



Debt Watch Europe

Q2 2022 review

Corporate Debt Activity

243

Total corporate debt deals in Q2 2022

€151bn

Total corporate debt raised in Q2 2022

€138bn

Raised in Investment Grade deals in Q2 2022

€13bn

Raised in High Yield deals in Q2 2022

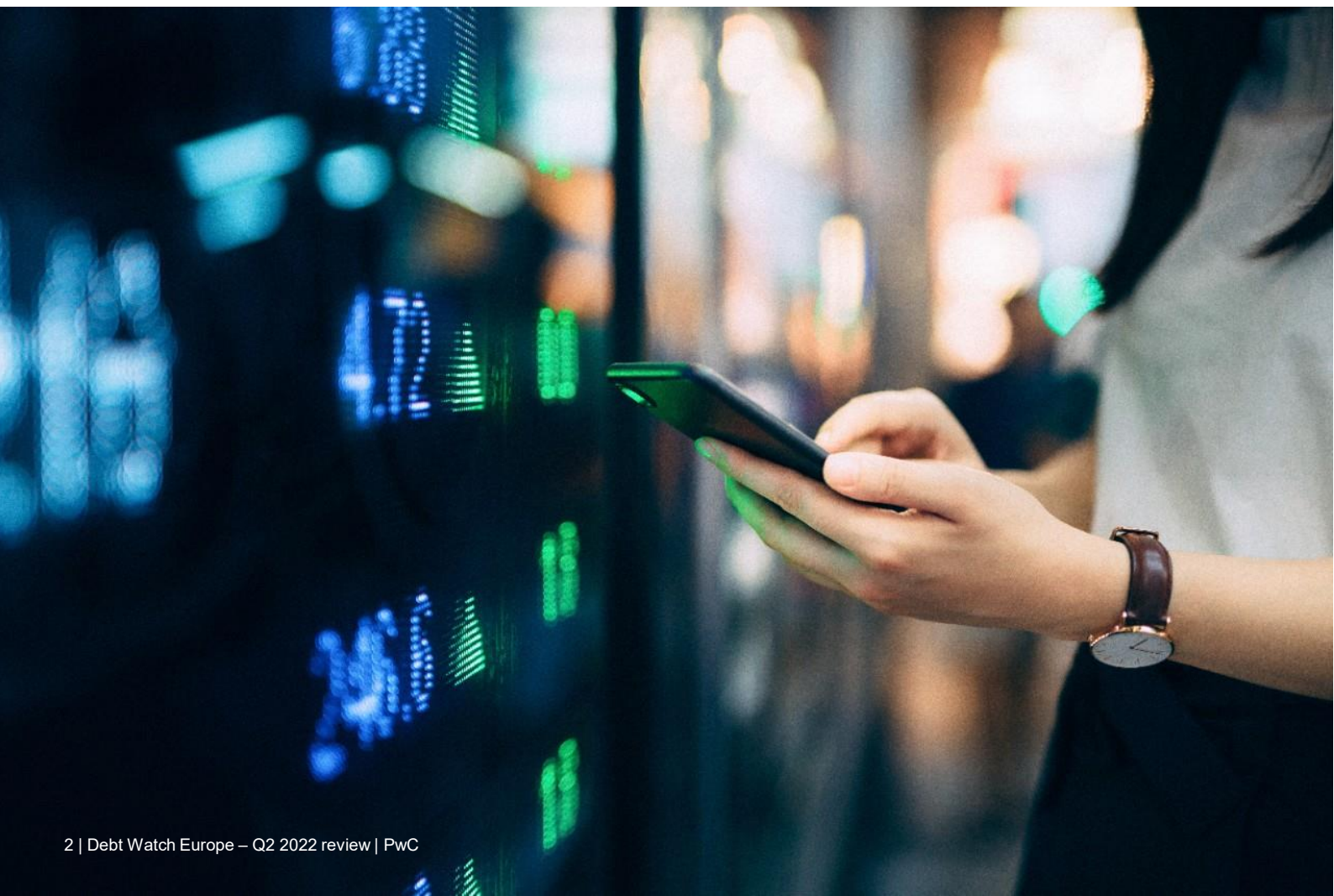
Overview

The second quarter of 2022 saw European corporate bond markets heavily impacted by economic uncertainty due to the war in Ukraine and tightening monetary policy. Overall in the European corporate bond markets activity levels dropped significantly in Q2 2022 in comparison to Q1 2022. There were 243 deals and c.€151bn raised in Q2 2022; lower than Q1 2022 in terms of number of deals raised during the quarter (301 deals by comparison), and in comparison to the c.€221bn corporate debt raised in Q1 2022. It was also significantly lower than the 396 deals and c.€247bn raised in Q2 2021.

The average yield-to-maturity at issuance rose for all investment grade and high yield rated bonds in Q2 2022 compared to Q1 2022 by more than 1%. The increased cost of raising capital had been expected and issuers have had to pay a premium to raise corporate debt in a rising interest rate environment and due to uncertainty in the market caused by the war in Ukraine. Notably the average yield-to-maturity for AA rated bonds nearly doubled from 1.46% in Q1 2022 to 2.90% in Q2 2022. After rebounding in Q1 2022 investment grade activity declined in Q2 2022 with c.€138bn raised and 208 deals, compared to c.€197bn raised and 255 deals in Q1 2022.

Investor appetite for high yield bonds continued to dwindle, with the likelihood of further interest rate rises. In Q2 2022 there were 35 deals and c.€13bn raised in comparison to 46 deals and c.€24bn raised in Q1 2022. There were no corporate bonds issued with a credit rating below B-. As investors' concern about riskier assets and their risk of default increases, the average yield-to-maturity at issuance for BB rated bonds has increased from 3.4% in Q1 2022 to 5.3% in Q2 2022 and from 5.9% in Q1 2022 to 8.6% in Q2 2022 for B rated bonds.

In Q2 2022 the Bank of England raised interest rates by 0.25% in May and then 0.25% in June to 1.25%. The Bank of England also expects inflation to remain over 9% over the next few months and to rise to around 11% in October this year. The European Central Bank is intending to increase interest rates by 0.25% in July 2022, the first interest rate rise in over 11 years, to curb rising inflation in the eurozone due to surging food and energy prices. The Federal Reserve increased interest rates by 0.75% in June 2022, the largest hike in rates since 1994. The US also saw the treasury yield curve become inverted at the beginning of July 2022 as the yield on two year notes rose above the yield on ten year notes, a strong signal that a recession may occur.



Corporate Debt Activity (continued...)

Investment Grade

The investment grade market was the main driving force for European bond activity in the quarter. There were 208 deals which raised c.€138bn of debt. This represents a drop in activity compared to Q1 2022 which saw 255 deals and c.€197bn of proceeds. This is emblematic of the slowdown in markets as interest rate hikes have raised the cost of issuing bonds in the investment grade space. Compared to Q2 2021 this was a moderate drop in activity, which saw 271 deals raising c.€185bn of proceeds, as the market started to stabilise after unprecedented activity levels throughout 2020 and early 2021.

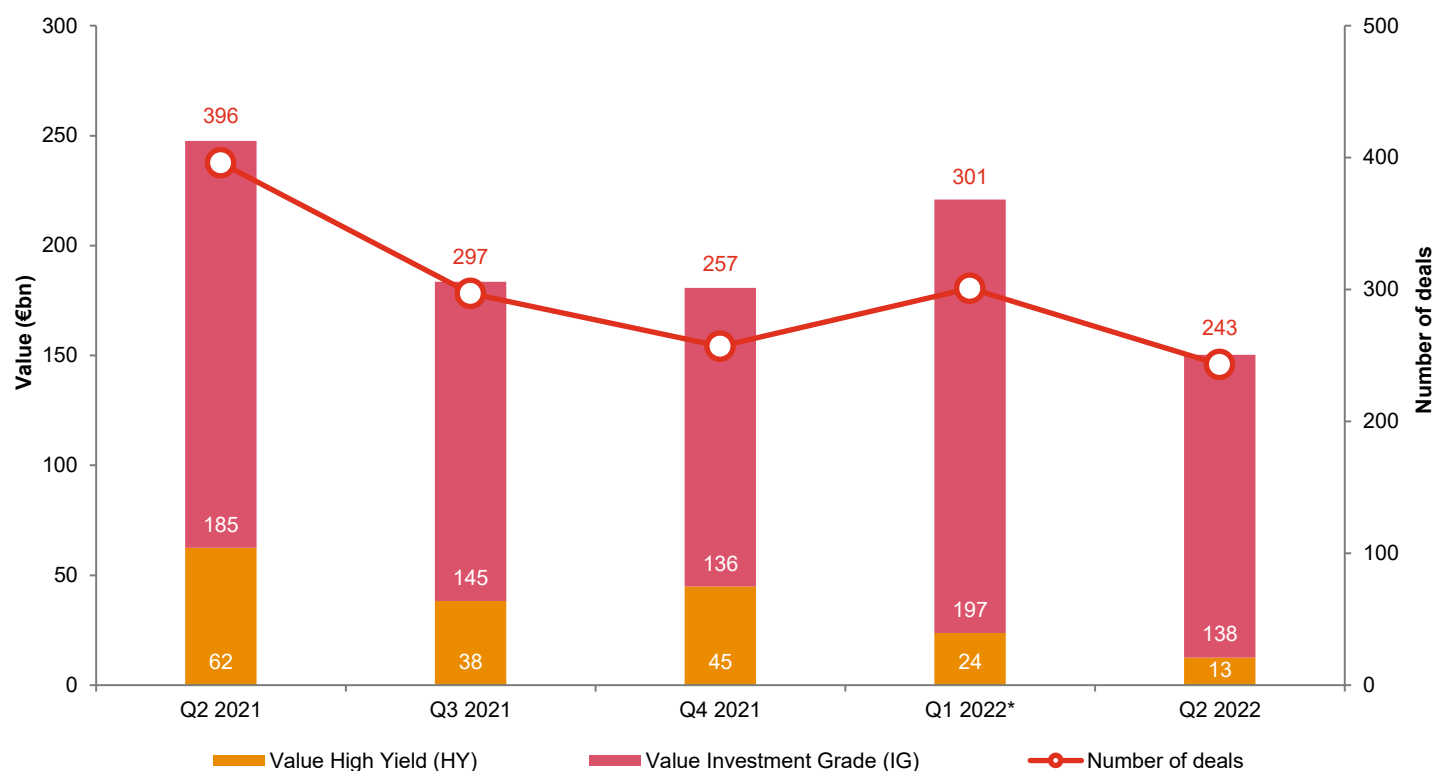
There has been a sharp increase in the average yield-to-maturity at issuance of over 1% across all investment grade credit ratings, reflective of issuers having to absorb increased borrowing costs in order to refinance or raise new debt. Notably, the average yield-to-maturity for the top 10 issuances in the quarter increased from 2.0% in Q1 2022 to 2.9% in Q2 2022.

High Yield

In Q2 2022 there were 35 deals and c.€13bn raised in comparison to 46 deals and c.€24bn raised in Q1 2022, and significantly lower than the 125 deals and c.€65bn raised in Q2 2021. The supply in the high yield bond market continued to decline in Q2 2022 reflected by another increase in the delta of issuance yield between BB and B rated from an average of 2.5% in Q1 2022 to 3.3% in Q2 2022. The continued increase in borrowing costs are also likely to impact issuers' credit ratings, their ability to refinance and repay debts.

Whilst there are high levels of liquidity due to pent up demand, high inflation, rising interest rates and economic uncertainty have continued to reduce investor demand for the riskier high yield bonds. The lack of demand for high yield bonds could also lead to an increase in yields in order to attract investors.

Corporate debt activity by quarter



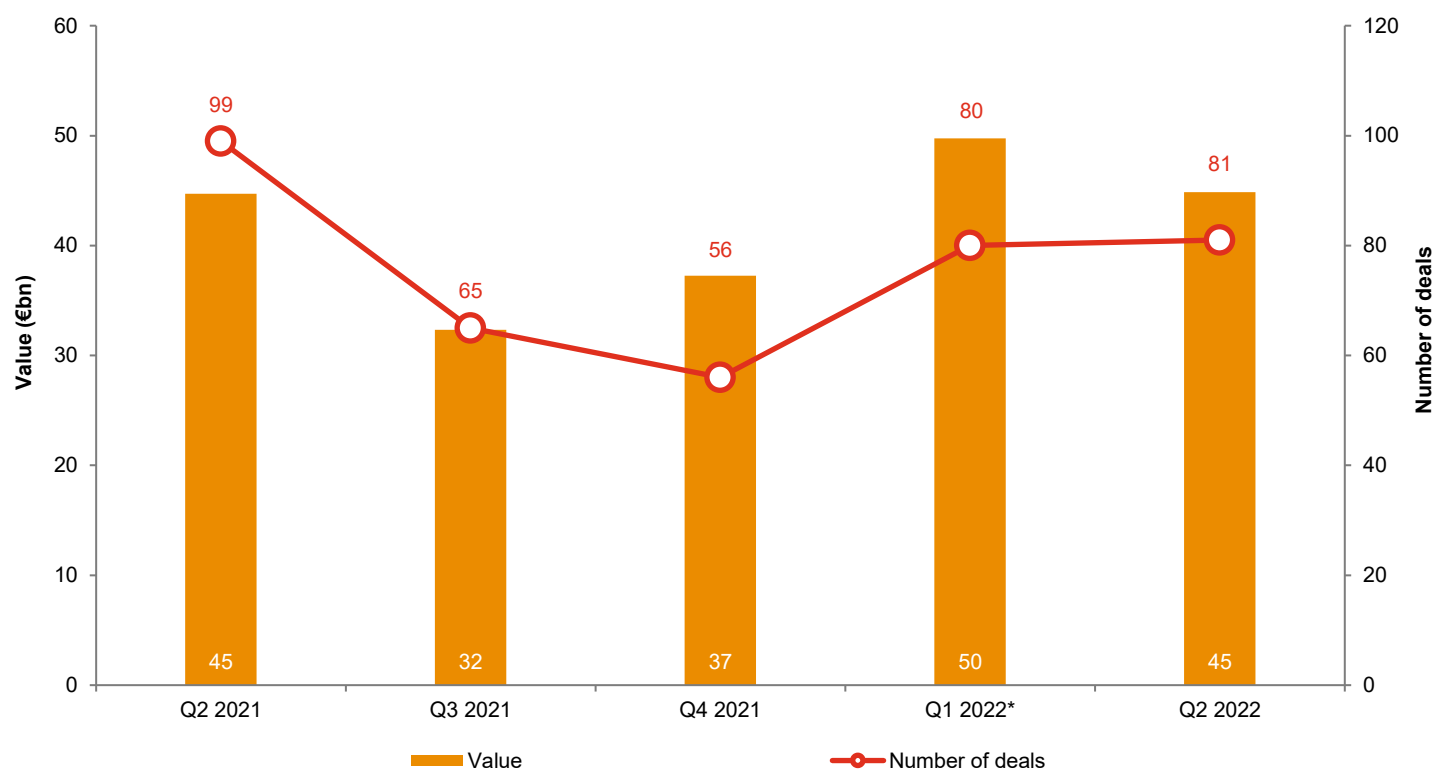
Corporate Debt Activity (continued...)

Green/ESG bonds

After a record quarter in Q1 2022 for corporate bonds raised with a green/ESG element of c.€50bn, Q2 2022 saw a decline to c.€45bn, however the number of deals with a green/ESG element in Q2 2022 of 81 was consistent with Q1 2022 which had 80 deals. The c.€45bn of corporate bonds with a green/ESG element in Q2 2022 was in line with the c.€45bn raised in Q2 2021, however the number of deals in Q2 2021 was higher at 99. In May 2022 Dutch based utilities company TenneT issued the largest ever corporate green bond, a four tranche bond raising c.€3.85bn.

As regulators consider ways to curtail greenwashing, the Financial Conduct Authority (the “FCA”) in the UK is considering taking action against companies that make misleading environmental claims. The FCA has stated that it sees a clear rationale for some regulatory oversight of certain ESG data and second opinion providers. That said, the FCA currently is not proposing any new policy in relation to ESG-labelled related debt instruments. However, it is encouraging action and compliance by debt issuers and their advisers aligned to current industry standards, such as ICMA's green bond principles.

Green/ESG bonds activity by quarter**

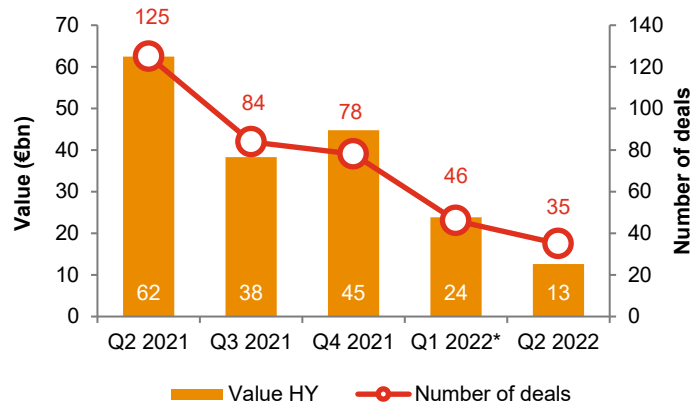


** Green/ESG bonds includes Social, Sustainable and Green bonds

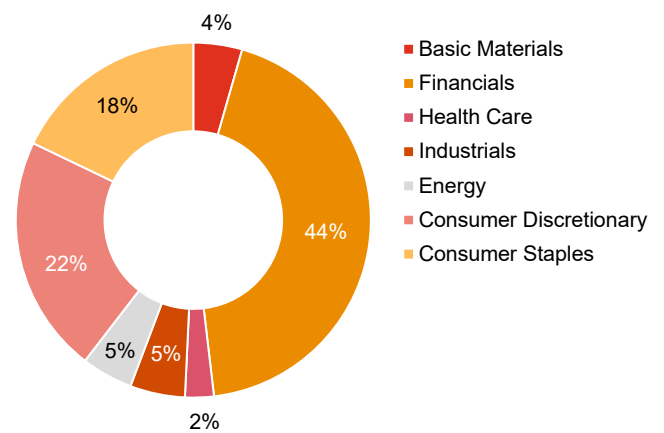
High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



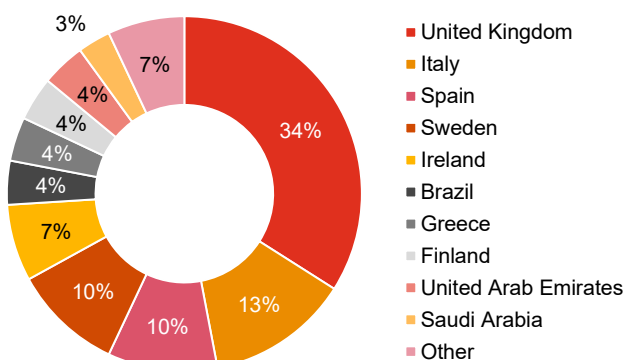
HY by sector Q2 2022



Top ten HY issues Q2 2022

Pricing date	Ten largest HY issues Q2 2022	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jun-22	Barclays plc	1,453	Financials	London Stock Exchange	United Kingdom	B+	
May-22	Market Bidco Finco plc	1,136	Consumer Staples	TISE-The International Stock Exchange	United Kingdom	BB-	8.05
Apr-22	Castle UK Finco plc	923	Consumer Discretionary	TISE-The International Stock Exchange	United Kingdom	B+	8.27
May-22	Loarre Investments Sarl	823	Consumer Discretionary	TISE-The International Stock Exchange	Spain	NR	7.13
Jun-22	Ardagh Metal Packaging Finance plc	559	Basic Materials	Irish Stock Exchange-All Market	Ireland	BB	6.00
Apr-22	Natura &Co Luxembourg Holdings Sarl	549	Consumer Staples	Luxembourg Stock Exchange	Brazil	BB	6.13
May-22	Market Bidco Finco plc	545	Consumer Staples	TISE-The International Stock Exchange	United Kingdom	NR	
May-22	BPER Banca SpA	499	Financials	Luxembourg Stock Exchange	Italy	NR	3.41
Jun-22	Ibercaja Banco SAU	499	Financials	AIAF Mercado de Renta Fija	Spain	BB+	3.80
May-22	Eurobank SA	499	Financials	Luxembourg Stock Exchange	Greece	B+	4.44

HY by issuer operations nationality Q2 2022



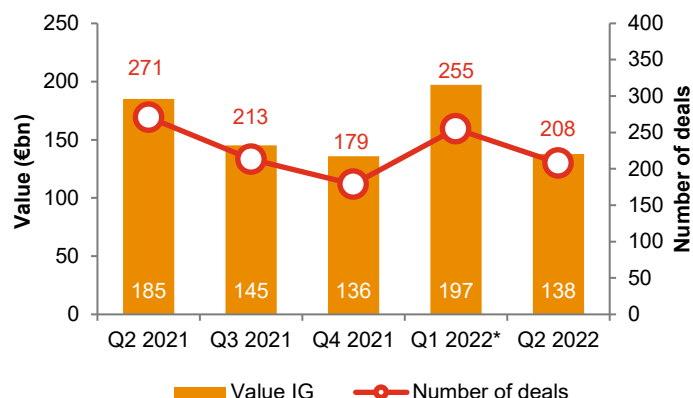
Average yield-to-maturity by issue rating (%)

S&P rating	Q2 2022	Q1 2022	Q2 2021
BB	5.28	3.40	2.95
B	8.62	5.90	4.89
CCC	-	5.37	6.66

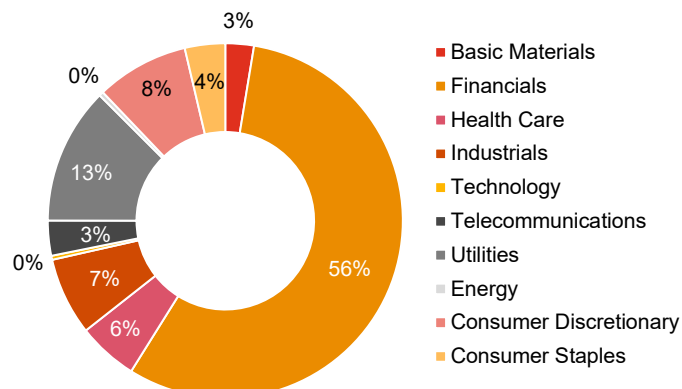
Investment Grade

(Rated BBB- (inclusive) and above)

IG activity by quarter



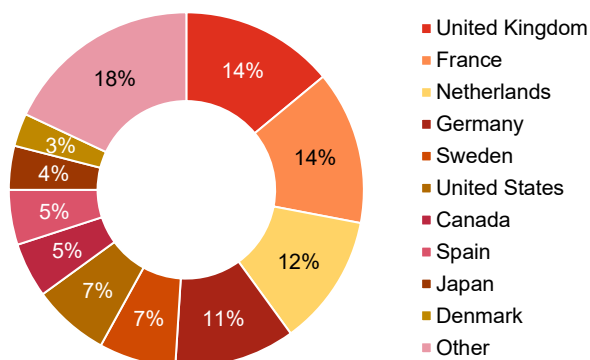
IG by sector Q2 2022



Top ten IG issues Q2 2022

Pricing date	Ten largest IG issues Q2 2022	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
May-22	TenneT Holding BV	3,815	Utilities	Amsterdam	Netherlands	A-	2.33
May-22	Volkswagen Group of America Finance LLC	2,785	Consumer Discretionary	Frankfurt Stock Exchange-General	United States	BBB+	4.32
May-22	Suez SA	2,584	Utilities	Paris	France	NR	2.46
May-22	Coloplast Finance BV	2,196	Health Care	Copenhagen	Denmark	BBB	2.56
Apr-22	Santander	2,023	Financials	Irish Stock Exchange-All Market	Spain	A+	
Jun-22	HSBC Holdings plc	2,000	Financials	London Stock Exchange	United Kingdom	A-	3.02
May-22	RWE AG	1,989	Utilities	Luxembourg Stock Exchange	Germany	NR	2.54
Apr-22	Koninklijke Philips NV	1,987	Health Care	Luxembourg Stock Exchange	Netherlands	BBB+	2.31
May-22	Bouygues SA	1,984	Industrials	Paris	France	A-	2.84
Jun-22	Svenska Handelsbanken AB	1,861	Financials	Irish Stock Exchange-All Market	Sweden	AA-	3.84

IG by issuer operations nationality Q2 2022



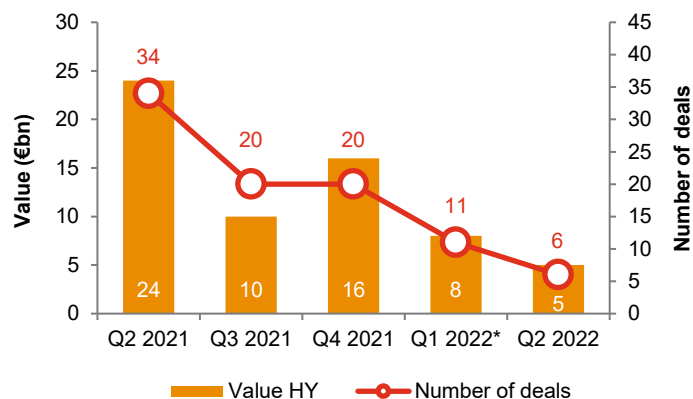
Average yield-to-maturity by issue rating (%)

S&P rating	Q2 2022	Q1 2022	Q2 2021
AAA	3.59	1.94	0.99
AA	2.90	1.46	1.11
A	2.76	1.70	0.92
BBB	3.45	1.92	1.10

UK Focus

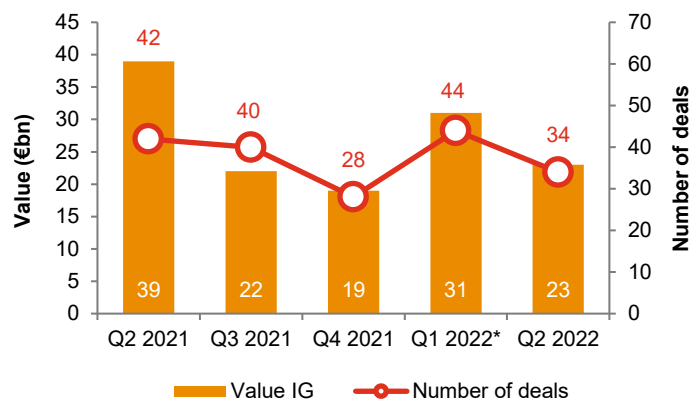
High Yield (rated BB+ (inclusive) and below)

UK HY activity by quarter

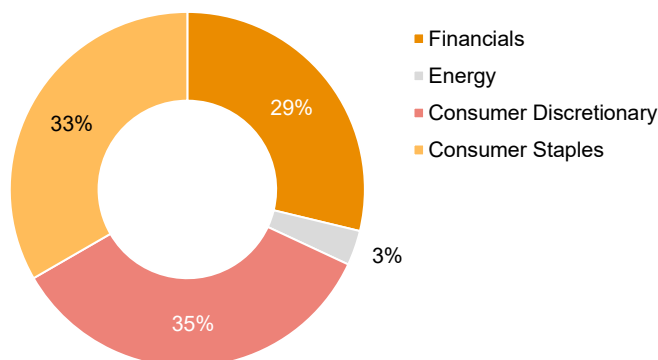


Investment Grade (rated BBB- (inclusive) and above)

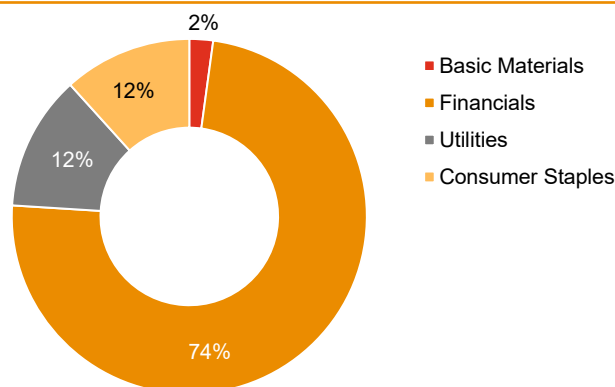
UK IG activity by quarter



UK HY by sector Q2 2022



UK IG by sector Q2 2022



Top five UK HY issues Q2 2022

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jun-22	Barclays plc	1,453	London Stock Exchange	B+	
May-22	Market Bidco Finco plc	1,136	TISE-The International Stock Exchange	BB-	8.05
Apr-22	Castle UK Finco plc	923	TISE-The International Stock Exchange	B+	8.27
May-22	Loarre Investments Sarl	823	TISE-The International Stock Exchange	NR	7.13
May-22	Market Bidco Finco plc	545	TISE-The International Stock Exchange	NR	

Top five UK IG issues Q2 2022

Pricing date	Top five IG issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jun-22	HSBC Holdings plc	2,000	London Stock Exchange	A-	3.02
May-22	National Grid plc	1,850	London Stock Exchange	BBB	2.79
Apr-22	Diageo Capital BV	1,645	London Stock Exchange	A-	1.72
May-22	NatWest Markets	1,248	London Stock Exchange	A-	2.09
Apr-22	RBC	1,242	London Stock Exchange	A	2.22

About Debt Watch Europe

Debt Watch Europe surveys all main and exchange regulated market bond deal issuance across Europe's debt listing venues based on bond tranches being listed on a European listing venue (excluding Russia and Switzerland).

The survey was conducted between 1 April and 30 June 2022. All market data is sourced from Dealogic and has not been independently verified by PricewaterhouseCoopers LLP.

Data comparability to previous Debt Watch

*The Q1 2022 market data in this publication is sourced from Dealogic as at 4 July 2022. Accordingly there may be differences to Q1 2022 data presented in Q1 2022 Debt Watch as the data was run as at 4 April 2022.

Methodology

The classification of investment grade (IG) and high yield bond (HY) bonds are based solely on the ratings given by S&P – with BBB- and above (inclusive) as IG and BB+ and below (inclusive) as HY.

Yield to maturity is calculated as an average for issues with numerous tranches as of the pricing date.

For any issue with different ratings applied to different tranches, the multiple credit ratings for such issuances are displayed.

The classification of Green/ESG bonds are corporate bonds which have one or more tranches labelled as Social, Sustainable or Green.

Sources: Dealogic, LCD, Bloomberg and PwC analysis.

Contacts



Sarah Hitchen

UK Capital Markets Leader

M: +44 (0)7734 958782

E: sarah.l.hitchen@pwc.com



David Godbee

Partner, Debt & Capital Advisory

M: +44 (0)7740 242013

E: david.k.godbee@pwc.com



James Millar

Director, Capital Markets

M: +44 (0)7725 706184

E: millar.james@pwc.com

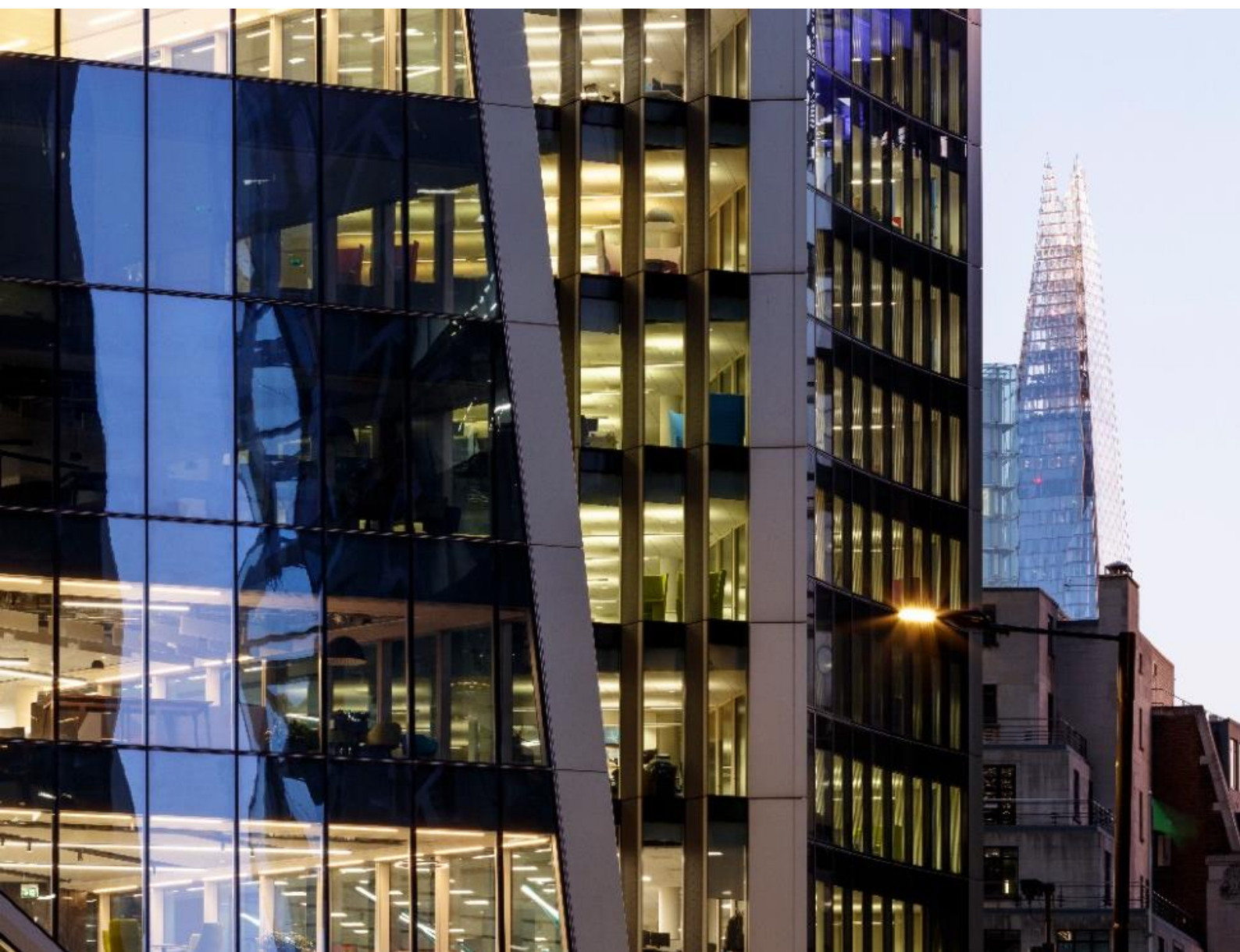


Anika Shah

Senior Manager, Capital Markets

M: +44 (0)7808 798835

E: anika.r.shah@pwc.com



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2022-07-14_RITM8979390