

SSA Focus: Value to be found in IDB

By Warren Lovely

SSA bond investors will have more than passing familiarity with the Inter-American Development Bank (IDB). For many years, this Tier 1 name has regularly supplied debt capital capitals with top-rated and liquid bond issues in a variety of core currencies and formats. Whether the focus is poverty reduction, climate action and/or sustainable development, IDB's mission is as vital today as ever. The recently completed 2024 Annual Meetings approved new strategies that aim to bolster the impact and scale of the organization's work across Latin America and the Caribbean. The aim is to boost financing capacity for the entire IDB Group, which includes IDB [Ticker: IADB], IDB Invest [Ticker: IDBINV] and IDB Lab.

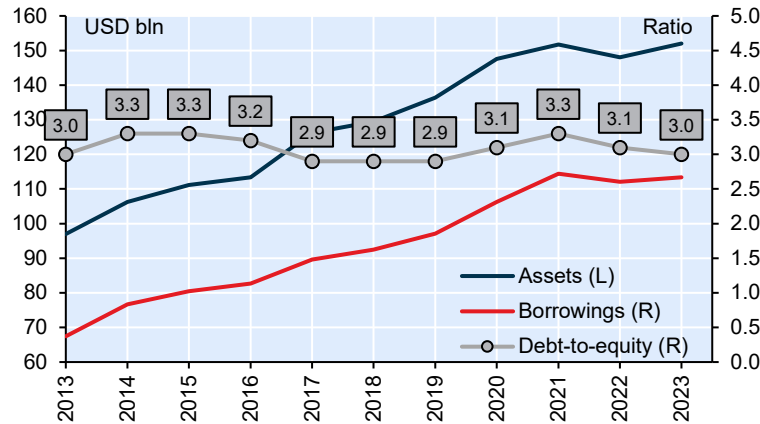
For IDB, this year's global funding program amounts to USD19.5 billion. The borrowing strategy remains focused on regular issues of large fixed-rate benchmark securities, alongside an active floating-rate

note program and selective MTNs to maximize investor reach. The US dollar market remains foundational, an early year USD4 billion 5-year trade attracting a record book and boasting unprecedented investor breadth. Non-USD deals have likewise drawn expanded interest. We tend to look favourably on IDB's post-deal performance record.

Amidst a still-volatile financial markets backdrop—replete with policy rate uncertainty and economic/fiscal/geopolitical risk—IDB remains a pillar of institutional and credit rating strength. Clearly, there's plenty of yield on offer these days. From a relative valuation perspective, there's no question IDB spreads have firmed, carried along by heretofore robust investor sentiment. We nonetheless see value in the IDB name. From an historical perspective, the RV set-up vs. certain Tier 2 SSAs appears compelling, the generalized narrowing in the Tier 1-Tier 2 basis looking somewhat extreme in certain sectors.

Chart 1: Balance sheet growth yet controlled leveraged

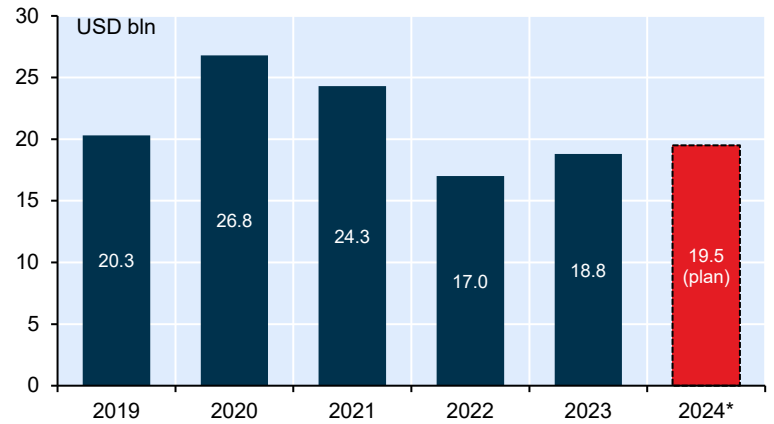
Select elements of IDB balance sheet



Source: NBF, IDB | Note: As at 31-Dec of each year

Chart 2: Nearly USD20bln of planned funding (all ccy) for 2024

IDB funding volume, incl. official target for 2024

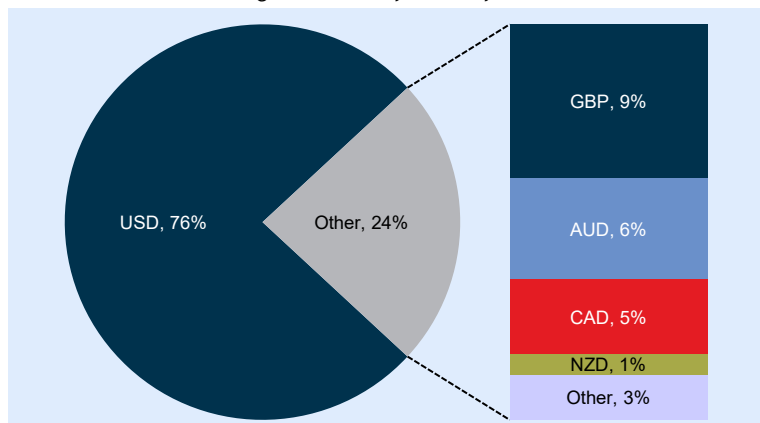


Source: NBF, IDB | Note: All newly issued debt to be transformed into USD liabilities

IDB's long-standing commitment to the development of Latin America and the Caribbean has been reflected in a steadily growing loan book, which in turn has keyed incremental borrowing. At USD19.5 billion, planned funding for 2024 is modestly higher than 2022-23, albeit shy of COVID-related peaks. Notwithstanding growth in the balance sheet, relative leverage remains contained while capitalization (incl. a stable shareholder base), liquidity and governance remain noted credit strengths.

Chart 3: IDB active across collection of 'strategic' markets

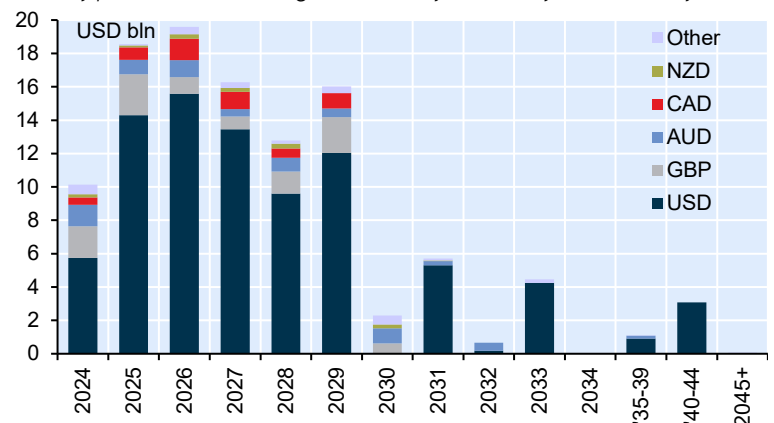
Distribution of outstanding IDB bonds by currency of issue



Source: NBF, BBG | Note: As at 11-Apr

Chart 4: Regular issuance leaves well developed curve(s)

Maturity profile of outstanding IDB bonds by calendar year & currency

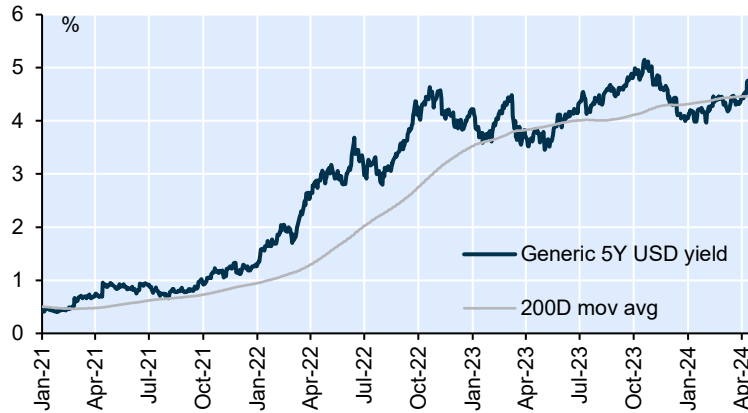


Source: NBF, BBG | Note: As at 11-Apr

While understandably focused on cost effectiveness, IDB's funding strategy prioritizes the establishment of regular global benchmarks in a variety of strategic markets. On average, IDB prints in ~10 currencies per year (developed and emerging). Supplementing the core USD market, GBP, AUD and CAD comprise the next largest borrowing currencies. In addition to regular fixed-rate offerings, IDB maintains an active USD floating-rate note program, the SOFR-linked curve currently out to 2031.

Chart 5: Assessing value in today's loftier yield environment...

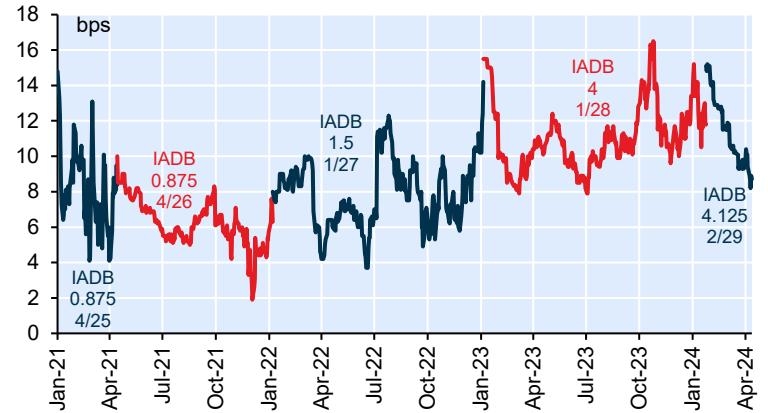
IDB 5Y USD generic benchmark bond yield



Source: NBF, BBG | Note: Based on NBF generic 5Y index

Chart 6: ... with spreads having compressed to Treasury curve

IDB 5Y USD benchmark bond spread vs. US Treasury

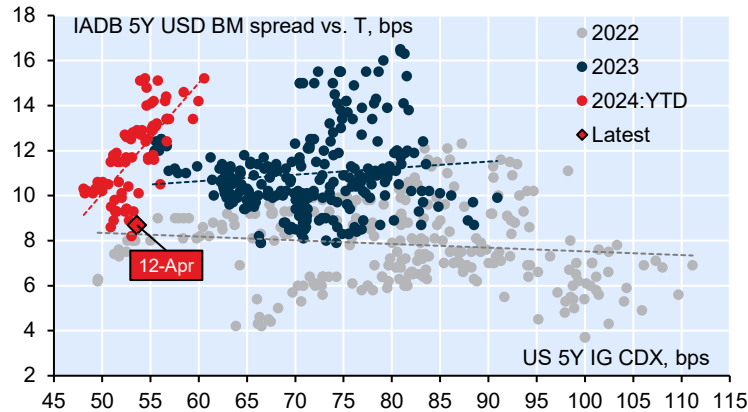


Source: NBF, BBG | Note: Specific 5Y USD issues vs. pricing security, rolling at new issue

A back-up in US rates—partly a function of a policy rate re-think—has left IDB's 5-year USD paper trading in/around 4.5%. IDB consistently trades at a positive spread to underlying Treasuries, 5-year USD G-spreads most commonly ranging from +6 to +12 bps. IDB's latest 5-year USD benchmark (issued in January) came at T+15 bps but is today quoted closer to +9 bps. IDB benchmark offerings are typically oversubscribed (1.6X on average or more like 2.5X last time out), supporting initial performance.

Chart 7: A broader, yet imperfect RV perspective over time

Relationship between IDB USD benchmark spread & US IG CDX

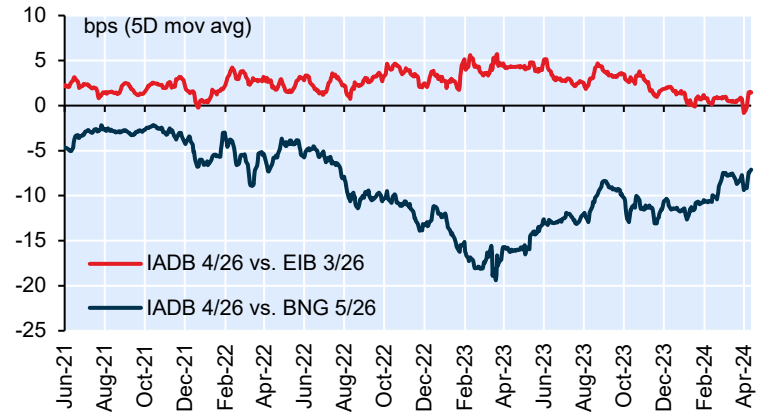


Source: NBF, BBG

Tight(er) spreads jibe with the firm tone to risk assets across much of the globe. While the link between top-tier, gold-plated SSAs (like IDB) and bellwether corporate indices is imperfect, re-pricings within the SSA universe are actively monitored and regularly transacted on. Today, you will find somewhat limited differentiation within the Tier 1 SSA sub-set (e.g. IDB vs. EIB). Perhaps more striking is the material compression in the Tier 1-Tier 2 basis, the former looking relatively 'cheap' and the latter 'rich'.

Chart 8: Attractively priced vs. select SSAs, notably T2 names

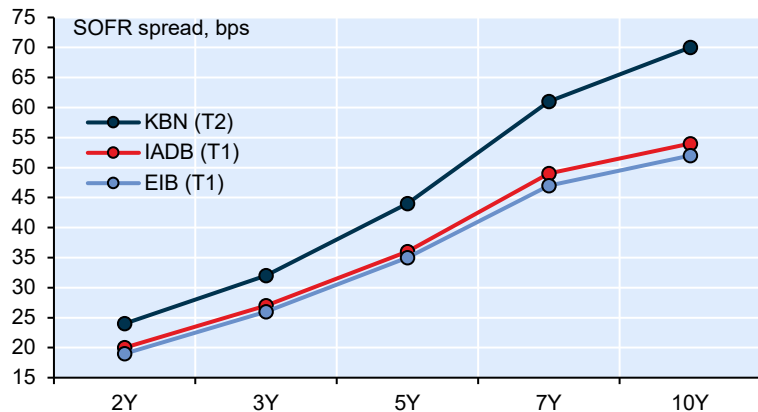
IDB USD basis spread to BNG (T2) & EIB (T1): 2026s



Source: NBF, BBG | Note: Representative relationship(s) for single maturity/sector

Chart 9: Targeted snapshot of T1-T2 spread compression

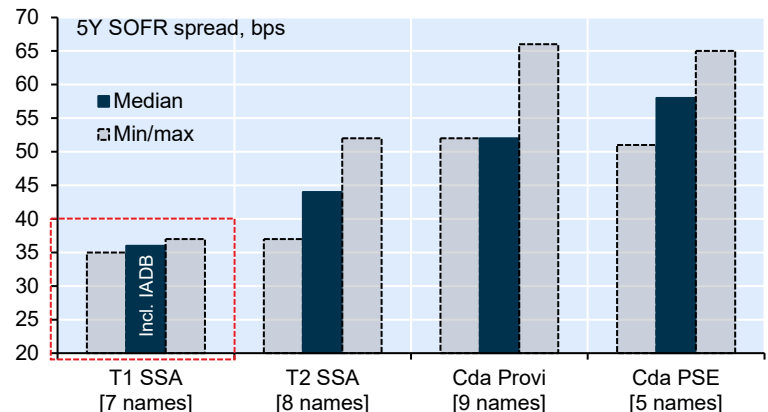
Indicative USD new issue spreads: Select SSA names



Source: NBF | Note: NBF constant maturity indications as at 10-Apr; subject to change

Chart 10: Putting current T1 SSA spreads in wider context

Indicative USD new issue spreads: T1 SSAs (incl. IAD) vs. other issuer groups

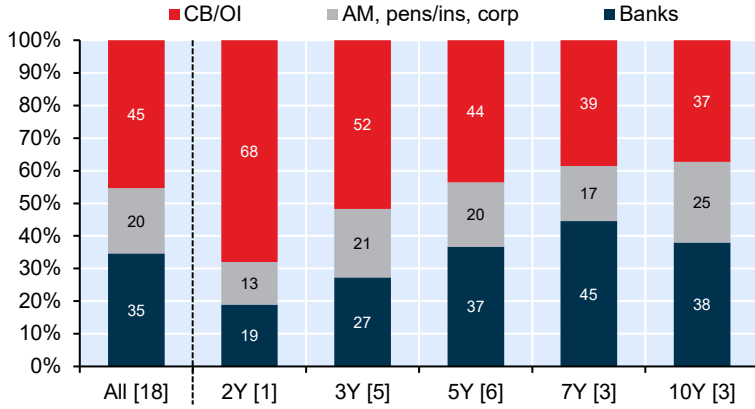


Source: NBF | Note: NBF constant maturity indications as at 10-Apr; subject to change

Consider the RV set-up between Tier 1 IDB and Tier 2 names like KBN or BNG. In secondary, this basis has recently traded as tight as 3 bps in the 2027 sector (i.e., 3Y). On a new issue basis, we might indicatively shade these relationships a snick wider, but the point remains: Investors currently sacrifice less to stay in (or add to IDB) vis-à-vis key T2 SSAs. Note that Canadian provinces and PSEs offer greater spread enhancement, although that can involve giving on rating or relative liquidity (if not both).

Chart 11a: Representative participation by investor type...

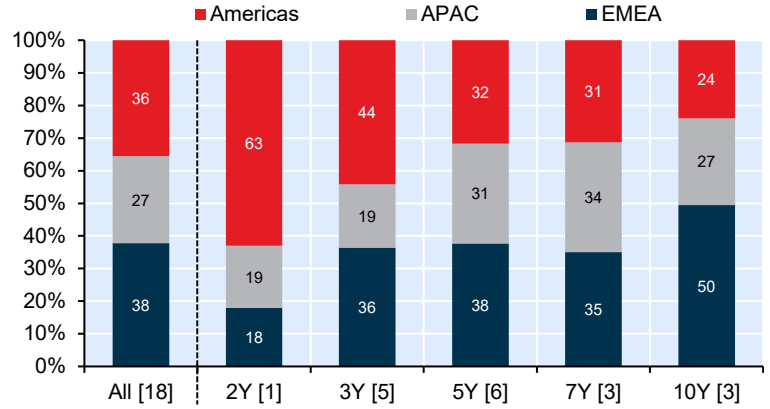
Average distribution of IDB USD fixed-rate bonds by tenor & investor type



Source: NBF, IDB | Note: Based on 18 USD benchmark bond offerings since pandemic

Chart 11b: ... and investor geography

Average distribution of IDB USD fixed-rate bonds by tenor & geography



Source: NBF, IDB | Note: Based on 18 USD benchmark bond offerings since pandemic

Chart 12a: A closer look at IDB bond deal sequencing, alongside the type of investors playing in USD & CAD markets

Deal-specific distribution of select IDB fixed-rate bond issues by investor type: USD & CAD markets

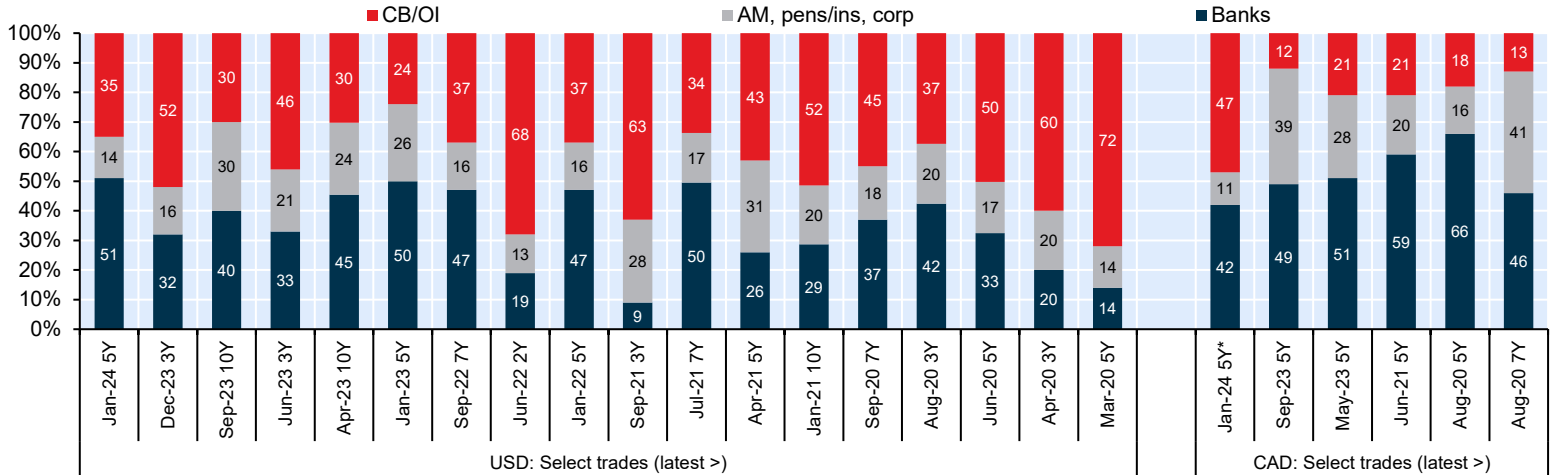
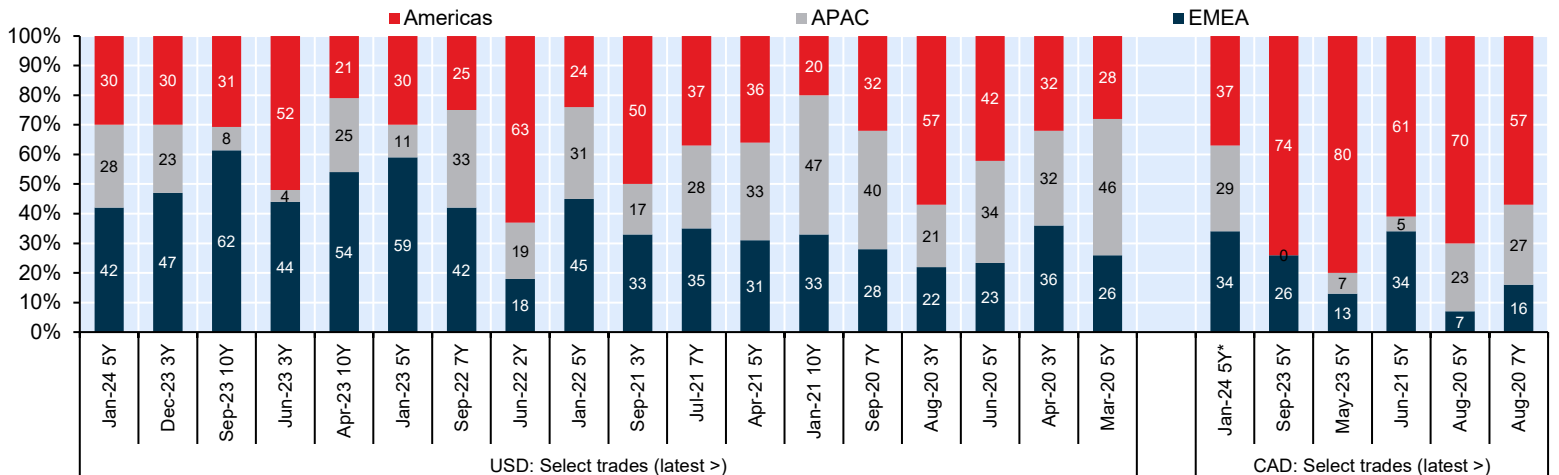


Chart 12b: The corresponding picture of IDB bond investor geography across individual trades/markets

Deal-specific distribution of select IDB fixed-rate bond issues by investor geography: USD & CAD markets



Source: NBF, IDB | Note: USD distribution stats based on 18 benchmark bond offerings; CAD distribution stats based on 6 benchmark bond offerings, with Jan-24 a 5Y re-opening

A large/regular issuer, IDB generally taps the USD three or more times a year. Having last come in January, the next dollar benchmark may not be too far off. Of note, January's USD4 billion 5-year trade succeeded in attracting a record book (>USD10 billion!) and more investors than ever. The breadth and diversification of the IDB investor base (demonstrated time and again, in both investor type and geography) enhances liquidity in the name. Elsewhere, IDB re-opened an existing 5-year CAD Maple bond in January. As noted, Canada is a strategic market for this issuer. We would note that Canadian provinces face enlarged borrowing needs in fiscal 2024-25. An expectation of large-scale international issuance by the provinces (where proceeds would be swapped back to CAD) could create opportunity for IDB and/or other prospective Maple bond issuers to go the other way, all else equal. So whether in dollars or certain other currencies, the IDB name remains one to watch.



Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King, CFA

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

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