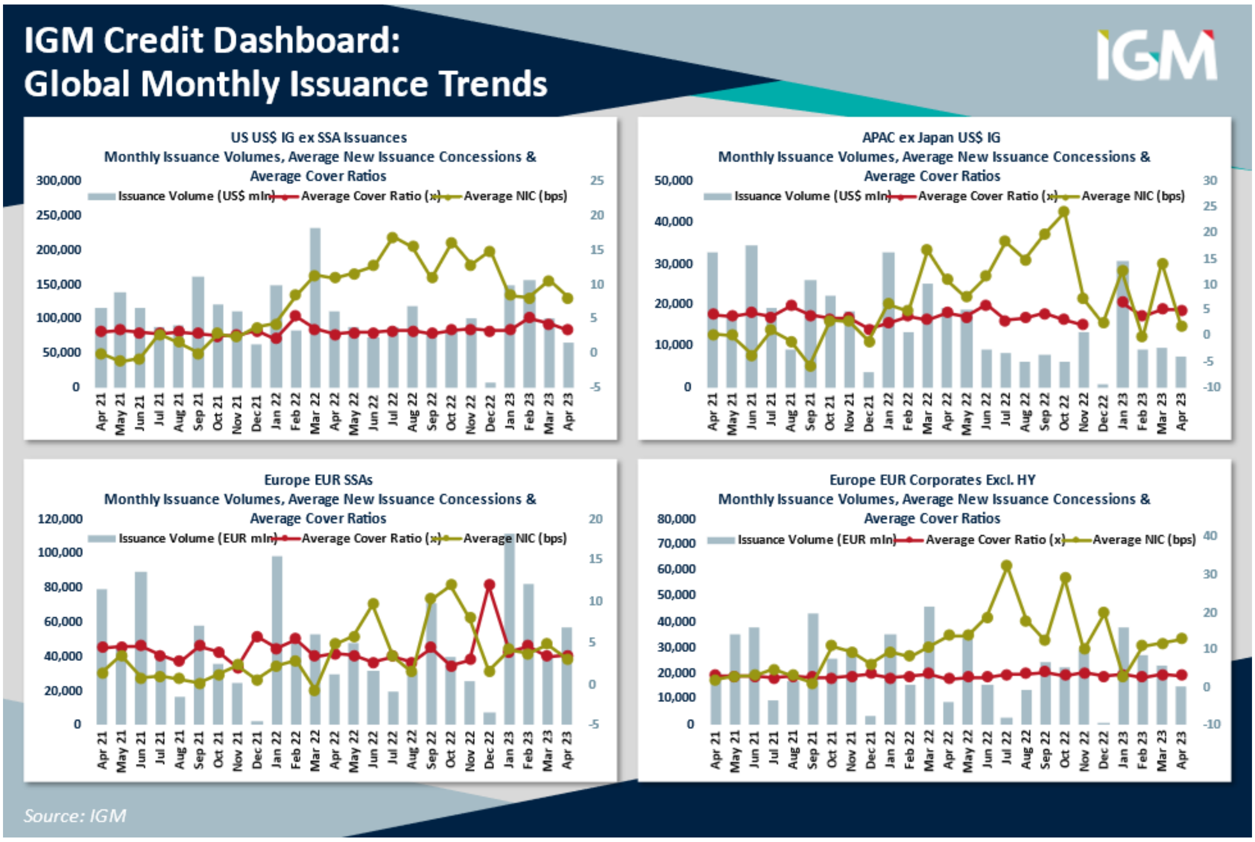
IGM Global Credit Snapshot – April 2023

A monthly trend analysis of the European. APAC and US markets

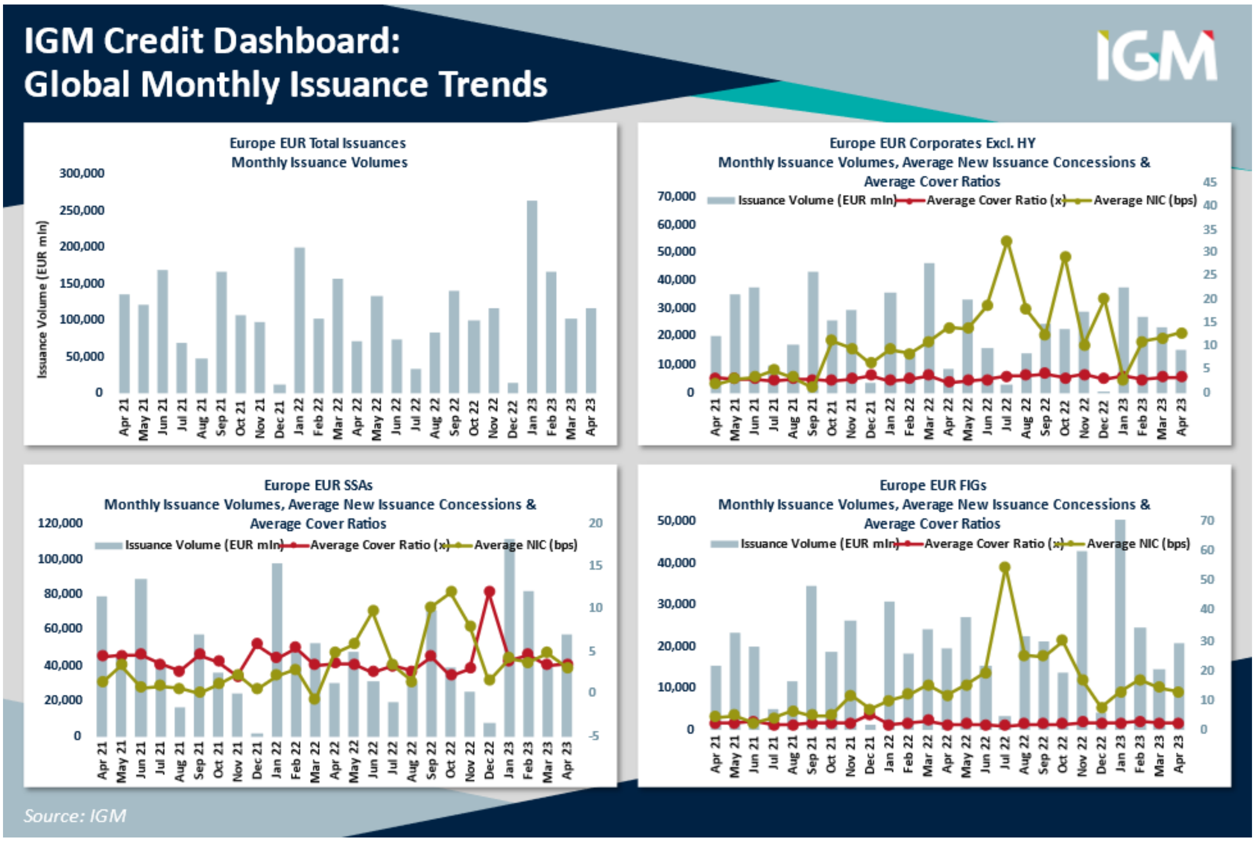
Gavin Kendrick – 11 May 2023

FIG and SSAs help EUR volumes buck a generally weaker global trend



- Single currency activity increased in April, with rising activity from non-covered FIG and SSA borrowers more than offsetting a slowdown in high-grade corporate activity. In all, overall supply rose by 14.7% MoM to EUR115.653bn putting this April 62% ahead of the same month last year
- APAC USD issuance volumes of USD14.68bn were lacklustre, but at least managed to scrape past USD13.288bn that made it over the line in March. IG issuers were overwhelmingly dominant with 92% of the overall total helped by an increase in geographical diversity but leaning heavily on Japanese issuers (53% of the overall IG total).
- US IG issuance was also underwhelming at USD65.7bn, a far cry from the street's USD100bn estimate. Paradoxically the month included the fifth busiest day of 2023 (April 19: USD18.5bn) and the second slowest week of 2023 (week beginning April 3: USD9.55bn). The final tally was the slowest ex-SSA issuance April of the last decade.

EUROPEAN CREDIT ISSUANCE TRENDS



** **Issuers stepped up activity in the single currency bond market during the opening month of Q2** with rising activity from non-covered FIG and SSA borrowers more than offsetting a slowdown in high-grade corporate activity. In all, overall supply rose by 14.7% MoM to **EUR115.653bn**, also putting this April 62% ahead of the corresponding month of 2022. Improved sentiment was also visible in adjacent asset classes too where major European equity indices scaled fresh long-term peaks

** **SSA:** It was an eventful month for SSA issuers in EUR with a rebound of sorts taking issuance volumes to **EUR57.113bn**. That was a 41% rise from the previous month but barely scraped past half of the volumes we saw in the opening month of the year (EUR111.525bn). The European Union played a key role, as it is inclined to do when visiting the syndicated market, with a EUR7bn new 15yr line. German stalwart KfW was in the market on three separate occasions, but only raised a total of EUR5bn whilst the main supporter of volumes was sovereign issuance. Five such issuers raised EUR24.25bn, led by a EUR10bn long 8yr from the Republic of Italy and the Federal Republic of Germany which created a EUR5.25bn green twin for its Feb-2033 bund. NICs continue to be well behaved at 3.05bp (the lowest monthly average of the year so far) whilst coverage ratios increased marginally month-on-month to 3.47x. Interestingly, IPT-reoffer spread compression of just -2.02bp (YTD average before April was -4.63bp) in conjunction with the low NICs suggests that transactions are being marketed at tighter levels to fair value from the outset of deal processes.

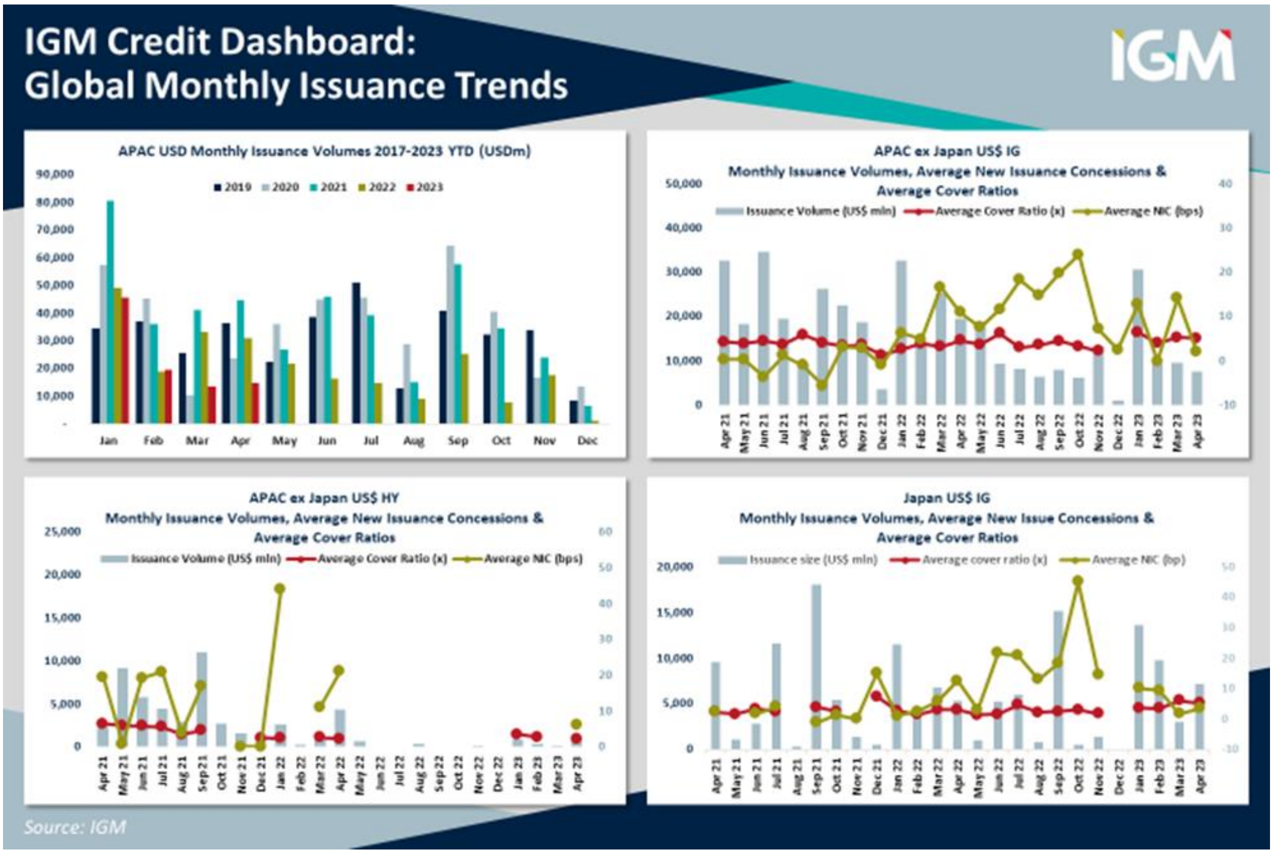
** **FIG (ex-covered):** With solvency concerns having weighed on sentiment and shuttering supply for much of March, it fell to national champion BNP Paribas to restart supply on the second business day of the month. That opened the door for other French lenders to tap the senior market and paved the way for greater jurisdictional variety as the month progressed. There were also positive outcomes for insurance companies in the subordinated market too. Pointing to a tentative improvement in conditions for issuers, average NICs eased for a second successive month while cover ratios held steady

** **IG Corporates (ex-HY):** Single currency supply slowed considerably in April, as is traditionally the case, with earnings blackout periods weighing on activity. The **EUR14.55bn** to price marked easily the slowest month of the year so far for the asset class, with the majority (EUR7.15bn) of that all coming in the last week of the month. Included in that period was Sika AG (EUR500m 18-month FRN, EUR1bn 3.5yr fixed and EUR750m 7yr fixed) whose EUR2.25bn three-part marked the fourth biggest single currency corporate transaction of 2023. NICs this month crept up ever so slightly to an average 12.86bps (from 11.73bps in March), whilst the average cover ratio was almost identical at 3.33x (3.34x in March)

** **Covered:** A total of **EUR18.35bn** was supplied via 23 tranches in April, dethroning April 2008's EUR18.25bn haul and making it the busiest April ever for the asset class. Supply arrived throughout the month, although with a notable chunk coming in the second week of April via 10 tranches (EUR7.5bn). German banks featured heavily in April's issuance (22%) whilst notably, Santander Totta's EUR750m Apr-2028 marked the return of Portuguese supply for the first time since 2019. Overall, when compared to March metrics, average NICs were marginally higher at 5.3bp (vs. 4.59bp), whilst the average cover ratio increased to an average 1.87x.

** **High Yield:** It was a game of two halves for HY in April. With the collapse of SVB still fresh in the mind and the long Easter holiday weekend meaning two short weeks to start the month, only a single trade priced in the first half. However, as worries over financial instability dissipated, issuers took advantage of pent-up demand to drive monthly volumes to the second highest total this year, narrowly behind January. Refinancing continued to dominate activity, only Cheplapharm bucked the trend with an M&A financing, while TDC was the only HY-rated issuer to print ESG linked paper.

APAC CREDIT ISSUANCE TRENDS



There really isn't a great deal to shout about in terms of overall APAC USD issuance volume in April 2023, with the possible exception that at USD14.68bn (incl. Japan), the monthly total did at least manage to scrape past the even more disappointing USD13.288bn that made it over the line in March.

April had shown a lot more promise at the outset, when a wave of regional issuers proved keen to capitalize on a sharp decline in US underlying bond yields and amidst a significant flight to quality sparked by turbulence in the banking sector the previous month. That brought USD funding costs to more competitive levels compared to local currency and loan markets, which several regional issuers in need of liquidity had been able to fall back on at more economic levels for some time.

However, that momentum quickly ran out of steam as Treasury yields drifted higher once again as April progressed, where they largely remained until the final week of the month as attention turned back to US monetary policy and what would be needed to curb inflation.

From a more historical perspective, April's total falls well short of the USD30.867bn and USD44.64bn that priced in April 2022 and the same month in 2021. It even failed to challenge the USD23.735bn that made it over the line in April 2020, when broader risk markets were still very much in recovery mode and the USD primary market was still closed to many regional issuers in the wake of the covid inspired massacre some weeks earlier.

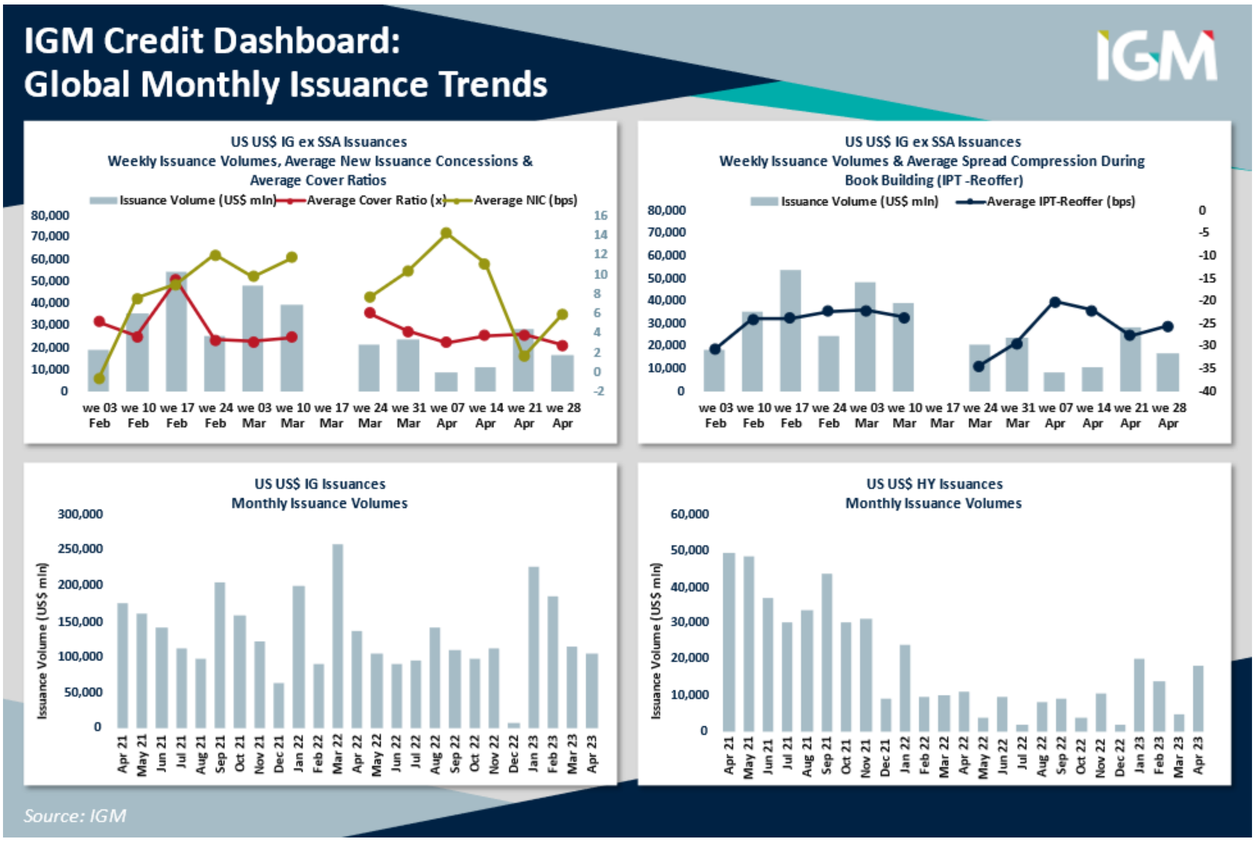
One positive trend was a rare increase in high yield supply, where the USD800m raised was equally split by a duo of corporate borrowers - Australian mining company Nickel Industries Ltd and Indian renewable energy company ReNew Energy - marking the highest monthly HY total since January 2023.

Investment grade issuers were still the overwhelmingly dominant force raising a combined USD13.47bn, or close to 92% of the overall monthly total. Those deals met with a largely encouraging response from investors as reflected by the average cover ratio at a healthy 5.07x, which in turn rewarded issuers with favourable funding costs as illustrated by the average new issue concession (NIC) which declined to 2.59bp, down sharply from 10.57bp in March and the lowest since December 2022.

While IG issuers offered some geographical diversity in April with six countries represented, it was Japanese issuers that dominated with a contribution of USD7.15bn, or over 53% of the overall IG total, a sharp increase from the USD3bn placed by the country's issuers the prior month.

The reception for those Japanese deals was also encouraging overall as highlighted by the average cover ratio of 5.14x, supported by strong demand for the Japanese financial IG names, which underpinned an average NIC of 3bp.

US CREDIT ISSUANCE TRENDS



April's IG issuance was underwhelming, as the final tally was USD65.7bn – this fell short of the lowest monthly estimate of USD70bn and far short of the average estimate of USD100bn. This modest total paradoxically included the fifth busiest day of 2023 (April 19's USD18.5bn), while also including the second slowest week of 2023 (the week of April 3, with USD9.55bn). This final tally resulted in the slowest ex-SSA issuance April of the last decade; the slowest issuance month of the year; and the slowest ex-SSA issuance month, excluding December of last year (USD7.25bn) since December 2021 when USD63.275bn came to market. For context, April's USD65.7bn compares to ex-SSA average of USD120.919bn over the past decade. Only 3 years ago, April produced a huge haul of USD290.63bn.

March 2023 saw volatility caused by the uncertainty surrounding the Fed's interest rate policy, nagging inflation and a near banking crisis pushing many prospective borrowers to the side-lines for most of the month, whereas April 2023 saw numerous investor concerns over (1) an impending recession (2) continued tightening by the Fed (3) the threat of a full-fledged banking crisis (4) and a confounding first quarter earnings season – that kept many would-be borrowers on the side-lines for the better part of the latter half of the month.

Looking ahead, May is typically a very busy month for high grade issuance, ranking as the third most prolific issuance month of the year, averaging USD138.87bn 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. With that in mind, the results of our monthly issuance polls were relatively upbeat. On average, the Street is looking for USD122bn in new ex-SSA debt to be raised in May.

USD HY issuance for April jumped to USD18.4bn from the paltry USD4.75bn in the prior month. That takes year-to-date volume as high as USD57.42bn, or 6.12% ahead of where we found ourselves at this point in 2022.