

Capital Markets Strategy

Essential insights for the C-Suite



A Propitious Moment for Markets

Historic Bond Issuance Volumes & Spread Tightening in Q1 2024

APR 2024

A Propitious Moment for Markets



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Q1 2024 Review

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**"Spring is the time for
plans and projects."**

Leo Tolstoy, acclaimed Russian writer in his novel
"Anna Karenina" (1878)



1

Pivot Toward Policy Easing

Synchronized Policy Easing Began in Q1 2024

The Swiss National Bank (SNB) became the first advanced economy central bank to cut rates in Q1 2024, commencing a new cycle of synchronized global policy easing in the year ahead. Other major central banks - including the Fed, ECB, BOE and BOJ - were more dovish than anticipated during the first quarter.

Monetary policy expectations for G20 economies in 2024

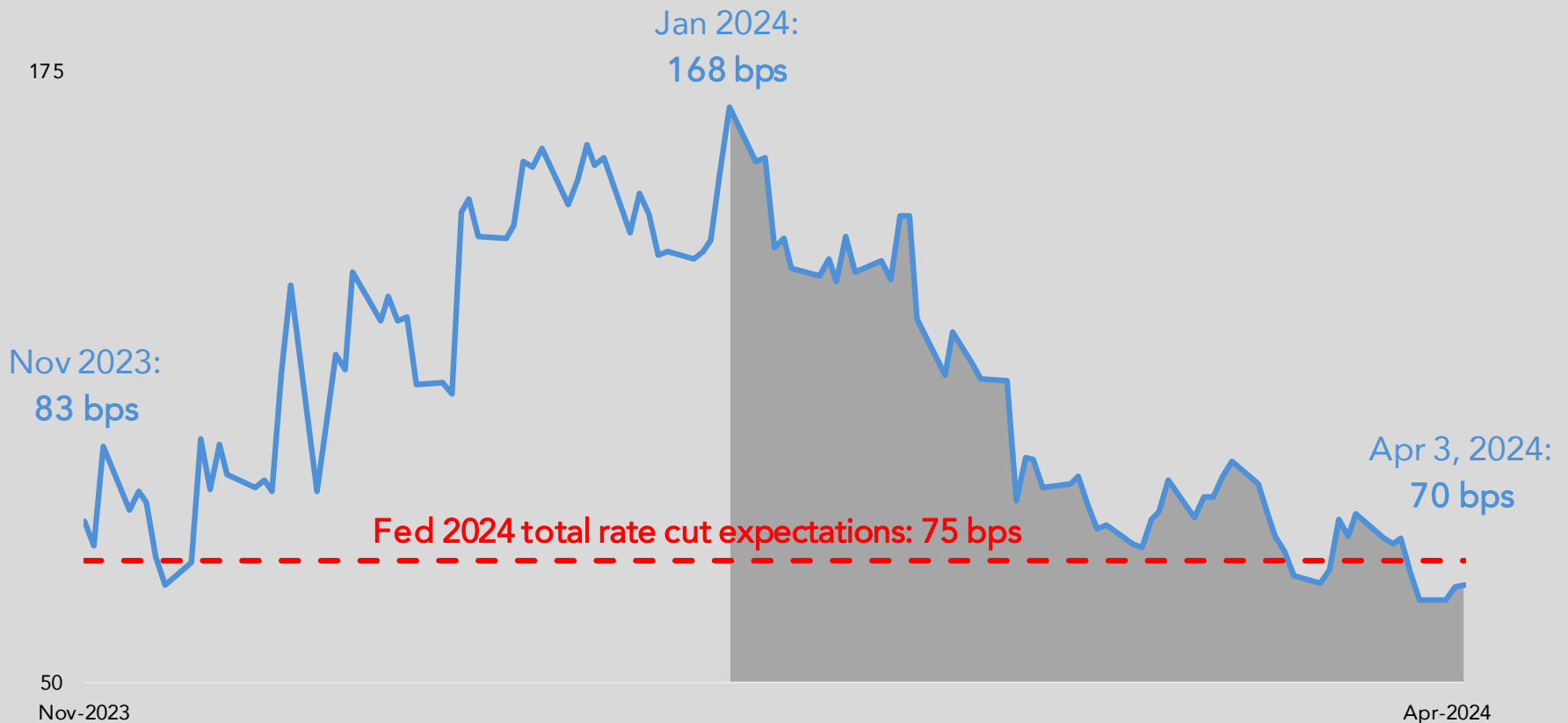


Source: (1) Bloomberg, WIRP.

Market Converged with the Fed in Q1

After initially pricing in 2024 rate cuts at more than double Fed forecasts at the beginning of the quarter, market expectations converged with the Fed as Q1 progressed (and are now modestly more hawkish).

Market implied total 2024 Fed rate cut expectations, bps

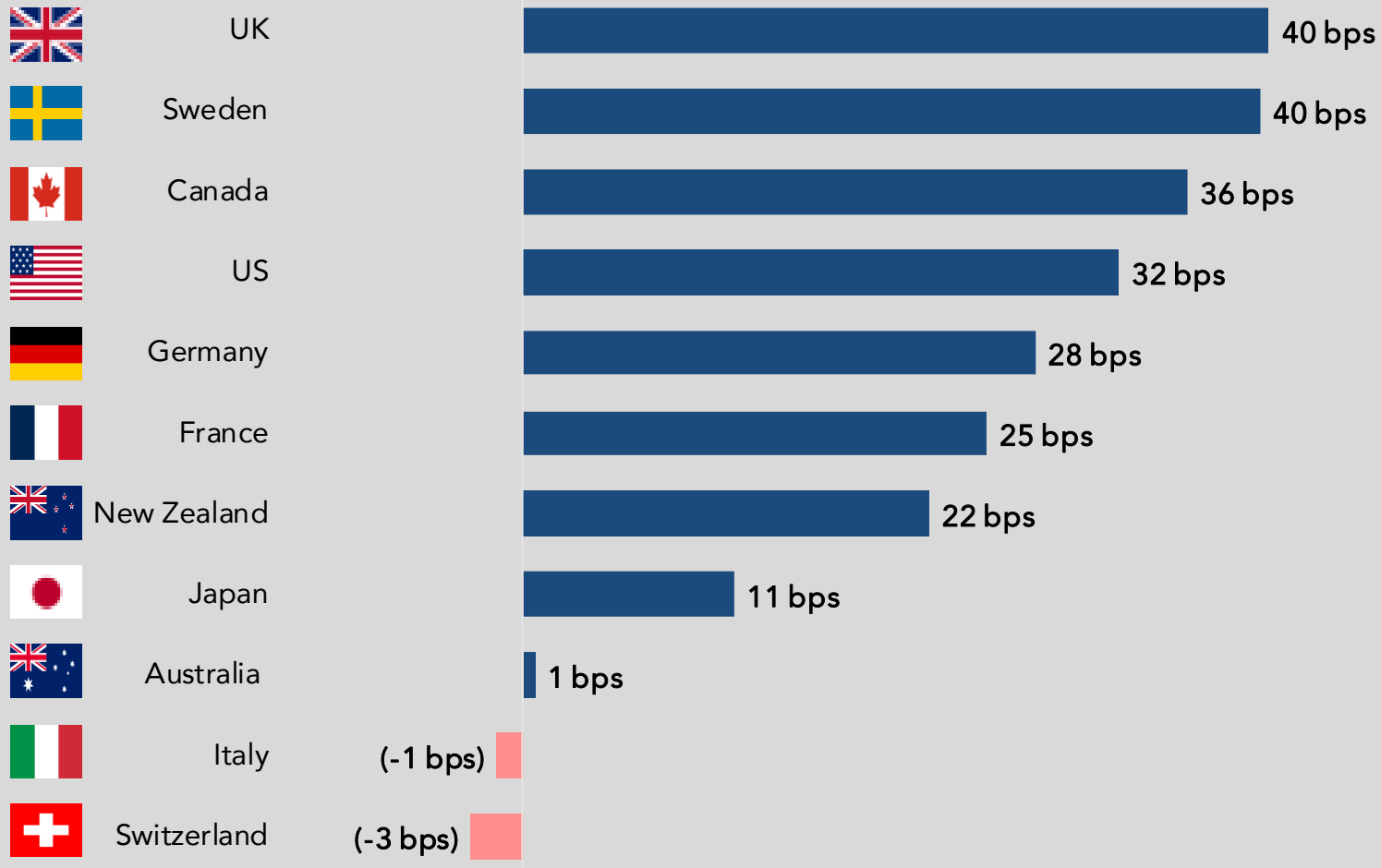


Source: (1) Bloomberg. Data as of April 3, 2024.

Global 10 Yr Yields Modestly Wider (Q1 2024)

Rates moved higher across much of the G10 as central banks largely delayed the pivot to easing

Change in global 10 year yields in Q1 2024



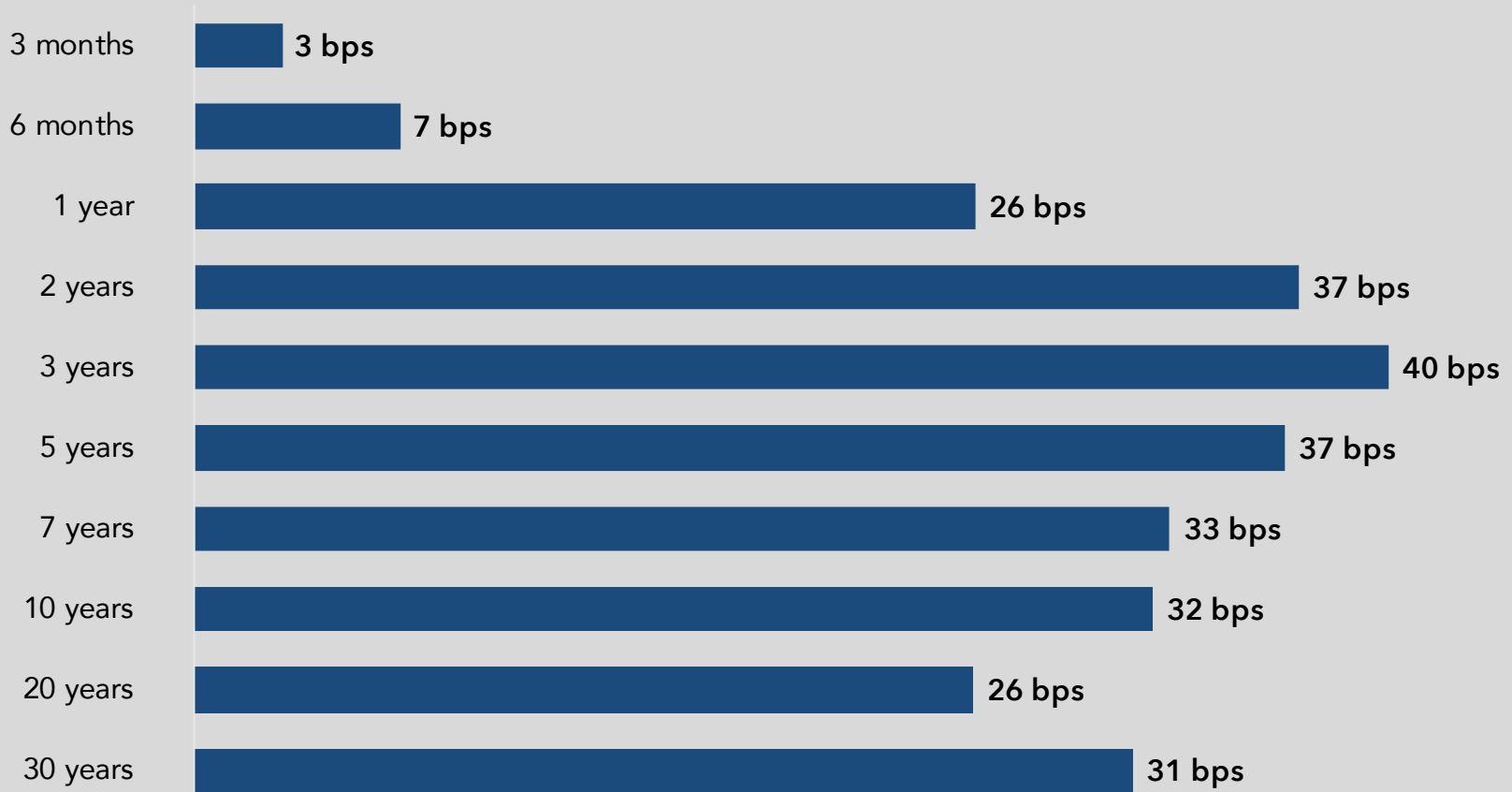
Source: (1) Bloomberg. Data through March 31, 2024.

UST Yields Modestly Wider (Q1 2024)



Rates moved higher across the US treasury curve as GDP surprised to the upside, labor markets remained resilient and inflation stayed elevated driving less hawkish expectations for the Fed this year.

Change in UST rates in Q1 2024



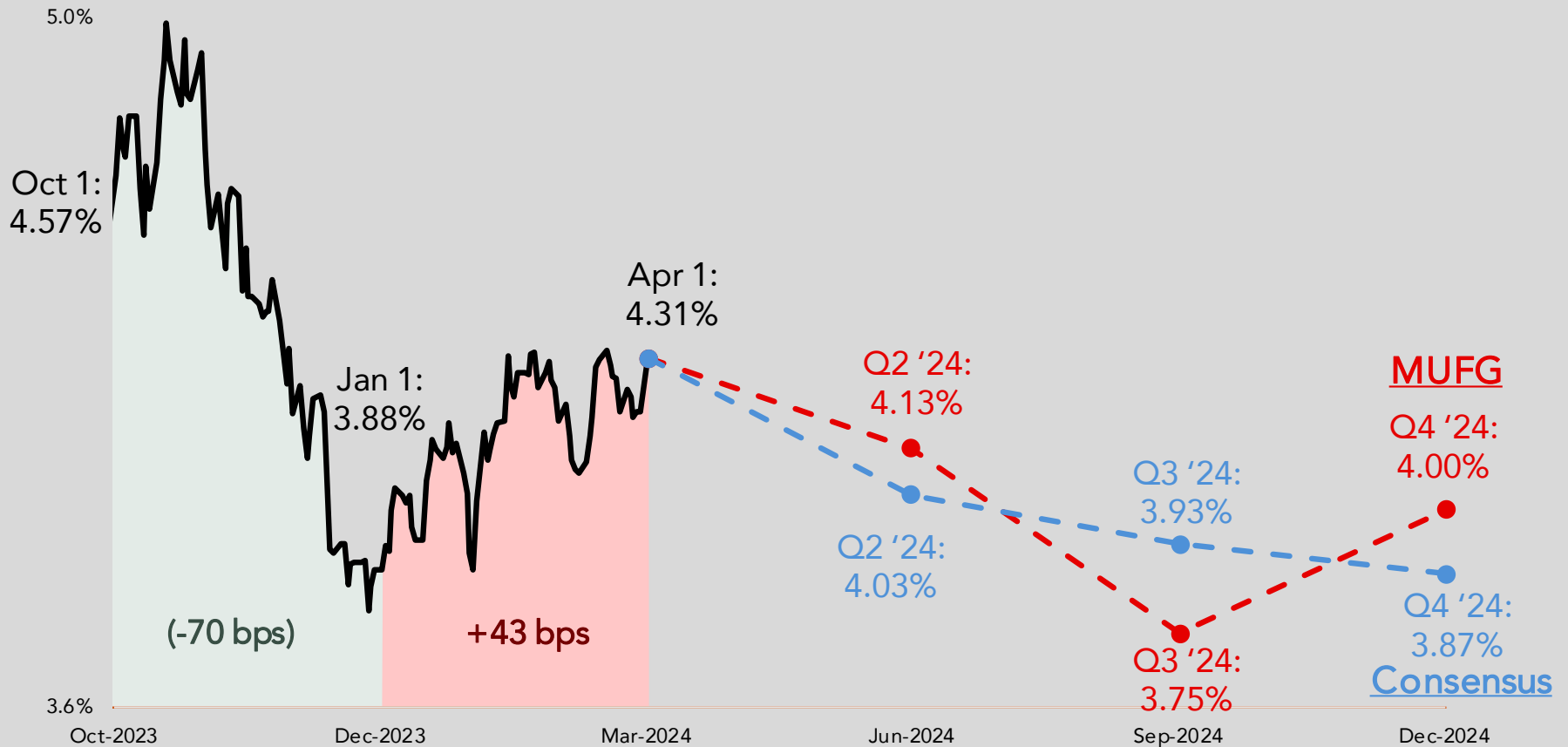
Source: (1) Bloomberg. Data as of March 31, 2024.

Cyclically Bullish UST Yields



While UST rates widened in Q1, they are still substantively lower than the peaks of Q4. MUFG's US Rates Strategist, George Goncalves is forecasting 10 year UST yields to resume their Q4 2023 rally and reach new cyclical lows by Q3 of this year as the Fed begins its easing cycle.

10 year UST



Source: (1) Bloomberg. Data as of April 1, 2024.



2 Resurgent Risk-on Sentiment

Resurgent Risk-on Sentiment in Q1

Annual and Q1 relative total returns, USD markets

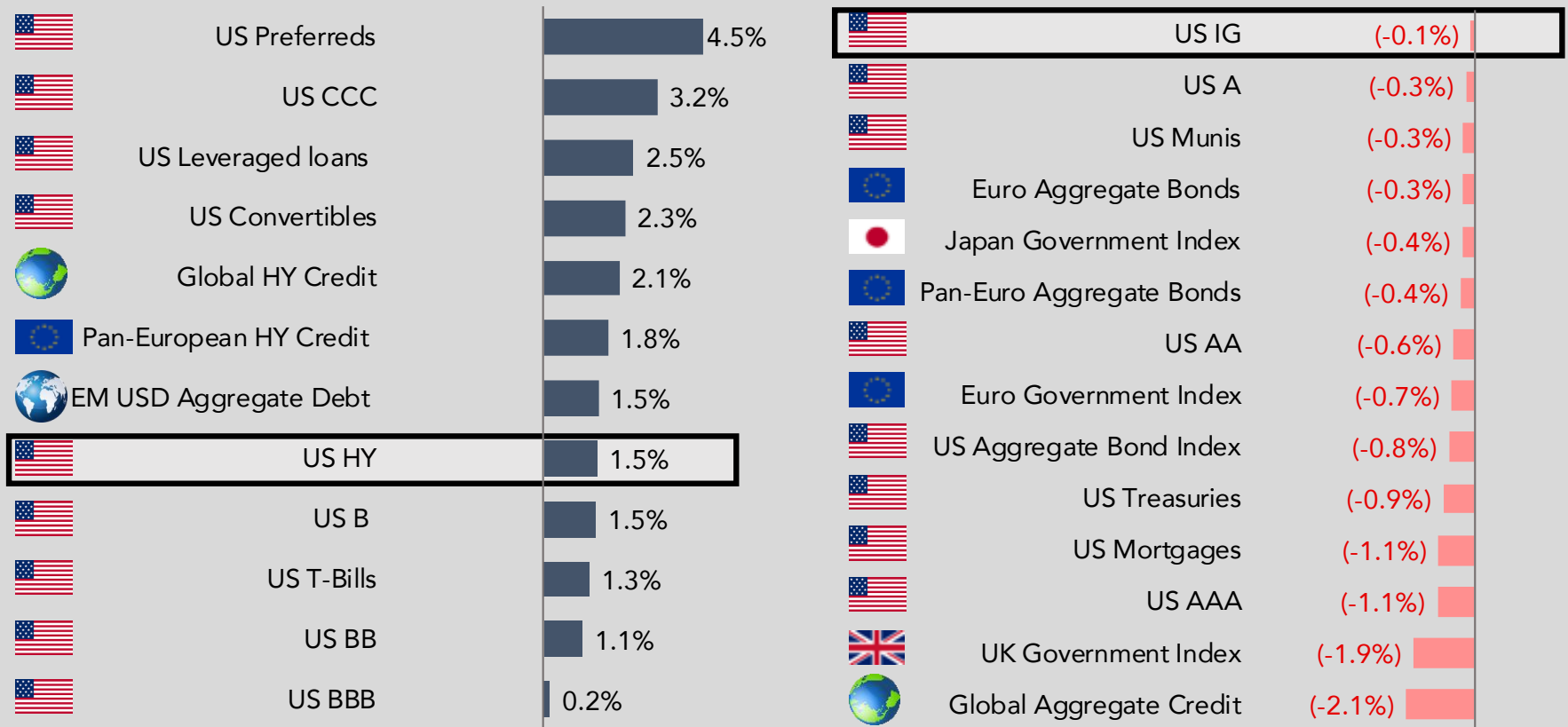
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Q1 2024
S&P 500 13.7%	Munis 3.6%	High Yield 17.5%	S&P 500 22.3%	Munis 1.0%	S&P 500 31.5%	S&P 500 18.4%	S&P 500 28.7%	Loans (-0.6%)	S&P 500 26.3%	S&P 500 10.6%
Munis 9.8%	Mortgages 1.5%	S&P 500 12.0%	EM Sov 10.0%	Mortgages 1.0%	High Yield 14.4%	High Grade 9.8%	Loans 5.4%	Munis (-9.0%)	Loans 13.7%	EM Sov 2.8%
High Grade 7.5%	S&P 500 1.4%	Loans 10.4%	High Yield 7.5%	US Gov't 0.8%	EM Sov 14.3%	US Gov't 8.2%	High Yield 5.4%	High Yield (-11.2%)	High Yield 13.4%	Loans 2.5%
EM Sov 7.3%	US Gov't 0.8%	EM Sov 9.5%	High Grade 6.5%	Loans 0.6%	High Grade 14.2%	High Yield 6.2%	Munis 1.8%	Mortgages (-11.9%)	EM Sov 13.2%	High Yield 1.5%
Mortgages 6.1%	EM Sov 0.6%	High Grade 6.0%	Munis 5.4%	High Grade (-2.2%)	Loans 8.7%	Munis 5.3%	High Grade (-1.0%)	US Gov't (-12.9%)	High Grade 8.4%	High Grade (-0.1%)
US Gov't 6.0%	Loans 0.1%	Mortgages 1.7%	Loans 4.6%	High Yield (-2.3%)	Munis 7.7%	EM Sov 4.8%	Mortgages (-1.2%)	High Grade (-15.4%)	Munis 6.5%	Munis (-0.3%)
High Yield 2.5%	High Grade (-0.6%)	US Gov't 1.1%	Mortgages 2.4%	S&P 500 (4.4%)	US Gov't 7.0%	Mortgages 4.1%	US Gov't (-2.4%)	S&P 500 (-18.1%)	Mortgages 5.0%	US Gov't (-0.9%)
Loans 1.8%	High Yield (-4.6%)	Munis 0.4%	US Gov't 2.4%	EM Sov (-4.6%)	Mortgages 6.5%	Loans 3.5%	EM Sov (-2.6%)	EM Sov (-18.3%)	US Gov't 3.9%	Mortgages (-1.1%)

Source: (1) CreditSights. Bloomberg. Data as of March 31, 2024. BAML, S&P LSTA. Bloomberg EM Sov is USD EM Sovereign BBB & lower index.

USD Corporate Credit Outperformed in Q1

Against a backdrop of a “soft landing” for the US economy and policy transition signals from the Fed, HY outperformed IG in Q1 2024, while US dollar credit markets outperformed Euro and global counterparts.

Global credit market total returns (Q1 2024)

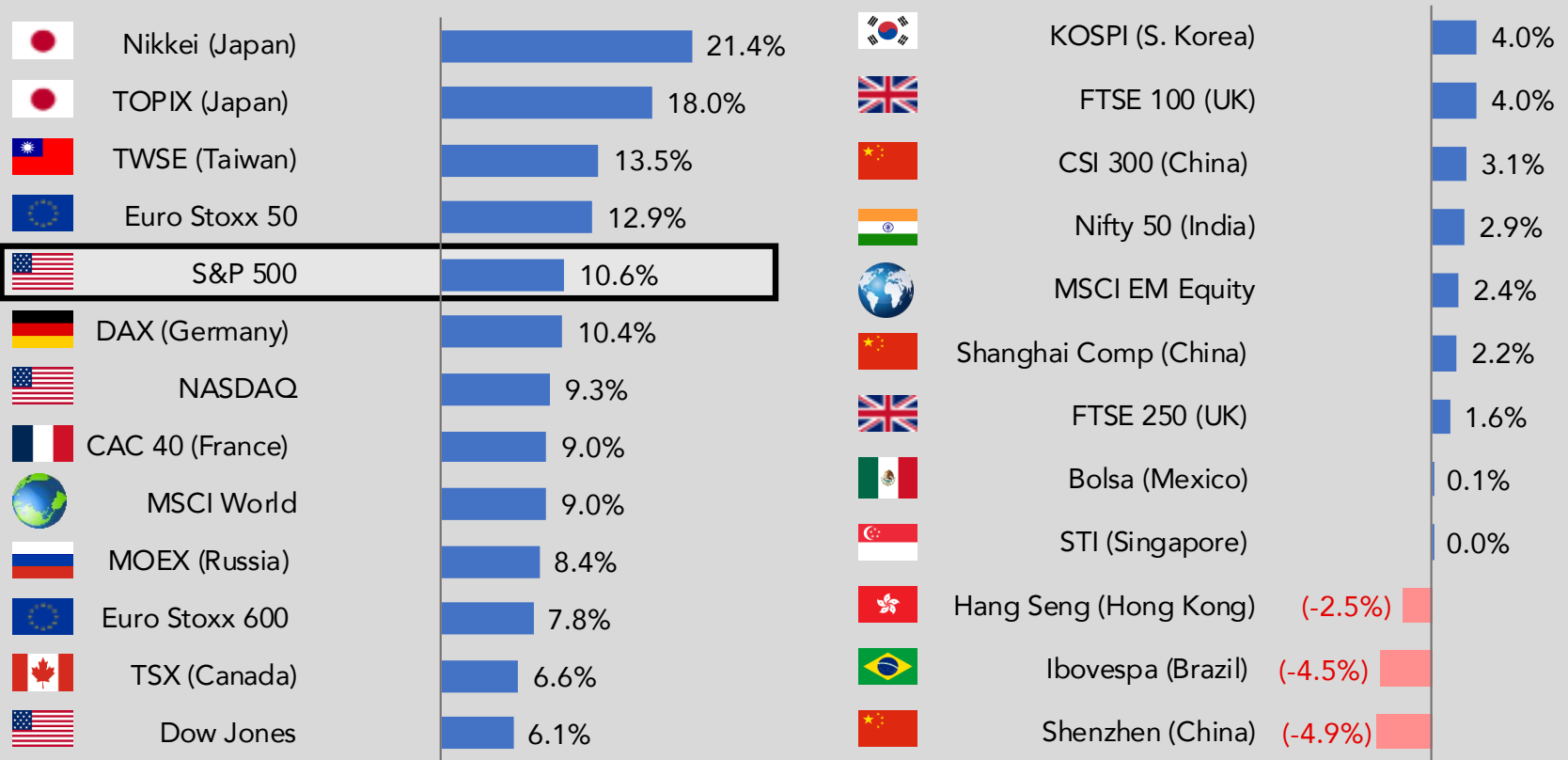


Source: (1) Bloomberg. Data as of March 31, 2024.

Global Equities Tested Record Highs in Q1

A propitious macro backdrop (strong economy, dovish central banks) re-energized risk-on sentiment in Q1, propelling global equity markets to new record highs.

Global equity market performance (Q1 2024)



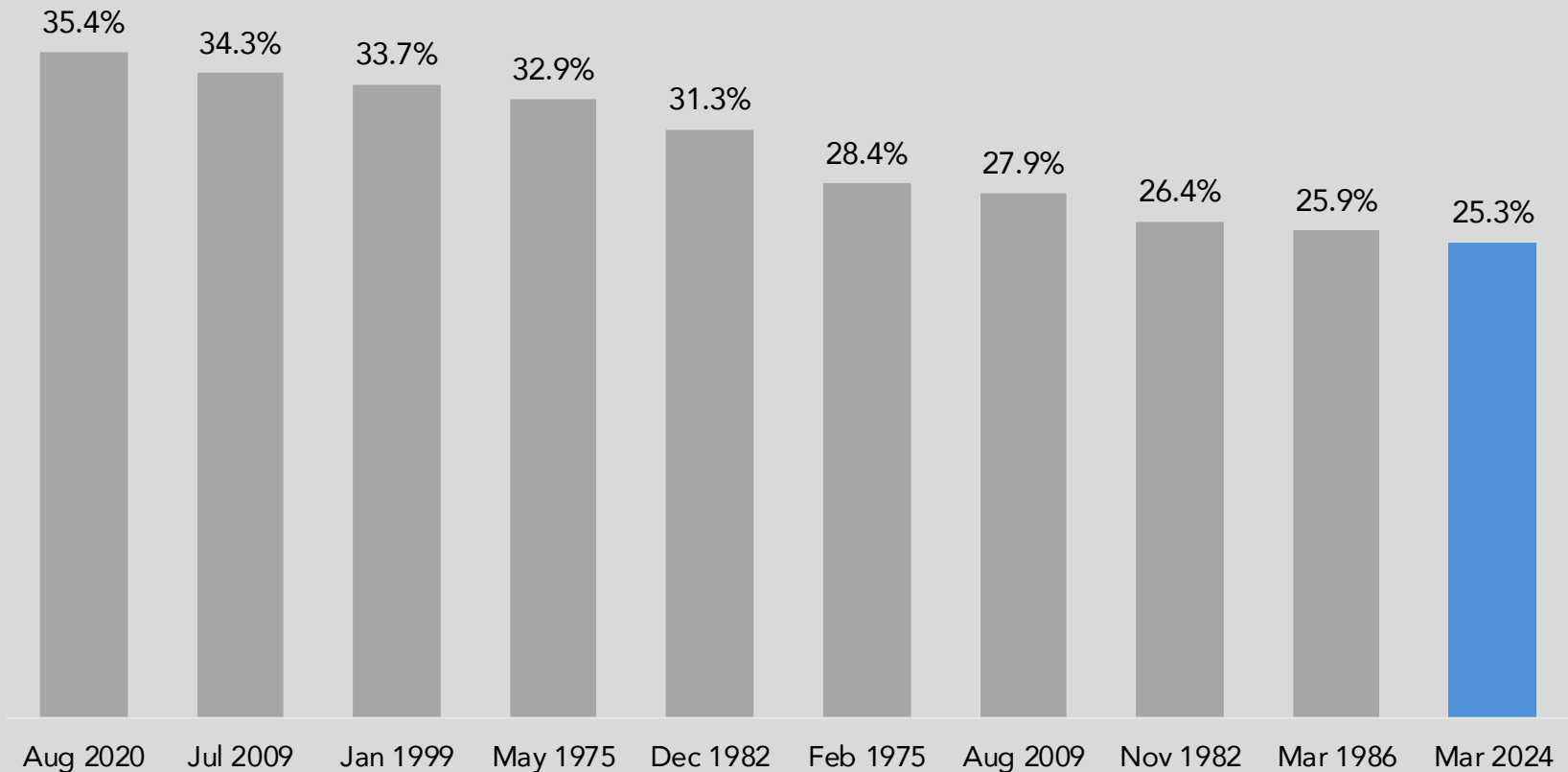
Source: (1) Bloomberg. Data as of March 31, 2024.

Historic 5-Month Run for S&P 500



The S&P 500 was up over 10% in the first quarter of 2024, recording its 10th best 5-month performance since 1940, up more than 25% over the 5-month period.

S&P 500 top ten 5-month returns



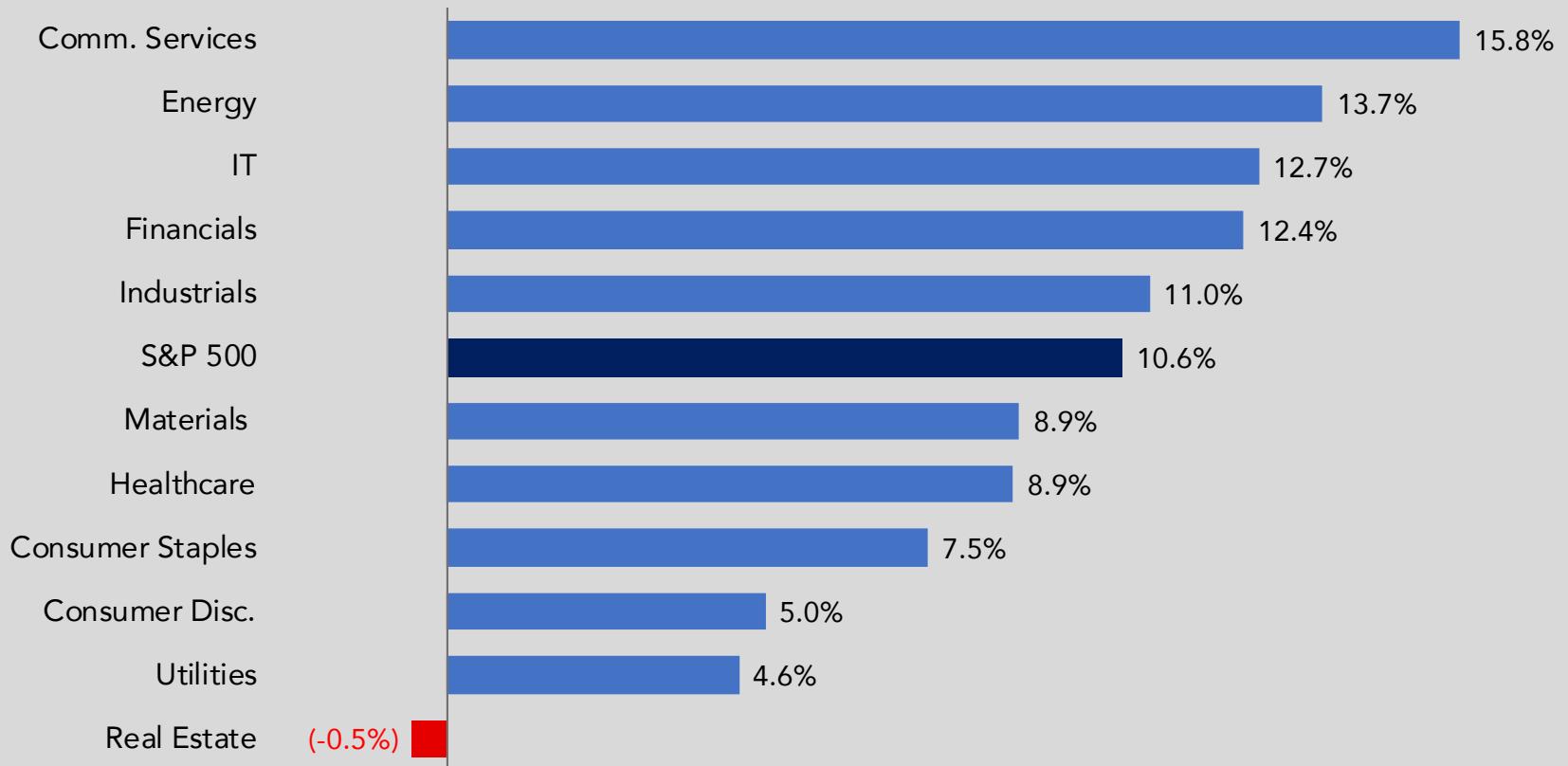
Source: (1) Bloomberg. Data as of March 31, 2024. NASDAQ Market Intelligence.

S&P 500 Gains Broadened in Q1



Compared to narrow tech sector outperformance in 2023, S&P 500 gains were more broad-based in Q1 2024, with nearly 85% of S&P 500 stocks currently trading above their 50 day moving average. Every subsector, except real estate, posted positive returns in Q1 with communications, energy and IT leading the way.

S&P 500 industry sector performance (Q1 2024)

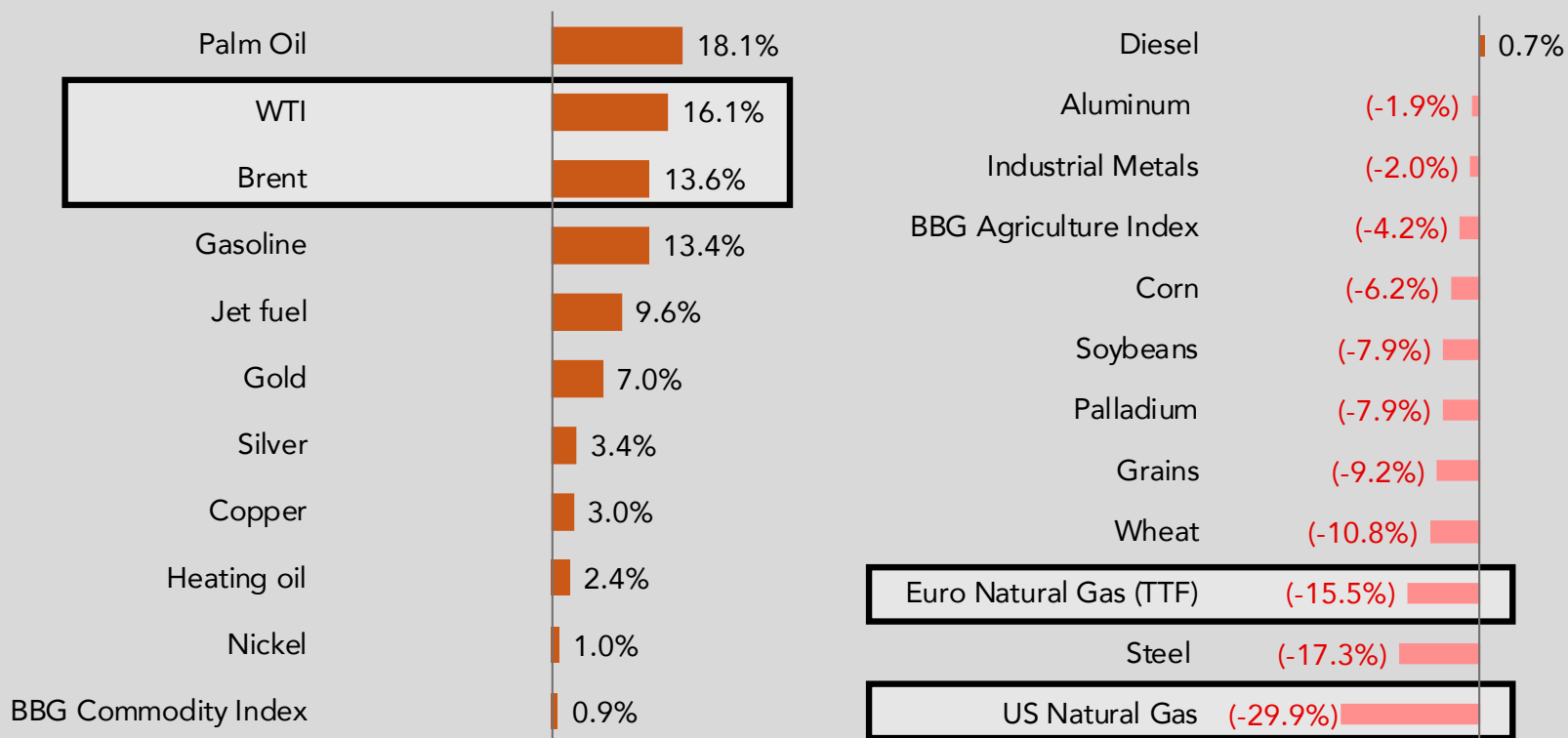


Source: (1) Bloomberg. Data as of March 31, 2024.

Resurgent Oil Prices, Lower Nat Gas in Q1

US natural gas prices posted their longest losing streak since 2020 as March marked its fifth monthly loss for futures in a row. Oil prices, conversely, strengthened on the quarter due to ongoing concerns over Middle East supply given both geopolitical tensions and expectations for continued OPEC+ supply discipline.

Global commodities performance (Q1 2024)

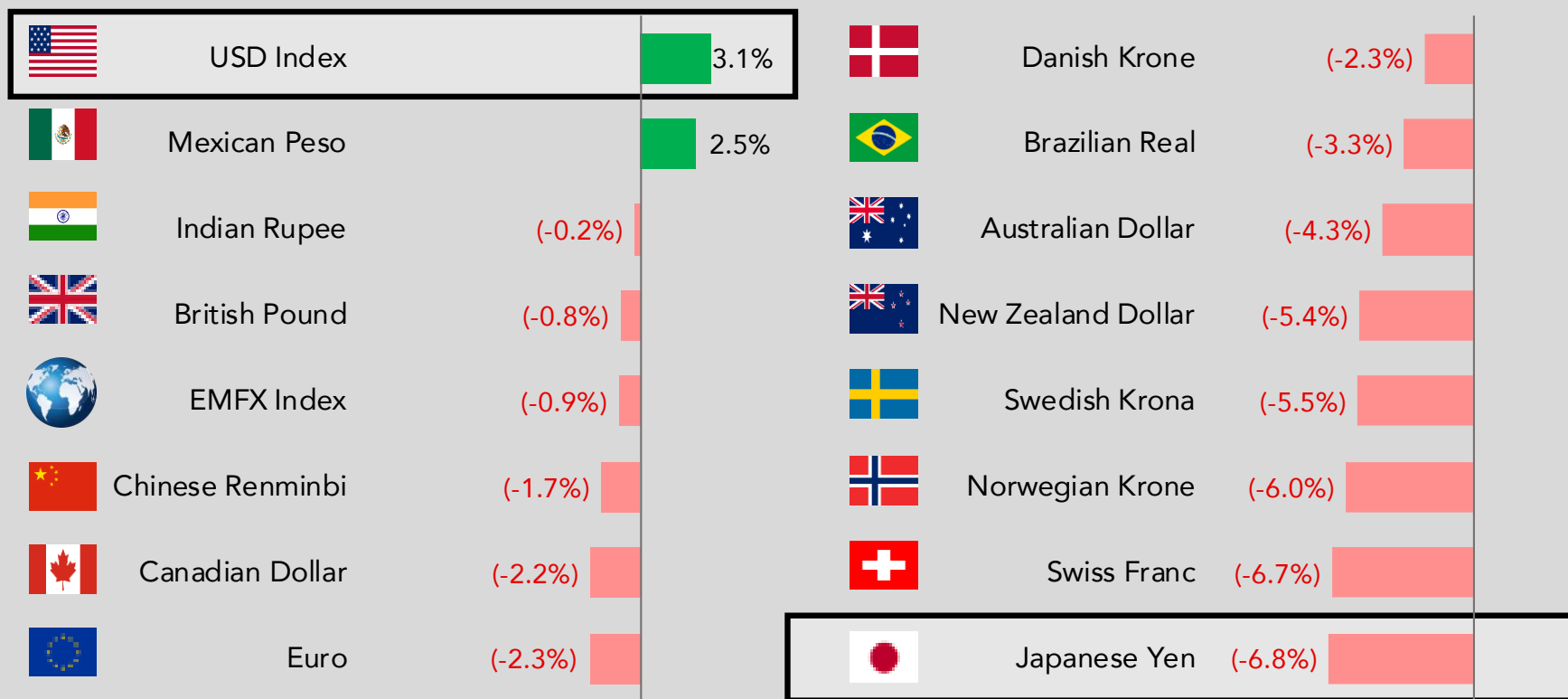


Source: (1) Bloomberg. Data as of March 31, 2024. WSJ, "Natural Gas Hasn't Been This Cheap in Decades". MUFG Commodities Weekly (Ehsan Khoman). All values are price change. Commodities Index and Agriculture Index are total return.

US Dollar Remained Strong in Q1

The US Dollar continued its outperformance in Q1 as US economic data remained strong and markets re-priced the timing and magnitude of 2024 Fed easing. Elevated geopolitical risk also continued to drive intermittent flights to quality. Conversely, the Yen continued its streak as the worst performing G10 currency in Q1 as the BoJ's dovish policy shift continued to weigh on the currency.

Currencies performance vs. USD (Q1 2024)



Source: (1) Bloomberg. Data as of March 31, 2024. All values are total return for the month except commodities and currencies, which are price change. Commodities Index and Agriculture Index are total return. MUFG FX March 2024 Monthly Outlook (Derek Halpenny).



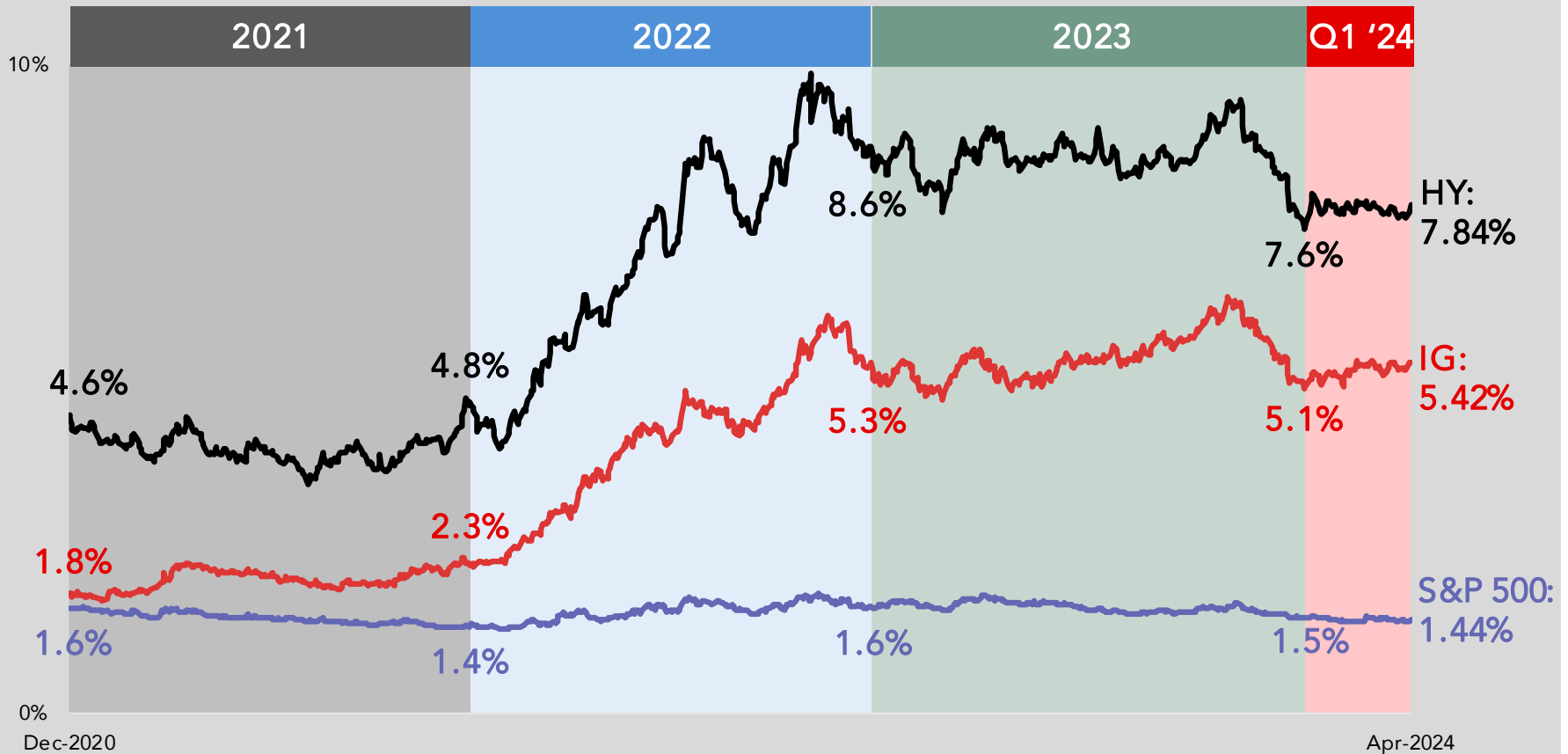
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Spread & Yield Tightening

Corporate Credit Offering “Generational” Yield Opportunity

Despite declining since early 2H 2023, corporate bond yields are still offering investors a “generational opportunity” to lock-in attractive coupons, as well as cushion to weather potential volatility in the months ahead.

USD IG & HY index yield to worst and S&P 500 dividend yield

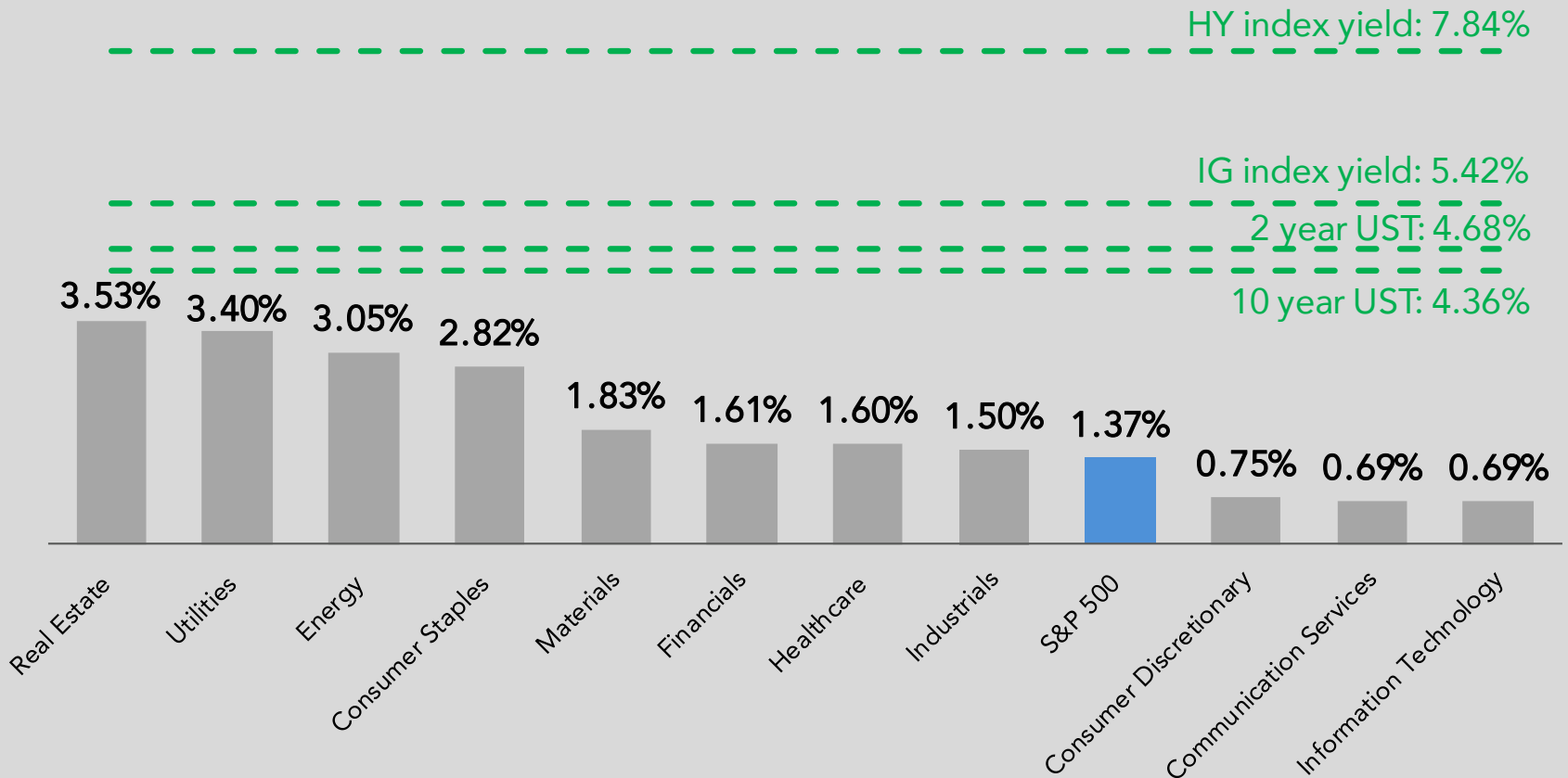


Source: (1) Bloomberg. Data as of April 3, 2024. Average yield is Bloomberg US Agg Corporate Yield to Worst. S&P 500 dividend yield is best dividend yield forward.

Corporate Credit Offering "Generational" Yield Opportunity

Yield differentials between corporate credit and S&P 500 dividends are at their widest level in 15 years, offering yields nearly double their recent 5 year average. Corporate and benchmark UST yields are outpacing dividend yields for every sector of the S&P 500.

S&P 500 dividend yields by sector

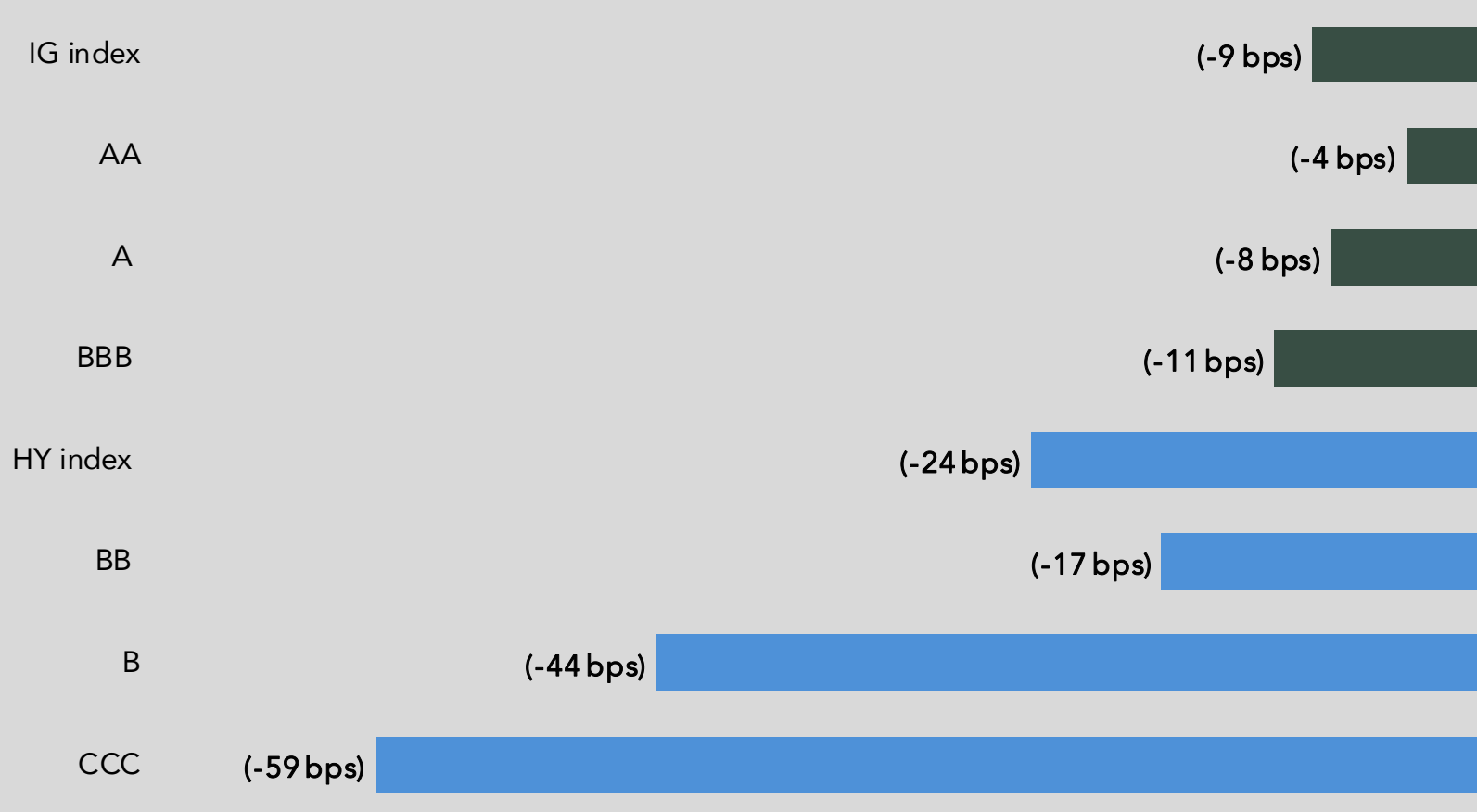


Source: (1) Bloomberg. Data as of April 2, 2024. Dividend yields are Bloomberg trailing 12 month dividend yields.

USD Credit Spreads at Historically Tight Levels

USD credit spreads tightened across every rating class in Q1 2024, though particularly in high yield. The IG credit index is near its tightest levels since November 2021 and less than 15 bps from its tightest level in 19 years.

USD credit spreads in Q1 2024

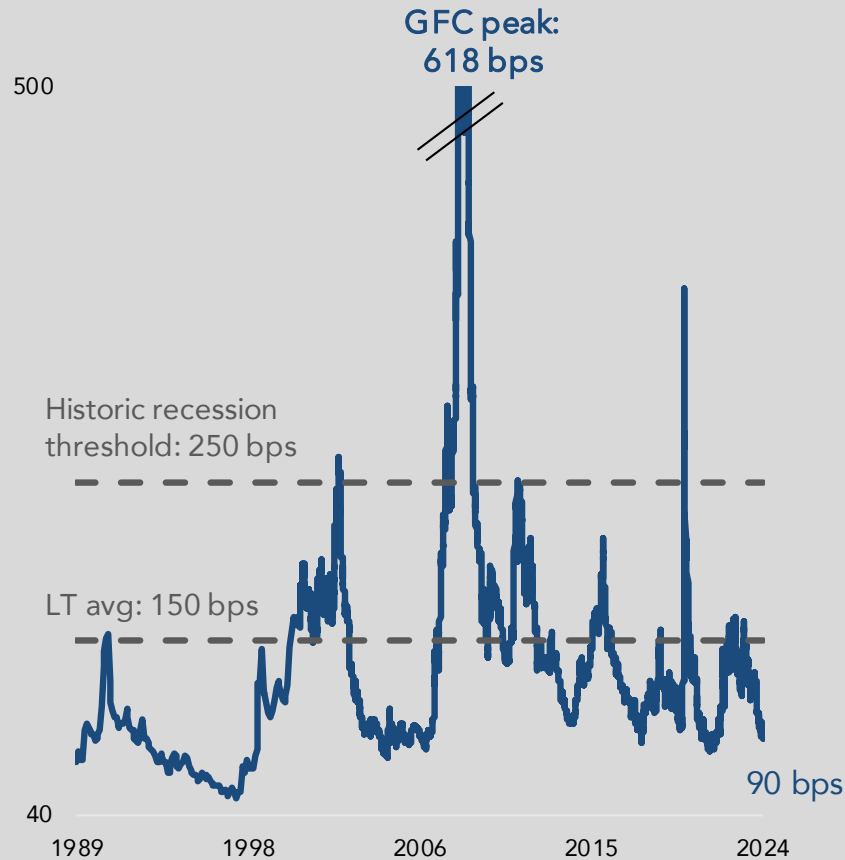


Source: (1) Bloomberg. Data as of March 31, 2024.

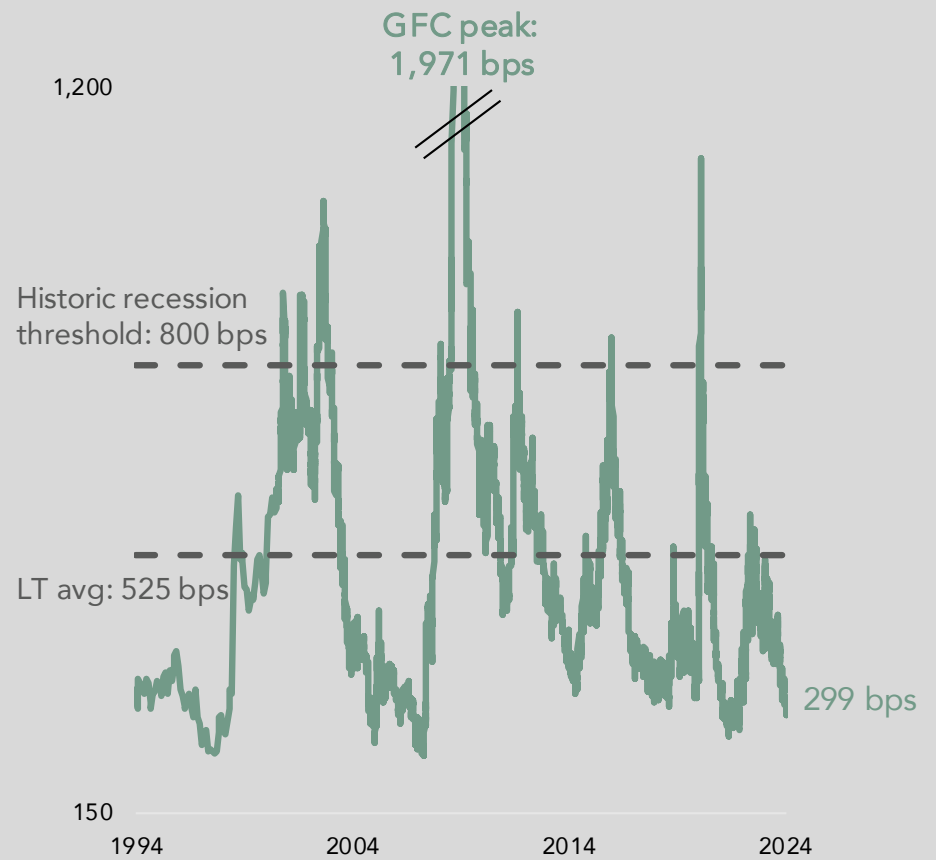
USD Spreads Traded Further Below LT Avg in Q1

Economic outperformance (vs. global peers and consensus expectations) helped IG and HY spreads tighten sharply in Q1 2024, contrary to consensus expectations for modest widening. Spreads today remain extremely tight vs. long-term averages.

USDIG OAS



USDHY OAS



Source: (1-2) Bloomberg. Data as of March 31, 2024.

Investor Risk Appetite Deepened in Q1

Single B to BB USD corporate credit spreads tightened to their lowest levels in more than a decade in Q1 2024, signaling higher investor risk appetite in 2024 following the economy's resilience to the Fed tightening cycle.

USD corporate B-BB spreads

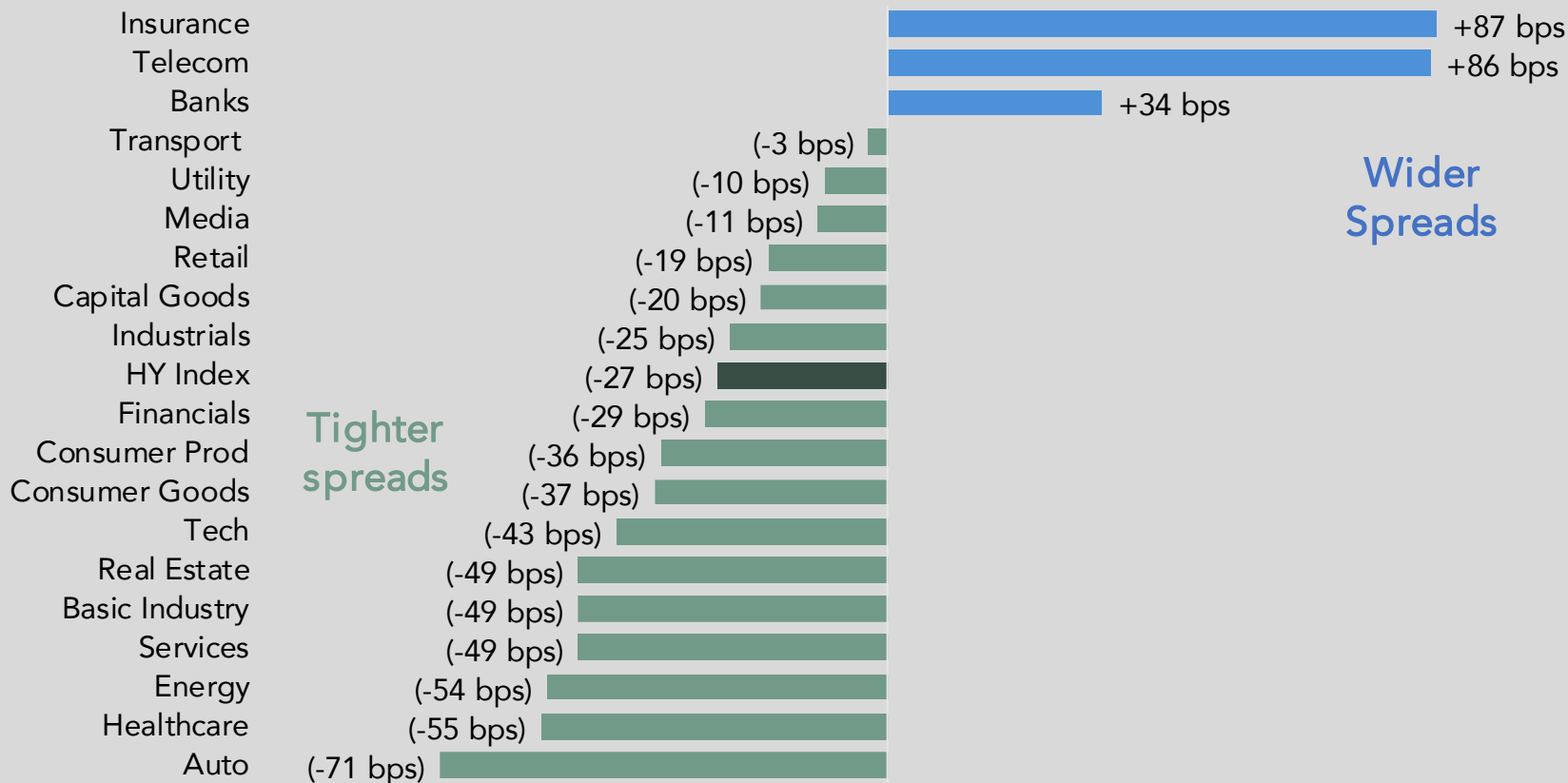


Source: (1) Bloomberg. Data as of March 31, 2024.

Broad-Based HY Spread Tightening in Q1

A dearth of HY primary supply in 2022 and 2023 left investors hungry for yield producing assets. With a return of issuance in 2024, investors have driven a technical tightening in spreads. HY spreads today are close to their tightest levels since December 2021.

Change in HY spreads by sector in Q1 2024







Source: (1) Bloomberg. Data through March 31, 2024. IFR.

MUFG Expects USD Spreads to Remain Tight

While our base case scenario for USD IG and HY spreads point to modest widening in 2024, MUFG's outlook for corporate credit spreads remains very constructive by the standards of USD credit markets historically.

Scenario analysis for 2024 credit spreads

**2024
Base Case**

		Spot (Apr 1)	Soft Landing	Mild Recession/ Stagflation	Hard Landing
IG Index	 MUFG	90 bps <i>(Bloomberg OAS)</i>	85 - 120 bps	95 - 140 bps	100 - 180 bps
	 CreditSights	94 bps <i>(ICE BofA OAS)</i>	100 bps	130 bps	200 bps
HY Index	 MUFG	299 bps <i>(Bloomberg OAS)</i>	250 - 350 bps	340 - 490 bps	340 - 640 bps
	 CreditSights	315 bps <i>(ICE BofA OAS)</i>	350 bps	500 bps	750 bps

Source: (1) George Goncalves (Head of MUFG US Macro Strategy), Andrew Myers & Bill Matthews (MUFG credit desk analysts), Glenn Schultz (MUFG quant analytics team). CreditSights, "US IG & Leverage Finance 2Q24 Outlook: Defying Gravity" (March 2024).

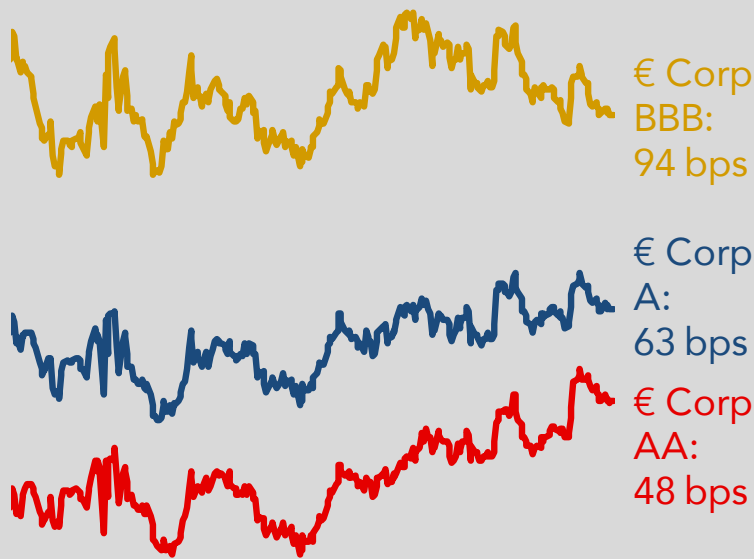


EUR Market Technicals Very Strong in Q1

Though rate volatility drove EUR credit spreads marginally wider in Q1 from the lows of 2023, investor risk appetite nonetheless remained strong as beta compression and flat curves underpinned market dynamics. Investors continued to chase higher yielding securities, and investor engagement remained high, as evidenced by the more than \$15 bn of net inflows into the market in Q1.

EUR corporate spreads, bps

125



0

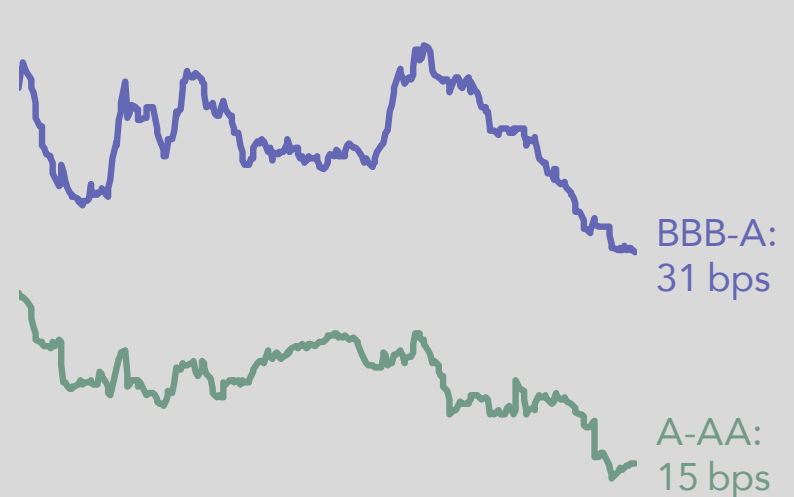
Jan-2023

Mar-2024

Source: (1-2) Dealogic. Bloomberg. Data as of March 31, 2024.

EUR corporate spread differentials, bps

60



0

Jan-2023

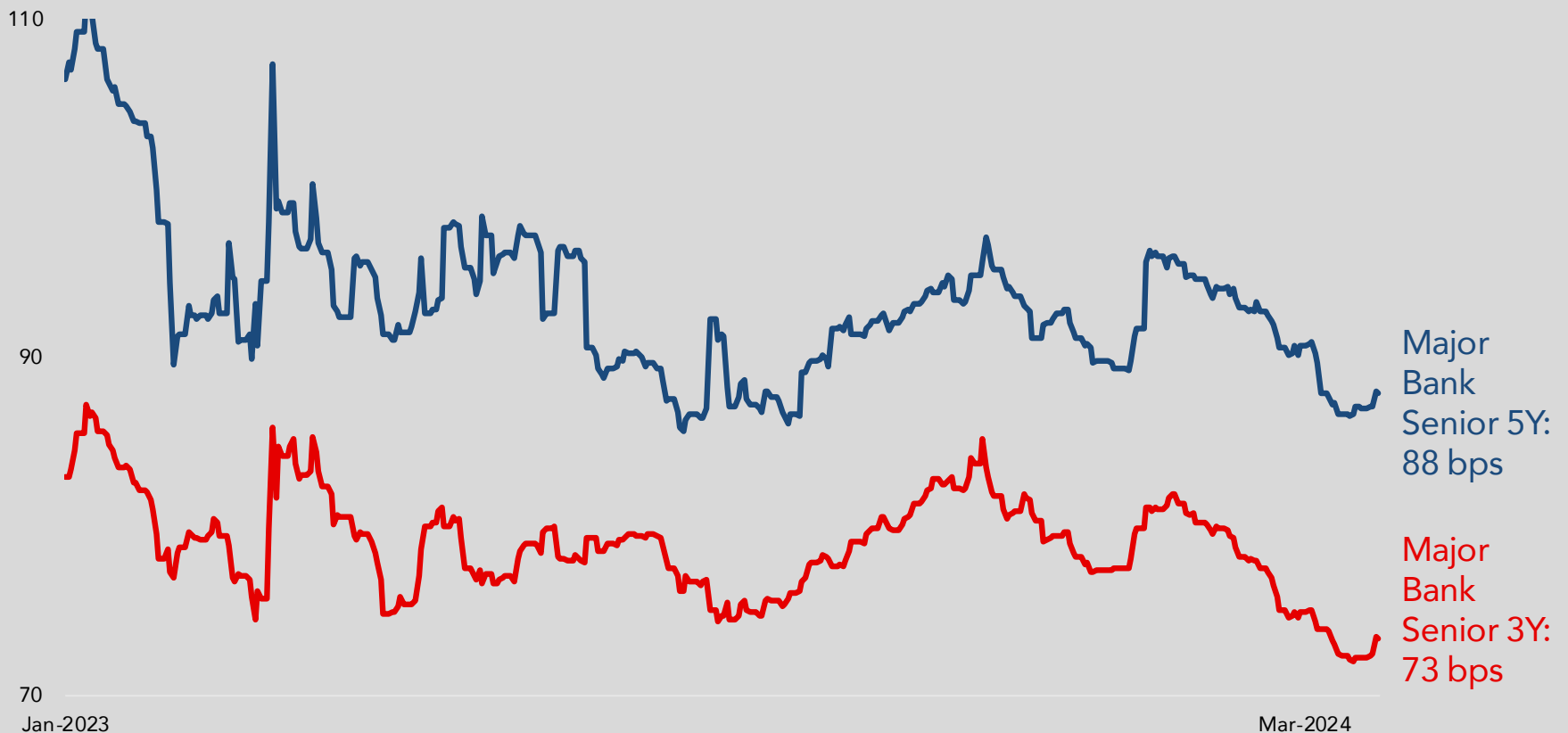
Mar-2024

Australia Bank Spreads Tightened in Q1



AUS major bank spreads (the benchmark for the A\$ credit environment) had a strong start to the year, grinding tighter over Q1. Corporate credit spreads also moved tighter in the quarter as some primary corporate issuers were able to price through older, illiquid outstanding curves.

Australian major bank credit spreads, bps



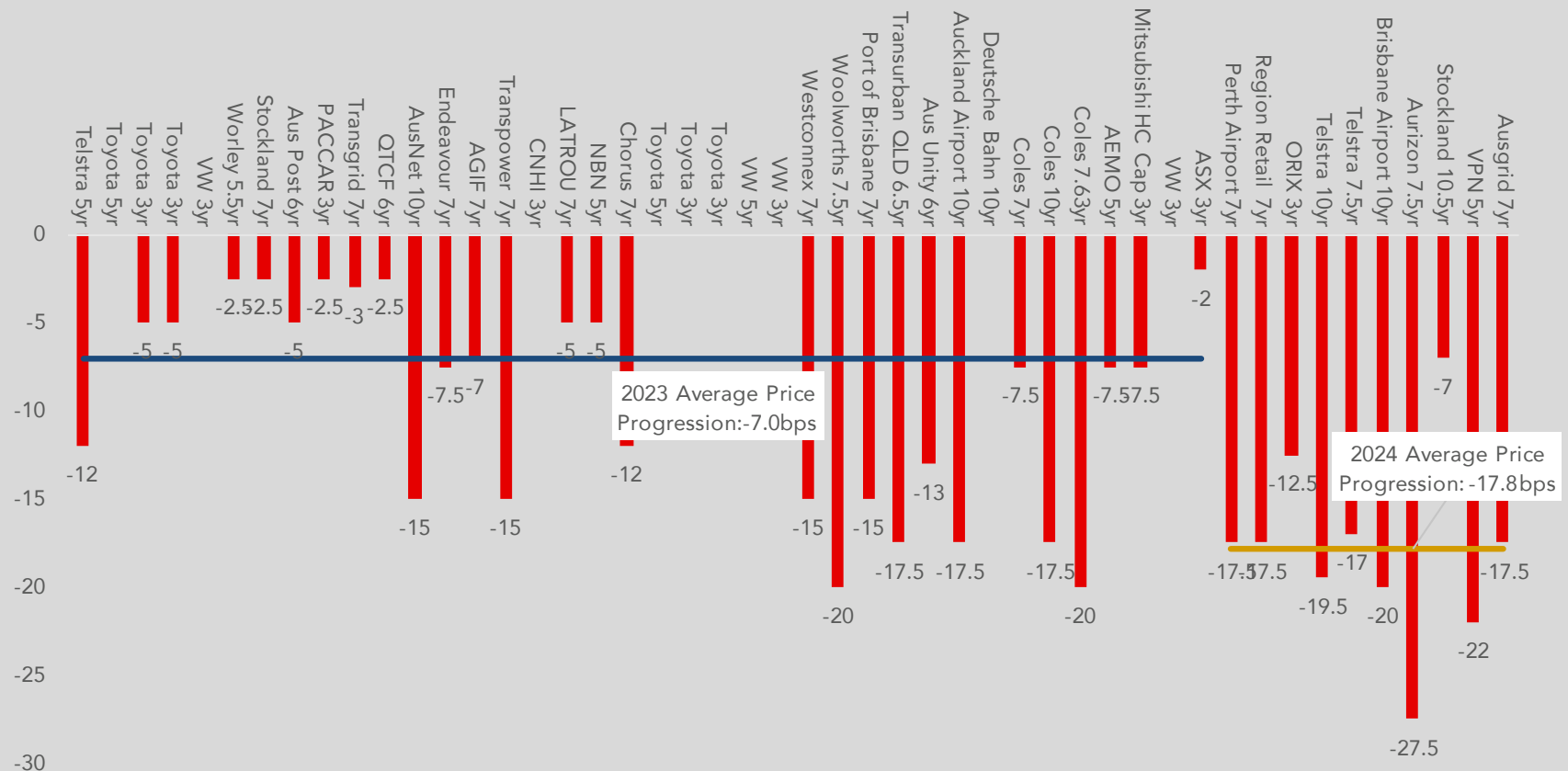
Source: (1) Dealogic. Bloomberg. March 31, 2024.



Solid Price Progression for A\$ Corporates

Price progression of corporate transactions has been notably stronger over Q1 2024, with average price progression of (-18 bps) vs. (-7 bps) over 2023.

Corporate issuance movement from IPTs, bps



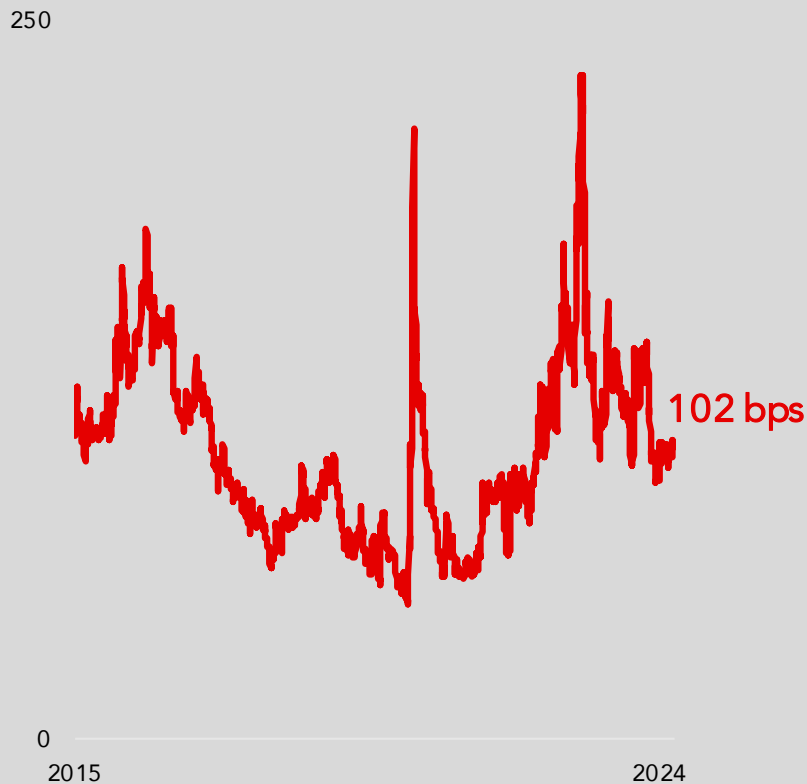
Source: (1) MUFG. Bloomberg. Data as of March 31, 2024.

Asia Ex-Japan Spreads Tightened in Q1

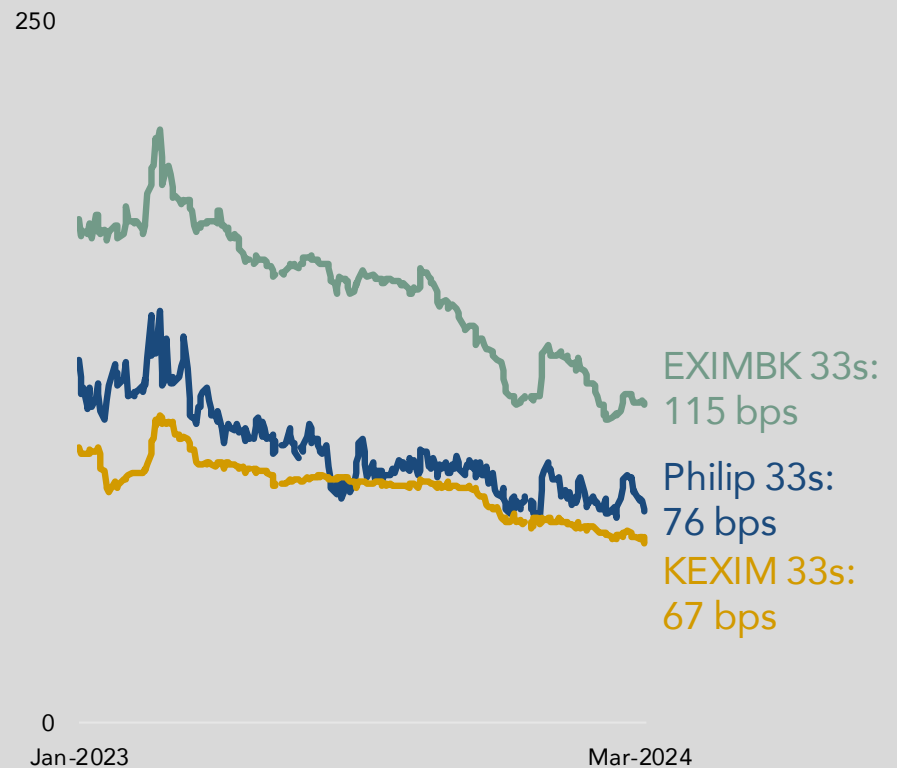


Issuers continued to lock-in competitive borrowing costs as credit spreads remained relatively tight across the Asia Ex-Japan region. However, elevated benchmark UST rates did dampen more opportunistic supply vs. historical levels.

iTraxx Asia Ex-Japan spread index, bps



Benchmark regional issuers credit spreads



Source: (1-2) Dealogic. Bloomberg. Data as of March 31, 2024.



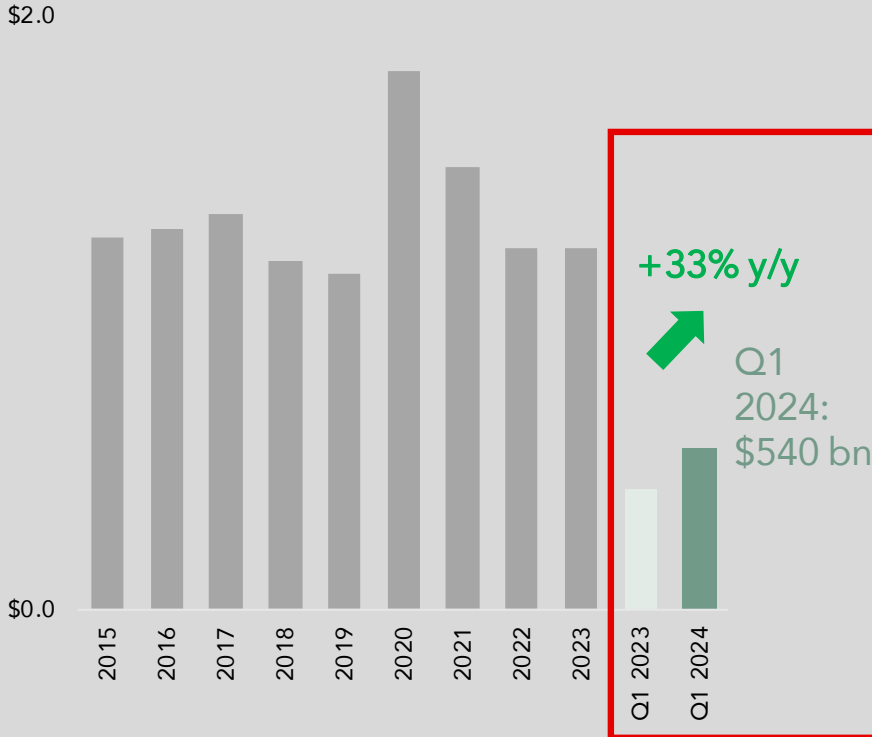
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Historic USD New Issue Volumes

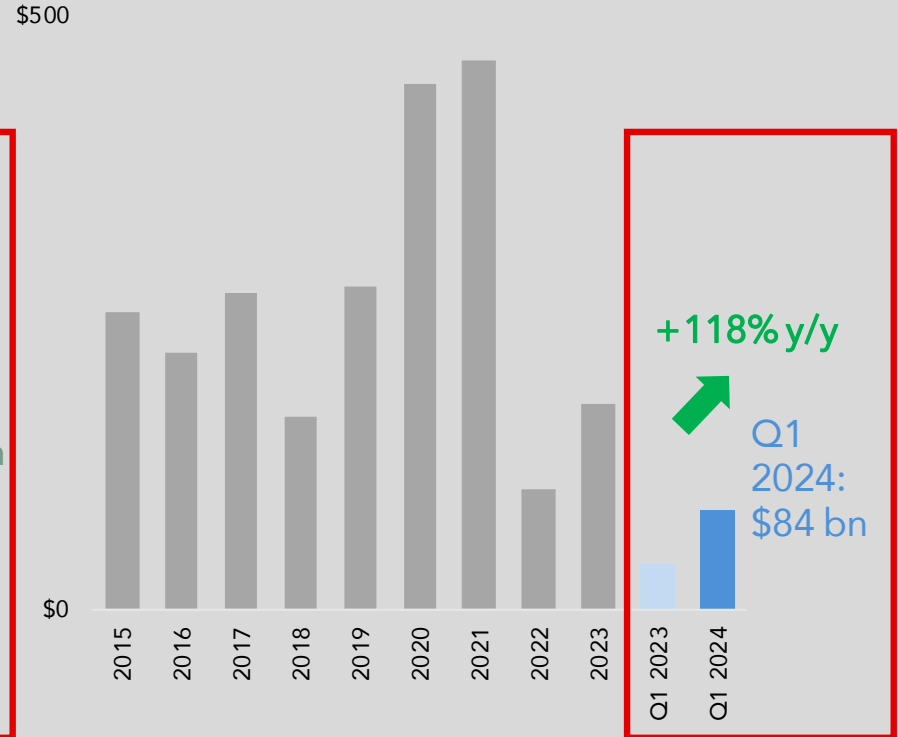
Resurgent USD New Issue Markets in Q1 2024

Historic Q1 USD bond issuance volumes exceeded even our high expectations for the quarter, with IG setting a new Q1 record above the \$500 bn threshold, and HY issuance more than doubling on the quarter (y/y). Key drivers of the accelerated issuance pace included an attractive macro backdrop (economy, central bank policy), robust corporate fundamentals and deal activity (M&A rebound, cash balances, earning recovery), a strong technical bid from investors for yield, and a desire to “get ahead” of a potentially complex geopolitical and US election environment.

USD IG new issue, tn



USD HY new issue, bn



Source: (1-2)CFR. Data as of April 1, 2024.

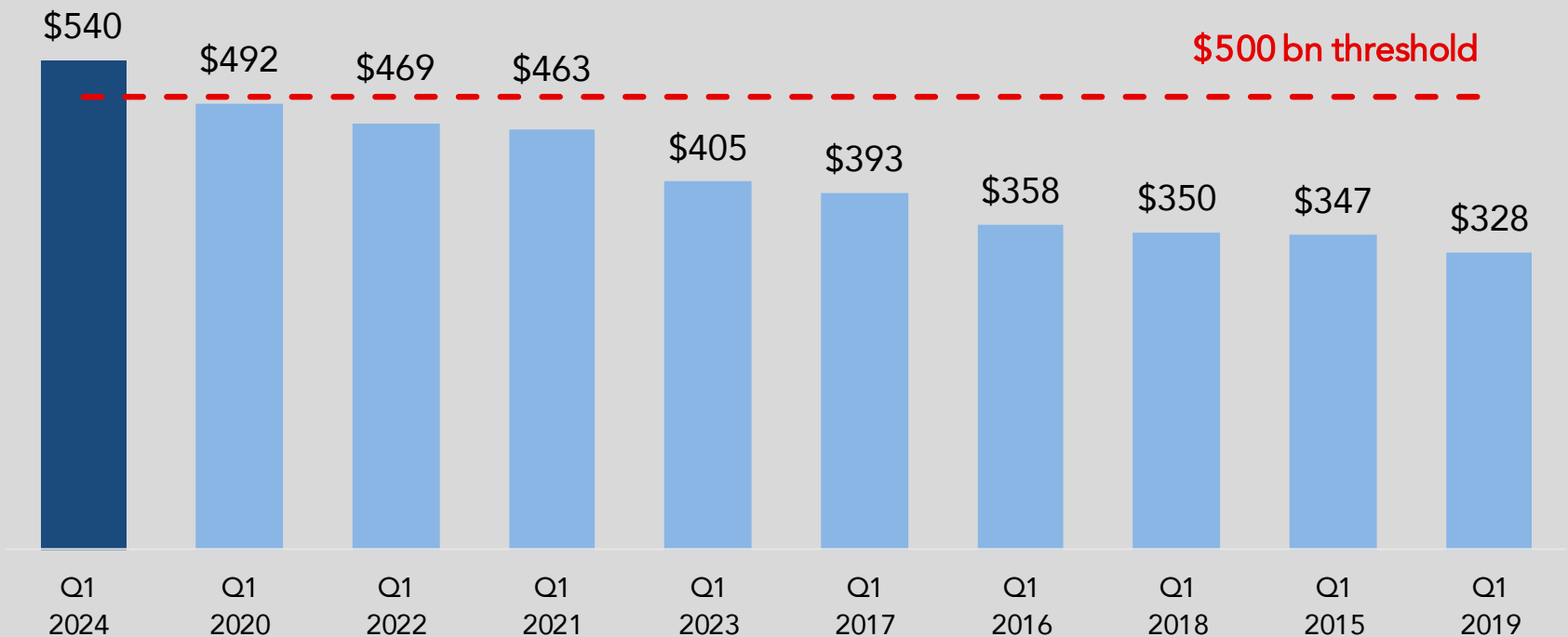
Largest Q1 IG Bond Issuance on Record

Investment grade corporates issued a record amount of USD IG bonds in Q1, issuing over \$500 bn year to date. Q1 2024 was the largest first quarter of IG issuance on record, the second largest quarter ever, and the first Q1 period to exceed \$500 bn of issuance. To date, USD IG markets have already issued 40% of MUFG's full year 2024 volume projection of \$1.35 tn.

All time largest Q1 USD IG issuance, bn

**Largest Q1
on record**

(First Q1 > \$500 bn)

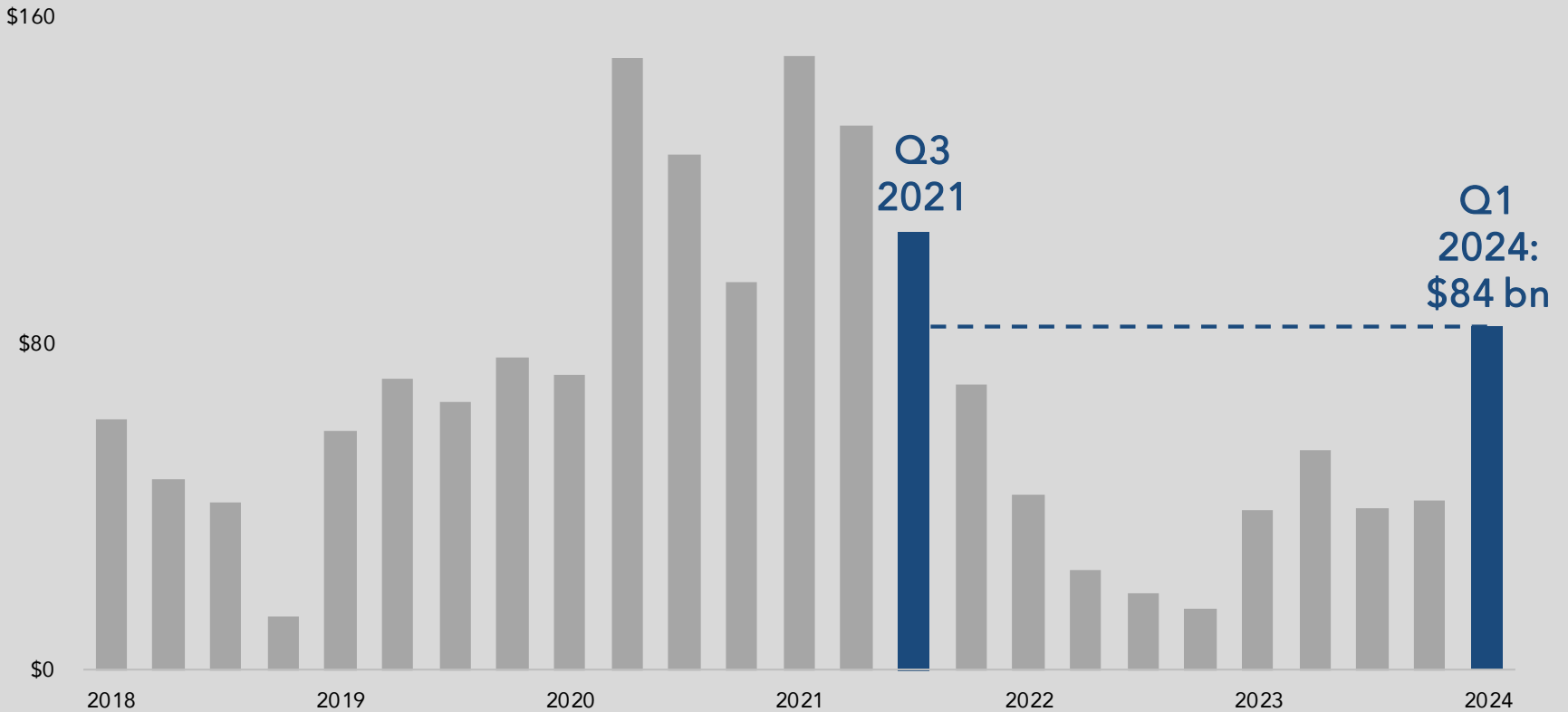


Source: (1) CFR. Data as of April 1, 2024.

HY Volumes Reach Highest Level Since 2021

Following depressed new issue volumes in 2022 and 2023, issuers returned to the market in 2024 as the Fed pivoted toward policy easing and benchmark UST yields and spreads rallied lower. While Q1 issuance skewed to the higher end of the market (BB), CCC paper returned to the market in January for the first time in seven months. In BB, markets priced a coupon below 6%, the best execution since August 2022.

USD high yield quarterly volume, bn

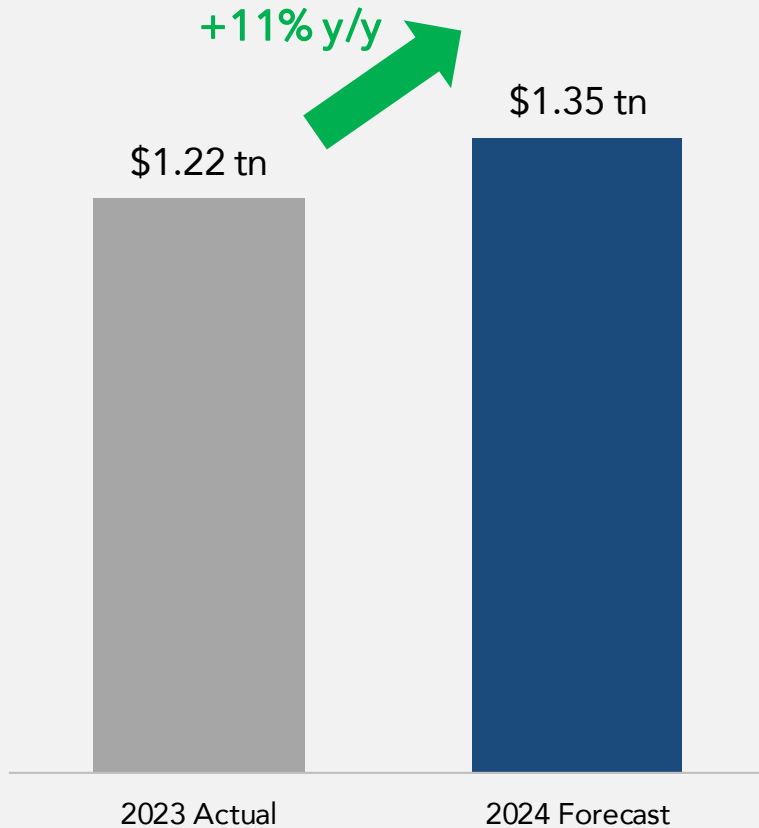


Source: (1) CFR. Data as of April 1, 2024.

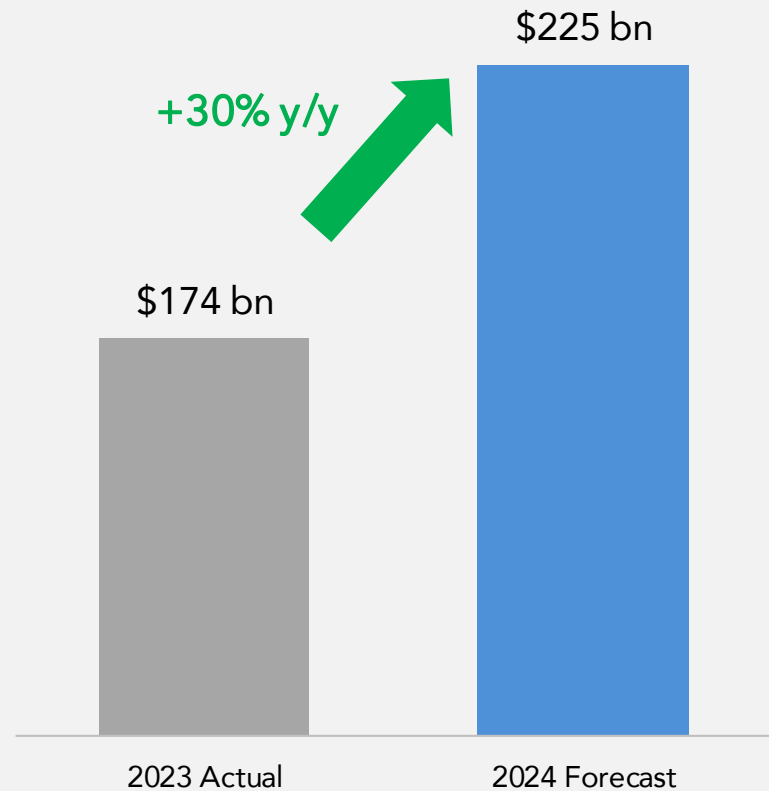
MUFG 2024 New Issue Forecast

In December, MUFG made an out of consensus call for 2024 IG issuance to increase over 10% year-over-year. After a record January, February and Q1 we maintain our current forecast as we expect the pace of issuance to decelerate ahead of US elections in late 2024.

MUFG USD IG new issue forecast



MUFG USD HY new issue forecast

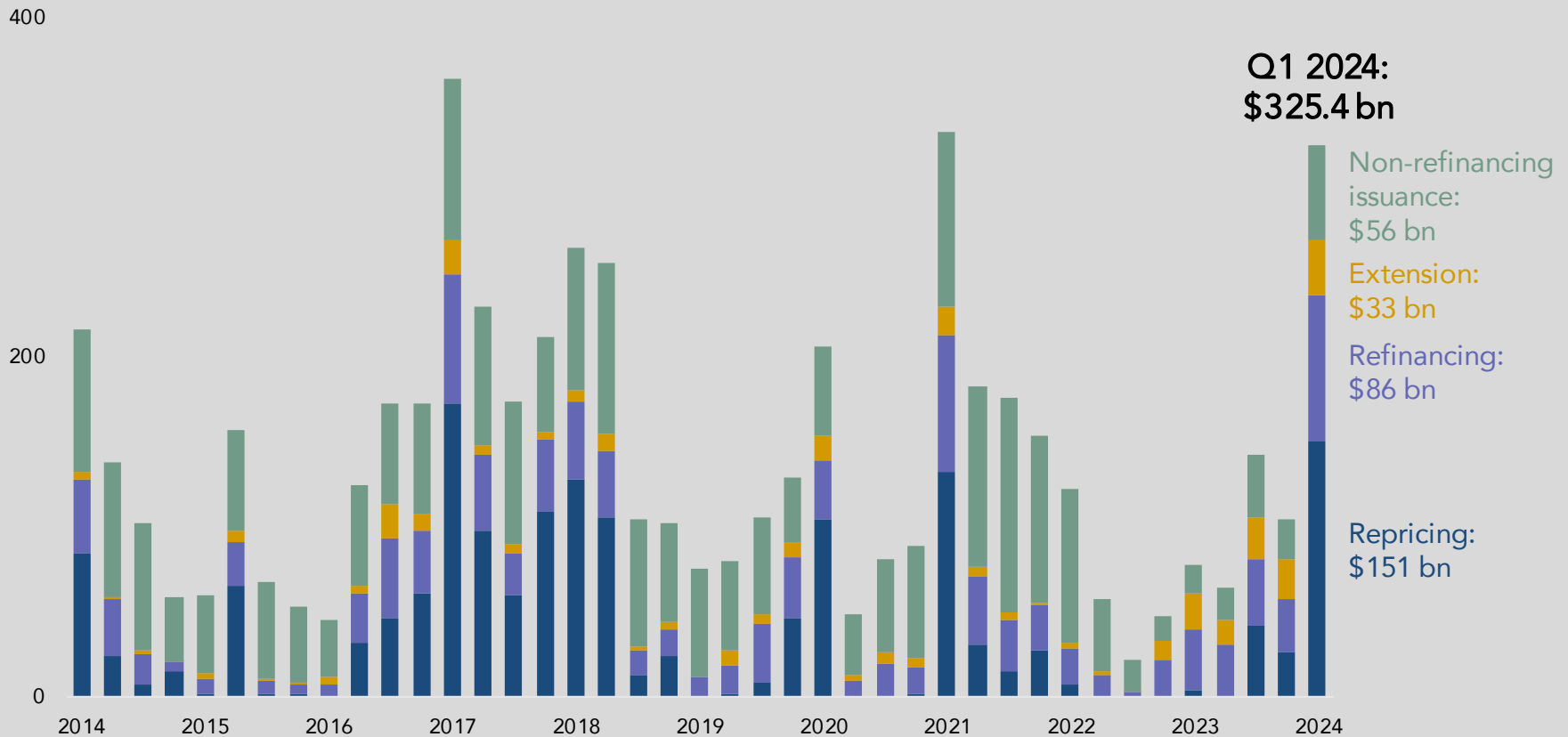


Source: (1-2) MUFG Capital Markets.

Surging US Leveraged Loan Markets in Q1

Opportunistic deal flow picked up in the leveraged loan market in March after a dip in February with \$108 bn of total deal activity in March alone, the second highest reading in three years, bringing the total for Q1 to \$325 bn. A total of \$151 bn, or roughly 11% of the \$1.4 trillion loan asset class, has been repriced so far in 2024.

US leveraged loan quarterly volume, bn



Source: (1) Pitchbook. Data through March 31, 2024. Extensions and repricings reflect deals done via an amendment process.



5 Robust Non-Dollar Financing Markets

Robust EUR & GBP Issuance Volume in Q1

EUR issuance surged more than 30% in Q1 as investors moved quickly to take advantage of attractive market conditions and issuers pre-funded ahead of a less certain 2H geopolitical outlook. Notable trends in the quarter included: (1) yield-seeking investor inflows of \$15 bn in Q1; (2) improved investor risk appetite with notable duration bid in 11-20 year range; (3) deal over-subscription rates higher at 4x; and (4) tight NICs in mid-single digits.

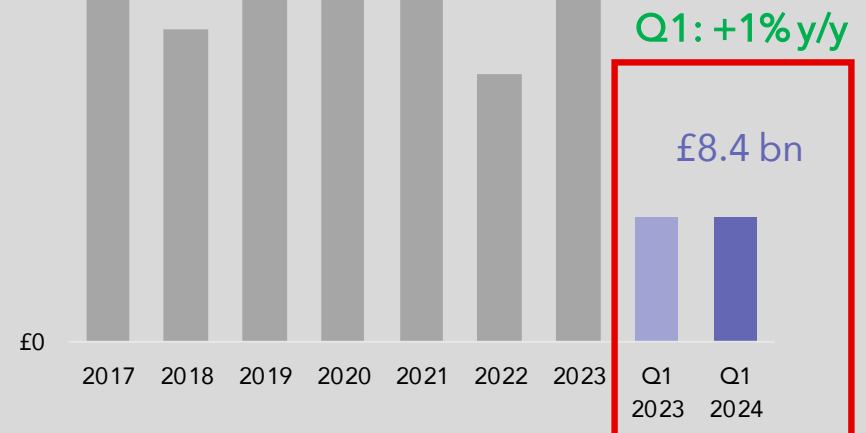
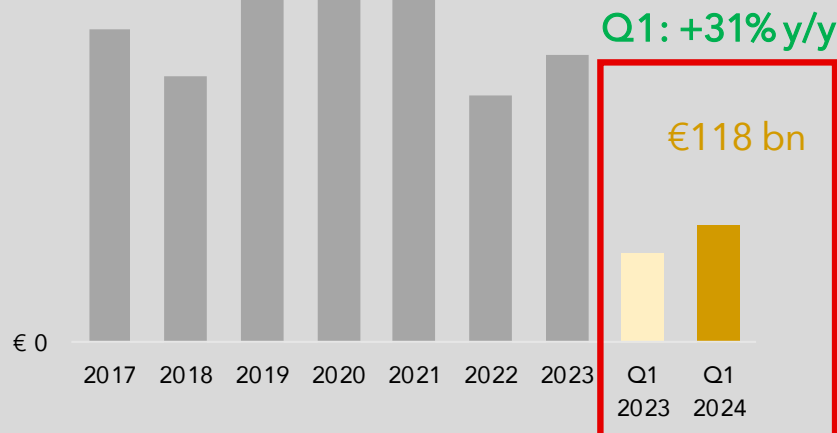
While GBP issuance volumes in Q1 were only marginally higher (+1%), lighter supply has contributed to a persistent grind tighter in secondary spread levels. More than 50% of Q1 supply came from the utility and property sectors. Aside from a few outliers, NICs remained tight in the 5-10 bps range.

 EUR volumes, EUR bn

 GBP volumes, GBP bn

€ 500

£40



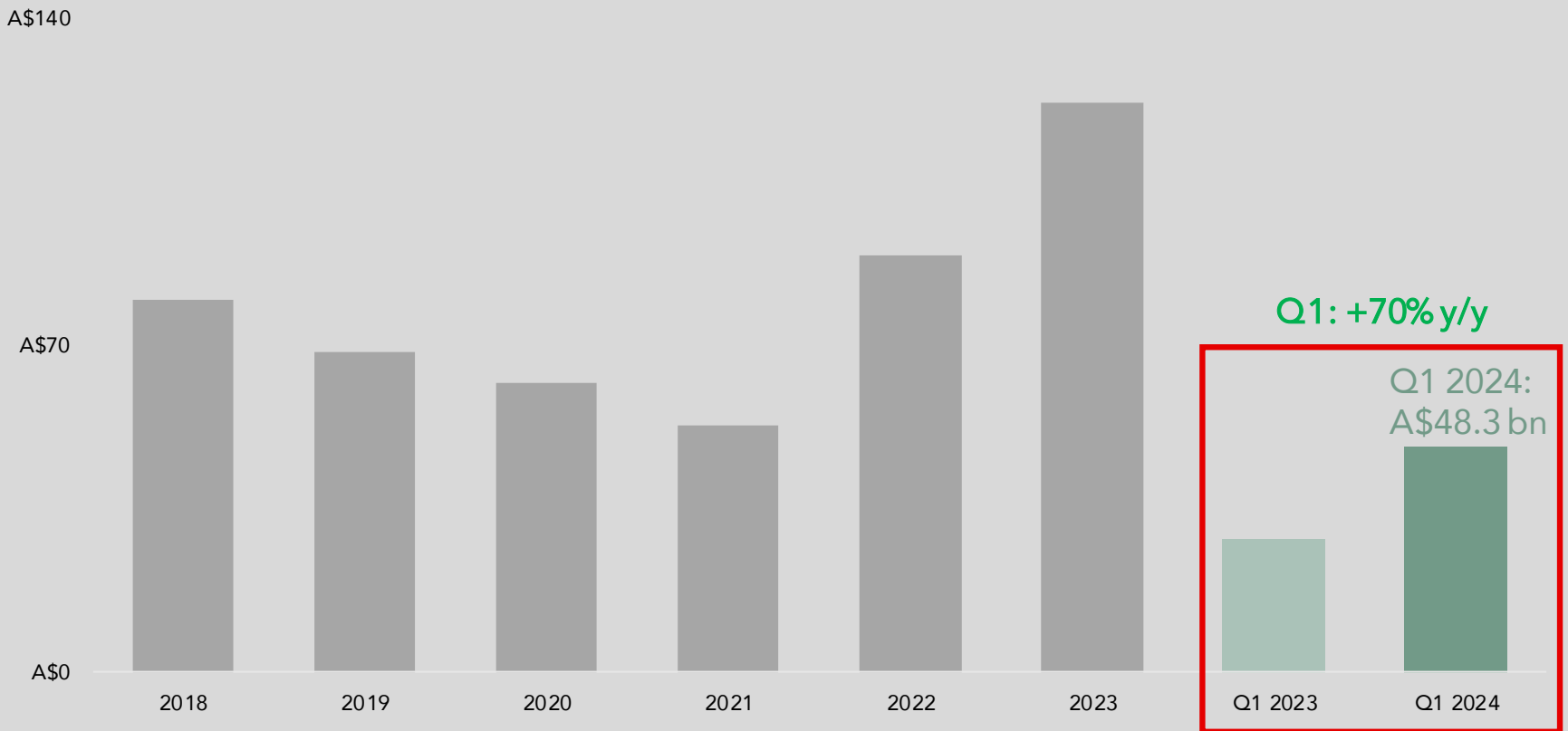
Source: (1-2) Dealogic. Bloomberg. Data as of March 31, 2024.

Strongest A\$ Q1 Issuance in 8 Years



Q1 2024 was the strongest A\$MTN issuance in 8 years. Strong credit fundamentals, record orderbooks, and a tight spread backdrop drove a 70% increase in year over year issuance. FI issuance increased 57% y/y while corporate issuance increased a robust 270%. Looking ahead, issuance volumes are expected to remain healthy, but issuers should look to front load funding given the conducive credit backdrop.

A\$MTN issuance volumes, AUD bn



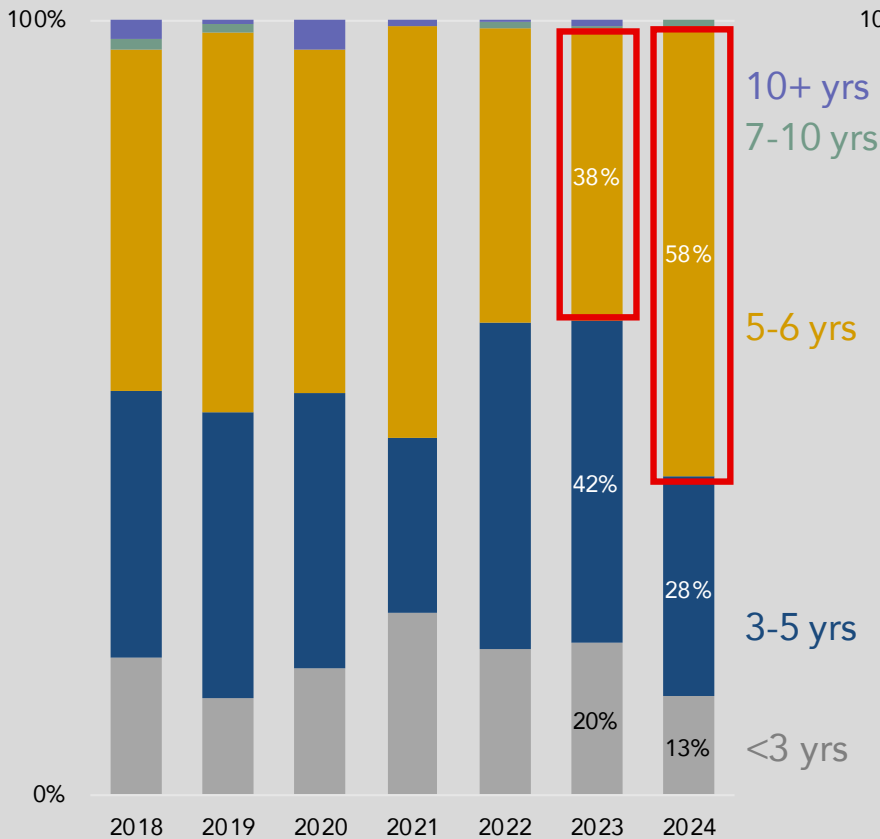
Source: (1) MUFG. Bloomberg. Data as of March 31, 2024.

Uptick in Longer Duration A\$ Issuance

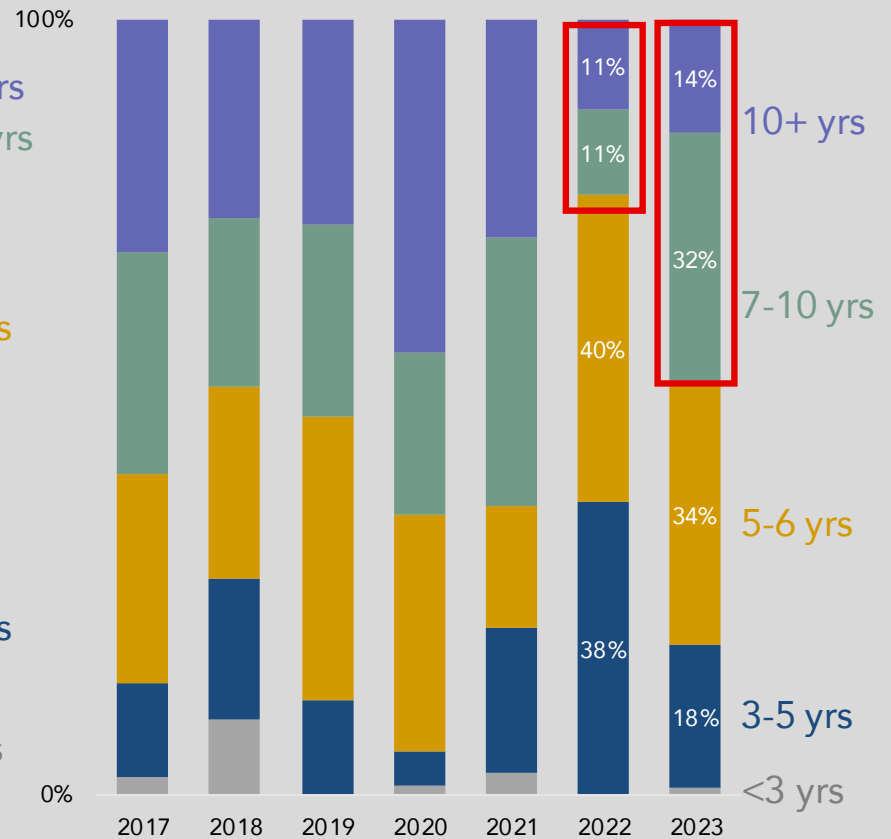


In Q1 2024, yield focused investors drove a bid for longer duration issuance. Almost 60% of financial institution issuance was in the 5 year part of the curve while almost half of corporate issuance was in the 7-10 year+ part of the curve.

Financial institutions transaction by duration



Corporate transactions by duration



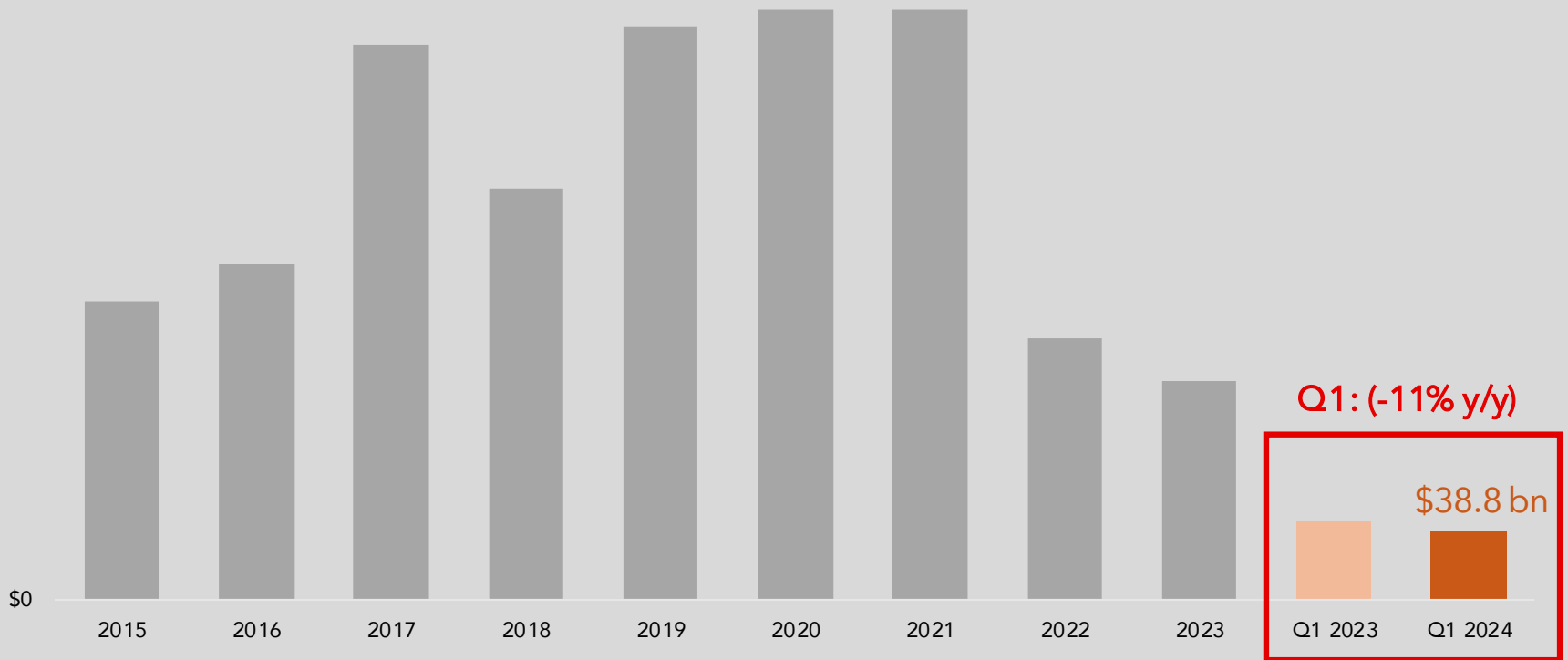
Source: (1-2) Dealogic. Bloomberg. Data as of March 31, 2024.

Asia Ex-Japan Issuance Lower on China Decline

In Q1 2024, Asia Ex-Japan (AEJ) primary issuance declined just over 10% from the prior year. The largest decline in primary supply came from China where slower economic growth and lower outbound M&A have reduced funding needs. Regulators reducing the RRR has also increased onshore liquidity. Looking ahead, 2024 volumes are expected to surpass 2023 volumes as China M&A and issuance rebound.

Asia (ex-Japan) issuance volume, USD bn

\$350



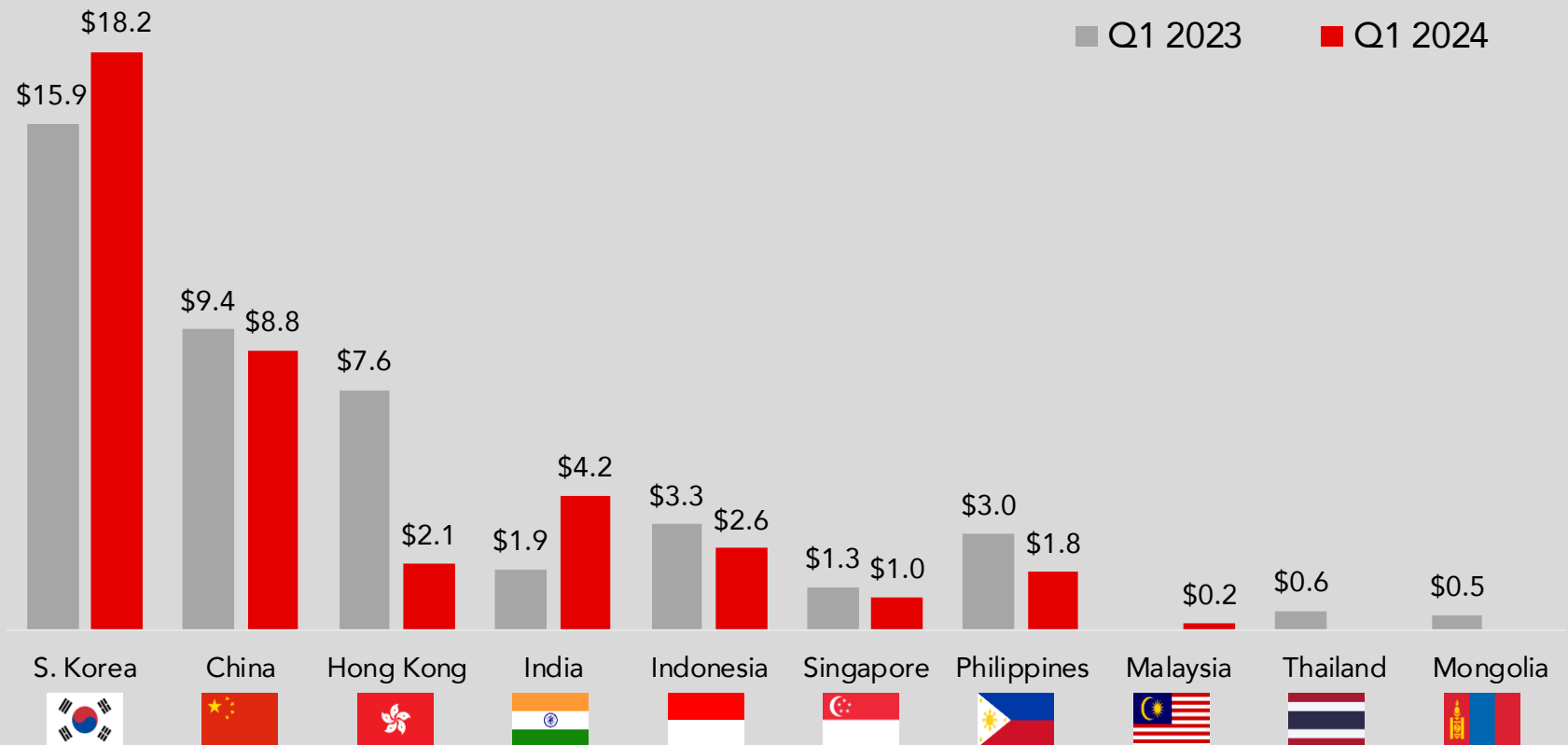
Source: (1) Dealogic. Bloomberg. Data as of March 31, 2024.

Korea & India Increase Share of Regional Supply



There was a notable uptick in Q1 issuance from Korea and India as investors take a constructive view on these economies and relatively tight credit spreads spur borrowers to access offshore liquidity. Issuance from Korea represented almost half of Asia Ex-Japan issuance in Q1 2024 vs. just 34% in Q1 2023. Similarly, India increased its share of AEJ issuance to 10% in this year vs. just 4% last year.

Asia Ex-Japan primary supply by jurisdiction, USD bn



Source: (1) Dealogic. Bloomberg. Data as of March 31, 2024.

About the Authors



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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 nearly 30 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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Role

Hailey Orr is a Managing Director in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Hailey has a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and seven 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.

Personal

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 six years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

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

Personal

Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children.

Role

Angela Sun is an Analyst in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

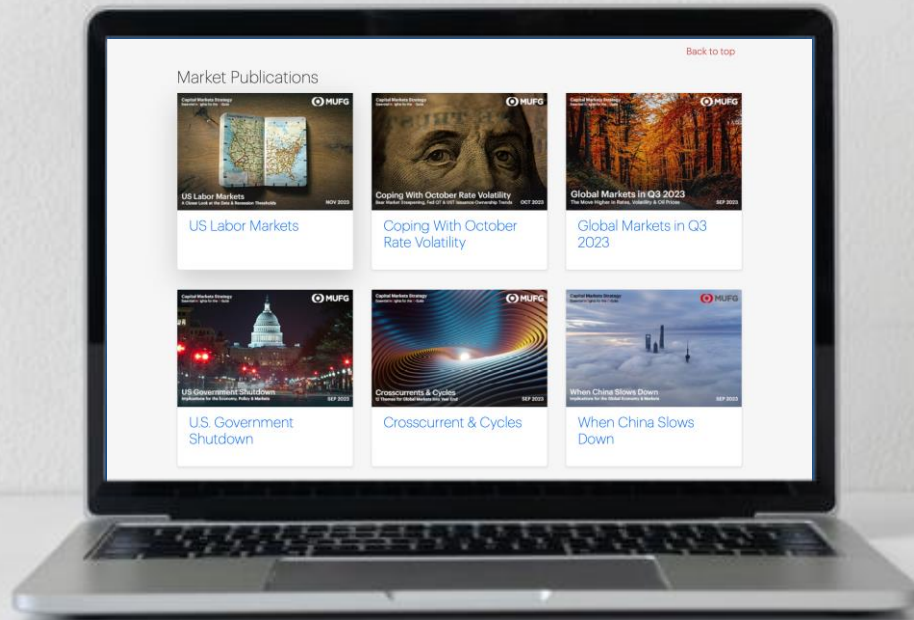
Education

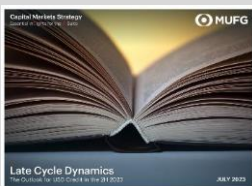
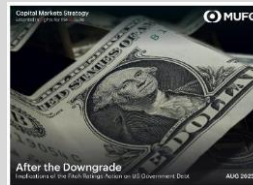
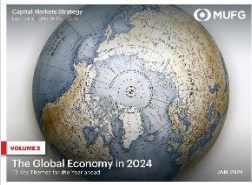
Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.



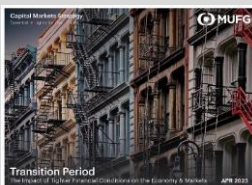
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