Global Credit Snapshot

January 2024 – Wow, what a month!

Key take-aways:

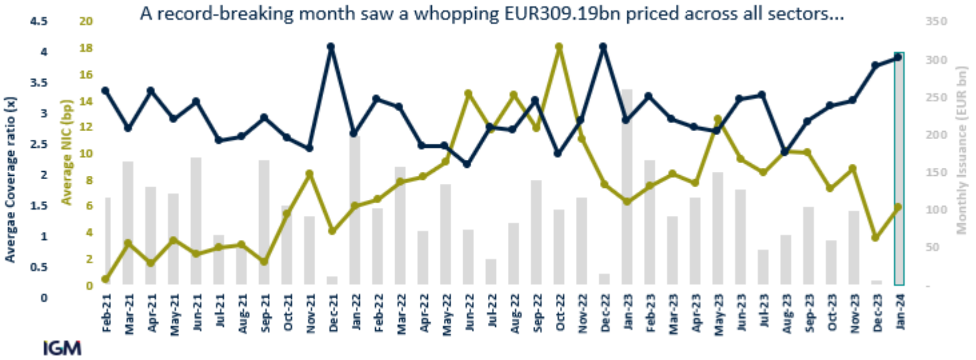
- **Activity in Europe was rampant during January seeing record monthly levels of issuance (exceeding EUR300bn for the first time) led heavily by SSAs which represented over 54% of the total**
- **In the US, it was the busiest January ever (USD286.37bn incl SSAs), with that translating into the 3rd busiest month on record. FIG issuers (incl Yankee FIG) dominated the landscape bringing over 68% of ex-SSA USD issuance (compared to a last 12-month average of just over 50%)**
- **The APAC market also saw a resurgence, without testing any records, with USD30.94bn crossing the tape. Reassuringly, an average coverage ratio of ratio of 4.35x bucked the trend that had seen the metric deteriorate throughout 2023 (it fell every month from March to November)**

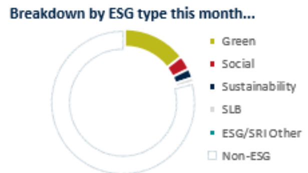
EUROPE

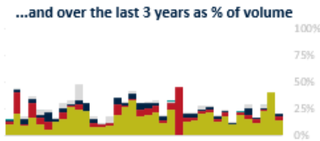
Spotlight on EUR issuance

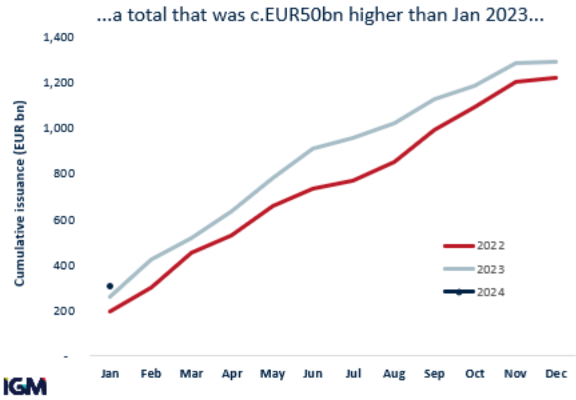
January 2024

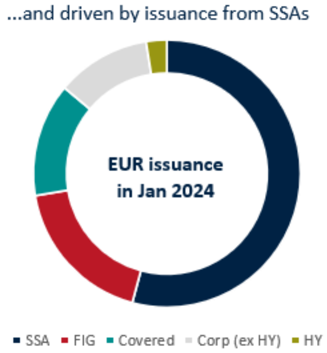
** Following a sharp rally in risk assets during the closing weeks of 2023, credit markets came into the year at already elevated levels but the sheer weight of cash in portfolios made for very conducive conditions for issuers who collectively piled in to make January the biggest month of all time for euro supply. In the underlying rates complex, some of the late 2023 rally unwound where 10yr German yields rose by as much as 35bps during the month before ending a more modest 14bps higher. Stocks also lost ground in the first half of the month but regained their footing with Stoxx600 ending the month 1.4% firmer and approaching its all-time peak.

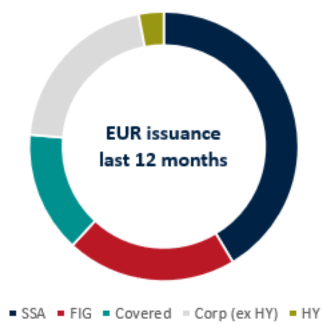




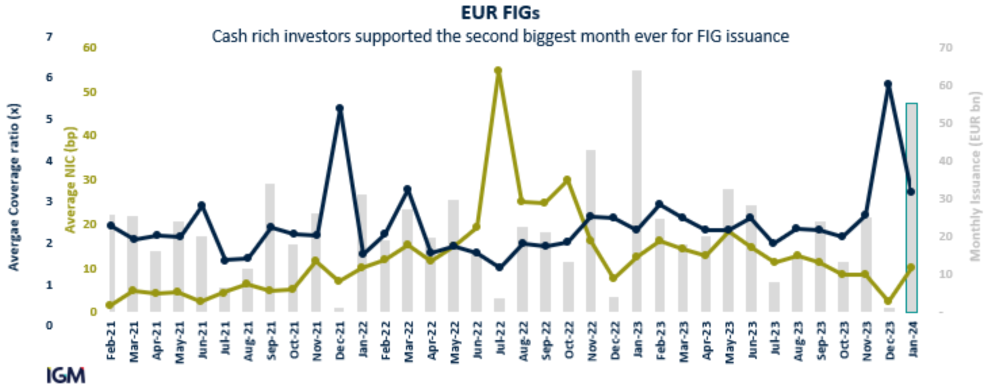


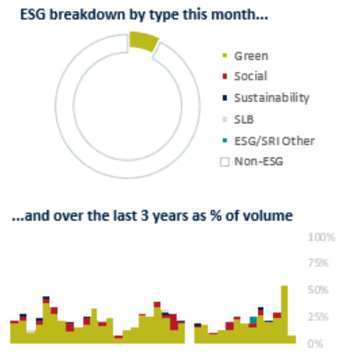




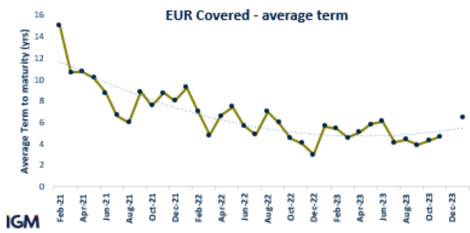


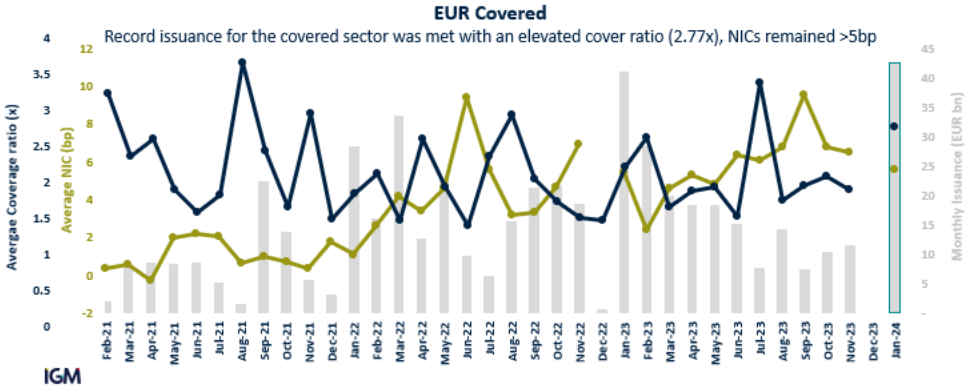
**** FIG (ex-covered):** Having been virtually absent in December, issuers started 2024 with a bang and whilst the asset class couldn't match January 2023's all-time heights, the amount raised qualified January 2024 as the second busiest month ever. A cash rich investor base made for very strong issuance conditions where a number of borrowers priced deals through existing curves. The earlier part of the month proved busiest, delivering almost two thirds of Jan's supply before earnings blackouts and key central bank meetings restricted supply in the latter stages of the month.

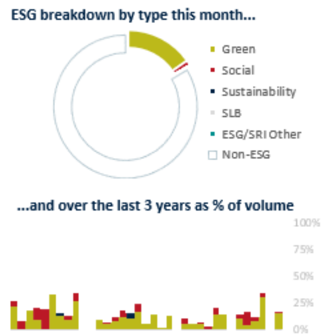




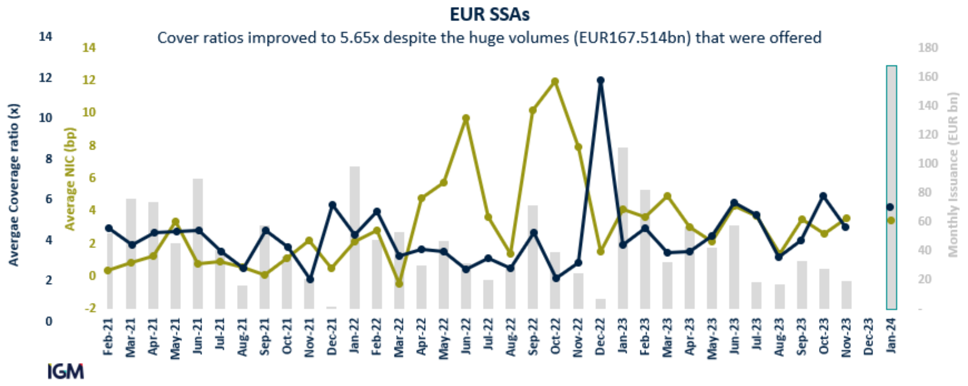
**** Covered:** The market saw 54 tranches produce EUR42.45bn in January, dethroning 2011's once record-breaking EUR42.25bn, 51-tranche haul by the slimmest of margins. In focus, was the reopening of the longer end of the curve which borrowers looking to fulfil their long-term funding needs, had looked forward to for several months. Ten 10-yr deals emerged, as well as one 12-yr line (from Societe Generale) helping the average term to maturity of the month's deals climb to 6.5yrs (2021 average: 9.2yrs, 2022: 5.85yrs and 2023: 4.9yrs). Throughout January, investors were keen to put their cash to work, with investor orders offering an average cover of 2.77x. In terms of new issue concessions, borrowers paid an average 5.61bp after leads set spreads an average 6.01bp inside IPTs. Last January, an average 3.14bp compression resulted in a 5.44bp premium.

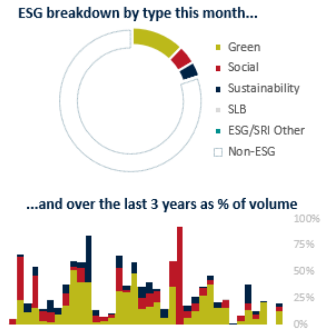




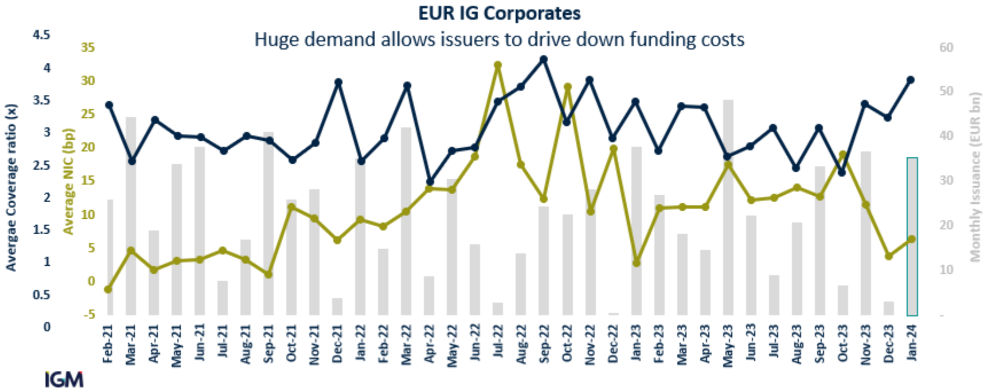


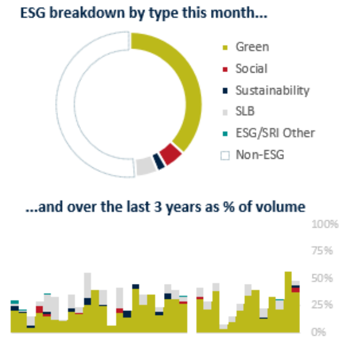
**** SSA:** When January ended some EUR167.514bn of new SSA bonds had been launched, setting an all-time monthly record for the asset class. EUR33.414bn of those bonds came with an ESG label, dominated as is normally the case by green bonds (12% of SSA issuance). Sovereigns accounted for EUR91.75bn of the total tally with issuers moving earlier than expected (Italy came to market twice) and with many completing deals that were larger than market expectations (Italy's EUR15bn dual-tranche and Spain's EUR15bn 10yr being the prime examples, although Germany completed half of its syndicated funding (EUR6bn) on its first outing). Thankfully, and boding well for February's expected activity, that vast volume of new paper was met with a wall of demand that saw an average coverage ratio of 5.66x (compared to 3.8x in Jan 2023 – that year's highest volume month). In terms of pricing, average NICs came out at 3.45bp and were only marginally higher than the 2023 monthly average of 3.37bp, a sign that issuers didn't need to provide additional concessions to attract additional excess demand.



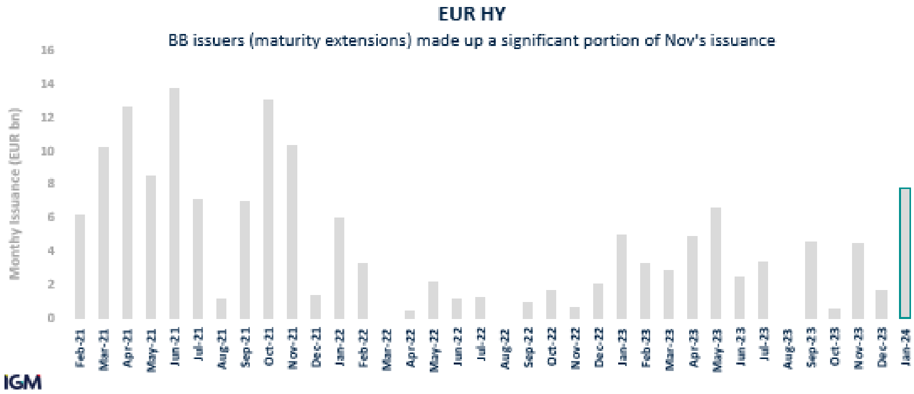


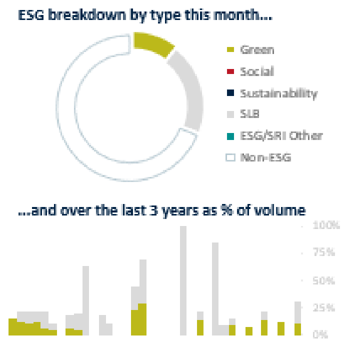
** **IG Corporates (ex-HY)**: Corporate borrowers made hay whilst the January sun was shining, with the asset class seeing its third quickest start to a year ever. The final euro tally finished up at EUR35.15bn, with only 2021 (EUR35.7bn) and 2023 (EUR38.2bn) seeing more January activity. This month's issuers made the most of what were very good issuance conditions with investor demand almost insatiable, in turn allowing many borrowers to price new deals flat to, or inside, fair value estimates.





** **High Yield:** It was a strong start to 2024 for HY issuance with the biggest January total since 2021 and the highest volume of any month since November 2021. The clamour to lock in yields as rate cut anticipation heated up pushed yields tighter as the majority of the month's offerings landing inside IPTs. Green, sustainability-linked and HY-funded dividends all made an appearance while INEOS's EUR850m fixed rate note was the largest EUR HY note since Ford's EUR1bn reverse Yankee almost 12 months earlier.

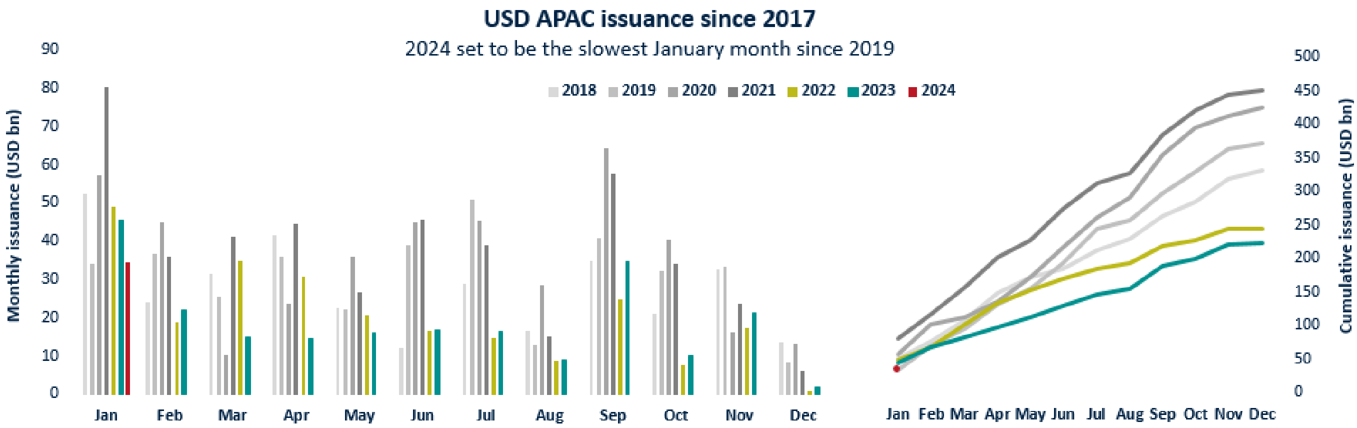




APAC

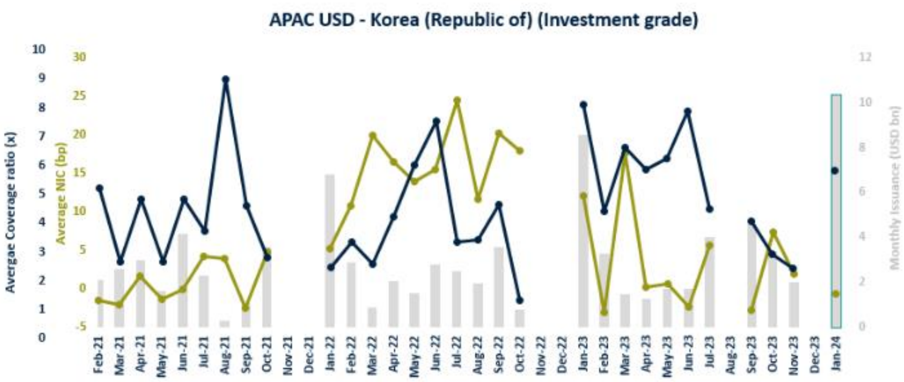
Spotlight on the region's USD issuance

Investors proved keen to lock-in current coupons in the APAC USD primary market before US interest rates are expected to start heading lower later this year, with resulting oversubscribed order books in turn allowing issuers to achieve some competitive funding costs.



IGM data shows that the average cover ratio on regional investment grade supply, that totalled USD30.74bn and made up 89% of total US dollar issuance raised by APAC issuers in January, came in at a healthy 4.35x, which was broadly in line with the 4.30x aggregate figure seen in 2023. That enabled IG borrowers to secure funding at an average new issue concession of 0bp (zero), the smallest on aggregate since September 2021 when discounting the seasonally quiet month of August 2023 when there were few deals.

Investors were spoilt for choice from a geographical perspective, with eight different countries participating in the APAC USD high grade market in January 2024. That included some jurisdictions that have been largely absent in the past couple of years, such as Indonesia, India and the Philippines, where issuers that needed to fund were often able to access local currency bond or loan markets at more economic levels.



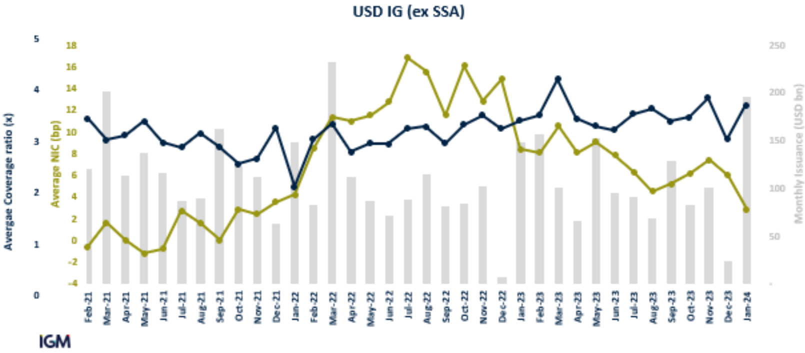
However, it was South Korean issuers that led by example, raising a combined USD10.4bn from nine separate transactions, equating to 33.8% of total APAC IG supply over the month. IGM's data set illustrates that those Korean issues outperformed the broader regional IG space in terms of investor demand, with the average cover ratio coming in at an impressive 5.84x on Korean issues, while the new issue concession was -0.6bp (negative) on aggregate.

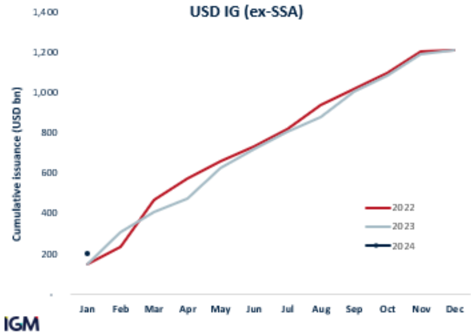
Finally, APAC USD high yield supply amounted to USD2.775bn, courtesy of Indian non-bank financier **Shriram Finance Limited**, Japanese online retailer **Rakuten Group, Inc** and **Mongolian Mortgage Corporation**, albeit the latter two were liability management driven exercises. The average cover ratio based on available data was 2.67x on those transactions, the highest since February 2023, while the average new issue concession was -12.5bp (negative).

United States

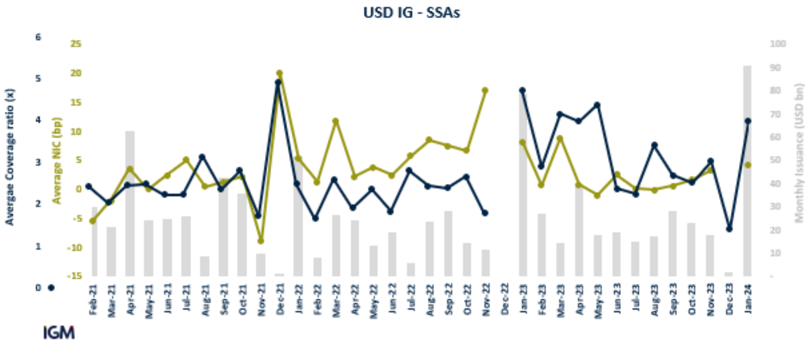
USD issuance

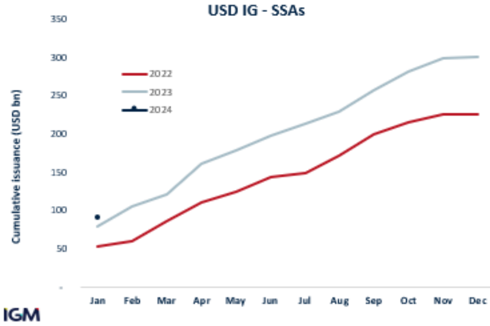
** Ex-SSA issuance in January 2024 was USD195.62bn, making this a January for the ages. After setting a new issuance record for the month of January - the old record was USD172.53bn from 2017 - and ranking as the sixth busiest issuance month on record, 2024 is off to the fastest start – +32.4% over last year – we have ever seen in the high-grade issuance market.

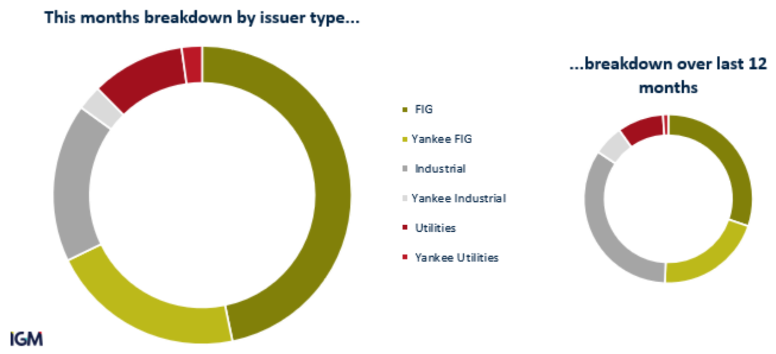




The same can be said for the overall (SSA-inclusive) issuance market as well. Overall issuance came in at USD286.37bn (representing an SSA total of USD90.85bn), topping the previous January record of USD226.82bn also set back in 2017, and narrowly missing out on taking over the second busiest overall issuance month ever.







** Within ex-SSA issuance, FIG issuance accounted for nearly 46% of the month's total with USD89.35bn. Yankee FIG issuance came in second place with USD43.69bn, or slightly over 22% of the total tally for January.

** For February, the parade of issuance is not expected to end there, according to a preliminary canvassing of the Street; those in the know are expecting, on average, USD150bln in additional supply to come to market this month, an unusually high expectation for February, a month that is not known for an abundance of new issues. Over the past decade, the month of February has averaged USD103.663bn in ex-SSA issuance, ranking it in the middle of the pack as the sixth slowest issuance month of any year. But February has surprised us before. We have seen as little as USD80.74bn cross the tape in Feb 2014 and as much as USD156.65bn in Feb 2022. Last year was only the second time (2015) that February issuance surpassed issuance in January.

** Even the most bearish respondent to our issuance poll is looking for USD100bn in new ex-SSA supply to come this month – that's an even money bet, since February issuance has exceeded USD100bn in five of the last 10 years – while the most bullish among the crowd is looking for as much as USD175bn. The seemingly higher than usual estimates for February most certainly hinge on the backlog of M&A deals that will need to be financed, along with another horde of companies exiting blackout periods. The Street is looking for February to get off to a rousing start, with the average estimate for issuance in the first full week of the month coming in at a respectable USD30bn (with a range of USD25-40bn).

** In the US High Yield arena, there was a marked improvement in monthly issuance in January, with a final total of USD31.015bn, the first monthly tally to exceed USD30bn since November 2021 (an exemplary year in which only July and December didn't achieve that feat!).