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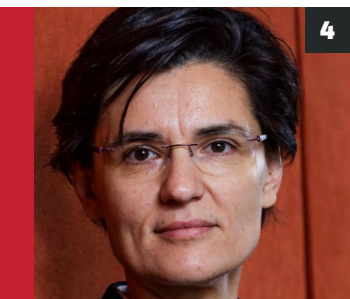
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CONTENTS

Review 2024 | Outlook 2025



Big themes

- 4 European supranationals**
EU supras to play bigger part in funding bloc's security and growth
- 7 European securitization reform**
European securitization dreams of transformation via regs reform in 2025
- 12 AI and capital markets**
AI adoption soars as capital markets push to automate
- 17 DCM survey**
The *GlobalCapital* poll of heads of debt capital markets

Deals of the Year

- 25 Public sector borrowers**
Innovation and perfect timing
- 27 Financial institutions**
Giving 'em what they want
- 29 Investment grade corporates**
Bravery and ambition shine through
- 31 CEEMEA issuers**
The best of a fine vintage

Public sector borrowers

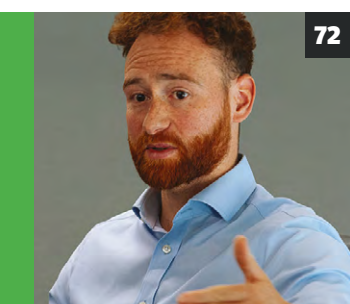
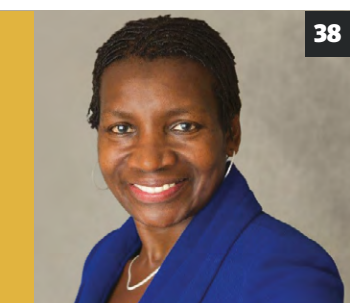
- 33 SSA market survey**
Supply to be the name of the game for SSAs in 2025
- 36 Primary Market Monitor**
SSAs make front-loading pay off to raise more while paying lower premia
- 38 LBBW roundtable**
Execution dexterity in times of uncertainty
- 50 SSA derivatives**
Issuers face swap market hurdles in the year ahead
- 54 UK DMO roundtable**
Agility and reliability in turbulence and transition

Financial Institutions

- 66 FIG market survey**
Macro challenges face FIG primary market boosted by rate cuts
- 70 FIG Primary Market Monitor**
Credit investors plough into FIG as premia oscillate
- 72 Kangaroo bond roundtable**
Maturing market stakes 'G4' claim
- 82 CB Market survey**
Covered bonds to come under peer pressure in 2025
- 86 CB Primary Market Monitor**
Duration and low premiums served up in faltering covered bond mart

Emerging markets

- 88 CEEMEA market survey**
Trump spectre hangs over CEEMEA bond market
- 91 CEEMEA Primary Market Monitor**
Last chance grab for yield drives down premiums
- 92 LatAm market survey**
LatAm bond bankers smile again but hope 2025 wild cards are dealt in their favour
- 98 Emirates NBD roundtable**
Issuers set goals of spreading risk and expanding investor base





CONTENTS

Review 2024 | Outlook 2025

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Corporate debt

108 IG bond market survey

Polls apart: cash stampede protects corporate issuers from democratic disruption

112 Primary Market Monitor

Increase in corporate issuance does nothing to dent spread tightening

114 Syndicated loan market survey

Loans bankers keenly await 'a good vintage for M&A' in 2025

116 Syndicated Loan Awards

The best in class recognised

Securitization

120 European ABS market survey

Rejuvenated European ABS market hopes best is yet to come

124 European CLO market survey

Technically charged CLO market looks to push on but tail risks linger

128 US CMBS

Reinvigorated US CMBS set to carry momentum into 2025

131 US RMBS

Hot property: US RMBS adapts to shine in world of higher rates

134 US esoterics

Esoterics to the fore as US ABS finds new highs

Equity capital markets

136 ECM survey

Europe on final approach to 'normalised' IPO market after troubles

Swiss franc bonds

139 Swiss market survey

Falling rates pose threat to Swiss franc bond momentum

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EU supras to play bigger part in funding bloc's security and growth

With war raging on the continent, a shifting geopolitical landscape and a tenuous fiscal backdrop in several EU member states' economies, the bloc's supranational institutions — the darlings of the public sector bond market — face having to do more to fund its investment needs, as **Elias Wilson** reports

Maria Demertzis, a professor of economic policy at the European University Institute in Florence, has been wrestling with a continent-sized problem. She thinks she has the diagnosis. "Europe is a big market. It has a lot of people, and it is a rich place, yet somehow it doesn't seem to be doing as well as it ought to be doing," she says. "The reason is that we haven't managed to integrate to achieve scale."

The problem is certainly not a new one — and perhaps neither is the diagnosis. But a cure seems to be a long time in coming. Speaking in 1991, Jacques Delors, architect of the modern EU, told its parliament that the completion of a borderless single market was "crucial to our prosperity and our role in the world".

More than 30 years later, the EU, with its borderless single market, is struggling. It longs for further economic innovation to ensure global status, just at a time when it is perhaps becoming more vulnerable.

The euro area, for example, is comparable in size to the US but economically it has underperformed it drastically in recent times. Between 2010 and 2022 it grew about 50% slower than the US, according to the Centre for European Reform.

The EU may be a collection of only 27 states rather than 50, but they are of course far less homogeneous, not federalised and have hundreds of years of competition, conflict, independence and difference behind them. Meanwhile, Russia's invasion

of Ukraine has brought war to its doorstep and exposed its vulnerability to energy prices.

The latest effort to drive further EU integration to achieve benefits of scale came in the form of former ECB governor and Italian prime minister Mario Draghi's September report, *The Future of European Competitiveness*. It again diagnoses the EU's malady but makes policy recommendations to solve it, calling for €800bn of additional investment a year, or about 5% of the bloc's GDP.

Few are better placed than Draghi to comment on EU rescue. Many consider him the saviour of the euro following his intervention in the sovereign debt crisis in 2012 while ECB president, when he famously said the institution would do "whatever it takes" to save the single currency.

He calls for a transition to a green, digital and more productive economy. But, for some, investment on this scale is hard to swallow.

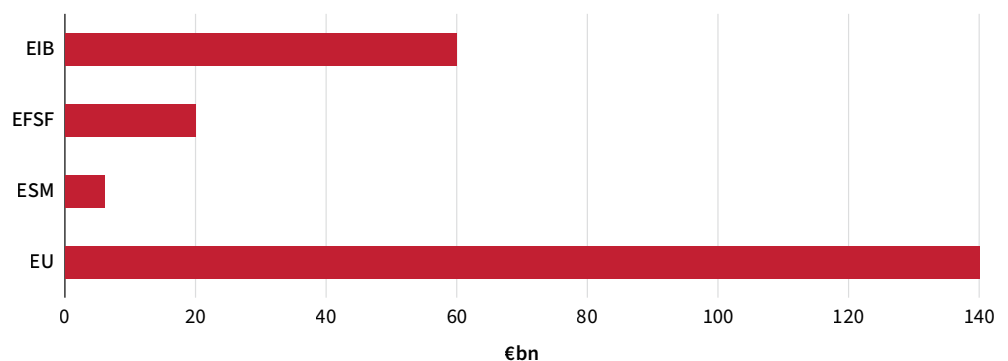
About 80% of investment in Europe has historically come from the private sector — but if it is to maintain that share in such a boost as Draghi prescribes, its cost of capital will need to plummet.

This means that public sector investment will probably need to do the heavy lifting. But simply dialling up the flow of government funding may not be possible.

"There are a lot of concerns for the future regarding public investment," says Debora Revoltella, chief economist at the European Investment Bank (EIB). "The EU has fiscal rules in place and fiscal consolidation is expected in many countries. This usually comes with some deprioritisation of public investment. The concern is how to keep this level of public sector investment going, or even accelerate the pace."

With some large member states fiscally constrained, the pressure is on the EIB, the European Stability Mechanism (ESM) and

European supranational bond issuers' funding targets for 2024



Source: EIB, EFSF, ESM and EU websites

the EU itself to innovate and help deliver. That will not be without its challenges.

Joint borrowing

Perhaps one of the key levers for the EU to pull is the issuance of more common debt. Many see the EU accelerating its already rapid expansion into the capital markets as a necessary step to funding Europe's future.

"My personal view is that we cannot do what we need to without more common debt," Demertzis says. "We can dance around the issue all we like but we cannot do it."

As an issuer, the EU is unrecognisable compared with its pre-pandemic form. Including the assistance lent to its member states, the EU has more than €500bn of outstanding debt and this will grow to almost €1tr, according to an official from the European Commission, which executes the EU's capital markets borrowing. In 2020 it had about €50bn in debt.

"We have implemented all of what is needed in terms of funding strategy to be used as a new liquid safe asset," the official says. "We have created a network of primary dealers, we have significantly increased our investor base and in parallel we have developed the ecosystem for EU bonds."

The development of the €750bn NextGenerationEU (NGEU) programme, to fund the bloc's economic recovery from the pandemic, is seen as a framework for the Commission to build off in the future.

Joint borrowing would help develop the long-awaited Capital Markets Union, coordinate policy among member states, and drive further EU integration.

However, increasing the debt pile alone will not be sufficient — or even possible — without political support. "Funding is not a purpose on its own, it always serves political objectives," says the EC official. "It is powerful, but it requires political decision and political agreement."

More frugal member states, such as Germany and Austria, have resisted further EU fiscal integration. Commenting on the Draghi report, Christian Lindner, Germany's finance minister at the time of its publication, said that more joint borrowing by the EU "will not solve structural problems" and that "Germany will not agree to this".



▲ Maria Demertzis of the EU says the EU must tackle the issue of how common debt is to be paid back

Apostolos Thomadakis, head of research for the European Capital Markets Institute (ECMI), thinks that without an urgent unifying cause, such as the pandemic, there will be no political appetite for more joint debt. Absent such urgency, "member states will likely continue prioritising and protecting the national turf, showing that unity in this area is still limited", he says.

One such unifying cause might be defence, prompted by Russia's invasion of Ukraine. EU member states are, according to the *Financial Times*, considering a €500bn fund for common defence projects. It would raise money in the bond markets, with treasury functions provided by the EIB.

The scheme may not be ready to be launched imminently. "We have not been seized of any such plans," says an EIB spokesperson.

Own resources

There are tough political conversations to be had about joint borrowing. One of them involves member states agreeing on how outstanding debt repayments will be made. Demertzis says that this is the "first thing" that needs to be done before further joint borrowing is discussed.

EU bonds are guaranteed by the EU budget, funded by the commitments of member states. About €350bn of the NGEU funds made available to member states, financed by those bonds, is in the form of grants rather than loans. The bonds mature from 2028 onwards. The Commission has not detailed where the funding for these payments will come from.

"The EU managed to issue common debt without committing to how it will be paid back," Demertzis says. "In my view, this is very important. We need new own resources, and it is essential to communicate where this will come from as, ultimately, it will be the taxpayer that pays."

The Commission has previously proposed avenues to source new own resources: contributions from the Emissions Trading Scheme (ETS), from the EU Carbon Border Adjustment Mechanism (CBAM) and from a share of the residual profits from large companies reallocated under an Organisation for Economic Co-operation and Development agreement. The concern is that member states will want to keep control of these resources. Meanwhile, new taxes have been proposed.

Commission president Ursula von der Leyen has recognised that new own resources will be needed to "ensure sufficient and sustainable financing for our common priorities".

Research from Bruegel, a Brussels-based economic think tank, shows that, depending on which assumptions are used for the repayment profile, the interest and principal repayment costs for NGEU common debt could come to about €25bn in 2028.

"Without new revenue sources, this would put massive pressure on the relatively small EU budget and could lead to a bloodbath in the next multiannual financial framework," says Conor McCaffrey, a research analyst at Bruegel, who co-authored the research.

"Bringing new revenue sources online would show that the EU has its act together and can service its debt without relying entirely on more contributions from national governments," he adds. "It could help change attitudes and increase the political likelihood of more common debt."

"Bringing new revenue sources online would show that the EU can service its debt without relying entirely on more contributions from national governments"

Conor McCaffrey, research analyst, Bruegel

McCaffrey says that there is concern about the EU's supply drying up if it only borrows to roll over debt after 2026, when the NGEU programme ends. Even if this were the case, the Commission spokesperson says, it would keep the EU in the range of being the fifth or sixth biggest issuer in the European bond market.

Inefficiency

While Draghi advocates for more joint issuance, he recognises that it will be difficult to do. Many of his policy recommendations concentrate instead on improving efficiency.

"We don't always need new regulations; rather, we need consistent application of the existing rules with clear oversight across markets," Thomadakis says.

The EIB sends out an annual investment survey to help monitor companies' behaviour. One question that the supranational asks is whether companies have problems exporting to other EU member states because of different standards or consumer protection rules. About 60% of respondents in this year's report say they do.

Revoltella says that figure would be 0% if the single market were complete; Delors' dream seems still to be a way off.

Complex regulations across the bloc make it less attractive for companies to invest and scale up in the EU. But that should not prevent the bloc's big institutions from finding creative solutions. "I think that the role of supranationals is to think outside the box on how to crowd in more investment," Revoltella says. "The EIB is really an institution that can play a big role in supporting the productivity and competitiveness in Europe."

She stresses the point of creating financial innovations to shape incentives that bring in the private sector — de-risking instruments associated with renewable energy products exemplify this kind of innovation.

"The EIB has a lot to do," she says. "We bring financial productivity, financial innovation and a wealth of knowledge to the market, and that is where we have a role to play."

From Kirchberg to the world

By the volume of its borrowing and lending, the EIB, based in the Kirchberg quarter of Luxembourg, can be described as the largest

multilateral development bank in the world. It will be a vital tool in the EU's efforts to achieve economic growth.

"The EIB is an important partner for us in implementing our policies," says the European Commission spokesperson. "It is giving credit to the economy which is combined with other private money. What we are achieving here is a leveraging of public budget resources."

By its nature, and to achieve the triple-A credit ratings that give it so much financial firepower, it is managed in a conservative fashion — it has never, for example, had a year in which it has made losses. This approach, according to Demertzis, has increased its capital buffers and has contributed to a decreasing leverage ratio. She suggests the EIB should increase the risk profile of its balance sheet.

"Because we don't have the private money in Europe to take risks in the long term, somebody else has to do it," she says. "The EIB has the capacity and the knowledge to take more risks."

"It could both do more and [be] more risky. With a change of leadership, I think that there is an occasion to do more."

Spanish economist Nadia Calviño took over in January 2024 as the EIB's president. Under her presidency the development bank has agreed to lift the statutory limit on its gearing ratio — the amount that the bank can lend in relation to its own resources — raising it from 250% to 290%.

"We are convinced on our side that the move will not change the perception the market has of the EIB or its triple-A rating," Revoltella says. "We see it as a marginal move in terms of market effect."

"I think that there is more that we can do on the innovation side and scale-up side for firms, but we are already a very big player, so we have to search for ways to become more lean and efficient."

Sovereign stability

Policymakers are having existential conversations about another piece of the European financial furniture.

The ESM, also headquartered in Luxembourg and with a €422bn lending capacity, has a mandate to ensure the financial stability of eurozone countries.

It was set up in 2012 during the sovereign debt crisis to provide access to funds for EU member states in



▲ Debora Revoltella of the EIB believes that lifting the limit on the gearing ratio will have only a marginal effect

distress. Some think that, with no country in the euro area in the same sort of distress as several were back then, the ESM can do more to help fund Europe's borrowing needs.

"Since staff are being paid in Luxembourg at the ESM, why not repurpose it?" asks one public sector bond market participant. "This would be the whole idea behind a unified funding approach."

In 2020 the lending institution created a credit line for euro area countries to help finance health-related costs incurred during the pandemic. It has not been used but it has sparked debate around further innovations the ESM could foster.

The possibility of installing a credit line for defence and security expenditures has gained the most traction. However, in a speech in July, ESM managing director Pierre Gramegna said that "there would need to be consensus among the 20 ESM member states that defence and security matters trigger financial stability risks" and perhaps a change to the treaty under which the organisation was created.

"Embracing new financing mechanisms at the EU level will help tackle significant challenges, ensuring a safer, more prosperous future for all," he added. "But we must focus on the resources that are at hand first." GC

"We don't always need new regulations; rather, we need consistent application of the existing rules with clear oversight across markets"

Apostolos Thomadakis, head of research, European Capital Markets Institute (ECMI)

European securitization dreams of transformation via regs reform in 2025

The most important regulatory reforms since the global financial crisis are coming for European structured finance in 2025. But while there is optimism securitization can play a meaningful role in European capital markets once again, there is a sense the market is in the last chance saloon, writes **Tom Lemmon**

When the European Commission's targeted consultation on the EU Securitization Regulation (EUSR) framework was released in October, a wave of euphoria swept the market.

"This is it, this is the solution," said Ian Bell, CEO of Prime Collateralised Services (PCS), upon the release of the consultation. Bell is one of the leading advocates for lighter regulation in the sector.

Just over a month later, the high may have worn off. With just days to go before the consultation closed on December 4, Bell recognised that change was "going to be a battle".

"This is not going to be plain sailing," Bell says. "This is not just going to be a triumphal march towards a better place for securitization.

"We are going to have to fight and make our case. That's new in the sense that when Draghi, Lagarde, Macron and Scholz were coming out [in support of regulatory changes], there was a moment when we thought we may just move ahead to an easy victory. It is now clear that the boys will not be home for Christmas."

After the consultation period ends, the Commission will work with the European Supervisory Authorities (ESAs) to draft a legislative proposal for the European Parliament.

A public draft is not expected until the end of March 2025. From there, the proposal should land with the European Parliament by the end of August.

By EU standards, this is warp

speed. Indeed, the fact that EUSR reform has stayed on the agenda even through EU elections in June 2024 is a sign of just how high a priority revitalising securitization is.

All or nothing

Nor is it being done half-heartedly — though this seems to increase the pressure.

"The good thing about the consultation is that it's extremely comprehensive, even including details on p-factor, risk-weight floors and so on," says Andrew South, S&P's head of structured finance research for EMEA. "But it's a double-edged sword: because everything is on the table, it feels like it's now or never for change to happen."

Indeed, the consultation document is notable for its breadth and depth. There are 167 questions across 11 sections, covering everything from due diligence and reporting requirements to the simple, transparent and standardised (STS) framework and prudential treatment rules.

Bank of America called it the most important consultation "for a decade" in October. And it feels like a once-in-a-generation moment.

On one hand, the exhaustive nature of the Commission's paper is a cause for euphoria. As Bell says, "nothing is off the table at this stage. But some things are clearly much more likely than others."

Yet it is also the main source of tension. If nothing is off the table, everything is on it too — including the rules and requirements that market participants believe stifle the industry.

"The member states themselves

are trying to figure out what exactly their position is now," Bell says.

"We are revisiting this for the first time since 2015. It has been a while, and the world is a very different place."

Though the direction of travel is being quietly signalled, until the draft proposal legislation is released it will be hard to predict the contents.

It's not easy to prioritise what the industry wants. The problems are akin to a series of blockages in a plumbing network: fixing one part doesn't necessarily fix another.

Veronique Ormezzano, chair of the European Financial Regulation



"This is not just going to be a triumphal march towards a better place for securitization — we are going to have to fight and make our case"

Ian Bell, PCS

Committee at trade association Paris Europlace, says a combination of measures is needed to revitalise securitization.

“We struggle explaining that what is needed is a package of targeted amendments because securitization is a vast ecosystem with different types of structures, different types of stakeholders, issuers, investors, market makers and so on,” she says. “You need all of them to be unlocked if you really want the flow of the market to be revived.”

Thierry Sessin-Caracci, senior policy expert on securitization and rapporteur of the Joint Securitisation Committee, European Securities and Markets Authority, agrees it is not simple.

“There is no silver bullet to revive the market,” he says. “Instead, we need a combination of measures to increase the regulatory incentives for the market participant to engage.

“The market is quite weak when it comes to true-sale [deals]. The proportion of transactions that are placed with investors is certainly the weakest part of the market. It’s between €60bn and €80bn that’s placed, when before the [2008 financial] crisis it was over €300bn.”

However, he says change of some sort is certainly on the way.

“My understanding is that it’s highly likely there will be a revision combining both the Securitisation Regulation and the prudential framework, keeping in mind that the extent of these revisions will ultimately be decided by the European co-legislators.”

Slow turning circle

However, Bell and others see the EU regulators as strongly opposed to changes to prudential rules. In particular, the prospect of securitization’s LCR treatment changing from Level 2B to 2A

could be the most difficult reform to get through — although Bell agrees that technical elements of the regulation are up for reform.

“There is strong opposition to much being done on prudential rules,” Bell says. “But there is much more willingness to look at disclosure and much more willingness to look at due diligence. Again, they haven’t shown much colour in the sense that we don’t know whether ‘a lot’ on due diligence means changing 5% of the reporting fields or reducing it by 90% overall.”

Salim Nathoo, partner at A&O Shearman, describes a broader philosophical issue at play. The “instinct” of regulators is to write more rules, not fewer.

“The regulatory approach is typically to solve it with a more complex matrix of regulation rather than moving to a principles-based approach,” Nathoo says. “You do not make investors invest by putting in more rules.

“There is a tension between the different regulatory bodies because the Commission recognises that there is potentially overregulation of the securitization market, but the instinctive response from regulators is to rewrite the rules rather than get rid of them.”

Still, Esma’s Sessin-Caracci does recognise the need for change and, most importantly, for new investors.

“First of all, we need to provide greater clarity and predictability on the requirements within which the market can operate,” he says. “For a typical investor that wants to invest in the EU, like a US or UK investment firm, it’s important to remove any legal uncertainties surrounding the interpretation of the EU regulations.”

Shaun Baddeley, managing director for securitization at the Association for Financial Markets in Europe (Afme), says the reforms will probably follow the path of least resistance.

“Changing aspects of the EUSR and prudential frameworks that don’t require agreement at level 1 legislation is less complex and therefore easier to achieve,” he says. “A reform to the Solvency II capital framework for securitization is the most obvious.”

However, the effects of these reforms are interlinked.

“A reform to Solvency II alone is not going to be enough,” Baddeley

LCR disadvantage

The Liquidity Coverage Ratio (LCR) rules are designed to ensure that banks hold enough eligible assets, known as High Quality Liquid Assets (HQLA), to manage cash outflows for 30 days in the event of a situation like the global financial crisis in 2008.

HQLAs are ranked level 1, 2A, or 2B, as shown in the table below. Level 1 assets are allowed to make up a larger portion of the overall LCR allocation, alongside a smaller haircut. Levels 2A and 2B get progressively smaller allocations with bigger haircuts.

The most senior tranche of a simple, transparent, and standardised (STS) securitization qualifies only for level 2B, the same as an unrated covered bond, while no other type of securitization is LCR-eligible.

Those assets have a maximum share of 15% and a minimum haircut of 25%-35%. However, EU covered bonds equivalent to triple-A securitization notes qualify as level 1, meaning their maximum share is 70% and the minimum haircut is 7%

LCR rules

Asset class	Eligibility	Maximum share	Minimum haircut
EU covered bonds Credit quality step 1	Level 1	70%	7%
EU covered bonds CQS 2 (and non-EU covered bonds CQS 1)	Level 2A	40%	15%
Unrated covered bonds	Level 2B	15%	30%
STS securitizations	Level 2B (CQS 1, most senior tranche, Weighted average life must be less than five years)	15%	25%-35%
Non-STS securitizations	Not eligible. No grandfathering for existing LCR-compliant deals.	N/A	N/A

Source: Risk Control

says. “Adjustments to the treatment of ABS within the LCR for banks is equally important, as are reforms to the investor due diligence framework (Article 5).

“If the legislative processes impede resolution of these interconnected reforms, the restoration of this investor base, which is so badly needed to meet the EU’s needs, is unlikely to occur.”

Liquid spirit

Many market participants argue that securitization must become more liquid to lure more investors. Perhaps the clearest way to achieve this would be to make it easier for bank treasuries to hold senior tranches of securitizations.

Failure to do that will make it hard to transform the state of the true-sale, publicly placed securitization market that Sessin-Caracci highlights as its main weakness.

There appears to be an almost institutional problem when it comes to the regulators’ perspective on prudential frameworks, one of the key obstacles to greater bank treasury participation. But Baddeley says that, under the right conditions, a change can help securitization become a key component in funding the EU’s long-term ambitions.

“For securitization to contribute to financing the significant capex needs over the next decade, the investment returns on the most senior part of the ABS structure need to be attractive for investors,” he says.

“For this to be the case, the regulatory framework and prudential treatment for banks and insurers need to be proportionate to the risk in this particular securitization product, as evidenced over 30 years of the life of the product.

“The lack of risk sensitivity and proportionality in the EU frameworks makes it exceptionally challenging for an asset manager to create an EU fund focusing only on what is deemed to be the safest part of the capital structure.”

Outside forces

The EU and the securitization market do not exist in a vacuum. Political factors outside of the bloc are also influencing the future framework of EUSR 2.

Nathoo says the UK is determined to ensure Brexit “meant something”. In this spirit, it is pressing ahead with giving the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) powers to adjust financial services legislation without needing to go through parliament at every turn.

Meanwhile, the directive to ensure the UK is competitive remains. Some proposals are already being lined up to open the SRT market to smaller UK banks, for example.

“It introduces a new formulaic p-factor for the securitization [risk-weighted assets] calculation for standardised banks, allows unfunded investors in SRT transactions and provides extra considerations for banks opting for Small Domestic Deposit Taker (SDDT) status,” says Jeremy Hermant, senior adviser at Alantra. “Given the SRT market was opened by another challenger bank this year in the UK, we expect two to five transactions to be closed in 2025 with a strong annual increase, as per what we have witnessed in Europe in the past five years.”

UK regulators are seen as much more thoughtful and co-operative in their policing of financial markets.

The UK has already made clarifications around Articles 5 and 7 of its Securitization Regulation. The intention is to make it easier for UK investors to buy deals from foreign originators.

“Investor due diligence requirements are now de-linked from the Article 7 reporting requirements in the UK,” says Merryn Craske, partner at law firm Morgan Lewis. “Now there is a principles-based approach, and an investor has to get ‘sufficient information’ to enable it to understand the risks of what it is investing in. There is a list of information that needs to be obtained, but it is not as prescriptive.

“It is left to the investor to make a sensible investment decision, and I think that’s really important. It will be interesting to see whether the EU goes down the same route.”

Andrew Lauder, counsel at law firm Weil, Gotshal & Manges, says the UK framework takes a “more principles-based approach” than the EU. The changes also mean



▲ Thierry Sessin-Caracci, Joint Securitization Committee, Esma: “It’s important to remove any legal uncertainties surrounding the interpretation of the EU regulations”

there is “more flexibility” for UK institutional investors to invest in US deals, he adds.

For now, regulators are collating feedback.

“A further UK consultation was expected to take place in Q4 2024 or Q1 2025 on the reporting requirements, including reconsidering the distinction between ‘public’ and ‘private’ transactions,” Craske says. “We understand that this has been delayed to early in the second half of 2025, to allow the regulators to carry out a broader review.”

Even with the delay, the UK is being looked upon favourably. Many market participants see the delay itself as further evidence of a practical and sensible approach.

“I think the UK has reserve to a greater flexibility around legislative change,” says A&O Shearman’s Nathoo. “There is a willingness to demonstrate that Brexit did mean something, with some sort of deregulatory initiative. But I am not sure how far the UK is going to go.”

“For securitization to contribute to financing the significant capex needs over the next decade, the investment returns on the most senior part of the ABS structure need to be attractive for investors”

Shaun Baddeley, managing director for securitization, Afme

Craske says it feels like the UK is “truly listening”, and that it could also be dragging the EU along with it. Like Craske, several market participants already suspect that regulators are aware of what the other has planned.

“When you look at the [EU] consultation, they are asking about taking a principles-based approach to investor due diligence, and looking again at the distinction between public and private,” she says. “Those possibilities were rejected last time. It’s great if the regulators are talking to each other. It looks like the UK is having an influence.”

Coming up Trump

What the UK does is not the EU’s only concern. After Donald Trump’s election victory, the direction of travel on financial regulation in the US may also shift.

Indeed, the EU’s broader reform agenda was first conceived out of a realisation that in an increasingly volatile world — as highlighted by Trump’s first election victory and Brexit back in 2016 — that it needed a more productive and competitive economy.

Ultimately, EU leaders such as French president Emmanuel Macron and former Italian prime minister Mario Draghi believed that Europe had to be able to stand on its own two feet, without depending on now unreliable allies.

In the aftermath of Trump’s victory, Mohamed El-Erian, former Pimco CEO and president of Queen’s College Cambridge, wrote on LinkedIn: “The US election’s economic message to Europe is crystal clear: it is even more urgent

for Europe to implement structural reforms to enhance productivity and growth.”

El-Erian wrote that Draghi had provided political leaders with a “roadmap”.

“If the UK encourages rejuvenation of [its] securitization market, and with Trump now re-elected and likely to push deregulation in the US, [it] might create additional emphasis within the EU to match this — or risk getting left behind and subject to competitive disadvantage,” Lauder says.

At the very least, Trump’s second term increases the pressure on the EU to get its house in order — and securitization could be near the top of the agenda.

Don’t stop believing

Though uncertainty abounds and stakes could hardly be higher, the hope and optimism that the market is on the brink of greater regulatory freedom is not unfounded. Securitization reform remains politically easy — at least when compared with other reform items such as ESMA turning into an EU version of the US Securities and Exchange Commission.

“Securitization is seen as the low-hanging fruit of the new savings and investment union,” says Ormezzano in Paris, “not because it’s easy, but because the rest is even more difficult.

“The nice thing is we know what needs to be done. There are a number of things, but they are very targeted on specific aspects in various legislations.”

In 2025, industry advocates will focus on convincing a new audience. The Commission is clearly onside, but winning over MEPs and smaller EU countries will also be necessary for legislative progress.

“One of the key issues will be to be able to convince the smaller member states, in particular those from central and eastern Europe, that securitization, if appropriately reformed, will work for them as well,” Ormezzano says.

Georges Duponchele, senior credit portfolio manager at Great Lakes Insurance SE (Munich RE) but speaking in his capacity as a member of Paris Europlace, agrees.

“In practice, it means to make sure that the standardised approach [SA] for securitization is fixed

and workable, which it isn’t at the moment,” he says. “Because if all the efforts are concentrated on the IRB [internal ratings based] banks, we will lose the support from the CEE countries which have mainly SA banks.”

Ormezzano’s sentiments are shared by Bell, whose attention is on what he calls the “non-aligned” within the EU’s political machine.

“What worries me is those who haven’t made up their mind yet,” he says. “The regulators are not going to change [the] Commission’s views because it has been well aware of the regulatory position for quite a while. Or the French or the Germans. But many others are up for grabs and that’s where the regulators can move the needle.”

There is also an argument, propagated by the likes of the EBA, that any securitization reform should wait for the next Basel agenda.

However, that argument should be dismissed soon, as the upcoming Basel work is not expected to include securitization in its agenda, Ormezzano says. Therefore, a body like the EBA cannot argue that reform should wait for Basel, as that would be at least another three years of waiting.

Additionally, Ormezzano says, “Basel is unfortunately much weaker now that Trump is elected, so the EU has to take its decision for itself.

“We really have to get it right this time and I think we have all the ingredients for that, [both] in terms of momentum and in terms of technical proposals,” she adds. “I tend to be optimistic, or determined, to keep pushing. It’s not going to be easy.”

Much work is still to be done in 2025, but the market is cautiously hopeful. How big the battle will be is still unclear, but securitization won’t stop believing. **GC**

“There is a willingness to demonstrate that Brexit did mean something, with some sort of deregulatory initiative”

Salim Nathoo, partner at A&O Shearman



▲ Veronique Ormezzano of Paris Europlace believes Donald Trump’s election win has weakened Basel



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AI adoption soars as capital markets push to automate

The capital markets are finding growing uses for artificial intelligence as language models go from being large and broad, to small and tightly focused. AI has already been deployed to increase administrative efficiency. Automation in trading and execution is next, writes **Gaia Freydefont**

Artificial intelligence may seem as if it has come from nowhere to dominate conversations about the future of work in just a couple of years, but most financial institutions have been using it in some way or another for a long time.

So far, some of the most common and most fruitful use cases of machine learning and traditional AI, as some describe it, in the financial sector have been in fraud detection, anti-money laundering, surveillance and transaction monitoring, profiling of marketing data and propensity modelling.

What has changed more recently is the introduction of foundation models, language models and generative AI.

Artificial intelligence, broadly, is the use of computational models to do complex work that could previously only be done by people. In traditional AI, the tasks the machine performs are executed according to pre-set rules. The machine can reason logically and can conduct complex if repetitive and well-defined tasks with structured data, but it requires human intervention to define the rules under which it operates.

Generative AI can create its own rules based on the large, unstructured datasets it learns from and can create its own ideas and solutions. It is more flexible and better able to adapt without intervention.

“If you had asked a year ago to any financial institution if they are using internal co-pilots, almost none would have said yes, but there has been a massive ramp up in the last six months,” says Jacque Theys,

department head of advanced analytics and business intelligence at Euroclear, the Brussels-based clearing house.

“We’re very active on the topic,” says Andrei Serjantov, head of digital markets at BNP Paribas. “It is absolutely a given that gen AI is going to play a big role in global markets. We see a lot of uses of this technology.”

Firms in the capital markets are prime contenders for gen AI experimentation. “Investment banks are environments where you have to be fast to use these tools if they provide a competitive advantage; you need to be aware of what it brings and leverage it,” says Theys. “Virtually anything can be automated.”

“A bank today cannot operate without AI,” says Jose Moreno, partner and lead of the centre of excellence in artificial intelligence, advanced analytics and cognitive solutions at EY in Madrid. “Almost every single model that runs in banks runs on traditional AI. Indeed, financial services is probably one of the sectors where AI is most used.”

However, while banks have deployed machine learning readily in back and middle office tasks — largely administrative work — they are cagier when it comes to admitting to the use of AI in the risk taking or client facing work done in the front office. A number of investment banks declined *GlobalCapital’s* request for a comment about their use of AI in the capital markets, for example.

“Anecdotal evidence we have seen so far [suggests] that the application of AI [in the capital markets] is, by and large,

concentrated on increasing the degree of automation in back and middle office tasks,” noted Johannes Kramer, senior financial economist at the International Monetary Fund, speaking at an Association for Financial Markets in Europe (Afme) conference in November. “Our impression was that firms oftentimes downplayed AI usage in front office trading, potentially due to regulatory or reputational concerns.”

But patent filing and job advertisements suggest growing interest in using AI for front office roles, he said.

Efficiency plays

Over the past year, most AI deployment in financial services has been to improve a company’s internal efficiency. At a roundtable in January, Serjantov said that across the BNP Paribas group, there were



▲ Andrei Serjantov, BNP Paribas: “It is absolutely a given that gen AI is going to play a big role in global markets”

more than 700 AI use cases and more than 25 gen AI use cases in experimentation. These numbers are increasing all the time.

BNP Paribas backed French start-up Mistral AI, with the bank taking part in two investment rounds in the company over the past year. In July, the bank announced a partnership with the firm to use all of its models across its whole business.

Serjantov says gen AI is applicable in code generation, translation and information extraction.

“It’s everything where operational efficiencies can be reaped and always taking into account what the risk is if you get it wrong,” says Frank De Jonghe, Europe, Middle East, India and Africa financial services quantitative and analytics leader at EY. “I think that’s the hardest trade-off in a lot of these things.”

“If a prospectus is 40 to 50 pages, and we get thousands of prospectuses a day, you get a decent amount of homework,” says Euroclear’s Theys. Using generative AI for this use case is common practice across the market, he adds.

Information extraction is a focal point for many financial firms. A lot of information in the financial services is kept in emails, in PDF documents or is taken from earnings calls, for which different companies have different structures and templates.

“There’s a tremendous amount of information locked away in unconventional sources,” says Emily Prince, group head of analytics at the London Stock Exchange Group (LSEG). “Now we have a cost-efficient way of extracting and identifying patterns in that information.

“If you’ve ever tried asking 1,000 people to do the same task, you’ll know the results can vary widely due to differences in experience, productivity and education. Working alongside... domain experts, AI offers opportunities for greater consistency and reduces the need for extensive refinement.”

The IMF suggests in its global financial stability report, published in October, that there is evidence AI could make markets react faster to news. IMF staff tested the theory on US Federal Reserve meeting minutes, a usually complex and lengthy document. The data suggests, according to the IMF

report, that after the introduction of large language models (LLMs), “the initial market reaction following the release of the minutes (up to 45 seconds) tends to reflect its eventual impact more accurately than in the period before the introduction of these technologies”.

The next step is for AI to start automating front office work, including deal execution. “I think for 2025, and certainly the next two or three years, the most significant advances in technology will come in automation,” said Tim Whipman, head of business development at TransFICC, a trading technology company, speaking at the same Afme conference as the IMF’s Kramer.

The use of the word automation here is notable as it means something new when it comes to gen AI. It used to refer to straight-through processes and back office operations, but “that is not what it means at all anymore”, said Whipman.

“We’re talking about having been through a decade or two of electrification of different fixed income markets. We’ve now moved to a phase where the sell-side and the buy-side need to be able to automate not just their post-trade processes, not just the integration of market data, but the execution process as well. That can be extremely complex.”

Unprecedented uptake

The early feedback suggests that deployment of gen AI tools has been a success, even if it mainly concerns handling the daily grind. “The feedback from the employees has been unprecedented,” says Serjantov at BNP Paribas. “The take-up from employees has been tremendous. People see this as something that helps them with their most boring, most mundane, most repetitive tasks.

“We’ve run surveys and looked at external publications from Microsoft to Accenture and have found satisfaction rates in the 90%.”

Although use of the bank’s internal AI tools varies depending on the task, active regular users of the French bank’s LLMs use it multiple times a week, says Serjantov.

“Gen AI is really becoming part of the day to day of [EY],” echoes Theys. “Employees use it on a regular basis every day,” referring to Microsoft’s Office 365 embedded Copilot, which Euroclear rolled out for internal use this year.



▲ Emily Prince of the London Stock Exchange Group says AI offers a cost-efficient way of extracting and identifying patterns in information

An AI expert at a trading venue says employees are “increasingly” making use of internal AI tools like co-pilots and Q&A systems.

Euroclear has run training sessions so its employees can use the technology to its fullest extent within the company’s framework, making sure no public, external generative AI tools are used. But of course, some users are more enthusiastic about it than others. “Some people won’t use a copilot before they retire and some people use it from day one,” says Theys.

Big to small

The development of gen AI started with a race towards very large language models such as ChatGPT, launched in November 2022, and Gemini, launched in December 2023.

But although the classic advantage of gen AI is that it can learn from large, unstructured data sets, some are training it on specific data to solve specific problems.

The industry has sprouted a proliferation of small language models, which are computationally lighter. There is increasing diversification and specialisation.

“We have been deploying many use cases for operations, namely, automatic processing of documents, email analyses and internal chatbots,” says Theys, adding that a generative AI copilot tool specifically trained on Euroclear’s own internal

legal data has been deployed for the legal teams, for example.

Since the release of the internal legal team's gen AI tool, which was launched at the start of this year, "we have been getting a lot of interest from other departments," says Theys.

His department is now in the process of collating the internal demand and preparing a roadmap for the coming months, prioritising which teams would most benefit from a copilot. Among those is the company's risk team. "Our risk colleagues can already use this to build reports for management," he says. "Based on the data they have, they can pre-draft some reports using generative AI."

Interest in AI tools is also growing at BNP Paribas. Whereas the bank's AI team previously had to pitch the technology to colleagues, that has flipped. "Before, [the AI team] would have to ask business teams whether they had any problems solvable by AI, but this is completely over," says Serjantov. "Now, it's the business teams that are knocking on the doors of the data science teams."

Clients next

Some financial services firms have gone a step further by offering gen AI tools to clients.

The LSEG has "collaborated extensively with... customers to develop AI products, incorporating their feedback and establishing a robust framework, supporting safe and scalable innovation," says Prince.

The LSEG has launched external tools for code generation to clients over the past few months. The LSEG's Lipper AI Insights tool, for example, allows clients to query data on investment funds.

"A client might ask: 'How have emerging market funds performed over the past year?' or 'What's the historical performance of this specific fund?'" says Prince.

While the first rollout has been around funds, the use will be extended in the future.

UBS Group has developed an AI tool to help it offer clients M&A ideas, producing analysis of a database of over 300,000 companies in less than half a minute. It went live in September.

The bank built its M&A copilot to generate target ideas for buyers as well as to help sellers find possible acquirers, Brice Bolinger, UBS



"It is crucial to implement robust governance and control measures, irrespective of the different legislations that may apply"

Frank De Jonghe, EY

head of M&A Switzerland, said at a conference in Zurich in September.

UBS declined *GlobalCapital's* request for further comment on its M&A copilot and other uses of AI.

Not all, but most of BNP Paribas's uses of AI are internal. The bank declined to comment on external use cases.

Train rather than hire

The first stage for any financial market player is to staff up and develop technical knowhow about AI. "We've been hiring a lot of data scientists to start leveraging more use cases," says Theys, adding that a hiring spree of data experts is underway at many financial institutions this year.

But the industry is now moving to a second stage, focused on providing AI training to a broader population within businesses. "The ideas and business cases for AI will come from those people — those who know the business and who are facing the day-to-day problems," says Theys.

Indeed, market participants emphasise the fact that, while machine learning engineers and AI experts are important, the real emphasis is on training staff with financial expertise in the use of AI.

"There is a sense that you need machine learning engineers to approach the problem," says one AI expert, "but to be honest in my experience you need your domain experts — people who really understand a bond prospectus or really understand a financial instrument."

"There's sometimes a perception that machine learning engineers

alone can solve these challenges," agrees Prince. "To achieve accuracy, you also need domain experts working alongside engineers and data scientists."

"There is no substitute for getting people experienced with these models," adds Serjantov.

AI algos

AI is yet to make its mark on trading, however, although market participants believe its use will grow quickly.

At the Afme conference in November, an audience poll showed that up to 25% of electronic trading flows are steered by AI-driven algorithms. "I wouldn't be surprised if it's actually more towards the zero than the 25%," said Whipman.

When asked what degree of autonomy the audience expect AI-based algorithmic trading to reach in the next three to five years, 84% opted for semi-automated execution with human oversight for critical decisions and 16% said there would be a minor role for AI with human oversight.

None thought there would be no role for AI or that algorithms would be fully automated with little to no human oversight.

The growth of AI in trading is likely to resemble evolution rather than revolution. "The way they'd see [AI in trading] evolving was very much that this isn't something new for [them], this is just an extension of today's algos," said Whipman. "Today's machine learning tools [are] just going to be something that will make the market even faster, more liquid."

But for some financial institutions AI isn't just an enhancement, it's the foundation of their entire business model. This is the case for many quantitative research firms.

One says it has eliminated the need for human traders entirely, claiming every trade it makes is executed by AI systems. The firm operates with a lean team of machine learning and AI experts, whose sole responsibility it is to train LLMs and algorithms to make decisions.

Indeed, in the world of quant finance the need for people with financial expertise is no longer of central interest to recruiters. Recruitment marketing materials from leading quant firms say that traditional finance backgrounds are unnecessary. Instead, they want people at the cutting edge of machine learning.

A second quant firm also operates on an almost entirely AI-driven business model and a third has this year started developing a subsidiary of its business to be completely run by AI, with the ultimate ambition of transitioning its entire trading operation to AI, said a source familiar with the firm.

For these firms, AI is not just a tool to solve particular problems or to automate a few processes, it's the core of their strategy.

For banks, handing over the keys to the trading floor to a machine is some time away. "I wouldn't go there yet", says Serjantov, "because something like that would take a tremendous amount of investment and is questionable whether you'd actually want to do it."

"On a risk-reward basis, there's so much stuff out there to get done before you start pushing the envelope to something like that. We can get a huge amount of value using some of these models on some much simpler use cases."

Whipman, perhaps unsurprisingly, sees the need for urgency rather differently. "We're seeing higher trading volume and potentially smaller ticket sizes in some fixed income asset classes, and... for banks to be able to respond to this increase in volume and more complex workflows... they have to automate," he told the Afme conference.

"If you want to trade a government bond or a credit bond or any fixed income instrument on a venue, the coding to APIs is complex, workflows are numerous and there are new ones coming all

the time. To be able to automate that process and normalise those API-supported venues is extremely important."

An API, or application programme interface, is a connection between two software systems that allows them to communicate with each other.

While a survey of 26 banks, including global and regional firms, identified automation as their number one technology priority, Whipman warned that a bank must ensure its trading infrastructure can support AI implantation. "Putting AI on top of poor infrastructure, it's like putting a Ferrari engine in a Fiat Panda," he said.

Indeed, some of the quant firms that trade exclusively using AI-driven models invest hundreds of millions of dollars a year in computers. They are building clusters comparable in size to the ones used by tech giants like Meta and Google, says a source familiar with the industry.

Regulating piece by piece

With great computational power comes great responsibility — or at least a few rolls of red tape. Regulating AI is in its infancy, but the EU has gone further than the US or UK by establishing an Artificial Intelligence Act, which was passed into law by the European Council in May. The EU has decided to regulate AI with a single law covering its use in all sectors.

But despite the comprehensive nature of the rules, some operations are not covered. "The EU AI Act primarily focuses on protecting natural persons," says EY's De Jonghe. "For example, if an individual is involved in algorithmic or quantitative trading using complex algorithms, which can pose significant risks for an investment bank, the EU AI Act does not specifically address this area. Therefore, it is crucial to implement robust governance and control measures, irrespective of the different legislations that may apply."

The EU AI Act officially took effect on August 1, 2024, but its provisions will be implemented gradually. None of the requirements apply as of November 2024, with the first prohibitions on certain AI systems starting on February 2, 2025, and the majority will apply from August 2, 2026.

The European Commission is also developing guidelines to define



▲ Jose Moreno, EY: "A bank today cannot operate without AI. Almost every single model that runs in banks runs on traditional AI. Indeed, financial services is probably one of the sectors where AI is most used."

and detail how the Act should be implemented, with the aim of developing standards and codes of practice.

Elsewhere, the National Institute of Standards and Technology, part of the US Department of Commerce, and the Institute of Electrical and Electronics Engineers Standards Association, an international body, are working on AI frameworks, which the EC intends to make use of.

Without clear AI regulation for the financial services industry, regulators rely on AI-using companies responding to infrequent surveys.

"That, of course, heavily relies on voluntary contributions and self-reporting, [which] somehow we felt was lacking regulatory enforcement," the IMF's Kramer told the Afme conference. "That inherently limits [regulators'] ability to capture particularly rapid market developments... and identify AI risks in near time."

Since the 2008 global financial crisis, there has been "significant regulatory fatigue", said Kramer, adding that, when surveyed, European market participants pushed back against new reporting demands, particularly for emerging technologies like AI.

"There seems to be not a fear but a concern around what regulation is to come, and a lot of these banks feel reluctant to implement these AI strategies at this point," Whipman told the Afme conference.

Indeed, market participants question how the EU AI Act will interact with heavily regulated bodies such as banks. Banking regulators have raised concerns about a higher regulatory power looking at the models that banks use to do capital calculations and safety and soundness reviews.

It is a tall order. The Commission was understood earlier in the year to have only six to eight people working on the topic and around 80 to 90 tasks to get through.

However, this presents financial firms with an opportunity to take the initiative and show the EC what best practice looks like.

Who's in charge?

Market participants flag concerns about potential conflicts of supervision. There is not yet “any gap analysis [comparing European frameworks] with UK and US frameworks”, a spokesperson at the European Securities and Markets Authority (Esma) tells *GlobalCapital*, but there are concerns about how industry-specific regulation should interact with the EU Act.

The EU's tack has been to take a principles-based approach in the belief that this is the best way to future-proof technology that is moving very quickly.

“The [UK] government has come out and said that they are going to put in legislation as well,” said Alexander Tollast, counsel at Clifford Chance, speaking at the Afme conference.

“Undoubtedly, the British will try to promote something which attracts a little bit more business, so there may be some arbitrage between the EU AI Act and the UK equivalent.”

EU financial regulators have begun providing guidance to financial institutions on their use of AI this year. In May, Esma issued a statement providing initial guidance to financial firms using AI when they provide investment services to retail clients.

“When using AI, Esma expects firms to comply with relevant MiFID II [Markets in Financial Instruments Directive II] requirements, particularly when it comes to organisational aspects, conduct of business and their regulatory obligation to act in the best interest of the client,” says the regulator's spokesperson. “In 2025, Esma



“We have an AI expertise team, which governs the what and the how — all AI use cases that want to go live are screened and reviewed there”

Jacques Theys, Euroclear

will focus on financial innovation, particularly in the area of AI with the aim of ensuring investor protection and market integrity.”

But what the EU lacks is coordinated regulation. Data protection regulators; the EU's AI Office, which is its centre of expertise on the topic; the EU AI Act; the enforcement units of the EU's Digital Services Act and more have been accused of working in siloes. In fact, there has been criticism that there are so many financial services and AI regulators in Europe, that it is unclear who has the final word.

Self-regulating

“Every time we deploy an AI use case or an AI model, we are making sure that it's classified under the [EU] AI Act,” says Theys. “We want to comply with new regulation that comes out by design. It's not just a nice to have for us.”

Another regulatory expert says: “If you're sitting at an organisation, my best advice has always been in the past year to say that you're responsible for the outcome, irrespective of whatever guarantees the EU AI act might give you. Just assume that you're responsible for the outcome.”

A lot of the things that are important to financial institutions using AI, like the use of multiple models and understanding model explainability, are already “extremely well served” within existing regulation, says an AI expert. “There are many types of regulations already in place, plus we've got extensive

model risk management that has been in place for decades.”

“Because we're in a regulated environment and we're so used to risk management — whether it's market risk or operational risk or legal risk, etc. — we're actually in quite a good position already to make those use cases safe,” says a second expert.

Indeed, the years of post-crisis regulation may have created two tiers in terms of compliance. Banks have by now a more ingrained risk management culture. That is not necessarily true of non-bank financial institutions although Euroclear says its procedures are robust.

“In terms of governance, we have clear cataloguing of all the models we put in production,” says Theys. “We have an AI expertise team, which governs the what and the how. All AI use cases that want to go live are screened and reviewed there.”

In the screening process users must answer whether the AI is something that has to run 24/7 or just during business hours, how critical the model is to the operation, who owns the models, who benefits from the technology and who is responsible for making sure it is maintained and monitored.

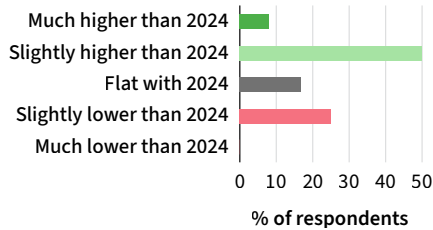
“We are prudent in mastering the side effects of a potential AI hallucination or mistakes,” he adds. “As a financial market infrastructure, we cannot afford 1% of error. I don't think anybody can claim that a model is bullet proof. We make sure to keep a human in the loop in mission-critical cases.” **CC**

The *GlobalCapital* survey of heads of debt capital markets

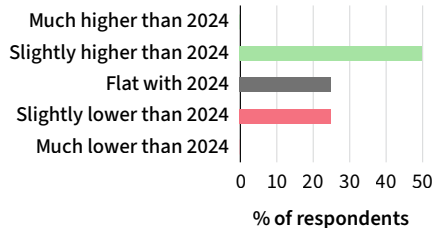
GlobalCapital asked heads of debt capital markets businesses across the Street about their expectations for 2025 and their experiences of 2024. Most predict rising issuance volumes as **Ralph Sinclair** discovers whether they see AI, blockchains, or the rather more human rise of private credit as the most disruptive threat to the industry

What is your prediction for EMEA primary bond markets in 2025?

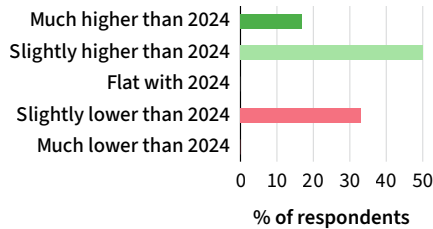
Volumes



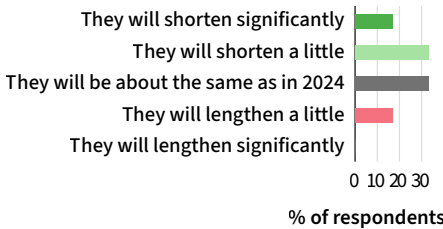
Fees



Spreads



Maturities

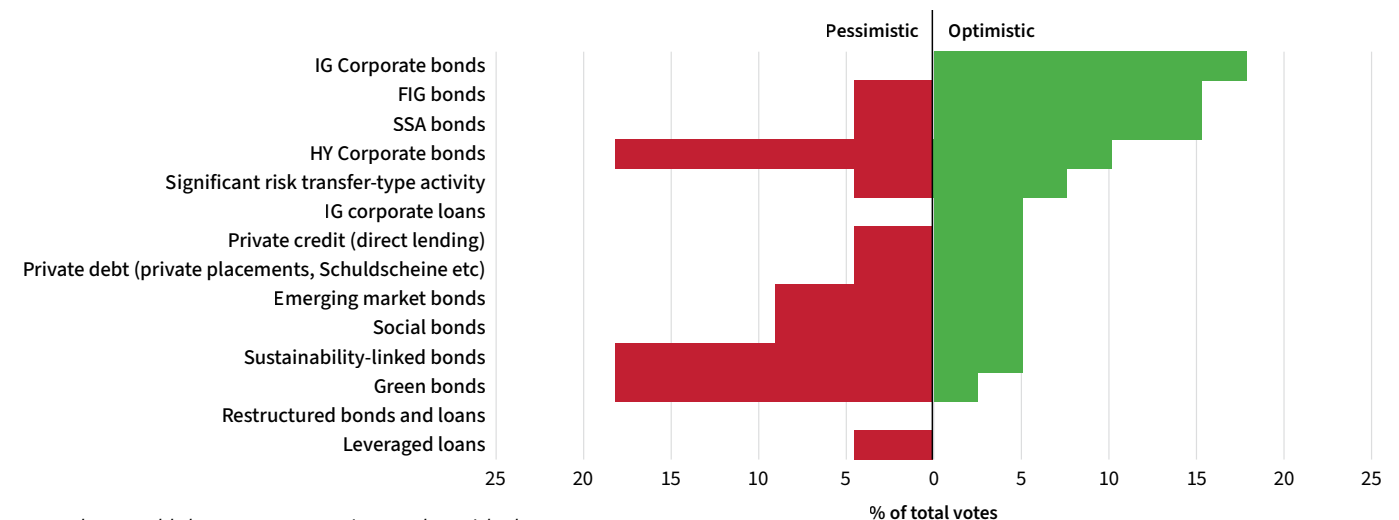


Which sectors/client groups are you most optimistic about for 2025 in terms of revenues?



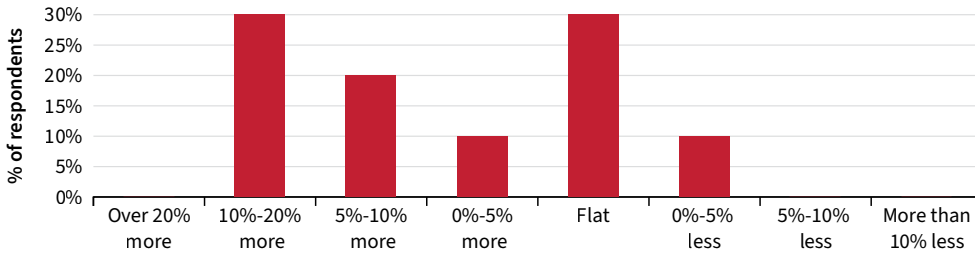
Respondents could choose as many options as they wished

Which sectors/client groups are you most optimistic and pessimistic about for 2025 in terms of volumes?



Respondents could choose as many options as they wished

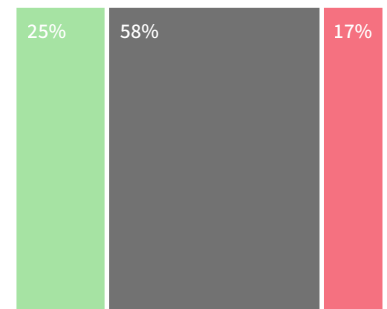
Do you expect your business to make more or less money in 2025 than in 2024?



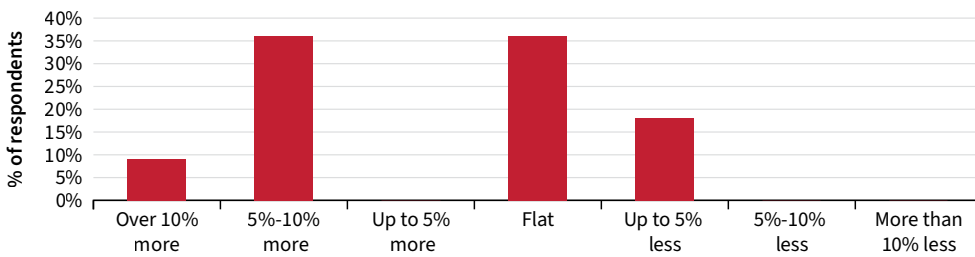
Thinking about 2025 compared with 2024, how has the rate at which competitors have poached or attempted to poach your staff changed?

- Increased sharply
- Somewhat increased
- Stayed the same
- Somewhat decreased
- Decreased sharply

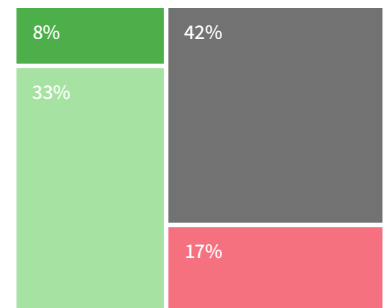
Senior staff (eg MDs and directors)



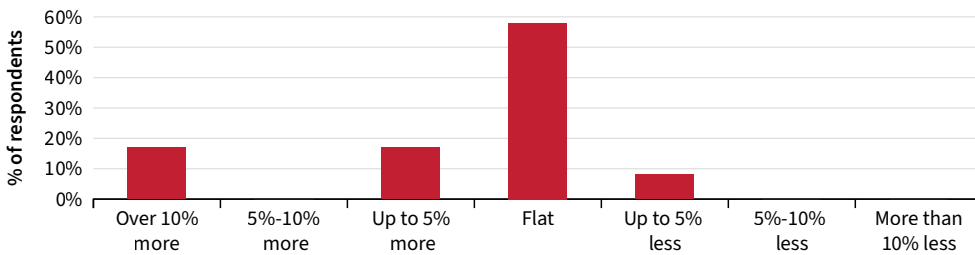
Do you expect your MDs and directors to be paid more or less in 2025 than in 2024?



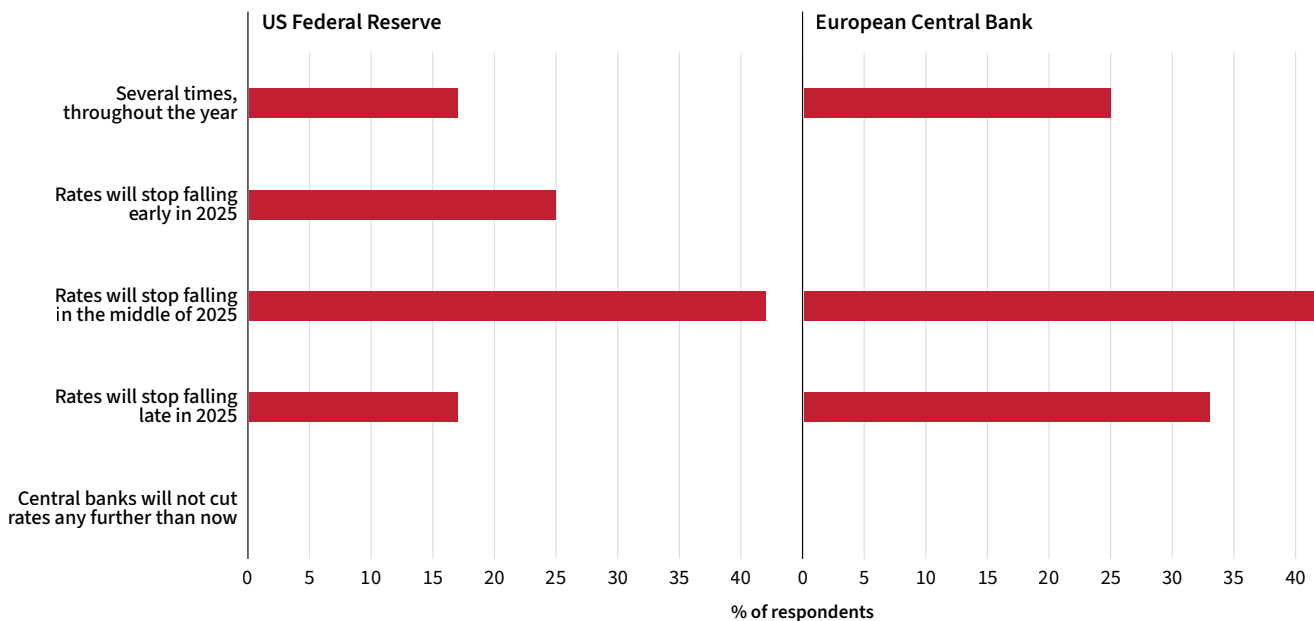
Junior staff (eg associates and analysts)



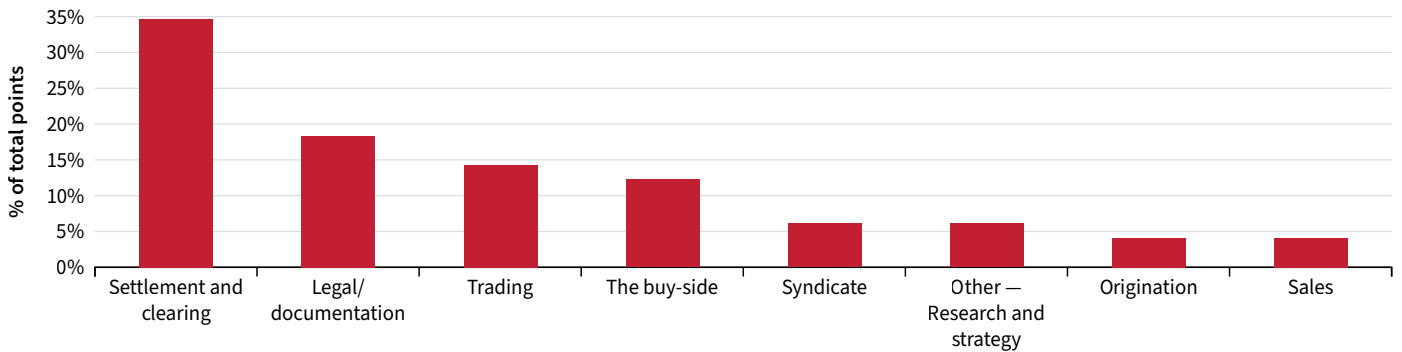
Overall, will there be more or fewer people working for you by the end of 2025 than now?



How aggressively will the US and European central banks loosen monetary policy in 2025?

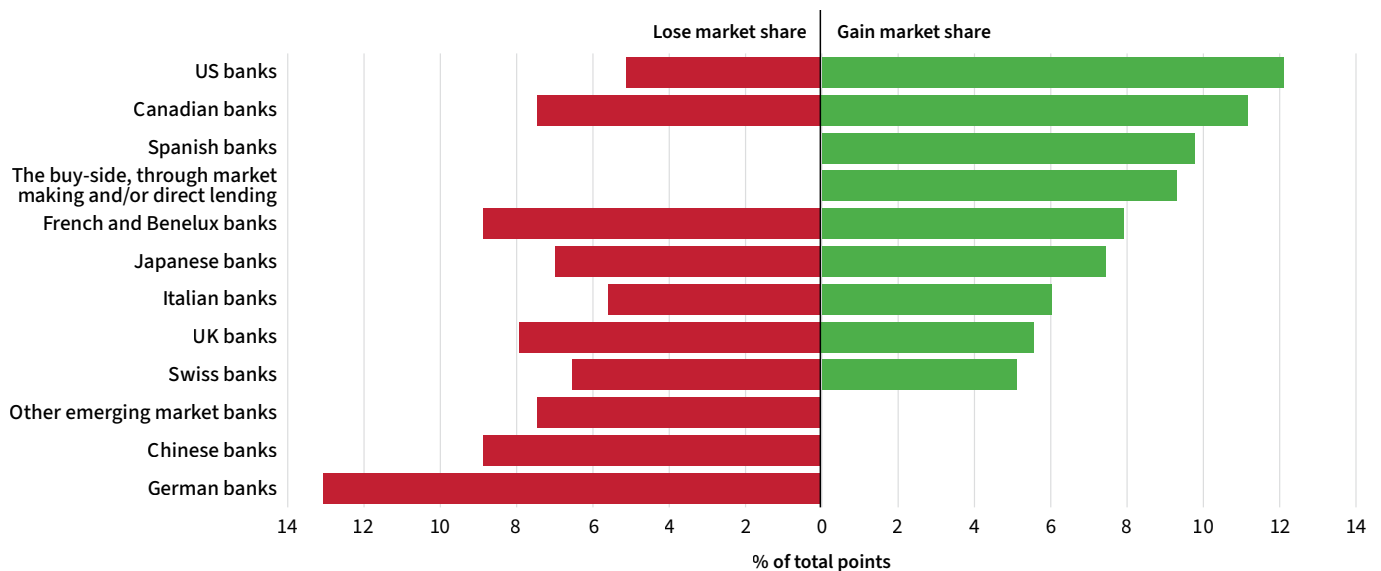


Which sectors of the market will have the most exciting technological developments in 2025?



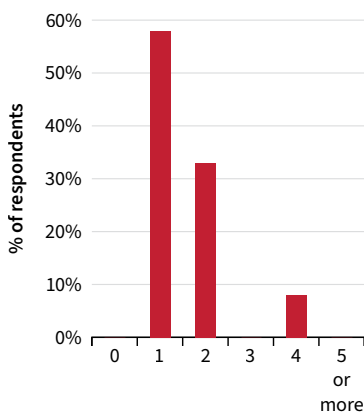
Respondents were asked to rank their top three choices. First preferences were allocated three points, second preferences were allocated two points, and third choices got one point

Which banks do you expect to gain and lose market share in EMEA DCM the most in 2025?

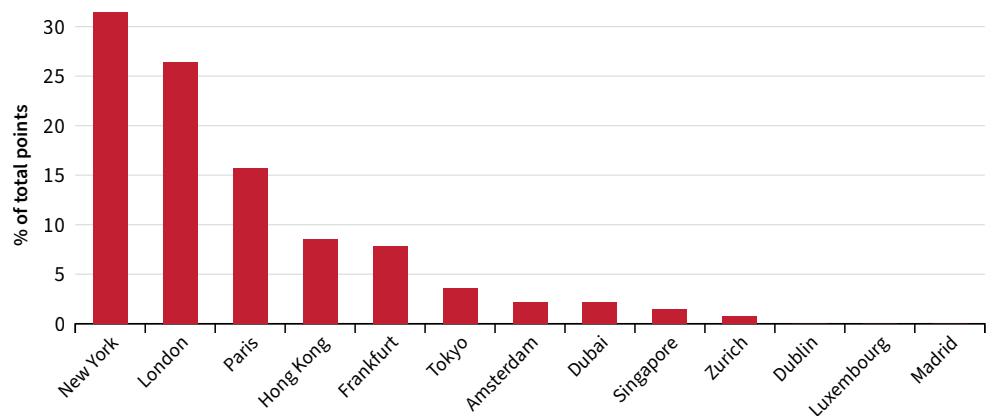


Respondents were asked to rank their top three choices. First preferences were allocated three points, second preferences were allocated two points, and third choices got one point

How many bank mergers (announced or completed) can we expect to see in 2025 that will involve a top 25 bookrunner bank?



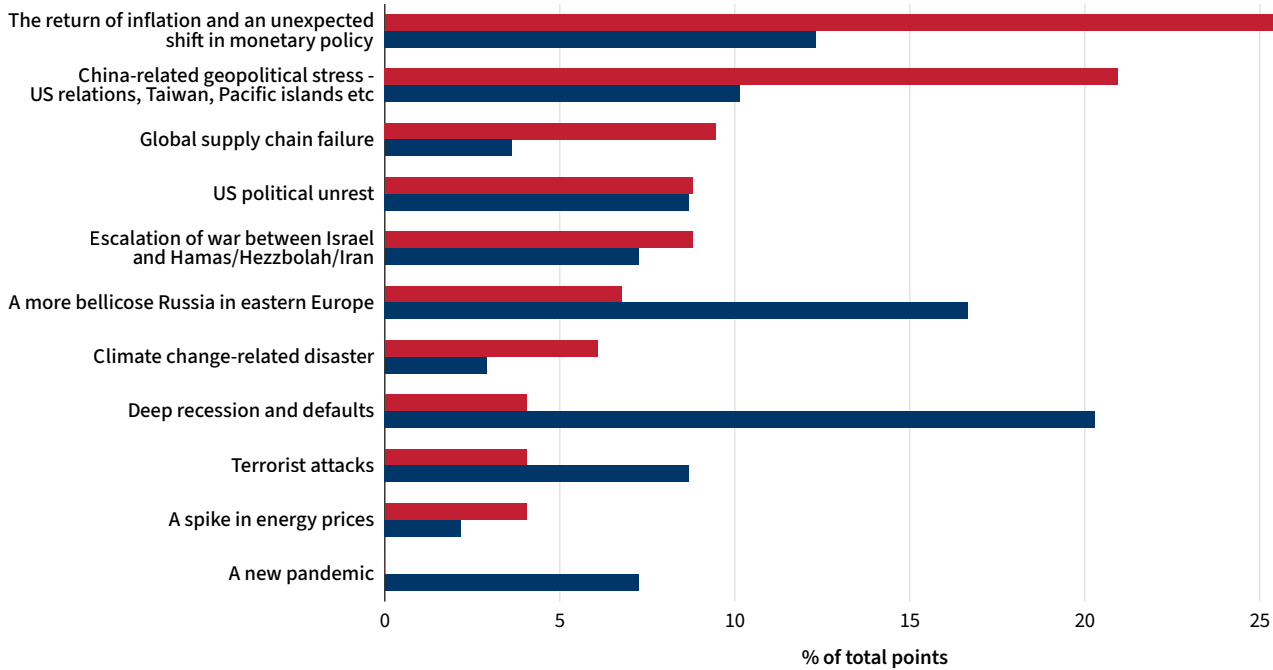
Which will be the most important capital markets hub at the end of 2025?



Respondents were asked to rank up to five choices in order of preference. First preferences were allocated five points, second preferences were allocated four points, and third choices got three points, and so on

Which of the following risks to DCM in 2025 are the most likely, and which would have the most severe impact?

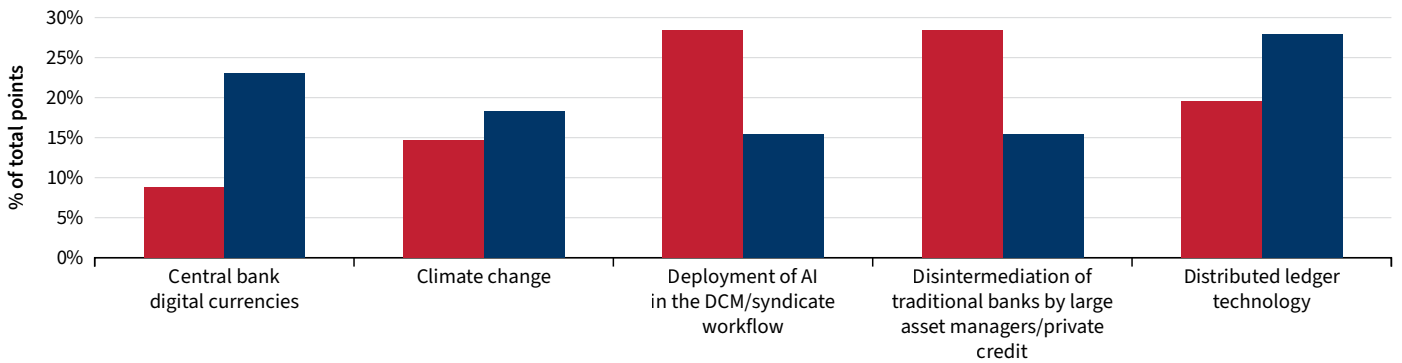
● Most likely to happen ● Most severe if it were to happen



Respondents were asked to rank as many options as they liked. The most choices any one respondent made was five. Therefore, each respondent's top choice was scored five points, its second choice scored four points, its third choice three points and so on

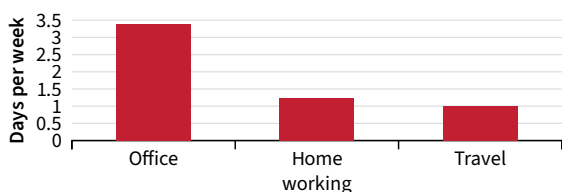
Which of these themes in capital markets is most likely to change the way you do business in 2025?

● A true disrupter of capital markets ● Overhyped



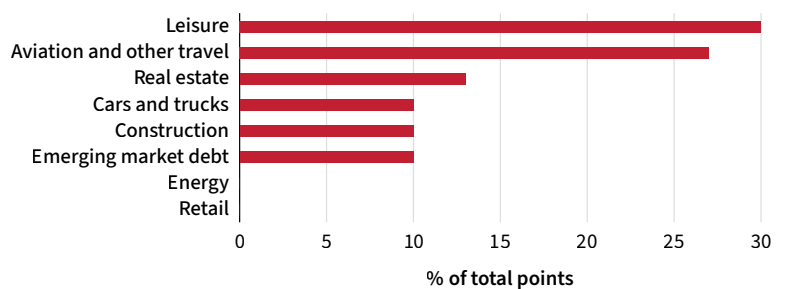
Respondents were asked to rank as many options as they liked. The most choices any one respondent made was five. Therefore, each respondent's top choice was scored five points, their second choice scored four points, their third choice three points and so on

What is your average split of time between the office, home working and travel?



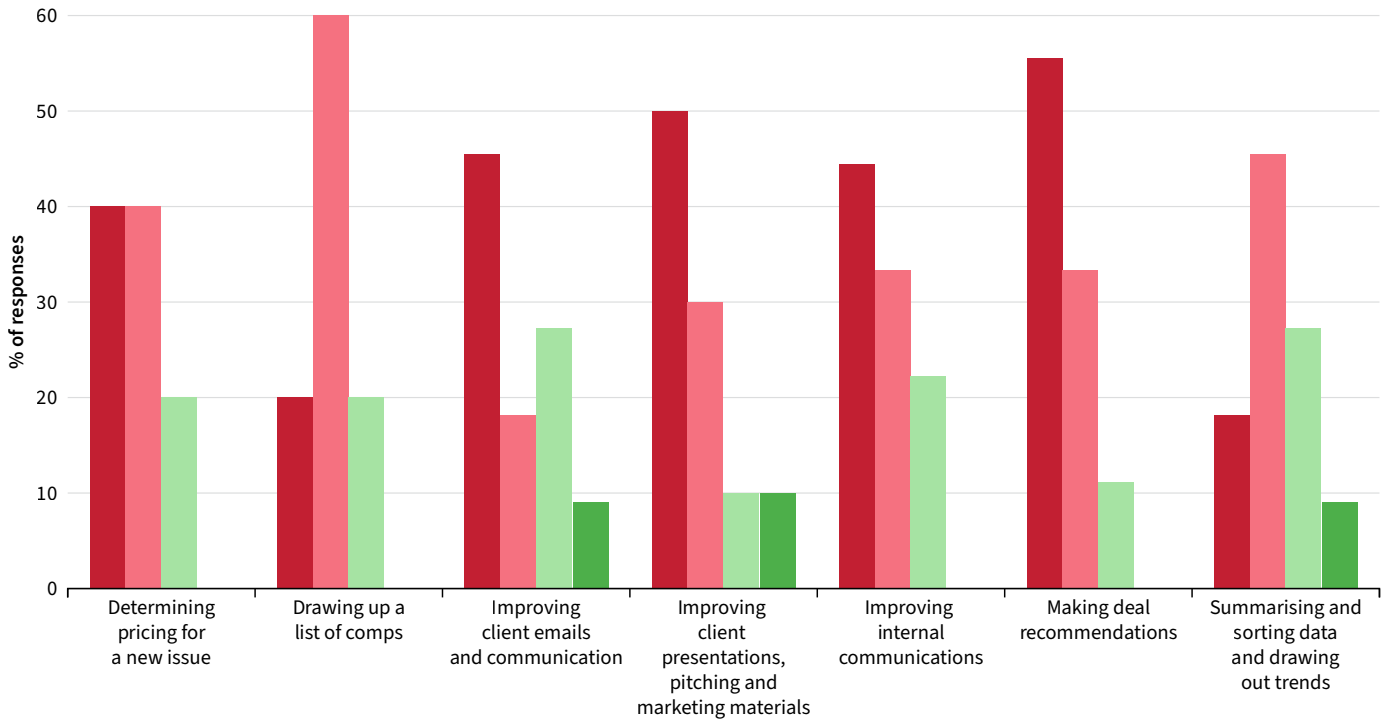
Respondents were asked to reply with the average number of days they spent in each way, and could express numbers to 1dp, hence the total adds up to more than five.

From which sectors can we expect the most debt restructurings in 2025?

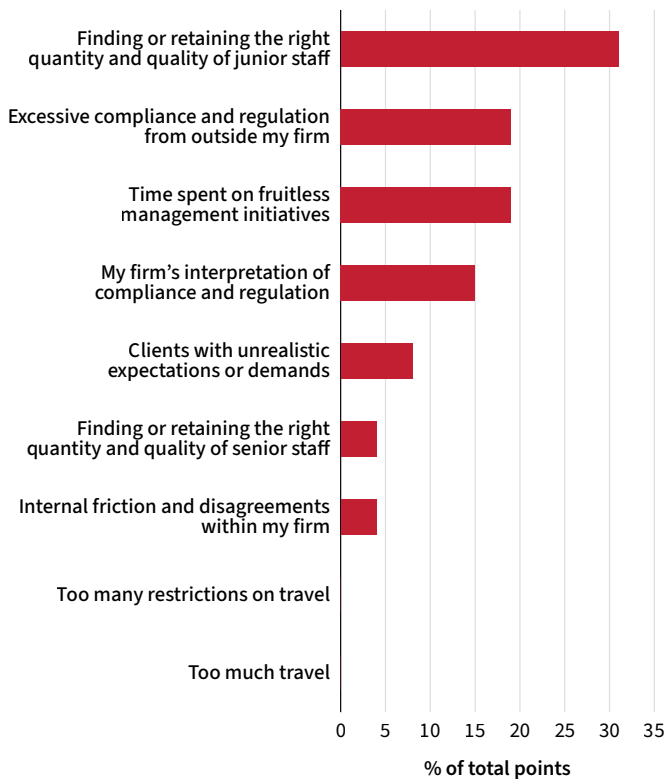


How are you using AI in your business?

- Not in use and no plans to in the near future
- Considering investigating, testing or using in the near future
- Have started to investigate, use or trial AI
- Fully integrated into our workflow

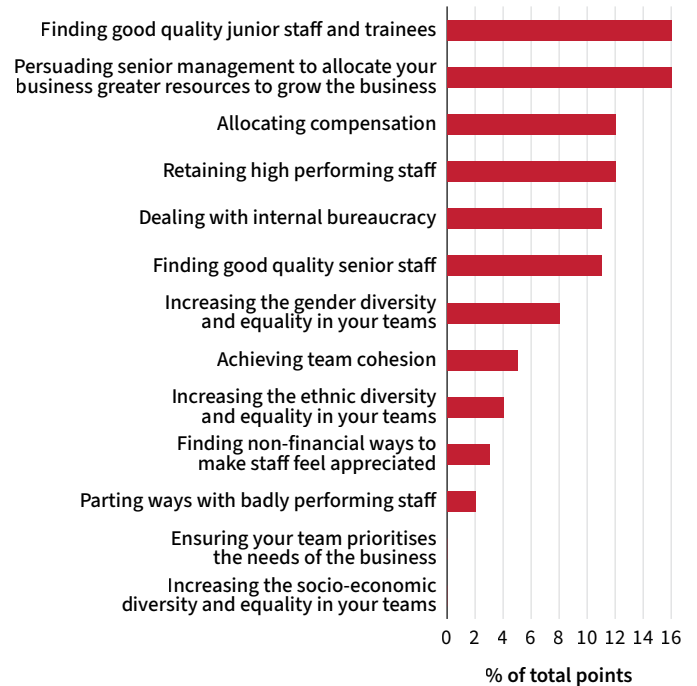


What is the biggest burden on doing business?



Respondents were asked to make up to three choices, in no order of preference. Each time an option was picked, it was allocated one point

What is the biggest management challenge you face in your business?



Respondents were asked to rank as many options as they liked. The most choices any one respondent made was five. Therefore, each respondent's top choice was scored five points, its second choice scored four points, its third choice three points and so on

AI and investment supercharge Capital IQ Pro

S&P Global
Market Intelligence

GC: What is the overarching philosophy that drives your approach to S&P Capital IQ Pro?

Breakstone: Decisions are rarely made with one set of data, no matter how unique, compelling, or alternative that data happens to be. We've found that the best decisions are made when multiple data sets come together, and one can apply their expertise, experience, and various tools to the effort. This is true for all our clients, whether an asset manager looking for investment opportunities, a bank conducting valuations, or a corporate strategy team assessing market adjacencies. This philosophy drives our overall approach and integrated value proposition. You can see it in the 220 high-quality data sets — traditional and alternative — we've combined and enhanced with compelling visualizations and analytics in our flagship S&P Capital IQ Pro today.

GC: How does this integrated value proposition translate into your investments?

Breakstone: We focus our investment efforts on three areas. First, sourcing the best data and combining it with other content that we offer in valuable and relevant ways. Second, we enhance our data with compelling visualisations for quicker analysis. Third, we increasingly leverage analytics, including GenAI, to make the platform more intelligent and the experience for clients more enticing. For example, in just the past few months we expanded our fixed income data coverage to 19.5 million securities. We added Nikkei News through an exclusive partnership to provide more global context and commentary, and we extended our private company data coverage to millions more companies.

We also acquired Visible Alpha — the leader in forecast data — which provides a cohesive view of future performance expectations in the context of the historical performance of a company, sector, or industry. These data sets are additive and build off each other to provide greater range and depth for a user's research and analysis. This followed the addition of ChartIQ to our portfolio last year, which has enhanced the platform's visualisation capabilities.

It's an exciting time for S&P Capital IQ Pro. The market's preeminent research and analysis platform is incorporating new functionality and generative AI into an already cutting edge offering. *GlobalCapital* spoke to **Warren Breakstone**, Global Head of **Capital IQ Solutions at S&P Global**, about recent acquisitions, the benefits of GenAI and the outlook for the future

GC: What led you to acquire Visible Alpha?

Breakstone: Visible Alpha was founded in 2015 by a consortium of leading investment banks to bring new value to sell-side research assets. Today, contribution partnerships exist with over 200 leading banks and research houses, and numerous sell-side institutions exclusively contribute. These relationships have allowed Visible Alpha access to raw sell-side analyst models—source material that was not previously available at scale to businesses like ours.

This strategic acquisition deepens our fundamental research and analysis capabilities and opens opportunities to further our deep sector and asset-level offerings. For example, we can tie Visible Alpha forecasts for metals and mining companies with existing Capital IQ Pro datasets. Users could compare mine-level NAV forecasts from Visible Alpha with mine-level volume and production cost data from Capital IQ Pro. Combining Visible Alpha's rich dataset with that of Capital IQ Solutions creates many exciting opportunities to develop new insights for our clients.

GC: S&P Global has added a suite of GenAI solutions to the Capital IQ Pro platform, what are some of the benefits that brings to users?

Breakstone: We have introduced many innovative capabilities to support our clients and what we term "speed to decision." I'll give two examples. First is our reimagined Document Intelligence solution, which has **revolutionised** how clients can incorporate insights from vast text-based content. Eighty-page filings and earnings call transcripts can now be **summarised** in microseconds, and critical insights are surfaced in a snap. Clients can interact with the document as if speaking to a seasoned analyst. The system also



Warren Breakstone, Capital IQ Solutions at S&P Global

generates questions and prompts you may want to use, saving time and delivering new insights.

Second, working with our partners at Kensho, the S&P Global AI innovation hub, we just introduced ChatIQ, which is the first GenAI solution in the market trained on a broad corpus of financial and company data from S&P Global. Using a modern interface, clients can ask natural language requests and receive comprehensive answers. They can also click through to the source data found in the platform. Trust and transparency are foundational to our products; by providing direct access to the source data, we are helping customers make informed decisions—even with generative AI.

GC: What's next for Capital IQ Pro?

Breakstone: We'll stay focused on extending our integrated value proposition in relevant ways to support our 350,000 users across the institutional buy-side, global sell-side and corporate segments. We'll continue investing in data, extending our visualisation and tools, and introducing deeper analytics for the client's benefit. The future is bright for Capital IQ Pro, and we are excited for what comes next.

S&P Capital IQ **PRO**

S&P Global
Market Intelligence



Insight at every data point.

Join the over **300,000** users who do their jobs better with the S&P Capital IQ Pro Platform. Discover datasets, solutions and AI-powered tools that will accelerate your time to insight—and make speed your competitive advantage.

- **85%** of the companies in the **S&P 100** are our clients.
- **82%** of the world's **100 largest companies** rely on our data, tools and insights.
- **85%** of the top companies in the **Fortune 100** use our platform solutions.



Discover
S&P Capital IQ Pro

Seek & Prosper™



Interested in finding out who's **top in covered bonds?**

Who **leads the way in SSAs?**

Who's **first in FIG?**

Who's an **emerging force in EM?**

Or who's **closing in on corporates?**

Available online now is a bonus article that picks out the leaders and risers in the benchmark SSA, FIG, corporate, emerging market and covered bond markets.

GlobalCapital has sifted through the data and analysed the performance of leading bookrunners over the past two years, giving you a view on how the market leaderboard has shifted.

In this article, you will find an unbiased ranking of syndicated benchmark bond bookrunners in core currencies, based on *GlobalCapital's Primary Market Monitor* data.

Every deal in the PMM database, and only those deals, are eligible for inclusion in our league tables.

To see who's come up top this year and find out more about PMM League Tables, follow the link:



PMM League Tables - YTD, All

Export to PDF

Select League Table Type: Bookrunners

Results: 15

Deal Volume: EUR

Rank By: Deal Volume

A-Z

Rank	Name	Deal Volume	Number of Deals	Market Share (%)
1		€ 249,566.3 m	1112	7.0
2		€ 236,874.1 m	978	6.7
3		€ 209,446.0 m	863	5.9
4		€ 204,011.0 m	813	5.7
5		€ 202,103.2 m	839	5.7
6		€ 185,743.5 m	926	5.2
7		€ 165,289.1 m	680	4.7
8		€ 163,020.6 m	712	4.6

Columns

Export Data

Sort By: Pricing Date

Z-A

Deal Name	Class	Pricing Date	Issuer
Fingrid - EUR - 500m - 2.75% - 04/12/2029	Corporate	27/11/2024	Fingrid
United Kingdom - GBP - 4250m - 1.25% - 22/11/2054	SSA	26/11/2024	United Kingdom
Heimstaden Bostad - EUR - 500m - 6.25% - Perpetual	Corporate	26/11/2024	Heimstaden Bostad
State of Brandenburg - EUR - 700m - 2.5% - 03/12/2030	SSA	26/11/2024	State of Brandenburg
Bpifrance - EUR - 750m - 3.375% - 25/05/2034	SSA	26/11/2024	Bpifrance
Caffil - EUR - 1000m - 2.625% - 29/11/2029	Covered	25/11/2024	Caffil
DNB - EUR - 1000m - 3% - 29/11/2030	FIG	25/11/2024	DNB
Prysmian - EUR - 650m - 3.875% - 28/11/2031	Corporate	21/11/2024	Prysmian

Innovation and perfect timing



Supranational Bond of the Year

European Investment Bank

£1bn 3.625% January 2032 Sustainability Awareness Bond

Barclays, BMO Capital Markets, NatWest Markets, RBC Capital Markets

There were many outstanding supranational bonds in 2024 across all three major currencies, but one in particular impressed, not only because of its successful execution but the lasting, positive impact it made on the market.

With this deal, the SSA market took an important — some say long overdue — leap forward in changing how sterling deals are marketed and priced to bring them in line with other core markets.

The EIB took the plunge to price the bond off SONIA mid-swaps, rather than against Gilts. But where the EIB's leads, others follow and 90% of SSA sterling benchmarks sold this year — excluding Gilt syndications from the UK — embraced pricing against swaps.

The migration was impressively seamless, while boosting efficiency, reducing hedging risks and costs, and increasing execution flexibility.

SSA ESG Bond of the Year

European Investment Bank

€6bn 2.75% January 2034 Climate Awareness EARN

Bank of America, BNP Paribas, Morgan Stanley, Natixis

Seventeen years after its inaugural green issuance, the EIB passed a milestone in August of €100bn of Climate and Sustainability Awareness Bonds issued, across 23 different currencies. This 10 year deal from January was the standout of 2024's crop. The size alone was impressive — an unprecedented amount from the issuer in the format.

It was also the joint largest euro bond issued this year by a non-sovereign issuer. The €42.5bn book was also the largest not only for the EIB but also across the whole supranational and agency sector this year, excluding the EU's syndications.

It was executed to perfection, boosting the confidence for the whole SSA sector at the start of a year when issuers were keen to front-load in a market uncertain about absorbing such size.

Sovereign, supranational and agency issuers made a rapid start to funding in 2024, which proved to be a year when being flexible enough to maximise investor demand proved invaluable. Among the best deals this year are some that captured the moment but also some that sought to do something completely new altogether

SSA Sterling Bond of the Year

United Kingdom

£4.5bn tap of 1.25% November 2054 inflation-linked Gilt

BNP Paribas, JP Morgan, Morgan Stanley, Nomura

The UK's record-breaking syndicated linker tap took place in a remarkably stable Gilt market just days after the country's general election.

The market had certainly had its dose of political uncertainty in June and July, with elections taking place — expected and unexpected — on both sides of the English Channel.

But this deal broke new ground for the borrower as it landed the largest ever order book for a linker syndication for any European sovereign.

Gilt market participants have been in awe that the UK was able to land one record transaction after another this year, despite a change of government, low confidence over global growth and uncertainty over the path of interest rates. Gilt investor demand was consistently strong — a vote of confidence in the UK and its Debt Management Office.

The DMO itself had only just handed the reins to Jessica Pulay, who replaced Robert Stheeman as chief executive, at the time of this deal. Its success also showed the benefit of the DMO's insistence on maintaining predictability, transparency and reliability in the market.

Sub-Sovereign Bond of the Year

State of North Rhine-Westphalia

€1bn tap of 3.4% March 2073

Bank of America, BNP Paribas, LBBW, Nomura, UniCredit

The ultra-long end of the curve is reserved for a select group of SSA issuers and Land NRW is one of them, having printed 40, 50, 60 and 100 year bonds in the past.

It also became the only issuer to have syndicated an ultra-long bond in 2024. It spotted this opportunity early in the year and managed to print €1bn more of its 3.4% March 2073s — an amount that those on the deal had been uncertain about achieving.

As interest rates have risen, investors have been able to hit yield targets at less risky, shorter maturities, weakening demand for ultra-longs.

But Land NRW's deal was more than three times subscribed, even though the issuer paid a yield of less than 3.2% — only 60bp higher than where two year Schatz were at the time.

The issuer now has €3bn of 50 year money under its belt in this line — just as the yield curve is expected to steepen.

Agency Bond of the Year (for a borrower with a funding programme of more than €10bn)

KfW

€6bn 2.375% August 2027
 €3bn 2.625% January 2034

Bank of America, Deutsche Bank, Goldman Sachs, HSBC

Front-loading was the name of the game for SSAs in 2024 and a €9bn transaction from KfW was the perfect example how the tactic served issuers better than ever this year.

The German agency demonstrated its flexibility by choosing a dual-tranche structure for its first euro transaction of 2024. It surprised some at the time, but the full benefits shone through as the year went on.

The issue landed KfW a big slug of what had started as a €90bn-€95bn funding task in one go.

KfW had only issued a dual tranche deal once before in October 2023 when it priced \$6bn.

The sale attracted €47bn of demand, leading bankers and peer issuers to describe it as “very impressive”.

The issuer’s prudence paid off, especially as the euro market turned softer after the summer break and SSA spreads against swaps widened drastically. By that time, KfW already had all the benchmark euro funding it needed.

Agency Bond of the Year (for a borrower with a funding programme of €10bn or less)

Bpifrance

€1.25bn 3.375% May 2034

BNP Paribas, HSBC, Morgan Stanley, Natixis, Société Générale

French agencies have had an extraordinary year as the country’s soaring budget deficit and political machinations sent OAT yields upwards. Come June’s parliamentary elections, one of their number even had to pull a deal, keeping the rest of the group out of action until the dust settled.

But a French issuer needed to reopen the market and that turned out to be Bpifrance.

The timing of its deal was critical and every detail had to be right if investors were to be persuaded back to French agency bonds.

The result was a success. The size hit the upper end of expectations and at a reasonable price. The bond encouraged other French agencies to make their own return to the primary market.

Bpifrance had also been tapping its old lines for well over €1bn — a smart move, especially given that it had one of the biggest chunks of funding left to do among its peers.

With such pragmatism, Bpifrance showed the way through one of the toughest markets for this group of SSA issuers in recent times.

Most Innovative SSA Bond of the Year

African Development Bank

\$750m 5.75% perpetual non-call
 10.5 year sustainable hybrid

Bank of America, Barclays, BNP Paribas, Goldman Sachs

It was the deal that the multilateral development bank (MDB) sector had been waiting for, as it hunts for ways to unlock lending power to address the world’s growing development needs.

The African Development Bank is no stranger to capital markets innovation and delivered the first publicly sold hybrid issue from an MDB in January this year after four years of work.

Some argued that buying hybrid capital, with the pick-up it offers over senior debt, was a no-brainer of an investment, given the credit quality of MDBs. The reality was far more complicated with matters of structuring, pricing, timing and audience to be resolved — not to mention how to execute such an unprecedented trade.

Certainly, the deal drew criticism — over whether other issuers should pay as much for similar capital and whether it was launched into the best window. Indeed, the bond would win no prizes for how it went on to trade in the secondary market and no other MDB has followed.

But none of that can detract from just how innovative this deal was. Indeed, first forays by other SSA issuers in now well-established products also drew criticism. But the AfDB established a market and there is talk of further deals in the first quarter of 2025. If an MDB brings another, it will owe thanks to the lessons offered by the AfDB.

Sovereign Bond of the Year

Belgium

\$1.25bn 4.875% June 2055

Morgan Stanley

It was a deal that no one saw coming, but one that everyone would have loved to have been involved in.

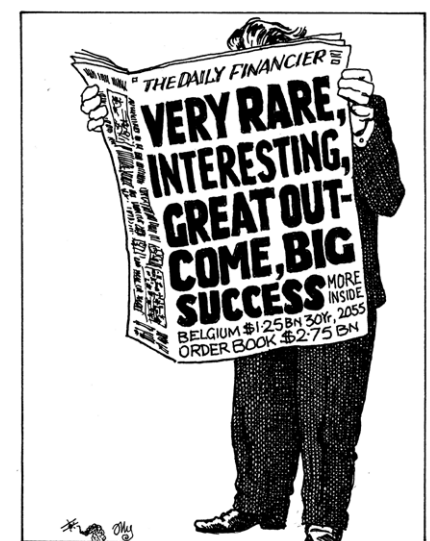
The transaction was rare, to say the least. Belgium had never issued 30 year dollar bonds before. In fact, no other semi-core sovereign had printed a dollar bond of this maturity this century; the last such deal came almost 30 years ago in 1996.

Belgium had also not issued in dollars for more than three years.

That all changed when Morgan Stanley found a bid at the long end of the curve — and at much longer than 10 years, where dollar demand often stops. Belgium demonstrated flexibility to hit that bid quickly.

What may have started with a reverse enquiry became an order book that was twice the deal size during a public bookbuild with 45 accounts involved. The bond brought the issuer investor diversification at a saving versus euro funding.

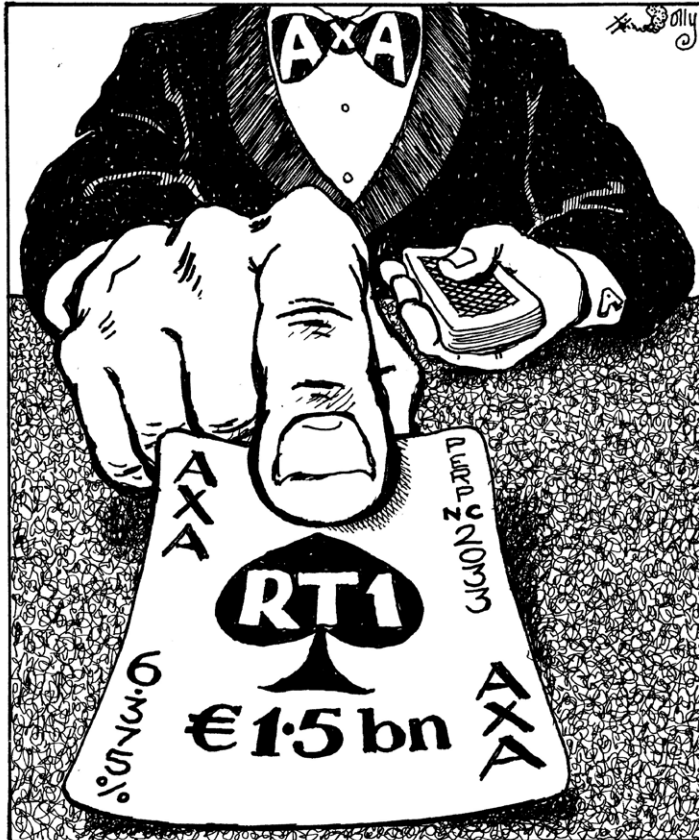
The original thinking and swift reaction resulted in a transaction that drew praise from across the Street with market participants calling it “the best deal this year without a doubt” and even “deal of the decade”.



Belgium plaudits—no waffle.

Giving 'em what they want

The higher the yield, the hotter the bid — or at least that is how it appeared for most of the year in the financial institution bond market. Investors latched on to the Greek FIG revival, duration and regulatory capital in a bid to boost their returns, which some issuers exploited deftly



One of a kind!
The deal of a lifetime, AXA's RT1 debut.

Financial Institution ESG Bond of the Year

Nordea Bank

€750m 4.125% May 2035 non-call May 2030 tier two green bond

Citi, Deutsche Bank, Goldman Sachs, JP Morgan, Nordea

Nordea has long been at the forefront of issuing debt tied to the funding of environmental, social, and governance (ESG) projects as well as bonds linked to the sustainability targets of the corporates it lends to.

Its appearance in May with a green tier two put to rest some doubters' questions around banks earmarking their capital for direct ESG financing. The deal fortified Nordea's aim to green its tier two capital layer and drove broader acceptance of ESG-labelled bank capital.

The deal extended the maturity of Nordea's tier two debt and was €250m bigger than its first version of such a deal, which it priced in 2023. The ESG label was a magnet that attracted orders, allowing the issuer to tighten pricing to below what had become a psychological barrier of mid-swaps plus 150bp.

The reoffer spread of 135bp was 50bp below where the inaugural trade had been sold. It became the joint-tightest euro FIG tier two deal since 2021, with a reoffer level unsurpassed even later in the year when spreads tightened further.

Additional Tier One Bond of the Year

Axa

€1.5bn 6.375% perpetual non-call January 2033 restricted tier one

Global coordinators: Citi, HSBC

Lead managers: Bank of America, BNP Paribas, Citi, Crédit Agricole, HSBC, JP Morgan

Axa made its debut in restricted tier one (RT1) in January when demand for higher yielding subordinated FIG debt was far from satisfied. That meant there was also a swathe of competing supply in the market, including a further €2bn of subordinated FIG debt on the day Axa was in the market.

But Axa's novelty appeal commanded investor attention. The insurer lured an €8bn order book in what was described as a "once in a lifetime opportunity" to buy RT1 from the company by a banker away from the deal.

Fair value may have been a theoretical construct in this case, but pricing still came through where market participants thought it should have been. Moreover, the deal served as a benchmark for the flock of RT1s that followed later in the year, guiding a host of credits from across Europe to successful issues of their own.

Tier Two Bond of the Year

Piraeus Bank

€650m 5.375% September 2035 non-call September 2030

Barclays, Deutsche Bank, Goldman Sachs, Morgan Stanley, Nomura, UBS

This year marked the point at which once weaker southern European banks became some of the most desired credits in investors' portfolios, with Greece and its lenders returning to investment grade status.

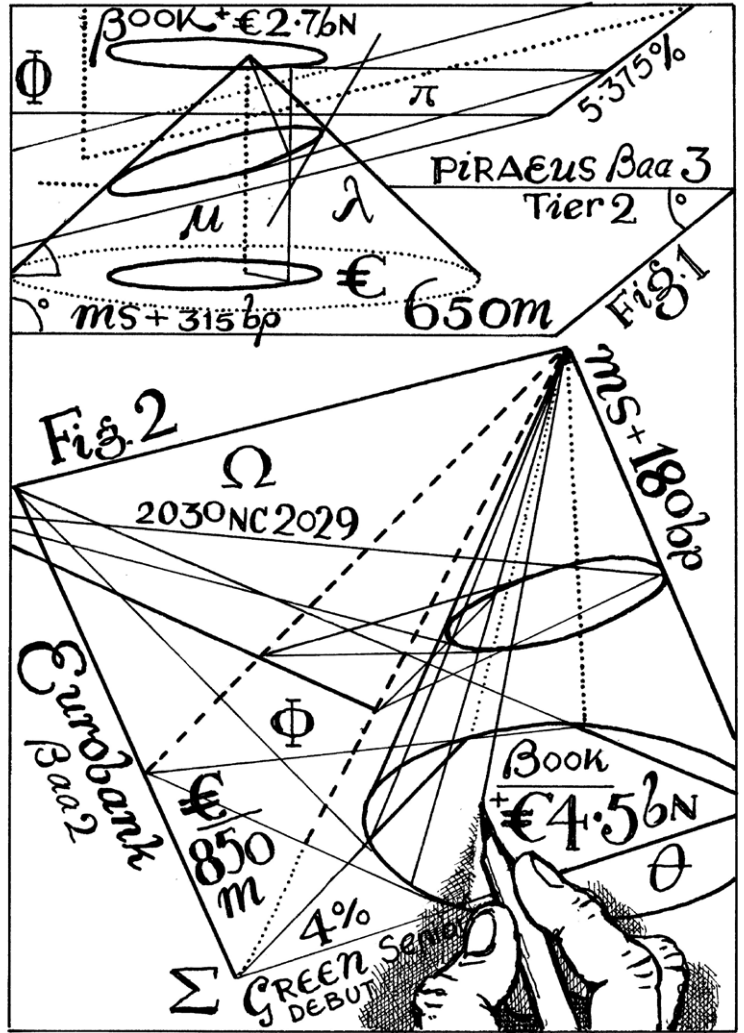
Major global banks may have done bigger tier two deals this year from larger order books, but this deal exemplified a remarkable return to the bond market for the Greek banking sector.

Piraeus Bank's September deal captured strong bids for bank capital and for the higher yields that southern European banks could pay.

But it was more than just a strong syndication. On the back of Greek bond performance in the secondary market, Piraeus brought the largest capital deal from the country's banks, showing how the investor base had grown. This was further exemplified by the deal being priced against mid-swaps rather than on a yield basis like earlier Greek bank bonds.

Piraeus's success helped compatriot Eurobank break the size record for Greek banks in the senior market a week later and set the tone for National Bank of Greece to issue another chunky green senior bond in November.

Amazing FIGures from Eurobank and Piraeus ; - investors do the math.



QED - proving the theory of banking convergence.

Senior Euro Bond of the Year

Morgan Stanley

€1.5bn March 2027 non-call March 2026 FRN
 €1.5bn 3.79% March 2030 non-call March 2029
 €2bn 3.955% March 2035 non-call March 2034

Morgan Stanley

Major US banks have not shied away from doing size in foreign bond markets this year and Morgan Stanley showed its prowess in Europe when it raised €5bn in one fell swoop in March.

The Reverse Yankee was the largest FIG new issue in euros of 2024, combining three different selling points to sway investors. Morgan Stanley, appearing on the same day as JP Morgan priced a €2bn 10 year non-call nine deal, drummed up orders across curve in typical US style by paying a new issue premium to guarantee smooth execution.

The 11 year non-call 10 tranche tapped into the bid for duration and was the most oversubscribed slice of the three, amassing €5.5bn of orders.

Short-dated floaters were another hot product in 2024 as investors swarmed around them. Morgan Stanley spearheaded the charge into that part of the market where Citi and US Bancorp followed in May, JP Morgan in June and Wells Fargo in July.

Bravery and ambition shine through

Investment grade companies had one overarching bond market strategy this year: get everything done before November's US election. The poll may have passed smoothly, but it was preceded by a market where borrowers were willing to take risks and push for ambitious deals. *GlobalCapital* recognises below the issuers that exemplified that courage and determination.



Corporate Deal of the Year

Merck & Co

€850m 3.25% May 2032
 €850m 3.5% May 2037
 €850m May 2044
 €850m 3.75% May 2054

BNP Paribas, Deutsche Bank, Citi

Fixed income investors were desperate to buy long-dated bonds this year to lock in high yields before central banks started cutting interest rates.

Some companies went to 15 and 20 years, but investors wanted more. US pharmaceutical company Merck & Co dared to head all the way to 30 years, pricing one of only a handful of corporate bonds ever at that maturity in euros.

The deal was a roaring success, with the issuer's eight to 30 year curve flattening during bookbuilding as investors piled into the long tranche. Other borrowers took notice, with three more following the path Merck & Co forged with 30 year bonds of their own. But Merck & Co did it first and, for that reason, it is *GlobalCapital's* Corporate Deal of the Year.

Dollar Corporate Bond of the Year

Cisco Systems Inc

\$1bn 4.9% February 2026
 \$2bn 4.8% February 2027
 \$2.5bn 4.85% February 2029
 \$2.5bn 4.95% February 2031
 \$2.5bn 5.05% February 2034
 \$2bn 5.3% February 2054
 \$1bn 5.35% February 2064

Bank of America, Barclays, BNP Paribas, Citi, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, Wells Fargo

Cisco Systems knew it had a lot of funding to do to fund the biggest acquisition in its history — the \$28bn purchase of enterprise software company Splunk.

Cisco was sitting on \$25.7bn of cash on its balance sheet in February and the acquisition was not expected to complete until at least the third quarter of 2024.

But Cisco judged the conditions early in the year to be strong enough for a big bond issue and grabbed the market with both hands, drumming up \$54bn of demand for its \$13.5bn deal.

Cisco proved that an acquisitive company can also be as nimble and quick off the blocks as the most opportunistic bond market users.

This is a rarity for jumbo deals, which can take weeks of planning. Cisco's feat demonstrates a company that knows the dollar bond market inside out can use it for maximum advantage, even for event-driven, one-off situations.

Hybrid Bond of the Year

Alstom €750m 5.868% perpetual non-call August 2029

Bank of America, BNP Paribas, Citi, HSBC, Natixis, SMBC, UniCredit

French rolling stock company Alstom knew it had to deleverage to maintain its investment grade rating, but it also still needed money to refinance short-dated debt.

The company announced a €2bn deleveraging plan after issuing a profit warning in October 2023 and its debut hybrid bond in May 2024 was widely seen as the first major test of whether fixed income investors thought it could succeed.

It was a make-or-break deal for Alstom's deleveraging ambitions, with a major rights issue following.

The hybrid sale was a roaring success. The company drummed up a massive €8bn book for the €750m trade, allowing Alstom to cut the yield on offer by 87.5bp during bookbuilding.

Everything went right at a crucial time in the company's turnaround, with the issuer deftly using the hybrid market for the exact reason it was created — to access capital while defending a credit rating.

Corporate ESG Bond of the Year

Electricité de France

€1bn 4.125% June 2031 green
 €750m 4.375% June 2036 green
 €1.25bn 4.75% June 2044 green

BBVA, BNP Paribas, Crédit Agricole, IMI-Intesa Sanpaolo, ING, Natixis, UniCredit

In a year of elections, France's snap parliamentary poll over the summer did the most to upset markets.

Two days after president Emmanuel Macron called the election, Electricité de France surprised the market by opening books on a triple tranche green deal. This was at a time when all European corporate bonds were being treated as delicacies that needed careful handling, let alone one from a French issuer.

The company electrified the market with more than €12bn of demand coming in for its €3bn deal. The shortest tranche was earmarked for nuclear spending, giving a tacit endorsement to one side of the fiercest debates in ESG funding — whether nuclear energy can be classed a green.

The company paid a chunky concession to get the deal away, but that was beside the point. EDF proved without doubt that, no matter the political shocks, investors would pile in to buy its green debt.

Sterling Corporate Bond of the Year

Hammerson

£400m 5.875% October 2036

Barclays, BNP Paribas, Lloyds, Mizuho

Hammerson, the UK shopping centre company that owns the Birmingham Bullring, had a tough time during the Covid lockdowns. But a new management team led by chief executive officer Rita-Rose Gagné helped the company turn its fortunes around with asset disposals to address deep losses.

It had not sold a bond since 2015 when it opened books on what was to become a £400m 5.875% October 2036 deal.

The turnaround tale impressed investors. The order books brimmed with £2.4bn of demand, one of the largest of the year in sterling.

This allowed Hammerson to hack at the spread, which it tightened by 32bp during bookbuilding to land at 183bp over Gilts — a minus 7bp new issue concession.

As well as the impressive recovery story, Hammerson shrewdly held a tender offer on old bonds and set the maximum acceptance offer on the new deal at £400m to remain debt neutral. This proved to investors that Hammerson had a tight rein on its debt.

The deal went far beyond anyone's expectations and marked a triumphant milestone in Hammerson's recovery from Covid.

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The best of a fine vintage

The CEEMEA primary market turned a corner in 2024 after two dreadful years. Hopes of interest rate cuts fuelled demand, with investors wanting to lock in high coupons while they could. Market access returned for all but a few and although most deals went very well, some stood out more than others.



MIDDLE EAST BOND OF THE YEAR

Saudi Aramco

\$2bn 5.25% July 2034
\$2bn 5.75% July 2054
\$2bn 5.875% July 2064

Active bookrunners: Citi, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, SNB Capital

Passive Bookrunners: Abu Dhabi Commercial Bank, ANB Capital, Bank of America, Bank of China, BSF Capital, Emirates NBD, First Abu Dhabi Bank, GIB Capital, Mizuho, MUFG, Natixis, Riyadh Capital, SMBC, Standard Chartered.

Saudi Aramco built a giant order book in July for its \$6bn triple tranche, peaking at \$31bn before settling at \$23bn at reoffer, which the leads used to print a deal with almost no new issue concession.

Despite the tranche sizes being twice as big as some investors had anticipated, there was big spread tightening during bookbuilding: 35bp on the 2034s and 2054s, and 40bp on the 2064s.

Demand for the bonds was such that even going bigger and tighter did not stop each of the tranches trading at reoffer or higher the day after pricing — an incredible result for Aramco's first deal since a sukuk in 2021 and its first new bond issue since 2020.

CEEMEA CORPORATE BOND OF THE YEAR

Air Baltic

€340m 14.5% August 2029

BNP Paribas, Citi, JP Morgan, Morgan Stanley, SEB

Air Baltic's bond, which was sold in May, was one of the most challenging of the year to print. The spread on the note of 1,213bp over Bunds was the widest spread ever for a CEE corporate deal.

It was Air Baltic's second attempt at printing the note, having previously tried in September 2023. The company had switched up its bank group since then and the final note was the result of a marketing effort that the leads described as "extensive".

They pulled off a feat in positioning the paper as a short-term liquidity measure put in place as the company prepares to do an IPO and structured the deal as such, with a call date after two years.

The deal could be described as a blow-out — the final book was only \$800m and the final yield of 14.5% was sky high. But it was printed at a time when appetite for EM high yield finally looked to be returning and was sold against the odds as a recovery story after the company had struggled through both the Covid pandemic and the Russia-Ukraine war.

CEE BOND OF THE YEAR

Republic of Poland

\$1.5bn 4.625% March 2029
\$3bn 5.125% September 2034
\$3.5bn 5.5% March 2054

Citi, JP Morgan, Deutsche Bank, Santander

Poland started the year set to be one of the largest EM sovereign issuers of 2024. The government had budgeted to issue just over €14bn-equivalent of bonds, over 50% more than in 2023, with much of that driven by \$8bn of Eurobond redemptions coming due.

But with one huge outing in March of \$8bn across three tranches, the sovereign relieved the pressure on its curve that it may have otherwise felt later in the year as investors waited for chunky deals to come. In January, it had already printed a dual tranche, raising €3.75bn.

The triple tranche in March was the most a CEE sovereign has ever raised in one go, beating \$7bn from the Russian Federation in 2012. Poland picked a good window and moved fast. Priced intra-day, the bonds offered just 5bp-10bp of new issue premium on each tranche.

AFRICA DEAL OF THE YEAR

Republic of Benin

\$750m 7.96% February 2038

Citi, JP Morgan, Société Générale

The return of African sovereigns to the primary market in 2024 was a welcome sight. Benin was the second to issue after Ivory Coast — which deserves an honourable mention for reopening African sovereign market after a gap of two years.

Benin's trade was strong on many counts. The issuer tightened the yield from high 8% area to 8.375% and at \$4bn the deal was many times subscribed.

But the most impressive aspect was that the bond was priced inside Ivory Coast's trade, despite being lower rated and the country having a much smaller economy. Emerging market fund managers had predicted it would offer some premium to its better rated peer.

As the issuer's first dollar bond, it became a must-buy for index followers, boosting demand. "Fabulous" was how one EM syndicate banker, who did not work on the deal, described Benin's achievement.

The issuer also won plaudits for its roadshow and was described as one of the best presenters in Africa. Those slick slide decks paid off handsomely.

CEEMEA SOVEREIGN BOND OF THE YEAR

Emirate of Abu Dhabi

\$1.75bn 4.875% April 2029

\$1.5bn 5% April 2034

\$1.75bn 5.5% April 2054

Abu Dhabi Commercial Bank, Citi, First Abu Dhabi Bank, HSBC, JP Morgan, Morgan Stanley, Standard Chartered

Abu Dhabi returned to the bond market in April, taking \$5bn over three tranches. The book hit \$23bn at one point, closing at \$18bn.

The issuer paid a negative new issue premium — remarkable on such a big trade — in what was a very busy primary market.

But perhaps the most remarkable features were the spreads it paid. At 35bp and 45bp over US Treasuries, Abu Dhabi sold its five and 10 year tranches at the tightest spreads ever for an emerging market sovereign at those tenors.

Not only were those spreads tight but the issuer came through its own curve.

Some records do not last long. Just a month later, Qatar landed five and 10 year tranches 5bp inside Abu Dhabi. However, Abu Dhabi's order book suffered only \$5bn of attrition during execution, whereas Qatar had lost nearly half its peak orders of \$13bn by the time it priced.

CEEMEA ISLAMIC DEAL OF THE YEAR

Turkey Wealth Fund

\$750m 6.95% January 2030 sukuk

Bank ABC, BBVA, Bank of America, Dubai Islamic Bank, Emirates NBD, First Abu Dhabi Bank, ING, JP Morgan, KFH Capital, Société Générale, Sharjah Islamic Bank, Standard Chartered

Turkey Wealth Fund, the country's sovereign wealth fund, was a new entrant to the sukuk and bond markets in 2024. It proved to be popular in both, but it made new ground by offering the first ever sukuk from Turkey that was not from either the sovereign or one of the country's Islamic banks.

Turkey's banks and corporates had issued heavily all year, but they were all bonds. TWF offered something investors had not had from Turkey for a long time and this showed in execution of the trade in October.

TWF's book was nearly 10 times the deal size and it was able to tighten pricing by well over 50bp from the initial level.

It also landed well inside its own bond curve, one of the key measures of success of a sukuk.

Further, demand for TWF's sukuk debut did not stop after the day of execution. It rose a point in secondary trading the following day.

CEEMEA FINANCIAL INSTITUTION DEAL OF THE YEAR

Akbank

\$600m 9.369% perpetual non-call 5.25 year AT1

Citi, Abu Dhabi Commercial Bank, Emirates NBD, JP Morgan, MUFG, Standard Chartered

In March, Akbank was rewarded for its bravery with a \$3.7bn book when it printed the first AT1 bond from Turkey in five years — also making it the first AT1 from a Turkish bank since the Credit Suisse write-down of its AT1s in 2023, which temporarily shuttered the market.

The Akbank note was sold at a yield of 9.375% after a thorough price discovery process, a level that was well inside the mid to high 9% area that some investors had indicated would be fair.

Akbank's deal opened the floodgates for similar capital bonds from other Turkish banks, all of which were looking for capital after two years of extreme volatility and inflation in Turkey.

Although some later argued that pricing had been pushed too far because of a small sell-off in the immediate secondary market, the Akbank AT1 looked to be finishing the year at a cash price around 102, having been printed at par after an astonishing performance from Turkey more broadly in the capital markets.

Supply to be the name of the game for SSAs in 2025

Spread stabilisation holds the key for issuers looking to unlock funding from January onwards as the ‘perfect storm’ brews, writes **Addison Gong**

Sovereign, supranational and agency bond issuers — with a few exceptions — may have sailed through most of 2024 but found their market was on ever shakier foundations as the end of the year approached. Unprecedented swap spread moves have dragged SSA bond spreads in euros wider. Market participants insist that issuers should remain pragmatic as they embark on a challenging funding journey in 2025.

In *GlobalCapital's* market outlook survey of SSA bond bankers, 58% of respondents thought the SSA market faces the challenge of absorbing an even higher volume of issuance in 2025 than 2024, in

which supply was already heavy. In euro benchmarks alone, as of November 11, issuers had raised 22% more in volume terms than they managed in the same period in 2023.

For 2025, 31% of respondents predict overall issuance volume will increase by more than 10%, while the same amount think volumes will be about the same as this year.

Moreover, the market will be contending with the absence of the European Central Bank — through quantitative tightening (QT) — from the bond market as a large investor. Reinvestments made under the bank’s Asset Purchase Programme stopped in July 2023 and it plans to do the same for its

Pandemic Emergency Purchase Programme (Pepp) from January 2025.

Supply pressure, including from the quicker pace of QT, also topped survey respondents’ concerns of what could disrupt the SSA market in 2025 (23.4%). Political uncertainty (22%) and geopolitical conflict (22%) were seen as the other biggest disruptors.

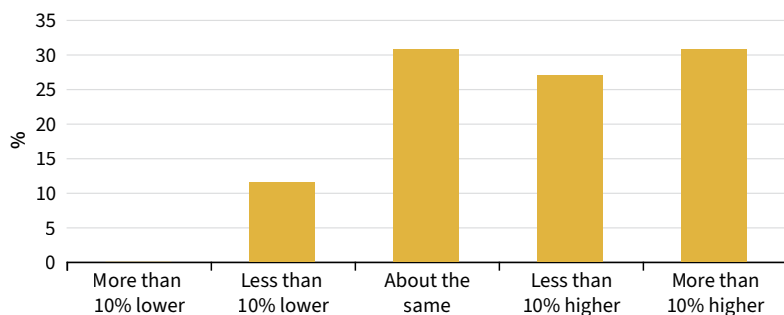
“Supply is the headline for next year and it will have a big impact on the market and the tone,” says Kerr Finlayson, head of frequent borrowers’ group syndicate at NatWest Markets.

“The volumes will come from the sovereign side mostly, as supranational and agency borrowers will be more or less flat to this year, or up only slightly, but the EU potentially has more to do,” he adds. “In any case, we won’t be starved for bond issuance next year, with QT in play as well.”

The EU has previously said its bond issuance programme will grow from this year’s record €140bn to €150bn-€160bn in both 2025 and 2026.

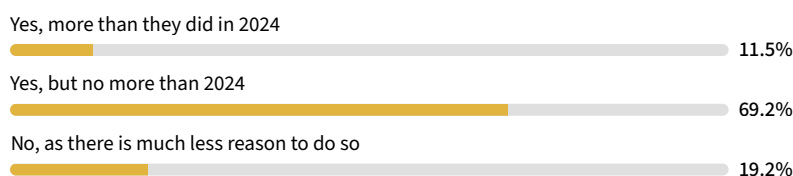
The issuer has run an active campaign this year and last to be considered as a sovereign — or at least sovereign-like — issuer instead of as a supranational. In *GlobalCapital's* survey however, 73% of the respondents said they still view it as a hybrid of the two and 19% see it as a supranational. Only 8% consider the EU a sovereign issuer.

How will overall SSA issuance volume change in 2025 compared to 2024?



Source: *GlobalCapital*

Almost all SSAs benefitted from front-loading of issuance in 2024. Will they be incentivised to do the same in 2025?



Source: *GlobalCapital*

Fierce competition, again

Although gross supply from SSAs is expected to remain unchanged, with the higher net supply due to QT, “there is still a lot of supply to be managed,” says Ioannis Rallis, head of SSA debt capital markets at JP Morgan.

“Borrowers will probably continue to front load,” he adds, “but the extent of it depends on how things develop over the next few

weeks and how the beginning of next year looks in terms of demand and levels.

“There’s going to be competition for the best [issuance] windows, which was already fierce this year. The other question is how issuers would structure their funding given where spreads are.”

Most other market participants speaking to *GlobalCapital* also expect active front-loading to continue serve as a main driver of SSA issuer behaviour. About 76% of the 2024’s euro and dollar benchmark volume up until November 11 was printed in the first seven months of the year, according to *GlobalCapital’s Primary Market Monitor*.

Survey respondents also chose “Finding the right window and dealing with competing supply” (33%) and “front-loading as much as possible” (11%) as top priorities for SSA issuers in 2025.

“There’s a lot of expected supply next year and the free float of bonds out there is unlikely to change,” says Ben Adubi, head of SSA syndicate and DCM at Morgan Stanley. “With the impact of Germany’s election call and the administration in the US changing, a lot is coming back on the menu for European issuers issuing in dollars.

“Issuers who raced ahead and finished their funding earlier than usual were the champions this year and I can’t see much changing next year given how challenging market dynamics could turn out to be.”

A senior origination banker in London thinks different groups of issuers will plan according to what is going on in their own countries or be guided by their overall volume needs in 2025. “It depends on the issuer,” he says. “If you have a big programme to fund, you’ve got to be in the market every month so there needs to be a balance to it. If you’re more sectoral, or a French agency, it probably makes sense to see how spreads develop in the first few weeks of the year. A German issuer will want to be cognizant that an election is coming.

“It won’t be that everyone’s got to hit the markets in January. This year was very different because of the protracted US election cycle and the expectation that markets would probably close up before that, but on balance people probably pre-funded a bit too quickly this year.”

One school of thought is that the extra supply will drive higher returns for investors. “Yields should move to anticipate that supply,” says Finlayson. “Spreads should widen into the year end and we’ll start the year wide — wider than where we are now — and they will stay elevated in the early part of the year.

“With the continued trend of tighter swap spreads, there has to be some repricing, particularly with the end of Pepp redemptions on top of sovereign borrowing programmes.

“Swap spreads narrowing is clearly the big theme that we have to watch out for next year.”

Wider still and wider

The supply expectation and swap spread tightening may have an impact on how issuers look to structure their funding. “Some borrowers typically like to take a view on spreads and with spreads historically wide, they may conclude that they are more likely to tighten over the course of the year,” says Rallis. “If that is the thinking, then some of the more expensive projects — the long-term projects — will probably be held off until later in the year. Others may think of the current levels as the new norm so they may act differently.

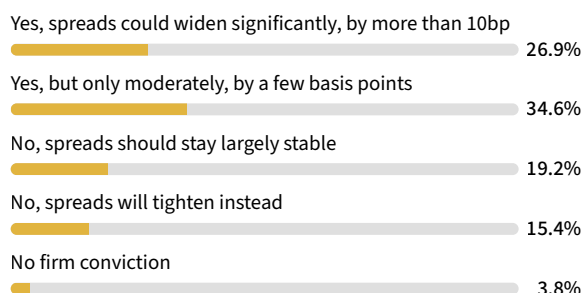
“Personally, even though we are at the wide end historically, it’s difficult to have strong convictions about if and when we move tighter, as many the fundamental drivers seem here to stay.”

Swap spread narrowing has been rapid in the weeks before this report went to press. On November 6, after the collapse of the German three-party coalition government, 10 year Bund yields surpassed 10 year euro interest rate swaps, turning the Bund-swap spread negative for the first time.

That followed weeks of tightening for the Bund-swap spread, which drove widening in euro SSA bond spreads versus swaps. For example, the bonds of the EU, EIB and KfW had all widened 25bp-30bp at the 10 year part of the curve as of November 8 from where they were three months before.

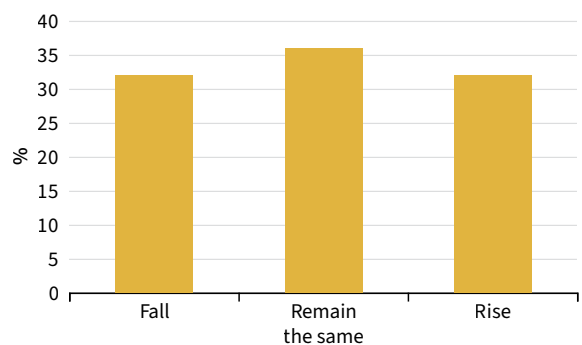
Many in the market were hoping for some stability in the last few weeks of 2024. “A move [of spreads] of this speed and magnitude hasn’t been seen for at least the past decade, so some may argue that the moves are overdone

Will SSA spreads in euros continue to widen against swaps in 2025?



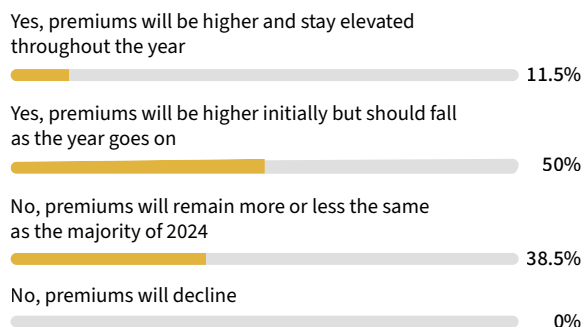
Source: GlobalCapital

What will happen to the average spread of euro SSA bonds to Bunds in 2025?



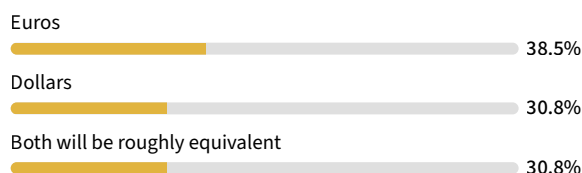
Source: GlobalCapital

Will issuers have to pay a higher new issue premium in 2025 than in 2024?



Source: GlobalCapital

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



Source: GlobalCapital

and given the time of the year, there could be some stabilisation in the next six weeks, in some way, shape or form,” says Adubi. “If that does happen, then there are reasons to be more positive again in January.”

More than a quarter (27%) of survey respondents — with results collected in early November and before the latest leg of SSA spread widening — expect euro SSA spreads could widen by more than 10bp in 2025, while 35% anticipate a slight widening of just a few basis points. Meanwhile, 19% thought spreads should stay largely stable.

In terms of SSA spreads versus Bunds, there was no clear consensus. The biggest group of respondents (36%) expect them to tighten but 32% think they will widen. The other 32% think they will remain the same.

Where is fair?

The euro market had been supportive for SSA issuance for most of 2024, even when volatility rose during the surprise French parliamentary elections in June and July. But the recent swap spread gyrations and its effect on SSA spreads have left a sense of unease among market participants as they look ahead to 2025.

“There are reasons to feel nervous around January at this point, not so much on the large, liquid issuers like KfW, but on the smaller SSAs,” says Florian Eichert, head of covered bond and SSA research at Crédit Agricole.

“Many are trading 10bp through the large names, so it’s hard to imagine anyone would want to come out with 15bp of new issue premium versus their own curves. For the SSA market, this also has an implication on whether some issuers would want to do more dollar funding, not so much because of the cross-currency arbitrage but more from the execution risk perspective.”

Finlayson thinks that while the amount of new issue concession paid by issuers and the classic approach of starting bookbuilding 3bp-4bp back off fair value might not change in 2025, the key question is finding fair value.

“What we’ve seen this year was a break away from building fair value from an issuer’s curve, as liquidity became even more important,” he says. “So we are shifting away from

looking at fair value on a micro basis to a more macro basis, with more focus on spreads to EU and France, for example.

“It also means that there is potential for investors’ views on fair value to be much broader than what we are used to.”

But there should be ample demand for SSA bonds next year, as long as spreads are able to find some footing. “Demand for SSAs in 2025 is of course affected by when spreads stabilise and at what level,” says Eichert. “For as long as they don’t, the market will have a very limited capacity to absorb even small volumes.

“And that’s the case not just for [liquid issuers like] the EU but for other SSAs, because investors need to have some confidence that spreads will not move another 15bp-20bp in the next 10 days. Once swap spreads stabilise, demand also for SSAs won’t be an issue.”

Dollars on the menu

Adubi thinks that while the euro market felt softer as of early November, “it does put dollars back on the table across the curve for supras and agencies”.

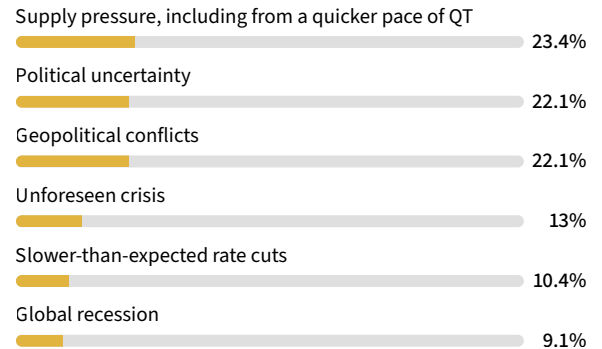
A second origination banker in London notes that while dollar bond spreads have been relatively stable for SSAs, “the only concern we have is on the unbelievably tight spreads to US Treasuries.

“The sell-off has helped with higher rates attracting more absolute yield buyers,” he adds, “and the [asset-liability management] investors are still buying as it’s still quite attractive on a swap basis. We don’t see dollar SSA spreads cheapening too much, but that’s not to say the underlying market won’t change significantly.”

Only 23% of those surveyed believe dollar SSA spreads could tighten even further against US Treasuries in 2025. The rest of the market thinks spreads should either widen (39%) or hold steady (39%).

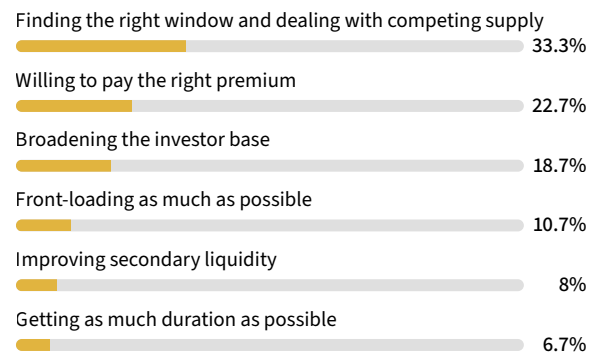
Before the latest euro market turmoil caused by the unexpected and rapid tightening of swap spreads, some 39% of respondents thought that the euro market should provide a more reliable funding source for SSAs that have access to both markets. About 31% thought dollars could be more reliable, while another 31% put an equal weight on both markets. GC

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



Source: GlobalCapital

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



Source: GlobalCapital

Why the moves?

The key dynamic in the SSA bond market heading into 2025 is the movement between swap rates and Bunds, which recently turned negative for the first time ever, as Bund yields rose higher than swaps.

The move anticipates inflationary deficit spending in the US under president-elect Donald Trump and the likelihood that European government deficits may also rise as they tackle lower growth and higher defence spending.

But it is not just fundamental factors that have driven the market. Technical matters have been in play too. The expiration of ECB liquidity schemes such as its Targeted Longer Term Refinancing Operations and QT have increased the volume of government bonds in circulation. The excess pushed up repo rates, which has had a knock-on effect on swap spreads.

In the swap market, banks have been on the end of more receiving flows in longer-dated euro swaps, pushing down those rates compared to government bond yields.

Rallis of JP Morgan says the market believes that spreads need to widen and curves need to steepen in order for investors to digest next year’s net supply, which thanks to QT could be larger than in 2024.

“All of these are really coming together, creating a perfect storm, meaning higher funding costs for issuers going into next year,” he says.

SSAs make front-loading pay off to raise more while paying lower premia

The public sector bond market has had a lot to digest — more than \$900bn of benchmark issuance — in 2024 and endured a turbulent second half. But key metrics tracked by *GlobalCapital's Primary Market Monitor* suggest it has been a strong year for deal execution, writes [Addison Gong](#)

Even though SSA issuers priced more benchmarks this year than last and in greater volume, they commanded more pricing power than the previous year.

In the year to November 11, sovereign, sub-sovereign, supranational and agency (SSA) issuers raised more than \$900bn-equivalent through syndicated benchmarks across euros, dollars and sterling, according to data from *GlobalCapital's Primary Market Monitor*.

The volume represented a 22% year-on-year increase, with the number of bonds sold rising by 19%.

The average size of a benchmark was also up on last year at \$1.98bn-equivalent, from \$1.93bn in the same period in 2023.

Meanwhile, issuers tightened the spread on their benchmarks during bookbuilding on average by 1.96bp this year, up from 1.89bp during the same period last year.

The average new issue premium (NIP) paid fell by 0.7bp to 1.5bp.

In line with this, deals were better covered in 2024, with order books an average of 4.2 times deal size versus 3.7 times in 2023.

As swap spreads tightened, the spreads SSA issuers paid widened versus swaps but compressed against government bond benchmarks.

The average swap spread was 33bp across euros, dollars and sterling in 2024, versus 26bp in the same spell in 2023. Over the same period, the average govvie spread dropped to just over 38bp from 51bp.

Euros shifted

Most SSA benchmark volume this year came from the euro market, with nearly €526bn priced — a 21.6% jump year-on-year.

The average size, tenor and spread tightening during execution in the euro market this year was similar to 2023, at around €1.95bn, 10.2 years and 2bp, respectively. The bid-to-cover ratio improved to five times from 4.6 times a year ago, and the average NIP paid fell to 1.7bp from 2.4bp.

The average spread to mid-swaps for euro SSA new issues almost doubled, however, to 25bp from just 12bp in 2023. Meanwhile, the average spread to Bunds declined to 56bp from 72bp.

Front-loading was a theme this year, too. SSA issuers did 77% of their benchmark volume in the first seven months of the year to November 11.

Those bonds issued earlier in the year were supported by buoyant market conditions. The average size of a euro benchmark in this period was €2bn versus €1.83bn between August and November 11.

The average tenor was also longer at 10.7 years versus 8.6 years from August onwards and demand was higher too. Benchmarks were 5.1 times subscribed on average, as opposed to 4.5 times from August. Issuers were able to move pricing during syndication by an average of 2.1bp before August but only 1.7bp on average from August.

Dollars, sterling stable

The dollar market proved attractive for many SSAs as, overall, they funded 19% more through dollar benchmarks compared to the same period in 2023.

The average deal size reduced to \$1.89bn from \$1.92bn year on year, but issuers were able to fund for 0.4 years longer on average.

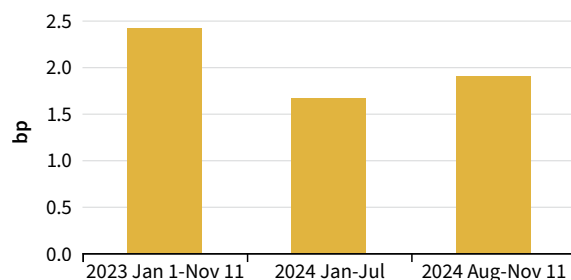
This year's dollar SSA bonds were

also better covered at 3.3 times deal size versus last year's average of 2.3 times. As a result, issuers were able to tighten by 2.5bp during bookbuilding this year, up from 2.3bp in the same period in 2023.

That demand also helped SSA issuers pay lower NIPs on average — 1.1bp this year, nearly a full basis point lower than in 2023.

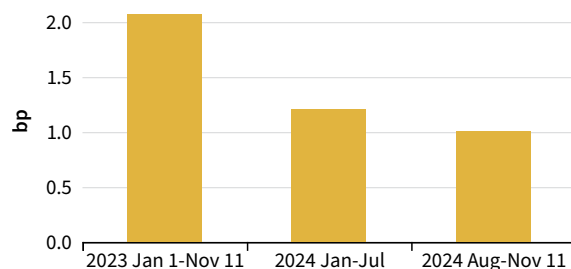
The average spread to swaps was also steadier compared to those in euros, rising only 1bp from a year ago to 47.2bp. Meanwhile, spreads to US Treasuries compressed to an average of 22.5bp from 29.1bp. [GC](#)

SSA euro benchmark average new issue premium



Source: *GlobalCapital's Primary Market Monitor*

SSA dollar benchmark average new issue premium



Source: *GlobalCapital's Primary Market Monitor*

ICO'S SOCIAL AND GREEN BONDS

Bridging a responsible tomorrow



Investing in ICO's social and green bonds provides an opportunity to participate in the consolidation of the Spanish economy towards a more sustainable growth model.

ICO is committed to the development of the sustainable finance market and has been a pioneer in this market in Spain, gaining extensive experience and providing confidence and attractive returns to its investors.

Giving credit the social and green impact



Instituto de Crédito Oficial
The Kingdom of Spain's
Financial Agency

Execution dexterity in times of uncertainty

Political and economic uncertainty, quantitative tightening and new supply expectations weighed on the SSA sector in 2024, pushing spreads wider versus swaps throughout much of the year. With Donald Trump returning to the White House and questions over France and Germany's political and economic direction, the coming year is unlikely to be smooth sailing for SSA issuers. To discuss the main trends and developments this year and their expectations for 2025, *GlobalCapital* convened a roundtable of leading SSA borrowers and an investor involved in this critical market

GlobalCapital: SSA bond spreads have widened all year and there seems little on the horizon that will reverse that trend, especially with the political situation in Germany developing as it is and the rates picture in euros. How will this trend alter your approach to issuing debt in the year ahead?

Christian Engelen, European Commission:

We have all observed very clearly what is happening in the market, but we are trying to keep a very regular transaction schedule and are not so much adapting to the external environment. Given the amounts we have to issue and the regularity with which we are in the market, I don't think that we can be in any way opportunistic in light of certain interest rate developments. We have to issue throughout the whole cycle and that is what we are doing.

As usual we plan our operations in six monthly cycles and then implement that with a very regular calendar. So there is an interest in interest rate developments, particularly around swap spreads, but there is only limited adaptation by us in that regard.

Jörg Graupner, KfW: As a German issuer, I would highlight that the reason for the swap spread tightening, combined with the SSA widening, has less to do with the political situation in Germany — the market reaction after the end of the coalition was very limited. The swap spread tightening is more driven by QT and the anticipation of net supply that we potentially could expect next year.

We may see higher volatility as soon as we move closer to the election here in Germany in February, but the main drivers of the widening have been QT and the overall net supply expectations.

As for our approach to funding, it is partly similar to the European Union's. We are coming very frequently into the market but without a public calendar. We will maintain a flexible approach when we come to market next year.

Richard van Blerk, EIB: We don't plan any changes to our funding strategy next year. Even in the best of times, the EIB funding programme is too large to consider the timing of benchmark issues a viable option. On top of that, we

Roundtable participants



Rui Amaral

Board member, Treasury and Debt Management Agency, Portugal (IGCP)

Karol Czarnecki

Director, public debt department, Ministry of Finance, Poland



Francis Dassyras

Team lead – funding, European Stability Mechanism

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, treasury, KfW



Ales Koutny

Head of international rates, Vanguard

Maric Post

Director, treasury and capital markets, Belgian Debt Agency

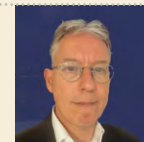


Patrick Seifert

Managing director – head of primary markets and global syndicate, LBBW

Richard van Blerk

Deputy head of benchmark funding, European Investment Bank



**Moderator
Ralph Sinclair**

London bureau chief, *GlobalCapital*

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“We may see higher volatility as soon as we move closer to the election here in Germany in February, but the main drivers of the widening have been QT and the overall net supply expectations”

Jörg Graupner, KfW



don't have a crystal ball that could tell us exactly when to do what.

Therefore, come January we will start our programme just as we do every year with a reasonable pace of front-loading. EIB's usual pace of funding would suggest something like 20% to 25% of our funding programme in the first month, 50% in the first quarter and maybe up to 70% in the first half of the year. To achieve those numbers, we will be equally present with benchmarks in both euro and dollar markets.

Of course, we are aware that there are relative cost differences between those two markets, but, so early in the funding year, we would not steer issuance one way or another.

Francis Dassyras, European Stability Mechanism: We have to be even more strategic and flexible in our debt issuance. We need to be adaptive to the market conditions and to the investor demand for successful transactions. We need to pick the right window and pay attention to price discovery to ensure that we attract the investor demand while we try to keep costs low for our borrowing countries.

ESM and EFSF [European Financial Stability Facility] only has to refinance existing debt and we will keep a similar issuance strategy to 2024 by issuing maturities from three to 10 years for ESM and up to 30 years for EFSF.

We frequently execute intraday transactions to avoid crowded markets as many issuers use the same window to raise funds. This has advantages for us and our investors as we are going to minimise our market presence during market movements. But we also used the two-day approach to

execute transactions, which leads us to better price discovery and feedback from investors. On top of that, we closely monitor market conditions for other markets like the US dollar market.

Andrea Dore, World Bank: We are very advanced in our funding programme, having funded close to 60% of our funding programme for our fiscal year, which runs from July to June. Though SSA bond spreads are wider, and we expect that volatility will remain high into the new year, we do not plan to deviate from our core funding strategy. We will time our issuances based on market conditions. This current spread widening environment and market volatility is certainly not new to us.

One aspect of our funding strategy that has served us well is our flexibility to adapt and issue products that appeal to a wide range of investors. We issue bonds in more than 20 different currencies/markets, including all the key markets. We plan to continue diversifying our funding products and funding sources, which we find extremely beneficial, particularly in times of market uncertainty.

GlobalCapital: Let's now hear from the three pure sovereigns on the panel. Rui, you first — what are your thoughts on what we have witnessed?

Rui Amaral, Portugal: Swap spreads turning negative has been a historical event, related to excessive reserves coming down and markets expecting a lot more supply to come.

However, swap spread movements have very little impact in determining our funding plans,

so we will go ahead as regularly as possible and as predictably as possible. As such, we should be doing regular monthly auctions from January 2025, together with a couple of syndications concentrated in the first half of the year and potentially a third syndication at the end of the year.

It's worth noting that at the same time as swap spreads are turning negative, our credit spreads have tightened to lows versus Germany and most or all of our EGB [European government bond] peers.

Karol Czarnecki, Poland: We're in a slightly different position to the rest of the participants because foreign funding is very important in our funding mix, although the euro market remains our core market.

From our point of view, the most important thing is to acquire the funding cost at a relatively low level, which gives us flexibility in our funding plan. We may be a little bit more opportunistic in our approach, but we are conscious that the market has its own dynamic and that the first quarter of the year, and the first half generally, is crowded by issuers that are comparable to us, especially in the euro market.

So our attitude is a little bit different to others, where we take a slightly more flexible approach, but we want to focus on the euro market in the first quarter of next year.

Maric Post, Belgium: All in all, these spread moves have had a fairly limited impact on our funding cost in longer maturities, which has remained range-bound, while funding in short maturities is becoming cheaper again. From that perspective we see no need to change our approach to the market.

Normally, the current wider asset-swap spreads should attract the usual asset swap buyers of our bonds, so this could turn out to be supportive. On the other hand, the current speed of the asset swap repricing raises some questions. We expect some investors will want to see a more stable backdrop before really engaging with large amounts. This is an element that we'll continue to monitor closely.

GlobalCapital: Ales, perhaps you can give us a slightly different point of view from the buy-side. What have you made of the widening of this asset class

versus swaps all year and how has that altered your approach?

Ales Koutny, Vanguard: It is very interesting, especially as we are in the privileged position of being able to choose our hedging mechanism. Some of our peers who are limited to asset swap hedging are struggling a bit on the back of this large move.

Reviewing the behaviour of SSAs versus benchmark government bonds and sovereign curves, most have been very well behaved, and in many instances tightening quite significantly in spread terms.

In our view, the next move for swap spreads will be heavily influenced by net issuance across all countries. With QE coming to an end and very little purchasing from the ECB next year, net issuance for many countries will significantly increase. On top of that, elections in Germany at the end of February and potentially a window for further political developments in France opening from late spring, will continue to add volatility to the market.

Therefore, this could lead to higher or more concentrated issuance from large sovereign issuers in Q1 next year. While we expect robust demand for bonds across the board next year, there will be a significant increase in volumes to be sold net of redemptions and QE.

Issuance is normally heavily skewed towards the early part of the year. Yet, market participants tend to fear a supply glut leading to spreads widening. Historical data disproves these fears as market participants are well prepared with liquidity to absorb the supply.

As many of the issuers already alluded to, issuance predictability will be important next year. We are dealing with significant sizes and, most likely, another historical record for issuance will happen next year. While there are benefits of saving a few basis points for opportunistic issuance, significant variances versus expectations could lead to wobbles and uncertainty of demand.

GlobalCapital: Patrick, what are you talking to SSA issuers about with regard to changing swap spread valuations?

Patrick Seifert, LBBW: It's hard to disagree with what's been said already. Predictability in times of uncertainty is always a good thing.

And at the moment we are seeing some noise around the asset class, possibly from speculation relating to what the new US administration's relationship with Europe will look like, and what that means in terms of spending and potentially funding in the market.

Basically, the way to deal with that is transparency and I think we agree on that across the board here. What you also want to have is some optionality. That could be across currencies for frequent issuers like KfW, EIB and the World Bank, or that could at least be in terms of being able to address different parts of the curve.

Importantly, in the week we're holding this roundtable in November, the EU has done its latest syndicated trade, which went very well, alongside some smaller deals. So deals and business are getting done on these valuations.

Next to predictability and options, the core focus for issuers, depending on their business model and the volumes they are going to issue, is listening to investors and what they find more attractive at any given point of time. That needs to be a recurring exercise throughout the year. If you compare the trades that have been doing relatively better than others, it's typically this that made the difference.

GlobalCapital: Relative value between different sovereign issuers has undergone a remarkable shift this year. Portugal has been trading through Spain, and Spain has been trading through France, which are unprecedented moves. To the sovereign issuers, how has that relative value shift reflected changes

either in your investor base or perhaps how you will approach the market next year? What have investors been telling you about it?

Amaral, Portugal: Our market valuations have been high. At the end of October, we reached minimum spread levels against our peers, which was related to Portugal regaining a single-A rating and finally re-entering the FTSE World Government Bond Index at the beginning of November.

Market participants had been anticipating that and were buying Portugal because of it. There were also passive investors who bought a lot more PGBs leading up to the inclusion in the index.

That was something that we could clearly see and had a very large impact in October. We don't have final figures yet on the end-investors, but across platforms, turnover has increased dramatically and we have seen a lot of flows coming from outside Europe into PGBs.

As a result, our valuation now is certainly a consequence of the greater diversification in our investor base. For instance, in terms of investor type, we've seen a lot more official institutions and central banks participating in our syndications.

It should be noted, though, that our spread movement is not something that just happened in October. If you look at the trend, the tightening has been happening in the last couple of years, as fundamentals have improved, leading to Portugal trading through Spain. More recently those levels have consolidated across the curve from the short to the long maturities. At certain points, our



"We need to pick the right window and pay attention to price discovery to ensure that we attract the investor demand while we try to keep costs low for our borrowing countries"

Francis Dassyras, European Stability Mechanism

“One aspect of our funding strategy that has served us well is our flexibility to adapt and issue products that appeal to a wide range of investors”

Andrea Dore, World Bank



levels have also started trading through double-A rated countries and consolidating at those levels.

Czarnecki, Poland: From our view the situation is stable. We are narrowing steadily. We have also experienced a broadening in our investor base, which is mainly due to us doing a lot of work in the last three years contacting investors to help achieve this.

As far as what we see, we are offering a relatively good rate of return for euro-denominated investment, so we are attractive, which is visible in the structure of our issuance. As such, we have a relatively stable participation rate from central banks and the other monetary institutions, and good inflow from insurance companies and other real money accounts, which is what we are mostly focused on.

We see growing demand for our paper, which is visible in the bid to cover ratio for our public issuance. Ultimately, the broadening of our investment base is having a positive effect on the valuation of our bonds.

Post, Belgium: That constant relative repricing between peers is of course the normal and healthy functioning of the EGB market. For Belgium, it has meant fairly stable spreads compared to Germany in the past year, while some other issuers have seen their spreads perform.

On the other hand, Belgian bonds have richened quite a lot compared to France. All of this reflects where countries stand in terms of growth, political stability and fiscal consolidation. Belgium has had national elections this year

and with a government still being formed, the market is waiting to see what policies will address the deficits in our country. If that clarity can be given, I would expect there to be room for performance for the Belgian bonds.

GlobalCapital: *Christian, surely by the sheer volume of your programme, this is a relevant question. But also in terms of how people view the EU, either as an issuer or certainly its credit, they look at it against other eurozone govie issuers. What have you made of this this year?*

Engelen, EC: Over the last year, you're absolutely right, we have seen continued differentiation in the EGB space. And that has also coincided with increasing interest of investors and market participants to look at us on a relative value basis against that.

We see that we are gravitating more towards the EGB space, which is precisely what we want to see. We are very much promoting that. We are also taking concrete actions to support that, not only through the structuring of the primary issuance but also the measures we have taken to support secondary market trading through elements like introduction of quoting arrangement, a repo facility and promoting our bonds as collateral instruments. As you know, the euro system has also upgraded us in their collateral framework. All these steps that support and build out the ecosystem around secondary market trading is helpful in that regard.

We see this as something positive and we are hopeful it will continue

to shift us even more towards the EGBs. This should bring us closer to the peers on a fundamental value basis, where we still see a little bit of a gap in terms of where we trade compared to peer EGBs.

GlobalCapital: *Ales, what has been the view from an investor's point of view of the shifting relative value in the European government bond market this year? What are you thinking about the year ahead?*

Koutny, Vanguard: The fascinating dynamic of that has been the steadiness of the move. We have seen Portugal trading through France and more recently Spain. This has been a smooth change of perception for markets of the long-term differentials for credit ratings.

The trend has taken a while to develop, but now markets are leaving behind the assumed idea of historical hierarchy of credit spreads within the EGB complex. They are now looking more closely into the details of net issuance, the sustainability of the debt and the plans around issuance schedule.

In addition, when thinking in terms of potential GDP growth and other metrics, we are heading to a point where countries that are reducing their net issuance or finding ways to increase growth and keep debt to GDP broadly unchanged or lower are being rewarded by the market with lower premiums.

GlobalCapital: *Jörg, Francis and Richard, how have you felt about this dynamic? Has this affected your programme?*

Graupner, KfW: Not the programme but the investor base. Ales mentioned that the credit is potentially less important for some of the decisions that they have to make. But for us, one observation we can make at the moment is that we are seeing some investors come into our books, especially out of Iberia, and this is — in my view — specifically related to our triple-A rating.

Dassyras, ESM: In 2025, sovereign and SSA overall issuance will exceed in net-net terms vis-a-vis 2024. Due to the higher volatility that we have seen lately — although more contained than in 2022 — issuers

have had to be flexible and adaptive to the market conditions and investor demand to ensure successful transactions. We have an investor base of over 1,800 investors, which is diversified both in terms of geography and investor type.

Different investors have different objectives. Relative value is just one consideration, which can provide an opportunity for investors who look at our bonds, yet it may also make some investors more selective. These investors will only participate if they feel we offer value compared to our peers. This view on relative value can make us think carefully about our pricing but again, it is just one factor to consider. Yet, in the latter part of the year, we have observed the opposite of what one might have expected considering yield differentials, i.e. a shift of demand from the domestic investor base of some sovereigns to the SSA space.

All our transactions were well subscribed this year, so the demand is clearly there. I think investors appreciate the clear transparent way that we operate in the market announcing RFPs, carefully considering each transaction and being present on all parts of the curve. All these elements are very useful to our investors.

Van Blerk, EIB: In the euro market in particular, 2024 started out with SSA paper already at historically attractive levels versus swaps. With euro swap spreads tightening further along the year, 2024 actually became a year of increasingly wider SSA levels.

Nevertheless, the core euro sovereigns performed worse, so investors hedging their EIB holdings, for example, versus Bunds will have had a decent year. In that sense, it all depends on the relative benchmark.

In terms of investor support, 2024 has been a very good year for EIB with a larger number of investors participating in our EARN issues and all-time record orderbooks across tenors in our US dollar globals.

GlobalCapital: Patrick, what do you think on this?

Seifert, LBBW: In the long run you can't escape relative value and, as a working assumption, that helps you throughout the year.

As a European, I like to see Portugal, Greece and Spain being the new superstars, and demonstrating some convergence more than 15 years after the great financial crisis.

Depending on where you sit as an investor, I accept the fact that you might have different views. But to build a stronger Europe — especially given the context of what's happening in the US, in Asia Pacific and with Russia — we will need to see a greater degree of convergence. What we're seeing is also an endorsement of some of the measures that we've put in place for fixing problems in some of the countries in southern Europe.

At the same time, it's obviously not helpful to see the two European heavyweights, France and Germany, somewhat struggling. But to be quite honest, Germany doesn't have a debt problem. And as an investor, if you look through that and appreciate the fundamentals — and particularly if Europe is able to provide a more positive picture in terms of how it intends to move ahead next year — then this will have been a good time to buy into European SSA.

GlobalCapital: That brings us to the next question, which is about the economic uncertainty in Germany and France. Will the economic and political predicaments of France and Germany weigh further on eurozone bond markets, especially for SSA issuers, exacerbating the trends of 2024?

Koutny, Vanguard: For us, it's

not so much a question of politics, it's much more about policies. We see the two extremes in Germany and France. In France, we have a lot of fiscal spending and that's not exactly going to productive sources of growth and that means debt to GDP continues to balloon higher. Markets are starting to get a bit nervous in terms of the debt sustainability path. If you go back a few years, when Italy was on a similar path, there was a lot of market tension there. France is a much bigger and diversified economy. It is being afforded more leeway by the market before the same level of volatility is generated. But the direction of travel does not give us a lot of confidence.

Meanwhile, Germany is on the opposite side of the spectrum. Elections have been announced and the country is going through a transition period. From its large, industrialised base, the economy will need to move to rely more on services and perhaps continue to connect further with the rest of Europe. There have been some new headlines about potential capital markets union, which all countries within the EU can benefit from.

The key question is where does the country go from here? Even if there is spending in Germany, questions around the size of the package and areas of focus for deployment will remain. At the end of the day, the market is dealing with a country that has close to 60% debt to GDP. As of today, debt sustainability is not an issue for the country. Similarly to what we saw with discussions around the UK budget more recently, markets can

"All in all, these spread moves have had a fairly limited impact on our funding cost in longer maturities, which has remained range-bound, while funding in short maturities is becoming cheaper again"

Maric Post, Belgium



tolerate significant higher issuance for positive, transformational investments.

If the bulk of extra issuance is directed at productive sources of investment, which means that potential growth increases, then debt to GDP remains broadly stable. There is a lot of space in the market to absorb higher German issuance. Markets hate uncertainty and consensus is now that something must change in the economic picture of the country. A long-term, well-developed plan, even with significant increases in issuance, would be well received by the market.

Czarnecki, Poland: From our point of view as an issuer, it is mainly a question of the impact on real sphere metrics because we are linked strongly to the European economy in general and the German economy in particular. So what's happening there is to some extent influencing our own economy. As such, we are very keen to see a better performance in growth prospects, which would also be helpful for us and for other countries.

Post, Belgium: Even though there clearly remains uncertainty around our two large neighbouring countries, when I listen to discussions, it occurs to me that a lot of very pessimistic news about Germany and France has already been discounted. So I'm not sure we will just see the same trends continue to the same extent into 2025.

GlobalCapital: Christian, this

won't affect your approach to the market because of how you issue bonds, but how does it affect the discussions you have around the market, and does it come through in what investors tell you?

Engelen, EC: We are working together with our member states and the funds we borrow in the market are primarily destined for policies that support those member states. Perhaps it's worth noting that there may also be very strong support given to those economies that are doing very well at the moment.

Let's not forget, though, that we are coming out of a situation a few years ago with the pandemic where the economies, particularly in those countries that are doing very well now, had suffered the most. And we have taken active measures including setting up NextGeneration EU and other EU programmes to support these economies. The money we are borrowing in the market is going mostly to those economies and supporting their recovery and development.

There is a link also to the convergence and the performance you see on that side. The political developments in Germany and in France are something that also has a bearing on us, but this is not under our control. We have to manage that within the remit of our means.

Overall, with 27 member states, there will always be political developments in some of these countries. Of course, if it's Germany and France, it has a bit more importance. But on the whole, we

are hopeful that there will be some kind of stabilisation on the horizon.

As a German myself, the developments in Germany are in my personal view of course linked to the challenges that we have, but there is now a political process where new forces are formed and the discussion continues. So I wouldn't be that pessimistic.

Van Blerk, EIB: As discussed before, the main trend of 2024 has been swaps spreads tightening. To continue that trend into next year, would mean even tighter spreads for 2025, accompanied by even wider SSA valuations.

Currently, market sentiment is relatively negative while fundamental factors, like growing supply and the continuance of QT are hardly supportive. Nevertheless, there are quite a few relative value opportunities available in markets.

If we look at EIB paper, for example, the spread to Bund is something like 50bp over the 10-year, which seems very high. Historically, EIB has been on average trading much tighter to the Bund. More importantly, in periods when swap spreads are wide, the EIB spread to Bunds would also tend to be wide. Similarly, the moments that swap spreads are tight, we would trade close to Germany. Clearly that has yet to happen this time around, but hopefully this will correct in 2025.

GlobalCapital: Jörg, how do you assess this given the distinct relationship between your employer and the German state?

Graupner, KfW: Many of the topics have already been mentioned, especially by Richard. I think we [KfW and EIB] are more or less trading parallel to each other. The only thing that I would highlight here is that a potential higher net borrowing programme would mobilise the German economy and help support the economic transition we have in front of us.

Amaral, Portugal: We don't see this trend abating too much going into the first semester of next year, simply because markets will have to contend with all the increase in or concentration of issuance from all of the SSAs and general issuers in the market. Also positive tightening will happen at a stronger pace, so



excessive reserves will potentially diminish further. With all the swap spread tightening, it's hard to argue that this will reverse in the next few months.

For us, this is something that doesn't really affect us because our issuance of PGBs will be very stable and our net issuance will not really increase going into next year, contrary maybe to some other issuers. Also, on relative value, we don't see this trend reversing, with a lot more attention now being paid to deficit and debt levels. Relatedly, with the EU governance rules coming into force, that has also coincided with the market's greater attention to deficits.

So all of these factors are converging and adding additional momentum to this trend. For us, I hope our relative value will consolidate, creating a counterbalance to the swap spread tightening. That's what we're counting on.

GlobalCapital: Andrea, have the developments in France and Germany over the last year affected your issuance at all?

Dore, World Bank: There are two parts to it. On the one hand, we are not a direct beneficiary of QE, so we tend not to be impacted as much when the opposite happens with QT. This means there's been less volatility on our bonds in euros, but that doesn't mean we have been isolated or immune from the widening in the general euro market.

This year we've funded about 15% of our programme in euros, which is up from about 1% or less in benchmarks two to three years ago. We will continue to focus on the euro market and see if we can at least increase our share in euros with the spread widening because we do compare our euro funding with that of dollars.

This said, we are not able to get the duration in dollars that we can get in euros. And we do have a portfolio, not just in the case of IBRD, where we have to pretty much swap everything back to dollars. We do have IDA, for instance, in which euros compose a huge portion. IDA also has a significant need for longer duration funding so the ability to access long-dated euro funding is important. Obviously, we would be impacted if spreads and volatility in that market continues.

So in general, has it impacted us? Less so because we have been more stable due to us not directly benefiting from QE. Do we expect that it will impact us going forward? Probably. Our ability to access longer maturities could potentially be impacted as spreads continue to widen. Yet, with euros, whenever trades work in the market, it's good for everybody. Regardless of whether it's at a new pricing point, at least investors are coming back and happy at that pricing point. Whether issuers are happy or not is a different matter.

Dassyras, ESM: As an issuer we do consider the extent to which the widening of some sovereign spreads since June would spill over to our market segment and could become more relevant during episodes of a more general market stress and resurfacing issuance. Our adaptive and flexible approach addresses such challenges. Meanwhile, the more recent swap spread tightening has happened for different reasons. The core driver of this move is higher net issuance meeting constrained balance sheets. Some countries run expansionary fiscal policies with large deficits.

Those large deficits are financed by higher net bond issuance at a time when central banks, the most active buyers under QE, are shrinking their portfolios of sovereign and SSA bond holdings. The gap left by central banks is now filled by other investor types — real money accounts or trading accounts. When markets are stressed, this may come at a cost for issuers through higher new issue premia in what is clearly an investor-driven market.

For these reasons, SSA spreads and covered bonds remain under pressure versus swaps as the net supply will remain highly positive for 2025. During the October swap spread tightening move, euro SSAs outperformed EGBs and still looked attractive relative to covered bonds factoring their liquidity.

For investor demand, there are positive developments, i.e. the historically wide spreads versus swaps, high absolute yields in longer tenors, central bank tailwinds in the form of rate cuts and real money investors ready to re-engage. Also, the swap spread tightening has attracted continuous demand from asset swap buyers, and that is expected to continue into 2025 despite some mark-to-market pain for trading books.

Relative value will play a bigger role next year, potentially attracting new investor accounts, which are rotating across asset classes. Foreign demand for euro area bonds has resurfaced and is expected to continue. Asian investors' behaviour has shown positive signs and is not expected to be impacted.

Seifert, LBBW: I would just highlight one area — the relevance of economic growth. If you look at what's happening in the US and the latest election campaign, no one was debating the debt situation. And if you carry that forward over the next 10 years, it doesn't really matter who would have taken the White House, it's adding massive debt in terms of GDP.

The reason why everyone appears so relaxed about it is that capability of the US economy to grow. So we have to respond to how Europe will grow



"We see growing demand for our paper, which is visible in the bid to cover ratio for our public issuance. Ultimately, the broadening of our investment base is having a positive effect on the valuation of our bonds"

Karol Czarnecki, Ministry of Finance, Poland

“We see that we are gravitating more towards the EGB space, which is precisely what we want to see. We are very much promoting that”

Christian Engelen, Directorate-General for Budget, European Commission



and there are a couple of very strong opinions on the table. People are talking about the Draghi report and the Letta report, and I think they all point to the very same thing, which is showcased by what is happening in Germany. The old economic model isn't broken, but it needs to be made fit for the future and I would expect an issuer like KfW to play an important role in that.

The German example is the debate we now have to have about how we can use the lending capacity to improve competitiveness across Europe. This relates to the point Ales made. We need clarity on what the money is for — is it for transition, is it for building a stronger Europe? Let's make sure we spend that lending capacity to create growth momentum, which will take away some of the pressure.

While we do have some convergence around European names, not every issue will be absorbed in the very same manner across 2025. As such, strong issuers like the ones we have here have a sufficiently strong investor base to be able to place their funding volumes in the course of next year. That's my working assumption and hence I'm not concerned really about the current dynamic on the swap spread.

GlobalCapital: Let's turn to Donald Trump and what his presidency means for the SSA market the second time around. Do we foresee greater volumes of issuance as a result of a more isolationist US? Does he make dollar funding cheaper or more expensive? Does he present a threat to orderly capital markets and indeed multilateralism?

Dore, World Bank: Markets overall have been resilient and are reacting well. It's always difficult to predict what the future will look like, if we take the past as an indication and focus on facts, we see that under all previous US administrations, SSAs were strongly supported by the US and other major shareholders. In fact, IBRD for example, received its largest capital increase in 2018.

Regarding multilateralism, shareholders recognise the important role that multilateral development banks [MDBs] play. MDBs are being asked by their shareholders to do more. This past October, the World Bank announced a package of financial measures that would help increase efficiency, effectiveness and the robustness of our balance sheet to boost lending capacity at a time of immense development need, while protecting the triple-A rating and value for our members.

We expect our funding programme to stay within the current range and gradually increase over the next decade. Regarding pricing, we've seen SSA spreads being very very tight to treasuries. While that may seem like a good thing, eventually that will become challenging for the sector. If treasury spreads become tighter and tighter, with the difference in liquidity that the treasury market provides, SSA assets will become less attractive to investors.

Van Blerk, EIB: I echo Andrea's comments. Honestly there is nothing here that we haven't seen before. The first Trump presidency from 2016-2020, was not a particularly negative period in the SSA space. It seems unlikely that

there would be a difference this time in how SSA issuers will look across the various funding markets.

Koutny, Vanguard: Europe needs to come together and start having a proper strategy across the board. Europe has benefited immensely from global growth and has become an exporting powerhouse.

As the world moves in different directions, Draghi's report on the future of European competitiveness has shown several areas for development and cooperation. A lot of attention has been focused on the joint borrowing framework and if appetite for that exists or not. For us, it's more about the future initiatives that seem to have missed the coverage that they deserve. Europe needs to improve its productivity, there is no two ways about it. We have seen productivity numbers jumping meaningfully up in the US, but Europe has lagged behind.

There is a question of how we fund those initiatives. There are many potential options, through the EU, multilateral development banks or each country doing its own national programmes. From our perspective, it is not a huge difference, especially as country spreads have continued to tighten further.

The most important factor is that an agenda to increase growth and productivity is enacted. Europe has lagged versus peers and now has the opportunity to change that picture and benefit from growth in the long term. The sustainability of the debt across the board is what really matters and that can only continue to improve if growth improves.

GlobalCapital: Christian, what would you say about that?

Engelen, EC: I think it's spot on and indeed something which we lose a little bit of sight of in these discussions because we always approach it from the funding side. Most important is what the money is used for and that's formulated at the beginning of the decision-making process. The question about financing and who should borrow or not is then rather a secondary question.

Let me note that we have been a large and frequent borrower precisely to address some of the biggest challenges of our recent past.

So we have borrowed a lot of money to help the economies recover after the pandemic. We are borrowing a lot to support Ukraine. And we are borrowing a lot to support the ecological and digital transition of EU member states. This is testimony of the fact that the money borrowed by the EU is precisely used to address these big public sector investment needs, which then eventually also should lead to more stability, convergence and economic growth in the future.

This is the perspective we need to take on, whether the president in the US is called Trump or anyone else.

Importantly, EC president von der Leyen has already set out her priorities for the next term. The Commission is about to be confirmed and to come into office and as soon as this process is concluded we will then start in full force working with the member states towards these goals.

GlobalCapital: Jörg, from a KfW point of view, what are you anticipating from a second Trump presidency?

Graupner, KfW: Nothing that new, as Richard and Andrea have already highlighted here. And coming back to what Richard said, we also don't expect a huge change on the funding levels, especially in what we can achieve on the dollar side. These levels are actually close to our euro levels, and I don't see any signs of change for now.

The topic Andrea raised is interesting. Is there potentially a possible shift closer in SSA trading levels to treasuries and does it make sense, from an investor point of view, to invest in SSA instead of more liquid treasuries? This is something that we have to consider. Is there a possible preparation? Yes and no. What we are always doing is looking into further markets/currencies. This is not to change our strategy of our core currencies but for further market developments.

Dassyras, ESM: As we know, next year will be another year of record net supply for EGBs and SSAs compared to 2024. We see some challenges, which may include disorderly dislocations and overextended volatility with swap spreads tightening and yield curves shifting.

Such developments may keep

some investors sidelined requiring issuers to pay higher new issue premia to secure final demand. Spread dislocations across EGBs compared to their ratings may pose valuation challenges, with scarcity premia further distorting relative value metrics.

Additionally, we need to monitor the spillovers from US monetary and fiscal policy, which could also impact yields, swap spreads, yield curves and the cross-currency basis in an unpredictable way, conditioning investor demand.

In terms of positives, in addition to historically wide spreads versus swaps, high absolute yields in longer tenors, central bank rate cuts, real money investors are ready to re-engage and foreign demand for euro area bonds has resurfaced and is expected to continue.

GlobalCapital: Rui, I know you really only issue in euros, but do you have much consideration for Trump's second term, what it means for your programme?

Amaral, Portugal: We mostly issue in euros although we had one outstanding sizeable dollar bond that matured last month. So currently we don't have any foreign currency issuance, although we are putting together a brand new EMTN programme that will enable us to issue in all sorts of currencies, dollar being a very strong candidate for next year.

The way we approach this is quite different from our PGBs, where I've been talking about regularity and stability and EGBs being the backbone of our issuance programme. So we try to stick to what we have announced quarter

after quarter to provide that element of predictability.

In relation to dollar bonds or any other currency, we would approach that a lot more opportunistically. Going into next year, we could look into another dollar issuance, although the trend that all of us have been pointing out is that from an opportunistic point of view, issuing dollars and swapping it back to euros is becoming less and less attractive for European issuers. And we don't really see that trend reversing any time soon although you never know.

Post, Belgium: There is the general view that this second term will weigh on the European economy and that there will be a need to increase security spending. However, these are broad assumptions and we have no indications on whether, how and when this would lead to additional funding needs, whether that would be at national or European level and what the impact of such spending would be on the growth picture for Europe.

As for the accessibility of dollar funding, we've always seen opportunities arise in markets with a lot of moving parts, most recently just before the US elections when we were able to print a \$1bn 10-year benchmark at a good arbitrage to our euro funding. In 2025, we will continue to look for such opportunities.

Seifert, LBBW: I want to reemphasise the relevance of getting Europe more competitive. I don't think we do it for Trump. We do it to build a stronger Europe and to face the situation that we now have with Russia, with what's happening in Asia around Chinese politics



"For us, it's not so much a question of politics, it's much more about policies. We see the two extremes in Germany and France"

Ales Koutny, Vanguard



and basically to make sure that the economic model works going forward.

I should add something here relating to the next question, which asks about ESG capital markets. Europe has a role to play and apparently the US has decided for itself that it doesn't want to be part of it.

So if we get our act together and get that incorporated into our policy agenda — without being too obsessed about the EU taxonomy, with more focus on being pragmatic when it comes to transition — then the European Commission will make that a priority. I think every relevant European government will make that a priority.

Balancing economic realities with moving into a more sustainable economy, I am convinced our capital markets have something to offer investors from outside Europe. This relates to previous points made on getting investors from outside Europe to put their money to work into what is a good, robust, safe and liquid market. I strongly believe this an opportunity that this Trump administration's mantra "Drill baby, drill" will actually bring to Europe.

GlobalCapital: I suppose that's the one unambiguous thing about his new administration so far, the anti-ESG agenda seems much more firmly set. I suppose where the worry might lie is in what the US permits or bans investors from considering when they invest in products, whether they're allowed to consider ESG factors or not. Ales, is that a concern at Vanguard — what you may or may not be permitted to consider in your investment criteria?

Koutny, Vanguard: Outside of ESG-focused green funds, especially Article 9 funds in Europe, ESG considerations are not much of a concern. From a bond pricing perspective, with the market's excitement around ESG, we saw the emergence of a premium or a 'greenium' when it came to issuing green bonds. We have seen that dissipating.

The key consideration for us is that green bonds have less outstanding and are slightly less liquid. They can present great opportunities and we trade them more from an investment perspective rather than a values-based approach.

My question to the issuers is: what is your view in terms of how much benefit in pricing you need to see to restrict the capital raised from that bond? From my perspective, if you are issuing at the same level as a standard bond, there is no advantage of locking in the capital specifically for green sources. Alternatively, do you see it more as a programme that has a value, even if you're not getting cheaper financing by segregating your green assets?

Dore, World Bank: Issuing green bonds for us was not about achieving a lower cost of financing compared to other bonds, which is referred to as the greenium. It was about raising awareness for the challenges of climate change and how we are tackling them with our activities in borrowing member countries — so it is about providing transparency to investors on the use of proceeds. We know that investors are looking for transparency and information on how their funds are contributing to positive impact.

Green bonds/labelled bonds

have transformed the capital markets and how we engage with investors. All the bond proceeds we raise go towards supporting our sustainable development mandate and we've labelled our use of proceeds bonds as sustainable development bonds as they support green and social projects. It is important to integrate climate and social aspects in all lending and, as a sustainable development institution, this is what we do.

Graupner, KfW: It is a question for us as a promotional bank and as a public bank. It's mainly driven by the need to fight against climate change and green bonds, or their underlying assets, are contributing to these political targets.

For us, we are not just aiming to issue green bonds at a time when we are getting a greenium, a slightly better price from the issuer point of view. What we are seeing is that we have a broader investor base for our green bonds. This, combined with the target for doing something to fight against climate change, are the main drivers for us.

Engelen, EC: It's an important topic going forward. Overall, going back to what I said before, for the European Union and the European Commission, we stay committed to our political objectives, particularly to support the green transition in member states.

In particular, we have designed NextGeneration EU precisely towards that goal. And we will receive a lot of eligible expenditures that support our green bond issuance programme. So far, including the €3bn tap today, we have issued close to €70bn and we will increase that materially over the coming years and in line with our commitment to mobilise up to 30% of the overall NextGeneration EU borrowing in the form of green bonds.

We have always said that we don't issue these bonds for the purpose of financial advantage. We do it for the purpose of giving investors the possibility to take a conscious decision of directing their investments towards sustainable goals and programmes. And I think that's very important. We have a very broad, very deep and committed investor base that we see in our green bond issuance and that will not go away because

the political wind in the US is changing.

One final word on the greenium. I think it would not be advisable to build too much on a financial advantage because a greenium is an imbalance in the market between supply and demand. If you think that supply should increase over time, with the system becoming cleaner overall thanks to greater investment in sustainable projects, then the supply of green bonds and ESG compatible bonds will increase over time and the premium will go away.

Van Blerk, EIB: We've never issued Climate Awareness Bonds for the purpose of greenium. We issue green bonds to promote climate action in capital markets plus we highlight the nature of our activities on the lending side as EU's climate bank. The EIB is one of the largest project finance houses in Europe and in today's world that means it is one of the largest financiers worldwide in the field of climate action.

Post, Belgium: The lack of a pronounced cost advantage of green bonds compared to regular bonds is something to monitor and reflect on because the initial idea was to help develop the green market so that cheaper funding through labelled bonds would in turn help speed up the necessary transition. Even so, we still see regular demand in our green OLOs and Belgium continues to issue its green bonds under the 2022 Green OLO framework.

GlobalCapital: Lets now move to the next question and get a sense from the issuers here about their borrowing programme for next year. Perhaps we could start with the EIB?

Van Blerk, EIB: EIB is a very stable institution with our balance sheet around €550bn for quite some years already exactly because the annual funding (and lending) numbers have been relatively stable as well. Therefore, we are not expecting any surprises for the EIB 2025 funding programme.

Graupner, KfW: We are actually doing the calculations now. In reference to the current year and also with the new elections in Germany next year, I would assume a cautious approach with regards to the funding requirements. We will

“Balancing economic realities with moving into a more sustainable economy, I am convinced our capital markets have something to offer investors from outside Europe”

Patrick Seifert, LBBW



issue a press release about this on December 10.

Dassyras, ESM: We are in the process of getting approvals for ESM and EFSF funding plans, and ESM will communicate them in our December newsletter. You can expect a similar size to what is published in our investor presentation and we will keep a similar issuance strategy with syndications as we only have to refinance the existing debt.

The ESM will continue to issue T-bills through auctions in three and six-month maturities and we will also use — for liquidity purposes — our commercial paper programme, which was introduced in 2024. We will also closely monitor conditions in the dollar market.

Dore, World Bank: As I mentioned earlier, we are halfway through our funding programme for the year. We do not anticipate significant changes in our funding programme for the next year. Our last projections for IBRD were \$50bn-\$55bn and for IDA \$10bn-\$15bn.

Amaral, Portugal: We normally announce our funding programme in December, a couple of weeks before Christmas. So we're still drafting our funding programme for next year, but it looks like — the fiscal budget should be approved in parliament in the next few days — we'll have a total increase in the cash requirement of the state. Our total funding size across instruments will be in the order of €30bn-€35bn. For PGBs, this means maybe gross issuance of around €20bn, so net issuance stable at around €7bn.

Post, Belgium: Our funding plan for 2025 will be published on December 6.

Engelen, EC: Our funding programme was €140bn this year. We are still planning next year's programme, as well as the remaining amounts that we have to mobilise, particularly for NextGeneration EU.

We have communicated that we will probably see higher volumes next year, but we have also tried to reassure investors and markets that we are not trying to test the limits.

What we have communicated is that we do not see our volumes growing over a certain mark to around €150bn or €160bn. This is something that we hope forms part of our planning going forward. We will communicate the specifics of our funding plan for the first half of next year later this year.

GlobalCapital: Patrick and Ales, what are you expecting from this asset class next year, both in terms of primary market issuance and QT in terms of supply to the market?

Koutny, Vanguard: We expect some issuance increase across the board. A differentiating factor will be the comparison with net issuance from the sovereign issuers. As I mentioned before, Q1 is already a very busy schedule for all issuers. If some sovereigns are potentially looking to front-load some of their issuance due to political developments later in the year, that could create some volatility. Net issuance after accounting for redemptions and central bank activity is the main factor. Timing and scheduling will play an outsized

role this year as investors deal with the increased issuance.

Seifert, LBBW: I guess we will be surprised by some issuance plans not increasing as much as the market is potentially pricing in. Perhaps a worst-case scenario, in terms of a potential cost being incurred by Trump, would be Europe having to pay more towards defence or avoiding tariffs.

More relevant is do we have the capacity to transform and build that stronger Europe? The answer to that is, yes. The number that makes sense in this context is one that I came across the other day. In terms of unused capacity, the Luxembourg-based institutions could actually mobilise about €1 trillion, which is roughly the equivalent of their current outstandings.

So we obviously have room to manoeuvre and that's also a message you want to get across. Even if supply is to go up here and there, as an investor, you want to make sure you fully understand where this is going to and that is in terms of whether it is use of proceeds from an ESG angle, investment or is it more consumption.

Policy is a game where people promise a lot of things and not everyone is willing to deal with the pain coming with it. Market participants want to see this validated.

Overall, we're quite optimistic and think that some of that uncertainty being priced in at the moment will actually not materialise in the very same way. It might take a bit of time and probably Q1 is going to be very busy. But again, if you believe that buying on rumours and selling on facts could be a leitmotif, it's certainly not a bad time to get invested.

GlobalCapital: Christian, you mentioned about your quest to be seen as a sovereign or sovereign style issuer. The latest twist in that story was that

Bloomberg were consulting about including your bonds in their sovereign bond indices. Can you give us an update on that situation?

Engelen, EC: Happy to do so. We have always promoted our issuance approach as sovereign-style. And despite the fact that our issuance programme indeed matches the larger EGB issuers in terms of size and liquidity, we are still held back by some structural impediments in the financial system overall. We are trying to overcome them with the measures we are taking, helping the system to adapt to this transitioning we are going through.

One step in that is the eventual inclusion of us as an issuer in sovereign bond indices. We want that for two reasons. On the one hand, to approach investors who are bound by these indices, and on the other, to ensure that these indices are generally a fair reflection of the market and the system. And with our size and the classification we have, we are clearly distorting the indices landscape.

Also, we see that there is a lot of interest on this in the market and we see that there is also momentum. We have seen two index providers launch consultations over the summer. A third one is currently in the process of a consultation. So far, they have not yet yielded the positive results we would like to see, but we see that there is a lot of support in the market and a lot of willingness on the investor side to basically support us in this project and that makes us hopeful that over time we will get there. So for us, this is not an if but rather when such a step can be achieved.

GlobalCapital: Would any other panellists like to weigh in on the sovereign bond index inclusion question?

Koutny, Vanguard: For us it does not make a lot of difference as most

of our indices are broad and already incorporate the EU as part of their benchmark. I do understand there are other buy-side institutions that are limited by a sovereign cap in terms of the percentage they can hold in the portfolio or as part of tracking error calculations. Therefore, I can see some marginal benefit of the inclusion purely from a flow perspective.

Many fixed income managers and others in the investment community that can have more variation within their mandates have already been using the EU as a potential investment vehicle.

Seifert, LBBW: Judging by the investor base the European Union has been able to build over the last four years, it has a very govt style to it. From that view, there are a lot of similarities and we are probably getting to a point where there are more similarities with govts than with SSAs. That in itself is probably telling us that this is going to happen at some point in time.

The market structure is sometimes slow to respond. Our understanding, and speaking for LBBW here, is that active investors in particular have been very much in favour of it. The passive investors maybe less so. The question is: is that a conscious decision or is it more like passive investors living up to their reputation in being very passive and quiet? Unfortunately they've not sufficiently been included into the decision-making around this and they should be.

Together with this, looking at some of the feedback that has been reported, there is ongoing education to be done. And maybe the deadline in terms of the current mandate, 2026, is something that is still raising more questions than it actually should.

Even with what is there, I think the EU is going to be the fifth-largest net issuer going forward. That is quite relevant. **GC**

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The effect of Donald Trump's second stint as US president is set to be a recurring theme for capital markets in 2025, with expectation high that he will pursue deregulation, freeing up capital and boosting the presence of US banks in financial markets — or at least, that was the message US bank CEOs were keen to convey after his November 5 election victory.

Elsewhere, optimism in UK and European banking feels less certain. The European Commission, convinced that better capitalised banks are a strength, not a weakness, and it remains committed to implementing the Basel III endgame.

Those regulatory shifts will affect the cost at which banks can provide derivatives products, such as new issue hedging swaps, to issuer clients such as supnationals and agencies, directly impacting their cost of funding.

But when it comes to transacting derivatives, one UK liability-driven investment (LDI) manager told *GlobalCapital* that a handful of US investment banks had long been the “most aggressive” when competing for business, while the standing of European banks had shrunk. The prevailing regulatory winds threaten to exacerbate that trend.

The LDI manager, who uses interest rate swaps as part of his firm's investment strategy, singled out Goldman Sachs and Morgan Stanley among the counterparties that most consistently show competitive IRS prices in large, executable sizes.

“We've found that a lot of other banks no longer like to take risks on their books,” he says about a trend that emerged after the global financial crisis.

“The amount of risk capital at some of the UK and medium-sized European banks has become pretty limited,” he adds, while also mentioning a large European bank had “lost a lot of its risk capital” in recent years.

Meanwhile, requesting a swap quote from a large US bank does not guarantee a competitive price, he points out. He names one US bank that he thinks had “never been great in pricing and always traded off the back of their franchise”.

But elsewhere, other end users of interest rate derivatives tell *GlobalCapital* that European

Issuers face swap market hurdles in the year ahead

Issuers will have to navigate various challenges in derivatives trading in 2025 including reforms to bank counterparty capital, changes in central counterparty clearing, and finding new ways to save on cross-currency swaps. **Sarah Ainsworth** reports

trading desks can compete with their US peers on swap pricing.

KfW, a major player in interest rate markets as it swaps much of its €80bn-equivalent annual bond issuance, said it found that some European banks, as well as some Asian banks, offered “similar capacities” to US banks when executing derivatives.

A second issuer says it is a case of wait-and-see with regard to how the Basel III endgame shapes banks' risk capacities.

“Our understanding is that Basel changes will be implemented gradually, allowing banks to adapt to the new requirements,” he says. “But the fact that some firms in

the US have been lobbying against the new [Basel] rules, partly on the grounds of derivatives, shows how far the reach could be.”

Pricing size

It has been business as usual for derivatives business in 2024, according to KfW. The issuer regularly visits the swap market to hedge euro bond issues which can be as large as €6bn.

“For the bigger swap executions, we organise an auction method and it generally leads to a very attractive price,” says Markus Schmidtchen, head of treasury at KfW.

Swaps are executed at the time of issuance, with fixed rate interest



“We try to follow the market standard where possible because it generally results in lower costs, meaning lower prices”

Markus Schmidtchen

cash flows swapped to floating, which for KfW is typically six month Euribor.

KfW does not use hedging for all of its new bond issues: “Generally, short-term issuance up to one year is left in a fixed rate format and is not swapped,” says Schmidtchen, “The shorter the maturity, the less market risk and it does not require an interest rate hedge.”

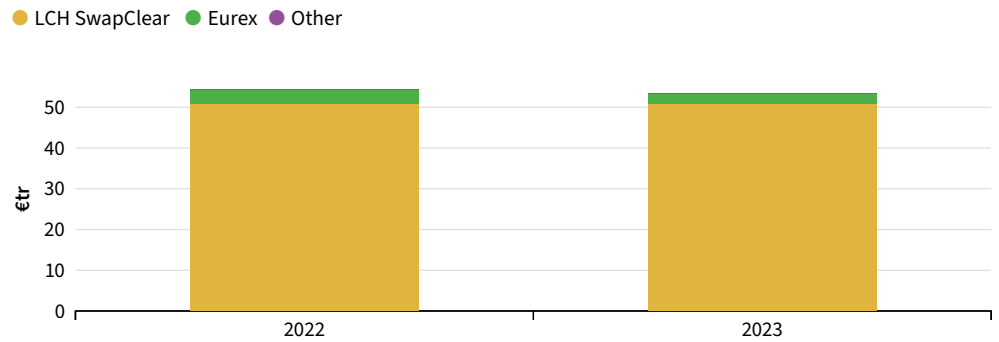
The bigger the transaction, the more bank counterparties are placed in competition. Allocations are then split between banks based on price but are also subject to the issuer’s risk appetite and limits with each counterparty.

The pool of competing banks shrinks when KfW brings a foreign bond issue to the market. “There are fewer counterparties that are able to digest cross-currency swaps in large volume in comparison to single-currency swaps counterparties,” says Schmidtchen.

KfW runs a global dollar benchmark bond issuance programme, swapping about two-thirds of what it issues into euros using cross-currency swaps, though it varies depending on requirements. It also offsets some of its dollar bond cashflows against assets from its export subsidiary KfW IPEXbank.

The agency also raises funds in several other currencies. It is by far

Cleared euro interest rate swap volume



Source: Clarus

the largest foreign issuer in sterling and Australian dollar bond markets, for example, with proceeds always swapped to floating rate euros.

New ways to save

Cross-currency interest rate swaps are an important tool for issuers. They are primarily used to hedge interest rate risks, though also serve to hedge foreign currency risks, which arise from cross-border bond issuance.

Yet they differ from single-currency interest rate swaps in two important ways. First, there is a physical exchange of the principal amount between counterparties. Second, cross-currency swaps are

▼ Central counterparty clearing has become a key battleground between the UK and European Union since Brexit

not cleared at a central clearing counterparty (CCP).

As a result, they can incur hefty credit, capital and funding valuation adjustments for trading desks — commonly referred to under the umbrella term XVA (cross-valuation adjustment) charges — meaning some banks tend to be less competitive than others when pitching for the business.

Historically, some SSA issuers, such as the European Investment Bank (EIB), requested a breakdown of the XVA charges embedded within a bank’s swap quote. But Schmidtchen says KfW does not seek specific XVA breakdowns and instead cares only about the final all-in swap price.

He highlighted that XVA charges are counterparty-specific and contingent on several factors including outstanding derivatives business and credit ratings, which vary by issuer.

Credit support annexes (CSA) are one tool SSA issuers use to mitigate the costs incurred in cross-currency swap execution. Most SSAs have two-way CSAs with banks, which means the side of the trade that is out of the money must post collateral to the other. The EIB is a longstanding outlier as it only has one-way CSAs in place, meaning only one party in the swap need post collateral when out of the money.

Sovereign, supranational and agency issuers traditionally argued for one-way CSAs on the basis that they should not face the expense of running an operation to post collateral to a counterparty with a worse credit rating than them. Though SSAs are often rated triple-A, investment banks are not.



“KfW follows most of the market standards for swaps derivatives business and has symmetrical two-way CSAs in place,” says Schmidtchen. “We try to follow the market standard where possible because it generally results in lower costs, meaning lower prices.”

The agency is exploring new ways to make savings in its cross-currency swap business.

“We are considering becoming a member of LCH SwapAgent,” Schmidtchen tells *GlobalCapital*. “Most financial institutions, especially investment banks, are already using the SwapAgent service and it would allow us to make savings on the operational side.”

While LCH SwapAgent does not have the same reach as central clearing, it does offer similar advantages such as standardisation on CSAs, dispute resolution, documentation and netting of cash flows — and where KfW leads, other SSA issuers often follow.

Benchmark reforms

The transition from Euribor to €STR (euro short term rate) as the euro benchmark interbank rate occurred in January 2022 — but issuers tell *GlobalCapital* the change is far from complete.

The legacy benchmark rate Euribor remains in operation and is where most liquidity is pooled in the interest rate swap market for maturities of two years and longer.

Nederlandse Waterschapsbank (NWB), a Dutch public sector agency, tells *GlobalCapital* that it favours swapping new bond issues to €STR and may consider swapping maturities of up to five years against the rate, liquidity permitting. But beyond five years, the €STR swap market becomes more limited and Euribor is the floating rate of choice.

KfW typically swaps its new bond issues back to six-month Euribor. “We are observing the €STR market frequently,” says Schmidtchen, “But liquidity is by far bigger in the Euribor market for the longer maturities that are most relevant to us.”

An exception is the cross-currency swap market where €STR has become the dominant reference rate after the euro/dollar interbank standard moved to Sofr (Secured Overnight Financing Rate) against €STR in 2023.

“We did wonder about volatility

“... if they do come to you with a price, you must act quickly. It might not be the trade you want, or the exact tenor you want, but if a good opportunity presents itself then don't hesitate”

between €STR and Euribor,” says KfW’s Schmidtchen, “But there has been no drawback in swapping back to Euribor for KfW and the pricing is in general very attractive, though it’s possible that for smaller institutions there is a pricing difference.”

Whether or not €STR will ever fully replace Euribor in the future is an open debate and set to continue in 2025 and beyond.

As KfW told *GlobalCapital*, it is understandable that many borrowers — especially small and medium-sized institutions — continue to favour a forward-looking reference rate and explains the endurance of Euribor in the euro swap market and the expansion of term Sofr in the dollar swap market.

Central counterparty clearing turned into a key battleground after the UK voted to leave the EU in 2016, throwing up a number of legal and regulatory uncertainties over the future location of euro swap clearing.

The European Central Bank previously took legal action, based on systemic risk concerns, to try and force clearing into the eurozone but lost the case in 2015.

In 2023 the European Commission proposed an amendment to the European Market Infrastructure Regulation (EMIR) to force some institutions to clear a minimum amount through an EU-based clearer.

Equivalence expiry

But several industry groups, including buy-side associations, have warned about the costs to end users of being forced to shift their clearing business — LCH remains the dominant clearer and serviced around 90% of swap clearing business as recently as 2022.

While SSAs are not subject to EMIR regulations and can continue to transact bilateral trades, many choose to comply because following the market standard tends to be more cost-efficient.

Consequently, SSAs are likely to keep a close eye on regulatory developments. A key date in 2025 will be June 30, when the equivalence status the European Commission (EC) temporarily granted UK central counterparties, such as LCH, is set to expire.

The potential costs to end users arise from the Eurex-LCH CCP basis market. “While we are not obliged to clear through Eurex we do monitor the basis between LCH and Eurex,” says KfW’s Schmidtchen.

Taking a simple example, an issuer enters a new swap where it receives a fixed rate and clears the trade on Eurex. At the same time, the opposing counterparty bank clears its side of the trade on LCH.

The dealer will then use the Eurex-LCH basis market to smooth out the risk between the two different clearing houses and could save initial margin costs on trades that straddle the two CCPs.

“If the basis becomes too wide then we may decide not to clear and instead will trade on a bilateral basis,” says Schmidtchen.

NWB says that it also monitors the basis but would not trade it bilaterally if it found it to be punitive.

A third issuer said that being in a position to execute the basis swiftly was key. “The [Eurex-LCH CCP] basis tends to be very illiquid,” says the source.

For clients wanting to see attractive Eurex-LCH prices that are closer to mid-market, you have to have good communication with dealers and a readiness to execute quickly, he says.

“The most important thing is that the dealers know that you are able to trade,” he says. “Then if they do come to you with a price, you must act quickly. It might not be the trade you want, or the exact tenor you want, but if a good opportunity presents itself then don't hesitate.” GC

SSA funding official

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Agility and reliability in turbulence and transition

The UK's borrowing need over the next year has increased materially, creating a challenge and opportunity for the new CEO of the Debt Management Office to calibrate the best funding channels to deliver cost-effective financing. To discuss how it plans to manage this, together with the changing dynamics of the Gilt market, innovation and risks, *GlobalCapital* convened a roundtable with the DMO, market makers and investors to explore and interrogate these areas.



GlobalCapital: Jessica, I'm going to start with you. The Budget has been delivered and the UK has a much increased borrowing requirement. But the UK is not the only sovereign to be doing more. How will the Debt Management Office manage this increased borrowing requirement?

Jessica Pulay, UK DMO: First, it is worth reminding ourselves of our initial remit, which was published at the Spring Budget earlier this year. Our original financing programme for this financial year set out total Gilt sales of roughly £265bn. It was then increased, as always happens in April, following the publication of the previous year's cash outturn, so that meant a remit of £277bn.

We decided, as we have for many years in a context where we have elevated financing programmes, to implement a broadly balanced programme across the different maturities of conventional Gilts but with a particular focus on issuing in the short and medium-dated sectors, which for us means one to seven years in shorts and seven to 15 years in mediums.

We took this approach for several reasons. First, an initial expectation, based on market feedback at the time, that institutional demand for long-dated Gilts was potentially not as strong than in the previous financial year. We also wanted to focus issuance on the most liquid sectors of the market where it's also possible for us to raise more cash for a specific supply event.

Then there were practical considerations around the operational calendar. For example, we were able to schedule somewhat larger-sized auctions in those short and medium maturities than in longs, given the relatively lower supply of risk DV01 to the market for a certain size of transaction at those tenors.

Then at the Autumn Budget, our financing requirement was increased by £22.2bn to a total of £299.9bn, which was broadly in line with market expectations. We decided to implement this via £19.2bn in higher Gilt sales across all maturities and types of Gilt, alongside a £3bn increase in the sale of Treasury bills for debt management purposes. It's important to note that we also issue T-bills for cash management purposes and they represent an

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Roundtable participants



David Parkinson , head of sterling rates sales, Santander	Ed Russell , head of flow rates trading, Europe, RBC Capital Markets	James Bucknall , head of sterling rates trading, NatWest Markets	Carina Lindberg , head of sterling rates trading, Nomura	Jessica Pulay , chief executive officer, UK Debt Management Office	Megum Muhic , vice-president — rates strategist, RBC Capital Markets	Scott Creed , managing director, head of prudential liquidity management, Lloyds Banking Group	Moderator: Toby Fildes , managing director, GlobalCapital
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important instrument in our cash management operations.

Interestingly, over the course of this financial year, we have seen that long-dated demand has actually proven stronger than initially anticipated. There have been a few reasons for this. We have observed that it has manifested itself in a stronger performance at auctions of long-dated conventional Gilts relative to other maturities with an average cover ratio which is higher, but also the average tail is also lower than relevant maturities in short and medium. So the average tail since April has been 0.4 basis points; this is the differential between the average accepted yield and the highest accepted yield.

There has also been very good take-up of our post-auction option facility (PAOF) in long-dated Gilts. This is a facility whereby successful bidders are allowed to purchase an additional 25% of the Gilt that they were allotted at the auction at the average accepted price for conventionals or the clearing or strike price for index-linked Gilts. We have seen a significantly higher take-up of PAOF for longs relative to shorts and mediums: over 20% of the auction proceeds.

The final context here is that our long-dated syndicated transactions, have also met with very good subscription. So the average planned size of long syndications was £4.5bn in cash terms. There was a new 15-year Gilt, which was launched in

September, and that achieved a size of £8bn; that reflected obviously a sizeable order book but also importantly the quality of the order book and the breadth of the order book, all of which were extremely welcome.

So taking into account all of these factors, we tweaked the maturity structure very modestly at the Autumn Budget. While we increased shorts and mediums as well as inflation-linked (index-linked) Gilts, which reflects our intention to maintain a diversified programme of issuance, we also increased the long proportion modestly.

But it's important to note that we increased it reflecting the PAOF take-up. Auction sizes had decreased because of the PAOF take-up and, separately, we also only had a very small amount in our syndication programme left for long-dated syndications, so that needed to be rebuilt. Consequently, part of the long proportion was just rebuilding what had already been achieved.

Just to finish, it is worth emphasising that the Gilt market has continued to operate within historical parameters. Obviously we have seen periods of volatility but the Gilt market has been able to respond to these. And so we are on track with our financing programme for this financial year, including post-Budget as well.

GlobalCapital: David, focusing on maturities, what's behind

that slightly better support of the long-end than perhaps was expected?

David Parkinson, Santander:

There are a few things behind that but before I get to it, I think what we've seen this year is that the Gilt market has benefited from the strengths of the DMO in terms of this balance between predictability and flexibility. So, in terms of predictability, because people know what's coming when, perhaps a little bit better than they do in a lot of other markets, it means their set-up for auctions and syndications is usually really smooth, whether that's active managers, systematic accounts, or the Street. And we've seen that in the smooth delivery of the auctions.

In terms of flexibility, the unallocated portion, the fact that the syndication bonds aren't identified at the start of the year, and then making a virtue out of necessity with the autumn remit of dates, means that the DMO can respond to changes in patterns of demand as it goes along.

On the long-end, I think there's been a variety of things. The market has looked at the amount of supply we're getting over the next few years and realised that the bulk of that is not coming in the long-end so it's actually quite a safe place to be. That's one thing. I think the insurers, who we all expected to be big sellers of longs and linkers over

the course of the year with the bulk annuity market taking off, have if anything been buyers rather than sellers, so that's helped the long-end.

Then through the lens of some of the international investors, the UK looks like quite an attractive place for political stability. So we've seen some waves of overseas buying, which has specifically targeted the long-end predicated on that argument.

GlobalCapital: Turning to our investor on this — does any of that ring true for you?

Scott Creed, Lloyds Banking Group: All of it does. I'd say that the long-end has been supported by a lot of cross-market money and money that maybe doesn't necessarily continue to invest in Gilts in all market conditions, such as a widening of credit spreads. David alluded to the bulk annuity flow that could leave on that move between sovereign and dollar IG corporate spreads, so some of the long-end flow is a little bit more flighty and more cross-market and could leave the Gilt market in a credit spread widening.

GlobalCapital: Any further comments from our banks? James?

James Bucknall, NatWest Markets: We've certainly observed higher correlations between Gilt yields and global fixed income. For a long period, the Gilt market was, for international investors in particular, a market which they were perhaps a little reticent to get involved in given that, at least in the long-end of the curve, the presence of the pension fund community and LDI funds in particular, were often seen as price insensitive and so impacting valuations. Gilts just didn't look as attractive in a global context. I think they are now attractive in a global context and we are seeing the demand reflect that.

As already mentioned, that does come with risks around the extent to which those positions are less sticky and, in the event of any fiscal or political uncertainty, might exit. But generally I think you could argue that the Gilt market is in a healthier spot now.

Carina Lindberg, Nomura: I would echo what the others around the table have said. Part of it is the absolute level of yields as well. We



“What we've seen this year is that the Gilt market has benefited from the strengths of the DMO in terms of this balance between predictability and flexibility”

David Parkinson, Santander

definitely see the 5% level attracting domestic and international support, even in the face of higher yields in other countries. Given that we had such a sustained period of lower long-end forwards in the UK, those with maybe a two-year or three-year horizon on interest rates think it is an attractive part of the curve to own and to hold on an outright basis, so that's where a lot of the flows we have seen have come from.

I agree that the European insurance demand for Gilts that we saw really materialise on asset swaps at the start of the year has waned, especially as we see asset swap markets move in European countries. I do think the domestic base is relatively consistent for now. I certainly recognise that the dollar corporate spreads are the key factor that may continue to drive that. But as new deals are written, there is still, at these asset swap levels, demand to hold a certain portion of those Gilts, so I don't see a mass exodus of those positions. Yet, in future there is potential for less support than we're seeing now.

Ed Russell, RBC Capital Markets: I think 12 to 18 months ago we had the double whammy of an LDI community that was actively deleveraging following the mini budget in September 2022 and insurers actively selling, switching out of Gilts into other assets. Both factors have waned significantly, so the flow effect is supportive for the long-end now and that certainly fits the flows that we've seen as well.

GlobalCapital: We've touched on a few things there that we could probably go into in a bit more detail later. For now, I'm

interested to get your thoughts around the role of syndications. It does look like syndications are going to be doing the heavy lifting, certainly since the budget. The first quarter of next year looks particularly busy with potentially three deals between January and March, I think. Value for money is of course paramount but so too is the ability to access markets and do so confidently. Are those two mutually possible together? Does something have to give?

Parkinson, Santander: I don't think so. And I'd say a few things on that. First of all, the DMO is always showing itself eager to listen to the market and when we had the quarterly consultation, the period over which those three syndications will take place, was stretched out a bit which I think is helpful. I think you need to look at the maturity of the syndications that we're getting, it's all in that 10-year to 25-year part of the curve so nothing longer than that.

In DV01 terms, if you look at syndications for the next quarter, they don't look remotely out of the norm over the last four or five years. So, yes, there's a clustering of three events in the space of a couple of months but in DV01 terms it's nothing unusual at all.

And then I guess the very fact that you've chosen to do the syndications in the 10-year to 25-year part of the curve, you're targeting the part of the curve where there's demand. The last thing I'd say about it is that we've seen with the '34s and '40s syndications more overseas investor appetite for the kind of maturities that the DMO is targeting next quarter.

Lindberg, Nomura: That's a great point. You may have three syndications but they're three very different investor bases. If you think about who will be the end-user, you're not cannibalising the appetite from one investor base to another by those three different syndications that will be issued next quarter.

And the DV01 point is a very good one as well in terms of the efficiency of the cash raised versus the DV01 released. It doesn't feel like the market should have any difficulty digesting these syndications and actually sometimes the increased frequency of these events improves the liquidity of the market because they are seen by a variety of investors as entry points or as focal points for activity, so having a few more of these larger events with lower DV01s could actually benefit the day-to-day market interaction.

Creed, Lloyds: I would favour the smoother functioning of the Gilt market over 'value for money.' Ultimately the value for money will disappear if the smooth functioning of the market doesn't continue. So a poor syndication or a poor auction is going to diminish value for money on an ongoing basis, rather than just always looking for value for money from a direct primary issuance perspective.

Bucknall, NatWest: I think it's really difficult to define accurately what value for money actually means. And I think it could be a little bit short-sighted to focus on short-term yield movements. Ultimately the syndication process is extremely well understood by the investor community and that didn't happen overnight. There's been a huge amount of work by primarily the DMO, but the GEMM

community as well, to foster that. And because, as you've said, it's well understood, that reduces the term premium in the market which ultimately is the cost of funding for the government.

So I'm very much in favour of shifting the focus away from the short-term yield movements to the broad understanding and the smoothness of the process.

Russell, RBC: I agree with those points. I think I'd flip the question around and say this is really the syndication programme doing its job. The syndications are the tools that the DMO can use to react more quickly or flexibly to requirements that might come up or market conditions that might change. The alternative is obviously quite significant, changing the auction schedule or the skew of issuance in the auction programme which I don't think the market would have enjoyed much either.

Pulay, DMO: I completely echo the point about the need to have smooth and efficient market functioning for all products and distribution types, including syndications. I think one important point to note is that in the DMO's remit revision, which was published in October, we didn't add any new auctions. So the number of auctions remains constant at 77 throughout this fiscal year and obviously we've done a very large proportion of those already.

On syndications, we replaced a medium auction with a medium syndication and then we added, instead of that medium auction, a long auction. We undertook four syndications in the first half of this financial year; it is of the utmost importance to us that not only are

they of sufficient size to meet our financing requirement but that they also represent value for money for the taxpayer. And I think it's fair to say that we have done some very successful transactions this year. We are seeing very good breadth of demand from different investors in our syndications.

So at the Autumn Budget we rebuilt this long syndication pot which was essential for us to be able to launch a long syndication of a meaningful size in the next quarter. And two index-linked Gilts are upcoming, one in the very near term and then we plan another one in the first quarter. As people round the table have observed, the other two syndications of conventionals will attract a diverse group of investors and will also meet the government's financing needs.

GlobalCapital: Just sticking to the topic of syndications, what advantages do they give you? Is it the visibility of the investor base that you quite like as well?

Pulay, DMO: They give us a number of advantages. First, the ability to access the market in size at a given supply event. And as noted earlier, these supply events are welcome more generally for the market. But I think direct access to the institutional investor community is also important. And we continue to work very closely with our market stakeholders in designing this programme to ensure that the structure best meets the needs of investors.

GlobalCapital: Scott, do you have a preference?

Creed, Lloyds: I probably favour slightly fewer events in general. I think there's probably room to upsize some of these events to reduce the calendar. The balance at the moment is probably the right one.

GlobalCapital: We have talked a little bit about the international investor base, but let's go into it in a bit more depth. Should we expect it to grow from its current base? Carina?

Lindberg, Nomura: It's a very open-ended question. If you look at the growth of issuance over the past few years, especially that focus on shorts and mediums, as Jessica

"I would favour the smoother functioning of the Gilt market over 'value for money.' Ultimately the value for money will disappear if the smooth functioning of the market doesn't continue"

Scott Creed, Lloyds Banking Group



alluded to — at the start of this fiscal year and remit — part of that has been to attract, and has attracted, the international investor base. We continue to see very strong support in those sectors from the international community.

I think this year, specifically, we've obviously had growth, most notably through SPIRE repackaging transactions in the European insurance investor base, who have probably been less active in purchasing UK Gilts or linkers since or before the LDI crisis. They have been a very strong investor base and supporter of Gilts and linkers this year. For this growth to be sustained, especially as we approach a new year, there will need to be more cash allocated.

In terms of growth elsewhere, it will continue to be from cross-market trades as valuations in other countries on a cross-market basis look more or less attractive. However, I think it's difficult given current levels versus the start of the year to see growth in that area right now. But I don't think we've precluded seeing growth in the future given market volatility in general.

Russell, RBC: There's been very strong sponsorship, especially in the short end as you might imagine with central bank and official money. There was a latent expectation of that since Brexit Britain was somehow off limits, but you certainly don't see that in the data. We'd argue it's quite the opposite.

At the longer end, as Carina mentioned, we've had large movements in relative asset swap spreads, and credit spreads have moved significantly as well across most regions. The cross-currency basis has been very volatile recently as well, which is a big factor for overseas investors when they're looking at bonds of different flavours.

All of those factors mean that maybe it's a little bit more of a relative valuation story at the moment, but the overall level of sponsorship and support remains very high.

Parkinson, Santander: The only thing I'd add is to echo Ed's point about the official institution demand for Gilts. One of the things that people often underestimate is how sticky at least half of the overseas

"One of the most important things in this transition has been to demonstrate the DMO's ongoing commitment to the same predictable, transparent, open approach that we've always taken, particularly with respect to engagement with the market"

Jessica Pulay, UK Debt Management Office



investment in Gilts is. The reserve manager holding of Gilts has survived the GFC, Brexit, Covid, and the Truss mini-budget. It's actually some of the stickiest money in the Gilt market.

GlobalCapital: Jessica, do you have a number in mind, a percentage in mind, between domestic and international holders of Gilts?

Pulay, DMO: We don't have a specific view as to what the right composition of Gilt holdings should be and we're very keen to sustain a diverse investor base for many reasons, not least to protect against any sudden shifts in demand.

We have seen strong buying from international investors, but this is a trend which has been taking place over a number of years now. More recently, August 2024 data produced by Bankstats show net cumulative inflows in this fiscal year to date, i.e. since the beginning of April, to total over £27bn. In terms of the overall stock of debt, as tracked by our Office for National Statistics, international investors accounted for around about 30% of the outstanding portfolio as of June 2024.

As has been noted, typically international investors such as official institutions are most likely to focus on the shorter maturities; the feedback that we have received from market participants suggests that these overseas asset allocators are increasingly seeing the UK as a good investment.

It is also important to note, in the context of this discussion, that international investors encompass many different categories. For example, as well as official institutions such as central

banks, and global asset managers, a significant proportion of this category consists of pooled LDI funds which might be domiciled abroad and therefore some caution is needed when you are looking at these statistics. Some of these investors perhaps wouldn't typically be defined as true overseas investors.

In terms of how things have changed, you have had a broad range of opinions already around the table, but I do think it's also perhaps important to underscore the importance of the role of sterling and its continued, and even increased, role as a reserve currency over the past couple of decades. Sterling, and by extension Gilts, now account for 5% to 6% of global reserves, according to IMF COFER data, and up to 8% of major global bond indices. Sterling's role as a reserve currency is very welcome from the DMO's perspective.

GlobalCapital: The LDI crisis was two years ago and is receding in the memory. But has the market plumbing changed enough since then so that we don't have another such crisis again?

Russell, RBC: It's very rare you get the same thing happen twice in a row, in my experience it's usually something slightly different. It's difficult to say that there will never be another crisis. However, there's been an awful lot of work done to address the challenges that were experienced during that particular period. I've mentioned it already but there has been a significant deleveraging process by the LDI funds that were particularly involved in that scenario, part of which was voluntary and part of which has been brought in by regulation.

“There’s always room to tweak and optimise and adapt to market conditions as they change, which may happen, but at the moment I think we’re in a pretty good place”

Ed Russell, RBC Capital Markets



We know that the Bank of England has announced a repo lender of last resort facility which I think will, once up and running, significantly help with this particular flavour of issue as well. I expect the banks and the dealers have done a lot of work themselves in terms of looking at their balance sheet, looking at the composition of the repo lending book and how their operational processes work to try and avoid having a similar set of issues occur all at the same time.

It’s hard to say that we’ll never experience any kind of problem, but I think that, overall, the market has done a good job of looking at the set of specific issues that occurred then.

Bucknall, NatWest: If you take risk completely out of a market, then it ceases to be a market. And if you’ve got risk in a market, then you’ll have tail risks and all those tail risks are going to look like crises. So there’s always a risk of a crisis in a market.

I think the work that has been done particularly around exchange of collateral and the reduction in leverage for the LDI funds means that I’d agree it’s unlikely that we’ll get another LDI crisis. But I don’t think any amount of changing the plumbing is going to protect the Gilt market or indeed any bond market from a reckless approach to fiscal management from a government. That’s probably the bigger risk.

Parkinson, Santander: I would highlight changes under three categories. The first is regulatory. Pension funds now have a requirement to have 250bp of collateral available at all times.

Secondly, I think attitudes and risk appetite have changed as well. So 250bp might be the standard, but it’s not uncommon for pension funds to have 600bp of collateral available.

Then thirdly there has been innovation on the buy side, working with investment banks so that LDI is much more likely now to have a corporate bond repo, corporate bond CSAs, credit collateralised Gilt repo and things like that. And as Ed mentioned, the Bank of England is doing its part, working on a new facility as well. So in terms of a repeat of what we had before, the market is in a much better place. But let’s not have the trigger anymore, let’s hope the lessons are learnt by government.

Pulay, DMO: I would say the market is in a very different situation relative to a couple of years ago. As has been noted, leverage ratios have fallen significantly and the LDI buffers have increased compared with a couple of years ago. Of course, one can never be completely certain of anything in the future but certainly these important parameters are in a different place.

And there have also been some other developments, for example from the Bank of England as well as the Pensions Regulator. Earlier this year the Bank of England Financial Policy Committee (FPC) commented that there had been continued progress with the implementation of the resilience standards for these funds, as had been recommended. This is encouraging. The government has also accepted the FPC’s recommendation that the Pension Regulator’s remit should take

financial stability considerations into account.

So, as ever, we continue our market monitoring through intelligence gathering, through speaking to our GEMMs and also consulting investors in order that we understand developments in both the primary and secondary markets, which could be relevant to the DMO and particularly to our operations.

GlobalCapital: Now we’ve got a new chief executive of the DMO, how can we expect to see the approach evolving over the coming months and years as a result of the change at the top?

Pulay, DMO: It’s obviously a huge privilege for me to have taken over from Robert Stheeman after so many years. I think one of the most important things in this transition has been to demonstrate the DMO’s ongoing commitment to the same predictable, transparent, open approach that we’ve always taken, particularly with respect to engagement with the market, but also to the way that we structure our operations.

I believe that this reassures market stakeholders about the reliability and credibility of not only the DMO but also its approach to the Gilt market.

In terms of our overall objective, the debt management objective, this has not changed. This is to minimise over the long term the cost of meeting the government’s financing needs, taking into account risk, based on the well-established principles which underpin the debt management framework. So again, predictability, transparency and so on.

We also have to assume that the government is going to continue to borrow in a sustainable way over the long term. We are a permanent borrower, if you like, and so that means we have to take decisions with a long-term focus. It also means that as an issuer we need to retain access to the market in all market conditions. Those are very important principles.

It really is an honour to have this position, to work with the talented and experienced teams that we have at the DMO with specialist skills across a range of different areas. This helps to ensure that, no matter what the circumstances, I believe we can

build on the successful track record which the DMO has established since its inception more than 25 years ago.

GlobalCapital: Let's move on to the next question. So what do our GEMMs think of workings and architecture around the Gilt market? Do they recommend any aspects of other primary dealerships that they could perhaps bring in? How could it be improved?

Parkinson, Santander: We'll see but I think the consensus round the table is that things are working pretty well. I doubt if many people are going to be calling for massive wholesale structural changes. There's always going to be preferences in one corner or another for tweaks here and there, bigger operations and fewer operations, more syndications, less syndications. But the basic architecture works pretty well.

One thing that people talk about when they look at some of the other markets is the period for which the post-auction option operates. There are arguments for and against a change in that. But for me, and others might have a different view, the current set-up is delivering the DMO's programme and delivering funding for the government very smoothly and efficiently. We as GEMMs are choosing to operate in that market so we can't have too many objections about the way it works.

Russell, RBC: I agree with David. One of the useful things about the way that the DMO operates is that we get a quarterly opportunity to provide this feedback. We know that it gets listened to and there's always the opportunity to have that discussion bilaterally as well, which is welcome.

There's always room to tweak and optimise and adapt to market conditions as they change, which may happen, but at the moment I think we're in a pretty good place.

Yes, you could talk about the number of auctions versus the size. Some people talk about what the optimum benchmark size for a new issue is and the frequency with which we issue new lines rather than reopening of existing ones.

Those are healthy discussions because there is, generally speaking,

quite a wide variety of views across the dealer community and certainly across the investor base about what the best structure and set-up would be. Where a clear consensus emerges, the DMO is typically open to hearing it and to acting on it. From previous experience, and where there is no clear consensus, often the best thing to do is just stay where you are.

Lindberg, Nomura: I'd echo those points. Predictability and reliability are stalwarts of the DMO and Jessica has embodied that for her whole career there and she and her team do a wonderful job with that.

I agree with your point that actually different parts of the market and different individuals within those parts of the market will have their preferences and actually some will say that this predictability and reliability can come at the expense of flexibility. But actually, that is a positive in the sense that market wishes can evolve very quickly and dramatically and going back and forth with these changes would not be supportive for the issuance programme.

By utilising syndications, that is the point that offers some flexibility and offers the ability to adapt to changing demand dynamics and needs of issuers over the course of the year. They are also important in balancing different objectives, the cash efficiency argument, and the ability to raise the amount needed for the government in the least market impactful way.

So there are a lot of different and competing needs that Jessica and her team face at the moment. And, yes, a lot of work should go into things like the post-auction option facility. I would be in favour of it

being extended, but I understand the risks around that and therefore work should go into that, such as thinking about what are the benefits for the government of relaxing something that is clearly a benefit to the buyers of the auctions but not necessarily a clear benefit to the issuer itself. That's the sort of debate that is valid as well.

Bucknall, NatWest: I would agree with all those points. The GEMM system works very well. It ensures that the regular auctions are taken down without any fuss. And as a result of the transparency and the openness, the overall value for money for the taxpayer is increased as costs are reduced.

The DMO has recently shown an increased openness to things like tenders where individual market-makers or a group of market-makers might identify an opportunity for the DMO to save more money by issuing more expensive bonds. The challenge there, and I think it's something that the market still needs to address, is that banks will generally operate a zero-tolerance approach to communications with other banks. So it is increasingly difficult for the market to form a consensus on tenders.

There's the potential for that to be explored because the tenders do form a really valuable part of the market from a market-maker's perspective.

Pulay, DMO: Let me perhaps come in on this point. We did want to retain at the Autumn Budget a proportion of so-called unallocated issuance which had not previously been allocated to any particular maturity, type of Gilt or distribution method. Specifically to meet demand for particular bonds, in September, for

"The GEMM system works very well. It ensures that the regular auctions are taken down without any fuss. And as a result of the transparency and the openness, the overall value for money for the taxpayer is increased as costs are reduced"

James Bucknall, NatWest Markets



example, we launched a consultation, following which we issued a tender for a 2026 maturity which had been much in demand from the market. Even this week, we launched a consultation for a reopening of that bond and we will tomorrow be tendering that bond as well.

GlobalCapital: How should we expect the linker portion of issuance to evolve?

Bucknall, NatWest: From a linker issuance perspective it's been a wild ride over the last 10 years or so. As a proportion of total issuance, in nominal terms, we got up to something like 22%-23%. But in the period after Brexit, in DV01 terms, linker issuance accounted for over 50% of the risk that the market was taking down, predominantly by pension funds.

After that, the Office for Budget Responsibility highlighted that the fiscal risks associated with high levels of inflation-linked Gilt issuance started to come down, but it was the RPI reform consultation which almost forced the market's hand or the DMO's hand to issue fewer linkers. So the proportion has dropped quite considerably to 10%-12% of notional issuance. Interesting that as a result of the level of yields, the risk proportion has dropped to around 20% from 50%.

As to where it goes from here, the linker portion of the Gilt market remains a very important feature of the market. The demand isn't as strong as it was over the last maybe 10 to 15 years but it's still very strong in a global context. Pension funds still want to buy inflation-linked assets and inflation-linked Gilts and the proportion is just about right now.

Lindberg, Nomura: There's been a clear move to focus marginal issuance increases potentially more in the short to medium parts of the curve, which has arguably a more diverse investor base.

What's very positive to see is that there are no real scars left from the Truss mini-budget and LDI crisis in terms of both domestic and international support for linkers. Often it's a fixed amount of linkers that seems to be in demand. The question will be, in periods where demand might re-emerge, how can the DMO react within a year? That's where a syndication is fantastic because either a longer duration bond can be issued or the syndication can be increased in size. That allows the flexibility around the proportion to be adapted quite a bit quicker.

In terms of how we see that evolving, I think we have seen growth in other investors in UK linkers, but I echo James's point — the domestic support remains very robust and that will persist.

GlobalCapital: Do you expect the switch from RPI to CPI to affect that at all?

Lindberg, Nomura: What the ONS is able to do and what they intend to do around the calculation methodology of RPI is a very well-flagged switch. The market has somewhat priced in that reform to take place over that period, 2030 to 2031. As for how the market responds, investors have had several years to come to terms with this switch.

Russell, RBC: I agree. I think the certainty on that point is the helpful thing. We spent a long time with a lack of certainty and years of not

really knowing which way it was going to go. Given that we can now be almost certain that we are going to have this reform in 2030, and obviously everything forward of then is already a CPIH flow by definition, that is very helpful for the market.

Parkinson, Santander: On the wider point about how index-linked issuance will develop, one of the things we've seen is that pension funds' hedging ratios are very mature now. But now that they have immunised that macro risk, they're paying much more attention to their micro risks, so the DMO is very diligently helping them with that by filling in gaps on the linker curve. And I see that next quarter we've got a new seasonality line being opened up, which — I don't know for certain, but I suspect — is part of that same strategy.

Pulay, DMO: You may not all remember this, but the UK was the first issuer of index-linked bonds in the world in 1981. This class of instruments has become a mainstream product for us. It is widely traded, including on a cross-market basis. So the larger share of linkers that we have in our portfolio reflects — and it is a somewhat larger share than certain other comparable countries — the unique structure of the pension fund industry here where these funds have had particularly strong demand for index-linked Gilts to match their liabilities.

It is important, though, to note that to determine the proportion of index-linked Gilts that we issue every year, we analyse the relative cost-effectiveness of linkers in comparison with equivalent maturity conventional Gilts, under a range of different scenarios. And we look at breakeven inflation rates and see how they're evolving.

It's also important to note that having issued linkers, we have been able to generate quite significant cost savings over time for the UK taxpayer. At the DMO we've conducted some analysis that the government generated direct savings for all those index-linked Gilts issued since 1981 but have now matured. The sums were significant: in 2023 terms, £158bn for those linkers that have matured.

GlobalCapital: Moving from linkers to green Gilts, which are



Carina Lindberg, Nomura

well and truly established now. Is there scope to evolve issuance and adopt new structures of issuance, for example sustainability-linked bonds? There are a couple of other sovereigns out there that are looking at it and may even press the button going into January. Jessica, starting with you?

Pulay: First of all, we haven't ruled out any product at this point, but we have no current plans to issue a new product. Any new instrument would need to satisfy our criteria of achieving value for money for the taxpayer, enjoying strong and sustained demand over the long term, and also being consistent with the government's wider fiscal objectives.

I would highlight that green Gilts are now an established product in our debt management portfolio and I have been particularly pleased to see this. The green Gilt programme has just celebrated its third anniversary. We issued our first green Gilt in 2021: a 2033 maturity which we launched slightly longer than 10 years to roll down the curve and become a 10-year benchmark. This was followed by a 2053 maturity. We have now raised funds of approximately £43bn via green Gilts to date.

Moreover, green Gilts have been fully integrated into the debt management programme via our auction schedule. This was very much an objective of the green Gilt programme when we set out on that journey over three years ago, largely because we wanted to ensure that green Gilts would enjoy the same or similar characteristics in terms of liquidity to our standard Gilts.

We have a green Gilt programme this year of £10bn. We have issued more than £6.8bn so far. We auction them on a regular basis and, to the extent possible, we want to continue to build up the size of the existing lines to encourage liquidity in this sector.

GlobalCapital: Is there ever any discussion around looking at perhaps what another sovereign might do, let's say Germany or Denmark, and any alternative structures that they use?

Pulay, DMO: When we embarked on the programme, we did obviously take a careful look at what peer

"We believe that the stability of our issuance strategy gives the market certainty including during uncertain times."

Jessica Pulay, UK Debt Management Office



issuers were doing in the market. We decided to adopt the approach we did largely because we felt it would meet the investor appetite for liquidity — a recurrent theme we had in our outreach to the investment community — and also ensure distribution to the widest possible investor universe. It's important to note that our green Gilts have attracted new investors into the Gilt market who had not previously purchased Gilts.

We also introduced a few innovative features into our green Gilt programme. For instance, alongside our institutional green Gilts, our sister institution National Savings & Investments launched a retail green savings bond through their network. We also incorporated a new expenditure category for biodiversity into our programme, which has been replicated subsequently.

Importantly, we also committed to report on the social co-benefits in addition to the environmental impact of funds raised under the programme. We report regularly on our programme; there's an allocation report every year and we publish an impact report every two years. All of these publications are available on the DMO's website.

GlobalCapital: Scott, is there as much demand from where you sit as there was two, three years ago?

Creed, Lloyds: It's a good question. I think there will be ongoing demand around the globe for ESG and specifically green sovereign issuance. There is a structural ongoing need for investors to access ESG-type issuance. And I think what the DMO has done over the last three years has been successful.

It's a balance between building up current green Gilts to enhance liquidity. It's then the balance between continuing to build those up and issuing new on-market bonds at some point to make more of a curve in green Gilts. As Jessica alluded to, the 2033s were issued post-Covid at zero interest rates.

GlobalCapital: Do you think investors such as yourselves would like to see a bit more choice around the actual product of ESG?

Creed, Lloyds: It depends on the investor type. At the moment one specific type of ESG sovereign issuance is sufficient. Then, as the world evolves over the next few years, it might be for the DMO to continue to branch out.

Parkinson, Santander: I've been around long enough to remember a time before the DMO existed. Back when the Bank of England was running things, there were all kinds of different structures: convertible bonds, partly-paid Gilts, things like this. I think the DMO has very much taken the view during the last 25 years that any cost savings by tapping little pots of demand that those kinds of bonds might appeal to would be offset by having a strategy of building deep liquid benchmarks and that would deliver better value for the taxpayer overall.

I think one of the nice things about the green Gilt programme, although it's got its own carve-out within the remit, is that the bonds themselves are vanilla structures. So the green Gilt programme doesn't move the market back to those days of weird and wonderful structures. I'm not an expert on SLBs but I

think typically they have features such as coupon step-up structures and things like that. I'm sure it won't be ruled out but to me that would be quite a big decision for the DMO to move away from the vanilla-bond liquid benchmark strategy.

There's plenty of mileage left in the programme. When they were first announced, the DMO promised to build a curve. We've got two bonds now and I'm sure that in the next two or three years there'll be other bonds added to that to build something that looks much more like a green curve.

GlobalCapital: We've got a couple more questions. What scope is there for further technological innovation in the Gilt market, such as digi-Gilts?

Bucknall, NatWest: The Economic Secretary announced only this week a pilot in this space, so it's clear that there is going to be a future for this in some form. It's also clear that there are some potentially significant benefits for the market. I think for me as a market-maker, I'm keen to look at the risks around these emerging technologies and not get too swept up in the hype cycle that you often see.

One of the features that has been put forward was around instantaneous settlement and the benefits around reducing back-office scale as a result. I think that it can be the case in complex systems like the Gilt market or indeed any fixed income market that certain features provide a certain amount of anti-fragility which actually cushions from shocks.

As an example, if the deposit sector was completely on a distributed ledger, then bank runs

might become instantaneous and that's probably not going to be a good thing. There might be controls in place to stop that, but you can see it as a risk. Things happening too fast is often not a good thing and there is some evidence from the LDI crisis where certain frictions in the settlement system actually generated some resilience to the market and protected asset managers in a lot of cases.

I'm excited about the potential but also keen to think through the risks because there will be risks to these new technologies.

GlobalCapital: It's going to require the DMO to work on this, it's going to require the GEMMs to work on it, it's also going to require the investor base to have to move as well. So what are your thoughts?

Creed, Lloyds: There is definitely room for it. The world is moving in this direction. We, as a bank, alongside other banks, have worked on a technological Regulated Liability Network, which is innovation within the payments space towards using DLT (distributed ledger technology). There are also a number of innovations going on in the margining space. It does have clear benefits in terms of instantaneous safe settlement and essentially making a much more efficient marketplace from a payments infrastructure perspective.

Pulay, DMO: The chancellor announced at the Mansion House dinner speech a few weeks ago that the government intends to launch a pilot digital Gilt instrument, or DIGIT, using DLT. The economic

secretary to the Treasury elaborated on this in a written ministerial statement. The objective is to raise money for the UK that tests potential uses of DLT in the debt issuance process.

It is a pilot experimental issuance which will take place in the digital securities sandbox, which was launched this autumn. It will not affect the existing approach to issuing Gilts via the existing debt management programme. The government values the critical role that current infrastructure providers have in supporting the Treasury and the DMO's debt management objectives and these are going to be unchanged by this pilot exercise.

The digital securities sandbox opened for applications in September through which firms can use DLT to create a trade to administer securities while being supervised by the Bank of England and the Financial Conduct Authority. It allows participants to experiment with DLT-based infrastructure in a controlled and monitored setting. This ensures that potential risks can be managed while innovation can be fostered.

We at the DMO are looking forward to engaging with stakeholders, alongside our colleagues in HM Treasury, throughout the design of the pilot in the new year, but it really is important to stress that this is taking place outside our regular Gilt and T-bill programmes.

GlobalCapital: The last official question — what contingency plans does the UK DMO have in the event of another severe event that triggers another Covid-style vast increase in borrowing?

Pulay, DMO: I mentioned earlier that it's very important for the DMO to be able to maintain access to capital markets in all conditions and at a cost which represents value for money for the UK taxpayer. Our response to an extraordinary exogenous event would largely be dependent on the circumstances in which we and the market found ourselves at the time.

In exceptional circumstances, which we saw during the Covid period, we would potentially look to make operational changes and this would most likely necessitate a larger number of operations. But

"It works well to align the incentives of the primary dealers and the issuer because everybody knows that it's a repeated game"

Ed Russell, RBC Capital Markets



in deciding that, we would need to liaise closely with our primary dealers to understand demand and market feedback. We would need to schedule operations carefully, as we did during the Covid period. What has never changed, including during the Covid period, is our adherence to the debt management objective, which is long-term cost minimisation. This has served us very well over the years.

We believe that the stability of our issuance strategy gives the market certainty including during uncertain times. It's fair to say that the DMO has successfully navigated turbulent market conditions including large financing requirements and periods of volatility. We have a track record of successfully delivering the remit regardless of circumstances and that's a testament to our people, our longstanding experience, as well as the adaptability and the support of our market stakeholders.

GlobalCapital: Markets seem fatigued by all the crises in recent years. Is there a sense in the market, therefore, that what we need is a year or two with no crises so that we can just almost get rid of that fatigue? Are markets, not just Gilts, vulnerable more than ever to this?

Parkinson, Santander: I think there's an important distinction to be made between a UK-specific event and a global event. Covid was global, the mini-budget crisis was UK-specific. I'd much rather have neither of those, but I think a UK-specific one would be more of a challenge.

That said, Covid wasn't just a fire drill, it was a live-fire exercise and I think the market and its institutions and participants came through it in really good order. Almost from the start the market adapted to working from home and the other challenges of that period without the supply programme being interrupted, without investment programmes being interrupted. Things worked really well and from there on, the banks adapted and just got better and better at it.

So, yes, we can hope for no big catastrophic events — that would be nice — but I think the fact that we've had a few should actually give some confidence in how adaptable the market is.

"... when things do go wrong, you've got a panel of banks who are long-term committed to the market to provide the resilience"

James Bucknall, NatWest Markets



Russell, RBC: It's a strength of the primary dealer model really. It works well to align the incentives of the primary dealers and the issuer because everybody knows that it's a repeated game, and you're going to carry on interacting with each other and carry on working together. You just find the best way to get through it, whatever the situation is.

Covid was obviously challenging for everybody, but we found a way. The DMO managed to perform a successful syndication in the midst of the LDI crisis.

One of the things that probably is on our minds a little bit, and which the global regulators are also examining, is where the risks currently sit in financial markets and in what kind of institutions. For instance, the risks that sit in the so-called shadow banking system or the slightly less regulated areas of markets are being examined for what that means for future episodes.

Lindberg, Nomura: Crises are almost impossible to avoid, especially the correlation of the different bond markets with central-bank price action and activities, either raising or lowering rates, as well as the investor base having a much more global focus.

Historically, you had a very domestic-focused LDI-driven investor base. There is now greater activity of both domestic and international investors looking at Gilts on a cross-market basis, which means that trouble in another bond market can lead to volatility in another.

So far, there has been no UK-specific crises this year. But there has been what could be deemed crises or sharp volatility events in other markets, and the

UK bond market has navigated that very well, as has the primary dealership set-up. So we can have a lot of confidence around the fact that we've had a global crisis, we've had a domestic crisis, and actually the regulated institutions are now in a much better place to navigate future crises.

Shadow banking or shadow leverage is a really important risk. It was important in 2020, in 2022, and continues to be. In addition, the cross-asset focus, which can lead to contagion, also needs to be examined. Overall, though, I'm very happy to see how the UK market participants have navigated these so far.

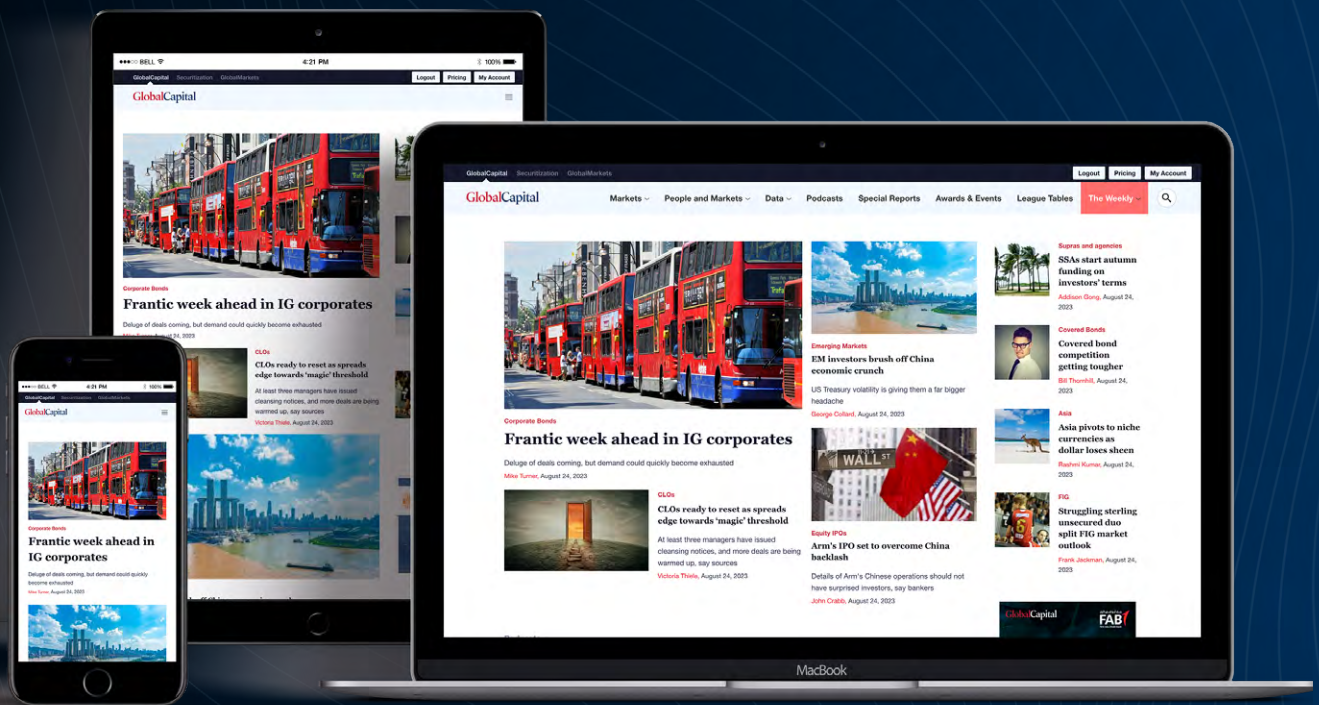
Bucknall, NatWest: I completely agree with all of that. I've already said how I believe the primary dealer model offers value for money through the smooth workings of the market. But even if it didn't, it, at the very least, provides an insurance policy such that when things do go wrong, you've got a panel of banks who are long-term committed to the market to provide the resilience.

Creed, Lloyds: 100% agree with everything. Banks are very well capitalised, very liquid and very well risk-managed now. The next crisis is more likely to come from within the shadow banking sector.

The scale of the next crisis is probably twofold. Is it idiosyncratic — how are our peer countries being impacted? And what is the central bank intervention like? We've seen intervention from the Central Bank over the last three or four big events. We're now obviously going through a period of QT. What is the appetite for more intervention during the next crisis? **GC**

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Financial institutions raising unsecured debt had a phenomenal year in 2024, one characterised by almost constant spread tightening. However, next year is expected to be different.

The appetite for unsecured FIG debt is set to remain, but market participants who responded to *GlobalCapital's* market outlook survey think credit spreads are likely to widen by the end of the year.

Contributing to the favourable market in 2024, according to Alberto Maria Villa, head of FIG syndicate at UniCredit, was the fact there were no substantial shocks of the variety that have dogged markets in previous years — such as the collapse of Silicon Valley Bank and Credit Suisse in 2023, for example.

Instead of “large and prolonged shocks”, there were smaller bouts of volatility — “blips, such as the European Union election aftermath or the August spike of volatility,” says Villa.

Meanwhile, the higher interest rates were a boon for bank earnings, which in turn provided a tailwind for their bond issuance. “Banks have taken credit for their strong earnings all the way from 2022 through 2023 and now this year,” says Isaac Alonso, head of debt capital markets for Germany, Austria and Switzerland at UniCredit. “They have robust balance sheets, reflected in their capital positions.”

However, as the European Central Bank continues to cut interest rates, that will drive expectations that eurozone banks’ net interest income will shrink.

Coming changes

One of the main changes expected in the primary market in 2025, according to survey respondents is for spreads to widen. Some 80% of the respondents think senior preferred spreads will finish 2025 wider than at the end of 2024, while 65% see that happening for non-preferred spreads.

By mid-November 2024, FIG credit spreads moved to such tight valuations that many market participants think some widening is inevitable. This is more likely, they say, if accompanied by economic weakness, particularly in Europe where growth has largely faltered.

Macro challenges face FIG primary market boosted by rate cuts

Central bank interest rates cuts turbocharged the unsecured FIG market in 2024, making for a strong year for bond issuance. With further rate cuts in Europe expected in 2025, **Atanas Dinov** reveals how market participants expect the year to unfold

“We have seen higher yields bring out buyers of credit as investors want to lock these rates in and this in turn has led spreads to tighter levels,” says Mark Geller, global head of FIG debt capital markets at Barclays. “But the flipside is that higher-for-longer rates and yields does tend to be a brake on the broader economy.”

Noteworthy in the survey is that a smaller number of respondents expect bank capital spreads to widen compared to senior bonds. About half the respondents expect this for additional tier one (AT1) spreads and 60% see this happening for tier two notes. However, unlike senior bonds where none thought that spreads would tighten, around 15% of respondents saw this as a possibility for AT1s and 20% for tier two spreads.

“Fundamentally, there is very strong appetite for subordinated debt [as] investors want to lock in yields with the prospect of further rate cuts on the horizon, which means demand dynamics for AT1, restricted tier one and tier two are good,” says Geller.

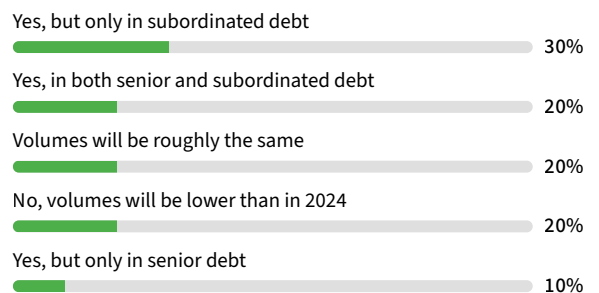
Yet, he also points out that with spreads, as of mid-November, “at recent historical tights for subordinated debt, some investors are becoming more selective on the deals they are willing to buy”.

However, not all foresee an immediate worsening in funding conditions just as the year turns. As 2024 draws to a close, there has been more demand for bonds than

issuance, which is likely to lead to it being an issuer’s market for longer.

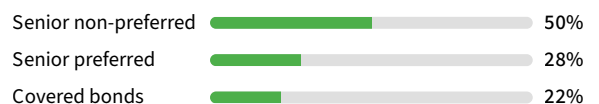
“In the very early part of 2025, the market will remain accommodative for senior unsecured and capital products as appetite will outmatch the prospective potential supply [that is mostly pre-funding] from [mid-November] to year-end,” says Villa.

Will insurance companies increase their issuance volumes in 2025 compared to this year?



Source: GlobalCapital

In which asset classes will banks focus the majority of their funding in euros next year?



Source: GlobalCapital

He expects the new year to start with “a positive outlook for primary unsecured debt”, but “for the rest of the year, it’s harder to form a view because there are too many unknowns, but the base line is a constructive one”.

Euro divergence

What the ECB does next with interest rates is expected to be probably the biggest theme of 2025 in the European FIG market. A full 65% of respondents think the biggest risks next year will be macroeconomic factors.

What the ECB does compared to the US Federal Reserve is of particular interest. “There is potential for divergence between the US, where the prospect of material rate cuts has been recently reduced, and Europe where there is more belief in sequential rate cuts expected over 2025,” says Geller.

“The ECB’s increasingly less restrictive monetary policy stance will be positive for credit,” agrees Matteo Benedetto, head of FIG syndicate at Morgan Stanley. “The market expects a supportive ECB ready to counter the impact from growth [in Europe], potentially coming from the US government’s fiscal plans, with rate cuts.”

This anticipation, he adds, will translate into a “very healthy set-up for 2025, not just for FIG but for credit overall”. He also highlights that there is plenty of liquidity in credit markets in Europe, meaning that “the view for 2025 is bullish for credit as long as macro is stable”.

“Inflation could gain in the US next year from the Trump administration’s proposed inflationary policies,” says Vincent Hoarau, head of FIG syndicate at Crédit Agricole. “In that consideration, the monetary policies of central banks will be closely followed as they could turn the sentiment in the FIG market.

“Another part of the central bank watching is how long will [Jerome] Powell stay as the Fed chair as this could influence markets too. Trump’s new economic measures may clash with the Fed’s inflation control efforts. The headline risk of tariffs and potential trade war with China will be another risk factor and markets will be watching to see if it will be like in 2016-2018.”

Geopolitical risk is another factor that could affect the FIG market.

“It may be that some of the current conflicts could come to conclusions in 2025,” says Geller, “which would be market positive, but it is tough to argue that the risk of further escalation is currently priced by the market.”

“By far, the most supportive factor for tight credit spreads is the liquidity-carry combination,” says Hoarau. “As long as euro rates remain above the 2% mark, the bullish credit narrative should remain solid.”

UniCredit’s Villa points to the increasing likelihood that the ECB will stop cutting rates at a level below 2%. Even then, “this will still be within the cycle where positive net inflows are expected to continue into fixed income,” he says.

If such conditions prevail — even factoring in possible spread widening — 70% of survey respondents expect that lower tier banks will have no worse market access compared to this year. Only 20% think it will be more difficult and 10% expect them to have better access.

Volume factor

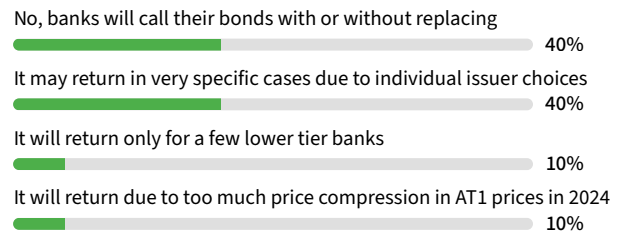
Senior and subordinated issuance volumes in euros are largely expected to remain similar to 2024, with 65% and 60% of survey respondents expecting the same volumes in the respective asset classes.

GlobalCapital’s Primary Market Monitor tracked more than €196bn of public senior FIG euro debt issued between January and the end of October 2024, including deals from central and eastern European institutions, and just under €65bn of subordinated paper. That compares with almost €201bn of senior and €40bn of subordinated issuance for the same period in 2023.

Marine Leleux, ING’s sector strategist for financials, sees the primary FIG market in 2025 being “active despite banks issuing a slightly lower amount of bonds than in 2024, with a total supply of €400bn,” including covered bonds.

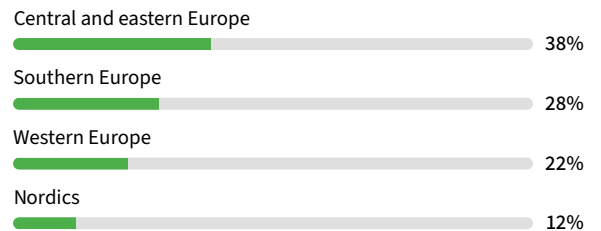
ING says in a research report that “the higher redemptions level will be the main driver pushing new issuance levels upwards”. Covered bond redemptions will be €18bn higher in 2025 than they were in 2024, €33bn in both senior asset classes and €18bn more in tier two and AT1 debt, says the Dutch bank.

Will worries of extension risks return to the AT1 market in 2025?



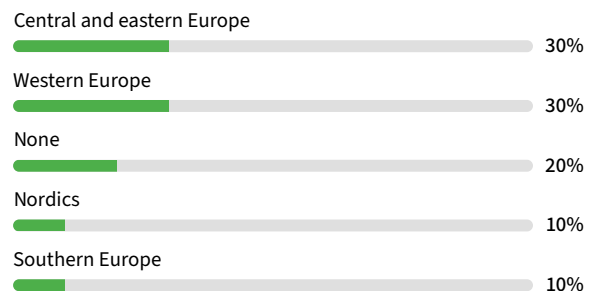
Source: GlobalCapital

Lower tier banks from which of the following regions will have better market access in 2025 than this year?



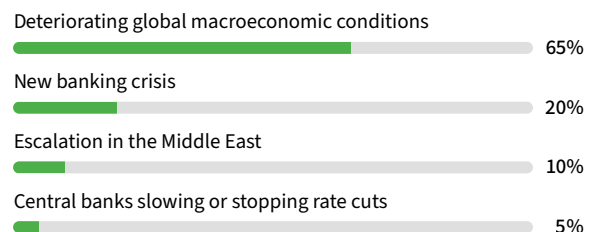
Source: GlobalCapital

Lower tier banks from which of the following regions will have worse market access in 2025 than this year?



Source: GlobalCapital

What is the biggest risk facing FIG borrowers in 2025?



Source: GlobalCapital

It expects the €400bn of overall FIG supply it predicts will come in 2025 to be split into €155bn of secured issuance, €200bn of senior and €45bn of bank capital.

UniCredit’s Alonso expects issuance activity in 2025 to be concentrated on refinancing callable debt across the capital stack as the refinancing need will increase compared to 2024. “But that doesn’t mean there is a redemption wall as it will be all absorbable,” he stresses. “Investors want reinvestment opportunities.”

M&A to the fore, ESG retreat

Respondents expect more mergers and acquisitions in the banking sector. In turn, this may push up issuance from selected banks.

“The 2025 unsecured supply will be higher only in very specific isolated cases where increased funding needs will be driven by M&A situations,” says Hoarau. “For most other major European banks, it will be a relatively stable situation.”

Around half of survey respondents expect that banks’ debt issuance will be tied to financing environmental, social and governance (ESG) initiatives — roughly the same as in 2024.

With €70bn-equivalent of ESG bank issuance globally since the start of 2024 to mid-November, ING says this year is the first in a decade that volumes were expected to be lower than the year before.

“Part of the reason [for the slower pace of issuance] is the stronger regulatory emphasis on green bonds, as outlined in the EU taxonomy regulation and the EU green bond standard,” says ING.

It expects around €70bn-equivalent of ESG issuance in 2025.

Primary preferences

Survey respondents think the majority of banks’ unsecured issuance will be in senior format. Half voted in favour of non-preferred debt, followed by around 28% choosing senior preferred with covered bonds taking the balance.

The tightening of the Bund-swap spread in euros during 2024 sent the covered bond market into disarray by the time it turned negative in November. That created “a very strong contrast” between secured and unsecured markets, says

Hoarau, who expects this will likely remain the case until the early part of 2025.

That spread tightening became a challenge for the covered bond market where bonds traded wider against swaps. Issuing such a deal turned from what has been “typically a matter of preference for issuers, [to] now being a matter of possibility as well,” points out Villa.

“With covered spreads of core issuers widening but senior preferred of core and Nordic issuers not moving, this suggests that the convenience of senior issuance for banks will increase,” says Benedetto.

The other topic to unite survey respondents in their views was that the sterling market will be the next most used by borrowers in 2025 after issuance in euros and dollars.

Capital dilemmas

After strong capital issuance in 2024, concerns surrounding banks’ willingness — or in some cases ability — to redeem their most subordinated debt capital at the first instance may flare up again.

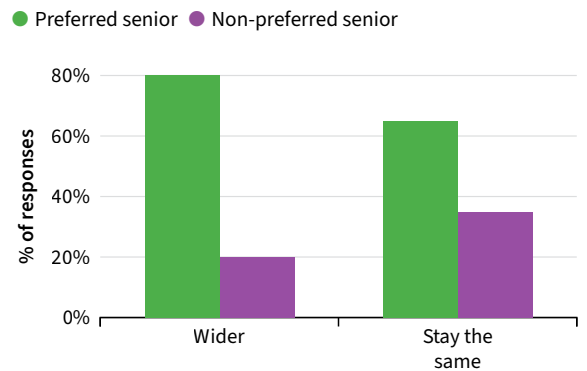
Some 40% of survey respondents expect no concerns surrounding AT1 extension risk. But the majority think some kind of problems may arise in 2025.

“The biggest question facing this segment is how more compressed and tighter capital can get,” says Benedetto. “At some stage the upside and downside scenarios will flag that spreads will be subject to some widening pressure and decompression.” He expects this to be “more of a development late in the first half of next year or early in the second half”.

However, many banks have opted to pre-empt their refinancing of such strategic capital well ahead of their call dates, with around \$15bn-equivalent of AT1s issued between September 2024 until the end of October. That effectively brought forward some of the calls that were due in 2025.

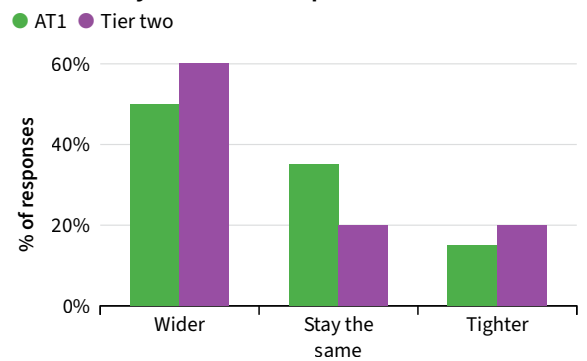
“Some issuers have taken advantage of conducive markets — spreads at tight and investor demand high — to bring forward some of the refinancing of calls due in 2025,” says Geller. “The use of tenders to reduce the cost of carry has also been a feature of deals this year. Despite this, there are many calls across AT1 and tier two next year and in 2026, which should keep the supply going.” GC

How will bank spreads on senior bonds move by the end of 2025 compared with this year end’s expectations?



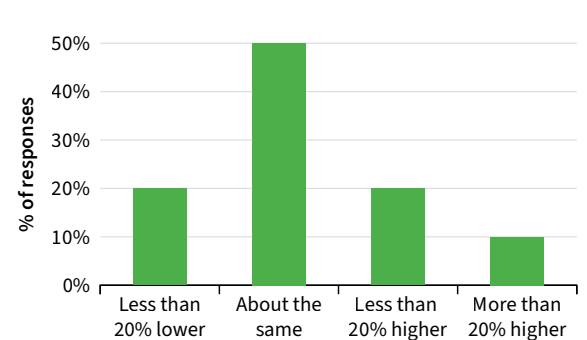
Source: GlobalCapital

How will bank spreads on subordinated bonds move by the end of 2025 compared with this year end’s expectations?



Source: GlobalCapital

How will ESG issuance volumes evolve in the FIG market in 2025?



Source: GlobalCapital



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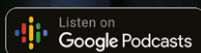
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The European financial institution bond market suffered an ominous start to 2024 when secondary spreads widened violently on the second trading day of the year — but all was soon forgotten as investors swiftly piled into FIG assets, setting the tone for a strong first quarter.

While January turned out to be a solid month for FIG issuers to raise debt, February was even better. New issue premiums virtually evaporated for most deals, according to *GlobalCapital's Primary Market Monitor*.

The average new issue premium on senior benchmark-sized bonds was 10bp in January. It then lunged to 1.1bp in February as only a handful of transactions paid positive concessions and several were printed in negative territory.

It was a similar story in subordinated debt, where over the same period average concessions declined from 10.6bp to 4.2bp.

Technical factors proved key in driving down premiums. A huge influx of cash flowed into credit funds, sometimes because of a build-up of cash, the result of the higher coupon payments of recent times.

The pace of issuance was slower compared with the previous year. There was total volume of €82bn-equivalent in euro and sterling benchmarks issued across the credit stack in January and February, down from €103bn in 2023.

March brought more borrowers looking to take advantage of the favourable funding conditions. By the end of the first quarter, year-to-date volumes in unsecured FIG issuance had closed in on the 2023 numbers at about €110bn-equivalent.

They say that all good things must come to an end. That proved to be the case in April as FIG issuance ground to a temporary halt after the repricing of interest rate expectations following strong US employment data.

Just €2bn of unsecured FIG benchmark issuance was printed during the third week of April, the lowest weekly volume all year up to that point. When issuance resumed later that month, demand was tepid. Santander moved first, braving the market with a €2bn dual tranche senior that paid a 10bp premium on both legs — a sharp rise from the average 2.1bp paid on senior deals earlier in April.

Credit investors plough into FIG as premia oscillate

Relentless appetite for financial institution paper led to a collapse in new issue premiums at the start of 2024. In the second half of the year, however, some investors pivoted away from senior paper and into subordinated debt as the hunt for yield intensified, writes **Sarah Ainsworth**

As investors' conviction over the certainty of ECB rate cuts fell, so their appetite for senior paper waned and demand for higher yielding bonds increased. Issuers responded in kind and the volume of tier two euro and sterling notes sold in the second quarter rose to €16bn-equivalent, up from €12bn in the first quarter.

A lull in issuance over summer ended in the third week of August with the resumption of primary market activity — earlier than usual.

During the subsequent four weeks FIG issuers collectively raised €36bn-equivalent from unsecured bonds, about 45% higher than the volume recorded the previous year, amid a desire to get ahead of potential volatility in the run-up to the US presidential election on November 5.

During this period, appetite for additional tier one paper was robust from the outset, with the average bid to cover ratio for euro and sterling ATIs landing at 7.6 times the deal size for the first week of September. But as time passed, so did investors'

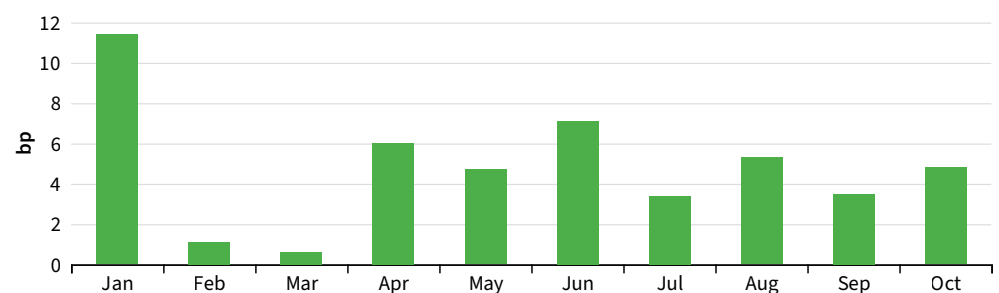
appetite for the most subordinated debt banks offer. The average subscription ratio for transactions that were priced during the second half of September fell to just 1.98 times deal size.

Market participants suggested that the large volume of AT1 issuance in a short period of time had weighed on the market, while the appearance of corporate hybrid issuance had drawn some investors away from the FIG market.

After a brief pause leading into the US presidential election, issuance swiftly resumed after a decisive win by Donald Trump. The primary market appeared to be ending the year as it began — with issuers paying minimal premiums and appetite for all and everything FIG.

Although premiums oscillated throughout the year, issuers' pricing power remained constant: the average tightening of spreads through the first three quarters was 31bp, 30bp and 29bp respectively, and 28bp through October. **GC**

FIG euro and sterling unsecured average new issue premiums (2024)



Source: GlobalCapital's Primary Market Monitor

Aussie dollar FI supply will stay strong, but covered issuance in question



GC: What have been the main market developments for Aussie bonds in 2024?

Holian: The backdrop for issuers has been highly supportive. Australia's central bank is one of the few that has not yet reduced rates. The fact that rates have been at 4.35% for some time, combined with solid liquidity and macroeconomic stability, has made investors very receptive to new transactions. We have seen very strong book-to-cover ratios throughout the year, regardless of whether that's financial institution (FI) or corporate deals.

In terms of FI supply, at one point we were ahead of the run rate from 2023, which was a record year with A\$112bn issued. In Q3 this year we had A\$87bn, just ahead of the A\$86bn in the same quarter of 2023. The FI market then slowed slightly ahead of the US election, but we're seeing the pipeline build strongly towards year end and this has been supported by recent deals for CBA and Barclays in Tier 2 and ING in covered, all with very large books.

GC: How will the Australian Prudential Regulation Authority (APRA) proposals for AT1 affect issuers?

Holian: APRA is seeking to phase out AT1 capital for domestic banks over five years with the current proposal suggesting a January 2027 start date. One of the motivations behind this move is that AT1 in Australia is a retail dominated market, and in the event of a crisis, these investors may end up taking a significant amount of any AT1 losses, as was seen in other markets such as Switzerland.

Australian banks will likely refinance a large portion of existing AT1 in the Aussie dollar T2 market. But they will also look for attractive pricing, longer tenors and diversification opportunities in offshore markets. At the same time, that could create an opportunity for institutionally-placed offshore banks to tap the Australian market. On the buy side, we estimate that between 2025 and 2032 A\$42bn of cash will be returned to AT1 investors, who will be looking to deploy cash to comparable yielding

2024 has been another impressive year for Aussie dollar bank supply, almost outpacing the 2023 record. The year ahead will bring new opportunities along with regulatory change. *GlobalCapital* spoke to **James Holian**, Head of DCM & Syndicate Europe at **Commonwealth Bank**, about the outlook for issuance, the phase out of AT1 and whether covered bonds might spark into life in 2025



James Holian, Commonwealth Bank

securities. Wholesale AT1, T2 and corporate hybrids are the most obvious choice.

GC: What are you hoping to see across different asset classes in 2025?

Holian: If FI supply reaches north of A\$100bn this year, that will exceed all previous years with the exception of the record 2023. The maturities for the major banks in FY25 are lower than in FY24. Deposit growth remains strong. If rates stay higher for longer that is supportive for the banks raising funding for new lending through deposits. However, if credit growth picks up, we expect the banks to raise more wholesale funding in addition to the maturities. I would hope that in 2025, with no run-rate slowdown due to the US election, we would be in the 2023-2024 issuance range. What we have missed in 2024 is Aussie dollar covered bond supply. The first deal of 2024 only appeared in November with ING, followed by Bendigo and Adelaide Bank. This is partly because the

secured-unsecured price differential has not been as beneficial to issuers as it has been in other currencies. From speaking to various issuers, their balance sheets have not necessarily grown as much as they were expecting and deposits have been stickier so covered supply has been lower as a result. Furthermore, the Aussie majors have tended to keep their covered issuance for markets such as euros to ensure they have issuance headroom to maintain a curve that satisfies those markets' investors. That said, recent swap spread movements have made the euro covered bond market less appealing for some issuers, so there might be an opportunity for the Aussie dollar market to step up and fill in the gap in 2025.

GC: How has the use of ESG-themed deals varied across asset classes, and will this change in 2025?

Holian: Over the last 12 months, AUD ESG issuance has largely seen high-grade issuers leading from the front. We've seen the SSAs leverage their ESG frameworks to enter the market. Supras like the ADB, IADB, IBRD continued to issue well received ESG deals. We've also seen AOFM and the semi-governments issue in green and sustainability. The AOFM issued its inaugural green bond earlier this year, which was a key milestone in the Australian Government's Sustainable Finance Strategy.

What we have not seen quite as much of in the ESG space is financials. There is untapped demand for labelled financial and corporate paper amongst domestic investors seeking portfolio diversification. Offshore banks have an opportunity to diversify funding and achieve attractive volume and pricing outcomes, potentially inside of their vanilla curve.

Maturing Kangaroo market stakes 'G4' claim

On a range of measures — liquidity, investor base, regulation — Australia scored highly this year as a source of fixed income funding. Growing interest from new and repeat issuers, and strong investor demand suggest the Australian dollar market will continue its upward march. While diversification is a common reason for banks from outside the country to operate Kangaroo programmes, it is not the only one. Relative value is also important. In November, *GlobalCapital* gathered senior funding leaders from major lenders in the UK, Nordics, EU, Canada, Asia and Australia — all with varying amounts of experience in the Australian market — to discuss all of this and more.



GlobalCapital: How has the Australian dollar FIG bond market performed this year? Is the volume that has been raised so far in line with your expectations?

Enrico Massi, Commonwealth Bank of Australia (CBA):

We've had an excellent year for financial institutions issuance in the Australian dollar market, running at approximately A\$94bn (\$61.1bn) year-to-date. Although we have been tracking better than previous years, supply did slow down a little bit around August/September, so we may end up flat to 2023, perhaps a little bit under.

Liquidity has been strong and continues to impress — the investor base has a very good understanding of global borrowers and its regulatory frameworks and is open to different credits. It has

been a strong and busy market in 2024 and with conditions remaining constructive, it feels as if 2025 will be as buoyant.

Vera Savina, Commonwealth Bank of Australia (CBA):

Compared to last year, there are more trades, with larger sizes, higher books and higher levels of subscription. We see tier two performing really well this year, with more interest from both investors and issuers. It's been an excellent year, I would say. We are very pleased with where we are right now.

GlobalCapital: And to our bank treasurers, how have you found your experiences this year in the Australian dollar market?

Jesse Tennant-Brown, Lloyds Bank:

We've visited the market twice — once in senior, once in tier

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two. The real difference this year versus previous years, is around book size. We're getting about double the book size we were just a couple of years ago. That has been a very positive development and that gives us the ability to price with more certainty.

And the Australian dollar is functioning more like G3 markets or it's at least getting that way. It's nice to see the strength of demand that we're attracting in the tier two market. So yes, I think it's been a very positive year and that's a good development from our perspective.

Roundtable participants



Kieran Salter , CEO UK, Commonwealth Bank of Australia	Jesse Tennant-Brown , director, senior funding, covered bonds and ratings, Lloyds Bank	Enrico Massi , executive director, head of FI debt capital markets, Commonwealth Bank of Australia	Mattias Lidgren , head of funding and liquidity, Handelsbanken Bank of Australia	Vera Savina , head of DCM europe, Commonwealth Bank of Australia	Mark Anwender , head of documentation and funding, NatWest Treasury Markets	Moderator: Frank Jackman , covered bond editor, <i>GlobalCapital</i>	Aurelien Harff , deputy head of medium and long term funding, Crédit Agricole Group	Cameron Joynt , vice-president, funding, treasury and balance sheet management, TD Bank	Chris Ngooi , head of wholesale funding, DBS Bank	Andreas Wein , head of funding and investor relations, LBBW
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Aurelien Harff, Crédit Agricole:

At Crédit Agricole, we are relatively new to the market, having previously mostly issued tier two in a relatively small size. We set up a Kangaroo programme in 2023, issuing last year and issuing again in January 2024 on the senior front and we were positively surprised by the market depth and the granularity of the book. We raised A\$1.75bn this year in one go — a size way above our expectations. This shows just the type of funding volume we could expect in that market.

Andreas Wein, LBBW: I can only echo what Aurelien was just saying. We are also very new to the market. We issued our first senior bond in Aussie dollars earlier this year, having only historically been active in tier two. Furthermore, this was our first time using a proper Kangaroo programme and we were extremely pleased with the very positive outcome of this transaction for us.

GlobalCapital: Jumping ahead to 2025, Vera and Enrico, how do you feel about next year? What's in store? Can we expect another similar year or perhaps one that's a little bit better?

Savina, CBA: We can always hope. The market is growing. We think there is more interest from new potential issuers, and we see repeat issuers returning twice a year, potentially maybe even three times. The market capacity to accommodate more trades per issuer per year is there. And investor demand is very, very strong at the

moment. So, there is nothing to suggest that the trend of growth that we've experienced this year and last year is going to reverse.

And we don't see a major move in spreads that would put people off the market. We believe that our market will remain where it is, or potentially widening a tiny bit in line with other markets.

The trends we're discussing right now suggest that next year will be very successful and issuer supportive.

Massi, CBA: I echo those comments. We are also seeing the market becoming more open and accepting of different names and structures. Tier two has been one of the sectors that has developed quite nicely in the Australian market, quickly becoming a real and viable option for many issuers.

Spreads conditions appear benign. Of course, we are subject to global events, but Australian dollar spreads feel pretty conducive to issuance, in particular when complemented by the strong liquidity in the market.

GlobalCapital: And how about our bank treasurers, do you feel equally as positive?

Chris Ngooi, DBS Bank: I think as long as the short-end dollar rate remains inverted, then the Aussie dollar market is likely to remain constructive going into 2025.

Harff, Crédit Agricole Group: Maybe one thing to note here is that we have increased the volume that we issue in non-euro markets as and when our funding needs increase. But the trend

now is probably for slightly lower funding needs next year. However, I expect we will still try to find opportunities to issue in the Australian dollar market, be it senior or tier two. We like the diversification that comes with those issuances, so even if our funding needs are lower, we will still try to make use of the market.

GlobalCapital: Why are banks choosing to access the Australian market? Is it primarily for diversification or is there anything else that's driving the decisions that you're making?

Mattias Lidgren, Handelsbanken: Well, it's quite far from home. When people see us issue in Aussie dollars, they ask us why? We clearly don't have a business in Australia, coming from the Nordics.

It is a pure diversification transaction for us. Looking at the Swedish market, our home market, it's one where we do mostly covered bonds whereas we do senior funding in euros, US dollars and Aussie dollars. As of now, about 10% of our senior funding is done in Aussie dollars.

Although, we acknowledge that the market has been very strong, we have not been active yet this year and there are a few reasons for that. One of them, I guess, goes for quite many banks — our lending growth is quite limited, so we have actually brought down slightly the funding needs for this year.

And the second reason is relative value (RV). We were looking at the market in the first quarter and some of you were faster than us

and managed to do something in the senior space. We are only active in senior and not in tier two or additional tier one. But the euro market rallied, and it got a bit different from the Aussie market. We were a bit too slow this year, but we are hopeful for next year.

GlobalCapital: Cameron, Mattias mentioned Australia is quite far from home, but Canada is arguably even further away from Australia. I'm wondering how or why you're choosing to access the Australian dollar market so repeatedly in size?

Cameron Joynt, TD Bank: We're happy to go wherever investors are interested in our paper — we've been issuing covered bonds in Australia for a long period of time. It's one of our core markets and we've had a great reception over the years.

Issuing senior unsecured is not new but much less frequent and something that we're very interested in. Historically, it's been because we saw a lack of a senior investor base. But with the increased reception, the last senior we did came to A\$1bn.

It really feels to me like the covered and senior markets can coexist. And that's something new and very interesting. I'm not concerned at all about it being far from home — I'm very happy to do a bond from 8pm onward, that's totally fine.

GlobalCapital: How do you find the pricing on offer in Australian dollars compared to where you might fund in euros or US dollars? Is it just a pure arbitrage market or are you happy to pay up a little bit for the benefits already mentioned?

Joynt, TD Bank: I think it's the opposite of an arbitrage market, given the way that the domestic investor base works — at least for covered bonds, where the pricing is domestic senior paper plus a little bit of spread. And when that starts to get in a strike zone and people start to see that you're making a few basis points versus a different currency, the price starts getting wider.

But it's good investor diversification and we're happy to pay a little bit of money for that, for sure.

Harff, Crédit Agricole Group: I think we can say the same for senior. We don't mind paying a little bit or not achieving any arbitrage when we issue in Australia as the idea is really to expand our investor base. In previous years we were able to sometimes find arbitrage in tier two, and obviously that's a double win, diversification plus arbitrage.

Wein, LBBW: I very much see it as an investment in ourselves. I can only echo what others have said — we are trying to diversify our investor base. With our first transaction earlier this year, we definitely did achieve this diversification. A large number of the investors were new to us in the book. We were told that a number of them, especially from Australia, were looking to see how credible our approach was this time around in establishing our name in the Australian market. We definitely want to go back in 2025 and make sure that we then also garner interest from those investors that maybe this time didn't play, especially the local ones.

Mark Anwender, NatWest Treasury Markets: Yes, it's diversification for NatWest as well. We see it as a niche market similar to Japanese yen or Swiss francs. But in some respects, it's far more flexible, it's more consistent, and it's generally there all the time whereas some of the others aren't so in the same volume.

The Australian dollar market is consistently open from January right through to December. It's only the later part of December when the market is now closed, just like any other major market. And it's there in the northern hemisphere

summertime, which is a great opportunity. It's a market where you can do covered bonds, you can do senior — whether it's opco or holdco — and if you have the ability, you can do tier-two subordinated debt. Going forward, there may be an opportunity to do additional tier one (AT1) if the Aussie majors and Aussie banks stop issuing in the format. Is there an opportunity for offshore banks to take advantage of the investor demand for that product?

Tennant-Brown, Lloyds Bank: The relative value is still important. We monitor the RV throughout the year — we're not going to go into the Aussie market if we can't price in and around a typical G3 currency.

The only distinction there is sometimes the secondary comp is not that liquid, at least not as quoted, which does pose some challenges. However, with the increasing order book sizes, hopefully that gets better.

Anwender, NatWest Treasury Markets: Capital has been attractive from an RV perspective, but if you look at say senior opco, it hasn't been. We consistently look at half a dozen or so currencies. However, when you're looking at, say, six key currencies and it's the widest of those six, it makes it harder to justify.

Joynt, TD Bank: I don't want to insinuate that we're not interested in relative value, of course we're interested as that's the way we think about the funding programme — but the Australian investor base is also very conscious of global relative value compared to some other jurisdictions, as we are too. There's

"Asian investors are very important in the evolution of this market and besides the ability to buy paper in primary, they have recognised that secondary liquidity has improved"

Enrico Massi, Commonwealth Bank of Australia





“We all learnt during Covid that we could do anything virtually, but travelling to Australia and looking at investors in the eye is an extremely valuable investment of time”

Vera Savina, Commonwealth Bank of Australia

got to be a match. And when it's number six of six of the available currencies that you can do, then that's not a match from our side either. But when it gets into the strike zone, we love the opportunity to get some investor diversification and will choose that over a more frequent alternative.

Massi, CBA: That's a valid point that Cameron just made. We are seeing more domestic investors refer to global comparables as they recognise that sometimes our domestic market may not reflect larger core market relativities. So, we are seeing more look-through towards pricing in dollars or euros, which is a positive step for the development of the market.

The Australian dollar market continues to become more international in nature. The currency has always found good demand globally and this has increased markedly in the last few years, Asia perhaps being the key area of growth. Europe remains active as well and this cross-border interest brings more discipline to pricing and sustainability for both issuers and investors.

Joynt, TD Bank: A third of our books generally in Australian dollars are people who would buy us anywhere. The other two-thirds is more specific but certainly there is that material component of travellers.

GlobalCapital: Vera and Enrico, could you elaborate on who it is that is buying these notes? Who are the investors that only buy in Australian dollars and where are they coming from? Are there

other jurisdictions in the region that might be considering the product?

Savina, CBA: I think it's in line with what Cameron alluded to — there are a good number of investors who travel. This year we see at least one-third of the books coming from Asia, just because there is not much that these investors can buy in their own jurisdictions. They are frequent visitors to the Australian dollar market this year.

But if we think about diversification as a theme, there is a very large number of domestic investors who are focused on remaining domestic. To achieve true diversification from the perspective of the investor base, you want to be able to place your instruments with domestic investors and the local funds who support Kangaroo transactions.

Massi, CBA: I agree. As mentioned, Asian investors are very important in the evolution of this market and besides the ability to buy paper in primary, they have recognised that secondary liquidity has improved. This has not only increased their participation volume, but it has also brought in more investors who are now more comfortable with the ability to turn over their books as needed.

To Cameron's point, this is why we are seeing an overlap between investors in Australian dollars and other currencies, as these global investors are seeing it as a more attractive investment currency.

Anwender, NatWest Treasury Markets: The funds that are just Australian dollar-based are the ones

we would probably generally focus on more. The comments you often get from the global funds is that there is a credit limit covering all markets as you're an issuing entity they view globally and set limits for accordingly, regardless of the issuance currency. And sometimes we get comments back that investors like the trade in Aussie dollars but want to keep their powder dry for dollar and euro transactions. I generally never hear the opposite in terms of “I don't want to buy your dollar or euro trades because I'm saving up for an Aussie dollar transaction”.

It's one of the challenges that the market does face. I'll love it one day when an investor says to us, “I'm saving my limits for an Aussie dollar deal”.

GlobalCapital: An open question to the treasurers — how do you feel about the investor base? Does it differ between products or do people just see the name?

Wein, LBBW: When we issued tier two in 2017, we did so under our euro MTN programme. And that, at the time, was placed largely into Asia. When we recently visited Australian investors, we found that some of this paper had actually found its way into Australia via secondary. There was already a bit of a base and familiarity with some of the investors with our name, which was very helpful.

This was actually something we only found out when we were there on site. And I believe fundamentally that the investors would buy the tier two product here. But in our case, we're looking to issue senior bonds mostly when it comes to Aussie dollars, at least for the nearer future.

Anwender, NatWest Treasury Markets: For NatWest it's the same. We're relative newcomers to the market. We only started issuing two years ago and that was for the opco. We've subsequently set up another Kangaroo programme, at the group holding company level, that we haven't used yet. Hopefully, going into next year that will be the case and we do get to use it. But I think whenever we've thought about issuing just off the EMTN in Aussie dollars, that conversation probably lasted for about two or three minutes.

We're very convinced that going down the Kangaroo programme path makes it easy for investors to make the investment decision, as they're comfortable and familiar with the format. It settles locally, it has an AU ISIN and depending on the format, it can go into the index, and it can be repo-eligible with the [Reserve Bank of Australia (RBA)]. Where we can tick all these boxes, we will endeavour to do so. If it works for investors, it can generally work for us as well.

Harff, Crédit Agricole Group: We had a similar experience to Andreas. When we issued tier two it was historically mostly placed with Asia accounts. We set up a Kangaroo programme to reach more domestic investors.

But to add to what has just been said, there is one small issue in our case, and probably it applies to other European banks issuing in preferred senior, which is that since our Kangaroo senior preferred bonds are *pari passu* with some old bond issued before the resolution regime was put in place, and those old bonds include some old event of default language. For that reason, the RBA does not accept our Kangaroo bonds for repo. We could expect more participation from some domestic investors if our bonds were repo-eligible. If the RBA were to review its stand and allow all preferred senior bonds for repo, it would support the development of the Kangaroo market.

Ngooi, DBS Bank: Once Australian investors are familiar with the name, depending on the type of investors, they can buy value up and down the capital structure. From my own past experience, when we started issuing tier two in the Aussie market, the real money asset managers were very much happy to buy the paper for the spread pick-up once they were comfortable with the credit.

Of course, as you go up the credit curve into senior and covered, that's when the area gets a bit greyer. I think the pricing between senior and covered, especially over the last two years, has been extremely tight in terms of the spread differential, which explains why we have been only active in the senior space this year and kept the powder dry in covered for other currencies, for example euros.

In our case, we do track quite closely with the Aussie major bank



"We monitor the relative value throughout the year — we're not going to go into the Aussie market if we can't price in and around a typical G3 currency"

Jesse Tennant-Brown, Lloyds Bank

curve, so maybe the consideration is slightly different from the rest of the panel here.

GlobalCapital: Jesse, you mentioned the depth of demand earlier — how does it compare to your core markets? Is it on par yet with where else you're funding?

Tennant-Brown, Lloyds Bank: It's progressing along the journey towards that. Even if you look at the mechanism and how much you move from [initial price thoughts (IPTs)], I feel there's still an adjustment and an expectation where the order books perhaps warrant a bigger move than you would in, say, a G3 currency. And I think that's probably the distinction.

And also, when you price, take dollars, you can see exactly where we have a liquid comp. We know where the premiums are, it's very, very clear. As you move further away from that into smaller markets, it becomes less and less obvious exactly where you can price. It's not there yet but it's improved. If I look at this year versus last year, you can see that development and that's going to be helpful as it will encourage more market access from other issuers.

Lidgren, Handelsbanken: You cannot compare it yet to euros and dollars from a Nordic perspective. For us, it is becoming more like the sterling market. We're getting pretty much the same order book and the same big sizes. When we started, we'd typically issue A\$300m-A\$500m and in 2023 we issued A\$1bn, so of course that's quite a dramatic change.

We have been active for 10

years-plus in the Aussie market and how we price has shifted a bit. Previously, you could come to the market and pay 5bp-10bp more than the local major banks and everyone was happy. But as just discussed, the focus is moving to the global RV. You need to triangulate the global RV while of course looking at the major banks.

Anwender, NatWest Treasury Markets: This isn't unique to the Aussie market, we've seen it in some of the more niche markets. The secondary market is not always a good indicator of where you can come in primary. whereas in deep liquid markets like euros and dollars, you can pretty much tell that this is close to where you'd price — and that's against other comps, not just your own bonds as well. For instance, if I can see where another UK bank bond is trading, I've got a pretty good feeling where NatWest might be, even if there's no NatWest bond on that part of the curve. But in the Aussie market, you can see your own bond, your own curve — and if you went to issue in that part of the curve again, it's very possibly not going to be near that secondary level.

Lidgren, Handelsbanken: There's also the fact that you're not moving the transactions that much either, meaning you need to pinpoint the landing point quite early in the process. From an investor perspective, I guess it could be seen as a positive that you're not moving 20bp, 25bp or even 30bp. But from an issuer perspective, it's a bit harder to pinpoint where the actual landing should be. And as you were saying, the secondaries could be all over the place.

“We don’t mind paying a little bit or not achieving any arbitrage when we issue in Australia as the idea is really to expand our investor base”

Aurelien Harff, Crédit Agricole Group



Massi, CBA: This is one of our current challenges. We are seeing larger books, but on average, price progression seems to be more of a standard move, whether 3bp-5bp or 10bp-15bp.

We executed a covered bond transaction today, which moved 10bp, not something we see very often in this sector of the market. Admittedly, as the first Australian dollar covered bond this year, there was some price discovery involved but the book dynamics still allowed us to move by such a quantum.

To your point, Mark, when secondaries valuations are not as clear-cut as in core markets, it creates some challenges at arriving at an IPT strategy that will get us confidently to the landing price. Clearly this is a big part of our discussions with issuers in the lead up and during transactions.

GlobalCapital: How do you feel about the standard fixed and floating rate dual-tranche format in Australian dollars? Do you approach it differently to how you would approach euros or

sterling where you might not have a combination of the two?

Ngooi, DBS Bank: That combination allows us to print a bigger deal size. Last year, fixed-rate tranches were more popular as investors took a view on rates. But this year that interest level has somewhat dissipated. For us, we use the fixed/float strategy to build a bigger book. Whether we do end up getting both tranches really very much depends on the strength of the order book and the desired print size. I think to a certain extent, it’s similar to the US dollar market.

Joynt, TD Bank: It seems just so normal to me being a North American to do fixed and float rate tranches and give the buyer the option and access some more demand. It makes sense to me, but then I’m the guy who recently did a fixed and/or floating rate euro deal.

Anwender, NatWest Treasury Markets: Just on that point, I think what’s key — as Chris mentioned

— it’s like the US dollar market. There’s nothing unusual about that for some of us.

But the market has become more mature. There’s no negative connotation to dropping an FRN if the demand is not there. Once upon a time there was. You’d have been, as an issuer, fearful of going if you weren’t sure you were going to get that minimum A\$100m FRN tranche and you’d think twice about whether to offer it or not. But now, absolutely go out, if there’s not enough demand, you can just drop it, and no one will penalise you for that. That is a good sign for the market.

GlobalCapital: What does benchmark mean in Australian dollars? And how has the definition or target developed over recent years?

Massi, CBA: To an extent, benchmark is in the context of the issuer. We tend to find that for a particular borrower, issuance amounts over time determine to an extent the benchmark volume expected in the market. The good news is that over time, these issuance amounts have become larger, providing a more compelling volume proposition for borrowers.

Commensurate with benchmark size, the other factor that remains important is secondary liquidity and as alluded to previously, this is a critical component for the success of the market.

GlobalCapital: And on the issuer side, how do you feel?

Ngooi, DBS Bank: When we started our Aussie dollar journey about 10 years ago, we would be happy with a A\$300m benchmark size print. But I think the market has developed quite constructively. I think these days if I were to put out a number, I think it would be A\$500m for a benchmark. But these days because the market is so strong, nothing short of A\$1bn at a minimum would be considered a success.

Harff, Crédit Agricole Group: It might also depend on the format. And even if we issued size in January this year, we would be perfectly happy to issue a smaller trade. But we still want the trade to be large enough so there is some kind of

“Some investors were very candid in sharing their views about how the Aussie dollar market functions and telling us what they believe we should know”

Andreas Wein, LBBW



liquidity. I think A\$500m is a good size and I'd be happy if it's A\$1bn.

Anwender, NatWest Treasury

Markets: It's an interesting market that is probably a little bit different to anywhere else. It has always been for so long a fixed and floating market, where a dual tranche is almost the norm. It's probably more unusual to drop one of the tranches, depending on where the curve is or what is happening with rates. The dual tranche is, I think, almost seen holistically; the two tranches are almost interchangeable in a way. We see it as a package. Even if you did, for example, A\$500m in total across the two tranches, say, between A\$200m and A\$300m tranches, you would still say that is benchmark because you did A\$500m, rather than see each tranche as an individual separate transaction in isolation.

I don't really see that in any other market that I'm aware of. It's quite unusual and quite unique the way the Aussie market treats that.

GlobalCapital: *Maybe to move away from the discussions of size and depth of demand and to think about timing: in the past few years, how have European banks used to their advantage the fact that when Europe is closed, Australia is open?*

Lidgren, Handelsbanken: I guess there's an element of that, of course. But the whole market has changed as well post-pandemic. For instance, we have issued tier-two trades in early August in euros, where I guess the dynamics have changed a bit. But yes, of course, typically it used to be that the European market had a bit of a summer holiday, and you could use that. However, there are so many other elements to consider, like relative pricing or value. So, I don't think that you can pinpoint issuance during the European summer months, although, I guess it would be on the margin, a positive thing.

GlobalCapital: *Do others share Mattias' experience?*

Anwender, NatWest Treasury

Markets: One of the challenges you face as a frequent issuer is figuring out how you're going to sequence your transactions throughout the whole year when you're putting your

funding plan together. You've got different entities, — for instance, a holdco is only going to issue MREL or capital, the latter tier two or AT1. And then you've also got the opco and other subsidiaries that might be offshore. For instance, we've got our UK non-ring-fenced bank, NatWest Markets, and we've got a ring-fenced bank, NatWest Bank, which might want to do covered bonds as well.

So, now we can sequence trades in a month that used to just basically be written off. What are we going to do there? The first thing we'd probably put in our plan is Aussie dollars for August, as the entire month is open. It may or may not happen. It didn't happen this year, but it did the previous two years, so for us it's definitely a win.

We talk about the summer holidays, well, that was also the case in Australia. Once upon a time you wouldn't have considered doing an issue prior to Australia Day, which is the weekend around January 26, but as of this year that phenomenon was basically wiped out, and we expect that's not just a one-off. It's going to be the case now that in the first week of January, the market is expected to be open, which, again, that's something that's been consistent globally, but it's quite new in Australia.

Ngooi, DBS Bank: I would echo that. The Aussie dollar is one of the few markets that is open all year round, which is especially good for us issuers.

Harff, Crédit Agricole Group:

If you have many bonds that historically have been issued over the summer, they will probably redeem

over the summer, freeing cash that we can use, so we don't specifically target the summer window, but we might target the windows when there are more redemptions.

Joynt, TD Bank: I don't get to take advantage of this because I'm in blackout in August with our weird Canadian October year-end. So, yes, I'm unable to take advantage of this wonderful openness.

Massi, CBA: Issuer blackouts are interesting and given reporting cycles, we tend to see a congregation of issuance at around the same time. With a larger and better market, though, capacity has improved which means that we see multiple trades on the same day with little, if any effect on each other. There are, of course, some trades that issuers may tactically not opt to go head-to-head with, but overall, the market can absorb multiple transactions well.

Anwender, NatWest Treasury

Markets: Yes, and that again shows how the market has matured. Once upon a time it was one trade per day, but when we did our debut NatWest Markets trade two years ago, we came on the same day as an Aussie major bank. The first reaction was: Should we not do the trade today and try tomorrow? But we went ahead, and it worked in our favour. The Aussie major provided a fresh pricing benchmark and was a clear comp for us to benchmark against.

I do think there's a limit — you wouldn't come to market with six trades already announced on a day. But you could easily come with two, or even three or four, depending

"In some respects, it's far more flexible, it's more consistent, and it's generally there all the time whereas some of the others aren't so in the same volume"

Mark Anwender, NatWest Treasury Markets



“When we started our Aussie dollar journey about 10 years ago, we would be happy with a A\$300m benchmark size print, but I think the market has developed quite constructively”

Chris Ngooi, DBS Bank



on the issuers. You can clearly go against a major bank with a kangaroo or with some corporates.

Ngooi, DBS Bank: I do agree that the Aussie dollar market has come a long way. But as more issuers join the party, what remains to be seen is whether the market can sustain multiple trades that are printing in the same format. For example, you don't get this issue in the US dollar market where you have similarly rated FI issuers hitting the screen as the market can digest it. But I think this year we saw that wasn't the case in the Aussie dollar market. Hopefully as the market matures and the depth increases, the market will support multiple trades in the same zip code.

Joynt, TD Bank: My experience has been pretty similar to Chris's. Directionally it's certainly positive but there's just a lot less capacity to deal with overlapping trades in Australia than there is in other currencies. It's something that you must be conscious of. It's not like it's the only market that's like this but compared to some other major markets, there's more lining up that must happen.

Massi, CBA: Yes, that is a fair point, absolutely. And to Chris's comment, I agree; when you see issuers offer similar price and tenor options, it can get a bit more complicated. I would like to think it will continue to improve over time.

Anwender, NatWest Treasury Markets: And I think that's unique

to Australia. It's like a crowding-out effect basically. When we're looking at markets and watching the screens and suddenly one of our UK peers is out with a transaction similar to what we're planning, we wouldn't then come immediately after that and go as well on the same day. I think we'd generally say we're going to leave the market to them for today and see what might be possible the next day.

With, say, a dollar or euro transaction, you don't do yourself any favours by going head-to-head with one of your competitors with a like-for-like transaction regardless of the depth of the market or how well it is performing. It's very much a case of leave it to them for today, we'll try tomorrow. And we see that behaviour reciprocated — if we're out first, we don't see our peers competing. It's just not a prudent way to do business and it's part of being a responsible issuer.

GlobalCapital: Mark, you mentioned earlier sequencing your funding plans. How does roadshowing to Australia fit into this? Are there any benefits to holding a physical roadshow instead of a virtual one?

Anwender, NatWest Treasury Markets: From our perspective, there's definitely a benefit to holding a physical roadshow. As a relative newcomer to the market, it was important to establish those investor relations from the beginning. They're relationships that develop over time. It was important for us before our debut transaction in

2022 to make sure that we were out there physically seeing people. And that's not just within Australia, it's throughout Asia as well. And we obviously visit Asia regularly with regards to the other currencies that we issue in as well.

In Australia specifically, yes, we want to go to places like Melbourne and Sydney where the key, critical investors are and make sure they know who NatWest is. Of course, we have the benefit of the UK banks having been issuers there for quite some time. But it's still a case that everyone is slightly unique and particularly for us as a large global opco borrower. We need to explain to people how that business model works and reiterate how ring-fencing works and why we have a holdco and an opco. It's a story that people are still learning. They're not faced with it every day, so to be able to do that face-to-face makes a huge difference versus doing it virtually.

Savina, CBA: We all learnt during Covid that we could do anything virtually, but travelling to Australia and looking at investors in the eye is an extremely valuable investment of time. Investors treat these annual trips as a commitment to the market and, yes, you might not come every 12 months, maybe it's 15 or 16 months but once you're there investors know you'll return. If you treat the Kangaroo market as an important one, then investors will treat you equally, they will follow you and buy your risk.

We've seen this year through the number of roadshows we've run that there are investors who previously were not, for instance, buying Kangaroos coming in. Investors who were previously small are increasing their intake. There is more and more attention from our domestic investor base towards the European names and investors appreciate the effort issuers put into travelling to Australia for a roadshow. Without this commitment, it would be a different market with issuers seeing different outcomes to their transactions.

GlobalCapital: Andreas, you mentioned that you debuted earlier this year. I know you've been roadshowing extensively as well. Did you have a similar experience to what's been discussed so far?

Wein, LBBW: Absolutely. I can only echo every remark that's been made about roadshowing. What I can add is that we very much enjoyed starting the dialogue here and I think it's a dialogue that would most likely not have been established via video calls. Some investors were very candid in sharing their views about how the Aussie dollar market functions and telling us what they believe we should know. In some respects, they made this almost an educational tool for us.

And at the same time there was a very frank exchange of views about the European economy, the German economy and how they viewed these markets. We found it was a very engaged two-way dialogue that we enjoyed absolutely and we will certainly want to continue that next year.

GlobalCapital: Chris and Cameron, as two of the more established issuers in the Australian dollar market, how have you found it? How do you approach roadshowing in Australia?

Ngooi, DBS Bank: I'm 100% behind physical roadshows. Australia is our first destination when we start our annual roadshow. We tend to tie it around some big conferences in the market to make it more efficient as the industry gathers around conferences. And, yes, it's extremely powerful to be able to sit in front of investors and, as mentioned, look into their eyes and ask tough questions — or maybe have the tough questions asked of me.

And over time, those personal relationships develop. I recently have had investors come straight to me saying, 'I have a particular maturity, can you help fill it up for me?.' That kind of relationship and engagement is a long-term investment. It's definitely a must do.

Joynt, TD Bank: It's important. And it's probably the furthest flight you can do from Canada because it's like literally twice as far as Japan for me. It takes more than a day to get there and more than a day to get back. But we still do it and it's important.

GlobalCapital: Thank you. What's the benefit of having a specialised Australian dollar



"Looking at the Swedish market, our home market, it's one where we do mostly covered bonds whereas we do senior funding in euros, US dollars and Aussie dollars"

Mattias Lidgren, Handelsbanken

debt issuance programme? And what sort of work did you have to do to access the Aussie dollar market for the first time?

Anwender, NatWest Treasury Markets: It's challenging to set up a new debt programme. And we've just gone through setting up one for NatWest Group, the holdco. Although we haven't used it yet, it was a long process in part due to internal factors and the various governance steps you need to go through. But the actual setting up of the programme is relatively simple. It's a well-worn path in terms of how a programme should look and how it needs to be set up. You can do that in relatively quick time. Operationally there are other challenges but from a documentation perspective, you can get there pretty quickly.

As I said earlier, it's important to tick as many boxes as you can to keep investors happy. For instance, we already have an EMTN programme that we could issue off, but there are drawbacks. We know there are investors who want a product that settles in their own domestic settlements system, so it's important to make sure that we do that.

But it's not like you're spending plenty of time to set these programmes up — the effort required to set up an Aussie dollar Kangaroo programme is not excessive. We've set up various programmes for NatWest Markets over the past few years, and a Kangaroo programme is far less work than setting up a US 144A

programme or an SEC shelf or even an EMTN programme. That's one thing to bear in mind.

GlobalCapital: Chris, I can see you nodding in agreement. How do you feel about the programmes you use to issue debt in Australia?

Ngooi, DBS Bank: We issue it off the global MTN programme or the global covered bond programme and we just add to it the requisite language that is required from an Australian law perspective. So, I think that's fairly light from a documentation perspective. Once you set up the foundation, the rest is pretty much manageable.

Harff, Crédit Agricole Group: I think in our case, as we are trying to expand our investor base, we look to issue the product that can attract more investors. So that's what we do in every market, and we have set up programmes in the US, in Japan, in China, but Australia is probably one of the lightest ones in terms of documentation weight.

There is still the issue about repo eligibility, but that's more about RBA criteria. The end idea is really to make the product as attractive as possible to as many investors as possible.

GlobalCapital: Thank you. And Enrico and Vera, from a DCM perspective, how have you found setting up these programmes and bringing these issuers to the market?

Massi, CBA: Seamless. Setting up an Australian dollar programme up is an easy process as it is true and tested and the documentation is relatively simple. The key importance of the domestic programme is that ability to settle domestically with an AU ISIN, allowing the security to be eligible for the local indices and potential repo-eligibility. This helps maximise demand for the product. In many cases, reference can be made to other key documents in existence, which means we are not replicating everything that is already in place. It is also less onerous as there is no need to have annual updates as with other programmes.

For us, the fun part is about bringing a new credit to the market, introducing it to investors and eventually work on a transaction that sees a strong book and attractive price compression and, importantly, to be able to repeat this and eventually assist in building a relationship between the issuer and the Australian dollar investor base.

Savina, CBA: The choice of programme is driven by what the issuer's intentions are for the Australian dollar market. Do they really want to find diversification? Then they need to have a programme.

GlobalCapital: For our final topic, you've spoken a lot about how you can access size and the breadth of demand in Australian dollars, but can we start calling it the new sterling? Could it displace sterling in that mix at the top? Could we be talking about US dollars, then euros and then Australian dollars?

Anwender, NatWest Treasury Markets: As a UK bank, it's going to be very difficult for a currency to displace sterling, so, from our perspective, it's going to be very different to someone out of the Nordics or from Canada or from Singapore, Germany, or France.

Lidgren, Handelsbanken: Yes, it is possible, but I can't say whether it's there or not. The sterling market from a Nordic perspective is also a bit off and on, so, yes, perhaps, from our perspective, it's possible that maybe we are almost there already in the Australian dollar senior market.

GlobalCapital: Does anyone else feel the same way?

Ngooi, DBS Bank: I call it G4 instead of G3.

Harff, Crédit Agricole Group: In sterling we tend to issue more non-preferred senior and tier two, and a bit less senior preferred. But we're not trying to issue less in sterling. We try to issue more in sterling and more in Australian dollars at the same time. Rather, we are trying to diversify more and issue less in euro and this goes for all these markets. I think we have issued 5%-10% of our funding plan in each of sterling, Australian dollars and yen this year, a third in US dollars and the last third in euros. We are happy with that currency mix.

Joynt, TD Bank: In the senior market, the sterling market has had its own challenges lately, at least for a non-domestic issuer. But the Australian market, as we talked about at the very beginning, has seen a huge transformation over the last 18 months or so. And the

trajectory is really good and really exciting. I hope it can stick.

If it does will depend on lots of factors about other Asian currencies, and issuance over there and how much Asian money we're getting in. In my book, there's been a lot more Asian demand for our most recent senior bond than we had experienced historically, which was very exciting. We're hoping that the trajectory holds. But you probably need to see a little more of a continued positive trajectory here before you're willing to declare it the next major currency, I think.

Wein, LBBW: And maybe to add, I think pretty much everybody at the start of this roundtable said they were looking at the Australian dollar market for diversification. And so why would I give up one currency that offers diversification, like sterling, and replace it with another? Since the two investor bases are somewhat complementary, I'd rather remain active in both.

Joynt, TD Bank: More is more. More is more. The Australian dollar does have several legs up on the Canadian dollar, so I have to give you guys that.

Massi, CBA: We see the Aussie market as complementary to some of the core currencies. For example, for some high-grade borrowers, Australian dollars is already in their top-three issuance currencies, normally after dollars and euros.

And to Andreas' point, it is about diversification. If you can access additional investor capacity in a market that sustainably provides attractive issuance opportunities, this is a great addition to your funding mix. Australian dollars ticks all those boxes. We are excited about our trajectory, here's to continuing this journey.

Joynt, TD Bank: I have a pricing sheet that I see every week about all of our markets. For a very long time, five currencies were on it, the Canadian dollar being the fifth one and the Australian dollar being the fourth. It's been very firmly on our radar at TD for such a long period of time and it will continue to be so. I think we're splitting hairs a little bit. Is it number four or number five? But I'd much rather have five than four — and, of course, I'd much rather have six than five, so call your friends.



"The Australian market has seen a huge transformation over the last 18 months or so and the trajectory is really good and really exciting"

Cameron Joynt, TD Bank

The covered bond market sits between rates and credit, and its spread relationship with both is set to define it in 2025. Participants expect that the pressure from widening SSA spreads, exacerbated by a narrow Bund-swap spread, will force covered bonds wider, new issue premiums higher and issuers into shorter maturities.

“Unless there are large, sudden spikes [in government bond yields] and central bank intervention on the back of that, the gradual widening and fiscal deficit-driven issuance of govies will be the main story [in 2025], and through that, pressure will be put on covered bonds,” says Peter Wong, covereds and ABS portfolio manager at Nationwide Building Society.

Since the autumn, Bund yields have risen at a faster rate than swap rates, narrowing the gap between the two. The pair inverted for the first time ever in early November as Germany’s coalition government collapsed. As of mid-November, the 10 year Bund-swap spread was minus 6bp, according to Tradeweb, having started the year in the low 50s.

The movement in the Bund-swap spread “is driving SSAs and setting the floor for covereds,” says Florian Eichert, head of covered bond and SSA research at Crédit Agricole in Frankfurt.

What happens to the relative value between covered bonds and SSAs is for Eichert “the only real concern” for the covered market. “In most of core Europe, covered bonds haven’t really adjusted,” he adds. “The question is where do you start the new year? We need a clearing level for names like the EIB, KfW or EU, and then figure out where we go from there.”

With the gap between the two products narrowing, covered spreads will likely have to widen at a faster pace next year if issuers want to attract investors away from SSA paper. Of the market participants polled by *GlobalCapital* on their expectations for next year, 63% expect the relative value between covered bonds and SSAs to widen next year. Only 15% expect the differential to remain the same, with 22% anticipating tightening.

“In a normal market, I would have expected covered bonds to stay where they are and rather see spreads for credit widen as I think these are far too tight,” says

Covered bonds to come under peer pressure in 2025

SSA bond spreads widened dramatically against swaps in the latter part of 2024 and market participants are fearful that this will exert pressure on covered bond issuers next year. But on a positive note, several first-time issuers are anticipated to light up the market, writes **Frank Jackman**

Thomas Cohrs, Helaba’s head of FI and SSA primary markets in Frankfurt. “But with the dynamic between Bunds and swaps, and SSAs and covereds, covered bonds might need to widen in line with SSA curves to stay attractive.”

Ralf Löwe, head of treasury at Aareal Bank in Wiesbaden, agrees: “There is fundamentally good sentiment for credit, but for liquidity products — SSAs, govies, covered — there’s more volatility. Personally, I think this is not due to weakness in covered, but rather from the cheapening of govies and SSAs versus swaps.

“I don’t really see the potential for huge spread tightening in covered bonds in the near term, and if there’s a huge new issue volume early 2025, we might even see further widening,” he adds.

In fact, only one respondent to *GlobalCapital*’s covered bond market survey believes that covered

bond spreads could tighten in 2025. Meanwhile, 59% expect them to widen.

Wong does not “foresee French, German, and UK govie spreads richening anytime soon”, and as a result, this will drive “SSAs wider, consequently pushing covered bonds wider as accounts rotate into SSAs.”

“In 2025, banks will still be able to find demand for covered bonds but there might be a little more scarcity of investors because a lot of accounts than can shift to SSAs prefer them as the product is cheaper when compared to covered,” says Frederik Kunze, floor research at Nord LB.

“As a bank treasury investor, I don’t have to pay or put in equity when I buy SSA or agency bonds, which is something I must do when I buy covered,” adds Olaf Pimper, portfolio manager at Commerzbank’s treasury in

What will happen to the relative value of euro covered bond spreads to SSAs in 2025?

Widen
63%

Remain
the same 15%

Tighten
22%

Source: *GlobalCapital*

“For a strong year, you want to have the possibility for 10s and beyond not just during small windows. In the long run, issuing just threes and fives is not supportive for the covered bond market at its best”

Patrick Seifert, LBBW

Frankfurt. “From a risk return perspective, it doesn’t make sense to buy covered at the same level as SSAs or agencies.”

New issue pressure

Not only are covered spreads expected to widen in competition with SSAs, but so too will new issue premiums, which are anticipated to rise — or at least remain elevated — in the face of cheap SSA competition.

“If SSAs, for example, come cheaper [in Q1] versus swaps, then obviously, I would expect pressure on covered bond spreads to remain,” says Löwe.

That pressure could result in high new issue premiums next year. Just 4% of survey respondents expect euro covered new issue premiums to tighten, compared 52% who anticipate no change from their now wider levels. Another 44% expect them to widen further.

“On paper, premiums might appear to be in the double digits but given how fast moving and volatile the market is now, there’s zero value in premiums,” Eichert says: “On paper we always have higher premiums at the start of the year, and in 2025 they may be even bigger than normal. However, they will, of course, appear that way because secondary levels won’t have moved up as much as they should have.”

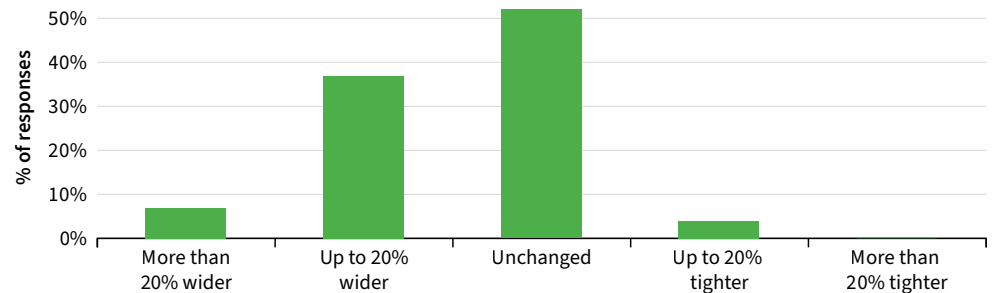
In January, benchmark euro funders had to offer on average 5.5bp of concession, compared to 6.9bp in January 2023, according to *GlobalCapital’s Primary Market Monitor*. However, spreads came down in the following months, hitting year lows of 2.8bp in February 2023 and minus 0.8bp in March 2024 as the market digested the first barrage of supply and volumes slowed.

Nord LB’s Kunze anticipates a similar move at the start of next year: “I expect we will start with high NIPs well above 5bp-6bp, but as the secondary curve adjusts, they’ll move back to 4bp-5bp, which is much more reasonable for the market,” he says.

Tenor troubles

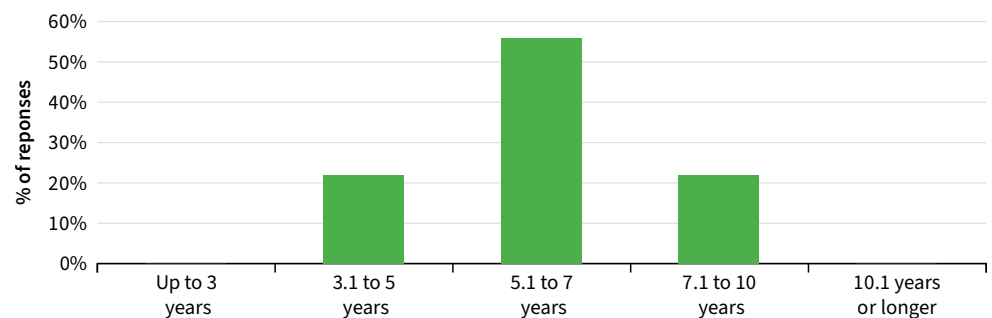
Although covered bonds are under pressure from SSAs across the curve, the damage is expected to be felt the most at the long end, particularly at 10 years and beyond. Various factors over the

What will happen to euro covered bond new issue premiums in 2025?



Source: GlobalCapital

What will be the most popular tenor for euro covered bonds in 2025?



Source: GlobalCapital

last few years — from elevated rates to geopolitical uncertainty — have forced covered borrowers into the belly of the curve. And unfortunately, for duration starved covered funders, the market anticipates that the long end of the curve will not be easily accessible going into 2025.

“For a strong year, you want to have the possibility for 10s and beyond, not just during small windows,” says Patrick Seifert, head of primary markets and global syndicate at LBBW in Stuttgart. “In the long run, issuing just threes and fives is not supportive for the covered bond market at its best.”

“That part of the market was open between January and May, but it’s not there anymore,” says Alberto Maria Villa, head of FIG syndicate at UniCredit in Milan. “The 10 year became very difficult to execute after the European Union elections [in June] and so far till now, that remains the case.”

In fact, only one issuer has so far accessed the 10-year part of

the curve since June — Deutsche Kreditbank, which placed a €500m 2.75% October 2034 social deal at 39bp over mid-swaps in late September, pricing flat to the EU’s bond curve.

“To be frank, it’s almost a debut deal if you look at 10 years as we haven’t seen one for a while in a lot of jurisdictions,” says Kunze. “I expect issuers would have to pay a premium.”

“If the EU keeps issuing long-end bonds at the spreads it is now, then there’s rather less attraction in covereds,” says Cohrs. “They just can’t match that from an issuer’s perspective. I’d be surprised if we saw a resurgence of long-end covered bonds in this environment any time soon.”

Pimper adds that at the long end of the curve, he prefers SSAs: “when the spread is the same, it’s a no-brainer.”

Just over half of those surveyed (56%) expect 5.1 to seven years to be the most popular tenor for borrowers next year. No participants expect supply 10.1

years or longer to be the most popular maturity bucket.

There “is the need to find an acceptable and executable risk at the right spread, which is at the belly of the curve now,” says Villa.

“If spread differentials remain where they are, then it’s likely issuance will be concentrated at three to five years, which is slightly longer than the past three years but not by much,” Cohrs says.

Banks issued covered bonds with an average tenor of 6.3 years in 2024, up from 5.1 years the year before, according to *PMM* data. This year’s supply has ranged from two years at the short end to 15 years. However, the average tenor in 2024 dropped in the latter half of the year, from 6.7 years in the first half to 5.1 in the third quarter and 4.7 years in October.

“For issuers outside the eurozone, I’d say five years is a safe bet,” says Seifert. “It’s the deepest pocket of demand.”

Seifert is more bullish on what is possible in the eurozone: “I have a bolder view for the eurozone, and that’s 10 years. If 10 years works, there will be demand as issuers make up for missed opportunities this year and look for the best value for their collateral. Banks can do good fives or sevens in senior; the value for covered is in 10s and beyond.”

Although the return of longer dated issuance seems unlikely in the immediate future given the eye-watering spread such a deal will likely require, supply later in the year is not entirely off the table. “New movement in rates in 2025 may allow reopening of the long end again,” says Villa.

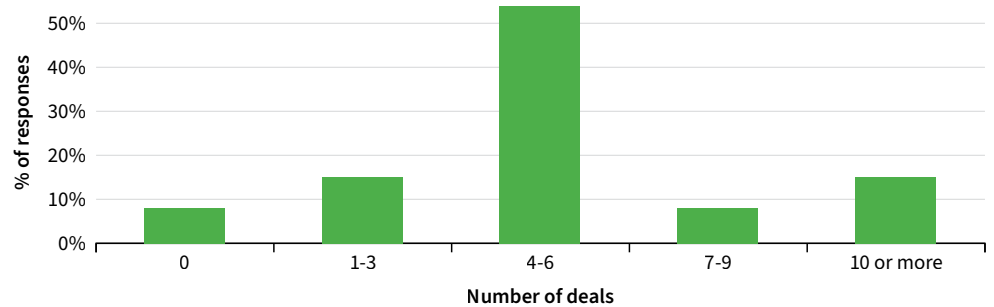
Fresh supply, fresh names

More than half of respondents (54%) believe that four to six issuers will tap the covered bond market for the first time in 2025, with a further 23% expecting even more debutants. “There is no reason not to debut if you’re preparing one,” Seifert says.

This year was a strong one for euro debutants, with several borrowers successfully tapping the public covered bond market for the first time.

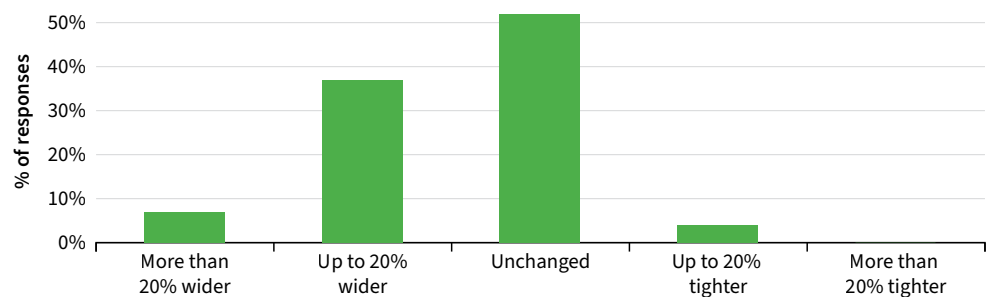
For instance, Standard Chartered raised €1bn split equally across two trades — one in May and another in September — to fund its Singapore mortgage book.

How many debut covered bond issuers do you expect to come to market in 2025?



Source: GlobalCapital

What will happen to euro covered bond new issue premiums in 2025?



Source: GlobalCapital

“I first visited Standard Chartered in 2015 and they did their first deal this year after nine years of work,” says Seifert, whose firm arranged the bank’s debut deal. “I’d like to not rule out that we might see a sixth name out of Singapore,” he adds.

Maybank was another debutant from Singapore.

Other Asian markets are tipped to explode next year, with Japan one to watch. “I understand there’s potential for Japan to support a proper covered bond law in 2025,” says Cohrs. “If that’s the case, then I’d expect quite a bit of issuance.”

The country does not yet have codified covered bond legislation. Instead, any issuers used the less-popular structured covered bond format to access the market. This structure — which uses residential mortgage backed securities as collateral — necessitates a higher spread and appeals to a smaller group of investors.

Only two Japanese issuers have established quasi-regular funding programmes in euros since the

country’s first covered bond in late 2018: Sumitomo Mitsui Banking Corp and Sumitomo Mitsui Trust Bank. As of mid-November, the pair are yet to issue in 2024, though they raised €1.75bn in 2023, according to *PMM* data.

Japanese banks will not access euro covered bonds to finance their domestic mortgage market, for which they rely on deposits, but to raise foreign currency funding. Other Asian issuers could follow. “I see Asia as potentially the greatest growth area for covered bonds,” says Cohrs.

Asian banks have raised €6.4bn of benchmark euro paper in 2024 — over €2bn more than last year, according to *PMM* data. All this year’s issuance to date has come from Singaporean and South Korean banks.

Elsewhere, market participants foresaw more issuance from southern Europe, naming Portugal and Greece in particular. “I would expect to see at least two issuers return from Greece next year,” says Cohrs. GC

Covered market wishing for lower spreads in 2025

Berlin Hyp

What were the main market dynamics across senior and covered bonds in 2024?

Both markets developed very differently. In spring and early summer this year, funding conditions in the covered bond market were very favorable for almost everyone. After the summer break, we saw demand decline and spreads began widening. This trend has only continued. There's been quite a long period where we haven't seen any issuance, and secondaries have repriced massively. As to what's driving this, it's nothing to do with investors having problems investing in covered bonds. Rather, European government bonds and SSA spreads have been moving wider, and there was so much pressure from these asset classes that covered bond curves widened as well. Senior unsecured was a totally different picture. Market conditions for the majority of issuers have been very constructive throughout the year. So looking at Berlin Hyps own curves, our senior preferred and non preferred are tighter than at the beginning of the year, whereas our covered bond curve is visibly wider.

What will be the key market dynamics issuers will have to contend with in 2025?

It seems quite likely that the pressure on rate spreads — including covered bonds — continues through the beginning of 2025. Although covered bond spreads have reached a level that I cannot remember being maintained for an extended period of time, I still cannot see them tightening in the short term. If covered bond spreads do not tighten, there is potential for senior spreads to widen in order to reach some kind of equilibrium. When it comes to the question of whether to issue in covered or senior, it always depends on the borrower's business model. Berlin Hyp is a monoline real estate lender, and so for us anything that can be refinanced through covered bonds will be — so long as covered spreads are tighter than senior.

Berlin Hyp has been at the forefront of the covered bond market for many

As 2024 draws to a close, the covered bond market is hoping — but not necessarily expecting — to see historically high spreads fall. The product's strengths are unassailable, but pressure on other rates segments could be the deciding factor. GlobalCapital spoke to **Bodo Winkler-Viti**, Head of Funding & Investor Relations at **Berlin Hyp**, about the outlook for the year ahead, the growth of ESG and the bank's role as a covered bond pioneer

years. What are some of the standout developments?

It's true we have a track record of establishing 'blueprints' for the market. In 2025, we will celebrate 10 years since Berlin Hyp became the first borrower to issue a green covered bond. The year after that inaugural green Pfandbrief we became the first bank to print a benchmark deal with a negative re-offer yield. Then in 2019, we were the first to show it was possible to print inside of the ECB deposit rate. In 2021, we were the first bank to issue a sustainability-linked deal, demonstrating how to approach an issuer's ESG profile holistically and make it traceable for the market. Then in 2023 Berlin Hyp was the first to combine a social bond and green bond in a single dual-tranche transaction.

In 2024, we were in a fortunate situation in that we did not have large refinancing needs. In total we raised around €3bn across senior and covered bonds and we did all of this before September when spread widening gained momentum. Yet we showed that Berlin Hyp is still doing pioneering work in the capital markets, becoming the first commercial bank from Germany to use the Electronic Securities Act for a syndicated transaction. In August, we issued a €100m blockchain-based Pfandbrief — the first digital mortgage covered bond of a German issuer. That was an exciting adventure. The technology proved to be totally reliable and this will be another good 'blueprint' for others to follow in the future.

Given Berlin Hyp's pivotal role in the green Pfandbriefe market, what implications do you think the current spread dynamics have for ESG covered bonds?



Bodo Winkler-Viti, Berlin Hyp

I think perhaps the more difficult the spread backdrop is for covered bonds, the more positive it could be for the ESG format. Because when you design a green bond, whether it's covered or unsecured, there is always one feature of the orderbook — it's larger. In times where markets are a little bit more rough, this additional demand is very helpful. In the past, I heard from many issuers who didn't want to use green assets for covered bonds. They felt it was more difficult to place an unsecured deal in the market, and so they wanted to keep the valuable green assets for the more difficult product. But with spreads high, issuing a covered bond is no longer so straightforward. Issuers who would have been reluctant in the past to use green assets for covered bonds may now feel differently. Ultimately, my outlook for ESG covered bonds remains optimistic. The outstanding volume of green, social and sustainable covered bonds is still increasing year by year and that's very positive.

Euro covered bond funding started the year with a bang as issuers leapt into the market. Issuers rushed to take risk off the table as early as they could to avoid issuing during the US election in November. Banks placed €39.85bn in January — over €4bn more than they raised in the same month last year, data from *GlobalCapital's Primary Market Monitor* shows.

Although issuance tapered off in February — only €14.5bn was raised, compared to February 2023's €26bn — banks maintained a steady pace of issuance until the end of May. By that stage, they had placed €107.2bn of benchmark covered bonds, just shy of the €115.8bn raised by the same point last year.

The first five months of the year offered euro funders excellent conditions as investors flocked to the product, thanks to the attractive spreads on offer. January's wave of supply was priced on average at 45.8bp over mid-swaps. February and March offered spreads in a similar ballpark, printing on average at 44bp and 42.7bp respectively. Over the same period, the average book size grew from €2.1bn in January to €2.7bn in February and €2.9bn in March.

Meanwhile, euro funders had to offer a 5.5bp new issue premium on average in January — the highest monthly premium of the year. However, by March demand had improved so much that banks were pricing covered bonds on average 0.8bp through their secondary curves.

Spreads continued to tighten throughout the second quarter, hitting 35.25bp in April and 34bp in May. Demand, however, was lower during this period, at €2bn in April and €2.2bn in May.

French fumble

Covered bond issuance cratered as spreads and premiums crept up in June and July as the fallout from the EU parliamentary elections and France's snap election cast a shadow over the market.

Supply picked up in late June until mid-July, albeit at a lower level compared to last year. Banks placed €3.75bn of covered paper in July this year — exactly half the €7.5bn raised in 2023.

After spending three months hovering near zero, the average new issue premium more than doubled from 0.8bp in May to 1.8bp in June, before dropping to 1.25bp in July.

Duration and low premiums served up in faltering covered bond market

Banks enjoyed a strong start to their 2024 euro funding, securing much needed duration without having to pay eye-watering premiums. But conditions worsened and issuers slunk back down the curve as elections dictated market sentiment, writes **Frank Jackman**

As issuance conditions soured after the summer, issuers opted to play it safe by issuing shorter dated covered bonds.

The year had started strongly. After scant opportunities to pick up duration in 2023, issuers jumped at the chance to balance out their funding. After almost six months without a deal of longer than 10 years, Crédit Agricole kicked off its funding programme with a €1.25bn January 2034 print on January 3, opening the doors for others to follow. A further 17 long dated deals, including five 12 year notes, were issued during the first quarter.

The appetite for duration peaked in early May as Caffil priced a €500m May 2039 note — the longest syndicated euro covered bond since June 2022. Furthermore, at 14.8 times covered, this was the most oversubscribed deal of the year so far by some margin.

However, demand soon dwindled. By June, banks were placing paper at an average tenor of 6.2 years, seven months shorter than the May average. The average tenor then dropped further in July to 5.4 years.

When supply restarted in late August, borrowers ventured even shorter. On average, banks printed at five years, rising slightly to 5.2 years in September before dropping to 4.7 years in October.

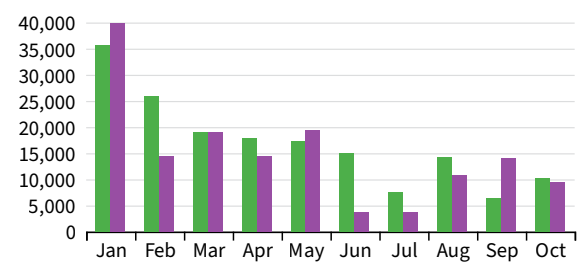
In fact, only one issuer braved the long end after the summer — Deutsche Kreditbank, which priced a €500m 2.75% October 2034 social

housing mortgage covered note at 39bp over mid-swaps in late September. However, a 4.5bp concession was needed, 1.7bp more than the month's average. **GC**

Monthly euro covered bond issuance in 2023 and 2024

Euro benchmark covered bonds (€m)

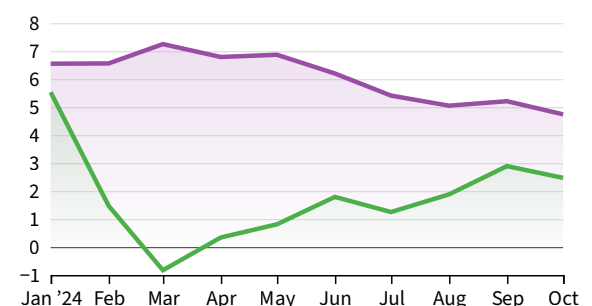
● 2023 ● 2024



Source: GlobalCapital's Primary Market Monitor

Average NIP and tenor for euro benchmark covered bonds

● NIP (bp) ● Average tenor (years)



Source: GlobalCapital's Primary Market Monitor



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Trump spectre hangs over CEEMEA bond market

Interest rate cuts mean spirits are high in the CEEMEA primary bond market after it recovered a semblance of normality in 2024. But Donald Trump's election as the next US president has added uncertainty to the trajectory of interest rates, throwing borrowers and investors a curveball, write

George Collard and **Francesca Young**

Volumes of new bonds from the CEEMEA region in 2024 have been close to record highs, with investors feasting on high coupons while issuers took advantage of historically tight spreads. But market participants believe there will be no let-up next year.

By the end of October there had been \$240.5bn of new public, international bonds from the CEEMEA region, according to *GlobalCapital's Primary Market Monitor* — only \$20bn short of 2020, the busiest year ever, based on Dealogic data.

CEEMEA bond syndicate and debt capital markets bankers are optimistic. Nearly a third of respondents to our outlook survey for 2025 predict CEEMEA issuance next year at the same level as this — and 69% think it will rise.

“Liquidity, cash deployment and appetite are all there,” says Khaled Darwish, head of CEEMEA debt capital markets at HSBC. “Bar any major geopolitical volatility, then they also support the continuation of the positive issuance environment next year.”

Bankers highlighted a bumper year for redemptions in 2025 as a driver for issuance. Many of the bonds sold in 2020 during the Covid-19 pandemic had five year tenors, meaning they will need refinancing.

“Much of the activity this year has been refinancing and that trend will continue into next year,” says Iman Abdel Khalek, co-head of CEEMEA DCM at Citigroup.

Redemptions mean \$200bn of issuance could already be baked in for 2025.

“I don't think volumes will change substantially from this year and this year has been close to the peak,” says another CEEMEA

syndicate head. “One of the factors feeding into that is that we are looking at a period of huge redemptions; the biggest years for this in history are coming up over the next three years. Because of that we're going to be well into \$200bn, even before you consider opportunistic issuance.”

Another factor driving volumes is that bonds are becoming more attractive than bank finance.

“Issuers now have the opportunity to issue debt at a lower cost than loans, especially in the sovereign side,” says Darwish.

Longer and sooner

Central bank rate cutting cycles have raised the question of whether issuers will wait for when interest rates might be lower.

But interest rate volatility and the geopolitical blows to emerging market bonds mean 77% say issuers will come as soon as they can next year.

“I haven't heard an issuer say they are going to wait for rates to come down for a long time,” says Abdel Khalek.

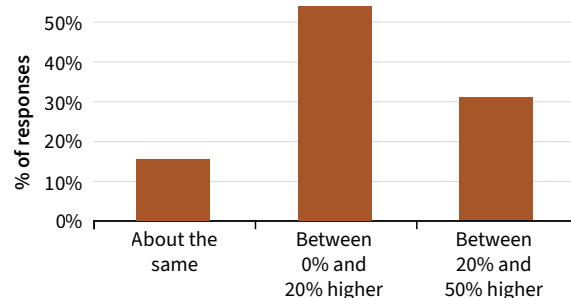
“The playbook that issuers are following is if there's a funding need, we have seen issuers take risk off the table by going early,” adds Paul Gibbs, head of UK, Europe, Middle East and Africa debt financing and capital markets at Citi. “That's a universal strategy, not exclusive to CEEMEA.”

This is particularly acute for sovereign issuers, many of which have billions of dollars to raise each year. They do not want to put themselves in a situation where they wait for lower rates and then find that either rates do not fall or that other factors make issuance difficult.

“Borrowers remembered very well how hard things were in

2022 and to a lesser extent 2023,” adds Felix Weiss, head of Citi's CEEMEA DCM syndicate. “They learned their lesson and printed when they could, rather than when they had to.”

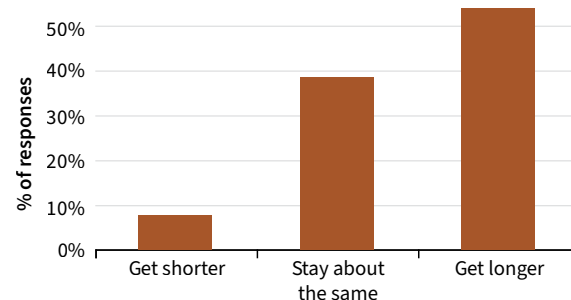
CEEMEA issuance in 2025 versus 2024



Will CEEMEA borrowers front-load issuance in 2025?



What will happen to CEEMEA maturities in 2025 versus 2024?



US politics will also play a part after Donald Trump’s victory in the November presidential election. “Trump is widely thought of as unpredictable, so if you want to issue next year, you’re not going to hold off and take unnecessary market risk,” says the first CEEMEA syndicate head. “With spreads already so compressed the only real potential upside is rates coming down and that’s a really tough one to call.”

The lower rate trajectory, for now, means bankers also predict that maturities will lengthen in 2024. Of this year’s new bonds in CEEMEA, 41% were five years or shorter and only 14% were longer than 10 years, according to *GlobalCapital’s Primary Market Monitor*.

Fifty-four percent of respondents think tenors will lengthen, although a sizeable number predict maturities will stay the same. This is dependent on rates, however.

“Duration should extend, especially if spreads stay tight,” says Darwish. “Investors will want to see 30 year debt, especially from the investment grade issuers.”

The trend has started – Colombia, South Africa and El Salvador, all of which have below investment grade ratings, have sold 30 year bonds in October and November.

Turkey slowdown

Central and eastern European has contributed the biggest share of the year’s issuance in CEEMEA, at just over half, according to *Primary Market Monitor*. Poland, Romania, Hungary and Turkey are among CEEMEA’s most prolific issuers.

Survey respondents were split on where volumes will head in 2025 for CEE issuers. Nearly half think they will be the same, but 16% think they will fall and 38% believe they will rise.

One very active country for issuance in 2024 was Turkey, with corporates and banks returning in force. Non-sovereign issuance was \$17.7bn, by far the busiest year ever.

“There was pent-up supply this year in Turkey after two or three years with very little issuance,” says Ritesh Agarwal, head of DCM at Emirates NBD. “Lots of financial issuers did more than one deal across the capital structure and there were lots of debutants. That

is not normal and I think Turkish supply will dip next year.”

Sukuk cloud

The Middle East provided 46% of CEEMEA supply in 2024, according to *Primary Market Monitor*, nearly all from the Gulf Cooperation Council bloc.

No one who responded to the survey expects a drop in supply in 2025, with half believing it will rise 20% year on year. Some see it growing up to 50%.

“It’s such a big, granular market and I expect it to be busy next year,” says Weiss.

Much of the impetus behind Middle East issuance is oil prices. This year the price of a barrel of Brent crude has been between \$70 and \$90.

“Unless the oil price rebounds to \$100 a barrel, the Middle East will have a large enough deficit to do international funding to pay for ambitious capital expenditure and investments,” says the first syndicate chief.

Away from conventional bonds, sukuk has been a stronghold for Middle East issuers. Of the \$111bn of issuance from the Middle East this year, a third has been sukuk.

But new guidelines from the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) could change the sukuk market from a fixed income style instrument to something more akin to an equity-linked product or a securitization.

It may not be a problem for 2025 and the proposals may be watered down, but were AAOIFI to push for the most far-reaching changes, it could radically change the sukuk market.

“If the proposed changes do take place, we are going to quickly see a significant drop in sukuk issuance,” says Abdel Khalek. “As a result, we may see a rush of issuers getting sukuk done before these changes, but nobody knows the timeline of when they may come into effect.”

Africa on the rise

High interest rates have made issuance very expensive or impossible for Africa’s borrowers. But supply returned this year via five African sovereigns and a smattering of banks and companies.

There have been \$8.3bn of new public bonds from Africa this year, far more than the \$2.8bn in 2023.

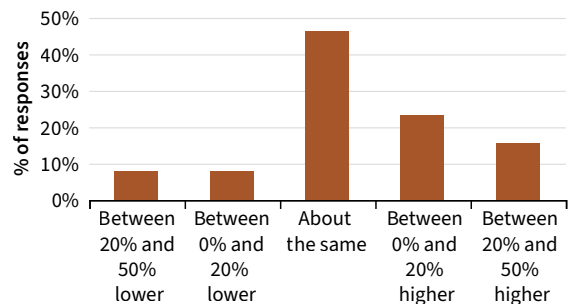
The vast majority of bankers, 84% of survey respondents, predict it will rise next year.

“We have seen a return of activity in parts of CEEMEA that have been locked out because of high rates and costs of funding, like Africa,” says Abdel Khalek. “But it is not to the full potential and there will be more of that next year.”

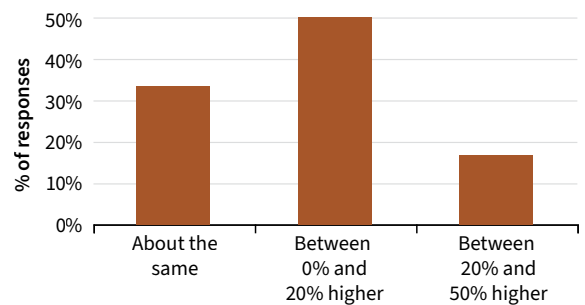
“Africa has reopened, but it’s been very specific so far,” adds the first head of syndicate.

The new public sovereign bonds came from the strongest African issuers, such as Ivory Coast and Benin. Some of the continent’s largest issuers, such as South Africa,

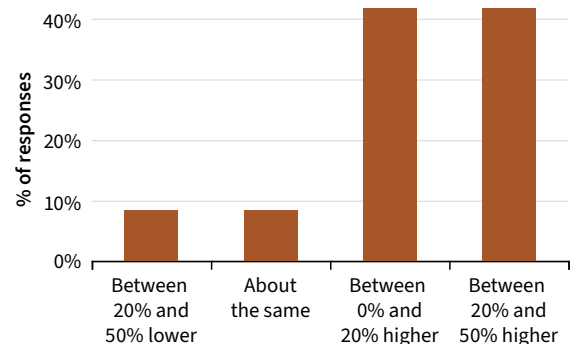
CEE issuance in 2025 versus 2024



Middle East issuance in 2025 versus 2024



Africa issuance in 2025 versus 2024



Nigeria and Egypt, were absent in part due to price sensitivity.

“Most have market access now,” continues the head of syndicate. “It’s just a case of whether they want to pay the yields. But the context of the conversation has changed — they now have a choice.”

Rate threat

Rate volatility has been the bogeyman for emerging market bonds in recent years. Sixty-nine percent of respondents think US rate volatility is the biggest threat to CEEMEA bond issuance in 2025.

The US Federal Reserve started cutting interest rates in in September. But Trump’s election win has muddied the optimism over more cuts. Some of his expected policies, especially the imposition of tariffs on imports, are regarded as inflationary and US Treasury yields were volatile in the run-up to the election as the market priced the possibility of a Trump win.

A return to rising inflation would mean central banks may have to slow or halt rate cuts or even start raising rates again.

“One potential thing that could derail next year is if central banks start reversing what they’re doing,” says the first syndicate head. “If we see inflation moving further away from the target level, that could start to cause issues.”

Geopolitics was the next most popular choice as a threat to issuance next year, picked by 15% of respondents. Israel’s war against Hamas has spread to Lebanon and Hezbollah, raising the risk of confrontation with Iran. And the war in Ukraine rumbles on, although Trump has promised to end it.

“Geopolitics is still a big threat for our market,” says Weiss. “It has materially impacted issuance patterns in the last two years. Geopolitics may not impact total issuance volumes materially, but it will impact issuance across some subsets of the market.”

New ESG products

ESG-labelled issuance made up 23% of new CEEMEA bond volume in 2024, according to *Primary Market Monitor*. The year before, the figure was a little higher at 26%.

“ESG discussions are part of every roadshow now,” says Agarwal, “whether the planned issue has

a label or not. Investors want to know what the ESG strategy is. That issuance will keep growing, we will see new issuers doing ESG bonds, although it will not be a dramatic rise.”

But there are two ESG products that are still rare and that bankers expect to grow, even though they will not become staples: sustainability-linked bonds (SLBs) and debt-for-nature swaps.

“There’s significant appetite for debt-for-nature swaps but also increasingly SLBs on a very selective basis,” says Alexis Taffin des Tilques, head of CEEMEA DCM at BNP Paribas. “But SLBs are something that are done once you are a mature ESG issuer. There are still very few that can do it.”

Debt-for-nature swaps are also a product usually available only to a narrow group of issuers, namely those in debt distress. Gabon is the only CEEMEA sovereign to have done one, which was in 2023.

“They take a lot of time to arrange and structure,” says des Tilques. “But it’s important for this product to do well so that the candidates that come through really make sense and are indisputable. Some have so far, others haven’t.”

Positivity

The positive outlook for 2025 means bankers are confident their staffing numbers will not change at least. Only 15% of respondents think team sizes will shrink.

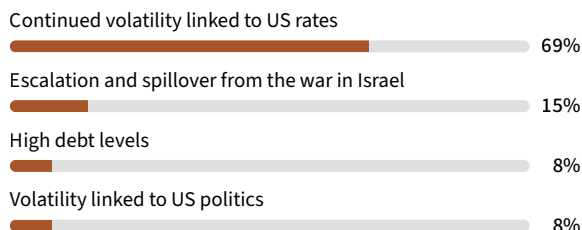
And similarly, few bankers see bond houses dropping out of the CEEMEA market. An equal number of respondents predict little to no change or new banks entering the market.

Elsewhere, just over half of bankers predict a positive year for the main EM benchmark indices. Of the respondents, 54% predict they will end 2025 higher than the start of 2024, although a significant minority see them lower.

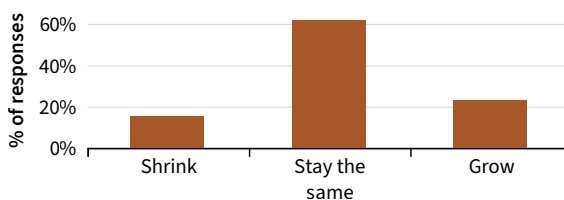
Part of the wider optimism for EM is that we have seen the worst of defaults. The interest rate surge in 2022 led many to predict a wave of them, which did not materialise.

Just over three-quarters of respondents, at 77%, do not think default rates will rise in 2025 versus 2024. This echoes what many EM fund managers said in the autumn – that the worse is behind us and, for now, there are no defaults looming. **GC**

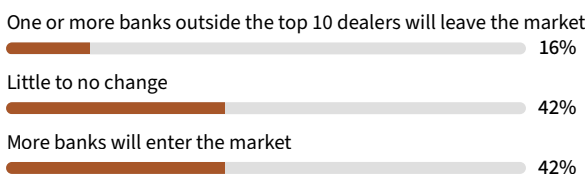
The main threat to issuance volumes in 2025



CEEMEA syndication and origination staff numbers at banks in 2025 versus 2024



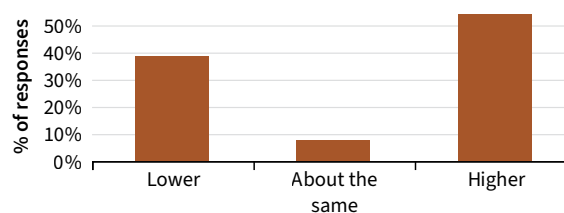
Banks serving the CEEMEA bond market in 2025 versus 2024



Will default rates rise in CEEMEA in 2025 versus 2024?



Main benchmark indices performance in 2025 versus 2024



Last chance grab for yield drives down premiums

Bond issuance from the CEEMEA region boomed in 2024, as investors made the most of high yields before interest rate cuts kicked in and keeping new issue premiums low. Meanwhile, a rejuvenated group from Turkey redrew the borrower map, writes **George Collard**

Demand for new bonds from the CEEMEA region blossomed in 2024, allowing issuers to tighten pricing on new issues of public benchmark bonds by tens of basis points during execution and to pay much lower new issue premiums than in 2023 as a result.

The average new issue premium paid by emerging market issuers did not top 5bp in any month of 2024. Issuers of all kinds — whether highly rated Gulf sovereigns or sub-investment grade corporates — have printed deals without paying any new issue premium. The average for 2023 was 9bp of premium.

January was the month in which issuers paid the highest average new issue premium, at an average of 4.8bp, offering investors extra juice for the privilege of opening the year's primary market and getting first access to high liquidity. The premium dropped to just 0.8bp in February, although in March it rose to 3.6bp. The average for the year excluding January was 2.3bp.

The expectation that dollar interest rates would fall drove demand for bonds and the Federal Reserve duly obliged from September onwards. Emerging markets investors and crossover buyers have been keen to lock in high coupons while they still can.

This translated into healthy demand all year. Order book size, on a monthly average basis, never fell below 2.5 times the deal size across EM public benchmark issuance. Demand was highest in the first quarter, at 4.3 times. This was as expected, given that the first quarter is when investors have the most cash to put to work.

Demand slowed going through April-July as investor wallets depleted, averaging 3.1 times over that period.

But September was a stellar month, matching the first quarter in terms of demand — spurred by that first rate cut, which occurred on September 18. Demand averaged 4.3 times deal size, higher than January.

This year-long demand has helped CEEMEA issuers tighten their bonds by hefty amounts from initial to final pricing. The average tightening in euros in 2024 was 32bp. In dollars it was 35bp.

These stellar outcomes were across the board. Issuance this year has been at near record levels and it has not been just the usual faces bringing deals. Up to October 30, there had been \$240.5bn-equivalent of new public international bonds from CEEMEA issuers. That is far higher than the \$159bn in 2023 and is not far off the \$260bn record for annual CEEMEA issuance.

Turkey redraws bond map

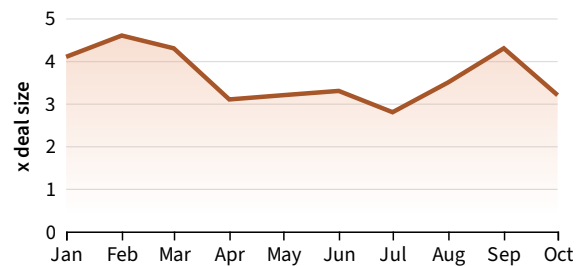
The market for corporate bonds from the CEEMEA region boomed in 2024, with much of the growth down to the return of Turkish issuers to the primary market, after a near total absence from the market in 2022 and 2023. Seven of those Turkish companies to sell bonds in 2024 were debutants.

There were \$65.1bn-equivalent of new CEEMEA corporate bonds on the public international markets this year, according to *GlobalCapital's Primary Market Monitor* as of October 31. That accounted for 27% of total issuance from the region, up six percentage points from 2023 while nearly doubling in volume terms.

This rise in corporate issuance, coupled with a small jump in the share of financial issuers in the overall CEEMEA supply, meant the portion of total new bond volume accounted for by sovereigns dropped to below half.

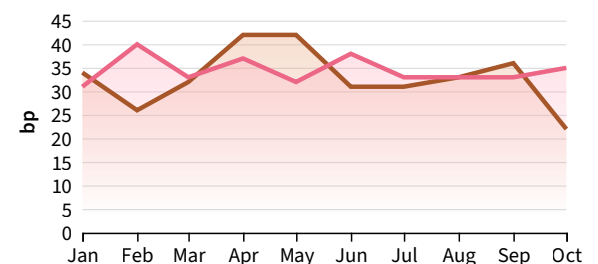
Sovereigns made up 48% of new bond issuance in 2024 in CEEMEA, versus 55% in 2023. In volume terms, sovereign issuance was 32% higher this year than last, but that was outstripped by the 89% jump in corporate supply and 58% rise from FIG issuers. **GC**

Average book coverage in CEEMEA, 2024

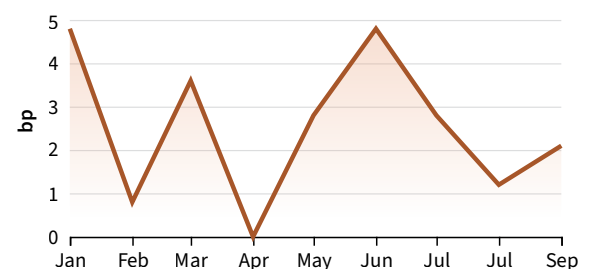


CEEMEA tightening from IPTs

● Dollar ● Euro average



Average new issue premium by month in CEEMEA



Charts source: *GlobalCapital's Primary Market Monitor*

LatAm bond bankers smile again but hope 2025 wild cards are dealt in their favour

Excitement is brewing among Latin America debt capital markets bankers over the prospects for the region’s three largest bond markets. But there is also trepidation that any deviation in the path of US interest rates could derail their impressive recovery, writes **Oliver West**

After the stresses of recent years, a largely straightforward 2024 — in a highly volatile world — came as something of a relief for most Latin America bond bankers. This was reflected in *GlobalCapital’s* survey of 17 heads of LatAm debt capital markets on their expectations for 2025.

There was confidence, yes, but few respondents displayed any extreme optimism. Almost two in three expect issuance volumes to increase, but only four predict they will increase by more than 20% on 2024’s numbers. A majority expects spreads to stay broadly flat, while most are also gearing up for similar issuance conditions: a dash of rates volatility, liberal amounts of investor sensitivity to economic data, but most borrowers being able to find a decent window.



▲ Adrian Guzzoni, head of Latin America DCM at Citi: “If [rates] continue on their downward trajectory, our market might be busier...”

“Issuance volumes may increase next year,” says Adrian Guzzoni, head of Latin America DCM at Citi. “Several major sovereigns have issued record-sized transactions this year and that is a trend I expect to continue.”

“Corporate issuance, under-represented in 2022 and 2023, has had a better year and that should also continue.”

International bond issuance from Latin America and the Caribbean surpassed \$115bn for the year in November, according to Dealogic, versus less than \$81bn for the first 11 months of 2023. In the past decade, annual volumes have usually been \$125bn-\$130bn.

Max Volkov, head of LatAm DCM at Bank of America, also predicts an increase in volumes to “closer to the typical run rates we have seen since 2010”.

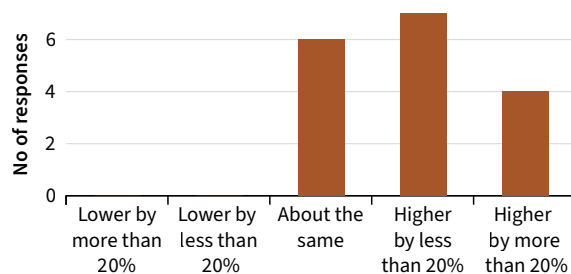
“A number of sovereigns have substantial funding plans,” he says. “Argentine [issuers] should continue to be more active, and there is a strong pipeline emerging out of Mexico.”

Survey respondents were more bullish on corporate and financial issuance — with six out of 17 bankers predicting an increase of over 20% — than on government volumes. Corporates took longer to return to the bond markets *en masse* after interest rates began to rise in late 2021 than sovereigns, so there could still be more pent-up supply.

Indeed, a lot of the bank loans that LatAm companies signed in 2022, when bond markets were

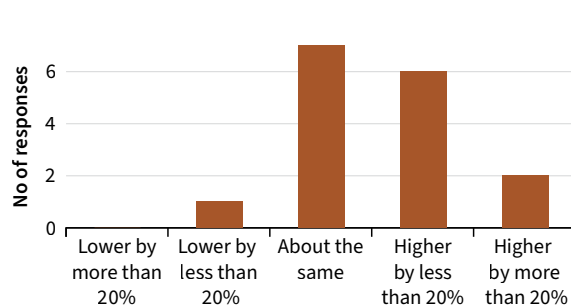
in tatters, need to be refinanced in 2025, while another banker notes that early vintages of Basel III capital products from the region are approaching call dates, suggesting bank issuers will drive volumes.

How will total cross-border new bond issuance volumes from Latin American and Caribbean (LatAm & C) borrowers change in 2025 versus 2024?



Source: GlobalCapital

How will cross-border sovereign bond issuance volumes from LatAm & C change in 2025 versus 2024?



Source: GlobalCapital

This comes as there appears to be less room for an increase in sovereign issuance volumes, even though Brazil, Colombia, Mexico and Panama all issued their largest ever deals during 2024.

Still, bankers estimate that fiscal deficit funding needs will rise slightly in 2025, driving chunkier sovereign funding requirements. Mexico, in particular, is gearing up for another big year, having issued over \$10bn abroad in 2024. The government has also budgeted to transfer Ps136bn (\$6.7bn) to troubled state oil company Pemex next year, triggering speculation that some of that could come from additional sovereign issuance.

This, combined with the suspicion that several of the country’s issuers sat out 2024 amid first Mexican then US elections, has some suggesting a long queue of issuers waiting to come to market.

The LatAm sovereign bond market has a wild card up its sleeve too. Although finance minister Luis Caputo insisted in early November that Argentina would not be returning to international markets soon for the first time since 2018, some believe it will be unable to resist. Secondary yields remained in double digits at the start of December, but if the outperformance continues, it may just be a matter of time.

“Argentina could be the X-factor,” says one DCM head. “If it gets back to where it should be, the increase in LatAm volumes will definitely be over 20%.”



▲ Rodrigo Gonzalez, director in LatAm DCM at BNP Paribas: “Conditions in domestic versus external bond markets will continue to be a big factor...”

Several DCM bankers scoffed at the optimism of certain rivals on volumes, however. That six bankers are predicting an increase in corporate issuance of more than 20% when domestic markets are “on fire” is particularly puzzling, says one senior banker.

Brazilian, Chilean and Mexican domestic bond markets are in robust shape, but it is Brazil that is frustrating some New York-based originators. They had been competing with a strong local debentures market for a while. Then in 2024, they saw even exporters and traditional dollar funders decide to raise money domestically, as it was cheaper than issuing directly in dollars.

For example, Brazilian mining company Vale issued in its home market in October for the first time since 2015, raising R\$6bn (\$1bn).

“For most of the past year, it has been quite cost efficient for Brazilian companies to raise funding in the domestic market and swap it to dollars when needed,” says Guzzoni. “This has been one of the reasons Brazil’s share of LatAm issuance has fallen to around 20% of the total.

“However, I do think balance is returning, especially if you look at swap rates, but it’s not clear-cut that it will continue to be more efficient for them to issue locally.”

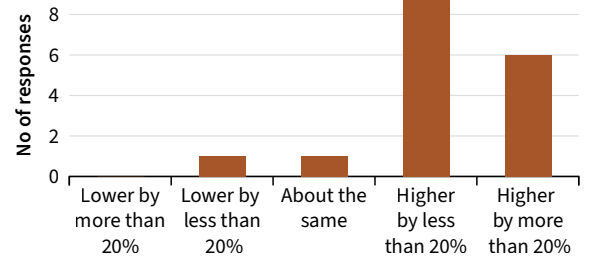
Not everyone subscribes to this view. Although three bankers did list “international markets becoming more competitive versus domestic bonds” as having the biggest upside potential for issuance volumes in 2025, the same bankers also listed the strength of domestic bond markets as the biggest potential drag on volumes.

Yet Brazil’s drop in issuance share would suggest that, if a normalisation does occur, the potential for a lift in overall issuance is material.

“Conditions in domestic versus external bond markets will continue to be a big factor in how much issuance we see,” says Rodrigo Gonzalez, director in LatAm DCM at BNP Paribas. “Of course, if international markets become more competitive, that will lead to higher volumes.

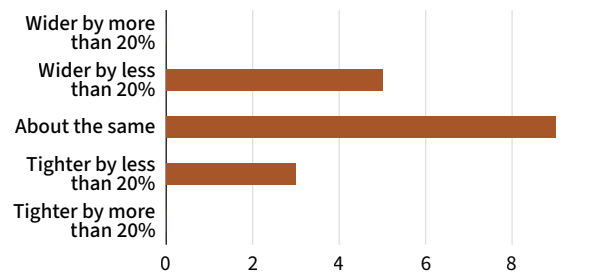
“But I don’t know if it will happen because local markets have been tighter everywhere and have been continuing to deter not just banks but even corporates from issuing abroad.”

How will cross-border corporate and financial bond issuance volumes from LatAm & C change in 2025 versus 2024?



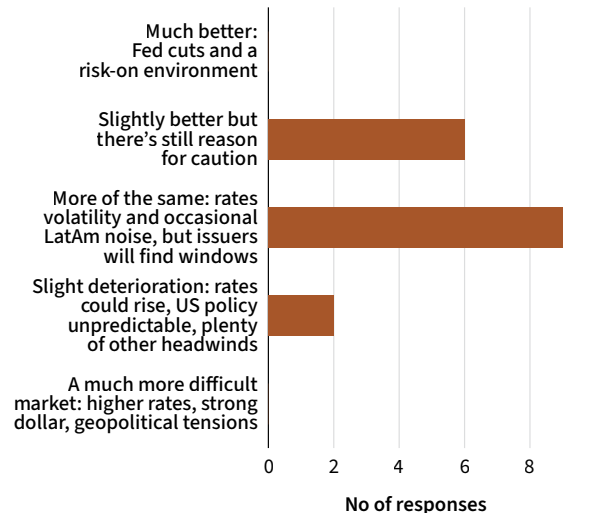
Source: GlobalCapital

What will average LatAm & C dollar spreads over US Treasuries look like by the end of 2025 compared to today?



Source: GlobalCapital

Broadly speaking, how do you expect conditions for bond issuance from LatAm & C to evolve in 2025 compared to 2024?



Source: GlobalCapital

This all adds to the sense that LatAm bankers know what the important issues are, they are just unsure which way the needle will move.

For example, at least four of the six bankers who said that improved market conditions and lower funding costs would be the biggest catalysts for a significant increase in

volumes also replied that the most likely drag on volumes was more difficult market conditions and higher resulting funding costs. Guzzoni at Citi says that the

Where’s your head at? How the priorities of LatAm bond bankers are evolving

For the final part of *GlobalCapital’s* LatAm survey we asked DCM heads whether five different areas of business accounted for growing, stable, or shrinking portions of their team’s time and energy.

We’ll vie for you, Argentina

Fewer more pleasant surprises occurred for LatAm bond markets in 2024 than Argentina’s progress in tackling fiscal imbalances and inflation, and a deal-making spree has followed as the country has — again — returned from the capital markets wilderness.

Less of a surprise: this was one of the survey’s most overwhelming results, with 14 of 17 respondents saying they are spending more time and energy on the country.

Anecdotally, even those lacking the large local presence of the likes of JP Morgan, Citi, Santander or Itaú acknowledge that they must try to compete. “The big banks have real senior people on the ground, strong relationships, and great access, and a flavour of what’s going on,” says one LatAm DCM executive. “It is hard from New York, but if we want to be relevant in this market we simply cannot discard the third-biggest economy in the region at this time.”

ESG-labelled bonds: steady shrinkage...

For years, bond bankers never failed to talk up their green, social or sustainability-linked bond capabilities in conversations with issuers, investors, or, indeed, journalists. Whether the market has matured, and these deals require

less work, or if years of trickier markets have reshuffled priorities, ESG-labelled deals are commanding less attention.

Six respondents said that these transactions accounted for a shrinking portion of time and business, and none said it was a growth area. Even a couple of those who ticked “stable” veered towards “shrinking”, but said they did not want to give the impression that they did not care about the topic as much as before.

...except debt-for-nature swaps

There’s a new-ish kid in ESG town, after all. Given the moving parts and set of circumstances required, debt-for-nature swaps will always be infrequent and have a limited issuer base, but 11 of the 17 banks surveyed are dedicating either a steady or growing amount of time and energy to the product, with Credit Suisse’s demise having opened doors to other banks. Bahamas became the fifth country from the Americas to wrap up a debt-for-nature swap in November, giving Standard Chartered its first mandate in the sector. With NGOs now clubbing together to try to scale sovereign debt conversions, and private investors providing co-guarantees, the question is whether some larger LatAm sovereigns can use a tool that has so far been in the realm of smaller countries.

Private placements

For some, private placements are a niche that doesn’t move the needle in the overall market. For others, they are a chance to pair issuers

with new investors or solve a particular funding need.

One banker reports an increasing number of requests from sophisticated LatAm-based multinational corporates looking to grow their global investor base through MTN-type deals with Asian buyers.

Some respondents argue that private credit transactions should be included, pointing to the growing activity of the likes of Gramercy, which has announced nine such deals in LatAm in 2024 alone. A DCM banker, especially one who works for the variety of issuers that operate in LatAm these days, cannot rely purely on vanilla 144A benchmarks, which means being able to operate in private markets in some shape or form.

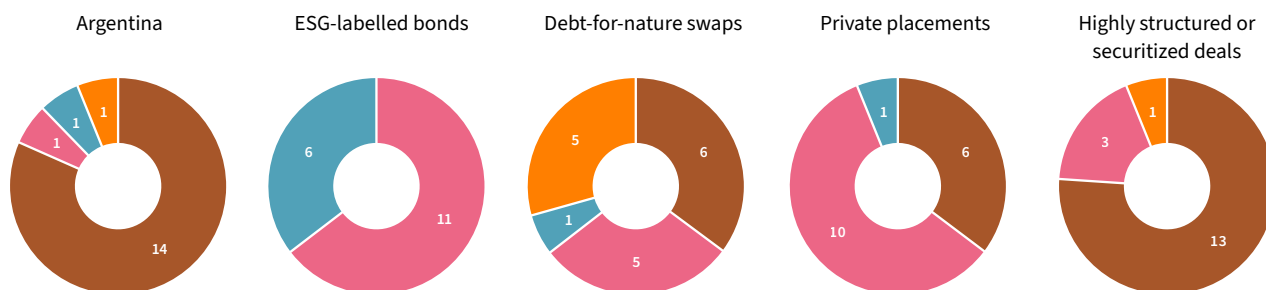
Structured and securitized

Similarly, LatAm bond bankers are even more convinced about how they must get sophisticated about structures, with 13 respondents saying they were spending an increasing share of their energy on these deals.

Though one DCM head argued the need for highly structured trades had fallen as market conditions have normalised and unsecured funding has become cheaper, that is not the only use case. Take the Jamaican government securitizing a top asset with a Kingston Airport-backed secured bond in September, or Brazil’s Raízen in March monetising future revenue from a long-term ethanol contract, for example.

Do the following areas of business today account for a growing, stable, or shrinking portion of you and your team’s time and business?

● Growing ● Stable ● Shrinking ● Not applicable



Source: GlobalCapital

“caveat” on his thesis of an increase in issuance is interest rates. “If they continue on their downward trajectory, our market might be busier again,” he says.

Interest rates are at the top of the list of concerns, with 10 respondents identifying US rates and monetary policy as the biggest risk to the LatAm outlook — way ahead of goings-on in the region itself.

Three other bankers said that trade tensions were the number one risk, which is linked to interest rate policy.

“The key driver of strong primary execution and spread performance in 2024 has been relentless inflows into global fixed income funds, not EM,” says one LatAm bond banker. “This has largely been driven by the expectation that the Fed will begin easing soon and support fixed income.

“To the extent we see further uncertainty about the future path of the Fed, those inflows could dry up, widening spreads and substantially dampening demand for new issues.”

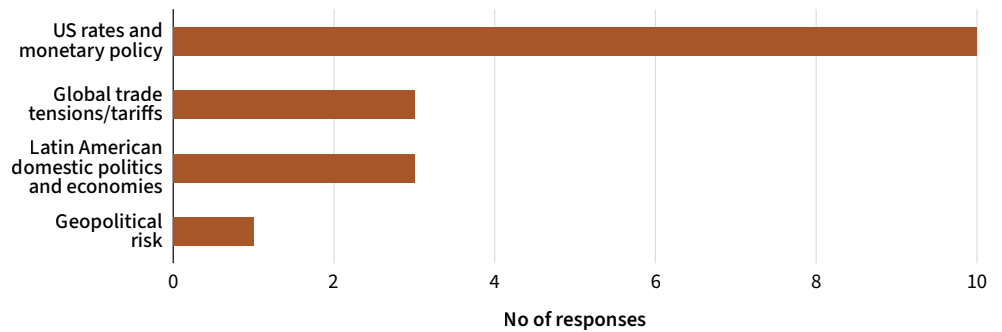
Others argue that, regardless of rate volatility, technical support is extremely strong. Again, redemptions, coupons and maturity payments will return vast swathes of cash to EM bond investors. And if the consensus on the spread is for some widening, it comes with levels already extremely tight, with one LatAm syndicate banker even saying that some pushback would be a good thing.

So far, so good. After all, LatAm bonds weathered elections in places such as France, Mexico, the UK and the US in 2024, not to mention major conflicts across the globe. Perhaps 2025 will turn out to be another solid year of business as usual.

“For at least the start of the new year, we expect similar demand drivers to the last few months: [investment grade] spreads remain tight, which anchors high yield spreads and in turn anchors sentiment toward the emerging markets,” says Volkov. “We expect the first six months to be more active in terms of issuance, with likely improving market conditions.”

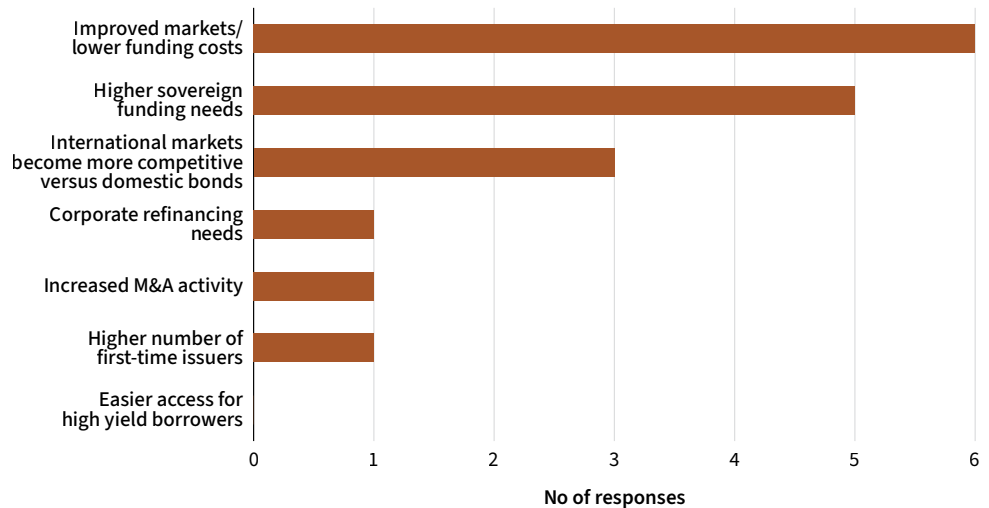
But there are wild cards — both good and bad — in the pack. Debt capital markets bankers must hope they are dealt the right ones. GC

Which of these factors is the biggest risk to the outlook for LatAm & C bonds in 2025?



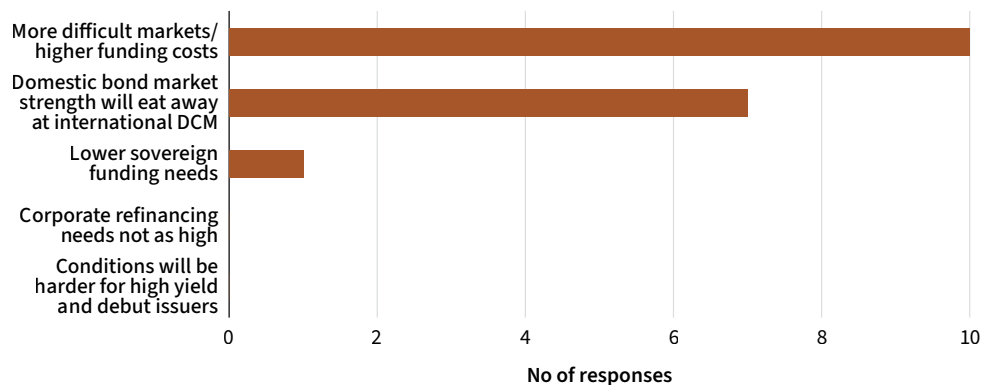
Source: GlobalCapital

Which of these factors could provide the biggest upside to LatAm & C international bond issuance volumes in 2025 versus 2024?



Source: GlobalCapital

Which of these factors could be a DRAG on LatAm & C international bond issuance volumes in 2025?



Source: GlobalCapital

MarketAxess sees electronic trading driving EM growth



GC: How has the size and scale of the MarketAxess EM franchise changed in 2024?

Burke: This year has been remarkable for MarketAxess and our EM franchise, as evidenced by a 20% increase in daily trading volumes across hard and local currency bonds compared to the previous year. The strength of our growing network of over 1,600 market participants in 120+ countries enables us to better serve clients by providing deeper access to local markets and improved price discovery. We've seen particular success in meeting investors' needs for larger trades with block trading volumes increasing 20-30%. Additionally, as portfolio trading continues to reshape credit markets, we've expanded our capabilities to help clients execute more efficiently. These improvements reflect our commitment to delivering better trading outcomes and market access for our global client base.

GC: What were the highlights in terms of product development this year?

Burke: In 2024, we expanded our Emerging Markets capabilities in response to evolving client needs across APAC, EMEA and LATAM. Following India's June inclusion in the JP Morgan Global EM Bond Index, we introduced specialized trading functionality to help investors efficiently access this key market.

For our South African hedge fund community, we developed a streamlined solution integrating prime broker routing for reporting requirements. And in Latin America, we've broadened coverage by adding Casada trading and support for Uruguayan and Chilean inflation-linked bonds as well as Paraguayan bonds — enabling more comprehensive trading strategies in the region. Most recently, we launched Targeted RFQ in November, enhancing our hard currency block trading capabilities.

GC: In LatAm specifically, what impact has MarketAxess had on the development of local markets?

Calderon: Our tailored approach to market structure has enabled us to deliver solutions that meet the specific needs of both global and local investors. Latin American trading activity was a

political and economic uncertainty was rife in 2024, highlighting the importance of a trading platform with the scale and sophistication to support clients through volatile conditions. *GlobalCapital* spoke with **MarketAxess'** Global Head of Emerging Markets, **Dan Burke**, and Head of LatAm Sales, **Maria Calderon**, about the firm's rapid EM expansion, its strategy for Latin America and what they expect to see in 2025.

highlight this year, with third-quarter volumes surging over 50% following an already robust first half and strong 2023 performance.

The impressive growth spans local currency bond markets and renewed activity in hard currency trading. With this momentum, it's been really exciting to see the growth and engagement on the platform as well as the endorsement of our commitment to help investors navigate complex markets with innovative solutions.

GC: What are the main goals for the growth of the LatAm business?

Calderon: Across Latin America, we aim to maintain our rapid pace of development and innovation, deepening penetration into local markets and strengthening relationships with key local participants. Our growing network — from local authorities, regional banks and broker-dealers to domestic asset managers and pension funds — reflects this strategic focus. By understanding the unique needs of each market, we're better positioned to develop targeted solutions that address regional challenges and regulatory requirements.

Building on our success in connecting Brazilian markets with international investors, we're expanding our focus to deliver the same high-quality execution and efficiency to domestic institutions. For example, the launch of Casada trading has enhanced our full spectrum offering of Brazil local government bond markets including LFT's, LTNs, NTNFS and NTNBS, with more to come in 2025. Similarly, in Mexico, we're preparing to roll out new initiatives and excited to bring new trading opportunities in 2025.

GC: What market dynamics does the firm expect to see in 2025?

Burke: The potential for growth in

electronic trading across emerging markets is immense. Currently, adoption stands at 15-20% for hard currency and 25% for local currency instruments — well below the 40-50% seen in developed markets. This gap highlights the opportunity to enhance market efficiency and transparency through electrification.

Our Request-for-Market (RFM) protocol's robust information leakage prevention features are particularly valuable in this evolving market environment, helping clients minimize market impact as low market trading volumes ramp up. This becomes especially critical as we navigate a new geopolitical realm under a different U.S. administration.

If new trade policies introduce higher tariffs for emerging markets, we could see currency depreciation and potential shifts towards hard currency bonds. Should foreign investors move out of local currency markets, the gap would need to be filled by local investors—a transition our trading infrastructure is well positioned to support.

Calderon: The convergence of regional elections, the U.S. presidential election and the onset of rate cuts in 2024 made for one of the most complex markets we have ever seen. Through these periods of heightened volatility, our platform provided consistent liquidity, transparency and price improvement, validating our ability to support investors regardless of the macro environment ahead.

Emerging Markets are at a pivotal moment, and the next year will be defined by those who can adapt to the complexities of a rapidly changing landscape. At MarketAxess, we're committed to staying ahead of the curve and empowering our clients with the tools and access they need to succeed.



28 local currencies.
12 protocols.
1 toolkit.

MarketAxess is How >



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LATIN AMERICA
BOND AWARDS 2024



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Issuers set goals of spreading risk and expanding investor base

European sovereign issuers and African multilateral institutions are among those focused on how to achieve future funding goals. But expanding their investor base is also critical. That is why sukuk, Panda bonds and sustainability-linked products are commanding their attention as they look for more innovation.

GlobalCapital convened a discussion between funding executives from these organisations and other market specialists on their progress in 2024, where they see opportunities for doing things better in the future and why sustainable finance can be a contentious area when it comes to setting targets.



GlobalCapital: I'd like to start with our issuers first and really get a sense of your funding plans and expected use of currencies and markets for next year.

Banji Fehintola, Africa Finance Corporation: I can start because we don't have a funding plan yet. We are getting into the planning stage for 2025, so usually around November, December, we put together the funding plan for the next year. But if I just look back to how we've operated over the last couple of years, historically we've always had an ambition to do a minimum of \$2bn in net funding, and by that, I mean incremental funding. Depending on the maturities we have that year, gross funding could be significantly higher than that, \$3bn, \$4bn, \$5bn.

For us, the target is to spread the risk as much as we can and access as wide a pool of liquidity that is available. So, we have a bond market where we are typically active. We've

issued a Eurobond recently, and we plan to remain active in that space, especially as rates begin to normalise. We are active in the Middle East on the loan side as well as on the bond side. All those are on the radar.

We are also looking actively at Asia as an area where we would like to do some specific types of funding, be it on the loan or the bond side. So again, things like Pandas, Kimchis and Samurais.

Marjan Divjak, Ministry of Finance, Slovenia: In Slovenia in terms of the state budget's funding operations we are mostly done with the funding for this year. We are left with the remaining treasury bills auctions for this year. The funding programme for next year is estimated at around €5bn.

In previous years, we had the flexibility to reduce the funding needs by using the implicit and explicit reserves we had because of better-than-expected budget execution and other reserves which



we created. But going forward, the funding needs of the Republic of Slovenia are on average expected to be at around €5bn.

We are also starting to prepare how we will execute the funding programme next year. We expect to appear early in January in the euro market. Most of the funding we do is in the euro market. We maintain the curve of adequate liquidity, which is one of our main strategic objectives. We also have as broad an investor base as possible to participate during our primary market operations and to trade in the secondary market.

Other than that, we are preparing to issue a sustainability-linked bond (SLB) next year. We already have the framework in place and our objective

Roundtable participants



Rizwan Kanji , partner, capital markets, Akin Gump Strauss Hauer & Feld LLP	Hitesh Asarpota , chief executive officer, Emirates NBD Capital	Marjan Divjak , director-general, treasury directorate, Ministry of Finance, Slovenia	Moderator: Toby Fildes , managing director, <i>GlobalCapital</i>	Zoltan Kurali , chief executive officer, Government Debt Management Agency, Hungary	Chandi Mwenebungu , director and global head, treasury markets, African Export-Import Bank (Afreximbank)	Banji Fehintola , executive board member and head, financial services, Africa Finance Corporation	Modupe Famakinwa , senior vice president, head of corporate funding and investor relations, Africa Finance Corporation	Maryam Abdul Nassir , chief debt management executive, Ministry of Finance, Maldives
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is to execute this kind of transaction. Our thoughts regarding the choice of instruments are to increase duration next year, so something longer dated is on the table for us. Also, we already have sizeable redemptions in 2035, so it means that the scope to issue in the 10-year sector of the curve is rather limited. We will also need to navigate around this maturity bucket, and we will look at other markets as well.

GlobalCapital: So not just euros but maybe other currencies?

Divjak, Ministry of Finance, Slovenia: In terms of strategy our objective is to be every third year in the global market in US dollars with a security of minimum issue size of \$1bn and we look at the yen market as well. We recently issued two Samurai bonds of three and five years maturity. This complements our euro funding well and adds to the flexibility of our funding programme execution.

We will look at other markets and might issue a Panda bond next year. Together it needs to add up to around €5bn of funding for next year.

GlobalCapital: I've got two Panda bonds already. What about you?

Zoltan Kurali, Government Debt Management Agency, Hungary: Here comes the third. In Hungary's case we have a domestic market that is actually very big. Over 70% of

our debt is domestic currency. So, the foreign currency part, which is obviously the most interesting for this forum, is going to be very limited next year. Hungary has been issuing quite significant amounts in euros and dollars and Japanese yen and Rmb for the last five years, well over \$5bn each year. This is going to be much less next year. We have to agree on the timing, but we will do it at some point. The size is still unclear, but it's not going to be big.

And then we will go back to the Panda market. We have been issuing in the Panda market since 2018 and we even had a green Panda programme that we utilised completely in 2022. Our aim is to go back, increase the size of the programme beyond Rmb5bn and try to see where we can do, maybe five years and things like that. Obviously, we have to swap everything into euros. We cannot keep this in Rmb, which constrains our ability to go for a long-dated Rmb because the soft market capacity is not always there.

We don't have too many maturities next year and in 2026, so that also limits our ability to do a lot internationally. The funding plan is not yet approved and not yet public so I can't give you numbers. We will announce it in December, but the ballpark actions are what I explained.

We also have a European commercial paper programme that we created in 2023, and we already have investors from the Middle East participating in dollar-denominated CPs. We don't have too much

outstanding. Half of the programme is still free to be utilised and we will use it tactically and look to Middle Eastern investors to show interest in Hungary's CP.

GlobalCapital: Thank you. Panda bond?

Chandi Mwenebungu, African Export-Import Bank: Absolutely. Our funding requirement in 2024 was about \$10.6bn, of which I think roughly about \$4bn was new money, the rest is just refinancing. We have done over 87% so far. We have a residual which is a refinancing at the end of the year, and the refinancing process is underway.

I don't have the numbers for 2025 yet. We are in the planning stages at the moment, which should be completed by the end of November for submission to the board in December, when everything gets approved to roll out into 2025.

In terms of funding sources, diversification over instruments and geography is fundamental for us. We started a Panda bond a long time ago and we have had to slow down because the use of proceeds at that time was restricted. They changed the regulation at the end of last year and we resurrected the process. We just had a programme approved in China this year. So sometime next year, we should be looking at doing something in the Panda space.

Japan has proved to be a key area for us. We started engaging the Japanese market back in 2015.

We want to get a little bit deeper and test the Samurai bond market, which is another area of opportunity in terms of funding for us and have had a Samurai programme approved this year. We've been looking at that quite closely and had a roadshow last month. We were impressed with the feedback, which was pretty good.

But again, there's lots of work to be done and it's not going to be dissimilar to the work we did in the Samurai loan market. We see deep pockets there. We have a conventional bond programme where we have a few outstanding.

In 2014, we introduced a wholesale deposit programme where we take wholesale time deposits from institutions, in particular central banks and sovereign wealth funds, who were our targets at that time. The response has been great. Back in 2014 we only had two central banks in the programme and \$75m on the table, but we have raised, cumulatively, just under \$40bn since 2014. In terms of outstanding today, I think it's about \$7bn-plus, so a very good response, and we focus only on the continent. We've seen good diversification of participants. Aside from the central banks, we have banks, pension funds, a couple of sovereign wealth funds and insurance companies, so, yes, that really presents us with diversification in terms of instruments.

GlobalCapital: Maryam, what are the Maldives' funding plans and expected use of currencies and markets outside the traditional dollar/euro markets in 2025?

Maryam Abdul Nasir, Ministry of Finance, Republic of Maldives: We are in the midst of finalising Budget 2025, and we will be submitting it for parliament approval by the end of October. Once approved, we will be formulating our annual borrowing plan for next year and publishing it in early January.

Given that the external Maldivian debt portfolio mostly comprises US dollar-denominated loans and, to some extent, euros, we are not actively pursuing alternate currencies. However, based on the currency options available and that are under negotiation, there could be an alternative option to raise funds from the Chinese market. That being said, it would still be evaluated against the cost-risk benefit as this is not a primary source of income for the Maldives. In terms of investor



"When banks are obsessed about league tables, sometimes we're just like: there are more important things to us than league tables"

Banji Fehintola, Africa Finance Corporation

diversification, we have not focused on any particular segment as we have always sought funding options based on the costs and risks associated with each borrowing to the debt portfolio.

GlobalCapital: I want to turn to the use of the Middle East as a funding option. A key part of that is the use or interest in sukuk. Hitesh, what are the barriers to entry? How are they overcome? Are they a viable option for issuers outside the Gulf or Malaysia? Is there a difference between what local banks and internationals can provide in terms of help in structuring these?

Hitesh Asarpota, Emirates NBD Capital: I think over the last few years what we've seen is a definite increase in liquidity in the Middle East. As we know, the Middle East has always been an exporter of capital. High oil prices, increasing focus on diversification of the economy, and most of the other non-oil and gas sectors are doing extremely well; tourism, real estate, logistics and so on. As we've seen in the very small countries, relatively small populations have quite a bit of excess liquidity. And that is now being channelled into other opportunities.

For sukuk Islamic bonds, we have seen issuances from Hong Kong, the UK government, Luxembourg, South Africa, a lot of non-GCC entities as well, from triple-A to single-B, dive into that opportunity. And that has come with very strong diversification. We recently concluded a sukuk for a US-based corporate, the second one. The first one we did last year. And we did it for one of the largest leasing companies globally. They had an 80% allocation from the MENA region.

Whether you're a GCC-based issuer or not, the liquidity in the sukuk investor base is so strong that we've seen a take-up of issuers across geographies. That also comes at a significant advantage in terms of where these are priced at. This one had no issue premium and had no diversification premium. There were two very clear advantages there.

We continue to get a lot of enquiries to tap into that specific segment. One thing to note is when you do a Sharia-compliant or sukuk issuance, you're still predominantly getting all the financial liquidity, you're just adding the specific investor base on top of it. As we know, it adds to the book size, adds to the pricing power and that's allowed for a lot of issuers to take advantage of this space.

There are challenges the first time you try to do something different; it must be structured in a way that meets the requirements and there is a bit of investment in time and energy needed.

GlobalCapital: Which I presume the issuers here have probably done with Samurai and Panda?

Asarpota, Emirates NBD Capital: Correct. The first time with Samurai there's a bit of documentation required. The key aspect is that if you're a sovereign issuer, doing something like that is much easier than if you're a corporate. For two US corporates, and we've done it for other regions as well, the entire start-to-finish process was less than five months, from the time they said we want to understand the market to them having issued, so it wasn't that onerous.

Rizwan Kanji, Akin Gump Strauss Hauer & Feld LLP: On the sukuk side, for sovereign issuers, there are a few additional nuanced considerations with respect to the underlying Islamic structure. As part of the Islamic structuring and assuming a sale and leaseback structure containing real estate assets, the sovereign is required to contractually sell the real estate to make it compliant with principles of Islamic finance because, of course, with Islamic finance, you have a prohibition of interest, so the fixed income instrument is structured via a payment of rent.

Two things that of course sovereigns need to be cognizant of is that, currently as things stand, the sell is not a true sale. You don't have to go through a tender process to get approvals for the sale of government assets because they are contractual sales in accordance with Islamic finance.

Asarpota, Emirates NBD Capital: Just on that point, you already had sovereigns like Hong Kong, the UK government, South Africa, Luxembourg who have gone through that process. It's something that is doable, tested and so on. And you should look at the rating agency reports, they'll consider those to be at par with conventional bonds.

Kanji, Akin Gump Strauss Hauer & Feld LLP: The message to take home is that when you do a sukuk or fixed income conventional bond, the net result is similar in that both are structured as fixed income senior unsecured obligations of the sovereign. I just want to debunk the myth that it is too complicated; the net result is exactly the same.

Mwenebungu, African Export-Import Bank: What happens in

the unlikely event of a default? The referenced asset doesn't get encumbered?

Kanji, Akin Gump Strauss Hauer & Feld LLP: To answer the question, I will take two steps back, if I may. If you recall when I was explaining the sale and leaseback structure, I intentionally emphasised the contractual sale. As a practical example, you have a parcel of land and you set up an SPV. The state sells the parcel of land contractually to the SPV. I say contractually because you don't go to the land department of the state to register the transfer of the real estate asset, that is, the real estate asset is not registered in the name of the SPV.

Following the contractual sale, a contractual leaseback takes place. The SPV then leases it back to the state for a payment of rent and the rent is equal to the profit payment of the sukuk. The contractual documentation expressly provided it's a limited recourse provision, that is, no recourse to the underlying asset. Additionally, there is no true sell in the original transaction, so it's not an asset of the SPV in the first instance, so investors are unable to enforce against the parcel of land.

Perhaps, most importantly, the rating agencies acknowledge and opine on the fact that this is not a true asset-backed sukuk. In the event of default, there is a document part of the suite of transaction documents where the state promises to buy back that parcel of land from the SPV in the event of default or on maturity at an amount equal to the principal outstanding plus any accrued but unpaid returns.

Asarpota, Emirates NBD Capital: That's why the paper trades like senior unsecured risk of the issuer and not as secured risk as well.

Kanji, Akin Gump Strauss Hauer & Feld LLP: Remember, the whole structure is not for credit enhancement, it's not for granting security, it's simply to make it Islamic-compliant because of the fundamental prohibition in Islamic jurisprudence that money on money, that is, interest, is prohibited. I'd like to make it clear that a number of other Islamic structures are available to structure a sukuk. It doesn't have to be real estate or land; I just use that as an example.

And while we're at this, I think everybody loves a story. When we were working on a sovereign sukuk, the sovereign was unable to sell the parcel of land because the local applicable laws required the sovereign to go to Parliament for approval, even if this was a contractual sale. We addressed the limitation by tweaking the structure to a head lease/sublease structure.

There was a parcel of land that the state was contributing towards the underlying structure, and I recall one of the banks enquired if they would be able to inspect the land. The general counsel of the Ministry of Finance responded to the request: "Absolutely, but remember, you may need a submarine because the part of the parcel of land is the wet docks at the port if they want to inspect it."

But just so you know that there is a lot of flexibility in being able to identify what land and so on. And again, like I said, I use land as the simplest example, but there are a lot of other structures and assets that you can use from the underlying Islamic structuring.

Zoltan, absolutely there are local nuances that have to be taken into consideration. There are several things. One, tender rules and government rules, because you're dealing with a sovereign asset, which is one gating item that we would address before putting pen to paper. The second item that we want to address, and I think it's less relevant because you are a sovereign, is: Are there any tax implications when establishing the underlying Islamic structure? Because you're a state, you will normally get those exemptions, and you will be fine.

But that is an important hurdle that MDBs and all corporates have to go through, MDBs depending on where the asset is, but for corporates they have to go through because they don't benefit from it. Those are very relevant concerns but those are



"Most of the funding we do is in the euro market. We maintain the curve of adequate liquidity, which is one of our main strategic objectives"

Marjan Divjak, Ministry of Finance, Slovenia

the straight-off-the-bat gating items that we would address. Sometimes there are indications that require us to pivot to a slightly different structure.

I gave a very simple example of a sale because everybody gets it. But there are nuanced examples or structures that we would use to overcome any local obstacles. We would go through the process just to make sure that you are compliant. Local law issues are relevant and need to be addressed.

GlobalCapital: I think it would be remiss of me not to ask the question, but very quickly if we could address this, how will the proposed guideline changes from AAOIFI affect the sukuk market?

Kanji, Akin Gump Strauss Hauer & Feld LLP: Just for everybody's benefit, AAOIFI [Accounting and Auditing Organization for Islamic Financial Institutions] is the standard-setting body for Islamic finance. There are some regulators who require mandatory compliance with AAOIFI standards. The Central Bank of the UAE now requires its regulated entities that operate in the Islamic finance space to make sure that they comply with AAOIFI standards.

In 2009 we had a big change in AAOIFI, and everybody thought this would be the end of the sukuk market and there was a halt of issuances for a short period while stakeholders, banks and lawyers invested some R&D to come up with structures that adhered to the change proposed by AAOIFI.

The proposed changes being proposed by AAOIFI now will go through a similar process of adjustment, should the revised standards be implemented.

Asarpota, Emirates NBD Capital: It's a fairly large industry. We're going to consultation at the moment and I'm pretty confident it will not be drastic.

Maybe also stepping back, the advantages of going through the initial pain, in addition to diversification in the last 12 months we had three large issuers tap both markets. You had Aramco, which is one of the largest companies in the world, A+ rated, you've got Mubadala, which is double-A rated, one of the sovereign wealth

funds of the UAE, and you have the Saudi sovereign wealth fund, which is PIF. All of them did fairly large benchmark issuances, bond and sukuk, at different times, about \$750m to \$6bn each at one go. If you see Aramco today, the sukuk trades around 7bp tighter than the conventional. For an A+ rated issuer, that's exceptional. If you look at Mubadala, their sukuk trades 25bp-30bp tighter and if you look at PIF, they're about 15bp tighter.

There is a very clear pricing advantage that they've got even at that rating. And our view is when we do issuances for Turkey, and we've done quite a few for the Turkish sovereign in sukuk and bond format, there was one point in time where the difference was about 80bp for Turkey. There was a lot of volatility so the other advantage that comes in tapping this investor base is they are less, if I may call it, trigger happy, so they tend to be more long-term investors, holding on to the paper even during volatile times. And that's why you saw the gap.

Interestingly enough, Egypt was one of the last few sovereign sukuk issuances we worked on as a debut sukuk issuer, but they tapped the markets in the first quarter of last year when the Egyptian economy was going through probably the worst volatility it has seen in recent times. And at that time, I think access to conventional bond markets was very challenging, if they were open at all, and they went out and did a \$1.5bn issuance. At that point they priced about 50bp, 70bp below their conventional. They not only got access to financing, but they also got a diversified investor base, and they priced well below their conventional bond.

Fehintola, Africa Finance Corporation: When you say trading,

are we talking about trading or primary?

Asarpota, Emirates NBD Capital: With primary there is already a discount. And then when it trades, it trades either in line or that discount is sometimes a bit more.

Fehintola, Africa Finance Corporation: Could that be largely because of scarcity?

Asarpota, Emirates NBD Capital: Yes. Scarcity continues to be where the supply of sukuk is still very below where the real demand is at. Some of these funds can't grow in size because there aren't enough assets for them to invest in. Any time they have access to issuances, they tend to be very large investors.

Fehintola, Africa Finance Corporation: How active is the secondary market? I would reckon most of the sukuk investors are buy and hold.

Asarpota, Emirates NBD Capital: That used to be the case. What has now happened, and obviously when we are allocating as well, we are quite careful in terms of the pockets we allocate to. But now we see \$1.5bn, \$2.5bn issuances and there is some trading of these, so they are much more liquid than they used to be.

GlobalCapital: You talked about a five-month process around that. Could you talk through that process briefly around how much you would expect them to do roadshows in the region ahead of a debut?

Asarpota, Emirates NBD Capital: We recommend investor roadshows because about 30% to 40% of the

"The key aspect is that if you're a sovereign issuer, doing something like a Sharia-compliant or sukuk issuance is much easier than if you're a corporate"

Hitesh Asarpota, Emirates NBD Capital





“For a non-eurozone, European Union member like Hungary, issuing in euros is not like for a eurozone member, it’s a very different process”

Zoltan Kurali, Government Debt Management Agency, Hungary

investors you meet will be investors who do conventional as well as Islamic finance, so that’s one clear advantage. And then if there’s a view to do an Islamic issuance, then obviously, we will have investors in there who are unique in being able to participate only in sukuk issuances.

We recently did the first debut non-sovereign out of Turkey as well which was a Turkish sovereign wealth fund. They got a 17.5bp preferential pricing discount to where their conventional bonds were priced at. But in terms of process, your conventional bond documentation forms the base in terms of disclosure and so on.

And on top of that, you have the additional documents that go with the structure that you have prepared. That’s where it could take a few weeks, it could take a few months, but that’s the rough timeline.

Kanji, Akin Gump Strauss Hauer & Feld LLP: There isn’t a premium from a timing perspective to do a sukuk versus a conventional bond, provided, of course, that you opt for the right lawyer. It’s the same timeline, which is important. What I don’t want you to think is because of the additional documents that have to be drafted for the sukuk, that means that your timeline from start to going to market is going to be elongated; it is exactly the same.

GlobalCapital: Liquidity is very strong for both conventional and sukuk at the moment. There’s a statistic here that there have been some deals where allocations to the Middle East are bigger than the US. Hitesh, how do you expect that liquidity will evolve over the next two, three, four, five months?

Asarpota, Emirates NBD Capital: I know we have focused a bit more on sukuk issuances, but we work on a full variety of conventional debt for issuers outside the GCC as well. What we have seen is we raise funding for quite a few issuers from China, for example, in the conventional format and they’ve all started to engage with investors in the GCC. They’re looking to diversify their investor base as well. And even the A to A+ rated issuers from there get about 5% to 10% allocation on the conventional issuances in the GCC.

We’ve done over 35 deals from India, from high yield to top-tier banks. They started by saying we go to Singapore, London and the US for our investor roadshows. Is there appetite in the Middle East? Now we’re regular bookrunners for most of the issuances because they realise that — and they do conventional out of India, they’ve got about 10% allocation in the Middle East on their issuances on average. The same for top-tier names in China, the same for names out of Indonesia.

Turkey has been a big beneficiary over time. So when we started covering Turkey, conventional issuances were 60% US, 40% Europe. We’ve worked on trades where it was 20% Middle East, 15% US and the rest was Europe. It’s changed quite a bit for issuers in quite a few jurisdictions.

Modupe Famakinwa, Africa Finance Corporation: I have a question from a sukuk perspective, is there a preference in the Middle East for issuances in euro versus dollar.

Asarpota, Emirates NBD Capital: Given the currencies for UAE and Saudi are the petrodollar, the dollar becomes a home currency and

much more appetite in the dollar than in the sukuk space. We always recommend dollars and swap to euros, which I assume you do. I think one of the other factors to consider is in terms of appetite for tenor. Typically, these are 10 years — it’s where the sweet spot is.

The largest we have done has been \$6bn-plus. And typically, we do \$500m recommended benchmarks to \$2.5bn. The one thing that we can pretty much guarantee is that a sukuk issuance will have at least 50% allocation to the Middle East, so you’re guaranteed the diversification there. If you do a \$2bn issuance, at least \$1bn will come from the [Middle East]. And one of the largest issuers in that space, every single year, year after year, is Indonesia. They do anywhere from \$2bn to \$4bn in that space and they are counting on being able to price very efficiently in those markets.

GlobalCapital: Just switching back to our issuers, I’d like to ask how you choose your banks for your transactions. What do banks need to do to get on mandates? In Poland there is a primary dealership system, in Slovenia it’s being very active in secondary trading, for example. For some sovereigns it’s all about fees or paying no fees. For others it’s about investment in the country more broadly. Ideally, I guess you want all of these but what are you focused on as issuers looking at your banks?

Nasir, Ministry of Finance, Maldives: The fees are, of course, an important part of the evaluation of awarding mandates, but there are other factors we take into consideration including the relationships built over the years and continued collaboration, and also the success rates and engagements with other similar sovereigns and the market. We are still building on our domestic market and yet to introduce primary market dealership, but this is something we hope to commence within the next year following our debut issuance and listing in the secondary market last year.

Kuráli, Government Debt Management Agency, Hungary: We have a primary dealer system so given that our local market is over 70% of our total debt, therefore

the emphasis should be on the dollar stake markets support that we receive from banks. So we have a primary dealer system with 13 primary dealers and one market maker, that is like the basis of us awarding the mandates in euro and dollar denominated, sort of conventional deals.

However, for Japanese and for Chinese we make an exception because those are typical of the market. If we were to venture into some sort of a structured solution in a third market, without naming the product, then we would be able to make an exception, but based on the merit of the service provider.

At the same time, clearly in the case of an onshore Chinese or an onshore Japanese, we look at league tables. So we would have to look at the league table in the case of a sukuk deal as well and see whether or not our existing primary dealers would be in those league tables and what is the value-add coming from the local banks in the region.

The way we award these mandates is basically standard fees, so the standard fees are set according to the European sovereign fee scheme, and we don't negotiate. It is take it or leave it. Obviously, the banks take it.

That's how the market is set up. Before I started to do this job, there was, in some cases, competition on these and they ended up badly in most of the cases. It doesn't work. Especially for sovereigns, the fee schedules are pretty standard across the board. You should basically play by those fee schedules and the banks should play alongside, otherwise it's going to be a distorted process.

Fehintola, Africa Finance

Corporation: A league table is not the deal-breaker for us. I'm not sure we spend much of our time reviewing league tables. Sometimes there are more important things to us.

What are the more important things? One, the value you can add, and I don't think value and number of transactions are necessarily correlated. If you have a very strong marketing team, you get on many mandates, but do you deliver on those mandates? That's a separate conversation. So for us it's about how much value you can add as an adviser or as a GLM on any of our bond issues.

The value you would see it, we

have a panel of four or five banks, we know who is adding the most value from those conversations you have when people are guiding you towards making the best decision for you as an issuer, as against some banks that are guiding you to make the best decision for investors. It's a delicate balance.

There are so many houses which, as far as I am concerned, are working for the investors. They want you to issue as wide as possible so that investors are happy, and you have a book that is 10 times covered and you have a good or bad deal.

We have a policy where we rotate the banks. We've tried to do it by region, so GCC/Middle East region, we have American banks, European banks, Asian banks, and, interestingly, even African banks. Within those groups we try to rotate them in and out of different bond mandates. You obviously must be a bank that we respect, for you to be even part of that pool of banks that we are rotating.

Fees are important. Chandi and I have spoken about having a standard for African multilaterals, like the Europeans do, so that whether you are dealing with Afreximbank or AFC, the fee scale is the same. I hope that one day we will make it happen.

Asarpota, Emirates NBD Capital:

Maybe I can respond to your earlier question. One is, as you can imagine, it's standard for issuers to come to us and tell us we are looking to tap this new market. We want to ensure that our conventional curve is not affected. And second, we're doing it for diversification, so we want to ensure that we get the diversification.

To your point, we had a similar conversation with the recent issuance we did for AerCap, which is the

largest commercial aircraft leasing company. They're BBB+ rated, with lots of bonds outstanding. All the objectives were met. Eighty percent of that was allocated to Middle Eastern investors, which means that very little of their existing investor base was accommodated in that issuance. In addition to that, the pricing was flat or better than their conventional, so they met that objective as well.

Even more so, if you're a relatively scarce issuer in dollars, you want to ensure that whatever you do has clear advantages. And here the advantage is diversification at a discount, so it's two things in one.

Kanji, Akin Gump Strauss Hauer & Feld LLP:

Zoltan, absolutely there are local nuances that have to be taken into consideration. There are several things. One, tender rules and government rules, because you're dealing with a sovereign asset, which is one gating item that we would address before putting pen to paper. The second item that we want to address, and I think it's less relevant because you are a sovereign, is: Are there any tax implications when establishing the underlying Islamic structure? Because you're a state, you will normally get those exemptions, and you will be fine. But that is an important hurdle that MDBs and all corporates have to go through, MDBs depending on where the asset is, but for corporates they have to go through because they don't benefit from it. Those are very relevant concerns but those are the straight off the bat gating items that we would address. Sometimes there are indications that require us to pivot to a slightly different structure.

I gave a very simple example of a sale because everybody gets it. But there are nuanced examples or structures that we would use to

"In terms of funding sources, diversification over instruments and geography is fundamental for us"

Chandi Mwenebungu, African Export-Import Bank (Afreximbank)



overcome any local obstacles. We would go through the process just to make sure that you are compliant. Local law issues are relevant and need to be addressed.

GlobalCapital: How have you noticed how the investor base has changed over the last six months or so or a year in the markets where you operate in terms of the type of institution or how their appetite is changing as well?

Asarpota, Emirates NBD Capital: We've seen more allocation from fixed income than we have in the past. With the Middle Eastern investor base it's not the top five large sovereign wealth funds that matter, it's the family offices and we've seen more and more allocation to fixed income which is away from real estate and equities which is the bulk of what they used to invest in in the past.

Second, we've seen a lot of new entities set up in the UAE as well, so we've seen 60 hedge funds set up in Dubai in the last few years, top asset managers like Franklin Templeton and Fidelity, quite a few new investors coming and setting up base in the region which is also adding to the liquidity.

The third thing is, this year the UAE was ranked second for the largest migration of millionaires to the country. More than 6,500 people moving in and most of the wealth is then managed by the local institutions or institutions that are strong in the region, so we've seen a massive increase in private banking in the region as well.

Fehintola, Africa Finance Corporation: We keep talking about GCC in the sukuk space. What about Malaysia? What's happening

there? Is there access for issuers like us if we wanted GCC plus Asia?

Asarpota, Emirates NBD Capital: Yes, I think there's a slight differentiation in some of the Islamic structures that Malaysia uses, versus the GCC, which has the strictest version, if you can call it that. Once you issue to GCC standards, the Malaysian investors follow.

The reason that we haven't focused as much on Malaysia is that they're no longer a very large investor base for sukuk issuances that are issued from the GCC or elsewhere in the world. I would say they're probably less than 5% of the demand that we see, significantly less than 5% on our issuances.

So they have a very local currency market in Malaysia and sukuk providers, as well as conventional, are quite strong. Most of the issuers there now issue in local currency and we've seen very few dollar issuances that they issue as well. And the investor demand for dollar issuances globally has reduced.

GlobalCapital: Can I extend that question about how your investor bases have changed in any way in the last year?

Divjak, Ministry of Finance of Slovenia: The investor base is evolving given the monetary cycles. The Republic of Slovenia has also issued a 30-year bond, 40-year bond and 60-year bond on the euro market during the low yield environment. Insurance companies and pension funds are natural buyers of these kinds of instruments. Now that we have, in this monetary environment, scaled down the average maturity of the debt that the Republic issues, the investor base has changed accordingly.

I would like to give a couple of thoughts on how we select banks for primary market operations because we do it completely differently to what we've heard here. What we do is we measure secondary market performance; this is the only thing which matters. We have very precise metrics in place for how we evaluate secondary-market trading of dealers. What we believe is that all the banks which we have on board for our primary dealership can add value. Of course it is up to different bankers how they can interact with us. I liked to work with Zoltan a lot in the past, as an example. We have known each other for a long period of time now. But otherwise, these are big houses, they all can deliver through their sales force. It's about how they trade Slovenia bonds, and this is what matters in our view.

GlobalCapital: That applies to the non-euro deals?

Divjak, Ministry of Finance of Slovenia: The secondary market methodology is applied to the euro-denominated bonds trading, but the results are of relevance to both euro and dollar bond issuances. And I would like also to point out that euro funding represents 95% of our funding operations. The diversification to use other instruments is funding operations which complement euro funding, with the purpose to be present in other markets and to diversify the investor base.

In other words, when we do issue other instruments in other markets, we award the banks that perform best on the euro market by having them on board for our US dollar bonds. We had our best primary dealer on board for our recent Samurai bond issue. It's all about secondary market trading.

Kurali, Government Debt Management Agency, Hungary: On this fragmentation point, Hungary hasn't yet adopted the euro, so we have our own currency and therefore most of our debt is in this currency. The most natural currency for us other than the domestic currency is euros. This worked for some time until it didn't and for certain sizes that the euro market wasn't able to provide, we had to issue in dollars.

So this happened twice; once after 2008 and it happened during

"In terms of investor diversification, we have not focused on any particular segment as we have always sought funding options based on the costs and risks associated with each borrowing to the debt portfolio"

Maryam Abdul Nassir, Ministry of Finance, Maldives



Covid when simply the domestic savings base and whatever the euro-denominated traditional rates investor base could not provide, we had to go to the dollar market and get the excess liquidity from that. Obviously, these are very different types of deals.

So for a non-eurozone, European Union member, issuing in euros is not like for a eurozone member, it's a very different process. Simply, the order books and the price dynamics are much more beneficial in the case of a dollar deal than in the case of a euro deal. Then obviously the euro/dollar basis swap situation helps us to issue in dollars and then swap into euros and achieve a tighter level through the cross-currency swaps than if we issued in euros.

But this is wrong. It is not in line with the strategy that a potential future eurozone member, which every European country is, should follow. So in the next couple of years because we don't have that much of a funding need any more, we will have to scale back dollars and return and refocus on the euro market. We have a curve, but this curve is all over the place and we have to manage this curve and manage the investor base and attract as many investors as possible.

If there is a medium-term or short-term objective for us internationally, it is to rediscover a euro denominated and a European investor base and, to some extent, move away from this global macro, global EM, dollar-denominated community. But at the same time, diversification into other geographies like the Middle East is also very important.

Nasir, Ministry of Finance, Maldives: I agree with the points the other speakers have made. Since we aren't active in the market, I would not be able to comment on this from the Maldivian perspective.

GlobalCapital: A year or two ago EM investors were becoming alarmed by the number of EM sovereigns trading at distressed levels — 21 at its peak. But with the direction of travel for rates easing this, many are out of the woods. Maryam, can you tell us about the Maldives's experience of this and how it sees the next year playing out?

Nasir, Ministry of Finance, Maldives: Yes, with the volatile

market changes, we have also not been to the markets given that it is not an ideal time. Unfortunately, we just have a single sukuk at the moment for reference. As it is nearing maturity, it has been observed to move along the pathway as any other maturing instrument, that is, moving closer to par. Though the rates are easing, it is not favourable to the Maldives given our current credit rating. Thus, it is a mix of both and how we present ourselves to the investor community with the updates on our macro-fiscal and monetary projections that I believe can bring down the rates to a favourable position in the near future.

GlobalCapital: It was interesting to hear about the performance of sukuk during times of volatility and it tends to hold quite strongly, which is quite similar to what we've seen happening in general to ESG-type bonds. Which now brings me on to the topic of green bonds and ESG. Marjan, I just wanted to pick you up on your SLB plans for next year. A lot of people have done green bonds in the last 10, 15 years. Quite a few people have done social bonds. Sustainability-linked bonds are still quite rare for non-corporates, especially sovereigns, so tell us what your plans are.

Divjak, Ministry of Finance, Slovenia: Indeed, the objective is to issue an SLB and we are doing everything needed to do it. We are more or less ready with the framework and we are pursuing the process of obtaining second-party opinion for the framework. We are awaiting the

update of the National Environmental and Climate plan, which is to contain new updated targets.

GlobalCapital: Things like CO₂ reduction?

Divjak, Ministry of Finance, Slovenia: Exactly. And two other KPIs. I will not, at this stage, discuss what these KPIs are but all three are green KPIs. We discussed what potential KPIs could be for Slovenia, and we wanted also to have social KPIs on board but as we stand now, the decision was to have three green KPIs.

GlobalCapital: And is the structure likely to be coupons going up or coupons going down or just up?

Divjak, Ministry of Finance, Slovenia: What we assume is that we are to have a symmetric coupon structure, so that potentially it can be coupons step up or step down, like what Chile has done in terms of structuring their transaction. It's very important to have this symmetric structure in place, rather than asymmetric where downside only is the possibility.

GlobalCapital: Thinking about sustainability-linked structures, they really hold the issuer to account, you are achieving something. That's what you are describing there.

Divjak, Ministry of Finance, Slovenia: Indeed. With the sustainability bonds that the Republic issued, it was about earmarking the eligible green and social expenditures already in the budget. But by committing to concrete



"The net result is similar in that a sukuk or a fixed income conventional bond are both structured as fixed income senior unsecured obligations of the sovereign"

Rizwan Kanji, Akin Gump Strauss Hauer & Feld LLP



“We need to understand that it’s not one size fits all and have different standards to accommodate different markets. Hopefully, we can get that through ICMA”

Modupe Famakinwa, Africa Finance Corporation

environmental targets in our case, it is an additional level of commitment I would say, rather than showing what you already have in the budget.

GlobalCapital: Yes. In the markets that you operate in, Hitesh, is this a structure that you’re finding you’re talking about more and more?

Asarpota, Emirates NBD Capital: We issued our own sustainability-linked framework, so the Middle East was a bit behind. It’s caught up very quickly. It helped that we had COP 28 in the UAE. Investors and predominantly the banks have made a commitment to the central bank to reach a target of €1tr, it’s about \$270bn in labelled assets. So there is a strong push, top-down, and I think we’re seeing this across curves, so we’ve been fortunate enough to not only work on green financing but also blue, social, sustainability linked as well, bond and loan formats as well as capital markets. You see more and more of this strong investor interest in labelled issuances.

GlobalCapital: Our remaining issuers, are you interested in that structure, the sustainability-linked bond structure? Or are you happy to stick with use of proceeds?

Nasir, Ministry of Finance, Republic of Maldives: As a small state, we understand the need to raise financing through innovative mechanisms and have been working on a sustainable finance framework with our partners. There have been delays, I admit, due to the change in administration and certain policies, but this is something that we are very much focused on. As such, we have been exploring alternate mechanisms including coloured

bonds and also swaps given the current sukuk trade. I believe that each issuer needs to put in some colour for their issuances going forward as this is something that most investors would also expect going forward. On SLBs, it is something corporates could explore, but as a sovereign, it could be difficult at the moment.

Fehintola, Africa Finance Corporation: We looked at it. We issued a green bond many years ago, 2018 or 2019, in Swiss francs, and we have a green bond framework. Last year we tried to do a sustainability-linked loan. And like you, we were talking about issues around setting the appropriate KPIs for an African issuer. This is where the challenge is.

We sit somewhere in the world and set standards that you feel must apply to everyone, irrespective of geographic differences. For Africa, we strongly believe climate is not the problem, but when you apply the same yardsticks that apply in industrial Europe or the industrial United States to an African entity, it becomes challenging to agree those KPIs.

The transaction fell apart when we couldn’t agree to some of the KPIs because they don’t reflect the reality on the ground on the continent. One of the things we’re trying to do is work with the likes of ICMA to have an African voice and perspective in this conversation so that investors also understand that this geography is different from this geography, and I can’t just apply the same standard everywhere irrespective of where we are. So good luck to us, it’s a conversation we’ve started and I hope that through multiple efforts we will succeed.

Famakinwa, Africa Finance Corporation: The KPIs that would

apply to most African entities are deemed as not ambitious enough which is then a problem because what standard determines what is ambitious? What you then find is that some of these KPIs become a barrier to entry for African entities, which is a challenge. What we’ve found is that when AFC, or the likes of Afreximbank, issues, it starts to open the door to corporates to look at some of these products. Some of these institutions don’t have sustainability experts, though. They’re not there, so even setting that as a KPI, building your in-house expertise is ambitious for some institutions. But when you look at European institutions or other markets, it is deemed as standard.

That’s where we need intervention. We need to understand that it’s not one size fits all have different standards to accommodate different markets. Hopefully, we can get that through ICMA. The conversations have started.

Asarpota, Emirates NBD Capital: We’ve done the same. We’ve joined ICMA to have a Middle East voice in setting standards that are applicable for at least the GCC countries.

Mwenebundu, African Export-Import Bank: We don’t have a framework in place, but it’s something that we are looking at. We do have a framework which only speaks to the funding side of things. We realised that there’s a gap, that we needed a framework that speaks from funding through to the asset-generation perspective, so that we link the two.

Our view on climate change is completely different and we share the view of my AFC colleagues. The continent is the victim of climate change. But also, at the same time, we absorb a lot of climate change. We feel like we need to be paid for the good job that we’re doing to reduce carbon emissions. There are huge droughts in Southern Africa and East Africa today that are all consequences of climate change.

We’re looking from a much broader perspective to ask if we can start speaking about transition. It’s about getting an entire continent to come up with infrastructures that withstand the bad effects of climate change, and the question is: all this requires funding. How do we fit all these things into SLB and similar structures? That’s our perspective. GC

Polls apart: cash stampede protects corporate issuers from democratic disruption

This was the year of the voter — when a spate of elections around the world threatened market disruption. Investment grade corporate borrowers changed funding plans and prepared to be opportunistic, writes **Mike Turner**. But the relentless flow of cash into the asset class made it a golden ticket — a trend expected to continue into 2025

Elections across Europe, including a snap vote in France, and November's US polls were at the forefront of investment grade corporate borrowers' minds throughout 2024. Borrowers expected so much volatility that most tried to complete their funding by early October, leaving room for opportunistic nibbles at the market if the window was open.

But the corporate bond market did not miss a beat. Indeed, spreads in Europe's corporate credit market tightened throughout the year, helped by the wall of cash that has poured into the asset class. Up until the start of October, there were only three weeks in which there were net outflows.

This helped smooth over any lingering worries about another once-reliable, now vanished source of demand for corporate bonds. "One of the standouts was we have seen the European Central Bank withdraw from the market, no longer reinvesting through Corporate Sector Purchase Programme, and we were a bit concerned about it," says Marc Rovers, head of euro credit at LGIM. "But one of the really noticeable things we saw this year was that the lack of buying by the ECB was more than compensated by inflows into the asset class."

This technical strength — and there are few stronger technicals than investors sitting on piles of cash that they are desperate to

put to work — is probably one of the reasons that respondents to *GlobalCapital's* survey on the outlook for the corporate bond market are so confident that spreads will move even tighter in 2025.

Of those surveyed, 74% think that spreads will tighten slightly next year, while a more optimistic 16% think spreads could move as much as 20% tighter. In October, the iTraxx Europe Main was trading in the mid 50s, suggesting spreads could tighten to the mid to low 40s if the optimists are correct.

"We are at all time tights in investment grade and high yield," says Nachu Chockalingam, senior credit portfolio manager at Federated Hermes, "and I don't see an event that materially takes us wider".

Deal deluge headed this way

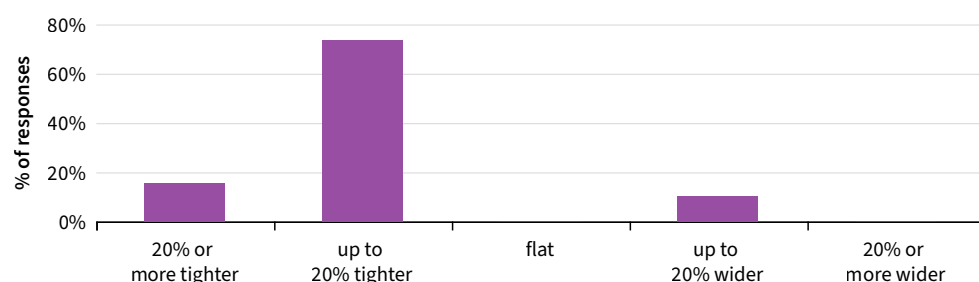
There is some indication that next year's issuance might start to mop

up the cash pools, with just 21% of respondents expecting volumes to be flat next year compared to 2024 with everyone else thinking they will be higher.



▲ Marc Rovers, head of euro credit, LGIM: "The lack of buying by the ECB was more than compensated by inflows into the asset class."

Where are spreads headed?



Source: *GlobalCapital*



▲ Jodie Snow, syndicate banker, BNP Paribas: “Investors will be awash with cash, resulting in a strong technical backdrop, supportive for spreads”.

“Investors will be awash with cash,” she adds, “resulting in a strong technical backdrop, supportive for spreads”. Another running theme for much of 2024 was the strength of the long end for euro borrowers with the appetite to head out to 15 plus years. Highly rated companies like Anheuser-Busch-InBev and Gasnuic attracted strong demand at 20 years, while some issuers went as far as 30 years.

EDP and Merck issued 30 year bonds in euros this year, while Coca-Cola and Medtronic almost reached the same length with 29 year deals.

The thinking for much of the year for corporate borrowers was that this was a rare opportunity to lock in ultra-long funding at record low spreads, while investors got a chance to pick up their favourite names with a bit of extra juice.

But with such high demand for long dated debt — spreads on new issues were often tightened 35bp or more during bookbuilding — curves flattened, denying investors the level of reward for going long that they wanted.

This is reflected in the fact that 70% of survey respondents are certain that long dated issuance will

“As corporate issuers have become more comfortable with longer maturities. . . they begin to look at what the sterling market can offer”

Jodie Snow, syndicate banker, BNP Paribas

be less of a feature in 2025, with the remaining voters agreeing, although to a lesser degree. No one polled thinks the long-end trade is going to be a notable feature next year.

“If you are investment grade, one of your main objectives is to manage maturities, so you could still see people go to the back of their curves,” says Chockalingam. “But curves are re-steepening, which is a good thing.”

With companies heading longer this year, however, they may look to diversify their long dated issuance next year.

“The sweet spot for sterling tends to be from 15 year tenors to 20 years, in euros it’s five to 10 years,” says Snow. “As corporate issuers have become more comfortable with longer maturities

ING analysts predict that there will be €400bn of high grade corporate issuance next year, versus €276bn of redemptions — a net increase of €124bn compared with 2024.

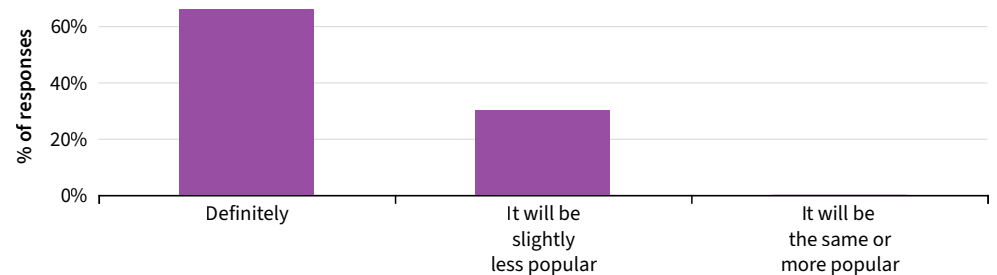
Barclays forecasts a net increase of €170bn next year, although it combines financial and non-financial investment grade corporate issuance in that number.

The UK bank says that at around €578bn across financial and non-financial companies next year’s maturity wall is the “highest volume of redemptions ever seen for the European investment grade market”. This is a record that will not stand for long, with Barclays expecting maturities to increase again to €620bn in 2026.

Perhaps because of this wave of maturities heading the market’s way, 68% of survey respondents think issuance volumes next year will be at least 20% up on 2024. A more conservative 11% of voters think volumes will only rise by a small amount.

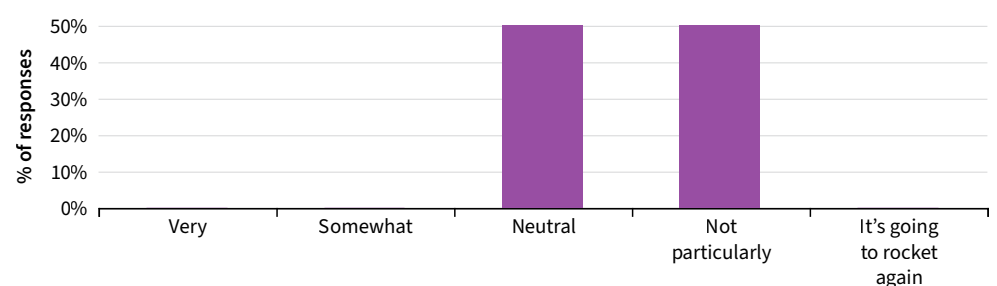
The sterling market will be a particularly high contributor to redemption volumes. “Sterling corporate bond redemptions and expected supply means the net supply is negative in a meaningful way over the next few years,” says Jodie Snow, a fixed income syndicate banker at BNP Paribas. “In 2025, redemptions will be £49bn and we are not expecting much more than the £25bn issued that we saw this year. In 2026, £51bn is redeeming and we expect that same level of issuance.

Is the popular long end trade over in 2025 now rates are moving down?



Source: GlobalCapital

How confident are you that inflation is under control in Europe?



Source: GlobalCapital



▲ Nachu Chockalingam, senior credit portfolio manager, Federated Hermes: . “There might be a small spike in inflation, but we are not going back to high single digit inflation.”

such as 12 to 20 years-plus in euros, they begin to look at what the sterling market can offer.”

Problem children

The troubled real estate sector made further progress with its rehabilitation in the bond market this year, but problem areas are bubbling up elsewhere.

The UK water sector is an obvious tough spot, with Thames Water teetering on the brink of

collapse. Around 64% of respondents also highlighted the auto sector as a potential problem next year. BMW has suffered a major product recall and Stellantis issued a profit warning in September. Other companies are facing the challenge of soaring costs, regulatory problems, lower discretionary spending and competition from China.

Chemicals, utilities and offices have also been named as potential problem sectors.

Meanwhile, investors complain there is not enough spread differential between different rungs on the credit ladder. “There is reduced dispersion between higher and lower quality credit,” says Rovers at LGIM. “We look very closely at issuer profile, we spend a lot of time on credit analysis and increasingly feel that the moves we see mean there is not enough compensation for going down the rating scale.

“You will continue to do your credit work for potentially limited gains, but the downside risk is high if we see a scenario that is not so benign,” he adds. “It could be geopolitical as well. It doesn’t have to come from the macro side.”

But macroeconomics could still present a nasty surprise according

“We spend a lot of time on credit analysis and increasingly feel that... there is not enough compensation for going down the rating scale”

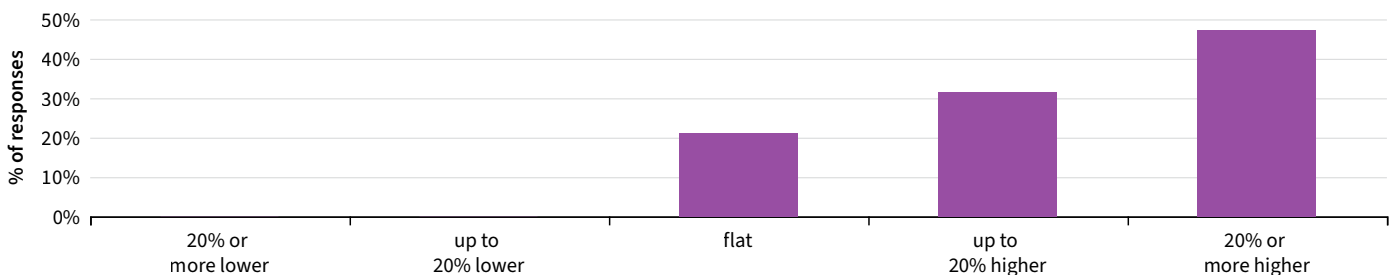
Marc Rovers, head of euro credit, LGIM

to the survey respondents. Inflation looked to have been tamed in the eurozone after falling from an all-time high of 10.6% in 2022 down to 2% in October 2024.

Those surveyed by *GlobalCapital* were divided on their thoughts on inflation. Half were confident that inflation was mostly under control in Europe, while the other half were more pessimistic, worrying that there was a slight chance that inflation would rise again to levels requiring meaningful monetary policy intervention.

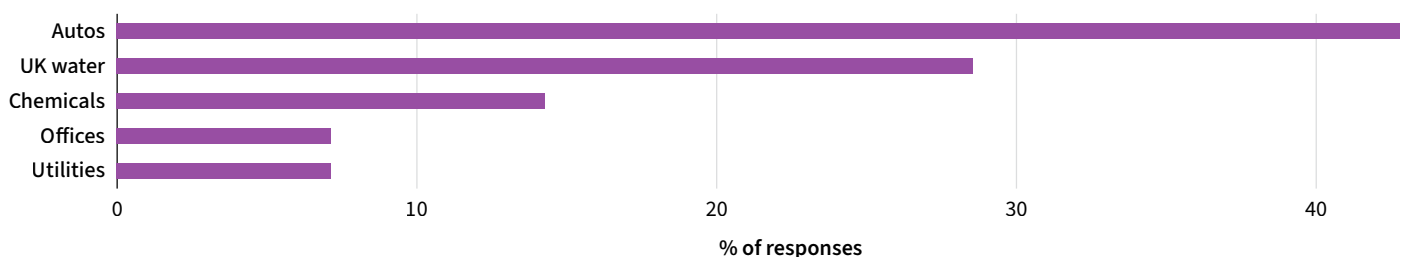
“Reflation risk is a concern, but we are not sure it’s going to move too far from central bank targets,” says Chockalingam. “There might be a small spike in inflation, but we are not going back to high single digit inflation.” **GC**

How will 2025 IG corporate supply compare to 2024?



Source: GlobalCapital

Which sector looks problematic coming into 2025?



Source: GlobalCapital

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Increase in corporate issuance does nothing to dent spread tightening

Despite a higher volume of euro benchmark bond issuance in 2024 compared to a year earlier, spreads ground tighter all year in the investment grade corporate market, writes **Mike Turner**, with the average spread over mid-swaps paid by a high grade company down by more than 60%

Borrowers returned in force to Europe's high grade benchmark bond market in 2024, but an 11% rise in issuance volumes year on year did nothing to widen spreads, according to *GlobalCapital's Primary Market Monitor*.

Investment grade corporate borrowers sold €311bn of benchmark sized trades in 2024 up to November 11. This was up from the €280bn sold in all of 2023. At the same time, the average deal size was roughly the same — €680m this year compared with €675m in 2023.

Despite the higher volume — and this volume is tipped to increase again next year as a wall of redemptions hit the market — borrowers paid a fraction of the new issue premium they had to stump up in the previous 12 months.

In 2023, the average new issue concession in euros across the entire year was 14bp, *GlobalCapital*

data shows. In 2024, this number was 5bp.

Meanwhile, the iTraxx Europe Main tightened by 20bp from December 2023 to November 2024, and the Crossover tightened by 115bp in the same period. At the start of 2024, investors, bankers and borrowers alike were unusually unanimous in their belief that spreads would widen this year.

Instead they tightened — even during a year where there were many important elections globally, including a snap parliamentary election in France and the US presidential election in November, which saw former president Donald Trump return to the top job.

This tightening was mostly down to the relentless cash inflows into corporate credit this year. Until October, only three weeks of the year had seen net outflows, at less than €1.5bn each. Every other week was one of net inflows, meaning there was far more demand than supply in corporate credit.

Sterling a laggard

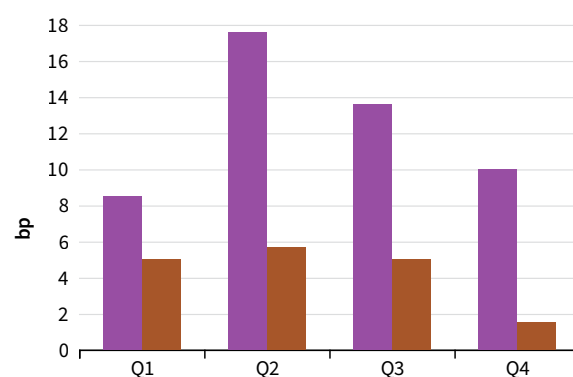
The market did not grow equally everywhere. Bonds in euros did all the heavy lifting, with *Primary Market Monitor* data showing that sterling issuance was all but flat year on year at £23bn.

The sterling market is often seen as mostly domestic and arbitrage driven, which keeps volumes there low, even for UK companies.

“Rates are higher in sterling than in the US and euros, so UK corporates will have less incentive to issue in sterling and keep it fixed rate,” says Frederic Zorzi, global head of primary markets at BNP Paribas.

Average premium on euro benchmark IG corporate deals by quarter

● 2023 ● 2024



Source: GlobalCapital's Primary Market Monitor

“If the arbitrage is, for example, 10bp-20bp, then it can be worth it for issuers to consider sterling,” he adds, “but if it falls to less than 10bp, then it is not as acceptable. Some more frequent issuers, who value investor diversification, might find low to no arbitrage acceptable, but a corporate issuing once a year will be less flexible.”

Maturities in euros lengthened in 2024 year on year, with the average tenor on a trade at 8.47 years, compared with 7.29 years in 2023.

Much of this can be attributed to the popularity of long dated bonds at the start of 2024 as investors looked to lock in higher yields before central banks began cutting interest rates. Borrowers such as Medtronic, Merck, BT and Bayer headed out to 29 years plus in euros, while there were 18 tranches with a maturity of at least 20 years, *Primary Market Monitor* data shows. **GC**



▲ Frederic Zorzi, global head of primary markets at BNP Paribas: “Rates are higher in sterling than in the US and euros, so UK corporates will have less incentive to issue in sterling and keep it fixed rate”

Will the hybrid boom continue into 2025?

GC: Cecile, what have been the key dynamics in the AT1 market this year?

Bidet: The market is wide with around \$700bn outstanding, and Europe is the number one region with \$290bn. We've had a very active European bank AT1 market with just over \$40bn of supply this year from European banks — double the previous year. Since September, we've had 25 tranches across euros, dollars and sterling. This increase in AT1 issuance is mainly down to refinancing. The overall net supply has been small. There's a lot of calls coming in 2025 and we've seen banks take advantage of the very conducive market to refinance those calls this year.

With rates falling, investors have been extremely eager to load on duration, particularly in the dollar market, which made up roughly 60% of AT1s. In September there has been a surge in appetite for non-call 10s or at least products longer than five years. What has provided investors with confidence in the AT1 market is firstly the refinancing. There had been a lot of debate over extension risk and how to price it. We've seen very low reset AT1 being refinanced, and that has been reassuring for buyers. Secondly, the banking sector fundamentals are extremely strong across profitability, cost of ratio, asset quality and capital.

GC: Xavier, how has the corporate hybrid market behaved in 2024 and what do you expect for 2025?

Beurtheret: So far this has been the third most active year for corporate hybrids with \$51.5bn already issued so far this year. Global supply has already more than doubled what we saw for the whole of last year. European hybrid supply has already reached €25.8bn with the bulk of that issued in euros. Interestingly, we have already seen five inaugural hybrids this year versus only three issued last year. Those inaugural hybrids were issued either in the context of M&A refi or to reinforce capital structures. In terms of recent market developments, we have seen Moody's change its hybrid methodology, allowing dated corporate hybrids issued from the US to benefit from 50% equity content. This change led to a huge increase in corporate hybrids issued from the US.

Hybrid issuance surged in 2024 as banks and corporates alike found investors hungry for duration and yield. *GlobalCapital* spoke to **Crédit Agricole CIB's Cecile Bidet** — DCM head for financial institutions — and **Xavier Beurtheret** — head of DCM for corporates — on what drove their markets this year and the outlook for next

Assuming investors are looking for a high beta product, the hybrid is the perfect instrument — providing both yield and ensuring a significant decompression of the subordination premium, with the default probability of an IG rated corporate. Depending on the rating category of the hybrid instrument, we've seen 65 bp-85 bp of tightening since the start of the year in the subordination premium that comes on top of the senior title. So when educating issuers on the M&A refi, we think it makes a lot of sense for them to use hybrid instruments for the capital structure instead of [only] an equity piece. Hybrids could also help in defending the credit rating and keep it in the investment grade spectrum.

GC: For financial institutions, will hybrid issuance be a key topic in 2025 or will issuers face more pressing questions?

Bidet: Issuers will still be refinancing AT1 and optimising their capital stock. But I think the big discussion at play for financial institution issuers in 2025 will be between issuing covered bonds or senior preferred. We've seen SSAs push spreads higher in longer duration, and so the market for long dated covered bonds is non-existent because it's too expensive. Issuers looking at longer maturities need to decide whether to keep assets unencumbered and issue long term senior preferred, or crystallise a very high spread for covered bonds. The financial institution asset class overall has been very stable this year. We expect volumes



Cecile Bidet and Xavier Beurtheret, Crédit Agricole CIB

for 2025 are going to be roughly the same — a little bit less hybrid capital and a little bit more covered bonds. What is not clear is whether it will still be an issuer's market and to what extent spreads can compress further.

GC: Will 2025 be an issuers market for corporate hybrids, and what might determine supply?

Beurtheret: The subordinated premium has tightened consistently since Q4 2023. Although we have seen slight widening since the 2024 summer break, I think we have reached the point where there is not much more potential compression. The tone of the overall market, notably central policy on rates, will affect whether investors will still fight for yield.

The significant volume issued this year came mainly from replacement exercises for corporates managing their stock as well as from US issuers shifting from Preferred Shared to Corporate hybrids. The pickup in M&A activity in the US did not translate into major jumbo transactions in Europe. How to get more M&A transactions in order to bring some new names into the corporate hybrid space will be a key topic on the agenda next year.

Loans bankers keenly await ‘a good vintage for M&A’ in 2025

Loan bankers describe a ‘positive year’ in 2024, with the market ‘buoyant’ after two years lacking momentum, writes **Jennifer Law**. There was a flurry of activity in the second half of the year prompting expectations of higher volumes to come

Interest rates have been at the front of corporate borrowers’ minds in both the UK and Europe, with many refinancing their loans soon after the European Central Bank and the Bank of England began to cut them in the summer.

Economists expect the BoE to deliver another two or three rate cuts in 2025, while the ECB is expected to cut rates four times.

Lower borrowing costs should stimulate the syndicated loan market. Indeed, roughly 70% of bankers surveyed by *GlobalCapital* about volumes in 2025 expect them to increase, while the rest expect them to remain the same.

“The tone is generally positive,” says Nicolas Rabier, co-head of investment grade finance loan capital markets at BNP Paribas.

“Companies have now largely repaired their balance sheets and put themselves in good stead, and we will see an improved environment in terms of funding markets as rates come down,” says Damien Orban, head of emerging markets, financial institutions and

Benelux in loan capital markets EMEA at Bank of America in London.

If lending activity does rise, a major driver is expected to be M&A. “Acquisition financing is going to drive the loan market over the next year,” says Orban. “The reason for that is coming off the back of two years of poor M&A volumes that were significantly impacted by volatility in financial markets, the higher rate environment, and therefore the cost of debt, particularly as we think about companies then having to focus on repairing balance sheets.”

Indeed, the tide is already shifting that way. Syndicated loans to finance M&A have risen by 21% from \$118bn in the first nine months of 2023 to \$143bn in the same period this year, according to Dealogic.

“We’ve seen many corporates trying to diversify and go to the M&A markets to adapt to the changing world,” says Benjamin Vaissié, head of corporate and acquisition loan syndicate at Société Générale.

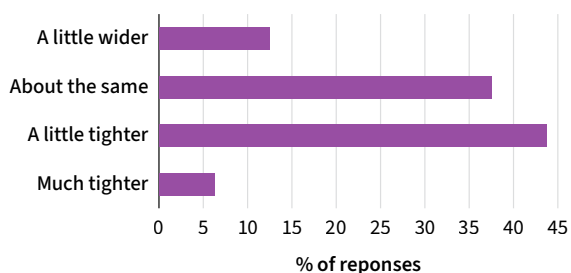
“The syndicated loan market is definitely influenced by the level of M&A that could occur in the markets, that’s really the big topic,” he adds. “There’s been a lot of refinancing and jumbo transactions this year, but everybody’s waiting for the comeback of M&A financing.”

The EMEA loan market has rebounded this year, with \$317bn of rank-eligible deals signed by November, according to Dealogic,

“The syndicated loan market is definitely influenced by the level of M&A that could occur in the markets, that’s really the big topic. There’s been a lot of refinancing and jumbo transactions this year, but everybody’s waiting for the comeback of M&A financing.”

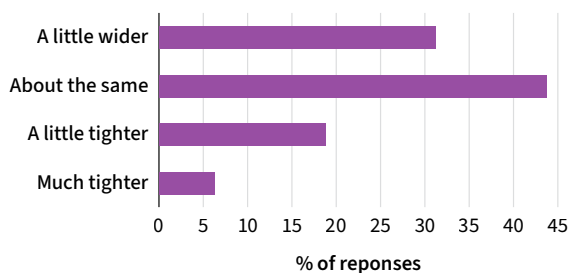
Benjamin Vaissié, head of corporate and acquisition loan syndicate, Société Générale

How did margins on investment grade loans evolve in 2024?



Source: GlobalCapital

How do you expect margins on investment grade loans to change in 2025?



Source: GlobalCapital

up from \$169bn by volume in the same period last year. Nonetheless, there are still obstacles for borrowers and their lenders to clear.

“One may be cost of funds,” says Orban. “The cost of liquidity is something of a challenge. Competition is fierce, and when a transaction may have broken cover publicly you see this come through with bids/rates so unbelievably underwater. It is important for clients to balance this behaviour against the value of the right advice and structure in context of the project and the prior work that has gone in to get to this point of success.”

And when it comes to funding M&A, Vaissié sees “external events [that] could have an impact on the valuation of companies and so could slow down the corporates willing to make those strategic moves” as a risk. “The economic performance of companies will also be strongly looked at, so there’s been a lot of disruption with strong inflation impacting the margin of certain industries,” he adds.

Borrowers also have increasing choices over their sources of capital, given the rise of the private credit industry. Among those surveyed 75% think the competition to lend to investment grade companies from private credit increased this year.

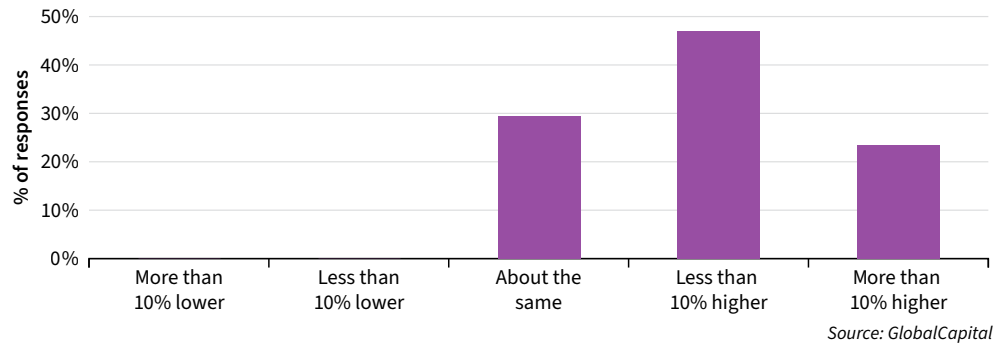
One thing in the syndicated loan market’s favour is its ability to keep operating through spells of market turbulence. “When we look into the future, we’re in an environment where there will still be volatility,” says Orban. “But volatility is now better ingrained into the psyche of management teams, who are more comfortable dealing with it.”

“The corporate loan market is amazingly supportive through thick and thin,” he adds. “Infrastructure is maturing and continues to grow, and leverage market fundamentals are very strong going into 2025.”

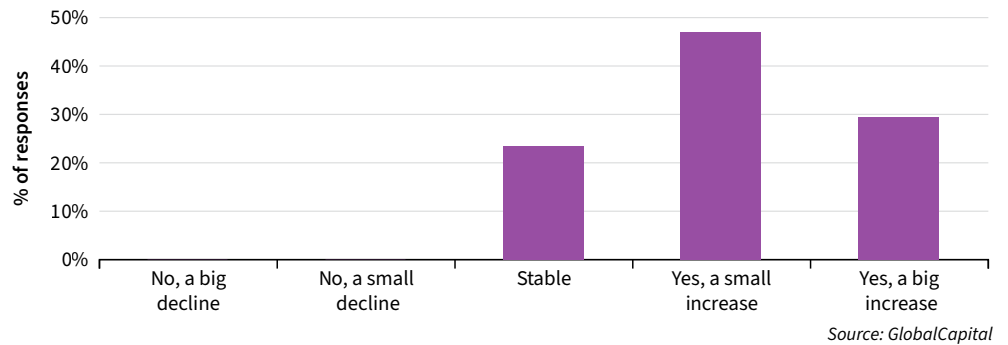
Roughly half of survey respondents said that loan margins had tightened this year, while around three eighths said they had remained about the same. The remaining eighth said they had widened but only by a little.

That is not expected to continue next year. Roughly a third of respondents think they will widen a little and 44% believe they will be about the same. Just 6% said they would be much tighter and 18% a little tighter. GC

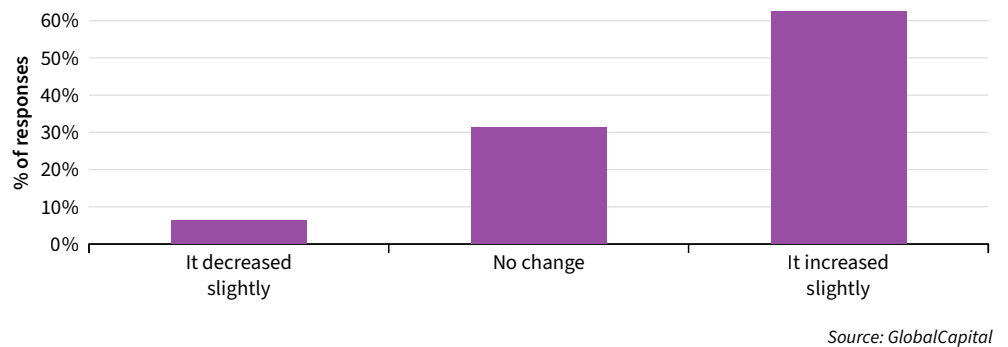
How will EMEA syndicated loan volumes in 2025 compare with 2024?



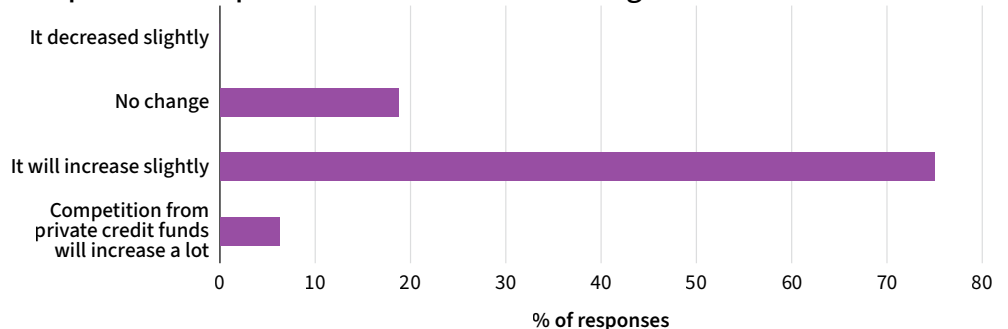
Do you expect an increase in M&A financing in the EMEA loan market in 2025?



In 2024, how did competition to lend to investment grade companies from private credit funds change?



In 2025, how do you think competition to lend to investment grade companies from private credit funds will change?



Syndicated Loan, Leveraged Finance and Private Debt Awards

GlobalCapital presents the nominations in the 22nd edition of its annual Awards for the loan, leveraged finance and private debt markets. The Awards are decided based on an online poll, conducted in October and November, and recognise performance between November 16, 2023 and November 15, 2024. The winners will be announced at a gala dinner in London on March 6, 2025. Many thanks to everyone who shared their expertise by voting, and congratulations from *GlobalCapital* to all the nominees.

DEALS OF THE YEAR NOMINEES

Deal of the Year

DSV
€14bn
September 2024 for acquisition of DB Schenker

EP Corporate Group
£2.85bn
August 2024 for acquisition of International Distribution Services

FiberCop and NetCo
€6.72bn
June 2024 for their acquisition by investors led by KKR through Optics Bidco

Harbour Energy
\$4.5bn
March 2024 for acquisition of Wintershall Dea's upstream assets

Siemens Energy Global
€11bn
March 2024 sustainability-linked guarantee facility

Swisscom
€8.1bn
April 2024 for acquisition of Vodafone Italia

Renewables Loan of the Year

Fécamp Offshore Wind Project
€2.6bn
July 2024 refinancing

H2 Green Steel
€4.15bn
April 2024 financing for Boden green hydrogen and steel mill in Sweden

Ventient Energy
€2.17bn
December 2023 refinancing

Leveraged Loan of the Year

Alter Domus Participations
€1.66bn
May 2024 for acquisition by Cinven

Belron
\$8.23bn-equivalent
October 2024 for refinancing and shareholder distribution

Eleda Management
€1.068bn
February 2024 for buyout by Bain

Innomotics
€1.9bn-equivalent
September 2024 for its buyout by KPS Capital Partners

MasOrange
€2.6bn
May 2024 add-on and refinancing

Zegona Communications
€1.29bn-equivalent
July 2024 to refinance acquisition of Vodafone España

Infrastructure Finance Loan of the Year

Arriva
€1.4bn
May 2024 for its buyout by I Squared Capital Advisors

FiberCop and NetCo
€6.72bn
June 2024 for their acquisition by investors led by KKR through Optics Bidco

XpFibre
€4.95bn
March 2024 refinancing

M&A Loan of the Year

EP Corporate Group
£2.85bn
August 2024 for acquisition of International Distribution Services

FiberCop and NetCo
€6.72bn
June 2024 for their acquisition by investors led by KKR through Optics Bidco

Harbour Energy
\$4.5bn
March 2024 for acquisition of Wintershall Dea's upstream assets

Swisscom
€8.1bn
April 2024 for acquisition of Vodafone Italia

Emerging Market Loan of the Year

Akbank
\$753m-equivalent
October 2024 to refinance 2023 facility and for trade finance

Bank of Industry
€1.425bn
August 2024 to refinance €1bn facility from 2022

Public Investment Fund
\$15bn
July 2024 for general purposes and to refinance 2021 facility

REGIONAL DEALS OF THE YEAR NOMINEES

Central and Eastern European Deal of the Year

Akbank
\$753m-equivalent
October 2024 to refinance 2023 facility and for trade finance

ČEZ
€840m
March 2024 for acquisition of GasNet

African Deal of the Year

Bank of Industry
€1.425bn
August 2024 to refinance €1bn facility from 2022

Investec Bank
\$600m
June 2024 term loan to refinance \$450m July 2022 loan

French Deal of the Year

Canal+
€1.9bn
April 2024 for acquisition of MultiChoice Group

Française des Jeux
€2bn
November 2024 for acquisition of Kindred Group

LVMH Moët Hennessy Louis Vuitton
€10bn
March 2024 refinancing

Roquette Frères
€2.6bn
March 2024 for acquisition of IFF Pharma Solutions

XpFibre
€4.95bn
March 2024 refinancing

Middle Eastern Deal of the Year

Burjeel Holdings
Dh1.32bn (\$360m)
June 2024 term loan refinancing

Emirates NBD
\$1.5bn
March 2024 sustainability-linked term loan refinancing

Public Investment Fund
\$15bn
July 2024 for general purposes and to refinance 2021 facility

Qatar National Bank
€1bn
October 2024 term loan to refinance 2021 facility

Saudi Electricity Co
\$4bn
August 2024 revolving credit facility refinancing

Italian Deal of the Year

ENI
€3bn
December 2023 sustainability-linked revolving credit facility

FiberCop and NetCo
€6.72bn
June 2024 for their acquisition by investors led by KKR through Optics Bidco

Italgas
€2.2bn
October 2024 for acquisition of 2i Rete Gas

Prysmian
€3.4bn
June 2024 for acquisition of Encore Wire

German, Swiss and Austrian Deal of the Year

JT International
\$4.3bn
August 2024 for acquisition of Vector Group

Mercedes-Benz
€11bn
June 2024 refinancing

Siemens Energy Global
€11bn
March 2024 sustainability-linked guarantee facility

Swisscom
€8.1bn
April 2024 for acquisition of Vodafone Italia

Turkish Deal of the Year

No shortlist, winner to be announced at Awards Dinner

UK and Irish Deal of the Year

Belron
\$8.23bn-equivalent
October 2024 for refinancing and shareholder distribution

EP Corporate Group
£2.85bn
August 2024 for acquisition of International Distribution Services

Harbour Energy
\$4.5bn
March 2024 for acquisition of Wintershall Dea's upstream assets

Jaguar Land Rover
£1.6bn
October 2024 revolving credit facilities

Tate & Lyle
€875m
July 2024 for acquisition of CP Kelco

Iberian Deal of the Year

Criteria Caixa
€1.65bn
July 2024 for potential acquisition of shares in Naturgy Energy Group

MasOrange
€2.6bn
May 2024 term loan B amendment and add-on

Vodafone Spain
€4.7bn
May 2024 for its acquisition by Zegona Communications

Benelux Deal of the Year

ArcelorMittal
\$5.5bn
May 2024 revolving credit facility refinancing

Compagnie Maritime Belge
\$3.2bn
November 2023 for acquisition of Euronav

D'leteren Group
€1bn
October 2024 for extraordinary dividend

SES
€3bn
April 2024 for its acquisition of Intelsat

Nordic Deal of the Year

Carlsberg
£4.3bn
July 2024 for acquisition of Britvic

DSV
€14bn
September 2024 for acquisition of DB Schenker

Novo Nordisk
€5.85bn
August 2024 for acquisition of three factories from Catalent

BANK AWARDS NOMINEES

Loan House of the Year BNP Paribas Citigroup Deutsche Bank Goldman Sachs JP Morgan	Best Arranger of Leveraged Loans BNP Paribas Goldman Sachs JP Morgan	Best Arranger of M&A Loans BNP Paribas Citigroup JP Morgan	Best Arranger of Mid-cap Loans BNP Paribas Crédit Agricole Natixis Santander	Best Bank in Real Estate Finance Aareal Natixis Standard Chartered
Best Arranger of Project Finance Loans BNP Paribas Crédit Agricole MUFG Santander	Best Arranger of Trade Finance Loans ING Société Générale Standard Chartered	Best Arranger of Infrastructure and Renewables Loans BNP Paribas Crédit Agricole Santander Société Générale	Best Secondary Loans House Goldman Sachs JP Morgan Morgan Stanley	

BANK REGIONAL AWARDS NOMINEES

Best Arranger of Western European Loans BNP Paribas Crédit Agricole UniCredit	Best Arranger of Central and Eastern European Loans Erste Group Société Générale UniCredit	Best Arranger of Middle Eastern Loans Emirates NBD First Abu Dhabi Bank Mashreqbank Standard Chartered	
Best Arranger of African Loans Rand Merchant Bank Standard Bank Standard Chartered	Best Arranger of UK and Irish Loans Barclays HSBC Lloyds Natwest		
Best Arranger of French Loans BNP Paribas Crédit Agricole Natixis Société Générale	Best Arranger of German, Swiss and Austrian Loans Commerzbank Deutsche Bank LBBW UniCredit	Best Arranger of Italian Loans Banco BPM 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 Emirates NBD Standard Chartered

SUSTAINABLE LENDING AWARDS NOMINEES

Sustainability-Linked Loan of the Year EnBW Energie Baden-Württemberg €2bn July 2024 sustainability-linked RCF to refinance 2020 facility Mahle €1.6bn February 2024 sustainability-linked to refinance a 2019 facility RWE €5bn July 2024 sustainability-linked RCF to refinance 2023 facility Siemens Energy Global €11bn March 2024 sustainability-linked guarantee facility	Best Arranger of Green and ESG-linked Loans in Western Europe Crédit Agricole ING Rabobank
	Most Innovative Bank for ESG Lending BNP Paribas Crédit Agricole Rabobank
	Most Innovative Private Equity House for ESG CVC EQT

PRIVATE DEBT DEAL AND ARRANGER AWARDS NOMINEES

Schuldschein of the Year Carl Zeiss €900m October 2024 Gerresheimer €600m October 2024 Messer €950m July 2024 to refinance bridge for acquisition of Messer Industries from CVC	International Schuldschein of the Year Forvia €543m July 2024 sustainability-linked to refinance Schuldscheine and bonds Nilfisk €225m July 2024 Sofidel €540m July 2024	Best Arranger of Schuldscheine BayernLB Commerzbank Helaba LBBW UniCredit	US Private Placement Agent of the Year Bank of America BNP Paribas NatWest MUFG
		Best Arranger of International Schuldscheine BNP Paribas Commerzbank Crédit Agricole UniCredit	Best Schuldschein Law Firm A&O Shearman Dentons Linklaters White & Case
		Best Arranger of Euro Private Placements BNP Paribas Commerzbank	

INSTITUTIONAL INVESTOR AND PRIVATE LENDER AWARDS NOMINEES

Best Institutional Lender in Syndicated Loans Apollo Barings Blackstone M&G	Best Direct Lending Firm Ares MV Credit Park Square	Best Real Estate Direct Lender PGIM Pimco	Best Subordinated Debt Investor Goldman Sachs Asset Management MV Credit Park Square	Best Distressed Loan Investor Hayfin HIG Triton
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BEST ADVISERS, LAW FIRMS AND TECH PROVIDERS NOMINEES

Best Corporate Finance Adviser EY Rosedge Capital Rothschild	Best Debt Restructuring Adviser Houlihan Lokey PJT Partners	Best Law Firm for Syndicated Loans A&O Shearman Clifford Chance Dentons Linklaters	Best Law Firm for Private Debt Greenberg Traurig Latham & Watkins Morrison & Foerster Rimôn	Technology Provider of the Year DebtDomain DV01 Oxane Partners PitchBook VC Trade
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European securitization is hoping for more of the same in 2025, after an extraordinary 2024 in which issuance records have tumbled, spreads have held up despite this supply and collateral performance has beaten forecasts.

“In general, issuance has exceeded our expectations, both in terms of market conditions and overall investor demand for various asset types,” says Barbara Rismondo, associate managing director at Moody’s. “Market conditions have been very positive.”

Moreover, most believe the best is yet to come, with regulators making plenty of supportive noises and pressure from elevated interest rates beginning to ease.

Almost two-thirds of respondents to *GlobalCapital’s* market survey foresee another year of record issuance in 2025. Just 25% expect spreads to widen and 53% expect more investors to enter the market next year.

Some 66% of respondents are happy with the direction of travel on regulation in the EU and say the same about the UK. However, similar percentages feel that neither jurisdiction is moving fast enough.

Space to innovate

If good conditions prevail as expected in 2025, there may be room for securitization funded lenders to innovate. As it turned out, 2024 was characterised by a surge in the number of issuers, with standout inaugural deals from solar issuer Enpal and data centre provider Vantage.



▲ Barbara Rismondo, Moody’s: “Issuance has exceeded our expectations, both in terms of market conditions and overall investor demand for various asset types”

Rejuvenated European ABS market hopes best is yet to come

After a stunning 2024, European securitization practitioners are daring to believe that 2025 could be even better. There are reasons for optimism, with banks shedding assets, lending volumes recovering and spreads attractive. New asset classes, issuers and more paper than ever could be themes that define 2025, writes **George Smith**

Although they were perhaps accompanied by less fanfare, there were also a number UK RMBS debuts.

“The number of active originators using RMBS as a tool is materially different from five or six years ago, and even to two or three years [ago],” says Alastair Bigley, sector lead of European RMBS at S&P. “A number of new entrants have come into the market this year.”

These debuts built on strong overall market conditions, with spreads on buy-to-let and non-conforming paper tightening dramatically, while prime RMBS volumes were higher than in 2023.

“This year has been very different from 2023 [in RMBS], which was probably the low point for the mortgage market,” says Andrew Vickery, partner at Linklaters. “It started in January with the prime lenders straight out of the gates. Specialist lenders soon followed and since then we have seen virtually every segment of the industry accessing the improved liquidity in the markets. With rates tightening and origination levels significantly increasing, we see that trend continuing in 2025.”

Indeed, the UK housing market has started to recover, with Halifax’s House Price Index showing that house prices were back to record highs in October. Bank of England data shows

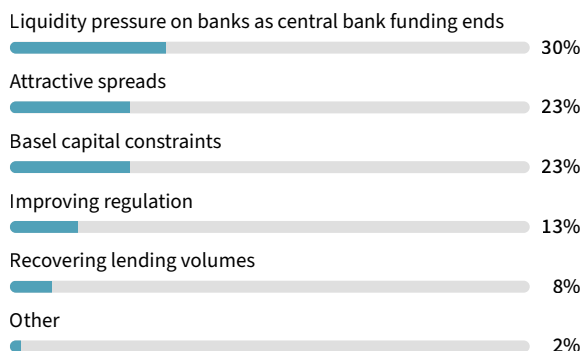
mortgage lending picking up, with volumes in September 2024 up by 49.3% compared with the same month the year before.

The upturn will support RMBS volumes, though there may be a lag.

“We are seeing mixed [collateral] deals [in 2024],” Bigley says.

“Traditionally, lenders would keep owner-occupied and buy-to-let deals separate. The reason for [the mixing] is they probably don’t have enough collateral to do two deals. Origination over the past 12 to 18 months has been a little weak, so there is a question mark over volumes in 2025.”

What do you think is the most significant cause of increased securitization issuance?



Source: *GlobalCapital*



▲ Brian Snow of Moody's points out that data centres are regular borrowers — and they now need a wide variety of financing

Despite their optimism on volumes overall, survey respondents doubted that the number of European ABS debut issuers in 2025 would match the highs of 2024, with 57% expecting fewer than five new issuers. Still, if conditions remain positive, there are plenty of reasons new issuers would want to try.

“[Doing an RMBS deal] is proof of concept for further equity investment in [specialist lenders],” Vickery says. “Having a public securitization is a great calling card.”

With new issuers came new types of collateral. LiveMore brought the first European deal to contain retirement interest-only mortgages, while Tandem Bank and Equifinance expanded the range of second lien collateral securitization that investors can access. Continuing innovation in the later-life lending sector could be a theme of 2025.

“We expect increased activity in equity release transactions and later-life mortgages,” Moody's

Rismondo says. “Additionally, we might see more use of forward flow agreements by UK non-bank lenders.”

Affordability for first time buyers remains an area of focus in the mortgage market. That could also provide opportunities to offer new products.

“With the end of ‘Help to Buy’, some other products, such as shared ownership, may get a temporary boost to [their] profiles,” S&P's Bigley says. “Whether it actually translates into deals [is less clear]. Possibly not in 2025, but we have had a lot of questions on it.”

CMBS stirs but under scrutiny

Such deals might carry a CMBS flavour, if backed by new-build blocks of flats, for example. There are some signs of life in that market after a period of dormancy.

“Plain vanilla financing has been getting more expensive,” says Reza Taylor, partner at Linklaters. “That pushes people to look at more structured routes.”

Taylor points to ground rent financings, such as a deal between Morrisons and Song Capital in October, as one sector where there is “a lot happening” and “even more” expected next year.

For the public CMBS market, 2024 was a year of recovery, with four trades marketed plus Vantage's data centre deal. Logistics featured prominently, accounting for three of the deals, and there was one flexible office transaction.

A modest pick-up is on the cards: 56% of survey respondents expected at least four trades again in 2025; only 17% expected more than six.

However, while new issuance has begun to recover, the performance of existing deals remains under scrutiny. In June, it became clear that Elizabeth Finance 2018 would be the first deal since the 2008 financial crisis to default on a note initially rated triple-A.

Several CMBS deals remain in special servicing, with investors and rating agencies waiting to see how those situations progress, and 35% of survey respondents expect further senior defaults in 2025.

Data centre drive

The one sector to defy this cautious tone is data centres, where there is quite a buzz after Vantage's deal in May. Market participants sense an opportunity for rapid growth.

“A lot of banks have balance sheets full of loans to data centre providers,” says Brian Snow, vice-president at Moody's. “To provide more capital, they are considering CMBS or ABS and other forms of capital as well.”

“It can appeal to different investors. We have seen data centres go into all types of financing, including project finance, ABS [and] CMBS. In the US, ABS is very popular for data centres but, as it grows very quickly, it is migrating to different pockets.”

That could be helpful for those trying to finance data centres, since going down the securitization route does not guarantee demand.

“A lot of people are asking what the depth of the investors is for data centre ABS,” says Elisabeth Johnson, partner at Linklaters. “It's difficult to say because there hasn't been the volume of CMBS issuance in Europe.”

What is clear, though, is that the market could be big and it will ramp up in the coming years.

“We have had a significant uptick in data centre investment,” Johnson says. “If the trend in Europe follows the US, we would expect to see the ABS market grow incrementally, or perhaps [significantly], over the next three years.”

There are some risks. The sector has grown quickly, meaning it is an unusually large asset class for one to be still largely untested in European securitization markets.

“Data centre companies are fairly new businesses in rapid growth mode, but with big books of capital and investment to deploy,” Johnson says. “As these deals start to come to public markets, we will see some of the challenges tested through the credit rating process.”

She highlights planning problems, managing fire risks and getting enough power to run the data centre as examples of potential tests.

Deterioration in pockets

One of the big fears at the start of 2024 was that interest rises would feed through, with a lag, to borrowers leaving them facing unaffordable payment shocks. For the most part, that has not materialised and market participants are feeling more optimistic about collateral performance in 2025.

“Performance-wise, payment shocks and the rate paradigm shift



▲ Andrew Vickery, Linklaters: “An RMBS deal is proof of concept for further equity investment in specialist lenders — a public securitization is a great calling card”



▲ Reza Taylor of Linklaters expects 2025 will be a good year for structured deals such as ground rent financings

have been largely contained,” S&P’s Bigley says. “There are segments where that’s not the case, particularly legacy collateral, but, from a new origination perspective, we think the worst is probably over.”

That sentiment is echoed by Rismondo, with Moody’s also keeping a close eye on UK non-prime mortgages.

“Performance has also been strong, showing resilience across Europe,” she says. “However, we have observed some deterioration in UK non-prime assets, leading to an increase in delinquency. We are closely monitoring UK BTL RMBS, as approximately 50% of the collateral in these portfolios is due for refinancing in the next 18 months.”

Much of the collateral that has been deteriorating was acutely exposed to interest rates rising. For example, in the case of legacy mortgages, borrowers often pay a floating rate and have few refinancing options, forcing them to swallow the higher rates.

If interest rates fall further, it should help ease the pressure on that collateral. The signs are promising, with 81% of survey respondents expecting benchmark rates to be between 1% and 3% at the end of next year.

SRT goes mainstream

Even before 2024, and in contrast to the rest of the European securitization market, significant risk transfer was already growing — at a clip of about 20% per year since 2020. In SRT deals, banks share the risk on assets with third party

investors, releasing capital for further lending.

For SRT, 2024 was another positive year.

“It has been once again a strong year for the SRT market, with notable increased activity in the US,” says Frank Benhamou, risk transfer portfolio manager at Cheyne Capital. “While Canada slightly came back [down] from its heights following 2023’s M&A-driven peak and an early Basel IV implementation, other regions, including Eastern Europe, are showing momentum.

“What was once seen as a niche market has firmly established itself as a more developed sector [and] I expect the growth trajectory to continue next year. SRTs offer a compelling fit for banks, and many institutions are eager to expand their SRT activity.”

Survey respondents agreed, with 53% expecting growth in issuance of between 10% and 30%, in line with recent years. What made 2024 stand out, however, was the rapid expansion of the investor base.

“Some newer investors may have entered the market opportunistically, and it is not certain they will stay,” Benhamou says. “Their sustained involvement will likely depend on the growth of the US market. Although that market has expanded, it has yet to reach the scale some [had] anticipated a bit too optimistically. We believe the US market will continue to develop but this will take time and include structural nuances distinct from Europe.”

SRT’s popularity fits into a broader trend of private credit expanding and taking market share as banks face capital constraints. However, SRT and other bank-originated securitizations also represent a way for the two sectors to work together. Market participants predict an expansion of that collaboration next year.

“The market has seen a number of financial institutions partner up with credit funds to launch direct lending funds, which has been an interesting development,” says Harjeet Lall, partner at Pinsent Masons. “My practice covers a wide range of asset classes. I have really seen the full gamut this year from a lot of activity in trade receivables, especially in the first half of the year and then resi mortgages throughout. I am also seeing more appetite for

esoteric assets, primarily driven by credit funds.”

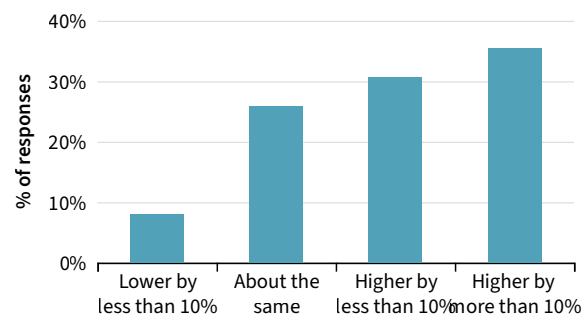
Survey respondents were divided on the main cause of rising issuance this year: 23% put it down to capital constraints on banks, but 30% said liquidity pressures as central bank funding rolls off was most significant. Attractive spreads (23%) and improving regulation (13%) were also identified as factors.

There will be more opportunities for credit funds to seize in 2025. Banks are likely to keep shedding assets in their pursuit of improved returns on equity, while the non-bank lending sector will be boosted by likely lower rates, with 59% of survey respondents expecting lending volumes to rise.

Headwinds do remain, however. Macroeconomic uncertainty still hangs over the market, as well as the possibility of inflation returning, though just 5% of survey respondents predicted policy rates would climb above 6% in 2025.

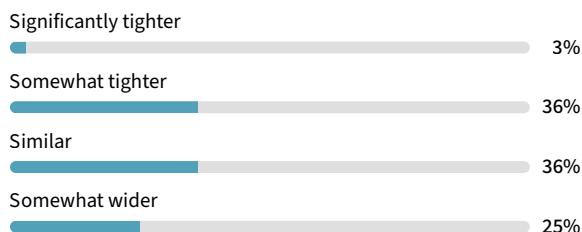
Securitization beat expectations in 2024 to produce a vintage year across asset classes. Today there is every confidence that the good times can keep on rolling. GC

How will non-retained public issuance volumes in European ABS (excluding CLOs) change in 2025 versus 2024?



Source: GlobalCapital

Will European ABS spreads be wider or tighter at the end of 2025 than at the end of 2024?



Source: GlobalCapital

Agility, resilience and innovation in corporate trust services



Q: Financial firms are making significant investments in digital technology to support their operations and clients. For BNY's corporate trust business, what is your technology investment strategy to support your structured finance debt issuer clients?

Nagel: With decades of experience and expertise across global capital markets, asset classes and transaction structures, we see firsthand how the securitization market is evolving. We are one of the leading trustees of ABS securities and have traditionally been the top provider of auto and credit card backed securities. We are also a major global trustee in the fast-growing CLO space.

ABS issuance has increased 20% in the past year to \$332bn, according to GreenStreet, and with this growth we are seeing key developments. There is a growing mix of traditional issuers and new entrants that are innovating such as fintechs. We are also seeing issuance with new and more innovative or esoteric types of underlying assets, which are backed by non-traditional asset types. According to FINSIGHT, the 'esoteric ABS market' has increased by more than 40% over the past year and includes royalties, data centers, fiber and cell towers, for example.

In response, we continue to work with clients and innovate. Some of the transactions we have been involved in include working with traditional issuer clients on mortgage insurance linked notes — credit risk transfer securitizations by mortgage insurers — and securitizations backed by new types of cash flows such as music royalties and renewable energy sources. We have also worked with new entrant fintechs on home equity line of credit (HELOC) securitizations.

Our strategy aims to ensure that our product development capabilities and technology roadmap are fully aligned with the evolving state of the market and our clients' needs.

Q: Of multiple digital investment areas, which have been a priority for your corporate trust business most recently?

Nagel: We continue to invest across the corporate trust business focused on scale, resiliency and innovation.

BNY's corporate trust business, led by **Cécile Nagel**, has been investing and evolving to meet the changing needs of the market and its issuer clients. Nagel talks to *GlobalCapital* about the business's strategy and strengths



Cécile Nagel

Many of our clients, and particularly large financial institutions, are growing rapidly and need to find a trusted partner that can truly enable their growth. The complexity of deal structures is also increasing.

For example, CLO servicing is inherently complex due to the active management nature of its structure and diverse loan portfolios. The sheer volume of loan data requires accurate reporting and robust systems. Similarly, ABS servicing faces new challenges due to the diversity and complexity of underlying assets. As such, we are focused on creating the digital infrastructure that allows them to readily scale. Importantly, it is underpinned by BNY's financial strength and resiliency.

Another key focus area is innovation and collaboration with fintechs and clients. We have a dedicated team focused on identifying fintech firms and industry initiatives that can enhance our strategic roadmap. We have successfully worked with AccessFintech and others on a range of initiatives such as streamlining and optimizing loan data reconciliation processes and enabling rapid ISIN issuance for clients.

Finally, capital markets continue to evolve towards increased digitization including via digitally native issued bonds aiming to provide investors with faster access to their assets through seamless settlement. We are actively involved in these efforts and proud to have been recently appointed custodian and paying agent for the European Investment Bank's

issuance of a digitally native bond on Goldman Sachs' digital assets platform.

Q: Some of the greatest interest in technology among financial institutions has been in AI. How is BNY thinking about and investing in AI?

Nagel: BNY is on a multi-year journey with AI. Recent advancements in generative AI and large language models have only reinforced our belief that this technology is transformative, reshaping both how we work and the broader financial industry.

In support of this, we have made a significant investment in this area. We are the first global bank to deploy the NVIDIA AI supercomputer. Today, we have a dedicated enterprise team that unites our AI expertise across the firm, enabling us to upskill our employees and responsibly drive adoption of AI technology at-scale.

Within corporate trust, we are dealing with vast amounts of documents and complex unstructured data. We are increasingly embedding AI into our operations for document review, data processing and reconciliation. We maintain much needed human oversight and enable more efficient and accurate anomaly detection, data driven decision making and more. We also see opportunities to develop purpose-built smart assistants for structure finance, which could further scale our ability to support clients and improve our employee experience.

Q: What is on your mind as you look ahead?

Nagel: We are steadfastly executing our current roadmap, yet simultaneously iterating and planning for the future based upon client feedback and market developments. Our goal is to ensure we're positioned to help clients achieve their financing ambitions, and our investment in technology, talent and capabilities means we are equipped to work with clients to respond and even anticipate their needs as the market continues to evolve.

Technically charged CLO market looks to push on but tail risks linger

After a year in which both primary volumes and spreads rebounded, the mood is optimistic in the European CLO market. Most market participants forecast more of the same, but there’s a growing acknowledgement that macroeconomic risks may complicate the picture, writes **Victoria Thiele**

With issuance records tumbling and the asset class performing strongly, it’s hard to argue that 2024 was anything but a good year for European CLOs. And *GlobalCapital’s* survey of market participants in November suggests that things can get better still.

Yet in the background, trade tensions linger, higher interest rates may still catch up with borrowers and there is a disconnect between technicals and fundamentals. Some investors and managers say they are preparing for greater tail risk.

“I personally expect next year to be tougher [for some portfolio managers],” says Robert Reynolds, head of CLOs at Pemberton. “I expect technicals to continue to dominate for the first six months and then you will see certain sectors that may become more challenged.”

The overall view among market participants remains more bullish than bearish. In *GlobalCapital’s* market outlook survey, 59% of participants said they expected higher issuance in 2025. Another 32% predicted stable volumes and only 9% said they expected a decline.

Most were also constructive on pricing, with 79% expecting spreads to tighten or stay close to current levels.

By November 10, European CLO managers had printed just under €43bn of new issues in 2024, according to Kopentech. Volumes had surpassed the 2021 record of €38.3bn, as well as all bank forecasts from the start of the year.

Investors absorbed the intense activity well. Primary market spreads on triple-A rated paper

tightened rapidly from the high 170s at the end of 2023 and stabilised to around 128bp-130bp by October.

This was partly due to growth in the investor base. Bankers said new demand came especially from regional European banks entering the market, as well as from US investors looking across the Atlantic.

“CLOs have continually become more of a mainstream credit product that investors need in their portfolio, rather than having to justify why they are investing in CLOs [as they did] in the early 2.0 days,” says Hugh Upcott Gill, co-head of EMEA CLO primary at Jefferies. “With the growth of the investor base, the outlook for investor demand into early 2025 is reasonably strong.”

Amortisation season

A key driver of both demand and supply has been a technical. Typically, CLOs get reset at the end of their non-call periods. But after spreads widened dramatically in 2022, resets became uneconomical for most vintages for around two years, leading to unusually large volumes of amortisations and liquidations of seasoned deals.

This chipped away at managers’ assets under management and flushed cash back into investor pockets, especially at the top of the capital stack.

“It seemed like a record year of issuance, but on a net basis it wasn’t particularly high,” says Upcott Gill. “This level of issuance is well supported if you have the amortisations and liquidations of the existing universe.”

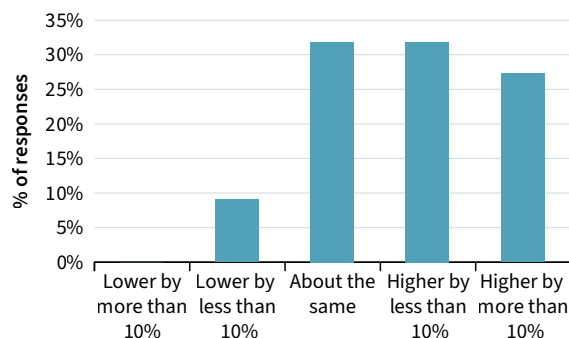
Although managers had printed €22bn of triple-A rated CLOs in Europe by the end of October, net supply was only €7bn, according to Bank of America. Across the capital structure, net supply in Europe was €16bn, less than half of gross issuance.

Managers were also working through a backlog of older warehouses.

These dynamics are expected to continue to drive new issuance next year, although to a lesser extent as the situation gradually normalises. At the same time, resets are likely to pick up.

Refinancing and reset activity in 2024 stood at €25bn on November 12, less than half of the full year 2021 figure of €59.4bn. And despite the hefty tightening this year, spreads are still historically wide. Before central banks began raising interest rates in 2022, some managers were pricing triple-As with double-digit spreads.

Expectation for European CLO issuance volumes in 2025 vs 2024



Source: GlobalCapital

As a result, most reset activity this year came from deals that had been priced in the last two years at even wider levels.

“We should see more resets in Europe,” says David Nochimowski, head of global CLO and ABS strategy at BNP Paribas. “The US has been leading with big volumes, but Europe is now starting to catch up.”

The scope of resets has been broadening since the summer as tightening across the stack allowed some managers to reduce their weighted average cost of capital — even if it meant a widening of triple-As.

“It’s important to look at the less obvious call candidates: the more seasoned deals from 2018 or 2021,” says Nochimowski. “They’re callable all the time. We think that a large part of the reset activity next year both in the US and Europe is going to come from those deals.”

A recovery in leveraged loan issuance should also support CLO creation next year. October was the busiest month in underwriting activity in the year to date, bringing gross leveraged loan volumes to €64bn, according to BofA.

Most of the activity consisted of refinancing and ‘amend and extend’ deals, although leveraged buyouts are making a slow return with €23bn of activity in the year to November 12 — almost twice 2023’s volumes. This could pick up with more rate cuts.

Middle market emergence

Primary market activity in Europe could also receive an injection of life from the emergence of middle market CLOs.

The asset class, normally used to fund direct lending, is well established in the US but virtually non-existent in Europe. It could begin to develop in earnest next year, with Barings set to be the first manager to test demand for the product.

“Barings’ deal may well be a catalyst for momentum to increase more quickly once issuers have more certainty about takeout,” says Upcott Gill. “We have seen some hybrid middle market and BSL [broadly syndicated loan] deals historically, but this may signal the start of a more established European middle market and private credit CLO market.”

Several direct lenders told *GlobalCapital* that they are watching the deal closely.

“As we head into Q1, we expect to see a lot more interest in doing middle market CLOs,” says Sandeep Chana, EMEA CLO director at S&P. “It’s likely to start off plain vanilla with straightforward assets and limited PIK features. But slowly, we think you will see more add-ons coming through so you can diversify the portfolio and include more names where it makes sense.”

Macro risks linger

Optimism is tempered, however, by creeping macroeconomic risk, which CLO managers and investors view as their number one concern. Although credit markets initially reacted very positively to Donald Trump’s victory in the US election, his potential introduction of import tariffs could slow down already muted eurozone growth.

For the past year, the market has shrugged off all news that shook the political landscape, from the tensions in the Middle East to the snap election in France. It behaved in line with wider financial markets that breezed through any geopolitical volatility to such an extent that the IMF warned about the disconnect between global uncertainty and market reactions.

In the CLO market, some feel this unease.

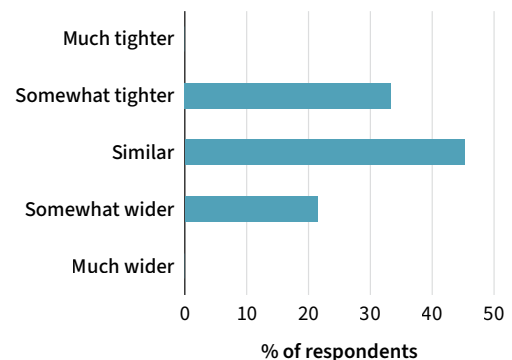
“There is a dislocation between financial markets on one hand and the real economy on the other hand, especially in Europe,” says David Altenhofen, head of investments at Accunia Credit Management. “We could see some volatility spikes in financial markets in the coming 12 to 18 months, because the tightening of spreads this year seems more technical than fundamental-driven.

“Investors should be cautious at this point because it feels like there’s some tail risk out there, [for example] a new trade war between US and Europe affecting growth.”

Some CLO managers say that they are preparing for tail risk that could arise from isolationism.

“On the whole, we’ve chosen companies that have lower leverage and larger capital structures, so they are more liquid,” says Reynolds at Pemberton. “This means a more defensive book and I don’t need to buy into the technical.”

Expectation for European CLO primary spreads in 2025



Source: GlobalCapital

For now, indicators of market distress are fairly calm. Only around 2.5% of the European Leveraged Loan Index is trading below 80, while another 2.7% is trading between 80 and 90. At the end of October, Fitch’s loan market concern list contained just over 3% of the market.

In August, S&P reported a default rate for speculative grade debt (including high yield bonds and leveraged loans) of 4.7% for the 12 months to June 2024. The rating agency predicted that the rate would level out at 4.25% by the end of June 2025.

“I’m quite constructive about our market,” says Daire Wheeler, head of European liquid credit at Alcentra. “Fundamentals are in a decent place. While not seeing high growth, they’re not negative and none of them point to a spike in defaults.”

Potential trade wars between China, the US and Europe would likely hit the equity and high yield markets harder than leveraged loans, according to Wheeler. Tariffs would predominantly affect big industrial companies, and many in the market single out German car manufacturers, while the European loan market is mainly exposed to services, healthcare, and technology, media and telecoms.

Nerves in the market have led to an overselling of some credits associated with volatility risks, Wheeler says.

“I personally think there’s more upside than downside on some of the triple-C credits as they evolve,” he says.

CLOs are gearing up to prove their resilience once again. **GC**

Analytics key as economic uncertainty looms in 2025



GC: How do you anticipate interest rate movements and inflation trends will impact fixed income markets in 2025?

Kancharla: With central banks changing rate regimes, there seems to be a consensus that the period of higher inflation has passed. There is also a new US administration and market optimism on the expectation of a favourable regulatory and fiscal environment. There wasn't much market volatility or uncertainty surrounding the US election, nor was there much interruption with ongoing and newly escalating geopolitical conflicts, which shows a resilient market. However, we feel this could change in 2025, especially with new tariffs and tax reductions in the US, which could dramatically change global trade dynamics and lead to further inflation and volatility, especially in fixed income markets.

Across the bond market it would be reasonable to expect a strong year ahead. The higher interest rate environment has been particularly beneficial to the convertible market. Companies have been more willing to issue convertible securities to pay lower coupons rather than issuing debt in the high yield market. From an investor's standpoint, the option embedded in the convertible market offsets some of the interest rate risk compared to fixed income securities.

GC: What role do you see analytics and technology playing in adapting to market volatility across fixed income?

Kancharla: Regardless of whether volatility falls or rises in 2025, there is a growing focus on identifying alpha returns with systematic credit strategies. These strategies are data driven approaches to evaluating pricing, where the scope of analytics requirements has become more rigorous, and the latency demands have shifted closer and closer to real-time. This trend points to a continued push toward efficient data and analytics processes that can be scaled horizontally and vertically. In this regard, flexible cloud scaling is something we expect to see more of in 2025.

If we see high volatility regimes, we believe that advanced analytics for stress testing and scenario analysis will be

Market participants in 2024 had to contend with significant changes in inflation, interest rates and geopolitical risk. Against such a shifting backdrop, cutting-edge data and analytics have never been more important. *Global Capital* spoke to **Satyam Kancharla**, Executive Vice President and Chief Product Officer at front-to-risk technology firm **Numerix**, about trends to expect in 2025 and how changing market dynamics impact analytics requirements



Satyam Kancharla

especially important. Traders will want to analyse their portfolios with shifts in multiple risk factors simultaneously, to provide key insights into how the portfolios will react to market changes so they can hedge or rebalance positions appropriately. Market volatility is particularly important in the convertible market, where volatility is a key driver for convertible valuations.

GC: What trends have you observed in clients' preference for traditional versus structured fixed income products, and what is driving these trends?

Kancharla: We have encountered more structured SOFR notes than we saw in term rates and we've noticed that pricing approaches sometimes use assumptions that systems need to support even if the assumptions aren't technically representative of the instrument. In terms of structures, we've come across structured notes that reference market indices like SOFR with constant maturity rates being paid, where the notes are fixed-floaters and sometimes callable. There is often a convention mismatch between the fixed and floating periods, in payment frequency and even day count for accrual periods, which is interesting. It is not clear what is driving interest in these, but there is a good chance this trend will continue.

We've seen some investors transitioning to structured finance instruments for both the attractive yields and to widen their potential investment opportunities. For example, we've seen an increase in appetite for CLOs and ABS securities from investors who have traditionally focused on treasuries, corporates or MBS. A few start up hedge funds have tried to enter the structured finance space to take advantage of both the high yields and the inherent complexity of the securities, as these firms believe their sophisticated modelling and trading approaches may give them an edge over other players in the market.

GC: Are there any interesting innovations or trends you are keeping an eye on for 2025?

Kancharla: In the convertible market specifically, new issuance has continued to be strong despite the Fed rate cuts which began in September 2024, and we've seen an increase in the number of investment grade companies issuing convertibles. One trend we're keeping an eye on is the 119 convertible securities that are maturing in 2025, which have a market value of approximately \$58 billion. Most of these bonds were issued in the record setting year of 2020 during the COVID pandemic when companies were trying to secure capital. The expectation is for companies to either exchange or issue new debt to replace these securities.

From a technology perspective, we're continuing to monitor advances in AI and machine learning and exploring how they can provide value to practitioners in our markets. We're also watching the continuing electrification of the fixed income markets and advances in structured credit trading, so we can help our clients stay on the forefront of these trends.

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When numbers matter

After spending most of the previous year being beaten up by gloomy headlines, US CMBS enjoyed a comeback year in 2024.

Lifted by growing recognition that not all commercial real estate is bad, by November 22 private label issuance was already at \$98.5bn, according to Finsight — already more than double 2023’s full year volumes of \$43.2bn and making for the biggest year since 2021.

Paul Staples, director of CMBS capital markets and trading at Academy Securities, says 2024 marked the restart of a “virtuous cycle” of issuance.

“Usually, it takes some outside event like lower rates to get it moving again,” he adds.

Bankers say the turning point was the US Federal Reserve’s dovish shift in October 2023, triggering a rally in US rates and an improvement in secondary as BBB- rated CMBS bonds rallied to about 750bp by early November — more than 300bp inside where they started the year.

This improvement laid “the groundwork for 2024’s market improvements and predictability”, says Leland Bunch, managing director of real estate structured finance at Bank of America.

Single asset single borrower (SASB) issuers bounced back the strongest, with the segment accounting for more CMBS issuance than ever before — at 61.5% of private label issuance by late November.

At the same time, conduit issuance, which Bunch describes as the “bread and butter” of CMBS, was relatively light because rates remained elevated, although Bunch thinks the sector will pick up steam.

Comfortable with credit

However, although Edward Shugrue, CMBS portfolio manager at RiverPark Funds, also sees 2024 as the “year of the Fed”, he also argues it was one of a “new norm” being established as participants became accustomed to higher expected special servicing and default situations.

Greater comfort with the credit risk in deals was another key factor for the CMBS market fully reopening, as subordinated and mezzanine paper rallied strongly.

“With rates stable and more likely to go down than up, the CMBS

Reinvigorated US CMBS set to carry momentum into 2025

CMBS has bounced back after shaking off the stigma of office exposure, among other negative headlines, taking advantage of a more stable rates environment to post impressive returns and issuance volumes. There is confidence that an even stronger 2025 is in store, writes [Nick Conforti](#)

market should be in a good place,” says Will Goldsmith, head of CRE and CMBS at Medalist Partners. “Some of the easy money has been made, but CMBS still provides opportunities for strong total returns.”

As investors become more confident with the asset class, they could also become increasingly comfortable in venturing further down the capital stack.

“I could see people becoming more aggressive on credit,” Staples says. “This year’s spread compression creates some need to move lower down the stack.”

Staples adds that properties away from office — and, to a lesser extent, retail — remained more heavily in favour in 2024. But he notes that the market did prove that it could finance even these two more beleaguered sectors — although the

deals from office or retail that issuers did manage to price were of high quality.

“Everything has been down the middle, with standard clean profiles,” he says.

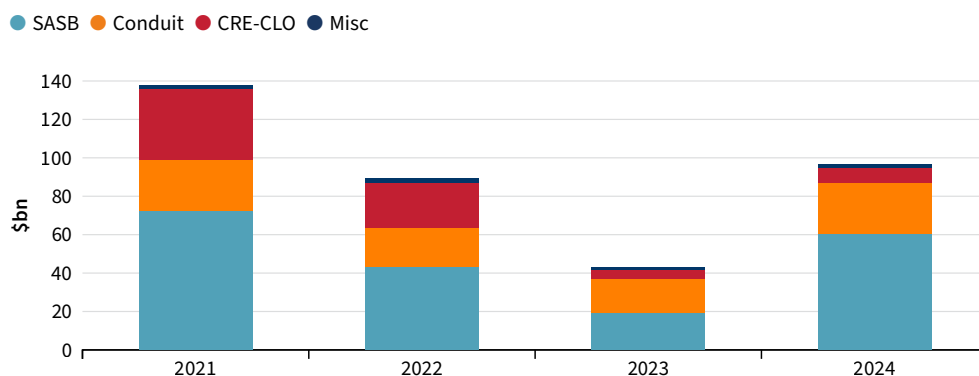
“We were coming from little new issuance in 2023. This ‘vanilla’ type of issuance is what it takes to get the market going again.”

Building on the foundation

With this foundation set, there is high confidence that CMBS can build strongly in 2025. For one thing, it should still offer highly attractive returns.

Such was the negativity around CMBS throughout 2023 that the mere mention of the asset class was enough to put off certain allocators. But at some point investors simply could not fail to be lured by the relative value on offer.

Private label CMBS issuance volumes



Source: Finsight (as of November 15, 2024)

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▲ Will Goldsmith, Medalist Partner: “The economy remains healthy and monetary policy should support CMBS”

“Our view was that CMBS was cheap [amid] the rates and regional banks narrative, as well as the office issues,” says Jose Pluto, portfolio manager at Neuberger Berman. “We think that these narratives in CMBS were bringing down the whole sector.”

“That thesis has played itself out as we expected, as CMBS has had one of the best performing years post-GFC. For us, CMBS continues to be a sizeable overweight and drive total returns.”

A November 5 note from Deutsche Bank said that CMBS was showing year-to-date excess returns of 3.6% — its best year in a decade and double the figure for 2023. Single-A rated bonds have returned 13.6%, while triple-B rated paper has returned 21%.

With US investment grade corporate bond spreads at 20 year highs, Deutsche Bank said it expects CMBS outperformance to continue.

“Overall, in CMBS we are comfortable with the credit, are



▲ Zachary Aronson of MacKay Shields says rate stability made it easier to estimate fair value on deals

overweight the sector and open to add more deals that we think offer value,” says Zachary Aronson, director and portfolio manager of structured products at MacKay Shields.

“In 2024, people began to expect that interest rates will not go up any more, and this stability in rates has allowed pricing discovery in real estate.”

Rate stability, Aronson adds, makes it easier to determine cap rates and estimate fair value on deals.

“Demand has steadily elevated to absorb the supply and has even exceeded available supply,” says Shugrue.

Indeed, there is reason for dealmaking to also step up another notch.

“Pricing continues to hold in well or even grind tighter,” Aronson says. “I think issuers will take that as a sign to bring more.”

Staples at Academy backs up this point.

“I would expect demand to continue,” he says. “Borrowers still have properties to refinance, and the markets are open.”

Fundamental confidence

Even though US Treasuries began to sell off again in October, CMBS investors appear sanguine about the macroeconomic environment.

“Inflation’s trajectory is heading lower, the economy remains healthy and the direction of monetary policy should support CMBS,” Goldsmith at Medalist says.

Risk assets in the US reacted extremely strongly to Donald Trump’s victory in November’s presidential election, though what it means for inflation and the path of monetary policy is less clear. But there is still confidence that the possibility of a faster growing economy should benefit CMBS.

“I think some people are trying to add risk to their portfolios now with a pro-growth outlook,” Pluto says. “They feel better about growth and fundamentals.”

Moreover, if rates can regain their footing, the market could see more acquisition-driven activity.

“Looking ahead, 2025 is the year when we will also see more acquisitions because of rates stabilising and potentially coming down,” Bunch at BofA says.

“Historically, CMBS has been 40% acquisitions and 60% refinancing, but right now it is closer to about

5%-10% acquisitions, and 90% refinancing.”

More market activity could also happen in the multifamily sector, Bunch says.

“A significant number of asset purchases in 2020 and notably 2021, which were typically financed with five-year loans, will be maturing in the near term and should provide CMBS financing opportunities,” he adds.

There is further confidence in fundamentals because, as Goldsmith points out, potential negative headlines — such as structural headwinds in the office sector or the repricing of multifamily properties — are already priced in.

“Any kind of loss or [appraisal reduction amount] coming out now is pretty well telegraphed, even if the magnitude is not certain,” he says.

Ability to push through

In fact, Goldsmith thinks certain CMBS capital structures trading at stressed levels could even “surprise people to the upside”.

Staples says there is “a lot of analytical work going on” as investors “continue to refine their credit views of the market and pick their spots, rather than [just saying] ‘I am buying [a particular] vintage.’”

“Usually that is because participants are seeking to avoid pitfalls.”

Although maturity wall talk has continued to garner headlines, the market has been gradually chipping away. Of the \$49bn of conduit maturities due in 2025, \$9bn is already defeased, Deutsche Bank says.

Some of the loans that have been able to push out maturities during the tougher markets may finally have to be refinanced in the market next year.

“Borrowers have extended for a few years while rates were high — and there are only so many levers left that they can pull,” Staples says. “The markets are open, debt costs are higher, and the market has started to accept that as the new normal.”

After a period of being the sick patient in securitization, CMBS is full of cheer.

“We expect to see increased year-on-year issuance and continued spread contraction,” Shugrue says. “That signals a healthy market for issuers, investors, and borrowers alike.” GC

With mortgage originations in the US still historically low and the average 30 year mortgage interest rate not dipping below 6%, 2024 looked set to be tough for those charged with structuring RMBS deals.

Yet it proved a banner year. By November 15, RMBS issuance had reached \$115.8bn, according to Finsight — nearly double 2023’s full-year volumes of \$62.4bn.

Robert Durden, co-head of mortgage origination at Atlas SP, describes 2024 as a “comeback year” for RMBS, with the market having weathered the 2023 litmus test of rate rises and wider credit spreads well.

“There has been broader investor involvement and we saw it ebb and flow into various sectors depending on relative value considerations,” says Durden. “We saw investors consistently paying more attention to other sectors in RMBS, like second liens and residential transition loans.”

Indeed, 2024’s surge in issuance volumes was particularly notable for its variety. As originators sought to navigate around the so-called “lock-in effect” of homeowners being unwilling to sell that continues to suppress traditional mortgage volumes, so the RMBS market responded.

Issuance backed by second lien loans and home equity lines of credit (Heloc) climbed from \$4bn in 2023, which was already a record, to \$12bn in the year to November 19, according to Bank of America. RMBS secured by residential transition loans (RTL), which had grown to around \$2bn in 2023, ballooned to \$6bn by November 19. BofA predicts it will reach \$9bn by year end and grow to \$10bn in 2025.

Hot property: US RMBS adapts to shine in world of higher rates

High mortgage rates were no obstacle to the US RMBS market in 2024 as alternative asset classes came to the fore and credit quality stayed robust. Although the unpredictable outlook for rates remains a market concern, there is every reason to expect the positive trends will continue in 2025, writes [Nick Conforti](#)

One of the reasons for the growth of these alternative asset classes is that they have developed quickly to reach the broadest possible set of investors.

“We have seen an increasing focus this year on getting specific asset classes into rated securitizations — whether that is scratch and dent deals, Helocs, HEI [home equity investment] or RTLs,” says Ryan Singer, managing director and principal at Balbec Capital.

Home equity products should continue to have a “steady tailwind”, Durden says, in large part because of “elevated rates, the lock-in effect and sizeable home equity”.

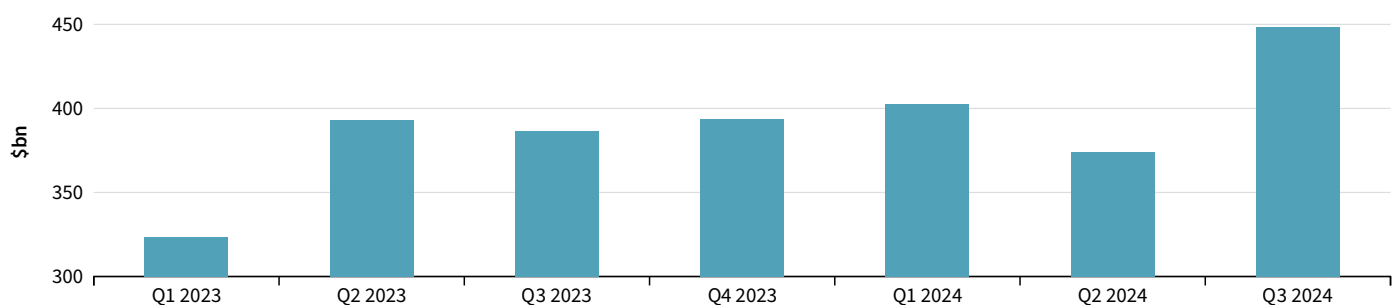
Second lien and Heloc RMBS issuance could reach \$20bn in 2025, according to BofA forecasts, which would be five times 2023 volumes.

The year of non-QM

Yet as well as pushing home equity products, originators have also sought to tap borrowers who need a mortgage regardless of the rate environment — and those who do not meet typical borrowing requirements. In this environment, non-qualified mortgage (non-QM) RMBS has blossomed into the number one driver of issuance volumes and is set to post record annual issuance volumes of around \$40bn.

Mike Fania, deputy chief investment officer and head of residential credit at Annaly Capital Management, describes 2024 as “the year of the non-QM market as well as of the second lien and residential transition loan markets”. And he says the sector could be ripe for even further growth.

Mortgage origination volume



Source: Federal Reserve of New York

“Currently, non-QM and DSCR [debt service coverage ratio] originations only make up about 5% of all originations but could go to around 10% over the next few years,” says Fania.

For his part, Raman Guglani, RMBS portfolio manager at Franklin Templeton Fixed Income, believes total whole loan non-QM originations could hit the \$100bn mark in 2025 and says non-QM RMBS issuance could be \$50bn-\$55bn.

With broader participation, greater comfort with transactions and better markets, next up could be larger deal sizes.

“We would like to see \$1bn deals, like pre-GFC,” says Fania. “We have been trying to lead the way with \$500m-\$700m sized non-QM deals, and those have gone well.

“It comes down to the market getting comfortable, banks providing liquidity, and making sure the pricing is there.”

Behind the success of all these growing asset classes is the insurance sector, which is looking to deploy huge amounts of capital. Guglani says that these investors dominated the market this year with their bid for non-QM collateral.

“The insurance demand for whole loans in the DSCR, second lien and Heloc markets remains strong,” says Fania. He estimates insurance companies purchase 30%-35% of non-QM loans. This has caught the eye of originators.

“We are also focused on what insurance companies will do from a demand standpoint and how many new loans we can buy if the demand by insurance companies for whole loans persists,” says Singer at Balbec.

Preston Blankenship, head of ABS and RMBS syndicate at Deutsche Bank, notes that insurance and private equity-type accounts “have a lot of cash to deploy”.

Solid credit, macro risks

One of the key factors bolstering RMBS is that housing has continued to fare well.

Paul Nikodem, head of US fixed income research at Nomura, says that, arguably, RMBS is enjoying the strongest tailwinds across all securitized products.

“The mortgage credit story hasn’t changed much,” he says. “Investors continue to price in

housing-related strength”.

Nomura expects home price appreciation to slow to 2% “due to weaker buyer demand”, although it describes the housing market as “strong”.

Much will depend on the policies of the next government, with Donald Trump’s victory in the November presidential election proving positive for US risk assets but also raising investors’ concerns about inflationary policies such as trade tariffs.

“Home price appreciation could be higher if tariffs are more limited in scope, as lower inflation in that scenario should ultimately lead to a lower mortgage rate,” says Nikodem. “The focus is on tariffs, inflation risk and navigating a higher rate world”.

Blankenship believes investors overall are “sanguine about market risk and the direction of rates” and says that challenges will be “technical, not fundamental”.

Volatility affecting RMBS deals could emerge from inflation data, the various noises from the US Federal Reserve, and instability in benchmark rates making it hard to evaluate pricing. However, the RMBS market has the advantage of having already recently weathered a rate increase cycle.

Most RMBS issuance this year has had “on-target” coupons, as rates held steady, rather than the “underwater” coupons seen in deals brought to market in the wake of rising rates in 2022 and 2023, says Blankenship.

Although market participants expect that to continue, if rates do not fall as expected, it would eventually take its toll.

“If we persist at these levels of elevated mortgage rates, we could see originations and issuance slow down, but there is a lag effect at play,” says Peter Sack, co-head of mortgage origination at Atlas SP.

Demand shift

On the demand side too, confidence in rates has played a huge role in most offerings being many times oversubscribed.

“This supported the market and allowed spreads to compress as investors sought to take big allocations to get ahead of any further Fed rate reductions,” says Blankenship. “Investors are still looking to put cash to work despite any macro risk and the uncertainty around the new administration.

“I have been impressed by how demand has been able to keep pace with the amount of supply. I wouldn’t say spreads are moving materially tighter, but we are seeing extremely strong execution on the back of this strong demand and a general grind tighter in spreads.”

As investors grew more bullish on the fight against inflation, they were able to shift from just looking for a carry trade to seeking higher total returns thanks to an appreciation in bond prices.

“Investors have tried to lock in duration on longer bonds, while keeping in mind pre-pays,” says Singer at Balbec.

Some of the incremental demand has come from certain accounts returning to the asset class as performance data grows and investor comfort builds, says Fania at Annaly, which issued 20 transactions totaling \$9.8bn, according to Finsight — almost double its biggest previous year by volume.

“This year we saw the number of investors grow and we issued more transactions,” he says.

Moving down the stack

As demand has grown, so the credit curve has flattened.

“We have seen strong demand in the mezz and subordinated parts of the capital stack,” says Guglani at Franklin Templeton. “People feel more comfortable with mortgage credit.”

Although pricing can be more unpredictable further down the stack as housing and economic data comes in, Sack at Atlas sees “more of a lean towards bonds grinding tighter and less risk of widening at the top”.

This greater comfort with the mortgage credit has also allowed issuers to modify their offerings.

“We have executed some [mezzanine] classes in some of our unrated offerings to aim to provide investors with a higher yielding product and they have been receptive to them,” says Singer.

He highlights money market inflows and Fania says there is around \$6.5tr sitting in these funds.

“A lot of this money we think is waiting for short term rates to decline and a good portion could find its way into RMBS,” he says.

It all contributes to a sense of optimism for the year ahead: “2024 has been a busy year and we expect there is more to come in 2025,” says Singer. [GC](#)



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By any measure, 2024 was a stunning year for the US ABS market, with issuance volumes already reaching record levels by October. Auto ABS, as is standard, accounted for a larger portion of issuance than any other sector. But perhaps the most eye-catching corner of the market was esoteric ABS.

Among other feats — such as Subway’s record-breaking \$5bn whole business securitization — it was the year digital infrastructure matured into a benchmark asset class of its own. And 2024 also witnessed the surprise return to form of aircraft ABS.

Moreover, esoterics also accounted for a greater increase in volumes than any other part of the market. Broader non-mortgage ABS volumes were up from \$267bn in 2023 to \$324.6bn by the end of November, according to data from Finsight, and esoteric ABS issuance was up from \$77bn in 2023 to \$110.2bn by the end of November 2024.

The previous biggest year ever for US ABS was 2021, with \$294.3bn of issuance. That year, esoteric ABS totalled \$103.7bn.

Yet investors have been more than willing to soak up this year’s exceptional levels of issuance — and this dynamic should continue.

“As a relative value play, ABS is in a strong position compared to unsecured corporate debt,” says Elen Callahan, head of research and education at the Structured Finance Association. “In ABS you can get credit card or prime auto loan triple-A ABS paper, for example, at pick-up of 5bp-10bp versus double-A corporate paper. ABS spreads have tightened, but corporate unsecured spreads have tightened even further.”

Within this, esoteric paper often provides higher yielding paper. With investor risk tolerance staying strong in the wake of the US election, the sector should be in a good position to continue to capitalise.

“Absent significant developments in credit markets, we expect origination and issuance volumes to remain strong in 2025,” says Dan Kosinski, an ABS and CLO manager at Medalist Partners. “While traditional asset classes such as autos should continue to lead the way, esoteric sectors such as aviation and data centres should provide an increasing share of total issuance in ABS.”

Esoterics to the fore as US ABS finds new highs

Money flooding into fixed income in 2024 presented an opportunity for the most innovative corner of the securitization market to develop. Previously tricky sectors have returned, and the ABS market is at the forefront of efforts to finance the huge capital needs for digital infrastructure, writes [Diana Bravo](#)

In the first 11 months of 2024, esoteric ABS accounted for 33.5% of issuance — up from 28.8% in 2023. Only in 2021 did esoteric ABS enjoy a larger share, at 35.2%.

This does not take into account the vast amounts of private ABS deals being priced that do not show up in issuance statistics or in rating agency reports. These deals can also offer a spread pick-up over traditional public ABS, says a managing director at one ABS investment firm, saying this is where he sees value in the market.

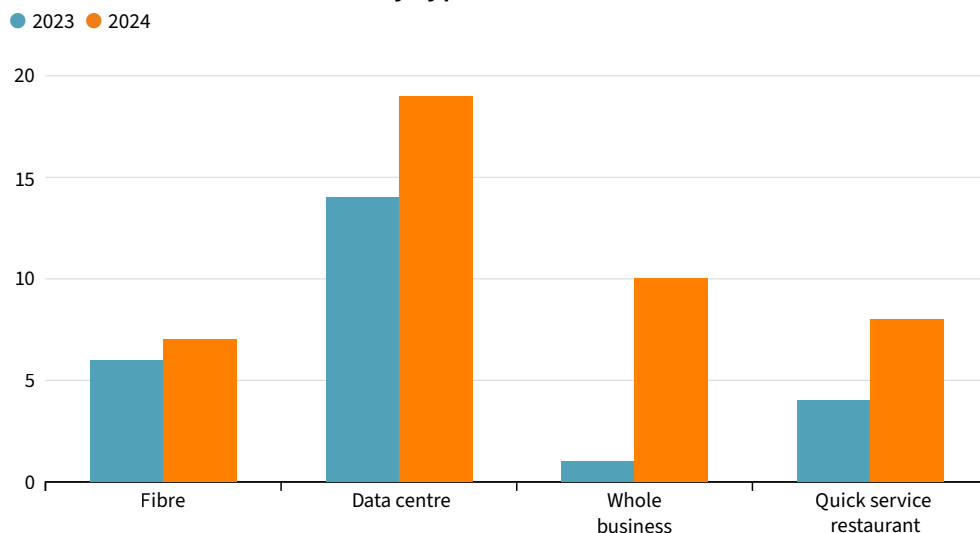
“There is an unrated market full of deals that I would categorise as mostly static assets,” says the MD. “These are newer asset classes and rating agencies just don’t have any way to analyse them.”

One development that showcased the strength of the esoteric sector in 2024 was the comeback, in the final quarter, of the once beleaguered aircraft ABS sector.

After Russia invaded Ukraine in early 2022, the sector virtually collapsed, with many aircraft stranded in Russia. Like this year, fixed income markets more broadly were dealing with tighter monetary policy.

According to Jeff Stern, a partner in Reed Smith’s financial industry group: “2022 and 2023 were two very challenging years for structured finance as a whole because of steadily rising interest rates. It was impactful to the economics of individual transactions but also to the willingness of institutional investors

US esoteric ABS deal count by type



Source: Finsight

to deploy capital when the notes they bought could decline in value for no other reason than the shifting rates environment.”

But as the rates outlook eased, so the fundamentals of the aircraft sector improved. Strong demand for travel after the Covid-19 pandemic was beyond the manufacturing capacity of the likes of Boeing and Airbus, leaving aircraft owners in a strong position. A viable option is for these aircraft to be leased and the receivables to be securitized.

“We’ve seen aircraft ABS issuers come back this year and I think that will continue into 2025,” says Nicholas Rogers, head of non-traditional ABS origination at RBC. “There’s a significant pipeline of bank-financed aircraft and markets have improved, suggesting a larger year for issuance ahead.”

Until the middle of 2024, most market participants had been forecasting the return in earnest of aircraft ABS issuance to public markets in 2025. But markets have been so strong that the comeback was brought forward.

After just four aircraft ABS deals totalling \$1.8bn in 2022 and 2023 combined, there were nine deals totalling \$5.2bn in the first 11 months of 2024, with most coming after the summer. More are expected.

“I expect that we will see a rash of transportation finance deals for aircraft and vessels in the coming years,” says Stern. “We are entering a replacement cycle for a number of airlines.

“Although aircraft production has of late dealt with a number of challenges, as has been widely reported, I nonetheless anticipate a material uptick in aircraft purchases over the next two to three years.”

Digital drive

The sector causing most excitement among ABS bankers is digital infrastructure, particularly data centres, as the securitization market steps up to fund a surge in demand related to the computing needs of artificial intelligence.

Like many sectors, data centre ABS enjoyed its biggest ever year in 2024, with 19 deals worth \$8.6bn by the end of November — compared to just three deals totalling \$1bn in 2022. The pick-up in issuance came after new data centre leasing activity in the US had

increased by 82% between 2022 and 2023, according to a T Rowe Price blog published in September citing numbers from DataHawk.

So impressive has the growth been that, for some market participants, the asset class is moving from the fringes of esoteric ABS and should be seen as a standalone segment of the market.

“Digital infrastructure has become a big story this year,” says Mike Nowakowski, managing director and head of structured products at Conning Asset Management. “It’s no longer emerging, it’s here to stay.

“There’s a critical mass of issuers, enough to call it a benchmark sector within esoteric ABS.”

Indeed, as the digital infrastructure sector gains in prominence, Nowakowski says that the market will begin to see price tiering between issuers — like other benchmark sectors within ABS and broader securitization markets as a whole.

“There’s already some tiering between issuers in the digital infrastructure space, similar to the subprime auto sector where there are tier one, two and three names,” Nowakowski says. “I expect to see differentiation in the fibre space between legacy telecom providers who are playing catch-up versus more pure-play fibre companies who have been at it for some time.”

Within digital infrastructure there has been a lot of merger and acquisition activity, which has brought some of the more previously prolific ABS issuers in-house to larger companies. Theoretically, this may reduce

their reliance on securitization as a funding tool.

However, Rogers believes that these issuers’ new owners may still use securitization as a funding source to avoid straining their corporate unsecured offerings.

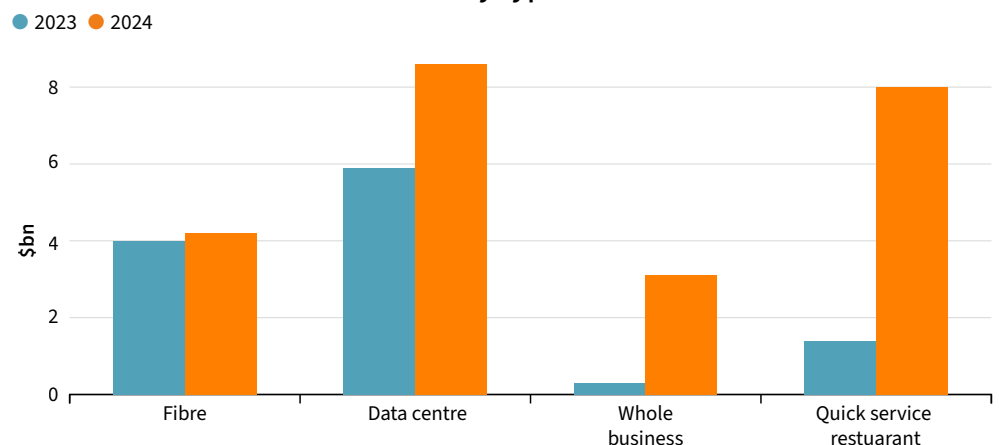
One of the largest of these M&A deals was Verizon’s \$20bn purchase of Dallas-headquartered telecoms firm Frontier Communications in September 2024. Before Verizon announced its purchase of the company, Frontier had priced two securitizations: the \$750m FYBR 2024-1 in June 2024 and the \$1.6bn FYBR 2023-1 in August 2023.

“Depending on the depth available in corporate bond markets for your name, raising more than you used to could push your spreads higher,” says Rogers. “It varies name by name, but I expect we will continue to see ABS issuance, even from some of these acquired players in digital infrastructure. For other acquisition targets, it’s still an open question and the jury is out. Once the M&A closes and some of the bridges are refinanced, we’ll see how this plays out.”

Although there are plenty of reasons for caution heading into 2025 — not least the potential for US Treasury yields to keep rising again — the mood is largely one of optimism. RBC’s Rogers says that, for now at least, things are looking bright.

“There are certainly things that could complicate or derail the market, and several events in the economic calendar, but I think issuers are planning for the best in many respects,” he says. “For today it looks like the party can continue.” GC

US esoteric ABS issuance volume by type



Source: Finsight

Europe on final approach to ‘normalised’ IPO market after troubles

If 2024 was a better year for IPOs than the few before, that was nothing to brag about. Investors have made money and risk appetite is growing — but 2025 is expected to be the final year of recovery on the way to a restored market, writes **Gaia Freydefont**

Equity capital market participants are confident that 2025’s IPO market will be the last step on the way to a yearned for “normalised” IPO market. But with investors selective about their participation in IPOs, and a stubborn gap in valuations between them and sellers, it may be more likely that a serious, sustained recovery in new listings will come in 2026 and 2027.

Some respondents to *GlobalCapital’s* equity capital markets survey are hopeful — though not confident — that the disparity between buyers and sellers in valuations will substantially tighten (27%) or slightly tighten (41%), helping to increase deal flow. All other respondents thought the valuation gap would stay the same; none expect it to widen.

Market participants speaking with *GlobalCapital* expect that IPO issuers will focus on pricing small deal sizes at attractive prices that can soar in the aftermarket, in an effort to gain investors’ trust.

IPO issuers had printed \$30bn-equivalent via 170 IPOs in EMEA by mid-November 2024, according to Dealogic, just 14% higher than by the same point in 2023.

Indeed, while the IPO market has been more positive this year than in 2023, “it is still far from being open to everyone,” says Andrew Briscoe, head of EMEA equity capital markets syndicate at Bank of America. “We have taken a step in the right direction this year, but there is still some way to go.”

“I don’t think it is what anyone expected,” says Andreas Bernstorff, head of equity capital markets at BNP Paribas in London.

Indeed, in *GlobalCapital’s* survey in 2023, market participants largely expected a stronger and more sustained IPO recovery for 2024 than eventually happened. Half of last year’s survey respondents expected IPO volumes to be at least 20% higher than 2023’s numbers, and two-thirds expected an uplift of at least 10%.

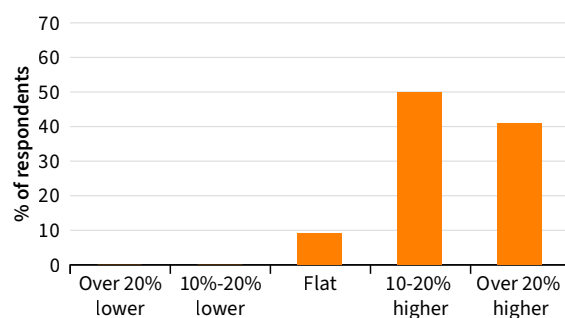
It did not come to pass. This was because interest rates did not fall as quickly as many expected. The ECB did not begin cutting rates until July and the US Federal Reserve in September.

At the same time, this year’s stock markets were characterised by a huge expansion in the multiples and earnings of companies clustered around artificial intelligence. Whether it was chip makers or AI-adjacent stocks, they drove up global indices. By the end of November, shares in

Apple were up by 26.4% year-to-date. Alphabet was up by 22.3%, Meta 63.7% and Nvidia 174.2%.

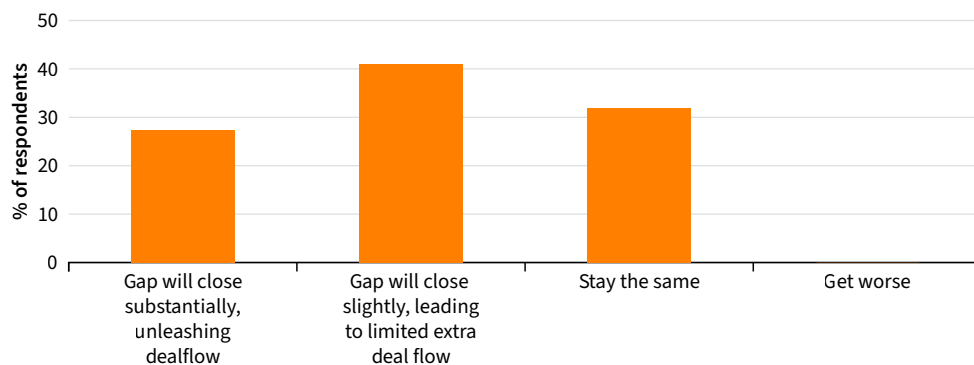
The result was a situation where although markets were going up, it was mainly because of large cap

What is your expectation about IPO volumes in EMEA in 2025, versus 2024?



Source: GlobalCapital

Do you expect the valuation gap between buyers and sellers to tighten in 2025?



Source: GlobalCapital



▲ Andrew Briscoe, Bank of America: “Liquidity is the biggest pushback we face in a European IPO context these days.”

companies’ share price growth; mid-cap stocks were not rising. That made IPOs less successful than index performance suggested they might have been.

“Next year, we will continue moving into a more normalised market environment,” says Luca Erpici, co-head of EMEA equity capital markets at Jefferies. “If you look at the IPO cycle over the last 20 years, you have a peak every six to seven years, with a more normalised market three years after the prior peak, which was 2021.”

Respondents to *GlobalCapital’s* survey this year were near unanimous in forecasting that IPO issuance will rise next year. Half of respondents expect IPO volumes of at least 10% more in 2025 than in 2024 and 41% expect a lift of more than 20%.

The pipeline supports the hypothesis that 2026 and 2027 will be better years for IPO volumes than 2025, however. A substantial pipeline of “good quality, very sizeable assets” is being readied for public listing in the next three years, Erpici says.

Bernstorff also described a “substantial pipeline of transactions” but with deals to come sooner. He is expecting “some congestion” in the IPO market in 2025.

Liquidity over size

While the IPO market is more open than it was a year ago, new listings still need close to Goldilocks conditions to be priced. Issuers must demonstrate the right mix of having a quality, durable business model; come looking for a reasonable valuation; have low leverage but large scale;

and present either a nearly or entirely derisked deal, especially if they do not operate in what Erpici describes as “must-own” sectors.

“We are in a market where some assets can list and trade well, but a lot cannot yet achieve a successful outcome,” Briscoe says. “I hope we see an increase in the market’s depth, such that it isn’t only the best-in-class assets that can list successfully. We are seeing signs that decent enough assets are getting receptivity, which is encouraging, but we aren’t quite there yet.

“Perhaps the market will be receptive to smaller deals where the aftermarket is paramount, and the bigger monetisations happen post-listing”.

The €521.75m IPO of German scientific publisher Springer Nature in October was a case in point, having come “really cheap”, at a 50% discount to one of its key peers, Bernstorff says. By mid-November, the stock was up 12.5% from the offer price.

“That was a sensible, US-style way of going public in a challenging market: sell as little as possible at an attractive price for investors,” he added.

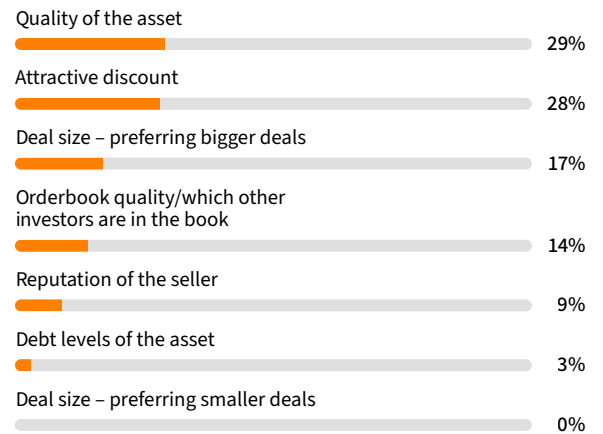
“The biggest driver of liquidity is aftermarket performance — not size of free float, as is so often assumed — and liquidity is the biggest pushback we face in a European IPO context these days,” Briscoe says.

Small deal sizes allow issuers to come back and sell more stock at higher prices later on. “I would like to see smaller deals that trade well in 2025,” said one market source. “That stuff can trade well and you gain a lot of goodwill in the market.”

In tune with prioritising

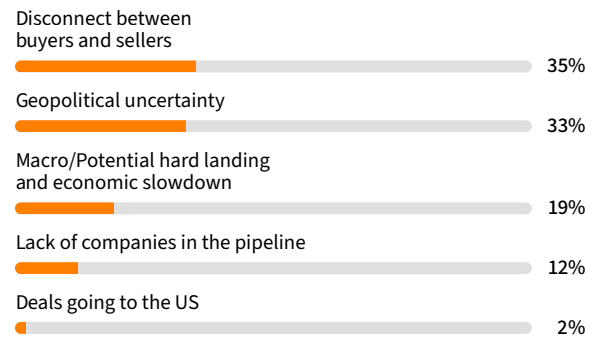
aftermarket liquidity, survey respondents thought that securing cornerstone and anchor investments (36%) and collecting a high quality order book (23%) are going to be front of mind for 2025’s issuers.

In next year’s market, which factors do you think will be particularly important to investors considering IPOs?



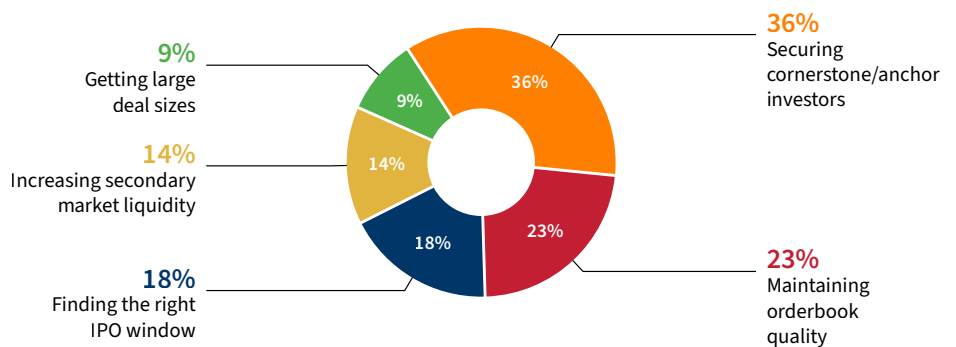
Source: GlobalCapital

What are the biggest threats to IPO volumes over the coming year?



Source: GlobalCapital

What will be the top priority for IPO issuers in 2025?



Source: GlobalCapital

Whether it was a deal being pulled, or trading poorly in the aftermarket, the root of this year's IPO woes has been a disconnect between buyers and sellers. Along with growing uncertainty over geopolitical risk, it could have a big effect on IPOs in 2025, with 82% of respondents saying that the gap between bids and asks is the biggest threat to IPO volumes over the coming year.

But investors have generally made money this year, Bernstorff says, and their willingness to allocate cash to a new deal is much higher than at this time in 2023.

While risk appetite is improving, investors are expected to continue being selective on low-quality assets, however. Investors are to remain price sensitive, and "pretty short term and momentum focused", Bernstorff says.

He adds that he doesn't think the next wave of IPOs will reach the level of being priced at a 10%-15% discount to peers — the discount generally considered emblematic of a normal market — though he thinks a few will. "But, certainly, we are going to get the average inside 20%," he adds, suggesting that such a discount would help issuers grow comfortable with coming to market.

Indeed, 81% of survey participants said that an attractive discount was by far one of the most important features investors will consider.

This will result in an open market, but not open to all. "The IPO market is open, but investors aren't underwriting anything because of fear of missing out," Erpici says. "There is a healthier dynamic where we can match buyers and sellers — but only around the right situations at the right price."

PE 'intensifying'

One source of listings could be private equity-owned assets. "IPO discussions with private equity are intensifying a lot," Erpici says.

Even for assets that weren't considered IPO candidates, private equity sponsors are "warming up to the idea that IPOs are a viable option", particularly for some of the largest and best quality assets out there, he adds.

Heading into 2024, the market expected that PE funds would be a rich source of deals as they sought to exit investments in companies and return money to their investors.

But sponsored companies' capital structures, leverage ratios and other factors have exacerbated the valuation gap, hindering the flow of listings this year.

However, sponsor-backed assets will make up a "good portion" of 2025's IPO pipeline, according to Briscoe.

Wall-crossed blocks

Next year's block trades will need to mirror the features of successful deals done this year: quality assets with good liquidity, wall-crossing investors and providing visibility on the full deal size.

"Investors will pass on deals they feel are too big and too tight," Briscoe says. "There isn't enough P and L around for investors to need to be there for everything. Investors are more open to missing deals than they have been in prior years."

"There are always some exceptions where some sellers need to run auctions — or have only one more placing to do, so they need to maximise price," Erpici says. But sellers that have multiple blocks to come are likely to opt for a "non-risk" solution to ensure the best quality book and aftermarket performance, he adds.

The year 2024 was a big one for the blocks market and, by and large, sales have worked. There have been occasions when dealers have been left long but there have been some notable deals.

These included a \$1.6bn trade in LSEG by Blackstone and Thomson Reuters in May, Pfizer's \$3.25bn Haleon sale and German government sell-downs — such as KfW's \$2.55bn sale in Deutsche Telekom.

Repeat sellers of blocks chose not to push discounts too aggressively in 2024, ensuring that trades worked well in the aftermarket, allowing the next trade to come at a higher price.

The exception was the \$1.28bn Geely sale of Volvo Trucks in April, some specialists thought. October's \$5bn primary block trade in DSV, on the other hand, was the darling of the year.

"DSV was just a phenomenal transaction that most of us would hope to do only maybe once or twice in a career," Bernstorff says.

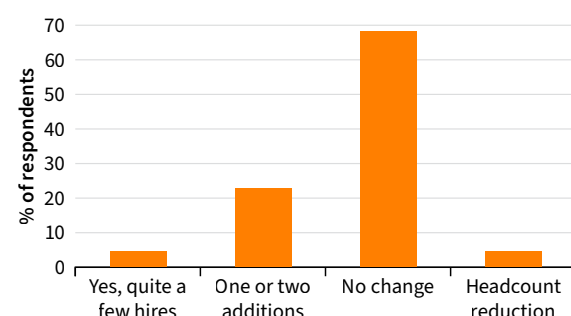
The other dynamic that is expected to continue in 2025 is the balancing of price and size. For assets that are not best in class, big deals at high valuations will be

difficult to execute. Issuers will be better off doing a small deal.

"We are having many discussions where eventually there is an optimisation of price and size — in some situations, you cannot achieve both," Erpici says.

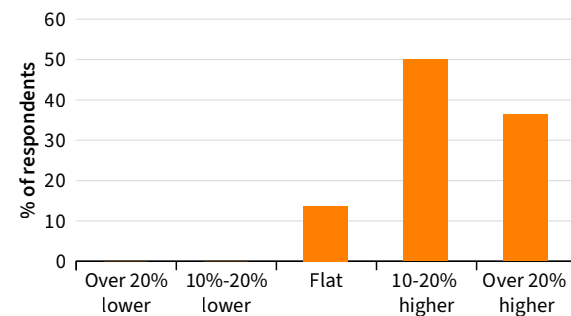
Some sellers will start with a smaller size to maximise the price of their block trade; others will want to maximise size and give something up on price, he adds.^{GC}

Do you expect to be growing or shrinking your ECM team in EMEA in 2025?



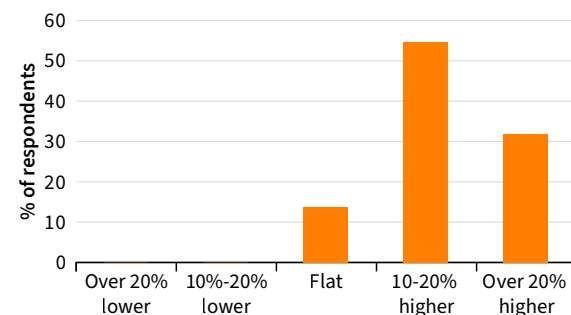
Source: GlobalCapital

What is your expectation about other cash ECM volume, including blocks in 2025?



Source: GlobalCapital

What is your expectation for equity-linked volumes in 2025?



Source: GlobalCapital

On paper, 2024 looks to have been a vintage year for the Swiss franc bond market. After a record 2023, the pace of new issuance rose. As of mid-November, Sfr65bn (\$73.6bn) had already been printed — almost Sfr2bn ahead of the same period in 2023.

However, it was a year of two contrasting halves. After a strong start, interest rates fell over the summer — leading issuance volumes to fall from Sfr43.7bn between January and June to Sfr21.1bn in the period from July 1 to November 15.

As fixed rate takers, Swiss issuers benefit from lower interest rates, so opportunistic domestic borrowers tapped the market in the second half of the year. However, falling rates, coupled with widening spreads made it more challenging for the Swiss franc bond market to compete with those in other currencies.

“Given the increased domestic spread levels, a big chunk of foreign supply didn’t materialise,” says Benjamin Heck, head of syndicate at ZKB. “The Swiss franc widened, so the market wasn’t competitive with other currencies, which tightened.”

As a result, domestic names have played a much stronger role in the market in 2024, accounting for almost two-thirds of total issuance. In 2023, this balance was closer to an even split.

Bellwethers

Collective covered bond issuers Pfandbriefbank and Pfandbriefzentrale are often used as the benchmarks for the market. Both have had a difficult year, as spreads on their bonds widened.

“Spreads are really distorted,” says Andreas Tocchio, head of Swiss syndicate at UBS in Zurich. “I have not seen them come so wide in 20 years, with the exception of the first weeks of Covid lockdown. [This is] not explainable from a relative value perspective, but is instead explained by supply and demand.”

Investors are reaching their limits for the two issuers. As cash availability dwindled in the second half of 2024, they sold paper in the secondary market to free up capital for new issues. This sell-off has pushed spreads wider.

“It is the new normal; if you want to raise money, then you have to offer the spreads,” says Michael

Falling rates pose threat to Swiss franc bond momentum

Although the Swiss franc bond market is on track for its best year since 2014, falling interest rates caused a sharp drop in issuance in the second half of 2024. Widening spreads made the market harder to navigate and, as **Sophie Astles** writes, the road ahead could be rocky

Wölfle, head of debt capital markets at ZKB. “[But it has been] quite shocking to see and it makes it difficult for the rest of the market too.”

Rosario Clemente, head of DCM Switzerland at Deutsche Bank, and Damien Aellen, head of Swiss syndicate at BNP Paribas Switzerland in Zurich, both highlight the widening spreads on Swiss government bonds as another reason for price widening. In mid-2023, govies were trading at 100bp through swaps; now they are trading almost flat.

Spreads on all high grade names have pushed wider as a result of widening Pfandbrief spreads. The spread differential between high and lower grade names has been compressed and the differential in credit risk is not reflected in pricing. “We need to see how that will balance out,” Aellen says.

One knock-on effect has been a nosedive in foreign covered bond issuance.

Sabeen Munir, head of Swiss syndicate at Commerzbank, says that Pfandbriefe “still set the floor for covered bond pricing, so any other issuers will need to pay a premium”.

“Spreads on Pfandbriefe have widened so much that, even if you are a top quality issuer, flat to them is not competitive and investors are not willing to concede on the premium,” she adds.

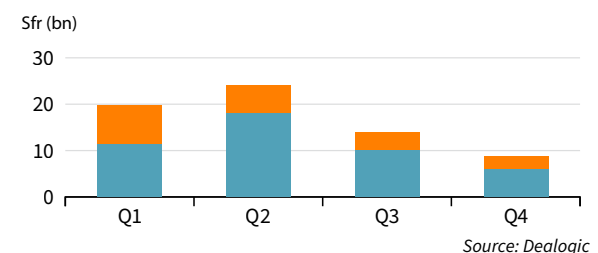
Martin Schmid from Münchener Hypothekenbank’s treasury — which has natural funding needs

in Swiss francs — says that “if spreads develop in our favour, then we would shift to issue some Swiss covered bonds and reduce our covered bond plans in euros accordingly.” However, for now, it is too expensive compared with euro funding.

Swiss franc bond issuance volume

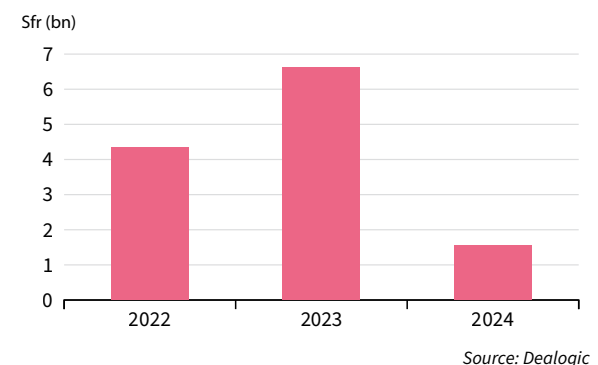
Year to November 15

● Domestic issuers ● International issuance



International covered bond issuance in Swiss francs

Year to date to November 18



Tocchio expects that at least some natural correction in Pfandbrief issuance will occur in 2025. “Next year will be a different ball game,” he says. “Yes, 2024 was clearly overdone in terms of volume, but 2025 will be adjusted to the new rates environment.”

Clemente expects that issuance will remain high as falling rates stimulate new mortgages. The Pfandbrief issuers “don’t have another market to diversify into”, he says.

Corporates go big

In many ways, 2024 was a story of corporate bonds. By November 15, corporate issuance was more than Sfr5bn ahead of the same period in 2023.

The capacity of the market has been tested, with Nestlé, SwissCom, Thermo Fisher and Novartis raising more than Sfr1bn each in the first half of the year, among a host of other benchmark deals.

While domestic issuers are responsible for 69% of 2024’s supply, foreign issuers have still raised more than Sfr7bn — up Sfr2bn on last year.

The Swiss market “can be nimbler than others on size to price ratio,” Aellen notes. Corporates are looking at the Swiss franc as a means of diversifying and getting a “proper chunk” of funding done without paying up, he says.

“There has been some dislocation in the euro market, so issuers are looking for relative pricing,” Munir says. “Corporates are looking more at diversification. They have seen that things can look ugly quite quickly, so they want access to all markets.”

“Foreign corporates will remain active and I would expect to see good issuance next year,” he adds.

Heck expects that the large domestic corporates will be active through 2025 too. “It will depend on cross-currency swaps,” he says, “but they are fond of printing benchmarks in their core market, if economically sensible.”

Silver lining

Although falling interest rates have stymied issuance in the second half of 2024, “low rates do create opportunity,” according to Munir.

“Spread-yielding products are more interesting to investors, so we can go deeper into market segments that were previously less relevant,

like tier two bank capital,” she says. “A vein of emerging market issuers is also more likely to open when the rates backdrop is lower.”

Triple-B rated corporates have benefitted from investors looking further down the credit curve in search of spread, while emerging market borrowers have taken a larger slice of the market over 2024.

Fonplata, a South American development bank, tapped the market twice over the course of 2024. Rafael Robles, Fonplata’s CFO, says that the market’s ability to be competitive on price and flexible to the issuer’s funding needs ensures that it remains an important source of capital.

Commercial Bank of Qatar, Engie Energía Chile and Metro de Santiago were among other EM names to issue in the Swiss market in 2024, with all three opting to issue green bonds.

Going green

Metro de Santiago was one of five Chilean issuers to tap the market, making its debut in the currency in October. Guillermo Muñoz, president at Metro de Santiago, emphasised the company’s commitment to ESG, but added that he “knew that there was a special value [in Switzerland] for companies issuing green bonds. The final price and size of our deal balanced well and the way we achieved that balance was by issuing in green.”

In November, London’s Heathrow Airport issued the first Swiss sustainability-linked bond by a foreign issuer. Green and social bonds have accounted for more than 10% of total issuance.

Clemente expects that the appetite for green bonds will continue in 2025, noting that “in volatile markets, issuing a green bond is a very good tool to reduce execution risk.”

Heck agrees: “The price impact is negligible, but it brings more volume to a deal.”

Investors will still be keen to buy green and will continue to refine their views on these products, he argues.

All about the rates

In March, the Swiss National Bank surprised many by making a 25bp interest rate cut, ahead of both the ECB and US Federal Reserve. Further 25bp cuts followed in June and September.

One further cut was expected at the time this article went to press — and how far the SNB will go in 2025 is one of the big questions the market faces.

“In 2025, SNB cuts will depend on the Fed most importantly,” Munir says. “There are quite a few voices saying that there are too many cuts priced in and inflation could creep in, especially with the situation in the Middle East. But all else being equal, it should be a more stable picture for 2025.”

Aellen hopes that 2025 will bring stability to rates: “Away from [the euro/franc rate], there is no catalyst for rates to be higher or lower, so we need to accept that they will stay roughly where they are.”

Unclear picture

While the prospect of negative rates is a concern for many, an unforeseen geopolitical event is generally considered to be the biggest threat to the market for the coming year.

For the most part, 2025 is expected to be challenging, but the market remains optimistic. “It is safe to say that we will see lower volumes,” Clemente says, “but this will not be a massive drop, just a correction from very high levels. We might see more volume from foreign FIG issuers, which have seen a drop this year.”

Heck expects that liquidity will pick up again in January. “The market should find a better balance again, with investors and issuers having the same idea of spread,” he says.

Tocchio also expects some repricing of the market, noting that the volume of international issuance will depend on the extent of this. “Yield will be key — whatever pays spread will have the focus of investors,” he says.

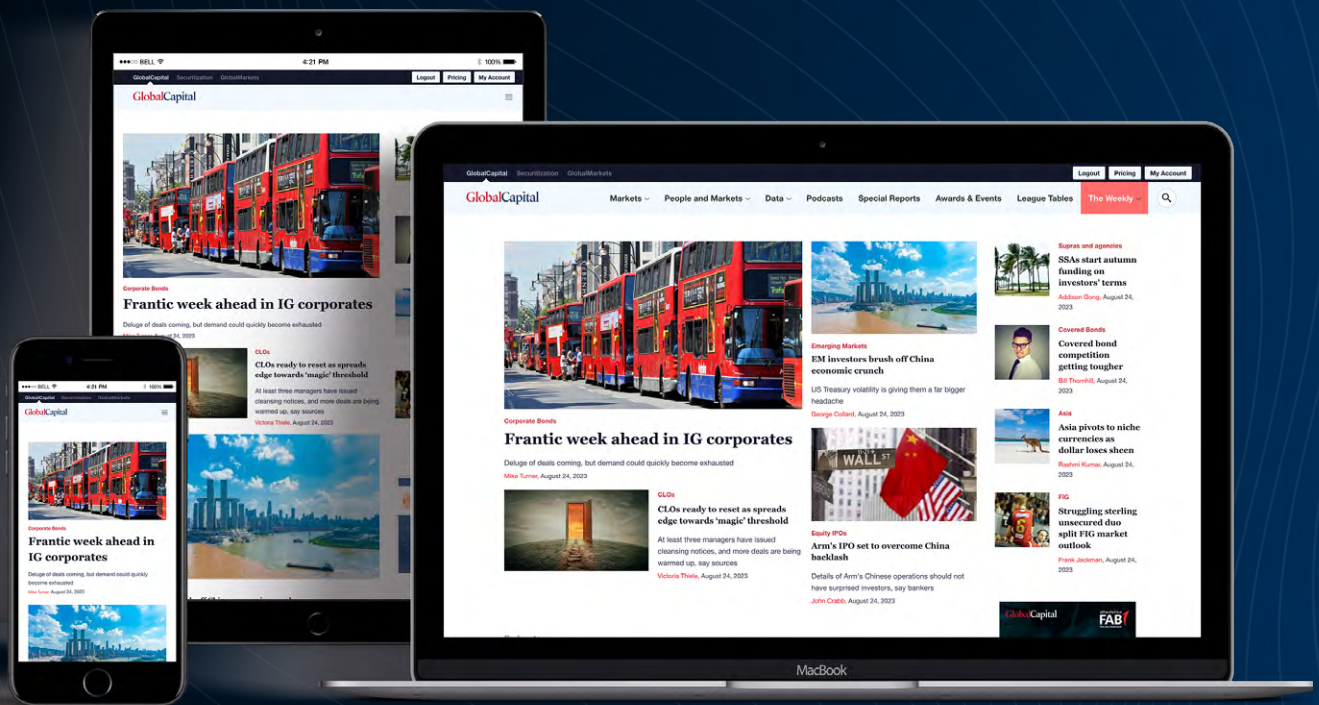
Tocchio expects that this will bring triple-B rated names and longer tenors into favour— but create challenges for high grade names such as supranationals and agencies.

Despite acknowledging the challenges ahead, Aellen expects that the market will continue to offer arbitrage and size flexibility, bringing new names to the Swiss market.

Munir agrees “it will be important to keep the market competitive and open to as many issuers as possible. To lose that would be the biggest threat to the market.”GC

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