Credit Matters
April 2023

Calm with Questions

For a month that delivered another US bank failure, further hawkish central bank language and weakening economic data, global financial assets posted modest gains in April. Main index Credit Default Swap spreads tightened.

While not stellar, first-quarter earnings **surprised on the upside**, showing companies remain more resilient to higher rates and inflation than expected. Technology led gains, also on hopes that AI products will be a large driver of future earnings.

Inflation remained stubbornly high in both Europe and the US, leading both yield curves to stay **inverted**, usually a recessionary sign. Some economists argue that the time lag between the start of a rate hiking cycle and the actual impact on the economy is due soon. US money supply is falling at the fastest pace ever, while leading indicators such as the US Conference Board's are also down (see p2). The International Monetary Fund warned that Advanced economies' **growth may halve** to 1.3% this year, down from 2.7% in 2022.

Credit Default Swap spreads, however**, tightened** on the back of the better-than-expected earnings season and as defaults are expected to rise only moderately. According to Moody's, the global speculative-grade corporate default rate will end this year at 4.6% before rising further to 4.9% by the end of March 2024. Spread-sensitive asset classes, such as **Investment Grade** and **High Yield** credit**,** as well as **Loans,** all gained**.**

Convertible bonds lagged as their underlying equity universe is not as Technology-heavy as other equity benchmarks, such as the S&P 500. The asset class, however, may benefit from increased issuance as blue-chip firms eye-up convertible bond sales to cut costs.

The **US dollar fell** as the interest rate difference between the US and other countries may decrease. In Japan, for instance, new leadership is seen as laying the groundwork to change the "yield curve control" policy that anchored interest rates at near record lows. Concerns about the US Treasury's ability to lift the country's debt ceiling, which it needs to fulfil its obligations, added to uncertainty. Treasury Secretary Janet Yellen said that the government may **run out of cash** as early as June.

US investors continued to withdraw deposits from small, regional banks seeking higher yielding money market funds. Lower deposits and higher financing costs raised concerns of a **potential credit crunch**.

Total Return (%)	Change % April	% 2023
Sovereign		
US Treasury	0.5	3.6
UK Gilts	-1.8	0.4
Italian BTPs	-0.2	3.2
German Bunds	0.1	1.6
Credit		
Global Convertible	-1.0	1.9
US IG	0.8	4.3
US HY	0.9	4.7
US Leveraged Loans (LLI)	1.0	4.3
EU IG	0.8	2.6
EU HY	0.4	3.5
UK Corp.	0.2	2.6
AT1s	2.1	-5.5
EU Leveraged Loans (ELLI)	1.3	5.3
Asia & EM		
Asia USD Gov. Index	1.2	3.7
Asia USD Corp. Index	0.8	3.4
China Gov.	0.6	1.4
EM Gov. USD	0.2	3.0
EM Corp. USD	0.4	2.3
Equities		
S&P 500	1.5	8.6
Nasdaq	0.0	16.8
EuroStoxx 50	1.0	14.9
Hang Seng Index	-2.5	0.6
CMD & Curr.		
Oil (WTI)	1.5	-4.3
Gold	1.1	9.1
Bitcoin	3.4	77.1
USD	-0.8	-1.8

CDS Spreads (bps)	Change April	Change 2023	Spread
CDX IG US	-0.1	-6.3	75.77
CDX HY US	2.6	-18.0	465.96
iTraxx Europe IG	-1.4	-7.6	82.98
iTraxx Crossov. EU HY	-1.3	-39.0	435.07

Source: Bloomberg as at the last business day of the month indicated at the top of this report.

Sign of the Times:

Investors purchased a net $42.68 billion in **money market funds** in the seven days to April 26, bringing the year's total inflows to $427.4 billion, mostly in the US, according to data from Refinitiv Lipper. US investors are leaving bank deposit accounts seeking the higher yields offered by money market funds - raising concerns about the US banking sector.

Theme of the month

Broad Equity and Bank shares decouple

Knowledge: the key to CQS's three Rs:

Repeatable
Responsible
Returns

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Loans: Alpha Opportunities in 2023

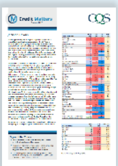
Q&A with Craig Scordellis

Good Times for Yield

PDF available on our website

The Case for Convertibles

Two-pager promoting the benefits of CBs



Credit Matters:

CQS' monthly market update

ABS Alpha Opportunities in 2023

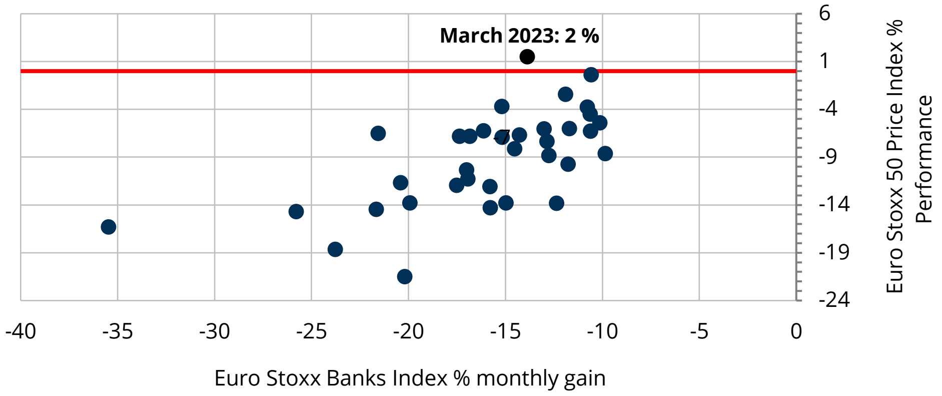
Regulatory Capital:

Long Term, Stable Income

Theme of the Month: Equities Rise When Banks Fall

European stocks rise when Banks fall by 10% for the first time since data began in 1987

Euro Stoxx 50 Price EUR Monthly % Performance



Source: Bloomberg as at 28 April 2023. The indices used are the Euro Stoxx 50 Price Index and the Euro Stoxx Banks Price Index.

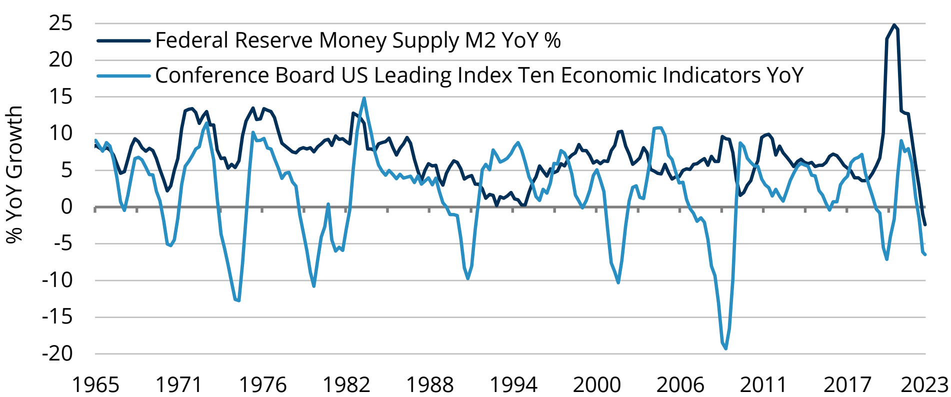
Equity Markets Ignore Bond Investors' Concerns

The US Treasury yield curve is inverted, central bankers remain hawkish amid sticky inflation, economic data is weakening, money supply, contracting, and recent bank failures may accelerate already tightening credit conditions; yet, US and European Equity markets gained in both March and April. Actually, March was the first time since data became available in 1987 that Equities posted gains despite a near 10% drop in Financial stocks. The chart above shows the March 2023 dot (Euro Stoxx 50 Prince index monthly performance) as the only positive performance on a month in which the Euro Stoxx Banks Index lost more than 10%. Normally, the dots sit below the 0% line as banking activity not only has a major effect on the rest of the economy, but also as banks account for a large share of equity indices.

The overall Equity market resilience has left a few economists scratching their heads, especially when seeing the chart below: US money supply (M2) is falling fast, while the Conference Board Leading Index of 10 Economic Indicators has dropped to Covid-19 or 2009-levels. Equity bulls argue that growth is positive and that the US Federal Reserve may have to start cutting rates soon in order to avoid recession - a positive for asset prices.

Who is right or wrong may take time to see. This is why bottom-up investors are focusing more than ever on solid, resilient businesses.

US Money Supply is shrinking at the fastest pace ever; leading indicators are down



Source: Bloomberg as at 30 March 2023. YoY is Year on Year. M2 is a leading measure of Money Supply.

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ICE BofAML US Corporate Index (C0A0) tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market.
ICE BofAML European Currency Fixed & Floating Rate Non-Financial High Yield Constrained Index (H9PC) contains all non-financial securities in ICE BofAML European Currency Fixed & Floating Rate High Yield Index but caps issuer exposure at 3%.

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PRI Note:
PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact. GMv11.

G1059525/ 04.23

CQS (UK) LLP
4th Floor, One Strand, London
WC2N 5HR, United Kingdom
T: +44 (0) 20 7201 6900
+44 (0) 20 7201 1200

CQS (US), LLC
152 West 57th Street, 40th Floor,
New York, NY 10019, US
T: +1 212 259 2900
F: +1 212 259 2699

CQS (Hong Kong) Limited
3305 AIA Tower, 183 Electric Road,
North Point, Hong Kong, China
T: +852 3920 8600
F: +852 2521 3189

CQSClientService@cqsm.com
www.cqs.com
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