

Credit Market Overview

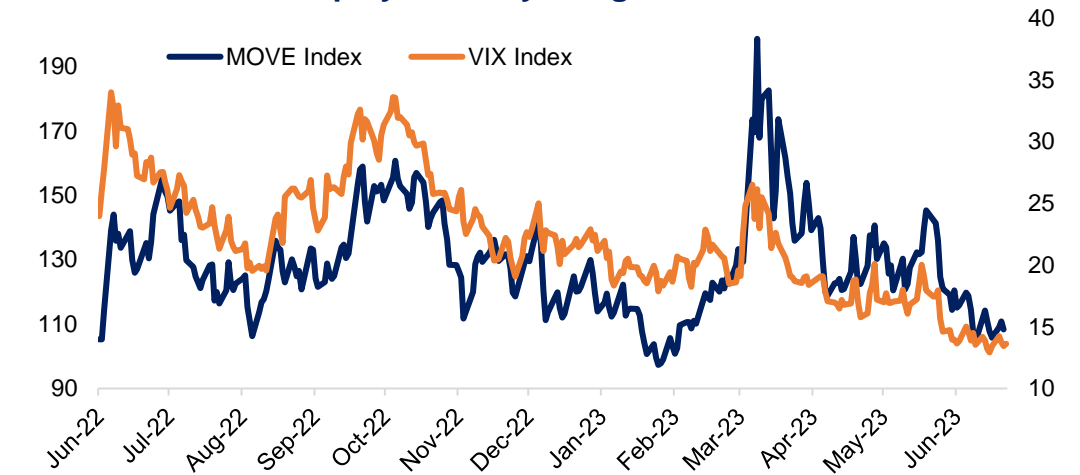


As at 30 June 2023

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	5.28	0.16	0.32	0.10	0.94
Global IG Spread (bps)	139	-12	-14	-8	-36
Global HY YTW (%)	9.20	-0.27	0.02	-0.21	-0.28
Global HY Spread (bps)	491	-63	-56	-53	-175
CDS Index Spread Changes					
CDX IG	67	-8	-9	-15	-34
CDX HY	430	-44	-33	-54	-149
CDX EM	213	-33	-17	-25	-126
iTraxx Main	74	-7	-11	-16	-45
iTraxx Xover	400	-34	-36	-74	155
Sub Fin CDS	162	-11	-31	-11	-84
Cash Index Performance (%)					
Global IG Corp Index		0.13	0.00	3.13	1.78
Global HY Index		2.12	1.99	4.94	10.12
Global EM USD Index		1.49	1.12	3.30	5.64
Higher Beta Sub Sector Performance (%)					
Banks AT1		-0.04	4.03	-5.75	-3.97
Energy HY		1.47	1.56	5.45	11.09
EUR Corp Hybrids		0.31	1.19	2.98	7.50
Leveraged Loans		2.64	3.34	6.40	11.78
IG Sub Sectors Performance (%)					
Banks Senior		-0.20	0.85	3.04	2.31
Energy IG		0.77	-0.38	3.51	2.47
Auto		0.12	-0.05	2.88	2.73
Utility		0.06	-1.19	2.55	0.11
Communications		0.93	-0.55	4.41	1.24
Airline		0.76	1.16	4.41	4.59
Retail		0.21	-0.67	2.94	0.37
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		0.41	-0.29	3.21	1.55
Bloomberg GBP Corp		-1.23	-3.42	-1.03	-6.91
Bloomberg Euro Corp		-0.44	0.43	2.18	0.14
Maturity Bucket Performance (%)					
Short (1-3 Yr)		-0.18	0.11	1.44	1.39
Intermediate (5-10 Yr)		-0.81	-1.20	2.12	-0.64
Long		1.54	-0.54	4.88	0.98
Global IG Corp Index Attribution (%)					
Carry		0.43	1.24	2.59	4.34
Duration		-1.04	-2.11	0.05	-4.91
Spread		0.74	0.87	0.49	2.35
Performance		0.13	0.00	3.13	1.78

- June was another eventful month with some notable moves across fixed income markets. The continued increase in global liquidity underpinned lower volatility and strong price action across risk assets in general while Central Banks continued to hike rates.

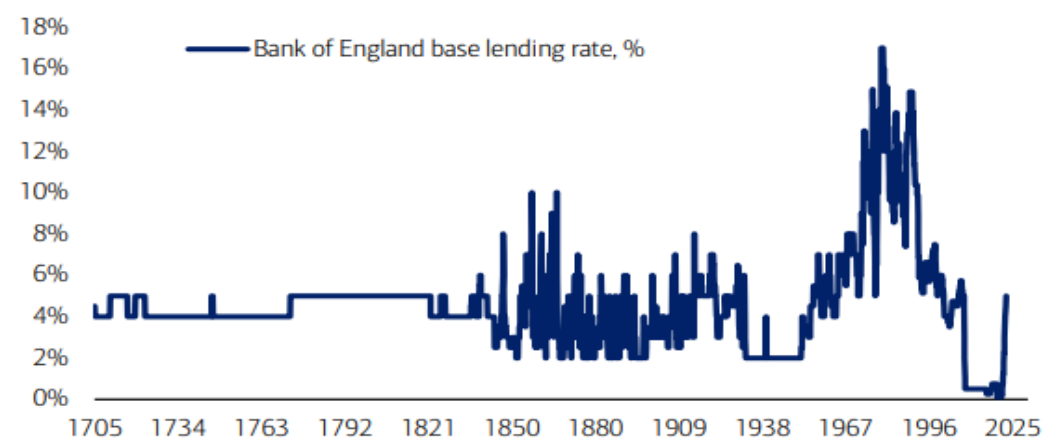
Fixed Income and Equity Volatility Gauges



Source: BBG as at 29 June 2023

- Longer duration strategies underperformed over the month as bonds yields continued their ascent from the lows of March/April. As rate hikes broadly continued with rate cuts in 2023 getting priced out of futures curves, bond yields finished the month higher. Price action was most extreme in the UK with 2-year Gilt yields moving out by 94bps, 5 year by 60bps while the long end remained somewhat contained with 10-year yields increasing by 20bps.
- Unsurprisingly GBP corps were the underperformer on the month over USD and EUR, as the more persistent inflation backdrop propels bonds yields higher.

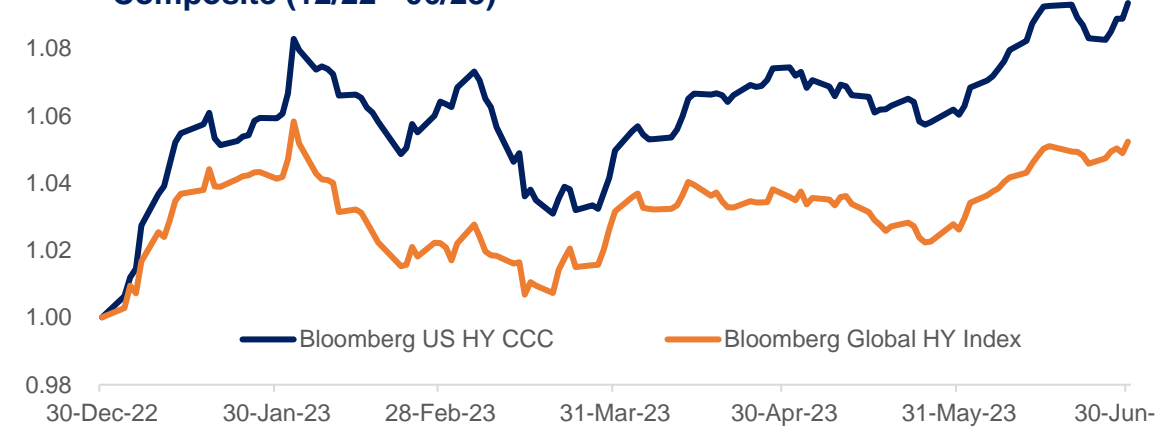
BoE Rate since 1700s - BofA Chart



Source: BofA as at June 2023

- By contrast, credit enjoyed another strong month as the broad "risk on" tone continued. European Crossover tightened in 34bps to 400, while CDX HY tightened 44bps and CDX EM 33bps. There were similar moves in cash credit with Bank CoCo spreads comfortably below 500bps due to the re-opening of the AT1 market by BBVA and Bank of Cyprus. Year-to-date global high yield continues to outperform with the Bloomberg Global High Yield Index returning +5%, within this CCCs have performed strongly registering close to 10% for the year in spite of a potentially deteriorating fundamental backdrop.

Bloomberg US High Yield CCC vs Global High Yield Composite (12/22 - 06/23)



Source: BBG as at 29 June 2023

Financials

- It was an active month for financial bond corporate actions, some of which were prompted by the required change of benchmarks to reference RFR instead of Libor by 30th of June and some down to retiring of ineligible legacy bank capital. Aviva, Bank of Ireland, Standard Chartered, Nationwide, Investec and Rothschild were just some of the issuers which announced corporate actions in the form of call notices/tenders and consent solicitations.
- Some of these actions resulted in some sizeable moves such as the Aviva 2058s (+6pts), Bank of Ireland Pref (+10pts). This lifted the wider legacy / discount bank bond sector, with some bonds rising 20pts YTD.

Example discount / legacy bond performance



Source: BBG as at 29 June 2023

- As a result cashflows returned to buy-side accounts with Bank FIG desks very aware of this using it as a catalyst to restart the European AT1 market. June saw BBVA and Bank of Cyprus issue AT1 bonds successfully which helped tighten credit spreads on the secondary AT1 market and improved investor confidence more broadly.
- June also saw US Regional Banks come back to the new issue market, with Truist Financial being the first Bank to return after the SVB crisis.
- There were reports of more European Banks paying down pandemic era debt, with Italian banks repaying some €143bn in targeted longer term European Central Bank funds (“TLTROs”), which the Bank of Italy has previously said accounted for 45% of the total of €318bn outstanding at the end of March.

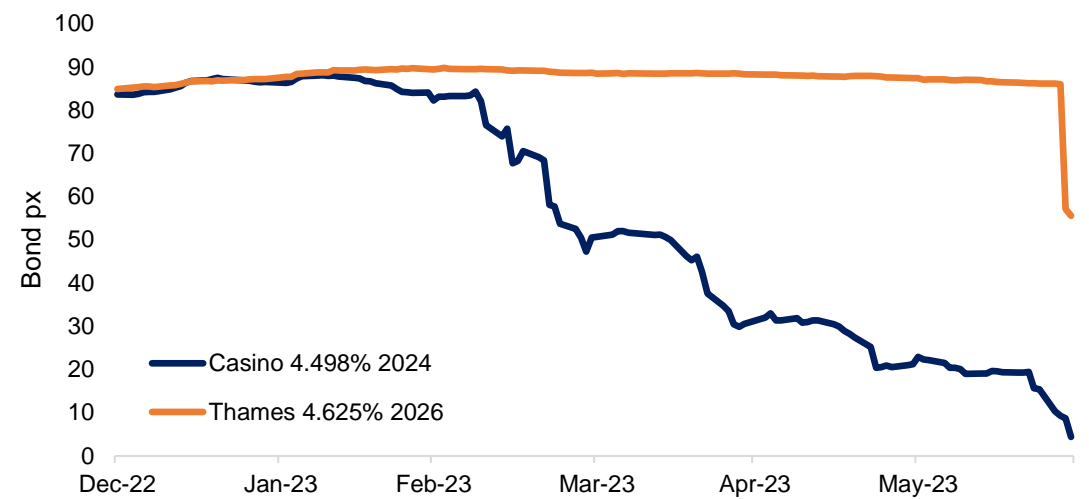
Investment Grade

- Investment grade markets continue to function well and related markets like the Corporate Hybrids also saw activity in June. British Telecom issued its inaugural Sterling Corporate Hybrid, after Vodafone issued similar paper in the prior month. BT raised £700m 60.5NC5.5 corporate hybrids to yield 8.5%.
- Mall landlord Unibail-Rodamco carried out a debt swap to exchange its ULFP 2 1/8 PERP Corp hybrid that was set to be called in July 2023. 92% of the existing bond was exchanged into a new higher coupon issue. The cash amount in the swap offer will not exceed €200m, the company said, which will result in a reduction of Unibail’s overall hybrid portfolio by a maximum of 10%.
- Meanwhile, Chemicals company Solvay is set to redeem EUR1.3bn Corporate Hybrids due 2023 and 2024. It plans to call its 2023 callable hybrids and initiate a tender offer for its 2024 callable hybrids, The proposed bond transactions are expected to occur in August, subject to market conditions. Source: BBG.

High Yield/Leveraged Loans

- On the surface, the Global HY market appears to be functioning well with credit spreads well contained and new issue markets active.
- The US high-yield bond market has been resilient so far this year despite recessionary and persistent inflation concerns. So far this year, sales are running about +36% YoY. Q2 has been particularly busy as companies flocked to the new issue market to raise capital after the fallout from SVB’s collapse. June 2023 saw just over \$22bn issued, just short of Q2 2022’s entire tally of ~\$22bn according to BBG. A recent example of issuance was Viking Cruises, rated Caa1, which sold \$720m 8-year notes at the lower end of price talk. Proceeds were for redeeming 13% secured notes due 2025.
- Against this, weekly US bankruptcy filings (for companies with >\$50mm in liabilities) have approached their highest level since the COVID crisis started in 2020, recently touching almost eight filings per week, based on a four-week moving average according to data from Apollo. Most of the stress is originating from borrowers with large piles of floating rate debt such as leveraged loans, where funding costs have skyrocketed.
- Within corporate high yield, there is a gradual increase of idiosyncratic debt related issues as witnessed by French Supermarket Retailer Casino Groupe and Thames Water in the UK.

Casino Groupe and Thames Water (sub) Bond prices

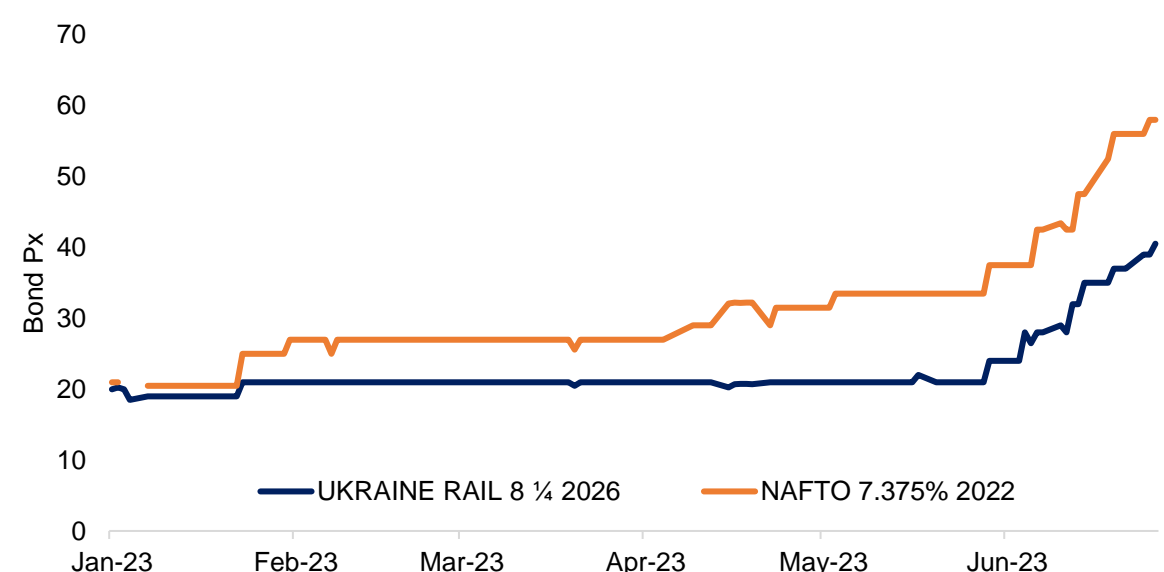


Source: BBG as at 29 June 2023

Emerging Markets

- EM hard currency bonds have been rallying since the end of May. Part of this is down to Dollar weakness, lower market volatility, the associated risk-on mentality of the current market and idiosyncratic movers.
- For example, Ukraine sovereigns, quasi-sovereigns and corporates performed well in June due to a positive read-across from Naftogaz’s consent solicitation and a glimmer of hope regarding a resolution of the Russia/Ukraine conflict after reports of in-fighting in Russia.

Ukraine Rail & Naftogaz Bond prices



Source: BBG as at 29 June 2023



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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