



# Debt Watch Europe

Q3 2023 review



# Corporate Debt Activity

268

Total corporate debt deals in Q3 2023

€174bn

Total corporate debt raised in Q3 2023

€144bn

Raised in Investment Grade deals in Q3 2023

€30bn

Raised in High Yield deals in Q3 2023

## Overview

The first month of Q3 2023 started with strong activity, as investors had renewed confidence for a soft landing of the global economy and an expectation of the end of interest rate increases by central banks. However, despite the fact that Q3 is historically a quieter quarter in Europe, the market conditions for bond issuers worsened significantly once more as central banks increased interest rates and debt transactions were largely represented by refinancing deals. The value raised and the number of deals dropped by c.30% compared to Q2 2023, representing the deepest decline for Investment Grade quarter-to-quarter in the last 3 years. In contrast, the High Yield bond market had the best quarter so far in 2023 in terms of both deals and volume as a consequence of a good start in the quarter and that many companies facing future refinancing anticipated deals in order to lock in lower yields before a potential new round of interest rates increase by central banks.

Overall in the European corporate bond markets there were 268 deals and c.€174bn raised in Q3 2023; significantly lower than Q2 2023 in terms of number of deals raised during the quarter (382 deals by comparison) and in comparison to the c.€ 236bn corporate debt raised in Q2 2023. Compared to the same period of the last year, i.e., Q3 2022, the number of deals was still higher by 30% and the volume raised was 39% higher in Q3 2023. Albeit, it should be noted that, Q3 2022 total corporate debt had the weakest activity in a quarter since 2018. In 2022, investors were seeing the effects of the war in Ukraine, the budget crisis in the UK, and global economic factors dampen investment appetite. Accordingly, comparisons are difficult due to the particular macro-economic factors seen in Q3 2022.

In the UK, the EU and the US, central banks were still draining liquidity from the financial system and pushing its price up to levels not seen since 2007. However, at the same time, governments still had a strong appetite for cash. The US Treasury plans to replenish its coffers after a bruising debt ceiling standoff and to fund their budget gap and two of the eurozone's three largest economies, France and Italy, both presented budget drafts for 2024 that widely overshoot previous estimates. As the world economies still struggle and many economies fight higher inflation rates, the risk of stagflation has dominated the markets. These were further impacted with the US Treasury hitting the highest level in 16 years. In the US and the EU (including the UK), growth continues to be slow despite strong labour market data.

How long inflation will remain high is one of the most important questions facing financial markets, and a destabilisation of expectations would make it even harder for policy makers to restore price stability. This was reflected by relevant increases in the average yield-to-maturity for investment grade rated bonds in Q3 2023 as compared to any of the previous quarters at this year or to the same period last year. The average yield-to-maturity showed a small decrease in the high yield bonds, likely due to the greater number of transactions in the beginning of the quarter where risk appetite and investor confidence were higher. The foreseeable future provides further challenges for investors as geopolitical risks have suddenly returned, already impacting oil prices. The increased chances that this winter will be dominated by the El Niño weather pattern, which is historically tied to higher commodity prices is also a concern.



# Corporate Debt Activity (continued...)

## Investment Grade

The investment grade market showed a significant decline compared to the previous quarter. There were 202 deals raising c.€144bn of proceeds. This compares to the previous quarter which saw 320 deals raising c.€208bn of proceeds. There was the usual summer slowdown in July and August, which saw only 33 and 62 deals completed respectively. September then started with a flurry of deals and saw a total of 107 deals completed in the month, as investment grade companies sought to tap into strong investor demand and raise debt ahead of possible interest rate hikes. The average yield-to-maturity continues to display an upward trend in the market. Of note, the average yield-to-maturity for AAA rated bonds has increased to 4.46% in Q3 2023 compared to 3.95% in Q2 2023, and 3.85% in the same period last year. AA and A rated bonds showed more modest increases in average yield-to-maturity while BBB rated bonds remained flat, at 5.15% in Q3 2023 compared to 5.16% in Q2 2022. This shows how even the highest rated corporates are having to pay a higher premium to investors to raise debt.

The financial sector accounted for the largest proportion of issuances in the quarter, accounting for c.62% of issuances, and seven of the ten largest issuances coming from financial institutions. However, the Consumer Discretionary sector had a good quarter featuring two issuances in the top ten. Luxury goods company Kering SA had the largest issuance of the quarter, issuing a €3.8bn 4-tranche bond on the Paris stock exchange with a credit rating of A and yield-to-maturity of 3.78%, while luxury competitor LVMH issued a €2.5bn 2-tranche bond with an AA- rating and yield-to-maturity of 3.42% as French companies dominated the market with almost 30% of the value raised in Europe in Q3 2023.

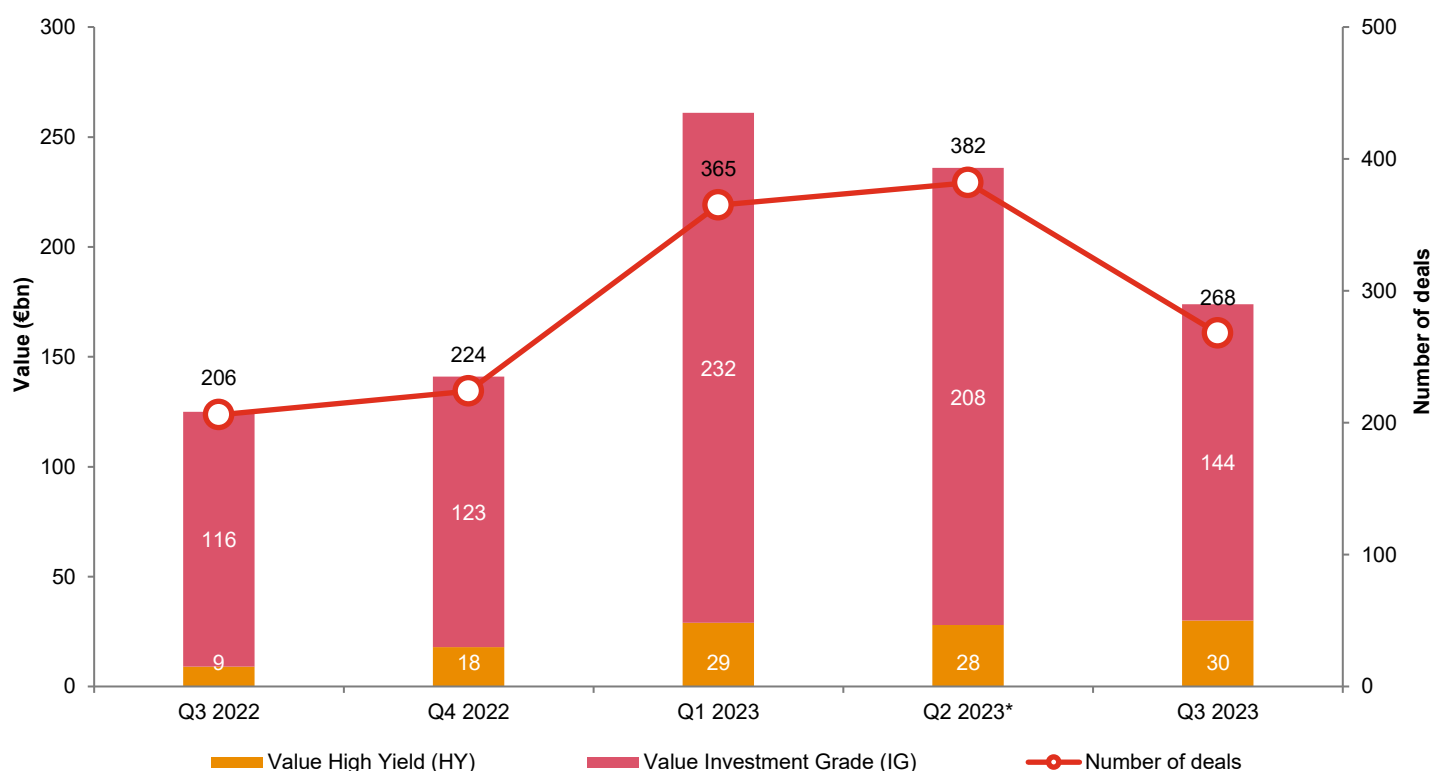
## High Yield

The high yield bond market recorded its best quarter in 2023 driven by continued investor demand as a result of uncertainty in future interest rate movements. Q3 2023 consisted of 66 deals raising c.€30bn, an improvement in comparison to the previous quarter (Q2 2023) which resulted in 62 deals raising c.€28bn. This also highlights a continued trend in significant improvement against the same period in 2022, which recorded a total of 27 completed deals raising c.€9bn. Average yield to maturity slightly decreased from 8.2% in Q2 2023 to 7.9% in Q3 2023 and was also lower than the yield for Q3 2022 where average yield to maturity was 8.4%.

September issuances dominated the quarter with 39 completed deals, with 64% of the deals of the month completing ahead of the effective date for the increase in interest rates announced by the European Central Bank on 14th September 2023. Whilst it is difficult to ascertain with certainty, it is likely that companies were locking in yields in anticipation of further increases in interest rates. The finance sector remained at the forefront with 25 deals completed in Q3 2023, accounting for c.36% of all high yield bond issuances in Europe. The top ten deals were very diverse in terms of sector representativeness, as IT, Health Care, Energy, Consumer Discretionary and Materials were represented.

Uncertainty around future reductions in interest rates remain a factor for issuers, but focus is difficult to not shift away from tapping into an active market.

## Corporate debt activity by quarter



\* The Q2 2023 market data in this publication is sourced from Dealogic as at 3 October 2023. Accordingly there may be differences to Q2 2023 data presented in Q2 2023 Debt Watch as the data was run as at 4 July 2023.

# Corporate Debt Activity (continued...)

## Green/ESG bonds

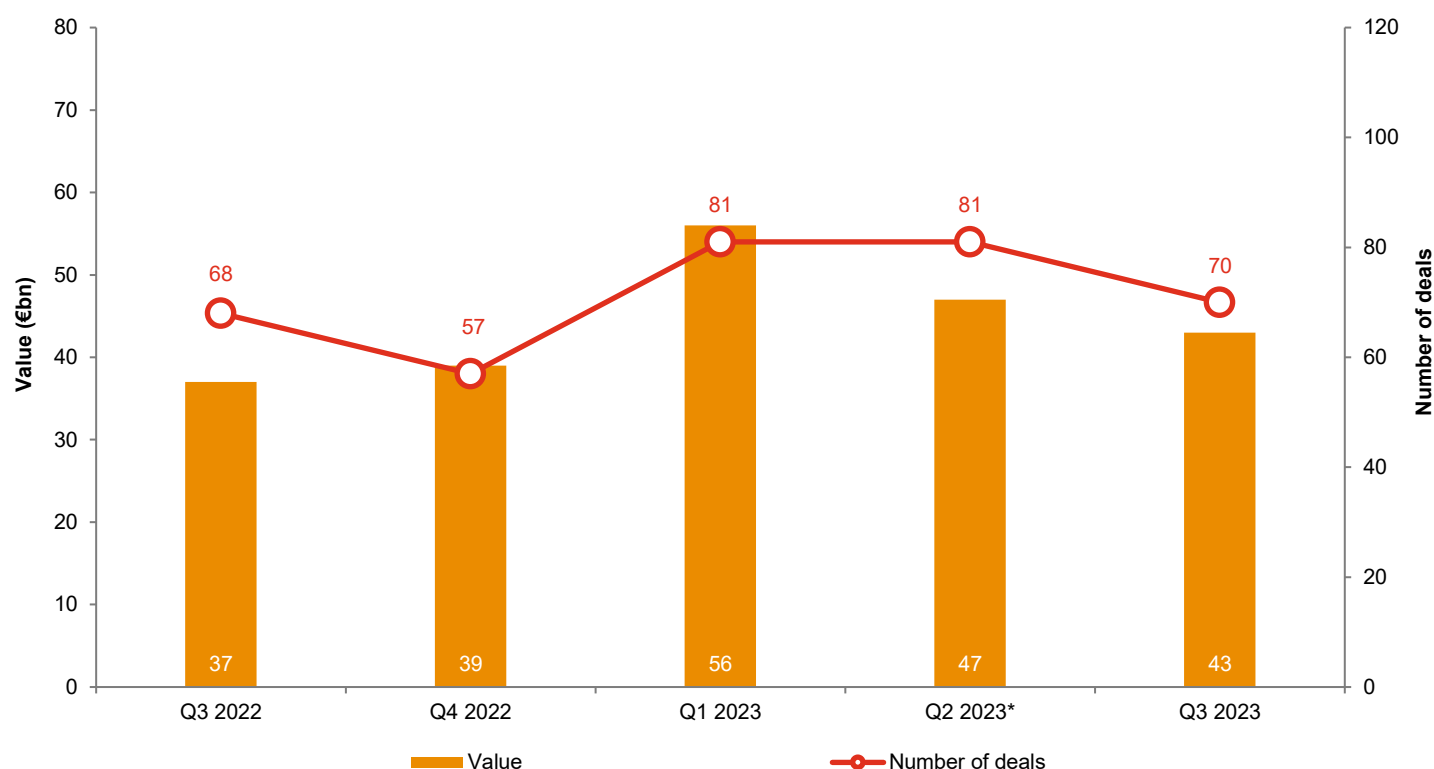
The green/ESG bond market in Europe experienced a slight decrease in activity compared to the year so far. Q3 2023 saw 70 completed deals raising c.€43bn in comparison to Q2 2023, which had 81 deals and proceeds of c.€47bn. However, this is a slight increase compared to the same period last year, which saw 68 deals and c.€37bn of proceeds.

The largest green bond issuance in the quarter was by Engie SA, the French multinational utilities company. They issued a c.€4bn, 4-tranche green bond in August 2023 with a BBB+ rating and yield-to-maturity of 4.18%. Since adopting their strategic roadmap to be Net Zero Carbon by 2045 they have been an active issuer in the green/sustainable bond space, despite their core business focusing on energy such as electricity generation and distribution, natural gas and petroleum.

Corporate issuances, just like Sovereign issuances, are starting to enjoy a range of 1-4 basis point premium, often referred to as a 'greenium,' owing to strong demand from specific investors. There is expectation that in next year the greenium represents a slightly higher premium compared to the average 1-4 basis points in the year. There is market expectation that this premium will likely fall within the range of 6-8 basis points.

The European parliament approval in early October of the new voluntary standard for "European Green Bond" is an important step for the Green Bond market. The standard, which is the first standard to define "Green Bond" in the world, sets a global benchmark that seeks to combat greenwashing and ensure transparency; establishing a registration system and supervisory framework for external reviewers of European Green Bonds. Issuers complying with the standard will need to commit to green transition plans and will provide clarity to investors about their green aspirations.

### Green/ESG bonds activity by quarter\*\*



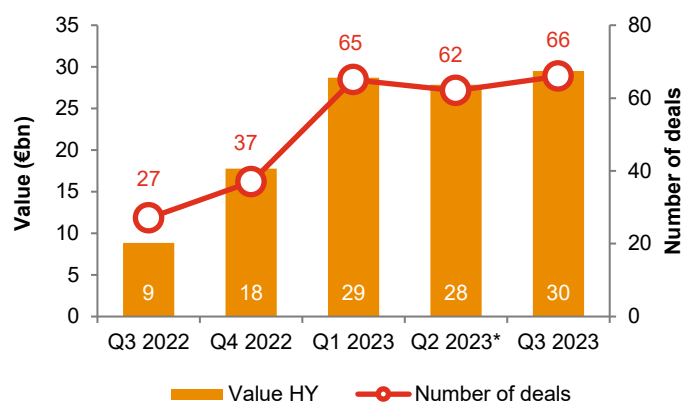
\* The Q2 2023 market data in this publication is sourced from Dealogic as at 3 October 2023. Accordingly there may be differences to Q2 2023 data presented in Q2 2023 Debt Watch as the data was run as at 4 July 2023.

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

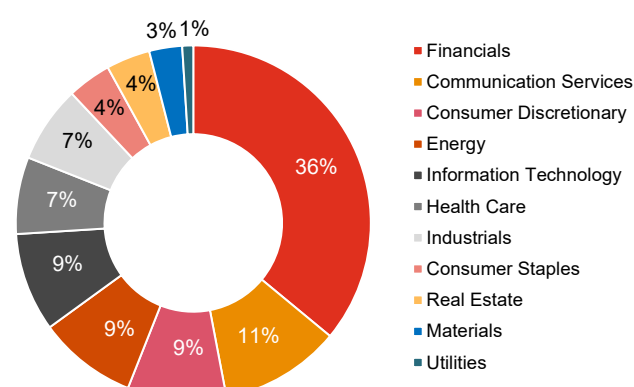
# High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



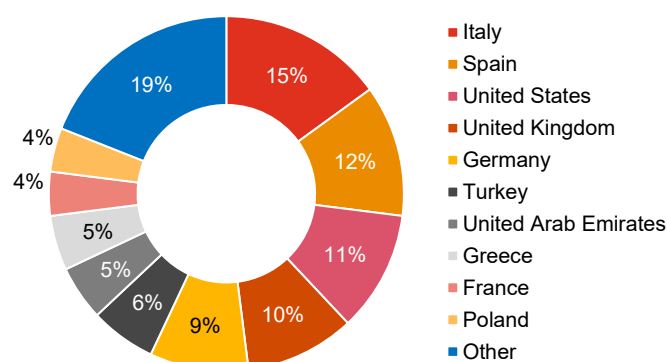
HY by sector Q3 2023



Top ten HY issues Q3 2023

Pricing date	Ten largest HY issues Q3 2023	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Sep-23	GTCR W-2 Merger Sub LLC	2,731	Information Technology	TISE-The International Stock Exchange	United States	BB	8.00
Sep-23	Bayer AG	1,739	Health Care	Luxembourg Stock Exchange	Germany	BB+	6.86
Aug-23	Intesa Sanpaolo SpA	1,250	Financials	Luxembourg Stock Exchange	Italy	BB-	-
Sep-23	Shelf Drilling Holdings Ltd	1,020	Energy	TISE-The International Stock Exchange	United Arab Emirates	B-	10.13
Sep-23	Pinnacle Bidco plc	927	Consumer Discretionary	TISE-The International Stock Exchange	United Kingdom	NR	9.13
Sep-23	EDO Sukuk Ltd	926	Energy	London Stock Exchange	Oman	BB	5.94
Sep-23	Banjay Entertainment SAS	913	Communication Services	TISE-The International Stock Exchange	France	B+	7.55
Sep-23	TIM SpA	765	Communication Services	Luxembourg Stock Exchange	Italy	B+	7.36
Sep-23	We Soda Ltd	756	Materials	TISE-The International Stock Exchange	United Kingdom	B+	9.50
Aug-23	Telefonica Europe BV	750	Communication Services	Irish Stock Exchange-All Market	Spain	NR	-

HY by issuer operations nationality Q3 2023



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

S&P rating	Q3 2023	Q2 2023	Q3 2022
BB	7.01	7.25	7.30
B	8.87	9.14	9.52
**CCC	-	-	-

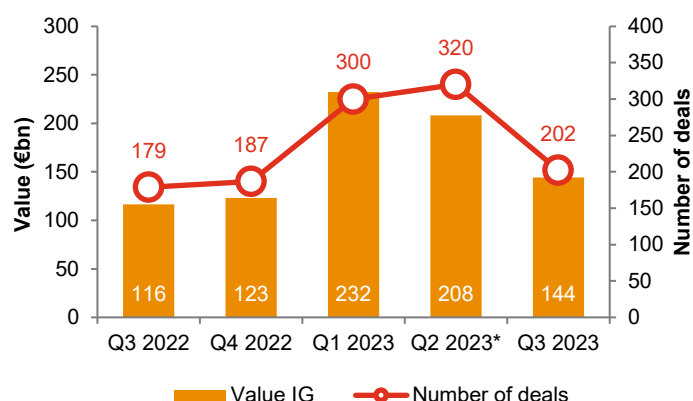
\*\* Q3 2023, Q2 2023 and Q3 2022 haven't recorded any transactions rated CCC or below.

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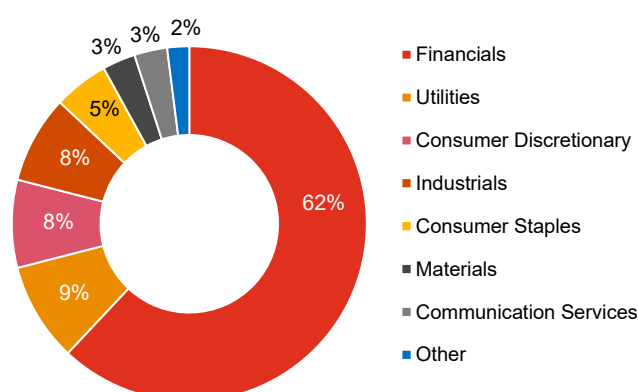
# Investment Grade

(Rated BBB- (inclusive) and above)

## IG activity by quarter



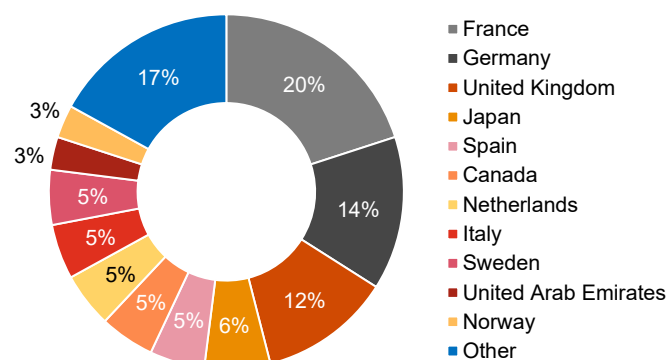
## IG by sector Q3 2023



## Top ten IG issues Q3 2023

Pricing date	Ten largest IG issues Q3 2023	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Aug-23	Kering SA	3,782	Consumer Discretionary	Paris	France	A	3.78
Jul-23	Sumitomo Mitsui Financial Group	3,035	Financials	Euro MTF Luxembourg Stock Exchange	Japan	A-	5.83
Sep-23	Sartorius Finance BV	2,986	Financials	Euro MTF Luxembourg Stock Exchange	Germany	BBB	4.57
Aug-23	ENGIE SA	2,979	Utilities	Paris	France	BBB+	4.18
Sep-23	Deutsche Borse AG	2,979	Financials	Frankfurt Stock Exchange-General / Luxembourg Stock Exchange	Germany	AA-	3.94
Aug-23	LVMH	2,495	Consumer Discretionary	Luxembourg Stock Exchange	France	AA-	3.42
Sep-23	Societe Generale	2,493	Financials	Paris	France	A/BBB	4.57
Aug-23	Intesa Sanpaolo SpA	2,236	Financials	Luxembourg Stock Exchange	Italy	BBB	4.86
Jul-23	Credit Agricole	2,000	Financials	Paris	France	A+	3.99
Sep-23	ALD SA	2,000	Financials	Paris	France	A-	4.88

## IG by issuer operations nationality Q3 2023



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

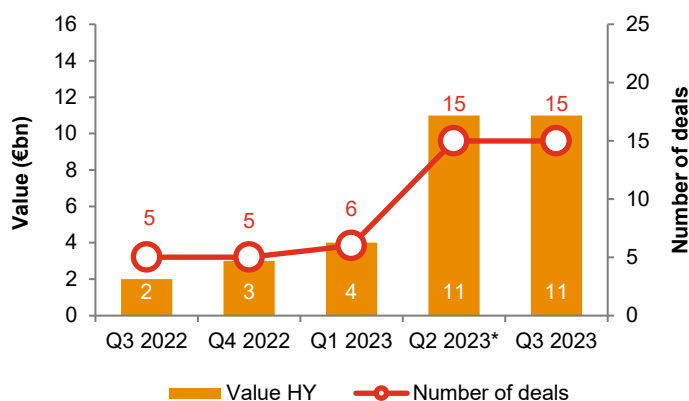
S&P rating	Q3 2023	Q2 2023	Q3 2022
AAA	4.46	3.95	3.85
AA	4.17	3.86	4.03
A	4.76	4.52	3.80
BBB	5.15	5.16	4.29



# UK Focus

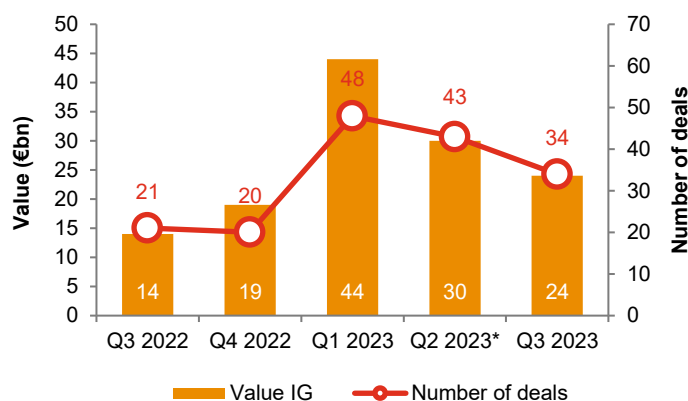
## High Yield (rated BB+ (inclusive) and below)

### UK HY activity by quarter

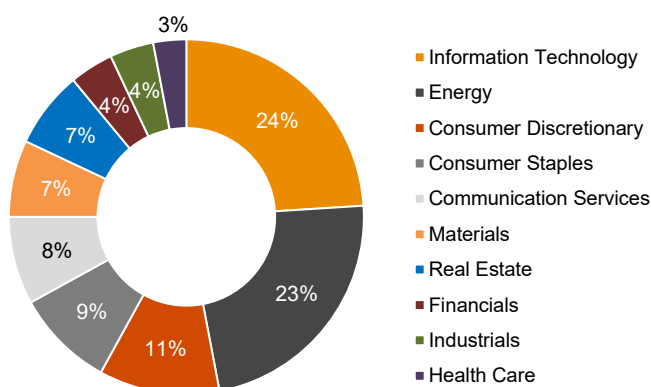


## Investment Grade (rated BBB- (inclusive) and above)

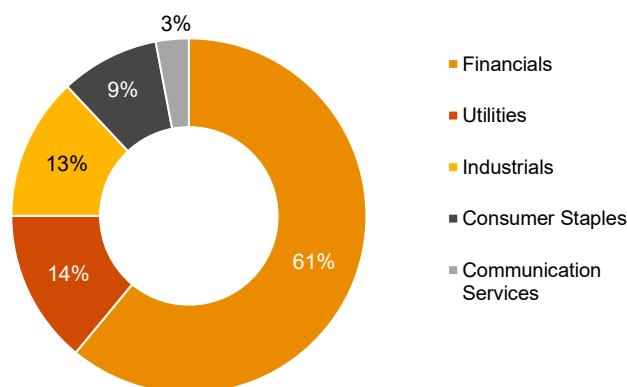
### UK IG activity by quarter



### UK HY by sector Q3 2023



### UK IG by sector Q3 2023



### Top five UK HY issues Q3 2023

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Sep-23	GTCR W-2 Merger Sub LLC	2,731	TISE-The International Stock Exchange	BB	8.00
Sep-23	Shelf Drilling Holdings Ltd	1,020	TISE-The International Stock Exchange	B-	10.13
Sep-23	Pinnacle Bidco plc	927	TISE-The International Stock Exchange	NR	9.13
Sep-23	EDO Sukuk Ltd	926	London Stock Exchange	BB	5.94
Sep-23	Banijay Entertainment SAS	913	TISE-The International Stock Exchange	B+	7.55

### Top five UK IG issues Q3 2023

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Sep-23	Reckitt Benckiser Treasury Services plc	1,743	London Stock Exchange	A-	4.44
Sep-23	LSEG Netherlands BV	1,400	London Stock Exchange	A	4.18
Sep-23	DP World Crescent Ltd	1,396	London Stock Exchange	NR	5.50
Aug-23	Barclays plc	1,250	London Stock Exchange	BBB+	4.92
Sep-23	Lloyds Banking Group	1,243	London Stock Exchange	BBB+	4.84

\* The Q2 2023 market data in this publication is sourced from Dealogic as at 3 October 2023. Accordingly there may be differences to Q2 2023 data presented in Q2 2023 Debt Watch as the data was run as at 4 July 2023.

# 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 July and 30 September 2023. All market data is sourced from Dealogic and has not been independently verified by PricewaterhouseCoopers LLP.

## Data comparability to previous Debt Watch

\* The Q2 2023 market data in this publication is sourced from Dealogic as at 4 October 2023. Accordingly there may be differences to Q2 2023 data presented in Q2 2023 Debt Watch as the data was run as at 4 July 2023.

## 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.

Sources: Dealogic, LCD, Capital IQ (S&P Global Market Intelligence, LLC) and PwC analysis.



# Contacts



**Sarah Hitchen**  
Partner, Capital Markets  
M: +44 (0)7734 958782  
E: sarah.l.hitchen@pwc.com



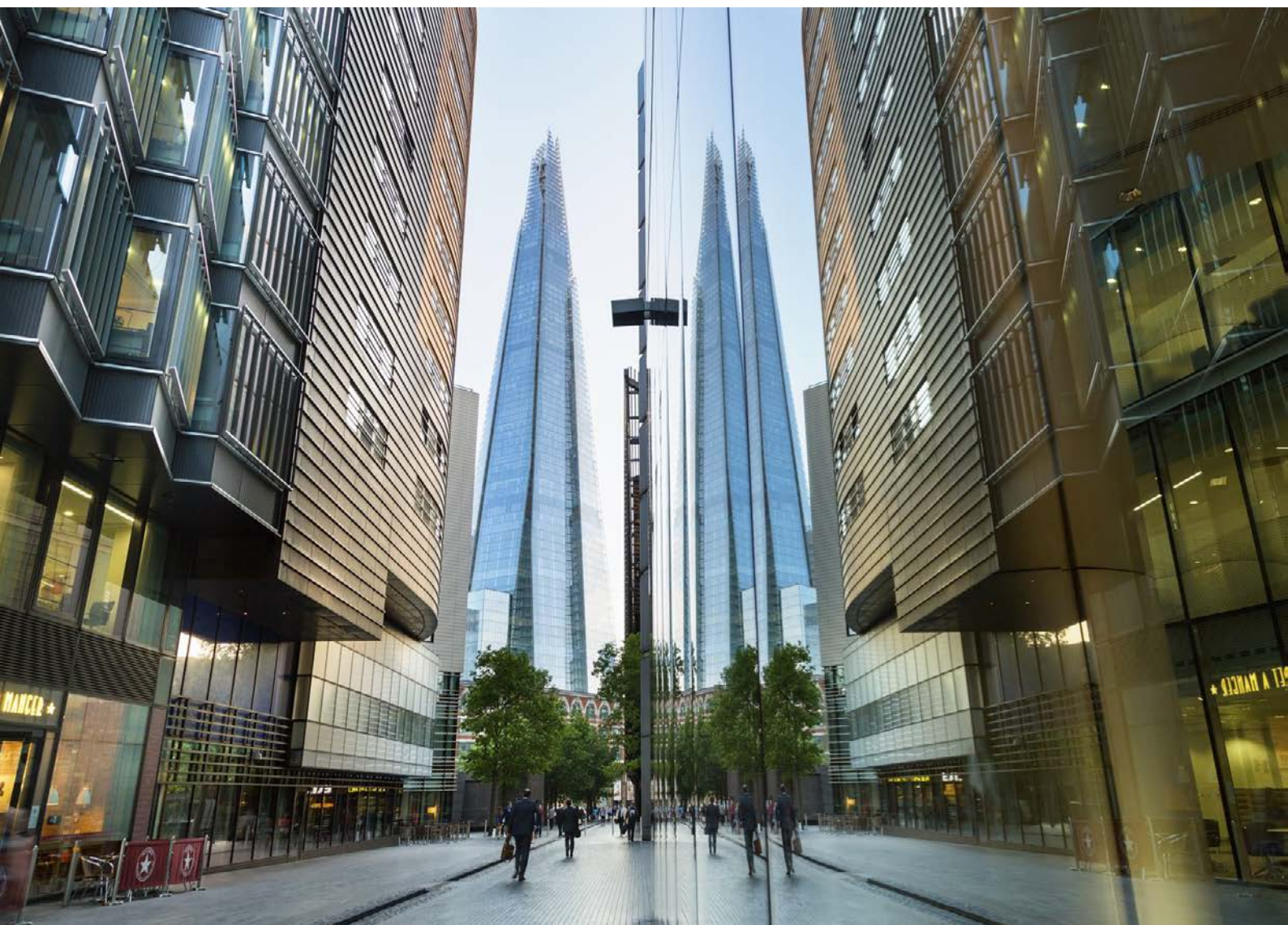
**David Godbee**  
Partner, Debt & Capital Advisory  
M: +44 (0)7740 242013  
E: david.k.godbee@pwc.com



**James Millar**  
Director, Capital Markets  
M: +44 (0)7725 706184  
E: millar.james@pwc.com



**Matheus Finochio**  
Senior Manager, Capital Markets  
M: +44 (0)7483 347632  
E: matheus.s.finochio@pwc.com



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