



Debt Watch Europe

2023 Annual Review



Review of 2023 and outlook for 2024

1,292

Total corporate debt deals in 2023
(2022: 993)

€799bn

Total corporate debt raised in 2023
(2022: €644)

€690bn

Raised in investment grade deals in 2023
(2022: €580bn)

€109bn

Raised in high yield deals in 2023
(2022: €63bn)

Overview

Overall, 2023 was a better year for the European corporate bond market compared to 2022. Despite persistent macroeconomic challenges, including continued high inflation, the cost of living crisis and geopolitical conflicts, European issuers had the appetite to refinance their debt on the expectations that interest rates had peaked before tapering off at the end of 2023 and into 2024. There was a similar picture when analysing the UK corporate bond market as well, with a strong recovery compared to the previous year. Overall, there were 1,292 issuances and c.€799bn raised in 2023, compared to 993 issuances and c.€644bn of proceeds raised in 2022, with increases across the board for Investment Grade, High Yield, and green/ESG bonds.

Outlook for 2024

2023 ended on a cautionary note, with recession fears remaining across developed economies, economic forecasts indicating a contraction in the Eurozone economy in Q4 2023 and an uptick in inflation expected to last into Q1 2024. As a result, December 2023 only had 29 issuances and proceeds of c.€8.5bn in proceeds after a strong November which had 166 deals and c.€83.3bn raised. Given the uncertain economic outlook, all eyes will be on the upcoming meeting of the European Central Bank on when to start cutting interest rates. Looking further ahead, European Parliament elections in June 2024, a likely UK general election in the second half of 2024 and the U.S. Presidential elections could all play a role in how bond markets perform in the year.

The expectation of lower interest rates in 2024 already generated a reduction in yields in Q4 2023 to the lowest point since early 2022, however they remain largely at higher levels as compared to any point in the last five years. The U.S. 10-year Treasury yield peaked near 5.0% in October, only to fall to around 3.9% by the close of 2023. A drop of that magnitude over such a short timespan has only been seen about five times dating back to 1990. We see a similar story in Europe as the German 10-year Bund yield rose to a decade high of nearly 3.0% in October, only to drop back below 2.0% by year end and the UK 10-year Gilts yield rose to 4.7% in October (the highest since the 2008 financial crisis) and closed the year down at 3.5%. The decline in these yields helped fuel a well-publicised rally in risk assets, with most major global stock indexes also posting historically strong rallies.

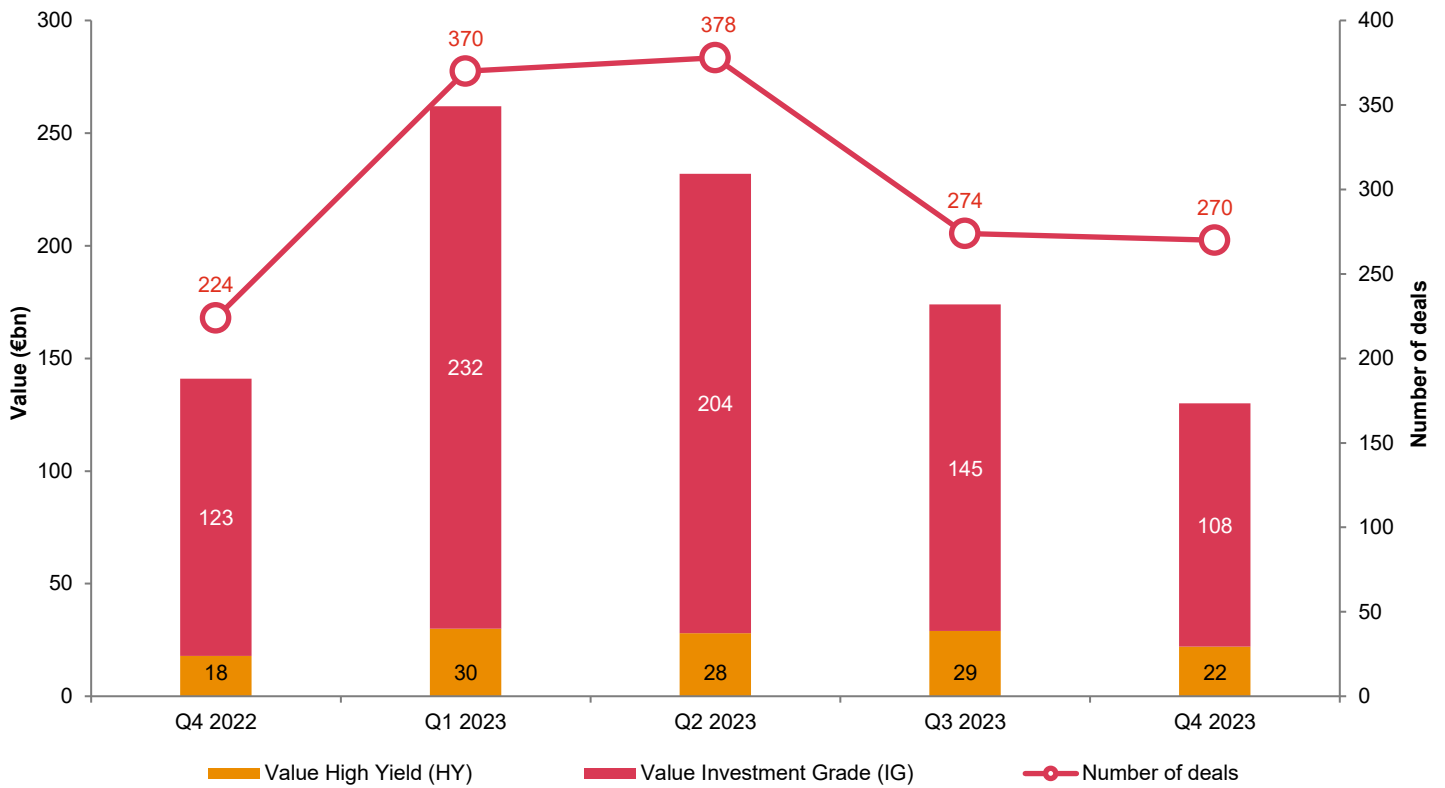
Despite the High Yield bond market bouncing back in 2023 against the lows of 2022, there was still some reluctance in companies deciding to refinance given the increased finance costs. With expectations of potentially lower interest rates coupled with a looming maturity wall, 2024 will likely attract forced refinancing.

The green/ESG bond market is projected to maintain its growth in line with previous years. As the market develops, a larger share of bond issuances is anticipated to incorporate green/ESG characteristics and recent sovereign green bonds issuances are helping to pave strength and bring new investors to the market. The discount in yield, or 'greenium', for green bonds compared to non-green bonds is expected to increase as green/ESG bonds become more widely accepted in debt markets and demands increase.

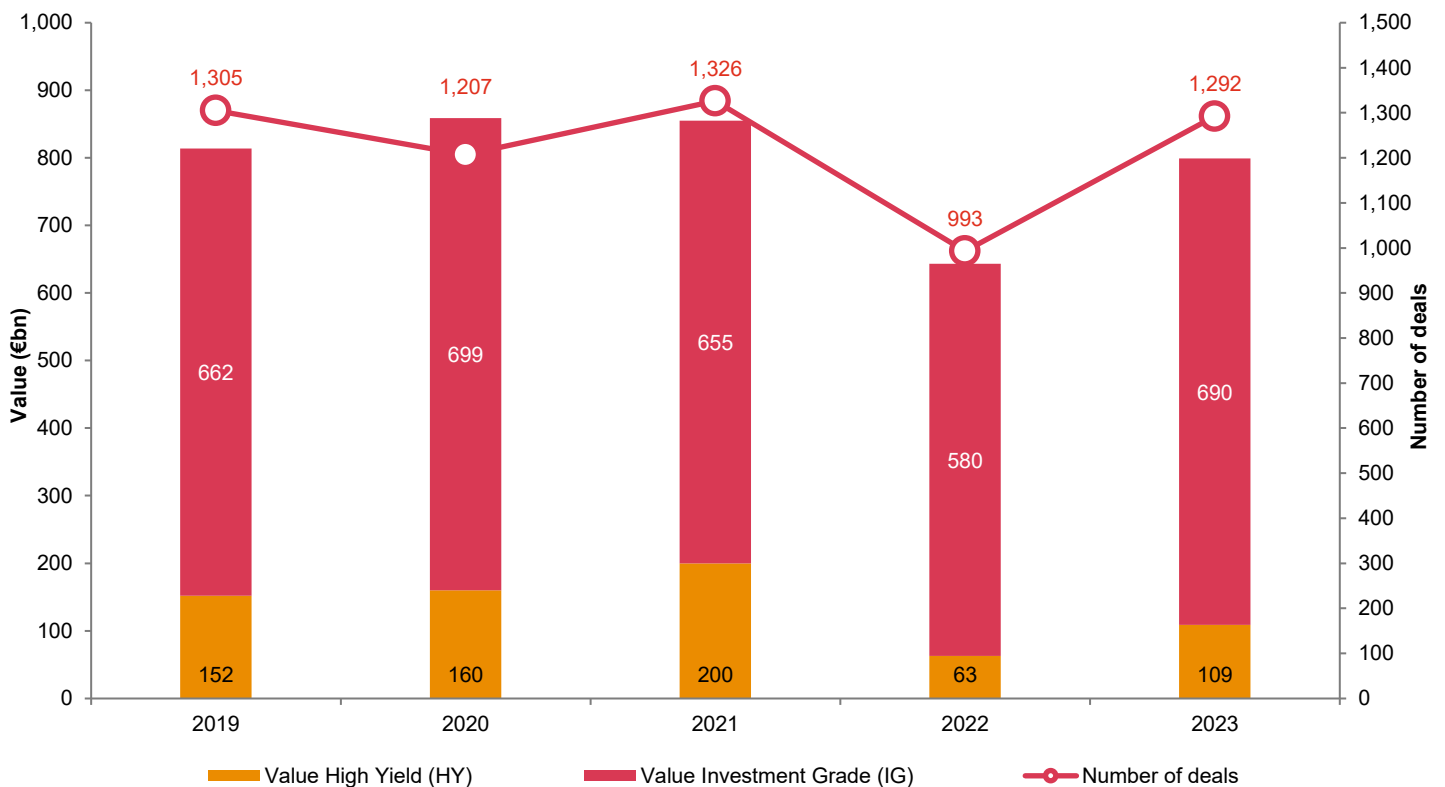
As central banks kept raising interest rates in 2023, the signs of rate cuts were well received by the market. The sentiment is that major central banks have largely succeeded in their fight against inflation and will not need to maintain higher rates into 2024. There is always the risk of an inflation spiral, a wage price spiral or even stagflation, however market participants are confident the risk is, at least, not increasing, as the yields in Q4 2023 decreased.

Corporate Debt Activity

Corporate debt activity by quarter



Corporate debt activity by year



Corporate Debt Activity

Investment Grade & High Yield bonds

2023 had a stronger first half performance than the second half with 58% of total deals completed and 62% of total proceeds raised within the first 6 months. Due to uncertainty in the markets towards the end of 2022, there was pent up demand from issuers which spilled over into the beginning of the year. Coupled with expectations of slower interest rate rises emboldened issuers to go to market in early 2023, resulting in January and February being the best two months of deals in the 21st century. 165 deals in January and 110 deals in February contributed to Q1 2023 generating a 19% increase in deals completed and 16% increase in proceeds raised against Q1 2022. Additionally, Q1 2023 raised c.€121bn and completed 146 more deals in comparison to Q4 2022.

There was a momentary reduction in the market in March from the fallout of the failures of Silicon Valley Bank and Credit Suisse, but the market quickly recovered to close out the best first half of the year since 2021. The fallout of the collapse of Credit Suisse and its subsequent acquisition by the other major Swiss bank UBS highlights this. Credit Suisse saw \$17.5bn of its AT1 (Additional Tier 1) bonds wiped out in March 2023. These bonds, also known as contingent convertible bonds, act as a capital buffer for banks should their capital levels fall below regulatory thresholds, in which they either get converted into equity, or written off in the case of Credit Suisse. Despite fears the AT1 market was gone, UBS itself issued a \$3.5bn AT1 bond in November. There have also been further AT1 issuances from other issuers in the last quarter which suggests the AT1 market recovered more quickly than some commentators may have expected.

The High Yield bond market also recovered after a lacklustre year in 2022. Despite increased interest rates, expectations remained that rates would start to stabilise (albeit at a higher level). Issuers started to come to market again with expectations aligned to this higher pricing. The year saw 251 deals, a significant increase compared to 148 deals in 2022. Proceeds raised were also significantly higher, with c.€109bn raised in 2023 versus c.€63bn in 2022. Of note, the largest High Yield issuance was by GTCR W-2 Merger Sub LLC, who issued a 2-tranche bond on the TISE Channel Islands stock exchange at an average yield-to-maturity of 8.0%, as part of Chicago-based Private Equity firm GTCR's acquisition of payments company Worldpay in September 2023.

The Investment Grade market continued to be the main driving force behind corporate issuances in 2023. As pricing surged, issuers with the strongest balance sheets and credit ratings stood to benefit from increased investor demand. In total there were 1,041 deals amounting to c.€690bn of proceeds compared to 845 deals and proceeds of c.€580bn in 2022. The financial services sector dominated the top 10 issuances, with 6 out of 10 being financial services firms. The largest Investment Grade issuance of the year was of Sumitomo Mitsui Financial Group, back in January 2023 with a 5-tranche, c.€5.4bn bond at a credit rating of A- and average yield-to-maturity of 5.62%.

The year ahead poses a number of questions around what decisions central banks will make around interest rates, will these stay the same or perhaps move lower? Those decisions will in turn have an impact on the debt markets. What is certain is that there is currently more stability around interest rates and that stability is welcome in the bond markets and wider financial markets, after a prolonged period of volatility. There are then reasons to be positive as we look to the opening quarters of 2024.



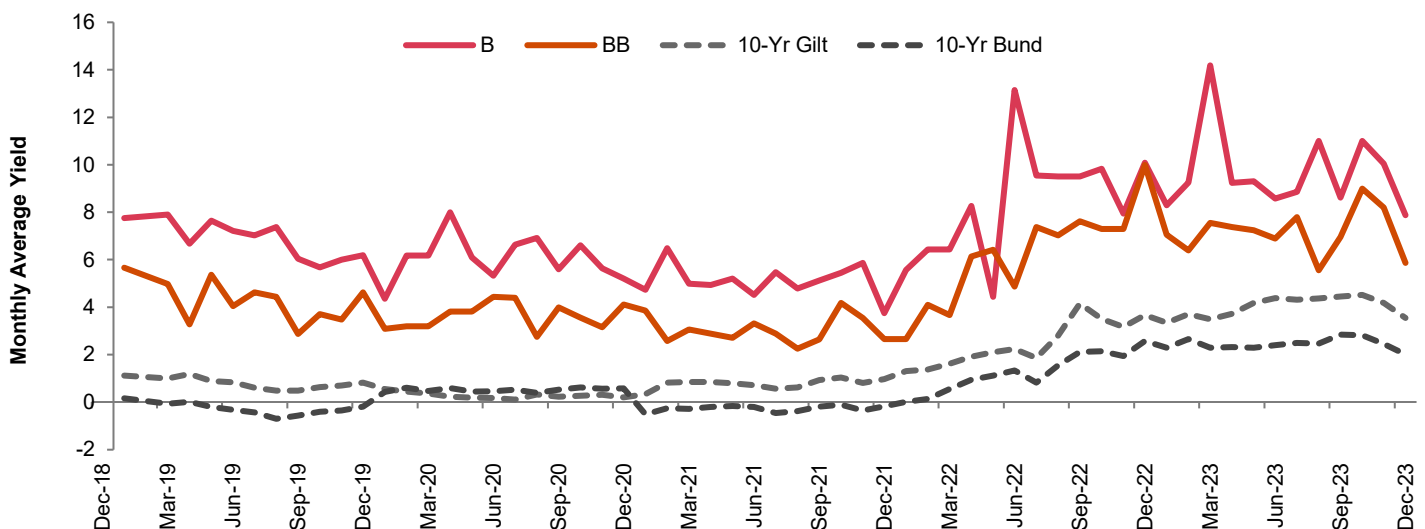
Corporate Debt Activity

Pricing & yield

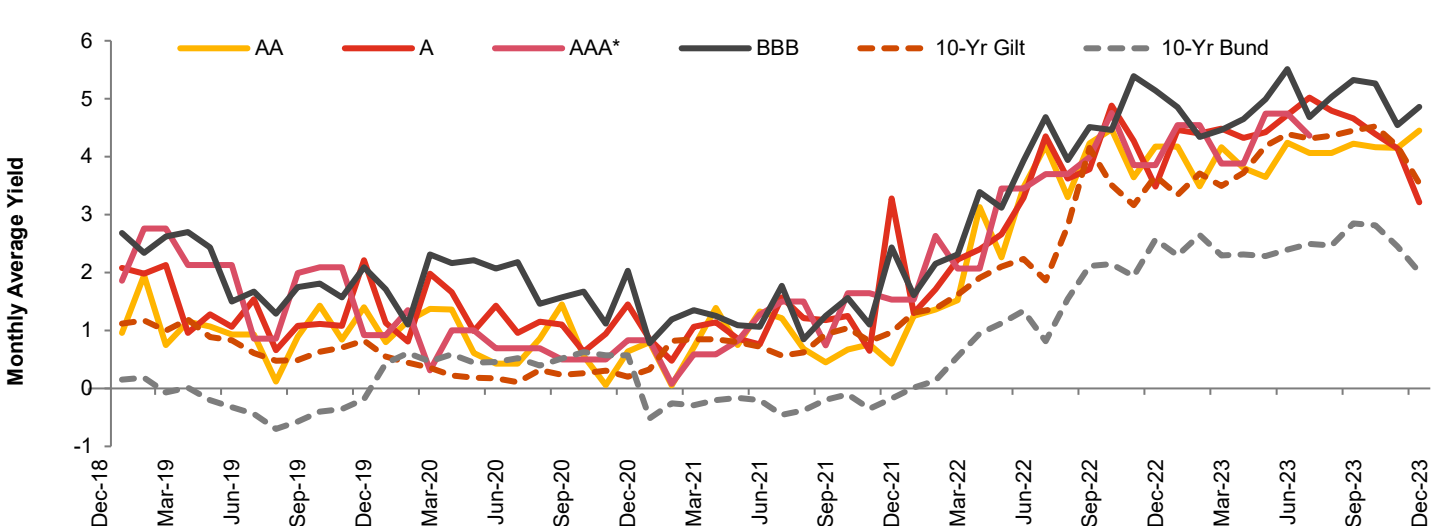
The shift in average yield to maturity has been a significant story in the year. This came as a direct result of major central banks actions to curb inflation and ease the cost-of-living crisis, by raising base interest rates a number of times throughout 2023. The Investment Grade market (bonds with ratings BBB- and above), saw average yield-to-maturity increase from 3.33% in 2022 to 4.79% in 2023, highlighting the increase in pricing faced by even the most stable blue-chip issuers. High Yield bonds, those rated BB+ and below, saw the average yield to maturity increase from 7.0% in 2022 to 8.08% in 2023; and in Q4 2023, B rated bonds had an average-yield-to-maturity of 9.92%, highlighting the near double-digit pricing faced by issuers when raising debt. Despite this significant yield change in the year, issuers accepted higher pricing given investor demand in the first three quarters of 2023 remained high as a result of the then uncertainty in future interest rate movements. That said, pricing has varied considerably during the year and whilst average yield to maturity is a helpful indicator, pricing has also been dictated on a company by company basis. Individual issuer ratings and the specifics of the type of debt being issued have also factored strongly into the final pricing of the bonds.

In the fourth quarter of 2023, the spread between Investment Grade bonds and High Yield bonds in Europe widened. European Investment Grade bonds yielded around 4.71%, while High Yield bonds offered yields of approximately 8.78%. This increase in spread was mainly influenced by the change in direction for the bond market reflecting growing confidence among investors that the Federal Reserve (Fed) is finished with short-term interest rate hikes and may start to cut rates in 2024 other central banks will likely follow. The spread increased as investors favoured Investment Grade bonds due to their lower risk profile amidst geopolitical tensions once again.

Monthly Average Yield HY



Monthly Average Yield IG



"Note: The data for August to December 2023 in this series for rating AAA is impacted due to a lack of market activity during that period. Please consider this when interpreting the overall trends and patterns in the data."

Green/ESG Bonds

Green/ESG bonds

The green/ESG bond market in Europe had its best year on record in 2023, as companies continue to accelerate their decarbonisation plans and look to attract investors with sustainable finance in mind. Overall, 2023 finished with 318 completed deals with proceeds of c.€176bn raised, compared to 288 deals and c.€171bn of proceeds in 2022. The year started strongly after a drop in the second half of 2022, and green/sustainable bond issuances maintained a fairly consistent level of issuances throughout the year, despite the wider turbulence in the overall market.

Featured for the first time in Debt Watch Europe is our top 10 issuances for Green, Social and Sustainability-linked bonds. The table shows that ENGIE SA, the French multinational utilities company had the two largest sustainable issuances in the year, demonstrating the increased focus from energy companies like ENGIE in the sustainable finance space. Their issuances were a c.€2.7bn 3 tranche issuance in January 2023 and later a c.€3.0bn issuance in August 2023. Both issuances attained a credit rating of BBB+ and an average yield to maturity of 4.06% and 4.18% respectively.

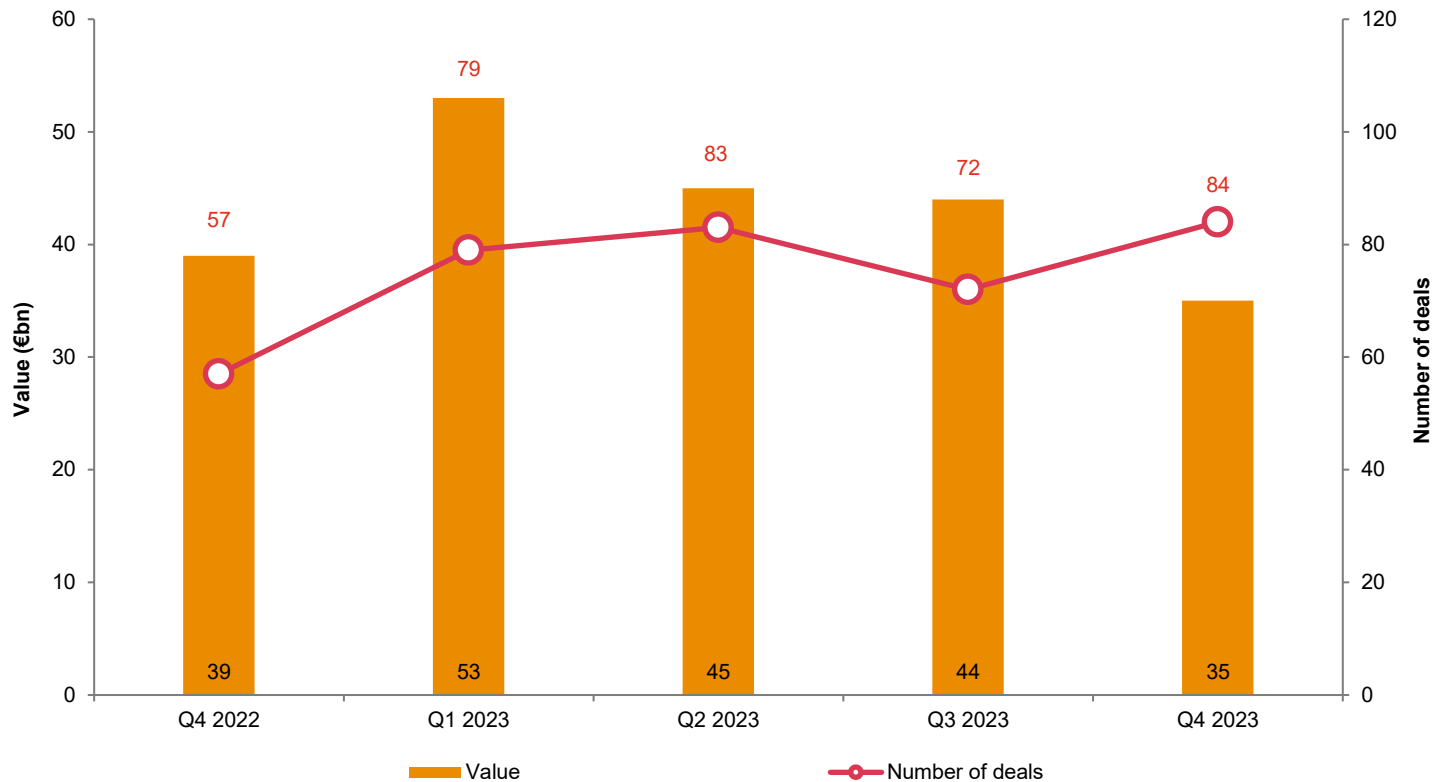
Of note, the average yield-to-maturity for the top 10 green/ESG issuances show a slight premium compared to the top 10 Investment Grade issuances for 2023. This highlights how the “greenium”, a premium of more favourable pricing and yields for sustainable issuances over non-green issuances, is still a feature of the European corporate debt market. In 2023, the top 10 green/ESG issuances had an average yield-to-maturity of 4.39%, compared to 4.75% average yield-to-maturity for the top 10 Investment Grade issuances in the year.

Top ten Green, Social and Sustainability – linked issues 2023

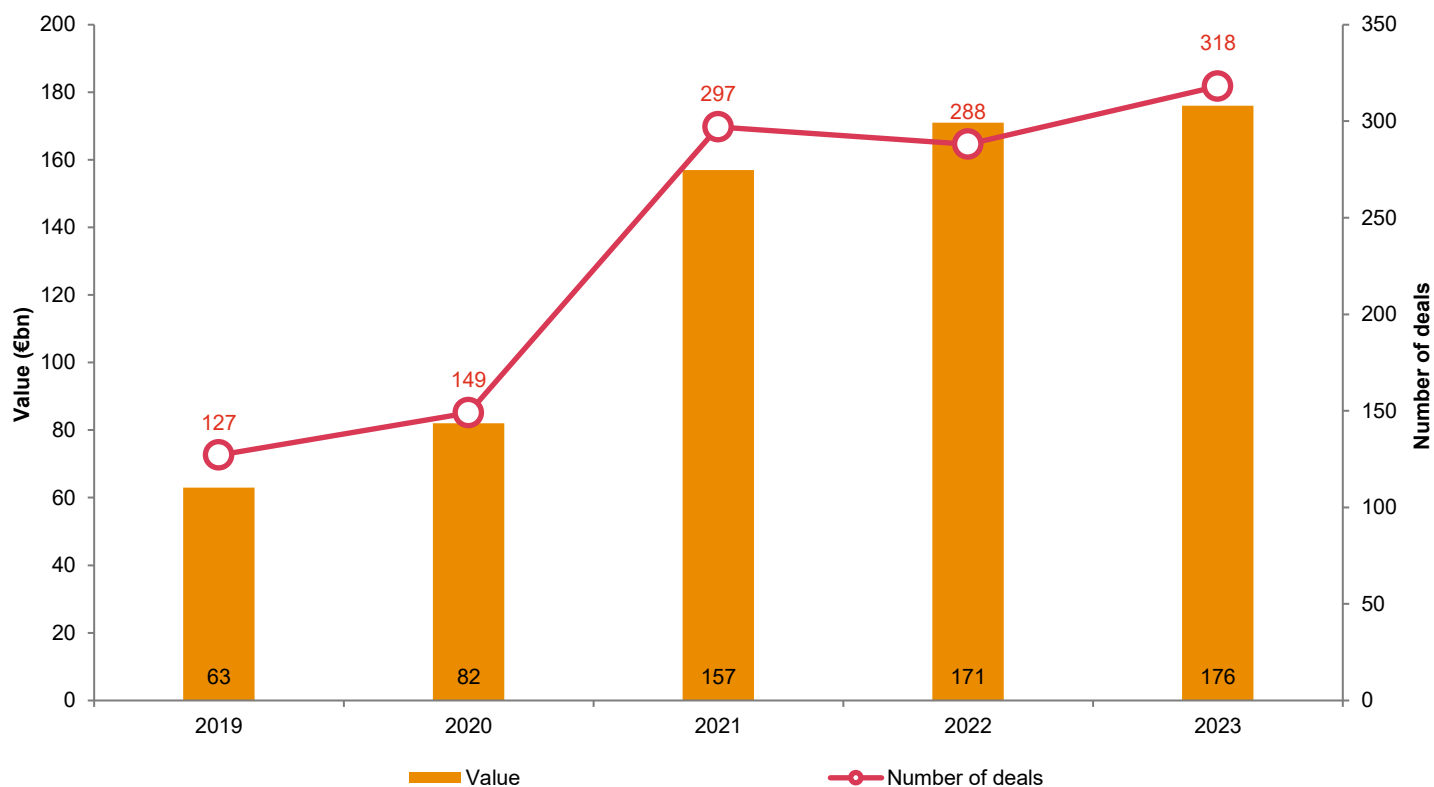
Pricing date	Ten largest Green, Social and Sustainability – linked issues 2023	Value (€m)	Sector	Listing	Credit rating (S&P)	YTM (%)
Aug-23	ENGIE SA	2,979	Utilities	Paris	BBB+	4.18
Jan-23	ENGIE SA	2,724	Utilities	Paris	BBB+	4.06
Sep-23	Societe Generale	2,493	Financials	Paris	A/BBB	4.57
May-23	Intesa Sanpaolo SpA	2,249	Financials	Luxembourg Stock Exchange	BBB	4.46
Nov-23	Societe Generale	2,241	Financials	Paris	A/BBB	4.57
Feb-23	Intesa Sanpaolo SpA	2,239	Financials	Luxembourg Stock Exchange	BBB-	5.41
May-23	Mercedes-Benz International Finance BV	1,995	Consumer Discretionary	Luxembourg Stock Exchange	A	3.66
Sep-23	Volkswagen Leasing GmbH	1,991	Financials	Luxembourg Stock Exchange	BBB+	4.71
Feb-23	Orsted A/S	1,990	Utilities	Luxembourg Stock Exchange	BBB+	3.92
Aug-23	Volkswagen International Finance NV	1,750	Consumer Discretionary	Luxembourg Stock Exchange	BBB-	-

Green/ESG Bonds

Green/ESG bonds activity by quarter*



Green/ESG bonds activity by year*

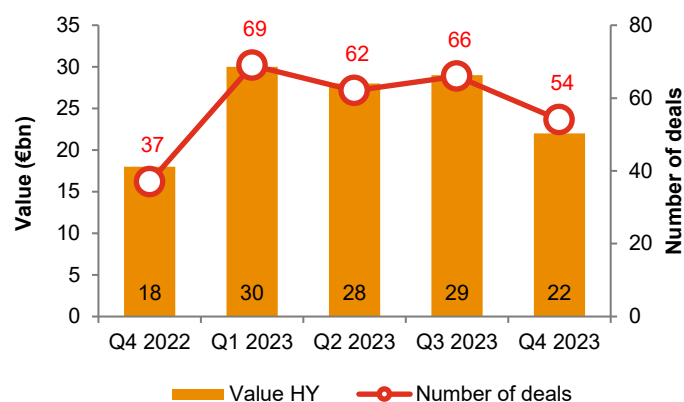


* Green bonds includes Social, Sustainable and Green bonds

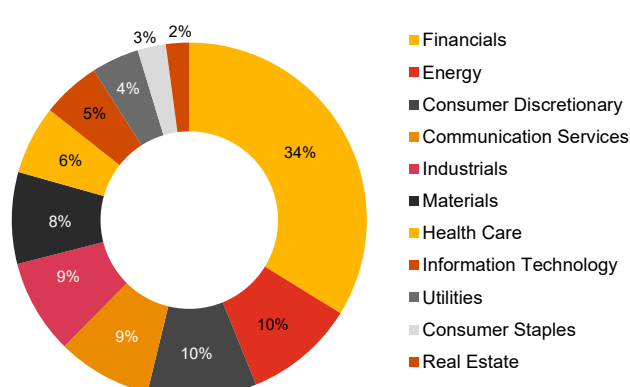
High Yield

(Rated BB+ (inclusive) and below)

HY activity by quarter



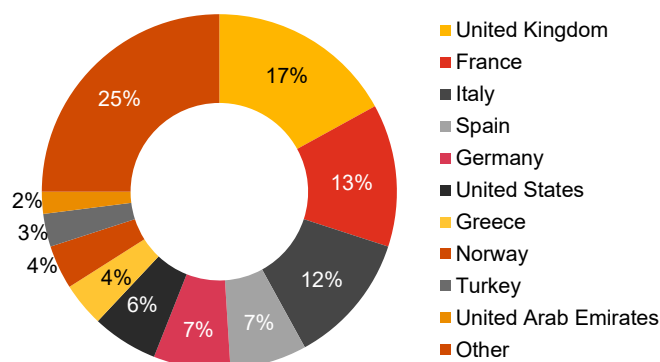
HY by sector 2023



Top ten HY issues 2023

Pricing date	Ten largest HY issues 2023	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Sep-23	GTCR W-2 Merger Sub LLC	2,731	Information Technology	TISE-The International Stock Exchange	United States	BB	8.00
May-23	Olympus Water US Holding Corp	2,206	Materials	TISE-The International Stock Exchange	United States	B-	9.69
Sep-23	Bayer AG	1,739	Health Care	Luxembourg Stock Exchange	Germany	BB+	6.86
Feb-23	Barclays plc	1,698	Financials	London Stock Exchange	United Kingdom	B+	9.25
Nov-23	Barclays plc	1,624	Financials	London Stock Exchange	United Kingdom	BB-	9.63
Nov-23	EG Global Finance plc	1,496	Energy	TISE-The International Stock Exchange	United Kingdom	B-	11.50
Oct-23	Borr IHC Ltd	1,414	Energy	TISE-The International Stock Exchange	United Kingdom	BB-	11.25
Jun-23	Electricite de France SA-EDF	1,402	Utilities	Luxembourg Stock Exchange	France	B+	9.13
May-23	Vodafone Group plc	1,317	Communication Services	London Stock Exchange	United Kingdom	BB+	7.30
Apr-23	Allwyn Entertainment Financing (UK) plc	1,303	Consumer Discretionary	TISE-The International Stock Exchange	Switzerland	BB	7.56

HY by issuer operations nationality 2023



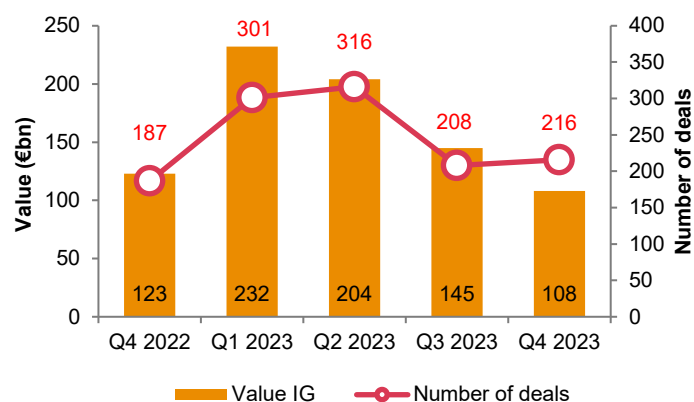
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2023	2023	2022
BB	8.16	7.34	5.96
B	9.92	9.22	7.65
CCC	-	-	-

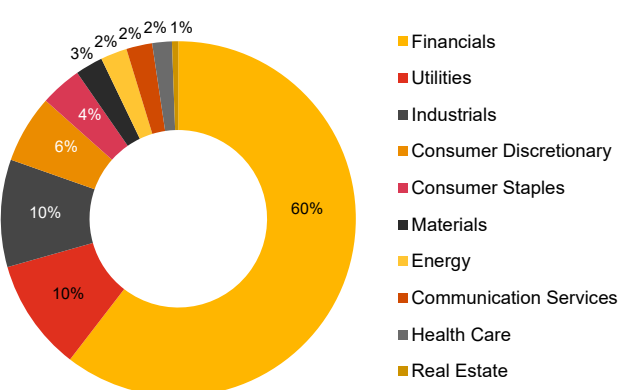
Investment Grade

(Rated BBB- (inclusive) and above)

IG activity by quarter



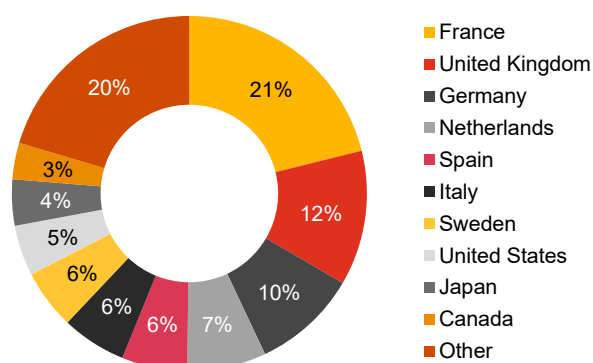
IG by sector 2023



Top ten IG issues 2023

Pricing date	Ten largest IG issues 2023	Value (€m)	Sector	Listing	Nationality of operations	Credit rating (S&P)	YTM (%)
Jan-23	Sumitomo Mitsui Financial Group	5,431	Financials	Luxembourg Stock Exchange	Japan	A-	5.62
Jan-23	Santander	4,988	Financials	Irish Stock Exchange-All Market	Spain	A+	3.93
Feb-23	MUFG	4,656	Financials	Euro MTF Luxembourg Stock Exchange	Japan	A-	5.52
May-23	Robert Bosch GmbH	4,486	Industrials	Luxembourg Stock Exchange	Germany	A	3.94
Aug-23	Kering SA	3,782	Consumer Discretionary	Paris	France	A	3.78
Oct-23	Santander	3,234	Financials	Irish Stock Exchange-All Market	Spain	A-	4.84
Jan-23	Electricite de France SA-EDF	3,045	Utilities	Paris	France	BBB	5.13
Jul-23	Sumitomo Mitsui Financial Group	3,035	Financials	Euro MTF Luxembourg Stock Exchange	Japan	A-	5.83
Sep-23	Sartorius Finance BV	2,986	Financials	Euro MTF Luxembourg Stock Exchange	Germany	BBB	4.57
May-23	Bayer AG	2,985	Health Care	Luxembourg Stock Exchange	Germany	BBB	4.34

IG by issuer operations nationality 2023



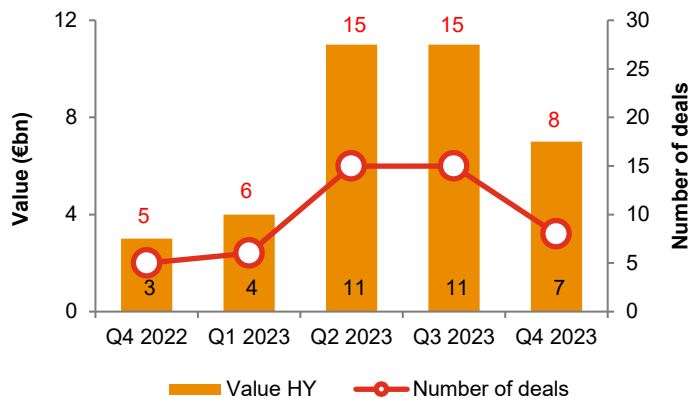
Average yield-to-maturity by issue rating (%)

S&P rating	Q4 2023	2023	2022
AAA	-	4.45	2.92
AA	4.18	4.07	2.72
A	4.20	4.50	3.01
BBB	4.73	4.86	3.48

UK Focus

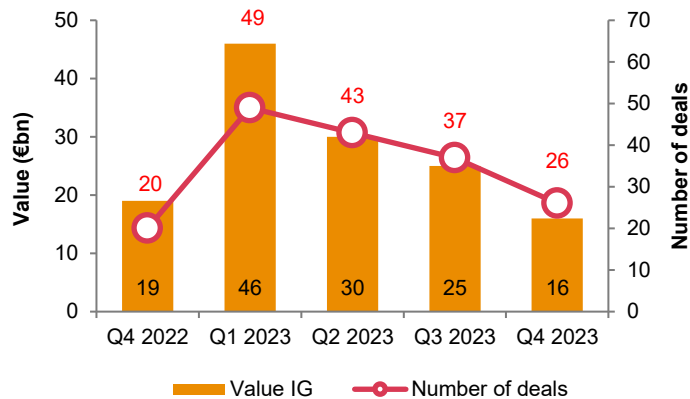
High Yield (rated BB+ (inclusive) and below)

UK HY activity by quarter

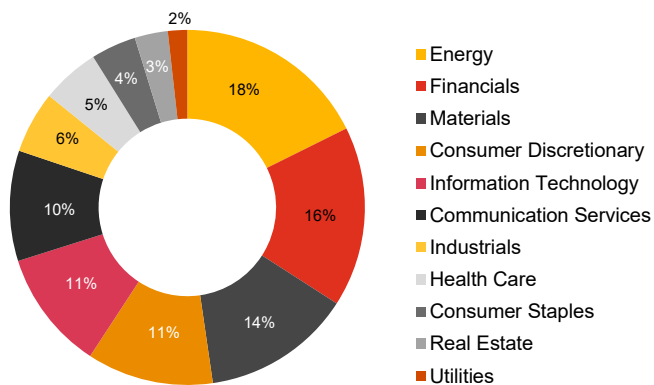


Investment Grade (rated BBB- (inclusive) and above)

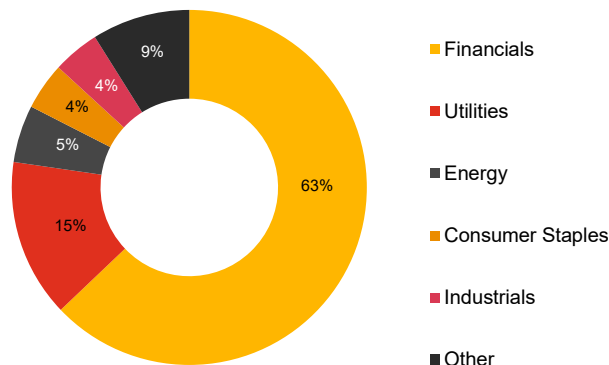
UK IG activity by quarter



UK HY by sector 2023



UK IG by sector 2023



Top five UK HY issues 2023

Pricing date	Top five HY issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Sep-23	GTCR W-2 Merger Sub LLC	2,731	TISE-The International Stock Exchange	BB	8.00
May-23	Olympus Water US Holding Corp	2,206	TISE-The International Stock Exchange	B-	9.69
Feb-23	Barclays plc	1,698	London Stock Exchange	B+	9.25
Nov-23	Barclays plc	1,624	London Stock Exchange	BB-	9.63
Nov-23	EG Global Finance plc	1,496	TISE-The International Stock Exchange	B-	11.50

Top five UK IG issues 2023

Pricing date	Top five IG issues	Value (€m)	Listing	Credit rating (S&P)	YTM (%)
Feb-23	Greensaif Pipelines Bidco SARL	2,796	London Stock Exchange	-	6.32
Mar-23	HSBC Holdings plc	2,750	London Stock Exchange	A-	4.77
Jan-23	Standard Chartered plc	2,361	London Stock Exchange	BBB+	6.24
Jun-23	Standard Chartered plc	2,284	London Stock Exchange	BBB+	6.25
Feb-23	Morgan Stanley	2,000	London Stock Exchange	A-	4.66

About Debt Watch Europe

Debt Watch Europe surveys all main and exchange regulated market bond deal issuance across Europe's debt listing venues based on bond tranches being listed on a European listing venue (excluding Russia and Switzerland).

The survey was conducted between 1 January and 31 December 2023. All market data is sourced from Dealogic and has not been independently verified by PricewaterhouseCoopers LLP.

Data comparability to previous Debt Watch

The 2023 market data in this publication is sourced from Dealogic as at 4 January 2024. Accordingly, there may be differences to Q1 2023, Q2 2023 and Q3 2023 data presented in Q1 2023 Debt Watch, Q2 2023 Debt Watch and Q3 2023 Debt Watch as data was run as at 4 April 2023, 4 July 2023 and 3 October 2023, respectively.

Methodology

The classification of Investment Grade (IG) and High Yield bond (HY) bonds are based solely on the ratings given by S&P – with BBB- and above (inclusive) as IG and BB+ and below (inclusive) as HY.

Yield to maturity is calculated as an average for issues with numerous tranches as of the pricing date.

For any issue with different ratings applied to different tranches, the multiple credit ratings for such issuances are displayed.

The classification of Green/ESG bonds are corporate bonds which have one or more tranches labelled as Social, Sustainable or Green.

Sources: Dealogic, LCD, Capital IQ and PwC analysis.

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