Global Credit Snapshot

June 2024

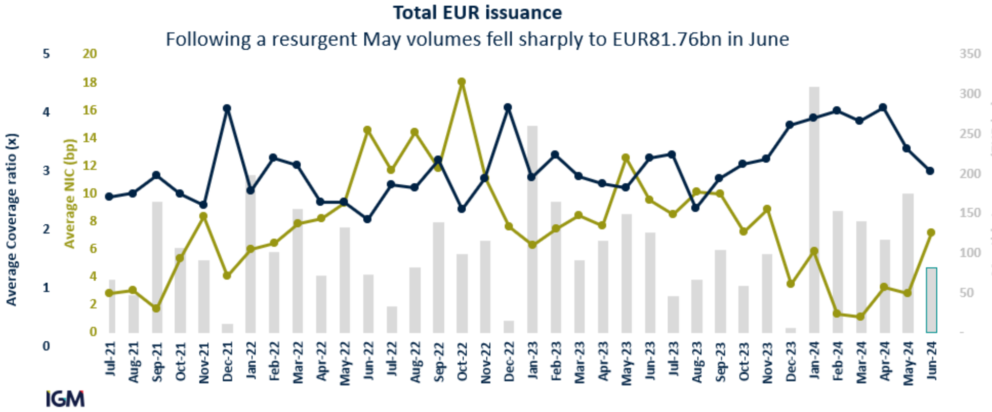
Key take-aways:

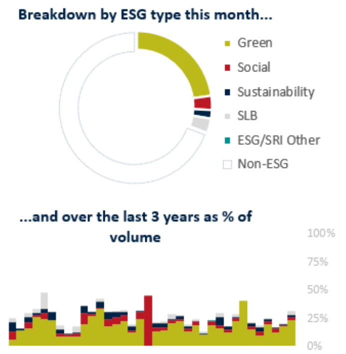
- **European** issuance (across all sub-sectors) saw a marked slowdown to EUR81.761bn, the lowest tally (barring Dec) since Oct 2023. To put the slowdown into perspective, the year kicked off with a January haul of EUR309bn and just shy of EUR900bn had been priced by the end of May. The underlying uncertainty (largely politically driven) could be seen in lower cover ratios (the lowest of the year so far) and higher NICs (the highest of the year so far) on average
- It was "a game of two halves" in **APAC** with USD5.7bn scraping over the line in a holiday peppered first half of the month, but followed up by an impressive USD31.584bn in the remainder of the month. In similar fashion to Europe there was a clear rise in NICs, albeit remaining at subdued levels, whilst cover ratios were weaker than previous months.
- Ex-SSA issuance in the **US** was USD102.675bn in June, topping all monthly estimates, including the highest one of USD100bn. That was the 5th time the century mark has been exceeded in June over the last decade. Industrials, both domestic and Yankee were responsible for 28% of activity followed very closely by FIG issuance (27%)

EUROPE

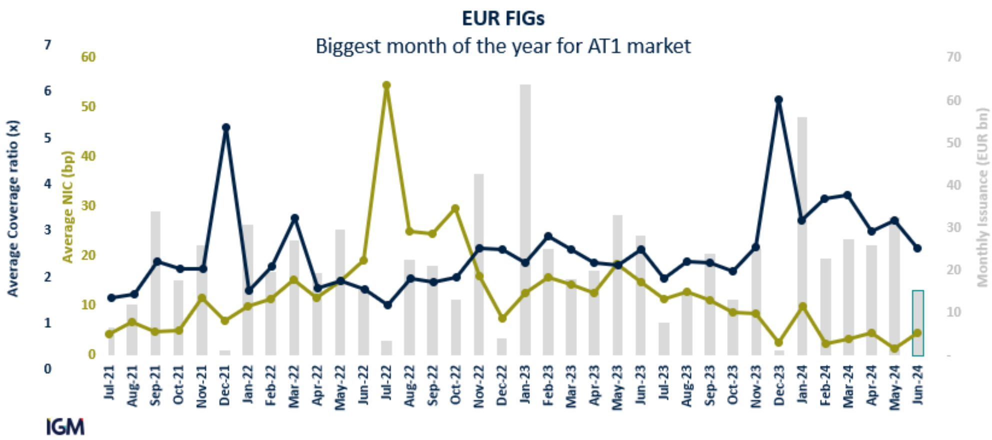
Spotlight on EUR issuance

** June was a month in which political concerns cast a cloud over markets, weighing on both sentiment and supply. Following a strong showing by the far right in the European elections, French President Macron's surprise call on 10th June for a snap election brought those risks into sharper relief, pulling the rug from beneath what has been a largely bulletproof credit market in 2024. However, there were clear signs toward the end of the month that investors remain keen to use setbacks to put money to work, allowing for a recovery in spreads and hinting at the European credit market's historical ability to act as a relative haven. It was far from plain sailing though where unrated Otto pulled a EUR250-300m debut 4yr SLB and became the eighth euro postponement of the year.





** **FIG (ex-covered):** Political worries and attendant volatility helped to make June easily the slowest month for the asset class of 2024 but front loading by issuers seen in prior months still leaves the year running in line with the pace seen in 2023. Notably, and highlighting the degree to which investors remain ready to embrace risk in their pursuit of yield, it was the biggest month of the year for the AT1 market with Deutsche Bank getting a EUR10bn book for its EUR1.5bn PNC6 while Commerzbank's smaller EUR750m PNC 4/32 line was a mighty 8.93x covered. Overall, issuers encountered generally softer demand though (the average cover ratio was the lowest this year) but continued to enjoy solid pricing power with the average NIC rising only modestly from the long-term low seen in May.



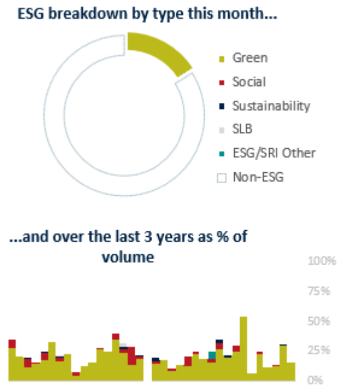
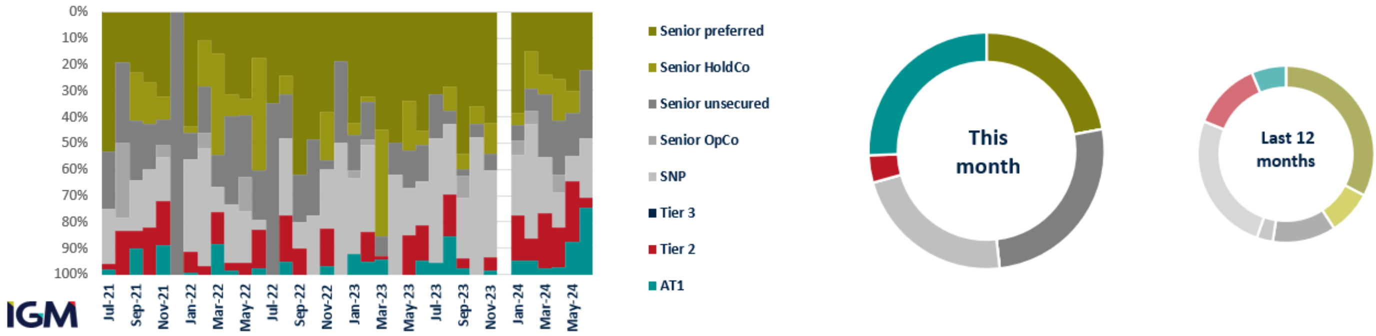
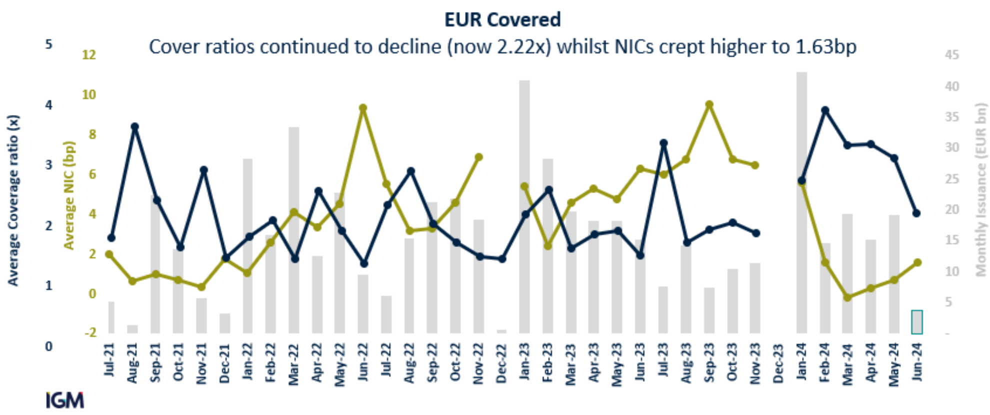
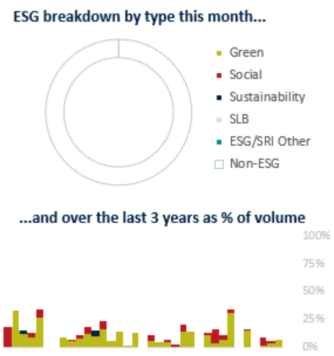


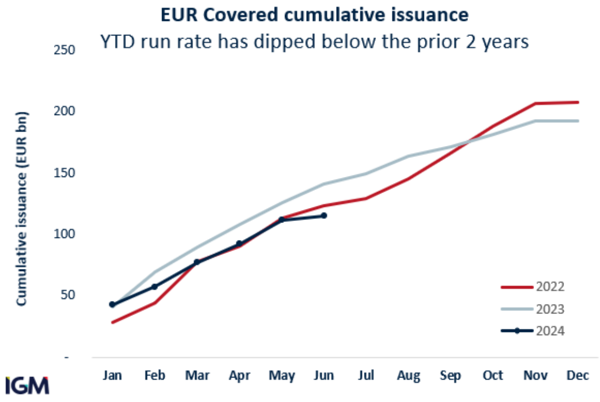
FIG breakdown by seniority - June was the year's biggest month for AT1 issuance at EUR3.425bn (26%)

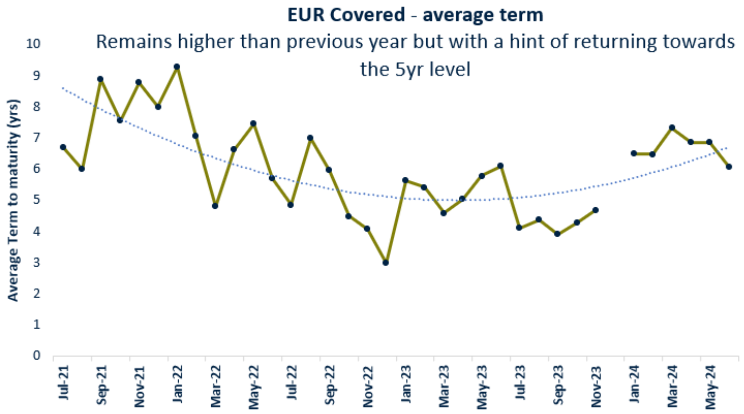


** **Covered:** Just as it was for FIG, a EUR3.75bn volume meant the slowest month this year for the covered market, and the slowest month since 2000 when EUR1.47bn was raised. With political concerns and increased volatility as a backdrop, issuer pricing power took a slight dip when compared to metrics registered in previous months; where investor demand left deals 3.3x covered between January and May, June's seven lines were just 2.22x covered – the lowest the metric has been since last November. The average NIC increased to 1.63bp (vs. 0.74bp in May).

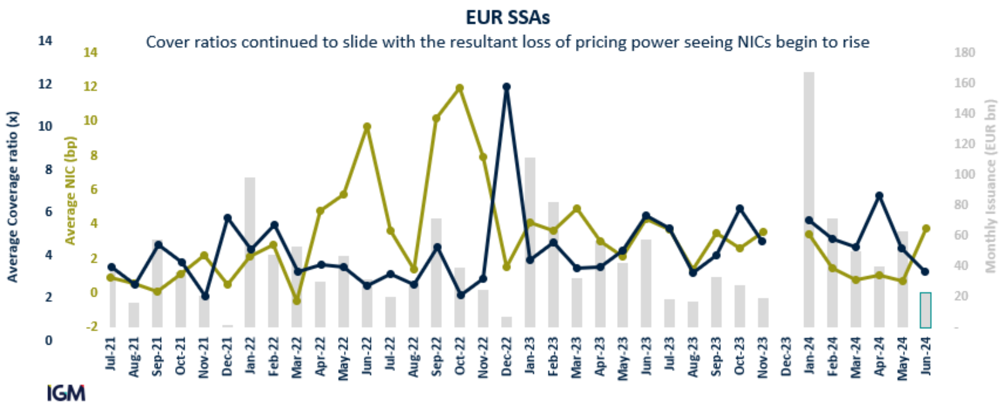


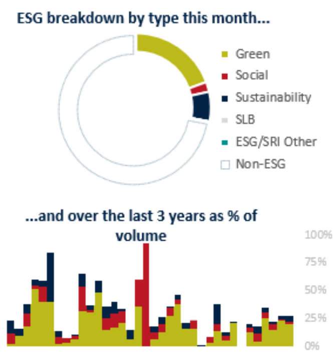


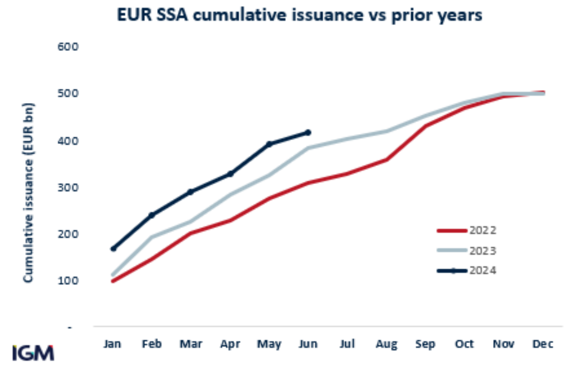


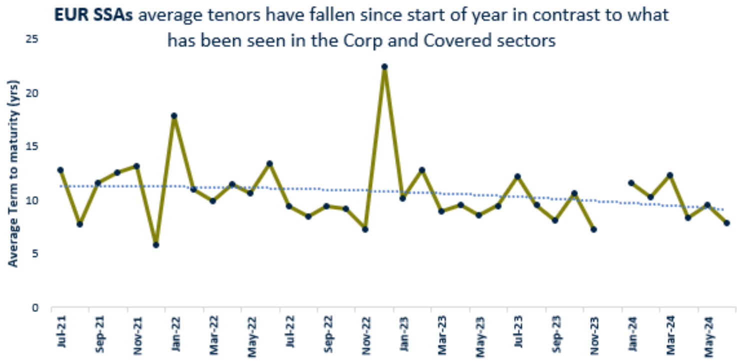


** **SSAs:** It was a month marked by a complete collapse in SSA volumes in euros. Just EUR23.2bn was priced across 18 individual lines and with some chunky looking deals in the mix. Indeed, the Federal Republic of Germany kicked off the month with a EUR3bn green tap whilst KfW (EUR4bn long 3yr) and the European Union (EUR6bn 15yr) added a further EUR10bn between them. Notable deals were seen from CPPIB Capital Inc whose EUR1bn 5yr green deal at the start of the month saw its 7.3x coverage ratio only surpassed by one other issuer, namely the Republic of Cyprus. The sovereign has seen plenty of positive action on its rating in recent years and appeared to ride that momentum to a EUR9.3bn order book relative to its EUR1bn 7yr transaction.

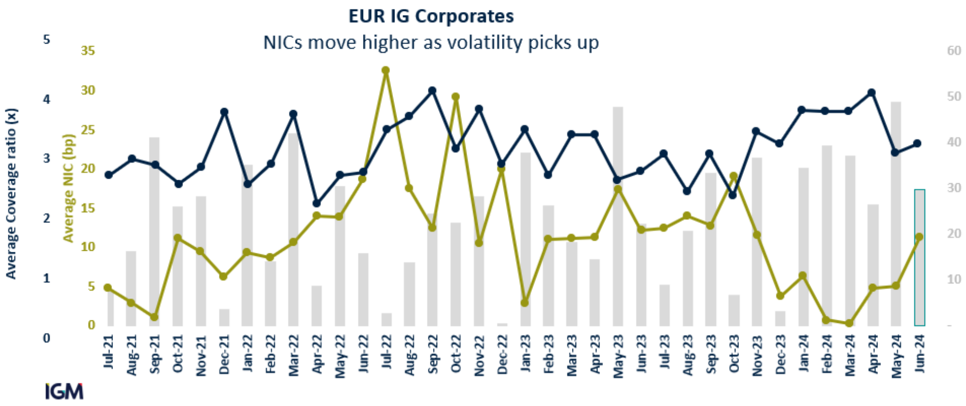


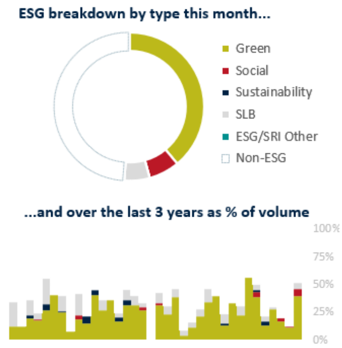




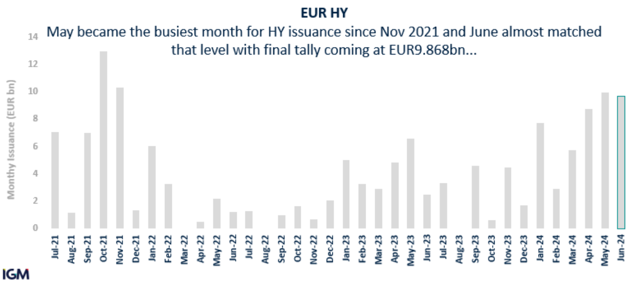


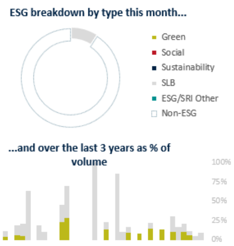
** **IG corporates:** After May produced the biggest month of the year so far in the asset class, issuers eased off the pace in June with the most notable feature being the rise in NICs as issuers gave a nod to the more uncertain backdrop and heightened volatility. Despite the slowdown in June, YTD supply continues to run far ahead of both 2023 & 2022. In the ESG space, green labelled trades remained the format of choice although it was the busiest month of 2024 for social supply thanks to a 2-part EUR2bn trade from Motability Operations Group PLC.

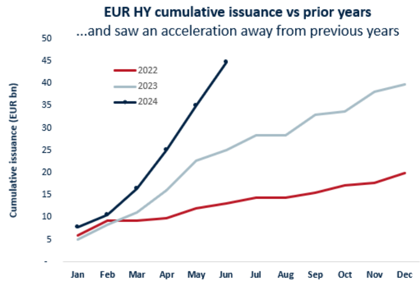




** **High Yield:** For the third month running HY-rated corporate issuance in the single currency topped EUR9bn. Although not quite enough to overhaul May as the busiest month of the year, June was still the fourth largest EUR HY month in the last three years and enough to push the YTD total comfortably past that achieved in the entirety of 2023. Refinancing continued to be the main driver of activity with a number of deals also backing concurrent tender offers for existing paper. For a sixth consecutive month HY ESG paper was on offer, matching the longest ever unbroken run in 2021.



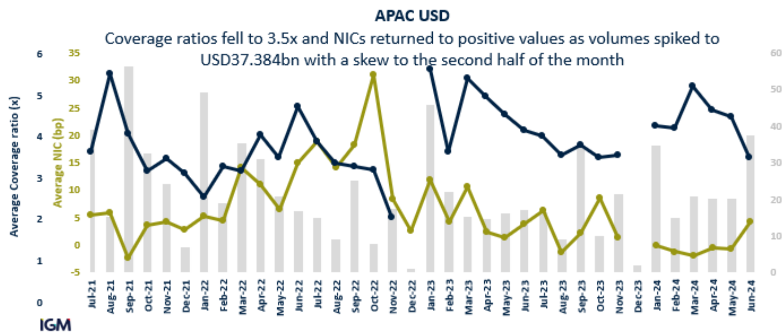


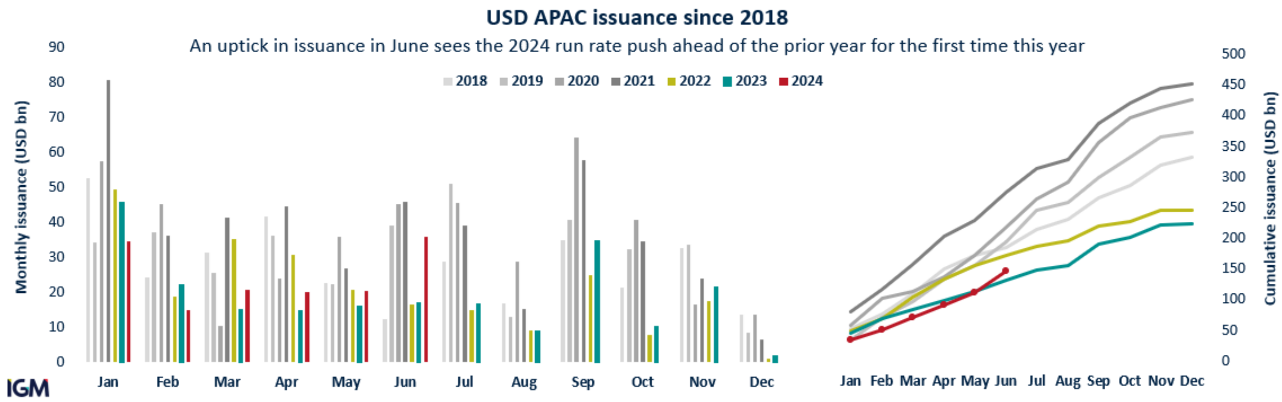


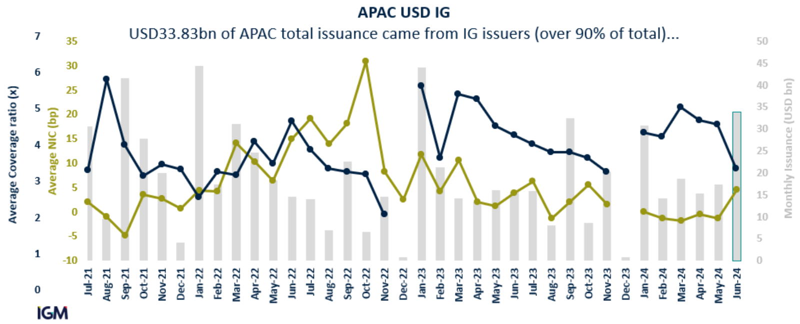
APAC

Spotlight on the region's USD issuance

The overly used sporting cliché, "a game of two halves," accurately describes the APAC USD primary bond market this month. Having seen just USD5.7bn scrape over the line in a holiday peppered first half of the month, new issuance exploded into life in the final two weeks of June, which added an impressive USD31.584bn to that total. That as a raft of regional issuers seized on the window of opportunity amid lower UST yields and credit spreads that were still meandering close to historically tight levels. That propelled monthly issuance volume up to USD37.384bn (incl. Japan), the highest we've seen in any month since January 2023.



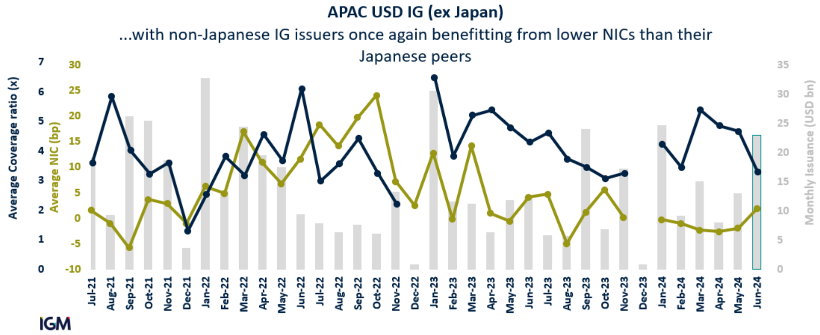


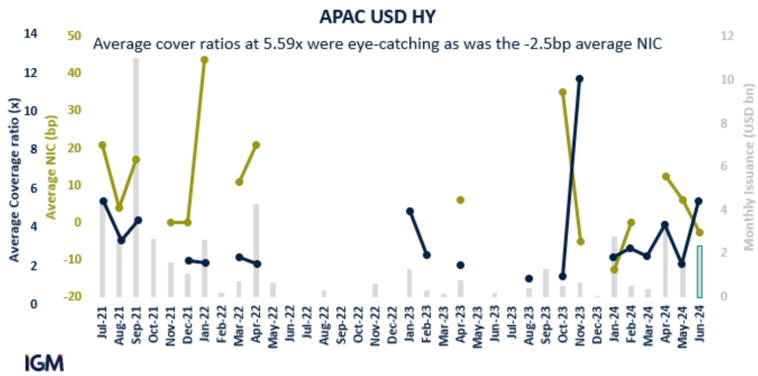


Investment Grade issuance dominated as usual with a contribution of USD33.83bn (incl. Japan), or over 90% of the overall monthly total. Whilst those deals were generally embraced by investors, the massive jump in issuance volume allowed buyers to be a bit more selective, as illustrated by some notable price sensitivity in the order books of those deals deemed to be on the more aggressive side of pricing. That saw IG cover ratios dwindle to 3.36x on average in June, which while still healthy by historical standards, was down on what we have been accustomed to seeing in the first five months of the year (4.58x on average in the Jan-May period).

Meanwhile, the average new issue concession (NIC) on June's IG supply edged up sharply to ca. 4.5bp, as issuers were forced to offer more eye-catching spread compensation to persuade buyers to part with their cash. That after NICs had been in negative territory on average throughout the first five months of the year.

From a geographical perspective, Japanese IG issuers had a particularly active month of June, making up ca. 32% of total IG issuance with a contribution of USD10.85bn, all of which (with the exception of USD500m) was priced in the final week of the month. However, as the adjacent chart highlights, the other USD22.98bn of regional IG issuance managed to lock-in more attractive funding than their Japanese counterparts, at a notably lower average NIC of ca. 1.8bp. That was despite the fact non-Japanese IG issues triggered a lower level of oversubscription at 3.28x on aggregate.



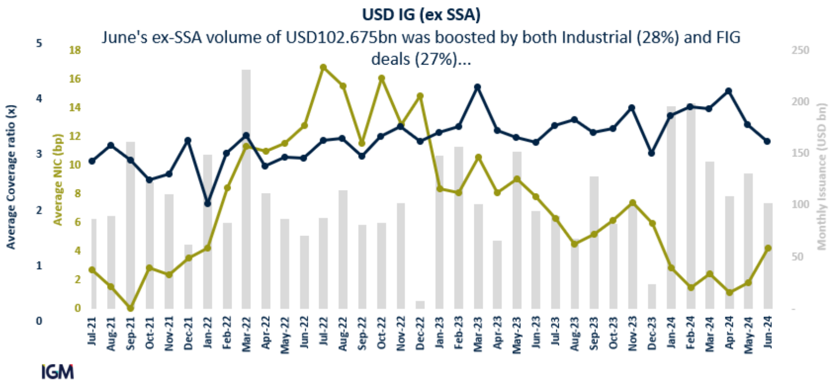


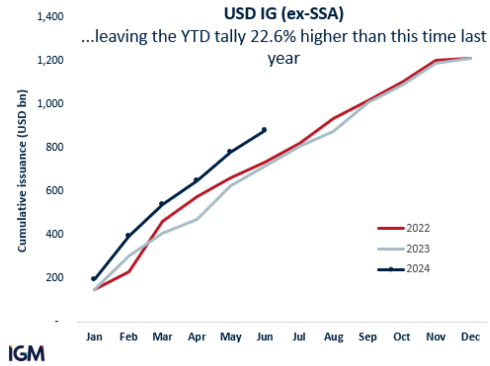
Finally, APAC USD high yield supply remained relatively muted in June 2024 at USD2.35bn in total (incl. Japan). However, the average cover ratio of ca. 5.59x and the average NIC of -2.5bp (negative) clearly shows that yield hungry investors remained keen to add inventory of the right high yield names.

United States

USD issuance

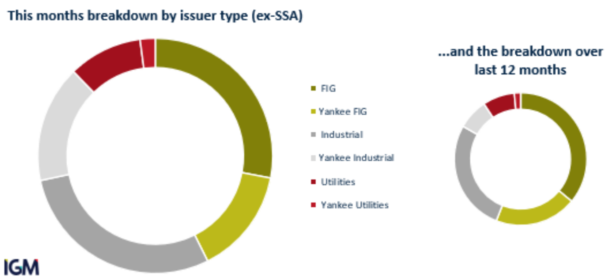
Ex-SSA issuance in June 2024 was USD102.675bn, topping all monthly estimates, including the highest one of USD100bn. On average, the Street was looking for USD95bn in new ex-SSA supply in June, similar to the 10-year average volume of USD93bn for the same month. It marked the first time since 2021 (USD116bn) that issuance in June has topped the century mark. As a matter of fact, over the past decade June issuance has only topped USD100bn five times. As for overall (SSA-inclusive) issuance, coming into June, the respondents to our monthly issuance poll were looking for, on average, USD110bn in overall issuance to come to market. With the addition of USD17.5bn in SSA offerings, overall issuance for June stands at USD120.175bn.





That brought overall issuance for the year to USD1.117tn, or 20.8% ahead of the same time last year. To put that into even sharper perspective the average overall estimate for the entire year came in at USD1.42tn. Year-to-date, ex-SSA issuance - USD875.259bn - is running 22.6% ahead of this time last year. Granted, there are some signs that the pace of issuance appears to be slowing. At the end of the first quarter ex-SSA issuance was running at a 32.7% faster pace than last year. Today that margin has dwindled.

Although the final week of June saw a large participation by Yankee issuers, with 17 of 24 issues done by foreign entities (USD26bn of USD31.95bn 81.3%), June was dominated by domestic issuance (64%). Of that, 28% came from the industrial/corporate complex, while FIG issuance accounted for 27%, and utilities made up the remaining 9% of domestic offerings.



M&A-related issuance played a big part in June's total issuance, with four deals - Home Depot (USD10bn), Energy Transfer (USD3.5bn), Healthcare Services (USD2.5bn) and Becton Dickinson (USD600m) - crossing the tape and adding USD16.6bn to June's final tally.

As for July, the month is typically one of the slowest high grade issuance months of the year (#10). Over the last 10 years, the month of July has seen as much as USD128.48bn (2015), and as little as USD50.08bn (2014), averaging USD88bn. Even issuance heavy 2020 only saw USD66.87bn in ex-SSA issuance in July. This year, July is expected to be typical, with the estimates ranging from a low of USD80bn to a high of USD95bn, with the average estimate coming in at USD85bn. Overall issuance estimates range from a low of USD90bn to a high of USD100bn, with the average estimate coming in at USD100bn.

In the High Yield sector June 2024 volume was USD17.11bn for across 30 tranches. 2024 Q2 volume was USD73.96bn from 114 tranches which was a slowdown on a quarterly basis from the USD84.07bn that priced in Q1 2024. All told that sees the YTD volume advance to USD158.02bn, an increase in volume of over 71% versus the same period last year.