

Credit Market Overview



As at 29 September 2023

Measure	Level	1 Month	3 Month	6 Month	12 Month
Cash Spread/Yield Changes					
Global IG Corp YTW (%)	5.66	0.35	0.38	0.70	0.28
Global IG Spread (bps)	135	2	-4	-18	-45
Global HY YTW (%)	9.46	0.37	0.26	0.27	-0.89
Global HY Spread (bps)	481	9	-11	-66	-171
CDS Index Spread Changes					
CDX IG	74	10	8	-2	-34
CDX HY	481	55	51	17	-129
CDX EM	226	25	13	-3	-105
iTraxx Main	80	9	6	-5	-55
iTraxx Xover	428	32	28	-8	182
Sub Fin CDS	166	18	6	-18	-106
Cash Index Performance (%)					
Global IG Corp Index		-1.87	-1.63	-1.63	4.61
Global HY Index		-1.06	0.52	2.52	12.21
Global EM USD Index		-2.28	-2.31	-1.21	7.56
Higher Beta Sub Sector Performance (%)					
Banks AT1		0.74	3.54	7.71	1.54
Energy HY		-0.81	1.66	3.24	11.61
EUR Corp Hybrids		0.23	1.35	2.55	8.12
Leveraged Loans		0.78	3.06	6.50	13.74
IG Sub Sectors Performance (%)					
Banks Senior		-0.44	1.35	2.21	6.25
Energy IG		-2.53	-2.84	-3.21	4.70
Auto		-1.30	-1.08	-1.13	4.86
Utility		-3.14	-4.03	-5.17	2.16
Communications		-3.40	-4.65	-5.18	3.62
Airline		-0.68	0.02	1.17	6.83
Retail		-3.20	-4.04	-4.68	2.16
Currency (Hedged) Performance (%)					
Bloomberg USD Corp		-2.67	-3.09	-3.37	3.65
Bloomberg GBP Corp		0.04	2.21	-1.28	8.11
Bloomberg Euro Corp		-0.86	0.34	0.77	3.65
Maturity Bucket Performance (%)					
Short (1-3 Yr)		-0.10	0.75	0.86	3.51
Intermediate (5-10 Yr)		-2.46	-2.95	-4.11	1.27
Long		-5.26	-7.23	-7.73	2.55
Global IG Corp Index Attribution (%)					
Carry		0.44	1.32	2.48	5.38
Duration		-2.19	-3.19	-5.23	-3.54
Spread		-0.12	0.25	1.12	2.77
Performance		-1.87	-1.63	-1.63	4.61

- September saw many financial markets experience a torrid time. Bond yields rose throughout most of the month before recovering modestly in late trading sessions. Both bonds and equities sold off as market participants absorbed the Fed's 'higher for longer' messaging - despite the FOMC refraining from a fresh interest hike in September, officials signalled the potential for one more this year and a reduction in cuts in 2024 and 2025.
- Despite the improving inflationary outlook painted late in the month, equities endured their worst month and first negative quarter of 2023. Credit spreads, meanwhile, displayed greater resilience in the face of similar headwinds. Spreads on both European Investment Grade and High Yield indices were tighter on the month, while US indices were marginally wider.
- Duration was the greatest contributor to negative credit performance in September. Spread moves had a more modest contribution with carry only partially offsetting the negative returns.
- Some higher-beta strategies performed well as leveraged loans, AT1 and corporate hybrids generated positive returns on the month. HY and EM fared less well, continuing the trend of last month's negative returns.

Financials

- Financial spreads performed in line the broad index and ended the month only modestly wider. The AT1 market was weaker on the whole with low reset and longer dated calls underperforming while demand for short dated calls remained robust. The spread on the Bloomberg European CoCo index widened by 2bp to 515bp.
- Santander's 5.25% € AT1 has reset to 8.4192%, reflecting the bank's decision not to call the bond in August. With a quarterly call option at par, the performance of the security will likely be determined by the bank's replacement issuance.
- As cash returns to the market as and when these called bonds get redeemed it should be supportive for the AT1 asset class. There was new issuance in AT1 as BBVA and Erste Bank both issued bonds, with Erste tendering for its 6.5% 2024 call AT1.
- As expected, primary issuance increased month-on-month, with September generally being one of the busiest windows of the year for supply. Unlike August which saw financials represent the largest sector, supply in September was evenly split between each of financials, non-financial corporates and SSAs. Within the financial space, senior debt more than doubled in volume compared to August and was the largest asset class. This was followed by covered bonds and a small amount of subordinated debt issued.
- Investment Grade**
- US IG credit spreads were wider by 3bp while European IG spreads tightened by 3bp. US IG Issuance, at \$124bn, was modestly above expectations for September. Supply was absorbed well with new issue concessions in line with YTD averages.
- Within the corporate hybrid space, Bayer was the sole issuer of debt in September, using €1.75bn in a two-tranche deal. Against this the company tendered for existing hybrid bonds callable in 2024 and 2025

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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