

Schroders



Schroders Credit Lens

Perspective of EUR insurance company investor

Strategic Research Unit

March 2024

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 clients 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 71

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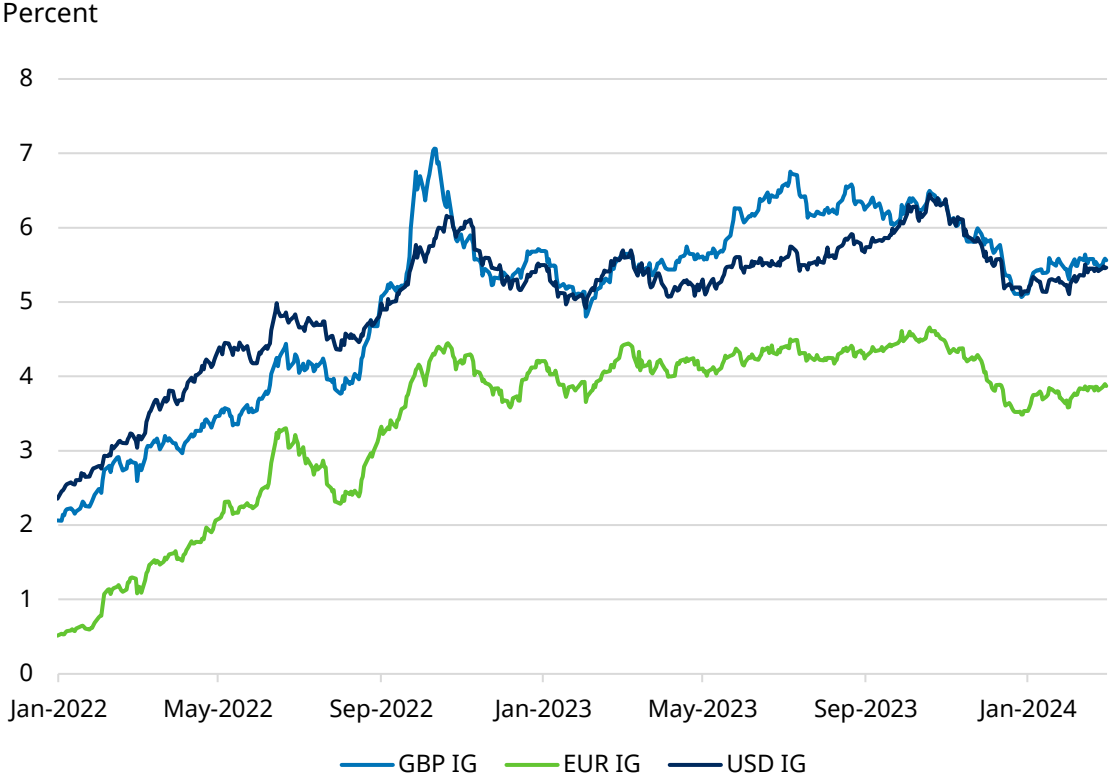
[Corporate credit: technicals](#) (slides 56-68)

Summary

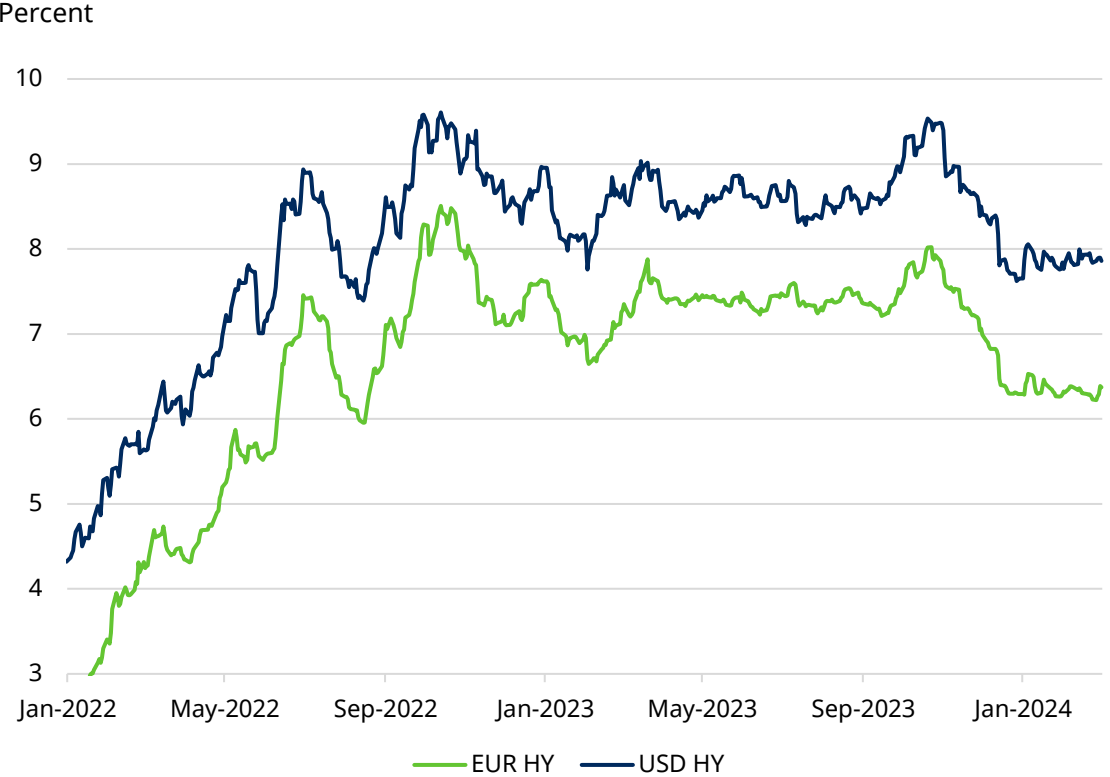
- **Spreads have narrowed significantly in recent months, alongside growing expectations for both lower policy rates and a soft landing for economic growth. USD spreads are tighter relative to their history than is the case for EUR spreads, particularly so for IG**
- Corporate bond yields have fallen far from their October 2023 peaks, and are now notably lower than the levels seen for most of last year
- Alongside relatively lower yields, year-to-date issuance has been strong, particularly in IG. Within USD HY, issuance has been dominated by refinancings, with maturity walls gradually being pushed out
- The credit rating migration picture is mixed. In HY, net downgrades have been outpacing upgrades over the last year. By contrast, *'rising stars'* have been outpacing *'fallen angels'*, with stronger HY issuers being upgraded to IG at a faster rate than weaker IG issuers are downgraded to HY
- While US high-yield default rates have moved higher over the past year, they have so far only increased to around long-run average (median) levels. As is the case for Euro high-yield default rates
- Overall corporate fundamentals were broadly stable in Q4. In recent quarters interest coverage ratios have fallen to more typical levels on the back of higher interest expense. Leverage mostly remained in recent ranges

Corporate bond yields have fallen far from their October 2023 peaks

IG yield



HY yield



Yields are now notably lower than the levels seen for most of last year

Source: LSEG Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72. Charts show local currency yield to worst.

Significant spread narrowing in recent months, to levels last seen in early 2022

IG Spread



HY Spread



Spread narrowing has been alongside growing expectations for both lower policy rates and a soft landing for economic growth

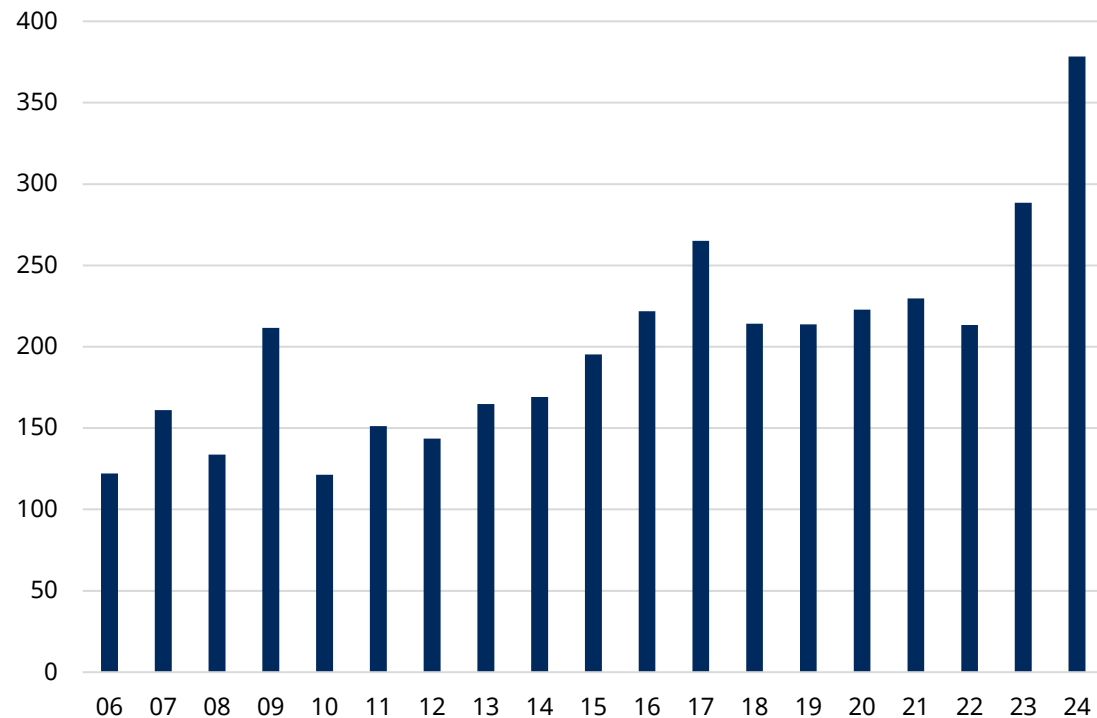
Source: LSEG Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

Strong start to 2024 for issuance, with record levels in IG

1

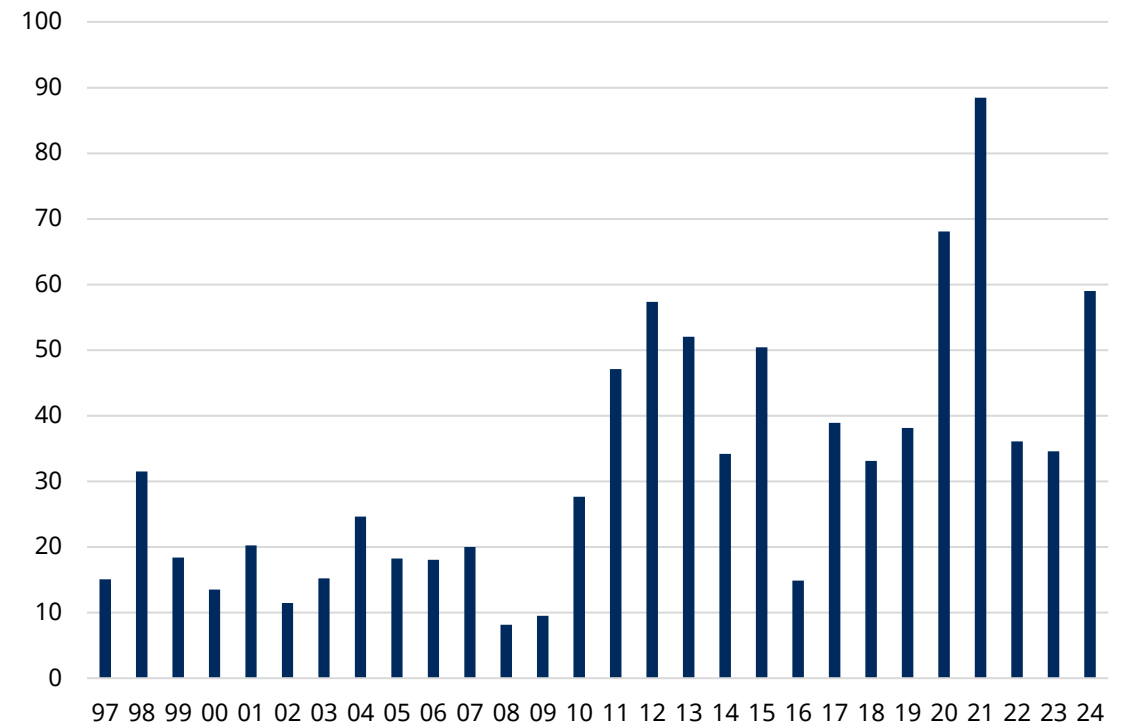
USD IG bonds – January-February Issuance

Billions USD



USD HY bonds – January-February Issuance

Billions USD

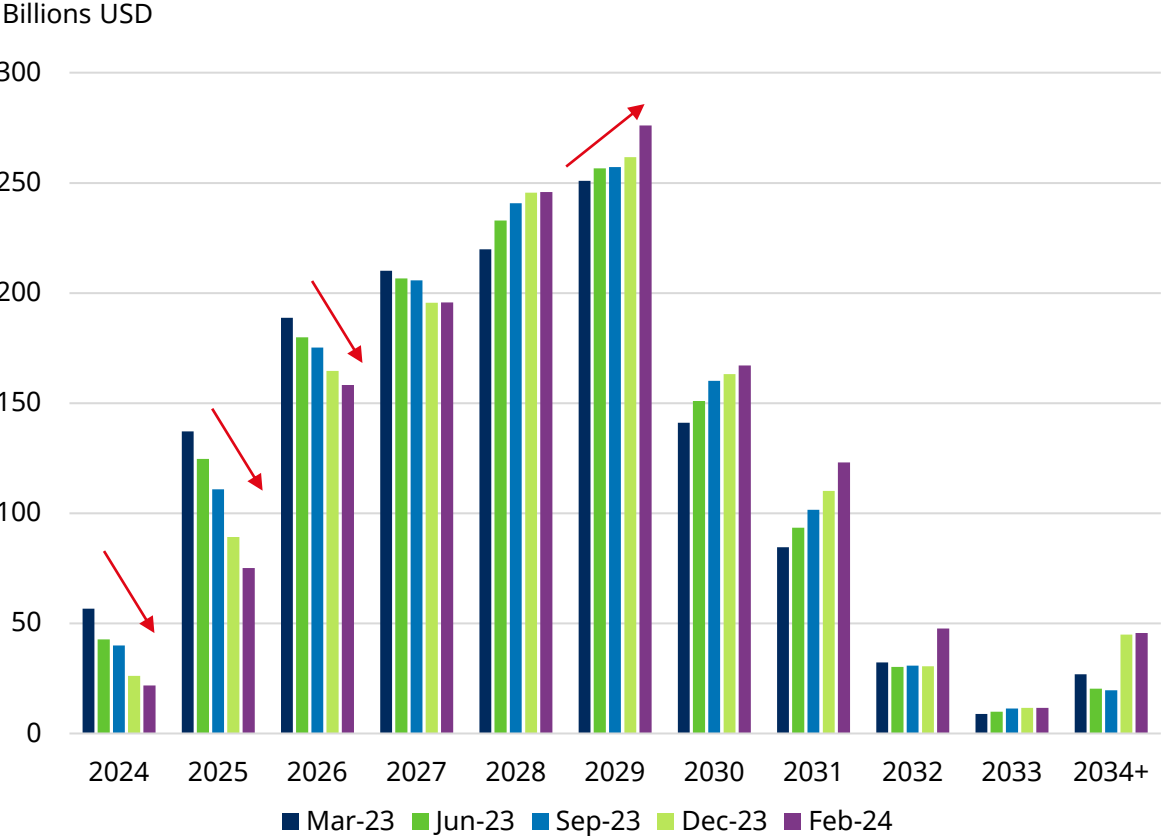


Source: BofA Global Research. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

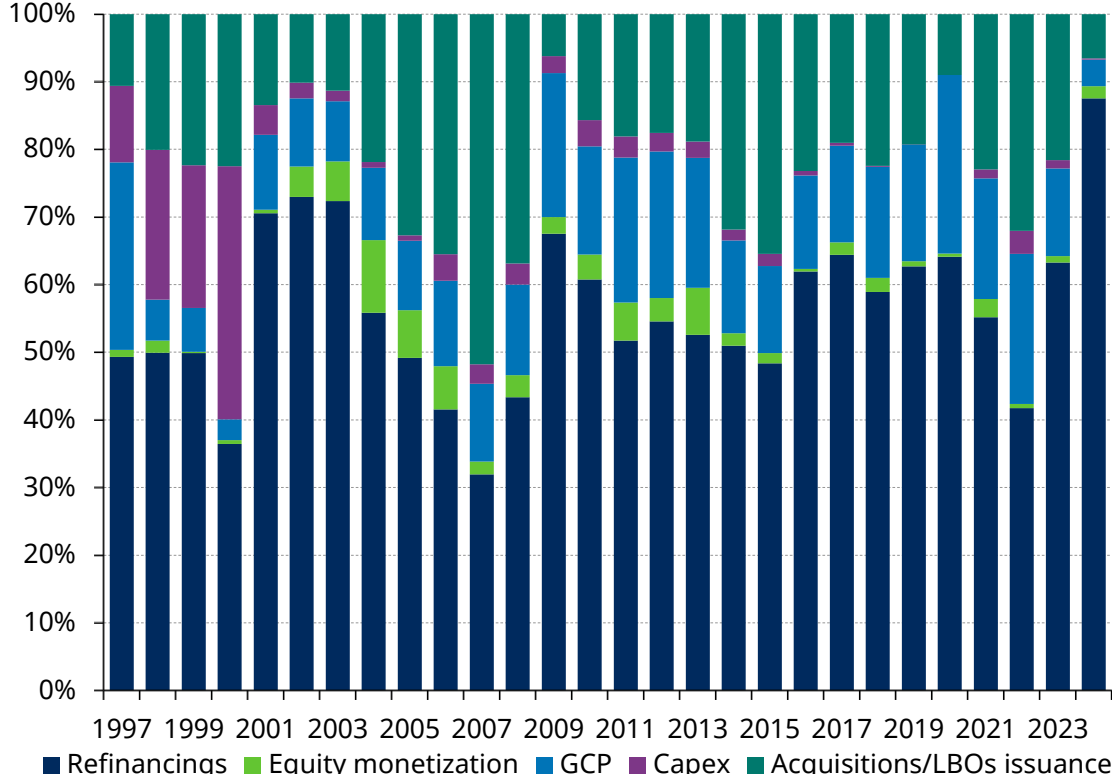
(1) Since at least 2006 when the data series began. Charts show YTD issuance (i.e. combined January and February) for each calendar year. It uses a different data source than shown on slide 61 to enable longer back-run of monthly data (key conclusions are the same across both sources)

Maturity wall gradually being pushed out, year-to-date USD HY issuance dominated by refinancings

USD HY Maturity profile



USD HY - issuance by use of proceeds⁽¹⁾



Source: Schroders, BofA Global Research. Data as at 29 February 2024. Please see relevant disclaimers on page 72.
 (1) 2024 is year to date as at 29 February 2024. GCP is General Corporate Purposes; Equity monetization includes dividends and share repurchases.

Summary of corporate fundamentals

- **Overall corporate fundamentals were broadly stable in Q4. The elevated level of interest rates has reduced median interest coverage ratios (ICRs) towards more typical levels in recent quarters. Leverage mostly remained in recent ranges**
- Leverage has remained mostly stable in recent quarters. High-yield leverage is below average levels seen over the last decade, whereas IG leverage is around or slightly above average
- In recent quarters median ICRs have fallen towards more typical levels, reflecting a significant increase in interest expense which is growing at rates not seen for over two decades. Albeit there are tentative signs that the decline in interest coverage has slowed
- Q4 saw continued signs of EBITDA margins improving, or at least stabilising in the case of US HY.
- See the full corporate fundamentals section on slide 37

Interest coverage has declined towards more typical levels

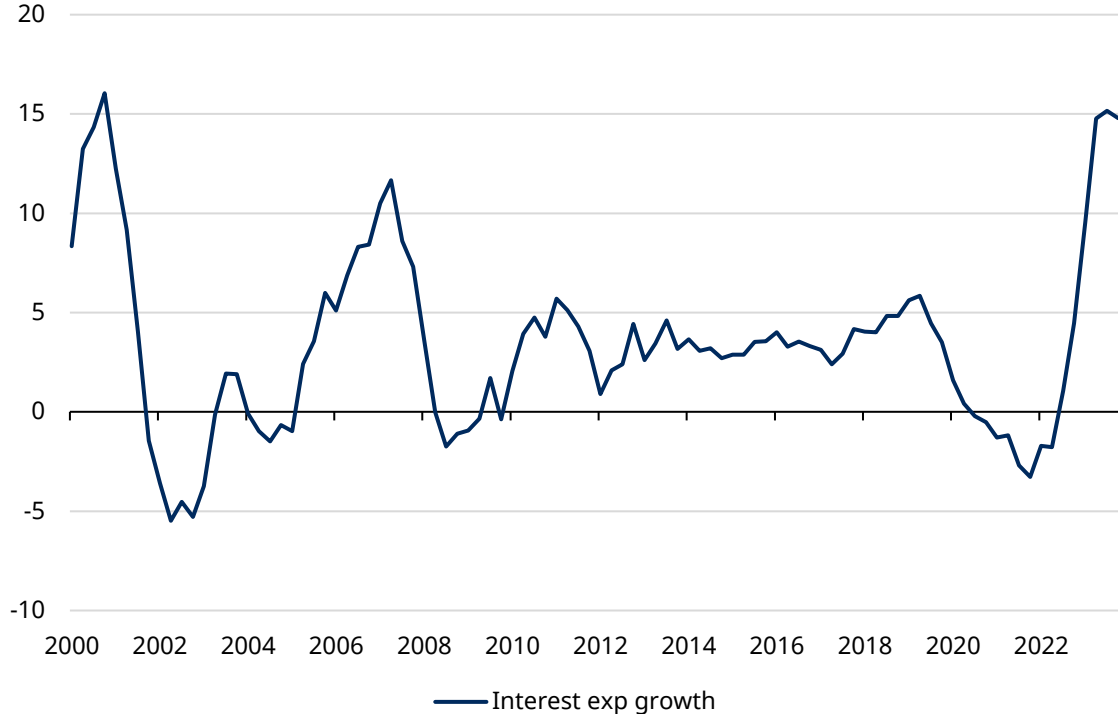
US HY interest coverage ratio

Last 12 months EBITDA to interest expense



US HY annual interest expense growth

%



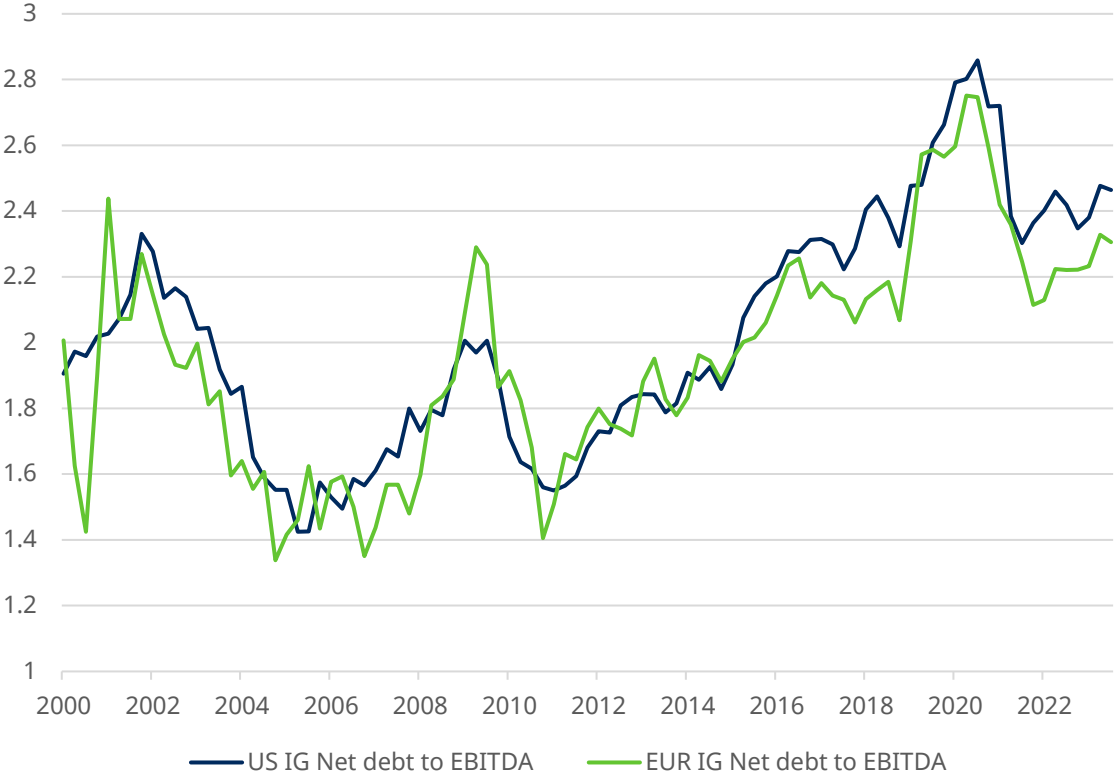
Interest expense growth is the highest in over two decades

Source: Schroders, Bloomberg, Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Leverage has been mostly stable in recent quarters

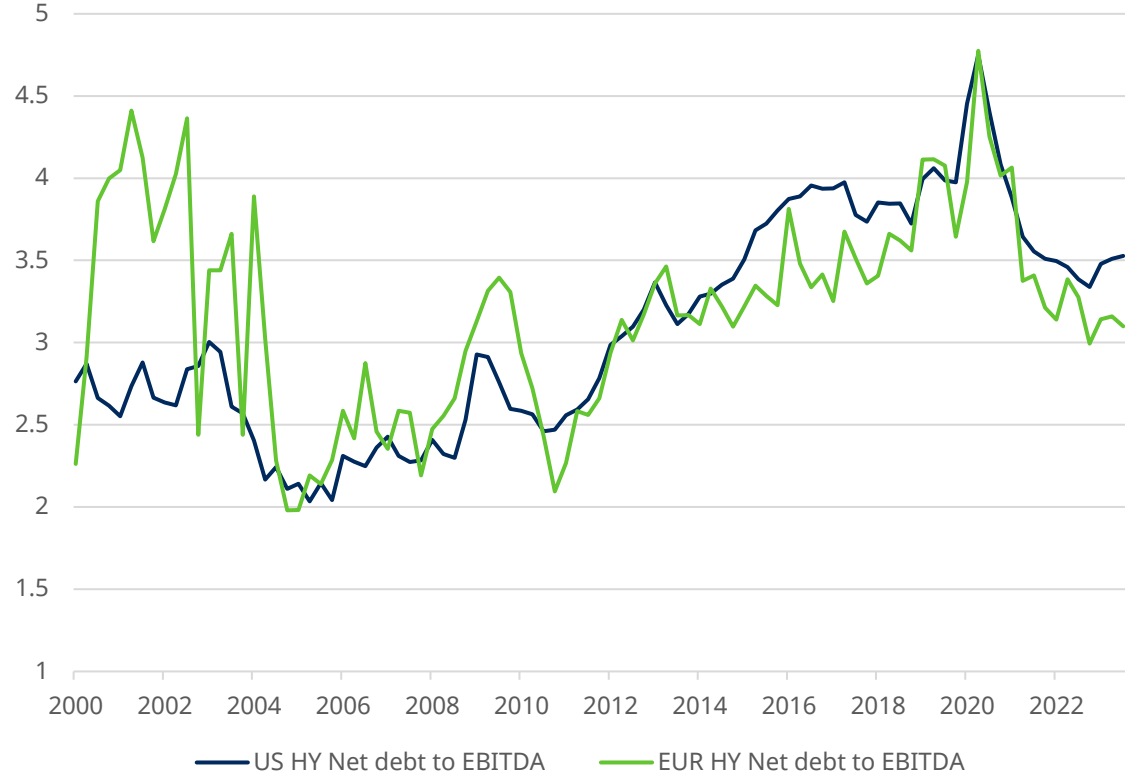
IG net leverage

Net debt to last 12 months EBITDA



HY net leverage

Net debt to last 12 months EBITDA



High-yield leverage is below average levels seen over the last decade, whereas IG leverage is around or slightly above average

Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Summary table

Cross-credit overview

Date: 29 February 2024

	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%	3.9%	5.5%	8.5%	6.4%	7.9%	8.1%	6.2%	6.8%
Yield to worst (hedged to EUR) ¹	4.0%	4.3%	3.9%	4.0%	7.3%	6.4%	6.4%	6.6%	-	5.3%
Spread (bps)	101	125	121	100	412	346	329	369	192	245
Spread (percentile) ²	27%	27%	52%	19%	28%	27%	14%	49%	1%	17%
Risk premium (bps) ³	68	87	83	62	213	172	108	229	137	138
Duration	5.8	6.4	4.6	6.9	3.0	3.3	4.1	6.6	5.0	4.2
MV (billion \$)	750	557	3,134	8,194	51	394	1,252	675	1,553	517
Rating	A1	A3	A3	A3	BB3	BB3	B1	BB1	BBB2	BBB3
Nr. of issues/countries	1,341	1,123	4,226	10,309	99	682	1,862	70	18	1,767

Since Jan 1997 or inception

Annualised return ⁴	3.8%	4.0%	3.7%	3.9%	7.3%	4.9%	5.1%	5.7%	4.9%	5.0%
Annualised volatility	5.8%	6.6%	4.0%	6.0%	10.4%	11.3%	9.0%	10.7%	8.7%	7.8%
Return/volatility	0.7	0.6	0.9	0.7	0.7	0.4	0.6	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	0.3	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 29 February 2024. Please see relevant disclaimers on page 72.

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 28).

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

Summary table (alternatives)

Cross-credit overview

Date: 29 February 2024

	US Agency MBS	US ABS	US CMBS	US leveraged loans	EUR leveraged loans	Cat Bonds
Yield ¹	5.1%	5.7%	6.5%	10.5%	9.0%	-
Yield (hedged to EUR) ²	3.6%	4.2%	5.0%	9.0%	9.0%	-
Spread (bps) ³	86	107	224	519	505	-
Risk premium (bps)	-	-	-	-	-	-
Duration	5.9	2.1	3.7	0.0	0.0	-
Market size (billion \$)	7,357	467	435	1,385	309	-
Rating	AA1	AA1	AAA	B	BB3/B1	-

Since Jan 1997 or inception

Annualised return ⁴	3.0%	2.7%	3.6%	4.0%	4.4%	6.6%
Annualised volatility	3.6%	2.3%	6.1%	5.9%	6.6%	4.3%
Return/volatility	0.8	1.2	0.6	0.7	0.7	1.6
Max drawdown	-21.1%	-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	0.2	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 29 February 2024. Please see relevant disclaimers on page 72.

¹US leveraged loan yield is calculated as 3-year discount margin plus 3-month term SOFR. Euro leveraged loan yield is calculated as 3-year discount margin plus 3-month Euribor.

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: 29 February 2024

	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	-0.6%	-0.5%	-0.9%	-1.4%	0.7%	0.4%	0.3%	1.0%	-0.6%	0.7%
YTD return	-1.5%	-1.6%	-0.8%	-1.2%	2.4%	1.2%	0.3%	-0.1%	-2.1%	1.3%
1 year return	5.6%	6.3%	6.6%	6.1%	13.2%	10.0%	11.0%	10.1%	9.3%	9.0%
Return (EUR hedged)²										
1 month return	-0.7%	-0.6%	-0.9%	-1.5%	0.6%	0.4%	0.2%	0.8%	-0.2%	0.6%
YTD return	-1.8%	-1.8%	-0.8%	-1.5%	1.0%	1.2%	0.1%	-0.3%	-0.1%	1.1%
1 year return	4.0%	4.7%	6.6%	3.7%	11.7%	10.0%	8.6%	7.6%	7.1%	6.8%
Spread										
1 month OAS change	-9	-8	-9	-2	-55	-39	-30	-33	-35	-30
YTD OAS change	-13	-12	-14	-4	-103	-49	-5	-15	-41	-36
1 year OAS change	-41	-44	-26	-30	-147	-75	-93	-78	-69	-51
Latest OAS	101	125	121	100	412	346	329	369	192	245

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 29 February 2024. Please see relevant disclaimers on page 72.

¹Local EMD is USD return.

²Local EMD is USD return in EUR.

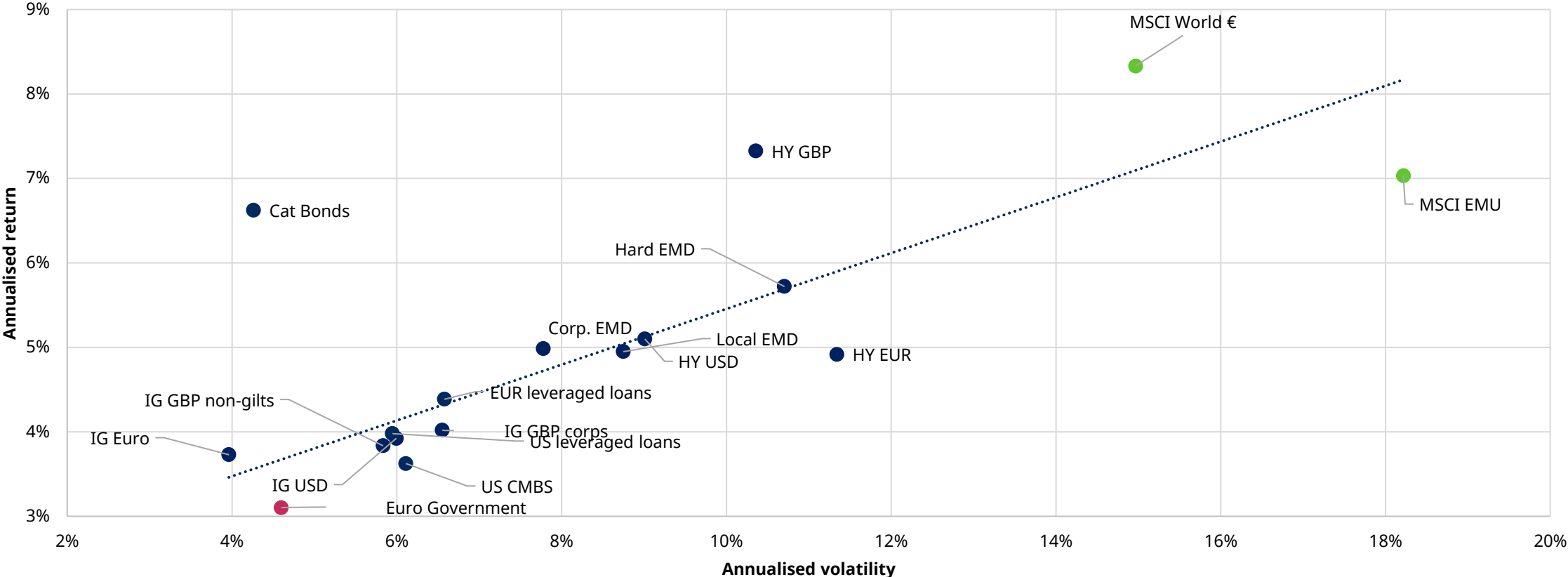
Schroders



Cross-credit analysis

Cross-credit risk-return profile

Since Jan 1997 or inception

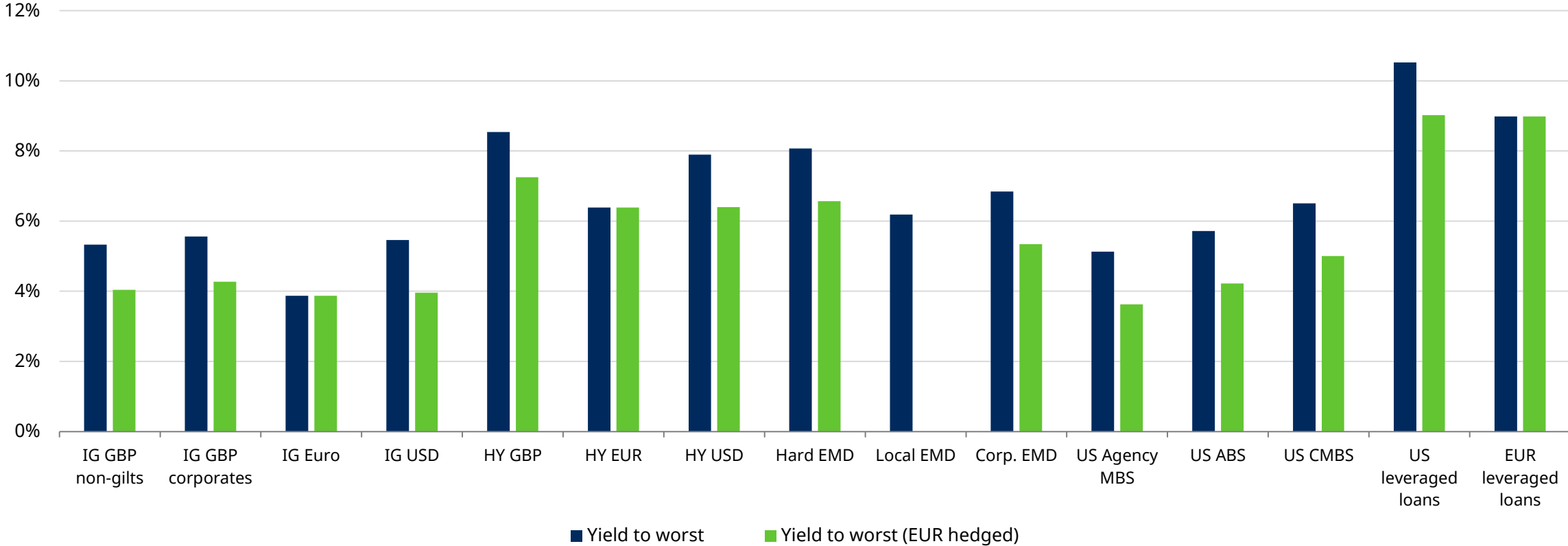


Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Barclays, Credit Suisse. Data as at 29 February 2024. Please see relevant disclaimers on page 72. 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⁾



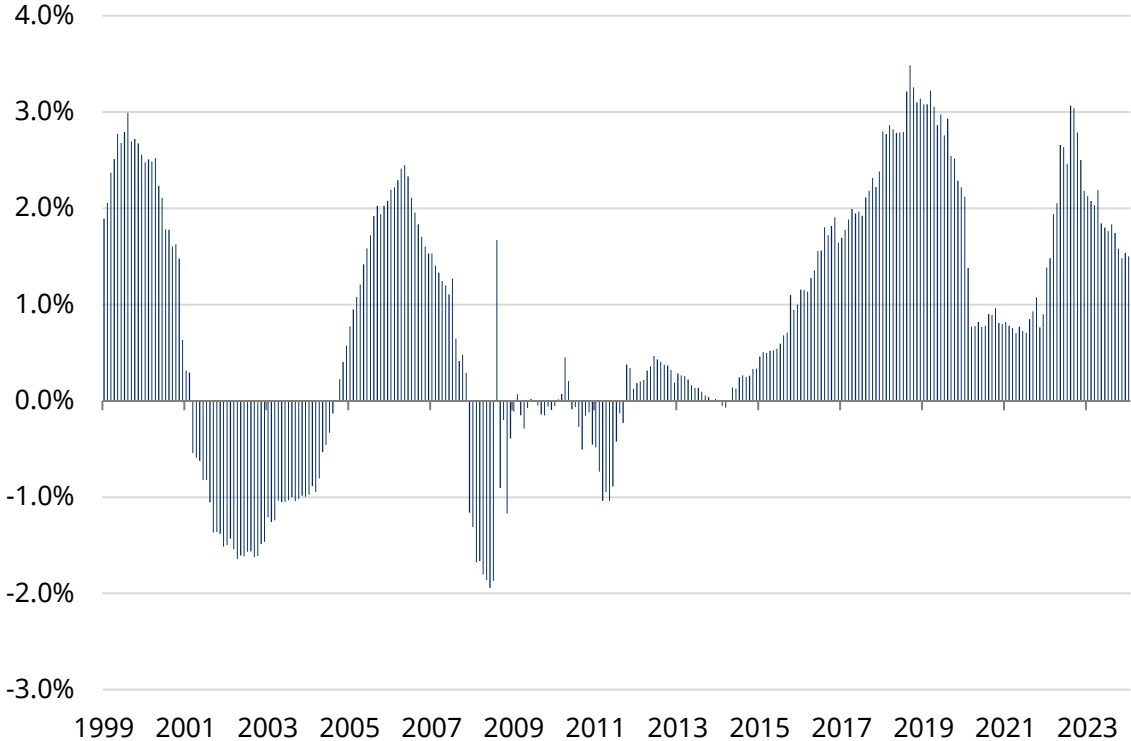
EUR, GBP, and USD IG bonds now offer a similar yield on a currency-hedged basis. And EUR HY is similar to USD HY a currency-hedged basis

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg, Credit Suisse. Data as at 29 February 2024. Please see relevant disclaimers on page 72.
 (1) Hedged yield is local currency yield minus annualised 3-month FX hedging cost/return (see next slide). Leveraged loan yields are 3-year discount margin plus 3-month Euribor or 3-month term SOFR.

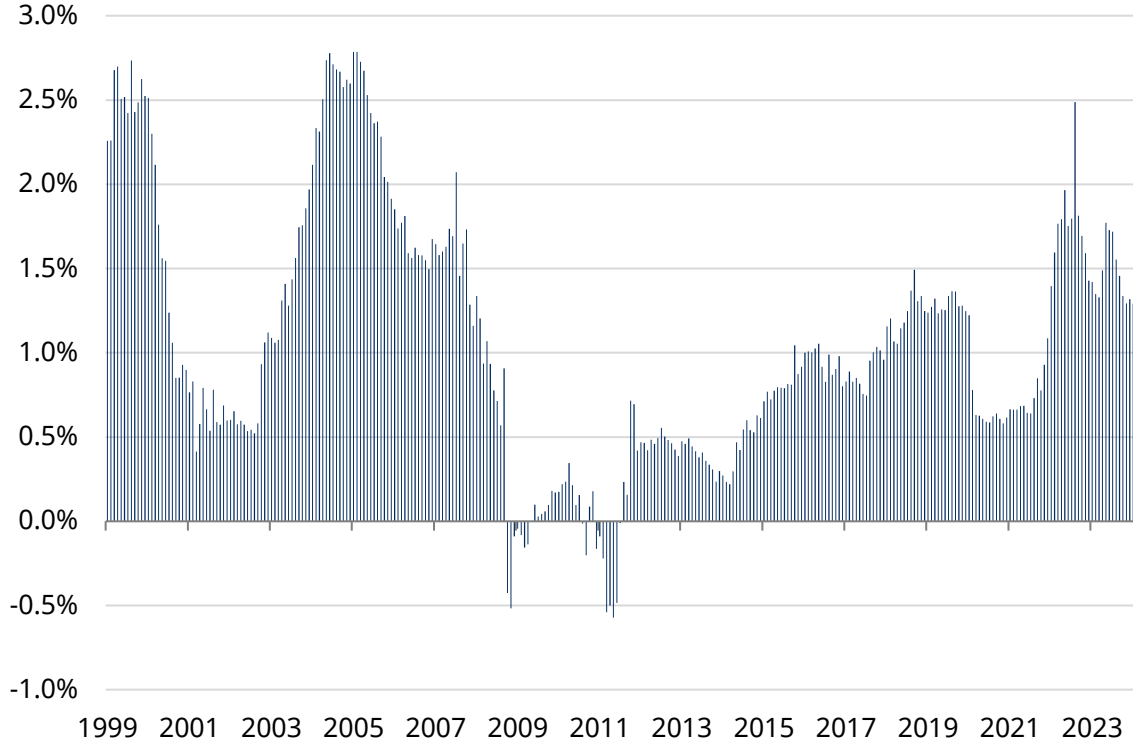
FX hedging cost or return

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)



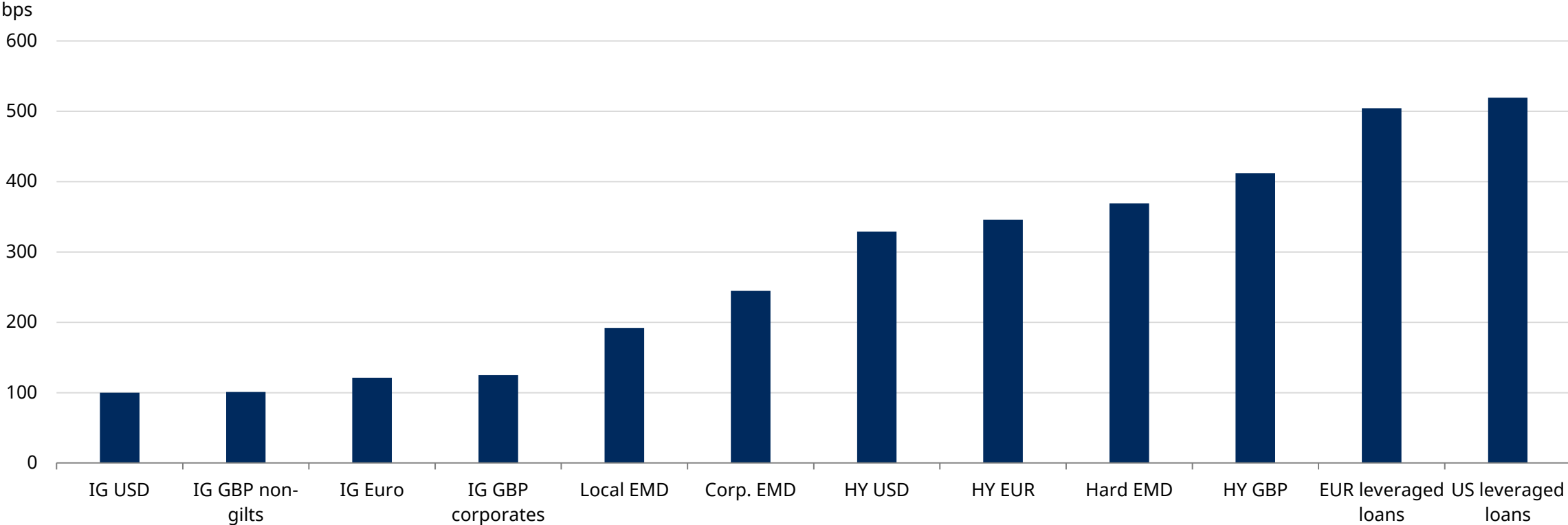
USD yields will be 1.5% lower in EUR once hedging taken account

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

Source: Refinitiv Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

Cross-credit spread

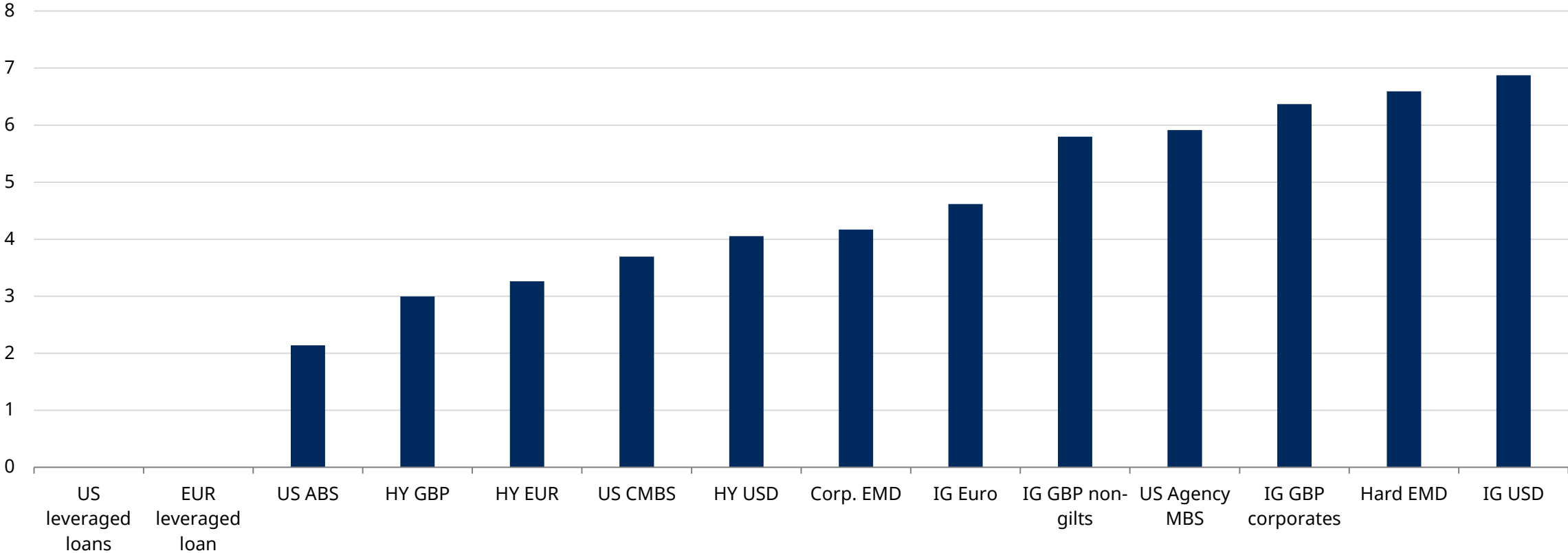
Spread



Source: LSEG Datastream, ICE Data Indices, J.P. Morgan, Credit Suisse. Data as at 29 February 2024. Hard EMD = stripped spread, Local EMD = Spread to 5-year UST, Corporate EMD = spread to worst. Leveraged loan spread is Discount Margin (3-year life). Please see relevant disclaimers on page 72.

Cross-credit duration

Modified duration

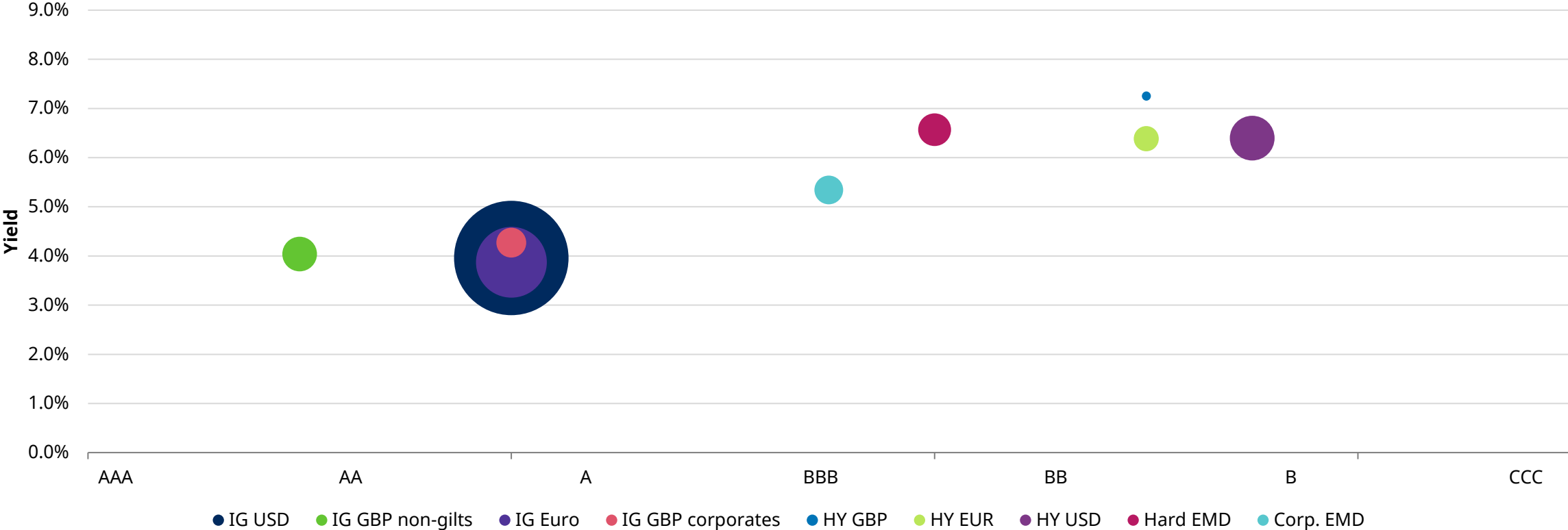


Source: LSEG Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

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

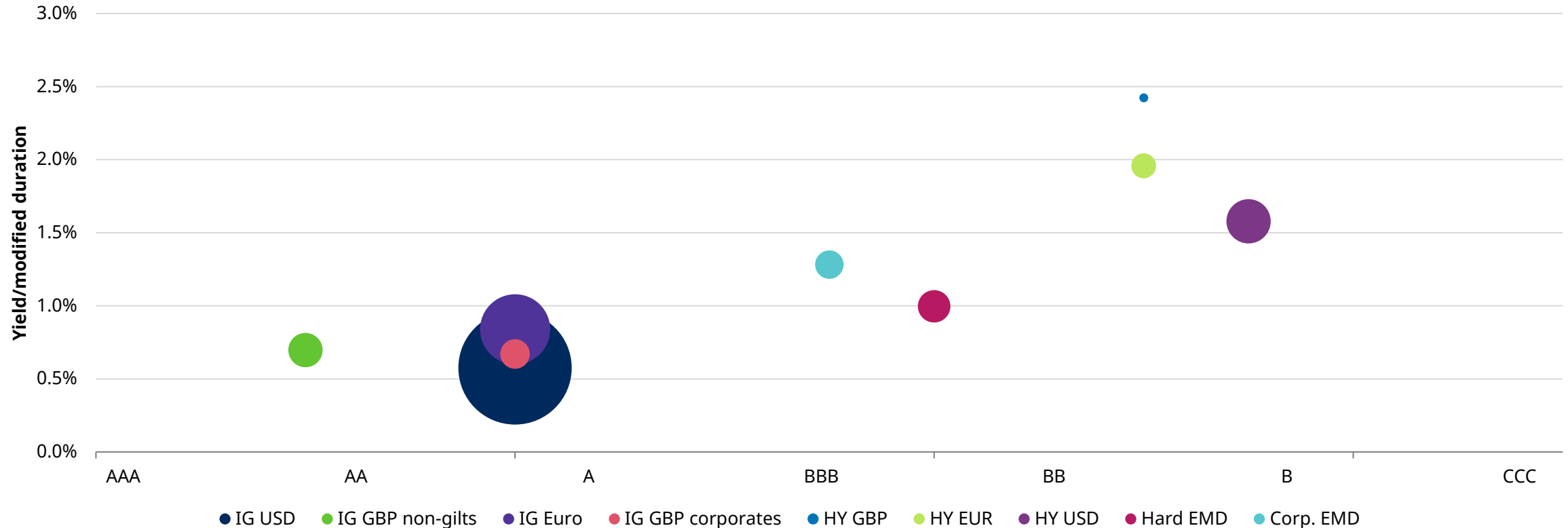


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

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

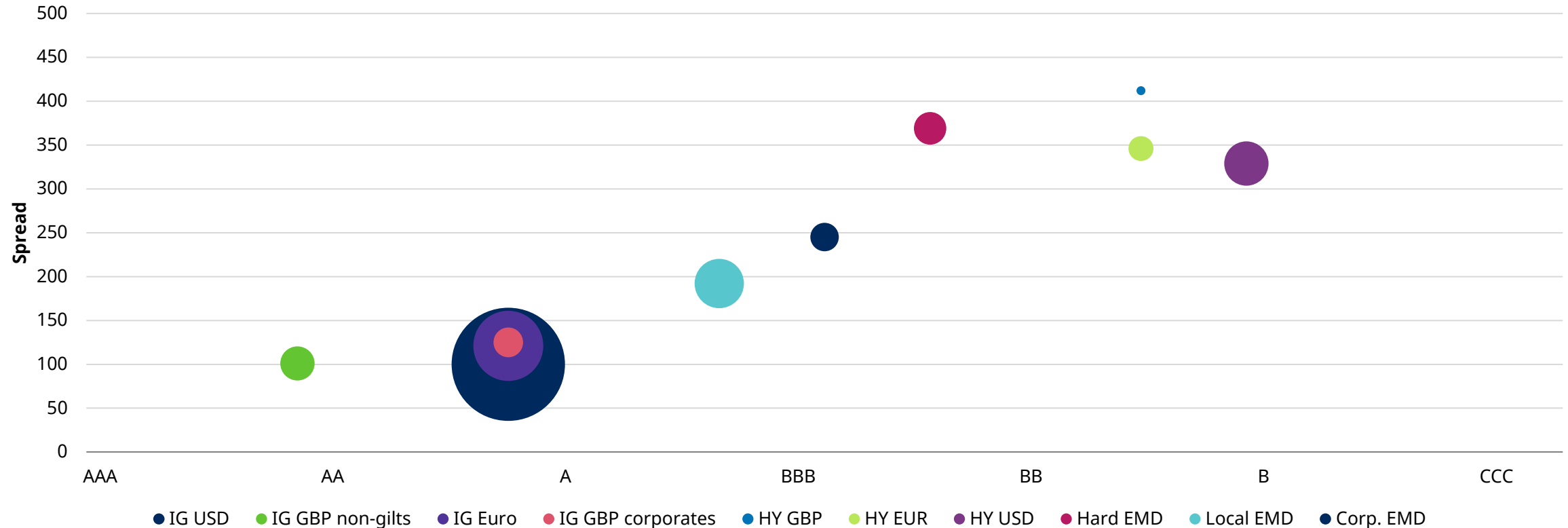


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

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

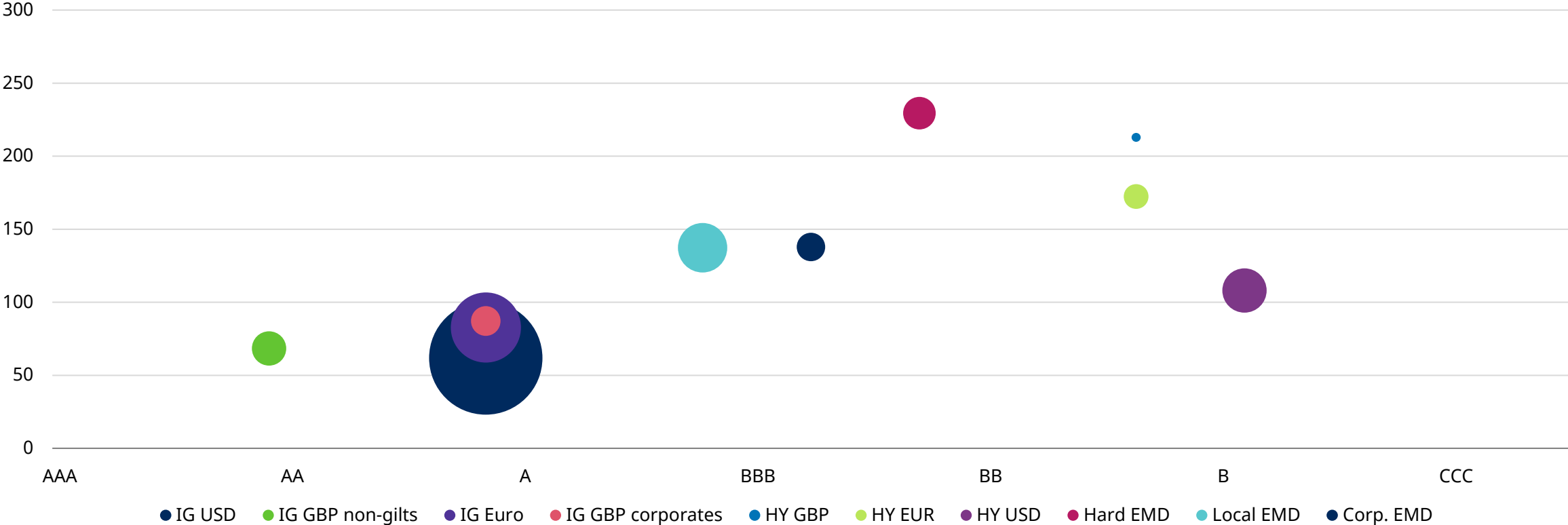


Source: Schroders, LSEG Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

Risk premium vs. credit rating vs. market size

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

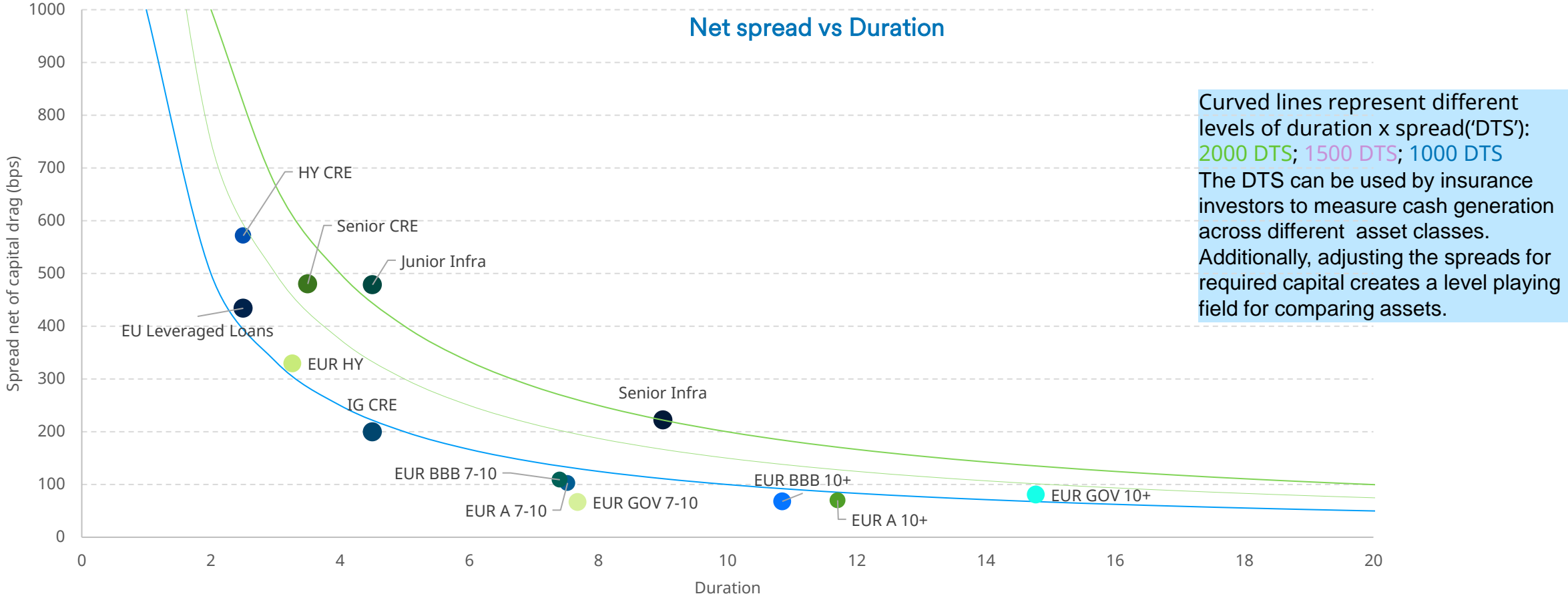
Risk premium vs credit rating vs market size



Source: Schroders, Moody's default and recovery study 2022, LSEG Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72. Local EMD returns are driven by rates and currency movements rather than defaults

Duration times spread analysis for insurance investors

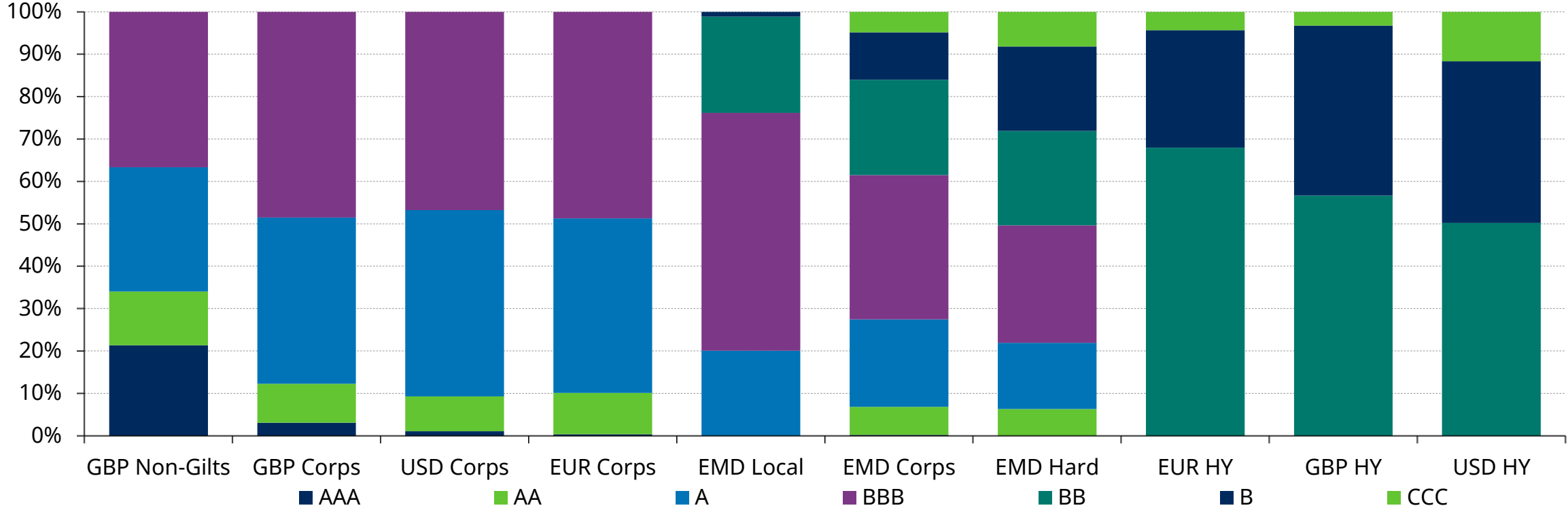
Consistent framework for analysing assets for insurance investors



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 February 2024. Capital drag assumes 150% SCR ratio and 6% cost of capital and diversification of 42%. Please see relevant disclaimers on page 72.

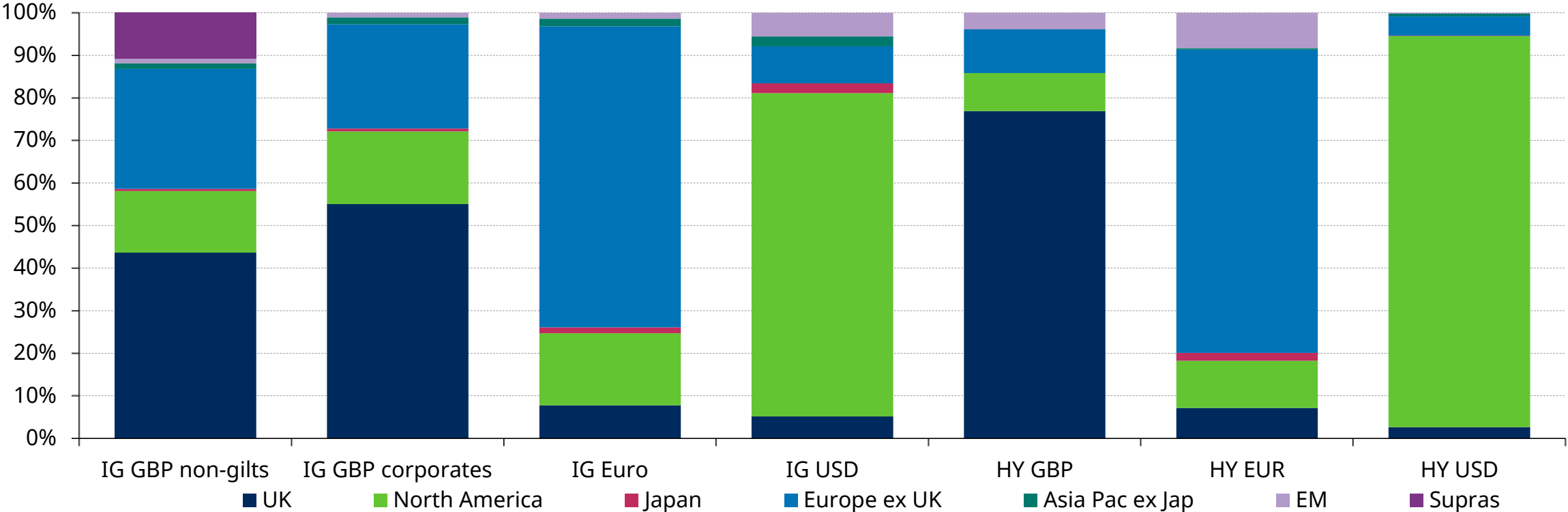
Cross-credit ratings split



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

Source: LSEG Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

Currency of issue vs country of issuer

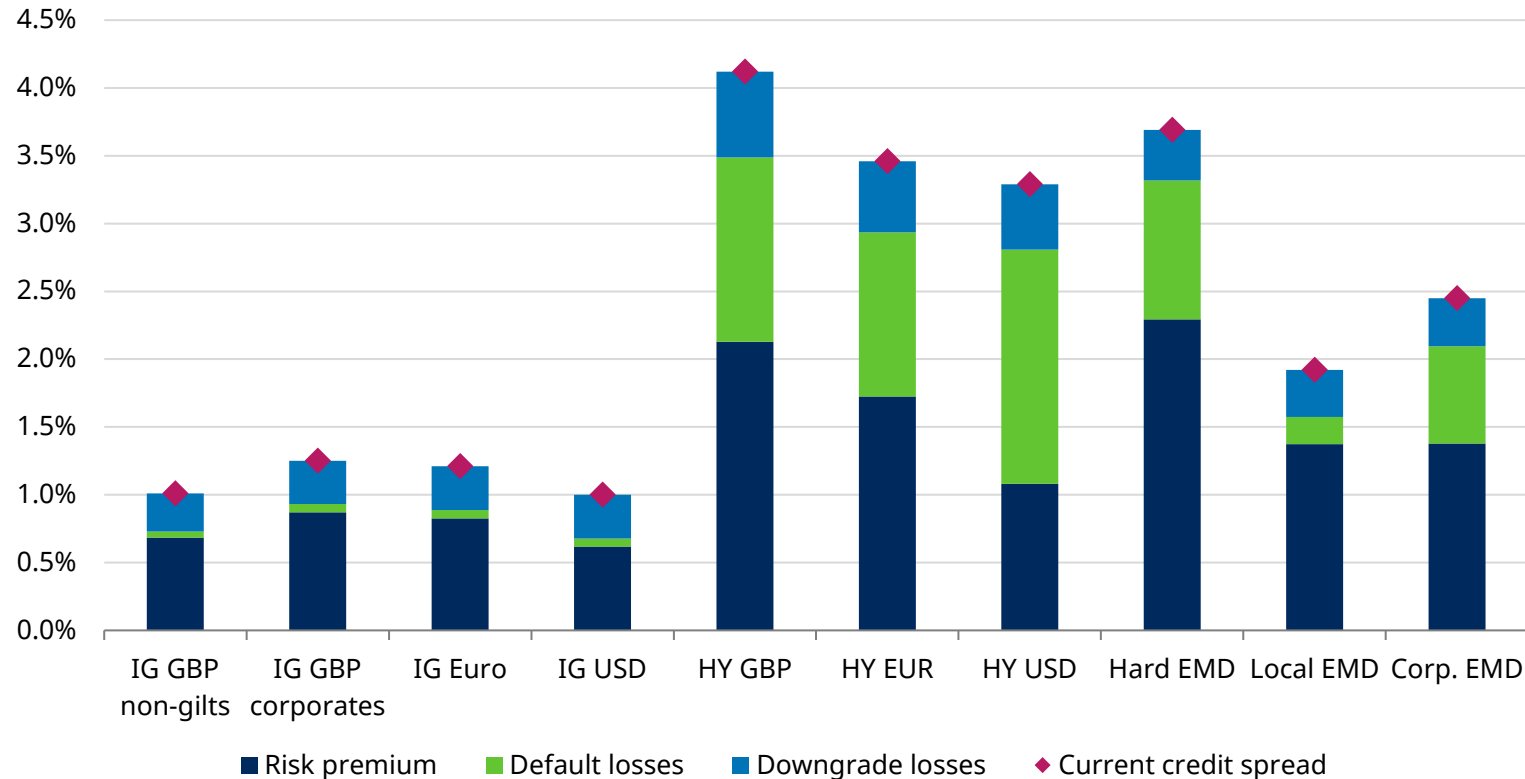


Almost half of GBP IG issuers are not based in the UK

Source: ICE Data Indices, J.P. Morgan. Data as at 31 December 2023. Please see relevant disclaimers on page 72.

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 2022, ICE Data Indices, J.P.Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

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%	1.0%	0.7%
IG GBP corporates	0.1%	0.1%	0.3%	1.3%	0.9%
IG Euro	0.1%	0.1%	0.3%	1.2%	0.8%
IG USD	0.1%	0.1%	0.3%	1.0%	0.6%
HY GBP	2.1%	1.4%	0.6%	4.1%	2.1%
HY EUR	1.9%	1.2%	0.5%	3.5%	1.7%
HY USD	2.7%	1.7%	0.5%	3.3%	1.1%
Hard EMD	1.6%	1.0%	0.4%	3.7%	2.3%
Local EMD	0.3%	0.2%	0.3%	1.9%	1.4%
Corp. EMD	1.0%	0.7%	0.4%	2.5%	1.4%

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

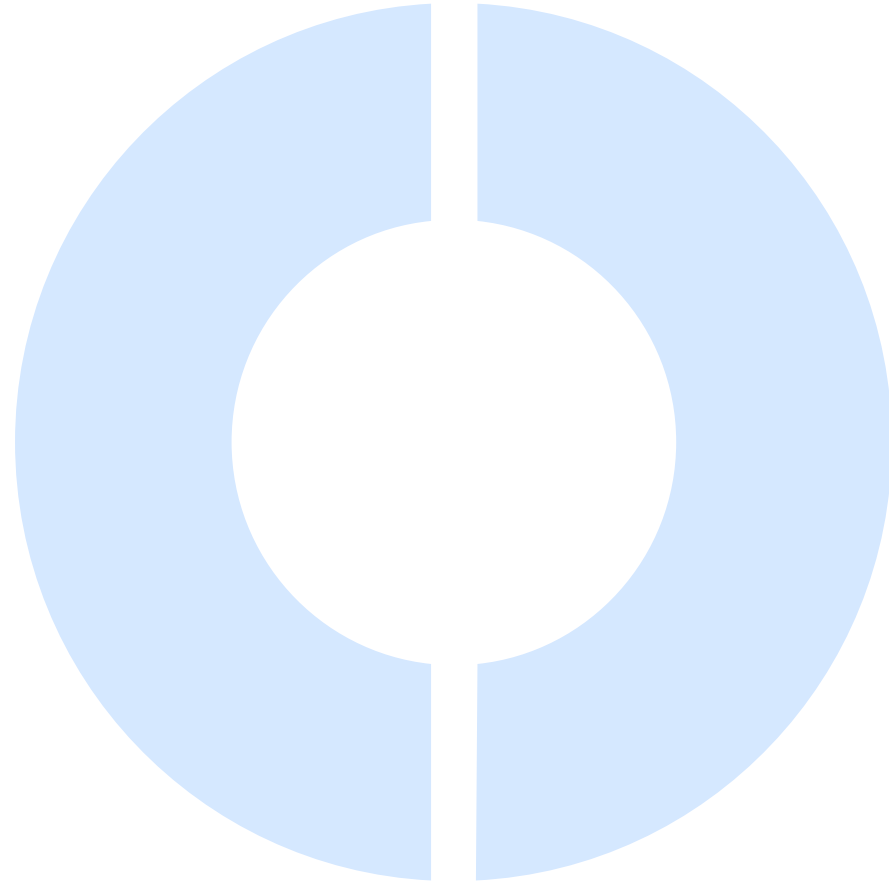
Source: Schroders, Moody's default and recovery study 2022, ICE Data Indices, J.P.Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

¹Based on average historical default rate

²Default rate * (1-recovery rate)

³Credit spread – default losses – downgrade losses

Schroders



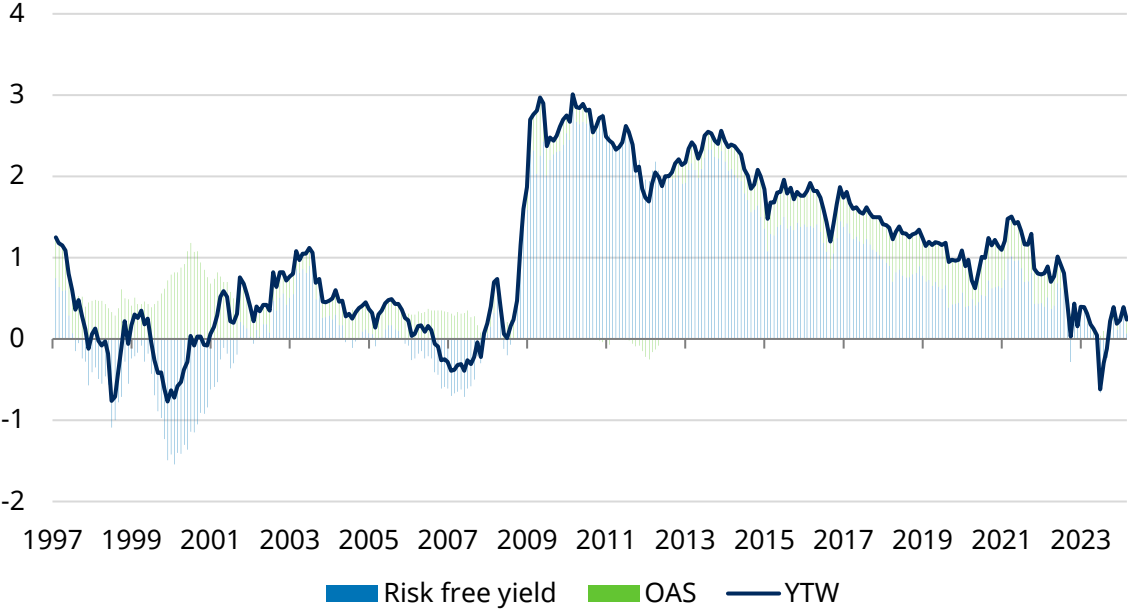
IG long vs short

Shape of the curve

GBP IG curves are still very flat

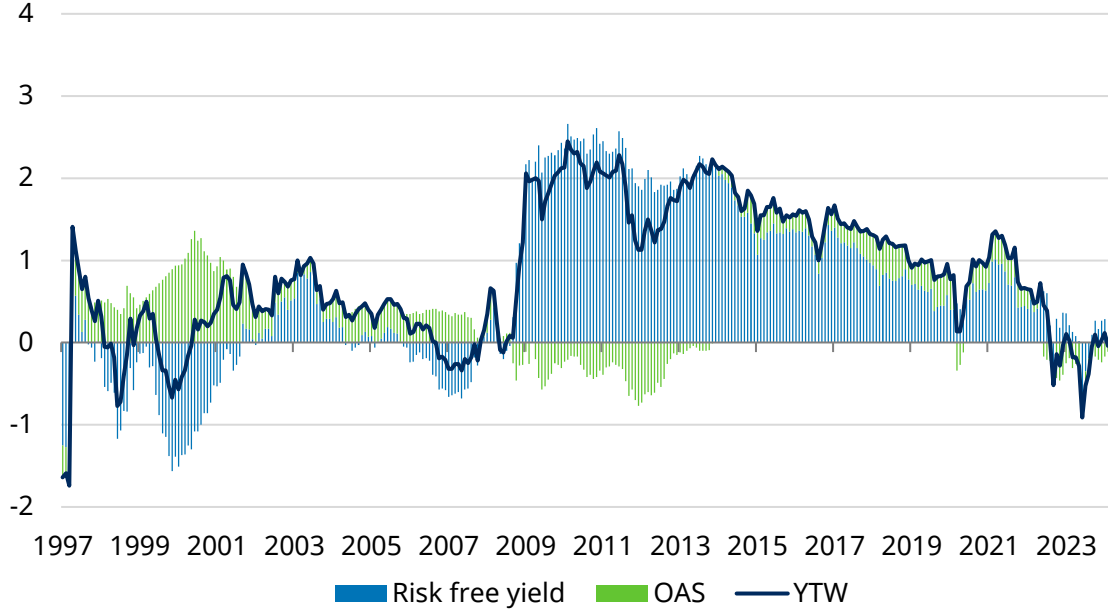
Shape of GBP IG yield curves

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



	YTW	OAS	Duration
IG GBP non-gilts 1-5 year	5.2%	90	2.7
IG GBP non-gilts Index	5.3%	101	5.8
IG GBP non-gilts 10+	5.5%	107	11.6

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



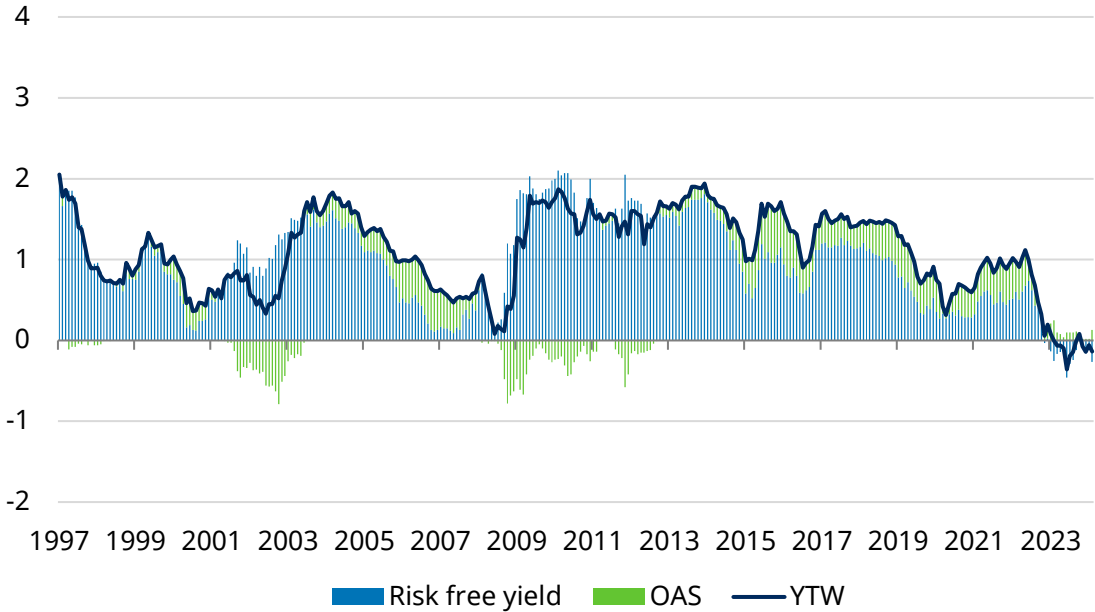
	YTW	OAS	Duration
IG GBP corporates 1-5 year	5.6%	125	2.8
IG GBP corporates Index	5.6%	125	6.4
IG GBP corporates 10+	5.6%	114	11.5

Source: LSEG Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

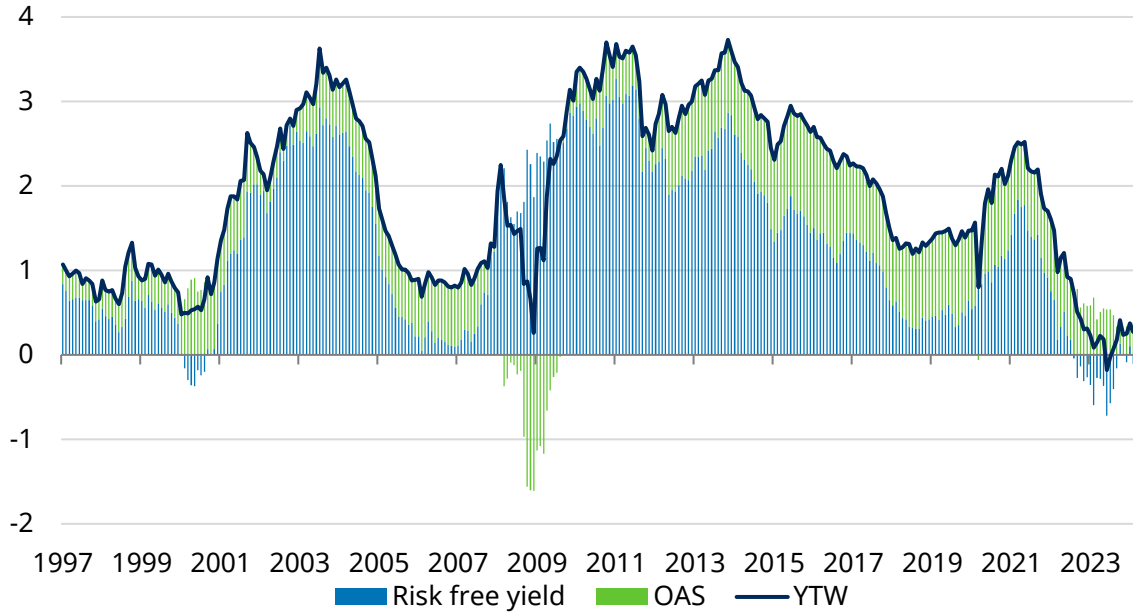
EUR IG and USD IG curves are still very flat

Shape of EUR IG and USD IG yield curves

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



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



	YTW	OAS	Duration
IG Euro 1-5 year	3.9%	109	2.8
IG Euro Index	3.9%	121	4.6
IG Euro 10+	3.8%	122	11.5

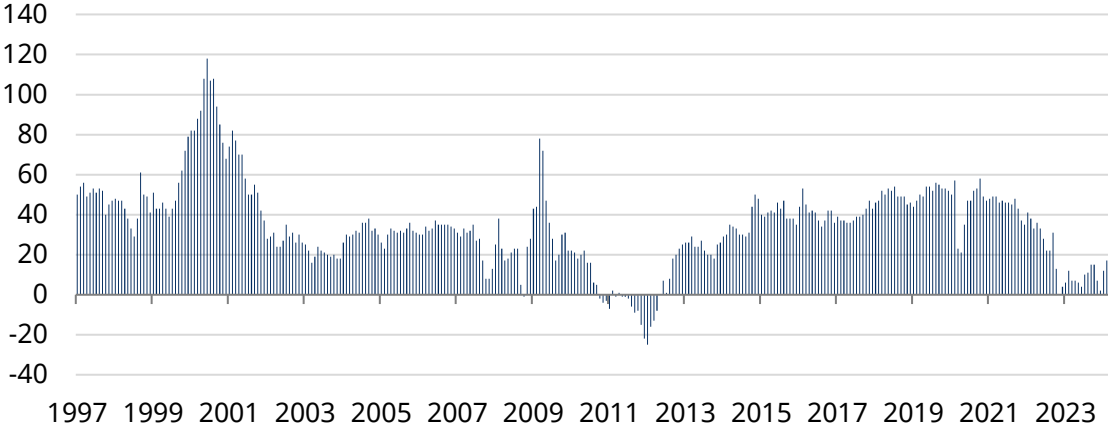
	YTW	OAS	Duration
IG USD 1-5 year	5.4%	77	2.7
IG USD Index	5.5%	100	6.9
IG USD 15+	5.6%	115	13.8

Source: LSEG Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

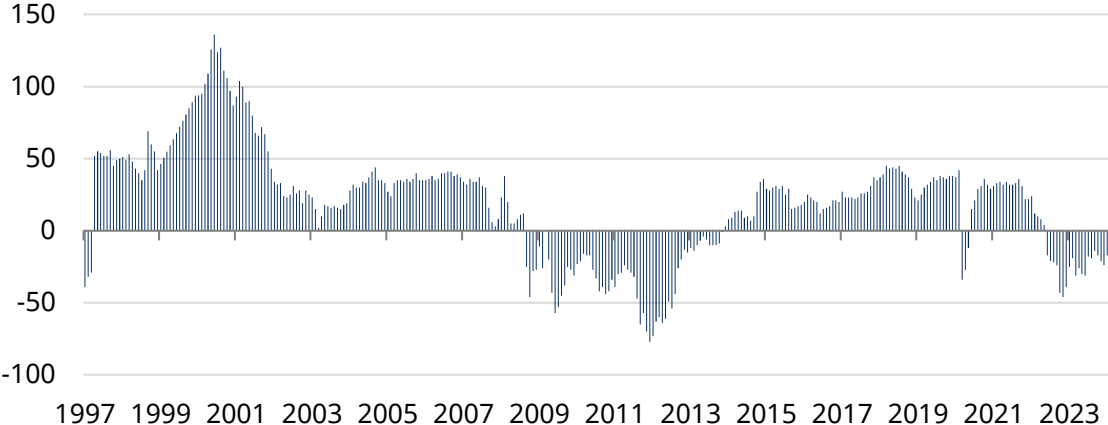
IG long vs short OAS

Shape of spread curves

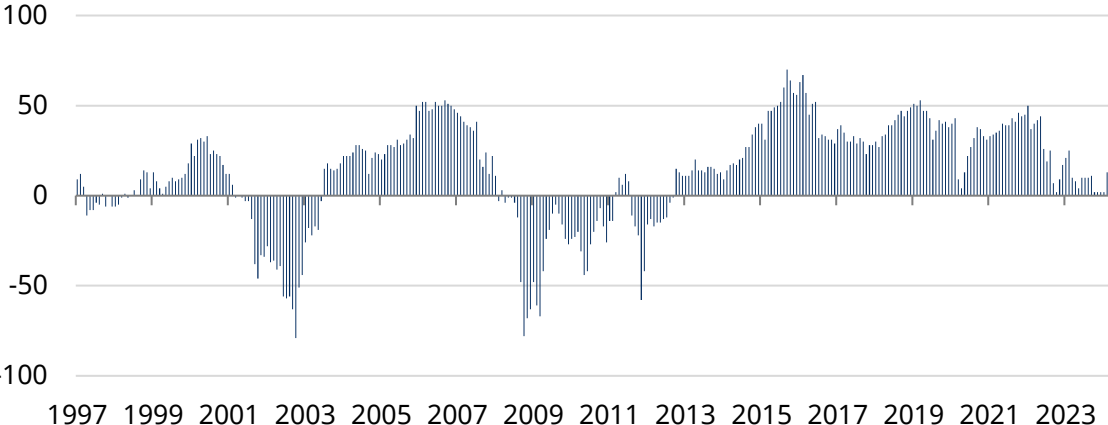
IG GBP non-gilts (bps)



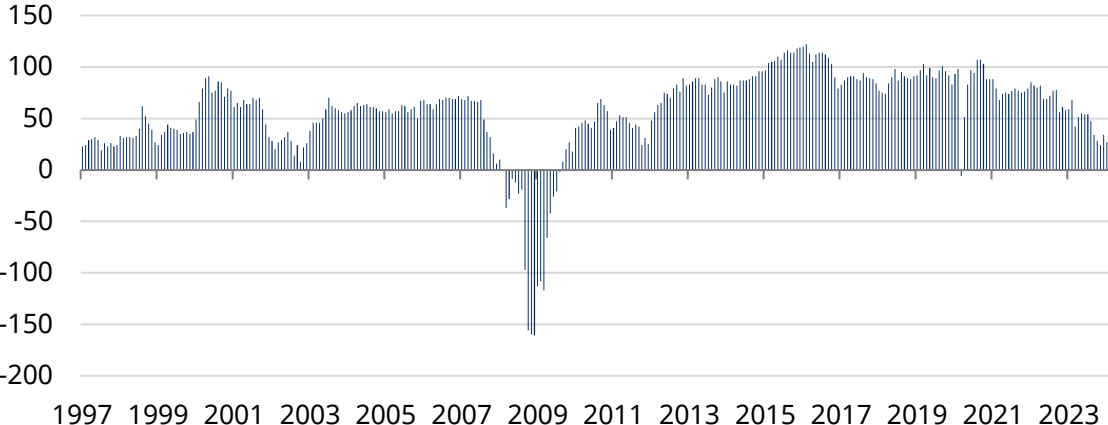
IG GBP corporates (bps)



IG EUR (bps)

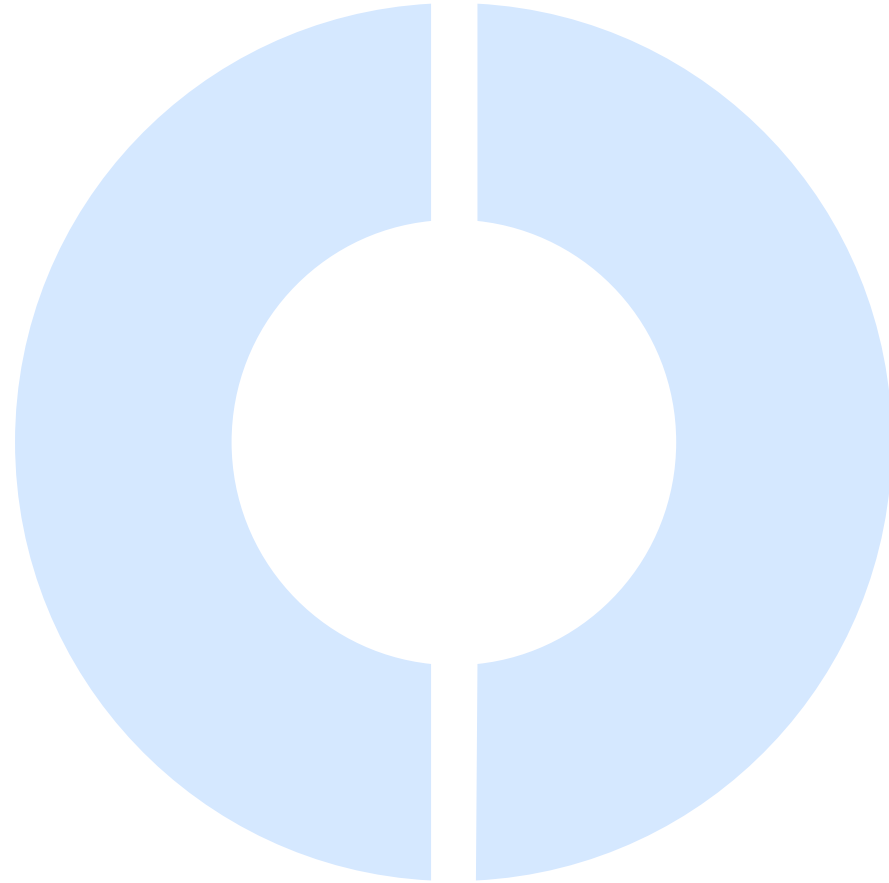


IG USD (bps)



Source: Schroders, ICE Data Indices. Figures showing 10+ (15+ for IG USD) minus 1-5 year index spread. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

Schroders

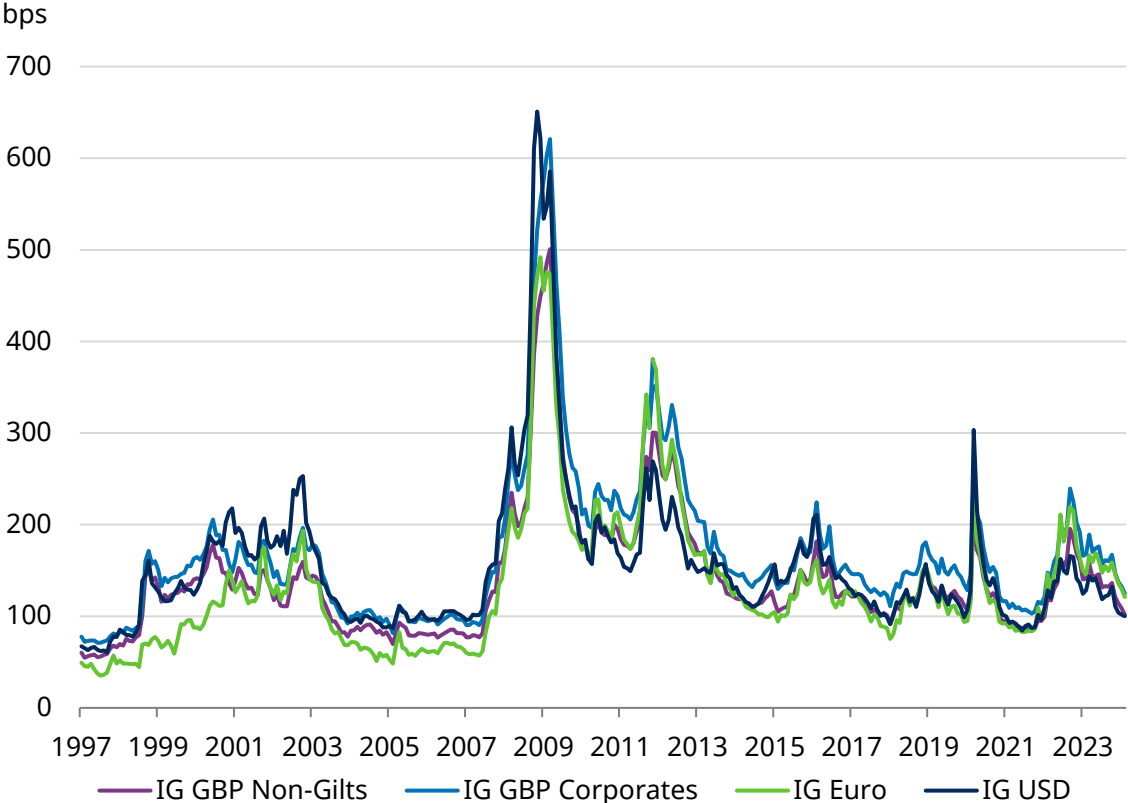


Corporate credit
Valuation

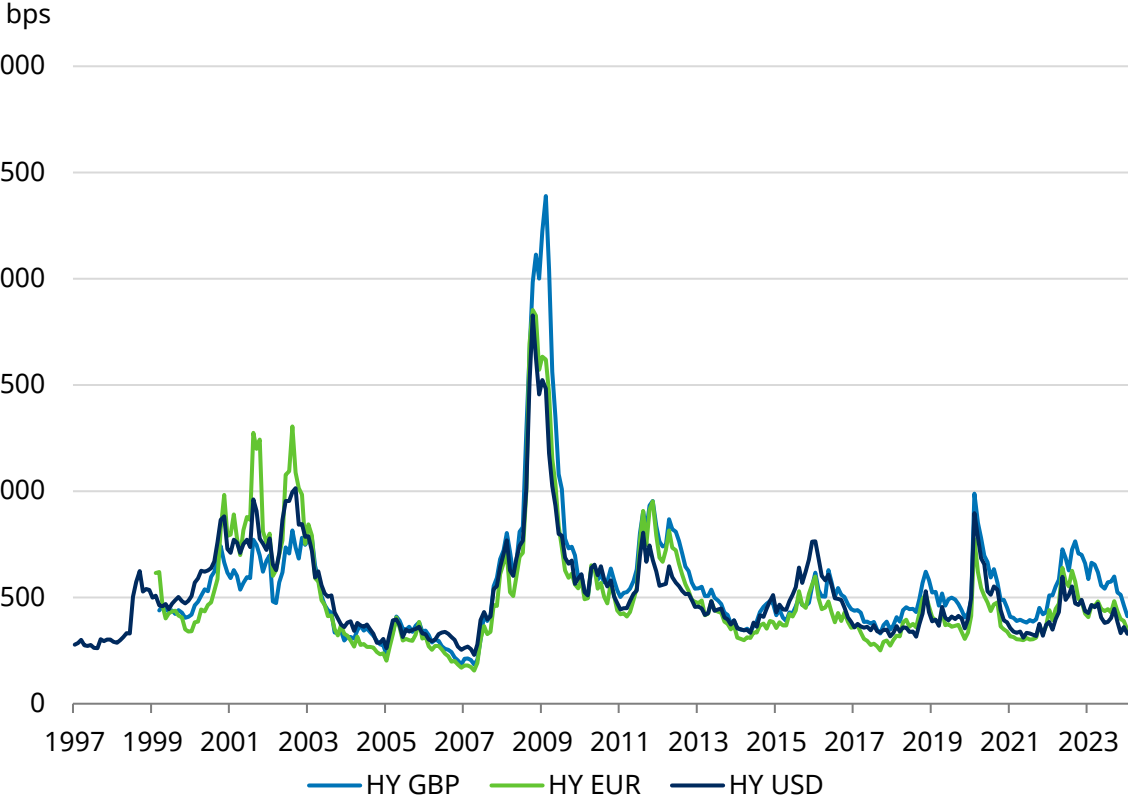
IG and HY valuation

Historical ratings-adjusted credit spreads

IG adjusted spreads



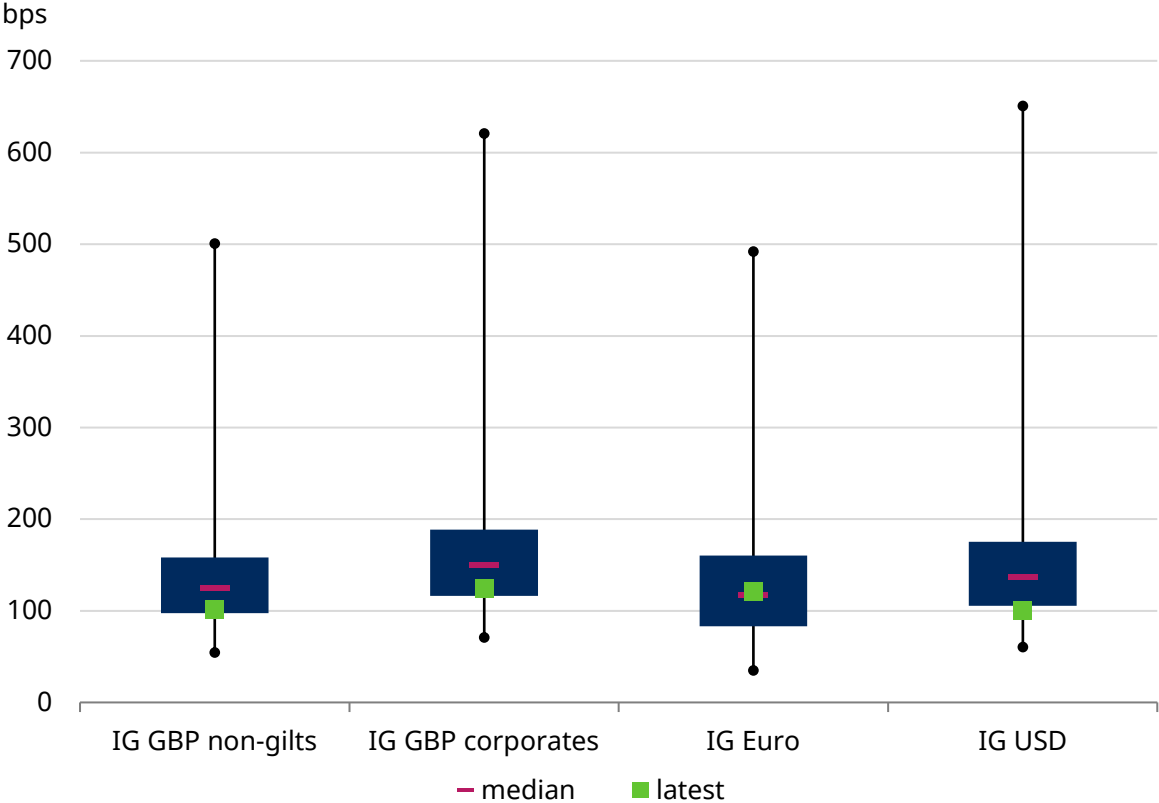
HY adjusted spreads



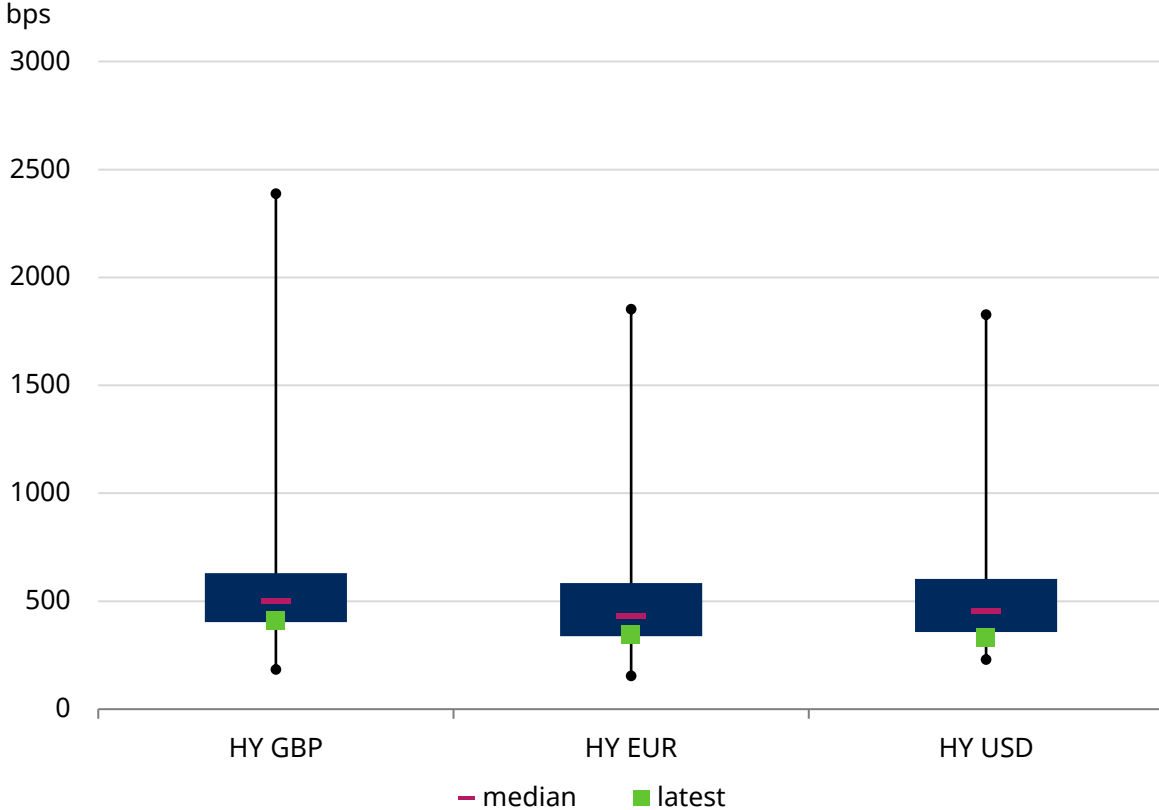
Source: Schroders, LSEG Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Please see relevant disclaimers on page 72. Spreads are adjusted for changes in the distribution of credit ratings within each index over time.

USD spreads are much tighter relative to history than is the case for EUR spreads

IG adjusted spreads vs. government bonds¹



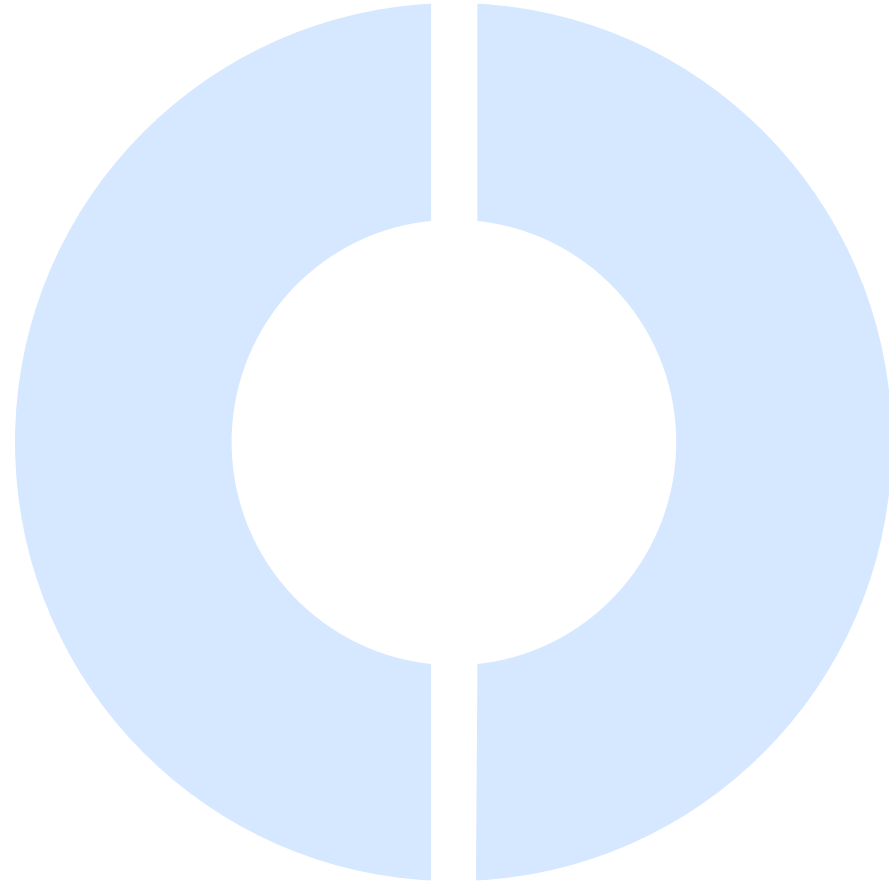
HY adjusted spreads vs. government bonds¹



Source: Schroders, LSEG Datastream, ICE Data Indices, J.P. Morgan. Data as at 29 February 2024. Spreads are adjusted for changes in the distribution of credit ratings within each index over time. Please see relevant disclaimers on page 72.

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



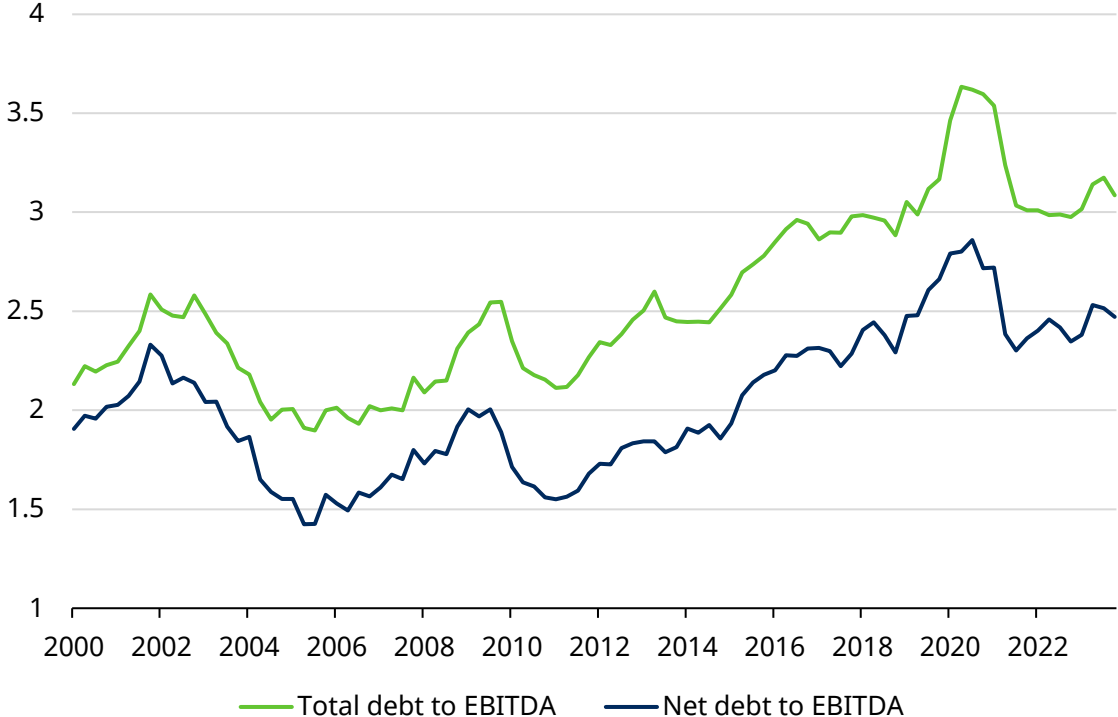
Corporate credit
Fundamentals

US IG leverage

Leverage broadly stable in recent quarters

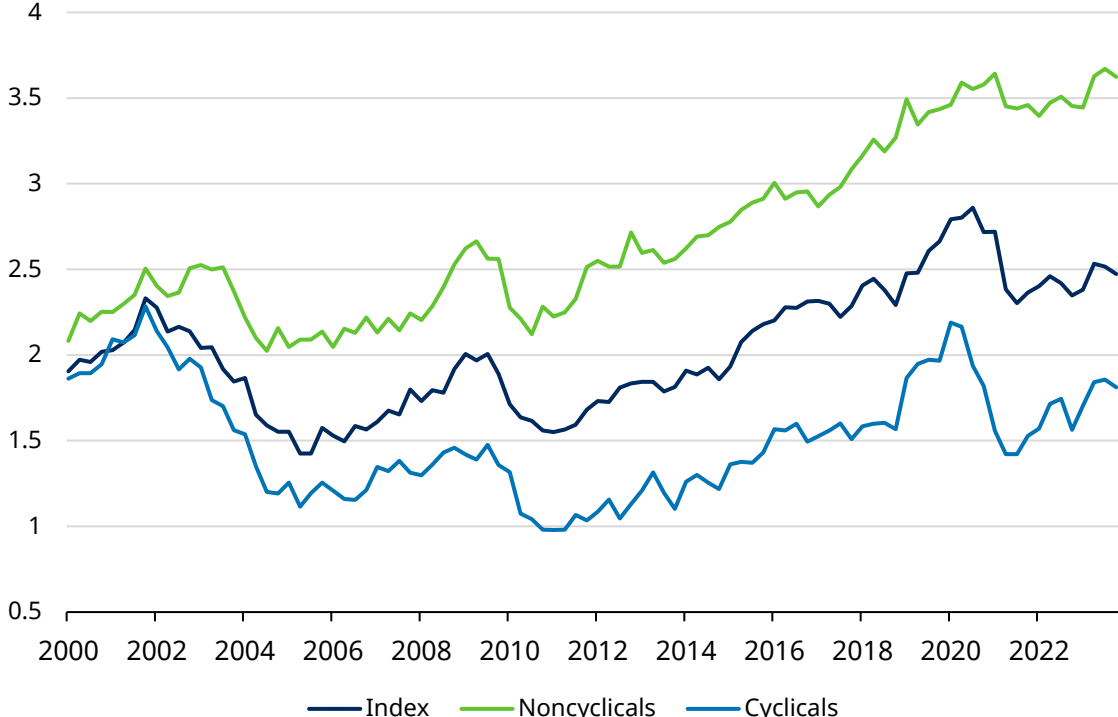
US IG leverage

Debt to last 12 months EBITDA



US IG net leverage

Net debt to last 12 months EBITDA



Net leverage for non-cyclicals is around a record high

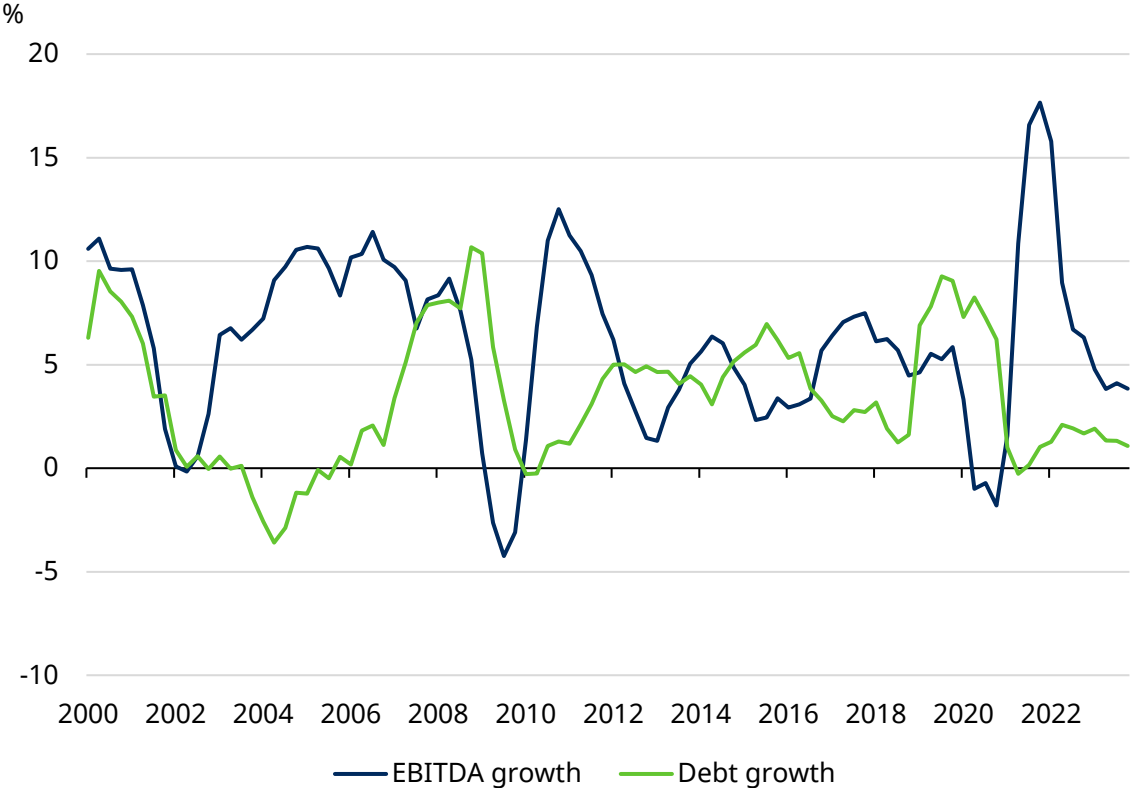
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

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

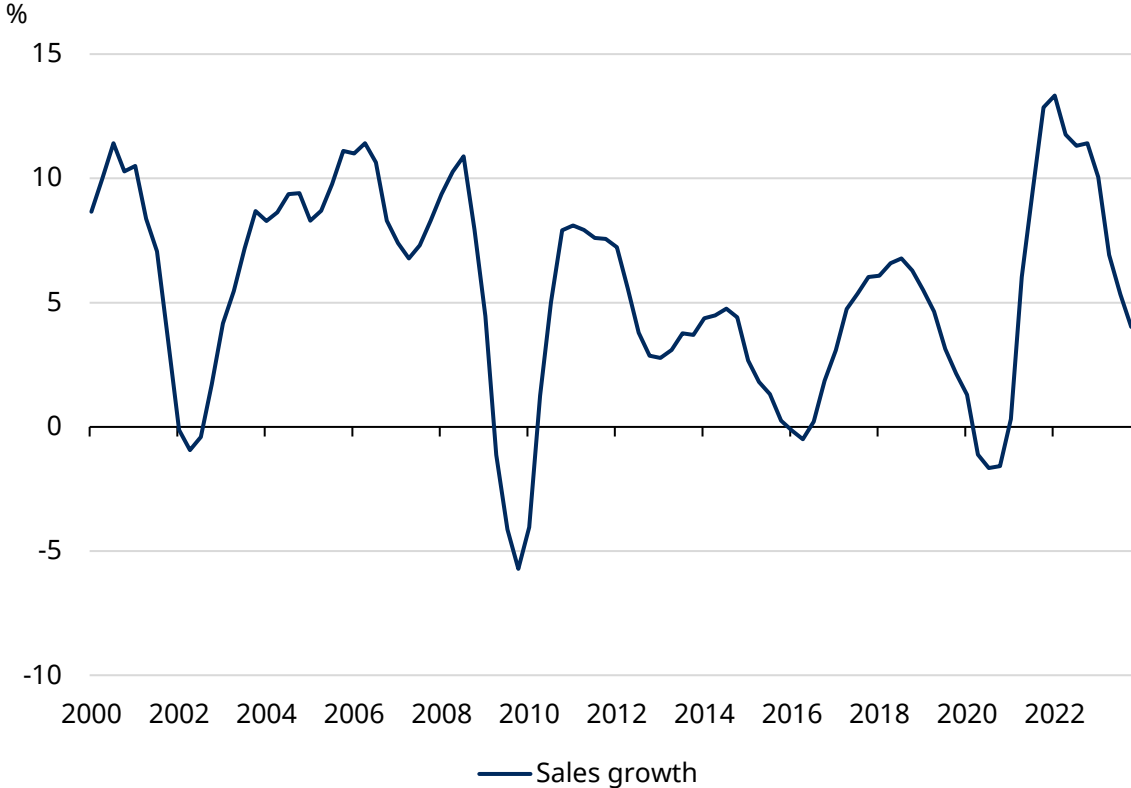
US IG earnings, sales and debt growth

Earnings and sales growth have slowed to more typical levels

US IG EBITDA and debt growth (last 12 months)



US IG sales growth (last 12 months)



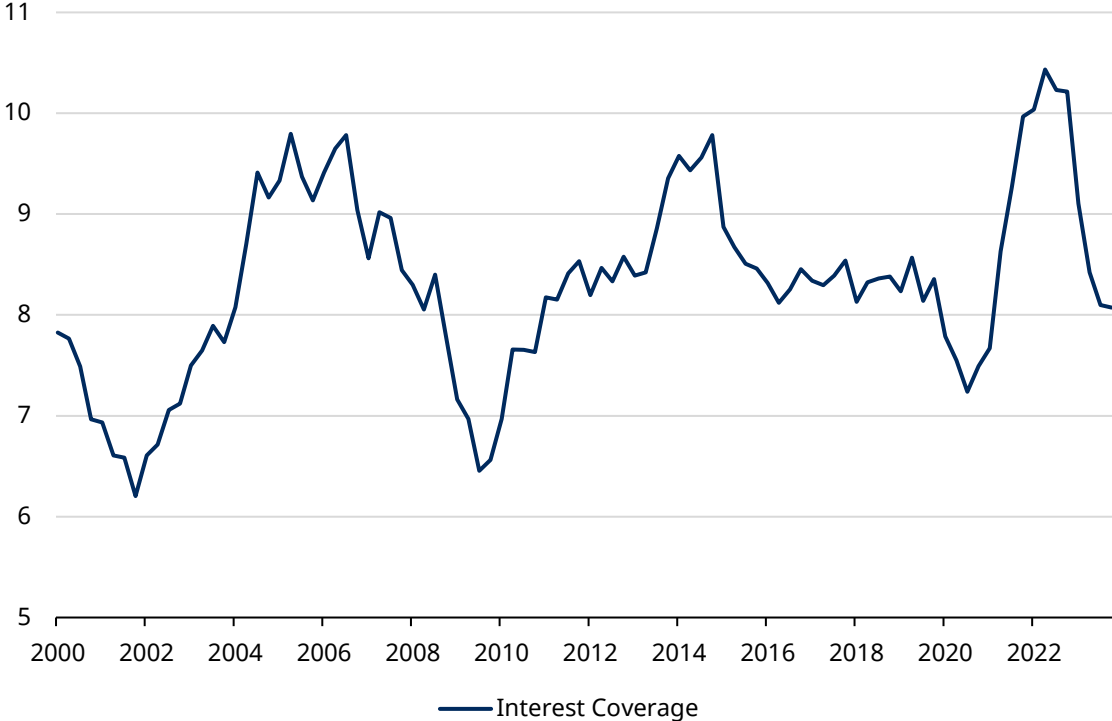
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

US IG interest coverage

Interest coverage has declined towards more typical levels

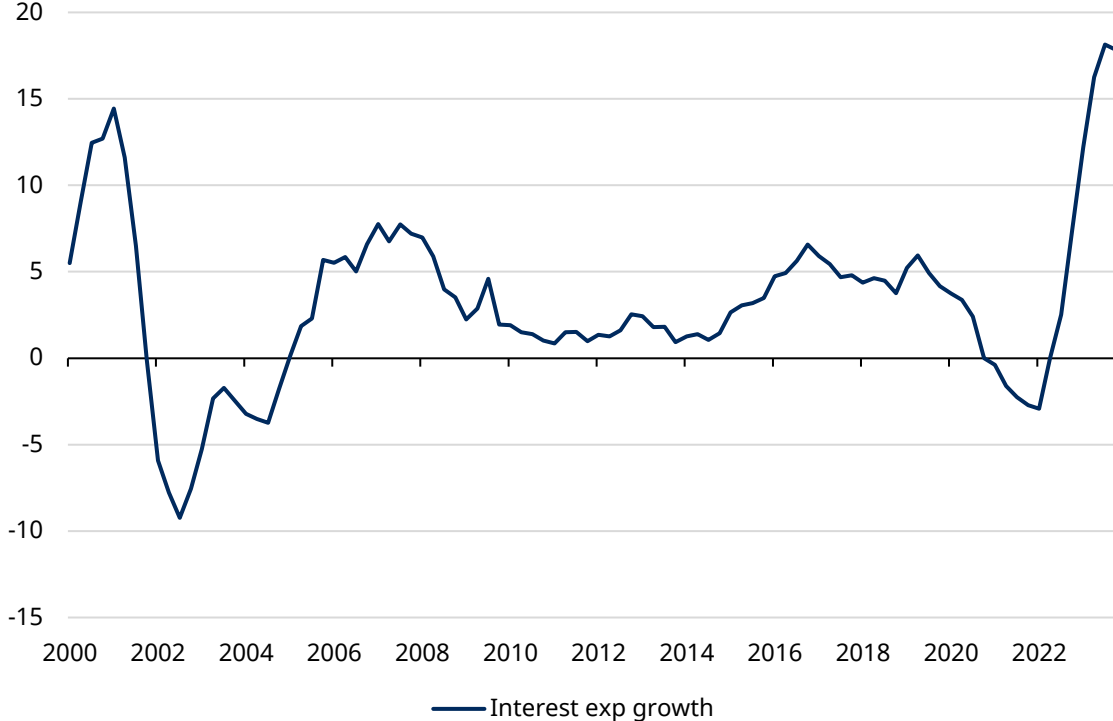
US IG interest coverage ratio

Last 12 months EBITDA to interest expense



US IG annual interest expense growth

%



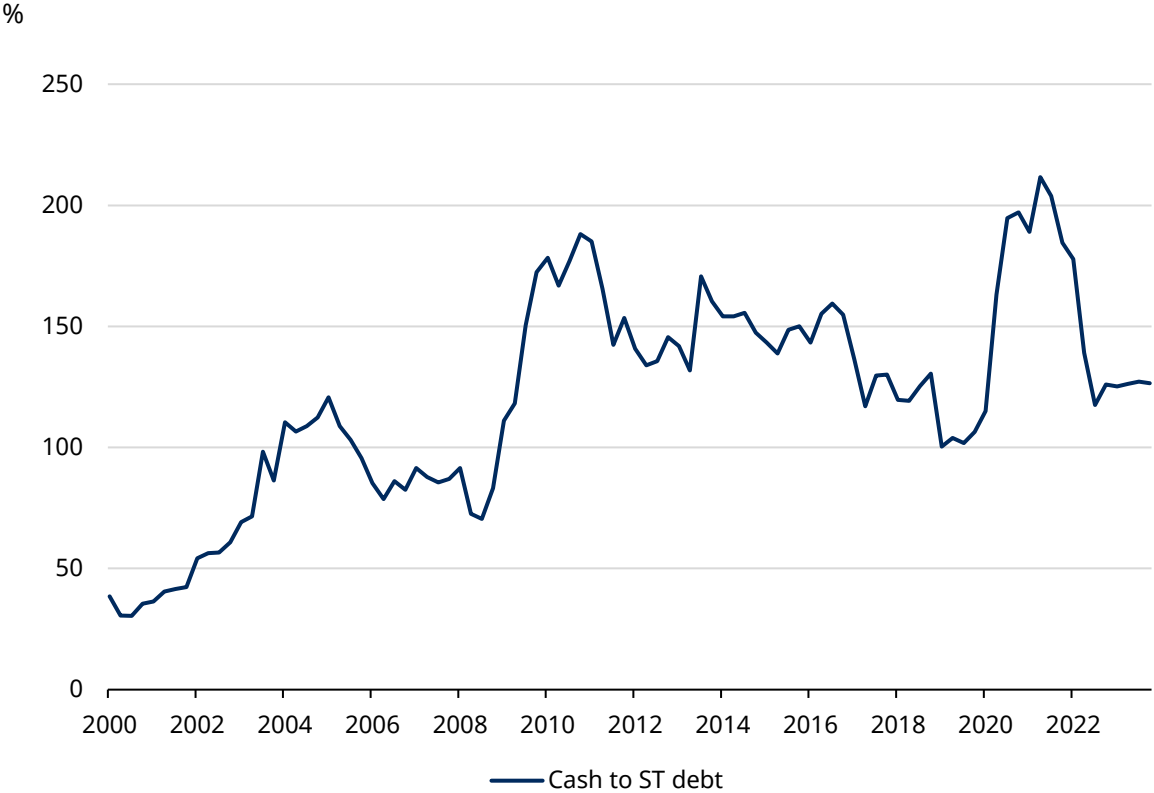
Interest expense growth is the highest in over two decades

Source: Schrodgers, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

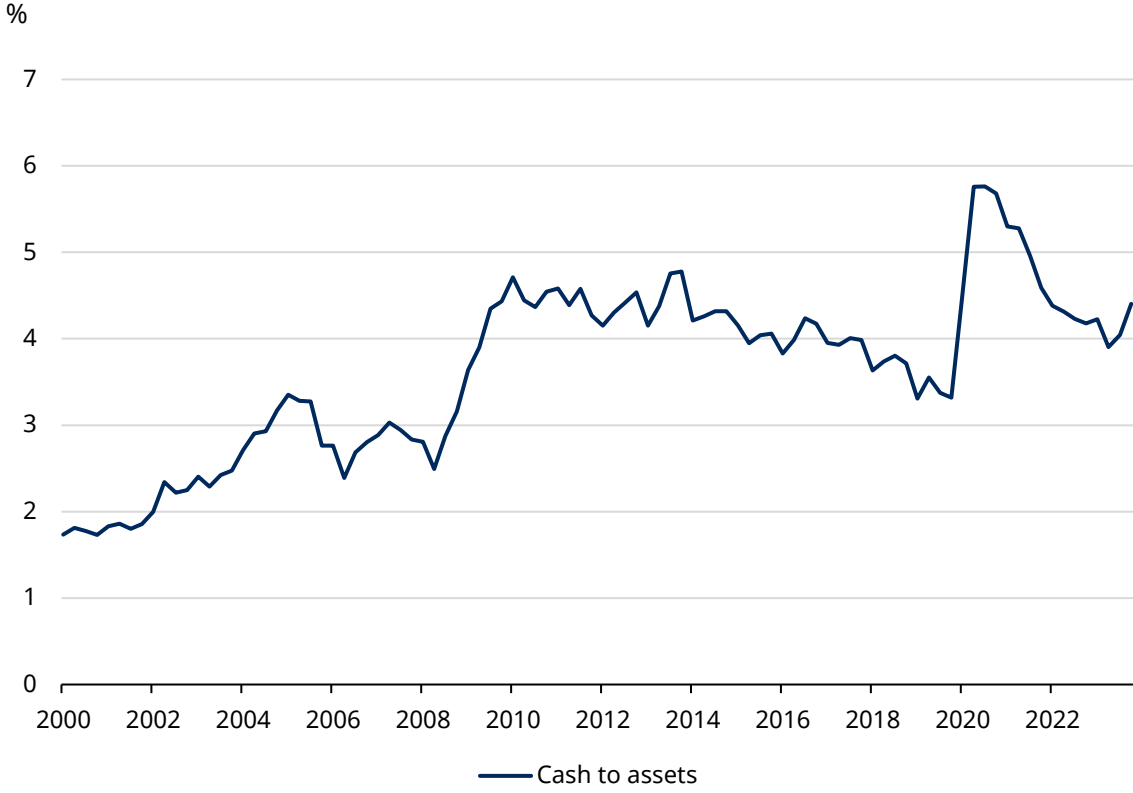
US IG cash balances

Cash balances broadly stable in recent quarters

US IG cash to short term debt



US IG cash to assets

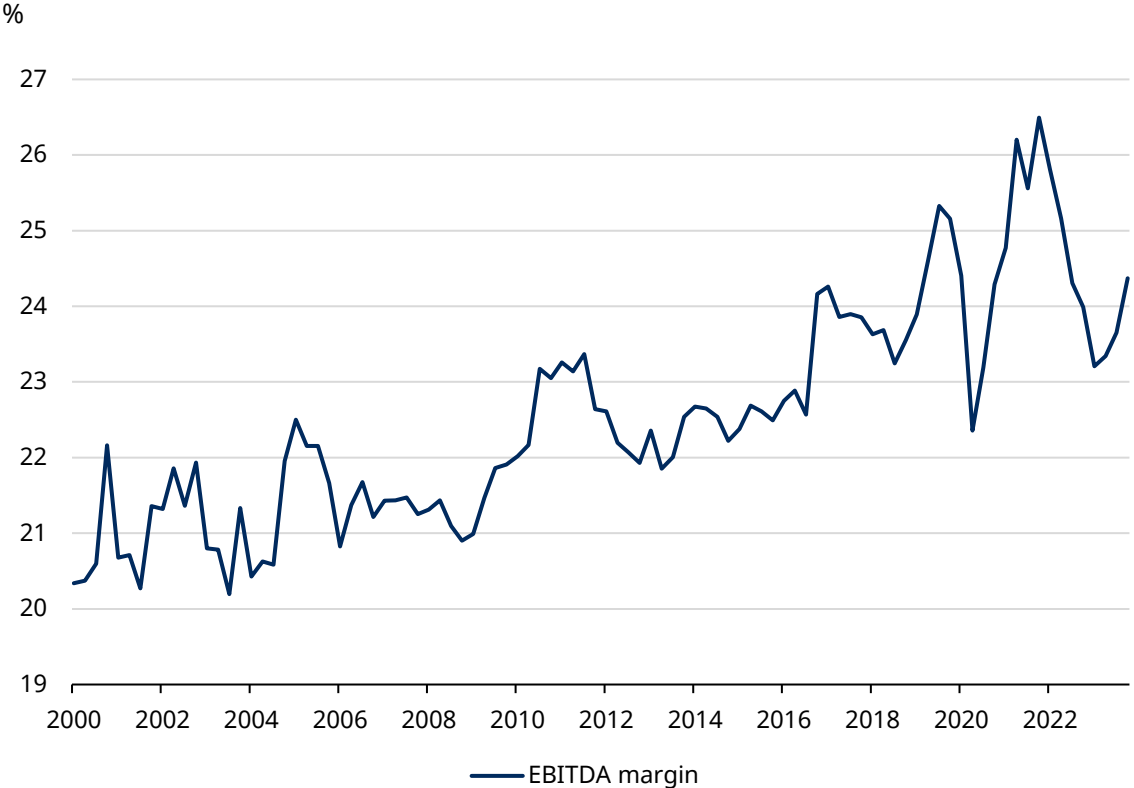


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

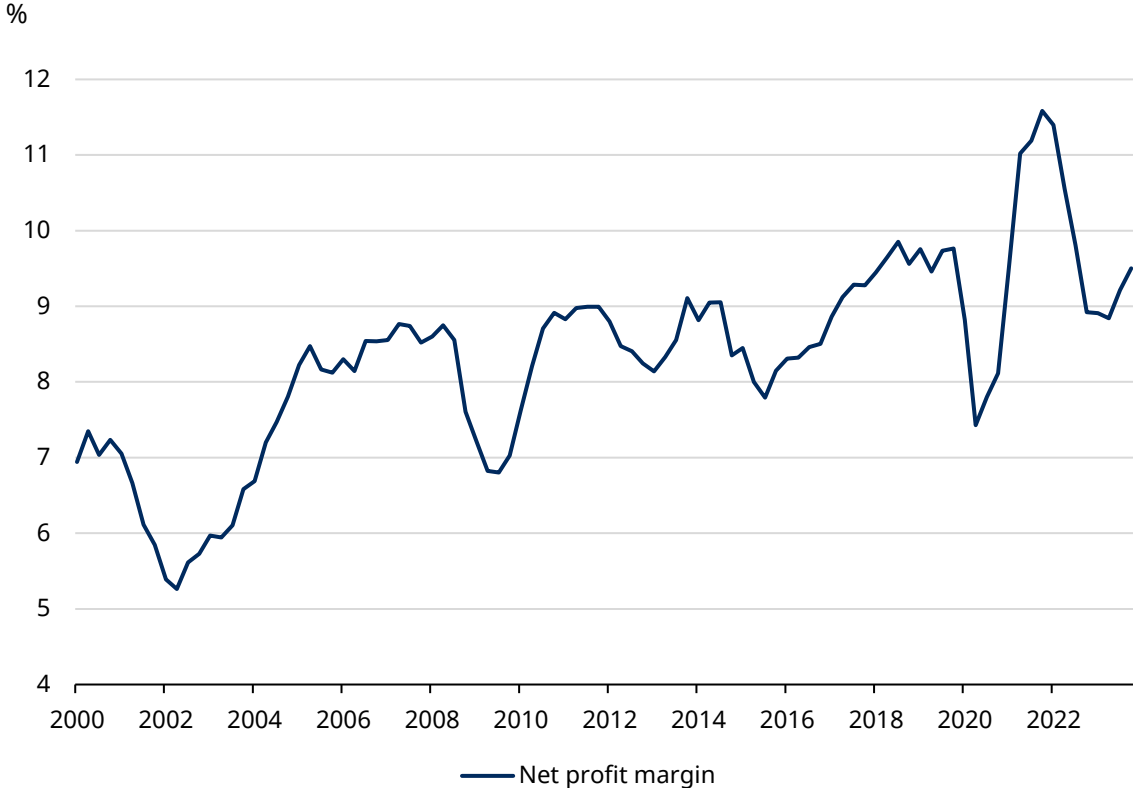
US IG corporate margins

Margins have ticked-up in recent quarters

US IG EBITDA margin



US IG net profit margin



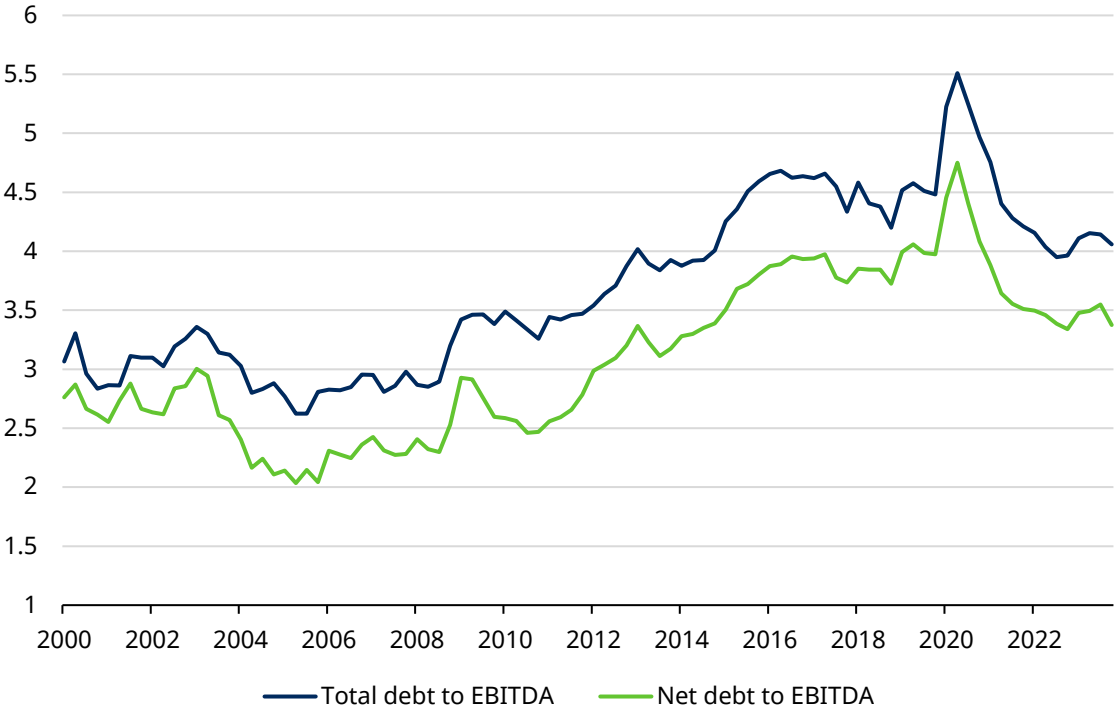
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

US HY leverage

Leverage broadly stable and remains below levels seen in the run up to the pandemic

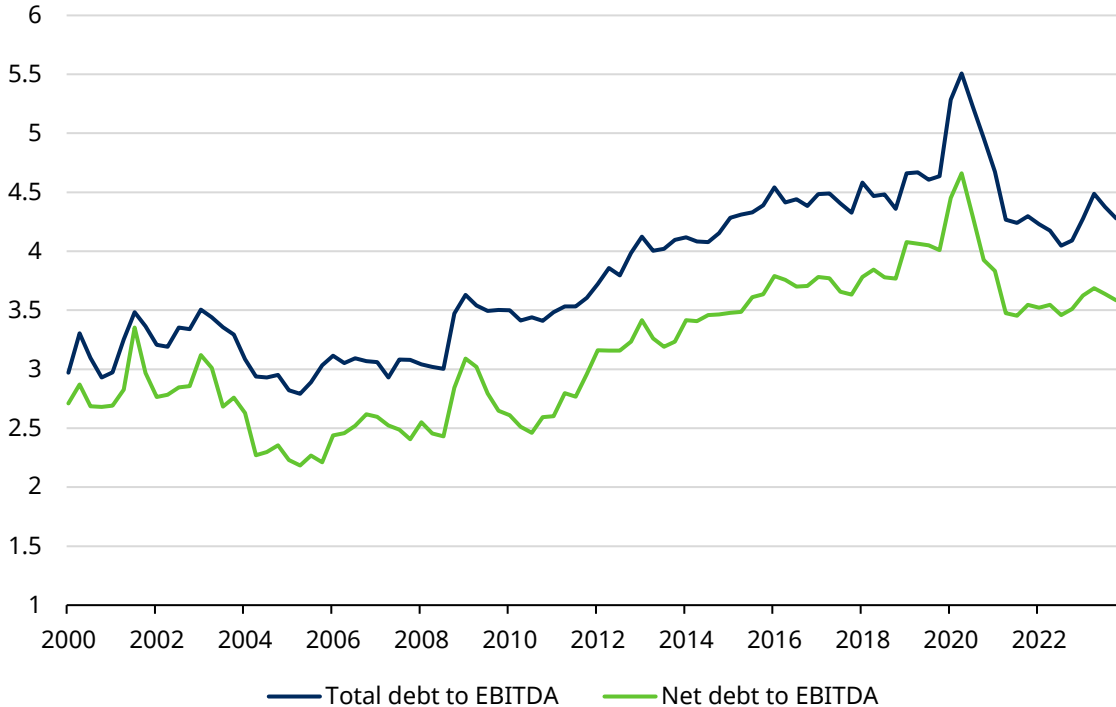
US HY leverage

Debt to last 12 months EBITDA



US HY ex-energy leverage

Debt to last 12 months EBITDA

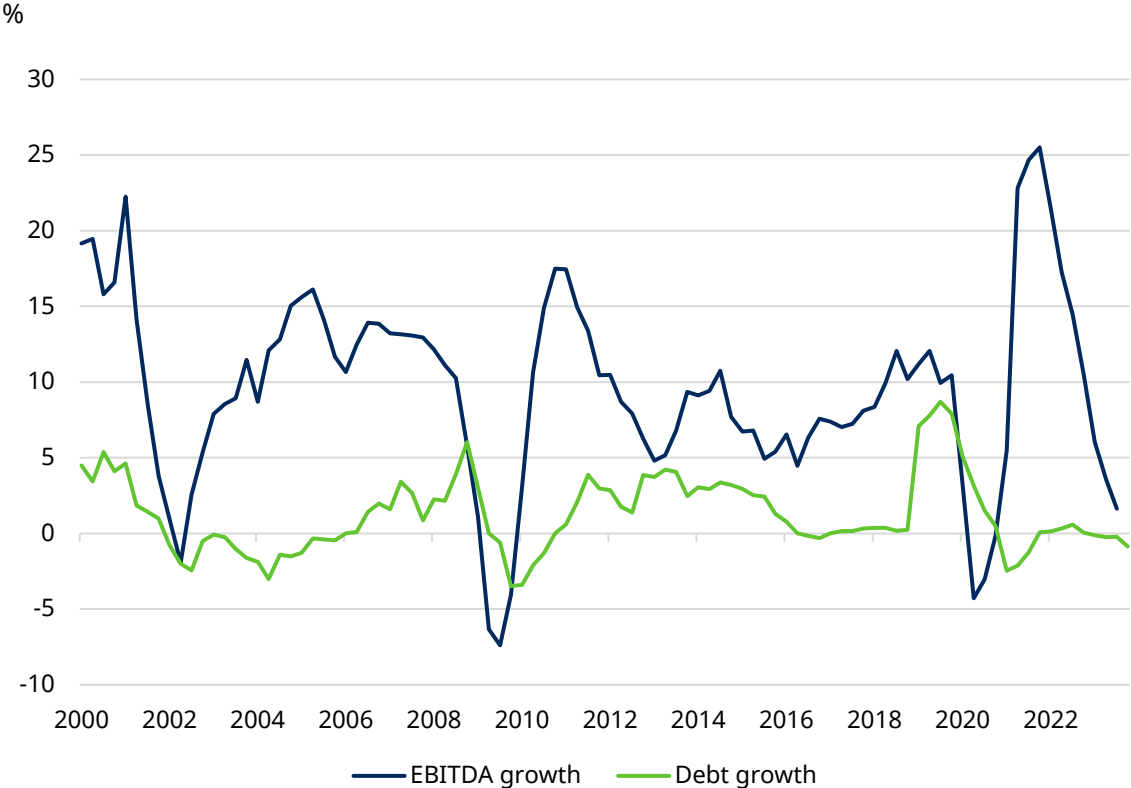


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

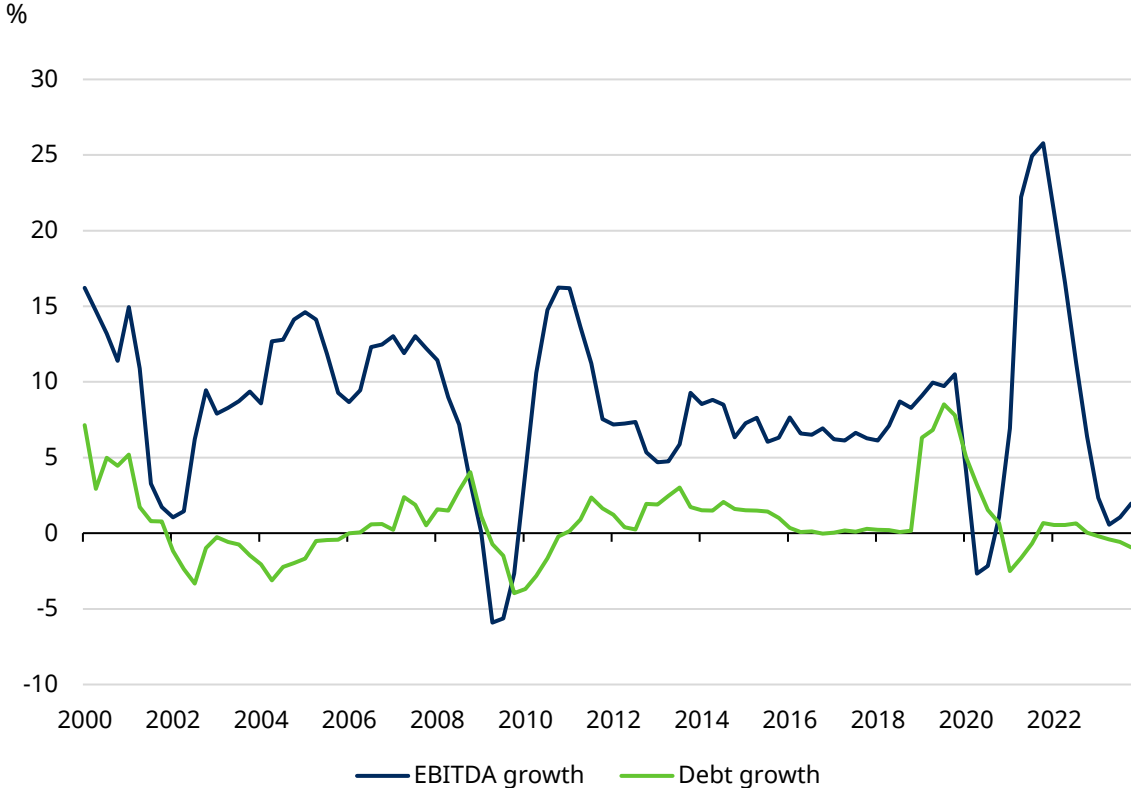
US HY earnings and debt growth

EBITDA growth has slowed, while debt growth remained close to zero

US HY EBITDA and debt growth (last 12 months)⁽¹⁾



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



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

(1) EBITDA growth data goes to Q3 2023 due to a potential data discrepancy in Q4 data.

US HY interest coverage

Interest coverage has declined towards more typical levels

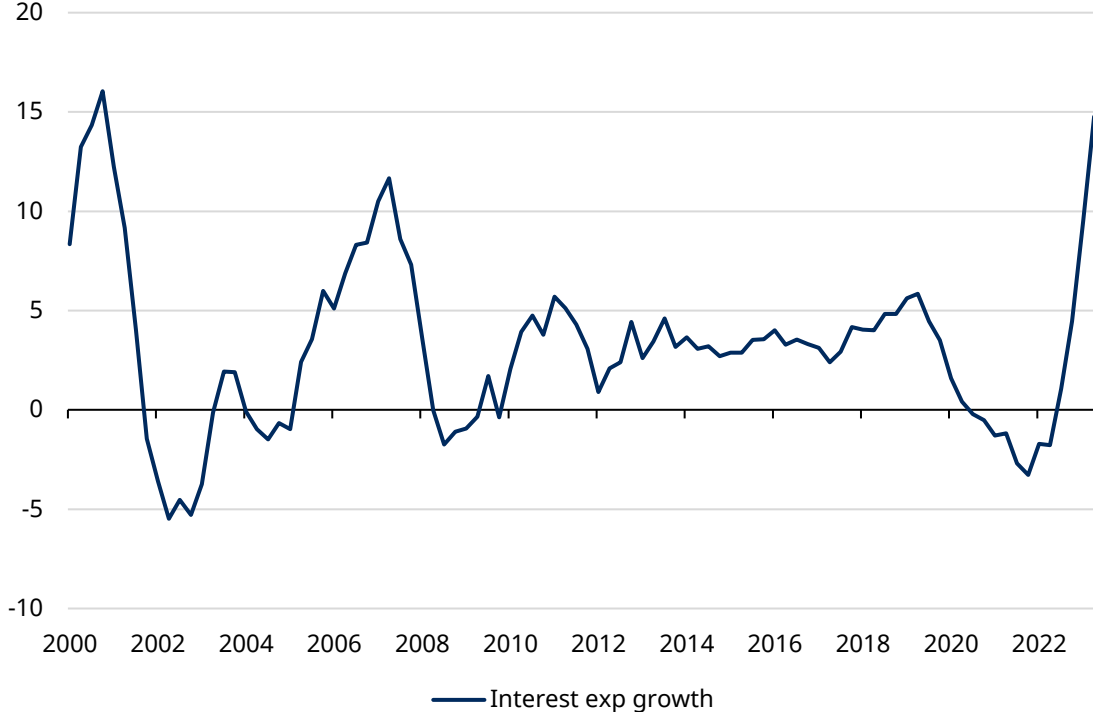
US HY interest coverage ratio

Last 12 months EBITDA to interest expense



US HY annual interest expense growth

%



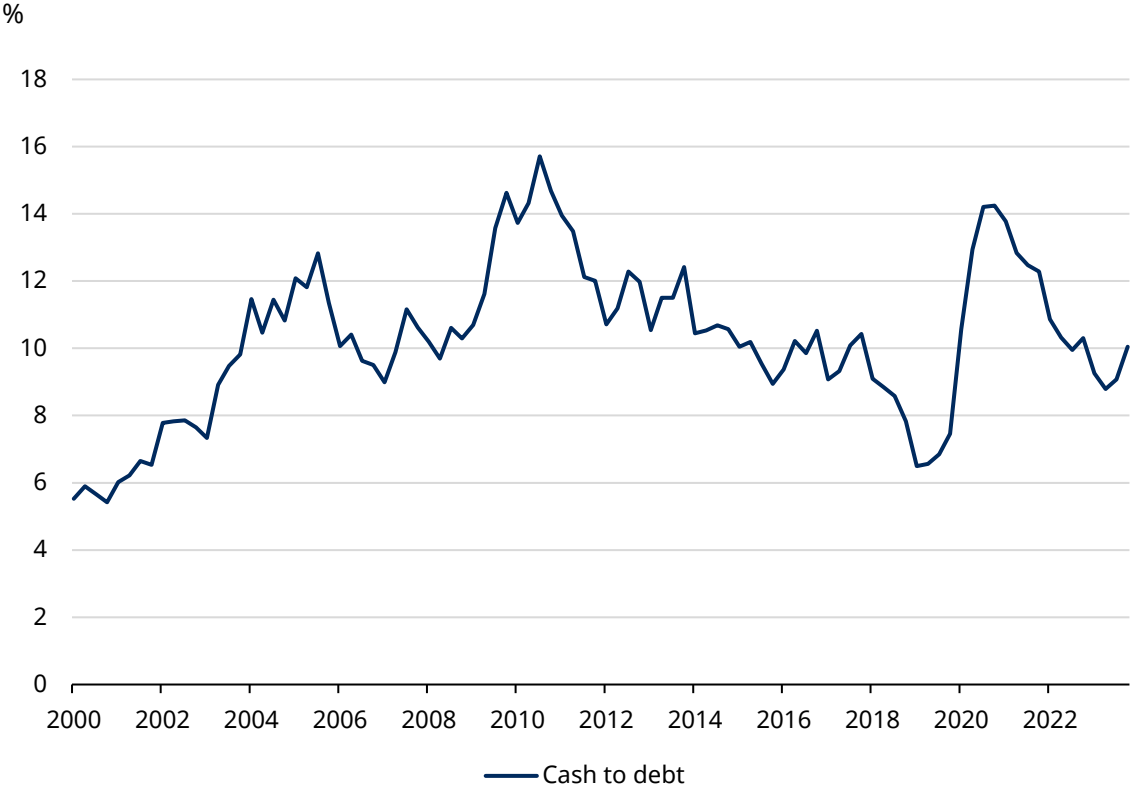
Interest expense growth is the highest in over two decades

Source: Schroders, Bloomberg, Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

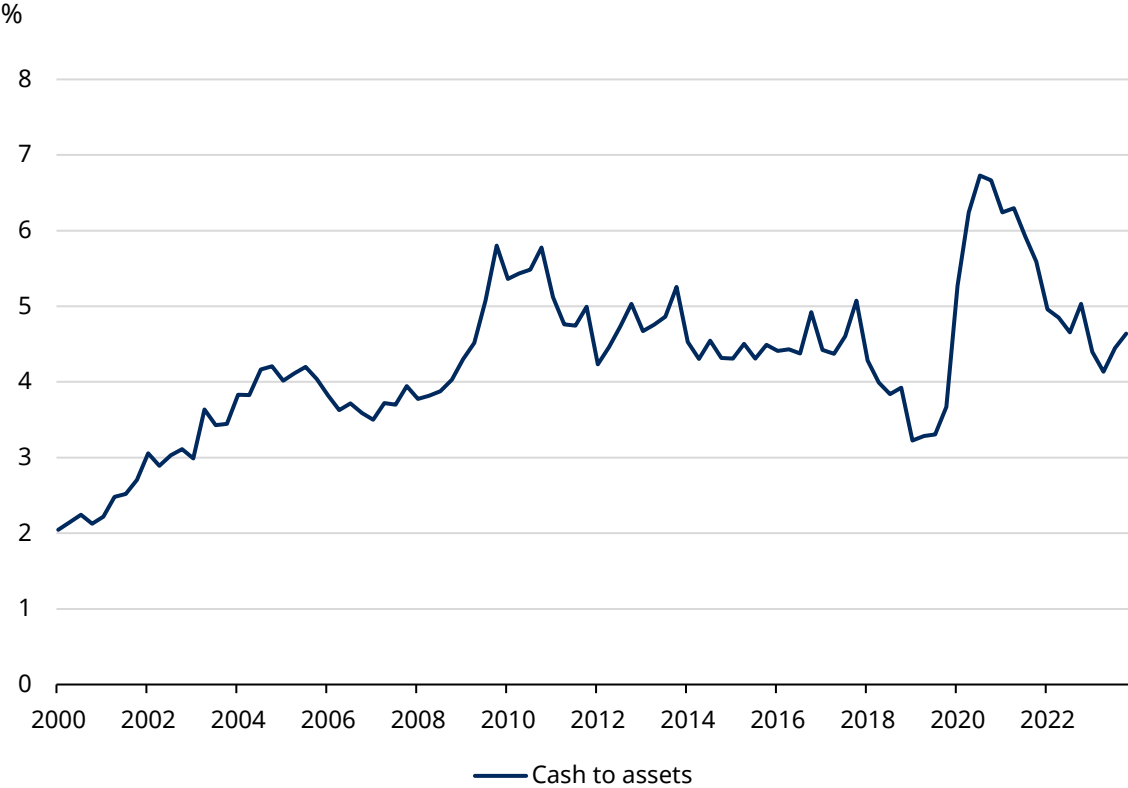
US HY cash levels

Cash balances ticked up in recent quarters, and are around long-run average levels

US HY cash to debt



US HY cash to assets

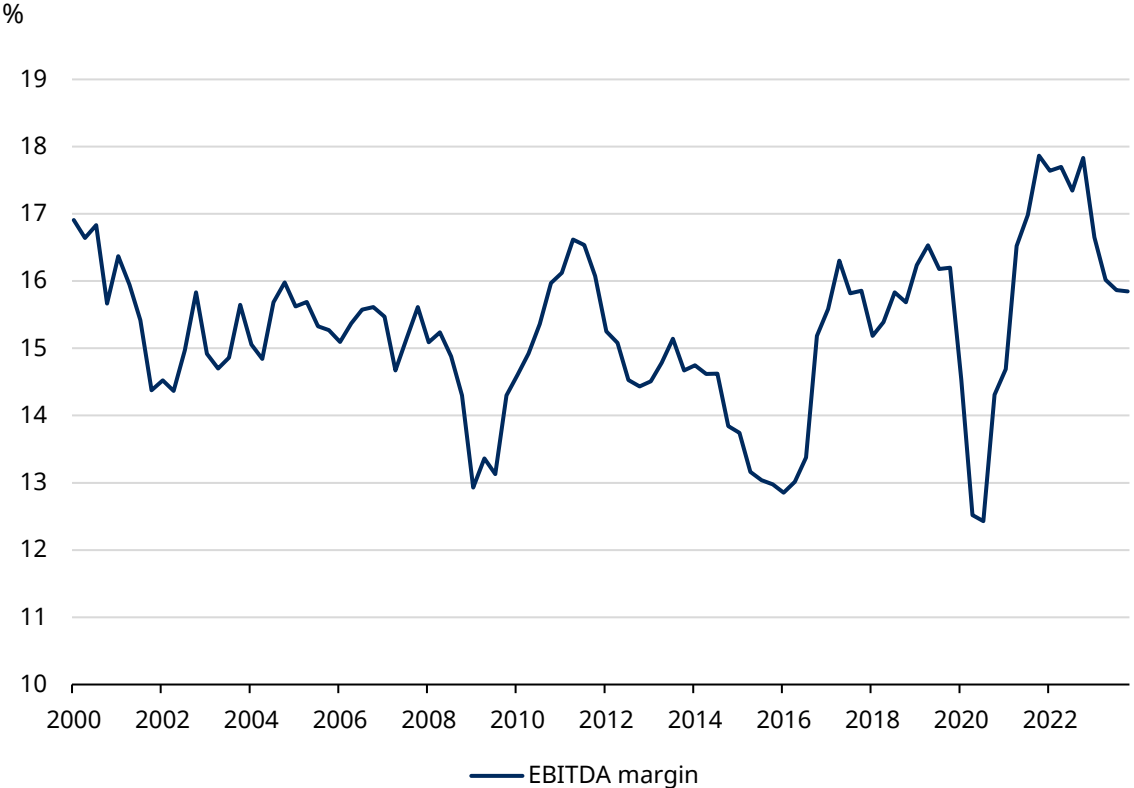


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

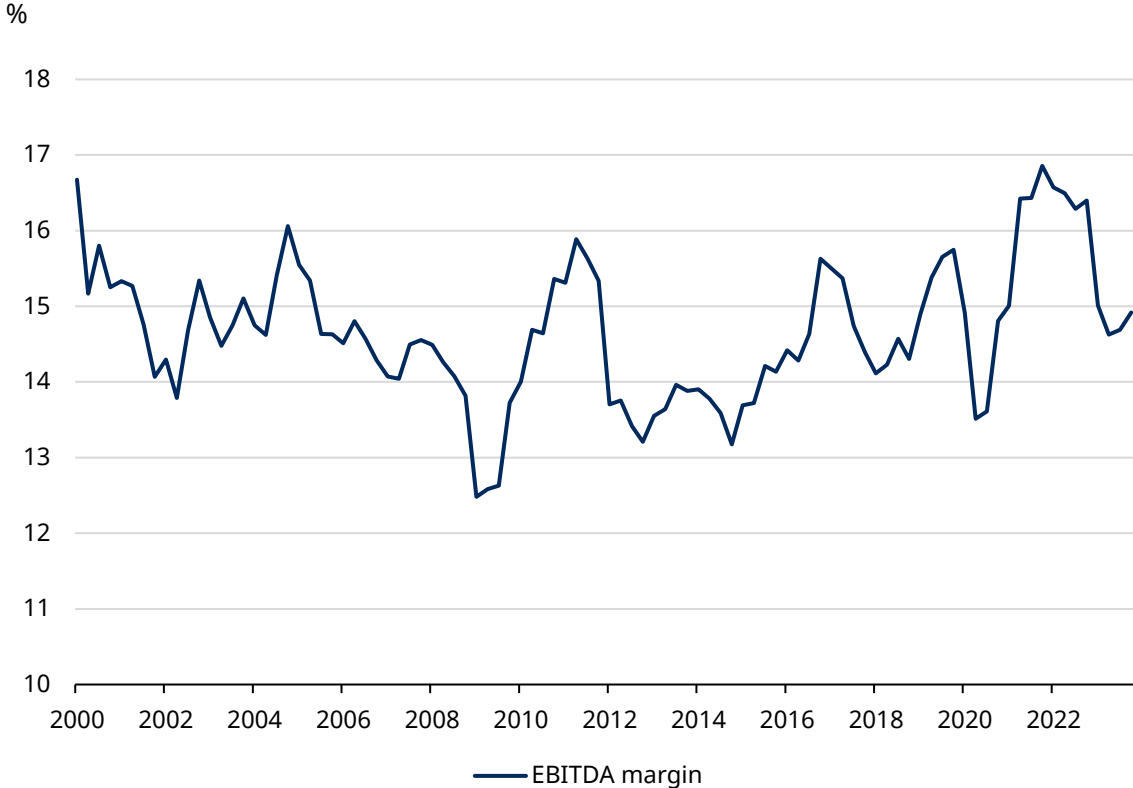
US HY corporate margins

EBITDA margins broadly stable in recent quarters

US HY EBITDA margin



US HY ex-energy EBITDA margin



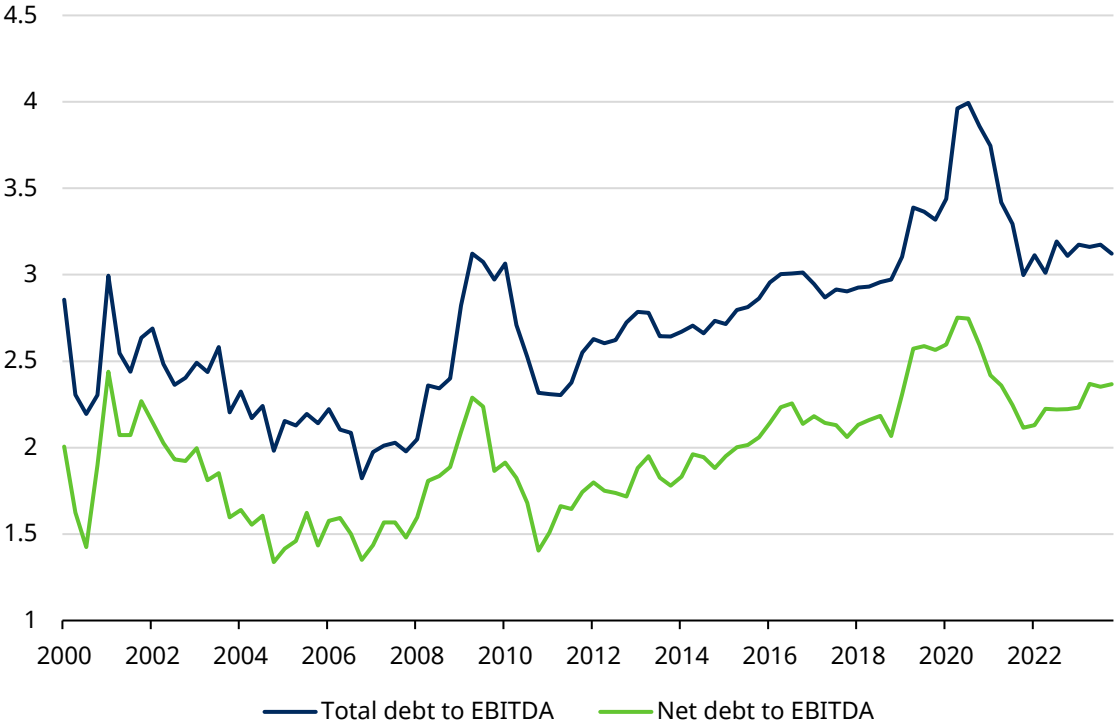
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Euro IG leverage, earnings and debt growth

Leverage has been broadly stable in recent quarters

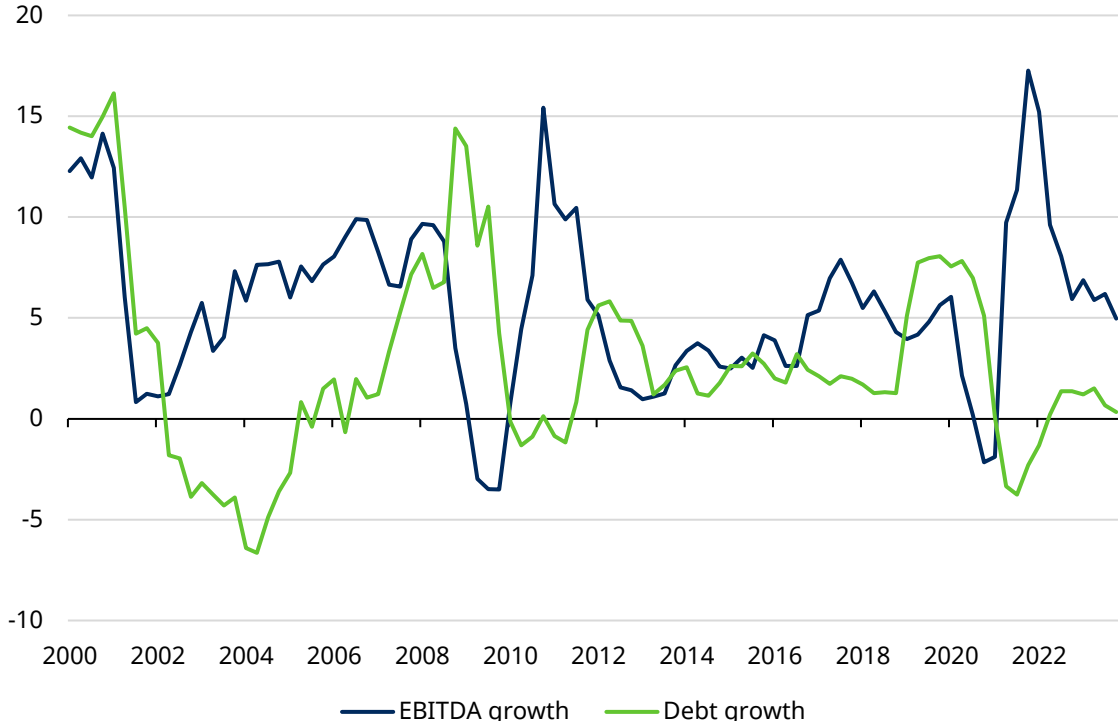
Euro IG leverage

Debt to last 12 months EBITDA



Euro IG EBITDA and debt growth (last 12 months)

%



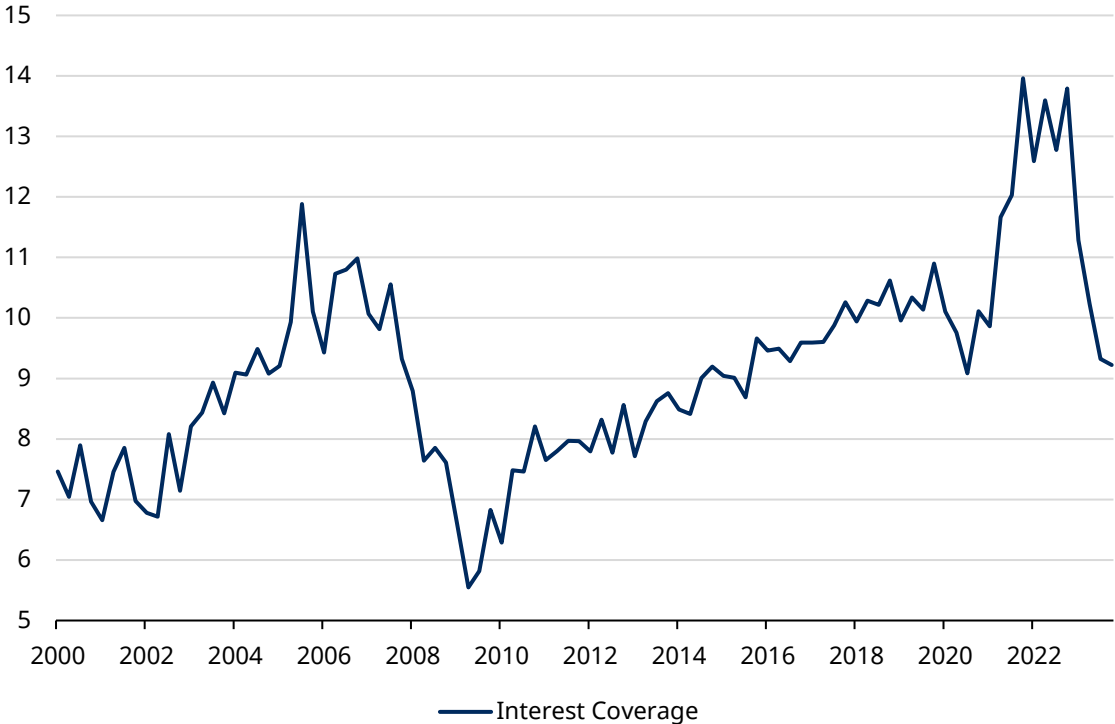
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Euro IG interest coverage

Interest coverage has declined to pre-covid levels

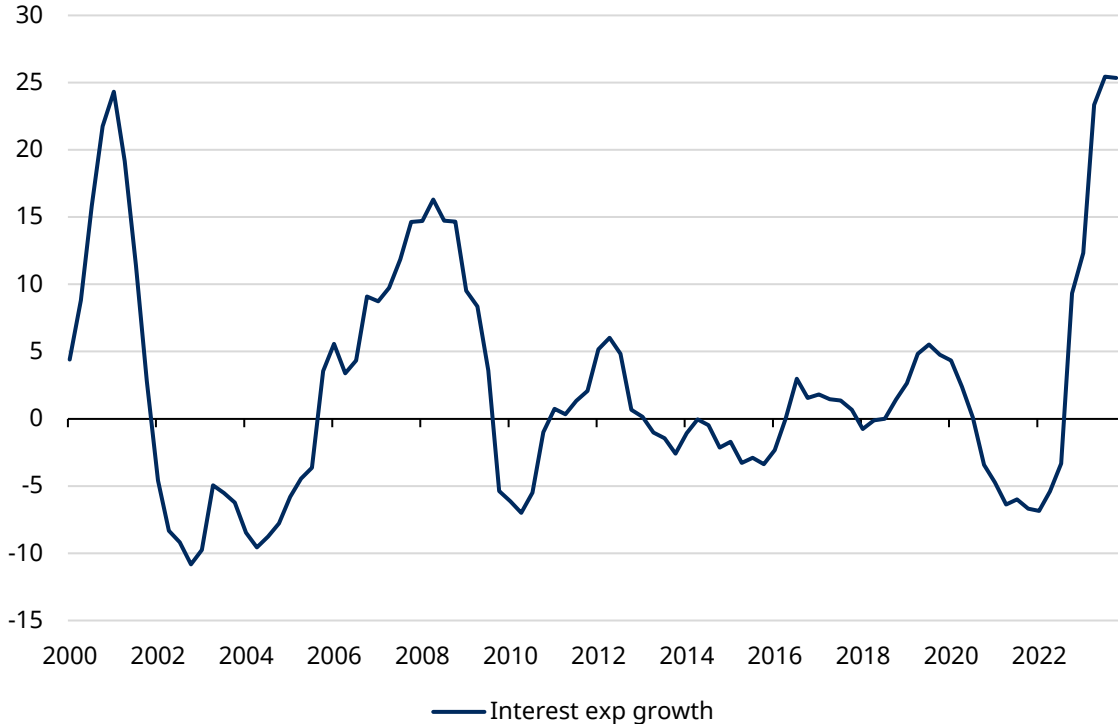
Euro IG interest coverage ratio

Last 12 months EBITDA to interest expense



Euro IG annual interest expense growth

%



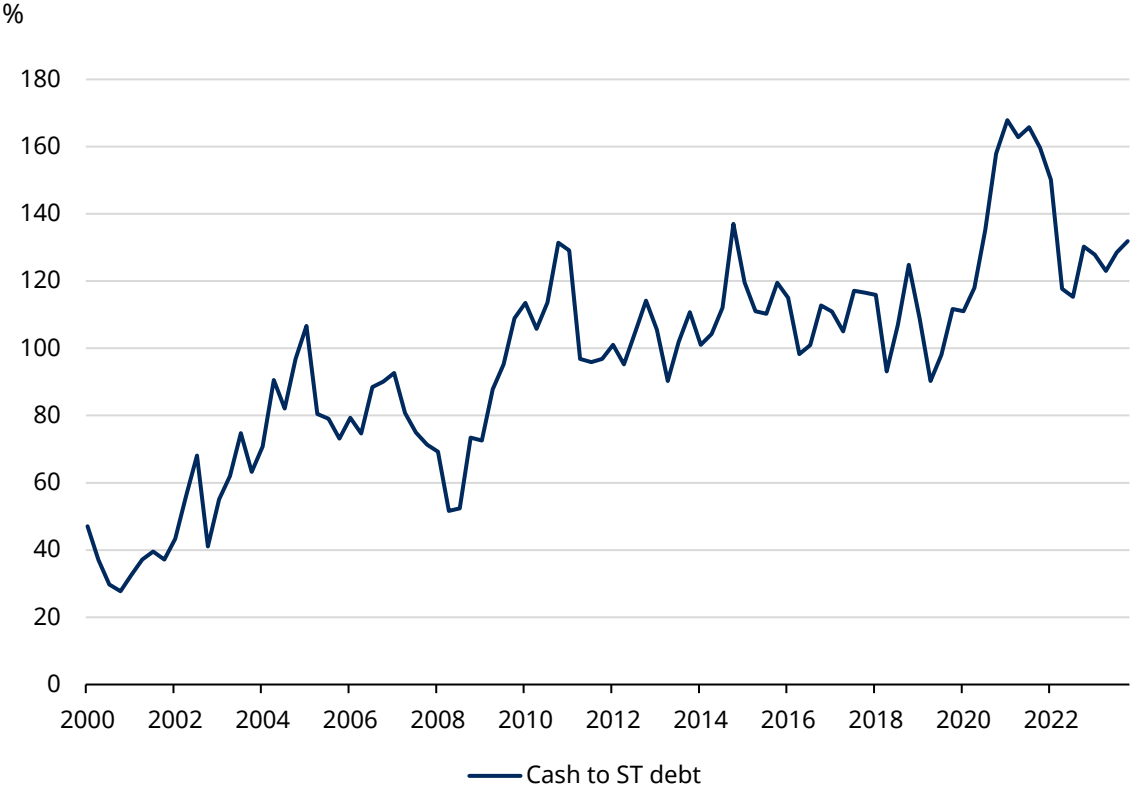
Interest expense growth is the highest in over two decades

Source: Schroders, Bloomberg, Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

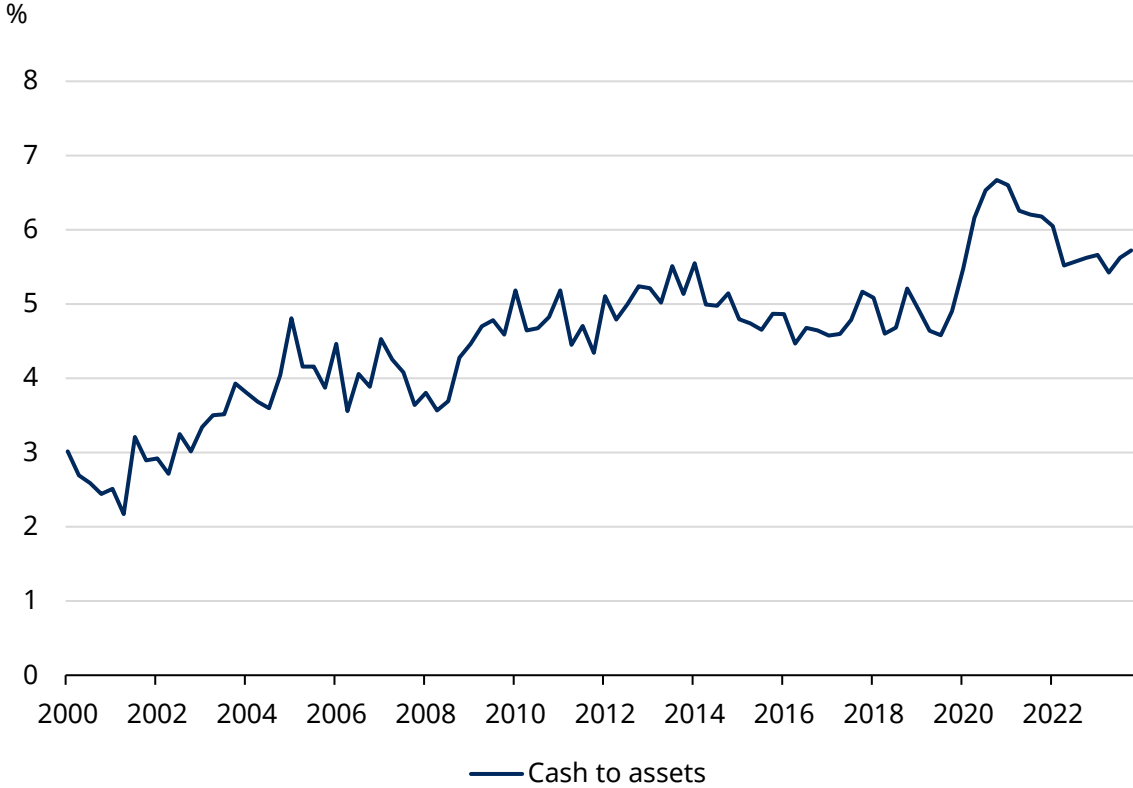
Euro IG cash levels

Cash levels have fallen from peaks but remain above pre-covid levels

Euro IG cash to short term debt



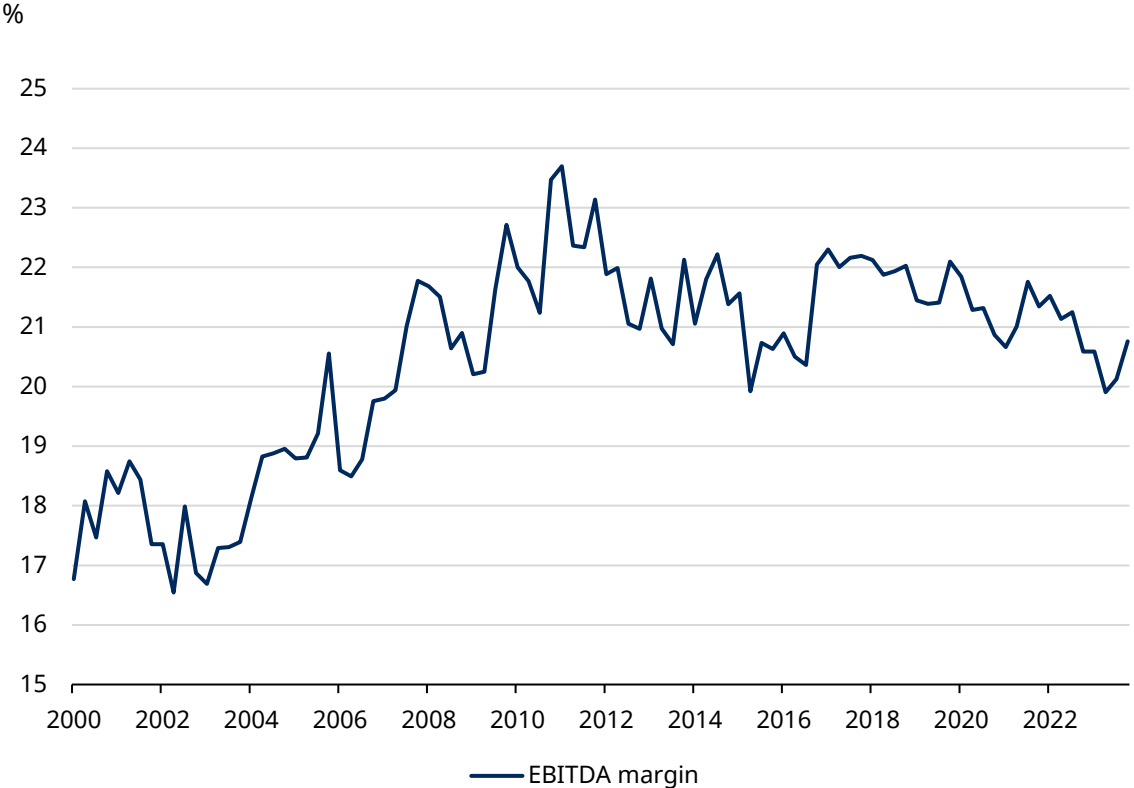
Euro IG cash to assets



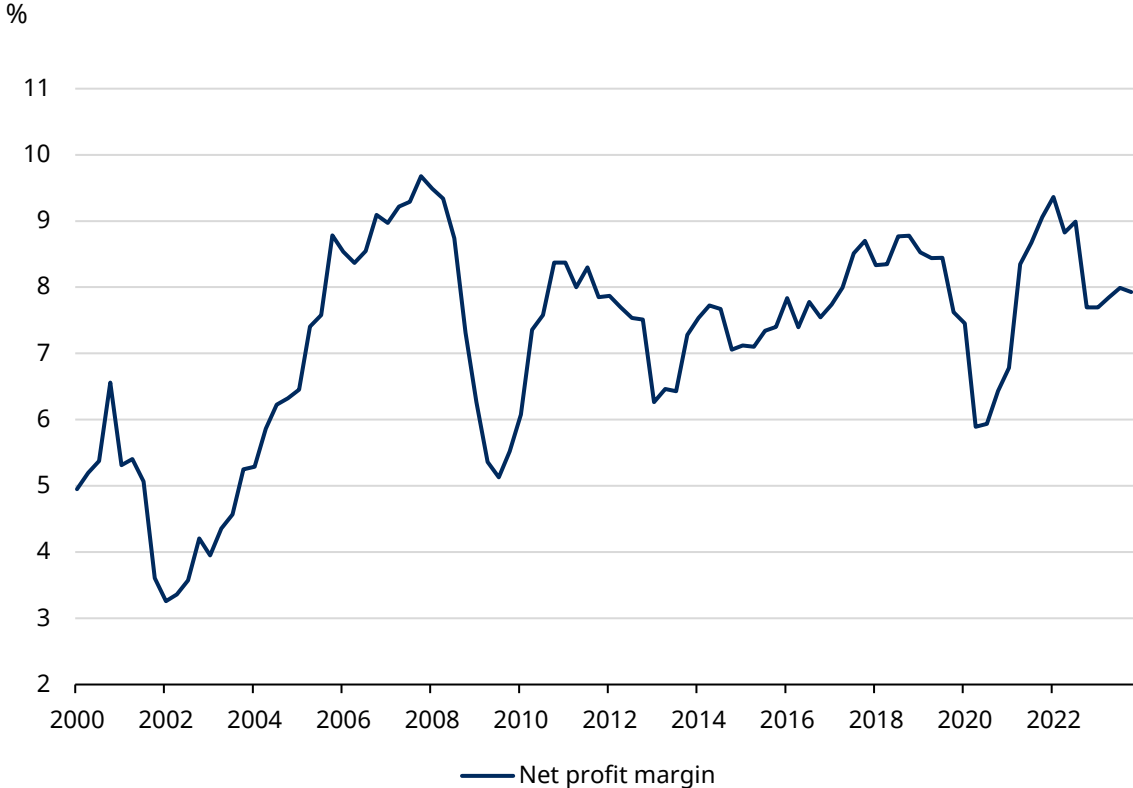
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Euro IG corporate margins

Euro IG EBITDA margin



Euro IG net profit margin



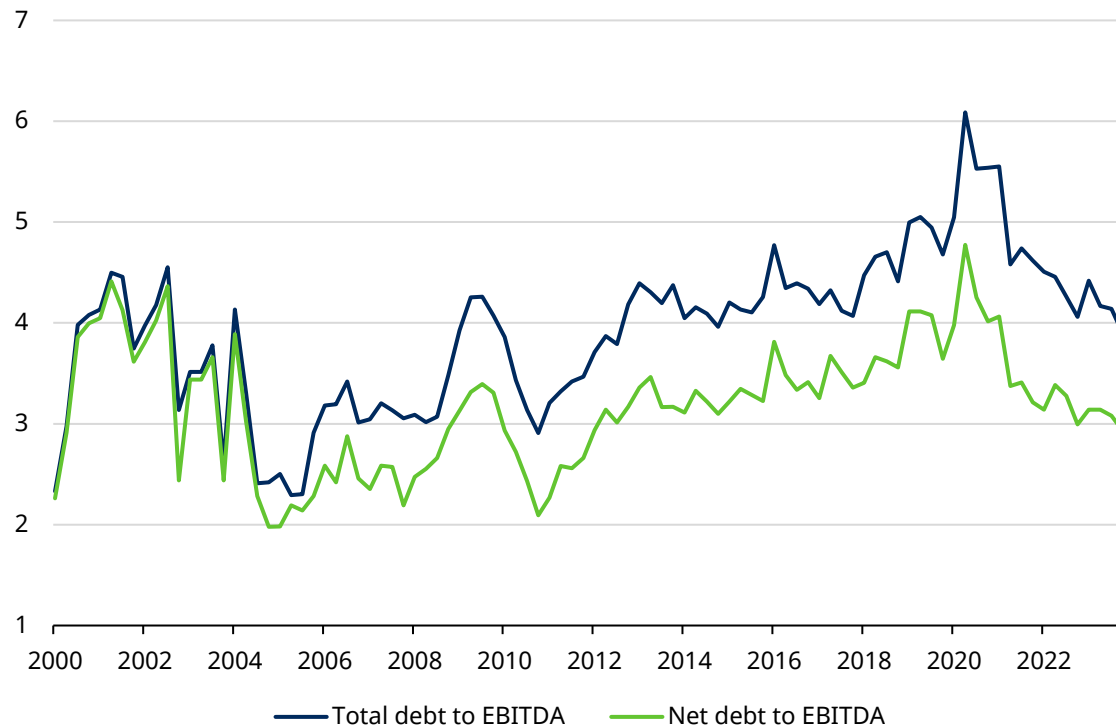
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Euro HY leverage

Leverage around lowest levels in over a decade

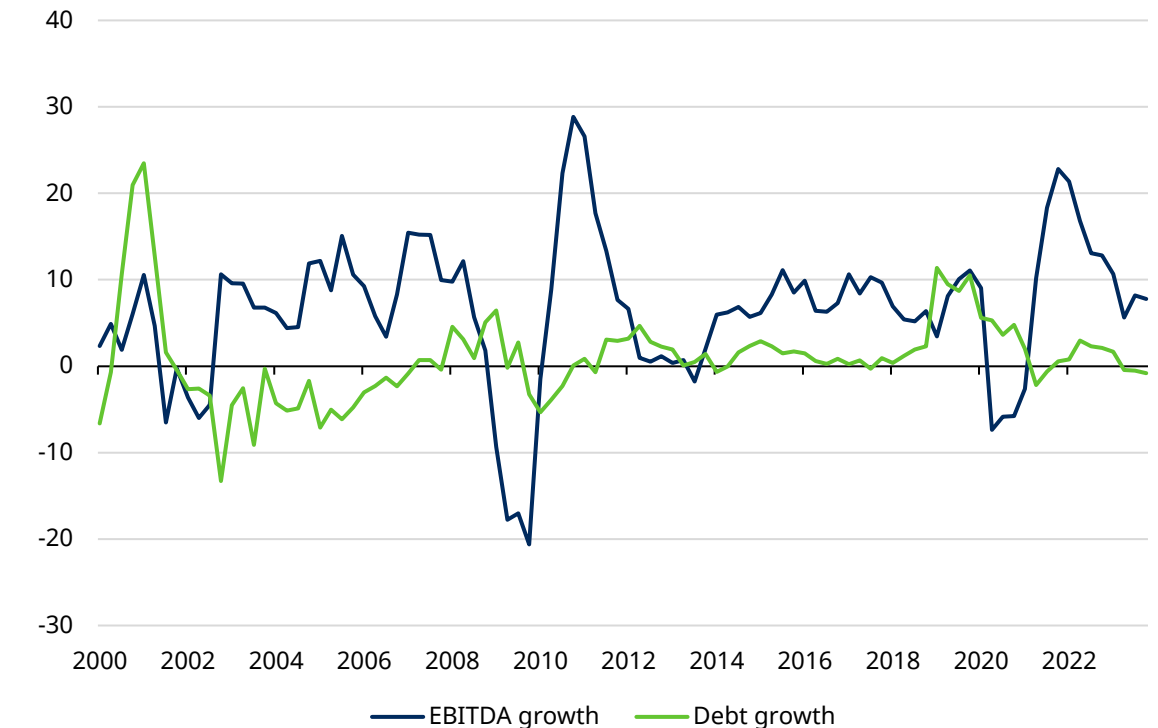
Euro HY leverage

Debt to last 12 months EBITDA



Euro HY EBITDA and debt growth (last 12 months)

%



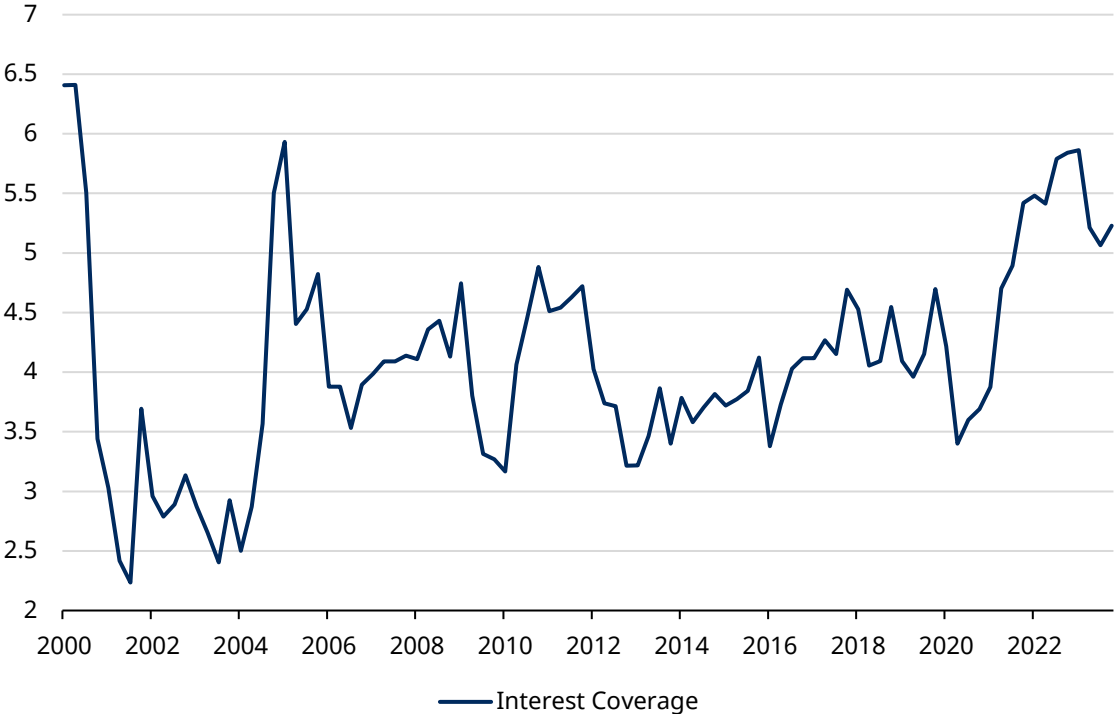
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Euro HY interest coverage

Interest coverage has declined but remains elevated

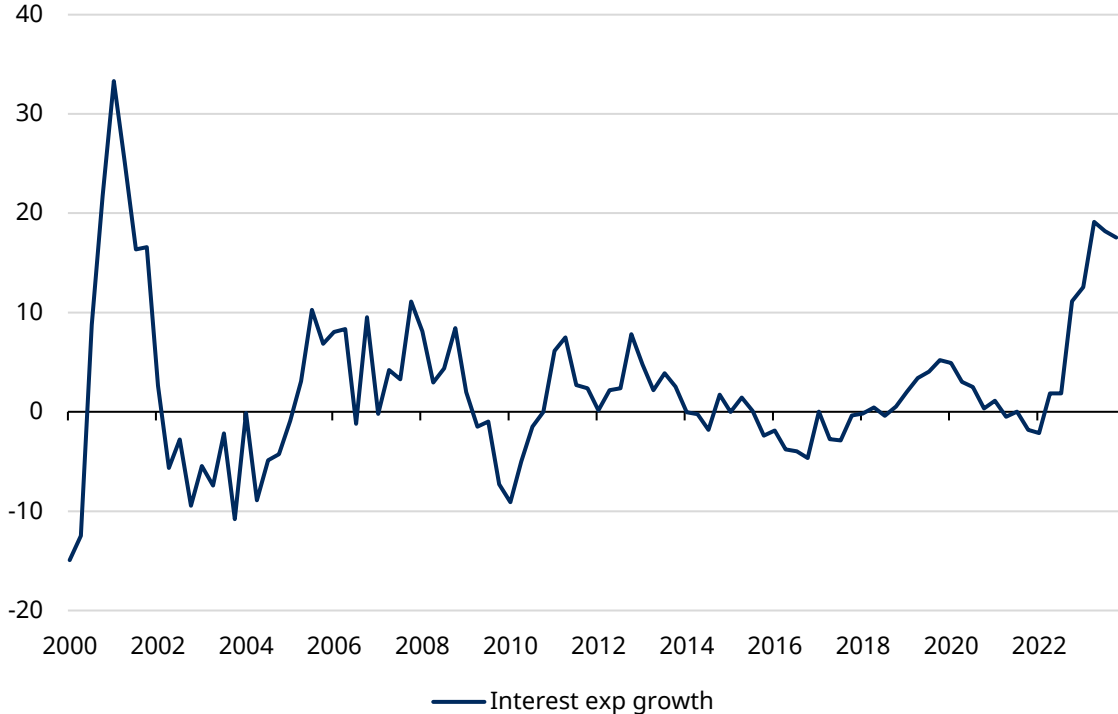
Euro HY interest coverage ratio

Last 12 months EBITDA to interest expense



Euro HY annual interest expense growth

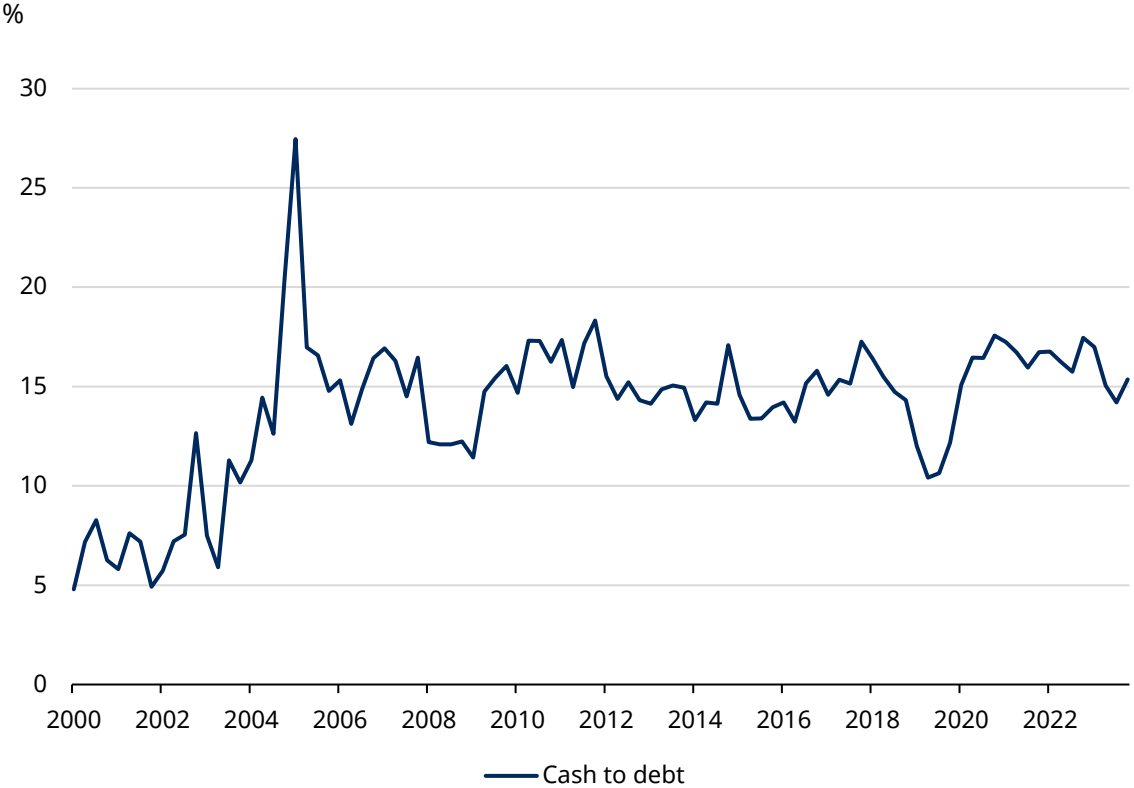
%



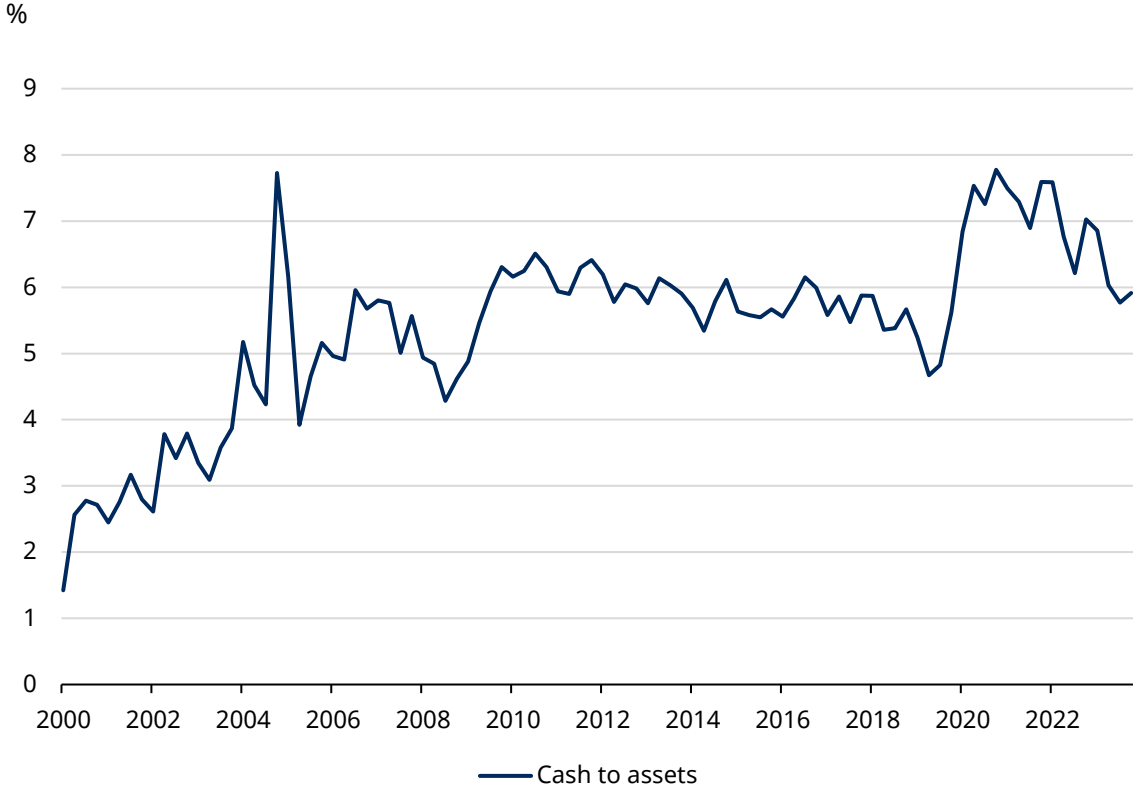
Source: Schroders, Bloomberg, Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Euro HY cash levels

Euro HY cash to debt



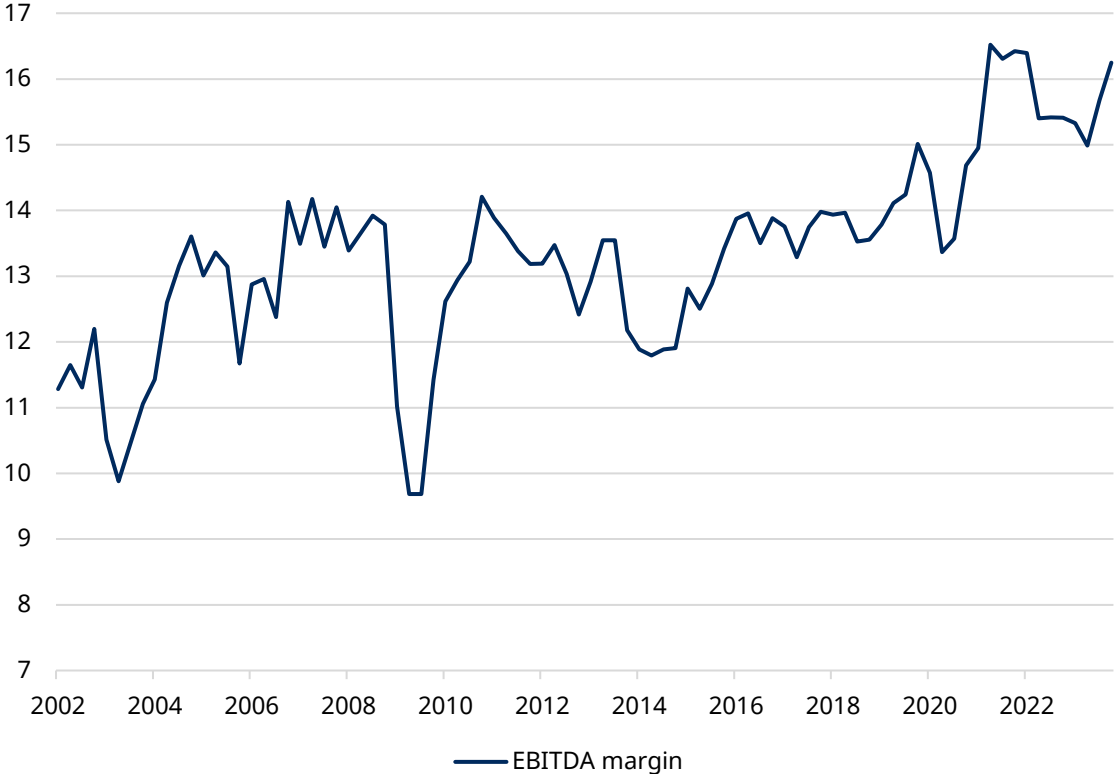
Euro HY cash to assets



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

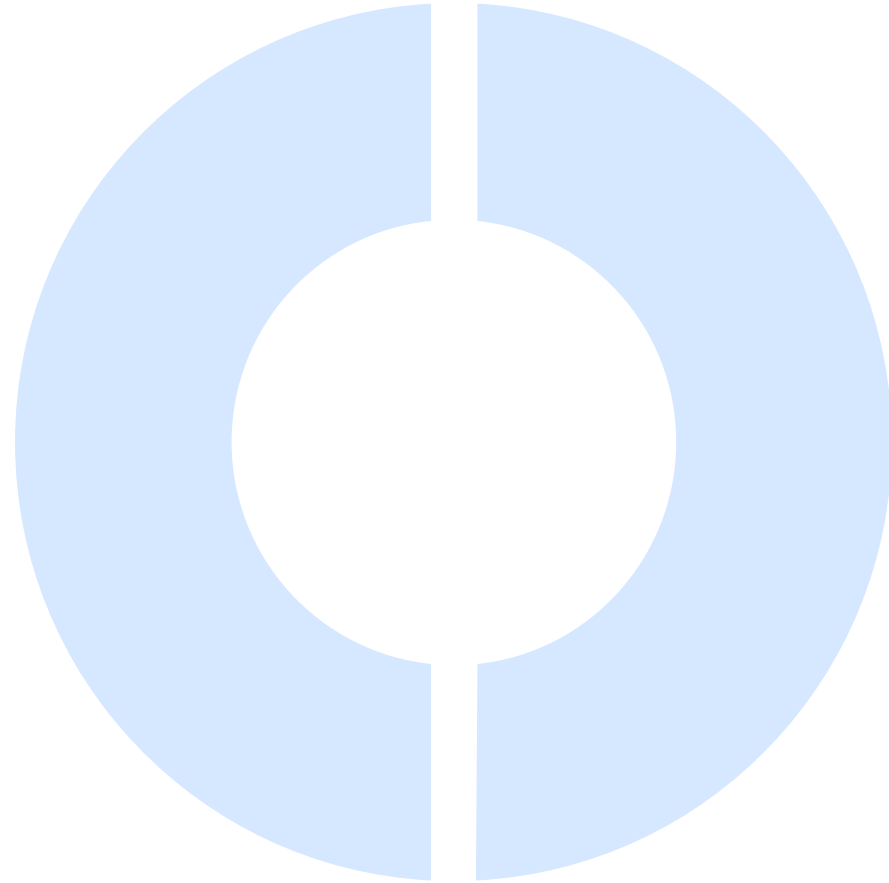
Euro HY corporate margins

Euro HY EBITDA margin



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q4 2023. Please see relevant disclaimers on page 72.

Schroders

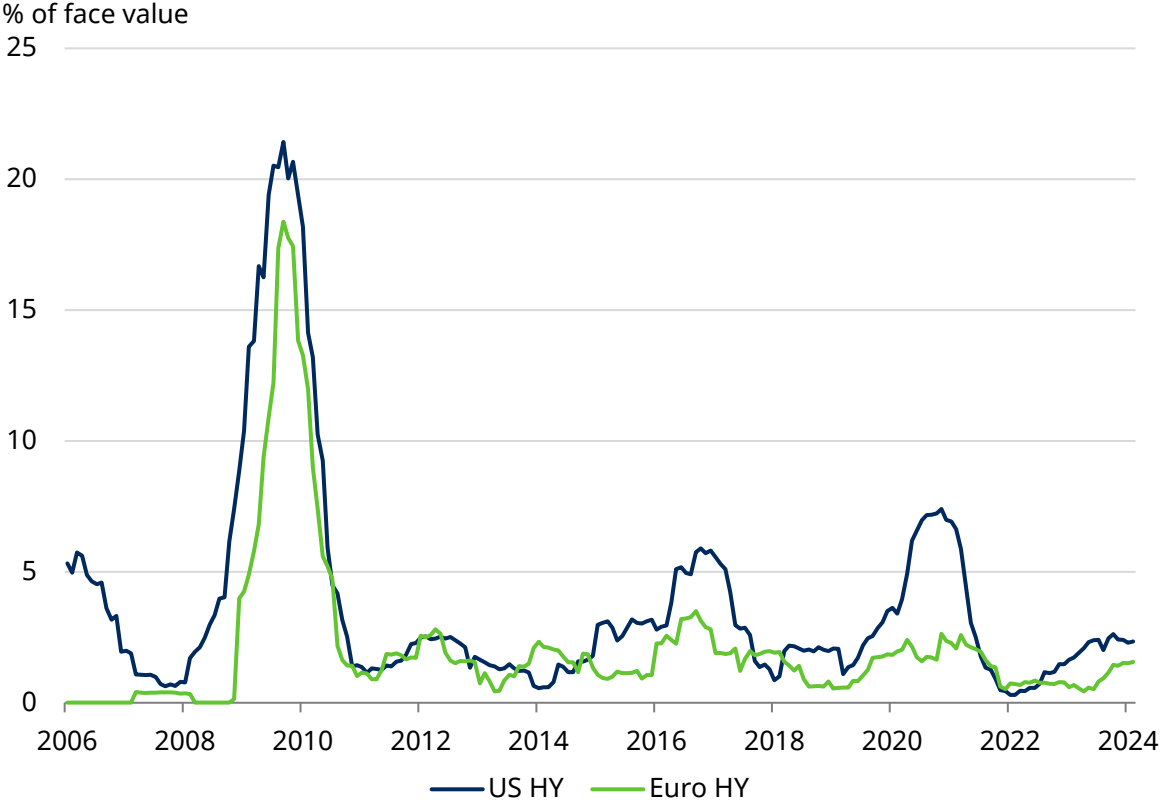


Corporate credit

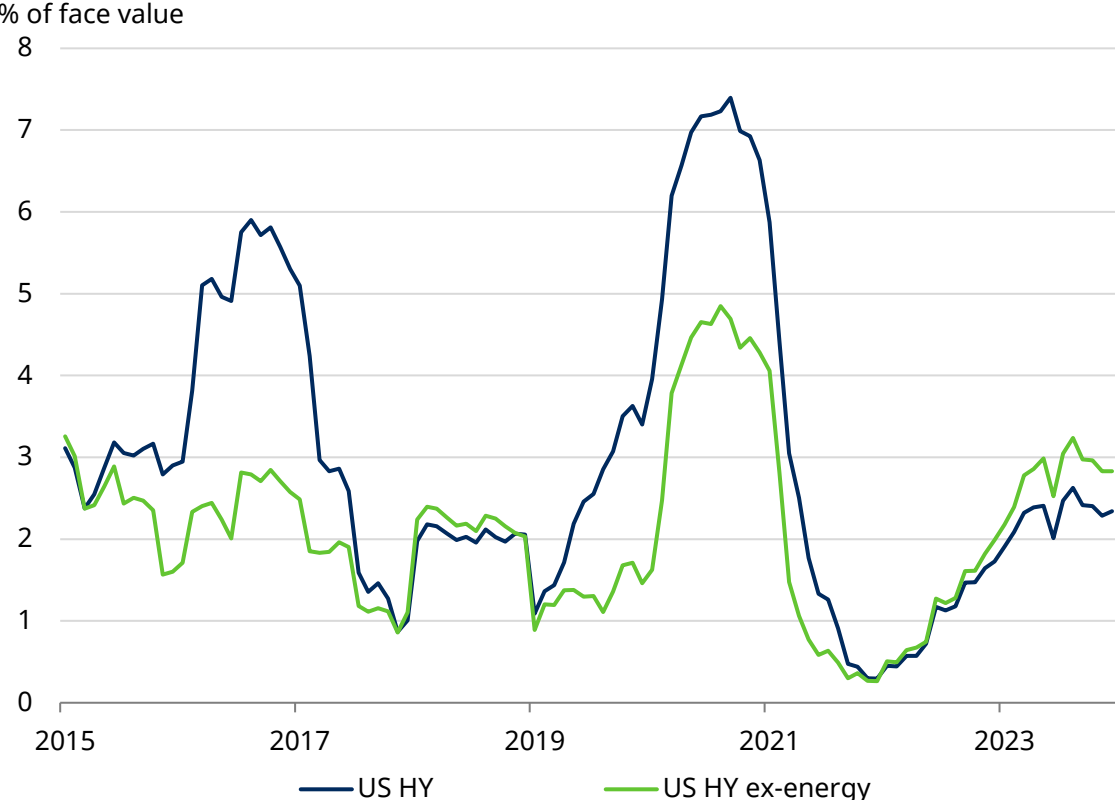
Technicals

HY default rates have picked up from very low levels

HY par default rate (last twelve months)



US HY par default rate (last twelve months)



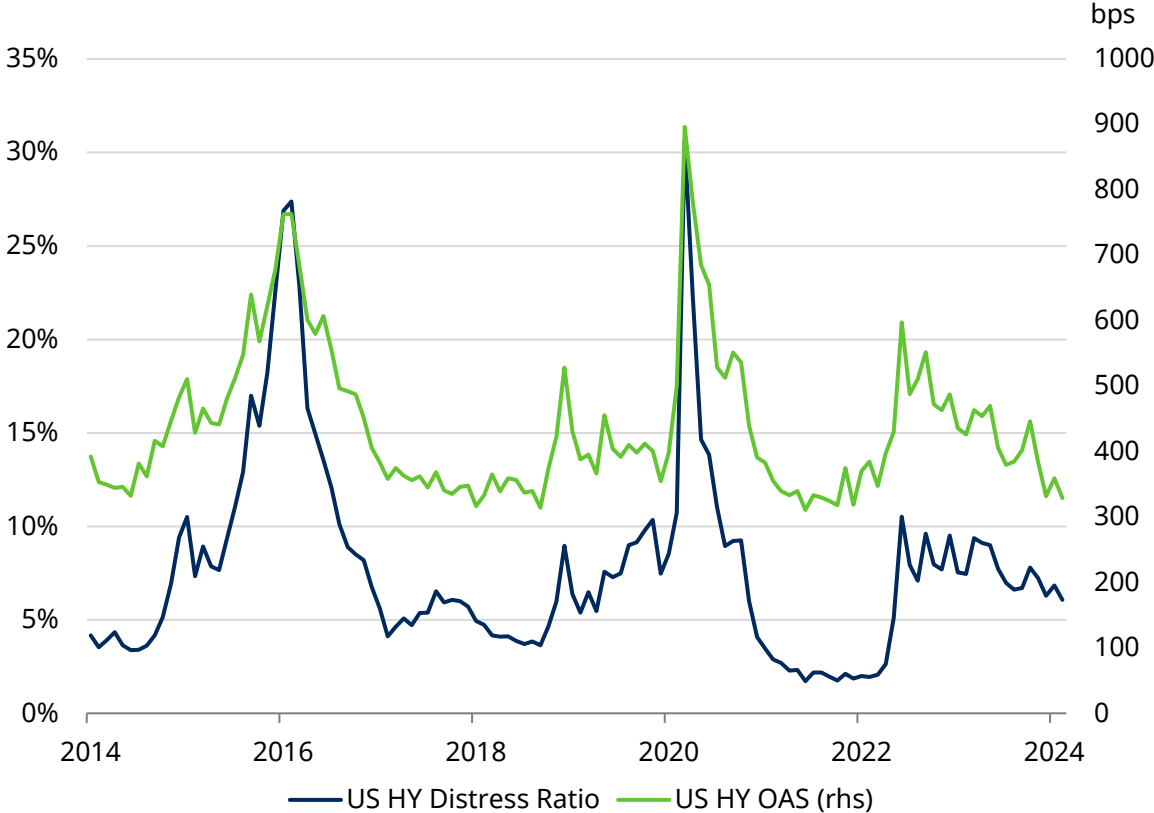
HY default rates are around long-run average (median) levels

Source: Schroders, BofA Global Research. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

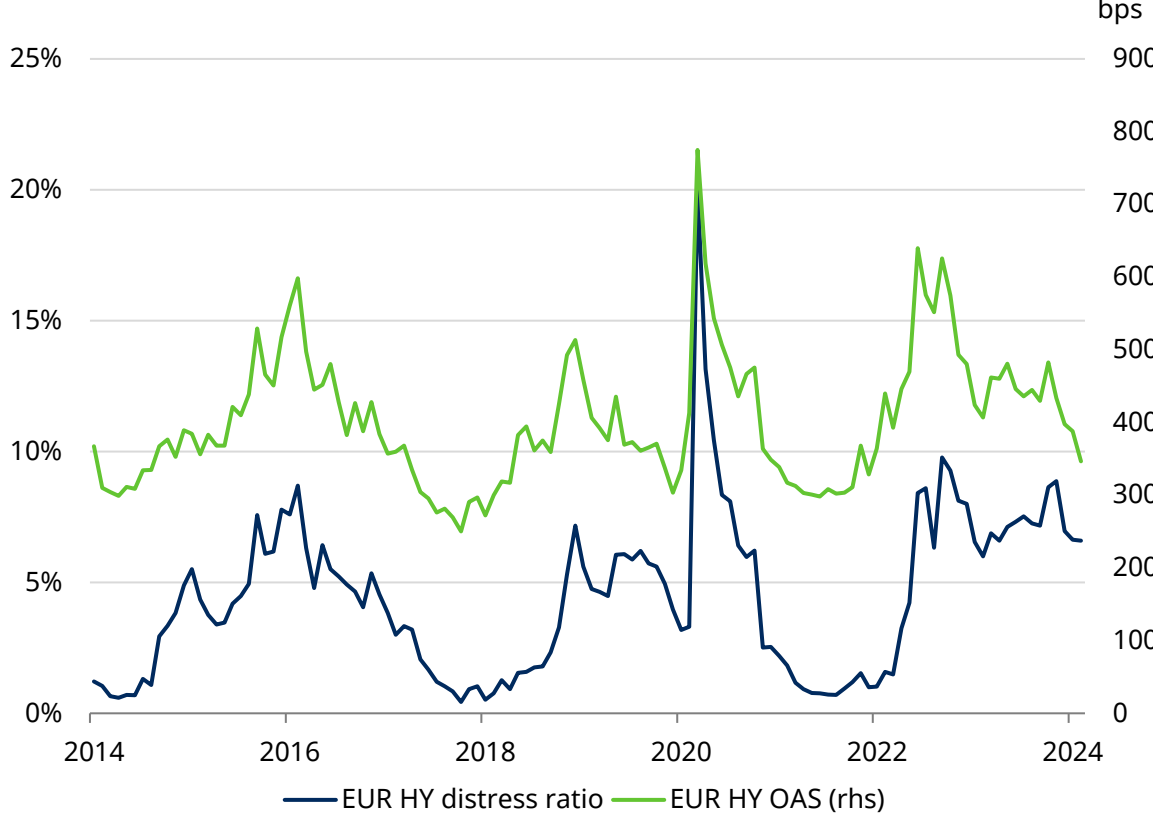
HY distress ratios still elevated, although have edged down

Higher distress is usually a harbinger of defaults

US HY distress ratio¹



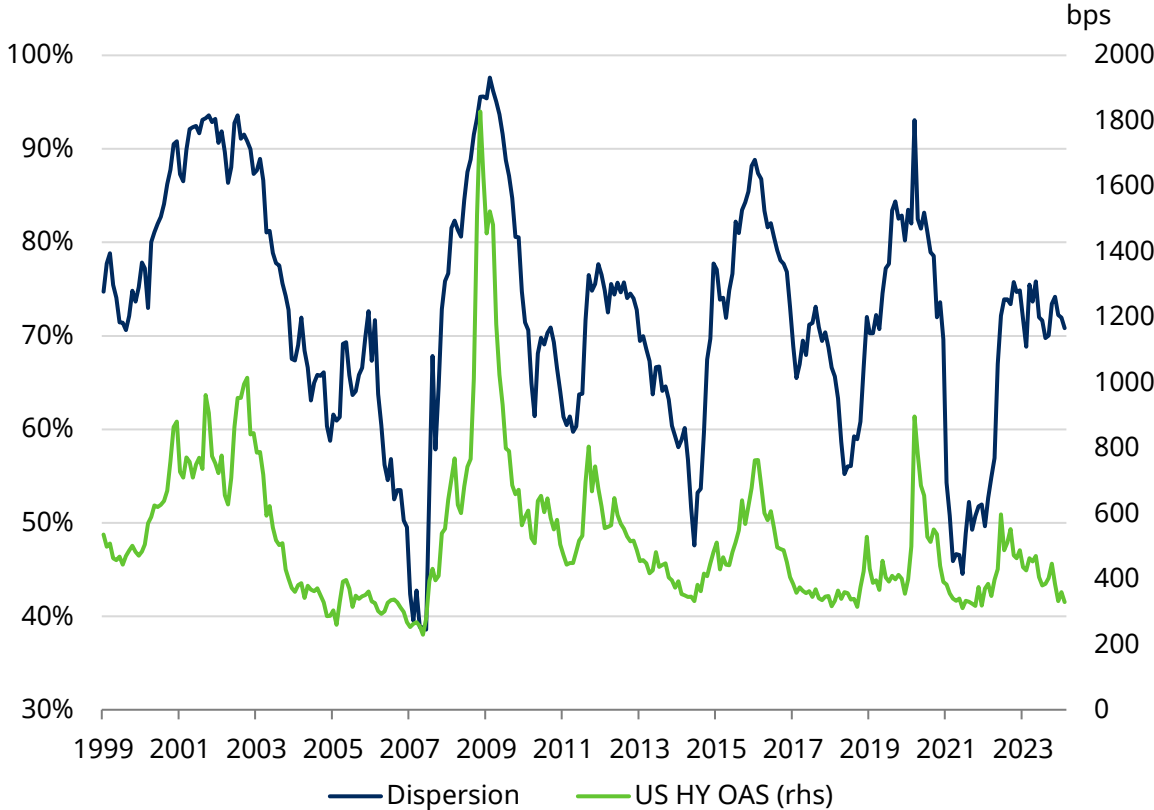
Euro HY distress ratio¹



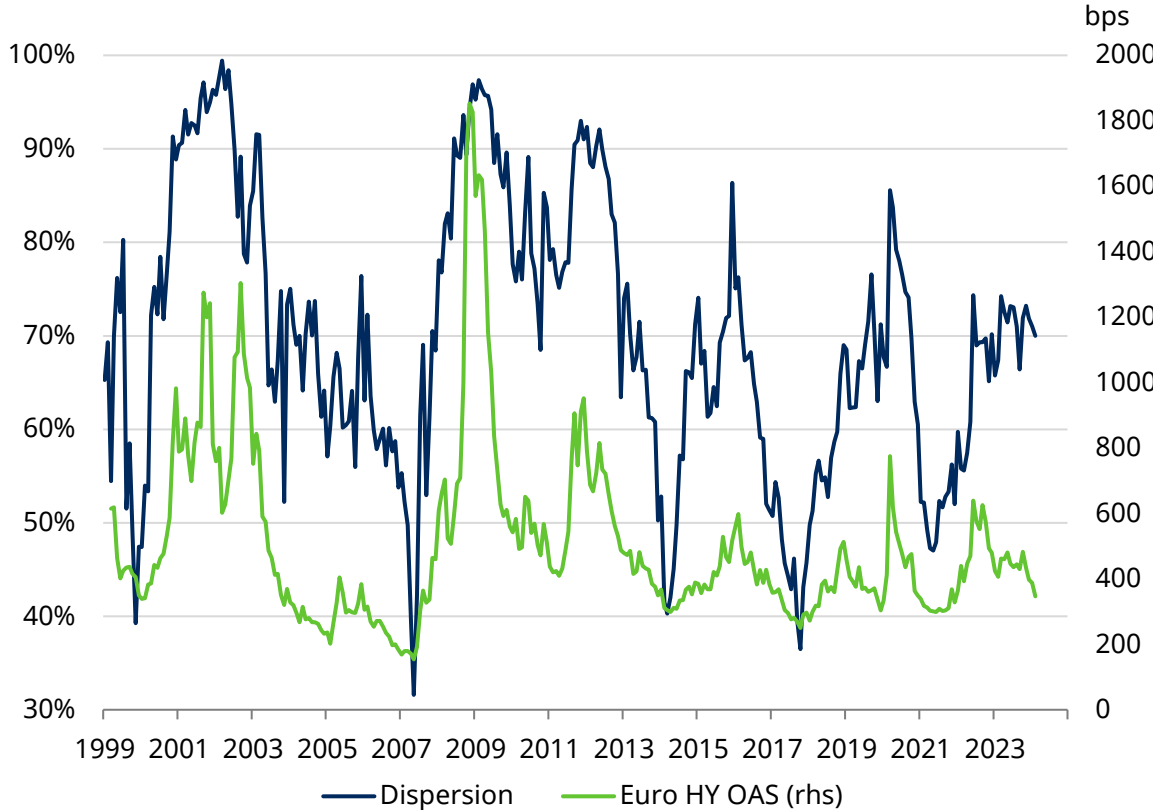
Source: Schroders, BofA Global Research. Data as at 29 February 2024. ¹HY distress is defined as percentage of issues in the index trading with spreads > 1,000bp. Please see relevant disclaimers on page 72.

HY spread dispersion

US HY dispersion¹ vs US HY spread



Euro HY dispersion¹ vs Euro HY spread



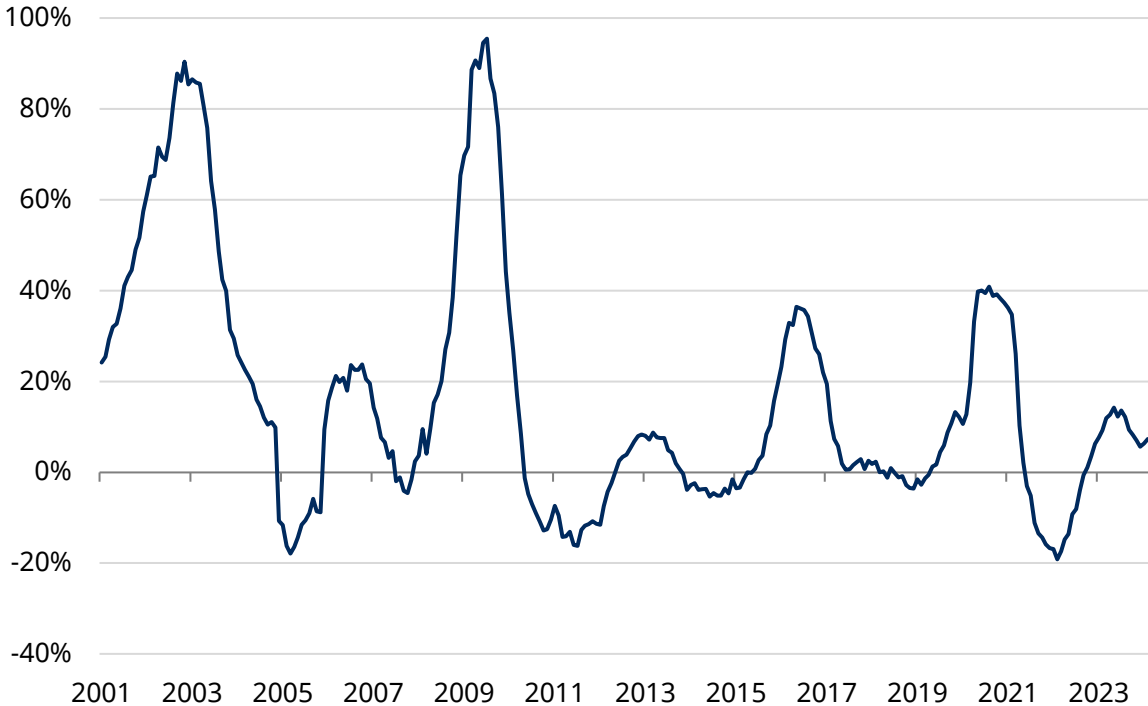
Source: Schroders, BofA Global Research. Data as at 29 February 2024. ¹ Proportion of face value in index marked outside +/-100bps of overall index level. Please see relevant disclaimers on page 72.

US HY ratings migration (net downgrades)

Within HY, downgrades had been outpacing upgrades over the last 12 months

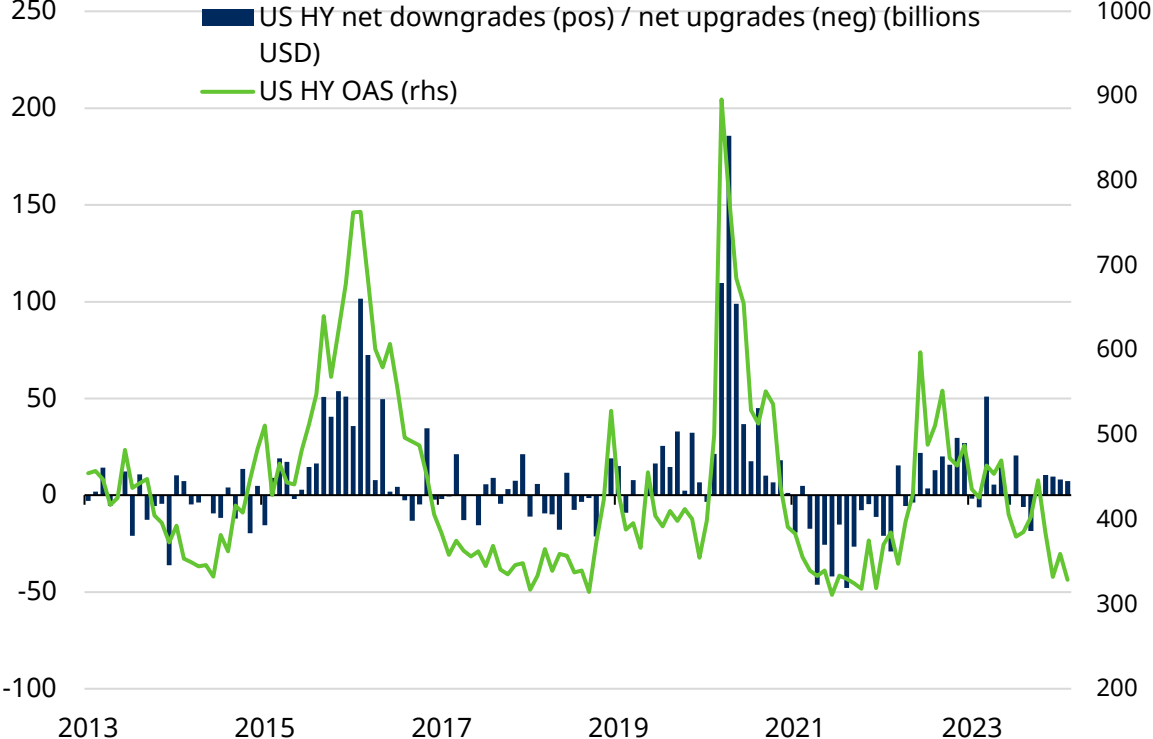
US HY net downgrades¹

Percentage of the HY index, last 12 months



US HY monthly net downgrades

Billions USD



Source: BofA Global Research, LSEG Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

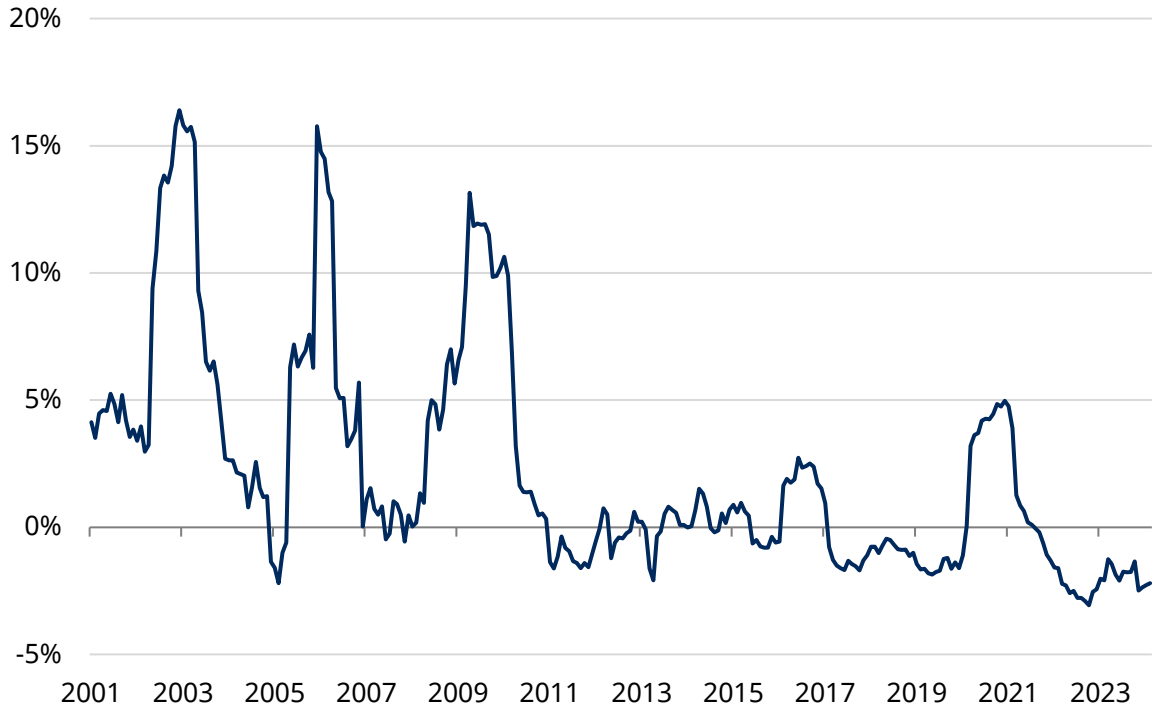
¹Face value of downgraded HY bonds minus face value of upgraded bonds divided by face value of the index. Excludes upgrades from HY to IG.

US IG fallen angels/rising stars

Rising stars have been outpacing falling angels over the past couple of years

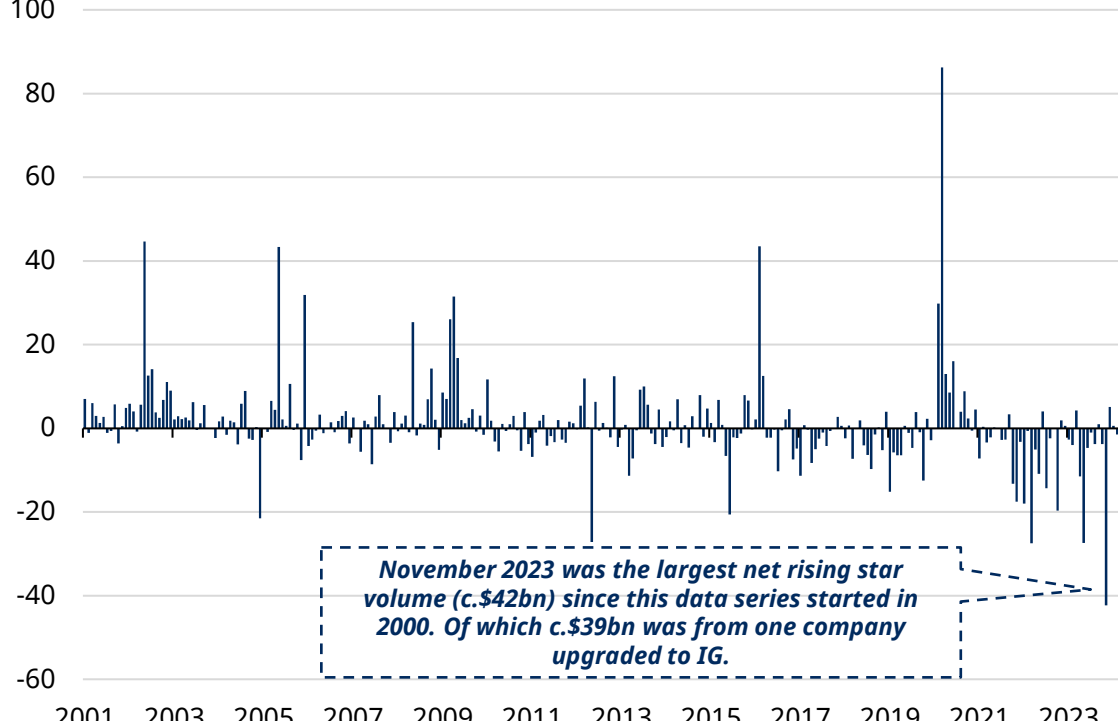
US IG net fallen angels¹

Percentage of the BBB index, last 12 months



US IG monthly net fallen angels

Billions USD

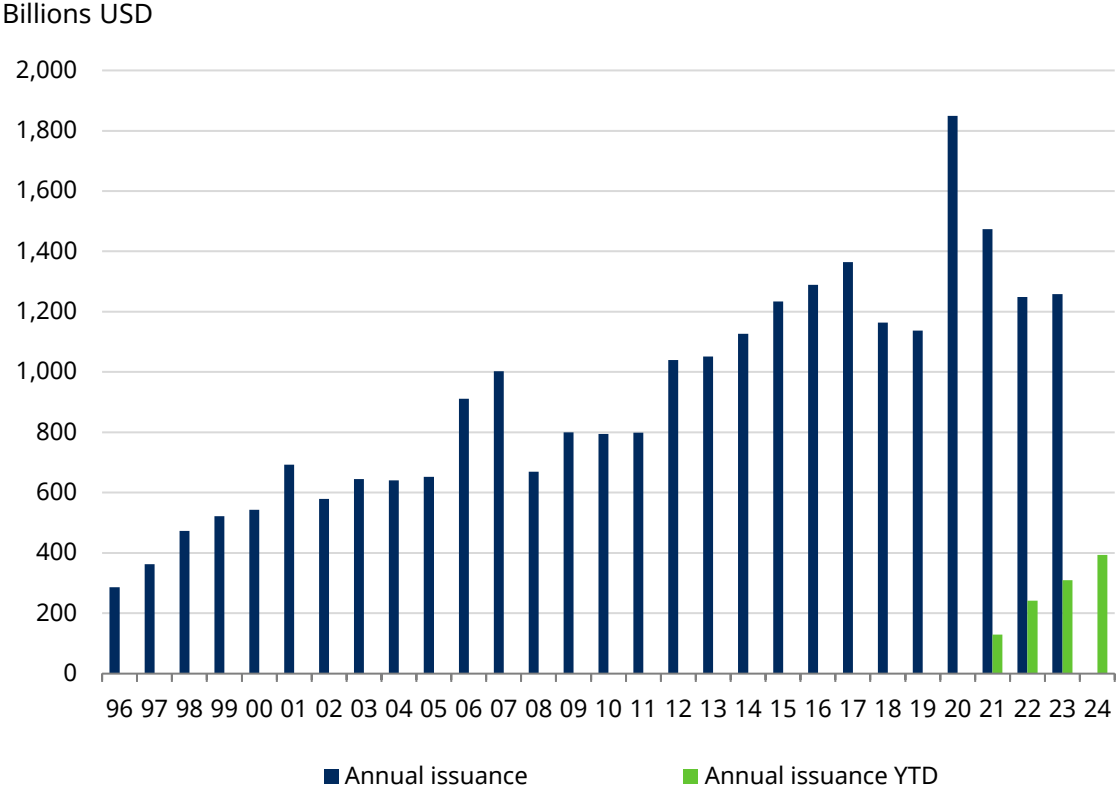


Over the last couple of years stronger HY issuers have been upgraded to IG at a faster rate than weaker IG issuers are downgraded to HY

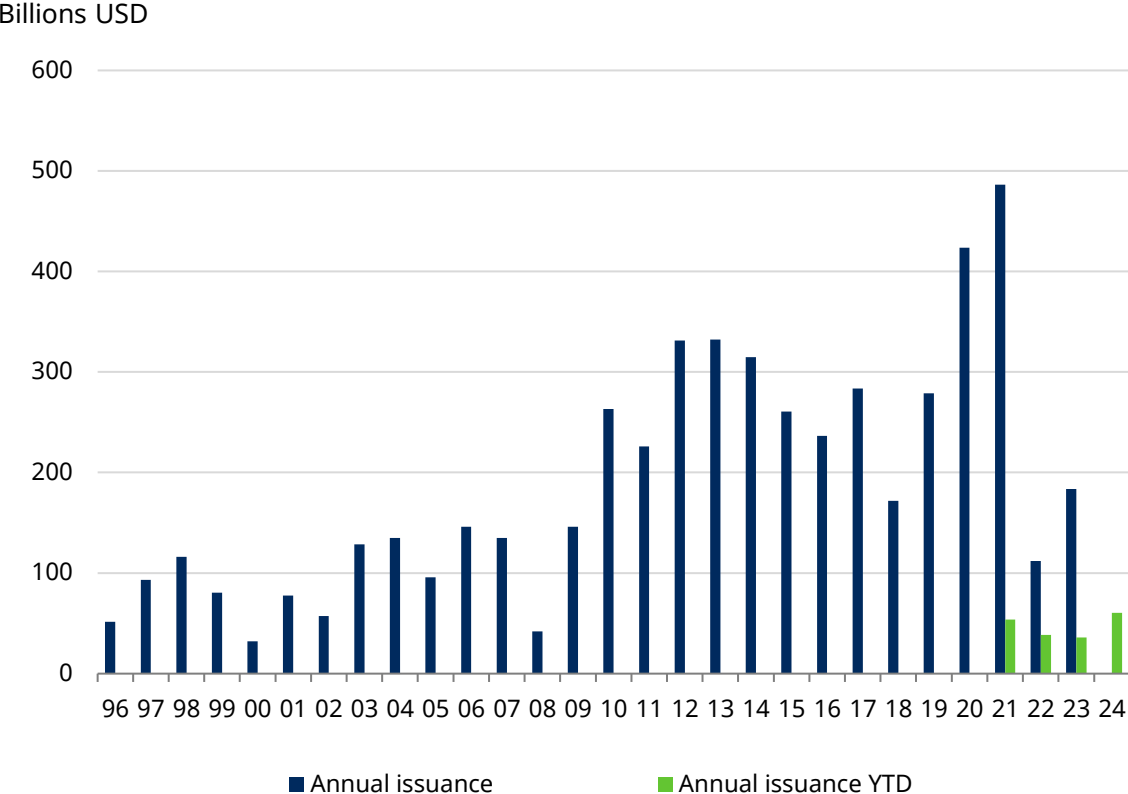
Source: BofA Global Research. Data as at 29 February 2024. Please see relevant disclaimers on page 72.
¹Face value of downgrades from IG to HY minus face value of upgrades from HY to IG, divided by face value of the BBB index

Strong start to 2024 for primary issuance, particularly in IG

US IG gross issuance



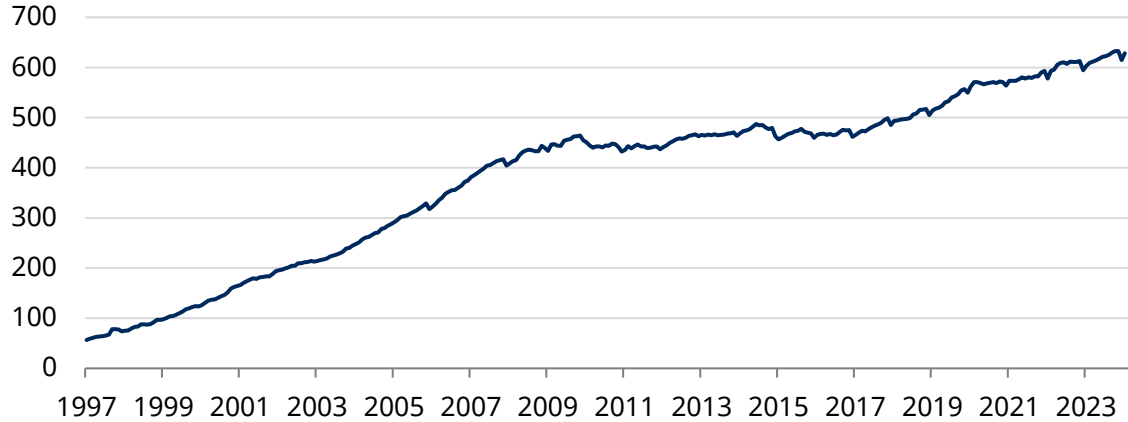
US HY gross issuance



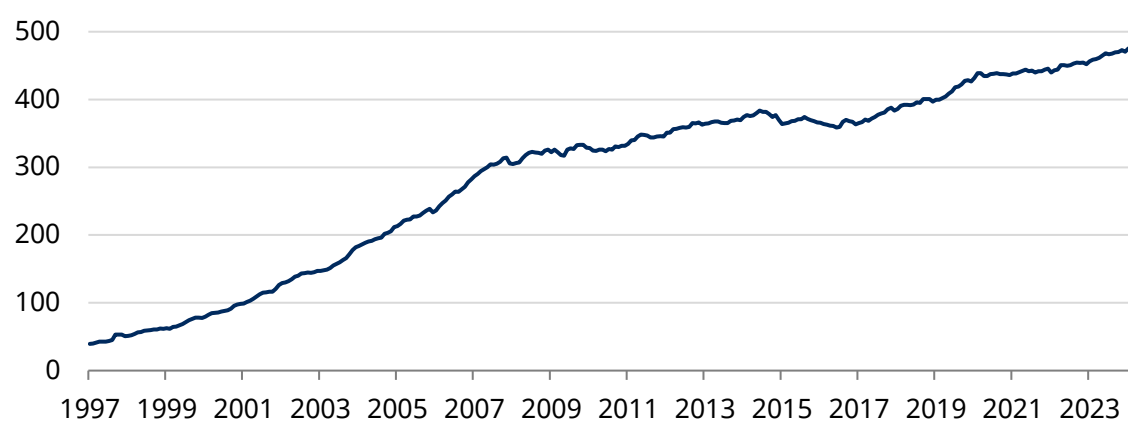
Source: Sifma. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

IG bonds outstanding

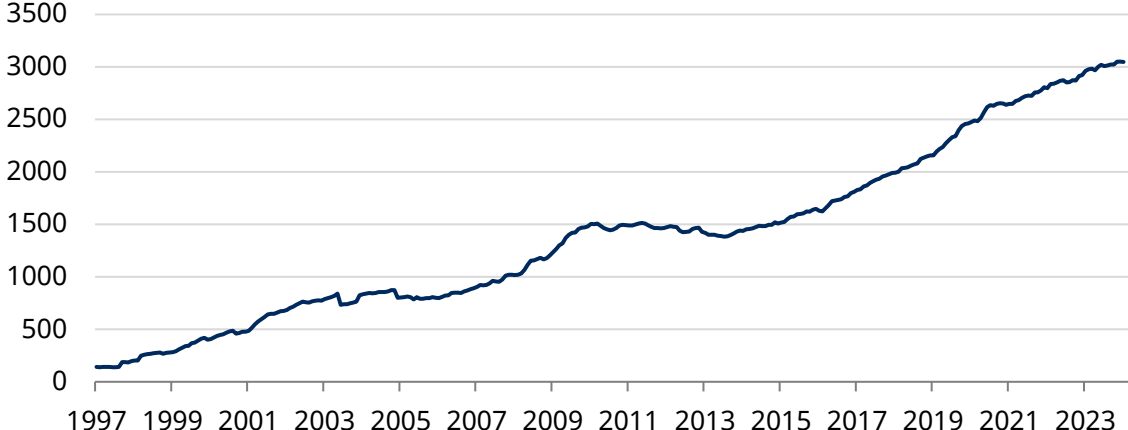
IG GBP non-gilts amount outstanding (bn GBP)



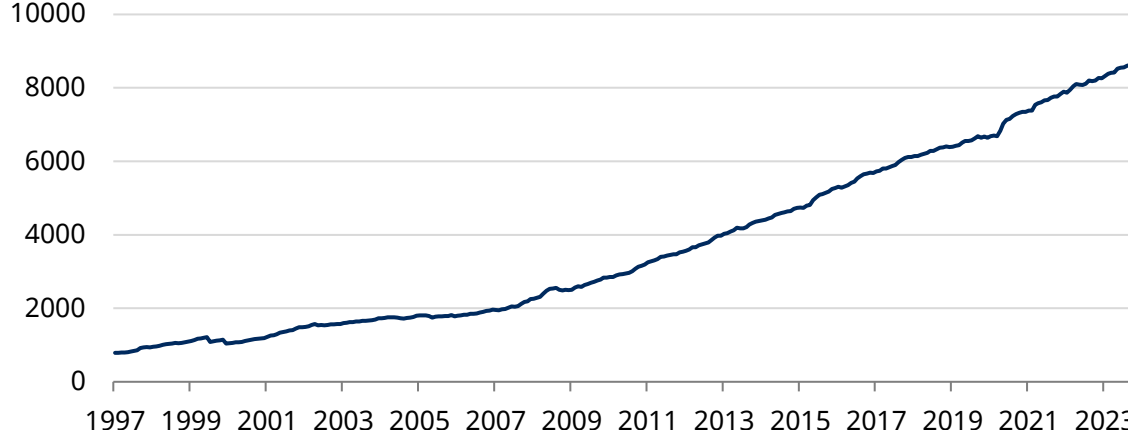
IG GBP corporates amount outstanding (bn GBP)



IG EUR amount outstanding (bn EUR)



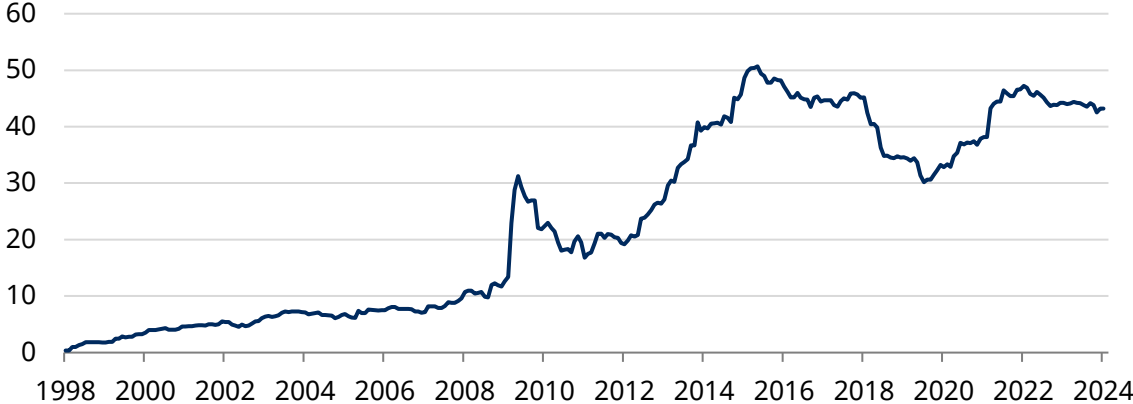
IG USD amount outstanding (bn USD)



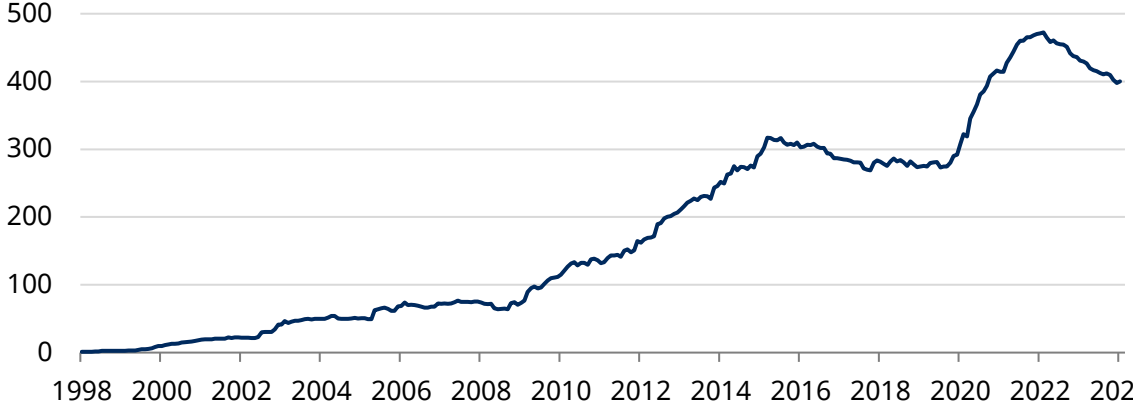
Source: Schroders, ICE Data Indices. Data as at 29 February 2024. Charts show face value of bond outstanding within relevant indices. Please see relevant disclaimers on page 72.

HY bonds outstanding

HY GBP amount outstanding (bn GBP)



HY EUR amount outstanding (bn EUR)



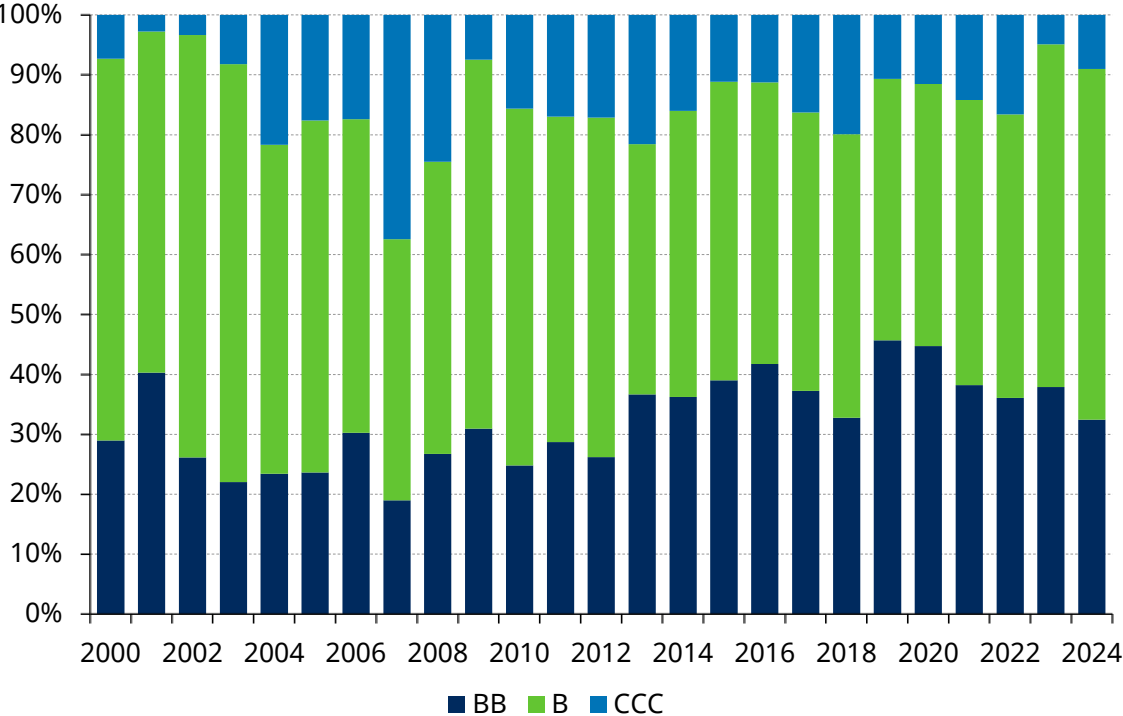
HY USD amount outstanding (bn USD)



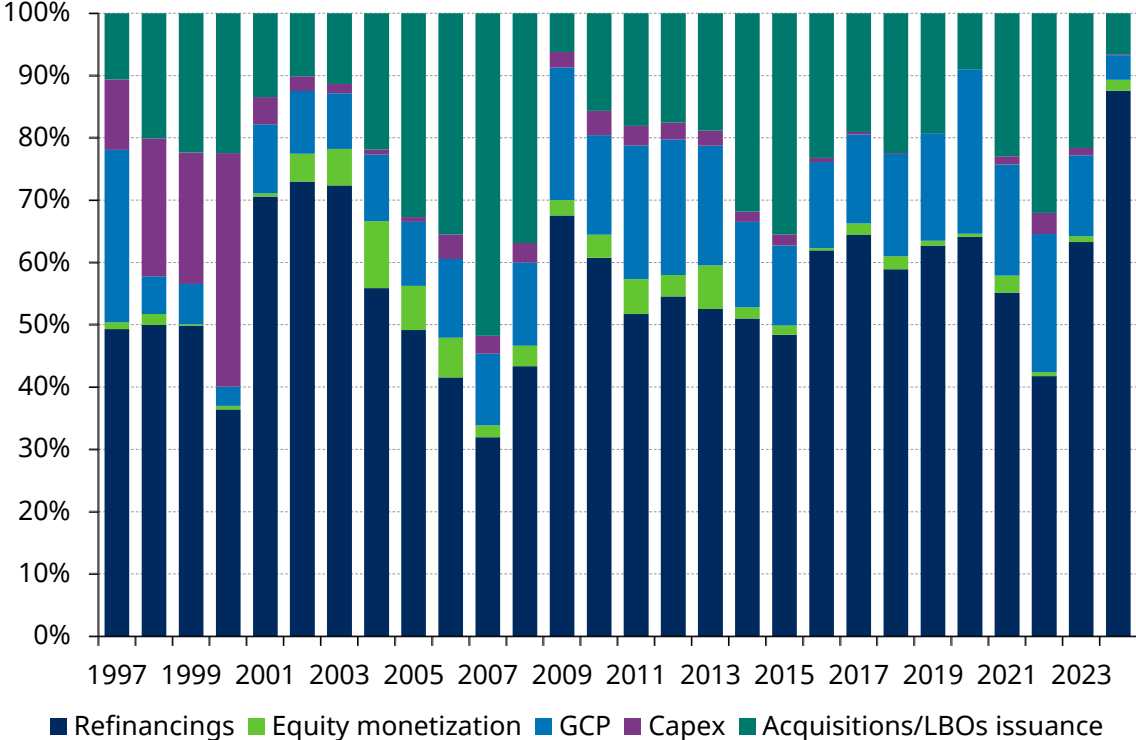
Source: Schroders, ICE Data Indices. Data as at 29 February 2024. Charts show face value of bond outstanding within relevant indices. Please see relevant disclaimers on page 72.

USD HY bond issuance details

Issuance by rating (percentage of issuance)⁽¹⁾



Issuance by use of proceeds⁽²⁾



Source: Schroders, BofA Global Research. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

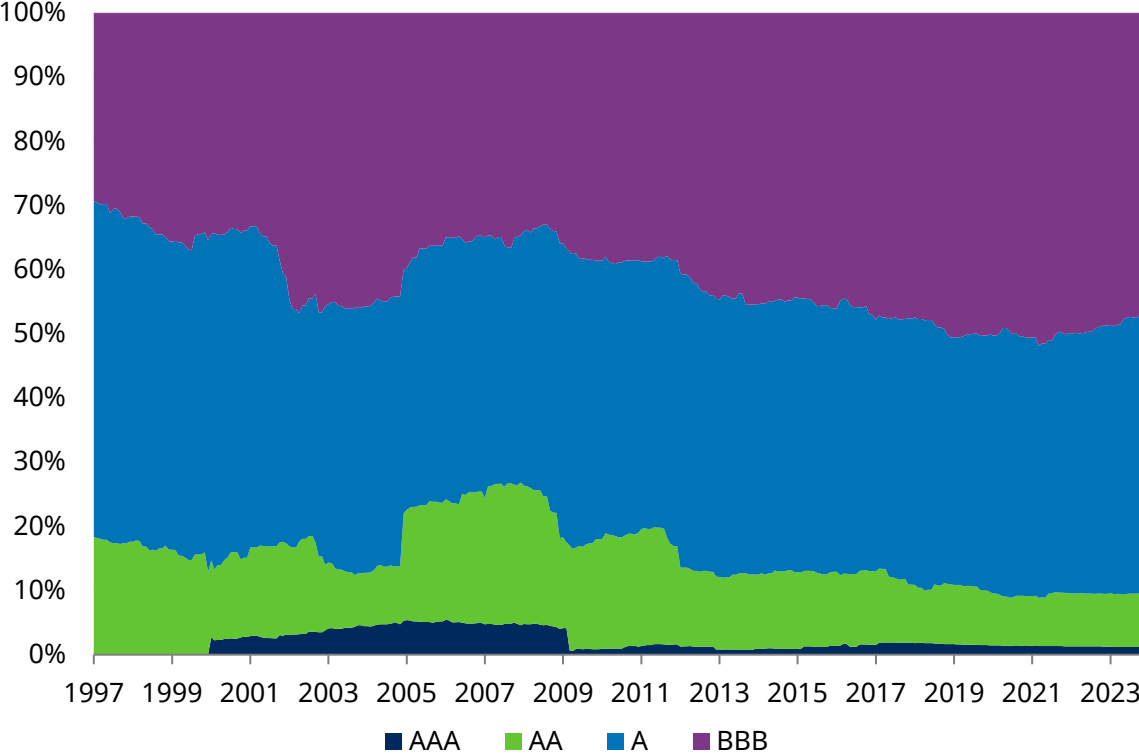
(1) 2024 is year to date as at 29 February 2024.

(2) GCP is General Corporate Purposes; Equity monetization includes dividends and share repurchases. 2024 is year to date.

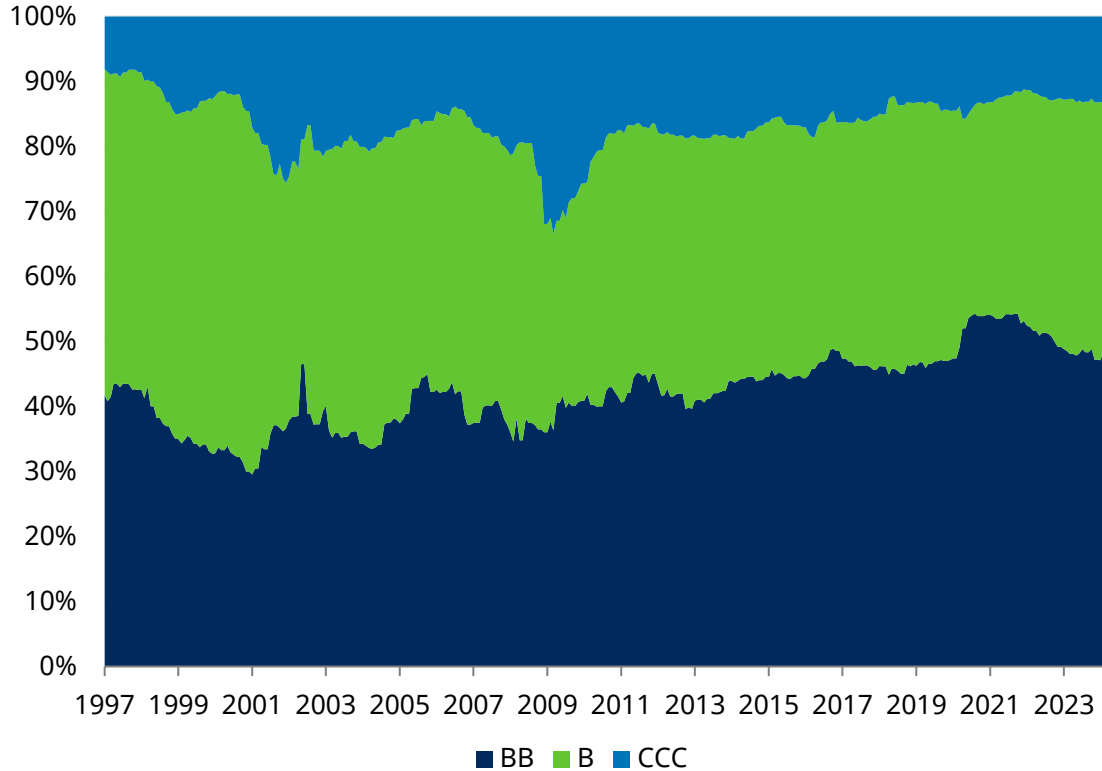
US dollar credit historical ratings split

Significant changes in credit quality over time

US IG ratings split



US HY ratings split

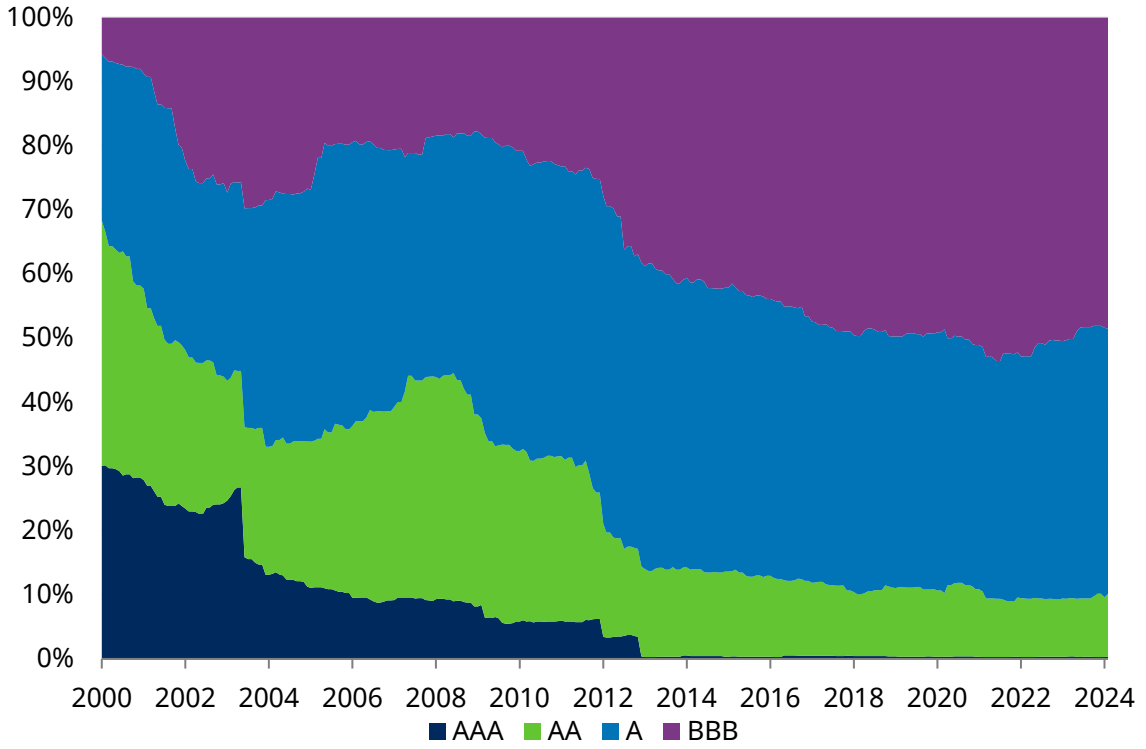


Source: Schroders, LSEG Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

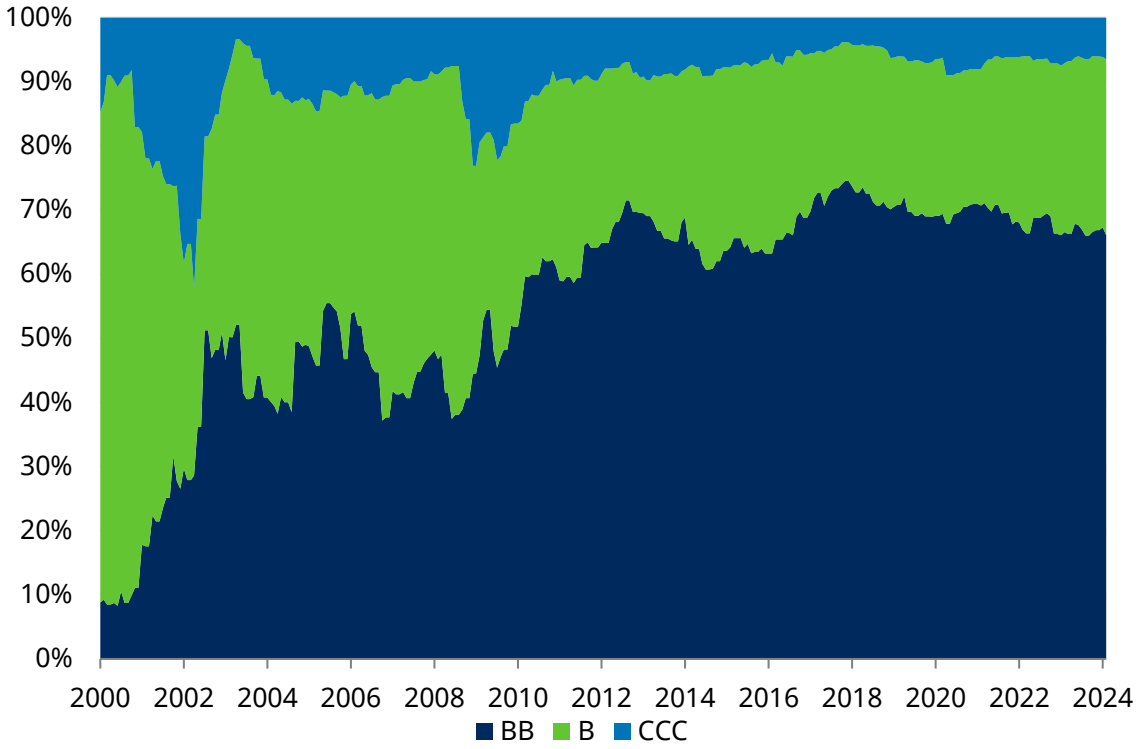
Euro credit historical ratings split

Significant changes in credit quality over time

Euro IG ratings split



Euro HY ratings split

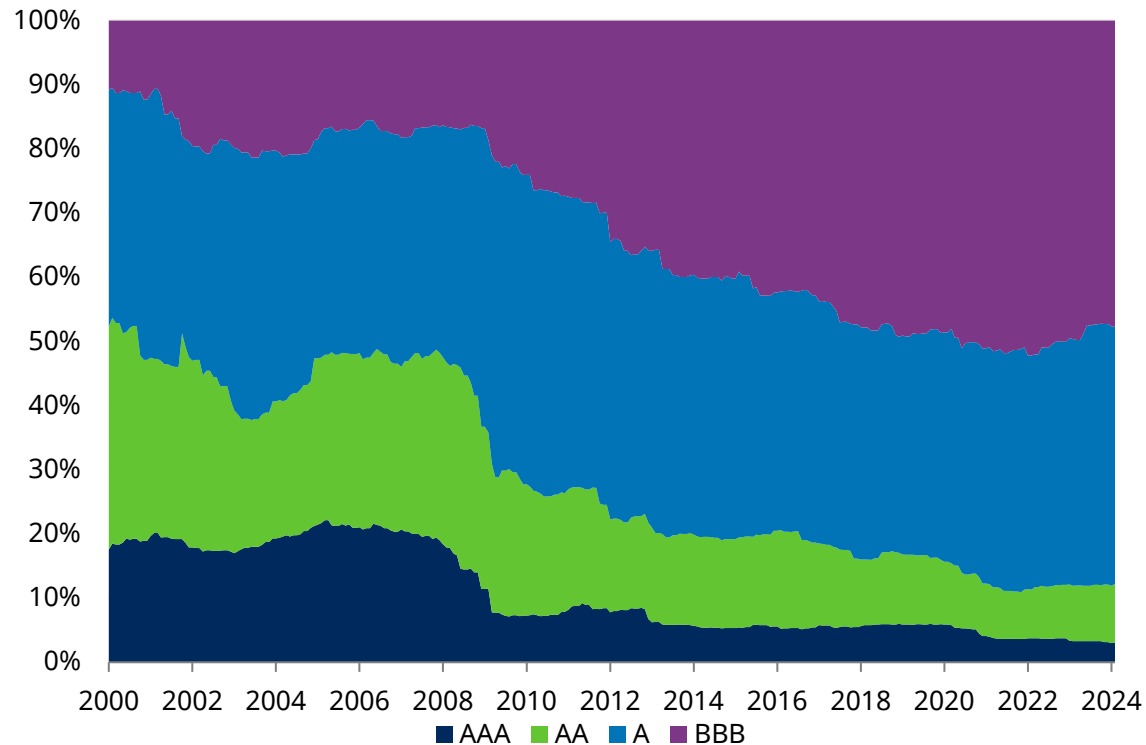


Source: Schroders, LSEG Datastream. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

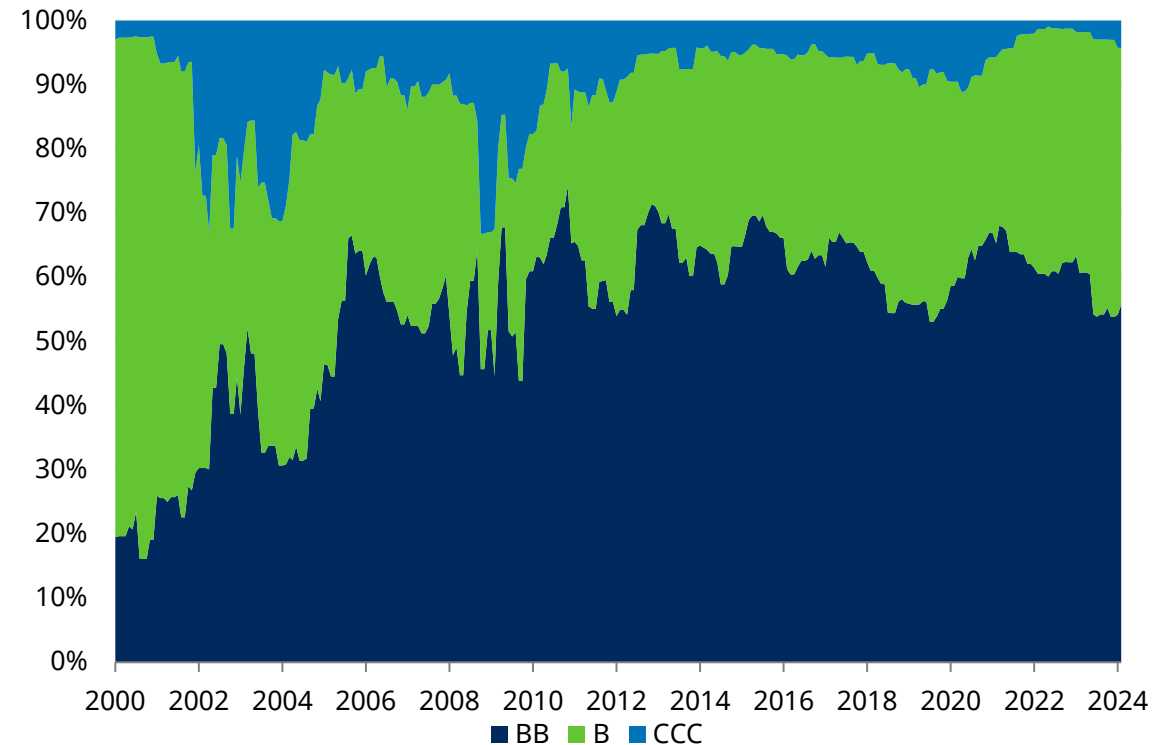
Sterling credit historical ratings split

Significant changes in credit quality over time

GBP IG ratings split



GBP HY ratings split



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Appendix: Alternatives

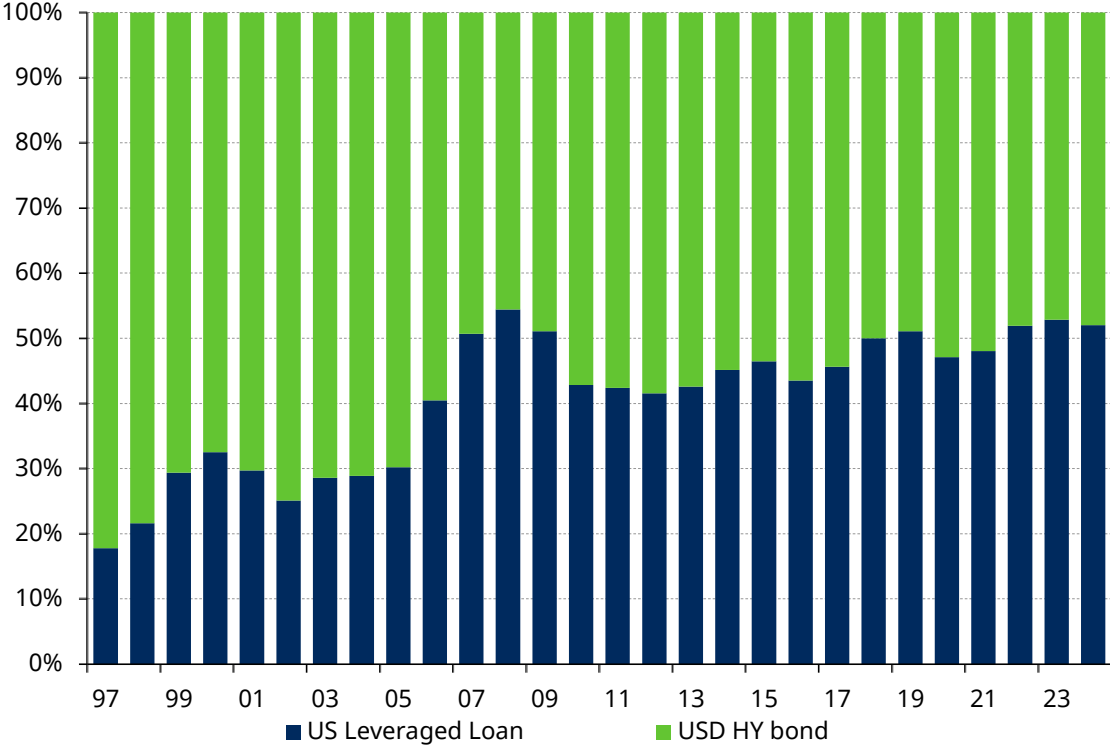
US leveraged loans

US leveraged loan discount margin (3-year life)

Spread, bps



Loans and bonds as a percentage of US high yield market (Face Value)⁽¹⁾



Source: Schroders, BofA Global Research, Credit Suisse. Data as at 29 February 2024. Please see relevant disclaimers on page 72.

(1) 2024 is year to date numbers as at 29 February 2024.

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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