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JANUARY 2023

THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA

USD 500,000,000
4.375% Due 2026
USD 1,000,000,000
4.500% Due 2028
USD 1,000,000,000
4.625% Due 2033
USD 500,000,000
5.250% Due 2053
Senior Unsecured Green Notes

Joint Green Structuring Bank & Joint Global Coordinator

JANUARY 2023

KINGDOM OF SPAIN

EUR 13,000,000,000
3.150% Senior Unsubordintated Due 2033

Joint Bookrunner

FEBRUARY 2023

SIEMENS

SIEMENS FINANCIERINGSMAATSCHAPPIJ N.V.

EUR 1,250,000,000
3.375% Bond Due 2031
EUR 500,000,000
3.500% Bond Due 2036
EUR 750,000,000
3.625% Bond Due 2043

Sole Global Coordinator & Joint Bookrunner

JUNE 2023

UNIBAIL-RODAMCO-WESTFIELD

UNIBAIL RODAMCO WESTFIELD SE

EUR 1,250,000,000
Any & all par-for-par Exchange Offer on Perp NC23 Hybrid

Structuring Agent & Deal Manager

JUNE 2023

Hyundai Capital

HYUNDAI CAPITAL AMERICA

USD 750,000,000
5.800% Due 2025
USD 750,000,000
5.650% Due 2026
USD 1,000,000,000
5.680% Due 2028
USD 500,000,000
5.700% Due 2030
Senior Unsecured Green Notes

Joint Bookrunner

JULY 2023

//ABANCA

ABANCA CORPORACIÓN BANCARIA, S.A.

EUR 250,000,000
10.625% PNC5.5 year AT1

Sole Structuring Advisor, Sole Dealer Manager (Tender Offer) & Joint Bookrunner

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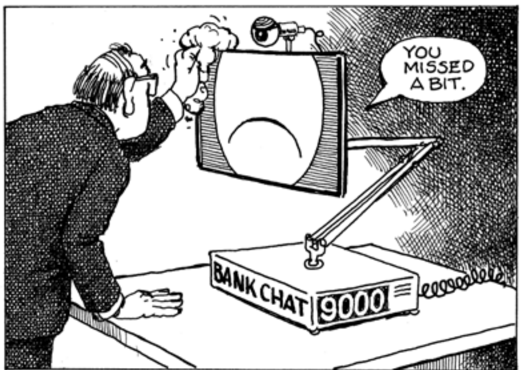

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Delinian Limited
4 Bouverie Street, London, EC4Y 8AX, UK
+44 20 7779 8888

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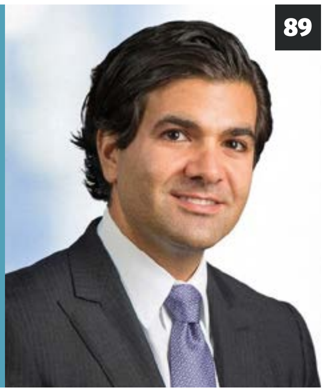
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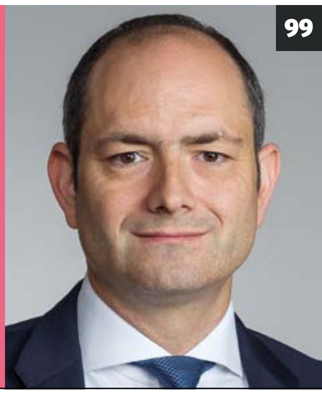
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Who's eating Credit Suisse

When the shockwave set off by the failure of Silicon Valley Bank swept the legs from under Credit Suisse, all the talent and relationships of a big investment bank were up for grabs. UBS has tried to hang on to what it sees as the best bits — but the biggest beneficiaries are likely to be rivals. **Jon Hay** and **David Rothnie** report

The forced rescue of Credit Suisse on March 19, 2023 closed a grand, but battered house on the investment banking street. Not since 2008 with the falls of Bear Stearns, Lehman Brothers and Merrill Lynch have the capital markets lost such an important player.

Since March, rivals have feasted on the wounded body of Credit Suisse. There is a scramble for position in many segments of the markets, but in most of them how the mêlée will leave the relative strengths of competitors will only become clear in 2024, when the process of dismemberment runs its course.

An early guide is which banks have hired potentially decisive talent from Credit Suisse. Santander has recruited dozens of CS bankers including, in November, David Miller, former co-head of investment banking.

But business does not necessarily follow the bankers — there is a lot more to client-bank relationships than that. And new arrivals must fit into the firm. "Santander in the US has gone big," says a senior banker at one rival firm. "It will be very interesting to see — the integration risk is significant from a culture point of view. Good luck to them."

Santander's investment bank has no doubt been urged to pounce by its new group CEO, Hector Grisi, who worked for 18 years at Credit Suisse. However, the bank with first dibs on Credit Suisse was, of course, UBS, which the Swiss regulator asked to consume its stricken rival in March.

Credit Suisse at its end was not what it had been. Once a bulge bracket player in M&A, equities, bonds, leveraged finance, securitization, it had gradually retreated from market after market or been beaten back, buffeted by a stream of scandals that cost the bank money, distracted and disrupted its management, and above all, by its last years, was causing clients to withdraw — the drain that eventually killed it before its bold restructuring plan could be implemented.

UBS did not want Credit Suisse, but when the Swiss government made it take the firm on, it was determined to step out on the front foot. Chairman Colm Kelleher declared, twisting the knife: "This acquisition is attractive for UBS shareholders but, let us be clear, as far as Credit Suisse is concerned, this is an emergency rescue."

The takeover "creates significant sustainable value for UBS", the bank said, while also insisting UBS's strategy was "unchanged".

Nevertheless, it was clear this was going to be an enormous job for UBS, and 10 days later, with the nicest possible words of farewell, CEO Ralph Hamers was ejected in favour of Sergio Ermotti, who had led UBS for nine years from 2011, turning it round after the financial crisis.

Fraternal twins

Since March, Credit Suisse has remained a ship at sea, carrying on business. But at the same time the ship-breaking and recycling has begun.

Unlike many previous bank takeovers — such as Barclays absorbing Lehman's US business or Bank of America swallowing Merrill Lynch — UBS and Credit Suisse are not an obvious good fit for each other.

Despite their evident differences, each firm is the other's closest cognate. Both were Swiss commercial banks that had taken over foreign investment banks, building once expansive, now diminished global investment banking businesses. Both now saw wealth management as their core activity and had striven for years to make cross-selling magic by investing entrepreneurs' wealth and doing investment banking deals for them. Both banks — though latterly with divergent degrees of success — were sparing with capital, reluctant to lend except for a profitable opportunity.

▲ Ralph Hamers: his term as UBS CEO came to an abrupt end after two and a half years in March

Nearly everything Credit Suisse did was therefore something that UBS either also did or had decided it did not want to do. And UBS claimed it did not want to change its strategy. What, then, would it do with Credit Suisse? And what opportunities did this create for rivals?

A secondary priority

UBS has described its plan only in outline, leaving market participants to fill in many blanks as best they can.

It was clear from the outset that, for all the excitement that surrounded two top investment banks combining, the merger has little to do with investment banking.

The term was mentioned only in the seventh bullet point when UBS announced the deal in March. Top

▼ Colm Kelleher, UBS chairman: had to make the best of forced acquisition

of the list was creating a leading global wealth manager with $3.4tr of invested assets in wealth management and $1.5tr in asset management. Next came extending UBS's lead in the Swiss market.

UBS would keep trying to grow in the Americas and Asia while "adding scale" in Europe and cut more than $8bn of annual costs from the combined business by 2027.

As for investment banking, Kelleher made it clear UBS would only be interested in the parts of Credit Suisse which fitted its existing strategy and that it would not be blown off course.

"A focused investment bank" would "support" wealth management. UBS would retain "strategic" banking businesses but sell off most of Credit Suisse's trading assets. In essence, the takeover would allow UBS to accelerate the execution of its strategy by giving it growth through acquisition, rather than organically.

Little detail was given, even to insiders at managing director level, on which parts of investment banking UBS wanted to grow in this way. Observers have been able to work that out over the ensuing months, but more by watching the movements of staff than through anything UBS has said.

One area where the effects are plain to see is the Swiss franc bond market. Transparent, rapid in its activity and enjoying a cyclical boom, the market already shows a clear realignment of market share, with specific rivals having eaten up much of Credit Suisse's once chart-topping business (*see separate section*).

Elsewhere, it is more difficult. Deals take longer to complete, the two Swiss banks' shares are smaller and several markets of most interest to them are depressed. As the EMEA head of capital markets at one rival said of leveraged finance: "They have kept a small presence [from Credit Suisse's franchise] but it's not like we've seen a lot of new leveraged finance deals — it's not like there's a huge dataset to test that."

For UBS, 2024 will be a pivotal year, as integration costs ramp up, while an expected recovery in investment banking activity gives it the chance to show its plan is working. Rivals will be circling, however, ready to swoop on any clients — or bankers — they think they can detach.

▲ Paradeplatz in Zurich: historic home of both Credit Suisse and UBS

Eight months after the takeover, some major themes are becoming clear. UBS is trying to cherry-pick what it wants from Credit Suisse but has been only partly successful.

The exodus of bankers has been immense. In a great many cases, UBS was happy to see them go — it is a lot cheaper than making them redundant. But some stars have also slipped through its fingers. And UBS has also cut jobs at Credit Suisse systematically, moving from office to office.

And even where UBS wants to take parts of Credit Suisse's business flow, it is not clear it has handled the transition in a way that will achieve its goals.

Corporate finance hopes

Announcing the Sfr3bn ($3.4bn) acquisition in March, Kelleher said risk-weighted assets at the combined investment bank would henceforth be capped at 25% of group RWAs. He and Ermotti have reiterated this several times. As of the third quarter of 2023, the actual figure was 19.6%, or 23% excluding the non-core and legacy division.

Before taking over Credit Suisse, UBS was running with this ratio at about 29%, below its self-imposed ceiling of 33%. That suggests the new UBS may not fully use the 25%.

However, if it did, that would enable an expansion of the investment bank's balance sheet, since the group total RWAs will be larger, at $469bn as of September 30, 2023, excluding the non-core division, up from $320bn at the end of 2022.

Kelleher's most clearly revealed priority for the investment bank was to expand corporate finance, especially in north America, an area of weakness since UBS's retrenchment after the financial crisis of 2008.

Corporate finance at UBS, housed within global banking, includes mergers and acquisitions advisory, equity capital markets, debt capital markets and leveraged debt capital markets execution for corporate and financial sponsors. Clients are covered through a matrix of industry and country teams.

Kelleher's words were an acknowledgement that UBS had fallen too far behind in corporate finance and wanted to catch up to the industry average.

Before the merger UBS's corporate finance business produced 15%-20% of its investment bank's revenue, compared with an average of 30% at its rivals.

GlobalCapital understands that by 2026, UBS wants global banking to generate 33% of IB revenues, driven primarily by expanding its US business.

UBS particularly wanted expertise in high growth sectors such as healthcare and technology, industries in which many of its wealth management clients invest and own assets.

With these aims in mind, Credit Suisse had some goodies that whetted UBS's appetite. The strong point of its investment banking and capital markets (IBCM) division was north America, where it made the bulk of its revenues, in particular advising and lending to private equity firms. Its M&A business was stronger than UBS's and its footprint in DCM, including leveraged lending, was bigger.

"Credit Suisse was always more aggressive in leveraged finance than UBS, which would typically participate at a more junior level on transactions," says one private equity executive.

Difficult surgery

But UBS's aspirations in investment banking did not mean it suddenly wanted to become Credit Suisse. Bankers from both firms say UBS took a "surgical" approach to which parts of its rival it would retain.

A UBS source said the firm had not "materially closed" any IBCM businesses. From the moment the deal was signed, UBS working groups were keen to find areas where Credit Suisse staff could plug gaps and cherry-pick whole teams that added to their offering.

But UBS was attempting something difficult: trying to keep selected bankers, while getting rid of most of them. In such an exercise, it is difficult to ensure you keep all the ones you really want.

Moreover, it was trying to perform surgery on a bank that had already started hacking off chunks of itself in 2022, as part of CEO Ulrich Körner's turnaround plan.

Especially after the merger, Credit Suisse's teams and bankers did not stand still waiting to be told whether they had a future at the firm. "UBS handled this transition badly," says a former Credit Suisse banker. "There was radio silence — no one was talking to us."

▲ Ulrich Körner, former CEO of Credit Suisse: his turnaround plan ran out of time and luck

Atlas SP well established after bumper first year

The securitized products business was a jewel in Credit Suisse's crown, which it sold just over a year ago to a consortium led by Apollo Global Management. Renamed Atlas SP, the team enjoys the trust of issuers, despite reservations about its lack of a trading desk, which may soon be added. **Ayse Kelce** reports

Just months before its demise, Credit Suisse sold one of its prize assets in the US — its securitization business. A year on from that separation, Atlas SP has continued the tradition of that team and is firmly embedded in the market.

Credit Suisse sold "a significant portion" of its securitized products group to Apollo and Pimco in October 2022, as it moved to a less capital-intensive strategy. This became the standalone firm Atlas SP in February 2023, with Apollo as majority shareholder.

In June, Apollo announced that Atlas SP, along with Apollo's asset-backed finance franchise, had received capital commitments from a subsidiary of the Abu Dhabi Investment Authority.

In 2022, as Credit Suisse, the group had underwritten 62 RMBS, 28 CMBS and 74 ABS transactions, according to Finsight data.

So far in 2023, up to November 13, Atlas SP has underwritten 10 transactions under the Credit Suisse name and then 58 public or 144A securitizations in its own name. Of these 68, esoteric ABS made up 31, followed by 21 RMBS and some CMBS, student loan and equipment deals.

"We are also incredibly proud of our work since February to originate more than $10bn in new warehouse facilities, and we currently manage nearly 250 warehouse facilities," said a spokesperson for Atlas. "With our ability to offer a best-in-class full suite of lending solutions to originators, servicing about 300 clients across asset classes, our platform is unique, agile and well positioned to be the ideal partner in the market for borrowers, banks and other investors."

Trading places

Sources wonder if — or when — Atlas SP will hire a trading team to support its transactions. While some investors believe it would be an important step, most clients are content with the status quo. A source close to Atlas said there might be a trading desk "sooner or later" but did not say when.

An executive at one issuer that works with Atlas SP on its securitization deals said he knew of plans to hire traders.

"We like the Atlas execution and their thoughtfulness," he said. "We think they are hands down the best team on the street. The only negative is that they do not have a trading desk. That would help us with execution and, marginally, pricing."

Liquidity provision is especially important for esoteric ABS issuers, since their deals are already less liquid than other benchmark sectors, like auto ABS.

"They're a great partner for us," said an official at an ABS issuer who consistently works with Atlas SP. "But anything they do that can expand their capabilities, we'd love to support. I'd love to see them do that."

The Atlas spokesperson said: "Looking ahead, we will continue to focus on our core strengths that have brought us success to date — including the financing, distribution and syndication of transactions during challenging markets and the introduction of new asset classes and inaugural issuers to the market. At Atlas SP, we are just getting started and remain steadfast in our commitment to identify and capture the meaningful opportunities ahead." GC

Rather than make bold, early statements that it wanted to keep certain teams and activities, UBS allowed Credit Suisse to keep haemorrhaging staff.

Just weeks after the deal was announced, Kelleher's pledge to use Credit Suisse bankers to achieve growth in corporate finance appeared to ring hollow when UBS poached a team of senior US bankers from Barclays, led by Marco Valla, its head of technology, media and telecoms and consumer banking.

Valla was appointed co-head of global banking alongside Javier Oficialdegui, who is based in London. "In reality, UBS had little choice, as many of Credit Suisse's senior US dealmakers had either already left, or were weighing offers from elsewhere," says one headhunter.

Nevertheless, when the acquisition was completed in June, nearly 200 managing directors moved from Credit Suisse's investment bank to UBS's, almost doubling its global ranks of MDs. They include markets and global banking staff.

UBS does not give a breakdown but *GlobalCapital* understands about 30 MDs in Europe have moved to UBS's global banking business.

But UBS also implemented a programme of redundancies in July, cutting 200 front office investment bankers globally, including 80 in the UK. *GlobalCapital* understands UBS was working towards cost targets, not headcount numbers, and did not seek to achieve specific ratios of UBS and Credit Suisse staff.

For example, in the week beginning July 31, the axe fell on London, with very severe cuts in capital markets, credit trading and foreign exchange. Chris Tuffey, head of bond syndicate EMEA, Nick Koemtzpoulos, head of EMEA equity capital markets, and Mike Konstantinou, co-head of investment grade credit trading, were all among the managing directors who left.

"It seems UBS really didn't want our global credit product business," said a Credit Suisse banker at the time. "In the US, London and Asia there is a huge amount of overlap. We were hoping there would be

Scramble for lively Swiss franc business

Rarely have two investment banks dominated a market as Credit Suisse and UBS did the Swiss franc bond market. So, when they merged, a huge opportunity opened up for rivals. As **Sophie Astles** reports, there have been three early winners.

The collapse of one of the Swiss franc bond market's two leading bookrunners in March 2023 has created a once-in-a-career shake-up. Credit Suisse had been the top underwriter, regularly heading the league table for almost 30 years.

Despite some initial investor anxiety, the failure of Credit Suisse has not reduced the popularity of issuing bonds in Switzerland. Up to November 9, Sfr62bn had been issued in the year, surpassing the Sfr60bn in the whole of 2022.

But when it comes to who will intermediate access to the market, Credit Suisse's demise has dramatically changed the landscape.

In the 15 months to the end of March 2023, Credit Suisse had a 26% share of Swiss franc bond bookrunning, surpassed only by UBS on 28%.

In just over seven months since then, Credit Suisse's share has shrunk to 8%. Either because it has not wanted to or because it has been unable to, UBS has picked up only five percentage points of the slack — rivals have between them snapped up 13 percentage points of extra market share.

Leaving aside Schwyzer Kantonalbank, which has led just one large deal and a small one for itself, the spoils have overwhelmingly gone to three banks. BNP Paribas appears to be the biggest winner. It grew its slice of the market from 3% in the previous period to 8.5% from April 1 to November 7, taking it from seventh to fourth in the league table.

Though it has not risen from eighth in the league table, Commerzbank's share has soared from 1.6% to 6.2%. Deutsche Bank has also stayed put at sixth, but grown from 4.6% to 7.1%.

Where are they now?

Philosophy students learn about the Ship of Theseus, an ancient conundrum: if an object has had all its parts replaced, is it still the same object?

With Credit Suisse, many of the bankers who ran its bond franchise have gone — notably, to the firms that have benefited from its exit.

BNP Paribas rehired its former employee Damien Aellen from CS — he joined in August as head of Swiss franc syndicate in Zurich. Rosario Clemente, former CS co-head of debt capital markets Switzerland, arrived at Deutsche Bank as head of DCM Switzerland in October, while ZKB added Benjamin Heck to its Swiss DCM desk in January.

But bond mandates, for corporates at least, are linked to banking relationships, so it will take the banks work behind the scenes as well to win some of this business.

The head of capital markets at a major bank in London said there were two angles: "International corporates where Credit Suisse was in the banking group, and domestic Swiss corporates, which might need a bit of support."

A banker in Switzerland points out that before, there were two domestic players covering both the domestic and international aspects, but "now you just have UBS doing it intensively".

BNP Paribas, Commerzbank and Deutsche Bank participate in the domestic market, but "selectively in the large cap deals" rather than covering the entire market, he says. Meanwhile, Raiffeisen Schweiz and ZKB tend not to do international deals. This does give UBS an advantage: for the time being, it is the only firm active in the full breadth of transactions and has the best view on the flow.

All the Swiss franc bond banks surveyed by *GlobalCapital* in November agreed they had gained at least some market share since the Credit Suisse collapse, and many sensed an opportunity to strengthen their presence further. The

> *Continued overleaf*

some meritocracy in the cuts — some from us, some from UBS, but some of the best talent kept — but that doesn't seem to have been the case. Credit Suisse bankers have just been completely taken out."

Many more took the hint and headed for the exits. Deutsche Bank, Santander and Jefferies all completed 'team lifts' of CS bankers.

Bigger or smaller?

On November 8, UBS reported its first set of results that combined the two investment banking divisions. UBS will announce a new group strategy in February 2024, but Ermotti stuck to Kelleher's mantra that there would be "no change" at the investment bank.

Investment bank assets: glass half full or half empty?

Unit: $bn except where %	June 30, 2023 Credit Suisse	June 30, 2023 UBS	June 30, 2023 Combined UBS as restated in Q3 results to reflect takeover	September 30, 2023 UBS	September 30, 2023 Change from UBS in June (%)	September 30, 2023 Change from UBS + CS in June (%)
Risk-weighted assets	39.5	91.5	*107.3*	107	17	-18
Banking products	56.8	69.1	*91.5*	93	35	-26
of which loans and advances to customers (on balance sheet)	6.2	12.8	*17.3*	16.2	27	-15
of which guarantees and loan commitments (off balance sheet)	47	13.4	*36.6*	37.9	183	-37
Traded products in IB and group functions (and, for September, Non-core and legacy)	5.2	33	*49.1*	52.5	59	37
Other credit lines	0	5.4	*5.4*	4.6	-15	-15

Source: UBS quarterly reports, GlobalCapital analysis

< Continued from previous page

Swiss market is expected to enjoy another standout year in 2024 and rivals are eager to compete for the business.

Deutsche Bank said when it hired Clemente that it wanted to "further increase its market share in the Swiss franc debt capital markets for domestic and international issuers". It has also made further hires in origination and syndicate.

Aellen at BNP Paribas told *GlobalCapital* that players that "have been there and prominent for a long time and shown their commitment" are well placed to grow in the wake of Credit Suisse's disappearance.

Basler Kantonalbank recently hired Richard Bärlocher from UBS to take over managing its Swiss bond issuers, from January 2024. This signifies its commitment to increasing its share in the market, especially new issues.

Competition hots up

Borrowers have noticed the changes. Petra Mellor, head of bank debt at Nordea in Stockholm, has observed "a few banks are coming in that have hired more personnel to strengthen their Swiss platform."

Manuel Valdez, head of DCM funding and derivatives at Corporación Andina de Fomento, said that when it works with BNP Paribas and Deutsche Bank, it is "often working with the same people, so that's helping [those banks] build a base. They are ex-Credit Suisse, so they know the market."

UBS's popularity has in no way diminished and it is still clearly considered the market leader. However, Jens Hellerup, head of funding and investor relations at Nordic Investment Bank, acknowledges that "there are other domestic and international banks hitting the same investors and who know who is buying the [issuer] name. UBS is a player, but I don't think they can expect to be the leader and the immediate choice. They need to be as active as the others."

Mellor sees the Swiss market as a "little more specialised" and, historically, with fewer banks competing. "The disappearance of Credit Suisse has opened up the door for more banks to enter," she says.

She welcomes the prospect, as having more than one bank supporting a trade can help with liquidity and flows in the secondary market.

Around the world, issuers are experiencing greater competition for their Swiss franc funding business. Wojtek Niebrzydowski, vice-president of global term funding at CIBC in Toronto, said the bank had received a "few inbounds from one or two other non-Swiss banks that are active in the market. Although we know that they have been active for a while, this is really the first time we've noticed they've been reaching out and flagging their capabilities."

For CAF, league table position is a key factor when choosing a bookrunner. "Credit Suisse and UBS have dominated but you can see from our recent transactions that we have been trying to expand our bench a little," Valdez says. "We have a policy of rotation, so the more banks to participate the better."

Like many international issuers, CAF swaps its Swiss franc bond proceeds to dollars. Credit Suisse's exit has "required us to branch out a bit more in looking for swap counterparties," Valdez says. "We are looking to who is relevant and competitive in Swiss francs and it will be important to have more swap counterparties with ISDA agreements so they can fulfil this part of the process."

Lots to play for

BNPP, Deutsche and Commerzbank may have been the early winners, but there is still much to play for. Others are likely to try and break in, and there is still Credit Suisse's remaining 8% share to squabble over.

Credit Suisse had left a "vacuum play and we are seeing international banks looking to come up with proposals," says Valdez.

So are local banks. The Kantonalbanks have "definitely brought a new of element of investors" to transactions, Valdez adds. "We are seeing more corporate investors [on deals], that we hadn't seen with Credit Suisse and UBS. The experience has been great."

A corporate DCM banker in western Europe said he had noticed "three or four banks, especially through October when markets were weak, that have explored or been involved in Swiss franc transactions that would have been the preserve of UBS and Credit Suisse previously. A couple of banks that you'd have thought would never even have considered the Swiss franc market are now thinking: 'should I get into it?'"

He said he thought "the competition for capital markets business in Europe and dollars is as fierce and intense as ever, and the number of banks on a euro deal seems to be growing every year. As I've joked, global coordinator is the new active and active is the new passive."

French and southern European companies particularly tend to use

However, the strategy does seem to allow for some expansion, even in balance sheet.

UBS's investment bank at the end of 2022 had $93bn of RWAs, 29% of the group total. That can be compared with the $150bn of RWAs in Deutsche Bank's investment bank in 2022 and Barclays' $271bn, at today's exchange rates.

Under Kelleher's pledge to limit investment banking RWAs to 25% of the total, UBS's investment bank, of which global banking is a subset, would be able to carry a maximum of $137bn of RWAs, an increase of 47%, based on the September 2023 total RWA figure of $547bn.

If, as seems likely, the target is meant to exclude the $78bn of RWAs in the non-core and legacy division, the ceiling for the investment bank would be $117bn, still a 26% expansion.

However, UBS has a track record of keeping below its self-imposed ceiling, and at the end of the third quarter investment banking RWAs totalled $107bn, up $15.5bn since June.

UBS revealed that it had taken on just $12bn of RWAs from Credit Suisse's investment bank, which at the end of June had $40bn. As shown in the table, UBS IB's banking products have increased by $24bn in absolute, not risk-weighted, terms since June, or 35%.

Leeway in levfin

One area where some extra lending capacity may be used is leveraged finance. UBS has no intention of becoming a big player, but it sees an opportunity to selectively scale up its activity as dealmaking returns.

"The integration of Credit Suisse gives us a bigger loan book and provides us with more firepower to use with our clients," says Simona Maellare, global co-head of UBS's alternative capital group, which covers private equity firms.

Credit Suisse was a lender to several of the portfolio companies owned by UBS's private equity clients, so it can take this chance to deepen those relationships.

"To really optimise our sponsor focus, it comes back to a cohesive approach across sponsors, products and industry," says Terry Sullivan, co-head with Maellare. "When we commit our resources, we want to make sure we have all those touch points."

To that end, UBS has taken on some of Credit Suisse's leveraged finance leaders. Marc Warm, who had been Credit Suisse's global co-head of leveraged and debt capital markets in the US, is now joint head of UBS's leveraged capital markets (LCM) and DCM businesses with David Slade in London, who had been running them solo for UBS.

In Europe, the merged LCM business is run by UBS's Oliver Gaunt and Abudy Taha. But since the takeover, the team has grown from 25 to around 40 and it now has more capital firepower.

However, several senior members of Credit Suisse's leveraged finance team have moved to Santander, including Eduardo Trocha, who ran European leveraged finance.

Some are sceptical that UBS will make much of a splash. "When it comes to areas like leveraged

> *Continued on page 12*

What UBS is getting rid of

Assets in the Non-core and Legacy division, as of June 30, 2023 ($bn)

Source		Instrument	
Old UBS non-core	6	Equities	22
Wealth and Asset Mgmt	10	Macro	32
Credit Suisse Inv Bank	114	Loans	27
CS Capital Release Unit	94	Securitized products	38
		Credit	22
		High quality liquid assets and other	84
Total	**224**		**224**

Source: UBS quarterly report, as of June 30, 2023

large syndicates of active bookrunners, several of which are global coordinators.

"To be active on a €500m bond with eight other banks, or to go and do a Sfr400m deal with one or two other banks, from a league table and fees perspective is very similar," the banker says.

Since April, Scotiabank, TD, BMO, Goldman Sachs, NatWest, Crédit Agricole and Danske Bank have all bookrun small quantities of Swiss franc bonds.

The banker adds: "There might be some tier two or three banks competing to be the fourth or fifth bookrunner on a euro bond, that think: 'why don't we look at whether we can distribute into Switzerland, and benefit from Credit Suisse not being around?'" GC

UBS, BNP Paribas, Deutsche and Commerzbank the big winners as Credit Suisse shrinks

Bookrunners of Swiss franc rank-eligible bonds

January 2022 to March 2023

Rank	Bookrunner	Value (Sfr m)	Market share (%)
1	UBS	22,326	28.3
2	Credit Suisse	20,758	26.3
3	Zürcher Kantonalbank	10,633	13.5
4	Verband Schwzr. Kantonalbanken	8,876	11.2
5	Raiffeisen Schweiz	5,254	6.7
6	Deutsche Bank	3,643	4.6
7	BNP Paribas	2,398	3.0
8	Commerzbank	1,287	1.6
9	Basler Kantonalbank	947	1.2
10	Luzerner Kantonalbank	557	0.7
	Other foreign banks	1,277	1.6
	Other Swiss banks	1,015	1.3
	Total	**78,970**	**100.0**

Source: GlobalCapital analysis of Dealogic data

April 1 to November 7 2023

Rank	Bookrunner	Value (Sfr m)	Market share (%)
1	UBS	14,246	33.0
2	Zürcher Kantonalbank	5,373	12.5
3	Verband Schwzr. Kantonalbanken	4,185	9.7
4	BNP Paribas	3,688	8.5
5	Credit Suisse	3,618	8.4
6	Deutsche Bank	3,069	7.1
7	Raiffeisen Schweiz	2,751	6.4
8	Commerzbank	2,690	6.2
9	Schwyzer Kantonalbank	1,100	2.6
10	Basler Kantonalbank	498	1.2
	Other foreign banks	1,100	2.6
	Other Swiss banks	849	2.0
	Total	**43,168**	**100.00**

Banks whose market share has grown at least 2 percentage pts

Credit Suisse: the people shop

Even before Credit Suisse went down, rivals were hiring some of its most experienced staff. Once UBS took it over, shopping for CS bankers went into overdrive with competitors poaching whole teams and individuals at a pace not seen in years. **John Crabb** illustrates the investment banker sale of the century with analysis of *GlobalCapital*'s People Tracker

▲ David Miller

SANTANDER

Santander has gone in hardest to hire Credit Suisse bankers since its collapse. The vast majority have arrived in New York, where Santander wants to expand in investment banking. Many of the recruits are leveraged finance and industry bankers, including some prominent names, right up to **David Miller,** CS's co-head of IB in New York, who will be vice-chair of IB. **Steve Geller,** global head of M&A, has chosen Santander; along with **David Hermer,** becoming head of Santander CIB US; **Jeff Cohen** and **Jon Moneypenny,** global co-heads of leveraged finance and private credit; and **Max Lipkind** and **Jonathan Singer,** co-heads of lev fin origination.

Rob Kay was chosen to be global head of debt syndicate, with **Aaron Tighe** leading emerging market sales. Other group heads in New York include **Tom Davidov** (financial sponsors), **Dean Decker** (real estate), **Bill Raincsuk** (TMT), **Rob Santangelo** (energy), **Steve Schwartz** (US healthcare services) and **Sebastian Erik Barleben** (mobility).

Santander also picked up **Leonardo Cabral** in São Paulo to run its Brazilian investment bank, plus **Bruno Fontana** and **Roberto Bruno** on financial sponsors. **Gaurav Arora** came in sales and credit derivatives trader **Basile Delaville** joined in Madrid, with **Madeleine Lapworth** a FIG DCM hire in London.

JEFFERIES

The ambitious New York-based dealer has been ripping into Credit Suisse for years. In 2021 it hired **Alejandro Przygoda,** CS's global head of FIG investment banking, and its European FIG banking team led by **Armando Rubio-Alvarez** in Madrid. **Samir Dhanani** became head of FIG DCM and solutions and **George Maddison** chair of European and UK FIG. **Marco Staccoli** and **Samie Zare** were other prominent FIG MDs who switched in London, as did **Carlos Marque, Fitzgerald Woolcott** and **Henry Kong** in New York. In late 2022 Jefferies also took an entire team in Italy, led by **Andrea Donzelli** and **Paolo Celesia.**

In summer 2023, **Dan Claster** and **Andrew Wilbur** joined, bringing a team of around 20 bankers who raise funds for PE and private debt firms on both sides of the Atlantic. **Jon Gegenheimer,** a technology M&A MD, joined in San Francisco.

Rehan Anwer arrived to be co-head of Asia investment banking, bringing a team of around 20 bankers.

DEUTSCHE BANK

Germany's flagbearer has hired around 40 former CS bankers globally and is the biggest beneficiary in the EMEA region. **Saad Osseiran** switched in Dubai, becoming head of Middle East private banking, bringing with him a regional team.

DB made a raft of high profile hires in London, including **Christopher Williams,** FIG chairman; **William Mansfield,** CS's head of M&A EMEA, as M&A vice-chairman; **Rumesh Rajendram,** head of EMEA consumer and retail M&A; **Freya van Oorsouw,** co-head of global financial sponsors; **Martin Blanquart,** head of EMEA technology IB; and **Dimitris Papadopoulos,** head of euro CLO primary.

In New York, Deutsche poached a LatAm team of five, led by **Javier Vargas,** head of Latin America IB and capital markets, and comprising head of M&A **Nicolas Camacho,** MDs **Juan Pedro Hernández Olano, Manuel Gonzalez Spahr** and **Jaime Stiglich.** DB's private bank also established a LatAm desk in Switzerland, hiring **Arlene Schuchard Steffen** to run it.

Other hires in Credit Suisse's homeland include **Rosario Clemente** as head of DCM Switzerland, and **Joanne Hannaford,** chief technology and operations officer, to lead an automation drive. In Hong Kong Deutsche hired **Joe Lai,** chairman of origination and advisory, Asia, and **Nora Yeung,** co-head of Asia Pacific ECM.

▲ Cathal Deasy

BARCLAYS

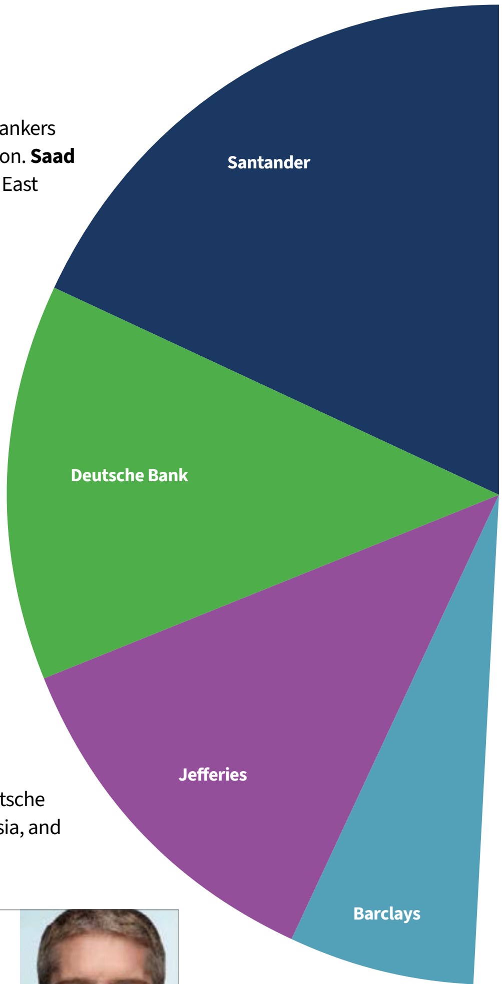
Although Barclays has hired fewer than some of its rivals, they have been prominent bankers. The UK bank hired **Cathal Deasy,** co-head of IBCM at Credit Suisse, in January to co-head its investment bank in London.

Christopher Ludwig, CS's global head of shareholder advisory, who advises on takeover defence, joined in New York and **Tom Vignon,** head of the financial sponsors group in EMEA, came in London. Other big moves were industrials bankers, **Spyros Svoronos, Yuri Shakhmin** and **Srikanth Chakka** joining in New York, London and Mumbai. **Sameer Sood,** India advisory lead, also arrived in Mumbai.

BNP PARIBAS

The French bank has made some selective hires from Credit Suisse. **Julie Edinburgh,** an experienced MTN and private placement banker, is structuring debt products within global markets. **Isla Fletcher** joined in corporate DCM and **Josh Farber** brought a team to manage credit strategy.

Damien Aellen joined in Zurich as head of Swiss franc syndicate and **Michael Romanowski** joined as an MD in credit sales.



RBC CAPITAL MARKETS

Most hires have been in the US, and largely in equities. **Mike Heraty** joined as head of US equity solutions and structured product sales, **John Hoffman** as an MD in ECM, both in New York. **Tim Perry** joined as vice-chairman of global energy in Houston, where UBS shut the Credit Suisse office this year.

In London, **Marc Sánchez Roger** became head of European financials credit sector strategy and **Charles Cooper** an equity sales director.

WELLS FARGO

Wells scooped several high profile bankers in the US. Perhaps most prominent is **Jill Ford,** who joined as head of ECM in New York. **Rebecca Kotkin** joined the same team, while **Justin Sterling** became head of tech ECM in San Francisco. **Malcolm Price** became head of financial sponsors and **Brian Gudofsky** head of TMT, in New York, while **Michael Kamras** will run gaming and lodging.

STANDARD CHARTERED

Two high profile LatAm appointments in New York were **Dennis Eisele**, who became head of global credit market financing for Latin America, while **Diego del-Castillo-Negrete** is an executive director in LatAm global credit markets. **Eugene Klerk** joined as head of ESG research in London and **Warren Young** as COO of financial markets in Singapore.

GlobalCapital PEOPLE TRACKER

globalcapital.com/data/people-tracker

MIZUHO

The Japanese bank hired 20 traders, mostly in New York, including **Serena Lin** as head of agency mortgage pass-through trading, **Anthony Buffone**, agency mortgage trading, **Vipul Jain** and **Lyndon Pereira. Katie Karoll Lavino** joined as MD, investment grade syndicate, and **Francis Teo** in CLO structuring, while **Eralda Tirana** became head of FIG DCM EMEA in London.

EVERCORE

The boutique investment bank hired a telecoms team from Credit Suisse, led by senior managing directors **Giuseppe Monarchi** and **Laurence Hainault** in London and Paris and **Francesco Gurrieri,** an MD in London. **Michael Binetti** also joined in New York as a senior research MD covering retail.

SMBC

Josh Presley, a CS syndicate MD, became head of debt capital markets EMEA in London. SMBC also opened its first Washington office to focus on US policy and regulation, hiring **Randy Ross** and **Althea Pieters. Matthew Grinnell** became head of global sponsor coverage in New York, **Junwei Wu** head of structured credit for APAC.

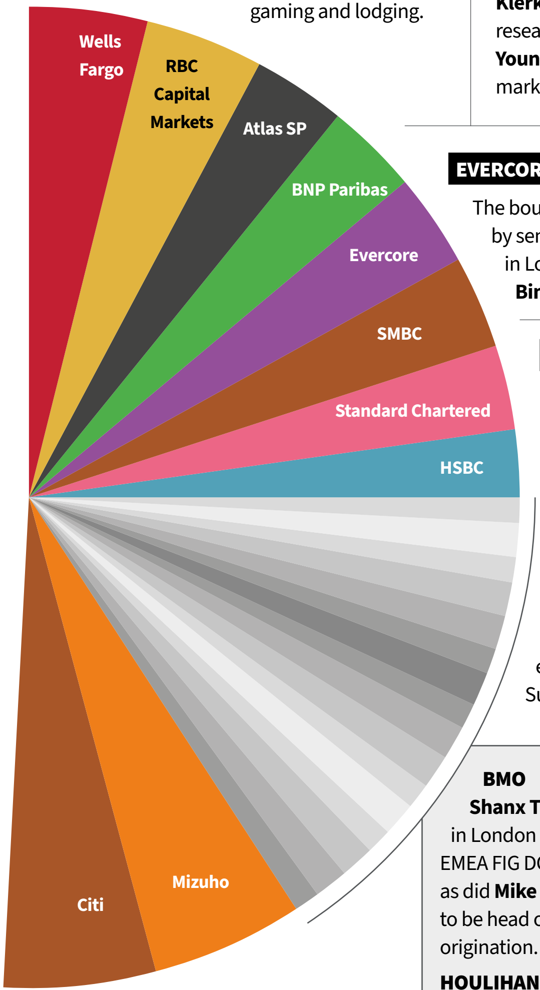
HSBC

Hired **Simon Farquharson** in London to lead equity sales trading, bringing eight bankers with him. **Jasper Reiser** came as head of equity private placements EMEA. **Aladdin Hangari**, CEO of Credit Suisse Qatar, arrived to head global private banking MENA.

ATLAS SP

Apollo bought a chunk of Credit Suisse's securitized products group in 2022, which became the standalone firm Atlas SP in February 2023. It is led by CEO **Jay Kim** in New York and **Jason O'Brien,** head of a smaller EMEA unit in London.

▼ Jay Kim



CITIGROUP

Citi took a handful of senior CS bankers, notably **Jens Welter** to be co-head of banking, capital markets and advisory, EMEA, in December 2022. **Scott Bardo** joined as an MD in investment banking, and **Greg Dalle** became co-head of industrials. **Julia Frank** made the move to be MD of loans and leveraged finance in Frankfurt, while **Maarten Swart** became co-head of EMEA BCMA consumer and retail, and **Sophie van Kleef,** joined as an investment banking MD in Amsterdam.

BMO
Shanx Tandon joined in London as head of EMEA FIG DCM syndicate, as did **Mike McCormick** to be head of EMEA FIG origination.

HOULIHAN LOKEY
Levfin banker **Julia Perroni** joined as head of French capital markets.

HUDSON ADVISORS
Sponsors banker **Pawel Kowalski** joined the adviser to Lone Star as an MD in London.

JOHN LAING
The UK infrastructure investor hired head of infra M&A **Luke Gorton** as head of Europe in London.

KNG SECURITIES
Omar Ghalloudi was hired as head of EM trading.

MACQUARIE
Dragi Ristevski, head of IB in Australia, joined to head financial sponsors Apac in Sydney.

MORGAN STANLEY
Two high profile appointments in Stanley's investment banking team: **Gillian Sheldon** to be vice-chair of IB in London and **Ryan Bondroff** as head of US healthcare IB.

MUFG
Robert Ellenbogen joined as senior leveraged credit analyst in New York.

NATWEST MARKETS
In a high profile move, **Scott Roose** became head of US capital markets as NatWest seeks to expand in New York.

NOMURA
Shrey Ginoria joined in EMTN and rates structuring in London, **Christian Brucher** was hired to head transport and logistics at Nomura Greentech in Paris.

PERELLA WEINBERG
Friedrich von Schwedler joined the Munich office as an MD in European healthcare.

PIPER SANDLER
Brent Robbins, CS's head of US and global equity sales, became head of UK and European equity sales in London.

PJT PARTNERS
Elisa Bianco joined as an MD in luxury consumer in London while **David Wah** switched as a technology banker in San Francisco.

ROTHSCHILD & CO
Gaurav Parkash, a CS MD, became co-head of UK FIG.

SCOTIABANK
The Canadians got **Dimitri Reading-Picopoulos** to join as head of EMEA metals and mining in London and **Ben Gohman** as head of non-investment grade finance and capital markets in New York.

SHUAA CAPITAL
The Dubai investor secured **Wafik Ben Mansour** as head of IB.

TD COWEN
The Canadian investment bank hired **Tucker Martin** as an equity-linked MD in New York.

UNIVERSAL INVESTMENT
Former Bank of Ireland chief **Francesca McDonagh,** latterly group COO of Credit Suisse, joined the investor in Switzerland as CEO, despite having been widely tipped to take the top job at NatWest.

▲ Francesca McDonagh

< *Continued from page 9*

finance, the leading players will become more dominant," says the head of investment banking at a rival firm. "Leveraged finance is one of those areas where incumbency is an advantage."

ECM add-ons

In ECM, both Credit Suisse and UBS had been in multi-year declines, in a tough market. The two banks' market shares in global ECM, added together, had fallen from 7.9% in 2016-19, which would have made them the top bookrunner, to 6.9% in the next three years, 3.9% in 2022 and 2.7% this year, though this year's seventh position in the league table is one up from last year.

UBS had cut ECM jobs in EMEA only in April. Yet it has added staff from Credit Suisse in France and the UK, while in the German-speaking region it has made senior hires for equity-linked and cash coverage.

Omri Lumbroso, former head of UK ECM at Credit Suisse, has been appointed co-head of UBS's private placements team, a business it wants to grow, which connects closely with wealth management.

As for its regional emphasis, UBS has moved quickly to retain Credit Suisse's investment bankers where it sees most potential: north America, the UK, Germany, Switzerland, the Middle East and north Africa, India and southeast Asia.

The UK is a traditional area of strength for UBS, but it has also taken on two thirds of Credit Suisse's investment banking team — around 20 people — and appointed Jonathan Grundy, a Credit Suisse veteran, to run it alongside David James.

Not only does the UK hold Europe's biggest investment banking fee pool, but there is limited overlap between the two firms. UBS is strong in corporate broking while Credit Suisse is bigger in M&A.

UBS has increased its M&A team, where it has been underweight, with appointments in London from Credit Suisse including Stephen Pick, Ben Deary and Joe Hannon. Deary and Hannon both specialise in the UK.

In its sector teams, UBS has added Credit Suisse bankers in several groups. They include insurance specialist Kristian Triggle; Julien Lamm, Credit Suisse's co-head of financial institutions EMEA in Paris;

Covered bonds excluding Swiss francs

	2019-21		2022-March 2023		April-Nov 2023	
	Bookrunner league table rank	Market share (%)	Bookrunner league table rank	Market share (%)	Bookrunner league table rank	Market share (%)
Credit Suisse	15	2.82	26	1.49	0	0
UBS	13	2.99	18	2.31	22	2.07
combined (pro forma in italic)	*1*	*5.83*	*8*	*3.81*	22	2.07

Source: GlobalCapital analysis of Dealogic data

Marc Schmidt, CS's former co-head of TMT EMEA; and Kyle Berry, an expert in business services.

One plus one equals...

For January-September this year, the merged UBS ranked seventh in Dealogic's global investment banking fee league tables. UBS is back in the bulge bracket, from which it had slipped. But that rests just on adding the two former banks' revenues together: it does not mean they can keep up the pace. Worse: in the same period of 2022, Credit Suisse plus UBS would have ranked fifth.

When the dust has settled, the combined bank may turn out to be less than the sum of its parts. UBS, after all, is going selectively for quality in its chosen areas, not bulk.

As one UBS banker admitted: "One and one doesn't make two."

Above all, UBS is pursuing the elusive goal of strengthening synergies between its corporate finance business and the ultra-high net worth individuals served by wealth management — just like JP Morgan, Goldman Sachs and many of the other leading investment banks.

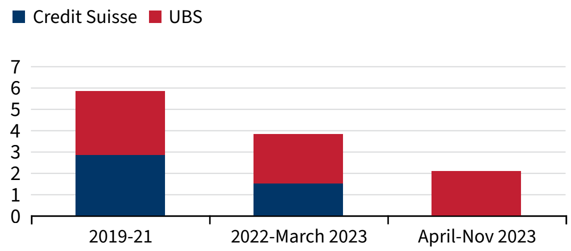
By keeping its investment bank in a supporting role, UBS has opened the door for rivals to poach not just talent, but clients and mandates.

Rivals have been circling Credit Suisse's clients since 2021, when it triggered a strategic review after losing $4.7bn from the collapse of Archegos Capital Management. The biggest impact fell on the global markets division, where Credit Suisse closed prime brokerage, weakening sales and trading.

Corporate financiers also jumped ship as they balked at the prospect of being punished for the mistakes of traders. "Back in

Covered bonds excluding Swiss francs

Market share (%)



Source: GlobalCapital analysis of Dealogic data

2022 there were a couple of clients where Credit Suisse said it would no longer lend, or where clients pre-emptively replaced it on its list of lenders," says one rival.

Rivals move in

While mandates and clients can follow talent out of the door, banks often try to "institutionalise" relationships by ensuring they have multiple points of contact with a client, reducing the importance of any individual. And new banks trying to establish ties with a client need more than a familiar voice on the phone.

So far, definite business wins from Credit Suisse's stumble have been hard to detect, not least because there is a general slump in corporate finance activity. But competitors have not been idle, and especially those that have hired bankers from Credit Suisse will be looking for a return on their investment quickly.

"Yes, it has been a thing — our people looking to pick up business where Credit Suisse might have done stuff for [companies], absolutely," says the head of capital markets at a major bank in London.

He highlights three areas. "They were quite good in corporate finance — M&A. You don't necessarily need a balance sheet to be doing that. Corporate brokerships in the UK is an area where clients will need other banks to fill in. The third area is the Swiss franc bond business [*see separate section below*], where they were a major player."

Over the summer, UBS asked Credit Suisse to step down as corporate broker to Imperial Brands because UBS has had a long broking relationship with its rival British American Tobacco.

UBS and Credit Suisse are joint brokers to Coca-Cola Hellenic Bottling Co, the Swiss-incorporated, London-listed soft drinks group. Banks are now pitching to replace CS.

Overall, by acquiring Credit Suisse, UBS has risen to third place by number of FTSE 100 brokerships. Several competitors including BNP Paribas are keen to grow in this business, but it will take time for companies to change their relationships.

Test is coming

How much the merger has really enabled UBS to grow in investment banking will only become clear when business gets going seriously.

"Only when clients start transacting will we see if they have retained UBS or not, or which of Credit Suisse's clients UBS is willing to extend capital to," says the head of investment banking at one bank.

The most obvious example of a rival benefiting is Jefferies, which has won an eye-catching mandate to advise the Italian government on selling a stake in Banca Monte dei Paschi di Siena.

This goes back to before the rescue. Credit Suisse was a longstanding adviser to the Italian government, but in mid-2021, after the Archegos affair, Jefferies hired CS's global head of FIG investment banking, Alejandro Przygoda, and its European FIG investment banking team, led by Armando Rubio-Alvarez. Credit Suisse's Italian team, headed by country CEO Andrea Donzelli, followed in December 2022.

Despite Jefferies' advance, UBS has retained a slot as co-adviser to Italy. On November 20 this work bore fruit in a €920m block trade by the government to sell 25% of MPS. Jefferies was a global coordinator, alongside Bank of America and UBS.

With its eyes set on becoming a top five investment bank, Jefferies raided Credit Suisse again this year, hiring 20 bankers from its private fund group.

Unsecured financial bonds: loss of a franchise

Assets in the Non-core and Legacy division, as of June 30, 2023 ($bn)

	2019-21		2022-March 2023		April-Nov 2023	
	Bookrunner league table rank	Market share (%)	Bookrunner league table rank	Market share (%)	Bookrunner league table rank	Market share (%)
Credit Suisse	12	2.43	15	1.9	88	0.19
UBS	13	1.87	16	1.74	14	2.19
combined (pro forma in italic)	*7*	*4.28*	*7*	*3.63*	10	2.34

Source: GlobalCapital analysis of Dealogic data

Low-hanging FIGs

The struggle for Credit Suisse's clients is going on in every section of the capital markets.

In supranational, sovereign and agency bonds, neither firm was a big player, though they are involved. The merger has not made any obvious difference yet. Their combined global market share of bookrunning SSA bonds in the 15 months to March 2023 was 1.1%, and since April it has risen to 1.4%.

The story in financial institution bonds is much more important and interesting, as both Credit Suisse and UBS were substantial players.

As the tables show, in both covered bonds and unsecured FIG bonds — leaving out Swiss francs, which we analyse separately, and Chinese bonds, which are dominated by local banks — combining the two firms' market shares when they were separate banks would have made them a bulge bracket house.

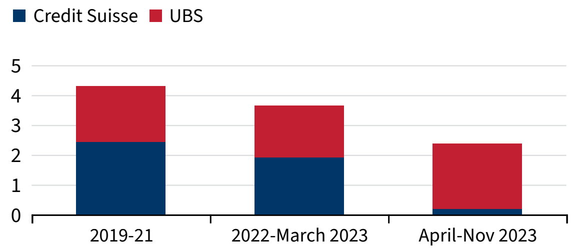
Both had been losing ground before their merger in any case. But there was still a huge amount of value in Credit Suisse's FIG franchise that UBS could in principle have taken over, greatly increasing its business.

A UBS banker argued the firm was an award-winning leader in FIG and "as a top three player you can't win even more because there's not room to increase, because of the share of wallet consideration."

Certainly, no one would have expected UBS to capture all Credit Suisse's flow, because there was a large overlap in clients. In covered bonds, where there is a limited number of issuers, 78.5% of Credit Suisse's volume since 2019 has come from clients for which UBS also led covered bonds in the same period.

FIG bonds excluding covered bonds, Swiss francs, Chinese issuers and self-led deals

Market share (%)



Source: GlobalCapital analysis of Dealogic data

The combined FIG business, he said, would "look pretty much the same as the old UBS, with a slight touch on top".

Juicy clients

The unsecured FIG market is much broader — here, the overlap affected 60% of Credit Suisse's volume.

But CS also had an impressive FIG client list that had not recently done deals with UBS. Mandates for them accounted for 40% of its third-party volume since 2019. They were mostly insurance companies, asset managers, private equity firms, leasing companies, stock exchanges, Reits, all of which Dealogic counts as FIG issuers, rather than banks. They included AerCap, Charles Schwab, Intercontinental Exchange, American Express, Warburg Pincus, BlackRock and Simon Property Group.

Some of these are big issuers. Since 2019, the total volume of the bonds they issued, using Credit Suisse as a bookrunner, was €178bn. "Most of those names are domiciled in the US — there are a lot of insurance companies," says one former CS banker.

▲ Khalid Krim, Credit Suisse FIG expert, stayed till October but is now at Natixis

But despite the attractions of this business, UBS has held on to very little of it. Its market share in unsecured FIG has expanded by 0.6 percentage points, but only 0.19 of that has come from Credit Suisse.

Credit Suisse entities have bookrun just eight unsecured FIG deals since April 1, for €1bn of league table credit, including deals for Charles Schwab and Realty Income Corp.

Since 2019, Credit Suisse had led unsecured bonds for 114 FIG issuers that UBS did not serve in the same period. UBS as a combined bank has bookrun deals for only 12 of them since the merger.

"With insurance companies you win the business by lending," said the UBS banker. "Then the question is how do we consider our lending portfolio? Ermotti has been very clear on not changing our capital-light model."

The ex-CS banker put it more strongly. "UBS's [FIG DCM] penetration in the US was limited to their desk doing self-issuance," he says. "We had three exceptionally good bankers. [All of them] are gone. UBS is not going to pick up relationships with clients where they haven't covered them historically, especially if no balance sheet is being extended to them."

Arvind Sriram, who had been co-head of north American insurance at CS in New York, left in August and became head of insurance IB at TD.

Brian Carlin, another senior FIG banker, is now at Truist, and Ellery Kauvar, the third banker, moved to TD in July. However, George Matsuzaka, CS's global head of insurance, is now running the team for UBS.

Meanwhile, since the takeover, the Credit Suisse subsidiaries have not led a single covered bond outside Switzerland.

UBS's market share has also shrunk, although it has led deals for Santander and Danske Bank, which had only used Credit Suisse in recent years.

Shanx Tandon, head of FIG syndicate EMEA, and Mike McCormick, head of DCM advisory, had left Credit Suisse for BMO in February.

A former staffer said of the last days of Credit Suisse: "If you were any good, you said to your clients: 'who should I call?' They said 'call Santander, BMO, TD or whatever, so they left the building.'"

One of the last senior bond bankers to go was FIG expert Khalid Krim, head of EMEA DCM and investment grade capital markets. He left in early October and joined Natixis in November.

While FIG banking for insurance companies requires some capital, arranging bond issues for other banks usually does not. "There's a large element of reciprocity [between banks in awarding mandates to each other]," the banker said. "UBS were kings of that, and I think they'll use that. But it doesn't work with smaller banks and insurance companies. It's not that they don't want the business, but they haven't got the resourcing. UBS is not in a hiring mood, so it's an opportunity wasted."

The eight months since Credit Suisse fell is a short time, and UBS may yet start leading bonds for more of its former clients. Asked whether UBS had lost the bulk of Credit Suisse's FIG franchise, the UBS banker said: "It's too early to call it — it's an integration year. You need to see it [next year]."

But so far, the Credit Suisse UBS bought has done 91% less unsecured FIG business than in the same stretch of 2022, and 100% less in covered bonds.

Gaps yawn in corporate relationships

Asked about opportunities from Credit Suisse's tumble, corporate debt bankers in Europe are quick to emphasise that the bank was "not a big lender". It had long seen itself as an "event-driven house", aiming

Credit Suisse-only FIG unsecured clients

Top 20 issuers of FIG bonds, excluding covered, Chinese and self-led, for which CS but not UBS was a bookrunner, 2019 to March 2023.

Blue = CS or UBS has led a deal for it since April

Issuer parent	Full value of deals CS bookran (€ m face)	No of deals	Share of CS total FIG bookrunning in period (%)
AerCap	23,629	7	4.6
Charles Schwab	19,245	12	3.7
Intercontinental Exchange	15,391	3	3.0
American Express	9,146	4	1.8
Realty Income Corp	5,611	9	1.1
Medical Properties Trust	3,752	4	0.7
Simon Property Group	3,195	1	0.6
Pacific Mutual	3,026	8	0.6
Aon	2,848	3	0.6
Massachusetts Mutual Life	2,854	5	0.6
Healthpeak Properties	2,803	4	0.5
Warburg Pincus	2,648	3	0.5
Fidelity National Financial	2,240	4	0.4
Progressive Corp	2,240	2	0.4
Shinhan Financial Group	2,241	5	0.4
Equitable Holdings	2,182	4	0.4
Liberty Mutual	2,206	4	0.4
OP Financial Group	2,077	5	0.4
BlackRock	2,040	2	0.4
GFNorte	1,943	5	0.4
Other issuers	66,672	167	12.8
Total	**177,989**	**261**	**34.2**

Source: GlobalCapital analysis of Dealogic data

Credit Suisse-only covered bond clients

Covered bond issuers for which CS but not UBS was a bookrunner, 2019 to March 2023

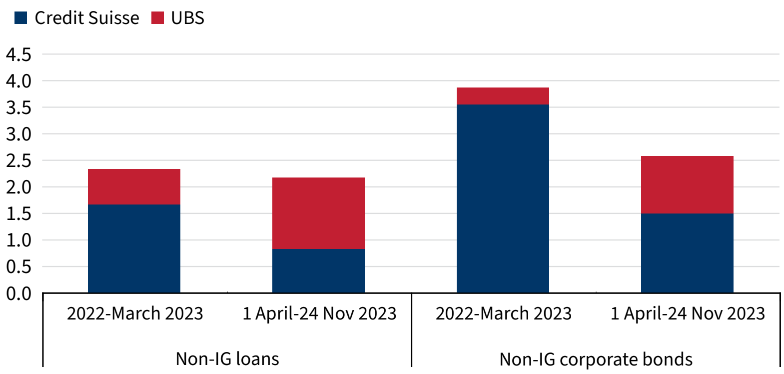
Blue = UBS has led a deal for it since April

Issuer parent	Full value of deals CS bookran (€ m proceeds)	No of deals	Share of CS total covered bond bookrunning in period (%)
Santander	4,823	3	5.02
CRH	2,002	1	2.08
Monte dei Paschi	1,992	2	2.07
Commerzbank	1,493	1	1.55
Sparebanken Vest	1,253	2	1.30
Danske Bank	1,247	1	1.30
NN Group	1,244	3	1.29
OP Financial Group	1,002	1	1.04
Danish Ship Finance	996	2	1.04
Sparebank 1 SR-Bank	996	1	1.04
Sparebank 1 Gruppen	746	1	0.78
De Volksbank	572	2	0.60
KB Financial Group	500	1	0.52
Van Lanschot Bankiers	499	1	0.52
Jyske Bank	499	1	0.52
UniCredit	438	1	0.46
BayernLB	350	1	0.36
Total			21.49

Source: GlobalCapital analysis of Dealogic data

North American non-investment grade corporate debt: UBS keeps most of CS's business

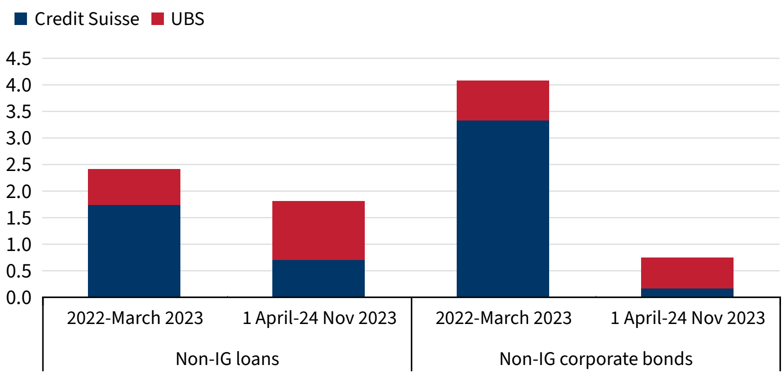
Market shares as bookrunner (bonds), mandated lead arranger (loans) (%)



Source: GlobalCapital analysis of Dealogic data

European non-investment grade corporate debt: survival in loans, wipe-out in bonds

Market shares as bookrunner (bonds), mandated lead arranger (loans) (%)



Source: GlobalCapital analysis of Dealogic data

to advise on and finance mergers, acquisitions and other corporate actions, rather than everyday lending and bond financing.

Recently, hit by scandals, it had contracted still further. "Credit Suisse had let go of a lot of corporate relationships over the last two or three years," says the head of capital markets at a major bank.

Even in leveraged finance, where CS was once a top five house, it had fallen to around 20th in Dealogic's league tables for leveraged loans in all three world regions, though it remained top 10 in high yield. "We don't really see Credit Suisse anymore [in leveraged finance]," the banker says. "They have kept a small presence."

Despite all that, Credit Suisse at its fall still had shares of corporate debt markets around the world that were not to be sniffed at. Even in 2022 it had a 0.8% share as bookrunner of global syndicated loans, and over 2% of investment grade corporate bonds in both north America and Europe, putting it on the threshold of the big league.

And even if Credit Suisse had pulled out of many relationships, it is unlikely to have done that with many of those it had recently recommitted to.

In the last 15 months of its life as an independent bank, Credit Suisse participated as a mandated lead arranger on 294 syndicated loans in the Americas and 106 in EMEA, according to Dealogic.

But if Credit Suisse was tight with its capital, UBS is even more

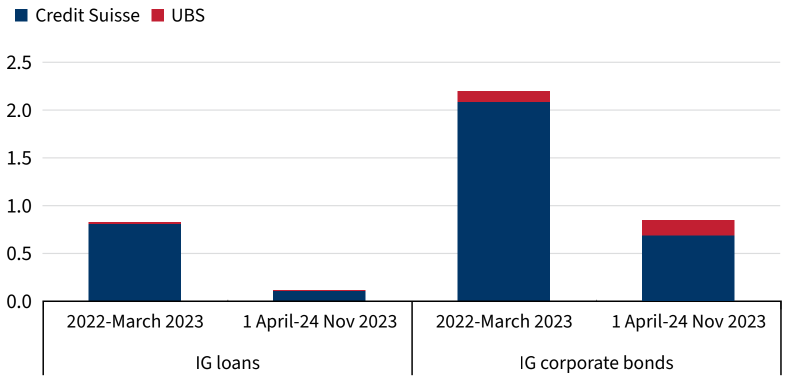
Non-investment grade corporate debt

		2022-March 2023						1 April-24 November 2023							
		Credit Suisse		UBS		CS + UBS		Credit Suisse		UBS		CS + UBS			
		League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	Combined market share loss (%)	Combined market share loss as % of CS market share (%)
Non-IG loans	North America	22	1.66	34	0.66	13	2.31	30	0.82	25	1.34	15	2.16	6.5	9.0
	Asia Pacific	32	0.75	81	0.13	25	0.88	91	0.09	92	0.09	69	0.18	80	93
	Europe	19	1.73	35	0.67	14	2.4	37	0.69	23	1.11	19	1.8	25	35
Non-IG bonds	North America	10	3.54	41	0.32	9	3.87	22	1.49	30	1.08	14	2.57	34	37
	Asia Pacific	3	5.02	26	1.48	1	6.5		0		0		0	100	129
	Europe	8	3.32	37	0.75	8	4.08	73	0.15	34	0.58	30	0.74	82	101

Source: GlobalCapital analysis of Dealogic data. League tables are of bookrunners for bonds, mandated lead arrangers for loans

North American investment grade corporate debt: huge decline

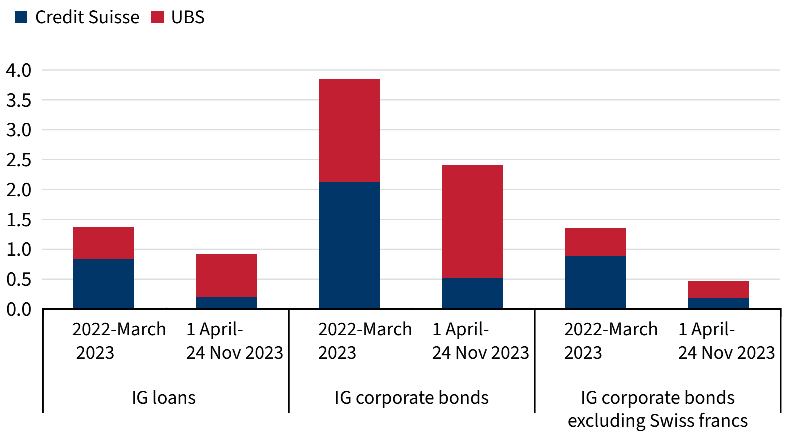
Market shares as bookrunner (bonds), mandated lead arranger (loans) (%)



Source: GlobalCapital analysis of Dealogic data

European investment grade corporate debt: UBS keeps a third of CS's business

Market shares as bookrunner (bonds), mandated lead arranger (loans) (%)



Source: GlobalCapital analysis of Dealogic data

so. "UBS have publicly said they don't lend," said a former CS banker. "They're cutting a lot of the clients CS had, so their large cap corporate profile is not going to improve. It's not a core market for them. The M&A guys were hoping they could transfer some of the [loan] book in the US, and I think a couple of names will stick, but there are US and Canadian banks with excess capital, looking to grow their balance sheets. They will step in."

Decision time

In EMEA, of Credit Suisse's 52 recent investment grade loans, UBS was in 19. In all those situations, unless for some reason UBS wanted to increase its capital commitment to the borrower, there was an opportunity for other banks to win a relationship.

Such overlaps are particularly common in Switzerland. "In Switzerland, clients are confronted with less choice of banking partners than previously," says Reinout Böttcher, senior country officer at JP Morgan Switzerland. "In order to maintain well diversified banking relationships, clients seem to have become more open to exploring and establishing new banking relationships and to broadening and deepening existing ones. This not only creates opportunities in investment banking, but also for corporate and private banking."

In Credit Suisse's other 33 recent loans, as with every other CS client relationship, UBS will have to decide

Investment grade corporate debt

		2022-March 2023						1 April-24 November 2023							
		Credit Suisse		UBS		CS + UBS		Credit Suisse		UBS		CS + UBS			
		League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	League table rank	Market share %	Combined market share loss (%)	Combined market share loss as % of CS market share (%)
IG loans	North America	24	0.8	88	0.02	24	0.82	51	0.1	94	0.01	50	0.11	87	89
	Asia Pacific	43	0.28	85	0.1	34	0.37	74	0.14	128	0.03	67	0.17	54	71
	Europe	37	0.82	45	0.53	25	1.36	73	0.19	39	0.71	25	0.89	35	57
IG bonds	North America	18	2.08	39	0.11	17	2.19	24	0.68	37	0.16	23	0.84	62	65
	Asia Pacific	134	0.08	67	0.33	59	0.42		0	93	0.21	93	0.21	50	263
	Europe	20	2.12	24	1.72	8	3.85		0.51	22	1.89	19	2.39	38	69
	Europe ex-SFR	20	0.88	24	0.46	8	1.34	39	0.18	22	0.28	19	0.45	66	101

Source: GlobalCapital analysis of Dealogic data. League tables are of bookrunners for bonds, mandated lead arrangers for loans whether to try and keep it or not. It may not have reached decisions on all of them yet — but it is well known that UBS is much more parsimonious with its capital than Credit Suisse.

In all these cases, competitors had a chance to move in, even when UBS did want to take Credit Suisse's place in the syndicate.

"It has provided opportunities for us to enter into new relationships with clients that we wished to have, that had been maybe closed off," said a corporate DCM banker in western Europe.

With some corporate clients, an active process has begun to work out how to replace Credit Suisse in bank syndicates. The banker said some of CS's revolving credit facility participations "might have got moved over to UBS, if UBS was not in the facility".

But, depending on how the loan documents are written, the borrower would usually have the right to decide what it wanted to happen. It could even tell UBS it did not want to open a relationship with it.

"UBS has fewer products to offer than CS," said the former employee. "If you're extending a loan and RCF, companies want to know they can pay you [by awarding ancillary business]. You've got banks queuing round the block to do M&A and ECM, so unless you can offer other products — commodities, cash management, DCM — you're [unlikely to succeed]."

UBS was trying to take over some CS relationships, he said, but it has not hired many of the bankers who had covered them for years. "Is a new banker from UBS going to build trust in a matter of weeks? I don't think UBS will have the patience for that," added the former employee.

If UBS does not take over a corporate loan the borrower can reduce the facility by the amount Credit Suisse provided, and invite other banks when it is time to refinance, or shrink the bank group permanently.

But there is also a process whereby a new bank would buy Credit Suisse's position in a loan. "Corporate treasurers tend to have a number of substitutes," said a rival banker. "If you have 10 relationship banks, you have somebody on the sidelines, or are aware of three or four others that have products or services you could benefit from. So if one goes, you go to them and say 'there's a spot: who wants to play?'"

His bank is close to finalising a new relationship with a blue chip European company, replacing Credit Suisse in its syndicate, and has looked at "a couple" of similar situations.

It can take three to five years for a bank to work its way into a position with a client where it stands a chance of picking up mandates like this when they become available. "It's like bidding for a World Cup," the DCM banker quips.

Motive, means and opportunity

With rivals facing an uphill struggle to break into a corporate relationship, Credit Suisse's new owner has the huge advantage of being in there already. Can it achieve Kelleher's ambition of growing corporate finance, especially in the US?

Bob McMinn, head of Americas DCM, and Chris Murphy, a leading corporate bond MD, have stayed.

But, a former Credit Suisse banker says: "Your most expensive resource is capital. Ermotti has been very clear: he does not want to extend balance sheet. He doesn't want the shareholders to see him growing the balance sheet in the investment bank. So whatever he does has to be below the radar. You can do it with personnel but you need to have a sales and distribution franchise in the US."

As the charts analysing the primary capital market activity since the forced merger show, UBS has done better in some patches, such as US leveraged finance, than others, like US investment grade corporate debt. In Swiss francs, it is still the unchallenged leader. But the recurring picture in many sectors is that UBS has lost more than half the market share Credit Suisse still held, even in its last troubled months.

For UBS investment bankers, this is the wrong way round to look at it. What matters to them is growth from what the old UBS could do, not how much of what Credit Suisse had is retained. In Swiss franc bonds, for example, UBS's business increased as soon as the merger was announced.

Asked whether, working at UBS, he felt the investment bank now had more capacity to lend and hold assets, a banker says: "On an absolute level there is the ability to increase. We will feel this very much as we go into 2024, and we have already felt it now."

▲ Sergio Ermotti, CEO of UBS: as disciplined about capital as ever

But this expansion in lending will not be evenly spread. It would not necessarily be used in FIG, he says, "and there is a question from a regional perspective about where we see the benefit. The US market always pays better fees and therefore gives better return. Then there is a consideration of the investment grade or high yield world. For return on capital you are probably better off in the high yield space.

"The combination of Credit Suisse and UBS for our US buildout in high yield," he adds, "it's very additive. In this regard I think the US will be very beneficial."

UBS is sticking to its strategy in investment banking but further cuts and departures cannot be ruled out. It has continued to suffer losses, even in the parts of Credit Suisse it wanted to keep.

Tom Vignon, Credit Suisse's former head of financial sponsors in EMEA, agreed to join UBS in August, but a month later he left for Barclays. Scott Bardo, co-head of healthcare in EMEA, who had also joined UBS, left to be Citigroup's head of medical technology in October.

UBS's September ranking as seventh in Dealogic's IB fee league table, behind Barclays, may turn out to be a high watermark.

The former CS banker argued that, for all Credit Suisse's failings and mistakes, in capital markets at least, "we had very good risk managers, whether in leveraged finance, ECM or DCM."

From where he sits, UBS lacks both the desire and the wherewithal. "I really don't think UBS is going to have a materially bigger capital markets franchise as a result of the merger," he says. "Very few investment banking franchises will improve under UBS management. Their risk appetite is close to zero." GC

Pioneering internationalisation and diversification in the GCC

It has been a busy year for capital markets across the Middle East in general, and the six-nation Gulf Cooperation Council (GCC) in particular.

"We have had a fantastic year, with very strong issuance volumes in all major asset classes compared with 2022," says Hitesh Asarpota, CEO of Emirates NBD Capital. "This has been supported by strong macroeconomic fundamentals across the GCC, driven both by relatively high energy prices and accelerated economic diversification."

The result is that international investors have increasingly been turning their attention to the safe-haven credentials of the top credits in the GCC.

"We saw some volatility on account of the events of October 7," Asarpota notes. "But that soon subsided, and since then we have closed about $10bn of fixed income issuance."

The resilience of the region's fixed income markets has not only been apparent in rising volumes, oversubscribed books and stable new issue premiums (NIPs). It has also been reflected in the diversification of issuances across the region.

Diversifying the issuer base

Sovereigns and other public sector borrowers have continued to account for the lion's share of volume in the primary market. These have been swollen by blow-out new issues such as Saudi Arabia's $10bn trade in January 2023. But as Asarpota adds, there has also been a consistent and well-diversified flow of issuance from financial issuers in the region, encompassing capital issuances as well as unsecured senior offerings.

Another element that has injected added diversity into the market has been growing volumes of green, social and sustainable (GSS) issuance, much of which has been structured in shariah-compliant (sukuk) format.

Beyond the fixed income market, Asarpota is encouraged by continued strength in other asset classes across the region. Liquidity in the loans market is at an all-time high, while in the equity space IPO proceeds have been rising.

It is against this healthy backdrop across all asset classes that Emirates NBD has built upon its proven leadership in capital markets in the GCC and beyond. So far this year, the bank has helped clients raise the equivalent of more than $37bn of debt in public markets and private placements across 70 deals. In equities, meanwhile, it has advised on IPOs valued at about $1bn year-to-date. This prominence has been cultivated around a two-pronged strategy of internationalisation of the bank's business model and diversification of its customer base.

"In the last few years, we have increasingly been able to put the UAE on the roadshow map as one of the locations issuers visit when they are looking to raise finance," Asarpota says. This has led to a rising number of mandates from borrowers from central Europe, Turkey, the subcontinent, and east Asia.

Broadening the market for ESG and sukuk issuance

Increasingly, these mandates have come from issuers eager to explore the potential of issuance in ESG and sukuk format, between which there is a natural overlap.

Few deals provide a clearer illustration of this twin commitment to internationalisation and diversification than the $600m five-year 144A/Reg S sukuk led by Emirates NBD for US aviation company Air Lease in March. This was a landmark transaction which was the first ever offering of its kind into the Middle East market from a North American corporate and the largest sukuk from a US-based borrower in history. About 80% of this deal, which attracted orders of more than $2.2bn, was placed in the GCC. "The issuer was able to diversify its investor base and achieve phenomenal pricing at the same time," Asarpota says.

Asarpota points to three other blow-out transactions illustrative of Emirates NBD's credentials as a standard-bearer for internationalisation and diversification.

Showcase deals in the tier one and sukuk markets

The most striking of these was the $750m additional tier one (AT1) perpetual sukuk in July for Abu Dhabi Islamic Bank (ADIB), which achieved the highest oversubscription level from any GCC bank issuer for a decade and was priced well inside guidance.

"ADIB reopened the global market for US dollar-denominated tier one debt after the Credit Suisse AT1 writedown," Asarpota says. "To generate an order book of more than $7bn, mainly from the GCC region, was phenomenal."

Hitesh Asarpota, CEO, Emirates NBD Capital

A second highlight was the two tranche $3.5bn sukuk issued by Saudi Arabia's Public Investment Fund (PIF) soon after the eruption of hostilities in the Middle East in October. The book for PIF's debut dollar sukuk closed at more than $25bn. The unique sukuk structure based on equity shares made the blow-out issue a watershed moment for continued innovation and globalisation in the sukuk market.

A third notable deal was the $1.5bn sukuk from Egypt in February, which was oversubscribed by almost four times. "Considering the financing conditions facing the Republic at the time, the strategic issuance of $1.5bn priced at about 60bp inside its conventional curve was a tremendous achievement," Asarpota says.

In the UAE, meanwhile, Emirates NBD has continued to act as a pioneer in innovative capital market solutions.

Following the UAE government's launch of its local currency benchmark T-Bond/Sukuk Programme in 2022, Emirates NBD played an instrumental role in ideating "first-of-its-kind" AED-denominated deals across bond and sukuk formats, leading all the debut public AED issuances from financial institutions from the region. These included Emirates NBD Bank's debut AED bond, Emirates Islamic Bank's debut AED-denominated sukuk and the first-ever AED green sukuk by First Abu Dhabi Bank.

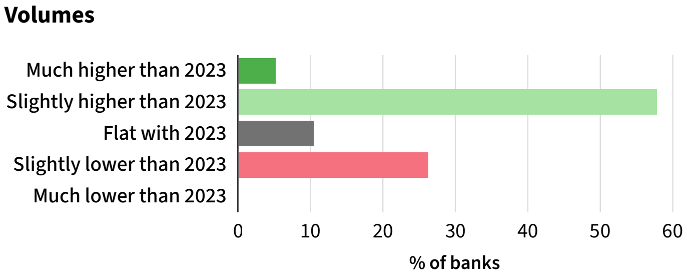
Against this backdrop, Asarpota is confident that Emirates NBD will continue to support accelerated internationalisation and diversification of the region's capital market in 2024 and beyond.

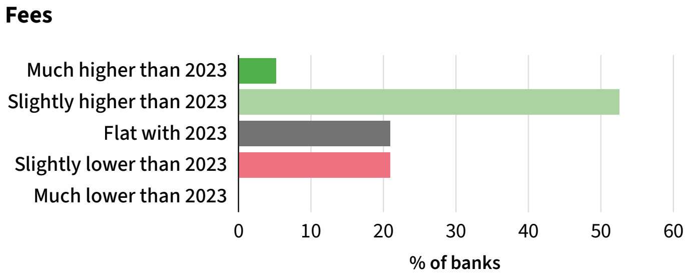
"Every large bank is focused on the growth opportunities in the region, led by the UAE and Saudi Arabia," he says. "This will encourage an increasingly diverse range of issuers to explore funding options in international and local currencies."

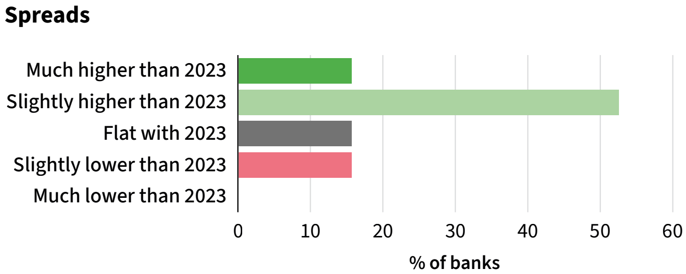
The *GlobalCapital* survey of heads of debt capital markets

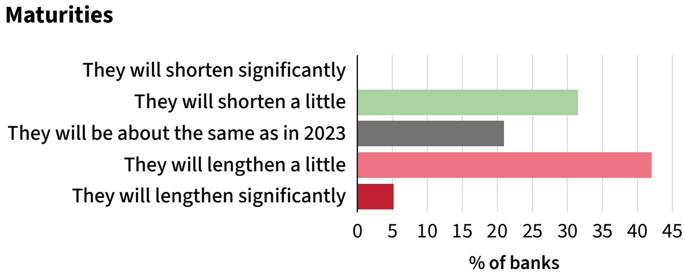
GlobalCapital asked the heads of debt capital markets at over 50 of the top bond houses where they saw threats and opportunities for 2024. Geopolitics are once again at the top of the worry list but so is retaining junior staff. Overall, however, **Toby Fildes** and **Ralph Sinclair**, discovered an optimistic tone, no doubt helped by the pervasive belief that interest rates are at or near their peak

What is your prediction for EMEA primary bond markets in 2024?



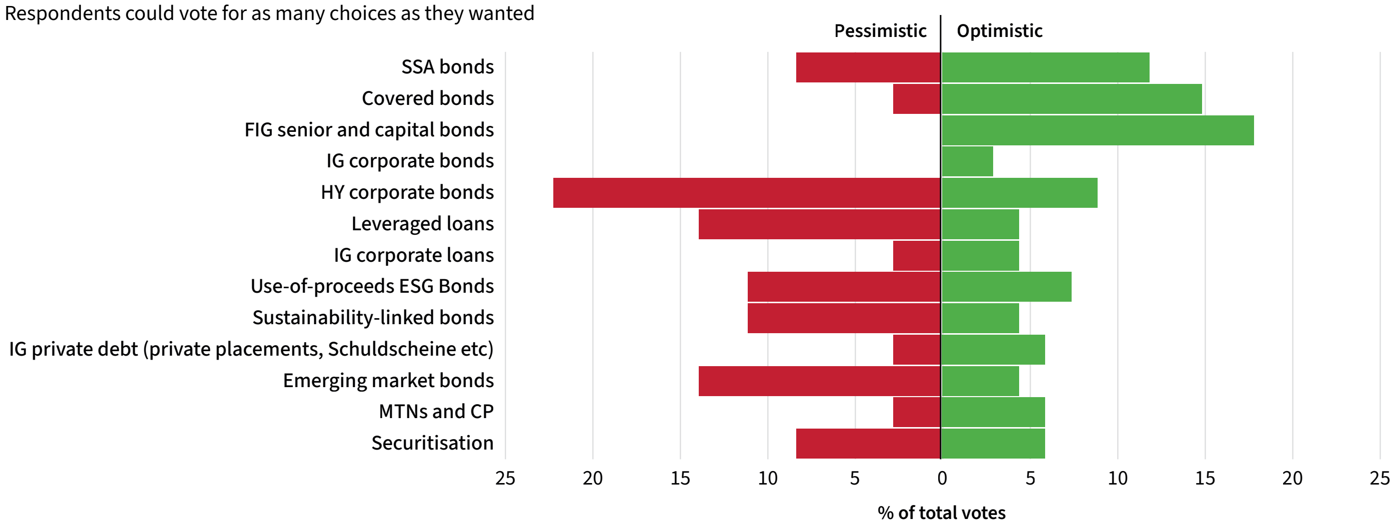




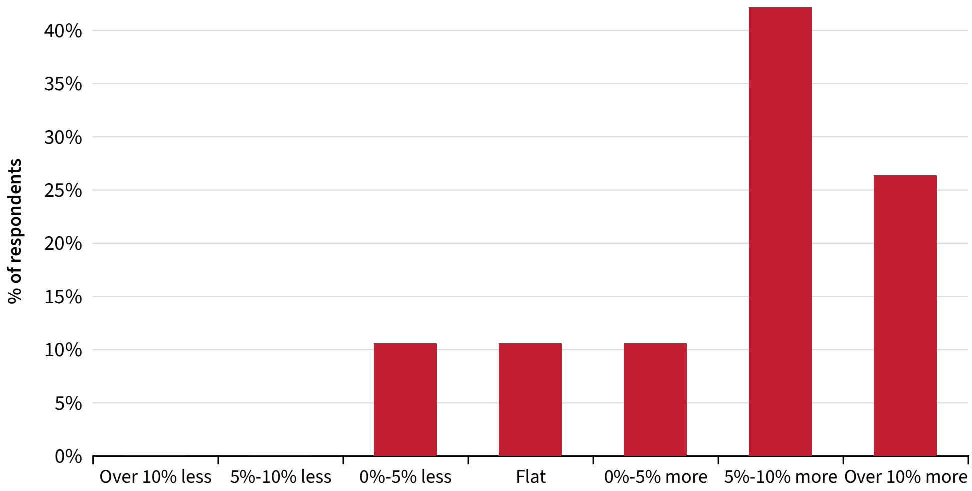


Which products are you most optimistic and pessimistic about for 2024, by volume?

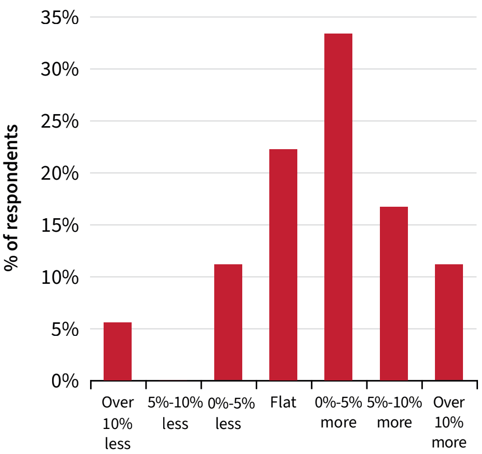
Respondents could vote for as many choices as they wanted



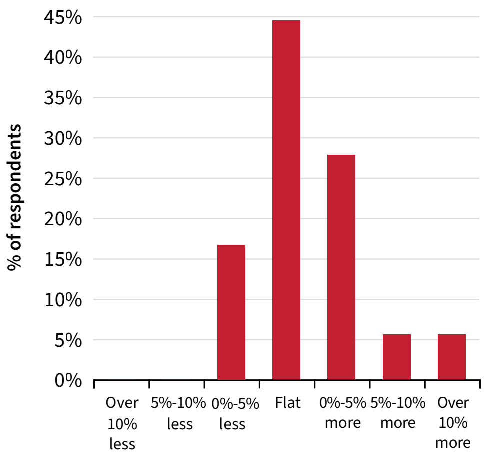
Do you expect your business to make more or less money in 2024 than in 2023?



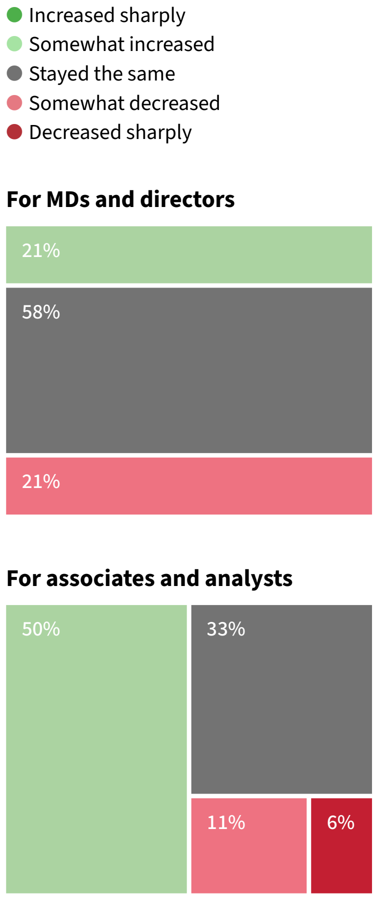
Do you expect your MDs and directors to be paid more or less in 2024 than in 2023?



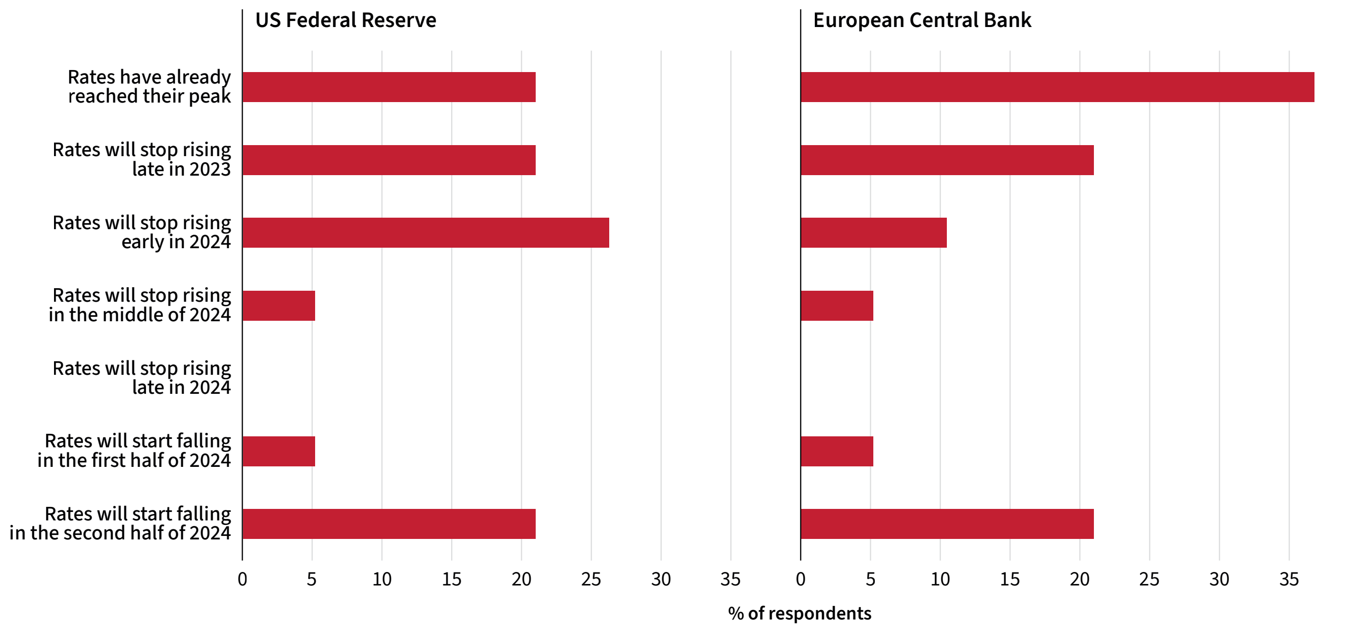
Overall, will there be more or fewer people working for you by the end of 2024 than now?



Thinking about 2023 compared with 2022, how has the rate at which competitors have poached or attempted to poach your staff changed?

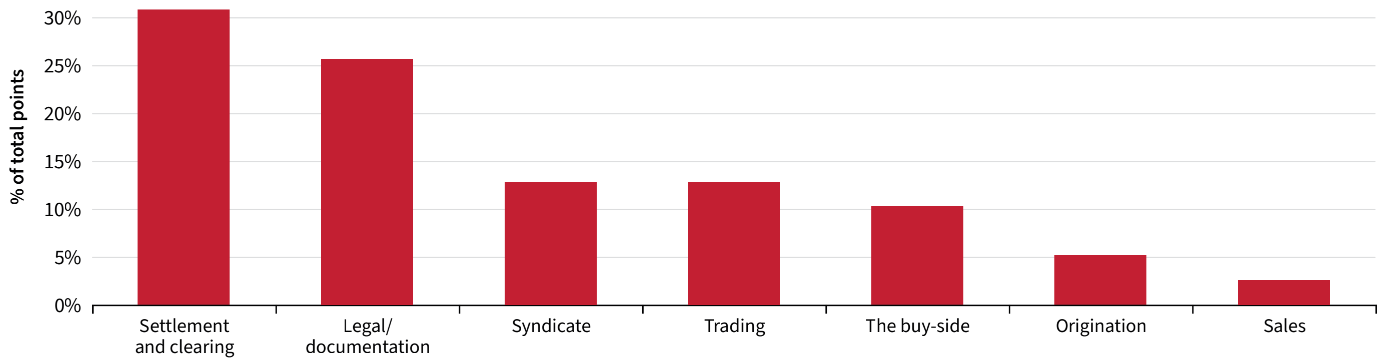


How will the US and European central banks change monetary policy in 2024?



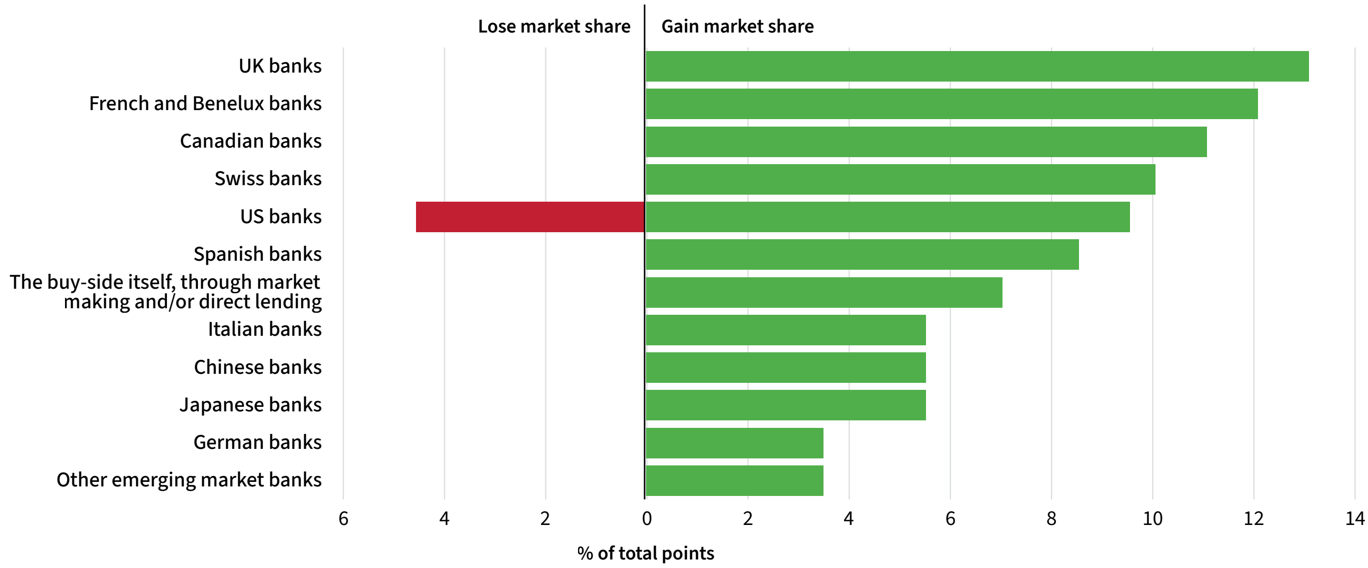
Which sectors of the market will have the most exciting technological developments?

Answers are measured in points, not votes. Respondents could rank their top three. We have assigned each choice 3pts when it was selected as first preference, 2pts when selected as second, and 1pt when selected third

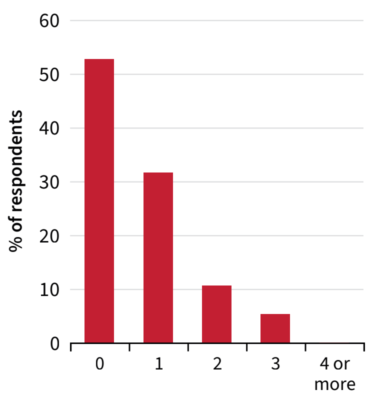


Which banks do you expect to gain and lose market share in EMEA DCM the most in 2024?

Answers are measured in points, not votes. Respondents could rank their top three. We have assigned each choice 3pts when it was selected as first preference, 2pts when selected as second, and 1pt when selected third.

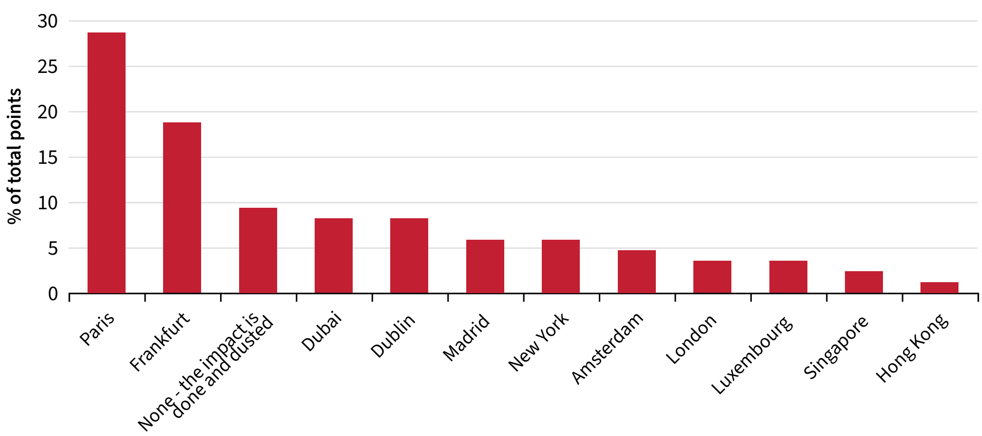


How many bank mergers (announced or complete) can we expect to see in 2024 that will involve a top 25 bookrunner bank?

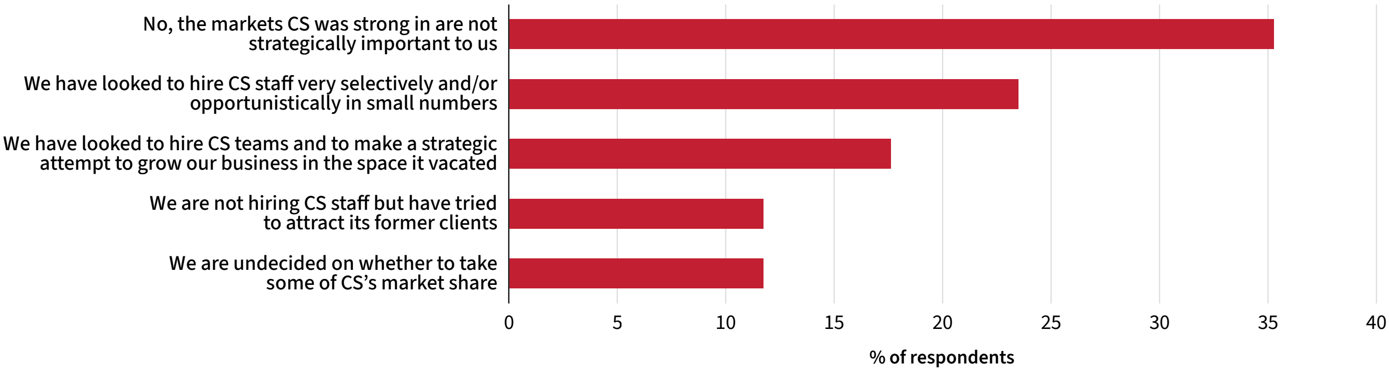


Which financial centres will continue to benefit most from Brexit?

Answers are measured in points, not votes. Respondents could assign 0pts-4pts to each location, with 4pts denoting the biggest benefit

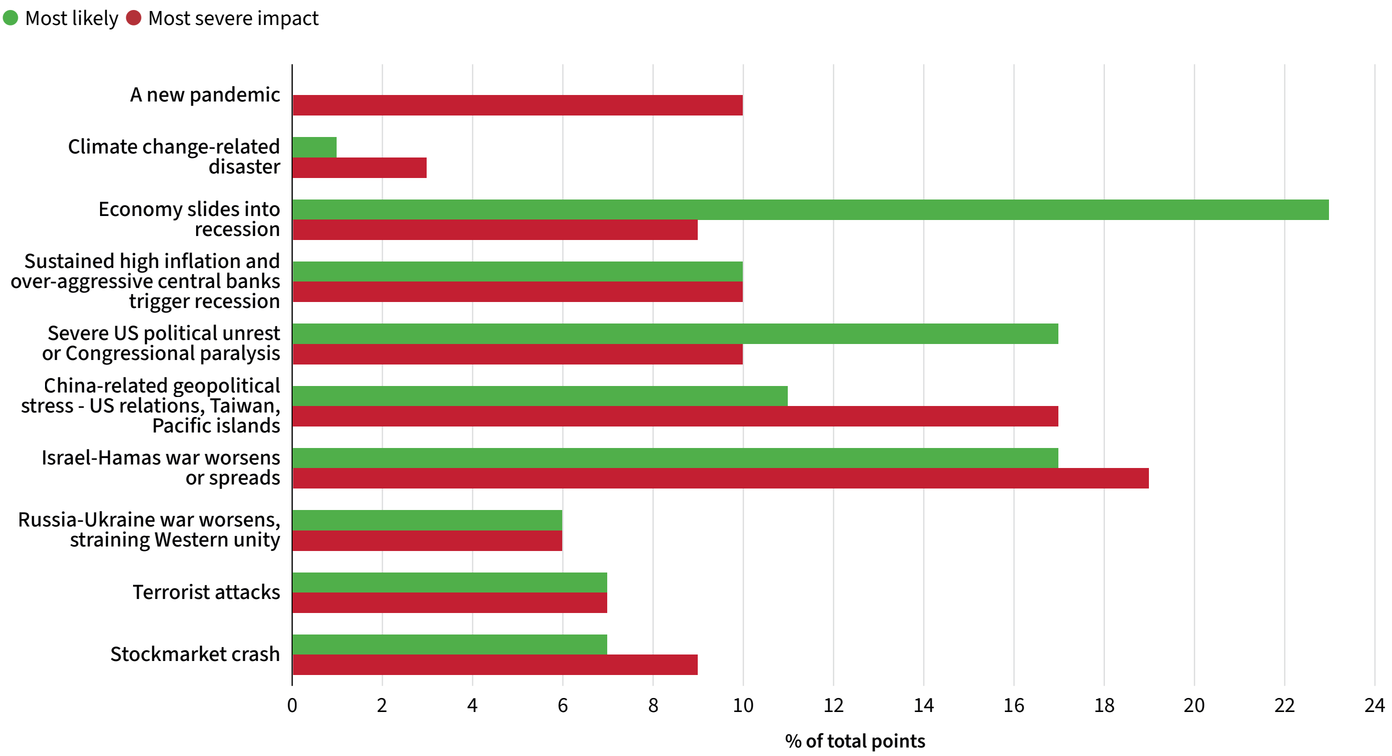


Has your bank sought to take market share from Credit Suisse in the wake of its demise?

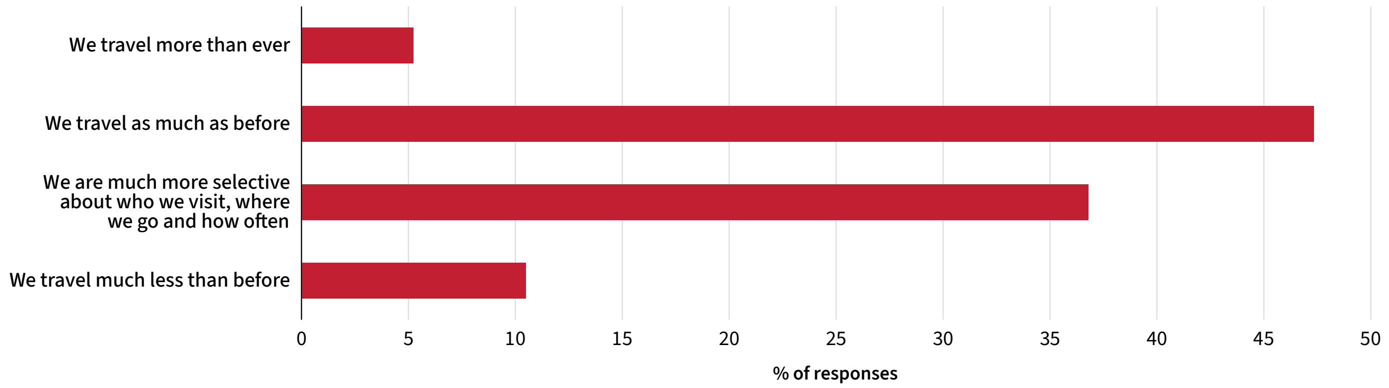


Which of the following risks to DCM in 2024 are the most likely, and which would have the most severe impact?

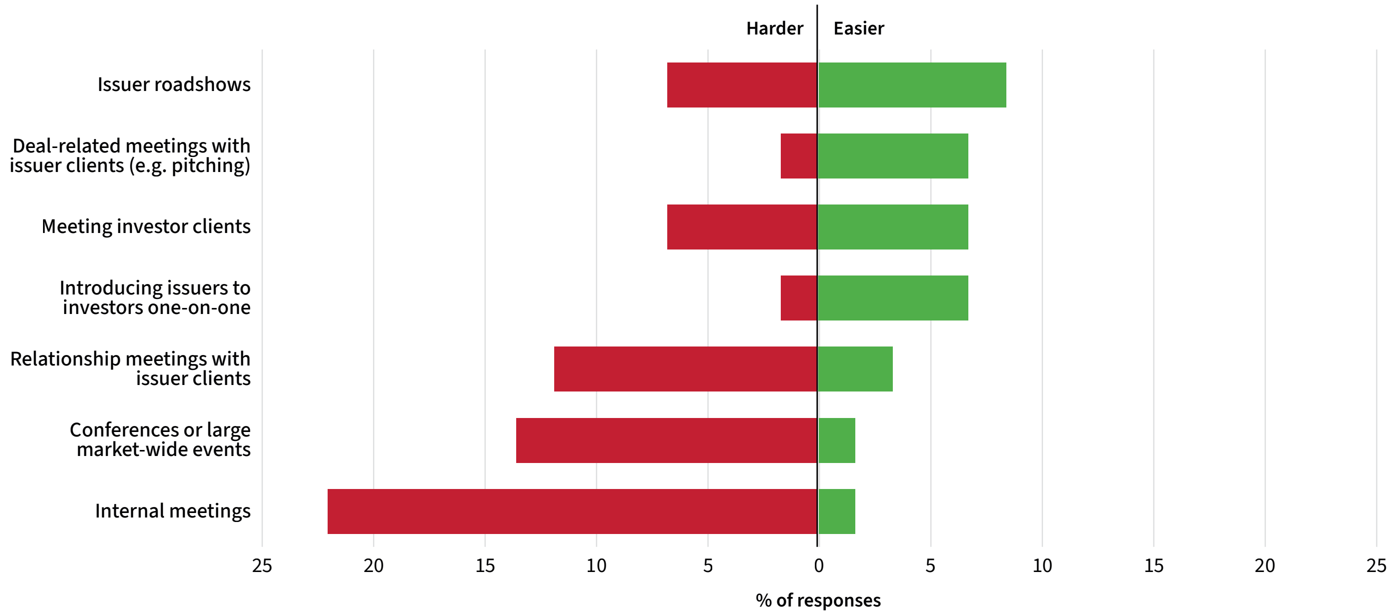
Respondents could vote for as many options as they liked. We have assigned 1pt per vote



How does your travel for work compare to before the pandemic?



What reasons for travel are now easier or harder to do, or get approval for?

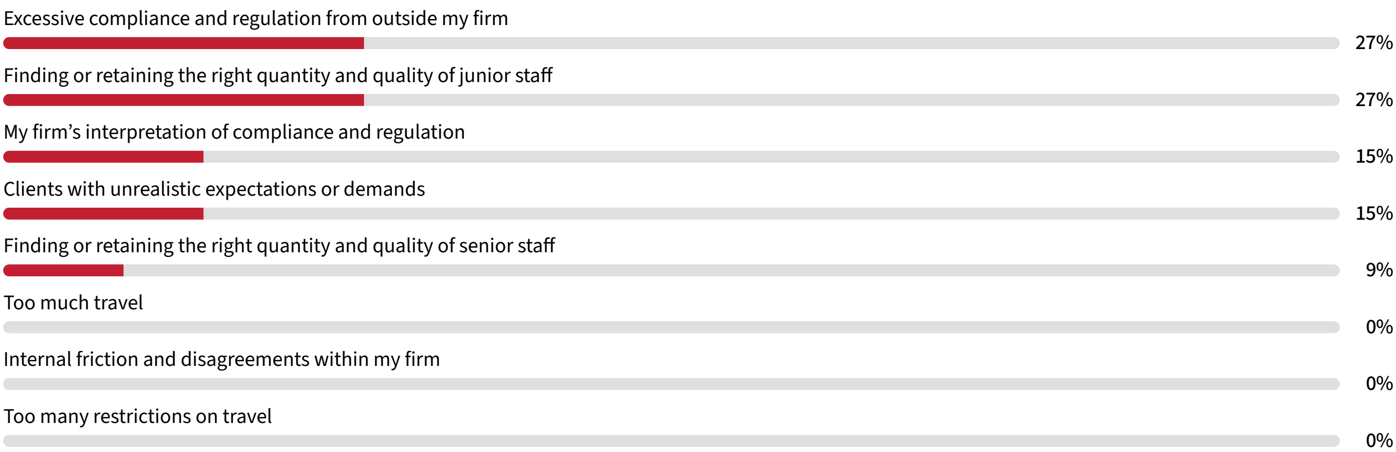


How are issuers' interactions with investors changing?

Respondents could select up to two answers. Results are % of total reponses

What is the biggest burden on doing business?

Respondents could select up to three answers. Results are % of total reponses



Crédit Agricole CIB sees European bank issuance staying strong in 2024

CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK

Robust primary supply, currency diversification and a shifting product mix are among the key Crédit Agricole CIB forecasts for European bank issuance next year.

Crédit Agricole's corporate and investment banking arm is expecting full year supply to end 2023 at €577bn and predicts issuance of between €550 and €590bn in 2024.

But while overall volumes may be similar, there will be large shifts across asset classes. At the bottom of the capital stack, the bank is forecasting a 60%-80% increase in AT1 issuance to €35bn-€40bn.

"There is a large amount of European bank AT1 up for call in 2024 and the first quarter of 2025 — between €40bn and €45bn across all currencies," says Michael Benyaya, co-head of DCM solutions and advisory at Crédit Agricole CIB. "We expect that most banks will continue to try to refinance at the first call date, so there will be a significant increase in activity in 2024."

Crédit Agricole CIB sees a more measured outlook for the Tier two market, where banks are well optimised and will focus on refinancing and replacing their existing capital stock. Based on the Tier two debt either up for call or with bullet amortisation, the bank thinks supply could stay flat at €35bn or increase modestly to €40bn.

A trend that is likely to continue across both AT1 and Tier two is increasing use of liability management techniques. "We think that a new issue of a capital instrument combined with a tender offer will become even more commonplace in 2024," Benyaya says.

When it comes to senior non-preferred and senior holdco, the firm is expecting volumes to drop by almost 20%. European banks are well positioned in terms of minimum requirement for own funds and eligible liabilities (MREL) and total loss-absorbing capacity (TLAC) buffers, Benyaya says, shifting from one of expanding supply to one centered on replacement and refinancing.

Issuance in senior preferred and covered bonds, on the other hand, will stay flat. "Here we feel that muted loan growth and a stable deposit base across the European banking system will mean no additional liquidity needs," Benyaya says.

But even in asset classes where supply will remain stable, there are likely to be shifts — particularly when it comes to currency.

"Currency diversification will again be a prime objective for issuers," says Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. "They will monitor arbitrage opportunities closely. We also expect to see more flexibility and borrowers willing to pay up a little bit more in 2024 to diversify."

Looking at the wider market backdrop, Hoarau sees dynamics pointing in one direction — normalisation. But he notes that, for the first time in a decade, the year will start without quantitative easing and central bank purchases.

"Macro and monetary policy are going to remain centre stage, with the inflation outlook for the US and Europe in the background," he says. The US economy and the Fed, in particular, will continue to dominate the macro environment in 2024, and the possibility of higher rates for longer remains still very much alive. Rates will not stabilise necessarily, but Hoarau thinks 2.5%-3% in Europe and about 4% in the US is plausible.

"This will be a key driver for markets and spread levels, and in terms of sequencing supply will be heavily contracted in the early part of the year," he adds. Abundant liquidity means this front-loading is not a cause for concern. But Crédit Agricole CIB will be monitoring the impact of quantitative tightening and the continuing decrease

Michael Benyaya, co-head of DCM solutions and advisory at Crédit Agricole CIB

Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB

of Fed and ECB support throughout 2024. "Whether the market will be able to absorb the volume of debt without any pricing adjustment is a key question — particularly in the second half of the year, when the liquidity and supply dynamics will be less favourable."

However, a potential tailwind could come in the shape of a rate cutting cycle starting in the middle of 2024 in both the US and Europe. The market is already excited about the possibility — but even if the ECB does cut rates, it will remain committed to reducing liquidity in the system.

"We know that this can hurt smaller banks in particular, and it is going to be another of the key spread drivers," Hoarau says.

Another issue the firm will be monitoring is the possibility of the ECB reducing excess liquidity by increasing the minimum reserve requirement (MRR). "A higher MRR would reduce liquidity coverage ratios," Hoarau adds. "Banks wanting to reinforce their liquidity coverage ratio (LCR) levels may have to raise additional funding to replenish their liquidity portfolios. This in turn may put additional pressure on covered bond supply. But, in general, we see no reason to believe that overall funding plans will be lower than in 2023."

European securitization dancing slow as 'mood music' turns upbeat

For the first time since the global financial crisis, there is optimism that much-needed positive and proportionate regulatory reform is coming to European securitization. Yet there is a long way to go before glimmers of hope translate into concrete changes or have a meaningful impact, write **Tom Lemmon** and **George Smith**.

After years spent in what many market participants consider something close to regulatory purgatory, the European securitization market is showing signs of a growing sense of optimism.

For a start, securitization may be an inadvertent beneficiary of Brexit. No longer tied to the European Union, the UK is now drafting its own securitization rules, and senior figures in the UK government have called for a "bonfire" of EU laws.

If anything, this appears to have spurred on EU rule makers. The bloc appears to be showing a newfound willingness to unleash a more competitive securitization market, with French finance minister Bruno Le Maire and German finance minister Christian Lindner having publicly called for securitization to help close the EU's capital markets "gap" versus the US and China. Moreover, the EU is also seeking an additional €500bn of financing per year for the green and digital transitions of its economy, all while having to wean capital markets off cheap central bank funding. Securitization could serve as a partial replacement at the very least.

These factors are driving a sense of optimism that encouraging regulatory changes may finally be around the corner. According to Ian Bell, CEO of securitization verification agent PCS, there is a glass half full analysis to be made. "[The] mood music has changed enormously," he says.

There is almost unanimous consensus that this is required. Post-global financial crisis reforms spawned certain developments that have benefited the industry, such as the rise of private credit and significant risk transfer (SRT) securitizations. Yet ultimately, according to those that witnessed the rise of securitization and then lived through its shrinking relevance on the continent, European securitization has served a 15 year sentence in being far more tightly regulated than comparable asset classes such as covered bonds.

This has led to years of subdued activity, with investors — insurers and bank treasuries, in particular — discouraged from entering the market because of the way securitizations are treated in capital requirements regulations. Indeed, research by the Association for Financial Markets in Europe (Afme) in 2022 found that the European market had shrunk from being 75% of the size of the market in the US in 2008 to 6% by 2020.

Alex Batchvarov, head of structured finance research at Bank of America, points to deal execution timelines as an example of the problem. "Why does it take one hour to announce, price and close mortgage covered bonds, when it takes days if not weeks to place an RMBS?" he asks.

Lengthy due diligence and compliance regulations mean it is normal for European securitization transactions to take about a week between announcement and pricing.

Tools for the job?

The mood began to change in December 2022, when the UK government explicitly mentioned securitization as a sector that needed changes as part of its Edinburgh Reforms, a set of changes designed to drive growth and competitiveness in the country's financial services.

Then, in June, came the Financial Services and Markets Act 2023. According to this, the UK would be taking a principles-based approach to regulation, with stripped back

▼ Ian Bell, PCS: "The mood music has changed enormously"

primary legislation. The finer details were to be left to the Financial Conduct Authority (FCA) and the Bank of England's Prudential Regulation Authority (PRA).

In this respect, it is a crucial departure from the EU, where potential regulatory tweaks that could fit niche markets such as securitization have not been possible without passing EU law through the European Parliament, slowing any change.

"Broadly, the UK is heading in the right direction in relation to regulation," says Shaun Baddeley, Afme's managing director for securitization. "In the EU, regulation has been predominantly prescriptive."

While the UK's strategy might be correct, the regulators still have a lot to deliver before the optimists are vindicated.

Although Janet Oram, head of ABS at UK pension fund USS, says that the FCA "has always understood where the industry is coming from", she insists that what will happen is not deregulation but "reregulation".

"Regulators are looking at what is going on and saying 'how can we make this better?'," she says. "[It's] not for banks and investors necessarily, but for a market that functions."

As the FCA and PRA contemplate how to use their new powers, they have received a hint from the top. As of 2023, they have been granted a secondary statutory objective: to support the long-term growth and competitiveness of the UK economy.

Yet not everyone is convinced that this will be enough to galvanise the duo into taking the big steps that the market would like to see.

"I question whether there isn't a disconnect between the ambitions of this government and the tool that it has given itself," Bell says.

He adds that, so far, "neither the PRA or the FCA have signed up for a bonfire of regulations".

Both institutions have held initial consultations on securitization rules, which will be finalised with reports in the second quarter of 2024. In addition, the PRA is consulting on a set of rules for securitization under the Capital Requirements Regulation (CRR), which is scheduled for completion in the second half of 2024. More publications from both regulators are likely to follow.

Although not finalised, the consultation papers published already offer hints as to where the UK's regulations are heading. The approach by regulators does appear more proportionate than existing rules, "which makes sense", according to Afme's Baddeley. Yet it doesn't yet amount to radical reform.

"[The PRA and FCA] have taken positive steps," says Batchvarov at Bank of America. "But [it's] nothing that I would call game changing."

Gordon Kerr, head of European research at KBRA, says — similarly to Batchvarov — that the initial FCA and PRA's papers were "somewhat of a missed opportunity", though he acknowledges that regulators are not that fast moving".

"It's a first step and an opportunity to consider further changes," Kerr says. "Putting decisions in the hands of the regulators will allow them to change their approach in future."

Overcomplicating matters

On the face of it, there is less reason for cheer in the EU. Going into the end of 2023, discussions over primary legislation have paused, as the European Parliament comes to the end of its term. The election for the next five years will be in June.

That just leaves the possibility of reinterpreting or adding guidance to existing rules. As well intentioned as that might be, it can overcomplicate things.

"It worries me tremendously that they are layering detail over detail, instead of reining back and simplifying things," Batchvarov says.

What's more, in the past five years, advocates for securitization have achieved very little, compared with the major reforms that many in the market were after, Bell says. "Capital Requirements Regulation, Liquidity Coverage Ratio, Solvency II, better disclosure, and a better deal for private securitizations," he says. "If you look at that sheet of desiderata, we got pretty much nothing."

Yet, for the longer term, optimism is growing and actions from politicians are backing up the hope. MEPs from Germany, France and the Netherlands, representing the biggest factions in the EU Parliament, have all tabled amendments that would, at least indirectly, benefit the securitization market.

▲ Gordon Kerr, KBRA: "If the EU really wants to take the CMU seriously and develop a pan-European market, then something needs to change"

Politicians proposing these changes might not particularly see themselves as bastions of the industry, but their actions are important, Bell says. Apart from anything else, they highlight the contrast with the attitude of politicians over the previous 15 years.

"We have three big political families, all of them doing positive things, whereas five years ago we were told 'you don't want to get anywhere near the European Parliament'," he says.

"Now you have people coming out both in the Commission and in various member states saying that not only is securitization important, and not only is it a good thing, but it is actually essential for the CMU [Capital Markets Union]."

Interventions from Le Maire, Lindner and various MEPs suggest that discussions over securitization are finally moving away from the margins and towards centre stage.

So far, market participants have engaged in various hand-wringing arguments around specific rules on investing in non-EU originating

"We have three big political families, all doing positive things, whereas five years ago we were told 'you don't want to get anywhere near the European Parliament'"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securitizations because of due diligence requirements. Today, however, bigger topics such as capital requirements calculations could be on the menu.

High level political interventions also suggest a larger concern at play. This goes beyond an effort to spur on securitization and is part of an attempt to make the EU's financial ecosystem capable of competing with larger economies around the world, such as the US and China.

"The needs are so great," Baddeley says. "Politically, the EU needs to unlock any channels of capital they can, as they need between €500bn and €700bn a year to finance the [green and digital] transition in one form or another."

Baddeley adds that the historical "stigma" attached to the securitization market is starting to fade, at least from policymakers.

"Policymakers fully recognise the importance and the role of securitization in this transition as well," he says. "Politically, the will and understanding are there, but it does need to be prioritised by the supervisory authorities if political aspirations are to be met."

Investors wanted

However, for the EU's securitization market to become competitive, the catching-up is about more than loosening the rules. There is a particular shortage of investors.

"It certainly feels like the investor base in Europe is not big enough to support the material growth needed if central banks want to transition away from cheap central bank funding and let capital markets take up the slack," says Matt Jones, head of EMEA specialised finance at S&P.

Bringing more investors on board, and potentially making the securitization market look much more like the covered bond market, is key to development. The fact that securitization assets have proved their solidity should help.

"We have had 15 years to observe how securitizations have performed since the global financial crisis," Jones adds. "And European securitization has performed very well. It's not that regulators need to take more risk; regulations need to be more balanced for the observed risks."

Kerr points to the stark contrast between the EU and US securitization markets, highlighting how the non-agency market has grown dramatically in the past 15 years in the US. "[Meanwhile] the European [non-agency market] sits idle," Kerr says. "If the EU really wants to take the CMU seriously and develop a pan-European market, then something needs to change."

That the need for a better functioning EU securitization market comes from the highest levels of government in Europe is a source of hope, but Batchvarov warns that there remains little detail and potentially years of waiting. "I'm optimistic in the sense that the attitude is more positive, but I'm neutral on the market effect because we won't know what is changing for another two to three years," he says.

And, even then, as Oram points out, it can take some time for new investors to start enhancing liquidity in the market.

"[For a new investor] it is difficult to do all the regulatory stuff from scratch," she says. "You probably have to hire in experience. As for all investors, you have to demonstrate that — before you have bought anything — you have done your credit write-up. You then have a ramp period, where the whole secondary market is stuff you didn't look at in primary."

In *GlobalCapital*'s survey of market participants, less than 10% of respondents predicted that more than two new investors would emerge in the European market in 2024.

Can't take my eyes off EU

Even if the noises are getting louder around regulatory reform, detail is light. In the UK, some have put their hope in a more principles-based approach being a strong starting point. In the EU, politicians slowly falling on the side of the market, particularly in Germany and France, suggest there is a powerful impetus.

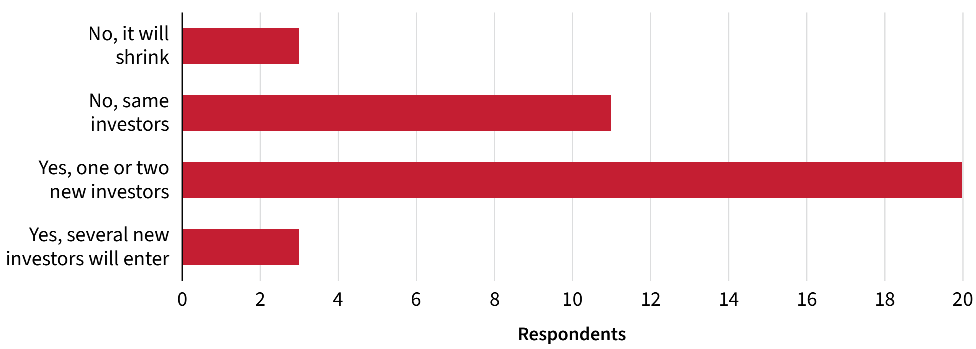
Inevitably, divergence between the two jurisdictions makes a workable solution more complicated. On top of this, the EU regulating securitization through primary legislation will make adapting to problems as they occur harder still.

Securitization reform in the UK is a more likely reality in 2024 than it is in the EU. But when it comes to competing in a meaningful way with major economies, only the EU bloc has the scale to make an impact.

Perhaps the UK can take credit for changing the music, but it is the EU's next steps that everyone will be watching. GC

▲ Janet Oram, USS: "Regulators are looking at what is going on and saying 'how can we make this better?'"

Do you expect the ABS investor base to grow in 2024?



Source: GlobalCapital

Fortune favours the flexible

Sovereigns, supranational and agency issuers that could think a little differently stood out in 2023. As borrowers grappled with rates volatility, narrower issuance windows and yet no let-up in borrowing requirements, it was those that could be nimble or novel as well as those that laid down price markers for others that took the most plaudits

GlobalCapital BOND DEALS OF THE YEAR 2023

Non-syndicated Sovereign Bond of the Year

Italy

€18.2bn 3.25%/4% June 2027

Dealers: Intesa Sanpaolo and UniCredit
Co-dealers: Banca Akros and Banca Sella

We have taken the rare decision to make an award for the best non-syndicated sovereign bond of the year. No run of the mill auction, Italy's first BTP Valore demonstrated the potential of retail investors, who may hold the key to eurozone governments' funding after QE.

Retail bonds may not be a new idea — especially when it comes to Italy, with citizens already holding a chunk of its debt — but the launch of the BTP Valore, a new, retail-only product, in June was still an achievement. The BTP Valore differ from Italy's other retail products, the BTP Italia, which are also available to institutional investors, and the pandemic-era BTP Futura.

Italy raised a stunning €18bn from the inaugural issue — two to four times market expectations. The second BTP Valore in October also beat expectations and raised the government €17bn.

Many sovereigns are yet to unleash the vast potential of their retail markets. Italy's sale inspired others, including Belgium, which priced a jaw-dropping €22bn one-year, validating the depth of this funding pool as savers looked for an alternative to low paying bank deposits.

Big volume, lower funding and deal costs and investor diversification could make the retail market invaluable to sovereign issuers once they can no longer rely on the central bank to hold their debt.

Syndicated Sovereign Bond of the Year

Spain

€13bn 3.55% October 2033

Barclays, BBVA, Crédit Agricole, Deutsche Bank, Goldman Sachs and Santander

Sequels that are better than the originals are famously few — *The Empire Strikes Back* and *The Godfather Part II* are two of the more celebrated examples. For 2023, add Spain's second €13bn 10 year Bonos syndication of the year to the list.

Being a consistent borrower in a volatile market is not easy. Spain had already syndicated a €13bn bond in January and it would go on to price three more syndicated deals, defying an uncertain rates backdrop, and taking size out of the market.

Replicating the success of a blow-out January deal five months later was a tricky task — but Spain excelled.

By the summer, the market was less liquid than it had been in January and, although yields were higher, the bond market was finding its feet after the spring banking crisis, while digesting quantitative tightening and the prospect of further interest rate increases. Despite pockets of fatigue appearing in parts of the SSA market at the time, Spain amassed an €85bn order book without compromising on the level it paid.

Supranational Dollar Bond of the Year

European Investment Bank

$5bn 3.75% February 2033 Climate Awareness Bond

BNP Paribas, CIBC and Citi

The EIB set the tone for the dollar market in January 2023, kick-starting the year with a popular $5bn five year issue. It returned in February with another blow-out deal, this time in its Climate Awareness Bond format and in a longer, 10 year tenor.

It has not been easy to get duration in dollars in 2023 but the EIB defied that trend, pricing an impressive $5bn.

It remains the largest supranational green bond ever and attracted the largest book for a dollar 10 year print at $19.2bn.

It was a brave move, with the 10 year part of the dollar curve largely untested at the time: only one other supranational had attempted a deal in the maturity amid persistent interest rate volatility.

And for dessert? The EIB doubled up that week, pricing a €5bn 2.75% July 2028 Climate Awareness EARN off the back of the success of the dollar trade.

Both transactions meant the issuer had bitten off nearly half of its €45bn annual funding programme — and the year was only just getting started.

Supranational Euro Bond of the Year

European Union

€5bn 3.125% December 2030

Bank of America, Crédit Agricole, Morgan Stanley, Nomura and UniCredit

The European Union had a great run of deals in 2023 with 11 syndications across the curve, attracting huge levels of demand.

A €6bn reopening of its February 2048 green bond in March — a rare example of a successful long-dated trade — stood out by attracting €73bn of orders. Two months later it returned to take an eye-popping €9bn out of the market in one go. And the next month, it rode the positive momentum generated by its smaller than expected borrowing need for the second half of the year with another stellar sale.

But one deal showcased the EU's skills as an issuer in the market above all: its €5bn seven year sale, priced in September. That might not look so special compared with a long-dated deal but the EU, like all SSA issuers at the time, was returning to a difficult market after the summer, in one of the busiest and most important months of the funding year. Demand had been so weak that even some of the biggest names in the market were struggling to ensure smooth execution.

The EU read the market and paid what was considered an "absolutely prudent" amount of premium for its deal to sail through, and without weighing down the market for follow-on issuers.

With this deal, the EU showed not just the important role it plays in the SSA bond market, but that it has the leadership to live up to its status.

Agency Euro Bond of the Year

KfW

€3bn 2.75% February 2033 green bond

Barclays, Crédit Agricole, DZ Bank and TD Securities

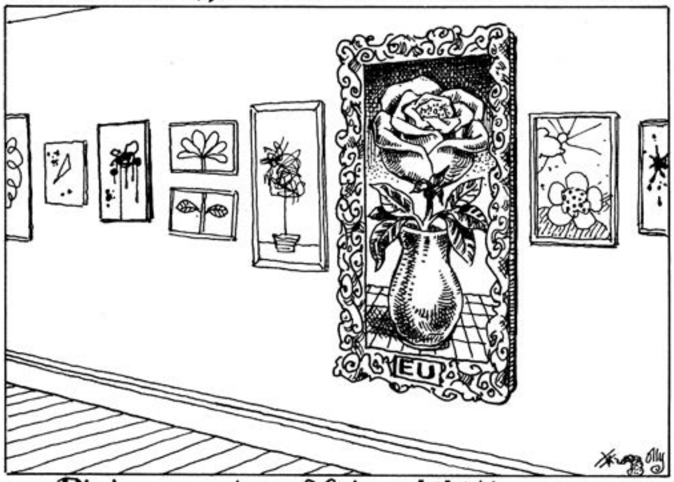
KfW has had a funding task over the past two years of €180bn, making it one of the most active SSA issuers. To meet its need, it had to mobilise in core and niche markets — and above all, make the most of its home market: euros.

The German policy bank kicked off 2023's euro funding with a five year deal, raising an impressive €6bn from what was seen as a slightly unusual choice of tenor for early January.

With a good tone set, the issuer returned to euros in February with a 10 year green bond. The results were impressive, with huge demand from investors for the €3bn no-grow deal coming in at 11 times the deal size. That allowed KfW to price the bond with no new issue premium.

It was a deal that was crucial to KfW exceeding its €10bn green funding target in 2023, and also one that — together with many other excellent SSA ESG deals this year — demonstrated the robust demand for labelled bonds.

Some issuance appears to be more attractive than others.



Pictures at an SSA exhibition.

Agency Dollar Bond of the Year

KfW

$4bn 5.125% September 2025 and $2bn 4.75% October 2030

Bank of America, HSBC, JP Morgan and TD Securities

The year 2023 was all about issuer flexibility, their ability to identify the right issuance window across different markets, tenors and formats and their ability to pick the right execution tactics. Making it work in difficult conditions became the key challenge. KfW did just that, with its $6bn dual tranche transaction in October being a perfect example.

The German issuer had been quick to seize opportunities as the dollar market improved in 2023, returning to the 10 year part of the curve in July before taking $5bn in August. With a challenging euro market after the summer and a €90bn funding target to tackle, it spotted another chance — and this time took even more funding out of the market.

It was a new exercise for KfW: before October, it had never done two tranches in dollars at the same time. Add to that the inclusion of a tricky seven year maturity and the trade was not obviously easy to do. But the result was the largest dollar SSA transaction of 2023, despite the highly volatile backdrop.

It was a valuable lesson for the wider SSA market of the value of taking a flexible approach as a frequent borrower.

Sub-Sovereign Bond of the Year

State of North Rhine-Westphalia

€2bn 3.4% March 2073

BNP Paribas, Deutsche Bank, LBBW, Morgan Stanley and Nomura

Issuing long-dated bonds is rarely an easy task but it was even tougher in 2023 thanks to volatile interest rates and an inverted yield curve.

Land NRW bucked the trend. It was one of only two SSA issuers other than eurozone sovereigns and the European Union to print a 30 year bond in January – part of an impressive €5bn dual trancher when German states were raising less than €1bn on average from their deals.

In March, it went above and beyond in all senses, serving up the first and only ultra-long print from the public sector in 2023.

The German state managed to raise €2bn from what the market thought of as an “amazing” and “very special” 50 year trade that attracted €6bn of demand, with investors including central banks, insurers and pension funds drawn towards the 3.4% coupon.

Land NRW’s solid issuance history at the ultra-long end of the curve — including century bonds — has won it the biggest stamp of approval from investors. It was a type of success that no other issuer managed to replicate throughout 2023.

SSA ESG Bond of the Year

Cyprus

€1bn 4.125% April 2033 sustainable bond

Barclays, HSBC, JP Morgan, Morgan Stanley and Société Générale

Few deals seem to capture the imagination as much as one with which a sovereign embarks on its ESG finance journey — and Cyprus stole the show on that front in 2023.

The triple-B rated sovereign made its long-awaited ESG debut in April. It had been a busy few days for sovereign syndications, with Italy and Greece also in the market and Luxembourg and Slovenia pricing sustainability deals. Despite the competition, Cyprus’s 10 year was still a blow-out.

The sovereign received its largest ever book since returning to the international bond market in 2014 and managed to price flat to fair value — an outcome that beat expectations.

Even more impressive was the sovereign’s strategic planning and ESG ambition. Its ESG needs may be limited compared with its larger peers, but Cyprus is committed to maintaining a regular presence with a labelled issuance every two or three years. And it could not have kicked off this journey with a more remarkable inaugural trade.

SSA Sterling Bond of the Year

European Investment Bank

£1bn 4.875% December 2030

Barclays, BMO and RBC Capital Markets

Sterling issuance had a rough start in the first half of 2023, when taking meaningful size and going out along the curve proved difficult. Only two deals away from the UK sovereign in the six months to June reached £1bn, with issuers focusing on shorter tenors, averaging 3.3 years with their benchmarks, according to *GlobalCapital*’s Primary Market Monitor.

But the EIB changed the game in July. It went to the longest point in the sterling curve year-to-date at that time, with the seven year deal more than twice covered and triggering a spate of trades from peers.

The deal reopened the market, with the likes of Asian Development Bank, KfW, Inter-American Development Bank and International Finance Corp subsequently appearing in the currency.

The EIB deal was the one that boosted morale and launched July towards becoming the busiest month in the currency since January, with eight syndications priced, while in the three months preceding the EIB deal there were just 10 sterling deals.

Swiss Franc Bond of the Year

European Investment Bank

Sfr200m 1.46% July 2033

BNP Paribas

The most expensive, highest quality issuers were still too rich for the Swiss franc market, even after the Swiss National Bank raised its policy rate into positive territory for the first time in seven years in 2022.

But as rates rose around the world, Swiss franc issuance became possible this year for SSAs. The highlight of the rash of SSA deals this year in the minds of many was the EIB’s 10 year deal, priced in June.

The Sfr200m (€207m) bond was its first Swiss franc issuance since 2014. The deal was priced at 27bp through Saron — one of the tightest spreads the market had seen for a while. It was priced 3bp through 2023’s next tightest deal at that point — a five year from fellow triple-A rated supra, the Nordic Investment Bank.

Despite its negative spread, the EIB bond still offered an attractive pick-up to the Swiss government curve.

The spreads top-quality names were paying over govvies helped create investor appetite for exceptionally tight paper. The duration of the bond and the strength of the EIB’s name as an issuer also meant it was well received by investors, with orders coming in beyond the Sfr200m cap.

A bookrunner described the EIB as “one of the crown jewels”, and among the “best names you can find in the Swiss market”.

After an almost decade-long absence, its return demonstrated that the Swiss franc bond market was back as an attractive source of funding for even the richest SSA issuers.

Supporting massive investment in the ecological transition

Nearly 10 years on from its foundation, French local government funding agency Agence France Locale is building up its support for environmentally friendly and sustainable projects

A report from French government policy analysis organisation France Stratégie, *The economic implications of climate action*, published in May 2023, says that €60bn needs to be invested every year until 2030 to finance the ecological transition. Moreover, French local authorities will need to invest an additional €15bn per year to finance energy-efficient renovation of public buildings, water and wastewater networks and the development of new forms of mobility. Given the scope of their powers and the financial impact of their investments, local authorities have a considerable capacity to act. Today, they account for more than 60% of French public spending and only 9% of public debt.

Here, Yves Millardet, chairman of Agence France Locale's management board, discusses the funding agency's role.

Why do French local authorities need a funding agency to finance these investments?

"In recent years, local authorities have borrowed just over €16bn each year out of a total investment volume of about €60bn. More than 70% of their investments are therefore self-financed. However, debt is an important lever enabling them to finance major equipment, particularly over the long term. In the mid-2000s, they created their preliminary access to pooled bond financing: they wanted both independence from central government and independence with respect to the European banking sector, which had shown significant limitations during the financial crisis. In other words, they wanted to create their own bank: a responsible bank, fully focused on public interest, whose business model and strategic direction they control. Last but not least, they wanted an interest in the financial outcome of this business, rather than leaving it to other public or private banks."

Has this bank proved its worth?

"AFL was created thanks to a law the government introduced in July 2013. It began operations in the first quarter of 2015, just after receiving its banking licence. With nearly 800 local authorities among our shareholders – representing almost a quarter of outstanding French local authority debt – we are able to finance more than €1.5 billion in investments each year, making us the fourth largest lender to French local authorities. Among local authority shareholders, AFL had achieved a market share of more than 50% by 2022 – it even ranks as the market leader. However, its value is measured not just by figures but by impact: thanks to its agile operating model and low running costs, AFL manages to control its environmental impact while helping local authorities to make the transition."

From an investor's point of view, why choose AFL?

"Since our inaugural issue in 2015, investors have fully understood the benefits of investing in AFL. With more than €9bn raised on the markets under excellent conditions, there is clearly confidence in the bank. Choosing AFL means choosing to support local public investment in France. Choosing AFL means choosing to finance nurseries, cycle paths, tramways, community grocery shops in small villages, health centres in areas that lack of medical care, and so on. Choosing AFL is a guarantee that you won't be financing fossil fuels or armaments. Choosing AFL means opting for a model with a low risk profile – it does not offer structured products and is committed to embodying a responsible model for the French local community over the long term. Choosing AFL also means choosing the highest-rated bank in France (Aa3 by Moody's, AA- by S&P), one notch below the French state. Finally, choosing AFL means choosing a developing model with more than €8bn in outstanding loans, about 15% solvency (on a consolidated basis) and gross operating income of more than €3.8m by mid-2023. We consider that an exposure to AFL corresponds to a well-diversified exposure to the French local public sector that is less risky than any single exposure. We also understand investors' need for liquidity – this is why we have already brought three bonds of €1bn each and will do our best to improve the liquidity of our debt in the future."

"Choosing AFL is a guarantee that you won't be financing fossil fuels or armaments. Choosing AFL means opting for a model with a low risk profile"
— Yves Millardet

How are you looking ahead to 2024?

"At this stage, we see 2024 as the year in which AFL's growth will reach new levels. Against a backdrop of higher interest rates, AFL's model is proving its worth – enabling us to offer competitive pricing to our local authority shareholders. We are confident that the important 2023 flow of new members will continue and that our lending momentum will continue as the needs of local authorities grow. As a result, our refinancing needs will continue to grow and we are looking at a programme of about €2bn over 2024, including €500m in the form of sustainable bonds. We know that 100% of the investments made by local authorities are driven by public policies – and a substantial share contributes directly to achieving the UN's Sustainable Development Goals (SDGs). In the future, we intend to increase this form of fundraising – but at the moment, for public accounting reasons, we allocate only 40% of local government capital expenditure to sustainable issues. This already represents €1bn since 2020. We want to continue to promote this development because it is our raison d'être."

Disaster recovery

In a year dominated by the collapse and takeover of Credit Suisse, financial institutions were keen to re-establish investor confidence in some of the riskier asset classes. Axa led the way just weeks after the CS rescue with a €1bn subordinated bond. In the autumn, UBS made a bold statement about the stability of Swiss bank capital as it returned to AT1 issuance with two $1.75bn tranches. Elsewhere, banks dealt with tricky conditions and pulled off some skilfully timed transactions, underlining the market's faith in mainstream currencies and emphasising the appeal of ESG labels

GlobalCapital
BOND DEALS OF THE YEAR 2023

Tier Two Bond of the Year

Axa

€1bn 5.5% July 2043 non-call July 2033

BNP Paribas, Bank of America, Crédit Agricole, JP Morgan, Natixis, Société Générale

Axa showed that there was life in the subordinated bond markets after the collapse of Credit Suisse shuttered issuance across currencies.

The French insurance company was the first financial institution in Europe to step back into subordinated issuance, just a few weeks after the Swiss bank's rescue. Relying on the strength of the issuer's insurance business, the €1bn deal was more than four times covered at its peak, a sign that the correct reading of the market with the right approach could pay off even for riskier capital deals soon after the March mayhem of the banking crisis.

The blow-out order book allowed the issuer to crank in the price to the point where some observers thought the deal was priced flat to, if not through, fair value.

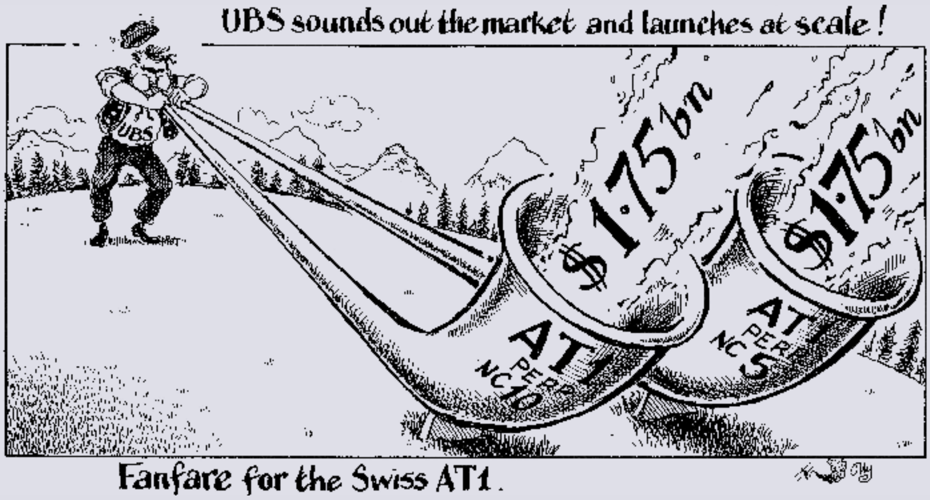
The resounding success exceeded many market participants' expectations, and became the stepping stone to further tier two debt sales. If UBS's AT1 was the peak of the bank capital issuance recovery after the banking crisis, Axa's deal was base camp.

Additional Tier One Bond of the Year

UBS Group

$1.75bn 9.25% perpetual non-call November 2028
$1.75bn 9.25% perpetual non-call November 2033

UBS



The collapse of Credit Suisse in March was not only the first international systemically important bank failure since the global financial crisis. It also put additional tier one (AT1) capital — the most subordinated bank debt — under the spotlight, especially in Switzerland, when the regulator wiped out $17bn of the stricken bank's AT1s as part of its forced merger into UBS.

UBS's return to AT1 issuance had therefore been much anticipated. But when it did come to market, in autumn 2023, it made an emphatic statement that investors had put the Credit Suisse write-down behind them.

UBS attracted $36bn of orders to its pair of $1.75bn tranches — the biggest ever book for an AT1 sale. It showed a full restoration of confidence in the asset class, and was evidence that investors saw UBS as a reliable issuer.

Thanks to the overwhelming demand, UBS was able to crunch the pricing by about 25bp through fair value.

This deal not only paved the way for other European banks to follow with their own dollar AT1s, but also alleviated lingering concerns about Swiss bank capital.

Senior Euro Bond of the Year

Banco Santander

€1.25bn 4.875% October 2027 non-call October 2026 senior non-preferred
€2bn 4.625% October 2031 senior non-preferred

ING, Natixis, NatWest Markets, Nomura, Santander, Société Générale, UniCredit

Banco Santander has a reputation as an astute issuer. In 2023, it timed its two senior outings in euros to perfection, printing both the largest and the second largest such deals in the currency.

After its €5bn senior preferred triple trancher in January, it returned in October with a €3.25bn two-part non-preferred trade.

The second deal was the first unsecured euro deal from a European bank after a spell of market inactivity and it revived Santander's presence in the public euro senior non-preferred market, where it had not issued for two years.

Having an investor base starved of non-preferred paper from a European national champion was one ingredient in the deal's success. The fast bookbuild, despite the concurrent interest rate volatility, highlighted investors' clamour for the Spanish bank's credit.

Choosing an eight year tranche was another key part of the recipe. At nearly double the size of the shorter piece, it helped Santander capture investors' bid for duration, something that had not been a given in a market troubled by the rates outlook at the time.

Financial Institution ESG Bond of the Year

Bank of Ireland Group

€750m 4.625% November 2029 non-call November 2028 senior green bond

Davy, Goldman Sachs, JP Morgan, Mizuho, Morgan Stanley, UBS

The Irish economy has been thriving and its banks have served as proxies for investors looking to take exposure. Bank of Ireland, which has been instrumental in labelling almost all of its senior issuance green in recent years, took full advantage of the demand.

The green label allowed the bank to broaden its investor base, looping in investors that track ESG-labelled deals exclusively.

This deal, from November 2023, was the culmination of that effort after a number of visits to the primary market during the year. While demand was a touch stronger for its similar €750m 4.875% 5.5 year non-call 4.5 green senior outing in January, it was the November trade that drew the most plaudits.

It was priced in a more difficult market which, unlike January, was not one of abundant liquidity. Moreover, the note was longer than the January trade but, thanks to the additional demand that the green label generated, was priced at a spread 50bp tighter, allowing the issuer to print flat to, if not inside, fair value.

Non-Core Currency Bond of the Year

Banque Fédérative du Crédit Mutuel

¥65bn 0.82% October 2026 senior preferred Samurai
¥97.5bn 1.203% October 2028 senior preferred Samurai
¥4.5bn 1.648% October 2033 senior preferred Samurai

Daiwa, Nomura, SMBC Nikko

Banque Fédérative du Crédit Mutuel reaped the benefits of its long-term commitment to Japanese investors with its largest ever deal in the currency. This was no small feat, as the ¥167bn ($1.13bn) three tranche Samurai was priced in the middle of a spell of interest rate volatility.

The deal was a testament to the resilience of the Japanese bond market and the funding it offers to foreign issuers at times of stress elsewhere — but only those that have done their investor work and can therefore garner strong local name recognition.

The French bank fitted the bill perfectly and executed one of the largest public FIG deals during a volatile week that pushed banks in other markets to stand down from issuing at all.

BFCM's choice to issue a Samurai paid off too, despite the arduous documentation requirements compared with other formats of yen bond. It allowed the issuer to reach a far larger number of investors, providing the issuer with crucial funding diversification.

The pricing was attractive too, with admirers suggesting that the issuer would not have achieved better levels for an equivalent deal in its home market of euros.

Companies choose agile tactics for a market without central banks

GlobalCapital BOND DEALS OF THE YEAR 2023

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SOCIETE GENERALE

The past year has been one of tightening in the capital markets, with central banks throwing easy money supply into reverse. *GlobalCapital* has chosen these corporate deals as outstanding, for proving either that staggering sizes and difficult maturities were still possible, or that ingenuity and flexibility could make even the toughest market conditions work for an issuer

Corporate Bond of the Year

IBM

€1bn 3.375% February 2027
€1.25bn 3.625% February 2031
€1bn 3.75% February 2035
€1bn 4% February 2043
£750m 4.875% February 2038

Bank of America, Barclays, Citigroup, Goldman Sachs, JP Morgan, Mizuho, MUFG, TD Securities

IBM kick-started 2023 with a rocket of a deal that spanned decades of maturities in euros and 15 year sterling, making it the well deserved deal of the year.

When the US technology company came in January for €5.1bn-equivalent, it was its biggest issue in euros since 2019 and the largest corporate euro deal for more than a year.

But what really made the trade stand out, besides its eye popping size, was the 15 year sterling component.

That tranche drew £2bn of orders, as UK pension funds and insurance companies lapped up some much needed long duration paper.

Pension funds also bought a chunk of the longer euro tranches, sparking hope that these prized buy and hold investors were returning to the investment grade corporate bond market after years of shunning its rock bottom yields during quantitative easing.

All of this happened while sentiment was sharply souring on fears of interest rate rises and when the technology sector was out of favour.

Dollar Corporate Bond of the Year

Pfizer

$3bn 4.65% May 2025
$3bn 4.45% May 2026
$4bn 4.45% May 2028
$3bn 4.65% May 2030
$5bn 4.75% May 2033
$3bn 5.11% May 2043
$6bn 5.3% May 2053
$4bn 5.34% May 2063

Bank of America, Barclays, Citigroup, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, RBC Capital Markets

Size isn't everything, but US pharmaceuticals company Pfizer is a deserving winner after overcoming regulatory obstacles to print the fourth largest bond issue ever, totalling $31bn.

Pfizer announced a $43bn acquisition of Seagen in March. By May, it was in the market with eight tranches as it tried to lock in the jaw-dropping amount of financing it needed before the US Federal Reserve raised rates.

And Pfizer proved that even the biggest ships can change direction at short notice. The day before it opened books, the US Federal Trade Commission brought legal action against another pharmaceuticals merger, throwing doubt on whether Pfizer's purchase would go ahead.

To keep investors on side, Pfizer kept only the 40 year part covered by the M&A clause that said it must be repaid at 101 if the acquisition didn't go ahead. The other bonds were raised without this clause — which meant far less protection for Pfizer, but much more for investors.

The deal was a blow-out, with $80bn of orders. The FTC has yet to give the acquisition the green light, though its European counterpart has approved it.

Sterling Corporate Bond of the Year

Nestlé

£400m 5.25% September 2026
£400m 5.125% September 2032

Barclays, Goldman Sachs, HSBC, JP Morgan, RBC Capital Markets

Nestlé pounced on an undersupplied sterling market in September to price some way through where it could price euro debt this year. The company's ability to pick the right market at the right time made it the deal of the year in sterling.

The dual tranche transaction came at a tricky time for the market. There had been undersupply all year, but a recent burst of trades had already convinced some participants that the notoriously fickle sterling market was showing signs of exhaustion.

Nestlé proved any doubters wrong. The foods group took full advantage of the twice inverted Gilt curve to find the pockets of most demand, and priced the more popular three year tranche more than 20bp through where it could have sold the equivalent debt in euros.

The leads drummed up £2.3bn of orders. This was impressive in itself, considering Aa3/AA- rated Nestlé — which some colloquially call "The Kingdom of Nestlé" because it is as highly rated as a sovereign — pays razor-thin spreads.

Corporate ESG Bond of the Year

Volkswagen Leasing

€800m 4.5% March 2026 green
€500m 4.525% March 2029 green
€700m 4.75% September 2031 green

Deutsche Bank, ING, Intesa Sanpaolo, SEB, Société Générale

Volkswagen Leasing made a top gear entry to the green bond market in September, finding ample demand for the €2bn issue, with books peaking above €7bn.

That was all the more impressive because VW Financial Services had issued in sterling only a week earlier. Other affiliated companies Traton and Porsche were also competing for investor attention this year.

The use of highly specific markets allowed the frequently funding VW Group to maintain market access, and was a reminder of why the green bond market is so highly prized by issuers.

Even though investors were feeling fatigued with the automotive sector this year, and with the VW Group in particular, Volkswagen Leasing still managed to tighten all three tranches, paying concessions of 8bp-12bp, while extending its curve by two years.

Corporate Liability Management Deal of the Year

Unibail-Rodamco-Westfield

Any and all exchange on €1.25bn 2.125% perpetual non-call July 2023 bonds for €155m cash and €955m 7.25% perpetual non-call October 2028

BNP Paribas

Shopping centre owner Unibail-Rodamco-Westfield sidestepped the calamity threatening to engulf real estate hybrid capital with an elegant exchange transaction that almost all investors took up.

It was a bruising year for property companies on all fronts, with spreads soaring.

URW had a call date coming in July for its €1.25bn 2.125% perpetual hybrid and did not want to upset its investors by not calling it. But it knew that a new issue to replace it would be prohibitively expensive because of how far real estate spreads had widened.

So, working with BNP Paribas, the company crafted an exchange process that had not been done in the high grade corporate market before. In June, it offered investors a chance to swap their hybrids for a new 7.25% perpetual non-call October 2028 issue, plus a slug of cash, small enough not to breach rating agency rules on reducing hybrids.

The new coupon was designed to be high enough to appease investors, but still affordable for URW, and less than what it would pay in the open market. Investors overwhelmingly liked the compromise: 92% agreed to the exchange. The rest kept their old hybrids, which have been extended.

On a voyage of price discovery secondary market navigational instruments are not entirely acurate.

The rise of upbeat anxiety.


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The art of resetting the market

After a disastrous 2022, hopes were sky high among banks, issuers and investors in the emerging markets that 2023 would mark a turnaround.

GlobalCapital BOND DEALS OF THE YEAR 2023

Record breaking volumes were printed in the first month of the year — and then the first quarter — only for bullishness to fall away as US regional banks and then Credit Suisse threatened another global financial crisis.

Conflict in Ukraine and Israel brought further worry.

Wise issuers took windows when they appeared and played to their particular strengths rather than waited for the perfect moment.

CEEMEA Financial Institution Bond of the Year

Abu Dhabi Islamic Bank

$750m 7.25% perpetual non-call January 2029

Global coordinators and structurers: HSBC and Standard Chartered

Bookrunners and lead managers: ADIB, Citi, Emirates NBD Capital, First Abu Dhabi Bank and JP Morgan

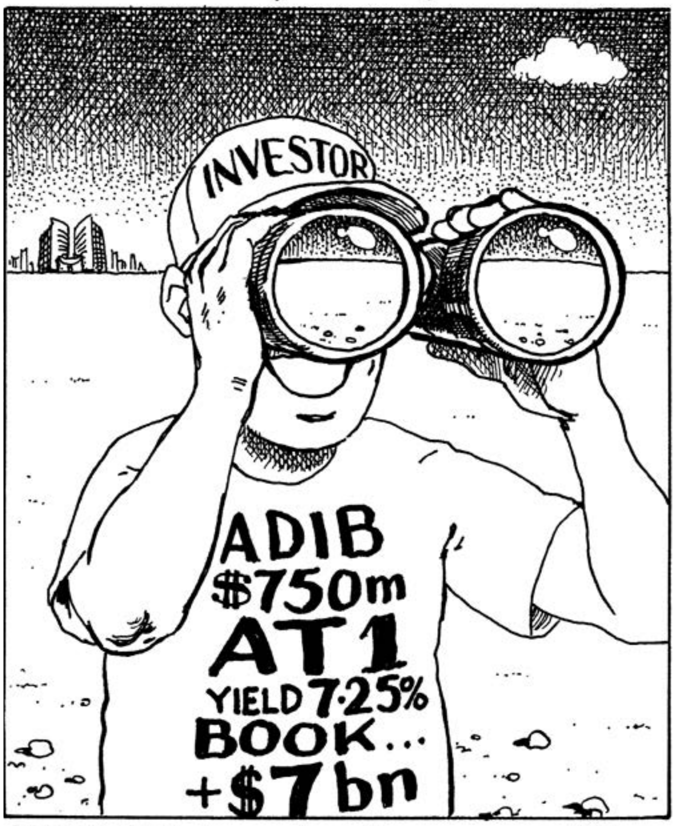
The strength of demand for Abu Dhabi Islamic Bank's AT1 bowled the issuer and its leads over when they braved the market in July to print the first EM AT1 since Credit Suisse's collapse — including the writedown of $17bn of its AT1 paper — earlier in the year had upset the market.

When the Swiss regulator wiped out Credit Suisse's AT1s, trust in the product appeared to have vanished. But despite that, ADIB drew a spectacular $7bn of orders for its AT1 sukuk. The coupon was just 12.5bp higher than a $750m AT1 deal it sold in 2018, despite US Treasury yields having shot up since then by roughly 110bp. The deal was also priced well inside AT1s from even some developed market issuers.

The deal refinanced an AT1 with a looming call date for ADIB — an investor-friendly move that also helped rebuild trust that had been lost in the market more broadly.

ADIB showed that investors were willing to look at borrowers and their debt loads on their own merits, and that being a part of the emerging market universe of borrowers was no hindrance when looking for bank capital.

The search for comparables.



ADIB's AT1 - investors have seen nothing this good in quite some time.

CEEMEA Sovereign Bond of the Year

Republic of Hungary

$1.5bn 6.125% May 2028s, $1.5bn 6.25% September 2032s and $1.25bn 6.75% September 2052s

BNP Paribas, Citi, Deutsche Bank, Goldman Sachs and JP Morgan

Those heady months at the start of 2023 offered a window where EM bonds came in good size to an investor base that believed — it transpired, incorrectly — that the market was on the brink of a turning point both for US rates and a resurgence of enthusiasm for the asset class.

Hungary was not to know how 2023 would play out when it printed the first CEEMEA bond of the year on January 4. But having seen how emerging market issuers had struggled in 2022 and having built a book of $6bn, it chose to price a total of $4.25bn new bonds, its largest ever dollar bond and largest ever intra-day offering. It paid just 10bp-25bp of new issue premium on each tranche to do it, a far skinnier concession than the 40bp-50bp that other issuers had paid in the preceding months.

By being quick to issue and front-loading its borrowing, it also paid less than other borrowers that waited as 10 year US Treasury yields rose. They went as high as 5% by October but were only 3.69% when Hungary came to market.

Not everyone expected such an impressive result for Hungary but it began a record breaking January for CEEMEA issuers — particularly striking, given the damp squib of a year before — and also started a trend of CEE sovereigns accessing the dollar market. Hungary laid a foundation of confidence among beaten down investors that other issuers took advantage of for most of the first quarter.

CEEMEA ESG Bond of the Year

DP World

$1.5bn 5.50% September 2033

Citi, Deutsche Bank, Dubai Islamic Bank, Emirates NBD Capital, First Abu Dhabi Bank, HSBC, JP Morgan and Standard Chartered

New issues with a decent order book, timed perfectly and with textbook execution were hard to come by in 2023, but DP World, rated Baa2/—/BBB+, pulled off just such a hat-trick with a 10 year deal.

The green sukuk was one of the first priced in September as renewed enthusiasm for emerging market debt was growing but far from assured after a rocky summer of soaring US Treasury yields.

This deal — which was printed with one of the tightest ever levels for a triple-B rated credit — even won praise from rival syndicate managers. They said that the success was little surprise, knowing the calibre of the DP World team and their history of dealing with investors — highly prized credentials in such volatile markets.

Orders hit $3.5bn thanks to the dearth of non-real estate issuance from the Gulf. Making the deal green and a sukuk turbocharged demand, maximising its audience. Investors' only grumble was the skinny new issue premium; some fund managers put it at zero, while bankers on the deal thought it was 5bp-10bp. Either way, that was unusually small.

CEEMEA Corporate Bond of the Year

GreenSaif Pipelines Bidco

$1.5bn 5.78% August 2032, $1.5bn 6.129% February 2038, $1.5bn 6.51% February 2042 (Formosa)

Global coordinators: BNP Paribas, HSBC, JP Morgan

Bookrunners for 2032s and 2038s: BNP Paribas, Citi, First Abu Dhabi Bank, HSBC, JP Morgan, MUFG and SMBC Nikko

Bookrunners for 2042s: BNP Paribas, Citibank Taiwan, HSBC Bank (Taiwan) and JP Morgan

Gas pipeline investment vehicle GreenSaif reset expectations for Saudi pipeline bonds when it printed its $4.5bn triple tranche deal in 2023, wiping the slate clean after it had been marked by the struggles of EIG Pearl, a similar issuer, to price a deal the year before.

There was nervousness as GreenSaif (A1/A) approached the market for its project finance bond in February.

The only comparable bonds were those from similarly rated EIG Pearl, issued in January 2022. EIG Pearl is an investment vehicle that owns a lease to 49% of Saudi Aramco's oil pipelines. Like GreenSaif, it issued the bond to repay a loan taken to buy that stake. GreenSaif took out a $13.8bn loan in January last year, due for repayment in 2029.

But the execution of the EIG Pearl deal had not been straightforward. It had sold $2.5bn of senior secured amortising bonds but slashed the size to get the deal over the line and could not tighten pricing from guidance.

It was feared that the same fate would befall GreenSaif if investors struggled with the issuer's complexity. Instead, it built a spectacular book that hit more than $16bn and crunched pricing by more than 20bp on each tranche.

In doing so, the deal reopened an avenue of financing for similar issuers at competitive levels, reigniting buyers' interest in Middle Eastern project financing bonds.

Banking crisis... 'when the storm comes capital instruments are chaff in the wind.'

Crowds and QT 'something to look forward to' for SSA issuers

The public sector bond market is set for another busy year, meaning congested issuance windows and spread volatility against an uncertain macroeconomic and geopolitical backdrop. But higher yields and a normalisation of demand, thanks to quantitative tightening, present opportunities for both issuers and investors, writes **Addison Gong**

Although sovereign, supranational and agency borrowers can look back on 2023 as a difficult year well navigated in the bond market, they will have barely any respite before facing a new set of obstacles in meeting their 2024 borrowing needs. Some of those will be new versions of old problems — contending with interest rate volatility and diminishing support from central banks. Others will be unforeseen, as March's banking crisis and the outbreak of war in October the Middle East were in 2023.

The effect of quantitative tightening (QT) was something that almost all participants in *GlobalCapital*'s SSA market survey agreed was likely to be the biggest disruptor of issuance at the end of last year. They were proved right: QT, aided by uncertainty surrounding inflation and growth, drove spreads wider and new issue premiums higher as order books and deal sizes shrank, notably into the autumn.

Therefore, it was perhaps no surprise that the acceleration of QT remains a concern for 15% of respondents in this year's survey as the market prepares for 2024.

Key to navigating the primary market will be dusting off the playbook of yesteryear. Issuers and bankers alike should be reminded of "pre-QE issuance styles and best practice," says Lee Cumbes, head of DCM for EMEA at Barclays. "With central banks reducing their balance sheets, there will be less money in the system. The price of that money has also changed and therefore the best way to access it is likely to be different. This should be part of all of our thinking and approach to markets going into 2024.

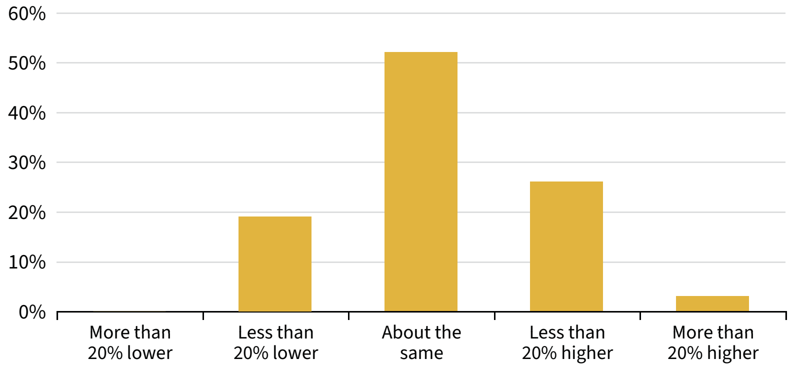
"There have already been signs that the euro market has changed recently and it is important to have those lessons in mind when we start next year, so we avoid risks of learning by trial and error — especially when there is a lot of uncertainty, whether that be rates, geopolitics or other factors."

Survey respondents were also wary of other factors that could derail issuance, with geopolitical uncertainty (25%) and 'higher-for-longer' rates (25%) topping the list, followed by concerns over an unforeseen crisis (18%) and an economic recession (17%).

"With large issuance volumes, ongoing macro uncertainties including on interest rates and QT also weighing on the markets, 2024 will continue to be challenging, but we are not worried," says Ioannis Rallis, JP Morgan's head of SSA DCM.

"It will not be an easy market, but we have proved this year that it is a market that we can navigate. It will be about finding the right trade at the right time with the right price that can engage investors."

How will overall SSA issuance volume change in 2024 compared with 2023?



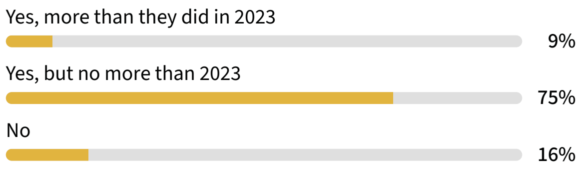
But on the bright side...

Despite a tough final quarter in the euro market, the single currency was still the main funding avenue for SSAs and accounted for about two-thirds of overall benchmark issuance as *GlobalCapital* went to press.

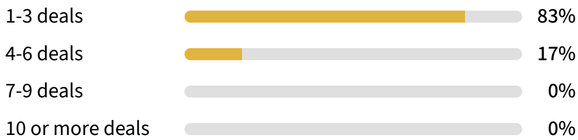
Issuers also had to take a more flexible approach to deal execution. Some decided to set initial pricing a couple of basis points wider than usual. Others chose not to tighten the spread with any aggression — if at all — to maintain their order books and ensure secondary market performance.

"We are still finding our way through to the end of QE, which is not something that happens overnight," says Mark Byrne, managing director, European debt syndicate at TD Securities. "In the euro market, the distortions are still coming through but in a relatively orderly way. There have been patches of difficulty but deals are getting done, and both issuers and investors are adapting. And I think we will continue to see that [next year]."

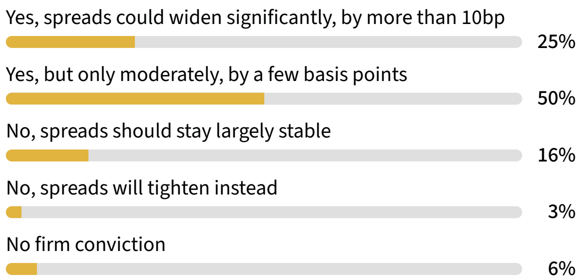
Many SSAs benefitted from front-loading of issuance in 2023. Will they be incentivised to do the same in 2024?



A new asset class, MDB hybrids, is set to take off. How many deals do you expect to see over the next 12 months, in addition to the AfDB?



Will SSA spreads continue to widen against swaps in euros in 2024?



At the same time, market participants also recognise the opportunities that QT presents.

There are two sides of the coin when it comes to QT, says Benjamin de Forton, senior DCM SSA banker for EMEA at BNP Paribas. "It shouldn't be seen as purely negative, because it should reduce the distortions in a market that was too accustomed to QE," he adds. "Spreads may be wider initially, but there will be more bonds available, which will be a positive especially to well rated sovereigns, as the improved secondary liquidity will lead to a normalisation of their curves."

"After years of being spoiled by QE, we are returning to a market where investors would look at issuers on a credit basis and take the time to do some digging — and it is something to look forward to," says Kerr Finlayson, head of FBG syndicate at NatWest Markets. "There will be trades that will be difficult to do, but it's exciting at the same time. The market could be tough and issuers will have to be nimble.

"But the exit of QE is also creating an exciting opportunity for some issuers — for example, dollar-based supras — to return to the euro market, with their curves normalising versus the ECB-eligible European peers."

Championing the dollar

The dollar market served as a reliable funding source for many euro-based SSAs in the second half of 2023. Not always the cheapest source of funding, it nonetheless provided larger size — or sometimes simply smoother execution.

Benchmark issuance in dollars as of mid-November was already a quarter higher than the full year volume for 2022, according to data compiled by *GlobalCapital*.

Nearly half of survey respondents (47%) believe that the dollar market will continue to provide a more reliable funding source for SSAs that have access to both markets in 2024, with only 13% voting for euros. The remaining 41% think the two markets will serve issuers equally well.

The result looks starkly different from that of last year, when 45% thought euros would be the more reliable out of the two markets.

The dollar market has proved strong both in terms of demand and comparable cost of funding, and will continue to provide a safer backdrop for execution, given the slightly more advanced rates cycle in the US, Finlayson says.

Byrne too expects dollar execution to continue to be robust and for the currency to provide a good alternative for issuers. "It's part of the biggest themes we have seen this year, which are diversification and flexibility," he adds. "Issuers' ability to move across different markets — including also the Australian dollar, Canadian dollar and sterling — is going to be key next year."

But that is not to say the importance of the euro market to SSAs should diminish by any means. "It depends on how you look at the two markets, by what metrics, and at which part of the curve," de Forton says. "But while the backdrop may be stronger in the dollar market, the euro market is still very important for issuers to access a spectrum of maturities. Issuers had been overly reliant on euros in 2022 and we have seen that normalising a bit."

Fitting it all in

Most respondents (52%) believe SSA issuance volumes in 2024 will stay more or less flat to 2023, but nearly 30% predict heavier supply. Most, however, believe that the volume increase will not exceed a fifth higher than 2023.

"The market is on track for another busy year ahead, and the curve should continue to steepen," Finlayson says. "In a normalising market, we will likely see the investor base go back to what attracted them historically — for example, for bank treasuries to focus again on the five year sweet spot, and for asset managers and insurers to reduce a bit of duration."

The sheer amount of issuance, its implications for a primary market calendar already littered with economic data releases and central bank meetings, as well as spread performance, constitute a major concern for issuers.

"Our top concern would be the heavier supply calendar, which could potentially impact spreads," says Sam Dorri, managing director, Total Fund Management, at the Canada Pension Plan Investment Board.

In addition to higher issuance from traditional tier one borrowers, Dorri expects Canadian borrowers to do an extra 15% compared with 2023, which he admits is "not an enormous amount" but still "a bigger number in what might be a challenging year".

He is concerned that supply will drive levels wider and that they will widen in leaps and bounds rather than gradually. "More supply could also impact investor behaviour, with investors potentially more inclined to delay investment for wider spreads at a later stage," Dorri adds. "In turn, this could impact how issuers with conventionally less market access may approach the market, which may have a spillover effect on the sector."

Three-quarters of respondents believe issuers will front-load their borrowing, as they did in 2023, while 9% think they will do so even more actively.

Many issuers, including KfW, the European Financial Stability Facility and Land NRW, secured bigger amounts of funding in

What will happen to the average spread of euro SSA bonds to Bunds in 2024?

Rise	55%
Fall	16%
Remain the same	29%

What will happen to the average spread of dollar SSA bonds to US Treasuries in 2024?

Rise	34%
Fall	16%
Remain the same	50%

Will euros or dollars provide a more reliable funding source for SSAs that have access to both markets?

Euros	13%
Dollars	47%
Both will be roughly equivalent	41%

Will issuers have to pay a higher new issue premium in 2024 than in 2023?

Yes, premium will be higher and stay elevated throughout the year	22%
Yes, premium will be higher initially but should fall as the year goes on	44%
No, premium will remain more or less the same as the majority of 2023	34%
No, premium will decline	0%

What do you think the major disruptors of SSA issuance will be?

'Higher for longer' rates/Sticky inflation	25%
Geopolitical uncertainty	25%
Unforeseen crisis	18%
Global recession	17%
Faster-than-expected QT	15%

What will be the top priority for SSA issuers in 2024?

Finding the right window and dealing with competing supply	33%
Paying the right premium	18%
Maintaining order book quality	16%
Increasing secondary liquidity	14%
Getting large deal sizes	12%
Getting more duration	7%

the early part of 2023. They also scouted for other possible funding opportunities to help navigate data releases, central bank meetings and unexpected risks. Most issuers were therefore in a comfortable position heading into the summer, with some of the largest borrowers, including the European Investment Bank, able to wrap up their benchmark funding in as early as September.

Right time, right price

Widening spreads were another headache for SSA issuers in 2023, cheapening by 10bp within a couple of weeks at the most volatile times and making new issue pricing more difficult.

Three-quarters of those surveyed believe that euro SSA spreads will continue to widen against swaps in 2024; 50% hope the widening will remain moderate at only a few basis points, but 25% fear that it could prove more significant at more than 10bp. Only 16% think spreads will be stable.

Volatile spreads have made assessing fair value — and subsequently, the appropriate new issue concession — more challenging for issuers.

Two-thirds of market participants surveyed by *GlobalCapital* believe that issuers will need to pay a higher new issue premium in 2024 compared with 2023, and 21% think that premiums will stay elevated throughout the year.

Paying the right premium was voted the second highest priority for SSA issuers in 2024 in the survey (18%).

Bankers believe that even if issuers sometimes must pay up in the primary market, they will be rewarded with secondary performance and subsequently, future buying from investors.

But the top priority for public sector borrowers in a potentially busy year for issuance will be about finding the right window and dealing with competing supply, which accounted for 33% of votes, followed by maintaining order book quality (16%) and increasing secondary liquidity (14%).

"It's really important for issuers to come at the right time and at the right level, and that will hopefully also help improve secondary liquidity, which has had a tremendous impact on a lot of the issuers this year, as the majority of the market away from the few big names is very illiquid and not reflective of where investor interest truly is," de Forton says.

The days of waiting for the optimal issuing window are gone — a new reality that SSA issuers will have to face well into the future.

"Funding officers used to look for pristine conditions, making sure all boxes are ticked when entering the market. But with ongoing volatility in the market, I don't think we have that luxury anymore," says Daniel Aagaard Pedersen, head of funding and investor relations, treasury, at KommuneKredit.

"There are fewer and shorter windows, and, from time to time, we will have to issue close to a key economic data release or when there is heavy traffic. We will see a congested market and it will become even more pressing for both larger and smaller SSAs to have more agility in 2024." GC

SSAs left thankful for fast start after fatigue sets in

Marathon runners fear the dreaded wall — the point near the end of a race where all energy and hope is drained. SSA issuers made it over the line with their funding in 2023 but there were signs of a flagging market in the final, hard yards, writes **Georgie Lee**

Given that 2022 was a terrible year for bonds, sovereign, supranational and agency issuers may not have expected 2023 to get off to the flying start that it did. SSA issuers front-loaded $266.4bn-equivalent of benchmark issuance across dollars, euros and sterling in January and February, according to *GlobalCapital*'s Primary Market Monitor, blowing away the $196.6bn-equivalent raised in the same period in 2022. But cracks soon appeared, and while pricing data indicates conditions were still better than last year, primary market strength waned under the weight of market volatility.

During the first two months of the year, the average SSA benchmark was €2.3bn-equivalent across euros and dollars. Order books swelled on average to 3.6 times the deal size across both currencies.

But 2023 became a year of primary market peaks and troughs. The regional banking crisis in the US and collapse of Credit Suisse triggered a flight to quality in March but still almost shut the SSA primary market. Meanwhile, the European Central Bank began withdrawing support provided by its Asset Purchase Programme.

PMM data shows there were just 22 syndicated SSA benchmarks in euros and dollars in the month of March, compared to 49 in February and 53 in January. And this was just over half the number in March 2022.

Conditions grew tougher still. US Federal Reserve chair Jerome Powell's 'higher for longer' testimony to Congress in the autumn sent tremors through a market where SSAs hopeful of dollar issuance had been waiting on the sidelines for the right moment.

Dollar benchmark issuance fell markedly in the first half of the year compared to euros, with public sector borrowers raising $132.8bn from 65 deals in the first half of 2023, versus $367.1bn-equivalent raised in euros.

Rates uncertainty and an inverted yield curve dragged down the average maturity of SSA benchmarks in the first 10 full months of 2023 to 8.2 years, versus 9.6 years in 2022.

And yet, *GlobalCapital* data suggests issuance conditions overall were still better in 2023 than they were in 2022, when central banks first embarked on their rapid monetary tightening cycle.

Demand from investors has allowed issuers to tighten pricing from guidance, on average, more in the first 10 months of this year compared to January-October 2022 — by 1.9bp compared to 1.4bp.

After the initial buying frenzy in the first quarter, agencies issuing in euros were on average able to tighten pricing by 3.1bp during execution in Q2, compared to 1.4bp in Q2 2022.

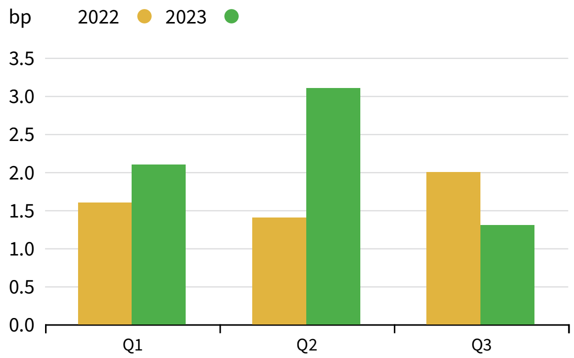
But cracks appeared, particularly in the euro market. After the banking crisis, smaller SSAs did not get the reception they had once received. Benchmark volumes fell from $215.9bn-equivalent in Q1 2023 to $151.5bn-equivilant in Q2 2023.

Come April, a spate of stand-out deals from big issuers caused concern. Austria lost €1.8bn of orders on an October 2053 tranche after tightening by just 1bp during execution. That included a sharp 90% drop in lead manager orders. The same week, KfW drew just €5.1bn of demand for a 10 year trade, versus the €33bn of demand it commanded for the same maturity in February.

Issuers lost pricing power as the year wore on. Supranationals could tighten benchmark pricing by 2.1bp on average in euros in Q2 but only by 1.4bp in Q3. In October it fell to 1.3bp on average.

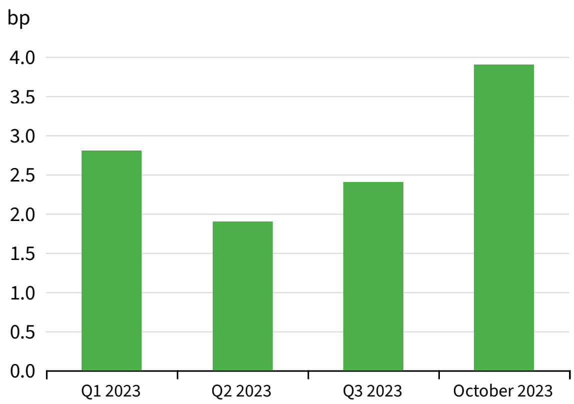
New issue premiums rose in euros. SSA issuers paid 2.4bp of premium on average in H1 2023 and so far in H2 have paid 2.9bp. This is up from 2.8bp in the latter half of 2022, all part of a timid autumn restart after the summer lull. GC

Average spread tightening during book building for agency benchmarks in euros



Source: GlobalCapital Primary Market Monitor

SSA euro benchmark average new issue premiums



Source: GlobalCapital Primary Market Monitor

Roundtable
Lessons of 2023 to guide SSAs through hectic market to come

Sovereign, supranational and agency issuers made an early start to what promised to be a treacherous 2023 in the primary bond market. They will have been glad they front-loaded, as the year more than delivered on that promise. Rates volatility and rising inflation dictated when issuers could find a window to bring a deal and quantitative tightening, war and a banking crisis have left issuers needing to pay even more care to how they approach 2024.

As 2023 draws to a close, there is no sign of borrowing requirements falling. Meanwhile, although central banks may not have to ramp up rates as they did in 2022 and 2023, the ECB in particular will also be pursuing quantitative tightening, increasing net supply.

Issuers are still learning to navigate around the European Union, which issued €120bn in 2023 and may issue more in 2024. The EU itself continues to make its case for being treated as a sovereign, or quasi-sovereign issuer — something it says will benefit the entire sector.

GlobalCapital's SSA editor, Addison Gong, and London bureau chief Ralph Sinclair gathered borrowers from the sovereign, supranational, sub-sovereign and agency segments, in mid-November, not to mention the EU itself, to discuss what they had learned from a tumultuous year and how they plan to get their funding done in the year ahead.

GlobalCapital: SSA issuers heavily front-loaded issuance at the start of 2023. Are the issuers on this panel planning to do the same next year? What factors are influencing your decision?

Christian Engelen, European Union: Our programme is organised into funding semesters, which are unusually short. We communicate funding targets in six month cycles and, in 2023, we had two very different half years, with a funding target of €80bn in the first half and €40bn in the second. We did not intentionally front-load the borrowing; it was more the result of following the implementation of the underlying policy programmes. There was a delay due to the revision of National Recovery and Resilience Plans in our largest programme, Next Generation EU.

We usually don't intend to front-load our issuance because we act more like a sovereign issuer. We communicate a balanced funding calendar over the year, given our high funding volume over coming years. This requires us to be active in the market; we do not have the luxury to concentrate on one part

Roundtable participants

Andreas Becker
Head of treasury and pension fund, State of North Rhine-Westphalia (Land NRW)

Andrea Dore
Global head of funding, World Bank

Christian Engelen
Head of unit, borrowing and lending, Directorate-General for Budget, European Commission

Jörg Graupner
Senior funding manager, KfW

Anu Sammallahti
Deputy director, funding, liquidity and investor relations, State Treasury Finland

Patrick Seifert
Head of primary markets and global syndicate, LBBW

Markus Stix
Managing director, Austrian Treasury

Silke Weiss
Head of funding and investor relations, European Stability Mechanism

Koen Westdijk
Head of funding and treasury, BNG Bank

Moderator
Addison Gong
GlobalCapital

Moderator
Ralph Sinclair
GlobalCapital

of the calendar. However, we take into consideration prevailing market conditions and adapt when market liquidity is higher or lower.

Markus Stix, Austria: SSA front-loading in 2023 was primarily driven by quantitative tightening expectations, coupled with large, expected net issuance needs. However, some of that is normal, as investors are always more cash-rich in the first three quarters of the year than in the fourth. In the case of Austria, we did not heavily front-load, with around 65% of RAGB funding done by mid-year.

In 2024 the market environment might be different in the sense that net issuance needs remain high but monetary policy expectations are different. In any case, it is important to closely watch market developments and be able to flexibly adapt the funding strategy which, as a relatively small issuer, Austria is doing constantly.

Anu Sammallahti, Finland: Our issuance in 2024 is expected to follow a similar pattern to the previous year. Usually, we complete 50%-70% of our long-term funding in the first half of the year.

Silke Weiss, European Stability Mechanism: The ESM and the European Financial Stability Facility's (EFSF) funding plans for 2023 were €28bn — €8bn for the ESM and €20bn for the EFSF.

We often finish our programmes by October. However, in 2023 for the ESM we finished in September with a $3bn three year and the EFSF completed its funding programme at the beginning of October with a dual tranche of a new five year and a tap of an outstanding 2034 bond.

We are in the process of getting the 2024 funding plans approved. You can expect similar numbers to what is published in our investor presentation currently and we will keep a similar issuance pattern. Generally, our issuance activity is influenced by market conditions, investor appetite, and our own liquidity needs.

GC: BNG is traditionally one of the first issuers out in January so it's a natural front-loader perhaps.

Koen Westdijk, BNG: It is not our intention to be one of the first, but there were windows that we saw at particular moments.

In the first quarter of 2023 we did 40% of our funding and had roughly 70% done by June 30 — a little bit more than usual.

Normally we raise 60% in the first half of the year and 40% in the second. We do not intentionally front-load but we would like to make a good start. In 2024 it will probably be the same — say, 60% will be done in the first half. If there's a window, we try to take it.

GC: The World Bank doesn't run its funding year to the calendar year, but how are you looking at the start of 2024 and the rest of your funding programme?

Andrea Dore, World Bank: Being midway through our funding year in January is helpful — there is less pressure to try to be out at the start of the year.

That said, there tends to be a lot more liquidity at the start of the year and some official institutions decide their asset allocations in January. It makes sense to try to capture some of that flow.

In 2023, there was a lot more supply in February than in January, especially in dollars. There were some very large trades executed. It may have been an abnormal year.

We will be looking very closely to see if we will take advantage of the January window. This will be driven by market conditions and investor appetite, though.

As of mid-November, we had funded 40% of our programme. By the end of the calendar year, we hope to have about 50% of our funding done.

We are a multi-currency issuer. In January 2023 we tapped the Australian market, the Canadian market, euros and multiple other currencies. We can look across markets to find the right window, and we will do again in 2024.

We don't know what will happen in January, so we will be ready to react quickly.

Jörg Graupner, KfW: Every year, we aim to have raised around two-thirds of our funding target just before the summer break.

The ECB stopping reinvestments under its Asset Purchase Programme (APP) influenced our activities in terms of our currency mix, but not volume. We were more active in euros in the first half of 2023 instead of issuing in other currencies like dollars or sterling. But we had still raised two-thirds of our programme by the summer break, exactly as in recent years.

Andreas Becker, Land NRW: We front-loaded more in 2023 than before. We had to fund about €11.5bn for our core budget and more than €2bn for a special fund to cover the consequences of the energy crisis and the Russia/Ukraine war.

Out of this €14bn, we did €9bn in the first quarter of 2023 — and by mid-year, our core budget funding was more or less complete.

After a market absence of five months, we used a window in October to fund the first €1bn for our special fund and we raised the

"We will be looking very closely to see if we will take advantage of the January window. This will be driven by market conditions and investor appetite"

Andrea Dore, World Bank

remaining needs of €1.45bn in November.

If we had had clarity on the amount needed for the special fund earlier in 2023, we would have done it in the first half, too. We had a firm belief that issuance levels would not develop in our favour as the year progressed, given expected increases to central bank interest rates and the burgeoning uncertainty in the markets.

We have a different view about 2024. I'm quite sure that inflation will stay near to but above 3% in the coming year, especially due to rising wages and a backlash in energy prices. In my view, the market is a little bit too optimistic regarding the figures on screens we see at the moment. Therefore, I expect just one ECB rate cut in the fourth quarter of 2024. For this reason, interest rates will move sideways in the first months of the year, with a tendency to decline thereafter.

Taking the market perception and conditions as well as the maturity profile of expiring Land NRW bonds into account, our capital market exposure in 2024 will be more pro rata temporis, and so we will share it throughout the year. We won't front-load so much.

GC: Patrick, what is the general flavour of what other SSA issuers are thinking and what you are advising them to do?

Patrick Seifert, LBBW: Generally speaking, most issuers have been well advised to front-load. I just revisited the roundtable we did in 2022 and it was pretty much the same conclusion back then.

There might be a structural element to that, given we are in a post-quantitative easing world. And there may also be additional complexity from geopolitics, meaning that there is no reason for an issuer to wait — because you can never exclude markets turning more challenging later in the year.

Front-loading has paid off well and most likely should continue to do so unless there are very particular reasons that are part of the issuer's mandate.

There could be two elements, however, that make 2024 different. One is fresh money and performance coming into fixed income. The second is the expectation that inflation will return to normal, which could motivate investors to return to the longer end of the market. That would give more room for the supply to be spread nicely across the curve and across currencies.

"We were more active in euros in the first half of 2023 instead of issuing in other currencies like dollars or sterling. But we had still raised two-thirds of our programme by the summer break"

Jörg Graupner, KfW

GC: What guidance can issuers give us about their funding needs for 2024?

Westdijk, BNG: We are a stable institution; it will be roughly €16bn-€18bn again but probably at the higher end of the range. We will try to increase the portion of ESG-labelled issuance, in line with our strategy. In 2023 it accounted for around 40% of our issuance. We intend to increase that in 2024.

GC: Christian, it sometimes feels like the entire bond market is waiting to hear what the EU will be doing over the next six months. What can you tell us at the moment?

Engelen, EU: We will communicate our target for the first half of 2024 in December and it will only be part of what to expect in the calendar year 2024.

We had this delay in the implementation, particularly of Next Generation EU funding, due to the revision of national recovery and resilience plans related to the introduction of Repower EU — a programme to strengthen our autonomy from Russian fossil fuels, which needs to be woven into these plans. This exercise is now complete and we should catch up in 2024 with the delayed rollout of Next Generation EU. That should lead to higher disbursements and higher borrowing.

Stix, Austria: Our funding outlook will be published on December 14. However, given redemptions and budgetary dynamics, a similar range as in the past years can be expected.

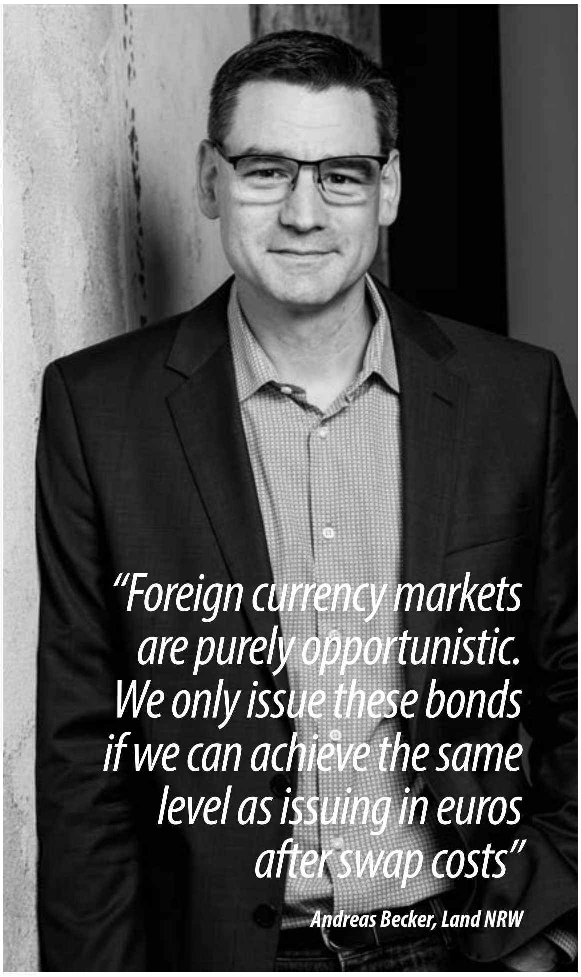
Sammallahti, Finland: We foresee a broadly similar funding requirement to that of 2023.

Weiss, ESM: We will communicate in December in our quarterly newsletter our annual funding needs for 2024. It will be around the same level as 2023. As we have no active programmes and our last disbursement to a member state was in 2018, our funding programme is solely to refinance the existing debt. With only rollovers to fund, we have a clear picture of our funding programme for years to come, assuming no further programmes or assistance are required.

GC: Andrea, it's indecent to ask you about next year's funding requirement at this point in your financial year.

Dore, World Bank: You are seven months early and we are still working on getting this year's funding programme done. We also have the International Development Association funding programme as well, of which we have raised 40%-50%.

There is no reason to believe that next year's programme will be lower than this year. There is a lot of energy behind the World Bank



to expand, to do more to help the world tackle many crises. Our new president is supporting the desire to increase our balance sheet capacity so that we can do more — whether that is through issuing hybrid capital or benefiting from guarantees, it will have implications for our funding, but over time. But this will not noticeably impact our overall funding volume initially.

Next year, our funding programme size will be at least similar to this year. That means something in the range of $50bn for IBRD, the International Bank for Reconstruction and Development — known as World Bank in the capital markets — and at least $10bn for IDA, the International Development Association.

Graupner, KfW: We will announce our 2024 funding need on December 7. We have been getting the numbers from our lending departments and working on assumptions about what loans may be repaid early. We will also look at our redemption profile. Net supply will again be very limited.

Becker, Land NRW: In contrast to what Jörg said, for Land NRW it's quite clear. We are not expected to be in a financial emergency situation in the coming year, so we have to balance our budget without new debt.

We have €13bn of maturities in 2024. Of these, €3bn will not be refinanced because they will be repaid from the coronavirus special fund, giving a funding requirement of around €10bn.

We will distribute this issuance throughout the year. With a view to liquidity management and due to the structure of maturities, I am currently planning to issue €2bn in the first quarter plus a sustainability bond, and maybe another €1bn in the second quarter. The rest will be done after the summer.

GC: What volume should investors expect from the SSA sector next year, Patrick?

Seifert, LBBW: If you break it down into agencies, with a very strict and clear mandate, the expectation is probably that issuance is going to be broadly in line with this year — maybe slightly to the higher end of things. The real unknown is what governments will be doing, what their political priorities will be and how this will relate to EGB issuance.

There is no lack of ideas on what individual governments should be doing economically. You can argue that governments in Europe, for example, need to reassume certain responsibilities that were privatised over the last couple of years — energy or defence, for example.

It is also a question of how willing governments are to review fiscal revenues. Having to invest does not always mean needing to borrow. Just look at the controversy around the German state budget. You can raise tax and cut expenses: unpopular but, to some extent, it might be also inevitable. On balance, we expect SSA volumes to go higher but they will not skyrocket.

GC: What will be borrowers' approach to their strategic currency mix?

Sammallahti, Finland: Euros is and remains the main currency. Dollar issuance is possible in T-bills. Issuing a long-term dollar benchmark would be subject to funding cost efficiency. No issuance in currencies other than euros or dollars has taken place in recent years.

Westdijk, BNG: It's important to maintain our euro and dollar benchmark curves. I expect to issue several benchmarks in those two currencies next year.

I would love to do a 10 year dollar deal but the economics have to make sense because we have to swap everything back to euros.

We did two Swiss franc benchmarks in 2023 and the year before a Canadian dollar benchmark — something that we are looking to do again. We are also active in the Aussie dollar market because we need duration. So, no changes compared with this year.

Dore, World Bank: We issue, generally, in 20 to 30 currencies. Last year was at the low end and that was still about 20 currencies. We need to diversify; we can't just rely on the dollar market.

Dollars represent the highest percentage of our funding at 65% now but in some years in the past, it was as high as 90%. Our diversification across currencies is increasing.

The euro is becoming a much bigger currency for us, at around 15% of our funding programme. We are hoping to increase that.

For IDA, 70% is in euros because IDA is very focused on longer duration, and the euro market is where we could get that depth.

We are also seeing an uptick in issuance in emerging market currencies.

We had seen a lot less EM issuance since the pandemic and the subsequent increase in volatility. But there have been structural changes in some currency markets. They range from changes to withholding tax, to the inclusion in global indices. These changes have increased demand for some EM currencies.

Our focus will continue to be issuing bonds in G10 currencies. While we would like to issue more bonds in currencies such as yen, that remains an exception since we haven't been able to do much, given the cost of funding compared with other markets.

We are also exploring new products. We have been doing some work to resume offering bonds to retail investors in Italy. With rates having been low the last few years, demand for retail was suppressed because yields were unattractive. With yields much higher, this has changed. You can see that in a lot of retail placements, even by governments — such as the record retail transactions in Belgium, Italy and Portugal. There is significant demand from retail investors.

We had been very active in the retail market in the past, but not recently. So, it was good for us to be able to price this first retail transaction in Italy, after several years. We have a preference for duration, but we are going to take a barbell approach. There are some markets where we just cannot get duration but will still want to be present — Canadian dollars and sterling, for instance.

Stix, Austria: In the medium- and long-term segments we have a focus on euro issuance, primarily via RAGBs. We have not used our EMTN programme for foreign currency issues in 2023 as this is subject to having a cost advantage versus euro funding after hedging costs.

In the short term, we use our commercial paper programme for foreign currency issuance, depending on investor demand — in 2023, we issued commercial paper in foreign currency, mainly dollars and sterling. We will continue to do so in 2024.

Apart from the currency mix, we are working on the implementation of a new investment product for retail investors to broaden our funding portfolio.

Engelen, EU: I'll keep it very short. We issue solely in euros.

Graupner, KfW: Our funding approach is very simple and proven. We take a flexible approach, meaning we don't announce calendars, send requests for proposals, or have any fixed mix of currencies. We have two targets: the total funding needs and the duration needs. And we have to consider, that our loan business is mainly contracted in euros.

I would expect for 2024 a broader mix of currencies, especially when I look to the comparison between euros and dollars; we were more active in dollars in the second half of 2023 than the first. We are more active in the dollar market because the support from central banks in euros is less of a given.

It's much more difficult to predict the volume in other currencies. I have just come back from Switzerland; I can say that we might also re-enter the Swiss market soon. Pricing is more attractive again.

In those currencies we want to achieve better funding levels than in euros or dollars and broaden our investor base.

Becker, Land NRW: The euro is our most important currency and our primary target market. Like KfW, we are also active in many other currencies. In 2022, for example, we were among the top five issuers in the Norwegian market. In total, we have issued bonds in 17 different currencies over the years.

However, for us, foreign currency markets are purely opportunistic. We only issue these bonds if we can achieve the same level as issuing in euros after swap costs. That prerequisite meant that we were, unfortunately, not in the situation to issue a single foreign currency bond in 2023.

There were phases in 2023 when the dollar market was more receptive than euro market, albeit at slightly worse prices. With that in mind, it is perhaps worth considering the dollar market as more of a strategic than an opportunistic currency, especially in the maturities up to five years. But we have to discuss that internally first before we go ahead.

For this Swiss market, we see it the same way as KfW. We are shortly to enter again and have just prepared the docs. We are just waiting for the market.

Weiss, ESM: Our funding mix in 2023 had benchmark maturities from three years up to 15 years for EFSF and for the ESM we issued from three to 10 years. The ESM returned to the dollar market with its first three year benchmark issuance, after not issuing in the currency in 2022.

In addition, the ESM will continue to issue bills through auctions in three and six month maturities.

Seifert, LBBW: Diversification of currencies is a strategic issue. You can use it opportunistically once you have made that strategic choice but it needs to fit the overall corporate strategy.

That explains why the European Commission works the way it does and why the World Bank, KfW and BNG have found other currencies

"Issuing a long-term dollar benchmark would be subject to funding cost efficiency"

Anu Sammallahti, State Treasury Finland

a valuable addition to their funding toolbox. What is relevant for investors is that it helps to manage supply. You want to target different pockets of demand but you want to make sure you communicate in the most transparent manner to the market. That is the secret to placing considerable volume throughout 2024, including coming late in the year, such as the EU's transaction in November, which was extremely well received.

Dore, World Bank: We realise that some investors are just not going to buy in dollars. We want to provide products for them. As a big issuer, we must diversify funding sources. It's a risk to be completely reliant on one market, especially when trying to raise funds at a sustainable level at the lowest possible cost.

Seifert, LBBW: One addition to that: if you issue ESG bonds, the euro market is the place to be — there is so much diversification you can do. As a committed ESG issuer, you want to serve the euro market in sufficient scope.

"Overall, it's about managing the expectations and being transparent about your needs. Any trade is only as good as the expectation around supply for the rest of the year"

Patrick Seifert, LBBW

GC: What are issuers' top priorities for next year in terms of getting their funding done?

Graupner, KfW: Finding the right balance between the needs of investors and the issuer.

To do that, we are getting closer to investors, the secondary market, and, of course, we always keep a very close dialogue with our dealer banks.

We have intensified the dialogue with key investors. We have also been in close dialogue with banks' trading desks to get a picture of the secondary market. We are closer to the flows there to give us a broader picture of where demand is.

Becker, Land NRW: Clear and reliable communication to the market will be crucial in 2024. We must communicate with investors and the banks to find the right price. Overall, it's an open, clear and fair communication.

Otherwise, you are playing whack-a-mole, picking trades here and there. You have to combine all the mentioned key factors to make a good and reliable package; in the long run the market rewards this.

GC: If you had to prioritise one thing with your issuance next year, Silke, what would it be — picking the right issuance window, squeezing new issue premiums, driving in pricing by the maximum amount during execution, or building the biggest order book?

Weiss, ESM: Actually, all of these points matter and it is not possible to prioritise one over another. Instead, it is a fine balancing act.

To pick the right window you need to be able to navigate busy markets and data announcements.

To issue at a fair price we need to pay attention to price discovery to ensure that we attract investors while trying to keep funding costs low for our borrowing countries.

Finally, the era of jumbo order books seems to be over but you still need to comfortably cover your targeted amount to give a signal of confidence to market participants and to be able to return.

Stix, Austria: It is important to follow a holistic approach. All these points are relevant but having a clear issuance window, while at the same time getting the tenor choice right, is very important, as the market has changed with the step-out of the Eurosystem as the largest buyer.

Apart from that, it is beneficial to have a broad set of issuance formats and instruments in place, which is true for the Republic of Austria. Our bond issuance is evenly split between new issue syndications, auctions and bilateral taps of outstanding bonds, while our comprehensive green programme as an important second funding pillar allows for further flexibility in our issuance strategy.

Sammallahti, Finland: Picking the right window will be key, as it supports achieving the best outcomes for both pricing and investor distribution.

Engelen, EU: We are one of the largest, if not the largest, net supplier of issuance to the euro market. Making sure that we have a resilient market is itself an objective.

But if you asked me what our specific wish is for 2024, it is to listen to investors, to build our curve further and to keep it liquid across all lines. We promote the liquidity in our securities. This is based first and foremost on well-balanced, regular issuance in all the benchmark maturities, in sufficient volume and frequency.

We will have the volume and the regularity of presence to achieve that. It's important, given our young age as a wholesale issuer, to build further the secondary market liquidity in our bonds.

Dore, World Bank: Sustainability is key for us; it's about consistency. For that, we need to be in touch with our investors and understand their needs. Portfolio managers change, so it is important that they know the World Bank. We do not take it for granted that they do. We do the homework. We stay in touch with investors. We provide the needed information.

Patrick mentioned that European investors are very focused on ESG; we are doing a lot of work there, making sure that investors understand the positive impact of their investment, and the global importance of it.

Duration will continue to be a focus for us as well. We need to ensure that we increase duration to reduce refinancing risk because we are a counter-cyclical institution that will have to be able to ramp up when things are not going well.

Another priority is to continue to expand the investor base for IDA. It is still young. It was just starting to crawl and during the pandemic, it had to stand up and run, going from a funding programme of just over \$1bn to \$10bn suddenly.

We have been able to build a full yield curve for IDA in the euro market with bonds from five years all the way to 30 years.

IDA has issued bonds in five markets so far — US dollars, euros, sterling, Norwegian kroner and Swedish kronor. The goal for IDA is to expand into other new markets.

Westdijk, BNG: The most important thing for us is to be a stable issuer, so that investors know what to expect. We have been there since 1914 and we are planning to be there for another 110 years — but you need a stable relationship with your investors to do that.

Our priority is our customers; we have to get the very best prices for them — but for that, investors also have to come back to us.

If you are a stable issuer, investors can anticipate what you will do.

Seifert, LBBW: We are just concluding our 2024 investor survey. One of the outcomes of that has been that, in picking their investments, 74% of them look at credit rating first. So, particularly for the audience here, you have many more options for placing your funding needs in the market.

Picking the right issuance window is important. Geopolitical concerns will be a constant for the next couple of years, which means we may have days that are less suitable for transactions than others.

But in being top rated issuers, SSAs can offer a haven to investors.

If you can use your flexibility to pick the right window, please do. You will have good order books and strike a good price.

Overall, it's about managing the expectations and being transparent about your needs. Any trade is only as good as the expectation around supply for the rest of the year.

GC: The EU, as Christian said, has become one of the biggest if not the biggest net supplier of bonds to the market. It has been one of the big topics of discussion in the SSA market over the past year or two. What have borrowers done to position their funding in terms of timing and what have they learned along the way?

Westdijk, BNG: The Dutch are blunt, so I can be honest: the EU is a force to be reckoned with. It's a competitor and a colleague, just like KFW, which we also must manoeuvre around.

When we talk to investors, they make a lot of reference to the EU and they compare the two of us.

In 2024 there will more than €500bn of EU bonds outstanding. We cope with it — so far, so good. I'm eager to hear Christian's view.

Stix, Austria: We have followed the market very closely throughout 2023 and have also been in regular exchange with our primary dealers concerning market development, suitable issuance windows and pipelines. We have seen that making the right choice of issuance windows is not an easy task. For example, economic or inflation data has had a far greater impact on the market and investor sentiment than in the past.

But overall our three successful new issue syndications in 2023 showed that we have been pretty successful on this front. So, we are not planning to change our approach.

GC: The World Bank has alternative markets it can use to avoid running into the EU juggernaut in euros.

Dore, World Bank: It's an interesting one and I am keen to hear Christian's view as well.

The positive is that there is a lot of depth in the market. One might have questioned whether the market could absorb a new issuer of that magnitude, but it has.

In the past, we thought that a lot of the trades had to be sequential. In the past year or so we have not had that choice because there were fewer issuance windows and trades have been successful. There is depth in the market and it's noticeable to everybody.

Becker, Land NRW: It hasn't been a problem for us so far. The EU's persistent presence in the capital markets has not had a negative impact on our activities this year because we finished our main programme so early in the year.

Having a big issuer like the EU permanently in the market shrinks the windows for us and other participants. We all could see that the EU was able to generate demand of more than €130bn for its latest issue in November this year. Therefore, you have to create a sophisticated plan to navigate around it and to avoid hitting the market in the same window.

Graupner, KfW: It helps that EU circulates an RFP in that way, that the market is very well sounded out about what the EU potentially should or could do. This year we were active on the primary market at the same time as the EU and were able to generate very good demand for our transaction.

But overall, timing is getting more and more important. There are known and some unknown events that could disrupt issuance plans. We know other borrowers' issuance plans, for example, and when central bank meetings, data releases and bank holidays would take place.

There are also numerous events that we would not know about in advance. How do we approach the challenge? It's again about being flexible. The KfW team is permanently in dialogue with market participants and will be ready to use issuance windows as we spot them.

Fortunately, the KfW name is well known worldwide, and thanks to this we benefit from being able to have a short marketing period when entering the market.

"Making the right choice of issuance windows is not easy. For example, economic or inflation data has had a greater impact on the market and investor sentiment than in the past"

Markus Stix, Austrian Treasury

Sammallahti, Finland: No change is foreseen in our approach. Large issuers usually flag their windows well in advance. General market appetite for rate products will be at least as important as sequencing of supply.

Weiss, ESM: With challenging markets and a large amount of bond supply, being nimble and adaptive to

"There was some normalisation but we are still seeing good books with enough lines and diversity of investors. While book sizes may be smaller, the quality is still good"

Koen Westdijk, BNG Bank

market conditions has been crucial for successful transactions this year and will be in future, in my view.

We have often executed intraday transactions. This has advantages for us as well as our investors, as everyone is less exposed to market movements. It is also a very useful strategy when the market is crowded and many issuers are expected to raise funds in the same window.

But we also used the classic two-day approach to execute, which lets us allow for better price discovery and feedback from investors.

Seifert, LBBW: We are not talking about a zero-sum game where one issuer is taking away investor money that otherwise another issuer would have got.

Although many classified 2023 as a challenging year to do long-dated deals, two of the most successful trades that the EU has done — and LBBW was fortunate enough to work on both — were a tap of its 2048s and a tap of its 2052s.

When you see a trade like these you get evidence about the market that otherwise you wouldn't have.

Whether every issuer would want to replicate that or not is a different thing but I think it has given guidance on that depth of demand that Andrea was talking about.

This is predictable supply — the EU doesn't come with intraday execution, surprise deals. So, although the EU has taken a little bit of room away from the others, it has also brought benefits.

GC: Christian, when the EU increased its borrowing requirement, the question was whether the market could absorb it. But now the market is trying to fit around the EU. How does that factor into how you execute your borrowing programme?

Engelen, EU: We understand we are the very clunky new kid on the block, coming into the market with very large supply.

We try to do it in a way that is most predictable, so other issuers can plan around it. It is not ideal for them to have to plan around it but at least they have the information.

I think what Patrick said is true; we are trying not to surprise the market and certainly not our peer issuers because that isn't in anybody's interest.

It's an interesting question to what extent we are helping to build out the market. The feedback from market participants is that we have taken a market-leading role, not only in terms of defining issuance windows but also showing the resilience of market access.

That was particularly relevant in 2023, when over the summer a few trades by peer issuers were a little bit weaker — and then we have come with a trade that was very well received and opened up the market a little more.

An important thing for us is that we don't agree that there is a strong dichotomy between SSA and European government bond (EGB) markets, particularly in the euro area. We think this is a false division, which doesn't reflect the fundamental value, or the characteristics of the different assets brought to the market, particularly with regard to our bonds — which have a similar volume, liquidity and frequency of issuance as EGBs.

We are trying to tear down the walls between these two segments. This will help all SSA issuers benefit from broader, deeper investor interest when we can present the euro area as a continual spectrum from core, pure SSAs to EGBs.

But it is something we really must work for, and against market convention. There is a lot of inertia that has built up over decades in the way the market treats supranationals and agencies versus EGBs. We don't think this is appropriate, particularly given our case as a hybrid issuer and one where the characteristics of our assets belong more in the EGB segment.

GC: You have adopted a very sovereign-like way of issuing debt through bills, bonds, auctions and scheduled syndications. But in 2023 we saw the delay in disbursements for RepowerEU, which meant that your second half funding requirement was lower than a lot of people had expected. There is a real variability to the issuance programme. And one of the things that we have had conversations with investors about a lot this year in determining where the EU sits on the spectrum between sovereign and supranational is that they have concerns that the programme won't be large enough for long enough for them to perceive the EU as a genuine sovereign issuer. What are you doing to address those concerns?

Engelen, EU: First of all, I don't agree that we don't have the volume or the longevity in our issuance. Even with the delays and the reduced funding target in the second half, we still issued €120bn in 2023, which places us very much at the top of the table. This will continue for quite a while.

We have mandates to build a debt portfolio of close to €1tr. The rollovers and the management of that portfolio will create such an issuance volume for the next decades. This will make us a very prominent player in the market, even if the debt management capacity is not used for any new policies.

We concluded that the only way to place and manage such volumes of debt is to adopt a sovereign-style approach to issuance.

There are many things you can discuss — whether we are institutionally a sovereign, whether our budget is directly financed by taxes or not — but I think the core of it is that we have the credit quality, volume, regularity and liquidity in our issuance approach that makes our bonds comparable to the most liquid EGBs in the market.

It is for an investor to decide whether he or she wants to seize that opportunity and to use our asset as an interesting complementary one in a portfolio that is there to diversify risk and to provide liquidity.

Finally, the issuance calendar. We are growing into a position where if the SSA/EGB dichotomy is not broken up, we will distort very much the SSA segment. That is not only related to issuance planning but also to portfolio and index structures.

If you look at the composition of SSA indices, we dominate them — and this will get worse.

Our issuance has a longer average maturity, which means that particularly if you look at the duration weight of our position in the SSA indices, they will almost become EU indices. So, the question is whether that makes EU bonds an appropriate tool to diversify an investor portfolio or a passively managed fund.

There is only one classification where we could be properly placed in a well-diversified manner, which is to put us on par with the larger EGBs; otherwise, we will always distort wherever we are placed.

Seifert, LBBW: Christian, I remember you said that if you were to only refinance maturing debt, you would still be the number four or five borrower in terms of volume out of the European government issuers.

The weird situation that we are in is trying to build a huge government-style issuer from scratch at a time when some of the existing EGB names have long established themselves and operate primarily in refinancing mode.

The EC is not a greenfield project but it is migrating an existing reality into something new. If you apply a schoolbook definition, some might say the European Commission is not a government issuer. But then it is about everything you can apply in terms of common sense, market understanding and size of the programme, the use of proceeds, the interplay between the EU's funding and governments raising money and what purpose it serves. The EU has much more in common with a government than a classic supranational or agency.

Investors have been rather quick to understand this but more time and persistence is needed from everyone involved in market infrastructure, indices, the repo business, and so on, who seem to follow a tickbox approach — as long as one box remains unticked, you cannot qualify for a rule-based treatment. We all know which way it is going and clearly the EU is migrating to become a government issuer, or government-style issuer at least.

GC: SSA order books are smaller compared with the QE era. Have the issuers on this panel been comfortable with the level of demand from investors in 2023? What does this mean on a more practical basis when it comes to deal execution?

Becker, NRW: You are completely right that order books are significantly smaller than even a few months ago. Our €2bn sustainability bond in May generated demand of €13bn, but we only just hit the goal of €1bn in our last issue of the year in mid-November.

But while the days of the massive subscriptions may be over, to me, a subscription level of two to three times is completely sufficient, and it will make the allocation process much easier. We are happy with the investor demand we saw throughout the year.

With clear communication and a good secondary market curve, a fair price can be determined, although it may not be easy. But our bonds have seen stable new issue premium of 2bp on average in the first eight to nine months of 2023 before a widening to 3bp-4bp, but I don't expect further movements. And I don't see the need to widen from current IPG levels, as we could achieve a tightening of 1bp-2bp during bookbuilding in nearly all past issues, which suggest that these levels are stable and we can stick to them in the future.

Graupner, KfW: It is true that oversubscriptions are smaller compared with previous years and bigger premiums are necessary, and I can only echo what Andreas said – I don't see any changes in 2024 on the IPG side. It is important that we find the right balance between price and size. And it's also always important to have some flexibility.

"We have the credit quality, volume, regularity and liquidity in our issuance approach that makes our bonds comparable to the most liquid EGBs"

Christian Engelen, European Commission

Westdijk, BNG: We have been very comfortable with the lines in our books. The market was a bit spoilt by oversubscribed books — like for an issuer such as BNG to have a five times oversubscribed book. There was some normalisation this year but we are still seeing good books with enough lines and diversity of investors. While book sizes may be smaller, the quality is still good. That's good for the allocation process.

I hope we don't have to pay more in 2024. Issuers may have to pay up at the beginning, but I hope that will be reversed during the rest of the year. If you look at what BNG has paid in the market historically, prices are quite elevated now but that's the case for a lot of issuers.

Weiss, ESM: We are in a changing market environment with ECB stepping back from QE programmes, and rate changes, which have led to smaller books than before. We have the flexibility to issue in different

"We have the flexibility to issue in different maturities, sizes and currencies, which means we can adapt and issue maturities that are in demand"

Silke Weiss, European Stability Mechanism

maturities, sizes and currencies, which means we can adapt and issue maturities that are in demand. Order books during QE were much larger and in our view we are in a transition phase and need to get used to smaller oversubscriptions. Before QE the oversubscription was on average 1.7 times and in our view a healthy order book will show similar oversubscription levels similar to before QE in 2024.

Stix, Austria: I would say that we see a kind of normalisation when it comes to order book volumes. However, given our strong average oversubscription of 6.9 times in 2023 — versus six times in 2022, when we issued less, and 8.2 times in 2021 — plus a solid quality of order books, I am not worried too much on that front. Fluctuations in investor demand have increased, which we have also observed in our syndications throughout the year. For example, we have seen a record order book volume of more than €61bn in our triple-tranche syndication in October, which even exceeded by far order books seen during the height of QE.

Sammallahti, Finland: It remains to be seen how the demand for fixed income products develops next year, because pricing is obviously a function of demand. Smaller order books can be a healthy phenomenon if the reduction in size reflects less order inflation. At the outset, I do not expect larger premiums as the prospect for a downturn and thus lower rates cannot be excluded.

Dore, World Bank: We have lost sight of the fact that the order book sizes we had in the period of QE, where there was a huge amount of liquidity and very little differentiation between credits, were the exception and not the norm.

It's unbelievable to get questions about whether we expected a larger size, when we get a $3bn 10 year trade done, whereas before we would have been happy with a $1bn 10 year trade. Our asset class benefited from the flight to quality and funded massive amounts through large deals, but we need to get back to where we were before this period.

And sometimes there is confusion between the size of the order book and the quality. There is a push in some cases by issuers to have massive order books, and a transaction is seen as successful because of that. That's not necessarily the case: you may have a much smaller transaction with such high-quality orders that you won't have a problem in terms of allocations. Or you may have a massive order book and could barely allocate a proper solid $3bn transaction. The focus should be on quality when measuring the success of a transaction.

Engelen, EU: 2023 has been certainly different from the previous years but it was overall better than expected. It was also a year of very different halves. The first half of the year was more resilient than we thought, but the market had to find its feet again in the autumn after a time of weakness over the summer.

Nevertheless, we were quite pleased to see that, throughout the year, investor demand has been quite strong in all our trades, with order book sizes exceeding expectations. Of course, we had to offer higher concessions but it was not significantly higher, and pricing was very much in line with what you would expect in such a volatile environment.

One takeaway for me personally this year was that it has been very difficult to predict investor demand in individual trades. Investors have become a lot more hesitant to commit early in the process, and would rather wait until there is clarity on how a deal plays out before coming in — and that certainly introduces an element of uncertainty.

Nevertheless, we have proven our deep market access, and overall our trades have shown that there is strong demand from investors out there. With that, we hope we have also been able to bring gravity again to the whole segment with spillover effects to other trades. And hopefully we are now reaching the moment where monetary policy developments are bit clearer and investors will have the ability to formulate their view with more confidence and conviction.

GC: Patrick, what Christian just described as investors' hesitancy to commit to a trade at an early stage, does that put even more emphasis on going out with a very strong first book update?

Seifert, LBBW: I think book updates have always been important, but they are more important now with less buying from the ECB and more price differentiation. In a constantly moving market, there is no golden rule about what the appropriate new issue premium is.

Figuring out the right price has certainly become more challenging throughout the year, which in my personal view had a lot to do with the unwinding ECB purchases from the past. But I don't think this was a particular challenge for SSA issuers, given their frequency in the market. In a way, it's a buyers' market – investors have choices, and they want to make sure it's at a market-driven price when they put money to work. And the transactions that have not worked this year were typically those that tried to push through a pricing that was not justified by relative value considerations.

A book update basically tells investors that you have listened to them, and the transaction will be designed around their needs. But a strong issuer should also have the power to shape those transactions according to their objectives. GC

The full transcript of this discussion can be found at globalcapital.com

FIG issuance in overdrive as market rebuilds after banking crisis

Financial institutions' funding requirements point to a busy start to their bond sales in 2024. But, as Atanas Dinov reports, banks may need to compete for attention not only with other financial credits but with the broader fixed income universe, as we reveal the results of our FIG market survey

Although the FIG bond market faced moments of great stress and difficulty in 2023, there is reason to believe that it will be better equipped to handle another glut of funding in 2024, according to respondents to *GlobalCapital*'s outlook survey.

The demise of Credit Suisse, the first collapse of a globally systemically important bank (G-SIB) since 2008, was a pivotal moment for all bond markets and especially relevant to bank funding. Stress in the banking sector and rising interest rates triggered a destruction of value across bonds. Consequently, the market for European unsecured FIG bonds was at times prohibitively expensive for capital raising — and shut altogether for some smaller issuers.

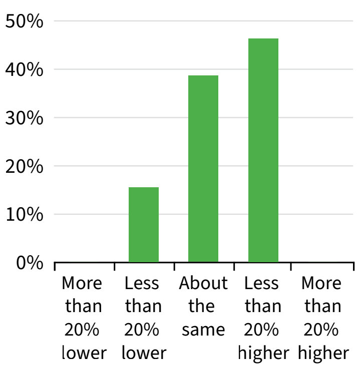
Yet, by mid-November, there had been €250bn of unsecured public benchmark FIG issuance in the single currency — almost 16% higher than the amount raised during the same period of 2022, which turned out to be a multi-year record breaker by the time it was over, according to *GlobalCapital*'s Primary Market Monitor.

It wasn't just the euro market that was strong in 2023, either. There were almost £29bn of unsecured sterling sales in the same period, almost identical to 2022.

Unsecured issuance volumes are expected to be similar in 2024, according to survey data and market experts.

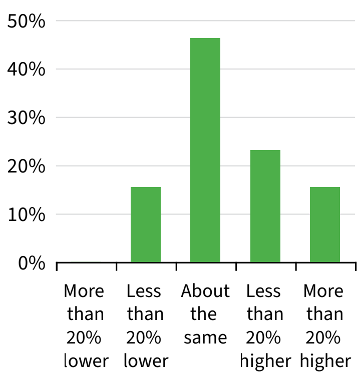
"There is no reason to believe that the funding plans of 2024 will be lower than in 2023," says Vincent Hoarau, head of FIG syndicate at Crédit Agricole. "When you combine senior non-preferred, senior preferred and covered bonds, issuance will be as dense as it was this year."

How will euro FIG senior issuance volumes compare with previous years?



Source: GlobalCapital

How will euro FIG subordinated issuance volumes compare with previous years?



Source: GlobalCapital

Vincent Hoarau, Crédit Agricole: "Issuance will be as dense as it was this year"

Forecasts from UniCredit suggest a similar picture. The bank expects about €220bn issuance in 2024 in senior format, roughly equally split between preferred and non-preferred bonds. In covered bonds, a key funding channel for providing banks with liquidity, UniCredit expects about €180bn supply, which will be in line with or slightly less than 2023.

Maturation and normalisation

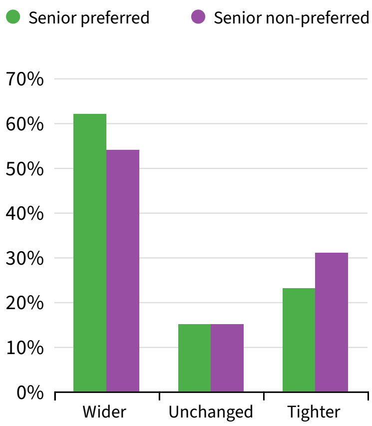
To reach such volumes, issuers have had to become smarter operators, spotting and then being nimble enough to take issuance windows as they present themselves in a market where they have become scarcer now that the era of cheap central bank liquidity is over. "The market in Europe has learned to be open throughout the year, with issuers adapting accordingly and issuance activity lasting longer," says Isaac Alonso, head of debt capital markets for Germany at UniCredit.

Issuers had to step up their market funding activity as they repaid central bank borrowing. While most of the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTRO) has now been repaid, the decreasing presence of the central bank in the bond market is expected to dictate the pace of issuance.

"The market dynamic points in one direction: normalisation," Hoarau says. "For the first time in a decade we will be starting a year without quantitative easing and central bank purchases. Real interest rates will be positive. The liquidity situation is favourable but overall net supply is set to be positive if you consider growing supranational, sovereign and agency supply and the decrease of central bank balance sheets."

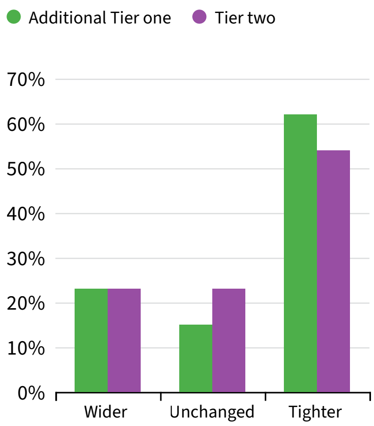
Despite a growing perception that the US Federal Reserve and the ECB were at or close to their peak

How will bank spreads on senior bonds move by the end of 2024 compared to the end of 2023?



Source: GlobalCapital

How will bank spreads on subordinated bonds move by the end of 2024 compared to the end of 2023?



Source: GlobalCapital

interest rates by the end of 2023 — which had improved primary market sentiment since the end of October — higher rates are expected to slow economic activity. This in turn is expected to lead to lower bank lending.

"Rates are expected to stay higher for longer and, in combination with sticky inflation, this points to the first half of 2024 remaining unchanged in terms of the rates outlook," says Alberto Maria Villa, who heads FIG syndication at UniCredit.

Thus, the growth of banks' balance sheets "will be limited and the financing of new risk-weighted assets not so pronounced," Alonso adds.

Still, banks are unlikely to reduce their coveted senior bail-in debt layers that form their minimum requirements for own funds and eligible liabilities (MREL) and G-SIBs' total loss-absorbing capacity (TLAC), Alonso says. "They will replace calls and keep up the capital stack. But in terms of net new MREL or capital issuance, we see that as very unlikely across the market."

Hoarau agrees: "Pure liquidity funding will be at the top of everyone's agenda, while in senior non-preferred it's more about refinancing the existing stack."

Against this backdrop, most of the survey's respondents expect senior spreads to widen.

But Villa is among those expecting a different direction for spreads. He sees them remaining largely unchanged for the first six months of 2024, subject to no drastic shifts in macroeconomics or geopolitics. Then will come a "tightening bias" in the second half of the year, he says.

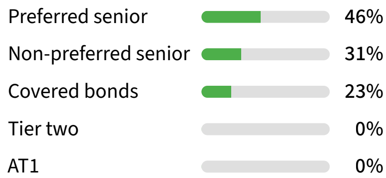
Choice of issuance

The jury was still out on which funding instruments banks will choose to concentrate their efforts upon. This is because the health of the covered bond market may sway the course of unsecured issuance.

Nick Hughes, head of capital markets at Lloyds Bank, expects that there will be more senior preferred issuance connected to central bank repayments, "but this will depend on how accommodative the covered bond market will be," he says.

He expects covered bond issuance to be "modestly lower" in 2024 as central bank repayments will be the "key driver" for the asset class.

In which asset classes will banks focus the majority of their funding in euros in 2024?



Source: GlobalCapital

"Spreads will be a little wider, but they have already moved materially versus govvies," he adds.

Villa highlights how this widening is another sign of maturity in the European FIG market. "Although next year there will be further repricing of core covered bond jurisdictions," he says, "these are organic factors in a functioning market rather than external troubles in the system."

Question of capital

Views on euro capital issuance, unlike on senior bonds, were more diverse.

By mid-November 2023, FIG borrowers had printed about €24.5bn of tier two and €8.9bn of additional tier one (AT1) capital, PMM data shows.

Owing to the expected limitations on banks' needs for net new capital, UniCredit forecasts that the split will be about €20bn of tier two debt and up to €25bn AT1 sales in 2024.

Villa says that "subordinated issuance in euros looks a little higher [than 2023] but it's coherent with calls and overall risk management. It will be a market with largely no new risk takings".

The greater diversity of opinion on the prospects for capital issuance may be linked to spread expectations, which were in sharp contrast to senior debt.

UBS's spectacular return to the dollar AT1 market in the first half of November — a $3.5bn dual trancher that attracted more than $36bn peak demand — underlined the improved tone for raising capital on the back of the notion of peak rates.

An average yield on AT1 paper of about 11% — roughly translated as 600bp over G3 government bonds — appears to be wide, according to Romain Miginiac, fund manager and head of research at Atlanticomnium. "It's tough to find something to compare AT1s with where they don't look cheap, especially historically versus US preferred shares [their AT1 equivalent] or high yield," he says.

"With fundamentals being strong for European banks, even with peak net interest margins being reached for some, as we saw in their third quarter earnings, we are at a point where there is a huge dislocation of fundamentals and valuations," he adds.

This, despite UBS's success, shows that some damage has remained unhealed in the secondary AT1, which Miginiac describes as "tainted by what happened with Credit Suisse".

The Swiss regulator's decision to wipe out Credit Suisse's $17bn-equivalent of AT1s during its rescue, "means that a large percentage [of AT1s] are priced to perpetuity rather than to their first call," Miginiac says. "That creates potential for spreads to tighten as we face about €30bn-equivalent of calls in 2024", when including non-euro currencies.

UniCredit expects subordinated spreads to move similarly to senior debt: unchanged at first and then tightening as the year progresses.

'Tough to say'

But not all foresee such a simple trajectory. "It's tough to say where spreads of bank capital will be in 2024," says Arnaud Mezrahi, group head of medium and long-term funding at Société Générale, speaking when the French bank restarted AT1 issuance, just before UBS's deal in early November, with a $1.25bn trade.

"In the last two, three years, none of the market participants were right in their predictions," he continues. "You have a funding programme to execute and there are workable days and windows at the right price, and you take them. AT1 and tier two spreads may tighten; I sure hope so, but it is too easy to manage a funding programme looking backwards."

Still, there are supportive technical factors that apply to both AT1 and Tier two debt, Miginiac says. There will be less issuance, as most bonds are being refinanced at their first call dates. Adding that "one cannot perform without the other", he sees "the best value is in AT1s, as they offer good convexity", but he also sees "decent value" in investment grade tier twos, especially callable deals.

Survey respondents were most divided about the biggest risk facing issuers in 2024. The majority thought this was linked to deteriorating macroeconomic conditions, followed by those who chose the sovereign-bank doom loop, where one market's problems could take the other into a recurring, vicious, downward spiral.

Miginiac says that "macro will be the biggest curve ball" for the FIG market as it will affect all capital markets. "Macro will be the key driver in the short-term direction for spreads across FIG asset classes," he says, "even if we think the AT1s will perform well after showing a decade of track record."

Either persistent inflation or a recession induced by excessive inflation controls are a threat. "Both of these cases will lead to headwinds for credit to perform," Miginiac says, as he concludes that for subordinated debt spreads to perform, "they will depend on credit markets doing well."

Meanwhile, as the ECB and the Fed decrease their balance sheets, Hoarau asks whether the market will be able to absorb "mountains of debt", as FIG borrowers will have to fight for liquidity alongside SSA issuers.

"That's a key question for the second half of the year when the liquidity-supply dynamic will be less favourable," he continues. "So, issuers will again front-load heavy funding plans, fearing the market in failing to absorb the growing supply."

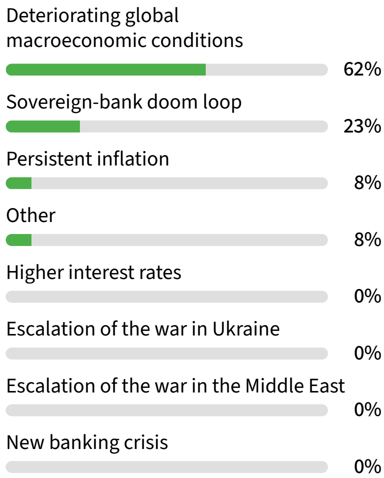
This is why he thinks the biggest risk for markets in 2024 will be liquidity. "For the time being, excess liquidity prevails but nasty headlines around sovereign debt could very well be back on the agenda, pushing the global spread complex higher," he says.

The ECB's commitment to reducing excess liquidity in the system could be bad for small banks especially. These issuers will be facing their "eternal challenge" of how to capture investors' attention and expand their buyer base at a time "when real money investors are not obliged to go down the credit curve to capture higher rates", Hoarau says.

But there is hope, Hoarau believes, in the rate cutting cycle that, he says, is likely to start in Europe first. "This will definitely be the key support for the year," he says.

Others see different major risks.

What is the biggest risk facing FIG borrowers in 2024?



Source: GlobalCapital

"The biggest known unknown for capital markets next year will be geopolitics — in particular, the US election," says Lloyds' Hughes. "However, while at the moment the markets seem to believe inflation is under control, it won't take too many adverse data points for nervousness to re-emerge."

Diversification

Funding diversification will be one of the key themes that issuers are expected to focus on in 2024. Many market participants stress how the prohibitively expensive dollar market for much of the first half of 2023 meant that European banks were stuck funding in their home markets, which exacerbated spread widening.

"Currency diversification will be a prime objective for a growing number of issuers in 2024," says Hoarau. "They will be more flexible when looking at the arbitrage situation. More banks will accept to pay up to diversify and accept negative arbitrages to remove pressure from the domestic market."

Mezrahi highlights that when it comes to 2024 funding, Société Générale is open to all markets. "The euro is our core currency," he says. "The dollar is super-important for us, while all other currencies are important too."

He adds that the bank has "a strategy to be a more frequent and regular issuer in the sterling market, either from a pricing or from a diversification point of view". GC

Banks' senior and sub funding cocktail: rocky start with a smooth finish

Observers could have been forgiven for thinking the additional tier one market might be as defunct as Credit Suisse, the bank whose demise mired it in controversy. By the autumn AT1s had come roaring back but, as **Sarah Aisnworth** reports, this was not 2023's only wild ride in the FIG primary market

A standout moment in the first quarter was the shut-down of the additional tier one (AT1) market after the Swiss rescue of Credit Suisse on March 19, which included a complete write-down of its AT1s. But talk of the demise of the asset class proved premature and sentiment rebounded.

Bank of Cyprus resurrected AT1 issuance in June with a €220m note that attracted orders of €2.75bn, resulting in a subscription ratio of 12.5. The same month, BBVA followed with a €1bn note that achieved a subscription ratio of 3.1.

However, issuers had to pay up to bring deals after the collapse of Credit Suisse. Before then, there had been nine AT1s issued in euros since the beginning of the year.

Data available to *GlobalCapital*'s Primary Market Monitor from four of them revealed that borrowers paid an average new issue premium of 6.25bp. After Credit Suisse's rescue, and by late November, data available from four of the euro six AT1s priced showed the average new issue premium was 25bp.

Average subscription ratios fell back to an average of 4.4 times deal size for those post-March AT1s compared to 5.9 for the deals that went before, while issuers also failed to tighten spreads as much from initial price talk, averaging 37.5bp after the March crisis, compared to 47.2bp previously.

Average AT1 deal size was similar in both periods — €688m until March and then €661m after. But it was not until later in the year that a more substantial revival in AT1 issuance arrived when four issuers priced $6.5bn in November to declare the market fully reopened.

Senior issuance also felt the fallout from the collapse of Credit Suisse as the market shut down from March 10 for several weeks.

BNP Paribas was first to test the water on April 4 with a €1bn eight year non-call seven green bail-in senior, covered 1.9 times and paying a premium of about 10bp. This was below the average new issue premium of 16.3bp in January and 17.7bp in February. However, the premium was judged on the high side for BNPP when compared to its €1bn six year non-call five green non-preferred issued in early January, which had paid a 2.5bp concession.

It was the return of lower tiered issuers achieving large order books that led observers to declare the senior market recuperated. Ireland's Permanent TSB issued a €650m five year non-call four bail-in senior on Arpil 18 that attracted a subscription ratio of 3.1. PTSB's previous senior outing in June 2022 was just subscribed.

By the third quarter the senior market appeared fully healed as demand recovered with the average senior deal 2.4 times subscribed, up from two times the previous quarter.

War and duration

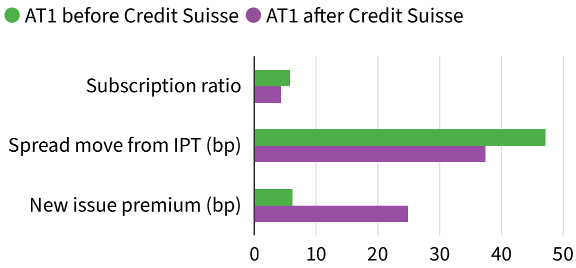
War broke out between Israel and Hamas at the start of the fourth quarter, leading to concerns about instability across the Middle East. But it was not the only factor affecting the FIG primary market as issuers faced rising yields and earnings blackouts.

Senior issuance volumes increased in November as yields declined and investors and dealers began pricing in expectations of rate cuts for 2024. This drove demand for duration, which had been low all year thanks to an inverted yield curve.

A total of €3bn 10 year notes were priced in the third week of November from Crédit Agricole, CaixaBank and Crédit Mutuel Arkéa. These were the first 10 year senior notes priced since July.

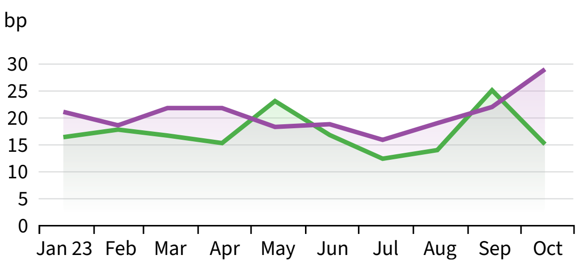
The standout deal was Crédit Agricole's €1.25bn 10 year senior non-preferred that garnered final demand in excess of €5.7bn, giving a cover ratio of 4.56 — the highest of any senior bond in 2023. GC

AT1 issuance before and after Credit Suisse's demise



Source: Global Capital Primary Market Monitor

Average new issue premium and spread tightening on senior FIG new issues in €



Source: Global Capital Primary Market Monitor

Covered bond market preps for hectic 2024

Another big year of covered bond issuance is expected after two where total issuance nudged €400bn — but issuers will face a problem of widening spreads, writes **Bill Thornhill**, and will have to cram it all into just a few parts of the yield curve

Covered bond benchmark issuance in euros had reached €175bn by early November 2023, suggesting the market was on track to reach €185bn for the year — somewhat less than 2022's record of a little over €200bn. Although gross volumes are expected to decline a little in 2024, they are likely to remain well above average and, in the absence of central bank support, further pressure on spreads is expected.

In addition, after an unexpectedly dry primary market in the autumn of 2023, some banks will have deferred funding to 2024, suggesting the year will start on a lively footing.

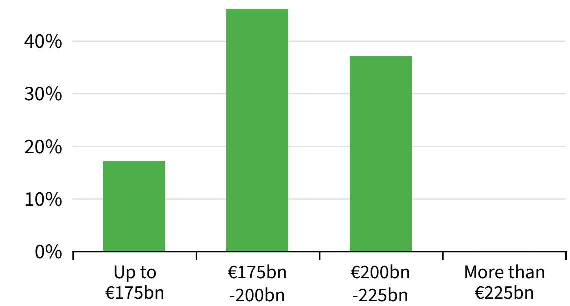
"What we didn't see in October and November is likely to turn up in January," says Roberto Anaya, head of FIG syndicate at LBBW in Stuttgart.

After taking account of maturing deals and repayments to the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTRO), he says another busy year is in store.

At €117bn, 2024's covered bond redemptions will be €7bn below 2023's, but they are high enough to bolster investors' cash reserves.

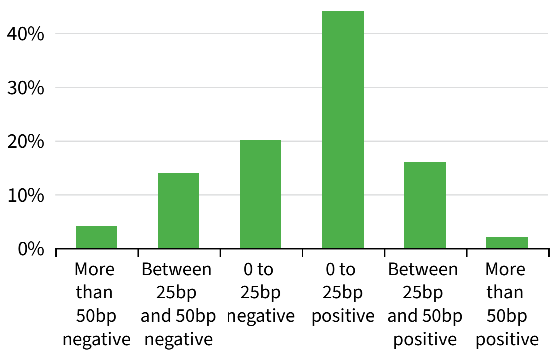
The cash being returned to investors will, however, be counterbalanced by a collective €450bn repayment of funding

How much euro benchmark covered bond issuance do you expect in 2024?



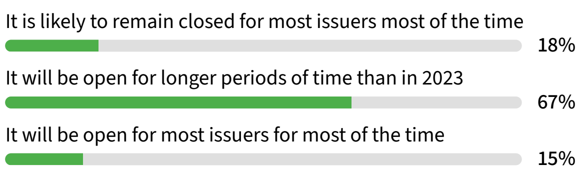
Source: GlobalCapital

Where do you expect the two to 10 year euro swap curve to finish in 2024?



Source: GlobalCapital

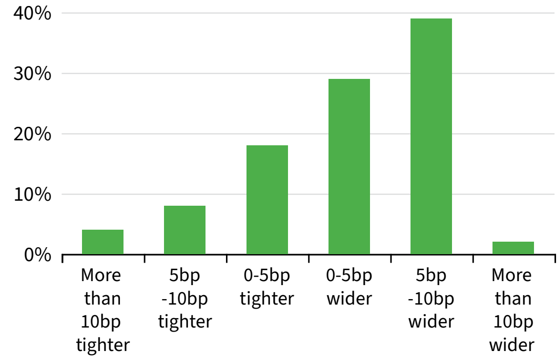
Do you believe access to 10 year funding will return?



Source: GlobalCapital

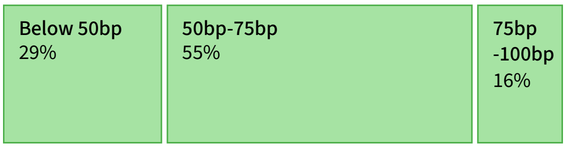
▲ Michael McCormick, BMO: cross-currency swaps a "less daunting" way for issuers to diversify their issuance

Where do you expect French five year covered bond spreads to be over 2024?



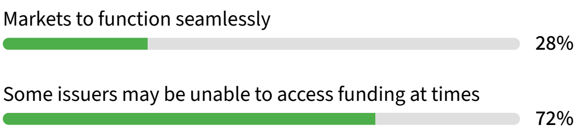
Source: GlobalCapital

Where do you believe the 10 year Bund-swap spread will finish in 2024?



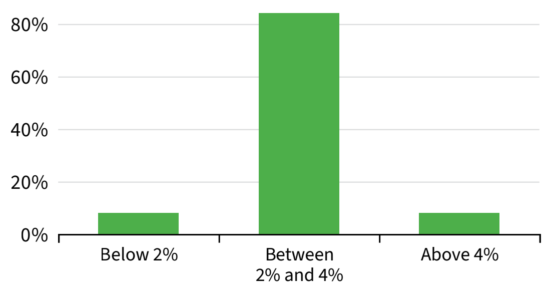
Source: GlobalCapital

How can geopolitical tensions in Ukraine and the Middle East affect markets in 2024?



Source: GlobalCapital

How do you expect inflation to look in the eurozone by December 2024?



Source: GlobalCapital

that eurozone banks borrowed from the ECB under its TLTRO.

Core European banks are generally well funded but, with the ECB expected to ramp up quantitative tapering — by halting reinvestments of cash from maturing deals under its Pandemic Emergency Purchase Programme — liquidity bottlenecks may ensue.

"Liquidity is going to be a strong focal point in 2024," says Vincent Hoarau, head of FIG syndicate at Crédit Agricole in Paris.

Concerns about the predictability of deposit funding suggest "issuers will be more inclined to overfund than underfund", a tendency that could be exacerbated by tighter regulation, such as a higher minimum reserve requirement, he adds.

A survey of more than 50 market professionals conducted by *GlobalCapital* for this report showed that almost half expected euro benchmark issuance of €175bn-€200bn in 2024. In total, 80% of the respondents worked for a financial institution and 90% were on the sell-side.

Euros provided the bulk of funding in 2023 and are expected to do so again in 2024. Even so, banks with a global footprint issued almost 40 deals in sterling, dollars, Australian dollars and Swiss francs in 2023.

According to Thomas Lowe, Nomura's head of UK, Ireland and Canada FIG DCM, borrowers are expected to become more open to issuing in alternative currencies in 2024, as they offer "a genuinely diversified pool of investor demand", typically not available in euros.

Swapping up

But doing so may require some issuers to update their covered bond programmes with new swap provisions.

The steep rise in interest rates, and emerging mismatches between newly issued liabilities and old cover pool assets, suggests issuers will be more inclined to put swaps in place within their covered bond programmes so they can hedge their rates exposure.

This effectively makes a cross-currency covered bond swap more of an "incremental" step, says Michael McCormick, head of EMEA FIG origination at Bank of Montreal in London, and that process is likely to be "less daunting" for issuers considering diversifying into other currencies.

The impetus to diversify should help to relieve supply pressure on euros, where spreads are likely to widen. S&P's iBoxx euro covered bond index widened by about 10bp to 30bp in 2023 and 39% of survey respondents expect a further 5bp-10bp widening by the end of 2024.

Anaya says it is difficult to correct eight years of central bank distortion in one year but believes roughly 70% of spread widening has taken place. The remaining 30%, or 3bp, is expected to follow in 2024, he adds.

On the whole, universal banks with several business lines should be more able to pass this additional cost on to their clients, though this may not necessarily be the case with smaller monoline mortgage lenders.

Some banks are likely to be "unwilling or unable" to pass that additional cost on to their clients, says Patrick Seifert, head of primary markets and global syndicate at LBBW in Stuttgart.

SSA pressure

As well as the sheer weight of supply, he says that pressure on covered bond spreads will also come from the sovereign, supranational and agency sector, where supply is also likely to be high.

Hoarau agrees that there is a big question over the market's capacity to absorb sovereign supply and he is troubled that a prospective widening in SSA spreads will weigh on covered bonds.

"Borrowers should be more open to issuing in alternative currencies in 2024, as they offer a genuinely diversified pool of investor demand typically not available in euros"

"Without insurance companies, demand for 10 year bonds will crucially need to secure the bid from asset managers"

On the other hand, the spread between banks' covered bonds and senior preferred paper in most markets, except Germany, is tight — and that should help to contain a prospective covered bond widening.

Unless senior preferred spreads widen, there is a "limit to how far covered bond spreads can go," says Shanx Tandon, head of EMEA FIG syndicate at Bank of Montreal in London.

But the fact that no issuer chose to follow Toronto Dominion's €1bn eight year issued at the end of August with anything in the seven to 10 year part of the curve suggests a more material repricing could be due in tenors beyond the five year, once primary activity resumes.

Hoarau believes there is investor demand for long duration bonds issued by core eurozone banks, but many issuers are unwilling to pay the market clearing level to access this funding.

Seifert concurs that issuers' ability to access the seven to 10 year area is simply a question of price. Banks with a strong credit profile will be more willing and able to pay up, he says.

Recent deals issued by Nordic and French banks in the five year part of the curve offered about 30bp over mid-swaps, but Toronto Dominion paid 54bp for its eight year at the end of August. Though core European issuers could expect to price tighter than Canadians, spreads have widened since TD's deal was issued.

Asset managers call the shots

More importantly, demand for 10 year paper typically relies on interest from insurance companies. These buyers may not fully return until they are confident interest rates have reached a plateau.

Without this important group of buyers, demand for 10 year bonds will "crucially need to secure the bid from asset managers," Siefert says.

These buyers are especially mindful of relative value and will simply not support a deal if they don't believe it pays them enough. Equally, the new year will usher in fresh money, suggesting investors will be confident to strike a deal, he adds.

Two-thirds of survey respondents say they expect access to 10 year funding to open for longer periods of time than in 2023.

This view was partially informed by the assumption that the euro swap rate curve inversion that persisted throughout 2023 would revert to a positive slope.

Investors had little incentive to buy 10 year bonds in 2023 because euro swaps typically yielded 25bp less than three year rates and because issuers were not prepared to make up for that difference.

But with nearly half of survey respondents expecting the euro swap curve to end next year 25bp positive between the two and 10 year points, there will be a greater incentive to buy 10 year paper.

But, as always, timing will be critical. LBBW's Anaya believes central banks will start to signal scope for an easing in monetary policy within the next two years, which is when the curve will begin to return to a positive slope.

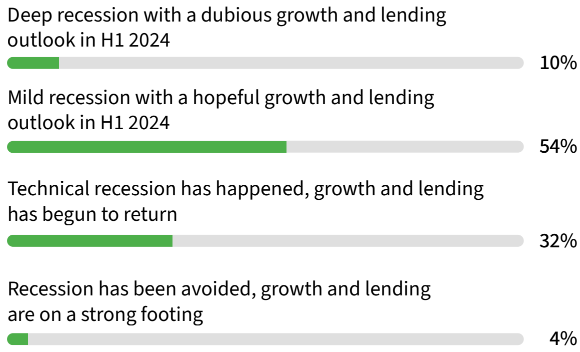
Momentum for this move could start to build towards the end of 2024, but Anaya doesn't expect a pronounced curve steepening until 2025.

Hoarau says he wouldn't be surprised to see yields in the short end drop more rapidly in the first quarter of 2024, possibly following a credit event.

That tallies with 72% of survey respondents who thought geopolitical tensions in Ukraine and the Middle East would result in some issuers being unable to access funding.

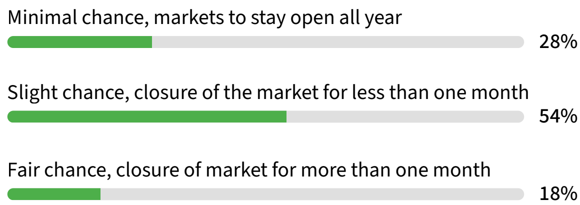
A credit event may be unhelpful and could skew demand back into the short end, but in the long run it should normalise the curve, putting covered bonds on a strong footing. GC

How do you expect eurozone GDP to look in the final quarter of 2024?



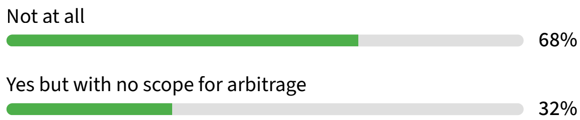
Source: GlobalCapital

What is the chance of another banking crisis that closes the market for a long period?



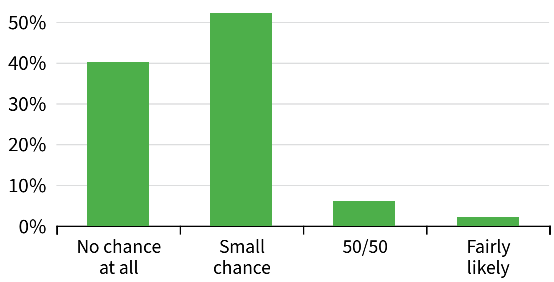
Source: GlobalCapital

Do you think the ECB will offer TLTRO, by another name, in 2024?



Source: GlobalCapital

How likely is it that the ECB pivots from QT to QE in 2024?



Source: GlobalCapital

Bumper covered bonds volumes as issuers face crises without ECB shield

The main consideration for eurozone banks at the start of 2023 was to garner what remained of the ECB bid for covered bonds but by the end of the year they had negotiated not one but two crises. **Sarah Ainsworth** reports on how, despite all the volatility, they navigated another strong year for issuance

Banks raced to issue covered bonds in the first few months of 2023, hoping to make the most of the final days of ECB buying under its Covered Bond Purchase Programme (CBPP3). Eurozone banks issued about €33bn of covered bond benchmarks in January, versus €15bn in January 2022, and a further €23bn in February, compared to €15bn in February 2022.

Eurozone issuers had to pay an average new issue premium of 6.9bp in January, the highest average monthly premium during the first half of 2023. By April, the average premium they paid had dropped to 4.75bp.

When the ECB stopped buying for CBPP3 in March, the banking crisis that swallowed up Silicon Valley Bank and Credit Suisse began. Covered bond issuance from Eurozone banks tumbled. The same institutions sold just €3bn of covered bonds in the month, compared to €8bn in March 2022.

It was left to non-eurozone borrowers to plug the hole, issuing €16bn in March, up from €3.75bn in February and €4.25bn in January.

Canadian institutions made up almost half of the supply, borrowing €7.5bn and paying out an average premium of 5.25bp, below the average premium eurozone issuers had paid at the start of the year. Toronto Dominion was the biggest seller by volume in March, hitting the market with a €5bn dual tranche offering.

The second largest non-eurozone issuance came from Australia, whose issuers sold a total of €2.5bn, paying an average premium of 5bp. Other non-eurozone issuers that picked up the slack in that month were banks from Japan, New Zealand, South Korea, Sweden and the UK.

As the banking crisis bit, average subscription ratios on covered bond benchmarks dropped below two times deal size, hitting a nadir of 1.5 times in June, having averaged 2.1 in January and 2.6 in February, despite those months being 2023's biggest for issuance at €37.3bn and €26bn, respectively.

At the same time, issuers struggled to tighten spreads from initial price thoughts by the same amount achieved earlier in the year. During January and February the average spread move during execution had been 4.1bp, but from March through to June issuers could only tighten by 3.3bp on average.

April angst

Perhaps unsurprisingly, given the industry crisis that began in March, the worst month was April when issuers only tightened by 3bp on average.

Issuers grasped the nettle from July, paying bigger premiums. The average premium for July jumped up to 6.7bp versus the 4.9bp average for the first half of the year.

Buyers returned and the average subscription ratio rebounded to 3.4 times deal size, the highest of any month during the year. Of the nine deals that were sold that month, three — from Aareal Bank, ANZ and Crédit Agricole – achieved cover ratios of six or above.

The average premium paid out for September was 8.2bp — the highest of the year. However, demand fell thanks to volatility in the rates market and rising yields. The cover ratio during September fell to 1.94 times while issuers could only tighten pricing by an average of 2.6bp during execution.

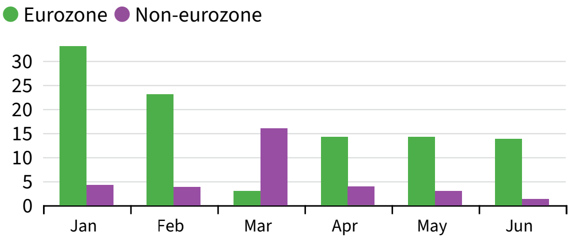
Investor caution rose again in October as conflict flared in the Middle East, but issuance continued, taking volumes to over €180bn by late November, not far off 2022's full year €200bn.

But the average subscription ratio in November fell below 1.9 times versus the yearly average of two times with some deals going unsubscribed.

Several borrowers failed to tighten pricing at all as dealers noted high volumes had already pushed investor credit lines to capacity. GC

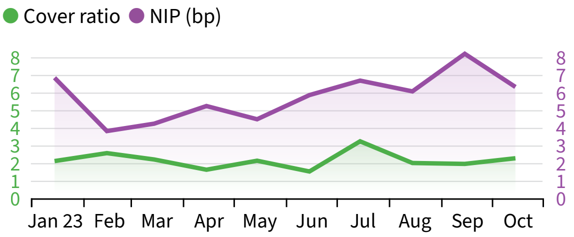
Eurozone bank covered issuance H1 2023

€ (bn)



Source: Global Capital Primary Market Monitor

Average new issue premium and coverage ratio on covered bond benchmarks



Source: Global Capital Primary Market Monitor

Uncertainty the only certainty for CEEMEA issuers in 2024

If 2023 was a better year for CEEMEA bond issuers it is no great claim; 2022 was dreadful. But investors have gained a degree of comfort over the path of interest rates, giving hope — but not confidence — of a further rebound in the primary market in 2024, write **Francesca Young** and **George Collard**

First, the good news: the most persistent and influential of drivers of volatility in the CEEMEA bond market in 2022 and 2023 — the path of US interest rates and inflation — is something investors seem much calmer about going into the new year. A spate of CEEMEA issuance in October and November 2023 will give issuers hope of a better market in 2024. But respondents to *GlobalCapital*'s CEEMEA bond market outlook survey gave a much more occluded picture of the year ahead.

The region's issuers had printed $189bn of new bonds by mid-November 2023, according to Dealogic, 33% higher than by the same point in 2022. But 2022 was a torrid year for issuance and 2023 would have struggled to be worse.

While 2022 began with war breaking out in the region, 2023 ended in a similar way, with Israel taking on Hamas. In between came the banking crisis in March, the collapse of Credit Suisse and persistent interest rate volatility.

But by the end of 2023, the market was more receptive to new issues. In the week starting November 6 there were $8.6bn of new bonds in CEEMEA, making it the fifth busiest week of the year and the third excluding January, traditionally the busiest month of the year.

But not every part of the market will be beating a path to investors' doors in 2024. While survey respondents think that overall issuance from the Middle East will rise, high energy prices mean borrowing needs are not as high as in the past. "With oil prices still high, the Middle East needs are moderate," says one head of CEEMEA syndicate in London. "And some issuers, such as Saudi Arabia, are cognisant of being seen to be issuing too much, so may look to fund in different markets."

Middle East issuers accounted for 47% of 2023's CEEMEA issuance up until mid-November, with most of that from borrowers in the Gulf Cooperation Council area. GCC issuers are the most highly rated in the Middle East, but they keep a careful eye on borrowing costs and are less likely to want to issue bonds while rates are perceived to be at their peak.

"I am hopeful the market will be better but I can't see pricing being as attractive as it once was and that means volumes aren't going to be as big as they once were," says the CEEMEA syndicate chief. "Issuers are still looking at yields that are very expensive compared with what they were used to."

The vast majority of the rest of CEEMEA issuance came from central and eastern Europe in 2023, particularly from sovereigns. More than half of survey respondents expect CEE volumes to stay roughly flat in 2024, with the rest skewed towards an increasing issuance.

Nonetheless, issuance is still likely to be low by historical standards, given the absence of Russian, Ukrainian and Belarusian issuers, and a dearth of Commonwealth of Independent States bonds. "CEE growth is forecast to be subdued, so the overall funding needs won't be as large as this year," says the CEEMEA syndicate head.

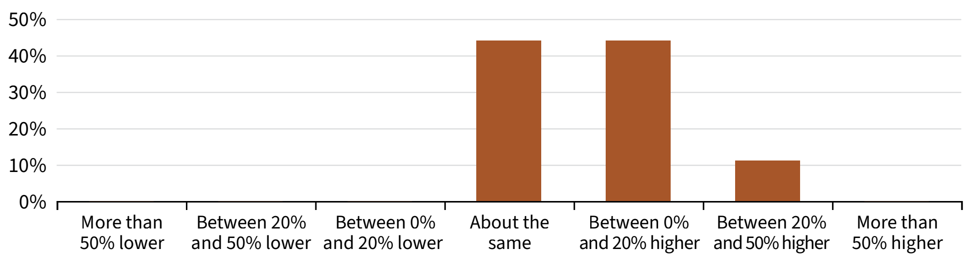
Turkish delight

But not every corner of the market is set to back away from bonds. Turkish issuers returned to primary in 2023 after a long absence. Others may follow suit.

"I expect some jurisdictions to issue more than they have done historically," says Felix Weiss, head of CEEMEA syndicate at Citi. "Further, much of the supply has been sovereign. More illiquid issuers, such as sub-investment grade corporates, have not had an easy market for 18 months. Some of that has reopened, and I expect it to drive some volume growth, although not meaningfully."

Regardless of how the rest of the year plays out, however, the start

How will volumes of CEEMEA new issues in 2024 compare to 2023?



Source: GlobalCapital

of 2024 is still tipped to be busy in the CEEMEA primary market. Even with the prospect of lower interest rates in 2024, survey respondents expect borrowers to front-load issuance.

Waiting is a risky game and this is particularly true for sovereigns who have funding targets to hit. "After what we have seen in the past few years with Covid, Ukraine, Israel, Credit Suisse and Silicon Valley Bank, unknown events can spook the market," Weiss says. "If I were an issuer, I would look early if the market is conducive."

However, while January 2023 was the busiest ever for CEEMEA new issuance, a repeat of that kind of volume is unlikely. "January will be busy but I don't think it will be as hectic as 2023," the CEEMEA syndicate head says. "At the start of 2023 not only did we have the usual January borrowers but there was a huge amount that had been delayed from 2022 because the end of the year wasn't great and the market closed early. In 2023 we have seen issuers choosing to come instead of waiting because the market is good and no one knows how long that will last."

Absent Africa

The CEEMEA primary market has for the past year effectively been the CEEME primary market. There has been a smattering of new African bonds this year, but not a single sub-Saharan African sovereign has come to market.

Survey respondents were near unanimous in forecasting that issuance from Africa will remain very low next year.

Even a couple of bonds from Africa next year would represent a big increase in supply, Weiss notes. "There needs to be a meaningful recovery before they return," he says. "Paying double-digit yields is not appealing and they have alternatives. I would not rule it out, but yields have to materially come down."

Investors agree. They would not like to see African sovereigns attempting to borrow at double-digit yields, which would suggest desperation and forecast unsustainable debt costs. Further, it could be a sign of irresponsible financial management.

"I see it as unlikely that US Treasury yields will veer beyond and then stay at 5% over the next year," says Yvette Babb, fixed income portfolio manager at William Blair. "So, funding conditions for African sovereigns can ease in the next 12-18 months just because of a move in core rates. Also helping would be yield compression between high yield and investment grade."

But the African sovereigns may not want to come to market, Babb notes. Not all of them are locked out of the primary bond market, but they are reluctant to pay the prices required. "African issuers appear to have become more wary of external issuance," Babb adds. "High yields and the changing nature of fixed income have changed [their] decision making."

If rates start to fall in the second half of the year, that would be when they would most likely issue. "Market access will become important by the second half of 2024," says Thys Louw, portfolio manager at Ninety One in London. "It is hard for any countries, let alone frontier sovereigns, to keep paying debts without resorting to issuing debt for rollovers."

Hiring or firing

The prospect of more — or less — new bond issuance will have ramifications for dealers in terms of their staffing levels and whether they run CEEMEA bond businesses at all.

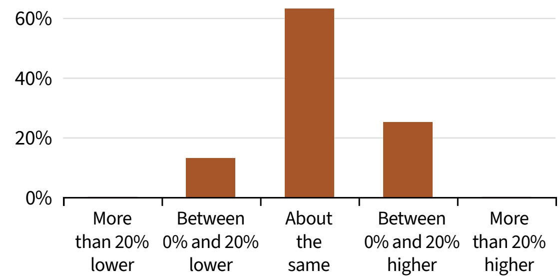
Most survey respondents see little change in the number of banks serving the CEEMEA bond market in 2024, although a third predict at least one bank outside the top 10 dealers quitting the market.

Similarly, an even bigger majority expect the number of syndicate and origination staff to stay roughly the same. But more respondents think the number of bond bankers is more likely to shrink than to grow. "Set-ups are pretty lean," says a third CEEMEA bond banker. "Everyone is lightly staffed. If different parts of the capital stack opened up, we would need more hands."

More severe still, a lack of market access for sovereigns raises the spectre of default. Kenya, for example, has a $2bn maturity next summer and there have been questions raised about how it can meet that redemption without market access.

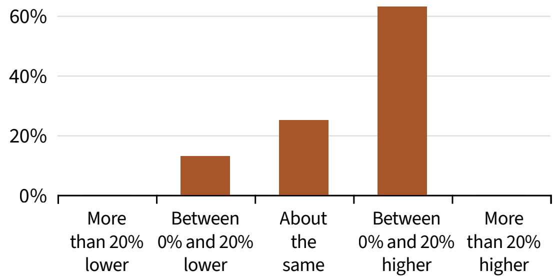
A year ago, when *GlobalCapital* asked about default rates for the year ahead, 56% of respondents thought they would rise in the CEEMEA market. But there has been just one sovereign default in 2023, from

How will volumes of CEE new issues in 2024 compare to 2023?



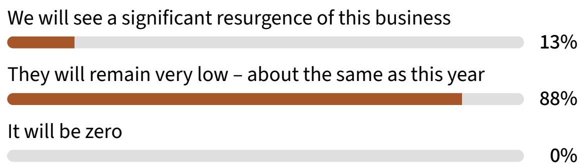
Source: GlobalCapital

How will volumes of Middle East new issues in 2024 compare to 2023?



Source: GlobalCapital

How will volumes of Africa new issues in 2024 compare to 2023?



Source: GlobalCapital

What will happen to the number of banks serving the CEEMEA bond business in 2024?

Source: GlobalCapital

Ghana. And that was a technicality — it said it would stop paying debts in December 2022.

This time around, 56% of respondents think more defaults are possible. A third think it very likely, and just 11% think there will be none.

Default concerns are focused on African sovereigns such as Kenya, Tunisia and Egypt. "Looking at 2023, there are up to three sovereigns exiting default and no new defaults," Louw says. "It could be similar in 2024… but our base case is we do not expect many, if any, 2024 defaults."

Another fund manager agreed and was confident those three countries would manage to get by, especially if concessional financing was ramped up. The problem is how far that sort of financing can go in the event African sovereigns cannot access the market.

"Multilaterals and development finance institutions cannot fully finance their investment needs," Babb says. "So inevitably capital markets will need to play a pivotal part in funding African sovereigns."

Maturity freeze

For those that have issued in the past year, the focus has been on short duration. Few issuers have gone beyond the 10 year mark, and very few bank or corporate trades have done so.

Issuers have preferred not to lock themselves into paying high coupons for long periods and investors, whose confidence has been brittle, have not wanted to overextend with rates ever rising, although that has begun to change.

Poll respondents were split on duration trends in 2024. A third each expect duration to stay the same, grow and shrink. What duration borrowers will be able to achieve will be correlated to rates volatility and yields, Weiss says. "This question really depends on your yield forecasts," he adds. "Overall, I expect a small extension in maturities."

Investors became amenable to longer dated new issuance towards the end of 2023 as more began to believe that rates would not rise further and may even begin to fall.

"For investors, there is a fear of missing out in terms of duration, so people are quick to buy long," says Francesc Balcells, chief investment officer for EM debt at FIM Partners in London. "Buying in primary is a quick way to add duration and it is cheap too, reducing transaction costs and getting some new issue premium."

Index hope

Respondents were also mixed about the fortunes of the main EM benchmark indices in 2024.

As of November 3, according to Gramercy, the JP Morgan EMBI index, a sovereign emerging market bond index, had returned minus 0.1% so far this year. The JP Morgan CEMBI Broad Diversified index, representing corporate bonds, had returned 2.1%, while the JP Morgan CEMBI Broad High Yield index, for high yield corporate debt, had returned 4.2%.

Investors are confident better days are ahead. "Any escalation in Ukraine or Israel will be monitored closely, and a deep recession in the US would be unhelpful," Babb says. "The comfort we take is from the high yields and the strong signals from central banks that there will be no more tightening."

Returns should be good, adds Balcells, because EM debt offers three things: spread, duration and carry. "Different permutations of those three all give good returns for EM," he says. "It makes me think people will come back. EM gives you the carry of high yield and the duration of investment grade. It's very compelling. We are primed for good performance and performance drives flows."

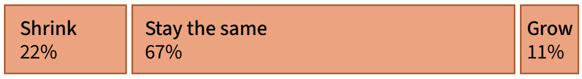
Threats

GlobalCapital gave respondents to its outlook poll five choices for what is the biggest threat to CEEMEA bond issuance in 2024: spillover from the wars in Ukraine and Israel, volatility linked to US rates, defaults hurting confidence towards the asset class, or ESG concerns leading to investors withdrawing funds from EM.

Most picked volatility linked to US rates, while no respondents thought either war or ESG concerns would derail the market.

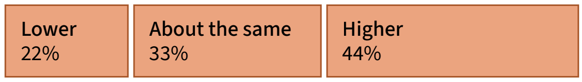
"Number one is the broader rate market, alongside geopolitics," Weiss says. "The big question is whether there will be recession and whether central banks can bring inflation back to their 2% target. However, CEEMEA is large and diverse, and we can have parts of it going well while others do not." GC

Will the number of CEEMEA DCM staff at banks (syndicate and origination) over 2024:



Source: GlobalCapital

Will the main EM benchmark indices finish 2024 higher or lower than the end of 2023?

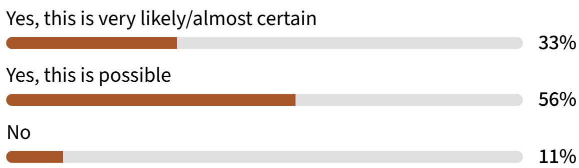


Source: GlobalCapital

What is the biggest threat to CEEMEA over the coming year:

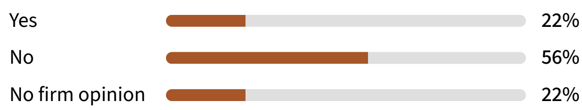
Source: GlobalCapital

Will default rates significantly rise among CEEMEA issuers this year?



Source: GlobalCapital

As ESG becomes more of a concern for funds, will we see substantially more of them refusing to buy emerging market bonds for these reasons?



Source: GlobalCapital

What will happen to the average maturity of new issues?

Source: GlobalCapital

CEE sovereigns benefit from paying up early

Central and eastern Europe sovereigns enjoyed big demand for benchmarks at the start of 2023 but paid high new issue premiums. This was reversed later in the year, as investors became more confident about the path of interest rates and when borrowers had less to raise. **George Collard** reports

CEE sovereigns coming to the primary market in January 2023 had the task of engaging an investor base that had suffered a torrid 2022. To do so, they paid an average new issue premium on benchmark funding of more than 14bp, according to data from *GlobalCapital*'s Primary Market Monitor.

Hungary and Romania were among the first to issue in 2023, and they offered more than 30bp of new issue premium to investors. Slovenia had been the first CEE sovereign issuer of the year into the market and had paid a premium in the mid-single digits only — but it is double-A rated, a few notches above Romania and Hungary.

Investors faced uncertainty over inflation and how much further interest rates had to rise and how long that process would take as central banks tried to combat spiralling prices. With the increased likelihood of bonds losing value as rates rose, issuers had to compensate investors in the form of high concessions.

The trick worked. High new issue premia did tempt investors in, leading to some large order books, even for sub-investment grade rated issuers such as Serbia. The average subscription ratio in January on a CEE sovereign benchmark bond was 4.8 times the deal size, much higher than the rest of the year.

New issue premia started to decline after January, averaging 8bp on benchmark deals in February and March. This excludes, however, a new issue premium of more than 20bp, which Turkey — an issuer with unique problems, compared with CEE peers — paid on one of its deals. It paid elevated new issue concessions all year as those paid by others fell.

Naturally, investors appeared to lose a degree of interest as new issue premiums ebbed away. The average subscription ratio on benchmark funding fell to 3.2 times the deal size in February. In March it was 3.3 times.

Front-loading

The vast majority, 89%, of dollar issuance in 2023 came in the first half. In euros it was more even, with 62% of supply in the first half. Overall, 69% of CEE sovereign bonds came in the first half.

This was different to 2022, when just 56% of benchmark volume was priced in H1. CEE sovereign supply suffered in the first half of last year owing to Russia's invasion of Ukraine. It shut the market for much of the period, and when it did reopen CEE sovereigns paid a heavy price for their proximity to Ukraine.

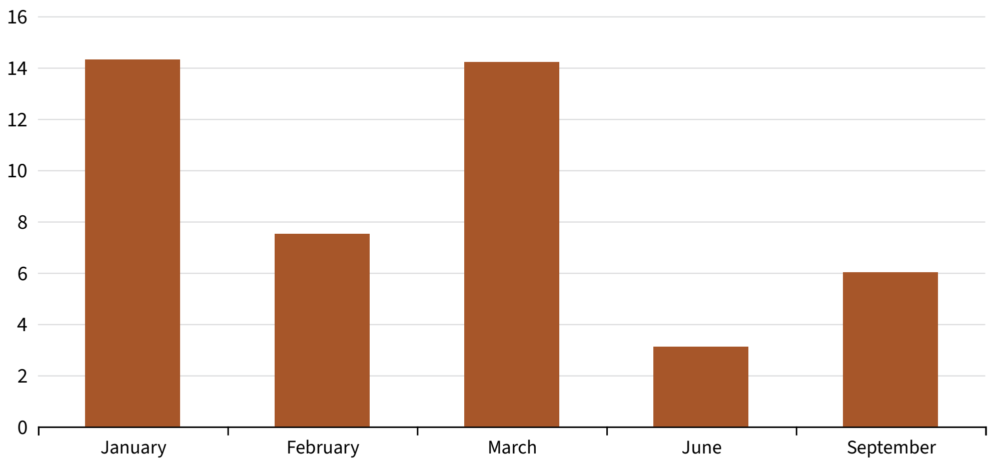
In the second half of the year, investor confidence had improved from January. The end of the rate rise cycle was in sight, many believed, even if it was still not certain, and outflows from emerging market bond funds had been nowhere near as bad as in 2022.

That handed further pricing power to issuers and new issue concessions fell further. Issuers were confident enough to leave less on the table without having to worry about a deal not going well, and investors were happy to accept a slightly lower premium for a new bond.

Since June, the average concession on benchmark funding has been just over 4bp – a far cry from January's 14bp. Stripping out sub-investment grade Albania, that average drops to just 3bp.

But in turn, order book sizes relative to bond size also dropped. The average since the start of June has been 3.4 times, lower than the rest of the year. Stripping out a deal for Estonia, a highly rated and rare issuer for which investors showed very high demand in the form of an order book eight times the deal size, the average subscription ratio was just 2.8 times. GC

Average new issue premiums on CEE sovereign syndications in 2023



Source: GlobalCapital Primary Market Monitor

Islamic investors offer borrowers with sukuk ability better pricing

A cash-heavy Islamic investor base starved of supply — compared to what conventional buyers were served up — helped Middle East and North Africa sukuk issuers secure bigger order books, giving them more pricing power than regional peers issuing regular bonds, writes **George Collard**

Throughout 2023, syndicate bankers have extolled the strength of the sukuk market, driven by local Islamic banks sitting on lots of cash because of sky-high energy prices over the past two years.

The average subscription ratio for a sukuk issue from a borrower from the MENA region has outstripped that on their conventional bonds in 2023 across all three main issuer groups – sovereigns, corporates and banks *(see graph)*. The data for sovereigns does include issues from outside MENA: one sukuk from Turkey and one from Turkish lender Ziraat Katilim Bankasi.

Sovereign benchmark sukuk were 4.8 times oversubscribed on average, according to data from *GlobalCapital*'s Primary Market Monitor, versus 3.8 times for conventional bonds.

For financial issuers, sukuk drew a subscription on average of 4.4 times, compared with 2.7 for conventional bonds.

The difference between sukuk and conventional bond oversubscription was smaller for corporate issuers. Much of that was a result of a trade from Saudi Arabia's sovereign wealth fund, Public Investment Fund, that drew a $31.8bn book for a $5.5bn conventional deal.

Corporate sukuk were on average six times oversubscribed, versus 5.8 times for their regular benchmark bonds. The greater book sizes for corporate sukuk and bond issues versus sovereigns or banks may be down to supply. Corporate issuance from CEEMEA, not just the Gulf, has been very low in the past two years. The few MENA corporates to have issued have often been best-in-class issuers.

It is not the case that sukuk books are bigger because the sellers are better rated issuers, however. Many of 2023's sukuk have been issued by sub-investment grade real estate firms, for example.

Bahrain, a B+/B+ rated sovereign, achieved a higher subscription ratio for its sukuk, of just under seven times, than Saudi Arabia, one of the leading Gulf sovereign issuers, did, at 4.5 times.

Some issuers have sold sukuk and conventional bonds this year and drawn bigger books for their sukuk. Bahrain is an example – the sukuk tranche was nearly seven times subscribed but a conventional bond sold the same day was just under three times subscribed.

Tight price

Bigger books mean tighter pricing – usually, the issuer of a sukuk can price it through where it might have sold a conventional bond.

Sovereign sukuk concessions have been in the low single digits this year. For conventional bonds they have been higher. Saudi Arabia, for example, offered 15bp for a $7bn conventional triple trancher but for sukuk it paid 0bp-5bp.

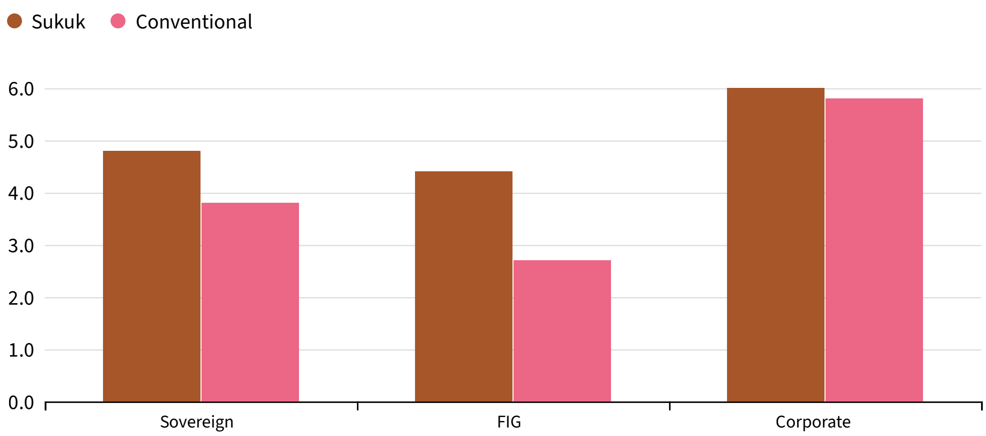
Islamic investors in the Gulf region — mostly the Islamic banks — had a lot of cash to invest because of high energy prices over the past 18 months, which has filtered down into the banking system.

But sukuk issuance has not been high in the past few years, so those buyers restricted to investing in Islamic securities have not been able to be picky. They also compete with conventional investors trying to buy the product.

This bumper demand for sukuk is unlikely to change in the near term. Islamic banks in the region are still awash with cash, while issuance is unlikely to rise by enough to satisfy their demand.

"There is a supply and demand imbalance, and that has been there for a long time," says Bashar Al-Natoor, head of Islamic finance at Fitch. "We expect this imbalance to stay in the medium term, and by that we mean three to five years." GC

Average ratios of orders to issue size for MENA sukuk and conventional bonds in 2023



Source: GlobalCapital Primary Market Monitor

LatAm bond bankers ponder new normal despite volume optimism

A late year rally in US Treasuries sparked optimism in a Latin American cross-border bond market that has been sluggish for two years. But *GlobalCapital*'s survey of senior LatAm bond bankers at 17 DCM houses shows observers are far from certain what the revival will look like and what will drive it. **Oliver West** reports

When *GlobalCapital* last surveyed Latin America's DCM heads 12 months ago, there was broad consensus that primary market activity would pick up in 2023. After what had been an utterly dismal 2022, things could hardly have got worse. Thankfully, the consensus was correct.

Dealogic data shows that by late November international bond issuance from LatAm and Caribbean borrowers had reached almost $80bn for the year — up from below $60bn in full-year 2022, and in line with the 25%-50% increase that three-quarters of last year's respondents had predicted.

This time there is again consensus: every single participant in *GlobalCapital*'s survey believes that issuance volumes will pick up in 2024, and almost one in three believes they will increase by more than 20%.

"I am feeling bullish about next year," says Rodrigo Gonzalez, director in LatAm DCM at BNP Paribas. "There is a pipeline of deals from financial institutions. Obviously the typical SSAs including all the sovereigns will come, and there are some maturities on the corporate front that need to be met."

Some of the market's expectation is simply a natural consequence of a still-modest level of activity in 2023, and the likelihood that the US Federal Reserve's interest rate increases are near their end.

Indeed, *GlobalCapital* carried out the survey in mid-November, after a strong rally in US Treasuries that had begun in late October. More than one of those predicting a greater than 20% increase admitted that they would have not been so optimistic if they had been asked a month earlier.

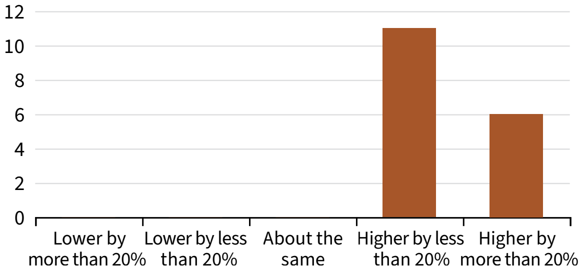
"My biggest hope for next year is that US inflation converges to 2%, which would allow the Federal Reserve to ease monetary policy," says Lisandro Miguens, head of LatAm DCM at JP Morgan.

As ever, LatAm bond markets are at the mercy of US interest rates. Yet hope does not equal expectation. Though all but two bankers expect issuance conditions to improve for LatAm borrowers, only two respondents called the end of rising rates a "turning point". Instead, the vast majority said the improvement would be "gradual".

Moreover, despite an array of other obstacles — ranging from the US election to LatAm domestic politics and economies, there is agreement that the biggest risk to the outlook is the possibility that

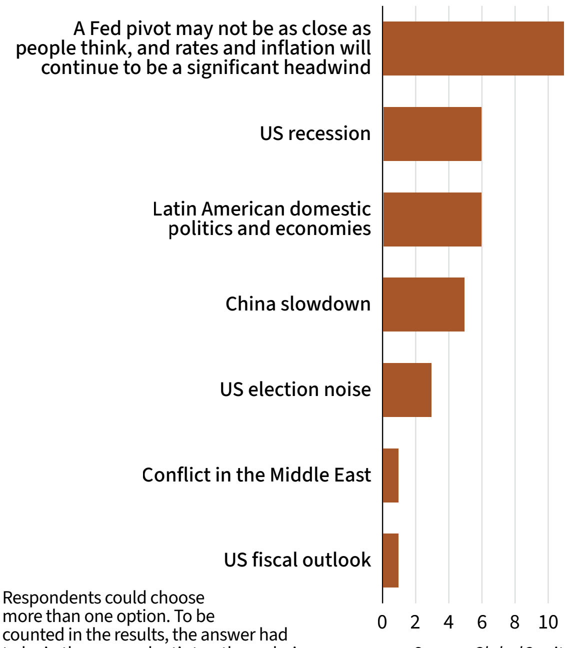
"My biggest hope for next year is that US inflation converges to 2%, which would allow the Federal Reserve to ease monetary policy"

How will cross-border new bond issuance volumes from Latin American and Caribbean (LatAm & C) borrowers in 2024 compare with 2023?



Source: GlobalCapital

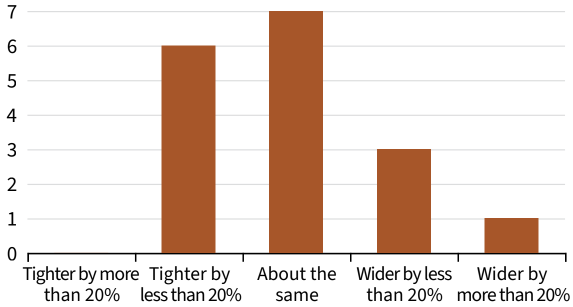
Which of these factors do you think is the biggest risk to the outlook for LatAm & C bonds in 2024?



Respondents could choose more than one option. To be counted in the results, the answer had to be in the respondent's top three choices.

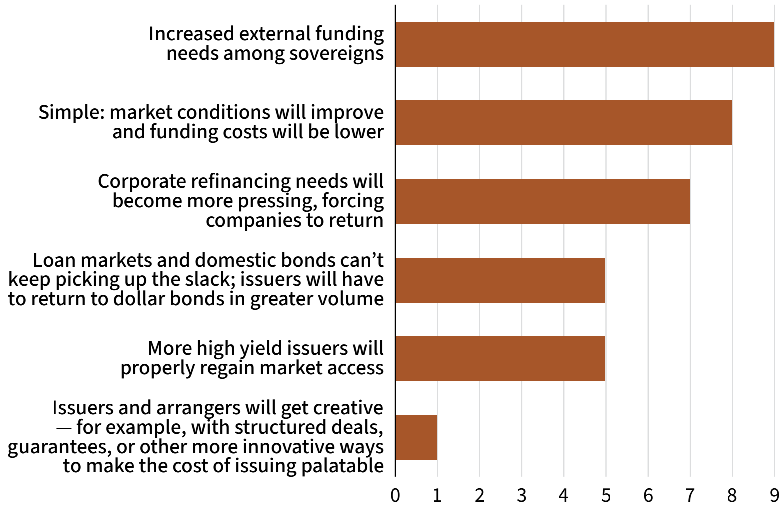
Source: GlobalCapital

What will average LatAm & C dollar spreads over US Treasuries look like by the end of 2024 versus the end of 2023?



Source: GlobalCapital

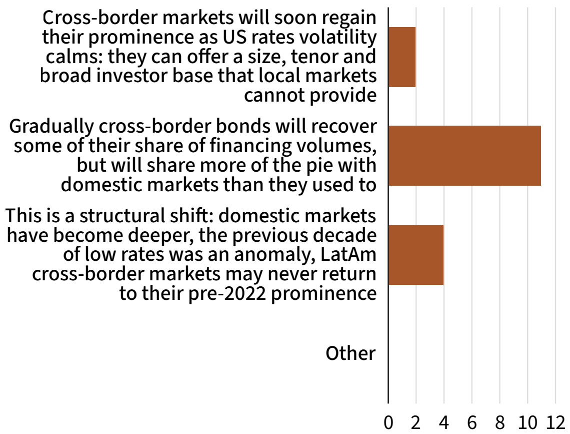
Which of these factors is likely to provide the biggest upside to LatAm & C international bond issuance volumes in 2024?



Respondents could choose more than one option. To be counted in the results, the answer had to be in the respondent's top three choices.

Source: GlobalCapital

Moody's estimates that domestic bond issuance by Latin American corps/FIs has been six times higher than cross-border issuance since the start of 2022, when previously cross-border issuance was consistently higher. Which of the following statements do you most agree with?



Source: GlobalCapital

a Fed pivot is not as close as many think.

Yet, beyond the cautious optimism on both volumes and primary market conditions, LatAm DCM bankers are struggling to agree on what will drive volumes. This suggests a market that is only just finding its feet after two difficult years.

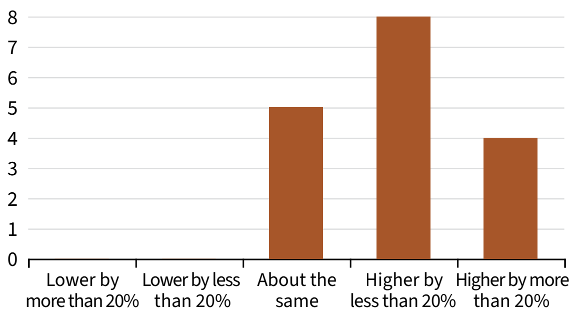
"I would say that if 2022 was a year that caught everyone off guard, 2023 showed that it was not just a one-off," says the head of EM syndicate at one large bank in New York. "We are now wondering if the last two years have marked a regime shift. 2024 will be important because, if we find ourselves in a less volatile version of the last two years, it will be an important barometer of what LatAm bond activity will look in the post-QE new normal."

Corporate issuance, for example, has been particularly low, with the $30.1bn priced in the first 11 months of 2023 paling in comparison to the $79bn done in 2021. Sovereign issuance — at $42.9bn year-to-date — has recovered well versus the $57.7bn priced in 2021.

This explains why all but one respondent was forecasting higher corporate issuance in 2024, while five do not expect sovereign issuance to increase.

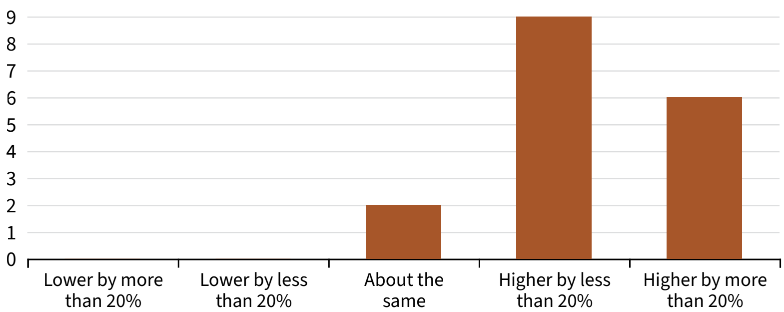
Those who say that sovereign issuance does not have much further to grow point to the fact that there

What will LatAm & C cross-border new issuance volumes look like for sovereigns in 2024 versus 2023?



Source: GlobalCapital

What will LatAm & C cross-border new issuance volumes look like for corporates (including financials) in 2024 versus 2023?



Source: GlobalCapital

was already a lot in 2023 from Chile, that all other regular issuers were active, and even a rare issuer like Costa Rica raised $3bn through its first two deals since 2019.

Mexico will be the determining factor in whether sovereign issuance increases even further. The government's 2024 budget points to a hefty increase in the fiscal deficit, from 3.3% of GDP to 4.9%, and with it an increase in debt issuance.

Mexico is the second largest economy in Latin America, so how much of that issuance is funded in external bond markets could have a big impact on volumes.

For all the expectation of improved conditions and higher volumes, there is no expectation that dollar funding costs, which have ballooned in the past two years, will also improve for issuers.

For a start, there was a broad disparity among respondents over the direction of spreads. Rather, it is rates stability that will lead to lower execution risk and longer issuance windows that will help fertilise higher volumes.

"I don't expect [dollar bond market] funding costs to lower very much until later in the year," Gonzalez says. "But the companies and banks that have used other alternatives — such as local markets, banks and multilaterals — at some point will have to take the rates that are on offer.

"I think it will take a while for LatAm credit spreads to tighten significantly but eventually they will. Once Treasury volatility subsides, and investors have a better view on long-term rates, they will start to take more views on credits."

Stiff competition

If corporate issuers are to return in numbers in 2024, at least some will do so out of necessity. Three bankers listed "pressing" corporate refinancing needs as one of the most important drivers for an uptick in volumes, while four put it as their second choice.

Faced by a sharp jump in funding costs in dollars, many LatAm companies and banks have instead been leaned on banking relationships or domestic bond markets for finance. At least six bankers in the survey, meanwhile, thought that issuers would have no choice but to return to international bond markets, listing this as their first or second most important driver of higher volumes.

Other respondents, however, insisted that there was no issue with the availability of funding in bank lending or domestic bond markets.

Calculating precise local market volumes is tricky, given the scarcity of reliable data, but Moody's estimated that international corporate and FIG issuance between 2015 and 2021 was 17% higher than domestic.

"On local markets, it depends where you look," Miguens says. "In Brazil and Mexico the domestic markets are alive and dynamic, but in Chile, Peru and Colombia activity has been anaemic and only a fraction of what it used to be."

The ability of domestic investor bases to pick up the slack as international markets have struggled has impressed many. Even after Brazil's credit markets seized up following the shock bankruptcy of retail giant Lojas Americanas in January 2023, it did not take long for the market to begin firing again.

"The last couple of years have been good for Latin American local markets because they tested them," Gonzalez says. "We saw with the Lojas episode that Brazil was able to digest the troubles and recover."

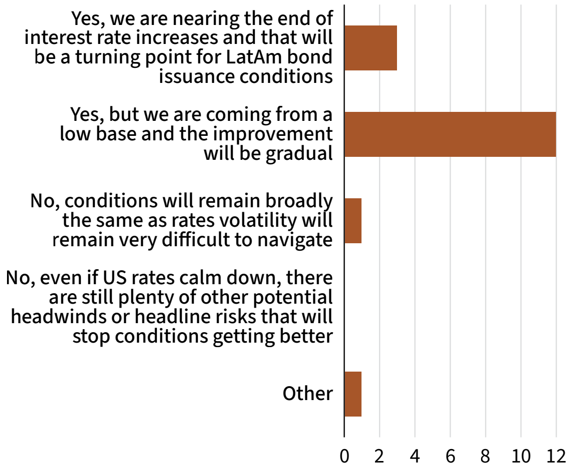
With most respondents believing that the previous decade of low interest rates in developed markets was an anomaly, it has led to some existential questioning. If local bond markets can grow to the point at which they can compete on price and in the currency that domestic companies and banks need, what is the use of international markets?

Asked whether local markets' share of corporate financing would be a permanent trend, most survey respondents think international markets will recover, but will account for a smaller share of the whole.

"The future depends on where you look," Gonzalez says. "Mexico has an amazing local market, as does Brazil and Chile, but Colombia and Peru remain pretty small. Overall, I do expect the percentage of international issuance to increase next year as issuers will have needs for bigger and longer-dated deals."

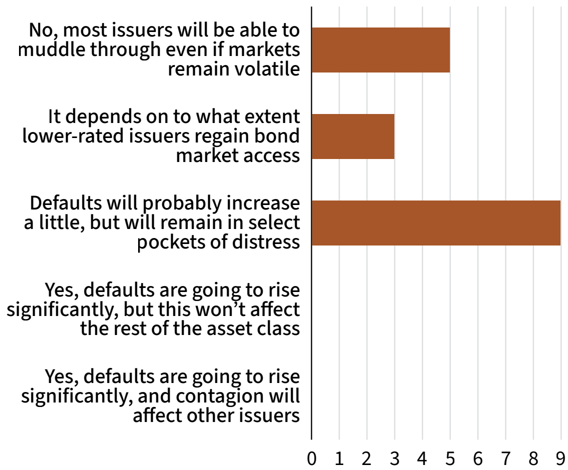
Others admitted that they were almost praying this was not a permanent change and that international markets offer deal size and duration that domestic markets struggle to match. GC

Do you expect conditions for new bond issues from LatAm & C to improve in 2024 compared to 2023?



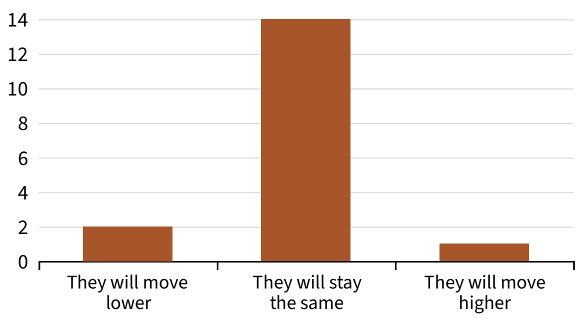
Source: GlobalCapital

Are you worried about a spike in default rates among LatAm & C issuers in 2023?



Source: GlobalCapital

Are you expecting changes in average fees on LatAm & C new issues?



Source: GlobalCapital

Hold on to your hats: 2024 will bring not one new paradigm but two

After a year of central bank tightening, corporate bond specialists are figuring out how ‘higher for longer’ will affect credit. As **Mike Turner** found in his survey, senior bankers and investors across Europe expect subdued volume, wider spreads, spots of credit anxiety — and then a new regime of economic stress and falling rates

Even those old enough to have been working in capital markets during the last interest rate raising cycle can now barely remember it. But the notion that central banks hiking rates aggressively, as they did in 2023, would lead to heavy spread widening seemed like common sense.

To the surprise of many, this did not happen. After starting the year at 90bp, the S&P iTraxx Europe Main index of credit default swaps was at 71bp on November 14. Only on two days in March did it close above 100bp.

“By the final quarter of 2023, investment grade was better than you would have expected nine to 12 months earlier,” says Giulio Baratta, head of debt capital markets corporates, EMEA, at BNP Paribas in London. “This was the year of tapering, and credit spreads have been remarkably resilient.”

Despite this, corporate borrowers were sparing in their use of the market. Some €283bn of high grade corporate bonds were issued in euros up to the middle of November, according to Dealogic. While that was more than the €262bn printed in all of 2022, it was still well off the €350bn pumped out in 2021, let alone the €454bn record in 2020.

Some had headed into 2023 full of hope. “2022 was a horrible year for everyone in credit — when 2023 started, everyone was 100% sure that it was going to be a great year for fixed income,” says Gabriele Foà, co-portfolio manager for the Algebris Global Credit Opportunity Fund. “It was, until May. Then rates started moving up.”

Feeling flat

The relentless rise in rates across the West has had a widespread impact on the market and the corporate sector. Companies have held off on takeovers and capital expenditure, and hence curbed the debt issuance to fund what looked more and more like extravagances.

Heading into 2024, the messaging from the European Central Bank, US Federal Reserve and Bank of England has changed from ‘we will do what it takes to beat inflation’ to ‘we can go steady but it will be higher for longer’.

That means market participants expect 2024 to be another fallow year for issuance (*see graph*). Of 22 bankers and investors surveyed by *GlobalCapital*, only a plucky 27% think volume will be higher than in 2023 — though none are optimistic enough to think it will grow by more than 20%.

Researchers at ING predict 2023 to end with €290bn of euro corporate bond issuance and expect it to expand slightly to €310bn in 2024.

But this will be driven partly by a rise in redemptions, from €246bn to €260bn. If ING is right, net issuance will edge up only slightly, from about €45bn to €50bn — keeping it at the slow pace it has held since 2022.

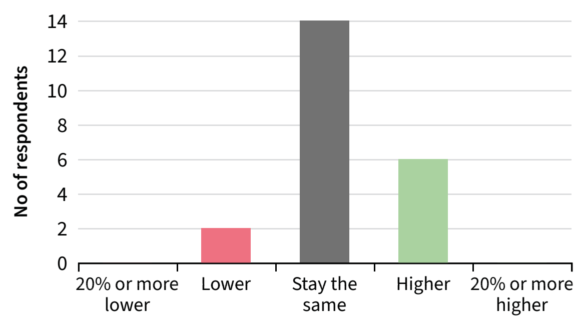
That is a huge change from 2018 to 2021, when there was between €130bn and €250bn of net issuance every year.

Other firms think net issuance could even go negative in 2024. “It could be a year of lower net issuance,” says Baratta at BNP Paribas. “Companies will continue to be cautious with their business plan expenses and will come to the market if they have a strong business need.”

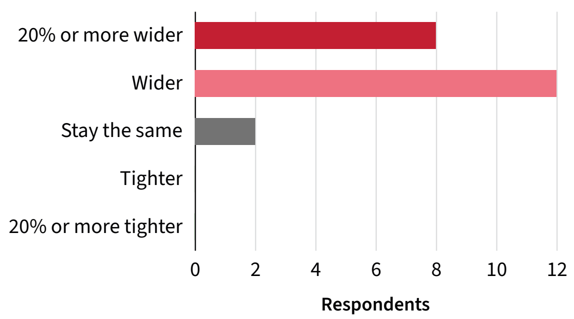
Deals are likely to be unambitious in maturity. Most issuers are loath to lock in long maturity bonds at such high rates. However, going too short on duration would give them refinancing headaches sooner than they would like.

“You need to try to refinance in the most cost-efficient way, but also avoid maturity walls, which

How will 2024 issuance volume of European investment grade corporate bonds compare with 2023?



Where are spreads headed for European corporate IG bonds?



means the medium part of the curve will be best for cost effectiveness," Baratta says.

Whether borrowing ends up higher or lower, there is a widespread consensus that spreads will move higher, shared by an emphatic 90% of respondents in our survey.

Of those, 36% think spreads will widen by 20% or more. That implies a Main index in the low 90s at least and a Crossover flirting with 500bp.

None of those surveyed think spreads will tighten, though 9% reckon they will stay roughly flat.

"IG doesn't pay a large amount of spread," says Foà at Algebris. "It's super-hard to beat cash in a situation where cash pays 4% to 5%. Spreads of 60bp, 100bp, even 150bp are not worth it because of cash. Taking 5.5% for five year IG corporate risk makes no sense."

Bad times around the corner

But although market participants are getting their heads round the higher-for-longer rates scenario, which they expect to bulk large in 2024, everyone surveyed also agrees that it will come to an end — rates in Europe will start to fall within the year.

"There is already data showing economic slowdown in Europe and parts of Asia, so 2024 will be an environment for lower rates but spreads will be a bit higher," Foà believes. "A lot of companies that need to refinance will have to pay coupons that are substantially higher. There are opportunities going into 2024, but it's going to be very important to differentiate between various credits."

Cyclicals cycle out of favour...

So far, the pain of the cycle has fallen much more heavily on some industries. Large swathes of property companies were shut out of the bond market in 2023 as investors shunned them, scared of their exposure to rates, the damage to retail from online shopping, and the long-lasting social change of working from home.

Only a handful of real estate issuers rated below A- issued bonds in 2023, and investors remain jittery. In early November, Carmila, Europe's third largest listed shopping centres group, rated BBB, sold a €500m 5.5% October 2028 bond 128bp wider than where same-rated Portuguese energy company EDP had printed a €600m 4.125% April 2029 bond just days earlier.

This wide differential suggests investors do not yet believe real estate is past its many problems. Our survey confirms that: 37% of respondents think conditions are going to get worse for real estate borrowers in the capital markets in 2024 — as many as think they will get slightly better.

Other sectors look ripe for difficulties. Respondents were unanimous that cyclical sectors that rely on discretionary spending would be out of favour in 2024. Industrial cyclicals such as the chemicals sector were repeatedly highlighted as a potential source of pain, as was retail discretionary.

"The higher for longer slogan in Europe means we do not believe that rates are going higher than they are today," says Baratta at BNP Paribas. "This means that yields are probably at the top end, but spreads could remain volatile. Because there is not a significant maturity wall in 2024, I don't think there will be a single sector that is more stressed than others, but cyclical businesses are naturally more exposed to volatility."

...along with SLBs

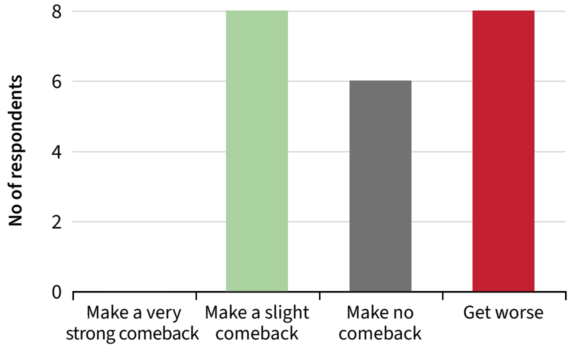
Market participants are bearish on some deal structures, too. Sustainability-linked bonds have fallen out of favour in the past two years. European companies issued just €24bn-equivalent up to November 8, according to Dealogic, compared with €40bn in 2022 and €47bn the year before.

Investors have lost enthusiasm for them for reasons both mechanical — they don't sit neatly in Article 9 funds under Europe's Sustainable Finance Disclosure Regulation — and qualitative: they question whether companies are ambitious enough in their sustainability targets.

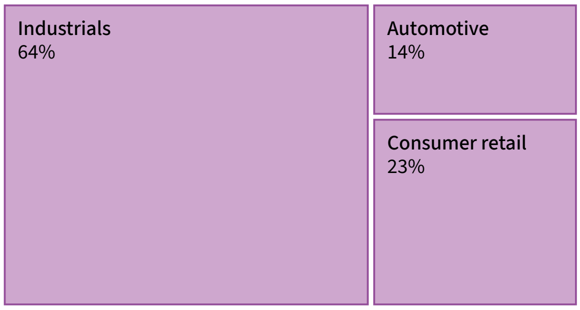
Another commonly raised concern is whether the market standard 25bp coupon increase for missed targets, which was introduced in an age of zero and 1% coupons, is still appropriate when coupons can be 5%.

Some 73% of our respondents think SLBs will not make a comeback in 2024, with another 22% expecting there to be less issuance. Only one bold respondent thinks there will be more SLBs. GC

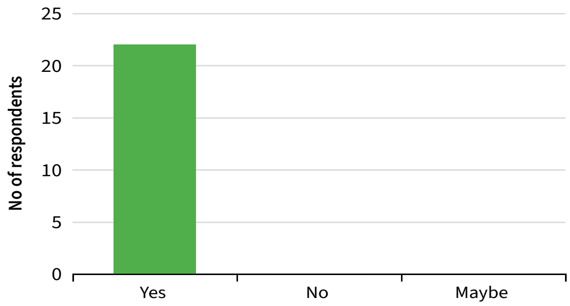
In 2024, real estate in the bond market will...



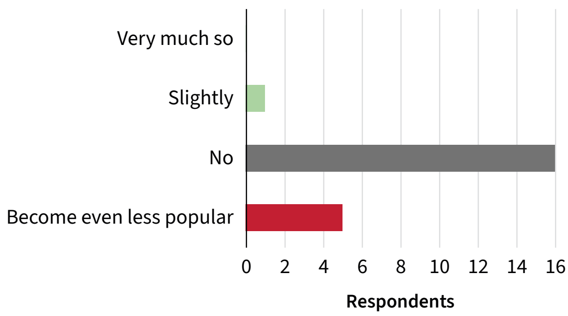
What sectors other than real estate are facing a tough 2024 in the bond market?



Will interest rates fall before the end of 2024?



Will sustainability-linked bonds come back into fashion in 2024?



Corporate bond investors rediscover duration but see spreads widening

Europe's corporate bond market kept working throughout a rough year of interest rate rises, despite some bashes along the way. As **Mike Turner** reports, investors now sense that rates have peaked and some are willing to take the risk of buying longer-term debt — but no one expects 2024 to be a smooth ride.

No one would call 2023 an easy year in bond markets. Yet despite soaring yields, corporate bond issuers in Europe narrowly got away with paying lower average new issue concessions than the year before, suggesting that the market overall functioned well.

The average new issue premium paid in 2023 was 13bp, according to *GlobalCapital*'s Primary Market Monitor tool, down a touch from the 14.3bp average in 2022. PMM's corporate section tracks all benchmark investment grade issues in euros and sterling.

The average new issue premiums of 8.4bp and 13.6bp in the first and third quarters were 2bp and 6bp inside those companies had had to pay a year earlier.

As of mid-November, even the fourth quarter had a better average NIP. That was despite October being a rough month — when conditions deteriorated, amid Israel's conflict with Gaza, 10 year US Treasury yields hitting 5% and the 'higher-for-longer' signals about interest rates from central banks unsettling almost every financial market.

Getting worse first

The few borrowers that did brave the market in October paid an average 25.8bp NIP, up from 19.3bp in the final quarter of 2022.

But although there was a burst of busy and more tightly priced issuance in November, investors say things will probably get worse for issuers before they get better. This is not necessarily just because of market technicals: investors have credit worries, too.

"A lot of companies didn't feel the [economic] squeeze earlier," says Nachu Chockalingam, senior credit portfolio manager at Federated Hermes in London, "but they are starting to feel increased pressures now — more meaningfully on the demand side and continued on the cost side."

There is a lag between interest rates rising and that feeding through in higher borrowing costs for companies and households, cramping demand.

"Company fundamentals will become a top priority," Chockalingam adds. "There are differences even within sectors. Take packaging — at the third quarter results, for example, metal companies are doing very well, but glass and plastics are doing poorly."

Investors are having to cope with a complex and confusing landscape. "Economies have become somewhat desynchronised and we are also seeing meaningful dispersion across sectors," says James Briggs, portfolio manager in the corporate credit team at Janus Henderson Investors. "Recent weakness in some of the more cyclical sectors — such as capital goods and packaging — [is] lagging behind the earlier slowdown in chemicals by almost a year."

▲ Lloyd Harris, Premier Miton: "There is an easy way to make money and a hard way"

▼ Nachu Chockalingam, Federated Hermes: "Company fundamentals will become a top priority"

As interest rates rose sharply in 2023, corporate yields leapt. The average coupon on the benchmark IG bonds tracked by PMM hit 4.4% across all maturities, against an average of 0.38% in 2021, when the European Central Bank was in the last days of its bond buying programme.

That meant pockets of demand opened up in unexpected places, such as the short end of the curve, which had for some time been a place where only those who could stomach the skimpiest of yields and spreads would buy.

"It has been a year of carry for credit," says Lloyd Harris, head of fixed income at Premier Miton Investors in London. "If you have been short dated and picked up that carry at the short end, you have been OK.

"There is an easy way to make money and a hard way," he adds. "Short dated government bonds, short dated investment grade credit is the easy way. There is too much risk in longer maturities."

A few senior bankers at some of the busiest corporate bond houses say they understand this attitude, because investors are not paid enough to take the extra credit risk of longer dated debt.

But the yield curve is that shape only because investors in aggregate want it that way. The idea that shorter is best is far from universally held.

"With the view of higher for longer, running a modestly long duration makes sense," says Chockalingam at Hermes. "Curves are steep and will continue to become steeper. Curve steepening is the trend to watch."

Duration station

This is a stark difference from the years of ECB and Bank of England bond buying — which the market is only now recovering from — when the central banks' presence homogenised credit risk, meaning curves could better be described as horizontal lines.

The stage during the present interest rate up-cycle of investors fearing duration is definitely waning.

"As yields have gone up, we have lengthened duration by 1.5 years," says Adam Darling, investment manager at Jupiter Asset Management in London. "Back in 2021, yields were on the floor, and we were underweight duration."

Bets like these are clear signs that investors believe rates will not rise much further and may even start falling. They are grabbing what may be a once in more than a decade chance to buy high grade corporate credit at yields close to 5% in euros, or even higher in sterling.

Although corporate bond issuers are having to pay much higher rates, investors' pivot to duration does mean issuers have been able to flatten their curves.

Several have decided longer bond issues are a good deal for them, even if demand is not as deep as at the short end. Pharmaceuticals supplier Sartorius, for example, sold an €850m 12 year bond with a 4.25% coupon in September and Nestlé a €500m one paying 3.75% in November, while Ireland's Electricity Supply Board issued a €500m 12.5 year in September at 4.25%.

This curve flattening was also visible during bookbuilds for multi-tranche deals, in how much issuers were able to tighten the different tranches.

French luxury goods groups Kering and LVMH, power and gas company Engie, Volkswagen and German electricity transmitter Amprion all found outsized demand for the longer legs of dual tranche trades during the summer.

Engie's four tranche deal was a standout: it went as far as 19 years with a €900m 4.5% September 2042 bond that was tightened 10bp more than its four year tranche.

"It has not been the greatest year for credit," Chockalingam says. "But investment grade is a safe carry trade if you are of the view that rates are approaching their peaks [and] will come down, which we are."

The expectation of falling rates does not mean markets are out of the danger zone yet — far from it.

"The amount of fiscal expenditure so far is preventing a recession in the US," says Harris at Premier Miton. The US government splashed out $6.13tr in the year to October 2023, $137bn more than the same period in 2022. This is set to hit $6.9tr in 2024.

This high spending has expanded the fiscal deficit to $1.7tr for 2023 — a 23% year on year jump and a record, except for during the Covid-19 pandemic.

"The Fed is not doing enough [tightening] to offset the fiscal expenditure, and we are not buying there being a soft landing, because we are already at maximum employment," says Harris. "This means there is not enough slack to grow without more inflation."

When the US sneezes

If the world's largest economy slides into recession, it will almost certainly drag Europe with it — assuming Europe isn't already stuck in its own quagmire.

"The market is saying nothing has really changed on long-term inflation expectations," says Darling at Jupiter. A "lot of momentum" has come out of the US economy, he adds. "Is the US bankable? There is a lot of focus on the deficit."

One way some investors are parsing the shaky market conditions headed into 2024 is that history tends to repeat itself, even with the added complexities of Covid-19 lockdowns and long-term quantitative easing to consider.

"A lot of leading indicators suggest that this interest rate cycle is no different from any other," Darling argues. "Every cycle has its nuances — but, pre-Covid, why were people thinking that rates would be zero for ever? [The major problem now] is that there is so much debt. If you hike rates too much, this will start blowing up."

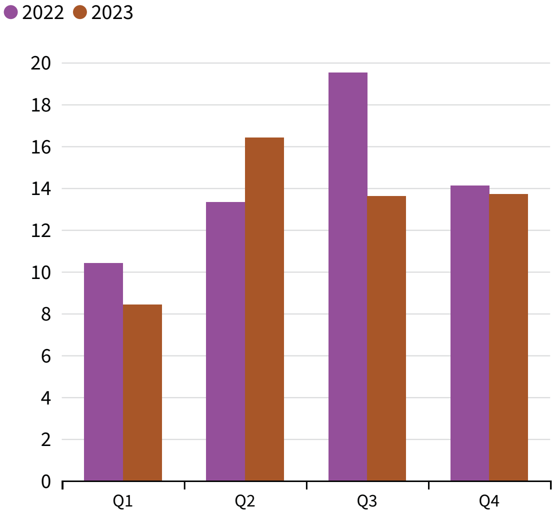
This means more defaults coming among high yield borrowers. The possibility of default in investment grade is tiny, according to Darling — a view held by most of the market — but crumbling from investment grade into junk ratings is not, and then the default threat rises.

Nevertheless, there are still plenty of optimists out there.

"Corporate and household debt are not excessive — and assuming a sharp and/or globally coordinated recession can be averted, then a relatively modest rise in default rates can be accommodated by current spreads," says Briggs at Janus. "Based on previous cycles, the conditions are broadly in place for credit spreads to widen, but the principal catalyst is yet to occur. With US growth surprising so materially to the upside in 2023, that catalyst may remain elusive in 2024." GC

Doing better: average investment grade corporate new issue premiums shrank in 2023

NIPs for euro and sterling benchmarks (bp)



Source: *GlobalCapital* Primary Market Monitor

Hopes rise of M&A returning after bruising year for loans

Amid the disruption caused by rising rates, buyers and sellers refused to agree prices for mergers and takeovers. That left banks fighting for scraps of deals and feeling the squeeze on pricing. But as **Ana Fati** reports, since the summer the mood has changed and loans bankers are feeling wanted again. 2024 holds promise, but no one expects an easy ride

Syndicated loan markets in EMEA have had some bad years recently, but 2023 was a poor vintage by any standards. Across the market, however, loan bankers have sensed a returning vigour in the last months of the year, above all in requests for merger and acquisition financing.

"There is strong potential growth in corporate loans for next year," says Reinhard Haas, global head of syndicated finance at Commerzbank in Frankfurt. "Because we're coming from a very low base [in the corporate sector], there is the necessity to move ahead with investments. Over the past three to four years, the average level of investment in M&A, but also in simple equity investments in business, has been subdued. Businesses now have to move ahead in order to progress and evolve."

Despite renewed uncertainties about interest rates and geopolitical shocks, with wars in Ukraine and Israel-Palestine, the loan market remains resilient and cautiously optimistic.

Overall syndicated lending in EMEA had reached €809bn by November 14, in 3,000 transactions, according to Dealogic. This was down 36% on the volume by that point in 2022 and 20% on the 10 year average for that period.

But as the results of *GlobalCapital*'s survey of loans bankers show (*see graphs on these pages*), market participants expect an upturn in 2024.

"Overall, it has been a challenging year for the loan market — some of it structurally led by a significant dip in M&A activity," says Damien Orban, head of emerging markets, financial institutions and Benelux in loan capital markets EMEA at Bank of America in London.

M&A drought breaks

The biggest difficulty by far has been the lack of M&A. According to Dealogic, up to November 14 there had been only €112bn of syndicated loans in EMEA this year for M&A purposes — less for those 10.5 months than in any year since 1998. The average for the period in the past 10 years has been €297bn.

"In the loan market, there was never a liquidity problem. Liquidity is available," says Haas. Banks and institutional investors have been willing to lend, he says — the trouble has been: "There was just not the demand coming from the borrowers, not the activity level that we would have expected."

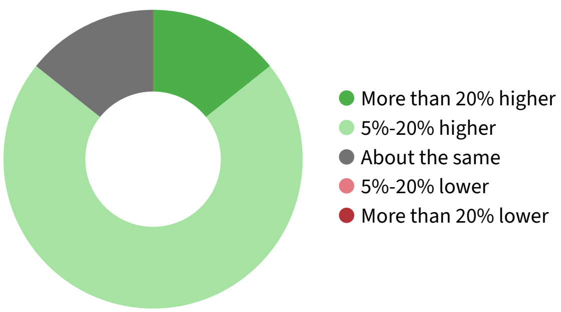
The fundamental problem has been potential buyers and sellers of assets not being able to agree on price. "As a consequence we have seen limited M&A financings in 2023," says Linda Ågren, head of loan syndicate and sales at SEB in Stockholm.

But there is a further qualm for the loan market. M&A itself, although subdued, has not fallen as drastically. Up to November 14 there had been €601bn of deals in EMEA, filed in 2023, that had been completed, partially completed, or were at the preliminary or pending stages, according to Dealogic. That is 27% below the 10 year average for that part of the year, of €827bn.

Not only is M&A down, but the deals that are happening are not generating as much loan financing as usual.

However, even though it has not shown up in the figures yet, loan bankers believe the fourth quarter has brought a revival of M&A financing. "If you compare the level of activity across all asset classes we have in our team now, it points in a positive direction," says Ågren.

How will EMEA syndicated loan volume in 2024 compare with 2023?



Source: GlobalCapital

Do you expect an increase in M&A financing in the EMEA loan market in 2024?

Source: GlobalCapital

"In a year when we had ups and downs in terms of cost of funding, banks are finding themselves more expensive than they were 12-18 months ago"

The first quarter of 2023 was marked by an "extremely low volume of deals, with many discussions but nobody pushing the button," says Nicolas Rabier, co-head of investment grade finance EMEA at BNP Paribas in London.

Haas at Commzerbank calls it "one of the lowest activity levels that I can remember."

But from July, a few opportunistic financing opportunities appeared. "There was quite a bit of that activity coming back," says Haas. "I was quite happy to see that, not only in Germany, but across Western Europe, we had opportunities coming our way, and if that's true for us, that's true for the market."

Rabier says that "Since the summer break, we are back to full speed activity, with M&A at mid-cap but also large cap levels."

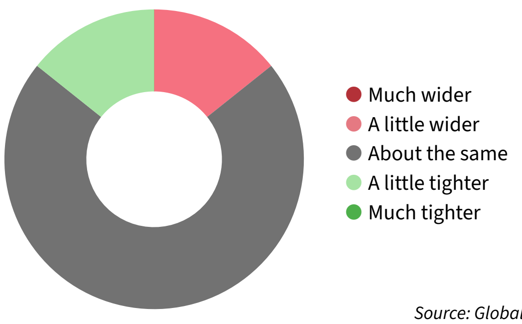
Haas also saw September bringing "a return to a normality that we would have expected in a year like 2023. We had the pipeline filling, there was a renewed activity in the leveraged markets, which is usually a good sign for the rest of the market — if they can work, corporates can definitely work."

That means loans bankers are feeling much busier and more confident than a few months ago.

"At this stage, I'm pretty positive," says Rabier. "The pipeline we have for Q1 is looking good. The volume for 2023 is on the low side. Can we expect more volume in 2024? Yes, definitely."

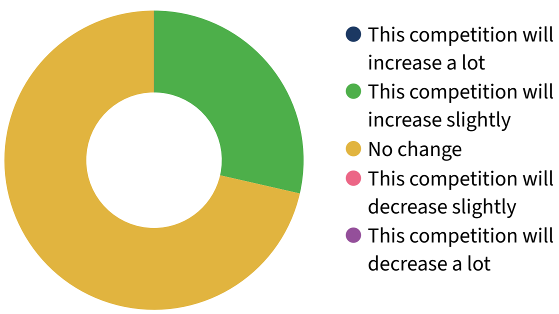
Another loans banker agrees. "When it comes to M&A, clients are ready to move, and they want to come to the bank market and do bridge facilities."

How will margins on investment grade loans evolve in 2024?



Source: GlobalCapital

Do you expect there to be more competition to lend to investment grade companies from private credit funds in 2024?



Source: GlobalCapital

Tight competition shapes pricing

With deals thin on the ground, competition between lenders has become intense — just as banks were being squeezed in their cost of funds.

Banks' cost of wholesale senior debt, a proxy for which is the S&P Markit iTraxx five year Senior Financials Index of credit default swaps, traded in the 70s and 80s for much of 2023, but it has had some spikes, notably in March when Credit Suisse failed and again in October.

"You need [loan] pricing to go up to make the same return if your liquidity costs are going up," says one loans banker. "But there are fewer opportunities to select from, so there's a fierce amount of competition among lenders that are going to be potentially trying to get the same deals. And when there's a lot of competition on the loan, prices go down."

A competitor agrees: "The banks haven't got enough to work on, so the pricing we're offering ourselves is down to try and get the business. Unfortunately, that's probably going to continue, given it's such a competitive market while the volumes are low."

At Bank of America, Orban believes competition will remain very strong, especially to get into revolving credit facilities, which are relationship-defining, so "banks will continue to focus on them in a very meaningful way".

"Bridges, too, are very sought after by banks, who will be keen to rebuild this important source of deal activity," he adds.

The one product, he argues, that could suffer from an "element of friction" is term loans. Banks are being more stringent about their capital and funding costs, and "those deals are not as easy to get done."

Bankers say pricing went through phases of compression and widening during 2023, without a clear trajectory. But overall, the level for many borrowers has hardly shifted.

"In a year when we had ups and downs in terms of cost of funding, banks are finding themselves more expensive than they were 12-18 months ago," says Rabier. "And despite that they haven't significantly changed pricing, due to the relationship angle of the transactions, as well as the low volume of opportunities."

They have kept margins keen because "banks are still eager to find the right opportunities to support clients," Rabier says. Lower rated companies may be paying up a bit, "but roughly an average investment grade triple-B or single-A is not paying much more than it was one year ago."

Turnover in banking groups

Market conditions and the regulatory environment have led banks to rethink their lending strategies, leading to shake-ups in bank groups.

"We've seen a noticeable dynamic in bank syndicates — more than I've seen in 20 years," says Krissy Dempsey in the loan syndicate and sales team at SEB in Stockholm. In the Nordic region, she has noticed "some Nordic banks exiting, however still appetite from international banks to try and develop new relationships."

Lucie Campos, head of EMEA corporate loan distribution at Crédit Agricole in London, says that as "lenders in the EMEA corporate market had to reconcile liquidity cost increase with low deal volume, this created some opportunities for lenders to seek to enter into new relationships, while still increasing scrutiny on the existing ones."

On some deals new banks appeared, on others existing banks withdrew. All told, "there is more turnover of bank groups than before," says one banker.

Paul Gibbon, head of loan and high yield capital markets at SMBC in London, observes that "We have seen slightly smaller syndicates, driven by a combination of borrower preference and banks just occasionally stepping out of deals."

Doubts about green

A year ago, bankers looking ahead to 2023 were agreed on one thing: sustainability-linked loans would be a highlight. In 2022, by mid-November, there had been €240bn of SLLs in EMEA, 19% of the whole market.

Bankers were sure the trend had further to go. Some still hold that view, but it has become less unanimous.

"I don't think we're too far away on the corporate side, where virtually every bit of issuance will have some ESG language in the loan documentation," argues Gibbon. "Where there's definitely more room to go is in leveraged finance, where sustainable finance is yet to materialise its full potential, but it is catching up."

But there are more clouds over the market. "SLLs have been a challenge and that part of the market has dropped," says one banker.

In 2023, up to November 14, Dealogic had recorded €125bn of SLLs, 15.5% of borrowing in EMEA.

The banker believes the reason is some companies have found it hard to "come up with ambitious, annualised targets". And in those cases, "They're not prepared to go to market with something that is not going to be considered very robust and very ambitious, because of the fear of greenwashing."

Haas at Commerzbank points to a different obstacle. "The pipeline is sky high, but the activity level is not," he says.

SLLs do not have to be used for specific green investments — that is part of their attraction. But nevertheless, a slowdown in green capex could be crimping the market. "Many of these [green] projects were based on the interest [rate] environment prior to the beginning of the hikes," says Haas. "And these projects stalled, because you can't increase the financing cost and expect that project to still run at the same return levels that you had projected in the first place. Some of these projects are due to come to market."

However, it remains the case that fears of greenwashing are rising, both among financial institutions and in the public perception. Bankers welcome the green aspect of deals being taken more seriously, but this raises the bar to completing deals.

"SLLs remain a focus among borrowers," says Dempsey at SEB, "however, as general loan volumes have reduced this has spilled over also to SLL volumes. Lenders in general are scrutinising SLL structures more closely, which is a good development."

Loan bankers also agree on two things. Companies with high carbon emissions will find it harder to borrow in 2024, and the renewable energy sector will attract attention.

Private credit take-off?

One of the loan market's top talking points is the rise of private credit. Morgan Stanley estimates that the global market will reach $2.7tr of debt outstanding by the end of 2027, from $875bn in 2020.

Up to now, the funds have concentrated on leveraged companies, but a substantial portion of their future expansion may fund investment grade companies.

Asked if private credit is a threat to banks' lending businesses, Rabier says: "It is something that we are watching, although at the moment it is not concerning us too much."

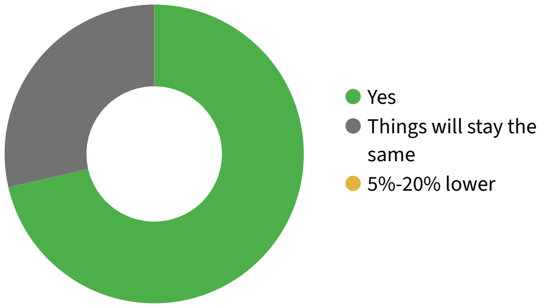
Loan bankers say private credit funds will need to live through a whole credit cycle before they can develop sustainable strategies.

Orban at BofA thinks there is limited scope for private credit in the investment grade world. "When you think about the way the high grade market operates, the rate at which banks can support these issuers makes it difficult for a private credit institution that is beholden in a very different way to its investors to compete," he argues. "The role of private credit is typically in trickier situations, in scenarios where access to funding is constrained, for whatever reason."

Some believe private credit funds can pick up customers cast off by the loan market, for example for ESG reasons. But bankers do not consider them a threat.

"They've got plenty more they can do" in leveraged credit, Gibbon says. "They've grown rapidly in the leverage space, especially in LBO private equity deals, as for the corporate leverage space there's more runway for them on that side to focus on."

Will companies with high carbon emissions find it harder to borrow in 2024 than 2023, because of ESG considerations?



Source: GlobalCapital

All to play for

After a bleak year, loans bankers are cautiously optimistic about 2024. "There are always opportunities for the corporate loan market, especially when the water gets a little bit rougher out there," says Campos. Compared with other funding sources, it gives companies "a comparatively more civilised, predictable option, due to its stability and the generally constructive, relationship-driven behaviour of the lenders."

Business is picking up, though no one expects 2024 to be easy. Gibbon describes the loan market as being "a bit like a super-tanker". He says that "when you just look forward, you never think you are actually moving. Then you look behind and you see how far you've actually come."

One thing bankers agree on: competition is likely to remain intense, especially for the most prized deals.

Orban says the vital thing will be "making sure you're talking to the right clients. The opportunity in the loan market for 2024 is going to be for the institutions that have the reputation for being a safe pair of hands in difficult times and are skilful in structuring. That's what's coming through as being very valuable to clients. Because when they do want to do a deal, those are going to be the desks and the institutions that they're going to rely upon, to help them get over the line in an uncertain world." GC

Syndicated Loan, Leveraged Finance and Private Debt Awards 2023

GlobalCapital presents the nominations for its 21st annual Awards for the loan, leveraged finance and private debt markets. The Awards are based on an online poll conducted in November, and cover the period November 16, 2022 to November 15, 2023. The winners will be announced at our Awards Dinner in London on February 21. *GlobalCapital* thanks all who voted and congratulates all the nominees.

DEALS OF THE YEAR

Deal of the Year

BAE Systems
$5.5bn bridge for acquisition of Ball Aerospace & Technologies, £2bn RCF
September 2023

BHP Billiton
$5bn bridge for acquisition of Oz Minerals
February 2023

Messer
€4.14bn-equivalent loans for acquisition by GIC
May 2023

Smurfit Kappa
$11bn bridge for acquisition of WestRock
September 2023

Vantage Towers
€6.98bn term loans and RCF to support acquisition by Vodafone, KKR and GIM
March 2023

Leveraged Loan of the Year

Action Nederland
€3bn amend and extend
April 2023

Cooper Consumer Health
€1.105bn term loan B for the LBO of Viatris by CVC, Charterhouse and Avista
November 2023

Software AG
$1.22bn term loan Bs and RCF for LBO by Silver Lake Group
August 2023

Worldpay
$5.735bn term loan Bs for LBO by GTCR Golder Rauner
September 2023

M&A Loan of the Year

BAE Systems
$5.5bn bridge for acquisition of Ball Aerospace & Technologies, £2bn RCF
September 2023

BHP Billiton
$5bn bridge for acquisition of Oz Minerals
February 2023

Messer
€4.14bn-equivalent loans for acquisition by GIC
May 2023

Smurfit Kappa
$11bn bridge for acquisition of WestRock
September 2023

Emerging Market Loan of the Year

Akbank
$265.5m and €318.5m sustainability-linked term loans
October 2023

AviLease
(owned by Public Investment Fund of Saudi Arabia)
$2.1bn term loan
August 2023

Sasol
$2.969bn term loan and RCF
April 2023

Infrastructure Finance Loan of the Year

Frøy
Nkr6.05bn term loan, capex facility and RCF for LBO by Goldman Sachs Asset Management
June 2023

National Gas Transmission
£3.378bn term loans and RCF for acquisition of majority stake in National Grid Gas by consortium led by Macquarie and British Columbia Investment Management Corp
January 2023

Vantage Towers
€6.98bn term loans and RCF to support acquisition by Vodafone, KKR and GIM
March 2023

Renewables Loan of the Year

Baltic Power
€4.394bn term loans and LC facilities to finance offshore wind development by PKN Orlen
September 2023

Finerge
€2.296bn term loans, capex facility, guarantee facility and RCF to refinance 2019 facility
March 2023

Moray West Holdings
£450m bridge facility to finance offshore wind project in Firth of Moray
December 2022

REGIONAL DEALS OF THE YEAR

Central and Eastern European Deal of the Year

Baltic Power
€4.394bn term loans and LC facilities to finance offshore wind development by PKN Orlen
September 2023

Energetický a Průmyslový Holding
€3.845bn term loans and RCFs to refinance 2021 facility
June 2023

Middle Eastern Deal of the Year

AviLease
(owned by Public Investment Fund of Saudi Arabia)
$2.1bn one year term loan
August 2023

DAE
$1.6bn term loans and RCFs to refinance 2019 facility
September 2023

Investcorp
$459m and €132m four year RCFs for refinancing
March 2023

African Deal of the Year

Bidvest
€750m term loan and RCF to refinance 2021 facility and for acquisitions
June 2023

Sasol
$2.969bn term loan and RCF
April 2023

UK and Irish Deal of the Year

BAE Systems
$5.5bn bridge for acquisition of Ball Aerospace & Technologies, £2bn RCF
September 2023

BHP Billiton
$5bn bridge for acquisition of Oz Minerals
February 2023

National Gas Transmission
£3.378bn term loans and RCF for acquisition of majority stake in National Grid Gas by consortium led by Macquarie and British Columbia Investment Management Corp
January 2023

Smurfit Kappa
$11bn bridge loan for acquisition of WestRock
September 2023

French Deal of the Year

Air France-KLM
€1.2bn RCF
April 2023

Pluxee
€2.1bn for demerger from Sodexo
October 2023

Teleperformance
€2.05bn bridge and term loan for acquisition of Majorel
May 2023

Veolia Environnement
€4.5bn five year RCF to refinance 2015 facility
March 2023

German, Swiss and Austrian Deal of the Year

Deutsche Börse
€3.9bn bridge for the acquisition of SimCorp
April 2023

Messer
€4.14bn-equivalent loans for acquisition by GIC
May 2023

RWE
€5bn RCF to refinance 2022 facility and for general purposes
July 2023

Schaeffler
€3.45bn financing package for takeover offer for Vitesco Technologies
November 2023

Italian Deal of the Year

Ferrero
€2bn term loan
January 2023

Italo-Nuovo Trasporto Viaggiatori
€1.4bn term loan and RCF to refinance 2019 facility
July 2023

Prysmian
€1bn RCF to refinance 2019 facility
June 2023

Iberian Deal of the Year

Energias de Portugal
€3bn RCF to refinance 2018 facility
July 2023

Gestamp Automoción
€1.7bn term loan and RCF to refinance 2020 facility
May 2023

Másmóvil Ibercom
€4.25bn term loan A add-on to 2020 facility to support acquisition of Orange Espagne
December 2022

Werfen
€1.92bn term loan and bridge for acquisition of Immucor
November 2022

Benelux Deal of the Year

Fluxys Belgium
€500m term loans for acquisition of Open Grid Europe
January 2023

Solvay and Syensqo
€2.9bn bridge loans and €2.5bn RCFs for separation of companies
October-November 2023

Tennet
€8bn term loan
May 2023

Viterra
$5.1bn RCFs
May 2023

Nordic Deal of the Year

Ørsted
€2bn RCF to refinance 2022 facility
September 2023

Swedish Orphan Biovitrum
€1.49bn-equivalent loan package for acquisition of CTI BioPharma
June 2023

Vattenfall
€3bn RCF
March 2023

Volvo
€2bn RCF to refinance 2017 facility
March 2023

Turkish Deal of the Year

Akbank
$265.5m and €318.5m sustainability-linked term loans
October 2023

Türkiye Varlık Fonu
(Turkey Wealth Fund)
€790m term loan
March 2023

Ülker Bisküvi
€183m-equivalent sustainability-linked term loans
March 2023

BANK AWARDS

Loan House of the Year

BNP Paribas
Citigroup
Crédit Agricole
Deutsche Bank
JP Morgan

Best Arranger of Leveraged Loans

BNP Paribas
Goldman Sachs
JP Morgan

Best Arranger of M&A Loans

Bank of America
Citigroup
JP Morgan

Best Arranger of Project Finance Loans

Crédit Agricole
Santander
SMBC
Société Générale

Best Arranger of Mid-cap Loans

BNP Paribas
Commerzbank
Crédit Agricole

Best Arranger of Infrastructure and Renewables Loans

Crédit Agricole
Santander
Société Générale

Best Secondary Loans House

BNP Paribas
Goldman Sachs
JP Morgan
Morgan Stanley

BANK REGIONAL AWARDS

Best Arranger of Western European Loans

BNP Paribas
Citigroup
Crédit Agricole
UniCredit

Best Arranger of Central and Eastern European Loans

ING
Raiffeisen Bank International
Société Générale
UniCredit

Best Arranger of Middle Eastern Loans

Abu Dhabi Commercial Bank
Citigroup
First Abu Dhabi Bank
HSBC

Best Arranger of African Loans

ABSA
Rand Merchant Bank
Standard Bank
Standard Chartered

Best Arranger of Asia Pacific Loans

HSBC
Industrial and Commercial Bank of China
Standard Chartered

Best Arranger of UK and Irish Loans

Barclays
Citigroup
Lloyds
NatWest

Best Arranger of French Loans

BNP Paribas
Crédit Agricole
Société Générale

Best Arranger of German, Swiss and Austrian Loans

Commerzbank
Deutsche Bank
UniCredit

Best Arranger of Italian Loans

Crédit Agricole
Intesa Sanpaolo
Mediobanca
UniCredit

Best Arranger of Iberian Loans

BBVA
CaixaBank
Santander

Best Arranger of Benelux Loans

ABN Amro
BNP Paribas
ING
Rabobank

Best Arranger of Nordic Loans

Danske Bank
DNB
Nordea
SEB

Best Arranger of Turkish Loans

Abu Dhabi Commercial Bank
Bank of America
Emirates NBD
Standard Chartered

BEST INVESTORS, ADVISERS AND LAW FIRMS

Best Corporate Finance Adviser

Deloitte
Evercore
Lazard
Rothschild

Best Law Firm for Syndicated Loans

Allen & Overy
Ashurst
Clifford Chance
Linklaters

Best Institutional Lender

Barings
CVC
ICG
M&G
MV Credit

Best Loan Restructuring Adviser

Alvarez & Marsal
Houlihan Lokey
Triton

Best Subordinated Debt Investor

Alcentra
Davidson Kempner
GIC
HIG
Indigo
MV Credit

Best Distressed Loan Investor

Cross Ocean
Strategic Value Partners
Triton

Best Global Private Debt Investor

Ares
Axa
Blackstone
MV Credit

Best Private Debt Investor for Western Europe

Arcmont
BlackRock
MV Credit

SUSTAINABLE LENDING AWARDS

Sustainability-Linked Loan of the Year

EasyJet
$1.75bn five year export credit facility and term loan
June 2023

Energias de Portugal
€3bn five year RCF to refinance 2018 facility
July 2023

Ørsted
€2bn three year RCF to refinance 2022 facility
September 2023

Porsche AG
€2.5bn five year RCF
June 2023

Best Arranger of Green and ESG-linked Loans in Western Europe

BNP Paribas
Crédit Agricole
ING
Société Générale

Best Arranger of Green and ESG-linked Loans in CEEMEA

ING
Standard Chartered

Most Innovative Bank for ESG lending

BNP Paribas
Crédit Agricole
Natixis

Best Private Equity House Issuer of Green and ESG-Linked Loans

CVC
EQT

Most Innovative Private Equity House for ESG

CVC
EQT

Most Influential Investor in Sustainability-Linked Loans

Blackstone
La Banque Postale Asset Management
M&G
Tikehau

PRIVATE DEBT AWARDS

Schuldschein of the Year

Fresenius
€850m
sustainability-linked
May 2023

Porsche AG
€2.7bn
February 2023

Groupe SEB
€200m
November 2023

International Schuldschein of the Year

Arla Foods
€350m

ČEZ
€500m
December 2022

Danish Crown
€400m
May 2023

Groupe SEB
€200m
November 2023

Best Arranger of Schuldscheine

Commerzbank
LBBW
Raiffeisen Bank International

Best Arranger of International Schuldscheine

BNP Paribas
HSBC
ING
UniCredit

Best Schuldschein Law Firm

Dentons
Linklaters
White & Case

US Private Placement of the Year

Benderson Development
$520m
September 2023

Blue Owl Capital
$1.3bn
September 2023

Calvin Capital
£325m
April 2023

Ferrero
$1bn-equivalent
June 2023

Forth Ports
£275m
February 2023

Best US Private Placement Agent

Bank of America
Citigroup
JP Morgan
NatWest

Euro Private Placement of the Year

Rémy Cointreau
€380m
September 2023

US MBS and CLOs have to find a way through leaner times but ABS blossoms

The eclectic nature of US securitization left some sectors of the market flourishing and others floundering in 2023. **Ayse Kelce**, **Kunyi Yang** and **Tom Lemmon** look at which corners of the market have reason for cheer and whether there's an expectation of a turnaround in sluggish or struggling sectors

When the US regional banking crisis hit in March, large swathes of the ABS market were able to capitalise on the surge in demand for short-dated, high-quality paper. However, in mortgage-backed securities and CLOs, long standing problems began to bite.

Going into 2024, the idiosyncrasies of each sub-segment of the securitization market are pronounced. While ABS is feeling buoyant, commercial real estate is at a critical juncture, homeowners are dealing with the highest interest rates in two decades, and arbitrage continues to prove harder to find in the CLO market.

Perhaps it's unsurprising, therefore, that there is little consensus on the big macro concerns of the day.

In *GlobalCapital*'s survey of US securitization market participants, 46% of respondents expect the overall level of volatility to stay the same, while 27% expect a slight increase and 22% expect a slight decrease.

Similarly, there is little conviction about when the US Federal Reserve may begin cutting interest rates, with 24% of respondents predicting cuts in the second quarter, 34% in the third quarter, and 26% forecasting no rate cuts at all in 2024.

Whatever happens in the broader fixed income markets, the mood among structured finance professionals depends on which type of collateral they focus on.

Undoubtedly, the star of the show in US securitization in 2023 was ABS — or those asset-backed securities not backed by mortgages, and excluding CLOs.

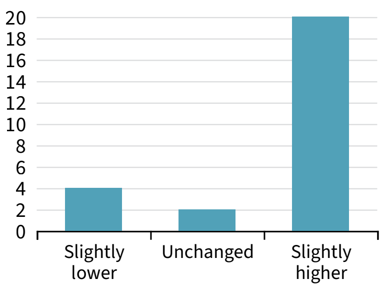
The robust new issue volumes in 2023 — the second highest ever bar 2021, when market conditions were exceptionally strong — beat expectations, and the resilience appears to have built confidence.

Unlike in 2022's *GlobalCapital* survey, market participants now expect ABS issuance growth to continue, with 78% of respondents predicting slightly higher volumes in 2024.

"Volume will continue to grow as long as consumer credit keeps growing," says John Kerschner, head of US securitized products at Janus Henderson. "I would assume that, as far as deal numbers and volumes go, we'll probably be up about 10% next year."

That doesn't mean 2023 was easy. Persistent inflation and continued rising rates, not to mention the US regional banking crisis in March, meant that investors focused on preserving liquidity and taking care of their duration exposure.

How do you expect public issuance volume of ABS (excluding MBS and CLOs) to change in 2024 compared to 2023?



Source: GlobalCapital

Yet these considerations often played into the hands of the ABS market, which offers highly rated paper with short duration. This is especially true of benchmark sectors like prime auto loan and credit card ABS, where bonds have ample liquidity.

"I think a lot of people are a little scared of duration, and if you can get that high yield at the short end of the curve, why wouldn't you?" says Kerschner. "Why buy seven or 10-year corporate credit at 150bp when you get investment grade ABS with two to three years of duration at 300bp?"

Positive outlook

Not only did the ABS market prove more resilient than expected, but so did the US consumer. Despite broad concerns about this in late 2022, many believe that the outlook is positive, supported by tighter underwriting standards.

"The consumer still looks relatively strong even with a low savings rate and unemployment ticking up a bit," says Kerschner. "In the ABS market, a year ago people were not really expecting that to be the case. It's worked out much better than expected."

Zachary Aronson, securitized products research analyst at MacKay Shields, tells *GlobalCapital* that he is "more comfortable" with ABS and RMBS than unsecured corporates or CMBS.

Auto ABS, which accounts for around half the market, will again drive growth in 2024, with banks and credit unions set to become more active issuers in the sector as the asset class becomes an attractive way to find balance sheet relief. But several market participants, including Kerschner, also expect credit card ABS issuance to tick up in 2024, and forecast higher volumes across sectors like consumer loan and equipment ABS.

There could also be reason for optimism on spreads, given the likelihood that the Fed is coming to the end of its tightening cycle.

"It would be stability that can drive spreads tighter in ABS, not necessarily rate cuts," says Aronson. "Spreads are historically wide, so there is some room for tightening."

The majority of survey respondents expect slightly tighter spreads for ABS overall, and for both auto ABS and consumer ABS, though opinion is more divided on where esoteric ABS spreads are headed.

"We've come a long way, particularly in auto, at the top of the capital stack," says Kerschner. "But we're still a lot wider than corporate credit."

Kerschner also believes that banks will increase their investments in ABS as the yield curve steepens.

"I think banks will feel more constructive about putting money to work in securities, particularly because they're not making as many loans," he says. "That bank bid, at least at the top of the capital stack, is super important. I do think you'll see more and more banks allocate money into the market."

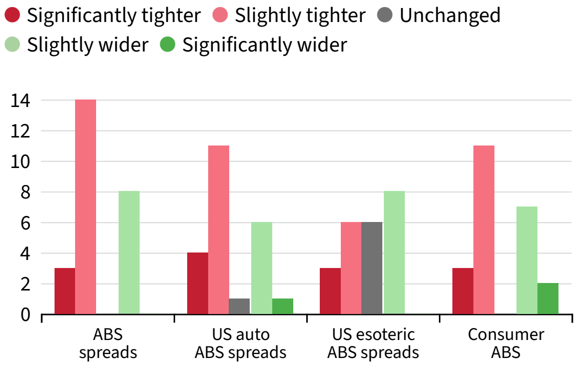
RMBS: esoterics to fore

It is a different story in the US RMBS market, which has suffered its slowest year of issuance since 2016, according to Finsight data — its second consecutive sharp fall in annual volumes.

More than half of the participants in the survey now believe that it is time for a turnaround, with a quarter even responding that overall public issuance in the asset class will grow "significantly" in 2024. Sonny Weng, vice-president at Moody's, says that growth is going to come from non-traditional sources.

"I think people think [issuance] will be a little higher because of the optimism around more [non-qualified mortgage (non-QM)] and other esoteric asset classes," says Weng. "This year we have seen the rise of [home equity line of credit], close-end second lien, and other home equity extraction products, and that will likely continue into the next year. Non-QM will also hum along."

Do you expect ABS spreads to be wider or tighter at the end of 2024 than at the end of 2023?



Source: GlobalCapital

Indeed, with interest rates expected to remain elevated, issuance from more traditional RMBS sectors like prime jumbo should remain muted. If overall volumes are to increase, the burden will be on niche products.

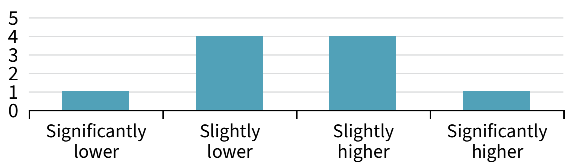
"[In 2024] prime mortgage origination will dry up, and even the rise of the more niche products is not likely to fill that gap," says Weng.

The difficulty for traditional mortgage products is that it appears unlikely that mortgage rates will drop meaningfully in the next year. In late October 2023, the average 30-year mortgage rate in the US peaked above 7.6% — its highest level since 2001.

"I don't expect the mortgage rates to go back to even the 5% range," says Weng. "At best it will go down to the 6%-7% [range]."

On housing prices, there is no consensus. Around half of survey respondents believe that they will be slightly higher in 2024 than 2023, while the other half think they will fall slightly.

How do you expect public issuance volume of CMBS to change in 2024 compared to 2023?



Source: GlobalCapital

There are two competing dynamics at play in the housing market: inventory and affordability. As mortgage rates remain high, people are choosing not to move, suppressing sales inventory, and thus supporting house prices. On the other hand, higher mortgage rates are dampening demand for mortgages, which puts pressure on house prices — especially on the West Coast.

"Our assumption is that affordability is going to trump inventory," says Weng. "It is not going to be as [large] as in the global financial crisis, but we are predicting a housing correction of around 5% next year."

CMBS stress

Similarly, in the CMBS market there is no clear consensus on where primary issuance will go, with a broadly even split among respondents as to whether it will increase or decrease in 2024.

Mark Fontanilla, founder of fixed income consulting firm Mark Fontanilla & Co, believes that the uncertainty lies in what's going to happen in the office sector and how many loans can be refinanced.

"[In 2024] we have a significant maturity wall coming, and I think it is possible that we will see more refinancing of those loans backed by good assets," says Fontanilla. He predicts higher volumes, based largely on the low bar set in 2023.

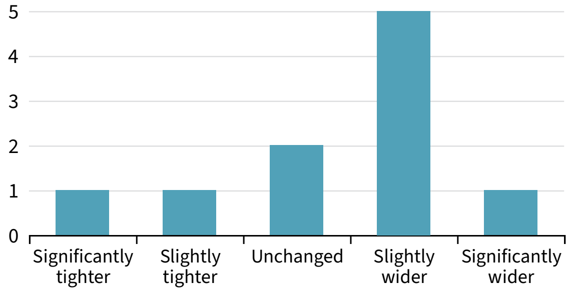
Yet at the same time, the office sector is likely to face more liquidations and foreclosures. The chances of refinancing these assets will be slim.

As of mid-November, there had only been $30.8bn of non-agency US CMBS issuance in 2023, through 52 deals. This is down by more than half from the $66bn that was raised in 2022 through 85 deals, according to Finsight data.

Although there is not much expectation of lower interest rates, there is at least optimism of more stability in the rates market in 2024, making execution of new issues smoother, driving primary issuance higher.

Yet stability does not necessarily equate to a lower cost of capital. Most respondents to the survey believe that CMBS spreads will be even wider in 2024 than they were this year, which Fontanilla thinks is partly the result of more downgrades — especially in the office segment

Will CMBS spreads be higher or lower at the end of 2024 than at the end of 2023?



Source: GlobalCapital

— as the asset class's performance deteriorates.

"When there are more downgrades, it affects liquidity and pricing, and that means wider spreads," he says. "But there will be opportunistic buyers who are ready to buy at cheap levels."

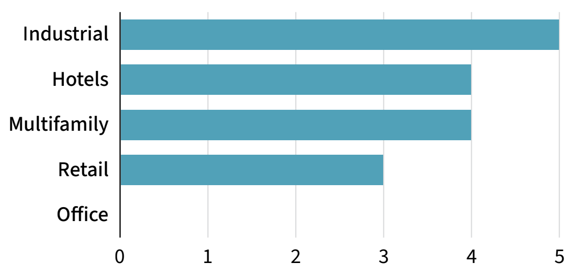
There will still be bright spots in the market. Survey respondents are more bullish on issuance prospects for industrial, multifamily, and high-end hotels, for example.

"Industrial, especially storage with strong leases, and data centers will see a lot of demand," says Fontanilla, "But there will be a question around whether there will be enough rent growth next year to support multifamily financing costs."

As of mid-November, the US CLO market looked on course for the worst year of issuance volumes since 2016. One might think that the only way is up in 2024, and two thirds of participants in the survey predict that issuance will pick up in 2024.

Yet that is hardly an overwhelming vote of confidence, and 13% of participants are even braced for lower issuance again in 2024.

Which of these asset classes within CMBS will see higher volumes in 2024 than in 2023?



Source: GlobalCapital

Indeed, Serhan Secmen, head of US CLO investments at Napier Park, estimates that the range is likely to be somewhere between $90bn and $110bn for 2024. He is leaning closer to $90bn, but even the upper end of that range would represent a reduction: as of November 27 there had been $113bn of US CLO issuance year-to-date in 2023, according to data from Finsight.

For one thing, Secmen expects loan defaults to rise, having stayed resiliently low in the face of rapid rate increases since 2022.

"We believe the ability [of borrowers] to withstand a high rate environment with hedging is coming to an end, and that could translate into defaults around mid to late 2024," says Secmen.

Fed pivot?

An uptick in defaults could be paired with a broader slowdown in the US economy, and this could see the Fed begin to lower rates. For Secmen, how CLOs fare as rates start coming down is the main question the market will have to answer in 2024.

On credit events, Secmen's concern is in line with *GlobalCapital*'s survey results, in which 87% of respondents said they expect an increase in the default rate, and one in five expect a "significant" rise. Alongside this, 83% are forecasting an increase in loan downgrades.

The interesting dynamic for CLOs comes in what happens to spreads. In a weaker economy, investors could head for safer and more liquid assets like triple-A rated CLO debt, which could paradoxically mean spreads tighten towards the 150bp mark. Lower-rated tranches are unlikely to fare so well, reversing the demand dynamic of most of 2023.

Secmen believes investors will remain cautious and that demand will therefore be muted across the capital stack.

In Miami in October, at IMN's ABS East 2023 event, private credit took a bigger share of attention than ever before. Yet some CLO market practitioners were keen to defend their territory.

Josh Eisenberger, head of US CLO management at Sculptor Capital Management, for example, predicted on a panel that when defaults rise, it will be collateral held by private credit firms that will be most likely to feel the pinch.

"The ability [of borrowers] to withstand a high rate environment with hedging is coming to an end, and could translate into defaults"

"I can tell you that a lot of the stuff that the BSL market does not choose to finance because they don't like the credit profile [...] is what is being financed in the private credit market," he said at the conference.

However, Secmen of Napier doesn't necessarily see private credit as a threat for the CLO market. Rather, he suggests private credit investors help to pick up the debris of the leveraged finance world.

"They are usually focused on the lower part of the credit spectrum, where CCCs and B- [rated assets] are their natural targets," says Secmen. "In that sense, they are like the oysters of the CLO market.

"They are long-term and patient money. [Private credit] is not going to blossom in one year and blow up the next; this is not Bitcoin or NFTs. I think the lifecycle for private credit is slower."

A key question in 2024 will be what the evolution in the credit cycle means for the growth of private credit CLOs, which have been a hot topic in the market for most of 2023.

Survey respondents broadly believe that private credit CLOs will increase their market share versus BSL deals, with 64% expecting issuance to increase and only 14% predicting a "slight decrease".

Nevertheless, Secmen believes there is some truth to the argument that private credit has questions to answer over resilience and performance.

"No market segment draws so much attention and doesn't have any issues eventually," he says. "It's not going to be different for private credit."

As another CLO investor says, the low interest rates of the last decade made it difficult for debt managers to lose money — but also difficult to stand out. 2024 could be the year that sorts the good from the lucky. GC

European ABS and CLO markets ready to roll but rocky road lies ahead

European ABS market participants are optimistic about 2024, despite the persistence of rates volatility and economic fears. While poor arbitrage haunts the CLO market, managers are ready to tighten the straps on their captive equity funds and soldier on. **George Smith** and **Victoria Thiele** assess the market outlook for European securitized products

Just as it did when it was looking ahead to the new year 12 months ago, the European securitization market has its eyes on central bank policy — and economic pressures.

In 2023, central bank interest rate increases — from both the Bank of England and the ECB — materialised as threatened, but a broadly predicted recession did not. And although inflation continued to squeeze consumers, securitization collateral performance was better than many expected, across asset classes.

Looking ahead, the question is whether the market is able to again withstand these two major headwinds. Underlying loan performance will once again be high on securitization investors' agendas in 2024, as the consensus is that the full impact of rate rises has not yet fed through.

"In most cases, performance isn't even back [down] to where it was pre-Covid," says Doug Charleston, portfolio manager at TwentyFour Asset Management. "People forget that post-Covid performance improved materially, and more people repaid debt. We are still reversing out of that and it will go beyond that in 2024, but we still feel pretty healthy."

The silver lining is that much of the market believes interest rates have hit their peak already. In *GlobalCapital*'s survey of European securitization market participants, only 18% of respondents predicted any further rate rises at all. And no one forecast more sharp rises in 2024.

Central bank policy tightening has already delivered a jolt of life to the securitization market, as the winding down of long-term funding schemes increased issuance volumes.

The Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) is rolling off after drawdowns closed in late 2021, while banks have been repaying slugs of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO).

Banks looking to replace that funding — or simply to diversify their options — have been turning to securitization.

Indeed, placed issuance volume in 2023 will come in higher than it did in 2022, exceeding previous expectations.

Charleston says that, in part, this was because of returning banks.

"When the banks do come back, they do big transactions," he says. "It moves the needle quite significantly. We would expect a continuation of that."

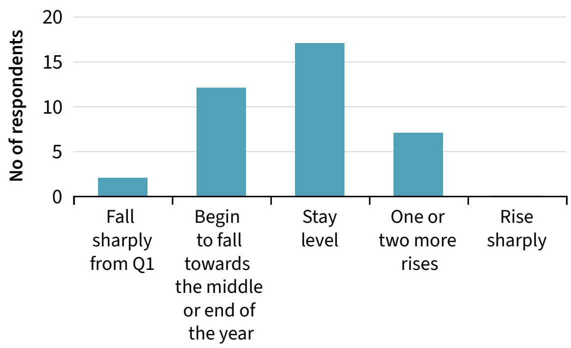
UK prime RMBS is the market most obviously benefiting from the return of banks. Lloyds revived its Permanent shelf in May 2023 after a hiatus that had stretched back to 2019. It initially priced a blockbuster £1bn deal at a spread that came inside covered bonds, and a second £750m Permanent deal followed just two months later.

Leeds Building Society also returned to the market for the first time since 2019, and overall volumes of placed prime UK RMBS are back to up to pre-TFSME levels.

Bank issuance has also risen in other markets. Tesco Bank brought two sterling credit card ABS deals from its Delamare shelf, the first since 2020.

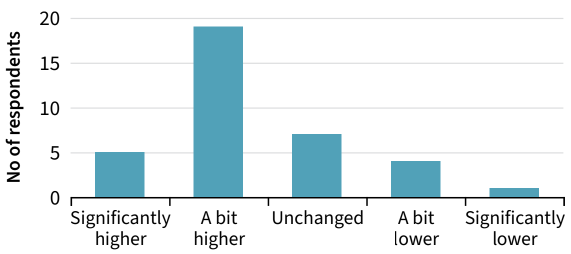
In euros, the auto ABS market, too, benefited from increased bank

What will happen to interest rates during 2024?



Source: GlobalCapital

How much higher will non-retained public issuance volumes in European ABS (excluding CLOs) be in 2024 than in 2023?



Source: GlobalCapital

▲ Ronnie Jaber, Onex Credit: "I don't think that issuance can grow materially without third party equity coming back online"

activity. DBRS put issuance up by 43% year-on-year as of the end of the third quarter. Both Santander and Crédit Agricole have been particularly active across asset classes, ranging from consumer loans to an equipment leasing deal from the French lender.

However, large-scale euro prime RMBS remains a missing piece in bank issuance. There has been a small pick-up in activity, but nothing on the scale some had hoped for.

Dutch prime has grown year on year, but there were still only four deals as of mid-November. There has also been more activity in Irish RMBS, and BPCE's €900m French deal in October was a particular positive for the market.

No game changer

Indeed, securitization issuance is still facing difficulties.

For a start, higher rates have made mortgage originations harder for lenders. In the UK, the second quarter of 2023 brought the largest quarterly decrease in outstanding mortgage values, based on data going back to at least 2007.

The lack of collateral is dragging down non-prime RMBS issuance, which was already subdued because of the lack of big refinancings this year.

Regardless, survey respondents predicted issuance to grow further in 2024.

In the somewhat revived CMBS market, survey participants also expect activity to rebound. Blackstone priced two logistics deals in July and October, the first CMBS since May 2022.

A report from ratings agency KBRA identified 13 European CMBS deals with maturities in 2024. Refinancing rates are levelling off, while valuations are stabilising. This points to the possibility of more deals in 2024, according to the rating agency's researchers.

"There have been a few [CMBS] transactions, and secondary market activity is starting to pick up," Charleston says. "I wouldn't say I am expecting a resurgence, but CRE transactions could start to take off."

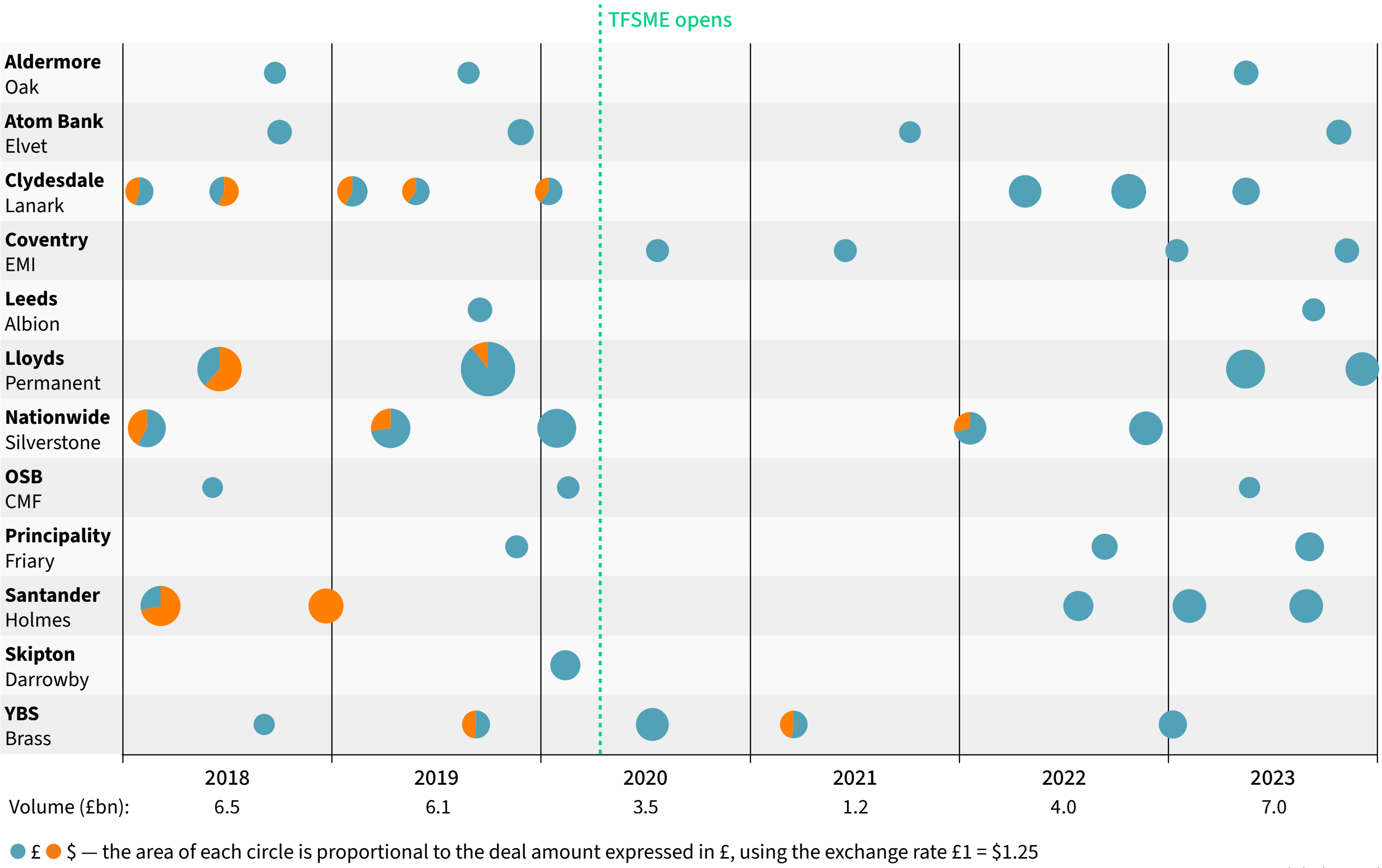
Synthetic significant risk transfer has been the bright light of securitization growth in Europe. According to some estimates, the market has grown fivefold since 2010 by deal volume and eightfold by number of active banks.

In 2023, the market expanded across Europe. Croatia boasted its first ever deal in January, with Raiffeisen and the EBRD teaming up, while in September mBank and Christofferson Robb & Company pulled off the biggest ever SRT trade in CEE.

GlobalCapital's survey suggests that SRT will again be important

Prime UK RMBS issuance timeline

Timeline showing issuance from a selection of prime UK RMBS shelves



Source: GlobalCapital

"ABS is having pretty much the best performance in fixed income in 2023. If you are a big fund with 5% allocation in ABS, you are unlikely to be reducing that"

for managing bank capital: more than 90% of survey respondents expected the market would continue to grow.

Tightening despite ECB exit

Despite the worries over collateral performance, most survey respondents say they believe spreads will not lose ground in 2024.

After a period of tightening at the start of the year, some were surprised by how stable spreads had remained in 2023, in the wake of the volatility of 2022. Only at the end of the year have benchmark German autos lost any ground.

Still, all triple-A rated tranches from Mercedes, Volkswagen and BMW were priced between 40bp and 50bp, and in 2024 they could edge back towards the lower end of that range. The final deal of 2022, from VW, had been priced at 55bp.

Given that issuance is expected to rise, and if the prediction of tighter spreads is to come good, then a simple supply and demand analysis would suggest that investors need more funds. On that front, Charleston is optimistic.

"ABS is having pretty much the best performance in fixed income in 2023," he says. "If you are a big fund with 5% allocation in ABS, you are unlikely to be reducing that and if anything you have probably explored increasing it."

Overall, survey participants predict issuance to increase, spreads to tighten, and more cash to flow into the market. After a 2023 of surprising stability, the European ABS market is entering 2024 in an upbeat mood.

CLOs battle through

There is also optimism in European CLOs, where issuance volumes have exceeded even the most optimistic forecasts this year.

As of November 10, some €23.9bn of deals had been priced in Europe. At least another €1.5bn worth of transactions were in the market — even though poor arbitrage between assets and liabilities made buying CLO equity tranches unattractive for most of the year. Managers who were able to take their own equity, usually through risk retention funds, kept the market alive.

For 2024, 45% of survey participants predict more issuance than in 2023, while 32% expect stable levels of activity — though not necessarily for the right reasons.

"We are going to see a healthy amount of issuance," says Pim van Schie, senior portfolio manager at Neuberger Berman, "but not necessarily driven by arbitrage."

Almost 84% say that third party equity investors will not return to the CLO market in significant scale before the second half of 2024. And more than a third believe that it will not happen in 2024 at all. Yet big global funds with a CLO platform still have plenty of risk retention money on the sidelines, van Schie says.

"As soon as you see some spread tightening on CLO triple-As, that will bring out more people with new deals, which may still be funded by captive equity," van Schie says. "That could prolong further the environment of unattractive arbitrage, and may keep third party equity investors out of the market for longer."

However, some question how long CLO issuance can be sustainable if managers keep buying unattractive tranches through captive equity vehicles.

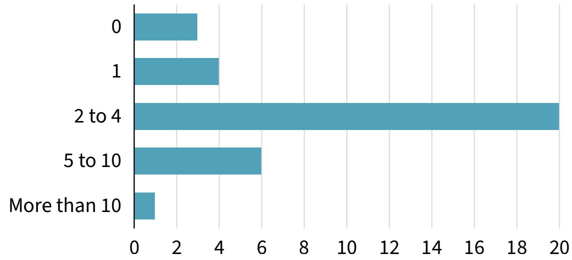
"I don't think that issuance can grow materially without third party equity coming back online," says Ronnie Jaber, co-head of Onex Credit.

Issuance levels are a function of European credit activity, Jaber adds.

"We believe M&A activity will increase from low levels, driving more loan issuance," he says.

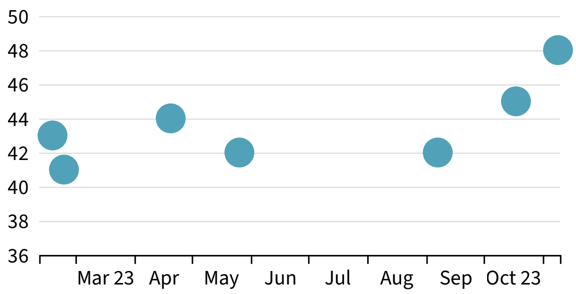
This should push prices down in the secondary loan market. If loans become cheaper, CLO equity starts to look more compelling, meaning that third party investors could

How many CMBS deals do you expect in 2024?



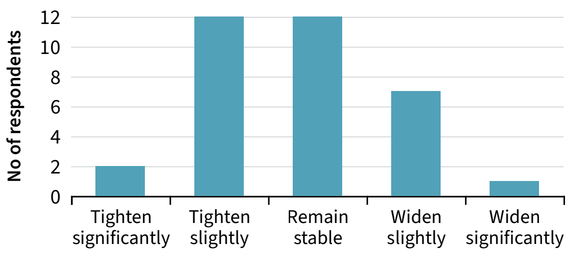
Source: GlobalCapital

Reoffer spreads on triple-A rated auto ABS tranches from BMW, Mercedes and VW



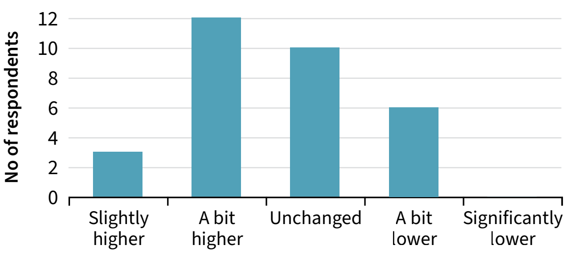
Source: GlobalCapital

Will European ABS spreads be wider or tighter at the end of 2024 than at the end of 2023?



Source: GlobalCapital

Do you expect CLO issuance to be higher or lower in 2024 than in 2023?

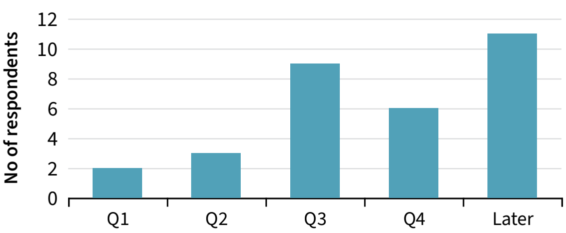


Source: GlobalCapital

▲ Pim van Schie, Neuberger Berman: "Ironically, European CLOs — when compared with the US — are already somewhat more private credit-like"

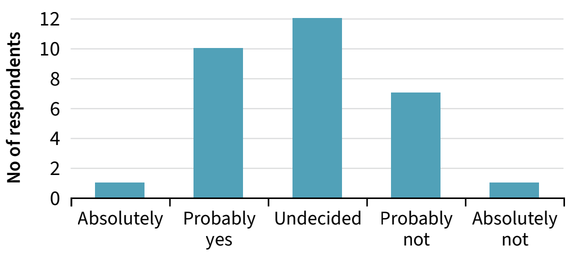
"We have been a bit surprised by how many new managers are still entering the market. I would guess that we are going to see more consolidation"

When do you expect third party equity to return to CLOs to a meaningful extent?



Source: GlobalCapital

Do you expect to see the first private credit CLO in Europe in 2024?



Source: GlobalCapital

indeed come back to the market in 2024 — just not for every manager.

"I think there will be further manager tiering," Jaber says. "Some managers with riskier portfolios and higher default rates may not see third party equity for extended periods.

"Then there are managers who have done a good job, and investors will want to buy equity — and debt — from managers who protect their principal."

Across the capital structure, survey participants say they expect the number of CLO investors to remain stable or increase slightly.

Many in the market hope that US banks will return to the European CLO market early next year as regulatory hurdles are removed. This could represent "a strong bid" for triple-A tranches, says Jihan Saeed, head of structured credit at Permira. "That should give managers the confidence to continue to at least open and ramp warehouses."

Private credit CLOs

Direct lending is booming in Europe. Every CLO conference that *GlobalCapital* attended in 2023 dedicated a panel — and a good portion of lunchtime gossip — to the question of when and how middle market or private credit CLO issuance could evolve. In *GlobalCapital*'s survey, market participants were undecided on whether Europe would see its first private credit CLO next year, although those brave enough to commit to an answer leaned towards "yes".

"If you are a big firm, with a direct lending business and have issued BSL [broadly syndicated loans] CLOs before, it makes sense to test the market," says Jaber at Onex. "I suspect we will see the first European private credit CLOs in the first half of next year."

Rating a middle market CLO will be more difficult in Europe than the US because of stricter requirements, and some market participants have pointed out that debt investors may demand a bigger equity buffer for their protection on such a deal, which could make the arbitrage even more unattractive than on regular CLOs composed of loans syndicated by banks.

However, "in the US, in our experience the arb for some types of private credit CLOs has been better than for broadly syndicated CLOs for much of 2023," according to van Schie. "In these cases, the benefits of the yield on the portfolio outweigh the additional cost of debt."

Van Schie adds that opening a private credit CLO market would be a smaller step in Europe than it has been in the US.

"Ironically, in a way, European CLOs — when compared with the US — are already somewhat more private credit-like because the collateral is much less liquid, and so is the market for CLO liabilities," he says.

Consolidation confusion

Perhaps the most surprising results of the survey stem from the question of how the number of CLO managers will develop next year: 48% of respondents expect it to remain at its current level, while 32% said it would increase. Only 19% said they expect a reduction.

Consolidation among European CLO managers often appears to be just on the horizon. Many in the market agree that 65 managers competing over a limited number of leveraged loans in Europe is simply too many. Although a few new managers priced debut deals in 2023, including Signal, Pemberton and Arini, there are compelling reasons why more mergers could happen in 2024 year. Only about two-thirds of the European managers printed deals this year. Smaller houses, in particular those without captive equity, struggled to issue.

"We have been a bit surprised by how many new managers are still entering the market," van Schie says. "I would guess, on balance, that we are going to see more consolidation than new managers."

Talking to *GlobalCapital*, most of his peers echoed the sentiment.

Going into 2024, the overarching sense in the market is not quite optimism — but not quite despair.

Defaults and downgrades are expected to increase slightly, but not devastatingly. Leveraged buyouts should pick up somewhat and provide some relief to the CLO arbitrage, but captive equity will remain important in execution. CLO managers prepare to battle on, boats against the current — and the bigger they are, the better they will float. GC

Europe's IPO market looks to rebound after year to forget

If it is true that interest rates are near their peak, then hopes of a rebound in the IPO market after another dreadful year may be justified, writes **Aidan Gregory**. But it will be a while before a full normalisation

The year 2023 will be remembered as a false dawn for equity capital markets, when an expected — and much anticipated — recovery never materialised. So, the focus now turns to 2024, and whether there will finally be a normalisation of ECM's central pillar — the IPO market.

Respondents to *GlobalCapital's* ECM poll at the end of 2022 were confident of an imminent return to normality after a damp squib of a year. Things have not gone to plan.

The conditions under which IPOs should flourish are returning but not quickly enough. Inflation is falling, but it has remained stubbornly high, particularly so in some countries such as the UK. And although the current cycle of monetary tightening by central banks is perhaps near an end, borrowing costs are not expected to fall for a while yet.

Equities have rallied over the year, but the market has remained volatile regardless, with European stocks briefly entering correction territory in the autumn. The conflict in the Middle East between Israel and Hamas has also compounded investor caution, particularly towards new IPOs. It is a harrowing assessment that has left many ECM bankers scratching their heads.

"It is a mixed bag, but I don't know what else we were expecting — any reopening is always going to have mixed outcomes in its early phases," says Suneel Hargunani, co-head of EMEA ECM at Citi in London. "Size will continue to be a challenge, given the focus on aftermarket liquidity in Europe. It is a hangover from the 2021 IPO vintage where liquidity is challenged in many stocks."

Far from frenzy

By mid-November, just $26.3bn had been raised via 169 IPOs in EMEA in 2023, according to Dealogic data. That was down from $40.9bn in 2022, when the Middle East enjoyed an unprecedented boom, and down from $121.7bn in 2021, when the IPO market was at the height of its pandemic era frenzy.

That total made it the slowest year to date for IPOs in EMEA since 2012. While the Middle East has seen fewer deals, it has still made an outsized contribution to IPO volumes in the region, accounting for more than a third of the overall volume.

Although conditions have been far from perfect the market has not completely shut. Some big names took the plunge anyway over the course of the year, with mixed results.

Indeed, some didn't even get across the line. In the autumn, the IPOs of Planisware and Renk were both pulled, and in November private equity firm CVC took the decision to postpone its jumbo flotation on the Amsterdam Stock Exchange as a direct result of the poor backdrop.

More mandates

And for many of those issuers that did manage to price their IPOs, such as Schott Pharma in Germany, UK chip maker Arm and German sandal company Birkenstock, which chose to list in New York, the aftermarket has been volatile, and in some cases, disappointing.

"There is still uncertainty on the rate cycle and economic growth," says Hargunani. "And with geopolitical tensions also, it leads to a more cautious market backdrop. But we have a pipeline. We have seen a pick-up in [requests for proposals] and mandates, and good engagement for early-look meetings, with companies getting ready for first and second quarter IPOs — there is a willingness to move forward if there is confidence in the window."

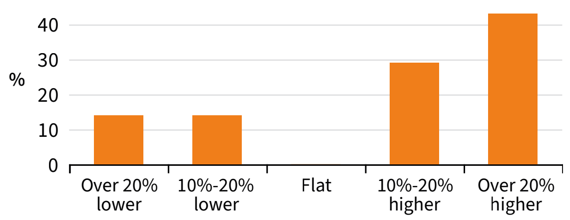
Because of the abundance of uncertainty, there is an intense focus on liquidity and quality of individual shares, as well as the expectation of a big IPO discount on each deal. This is likely to remain the case for the foreseeable future, with the IPO market in Europe remaining effectively closed to mid-cap companies.

"There will continue to be a focus on quality assets and anything marginal is not going to meet the high bar investors currently have for IPOs," says Hargunani. "It will continue to be a buyer's market when it comes to valuation."

Nonetheless, there is hope. Half of the respondents to *GlobalCapital's* ECM outlook

What is your expectation about IPO volumes in EMEA in 2024, versus 2023?

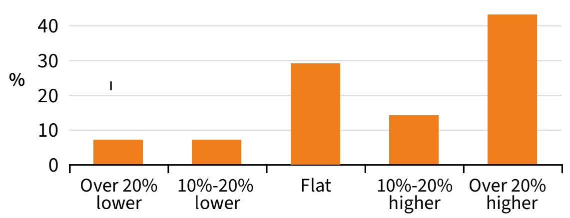
14 institutions in total surveyed



Source: GlobalCapital

What is your expectation about other cash ECM volume, including blocks?

14 institutions in total surveyed



Source: GlobalCapital

survey for 2024 expect IPO volumes to be at least 20% higher than 2023's numbers, and two thirds expect an uplift of at least 10%.

In Europe, there is a substantial pipeline of jumbo IPOs, which many are confident will revive the market's fortunes.

These include the flotation of Swiss skincare business Galderma on the SIX Swiss Exchange, along with CVC, which will try again, and the spin-off of Ampere, Renault's electric cars business, on the Paris bourse.

There is also the looming privatisation of Athens Airport by the Greek government.

This process of normalisation is likely to be painstaking, with the first quarter of 2024 expected to be slow.

"The return of the IPO market always lags," says Saadi Soudavar, co-head of EMEA equity capital markets at Deutsche Bank in London. "As investors regain visibility on the macroeconomic outlook and we see a normalisation in the rate and growth environment, we will see IPO volumes pick up.

"We also need a better match between buyer expectations and seller expectations and more data points of successful IPOs. The IPO discount through the first half of 2024 is likely as a result still going to be wider than the oft cited 10%-15% in a more normalised market."

Indeed, any recovery will take time to bed in. "It will probably not be until 2025 however until we see a fully normalised market, which is also what a lot of our clients are planning for," Soudavar adds.

Market participants fear poor performance of IPOs in the aftermarket, as well as the ever-prevalent risk of inflation and further interest rate rises as the biggest risk factors for a recovery in new listings.

Passage of time

A major driver of issuance in the IPO market in 2024 is likely to be flotations of private equity-owned assets in Europe.

There is a substantial pipeline of sponsor backed companies that will need to be listed on the public equity markets so that their private equity owners can exit.

Exit markets for private equity owners have been difficult for such a long period of time that sponsors are under growing pressure to return cash to their investors through disposals.

▲ James Palmer, Bank of America: "The pressure that some sponsors are under to show returns to the LPs is marked"

While some assets can be placed into continuation funds, if need be, private equity must return to the IPO market sooner or later and may eventually have to settle for a valuation discount that previously would have been unpalatable.

"It does not have to be an IPO or outright M&A," says James Palmer, head of EMEA ECM at Bank of America in London. "The pressure that some sponsors are under to show returns to their LPs is marked, and when the two most traditional ways of doing that are challenged, it becomes a much more difficult and complex process.

"A lot of them are exploring the private markets in the interim, and some firms are under more pressure than others. If you have not returned capital for a long period of time, you are naturally under more pressure. Some people will be forced to test the IPO route."

There will be a lot of dual track sale processes, but a full, private sale is unsuitable for many assets that are either too large to be acquired, or have no natural industry suitors. With financing costs now so expensive, the appetite of private equity to buy assets from other private equity companies is likely to limited.

Therefore, the IPO market will be the only viable route for many sponsor backed companies.

"In terms of how the sponsors are feeling, there continues to be a strong focus on understanding IPO market sentiment," says Palmer. "With financing costs much higher, vendors need to assess all options — M&A, IPO, minority — for the best outcome but for some sizeable assets, a deep public equity market may be best." GC

EMEA IPO Bookrunners 2023 *(year to November 13)*

Rank	Global Co-ordinator or Bookrunner	Deal value ($m)	No.	% share
1	BNP Paribas	1,423.14	10	5.51
2	HSBC	1,352.06	5	5.24
3	BofA Securities	1,243.48	6	4.82
4	Jefferies	1,208.08	5	4.68
5	Citi	1,185.40	7	4.59
6	JPMorgan	1,176.29	9	4.56
7	Deutsche Bank	1,154.47	6	4.47
8	EFG-Hermes Investment Banking	1,082.14	7	4.19
9	Barclays	878.99	6	3.40
10	Goldman Sachs	864.40	6	3.35
11	UBS	637.59	3	2.47
12	UniCredit	542.43	4	2.10
13	Abu Dhabi Commercial Bank	528.58	4	2.05
14	Dubai Islamic Bank	496.07	1	1.92
15	BBVA	466.51	6	1.81
16	Crédit Agricole CIB	450.34	2	1.74
17	Saudi Fransi Capital	428.58	4	1.66
18	Morgan Stanley	423.49	3	1.64
19	SNB Capital	418.77	2	1.62
20=	Arqaam Capital	386.47	2	1.50
20=	International Securities	386.47	2	1.50
	Subtotal	**16,733.72**	**34**	**64.81**
	Total	**25,819.23**	**165**	**100.00**

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European banks look to ECM specialisms to end Wall Street dominance

A dreadful year for ECM volumes has not helped European banks play a bigger part in EMEA equity capital markets. But there are dreams of a better 2024 and, as **John Crabb** and **Aidan Gregory** report, Europe's banks have specialisms up their sleeves to help them grab market share

European banks' attempts to close the gap on their US counterparts in the EMEA equity capital markets league table were frustrated again in 2023. Not only were they able to unseat any of the Wall Street names that dominate the top five but had little business of their own to do. But issuers are rethinking their approach to market and that will give Europe's banks an opportunity to respond. But first the deal flow must return.

Inflation and rising interest rates made it another year to forget in much of European ECM, a thin year for issuance volumes and fees, making the competition for the little work there was fierce. The top five banks for deal volume were a familiar line-up: Goldman Sachs, Bank of America, Morgan Stanley, Citi and JP Morgan.

Adding to the pressure on banks, another year of scarce issuance means they are overstaffed but hesitant to cut headcount too far and surrender market share when issuance rebounds.

At the start of 2023, the market was quietly hopeful for a recovery. The memories of 2021, which was one the busiest years for ECM on record because of pandemic-era catalysts such as ultra-low interest rates, were still fresh, and there were expectations that the lows of 2022 would be an anomaly.

Three quarters of respondents to our 2022 ECM survey predicted that volumes in 2023 would be more than 20% higher than the preceding year. Predictions suggested a slow first half before a second half recovery.

But it turned out to be another thin year for ECM issuance in EMEA, with a broken IPO market, a lack of recapitalisations, and a top-heavy blocks market in which a small number of giant trades accounted for a huge chunk of the volume.

In the summer, there were hopes that the IPO market would revive in the second half but that rebound also failed to materialise.

Equity market participants, however, are a positive bunch. In *GlobalCapital*'s 2023 survey there is more optimism. Half of the

> *"Deal volume has been suppressed and the level of confidence among issuers and investors in how well that market is working is at a bit of a low"*

▲ Stephane Gruffat, Deutsche Bank: "ECM market positions in certain products have evolved"

respondents expect IPO volumes to be 20% higher or more in 2024 year than 2023, with similar expectations for blocks and other cash ECM transactions, such as rights issues.

Expectations for equity-linked deal volumes are more muted, however, with only a third of respondents expecting increases of more than 20%.

Nonetheless, there have been subtle shifts in which banks are winning which business. "ECM market positions in certain products and regions have evolved slightly in the last two years," says Stephane Gruffat, co-head of ECM and head of equity syndicate at Deutsche Bank in London. "In 2020, 2021 with technology's prevalence, many US banks consolidated market share and certain regional boutiques experienced outsized growth."

In 2023, the market positions of banks in European IPOs reflect lower levels of activity, but also a change in which parts of the region contribute the most volume, Gruffat says, as well as the consolidation in the sector, referring to Deutsche Bank and Numis's merger this year.

"Away from the IPO market, refinancing and balance sheet support are likely to be drivers of ECM activity in the 'higher for longer' environment," he adds. "Again, banks that can provide solutions across the capital structure, including private capital, and have credit or broking history with the issuers, should benefit."

Block volumes, while not disastrous, were dominated by a handful of large corporate monetisations in the first half of the year. Three London Stock Exchange Group trades and two Heineken deals account for nearly 20% of the total volume in EMEA up until mid-November.

"Deal volume has been suppressed and the level of confidence among issuers and investors in how well that market is working is at a bit of a low," says one ECM banker in London.

Private equity companies have been quieter when it comes to selling blocks than many expected and market sources see pockets of distress for specific companies starting to bubble up because of rising borrowing costs.

"It has been a very difficult market for investors to navigate for pretty much the last 18-24 months," says Tom Swerling, global head of ECM at Barclays in London. "We have had a consistent view that the moment the market is reasonably confident we have reached the widening of the basis between rates and growth, and we see rates stabilising and growth coming back, that will be the environment that appetite for risk assets comes back.

"What we hoped would be an encouraging reopening of the IPO market this autumn did not materialise," he adds. "We have grounds to believe that next year [2024] we will have a much better functioning IPO market."

Of the IPOs that did materialise, their track record has been patchy.

Lawrence Jamieson, co-head of EMEA ECM at Barclays in London, says that he came into 2023 expecting a gradual reopening, but that the "post-summer cohort has been mixed". He suggests that there has been a "flight to liquidity and perceived quality", where bigger deals have fared better.

The listing of Schott Pharma for example is widely regarded as one of the deals of the year in EMEA, but like Porsche in 2022 it was more of an outlier than a market reopener.

Those companies with business models that are more defensive and predictable to model and that can demonstrate profitable growth have found early favour," says Jamieson. "What we have not seen is a return to real mid-cap and outright growth [stocks] — but I don't think they were ever going to be the type of businesses that came to market first.

"Investor risk appetite and tolerance for growth businesses will come but we need more data points to drive that confidence."

Give up, or double down?

But the path of economic growth is far from certain and banks will not support underemployed business lines indefinitely. Some have taken steps to wind down certain operations. In November, Berenberg, for example, made cuts in its investment bank amid the increasingly difficult mid-cap equities market.

Eight staff were affected in London and three in Paris in the first round of redundancies. All of them work in continental European ECM and corporate finance. The bank cut around 20 US equity researchers a few weeks before that in New York.

Morgan Stanley, despite its lofty position, also cut Angus Millar, its head of UK ECM, in a round of redundancies in May. Before its demise, Credit Suisse was winding down parts of its European ECM team. Goldman Sachs, Citi, JP Morgan all made cuts in their ECM departments as well.

It would therefore not come as much of a surprise if, facing an uphill struggle to keep up amid low fees, more European banks had cleared the roster. However, that has not happened.

"Once again, Europe continues to amaze me," says one ECM banker working for a US bank in London. "We have always wondered in previous cycles if banks would throw in the towel. Nobody is pulling out of ECM, so it is a very competitive environment."

The blocks business is not as lucrative as IPOs, says the banker, but most deals have not been competitive risk auctions, they have been mandated, so have provided revenue.

"We've also not had too many rights issues, which are usually the other highest margin product when the IPO cycle is quiet," the banker says.

A third UK banker at a UK bank suggests that there will be "be a lot more primary issuance to improve balance sheets, and we will also see more corporates on the front foot around M&A," in 2024.

Around two thirds of respondents to our survey on the European

"We have grounds to believe that next year [2024] we will have a much better functioning IPO market"

ECM market did not expect to be making changes to headcount going into 2024, however, with less than 10% expecting further personnel reductions and 20% looking to add numbers. This suggests many think the worst is in the past, in terms of market volume and redundancies, and banks can begin to look to the future and to growth.

The data does suggest though that moving up or down the league tables will become even more difficult and will lead to increasing competition for fees.

"There is a competitive element in terms of what banks bring to the table and the fear around competition is fee compression, as everyone has to justify their role and business," says the banker at the US firm. "That is my fear for next year if spreads and margins start coming down."

The chase

According to BNP Paribas's ECM boss, the bank sitting directly behind the US leading pack in sixth position, while competition for slots on syndicates remains fierce, more issuers have realised that diversification is crucial, given the uncertainty surrounding finding demand in a depressed market.

"It is intense in the sense that everyone chases after everything as if their life depends on it," says Andreas Bernstorff, head of ECM at the French bank in London. "That doesn't necessarily change the outcome. I am sometimes surprised about the degree to which everyone spends a lot of time on pitch processes, but you can't afford to not chase something.

European banks may pin their hopes on persuading their clients that hiring a wider variety of banks will serve them better. "More and more issuers are starting to understand that in this market you need diversification in your lead banks," adds Bernstorff. "You need diversification in a market that is extremely difficult to read in terms of who is going to be buying your equity, and that is broadly understood and accepted by many more clients than a few years ago. And there are not many banks that can provide that alternative."

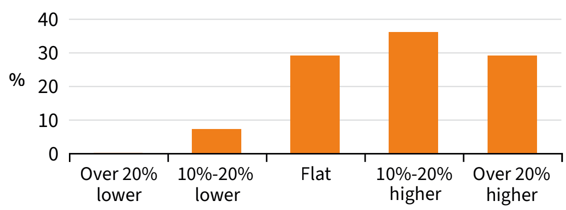
Despite the scale of the deal downturn, European banks have shown resilience and continue to look for gaps to fill.

"When there are so few deals, there is so little between us. It doesn't take much to move up and down the league tables," adds the banker at the US bank. "It is competitive and to the credit of the non-big five, everyone has their angles and there is something to be said now about syndicates and distribution, and having connectivity that others don't."

While not going as far as to predict an end to Wall Street hegemony, the banker suggests that this approach, amid low volumes, could pay off. "The US banks will continue to have the dominant market share," he says, "but we will see more European banks on the top line because their pitch does resonate with clients. It is going to be more competitive generally compared to a rising market.

What is your expectation for equity-linked volumes in 2024?

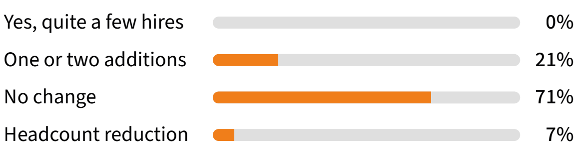
14 institutions in total surveyed



Source: GlobalCapital

Do you expect to be growing or shrinking your ECM team in EMEA in 2024?

14 institutions in total surveyed



Source: GlobalCapital

▲ Andreas Bernstorff, BNP Paribas: "You can't afford not to chase something"

When positioning an equity story having big brand banks behind you continues to be important, but there is going to be a lot more thought around putting syndicates together."

In Europe, competition has been affected by Credit Suisse vanishing into UBS and the latter being far less active in the market. Deutsche has performed well, partly due to the strong year that Germany has had relative to other major European markets.

"When it comes to pitching, these are the sort of markets where clients value banks with a lot of recent experience and big distribution machinery," says the second US banker.

With Deutsche also building its UK capacity via the Numis acquisition, and in the wake of UBS's absorption of Credit Suisse, which had a far bigger ECM footprint than its new owner, how 2024 develops is going to prove fascinating.

The market conditions in 2023 have had a disproportionate effect on ECM. Not only has there been a lack of IPOs, but M&A financing is well down. Yet, things have not been so bad that companies have needed to carry out balance sheet repair in ECM, says Bernstorff.

"We will have to see which direction it moves in next year," he adds, "but I do think we will see a lot more balance sheet repair next year. The companies that rely on a strong balance sheet are finding that it is not as available as before, or that it is much more expensive than before." GC

Competition heats up in thriving Swiss market

The Swiss franc bond market weathered the collapse of one of its two biggest players in 2023 to enjoy its busiest year since 2014. Investors welcomed foreign issuers from all quarters with open arms and, as **Sophie Astles** writes, those visitors may be here to stay

The latter half of 2022 saw the renaissance of international Swiss franc bond issuance; but if that was the warm-up, 2023 was the headline act. Rates kept rising, offering investors positive yields, while spreads stayed tight, making the market attractive to issuers.

Damien Aellen, head of Swiss syndicate at BNP Paribas in Zurich, describes 2023 as the year of rates stabilisation. "We really saw a revival in the bond market, in terms of volumes but also in terms of number of issuers coming back," he says.

The end of central bank bond buying in Europe also helped improve the appeal of the Swiss bond market. "[That] made it hard for the Swiss market to be competitive," says Rosario Clemente, head of DCM Switzerland at Deutsche Bank. "Spreads are not distorted elsewhere, so it is a much more level playing field [now]."

Andreas Tocchio, head of Swiss franc debt syndicate at UBS in Zurich, says that his firm had expected a good year for issuance from the outset and particularly the return of international borrowers, which benefited from swapping their bond proceeds into other currencies.

▲ Damien Aellen, BNP Paribas: "SSAs need a spread of 25bp-30bp through Saron"

This gave them an advantage over domestic issuers, which kept proceeds in francs and therefore had to take the cost of higher rates.

International issuance for 2023 until mid-November was Sfr24bn. It had been just Sfr16.3bn for the same period in 2022.

Corporates catch up

Foreign corporate borrowers more than doubled their issuance in 2023, compared with the year before, driving the increased volumes.

Many were keen to diversify their funding sources after the Covid-19 pandemic and Russia's invasion of Ukraine, Aellen notes, at a time when the Swiss market offered arbitrage funding compared with euros. "Currency and the pricing made sense," he says.

The Swiss market has the advantage too of offering "a lot of flexibility with regards to size," says Clemente.

Some issuers returned for second helpings after a "good experience" on their first trade, he adds. For example, Toyota ended a 14 year absence from the Swiss market in June with a Sfr500m bond that offered it an estimated 20bp of arbitrage over an equivalent deal in euros. It returned in October to raise a further Sfr450m, making it responsible for almost a fifth of foreign corporate issuance in 2023.

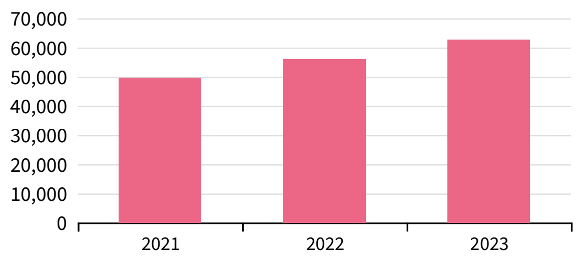
SSAs ride the wave

Although taking a smaller share of the market, the return of supranationals and agencies to the Swiss market was symbolic of its revival.

Low interest rates had made it difficult for SSAs to come to the market for the past eight years. They

Total volumes

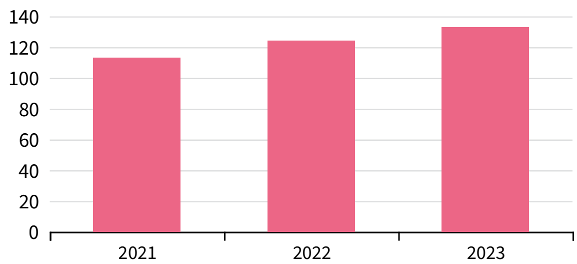
Deal face value, Sfr (m), January 1 to November 16, 2023



Source: GlobalCapital

Total number of issuers

January 1 to November 16, 2023



Source: GlobalCapital

"needed a spread of 25bp-30bp through Saron, but they couldn't get the yield [for investors] on that," Aellen explains.

However, as rates went up, the Swiss market offered appealing funding levels. In June, the European Investment Bank capped off the return of SSA supply when it ended an almost decade-long absence to price a Sfr200m deal.

The Asian Infrastructure Investment Bank made its Swiss debut in June. In the same month the Nordic Investment Bank did its first deal since 2009. BNG ended a nine-year absence in March.

"We were pleased to be back," says Jens Hellerup, head of funding

▲ Andreas Tocchio, UBS: "Social bonds are more of a nice to have"

and investor relations at NIB. "[The market offered] good diversification for our funding programme."

Clemente expects that "SSA clients will continue to play a much more active role" in the market in 2024, as long as cross-currency basis swaps remain stable, offering funding arbitrage compared with core currencies.

"We would issue there again if it works," Hellerup says, "but there is a limit to what we will pay for diversification. It needs to work from an economic point of view too."

SSA issuance is "very much window-driven," Tocchio says, adding that the "window can close quickly if the basis fades.

"[It's a] tricky thing to forecast, but we wouldn't expect to see the same window for the same length of time in 2024," he says.

Green sheen

Swiss franc environmental, social and governance (ESG) labelled debt issuance took a step forward in 2023. Volumes increased by Sfr1.8bn compared with 2022, with a diverse range of issuers launching deals.

Nordea printed its first Swiss green bond in May. Petra Mellor, head of bank debt at the lender, says that there was "strong demand for green in Swissies", adding that Nordea "wouldn't use their relatively scarce green assets if they didn't think it added value". She believes the pricing benefit was 5bp, as well as bringing in new investors.

Of ESG labels, green deals interest investors the most, but social bonds are "more of a nice to have", Tocchio says. "It is always the case that in a green format, you get additional demand and that's how you can boost volumes without [offering investors] a price benefit on a larger deal," he adds. "On a small deal, you can get a pricing benefit."

Resting on rates

Provided interest rates achieve stability, 2024 is expected to be just as good as 2023 in the Swiss market. "I don't see volumes collapsing," Tocchio says.

He foresees more focus on FIG issuers "and we could even see a more focused fixed income asset allocation from investors, given that the field is driven by the Swiss pension fund system".

However, geopolitics remain a concern, with all bankers surveyed by *GlobalCapital* identifying it as the biggest threat to the market for the coming year, particularly as tensions in the Middle East remain high.

But it is not the only worry. "Inflation globally remains a concern. It is decreasing but it is not yet completely under control," Aellen says. "Whether we will have a soft or hard landing remains to be seen."

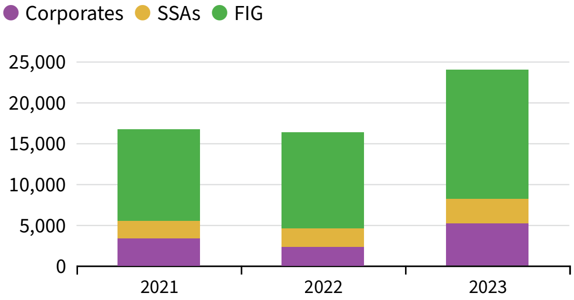
Most bankers surveyed by *GlobalCapital* do not expect a decrease in volumes in the coming year. The majority anticipate similar levels of issuance to 2023, and those who think that there will be an increase believe that this will be a modest one — of 20% or less.

Issuance is expected to be driven predominantly by financial institutions from both within and outside of Switzerland.

▼ Rosario Clemente, Deutsche Bank: "SSA clients will continue to play a much more active role in 2024"

Total volumes by non-Swiss issuers

Deal face value, Sfr (m), January 1 — November 17, 2023



Source: Dealogic

Where bookrunners struggled to reach consensus was on their expectations for spreads. None expect a dramatic change in pricing, but some are expecting spreads to widen, while others see them tightening. A small majority expect spreads will remain stable.

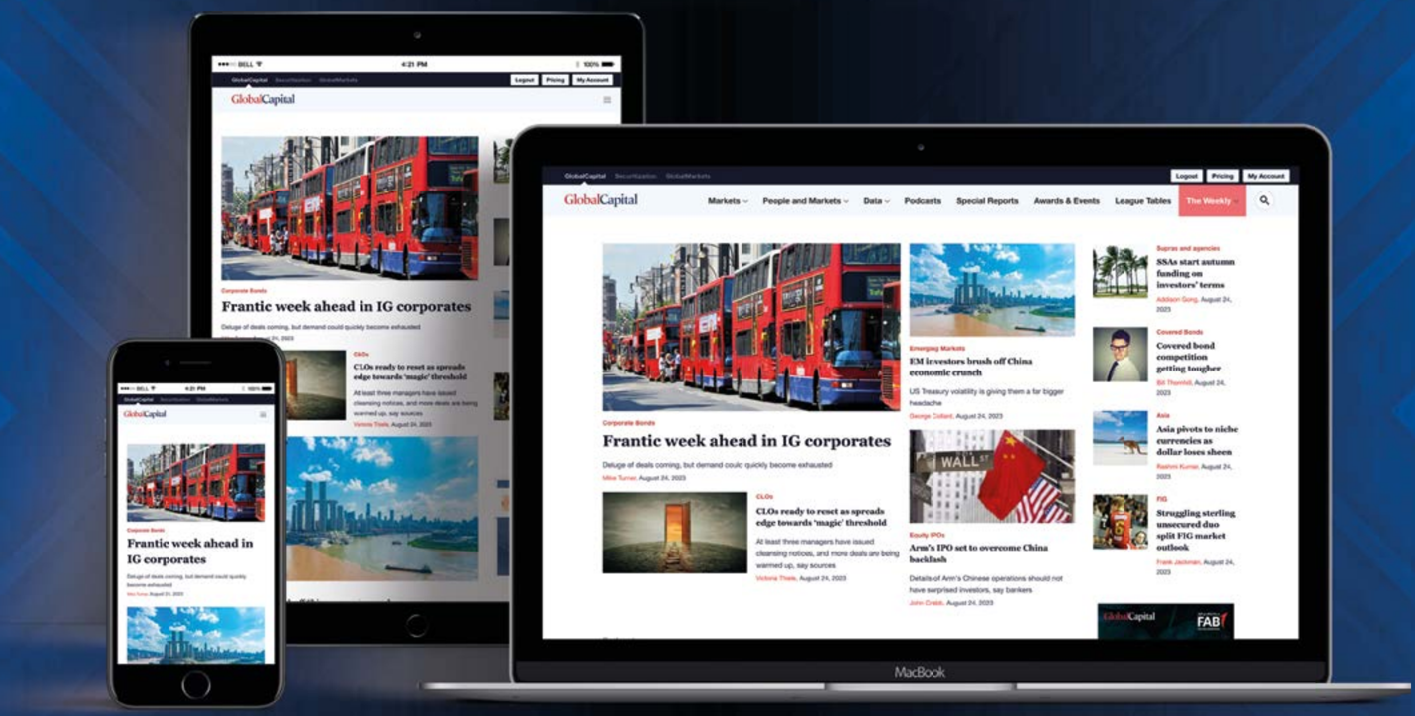
Higher premiums

Towards the end of 2023, the high volumes of issuance led to cash constraints among investors, resulting in issuers having to pay higher new issue premiums to draw investors to their trades. While some bankers believe that these higher premiums will persist into 2024, most think that they will return to a level similar to most of 2023 — or even fall as the year goes on.

The main priority for issuers in the coming year will be finding the right issuance window. Competition is expected to remain hot in the Swiss bond market, so timing a deal to navigate competing supply could be a challenge.

Despite a strong year, the Swiss market has not yet seen the return of Matterhorn deals — a deal of more than Sfr1bn by a foreign issuer. Such transactions would be welcomed by the market, but few expect them to make a comeback in 2024.

A number of factors need to come together for these deals to make sense for borrowers. In the first instance, issuers need to have the requisite funding needs – often triggered by an event such as M&A. Timing is also key to ensuring that the cross-currency basis favours the Swiss franc as a funding source. GC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CLOs ready to reset as spreads edge towards 'magic' threshold
EM investors brush off China economic crunch
Arm's IPO set to overcome China backlash
SSAs start autumn funding on investors' terms
Covered bond competition getting tougher
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