Global Credit Snapshot

April 2024

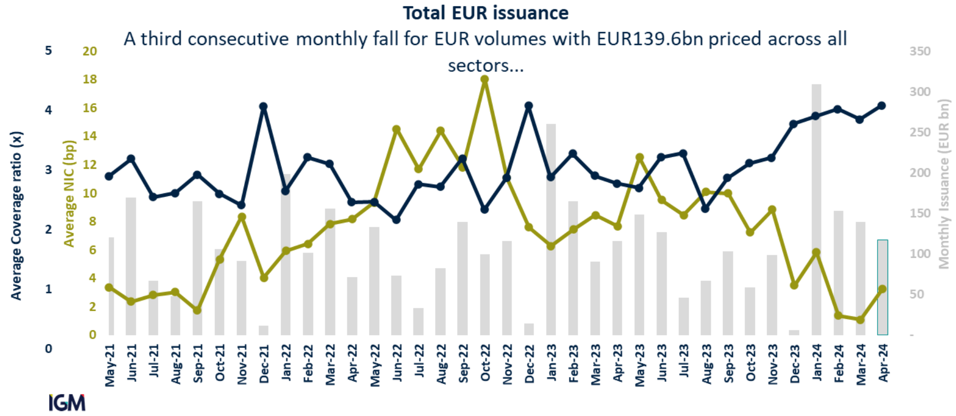
Key take-aways:

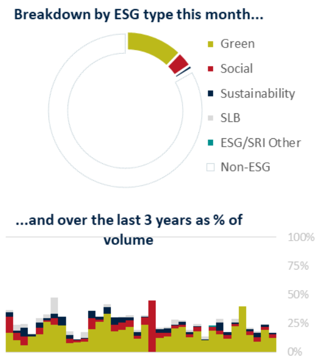
- European volumes declined for the third straight month but YTD remained EUR87bn ahead of 2023. Corporates, HY and FIG held up well with a weaker showing from SSAs. NICs were higher than last month despite cover ratios climbing.
- APAC USD issuers raised USD18.95bn of new paper underpinned by Japanese issuers (49% of total). A cover ratio of 4.27x on those Japanese deals fell (just) short of the broader APAC average, while the average NIC of 4bp paid by Japanese issuers was also higher than seen elsewhere in the region.
- In the US, ex-SSA issuance was USD106.68bn, taking the YTD tally to USD644.634bn and some 29.3% higher than last year. The month played host to five of the year's top 20 largest deals – coming from JP Morgan (USD9bn), Morgan Stanley (USD8bn), Diamondback Energy (USD5.5bn), Goldman Sachs (USD5bn) and Citibank (USD5bn).

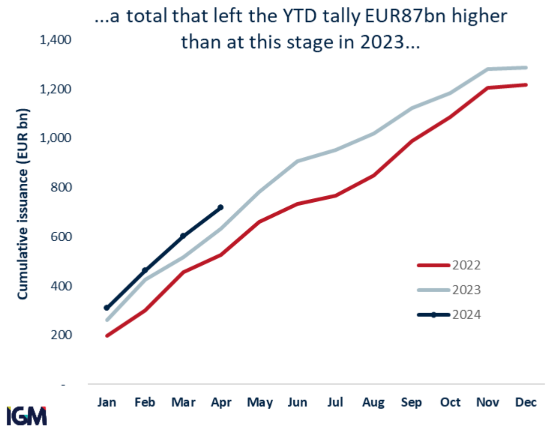
EUROPE

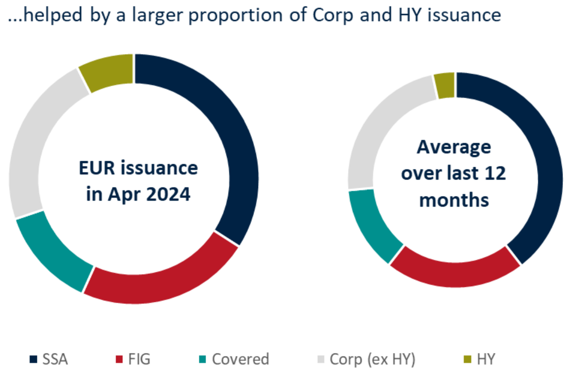
Spotlight on EUR issuance

** The overall pace of supply in Europe's primary market decelerated for a third straight month in April. That came amid heightened Middle East tensions and a further pruning of rate cut bets which sent yields higher and broader equity markets lower. As the month ended, markets were pricing a year end ECB rate of around 3.25%, a full percentage point above levels seen at the start of the year. While supply slowed in April, YTD total supply across all asset classes continues to run well ahead of the pace seen in each of the two prior years though, partly a reflection of the record pace seen in Q1 (and January in particular).



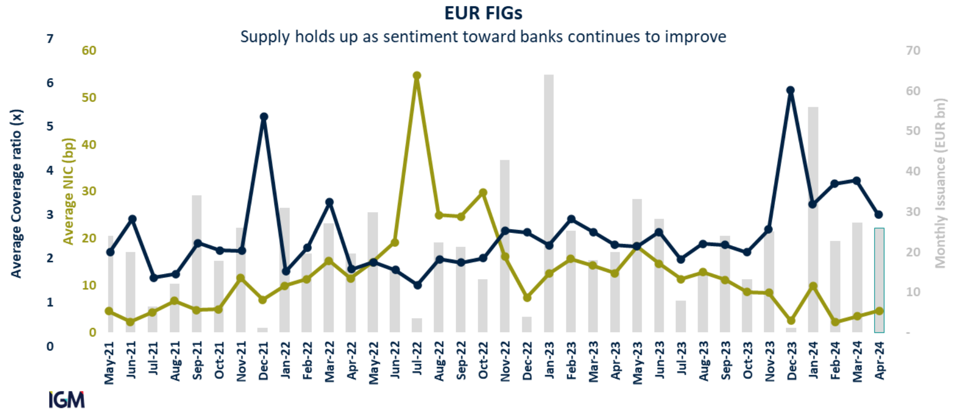


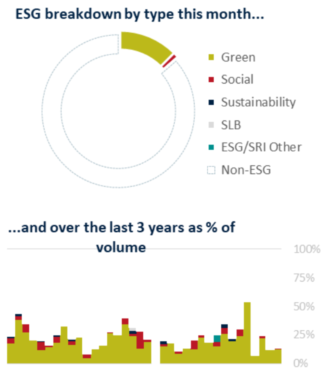


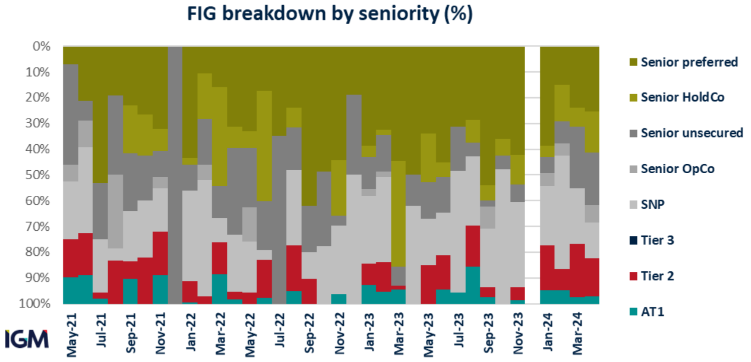


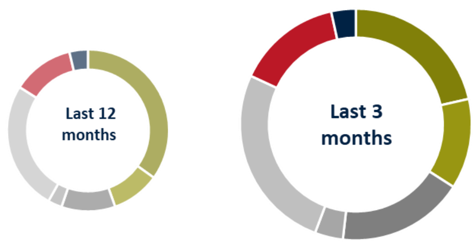
** **FIG (ex-covered):** Total supply held up comparatively well in the asset class as sentiment towards European banks continued to improve, evidenced by the over 8yr high for the Stoxx600 banks index seen on the penultimate day of the month. Conditions for issuers remained strong although NICs crept higher from historically low levels and average cover ratios also eased back.

Notable was that subordinated paper and higher beta senior offerings enjoyed strong support in the latter part of the month as investors sought out spread in an environment where rising underlying yields have weighed on total returns.

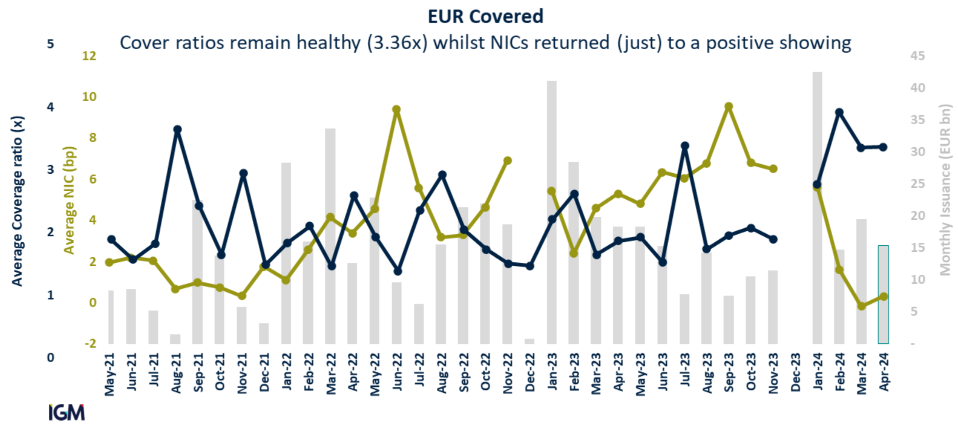


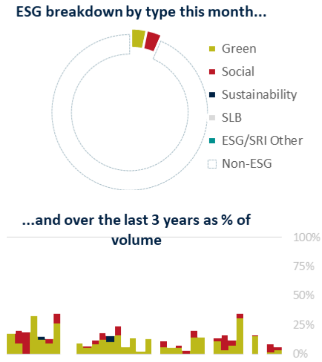




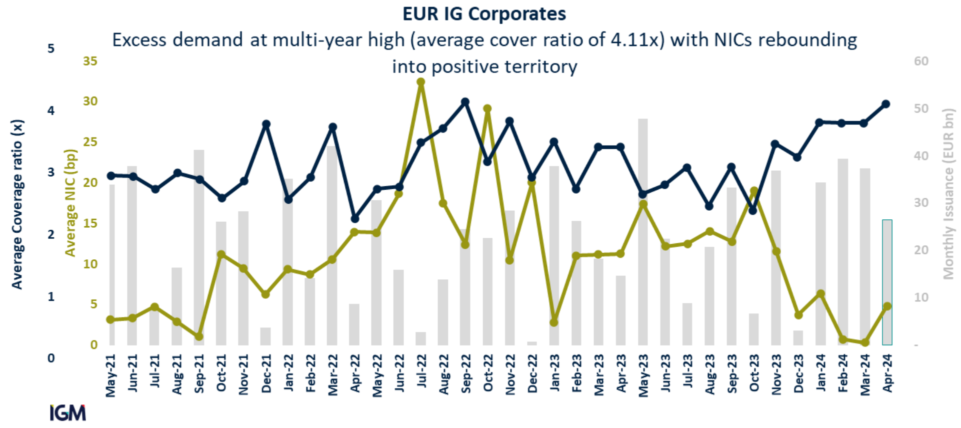


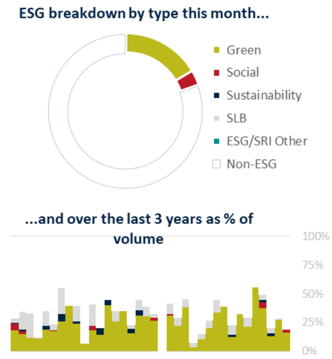
**** Covered:** EUR15.3bn crossed the tapes in April, as twenty issuers emerged via 23 tranches. As seen in recent months, investor interest remained strong, with total orders of almost EUR44bn offering borrowers an average 3.36x cover – marginally surpassing the 3.35x metric seen in March. New issue premiums remained low where an average of just 0.31bp was registered (vs. -0.18bp in March).



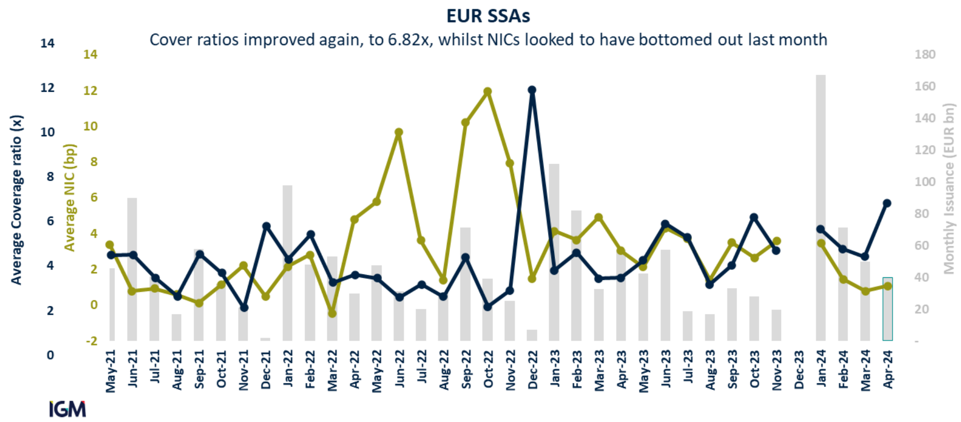


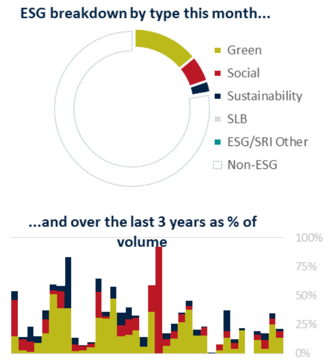
**** IG Corporates (ex-HY):** It ended up being the third biggest April for euro IG/split-rated corporate supply ever, with the final haul finishing up at just over EUR27bn. That was only beaten by 2016's EUR31.45bn and 2020's EUR64.1bn, the latter of which remains the biggest month ever for the sector after issuers flocked to the market to raise capital at a time when earnings were being negatively impacted by coronavirus lockdowns globally. Issuers offered a bit more juice this month (average NIC still only 4.83bps), but that helped drive even bigger demand from investors with the average cover ratio the highest of the year at 4.11x.



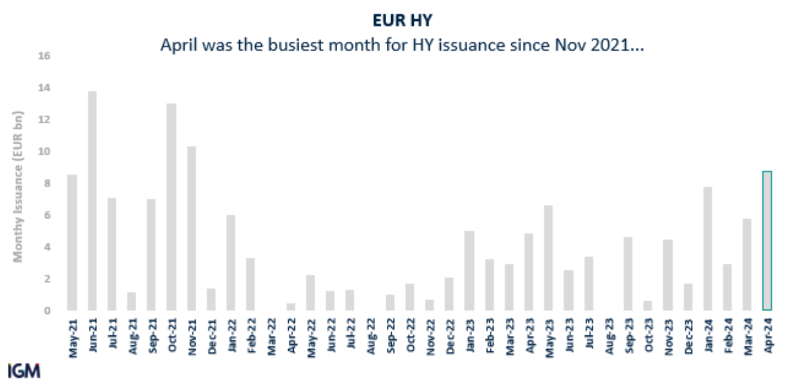


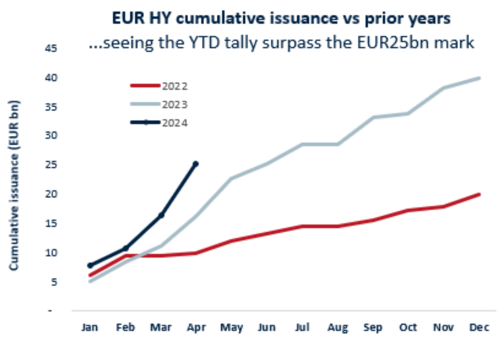
**** SSA:** The month was heavily influenced by the EU's latest transaction – a dual tranche (EUR8bn total) equally split between a new long 3yr and a tap of an existing Apr 2044 line. Cover ratios of 10.75x and 17.75x on those lines respectively helped the sector average XCVRD to an eye-catching 6.82x which was the highest in recent years (excluding an outlier in Dec 2022). NICs remain at low levels, just above 1bp, signalling the ability of issuers to get deals away at favourable pricing levels. Of note this month was the Hellenic Republic which issued a new EUR3bn 30yr line on the back of positive rating action and French agency issuers (Unedic and Bpifrance) where demand far exceeded our expectations. Those issuers appeared to benefit from pricing over OATs and the extra pick-up that provided on a swaps basis relative to non-French names (Unedic priced its EUR1bn 10yr social at the tightest ever spread to OATs and still attracted EUR12.7bn of orders).





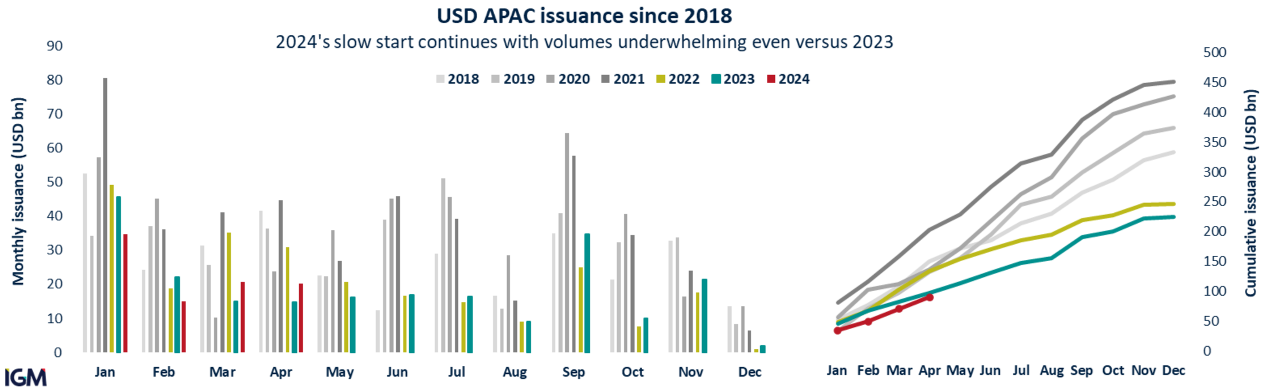
**** High Yield:** Activity in the EUR HY corporate space continued to grow with April not only the busiest month of the year to date, but also the busiest since November 2021. Liability management remained the key driver of issuance, with the likes of Carnival and TUI Cruises taking advantage of market demand to take out covid-era financings. Issuers continued to enjoy healthy spread compression during execution (all but a couple of deals landed inside IPTs), while Avolta scored the lowest coupon on its 4.75% Apr 31.



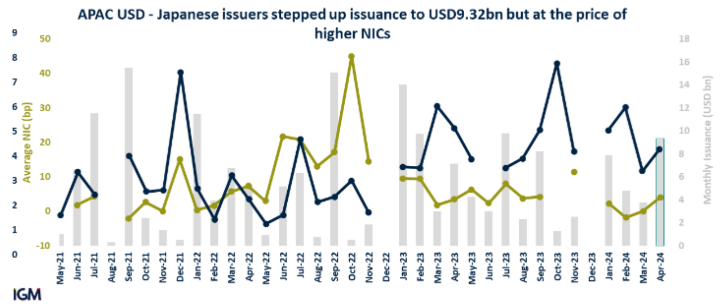


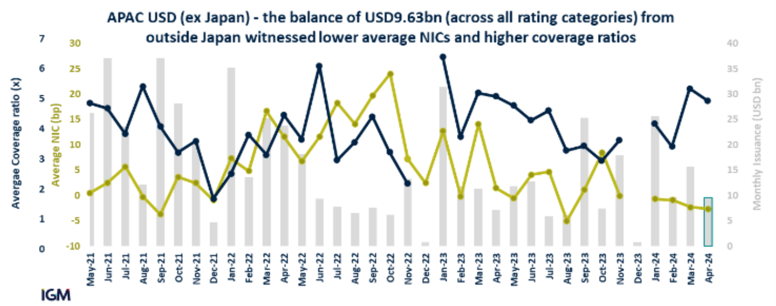
APAC

Spotlight on the region's USD issuance

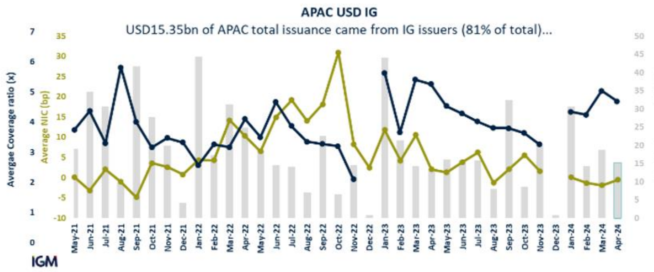


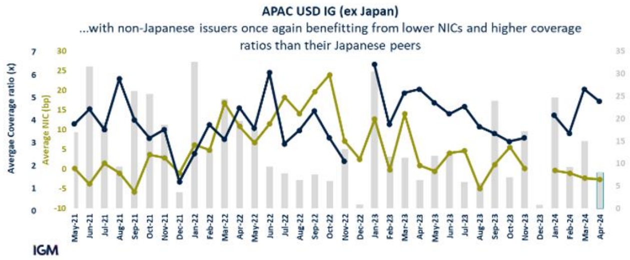
IGM data shows that primary market conditions for APAC USD borrowers remained favourable in April 2024, despite heightened volatility in broader risk assets and a sharp spike in US Treasury yields, as markets further scaled back US rate cut expectations. USD18.95bn of issuance spanning all rating classes made it over the line during the month, underpinned by Japanese issuers that contributed USD9.32bn or ca. 49% of the overall total (see right chart). While still commanding an encouraging level of oversubscription by historical standards, the average cover ratio of 4.27x on April's Japanese deals fell a bit short of the broader market average, while the average NIC of 4bp paid by Japanese issuers was also higher than seen elsewhere.





That said, the balance of USD9.63bn sold by non-Japanese borrowers in April (see left chart) was oversubscribed by a more impressive 4.94x on average, while the average NIC came in at a notably more issuer friendly -2.5bp (negative) on aggregate. As usual, the bulk of APAC USD supply was made up of investment grade (IG) issuance in April 2024 at USD15.35bn, which amounted to ca. 81% of the monthly total. That largely received an enthusiastic response from investors, who proved eager to lock-in coupons as underlying bond yields hit levels not seen since November 2023. That is reflected by the healthy level of oversubscription on April's IG issuance that came in at 4.69x, which in turn provided the flexibility for regional issuers to lock-in funding at a negative new issue concession of -0.5bp on average, IGM data shows. Stripping out the contribution of Japanese IG issuance during the month reinforces the extent that other APAC USD IG issuers were able to capitalise on an accommodating funding landscape during the month. That is clearly highlighted by the superior cover ratio of 4.84x recorded by non-Japanese IG issuers in April and the negative NIC of ca. -2.5bp on aggregate that they paid to secure funding.

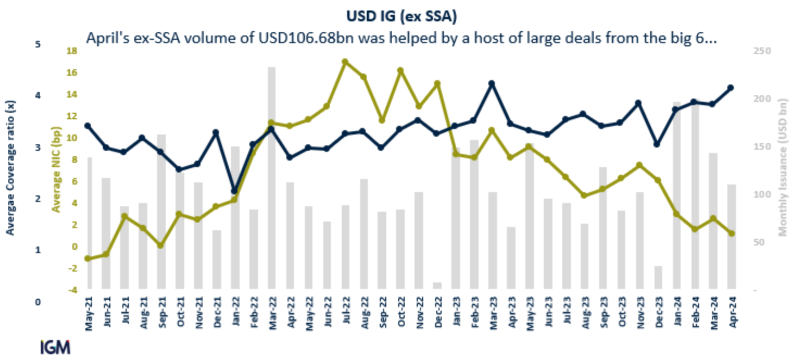


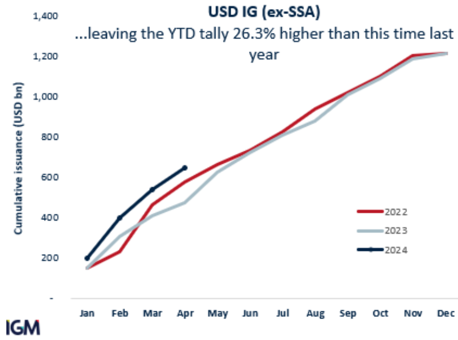


United States

USD issuance

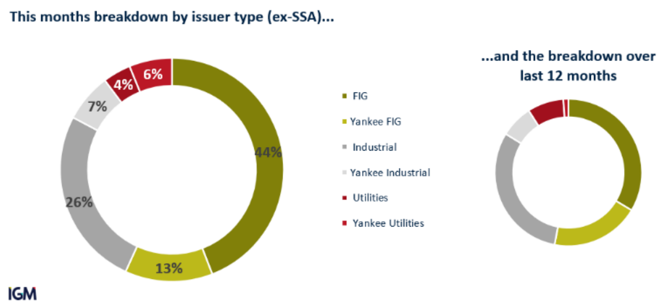
Ex-SSA issuance in April 2024 was USD106.68bn, topping the average monthly estimate for the fourth straight month; coming into April, the Street was looking for ex-SSA borrowers, on average, to raise USD100bn in the high-grade primary market. Overall issuance in April 2024 was USD150.88bn, enough to top, not only the average overall estimate of USD125bn, but the highest estimate of USD140bn as well. Ex-SSA issuance now stands at USD644.634bn, 29.3% higher than last year (USD498.54bn) at this time, while overall (SSA-inclusive) issuance (USD846.434bn) is running 26.3% ahead of last year (USD670.24bn).





April has played host to five of the year's top 20 largest deals, mostly from four of the big six banks, JPMorgan (USD9bn), Morgan Stanley (USD8bn), Diamondback Energy (USD5.5bn), Goldman Sachs (USD5bn) and Citibank (USD5bn). Bank of America was the only big six bank who elected not to tap the US public debt market post earnings, which is surprising since the bank has tapped the market in April, for five years running. As it is, with Wells Fargo tapping the market for USD4.25bn, big six issuance amounted to USD33.5bn, or 31.4% of this month's volume. Combined, the five banks that did come to market this month built a book of nearly USD120bn (USD118.8bn) as investors continued to show the same level of enthusiasm, they have exhibited all year long for high quality, liquid corporate paper.

It therefore goes without saying that with the amount of issuance from the big six banks, April issuance was dominated by FIG (both domestic and Yankee) issuance, accounting for 57% of all ex-SSA issuance, while corporate/industrials (both domestic and Yankee) contributed 33% to the bottom line. Utility issuance brought up the rear, chipping in 10%. As for SSA issuance, which amounted to USD44.2bn, that made up 29% of the month's overall total (i.e. 29% of the aforementioned USD150.88bn total).



May is typically a very busy month for high grade issuance, consistently ranking as the third most prolific issuance month of the year, averaging USD143.953bn over the past decade. We have seen as much as USD248.59bn (2020), but as little as USD86.81bn (2022) come to market in the month of May. This May, the Street, on average, is looking for a rather mediocre USD125bn in ex-SSA issuance to come to market. The lowest estimate came in at a well-rounded USD100bn, while the highest estimate of USD135bn was still below the 10-year average volume. There are any number of reasons for the lighter than expected outlook, with uncertainty surrounding the Fed's intentions regarding interest rates being the most glaring. Unlike this month, we can expect little or no help from the big six banks, at least for a while that is, although there are still a lot of regional banks still to hear from.

We should also keep in mind the boatload of M&A deals that remain in the pipeline which could give an added boost to the estimates for next month, including potential behemoth deals from the likes of Microsoft, Broadcom, Chevron and Exxon, just to name a few. But until then, we'll have to take the Street's word for it that May just might not live up to its reputation as one of the more active issuance months of the year.

The US High-Yield primary market produced 36 tranches totalling USD25.62bn in volume. Total volume was an increase of 39% over the same period in 2023. Year-to-date volume in 2024 is USD109.69bn, an increase of 91% over 2023 levels. The best performing rating category was the B sector (- 0.858), while the CCC sector performed worst (- 1.596%). In April 2024, the average spread widened just three basis points to +318. The B rated sector tightened by nine basis points to +299, and CCC's widened by fifty-nine basis points to +916.