

Credit Strategy - Europe

Sterling Excess Returns: 38bp up in December

Credit Analysis

02 January 2024

Credit Strategy
Europe

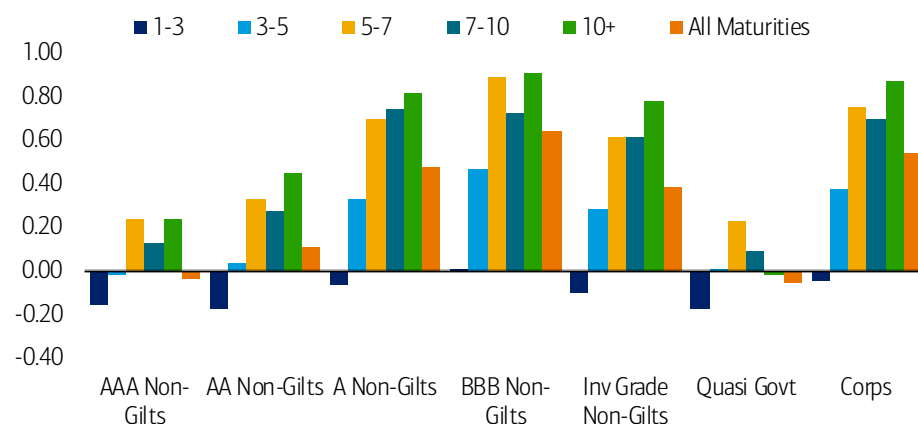
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Sterling excess returns vs. Gilts

Chart 1: UN00 index excess returns in Dec '23

Monthly excess returns of +38bp

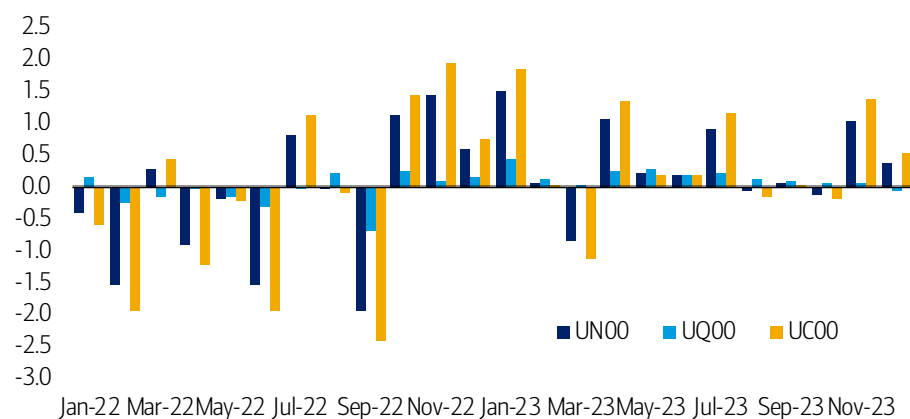


Source: ICE Data Indices, LLC, Excess Return over duration matched Gilts, UN00 index (excess return in %)

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Chart 2: The UN00 corporate index excess returns since 2022 (%)

Monthly excess returns of +38bp in Dec '23



Source: ICE Data Indices, LLC, Excess Return over duration matched Gilts, UN00 index

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Table 1: December 2023 Non-Gilts by sector: excess return vs. Gilts (%)

Excess return per sector – Services and real estate on the top performers

Index Level 3 Breakdown	1-3 yr	3-5	5-7	7-10	10-15	15-25	25+	Total
Services	-0.11	0.52	0.83	1.08	-0.02	0.00	1.59	1.07
Real Estate	0.12	0.90	1.19	1.01	0.88	0.89	1.35	0.92
Technology & Electronics	0.00	0.00	0.77	0.69	0.79	0.92	0.00	0.80
Telecommunications	-0.11	0.49	0.84	0.80	0.73	0.95	1.69	0.78
Utility	-0.08	0.33	0.76	0.72	0.85	1.01	1.86	0.78
Basic Industry	0.04	0.10	0.65	1.38	0.79	1.68	0.00	0.64
Media	0.11	0.05	0.80	0.63	0.68	0.71	0.00	0.62
Healthcare	-0.27	0.30	0.83	0.56	0.78	0.69	0.00	0.62
Financial Services	0.08	0.46	0.89	0.86	0.78	0.55	0.60	0.51
Energy	-0.16	-0.06	0.65	1.02	0.81	0.87	3.06	0.50
Consumer Goods	-0.13	0.28	0.67	0.80	0.83	0.93	0.66	0.45
Insurance	-0.14	0.20	0.55	0.61	1.08	1.14	0.15	0.42
Transportation	-0.02	0.12	0.84	0.19	0.39	0.83	0.95	0.39
Banking	0.01	0.46	0.90	0.79	1.00	0.88	0.94	0.39
Capital Goods	-0.03	0.55	0.93	0.77	0.78	0.89	0.00	0.38
Asset Backed	-0.11	0.43	0.67	0.47	0.03	0.55	0.51	0.36
Automotive	0.05	0.60	1.03	1.81	0.00	0.00	0.00	0.34
Retail	-0.27	0.25	0.72	0.43	0.58	0.39	2.04	0.34
Leisure	0.01	0.57	0.00	1.05	0.00	0.00	0.00	0.31
Commercial Mortgage Backed	0.08	0.11	0.51	0.09	0.03	0.58	1.47	0.26
Local-Authority	-0.11	-0.09	0.00	0.00	0.16	0.17	1.48	0.01
Supranational	-0.15	0.01	0.23	0.11	0.05	-0.10	0.09	-0.03
Government Guaranteed	-0.15	0.02	0.19	0.07	-0.03	-0.16	0.03	-0.05
Covered Bonds	-0.18	-0.43	0.29	0.00	0.00	0.00	0.00	-0.12
Agency	-0.24	-0.05	0.25	0.06	0.40	0.36	0.18	-0.12
Foreign Sovereign	0.00	0.19	1.11	0.17	-1.05	0.00	-2.03	-0.32
Grand Total	-0.09	0.32	0.65	0.63	0.63	0.79	1.10	0.38

Source: ICE Data Indices, LLC, UN00; Table 1 shows the excess return % performance in Sterling Non-Gilts (UN00) by Sector Level 3. It ranks the sectors by their performance relative to Gilts.

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Table 2: December 2023 Non-Gilts by sector: weighted excess return vs. Gilts (bps)

Excess return per sector – Utilities contributed the most in last month's returns by 8bp

Index Level 3 Breakdown	1-3 yr	3-5	5-7	7-10	10-15	15-25	25+	Total
Utility	0	0	1	1	2	2	2	8
Real Estate	0	1	1	1	1	3	1	7
Banking	0	3	2	1	1	0	0	7
Telecommunications	0	0	1	0	0	1	1	3
Financial Services	0	1	0	1	0	0	0	2
Insurance	0	0	0	1	0	1	0	2
Asset Backed	0	0	0	0	0	1	0	2
Services	0	0	0	0	0	0	1	1
Consumer Goods	0	0	0	0	0	0	0	1
Healthcare	0	0	0	0	0	0	0	1
Energy	0	0	0	0	0	0	0	1
Transportation	0	0	0	0	0	0	0	1
Automotive	0	0	0	0	0	0	0	1
Basic Industry	0	0	0	0	0	0	0	1
Commercial Mortgage Backed	0	0	0	0	0	0	0	1
Media	0	0	0	0	0	0	0	1
Retail	0	0	0	0	0	0	0	0
Technology & Electronics	0	0	0	0	0	0	0	0
Capital Goods	0	0	0	0	0	0	0	0
Leisure	0	0	0	0	0	0	0	0
Local-Authority	0	0	0	0	0	0	0	0
Covered Bonds	0	0	0	0	0	0	0	0
Foreign Sovereign	0	0	0	0	0	0	0	0
Supranational	-1	0	0	0	0	0	0	0
Government Guaranteed	-1	0	0	0	0	0	0	0
Agency	-1	0	0	0	0	0	0	-1
Grand Total	-3	6	7	7	6	9	5	38

Source: ICE Data Indices, LLC, UN00; Table 2 takes the excess return performance (Table 1) of each sector and multiplies that by the sector index weight to give a number in basis points.

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Table 3: December 2023 Excess return by ticker – Top & bottom index contributors (bps)

Excess return per issuer

Ticker	1-3 yrs	3-5	5-7	7-10	10-15	15-25	25+	Total
OXUNV							2.81	2.81
BKGLN				2.59				2.59
WELL		1.08			3.31			2.08
IGGLN		1.94						1.94
JERSEY							1.91	1.91
SCTWID						1.88		1.88
WKPLN		1.84						1.84
FSHPHO							1.79	1.79
SUEZFP						1.79		1.79
BHP						1.77		1.77
DLNLN				1.69				1.69
ANCHAN							1.68	1.68
PAGLN	1.64							1.64
HXGHSN						1.64		1.64
RTOLN				1.60				1.60
POPL						-0.45		-0.45
AXASA	-0.60				0.57			-0.47
GNKLN				-1.26	-0.28			-0.49
BOSMAY							-0.61	-0.61
ASSGEN	-0.64							-0.64
MUBAUH	-0.74							-0.74
UKMBAS							-0.80	-0.80
MABLN			-0.86					-0.86
LDNSUT							-1.00	-1.00
WBA	-1.19							-1.19
THAMES	-0.79	-0.67		-1.04	-2.14	-2.04	-2.64	-1.66
HARB						-1.67		-1.67
QLTLN		-1.68						-1.68
MEX							-2.03	-2.03
CSNLN				-2.26				-2.26

Source: ICE Data Indices, LLC, UN00

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Table 4: Sterling non-gilts – excess returns

Excess return rating/maturity bucket in Dec' 2023 – BBBs and back-ends outperform

	£ Non-Gilts (UN00)				Inv Grade	UQ00 Quasi Govt	UC00 Corps
	AAA	AA	A	BBB			
1-3 years	-0.16	-0.18	-0.07	0.01	-0.10	-0.17	-0.05
3-5	-0.02	0.04	0.33	0.47	0.29	0.01	0.38
5-7	0.24	0.33	0.70	0.89	0.62	0.23	0.75
7-10	0.13	0.27	0.74	0.72	0.62	0.09	0.70
10+	0.24	0.45	0.82	0.91	0.78	-0.02	0.88
All Maturities	-0.03	0.11	0.48	0.64	0.38	-0.06	0.54

Source: ICE Data Indices, LLC

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Table 5: Sterling index codes (selection)

Index codes for above table

	£ Non-Gilts (UN00)				Inv Grade	UQ00 Quasi Govt	UC00 Corps
	AAA	AA	A	BBB			
1-3	UN11	UN21	UN31	UN41	UN01	UQ01	UC01
3-5	UN12	UN22	UN32	UN42	UN02	UQ02	UC02
5-7	UN13	UN23	UN33	UN43	UN03	UQ03	UC03
7-10	UN14	UN24	UN34	UN44	UN04	UQ04	UC04
10+	UN19	UN29	UN39	UN49	UN09	UQ09	UC09
All Maturities	UN10	UN20	UN30	UN40	UN00	UQ00	UC00

Source: ICE Data Indices, LLC

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