

Credit – 2022 all over again?

Risk-off in credit gets amplified as credit begins to sell off on the back of the escalations in the Middle East. We note many similarities between this and the Russia-Ukraine war breaking out in February 2022. But is the credit reaction really that similar?



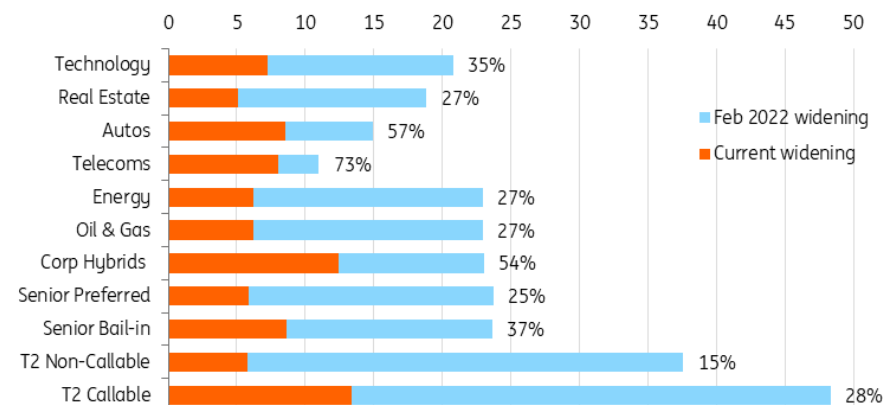
We note many similarities between this and the Russia-Ukraine war breaking out in February 2022. However, this time around the sell-off is so far less severe and is certainly more orderly.

As such, a similar reaction in credit in the coming weeks is likely. But the sector differences thus far are certainly evident. We break down the reaction we saw last time per sector and compare that to the initial reaction we are seeing now.

In addition, as reported by our rates strategist in the latest [Rates Spark Day two and the pendulum swings again](#), the carry trades can suffer in a more volatile environment. "The possibility of ECB rate hikes poses a serious risk to carry trades and could trigger a significant widening of eurozone government bond (EGB) spreads". The same risks are certainly very prevalent in credit, which will drop a notable amount of demand from the market.

Sectors such as Banks, Retail, Travel, Real Estate, Consumers, Energy and Oil & Gas are all outperforming this time around with relatively less widening thus far compared to February 2022. On the other hand, Telecoms, Autos, Healthcare and Consumer goods are seeing relatively significant widening.

Spread widening now (4 trading days) vs February 2022 (12 trading days)



Source: Macrobond, ING

In February 2022, curves went much flatter initially as the short end was under a lot of pressure with about 15-22bp widening, whereas now we are seeing a continuation of long-end underperformance and steeper credit curves.

The table below looks at the total widening seen per sector in the initial 12 trading days of February 2022 when spreads peaked before starting to retrace. Alongside that is the widening we have seen in these initial four trading days and how much widening has been pencilled in per sector versus February 2022 as a percentage.

Spread Developments February 2022 vs Current

	Feb 2022 widening (12 trading days)	Current widening (4 trading days)	% widening complete
Non-Financials	16	7	41%
Corp Hybrids	23	12	54%
Automobiles & Parts	15	9	57%
Consumer Goods	15	8	52%
Consumer Services	26	6	22%
Food & Beverage	16	8	49%
Personal & Household Goods	14	8	57%
Retail	51	7	13%
Travel & Leisure	26	6	22%
Health Care	12	7	55%
Real Estate	19	5	27%
Telecommunications	11	8	73%
Media	14	5	39%
Technology	21	7	35%
Energy	23	6	27%
Utilities	18	5	29%
Oil & Gas	23	6	27%
Basic Resources	39	5	14%
Basic Materials	22	7	30%
Chemicals	18	7	40%
Construction & Materials	24	8	31%
Industrial Goods & Services	13	7	51%
Industrials	14	7	47%
Financials	24	8	33%
Banks Senior	24	8	33%
EUR Banks Senior Preferred	24	6	25%
EUR Banks Senior Bail-in	24	9	37%
EUR Banks Tier 2	43	12	29%
EUR Banks Tier 2 non-callable	38	6	15%
EUR Banks Tier 2 callable	48	13	28%
EUR AT1	152	37	25%
Financial Services	17	7	45%
Insurance Senior	19	10	54%
Insurance Subordinated	43	14	32%

Source: Macrobond, ING

Telecoms (73%), Personal & Household goods (57%), Autos (57%), Healthcare (55%) and Consumer goods (52%) have seen relatively more widening versus February 2022, and thus could enter the value zone for buying opportunities quicker.

On the other hand, Basic Resources (14%), Retail (13%), Travel & Leisure (22%), Real Estate (27%), Consumer services (22%) and Basic Materials (30%) are outperforming currently, and may be areas to position within for the time being.

The energy sector is an interesting one as Energy, Utilities and Oil & gas names are all outperforming versus last time, with just 27-29% of widening relatively.

Financials were overall worse off in February 2022, meaning the more uniform widening seen this time around leaves the percentage of widening at just 33%. Within banks, it's been bail-in senior that's widened more, with 37% of the previous widening pencilled in. Meanwhile, the senior preferred segment has only widened by 25%.

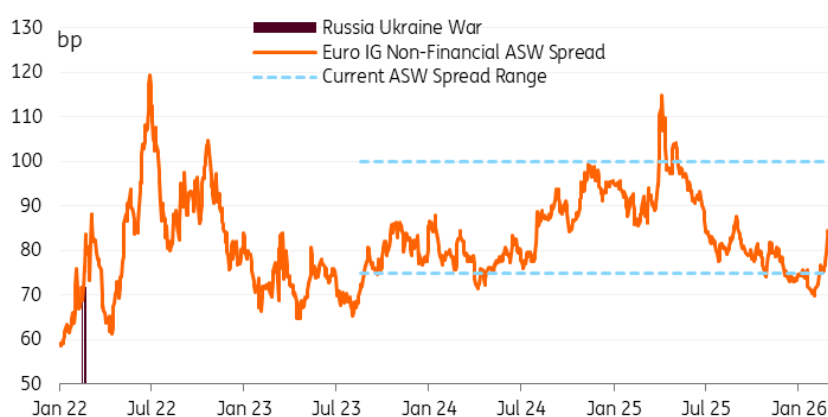
Subordinated bank bonds see a mixed bag, with non-callable T2 bonds outperforming with only 15% widening after just 6bp widening over the past four sessions. Callable, on the other hand, is up at 28%, whilst AT1 has seen 37bp widening thus far. This is only 25% of the widening seen in February 2022, as the product holds firmer. Corporate hybrids, on the other hand, with the 12bp widening thus far accounted for 54% of the widening seen in February 2022.

Back in February 2022, during the beginning of the Russia-Ukraine war, we saw spreads initially move around 9-10bp in the first week and peaked at 16bp wider for non-financials and 24bp wider for financials after 12 trading sessions.

Thus far, this time around (within the first four trading days) we have seen widening of 7-8bp on the non-financial and financials indices. This accounts for 41% of potential widening for non-financials. Given that it's been a somewhat uniform widening, it does leave some potential for more underperformance in certain sectors. Financials were overall worse off in February 2022, meaning the more uniform widening seen this time around leaves the percentage of widening at just 33%.

If we see a similar move over the next couple of weeks that we saw back in February 2022, we are likely to remain in the range we have outlined but now once again on the wider range, at which point credit begins to look attractive.

Spread developments and trading range (non-financial)



Source: Macrobond, ING

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