

Credit cocktail starting to look more attractive based on value and lower rates

The credit cocktail has changed after the European Central Bank announced a 50bp rate hike, thus we conclude credit is now looking more attractive due to lower rates and the value priced in. We take a look at what this means for credit, as well as some TPI considerations



The 50bp rate hike can be considered a positive for credit as the cocktail recipe changes for the second half of this year. Our rates expectations are for yields/rates to fall into 2023 and we forecast the 10yr swap rate - currently at 1.9% after dropping 12bp already - to drop to 1.5%. More stability in yields will put the focus on spreads in the second half of this year. Spreads have priced in a recession and the ECB's front-loaded approach to tightening may mean that credit is a lot better placed in the second half of this year, assuming the economic downturn is manageable. Thus we see value in credit spreads.

What this means for credit:

- Lower yields will result in an extra bid for credit yields
- Total returns will improve

- Spreads have tightening potential
- Credit curves have significant steepening potential - thus we prefer the short-belly of the curve
- Primary market opens up as funding becomes slightly cheaper
- Supply could increase, albeit marginally as there is still little necessity to come to market with significant pre-funding already done.

The credit spread reaction to the news was subtle, with corporate spreads mostly moving 1bp wider, but some higher beta sectors such as Autos, Leisure, Health, Industrials and Real Estate all outperformed with 1bp of tightening. Financials, on the other hand, widened by 2bp.

The new Transmission Protection Instrument is aimed at the public sector and will therefore not provide direct support to the corporate credit market. This does leave credit somewhat more vulnerable as reinvestments from the Corporate Sector Purchase Programme are very low for the second half of this year at just €1bn per month, before increasing to an average of €3bn per month from January 2023 onwards. However, in saying that, the TPI may offer some stability to sovereign debt spreads, which in turn will offer some stability to credit spreads if and when the programme comes online. But for the time being, the lack of detail could add some more volatility to sovereign spreads and as our rates strategists identified in their report [Rates Spark: Wider and flatter](#), the risks remain high and we may certainly see volatility in the periphery. In the case of Italy, the programme may help to stabilise corporates which are more strongly correlated to the sovereign debt, as Italian names have also been underperforming over the past months.

Authors

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.