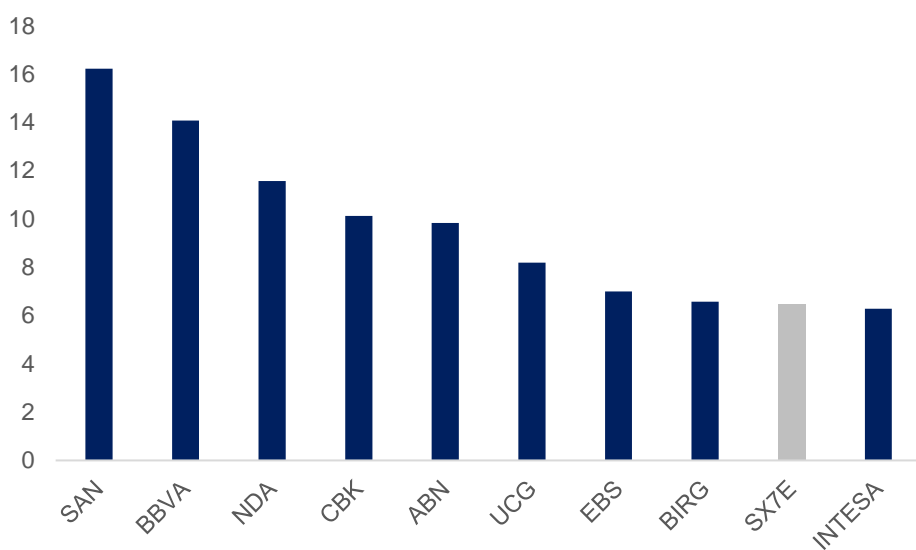


Source: CS as at 28/02/23

Financials

- February saw more AT1 bonds get issued by a range of issuers; Barclays, HSBC, ING and Julius Baer. Bonds that were called/tendered in the period included Barclays 1.25bn 7.25% £ AT1 and \$1.5 T2 ABN Amro. Nationwide Building Society tendered for some £100m of its Core Capital Deferred Shares (CCDS) in order to manage its capital stack.
- Bank earnings and capital positions continue to surprise on the upside and this was mostly reflected in the positive performance of European Banks stocks, many of which posted further gains in February following a very strong January. The rising rate environment has thus far underpinned the increase in net interest margins which is driving analysts earnings upgrades in the sector.

Top 10 European Bank equity performers in Feb 2023

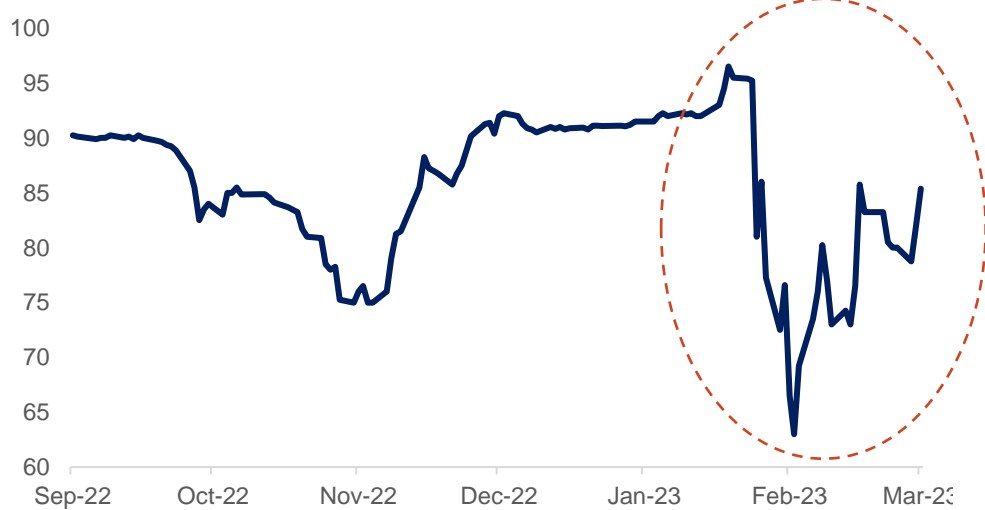


Source: Bloomberg as at 28/02/23

Emerging Markets

- EM currencies gave up most of their YTD gains while hard currency and local currency bonds lost nearly 3% in February. Rising DM government bond yields put pressure on longer dated EM bonds and the stronger US dollar also weighed on local currency assets. EM bonds saw their largest outflows in 14 weeks during the week ended 27 Feb 2023.
- EM issuance ticked along but lagged IG and HY markets in dollar terms. Issuers that priced debt included: Egypt Sukuk, Sharjah Sustainable bond, Saudi PIF, Dalian Wanda, Braskem, Pemex, Transnet and Dominican Republic.
- The issuance of \$1.5bn of 3 yr. Egypt Sukuks was to be used to pay near term debt maturities. Meanwhile the re-emergence of China property issuers in EM could signal better times for the sector if the country keeps supporting the real estate and mortgage sectors.
- The Indian conglomerate Adani saw immense volatility in its bond prices but most of its bond complex ended the month materially higher due to an absence of evidence around claims from a short-seller who published a note on the issuer.

Adani Green Energy 2024 bond px (\$)

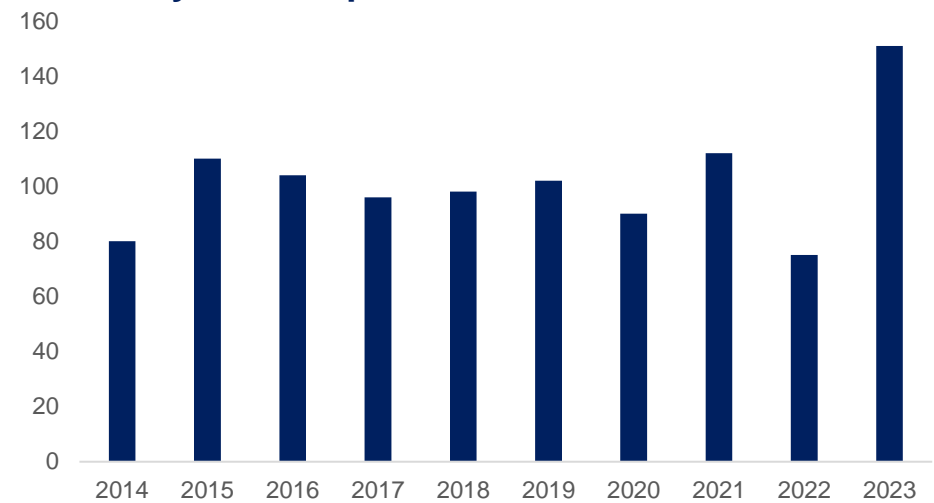


Source: Bloomberg as at 28/02/23

Investment Grade

- High bond yields did not deter US IG Corporates from issuing in February judging by the record February issuance of \$150.9bn.

February \$ IG Corp Issuance



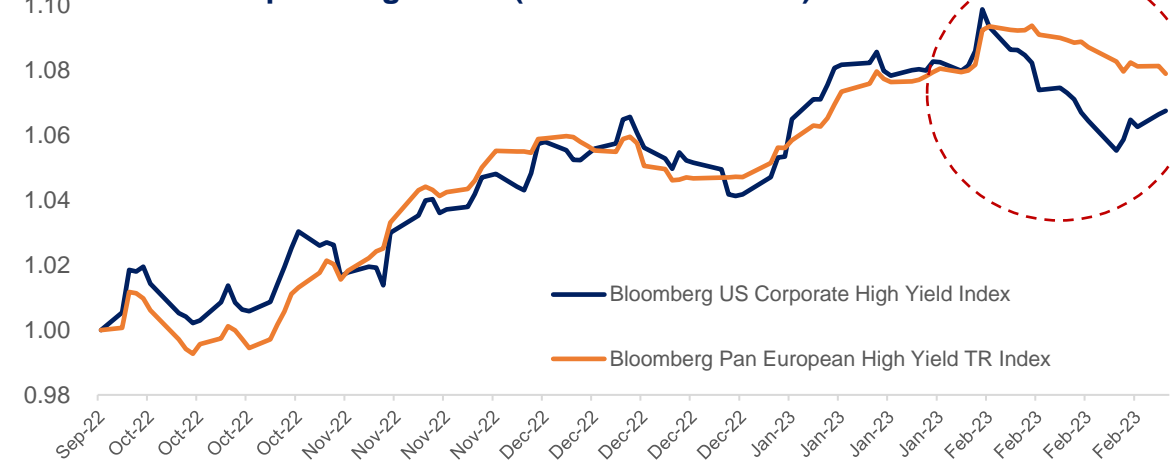
Source: Bloomberg as at 28/02/23

- Some of the highlights in this period include Amgen which issued the 9th largest ever US IG corporate bond with demand of \$90bn and Intel which raised \$11bn across 7 tranches despite being downgraded by multiple ratings agencies
- Notable ratings changes in the month include Nokia being upgraded to IG by S&P ratings agency while Kraft was similarly upgraded by both Moody's and S&P.
- In Europe, Porsche decided to raise €2.7bn in the Schuldschein market instead of the syndicated IG credit markets. Reasons for issuing in this market included the ability to eschew external credit ratings.

High Yield/Leveraged Loans

- The US HY market priced \$14bn of debt in February against a backdrop of outflows and rising government bond yields. There appears to be some "frothy" behaviour coming back to High Yield as evidenced by greater numbers of "dividend recaps" (debt issuances used to pay dividends to private equity owners) – which have totaled \$5.8 billion ytd across Europe and the US
- There was also a tick up in issuance in other higher beta markets such as Convertible bonds (e.g *Delivery Hero/Balder*) and private credit. February saw the largest private credit deal on record which could form up to \$5.5bn of the financing for a buyout of Cotiviti Inc, the Healthcare technology firm.
- European High Yield outperformed the US HY market to the tune of 119bps in February. The impact of longer duration in US high yield was a key driver in addition to spreads outperforming in Europe.

US vs European High Yield (30/09/22 - 28/02/23)



Source: Bloomberg as at 28/02/23

- Under the surface, bankruptcies are ticking up with EU Bankruptcy filings hitting the highest levels since records began (2015) and US bankruptcies seeing the fastest pace of companies filing for bankruptcy since 2009 according to Bloomberg. Sectors of distress include Healthcare, used vehicle related sectors and Real Estate. For example, February saw two defaults in the Office sector CMBS space two deals totalling nearly \$1.9bn. The defaults seem to be a side effect of higher Fed Funds rate and pressure on the Offices sector due to the structural shift to hybrid working.

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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