



Market backdrop

Interest rates steepened last week, mainly in response to progress in the negotiations over raising the US debt ceiling, combined with comments from central bankers, in favor of maintaining or even stepping-up restrictive monetary policies. 10-year T-Note and Bund yields increased by 21bps and 15bps respectively, closing the week at 3.68% and 2.43%. Short-term US rates steepened more sharply. The Fed is now not expected to cut its rates until the very end of the year, by 25bps at both the November and December FOMC meetings. In the eurozone, Italy outperformed, with the sovereign spread over Germany tightening by 7bps during the week, narrowing back to 180bps.

It was a highly positive week among financial credit spreads, which tightened by 2bps in the senior segment and by 12bps among tier-2 securities, and by 35bps in AT1s (-49bps AT1 €).

The primary market was active. As well as recording heavy volumes in the senior segment, the subordinated debt market also opened-up once again. In this segment, Santander launched a tier-2 issue, with an order book of >4 billion euros, and Royal London raised £350m through a sterling-denominated restricted tier-1 issue, with a coupon of 10.125%.

The Q1 2023 reporting season ended, with 98% of financial institutions publishing their results. Year-on-year, revenues increased by 17% on average, with profits up 79% and CET1 ratios at 14.1%, +21bps quarter-on-quarter. Cost of risk fell by 16bps vs Q4 2022, to 31bps. On the regulatory front, the ECB may be planning to communicate stricter liquidity requirements to some banks. This move would be implemented as an alternative to a general increase in liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements. Banks with the weakest liquidity positions, or the worst outlook, would be subject to increased scrutiny regarding their capacity to generate liquidity and their liquidity profile. According to Bloomberg, the EBA is planning measures to stimulate investor interest for AT1s, notably by adding dividend-stopper clauses, or cumulative coupons, on AT1s. This plan demonstrates that European regulators are genuinely focusing on AT1s, even though any changes to the regulations will take several years to be implemented.

Ratings continued improving, with S&P upgrading Barclays (holdco), from BBB to BBB+, and Barclays Bank (opco) by one notch, from A to A+, with a stable outlook. Deutsche Bank was also placed on positive watch by S&P.

According to Spanish media sources, Bankinter, Santander, BBVA and Unicaja could be preparing block sales of their non-performing loans.

In the IG corporate credit market, spreads followed similar trends to last week, widening in the senior segment (+5bps), but tightening among hybrids (-14bps), amid tensions and high volatility, as the US debt ceiling negotiations played out. The interest rate component logically weighed heavily on the asset class, with the IG corporate market ending the week on a negative performance of -0.97%. The cash market underperformed, due to heavy primary volumes. Spreads widened across all sectors. The automotive sector, which saw intense primary market activity (GM, Volkswagen, BMW, Stellantis) was the worst performer during the week. The reporting season continued, with publications remaining broadly healthy (Bouygues, BT, Easyjet). Edenred announced the acquisition of Reward Gateway for €1.32bn, including 1bn in debt and 0.3bn in cash. The group's rating (A-) is nonetheless expected to remain unchanged, given the group's M&A outlook, with leverage increasing to only 1.8x. Moody's upgraded Publicis from Baa2 to Baa1, with a stable outlook, in recognition of a strong business performance and strong metrics. Moody's also confirmed Bayer's BBB rating, improving outlook from stable to positive. Meanwhile, S&P upgraded Capgemini and Deutsche Telekom from BBB (positive) to BBB+ (stable) after both groups significantly reduced their leverage. Ryanair was also upgraded from BBB (positive) to BBB+ (stable), as the group's air traffic increased more sharply than its peers. Lastly, Fitch upgraded Sanofi from A+ (positive) to AA- (stable) highlighting the group's strategic repositioning through innovation, notably mRNA vaccines, which are expected to boost profitability.

Source: Lazard Frères Gestion, Bloomberg as of May 22nd, 2023

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The primary market was dynamic, mainly early in the week, with almost €13bn issued. Volvo issued a dual tranche (1.5 and 4 years), raising €1bn. BMW issued a triple tranche (3, 7 and 12 years), raising €2bn. Eni presented a dual tranche (4 and 10 years), raising €2bn. Ferrovie dello Stato also refinanced its debt, through a dual green tranche (6 and 10 years), raising €1.1bn. Investor appetite waned, with average oversubscription rates falling to 2x. Issue premiums increased as a result.

IG euro flows were positive during the week, at +€754m, according to JPM. Short duration funds saw inflow of €317m, with IG funds recording +€356m and ETFs +€81m.

It was another positive week in the high yield market (+27bps), spreads tightened (-21bps), offsetting steeper rates (+18bps among German 5-year yields). Spreads narrowed in the more risk-on environment.

The primary market remained active, with Adler Pelzer (B-) successfully refinancing its 2024 debt, through a 120m capital increase and a generous coupon, of 9.75%, on debt maturing in 2028. The bonds were also issued at a 7.5-point discount, with the debt therefore yielding 12%. Lottomatica (BB-) capitalized on its IPO to refinance all of its 2025 debt, with €1.1bn of new 2028 maturities, yielding 7.25%, on the fixed-rate debt, and Euribor + 440bps, on the floating rate tranche. Burger King launched a 50m private tap issue on its 2026 floating rate note, to finance the acquisition of BK La Réunion for 62m.

In the headlines this week, Catalent postponed the publication of its quarterly accounts, for the third time, and revised its EBITDA guidance \$500m lower, but nonetheless reassured investors regarding a potential recovery over the next few quarters. Fives may open its capital to BPI France, in order to help refinance its 2025 bond. Dufry now owns 87.13% of Autogrill, following its takeover bid. The good news concerning this deal is that a significant majority of minority shareholders opted for payment in shares, which will considerably enhance the company's credit ratios. Lastly, in the ongoing Telecom Italia saga, CDP and Macquarie withdrew their bids, leaving KKR as the only group in talks to buy the fixed-line network. The verdict is expected on 9 June, with CDP participating in the KKR offer as another possible scenario.

Market data overview

MORNING								
Govies (10Y)	Net Change (in bps)	19/05/2023	12/05/2023					
US	21	3,68	3,47					
Germany	15	2,43	2,27					
France	15	3,00	2,85					
Spain	12	3,47	3,35					
Italy	8	4,26	4,18					
Portugal	12	3,20	3,09					
UK	22	3,99	3,78					
Greece	0	4,00	4,00					
Yield curve slop	Net Change (in bps)	19/05/2023	12/05/2023					
Germany 2s10s	-1	-32	-31					
Germany 10s30s	-1	18	19					
USA 2s10s	-7	-59	-52					
USA 10s30s	-7	25	33					
UK 2s10s	7	5	-1					
UK 10s30s	-2	42	44					
Spread				Yield		Total Return	Duration	Rating
Credit	Net Change (in bps)	19/05/2023	12/05/2023	19/05/2023	12/05/2023			
Investment Grade								
EUR	0	167	167	4,25	4,07	-0,75%	4,48	A3
UK	-2	172	174	5,88	5,68	-1,22%	6,27	A3
US	-3	145	148	5,47	5,24	-1,40%	6,79	A3
Subordinated Debt								
IG - CORP HYB (EUR)	-14	285	299	5,74	5,65	0,36%	3,72	BBB2
IG - FIN HYB (EUR)	-10	260	270	5,30	5,22	-0,19%	3,75	BBB1
LT2	-10	256	266	5,24	5,16	-0,18%	3,73	BBB1
UT2	-9	311	320	6,02	5,97	-0,26%	3,99	BBB1
AT1 (YTW)	-49	558	607	8,59	8,88	3,10%	3,17	
IG - CORP HYB	-16	271	287	5,74	5,66	-0,29%	3,65	BBB2
HY - CORP HYB	-14	343	357	6,92	6,79	-0,13%	3,02	BB1
High Yield (YTM)								
EUR High Yield	-22	462	484	7,39	7,43	0,30%	3,13	BB3
EUR Corporate High Yield	-21	487	508	7,55	7,59	0,27%	3,03	BB3
EUR Fin High Yield	-23	427	450	7,26	7,29	0,43%	2,56	BB2
US High Yield	-14	462	476	8,75	8,63	-0,45%	4,09	B1
US Corporate High Yield	-14	460	474	8,73	8,61	-0,46%	4,12	B1
Emerging Debt								
Sovereign	2	354	352	7,23	6,97	-1,52%	7,08	BBB3
Corporate	-5	697	702	10,88	10,67	-0,74%	3,79	BB3
Currency	Change	19/05/2023	12/05/2023					
EURUSD	-0,41%	1,08	1,08					
EURGBP	-0,39%	0,87	0,87					
EURJPY	1,19%	148,99	147,24					
GBPUSD	-0,10%	1,24	1,25					
USDJPY	1,68%	137,98	135,70					
Commodities	Change	19/05/2023	12/05/2023					
		\$ / barrel	\$ / barrel					
CO1	1,90%	75,58	74,17					
ITRX	Change	19/05/2023	12/05/2023					
MAIN	-3,99	82,50	86,49					
XOVER	-17,37	434,52	451,89					
SUBFIN	-15,81	178,87	194,68					
SENIOR	-5,73	95,84	101,57					

Source: Lazard Frères Gestion, Bloomberg as of May 22nd, 2023

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