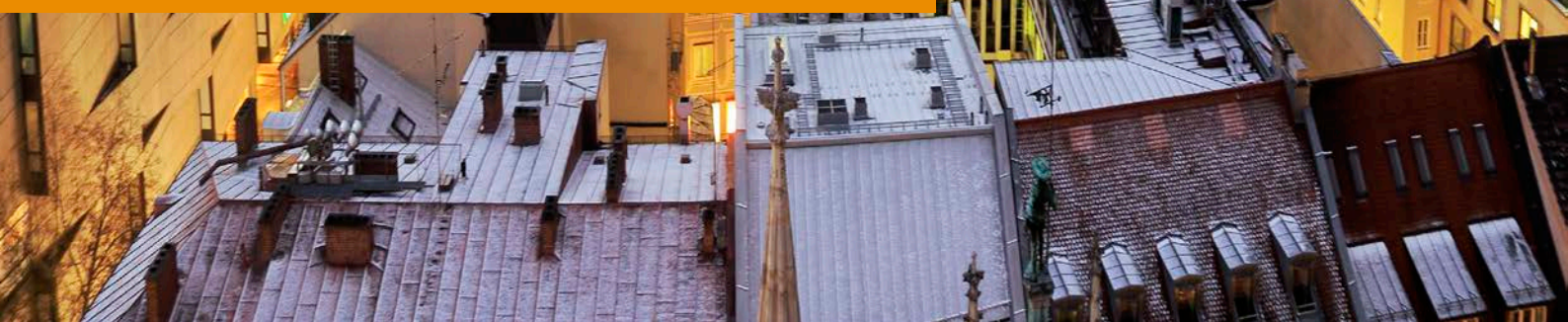




Debt Watch Europe

2022 Annual Review



Review of 2022 and outlook for 2023

993

Total corporate debt deals in 2022
(2021: 1,326)

€644bn

Total corporate debt raised in 2022
(2021: €555bn)

€581bn

Raised in investment grade deals in 2022
(2021: €555bn)

€63bn

Raised in high yield deals in 2022
(2021: €200bn)

Overview

2022 was a challenging year for the European corporate bond markets as the year closed 25% lower in terms of both volume and number of corporate debt issuances compared to 2021. The economic uncertainty due to a number of factors including the war in Ukraine, the tightening of monetary policy to try to curb rampant inflation, driven by surging food and energy prices across Europe, heavily impacted the European corporate bond markets. In addition, the UK bond markets were also negatively impacted by the political instability in the UK, particularly from Q3 2022 onwards. Overall there were 993 issuances and c.€644bn raised in 2022, compared with 1,326 issuances and c.€555bn raised in 2021.

After record levels of high yield bond issuances in 2021, 2022 saw activity significantly dwindle, as borrowing costs increased for issuers, and investors worried about the risk of default. The volume and number of high yield issuances in 2022 were more than 60% lower than 2021, 148 deals and c.€63bn raised compared to 386 deals and c.€200bn raised in 2021. Q3 2022 saw only 27 high yield bond issuances and c.€9bn raised, the lowest for any quarter since 2018. As investors worried about the risk of default there were only two high yield bonds rated triple-C, which both priced in January 2022 and there were no bonds rated below that for the rest of the year. Q4 2022 saw an uptick with 845 deals amounting to c.€581bn in high yield bond activity, with c.€18bn raised and 37 issuances, as inflation cooled and investor sentiment improved.

Investment grade activity decreased in 2022 compared to 2021, compared to 940 deals and c.€555bn, respectively. The year commenced with a flurry of activity and Q1 2022 proved to be a strong quarter for investment grade issuances, with volumes of c.€202bn surpassing both Q1 2021 and Q4 2021, c.€189bn and c.€136bn respectively as a result of a post pandemic bounce in the European corporate bond markets. However, investment grade activity declined in the following quarters as interest rate rises drove borrowing costs up for issuers and higher rated companies turned to alternative cheaper sources of private financing.

The Federal Reserve, Bank of England and European Central Bank tightened monetary policy several times in 2022 given the persistently high levels of inflation and interest rates that are currently at levels not seen in 14 years; 4.25%-4.5% in the US, 3.5% in the UK and 2.5% in the Eurozone. High inflation caused government yields to generally increase during 2022. Yields further increased at the start of January 2023 as central banks have signalled their plan to continue tightening monetary policy, and in Germany the 10-year government bond yield reached its highest level since 2011.

As borrowing costs continued to rise, the average yield-to-maturity at issuance increased across all investment grade and high yield rated bonds in Q4 2022 compared to Q4 2021 (by more than 2% for AAA rated bonds and more than 3% for AA to B rated bonds). Overall the credit spread between BBB and BB rated bonds widened to 2.5% in 2022 compared to 2.0% in 2021 as investors avoided riskier assets.

At the end of September 2022, the UK Chancellor's mini-budget focusing on tax cuts caused UK government bonds to plunge. This led to an unprecedented rise in bond yields and 30-year gilts reached their highest level in 20 years at 5.04%. After a period of some turbulence, the Bank of England intervened and announced bond purchases of up to £65bn, which provided some help to stabilise the markets and correct some of the volatility seen in the immediate days after the mini-budget. As a result, the Bank of England had to delay commencing their quantitative tightening to November 2022, when it sold back £750 million of short-term government debt to the financial markets.

Review of 2022 and outlook for 2023 (continued)

Green/ESG bonds

The green/ESG bond market in Europe showed signs of maturing following unprecedented growth in the number and value of deals since 2018 and a record quarter at the beginning of the year. Overall, 2022 saw a slight decrease in the number of deals, with 286 completed deals compared to 297 in 2021, however green/ESG issuances represented c.29% of total issuances in Europe for the year, compared to c.22% in 2021. Total proceeds for 2022 were higher compared to 2021, despite the reduced number of deals with c.€170bn raised compared to c.€157bn in 2021. This suggests that despite the overall turmoil in the market, investor appetite for green/ESG bonds keeps growing. This year saw the largest green bond issuances in history, with TenneT Holding B.V. issuing c.€3.8bn and c.€3.0bn green bonds in May 2022 and October 2022, respectively.

The spectre of 'greenwashing' remains, and some steps were taken in 2022 to tackle investor concerns and promote transparency. The Sustainable Finance Roadmap 2022-2024 was published this year by the European Securities and Markets Association ('ESMA') and the UK Financial Conduct Authority ('FCA') has proposed adding labels to ESG products to distinguish the level of sustainability. Issuers that do not fit the criteria for the labels would be restricted from using green terminology in their marketing materials. As the sustainable finance market continues to mature, it is expected that regulators will prioritise proposals for stricter regulation around greenwashing.

Outlook for 2023

The unfavourable market conditions in 2022, resulted in some companies delaying their issuances. 2023 started off with strong demand for European corporate bonds, as market sentiment improved and investors sought to take advantage of high yields. We expect that companies needing to refinance existing debt, rather than new issuers, are likely to be the main driver of issuances in 2023.

Central banks raised interest rates at an unprecedented pace in 2022. However, with signs that inflation is cooling, we expect interest rate hikes to slow down in 2023 and interest rates may finally reach peak levels in 2023. We expect that as markets stabilise and there is less volatility, corporate issuances should increase. However, with the threat of a recession looming, investors may still be cautious and worry about the risk of default and therefore avoid companies with lower credit ratings and focus on investment grade bonds, which are deemed less risky.

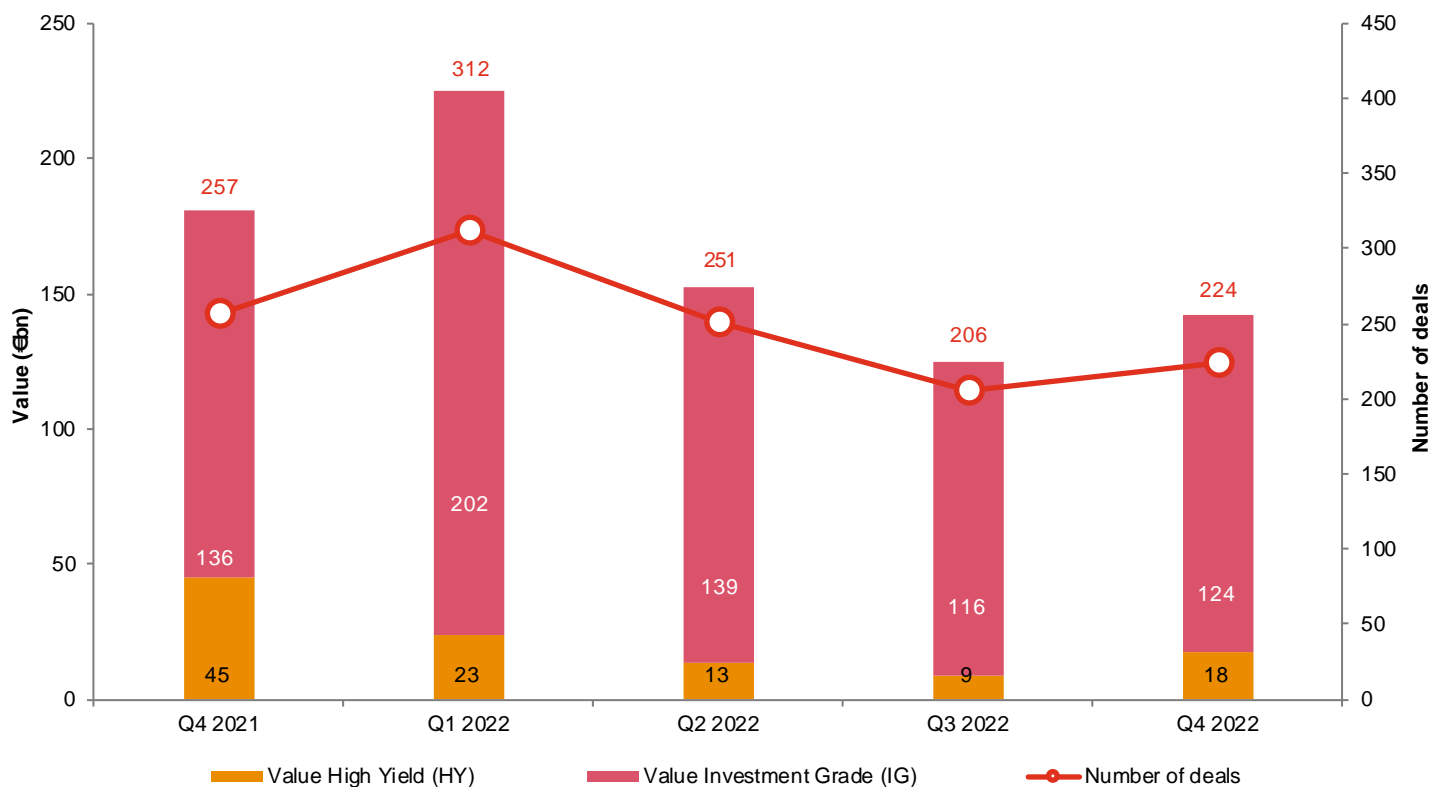
The high yield bond market sprung back to life with Air France-KLM issuing a dual tranche c.€1bn sustainability-linked bond, a three-year and five-year tranche, respectively, which priced on 9 January 2023. Orders exceeded €1.4bn and €1.3bn for the three and five year tranches respectively, demonstrating strong demand in the market. Whilst this may create momentum in the high yield bond market, activity could be dampened by central banks shifting from quantitative easing to quantitative tightening. The ECB outlined its plans to commence quantitative tightening in March 2023 by reducing its monthly reinvestments; this could push bond yields up and increase borrowing costs for issuers as the supply of money and liquidity in the market reduces.

The green/ESG bond market is expected to keep pace with previous years. As this market matures, we expect a greater proportion of total bond issuances to contain a green/ESG element to their offering. It is also expected the 'greenium', which is the discount in yield in green bonds compared to non-green bonds, will shrink as green/ESG bonds become more mainstream across debt markets, and have the same risk profile as regular bonds.

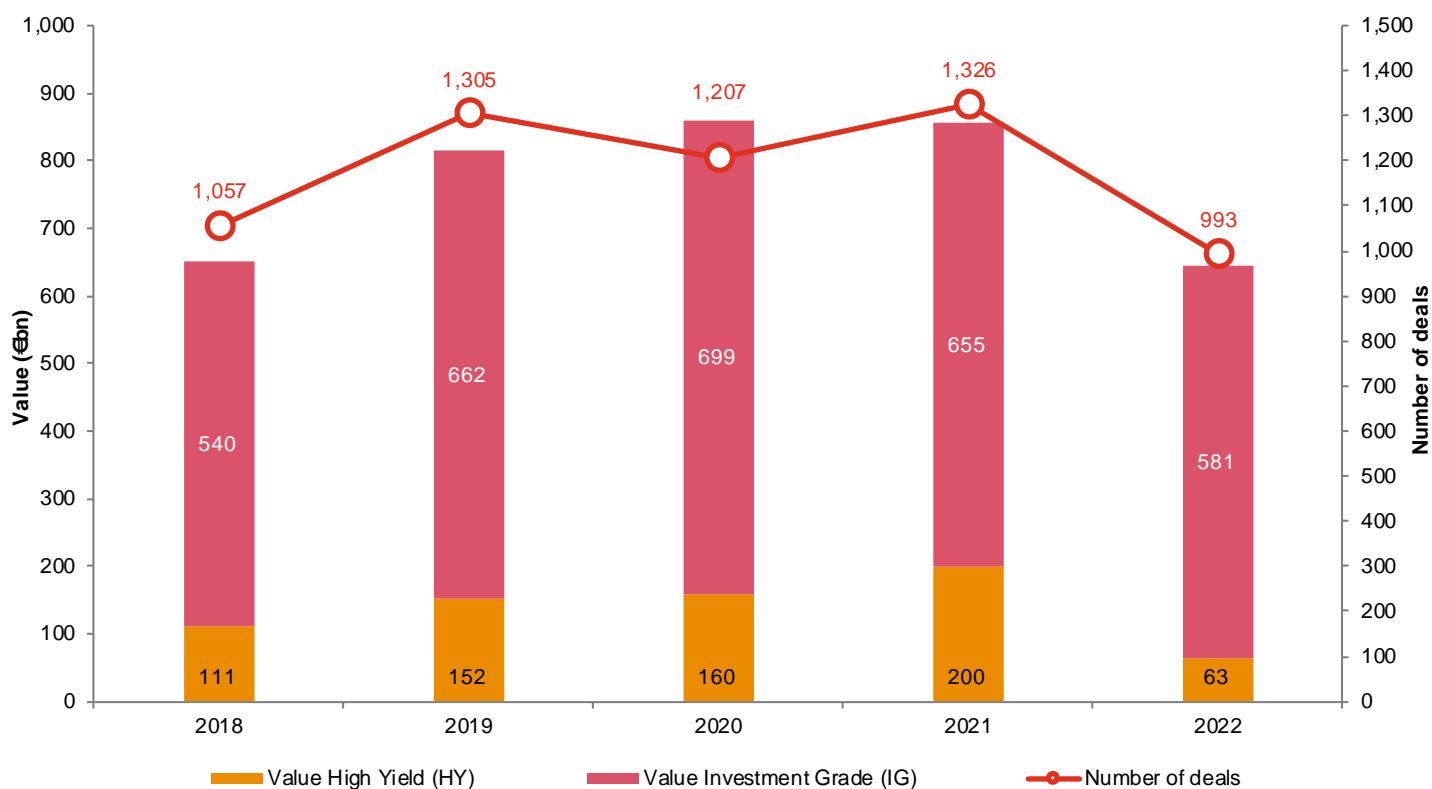


Corporate Debt Activity

Corporate debt activity by quarter

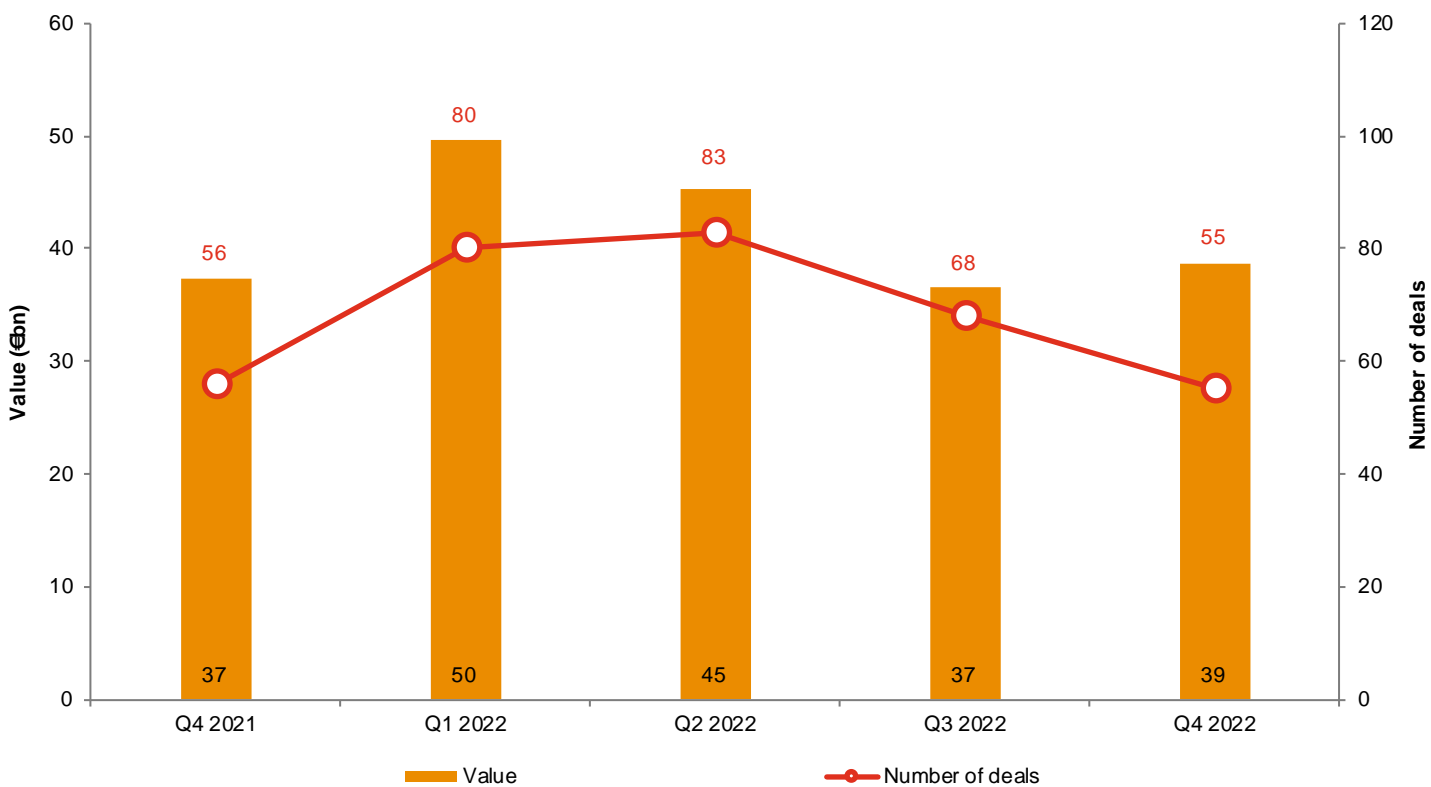


Corporate debt activity by year

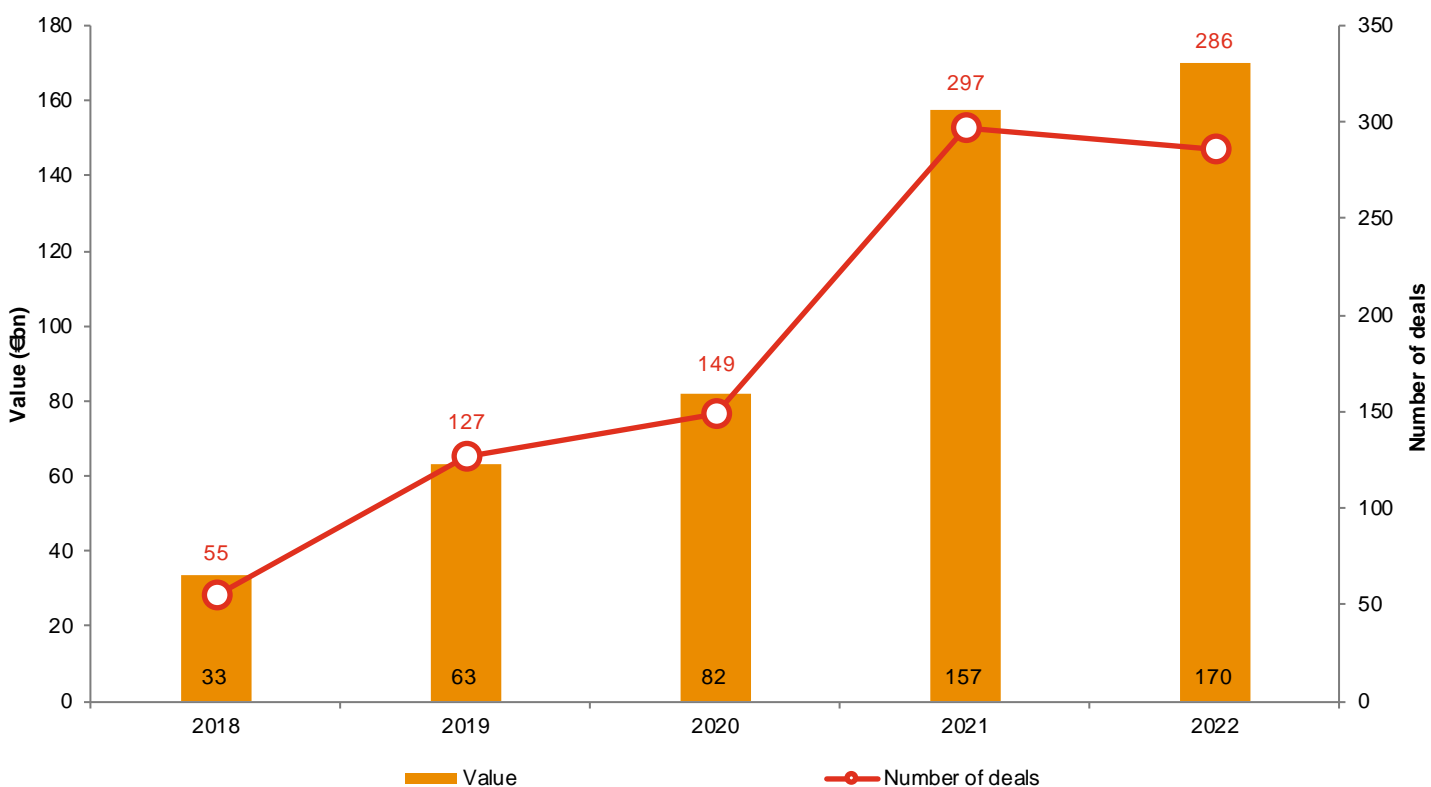


Green/ESG Bonds

Green/ESG bonds activity by quarter*



Green/ESG bonds activity by year*

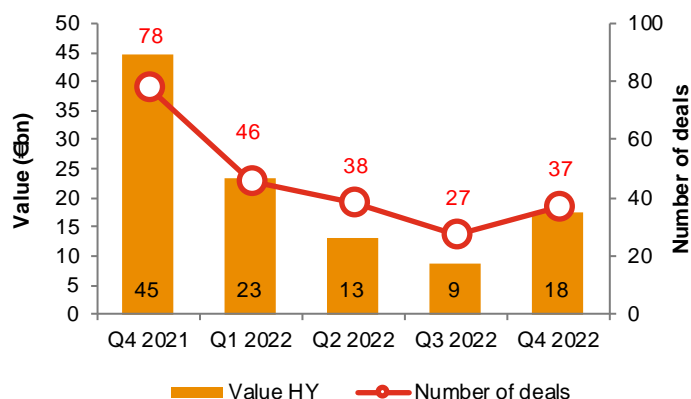


* Green bonds includes Social, Sustainable and Green bonds

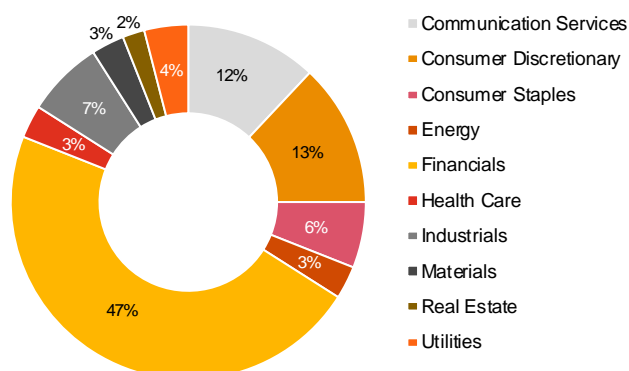
High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



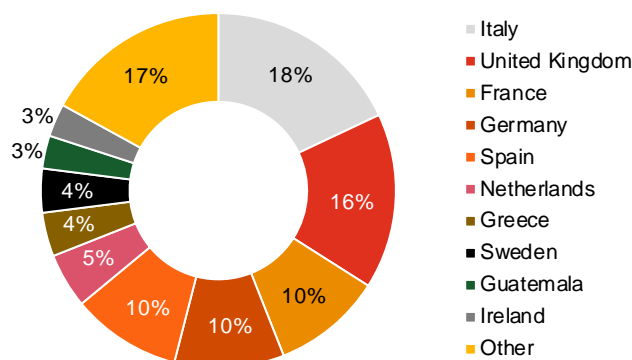
HY by sector 2022



Top ten HY issues 2022

Pricing date	Ten largest HY issues 2022	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jan-22	VZ Secured Financing BV	2,085	Communication Services	TISE-The International Stock Exchange	Netherlands	B+	4.32
Mar-22	Deutsche Bank	1,494	Financials	Luxembourg StockExchange	Germany	BB+	4.08
Jun-22	Barclaysplc	1,453	Financials	London StockExchange	United Kingdom	B+	
Nov-22	Societe Generale	1,449	Financials	Luxembourg StockExchange	France	BB	
Feb-22	Cerved Group SpA	1,395	Financials	Irish Stock Exchange-All Market	Italy	B	6.00
Mar-22	Bayer AG	1,291	Health Care	Luxembourg StockExchange	Germany	BB+	4.98
Nov-22	Deutsche Bank	1,251	Financials	Luxembourg StockExchange	Germany	BB-	
Nov-22	Barclaysplc	1,142	Financials	London StockExchange	United Kingdom	BB+	8.41
May-22	Market Bidco Finco plc	1,136	Consumer Staples	TISE-The International Stock Exchange	United Kingdom	BB-	8.05
Mar-22	Intesa Sanpaolo SpA	1,000	Financials	Luxembourg StockExchange	Italy	BB-	

HY by issuer operations nationality 2022



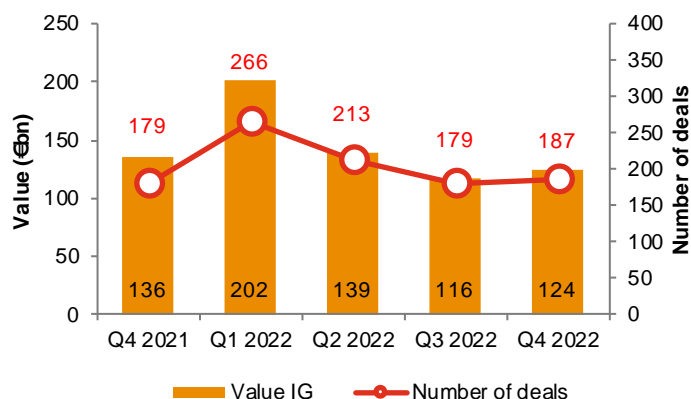
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2022	2022	2021
BB	7.56	5.96	3.19
B	9.30	7.52	5.15
CCC	-	5.37	6.56

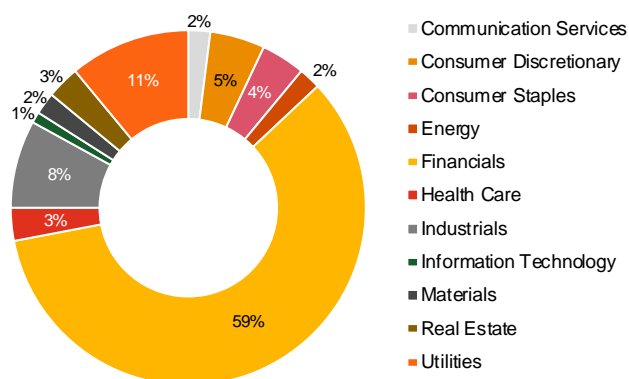
Investment Grade

(Rated BBB- (inclusive) and above)

IG activity by quarter



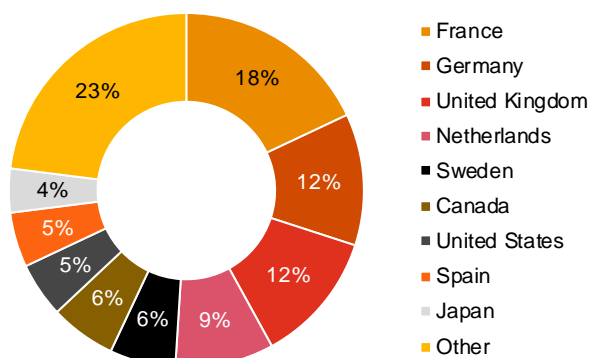
IG by sector 2022



Top ten IG issues 2022

Pricing date	Ten largest IG issues 2022	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Sep-22	MUFG	4,435	Financials	Luxembourg StockExchange	Japan	A-	5.29
Jul-22	MUFG	4,418	Financials	Euro MTLuxembourg Stock Exchange	Japan	A-	4.93
May-22	TenneT Holding BV	3,815	Utilities	Amsterdam	Netherlands	A-	2.33
Mar-22	L'Oreal SA	3,006	Consumer Staples	Paris	France	AA	0.68
Aug-22	Siemens Financieringsmaatschappij NV	2,995	Industrials	Luxembourg StockExchange	Germany	A+	2.66
Feb-22	ING Groep NV	2,987	Financials	Amsterdam	Netherlands	A-	1.57
Mar-22	American Medical Systems Europe BV	2,987	Health Care	Irish StockExchange-All Market	Netherlands	BBB	1.47
Oct-22	TenneT Holding BV	2,984	Utilities	Amsterdam	Netherlands	NR	4.40
Oct-22	Electricite de France SA-EDF	2,977	Utilities	Paris	France	BBB	4.43
Jan-22	Prosus NV	2,869	Consumer Discretionary	Irish Stock Exchange-All Market	Netherlands	BBB	4.15

IG by issuer operations nationality 2022



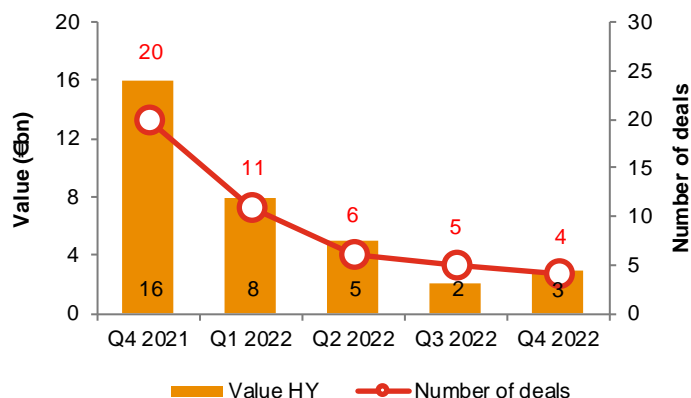
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2022	2022	2021
AAA	4.08	2.92	1.04
AA	3.83	2.72	0.84
A	4.40	3.01	1.00
BBB	5.10	3.48	1.21

UK Focus

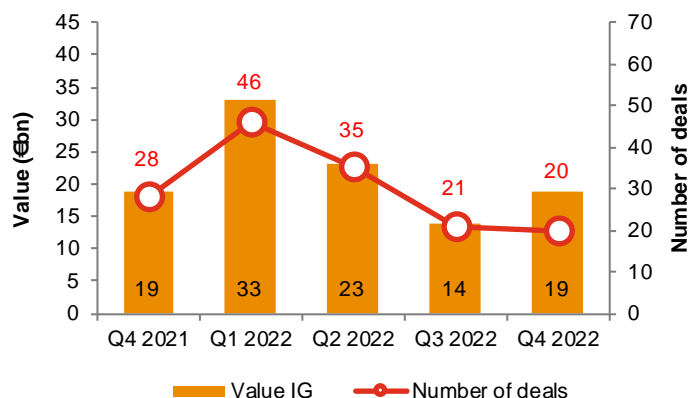
High Yield (rated BB+ (inclusive) and below)

UK HY activity by quarter

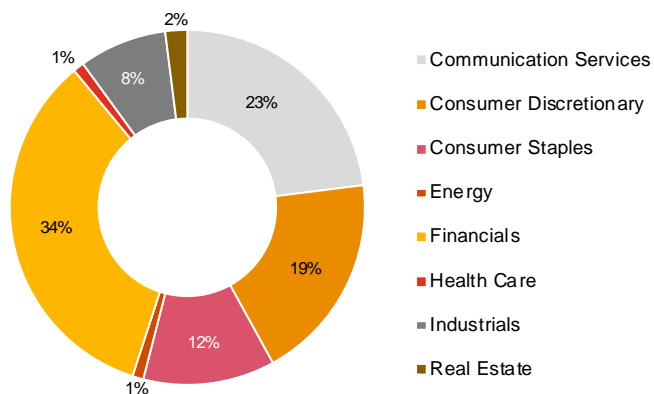


Investment Grade (rated BBB- (inclusive) and above)

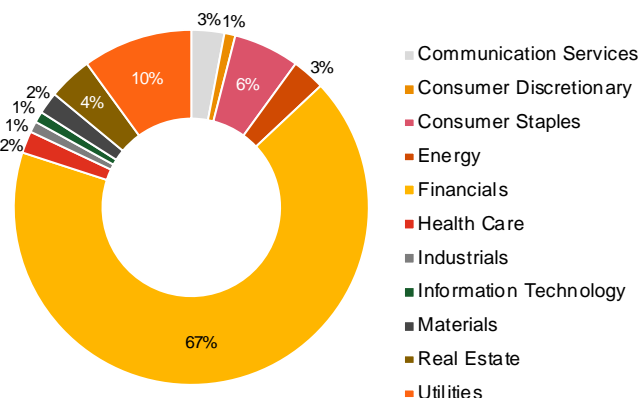
UK IG activity by quarter



UK HY by sector 2022



UK IG by sector 2022



Top five UK HY issues 2022

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Jan-22	VZ Secured Financing BV	2,085	TISE-The International Stock Exchange	B+	4.32
Jun-22	Barclaysplc	1,453	London Stock Exchange	B+	
Nov-22	Barclaysplc	1,142	London Stock Exchange	BB+	8.41
May-22	Market Bidco Finco plc	1,136	TISE-The International Stock Exchange	BB-	8.05
Jan-22	United Group BV	980	TISE-The International Stock Exchange	B	5.25

Top five UK IG issues 2022

Pricing date	Top five IG issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Oct-22	Morgan Stanley	2,750	London Stock Exchange	A-	4.98
Nov-22	HSBC Holdingsplc	2,392	London Stock Exchange	BBB	7.28
Jul-22	Toronto-Dominion Bank	2,250	London Stock Exchange	A	2.84
Jan-22	EIG Pearl Holdings Sarl	2,194	London Stock Exchange	NR	3.97
Oct-22	Diageo Capital plc	2,025	London Stock Exchange	A-	5.38

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 January and 31 December 2022. All market data is sourced from Dealogic and has not been independently verified by PricewaterhouseCoopers LLP.

Data comparability to previous Debt Watch

The 2022 market data in this publication is sourced from Dealogic as at 4 January 2023. Accordingly, there may be differences to Q1 2022, Q2 2022 and Q3 2022 data presented in Q1 2022 Debt Watch, Q2 2022 Debt Watch and Q3 2022 Debt Watch as data was run as at 4 April 2022, 4 July 2022 and 3 October 2022, respectively.

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

Contacts



Sarah Hitchen

Partner & UK Capital Markets Leader
M: +44 (0)7734 958782
E: sarah.l.hitchen@pw.c.com



David Godbee

Partner, Debt & Capital Advisory
M: +44 (0)7740 242013
E: david.k.godbee@pw.c.com



James Millar

Director, Capital Markets
M: +44 (0)7725 706184
E: millar.james@pw.c.com



Anika Shah

Senior Manager, Capital Markets
M: +44 (0)7808 798835
E: anika.r.shah@pw.c.com



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