

Barclays PLC

More cautious, MW \$5.501% Sr Holdco

Rating Change - Credit

Add coverage of \$5.501% '28-27 senior holdco at MW

We add coverage of Barclays \$5.501% '28-27 senior holdco at Marketweight. (MW). Two thirds of Barclays' capital is in a more volatile investment bank, and we see other companies in the sector as more defensive. Barclays' 4Q may be burdened by one-offs restructuring costs, but any strategic benefit may take longer to become visible. Although Barclays is a name that we have liked historically, we are nervous in the run up to its Strategy Update which will accompany its numbers on Feb 20. Recent comments of the CEO have pointed to greater efficiency and the investment bank accounting for a smaller part of the overall business which may not be bad of themselves but are likely to be accompanied by further restructuring expenses and a degree of uncertainty as to the plan's efficacy.

Cautious approach on UK banks

We remain cautious on the UK banks as we go into earnings season. Quarterly numbers from the UK banks last year were patchy (being generous), indicating a more complicated trading environment where the banks have struggled to deliver on market expectations. We are reluctant to call 4Q numbers a turning point for the banks. In [European Snapshot](#), our Equity Strategists in their Screen of the Week identified Lloyds and Barclays as most likely to profit warn in 4Q earnings.

Upcoming headwinds

We are mindful that there is likely to be a 2H election in the UK with potentially two tax-cutting budgets ahead of election day; that the inflation picture in the UK and thus rates are still volatile with UK Gilts having the worst start to the year on record; UK retail sales are falling at the fastest rate since the Covid lockdowns and that UK house prices to November 2022 fell at the fastest rate in 12 years, down 2.1% with London prices down 6%, according to the ONS.

22 January 2024

High Grade Credit
United Kingdom
Banks

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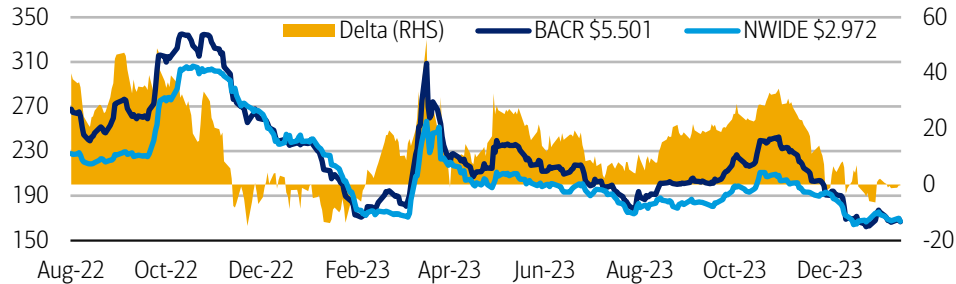
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Charts

Exhibit 1: Barclays looks tight vs Nationwide in \$T3

Z-spread (LHS, bps) and Z-spread differential (RHS, bps)



Source: Bloomberg, BofA Global Research

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Exhibit 2: Lloyds senior holdco CDS spreads

We add a Buy Protection recommendation on the Lloyds senior holdco CDS



Source: Bloomberg, BofA Global Research

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Valuation & risk

Barclays PLC (BACR)

Senior holdco bonds trade wide to European peers. We assess Barclays as a good credit, with a sound creditor-friendly track record, though the non-call of the legacy 4.75% bond somewhat militates against this. Although 2022 was good, the investment bank has struggled in 2023, albeit we don't see volatility in an IB as a ground-breaking insight. Barclays has maintained decent asset quality (some deterioration coming through in the US) within guidance. Although CET1 is currently at 14% we note that the level of T2 is below requirements. In addition, Barclays benefits from comparison to peers such as e.g. Deutsche Bank because its retail business is much more profitable. Post-Brexit, we like Barclays in the context of UK peers because of its greater diversification. However, the current political uncertainty in the UK makes us much more cautious in the short-term on the banks compared to large European peers.

Downside risks for the name stem from deteriorating outlook for the UK economy and currency risks, regulatory changes, litigation/conduct issues and challenging backdrop for investment banks in a cyclically weak year.

Analyst Certification

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Security/Loan pricing

Barclays PLC / BACR

	Amt		Ratings			Yield	Spread
Security		Maturity date	Moody's/S&P/Fitch	Price	Price date	(%)	(Govt+bps)
3.65, Senior, USD, 2025:B	2,000	16-MAR-2025	Baa1/BBB+/A	97.93	19-Jan-2024	5.52	79
4.337, Senior, USD, 2028:B	1,250	10-JAN-2028	Baa1/BBB+/A	96.34	19-Jan-2024	5.37	125
4.95, Senior, USD, 2047:B	1,500	10-JAN-2047	Baa1/BBB+/A	91.43	19-Jan-2024	5.62	109
5.2, , USD, 2026:B	2,050	12-MAY-2026	Baa1/BBB-/BBB+	99.13	19-Jan-2024	5.60	127
8, , USD, Perp/2049:B	2,000	31-DEC-2049	Ba1/BB-/BBB-	99.20	19-Jan-2024	9.47	527
6.125, , USD, Perp/2049:B	1,500	31-DEC-2049	Ba1/BB-/BBB-	93.79	19-Jan-2024	9.03	482
4.375, , USD, Perp/2049:B	1,500	31-DEC-2049	Ba1/BB-/BBB-	75.89	19-Jan-2024	8.42	420
5.501, , USD, 2028:B	1,750	09-AUG-2028	Baa1/BBB+/A	99.71	18-Jan-2024	5.59	146

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Barclays PLC / BACR

Security	Date ^{R1}	Action	Recommendation	Price
3.65, Senior, USD, 2025:B	31-Dec-2022		Marketweight	
4.337, Senior, USD, 2028:B	31-Dec-2022		Marketweight	
4.95, Senior, USD, 2047:B	31-Dec-2022		Marketweight	
5.2, , USD, 2026:B	31-Dec-2022		Marketweight	
8, , USD, Perp/2049:B	31-Dec-2022		Marketweight	
6.125, , USD, Perp/2049:B	31-Dec-2022		Marketweight	
4.375, , USD, Perp/2049:B	31-Dec-2022		Marketweight	

Table reflects credit opinion history as of previous business day's close.^{R1} First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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