

Credit Market Overview

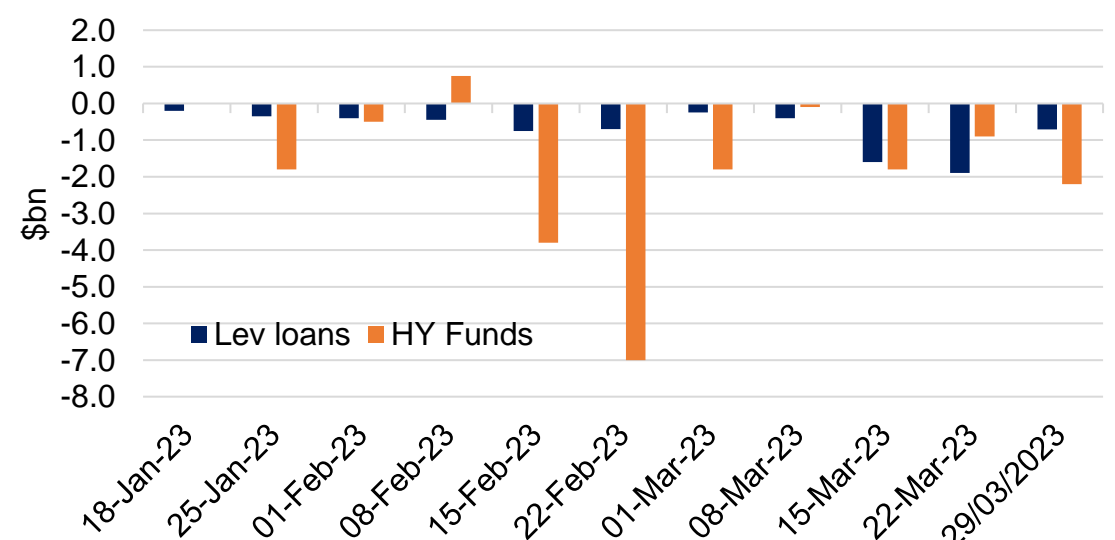


As at 31 March 2023

| Measure | Level | 1 Month | 3 Month | 6 Month | 12 Month |
|---|-------|---------|---------|---------|----------|
| Cash Spread/Yield Changes | | | | | |
| Global IG Corp YTW (%) | 4.96 | -0.27 | -0.22 | -0.42 | 1.87 |
| Global IG Spread (bps) | 153 | 18 | 6 | -27 | 29 |
| Global HY YTW (%) | 9.18 | 0.04 | -0.23 | -1.16 | 2.69 |
| Global HY Spread (bps) | 547 | 52 | 2 | -105 | 119 |
| CDS Index Spread Changes | | | | | |
| CDX IG | 76 | -1 | -6 | -32 | 9 |
| CDX HY | 463 | 1 | -21 | -146 | 88 |
| CDX EM | 229 | -11 | -9 | -101 | 1 |
| iTraxx Main | 84 | 5 | -6 | -50 | 11 |
| iTraxx Xover | 436 | 23 | -38 | -205 | 98 |
| Sub Fin CDS | 99 | 10 | 0 | -50 | 18 |
| Cash Index Performance (%) | | | | | |
| Global IG Corp Index | | 2.13 | 3.14 | 4.13 | -7.87 |
| Global HY Index | | 0.48 | 2.89 | 8.93 | -6.17 |
| Global EM USD Index | | 1.24 | 2.15 | 7.54 | -6.65 |
| Higher Beta Sub Sector Performance (%) | | | | | |
| Banks AT1 | | -12.59 | -9.41 | 7.85 | -4.55 |
| Energy HY | | 2.17 | 3.83 | 5.81 | -3.09 |
| EUR Corp Hybrids | | -0.66 | 1.76 | 6.13 | -9.52 |
| Leveraged Loans | | -0.09 | 2.96 | 6.89 | -0.52 |
| IG Sub Sectors Performance (%) | | | | | |
| Banks Senior | | 1.19 | 2.17 | 2.73 | -5.05 |
| Energy IG | | 3.14 | 3.90 | 4.88 | -7.94 |
| Auto | | 2.19 | 2.93 | 3.78 | -3.76 |
| Utility | | 3.32 | 3.78 | 4.26 | -10.30 |
| Communications | | 3.99 | 4.99 | 5.08 | -11.15 |
| Airline | | 0.73 | 3.22 | 4.83 | -1.34 |
| Retail | | 3.64 | 3.64 | 3.41 | -9.59 |
| Currency (Hedged) Performance (%) | | | | | |
| Bloomberg USD Corp | | 1.05 | 1.33 | 1.55 | -0.70 |
| Bloomberg GBP Corp | | 3.22 | 3.36 | 2.32 | -7.06 |
| Bloomberg Euro Corp | | 4.32 | 5.45 | 6.54 | -15.13 |
| Maturity Bucket Performance (%) | | | | | |
| Short (1-3 Yr) | | 3.77 | 4.47 | 4.86 | -10.45 |
| Intermediate (5-10 Yr) | | 0.87 | 2.22 | 8.64 | -12.83 |
| Long | | 1.05 | 1.72 | 1.84 | -9.32 |
| Global IG Corp Index Attribution (%) | | | | | |
| Carry | | 0.44 | 1.30 | 2.69 | 3.09 |
| Duration | | 2.79 | 2.21 | 1.99 | -6.06 |
| Spread | | -1.10 | -0.37 | 1.66 | -2.02 |
| Performance | | 2.13 | 3.14 | 6.35 | -4.98 |

- March was dominated by events in the Banking sector initially in the US Regional Banks and then Credit Suisse. UBS's takeover of CS brokered by the Swiss Authorities involved writing down Credit Suisse's AT1 securities to zero. However, this outcome is being disputed by large holders of these bonds who interpreted the language in the bond documentation to mean that equity holders should also have been written down.
- The turmoil in the banks sector saw Government Bond yields collapse and in the case of the 2-year Treasury experience a statistically significant move, resulting from overly-bearish positioning having to be unwound. Investors fled to safe havens such as Gold (which touched \$2000) and US Money Market funds which swelled up to more than \$5tn in total assets.
- Corporate credit outperformed financials substantially with Investment Grade and High Yield segments posting positive returns helped by the rally in government bond yields. Meanwhile, the Additional Tier 1 sector posted double digit losses due to a combination of the write down of Credit Suisse AT1 to zero and the knock-on weakness on the broader AT1 sector.
- The rapid actions of the relevant Prudential Authorities to contain the fall-out at Silicon Valley Bank and Credit Suisse helped improve sentiment in the wider Bank Capital sector such that many securities closed off the lows seen during the month. However, questions remain about the implications of Banks' exposure to Commercial Real Estate and the evolving situation re First Republic Bank.
- Despite the relative calm in HY and Lev loan markets, Retail investors continue to pull money out of these sectors via Mutual Funds and ETFs. For instance, leveraged loan funds saw their 10th consecutive weekly outflow in the week to 29 March 2023.

Recent HY and Lev Loan Fund flows

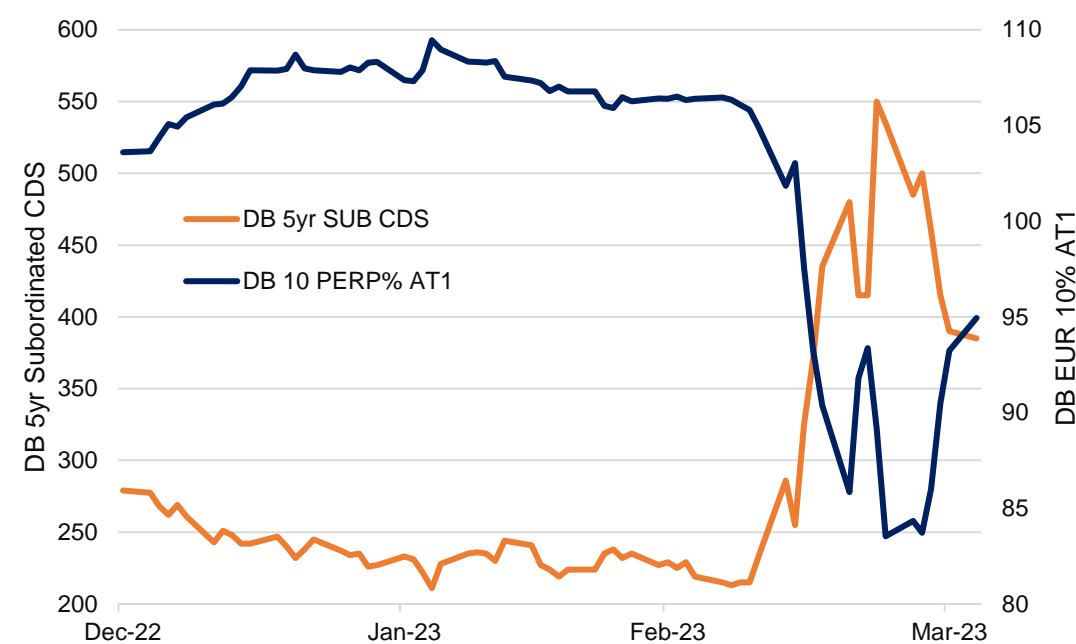


Source: Refinitiv Lipper as at 31/03/23

Financials

- The \$270bn AT1 asset class came under pressure as a result of the write-down of Credit Suisse AT1. This was promptly followed by concerns over the fate of Deutsche Bank (“DB”) which saw its CDS widen meaningfully. However according to BBG, the concerns first arose in DB due to a ~€5m trade in the less liquid single name CDS market which led to the material widening in CDS and subsequent sell off in DB’s stocks and bonds.

DB AT1 vs DB Subordinated CDS YTD



- The market will be looking closely at the next callable AT1 (Unicredit 6.625%) which is callable in June 2023. Should this instrument get called, the AT1 market should see further stabilisation absent any further single name bank crises.

Investment Grade

- US and EUR IG markets saw lighter than normal issuance during mid to late March when SVB and CS concerns were reverberating through markets. However, tightening credit spreads towards month end resulted in a resumption of issuance which saw €33bn printed in Europe in the final week and \$24bn in the US.
- The closer correlation between the returns on IG Credit and Government bonds resulted in the Global IG sector returning more than 2% in March despite it also being exposed to Senior Bank paper.

High Yield / Distressed

- Several issuers were upgraded to an IG Credit Rating in March, e.g Tesla, Netflix, Wienberger (Building Materials) and Schaeffler (Auto Parts/Industrial). Besides that there were positive ratings action on Airlines and related issuers in March:

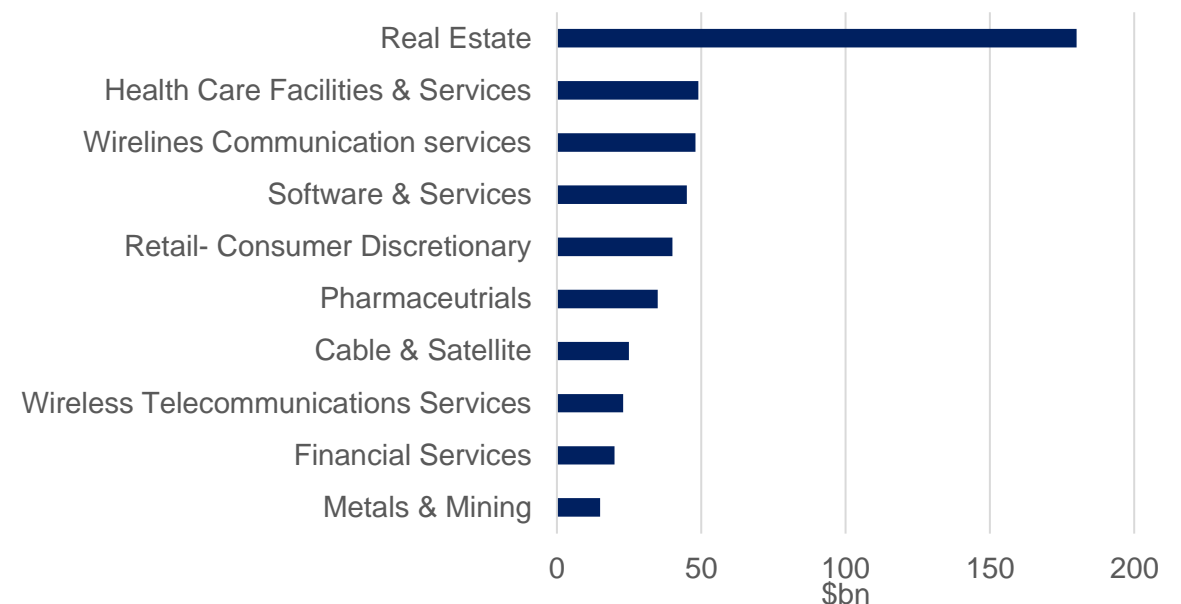
Ratings updates in the Airline and related sectors

| Issuer | Sector | Ratings update | Agency |
|----------|--------------------|------------------------------|--------|
| American | Airline | Changed to positive outlook | S&P |
| Delta | Airline | Changed to positive outlook | S&P |
| Dufry | Duty Free operator | Upgraded to BB-, outlook pos | S&P |
| IAG | Airline | Upgraded to BB+ | S&P |
| United | Airline | Upgraded to BB- | S&P |

Source: Bloomberg as at 31/03/23

- REITs and Commercial Real Estate have been an area of focus for debt investors. There has been a rising number of mortgage loans in the US whereby lenders are not looking to roll-over their exposure due to unsatisfactory economics (e.g., excessive LTVs, high cost of funding and high office vacancy rates).

Real Estate sector has the most distressed credit

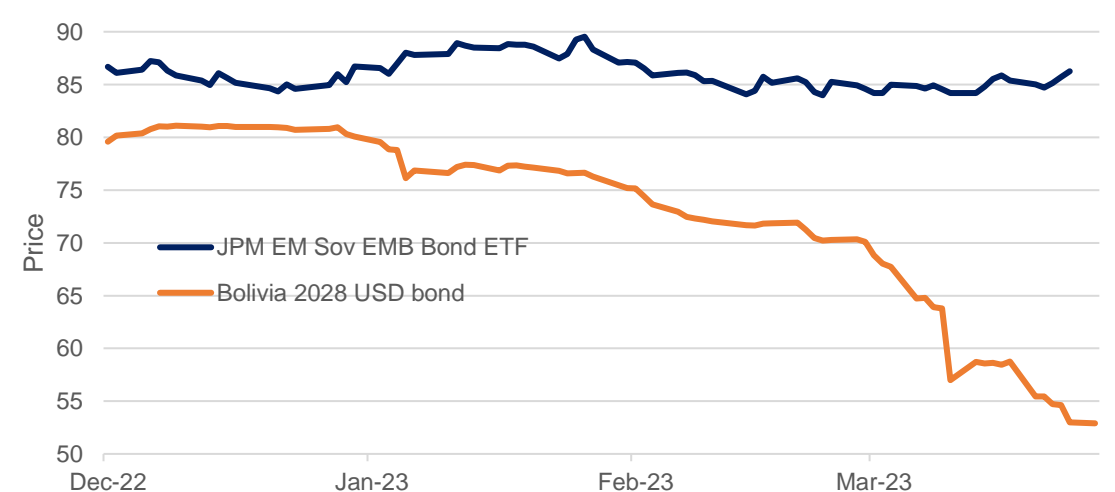


- Most REITs/Real Estate firms were IG rated to begin with, but many are experiencing ratings migration into HY which will increase their funding costs. WeWork, the flexible office provider underwent a debt restructuring which involved one of its key creditors Softbank agreeing to equitize a \$1bn loan. The sector is likely to see more corporate debt restructurings and liability management exercises from firms as they look to avoid default.

Emerging Markets

- A weakening dollar was helpful to EM Local Bonds in Q1 2023 such that the JPM EM Local Currency Bond ETF posted a total return of 5.17%. Several major EM Central Banks (“CB”) have hiked more aggressively than the US Federal Reserve and are now at a point where many have not hiked for the past few meetings (e.g., Brazil, Indonesia). This has some strategists believing that these same CBs will start to cut as inflation slows down.
- China non-manufacturing PMI hit a 12-year high, providing signs of a bounce back in consumption. However, March Manufacturing PMIs declined to 51.9 vs 52.6 in February suggesting a two-tier recovery in the region.
- In the distressed EM Sovereign space, the IMF approved \$3bn for Sri Lanka under a new facility which should result in progress in the debt restructuring process with its creditors. Meanwhile, there was a new addition to the Distressed EM Sovereigns list in the shape of Bolivia which is undergoing a Dollar crisis. The Bolivia 2028 note has slumped more than 17 cents in March, the biggest monthly drop since the notes were issued in 2017.

Bolivia Dollar bond vs JPM EM Sovereign Bond ETF



- In better news, Brazilian Airlines Azul and Gol separately agreed more manageable debt repayment plans with key creditors which saw their stocks and bonds rally strongly. The debt refinancing exercise at Gol was more comprehensive and complex but, overall saw its stocks and bonds rise from depressed levels. The read-across to other EM corporate issuers is that for businesses that serve a purpose and have a prospect of generating free cash flow, there is appetite from certain lenders to come to an effective refinancing solution.

| 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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