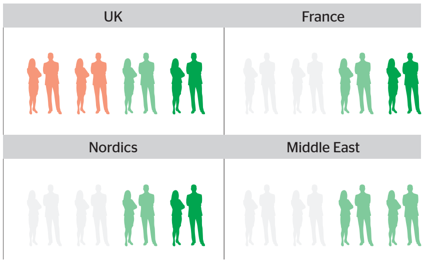
GlobalCapital

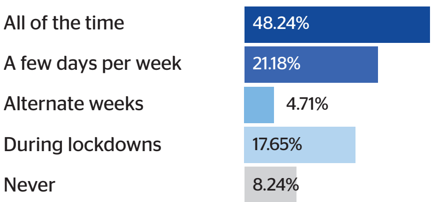
REVIEW 2021 OUTLOOK 2022

December 2021

REVIEW OF THE YEAR 2021 AND OUTLOOK 2022

Overview





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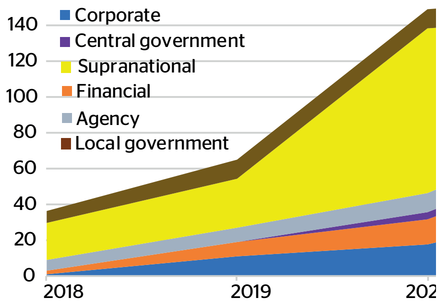

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GlobalCapital 2021 BOND DEALS OF THE YEAR

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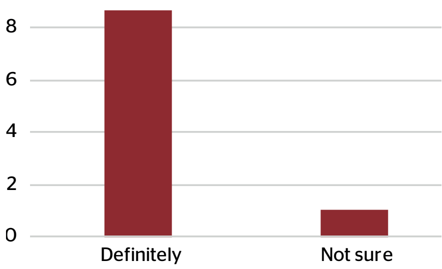

Emerging markets

Equity capital markets

REVIEW 2021 2022 OUTLOOK

GlobalCapital
www.globalcapital.com

Euromoney Institutional Investor PLC
8 Bouverie Street, London, EC4Y 8AX, UK
Tel: +44 20 7779 8888 • Fax: +44 20 7779 7329
Email: firstname.lastname@globalcapital.com
Printed by MethodUK

CEO, Financial & Professional Services division, Euromoney Institutional Investor PLC: Jeff Davis
CEO of NextGen Publishing, Financial & Professional Services division: Isaac Showman
Managing director, Market Intelligence: Tim Wakefield

Head of editorial development: Mariana Valle
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Head of visuals: Gerald Hayes
Production: Sarah Minns, Antony Parselle
Night editor: Julian Marshall
Sub-editor: David Jones

Cartoonist: Olly Copplestone • smokingbiplane@hotmail.com

Commercial director of events: Daniel Elton +44 20 7779 7305

Marketing
Claudia Reyes Marquez +44 20 7827 6428
Josh Pearson +44 20 7779 7388
Hind Farina +44 20 779 8505

Customer Success
James Anderson +44 20 7779 8338
Customer Services: +44 20 7779 8610

Subscriptions & Licensing
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Alex Vaughan-Fowler +44 20 7779 7298

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The *GlobalCapital* poll of heads of debt capital markets

GlobalCapital's **Toby Fildes** interviewed the heads of debt capital markets at 20 of the top 25 banks in November, and therefore before the emergence of the Omicron variant, to ask their views on how the market will evolve in 2022. Here are their thoughts. Information design by **Antony Parselle**

What are your predictions for primary EMEA bond markets in 2022

Volumes and fees
- Much higher than 2021
- Slightly higher than 2021
- Flat with 2021
- Slightly lower than 2021
- Much lower than 2021

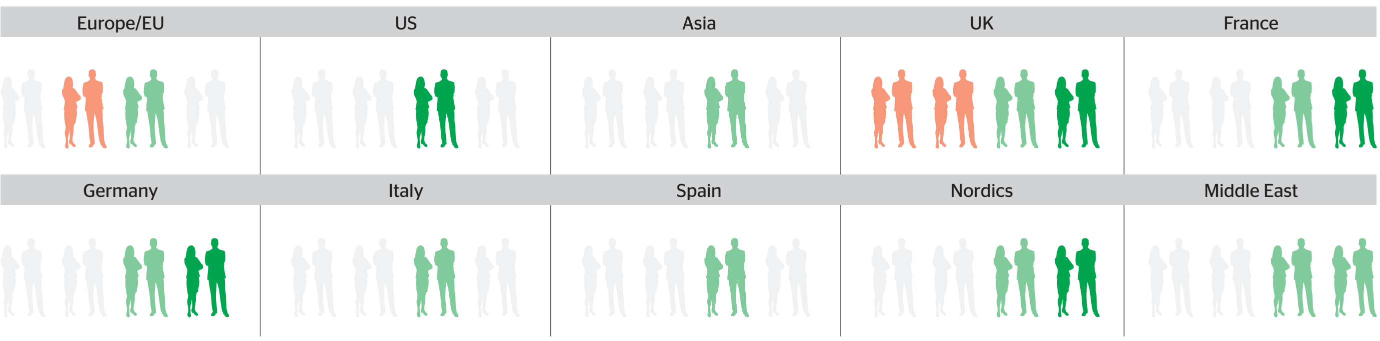
Spreads
- Much wider than 2021
- Slightly wider than 2021
- Flat with 2021
- Slightly tighter than 2021
- Much tighter than 2021

What is your prediction for maturities in primary EMEA bond markets in 2022?

They will shorten significantly
They will shorten a bit
They will be about the same as in 2021
We might see some lengthening of maturities

In which countries or regions will you be hiring or increasing headcount in 2022?

Significant job cuts · Small scale job cuts · Small scale hiring · Significant hiring

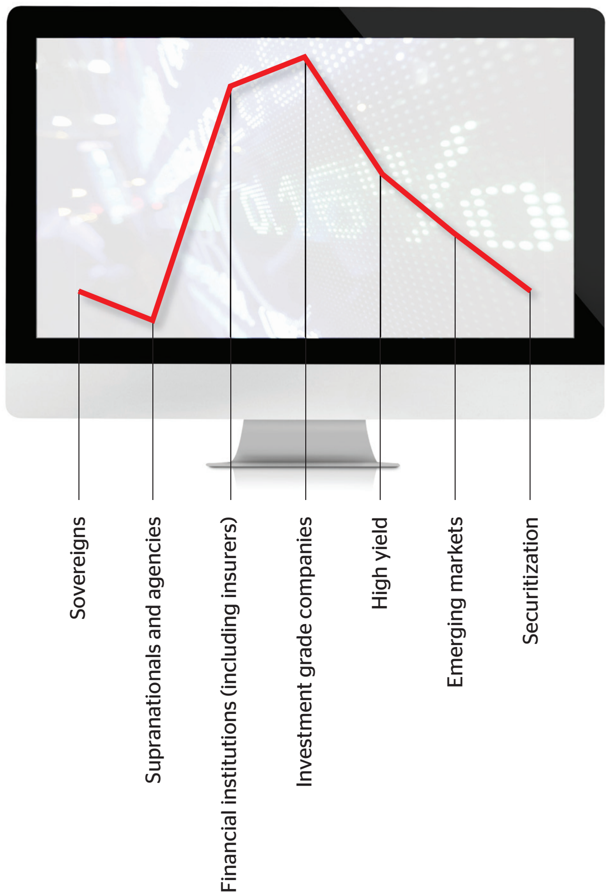


European Investment Bank
The EU bank

Invest in a sustainable future

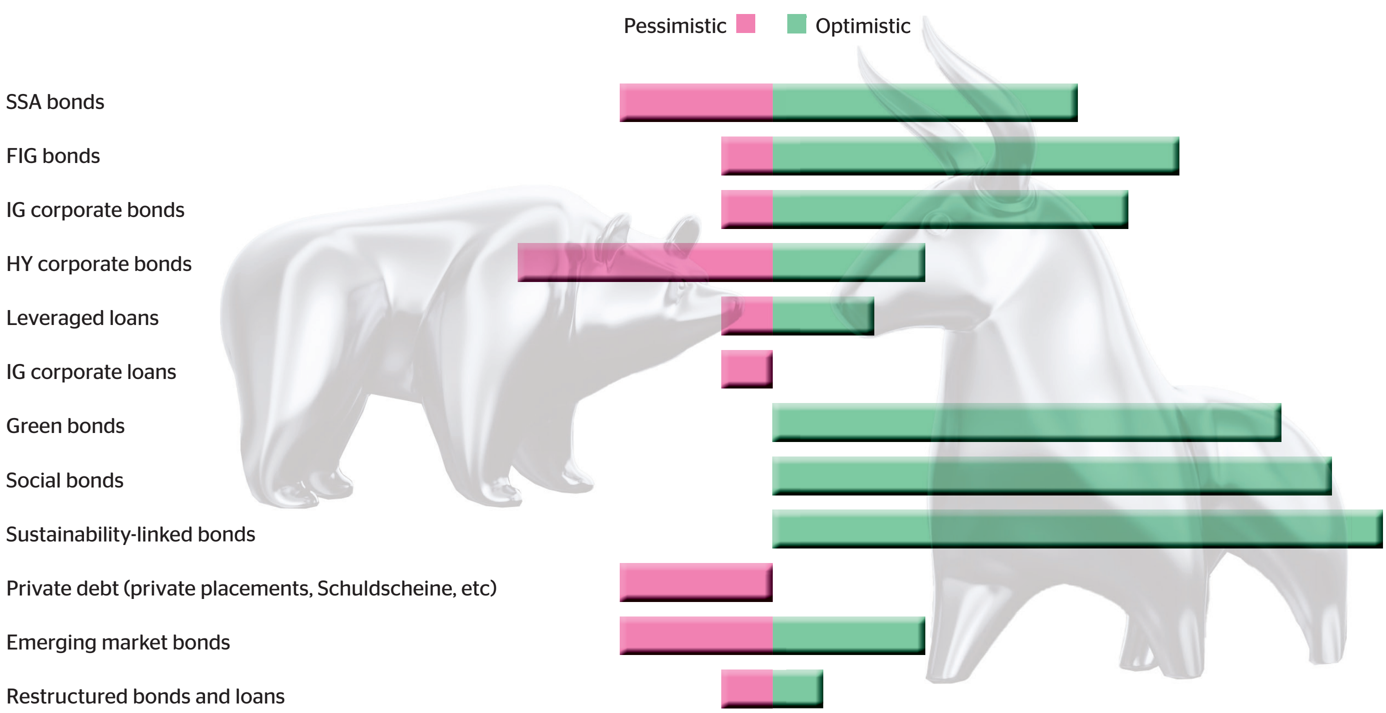
EIB's
Sustainability Awareness Bonds
link your investment with environmental and social objectives

Which sectors/client groups are you most optimistic about for 2022 in terms of revenues?

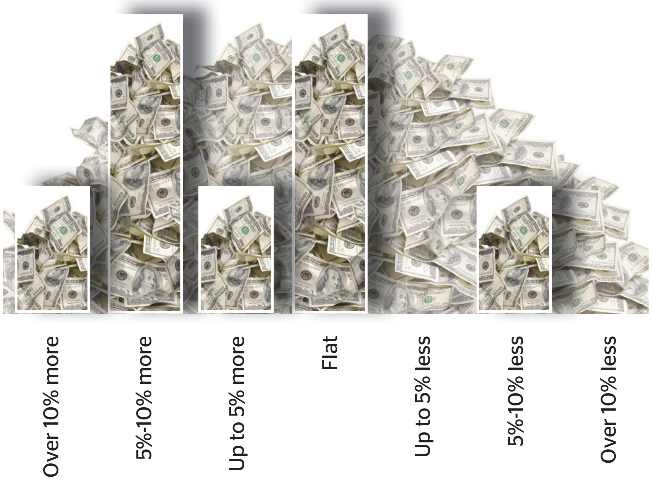


Do you expect your business to make more or less money in 2022 than in 2021?

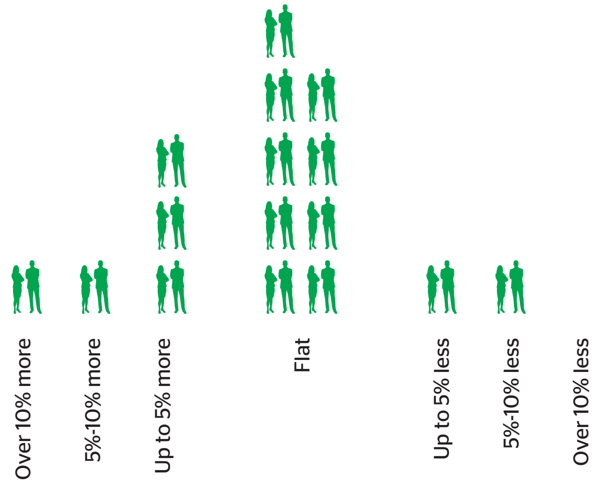
Which products are you most optimistic/pessimistic about for 2022 — by volume?



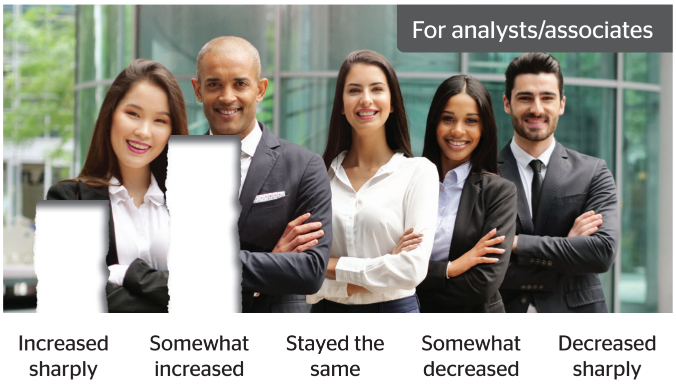
Do you expect your MDs and directors to be paid more or less in 2022 than in 2021?



Overall, will there be more or fewer people working for you by the end of 2022 than now?

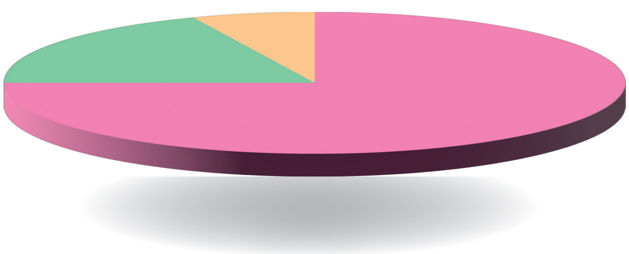


Thinking about 2021 compared with 2020, how has the rate at which competitors have poached or attempted to poach your staff changed?



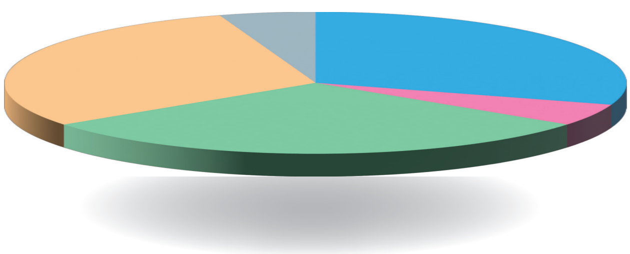
How aggressively will the US taper its quantitative easing programme in 2022?

- Yes significantly — Powell will cut back the support measures as quickly as he can cross all asset classes
- Yes moderately — Powell will push ahead but at a gentle pace across all asset classes
- Yes but in specific asset classes in a measured way
- He will try but will be disrupted in doing so because economic conditions will hamper his efforts
- He will have to reverse tapering and start buying more because of the economic conditions

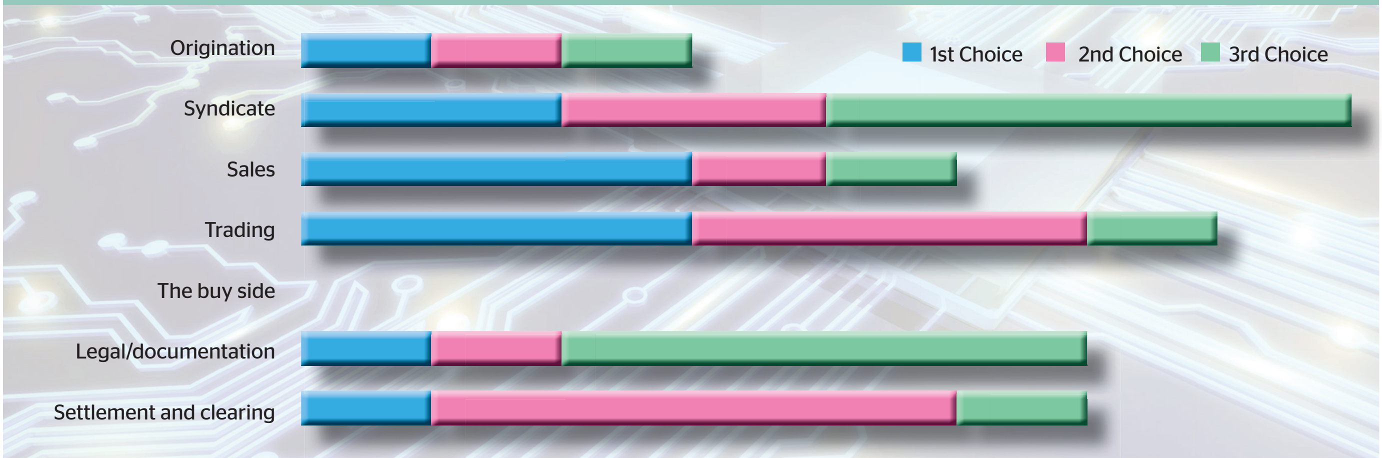


How will the ECB alter its QE programme in 2022?

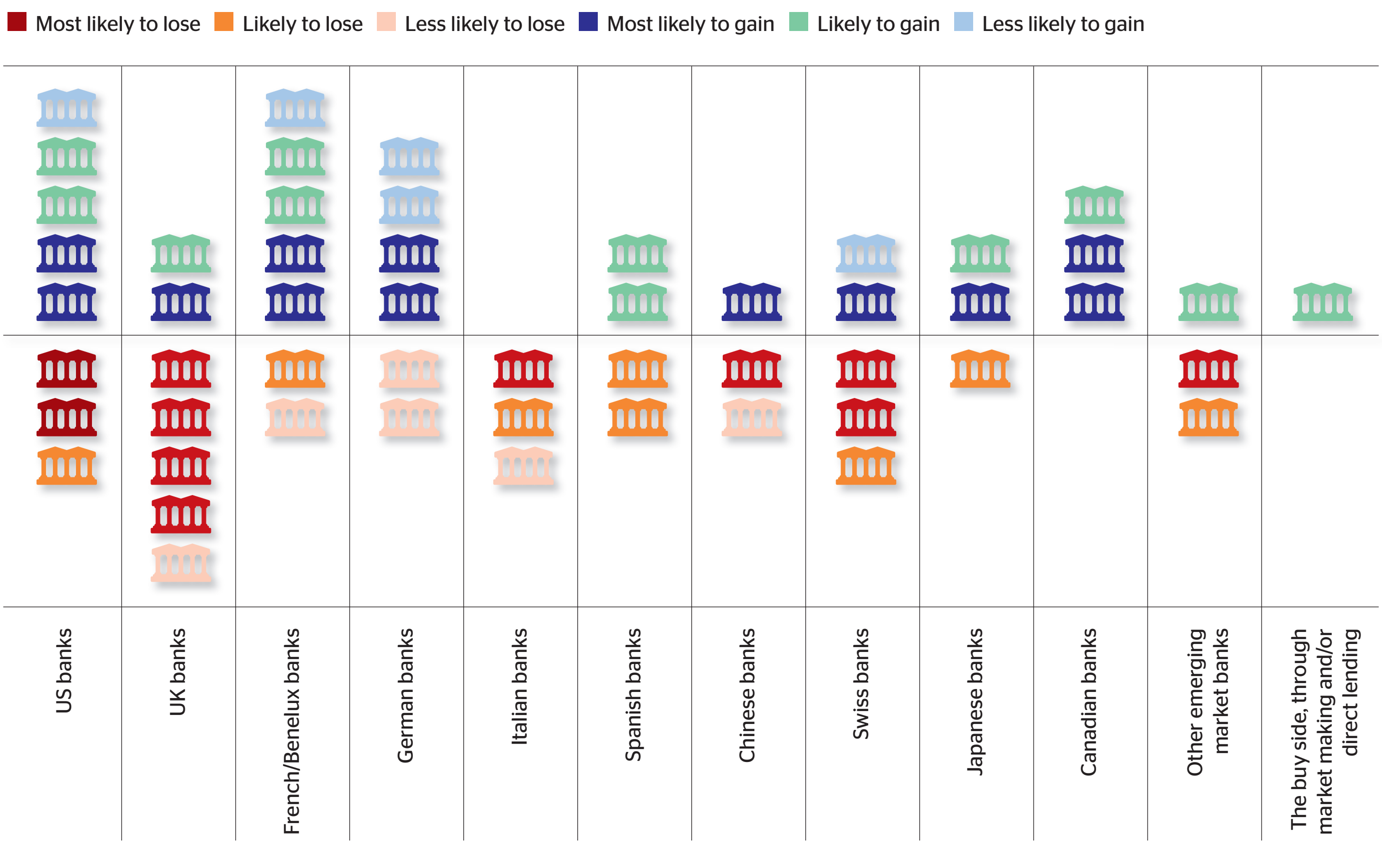
- No change — it's as big and broad as it's ever going to be
- There will be targeted tweaks — like buying more high yield and structured debt
- Green debt will be prioritised
- It will be reduced as the economy will begin to recover
- It will be increased as the ECB will need to prop up a still weak economy even more



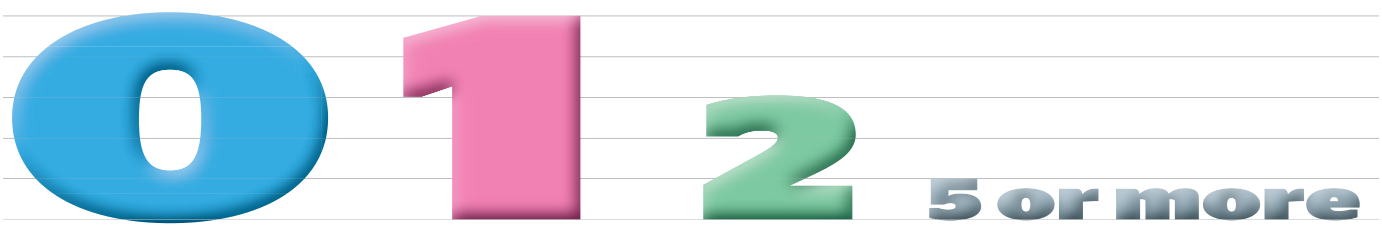
Which sectors of the market will have the most exciting technological developments?



Which banks do you expect to gain/lose market share in EMEA DCM the most in 2022?

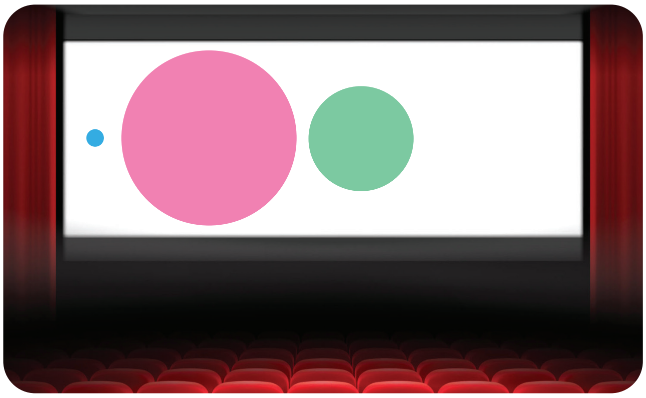


How many bank mergers (announced or completed) can we expect to see in 2022 that will involve a top 25 bookrunner bank?



Some of us have started to attend large market events in Europe. Will we return to pre-pandemic habits?

- Yes — we'll go to as many events as we did before
- Yes — but we'll be more picky and only attend those that have critical mass and can be combined with other meetings
- We'll only go to a few — and be happy to rely on remote attendance otherwise
- We won't travel to events unless very local
- We won't be attending events — remote is the way to go



Looking to this time next year, what Covid-19 restrictions will still be in place?

Will we return to the same level of travelling after we get over Covid?

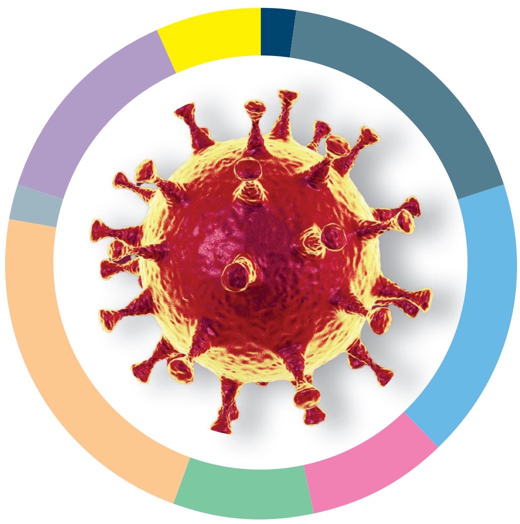
- Yes — we'll be earning even more airmiles than before
- About the same as before
- Less — we will still travel but it will be more controlled and efficient
- Much less travel needed — Teams/Webex/Zoom are fine for nearly all purposes

Will we be spending more time in the office in 2022?

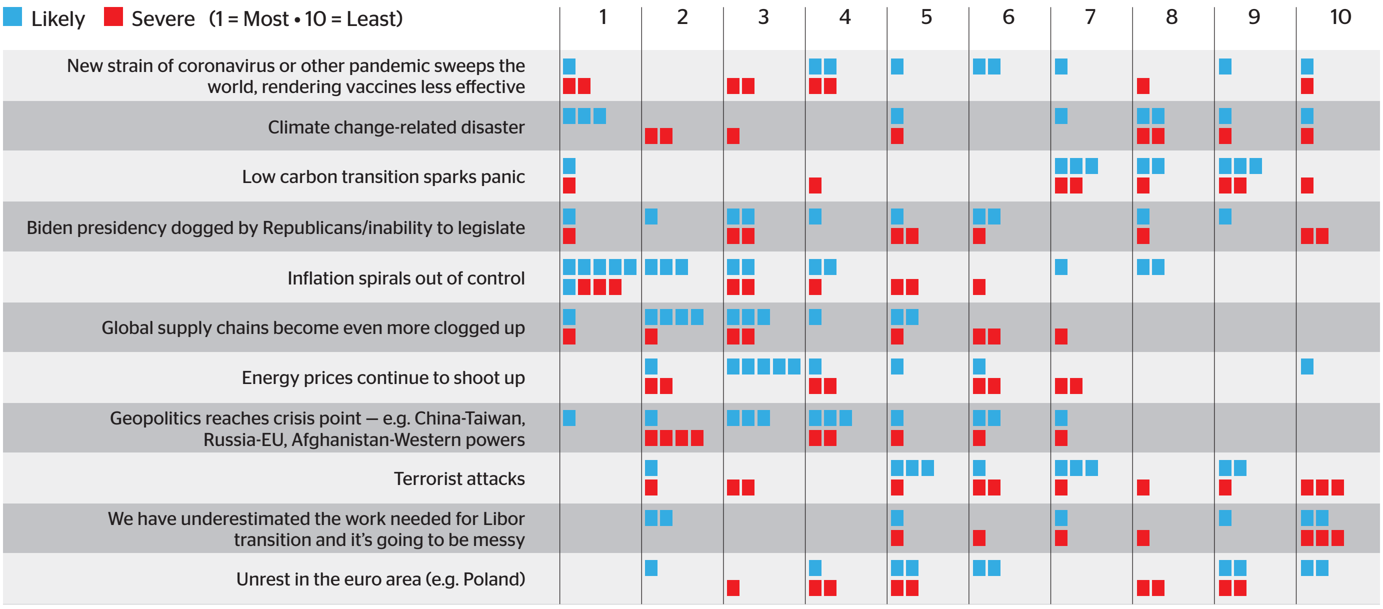
- Yes — more time
- About the same as this year
- No — less time

How has Covid changed the economy and society?

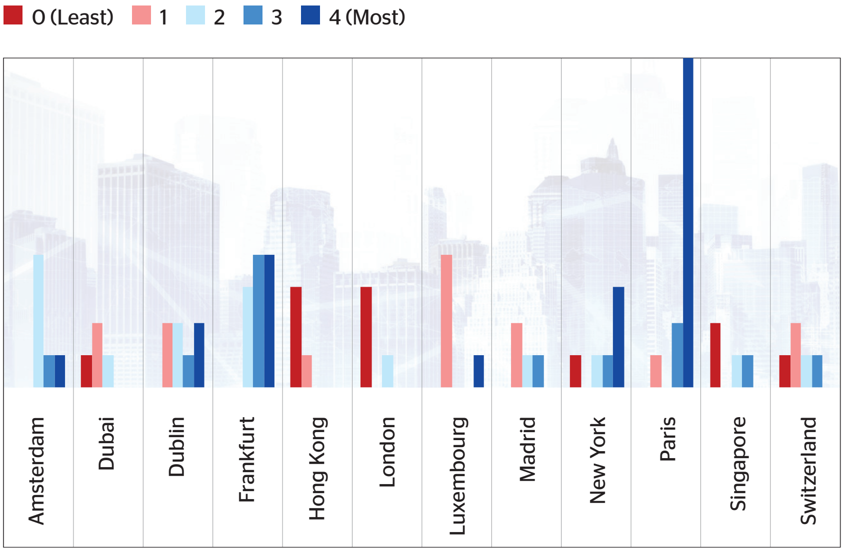
- Altered the balance of power between regions, to Asia's advantage
- Set back progress in emerging markets
- Further socialised markets, so people expect governments and central banks to prevent crashes and recessions
- Furlough pay will become a regular solution to crises
- Companies and banks will spend more on social welfare for their stakeholders
- Working from home and reduced travel have radically altered sectors such as real estate, retail and aviation
- Strengthened international co-operation
- Weakened international co-operation
- Things will largely go back to how they were before



Which of the following risks to DCM in 2022 are the most likely, and would have the most severe impact?

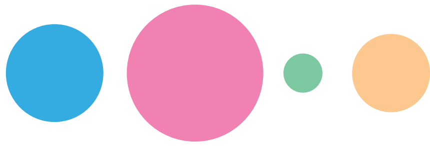


Which financial centres will benefit most from Brexit?



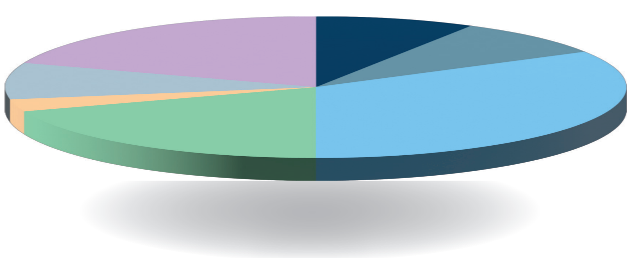
During 2021, front office capital markets staff continued to be shifted from London to European cities to meet demands from regulators in the wake of Brexit. How would you characterise the moves in your own firm?

- Relocations due to Brexit were mostly or completely finished in 2020
- Relocations due to Brexit were mostly or completely finished in 2021
- There will continue to be substantial relocations due to Brexit in 2022
- Future relocations due to Brexit cannot be predicted because they depend on the stance adopted by regulators



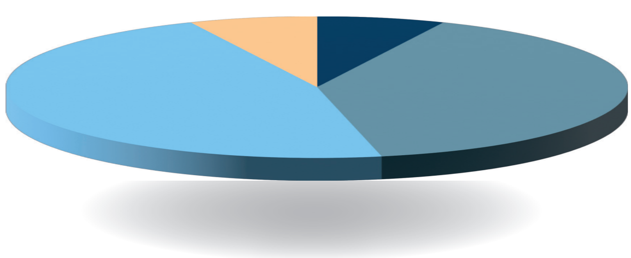
From which sectors can we expect the most debt restructurings

Energy · Leisure · Aviation and other travel · Cars and trucks · Real estate · Construction · Retail · Emerging market debt · Other



Sustainability bonds of all kinds are likely to hit $750bn in 2021. How much will be issued in 2022?

Less than $750bn · Between $750bn and $1tr · Between $1tr and $1.25tr · Over $1.25tr



Turning crisis into opportunity

The global pandemic has forced those working in finance to re-evaluate how they do their jobs — whether it be working more from home and not travelling as much on aeroplanes, or helping to foster more diverse and ESG-conscious workplaces. Some banks have also seen the crisis as an agent of change, to accelerate growth plans or implement new strategies. Eighteen months on from the beginning of the crisis, **Toby Fildes** looks at how successful they've been and whether they can make it stick

"Never let a good crisis go to waste." It's a phrase that has been attributed to many, including World War II British prime minister Winston Churchill, and Rahm Emanuel, former mayor of Chicago and US President Obama's chief of staff.

It's also a phrase used increasingly often in recent years, especially since the global financial crisis began in 2007. Now, the more optimistic in capital markets hope that Covid-19 will turn out to be the right-hand bookend to what has felt at times like 14 years of non-stop crises. The arrival of the Omicron variant might well dash those hopes.

For banks, like any other businesses, crises can present gilt-edged, once-in-a-lifetime, opportunities for them and their clients — just as they can also threaten the very existence of fabled institutions and markets.

The 2007-8 crisis was mostly a banking crisis, with the infamous demise of Lehman Brothers. But it was also an opportunity for Barclays and Nomura, which both swept up parts of Lehman, and for JP Morgan, which swallowed the tottering Bear Stearns and Washington Mutual.

Although JP Morgan chief Jamie Dimon has since admitted he regrets buying Bear (his firm had to pay nearly $19bn in fines and settlements after the crisis, much of it related to Bear and WaMu), his bank now sits atop global banking — it heads, or very nearly, all the key global investment banking and capital markets league tables, by volume and fees.

The coronavirus pandemic is a very different crisis: a health emergency that quickly became an economic one too.

For many banks, though, it was a chance to redeem themselves and be part of the solution, having been blamed for 2008 crisis.

Banks were the essential vessels through which governments and central banks pumped emergency liquidity into the economy. Demand for capital was so high, often through the rapid drawing down of revolving credit facilities, that many participants felt there were more deals than banks to do them.

Some firms took the chance to accelerate growth plans, hatch new ones and build businesses and client relationships faster than would otherwise have been possible. For some it was a rare opportunity to win back market share from the previously omnipotent US banks.

"You cannot grow without balance sheet — we are a bank after all — but you can't just be about balance sheet"

Conor Hennebry, Santander

Understandably, since it is a health crisis, banks are very careful when describing their 2020 strategies. "There's an enormous and important difference between opportunism and seeing an opportunity," as one banker says, keen to emphasise the sensitivity that now courses through his institution amid the devastation that Covid-19 continues to wreak, and following last year's terrible death rates. "One is akin to war profiteering, the other is being a good businessman."

As another says: "The way I see it is that if we are aggressively growing our business in a sustainable way in the middle of a pandemic — even potentially at the cost of rivals losing out — then we are supporting the economy and our clients at precisely the right time; when it is most needed."

Stand up

So who did step up and where — and has it been worth it?

Given that balance sheet was what clients really needed at the peak of the crisis last year, the syndicated loan market is a good place to start.

BNP Paribas was the number one bookrunner of European investment grade syndicated loans in 2019, with a total of almost €39bn of league table credit, according to Dealogic, and a market share of 6%. JP Morgan was the only US house in the top five (€27.5bn, 4.2%), although Bank of America was sixth (€24bn and 3.7%).

By the end of 2020 BNPP had extended its lead in spectacular fashion, having bookrun nearly €70bn of deals with a staggering market share of 10.7%. JP Morgan stepped up with €36bn but BofA fell to 18th with €8bn and a market share of 1.3%.

With an almost doubling of market share and lending, it should come as no surprise to learn that BNPP's 2020 loan market performance was deliberate. It had done it before, during the 2008 financial crisis and subsequent European sovereign debt crisis.

"In the previous crisis we made a very deliberate decision to extend our balance sheet to support our clients — and that resulted in us emerging from that crisis an even more meaningful DCM player, with a greater number of corporate clients," says Mark Lynagh, co-head of debt capital markets at BNP Paribas.

Bookrunners of European investment grade corporate loans

2019

Rank	Bookrunner	Deal Value (€ bn)	% Share
1	BNP Paribas	38.9	6%
2	Crédit Agricole	32.6	5%
3	UniCredit	27.9	4.3%
4	JP Morgan	27.5	4.2%
5	Société Générale	25.1	3.9%
6	Bank of America	23.7	3.7%
7	ING	23.6	3.6%
8	Barclays	21.5	3.3%
9	HSBC	20.8	3.2%
10	Commerzbank	18.4	2.8%
11	Natixis	17.3	2.7%
12	Citi	16.6	2.6%
13	Deutsche Bank	16.4	2.5%
14	Santander	15.4	2.4%
15	MUFG	12.7	2%
16	Nordea	10.5	1.6%
17	SMBC	10.1	1.6%
18	Mizuho	9.5	1.5%
19	NatWest	8.8	1.4%
20	Intesa Sanpaolo	8.7	1.3%
22	UBS	8.1	1.3%
27	Goldman Sachs	6.1	0.9%
33	Morgan Stanley	4.8	0.7%

2020

Rank	Bookrunner	Deal Value (€ bn)	% Share
1	BNP Paribas	68.3	10.7%
2	JP Morgan	36.3	5.7%
3	Crédit Agricole	35.8	5.6%
4	HSBC	29.5	4.6%
5	Société Générale	29.3	4.6%
6	UniCredit	26.4	4.2%
7	Santander	25.3	4%
8	Citi	18.7	2.9%
9	Natixis	18.7	2.9%
10	Deutsche Bank	18.1	2.9%
11	ING	15.0	2.4%
12	SMBC	12.5	2%
13	Barclays	12.2	1.9%
14	Commerzbank	12.0	1.9%
15	UBS	11.8	1.9%
16	Mizuho	9.1	1.4%
17	Goldman Sachs	8.8	1.4%
18	Bank of America	8.2	1.3%
19	Nordea	8.1	1.3%
20	Morgan Stanley	7.8	1.2%
23	MUFG	7.0	1.1%
24	NatWest	5.9	0.9%
26	Intesa Sanpaolo	4.9	0.8%

2021 to September 22*

Rank	Bookrunner	Deal Value (€ bn)	% Share
1	Société Générale	20.2	5.9%
2	BNP Paribas	25.0	7.4%
3	Bank of America	12.4	3.6%
4	Crédit Agricole	17.6	5.2%
5	UniCredit	17.4	5.1%
6	Santander	13.9	4.1%
7	JP Morgan	12.5	3.7%
8	Morgan Stanley	4.6	1.4%
9	HSBC	10.6	3.1%
10	Barclays	10.5	3.1%
11	Deutsche Bank	9.3	2.7%
12	ING	9.0	2.6%
13	Natixis	8.5	2.5%
14	Citi	7.8	2.3%
15	Mizuho	7.7	2.2%
16	Goldman Sachs	6.9	2%
17	Commerzbank	6.3	1.8%
18	SMBC	6.2	1.8%
19	MUFG	6.1	1.8%
20	Intesa Sanpaolo	5.5	1.6%
23	Nordea	4.2	1.2%
30	NatWest	2.6	0.7%
72	UBS	0.2	0.05%

Adjusted to exclude a loan for Vovonia that was cancelled and re-signed.

Source: Dealogic

This time, according to Lynagh, there was a variation on the theme: BNPP spied opportunities beyond debt capital markets. "Last year we were even more agile and holistic in our response," he says. "While balance sheet in the short term was of course very important again, we were well set up to provide thoughtful capital structure advice."

He goes on to explain: "The unfortunate situation last year played into our strategy; it accelerated what we were seeking to achieve — success from a co-ordinated approach between products and teams that enable us to offer our clients seamless (and neutral) advice across the capital structure, and notably a broader equity dialogue."

Head start

One bank that was arguably primed to respond to the pandemic, due in part to its role as a bridge between Asia and Europe, was HSBC.

"We saw this in Asia before it hit Europe," says Adam Bothamley, co head of global DCM at HSBC. "So we had already gone through a lot of the contingency planning in Hong Kong, for example, where we had to get everyone set up at home and make

"We were well set up to provide thoughtful capital structure advice"

Mark Lynagh, BNP Paribas

sure everything was working properly. We went very early from a European and US perspective as a result."

Besides sending bankers home and setting them up with the necessary technology, on a strategic level HSBC's response to the pandemic was to increase its focus on its core clients — something it had already been doing as part of a restructuring exercise but which was given added impetus by the crisis.

Spanish steps

Another bank that accelerated its plans was Santander. In 2019 it sat in 14th place in European IG syndicated loans, having led €15bn with a market share of 2.4%.

By the end of 2020, it had moved up to seventh with €25bn, a 4% share, having been as high as second, behind BNPP, in underwritten lending to large companies at the height of the crisis — somewhere it had never been before.

Like BNPP's move, it was an intentional one. "The reason we did that last year was that our ambition was to grow and deepen the relationships with our clients — and this remains our ambition," says Conor Hennebry, global head of DCM and European head of syndicated loans. "Balance sheet is a good way to start that off, although for Santander we actually started doing it about 10-12 years ago. The strategy of lending more is not new, it's just that we ramped it up last year."

But balance sheet, Hennebry says, can only get you so far. "If you are trying to build a business with just balance sheet there is a limit to how far you can go. We are at a stage of our evolution that we want to do more value-added business; hence you see us growing in debt capital markets; hence why even last year the most important deals we did in the loans world we underwrote — not just lent. So we underwrote deals for Shell, Daimler, Anglo American, etc. Just using the balance sheet is a bit of a trap. You cannot grow without balance sheet — we are a bank after all — but you can't just be about balance sheet."

Has the plan worked for Santander? To be fair, 18 months from the peak of the crisis is probably still too early to tell for sure. But Hennebry believes it has helped his business. "It's always hard to measure but I go to the meetings with clients and our credibility with them has changed a lot for the better," he says. "We are involved with clients right now where maybe our support last year changed their perception of Santander."

Although it is early days, the signs look encouraging for Santander. In

European investment grade corporate bonds, it finished 15th in 2019 with a market share of 3%, 12th in 2020 with 3.2% and in the 2021 table up to late September, it is ninth with a 3.5% market share.

Whether banks like Santander can make it stick is the big question. In 2020, many corporate clients were desperate, and banks were thinly stretched. Firms with the capital and will to expand could take advantage.

Competition is back

But the competition among banks for deals has returned to normal.

"Last year some firms retreated to their home markets to support their domestic clients cope with the pandemic — we definitely noticed some US and UK banks doing that, as well as lower tier European banks," says a senior capital markets banker. "But that's all changed. The aggression to win deals is very high at the moment — to some extent we are back to normal there. Last year there were perhaps more deals than there were banks to do them. Now we are back to a highly competitive position."

Banks that have made progress in the last 18 months will have to keep up their increased lending appetite if they are to continue progressing in other, more lucrative areas of capital markets and investment banking.

The end of September 2021 loan table shows Santander slightly bettering its 2020 performance, reaching sixth. But some of the biggest gainers are banks that did not shine in 2020. In Dealogic's official loan league table, as of late September, Société Générale and BofA had vaulted past BNPP to take the top two spots, while Morgan Stanley was fourth. Last year they had been fifth, sixth and 33rd.

Their rise is mostly due to one deal: Vonovia's €19bn takeover of Deutsche Wohnen. In fact, as the takeover has been complex, the three banks have underwritten two jumbo loans for it — but even taking out the second, smaller loan, which replaced the original €23bn financing, SG is top, BofA third and Morgan Stanley eighth.

Bond business has followed — even before the acquisition closed, Vonovia issued €4bn in June and €5bn in August, then the year's biggest euro corporate bond. BofA, Morgan Stanley and SG had the credits both times.

European investment grade corporate bonds

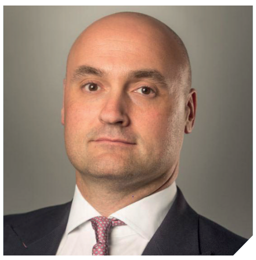
2019				2020				2021 to September 22			
Rank	Bookrunner	Deal Value (€ bn)	% Share	Rank	Bookrunner	Deal Value (€ bn)	% Share	Rank	Bookrunner	Deal Value (€ bn)	% Share
1	BNP Paribas	30.1	6.9%	1	BNP Paribas	40.1	7.2%	1	BNP Paribas	21.7	7.1%
2	JP Morgan	24.2	5.5%	2	HSBC	31.0	5.6%	2	JP Morgan	15.9	5.2%
3	Barclays	23.1	5.3%	3	Citi	30.9	5.6%	3	Deutsche Bank	15.8	5.2%
4	Citi	21.2	4.8%	4	JP Morgan	28.8	5.2%	4	Citi	14.9	4.9%
5	HSBC	21.1	4.8%	5	Barclays	26.7	4.8%	5	Société Générale	12.4	4%
6	Deutsche Bank	19.9	4.5%	6	Deutsche Bank	26.4	4.7%	6	Barclays	12.1	4%
7	Société Générale	19.7	4.5%	7	Bank of America	26.2	4.7%	7	HSBC	11.3	3.7%
8	Bank of America	19.6	4.5%	8	Société Générale	25.8	4.6%	8	Crédit Agricole	10.7	3.5%
9	Crédit Agricole	16.9	3.9%	9	Crédit Agricole	20.8	3.7%	9	Santander	10.7	3.5%
10	Goldman Sachs	14.6	3.3%	10	UniCredit	20.6	3.7%	10	UniCredit	10.1	3.3%
11	Morgan Stanley	14.4	3.3%	11	Goldman Sachs	19.6	3.5%	11	Bank of America	9.8	3.2%
12	UniCredit	14.2	3.2%	12	Santander	17.6	3.2%	12	Goldman Sachs	9.7	3.1%
13	NatWest	13.9	3.2%	13	NatWest	15.8	2.8%	13	Morgan Stanley	9.6	3.1%
14	MUFG	13.1	3%	14	Morgan Stanley	14.8	2.7%	14	ING	9.5	3.1%
15	Santander	13.1	3%	15	Mizuho	13.9	2.5%	15	Nordea	8.4	2.8%
16	Commerzbank	11.1	2.5%	16	MUFG	12.6	2.3%	16	NatWest	7.9	2.6%
17	Mizuho	10.5	2.4%	17	Commerzbank	11.9	2.1%	17	Mizuho	7.8	2.6%
18	Credit Suisse	10.2	2.3%	18	ING	11.5	2.1%	18	MUFG	7.2	2.3%
19	SMBC	9.7	2.2%	19	Natixis	10.2	1.8%	19	Commerzbank	6.6	2.2%
20	ING	9.6	2.2%	20	SMBC	9.4	1.7%	20	SMBC	6.3	2%
22	Nordea	7.2	1.7%	21	Credit Suisse	9.0	1.6%	22	Credit Suisse	5.8	1.9%
24	Natixis	6.2	1.4%	22	Nordea	8.2	1.5%	27	Natixis	3.8	1.2%

Source: Dealogic

Making a capital markets business thrive is not a one way street — you lend, you get deals. As all banks know, the lending relationship just gets your foot in the door. Once in the room, you need the skills to impress. When it comes to the market share-defining big M&A deals, close advisory relationships are the most telling factor.

Certainty of execution also rises in importance during a crisis, and in response to the initial shock of the pandemic, bankers say there was a "flight to quality" for this reason, as clients became more selective over the firms to which they entrusted their emergency fundraising.

As conditions have reverted to something approaching normality, that selectiveness has rolled back, though it rears its head again during periods and in markets where execution becomes more difficult.



"Since the peak crisis months, we've had a relatively long period of 'easy' market conditions"

Adam Bothamley, HSBC

"Since the peak crisis months, we've had a relatively long period of 'easy' market conditions, with the ECB buying significant proportions of eligible corporate deals, for example," says Bothamley at HSBC. "So markets have been calmer, which means banks are more confident and borrowers are more relaxed — the fear that we saw 18 months ago that drove issuers to rely more heavily on the biggest capital markets banks has dissipated. "Having said that, volatility still exists at certain points and in some markets, as we have seen in recent weeks. In such periods, having global visibility and cross-market presence becomes incredibly important in order to best advise clients on execution."

The banks that scrambled up during the crisis now need to build expertise and teams in high value products, if they are to achieve a lasting shake-up in the investment banking pecking order. GC

Capital markets professionals embrace flexible working

The office is back, but not as we knew it. By **Richard Metcalf**

One of the big advantages of working in an office is being surrounded by colleagues to bounce ideas off and check assumptions with, while generally enjoying the camaraderie of being part of a close-knit team.

But while many capital markets participants are now back in the office some of the time, they are not quite as closely knit as before.

In most offices, social distancing measures such as leaving a workstation empty between any two that are in use have now been abandoned. Even so, many bankers are choosing to take advantage of recently introduced flexible or hybrid work policies, meaning that rows of unoccupied desks are still a frequent sight in the background of Zoom calls.

And with concerns about Covid-19 variants, such as Delta and Omicron, remaining heightened, some are worried about the potential return of more restrictive measures.

"We haven't seen any significant spike or increase in terms of our UK staff and, to be honest, if people need to go back to working remotely, we can deal with that. It's not a problem," says a head of UK and Ireland corporate and investment banking at one firm. "What we would need to focus on more is the longer-term impact. Maintaining relationships between individuals and having a physical presence in the office is an important driver of innovation."

Banks have already had to cope with quickly changing situations and adapt their plans accordingly in recent months.

In the US, for instance, Wells Fargo abandoned a full-scale return to the office on Labor Day (September 7) because of a rise in the number of infections.

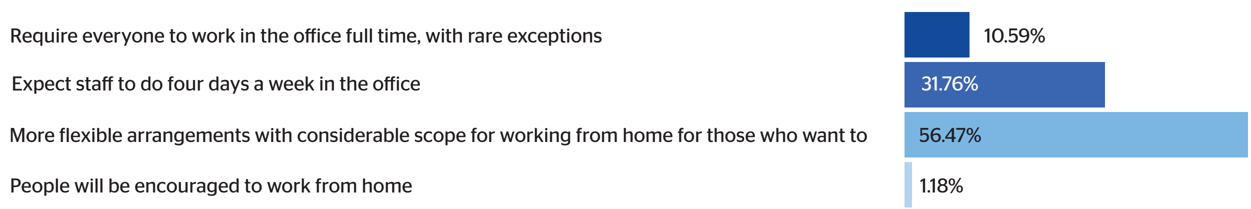
"Back in September, when we started to bring people back into the office, it was extremely positive," says the UK and Ireland country head. "People were really excited to come back in. It would be a shame to have to roll that back."

'Triumph for home working'

Indeed, capital markets professionals are, on the whole, longing to return to the office and normality. But most are also determined to make their newly-won flexibility to work at home a permanent feature of their jobs after the pandemic.

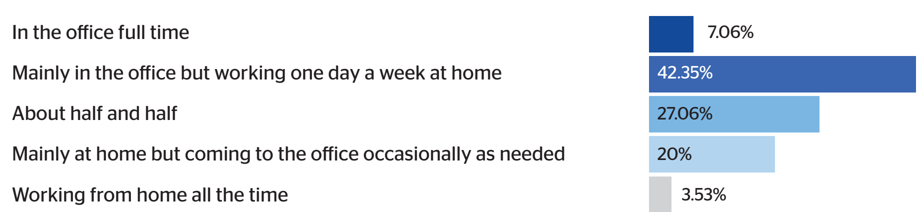
Despite the loss of personal interaction, the issuance of bonds and shares has arguably become more efficient than ever during the pandemic, with bond marketing taking place on a condensed timeline, while company management teams have been spared whole days of

What office/working from home policy do you expect your firm to adopt?



Source: GlobalCapital

For you personally, what would be your ideal office/working from home mix?



Source: GlobalCapital

international travel and the expense of putting on physical roadshows.

"What the pandemic has shown is that we are able to do what probably a lot of people didn't think we would be able to do remotely," a debt capital markets banker tells *GlobalCapital*.

"We did one transaction in July [2020] where we had all the investors working from home, all their swaps desks were working remotely, and all the banks were not in the office. In my mind, that is a triumph for home working, so I do think it's going to be much more widely embraced."

However, the stances taken on the topic by financial institutions' top management vary. While some, such as Citi and MUFG, have unveiled new hybrid working models to accommodate employees' desires, others have strongly encouraged, if not ordered, a return to pre-pandemic arrangements.

The latter approach is associated with the big US firms: JP Morgan's chief executive Jamie Dimon has said he expects everything to "look just like it did before", while David Solomon of Goldman Sachs has described working from home as an "aberration that we are going to correct as soon as possible".

'Hardcore'

But *GlobalCapital*'s survey of market participants conducted over the summer suggests that a degree of flexibility is likely to be available at the vast majority of banks, with less than 11% of those surveyed saying they expect their employer to insist that they work onsite 100% of the time.

Around 32% think that they will be asked to be in the office four days a week, while a narrow majority (56%) are looking forward to more flexible arrangements, with considerable scope for working from home.

These figures, which record respondents' expectations of what will happen, track fairly closely with what they thought would be the ideal scenario for their teams.

Just 9.4% think that having everyone back in the office all of the time will be for the best.

This minority view, unsurprisingly, is disproportionately prevalent among those people who have found a way to continue working from the office uninterruptedly throughout the pandemic.

"The people who stayed in the office are, I would say, hardcore and will tell you, 'we don't want to work from home, it doesn't work,'" says one senior syndicate banker.

Across all respondents, however, the most popular option is to have a set routine with different staff coming in on different days of the week, which was selected by 36.5% of respondents, followed by leaving it up to individuals to decide, at 24.7%.

The difficulty of coming up with an all-encompassing policy is underscored by the large number of respondents (24.7%) who chose to give another answer, rather than pick from the pre-defined list.

Suggestions included making attendance on Monday and Friday optional; setting a limit for working from home of two days a week; and allowing some home working but less than one day a week.

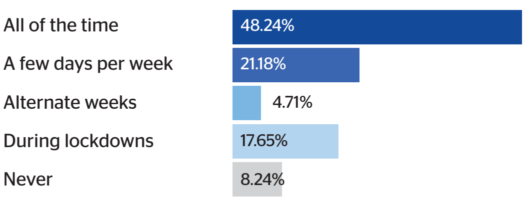
It also depends on the role of the individual within the bank. When Deutsche Bank spelled out its plans for investment bank staff to return to the office in New York, managers said that "risk takers" would probably end up working from the office full time again, while those in a supporting role might be able to enjoy more flexibility.

"We took the time this summer to go through all our teams and look at what is the right model," says the country head in London. "You'll find that, for example, there are some roles on the trading floors where we think there is strong value in people spending more of the time in the office. We looked at the nature of the job, whether it requires further interaction, but also the structure of the team in terms of seniority."

The senior syndicate banker agrees.

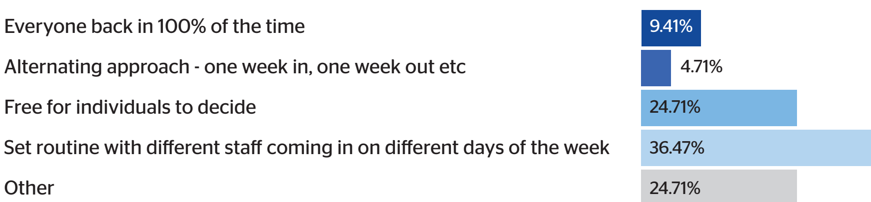
"I don't think it's a one-size-fits-all," he says. "There are

Over the past year, how often have you been working from home?



Source: GlobalCapital

When Covid-19 restrictions allow a return to normal working conditions, what will be the optimal way for your team to work?



Source: GlobalCapital

BayernLB – DCM success stories made in Bavaria

Lufthansa Group

November 2021
Senior Bond

Deutsche Lufthansa AG

EUR 600m	EUR 900m
1.625%	2.875%
Nov 2023	March 2027

Joint Bookrunner

DB

September 2021
Senior Bond

Deutsche Bahn Finance GmbH

EUR 750m
0.350%
September 2031
Joint Bookrunner

EnBW

March 2021
Senior Bond

EnBW International Finance B. V.

EUR 500m	EUR 500m
0.125%	0.500%
March 2028	March 2033

Joint Bookrunner

GATX

October 2021
Schuldschein

GATX Rail Austria GmbH

EUR 150m
Tenor 5, 7, 10 years
Joint Lead Arranger

DIC – ESG

April 2021
Schuldschein

DIC Asset AG

EUR 250m
Tenor 3, 5, 7 and 10 years
Joint Lead Arranger

October 2021
Schuldschein

City of Munich

EUR 400m
Tenor 8, 10, 20 years
Joint Lead Arranger

NatWest Markets

November 2021
Senior Op-Co Bond

NatWest Markets

EUR 1,000m
0.125%
November 2025
Joint Lead Manager

MünchenerHyp – Green

March 2021
Senior non-preferred Bond

Muenchener Hypothekenbank eG

EUR 500m
0.375%
March 2029
Joint Lead Manager

HYPO NOE

June 2021
Public Covered Bond

HYPO NOE Landesbank

EUR 500m
0.125%
June 2031
Joint Lead Manager

BPCE SFH – Green

May 2021
Mortage Covered Bond

BPCE SFH

EUR 1,500m
0.125%
December 2030
Joint Lead Manager

February 2021
Landesschatzanweisung

State of Rhineland-Palatinate

EUR 500m
0.010%
February 2028
Joint Lead Manager

January 2021
Landesschatzanweisung

State of NRW

EUR 1,500m
0.200%
January 2051
Joint Lead Manager

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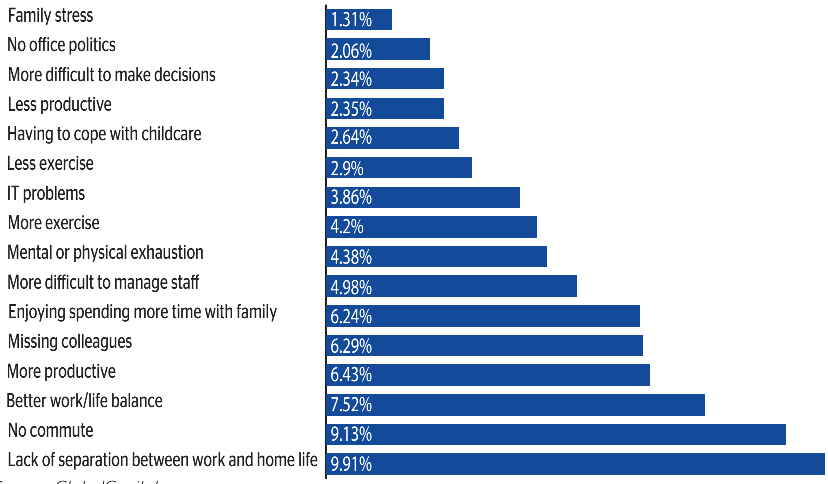
What have been the most significant effects of working from home?



Source: GlobalCapital

some jobs that are absolutely tailored to being executed from home, and some that can be done from home, but you are losing a lot of efficiency. What I'm doing, primarily, is one of them."

Cost-benefit analysis

When asked what would be the best set-up, not for their teams but for them personally, a slightly smaller proportion (7%) say that working in the office all the time would be ideal.

However, there is widespread acknowledgement that time spent in the office is valuable, as some 42% say that the best set-up for them would be working mainly in the office with one day a week at home, and a further 27% opting for a half-and-half split between home and office.

It makes sense that financiers would opt for a combination of home and office working, since they report a mixture of positive and negative effects of being forced to work remotely.

In some cases, the positive and negative impacts are difficult to disentangle. For instance, when respondents were asked what has been the most significant effect of working from home, the most common response is the lack of separation between work and home life — which many have blamed for burnout. However, the third most commonly chosen effect of working from home is a better work/life balance.

"I get up, I come to work, I work," explains an equity analyst who fits the description of the 'hardcore' office worker. "I go home, I don't work. Personally I've found that to be robust and I've found home working not to be."

Everyone could agree, though, that the elimination of commuting had had a big, positive impact.

Burnout

Somewhere in the middle of the list of consequences of remote working is mental or physical exhaustion. This is an experience that has been felt by some financiers but not others, with about 16.5% of survey respondents reporting no sense of burnout at all and a further 25.9% saying they were not particularly burned out.

That leaves 57.6% suffering from a level of fatigue ranging from "somewhat burned out" (35.29%) to "burned out" (11.76%) and "very burned out" (10.59%).

Conversations with bankers suggest that this has been a particular problem for junior bankers, who are likely to be living in more cramped conditions than their bosses and as a result may have found it more difficult to establish boundaries between their home life and work life while coping with what everyone admits has been a heavy workload.

Moreover, having individuals all working separately in their own homes has made it harder for senior bankers to detect distress and help juniors balance their priorities.

"If people were in the office, we would have a better sense as to how juniors were spending their time, on what they were spending their time, and how overwhelming it might have become," says a senior investment banker in New York.

"And when you're not all together in one place, guess what happens, right? You lose some of that connectivity."

Some banks have responded by stepping up efforts to ring-fence non-work time such as evenings and weekends and clamping down strictly on work being done during the two weeks of mandatory vacation.

"If you are replying to emails, we will notice that," warned a head of debt financing.

GlobalCapital's survey shows some support for extended time off, more advice on managing work-life balance and better monitoring by managers as ways to reduce burn-out, but the most popular option, endorsed by 71% of respondents, is a return to pre-pandemic working practices.

But this, presumably, does not mean a return to being chained to the desk five days a week and the dreaded concept of "face time" — a form of presenteeism where bankers feel obliged to be visibly in the office to prove that they are working.

Overall, bankers are optimistic about the future of working conditions in the capital markets after the pandemic. Three-fifths of those who answered the survey either agree or strongly agree that work-life balance will be better, while less than 10% disagree.

"We have learned a lot during the past 16 months," says a London-based head of capital markets. "We have identified both the benefits of working from home and also some of the weaknesses, and we have tried to put in place a new environment taking the best of the two." GC

Why business travel will not return to pre-pandemic levels

International business travel is not expected to return to the capital markets on the same scale as before the pandemic, for more reasons than one. By **Richard Metcalf**

Twenty months after international business travel came to an abrupt halt, it is starting up again. But bankers say there are several reasons why they will not be racking up the same number of air miles as before the pandemic.

For one thing, the fact that cross-border transactions have been executed perfectly well without anyone getting on a plane for almost two years shows that it can be done.

Issuers and banks that have saved on the cost of travel will therefore be asking themselves whether it is worth the expense to send bankers and management teams around the world quite so much.

Then there are the sustainability concerns. In an era when environmental, social and governance (ESG) investment criteria are at the forefront of everyone's minds, people are also considering the carbon emissions of all those flights.

For some, the pandemic has thrown the excesses of the past into sharp relief.

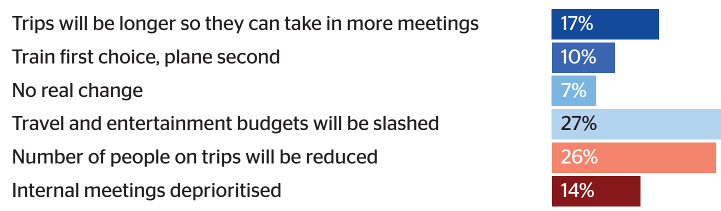
"Getting on a plane at seven in the morning to go wherever, you name it — Stockholm, Copenhagen — for one meeting, to turn around and fly home again, is a total waste of time," says a former banker who is now a recruiter. "And it used to happen every day!"

In *GlobalCapital*'s recent working life survey, respondents on average predicted that just over 55% of business travel would return after international travel restrictions were lifted, using 2019 as a benchmark.

Nevertheless, people working in the capital markets still see travel as an essential part of their jobs, even if it will be dialled back compared with the pre-Covid era.

One key business route re-opened on November 8, when the US lifted restrictions that had prevented non-citizens from visiting the country from Europe since March 2020. But more than a month before, at the end of September, the resumption of travel was demonstrated at the Global ABS conference in London, one of the first physical events to take place since the beginning of the pandemic. Attendees flew in from Amsterdam, Frankfurt, Dublin, Jersey and even Chicago.

How will travelling change?

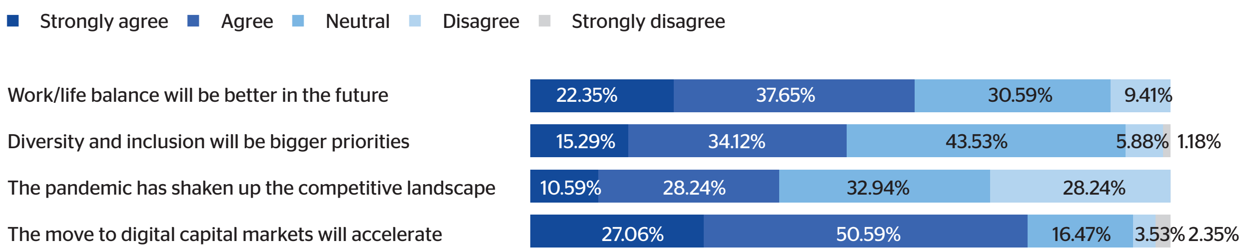


Source: GlobalCapital

When international travel restrictions are lifted, using 2019 as the benchmark, how much overseas travelling will return in the capital markets?

Source: GlobalCapital

How will the experiences of remote working and the pandemic shape the future of working in capital markets?



Source: GlobalCapital

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Shortly after that, Bank of America started to allow international travel for "important client-driven business" as long as it complied with local rules.

'Three levels'

Bankers have identified three main reasons why business travel, especially of the long haul variety, will not return on the same scale as before the pandemic.

"Certainly we are not going to come back to the level we had beforehand," says a senior syndicate banker in London. "There are three levels: firstly, the system has proven that you can work differently; secondly there is the ESG angle; and thirdly there is the cost component. I think they are all interlinked. But I wouldn't necessarily say one should go to the extreme and say the business doesn't need any face to face meetings and therefore doesn't need travel."

According to *GlobalCapital*'s survey, most capital markets participants thought that the biggest change to travel after the pandemic would be that budgets would be slashed, followed closely by a reduction in the number of people going on trips. Few survey respondents thought that there would be no change.

The number of flights that will be eliminated is difficult to forecast, but one example to point to is Mars, the confectioner and pet food manufacturer, which is planning to book 145,000 fewer flights a year as it cuts business travel by half, according to *The Times*.

> "Getting on a plane at seven in the morning, for one meeting, is a total waste of time"

Bankers tell *GlobalCapital* that their firms are not taking such a prescriptive approach, but that international travel will decline naturally.

"The budget, compared to what we were doing in 2019, will go down — that's a fact," says a second senior syndicate banker in London. "But it doesn't go down because the banks force us to travel less. It is going to be organic."

"If you are planning the budget for 2022, you need to have that conversation about travel and entertainment, because it has been a big cost portion before and will continue to be in the future," adds the first banker. "It will be lower. It's about the right balance, right? To be fair, you haven't seen your clients over the past 15 months — there is a bit of a catch up to be done."

Building back better

In the meantime, while spending on travel has been low, some bankers say their firms have invested the money they saved in improving the technology they use to conduct business virtually, such as video conferencing.

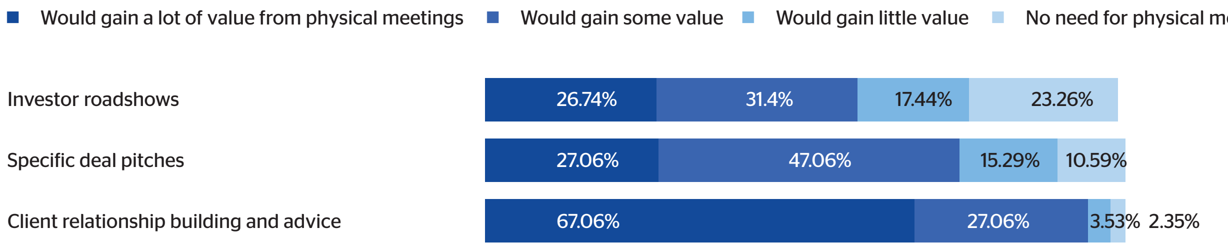
"We are certainly not going to save all that money and then throw the most lavish parties when we can again," says a senior debt capital markets banker in Frankfurt. "This money is now being spent on digitalisation, the projects we have that allow us to, in a way, replace and improve on aspects of physical meetings through digital services."

Such improvements in technology are part of what enabled the transition to executing capital and bond issuances remotely in the first place. However, the sudden reliance on tools such as Zoom and Webex exposed some of their weaknesses in areas such as cybersecurity — essential for high stakes transactions.

But even with the latest updates and patches, bankers say that there is still something about real life meetings that has not yet been captured by the new tech. Of the respondents to *GlobalCapital*'s survey, 67% say they think specific client relationship building and advice would gain a lot of value from physical meetings returning, and only 2.35% say they think there is no need for physical meetings with clients.

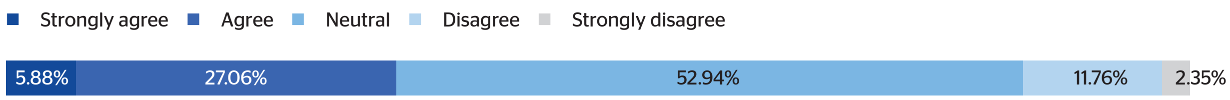
The picture is more nuanced with regard to investor roadshows, with 23.26% of capital markets professionals saying there is no longer any need,

Which aspects of capital markets interaction would gain value from physical travel resuming?



Source: GlobalCapital

Capital markets have had a good crisis. But how about you?
Has your career progressed faster than it would have otherwise?



Source: GlobalCapital

compared with 26.74% who say that business would gain a lot of value from in-person events.

"I think on the roadshow front, technology has showed that it could be very, very efficient," says the second syndicate banker. "But we will have a mix of two. It's good to have a group lunch sometimes, or some one-on-ones, because you have a feeling in a physical meeting that you cannot have on a Zoom call."

Event organisers are also experimenting with hybrid meetings, where some people attend physically and others through screens.

The London Stock Exchange and Barclays convened such a conference on September 30 in London — the Global DCM Forum. Not only were some of the attendees at that event "virtual", but so were some of the panelists.

There were even mixed panels where some of the experts joined via video link and the others were in the room. This went smoothly, with any small glitches comparable to the technical malfunctions that can just as easily happen at a fully physical event.

"I do believe that the future of how we convene the markets, from roadshows to large public events, is going to be very much like this," said Julia Hoggett, CEO of the LSE's exchange business, during her remarks at the conference, which she delivered in person. "To maximise the value of everybody's time, but also to minimise the impact of our carbon footprint when we're doing business."

> "You have a feeling in a physical meeting that you cannot have on a Zoom call"

Attendees at that event and Global ABS in London largely went unmasked, which may put more cautious market participants off attending. At a recent conference in Florida, a banker in attendance reported that masks were being worn, though this detracted somewhat from the experience.

"I was a little uncomfortable," says the banker. "I didn't feel great to be honest with you. You know, like it was just weird, right? Being in the hubbub with everybody just wearing a mask. It took a little bit of getting used to, but I'm glad I went."

Return of the roadshow

For roadshows, the second syndicate banker says a combination of group meetings at a single venue and virtual meetings over the internet could be effective and would cut down on travel time, compared to the old way of rushing around a financial capital in a taxi to meet every investor in person.

In September, the European Stability Mechanism embarked on a physical roadshow with stops in Paris, Frankfurt and Milan.

In an attempt to address sustainability concerns, members of the funding team walked between investors' offices rather than travelling by car. They also avoided getting stuck in traffic.

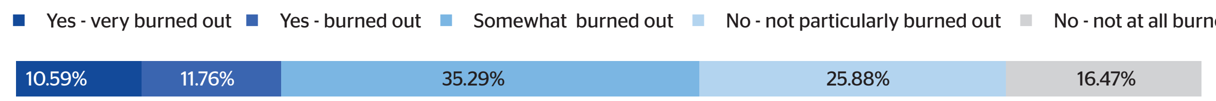
"When you were in Paris, you could do a maximum, realistically, of four one-on-ones in the afternoon, but then you were left stuck in a traffic jam," says the second syndicate banker. "Is it going to be more efficient to have a group lunch and then some Zoom calls or video calls? Yes."

Besides the practical considerations, there is another reason why bankers say they expect business travel to return, especially for client meetings: peer pressure.

"When Goldman Sachs and Morgan Stanley and co have started sending people to see clients, inevitably people will say, 'We've got to do it because Goldman Sachs is doing it'," says a fourth banker.

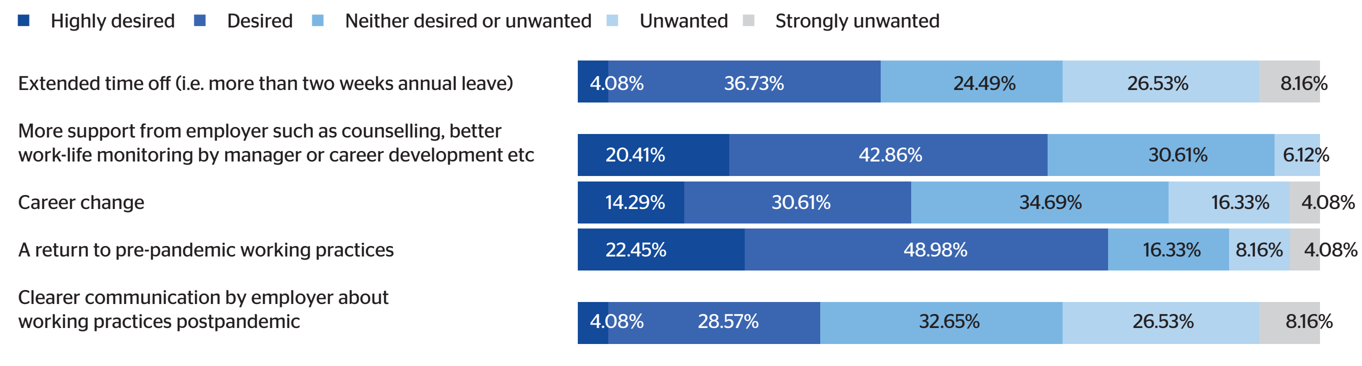
"Or when one company says, 'Well, that company went on a physical roadshow so we need to go on a physical roadshow,' of course it will start." GC

We've all had to get used to working in different ways. Often it has been at the expense of a good work-life balance. Are you feeling burned out after 14 months of lockdown?



Source: GlobalCapital

What would help you to avoid being burned out?



Source: GlobalCapital

Covid shines a light on finance's diversity failings

The stress and misery of coronavirus have been unequally distributed — forcing firms to work harder towards fairness. **Jon Hay** reports

One of the many unexpected consequences of Covid-19 has been an extra prod to the awareness among capital markets firms of the need to improve their performance on diversity and inclusion in their workforces.

It was not obvious from the start that things would go this way. Despite past disease outbreaks such as Sars, the coronavirus was essentially a new experience for banks and investment firms in Europe — a pandemic on a larger scale, closer to home and with much sharper consequences.

No one knew how individuals or firms would react. A threat like this could provoke a 'me first' attitude. In some quarters it has, such as developed countries stockpiling vaccines while poor regions, especially in Africa, have gone without.

The immediate imperative for every firm was to make sure it could keep operating effectively and within the law, with the vast majority of staff sent home for lockdowns.

But that swiftly took on a social dimension. "The first couple of weeks were about making sure people could work safely from home," says Anne-Marie Balfe, the talent leader for EMEIA of EY's financial services business. "Were people physically OK and could they work from where they were? Then very quickly we had a lot of individuals overseas, whom we were trying to bring back as the pandemic peaked. Then within a couple of months, it was: we know we can deliver, but we need to maintain the welfare of our people."

Right from the beginning, differences between organisations emerged. Rondette Amoy Smith, head of diversity and inclusion, EMEA at Nomura, says some firms had been less than diligent about making sure all employees were able to connect properly in lockdown. Knowing that Nomura was strong on this issue was a plus for her when she joined in March 2021.

Jobseekers considering a new company would ask, she says, "how was 2020 handled?"

Mental health at risk

The first big lesson from this physical health crisis was, counterintuitively, the need to pivot to awareness of mental health.

"For us and within our industry, looking after mental health became a much bigger challenge," says Balfe. "We have a very young workforce — some are living in shared accommodation, some individuals are isolated or struggling to find space to work. There's another group with young families."

A study published in *The Lancet* in October estimated that in 2020, the pandemic caused a 28% rise in serious depression worldwide and a 26% rise in anxiety disorders — an extra 53m and 76m cases, respectively.

Just as the Covid-19 disease touched individuals in an enormous number of ways, from severe illness and bereavement to no direct effects at all, the measures taken to control it also had starkly disparate results, depending on people's home circumstances and personalities.

"With Covid there has been a greater understanding among employers that the workforce is made up of people who are individuals with very different needs and ambitions," says Helen Beedham, a consultant who has spent most of her career advising City firms and other companies on how to improve their cultures and working practices. "People want and need different things, depending on demographics or age or their home life."

'Diversity', in other words, means more than pointing to a spreadsheet showing percentages of women and ethnic minority employees — it involves appreciating and valuing the differences between people and their varied needs.

That is exactly the message campaigners for D&I have been promoting for years.

"Are you checking yourself to ask 'am I asking for this person's opinion? Am I tapping into their skillset?"

Rondette Amoy Smith, Nomura

Covid also served to strip away defences for bias. "Because everyone was on a screen, proximity was no longer an excuse. Everybody was equally distant," Smith says. "So if, when you are in the office, you only tend to grab coffee with the people you went to school with, or who come from a similar background, now you are working from home, are you taking the opportunity to be inclusive? Are you checking yourself to ask 'am I asking for this person's opinion? Am I tapping into their skillset?'"

Moving up the agenda

In *GlobalCapital*'s recent survey on how practitioners believe Covid will change the future of working in capital markets, 34% of the 85 respondents said they agreed with the statement that "Diversity and inclusion will be bigger priorities" as a consequence of Covid. Another 15% strongly agreed, making nearly half altogether.

Virtually all the rest chose the 'neutral' answer, leaving only 7% who disagreed or strongly disagreed.

A new version of work-life balance

The attention is sorely needed. A study by Green Park, a recruitment firm, in February found that for the first time in six years of research, there was not a single black CEO, CFO or chair at a FTSE 100 company. Only 3.4% of these roles were held by people from ethnic minorities.

And fund data provider Morningstar reported in March that there were fewer women fund managers in the UK than fund managers called Dave.

Few in the capital markets now believe such statistics are acceptable. Beedham is convinced attitudes to diversity and inclusion have shifted particularly in the past two years, for a number of reasons.

"With the rise of ESG investing, employers are under much greater scrutiny around the 'S'," she says, referring to social issues. "Plcs are being judged by rating agencies and fund managers about their diversity and inclusion records."

Socially responsible investment is another field where the coronavirus has triggered progress, rather than a backlash. Investors are honing their ability to factor social issues into investment and risk management decisions.

This is influencing supply chains, too. In finance, issuers ranging from the International Finance Corp to Unilever have started questioning investment banks about their ESG credentials, as part of deciding how to allocate mandates for bond business.

Connected or alone?

Covid has contributed to making some social problems worse. In April 2020, Satya Nadella, CEO of Microsoft, rejoiced that "we have seen two years' worth of digital transformation in two months" as remote working mushroomed. On one day that month, more than 200m people joined Teams meetings.

But although digital connection has been crucial to enabling people to keep in touch while self-isolating, the technology can also start to shape behaviour.

Beedham is concerned about "e-presenteeism" — the tendency of employees to feel they have to be available online for excessive hours in the day. "We have also seen rising levels of loneliness and people not interacting in ways they are used to," she says.

Thirteen Goldman Sachs investment banking trainees shocked the financial world in March 2021 with a Powerpoint presentation describing the arduousness of their working lives. They rated their mental and physical health an average of 2.8 and 2.3 out of 10 — down from about 9 before they had joined Goldman.

One of the notable things about the episode was that for much of their time at the bank, these analysts had been working from home — supposedly a more comfortable environment where the worst excesses of old school investment banking culture should not have been able to penetrate.

Technology is at best an imperfect barrier to workplace stress — and may even act as a magnifier.

Some financial firms are aware of the dangers and have tried to tackle them proactively.

Beedham has heard of initiatives such as Zoom cooking demos and employees volunteering to read to a colleague's child online.

At EY, people had been making a special effort "to ensure we are checking in on each other", Balfe says. The firm has run mental health and resilience programmes, such as coffee catch-ups, team events and games and workshops on yoga and mindfulness.

It has also appointed mental health first aiders to refer people who are having difficulties. "You raise that level of understanding," says Balfe. "But we need to supplement it with changing behaviour from leadership."

Racial justice alarm

The pandemic has been different for every individual — but there have also been clear patterns.

In both the US and UK, people from ethnic minorities have been two to three times more likely to die of Covid than white people. At some stages and for certain groups, the risk was as much as five times higher.

At the same time, a string of killings of African Americans between February and May 2020, including Ahmaud Arbery, Breonna Taylor and George Floyd, sparked a worldwide wave of protests against racism.

"Prior to that, a lot of the work I did in D&I was on gender," says Smith. "In May 2020, because we were all stuck in our houses, everybody had to process it. Black men had been killed on camera for decades. These two things combined meant 2020 was a huge wake-up call across the world."

The pandemic and killings have both drawn renewed attention to racial inequality. "Social justice campaigns like Black Lives Matter and #MeToo have definitely hit companies' radars very hard," says Beedham. "A lot have come out vocally in support, saying the right things — but there's a big question about how it's backed up with meaningful action."

Companies and banks have had to examine their own records of equality for black and minority ethnic (BAME) employees and customers, and ask themselves if they could do better.

Smith argues that 2020 had been about understanding — educating people who had not confronted the issue to learn more about racism. "It was an 'aha!' moment," she says. "People would say: 'I had heard about these things but they didn't feel as applicable because it wasn't spoken about as much.'"

In 2021, she says, "it's 'what are we doing as organisations about our retention rates, about attracting top talent?'"

After "what happened in the US, with the murder of George Floyd and Black Lives Matter, we have seen a real focus on how we are supporting BAME employees to ensure we are providing the same experience," says Balfe. "There has been a big focus on that across many organisations — George Floyd and BLM have increased that very much, in the US and the UK."

How to do better

EY has examined all its processes, from recruitment and onboarding to "what is the lived experience of BAME colleagues, men and women," Balfe says. "We have looked through a process lens and also a behaviour lens — we have set goals for leaders. So we are using a number of levers."

Managers have targets for the diversity of staff they hire, and they are observed to see whether they bring employees of all backgrounds equally to meetings, and on whom they give feedback to.

Staff are surveyed several times a year on their experiences to assess whether different groups encounter the same opportunities and obstacles. The firm also holds focus groups.

"The lion's share of caring responsibilities tend to fall on women, so a lot of women opted out and left the industry entirely"

Anne-Marie Balfe, EY

Smith believes tackling racial inequity in banks starts with accountability. "It really starts from the top," she says. "You have to hold senior leaders accountable. They have got to convey the message to middle managers. The junior talent are on it — they are all on social media and are, for the most part, aware. And senior leaders do see the value of change. But often it's the middle layers that feel that crunch and pressure."

Training on D&I issues is important — but it should not just be a box to be ticked and then forgotten about. People have to apply what they have learnt on a consistent basis.

Nomura has renamed its employee networks 'inclusion networks', which sends a subtle message, Smith argues. It has launched D&I awards for staff and is recognising the unpaid work advocates do through the performance review system.

There is also an inclusion recognition programme, which lets people gain levels from bronze to platinum by participating in inclusion events — including even International Men's Day. "It's almost a fun competition," says Smith. "You get a badge, you can put it on your email signature so clients can see it."

Nomura is preparing a series of 'allyship toolkits' — free packs of information and resources available online to all staff to use at their choice. They will cover awareness of issues such as race, disability and sexuality.

"Sometimes people are afraid to ask a question," Smith says. "They are afraid to say the wrong thing. The toolkits will help people understand the terminology. There is also guidance on what to do if you do say the wrong thing."

One possibility Nomura is exploring is training using virtual reality. "You are in a person's shoes," Smith says. "You don't know who you are. You go to a series of events — you can feel the micro-aggressions. It's not until the end you realise that's what people really experience."

Brain drain

The pandemic may have raised consciousness of inequalities, but that does not mean it has made them better. At least in some respects, the reverse has happened.

"We saw a big exodus of women leaving financial services during the pandemic," says Balfe. "The lion's share of caring responsibilities tend to fall on women, so a lot of women opted out and left the industry entirely." As lockdowns have eased, she adds, there has been a wave of "people opting to change roles and careers".

EY's attrition rates are usually similar for men and women, but in the past 18 months there has been a slight increase for women. The firm is fighting back, with a drive to increase female recruitment to 50% at graduate level and 30% for partners, as well as improving ethnic diversity.

"It can be reversed, but it's going to take time," Balfe says. The firm has noticed women can take longer to go through deciding to accept a new job, so is guiding managers to take this process slowly.

Home or office?

Simultaneously, firms are grappling with difficult questions about the extent to which staff should resume office working after Covid.

In February, David Solomon, CEO of Goldman Sachs, said working from home was "not ideal for us and it's not a new normal". Morgan Stanley chief James Gorman told the *Financial Times* in June: "If you can go into a restaurant in New York City, you can come into the office."

Firms such as these believe direct, centralised contact is the best way to train recruits and share ideas. But workers' expectations have changed — and the issue interacts with questions of diversity.

"There used to be a real question about people working from home," says Balfe. "The challenge was: 'can I trust that somebody is doing their job?' The past 18 months have busted that open." There is now "a lot of trust", she says.

Part of employers' efforts to retain staff or win back those who left during the pandemic, especially women, involve organisations "signalling what they are going to do differently," Balfe says. "Hybrid working or a more flexible approach is a big initial signal" that the firm wants to "ensure women are getting the same access to roles as male counterparts".

EY is adopting a hybrid model. It will not expect staff to be in five days a week; some individuals will be allowed to work fully from home. Most will do two or three days a week in the office.

Nomura's hybrid system is based on organising in teams, so people know when colleagues will be in the office.

But working from home is no panacea. Beedham points to a study which found that, when both parents were working from home, for every three hours of uninterrupted work time the man had, the woman got one.

Covid did help here, in one respect. "Employers did see more clearly the role fathers play in home lives," Beedham says. This was making it easier for fathers to ask bosses to be understanding about their family responsibilities.

Beedham argues: "It's only when men get access to the same benefits and are culturally accepted as caregivers that women will be able to advance."

Data barriers

Progress on diversity is not just about numbers — but they are important. Since 2017 the UK has required all firms with more than 250 employees to report their gender pay gaps — how much women and men are paid at different levels of the organisation.

But tracking "stay gaps" — differing retention rates — for women and ethnic groups is also important, Beedham argues. Ethnic pay gaps do not have to be reported yet, but D&I specialists expect this to come.

Some countries' laws — for well-intentioned reasons — make it difficult to gather information on people's ethnicity or religion.

But firms need data on who gets hired and how their pay, careers and experiences progress.

"Although companies might be loudly proclaiming that they are inclusive, the actual experience once [BAME] people are in the door is that too often they don't have as much of a voice, or access to the same work opportunities," Beedham says. "So they aren't happy to stay, or they feel marginalised."

Careful research can help identify such problems and bring them to management's attention.

Culture shock

Perhaps the toughest question for capital markets specifically is whether firms can — or even want to — change their traditional culture of high pressure management and exceptionally long working hours.

Doing so could make them more welcoming places for women and people from backgrounds under-represented in the industry. It could also do much for the mental and physical health of all employees.

"In the last six months, some employers have been understanding that there's a disconnect between the working hours people want and what they had before," Beedham says. "They are realising they can't work people endlessly at full tilt and expect the same quality of output and positive relationship."

"The actual experience once [BAME] people are in the door is that too often they don't have as much of a voice"

Helen Beedham

This is about more than giving staff the odd perk, wellness seminar or extra day off, Beedham argues. Some firms have been extending flexible paid leave arrangements traditionally offered to parents to other staff, to help them balance their lives. But it also requires changes in "the way we work, week to week".

"It requires a mindset shift," Beedham says. "Business leaders are quite scared — they are afraid to let go of control. There are different ways of working which allow people more autonomy and control, which allow people to set their own boundaries. A better way can be to describe to people 'this is what we want to achieve' and give them more freedom to have influence over how they achieve it."

Balfe believes the pandemic "has changed the language we use around people, the level of awareness and comfort talking about mental health, resilience and the need for support. Gone is the stiff upper lip and putting a brave face on it. More common is people bringing their whole self to work — it's a very good and healthy thing."

Among leaders, she says, "there is a shift to being much more human and personal in the way you lead — to a more holistic approach."

The mood is changing faster than the substance. "Are hours going to change considerably? Probably not," Balfe says. "The workload is still there, deals have to be done, there are tight deadlines. But there's a little bit more flexibility in the system."

On many aspects of the social side of work in the capital markets, the past two years have been revelatory. Staff will no longer put up with what they used to accept as normal. Meanwhile, firms are realising the business benefits of inclusive working practices, in gaining a more diverse, engaged workforce that is more fully able to express ideas.

"I think the greatest piece is acknowledgement," says Smith. "We have a way to go and we are not perfect, but we will get there." GC

Market participants hail remote working as catalyst of innovation

One of the few positive things to come out of the Covid-19 pandemic is that it has given new momentum to the process of digitalisation in an industry that has sometimes struggled to move with the times. **Lewis McLellan** looks at how the capital markets have begun to embrace change

The digitalisation of the capital markets is a huge, laborious project that has been under way for years, with progress made incrementally against a backdrop of painfully slow cultural change.

However, most market participants that took part in our survey expect the pace to increase in the wake of the coronavirus pandemic, which upended ingrained working practices and forced banks to adapt, develop new approaches and fix old problems.

Digitalisation can mean several different things in the capital markets: replacing paper security certificates with electronic records; replacing the telephone with a software-based trading platform; replacing an investor roadshow with a series of video conferences.

Over the summer, *GlobalCapital* surveyed debt and equity capital markets professionals to discover how the pandemic had affected this trend, among other aspects of life in the markets. The survey showed that people expect the pandemic to speed up technological changes across the board, with 77% of respondents either agreeing or strongly agreeing that the process of digitalisation would be accelerated by the experience of working from home and working through the crisis.

Time to adapt

There are some obvious candidates for technological investment during a period of enforced remote working. Videoconferencing and screen-sharing, once the preserve of tech-savvy early adopters, have become must-have skills in the past two years, as banks have had to adapt to ensure they can continue to do business without in-person meetings.

However, the switch has not been without its pain points. Many market participants are still forbidden from using some of the most popular videoconferencing platforms because of internal data protection and cybersecurity rules, so meetings suffer delays because of the need to find a mutually acceptable medium.

The quality of digital conferencing services available in banking has certainly improved over the past year or two. But as is so often the case, the progress has largely manifested itself as a change in attitudes, rather than some technological leap forward.

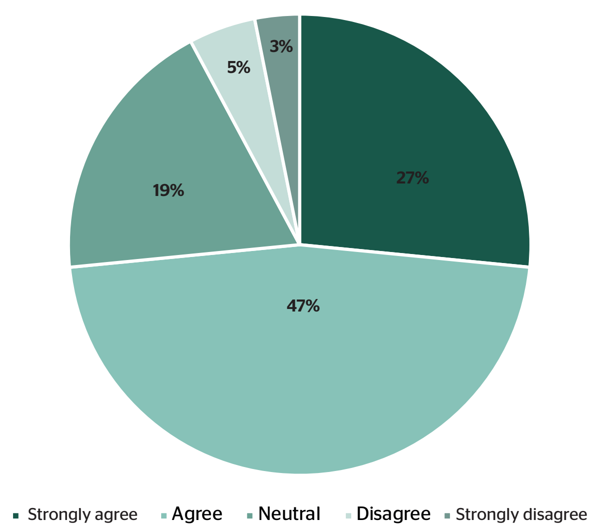
"I am not quite sure that those improvements are the result of technical developments on the side of the suppliers, or the know-how and readiness to use them on the part of the consumers, i.e. the investors, issuers and bankers," says a head of debt capital markets at a European bank.

Most people recognise that the increased willingness to accept digital alternatives to face-to-face meetings has made the capital markets operate more efficiently from a time and cost perspective. And there are signs that banks have sought to reinvest the hours and money that they have saved in further technological improvements, creating a virtuous circle.

"Hospitality, travelling, physical conferences and all that stuff are a

"Hospitality, travelling, physical conferences are a significant part of the cost structure?"

The move to digital capital markets will accelerate as a result of the experiences of remote working and the pandemic



Source: GlobalCapital

significant part of the cost structure of a DCM business," says the DCM head. "That's money that we have saved. We are certainly not going to save that money and then throw the most lavish parties when we can again. This money is now being spent on digitalisation, the projects we have that allow us to, in a way, replace and improve on aspects of physical meetings through digital services."

A financial technology company founder told *GlobalCapital* that they were able to pitch to more companies more easily since the advent of lockdowns because, by setting up video calls rather than going on a roadshow, they were able to get their demos in front of decision makers at banks much more quickly and with less planning and investment.

For many people, however, even the latest advances in remote working technology are no substitute for old fashioned in-person communication, especially between colleagues. "If you're not sitting next to someone, or shouting across to them, or visiting them at their desk whenever you need to, that makes some things less efficient," said a second DCM banker.

Build back offices better

But beyond virtual meetings, market participants report that the pandemic — and the surge in capital markets activity and complaints of burnout that accompanied it — have also accelerated changes behind the scenes.

"It's not just a question of videoconferencing," says Charlie Berman, founder of Agora, a capital markets fintech. "The pandemic has highlighted how manual so many of the processes in capital markets are, and how much work was required to keep them operating through the pandemic."

Fixed income fintech company founders are fond of pointing out that the last major technological innovation in the debt capital markets was the transition from fax to email in the 1990s. And while electronic modes of communication such as email and instant messaging fulfil an important role, they have been pressed into service for jobs to which they are ill-suited, the fintech evangelists say.

For example, bankers and lawyers use email to send term sheets and other bond issuance documents to colleagues within different teams or to counterparties. But because the data is not structured, all the terms must be manually transposed between the systems being used — a time-consuming and risky process.

"We have separate infrastructures for settlement, reconciliation, fund administration, custody, etc," says Brad Levy, the CEO of Symphony, a communications platform for banks. "They are all firewalled from each other and the only link between them is essentially email, which is a very shallow system that doesn't facilitate the workflow."

As a result, time is wasted and risk introduced by people having to manually transfer or "double key" data from one system to another, with little transparency built in.

"There has been over-investment in the front office, while back office systems are left antiquated," Levy says. "Our goal is to bring the workflow out of email, and into our platform where there are tools to make it more efficient."

> "There are manual processes handled through long email chains with no data structure"

Symphony enjoyed a usage increase in the hundreds of percent in the early days of the pandemic, much of which has stuck around.

"The pandemic has really made people aware of the need to digitise," says Robert Taylor, co-founder and chief technology officer of Origin, a capital markets issuance platform. "There are insanely manual processes handled through long email chains with no data structure."

The imposition of remote working on the bond market has also exposed the impracticality of even more antiquated practices, some of which are still encoded into law in some jurisdictions, such as the requirement for wet ink signatures on certain documents.

> "If you're not sitting next to someone, that makes some things less efficient"

Germany recently passed a law allowing bonds to be registered digitally rather than in paper format with a wet ink signature, but will need to pass more fundamental corporate law reforms for shares to be fully dematerialised. In Nordic jurisdictions, e-signatures are already commonly used for identity verification.

When teams were sitting together in the office, verification of hard copies with wet signatures was more practical, but remote working has made the need for change more urgent.

Brexit boost

In Europe, a major event that preceded the pandemic had already spurred moves in this direction, according to Origin's Taylor.

"Brexit actually kick-started some developments in this respect," he said. "Teams that were previously in London ended up being split between London and Paris and Frankfurt."

The pandemic has only added to the sense of urgency on the legislative and regulatory front.

It is difficult to garner support and resources to fix a system that already works, and the capital markets weathered the challenges of the pandemic remarkably well. But for those difficulties thrown up by lockdowns, the solution was often more or better technology, while the cultural openness to digital processes fostered by the experience of the pandemic is unlikely to fade.

Some steps forward taken during the Covid-19 crisis, such as the EIB's recent blockchain outing, would have happened anyway, sooner or later. But there is a strong sense across the capital markets that the experience of the pandemic has had a profound impact on attitudes to technology. The rate of change, as a result, looks set to accelerate. GC

SOVEREIGN SYNDICATED BONDS

What a difference a Pepp makes

Over the following pages, **Ralph Sinclair** looks at how three core capital markets have fared since the pandemic began, using our proprietorial Primary Market Monitor data to assess overall volumes, oversubscription levels, pricing movements and new issue premiums. The data gives, we think, a unique view on the bond market conditions that borrowers, investors and bankers have had to deal with over the past 18 months. Here we look at syndicated sovereign bonds

The *GlobalCapital* Primary Market Monitor records data that gives an insight into funding conditions in the syndicated primary bond market by gauging how well subscribed syndicated new issues are, what premiums issuers are paying and how much lead managers are able to move pricing during execution.

With data going back to the start of 2020, just before the pandemic hit, the swathe of central bank support embodied by the European Central Bank's Pandemic Emergency Purchase Programme (Pepp), which was announced at the end of that March, did enough to lower yields to ease governments' path to borrowing money in the public bond market. This is despite the sharp increase in sovereign borrowing requirements as governments sought to fund emergency spending to combat the socio-economic and medical devastation brought about by the coronavirus and subsequent lockdowns.

Western governments issued on average $22.6bn-equivalent of syndicated bonds per month in the three months until the Pepp and other measures were unleashed. Since then, they have issued on average $29.9bn-equivalent of syndicated debt each month up until the end of October. They have done it by issuing bigger deals, compared with pre-pandemic — on average 5.1 syndications a month since the end of March 2020 versus 5.7 before — and perhaps by paying barely any more new issue premium to boot, despite the uncertainty that has characterised the era.

The most popular maturity bucket for government issuance both in the first quarter of 2020 and since has been the seven to 10 year sector. Over five deals issued in this bracket before the Pepp was launched, Western sovereigns paid an average new issue premium of 1.7bp on each deal. Since then, they have paid average new issue premium of just 0.5bp more for the same product.

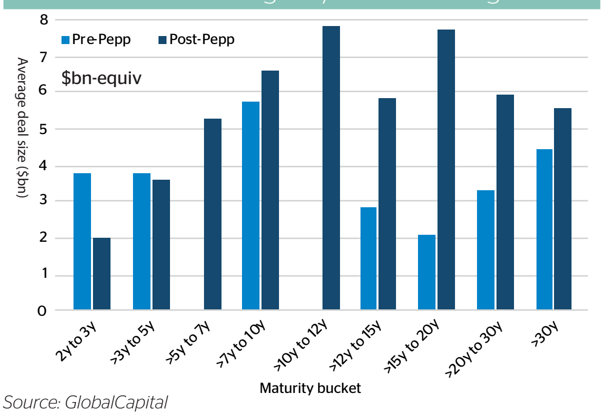
Demand has risen too — boosted by quantitative easing. For those same deals, the average oversubscription ratio was 5.6 times before Pepp and 6.7 times since. For syndicated deals of more than 30 years — bought traditionally by a smaller set of investors — the average subscription ratio has risen from 7.8 times at the start of 2020 to 9.4 times since.

But the data also suggests that sovereigns have been able to achieve bigger syndications at longer maturities since the advent of central bank pandemic countermeasures.

Western sovereigns raised, on average, $2.8bn with each syndicated 12-15 year deal done before Pepp: $2.1bn with each 15-20 year syndication, $3.3bn in deals of 20-30 year maturity and $4.4bn in anything longer.

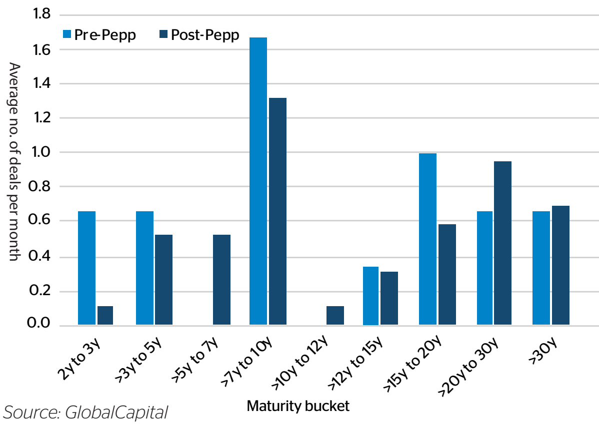
Since Pepp, those average syndication sizes have risen to $5.8bn, $7.7bn, $5.9bn and $5.5bn, respectively. That has also meant a fee bonanza for banks in the market, which have been mandated for more deals and of greater size and duration on average. Western sovereigns have paid estimated fees of €423m for their euro and dollar syndications so far in 2021, according to *GlobalCapital* analysis of Dealogic data. For the whole of 2020, when borrowing requirements surged in the pandemic, they paid an estimated €529m. That compares with €202m and €249m in 2018 and 2019, respectively. **GC**

Average syndicated deal size by Western sovereigns before and after the inception of the ECB's Pandemic Emergency Purchase Programme



Source: GlobalCapital

Average number of Western sovereign syndications per month by maturity bucket



Source: GlobalCapital

FIG SENIOR BONDS

Execution of syndicated senior debt normalises

For all the chaos of the pandemic and the extraordinary funding that central banks have extended commercial lenders, *GlobalCapital*'s Primary Market Monitor shows just how stable issuance has been for some banks raising senior public funding

Banks from the UK, France, Germany, Italy, Spain and the Netherlands have, overall, had a remarkably consistent time of it when it has come to syndicated senior issuance since the beginning of 2020.

They raised $95bn-equivalent of senior debt in public markets in euros, dollars and sterling in the first nine months of 2020. In 2021 so far, they have raised $97.9bn.

Yet that period encapsulates the wild volatility of the start of the pandemic as well as all of the extraordinary support measures that governments and central banks put in place to nullify the worst effects of the pandemic and lockdowns on bank balance sheets — keen as they were to avoid any of the liquidity and credit problems that drove the 2008 financial crisis.

But a closer look at the Primary Market Monitor data shows that banks from some countries had to offer greater spreads to entice bigger order books, even if the final price was by some distance tighter than the starting point.

Italian banks, for example, attracted on average orders of 3.1 times the deal size in the first three months of 2020, moving pricing — again on average — 24bp tighter during execution. This at a time when Italy was suffering far worse from the pandemic than other European countries.

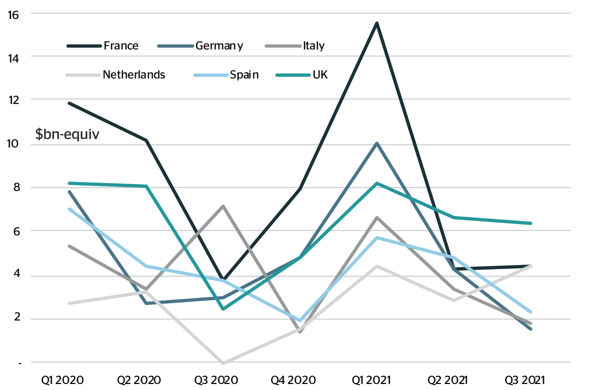
Demand in the second quarter fell relative to deal sizes, with the average senior deal just 1.8 times subscribed but with issuers still able to tighten by 26.3bp on average. Italian lenders spent the rest of the year starting at wider levels — tightening over 40bp on a senior deal on average — but achieving subscription levels over three times the deal size.

But in 2021, conditions have calmed down. In the third quarter, Italian lenders were able to tighten on average 21.9bp during execution, albeit achieving order books of just 2.2 times the deal size on average.

Of the five countries sampled for this article, average subscription ratios for senior debt syndications have been stable since the beginning of 2020 and the end of Q3 2021, hovering between a range of 2.3, attained in the third quarter of 2021, and 3.1, recorded in the final quarter of 2020.

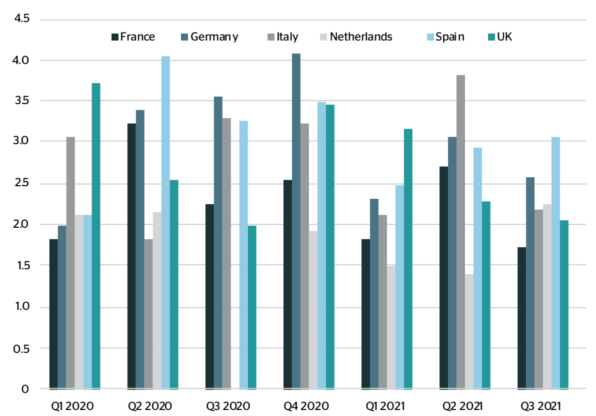
Pricing moves, overall, again now look a lot more like they did when the pandemic began. Banks sampled for this article were able to move pricing on their senior deals, on average 20.6bp during execution during Q3 2021 versus 18bp in Q1 2020 — although it was not stable throughout, with the average move touching 29.6bp during Q2 and Q4 2020. **GC**

Senior FIG bond issuance from selected countries in €, $ and £



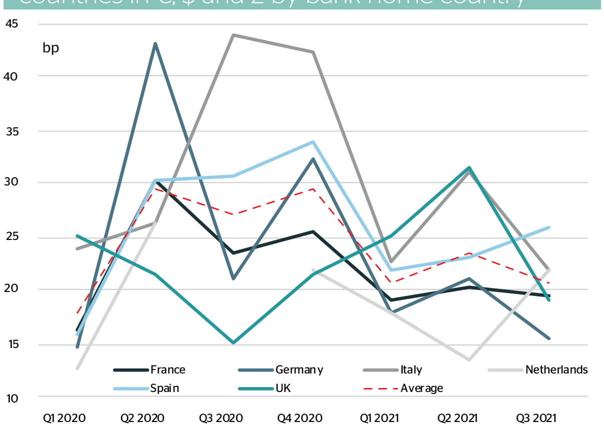
Source: GlobalCapital

Average subscription ratio of selected senior FIG bond issues from selected countries in €, $ and £



Source: GlobalCapital

Average movement from IPTs to reoffer spread of selected senior FIG bond issues from selected countries in €, $ and £ by bank home country



Source: GlobalCapital

CORPORATE BONDS

New issue premiums creep up in IG bonds

New issue premiums have been rising across Europe's investment grade corporate bond market over the past 12 months, *GlobalCapital*'s Primary Market Monitor reveals. Companies are paying up, despite doing smaller deals as demand slides

Such was the power of the European Central Bank's Corporate Sector Purchase Programme that, despite the uncertain economic outlook late in 2020, corporate borrowers paid, on average, a new issue premium of minus 7.5bp for a bond in November that year, when Primary Market Monitor began collecting data on the corporate primary bond market. This fell further to minus 12.5bp, according to the data, a month later but the figure has risen ever since.

As the economy has started to recover, demand for corporate debt, perhaps strangely, appears to be on the wane in Europe.

Shrinking deal sizes over the past year have done little to maintain price tension. The average corporate new tranche size was €684m in November 2021. It was €567m as of October 2021. There was a spike in August in the average deal size to €792m, but this was driven by a freak €5bn issue from Vonovia across five tranches.

Nonetheless, the average subscription ratio for corporate bonds has fallen. The average corporate bond was 4.7 times subscribed in November 2020. That had fallen to 3.8 times in October 2021 but had gone as low as 2.8 times in July.

That meant that corporate bond syndicates could not drive pricing tighter during execution as they once had. In November 2020, the spread on a new corporate bond was tightened on average by 36.9bp between initial price thoughts and re-offer. As of October, that was down to 23.2bp on average.

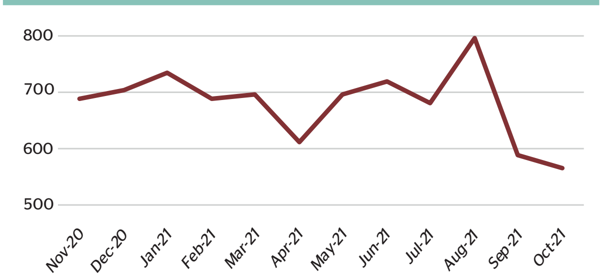
All of which has given corporate bond issuers impetus to pay an increasing spread to fair value on new debt throughout 2021 — a trend that may well accelerate as interest rates rise and monetary policy tightens.

From December 2020 to May 2021, the average new issue premium on a corporate bond rose by 20.5bp. That premium shrank a little over the course of the summer to as low as 0.9bp in July but it has since climbed to 10.2bp in October 2021.

Corporate bond bankers speaking in November blamed investor fatigue for the market's performance. Even ESG-linked bonds — before, the hottest product in town, which allowed borrowers to achieve large greeniums — were becoming harder to sell, with investors demanding a premium.

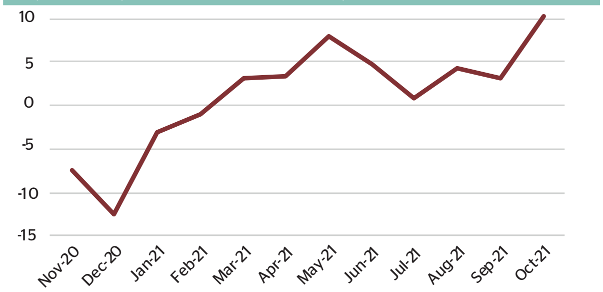
Market participants have blamed oversupply but Dealogic data suggests the market was quieter in 2021 than in the past two years. It shows that investment grade corporates supplied €359bn worth of bonds over 773 deals in the first 10 months of 2021. That compared with €482bn in 915 deals for the same period in 2020 and €373bn over 933 deals in 2019. GC

Average IG corporate new issue size (€m)



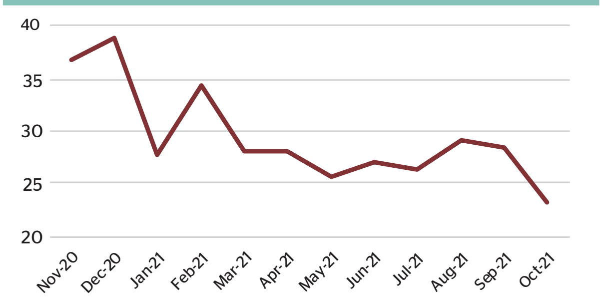
Source: GlobalCapital

Average new issue premium paid by IG corporate borrowers (bp)



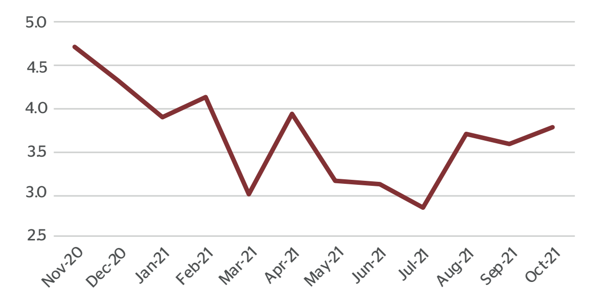
Source: GlobalCapital

Average move from initial price thoughts to reoffer spread in IG corporate debt market (bp)



Source: GlobalCapital

Average subscription ratio on IG corporate new issues



Source: GlobalCapital

Green bond explosion launches quest to understand transition

All strands of sustainable finance are booming. Use of proceeds and target-linked structures are invading ever more areas of debt markets, and even becoming the norm. There is much more to conquer — but as **Jon Hay** reports, the real battle is to help investors know an ambitious transition from an inadequate one

A few years ago, sustainable finance experts had got used to a feeling of frustration and disappointment. Their market was growing, but not fast enough for it to fulfil their hope: that it could help to finance the transformation of the economy.

That anxiety has vanished. Since 2018, growth has become exponential, helped by a spreading acceptance of the techniques and the creation of new ones, such as the rapidly growing sustainability-linked loans and bonds.

"I expect we will see another growth wave in sustainable capital markets in 2022," says Hans Biemans, head of sustainable markets at ING in Amsterdam. "Many issuers really want to jump on the wagon — ones that haven't issued before."

As *GlobalCapital*'s analysis of the top 100 European issuers in three sectors shows *(see table on p40)*, there are still plenty of organisations for banks to recruit to the sustainable finance banner, especially in the corporate world.

Bankers have begun to talk of a new metric: the share of issuance in a particular corner of the market that is green or sustainable. In several segments of the European bond market, that slice is now more than 25% *(see graph on p40)*.

"Common sense should be that the amount of sustainable investments is not endless," says Biemans. "The percentage of the overall market is now a bit too high. It was healthier when not more than 10%-20% of the market was green, because green bonds should represent high ambition."

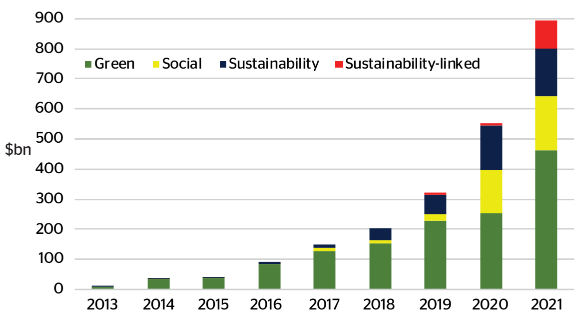
Many market participants have given up predicting how big the market will get — but they are sure it will produce novelties. Agnès Gourc, co-head of sustainable financial markets at BNP Paribas in London, says: "Innovation is iterative. There is what we know today and how we apply it to other types of financial instruments."

Asset-backed sustainability

Gourc is expecting an acceleration in sustainable securitization. "It has been discussed for so many years," she says, but deals remain few and far between.

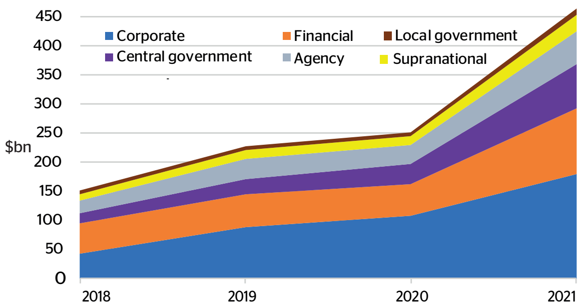
Potential issuers have lacked enough suitable green assets. But as data

Mushrooming market: green, social, sustainability and sustainability-linked bond issuance



Source: GlobalCapital analysis of Dealogic data

Green bond issuance: financials double, companies and governments quadruple



Source: GlobalCapital analysis of Dealogic data

improves about domestic energy efficiency and homes become greener, lenders will build up a critical mass of green mortgages. Eventually, this could become a vast pool.

The same applies to car loans. Before Volkswagen issued its first green bond in 2020, its head of treasury told *GlobalCapital* VW would in due course use green finance, secured or unsecured, for car finance "but first we have to have a big portfolio of loans".

In the first three quarters of 2021, it sold 293,000 electric vehicles, about 4.5% of total sales.

"In our market," says Gourc, "it's always chicken and egg — you need sufficient supply to have investors creating dedicated strategies. I find you can quite easily see when there is enough interest from issuers and investors for something to happen. It does feel like that is where we are."

It is not just about asset accumulation, however. Market participants are trying to work out which structures will work best — whether use of proceeds or sustainability-linked formats.

"There is a lot of questioning in the market," Gourc says. "A lot of banks and financial institutions do structure and lend sustainability-linked loans. What can you do with them?"

A CLO of SLLs — with full passthrough of the interest rate variability — is an intriguing prospect. But Gourc says "investors really need to have visibility on the SLLs. It's not straightforward. You need to have something fairly homogeneous — for example, are they all based on carbon emissions KPIs?"

Bank of China made an experiment in that direction in October, by issuing a $300m three year unsecured bond whose coupon can be adjusted up or down by up to 5bp, depending on the margin variations of a reference portfolio of SLLs. Investors were told only basic facts about the assets, but the deal was popular — proving that buyers will accept at least a smidgeon of coupon step-down.

Another difficulty with such structures could be constructing an argument that the KPIs are material to the issuer, and ambitious.

SLBs' unexplored potential

But the appeal of sustainability-linked bonds is undeniable. By the end of 2020, $11bn had been issued. In 2021 up to November 21, 126 issuers had sold $93bn — and they came from every continent and a remarkable variety of industries.

"Eleven percent of all the ESG bonds issued in 2021 have been SLBs," says Gourc. "The overwhelming majority is from corporate issuers, so the big question will be: do we manage to expand them to other types of issuer? A large number of banks and insurance companies have joined net zero alliances. They are all coming out with tangible targets. So there is a range of KPIs that are really material for those issuers."

Financial firms, on the whole, are very cautious about going public with short-term targets for decarbonising their portfolios. It still seems a stretch to think one would risk the even higher visibility of tying an SLB to such a goal. But Gourc says: "We do have a lot of discussions on it. To me, it's a question of time."

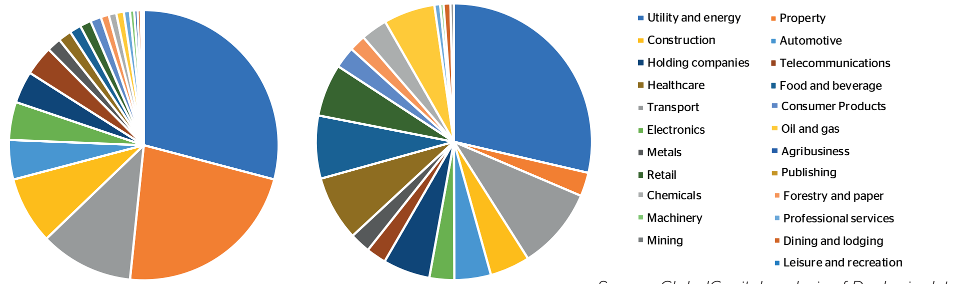
Sustainability-linked finance seemed simple when it was invented, but the more practitioners use it, the more paradoxes and conundrums it seems to throw up.

The central issue is the rigour of structures — how tough should the targets be, how much financial loss or gain should be at stake for borrower and lender, and what form of governance should keep the market honest.

Roland Mees, director in sustainable finance at ING in Amsterdam, predicts a flood of sustainability-linked and green loans. "We expect that sustainability-linked loans will become the new normal," he says. "There is increasing peer pressure on companies to convert their revolving credit facilities to SLLs."

But Mees is not rejoicing. "With growth of volumes there is also growth of risk of greenwashing," he says. "These concerns are real — lack of quality is definitely a risk, because in all these instruments you choose the KPIs. The large corporates

Corporate SLB issuance (right) in 2019-21 is much more diverse than corporate GSS issuance (left)



Source: GlobalCapital analysis of Dealogic data

especially have leverage over the banks, which have a commercial incentive to accept the deal."

He points to four weaknesses in particular. KPIs can address issues that are not very material to the issuer. Targets may not be ambitious enough — Mees has seen deals that require no more than what is legally obligatory.

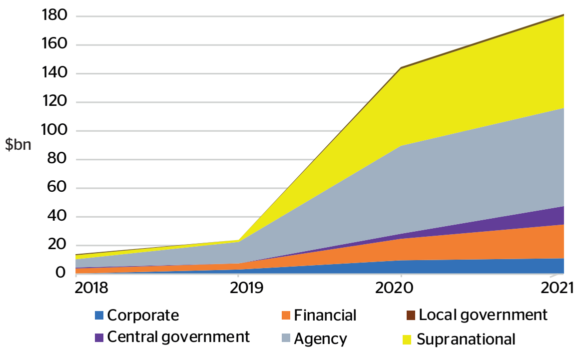
All the difficult issues, for example in decarbonisation, may be postponed, and only the low-hanging fruit tackled now.

The fourth problem, Mees says, is "a minority of transactions where the premium or discount is being donated to charity. We think that is entirely misaligned with the principle of banking, which is about risk. ESG and credit risk are increasingly aligned and overlapping. S&P now talks about ESG credit factors."

Any interest penalty should go to the lender, which may suffer higher credit risk if the borrower fails to hit its sustainability targets, Mees argues. Charity payments "disappear from banks' reporting as well," he adds.

"From a governance and transparency point of view, the bond market is ahead," says Mees — because bond

Social bonds: post-Covid growth coming from supranationals, financials, governments



Source: GlobalCapital analysis of Dealogic data

investors are at arm's length from the issuer and will do it no favours, and the market requires second-party opinions. "On the other hand, unfortunately the SLB standards require only one KPI, whereas in the loan market we try to keep up a standard of at least three, which leads to at least equally solid frameworks."

Mees is concerned that SLBs too often reduce discussion of sustainability to just greenhouse gas emissions.

Taxonomy tangles

The early years of green bonds were riven with anxiety about what was green. They still flourished, but the angst led to the EU driving a monster truck of regulation into the market. Front and centre is the Taxonomy of Sustainable Economic Activities.

Ironically, for an instrument designed to shed clarity and harmony, it has become ever more controversial and politicised. The outcome of wrangles between countries supporting the inclusion of gas, those backing nuclear power, and those wanting a "clean", more scientifically based Taxonomy will be central to how the Taxonomy is perceived and used in 2022.

As companies begin to report what percentages of their revenues and capital and operating expenditure are sustainable according to the Taxonomy, many difficulties and unexpected consequences may result.

"It could be positive or negative," Biemans says. "Companies will have the numbers at hand [on their green spending] to do a green bond or SLB. But if the percentages are very low, demand could dry up."

A car manufacturer investing heavily to build up electric vehicle capacity might have plenty of sustainable capex, he argues — other companies might have only 1% or 2%, or belong to industries not yet described by the Taxonomy. Time will reveal whether investors will expect green bonds to be, say, 50% aligned with the Taxonomy, 25% or will accept even less.

Seeking the right path

Most in the market still believe that, overall, the Taxonomy and other regulations are a good thing. "Three to five years ago we were all talking about the need for harmonisation and standardisation, but it was only talk," says Jacob Michaelsen, head of sustainable finance advisory at Nordea Markets in Copenhagen. "I'm very happy to see that we managed to follow up on that. Harmonisation and standardisation are happening all across the world."

He points to the creation of the International Sustainability Standards Board, which is going to devise a global set of disclosure standards — beginning to integrate sustainability metrics into mainstream accounting.

Such standards will be a huge win for sustainable finance. But they will only describe reality as it is — not how fast organisations should change.

This quandary, which underlies the whole question of what is green, has been brought into keener focus by the SLL and SLB markets. To answer it, market participants are not turning to the Taxonomy or planning to rely on the EU's promised label for SLBs.

"We've now had almost 15 years of green bonds, so every portfolio manager is quite familiar with them," says Michaelsen. "You can take a framework to any investor and they can stay with you for the majority of the discussion. We're not there yet with SLBs. For example, there are companies — such as dairy and meat processing or those where the use of their products require large amounts of electricity, such as mining equipment or elevators — which have 80% or 90% of their emissions in Scope 3. They can't do much about it. What is the share of your emissions you need to cover in SLBs? PMs are now starting to get to grips with all these nuances."

The tool lenders and borrowers are finding most helpful is Science-Based Targets. Launched in 2015, SBTs are an NGO-run scheme that assesses whether a company's decarbonisation targets are ambitious enough, for a company in its sector, to be in line with what scientists say is necessary. "In 2020, after five years, the SBTi finally got to 1,000 companies," says Michaelsen. "In 2021 we are already at 2,000. I expect this trend to continue on its exponential growth path."

Behind that figure is the fact that a snowballing number of company leaders are now trying to manage their organisations in a systematic way towards net zero emissions. This growth, more than green finance volumes, is a truer cause for hope that the much-talked-of low carbon transition is beginning. GC

Origination targets

	Central and local gov	Public and private finance	Corporate
Average annual bond issuance 2019-21	$1.2tr	$1.1tr	$0.66tr
Share of this by top 100 issuers (%)	99.5	80.8	56.3
% of top 100 issuers that have ever issued a GSS bond	41	77	42
% of top 100 issuers that have ever issued an SLB	0	0	5
% of this sector's total bond issuance done by issuers in top 100 that have issued GSS bonds or SLBs	80.4	72.7	28
Average annual issuance volume of 100th biggest issuer	$167m	$1.97bn	$1.47bn

Biggest 20 issuers that have not yet issued GSS bonds

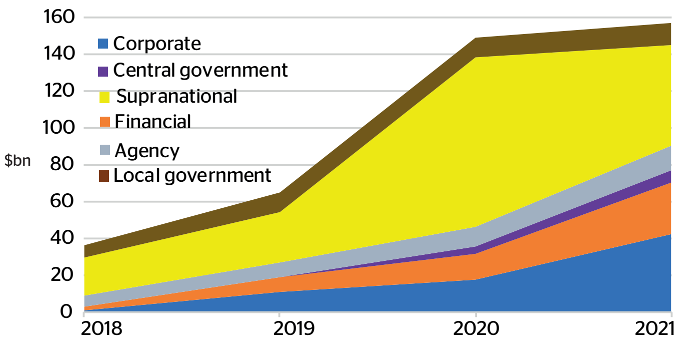
Numbers show issuer's rank in its category

Government		Finance		Corporate	
7	Turkey	31	AerCap	1	BP
9	Austria*	33	Pfandbriefbk Schw. Hyp'inst	2	BMW
11	EFSF	38	Nationwide Building Society	5	Anheuser-Busch InBev
13	Portugal*	42	Pfandbriefzent. der Schw. K'banken	6	Siemens
14	Greece*	45	L-Bank	9	Nestlé
16	Finland	49	Dexia	12	Altice
17	ESM	59	FMS Wertmanagement	13	Royal Dutch Shell
18	Lower Saxony	64	CVC Advisers	15	British American Tobacco
19	Romania	73	Erste Abwicklungsanstalt	23	Bayer
20	Berlin	77	Renault	25	LVMH
22	Russia	79	Aareal Bank	32	Stellantis
24	Rhineland-Palatinate	81	Apollo Global Mngt	33	Fresenius
26	Croatia	82	Investitionsbank Berlin	34	Glencore
29	Schleswig-Holstein	83	SBAB Bank	35	Volvo
32	Slovakia	84	Sberbank	36	AstraZeneca
33	City State of Bremen	86	LSE Group	38	Cellnex Telecom
36	Czech Republic	90	Banco BPM	39	GlaxoSmithKline
37	Cyprus	91	Carlyle Group	41	TDR Capital
38	Bavaria	94	Investcorp	42	Equinor
40	Hamburg	96	Banca Monte dei Paschi di Siena	43	Diageo

*have indicated that they will definitely or probably issue GSS bonds. Data for 2021 to Nov 21

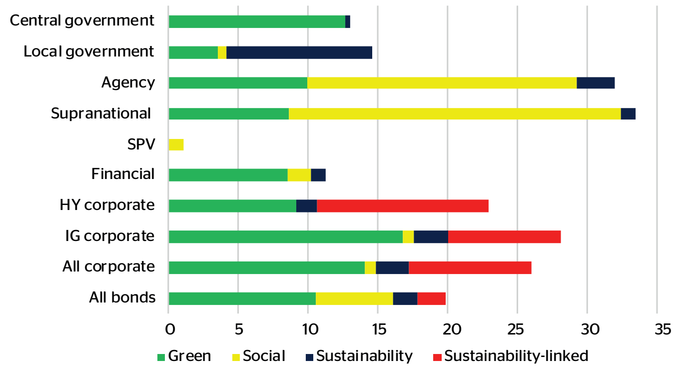
Source: GlobalCapital analysis of Dealogic data

Sustainability bonds: corporates, financials replace falling supranational issuance



Source: GlobalCapital analysis of Dealogic data

GSS bonds and SLBs are now a sizeable share of issuance in Europe. Data show % of each category's total issuance in 2021 (to 21 Nov)



Source: GlobalCapital analysis of Dealogic data

SSA bond deals of the year

In 2021, sovereigns, sub-sovereigns, supranationals and agencies continued to borrow heavily and rise to the challenge of supporting the global economy's response to, and recovery from, the Covid-19 pandemic. Of the deals themselves, there was an array of records broken and market firsts across formats and currencies.

Looking back over *GlobalCapital*'s bond comments for the year, our SSA team used its editorial judgement to pick the best deals of 2021. We strove to choose those that were not just the biggest, but that set pricing markers, were innovative and brave, or made an impression in other ways. Here, we present the winners. Congratulations to all the issuers and banks involved

SOVEREIGN BOND OF THE YEAR

France

€7bn 0.5% June 2044
BNP Paribas, Citi, Crédit Agricole, HSBC, JP Morgan

With this transaction, France introduced a novel way of tackling the challenge of inflated order books in eurozone sovereign syndications by having an open dialogue with investors (mainly fast money accounts) to make their orders more reasonably sized.

Spain and Italy should also be commended for attempting to contend with inflated orders. But they chose to bring spreads in aggressively, leaving little value for fast money accounts to stick around, resulting in colossal drops in orders.

By contrast, France's approach of engaging with investors during syndication showed a less volatile and more constructive way of dealing with the challenge, one which avoids unnecessary drops in order books.

SUPRANATIONAL EURO BOND OF THE YEAR

European Union

€20bn 0% July 2031
BNP Paribas, DZ Bank, HSBC, Intesa Sanpaolo, Morgan Stanley

To call the EU's debut bond under the €800bn Next Generation EU (NGEU) funding programme a blowout is an understatement. At €20bn, the deal was the largest single tranche syndicated institutional bond sale in history. Orders for the landmark trade topped €142bn, just shy of the €145bn book that the EU received for its debut SURE transaction in 2020 — a bond market record that still stands.

"The size of the deal is really a reflection of the pretty overwhelming support that came from real money investors," said a banker at one of the EU's leads. "When we went through the order book to set the size we were in a position where even for a €20bn size, the allocations were extremely harsh.

A head of SSA DCM away from the deal said the trade sent "a very strong signal" to kick-start the EU's NGEU issuance.

SUPRANATIONAL DOLLAR BOND OF THE YEAR

International Finance Corporation

$2bn 0.75% October 2026
BNP Paribas, JP Morgan, Nomura, TD Securities

IFC blazed a trail by becoming the first borrower to price a fixed rate dollar benchmark versus Sofr mid-swaps, rather than Libor mid-swaps in an important step in the transition away from the use of Libor in the bond markets.

The trade generated strong interest from investors and the leads found themselves fielding calls both from investors and issuers inquiring about the technical details of the pricing.

Several borrowers soon followed, pricing versus Sofr mid-swaps, which has now become unanimously accepted as the convention for pricing fixed rate dollar bonds in the SSA market.

IFC is also leading the way in other aspects of the transition from Libor. Since February 2021, for example, it has swapped all of its fixed rate issuances in all currencies into Sofr.

AGENCY DOLLAR BOND OF THE YEAR

KfW

$3bn 1% October 2026
Bank of America, HSBC, TD Securities

With a size of $3bn, KfW sold the largest ever green bond in dollars, proving demand is just as strong in dollars as it is in euros for green bonds. The final book size of over $11bn was also a record for the dollar green bond market.

Despite the size, KfW was able to price the deal flat to fair value or even slightly through its curve. The spread to US Treasuries of 5.25bp was also the tightest for a five year SSA dollar benchmark for 20 years.

"We've seen a lot of impressive green trades in euros and sterling, but not so much in dollars," said a banker at one of the leads. "KfW really capitalised there and showed there's a deep market for the product. For issuers that are skewed in favour of euros, this might give them the impetus to look at the dollar market for green funding."

AGENCY EURO BOND OF THE YEAR

BNG

€2bn 0.125% April 2033
Bank of America, DZ Bank, Natixis, Rabobank

This was BNG's largest ever sustainability bond and the first deal under its new sustainability bond framework, which has been updated to reflect the fact that the budgets of all Dutch municipalities are linked to the UN's 17 Sustainable Development Goals.

The deal came into a busy market, with EFSF, Eurofima and Ile de France also joining with deals, but BNG still managed to attract a strong reception, with the order book peaking at €3.5bn, allowing the deal to land flat, or even slightly through value.

SUB-SOVEREIGN BOND OF THE YEAR

Isle of Man

£400m 1.625% September 2051
Barclays, HSBC, Santander

The Isle of Man made an extremely rare appearance with its first bond in 20 years and just third trade ever as it sold its debut sustainability bond.

The deal was well received, with around £650m of orders from 60 investors — a vast book for an offshore island with a population of just over 83,000 — proving there is ample demand for sterling bonds with a socially responsible label.

At 1.625%, the sub-sovereign achieved the lowest coupon by any offshore island to date by some margin.

The deal provided a good backdrop for the UK's debut green Gilt, which followed a fortnight later (*see separate entry*).

RISK-FREE RATE BOND OF THE YEAR

World Bank

$600m February 2031 Sofr FRN
RBC Capital Markets, Wells Fargo Securities

With a maturity of 10 years, this was the longest-ever Sofr-linked floating rate note from a public sector borrower. The previous longest Sofr FRN from an SSA borrower was a seven year deal last year, which also came from the World Bank.

Since bringing the first Sofr-linked FRN from an SSA borrower in 2018, World Bank has set a number of landmarks for the product.

"Even in the days of Libor, a 10 year floater was an extremely rare trade, but we've been building out the Sofr curve, supplying significant, liquid benchmarks to help with the transition to alternative ibor indices," said the borrower.

The bond was tapped a few months later with strong follow-on demand.

SSA SRI BOND OF THE YEAR

European Union

€12bn 0.4% February 2031
Bank of America, Crédit Agricole, Deutsche Bank, Nomura, TD Securities

The European Union entered the green bond market impressively, bringing the biggest ever deal size and order book for a transaction in the format across any currency and asset class.

The EU priced its debut green bond flat to its own secondary curve but taking into account the new issue premium it would pay for a conventional bond, the EU and its leads calculated a 'greenium' of 2.5bp.

The European Commission has said it will seek to raise 30% — or up to €250bn — of its Next Generation EU (NGEU) issuance in green format, making it the largest green bond issuer in the world. This has led many market participants to believe it will become the main benchmark for the European green bond market.

SSA STERLING BOND OF THE YEAR

United Kingdom

£10bn 0.875% July 2033
Barclays, BNP Paribas, Citi, Deutsche Bank, HSBC, JP Morgan

The UK made a grand entrance into the green bond market with its debut green Gilt, which was at the time the biggest ever deal size and order book for a green bond, only to be beaten by the EU's debut a few weeks later.

Nevertheless, it was still an impressive transaction and important one for the development of the sterling socially responsible bond market, with many market participants expecting green Gilt issuance to spur other borrowers to issue ESG-labelled bonds in sterling.

The UK also achieved a 2.5p greenium for its debut green Gilt — the highest pricing advantage for a green bond versus a conventional deal from a high grade sovereign, beating the previous record by Germany, which paid a 2bp greenium in 2020.

Capital markets that are fit for the future

Looking back at 2021 means looking into a new chapter for the European Union: the renewal of the European promise. The EU has used the past year to gain sovereignty by acting together. Facing an unprecedented pandemic challenge, we managed to find an adequate answer: a record stimulus package of more than €2tr — boosting the long-term budget with the firepower of NextGenerationEU.

This allows us not only to react to the current challenges but also to anticipate the crucial transformations. Therefore, climate action and digitalisation are at the heart of our plans. We will invest more than half of the long-term budget and NextGenerationEU in future-oriented priorities.

A win-win for investors and the EU

With NextGenerationEU, the EU has broken new ground: it allows the Commission to issue bonds on a large scale — backed by the EU budget — to help the EU to emerge stronger from this coronavirus challenge. This is a game-changer on the European political landscape and it will make the EU one of the largest issuers in euros – amounting to roughly 5% of EU GDP.

The successful start of NextGenerationEU speaks for itself: the first issuances have been oversubscribed, and in less than 12 months we have raised some €170bn of long-term funding — with more than €100bn for our back-to-back programmes, including SURE, and €71bn for our flagship NextGenerationEU recovery instrument. We also initiated the EU-Bill programme, offering highly liquid paper — which is very useful for banks and institutions seeking a secure, short-term euro-denominated placement.

A funding programme of this scale — with up to €807bn in current prices to be raised between mid-2021 and 2026 — requires a state-of-the-art funding toolkit. The Commission has put in place a fully-fledged machinery to implement a diversified funding strategy, combining high flexibility with predictability. This includes the creation of a primary dealer network and a tailor-made auction platform for EU-Bond and EU-Bill auctions.

With NextGenerationEU, the EU's true value will further increase, as we lay the foundations for sustained growth in the future. NextGenerationEU will accelerate digitalisation and the climate transition on a continental scale. At least 37% of the national recovery and resilience plans will go to green investments, and 20% to the digital transition.

Capital markets' role in climate transition

NextGenerationEU reflects our political goals also in the funding strategy, as we will issue 30% of NGEU as green bonds. Our first green bond issuance in October was a success on many levels: The fact that it was 11 times oversubscribed showed the high demand for such an asset. And with €12bn raised, it was also the largest ever green bond issuance worldwide. As the EU is on track to become the world's largest green bond issuer, credibility is crucial. Our reference is the current well established standards of the market — the International Capital Market Association green bond principles.

Our NextGenerationEU green bonds allow investors to diversify their portfolios and thereby potentially accelerate a virtuous circle of sustainable investments. At the same time, it empowers Europe to strengthen its profile: it will help us to develop new technologies, create the jobs of tomorrow and ensure our role as first movers setting global standards. The boost that the green bond market should help other issuers in following this path and confirm the positive role that capital markets can play in meeting the climate transition challenge.

Enriching the capital markets

NextGenerationEU bonds demonstrate that the EU is not just using capital markets, but also developing them — as a look at the broader picture shows. The large-scale NextGenerationEU issuance ensures high liquidity at all points of the maturity curve, thereby fulfilling a key function for a new benchmark asset. This helps EU and global investors to build euro-denominated positions and price risk across the eurozone.

NextGenerationEU will give more options for portfolio risk management and increase the attractiveness of euro-denominated assets, benefiting all investors and boosting the international role of the euro.

The availability of such a new, liquid, high quality asset also provides an alternative to domestic sovereign issuance for banks' regulatory capital requirements. This reduces the sovereign-bank doom-loop and is thus strengthening the stability of the EU banking system.

Conclusion

NextGenerationEU is focusing — as its name promises — on the future. With this instrument, we are not only providing the required fiscal stimulus across EU member states to achieve a sustainable recovery, but we are — on a budgetary level — behaving as a good investor. We are strengthening the EU's green and digital transition and are thus sowing the seeds today, so we can harvest growth, jobs and prosperity tomorrow.

That makes investing in our union an excellent investment: we are spending our money for long-term ambitions, while our repayment matches this long-term horizon. The underlying message is clear: our union is here to stay — and we will contribute to enrich your businesses as well.

SSA market demonstrates strength and resilience

The European Union's €800bn NextGenerationEU borrowing programme captured much of the focus and attention in the sovereign, supranational and agency bond market in 2021 — but beyond the splash the European Commission made, many of the market's most frequent and well-established borrowers also stood out, harnessing deep and broad investor demand to help them innovate and fund successfully across their curves. As we move into 2022, inflationary pressures and monetary policy direction in the US, Europe and the UK, are high on issuers and investors' radars, but will these macro-risks disrupt the market? *GlobalCapital* discusses this, together with the key trends and developments that shaped SSA issuance in 2021, with some leading participants from across the market.

Participants in the roundtable were:

Siegfried Ruhl, counsellor to the director general for budget at the European Commission

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

Jörg Graupner, vice-president, treasury funding, KfW

Tom Meuwissen, general manager of treasury, NWB Bank

Mathieu Buehler, director, high quality liquid assets portfolio, treasury asset and liability management, UBS

Dietmar Hornung, associate managing director, head of the European sovereign team, Moody's Investors Service

Patrick Seifert, head of primary markets, LBBW

Richard Kemmish, moderator

GlobalCapital: Siegfried, the biggest success story in the SSA market in 2021 has been the European Commission and the massive increase in borrowing that you have had to do. Looking back, how does the outcome compare with the plan at the beginning of January?

Siegfried Ruhl, European Commission: At the beginning of 2021, we had an exciting and interesting challenge in front of us. In 2020, member states agreed on the NextGenerationEU (NGEU) recovery instrument as a tool to not only overcome the crisis caused by the pandemic but also to support the green and digital transformation of the European economy. NGEU is a sign of the European strength and solidarity.

Siegfried Ruhl, European Commission

As part of this, the Commission services — and its budget department in particular — were asked to design and implement a funding strategy and toolbox to finance NGEU from the capital markets. What does it mean in numbers? Up to around €800bn is to be funded over a period of 5-½ years, which means on average €150bn funding per year, and about 30% of the total will be raised in NGEU green bonds.

We had to find a way to make this possible, so we started to work on a sovereign-style funding strategy that included large benchmark bonds across the curve. We also added EU-bills as a new instrument to access the money market and had to work on a green bond framework to be able to issue NGEU green bonds.

In addition, we had to select and implement an auction tool to be able to do auctions, and this needed to be supported by a strong primary dealer network which we had to put in place. So, this was the ask at the beginning of 2021.

What has happened since then? We started with a primary dealer network of 39 banks, which has now grown to 42. Then in June 2021 we issued the first NGEU bonds, following that up with EU-bills and bond auctions in September. Finally, in October, we issued our inaugural NGEU green bond.

Looking back, all trades went extremely well, so it was a very successful year. This was only possible thanks to a great team here at the Commission, which was supported by seconded national experts from DMOs [Debt Management Offices] and thanks to a good co-operation with our peers who supported us in exchanging views and sharing experiences. I would like to mention here the ESM [European Stability Mechanism], the EIB [European Investment Bank] and the DMOs, who were a great help with this, as well as the ECB, which is running our accounts, and Banque de France, which helped set up the auctioning infrastructure.

GlobalCapital: For the other issuers, €800bn over 5-½ years — with 30% in green bond issuance — is a huge change to the environment for SSA bonds. As ESM was mentioned, Silke, I'll start with you. How has this influenced your funding plan? Has it made your job more difficult, or are there ways in which it made it easier?

Silke Weiss, ESM: We easily completed our quarterly funding needs, which are, compared with what the EU has to fund, relatively small; we have €16.5bn to do for the year for the EFSF [European Financial Stability Facility] and €8bn for the ESM. We also continued our activity in the dollar space. The ESM was again active in

US dollars, with one transaction. It's a strategic market presence we have in US dollars and we continue to be active in this space.

Looking at NGEU as a whole, it has really boosted an already well-developed market. It certainly created more focus from investors to this space that we are all benefitting from. And it definitely has been an accelerator and a great tool to have additional euro safe assets in potential portfolios for investors. All in all, I see this as a very positive development and not a negative.

GlobalCapital: Turning to you, Jörg, has KfW found that its funding has been influenced in any way in 2021 by the NGEU?

Jörg Graupner, KfW: The EU is only active in the euro market, while our funding strategy is based on a broader mix of instruments to achieve our funding target. Of course, our home currency is the euro, and the share of our euro funding is around 50% (€40bn in 2021), but we also issue in other currencies such as US dollars and sterling in public format, and in many other currencies via private placements.

Reflecting on the euro market, of course the EU influenced our activities. For instance, we had to navigate our primary market activities around the issues from the EU. But we found our windows, and very successfully. Importantly, the EU brought more attention to the euro market and we all benefit from it.

GlobalCapital: Historically long dated issuance has been a trademark of NWB Bank. NGEU has been particularly present in the long part of the curve. How has that affected you and, overall, what were your funding highlights of the year?

Tom Meuwissen, NWB Bank: The EU definitely did not have a negative impact on the market. We saw no distortion, which might have been expected due to the huge amount that was issued. As such, I think it was very well absorbed. In fact, I didn't see any impact at all on our own funding or on our pricing.

For us, we have a natural need for long-term funding due to our clients being long-term borrowers. In 2021, we were very successful in issuing ESG bonds at the long end, including 16 year and 25 year SDG [Sustainable Development Goal] housing bonds for €500m and €1bn, respectively, and a €500m water bond with a 30 year maturity. All of those deals were oversubscribed with tight pricing — sometimes even through fair value — so in that sense, they were all very successful indeed.

Overall, I think the impact of the EU has been very positive. I can't think of anything negative.

GlobalCapital: Silke, you had to cope with another uncertainty, which is the pandemic crisis support mechanism. How do you build in the flexibility to your funding for that uncertainty?

Weiss, ESM: It's correct that this uncertainty was there from 2020, when we implemented the pandemic crisis support facility. But this was not the only element that creates changes to our funding plan. I would highlight that, come 2022, and the treaty ratification of the ESM, we will also become the backstop of the SRB [Single Resolution Board], which may bring about changes in our funding plans.

For now, nobody has requested pandemic crisis support. The facility remains open until the end of 2022. However, it doesn't look like anyone will be needing this, given the cash and the liquidity that the Member States are getting from the NGEU instrument. So, it doesn't look likely, let's put it this way.

When it comes to the SRB, given that we are in the process of getting the ESM treaty ratified, nothing has happened yet. Our funding plans, which are published, remain unchanged.

GlobalCapital: Jörg, there a couple of very interesting developments in KfW's year to highlight. The first is the amount of ESG issuance in 2021 — essentially double that of previous years. The other development is KfW issuing a syndicated 15 year bond for the first time. What was the thinking behind both of those developments and how have they gone?

Graupner, KfW: Our green bond issuance was a very successful story in 2021. First of all, we can only issue green bonds based on the disbursements under the underlying loan programme and we were very pleased to note that the demand for the programme for energy efficiency was much higher than expected and much higher than in previous years. So that got us in the position to issue more than €16bn-equivalent in public and private transactions. In our entire funding mix, we were able to offer green bonds to a very broad spectrum of investors.

At the longer end, the current interest rate environment and the associated demand from investors made us chose the 15 year part of the curve in benchmark size. The bond was issued with a positive yield of around 38bp. It is worth highlighting here that we are a bank and not a sovereign, so our capacity to issue longer dated bonds is very limited. Our funding is closely related to the nature of our loan business and so we have to keep a narrow corridor on the tenor side. Ultimately, it was a good and very successful transaction for us at the longer part of the curve.

GlobalCapital: Mathieu, turning to you, how have your investment priorities/asset allocation decisions changed in response to 2021's developments in the SSA sector?

Mathieu Buehler, UBS

Mathieu Buehler, UBS: Two big trends you have already touched upon have had significant impact on our portfolio. First, we have continued growing our ESG direct investments substantially over the past year, which has been aided by the significant increase in ESG issuance year on year. Through this, the issuers with a credible and strong ESG framework and regular issuance will have gained in allocation, relatively speaking.

The second big trend in the market was a lot more challenging to us. Early in 2021, in particular, and until Q3, we saw many issuers tapping the primary market at the long end (10 year) of the curve, which became almost standard. By comparison we saw virtually no three year new issuance and only a few five year transactions. This has given us less opportunity to add through the primary market.

GlobalCapital: Dietmar, we have heard some very

positive things about the funding over the course of the year. From your perspective, as you look back at 2021, how do you see the SSA market overall?

Dietmar Hornung, Moody's Investors Service: In our view, 2021 has been a very successful year for SSA issuers in terms of issuance volumes, but also in highlighting the importance of the sector in fighting the pandemic situation.

When we look at European supranationals, there were no rating or outlook changes in 2021. The sector has proved to be resilient to the situation and we see stable developments with respect to capital adequacy, liquidity but also member state support.

We have already talked about the European Union and how it has changed as an issuer in terms of issuance volume. That said, we have maintained the Aaa rating with a stable outlook for the EU, reflecting the safeguards that are in place to secure the backing of its Member States — in particular the strongest members — notwithstanding the material increase in debt expected over the coming years.

Asset performance of supranationals has so far not been significantly affected by Covid-19. We will see whether such risks crystallise in 2022.

Overall, SSA is an asset class that, in my view, will gain further importance. It's also an asset class that in terms of credit profiles is very resilient, and European supranationals are typically very highly rated in either the Aaa or the Aa space.

GlobalCapital: Patrick, clearly the big story of the year has been the Commission. There has been a lot of debate in *GlobalCapital* and elsewhere on the point about whether we should treat it as a government or an agency issuer. Is that just semantics or does it make a difference?

Patrick Seifert, LBBW: I think investors have been answering this question for themselves by voting with their feet. If you look at the size of the deals and their order books, the reception has been extraordinarily strong. Siegfried mentioned the new instruments that have been introduced that certainly resemble the way that govvies operate. Let's face it, becoming the biggest green bond issuer globally is quite a statement. From this point of view, I think it is offering a very safe and extremely liquid reference that is filling a void.

Patrick Seifert
LBBW

Does the Commission remain temporary or are they a more permanent issuer? I think there is potential for them to be permanent, given the context of European integration, and EU capital markets union, for instance.

GlobalCapital: You mentioned earlier the very large order books. There have been some extremely large order books, some very heavy over-subscription. What would you say is driving that?

Seifert, LBBW: In the past, people complained when order books were too small, so from that point of view, it's a luxury having to deal with that. At the end of the day, as an issuer, you want to ensure your bonds end up in the right hands and you have good visibility about the composition of your order books. You cannot blame the Commission for being too successful. It reflects the strong confidence that investors have in Europe.

In addition, if you get involved in a lot of credit products, you need SSAs as they provide liquidity, stability, and they provide duration. That's a distinct quality of high quality SSA issuers. Last but not least, something that has become quite visible in the last couple of days, is the lack of high quality collateral because of the ECB buying. That has been a driver. That ECB buying has been providing a backstop for investors to get involved and make some money on a short-term horizon.

GlobalCapital: Siegfried, as Patrick quite rightly says we can't blame you for your success, but it's also important that the bonds end up in the right hands. You've seen some very spectacular oversubscription. How do you approach such a heavily oversubscribed book in terms of making sure that the bonds end up where you want them?

Ruhl, European Commission: Large order books in terms of volumes but also in terms of number of investors make it important that you know your investors. It's also important to be have a close and good relationship with your investors to be able to place the bonds in the right hands.

The general process is not affected by the size of the order book as it is also determined by the rules — you classify your investors, you set up allocation rules and you follow them. It was challenging at the beginning but also over time people got used to that.

So, overall, while the allocation of such large order books is sometimes challenging, it is good for the European market and while we have seen significant order books for our transactions, it's not only us. All European issuers have seen strong demand for their bonds, and this is a very positive observation in 2021.

GlobalCapital: Jörg, you've also seen some very nicely oversubscribed deals. What is your approach? And when you see these books, do you have a feel for how price-sensitive the book is?

Graupner, KfW: From a technical point of view, we now have around 50 more investors in our euro order books compared with the past. In total this means between 160 and 180 investors. Based on our own database, and also based on our conversations with our dealer banks during a transaction, we are able to categorise the investors and we are able to handle the bigger number of investors and the oversubscription very well. It would be wrong to misinterpret oversubscription as less price sensitivity — this is absolutely not the case. A new issue premium and/or a confidence to buy a bond with attractive performance prospects is one of the main drivers for investment decisions.

Weiss, ESM: Siegfried already mentioned, and Jörg summarised nicely, that it is a challenge — especially when the market is quite busy with lots of us out at the same time, even amid volatile markets.

I would add that it is really critical that you can allocate your investors in the proper way and that you need to know them. That means you have to know what their investment strategy is and why they buy at certain points of the curve. What we have worked on over the years is to establish a very trustful relationship and make sure

that everyone understands what the ESF and ESM stand for. By this I mean what we are doing at each moment in time, and that they know how we act, that they can trust us, and that we will allocate and price fairly.

In terms of the sensitivity, there are always investors who are more transparent in their orders and where they are willing to buy and where they will drop. I wouldn't say that anything has changed in light of heavily oversubscribed order books. There is more or less transparency, it's really down to the relationship we have with investors.

GlobalCapital: Tom, is it the same with the longer dated investors?

Meuwissen, NWB Bank: Allocation is mainly an issue with the ESG bonds as there is huge appetite for them and you are also less flexible in raising the size of your deal. When you do a normal deal and you say benchmark size and you have an order book of €4bn, then you can say 'OK' and issue €2bn. With ESG you are more limited because of use of proceeds format, so that can be a challenge.

On the price sensitivity, of course you can see that during the bookbuilding — which are at re-offer and which are limited — but actually from experience you know certain investors put a limit price on an order and then you tighten beyond that and they stay in the book or even increase their size, so you know how investors behave.

Allocation is definitely an issue. Sometimes it is not so nice — there is such quality in the book that you want to reward everyone for what they put in and that's not really possible.

GlobalCapital: Patrick, you've heard your issuers who have all had some very oversubscribed books and you've been involved in some very heavily subscribed transactions in 2021. What is your advice to issuers both on the day, and more generally, on their approach to this?

Seifert, LBBW: I would add a quick comment to what Tom said. Price sensitivity is a dynamic feature of an order book. It's not the case that because there is a number, an investor will stick to that. They might review their spread limit to the downside if the deal is going very well, and if they are optimistic that the transaction will perform in the secondary market. The opposite is true too, though, if their expectations become less optimistic. This is a crucial part of the order book and bookbuilding process and you need a lot of understanding of the rationale of investors to be reading between the lines.

In terms of advice, I think we've heard it from four issuers — this is about knowing your investor base and how you want to serve this investor base. Thinking about your investor base, understanding your investor base, and listening to your investor base is definitely the advice that has worked extremely well in 2021.

GlobalCapital: From an investor perspective, what is your approach when you know that a transaction is going to be oversubscribed? How do you manage your order?

Buehler, UBS: We have seen this quite a lot, particularly early in 2021 until Q3. First of all, as a real money manager, it's always real orders that we are putting in. To a certain degree I prefer to be in bonds that are seeing a lot of demand, that is a good sign for us.

GlobalCapital: For NGEU in particular, syndications have been well subscribed. But are auctions more effective? How do you arrive at the right balance between the number of deals you syndicate and the number of auctions?

Ruhl, European Commission: The right balance is not a static number. It can change over time. Auctions and syndications are two issue formats with different pros and cons, different risks and costs. Syndications have a lower execution risk; you place the bonds in larger volumes directly with the investor. An auction is quite an efficient way from an issuer perspective to bring bonds to the market. You support secondary market liquidity with an auction, as the primary dealers who buy the bonds then have to manage and warehouse the risk. It's quite cost-efficient, and the internal effort is small, yet you have a higher execution risk and usually you can do smaller volumes with auctions.

So, what is the right balance between auctions and syndications? It depends on your issuance needs and the market conditions.

We announced that we would have one syndication and one EU bonds auction per month as a general guide. What the balance will be volume-wise we have to develop over time and adjust it to our funding needs and the market conditions. We started just two months ago with the first bill auctions and the first bond auctions, so some time is needed to gain experience and find the right balance. We have to build what I usually call an auction culture for EU bonds. Sovereigns that are doing this have been doing it for decades, so we have to build this for the EU.

Silke Weiss
European Stability Mechanism

Weiss, ESM: I think what is really important when it comes to auctions versus syndications is that you manage the expectations and that you are predictable, and investors understand you. A bit of stability and predictability will be helpful. Then it will become much clearer how to read the EU and how to have this auction culture that Siegfried was mentioning.

GlobalCapital: Silke, you have long had a successful bill programme. How has that fared over the year? Has it been successful?

Weiss, ESM: As you know, the ESM mandate is to support euro area countries who might have lost market access and also in future to support the backstop of the SRB. So that means we have to raise money quickly in times when market conditions are more challenging, and we have to be very flexible in our approach. So, the bill programme helps us to fulfil our mandate. It gives great flexibility to access the market. Since April 2020, we have been auctioning bills in three different maturities. We have bills on offer at three, six and 12 months.

We see the recent very high demand in the auctions in the form of the bid/cover ratios but also in terms of record low yield as a sign of the strength of the market segment — particularly the interest over the term in the auctions that we have done. I can quote a few numbers here to put things into perspective. In 2020 the bid to cover ratio was 4.7, while in 2021 alone we are looking at an average of 7.5.

Why do we think that is? For me there are three main reasons. We have huge excess liquidity in the system, close to €4.5tr excess cash in the system. We have also had, with the Pepp programme from the ECB, a new maturity bucket that it is focusing on, so they are also buying the bill segment. And year-end balance sheet constraints are playing an important role here and in the search for collateral.

The segment is an old segment. We have been active for 10 years, we have added a new line, the interest is very strong and it cannot be ignored by an issuer.

GlobalCapital: **Dietmar, on the one hand, you are hearing the issuers talk a lot about their issuance and the options that they have and the oversubscriptions. On the other hand, there is an increase in the fiscal measures to fight the pandemic. How do you think of this in terms of the refinancing risk? Do you view it positively?**

Hornung, Moody's: Most supranationals have reacted to Covid in some form, either by increasing their lending or by repurposing their lending towards pandemic-related lending. We are seeing some who have large unused capital available and who are able to quickly scale up their lending. A few others received additional capital from their shareholders.

Dietmar Hornung, *Moody's Investors Service*

In terms of what they are doing, some have been preoccupied with pandemic response while others have been able to move to long-term resilience plans including climate action, such as the EBRD.

Overall, the importance of the sector has increased, as have issuance volumes. In terms of liquidity and funding particularly with the European supranationals, we don't see an adverse credit impact. We have a quite constructive view. It's a resilient asset class, and the market-implied ratings that Moody's calculates also speak to the resilience of the sector.

In a way, the pandemic has helped to transform the SSA sector. But in terms of our assessment of credit profiles and the liquidity situation, there is no real adverse effect.

GlobalCapital: **Tom, it's a constant complaint that you hear from banks about primary dealerships being expensive. Have you noticed any change to the amount or style of DCM coverage you are getting?**

Meuwissen, NWB Bank: No, not really. I can understand the attitude towards the primary dealerships, but for us, our annual funding need is normally between €12bn and €14bn, and we are probably a bit overbanked when it comes to that anyway. So, it's difficult to keep all of your coverage banks happy, especially in the current system; everyone is aiming for the fee-paying deals and those are the public deals.

In the arbitrage deals, you could argue that sometimes there is more risk for the banks than in the public deals. That always makes it a bit difficult in your attitude towards your banks. That is because normally banks see arbitrage deals as a step-up to a benchmark deal, and sometimes they give in — in the swap or whatever. But you don't know whether they give in, or how much they give in. When you do a lot of arbitrage deals with a bank, you think they are happy; on the other hand and at the same time they think they must be entitled to a benchmark as they have done so many arbitrage deals.

So, it's a bit of a grey area. In an ideal world all deals would be fee paying, then it would be quite simple and everyone might be happier with the deals they were doing. When you don't have that many benchmarks and you are overbanked anyway, how do you keep the crowd happy? That's definitely a difficult thing. I would argue for a change in the fee-paying system, but that's been talked about for some time already. I don't see it happening.

Ruhl, European Commission: To answer the question of whether a primary dealership is expensive or not, you have to look at the whole package of obligations and incentives each issuer is putting in its primary dealer system. We had the challenge or the opportunity to build something from scratch earlier in 2021 and we saw the issues that Tom mentioned in the current market practice. Some elements are non-transparent, and you are not able to assess what the real spending of the banks is.

We went for more transparency and decided that all syndicated deals should be fee-paying deals. In return, we reduced the fee table. This gives transparency to the market, to the primary dealers and to us and so far, it has worked well. We started with 39 institutions and we now have 42 members. We receive strong coverage from them, the auctions receive strong support. This concept has been working well for half a year now and we believe it will continue to work well.

Weiss, ESM: I can only add that we are working currently with 37 banks. It's quite a dynamic thing that we have noticed. For us the relationship is a very valuable one and it is very important; we benefit from the banks in that we get best practice advice and it helps us with our execution, so we value the advice, and we accept paying a specific fee.

Looking at 2021, we have seen more requests from different institutions to join our group compared with previous years. It shows how attractive the SSA market is that the focus of some institutions is returning to this space.

Seifert, LBBW: I would be outnumbered if I were to make a case for higher fees. And it is not the issuers' problem if there is overcapacity in the market. That is what we can see happening, leading to situations where banks compete very hard to get a share.

What I would highlight is that SSA issuers rely heavily on good quality execution. Making sure that your dealer banks are on their toes is key. Doing deals that are not immediately paying back can be a way of demonstrating such commitment.

As investment banks, there is a bundle of products and services that need to be delivered, and you have to look at the bottom line and decide for yourself if it is paying off or not. We all have to make sure that the cost structure is adjusted to where we can make a difference. Just being an additional number on some list of primary dealers, without a dedicated value proposition, is hard to remunerate at the moment.

Meuwissen, NWB Bank: You can hardly call it transparent. It is not very transparent. We even offer to pay fees on arbitrage deals and the banks don't want that, since they view it as a step-up to the benchmark. It's a bit strange.

GlobalCapital: Mathieu, Patrick talked about the bundle of services that banks provide. How important is this to you, and how would you characterise secondary market liquidity over the course of the year? Also, what can issuers and investment banks do to help that?

Buehler, UBS: It's almost a bifurcation of the market, depending on which side you are trying to engage. In SSA in particular, I have not seen any reduction in liquidity, rather the opposite — it's no problem to get very competitive bids from numerous dealers.

However, a lot of investors are looking for the collateral. Even when we see really good bids on bonds we are holding, we are reluctant to sell due to the lack of opportunity to deploy the cash afterwards. In addition, the lower yields and the tighter spreads haven't been very conducive to secondary market liquidity.

What can issuers and investment banks do to improve that? It's not a secret, coming with new issuance across the curve, and commitment to build curves. Building a diverse investor base also helps secondary market liquidity.

GlobalCapital: What can you do as issuers to help secondary liquidity?

Weiss, ESM: The secondary market starts with the primary market and the allocation, and if we have an influence there that's where we as issuers can make a difference. We are less frequent than we have been in previous years, but the frequency and the permanent activity of an issuer is playing an important role. The way that we look at it, being less active in the gigantic benchmark sizes allows us to look at opportunities to tap and therefore increase the liquidity by increasing the outstanding size. This is not always possible, and some investors reflect negatively on having to take down increases of outstanding lines. They prefer new lines, and they like the new issue premium.

We have the 37 banks in our market group, there is no market making requirement that we have as a rule, but any bank that you ask is happy to quote an investor a bid/ask price. As far as I understand, they are also quite tight. We do monitor our secondary market turnover. We have a harmonised reporting format, and we analyse it retroactively.

GlobalCapital: Do you think that many traders are working from home, and has that changed secondary liquidity? Or, for that matter, has working from home changed deal execution or advice even?

Weiss, ESM: The past 18 months have not been easy, and we have seen certain things evolve. On the first trade we had to do, we didn't pick the easiest of choices — we went for an intraday trade and a dual-tranche and we had heavily subscribed order books. We didn't make it easy for ourselves. We have to know how to use certain tools — everything is a little bit more familiar.

When it comes to secondary market trading, obviously they have to comply with rules. Our audit and our risk department make sure that they are not trading on their mobile, and that it is somehow recorded or done electronically. In that sense, trading electronically got a boost, and for an issuer that is easier to analyse instead of voice transactions. So, in that sense, we are in a transformation — it will be exciting to see how it evolves.

Ruhl, European Commission: Working remotely went surprisingly well. To build the NGEU funding machine, we had to create a new team, to on-board a number of new staff members and seconded national experts from national DMOs. All of this was done remotely. We worked in a teleworking mode while getting everything ready to be able to start issuing in June and we succeeded. Eventually, some of the colleagues only met physically after the summer break.

The challenge for the future will be combining physical return to the office and the flexibility of working remotely.

Tom Meuwissen, *NWB Bank*

Meuwissen, NWB Bank: I'm amazed how limited the impact has been, particularly on the execution of deals. You don't even know if a person is in the office or at home; the same goes for investors.

In the Covid period, I have had more investor meetings all over the world than ever before. Of course, sometimes it's less impactful, but it's definitely do-able. In the future, it will be more like a hybrid. I expect conferences to return physically, while more one-on-one investor meetings may remain online.

GlobalCapital: With the large increase in green issuance we are seeing, are we going to see oversupply in the sector? Importantly, are we going to see a decline in the greenium?

Graupner, KfW: Depending on the maturity, we will see more or less greenium. The shorter end is less supported by special green investors, which is what we see from our order books. At the longer end, the greenium will stay longer.

Buehler, UBS: It has been a big focus for us in 2021 already and, it will continue to be a big topic. We are actively trying to grow in that market. There is clearly a bigger and increasing allocation to issuers who have a credible ESG framework and issuance programme. It's a huge opportunity for the SSA sector in general. A lot of issuers since inception have set out with a purpose that is aligned to ESG policies, so they can credibly issue those kind of bonds. It's a good opportunity to grow the investor base outside the traditional SSA investors.

Meuwissen, NWB Bank: On the premium side, we can see that when you do a three year dollar deal there is less greenium then when you do a 25 year euro. More broadly, and in time, I think the issuers' whole operation will need to be ESG-aligned. You will, for instance, get an ESG rating on the whole organisation, which could act as an incentive to improve your ESG efforts.

GlobalCapital: Siegfried, you are very specific with your 30%. Is that influenced at all by the greenium?

Ruhl, European Commission: The greenium is not the reason we will be issuing green bonds; of course it is welcomed, but it is not the primary objective. The main reasons are the political objective to support the green transition and the willingness to demonstrate the Commission's commitment to sustainability on the funding side, thus further developing the European market for ESG investments.

Maybe Patrick, as a banker, will say "supply creates demand". The NGEU issuances gave a great push to the European capital market. I expect them to have the same effect on the green and more generally on the ESG part of this market. We already saw it with the nearly €90bn of SURE [Support to mitigate Unemployment Risks in an Emergency] issuances in the second half of 2020 and at the beginning of 2021, when the social bond market got a strong push. We would want to give a similar push to the green bond market.

So, 30% of our bonds will be issued as NGEU green bonds. It's an overall amount, not 30% every year. It depends on the eligible expenditures. Looking at it, 30% of around €800bn means that up to €240bn-€250bn will be issued as green bonds. This will support this market. This will attract investors and the demand side will grow at least at the same pace.

Seifert, LBBW: I think we are witnessing a firm commitment on the part of Europe, demonstrated by the green deal and a lot of other policy initiatives, including the post-pandemic fiscal measures. This stands out in a global context and will create opportunities in terms of ESG transformation.

By issuing in a sustainable format, you get access to the largest possible investor base. There is little doubt that this will get you a better outcome across your entire funding exercise.

I think the discussion around the greenium is more a thing of the past. I attribute that to the early days of discovery. Now that the major milestones have been achieved lately, I don't think this will be a specific part of the success of an individual transaction.

GlobalCapital: Dietmar, what are the upsides — and, importantly — the downsides, of the SSA market in terms of risk?

Hornung, Moody's: Our expectation is that we see a continuation of some of the key 2021 trends: SSA market resilience to increased issuance; and a further gaining in importance of ESG as a focus. Moody's is looking very specifically into that. We have published a framework to derive credit impact scores and issuer profile scores with respect to ESG considerations. We aim at publishing the respective scores for supranationals in early December.

GlobalCapital: Siegfried, you mentioned already the balance between syndication and auctions. In 2021 you very neatly issued a big bond on each point of the yield curve except the three year part. What can you share with us about your funding plans for 2022?

Ruhl, European Commission: We have established a sequence of six-month funding plans, and we will announce our plans for 2022 in December. Strategically, we will continue what we started in 2021. This means we will regularly issue new bonds, increase the volume of our outstanding bonds, and we plan to be regularly present in all parts of the curve, with one syndication and one EU bond auction per month, subject to market conditions and our funding needs.

Jörg Graupner, *KfW*

Graupner, KfW: We will publish our funding needs for 2022 after the board of directors meeting, which takes place on December 16. I do not expect large changes in our funding mix in 2022 compared with previous years.

Weiss, ESM: Our funding needs compared with 2021 will be slightly higher but not massively. We are looking at a combined target of €26bn, around €18bn for the EFSF and €8bn for the ESM. We will continue to be active in all parts of our curve through taps or new lines and we will communicate if there are any changes in the funding amounts or funding strategy through our newsletter in December.

Meuwissen, NWB Bank: It will be a bit more than in 2021 — €12bn-€14bn. We have in the past committed to have at least a quarter of our funding in ESG, but this increases to more than 40% of our funding in 2022. We have issued more than €20bn of ESG bonds already, so there is a strong focus there.

GlobalCapital: In one sentence or less, what is going to be the dominant theme of the SSA market in 2022?

Meuwissen, NWB Bank: ECB policy.

Buehler, UBS: Two major things: inflation and how transitory this will be; and ESG — it will be even bigger than in 2021.

Hornung, Moody's: Two topics: first, an increased ESG focus with sustainability and social bonds; second, an increased interest in the issuance of hybrid securities as well as balance sheet optimisations.

Graupner, KfW: The same answer as Tom. But more broadly than the ECB — the Bank of England and the Federal Reserve will also be in focus in 2022.

Weiss, ESM: Central bank policy will be a dominant theme, but I also think that the reshaping of fiscal rules in Europe will be on the agenda of policymakers.

Seifert, LBBW: We will keep a close eye on what is happening in France, the EU council presidency, and the French election. With all of the positive developments we have spoken about, I think there is a real chance that we will move a step further in terms of European integration, and that will be a key theme throughout the year.

Ruhl, European Commission: I hate to disappoint you, but I can't add anything to what has already been said. Central bank policy and the ESG market will play a dominant rule. We will not disappoint the market, we will offer attractive opportunities for investors and, when it comes to the ESG market, we will support the European market with NGEU green bonds. GC

SSA market steels itself for choppy times ahead

The SSA market has enjoyed a remarkably smooth run in 2021, but volatility is returning and tougher times are ahead, according to the results of a survey of public sector origination and syndicate bankers, undertaken by **Lewis McLellan**

The debate over fees in the sovereign, supranational and agency bond market was reignited in 2021 by the announcement that the European Union would use a different grid from the standard SSA fees model. Other issuers swiftly rallied round and said they also felt that the fees they pay are higher than they should be, particularly in light of the excellent market conditions enjoyed in the past few years.

However, most respondents to a widespread survey of SSA bankers, which *GlobalCapital* undertook in late October and early November, think that fees will remain unchanged next year. Nevertheless, a significant minority (some 37%) think fees will fall, rather than rise.

Bankers are swift to defend the fees they charge, pointing out that the range of services they offer goes far beyond the fee earning syndications. Indeed, with many expecting conditions to worsen in 2022, perhaps as a result of the Omicron variant, issuers may well be inclined to feel that bankers are working harder than usual to earn their keep.

Banks have, in the past few years, very rarely had to keep large residual positions on their books after execution, but with many in the market predicting a more challenging 2022, banks may well be called upon to use their underwriting capacity more frequently.

Almost three quarters of respondents to the survey say they expect the average spread SSAs pay versus Bunds, Treasuries or Gilts to rise in 2022, reflecting the fact that uncertainty is growing in the market.

The spreads achieved in 2021 have pushed through levels previously thought impossible, particularly in the US market, where several deals were able to price with a single digit spread to Treasuries.

"Spreads to Treasuries have been terrible this year," says one head of SSA DCM. "It's hard to see these continuing. There's simply very little room for tightening left."

Opinions are further divided on the question of whether, with volatility in the offing, issuers would prefer to frontload their borrowing to get ahead of their run-rate while conditions are good.

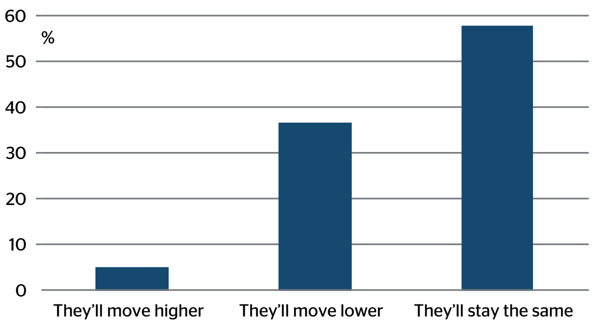
Around 37% say they feel issuers will do so more than usual. Some 21% say they will not frontload as much as usual, while the rest say that the usual amount of frontloading is most likely.

"The shorter, scarcer windows mean that there will certainly be competition among issuers, particularly at the start of the year, when borrowers want to get ahead of their run-rate," says Ben Adubi, head of SSA syndicate at Morgan Stanley.

Refinancing risk

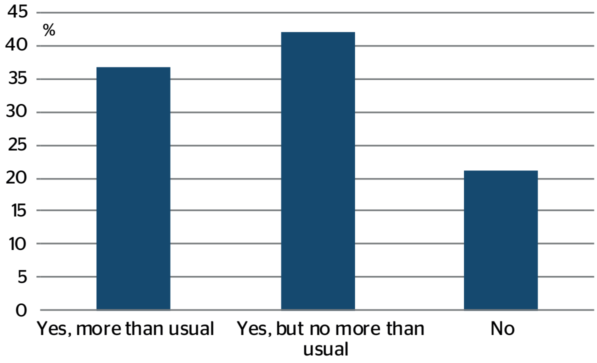
It is not just spreads that are set to rise, but as inflation returns, it seems likely that we will see absolute rates

Are you expecting changes in the SSA fee structure?



Source: GlobalCapital

Will sovereign borrowers continue to frontload supply as rate hikes loom?



Source: GlobalCapital

climb as well. If yields climb uncomfortably quickly — outstripping the recovery in economic growth — it is possible that countries may find it difficult to stay ahead of their refinancing obligations and, if the market shuts down their access, be unable to meet them.

Only a slim majority, some 53%, say that they feel it is unlikely SSAs will face refinancing risk. Around 37% say it is a possibility, with 10% marking it as a major concern.

Moody's has published a report highlighting that, while the economy of the euro area is recovering, the fact that European debt levels are so elevated "could become a challenge".

The ratings agency's overall expectations for sovereign creditworthiness are stable, relative to 2021, underpinned by the assumption that the ECB is likely to "retain its accommodative stance despite growing inflationary pressures". Sarah Carlson, senior VP at Moody's, says that this will "contain any increases in borrowing costs and allow some to refinance maturing debt at lower rates".

It's possible, however, that the substantial minority in the survey that are concerned about refinancing risk are thinking about those sovereigns with the most elevated debt levels.

"The ECB is likely to start reducing purchases," says one euro rates strategist. "But borrowing is coming down too, so overall, the situation is likely to remain similar — the ECB will absorb the vast majority if not all of net new supply."

Around 58% of the survey participants say they think SSA supply will fall by up to 20% in 2022 relative to 2021. Another 11% say they think it will fall by more than 20%. The rest mostly feel issuance will stay roughly the same, with just one respondent predicting a rise.

Dollar return

The euro market has outstripped the dollar market as a source of capital for SSAs for the past few years. Jamie Stirling, head of public sector DCM at BNP Paribas, says that he expects the dollar market to catch up somewhat in 2022.

"It was very much suppressed in 2020, with euros making up over 65% of the supply and dollars under 30% in the SSA sector," he says. "In 2022, we should see some more activity there."

Opinion in the survey is divided on the topic. Some 37% say euros will be the better source of funds for SSAs, while another 37% say both currencies will be equivalent. Around 26% feel that dollars will be the better source of funding.

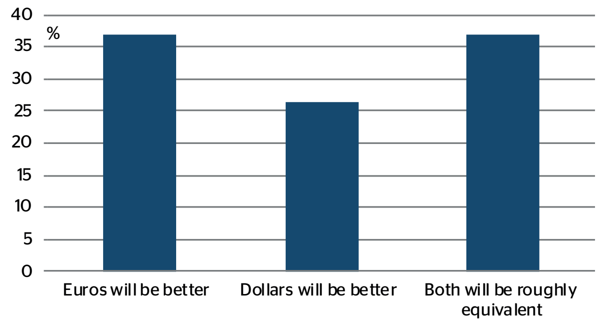
There is certainly room for the dollar market to improve even if it does not overtake the euro market.

The cross-currency basis swap is a key factor and the relative scarcity of dollar supply from European issuers has helped it normalise. If the rise in volatility triggers a rush of people swapping for dollar exposure, then the swap could move in favour of European issuers looking to swap dollar proceeds into their home currency. "If that's the case, we could see a lot of dollar issuance come in 2022," says a head of SSA syndicate.

Even with rates climbing, it's fair to say that from a historical perspective, the long end still looks extremely cheap for issuers to access.

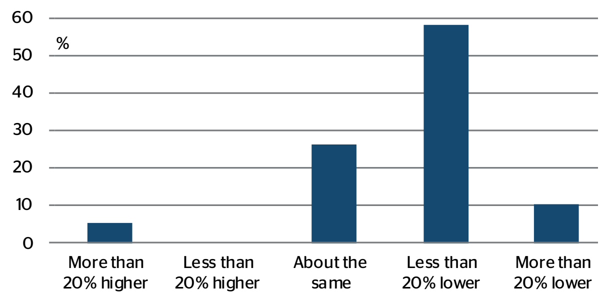
Accordingly, it is no surprise that bankers say that issuers are still keen to print at the long end. Generally speaking, euros has provided much better value for long dated funding than the dollar market, but bankers say that issuers are keen to look at the long end in dollars, even though it has proven historically difficult.

Will dollars or euros prove a better source of funding for SSAs that have access to both markets?



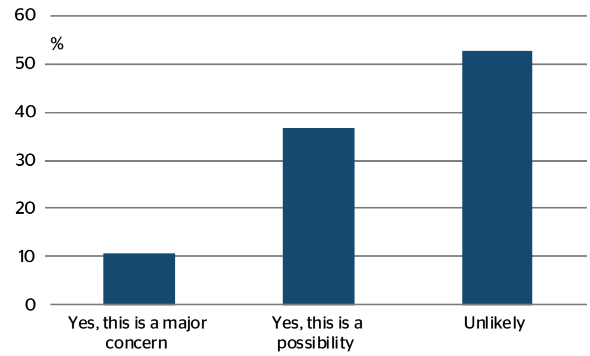
Source: GlobalCapital

How will volumes compare to previous years, as we leave Covid-inflated deficits?



Source: GlobalCapital

If returning inflation prompts rate hikes, will SSAs face refinancing risk?



Source: GlobalCapital

"We've seen almost no supply beyond 10 years in the public SSA market for many years," says the SSA syndicate banker. "But issuers are keen to do it if it can be made to work."

Going native

After years of only gradual, incremental improvements in the technology underpinning capital markets, several factors have come together to create the conditions for sudden leaps forward in the technology bankers and issuers rely on day to day.

The issuance of the first digitally native bonds, paid in test versions of central bank digital currencies, took place in 2021. Although the systems are nowhere near being rolled out for universal use at this stage, the survey indicates that market participants universally expect that they will be.

When asked if digitally native bonds will become common place in the SSA market, 32% say that they will within five years.

Furthermore, some 37% say they will within 10 years, while the remainder say that they will, but it will take longer than 10 years. No participants say that they will never become commonplace.

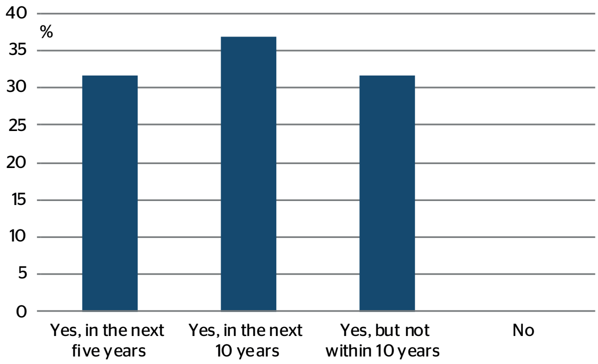
Order book inflation

Order books, particularly in euros, are frequently accused of suffering from inflation. Investors, particularly in the hedge fund community, know that they will receive only a small percentage of their order, if anything. Their response is to put in larger and larger orders in the hope of convincing those making the allocation decisions to put some more bonds their way.

Around 58% of survey respondents say that this practice is becoming a problem in the SSA market. A further 37% acknowledge that it has happened, but say that it is not a problem.

The concern is that the huge volumes of orders can obscure the real level of demand for an asset, making pricing more challenging and raising the possibility of damaging volatility in the secondary market after execution.

Will digitally native bonds become commonplace in the SSA market?



Source: GlobalCapital

European safe asset

Perhaps the single most important development of the last two years has been the arrival of the EU as the largest non-sovereign issuer in the SSA market. Early on, EU commissioner Johannes Hahn said that he hoped the bonds would come to be seen as a European safe asset.

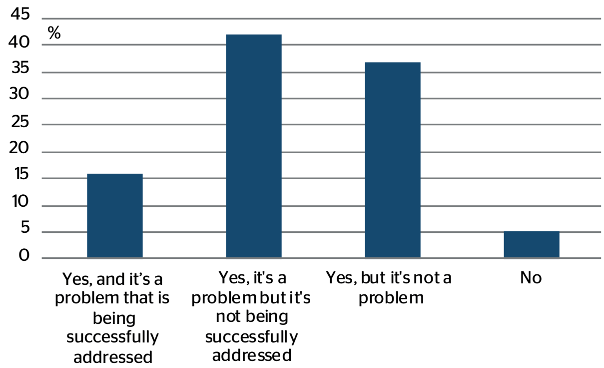
There's certainly a need. The scarcity of Bunds can be a limiting factor for those wishing to build a portfolio in euros. The scale and liquidity of the EU's supply gives it some hope of fulfilling this role.

A slim majority (some 53%) of survey respondents say they feel the EU is filling that role already, with another 16% saying that it will in the future — perhaps when it has a few more bonds outstanding.

Still, a sizeable minority feel that the EU's bonds will never become the EU's safe asset. This might reflect the fact that the EU's borrowing programme is scheduled to come to an end in 2026.

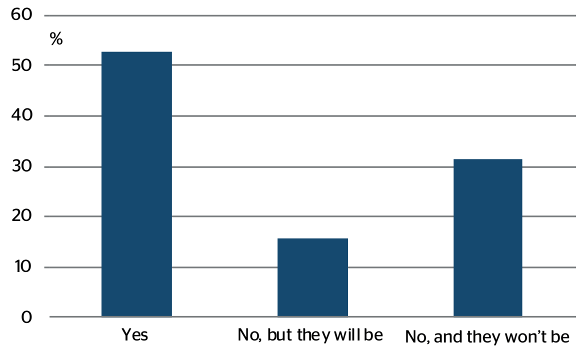
It is difficult for an issuer of this temporary nature to take on the role of providing a safe asset — a fundamental piece of capital markets architecture. GC

Are order books becoming inflated in the euro market?



Source: GlobalCapital

Have the EU's bonds been accepted as a European safe asset?



Source: GlobalCapital

EU settles in as SSA market's champion heavyweight

Since the early days of the pandemic, it has been clear that the EU would become a dominant force in the SSA market. In 2021, it assumed that title. **Lewis McLellan** looks at its progress so far and the effect it is having on the broader market

By far the most important development for the sovereign, supranational and agency bond market of the past few years has been the arrival of the European Union and its €150bn a year Next Generation EU borrowing programme.

The EU's borrowing operation has changed utterly, even when compared with 2019. Then, the Commission borrowed €420m across three deals, the proceeds of which were lent back to back to its member states. In 2021, it has borrowed almost €200bn, according to Dealogic data, cementing it as by far the largest non-sovereign SSA issuer in the marketplace.

Even the €100bn Support to mitigate Unemployment Risks in an Emergency programme pales in comparison with the €800bn NGEU behemoth. SURE was funded entirely through syndications while, now, the NGEU has a full sovereign-like borrowing operation complete with a bills programme and regularly scheduled auctions.

These changes have, of course, meant changes for the banks that service it. Patrick Seifert, head of primary markets at LBBW, notes that, as well as participating in the bills and auction programmes, "there's additional commitment, monitoring, promoting secondary flows, etc, and of course building the investor base remains an ongoing task for what will be the largest green bond issuer globally.

"These had to be set up quickly, and without face-to-face meetings, so that was a challenge for everyone involved with the European Commission and Next Generation EU."

The borrower's syndications still steal the show — especially the €20bn outing that wowed the whole market back in June. However, it is the auctions and bills programme, as well as the important decision to operate as a more traditional issuer, decoupling borrowing from lending, that do the heavy lifting.

That means the EU can access the market in its own time, waiting for appropriate conditions, and tailor the maturities it selects to investors' tastes at the time (as long as it preserves its 15 year weighted average maturity).

"The changes have given the European Commission more flexibility," says Seifert. This should lead to good deal outcomes even in more adverse market conditions and will be appreciated by long-term investors."

Ben Adubi, head of SSA syndicate at Morgan Stanley, notes that the EU's process of coming to market is unique, thanks to its own internal procedures. "It takes longer between the request for proposals and the announcement," he says. "That has become a regular feature of the market now. It's well understood and investors know how to adjust their positions accordingly."

He adds that the extra time gives leads the opportunity to canvas investors more carefully. "That means we can really finesse the recommendation for the EU and approach the market with more visibility and transparency."

Of course, any extension of the marketing process means increased execution risk, as the market can always change. But given the EU's consistently exceptional demand, meeting investors' needs precisely may be more important than timing the market.

Bund spread narrowing?

Last time it hit the market, the EU paid a spread of 31.4bp over the Bund. That spread could begin to close in 2022. As yet, the possibility does not appear to be being traded, but the ECB is believed to be mulling a change that would disproportionately benefit the EU and its supranational peers versus sovereigns and agencies.

At present, the ECB's purchases of supranationals are capped at 10% of the Public Sector Purchase Programme. Given the EU's extraordinary increase in borrowing, bankers believe the ECB is considering an increase to between 12% and 20%.

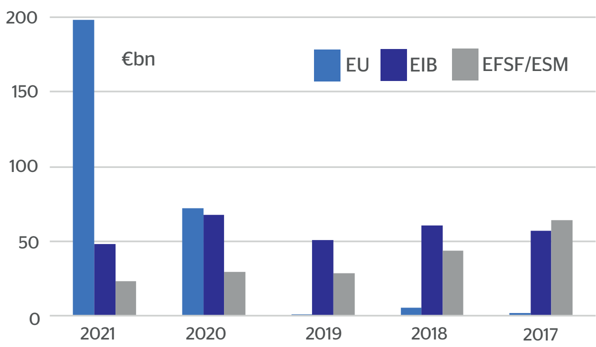
The former would probably make only a negligible difference, but the latter could certainly have a material effect on the spread the EU and its supranational peers pay to sovereigns, which would, of course, see their share of the ECB's purchases decrease proportionally.

The EU is unlikely to supplant the Bund as the euro's primary safe asset, but bankers say that they are beginning to encounter investors who make purchasing decisions based on an asset's spread to the EU's curve, not just to the Bund.

So far, competition between the EU and other top European supranationals and agencies has not been damaging. In 2021, the EU's spread to the other top European supranationals and agencies has oscillated somewhat, generally settling between 1bp and 4bp tight of EIB, ESM and KfW.

In fact, the additional scale and liquidity the EU has brought to the euro market seems to be making a positive difference for its peers. GC

Social bond boom



Source: Dealogic

SSA banks adjust to life after the crisis

Lewis McLellan spoke to some key banks in the public sector bond market to find out how they coped with the demands of the pandemic and how their strategies are changing as we move into a new year

There is no such thing as a typical crisis. There are some commonalities, though, and it would be fair to say that when a crisis hits, debt markets usually slow down, or even grind to a halt. As a result, problems that start as social, health or environmental ones can morph and mutate into debt crises as refinancing debt becomes a problem.

But despite the economic turbulence, conditions were superb and borrowing in the SSA market ballooned to almost $2tr in 2020 from just $1.2tr the year before, according to Dealogic. At present, 2021, at around $1.57tr, looks set to come somewhere in between, and 2022 supply is likely to be closer to 2019's level.

As crucial as the sovereign, supranational and agency primary bond market is to financing the effort to protecting the world from coronavirus, it is at least equally crucial to leading banks in the capital markets. Its prestige makes it important to the overall business models beyond the fees earned.

But as volumes return to more typical levels, overall fees will also fall, and as market conditions worsen, banks will find their commitment to the market tested.

Primary dealerships, in particular, are an expensive business for banks, and in times of cost-cutting there is constant scrutiny on whether the status they confer truly provides the value it claims to.

The flurry of borrowing that characterised the past 18 months meant a flurry of fee-earning business,

"When banks streamline their business, it's no surprise to see them cutting some primary dealerships"

Patrick Seifert, LBBW

particularly at the sovereign level, where the increased needs were sharpest, although some of this was offset by the additional work the banks had to do at sovereign auctions in order to be in with a chance of winning the lucrative syndication mandates.

But as 2022 nears, that fee wallet is shrinking back to normal size once more. Accordingly, banks are beginning to review their participation in the business again. NatWest Markets dropped five of its remaining European dealerships in early November, leaving itself with six.

"There has been significant supply of sovereign syndications over the past year or two," says Ben Adubi, head of SSA syndicate at Morgan Stanley. "There have been more auctions as well, so costs have been up, but overall, being part of primary dealerships has made sense lately. With supply dwindling, the coming years will perhaps look less rosy from a revenue perspective. Overall, I'm not surprised to see banks dropping out at this point. It won't be the end for those that do."

He points out, though, that just because the business isn't attractive for one bank doesn't mean that will be the case for every house. "Banks across the street will be analysing their participation to ensure it's worthwhile, but just because it doesn't make sense for some doesn't mean that's the case for everyone. Everyone has different aims for presence across Europe."

Banks that wish to expand their operations in a particular country may see benefits beyond the possibility of syndication fees from participating in the auctions, for example.

Dollar denominated SSA (ex. US agencies) bookrunner ranking by year — 2021 (to November 8)

Rank	Bookrunner	Amount $m	No of issues	Share %
1	Citi	48,668.68	112	12.01
2	JP Morgan	45,748.27	122	11.29
3	HSBC	27,103.45	82	6.69
4	BofA Securities	26,308.14	70	6.49
5	Goldman Sachs	23,360.40	51	5.77
6	TD Securities	22,662.15	38	5.59
7	Morgan Stanley	18,928.25	40	4.67
8	BMO Capital Markets	18,342.50	38	4.53
9	Deutsche Bank	18,321.01	42	4.52
10	RBC Capital Markets	18,086.05	35	4.46

Source: Dealogic

Dollar denominated SSA (ex. US agencies) bookrunner ranking by year — 2020

Rank	Bookrunner	Amount $m	No of issues	Share %
1	Citi	59,485.93	144	11.31
2	JP Morgan	47,595.33	106	9.05
3	Goldman Sachs	37,386.44	63	7.11
4	HSBC	35,578.12	101	6.77
5	BofA Securities	33,825.53	83	6.43
6	Barclays	29,436.12	65	5.6
7	TD Securities	27,680.00	51	5.26
8	Morgan Stanley	25,046.48	52	4.76
9	RBC Capital Markets	24,184.15	45	4.6
10	Deutsche Bank	24,055.48	55	4.57

Source: Dealogic

"If you have clients with real needs for sovereign paper, it's still good to meet those — and if you have a big footprint in the country, then it makes sense," says Patrick Seifert, head of primary markets at LBBW. "For example, we have established business in Austria, including FIG and corporate issuance. The synergies we can extract from that primary dealership are very different from banks that don't have that. When banks streamline their business, it's no surprise to see them cutting some primary dealerships."

For banks whose regional focus overlaps with the biggest and low-paying primary dealerships, pushing their way to the top of those league tables can be a painful experience.

It has not all been one-way traffic leaving the PD game, though. Deutsche Bank has returned to prominence in the SSA and sovereign market. It's important to take a long view on the question of the value of primary dealerships, according to Neal Ganatra, Deutsche Bank's head of DCM SSA syndicate.

"We want to be a sustainable partner for sovereigns," he says. "There's no point dipping our toe one year, exiting and then coming back the next year. That doesn't help the bank or the sovereign. We try to act in a way that is sustainable for the bank and adds value for our clients."

That might mean suffering through a year where the costs banks shoulder at auctions outweigh the fees they earn at syndications in the cause of a broader commitment to the market.

Only the EU, with its huge borrowing requirement and fat fees wallet, is capable of commanding 39 primary dealers. Germany, with its status as the provider of the euro's safest asset, has 36 — in spite of the fact that the prospect of further syndications has dwindled, meaning banks will find it even harder to make money directly from the Finanzagentur — but nobody else has more than 20 and the figures keep shrinking.

And, although auctions might not be well subscribed, most see little prospect of this changing for anything short of a series of failed auctions that materially cheapen the curve and push up issuers' cost of funds.

Tricky conditions beginning to return

With the exception of the first few months of the pandemic, the past two years or so have been remarkably smooth sailing for SSA borrowers, thanks in no small part to confidence that central banks would do everything in their power to pre-

Global SSA (ex. US agencies) bookrunner ranking by year — 2021 (to November 8)

Rank	Bookrunner	Amount $m	No of issues	Share %
1	JP Morgan	120,001.83	395	7.62
2	Citi	98,890.43	238	6.28
3	Deutsche Bank	86,821.92	230	5.51
4	HSBC	84,843.54	267	5.38
5	BNP Paribas	81,505.08	187	5.17
6	BofA Securities	77,529.34	162	4.92
7	Barclays	73,211.66	183	4.65
8	Morgan Stanley	70,401.66	262	4.47
9	Goldman Sachs	60,751.89	119	3.86
10	Crédit Agricole	59,317.88	214	3.76

Source: Dealogic

Global SSA (ex. US agencies) bookrunner ranking by year — 2020

Rank	Bookrunner	Amount $m	No of issues	Share %
1	JP Morgan	147,520.19	424	7.39
2	Citi	124,879.33	300	6.26
3	HSBC	108,016.20	356	5.41
4	BofA Securities	95,603.11	260	4.79
5	BNP Paribas	94,714.75	225	4.74
6	Deutsche Bank	90,323.11	255	4.52
7	Barclays	87,339.91	242	4.38
8	Goldman Sachs	81,103.39	165	4.06
9	TD Securities	71,856.95	290	3.6
10	Crédit Agricole	69,423.05	197	3.48

Source: Dealogic

Global SSA (ex. US agencies) bookrunner ranking by year — 2019

Rank	Bookrunner	Amount $m	No of issues	Share %
1	JP Morgan	94,429.72	460	7.59
2	Citi	75,553.98	254	6.08
3	HSBC	74,026.51	286	5.95
4	Barclays	58,823.53	225	4.73
5	BofA Securities	54,561.07	224	4.39
6	BNP Paribas	50,595.40	239	4.07
7	Deutsche Bank	50,594.43	190	4.07
8	TD Securities	47,474.99	286	3.82
9	Goldman Sachs	44,887.11	139	3.61
10	Crédit Agricole	44,275.23	187	3.56

Source: Dealogic

Global SSA (ex. US agencies) bookrunner ranking by year — 2017

Rank	Bookrunner	Amount $m	No of issues	Share %
1	Citi	96,549.99	341	7.18
2	JP Morgan	96,054.16	571	7.14
3	HSBC	82,996.04	309	6.17
4	Barclays	68,407.31	235	5.09
5	BofA Securities	67,783.12	226	5.04
6	Goldman Sachs	65,675.91	180	4.88
7	Deutsche Bank	65,304.50	245	4.86
8	BNP Paribas	56,589.19	144	4.21
9	TD Securities	48,077.77	299	3.58
10	Nomura	45,445.30	390	3.38

Source: Dealogic

Global SSA (ex. US agencies) bookrunner ranking by year — 2018

Rank	Bookrunner	Amount $m	No of issues	Share %
1	Citi	81,732.30	296	6.74
2	JP Morgan	79,709.00	469	6.57
3	HSBC	75,830.25	311	6.25
4	Barclays	62,115.35	250	5.12
5	Deutsche Bank	54,371.98	176	4.48
6	BofA Securities	53,121.21	215	4.38
7	Goldman Sachs	50,068.68	147	4.13
8	TD Securities	47,039.33	279	3.88
9	RBC Capital Markets	42,221.25	239	3.48
10	BNP Paribas	41,011.19	154	3.38

Source: Dealogic

serve what ECB president Christine Lagarde terms "favourable financing conditions".

But as inflation begins to bite, calls for action are starting to sound and monetary policy around the world is diverging. The Fed is promising an aggressive tightening cycle, while the ECB warns that raising rates now would do more harm than good.

As an indicator of a recovering economy, interest rate increases are not necessarily a bad thing, but the fact is that the consequence will be volatility in the rates market of the sort that the fourth quarter is giving us a taste of.

"Overall, that should benefit the SSA market," says Seifert. "Particularly the most liquid names, because that's where people want to be in times of uncertainty."

But while the sector as a whole will not want for demand, the lack of conviction around the direction of rates will introduce difficulties.

"There's a higher likelihood of macro risk," says Jamie Stirling, global head of public sector DCM at BNP Paribas. "We have seen evidence of that in October and November, with trickier or delayed deals across other sectors and some softer results in the SSA market."

Seifert agrees, adding that issuers would be "well advised to be more flexible in terms of size, maturity or currency".

Adubi at Morgan Stanley points out that another consequence of the less consistently constructive tone in markets is shorter execution windows.

That means that issuers will have to cram more deals into the windows when investors are feeling receptive. The result, says Adubi, is that deals will skew larger, meaning that borrowers can come to the market less frequently to raise the same amount.

"Windows won't be as clear and open as they have been and borrowing won't be so easy," says Stirling. "Markets will be more volatile and that could mean windows become saturated by issuers rushing into market."

"The dynamics of net supply are likely to remain favourable, especially in euros, as central banks continue to hoover up paper"

Ben Adubi, Morgan Stanley

For issuers, that could mean higher premiums as they fight for attention. Adubi believes this move will probably be fairly slight, as the dynamics of net supply are likely to remain favourable, especially in euros, as central banks continue to hoover up paper.

But for banks, conditions will become more challenging. "Pricing will be less transparent, as volatility returns to the market," according to one head of SSA DCM who prefers not to be named. "As risk returns, that will mean issuers are focused on execution and underwriting."

Difficult market conditions will probably mean issuers differentiate more between banks. As Seifert puts it, "hard work is an opportunity to demonstrate we add value", adding that "franchises that don't have dedicated resources to compete could struggle".

Larger banks suggest that this will mean issuers lean more on those with big franchises, with the global reach to distribute in difficult times and the balance sheet muscle to take on residual positions, if necessary.

Seifert feels differently. "Not everyone has to be a global bank. What issuers need are syndicates that cover all bases: big global houses and players with more specific distribution expertise."

He adds that competing for deals in a more challenging market backdrop would require technological investment. "When the market gets tough," he says, "it will be vital to have good, recent data on why investors are or aren't buying, so that we can advise issuers on how to manage a less receptive market."

The rock-bottom rates have given issuers a golden opportunity to issue long-dated debt. With inflation returning, investors may be less keen to look at the long end of the curve. "If they can hit yield targets without going to 30 years, many investors who don't have structural needs at that maturity, will return to the shorter end," says one SSA syndicate banker.

For issuers, the fact that yields are still historically low will mean that they are keen to do whatever they can at the long end. However, Seifert acknowledges that the long end could become tricky if investors lack conviction about the direction of rates, suggesting that issuers could end up doing smaller sizes there. However, he adds: "Generally we believe QE is here to stay, and the deals we are seeing in November indicate that investors support that idea." GC

Euro denominated SSA (ex. US agencies) bookrunner ranking by year — 2021 (to November 8)

Rank	Bookrunner	Amount $m	No of issues	Share %
1	BNP Paribas	51,569.37	105	8.12
2	JP Morgan	49,235.06	123	7.75
3	Deutsche Bank	43,466.93	111	6.84
4	Crédit Agricole	37,311.36	95	5.87
5	Barclays	37,269.39	84	5.87
6	UniCredit	36,883.01	95	5.81
7	HSBC	35,784.81	115	5.63
8	BofA Securities	33,178.54	57	5.22
9	Citi	30,585.50	65	4.82
10	Morgan Stanley	29,871.35	46	4.7

Source: Dealogic

Euro denominated SSA (ex. US agencies) bookrunner ranking by year — 2020

Rank	Bookrunner	Amount $m	No of issues	Share %
1	JP Morgan	67,720.10	172	8.77
2	BNP Paribas	63,440.89	135	8.22
3	UniCredit	53,693.22	145	6.96
4	Crédit Agricole	47,842.92	130	6.2
5	HSBC	47,100.94	172	6.1
6	Deutsche Bank	43,665.96	129	5.66
7	Barclays	41,003.01	108	5.31
8	Citi	38,227.94	83	4.95
9	BofA Securities	38,141.95	126	4.94
10	Société Générale	34,816.10	83	4.51

Source: Dealogic

Swiss francs look to the summit of the Matterhorn

An upwards shift in rates spurred international borrowers back to the Swiss franc market in 2021, with local bankers left to wonder if it might see the return of the Sfr1bn bond in the next year. By **Frank Jackman**

After hitting its lowest level in over 30 years in 2020, international Swiss franc issuance rebounded in 2021, thanks to a rapid rise in rates that tempted new and returning borrowers back to this niche corner of the bond market.

Swiss rates mirrored their euro and dollar counterparts over the year, with the upward move acting as a "catalyst" for desks to bring more issuers to the market, says Denis Vucina, Deutsche Bank's head of Swiss franc syndicate.

The 10 year Swiss swap rate rose almost 60bp over the first 10 months of 2021, from the depths of minus 32bp in January to a high of 30bp in early November. As a result, offshore issuers found plenty of opportunities to raise Sfr14.9bn by the end of October, according to Dealogic, up from Sfr12.9bn throughout the whole of 2020.

"The higher rates have made Swiss francs more competitive, allowing us to provide an attractive yield to investors and attractive funding opportunities to issuers on spread basis," says Damien Aellen, co-head of Swiss franc syndicate at Credit Suisse.

Among the international borrowers to make use of these attractive conditions were a slew of new and returning names.

"We had some discussions with the jumbo borrowers this year, but the conditions were more favourable in dollars or euros"

Andreas Tocchio, UBS

Highlights for Credit Suisse's head of investment grade capital markets Switzerland, Benjamin Heck, included debut deals for CaixaBank, Macquarie Group, Scotia Chile, Digital Realty and HSBC Holding, which showed just how global the market's approach was in 2021.

Although trades run by the big domestic banks dominated, foreign bank desks did claw back a share of the market. Deals arranged by offshore bank desks accounted for Sfr6.7bn apportioned of the total Sfr45.1bn issued by the end of October — more than double the Sfr3.3bn apportioned arranged by the same point the year before.

The three largest non-Swiss firms — Deutsche Bank, BNP Paribas, and Commerzbank — all grew their market shares in 2021, with Deutsche Bank hitting its highest apportioned level since 2014 thanks to growth in its corporate lending.

Corporate financing "is perhaps the hardest sector to get involved with as you need to offer suitable credit lines and loans for your clients," says Vucina at Deutsche.

The German bank had arranged 5.4% apportioned of the overall market volume by the end of October, and 8.6% apportioned of corporate issuance, up from 7.7% in 2020.

Coming 'round the mountain

No borrower has printed a Matterhorn bond — a foreign deal of Sfr1bn or more — since 2017, but with the rise in rates in 2021 allowing dealers to offer positive yields again, a return to size is possible for the year ahead.

"If rates stay where they are, I expect we will see a couple of Sfr1bn plus deals [in 2022], although maybe not in a single tranche," says Vucina.

However, a move higher could allow dealers positive yields at the short and long end, allowing them to cover a broader group of investors, says Heck. "And now after six years of negative rates, private banking money is considering adding more bonds with yields further above zero."

The market did come close to the Matterhorn mark on several occasions in 2021.

"We had some discussions with the jumbo borrowers this year, but the conditions were more favourable in dollars or euros," says Andreas Tocchio, head of Swiss franc debt syndicate at UBS.

"If you visit these markets you can print up to $10bn, but in Swiss francs the maximum size is Sfr1bn to Sfr1.5bn — it's a question of whether the deal is worth the effort."

The largest offshore deal of 2021, a Sfr700m dual seven and 10 year tranche offering from Verizon in March, was itself part of a wider $31.2bn equivalent salvo that included deals in euros, Australian, Canadian and US dollars.

At the current rates level, corporates will be likely to supply the bulk of potential Matterhorn supply, says Vucina. "If rates go up another 50bp, we might see SSAs re-enter the market."

Despite the fact that names like KommuneKredit and Nederlandse Waterschapsbank chose to end multi-year absences from the Swiss franc market in 2021, no foreign SSA borrower has sold a deal totalling more than Sfr350m since the start of the coronavirus pandemic.

Even then, the last SSA trade to encroach on Matterhorn territory arrived almost 10 years ago in the shape of a Sfr825m dual tranche deal from Poland.

However, the market might not have to wait long, with the rates sell off a "game changer," says Aellen. "If things normalise and the market gets more competitive, we will be able to provide some arbitrage opportunities and hopefully see the pool of available issuers grow." GC

Deals of the year 2021: financial institutions

Market participants tried desperately to put Covid-19 behind them in 2021, but another year was defined by the pandemic. Though vaccination programmes reduced the number of national lockdowns, the resulting economic rebound brought with it a new and scary risk: the prospect that central banks could start shrinking, rather than expanding, their balance sheets. Fears over the delayed impact of the coronavirus carnage triggered more frequent bouts of volatility in international markets, which became increasingly violent as the year rolled on.

In such a tricky year of transition, *GlobalCapital* wanted to reward those bond deals that achieved standout results for FIG issuers — in terms of pricing, innovation, execution, and timing. The winners are presented here

ADDITIONAL TIER ONE DEAL OF THE YEAR

CaixaBank

€750m 3.625% perpetual non-call September 2028/March 2029 additional tier one
Barclays, BNP Paribas, CaixaBank, Goldman Sachs, HSBC

It is hard to imagine how CaixaBank could have timed the sale of its additional tier one any more perfectly in 2021. With outright yields falling lower over the summer, the Spanish bank seized its opportunity in early September to bring a perpetual non-call 7.5 year to investors.

The result was an astonishing success. Investors piled €3.5bn of orders into the €750m trade, allowing the lead managers to tighten pricing from 4.125% and land at 3.625%. Not only was the final coupon level some 200bp below where CaixaBank had printed an AT1 a year earlier, it also set a new record low for peripheral European banks in the asset class.

The trade crystallised an improved reputation for CaixaBank in the Spanish credit market. It spoke volumes that national champion Banco Santander bagged an AT1 of its own a couple of weeks later, landing on the same 3.625% coupon rate — imitation is the sincerest form of flattery.

INSURANCE BOND DEAL OF THE YEAR

Just Group

£325m 5% perpetual non-call September 2031 sustainability restricted tier one
HSBC, JP Morgan, Morgan Stanley

Just Group has not had an easy time in the market in the last few years, amid questions over the risks stemming from its property exposures. But the UK insurer has recently been making progress in shoring up its balance sheet, which opened up a golden opportunity to tap the restricted tier one market in September.

The resulting deal showed how far Just Group has come, as it was able to print a £325m perpetual non-call 10 year at 5% — two percentage points lower than where it had priced a tier two a year earlier. The transaction was paired with a liability management exercise, which meant the insurer was able to rid itself of a much more expensive £300m 9.375% perpetual non-call April 2024 RT1, issued in 2019.

In case the market didn't already have enough to focus on, Just Group also broke new ground in becoming the first insurer to issue an RT1 with a sustainable use of proceeds, attracting several ESG funds into the huge £3.2bn order book.

TIER TWO DEAL OF THE YEAR

Groupe BPCE

€900m 1.5% January 2042 non-call 2026 RAC tier two
€850m 2.125% October 2046 non-call 2031 RAC tier two
Natixis

BPCE brought innovation to an increasingly homogenous market for bank capital when it unveiled a new style of tier two in September. The French issuer is one of the only European lenders that does not sell additional tier ones (AT1s), because of its co-operative structure. But it still wanted to issue hybrid debt as a way of improving its risk-adjusted capital (RAC) ratio for S&P Global Ratings.

The challenge for BPCE and Natixis was to try to convince the market that the new transaction — which carried a write-down trigger as well a longer maturity structure than a normal tier two — was less risky than it seemed. The outcome was a ringing endorsement for the format. Investors accepted pricing that was much closer to a standard tier two than an AT1, meaning the issuer hardly had to pay up to achieve its capital aims. Accounts ended up pledging close to €5bn for the two tranches, which were nearly three times subscribed.

SENIOR DEAL OF THE YEAR

Rabobank

€750m 0.625% February 2033 non-preferred senior
BNP Paribas, HSBC, JP Morgan, Rabobank, UBS

It would be remiss to say that Rabobank has any problems navigating the capital markets. But as a very low spread borrower with a small funding plan, the Dutch bank must be particularly mindful about which windows it chooses to access. The issuer nailed that brief in February with its 12 year non-preferred senior deal, which can only be said to have been timed to perfection.

Rabobank paid very close attention to a spike in long end swap rates in the middle of the month, which gave it an opportunity to offer a little extra yield to investors without having lump on any more basis points in spread.

It was twice covered for its €750m print, despite pricing at just 52bp over mid-swaps — the tightest ever spread for a 12 year non-preferred senior bond. Such a transaction would not have been possible any later in the year, as credit curves steepened amid further rates volatility.

Funding conundrum for banks as outlook darkens

Financial institutions will need to raise more debt in trickier market conditions when central banks unwind stimulus measures in 2022, according to the results of a *GlobalCapital* survey by **Tyler Davies**

"Transitory" would surely come top of any shortlist for word of the year in the financial markets in 2021. As a way of quelling fears that the global economy might overheat, central banks have stressed time and again that inflation is only rising because of transitory factors linked to the recovery from the pandemic.

But market participants have developed their own views about what may or may not be transitory, preferring to err on the side of caution when it comes to inflation expectations.

They overwhelmingly expect that exceptional support programmes will have to be wound down, and that interest rates will have to rise, to keep the economy in check.

Such a withdrawal of monetary stimulus is easily the biggest risk facing FIG borrowers in 2022, according to the results of a market survey carried out by *GlobalCapital* in November and before the Omicron variant reared its head.

Banks have gorged on central bank liquidity in recent years, with eurozone lenders drawing a staggering €2.3tr from the European Central Bank's latest round of targeted longer term refinancing operations (TLTROs).

But the terms of the TLTROs will deteriorate in 2022 if the ECB lets its programme phase out naturally, which could prompt banks to think more urgently about how they should fund their balance sheets after the pandemic.

"We expect any moves on this front to be at a measured pace, and so banks should have time to respond accordingly," says Mark Geller, global head of banks DCM at Barclays. "But it should encourage banks to consider refinancing in the capital markets."

More than half of survey respondents (61%) said they expected the market would be busier in 2022, with issuance to be led by preferred senior debt, non-preferred senior debt, and covered bonds. Just under a quarter (23%) thought supply volumes could be more than 20% higher year on year.

Spreads will widen

Other factors could also increase the funding pressure on European lenders in 2022, alongside the partial withdrawal of central bank support.

Christopher Bond, head of FIG DCM, EMEA at BNP Paribas, notes that banks had enjoyed a lot more flexibility in the market in 2021 because deposit balances remain "very high".

Eurozone bank deposit inflows roughly doubled while countries were in lockdown in 2020, according to ING Research, before returning to a more normal pattern in 2021.

"If deposits start to reduce as we recover from the pandemic, then banks may need to tap the funding markets more," Bond says. "This will present another challenge for execution dynamics [in 2022]."

Warning lights were already flashing in the second half of 2021, as credit markets felt some of the fallout from a prolonged period of global interest rate volatility.

Banks have had to pay about 10bp of new issue premium on their senior deals in the autumn and winter, compared with an average of closer to 5p before the summer.

The higher toll on new issuance has gone hand in hand with a slight widening in credit spreads, which had been almost completely flat in the first half of the year.

Market participants are convinced that credit spreads will continue to widen in 2022, across preferred senior, non-preferred senior, tier twos and additional tier ones (AT1s).

Half of those surveyed said spreads in all four asset classes would widen. Participants were least convinced in the case of AT1s, where 65% expect widening, and most convinced in the case of tier twos, where an overwhelming 85% of respondents expect widening.

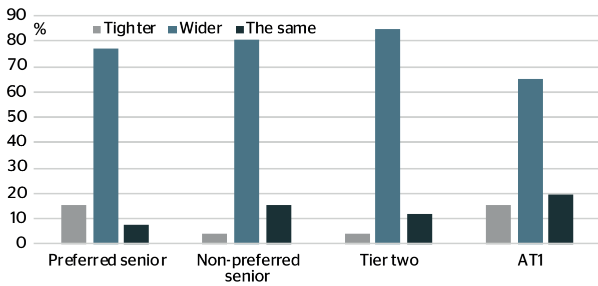
"In the short term, it feels like tier two is vulnerable," says Bond at BNP Paribas. "The asset class did not experience the same impact as other asset classes during the October sell-off, so you can certainly see the case for some widening."

If spreads are set to move wider then FIG borrowers will need to think much more carefully about how and when they approach the capital markets in 2022.

Market participants expect dollars will be very accommodating for larger banks looking to issue in size, even in the face of tightening monetary policy.

More than two thirds (69%) of survey respondents say the

How will spreads/yields finish 2022 compared with 2021?



Source: GlobalCapital

dollar primary market will be as reliable as it has been in 2021, with a further 8% suggesting it could more reliable.

Banks will also hope to have clear access to alternative markets if supply volumes increase, as deals could end up being crammed into smaller and more sporadic issuance windows.

"For most of [2021], the pricing between G3 currencies has been much closer than we've seen historically," notes Mark Pearce, head of financial institutions syndicate at HSBC. "If that holds into [2022], issuers will be able to look at multiple markets and they won't be overburdening any one currency."

Survey respondents are unanimous in suggesting that banks will want to skew their issuance towards the start of 2022, though only half think they will frontload more than usual.

Christoph Hittmair, global head of financial institutions DCM at HSBC, says some borrowers have already started to get itchy feet. "When it became clear that economies were re-opening, a lot of issuers felt good about the outlook and they thought they would have plenty of options in terms of funding windows," he says. "Now we are at the end of the year, I think the view is now that things won't get much better. There is no longer much upside to waiting."

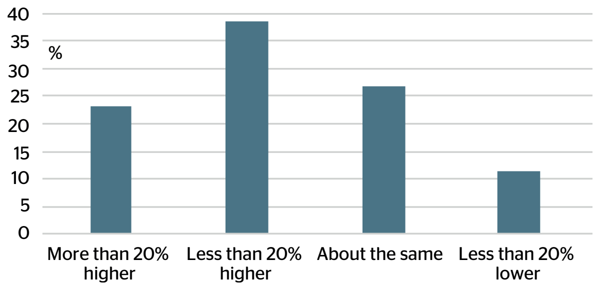
Times are changing

Though storm clouds are gathering, most market participants expect frequent funders will still have strong enough support to be able to manage their expanding funding programmes.

But a softening of market conditions would prove much more challenging for second and third tier banks, many of which are still looking to optimise their capital structures or bring in more debt to meet the minimum requirements for own funds and eligible liabilities (MREL).

Most survey respondents (58%) think smaller issuers will find it tougher to access the market in 2022, with only 8% expecting these names to have it any easier.

How will euro FIG issuance volumes compare with previous years?



Source: GlobalCapital

Pearce at HSBC says he saw evidence in the closing stages of 2021 that some large accounts were shifting to focus more exclusively on national champion names.

"There is some potential this isn't just a seasonal thing," he says. "If investors think we are coming to the end of a bull credit cycle and that the path of spreads will be wider, then there is potential for underperformance in small, off-the-run and niche credits. We are already starting to see accounts requesting a larger illiquidity premium."

There have been times over the last five years when it has felt as though central banks would never be able to roll back on their support for markets. But a rapid loosening of monetary policy during the coronavirus pandemic has left policymakers in a position where they now need to take away stimulus, instead of just handing more out.

Looking at the next five years, FIG market participants find it hard to believe that issuance conditions can be anywhere near as straightforward as in recent times.

Slowly but surely, borrowers are waking up to the idea that the era of ultra-easy money could prove to be transitory. GC

Banks struggle for fast progress on SLBs

Sustainability-linked bonds (SLBs) arrived in the FIG market in 2021, as Berlin Hyp burst its way on to the scene.

Through its transaction in mid-April, the German lender made a clear and ambitious pledge to reduce the carbon intensity of its lending stock by 40% over the next decade.

It sold a €500m 0.375% 10 year senior SLB at 35bp over mid-swaps, though the final coupon could step up by 25bp if the issuer misses its sustainability target.

Berlin Hyp's deal laid the groundwork for other banks to think about how they can come up with key performance indicators (KPIs) of their own. But work on bank SLBs was quickly stopped in its tracks after the European Banking Authority took a dim view of the structures. It said SLBs were likely to fall foul of the standards set out in the minimum requirements for own funds and eligible liabilities (MREL) because of the penalties embedded in the terms and conditions.

A November survey carried out by *GlobalCapital* reveals that market participants now see little prospect for further growth in bank SLB volumes in 2022. Just under a quarter of those surveyed (73%) say the asset class will remain niche in FIG in the next year, though there could be some supply. Two respondents explicitly said further issuance would be limited unless deals could be counted as MREL.

But some market participants remain constructive about the regulatory status of SLBs, arguing that banks simply need to find an alternative to deals with coupon step-ups.

"It will not necessarily take a long time to confirm regulatory eligibility and investor interest once we have come up with the right structure that respects the constraints applicable to capital instruments, while having real consequences if the KPI is not met," says Gilles Renaudiere, a director in capital products and DCM solutions at BNP Paribas.

"But you also need to be able to document the KPI itself, which may take more time. Banks have communicated on the net zero objectives over the longer term and now they need to come up with intermediary targets." GC

FIG in figures: a meaner but greener year

Financial institutions made the most of challenging conditions in 2021, pushing ESG supply to new heights and breaking pricing records in several asset classes.
By **Tyler Davies**

Capital markets were increasingly turbulent in the final stages of 2021, as rates sold off on the back of fears about how central banks might respond to surging inflation during the recovery from the coronavirus pandemic.

More deals were pulled or postponed, and many borrowers had to make do with printing deals in line with their initial price thoughts.

However, it would be wrong to let recent uncertainty cloud judgment of the year as a whole. Issuers have still enjoyed highly favourable market conditions, which they have used to their advantage.

Spreads have also remained very tight when viewed on a historical basis, with several issuers even managing to push into negative yield territory in the senior market.

"It could be a mirror image [in 2022] because it's hard to see how credit can trade much tighter than it does now," says Christopher Bond, head of FIG DCM, EMEA at BNP Paribas. "There is clearly more downside risk during the process of central banks removing stimulus, but they will also be watching to make sure markets don't become too dislocated."

Amid all the debate about global economic and monetary conditions, financial institutions have also found room for innovation in the market, including by structuring the sector's first sustainability-linked bond deals.

And market participants have all the while been busy adapting to a new way of working — one that blends in-person meetings with more online interactions and teleconferencing calls.

GlobalCapital highlights key trends in the FIG bond market over the last year in a series of charts below. The Primary Market Monitor data are derived from a store of proprietorial new issue information compiled over recent years.

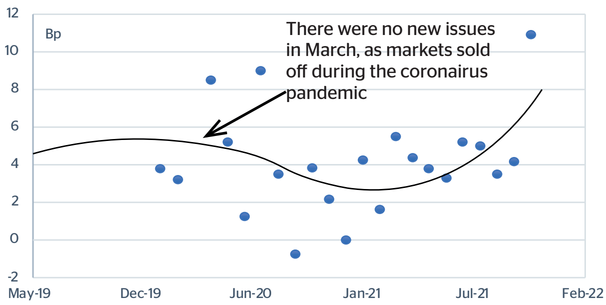
The market is getting trickier: moves from initial price thoughts and order subscription ratios have fallen year on year

FIG bond prices rebounded very quickly after plummeting during the height of the pandemic in 2020, and they carried on rallying strongly towards the beginning of 2021.

This has been great news for borrowers, who have continued to fund themselves at record low spreads. But investors are

New Issue premiums are rising in the euro senior market

The average concession has skyrocketed towards the end of 2021

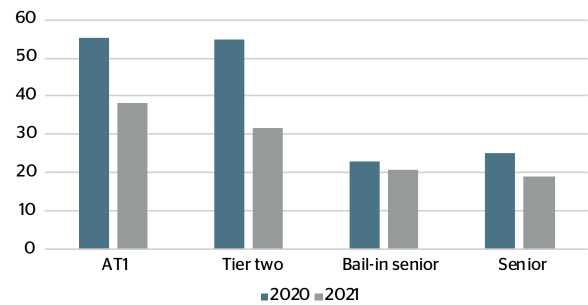


Source: GlobalCapital

Fading demand has made deal execution trickier

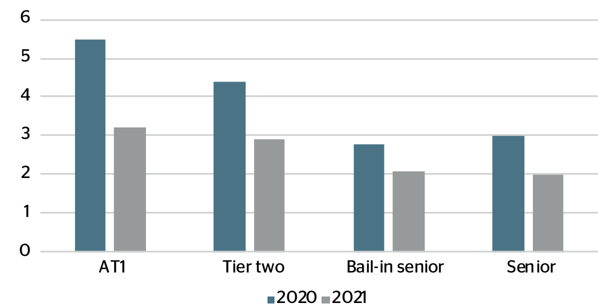
Banks have found smaller order books in every class

Move from IPT (bp)



Source:: GlobaCapital

Subscripition ratio



Source: GlobalCapital

growing increasingly frustrated with stretched valuations. They started a small resistance in 2021, which has gathered pace as uncertainty has grown over the future for central bank policy.

The results are beginning to show up in primary markets, where order book sizes are shrinking as funds debate how best to invest their cash.

New issue premiums have also risen, and many borrowers have also enjoyed less momentum when pricing new deals, meaning they can no longer tighten spreads as much as they could in the past.

No asset class has escaped the pushback, but some — including tier twos — have suffered more than others.

The market is becoming greener: ESG issuance is gaining a greater share of overall FIG supply

FIG borrowers have been very busy bringing use of proceeds transactions into the market over the last year.

As of mid-November, they had supplied about €36bn of ESG issuance from 60 different senior deals in euros, according to *GlobalCapital* data. The figure is more than double the €17bn of supply that financial institutions managed in 2020, from 26 transactions.

ESG bonds now make up roughly a quarter of overall FIG senior supply in euros. In 2020, they accounted for about 12%.

Market participants are doubtful that the growth in labelled issuance can carry on at the same pace in 2022, given the difficulty that many banks face in trying to identify more green and social assets.

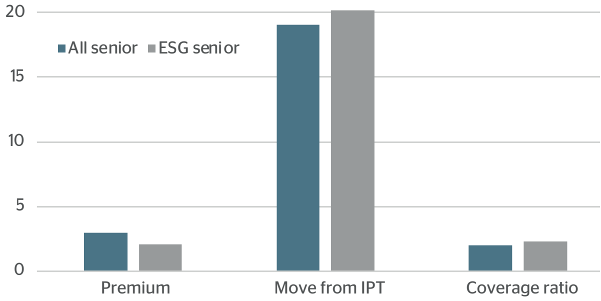
The EU's Taxonomy and new green bond standards could also introduce stricter eligibility criteria, which may make it harder for borrowers to really ramp up their supply.

But with increasing focus on the need for financial institutions to green their balance sheets and reach net zero targets, ESG themes will clearly continue to play a large role in bank funding programmes.

Borrowers will also have noticed that labelled issuance continues to outperform the conventional counterparts. Even through the toughest periods of 2021, ESG transactions have benefitted from smaller premiums, higher subscription rates and larger moves from initial price thoughts.

ESG deals have outperformed conventional trades

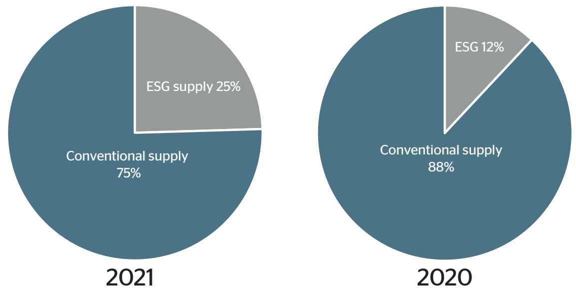
Banks have enjoyed higher demand and lower costs for labelled euro senior bonds in 2021



Source: GlobalCapital

A quarter of senior supply was labelled in 2021

ESG issuance is now a much larger proportion of the bank senior market in euros



Source: GlobalCapital

The market is still testing new lows: the average euro AT1 coupon dropped lower again this year

Additional tier ones (AT1s) have been on a one-way journey since they were created as an asset class in 2014/2015. Yields and spreads have fallen steadily as the market has matured, with more investors coming to understand the value of the instruments.

Demand dynamics have of course been improved by the fact that funds have been hunting for returns in a lower for longer interest rate environment. But that could all be set for change in 2022, as central banks think about pushing rates up in response to the pandemic recovery.

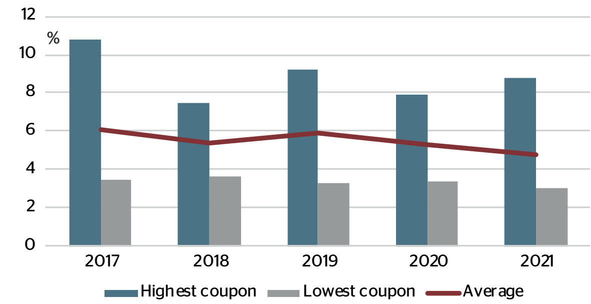
Higher rates would automatically lead to higher AT1 coupons, a trend that has already been in evidence in the second half of 2021. But, on the whole, this last year has presented another great opportunity for banks to gather cheap sources of debt capital.

In euros, the average AT1 coupon rate in euros fell to 4.8% from 5.3% in 2020. La Banque Postale even threatened to break into the 2% area in September, when it set a record low in the currency with a €750m perpetual non-call 7.5 year priced at 3%.

For more FIG data see Primary Market Monitor review on page 36. GC

Will euro AT1s reverse their tightening trend?

Rising rates could bring higher coupons in 2022



Source: GlobalCapital

Covered bond revival set to run

The covered bond market made a remarkable recovery late in 2021, an improvement that is likely to continue in 2022 — one of the predictions to come out of a market survey undertaken by **Bill Thornhill**

Covered bonds experienced a year of two halves in 2021, with September and October seeing more issuance than across the whole of the first six months.

Euro benchmark issuance of €42bn in the first half was the weakest for that period since 2009 and down 30% from 2020 H1. But from late August issuance greatly improved, with euro benchmark volumes finishing the year just short of the €94bn chalked up in 2020.

The late jump in supply was largely precipitated by banks outside the eurozone keen to tap the market after their central banks withdrew pandemic-related support that mainly took the form of cheap repo financing.

This was especially the case in Canada, whose borrowers were busy across all currencies and maturities. But in addition, Korean, Australian and Singaporean banks returned across a range of markets — causing global issuance volume to finish the year at €114bn.

The hefty improvement in supply, which caught many market participants by surprise, has given rise to optimism that 2022 will be an even better year. A *GlobalCapital* survey of 40 bankers taken in October, and therefore before the Omicron variant arrived, suggested that almost half expected euro benchmark volumes to rise by more than 20% in 2022.

"Covered bond volumes will improve," says Florian Eichert, head of SSA and covered bond research at Crédit Agricole CIB. This is particularly the case in the environmental, social and governance sector, but the increase will "not be enough to prevent a further net shrinkage," he cautions, referring to the high amount of redemptions due in 2022.

DZ Bank forecasts that gross euro issuance of €122bn in 2022 will be outweighed by €137bn of redemptions, resulting in net negative supply of €15bn. JP Morgan calls for 2022 supply of €145bn across all currencies, this being €36bn below all currency redemptions.

Because net issuance will be negative, "2022 will be a transitional year," says Matthias Melms, head of syndicate and origination at Helaba. He believes 2023 will be more positive and thinks activity will largely pivot on how the European Central Bank tweaks its Targeted Long Term Refinancing Operations and covered bond purchasing.

The TLTRO provides unbeatable funding, largely through its lowest borrowing rate of minus 100bp. But if that were to rise in 2022, as many expect, issuers would be compelled to turn to the next cheapest source of funding — covered bonds.

On December 16, as this review was going to press, the ECB was due to announce changes to its TLTRO rate.

According to *GlobalCapital*'s poll, the most favourable TLTRO borrowing rate could end 2022 being hiked by 50bp to match the deposit rate.

Even if issuers do not anticipate an end to the TLTRO, many will want to be "less reliant" on it, says Vincent Hoarau, head of EMEA FIG syndicate at Crédit Agricole. This is especially the case for those in northern Europe who, in contrast to those in the south, were big net users of the TLTRO in 2020.

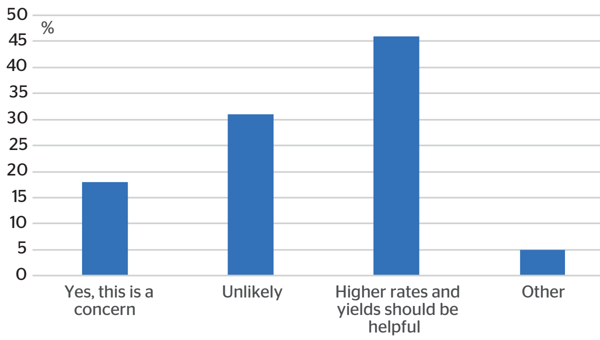
A big factor behind the expected normalisation of issuance is based on the view that market conditions will get tougher. Not only will TLTRO terms get tighter, leading to increased supply, but the ECB could potentially reduce how much it buys in the primary market.

In 2018 and 2019 the Bank's decision to scale back the size of its primary market order provided a big impetus for spread widening. "The evolution of spreads will not necessary be a function of gross issuance volumes but may instead depend on when the Eurosystem decides to scale back primary purchases," says Hoarau.

The ECB had been placing orders of up to 40% of a deal's size throughout this year, but if it were to begin the journey towards normalising monetary policy, its order stands to be reduced.

On the other hand, 2022's hefty redemptions also affect the ECB's covered bond purchase programme (CBPP3) portfolio. As a result, the ECB will need to buy an average of €3.7bn a

If returning inflation prompts rate hikes, does this pose a problem for issuers?



Source: GlobalCapital

Helaba

Covered bond journey 2022: 5 items for investors to consider

Covered bond investors will be embarking on a new journey in 2022. But what do they have to bear in mind when packing their bags?

Sabrina Miehs
Senior Covered Bond Analyst
Research & Advisory

1: Stable credit outlook
The credit outlook for covered bonds is set to remain stable, with Covid-19 having barely any impact in the form of non-performing loans or on the quality of covered assets. On top of that, the banking sector has proven itself to be resilient. Levels of overcollateralisation and rating buffers are high. Consequently, there is no question about the traditionally crisis-resistant quality of these instruments, even if there are any subsequent credit defaults as a result of the pandemic.

2: Application of EU Covered Bond Directive will have supportive effect
In 2022, the application of the EU Covered Bond Directive will have a supportive effect on covered bonds in what is expected to be all EU member states. Thereafter, depending on existing national requirements, in some cases more stringent quality standards will apply to covered bonds and their supervision. There may even be rating uplifts in countries such as Portugal and Spain.

3: Diminishing impact of ECB measures
Monetary policy will dominate activity on the covered bond market in 2022. In terms of supply, the high levels of TLTRO III uptake by banks will continue to rein in public placements, albeit most likely to a lesser extent than before. This is because the TLTRO III rate of -1 % expires in June 2022. Therefore, depending on the market environment, it is conceivable that institutions will replace maturing instruments with capital market refinancing measures.

As far as demand is concerned, the ECB will remain active in the scope of its asset purchase programme (CBPP3), although its attention will increasingly turn to the surge of bonds from the public sector and interest in covered instruments will fade. As interest rates are slightly increased, investors will return to the market.

4: Sustainability is coming along for the ride
We anticipate that 2022 will once again see a steep rise in green and social covered bonds, as this segment is gaining ground. On the upstream lending side, despite the EU taxonomy presenting major challenges for issuers for a long time to come, there should also be growth in new business with sustainable loans. What is more, an increasing number of investors are on their way to helping create a more sustainable planet.

5: Another year of net negative supply of new issues
Overall, our forecasts suggest the primary market volume of euro benchmark covered bonds will be in the range of €110bn-€120bn in 2022. That would once again be below scheduled maturities of €136bn. Issues from France and Germany will dominate the market, followed by Canada and Norway. Given a net negative volume of new issues, a certain level of demand from the ECB, rising yields and investors returning to the market, we do not expect risk premiums to rise noticeably.

month in 2022 compared to €2.5bn in 2021 year to replace redeeming deals, according to DZ Bank.

Since all cash redemptions will need to be reinvested in the market to prevent the CBPP3 portfolio from shrinking, a prospective spread widening is likely to prove contained.

Wider spreads

Another way to contemplate the spread outlook is to consider the potential for further tightening — which many bankers believe is limited. This was evidenced most lately in October, when BayernLB issued a €500m November 2029. It lost €600m of orders after tightening the spread by 1bp to a re-offer level of 4bp through mid-swaps, this being the equal tightest level of the year.

The deal showed that there is a finite spread, below which investors will not participate, no matter what the credit strength of the issuer is or how rarely it issues. Despite superb market conditions this year, no issuer has managed to pierce minus 4bp the entire year, drawing Helaba's Melms to the conclusion that the risk of a spread widening has to be greater.

"We've had the best market conditions this year, but there's been very little spread tightening, which rather suggests the market is set up for a widening next year when conditions potentially become less constructive," he says.

His views are in line with *GlobalCapital*'s survey which shows a clear majority expect spreads to end wider next year — though there was an almost equal split between those who thought spreads would move out by up to 5bp and those expecting spreads to widen more than 5bp.

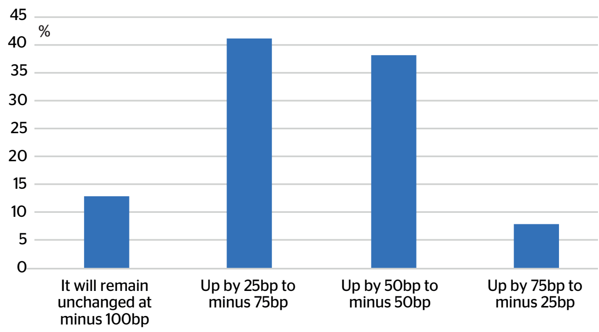
Spreads may also be challenged by a potential deterioration in the market's relative value to other asset classes. This happened in May when covered bond funding in the 15 to 20 year bucket was closed for several months as the market looked too expensive compared with European Union issuance in this tenor.

But in September the ultra-long end re-opened after the EU curve outperformed during the summer, thereby restoring relative value to covered bonds which paid a pick-up of at least 10bp.

It is questionable whether this part of the curve will remain as reliable in 2022 as it was this year. Rising inflation and the prospect that rates could be raised will at times undermine sentiment in the 15 to 20 year part where investors typically buy on an absolute return basis, making their investments more exposed to rising yields.

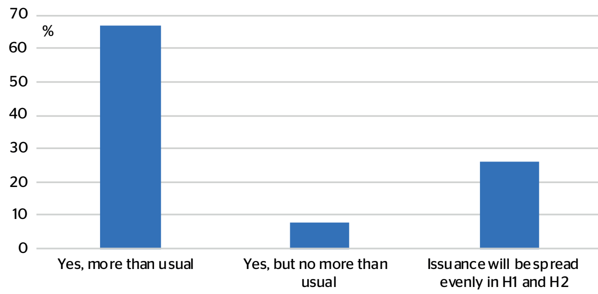
Conversely, the five to 10 year area typically attracts buyers focused on the mid-swaps spread, meaning they are less concerned by rising rates. If anything, a higher fixed rate return probably helps — something that the survey bears out.

How much will the ECB have raised the lowest TLTRO rate by December 2022?



Source: GlobalCapital

Will borrowers frontload supply?



Source: GlobalCapital

Relative value

But for most investors, and especially bank treasury buyers, it is the spread to mid-swaps that plays the critical role in judging fair value, and in this key respect, the market needs to look attractive relative to other asset classes.

The head of covered bonds at DZ Bank, Mathias Ebert, believes relative value judgements could undermine covered bonds again in 2022. "You could see a situation in which there is more sovereign, supranational and agency supply, but less net ECB demand as PEPP is scaled back," he says.

This would cause SSA paper, which attracts a risk weight of zero, to underperform leading to a narrowing of the differential to covered bonds, which attract a risk weight of 10%. Due to the higher capital charge of covered bonds, bank investors typically seek a pick-up of at least 6bp before committing to covered bond purchases — unlike the ECB which merely needs to reach its target.

In contrast to SSA purchases, the ECB is expected to continue buying covered bonds under its Asset Purchase Programme and, along with high redemptions this could make covered bonds look rich which would "pressure spreads," says Ebert.

Given these multiple concerns, issuers are expected to take a very different approach to the sequencing of their covered bond funding in 2022 than they did this year.

Rather than wait until after summer, when conditions might potentially get worse, many are likely to be tempted to get ahead of their funding during the first half of 2022. Indeed, the vast majority of respondents polled in this year's survey agreed with this prognosis.

Strong funding conditions and tight spreads, that prevailed through most of this year in the five to 10 year part of the curve, are expected to carry over into the first part of next year. And with the global economy expected to improve, issuers will have little reason to delay funding plans.

This is particularly pertinent for banks that think they might not be ready to comply with the Covered Bond Directive, which is supposed to be implemented by July 8, 2022. Covered bonds that fail to meet that deadline risk losing their regulatory advantage. Faced with this possibility some borrowers "could be motivated to issue in the first half of 2022," says Ebert.

ESG boost

Banks that are concerned about prospective deal execution could well turn to environmental, social and governance structures which typically attract a more diverse and larger pool of demand, improving deal execution and performance.

In 2021, 13 banks launched their first ESG covered bonds, taking the total number of ESG issuers to 31. ESG supply rose by €7bn to more than €15bn accounting for about 17% of this year's total supply.

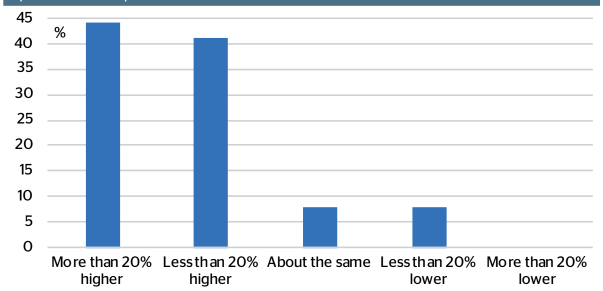
That's a number that should grow according to Patrick Seifert, head of primary markets at LBBW.

Seifert says ESG covered bond issuance has the potential to rise to about 25% of annual supply over the medium term — "less than that would be disappointing in my personal opinion".

ESG deals currently price no more than 1bp tighter than vanilla ones but, in a spread widening environment, this differential would stand to increase, making issuance a more compelling choice for borrowers.

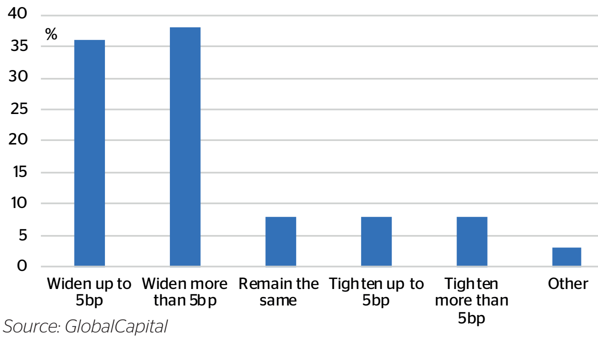
However, others are less optimistic, noting that ESG issuance would need to rise by at least €5bn next year just to keep the proportion steady at 17%. GC

How will euro volumes compare to previous years, as we leave the TLTRO?



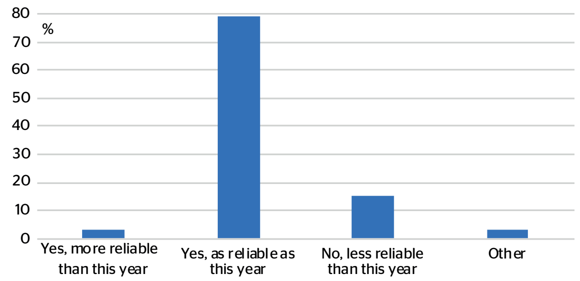
Source: GlobalCapital

Will euro mid-swaps spreads rise or fall in 2022 compared to where they are now?



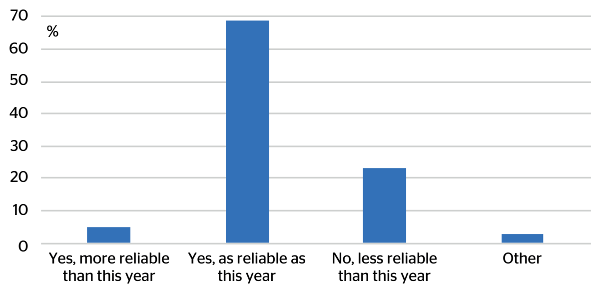
Source: GlobalCapital

Will the dollar primary market prove reliable in the face of tightening monetary policy?



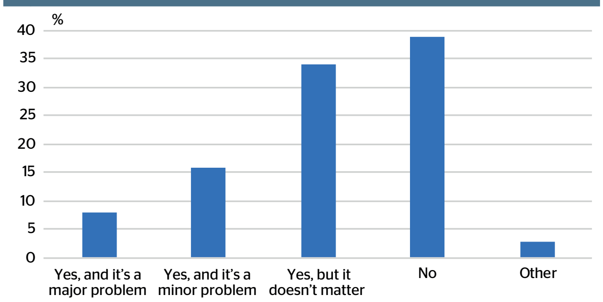
Source: GlobalCapital

Will the sterling primary market prove reliable in the face of tightening monetary policy?



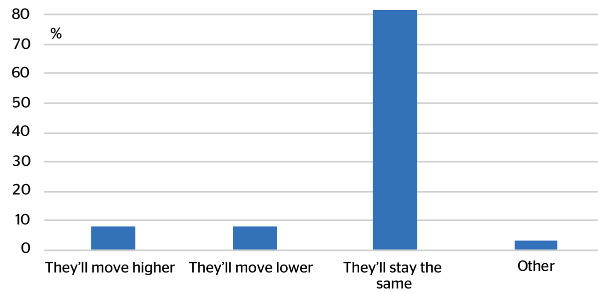
Source: GlobalCapital

Are order books becoming inflated in the euro market?



Source: GlobalCapital

Are you expecting changes in the covered bond fee structure?



Source: GlobalCapital

US securitization faces up to post-Libor legacy problem

A legislative push to finalise the US securitization market's Libor transition is underway. The "game changing" rules will govern the choice of successor benchmarks for legacy deals that contain no provision for alternatives to the scandal-hit rate that will start to be switched off from January. **Jennifer Kang** and **Paola Aurisicchio** report

The US securitization market may be moving to a decisive resolution on how it will deal with regulatory demands that no new contracts be based on Libor, the benchmark rate underpinning trillions of dollars of securitizations and other securities, after the end of December. But legacy deals — those so old that they make no provision for an alternative benchmark rate — are proving a thornier problem to fix.

"The market is rapidly moving towards the regulators' firm cut-off date," says Douglas Youngman, a partner at law firm Holland & Knight. "We have seen a recent uptick in deals starting out with a Sofr rate, even in product areas that had lagged behind before."

While recent securitizations in the US market have either already adopted the Secured Overnight Financing Rate (Sofr) as their alternative benchmark rate, or contain fall-back provisions to handle alternative rates to Libor, there is still a chunk of the market that make no provision for an alternative.

That chunk comprises legacy deals that were issued long enough ago that there is no successor interest rate benchmark rate clearly identified in the contracts. Those deals have until the end of June 2023 to find an alternative, after which the dollar Libor rates not discontinued at the end of 2021 — the one week and two month tenors — will cease to be published.

In such cases, shareholders must all consent to any contract amendments — a near impossible feat to achieve given the sheer number of parties typically involved and their different, sometimes competing, motivations.

To clear this hurdle, market participants have long discussed the possibility of a regulatory solution, but it is only recently that any real progress has been made.

New York became the first state to make legislative progress when, in April 2021, it passed legislation that enabled two fixes for tough legacy contracts. The new rules automatically replace Libor by the "recommended benchmark replacement," most likely Sofr, or, in the case the contract has a "determining person," they gain the power to replace the benchmark rate themselves.

A federal bill has also been drafted and is now at the House, awaiting a full vote. The bill is expected to be a "game changer," sources say, especially for floating rate ABS like federal student loans.

And there are many reasons why the bill will be taken very seriously, according to Joseph Lynyak, a partner at Dorsey & Whitney.

For one, the supporters of the legislation include strong capital markets advocates such as the New York Federal Reserve and Federal Reserve Board-led Alternative Reference Rates Committee — a group of market and public sector participants assembled to ensure a smooth transition away from dollar Libor, consisting of large corporations, financial institutions, trade bodies and government agencies, among others.

The alternative to the timely passing of legislation on Libor transition will be "just a mess"

Chris DiAngelo, Katten Muchin Rosenman

Moreover, the legislation will allow for the market to avoid "a potential tsunami of litigations," another "compelling argument" to pass the bill, says Lynyak.

Kristi Leo, president of the Structured Finance Association, also has high hopes for the legislation. "There is support on both sides — a bipartisan bill, which is a rare sight in Congress these days," she says.

For all the optimism, there is a real need to have the legislation passed, which Leo suspects could happen in December. The alternative will "just be a mess," says Chris DiAngelo, a partner at Katten Muchin Rosenman.

Under that scenario, switching reference rates on legacy deals is likely to cause disputes between shareholders and lenders, which often have the power to choose the fall-back benchmarks, according to the contracts.

Nonetheless, others argue that the legislation will not be a cure-all solution. "Federal and/or state legislative solutions are not clear solutions," says Lynyak. "The authority of the government to dictate winners and losers in what are essentially contractual payment disputes will certainly be challenged."

Freddie Mac's CRT takes centre stage

Over the last eight years and $80bn in transactions, Freddie Mac's Credit Risk Transfer (CRT) programme has gone from strength to strength. Now, having proved its mettle through the Covid-19 crisis, the issuer is looking ahead to product innovation and the prospect of major regulatory change.

Since its inception in 2013, CRT has grown into a highly desirable asset class and become one of Freddie Mac's key tools in protecting US taxpayers from risk. But although it was created in response to the 2008 crash, the programme had never weathered global financial turmoil - until the Covid pandemic struck.

"This was really the first time that the CRT programmes and their securities were tested, along with Freddie Mac's ability to manage an unforeseen crisis," said Mike Reynolds, vice president of credit risk transfer.

The ensuing liquidity crisis struck all asset classes, but despite plunging prices and forced margin calls the secondary CRT market never shut. Using a mixture of new and existing loss-mitigation, forbearance and deferred payment programmes, Freddie supported borrowers and demonstrated vital expertise and flexibility in how to manage risk. The result was that by June 2020, the issuer was reigniting the primary market with fresh deals and welcoming new participants.

"It reinforced the high level of confidence investors have in our competence as an active credit risk manager," says Reynolds.

Freddie cemented its place as a market champion despite facing another headwind – this time on the regulatory front. The Federal Housing Finance Agency (FHFA) – Freddie Mac's regulator and conservator – introduced new capitalisation rules in 2020 that took effect in February 2021. When it came to CRT, these rules required additional capital to the extent that the issuer was forced to re-evaluate its whole programme.

"In the end we determined it still made sense to issue CRT although probably at lower levels – not transferring the same volume of risk that was coming in the door," says Reynolds. But then in September of 2021 the FHFA issued amendments that, if finalised, will significantly improve the economics of CRT issuance. The amendments include increasing capital relief for CRT, lowering credit risk capital requirements on pandemic-affected single-family mortgage borrowers and essentially better-aligning Freddie Mac's capital requirements with those of other market participants.

This would be a welcome boost at a time when the issuer is working on adapting CRT to new challenges like climate change and sustainability. "We're looking at what we could be doing to align CRT with different investor mandates," says Reynolds. "Whether that's supporting energy financing, climate resiliency or anything else across the ESG space. We are reaching out to investors to see what changes we can make."

When it comes to coping with risk the issuer has scale on its side. Freddie's programmes are designed to pool 100,000 or more mortgages together on a national scale. As a result, when disasters strike the net impact on a mortgage pool is very small. Even large-scale events result in losses of only a couple of basis points.

This focus on addressing emerging risks occurs against a backdrop of constant innovation across its CRT platforms. In September, the issuer announced an inaugural tender of seasoned Structured Agency Credit Risk notes - helping it manage its portfolio and stabilise the secondary market. Recent structural innovations include early call options and a 20-year final legal maturity. Freddie Mac has also made enhancements in response to lessons learned from the 2008 crash and the pandemic.

"We find the best way to minimize losses is to offer modifications to the borrower," says Reynolds. "It reduces foreclosures, which is good for the borrower, the neighbourhood, us and our investors." The deferred payment programme that the issuer used to help borrowers during the pandemic, he adds, will now be counted as a modification event going forward.

Mike Reynolds
Vice president of credit risk transfer

In the short term, Freddie still has high guaranteed volumes of CRT transactions through its MBS programme. Rising interest rates could curb issuance, but over the longer term the economic fundamentals in US residential property are exceptionally strong.

Millennials are the country's largest generation and coupled with historically low rates of home ownership, the demand dynamics for mortgages looks to be healthy for some time to come. Indeed, with an ever-growing investor base and consistent oversubscription, Freddie's CRT programme will continue to channel global funds into a thriving market.

"We're at over 290 unique participants in the programme and a really broad distribution," says Reynolds. "We absolutely want to be pulling more capital into this highly attractive space."

Not everyone expects delivery of the bill to be quick and easy either. Some believe it will take longer than anticipated due to how busy Congress's schedule has been with other legislation in the past few months.

"We're not optimistic that it will be picked up any time soon, just given other Congressional priorities and the multi-jurisdictional complexity of the issue," says Youngman. "Unfortunately, securitizations in particular — like certain other types of debt instruments — can be very difficult to change."

Thanksgiving crossroads

In the US CLO market, market participants will spend even longer figuring over how the Libor transition will work, even with the help that the new legislation may provide.

It is a sector of the market that may have flown in 2021 in terms of growth and issuance volume, with supply expected at the time of writing to hit $150bn by year-end, but it lags behind in the adoption of Sofr and, at the time of writing, had produced only two tranches linked to the new benchmark rate, let alone a full deal.

But that is expected to change as the end of the year approaches with the Thanksgiving holiday out of the way.

New issues typically take four to six weeks from pricing to the closing date, and market participants want to avoid headaches with deals priced in the Libor era having their closing dates spill into 2022.

That means that deals priced late in the year will be most likely to reference Sofr as institutional buyers avoid lumbering themselves with Libor-based products for the new year.

"By mid-December, it is unlikely that many new money Libor referencing CLOs will price," says Scott Macklin, director of leveraged loans at AllianceBernstein.

Right adjustment

So far, only two managers have brought deals that reference Sofr. In October, Onex Credit Partners reset a CLO originally printed in 2015 and included a liability tranche linked to the new benchmark rate. Then, in mid-November, Marathon Asset Management became the first manager to issue a new CLO priced off Sofr.

That raised another concern, which is the spread adjustment to be made between Libor and Sofr. Marthon's deal implied a 20bp spread adjustment to Libor.

But adding such a spread worsens the economics of CLOs. Bank of America analysts calculated that if that 20bp spread adjustment had been applied to the whole capital stack, the arbitrage in the deal would fall by 10bp, hitting the equity tranche.

The Alternative Reference Rates Committee (ARRC) recommendation is to make a 26bp spread adjustment, creating a battleground for equity and liability investors.

The basis between Libor and Sofr in the rates market is closer to 10bp-11bp, illustrating a large disconnection between the ARRC recommendation and reality.

"CLO equity investors believe the spread adjustment should equate to that current market differential," says Macklin.

"However, existing liability investors have a vested interest in establishing a standard basis at wider levels because many existing Libor-referencing CLO deals contain language in their documents allowing for a benchmark transition at market levels," he says. "As a result, there is a significant bid-offer between CLO liability and equity investors as to the right spread adjustment levels."

"By mid-December, it is unlikely that many new money Libor referencing CLOs will price"

Scott Macklin, AllianceBernstein

Market sources believe the CLO market will find a balance but until it does, Sofr-based issuance will be hindered.

Difficult legacy

Many CLO managers, particularly the smaller ones, have preferred to wait before pricing deals to see how the transition shakes out.

"The market is ready," says Chris Jackson, a partner in the securitization practice at Allen & Overy. "It takes a few transactions linked to Sofr before the market will know what the boundaries of the negotiations between debt and equity are."

Law firms, after a frenzied year of US CLO issuance, are once again fielding questions about — and examining the documentation of — legacy deals.

There are various provisions in place. CLOs done in the last 12-18 months have contained clauses dictating that Sofr will become the benchmark rate 60 calendar days after notice of a benchmark rate transition. Other CLOs have fall-back clauses that allow CLO liabilities to flip to referencing Sofr once 50% of the underlying loan assets also pay a rate based off the new benchmark.

The challenge will be refinancing older deals. "Some provisions from three or two years ago say that you can replace Libor on all the notes with any rate that the controlling class [the triple-A rated tranches] consents to," says Jackson. "A manager can replace a triple-A investor with a new investor that requires Libor fall-back language.

"Then a triple-B investor, whose fall-back rate could be determined by the consent of the triple-A investor, is subject to a different set of Libor fall-back provisions. You might have two regimes that apply for determining interest on two different portions of the debt, two sets of rules. That is a sort of a strange result that we may or may not see in the future." GC

Robust securitization market on course for a stellar 2022

The European securitization market is on course to break issuance records in 2022, as it comes to the end of one of its best years since the global financial crisis. **Bill Thornhill** reports

At roughly €72bn, 2021's securitized issuance was just shy of breaking the post global financial crisis high of €73.5bn set in 2018. Rabobank expects a similar volume in 2022, although JP Morgan is calling for €85bn, which would be the highest since the global financial crisis.

Although supply was vigorous, it was a year of two halves. Excluding jumbo refinancing, ABS volume was "relatively light in the first half of 2021", says Colin Parkhill, head of European ABS and CLO syndicate at Deutsche Bank. But thereafter volumes picked up, with deals being well absorbed by cash-rich investors.

At about €35bn, half of 2021's supply was made up of RMBS, with almost 60% of that being UK non-conforming RMBS. The next largest component was auto ABS, which, at almost €19bn, accounted for a little over a quarter of total supply.

In contrast, UK and Dutch prime RMBS, which had been the biggest contributor to the securitization market a decade ago, was diminutive and accounted for less than 10% of overall volume.

The past year was also notable for its performance, with the magnitude of spread compression in European ABS outperforming the rest of the fixed income market, according to JP Morgan. This was particularly the case with UK securitizations, which, it said, had been "the clear outperformers".

Even so, at the senior level, non-conforming UK RMBS widened 10bp-12bp in the final quarter of the year, as investors became more selective and liquidity began to dry up. Parkhill believes this is likely to prove a temporary phenomenon, noting that non-conforming UK RMBS has begun to attract more bank investors. With budgets refreshed in January 2022, he expects a partial correction of this modest widening early in the year.

All in all, it has been an inspiring year, according to Rob Ford, a portfolio manager and founding partner of TwentyFour Asset Management. "We have had an encouraging year, with issuance up, spreads well supported and strong demand," he says.

The spread performance has been particularly marked at the mezzanine level — with, for example, 'E' and 'F' class notes of SC Germany's consumer loans ABS deals respectively tightening by 120bp and 180bp compared with a year ago.

"There has been a good pick-up in demand for mezzanine paper from established and new names, causing the credit curve to tighten somewhat," says Ford.

"It would be sad to see the market shrink, but I would be surprised to see significant growth"

Rob Ford, TwentyFour Asset Management

The strong performance was all the more surprising for the fact that Covid-related lockdowns had persisted for much of the first quarter when payment holidays were in force across much of Europe and the UK.

In theory, the impact of these measures should have affected the credit performance of a wide swathe of the securitization market, especially in the mezzanine notes. In reality, credit performance turned out to be stable.

"Despite the massive dislocation in 2020, the securitization market has performed well through the pandemic," says Miles Hunt, head of private credit syndicate at NatWest Markets, who draws particular attention to improvements in transparency.

Since the global financial crisis, regulators, issuers and trade associations have put a lot of effort into improving transparency, which culminated in the Simple, Transparent and Standardised label initiative that is designed to ensure noteholders receive regular, informative updates on their investments.

Just as importantly, banks can expect preferential capital treatment for STS-compliant investments, thereby improving demand, effectively enabling issuers to lower their funding costs.

"The feedback loop between investors and borrowers is working," says Hunt. "Regular standardised reporting, which provides investor comfort, enables borrowers to access the markets and, in return, investors maintain ownership — or buy more, as they can see how the pools are performing."

Taking all this into account, and disregarding the arrival of the Omicron variant, the European ABS market enters 2022 in an exceptionally strong position, implying it is set up well for growth. "I don't think the number stays flat to 2021," says Hunt, with reference to the coming year's issuance. "I think it goes up, with more prime STS labelled supply, in particular, alongside more CMBS and CLOs."

RMBS churning

Volumes should also be propelled by the large amount of UK RMBS that will need to be refinanced. A considerable amount of legacy UK non-conforming and buy-to-let legacy RMBS are coming up to their coupon step-up dates in 2022, according to Cas Bonsema, ABS analyst at Rabobank. Given spreads are not far from their historic lows, he expects most of these portfolios to be refinanced, which is bound to boost volumes.

In this regard, Bonsema says February could prove to be a particularly active month as about £7bn buy-to let UK RMBS loans originated by Bradford & Bingley will reach their coupon step-up date and will therefore probably be refinanced.

But despite this sanguine picture, not everyone is totally convinced 2022 will be a stellar year. "It would be sad to see the market shrink, but I would be surprised to see significant growth," Ford cautions, noting that some established non-bank UK RMBS issuers are planning to leave the market or cut their appearance.

Apollo is increasing its mortgage activity using cash from its Athene and Athora insurance companies. Fortress is looking for mortgage assets, after buying Foundation Homes. Though Pimco securitizes mortgage portfolios, these are structured and sold within the organisation.

Added to that, some specialist lenders may choose to follow Charter Court Financial Services and OneSavings Bank, which merged to create a £1.6bn deposit-funded lender, effectively removing the need for RMBS issuance. Kensington Mortgages has signalled it is up for sale, suggesting its mortgage portfolio could be bought by an institution with no need for capital market funding.

Ford hopes that this potential contraction will be balanced by growth in other areas such as the prime RMBS sector. Some prime RMBS bank originators, that have not syndicated deals since the onset of Covid, are expected to return in 2022, says Parkhill, who wonders whether their return might cause the spread differential between prime and buy-to-let RMBS to compress.

But, as far as eurozone issuers are concerned, Bonsema is less convinced. He says that Targeted Longer Term Refinancing Operations liquidity will not need to be repaid until 2023-2024 and, along with high deposits, he thinks there won't be a large increase in prime RMBS in 2022.

SRT booming

Notwithstanding this mixed prognosis, parts of the market are expected to remain forceful. One such sector is the market for significant risk transfer (SRT). SRT trades allow issuers to sell the riskiest credit exposures sitting on their balance sheet, thereby reducing their capital requirements.

On the other side, investors get an opportunity to consider and potentially buy higher yielding subordinate exposures. In a negative yielding environment SRT investments can provide a much-needed boost to their returns.

Though SRT issuance fell at the start of 2020, it bounced back strongly and has continued to grow throughout 2021, setting it up for a strong 2022. The SRT market "should get even bigger in 2022, as conducive regulation and enhanced transparency bring greater liquidity and, with that, issuance," Hunt says.

In November 2020 the European Banking Authority published a landmark report on the SRT market with the aim of streamlining and harmonising the various approaches taken by different national regulators across Europe in a move that was expected to provide certainty and predictability.

As a consequence, the SRT market began to flourish, as regulatory certainty paved the way for issuers to come to the SRT table and provide potential buyers, such as TwentyFour Asset Management, with an opportunity to juice up their returns.

Ford says his firm had been active in the market for SRT trades, giving prodigious access to mezzanine assets down the capital stack — "after all, man cannot exist on bread [seniors] alone".

Issuers can either keep assets on their balance sheet and transfer credit risk synthetically, usually with a private placement. Or they can transfer assets into a special purpose vehicle and sell a full capital stack of notes that is often rated down from triple-A to single-B.

In this respect, Santander Consumer Loans Germany has been a standout and regular issuer in size. It was lately seen in the market with SC Germany, Compartment Consumer 2021-1, a full capital stack transaction which noticeably attracted the strongest demand in the most junior notes.

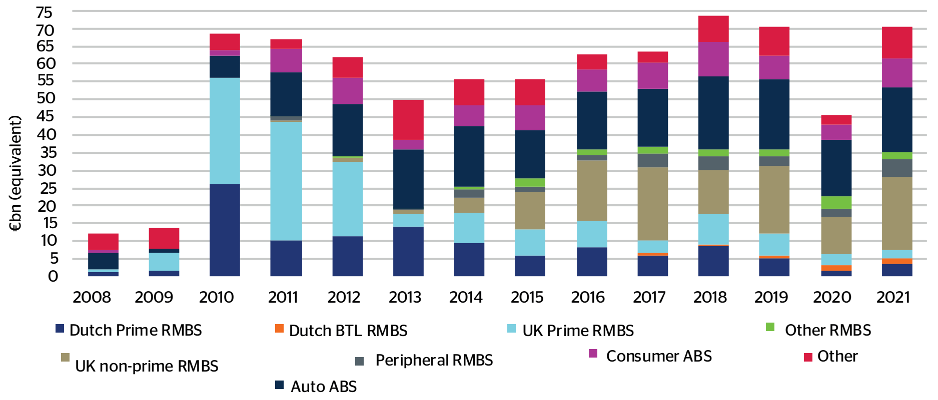
Issuers like these are expected to become a regular feature of the ABS market in 2022, according to Bonsema. "We again expect to see full capital stack deals in the mix, where in certain cases balance sheet relief can be achieved next to a funding objective."

Bankers are also optimistic on the outlook for CLOs. Record European CLO issuance, which exceeded €30bn in 2021, is expected to remain as strong in the coming year, according to Barclays, which forecasts €30-35bn of CLO issuance in 2022.

Hunt is also optimistic, noting that a lot of capital has continued to flood into private equity, fuelling the supply of high yield bonds and leverage loans, of which roughly 45% is bought by CLO managers.

Spreads should also stay well supported. According to the head of European CLOs at Deutsche Bank, Nikunj Gupta, Libor transition to Sofr in 2022 presents a source of uncertainty. This could result in lower US CLO volumes and, as such, "it's possible that some US CLO investors will start to look more closely at the European market," he says. GC

European ABS issuance volumes



Source: Rabobank ABS research

Winners were those brave enough to grab opportunity

Money poured into corporate investment grade bond funds in 2021, while many sectors were still coming out of lockdowns. Supply/demand dynamics were heavily in favour of borrowers. The deals below were outstanding for their ability to push the limits and take advantage of the favourable conditions

CORPORATE BOND OF THE YEAR

Vonovia

€500m 0% September 2023
€1.25bn 0% December 2025
€1.25bn 0.25% September 2028
€1.25bn 0.75% September 2032
€750m 1.65% September 2051

Bank of America, Morgan Stanley and Société Générale

In a year when entire sectors were picking through the debris of the coronavirus pandemic, the real estate sector came steaming into the bond markets to move from the sixth largest issuing sector to the first; and none took the reins of the market more so than German landlord Vonovia.

To finance its purchase of Deutsche Wohnen, and become one of the biggest residential landlords in Europe, the company completed €9bn of bond sales over the summer. But it was the larger deal in August that takes the prize. Vonovia proved that even a jumbo trade can be nimble when the borrower surprised the market by coming early to avoid the September rush. The issuer printed in size — at the time it was the largest deal of the year and was only surpassed in size by one other trade. And it went long, with a 30 year tranche that investors found tricky to evaluate for fair value because there just were not many other liquid notes at that maturity outstanding from real estate issuers.

The issuer could not have known this at the time, but opting to risk an August deal rather than wait for the thick of it in September proved to be a shrewd move, as the market quickly plunged into volatility and deteriorated for issuers as the year went on.

DOLLAR CORPORATE BOND OF THE YEAR

Amazon.com

$1bn 0.25% May 2023
$2.5bn 0.45% May 2024
$2.75bn 1% May 2026
$2.25bn 1.65% May 2028
$3bn 2.1% May 2031
$2bn 2.875% May 2041
$3.25bn 3.1% May 2051
$1.75bn 3.25% May 2061

Citi, JP Morgan, Morgan Stanley and Wells Fargo

Amazon.com could have been crowned with dollar corporate deal of the year for a few reasons. At $18.5bn, the size of the trade is certainly worth commending. The range of maturities on offer, too, is notable, with $5bn of the debt sold maturing at 30 years or longer.

However, it was the spread of the May 2023 tranche that really put Amazon.com at the top spot for dollar deals. The issuer, a corporate rated A1/AA-, sold two year debt that came in at just 10bp wide of US Treasuries — a record tight to US government debt from the corporate sector.

The coronavirus pandemic has been a boon for Amazon.com, pushing more people than ever away from physical shops and into online buying, but until Amazon.com achieved it, printing a hair's breadth away from where the US government can fund was almost unimaginable. Even the 40 year portion only paid 95bp over the comparable US Treasury. The rates market has since sharply turned, inflation is rocketing and rates rises are expected across the West, meaning Amazon.com's feat is unlikely to be replicated any time soon.

CORPORATE SRI BOND OF THE YEAR

Hennes & Mauritz

€500m 0.25% August 2029

BNP Paribas, Commerzbank, Danske Bank, SEB and Standard Chartered

Swedish fashion retailer H&M had never been to the bond market before 2021, but the stars aligned for it to benefit from one of the hottest trends in Europe's capital markets and print the year's standout SRI trade.

H&M opted for a sustainability-linked structure as it debut, something that was rare at the time but has evolved into a strong trend and is expected to become more commonplace through 2022.

H&M's trade was the first sustainability-linked deal to be eligible for the ECB's Corporate Sector Purchase Programme, which no doubt helped it gain an 11 times oversubscription and negative concession. Other debut issuers sought to print ESG debt for their first forays into the market as a result.

The key performance indicators helped H&M clinch the award. In one of the most watched sustainability-linked bonds yet, it included KPIs away from the standard and generalised reduction of greenhouse gas pledges, and adapted its targets to suit its industry, with financial ramifications if the company fails to use more recycled materials in its clothes making.

STERLING CORPORATE BOND OF THE YEAR

Tesco

£400m 1.875% November 2028 sustainability-linked bond

Citi, HSBC, Lloyds and NatWest Markets

The UK grocer made a bold choice to return to its domestic market to print its second sustainability-linked bond in October. The structure is rarely seen in sterling, and Tesco found roaring demand in euros for its debut sustainability-linked bond earlier in the year. On paper, it seemed going to euros, printing tight and swapping back to sterling was the best move.

Nonetheless, it wanted to shop local for its second SLB and, in doing so, showed the demand for the still-nascent structure among UK investors.

It rang up £1.8bn of orders at the tight end of guidance, launching 25bp inside initial price thoughts at 110bp over Gilts. Other sterling issuers noted what Tesco achieved. Sustainability-linked issuance in sterling remains rare, but Tesco showed the demand for such deals, which will no doubt be on sale far more often in the coming years.

HIGH YIELD CORPORATE BOND OF THE YEAR

Asda LBO

£2.25bn 3.25% February 2026 secured notes
£500m 4% February 2027 unsecured notes

Barclays, Deutsche Bank, Morgan Stanley, Bank of America, Lloyds, Rabobank and HSBC

The high yield bond market smashed records with over €125bn of euro high yield paper printed in the first 11 months, driven by high levels of dry powder in private equity and good buyside appetite for junk debt.

The financing of the acquisition of UK grocer Asda by the Issa brothers and TDR Capital showed the depth of the sterling high yield market — often derided as too shallow for large transactions. Left lead Barclays reported more than £5.5bn of orders for the secured tranche and £2.75bn for the unsecured tranche — unprecedented demand. It was the largest sterling corporate bond ever, the tightest sterling high yield debut, the largest single tranche in European high yield and the largest unsecured bond in sterling high yield. It also prompted a private equity rush to find other grocers to buy out.

Corporate volumes to rebound sharply in 2022

A *GlobalCapital* survey of senior bond syndicate bankers working across Europe's high grade corporate bond market points to a sharp turnaround in issuance volumes in 2022, but that volatility in rates will mean it will be a tricky year for companies and their bankers, who will need to be agile if they are to get the most out of an increasingly hostile and choppy market. **Mike Turner** reports

Investment grade euro denominated corporate issuance for 2021 was trudging along at €356bn by mid-November, just as an end of year issuance spurt typified by small benchmark-sized deals was getting under way.

A year earlier, when issuers were in the midst of the coronavirus pandemic and raising funds from every avenue available — from dusty, never drawn revolving credit facilities to billions of new debt on the bond market — the end of November had seen €499bn of primary market issuance for the year, according to Dealogic.

Even ignoring 2020, a freak year against almost every metric, 2019 boasted €403bn of issuance by the end of November, and €413bn for the entire year.

The main reason issuers kept away from the bond markets in 2021 was that they were still sitting on the enormous cash piles they had built up a year earlier. This is widely expected to change in 2022.

None of the syndicate officials surveyed, admittedly before the Omicron variant emerged, thought that 2022 would have less issuance than 2021. Only one thought that issuance levels would be around the same.

There was some disagreement over how optimistic to be for 2022 volumes. Most respondents, 81%, thought that issuance would be higher, but not more than 20% higher in volume than the market saw in 2021.

If the majority's prediction is correct, syndicate desks can expect to place about €420bn of deals in 2022.

There were some outliers who were even more optimistic, with 12.5% of respondents reckoning that issuance in 2022 will be more than 20% higher than it was in 2021.

Much of this issuance is likely to come from a resurgence of M&A activity, according to multiple respondents. In 2020, no sector leapt on pandemic-created opportunities as readily as the real estate sector, going from sixth biggest to the biggest issuer in Europe's high grade corporate bond market. By October, property companies had printed €45bn in bonds, despite having only €1bn of redemptions due in 2021.

Germany's Vonovia stole the show, printing a €5bn multi-tranche trade in August to finance its acquisition of Deutsche Wohnen. At the time, Vonovia's deal was the biggest of the year, and was trumped only by Thermo Fisher Scientific's €5.25bn M&A related trade in October.

Multiple syndicate officials said they thought technology — in particular, business-to-business and white collar work technology — is ripe for consolidation in the coming year.

Spreads edging upwards

The sort of market that will be waiting for issuers is under intense debate. If 2021 was characterised by investors bursting at the seams with cash that they were desperate to put to use, 2022 is expected to see the needle swing the other way, with borrowers needing to be nimble if they are to get the most out of an increasingly hostile, volatile market.

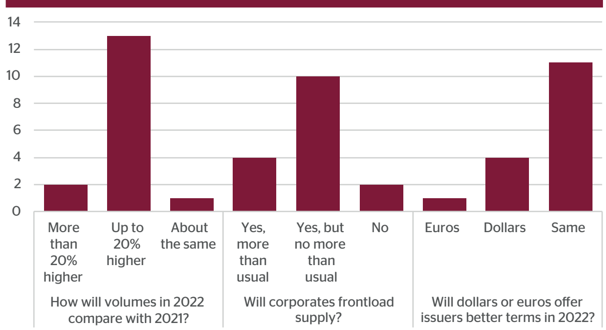
Every banker questioned believed that spreads would either stay the same or rise, with by far the majority of bankers falling into the latter camp. In total, 87.5% of respondents said they thought credit spreads would rise in 2022, with the remaining believing they would be largely flat.

"Spreads have come grinding in all year," said one syndicate banker who thought a rise was coming in 2022. "Investors are already becoming more picky with what they buy. If issuance starts again at decent levels, they are not going to go chasing deals all the way down like they were at some points in 2021."

The spread rise is likely to be smooth and steady, with almost all respondents believing that credit ratings in the sector are likely to, on average, stay the same in 2022. Only 12.5% thought that they would fall.

The net balance between credit rating moves for corporates globally typically varies between 2% either way over

Corporate bonds in 2022: higher or lower?



Source: GlobalCapital

the course of a year, according to research from credit risk aggregator Credit Benchmark. The onset of the coronavirus pandemic saw a negative move in global corporate credit ratings of almost 5%, while the recovery at the end of 2021 saw an almost 6% net positive move in ratings.

Clearly, Europe's high grade corporate syndicate bankers believe that rating agencies have made the majority of the moves they are going to make relating to the coronavirus pandemic, and 2022 should be a smoother year for ratings action than the past 12 months.

Rather than rating cuts, a big driver of spread rises in 2022 is likely to be focused on macro events, in particular inflation and central bank reaction to it, and their potential effect on pandemic-era monetary policy. Inflation, which had been widely expected to prove transitory, remained stubbornly high across Europe in the latter half of 2021.

Bank analysts see inflation in the UK hitting 4.5% in 2022, peaking in April, and many in the market were shocked that the Bank of England did not raise its interest rate from its record 0.1% low at the start of November to combat the rising cost of goods and services. Despite the November surprise, the BoE is still expected to be the first of the most important Western central banks to raise rates since the start of the pandemic

Meanwhile, Christine Lagarde at the European Central Bank said in November that rate rises are unlikely in 2022, though not impossible. Eurozone inflation was running at 13 year highs in October of 4.1%, up from 3.4% a month earlier. In the US, inflation hit a 30 year high of 6.2% in October, and the Fed has started tapering its monthly asset purchases of Treasury and mortgage bonds by $15bn from December.

Get it while you can

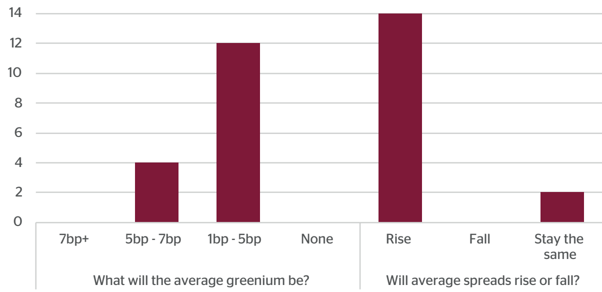
With so much potential for macroeconomic upset, corporates might be tempted to come to the market sooner rather than later, and frontload their issuance into the first quarter of the year.

Of those asked, 25% of syndicate bankers thought that there would be more frontloading of issuance among Europe's top rated corporate names, while 12.5% reckoned that corporates would not come to the market any sooner to try to mitigate potential rate rises.

The remaining 62.5% of respondents thought that corporates would load supply into the early stages of the year, but not any more than usual. This means refinancing exercises due in 2022 should be taken care of in the first half, with the second half more likely to be populated with juicy M&A related deals, if Europe's syndicate bankers are correct in their forecasts.

Despite the potentially volatile rates environment and high inflation, syndicate bankers are unanimous in their belief that investment grade corporates will not face refinancing risk as a result of rate hikes. All respondents said it was "unlikely" that borrowers would struggle to refinance their debt in 2022. "You had airlines getting deals done this year," said one respondent. "There will be a price to pay, but look at the low coupons some of these troubled sectors are paying."

Spread expectations



Source: GlobalCapital

It is not just the euro markets open to many of Europe's high grade corporate bond issuers, however, with many names opting for dollar deals in 2021 as well as trades in their home market. BMW printed $2bn in March from a $7bn book, and in July Italian utility Enel sold the largest ever sustainability-linked bond into the dollar market in a $4bn trade that garnered $12bn of demand.

A chunky 37.5% minority of Europe's syndicate bankers, some of whom have consistently been bullish on the US domestic market for European corporates in conversations with *GlobalCapital* throughout the past year, thought that the dollar market would provide a better source of funding for corporates with access to both markets.

Only one respondent thought euros would be better, while the remaining bankers said that both markets would prove roughly equivalent. The consensus among these respondents is that dollars would be there for large sizes, such as M&A, while euros would be available for miniscule coupons.

Lustre leaving ESG

Europe remained the dominant market for environmental, social and governance bonds in 2021 and this should continue throughout 2022. But the spread benefit that issuers get might start to dissipate as the year goes on.

At the beginning of 2021, ESG bond issuers could expect to enjoy a 5bp-7bp greenium over their conventional curves. A quarter of survey respondents thought that this greenium level would hold throughout 2022 — this despite new ESG deals in the September and November 2021 issuance windows seeing the greenium vanish completely, with some corporate issuers even needing to pay a premium over their conventional curves.

As such, the majority of respondents, some 62.5%, think that ESG issuers will see a smaller benefit over their conventional curves in 2022, with average greeniums sitting at around 1bp-5bp.

One particularly pessimistic respondent thought greeniums would fall to zero. However, while his syndicate rivals may disagree, a growing number of ESG bankers and corporate treasurers also believe that the greenium is on borrowed time as ESG capital structures become the norm. With corporates such as Enel and Total committing to issuing only sustainability-linked debt from now on, and others set to follow, the mainstreaming of ESG finance is already well under way. GC

Companies prepare for borrowing screws to tighten in 2022

Money poured into credit funds in 2021 but many companies instead sustained themselves on the cash they had raised during the pandemic. Those borrowers that did wade in were treated to dream-like conditions. This is expected to change in the year ahead. **Mike Turner** speaks to a selection of company treasurers about what 2022 has in store

The first corporate bond deal of 2021 set the tone for the rest of the year. The finance division of German car company BMW sold €1.5bn of 2026 and 2033 dated bonds on January 4, having attracted €7.3bn of demand. Both tranches came flat or slightly through the curve. Similar results continued throughout the year for issuers across the ratings spectrum.

"Our funding cost continuously saw very attractive levels, with credit spreads offering an almost flat curve to us," says Fredrik Altmann, director of corporate finance at BMW. "There is still ample liquidity in the respective capital markets [and] our order books have been decently covered."

The favourable conditions hit a few patchy spots — when inflation started rising in the spring, for example, or when the rates market became increasingly volatile over the autumn — but conditions were mostly highly beneficial to borrowers, giving those that were willing to put their heads above the parapet the chance to scoop up company record deals.

Dutch transmission system operator Tennet sold its largest ever deal in 2021, with a €1.8bn triple tranche trade split across 6.5, 10 and 20 year maturities. It came back in November to print a €1bn long 13 year note – its largest ever single tranche.

"The favourable supply and demand dynamic enabled us to achieve new milestones with our forays into the bond market this year," says Gerard Kits, head of treasury at Tennet. "We have also been able to price our bonds favourably despite issuing in the market twice this year, highlighting the opportune dynamic for regular issuers like ourselves."

The strong conditions also allowed debut names to come to the market, frequently with spectacular results. German residential real estate company Howoge, rated A/AA-, rode a wave of demand for low beta, defensive issuance in October to sell a €1.7bn debut deal from €9.5bn of demand.

The deal "establishes Howoge's access to the capital markets," says Thomas Felgenhaur, Howoge chief financial officer, who adds that future capital markets issuance will be used to "sustainably support social housing construction in Berlin".

Access to the bond market also lets the company "significantly reduce its current refinancing costs and keep rents stable", added Felgenhauer.

Supply fall

Despite the stellar opportunities available to borrowers throughout most of the year, demand for debt dwarfed supply. Issuance from investment grade corporates in euros was €365bn by mid-November, according to Dealogic. A year earlier saw €499bn printed by the end of November, while 2019 clocked up €403bn in the same period.

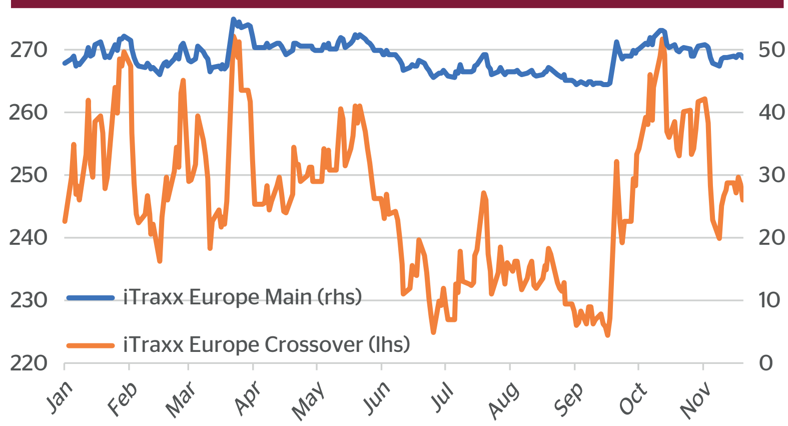
At the same time, money poured into credit funds, leaving investors complaining of being awash with cash with few places to put it. Anecdotally, available bonds became increasingly scarce in the secondary market as the year went on, with investors clinging on to their allocations and snapping up anything that became available before it fell into the all-encompassing and price-insensitive vacuum of the European Central Bank's Corporate Sector Purchase Programme.

In 2022, unless the spread of the Omicron variant of the coronavirus dictates otherwise, a return to normality is anticipated for corporate spending, with capex plans being ramped up. Royal Dutch Shell, for example, is expected to spend $3bn more in 2022 than 2021, while Total is expected to spend around $2bn more than the $13bn in 2021 capex, going from the companies' respective third quarter results presentations.

With increased spending comes more bond supply, swinging the pendulum back in the favour of investors, and likely widening spreads.

Adding more pressure to spreads is stubbornly high inflation across the

Main and Crossover spreads — 2021



Source: IHS Markit

West, as supply chain problems and labour shortages meet sharply rising energy prices.

With inflation running at 6.2% in the US in October, a 30 year high, at 4.1% in the eurozone, a 13 year high, and expected to hit 4.5% in the UK by April 2022, issuers are keeping a close eye on how central banks might act.

"The increased rates and broader market volatility has been, at times, challenging to navigate in terms of pinpointing ideal windows for market access," says Kits at Tennet.

"A macro event that is expected to be a non-event by the market consensus may not turn out to be exactly that, which challenges issuers and their bankers to prepare for the unexpected."

Central bank shocks

One of those non-events came in the final quarter, with the Bank of England keeping its rate unchanged after its November 4 meeting, defying widespread market expectation of a rate rise in response to higher inflation. The shock sent 10 year Gilt yields tumbling and sterling selling off against the euro. For sterling funded corporates, the background noise meant they had to sit out of the market for a few weeks and wait for conditions to stabilise.

Volatility died down less than a week later, and issuers such as Derwent London and TP ICAP were able to print successful deals in the currency. But it was a stark reminder to issuers about the hold that central banks have over the corporate bond market even when central banks decide to sit on their hands and change nothing

The year ahead will almost certainly bring moves by central banks. The BoE is expected to raise its base rate twice, after an expected increase in December. Soaring inflation in the US means the Fed is set to raise rates by next summer, after starting to taper its Treasury and mortgage bond purchases in December.

ECB president Christine Lagarde has said that it is unlikely there will be rate rises in 2022, but the Bank will wrap up its Pandemic Emergency Purchase Programme in March. While this programme has almost exclusively focused on public sector debt, it still causes some liquidity to drain out of the market at the periphery, putting upward pressure on corporate credit spreads.

"The increased rates and broader market volatility has been challenging to navigate in terms of pinpointing ideal windows for market access"

Gerard Kits, Tennet

"Market sentiment in 2022 in general will be highly depend on central bank positioning," says Altmann at BMW. "We will closely monitor the investment flows in the respective markets, as this is one major driver of our credit spreads."

For a company with a large financial services arm with interest bearing assets like BMW, credit spreads "are of more importance than total yield", says Altmann, "because of the nature of what we refinance".

Green rockets

As well as central bank influence, a continuing trend for 2022 will be the sustained rise of environmental, social and governance finance.

Debt related to green endeavours fell slightly out of favour with corporate bond investors in the closing weeks of 2021, with new issue concessions rising to the double digits for green deals. Some of this was due to the sharp rise in supply. Sustainable bonds are, according to Moody's, on course to top $1tr of annual issuance for 2021 — a record.

"One of the most obvious and growing opportunities is the ever-growing bid for sustainable bonds," says Kits at Tennet. "It is certainly helpful to have a strong following and credentials in this regard, as investors increasingly differentiate between the 'haves' and 'have-nots'."

Tennet, which issued its first green bond in 2015 and has been a regular issuer in the structure since, would likely consider itself one of the 'haves'.

But even issuers with plenty of data points on their green curve need to remain nimble going into 2022.

2021 was the first full year under the European Union's Taxonomy for Sustainable Activities, and borrowers will have to stay on top of their frameworks to remain compliant.

Most recently, there has been pressure for gas and nuclear energies to be added to the Taxonomy, a possibility that a spokesperson for non-governmental organisation World Wide Fund for Nature called "a scientific disgrace that would deal a fatal blow to the Taxonomy".

"Our Green Financing Framework has been set up with the aim to continuously respond to changes in the industry and best market practices and expectations," says Kits at Tennet

"As such, the intention will also be to consider alignment of the framework with the EU Taxonomy/EU Green Bond Standards once these are finalised."

Adding to the corporate ESG supply in 2022 will be a growing number of issuers announcing, frequently with great fanfare, that they are switching their entire bond programme to ESG-related issuance. Total made such an announcement in 2021, as did Enel in 2019.

This will likely increase supply and shrink the spread benefit that corporate issuers can expect from ESG issuance even further.

Not that this is a problem for everyone. "Personally, I do not believe in the concept of a 'greenium'," says Altmann at BMW.

Even if companies do not switch their entire debt stack to ESG, the focus that treasurers are putting on ESG credentials cannot be understated. It is now commonplace to see ESG slides prominently displayed in a bond's market materials, even if the bond is conventional.

"We have taken a holistic approach towards sustainability," says Altmann. BMW issues a mix of conventional and labelled bonds. "Financing only single projects or activities with 'green' labelled financial products is too short-sighted," he says. "A green bond does not imply anything about a company's sustainability performance."

He adds that "every investment in the BMW Group is a sustainable investment — even without a green label. We are in constant dialogue with both ESG focused investors as well as mainstream investors. We receive positive feedback on this approach, including participation of ESG-investors in our bonds." GC

The 19th Annual Syndicated Loan and Leveraged Finance Awards nominations

GlobalCapital polled loan market participants for its 19th Annual Syndicated Loan and Leveraged Finance Awards in November. The nominations are listed below, in alphabetical order. We will reveal the winners at our industry dinner in London in February. Further details about the event will be set out on our website in December. We congratulate the nominees.

For information about how to attend our industry event, please contact Daniel Elton at *delton@euromoneyplc.com*. For editorial, please contact Toby Fildes at *toby.fildes@globalcapital.com*.

DEALS OF THE YEAR

DEAL OF THE YEAR

Asda
£1.6bn February 2021

Daimler Trucks
€18bn August 2021

EIG Pearl
$11bn June 2021

Vonovia
€20.15bn August 2021

LEVERAGED LOAN OF THE YEAR

Anticimex
$2.7bn-equivalent July 2021

Asda
£1.6bn February 2021

Ineos Quattro
$4.8bn-equivalent January 2021

T-Mobile Netherlands
€2.4bn November 2021

M&A LOAN OF THE YEAR

AerCap
$19bn March 2021

EIG Pearl
$11bn June 2021

Veolia
€9bn July 2021

Vonovia
€20.15bn August 2021

EMERGING MARKET LOAN OF THE YEAR

Egypt
$3bn November 2021

EIG Pearl
$11bn June 2021

Public Investment Fund
$15bn March 2021

Telecom Egypt
$680m October 2021

INFRASTRUCTURE FINANCE LOAN OF THE YEAR

EIG Pearl
$11bn June 2021

GlobalConnect
€2.7bn June 2021

Unsere Grüne Glasfaser
€1.6bn March 2021

RENEWABLES LOAN OF THE YEAR

Dogger Bank Wind Farm
£5.5bn November 2020

EDF Courseulles-sur-Mer
€2bn March 2021

Eoliennes Offshore du Calvados
€2.12bn February 2021

2021 GlobalCapital LOAN AWARDS

REGIONAL DEALS OF THE YEAR

UK AND IRISH DEAL OF THE YEAR

Asda
£1.6bn February 2021

AstraZeneca
$12.5bn December 2020

Huws Gray
£1bn November 2021

National Grid
£8.25bn April 2021

FRENCH DEAL OF THE YEAR

Faurecia
€5.5bn November 2021

Iliad
€4.8bn October 2021

Veolia
€9bn July 2021

GERMAN, SWISS AND AUSTRIAN DEAL OF THE YEAR

Daimler Trucks
€18bn August 2021

Vonovia
€20.15bn August 2021

ITALIAN DEAL OF THE YEAR

Enel
€10bn March 2021

Leonardo
€2.4bn October 2021

Stellantis
€12bn July 2021

Telecom Italia
€4bn May 2021

IBERIAN DEAL OF THE YEAR

Acciona
€2.5bn May 2021

Cellnex
€5.9bn February 2021

BENELUX DEAL OF THE YEAR

AB InBev
$10bn February 2021

JDE Peet's
€3.5bn March 2021

Stellantis
€12bn July 2021

T-Mobile Netherlands
€2.4bn November 2021

NORDIC DEAL OF THE YEAR

Assa Abloy
$3.75bn October 2021

GlobalConnect
€2.7bn June 2021

Heimstaden Bostad
€6.5bn September 2021

Ørsted
€2bn October 2021

Vår Energi
$6bn November 2021

CENTRAL AND EASTERN EUROPEAN DEAL OF THE YEAR

Cetin
€1.65bn August 2021

Play
Z5.5bn March 2021

Uralkali
$1.25bn June 2021

TURKISH DEAL OF THE YEAR

Akbank
$738m October 2021

SOCAR Turkey Enerji
$1.3bn August 2021

VakıfBank
$1bn April 2021

MIDDLE EASTERN DEAL OF THE YEAR

Abu Dhabi Ports
$1bn April 2021

EIG Pearl
$11bn June 2021

Public Investment Fund
$15bn March 2021

AFRICAN DEAL OF THE YEAR

Egypt
$3bn November 2021

Telecom Egypt
$680m October 2021

BANK AWARDS

LOAN HOUSE OF THE YEAR
Bank of America
BNP Paribas
Citigroup
JP Morgan

BEST ARRANGER OF LEVERAGED LOANS
BNP Paribas
Deutsche Bank
Goldman Sachs
JP Morgan

BEST ARRANGER OF M&A LOANS
Bank of America
BNP Paribas
Deutsche Bank
JP Morgan

BEST ARRANGER OF PROJECT FINANCE LOANS
BNP Paribas
Crédit Agricole
Santander
SMBC
Société Générale

BEST ARRANGER OF TRADE FINANCE LOANS
Natixis
Société Générale
Standard Chartered

BEST ARRANGER OF MID-CAP LOANS
Commerzbank
Crédit Agricole
Intesa Sanpaolo
Natixis

BEST ARRANGER OF INFRASTRUCTURE AND RENEWABLES LOANS
BNP Paribas
Crédit Agricole
Santander
Société Générale

BEST SECONDARY LOANS HOUSE
Bank of America
Citigroup
JP Morgan

BANK REGIONAL AWARDS

BEST ARRANGER OF WESTERN EUROPEAN LOANS
BNP Paribas
Crédit Agricole
Société Générale
UniCredit

BEST ARRANGER OF UK AND IRISH LOANS
Barclays
HSBC
Lloyds Bank
NatWest Markets

BEST ARRANGER OF FRENCH LOANS
BNP Paribas
Crédit Agricole
Natixis
Société Générale

BEST ARRANGER OF GERMAN, SWISS AND AUSTRIAN LOANS
Commerzbank
Deutsche Bank
UniCredit

BEST ARRANGER OF ITALIAN LOANS
Crédit Agricole
Intesa Sanpaolo
Mediobanca
UniCredit

BEST ARRANGER OF IBERIAN LOANS
BBVA
CaixaBank
Santander

BEST ARRANGER OF BENELUX LOANS
ABN Amro
BNP Paribas
ING

BEST ARRANGER OF NORDIC LOANS
Danske Bank
DNB Markets
Nordea
SEB

BEST ARRANGER OF CENTRAL AND EASTERN EUROPEAN LOANS
ING
Raiffeisen Bank International
Société Générale
UniCredit

BEST ARRANGER OF TURKISH LOANS
Bank of America
Citigroup
Emirates NBD
First Abu Dhabi Bank
Standard Chartered

BEST ARRANGER OF MIDDLE EASTERN LOANS
Citigroup
First Abu Dhabi Bank
HSBC
Standard Chartered

BEST ARRANGER OF AFRICAN LOANS
Afreximbank
First Abu Dhabi Bank
Rand Merchant Bank
Standard Chartered

BEST ADVISERS, INVESTORS AND LAW FIRMS

BEST CORPORATE FINANCE ADVISER

Alvarez & Marsal

Ernst & Young

Rothschild

BEST LAW FIRM FOR SYNDICATED LOANS

Allen & Overy

Clifford Chance

Dentons

Linklaters

BEST INSTITUTIONAL LENDER

Axa

Barings

BlackRock

Intermediate Capital Group

BEST LOAN RESTRUCTURING HOUSE

Houlihan Lokey

Lazard

PJT Partners

BEST SUBORDINATED DEBT INVESTOR

AlbaCore

Goldman Sachs Capital Partners

MV Credit

Park Square

2021 GlobalCapital LOAN AWARDS

BEST DISTRESSED LOAN INVESTOR

Cheyne Capital

Sculptor Capital Management

SVP Global

Triton

SUSTAINABLE LENDING AWARDS

CEEMEA SUSTAINABILITY-LINKED LOAN OF THE YEAR

Etihad Airways
$1.2bn October 2021

Gulf International Bank
$625m October 2021

Raben Group
€225m July 2021

Uralkali
$1.25bn June 2021

WESTERN EUROPEAN INVESTMENT GRADE SUSTAINABILITY-LINKED LOAN OF THE YEAR

AB InBev
$10bn February 2021

British Airways
£2bn February 2021

Enel
€10bn March 2021

Telecom Italia
€4bn May 2021

Unibail-Rodamco-Westfield
€3bn April 2021

SUSTAINABILITY-LINKED LEVERAGED LOAN OF THE YEAR

Beauparc
€675m July 2021

Flender
€1.32bn January 2021

Klöckner Pentaplast
€1.35bn February 2021

Tarkett
€1.4bn July 2021

BEST ARRANGER OF GREEN AND ESG-LINKED LOANS IN WESTERN EUROPE

BBVA

BNP Paribas

Crédit Agricole

ING

BEST ARRANGER OF GREEN AND ESG-LINKED LOANS IN CEEMEA

ING

Société Générale

UniCredit

MOST INNOVATIVE BANK FOR ESG LENDING

BBVA

BNP Paribas

Crédit Agricole

ING

BEST PRIVATE EQUITY HOUSE ISSUER OF GREEN AND ESG-LINKED LOANS

Ardian

Carlyle

CVC

EQT

MOST INNOVATIVE PRIVATE EQUITY HOUSE FOR ESG

Carlyle

CVC

EQT

MOST IMPRESSIVE LAW FIRM FOR ESG

Allen & Overy

Clifford Chance

Linklaters

Loan market pins hope on M&A as Libor deadline looms

A survey by **Silas Brown** and **Hannah Buttle** of senior bankers shows high expectations of rising M&A activity

The syndicated loan market in EMEA is set to benefit from a rise in mergers and acquisitions, according to a survey — undertaken before the arrival of the Omicron Covid variant — by *GlobalCapital* of heads of loans in the region. Roughly 82% of the senior bankers interviewed expect M&A to account for a higher proportion of deal flow in 2022 than in 2021.

The loan market has been on a rip-roaring ride since the coronavirus pandemic began. While wrestling with the transition away from Libor, investment banks have been called on to help cash-strapped companies weather the storm. Borrowers drew down their revolving credit facilities or raised extra liquidity in emergency funding.

EMEA syndicated lending in 2021 had already reached €749bn by November 15, according to Dealogic, an increase from €646bn in the whole of 2020. This rise was in part driven by the boom in M&A, which has been on a tear and is set to have the highest annual volume globally at more than $5tr. But some bankers say that the lingering impact of the pandemic meant it was harder to value certain acquisition targets, which means that the M&A boom could just be beginning.

"In 2020 emergency funding was the big theme — in 2021 I was therefore expecting a resurrection in opportunistic refinancing. This happened in the US, but less so in Europe so far," says Reinhard Haas, Commerzbank's global head of syndicated finance in Frankfurt. "Bankers were perhaps a little too optimistic that we would leave Covid-19 at the end of 2020 — when, in fact, it's still a daily topic around the world. The impact it still has on supply chains, as well as production and shortages of all sorts of things, has contributed to lower visibility or predictability when it comes to the future. This makes valuation prospects for M&A quite complicated."

According to the *GlobalCapital* survey, roughly 72% of respondents think that there will be an increase in EMEA loan volumes by as much as 20%. Beyond a rise in opportunistic financing, some expect additional volume to come from changing habits among some corporate finance chiefs.

"A school of thought has developed among treasurers as a consequence of the coronavirus pandemic," says Laurent Vignon, head of EMEA loan syndicate at Société Générale in Paris. "Some companies have decided to increase revolving credit facility lines, just to make sure they are not caught in the same rush for liquidity again. Some have renewed their Covid-19 lines, others have increased existing term and revolver debt."

Loan bankers say that the market's appetite for lending is very strong. However, it is also the case that over the years the number of banks in syndicates has shrunk. In the survey, 27% of respondents said they thought fewer banks were competing for deals in 2021, though the majority said the number is similar to the previous year.

Investment banks say they are interested in lending to investment grade companies but argue that borrowers simply do not have enough ancillary business to justify a large syndicate. Scott Mitchell, head of EMEA loan capital markets at Bank of America, says the high demand from lenders has put borrowers in the driving seat. "Most high grade borrowers have more banks knocking on their doors than they have business to share.

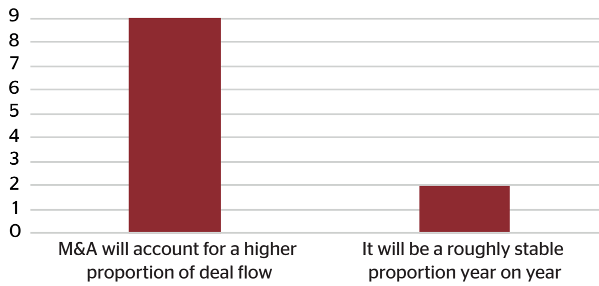
"Borrowers are looking to trim their bank groups — the two tier, three tier structures are more likely to go and be replaced by one tier structures. Companies want to give all banks equal opportunity to compete for business and don't necessarily need more than 10 or 20 banks in the syndicate."

Haas offers another reason bank syndicates are getting smaller. "We have been living through an ultra-low interest rate environment, which has led to many asset takers all but vanishing from the syndicated loans market," he says. "Some of the Chinese and Japanese, even Irish banks who were once buying into loans in search of yield only are now very much gone. Today, syndicated loans' groups of lenders are mostly very clubby. Local market participants are joined by a few large international banks or ones with a special angle, say in M&A advisory."

Libor focus turns to EM

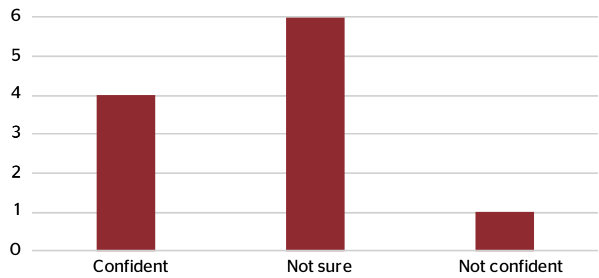
Covid-19 is not the only force shifting the tectonic plates underneath the loan market. For years now, investment

Will loan volumes be driven more by M&A in 2022 than in 2021?



Source: GlobalCapital

How confident are you that all EMEA investment grade companies will manage to transition away from Libor ahead of the deadline?



Source: GlobalCapital

banks have been helping prepare companies for the shift away from the London interbank offered rate (Libor), the interest rate against which upwards of $400tr of loans and derivatives hang.

The deadline for new dollar loans to transition away from the Libor benchmark — which was discredited after traders were prosecuted for manipulating it — is December 2021, but companies have until June 2023 to transfer legacy dollar Libor debt to a new risk-free rate. More than half of survey respondents said they were not sure all EMEA companies would manage to transition away from Libor by the deadline.

However, the blue chips of western Europe, market sources say, are ahead of the game. "For the very large part of the market, the amount of engagement that both borrowers and lenders have on Libor is more than enough to spur action," says Mitchell. "We are seeing increased action from our clients and Bank of America needs to be on the front foot helping and telling them about alternative benchmarks. The pace of those conversations is increasing and the action from all market participants is increasing even more so. We are actively involved in identifying clients that need help and are assisting as much as we possibly can."

Smaller companies will need more attention. Many mid-cap companies had euro revolving credit facilities with the option to draw in alternative currencies such as dollars or sterling, which meant they had to decide what to do with their Libor exposure.

"Rather than deal with benchmarks like Sonia, they have simply taken out their optional currencies and moved the RCF to straight euros," says Vignon. "But there are a couple of mid-caps with term loans in dollars and sterling which will be quite complicated."

But sources say it is much murkier in the emerging markets. According to several sources, some EM borrowers have shown next to no interest in preparing for the transition. Many that have dollar Libor exposure have lending relationships with local banks that lack the resources to educate them about the transition.

"Our concern for Libor is the emerging markets. Frankly, some [borrowers] are not prepared and others just don't want to hear about the transition," says Vignon. "The dollar, as more of an international funding currency than sterling, is really the issue. The US regulatory authorities have been strong on the Libor transition and banks know well that when they want something, they want something. Banks will therefore be reluctant to enter into a Libor-based transaction close to the deadline, though there may be a couple of Russian banks less concerned with US authorities still doing Libor deals." GC

Loans to join digital revolution?

THE YEAR 2021 saw several fintech firms cropping up, offering to iron out the loan market's inefficiencies. The market is still heavily reliant on paper processes and ripe to be made more efficient by useful technology.

Though more than 90% of respondents to our survey think digitisation is an important initiative, loan bankers say there is a way to go before full, market-wide adoption. The market would benefit from each bank having the same technology supporting its back office, or having technology that can stitch together disparate systems, but there is much scepticism about whether a fintech firm can deliver what is needed.

"Digitisation is very important and necessary. We spend a lot of time following up on new fintech initiatives, trying to ensure we are up to date," says José Antonio Olano, global head of loan syndicate at Société Générale in London. "Digital loan platforms need the combination of people who intimately know syndicated lending (from origination and documentation to agency and secondary) as well as people who know fintech, and it is a very difficult nut to crack. My impression is that no one is focusing on the whole chain, yet — but I'm hoping someone solves it."

For any digital initiative to succeed in the loan market, it needs to be picked up and implemented by most institutions across the street. So far, no emergent fintech firm has captured the market.

This is partly because of a concern among some loans bankers about how far digitisation can go. "The reason it's taking such a long time to digitise the market is mainly the comparatively lower frequency of the transactions," says Reinhard Haas, global head of syndicated finance at Commerzbank. "You will find digital solutions for FX, derivatives and raw material trading, but these markets count tens of thousands of transactions a day. This is very different from the hand-tailored solutions in loans and Schuldscheine. The potential upside is much more limited at the moment, as the time-saving aspect is harder to realise and therefore less prevalent than for products with a high frequency of transactions." GC

Direct lenders stalk larger deals as fundraising ramps up

Private credit funds in Europe are increasingly targeting larger companies that would have otherwise been candidates for the high yield and leveraged loan markets. The challenge for the private debt market, reports **Silas Brown**, will be whether it can keep its discipline during its sharp rise

Private credit funds never used to worry leveraged finance bankers and investors in high yield bonds and leveraged loans. In fact, as direct lenders focused on lending to the middle-market, investment banks were happy to cede them ground as regulatory constraints restricted the banks from holding too much middle-market debt.

But the situation is changing. A number of portfolio managers from institutions like Ares, Blackstone Credit, Goldman Sachs AM, HPS and KKR are eyeing up the traditional stomping ground of the high yield bond and leveraged loan markets. Certain direct lenders are looking at €1bn-plus deals, either on a sole basis or in a small club together.

"There are tanks on our lawn," says a senior levfin banker in London. "Direct lenders have strong access to private equity firms and can stomach certain things the high yield and leveraged loan market simply cannot. This makes them competitive for at least some of our flow, which is concerning."

European private credit has proven resilient in its first big credit test. Through the coronavirus pandemic, there were only a few cases of default or debt-for-equity swaps.

"There were difficulties with high street and retail," says one debt advisor in London, who points to UK names such as Debenhams, New Look and Paperchase. "But beyond that, fund managers showed they had discipline when choosing which sectors to lend to, but also that they could open their cheque books and be flexible to further help companies they had lent to."

More and more investors are deploying capital into the asset class, in part because of the resilience the market has demonstrated.

According to Preqin, the first half of 2021 marked the best fundraising conditions ever recorded by the data provider.

Globally, private debt managers raised $87bn in that period across 108 funds, compared with around $75bn the year before.

One of them, Ares, raised a record €11bn for its new European direct lending fund in 2021. As of March 2021, there was almost $450bn of assets under management in direct lending funds across the world.

"All of our European loans have covenants and we continue to push for strong lender protections"

Blair Jacobson, Ares

The sharp growth means some private debt funds are now able to offer €1bn-plus on their own. Ares, for example, provided UK environmental services firm RSK with a £1bn sustainability-linked unitranche deal this summer.

"As our capital base has grown, we have become more relevant to larger borrowers who are willing to pay a premium for the benefits of a private credit solution," says Blair Jacobson, co-head of European Credit at Ares, who highlights the certainty and ease of execution, the ability to tap undrawn facilities as well as confidentiality. "As such, our addressable market has expanded to companies seeking up to €1bn-plus of total debt facilities, demonstrated by the recent investments in Ardonagh, TalkTalk and Morrisons, amongst others."

Observers expect more €1bn-plus deals to come into the direct lending market, particularly if direct lenders start collaborating with each other to reach those figures.

For example, in November global wealth management platform FNZ eschewed the public markets and raised £1.5bn in a unitranche deal with four direct lenders. HPS, the anchor investor, was joined by Arcmont, Hayfin and Goldman Sachs on the deal. "We've seen this sort of collaboration in the US already, and the best way of knowing what will happen in European direct lending is by looking across the Atlantic," adds the adviser. "To compete with bank-led leveraged loans and high yield for those €500m-plus deals, having a small club of lenders joining the deal really helps."

Comparative strengths

But it takes a strong magnet to draw companies away from the leveraged loan and high yield markets, which have robust investor bases and offer lower rated companies historically cheap funding. Moreover, investment banks generate a good chunk of revenues from fees related to underwriting these deals. Unlike the paltry scraps of fees from middle-market lending, the banks are loath to give the large-cap deals up.

Direct lenders expect a pricing premium over public markets as the debt they hold is less tradeable and therefore riskier. Leveraged buy-outs for straightforward sub-investment grade credits can price as tight as 350bp over Euribor in high yield and leveraged loans, which is at least 150bp inside what the direct lending market can achieve.

To attract companies with access

to the public markets, private credit managers must play on other facets beyond mere pricing. Funds position themselves as long term lending partners. For certain credits with a buy-and-build strategy, this pitch is enticing.

"Sponsors are attracted by the private nature of the direct lending deal, lack of flex, and no requirement for distribution or a public rating," says Symon Drake-Brockman, managing partner of Pemberton.

Private credit funds can also be more forgiving about high leverage. Blackstone Credit and Macquarie provided a €320m cov-light unitranche loan to fund Blackstone's acquisition of Belgian filter maker Desotec, which came in at roughly eight times the company's Ebitda of €40m. Though this amount of leverage is rare, for the right credits direct lenders can get comfortable with it.

"Private credit can take the weird and wonderful from our markets, meaning things with high leverage or something complicated about them," says the levfin banker, adding that ratings agencies and leveraged finance investors would take a stern view of companies that are eight or nine times leveraged. "But for straightforward double-B euro names, direct lenders may struggle to get much traction as high yield and leveraged loans are too cheap, too quick and for those sorts of names there's very limited execution risk."

"The UK private credit market has been, and continues to provide, the largest and most mature market for direct lending in Europe"

Symon Drake-Brockman, Pemberton

Eyes on sterling

A way that direct lenders have forced themselves into larger cap lending is by focusing on smaller or less liquid funding currencies that euros. Direct lenders have pinpointed sterling as a potential opportunity for growth. This emphasis on sterling deals makes instinctive sense, as direct lending first emerged in the US, and the majority of funds are located in London.

"UK banks were heavily impacted by the global financial crisis and subsequent regulation, which fuelled growth of the asset class and market share of direct lenders," says Jacobson. "We have seen an uptick in private credit demand from larger borrowers, due in part to the lack of sterling liquidity in the capital markets. We also observed a surge in public-to-private activity involving private credit providers given the advantages that we can bring to these transactions including certainty of deliverability and confidentiality."

The sterling market does not have the depth of investors that the euro market has, so companies take more execution risk issuing.

Drake-Brockman tells *GlobalCapital* that the UK economy has a high proportion of defensive, asset-light, high free cashflow companies in healthcare, software, and technology which are frequent targets of private equity firms. "The UK private credit market has been, and continues to provide, the largest and most mature market for direct lending in Europe," he says. "In terms of LBO volume, the market has rebounded strongly from a Covid-related slowdown driven by the UK's early adoption of an aggressive vaccination strategy. The market has also largely shrugged off any Brexit related issues."

Cov-light concerns

But as the market heats up, traditional protections it used to have are being shed. Historically, most deals in European direct lending carried covenants on interest coverage, net leverage and capital expenditure. Over the years protections around interest cover and capital expenditure have been tossed aside with only net leverage covenants remaining.

But driven particularly by Blackstone Credit and Goldman Sachs AM among others, the market may be moving one step further. Certain direct lending deals are now being signed on a cov-lite basis. According to markets sources, Goldman Sachs AM provided a €500m cov-light unitranche to French pharmaceutical firm HTL Biotechnology in November, to back its buy-out by private equity firm Montagu.

"Covenant-lite deals in the private credit market have always featured for a small number of transactions," says Drake-Brockman. "Historically, they have been mostly used in larger deals where a private market alternative to a covenant-lite syndicated loan is required. These deals range from €400m to €1bn-plus.

"Our expectation is that the vast majority of deals in the core mid-market space will be covenanted, but in the larger deal space, direct lending will increasingly compete against syndicated loans. Funds competing there often provide covenant-loose or cov-lite structures to sponsors with similar or greater levels of flexibility."

"Private credit can take the weird and wonderful from our markets"

Shedding covenants is nothing new in capital markets. The leveraged loan and high yield bond markets went on a similar ride years ago. But with direct lending, in-built early warning signals are more important as there is limited opportunity to sell on the exposure as there is next-to-no secondary market.

Some therefore want to remain disciplined on covenant protections. "All of our European loans have covenants and even in our largest investments where we compete against the capital markets, we continue to push for strong lender protections," says Jacobson. GC

Debuts, records and firsts: EM issuers impress in tough year

Having weathered the turmoil and travails of 2020, emerging market issuers found a new set of challenges waiting for them in 2021. Inflation became almost as much of a concern as infection, and the phrase "taper tantrum" reared its ugly head once again. But supply rolled on regardless, as borrowers from all corners of the market priced debuts, broke records and claimed market firsts.

In a year not short of stellar transactions, *GlobalCapital's* emerging markets editorial team have picked the standout deals of 2021. As always, the selection takes into consideration not just the deals' basic terms, but also the context and wider environment. The backdrop can be more important than basis points

CEEMEA SOVEREIGN BOND OF THE YEAR

The Republic of Benin

€700m 4.875% 2030, €300m 6.875% 2052
Citigroup and Société Générale

Bankers hoped that 2021 would end a drought of high yield sovereigns, which had persisted through most of the previous year. They were not disappointed, and it was Benin that led the way. After a solid but unremarkable debut in 2019, the Republic of Benin returned to market with something much more ambitious.

Shooting out of the blocks in the first week of the year, the borrower was not just the first African credit but one of the first CEEMEA names to test demand. Benin marketed a euro benchmark 11 year bond in connection with a tender of its 2019 debut, and said it would explore interest in a long dated note. The interest was there, and led to the sovereign pushing its curve all the way out to 2052.

A €1bn dual tranche euro deal with minimal new issue premium for a small single-B rated west African sovereign is a strong result. But printing a 31 year note in euros — typically a short-dated market, especially for high yield names — ensured the trade stood out, even amid the wave of high yield sovereign names that followed Benin's lead.

CEEMEA CORPORATE BOND OF THE YEAR

Saudi Aramco

$1bn 0.946% 2024, $2bn 1.602% 2026, $3bn 2.694% 2031
Alinma Investment Co, Al Rajhi Capital, BNP Paribas, Citi, First Abu Dhabi Bank, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, NCB Capital, Riyad Capital, SMBC Nikko and Standard Chartered

In 2020, Saudi Aramco won corporate bond of the year when it became one of only a handful of CEEMEA names to price a 50 year deal. In 2021, it earned a second consecutive win with a monolithic trade that stood out for its colossal size rather than its maturity. Aramco landed the biggest corporate sukuk of all time, pricing a $6bn deal across three tranches.

Almost as impressive as the size was the aggressive pricing, made possible by the largest order book ever for a sukuk — a whopping $60bn. Pent-up demand from Shariah-compliant buyers helped bring pricing inside of fair value, but conventional accounts worldwide also poured into the deal.

On the one hand, Aramco has a profile and stature unmatched across CEEMEA, which allows it to price deals that could be characterised as unique. On the other, the sheer volume of appetite from across the globe makes a strong argument that sukuk has become a global market.

CEEMEA FINANCIAL INSTITUTION BOND OF THE YEAR

Kuveyt Türk

$350m 6.125% 2031
Bank ABC, Citigroup, Dubai Islamic Bank, Emirates NBD Capital, HSBC and KFH Capital

Sometimes bank finance deals pale in comparison when placed alongside those for companies or governments. Bank capital deals are even less likely to set pulses racing. But Kuveyt Türk's $350m 10 year deal was a perfect example of the progress made across Islamic finance and sustainability.

The borrower was enticed back to the sukuk market for a tier two capital deal, making it Kuveyt's inaugural tier two sukuk. But the transaction was also the first ever tier two Islamic deal with an ESG stamp — an amount equal to the deal's net proceeds will go towards green and social projects.

Demand was never in doubt — the deal drew a $4bn order book to push oversubscription into double figures. Kuveyt was able to boast a market first, and the tightest pricing on a Turkish tier two deal since 2017.

LATIN AMERICA ESG BOND OF THE YEAR

Belize

$364m blue bond as part of debt restructuring
Citi (ESG structuring advisor to Belize) and Credit Suisse (blue bond arranger)

In an unprecedented year for ESG debt issuance in Latin America, Belize's blue bond restructuring stood out for combining financial engineering and the appetite for ESG financing to improve the country's debilitating debt burden and channel funding to marine conservation.

Four restructurings in 15 years had failed to substantially reduce Belize's debt levels, and the sovereign's bond market saga looked set to continue until The Nature Conservancy (TNC) became involved with its Blue Bonds for Conservation debt swap programme.

A subsidiary of TNC proposed to issue a bond on Belize's behalf that allowed the sovereign to repurchase its only international bond at 55 cents on the dollar. In return, Belize committed to funding an endowment fund for marine conservation. Bondholders agreed, eager to show their support for innovative ESG initiatives, and Belize thus cut its debt by around 12% of GDP.

The deal harnessed the power of ESG, both to clinch bondholder support and to attract US Development Finance Corp (DFC), which guaranteed the bond — lowering the interest rate for Belize. The DFC estimates $180m will be channelled to marine conservation projects because of the deal.

LATIN AMERICA DEAL OF THE YEAR

Braskem Idesa

$1.2bn 6.99% February 2032 sustainability-linked bond
Crédit Agricole, Deutsche Bank, Itaú and Morgan Stanley

Mexican polyethylene producer Braskem Idesa sold a sustainability-linked bond in October that had all the ingredients of a classic emerging markets corporate financing.

First there was the credit turnaround, overcoming political risk. Since its debut international bond in 2019, Braskem Idesa had endured a turbulent time, as Mexican president Andrés Manuel López Obrador argued that the issuer's ethane supply contract with Pemex represented an opportunity cost for the state-owned company. Yet in September Braskem Idesa settled the debate by amending its agreement with Pemex. Moreover, it is now sourcing ethane away from Pemex, reducing political risk.

Then came the capital structure transformation, with a bond and loan combination used to refinance $1.3bn of project finance debt that rating agencies had described as "restrictive".

Execution was also impressive. By October, primary markets were not smooth sailing, and B+/B+ rated Braskem Idesa announced investor meetings on a particularly tricky Monday, October 11. This bravery was rewarded: it was ready to pounce on far improved conditions three days later, on Thursday, October 14. A $3.8bn book brought strong price tension and a $1.2bn deal at the high end of size expectations.

CEEMEA bond market keen to get back to normal

As 2021 drew to a close, *GlobalCapital* surveyed the heads of CEEMEA DCM and syndicate at the top houses about their expectations for the year ahead. **Francesca Young** reports

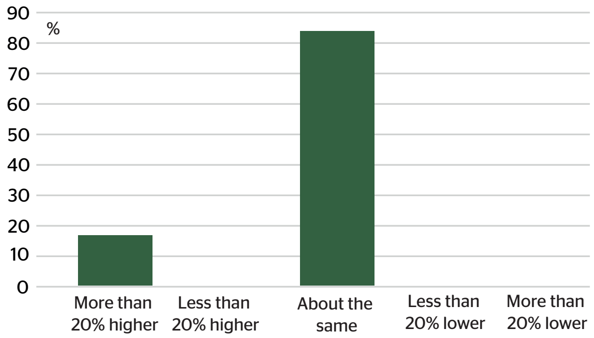
Rising rates are terrifying emerging market investors, who see the potential for huge losses when buying even the safest paper. But although we can expect a tougher backdrop for printing new CEEMEA bonds in the coming year, especially if the Omicron variant takes off, from the results of our EM bond market survey it is clear that capital markets bankers are expecting bond volumes to be stable in 2022 and maturities to remain similar.

As well as refinancing deals, sharp growth is expected in some areas. The net supply of CEEMEA bonds is expected to increase, as is usual, despite a broad expectation that there will be long periods of stalled new issuance.

"We've passed the point where new sovereigns coming to the market will be a big theme in EM anymore — though you do get the occasional one like the UAE [United Arab Emirates] trade we brought this year," says Nick Darrant, co-head of EMEA DCM syndicate at Citi in London. "The corporate market is where the new business is going to come from as companies grow in size and so does the perimeter of what investors will buy."

Hussain Zaidi, head of bond syndicate, west, at Standard Chartered in London, expects volumes to pick up in Africa over the next year, while GCC supply is expected to be more or less the same.

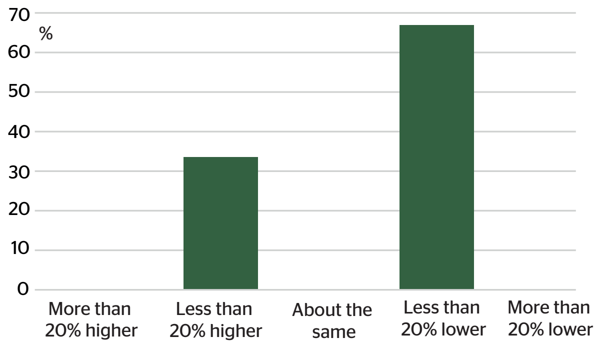
How will volumes of CEEMEA new issues compare to 2021?



Source: GlobalCapital

"From Turkey we also believe there will be a continued uptick across all sectors, in line with the growth in volumes we saw this year where the market saw issuances rise 67%," he says. "Much of the growth across MENA, Africa and Turkey is expected to be driven on the back of weakness in volumes in the last half of this year. Increased market volatility has shifted a considerable amount of paper to next year… We have strong visibility [of] the pipeline coming to market early next year and we expect the first quarter to be significant."

How will average CEEMEA spreads over Treasuries look by the end of 2022 vs end of 2021?



Source: GlobalCapital

Our survey respondents are evenly split between those who think it will be business as usual for sovereigns frontloading supply and those who think that there will be an extra push to do so.

Bankers also say they expect fees for bonds to remain the same. But several have indicated to *GlobalCapital* that the structure of bond mandates is evolving.

"On syndicates we're seeing more differentiation between global co-ordinators and bookrunners," says Zaidi. "Bookrunner groups remain large though. With sovereigns tending to do multiple trades now rather than big jumbos, we're seeing fewer bookrunners on these because there are more trades to go around."

Risky business

As rates rise and EM yields are lifted, there is increasing caution from investors around whether a string of defaults are going to follow from issuers that cannot afford to refinance their debts.

But our sellside survey respondents are more optimistic. Almost all say they are not concerned about a rise in default rates, believing that even if this does happen they do not expect it to affect investor sentiment towards EM broadly, and as such it is unlikely to affect dealflow.

"Rising rates are always a key worry for the EM asset class and we can probably also expect certain idiosyncratic events in some key markets, but as recent history showed that doesn't necessarily mean contagion," says Stefan Weiler, head of CEEMEA DCM at JP Morgan in London.

Iman Abdel Khalek, co-head of Citi's CEEMEA DCM team agrees, saying that it is a historical phenomenon that investors look at EM as one homogenous asset class.

"We may continue to see discreet events of distress or even default," says Abdel Khalek. "But thankfully the market has been able to differentiate in a way that limits risk of contagion to the broader asset class. The rates environment I think is the only aspect that carries common risk to EM as a whole."

Somewhat understandably, respondents say they hope that any events of default will still be few and far between.

"There haven't been many defaults in the region and we should see credit stories improve as markets open up," says Zaidi. "So for me the risk of rising defaults is not a huge concern in terms of the continuation of the primary market."

Certainly, in our survey, conducted before the Omicron variant arrived, the responses suggest that credit ratings are expected to move very little.

Darrant says he sees the theme in 2022 as a move to a moderate yield environment, not a high yield environment.

"We are going to see the cyclicality of rates overlaid on to the market and there may be periods of adjustment," he says. "But we've already seen this play out in the last few weeks and investors have been quite sanguine about the moves."

Eyes on the NIPs

As the US Federal Reserve tapers its bond market help over the next year, bankers, investors and issuers expect US Treasury yields to rise, and EM yields with them. But how EM spreads will react is more in doubt.

Two thirds of our respondents say, rather optimistically, they expect that spreads could come down, but by less than 20%, though a third think that they will go up.

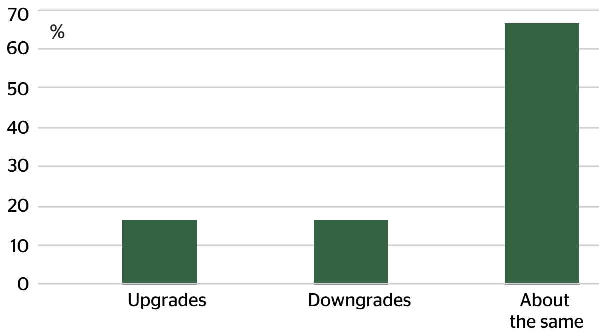
However, in preparation for the inevitable rise in yields, investors at the end of 2021 were baying for higher new issue premiums to counteract some of the effects of the Treasury volatility. In the autumn they did rise, but new CEEMEA deals still struggled in the secondary market after pricing. Investors were becoming more and more selective as year-end approached and were asking for even higher concessions.

"New issue premiums have been elevated since the Evergrande situation in September and we've had this focus around inflation," says Darrant. "But already they're coming down, though I expect them to remain moderately elevated into year end. When we come back in January we'll just have to take it from there."

There is hope for issuers that with a clean sheet and fresh inflows, investors will be more willing to take risks in 2022.

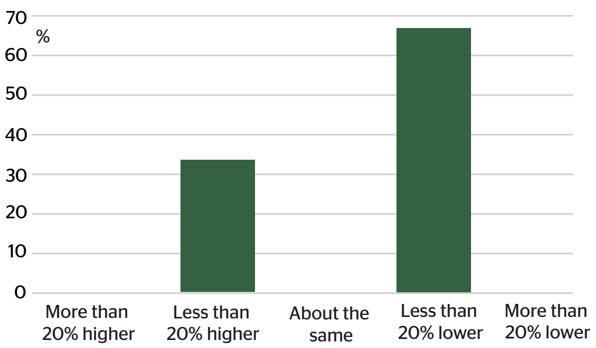
"New issue concessions have been slightly higher but what they will look like at the start of next year will depend on the inflows and how the trades are performing in the secondary market," says Zaidi. "That's going to be closely scrutinised and if we see an outperformance, new issue premiums will come down — they won't necessarily be continually elevated."

Will there be more credit rating upgrades or downgrades among CEEMEA issuers in 2022?



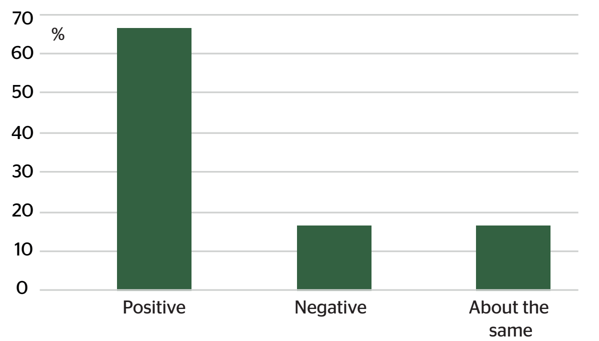
Source: GlobalCapital

Will the net supply of CEEMEA bonds in the next year be...?



Source: GlobalCapital

Will sovereign borrowers continue to frontload supply as rate hikes loom?



Source: GlobalCapital

ESG at the fore

As ESG is predicted to become bigger business, banks are in a race to showcase their abilities in this arena, busy building teams specifically geared towards it.

"We have a green team within our capital markets business and recently made a hire for it in London, but we also have ESG champions in each and every geography," says Zaidi. "It helps that we drove the early ESG deals which opened this market because you are then involved in the investor feedback and know what has worked. It positions you to better advise our clients and thereby bring more structures and better structures to market. If you weren't directly involved it's hard to advise issuers on what is the optimal approach to the ESG market. As a result, this year we were able to drive ESG issuance volumes across MENA, Africa and Turkey by 38% and expect 2022 to be an even more robust outcome."

Weiler says that JP Morgan "of course" has a global ESG strategy and is continually making investments in that. "At JP Morgan, I also have someone directly in my team dedicated to ESG," he says. "Given the dealflow of this type now, with around 25% of deals having an ESG-wrap, it's become a necessity to serving our clients in a first-class way."

Despite that enthusiasm though, in our survey, the large majority say that even as ESG becomes more of a concern for funds, they are unsure as to whether we will see substantially more funds refusing to buy bonds from fossil fuel producers and other polluting sectors next year.

The return of the roadshow

Before Covid-19 shut down international travel in 2020, global roadshows were a very common part of the process of printing a CEEMEA bond. Some issuers had become frequent enough borrowers that they felt investors knew their story well enough to print without physical meetings, but these were the exception, not the rule.

Some issuers and bankers however are itching to rack up the airmiles again and are eying 2022 as the year for takeoff.

"Investors are comfortable with virtual roadshows but we're hearing that in first half of 2022, several issuers would prefer to meet face to face," says Zaidi. "Issuers perceive that the dialogue is more robust versus virtual and their credit stories can be better explained, especially for debuts. But it's going to depend on how enthusiastic investors are to attend those meetings."

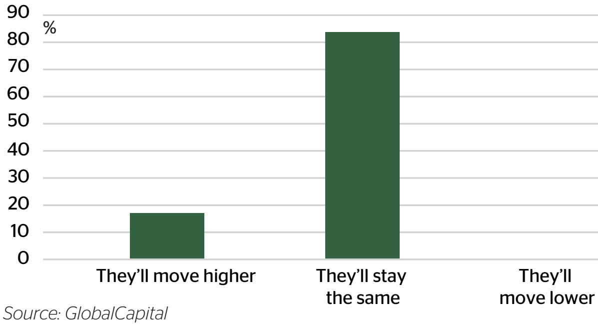
Weiler says that "face-to-face meetings with investors will be beneficial for some, but certainly not all issuers", but other bankers caution that virtual meetings do offer some advantages over physical and that issuers would be wrong to assume in-person is always better.

"Investors have embraced virtual marketing wholeheartedly and the reality is that in a very busy week, such as we saw in mid-November, they would struggle to process volume of supply if they had to physically travel to meetings rather than click a button from a desk," says Abdel-Khalek. "I think the key going forward is going to be to give investors the choice where possible."

Others agree. "A lot of issuers love that they can save time by doing virtual roadshows and so get deals done faster," says Tommaso Ponsele, Citi's London-based co-head of CEEMEA DCM. "Others want to be out on the road and see value in that. I think in 2022 we're going to see an increasing combination of the two approaches, but the prevalence will remain with virtual meetings."

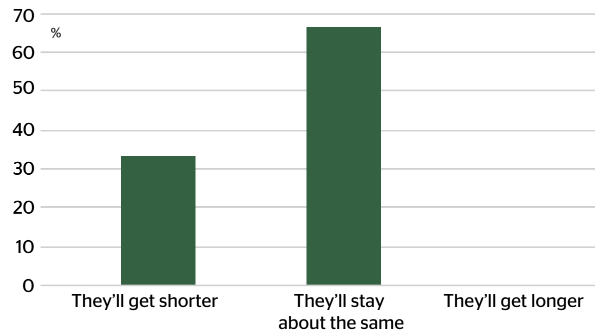
Omicron might just increase that prevalence. GC

Are you expecting changes in average CEEMEA fees?



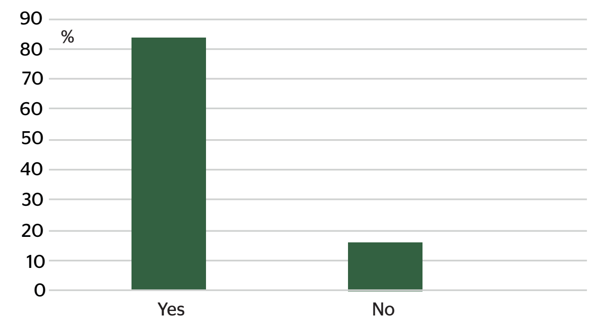
Source: GlobalCapital

What will happen to the average maturity of new issues given base rates are likely to rise?



Source: GlobalCapital

In 2022 will there be long periods of stalled CEEMEA primary issuance?



Source: GlobalCapital

Top banks hog CEEMEA bond business, as landscape shifts

As EM bond volumes have exploded in the last two years and the asset class has become bigger business for banks, competition has increased. But despite that, the three banks at the top of the CEEMEA league tables have remained the same for four years and their market share seems to be rising. **Francesca Young** asks what they expect to see in the year ahead

CEEMEA bond volumes were boosted in 2020 and 2021 as governments rushed to raise debt to finance the fight against the pandemic. At the same time, Western central banks pushed rates down via quantitative easing, meaning many investors sought out higher yielding assets – often to be found in emerging markets such as CEEMEA.

In 2020, $275bn of these bonds were printed, over $50bn more than the year before. In 2021, more than $240bn had been printed by the end of November.

In the last few years JP Morgan – top of the 2021 Dealogic CEEMEA league table – and Citi have consistently been the top two banks by volume of bonds printed. In 2021 their market shares have been well into double digits at 12.2% and 11.8% at the end of November, according to Dealogic.

Standard Chartered has come third in the last three years. While its market share is much smaller at 7.1%, this is still no mean feat given that it hasn't focused as much on the CEE region, preferring the Middle East and Africa.

Tommaso Ponsele, co-head of CEEMEA DCM at Citi in London, says that whether market share can increase from these high points for the top houses will in large part be about how spread out the deals are and how big issuers believe syndicate groups need to be on bonds.

"There's recently been growing recognition from clients that having four or five banks or more on a trade can be problematic, so we're seeing more and more clients sticking to two or three or tiering their groups," he says. "This can ultimately deliver some further market share consolidation towards the houses most dedicated to the space."

Hussain Zaidi, Standard Chartered's head of bond syndicate, west, in London says his bank can grab a larger share. "In the Middle East, Africa and Turkey we believe we can increase our market share and that overall volumes are set to grow through an increase in debut issuers," he says. "In Africa, the bond business is predominantly sovereign issuance. The corporate and financial sectors are less tapped. Being physically on the ground in these countries we're in a position to expand these segments further."

The battle for EM bonds

Several bankers have noticed an uptick in competition after 2020's EM bonds bonanza. Following years and years of disinvestment, cutting people and teams being merged, there has been a noticeable investment in talent of late.

There have been high-profile moves as banks have recruited experienced capital markets bankers. Among them, Nick Darrant moved from JP Morgan to Citi in 2020, then Alex Karolev from BNP Paribas to JP Morgan and Matt Doherty from Deutsche Bank to

International EMEA EM bonds, rank-eligible
Bookrunner ranking by year — 2021 up to November 2

Rank	Bookrunner (Parent)	Deal Value USD (m)	No.	% Share
1	JPMorgan	29,249.83	125	12.21
2	Citi	28,365.36	121	11.84
3	Standard Chartered Bank	17,054.71	102	7.12
4	HSBC	16,333.51	79	6.82
5	Goldman Sachs	12,509.63	40	5.22
6	BNP Paribas	12,396.90	54	5.17
7	SG Corporate & Investment Banking	8,374.76	41	3.50
8	BofA Securities	7,020.09	33	2.93
9	Deutsche Bank	6,370.18	25	2.66
10	First Abu Dhabi Bank	5,862.20	29	2.45
11	UniCredit	5,674.17	23	2.37
12	Barclays	5,518.43	36	2.30
13	ING	3,908.64	30	1.63
14	VTB Capital	3,849.17	21	1.61
15	Emirates NBD PJSC	3,811.01	29	1.59
16	Raiffeisen Bank International AG	3,717.75	19	1.55
17	Morgan Stanley	3,702.66	18	1.55
18	Credit Agricole CIB	3,475.99	39	1.45
19	MUFG	3,403.02	23	1.42
20	Gazprombank	3,400.81	21	1.42

Source: Dealogic

International EMEA EM bonds, rank-eligible
Bookrunner ranking by year — 2020

Rank	Bookrunner (Parent)	Deal Value USD (m)	No.	% Share
1	Citi	31,833.70	98	11.54
2	JPMorgan	28,294.18	110	10.25
3	Standard Chartered Bank	20,249.56	93	7.34
4	HSBC	18,463.82	87	6.69
5	BNP Paribas	16,405.56	55	5.95
6	Deutsche Bank	14,922.91	51	5.41
7	Goldman Sachs	14,375.79	36	5.21
8	SG Corporate & Investment Banking	9,106.37	44	3.30
9	Credit Agricole CIB	9,000.15	51	3.26
10	BofA Securities	8,337.93	27	3.02
11	Barclays	8,275.21	33	3.00
12	First Abu Dhabi Bank	7,641.48	34	2.77
13	Morgan Stanley	6,869.98	22	2.49
14	UniCredit	6,553.03	27	2.38
15	ING	5,624.56	22	2.04
16	Erste Group Bank AG	5,065.07	14	1.84
17	Gazprombank	4,232.30	21	1.53
18	Raiffeisen Bank International AG	4,199.83	19	1.52
19	Natixis	3,449.13	15	1.25
20	Mizuho	3,190.33	22	1.16

Source: Dealogic

BNPP. Sergey Sudakov left BNPP for Morgan Stanley, to build a CEEMEA DCM team. BNPP responded by recruiting more staff for its CEEMEA syndicate and DCM operations.

Standard Chartered, for its part, made a big statement in 2021 by hiring Vitaliy Krekhovetskyy in October to its CEEMEA DCM team. After two years as Neftan's head of debt financing, he was hired to break Standard Chartered into the CEE DCM business.

"From a league table standing position CEE has always been the missing piece for us," says Zaidi. "We have a successful Middle East, Africa and Turkey business and an obvious objective is expansion so we're now looking at opportunities in the CEE region."

In a change for EM though, the increased competition across CEEMEA has not resulted in falling fees.

Ponsele says that, if anything, clients have been more focused on quality of service and delivery of the products.

"This is a sign of the development of the market as issuers become increasingly discerning," he says. "There are much more important things on most issuers' minds when picking between banks — and clearly when that includes the provision of bridge financing or back-up financing solutions it's a different conversation."

But one DCM banker says he has noticed an increase in "fee side letters" – something he says started in the CIS but has evolved over six years or so — as a way for issuers to reward "more qualified" banks without visibility to others in a syndicate.

Post-Covid, will EM catch cold?

Bankers, issuers and investors are all waiting to see how volumes will stand at the end of 2022, once central banks withdraw or shut down stimulus programmes and deal with inflation — and see the impact of the Omicron variant.

As US Treasury rates climb higher, EM yields are expected to follow, which may make the market less attractive to borrowers, or indeed investors who feel they are trying to catch a falling knife. But many believe volumes will hold up regardless.

"In the last decade even as yields have gone up and down, we haven't seen a change to the trajectory of EM issuance volumes," says Nick Darrant, co-head of EMEA DCM syndicate at Citi in London. "It's a natural evolution as, by definition, emerging market economies are growing. It's not always linear but the direction of travel is not in doubt."

Iman Abdel Khalek, Ponsele's co-head of CEEMEA DCM at Citi, agrees. "Volumes are going to be even bigger in 2022," she says. "We are in a post-Covid world where companies want to demonstrate to shareholders their ability to grow: this implies both capex and inorganic growth projects, which need to get financed."

Stefan Weiler, head of CEEMEA DCM at JP Morgan in London, says issuance volumes will not be materially different in 2022 versus 2021, despite the more challenging markets that could emerge from rate rises in the US.

"EM will continue to receive a greater allocation in global fixed income portfolios and the close to $500bn of redemptions from EM will help underpin issuance volumes," he says.

Innovating and expanding

The issuance is not expected to come just from refinancing though. Despite EM bond markets developing over the last 10 years, there are still several sectors, countries and regions from which debut deals and new products are expected.

"The corporate market has been a huge area of growth in the EM primary market this year, and it feels like the corporate wave is here to stay," says Ponsele. "Banks have been retreating from loan funding and EM clients are looking to diversify funding sources. This has been positive for us as it's an area we have been focused on for some time: we feel there are maybe only two to four banks that have a similar level of corporate high yield experience."

Abdel Khalek agrees. "The way regulation has gone it's become very expensive for banks to hold five year term loans so it's in turn become much more expensive than bonds as a source of debt," he says.

Higher oil prices may also have an effect. "It's helpful for GCC issuers," says Zaidi. "It increases liquidity for them and improves their credit fundamentals. For several issuers it could provide an opportunity to enter the capital markets for the first time."

There is also, in CEEMEA as elsewhere, an increasing focus on environmental, social and governance issues. That has already been in evidence in the new kinds of bonds these issuers have been printing.

"In the GCC, transition financing is, of course, a big topic and we've seen a few issuers — like Apicorp [in 2021] and Etihad [2020] — providing a blueprint for other issuers," says Zaidi. "There's more and more uptake from issuers and more frameworks being established. As a bank we've been advising that in the future ESG concerns will be paramount. It's taken some time though for issuers to put proper, robust frameworks together though that investors appreciate."

"It's important not to view EM through a first world ESG lens. You have to consider it on its own merits"

Nick Darrant, Citi

Weiler says the ESG space will only grow in popularity.

"Issuers are aware that they will face increasing scrutiny from investors on ESG even when printing non-ESG wrapped deals," he says. "Borrowers are aware that a positive ESG story will benefit the marketing of a transaction and it is undisputable now that green or sustainability-linked bonds will add incremental demand and provide pricing benefits."

But EM faces its own challenges in becoming more ESG-investor friendly.

"It's important not to view EM through a first world ESG lens," says Darrant. "You have to consider it on its own merits. Less wealthy nations have different priorities to juggle. Though there is some lag in take-up on these kinds of products the issuers are taking those concerns seriously and they know it's only going to get increasing focus from investors. It's also important for everyone involved to consider the potential moral hazards in encouraging ESG approaches for some of these issuers, and incentivise these borrowers appropriately."

He adds: "You don't want an issuer forced to choose between going green and paying to improve educational standards or in some other way lifting their country out of poverty." GC

China, inflation, ESG dominate EM bond investor thinking

GlobalCapital asks five emerging market investors what we should all be worrying about in 2022. Questions by **Steve Gilmore**

What are the biggest sources of potential volatility for EM in 2022?

Timothy Ash, senior emerging markets sovereign strategist, Bluebay Asset Management

First of all, core market rates and inflation. Will inflation be transitory or permanent, and are developed market central banks getting behind the curve? In China, the question is what sectors or names will be next to face increased regulatory oversight after Xi Jinping's focus on real estate and education. Staying with China, I would not exclude the risks from rising tensions around Taiwan, and possibility of an accident that hits US-China relations.

I would add the risk of war in Europe, of Russia invading Ukraine. I am also worried about the Balkans, with risks of a push for independence by the Republic of Srpska unravelling the Dayton Peace Accord and resulting in instability in Bosnia and Herzegovina and the wider Balkans.

Omotunde Lawal, head of emerging markets corporate debt, Barings

China's growth momentum is a key one to watch. We are already seeing downward revisions to China growth forecasts for Q4 2021, and for 2022. Geopolitical risks will also be important especially, between the US, China and Taiwan.

Other things we are watching are the risks of new Covid-19 variants leading to mobility restrictions again, and elections in EM countries like Brazil.

Which countries or regions are most at risk or most robust?

Ash: If we are in a higher rate environment, those at risk would be the higher rolling credits with higher debt burdens and larger external financing requirements. Sri Lanka, Turkey, Egypt and Tunisia will be in focus. It seems like oil/commodity names look more resilient. In the Gulf Cooperation Council it's notable that balance sheets are being helped by higher oil prices but we're also seeing major reform efforts in Saudi Arabia, UAE and Oman.

Lawal: China is one that seems to be undergoing a structural transformation/reform process at the moment, so there are execution risks at play there. Brazil is also a key market to watch in 2022 as we head into presidential elections in October. Most robust regions would be some of the Southeast Asian nations like Vietnam and some of the commodity countries.

Richard Segal, research analyst, Ambrosia Capital

The main risks are that the Fed and ECB are behind the curve in tackling inflation, the appearance of additional Covid-19 infection spikes and US-China tensions or contagion from problems in the Chinese property sector.

Other broader risks include domestic political events and high and rising public debt in many countries.

Jennifer Gorgoll, senior portfolio manager, Neuberger Berman

The biggest source of potential volatility is the Fed. As of today [interviewed before Jerome Powell was nominated for a second term], we are not even sure who the Fed chairman is going to be, much less how aggressive (or not) the Fed will be.

Rates and spreads could be impacted by a more hawkish stance as tapering continues and rate hikes, which will likely start in 2022, take hold. Other main concerns could be a China slowdown — hard versus soft landing — which could also lead to commodity volatility.

Krishan Selva, client portfolio manager, emerging market equities, Columbia Threadneedle Investments

From a top-down perspective, factors such as Covid-19 variants, vaccine distribution, inflation concerns, commodity prices, regulation and geopolitical risks are the biggest sources of potential volatility. The outlook for inflation remains a key issue for both emerging and developed markets, as central banks may begin to moderate monetary policy accommodation.

In terms of US-China relations, we can expect the current stance from the Biden administration to remain unchanged given the bipartisan support in Washington for its policy towards Beijing, with the current administration also likely to have the support of allied countries. The team is continuing to monitor geopolitical risk.

Segal: The frontier markets in general are most at risk, and most robust are those which are battle-hardened or that benefit from high oil prices, such as Mexico and the Asian economies.

Gorgoll: China continues to be at risk given the volatility in the property sector, which could spill over to other sectors. We expect China to slow dramatically next year, potentially into the low single digit growth level.

Apart from China, we see political risks increasing in Latin America as a number of important countries will go through elections. Brazil's elections, which will take place in October 2022, will be the highlight as the Left candidate will have a strong possibility of winning.

Selva: As bottom-up stock pickers, the country exposures are primarily driven by stock selection. We do evaluate top-down considerations, but their impacts are viewed through the lens of the companies we invest in. Therefore, we do not make country or regional bets, and allocation decisions reflect stock selection.

As of the end of October, our fund's key overweights were Russia, Brazil, Indonesia, Singapore and Hungary. While the largest underweights were Saudi Arabia, Taiwan, South Africa, Mexico and India.


Ash


Lawal

How much importance do you place on ESG when buying bonds?

Ash: ESG is now huge for our industry. We'll see whether Article 8 under Sustainable Finance Disclosure Regulation will limit market financing for higher risk ESG stories, and whether it will encourage ESG related reform in these same credits.

Lawal: The team focuses and places a high importance on ESG in the investment process. We see it as an opportunity to partner with issuers in EM to accelerate the transition process to the green economy. We score each issuer on a scale of one to five on each of the environmental, social and governance policies. However, we do not operate an exclusion policy but utilise engagement as a tool with the issuers.

Will EM weather Fed tapering and rate rises more smoothly than in 2013?

Ash: It's hard to tell. There is a very challenging environment for emerging markets with rising inflation, rising rates and likely more subdued growth. EM has also seen indebtedness rise through the Covid-19 crisis. Structural reform and fiscal consolidation would normally be the prescription, but we are seeing challenging political settings in many countries, and that environment is not greatly encouraging for reform.

Lawal: EM economies and corporates are in a much healthier position than in 2013. Current account balances are much healthier and corporate leverage is lower, so the starting point for balance sheets compared to 2013 is much better. In addition, EM credits have completed huge amounts of debt refinancing in the last two years when rates were low, so they have locked in relatively cheaper funding.

What key themes will emerge for EM investors in 2022?

Ash: In addition to the ones touched on — inflation, rates and China — Turkey might be an interesting story next year. There is the possibility that President Erdogan opts for early elections and perhaps even loses. Turkey is currently a 'steer clear' for many investors, but a change in administration and new faces at the central bank could make the country a turnaround trade for 2022/23.

Lawal: Inflation and pressure on margins will be something to watch for corporate issuers in 2022. We will also be keeping an eye on climate change effects and impact to supply chains and the agricultural sector once again. Sustainable financing will also be another key theme for 2022.


Segal


Gorgoll


Selva

Segal: It has, for better or worse, become all important. But there is still limited available data for the analysis of ESG, and limited human capital to analyze what is available. It is also difficult to quantify how relevant the available ESG data should be to investment decisions.

Gorgoll: Extremely important. ESG is an integral part of our process, and we review ESG factors on every company that we invest in.

Selva: We place a lot of importance on ESG. Understanding how well a company manages its material environmental, social and governance risks is key to assessing the quality of an investment. In our view there are three key reasons to focus on ESG in emerging markets: the first is simply for alpha, we believe those companies which focus on their specific ESG exposures will generate sustainable returns; the second is the impact of policymakers, which has shifted over recent years creating a supportive macro backdrop; and finally we have the power of engagement, a tool that active managers can utilise to help develop and transform business practices.

Segal: Tapering is unlikely to be an issue this time around because it was well telegraphed and investors have been better prepared. But in the event of higher for longer 'transient' inflation, this is not necessarily the case.

Gorgoll: Yes, I think so. Tapering in 2013 was not as well broadcast as it is now. The Fed has been more careful about being transparent regarding the timing of tapering and the potential for rate hikes to start in 2022. I believe this increased transparency goes a long way to providing the markets with a game plan to better digest tapering and hikes as they happen.

Having said that, there will still likely be some surprises as the Fed may need to change its timing in reaction to changing data, but swings should be less volatile than what we saw in 2013.

Selva: Since 2013 many emerging economies went through painful rebalancing and have progressed with domestic reforms. The notion of the "fragile five" is no more, it seems to be just Turkey who is vulnerable. Even if we exclude China (which has a large current account surplus), in aggregate emerging economies are in a current account surplus.

Emerging markets are breaking away from their dependence on the developed world, given heightened domestic demand. Therefore, we don't have the same weakness in different pain points.

Segal: The main topics will be inflation and central bank reactions, global health and travel normalisation, the US congressional elections and geopolitics.

Gorgoll: The key themes are likely to be increasing inflation, hawkish central banks (developed and emerging markets), supply chain constraints, rate volatility, political uncertainty/elections in emerging markets, China slowdown, and a potential energy crisis if supply/demand issues become pervasive.

Selva: We believe the key long-term trend for the asset class is the transition from predominantly export-led growth to reliance on buoyant domestic demand. Investors are now buying structural growth companies, the likes of TSMC, Tencent, Alibaba, Samsung, JD and HDFC. This is because the universe now favours structural growth and is no longer dominated by commodity-sensitive, cyclical companies or companies with a large state presence.

Structural wealth creation, the rising middle class, and the associated changes to consumption and services is the dominant theme in our fund. GC

LatAm bankers brace as Fed tightening and local politics bite

GlobalCapital's survey of 14 heads of Latin American debt capital markets points to tricky times ahead for the region's bond markets

Much of the market commentary peddled by emerging markets bond investors in 2021, as US Treasuries started to sell off during various periods of volatility, argued that "this time is different". EM is in a far better place than when the taper tantrum battered economies and financial assets in 2013, they argued.

From a fundamental perspective, that is true. Moreover, despite the US Federal Reserve beginning to taper its bond-buying in November 2021, issuance has continued apace. Markets have endured more volatility, but never fully closed.

This does not mean, however, that LatAm bond markets will escape unscathed. Of the 10 questions in our survey, completed before the emergence of the Omicron variant, by 14 LatAm DCM heads, including eight of the top 10 bookrunners for 2021, the direction of spreads is the topic with by far the greatest consensus.

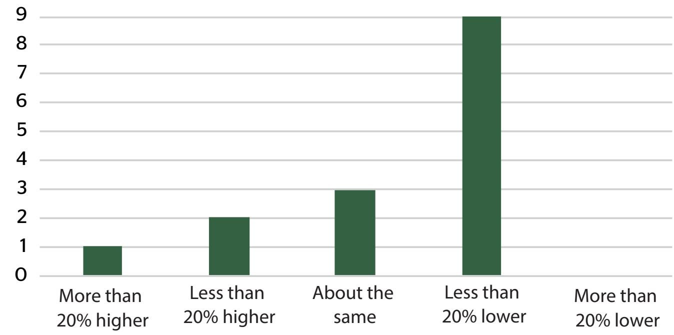
Only one banker believes LatAm dollar bond spreads over US Treasuries will end 2022 tighter than they begin the year, and only one thinks they will remain stable. Of the 12 that think spreads will end the year higher, one respondent even thinks they will widen by more than 20%.

"I don't expect substantial widening in spreads, but given broader macro trends it's hard to think LatAm spreads will tighten materially," says Max Volkov, head of Latin America DCM at Bank of America. "Across the world, economies are recovering, and there is going to be less monetary stimulus in developed countries.

"US investment grade spreads are close to all-time tights and could start widening so LatAm might follow suit."

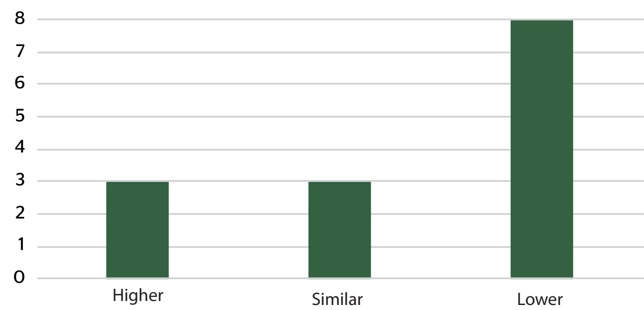
Higher funding costs will also bring down the average maturity of new issues, reckon 64% of bankers

How will volumes of Latin American and Caribbean cross-border new issues in 2022 compare to 2021?



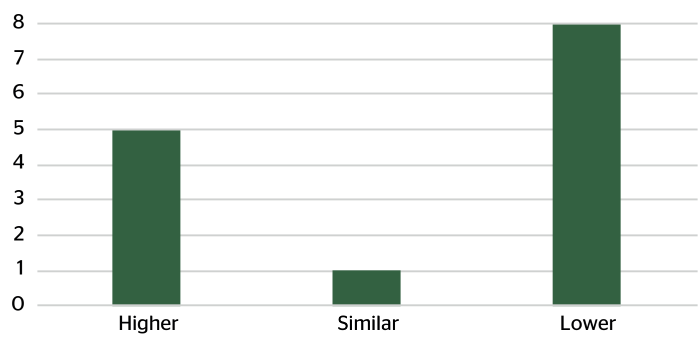
Source: GlobalCapital

What will 2022 LatAm and Caribbean volumes look like for:
a) Sovereigns (higher than 2021/similar/lower)



Source: GlobalCapital

b) Corporates, including financials (higher/similar/lower)



Source: GlobalCapital

quizzed. As one banker puts it, the days of the 50 year bonds that were all the rage in January 2021 are over.

Politics gets in your eyes

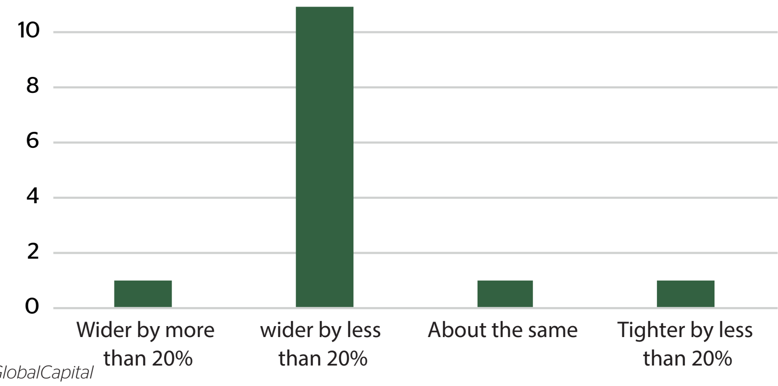
Until September 2021, Latin American bond issuers had for almost a year had the luxury of picking virtually whichever day they wanted to tap markets. With only a few exceptions, pretty much every day was "a go day", in syndicate parlance.

Volkov reckons that interest rate volatility will lead to "far more limited windows of issuance than what we had enjoyed until September this year".

Indeed, when asked which factor would be most likely to complicate market access for Latin American and Caribbean issuers in 2022, a majority of DCM heads ticked "US monetary policy". They had yet to hear about Omicron.

Several survey participants were unable to pinpoint one sole factor, and selected both US monetary policy and Latin American domestic politics. There is a reasoning behind this indecisiveness: it is the combination of both factors that could be critical for LatAm debt markets.

What will average LatAm and Caribbean dollar spreads over Treasuries look like by the end of 2022 vs the end of 2021?



Source: GlobalCapital

"My biggest concern about 2022 is if tapering in developed markets is combined with weaker economies, mixed with an unstable political cycle in Latin America," says Lisandro Miguens, head of Latin America DCM at JP Morgan.

"The political outlook has been tricky for some time in much of the region, but will become a far more critical issue for bond markets as global monetary policy is tightened."

Indeed, concerns about policymaking in Latin America have already been increasing in recent years — even in previous safe bets like Chile, Peru and Mexico.

Gordon Kingsley, Crédit Agricole's head of LatAm DCM, notes that huge fiscal and monetary stimulus from developed economies has "blanketed" much of the political and macroeconomic noise in Latin America.

"As that stimulus fades, domestic issues will come more sharply into focus for investors," says Kingsley. "Though I don't expect to see a significant widening in spreads, investors will be able to be a bit pickier about what they're buying."

ESG — IS EM DIFFERENT?

ESG bond activity really took off in Latin America in 2021. While green bond issuance had already been rising, the advent of sustainability-linked bonds opened the door for a far greater range of LatAm companies to market ESG-themed deals.

Yet bankers say that investors are also applying far greater scrutiny to issuers — both when examining the key performance indicators used in an SLB, and when evaluating their broader ESG credentials.

While protein producer JBS's sustainability-linked bond issue in June perhaps predictably found opposition from environmental activists given its links to deforestation, several mainstream EM investors have told *GlobalCapital* that they've turned down SLBs or green bonds from LatAm borrowers because the businesses themselves do not meet certain ESG standards.

"For either SLBs or use-of-proceeds bonds, we expect investors to consider issuers' overall ESG policies before buying," says Gordon Kingsley at Crédit Agricole.

GlobalCapital therefore asked DCM heads whether "substantially more funds" will refuse to buy bonds from fossil fuel producers or other polluting sectors (*see page 104*).

The question splits opinion. While over 40% of bankers take the diplomatic route of saying the issue is "not cut and dried", some 28.5% argue this is "very likely". But the same proportion say this will not happen, because "EM is different".

"Generally, funds are not refusing to buy bonds on ESG grounds, but they are certainly becoming more choosy and demanding," says Kingsley. "Most investors see ESG in emerging markets in a slightly different context, largely because of the nature of the economies."

Indeed, Latin America is largely a natural resources-based region, where sectors like energy and the extractive industries are often the mainstay of the economy.

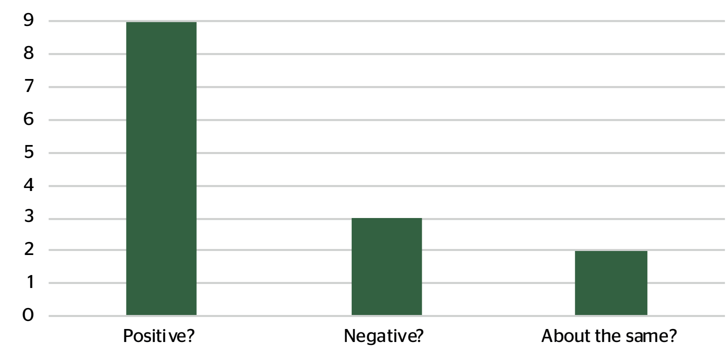
"Investors don't want to run away from these companies, and would rather engage to try to have some influence on the issues than simply decline to invest," says Kingsley.

There's another concern for EM portfolio managers: fossil fuel producers such as Pemex and Petrobras are flagship issuers of the asset class. Another LatAm DCM head reckons that investors understand that major state-owned companies in EM, for example, can't move as swiftly as private companies in the G7.

"However, this will start to happen over the next five years," he says. "Major fund managers are quite forcefully telling fossil fuel producers that there will be a time where they can no longer invest as before unless they make changes."

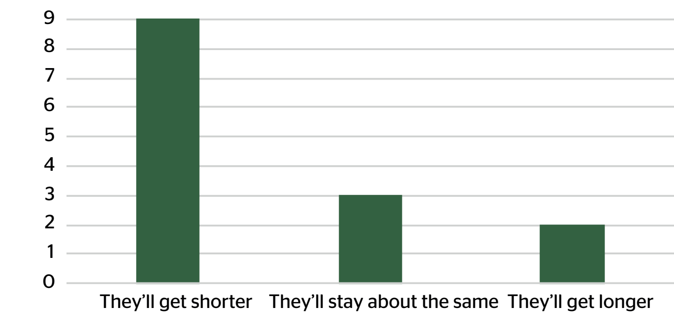
Kingsley believes that some investors may start to prefer the more traditional use-of-proceeds bonds over SLBs again, given this format gives their investment a clearer ESG link. Yet bankers still expect deals with KPIs to rule. Nine of the 14 DCM heads predict that there wil be more SLBs than use-of-proceeds bonds, highlighting that it is easier for smaller corporate issuers, especially, to draw up a sustainability performance target than find sufficient eligible use of proceeds.

Will the net supply of LatAm and Caribbean bonds in 2022 be...



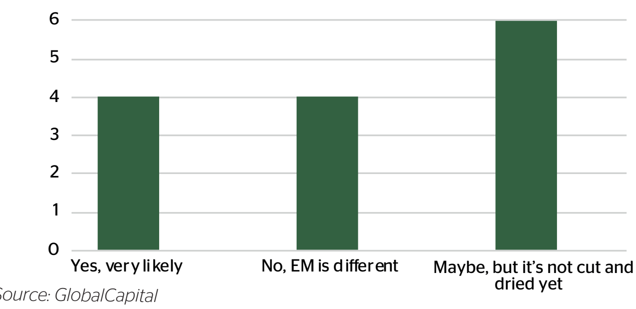
Source: GlobalCapital

What will happen to the average maturity of new issues, given base rates are likely to rise?



Source: GlobalCapital

As ESG becomes more of a concern for the buy side, will we see more funds refusing to buy bonds from fossil fuel producers?



Source: GlobalCapital

2022 will begin with eyes on the policy direction taken by Chile's new government, elected in late 2021, before they turn to presidential elections in Colombia in May. Then comes Brazil's general election, scheduled for October, which is likely to disrupt the rhythm of new issues.

"I expect Brazil to be very busy in the first half of the year, because election volatility will make the second half more difficult," says Kingsley. "Some of the higher yielding names, especially, will want to lock in low-cost funds while they can."

Volumes to drop

Even if the first half of the year is particularly busy in Brazil, the fact that most expect new issuance to stop in the run-up to the election means that overall volumes will likely be down.

Volkov at Bank of America highlights a second reason to be pessimistic about Brazilian volumes: interest rates. Brazil's Selic rate has increased from 2% in March to 7.75% in November, and is expected to continue to rise.

"This means a lot of funds in Brazil are rotating out of equities and back into credit," says Volkov.

Liquidity in the domestic bond market is therefore high, and several firms in Brazil that could have raised capital in dollars are likely to turn to the domestic markets instead, says Volkov.

"There are also longer maturities and greater sizes available in the local debentures market than ever before," he adds. "Even with higher local rates, it is cheaper for companies to issue locally than to print in dollars and swap back into reals.

"Add in that in election years, we have seen Brazilian cross-border issuance typically slow as volatility rises."

All this chimes with the majority view — held by nine of the 14 bankers asked — that Latin American and Caribbean cross-border bond volumes will be lower in 2022 than in 2021. Just three bankers expect volumes to increase, and there's just one optimistic outlier predicting that volumes will increase by more than 20%.

Yet Brazil is not the main driver of expectations for lower volumes.

BNP Paribas' head of Latin America DCM, Andre Silva, also predicts a "tougher environment" for LatAm bond markets, noting that elections are a reason to expect more domestic volatility and that external conditions will lead to higher funding costs.

"A third important consideration for volumes is that a lot of this year's issuance has been due to the pandemic driving greater fiscal spending," says Silva. "I do not expect that to be replicated to the same extent. It will still be a reasonably active year, but I'd expect overall volumes to be down."

Chile has been by far the most active Latin America sovereign borrower in international markets during the pandemic, selling over $15.3bn-equivalent in hard currency bonds in 2021 — almost 12% of the total printed by LatAm and Caribbean issuers of all types as of mid-November. This is up from around $5.9bn in 2020 and just $2.4bn in 2019.

Peru, for so long a rare sight in external markets, has also relied heavy on dollar and euro funding in 2021, accounting for over $10bn equivalent of supply.

Miguens at JP Morgan shares the view that lower sovereign issuance will lead to lower bond volumes overall. But some of this will be offset by "robust" M&A activity, he reckons, leading to growth in corporate issuance. Five of the 14 bankers believe LatAm corporate issuance will increase in 2022. GC

Balance sheet and ESG prevent US shutout in LatAm

US banks continue to rule the roost in LatAm DCM, but some say league tables don't tell the full story. **Olly West** reports

In a region as politically and economically volatile as Latin America, the top of the DCM bookrunners league table has been an island of predictability. Since 2016, Citi and JP Morgan have done battle for the throne, and have between them taken at least a quarter of the share of Latin American and Caribbean international new issues.

After Citi took the crown for the three years before the pandemic — according to data from Dealogic, which provided all the league table data for this article — JP Morgan pipped its rival to the top in 2020 and is likely to do so again for 2021. As of November 9, JP Morgan had increased its market share in 2021 to 14.85% — versus second-placed Citi's 11.43%.

"The pandemic hit JP Morgan's LatAm DCM business while we were in the advanced stages of changing our strategy," says Lisandro Miguens, the bank's head of LatAm DCM. "This change had begun in 2015, when we broadened our focus beyond the flow of loans and bonds and expanded into more bespoke products like infrastructure, project finance, restructuring, private credit and private placements."

Miguens says that the shift had "created value" for the bank by enabling it to serve clients with a broader suite of products, and to serve new clients it had not reached before.

"When Covid-19 hit, we were therefore very well prepared for the increased volume," says Miguens. "Working from home and not travelling translated to increased productivity, while clients were very focused on executing deals."

Wall Street heads south

There is a sense, talking to other DCM bankers, that the pandemic favoured the most established players.

"I'd agree that, in difficult times, borrowers are more likely to migrate to stronger banks with larger teams," says Miguens.

In 2021, for the first time ever, the top five US banks — JP Morgan, Citi, Bank of America, Goldman Sachs and Morgan Stanley — look likely to take more than half the LatAm league table pie between them. As of early November, their combined market share was 51.95%, up from about 47.75% in the previous two years and the low 40s between 2016 and 2018.

"The pandemic did play a part in cementing the market share of the top banks in LatAm," says Max Volkov, head of LatAm DCM at Bank of America, which entered November in third spot. "When spreads are widening by 20bp a day, if you need dollar funding you tend to go to the top US banks that have had the best platforms for several decades."

Yet, the major recent changes in LatAm league table dynamics occurred before Covid-19. Some of the European banks that were fixtures in the top five a few years ago had already started to slip as strategies changed. Goldman Sachs, which fell as low as 15th in 2016, had already jumped to fourth in 2019 as it re-equipped its LatAm DCM team, and it has remained in the top five.

Sovereigns to the fore

Sometimes, changes in league tables reflect the changing funding needs of different issuers. The importance of certain previously rare sovereign issuers has increased sharply, for example.

Those who did not win Chile mandates in 2021 are quick to highlight that running deals for Latin America's best rated sovereign is an extremely low-fee business.

However, with the sovereign issuing more than $15bn in 2021, it still translates into both healthy business and hefty league table credit. Peru also issued far more abroad in 2021 than ever before, raising more than $10bn across two dollars and two euro deals.

"One of the biggest changes in the post-pandemic world is the dramatic increase in funding needs of certain jurisdictions," says Andre Silva, head of LatAm DCM at BNP Paribas. "We have increased our LatAm bookrunner market share in 2021 but haven't changed our strategy dramatically to do so.

"In a tough market, when spreads are widening by 20bp a day, if you need dollar funding you tend to go to the top US banks that have had the best platforms"

Max Volkov, Bank of America

"We are a little bit more focused and conscious about where to spread resources, but our clients have been very active."

BNP Paribas has led several deals for both Chile and Peru in 2021, and so far in 2021 is boasting both its highest ever LatAm market share (5.43%) and highest ever league table position (seventh). Still, it's not all about jumbo sovereign trades — the 27 deals that the French bank has led is also an all-time high.

"The competitive environment in LatAm DCM is changing all the time, and part of this is because in recent years the business has become more complex," says Silva. "To be successful you definitely need a solid strategy for the region, which we have right now, and are leveraging our strengths as an institution on top of that."

Certainly, one consensus among bankers is that the pandemic favoured institutions with the ability to lend a lot as companies looked to shore up liquidity.

One rival banker describes Santander — which owns some of the largest commercial banks in Mexico, Brazil, Argentina and Chile — as the "poster child" of balance sheet.

The Spanish bank sits in fourth place in the 2021 league tables, its highest ever position, with its highest ever market share of 8.11%. It is the only European institution in the top six.

Yet one DCM source points out that most of Santander's recent gains are not attributable to its lending power. Indeed, the Spanish bank has boasted a strong balance sheet in Latin America for several years. Rather, the bank has been adding business in countries where it does not have a large commercial bank.

Despite the pandemic making visiting borrowers impossible until recently, Santander has added several first-time clients — including its first ever deal for Panama in June 2021.

There are other cases that show there is still room at Latin America's top table for DCM teams that do not necessarily have a major lending business backing them.

As of mid-November, Credit Suisse is up to 10th in the league table — up from 15th in 2019 and 12th in 2020. Morgan Stanley fell from seventh in 2019 to 10th in 2020 as the pandemic hit, but has surged to sixth place in 2021, with its market share having increased from 4.8% in 2019 to 7.13% in 2021, according to Dealogic.

Moreover, only a handful of banks do battle on all fronts in a market as diverse as Latin America, and there are pockets of outperformance that suggest the overall league tables do not tell the full story — and that an institution can build a dominant position in a certain niche without massive balance sheet.

For example, Credit Suisse, 10th overall for LatAm, is third in Colombian DCM in 2021. The bank has taken advantage of its strong exploration and production (E&P) practice to win key mandates for companies such as AI Candelaria, Frontera and Canacol. The bank was also sole adviser on Avianca's $1.6bn DIP financing, which is not included in league table data.

Looking ahead

With dollars the dominant currency, Latin America's external bond markets always maintain a close connection to US credit markets, and Volkov says that the region is moving "in sync" with global trends in credit markets. "Banks have to be willing to offer aggressive structures, similar to the US leveraged finance market, whether that's in covenants, pricing, committed financing, or acquisition financing," says Volkov.

Miguens at JP Morgan, meanwhile, believes that balance sheet will continue to be highly valued in the region — but no longer for reasons related to Covid-19. He says that banks will be required to provide a lot of acquisition finance in Latin America, as M&A is "booming".

Latin American bond issuers have also fully embraced ESG in 2021, with the advent of sustainability-linked bonds, in particular, allowing many of the region's smaller issuers to offer ESG-themed deals even though they would have struggled under the traditional use-of-proceeds format. This is fast becoming another area to seek competitive advantage.

"Our ESG team in DCM has expanded exponentially to match the demand," says Volkov. "Providing advisory on an SLB, for example, takes weeks of work and involves sitting down with people at a company that you would not have seen before — strategic development, or sustainability officers, for example — to discuss what can fit into the SLB framework.

"Only the top global ESG platforms can compete on this, and we think that our approach of incorporating people with ESG expertise into DCM is a major differentiator. ESG continues to contribute to our market share gains in Latin America."

European banks can also do well here, given that the sustainable finance boom has its roots in Europe. BNP Paribas' mandates on Chile and Peru's jumbo deals were all for social or sustainable bonds, for example. Crédit Agricole is also reporting its highest ever LatAm league table position and market share, with at least half of its 16 mandates from the region in 2021 for ESG deals.

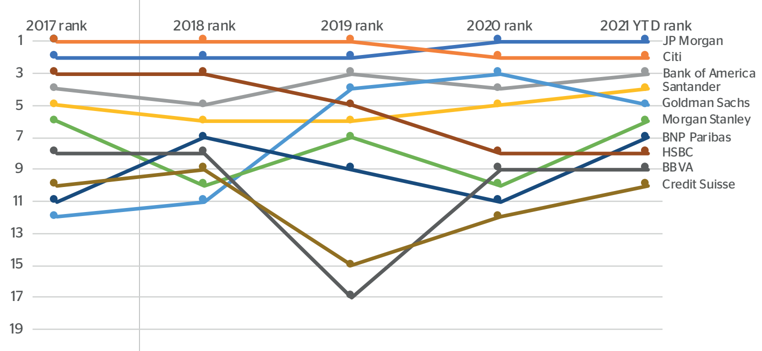
A better balance

As working practices across industries evolve, changes in the traditionally hectic travel schedule of Latin American DCM bankers will be telling. New York-based bankers acknowledge that much of the local content aspect of the LatAm DCM job cannot be replaced by Zoom or a telephone call, and most institutions started visiting their clients in person in late 2021.

For now, most are expecting a better balance between being in the office, working from home, and being on the road. But will DCM bankers still end up catching those 10 hour red-eyes from New York to São Paulo as they fight for mandates?

"LatAm DCM bankers will continue to travel, but I expect a better balance between being in the office and on the road, as video conferencing has been proven to work for many things," says Silva at BNP Paribas. "The open question is: will banks fully return to face-to-face meetings with clients after seeing competitors do so?" GC

Top places for DCM teams in Latin America



Source: Dealogic

Convertibles look for next wave to surf

The convertible bond market proved a crucial source of finance during the coronavirus outbreak, for star companies and struggling ones. But the market sputtered in late 2021, as deals dried up. Going into 2022, there are plenty of reasons why new sources of business should soon appear. **Aidan Gregory** reports

Convertible bonds thrived during the pandemic. Specialist equity-linked investors showed an extraordinary willingness to lend money to all kinds of borrowers, from high growth US technology companies to some of the hardest hit industries, such as airlines.

The recovery phase from Covid has caused CB issuance to subside. But the resumption of economic growth should bring fresh opportunities, just as long as the Omicron variant does not set the world back 18 months.

"The convertible market has always been a provider of growth capital and restructuring capital," says Venu Krishna, head of equity-linked strategies at Barclays in New York. "As the world normalises, and as some of these businesses which got hit go back to normal, their capital needs will be different. We saw a burst of issuance because the convertible market was one of the few capital markets open to these companies, which desperately needed to raise capital. It was specific to that period."

In 2020, over $194bn was raised globally in the equity-linked market, the busiest year since 2007, according to Dealogic.

The momentum continued into 2021, with more than $156bn issued, up to November 17. Most dealflow was in the US, but EMEA also produced a strong output. However, despite these large volumes, the market has slowed in recent months.

"2020 was incredibly busy and beat lots of records globally," says the head of EMEA equity-linked at a US house. "The first half of 2021 was a continuation of the same trend, then we had a quiet period following the summer. That is globally, not just regionally. We will finish the second half at a very low number versus what our expectations were at the beginning of the year."

Why have the wheels come off for convertibles? The primary answer is that it is not CBs themselves, but their issuers that have gone out of style.

There is a large overlap between the companies that have funded themselves with CBs in the past two years and the hot growth stocks that caught investors' imaginations as the big winners from the pandemic.

But this category of companies has tanked in the stockmarket as 2021 wore on, as investors repositioned into sectors that had been hobbled by the pandemic, but now stand to benefit from the recovery.

"We have seen a lot of newcomers to the convertible market and there has been a lot of IPO activity"

David Hulme, Advent Capital Management

Shares in internet-savvy exercise bike maker Peloton, for example, which issued a $1bn convertible bond in April, have fallen more than 62% in 2021.

Asos and Global Fashion Group, the online clothes retailers, crashed more than 41% and 28% respectively during 2021 as a result of the equity market rotation. Meanwhile, the S&P 500 has climbed 24%.

Issuers of that kind have contributed the bulk of CB deals in 2021 — more than half in the US, while the European market has become increasingly weighted towards technology too.

Convertibles suit technology companies that are growing fast — so have high prospects for share price growth — but have short track records and low profitability, making them weak credit risks.

"October was one of the quietest months on record globally," says Juan Rodriguez Andrade, head of EMEA equity-linked at Bank of America in London. "There has clearly been a slowdown. Part of it was driven by many companies being in blackout but it goes beyond that. A lot of companies have pre-financed in advance, so they have less need to fund now than a year ago, as they took the chance at the start of the year. On top of that, in the technology sector, which is one of the sectors we have seen a lot of issuance from, with rates going up and the re-opening happening, it has impacted their equity valuations, so it will take a while for them to think about issuing convertibles again."

No more distress

The second big reason why CB issuance has dwindled is the easing of distress in the economy.

With the rollout of Covid-19 vaccines, few expect a return to the widespread and severe lockdowns of 2020-21 — even though countries such as the Netherlands and Austria were tightening controls, and a worryingly infectious variant was discovered in South Africa, as this review went to press.

The airline industry is the best example. Many of the world's major carriers, including Cathay Pacific, British Airways' parent IAG and Singapore Airlines, have issued convertibles over the past two years, as part of wider financing packages to obtain much needed cash after passenger numbers collapsed.

With the resumption of global travel, including the re-opening of the US to European visitors in November, the outlook for these businesses is rosier.

"If you think about who was issuing convertibles over the last 12-18 months, on the one hand we had lots of heavily impacted companies like airlines and travel and leisure firms," says Ilyas Amlani, head of EMEA equity-linked at HSBC in London. "Many of those companies have already raised capital and their operational performance has improved dramatically. Their businesses are performing much better and their need for additional liquidity has drained away. It is unlikely they will all go back to equity-linked so soon."

Blue chip drought

While growth tech companies and struggling consumer businesses have visited CB-land in droves, investment grade issuers, which make up the bulk of the European corporate bond market, have continued to avert their gaze.

The rates outlook perking up has not yet fed through into a rise in funding costs for European investment grade companies. They can still issue straight bonds extremely cheaply, so they remain only rare visitors to the equity-linked market.

"Alternative options in the debt market also continue to be strong," says the US head. "Many issuers have these options and have chosen to go down the debt route. That explains why we have had such a quiet period over the last few months."

Despite these explanations, the slowdown in issuance still puzzles equity-linked bankers, as share prices continue to set new all-time highs almost every week. High equity valuations mean CBs can be issued extra-cheaply, with less risk of the company having to place equity at a dilutive price.

"We all agree that it is a bit odd and not what we expected at the start of the year," adds the US head.

The bull run in global equities shows little sign of slowing, even if rates do rise in 2022, as expected.

The resumption of economic growth may have caused sharp adjustments and repositioning in equity markets as investors tried to ride the fastest rising stocks, but ultimately the sector rotation will peter out. Growth should bring rising earnings and corporate investment, and with it, new needs for financing.

"Do I think this quiet period will last?" asks the US head. "No. With macroeconomic conditions and the rise in rates, along with equity valuations remaining attractive, there could be some issuers who are tempted to revisit convertible bonds."

That will include the recently out-of-favour tech companies, much given to CB issuance.

While the end of social distancing is welcome for many firms, the swerve towards digitalisation brought by the pandemic is not going to be reversed.

"Software has been a very active area of issuance," says David Hulme, managing director at Advent Capital Management in New York. "We are seeing an extremely fast digitalisation of the economy. Software companies generally are booming and we have seen them raise capital to take advantage of that opportunity."

Hulme adds: "Covid accelerated that transition. Companies realised they have to be able to deal with distributed workforces, which has cybersecurity implications, and their staff need to communicate effectively in that kind of environment."

When growth share prices are re-rated upwards again, it is likely to spur them to return to the equity-linked market for funding — particularly since investor appetite for CBs remains strong.

"Companies tend to be more sensitive to their equity valuations," says Krishna. "Typically, when equity valuations correct [downwards], you can see companies becoming more reluctant to issue convertibles. Right now, the market is still very attractive because of speed of access and pricing, which remains very favourable."

Tie-ups to finance

In 2022, as well as resuming financing tech companies, equity-linked investors expect to provide more debt to firms embarking on mergers and acquisitions to exploit the recovery.

"M&A has been subdued this year and was much stronger on the private equity side and less so on the listed company side," says Stephanie Zwick, head of convertible bonds at Fisch Asset Management in Zurich. "As we head into next year, we should see some more M&A activity, and consolidation, which should lead to some convertible bond financing."

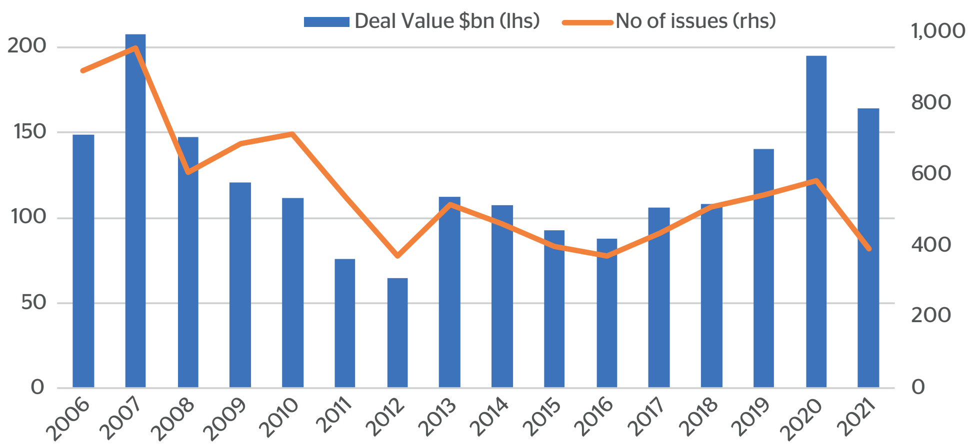
Financing M&A has historically been a classic purpose of issuing convertible bonds.

"I think there is going to be a lot more M&A," says Rodriguez. "Clients are talking about the full toolkit of financing solutions and are looking across capital markets, including convertibles. That will also be a driver in 2022, in addition to tech."

Another source of optimism is that 2021 was the busiest year in history for IPOs globally, with $558bn raised, Dealogic data show. Many of these firms will need to return to equity markets for financing, and convertibles are likely to suit some.

"We have seen a lot of newcomers to the convertible market and there has been a lot of IPO activity," says Hulme. "It may not continue at that frenetic pace. Some of those companies, a couple of years after their IPOs, will come to the convertible market. It is often a first stop for them in credit markets." GC

Global equity-linked issuance since 2007



Source: Dealogic

Europe's IPO market seeks move from crazy to healthy

Few would have expected that, as Europe staggered out of a pandemic, its equity capital market would be roaring hotter than at any point since 2007. But so it was for European IPOs in 2021. Plenty more firms want to float, so 2022 could be just as active. But as **Victoria Thiele** reports, participants know that it only takes a little volatility — triggered by the emergence of a new Covid variant — or a few failed deals to spoil the party

If 2020 was a surprise for equity capital markets, 2021 was astonishing. A global pandemic has brought, not a stockmarket rout, but a resilient market, and this year, a riot of deals.

Global issuance surpassed $1tr for the first time in 2020 — this year it is pushing $1.5tr.

The IPO market in EMEA is one of the more sensitive patches — listings in 2020 were sharply down. But in 2021 the market rebounded to its second biggest total ever, narrowly ahead of the last pre-crisis peak in 2007 and only exceeded by 2000.

After a hectic year, European markets are finding their rhythm in the post-pandemic world — or at least they were until the arrival of Omicron.

Deals may not continue to be churned out at the same breathless pace, but banks across Europe are looking at a brimming pipeline for the coming months.

"2022 is likely to once again be a very busy year," says Aloke Gupta, co-head of EMEA equity capital markets at JP Morgan in London. "Even if there aren't as many IPOs as this year, it will still be a very elevated number compared to historic averages."

Bankers and issuers are confident in the strong outlook for IPOs, despite the challenges that have made the market difficult to navigate recently, from investors slumping with fatigue in the summer to the rocky aftermarket performance of some of the hottest IPOs, which led to a series of deals being cancelled in the autumn.

"There is almost a disbelief that the IPOs have worked as well as they have, because of course there was a bit of a stutter in the market in June," says Jamie Manson-Bahr, head of EMEA equities syndicate at Morgan Stanley in London. "There was just too much coming through and the quality of some assets wasn't quite good enough. And then a filtering process happened, which I personally think is a healthy thing to happen in capital markets."

James Palmer, head of EMEA equity capital markets at Bank of America in London, agrees that the autumn hiccups are, in fact, a sign of a market returning to normality after two years of extremes.

"A few deals didn't get done, but that is natural selection," says Palmer. "When you have a supportive IPO market, sometimes companies that are a touch too small try to come out, or they are not quite ready for public life, or just candidly not that exciting companies. So if the market is turning them down, that is a perfectly healthy sign."

Several IPOs that were discussed for the second half of 2021, but never launched, could surface again in the year ahead.

"Particularly in this third quarter, a lot of IPOs never came to market," says Andreas Bernstorff, head of equity capital markets at BNP Paribas in London. "So there is a bit of attrition that has been pushed into next year anyway.

"And if we look at the pipeline for the first half, we've got a significant number of pretty interesting and large IPOs. I would say we will see another year of above average activity if the market remains reasonably supportive."

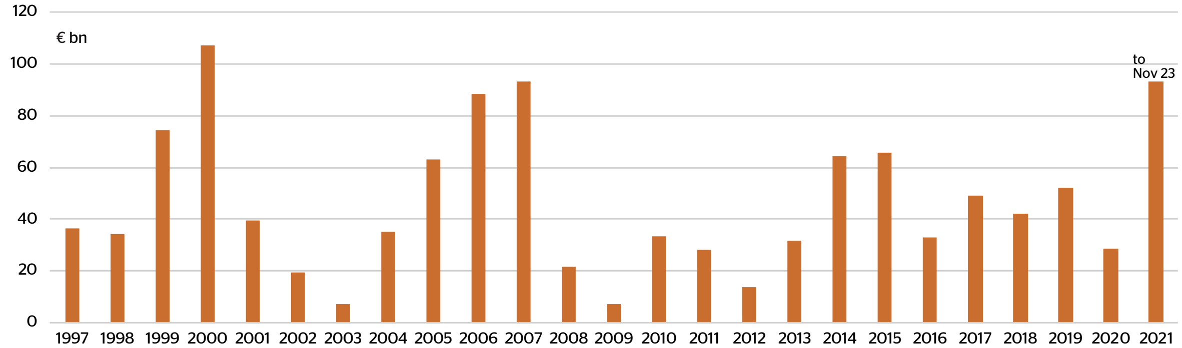
The future is tech

Growth stocks, especially tech companies, will play a big role in 2022's market. On that point, market players are unanimous.

"I kid you not — in 2016 you could literally count less than 10 proper large tech companies listed, all across Europe," says a head of ECM in London. "That number has gone out of sight — not so much the number of IPOs that you've seen, but the number of IPOs to come is massive. That structural shift started in the US and Asia probably five

Revolut epitomises exciting unicorn businesses in Europe, say bankers

IPOs in EMEA reach a new peak



Source: Dealogic

years before it started in Europe, but now it has a massive momentum behind it."

Some claim that while Europe's tech IPOs have still not caught up with the US in quantity, they have overtaken it in quality, and that is attracting the attention of choosy investors.

"Tech stocks have always been important in Europe," says Manson-Bahr. "There have been less of them than in the US, but Europe has some exciting unicorn businesses, whether that be in the private space like Revolut, or in the public space like AutoStore — that's a fantastic business. People are seeking out unique assets and that will continue."

Tech companies made up the largest group of new listings in EMEA this year, according to Dealogic data, at 28% of all IPOs by volume and 31% by number. They raised €26bn, up 160% from 2020, itself a record year.

Gupta says this is part of a deeper structural shift. "You are seeing the digitisation of the whole economy, so you are going to continue to see a lot of IPOs in tech verticals," he says. "I also expect to see a lot of [activity] around energy transition and climate tech. But the economy is solid, hence all sectors are likely to be busy."

The Digital Economy and Society Index tracks how much work has been done and how much is still to do in the digital transformation of Europe.

In Germany, for example, only 18% of businesses send electronic invoices. As long as Europe still has these analogue companies, tech stocks will stand out as a distinctive new feature in the market. But as digitisation progresses, the concept will lose its significance.

"The days when you could easily define what is a tech company and what isn't are gone," says Palmer. "There isn't really a company on the planet that can't have a proper tech strategy or tech-related approach to their business."

He adds: "The importance of tech is continuing, but perhaps with less visibility than we had going into last year. That is no rotation, but evidence of a healthy IPO market where you have a breadth of sectors and sub-sectors."

All eyes on growth

Despite the boom in tech listings, some of the most hyped deals from early 2020 have lost investors money. Personalised greetings card maker Moonpig, cosmetics retailer THG, ratings service Trustpilot and car dealer Auto1 have all underperformed expectations.

They have been knocked partly by the sweeping rotation out of growth stocks and into value that has jumbled up global equity markets as investors have shifted from pandemic mode to recovery.

ECM deals caught in the crosswinds have suffered. Tech sector equity block trades in EMEA, for example, have on average fallen in price within a month of the deal in the second and third quarters, while non-tech trades have yielded positive returns.

But the planning for 2022's IPO market seems untouched by this.

"Strangely, the pipeline looks rather similar in terms of sectors," says Bernstorff. "We've got a lot of growth — tech, media and healthcare remain reasonably dominant. The thing that didn't happen last year, despite us having a go at it, was a broadening of sectors in terms of value sectors or more cyclicals.

> "If I had to pick one single factor that is in the spotlight, it is growth. That is not expected to change"

"It is going to be interesting to see if the market resets away from growth to more value or cashflow or dividend," he adds, "whether the IPO candidates can adjust to that. But right now, there is not much evidence for that."

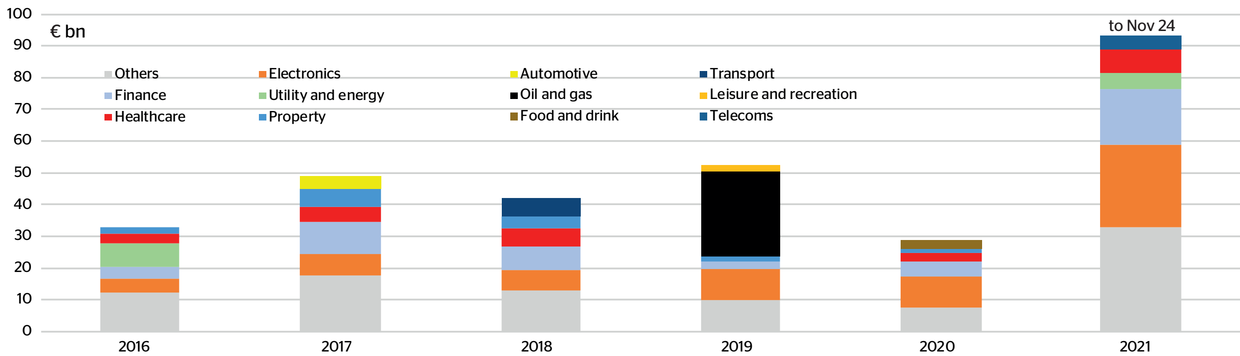
Other bankers share the impression.

"Growth is the number one priority driving investor interest," says Gupta. "Of course the market wants to see efficient business models, they want to see a path to profitability amongst other things, but if I had to pick one single factor that is in the spotlight, it is growth. That is not expected to change."

Ignoring inflation

The wizards behind the IPO market's bonanza are central banks. They have supported the global economic recovery with generous bond purchasing programmes and low

Tech the dominant sector of the last two years
EMEA IPOs (€ bn)



Source: Dealogic

interest rates, soothing investors' fears and making them eager to take risk.

Stockmarket indices have notched one all-time high after another, helping IPOs in the EMEA region to raise more than €93bn in over 530 deals by late November.

In this inherently cyclical market, the inevitable questions are: when will the train derail, and what might cause it?

"Volatility is the enemy of all IPOs," says Manson-Bahr. "There is a risk that we're going to be in a potentially more volatile market than we have seen for a while. We're pretty bullish on earnings for next year. As a house we are forecasting 10% earnings growth across Europe. But you've got a lot more macro cross-currents coming through."

So far, the market seems remarkably unfazed by macroeconomic concerns. The US market hardly blinked when the Fed began openly considering a sooner-than-expected interest rate hike. In Europe, where the ECB so far promises no rises in 2022, investors seem even more relaxed.

"I was told many years ago: the US 10 year bond tells you everything," says Palmer. "I continue to believe that. There is a lot of talk about inflation and related interest rate changes in that context, but the US 10 year continues to bounce around 1.6%, which in the context of what inflation is, is basically very cheap money. As long as money is cheap, equities will continue to perform, which obviously is a supporting backdrop for the IPO market."

> "I think corporate confidence across the board, across sectors seems to be very solid"

In the past few weeks, earnings seem to have put investor concerns to rest.

"It has been noticeable just how reticent investors have been — careful and cautious," says Bernstorff. "We saw that massively in the IPO window from around the last week of September to the end of October, when investors were nearly not playing at all. And then suddenly Q3 numbers came out, and suddenly everyone got their mojo back and hedge funds were back putting money to work."

Gupta points to it too. "In Q3, two out of three companies [in Europe] beat their estimates, which indicates an upside in operational performance for many sectors heading into 2022. I think corporate confidence across the board, across sectors seems to be very solid."

Keeping up with the neighbours

As well as its strong sectoral tilt, and related to it, the IPO market has also had a strong north-south divide over the last year. The UK leads the EMEA ranking, with Sweden, the Netherlands, Germany, Norway and France filling up the top slots. Together, they account for more than 75% of all issuance.

Italy, the fourth largest economy in Europe, is in 14th place, with €1.3bn raised in 32 IPOs. In Spain, only four companies went public, out of which the photovoltaic plant installer Acciona Energia raised €1.5bn, the other three a combined €150m.

In 2022, southern Europe is expected to come further out of its shell.

"I think Italy will be a lot busier in 2022 than it was in 2021, and the same goes for Spain," says a head of ECM in London. "But if you look at the big tech hubs in Europe, you have a large number of companies that are London-centric. Then you've got an exciting and active scene in Germany. Finally, you've got the Nordic companies, where you have some really big tech giants and lots of tech IPOs. I don't think that structural mix will change."

Still, a few successful deals should encourage more issuers in the south to consider going public.

"Italy has seen a scarcity of IPOs in the last couple of years," says Bernstorff, "so getting Intercos done, which we did a couple of weeks ago, and Ariston, which is in the market right now, that would be a big vote of confidence in that market, where we will start seeing things working again."

Intercos is a cosmetics manufacturer, while Ariston makes boilers.

"Italy and Spain tend to be quite patchy in terms of IPOs and there wasn't that much this year," Bernstorff adds. "I think from all we can see, there is actually quite a lot that could come in both markets. So I think that gap will not widen, it will narrow."

Outer Spacs

In the recovery-induced rush of euphoria in the first half of the year, the US craze for special purpose acquisition companies spilled over to Europe, before running out of steam in the summer, giving the market pangs of self-doubt.

Spacs show a tendency to do better in more investor-friendly conditions. There was a three month spell without any deals, before the Disruptive Capital Acquisition Co restarted things in October. To sweeten its deal, it introduced to Europe 'overfunding' — a technique in which the pre-IPO sponsors put in a little extra money so that IPO investors make a small return even if they decide to redeem their shares, in this case 2.5%.

Spacs have been priced here and there in Europe since. The most recent examples, both in Amsterdam in November, were Spear Investments, which raised €175m, and European Healthcare Acquisition & Growth, fetching €200m.

Existing Spacs are also continuing to find acquisitions, too, such as 468 Spac, which is buying Boxine, a German children's entertainment firm, now renamed Tonies.

Palmer says: "There is increasing evidence that there is room for a Spac market in Europe, but activity levels will remain relatively low."

While lacking the popularity they enjoy in the US, Spacs are on the way to establishing a foothold for themselves.

"There have been one or two new Spacs [recently], far less than were in the pipeline," says Bernstorff. "But nevertheless, the market isn't totally gone. I think you're going to see a concentration amongst repeat issuers. So when they go around and see hedge funds, they already have a track record and a reputation to go on. But I don't think we're going to see that level of activity again that we saw at the beginning of this year."

Bernstorff adds: "There is a far better understanding now of what Spacs can do, but also what they cannot do and what problems they don't solve. It is important that the de-Spac-ing process is often longer and much more complex than the principals thought it would be. They've earned themselves perspective and a certain niche —but it is a niche."

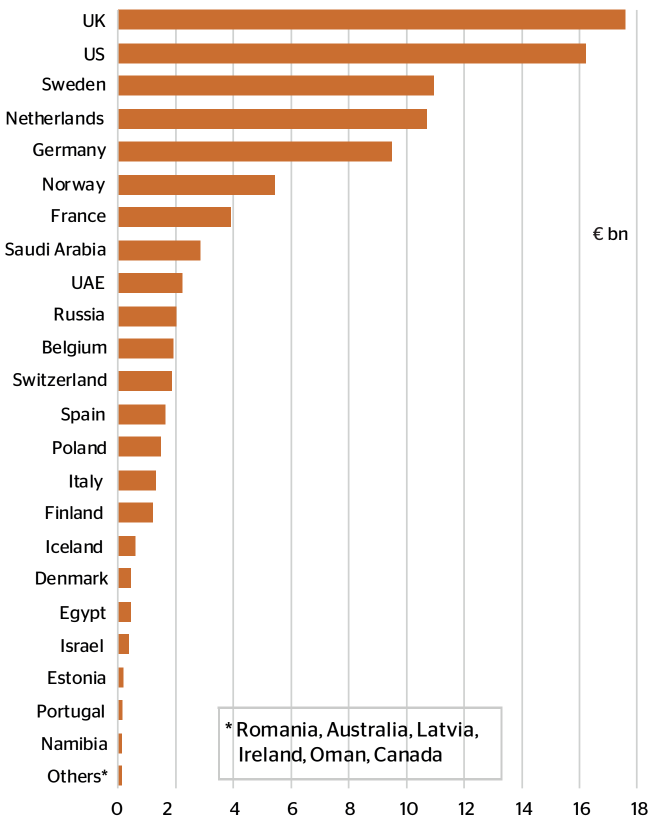
The development of Spacs in 2021 is remarkable in a region that is still finding its balance after the greatest turbulence in financial markets for a decade.

Without knowing the full impact of Omicron, Europe is looking forward now to another busy year, with a market that is less intense, but healthier in weeding out companies that are not ready to go public. It is likely to support firms across sectors and regions that are fit for a future defined by secular trends, above all the energy transition and digitisation.

"The shape of the IPO market going into 2022 is likely to look more similar to the second half of this year than the first half," says Stephane Gruffat, co-head of ECM EMEA at Deutsche Bank in London. "The tone has become more selective and focused on structural winners and category leaders. We see the pipeline as generally high quality for the first half of next year. There are a number of great companies which are very public market-ready." GC

Moonpig is one IPO that didn't deliver as hoped

EMEA IPOs in 2021 by listing venue



Source: Dealogic