

Schroders



Schroders Credit Lens

Perspective of EUR insurance company investor

Strategic Research Unit

April 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

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Summary

- **After a period of narrowing, spreads widened in March back to around levels seen at the turn of the year. The increase reflected weaker risk sentiment following concerns for certain areas of the banking sector**
- Corporate bond yields were little changed on the month, as higher spreads were offset by lower risk-free yields. Risk-free yields fell as banking sector uncertainty led to a flight to safety and brought into question the likelihood of further monetary policy tightening, particularly in the US
- US treasury volatility briefly reached the highest levels since the global financial crisis, and the heightened uncertainty saw high-yield issuance volumes slow
- Default rates in high-yield have slowly started to rise. More elevated distress ratios indicate that defaults could continue to increase in 2023
- Corporate fundamentals remained strong in Q4. However, corporate margins are now clearly falling. If costs continue to rise faster than sales, margins will remain under pressure in 2023, and earnings growth could disappoint
- Interest coverage is very high, especially in IG, but is likely to deteriorate from here, as higher yields are now starting to meaningfully feed through to interest expense. Issuers with loans are seeing the most immediate impact

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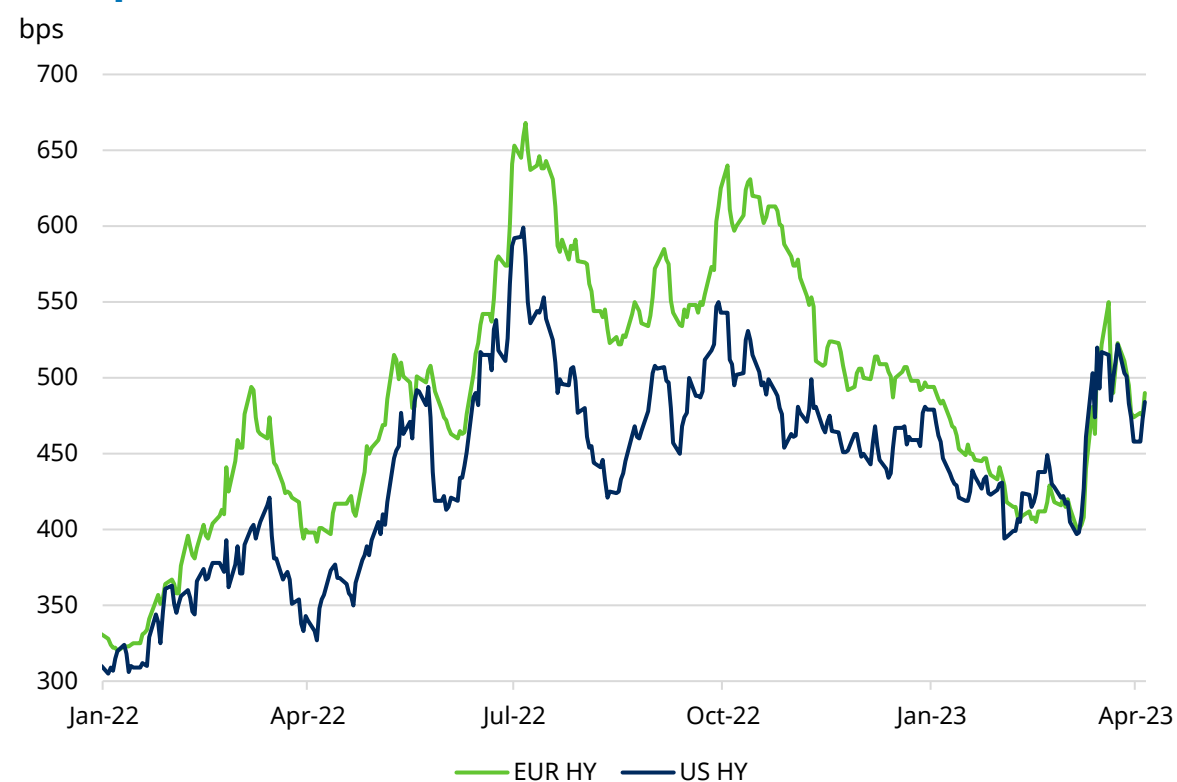
After a period of significant tightening, spreads widened back to levels seen at the turn of the year

Spread moves were sharp but contained

IG Spread



HY Spread



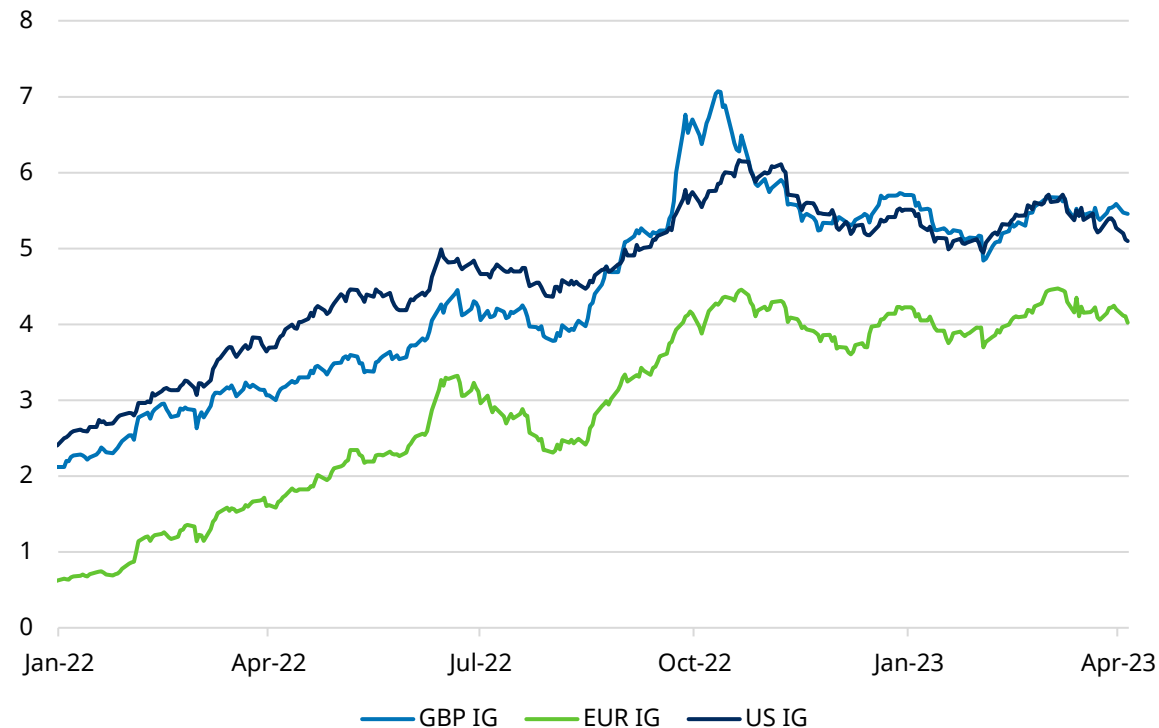
Source: Refinitiv Datastream. Data as at 5 April 2023. Please see relevant disclaimers on page 68.

Corporate bond yields were little changed, as higher spreads were offset by lower risk-free yields

Yields remain close to the recent highs seen in 2022 Q4

IG yield

Percent



HY yield

Percent

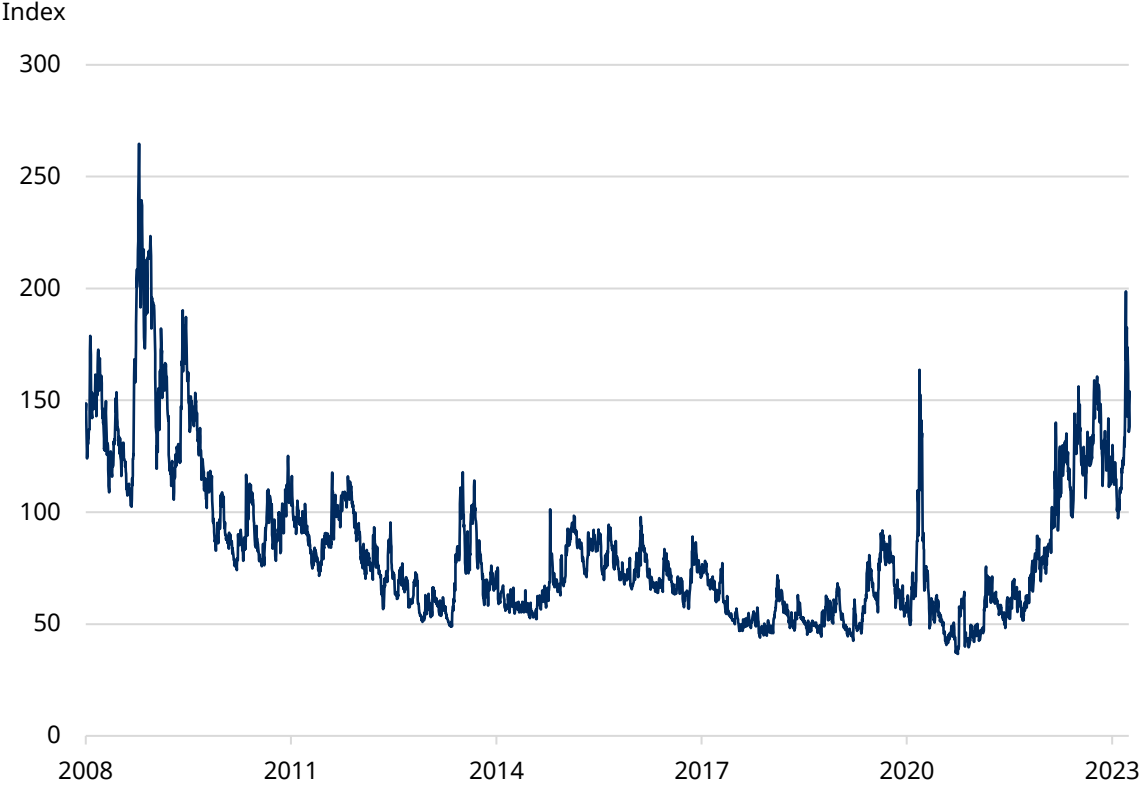


Source: Refinitiv Datastream. Data as at 5 April 2023. Please see relevant disclaimers on page 68. Charts show local currency yields.

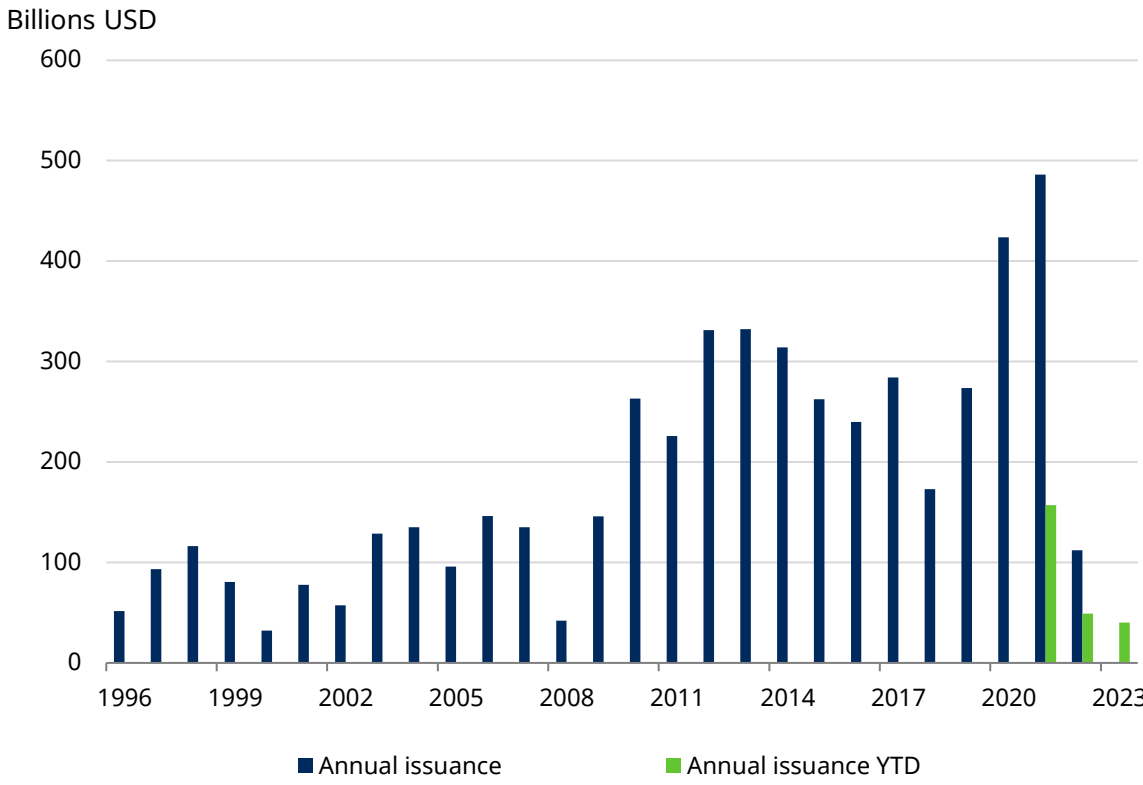
US Treasury volatility briefly reached levels not seen since the global financial crisis

High-yield issuance slowed in the more volatile environment

1-month US Treasury implied volatility - Move index



US high-yield issuance



Source: Refinitiv Datastream, Sifma. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

Summary table

Cross-credit overview

Date: 31 March 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	5.3%	5.6%	4.2%	5.3%	10.0%	7.4%	8.5%	8.5%	6.6%	7.2%
Yield to worst (hedged to EUR) ¹	3.9%	4.2%	4.2%	3.2%	8.7%	7.4%	6.4%	6.4%	-	5.1%
Spread (bps)	159	190	168	145	631	474	458	484	297	347
Spread (percentile) ²	74%	74%	76%	56%	79%	58%	51%	72%	16%	60%
Risk premium (bps) ³	126	152	129	107	446	298	237	354	242	237
Duration	6.2	6.7	4.8	7.2	3.3	3.4	4.4	6.8	4.9	4.3
MV (billion \$)	765	570	2,920	7,770	52	410	1,234	616	1,356	504
Rating	A1	A3	A3	A3	BB3	BB3	B1	BBB3	BBB2	BBB3
Nr. of issues/countries	1,303	1,095	4,117	9,888	99	750	1,916	67	20	1,927

Since Jan 1997 or inception

Annualised return ⁴	3.9%	4.0%	3.7%	4.0%	7.1%	4.7%	5.0%	5.7%	4.9%	4.9%
Annualised volatility	5.8%	6.5%	4.0%	5.9%	10.5%	11.5%	9.1%	10.8%	8.9%	7.9%
Return/volatility	0.7	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	0.2	0.3	0.3	0.2	0.6	0.6	0.6	0.5	0.4	0.4
Correlation with MSCI World €	0.2	0.2	0.2	0.2	0.5	0.6	0.5	0.4	0.5	0.4
Correlation with Euro Gov	0.6	0.6	0.7	0.5	0.1	0.0	0.0	0.3	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 31 March 2023. Please see relevant disclaimers on page 68.

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 23).

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

Summary table (alternatives)

Cross-credit overview

Date: 31 March 2023

	US Agency MBS	US ABS	US CMBS	US leveraged loans	Cat Bonds
Yield ¹	4.5%	5.6%	6.2%	9.4%	-
Yield (hedged to EUR) ²	2.4%	3.6%	4.1%	7.3%	-
Spread (bps) ³	87	149	258	609	-
Risk premium (bps)	-	-	-	-	-
Duration	6.0	2.3	4.0	0.0	-
Market size (billion \$)	7,321	398	446	1,359	-
Rating	AAA	AAA	AAA	-	-

Since Jan 1997 or inception

Annualised return ⁴	3.2%	2.6%	3.7%	3.9%	5.8%
Annualised volatility	3.3%	2.3%	6.2%	6.5%	3.7%
Return/volatility	1.0	1.2	0.6	0.6	1.6
Max drawdown	-18.4%	-8.6%	-26.1%	-29.8%	-9.6%
Correlation with MSCI EMU	-0.2	-0.1	0.2	0.6	0.1
Correlation with MSCI World €	-0.2	-0.1	0.1	0.6	0.1
Correlation with Euro Gov	0.6	0.3	0.2	-0.1	0.1

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

Source: Schroders, Refinitiv Datastream, Bloomberg, Credit Suisse. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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

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

³US leveraged loans spread is discount margin (3-year life)

⁴All returns EUR hedged returns

Performance table

Cross-credit overview

Date: 31 March 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	1.1%	1.0%	1.0%	2.6%	-0.8%	-0.4%	1.1%	1.0%	4.1%	0.8%
YTD return	2.4%	2.5%	1.6%	3.5%	3.8%	2.7%	3.7%	1.9%	5.2%	2.2%
1 year return	-10.3%	-11.4%	-7.7%	-5.2%	-4.4%	-4.5%	-3.6%	-6.9%	-0.7%	-1.6%
Return (EUR hedged)²										
1 month return	0.9%	0.8%	1.0%	2.3%	-0.9%	-0.4%	0.9%	0.8%	1.6%	0.6%
YTD return	2.0%	2.1%	1.6%	2.6%	1.0%	2.7%	3.0%	1.2%	3.3%	1.6%
1 year return	-11.3%	-12.3%	-7.7%	-8.1%	-5.6%	-4.5%	-6.3%	-9.9%	1.7%	-4.4%
Spread										
1 month OAS change	17	21	21	15	72	53	36	37	36	51
YTD OAS change	-2	-4	2	7	-32	-20	-21	32	8	25
1 year OAS change	39	45	39	23	168	74	115	84	-84	44
Latest OAS	159	190	168	145	631	474	458	484	297	347

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 31 March 2023. Please see relevant disclaimers on page 68.

¹Local EMD is USD return.

²Local EMD is USD return in EUR.

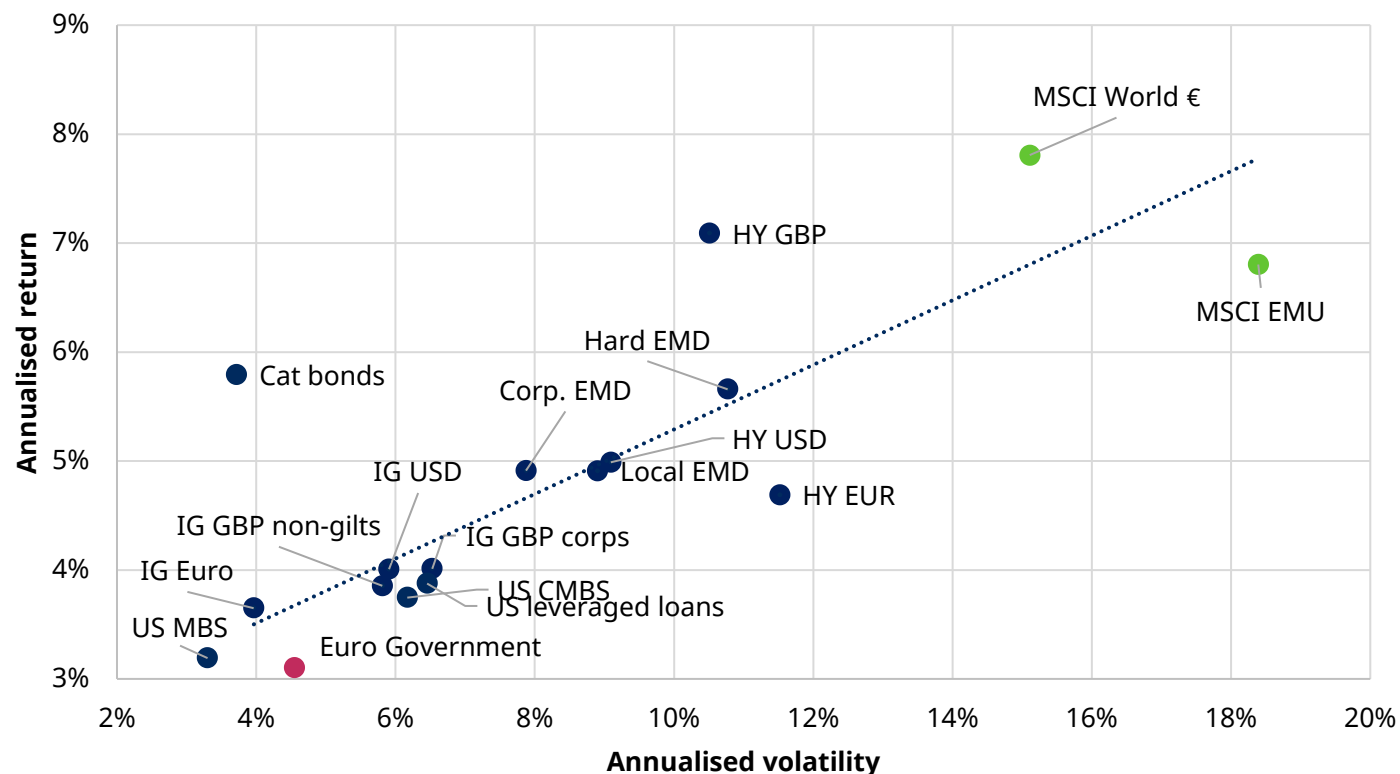
Schroders



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

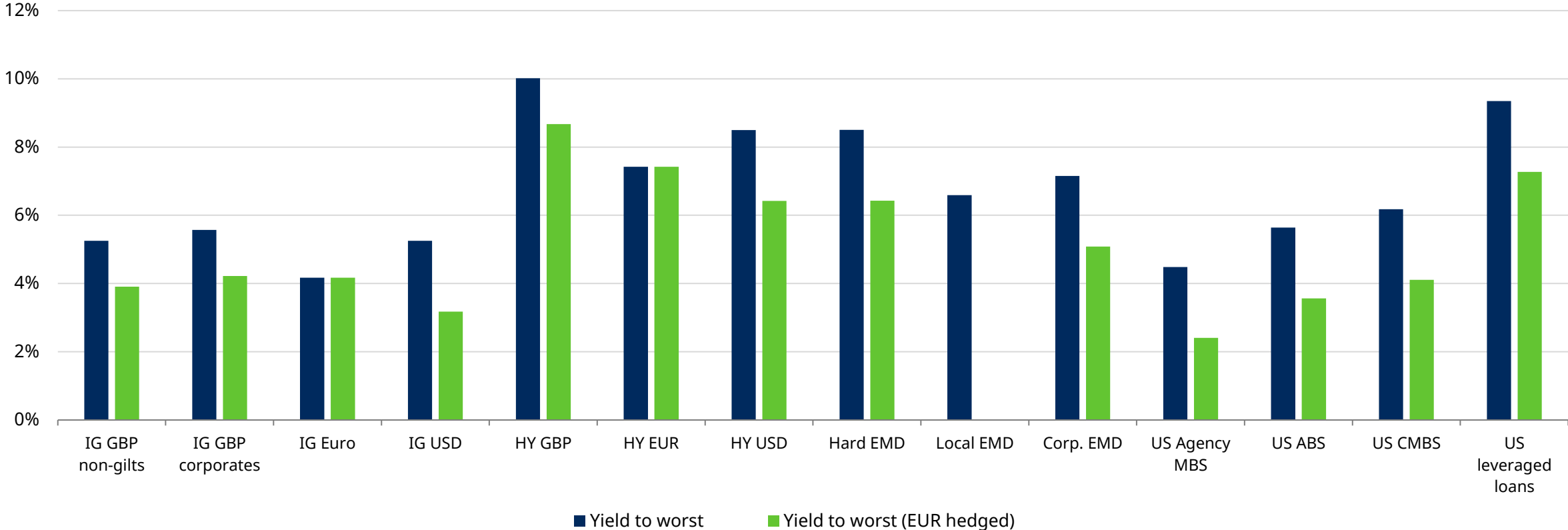
Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Barclays, Credit Suisse. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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

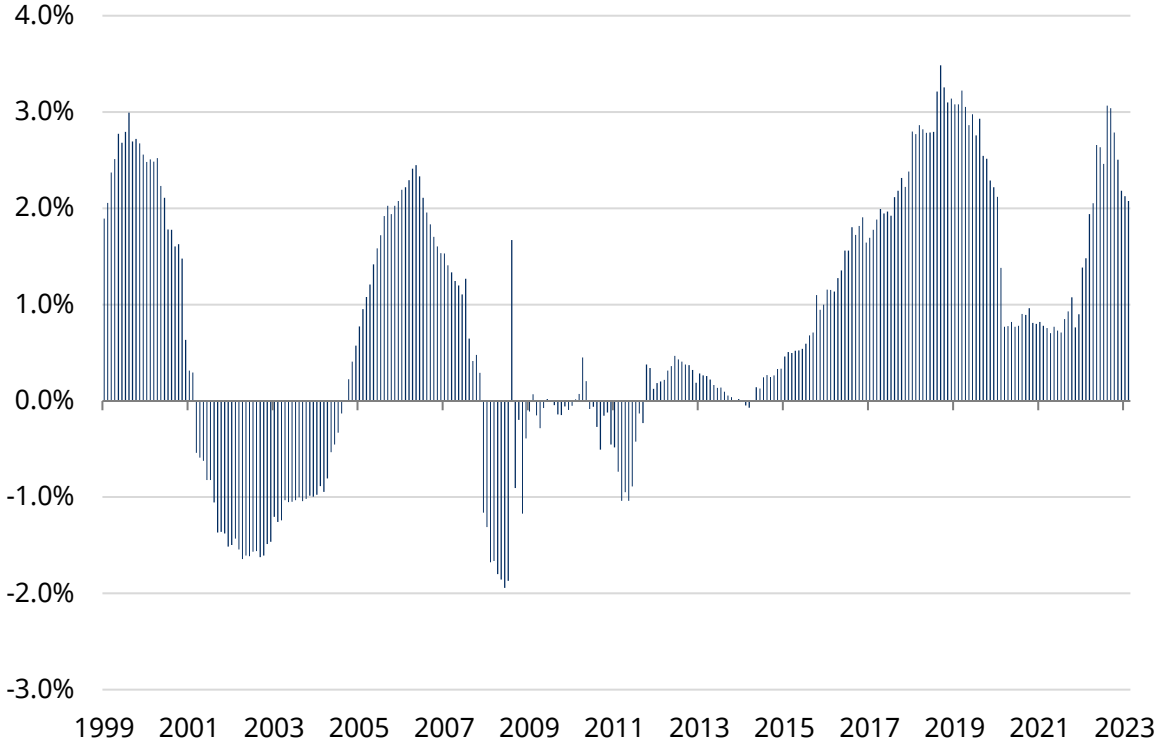
Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg, Credit Suisse. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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

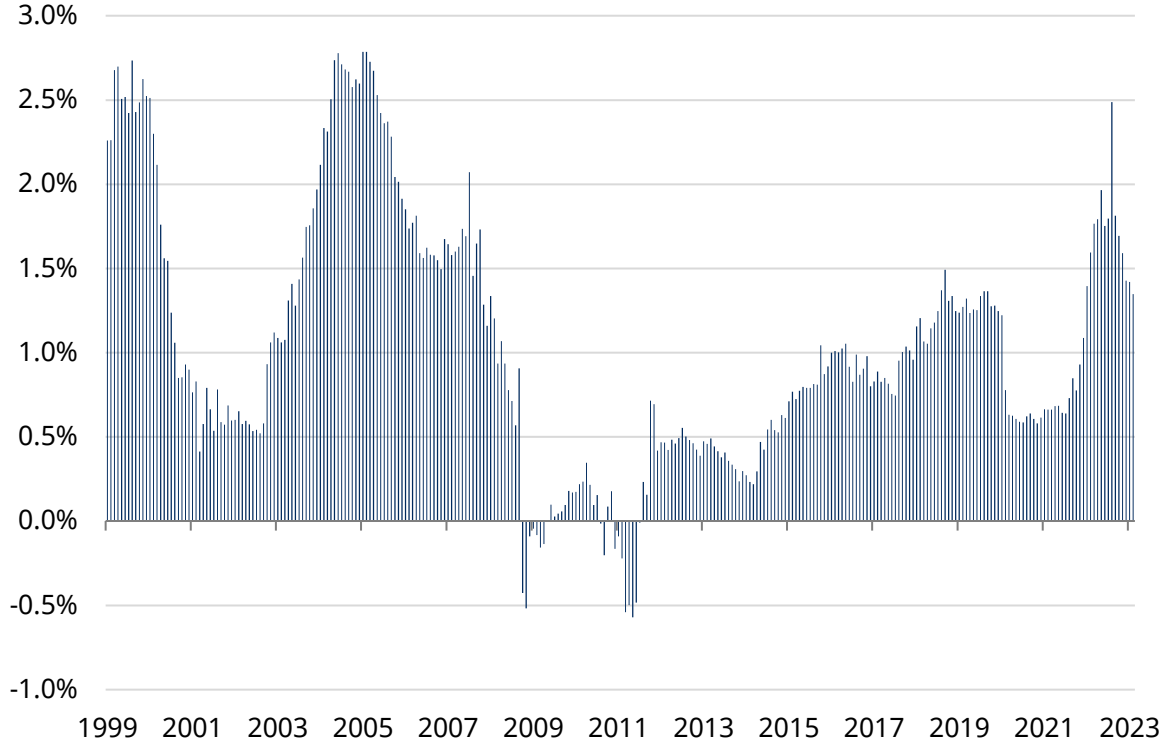
FX hedging cost or return

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)

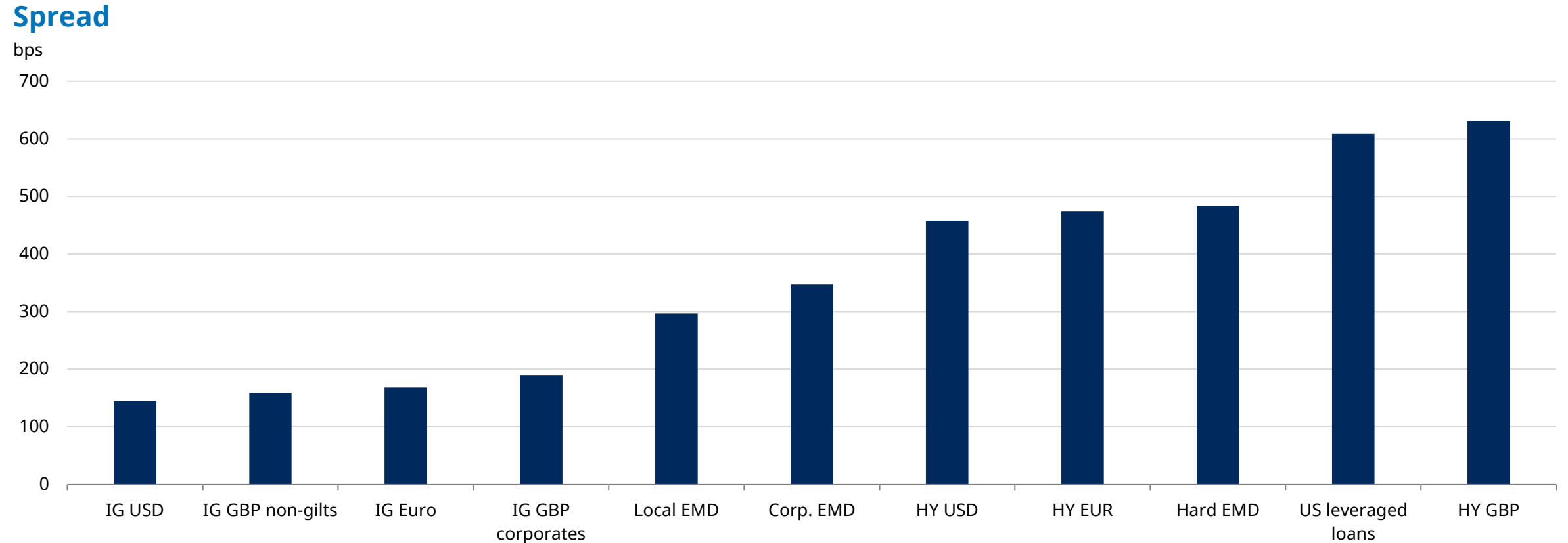


USD yields will be 2.1 lower in EUR once hedging taken account

GBP yields will be 1.3% lower in EUR once hedging taken account

Source: Refinitiv Datastream. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

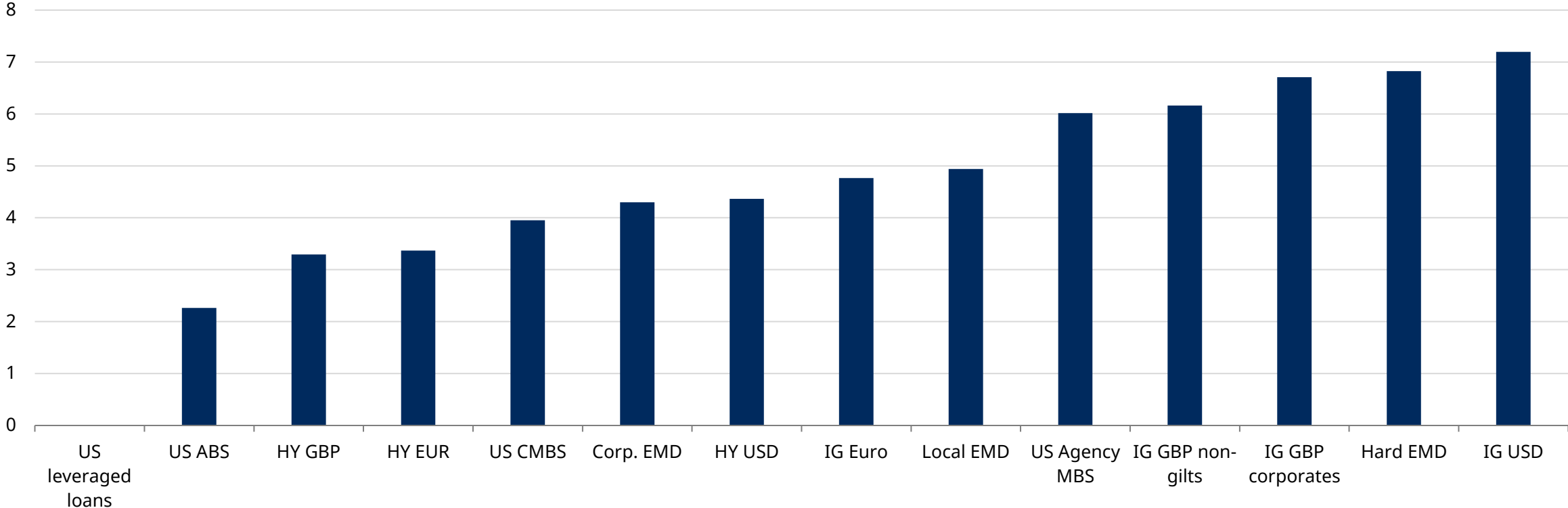
Cross-credit spread



Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg. Data as at 31 March 2023. Local EMD has been estimated as a spread over Treasuries of similar maturity. US leveraged loan spread is Discount Margin (3-year life). Please see relevant disclaimers on page 68.

Cross-credit duration

Modified duration

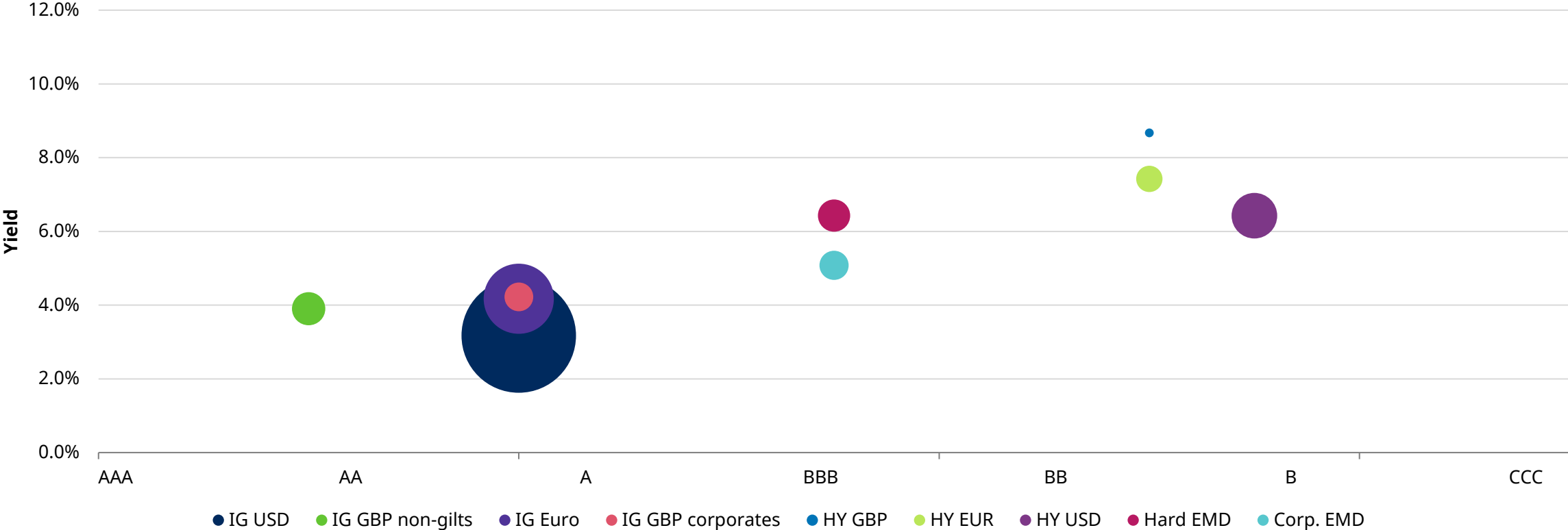


Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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

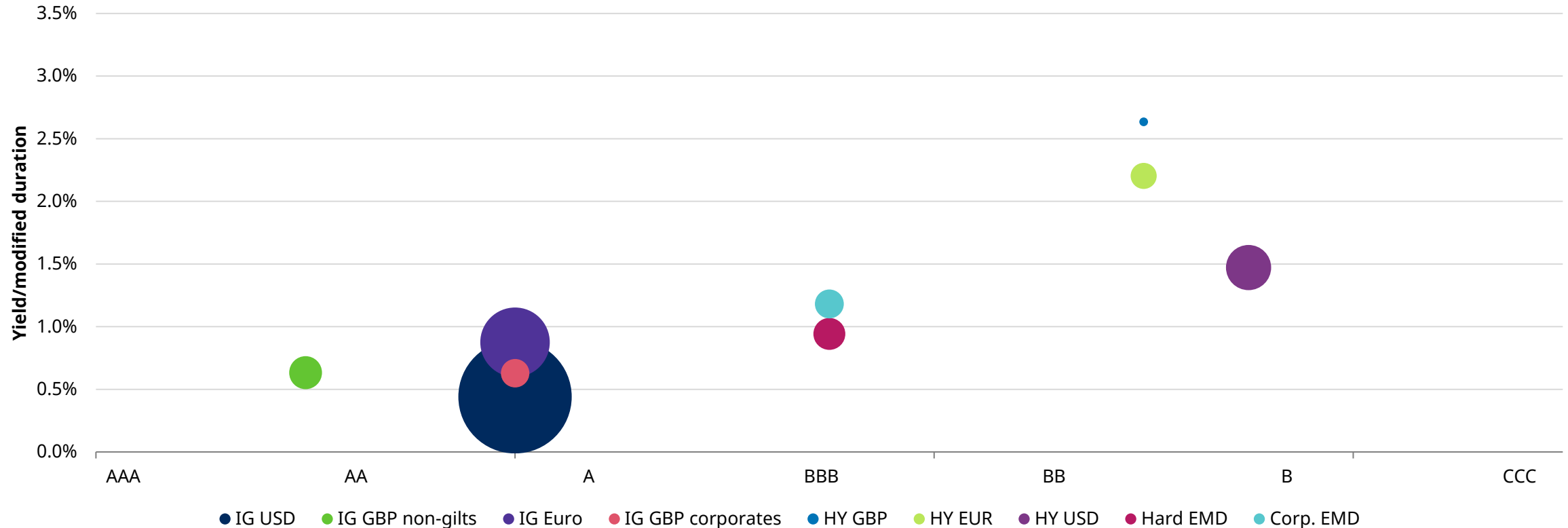


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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

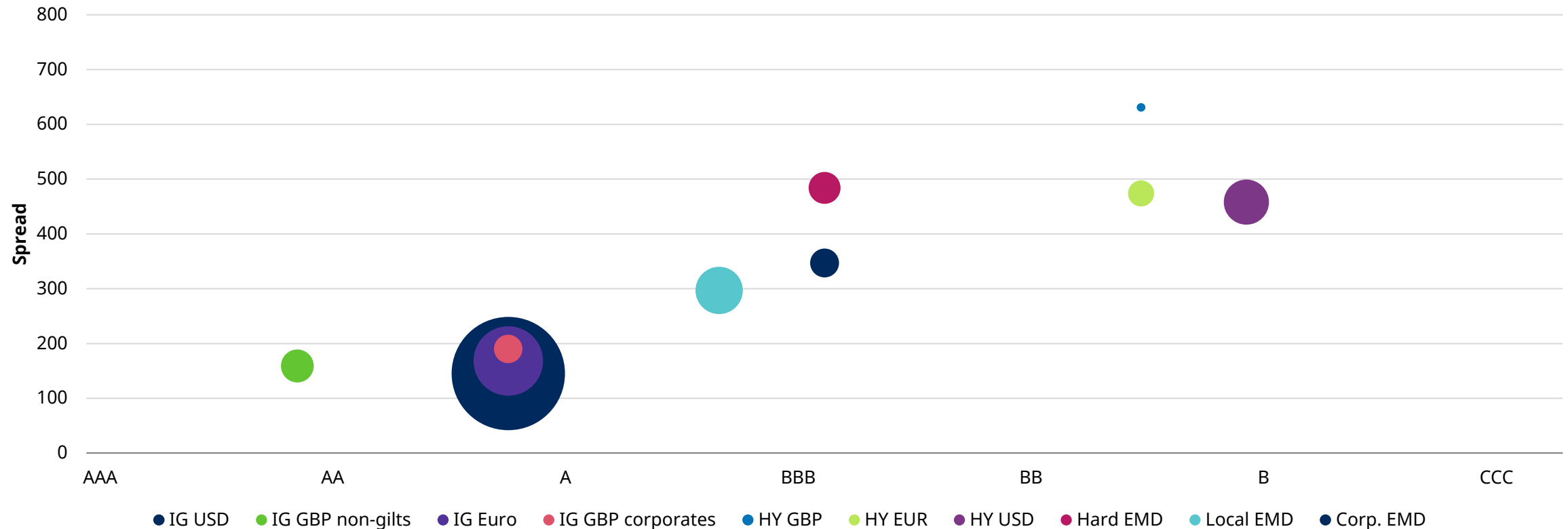


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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

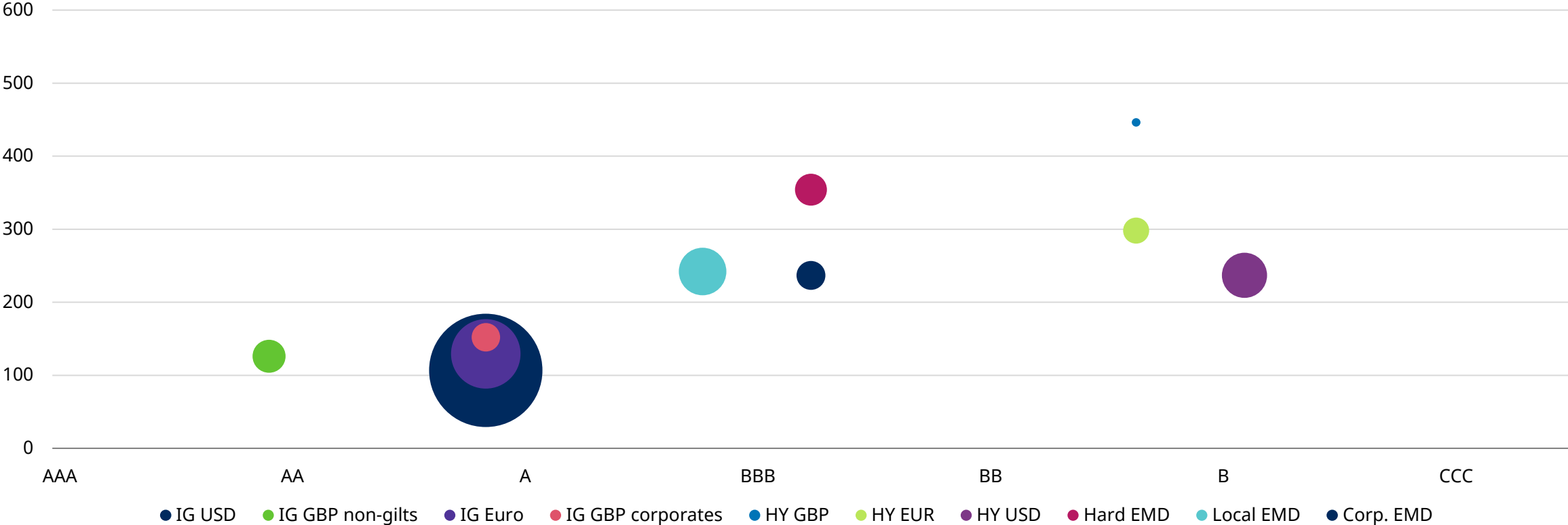


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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

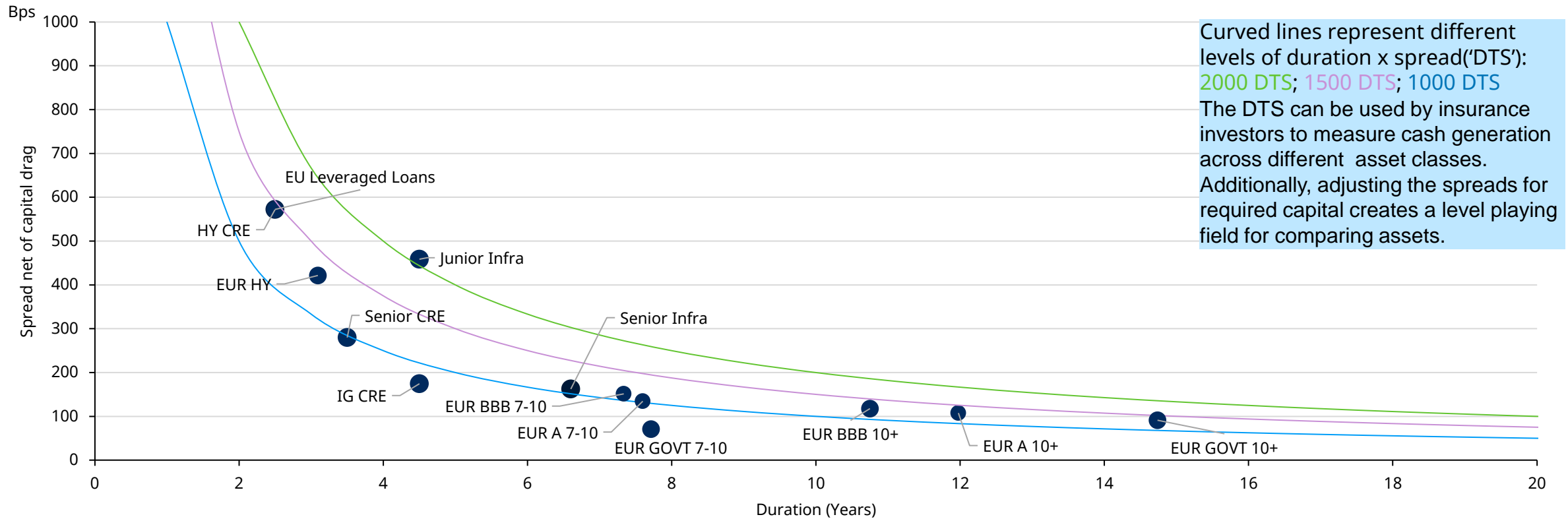


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 31 March 2023. Please see relevant disclaimers on page 68. Local EMD returns are driven by rates and currency movements rather than defaults

Duration times spread analysis for insurance investors

Consistent framework for analysing assets for insurance investors

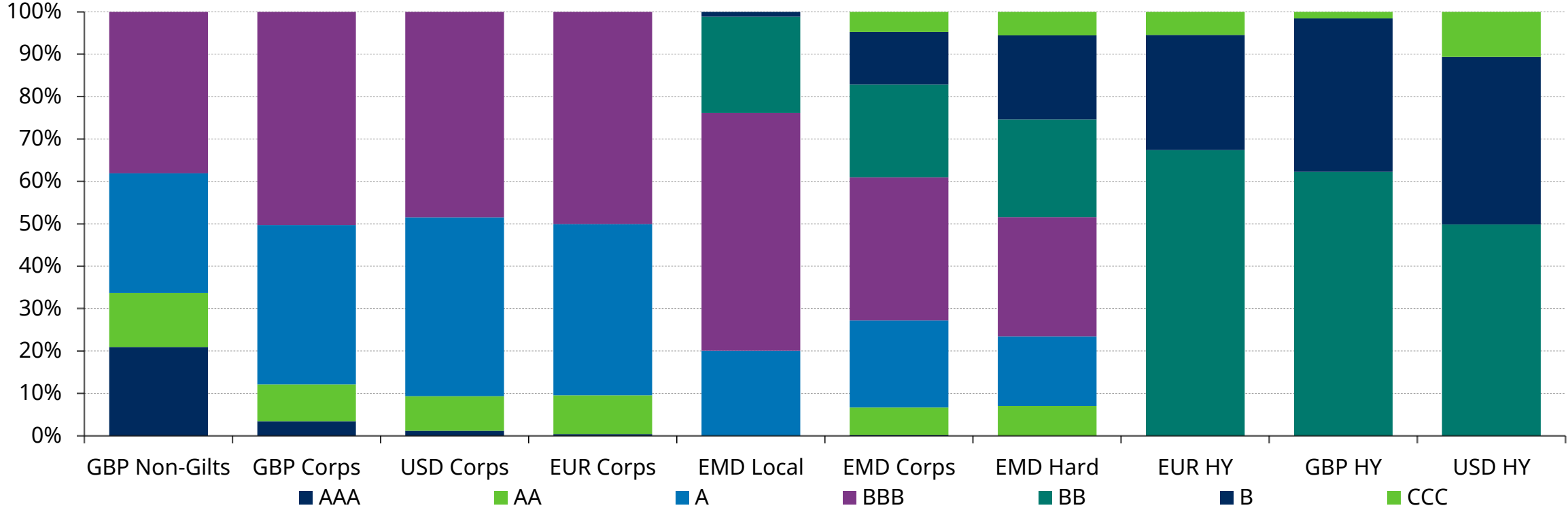
Net spread vs Duration



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

Source: ICE Data indices and Schroders estimates. March 31 2023. Capital drag assumes 150% SCR ratio and 6% cost of capital and diversification of 42%

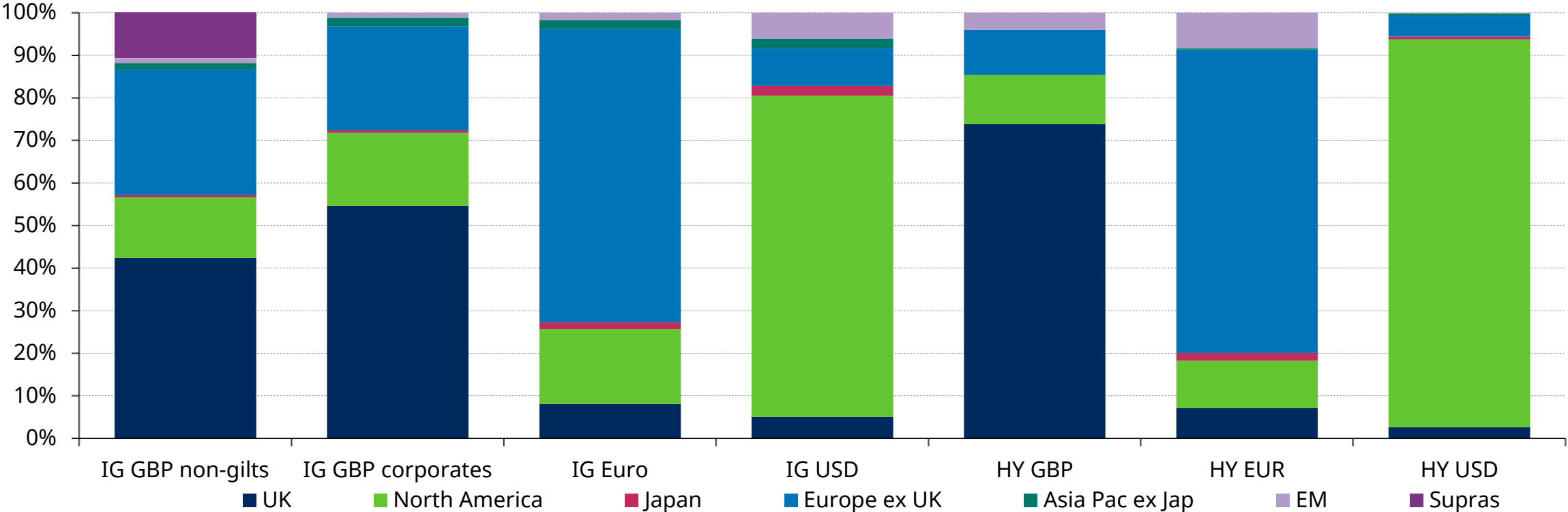
Cross-credit ratings split



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 31 March 2023. Please see relevant disclaimers on page 68.

Currency of issue vs country of issuer

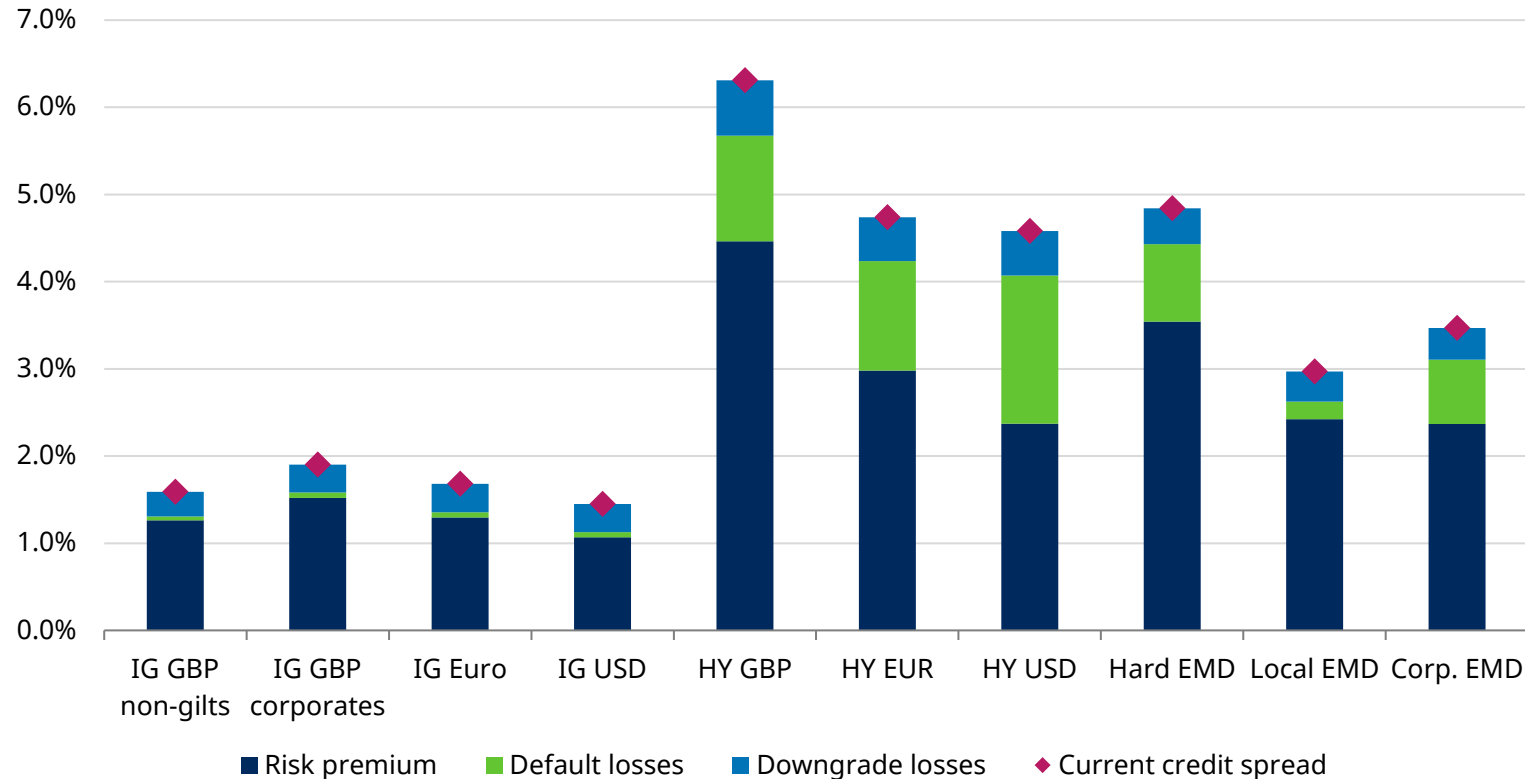


Almost half of GBP IG issuers are not based in the UK

Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

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 31 March 2023. Please see relevant disclaimers on page 68.

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%	1.6%	1.3%
IG GBP corporates	0.1%	0.1%	0.3%	1.9%	1.5%
IG Euro	0.1%	0.1%	0.3%	1.7%	1.3%
IG USD	0.1%	0.1%	0.3%	1.5%	1.1%
HY GBP	1.9%	1.2%	0.6%	6.3%	4.5%
HY EUR	1.9%	1.3%	0.5%	4.7%	3.0%
HY USD	2.6%	1.7%	0.5%	4.6%	2.4%
Hard EMD	1.4%	0.9%	0.4%	4.8%	3.5%
Local EMD	0.3%	0.2%	0.3%	3.0%	2.4%
Corp. EMD	1.1%	0.7%	0.4%	3.5%	2.4%

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

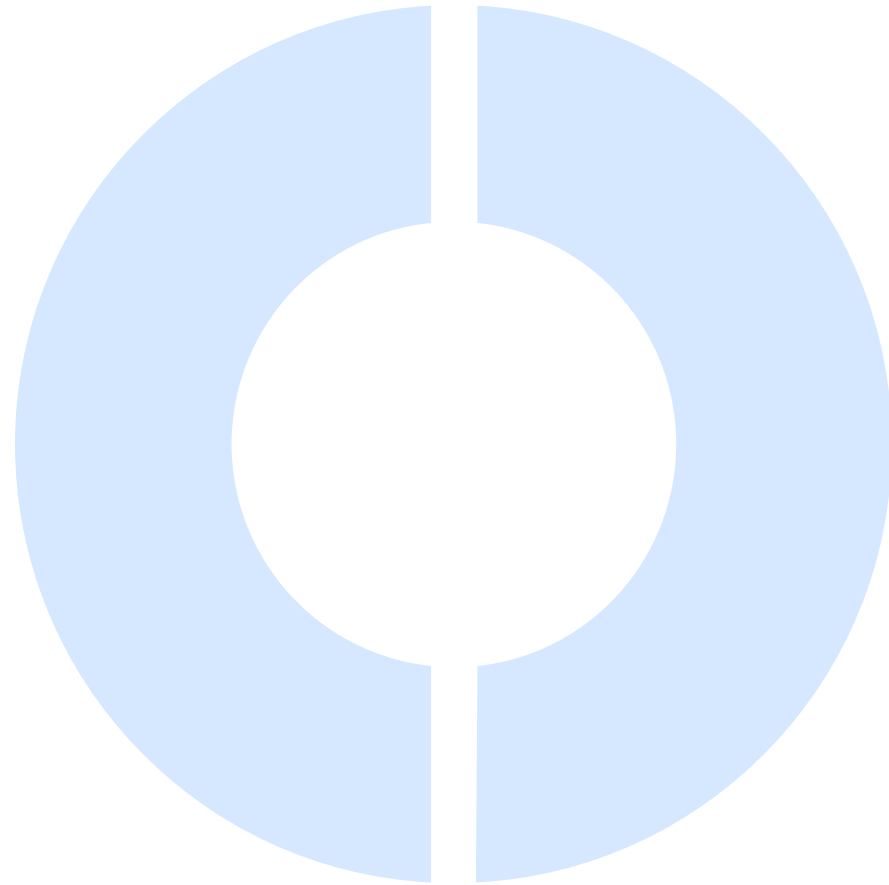
Source: Schroders, Moody's default and recovery study 2022, ICE Data Indices, J.P.Morgan. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

¹Based on average historical default rate

²Default rate * (1-recovery rate)

³Credit spread – default losses – downgrade losses

Schroders

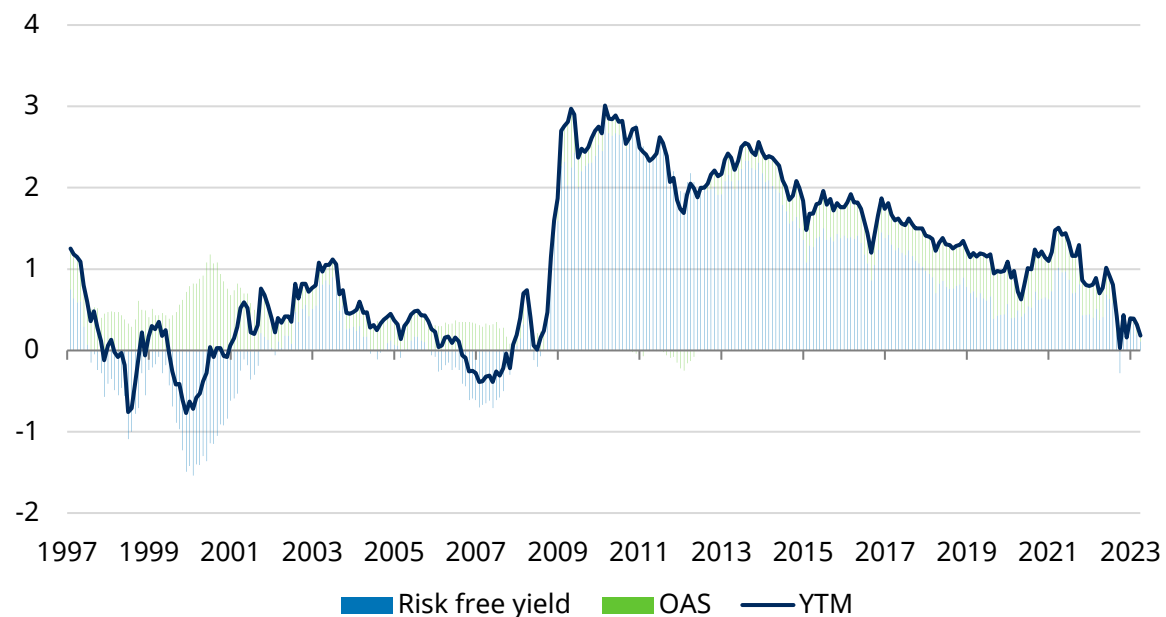


IG long vs short

Shape of the curve

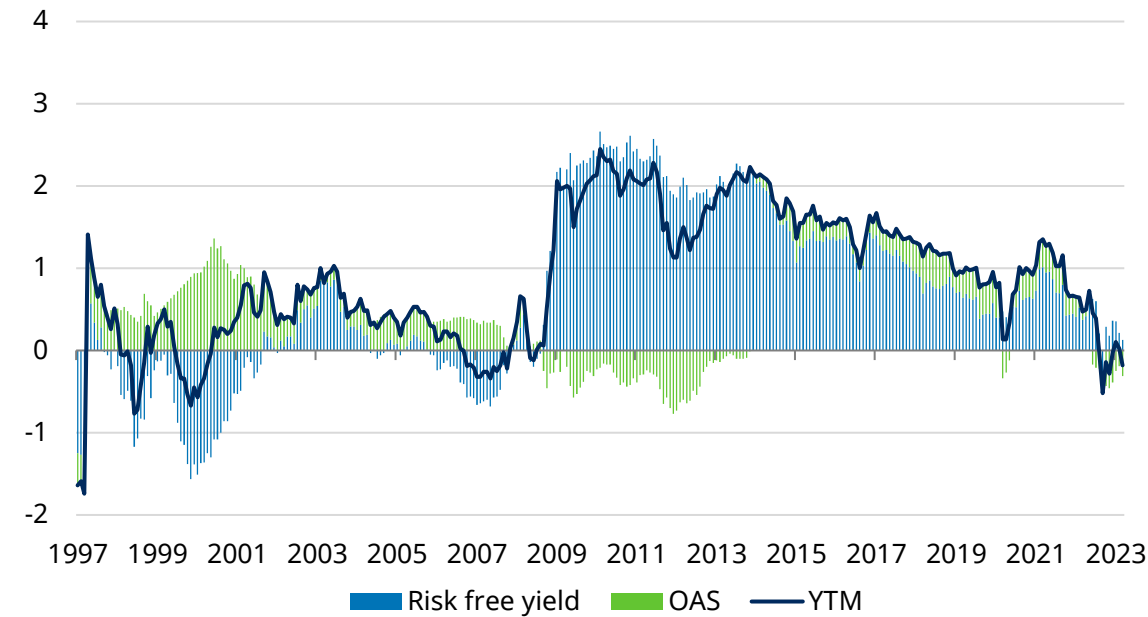
Shape of GBP IG curves

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



	YTW	OAS	Duration
IG GBP non-gilts 1-5 year	5.2%	149	2.8
IG GBP non-gilts Index	5.3%	159	6.2
IG GBP non-gilts 10+	5.3%	156	11.8

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

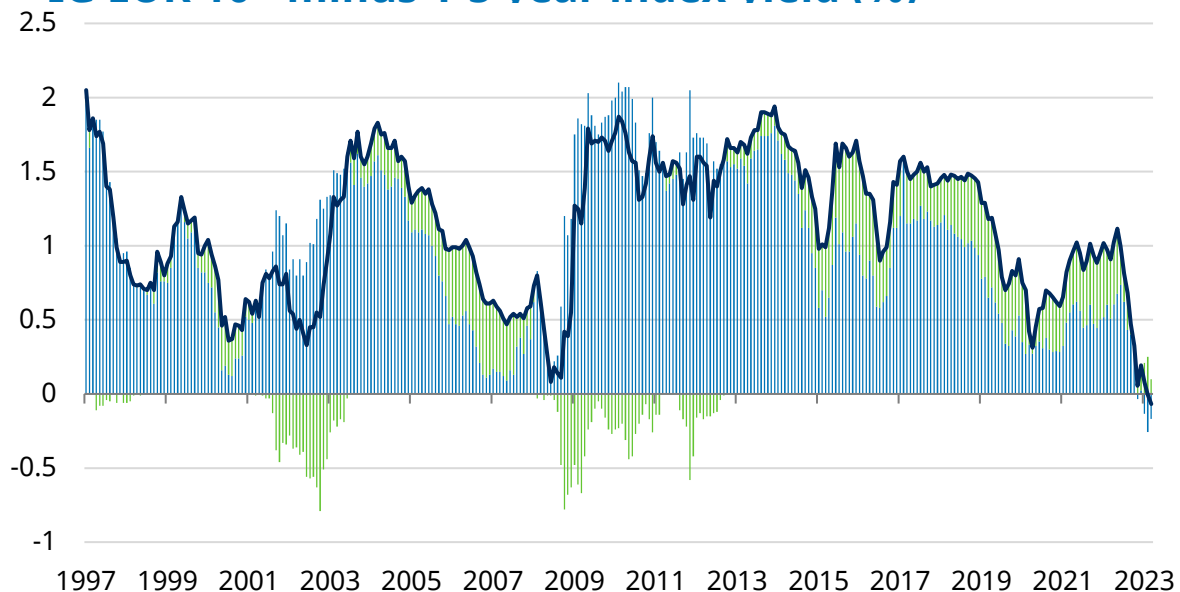


	YTW	OAS	Duration
IG GBP corporates 1-5 year	5.6%	198	2.9
IG GBP corporates Index	5.6%	190	6.7
IG GBP corporates 10+	5.5%	167	11.6

Source: Refinitiv Datastream. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

Shape of EUR and USD IG curves

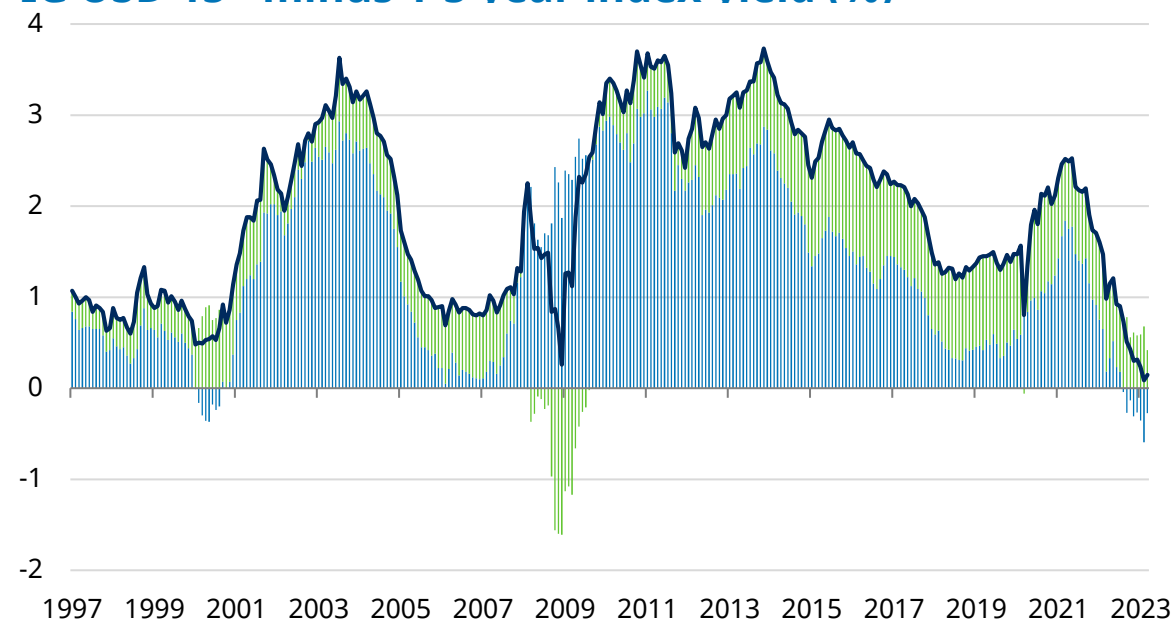
IG EUR 10+ minus 1-5 year index yield (%)



■ Risk free yield ■ OAS — YTM

	YTW	OAS	Duration
IG Euro 1-5 year	4.2%	157	2.9
IG Euro Index	4.2%	168	4.8
IG Euro 10+	4.1%	167	11.8

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



■ Risk free yield ■ OAS — YTM

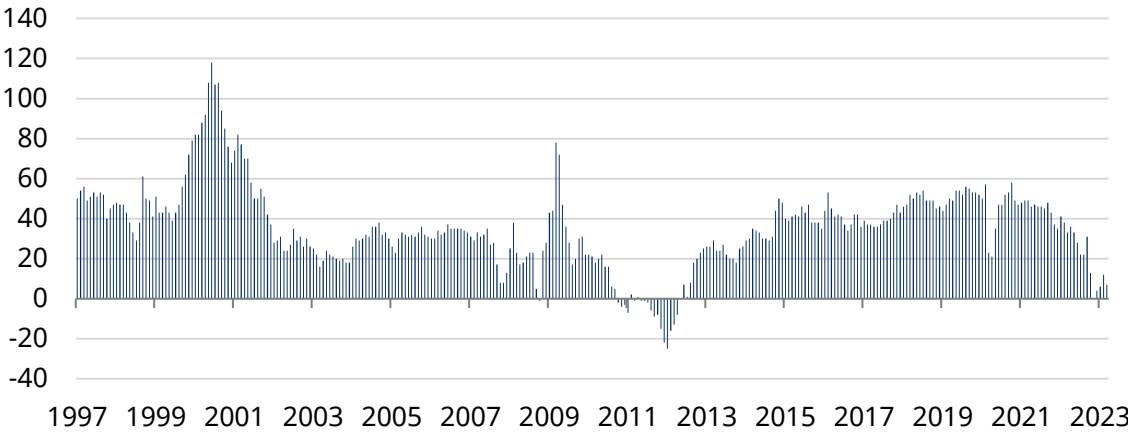
	YTW	OAS	Duration
IG USD 1-5 year	5.2%	119	2.8
IG USD Index	5.3%	145	7.2
IG USD 10+	5.4%	161	14.2

Source: Refinitiv Datastream. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

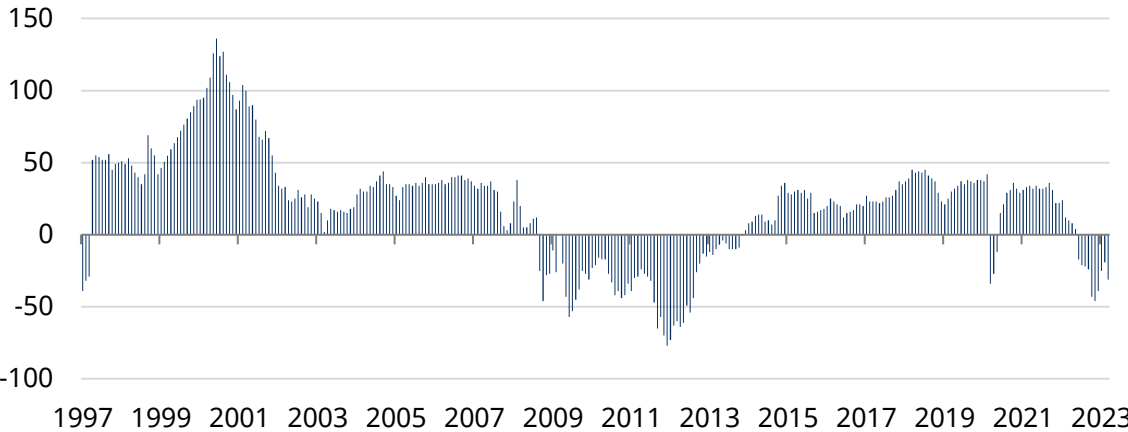
IG long vs short OAS

Shape of spread curves

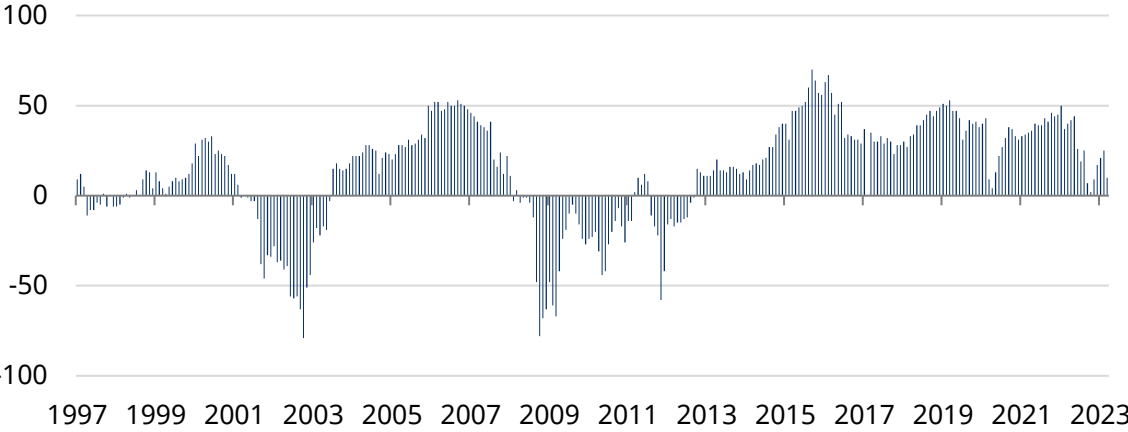
IG GBP non-gilts (bps)



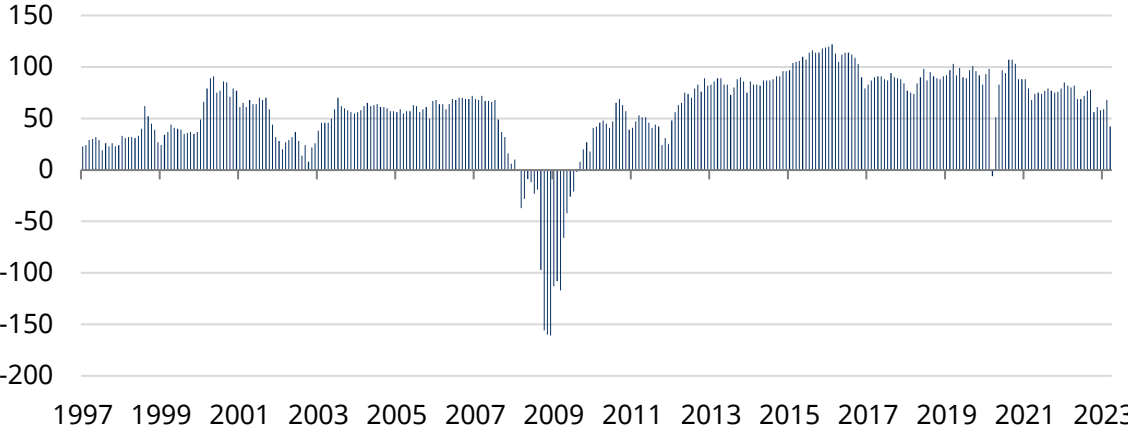
IG GBP corporates (bps)



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 31 March 2023. Please see relevant disclaimers on page 68.

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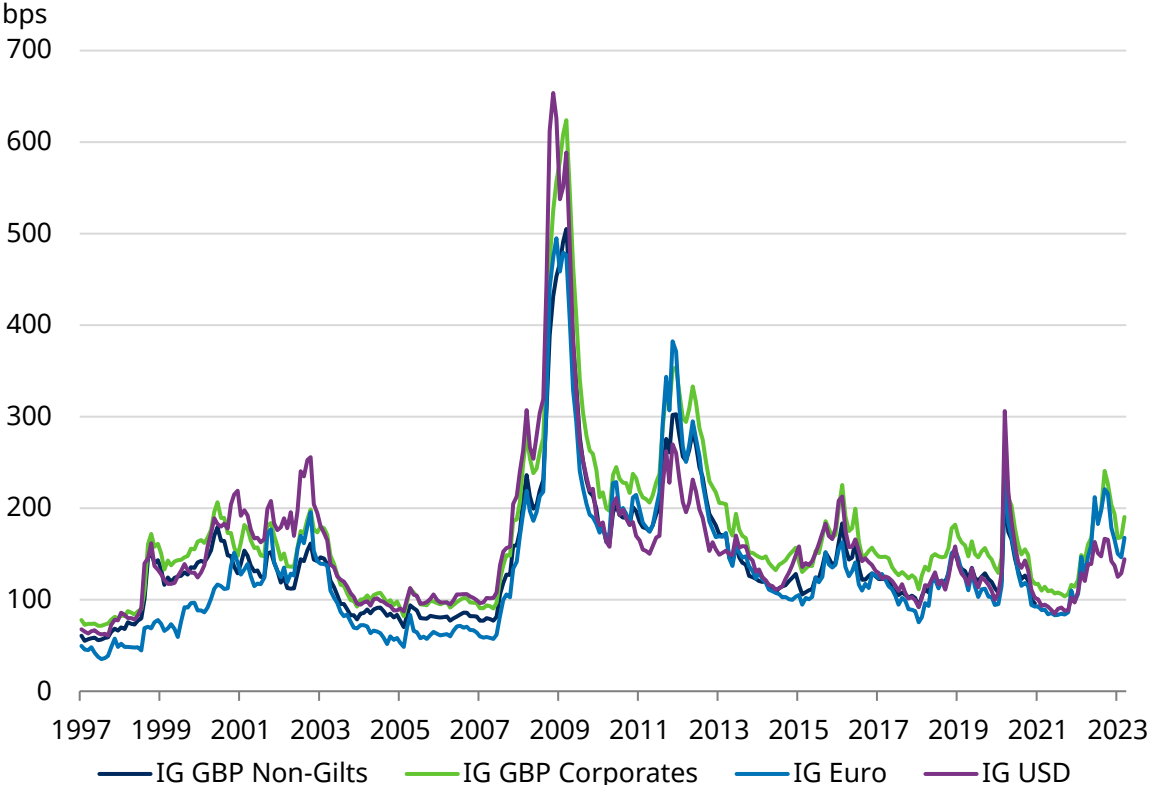


Corporate credit
Valuation

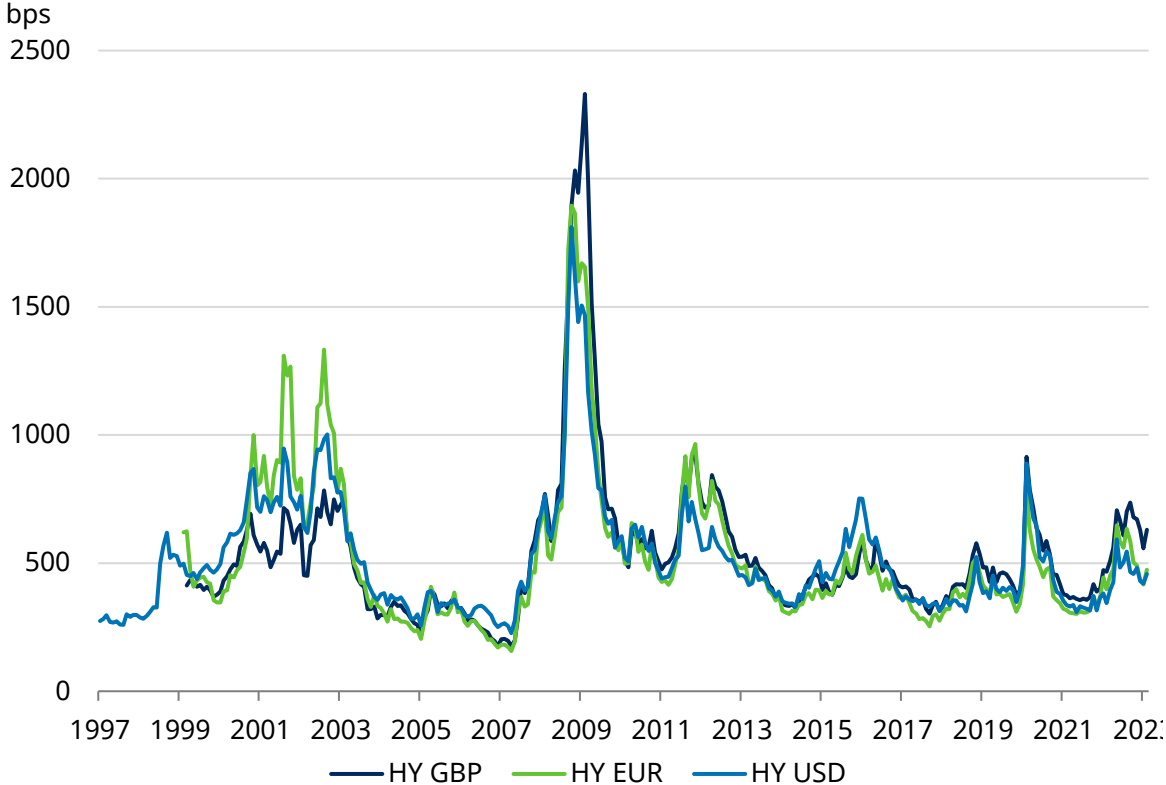
IG and HY valuation

Historical ratings-adjusted credit spreads

IG adjusted spreads



HY adjusted spreads

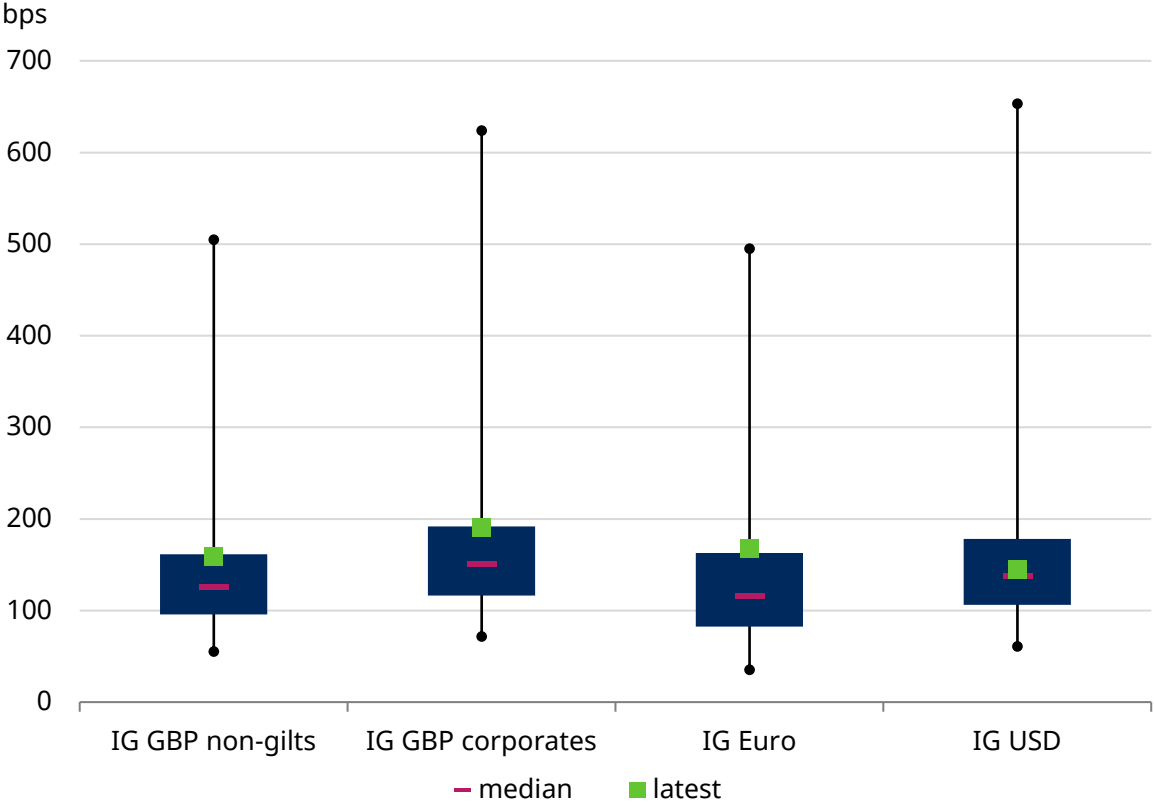


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 31 March 2023. Please see relevant disclaimers on page 68. Spreads are adjusted for changes in the distribution of credit ratings within each index over time.

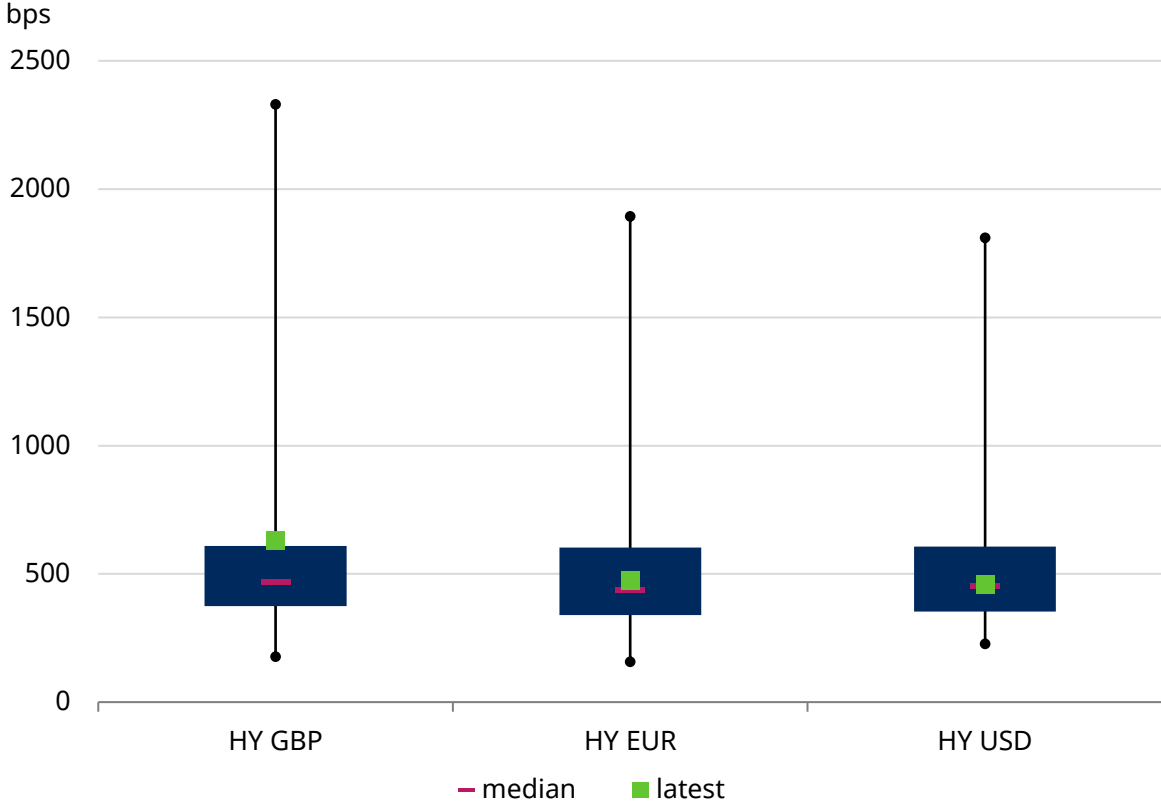
IG and HY valuation

Spread percentiles¹

IG adjusted spreads



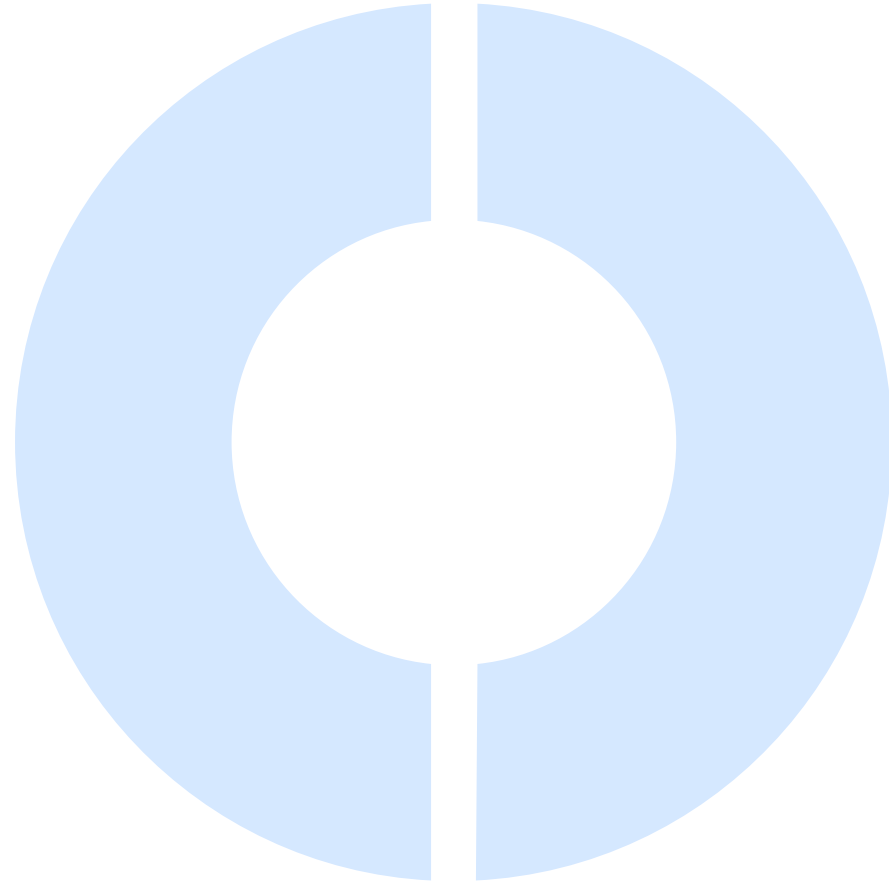
HY adjusted spreads



Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 31 March 2023. Spreads are adjusted for changes in the distribution of credit ratings within each index over time. Please see relevant disclaimers on page 68.

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



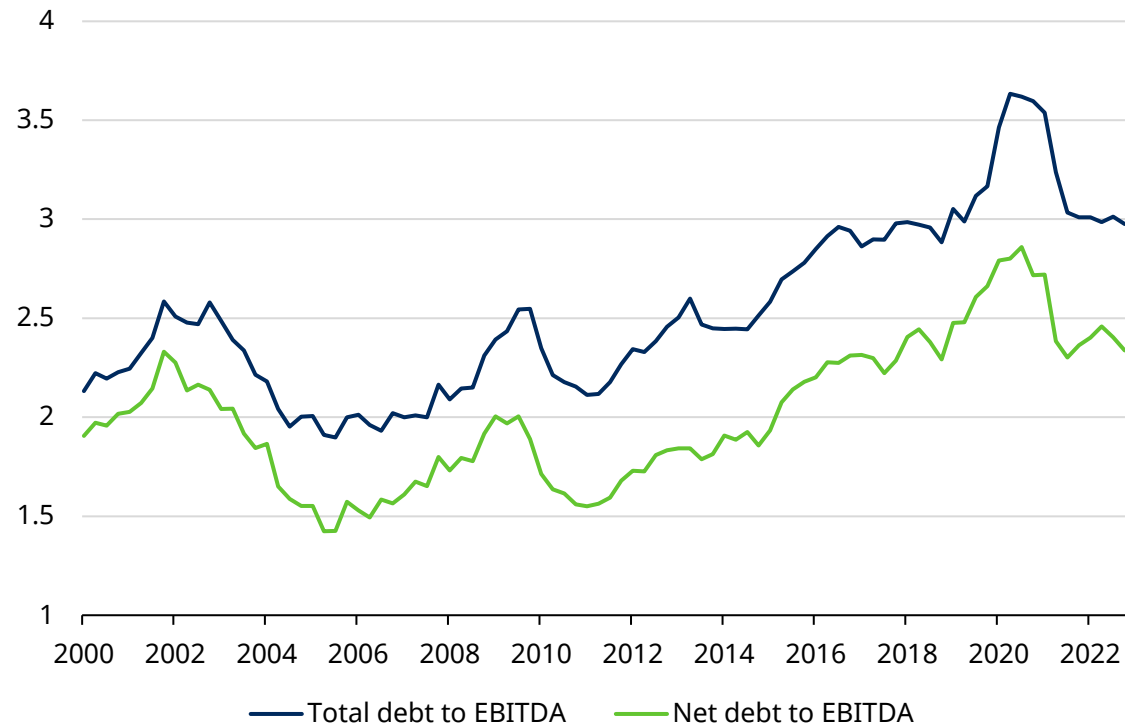
Corporate credit
Fundamentals

US IG leverage

Leverage has been broadly stable in recent quarters

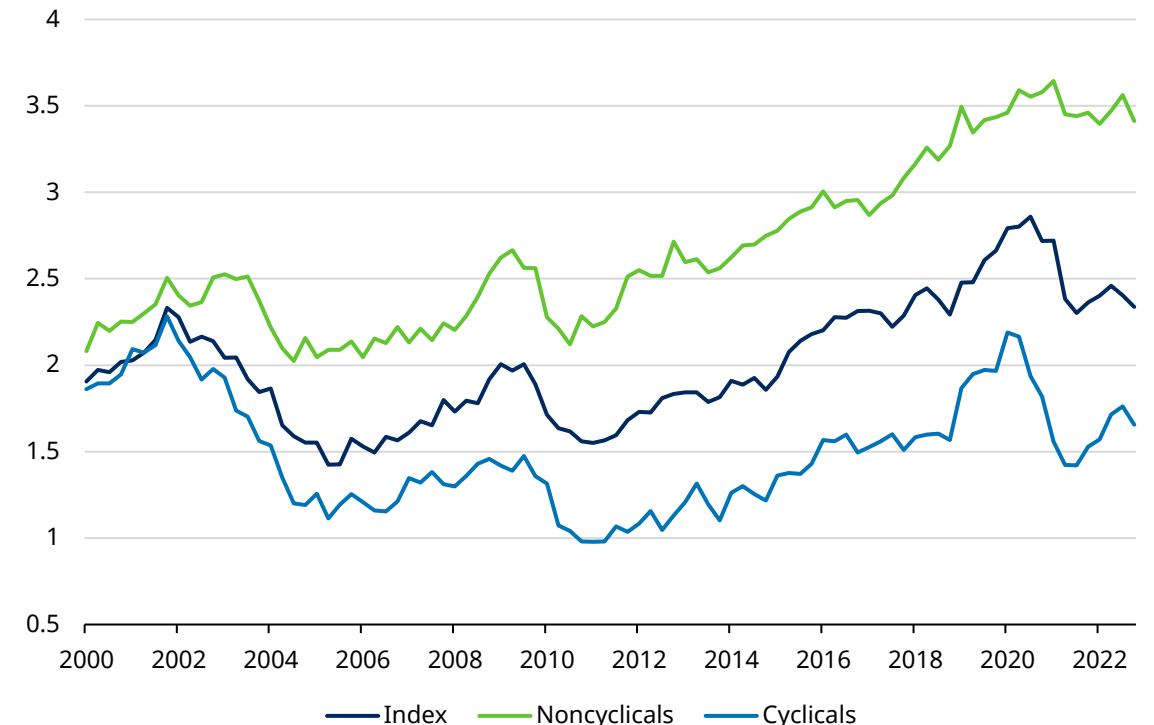
US IG leverage

Debt to last 12 months EBITDA



US IG net leverage

Net debt to last 12 months EBITDA



An increase in cash balances led to a drop in net leverage in Q4

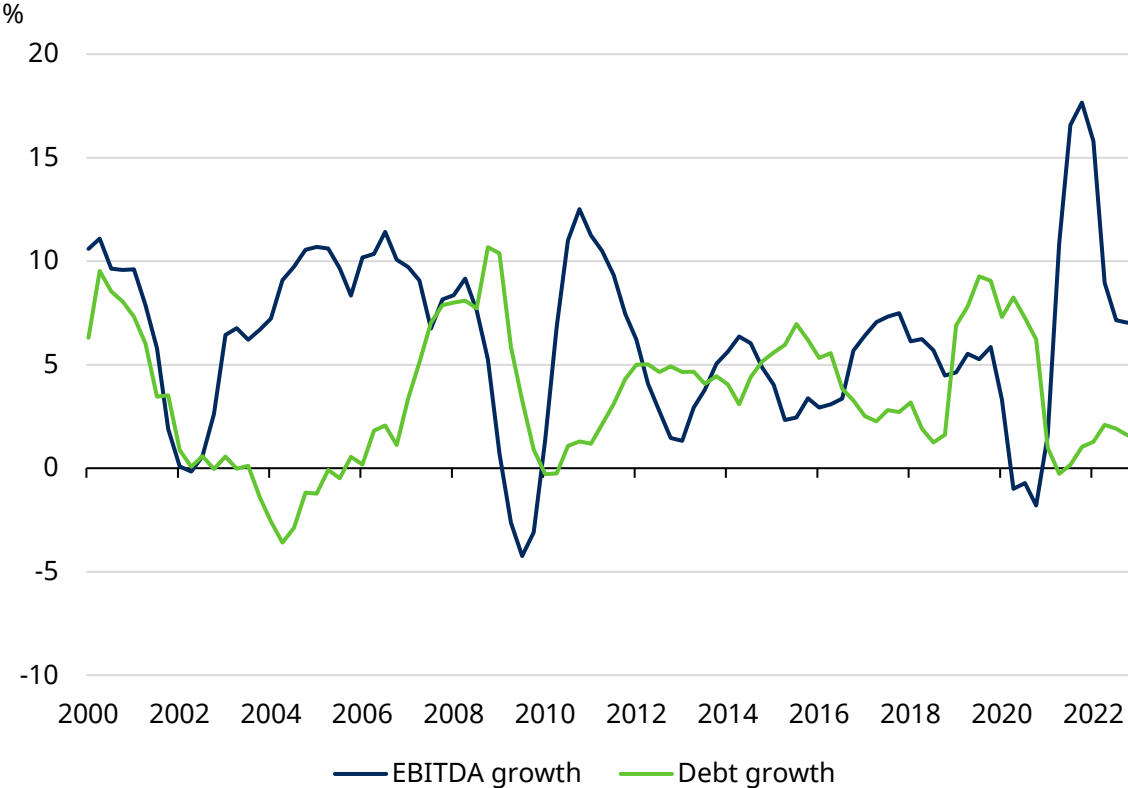
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

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

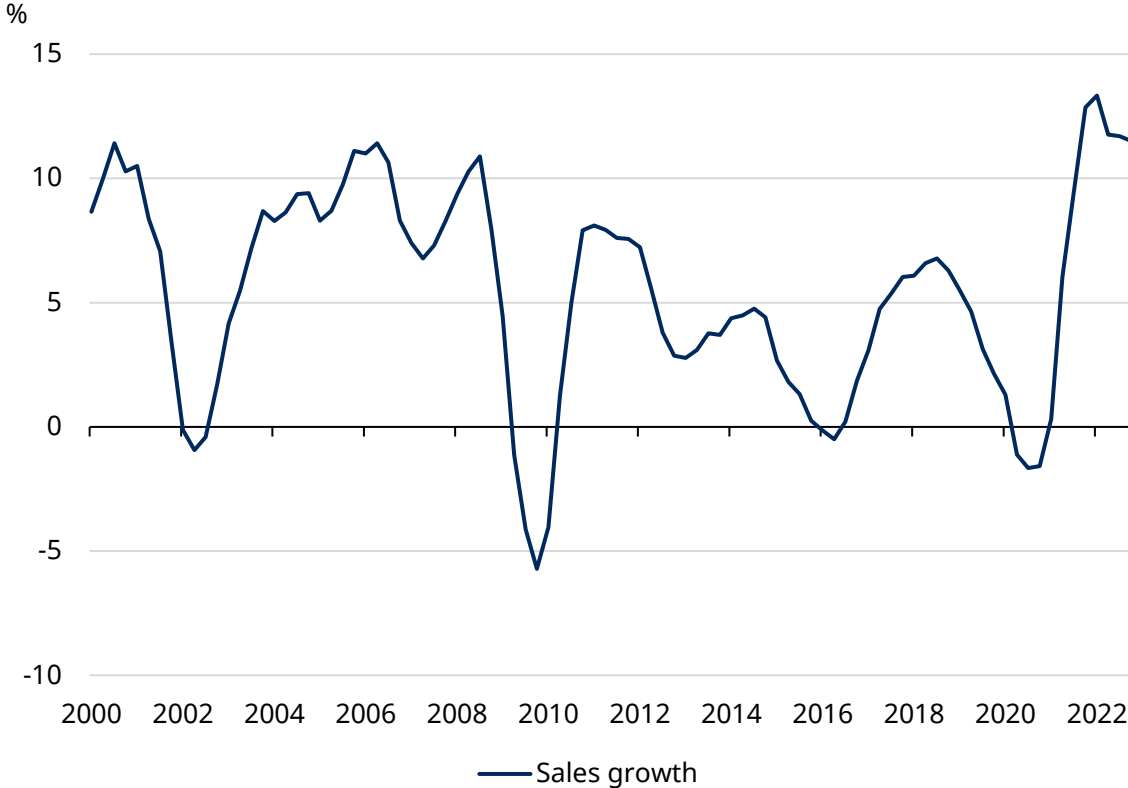
US IG earnings, sales and debt growth

Sales and earnings growth is still strong, aided by high nominal growth and inflation

US IG EBITDA and debt growth



US IG sales growth



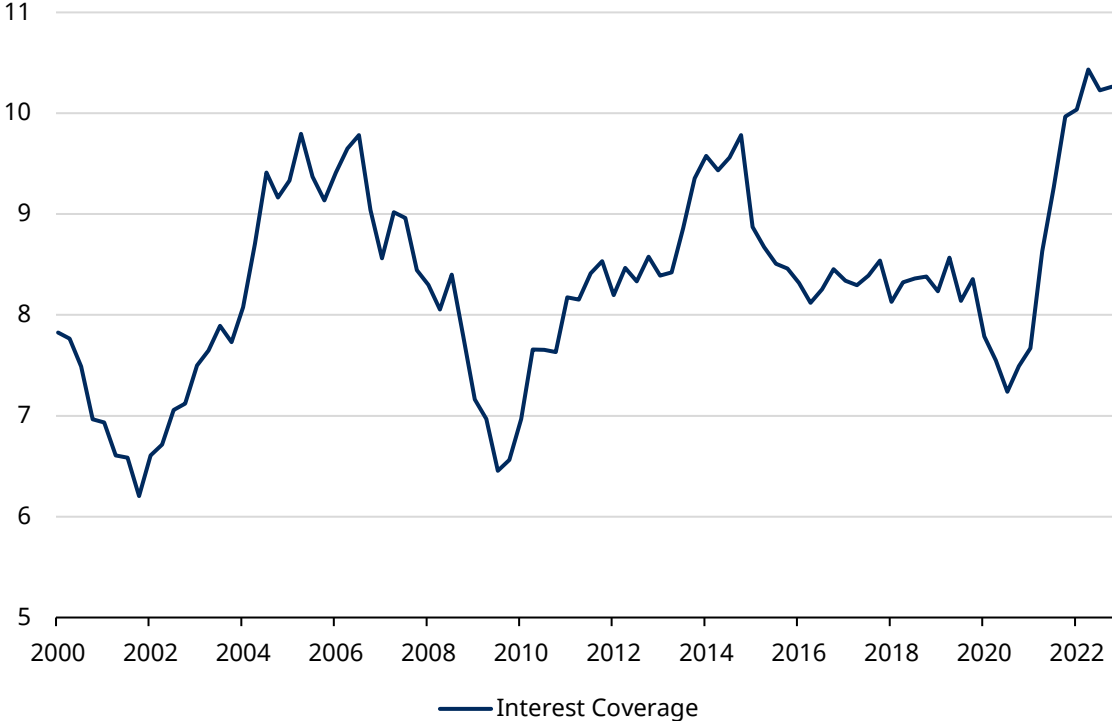
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

US IG interest coverage

Interest coverage remains very elevated

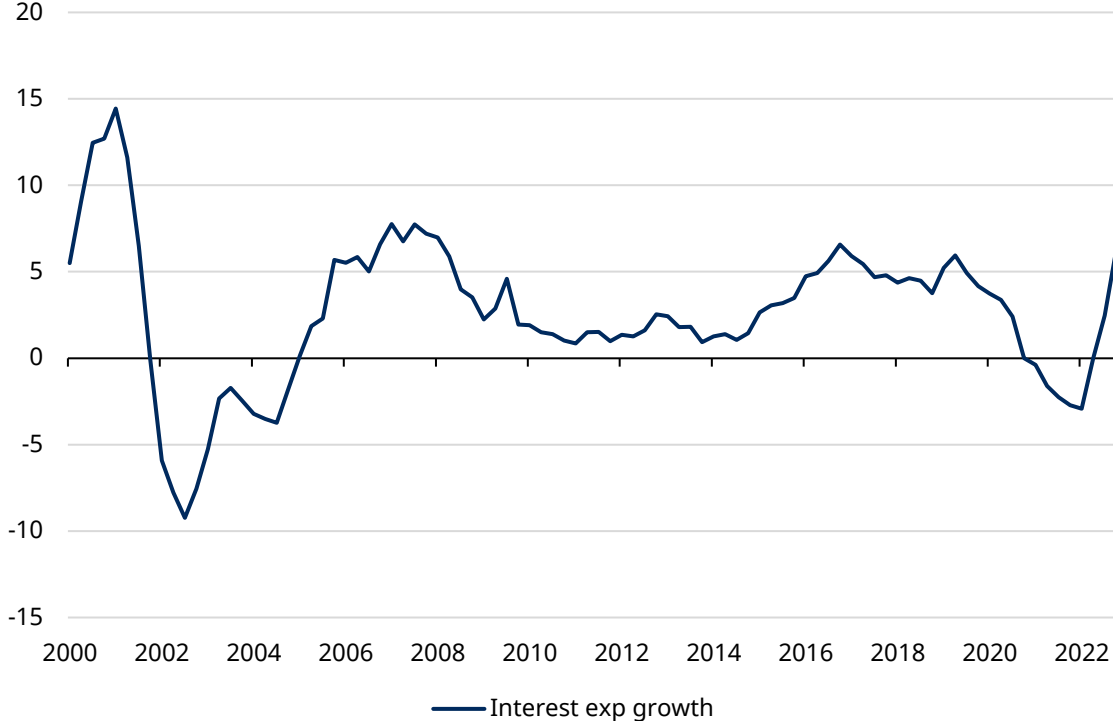
US IG interest coverage ratio

Last 12 months EBITDA to interest expense



US IG annual interest expense growth

%

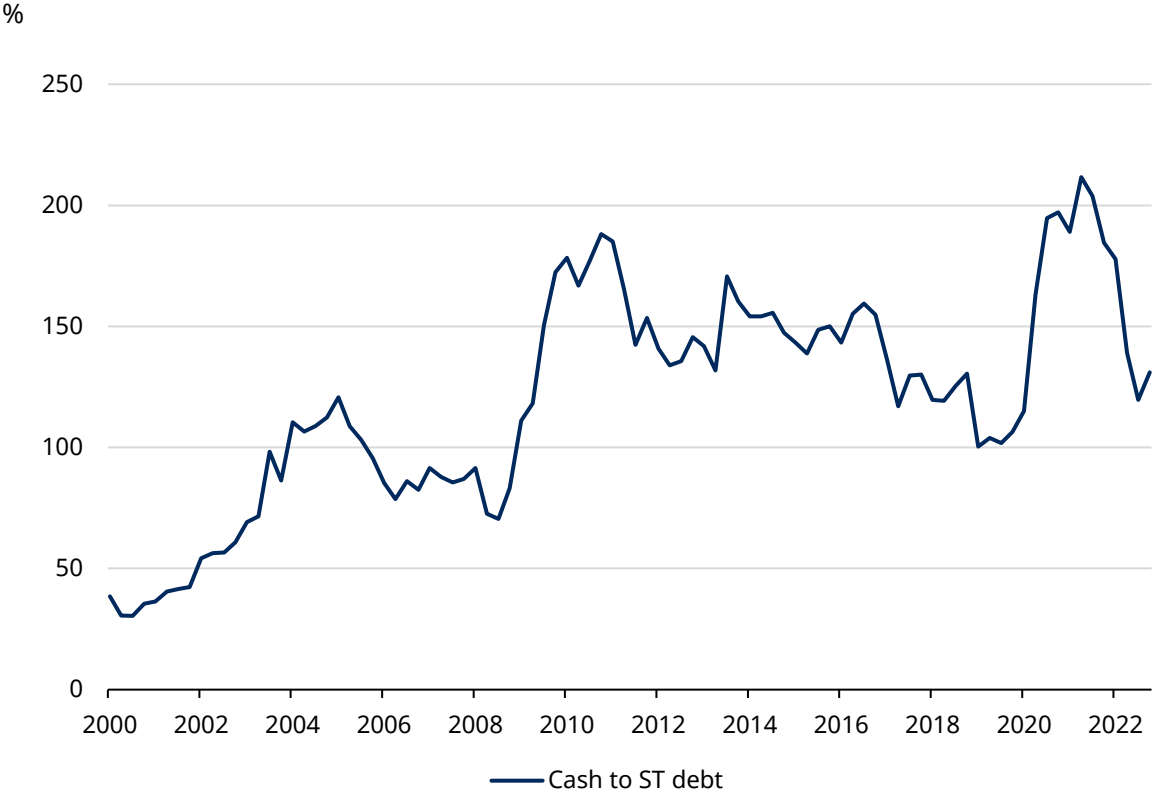


Interest expense growth is the highest since 2016 as higher bond yields are starting to have an impact

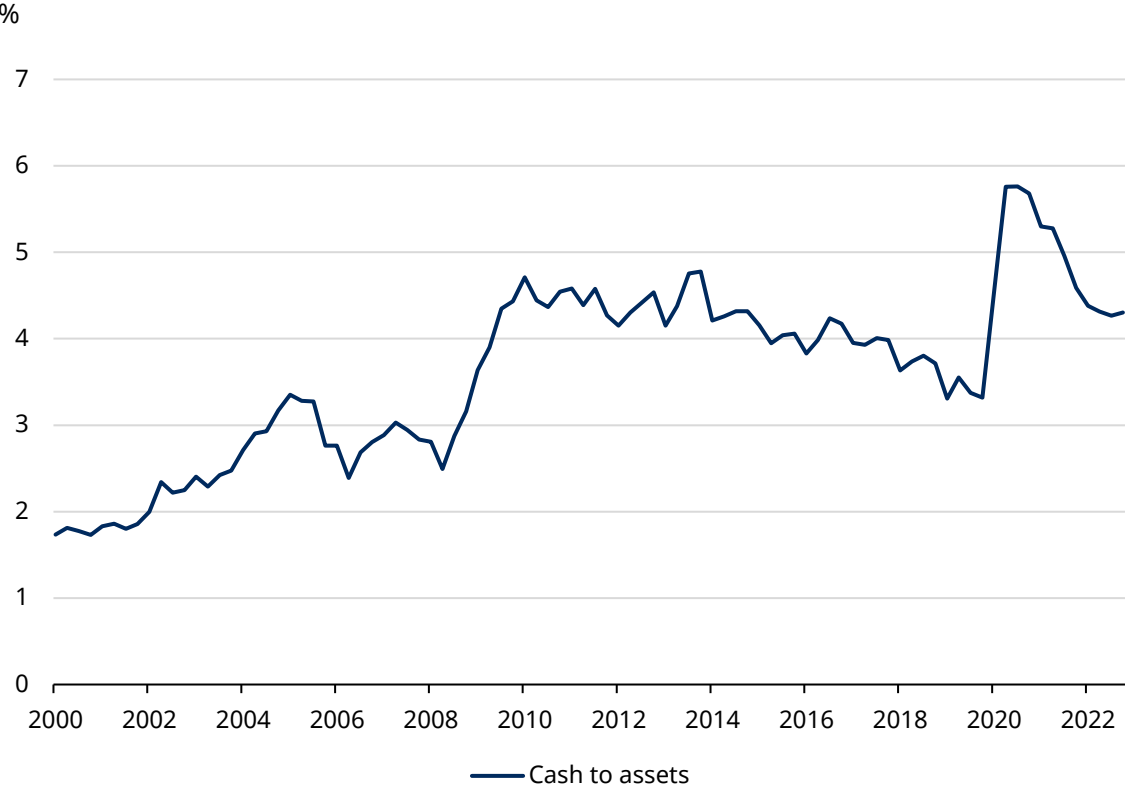
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

US IG cash balances slightly increased in Q4 for the first time since Q2 2020

US IG cash to short term debt



US IG cash to assets

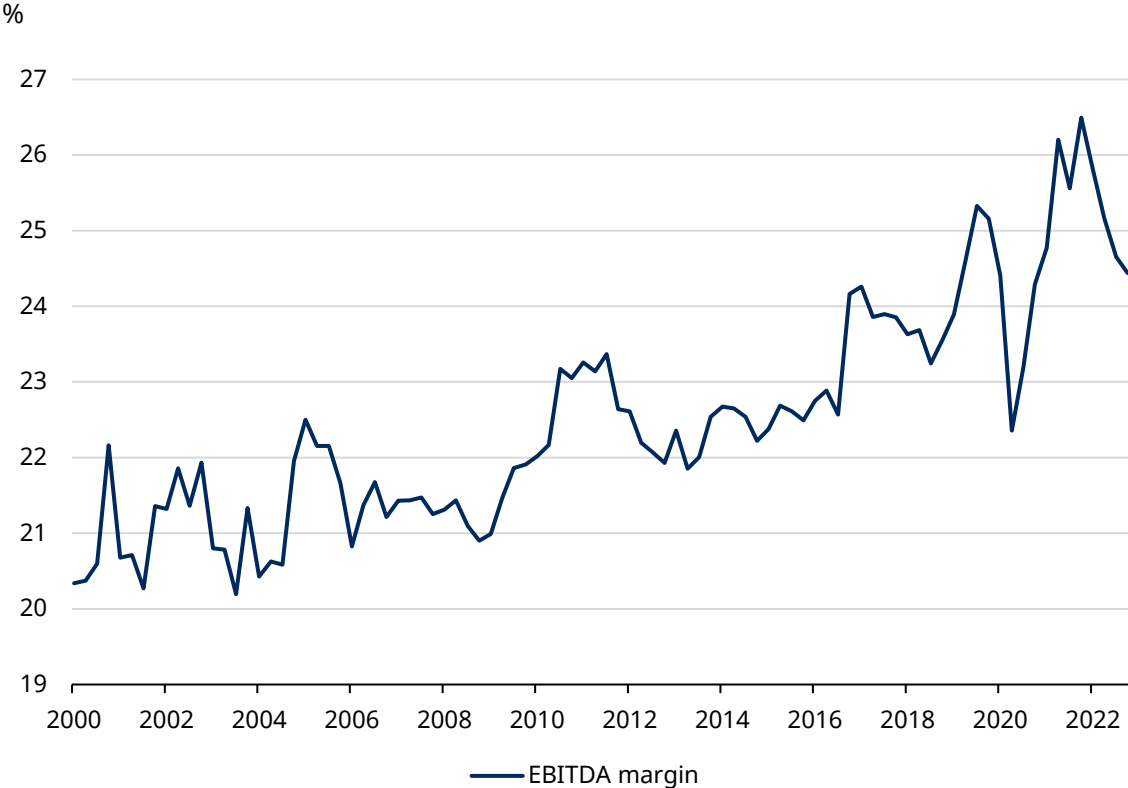


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

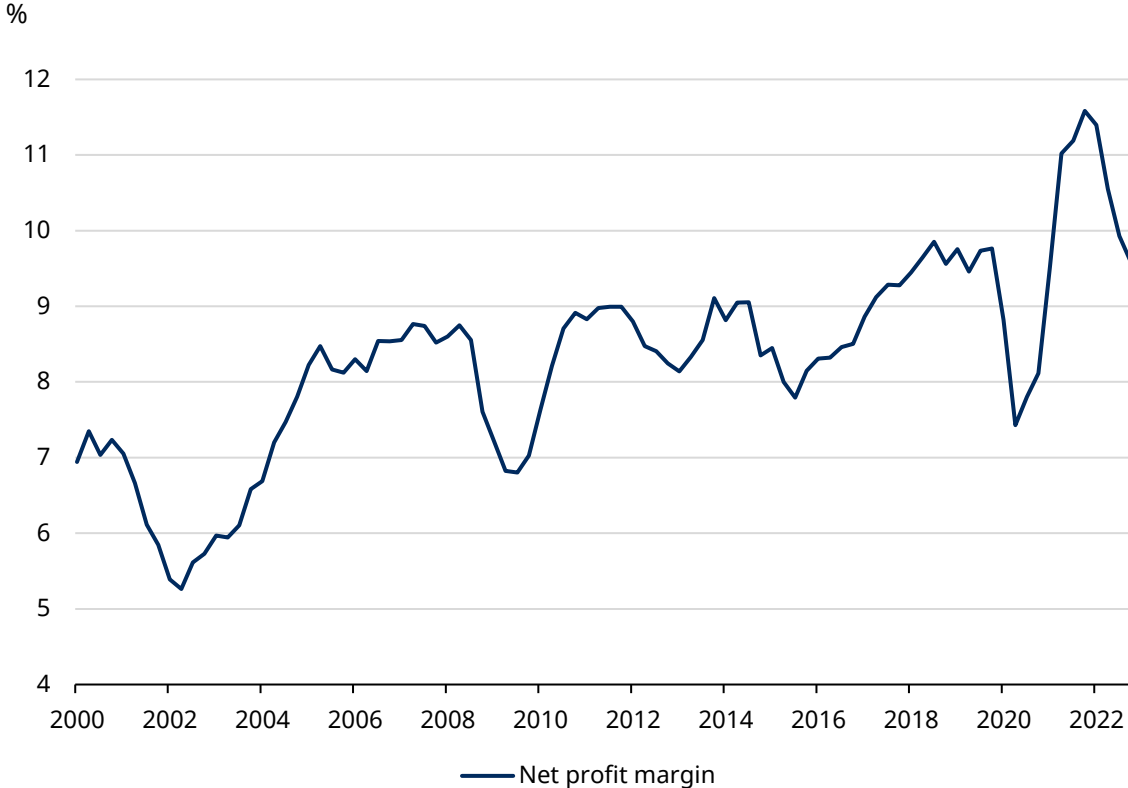
US IG corporate margins

Margins have started to fall meaningfully from record high levels

US IG EBITDA margin



US IG net profit margin



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

US HY gross leverage is still falling

Ex-energy leverage also fell in Q4

US HY leverage

Debt to last 12 months EBITDA



US HY ex-energy leverage

Debt to last 12 months EBITDA

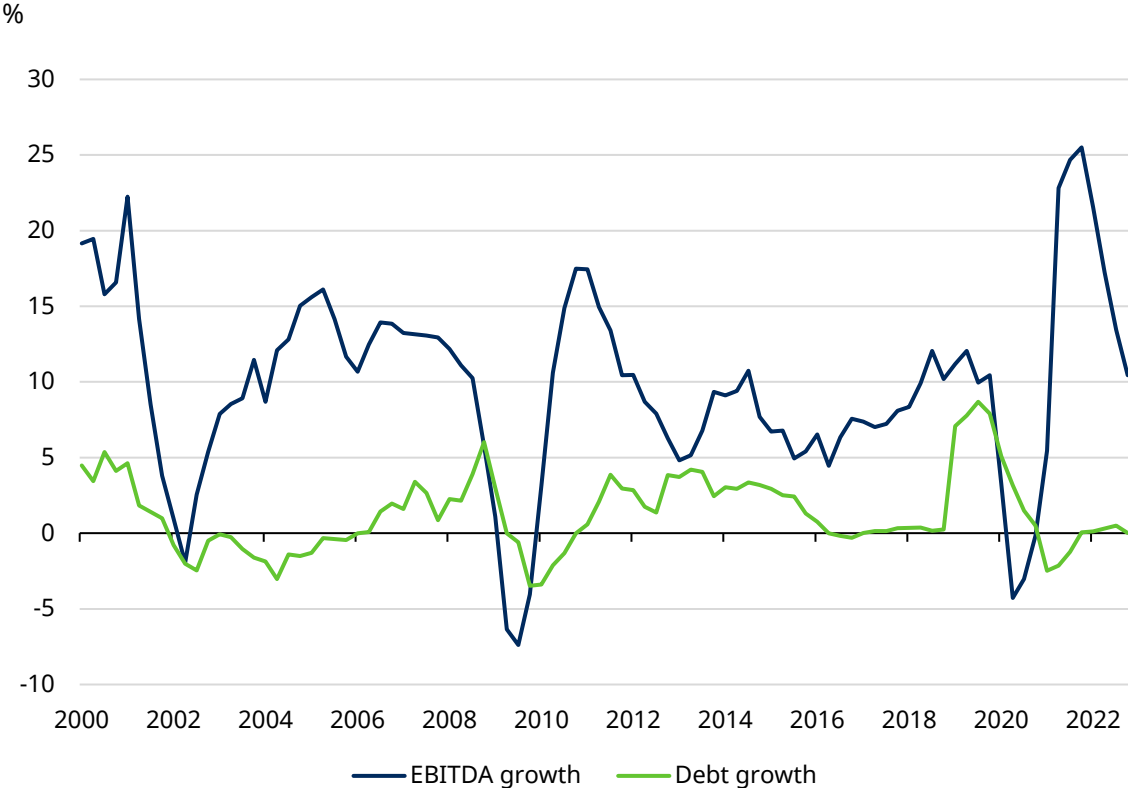


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

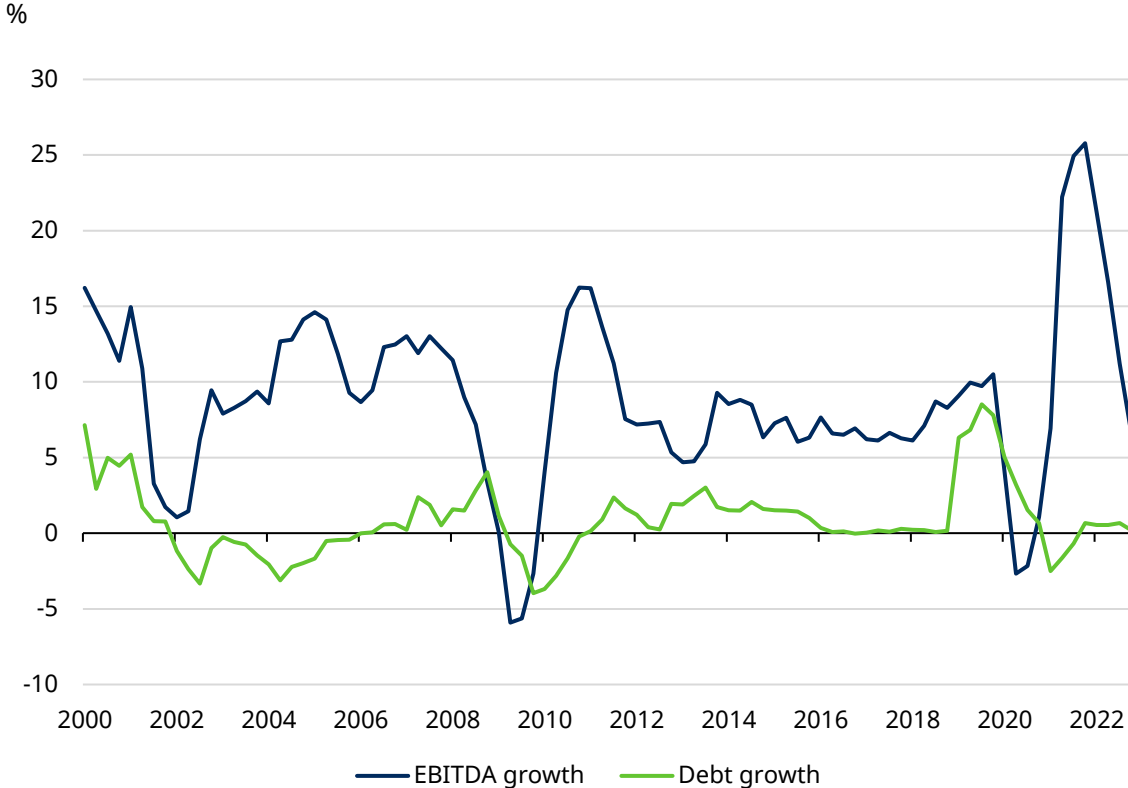
US HY earnings and debt growth

EBITDA growth is cooling fast but debt growth is still close to zero

US HY EBITDA and debt growth (last 12 months)



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



Source: Schrodgers, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

US HY interest coverage managed to make a new cyclical high despite rising interest expense growth

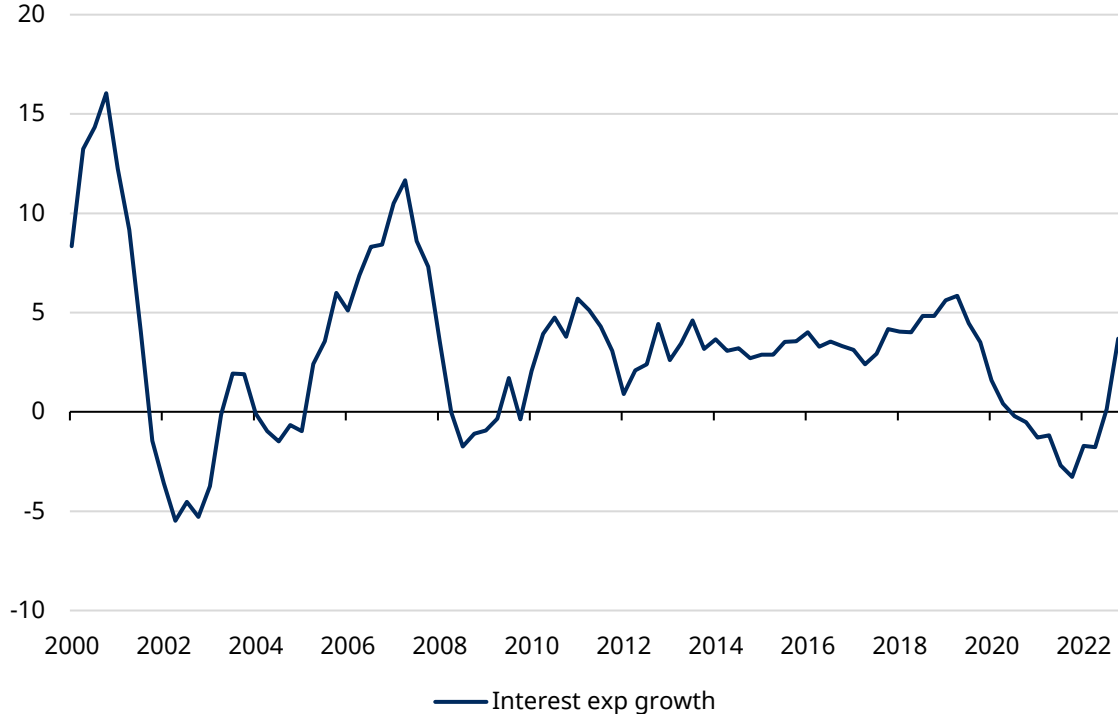
US HY interest coverage ratio

Last 12 months EBITDA to interest expense



US HY annual interest expense growth

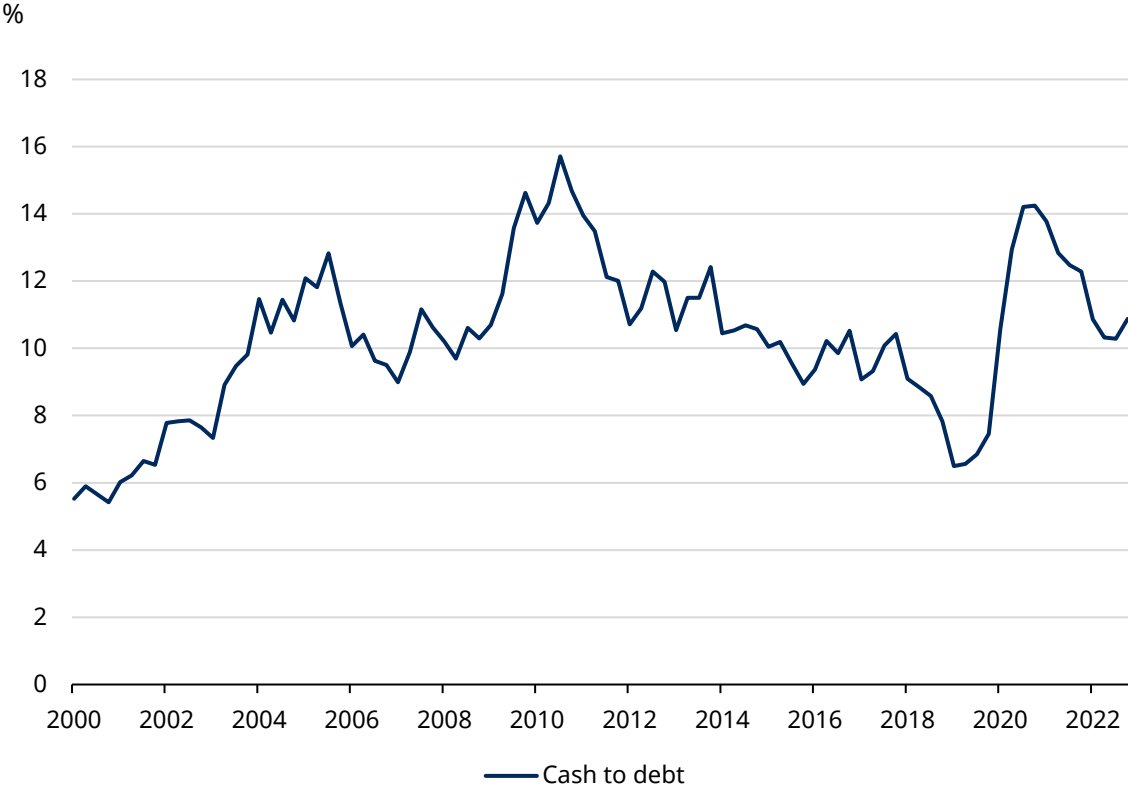
%



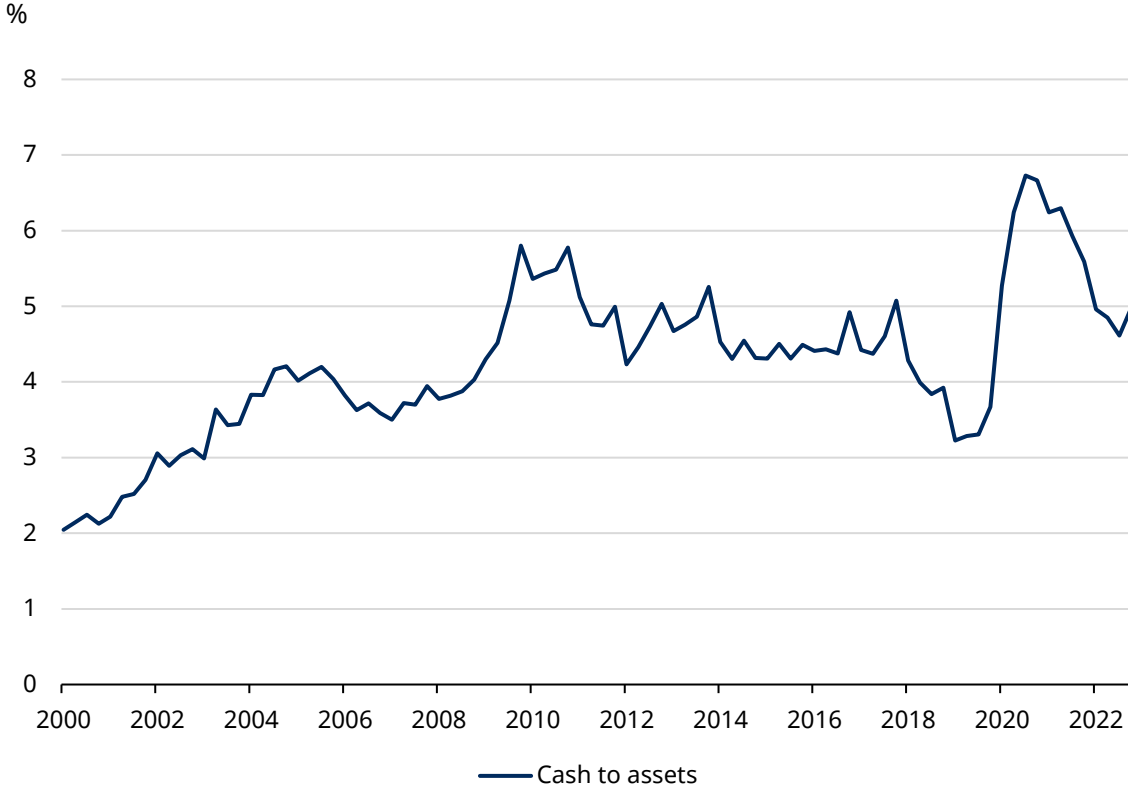
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

US HY cash levels increased in Q4

US HY cash to debt



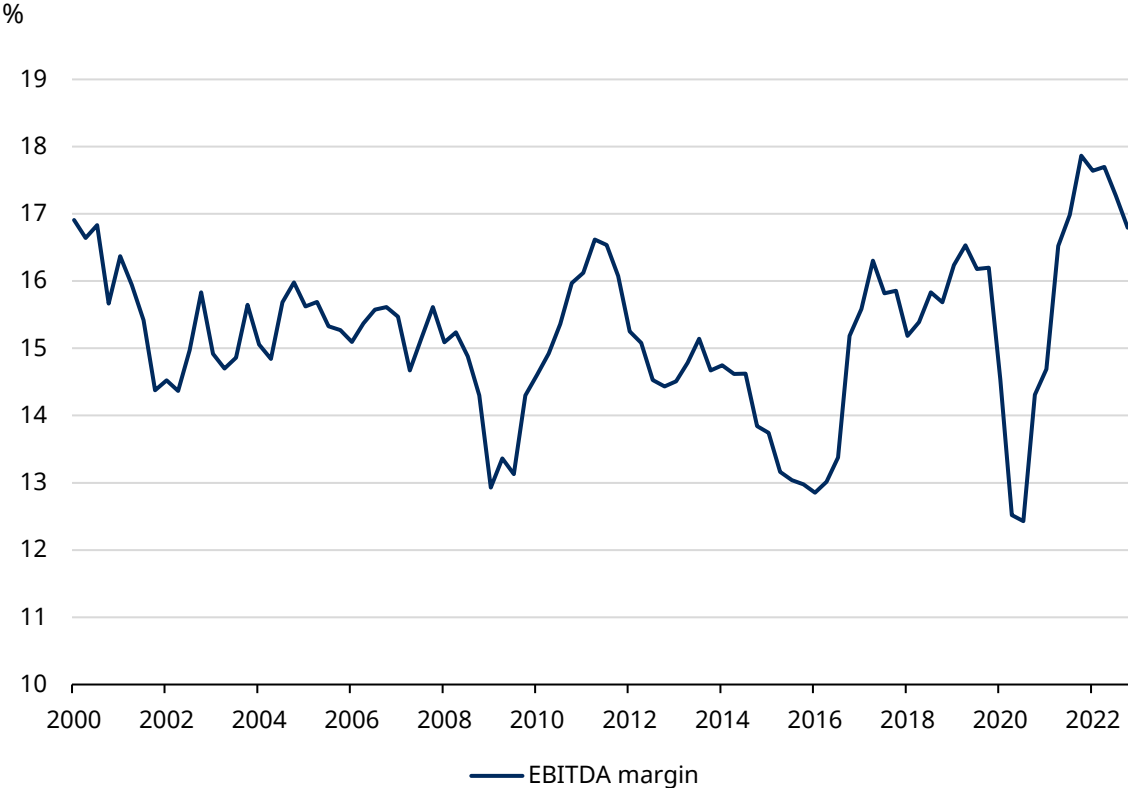
US HY cash to assets



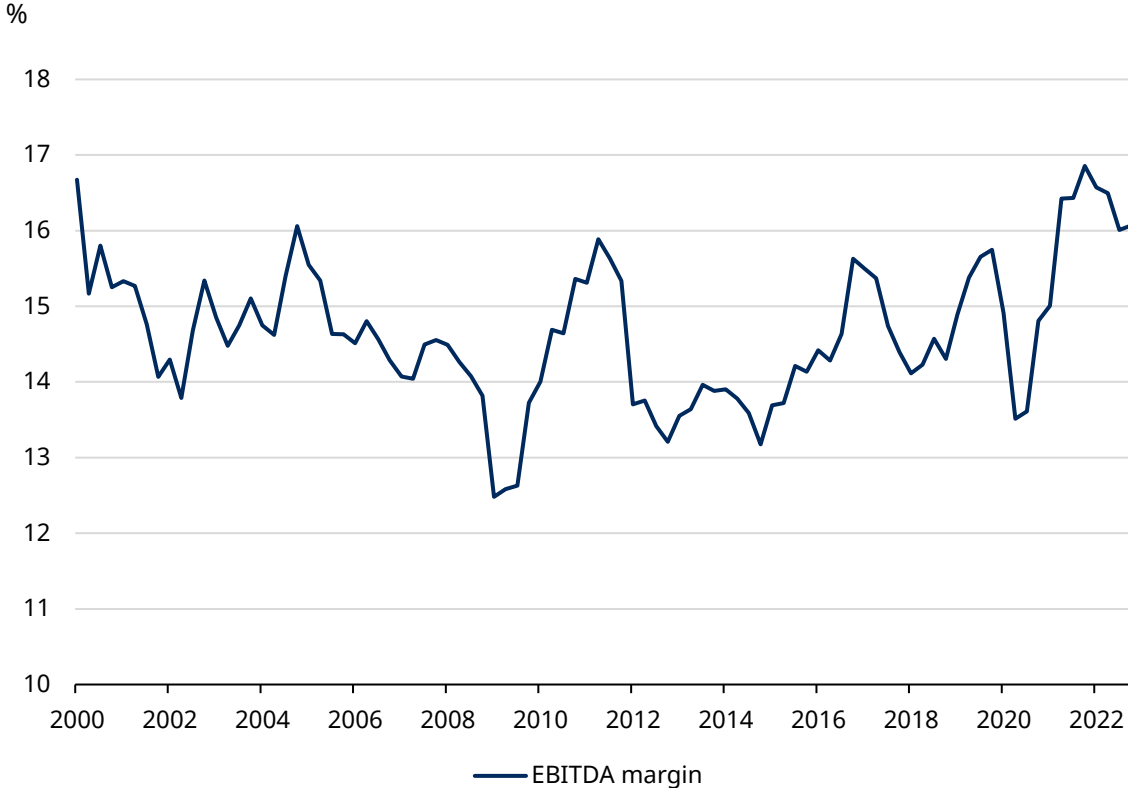
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

US HY corporate margins are coming off from record highs

US HY EBITDA margin



US HY ex-energy EBITDA margin

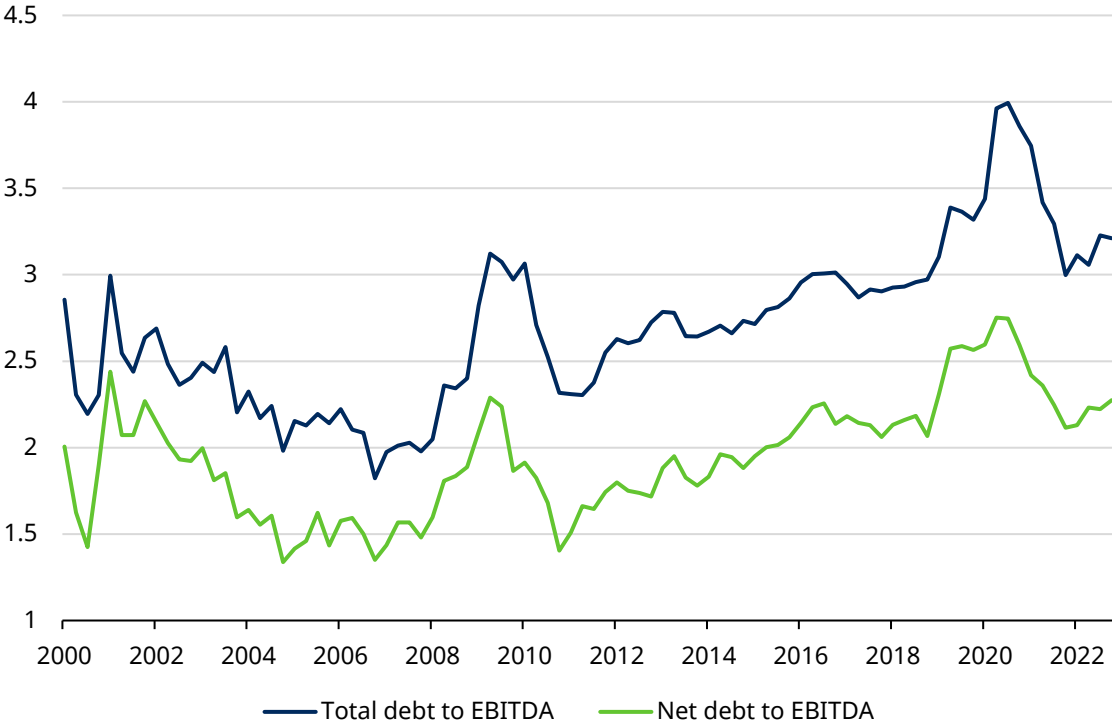


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Euro IG leverage has increased slightly over the last four quarters

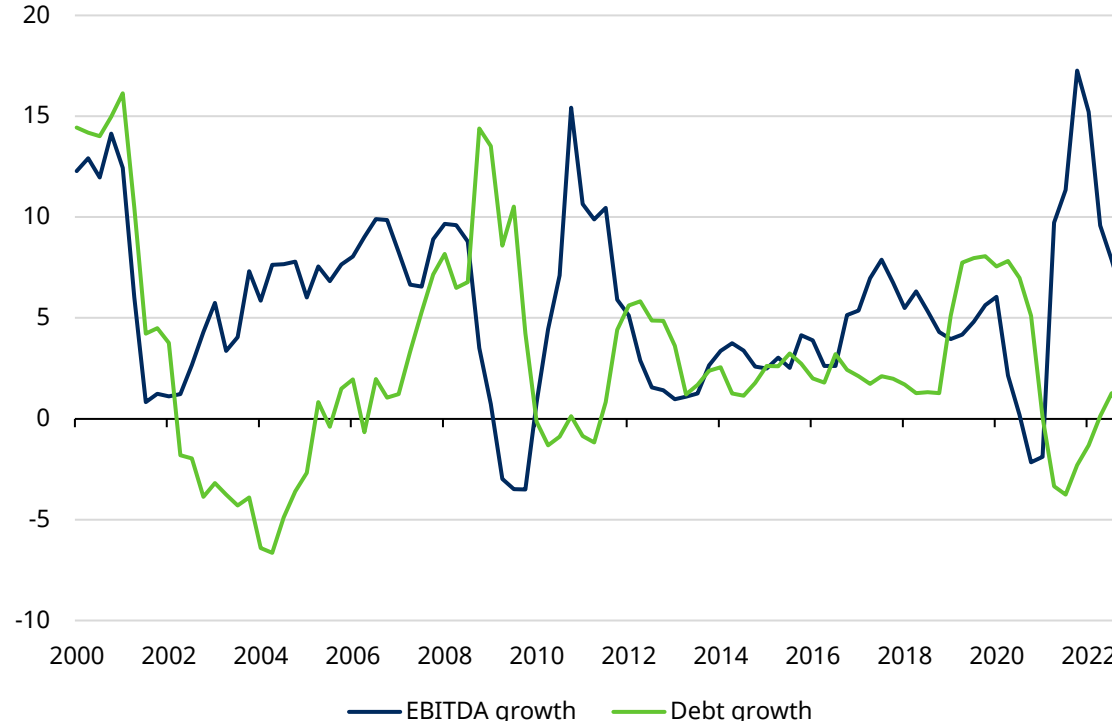
Euro IG leverage

Debt to last 12 months EBITDA



Euro IG EBITDA and debt growth (last 12 months)

%

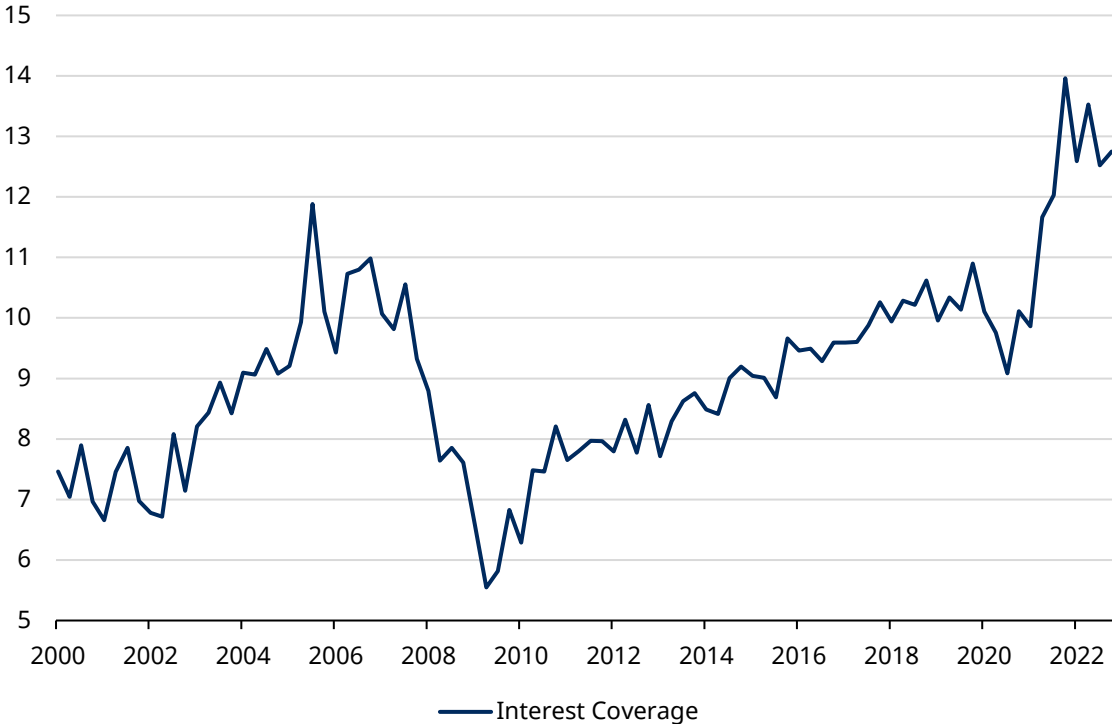


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Euro IG interest coverage is very strong despite falling in 2022

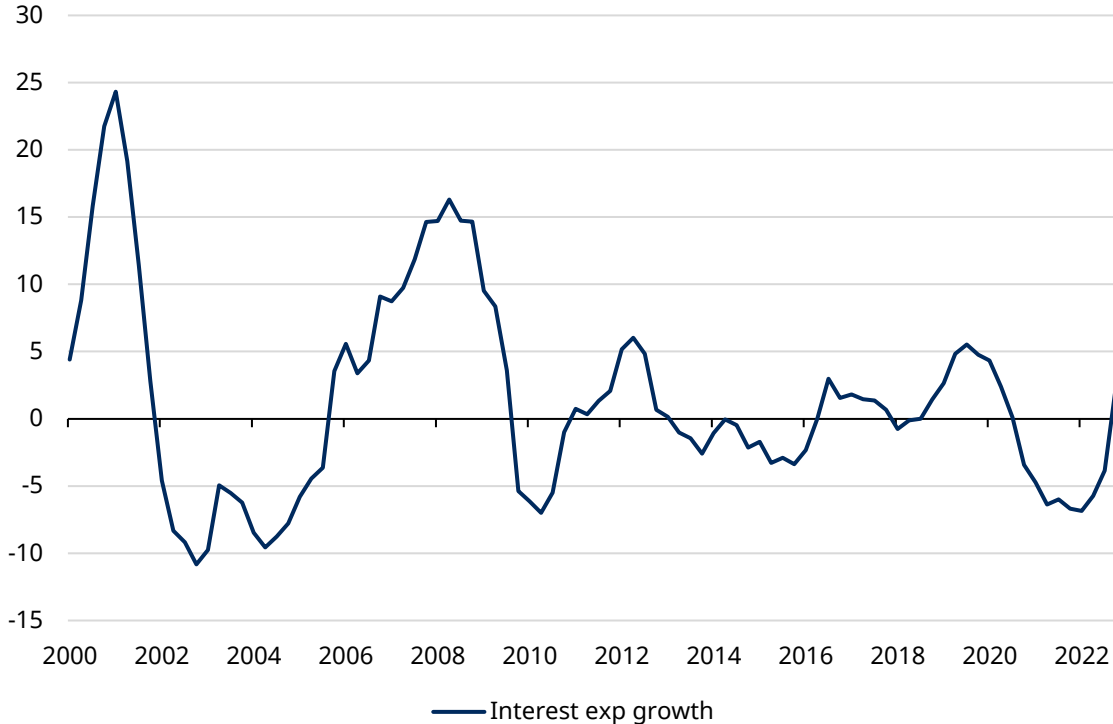
Euro IG interest coverage ratio

Last 12 months EBITDA to interest expense



Euro IG annual interest expense growth

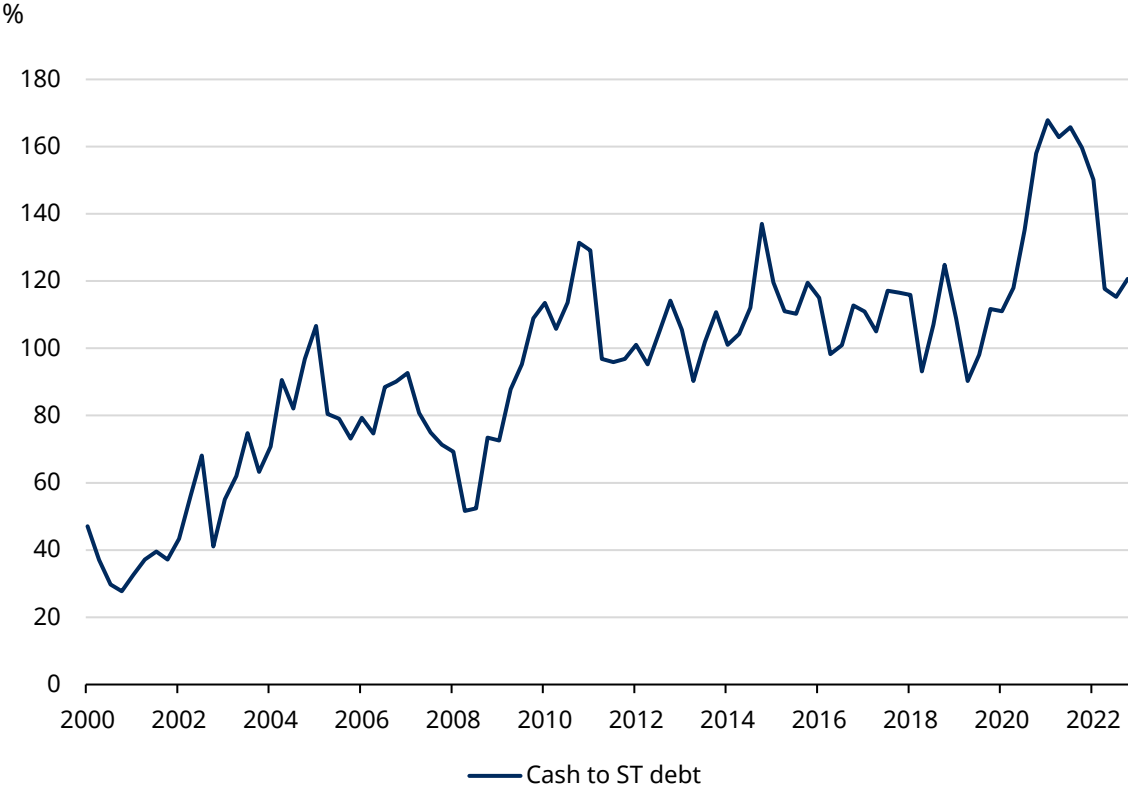
%



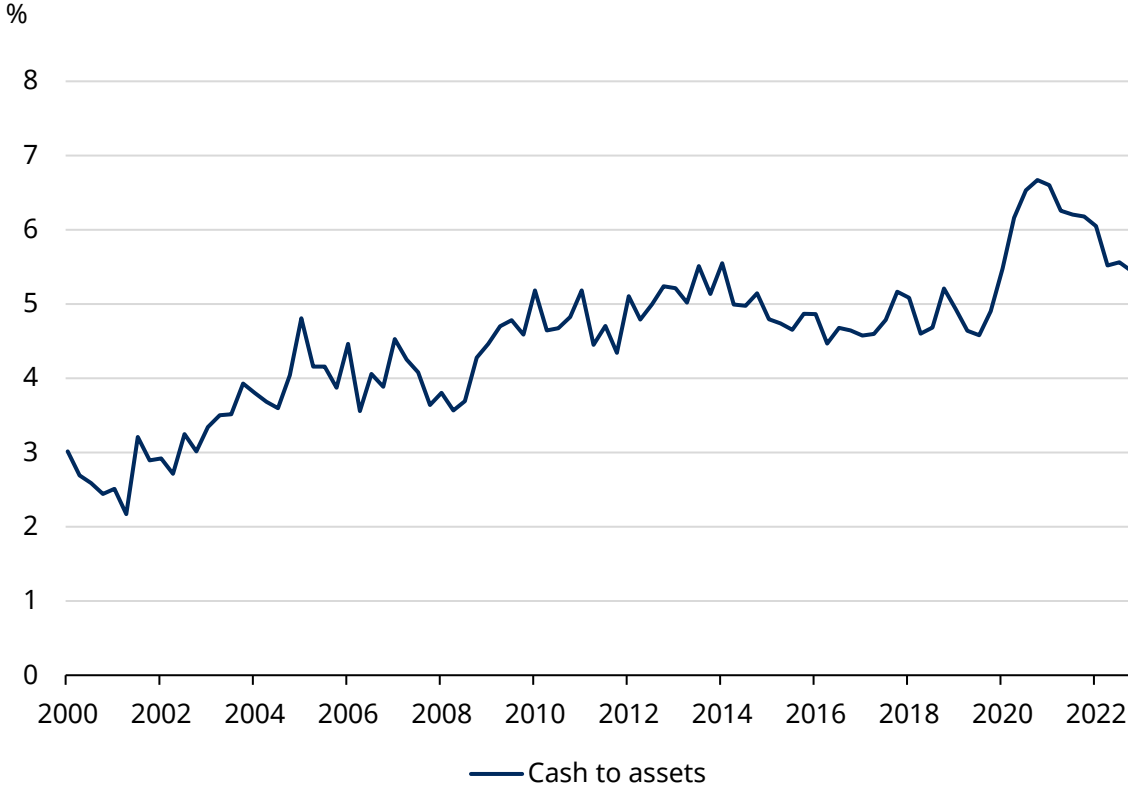
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Euro IG cash levels

Euro IG cash to short term debt



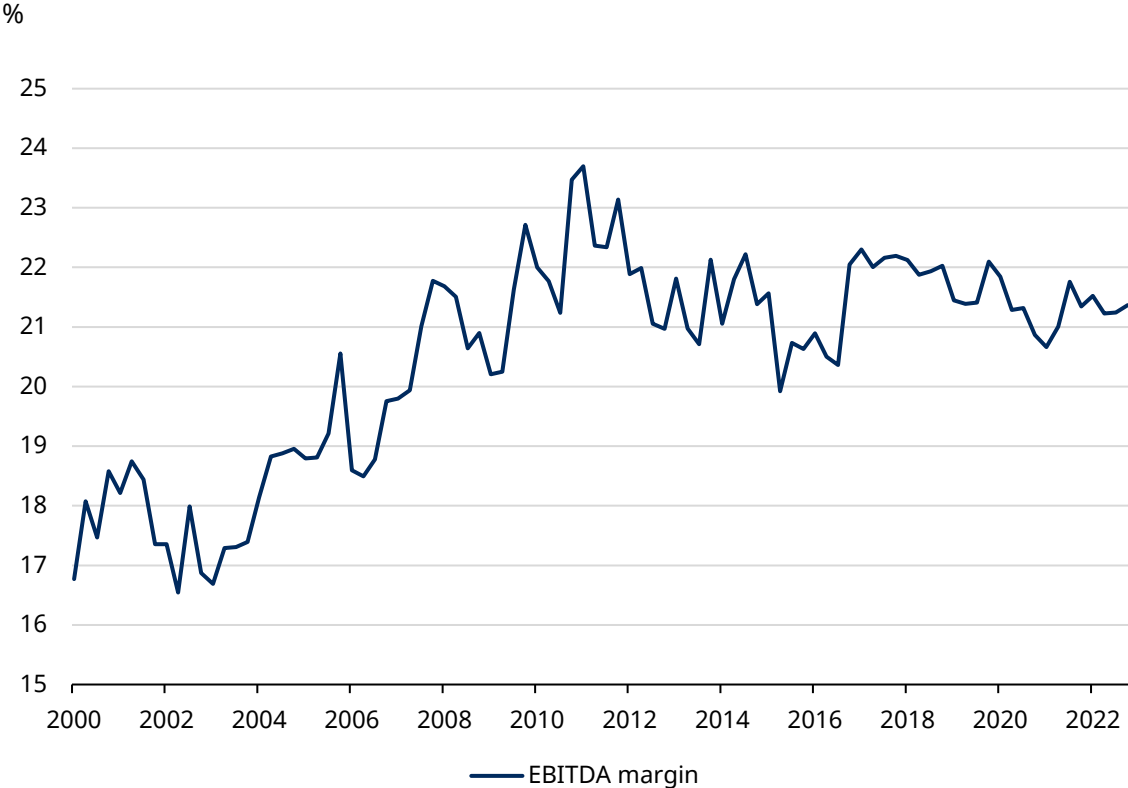
Euro IG cash to assets



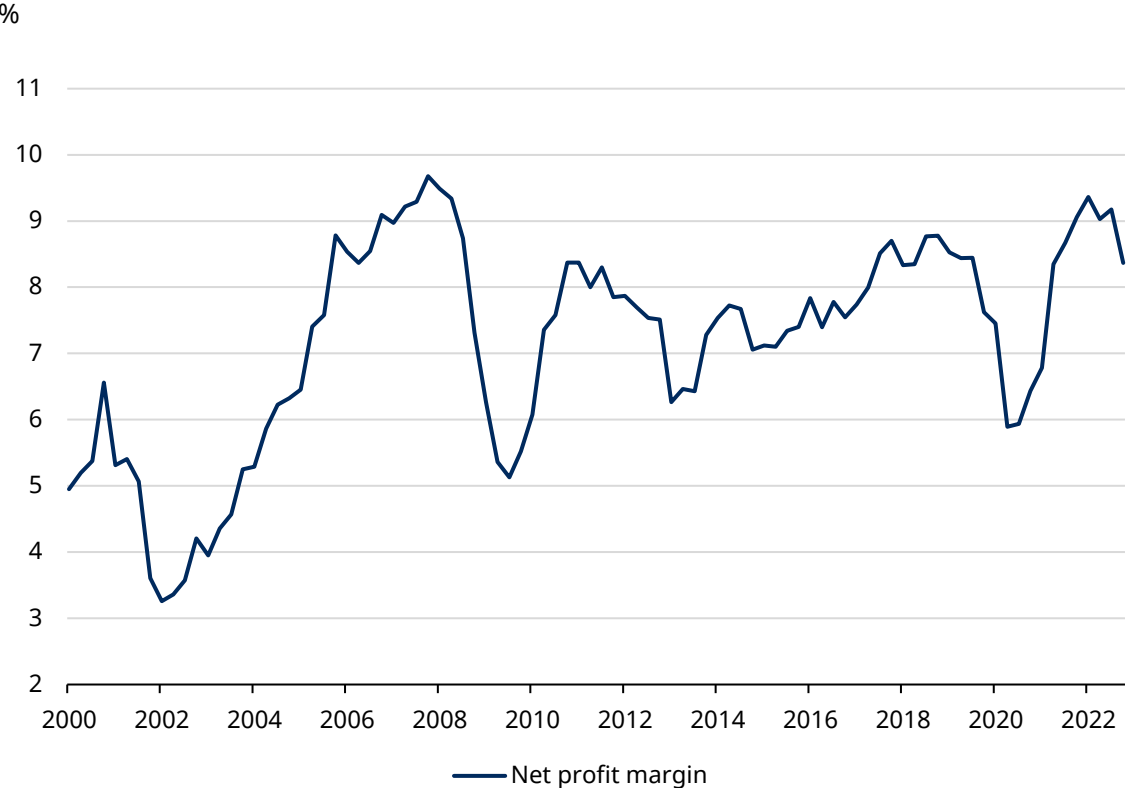
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Euro IG corporate margins

Euro IG EBITDA margin



Euro IG net profit margin

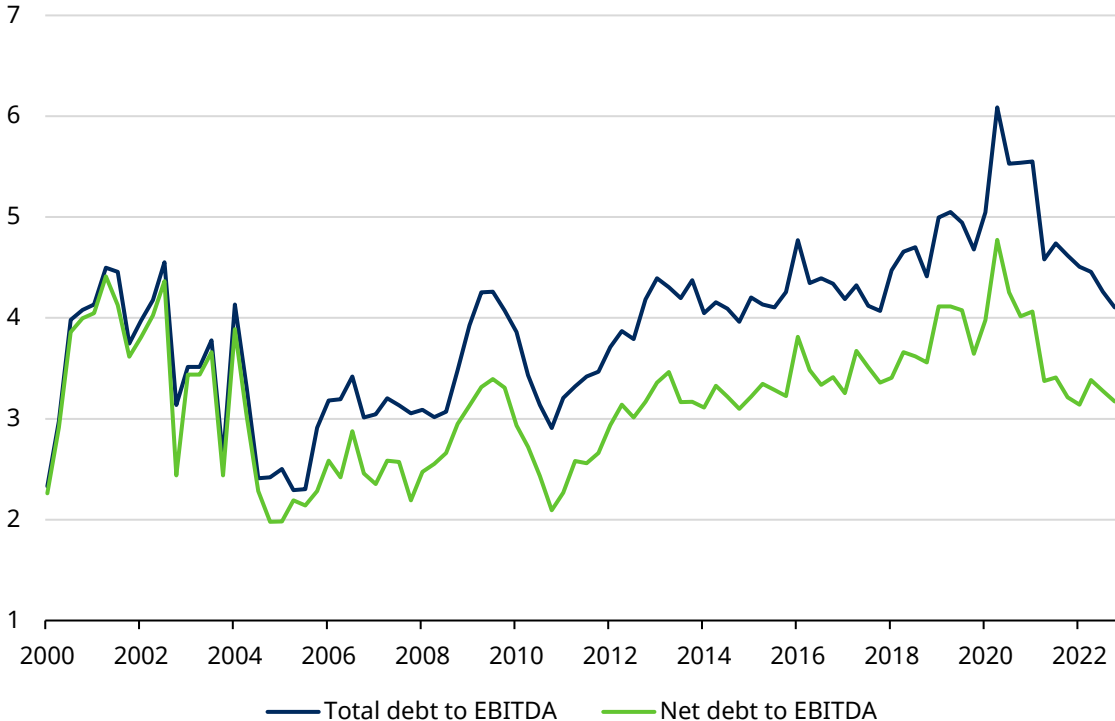


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Euro HY leverage is still falling aided by strong EBITDA growth

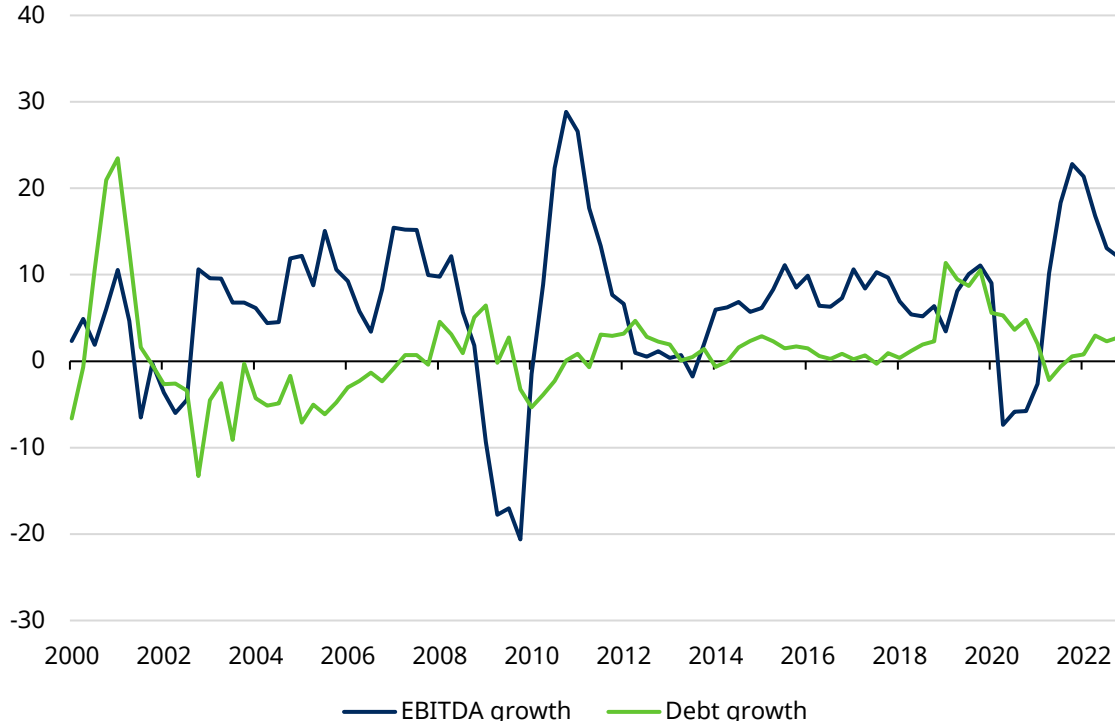
Euro HY leverage

Debt to last 12 months EBITDA



Euro HY EBITDA and debt growth (last 12 months)

%

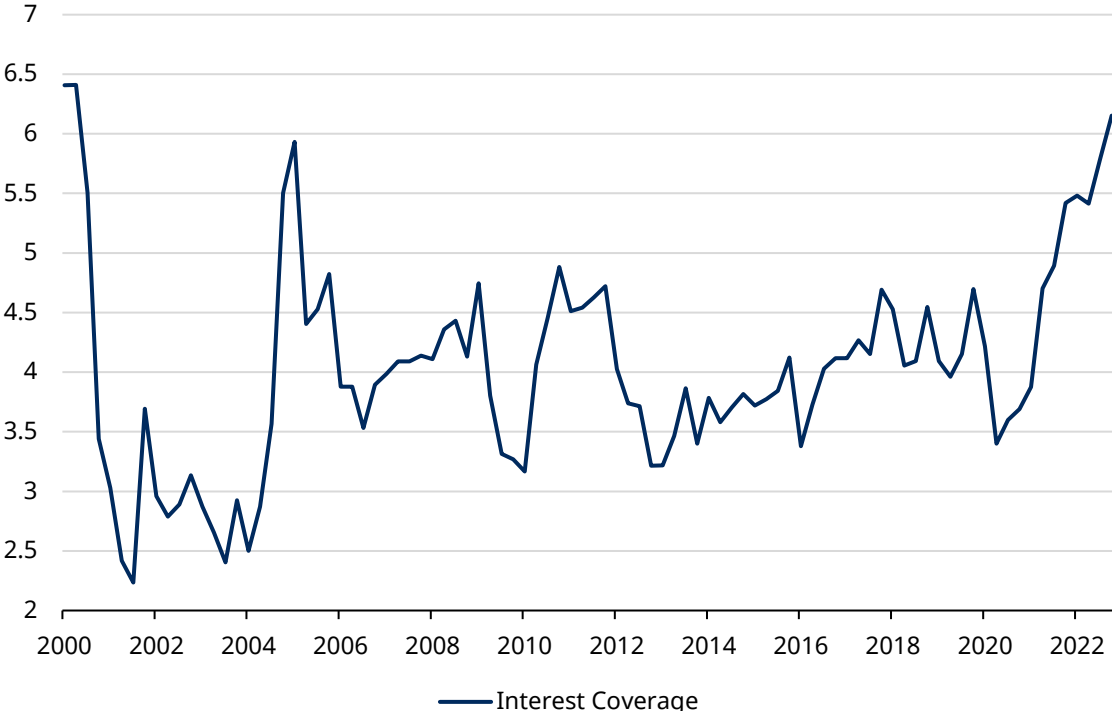


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Euro HY interest coverage

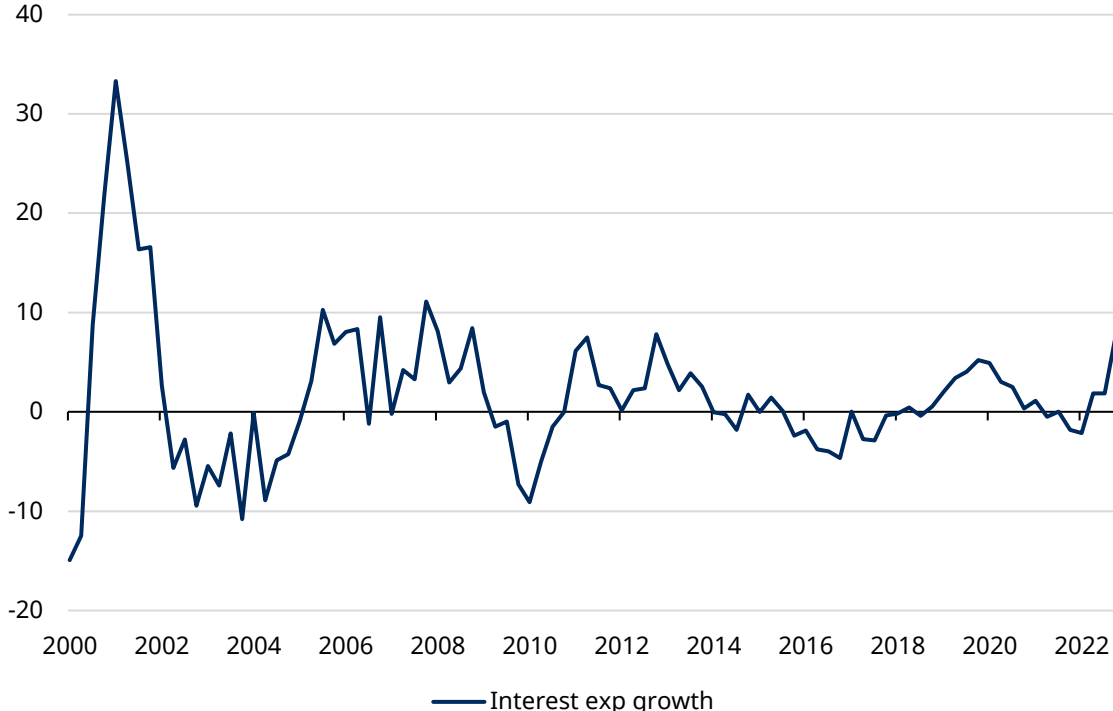
Euro HY interest coverage ratio

Last 12 months EBITDA to interest expense



Euro HY annual interest expense growth

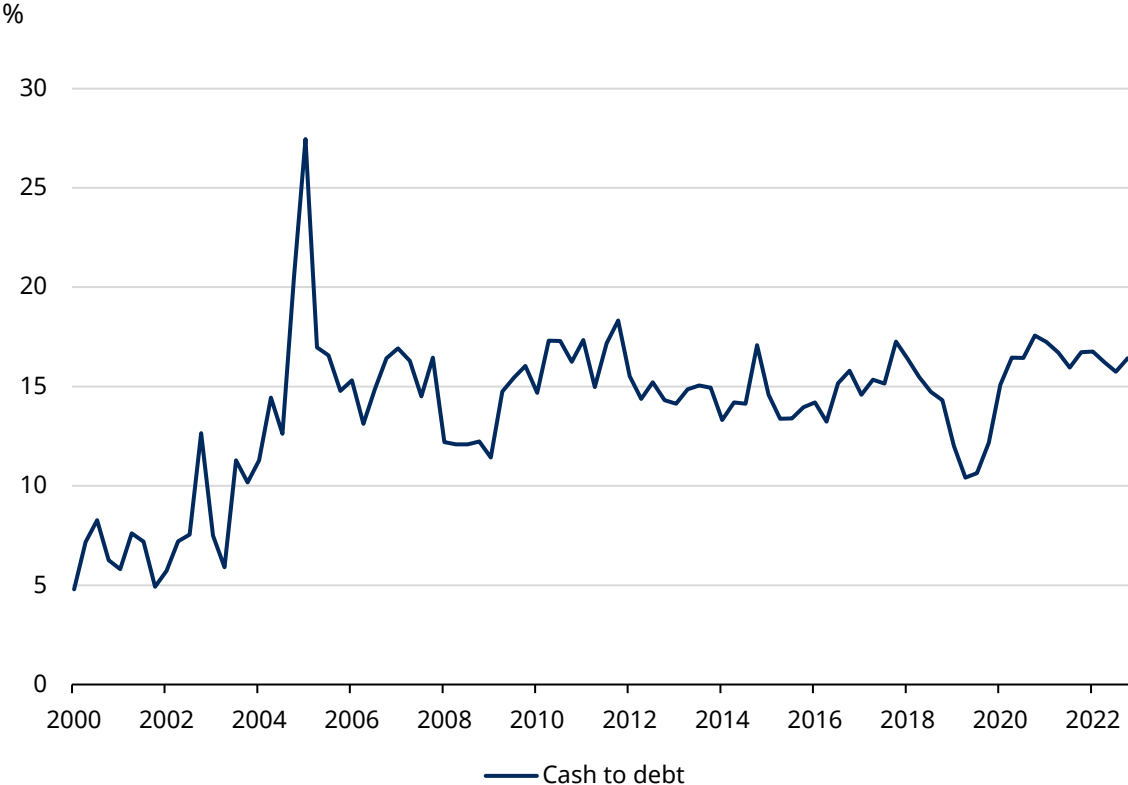
%



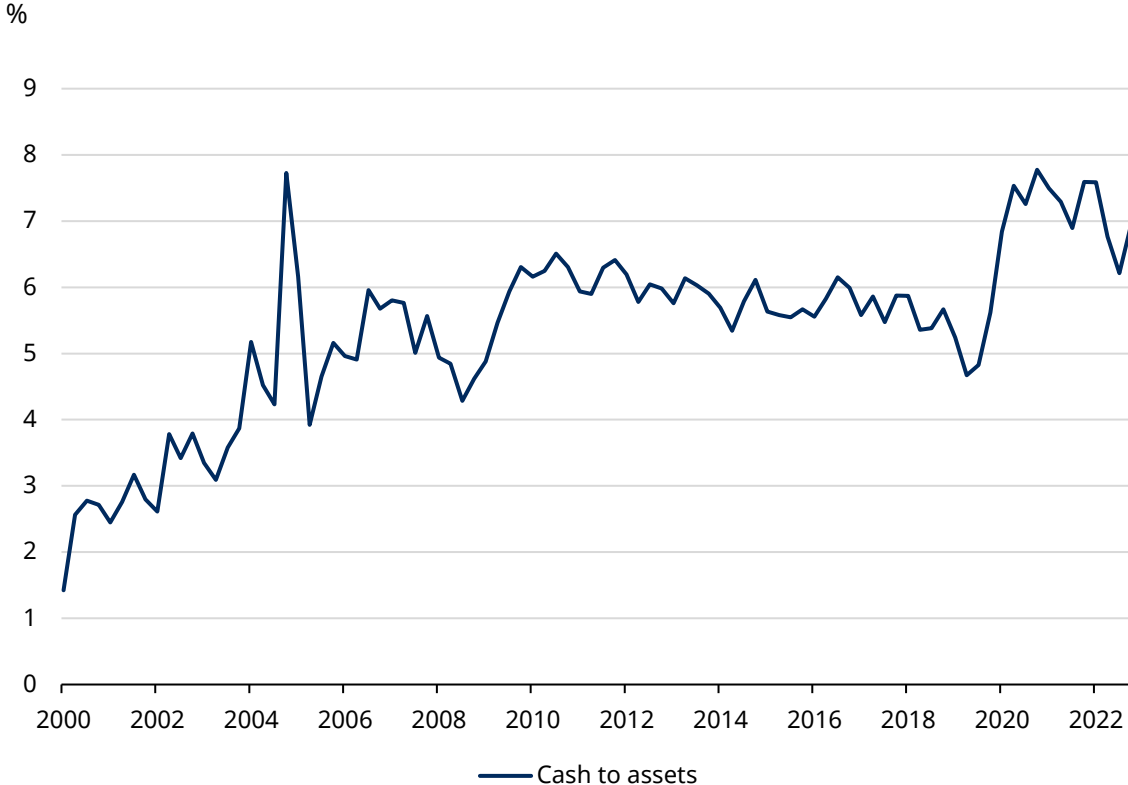
Source: Schroders, Bloomberg, Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Euro HY cash levels

Euro HY cash to debt



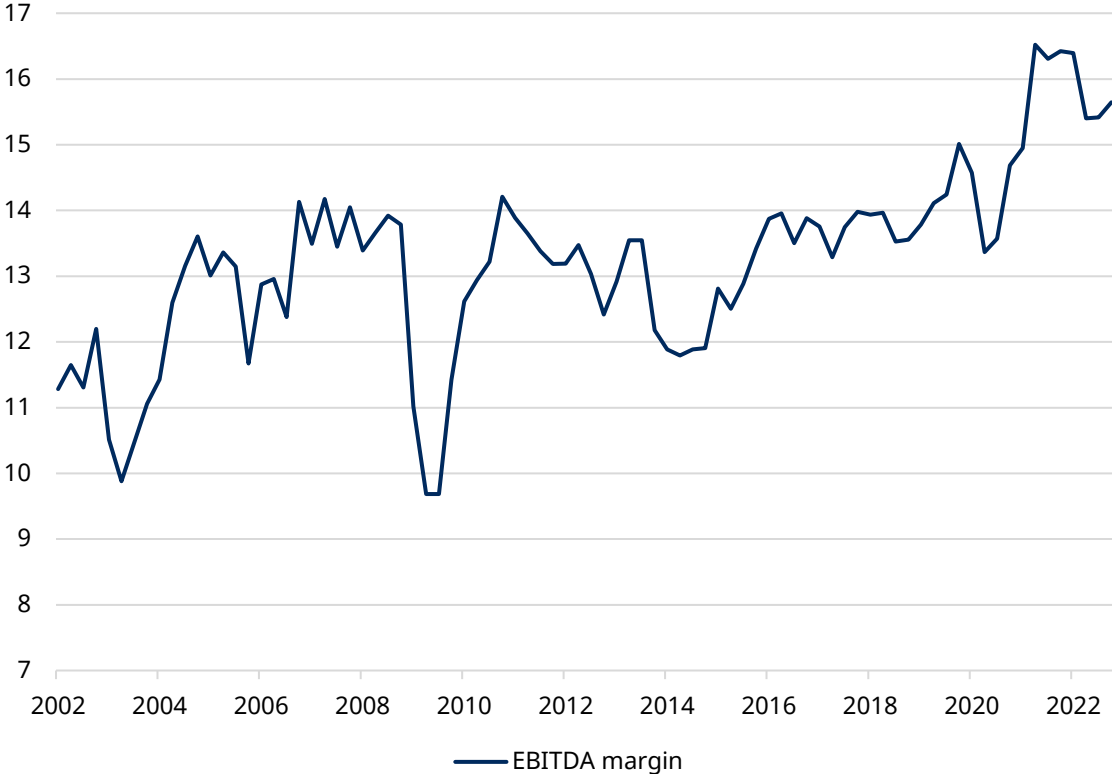
Euro HY cash to assets



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

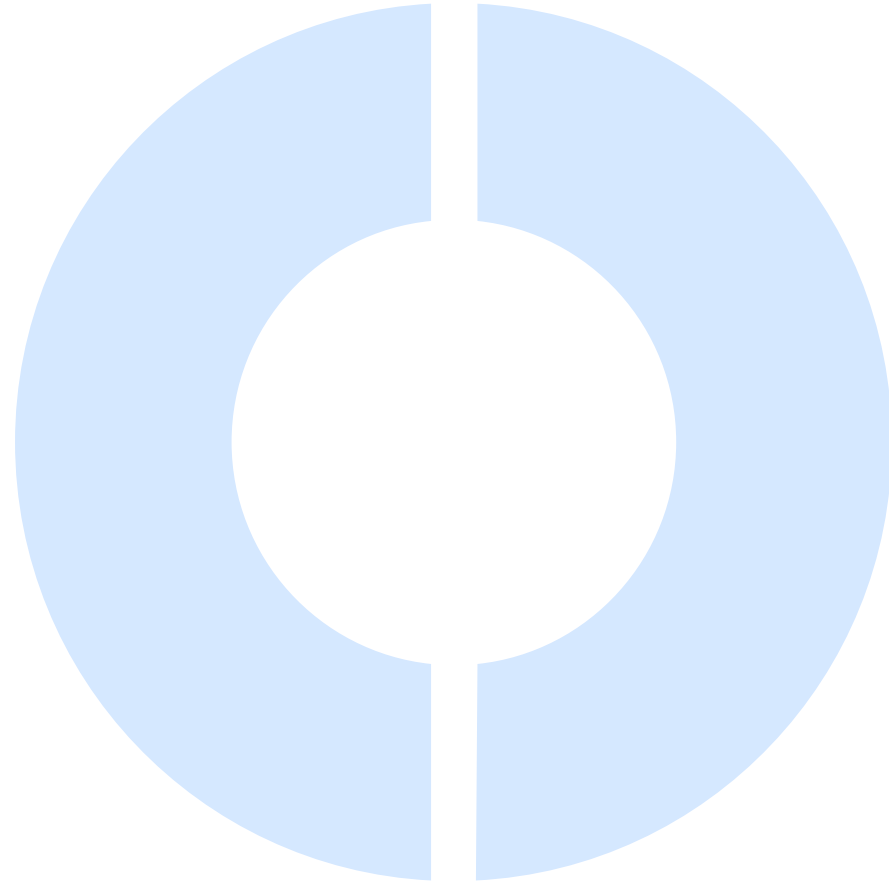
Euro HY corporate margins

Euro HY EBITDA margin



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2022. Please see relevant disclaimers on page 68.

Schroders



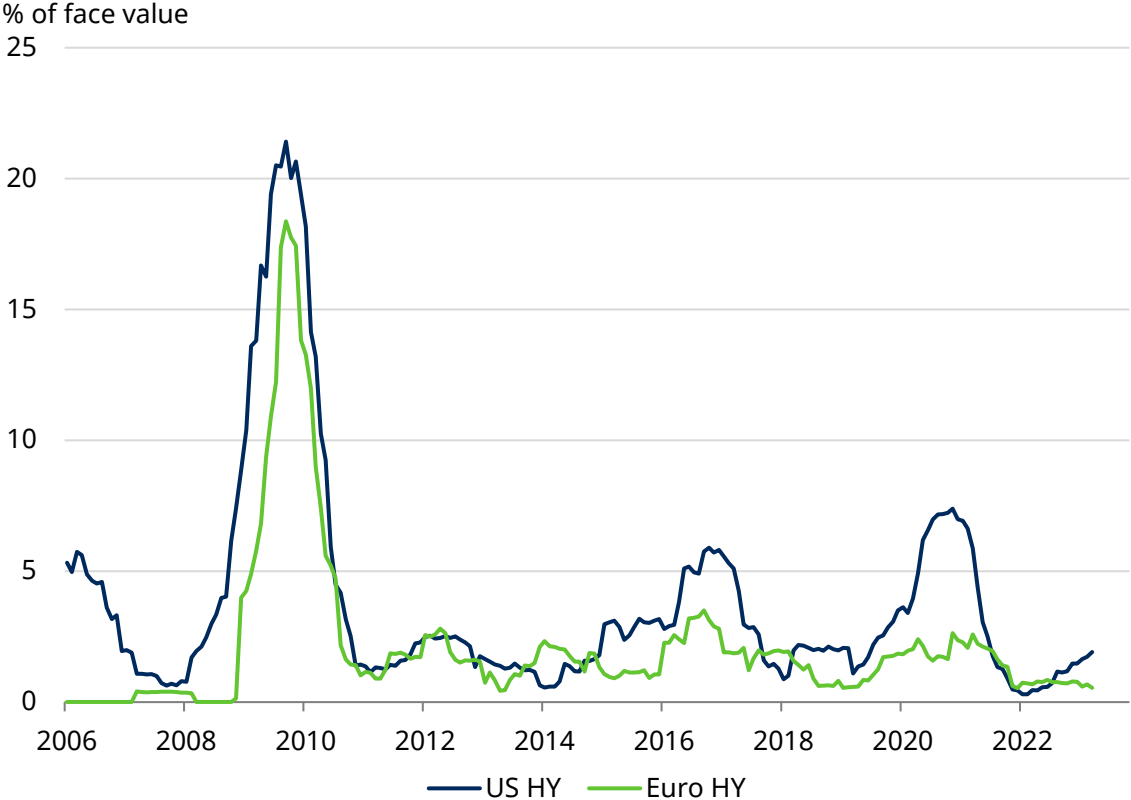
Corporate credit

Technicals

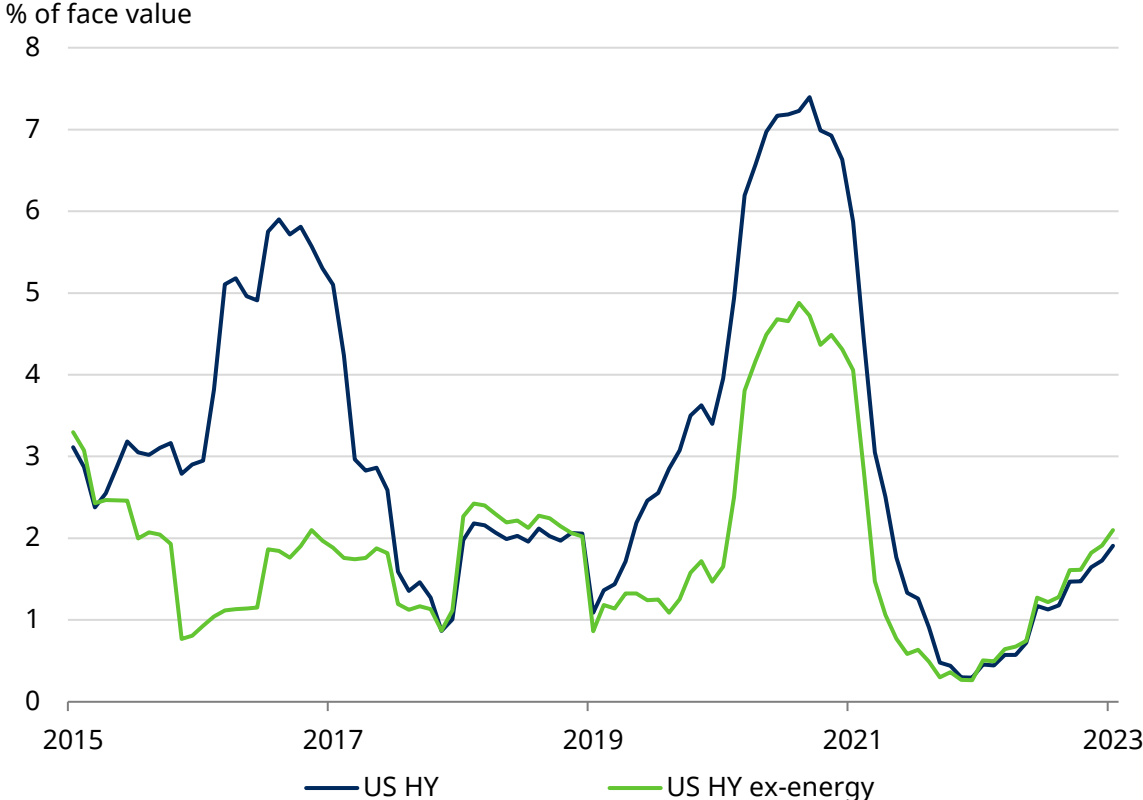
HY default rates

US HY default rates are rising from low levels

HY par default rate (last twelve months)



US HY par default rate (last twelve months)

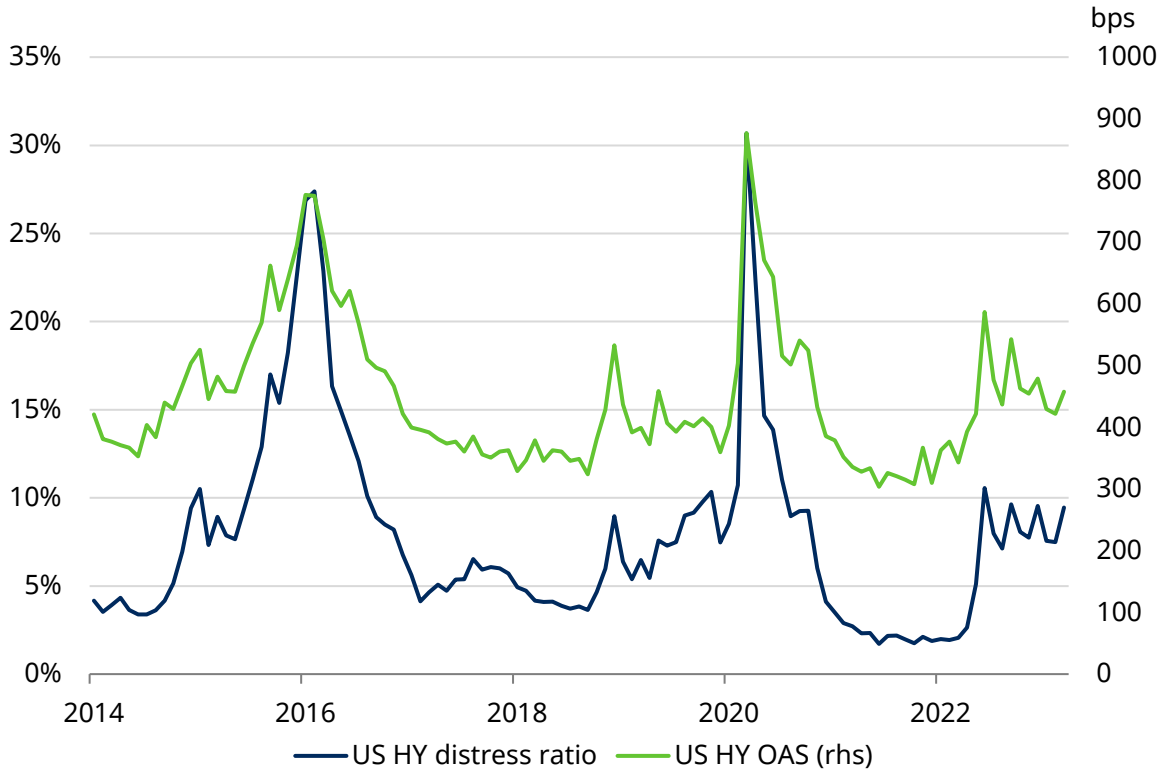


Source: Schroders, BofA Global Research, Moody's. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

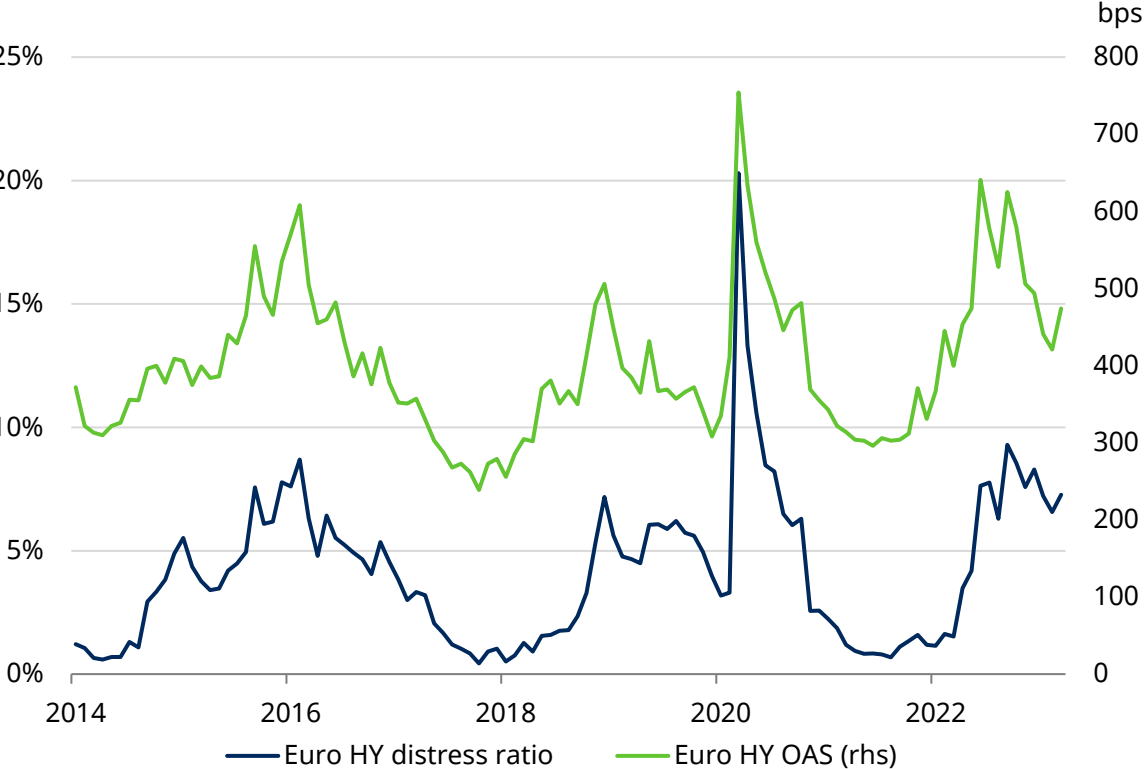
HY distress ratios

Higher distress is usually a harbinger of defaults

US HY distress ratio¹



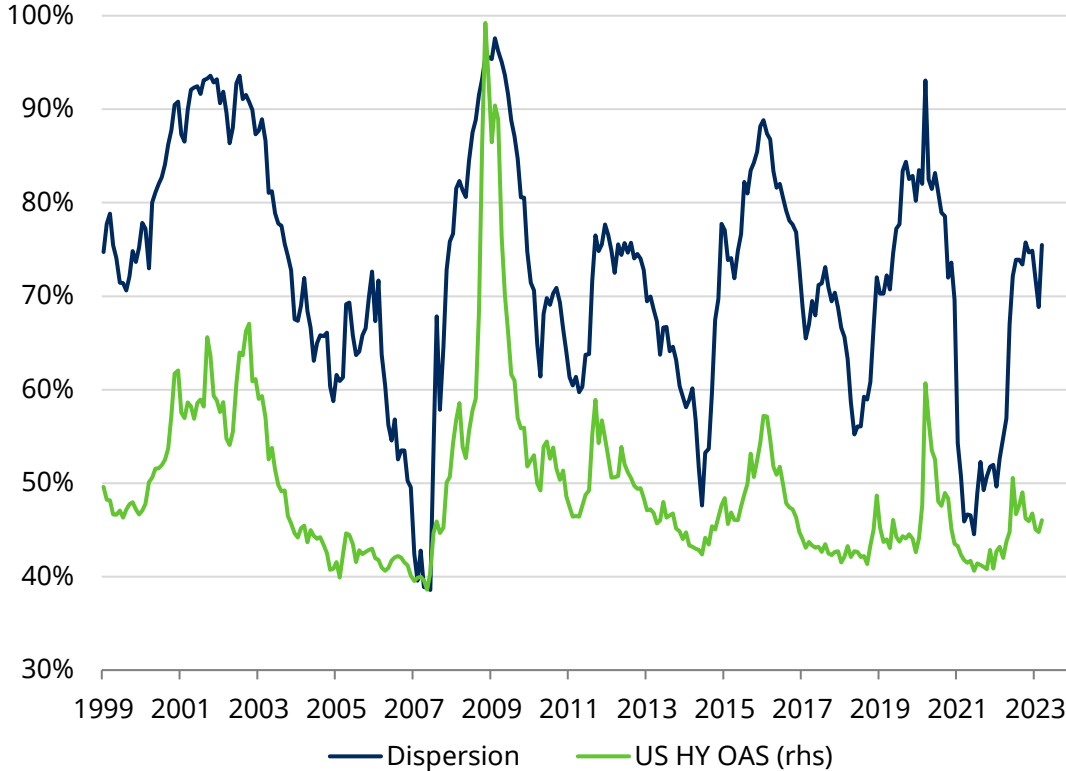
Euro HY distress ratio¹



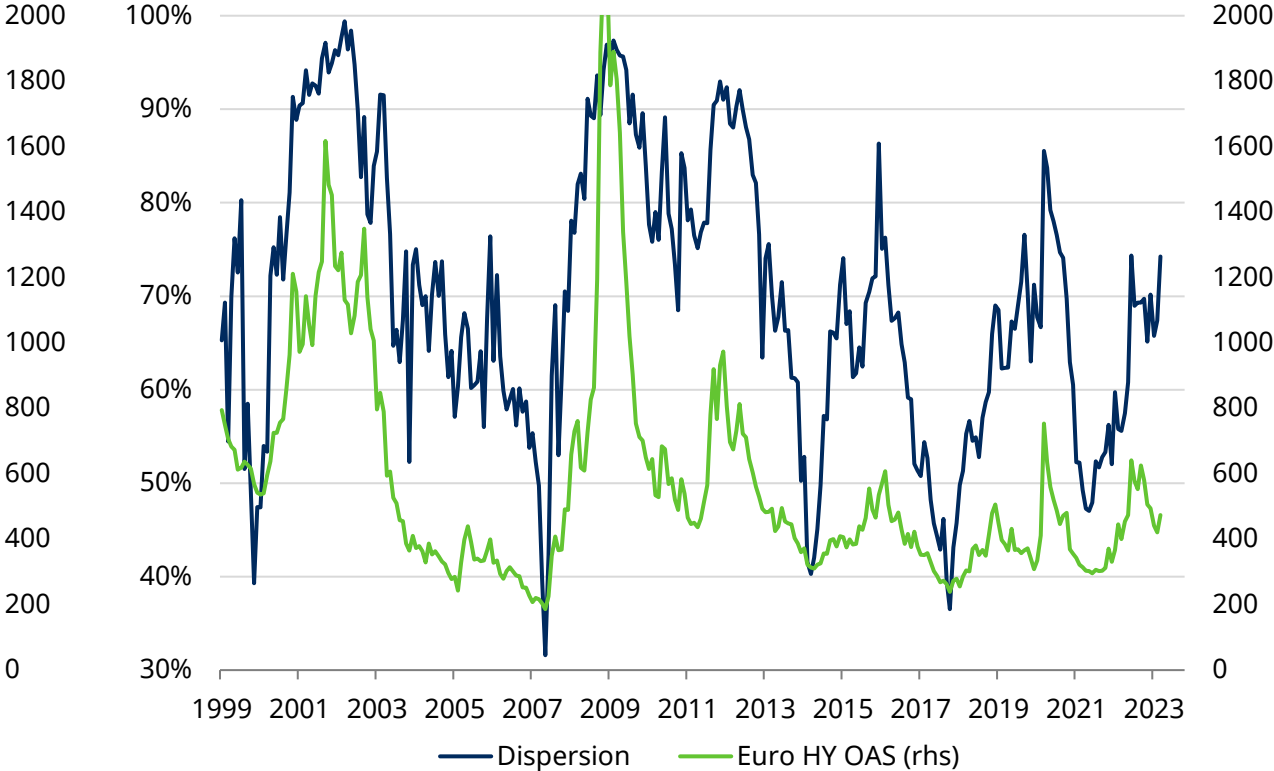
Source: Schroders, BofA Global Research, Moody's. Data as at 31 March 2023. ¹HY distress is defined as percentage of issues in the index trading with spreads > 1,000bp. Please see relevant disclaimers on page 68.

HY spread dispersion

US HY dispersion¹ vs US HY spread



Euro HY dispersion¹ vs Euro HY spread



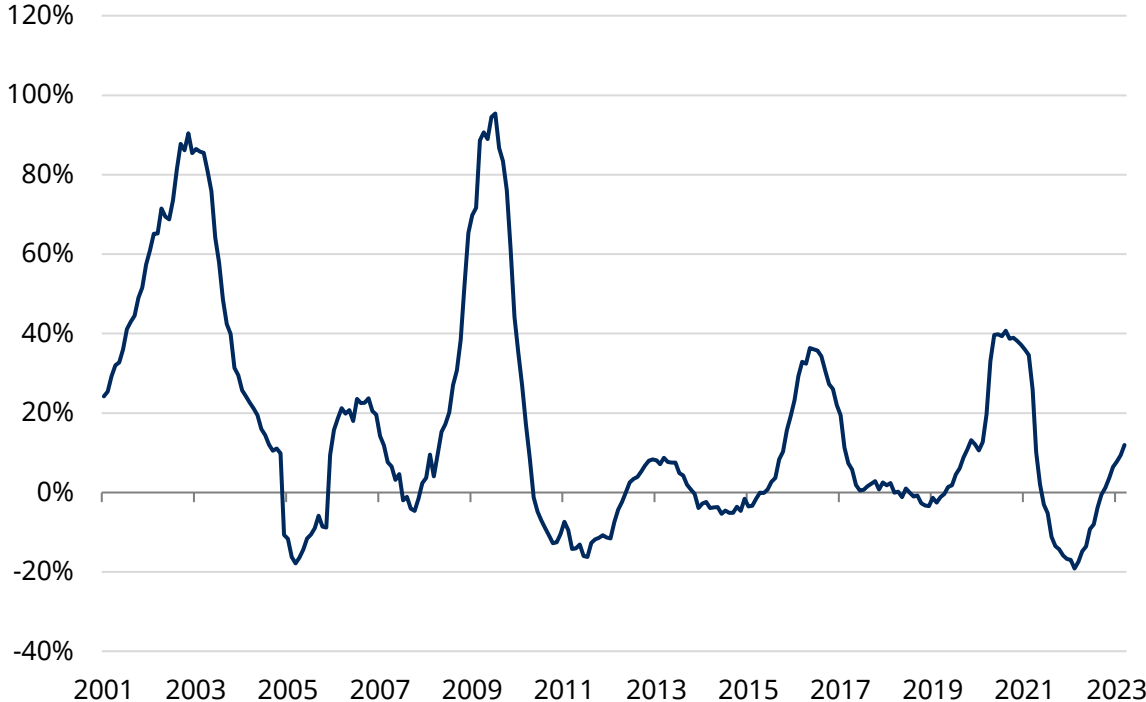
Source: Schroders, BofA Global Research. Data as at 31 March 2023. ¹ Proportion of face value in index marked outside +/-100bps of overall index level. Please see relevant disclaimers on page 68.

US HY ratings migration (net downgrades)

Indicator of changes in credit quality

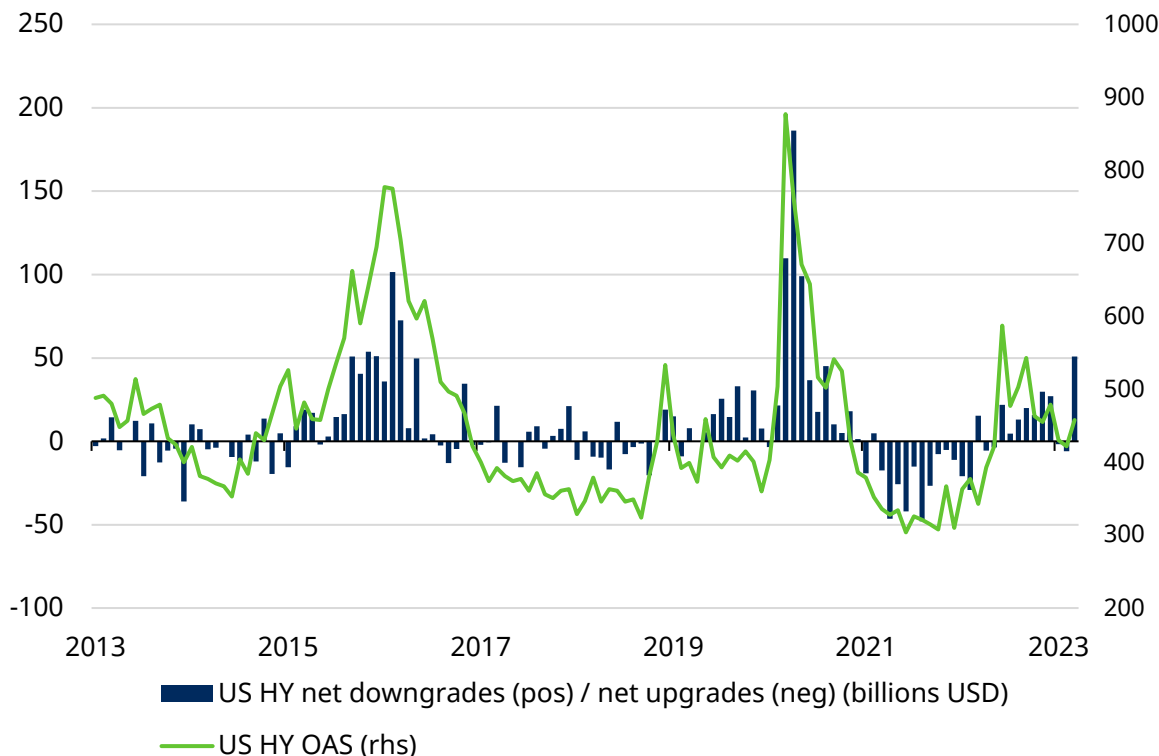
US HY net downgrades¹

Percentage of the HY index, last 12 months



US HY monthly net downgrades

Billions USD



Downgrades are outpacing upgrades

Source: BofA Global Research, Refinitiv Datastream. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

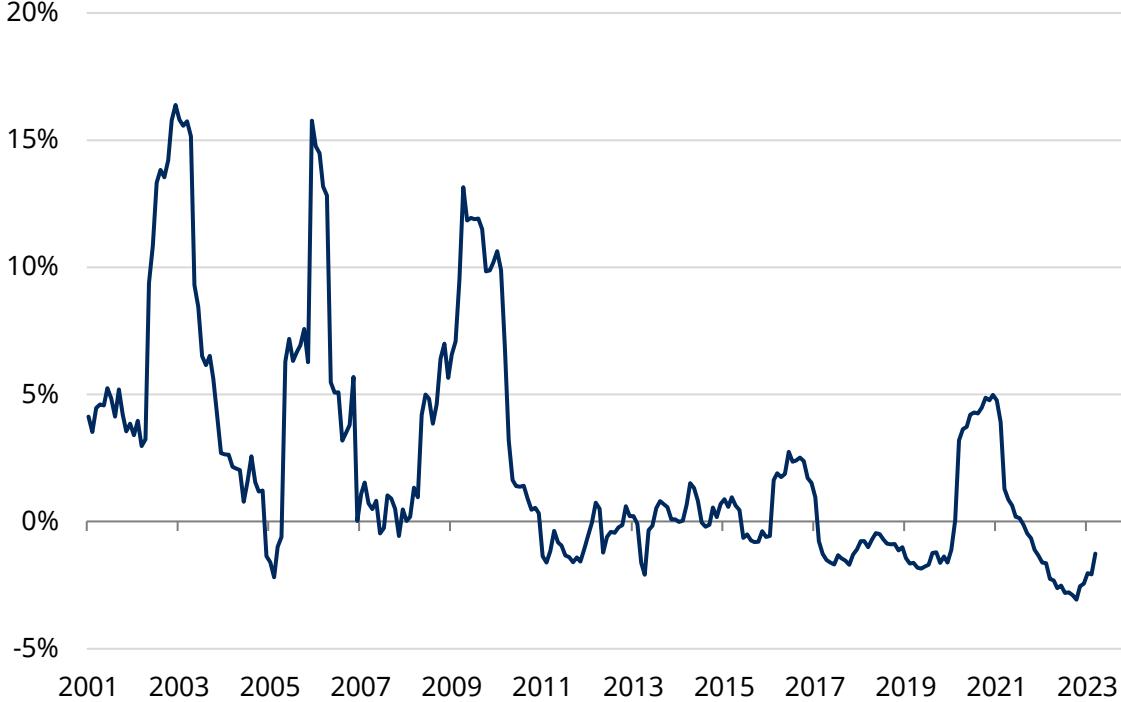
¹Face value of downgraded HY bonds minus face value of upgraded bonds divided by face value of the index. Excludes upgrades from HY to IG.

US IG fallen angels/rising stars

Bonds downgraded from IG to HY

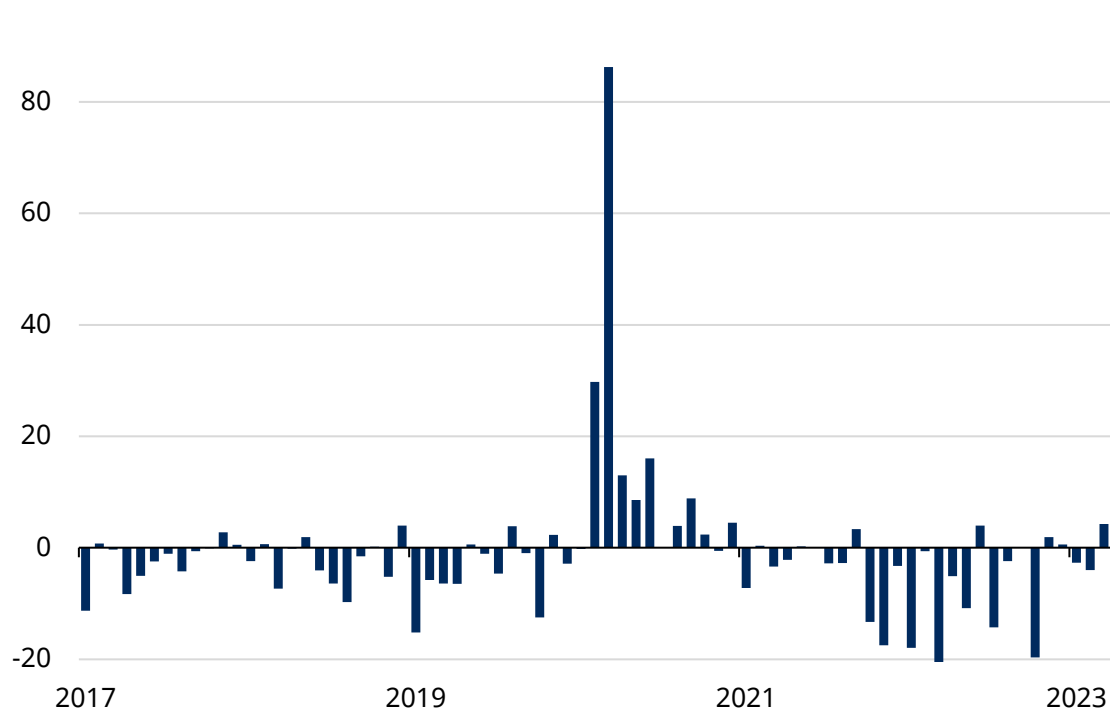
US IG net fallen angels¹

Percentage of the BBB index, last 12 months



US IG monthly net fallen angels

Billions USD

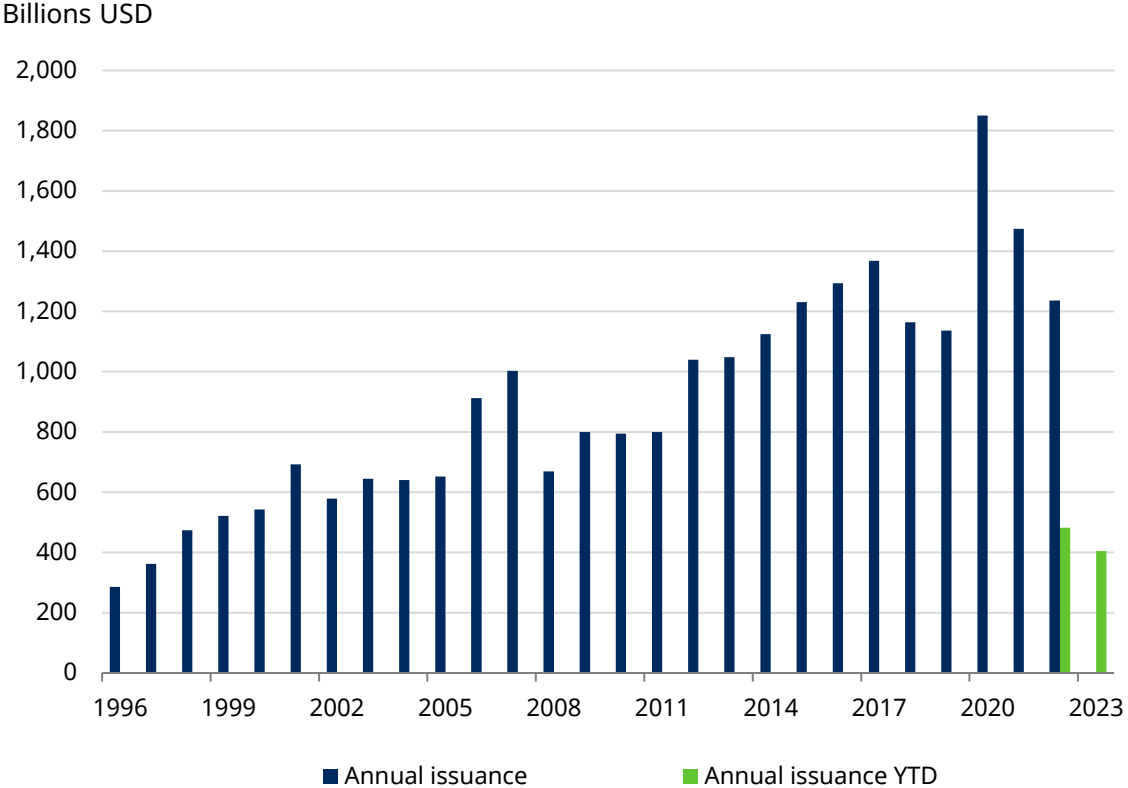


Source: BofA Global Research. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

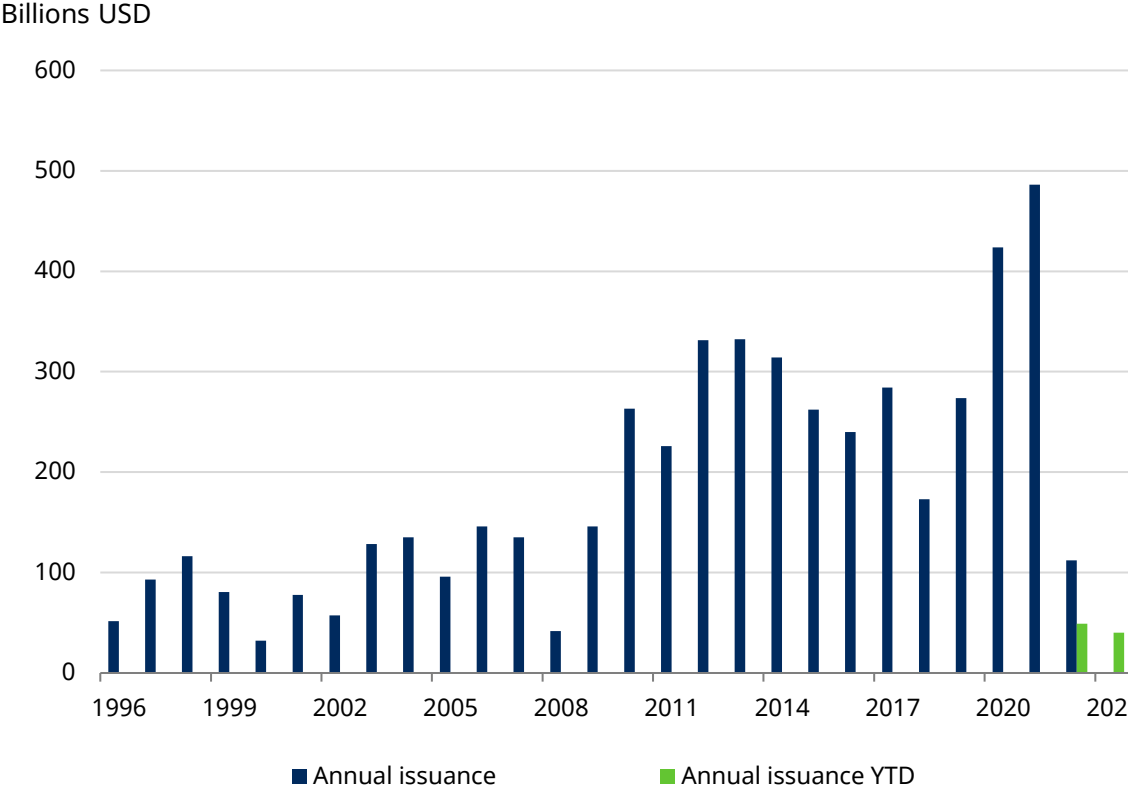
¹Face value of downgrades from IG to HY minus face value of upgrades from HY to IG, divided by face value of the BBB index

US IG and HY gross issuance

US IG gross issuance



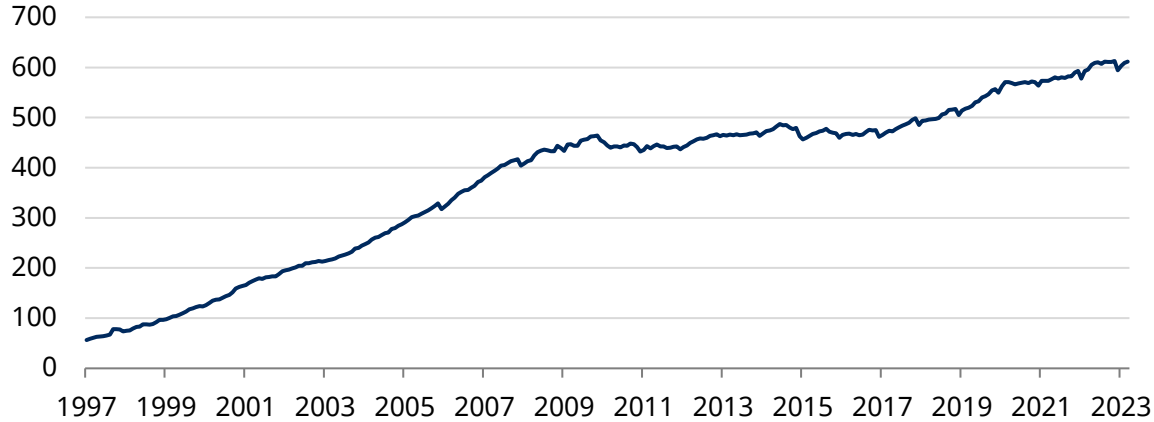
US HY gross issuance



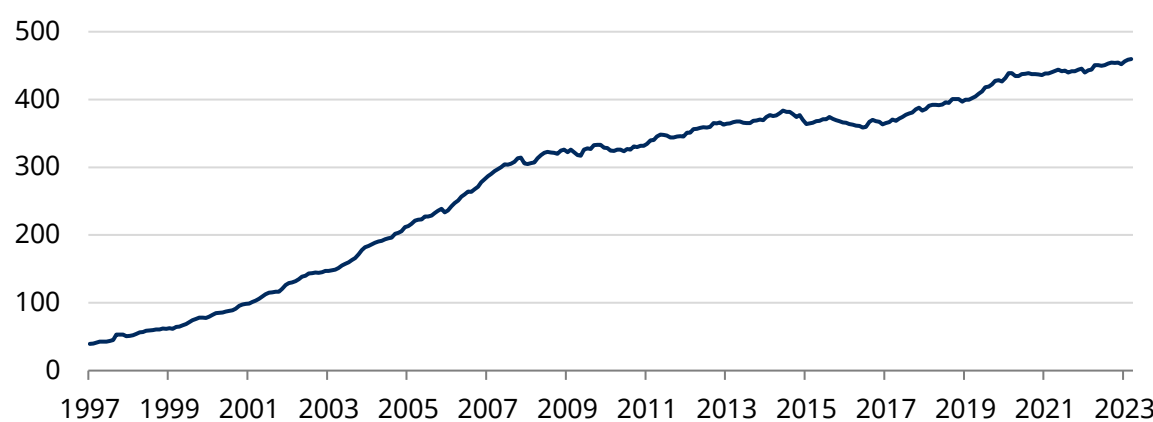
Source: Sifma. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

IG bonds outstanding

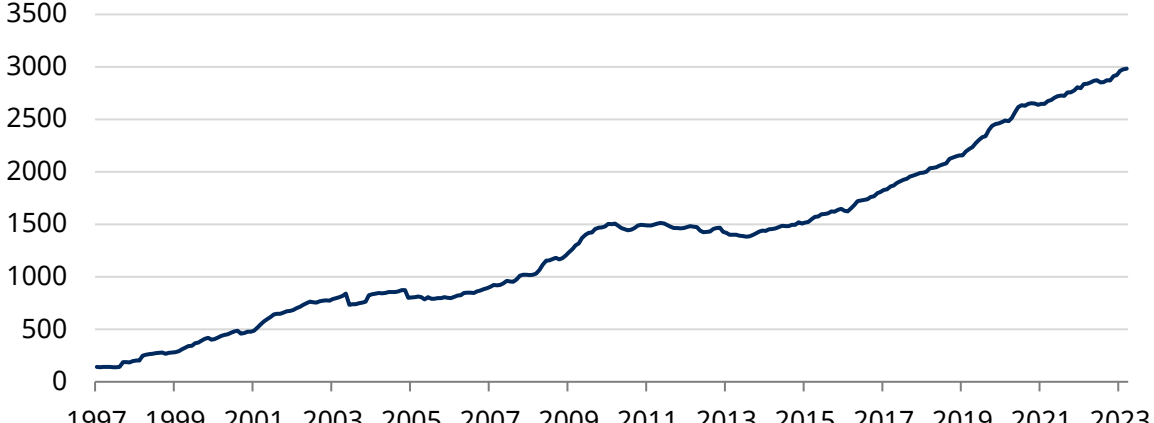
IG GBP non-gilts amount outstanding (bn GBP)



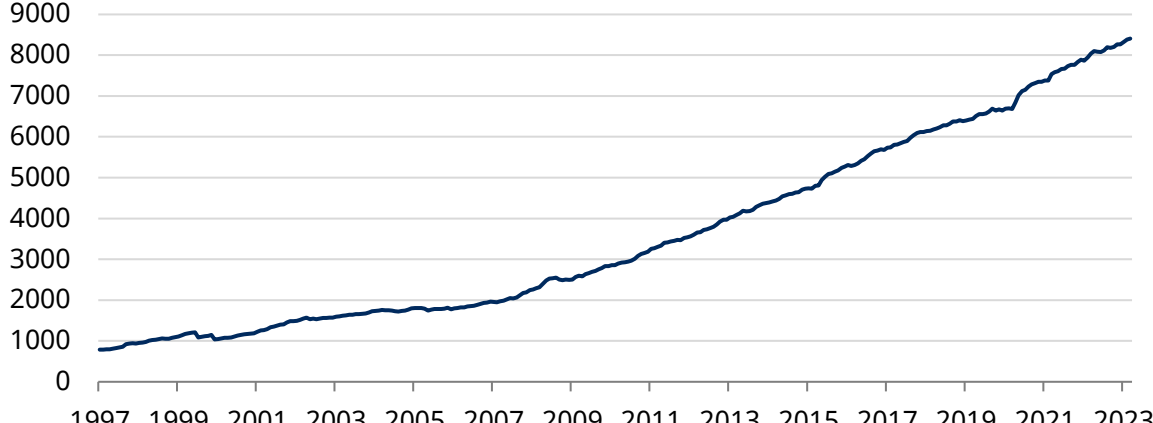
IG GBP corporates amount outstanding (bn GBP)



IG EUR amount outstanding (bn EUR)



IG USD amount outstanding (bn USD)



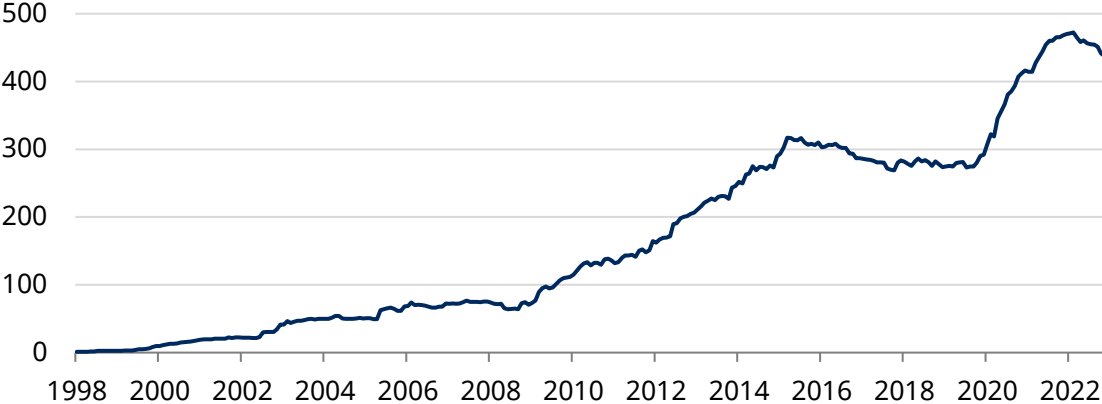
Source: Schroders, ICE Data Indices. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

HY bonds outstanding

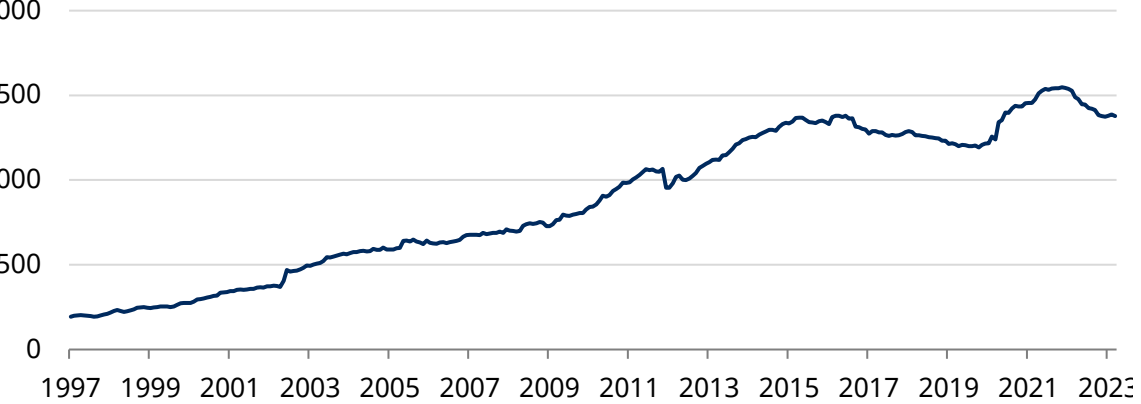
HY GBP amount outstanding (bn GBP)



HY EUR amount outstanding (bn EUR)



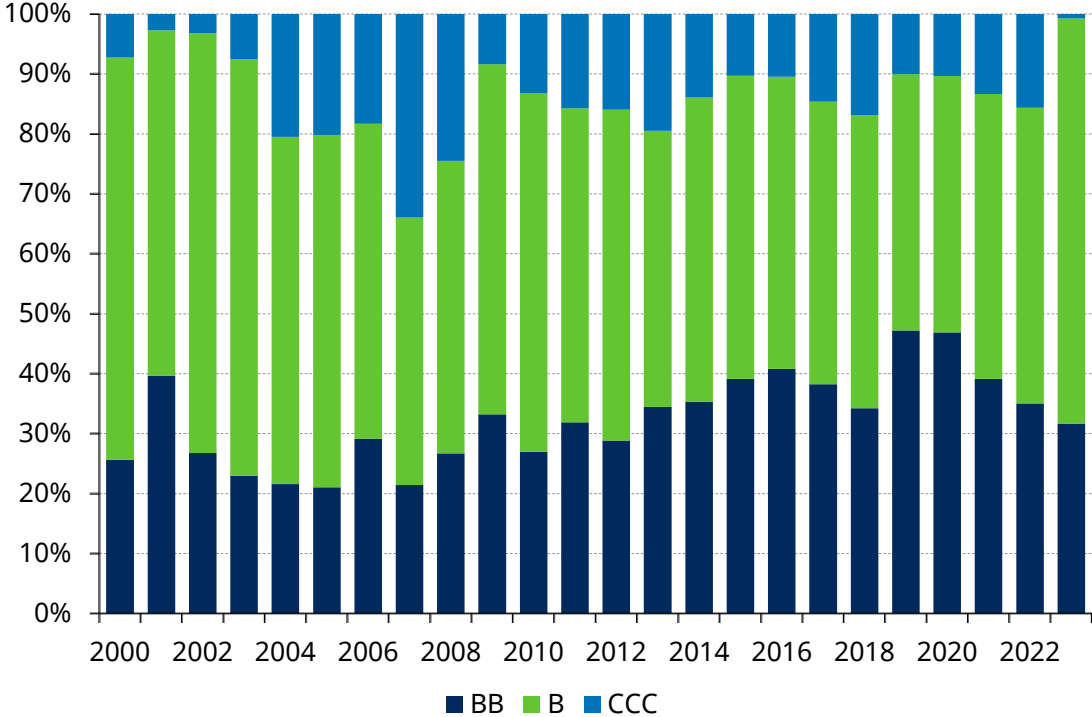
HY USD amount outstanding (bn USD)



Source: Schroders, ICE Data Indices. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

Global HY issuance details

Issuance by rating (percentage of issuance)

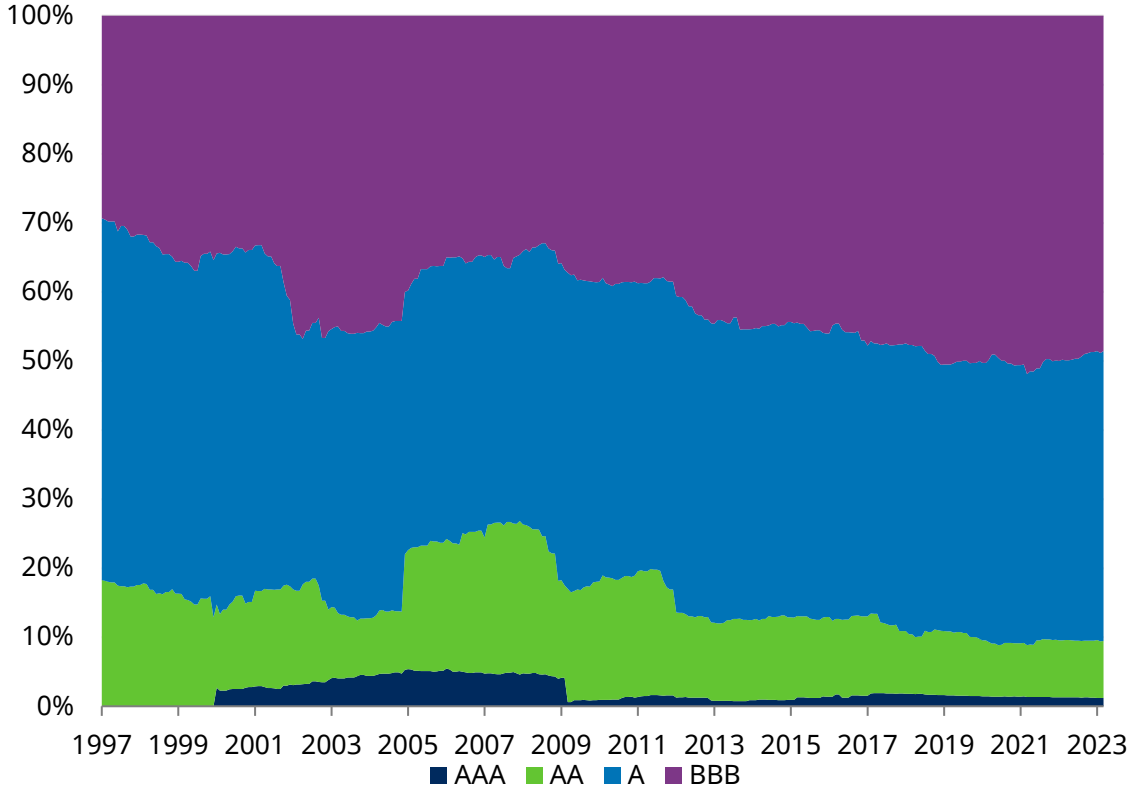


Source: Schroders, BofA Global Research, Moody's. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

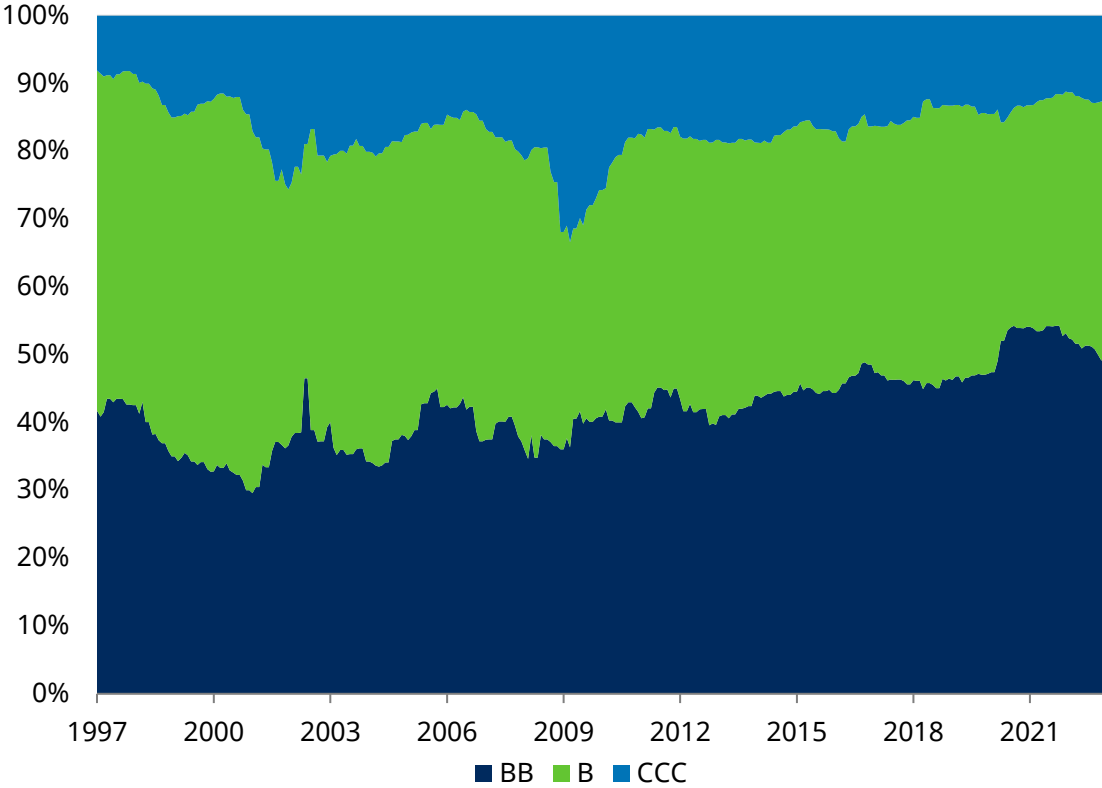
US dollar credit historical ratings split

Significant changes in credit quality over time

US IG ratings split



US HY ratings split

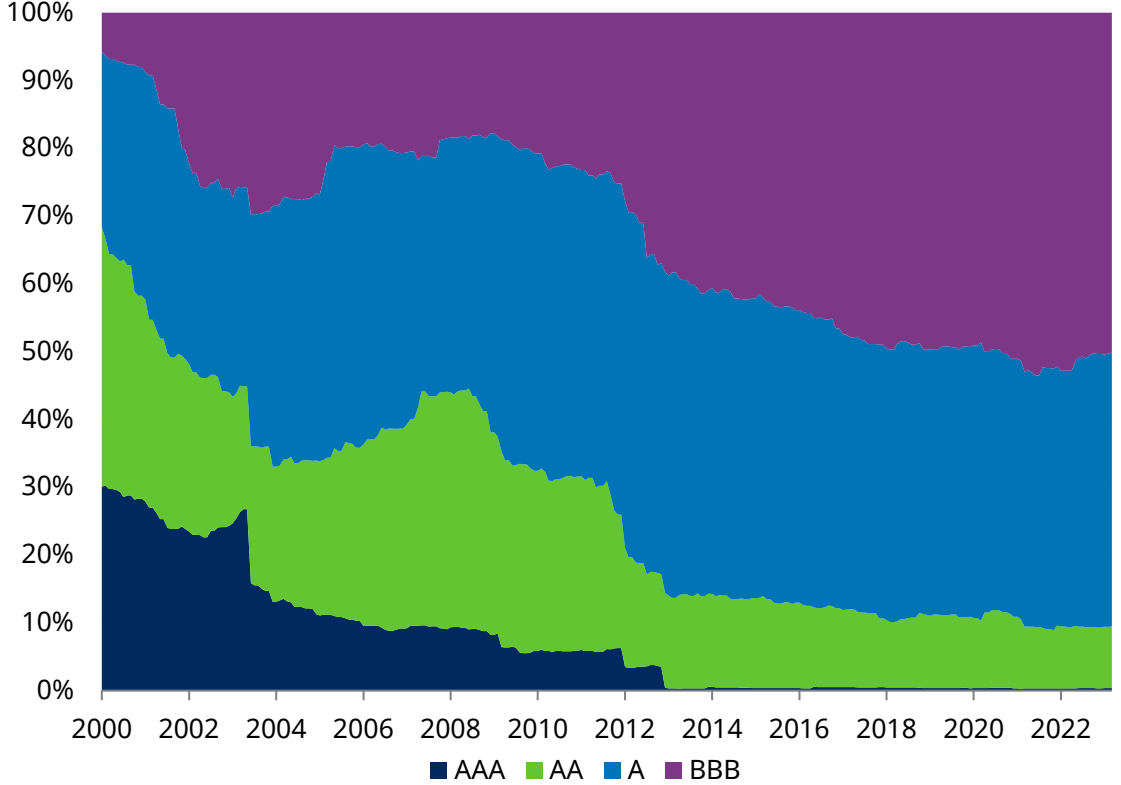


Source: Schroders, Refinitiv Datastream. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

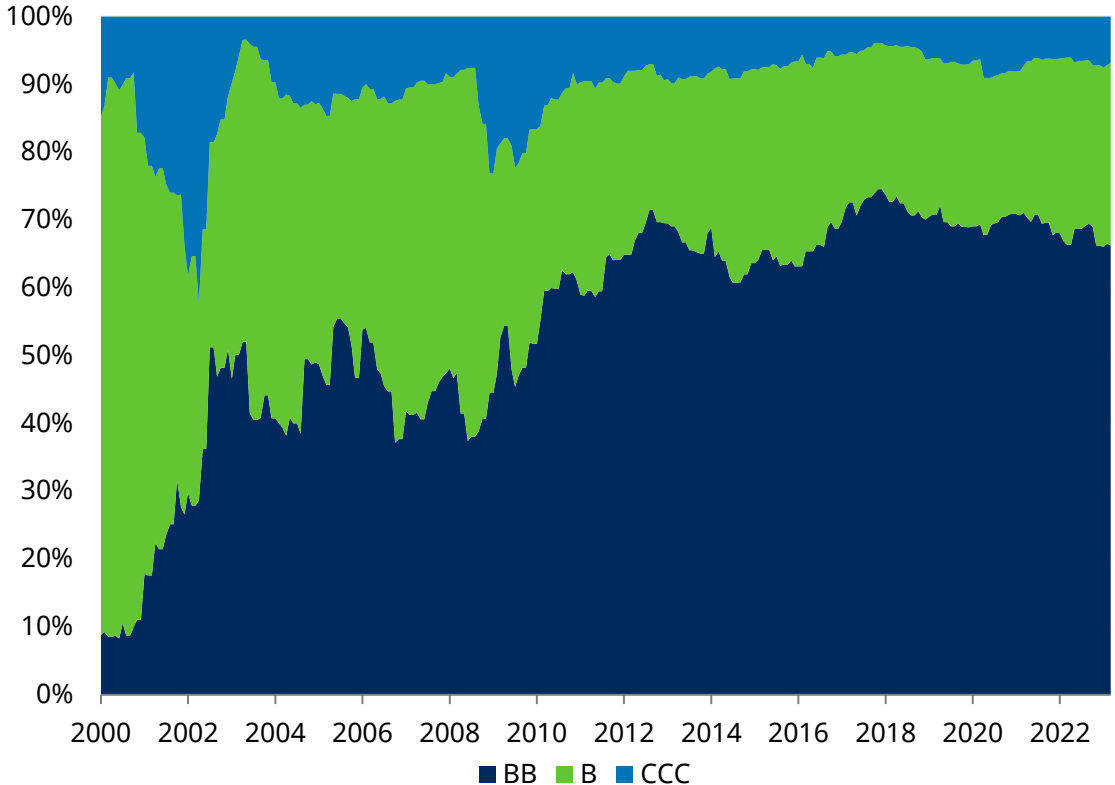
Euro credit historical ratings split

Significant changes in credit quality over time

Euro IG ratings split



Euro HY ratings split

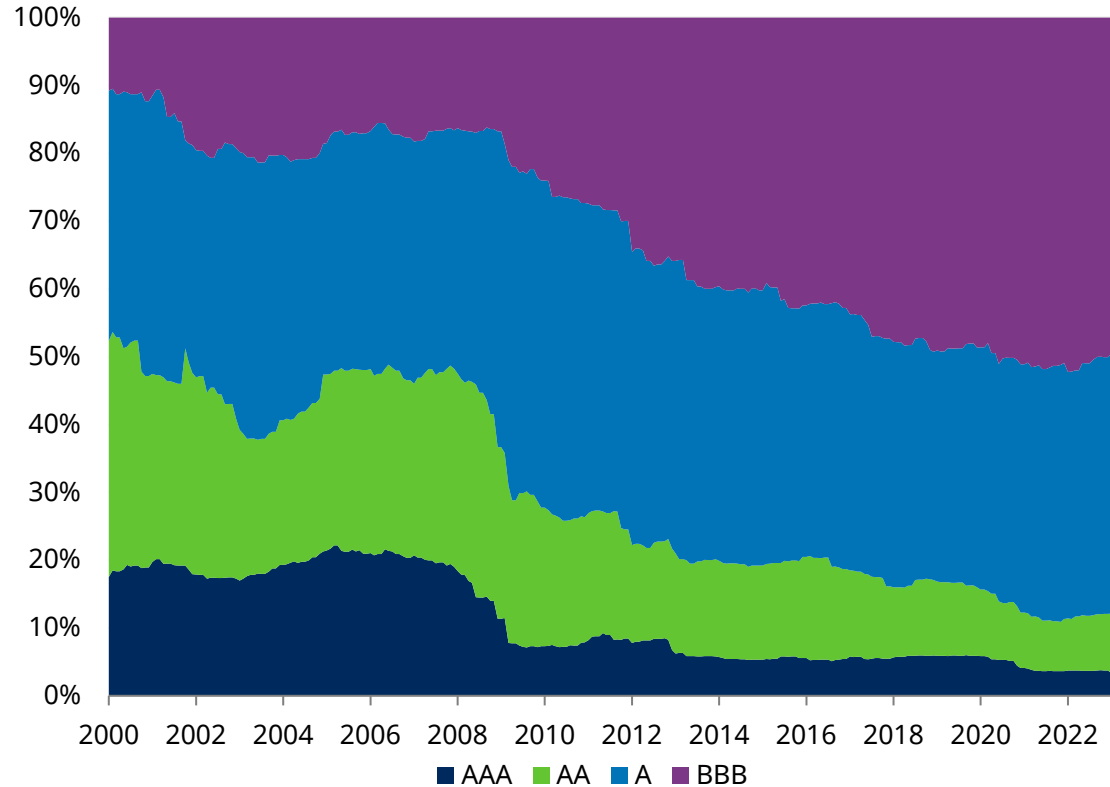


Source: Schroders, Refinitiv Datastream. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

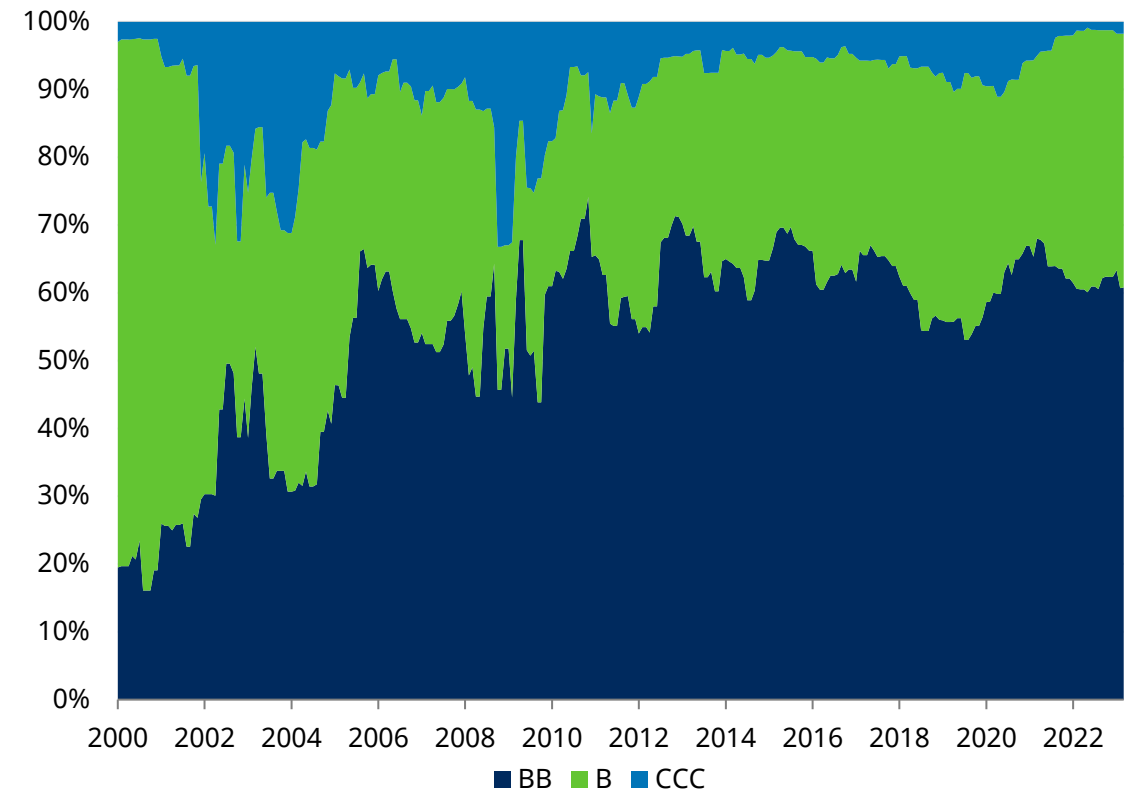
Sterling credit historical ratings split

Significant changes in credit quality over time

GBP IG ratings split



GBP HY ratings split



Source: Schroders, Refinitiv Datastream. Data as at 31 March 2023. Please see relevant disclaimers on page 68.

Schroders



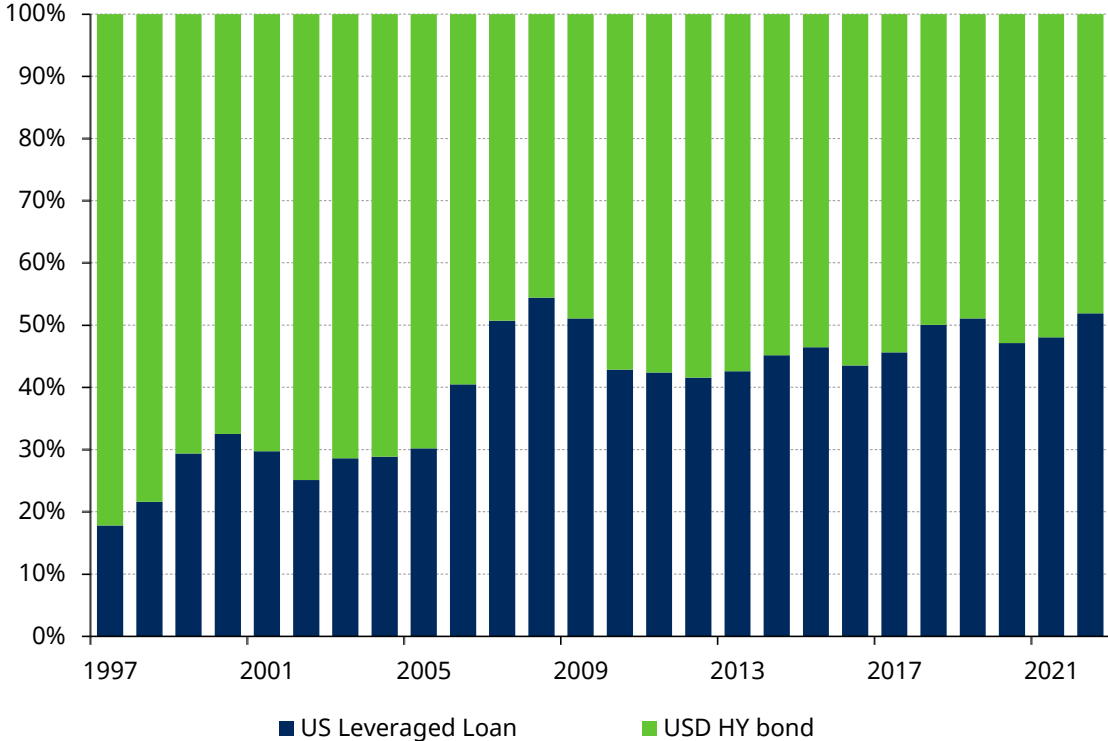
Appendix: Alternatives

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 31 March 2023. Please see relevant disclaimers on page 68.

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

- **US leveraged loans** - Credit Suisse Leveraged Loans Index
- **IG CRE** - Schroders estimates
- **HY CRE** - Schroders estimates
- **Senior CRE** - Schroders estimates
- **Senior Infra** - Schroders estimates
- **Junior Infra** - Schroders estimates
- **EUR Govt** - ICE Euro Government Index
- **EUR A** - ICE Single-A Euro Corporate Index
- **EUR BBB** - ICE BBB Euro Corporate Index
- **EU Leveraged Loans** - Credit Suisse Western Europe Leveraged Loans Index

Relevant Disclosures

- **All investments involve risk including the loss of principal.** The information presented is current as of the date of this publication.
- The views and opinions shared are those of the authors of this publication and are subject to change due to market and other conditions. The opinions stated may include some forward looking views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that they will be realized.
- The value of any debt instrument may decline as a result of a number of factors, including interest rate risk, credit risk, inflation/deflation risk, government securities risk, foreign investment risk, currency risk, derivatives risk, leverage risk and liquidity risk. Foreign debt instruments involves special risks including among others, risks related to political or economic instability, foreign currency (such as exchange, valuation, and fluctuation) risk, market entry or exit restrictions, illiquidity and taxation. These risks exist to a greater extent in emerging markets than in developed markets.
- Any analysis or illustration of trends whether current or historical should not be solely relied upon to predict future events or results. Trends may not continue or lead to favorable investment conditions.
- This publication is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any investment service or financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Schroder Investment Management North America Inc. does not warrant its completeness or accuracy. **See “Important Information” slide for additional disclosures.**

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