

Credit Market Overview

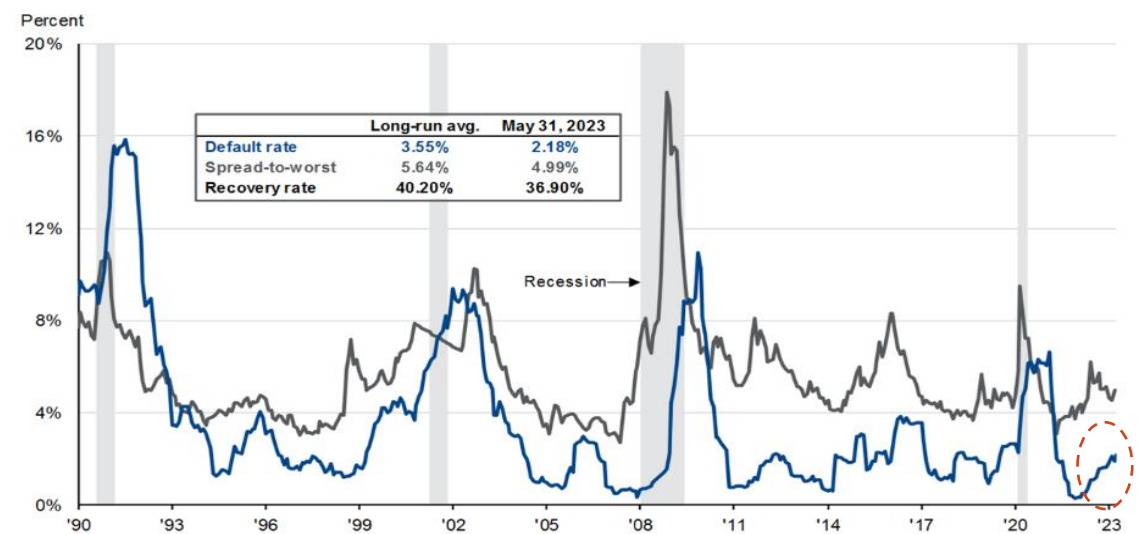


As at 31 May 2023

| Measure | Level | 1 Month | 3 Month | 6 Month | 12 Month |
|---|-------|--------------|-------------|-------------|--------------|
| Cash Spread/Yield Changes | | | | | |
| Global IG Corp YTW (%) | 5.12 | 0.23 | -0.11 | 0.12 | 1.35 |
| Global IG Spread (bps) | 151 | 2 | 16 | -3 | 7 |
| Global HY YTW (%) | 9.47 | 0.26 | 0.33 | 0.25 | 1.88 |
| Global HY Spread (bps) | 554 | 3 | 59 | 9 | 52 |
| CDS Index Spread Changes | | | | | |
| CDX IG | 76 | 0 | -1 | 0 | -4 |
| CDX HY | 475 | 9 | 13 | 23 | 14 |
| CDX EM | 247 | 9 | 6 | 21 | -25 |
| iTraxx Main | 82 | -1 | 3 | -10 | -5 |
| iTraxx Xover | 434 | -1 | 20 | -25 | 188 |
| Sub Fin CDS | 93 | -5 | 5 | -10 | -4 |
| Cash Index Performance (%) | | | | | |
| Global IG Corp Index | | -0.93 | 2.00 | 2.34 | -1.14 |
| Global HY Index | | -0.48 | 0.35 | 2.80 | 0.29 |
| Global EM USD Index | | -0.75 | 0.88 | 2.64 | -0.68 |
| Higher Beta Sub Sector Performance (%) | | | | | |
| Banks AT1 | | 3.80 | -9.03 | -6.58 | -8.95 |
| Energy HY | | -0.88 | 2.25 | 3.20 | 2.49 |
| EUR Corp Hybrids | | 0.57 | 0.22 | 1.63 | -2.96 |
| Leveraged Loans | | -0.46 | 0.59 | 4.17 | 5.89 |
| IG Sub Sectors Performance (%) | | | | | |
| Banks Senior | | 0.43 | 2.25 | 2.46 | -0.19 |
| Energy IG | | -2.01 | 1.96 | 2.02 | -1.53 |
| Auto | | -0.69 | 2.02 | 2.38 | 0.50 |
| Utility | | -2.22 | 2.04 | 2.27 | -2.60 |
| Communications | | -1.78 | 2.46 | 2.38 | -3.40 |
| Airline | | -0.42 | 1.12 | 3.90 | 1.66 |
| Retail | | -1.52 | 2.73 | 2.00 | -2.37 |
| Currency (Hedged) Performance (%) | | | | | |
| Bloomberg USD Corp | | -1.45 | 2.07 | 2.33 | -1.70 |
| Bloomberg GBP Corp | | -2.49 | -1.23 | -1.53 | -8.93 |
| Bloomberg Euro Corp | | 0.17 | 1.88 | 0.82 | -2.92 |
| Maturity Bucket Performance (%) | | | | | |
| Short (1-3 Yr) | | -0.22 | 1.35 | 1.85 | 0.67 |
| Intermediate (5-10 Yr) | | -1.22 | 2.81 | 2.29 | -1.47 |
| Long | | -2.78 | 2.18 | 2.10 | -4.85 |
| Global IG Corp Index Attribution (%) | | | | | |
| Carry | | 0.41 | 1.31 | 2.50 | 3.77 |
| Duration | | -1.21 | 1.67 | -0.35 | -4.44 |
| Spread | | -0.12 | -0.98 | 0.19 | -0.47 |
| Performance | | -0.93 | 2.00 | 2.34 | -1.14 |

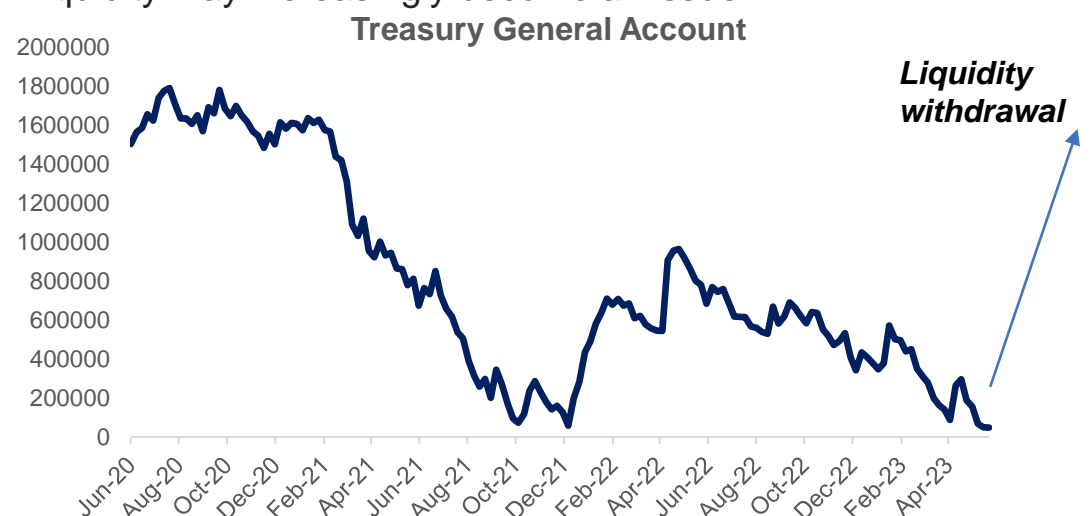
- May saw multiple rate cuts priced out of the US curve which sent Dec-23 Fed Funds pricing from 4.50 to 5%. This led Treasury yields higher across-the-board with the 2yr, 10yr and 30yr peaking at 4.56% and 3.82% and 4.0% respectively, before falling to end May at 4.41%, 3.65% and 3.86%.
- Meanwhile in the UK higher than expected Core CPI figures for April saw Gilt yields approach levels seen in the Q3 2022 period dubbed "Trussmageddon." This impacted total returns on £ IG Corps which lost 2.5% in the month - a material underperformance vs USD and EUR IG.
- Despite elevated rates volatility, credit spread volatility was well contained. From a total return perspective, High Yield outperformed Investment Grade in both the US and Europe.
- Note that despite the relatively benign environment, credit spreads have ticked up above the 500bps mark and defaults are also creeping up as noted by the orange circle in the chart below

US HY Default rates vs Credit Spreads



Source: JPM Guide to the Markets as at May 31 2023

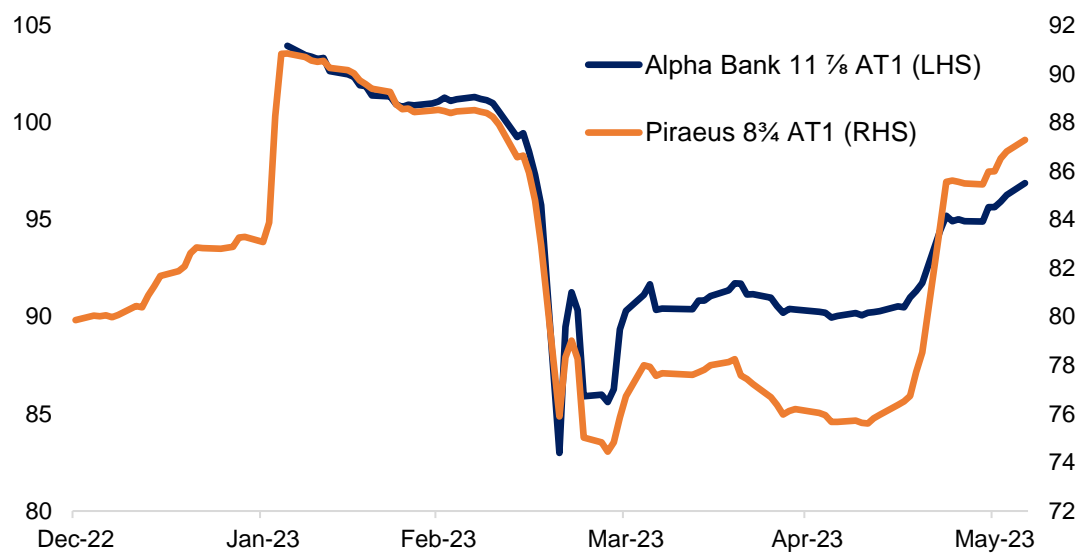
- The Bank AT1 sector outperformed other higher beta sectors in May. This was largely due to both a lack of issuance and increased confidence in the sector driven by supportive comments by the European Banking Authority (EBA).
- Elsewhere Energy underperformed somewhat on both the IG and HY space as oil prices remained weak (e.g., WTI closed below \$70/bbl).
- Following the resolution of the debt ceiling, market attention will shift to upcoming Fed meetings. With the US Treasury expected to issue nearly \$1.1 trillion in new Treasury bills (T-bills) over the next seven months, according estimates from JPMorgan, liquidity may increasingly become an issue.



Financials

- Risk appetite appeared constructive as evidenced by activity in the European Periphery space. Greek bank capital bonds (AT1/T2) rallied strongly as the Greek election result became clear.

Greek Bank AT1 performance

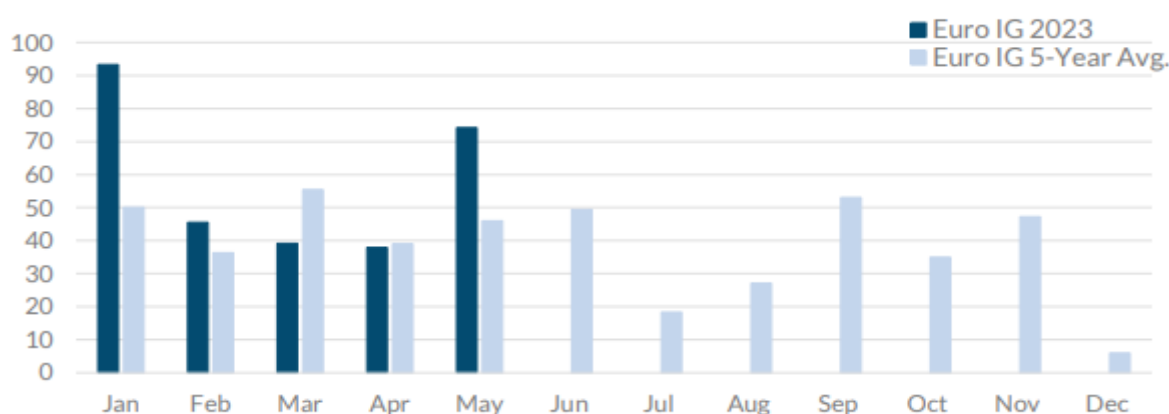


- Meanwhile there was T2 issuance from Spanish and Portuguese Banks; Santander, Caixa and Novo Banco.
- There was AT1 issuance out of Japan (JPY denominated) for some of the major Banks in the country. DZ Bank, part of a German Co-operative also raised AT1s in Euros which were purchased by other Banks in the Co-operative. However, there continues to be a lack of traditional AT1 issuance from UK/European Banks which was likely the reason why existing AT1 grinded tighter in May 2023.
- There was more refinancing activity in the Insurance sector as noted by activity from Allianz and Royal London Mutual, the latter which issued an RT1 in GBP to replace most of its T2 bond.
- Ratings activity in 'National Champion' banks was positive with Barclays being upgraded to BBB+ (Stable outlook) by S&P and Deutsche Bank's rating outlook being changed to positive.

Investment Grade

- IG issuance was healthy in May with the US market printing just short of \$150bn. The GBP Sterling Market also joined in the strength with £7.1bn of issuance, up meaningfully vs April's £1.8bn. Financials made up the bulk of the GBP issuance. European IG has been tracking close to or higher than the 5 year average for IG issuance so far YTD

European IG issuance vs 5 year history



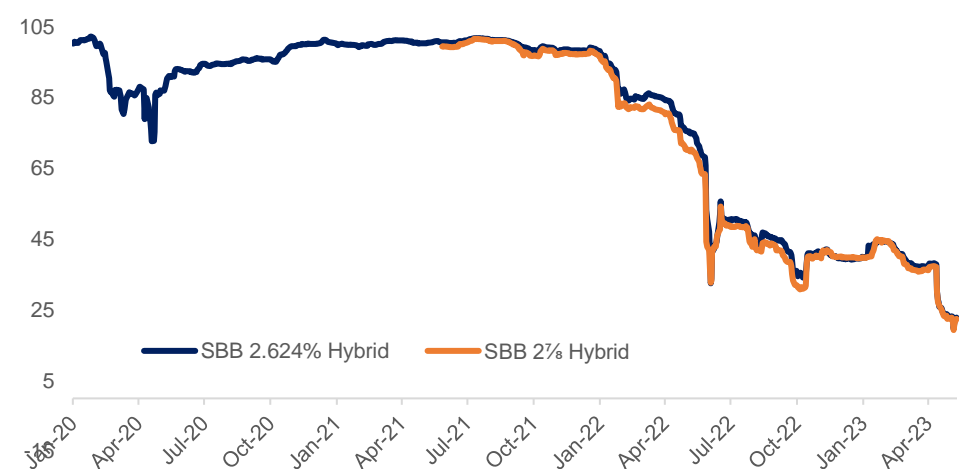
Source: Creditsights

- Interestingly, AAA-rated companies remained on the sidelines on the US IG market for the 14th consecutive month with no issuance.
- Vodafone came to market with a tender offer and new issuance of Corporate Hybrids which were rated BB+, Vodafone accepted €1.56bn of existing Hybrids in its tender and issued €750m and £500m of new hybrids with coupons of 6.5% and 8.0% respectively.

High Yield/Leveraged Loans

- US High Yield saw \$23bn of new issuance in May, which represented the second consecutive month of double-digit primary activity. Issuance was concentrated around BB rated companies (\$9bn) with \$5bn of single Bs. Year-to-date issuance has been led by single-Bs pricing \$28bn. This follows the wider trend of a growing number of Single Bs as a proportion of the total HY/Lev Finance market. The average YTD coupon on \$ HY issuance is 8.4% which is higher than the post-GFC historic average of 7.0%.
- Certain Real Estate debt issuers are facing difficulties servicing their debts. For example, SBB, a Swedish property firm had to resort to temporarily turning off its coupon on its SEK denominated hybrid notes. In the lead up to this, SBB's low coupon hybrids had already been falling initially due to the impact of higher rates and then as credit risk increased due to an over levered balance sheet.

Real Estate firm SBB's Corporate Hybrids

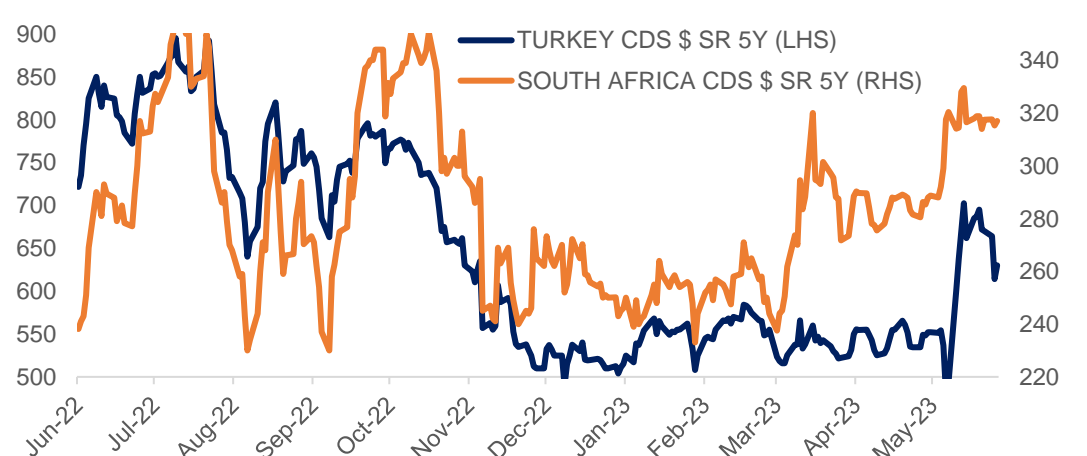


Source: BBG

Emerging Markets

- EM IG and HY returns were negative in the month, but the losses were mostly due to rising rates
- China's economic data from April showed that its post-COVID recovery was slowing. China's exports grew by only 8.5% YoY in April (vs 14.8% YoY in March), while its imports fell by 7.9% YoY (worse than expected). The health of China is important for both EM assets and cyclicals which have traditionally relied on China's growth engine to power asset prices.
- In Asia (ex Japan) HY spreads tightened in 62bps to end at +991bps led by the HY Sovereigns subsector which tightened in 476bps in May alone. This was largely driven by the rally in Pakistan Government bonds on the premise that the country remains in talks with the IMF on its \$6.7bn bailout program.
- Other EM HY Sovereigns which performed poorly in FY2022 also posted positive returns in May including Ukraine, Ghana, El Salvador and Bolivia.
- Laggards in the month were Turkey and South Africa. Investors reacted to a continuation of an Erdogan government negatively due to the risk of more unorthodox monetary policies. South Africa, meanwhile, was impacted by headlines related to possible dealings with Russia which were later refuted.

Turkey and South Africa Sovereign CDS



Source: BBG

| 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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