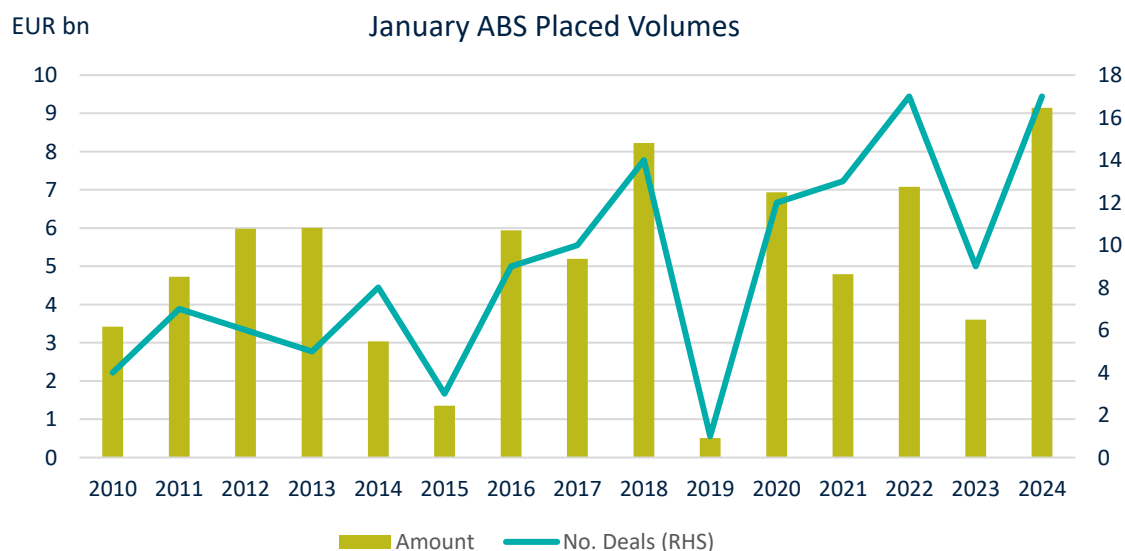


## European Structured Finance January 2024 in Review

- ❖ UK RMBS drives positive opening for new issues market
- ❖ Placed supply tops EUR9bn equivalent across all asset classes
- ❖ Tightest prints recorded in certain asset classes for two years
- ❖ RMBS, CLOs, auto ABS and consumer paper all offered

- 2024 got off to a solid start with UK RMBS leading the way, helping supply to reach EUR9.1bn equivalent, a recent high for the opening month of the year. There were 13 new issues placed across all asset classes as well as two CLO resets and two CLO delayed draw tranche sales. Six of those 13 newly-minted transactions were UK RMBS. There was also an Irish RMBS, two auto ABS (German and Dutch), a consumer loan ABS (German) and three new issue CLOs.
- There were notable pricing achievements too, such as the tightest UK BTL for two years, the tightest CLO Triple As since June 2022, as well as the biggest new CLO since 2022. Mezzanine tranches were multiple times subscribed, with books topping 10x at one stage. At the junior level, CLO Single B notes are around 400bp tighter than the highest spreads seen in 2023.
- Asset performance deterioration remains a possibility as defaults rise, such as in the high yield bond and leveraged loan space, but consumer products have proved resilient. Interest rates have peaked but a certain degree of pain is to come, such as for UK borrowers that had taken out short-term initial fixed rate mortgage products that are still facing a hike in payments. Unemployment, however, remains low and so offers a degree of initial protection.
- 2024 began with data reflecting uneven economic performance across regions, in terms of GDP and PMIs, but labour markets remain resilient. There have been blips in inflation, which were expected and likely not to be isolated events, but the general trend is lower.
- The first ECB, Fed and Bank of England meetings of 2024 yielded no surprises in terms of decisions (all unchanged) but the language was closely scrutinized. The ECB's Lagarde favours a summer move, the Fed pretty much ruled out a March cut while the Bank of England removed its language of bias towards tightening. For ABS investors, rate cut delays mean higher yields for longer in the predominantly floating rate market.

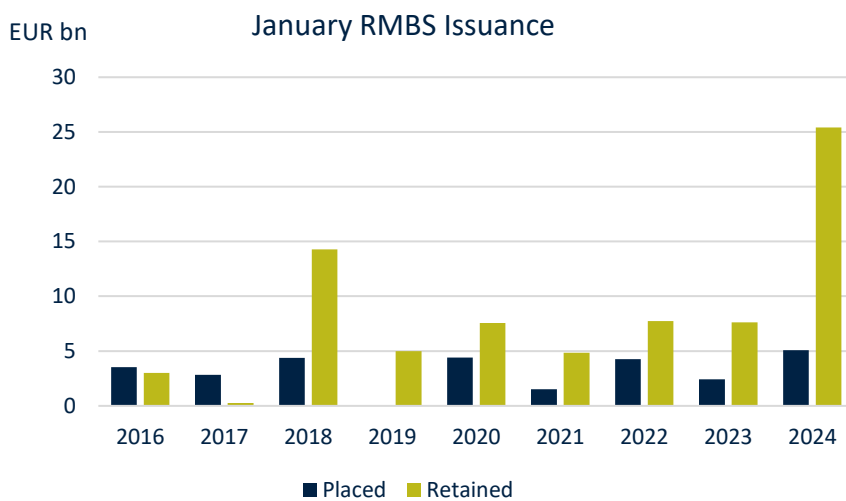


Source: IGM

## UK Leads RMBS Reopening

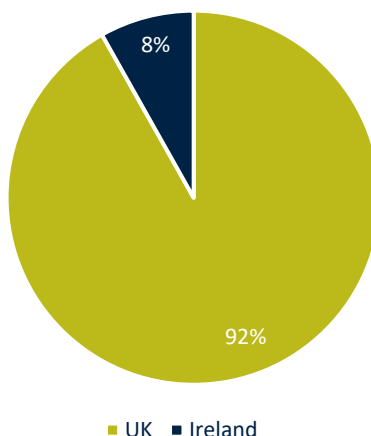
- ❖ UK supply dominates RMBS market
- ❖ Dilosk offers first EUR STS RMBS paper for three months
- ❖ Massive French deal sees retained volumes spike

- Europe’s RMBS market got off to a brisk start in 2024, with six UK transactions and an Irish deal representing the mortgage supply. The UK has seen a steady supply of prime deals (three master trust) with a BTL RMBS, a second lien transaction and a mixed legacy portfolio coming to market in January. The sole representative of EUR supply was the Irish STS deal.
- UK issuers being quick to access the market helped overall RMBS placed supply through the EUR5bn equivalent mark. And up to the last day of the month relatively little paper was retained (or not offered) at EUR2.4bn, the lowest since 2017, until BPCE refinanced existing retained jumbo deals with EUR23bn across three tranches.



- The UK supply saw Lloyds, Santander UK and Clydesdale Bank all access their master trusts, raising GBP1.95bn. Lloyds and Santander both started at GBP500m and printed GBP700m and GBP750m respectively, while Clydesdale was a GBP500m no-grow.
- Dilosk offered the first EUR STS RMBS paper for three months and was keenly met by investors as it tightened well inside its previous deal from April 2023.

January 2024 RMBS by Country



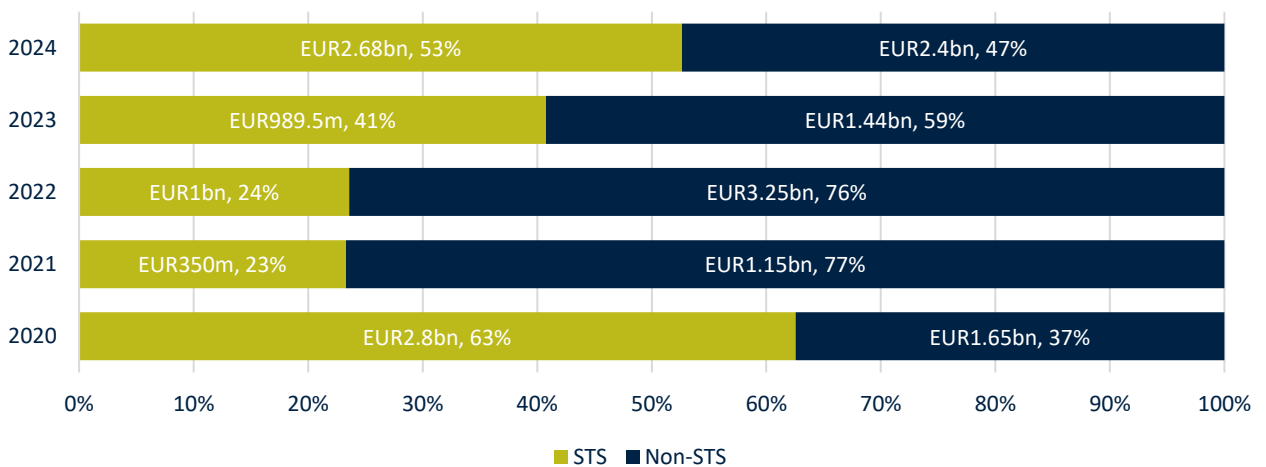
■ UK ■ Ireland  
Source: IGM

## Highest January STS RMBS Sales Since 2002

- ❖ More even distribution of STS vs non-STs placement
- ❖ Highest January STS sales since 2020
- ❖ January RMBS supply tops EUR5bn

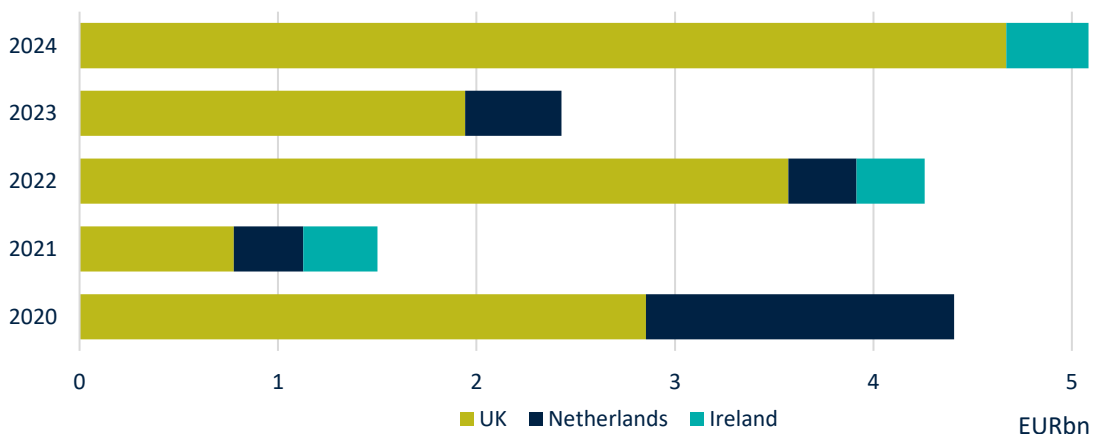
- There was a more even split between STS and non-STs RMBS supply in January than previous opening months. Issuers sold EUR2.7bn equivalent of STS paper in the opening month of 2024, while non-STs issuance was around the EUR2.4bn mark (53%/47%), based on tranches placed and not overall deal sizes.
- In January 2020 STS supply accounted for almost two-thirds of supply in that opening month, but was then limited to no more than 41% between 2021 and 2023. The opening trio of UK master trust transactions got STS supply moving in 2024, followed by Dilosk's Irish transaction that printed towards the end of the month.

January RMBS Sales, STS vs Non-STs



- UK issuers continue to lead the market, but 2024 stands out for the extent of their dominance even at this early a stage of the year. In fact, UK RMBS on its own achieved a higher volume than all jurisdictions combined in each of the previous Januarys back to 2020 (the label launched in 2019). That said, the opening month has not tended to yield a huge variety.

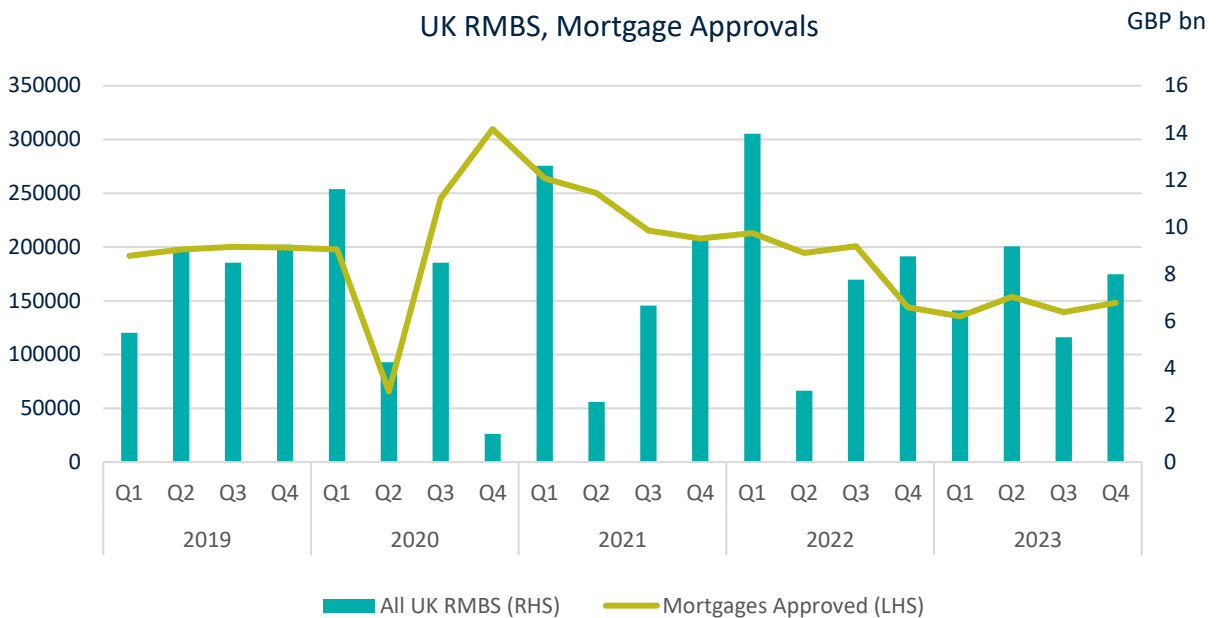
January RMBS by Country



## Mortgage Uptick Expected In Q1

- ❖ Focus on new mortgage approvals following flattening in 2023
- ❖ Total UK RMBS creation in 2023 was lowest since 2020
- ❖ EU banks expect uptick in mortgage demand in Q1 2024

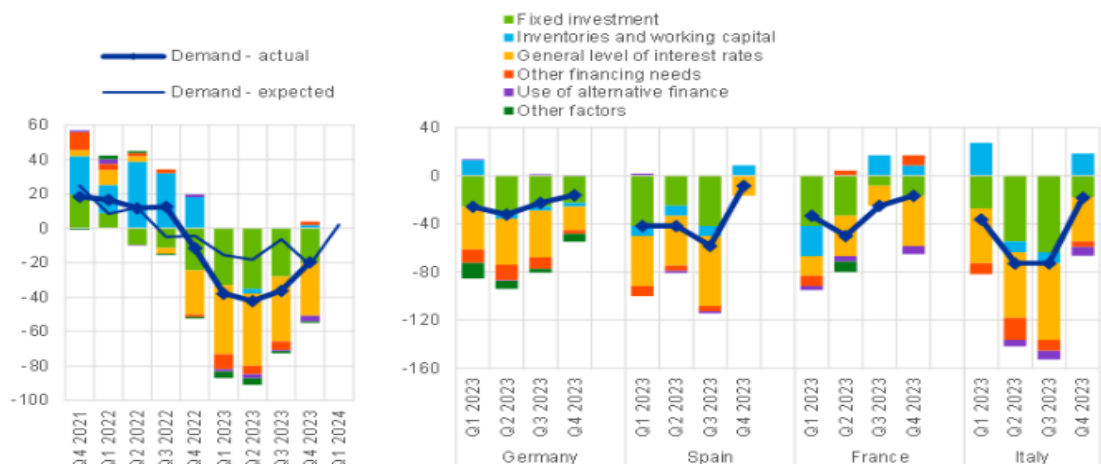
- In 2023 total UK RMBS creation (placed and retained bonds) was GBP28.9bn, the lowest since 2020 (GBP25.5bn). And after a surge in Q4 2020 mortgage approvals were on a declining trend, flattening in 2023 although with an uptick up in December. What this means for future issuance remains to be seen, as issuers may tap the RMBS market for TFSME refinancing and not just general funding and mortgage financing.



- The ECB’s latest bank lending survey showed loan demand up in Q4 but was still net negative. Banks do expect an uptick in Q1 2024 though, to mark the first positive reading since Q2 2022. General interest rate levels were cited as the main negative influence on demand.

### Changes in demand for loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Source: Mortgage approvals – Bank of England, EU loan demand – ECB, RMBS figures - IGM

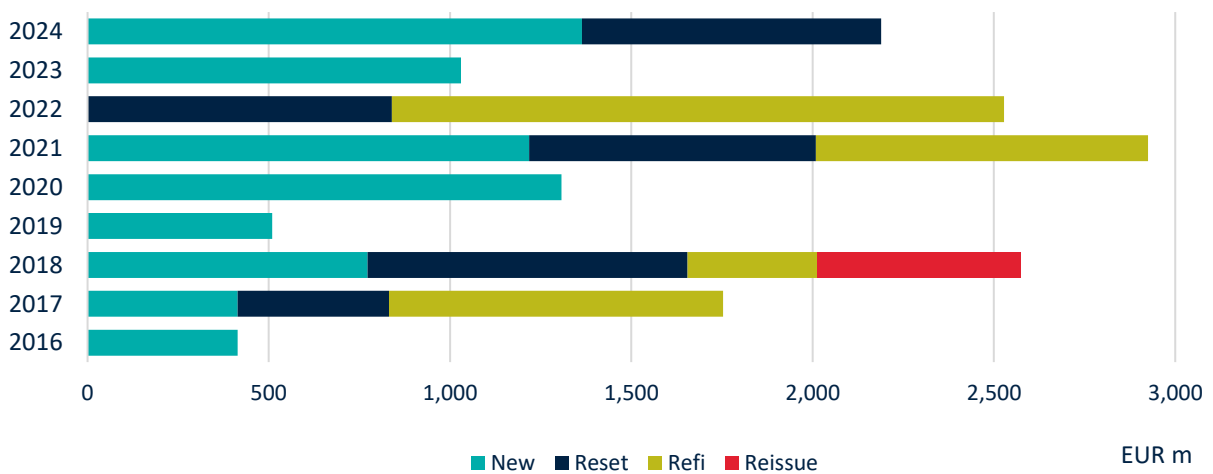


## Trio Reopen CLOs

- ❖ Three new CLOs price in January for EUR1.36bn, including the biggest since 2022
- ❖ Two managers take advantage of tighter levels to reset transactions
- ❖ Duo print delayed draw tranches with Single Bs over 400bp inside wides of 2023

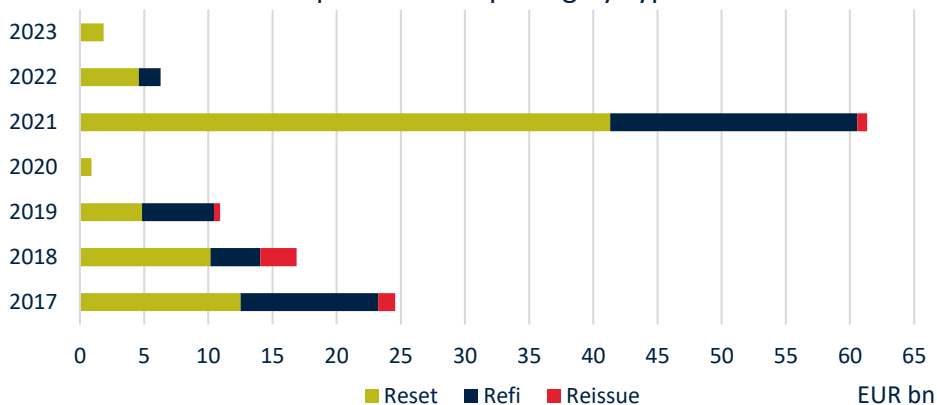
- Three new issue CLOs priced in January for EUR1.36bn, including the biggest deal for almost two years, to record the highest opening month volume since the the financial crisis.
- January supply was even higher than in 2021, when EUR1.2bn priced, on the way to a post-crisis record whole-year tally of EUR38.6bn.
- Trinitas Capital Management issued the first deal of the year in a EUR506.54m transaction (biggest since 2022), followed by Sound Point Capital Management (EUR452.55m) and FIL Investments International (EUR408.5m). Two deals were also reset in January, as Palmer Square Capital Management and Bain Capital Credit took advantage of narrowing spreads.

January Euro CLO Issuance by Type



- Tighter spreads also convinced two managers to sell the delayed draw Single B notes not originally offered. Capital Four CLO Management and Invesco priced EUR12m tranches at DMs of 3mE+900bp and 975bp respectively. In 2023 new issue Triple B DMs had hit 1350bp, where disclosed. Wider spreads after 2021 rendered resets and refinancings uneconomical (instead some just liquidated deals), but the potential for more issuance in this format has once more been raised based on the recent trajectory of spreads.

European CLO Re-pricing by Type



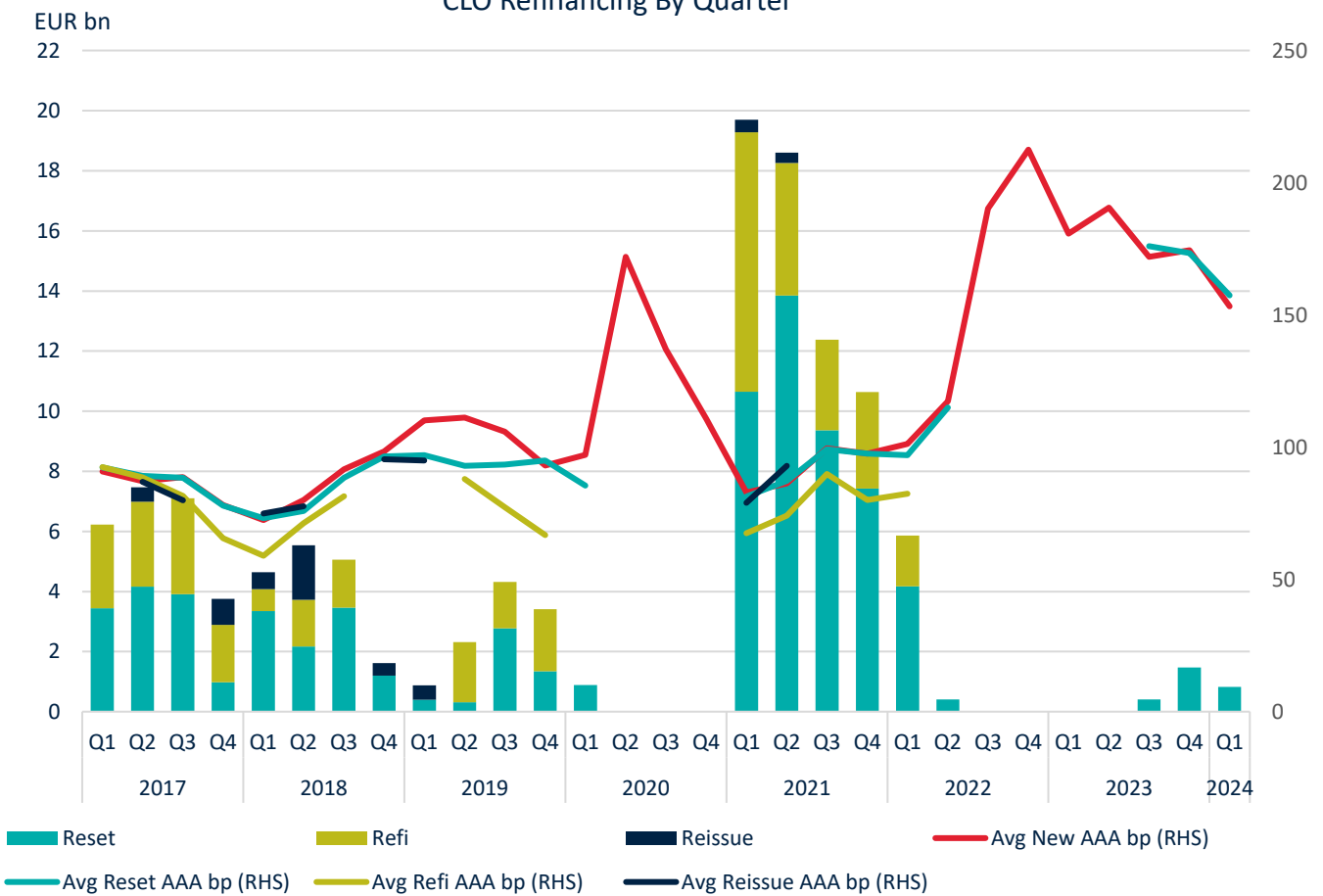
Source: IGM

## Triple A Average At Two-year Tight

- ❖ Senior spreads at lowest level since early 2022
- ❖ Reset Triple As printing 20bp inside December 2023 levels
- ❖ Whole capital stack between 70bp (Triple As) and 425bp (Single Bs) inside 2023 wides

- Triple A new issue CLO spreads averaged 153.33bp in January, the lowest since Q2 2022 as the chart below shows. And the two resets priced at 160bp and 155bp, with the average 157.5bp marking a 20bp reduction since Q4 2023.

CLO Refinancing By Quarter



Source: IGM

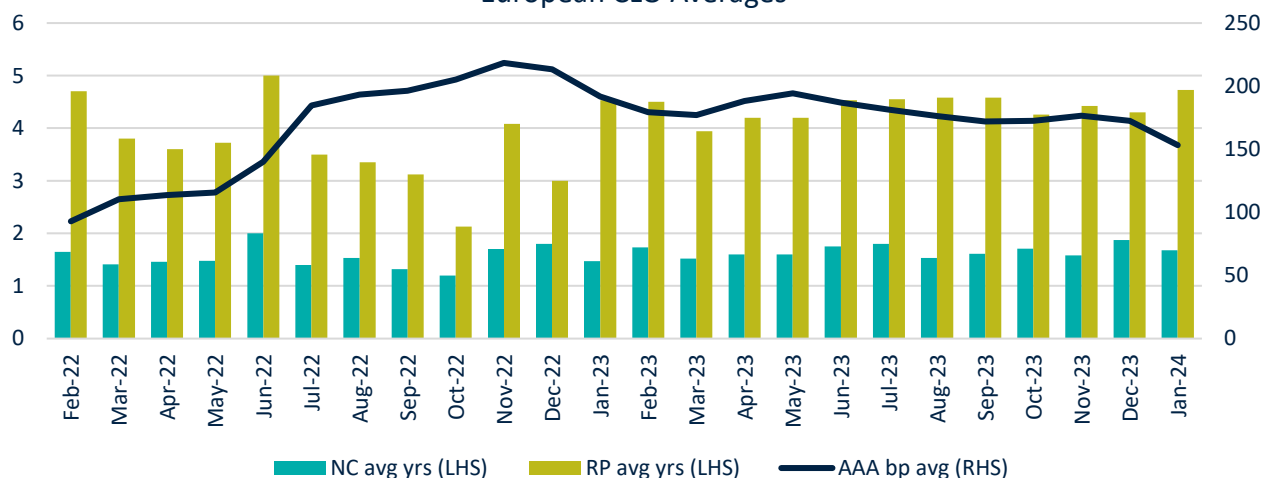
- Cleansing notices have been issued for several other deals (see next slide for monthly call schedule in 2024) which suggests that the frequency of resets could increase. The chart only shows Triple A levels but spreads right down the capital structure are much tighter too.
- For instance, Double As priced in a 215-245bp range in January 2024, Single As at 265-295bp, Triple Bs at 400-440bp, BB DMs at 660-680bp and Single B DMs at 925-950bp.
- In 2023, spreads for Triple A to Single B rating categories on reinvestment deals had reached wides of 220bp, 350bp, 450bp, 660bp (675bp DM), 960bp and 1350bp where disclosed.
- This means Triple As are up to 70bp tighter than the wides of 2023, Double As 135bp, Single As 185bp, Triple Bs 260-275bp, Double Bs 300bp and Single Bs 425bp tighter.

## Near EUR21bn Of New CLOs Callable In 2024

- ❖ Tightest average Triple A spreads and longest reinvestment periods since June 2022
- ❖ Downward trend evident in spreads from Q4 2023
- ❖ EUR20.7bn of new deals callable in 2024, December busiest month with EUR3.16bn

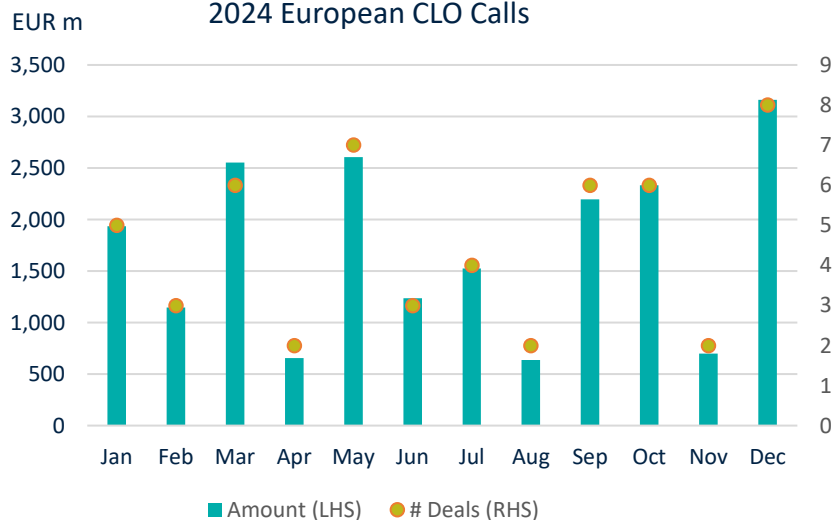
- Triple A CLO spreads averaged 153.3bp in January, which was the tightest since 140bp was achieved in June 2022. This is based on reinvestment deals and excludes static transactions. The average reinvestment period of around 4.7-years is also the longest since June 2022 (at 5-years, although that was only from one deal in that month).
- Nonetheless, spreads do appear to be firmly on a downward trajectory which may boost new issuance. Loan spreads have narrowed too, although a substantial part of activity here is additions and extensions rather than the creation of entirely new loan supply. Deals are being increased and reverse flexed while OIDs are being eroded with pricing gravitating towards par.

European CLO Averages



- Around EUR20.7bn of newly issued CLOs are callable for the first time in 2024. This includes three deals launched at the end of 2021 for EUR1.2bn, while EUR10.5bn of paper issued in 2022 and EUR8.95bn of deals from 2023 is callable in 2024. December is the busiest month with EUR3.16bn due, May is second with EUR2.6bn and March third with EUR2.55bn.

2024 European CLO Calls



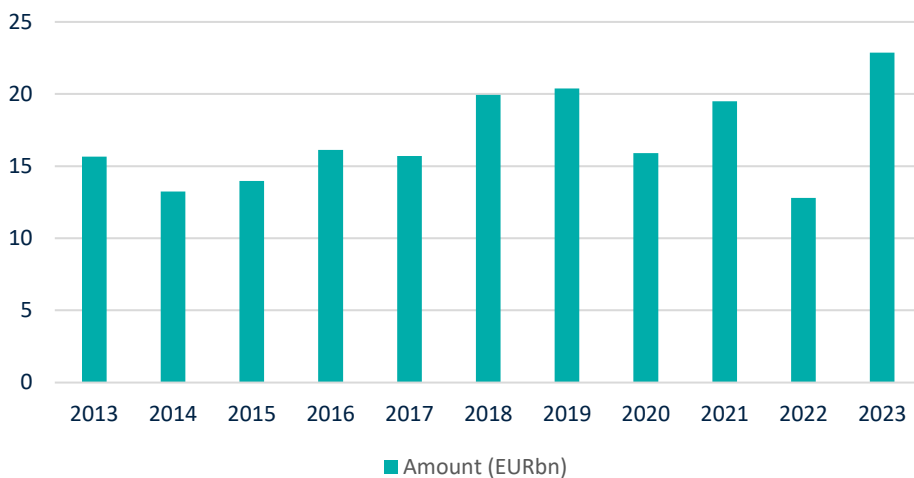
Source: IGM

## German and Dutch Deals Start Auto Supply

- ❖ January tally of EUR1.4bn tops previous years
- ❖ Volkswagen Leasing and Hiltermann Lease Groep bring well received trades
- ❖ Issuers building on recovery of market seen in 2023

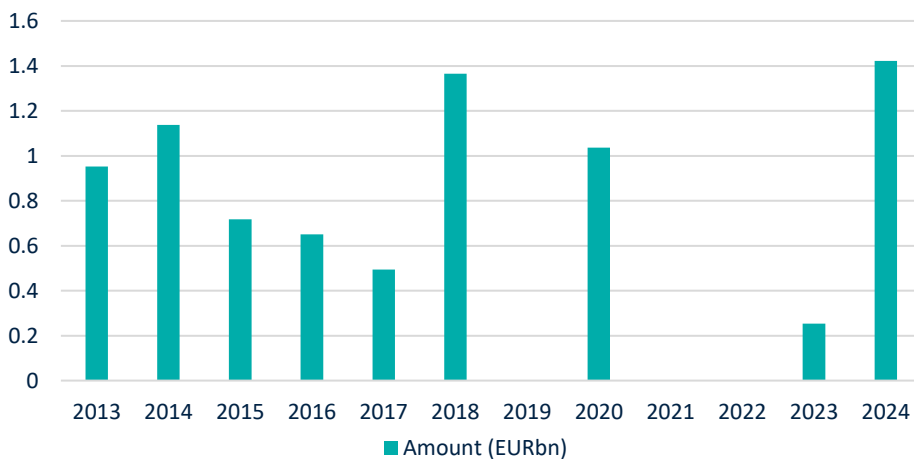
- 2024 got off to a solid start with German and Dutch STS auto ABS from Volkswagen Leasing and Hiltermann Lease Groep. And February supply is up and running with a Finnish deal pricing on the first day of the new month.
- The European auto ABS market enjoyed a revival in 2023 with EUR22.9bn of issuance up 78% on the sluggish EUR12.9bn seen in 2022. This followed slower prior years for new car registrations (see next slide for car registration and ABS volume progression by country).

Placed European Auto ABS By Year



- There was only one auto ABS in January 2023, a Swiss deal, but supply accelerated after that, peaking at EUR7bn in September. Supply in January 2024 has reached a new peak, topping EUR1.4bn from those German and Dutch transactions.
- VW’s deal was upsized by 33% to EUR972m with the final book still over EUR1.4bn. Hiltermann’s trade was a EUR450m no-grow offering and was heavily subscribed.

January Placed European Auto ABS



Source: IGM

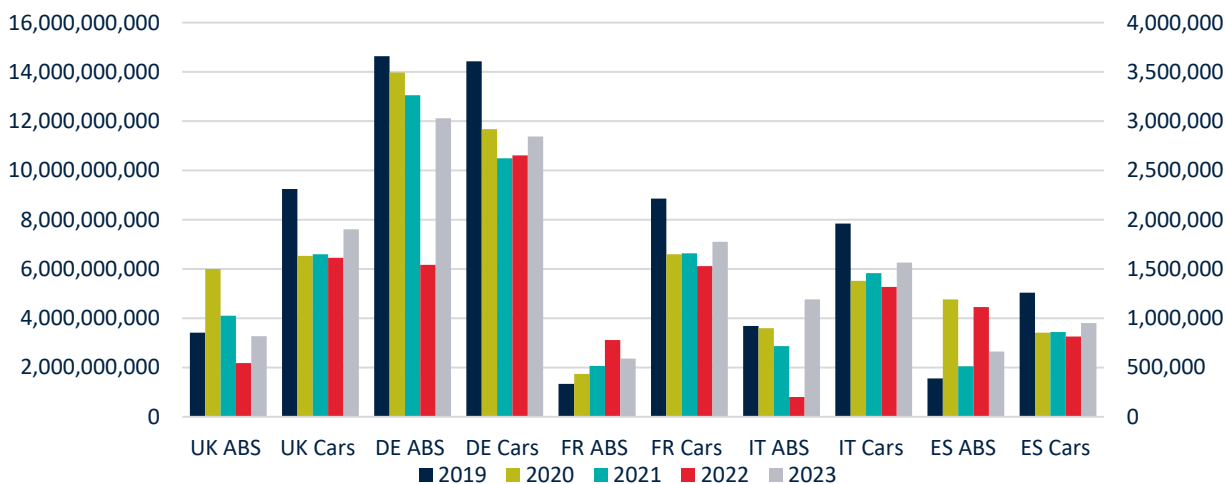


## Auto Registrations Recovering

- ❖ Car registrations post gains in 2023, but still below pre-Covid levels
- ❖ Three of top five auto markets see increase in ABS volumes vs 2022
- ❖ Germany sees big boost in ABS volumes vs 2022, but car registrations lag

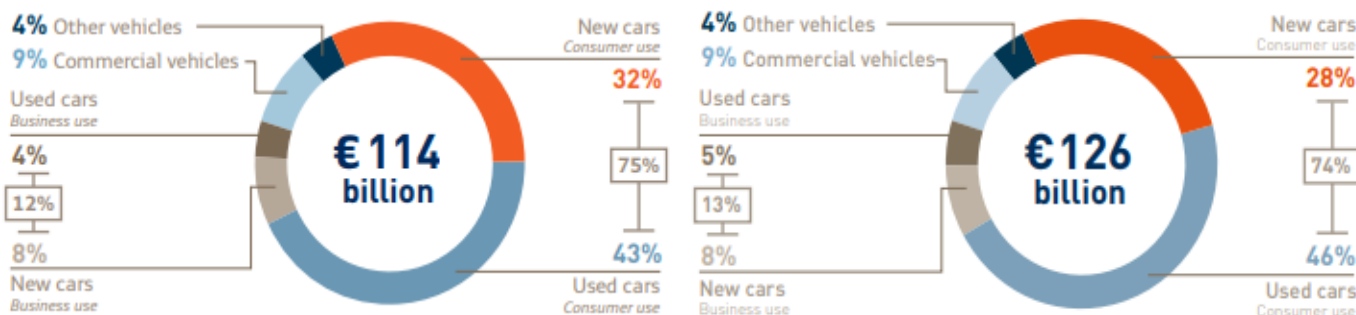
- The chart below shows notable variation in the pace of new car registrations and auto ABS issuance across the main ABS jurisdictions over the last few years. New registrations are improving, but are yet to recover to the levels seen pre-Covid in 2019.
- Car registrations in the main auto ABS markets of the UK, Germany, France, Italy and Spain all increased in 2023 vs 2022, but by varying degrees. 2023 German new car registrations were still 20% lower than in 2019. And though the German auto market grew over 7% in 2023 vs 2022, it was outshone by Italy, Spain and France (16.1% to 18.9%). UK new car registrations rose nearly 20% in 2023 vs 2022, but were around 17% below the 2019 levels.

ABS Volumes (LHS) vs New Car Registrations (RHS)



Source: UK/EU car data – SMMT/ACEA; ABS Volumes - IGM

- As for ABS issuance levels, based on placed and retained bonds from public deals (excluding any revolving or ‘master’ structures for which each series is not fully publicized), the UK, German, and Italian securitisation markets all saw higher supply in 2023 than 2022. Germany made the biggest improvement with issuance almost doubling to EUR12.1bn from EUR6.1bn.
- How new car registration levels and associated financing from 2022/2023 translate into new ABS remains to be seen. But Eurofinas data shows an uptick in the actual volume of auto loans for private cars between 2021 and 2022 (final 2023 figures still awaited), rising from 75% of EUR114bn vehicle finance in 2021 (EUR85.5bn) to 74% of EUR126bn in 2022 (EUR93.2bn).



Source: Eurofinas

## European SF Volume Report Appendix

- [European Structured Finance Volume Report – Full Year 2023](#)
- [European Structured Finance Volume Report – November 2023](#)
- [European Structured Finance Volume Report – October 2023](#)
- [European Structured Finance Volume Report – Q3 2023](#)
- [European Structured Finance Volume Report – August 2023](#)
- [European Structured Finance Volume Report – July 2023](#)
- [European Structured Finance Volume Report – H1 2023](#)
- [European Structured Finance Volume Report – May 2023](#)
- [European Structured Finance Volume Report – April 2023](#)
- [European Structured Finance Volume Report – Q1 2023](#)
- [European Structured Finance Volume Report – February 2023](#)
- [European Structured Finance Volume Report – January 2023](#)
- [European Structured Finance Volume Report – Full Year 2022](#)
- [European Structured Finance Volume Report – November 2022](#)