

Capital Markets Strategy

Essential insights for the C Suite



March Disappointment, April Optimism

The Depth & Resilience of the USD Investment Grade Bond Market

APR 2023

**"In the depth of winter, I finally
learned that there was in me an
invincible summer."**

Albert Camus, French philosopher, author and 2nd youngest
recipient of the Nobel Prize in Literature (1913-1960)



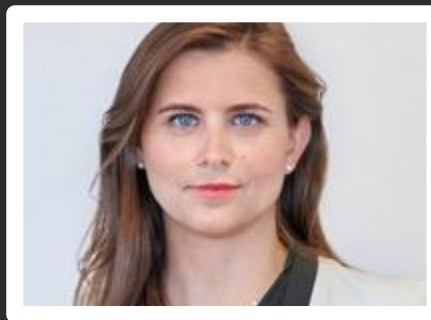
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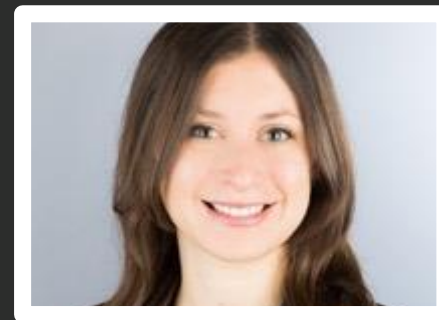
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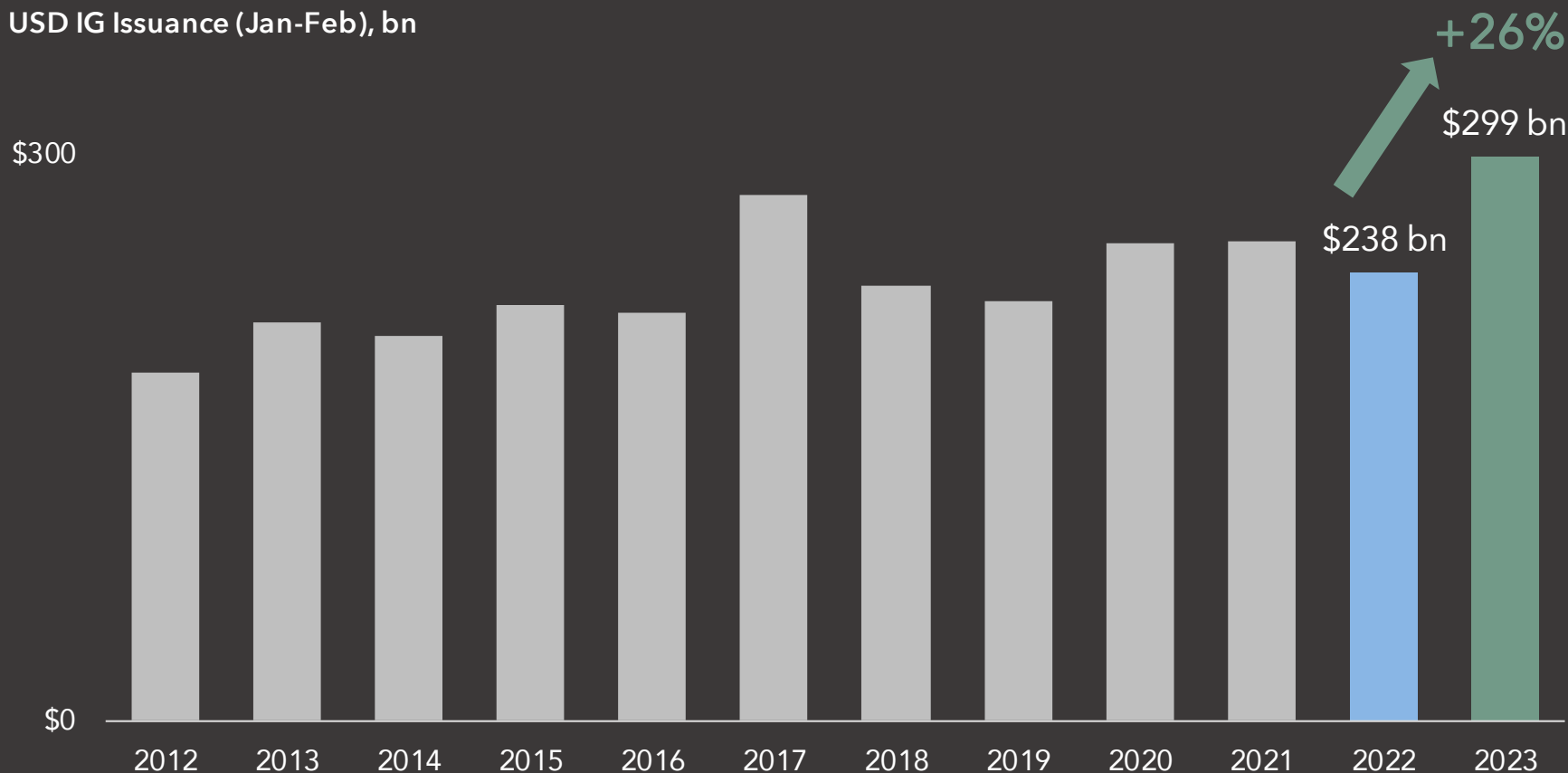
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Q1 2023 IG New Issue Market & Outlook

Record Jan-Feb IG Issuance

Pre-funding has been an important theme for corporates in 2023. Issuers moved at a record pace this January and February to take advantage of strong investor appetite for well capitalized balance sheets at attractive yields. The record \$299 bn of IG issuance in January-February represented ~25% of full 2023 supply forecasts of \$1.2 trillion.

USD IG Issuance (Jan-Feb), bn

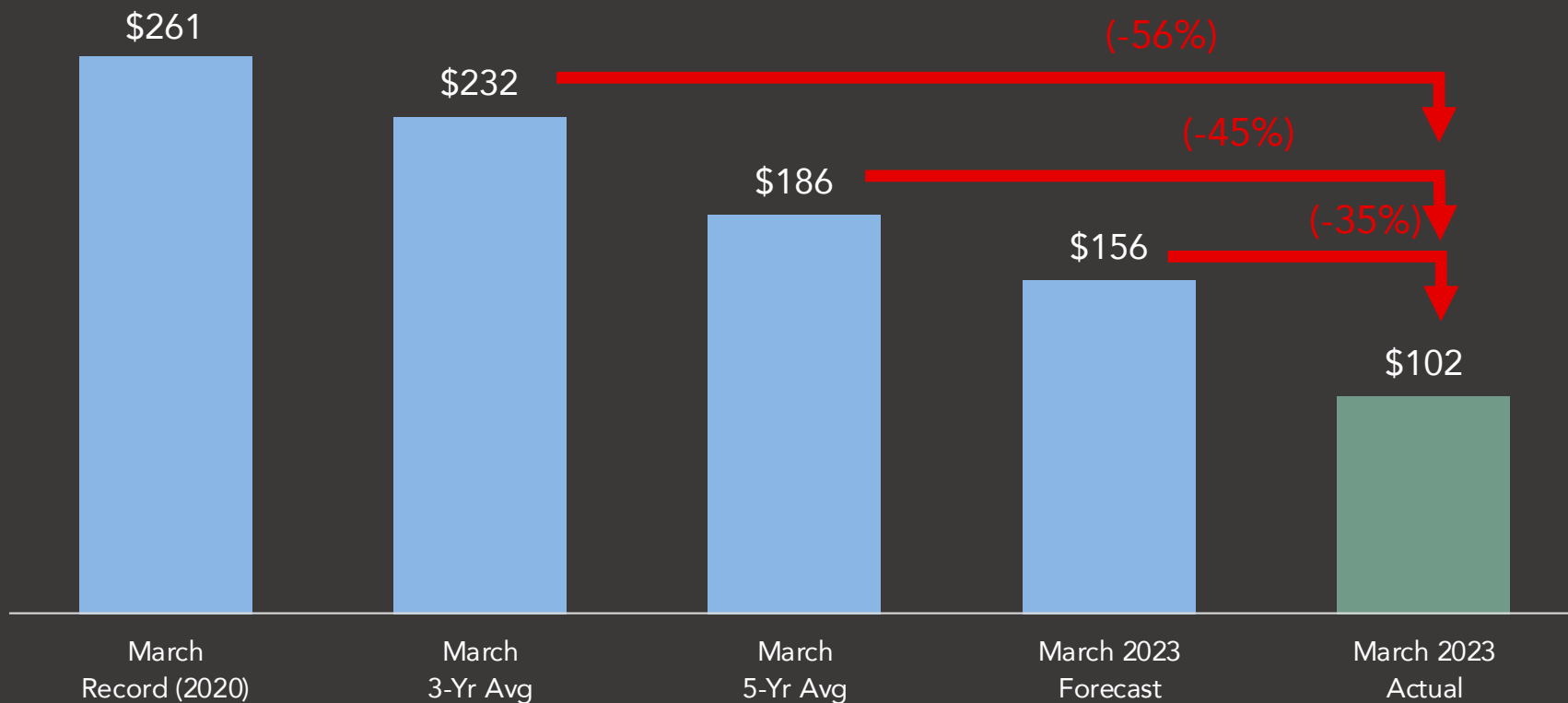


Source: (1) MUFG CMG. IFR. Data through February 28, 2023.

Disappointing March IG Issuance

March has historically been one of the most active IG issuance months of the year given annual pre-funding objectives by many corporates as well as Q1 earnings blackout periods in April. Given bank sector stress and market tightening, March 2023 issuance volumes came in well below expectations.

Historical perspective on US IG issuance volumes in March, USD bn

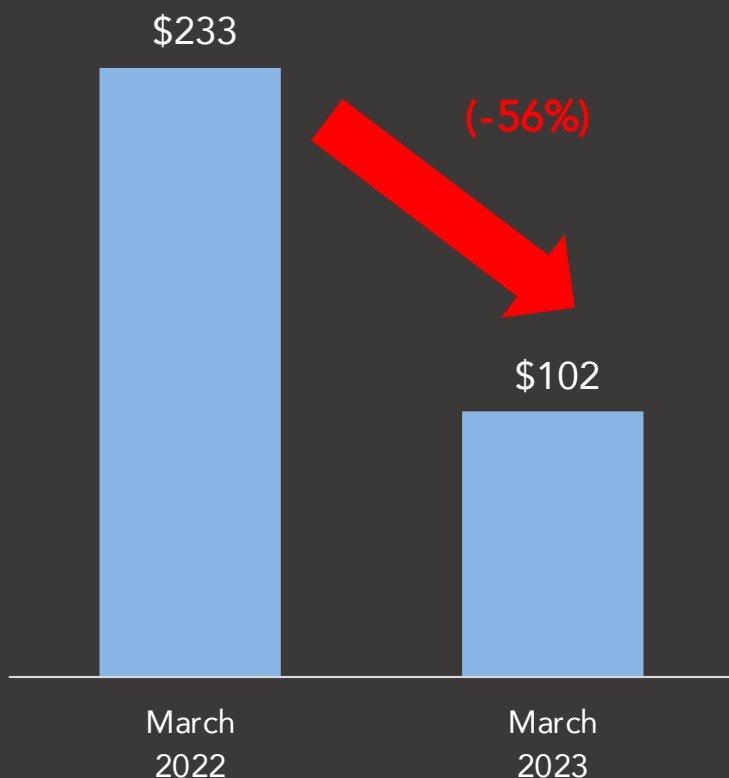


Source: (1) Credit Flow Research. Data as of March 31, 2023.

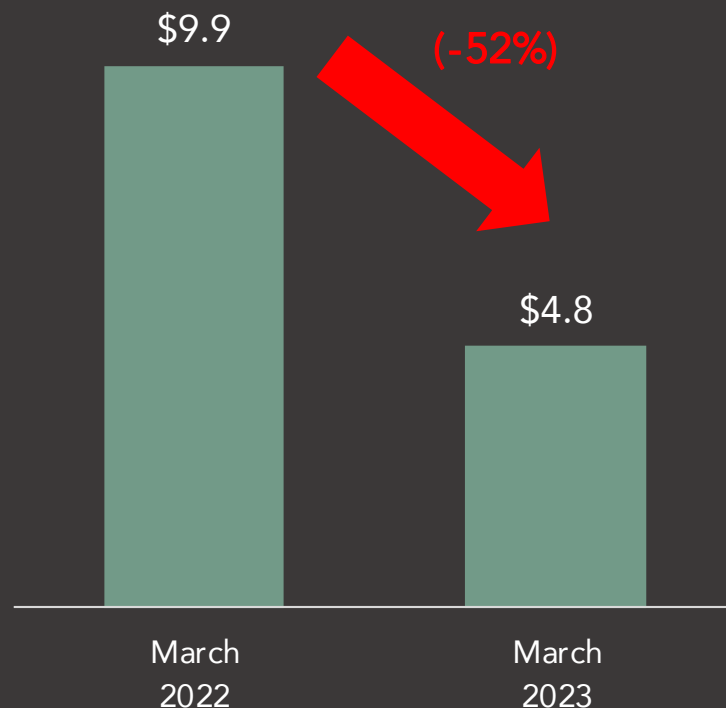
Disappointing March IG & HY Issuance

Bank sector stress sharply tightened financial conditions during the March 13th and 20th weeks, driving new issue volumes for the month well below prior year levels. While March IG issuance volumes declined nearly 60% Y/Y, March HY issuance declined > 50% Y/Y, and was below the low end of \$10-\$20bn forecast ranges.

US IG issuance, USD bn



US HY issuance, USD bn

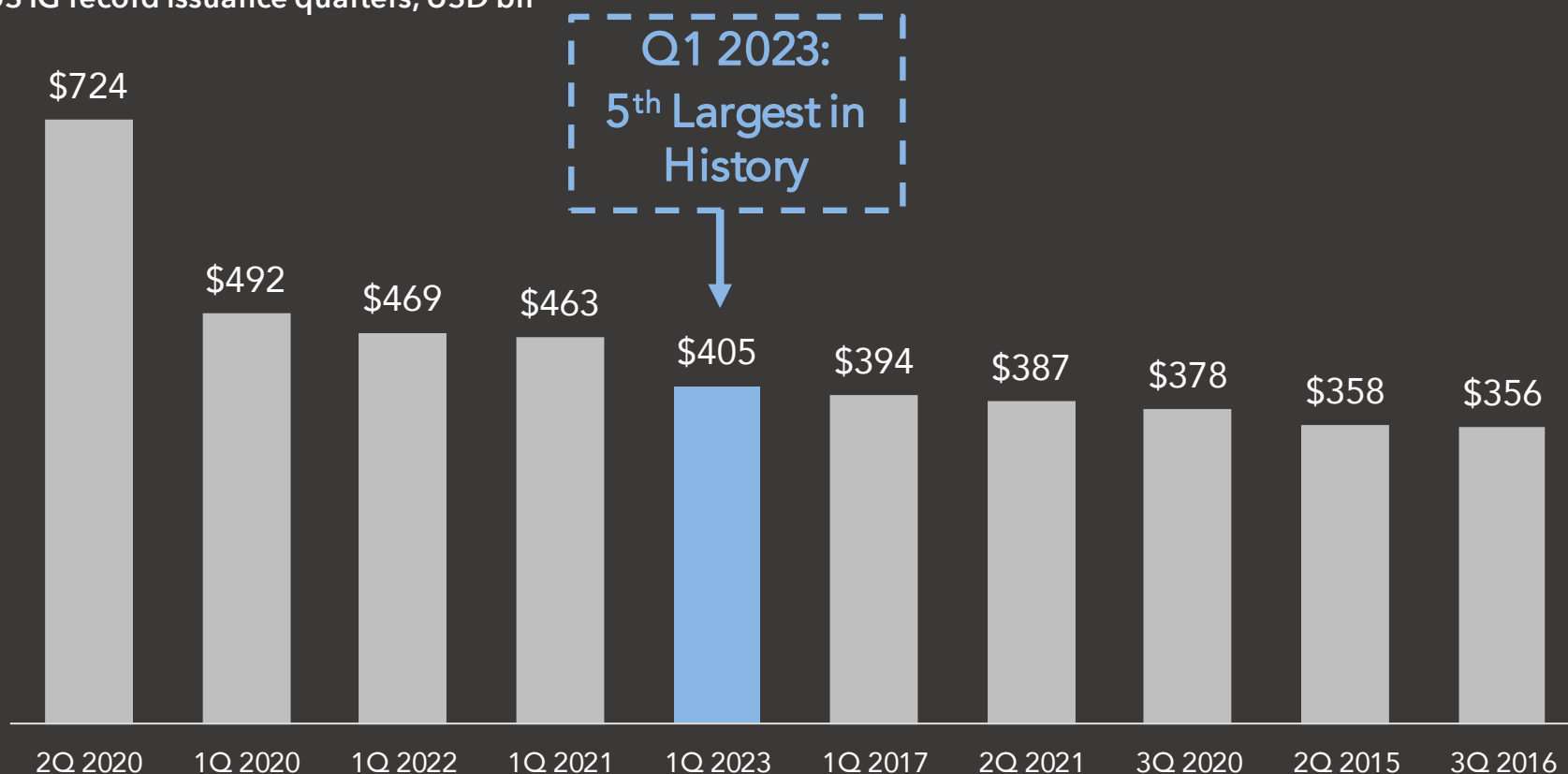


Source: (1-2) Credit Flow Research. Data as of March 31, 2023.

5th Largest IG Quarter on Record

While issuance volumes were below expectations in March, the record Jan-Feb volumes were enough to push Q1 IG issuance volumes to be the 5th largest quarterly issuance period in the history of the USD bond markets. Notably, each of the top five IG issuance quarters in history have occurred since COVID began in Q1 2020.

US IG record issuance quarters, USD bn

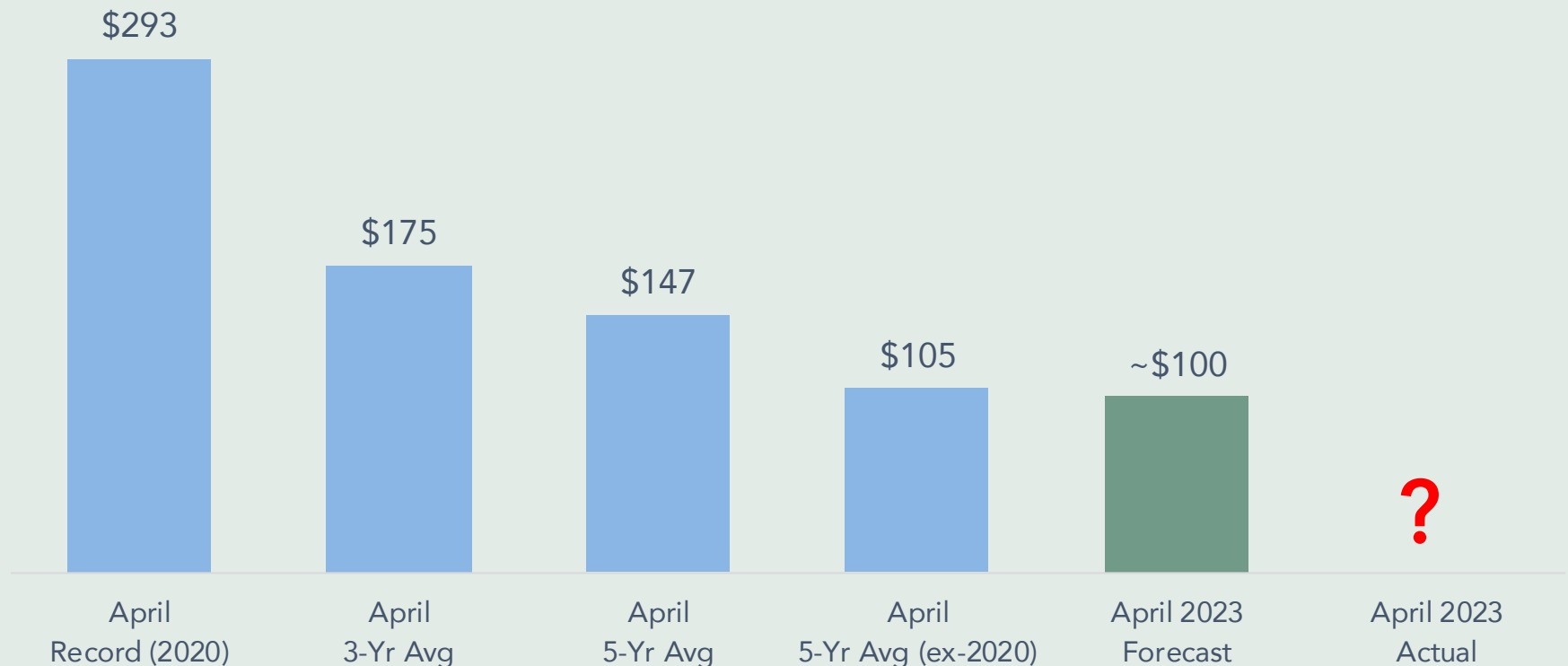


Source: (1) Credit Flow Research. Data as of March 31, 2023.

Optimism Around April IG Issuance

Though earnings blackouts tend to dampen new issue volumes, April 2023 IG issuance could exceed forecasts given tepid issuance in March, lower than anticipated bank issuance in Q1 and the attraction of declining rates. Notably, April has topped the \$100bn mark in four of the last five years.

Historical perspective on US IG issuance volume in April, USD bn



Source: (1) Credit Flow Research. Data as of March 31, 2023.

April Optimism

Although consensus forecasts for April IG issuance remain modest at approximately \$100 billion area, actual issuance could exceed expectations if the recent “pocket of stability” in late March continues

Reasons for optimism

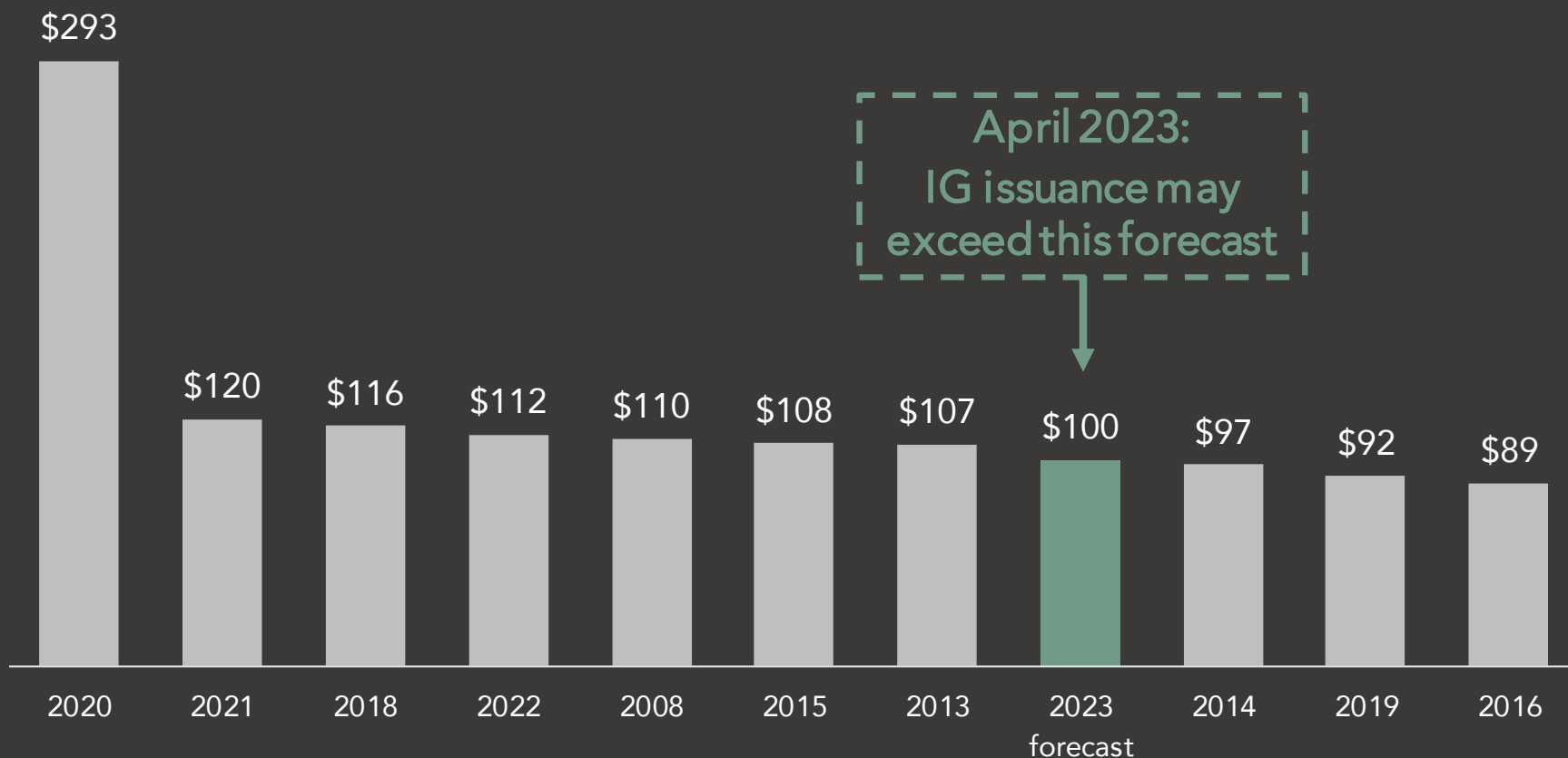
- 1 Continued pre-funding (ahead of recession risk)
- 2 Pent-up issuer demand (following tepid March issuance)
- 3 Light Q1 bank sector issuance (critical “unknown” for April volumes)
- 4 Lower UST rates (and “some” stability in credit spreads late March)

Source: (1) Credit Flow Research. Data as of March 31, 2023.

10 Largest April IG Issuance Years on Record

Forecasts for April 2023 IG issuance would align with the 8th largest April on record, but could exceed expectations.

10 largest April IG issuances on record, USD bn

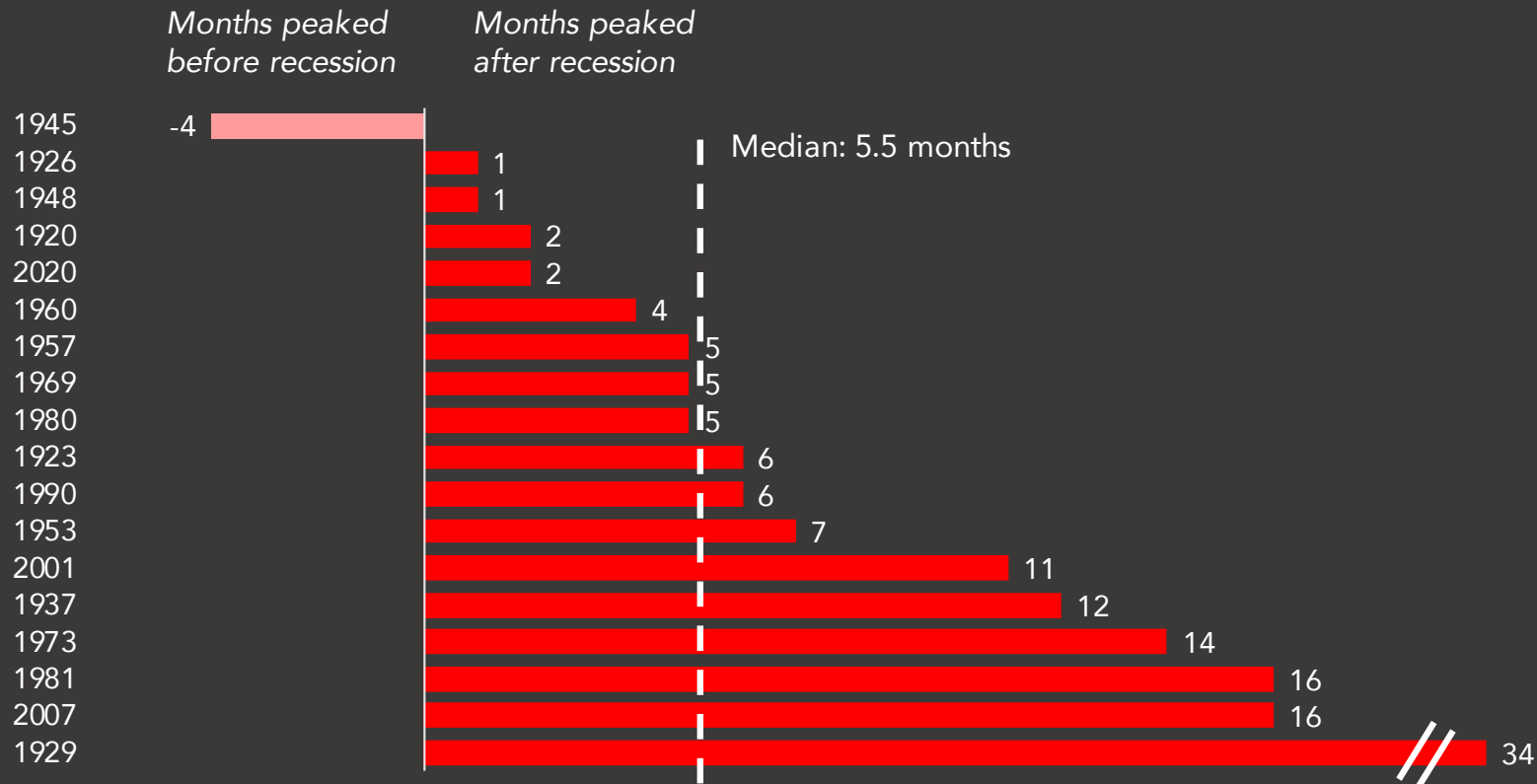


Source: (1) Credit Flow Research. Data as of March 31, 2023.


Pre-Funding Strategies Remain Critically Important

Given rising financial stability and recession risk, we believe it is critically important that issuers with 2023 financing needs move quickly to pre-fund during episodic “pockets of stability” in the months ahead. In nearly 20 US recessions over the last 100 years, USD corporate credit spreads peaked BEFORE the recession on only one occasion. As such, we believe gap-out risk on spreads is high for the 2H of 2023.

of months after recession starts to spread peak



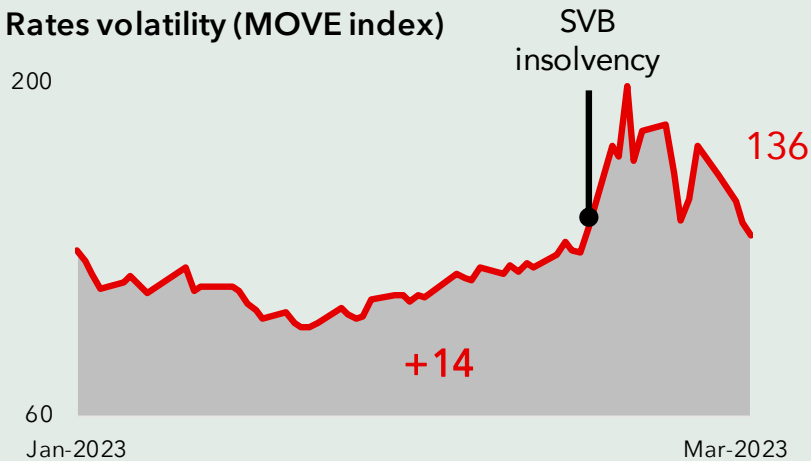
Source: (1) Capital Economics, “We Think US Corporate Bond Spreads Will Widen Again” (December 12, 2022). Shiller, NBER, Bloomberg, Refinitiv. Spreads are derived using the OAS of ICE BofA (2000-to day) or Moody’s seasoned Baa-rated US corporate bond yield (1962-1999) or the NBER US yields on lowest rating corporate bonds (1920-1961).

A photograph of a paved path in a park, lined with mature cherry blossom trees. The trees are in full bloom, with light pink blossoms covering the branches. The path leads into the distance, flanked by green hedges. The overall scene is peaceful and scenic.

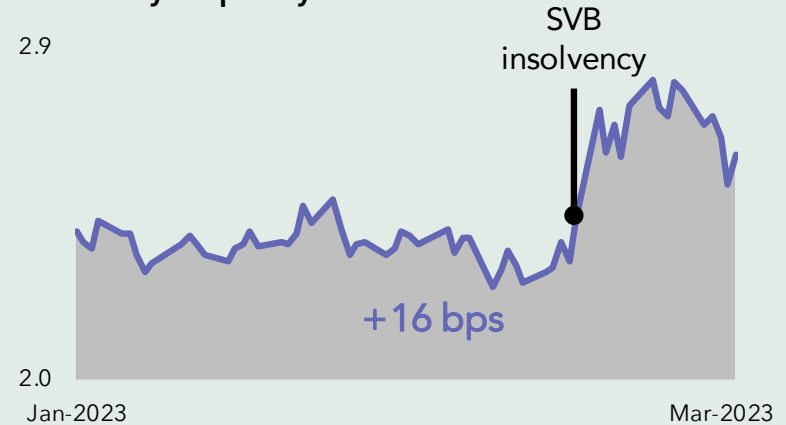
2 Q1 2023 Market Performance

Market Volatility Rose Sharply in Q1 2023

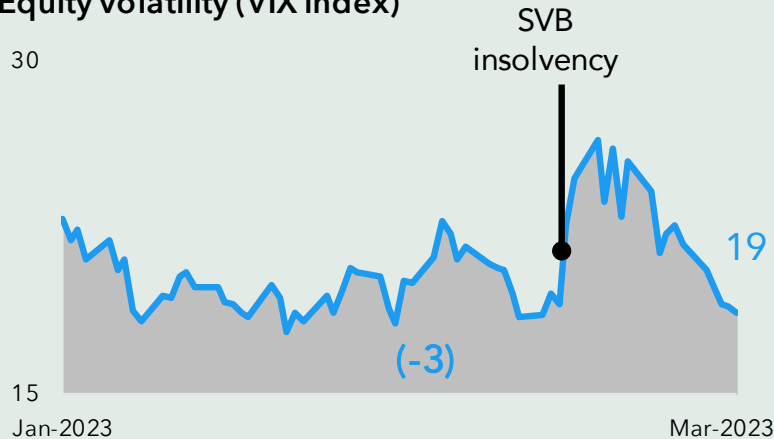
Rates volatility (MOVE index)



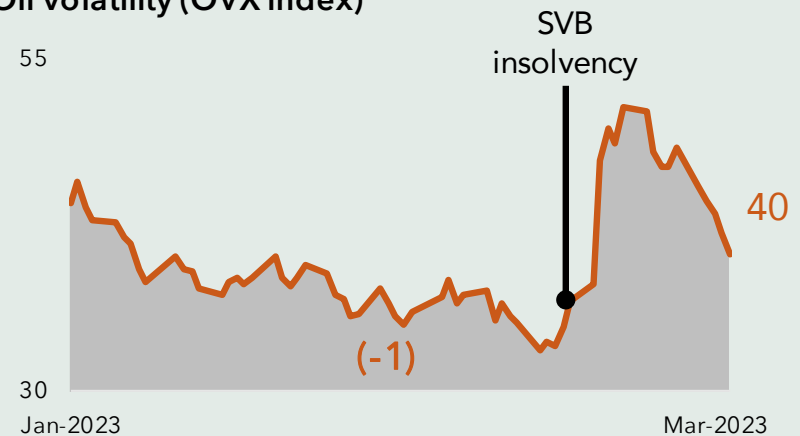
US treasury illiquidity index



Equity volatility (VIX index)



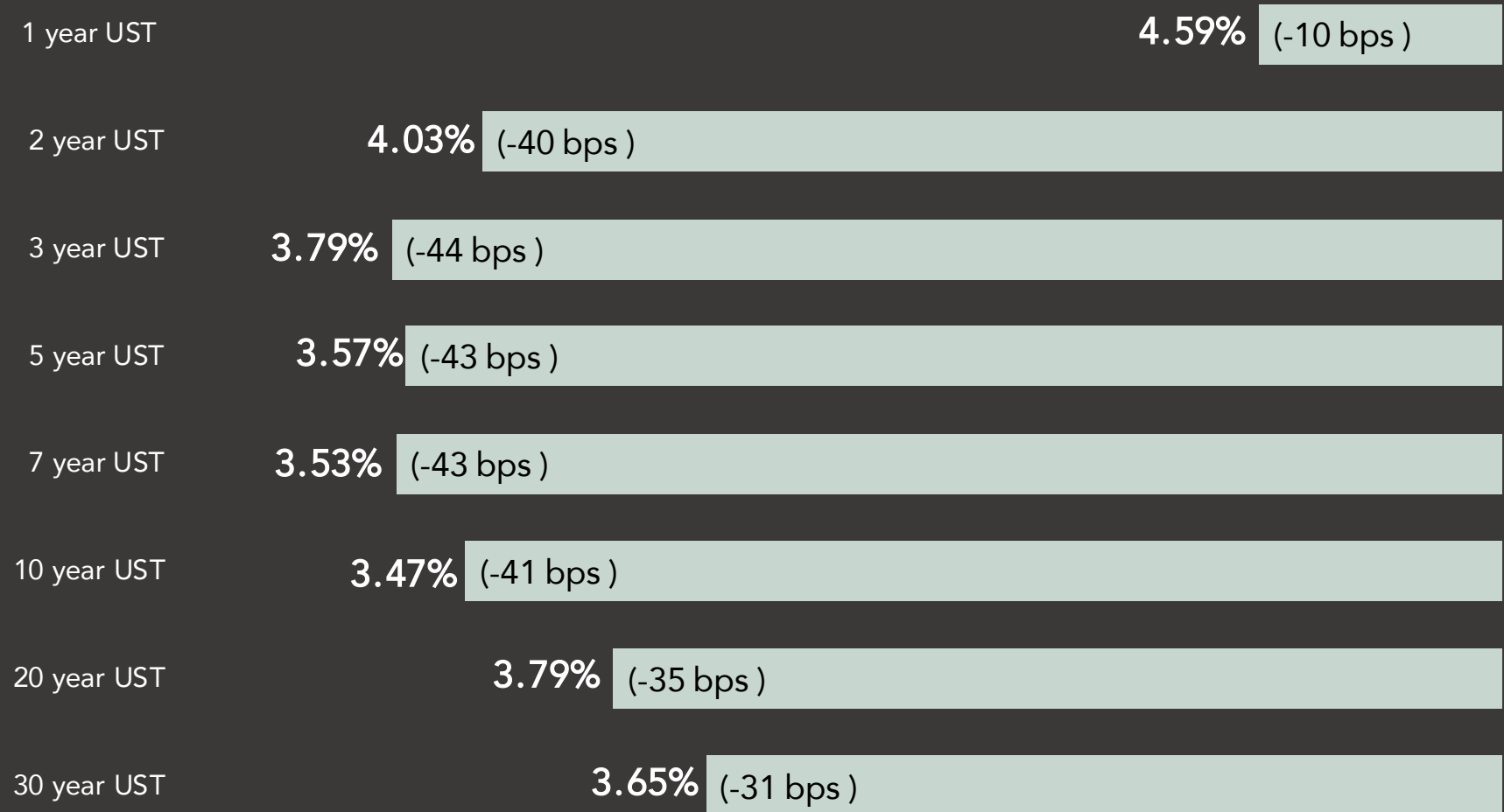
Oil volatility (OVX index)



Source: (1-4) Bloomberg. Data as of March 31, 2023.

UST Rates Rallied in Q1 2023

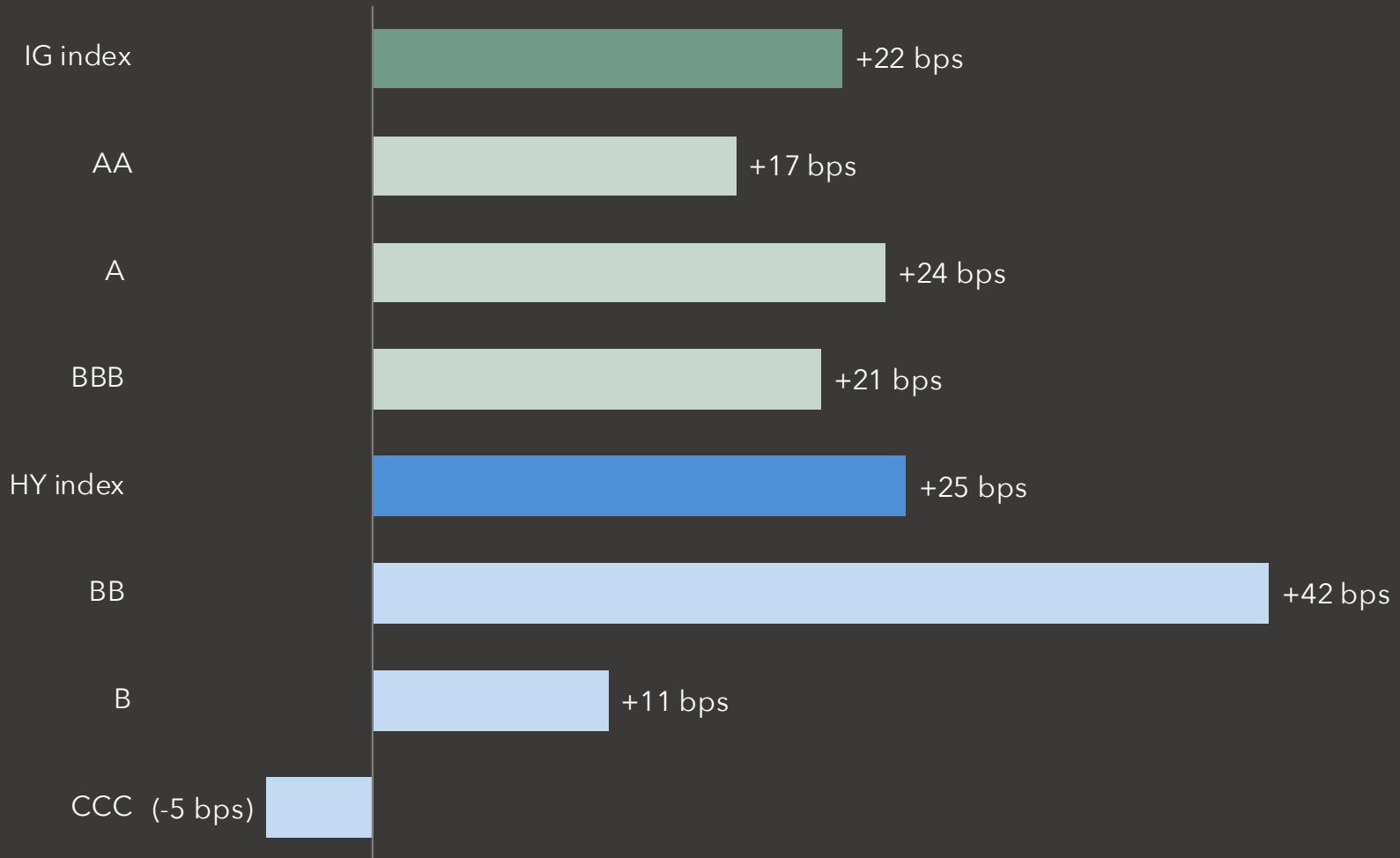
Change in yields (Q1 2023)



Source: (1) Bloomberg. Data as of March 31, 2023.

USD Credit Spreads Widened in Q1 2023

Change in spreads (Q1 2023)

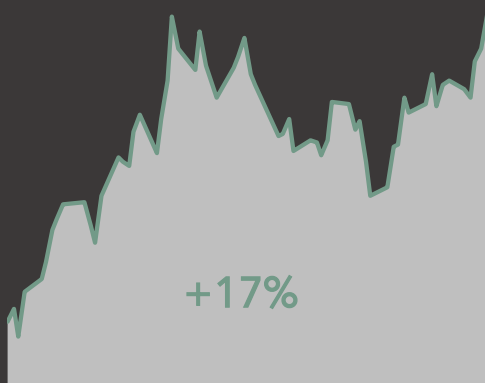


Source: (1) Bloomberg. Data as of March 31, 2023. Bloomberg OAS Indices.

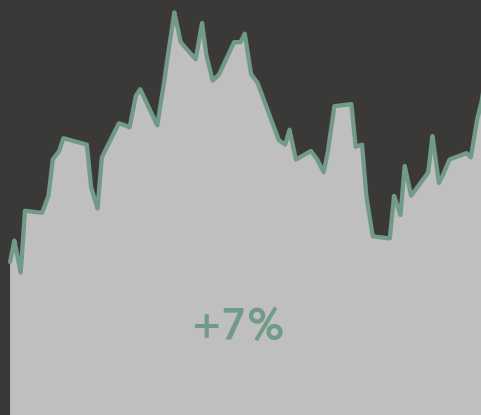


Tech Stocks Outperformed Q1 2023

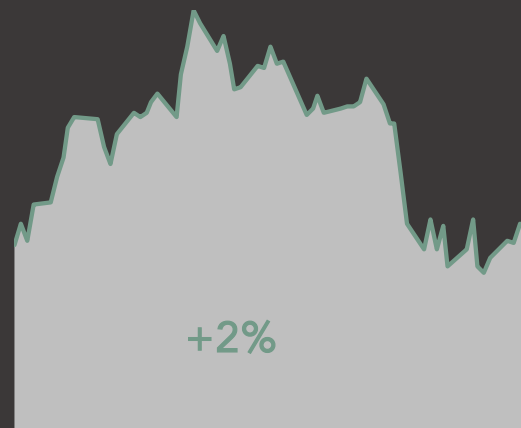
NASDAQ



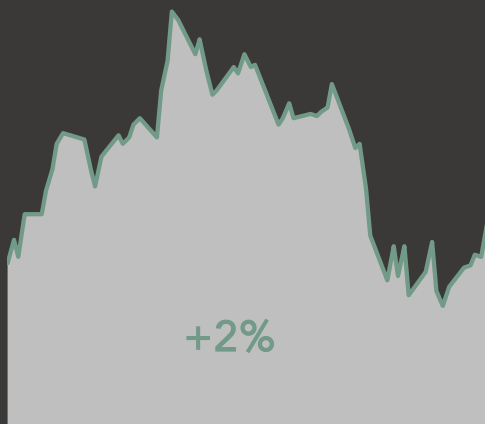
S&P 500



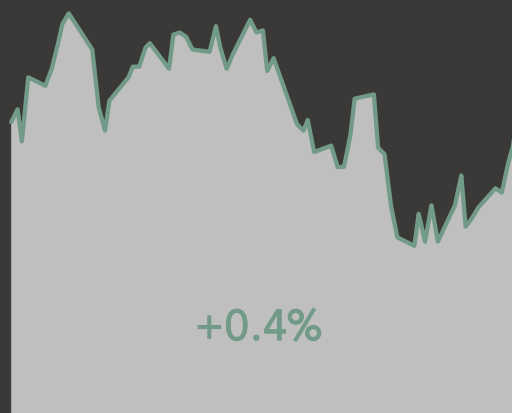
Russell 2000



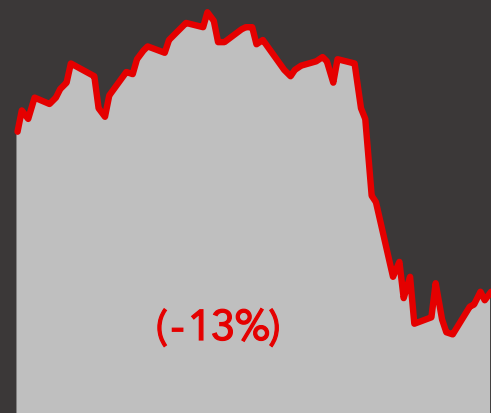
S&P 500 - Small Caps



Dow Jones



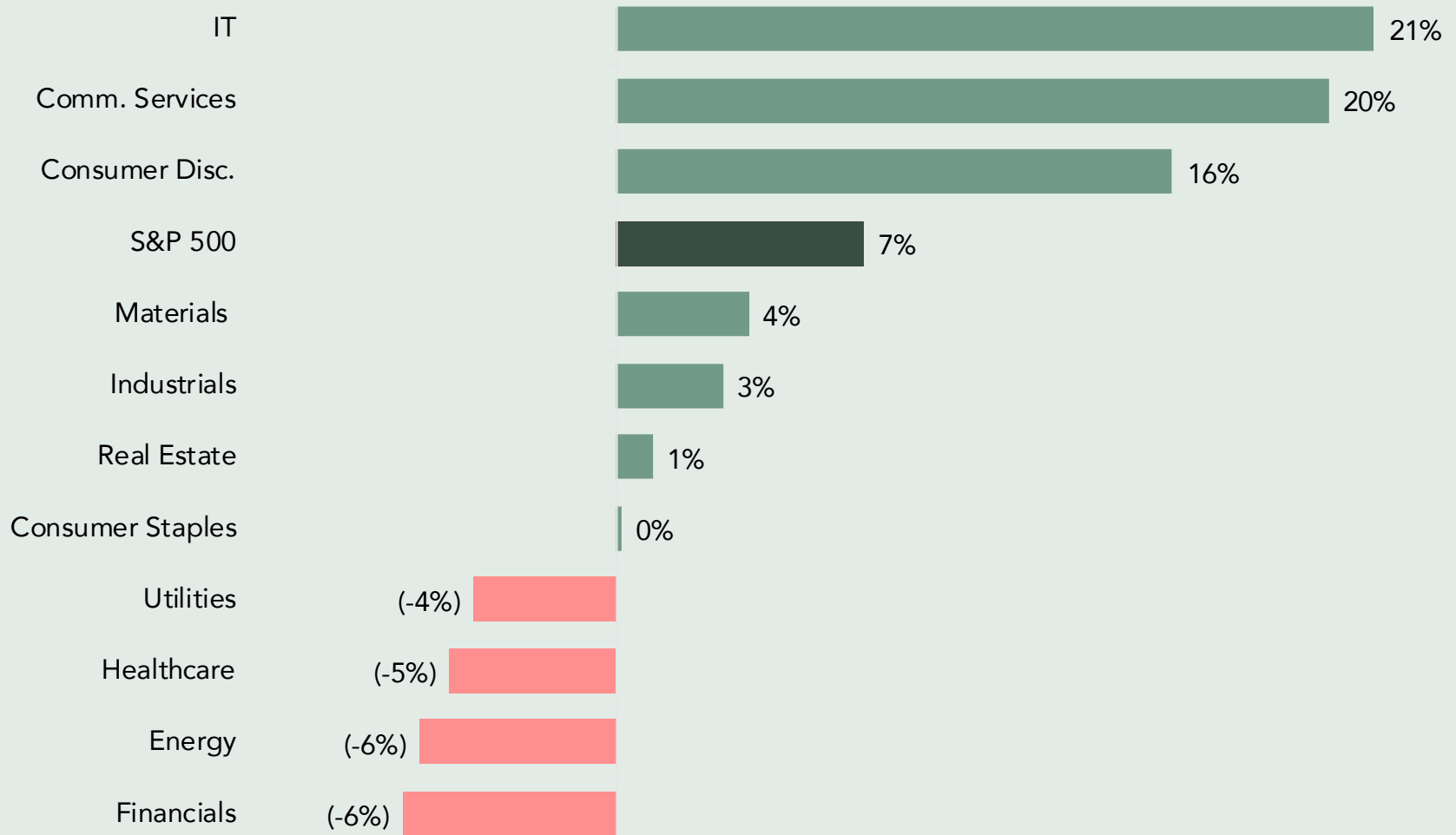
S&P 500 - Banks



Source: (1-6) Bloomberg. Data as of March 31, 2023.

Financial Stocks Underperformed in Q1 2023

S&P 500 performance, by sector, in Q1 2023

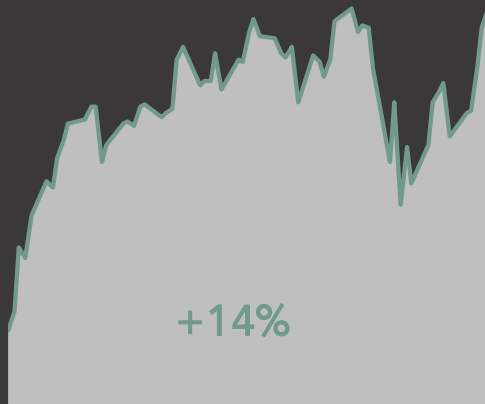


Source: (1) Bloomberg. Data as of March 31, 2023.

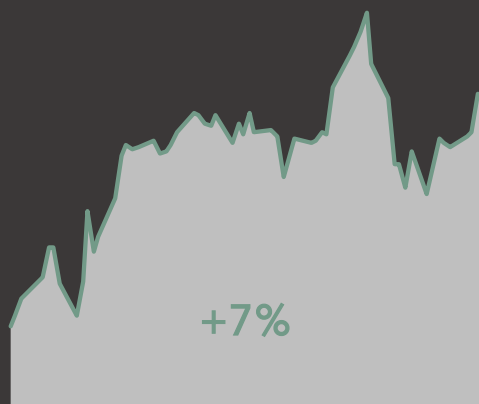
European Shares Cont'd Their Outperformance in Q1 2023



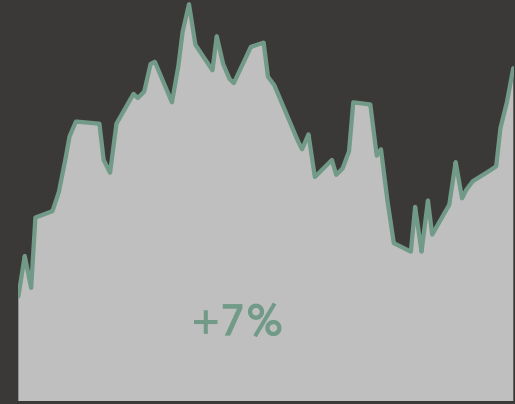
Euro Stoxx 50



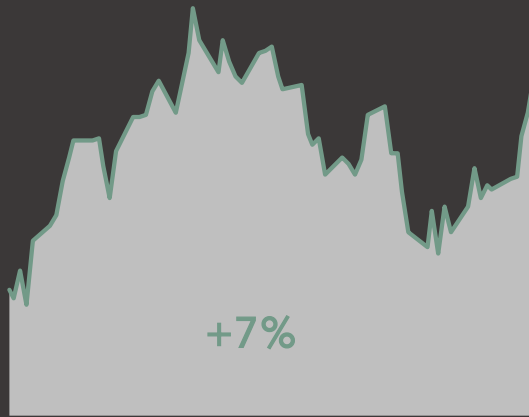
Nikkei 225



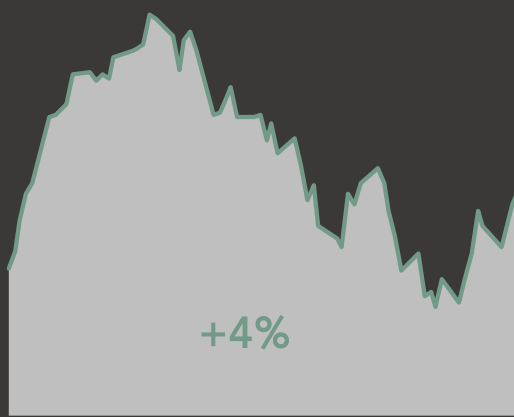
MSCI All World



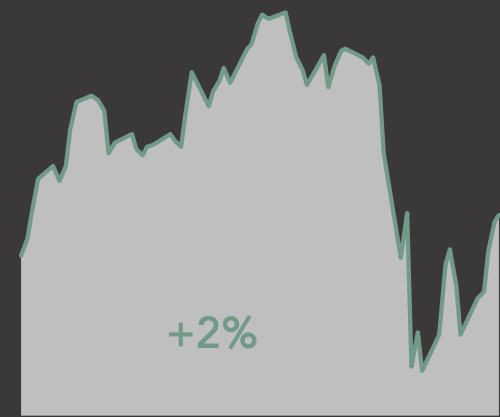
MSCI DM



MSCI EM



FTSE 100

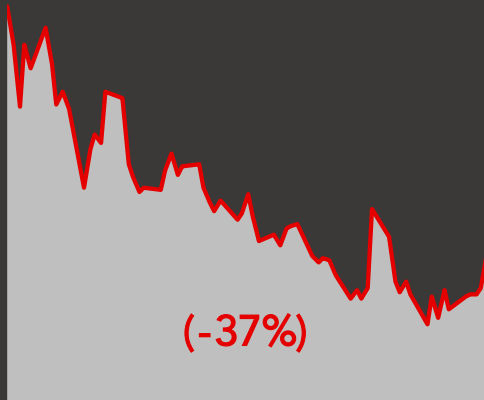


Source: (1-6) Bloomberg. Data as of March 31, 2023.

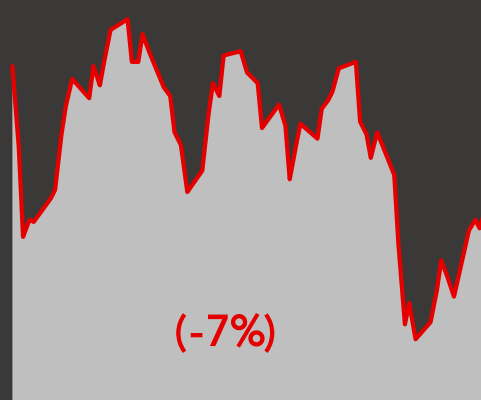
Commodity Prices Dropped in Q1 2023



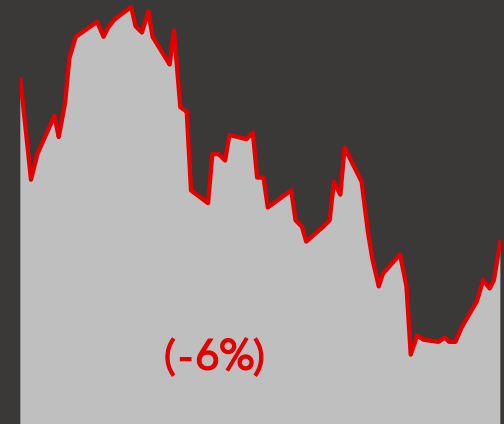
Euro Nat Gas (TTF)



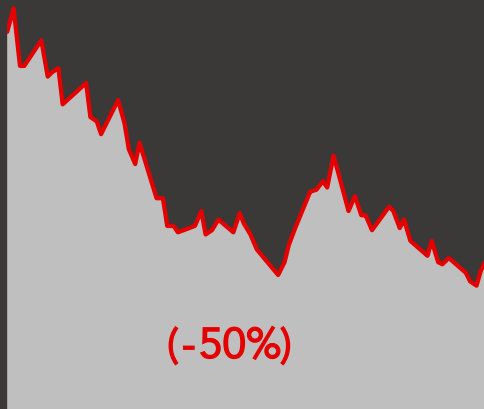
Brent



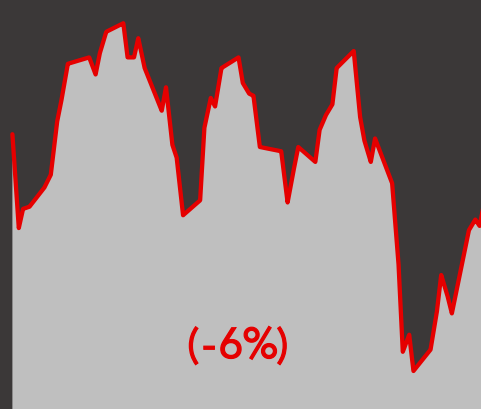
Bloomberg commodity index



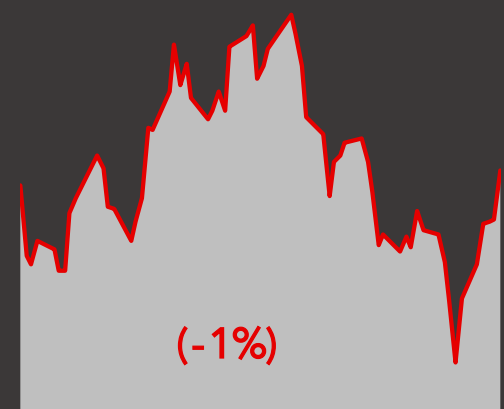
US Nat Gas



WTI



Bloomberg agriculture index



Source: (1-6) Bloomberg. Data as of March 31, 2023.

G10 Currencies in Q1 2023



British
Pound



Euro



Danish
Krone



Swiss Franc



Canadian
Dollar



Swedish
Krona



Japanese
Yen



New
Zealand
Dollar



Australian
Dollar



Norwegian
Krone

2.1%



1.3%



1.1%



1.0%



0.3%



0.2%



(-1.3%)



(-1.4%)



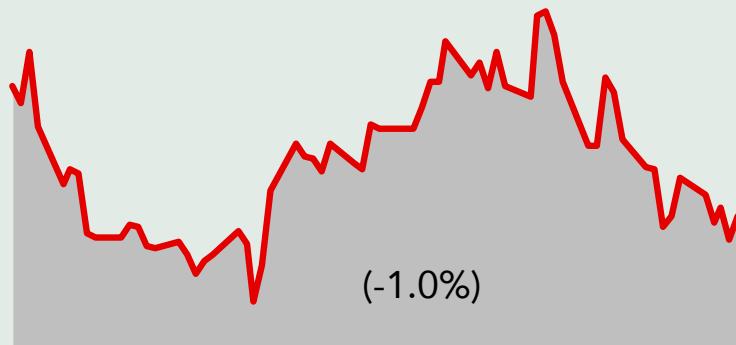
(-1.9%)



(-6.4%)

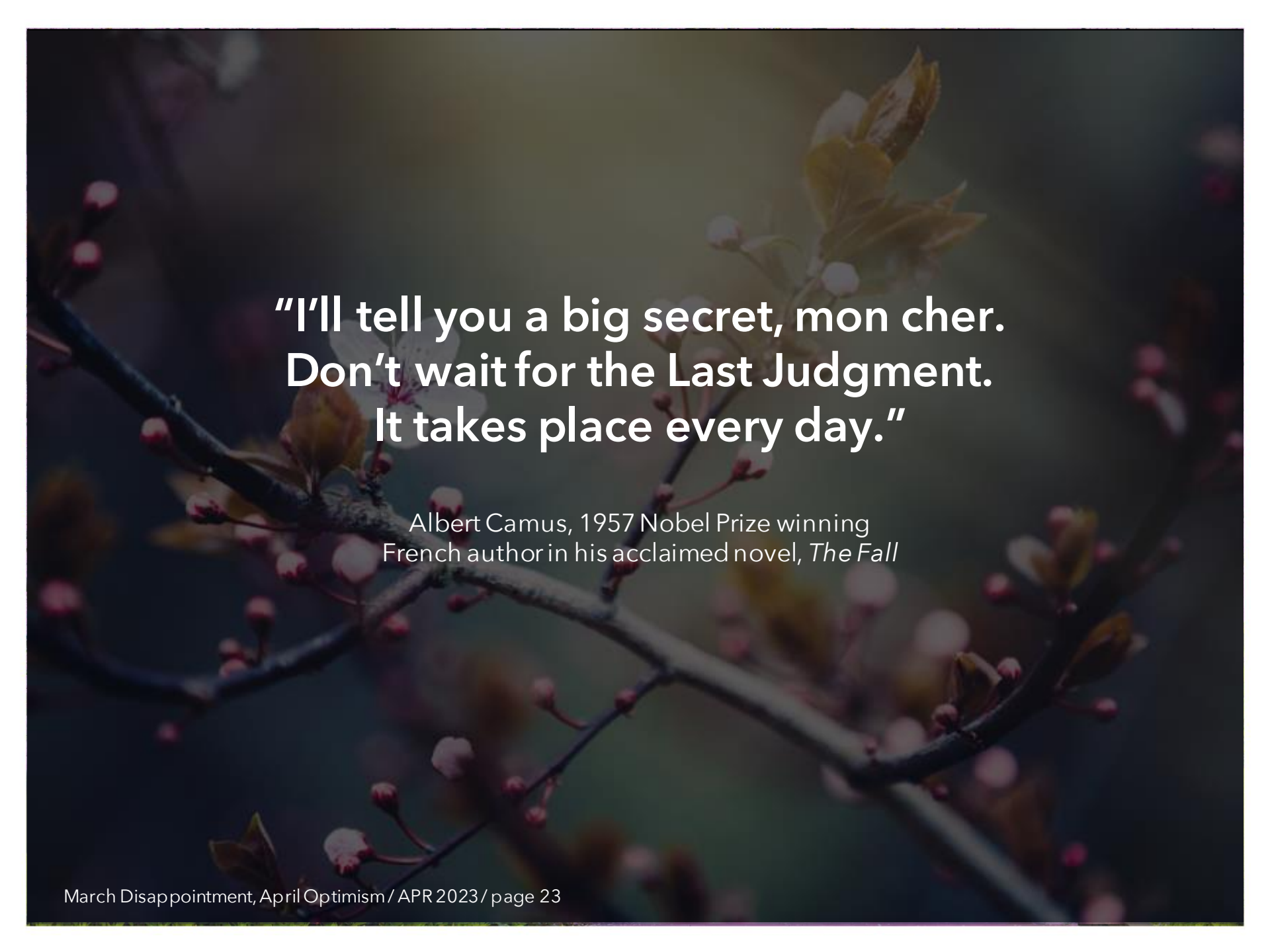


US Dollar index performance in Q1 2023



(-1.0%)

Source: (1-2) Bloomberg. Data as of March 31, 2023. Performance is vs. USD.



**"I'll tell you a big secret, mon cher.
Don't wait for the Last Judgment.
It takes place every day."**

Albert Camus, 1957 Nobel Prize winning
French author in his acclaimed novel, *The Fall*

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Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 25 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he serves on the Board of Trustees of the New Canaan Library as well as the Holy Cross College President's Council.

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Experience

Hailey has over a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and nine years as a Capital Markets Strategist. Hailey is also a member of MUFG's Inclusion & Diversity Council and has devoted years to participating in and developing Wall Street recruiting programs.

Education

Hailey graduated with honors from the University of Michigan's Ross School of Business with a BBA and a minor in International Studies.

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In March 2020, Crain's New York Business Magazine named Hailey one of the "Rising Stars in Banking and Finance".



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Experience

Stephanie has spent over five years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is also focused on the diversity recruiting effort at MUFG. At her prior firm, Stephanie was a part of the Americas Women's Network Junior Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA.

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Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation.

MUFG's Capital Markets Strategy Team



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