



Market backdrop

Interest rates steepened sharply across all regions during the first week of January. In the US, **the latest Fed policy meeting minutes**, published on Wednesday evening, implied an earlier than expected base rate hike and balance sheet reduction, given the persistence of inflationary pressures and the dynamic jobs market. **The jobs report published on Friday** appeared to confirm this trend. **10Y T-Note yields increased by 25bps over the week, closing at 1.76%**, exceeding the highs recorded in April 2021, as the 2 to 10-year segment of the rate curve steepened. Bond yields also rose further across the entire Eurozone, apart from Greece, as investors anticipated a reduction in net repurchases by the ECB in 2022 with the winding-down of the pandemic emergency purchase program (PEPP) in March. **10Y Bund yields steepened by 14bps to -0.05%**, also hitting new highs since mid-2019.

Primary market issues and the rate-hike environment had a limited impact on financial bond spreads however, with **tier-2 IG bank debt tightening by 2bps and AT1 widening by 2bps**.

As expected, **the primary market was highly active with €23 billion issued among financials** across all capital structure segments during the first week of 2022, representing an increase of 48% vs 2021 according to Bloomberg data. New issues were concentrated in senior debt (including **BNP, BPCE and Rabobank RCI**) although **three AT1 deals were denominated in USD** with **Crédit Agricole and BNP** raising \$1.25bn and **UBS** \$1.5bn. Other significant tier-2 issues during the week included **AXA (€), Deutsche Bank (\$)** and **Standard Chartered (\$)**.

Lloyds announced mandatory calls on four legacy debt instruments, three of which are covered by a make-whole clause included in their prospectus, totaling £736m and \$1.86bn. The German bank **Dekabank** announced a redemption tender offer for its AT1 6% issue. In the M&A market, the **SocGen subsidiary ALD launched a €4.9bn bid for Leaseplan**, paying 2bn in cash (including 1.3bn from a rights issue underwritten by SocGen) and the balance in shares. Leaseplan shareholders will receive a 30.75% stake in the new ALD after the deal, with SocGen owning 53%. The new entity **will request ECB supervision** and will therefore be able to issue tier-2 and AT1 debt to meet its capital requirements.

Corporate investment grade credit margins tightened in the senior segment (-3bps) and among hybrid debt (-3bps) as benchmark sovereign bond yields steepened and the primary market resumed.

Although 2022 got off to a calm start, with a UK public holiday on Monday and the Epiphany vacation in Europe on Thursday, and as investors reassessed the market after the Christmas break, flows began to pick up throughout the week. The ECB continued intervening and spreads benefitted from further support. Spreads among IG segments closed the week in the +3 to -5bps range. With the health crisis abating slightly, as the Omicron variant appears to be less worrying, **the transport sector outperformed significantly, particularly the airline companies EasyJet and Ryanair. The automotive sector was also bullish** with spreads tightening by 5bps on average, while **the chemicals sector, TMTs and utilities widened by 2bps on average and retail by 3bps.**

Newsflow this week focused on monetary policy decisions as usual, but also on the potential acquisition of Carrefour by Auchan (ELO) and the heightened likelihood of private equity involvement. Uncertainty over the weight of debt financing for the deal triggered market fears that ELO's IG rating could be jeopardized. Following the announcement, Carrefour and ELO debt came under heavy pressure, trading at +25/+45bps and +40/+60bps respectively.

The primary market resumed this week. €4bn was raised by **Toyota, DLR, RTE Green and RCI** during the week in new issues, pitched at low or zero premiums, given the strong investor appetite for fresh debt at the start of the year. **The market still appears to be awash with liquidity**, as reflected in the size of the book-building orders, with uptake covering issuance by almost four times on average.

Euro IG saw strongly positive inflow during the week (€805m), led by short duration funds (+€440m), IG (+€202m) and ETFs (+€163m) according to JPM.

Source: Lazard Frères Gestion, Bloomberg as of 10 January 2022.

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It has been a highly constructive start to the year in the high yield segment, driven by keen investor appetite as portfolios appear to have cash weightings of between 5 and 10%. Spreads narrowed by 12bps, led by lower-rated debt securities as interest rates continued to edge higher.

The primary market has got off to a snappy start, with a €750m issue from the Dutch telecom operator **Ziggo**, the joint-venture between Vodafone and Liberty Global. The new issue, yielding 3.5% and maturing in 2032, is rated B+ and has been launched to refinance an existing bond maturing in 2027, i.e. in 5 years' time! Even though some high yield issuers are known for announcing early redemptions long before their maturity dates, a refinancing deal 5 years ahead of schedule is extremely rare and demonstrates the company's desire to lock in low interest rates. We can therefore assume that the primary market is likely to be highly active over the next few weeks.

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Market data overview

MORNING								
Govies (10Y)	Net Change (in bps)	07/01/2022	31/12/2021					
US	25	1,76	1,51					
Germany	14	-0,05	-0,18					
France	9	0,29	0,2					
Spain	8	0,65	0,56					
Italy	14	1,31	1,17					
Portugal	11	0,58	0,46					
UK	21	1,18	0,97					
Greece	20	1,52	1,32					
Yield curve slop	Net Change (in bps)	07/01/2022	31/12/2021					
Germany 2s10s	10	55	45					
Germany 10s30s	-5	32	37					
USA 2s10s	12	90	78					
USA 10s30s	-4	35	39					
UK 2s10s	5	36	30					
UK 10s30s	-3	11	15					
Spread		Yield		Total Return	Duration	Rating		
Credit	Net Change (in bps)	07/01/2022	31/12/2021				07/01/2022	31/12/2021
Investment Grade								
EUR	-2	96	98	0,57	0,51	-0,36%	5,29	A3
UK	-4	111	115	2,22	2,07	-1,27%	8,48	A3
US	-3	95	98	2,55	2,36	-1,74%	8,17	A3
Subordinated Debt								
IG - CORP HYB (EUR)	-3	190	193	1,65	1,59	-0,28%	4,5	BBB2
IG - FIN HYB (EUR)	-3	145	148	1,08	1,02	-0,29%	4,46	BBB1
LT2	-2	144	146	1,06	1	-0,29%	4,43	BBB1
UT2	-2	163	165	1,31	1,24	-0,34%	4,72	BBB1
AT1 (YTW)	10	344	334	3,55	3,4	-0,46%	3,54	
IG - CORP HYB	-4	188	192	1,8	1,75	-0,41%	4,39	BBB2
HY - CORP HYB	-5	242	247	2,63	2,59	-0,30%	3,8	BB1
High Yield (YTM)								
EUR High Yield	-11	320	331	3,21	3,23	0,13%	3,97	BB3
EUR Corporate High Yield	-12	325	337	3,25	3,28	0,15%	3,86	BB3
US High Yield	10	320	310	5,1	4,9	-0,93%	5,12	B1
US Corporate High Yield	10	322	312	5,14	4,95	-0,93%	5,16	B1
Emerging Debt								
Sovereign	-2	296	298	4,24	4,06	-1,63%	8,2	BBB3
Corporate	-1	617	618	7,4	7,21	-1,04%	4,38	BB3
Currency	Change	07/01/2022	31/12/2021					
EURUSD	-0,09%	1,14	1,14					
EURGBP	-0,65%	0,84	0,84					
EURJPY	0,30%	131,29	130,9					
GBPUSD	0,41%	1,36	1,35					
USDJPY	0,42%	115,56	115,08					
Commodities	Change	07/01/2022	31/12/2021					
		\$ / barrel	\$ / barrel					
CO1	5,10%	81,75	77,78					
ITRX	Change	07/01/2022	31/12/2021					
MAIN	2,95	50,65	47,7					
XOVER	10,5	252,67	242,16					
SUBFIN	4,34	112,08	107,75					
SENIOR	3,9	58,76	54,86					

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Completed on 10 January 2022.