

# Credit Market Overview

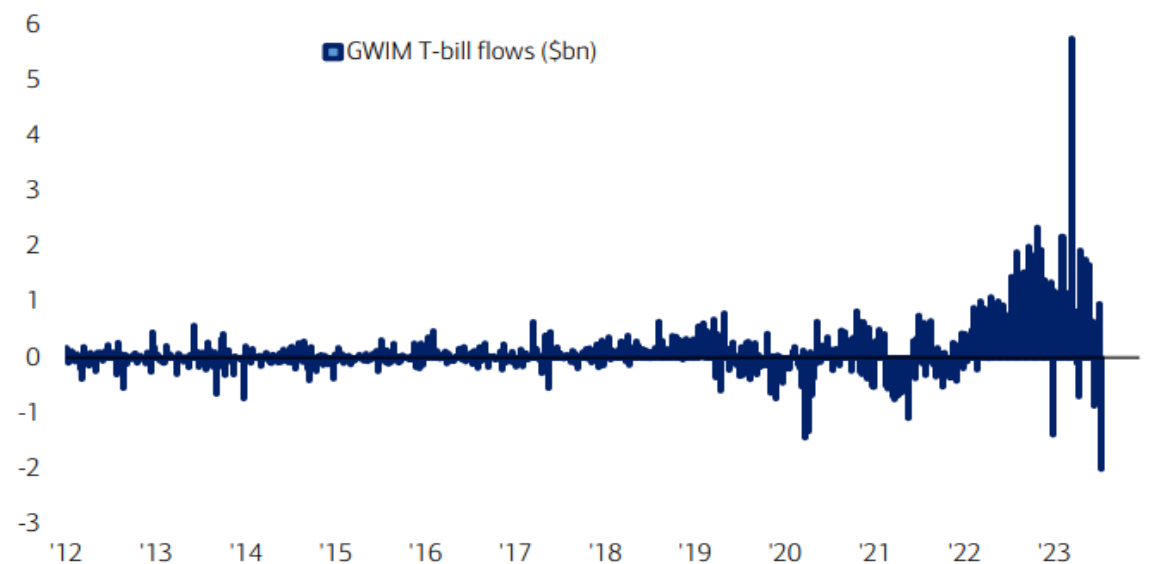


As at 31 July 2023

| Measure                                       | Level | 1 Month | 3 Month | 6 Month | 12 Month |
|-----------------------------------------------|-------|---------|---------|---------|----------|
| <b>Cash Spread/Yield Changes</b>              |       |         |         |         |          |
| Global IG Corp YTW (%)                        | 5.19  | -0.09   | 0.30    | 0.46    | 1.30     |
| Global IG Spread (bps)                        | 127   | -12     | -22     | -6      | -34      |
| Global HY YTW (%)                             | 8.93  | -0.27   | -0.29   | 0.30    | 0.40     |
| Global HY Spread (bps)                        | 462   | -29     | -89     | -36     | -136     |
| <b>CDS Index Spread Changes</b>               |       |         |         |         |          |
| CDX IG                                        | 63    | -3      | -13     | -8      | -18      |
| CDX HY                                        | 409   | -21     | -57     | -21     | -62      |
| CDX EM                                        | 191   | -22     | -47     | -31     | -136     |
| iTraxx Main                                   | 68    | -6      | -15     | -12     | -32      |
| iTraxx Xover                                  | 380   | -20     | -55     | -34     | 135      |
| Sub Fin CDS                                   | 144   | -16     | -44     | -12     | -60      |
| <b>Cash Index Performance (%)</b>             |       |         |         |         |          |
| Global IG Corp Index                          |       | 0.64    | -0.17   | 0.31    | -0.89    |
| Global HY Index                               |       | 1.77    | 3.43    | 2.83    | 7.22     |
| Global EM USD Index                           |       | 1.18    | 1.92    | 1.28    | 4.68     |
| <b>Higher Beta Sub Sector Performance (%)</b> |       |         |         |         |          |
| Banks AT1                                     |       | 3.13    | 7.01    | -6.50   | -7.45    |
| Energy HY                                     |       | 1.62    | 2.21    | 3.73    | 7.30     |
| EUR Corp Hybrids                              |       | 1.39    | 2.28    | 1.18    | 1.75     |
| Leveraged Loans                               |       | 1.07    | 3.26    | 4.48    | 9.62     |
| <b>IG Sub Sectors Performance (%)</b>         |       |         |         |         |          |
| Banks Senior                                  |       | 1.39    | 1.63    | 2.36    | -0.12    |
| Energy IG                                     |       | 0.67    | -0.59   | -0.31   | -0.20    |
| Auto                                          |       | 0.76    | 0.18    | 1.06    | 1.34     |
| Utility                                       |       | 0.26    | -1.92   | -1.66   | -3.09    |
| Communications                                |       | -0.34   | -1.20   | -1.09   | -2.74    |
| Airline                                       |       | 0.61    | 0.95    | 2.42    | 3.99     |
| Retail                                        |       | 0.05    | -1.26   | -0.59   | -3.13    |
| <b>Currency (Hedged) Performance (%)</b>      |       |         |         |         |          |
| Bloomberg USD Corp                            |       | 0.34    | -0.70   | -0.43   | -1.30    |
| Bloomberg GBP Corp                            |       | 2.39    | -1.39   | -2.62   | -7.90    |
| Bloomberg Euro Corp                           |       | 1.05    | 0.78    | 1.01    | -3.35    |
| <b>Maturity Bucket Performance (%)</b>        |       |         |         |         |          |
| Short (1-3 Yr)                                |       | 0.58    | 0.18    | 1.05    | 1.18     |
| Intermediate (5-10 Yr)                        |       | 0.00    | -2.02   | -0.98   | -3.45    |
| Long                                          |       | -0.13   | -1.41   | -2.03   | -3.78    |
| <b>Global IG Corp Index Attribution (%)</b>   |       |         |         |         |          |
| Carry                                         |       | 0.44    | 1.22    | 2.37    | 3.89     |
| Duration                                      |       | -0.52   | -2.74   | -2.43   | -7.02    |
| Spread                                        |       | 0.73    | 1.35    | 0.37    | 2.24     |
| <b>Performance</b>                            |       | 0.64    | -0.17   | 0.31    | -0.89    |

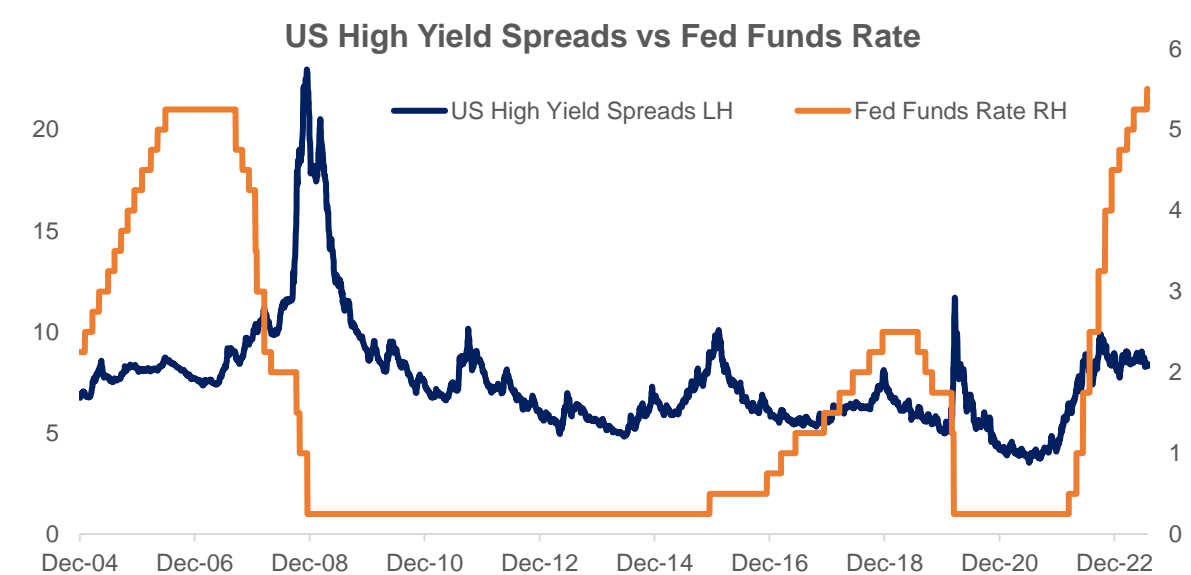
- July was a positive month for global fixed income markets helped by lower than expected inflation prints in the UK and US and better than expected jobs, GDP and durable goods data in the US.
- This provided a positive backdrop for risk assets, growth holding up in addition to inflation falling, with global high yield spreads ending the month 29bps tighter and CDS spreads across both Investment Grade and High Yield tightening in a similar fashion
- Yield curves in the US re-steepened somewhat with the short end outperforming over the month from a duration perspective. At an aggregate level credit spreads were the chief contributor to returns over and above carry with duration detracting somewhat.
- The positive surprise on UK inflation helped UK assets unwind some of their year-to-date underperformance with GBP corporates outperforming both USD and EUR corps in July.
- High beta strategies performed strongly in July with Bank AT1 continuing its resurgence post the CS led volatility with Corporate Hybrids in aggregate also registering strong gains along with High Yield energy bonds.
- The bullish action in risk assets combined with the halfway point in the calendar year may have prompted some market participants to switch out of T-Bills and into stocks/credit as shown by BofA clients who sold a record amount of T-Bills in the penultimate week of July.

**Record week of selling of T-Bills by BofA Private Clients**



Source: BofA as at 27 July 2023

**Credit Spreads vs Fed Funds Rate – Delayed Impact of Rate Hikes**



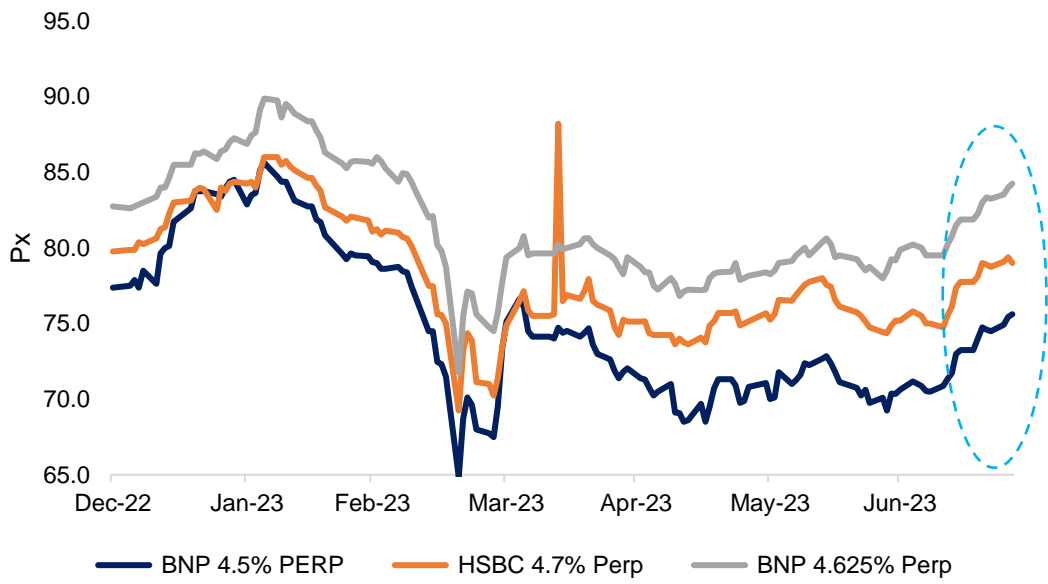
Source: Bloomberg as at 27 July 2023



## Financials

- It was a strong month for financials as demonstrated by the tightening in the most subordinated parts of the bank capital structure. The Bloomberg Global Coco Index tightened in by 42bps on the month to a level of 438bps. Strong risk appetite was evident as low cash price AT1s outperformed higher reset instruments with a shorter period to call. BNP low \$ cash price AT1s formed 4 of the top 5 performers in July.

### Low Cash Price AT1



Source: BBG as at 27 July 2023

- There were two notable call notices in the AT1 space - Barclays \$2.5bn 7.75% and BBVA €1bn 5.875% - which bolstered the sector further.
- There was a lot of activity in the discount (“discos”) space with bonds being called at a large premium to the prevailing market price. For example, Bank Nova Scotia and Westpac both issued call notices for legacy discos at par which represented a 6-8pt premium to market prices.
- A variety of factors have likely played into the strong risk appetite for junior subordinated bank bonds. Amongst these is the strong technical backdrop as proceeds have been steadily coming back to investors in the form of maturing bonds while issuance has been lighter than usual.
- Regional Banks were an area of strength as seen by the performance of the KRE Regional Banks ETF which returned 19.25% in July. Sentiment was helped by bank consolidation involving the likes of Pacwest.
- Noteworthy issuance in the month included large multi tranche deals from US Banks JP Morgan, Morgan Stanley and Wells Fargo (“WFC”). WFC issued an attractively priced Perp NC5 bond at 7.625% which traded up to 3pts higher before the month ended and issued its largest ever one day issuance of \$8.5bn after pricing the perp the week before. In Europe, EUR issuance was popular with CaixaBank issuing two senior non-preferred bonds and Abanca issuing a 10.625% AT1 after tendering for its existing notes.

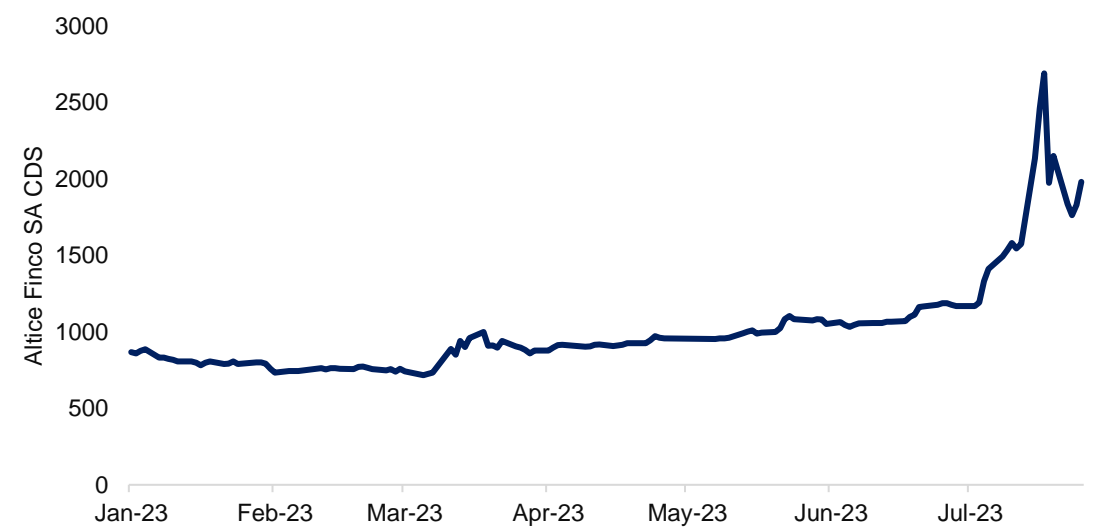
## Investment Grade

- There was not much news in the IG space in July, with issuance led by the major US Banks as highlighted above. In the credit trading space, US market maker Citadel announced they will be making markets in Investment Grade US credit. Citadel’s securities arm has made its name as a leading market maker in US Treasuries and Equity options through the use of technology and it hopes to bring this expertise to the IG credit market, which will result in more competition for the sell-side and hopefully tighter bid/offer spread for credit.

## High Yield/Leveraged Loans

- US high-yield credit spreads touched their lowest level since April 2022. That this has occurred at a time when the Fed has hiked rates to the highest level since 2001 and is engaging in quantitative tightening is remarkable.
- The supportive environment for HY could be considered a key factor which helped the likes of Carvana carry out a complex debt restructuring, enabling it to reduce its debt burden by over \$1bn and annual debt service costs by over \$400m.
- Despite the seemingly looser financial conditions, there is no shortage of idiosyncratic problems within the credit markets. This month, Altice was added to the list of issuers encountering solvency problems. Allegations of corruption at Altice Group’s local subsidiary saw its unsecured bonds fall 10pts into the 40s (cents on the Dollar). Its whole bond complex is lower and forms part of the significant total debt pile of \$60bn for Altice.

### Altice Finco SA CDS



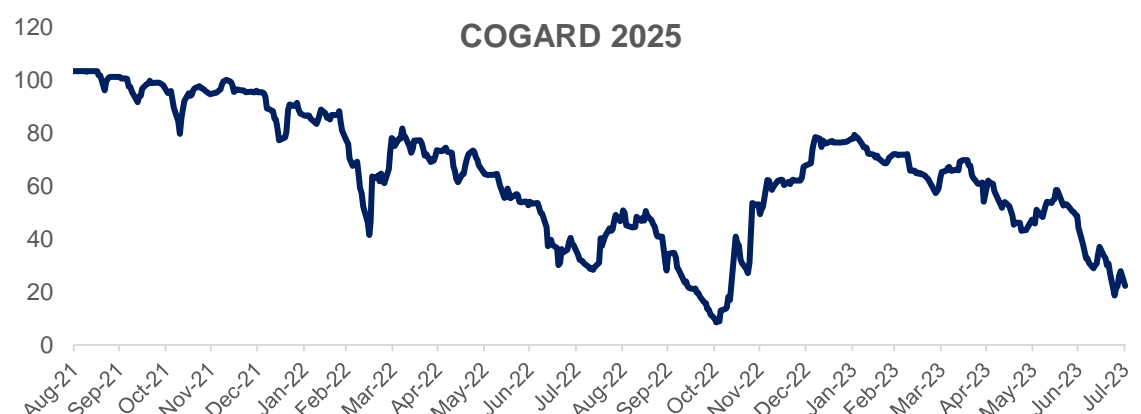
Source: BBG as at 27 July 2023

- We do observe that while issuance in the High Yield market is getting completed, the coupons are coming at a significant cost to the issuers. For example, UK discount supermarket Iceland tendered its existing bonds and issued fixed and floating rate notes with the former pricing at a yield of 11.125%. This could potentially create problems down the line for over-levered businesses that are more sensitive to the impacts of an economic slow-down or a recession.

## Emerging Markets

- Chinese data continued to underwhelm and the large stimulus that the market was expecting from the PBOC has not yet materialized.
- Mexican State owned Energy firm Pemex suffered an oil spill in the Gulf of Mexico, which is one of a series of similar incidents it has incurred over the past number of years. Pemex got downgraded to B+ by Fitch and placed on ratings watch negative and Moody’s placed credit outlook rating on negative. This saw large swathes of the widely owned Pemex bonds weaken.
- Meanwhile in China, bonds from Real Estate Developer Country Garden weakened meaningfully as concerns around its liquidity and state support resurfaced. For example, COGARD Jan 2025 bonds have dropped from a peak of around 80 cents on the Dollar earlier this year to 25 cents on the dollar.

### Country Garden 2025 Bond Price



Source: BBG as at 27 July 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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