

Schroders



Schroders Credit Lens

Perspective of EUR insurance company investor

Strategic Research Unit

July 2023

Marketing material for professional investors or advisers only.

Important information

- **These do not represent the investment views of Schroders' credit teams**
- Marketing material for professional investors and advisors only
- Past performance is not a guide to future performance and may not be repeated
- Yields and returns are shown hedged to EUR unless stated otherwise
- All credit spreads are option-adjusted spreads (OAS) unless stated otherwise
- Spreads are quoted in basis points (bps) where 100 basis points = 1%
- Full list on indices on page 67

Index

[Summary](#) (slides 4-11)

[Cross-credit analysis](#) (slides 12-26)

[IG long vs short](#) (slides 27-30)

[Corporate credit: valuation](#) (slides 31-33)

[Corporate credit: fundamentals](#) (slides 34-52)

[Corporate credit: technicals](#) (slides 53-67)

Summary

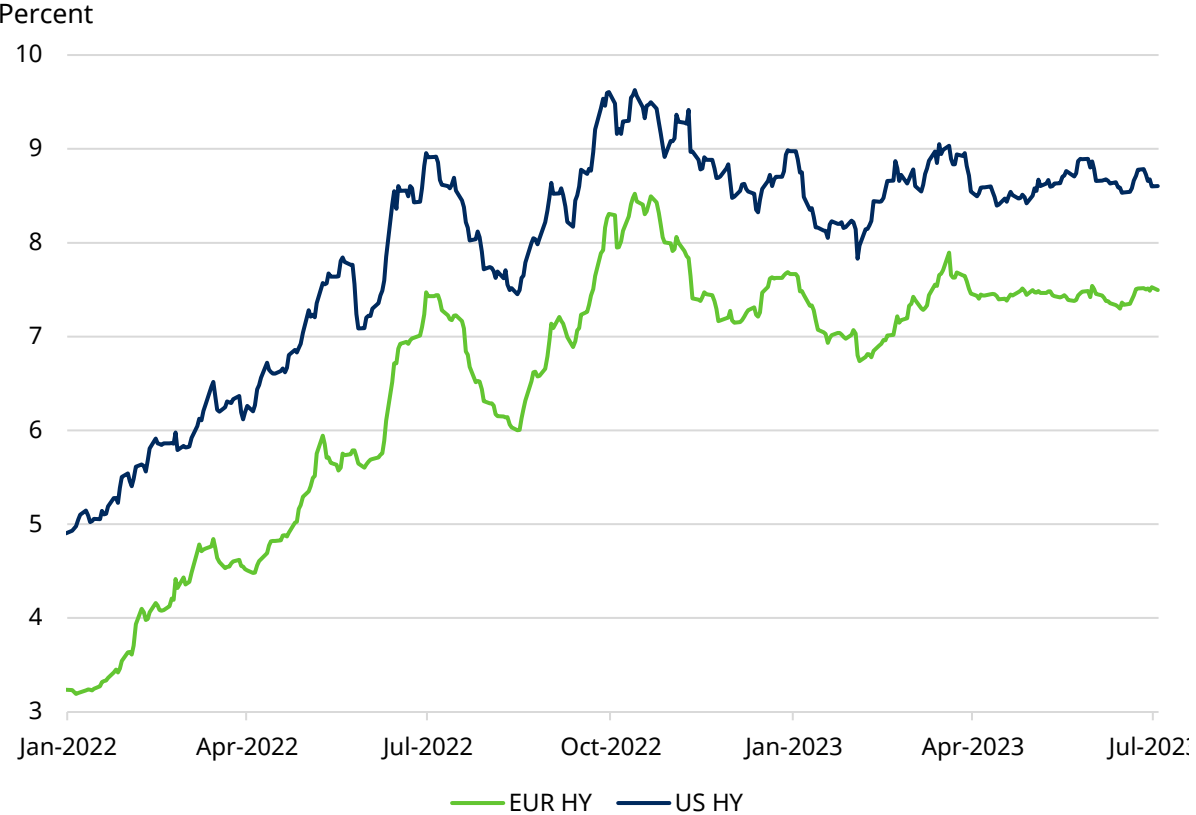
- **Risk free rates continued to edge higher on the month, but corporate bond yields in many markets remained within recent ranges. The exception is in the GBP investment-grade market where yields moved closer to their Autumn 2022 peak levels**
- Spreads were flat or slightly down in June, with USD high-yield around year-to-date lows. Spreads have been unusually stable in the face of the sharp tightening in Bank lending conditions this year. Historically spreads have widened a lot in such situations
- Credit curves continue to be very flat, with longer maturity bonds offering little or no yield pick-up over shorter maturity bonds
- Overall corporate fundamentals remained strong in Q1, but higher interest rates are starting to have an impact. Interest coverage ratios, whilst still elevated, have started to fall, reflecting a significant increase in interest expense
- Earnings growth and corporate margins are lower than the peak levels seen in recent years. Leverage continues to be lower than the pandemic era peaks, although the high-yield market saw a marginal uptick in Q1
- Default rates in US high-yield are rising. And more elevated distress ratios indicate that defaults could continue to increase
- US high-yield issuance has picked up from very low levels, with the secured proportion being unusually high

Sterling IG yields are not far off Autumn 2022 levels, while other markets remain within recent ranges

IG yield



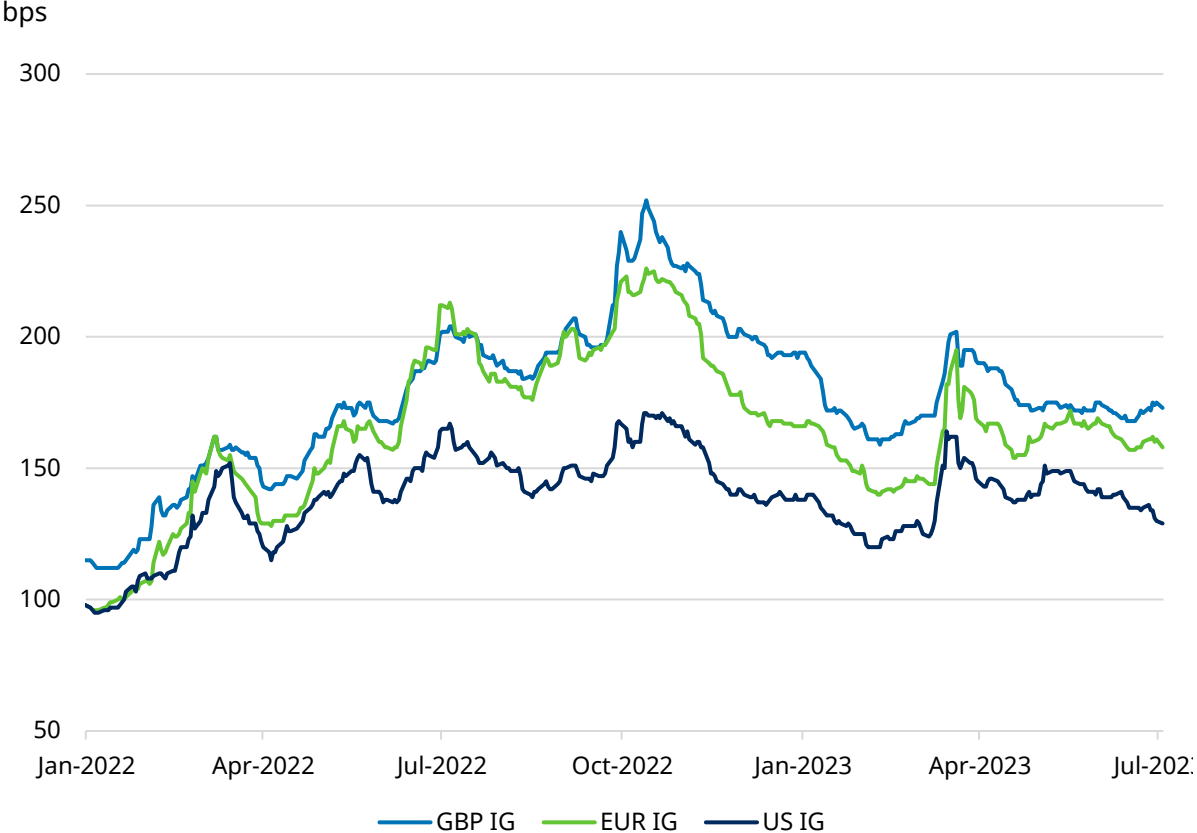
HY yield



Source: Refinitiv Datastream. Data as at 3 July 2023. Please see relevant disclaimers on page 69. Charts show local currency yields.

Spreads were flat or slightly down on the month, with USD high-yield close to their 2023 low

IG Spread



HY Spread

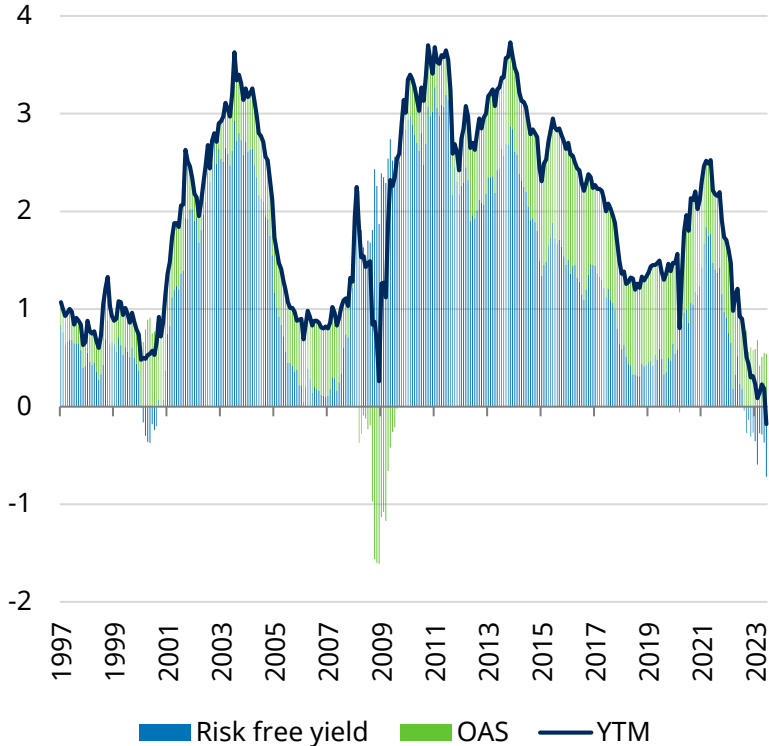


Source: Refinitiv Datastream. Data as at 3 July 2023. Please see relevant disclaimers on page 69.

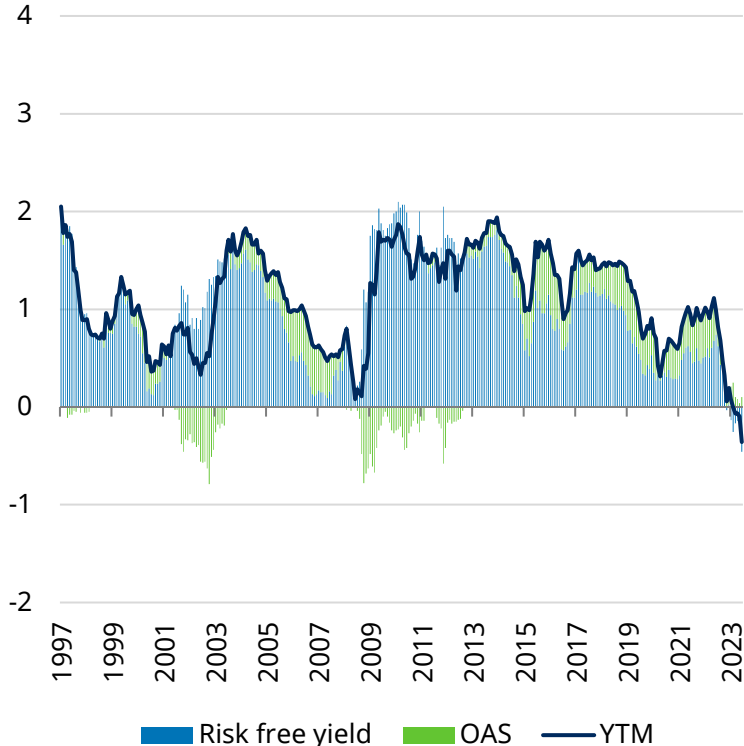
Credit curves continue to be very flat

Longer maturity bonds offering little or no yield pick-up over shorter maturity bonds

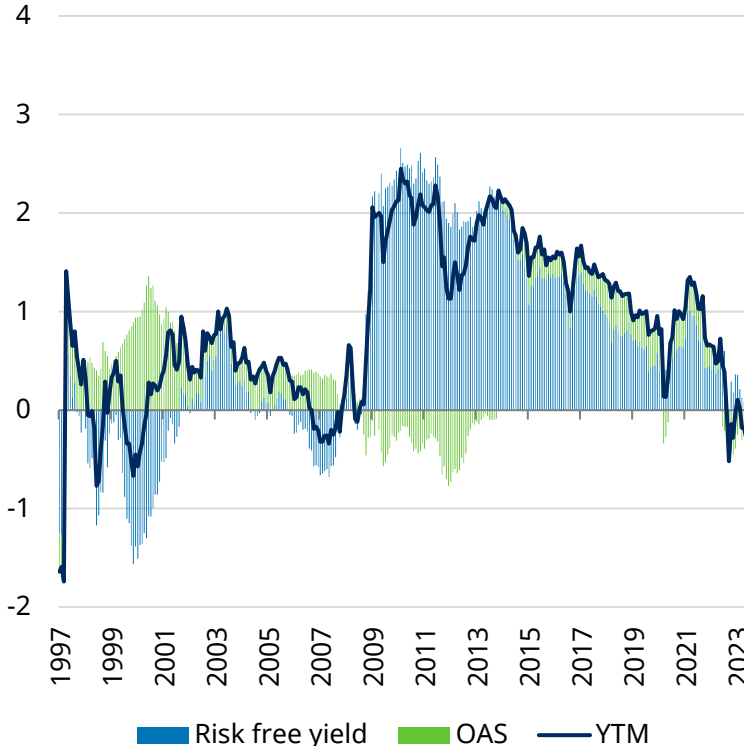
IG USD 15+ minus 1-5 year index yield (%)



IG EUR 10+ minus 1-5 year index yield (%)



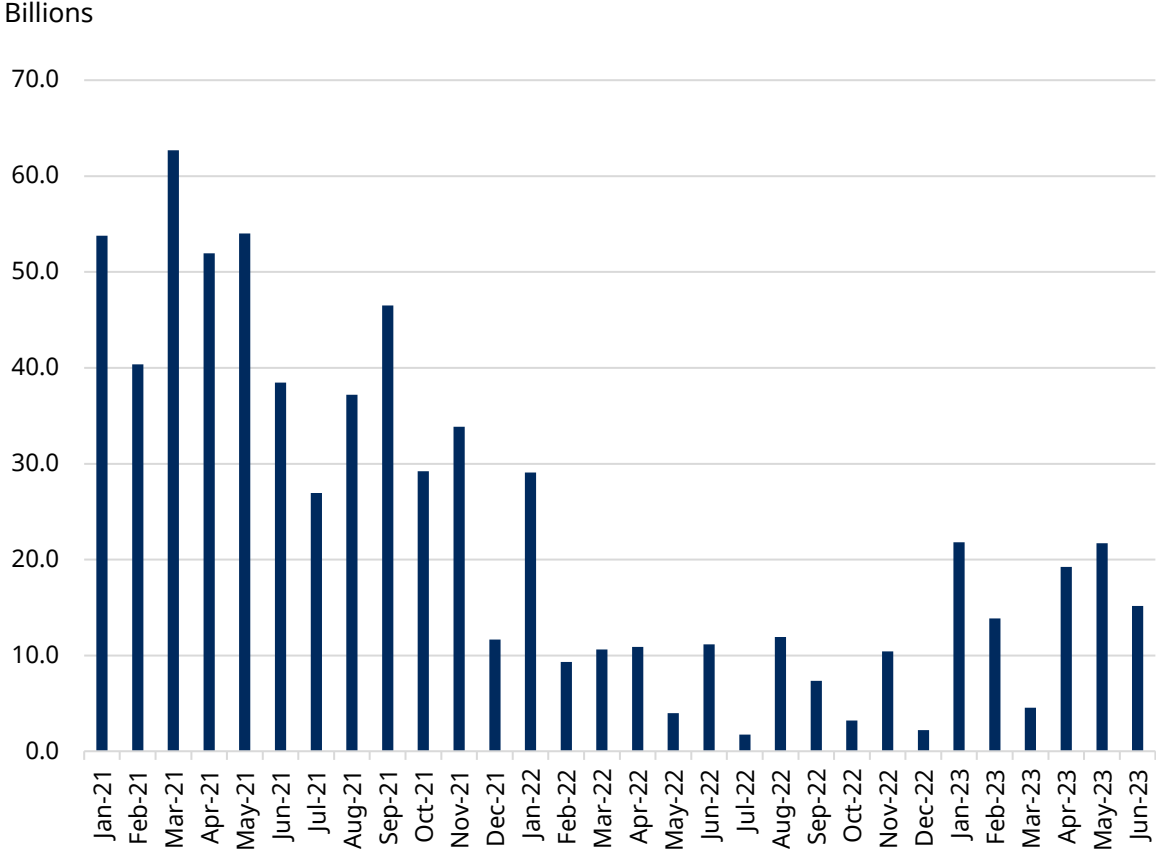
IG GBP corporate 10+ minus 1-5 year index yield (%)



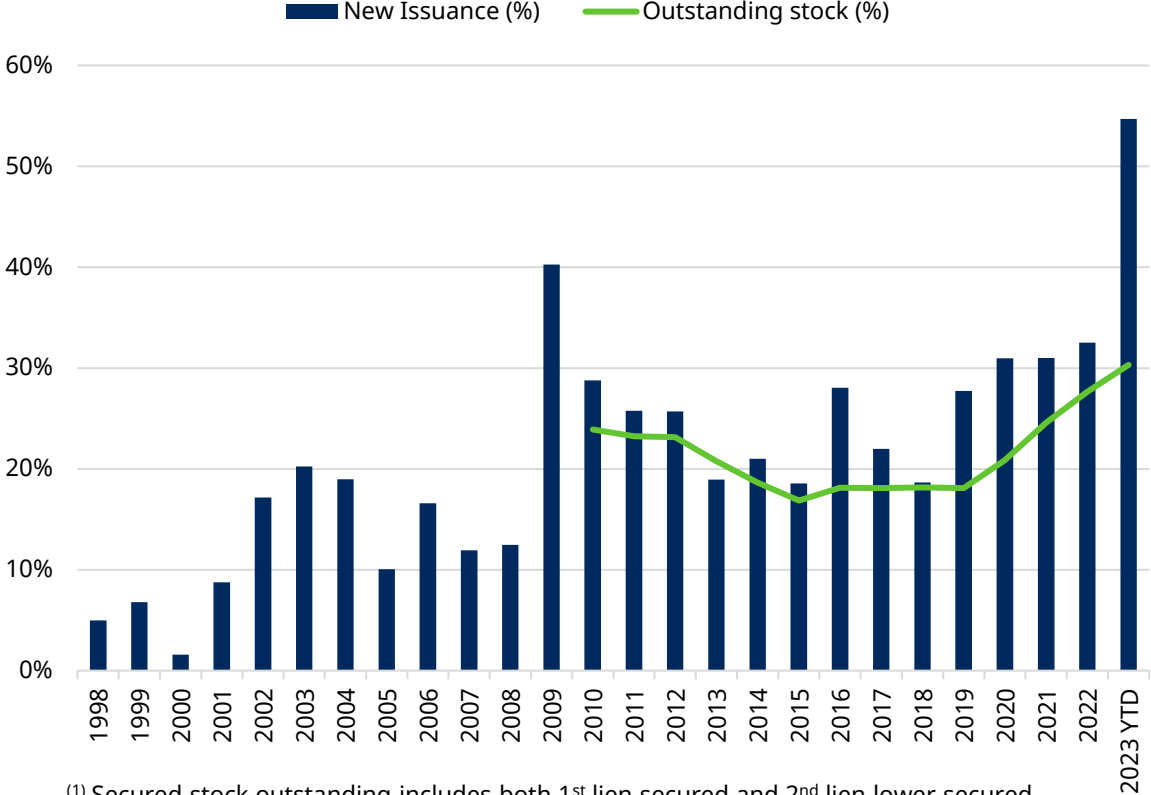
Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

US high-yield issuance has picked up from very low levels, with the secured proportion being unusually high

US high-yield gross issuance



USD high-yield issuance: secured proportion⁽¹⁾



⁽¹⁾ Secured stock outstanding includes both 1st lien secured and 2nd lien lower secured bonds.

Source: Sifma, BofA Global Research. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Summary table

Cross-credit overview

Date: 30 June 2023

	IG GBP non-gilts	IG GBP corporates	IG Euro	IG USD	HY GBP	HY Euro	HY USD	Hard EMD	Local EMD	Corp. EMD
Yield to worst	6.3%	6.6%	4.4%	5.6%	10.7%	7.5%	8.6%	8.4%	6.3%	7.2%
Yield to worst (hedged to EUR) ¹	4.6%	4.8%	4.4%	3.7%	9.0%	7.5%	6.7%	6.5%	-	5.4%
Spread (bps)	146	175	161	130	558	446	405	432	221	309
Spread (percentile) ²	69%	69%	74%	45%	61%	55%	40%	63%	4%	45%
Risk premium (bps) ³	113	137	123	92	357	275	183	299	166	197
Duration	5.9	6.4	4.8	7.1	3.2	3.3	4.2	6.8	5.0	4.2
MV (billion \$)	746	557	2,979	7,825	52	402	1,218	637	1,466	501
Rating	A1	A3	A3	A3	BB3	BB3	B1	BB1	BBB2	BBB3
Nr. of issues/countries	1,326	1,120	4,171	10,020	99	729	1,870	66	20	1,890

Since Jan 1997 or inception

Annualised return ⁴	3.7%	3.8%	3.6%	3.9%	7.0%	4.7%	5.0%	5.7%	5.0%	4.9%
Annualised volatility	5.8%	6.5%	3.9%	5.9%	10.5%	11.5%	9.1%	10.7%	8.9%	7.8%
Return/volatility	0.6	0.6	0.9	0.7	0.7	0.4	0.5	0.5	0.6	0.6
Max drawdown	-25.9%	-28.2%	-16.5%	-22.3%	-29.4%	-40.2%	-34.8%	-29.6%	-17.8%	-26.0%
Correlation with MSCI EMU	0.3	0.3	0.3	0.2	0.6	0.7	0.6	0.5	0.4	0.5
Correlation with MSCI World €	0.2	0.3	0.3	0.2	0.5	0.6	0.6	0.5	0.5	0.4
Correlation with Euro Gov	0.7	0.6	0.7	0.6	0.1	0.1	0.1	0.4	0.3	0.3

Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

¹Local currency yield minus annualized 3-month hedging cost/return.

²Percentile shows where the current spread is relatively to the historical range of spreads, within a range of 0 to 100. The greater the percentile the higher the spread compared to history.

³Spread minus average historical default and downgrade losses (see slide 25).

⁴All returns EUR hedged returns, except EMD Local which is unhedged USD return in EUR.

Summary table (alternatives)

Cross-credit overview

Date: 30 June 2023

	US Agency MBS	US ABS	US CMBS	US leveraged loans	EUR leveraged loans	Cat Bonds
Yield ¹	4.8%	6.2%	6.8%	10.3%	9.6%	-
Yield (hedged to EUR) ²	2.9%	4.3%	4.9%	8.5%	9.6%	-
Spread (bps) ³	67	122	271	581	595	-
Risk premium (bps)	-	-	-	-	-	-
Duration	6.0	2.2	3.9	0.0	0.0	-
Market size (billion \$)	7,264	409	436	1,370	273	-
Rating	AAA	AAA	AAA	-	-	-
Since Jan 1997 or inception						
Annualised return ⁴	3.1%	2.6%	3.6%	3.7%	4.2%	6.2%
Annualised volatility	3.4%	2.3%	6.1%	6.0%	6.6%	4.3%
Return/volatility	0.9	1.1	0.6	0.6	0.6	1.4
Max drawdown	-18.4%	-8.6%	-26.1%	-29.6%	-31.9%	-9.7%
Correlation with MSCI EMU	0.0	0.1	0.2	0.5	0.5	0.1
Correlation with MSCI World €	0.0	0.0	0.1	0.5	0.4	0.1
Correlation with Euro Gov	0.7	0.4	0.3	0.0	0.0	0.2

Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, Bloomberg, Credit Suisse. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

¹USD yield. Leveraged loans is yield (3-year life)

²USD yield minus annualized 3-month hedging cost/return

³Leveraged loans spread is 3-year discount margin

⁴All returns EUR hedged returns

Performance table

Cross-credit overview

Date: 30 June 2023

	IG GBP non-gilts	IG GBP corporates	IG Euro	IG USD	HY GBP	HY Euro	HY USD	Hard EMD	Local EMD	Corp. EMD
Return (local)¹										
1 month return	-1.2%	-1.2%	-0.4%	0.3%	0.0%	0.5%	1.6%	2.2%	3.3%	1.1%
YTD return	-1.0%	-1.0%	2.0%	3.2%	4.5%	4.4%	5.4%	4.1%	7.8%	3.6%
1 year return	-7.1%	-7.1%	0.0%	1.4%	5.9%	8.8%	8.9%	7.4%	11.4%	5.7%
Return (EUR hedged)²										
1 month return	-1.3%	-1.3%	-0.4%	0.1%	-0.2%	0.5%	1.4%	2.0%	0.9%	0.9%
YTD return	-1.8%	-1.7%	2.0%	1.8%	1.0%	4.4%	4.0%	2.8%	5.4%	2.4%
1 year return	-8.1%	-8.1%	0.0%	-1.6%	4.5%	8.8%	5.9%	4.2%	6.7%	2.7%
Spread										
1 month OAS change	1	0	-8	-12	-31	-37	-64	-45	-45	-38
YTD OAS change	-15	-19	-5	-8	-105	-48	-74	-20	-68	-13
1 year OAS change	-17	-26	-51	-34	-151	-195	-182	-110	-184	-80
Latest OAS	146	175	161	130	558	446	405	432	221	309

Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

¹Local EMD is USD return.

²Local EMD is USD return in EUR.

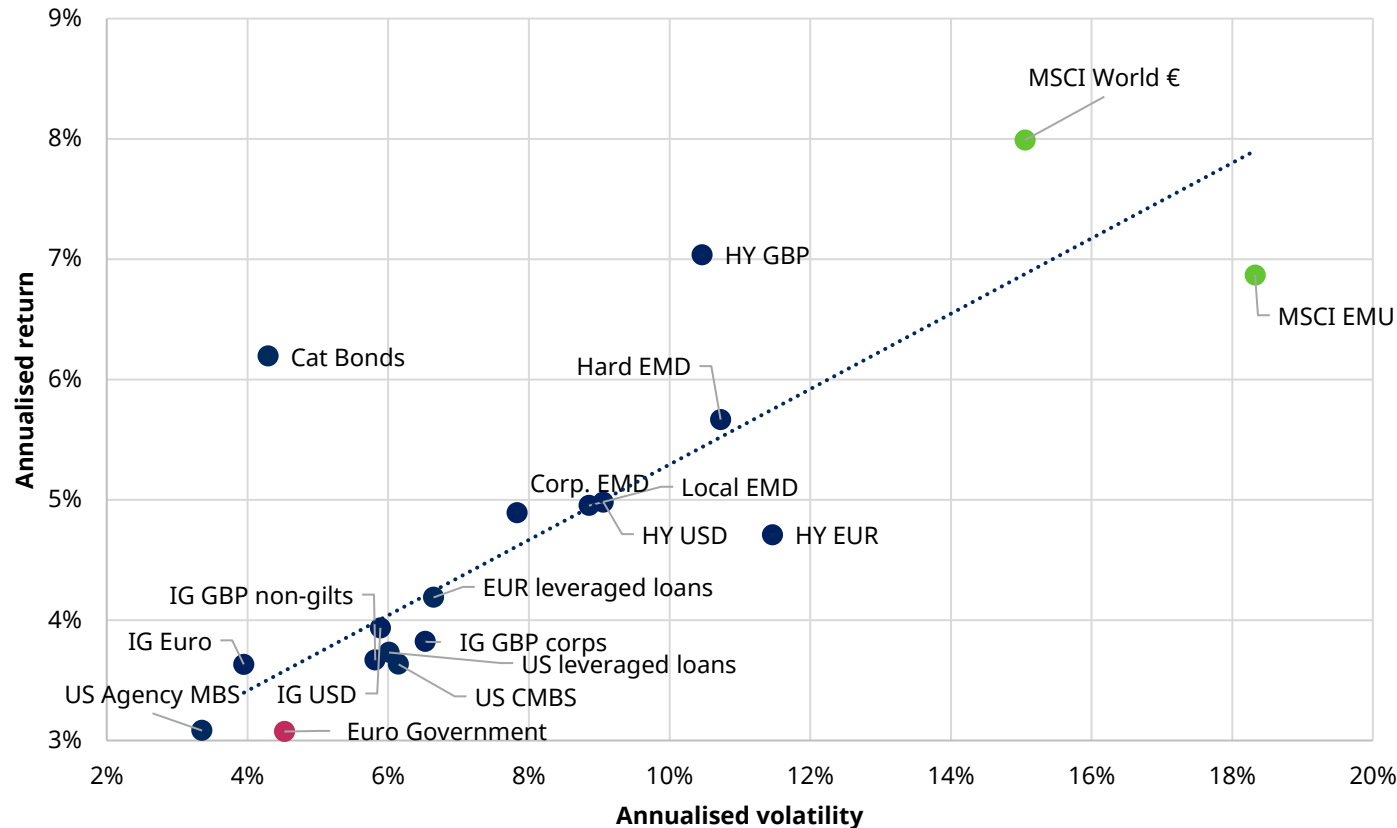
Schroders



Cross-credit analysis

Cross-credit risk-return profile

Since Jan 1997 or inception



- Little difference in risk/return characteristics of four IG indices
- The superior risk adjusted return of GBP HY index could be due to liquidity premium
- EMD has delivered higher risk-adjusted returns than DM credit

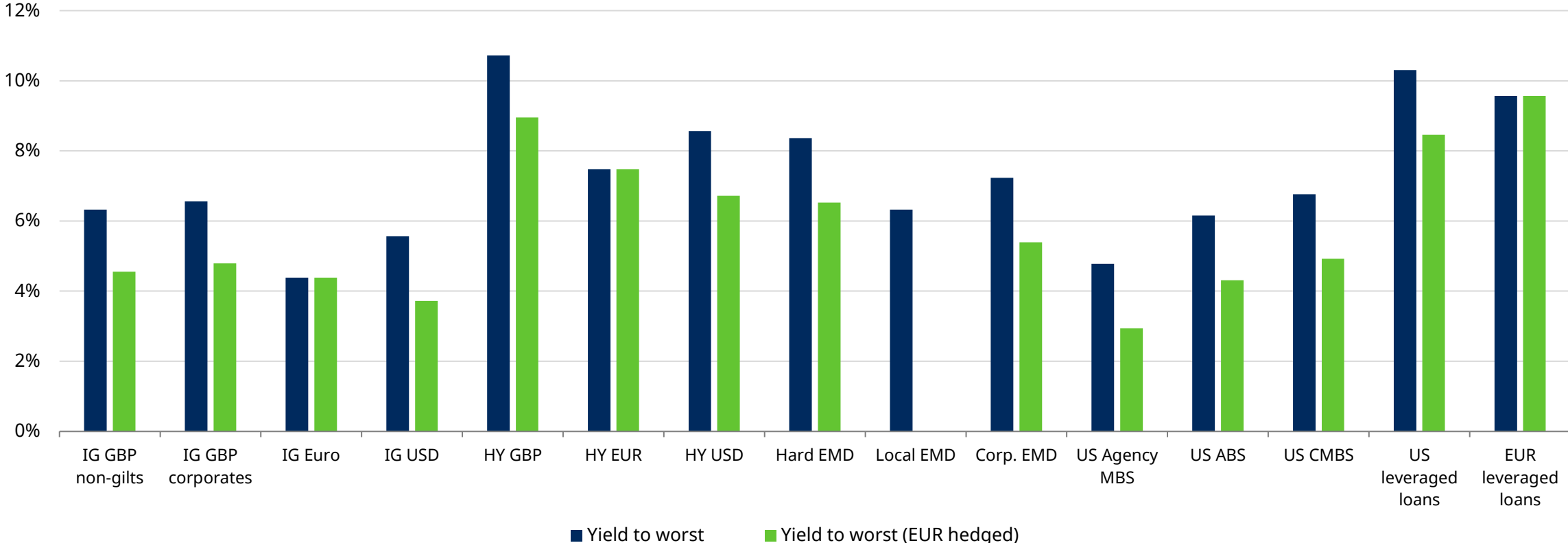
Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Barclays, Credit Suisse. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

All return and volatility figures shown as EUR hedged, except EMD Local and MSCI World which are unhedged returns in EUR.

Cross-credit yield

Yield to worst⁽¹⁾



Currency-hedged USD corporates yield less than GBP and EUR equivalents

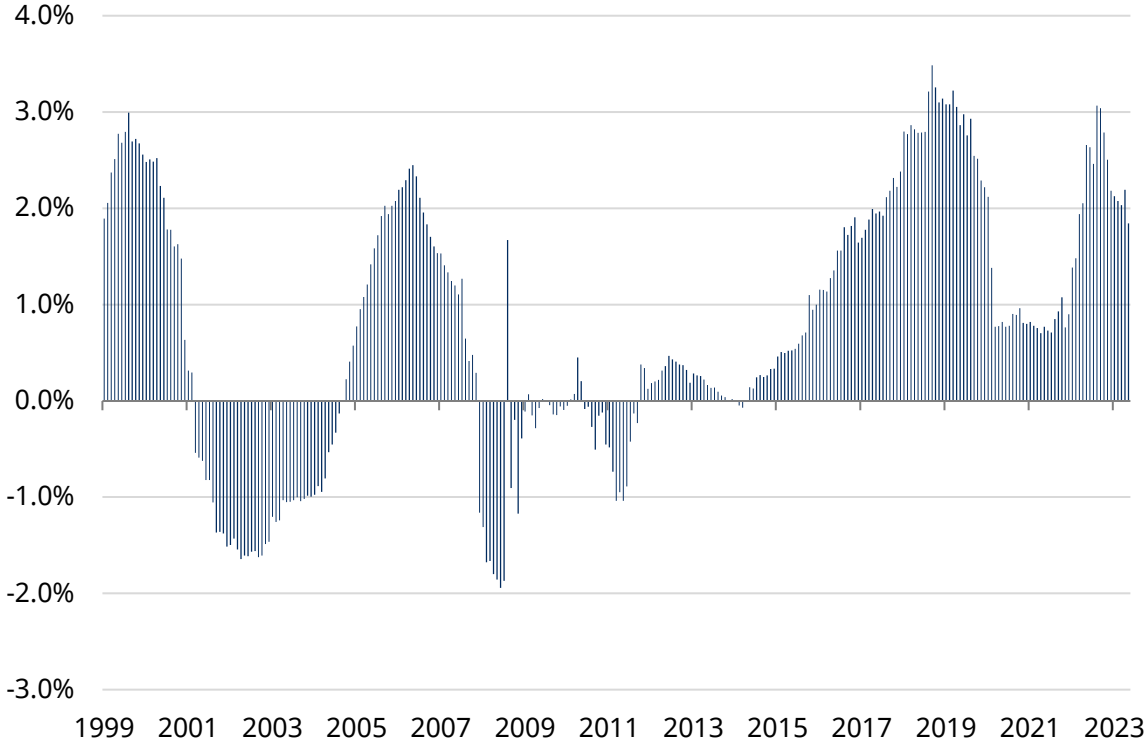
Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg, Credit Suisse. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

(1) Hedged yield is local currency yield minus annualised 3-month FX hedging cost/return (see next slide). Leveraged loans is yield (3-year life).

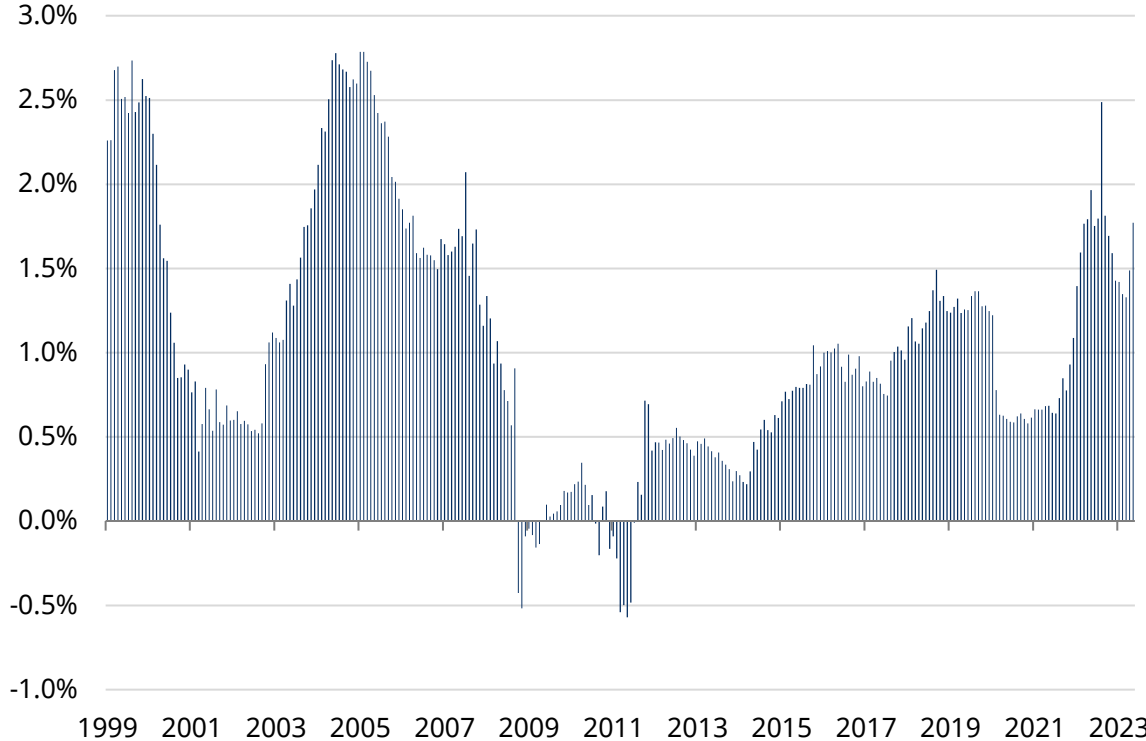
FX hedging cost or return

Using 3-month FX forwards

Annualised USD to EUR hedging cost (pos) or return (neg)



Annualised GBP to EUR hedging cost (pos) or return (neg)



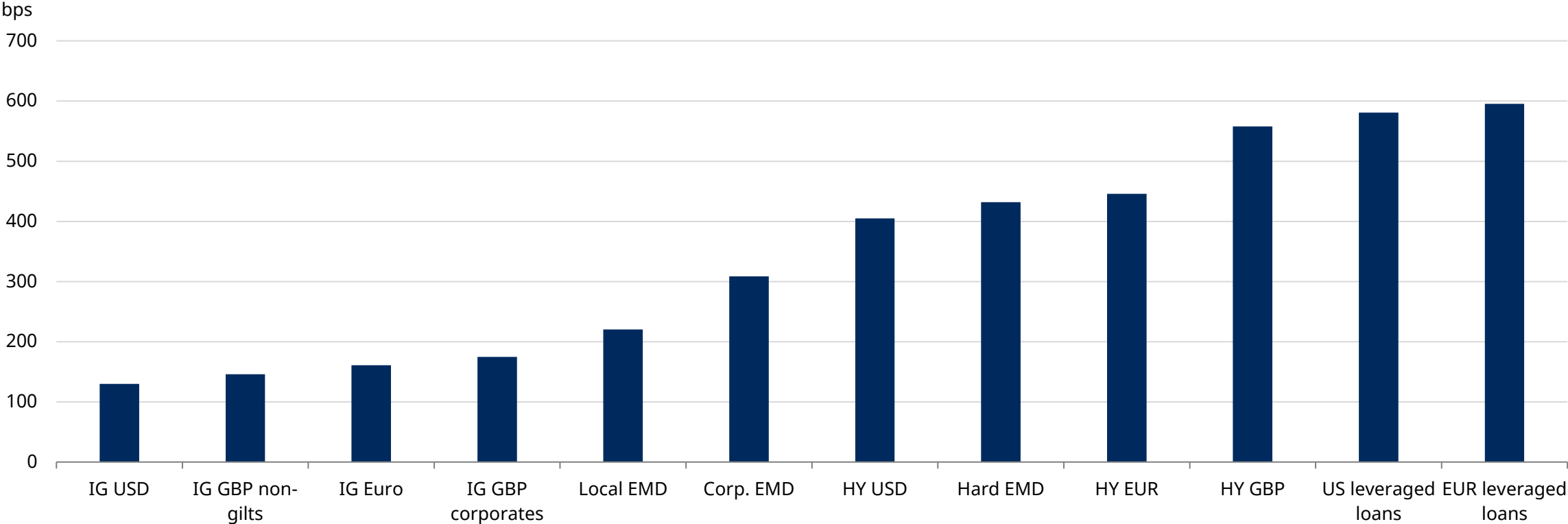
USD yields will be 1.8% lower in EUR once hedging taken account

GBP yields will be 1.8% lower in EUR once hedging taken account

Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Cross-credit spread

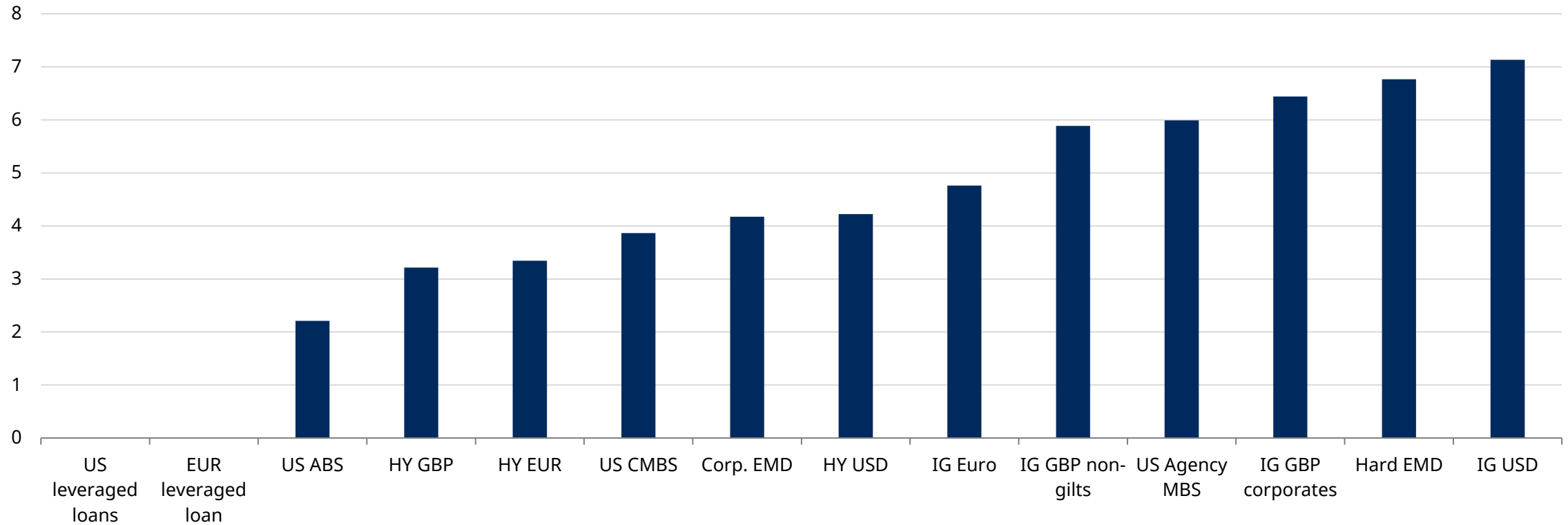
Spread



Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg, Credit Suisse. Data as at 30 June 2023. Local EMD has been estimated as a spread over Treasuries of similar maturity. Leveraged loan spread is Discount Margin (3-year life). Please see relevant disclaimers on page 69.

Cross-credit duration

Modified duration

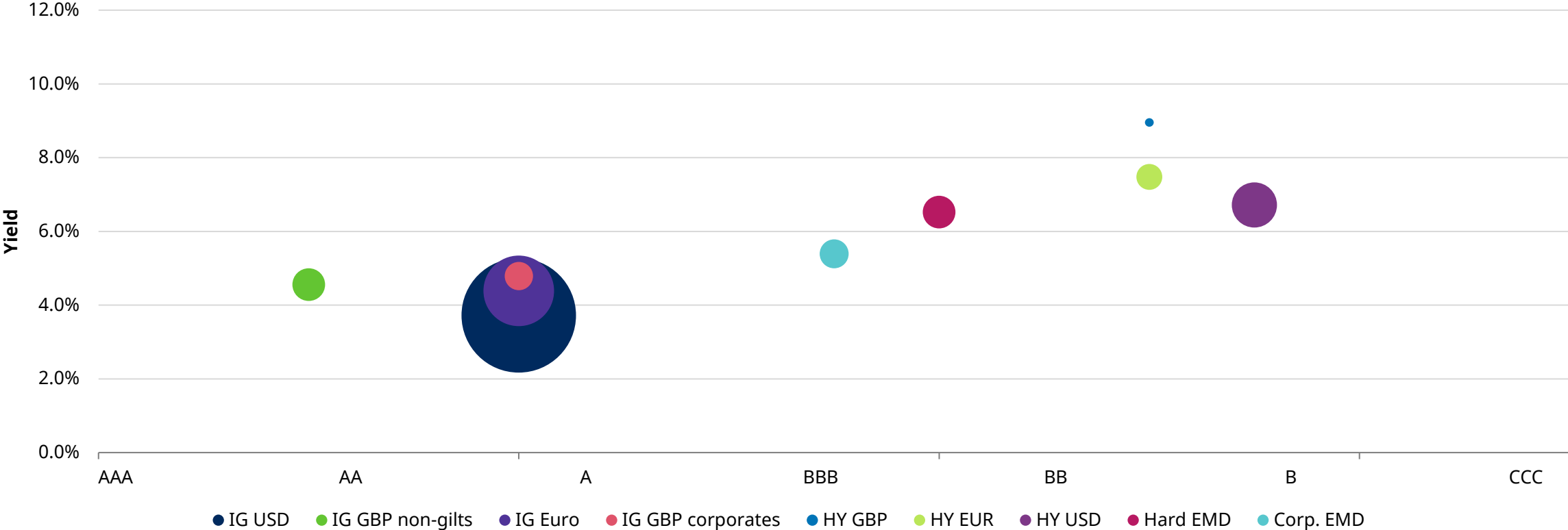


Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Yield vs. credit rating vs. market size

The size of bubble is proportionate to the size of the market

Yield (EUR hedged) vs credit rating vs market size

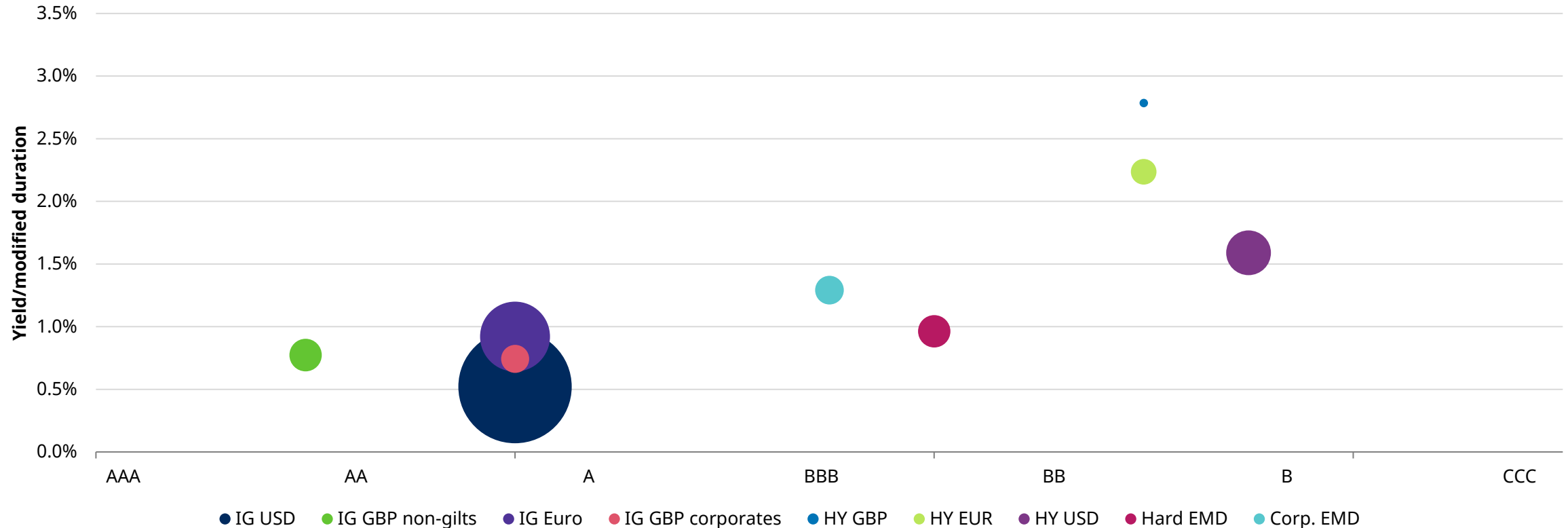


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Yield per unit of duration vs. credit rating vs. market size

Vertical axis is yield divided by modified duration

Yield (EUR hedged) per unit of duration vs credit rating vs market size

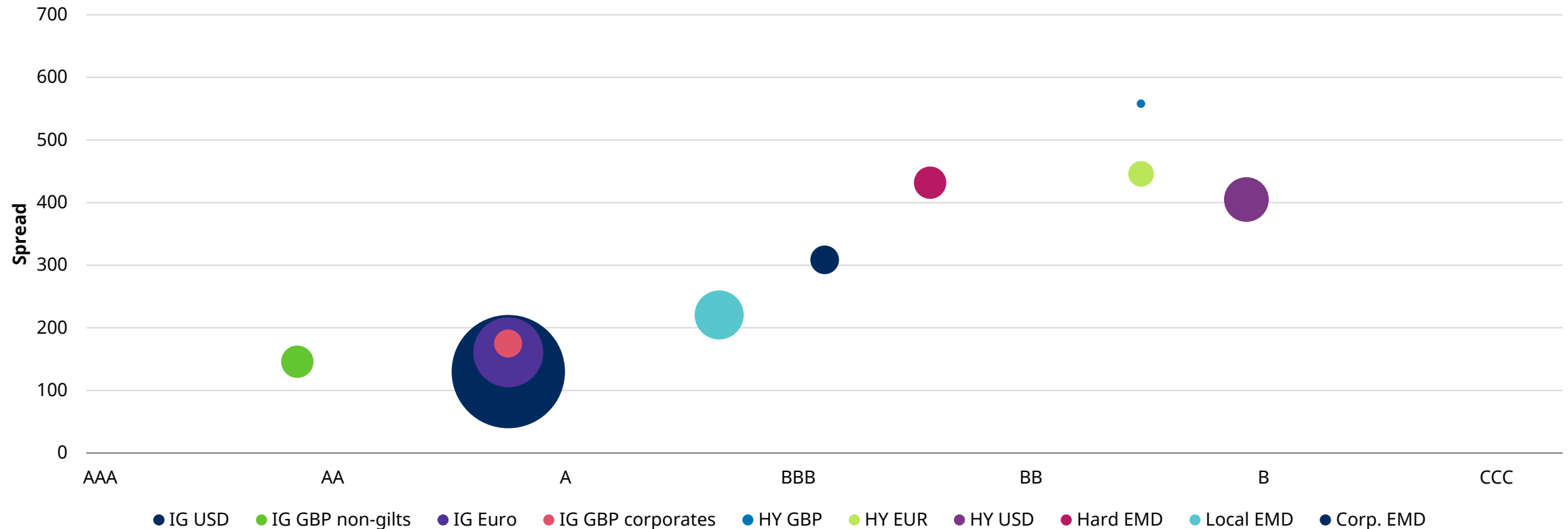


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Spread vs. credit rating vs. market size

The size of bubble is proportionate to the size of the market

Spread vs credit rating vs market size

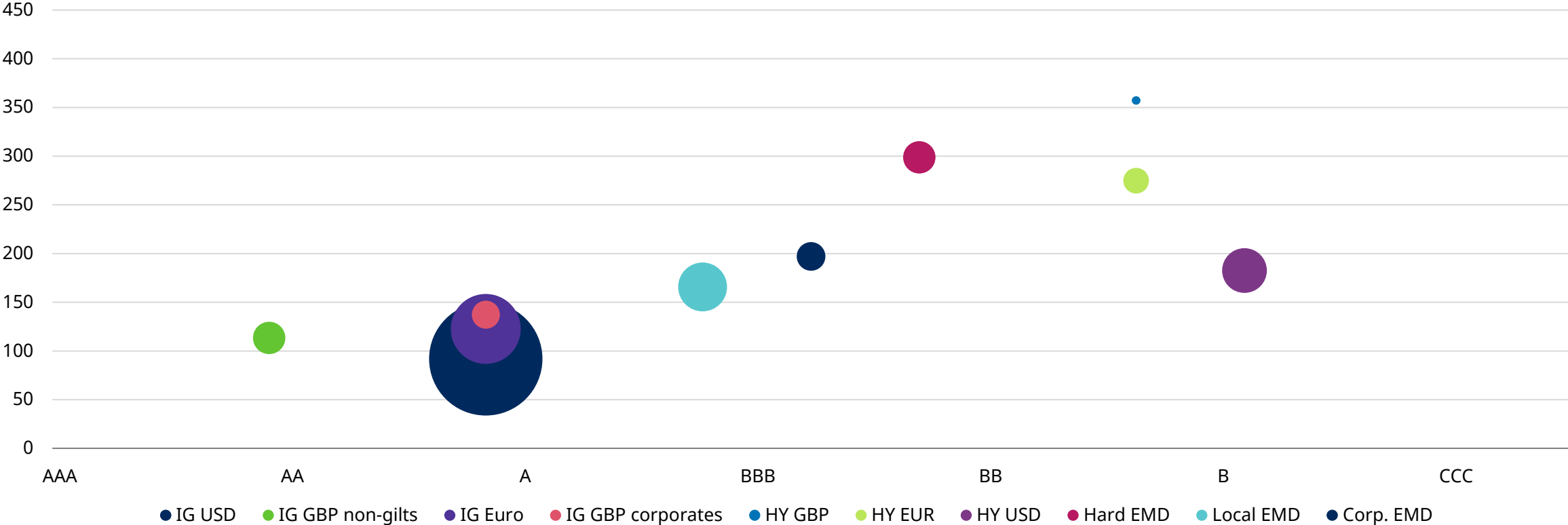


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Risk premium vs. credit rating vs. market size

Risk premium = credit spread – long term default and downgrade losses

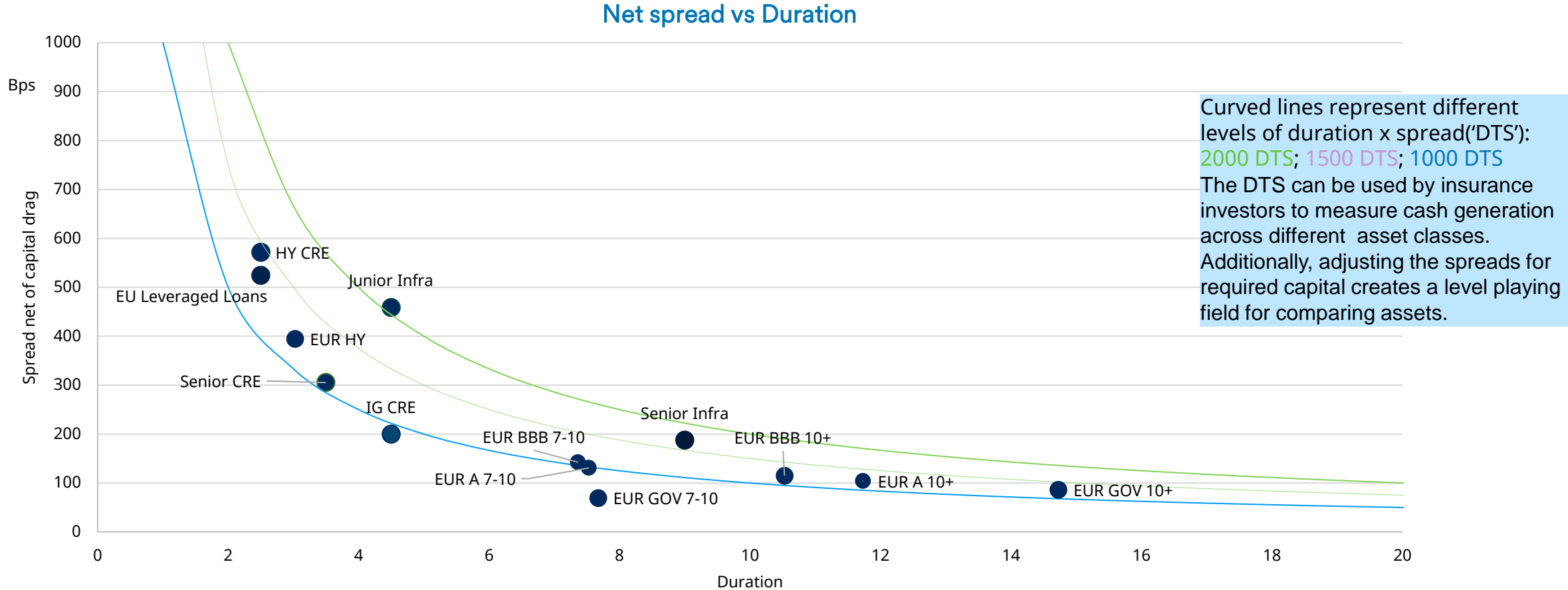
Risk premium vs credit rating vs market size



Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69. Local EMD returns are driven by rates and currency movements rather than defaults

Duration times spread analysis for insurance investors

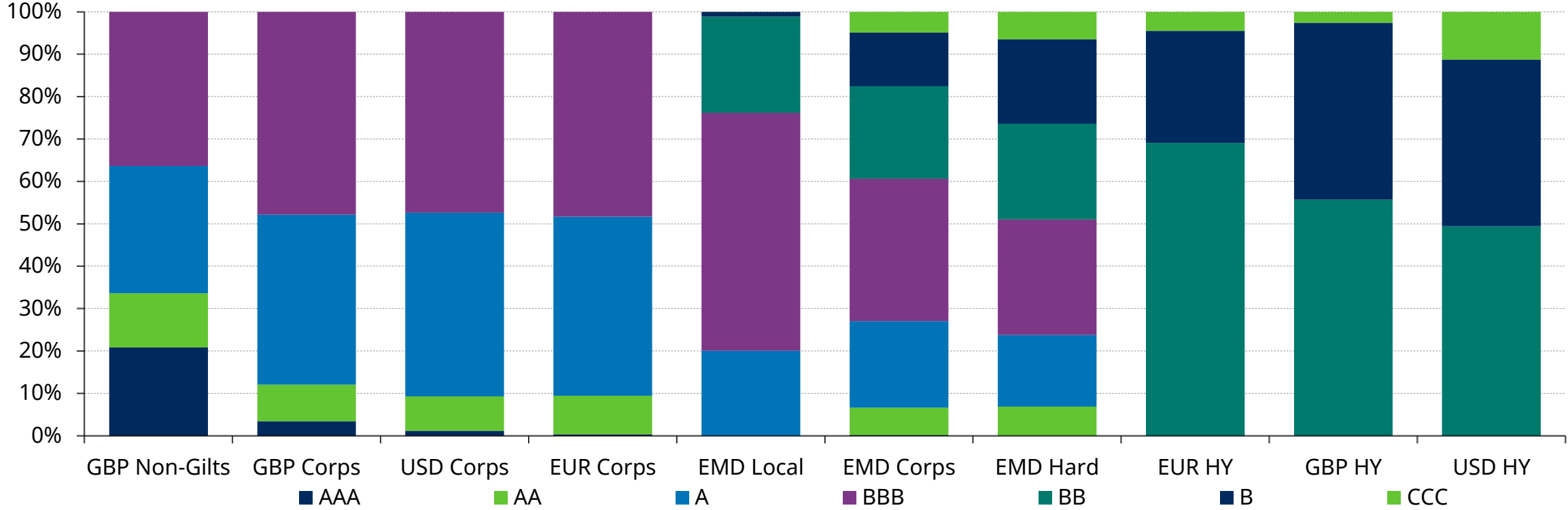
Consistent framework for analysing assets for insurance investors



NB: The selection of assets shown in the above chart differs from the rest of the document

Source: ICE indices and internally sourced data from June 30 2023. Capital drag assumes 150% SCR ratio and 6% cost of capital and diversification of 42%. Please see relevant disclaimers on page 69.

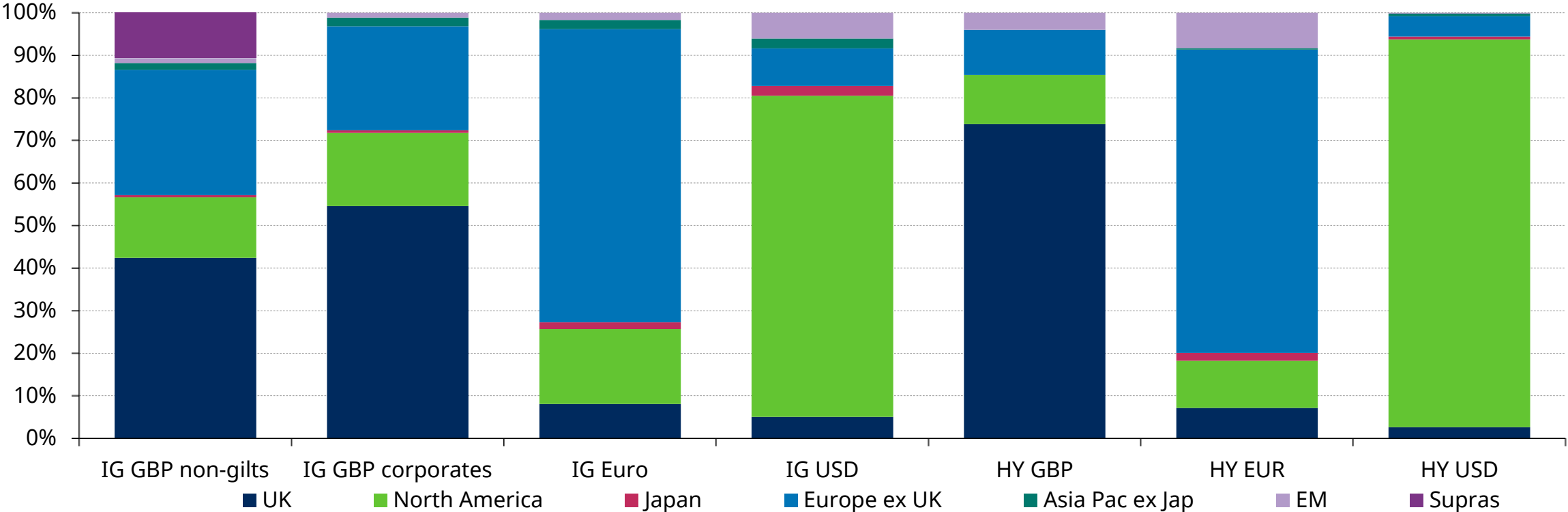
Cross-credit ratings split



US HY lower quality than UK/EUR HY; IG larger share of EMD Corporates than EMD Hard

Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Currency of issue vs country of issuer

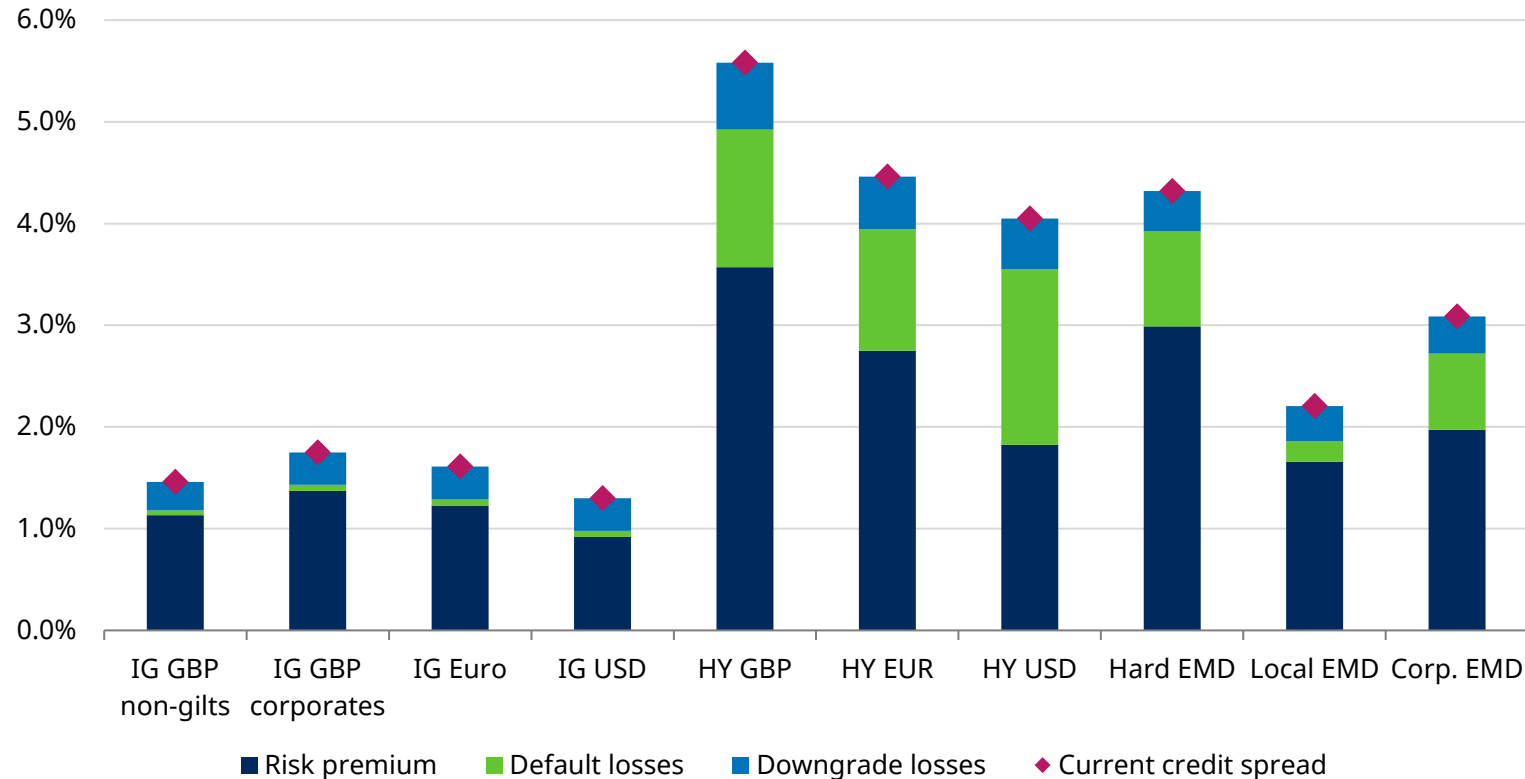


Almost half of GBP IG issuers are not based in the UK

Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Risk premium/net spread in credit

Decomposition of credit spread into expected losses and expected risk premium



- IG is more exposed to **downgrade losses** (value of a bond falling after a downgrade), while **default losses** have been negligible
- Major losses in HY come from defaults that mostly happen in recessions
- Historically, investors have received a **risk premium** for having exposure to credit, as the average default and downgrade losses have been less than the average spread

Source: Schroders, Moody's default and recovery study 2019, ICE Data Indices, J.P.Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Risk premium

Decomposition of credit spread into exp. losses and exp. risk premium

	Expected default rate ¹	Default losses ²	Downgrade losses	Current credit spread	Risk premium ³
IG GBP non-gilts	0.1%	0.0%	0.3%	1.5%	1.1%
IG GBP corporates	0.1%	0.1%	0.3%	1.8%	1.4%
IG Euro	0.1%	0.1%	0.3%	1.6%	1.2%
IG USD	0.1%	0.1%	0.3%	1.3%	0.9%
HY GBP	2.1%	1.4%	0.7%	5.6%	3.6%
HY EUR	1.8%	1.2%	0.5%	4.5%	2.7%
HY USD	2.7%	1.7%	0.5%	4.1%	1.8%
Hard EMD	1.4%	0.9%	0.4%	4.3%	3.0%
Local EMD	0.3%	0.2%	0.3%	2.2%	1.7%
Corp. EMD	1.1%	0.8%	0.4%	3.1%	2.0%

Risk premium is expected annual return on top of risk-free rate over a full credit cycle, implied by current spreads

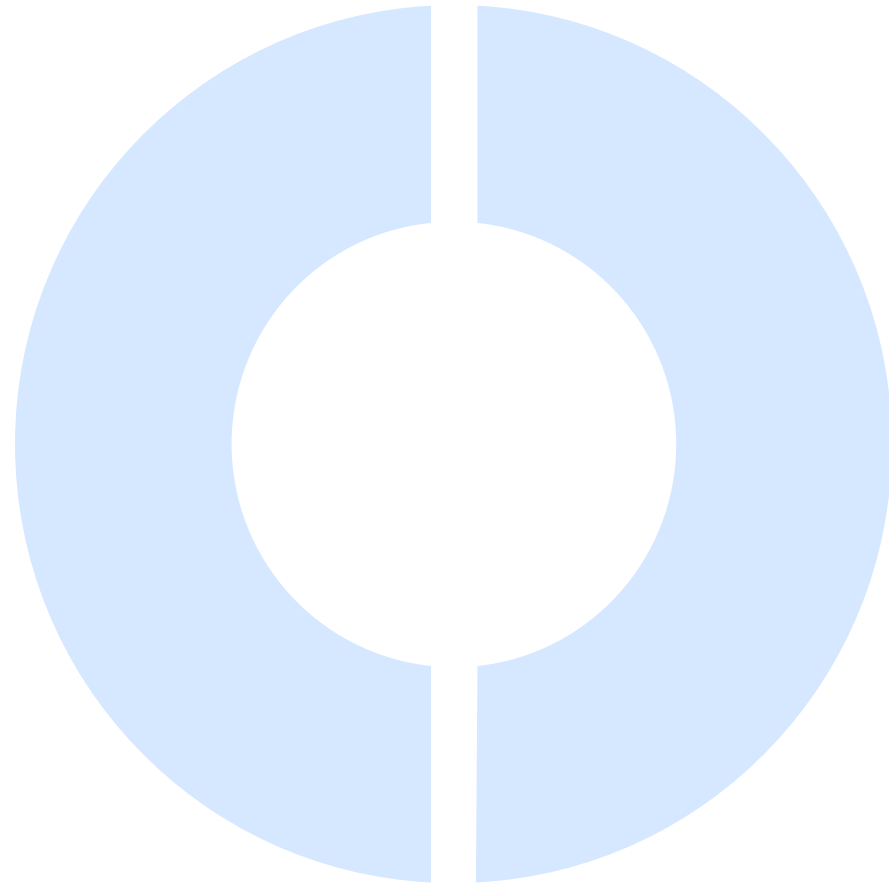
Source: Schroders, Moody's default and recovery study 2022, ICE Data Indices, J.P.Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

¹Based on average historical default rate

²Default rate * (1-recovery rate)

³Credit spread – default losses – downgrade losses

Schroders

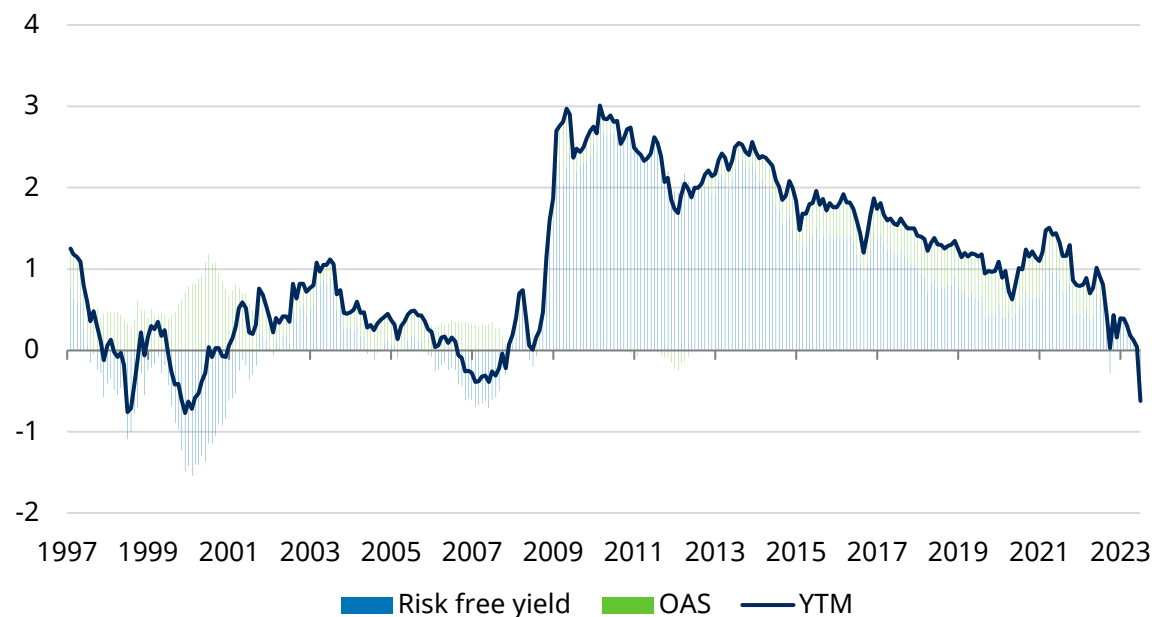


IG long vs short

Shape of the curve

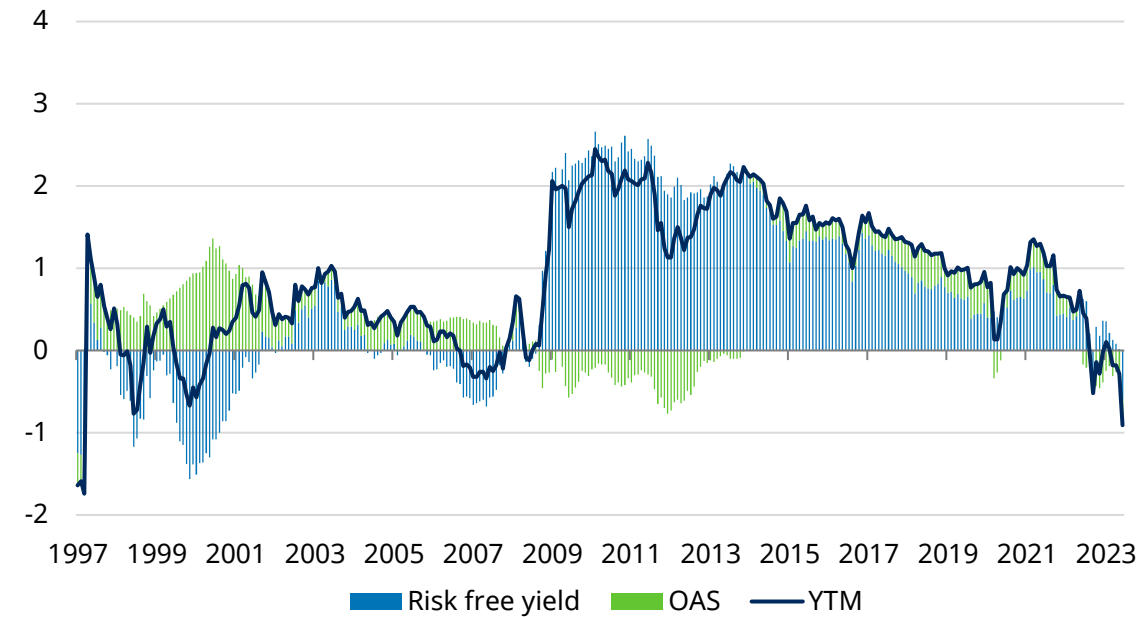
Shape of GBP IG curves

IG GBP non-gilts 10+ minus 1-5 year index yield (%)



	YTW	OAS	Duration
IG GBP non-gilts 1-5 year	6.6%	138	2.7
IG GBP non-gilts Index	6.3%	146	5.9
IG GBP non-gilts 10+	5.9%	142	11.5

IG GBP corporate 10+ minus 1-5 year index yield (%)

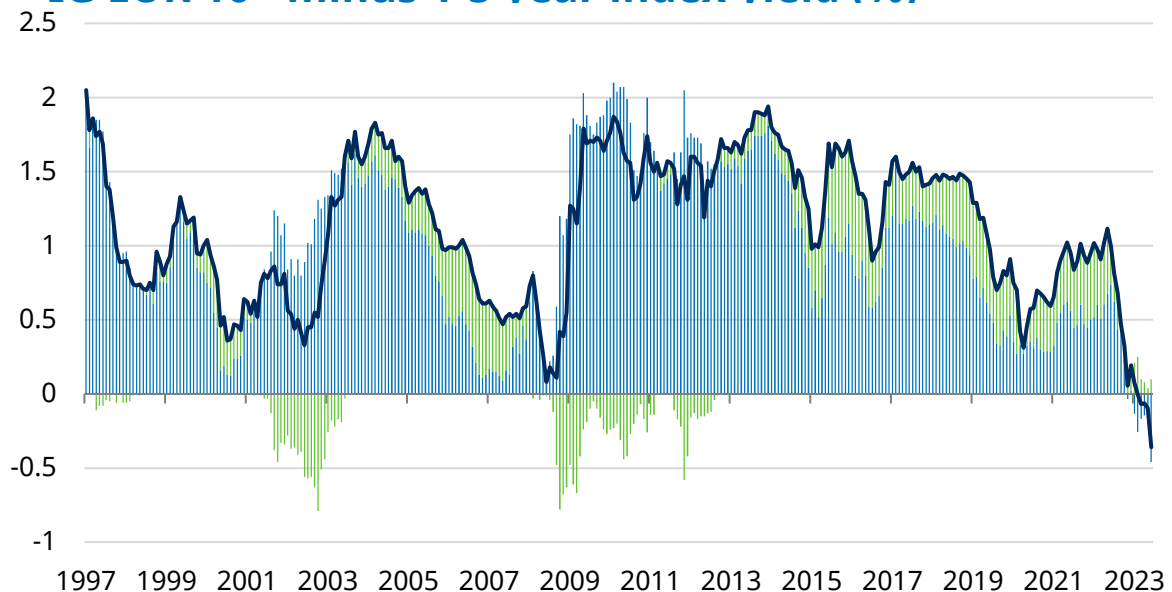


	YTW	OAS	Duration
IG GBP corporates 1-5 year	7.0%	183	2.8
IG GBP corporates Index	6.6%	175	6.4
IG GBP corporates 10+	6.1%	152	11.3

Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

Shape of EUR and USD IG curves

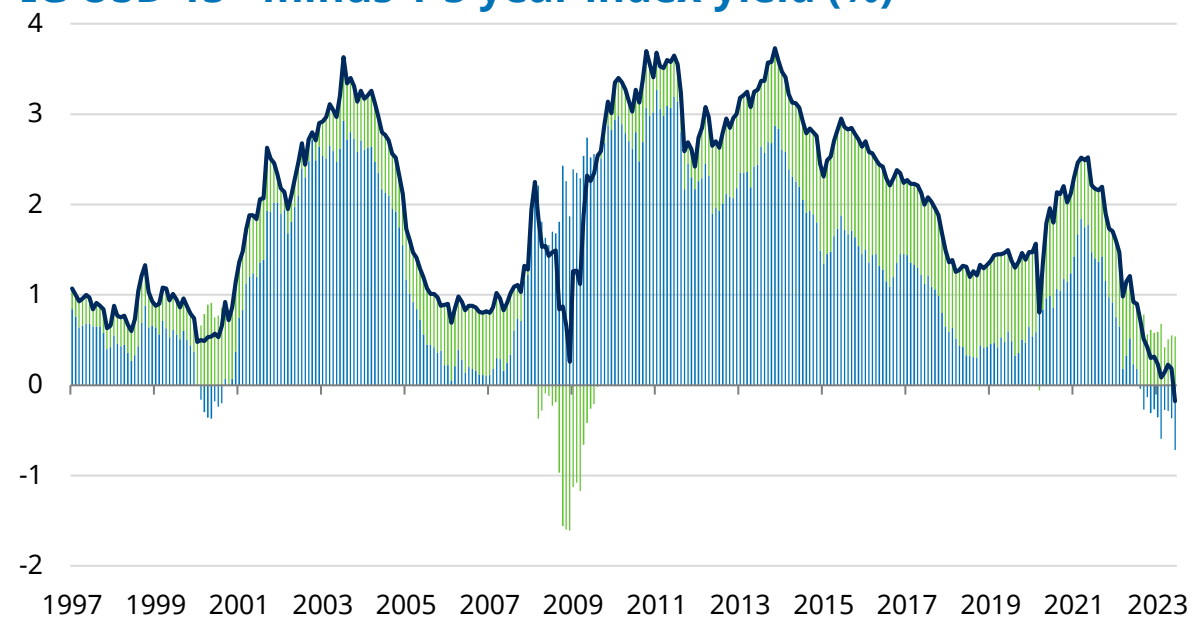
IG EUR 10+ minus 1-5 year index yield (%)



■ Risk free yield ■ OAS — YTM

	YTW	OAS	Duration
IG Euro 1-5 year	4.5%	150	2.9
IG Euro Index	4.4%	161	4.8
IG Euro 10+	4.1%	160	11.7

IG USD 15+ minus 1-5 year index yield (%)



■ Risk free yield ■ OAS — YTM

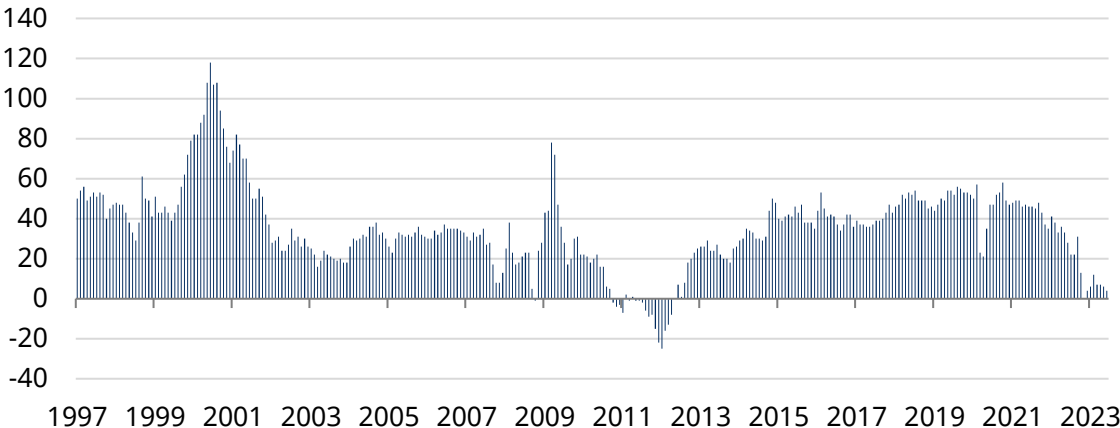
	YTW	OAS	Duration
IG USD 1-5 year	5.7%	98	2.8
IG USD Index	5.6%	130	7.1
IG USD 10+	5.5%	152	14.1

Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

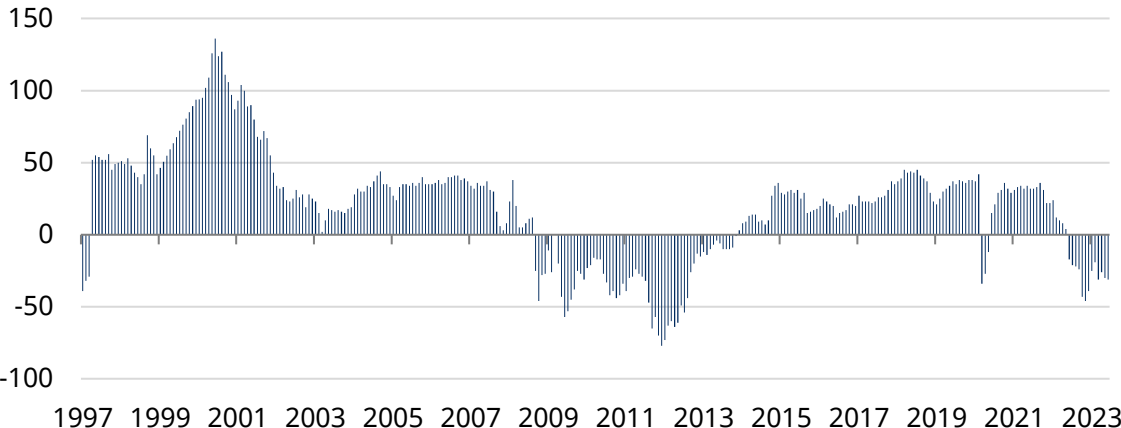
IG long vs short OAS

Shape of spread curves

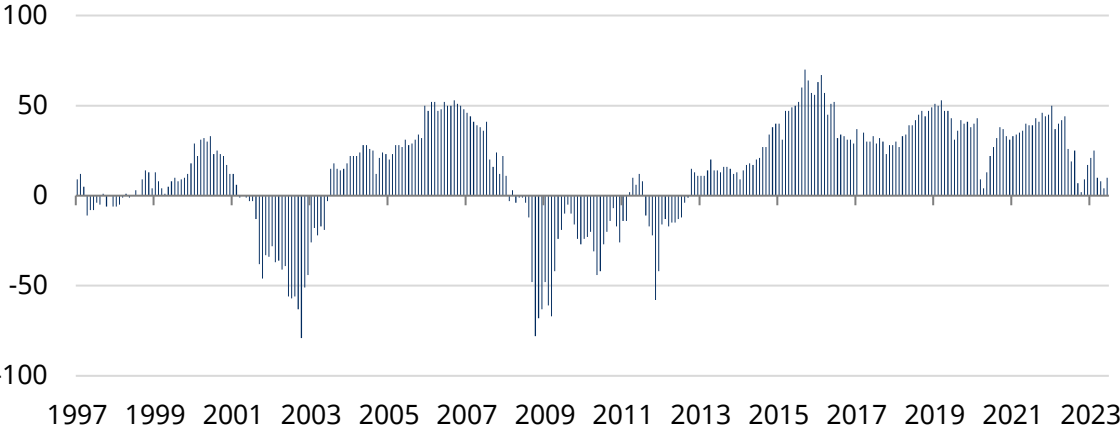
IG GBP non-gilts (bps)



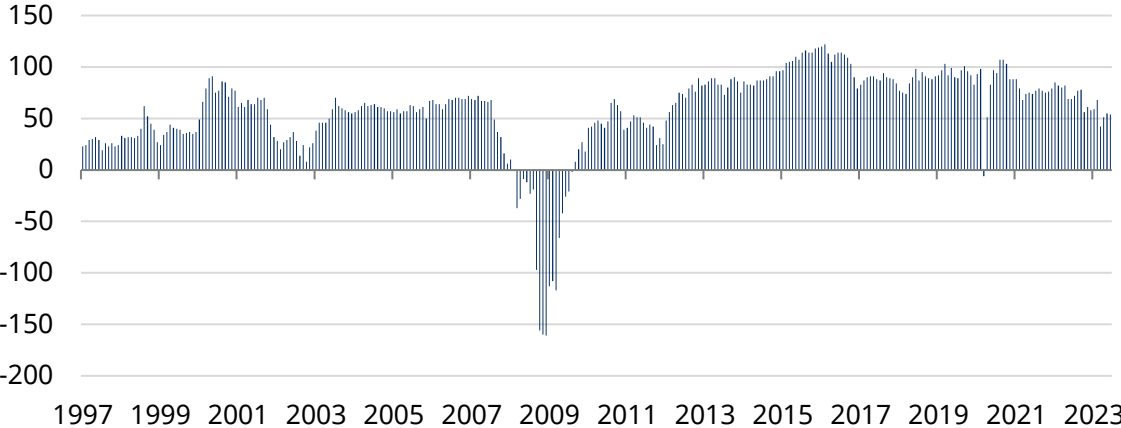
IG GBP corporates (bps)



IG EUR (bps)

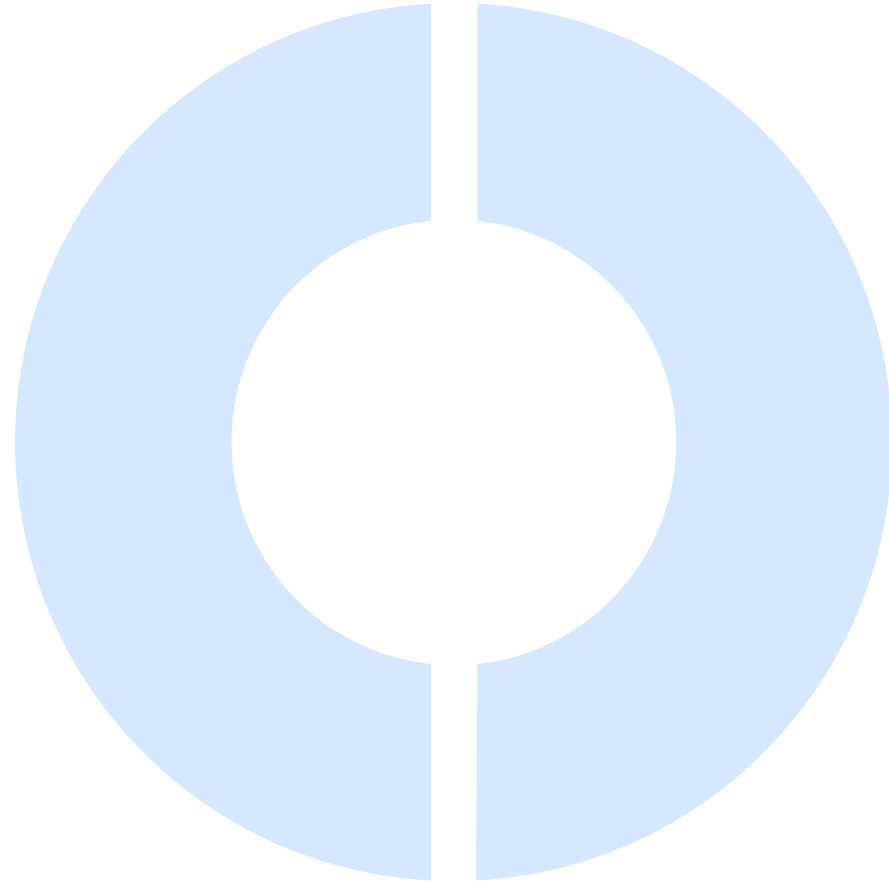


IG USD (bps)



Source: Schroders, ICE Data Indices. Figures showing 10+ (15+ for IG USD) minus 1-5 year index spread. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

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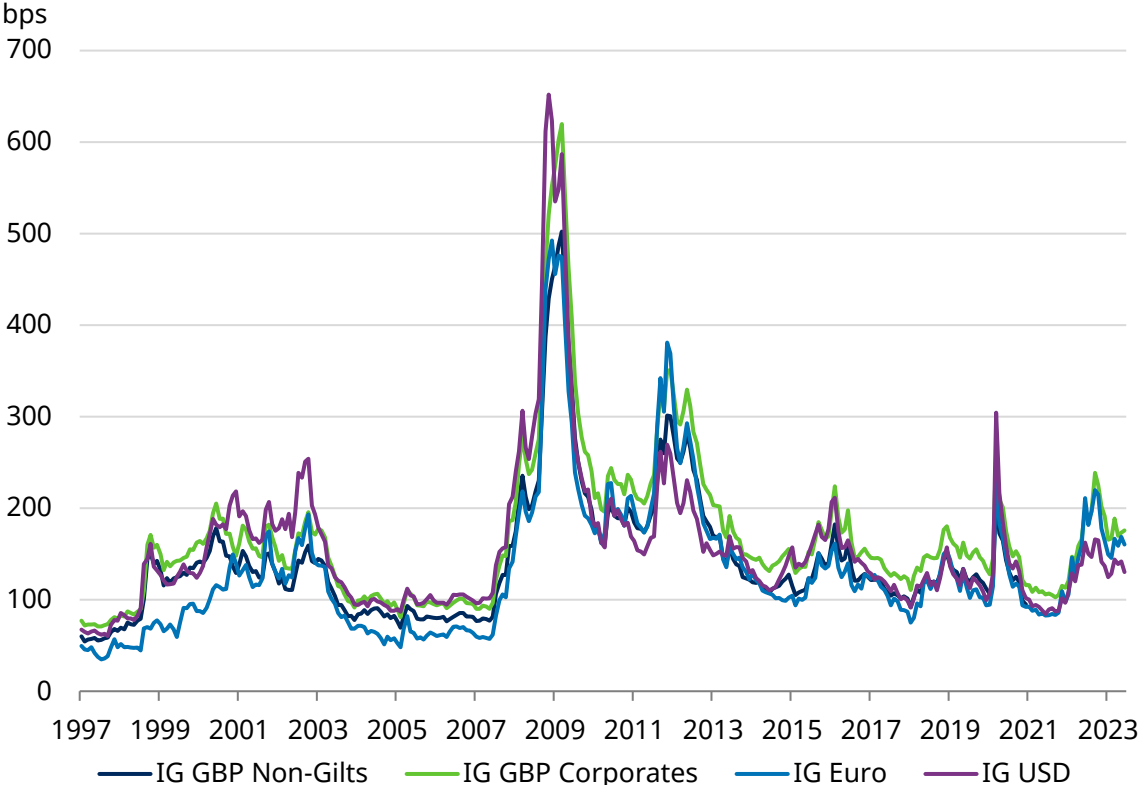


Corporate credit
Valuation

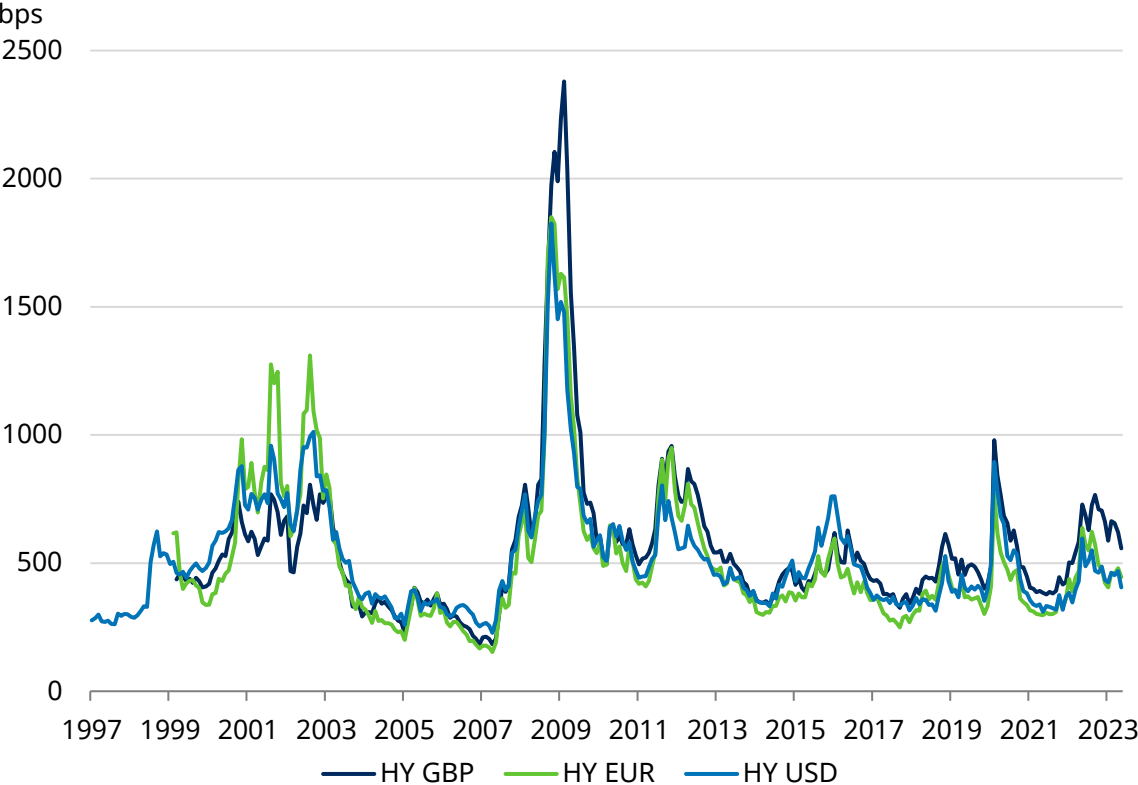
IG and HY valuation

Historical ratings-adjusted credit spreads

IG adjusted spreads



HY adjusted spreads

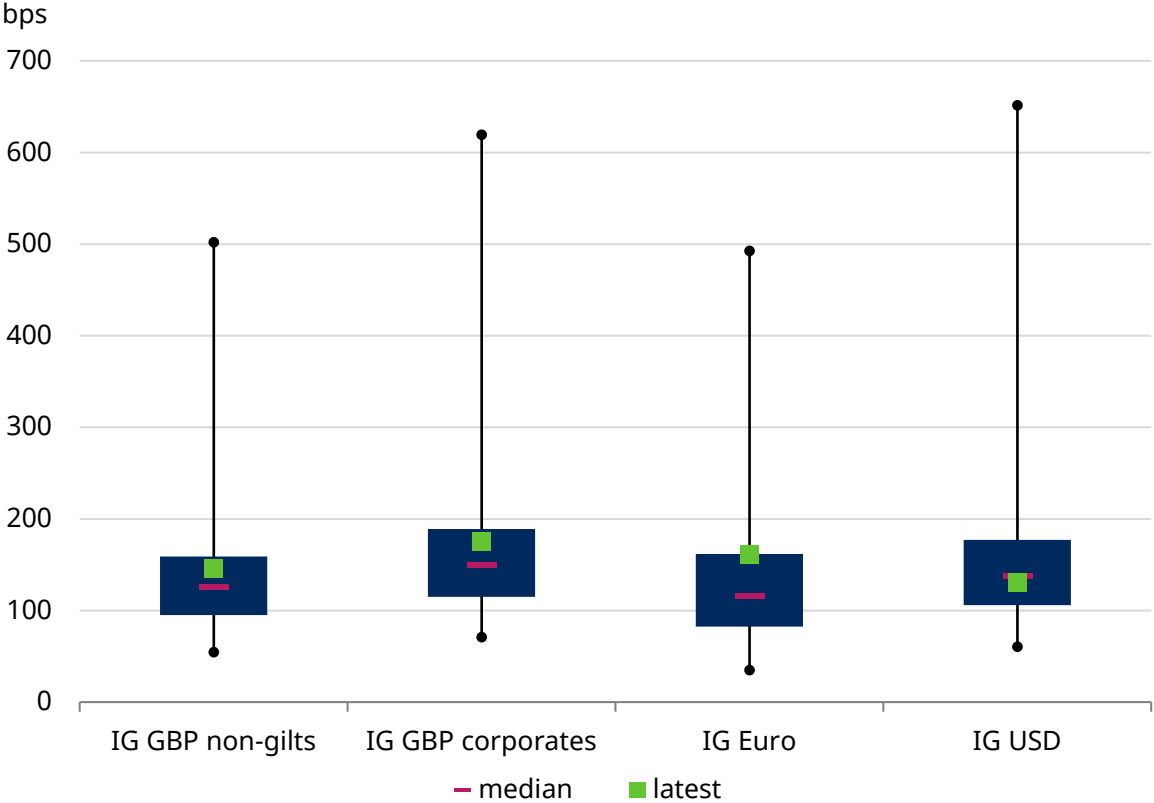


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 69. Spreads are adjusted for changes in the distribution of credit ratings within each index over time.

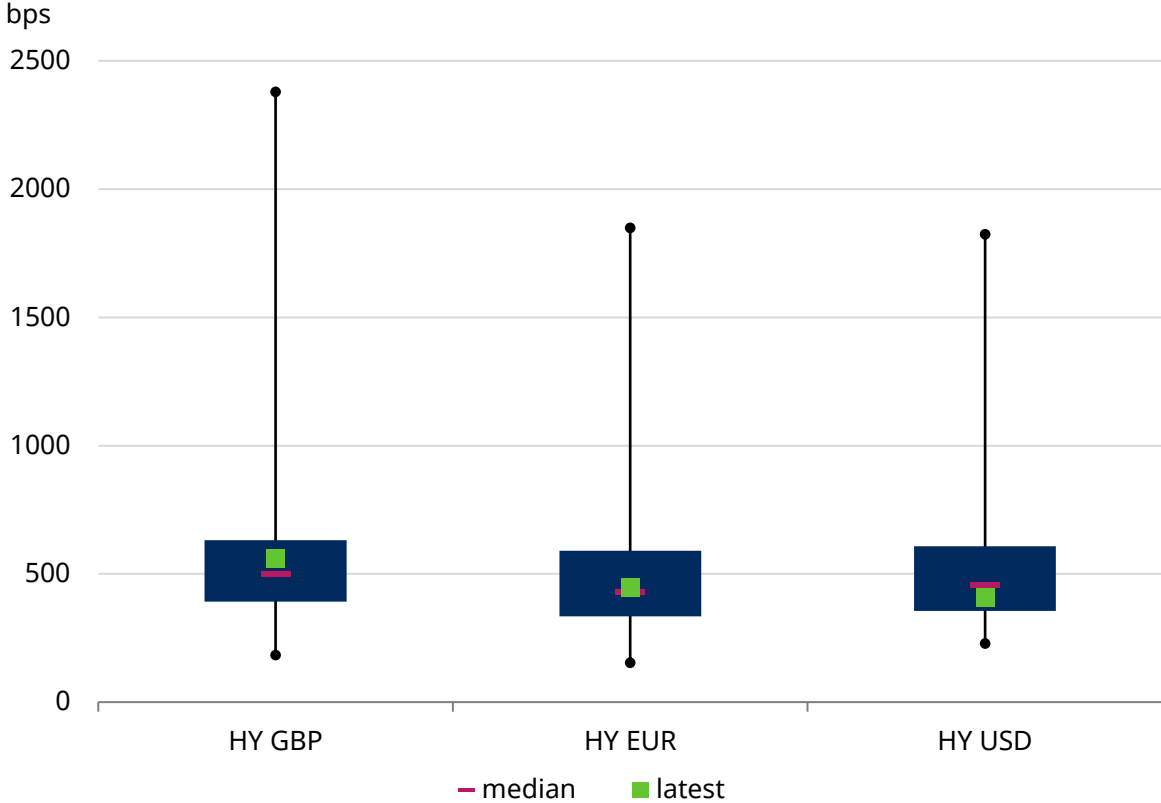
IG and HY valuation

Spread percentiles¹

IG adjusted spreads



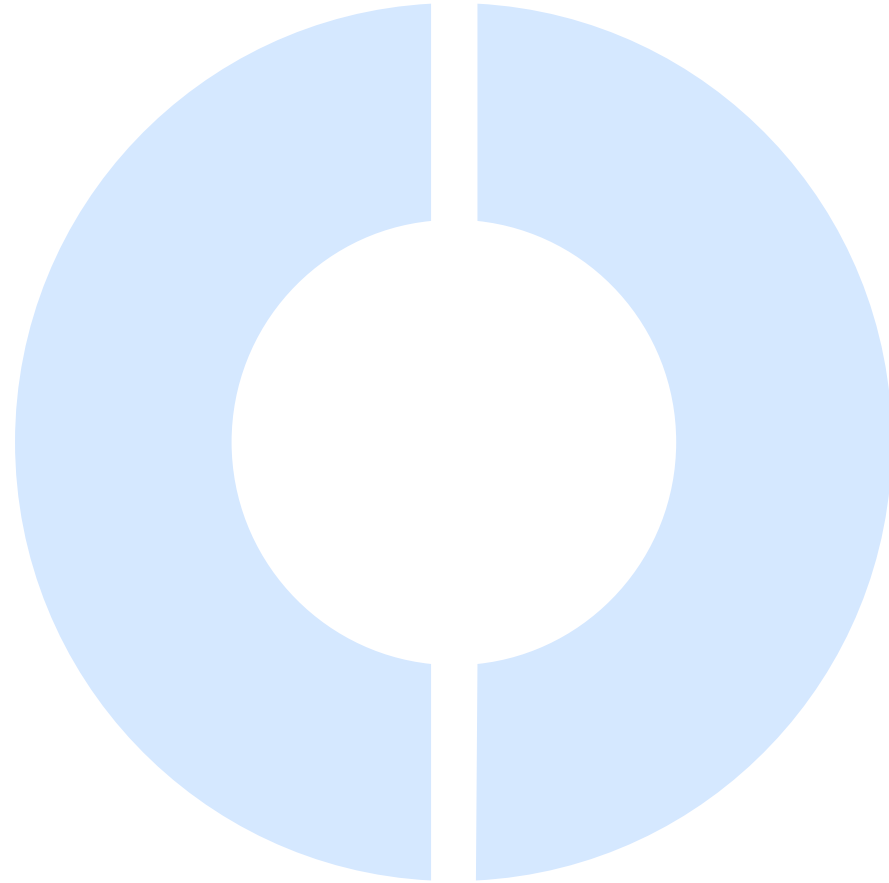
HY adjusted spreads



Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Spreads are adjusted for changes in the distribution of credit ratings within each index over time. Please see relevant disclaimers on page 69.

¹Percentiles shows where the current spread is relatively to the historical range of spreads, within a range of 0 to 100. The greater the percentile the higher the spread compared to history.

Schroders



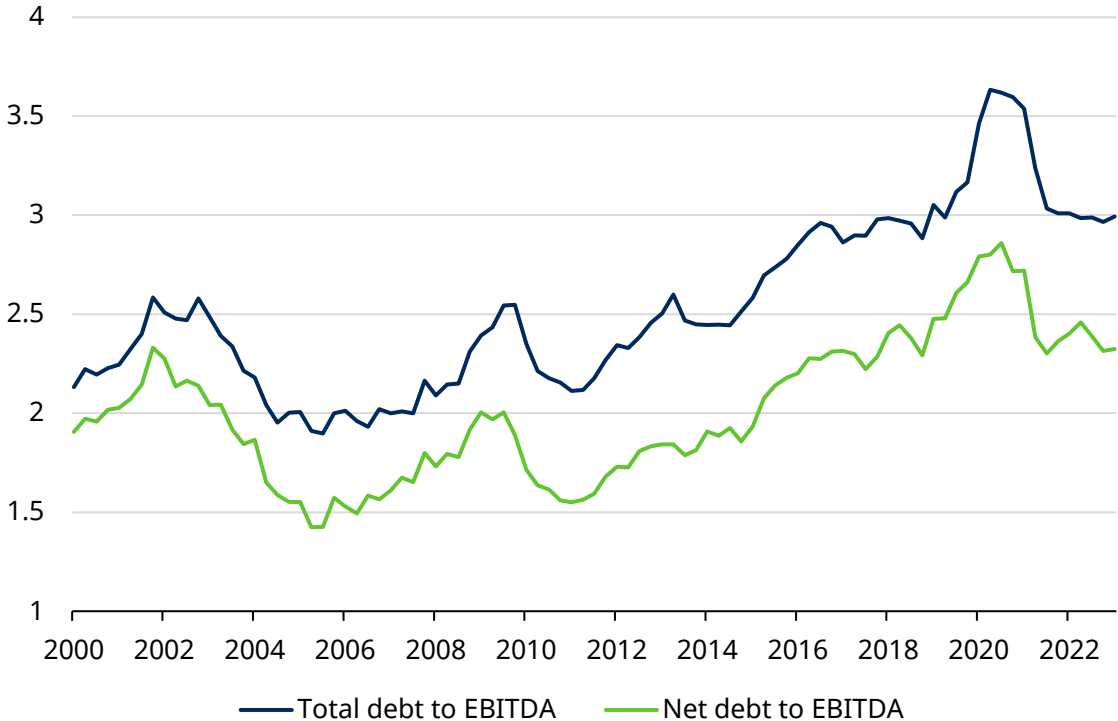
Corporate credit
Fundamentals

US IG leverage

Leverage has been broadly stable in recent quarters

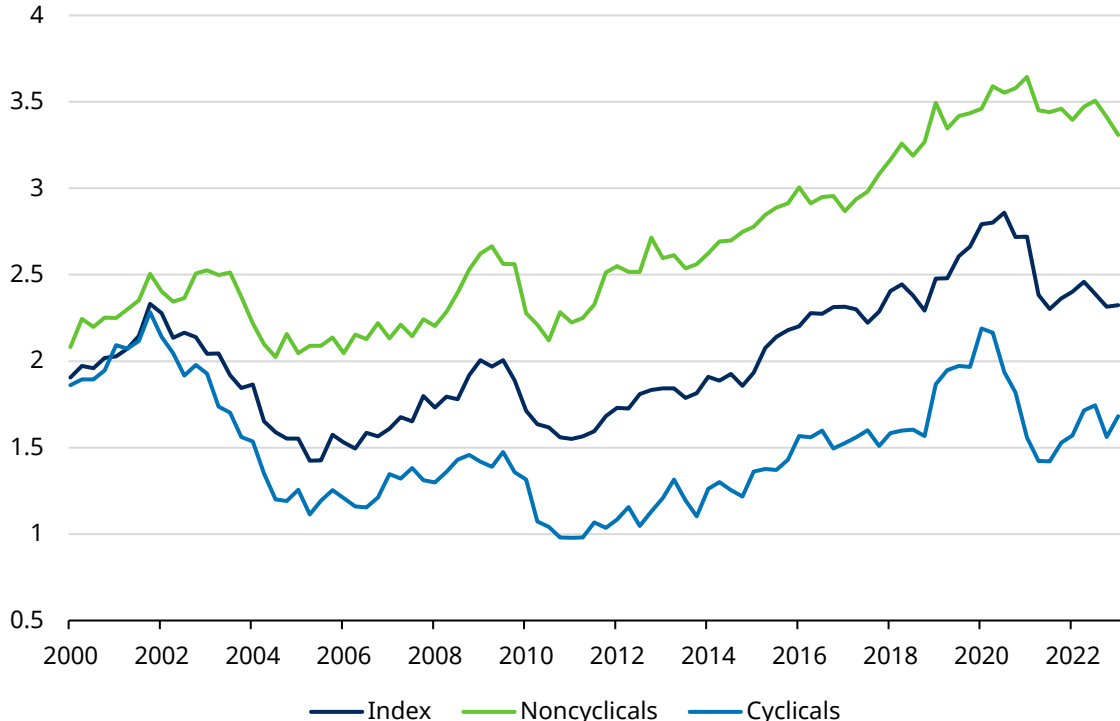
US IG leverage

Debt to last 12 months EBITDA



US IG net leverage

Net debt to last 12 months EBITDA



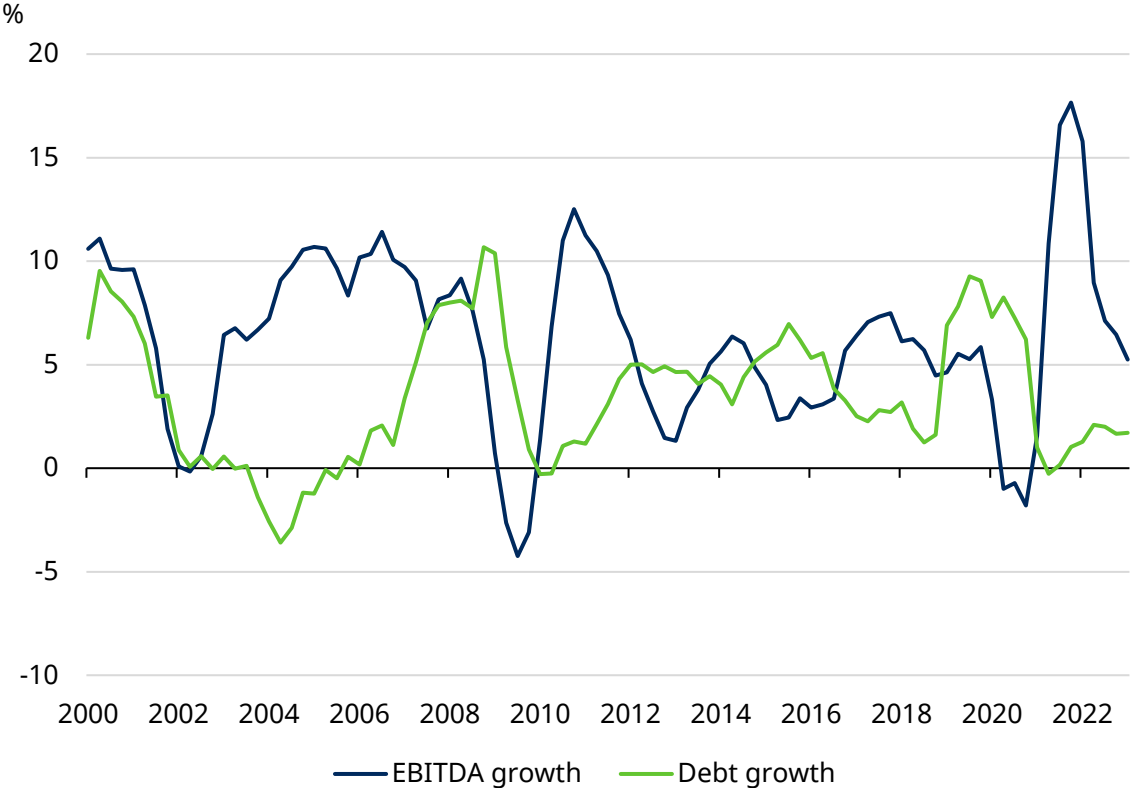
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Cyclical sectors: Basic Materials, Consumer Discretionary, Industrials, Technology. **Noncyclical sectors:** Communications, Consumer Staples, Utility, Health Care.

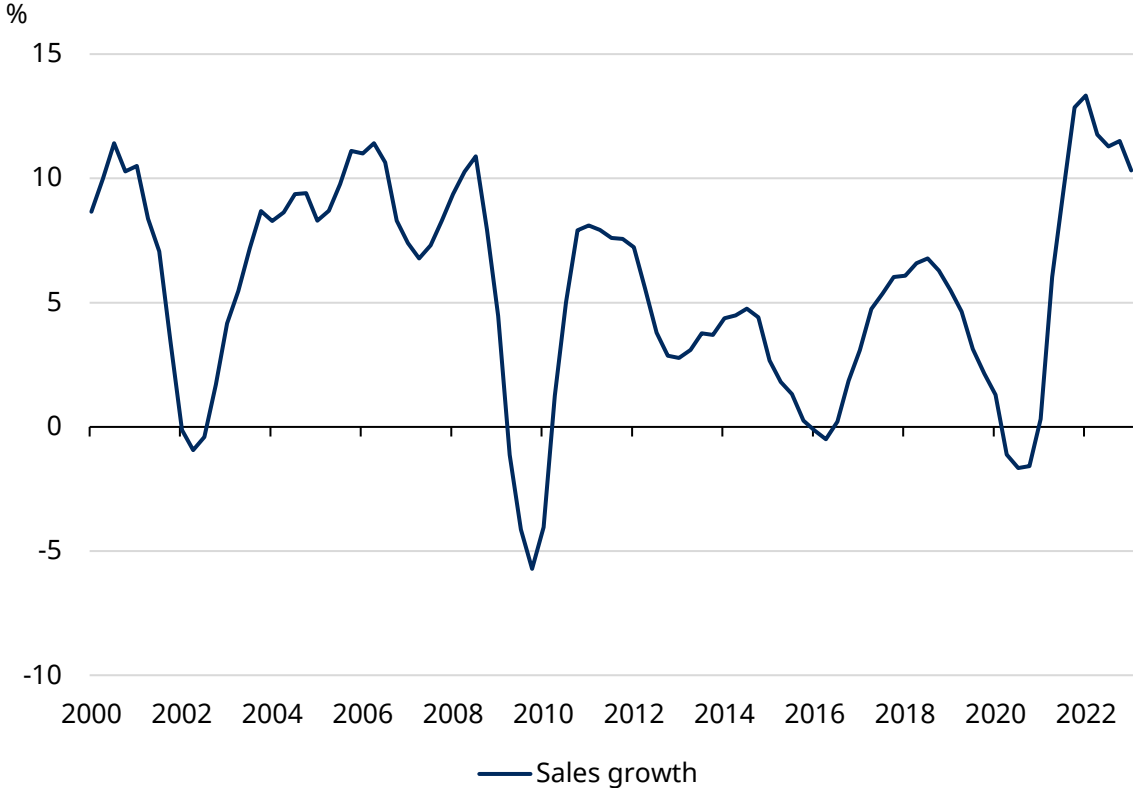
US IG earnings, sales and debt growth

Earnings growth continued to slow in Q1

US IG EBITDA and debt growth (last 12 months)



US IG sales growth (last 12 months)



Sales growth also slowed but remains at very elevated levels

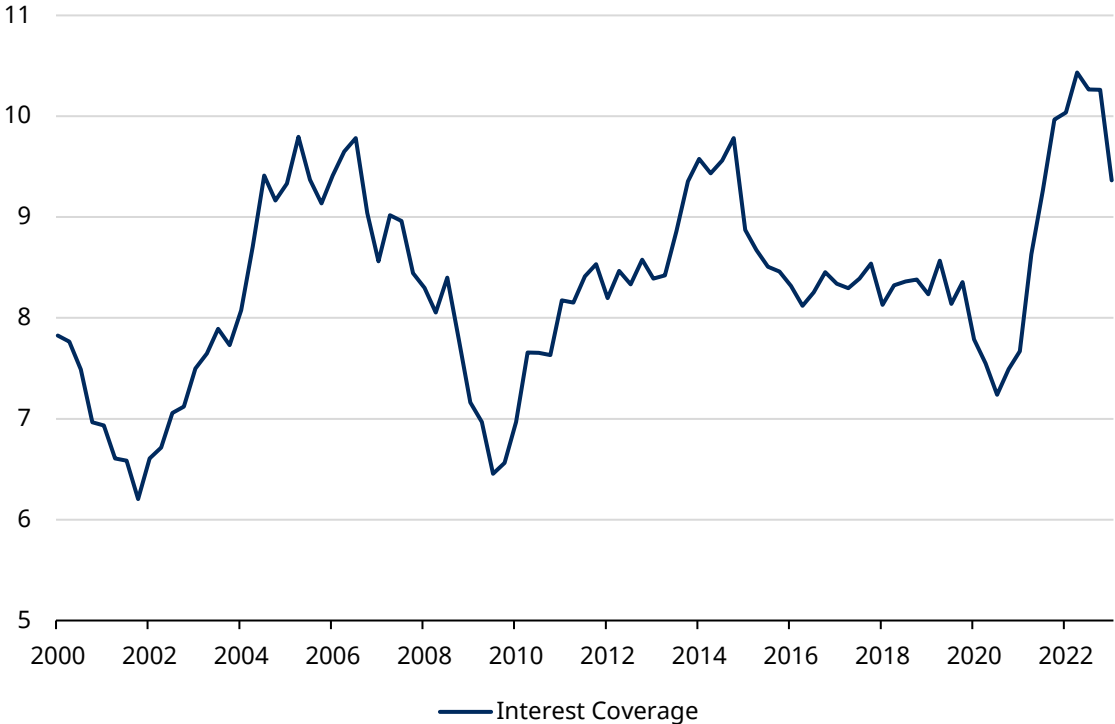
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

US IG interest coverage

Interest coverage has declined but remains elevated

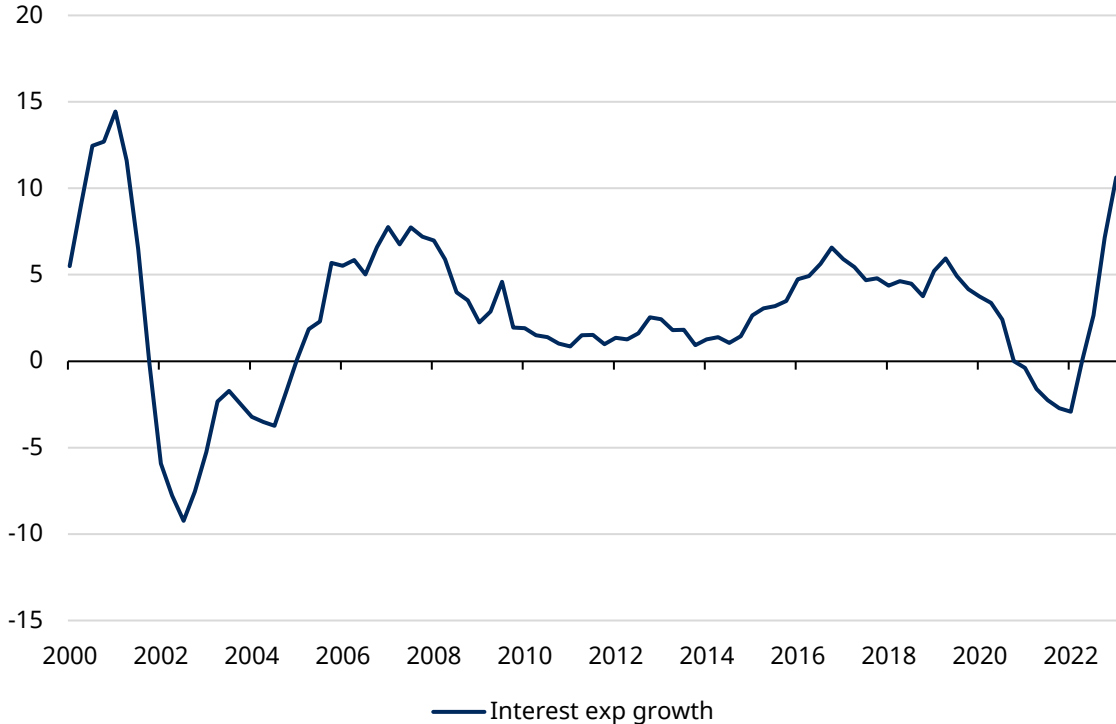
US IG interest coverage ratio

Last 12 months EBITDA to interest expense



US IG annual interest expense growth

%



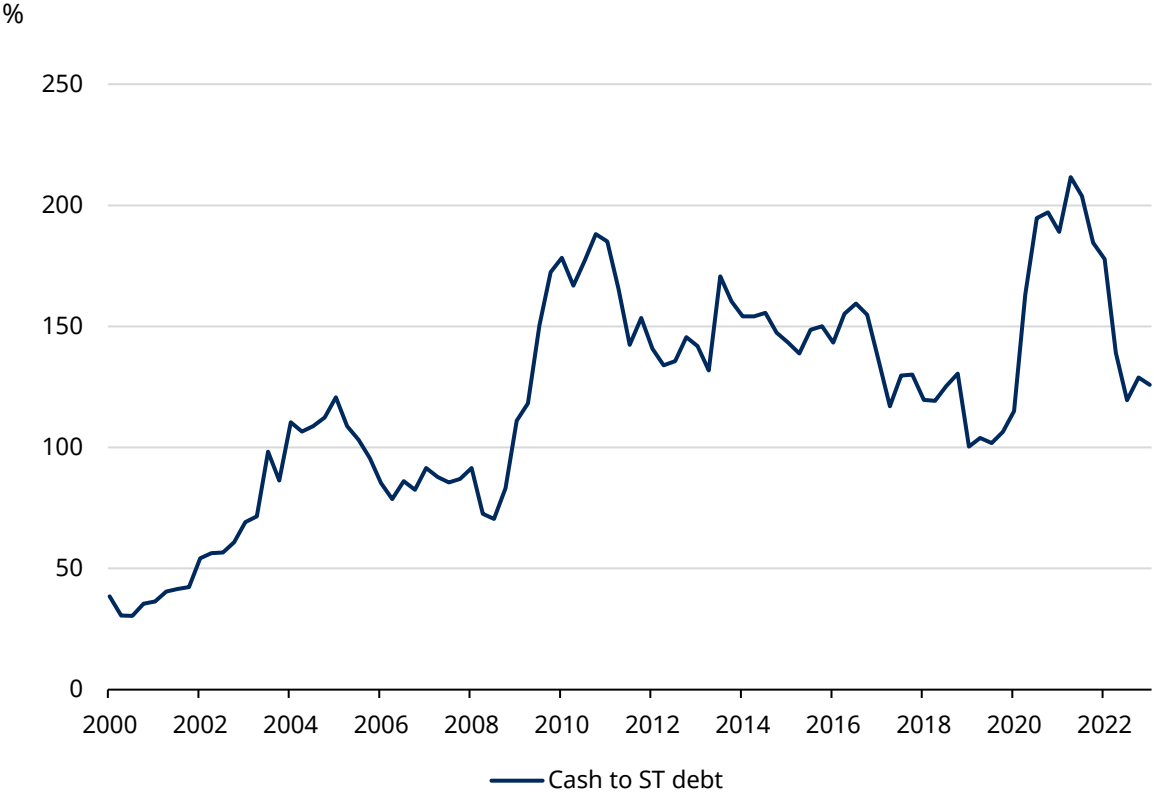
Interest expense growth is the highest since 2001 as higher interest rates are starting to have an impact

Source: Schrodgers, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

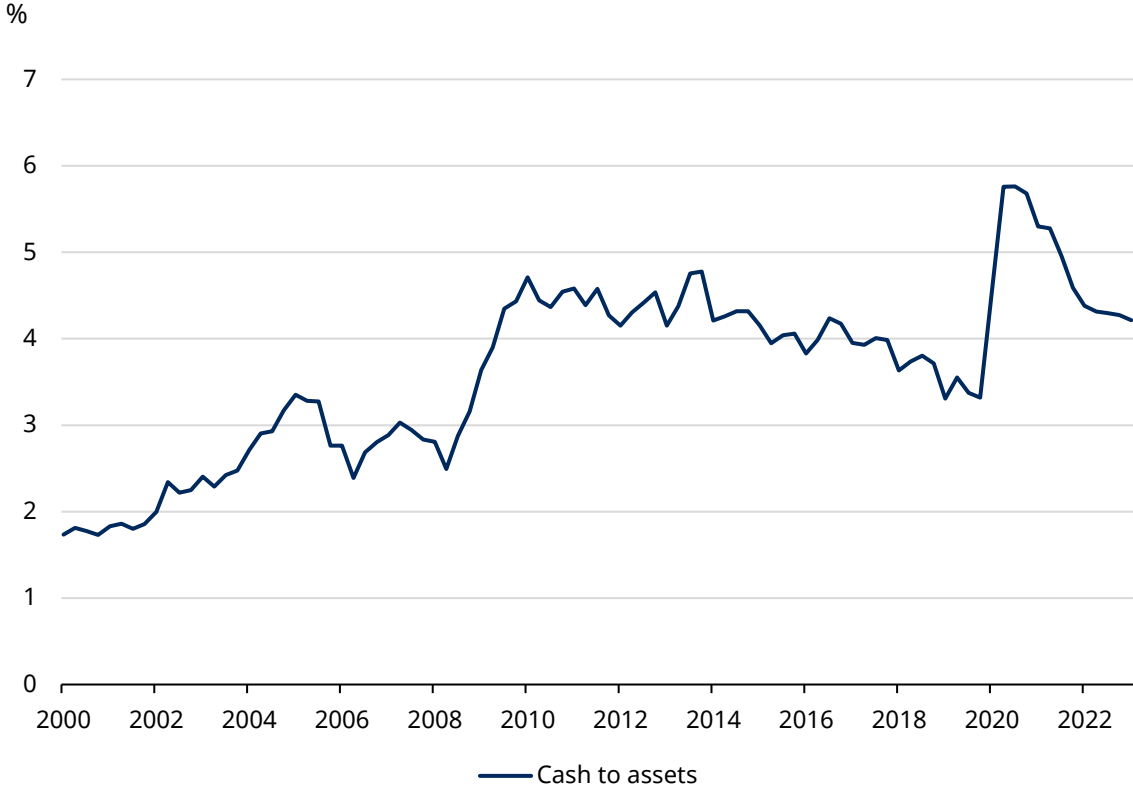
US IG cash balances

Cash balances broadly stable in Q1

US IG cash to short term debt



US IG cash to assets

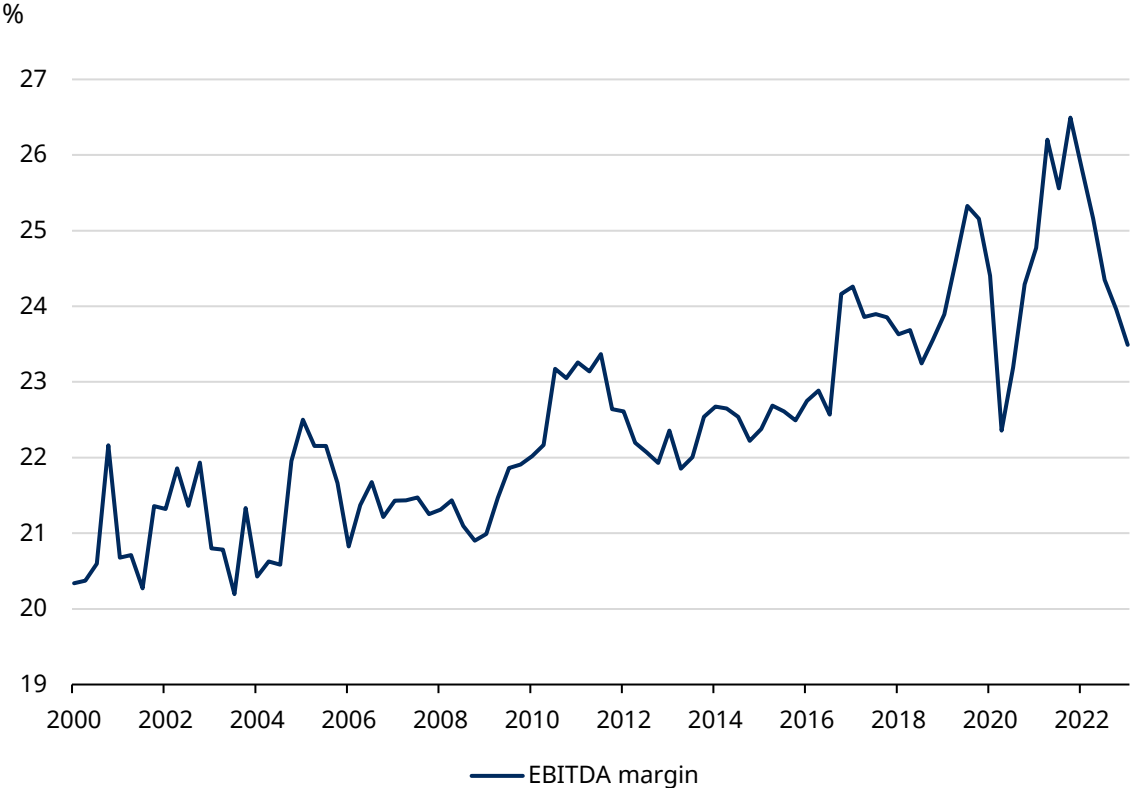


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

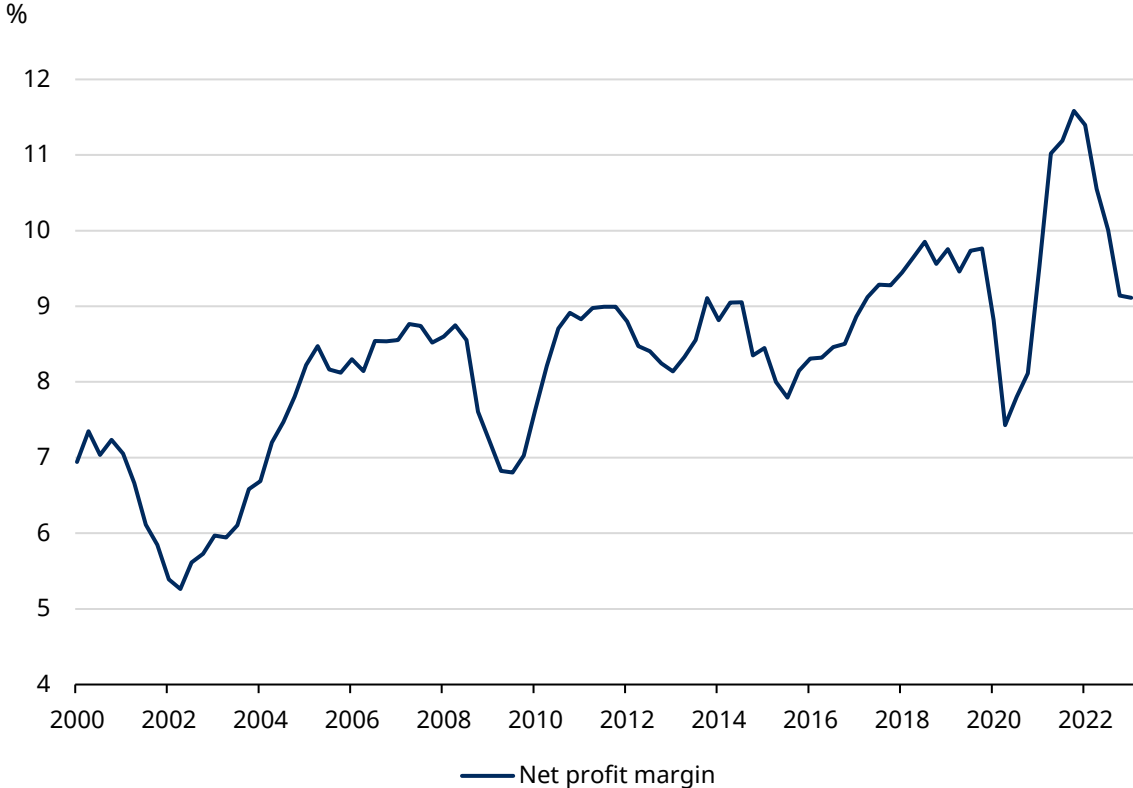
US IG corporate margins

EBITDA margins continued to fall in Q1

US IG EBITDA margin



US IG net profit margin



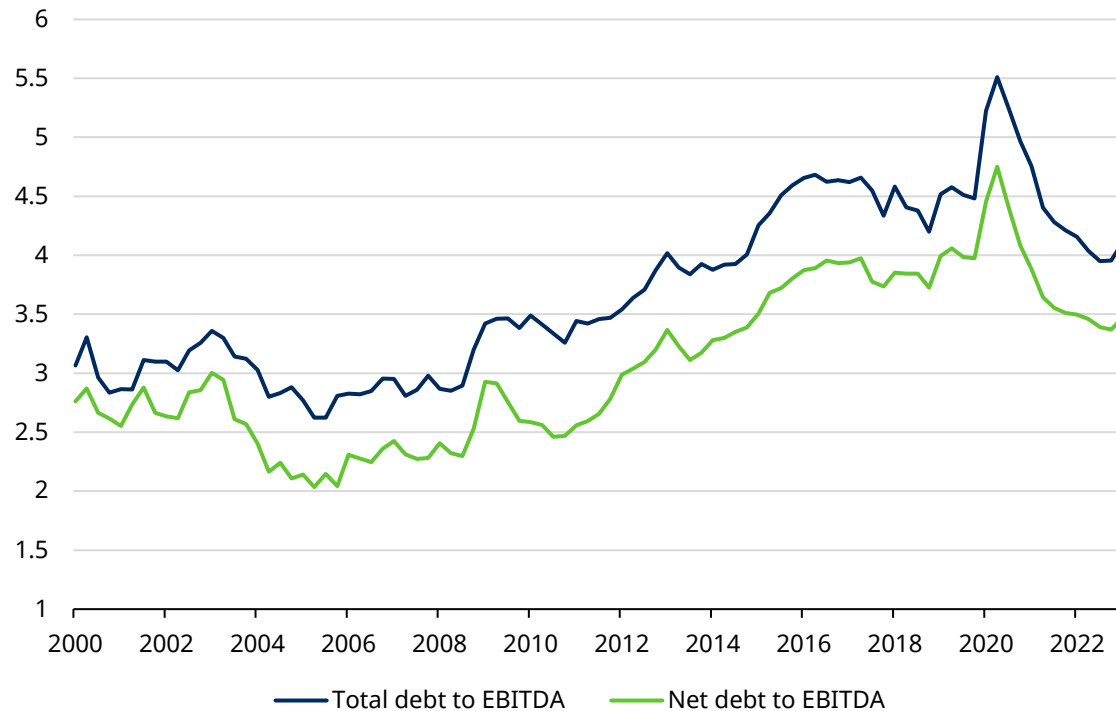
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

US HY leverage

Leverage ticked up slightly in Q1 but remains well below pandemic era peaks

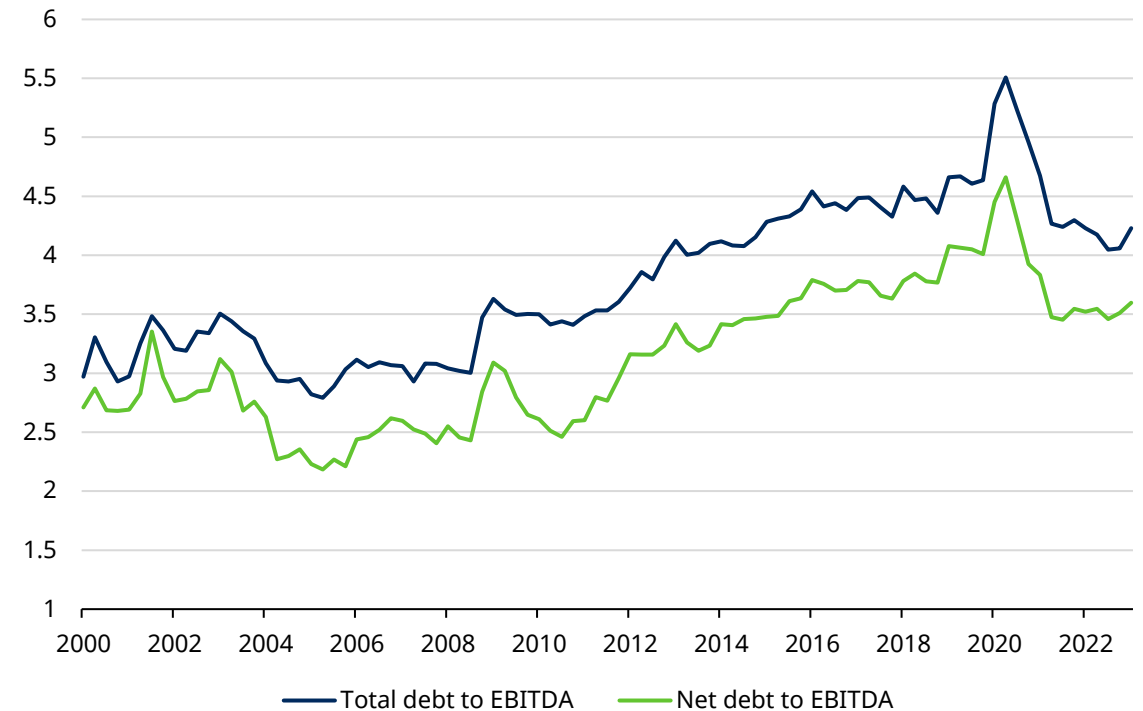
US HY leverage

Debt to last 12 months EBITDA



US HY ex-energy leverage

Debt to last 12 months EBITDA

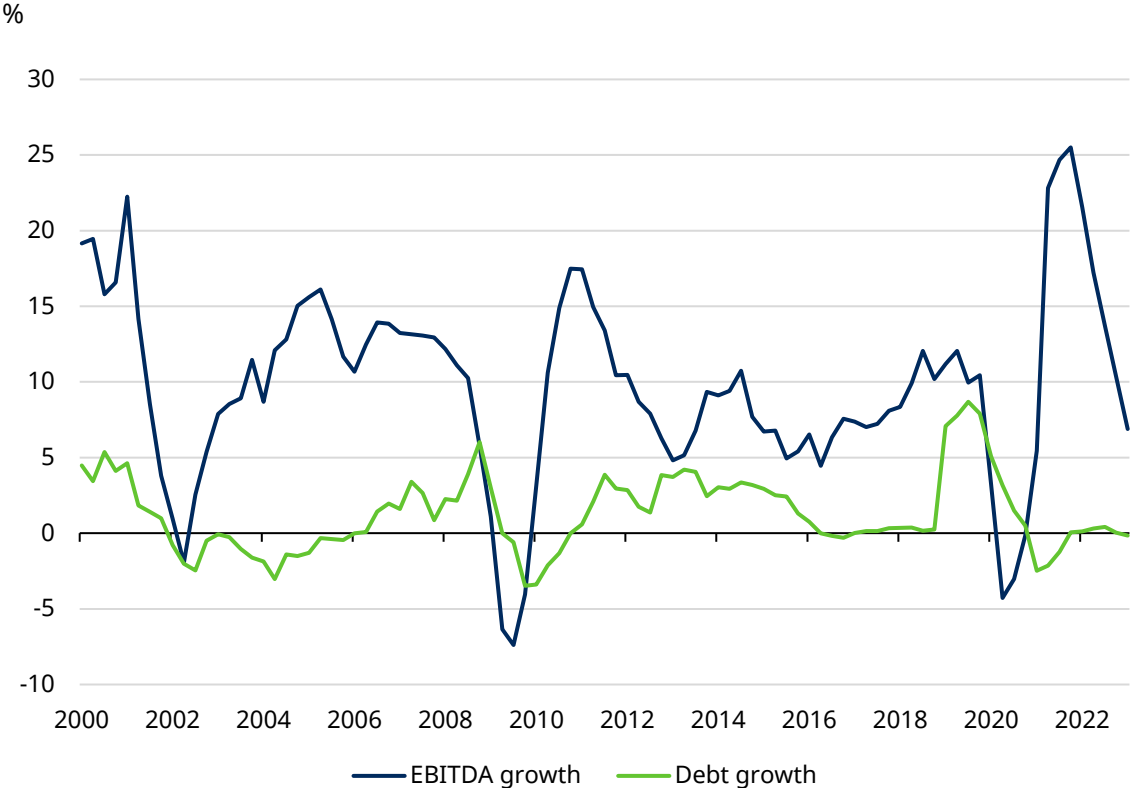


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

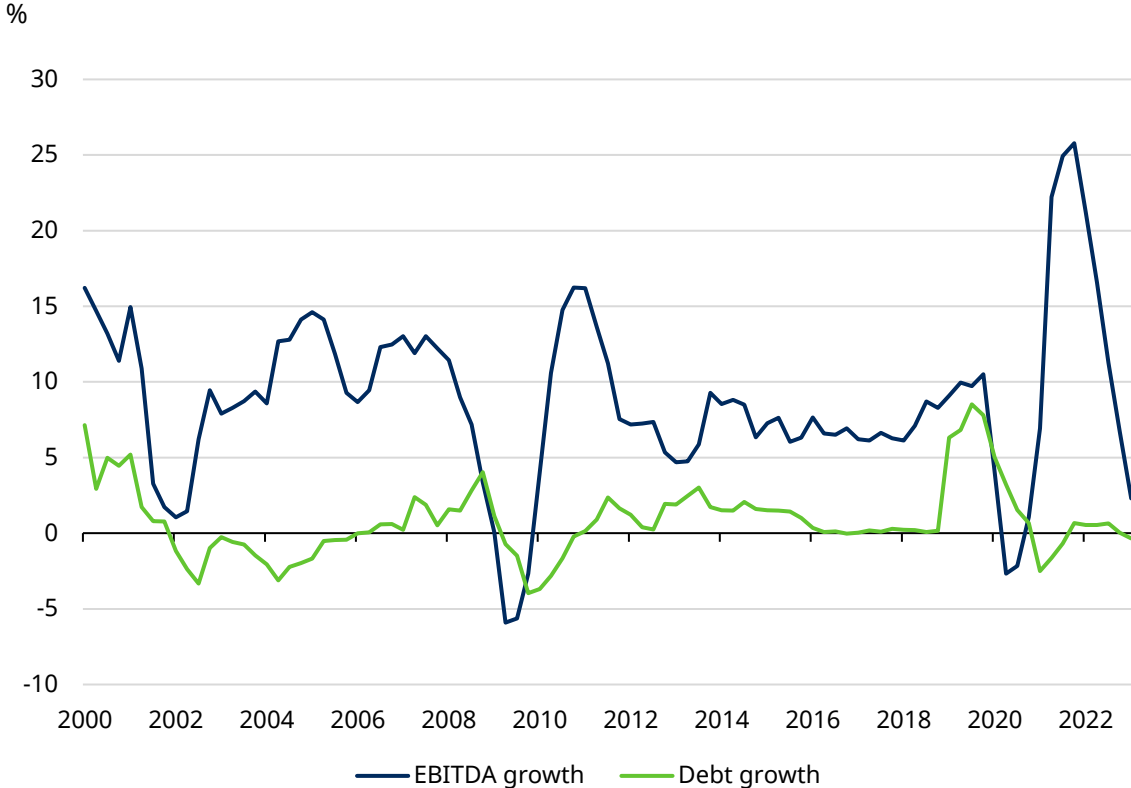
US HY earnings and debt growth

EBITDA growth continued to cool in Q1, while debt growth remained close to zero

US HY EBITDA and debt growth (last 12 months)



US HY ex-energy EBITDA and debt growth (last 12m)



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

US HY interest coverage

Interest coverage has declined but remains elevated

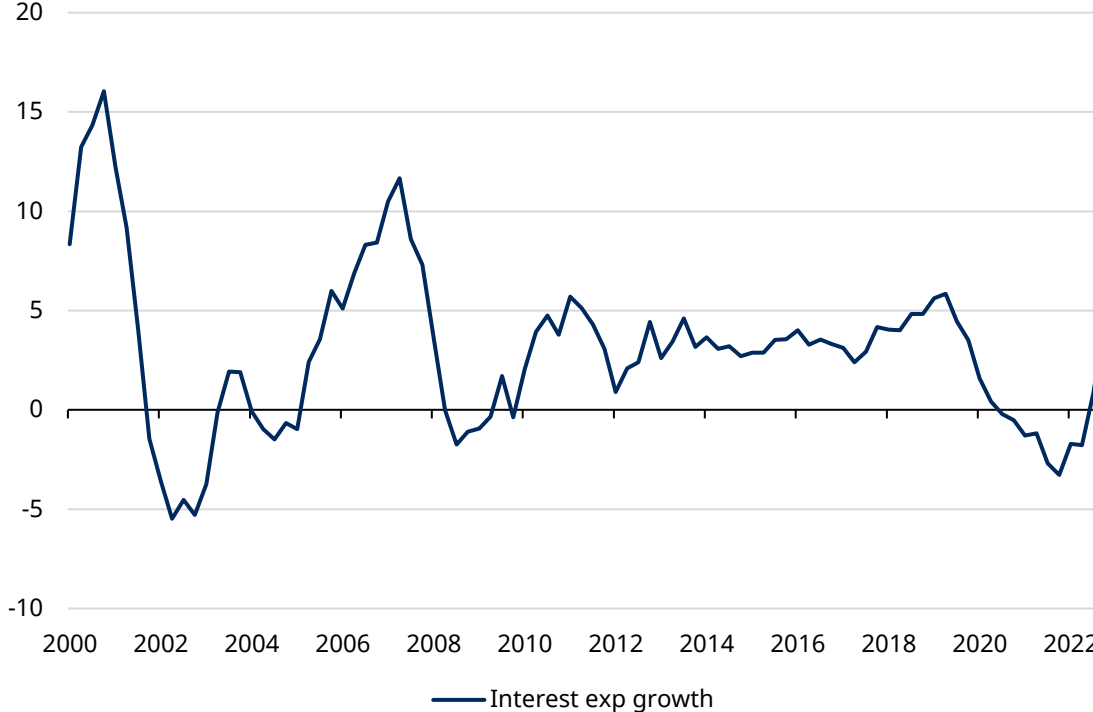
US HY interest coverage ratio

Last 12 months EBITDA to interest expense



US HY annual interest expense growth

%



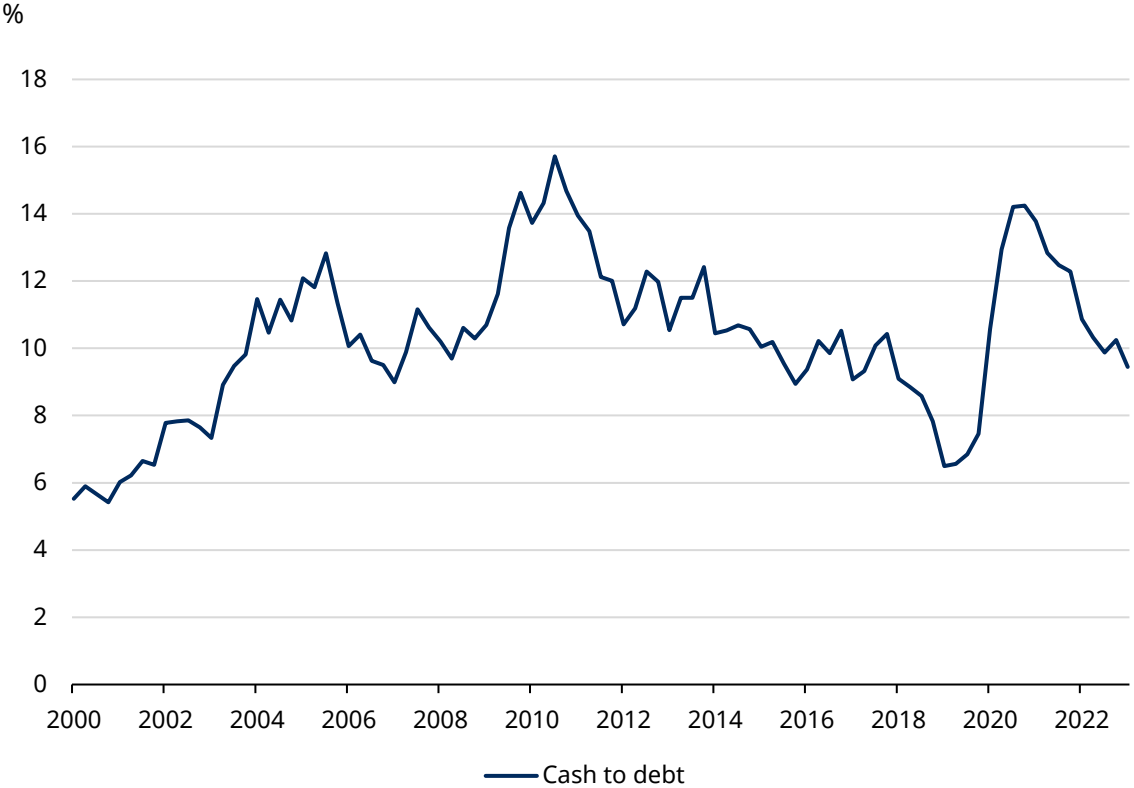
Interest expense growth is the highest since the global financial crisis as higher interest rates are starting to have an impact

Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

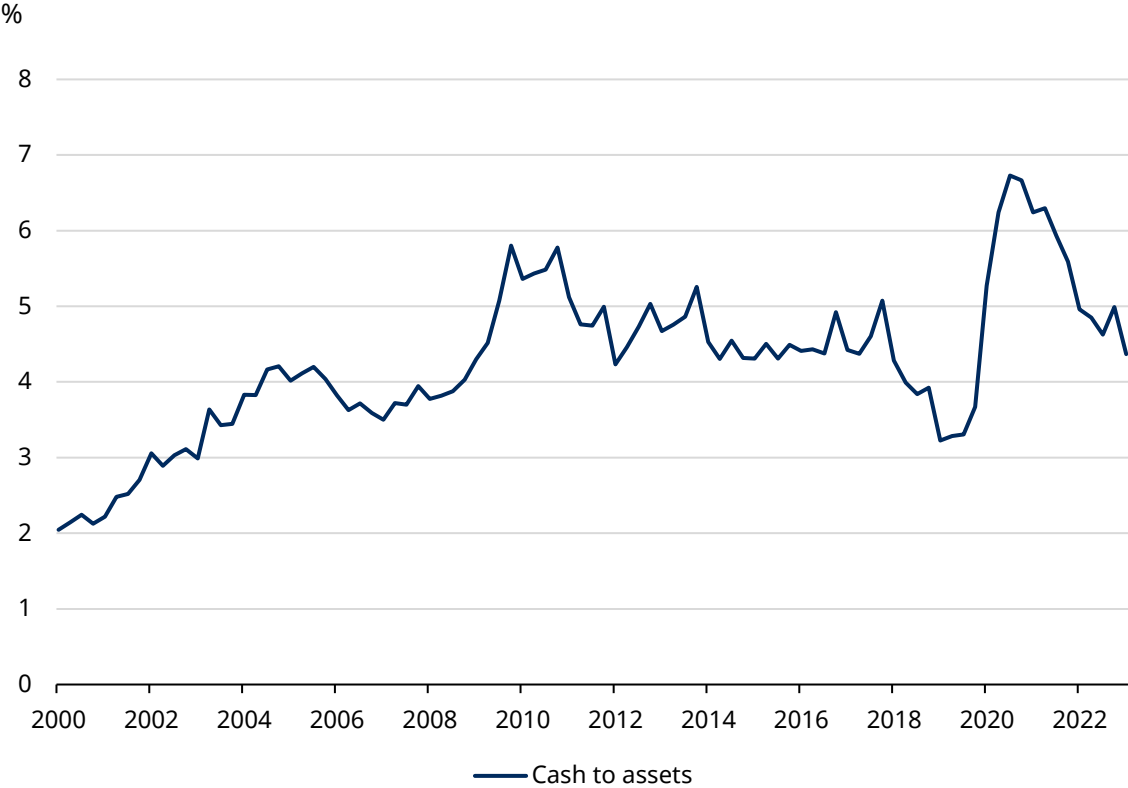
US HY cash levels

Cash balances slightly down in Q1

US HY cash to debt



US HY cash to assets



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

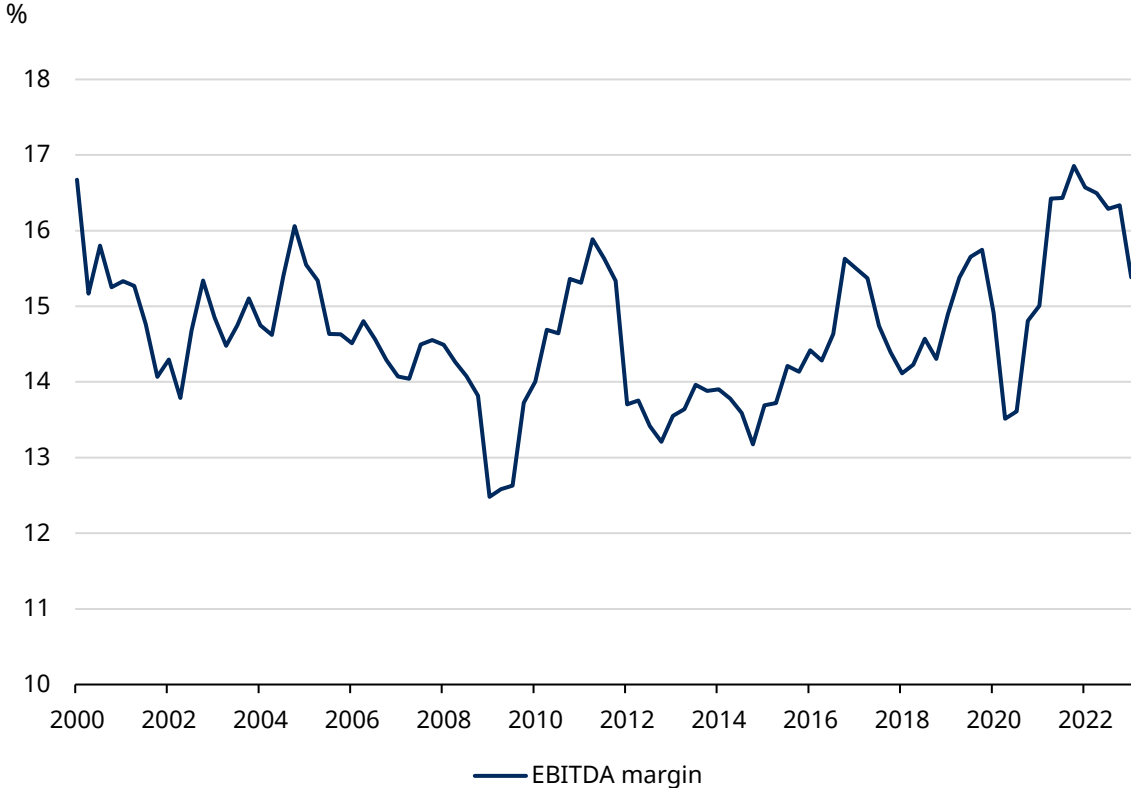
US HY corporate margins

EBITDA margins declined in Q1, albeit from high levels

US HY EBITDA margin



US HY ex-energy EBITDA margin



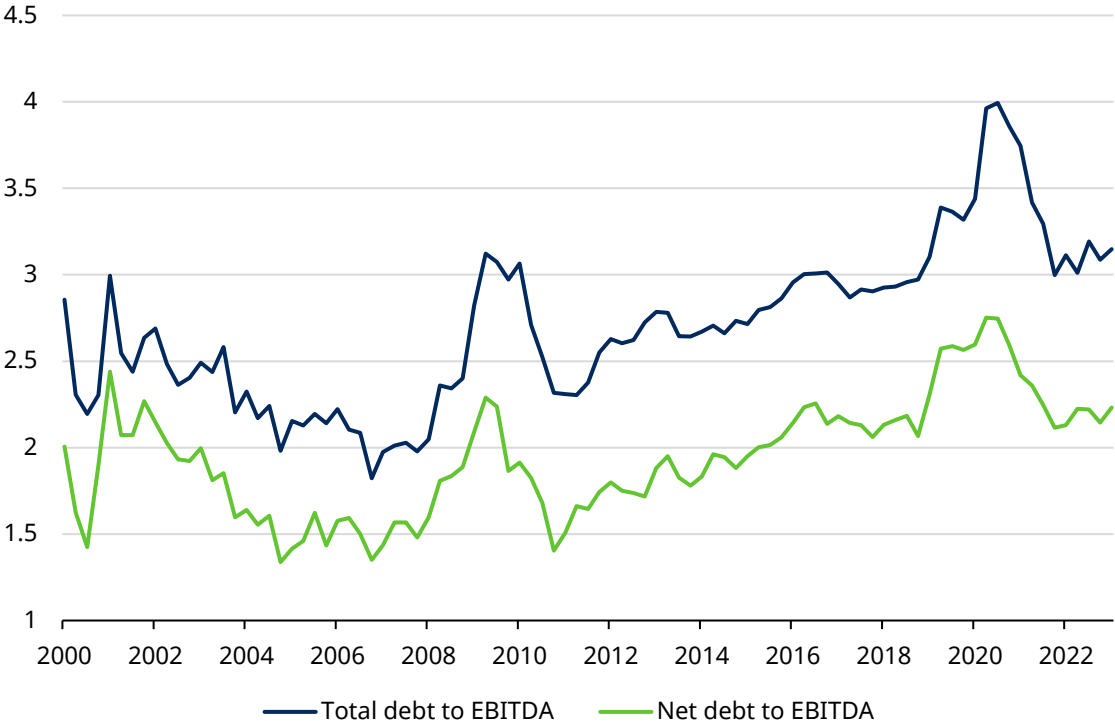
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Euro IG leverage, earnings and debt growth

Leverage has been broadly stable in recent quarters

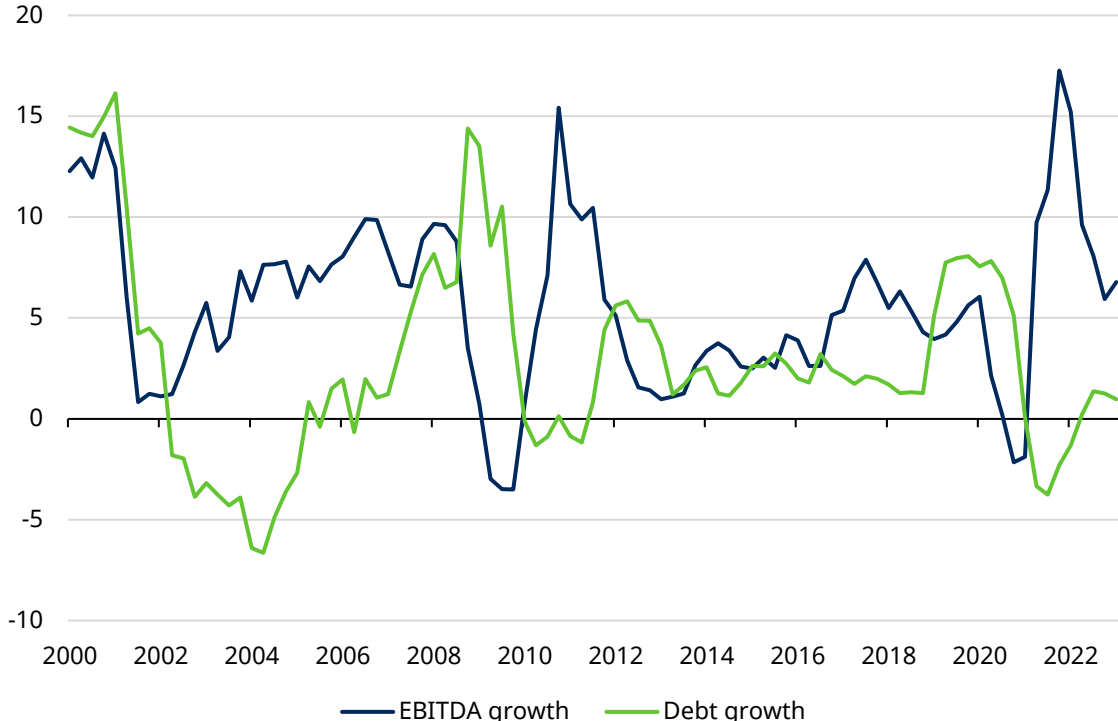
Euro IG leverage

Debt to last 12 months EBITDA



Euro IG EBITDA and debt growth (last 12 months)

%



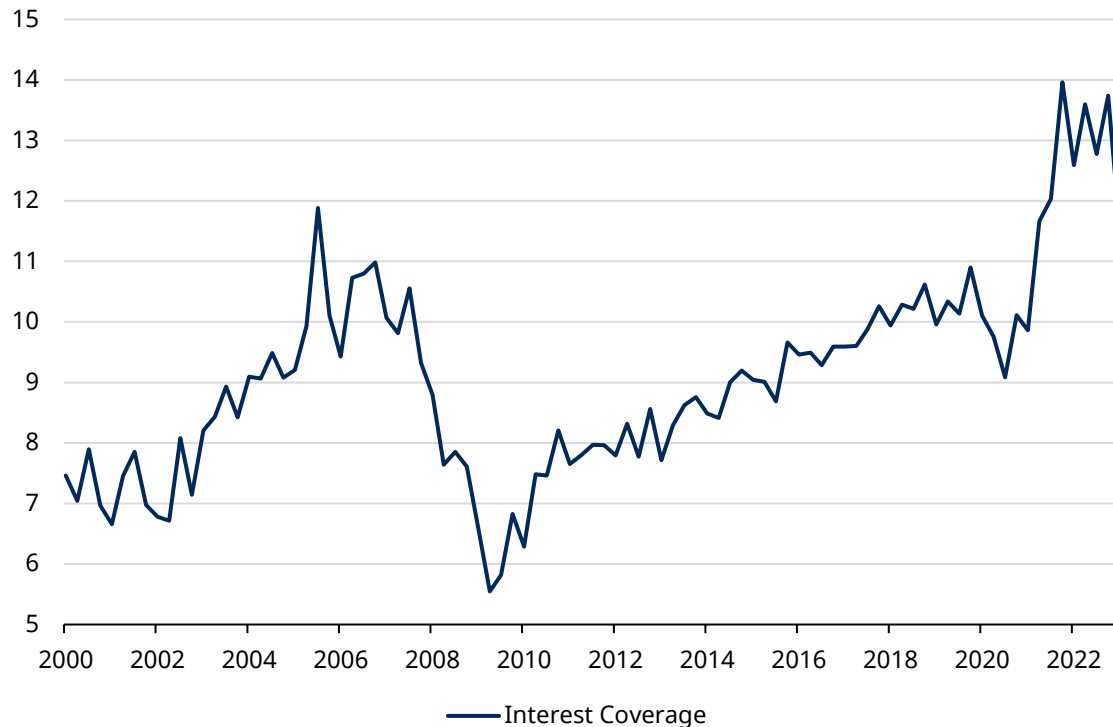
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Euro IG interest coverage

Interest coverage has declined but remains very elevated

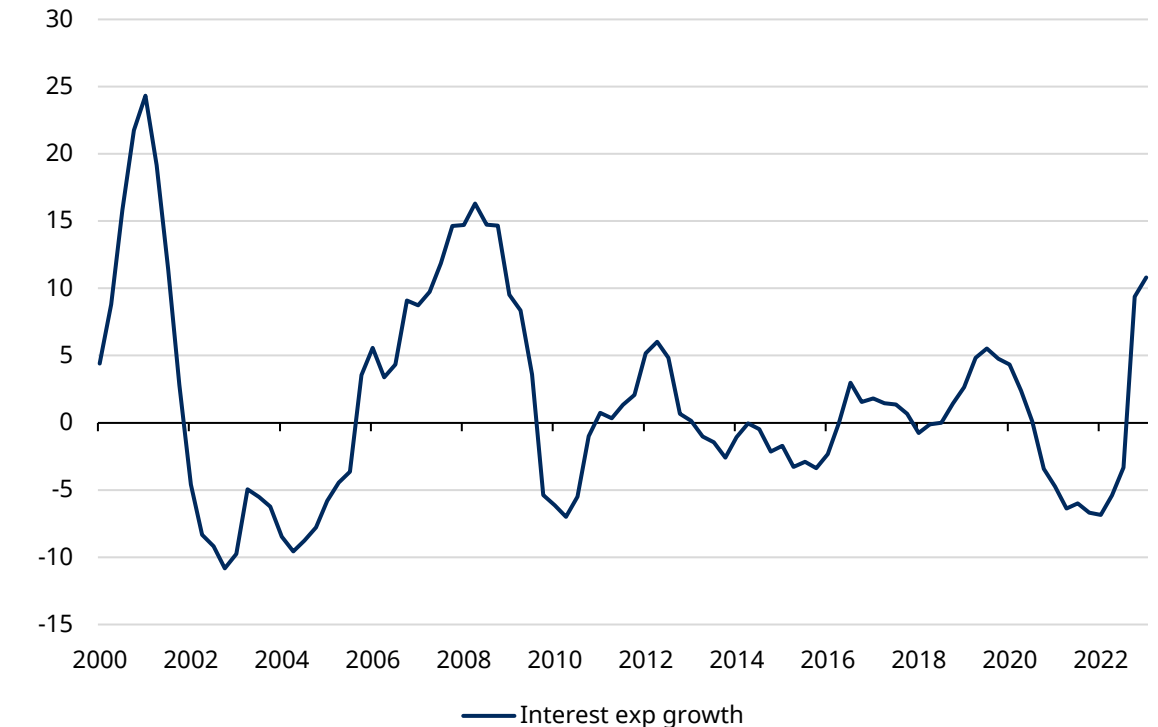
Euro IG interest coverage ratio

Last 12 months EBITDA to interest expense



Euro IG annual interest expense growth

%

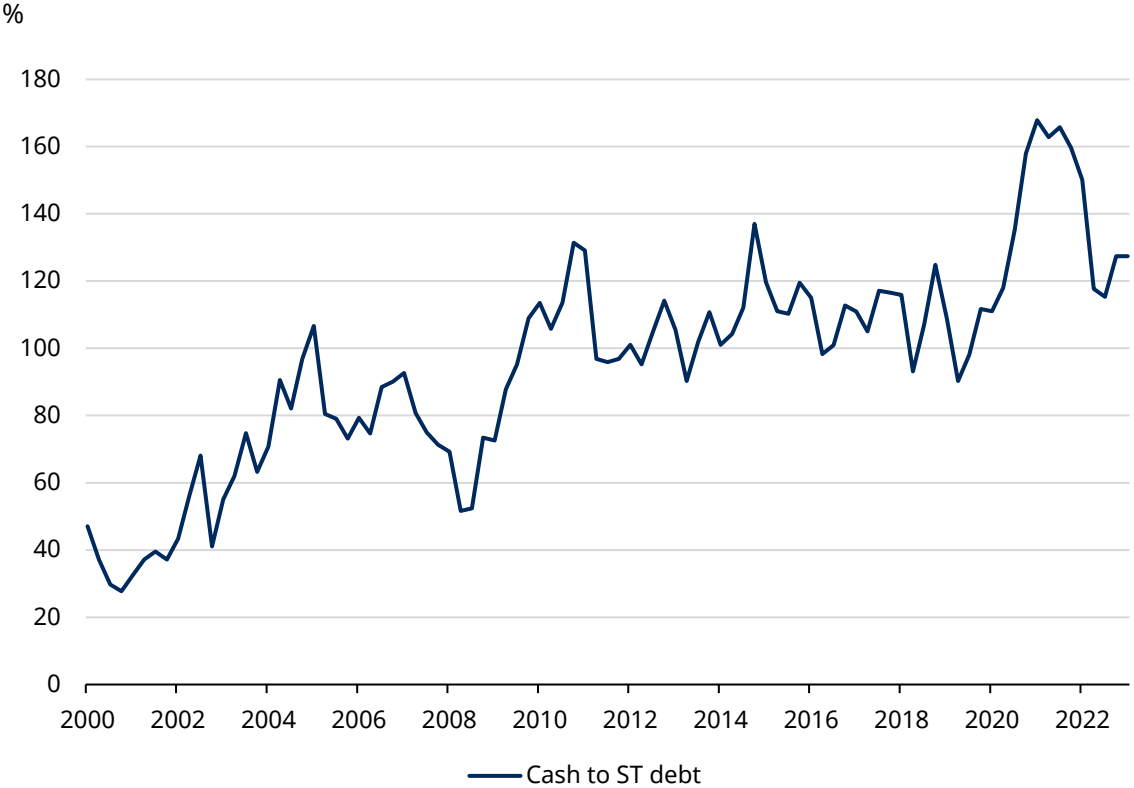


Interest expense growth is the highest since the global financial crisis as higher interest rates are starting to have an impact

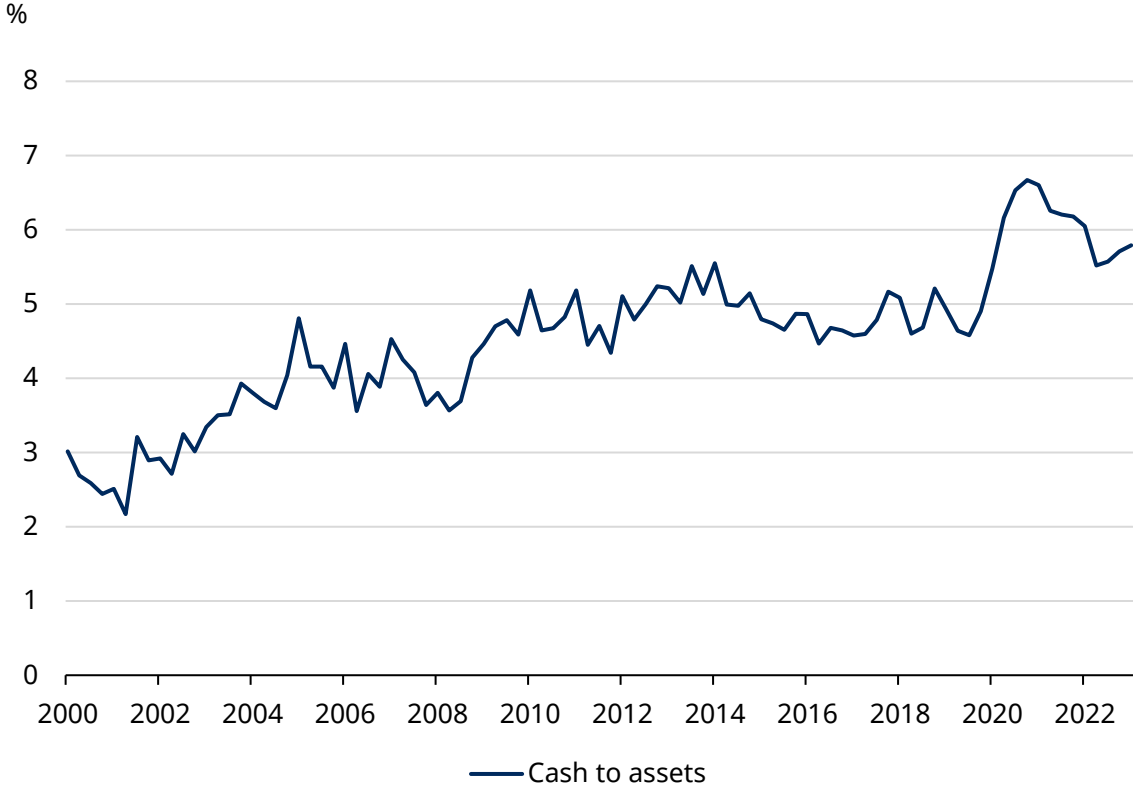
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Euro IG cash levels

Euro IG cash to short term debt



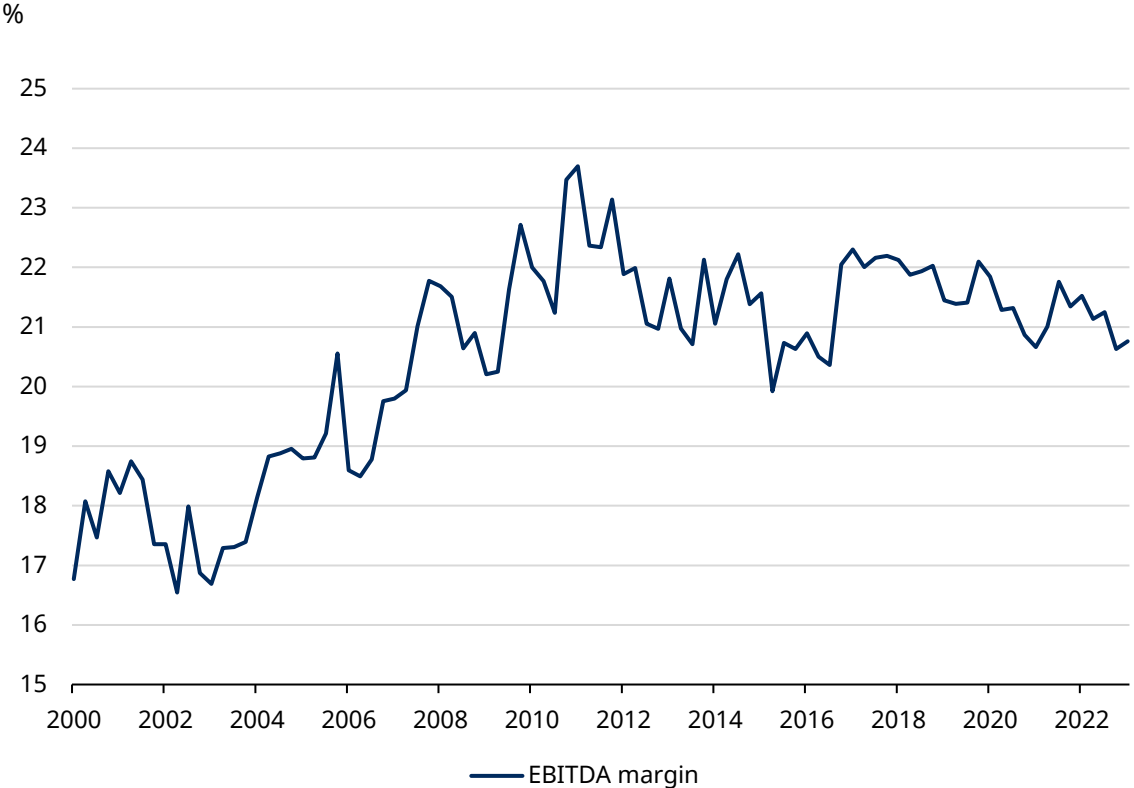
Euro IG cash to assets



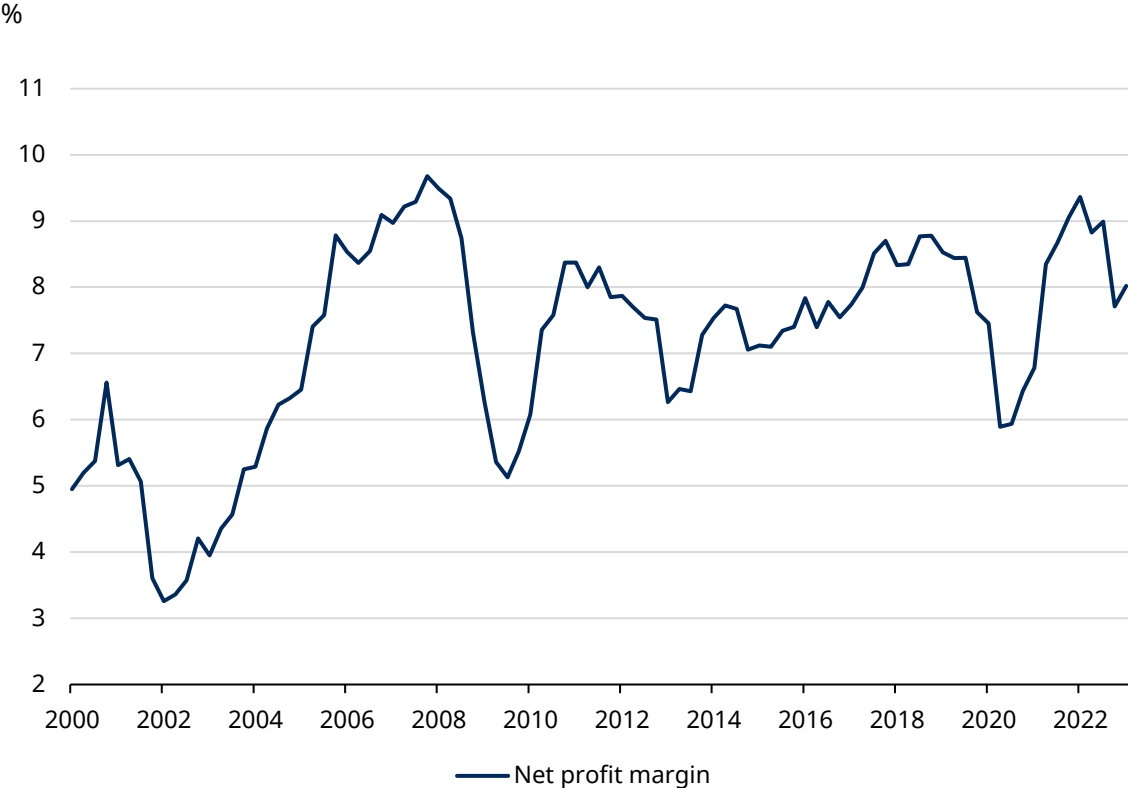
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Euro IG corporate margins

Euro IG EBITDA margin



Euro IG net profit margin



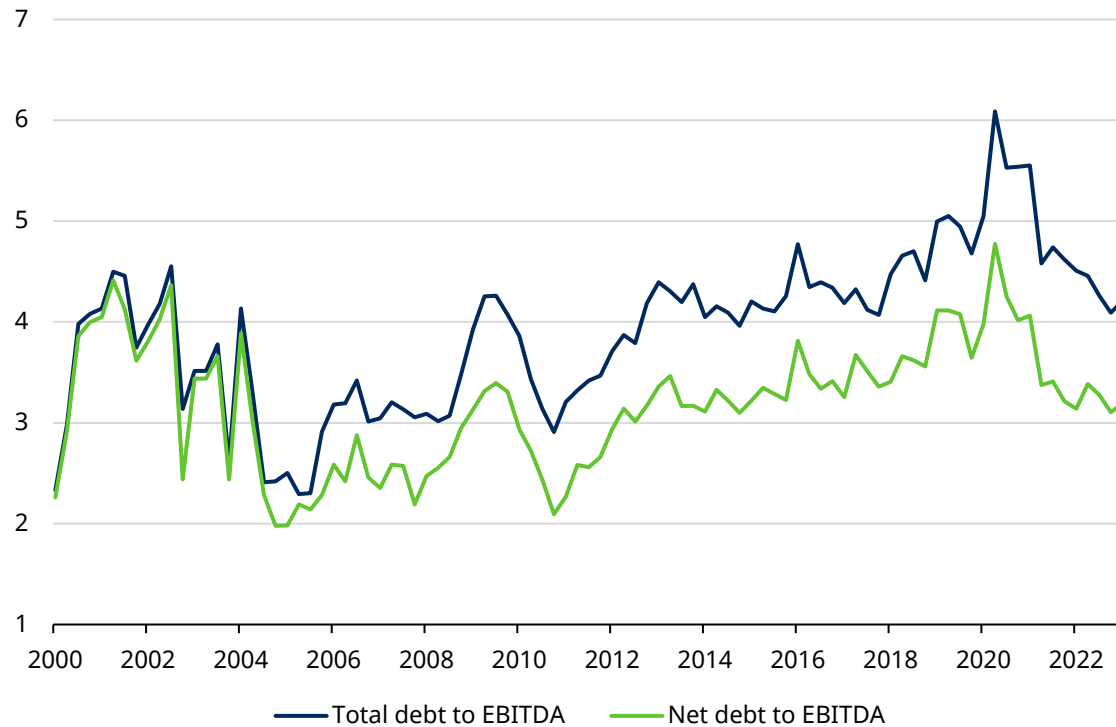
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Euro HY leverage

Leverage ticked up slightly in Q1 but remains well below pandemic era peaks

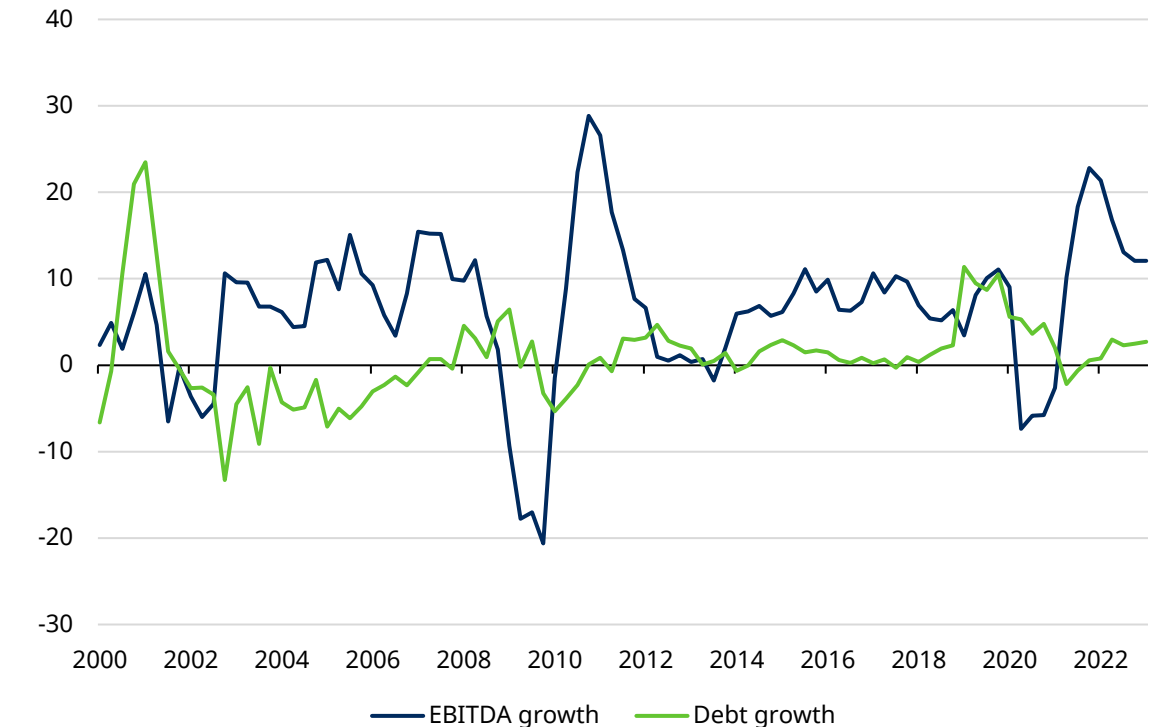
Euro HY leverage

Debt to last 12 months EBITDA



Euro HY EBITDA and debt growth (last 12 months)

%



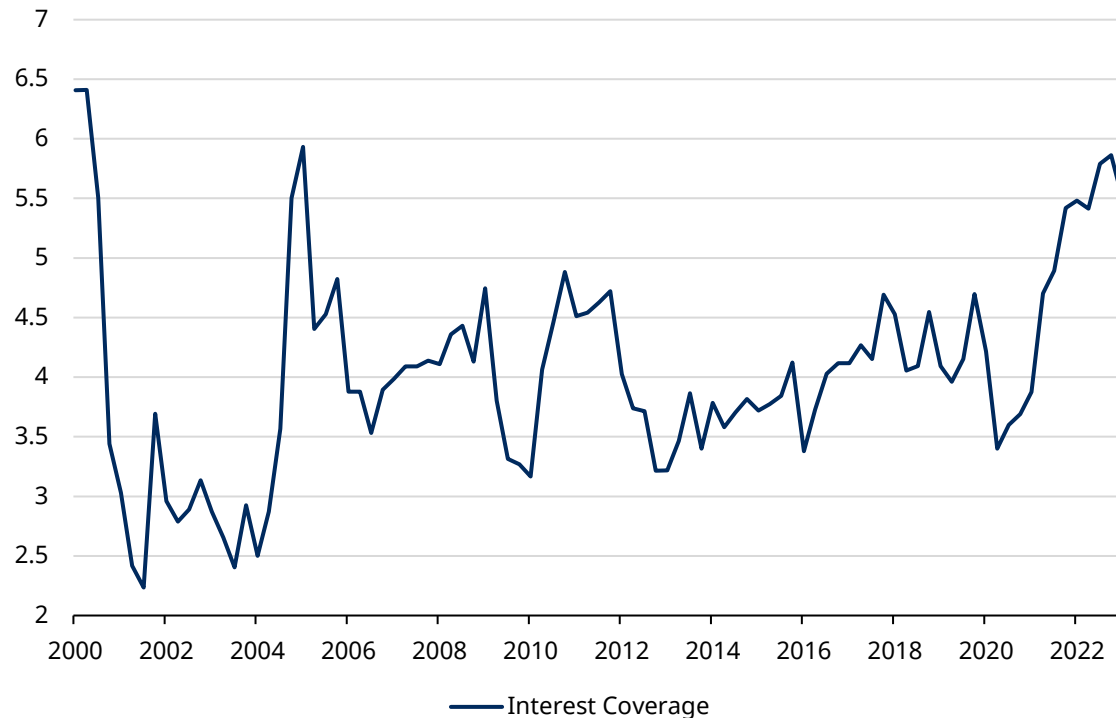
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Euro HY interest coverage

Interest coverage has slightly declined but remains elevated

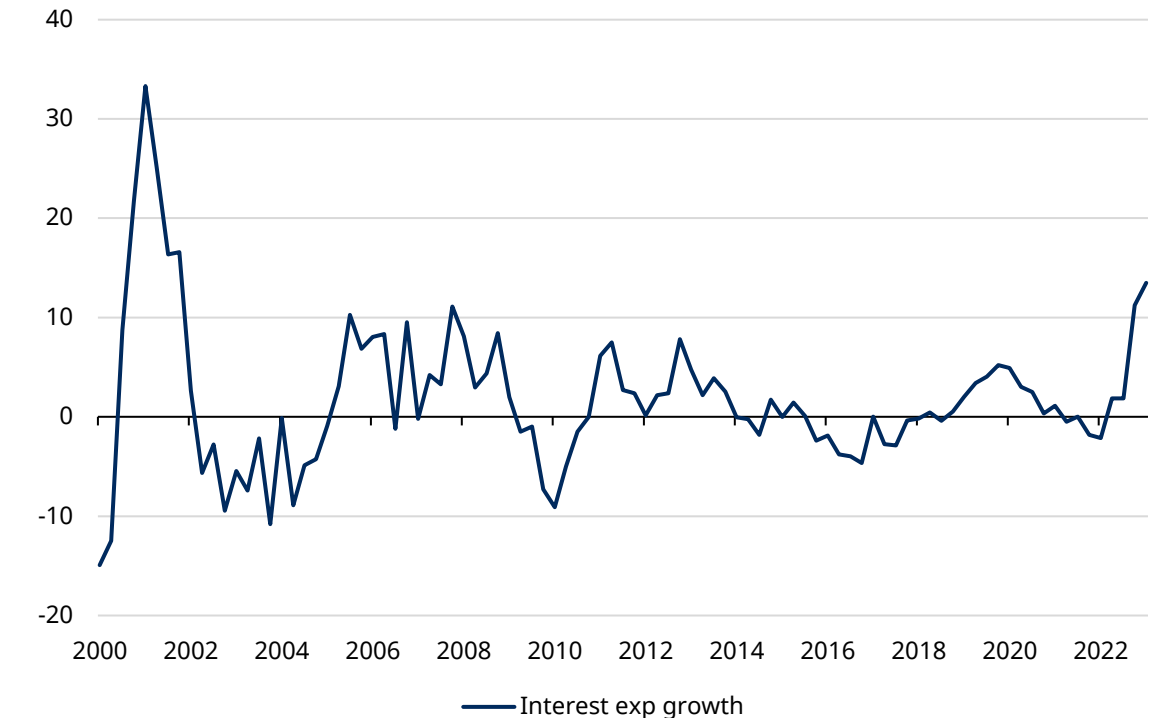
Euro HY interest coverage ratio

Last 12 months EBITDA to interest expense



Euro HY annual interest expense growth

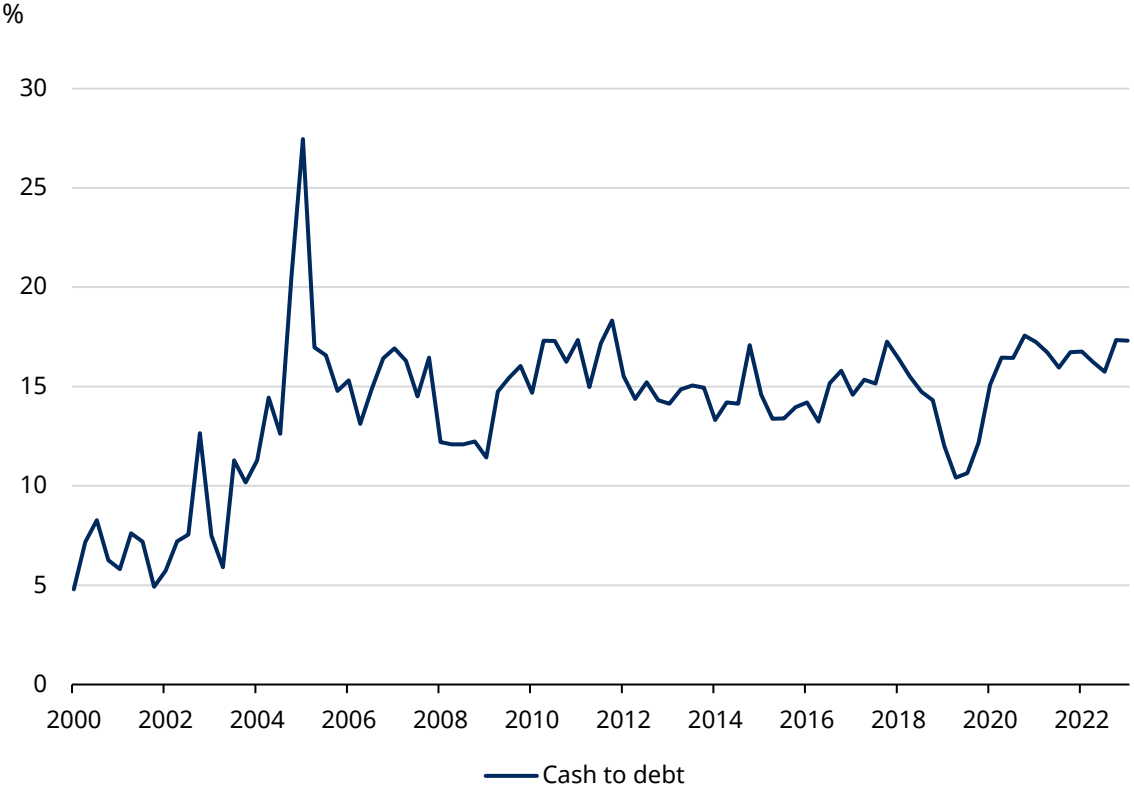
%



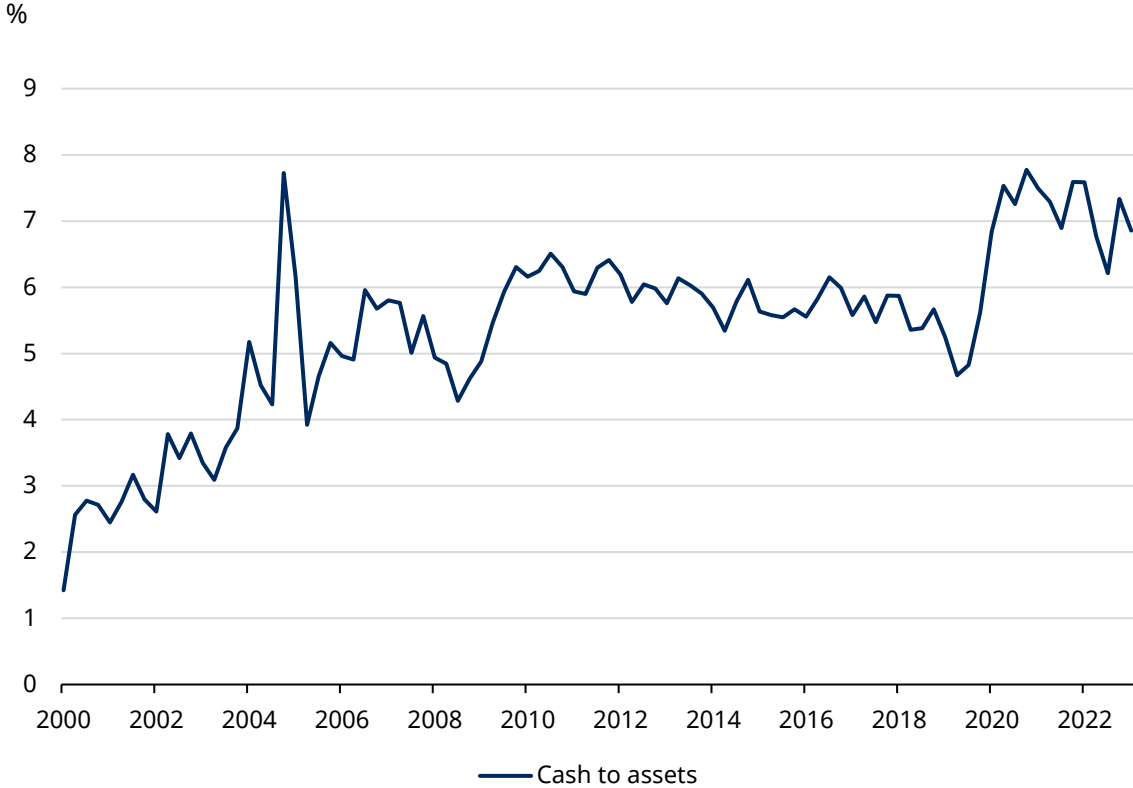
Source: Schroders, Bloomberg, Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Euro HY cash levels

Euro HY cash to debt



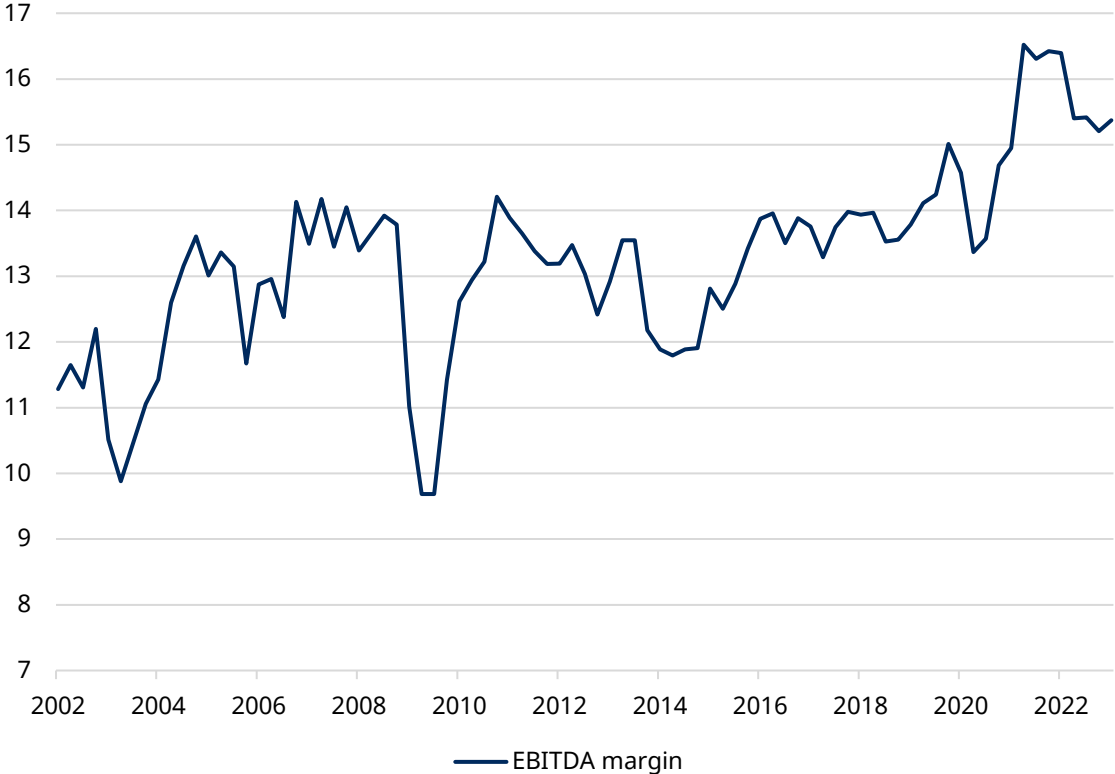
Euro HY cash to assets



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

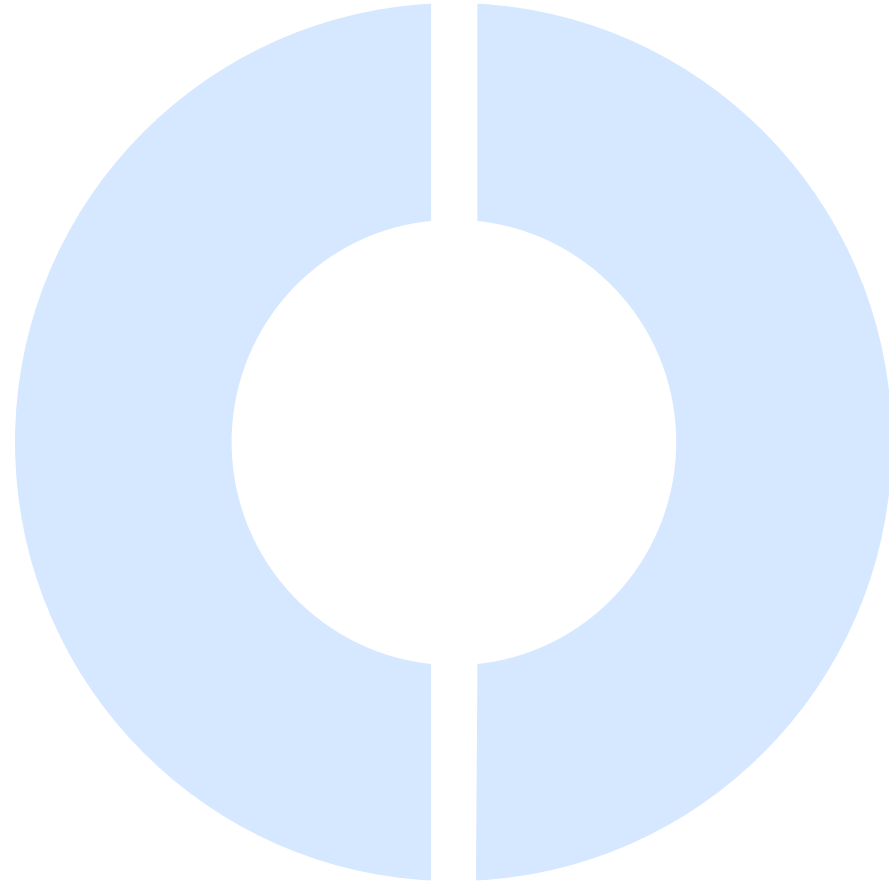
Euro HY corporate margins

Euro HY EBITDA margin



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 69.

Schroders



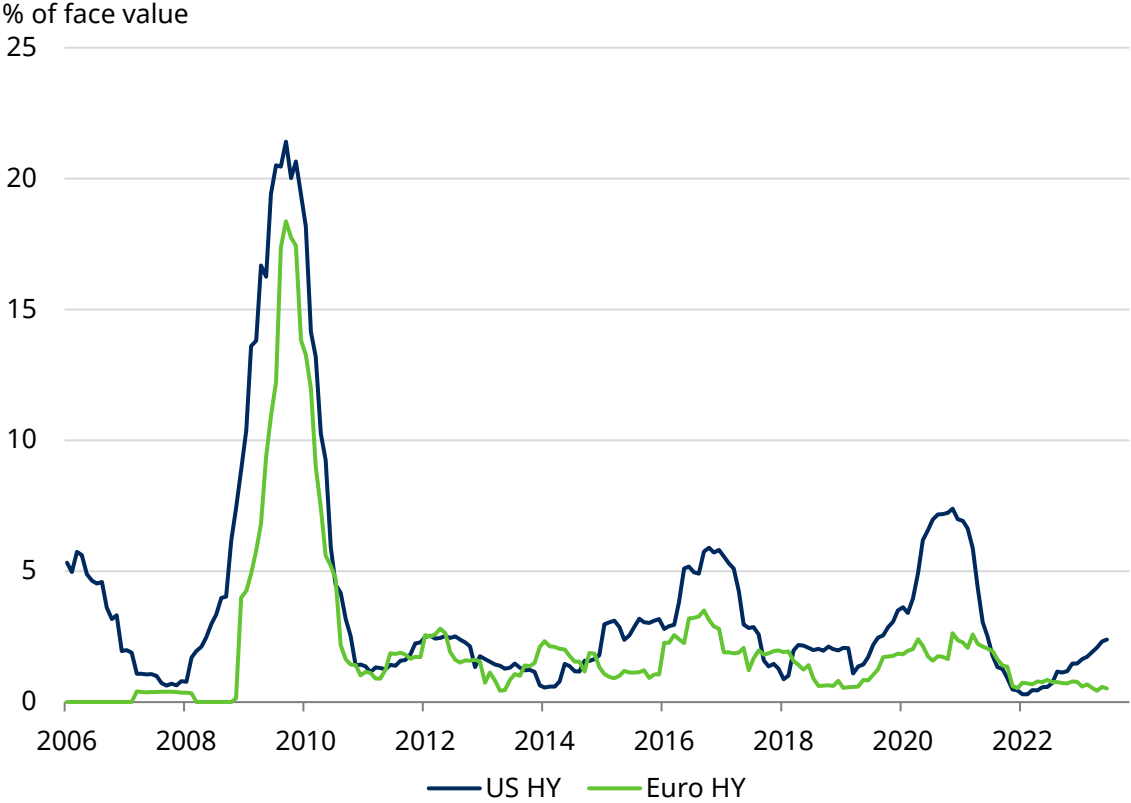
Corporate credit

Technicals

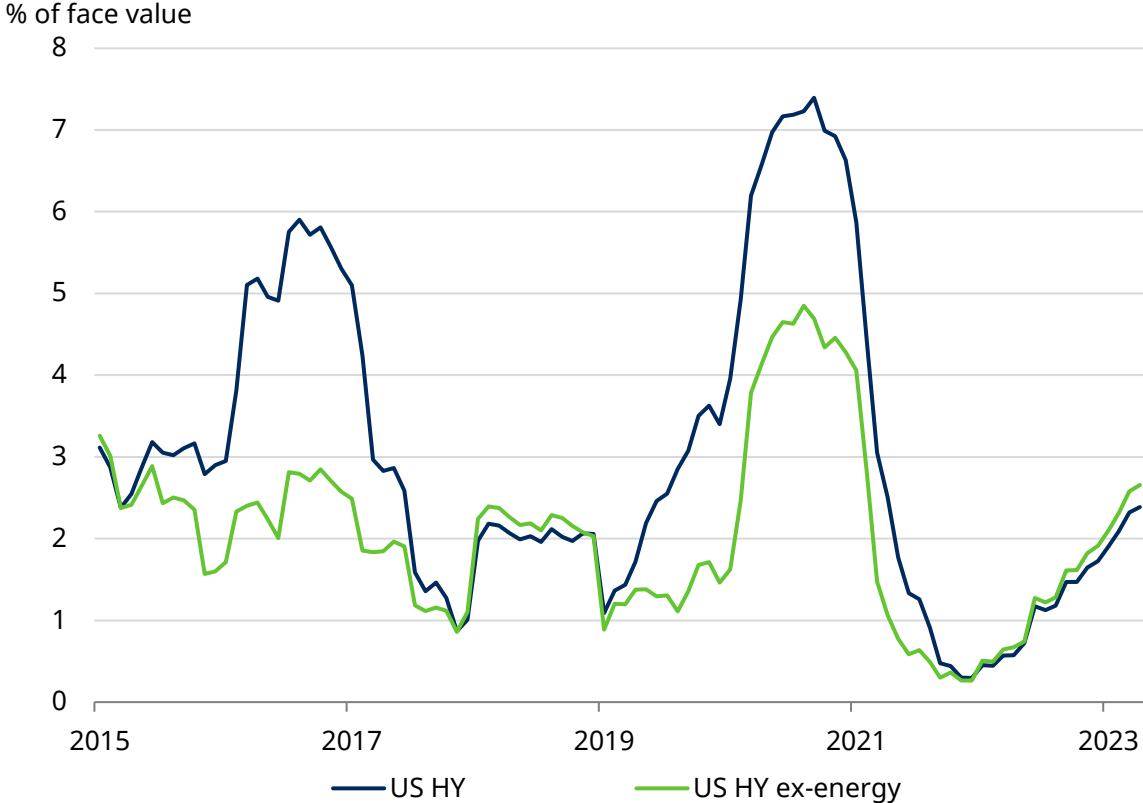
HY default rates

US HY default rates are rising

HY par default rate (last twelve months)



US HY par default rate (last twelve months)

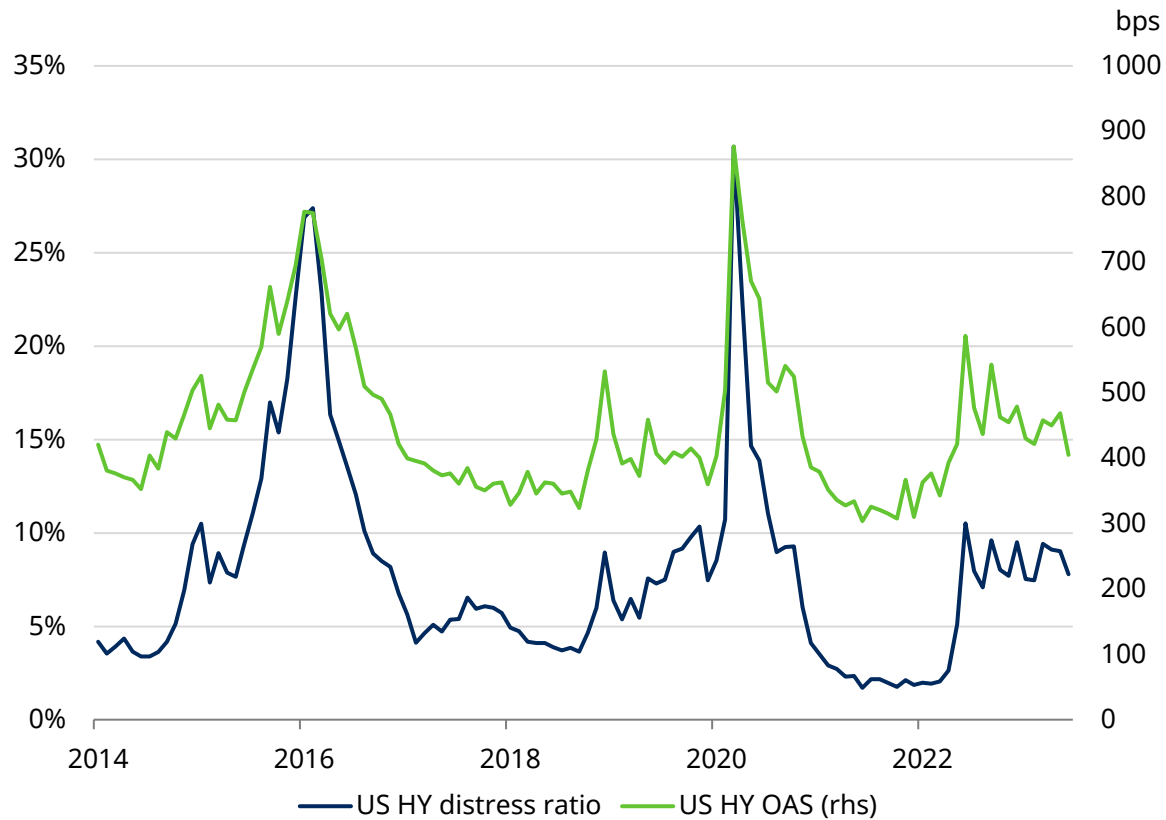


Source: Schroders, BofA Global Research, Moody's. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

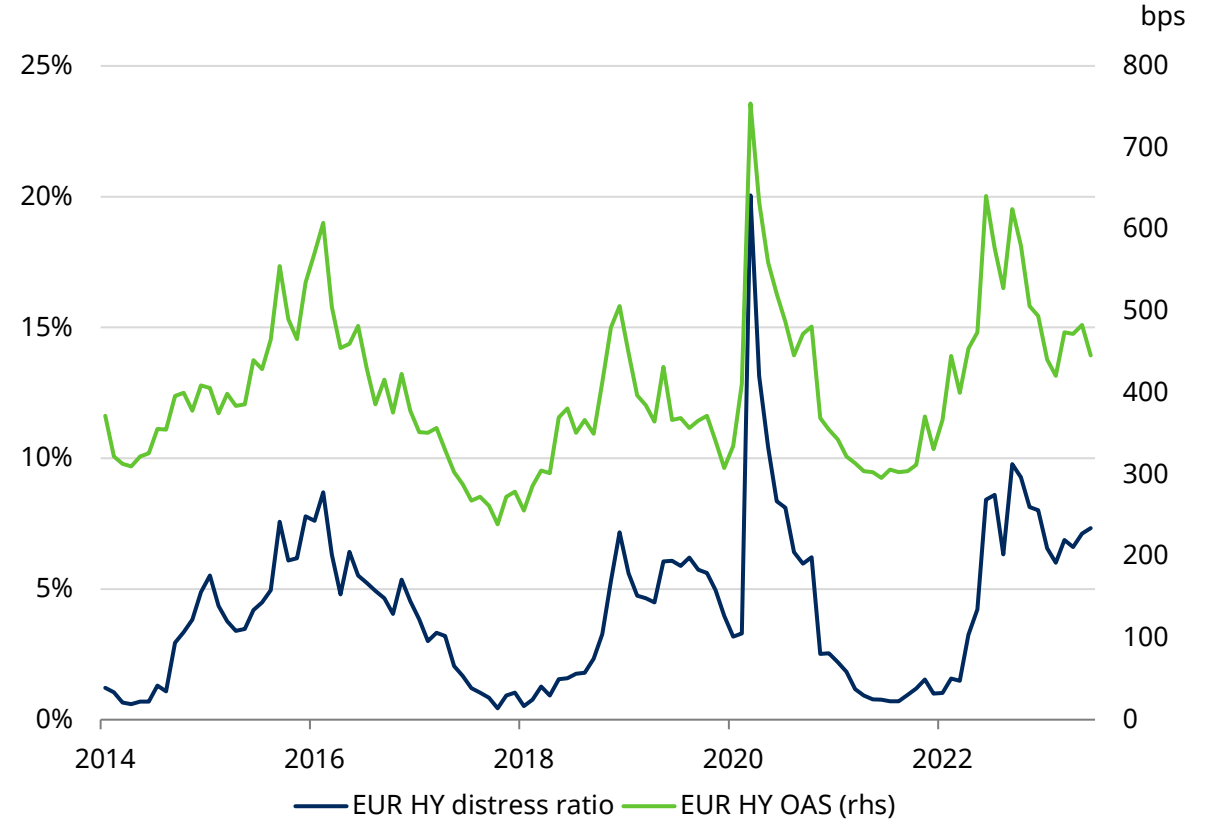
HY distress ratios

Higher distress is usually a harbinger of defaults

US HY distress ratio¹



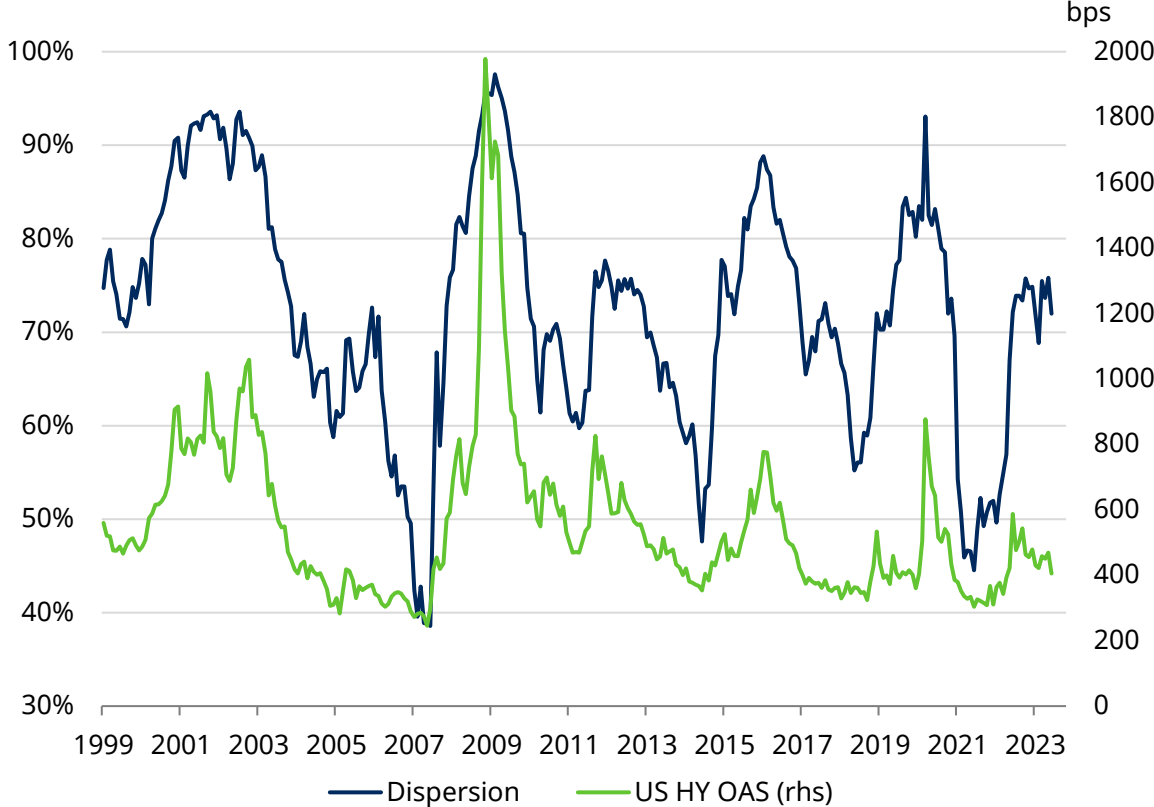
Euro HY distress ratio¹



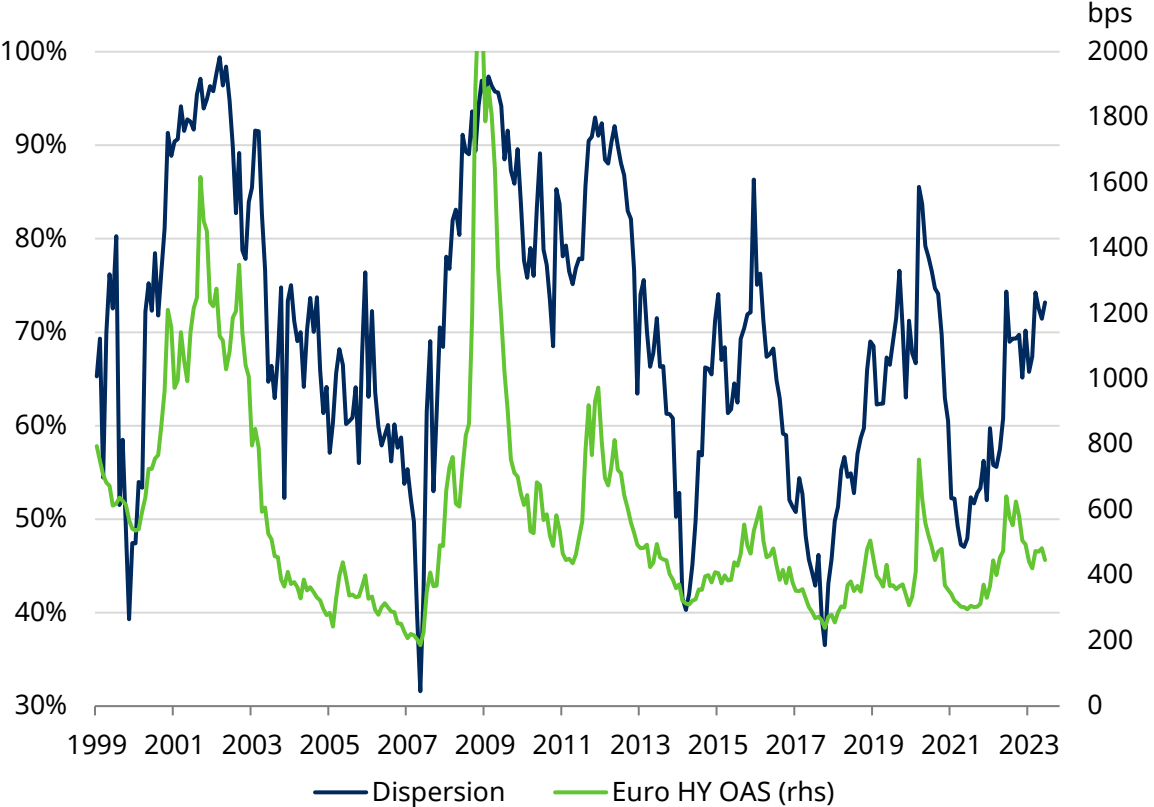
Source: Schroders, BofA Global Research, Moody's. Data as at 30 June 2023. ¹HY distress is defined as percentage of issues in the index trading with spreads > 1,000bp. Please see relevant disclaimers on page 69.

HY spread dispersion

US HY dispersion¹ vs US HY spread



Euro HY dispersion¹ vs Euro HY spread



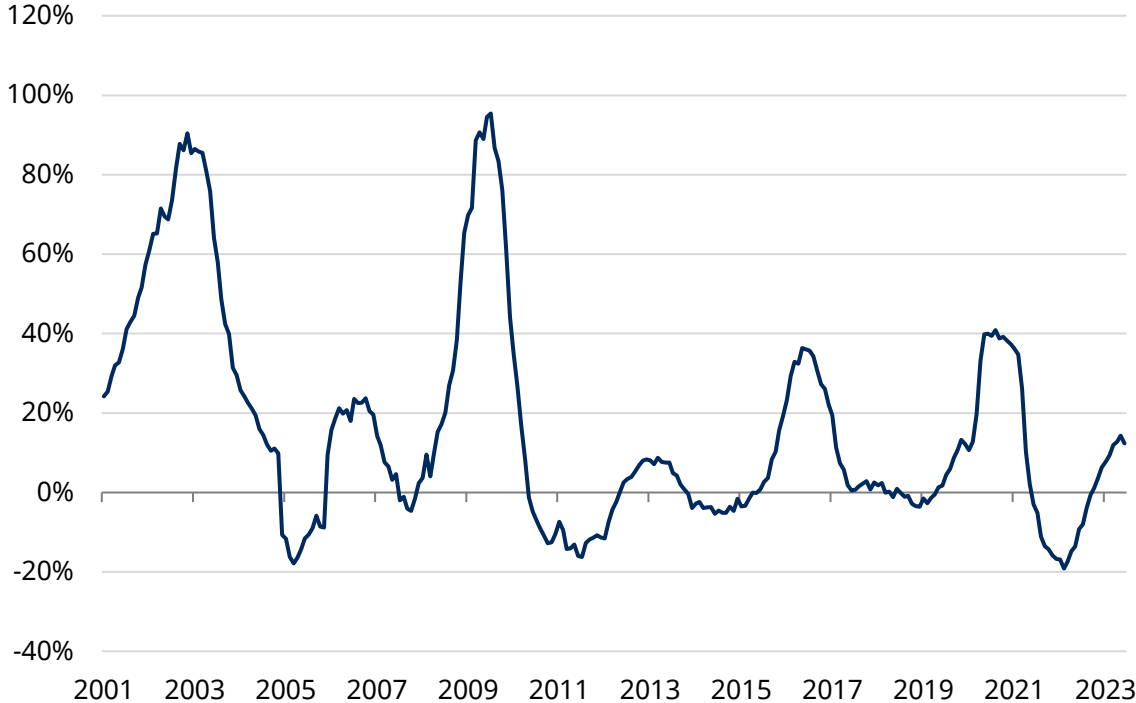
Source: Schroders, BofA Global Research. Data as at 30 June 2023. ¹ Proportion of face value in index marked outside +/-100bps of overall index level. Please see relevant disclaimers on page 69.

US HY ratings migration (net downgrades)

Indicator of changes in credit quality

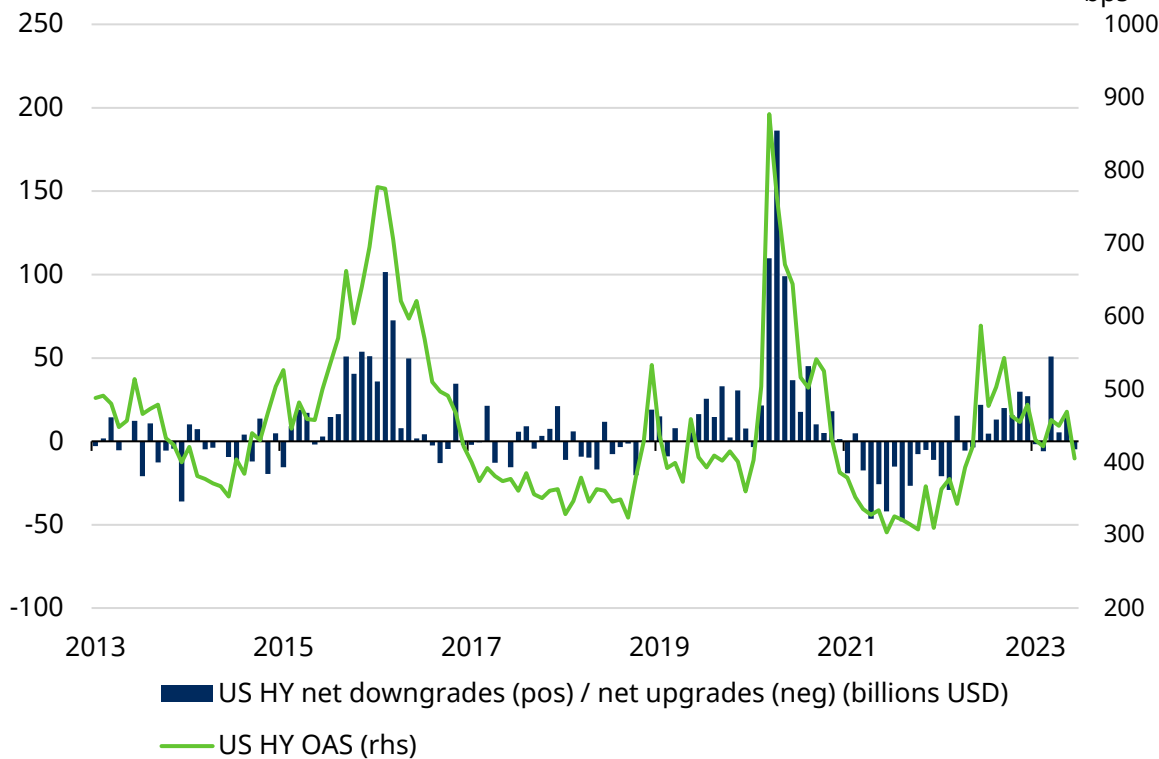
US HY net downgrades¹

Percentage of the HY index, last 12 months



US HY monthly net downgrades

Billions USD



Downgrades have been outpacing upgrades

Source: BofA Global Research, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

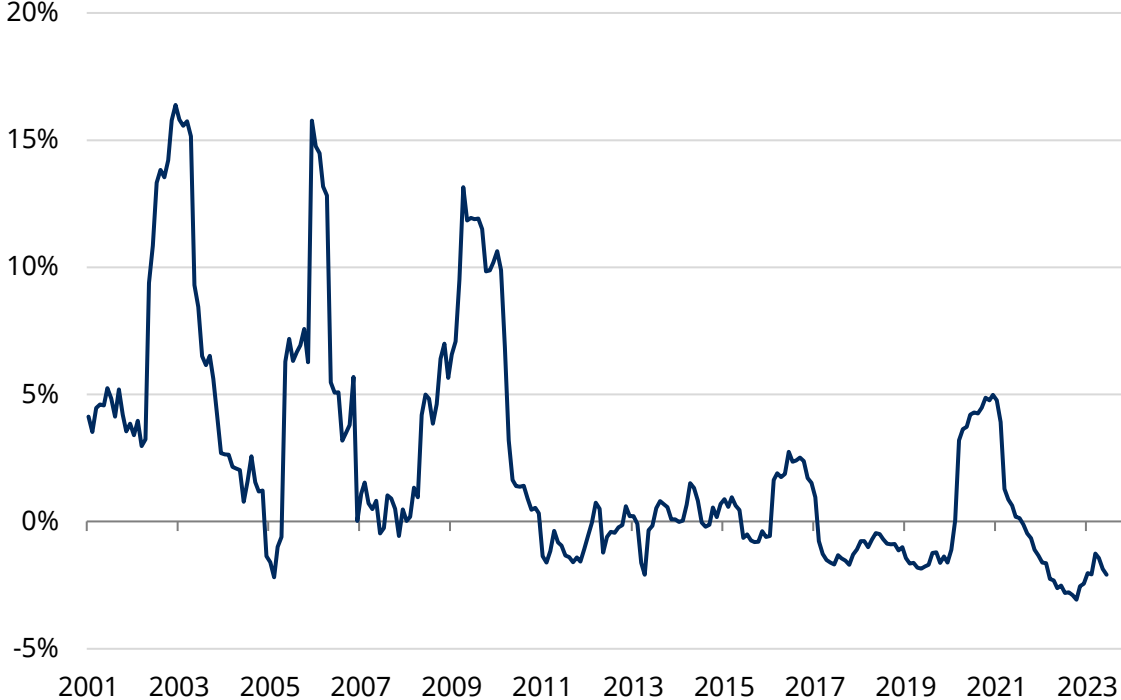
¹Face value of downgraded HY bonds minus face value of upgraded bonds divided by face value of the index. Excludes upgrades from HY to IG.

US IG fallen angels/rising stars

Bonds downgraded from IG to HY

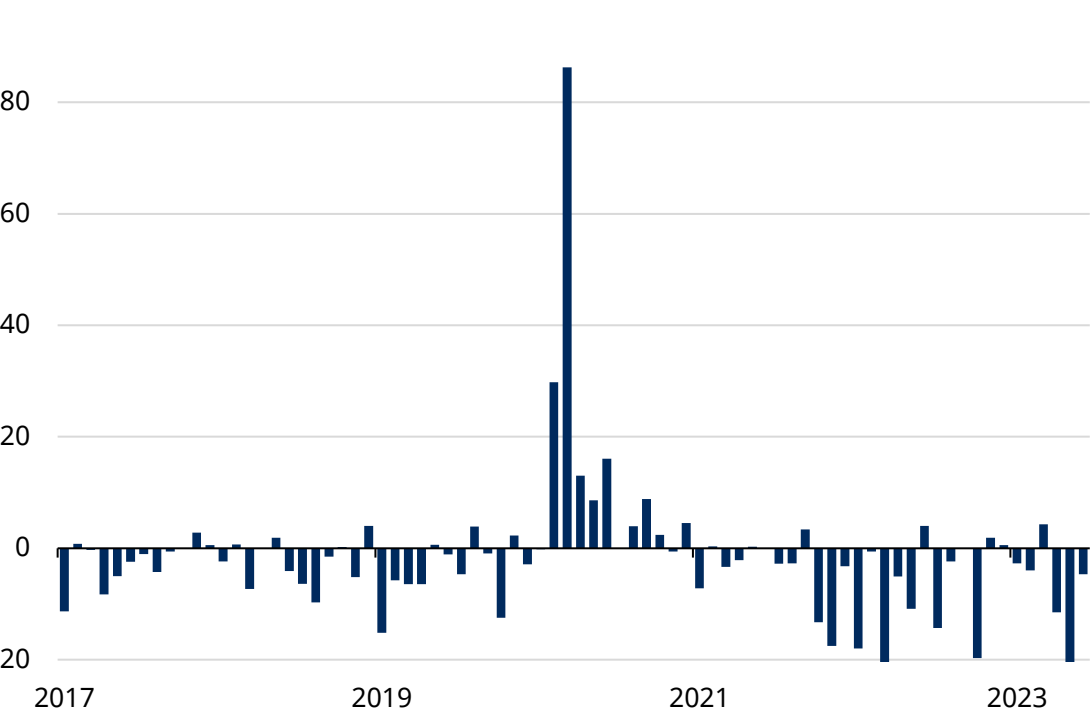
US IG net fallen angels¹

Percentage of the BBB index, last 12 months



US IG monthly net fallen angels

Billions USD

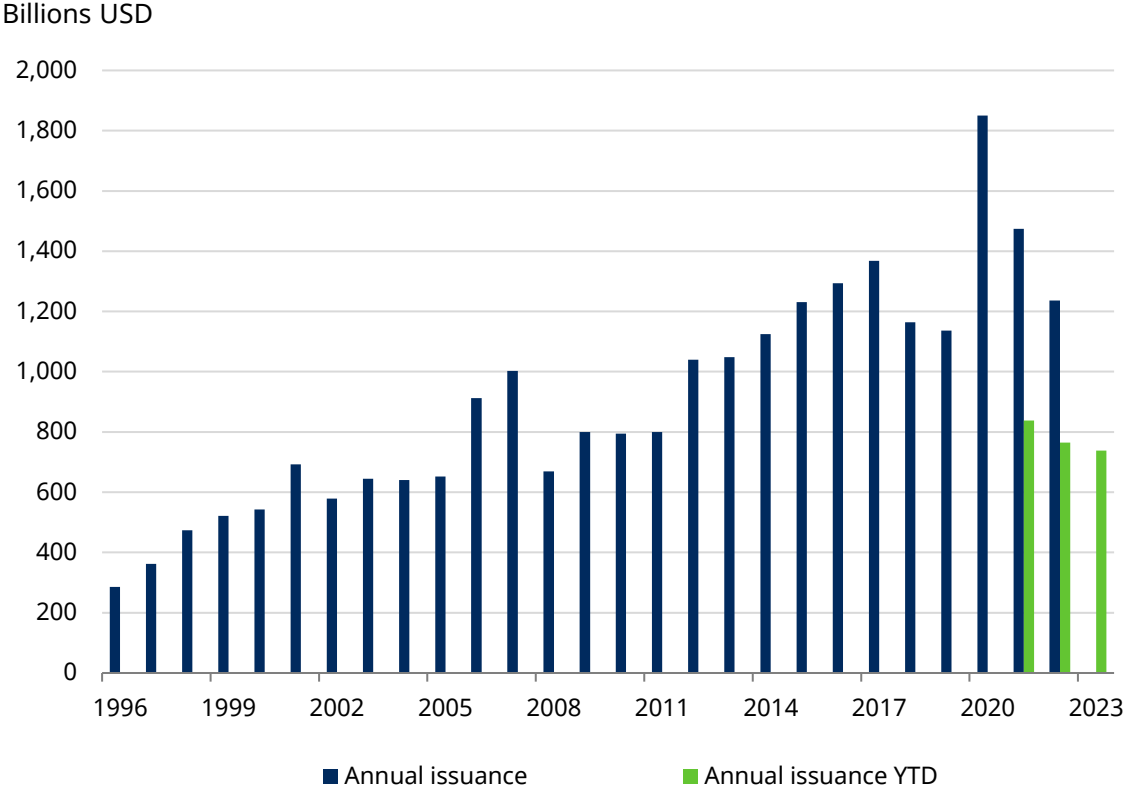


Source: BofA Global Research. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

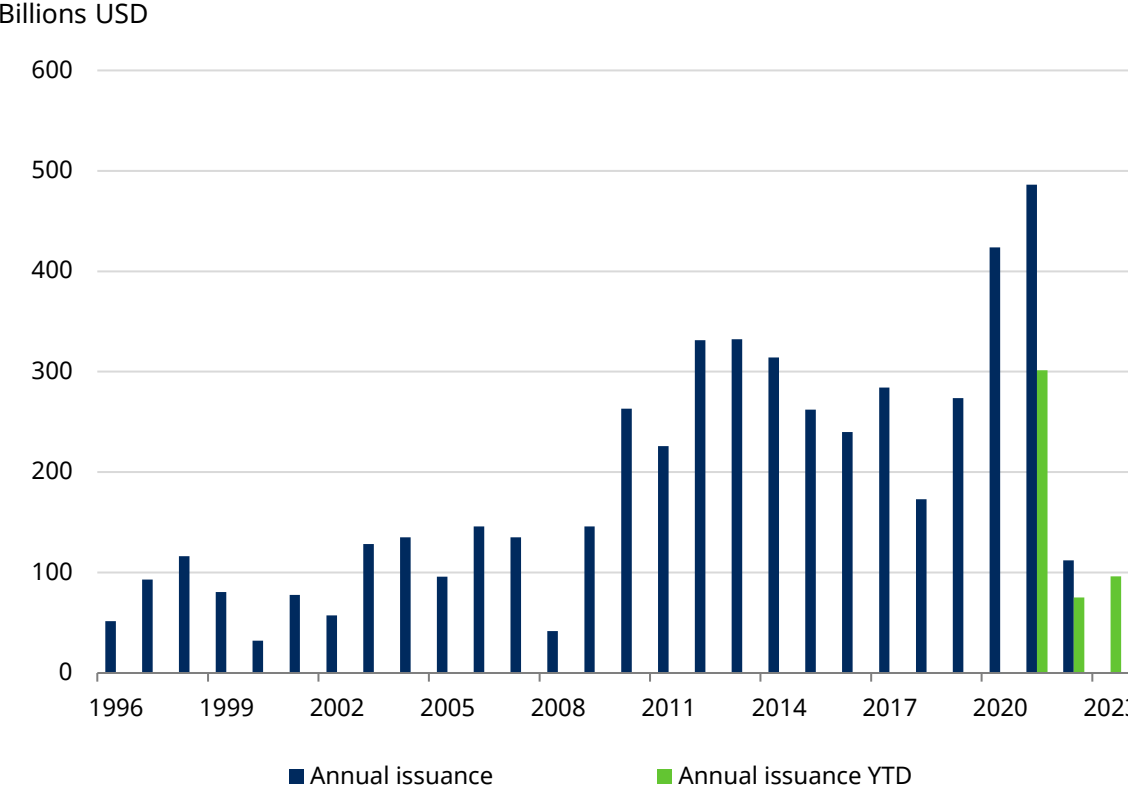
¹Face value of downgrades from IG to HY minus face value of upgrades from HY to IG, divided by face value of the BBB index

US IG and HY gross issuance

US IG gross issuance



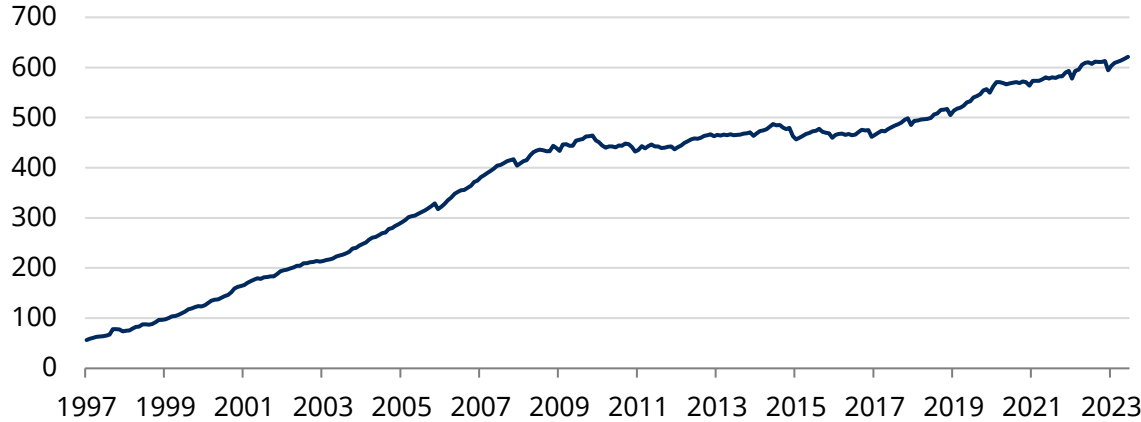
US HY gross issuance



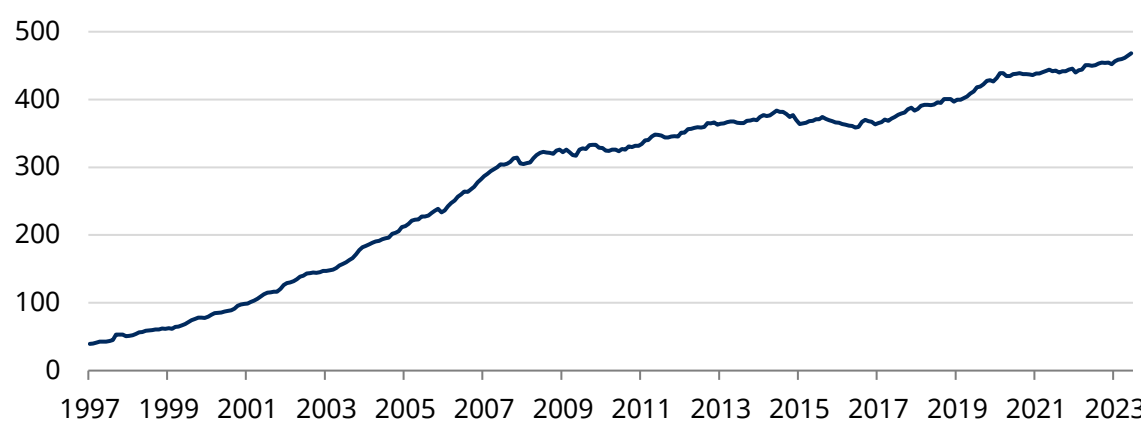
Source: Sifma. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

IG bonds outstanding

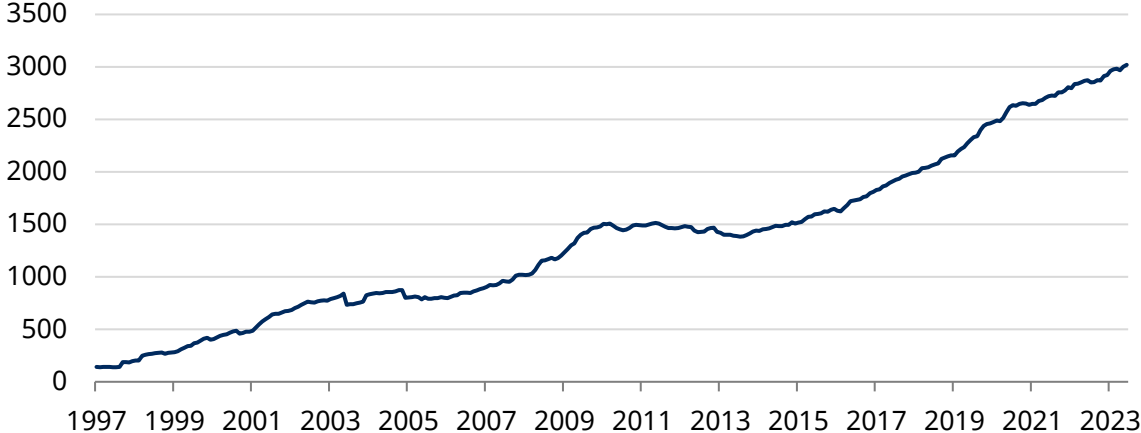
IG GBP non-gilts amount outstanding (bn GBP)



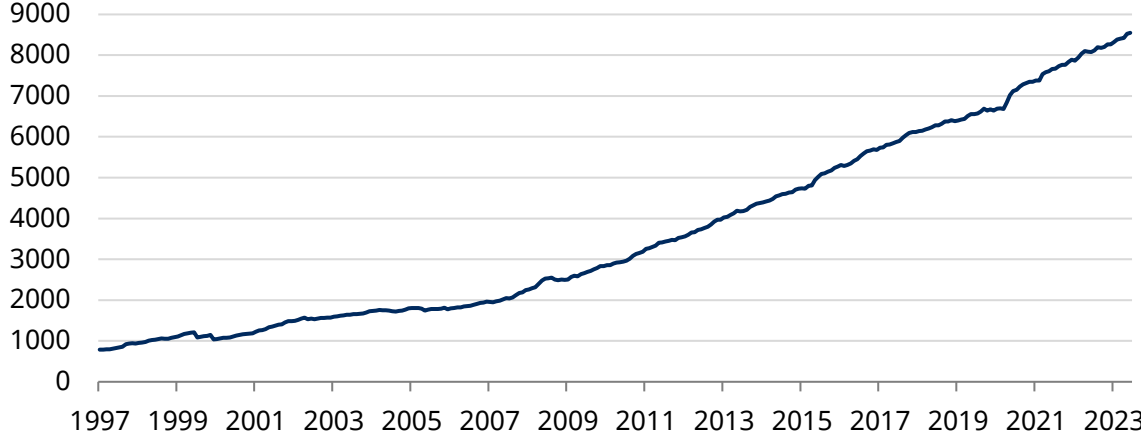
IG GBP corporates amount outstanding (bn GBP)



IG EUR amount outstanding (bn EUR)



IG USD amount outstanding (bn USD)



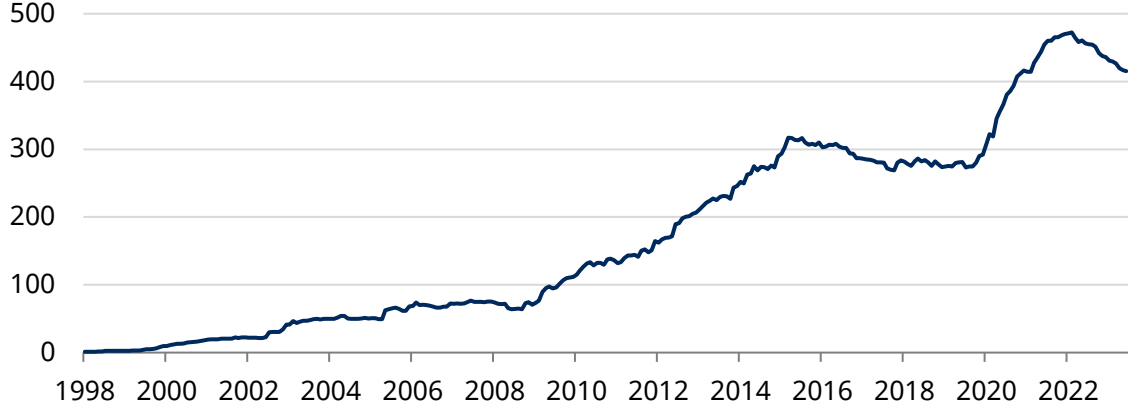
Source: Schroders, ICE Data Indices. Data as at 30 June 2023. Charts show face value of bond outstanding within relevant indices. Please see relevant disclaimers on page 69.

HY bonds outstanding

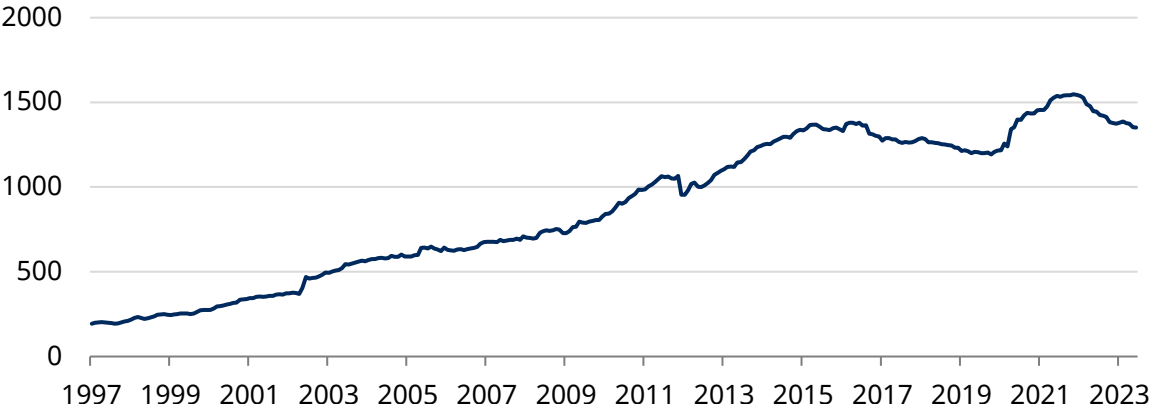
HY GBP amount outstanding (bn GBP)



HY EUR amount outstanding (bn EUR)



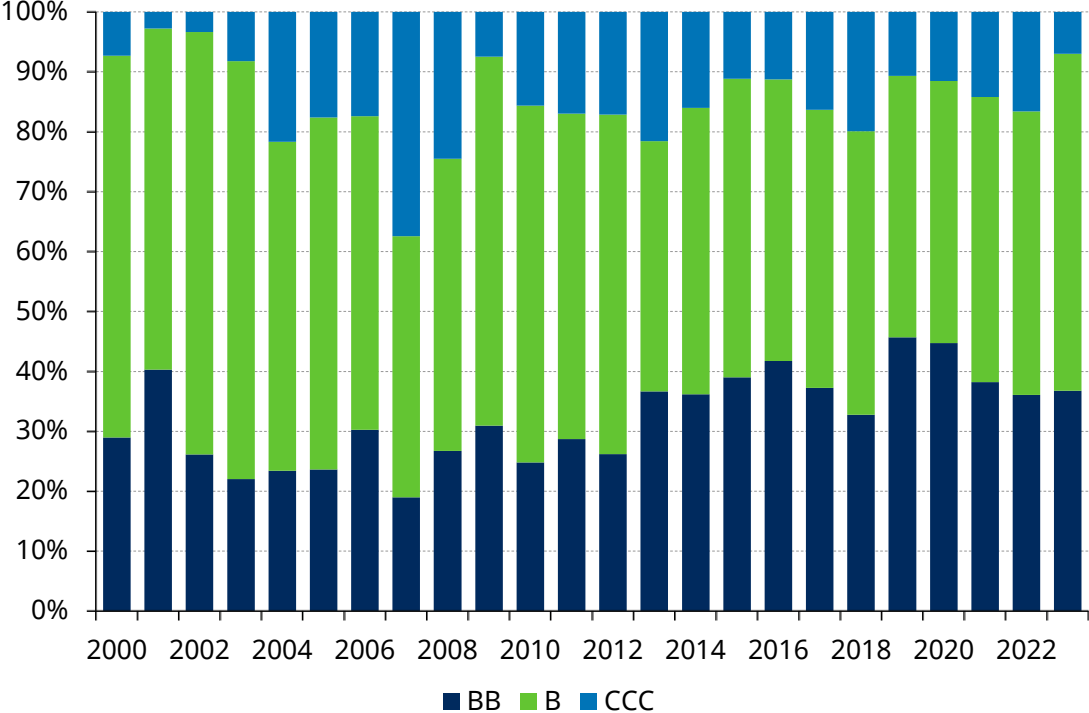
HY USD amount outstanding (bn USD)



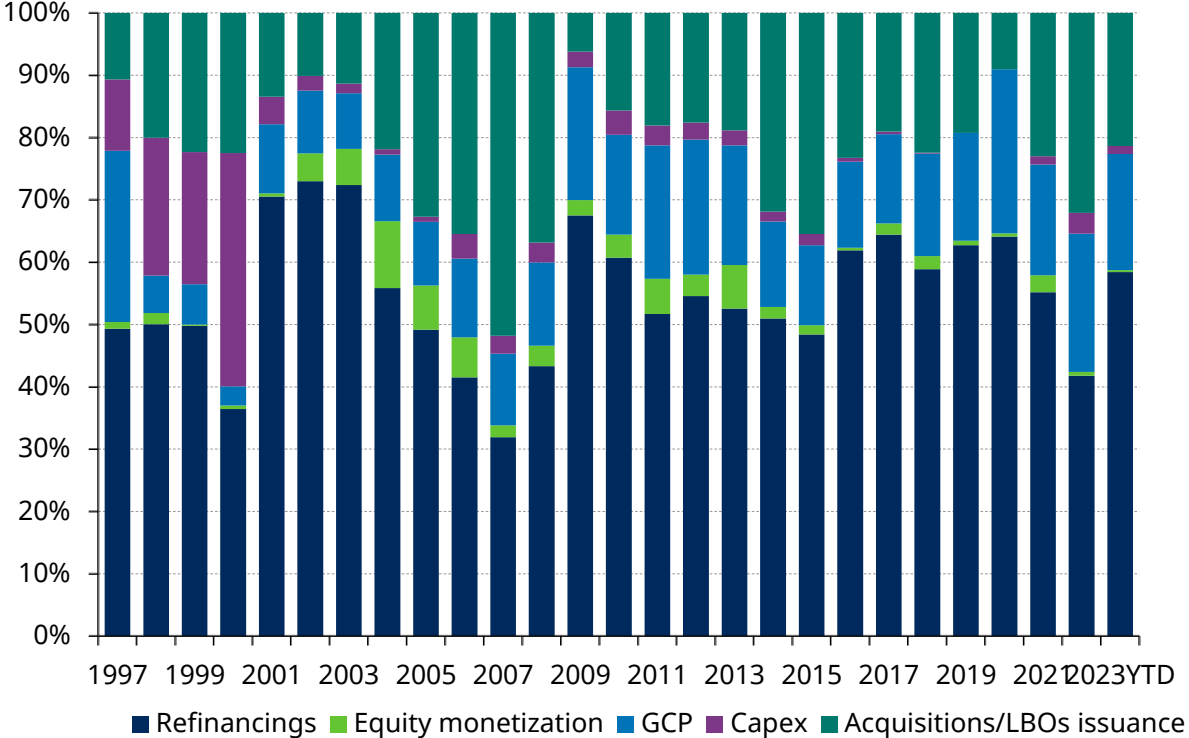
Source: Schroders, ICE Data Indices. Data as at 30 June 2023. Charts show face value of bond outstanding within relevant indices. Please see relevant disclaimers on page 69.

Global HY issuance details

Issuance by rating (percentage of issuance)



Issuance by use of proceeds⁽¹⁾

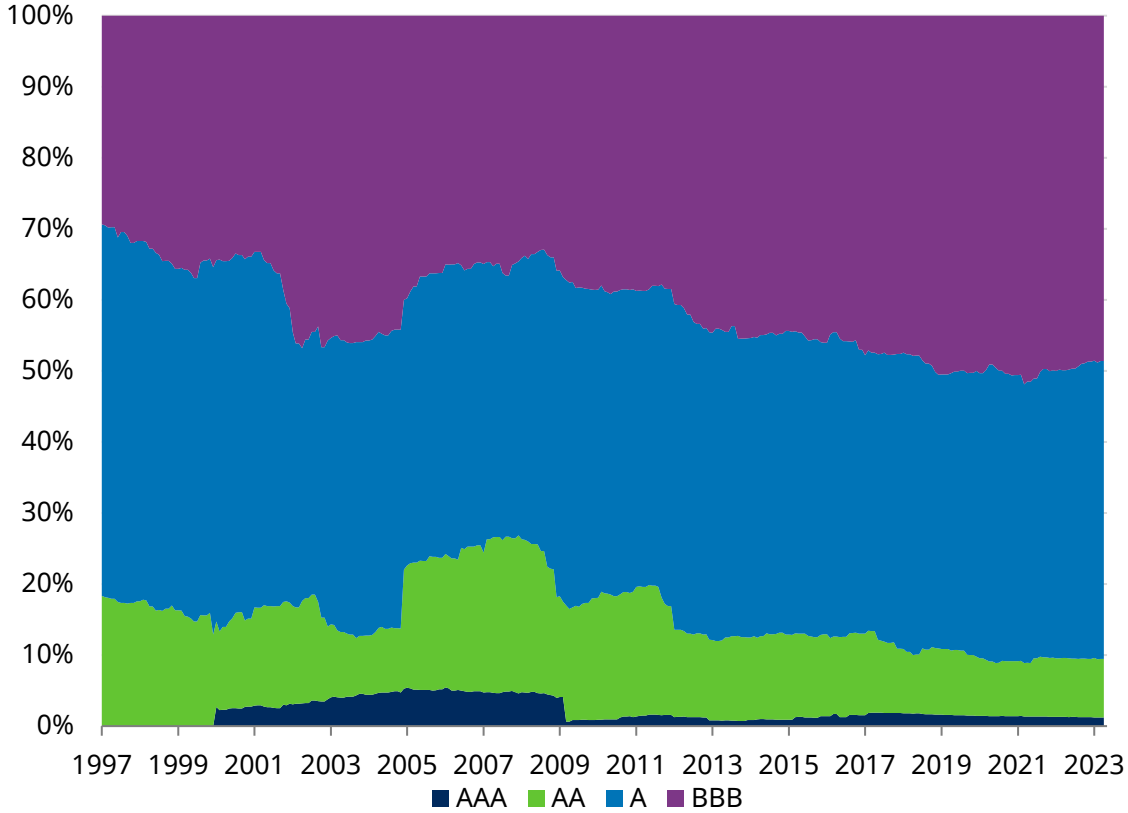


Source: Schrodgers, BofA Global Research, Moody's. Data as at 30 June 2023. Please see relevant disclaimers on page 69.
 (1) GCP is General Corporate Purposes; Equity monetization includes dividends and share repurchases

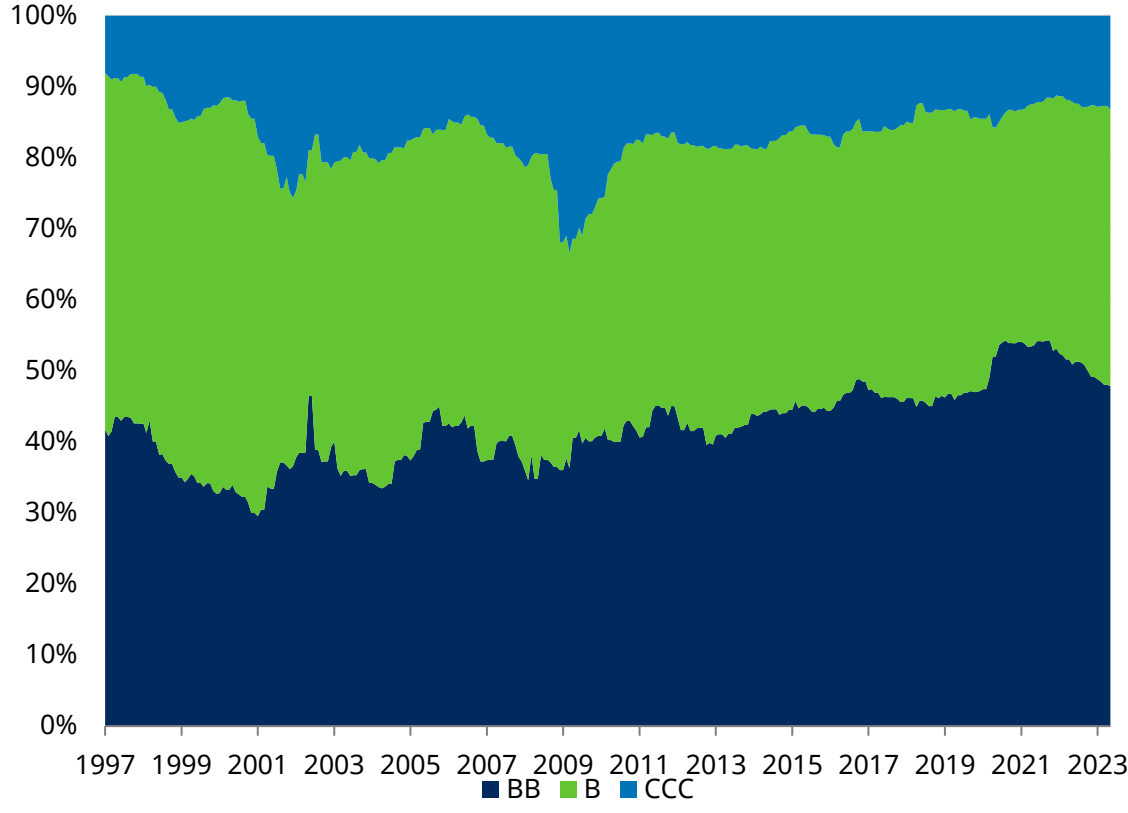
US dollar credit historical ratings split

Significant changes in credit quality over time

US IG ratings split



US HY ratings split

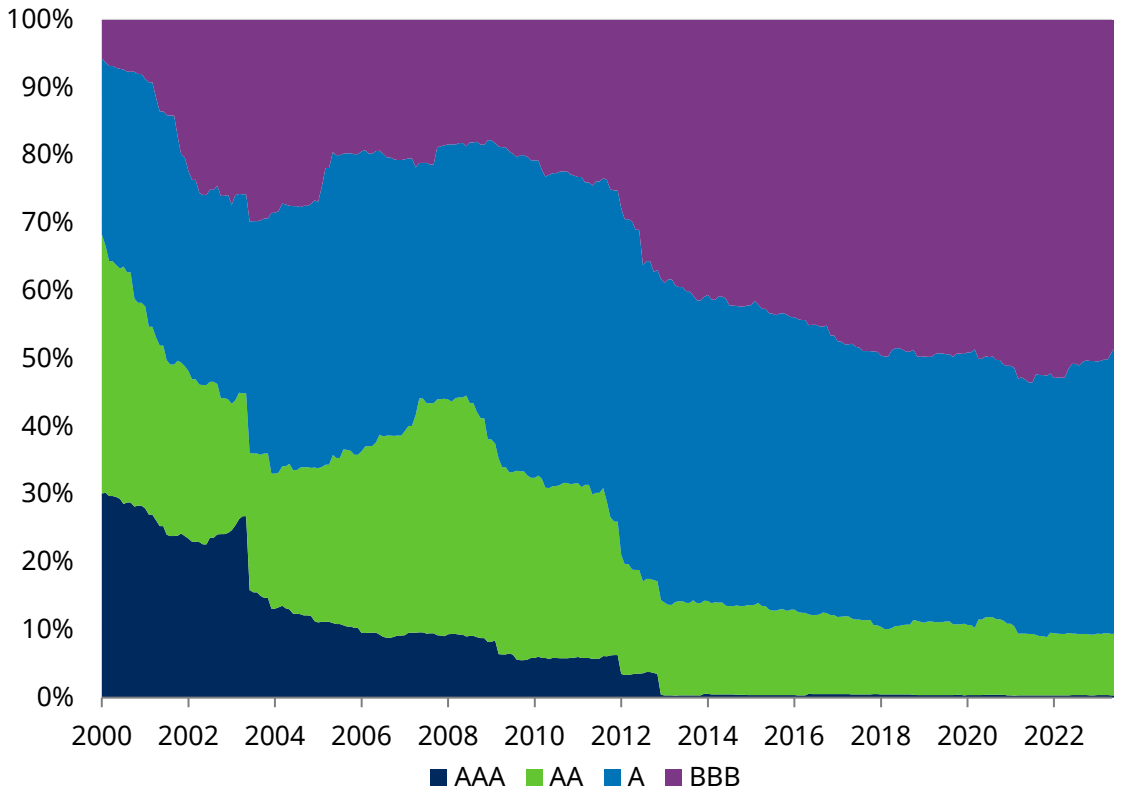


Source: Schroders, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

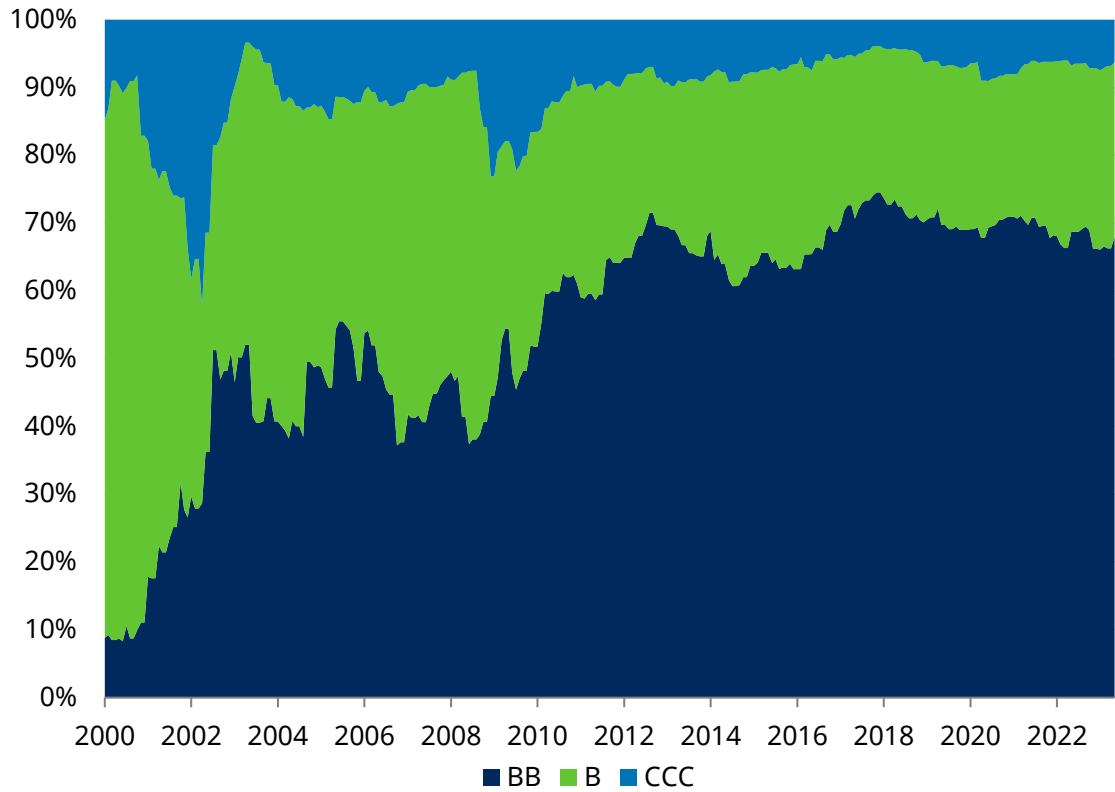
Euro credit historical ratings split

Significant changes in credit quality over time

Euro IG ratings split



Euro HY ratings split

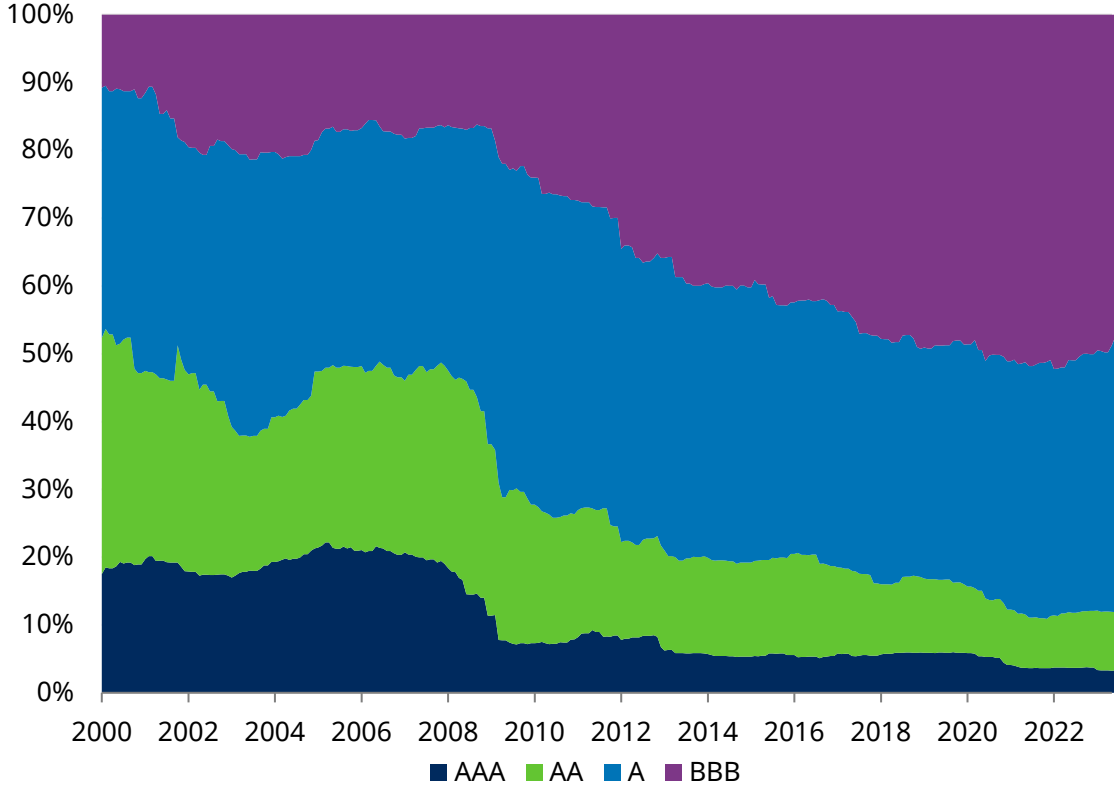


Source: Schroders, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

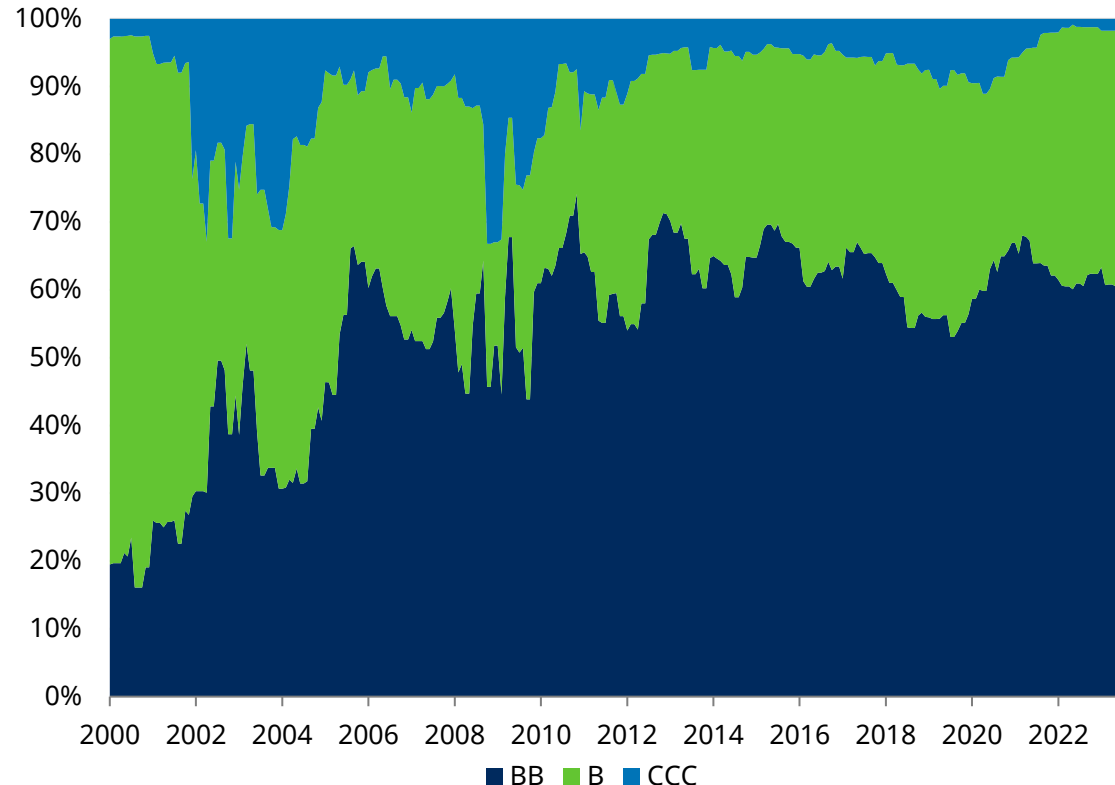
Sterling credit historical ratings split

Significant changes in credit quality over time

GBP IG ratings split



GBP HY ratings split



Source: Schroders, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

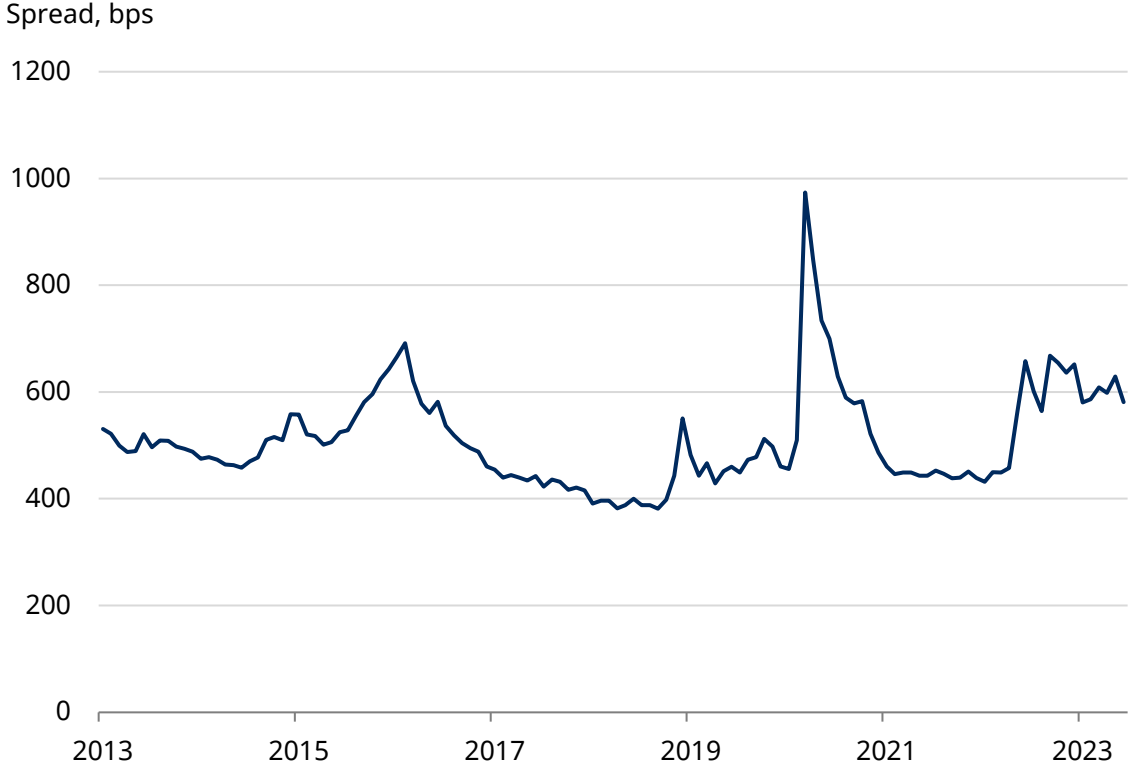
Schroders



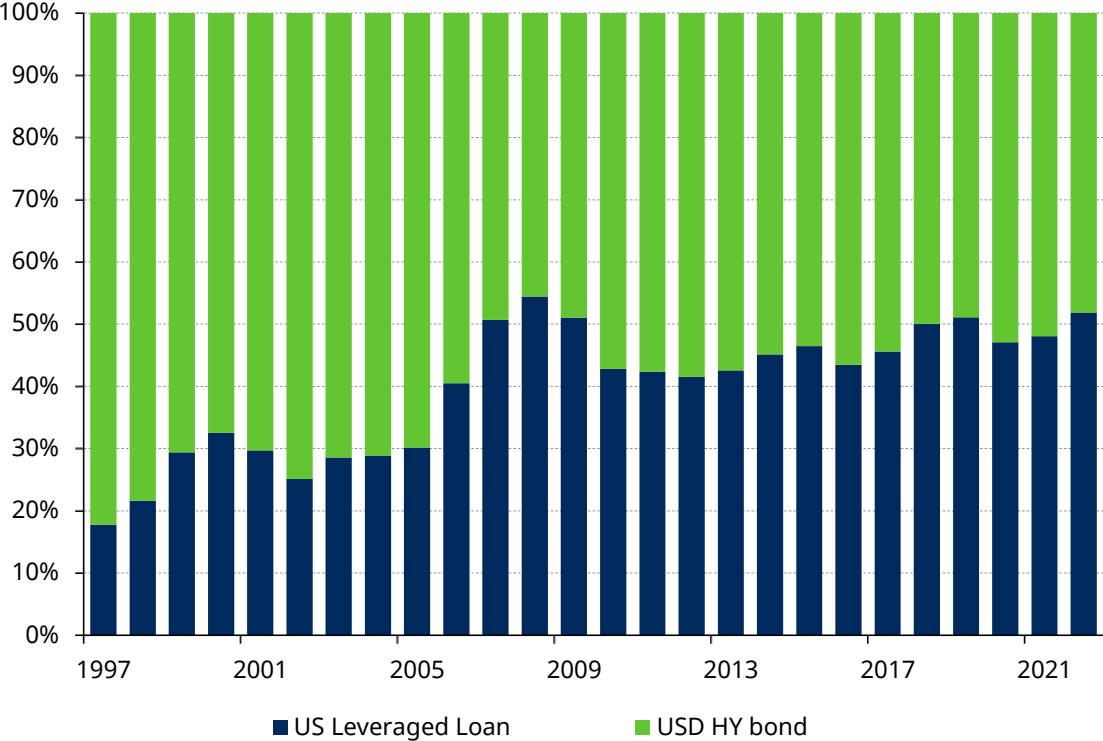
Appendix: Alternatives

US leveraged loans

US leveraged loan discount margin (3-year life)



Loans as a percentage of US leveraged finance market (Face Value)



Source: Schroders, BofA Global Research, Credit Suisse. Data as at 30 June 2023. Please see relevant disclaimers on page 69.

List of indices

- **IG GBP non-gilts** - The ICE Data Indices Sterling Non-Gilt Index
- **IG GBP corporates** - The ICE Data Indices Sterling Corporate & Collateralized Index
- **IG Euro** - The ICE Data Indices Euro Corporate Index
- **IG USD** - The ICE Data Indices US Corporate Index

- **HY GBP** - The ICE Data Indices Sterling High Yield Index
- **HY Euro** - The ICE Data Indices Euro High Yield Index
- **HY USD** - The ICE Data Indices US High Yield Index

- **Hard EMD** - The JPM EMBI Global Diversified Index
- **Local EMD** - The JPM GBI-EM GLOBAL Divers Index
- **Corp. EMD** - The JPM CEMBI Broad Diversified Index

- **IG CRE** - Internally sourced
- **HY CRE** - Internally sourced
- **Senior CRE** - Internally sourced
- **Senior Infra** - Internally sourced
- **Junior Infra** - Internally sourced
- **EU leverage loans** - Internally sourced
- **EUR Govt** - ICE Euro Government Index
- **EUR A** - ICE Single-A Euro Corporate Index
- **EUR BBB** - ICE BBB Euro Corporate Index

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