

Schroders



Schroders Credit Lens

Perspective of GBP investor

Strategic Research Unit

July 2023

Marketing material for professional investors or advisers only.

Important information

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

Index

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

[Cross-credit analysis](#) (slides 12-25)

[IG long vs short](#) (slides 26-29)

[Corporate credit: valuation](#) (slides 30-32)

[Corporate credit: fundamentals](#) (slides 33-51)

[Corporate credit: technicals](#) (slides 52-66)

Summary

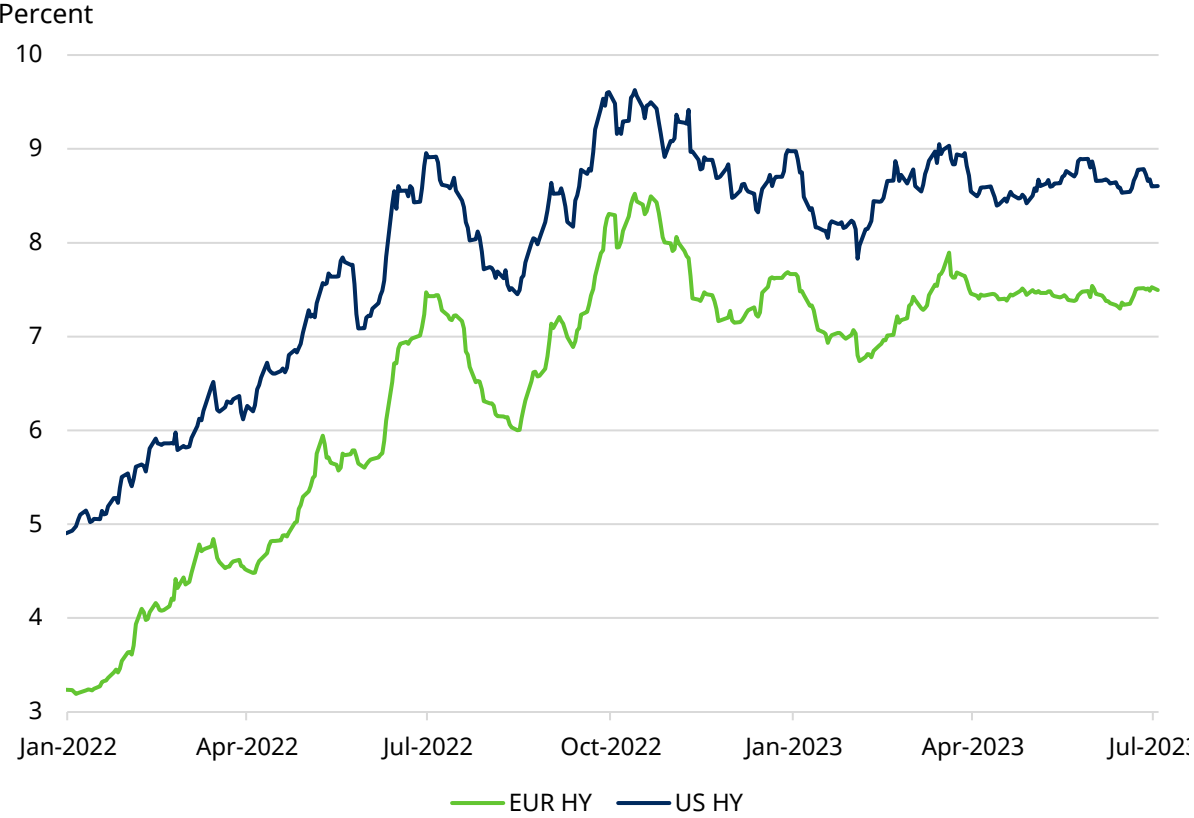
- **Risk free rates continued to edge higher on the month, but corporate bond yields in many markets remained within recent ranges. The exception is in the GBP investment-grade market where yields moved closer to their Autumn 2022 peak levels**
- Spreads were flat or slightly down in June, with USD high-yield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

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

IG yield



HY yield



Source: Refinitiv Datastream. Data as at 3 July 2023. Please see relevant disclaimers on page 68. Charts show local currency yields.

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

IG Spread



HY Spread

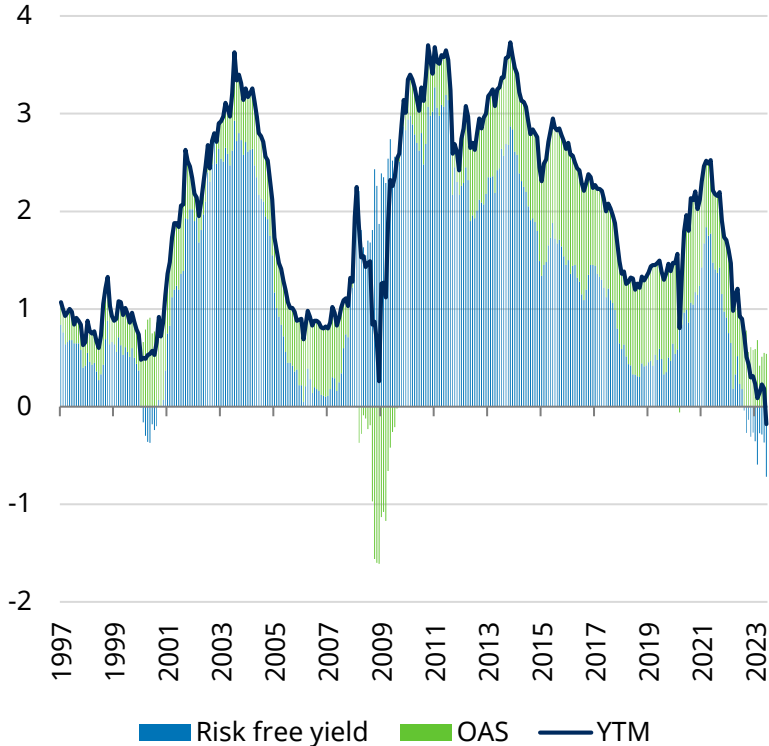


Source: Refinitiv Datastream. Data as at 3 July 2023. Please see relevant disclaimers on page 68.

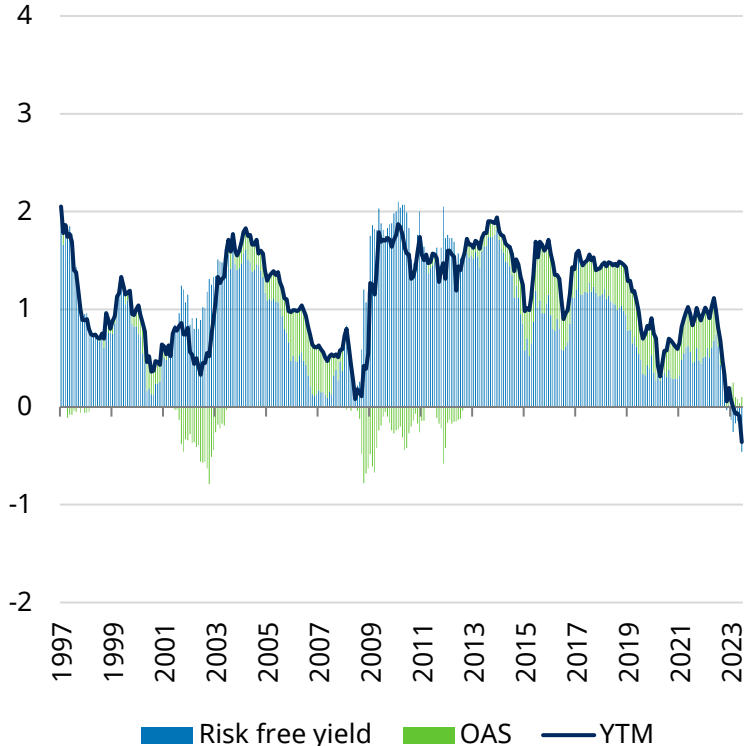
Credit curves continue to be very flat

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

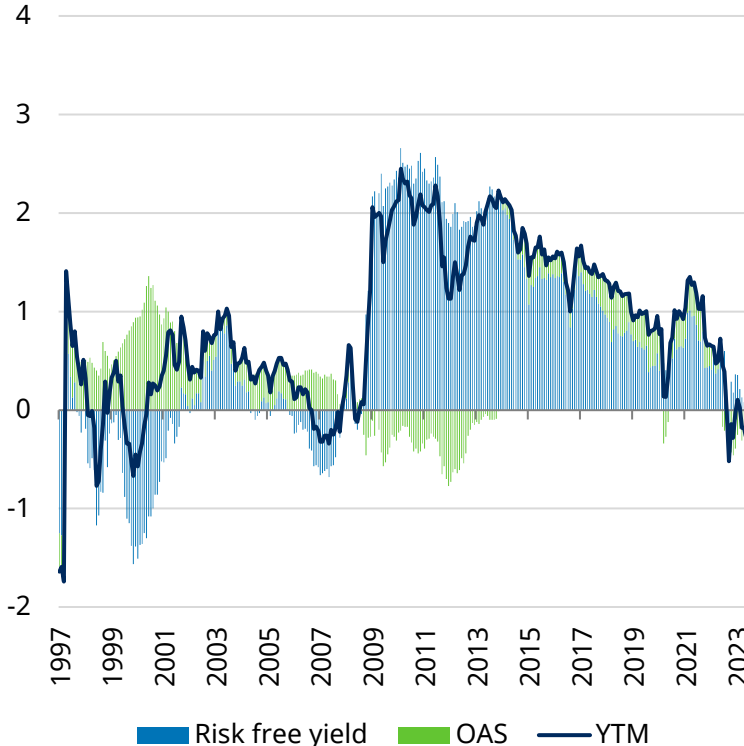
IG USD 15+ minus 1-5 year index yield (%)



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



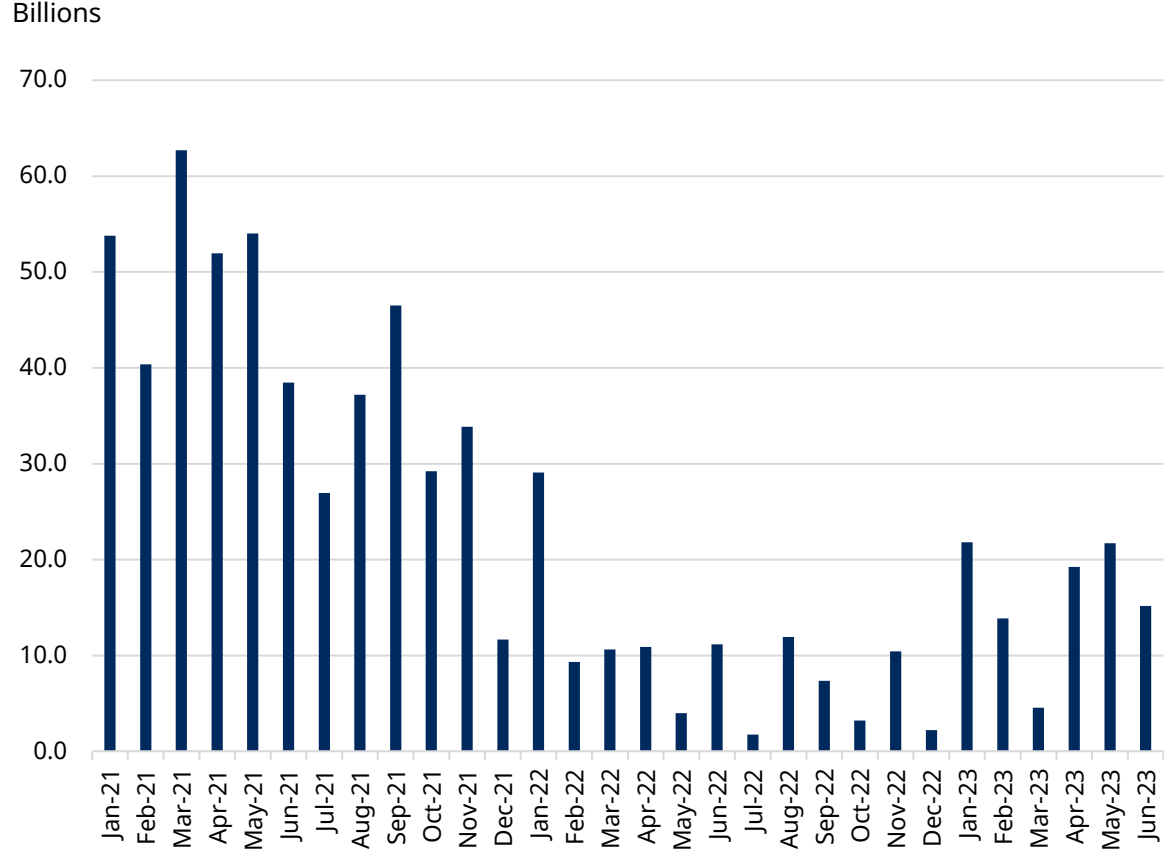
IG GBP corporate 10+ minus 1-5 year index yield (%)



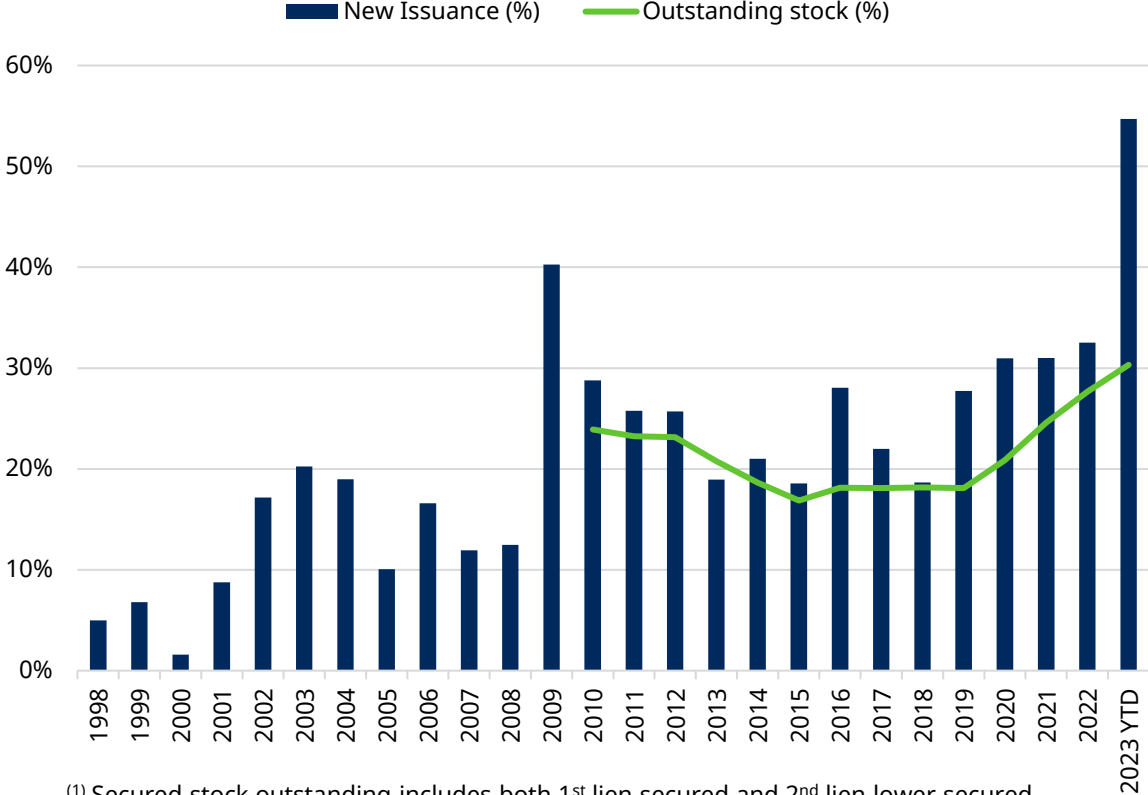
Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

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

US high-yield gross issuance



USD high-yield issuance: secured proportion⁽¹⁾



Source: Sifma, BofA Global Research. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

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

Summary table

Cross-credit overview

Date: 30 June 2023

	IG GBP non-gilts	IG GBP corporates	IG Euro	IG USD	HY GBP	HY Euro	HY USD	Hard EMD	Local EMD	Corp. EMD
Yield to worst	6.3%	6.6%	4.4%	5.6%	10.7%	7.5%	8.6%	8.4%	6.3%	7.2%
Yield to worst (hedged to GBP) ¹	6.3%	6.6%	6.2%	5.5%	10.7%	9.2%	8.5%	8.3%	-	7.2%
Spread (bps)	146	175	161	130	558	446	405	432	221	309
Spread (percentile) ²	69%	69%	74%	45%	61%	55%	40%	63%	4%	45%
Risk premium (bps) ³	113	137	123	92	357	275	183	299	166	197
Duration	5.9	6.4	4.8	7.1	3.2	3.3	4.2	6.8	5.0	4.2
MV (billion \$)	746	557	2,979	7,825	52	402	1,218	637	1,466	501
Rating	A1	A3	A3	A3	BB3	BB3	B1	BB1	BBB2	BBB3
Nr. of issues/countries	1,326	1,120	4,171	10,020	99	729	1,870	66	20	1,890

Since Jan 1997 or inception

Annualised return ⁴	4.9%	5.1%	4.9%	5.2%	8.2%	5.8%	6.2%	6.9%	6.4%	5.9%
Annualised volatility	5.8%	6.5%	4.0%	5.9%	10.4%	11.4%	9.1%	10.7%	11.0%	7.8%
Return/volatility	0.9	0.8	1.2	0.9	0.8	0.5	0.7	0.6	0.6	0.8
Max drawdown	-24.9%	-29.1%	-15.7%	-21.0%	-28.1%	-38.6%	-33.7%	-28.3%	-27.4%	-25.4%
Correlation with FTSE All-share	0.3	0.4	0.3	0.3	0.6	0.6	0.6	0.5	0.4	0.5
Correlation with MSCI World £	0.3	0.3	0.3	0.3	0.5	0.6	0.6	0.5	0.6	0.4
Correlation with UK Gilts	0.8	0.7	0.5	0.5	0.0	-0.1	0.0	0.2	0.3	0.2

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

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 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 24).

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

Summary table (alternatives)

Cross-credit overview

Date: 30 June 2023

	US Agency MBS	US ABS	US CMBS	US leveraged loans	EUR leveraged loans	Cat Bonds
Yield ¹	4.8%	6.2%	6.8%	10.3%	9.6%	-
Yield (hedged to GBP) ²	4.7%	6.1%	6.7%	10.2%	11.3%	-
Spread (bps) ³	67	122	271	581	595	-
Risk premium (bps)	-	-	-	-	-	-
Duration	6.0	2.2	3.9	0.0	0.0	-
Market size (billion \$)	7,264	409	436	1,370	273	-
Rating	AAA	AAA	AAA	-	-	-

Since Jan 1997 or inception

Annualised return ⁴	4.4%	3.9%	4.9%	5.1%	5.3%	7.3%
Annualised volatility	3.4%	2.3%	6.2%	5.8%	6.7%	4.3%
Return/volatility	1.3	1.7	0.8	0.9	0.8	1.7
Max drawdown	-16.9%	-8.1%	-26.0%	-29.9%	-30.7%	-8.8%
Correlation with FTSE All-share	0.0	0.1	0.2	0.5	0.5	0.1
Correlation with MSCI World £	0.0	0.0	0.2	0.4	0.4	0.1
Correlation with UK Gilts	0.6	0.3	0.3	-0.2	-0.1	0.2

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

Source: Schroders, Refinitiv Datastream, Bloomberg, Credit Suisse. Data as at 30 June 2023, Please see relevant disclaimers on page 68.

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

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

³Leveraged loans spread is discount margin (3-year life).

⁴All returns GBP hedged returns.

Performance table

Cross-credit overview

Date: 30 June 2023

	IG GBP non-gilts	IG GBP corporates	IG Euro	IG USD	HY GBP	HY Euro	HY USD	Hard EMD	Local EMD	Corp. EMD
Return (local)¹										
1 month return	-1.2%	-1.2%	-0.4%	0.3%	0.0%	0.5%	1.6%	2.2%	3.3%	1.1%
YTD return	-1.0%	-1.0%	2.0%	3.2%	4.5%	4.4%	5.4%	4.1%	7.8%	3.6%
1 year return	-7.1%	-7.1%	0.0%	1.4%	5.9%	8.8%	8.9%	7.4%	11.4%	5.7%
Return (GBP hedged)²										
1 month return	-1.2%	-1.2%	-0.3%	0.2%	0.0%	0.6%	1.5%	2.1%	0.7%	1.0%
YTD return	-1.0%	-1.0%	2.8%	2.6%	4.5%	5.1%	4.8%	3.5%	2.0%	3.1%
1 year return	-7.1%	-7.1%	1.3%	-0.2%	5.9%	10.2%	7.2%	5.7%	6.4%	4.3%
Spread										
1 month OAS change	1	0	-8	-12	-31	-37	-64	-45	-45	-38
YTD OAS change	-15	-19	-5	-8	-105	-48	-74	-20	-68	-13
1 year OAS change	-17	-26	-51	-34	-151	-195	-182	-110	-184	-80
Latest OAS	20	175	161	130	558	446	405	432	221	309

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

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

¹Local EMD is USD return.

²Local EMD is USD return in GBP.

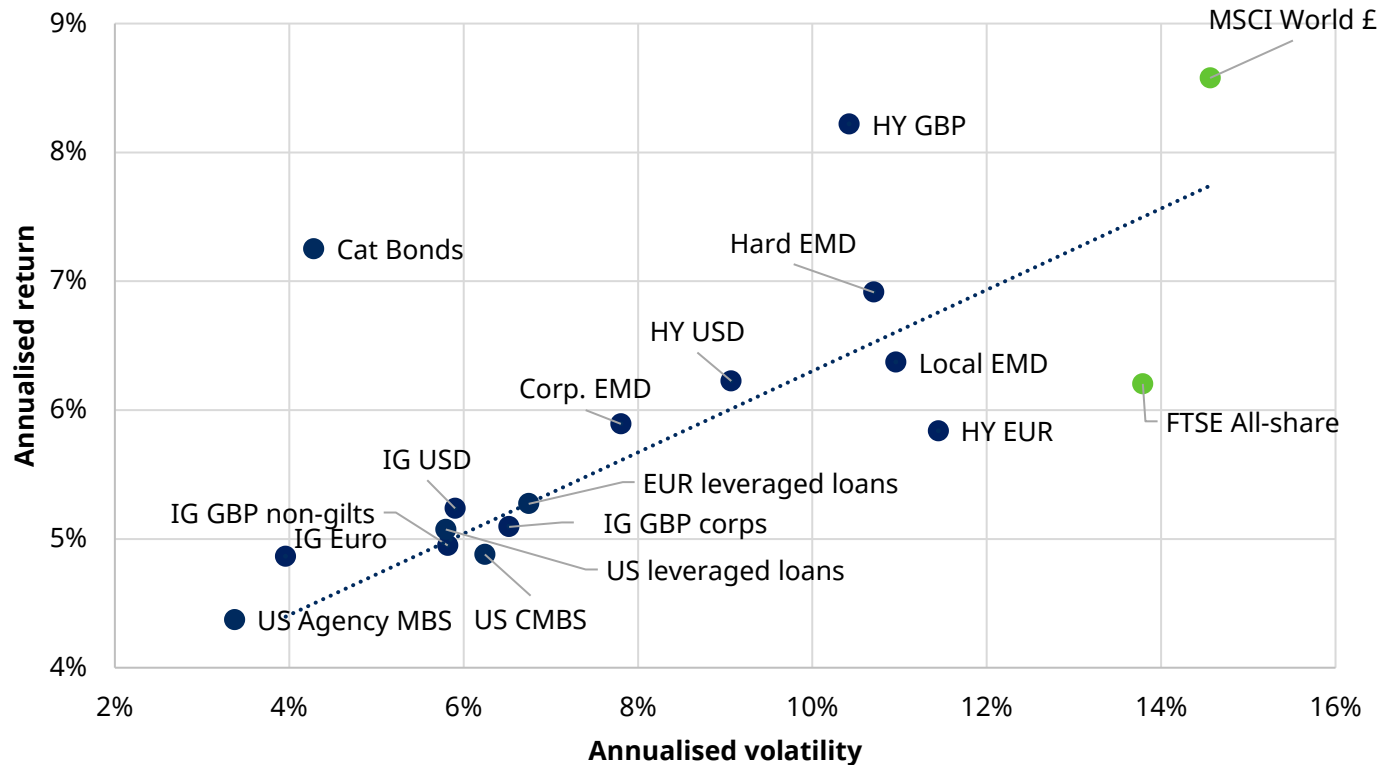
Schroders



Cross-credit analysis

Cross-credit risk-return profile

Since Jan 1997 or inception



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

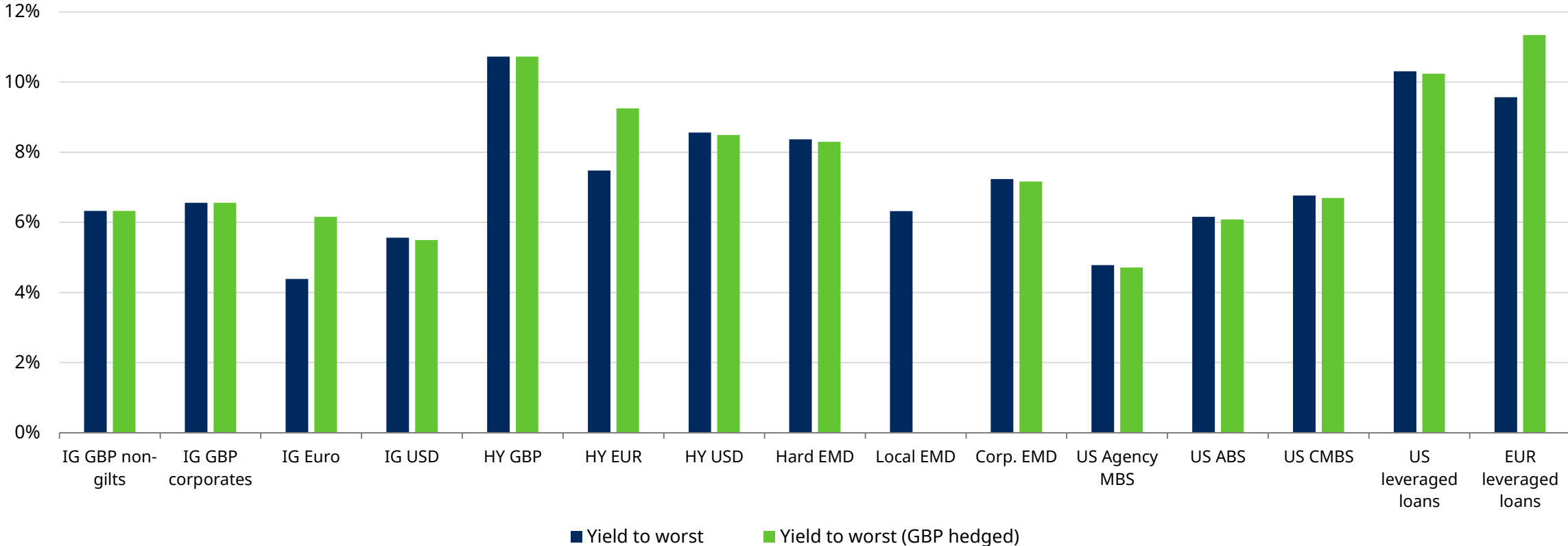
Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Barclays, Credit Suisse. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

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

Cross-credit yield

Yield to worst⁽¹⁾



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

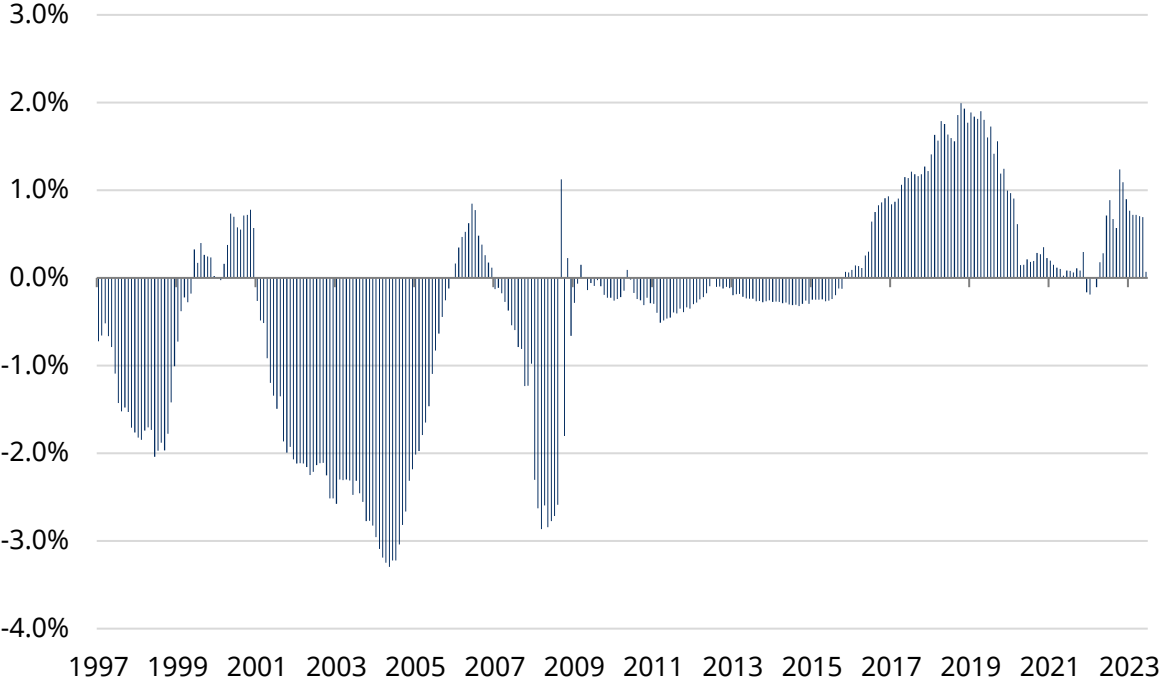
Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg, Credit Suisse. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

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

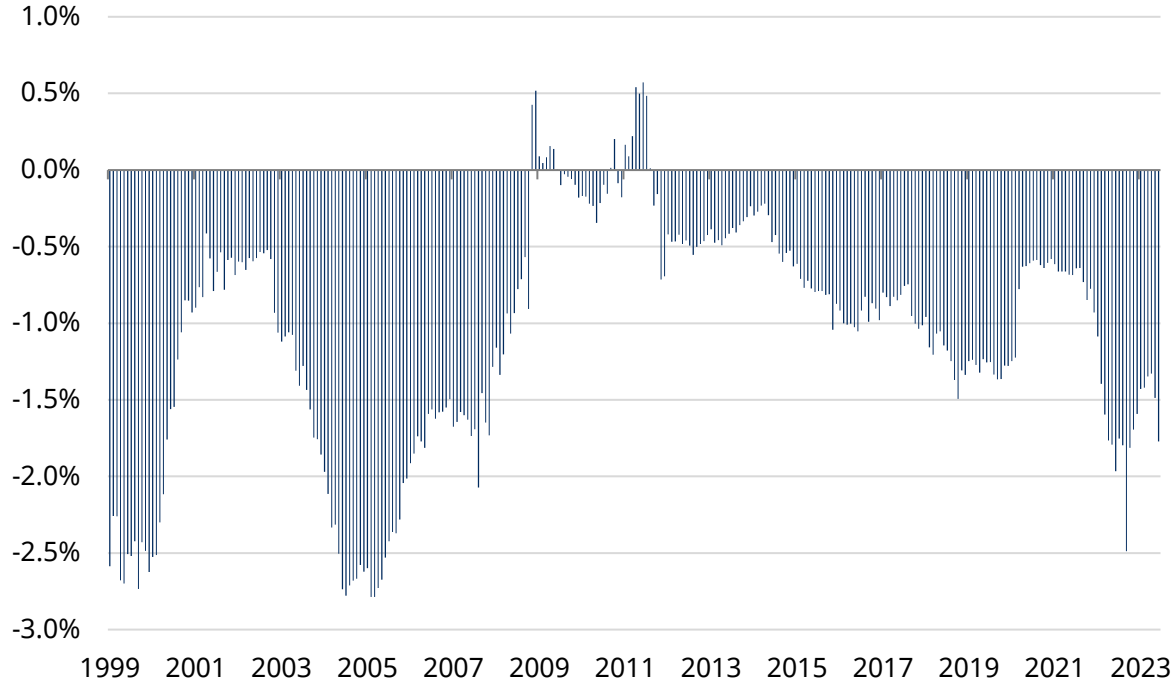
FX hedging cost or return

Using 3-month FX forwards

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



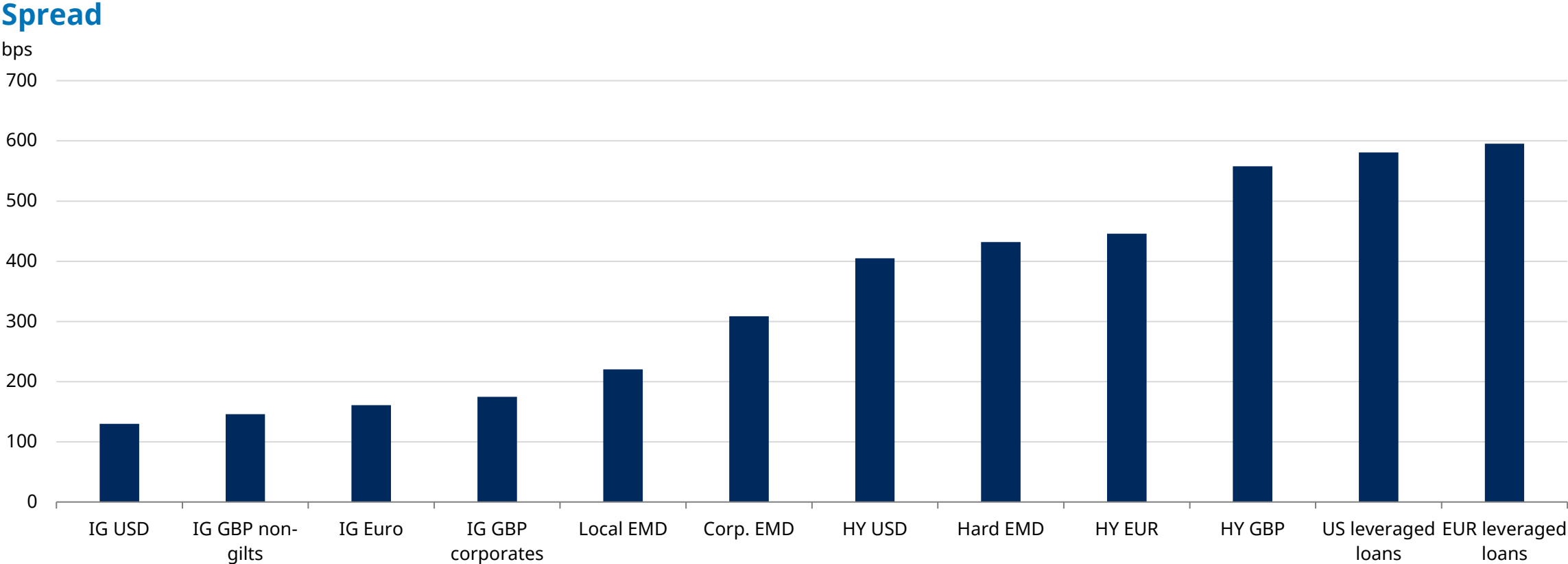
Annualised EUR to GBP hedging cost (pos) or return (neg)



USD yields will be little different in GBP once hedging taken account
EUR yields will be 1.8% higher in GBP once hedging taken account

Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

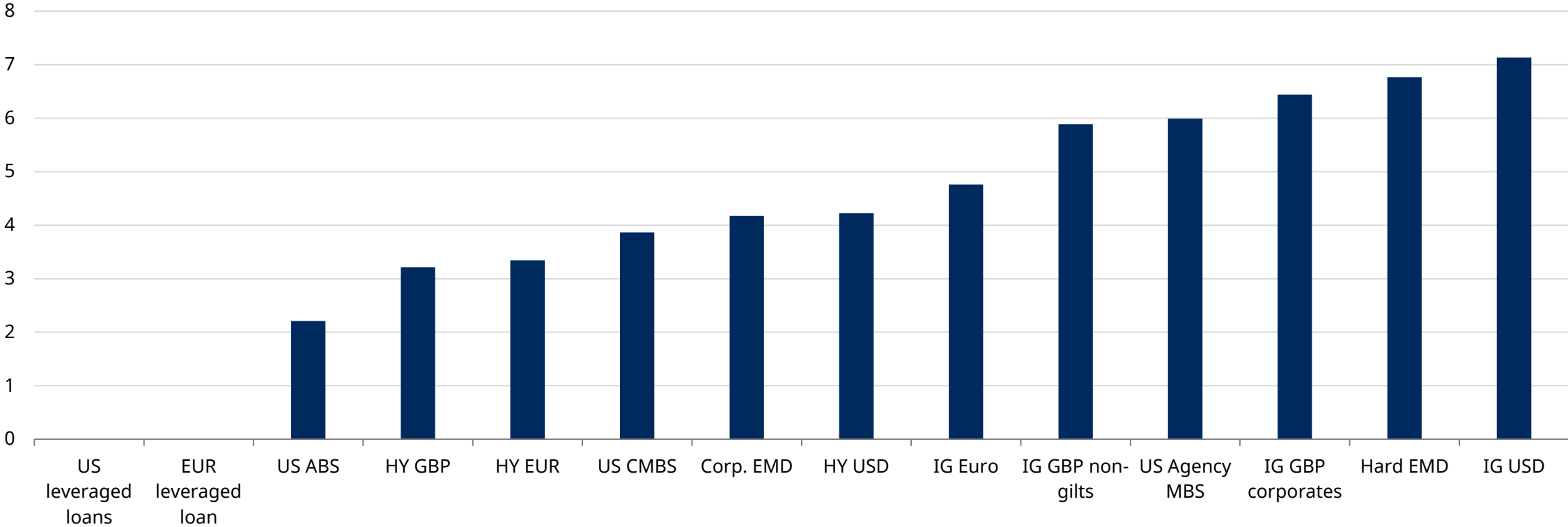
Cross-credit spread



Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg, Credit Suisse. Data as at 30 June 2023. Local EMD has been estimated as a spread over Treasuries of similar maturity. Leveraged loan spread is Discount Margin (3-year life). Please see relevant disclaimers on page 68.

Cross-credit duration

Modified duration

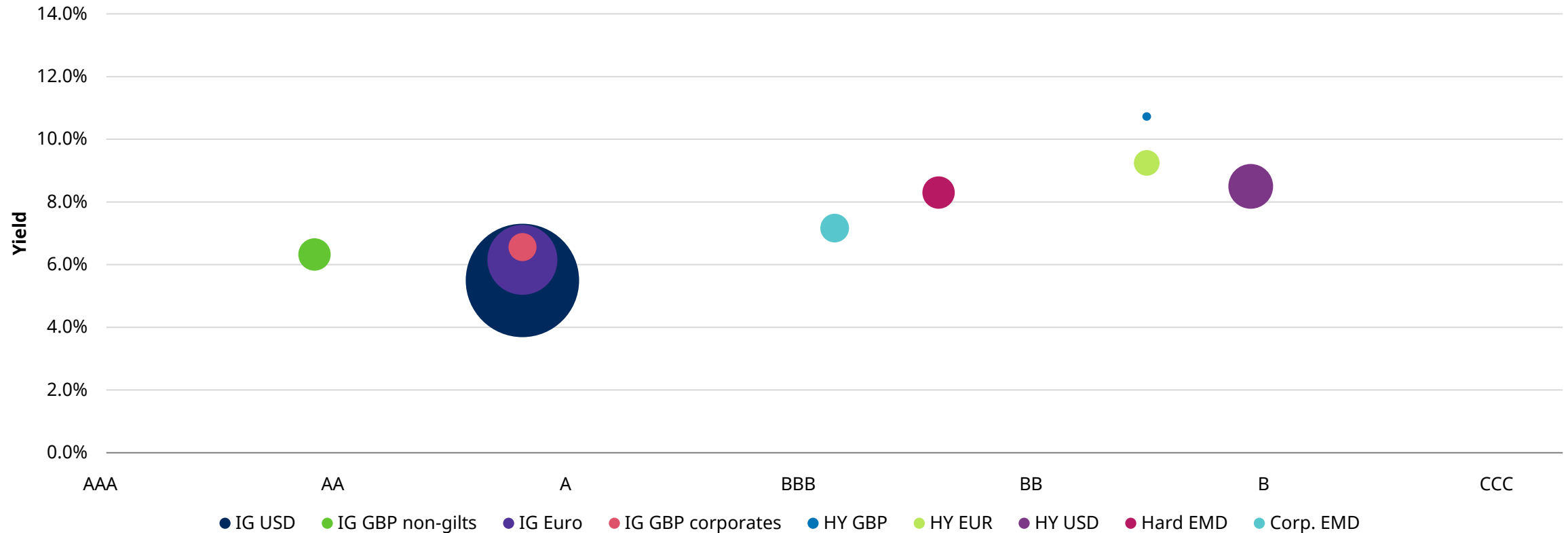


Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan, Bloomberg. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

Yield vs. credit rating vs. market size

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

Yield (GBP hedged) vs credit rating vs market size

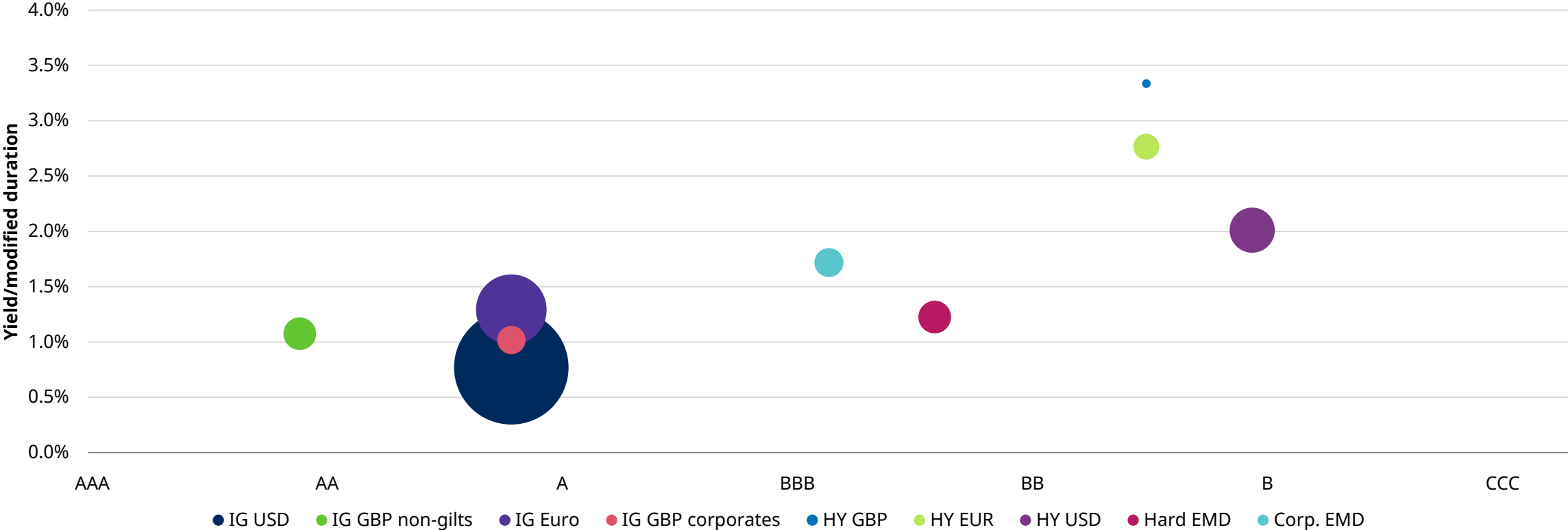


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

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

Vertical axis is yield divided by modified duration

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

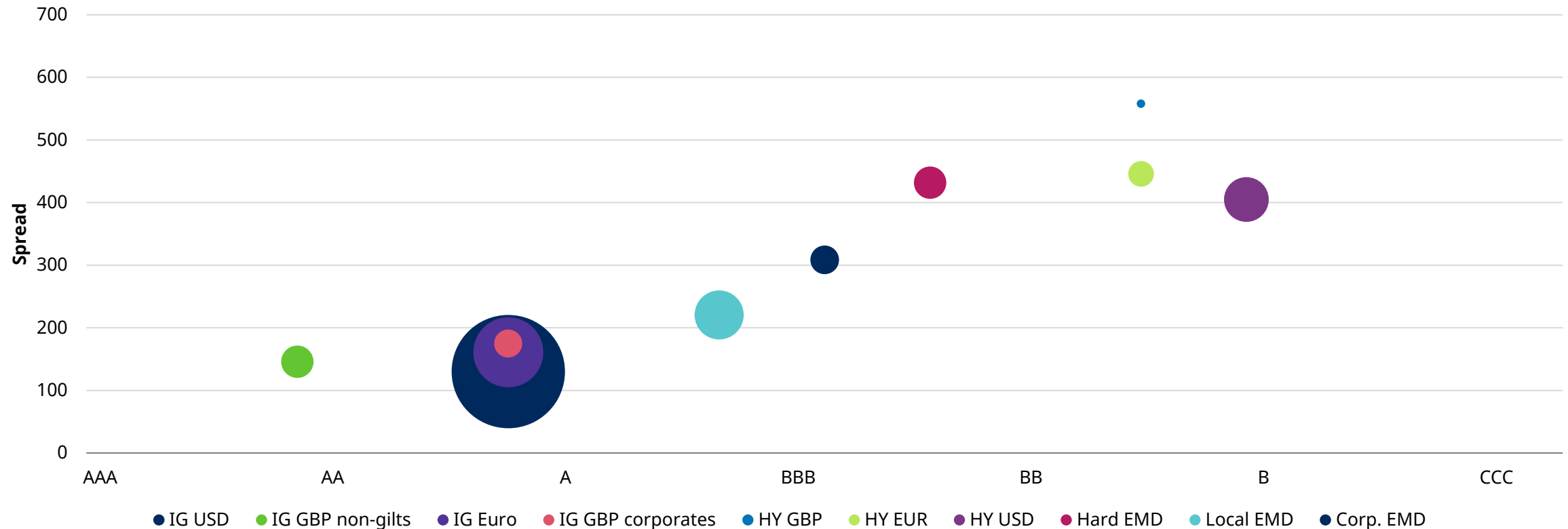


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

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

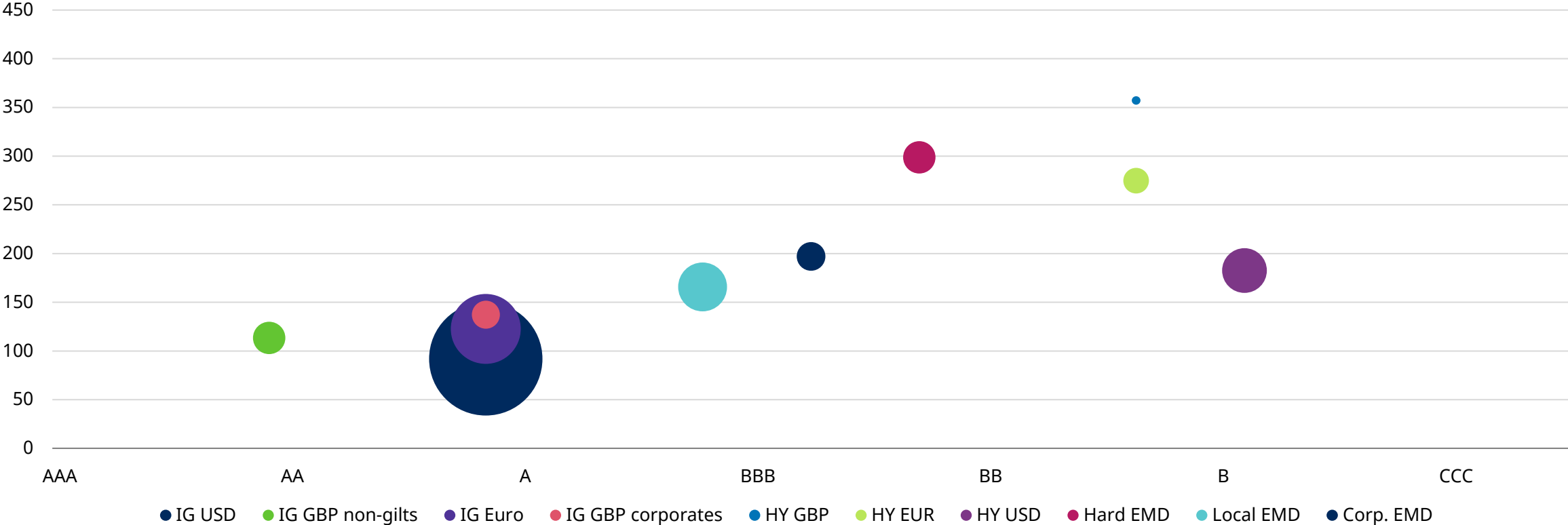


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

Risk premium vs. credit rating vs. market size

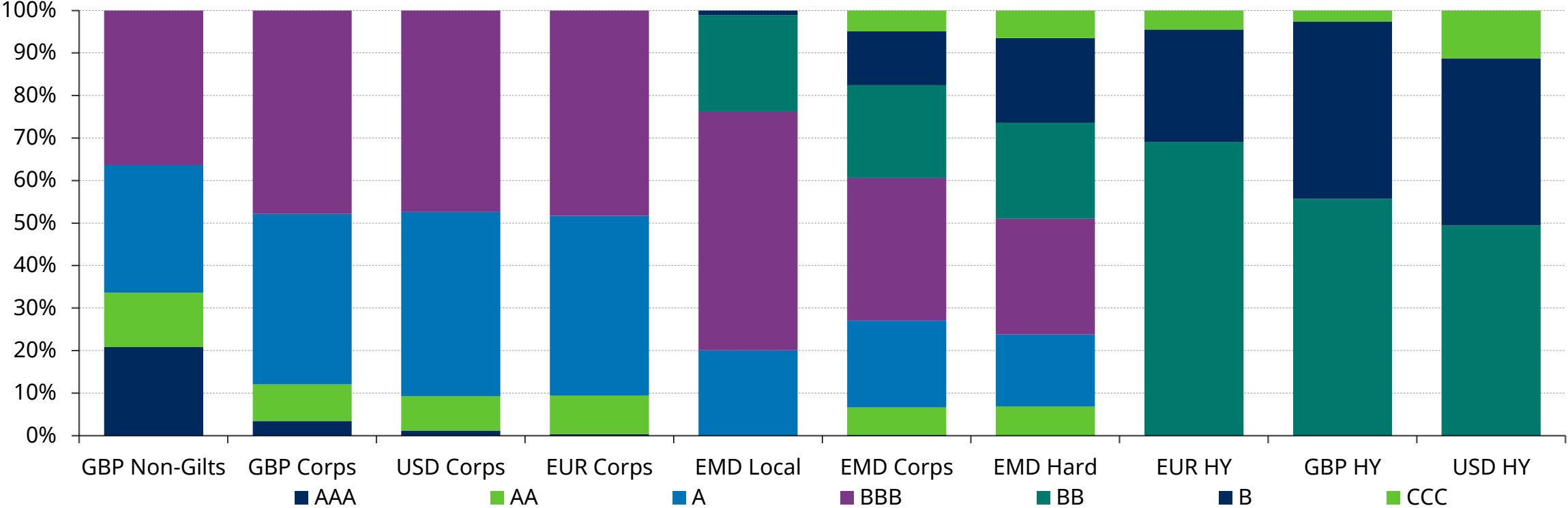
Risk premium = credit spread – long term default and downgrade losses

Risk premium vs credit rating vs market size



Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68. Local EMD returns are driven by rates and currency movements rather than defaults

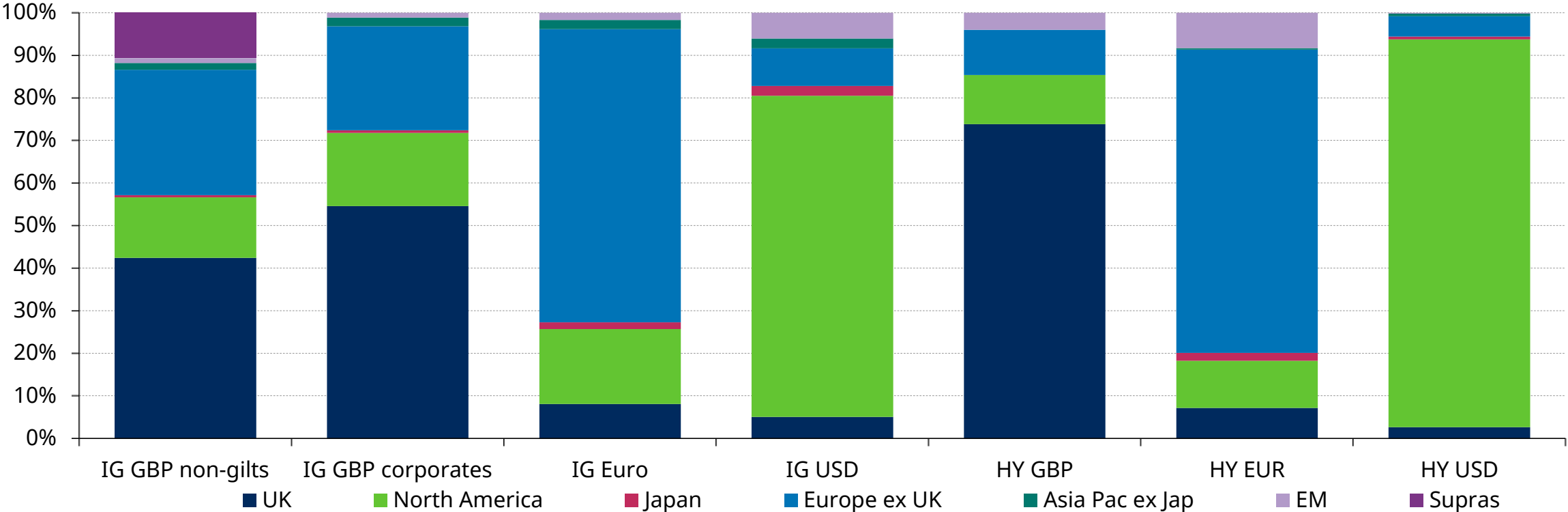
Cross-credit ratings split



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

Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

Currency of issue vs country of issuer

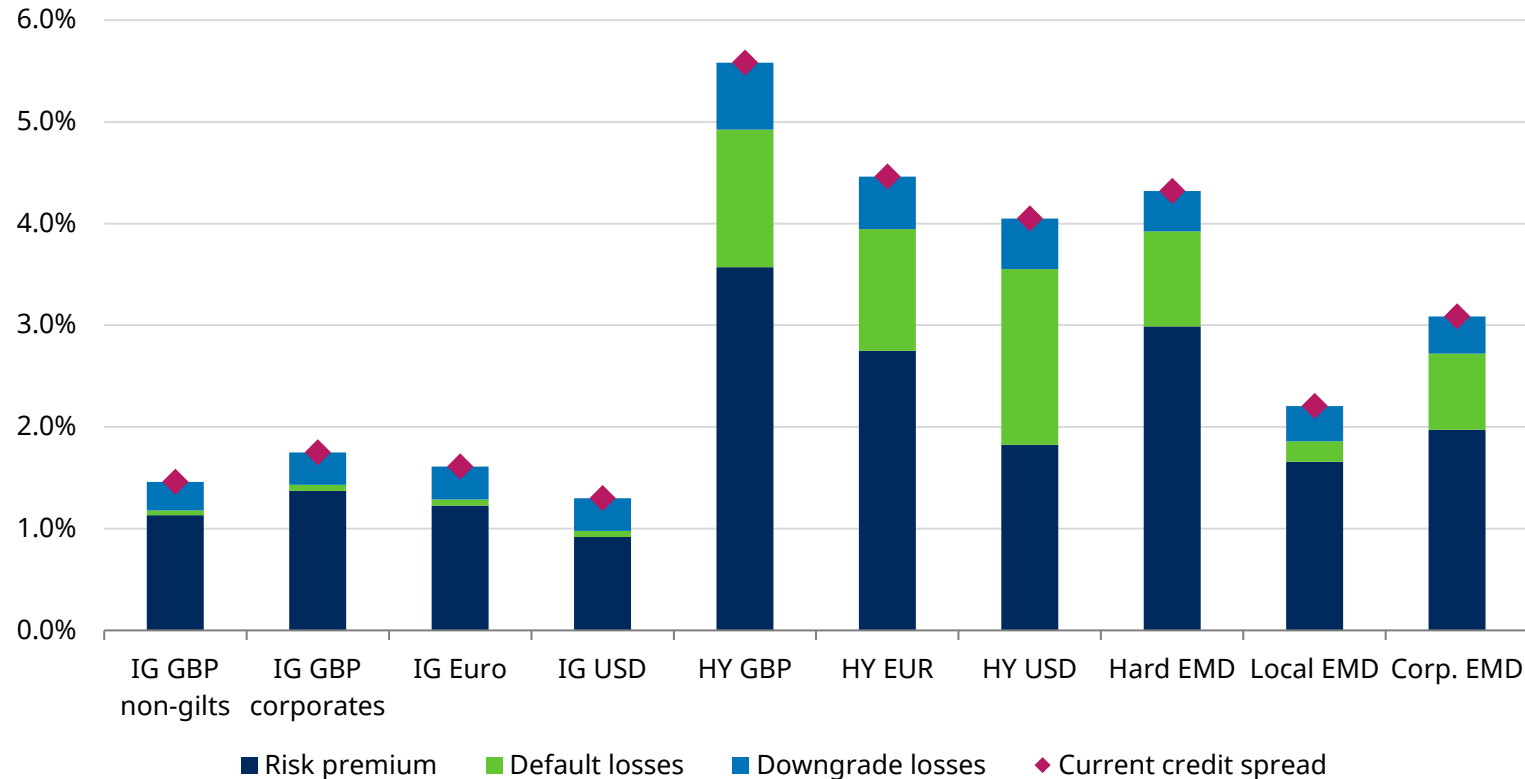


Almost half of GBP IG issuers are not based in the UK

Source: Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 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 30 June 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%	1.5%	1.1%
IG GBP corporates	0.1%	0.1%	0.3%	1.8%	1.4%
IG Euro	0.1%	0.1%	0.3%	1.6%	1.2%
IG USD	0.1%	0.1%	0.3%	1.3%	0.9%
HY GBP	2.1%	1.4%	0.7%	5.6%	3.6%
HY EUR	1.8%	1.2%	0.5%	4.5%	2.7%
HY USD	2.7%	1.7%	0.5%	4.1%	1.8%
Hard EMD	1.4%	0.9%	0.4%	4.3%	3.0%
Local EMD	0.3%	0.2%	0.3%	2.2%	1.7%
Corp. EMD	1.1%	0.8%	0.4%	3.1%	2.0%

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

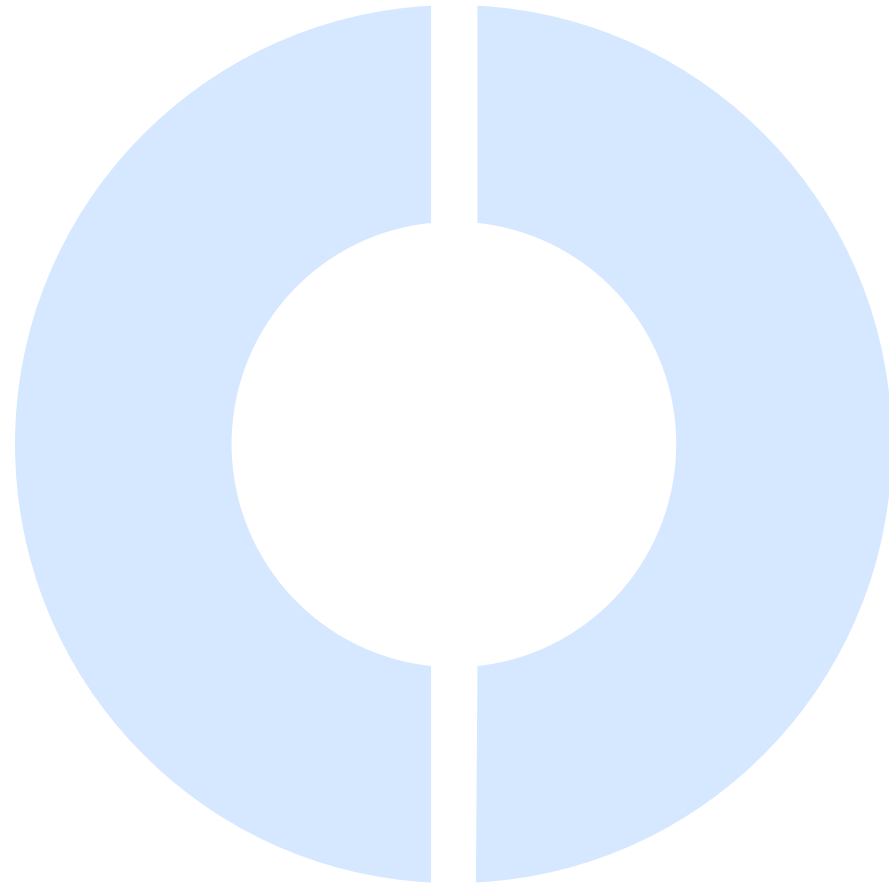
Source: Schroders, Moody's default and recovery study 2022, ICE Data Indices, J.P.Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

¹Based on average historical default rate

²Default rate * (1-recovery rate)

³Credit spread – default losses – downgrade losses

Schroders

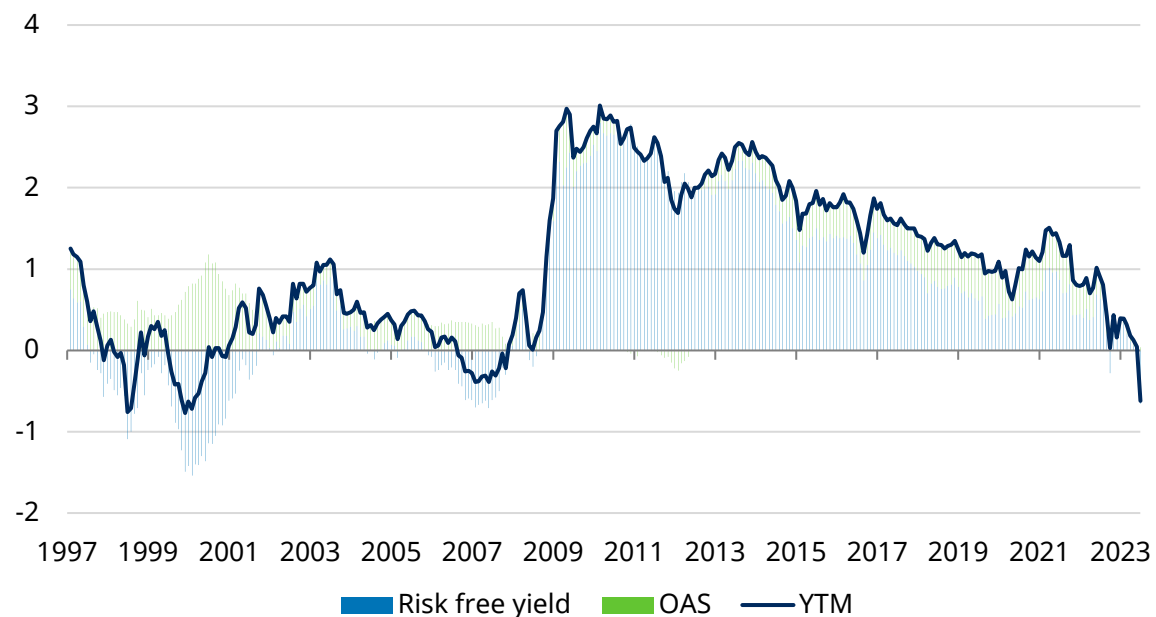


IG long vs short

Shape of the curve

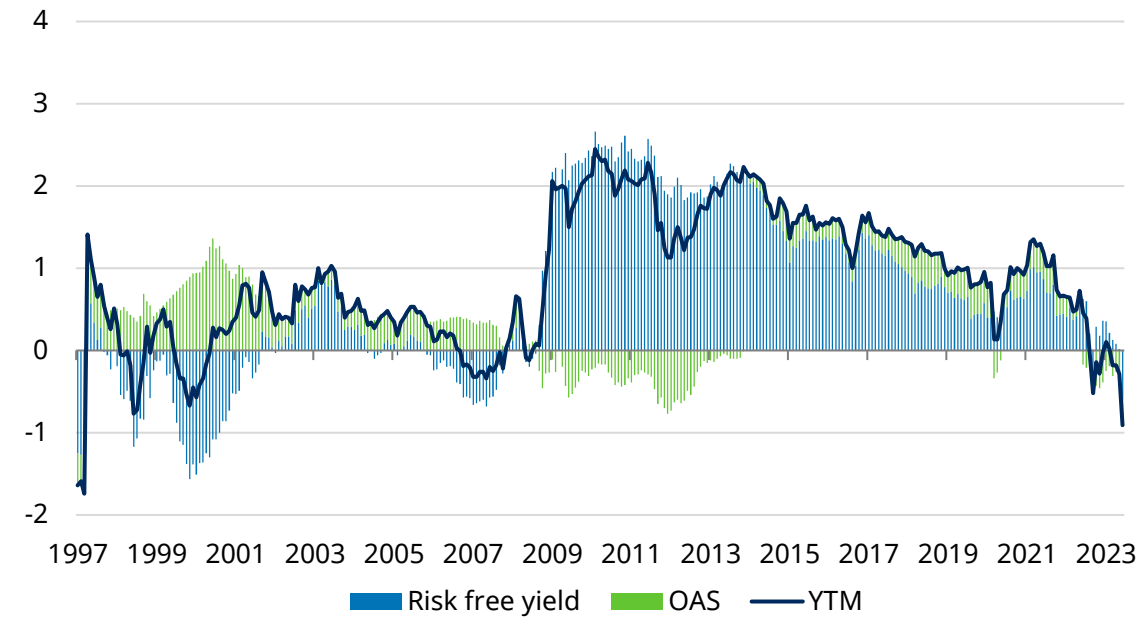
Shape of GBP IG curves

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



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

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

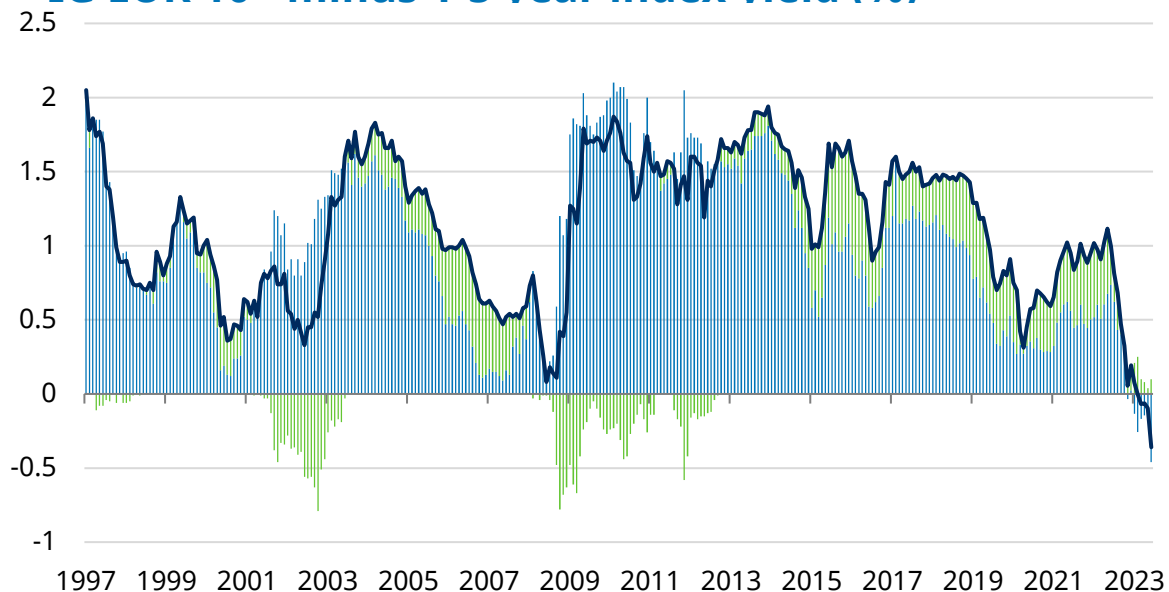


	YTW	OAS	Duration
IG GBP corporates 1-5 year	7.0%	183	2.8
IG GBP corporates Index	6.6%	175	6.4
IG GBP corporates 10+	6.1%	152	11.3

Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

Shape of EUR and USD IG curves

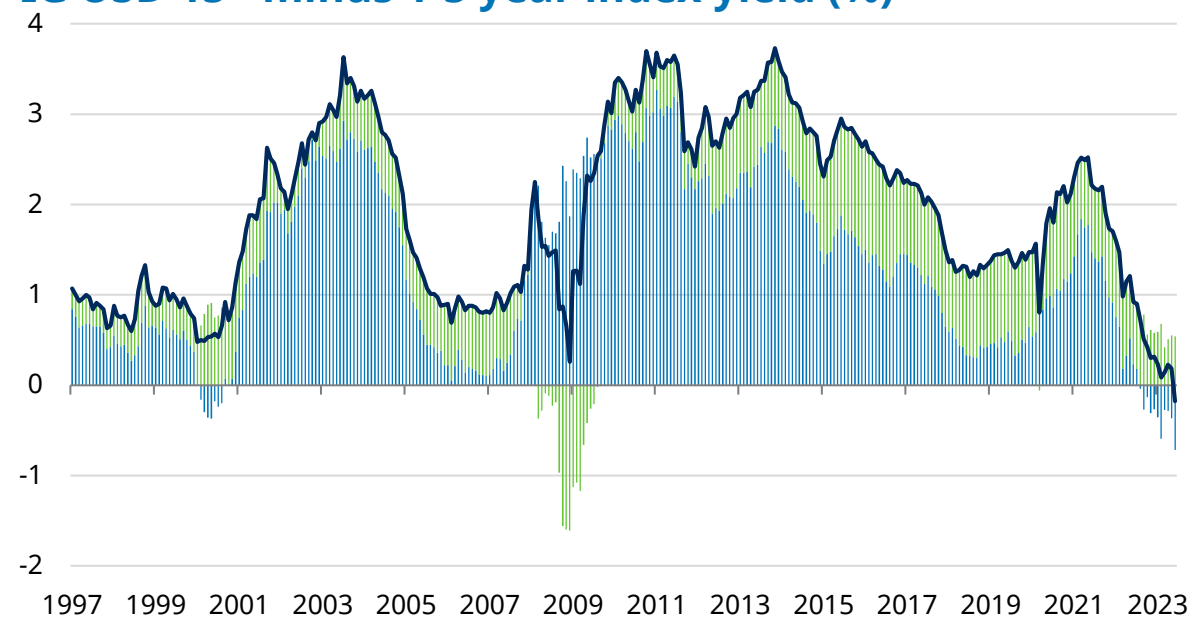
IG EUR 10+ minus 1-5 year index yield (%)



■ Risk free yield ■ OAS — YTM

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

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



■ Risk free yield ■ OAS — YTM

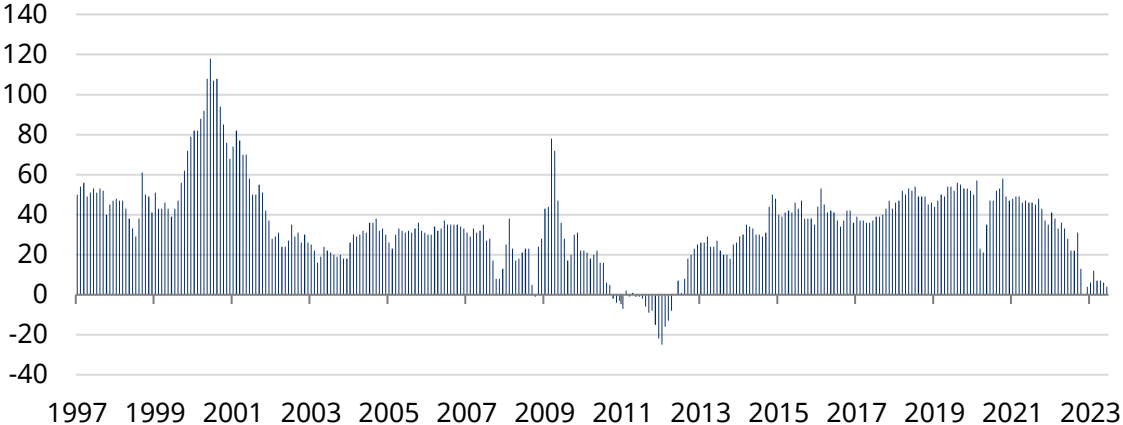
	YTW	OAS	Duration
IG USD 1-5 year	5.7%	98	2.8
IG USD Index	5.6%	130	7.1
IG USD 10+	5.5%	152	14.1

Source: Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

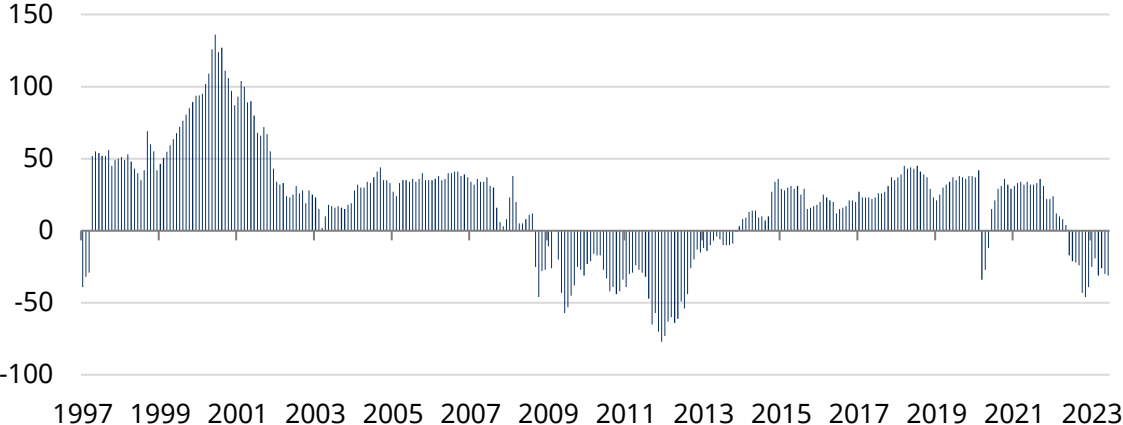
IG long vs short OAS

Shape of spread curves

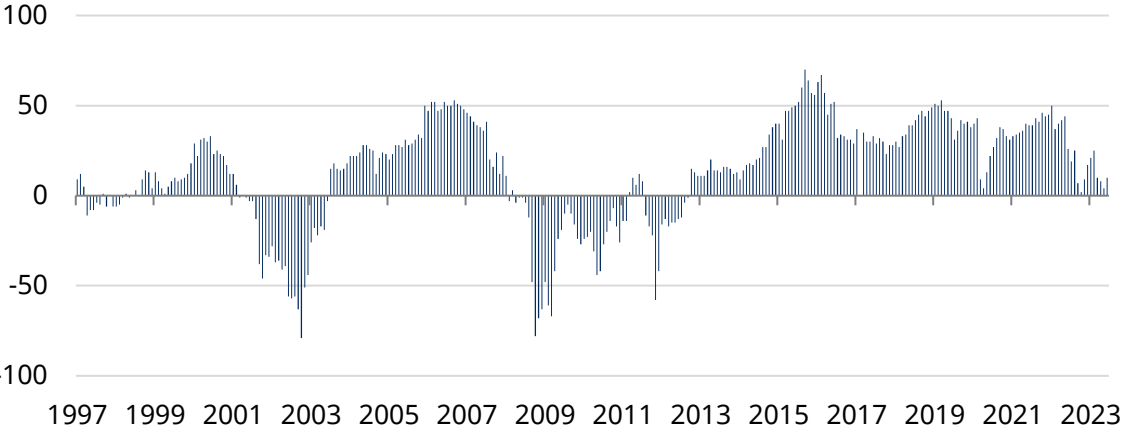
IG GBP non-gilts (bps)



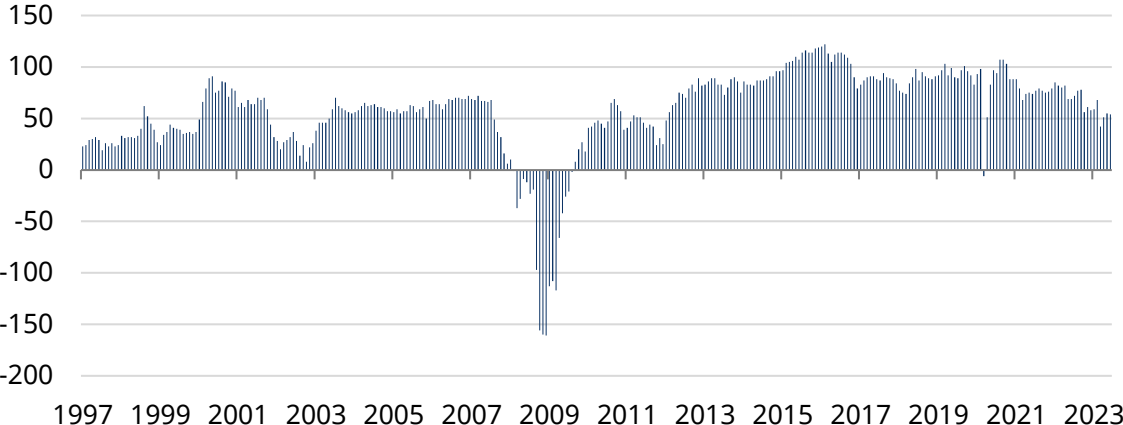
IG GBP corporates (bps)



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 30 June 2023. Please see relevant disclaimers on page 68.

Schroders

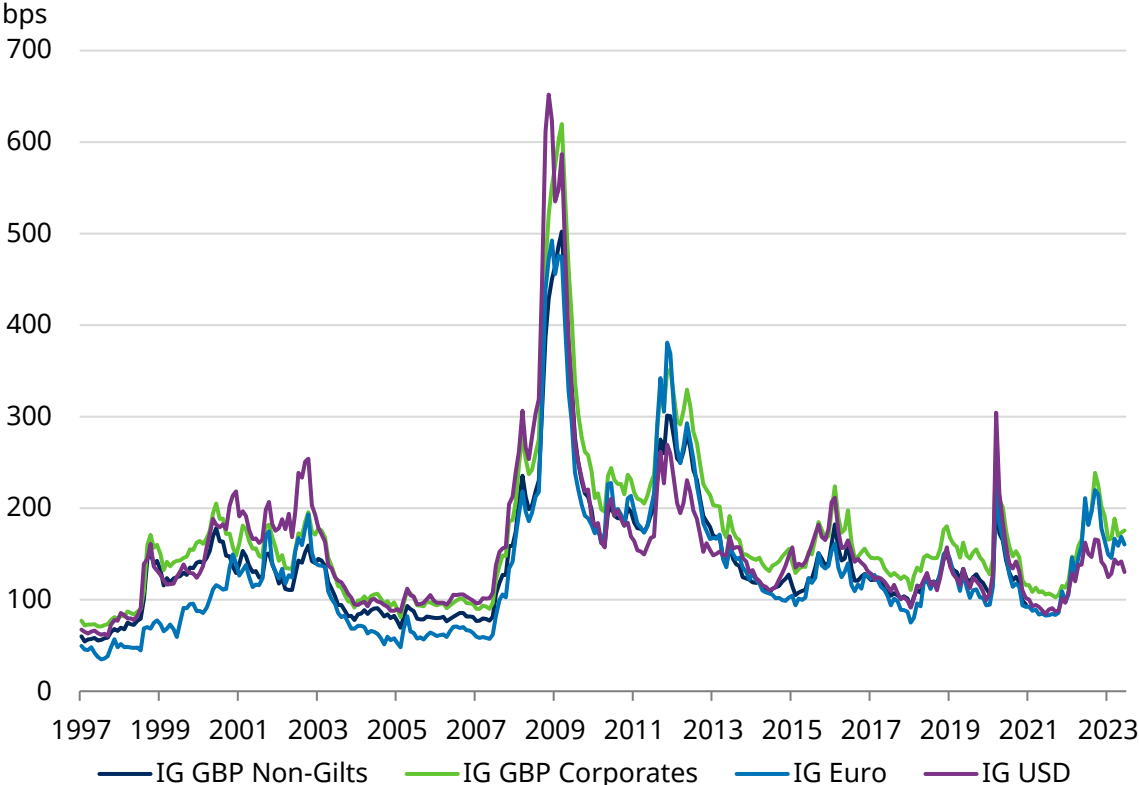


Corporate credit
Valuation

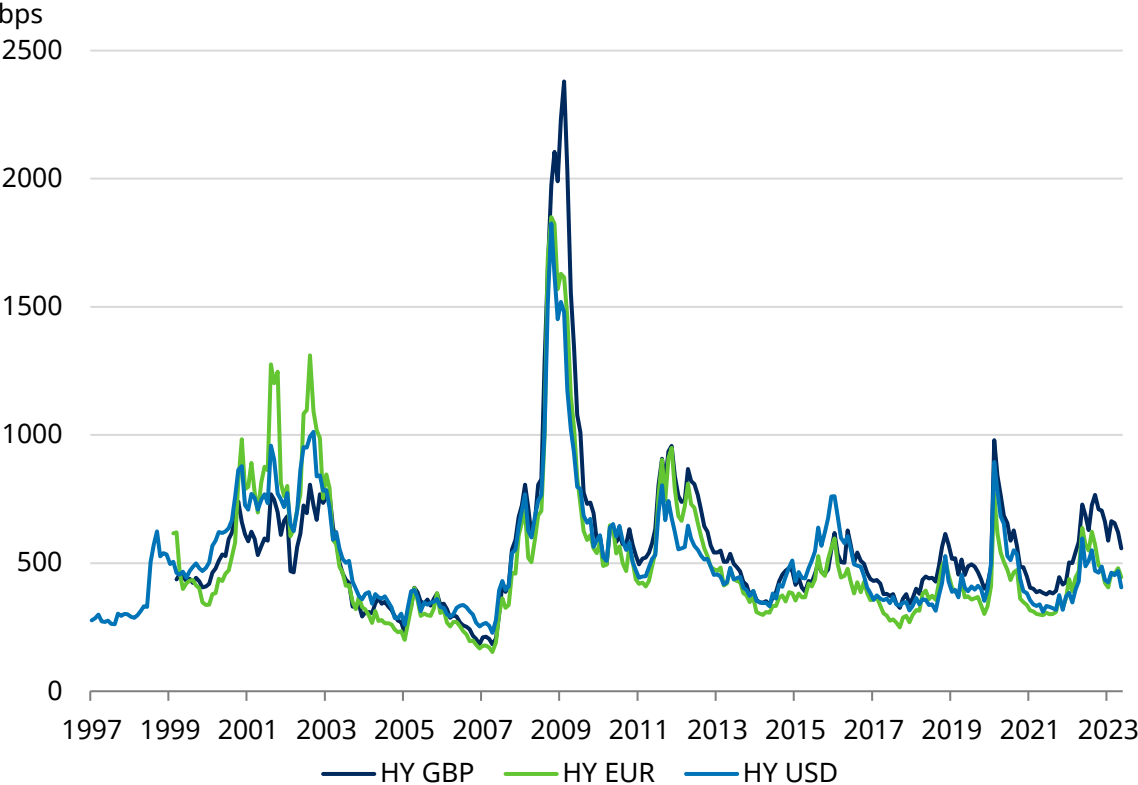
IG and HY valuation

Historical ratings-adjusted credit spreads

IG adjusted spreads



HY adjusted spreads

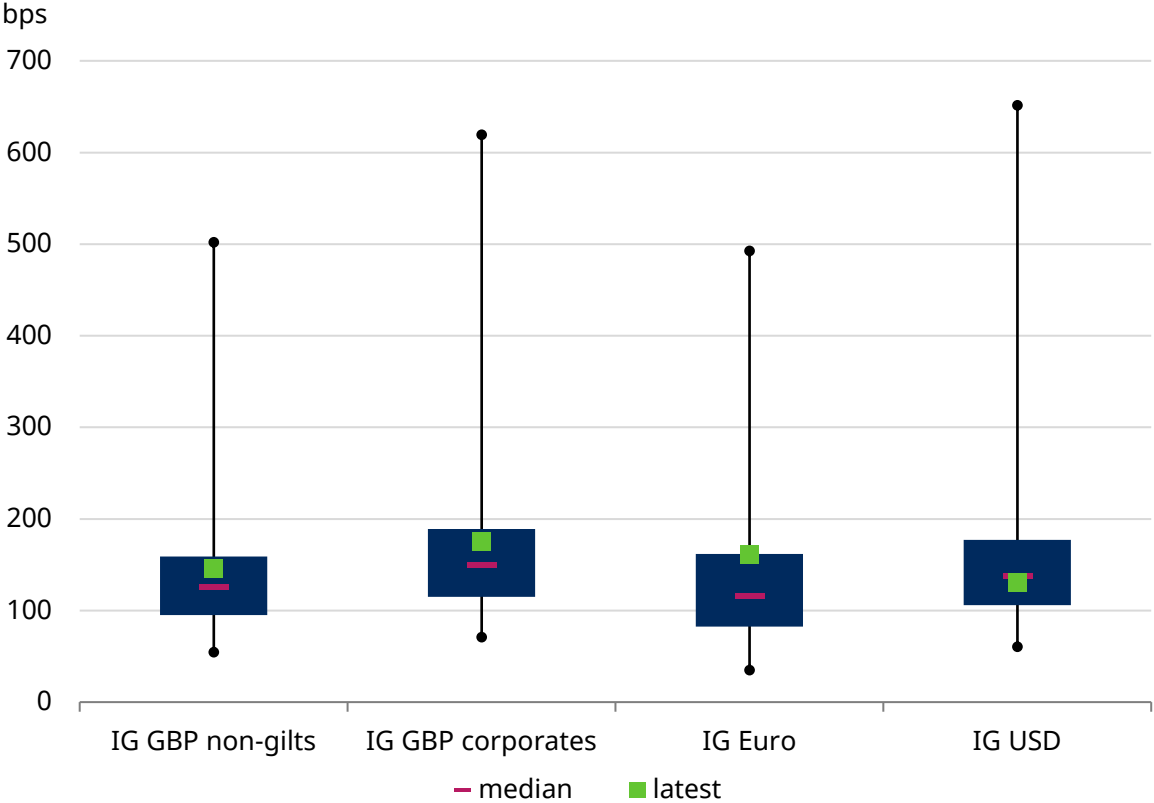


Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 June 2023. Please see relevant disclaimers on page 68. Spreads are adjusted for changes in the distribution of credit ratings within each index over time.

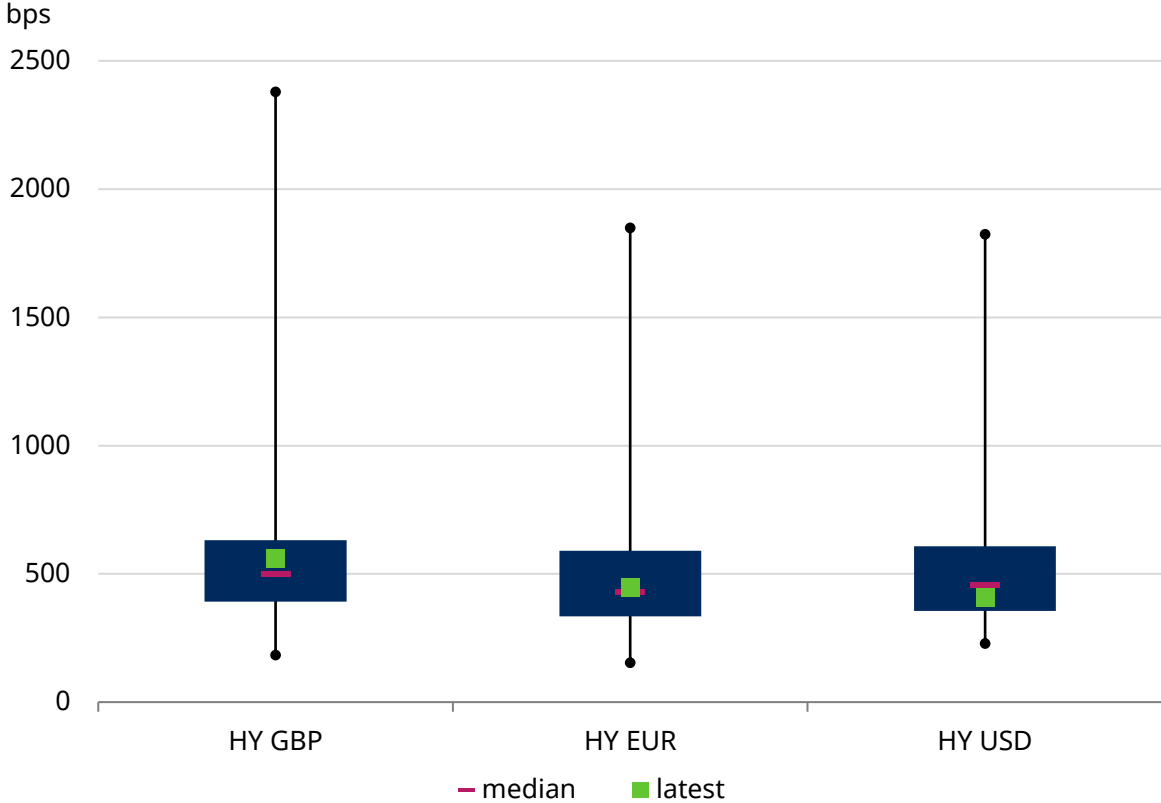
IG and HY valuation

Spread percentiles¹

IG adjusted spreads



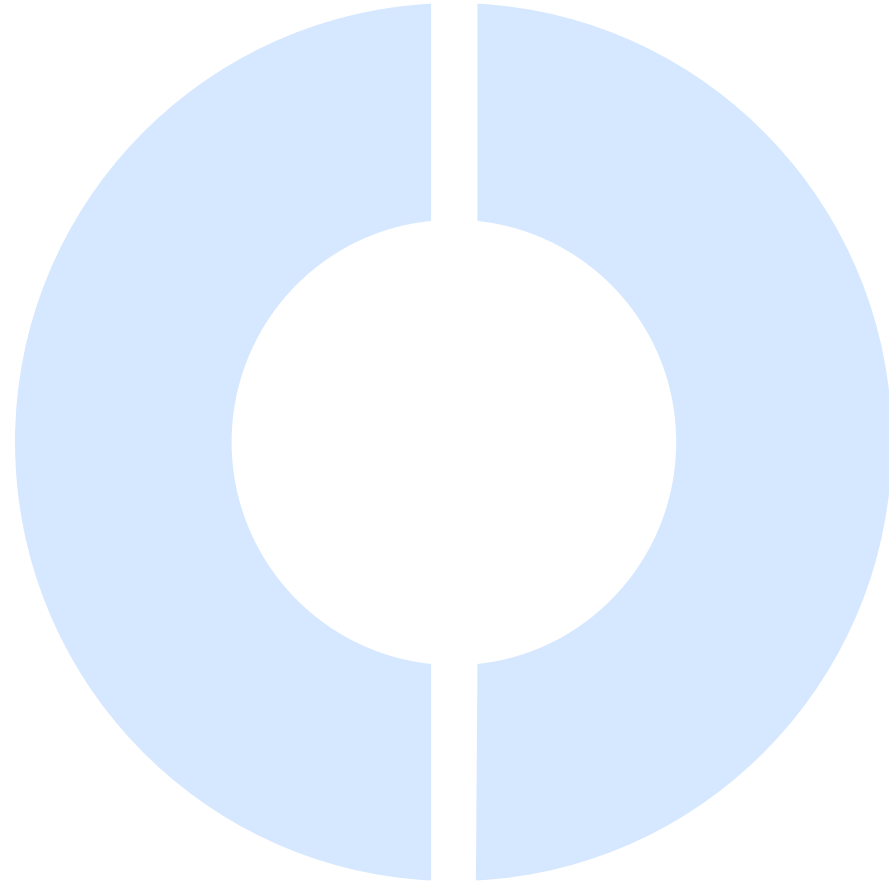
HY adjusted spreads



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



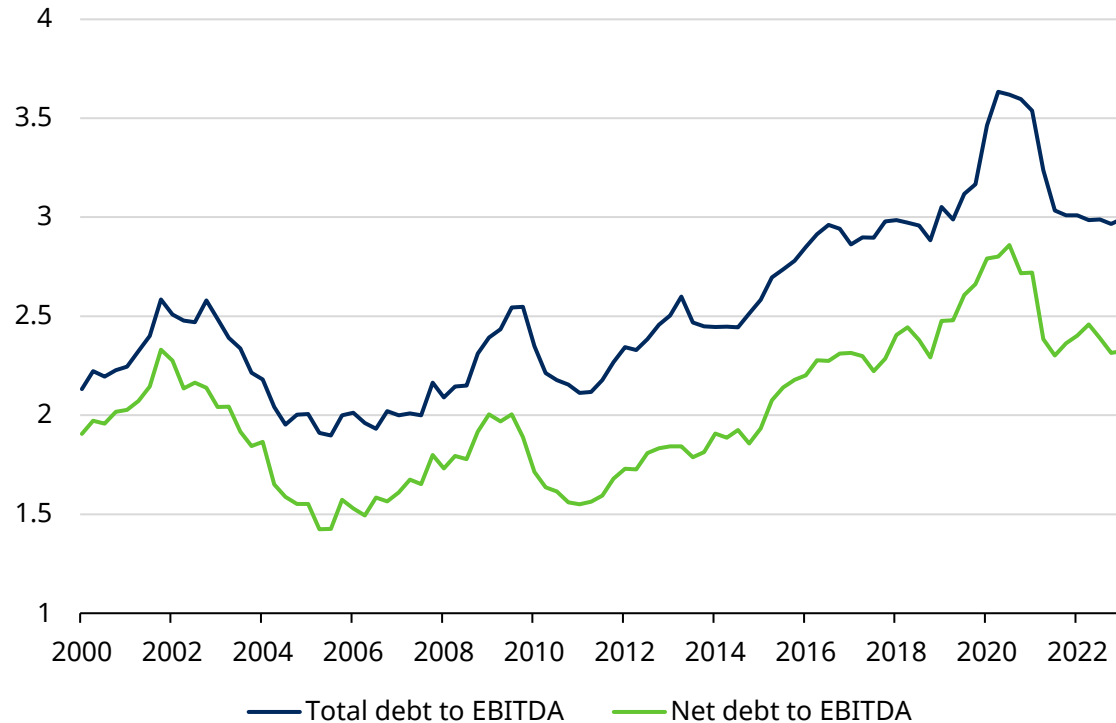
Corporate credit
Fundamentals

US IG leverage

Leverage has been broadly stable in recent quarters

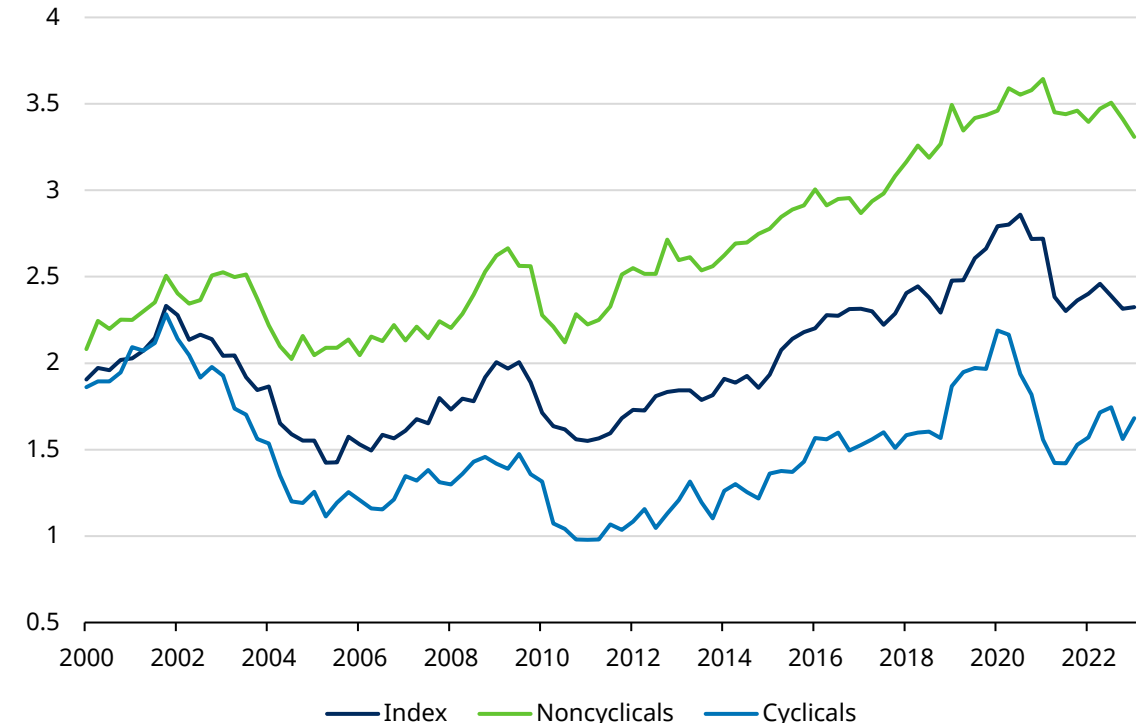
US IG leverage

Debt to last 12 months EBITDA



US IG net leverage

Net debt to last 12 months EBITDA



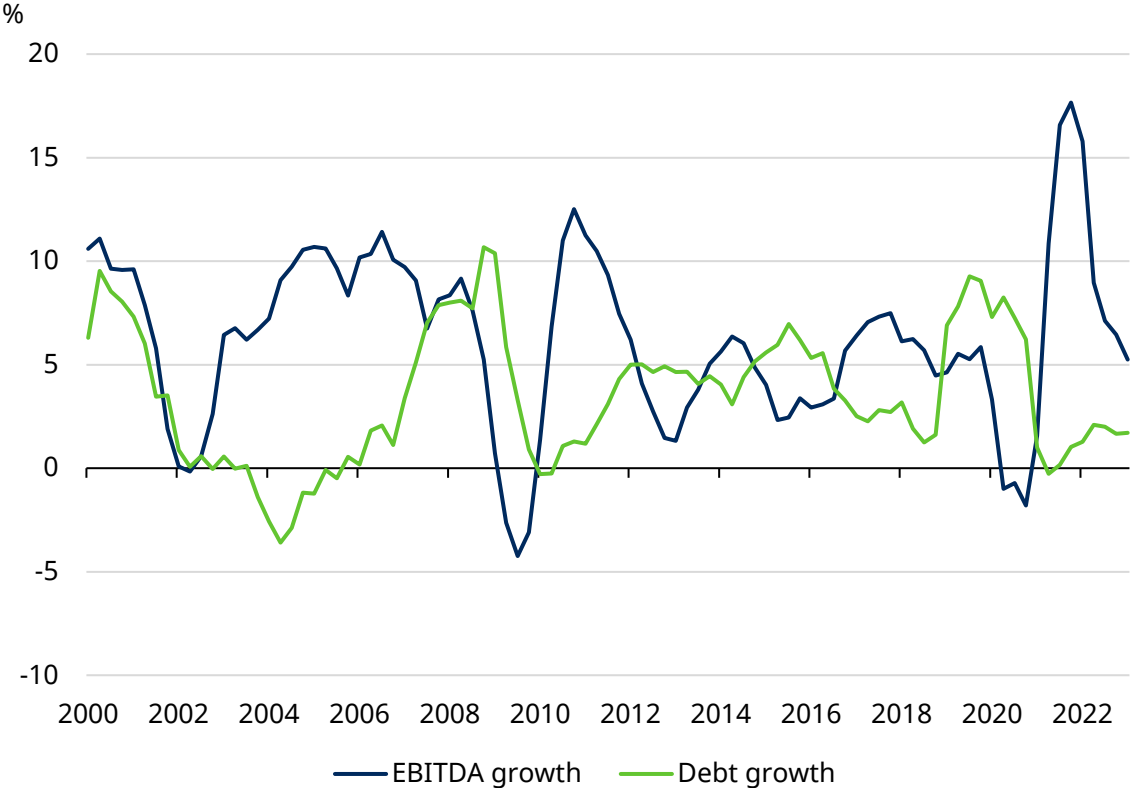
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

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

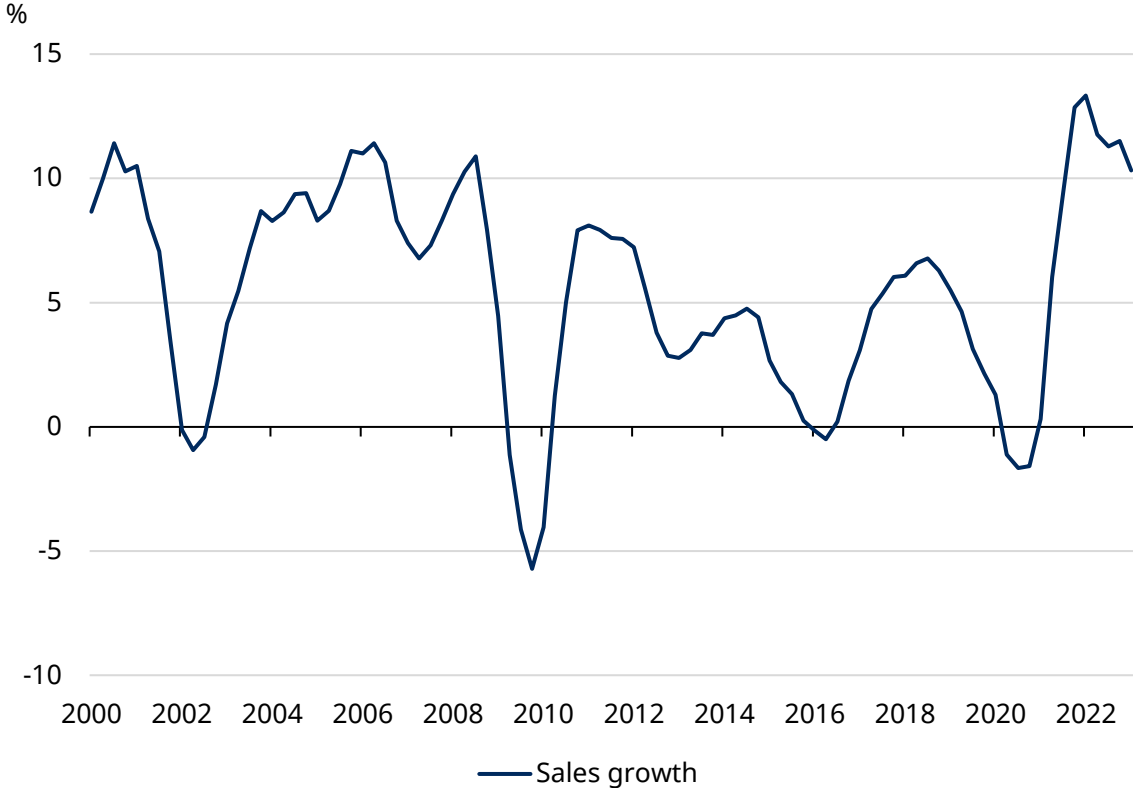
US IG earnings, sales and debt growth

Earnings growth continued to slow in Q1

US IG EBITDA and debt growth (last 12 months)



US IG sales growth (last 12 months)



Sales growth also slowed but remains at very elevated levels

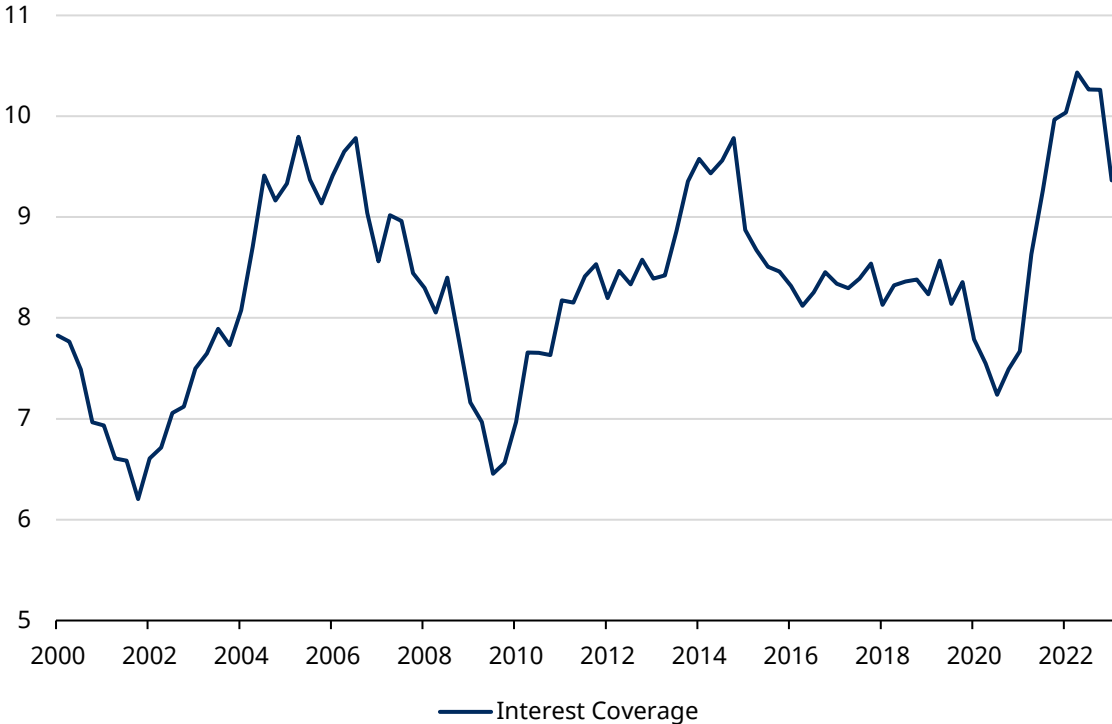
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

US IG interest coverage

Interest coverage has declined but remains elevated

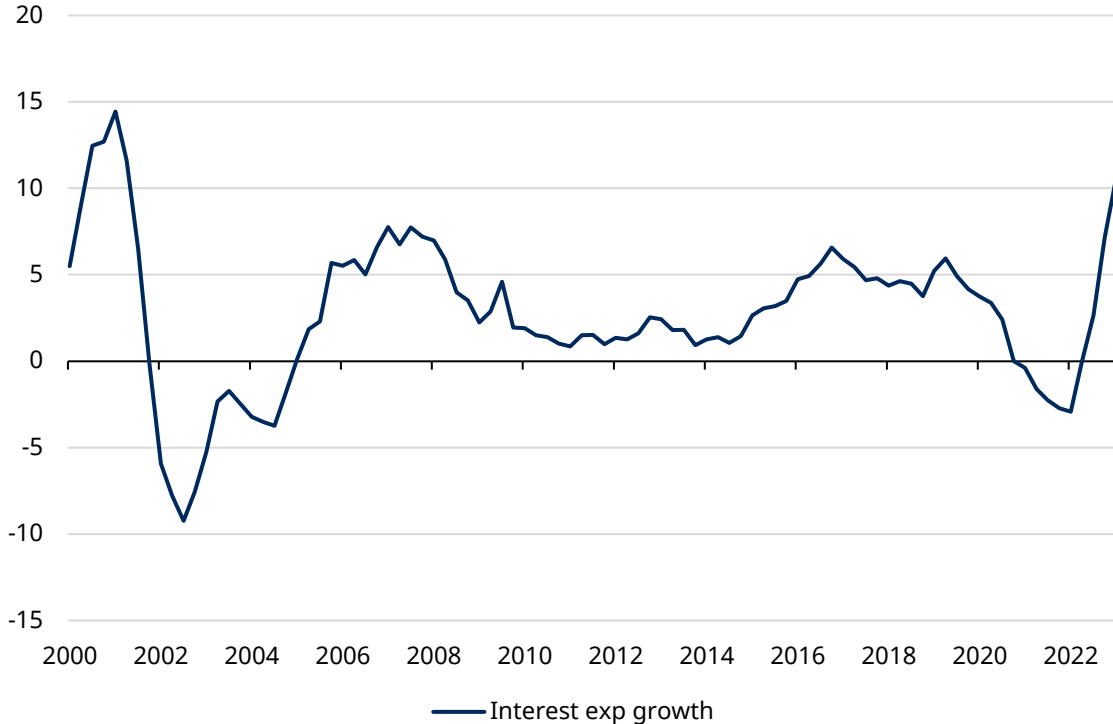
US IG interest coverage ratio

Last 12 months EBITDA to interest expense



US IG annual interest expense growth

%



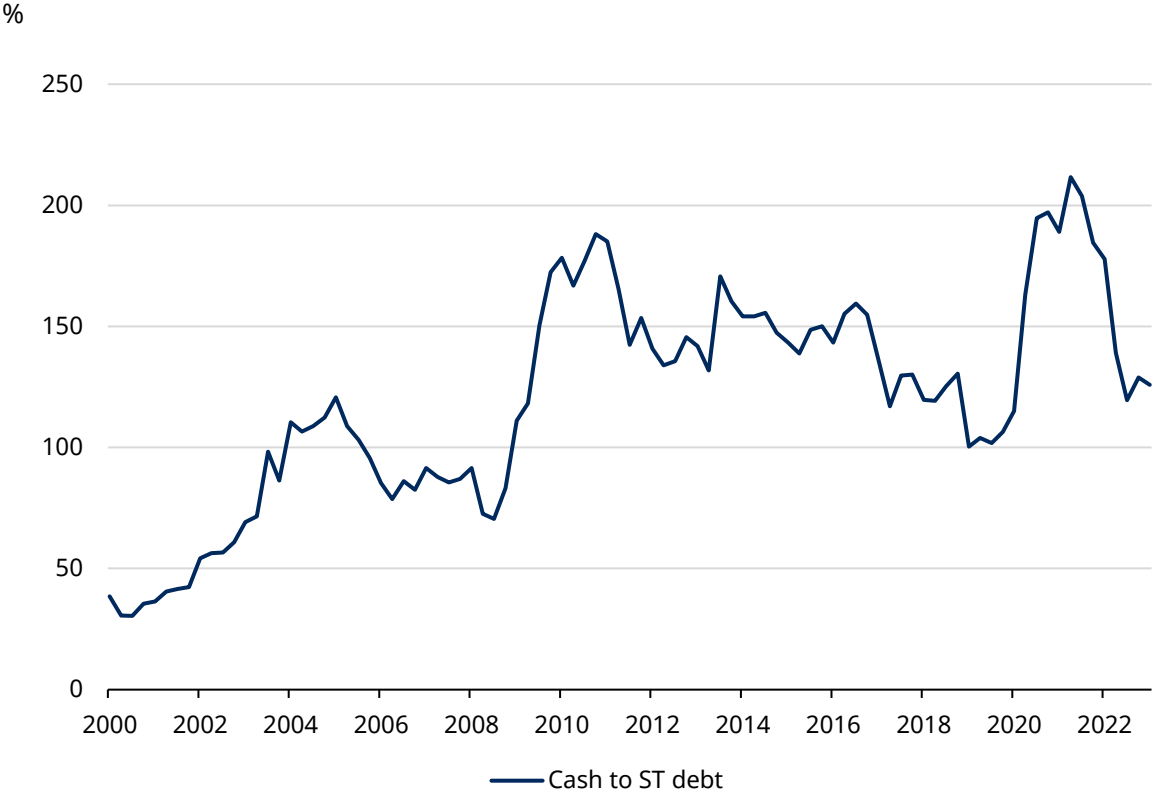
Interest expense growth is the highest since 2001 as higher interest rates are starting to have an impact

Source: Schrodgers, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

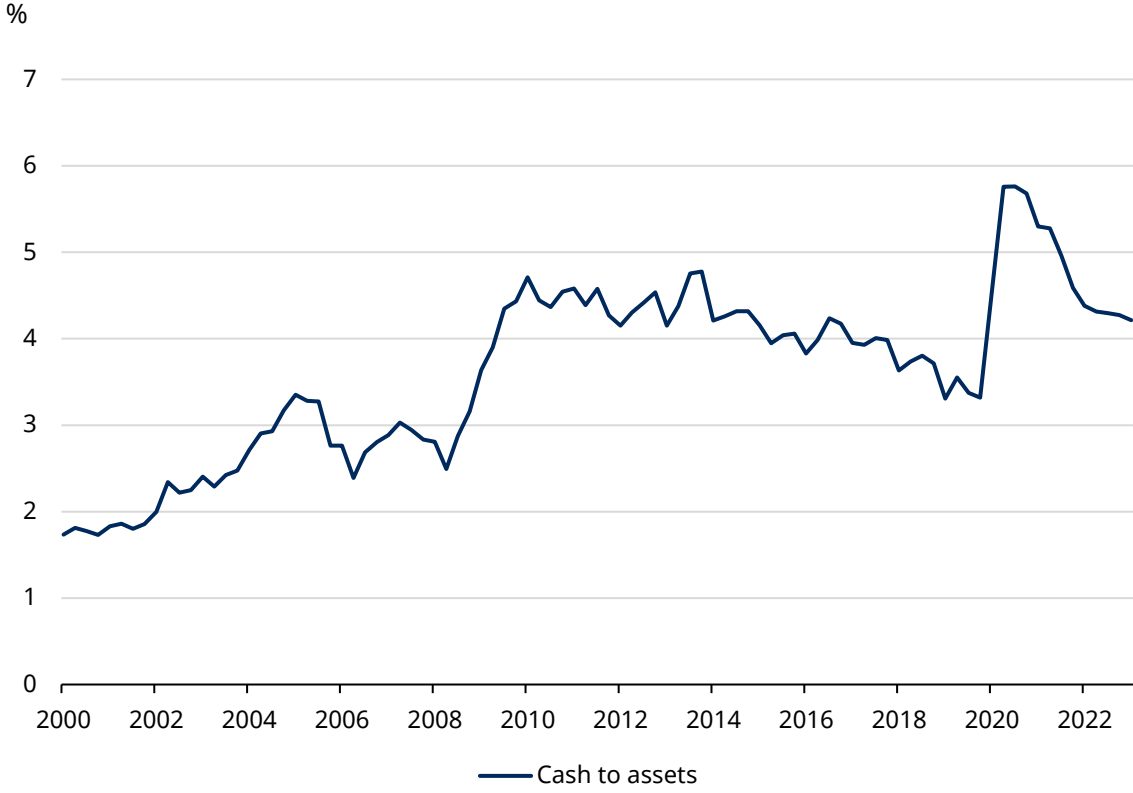
US IG cash balances

Cash balances broadly stable in Q1

US IG cash to short term debt



US IG cash to assets

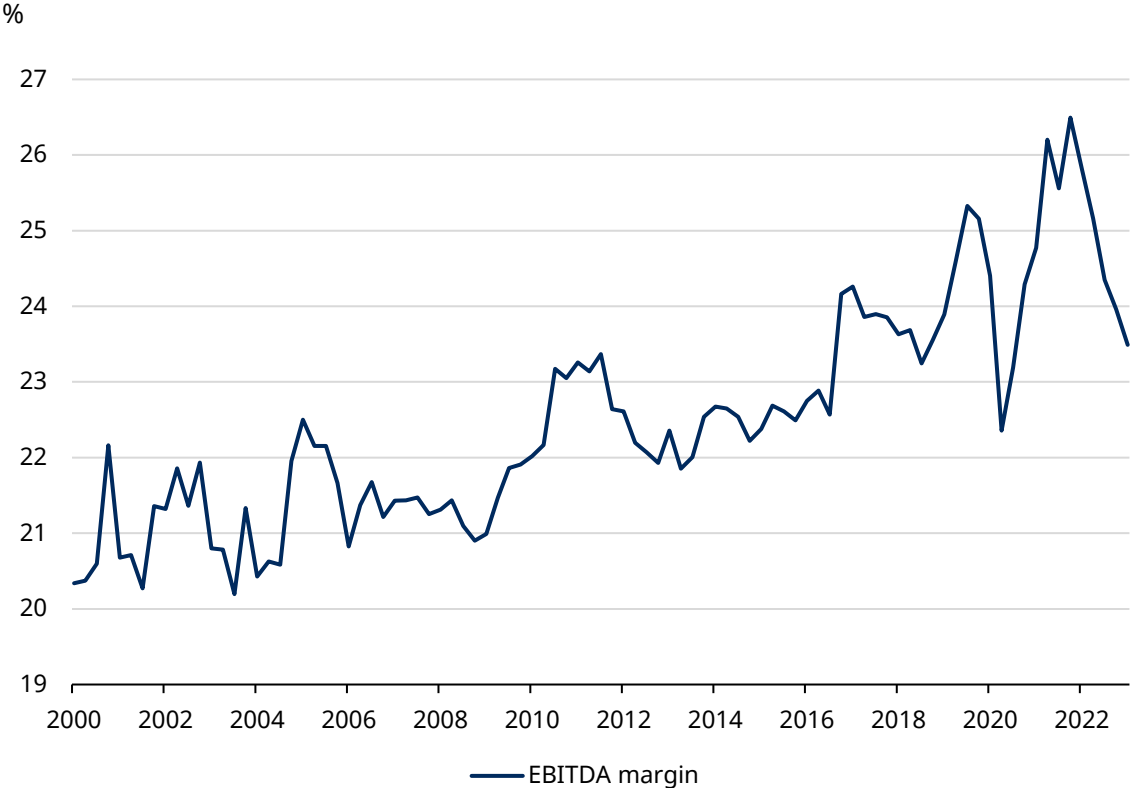


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

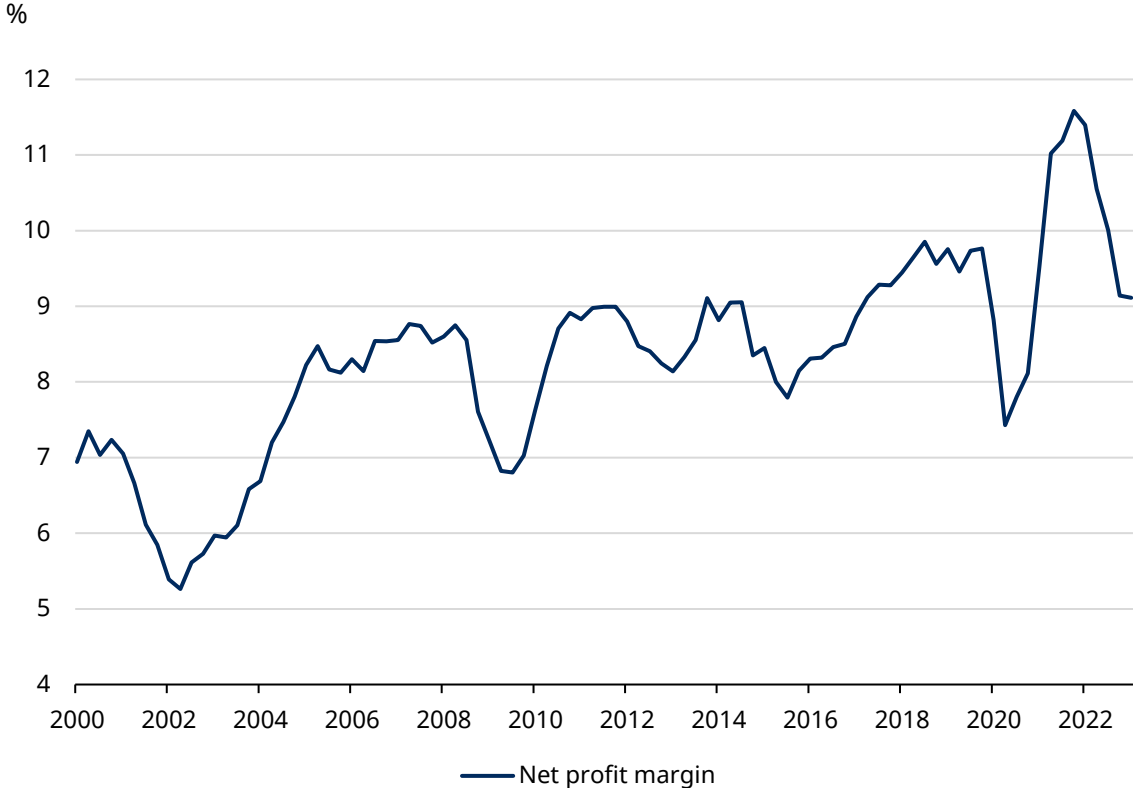
US IG corporate margins

EBITDA margins continued to fall in Q1

US IG EBITDA margin



US IG net profit margin



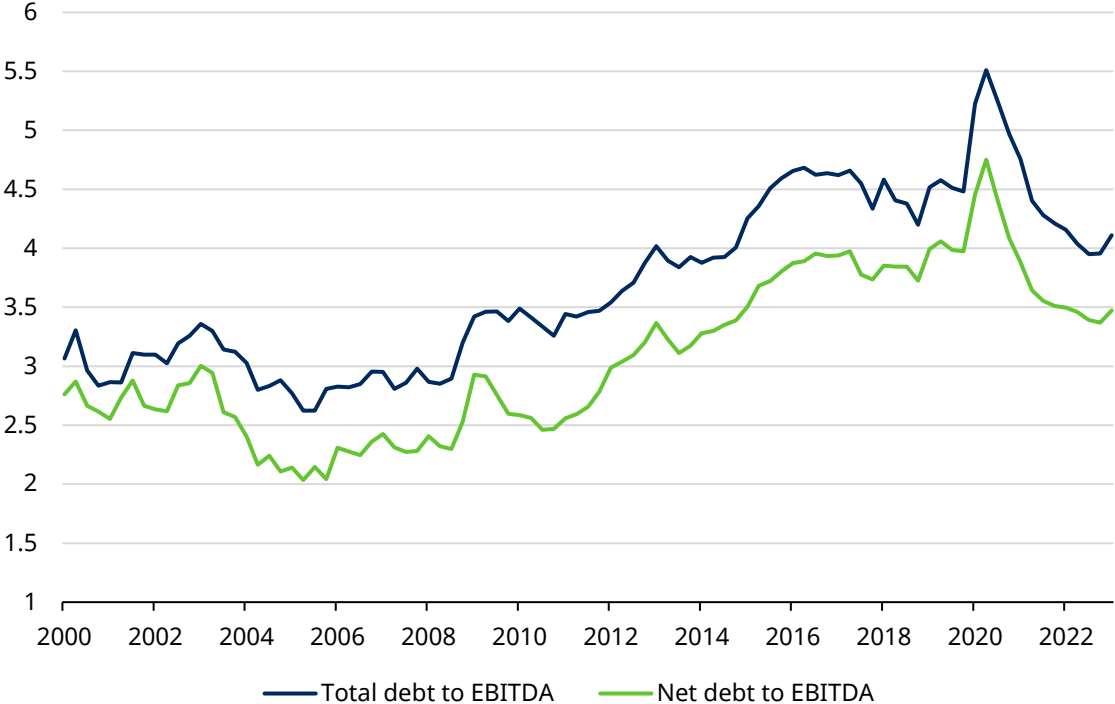
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

US HY leverage

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

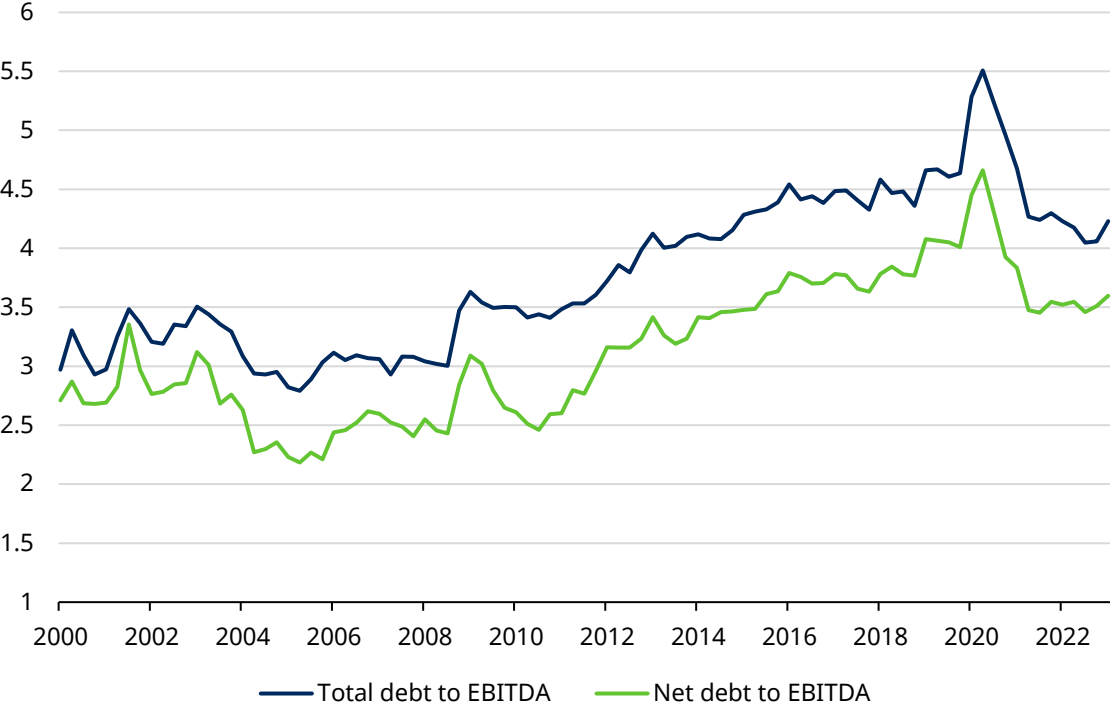
US HY leverage

Debt to last 12 months EBITDA



US HY ex-energy leverage

Debt to last 12 months EBITDA

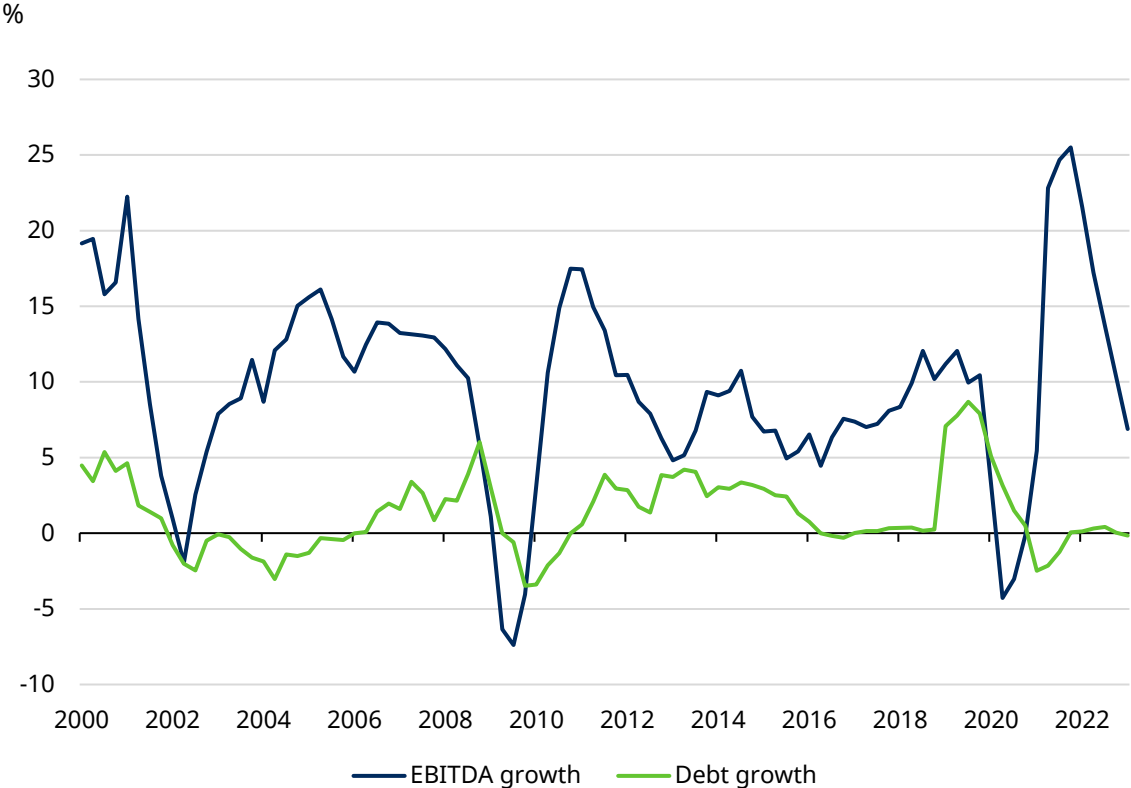


Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

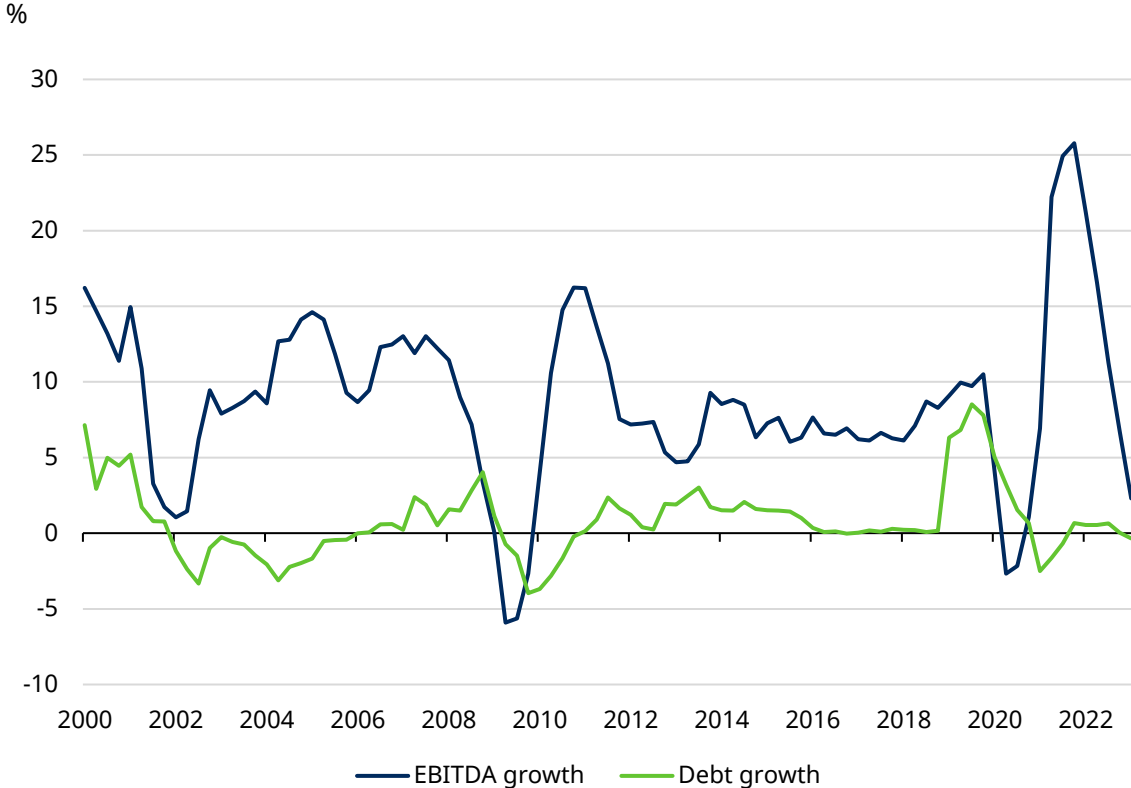
US HY earnings and debt growth

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

US HY EBITDA and debt growth (last 12 months)



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



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

US HY interest coverage

Interest coverage has declined but remains elevated

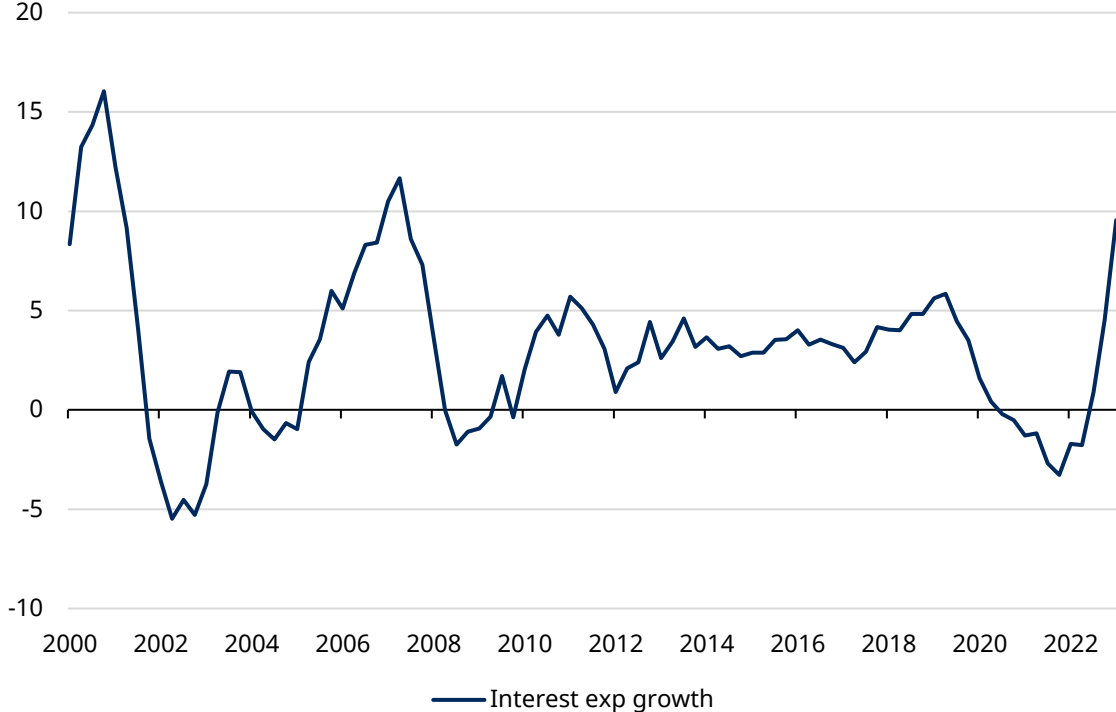
US HY interest coverage ratio

Last 12 months EBITDA to interest expense



US HY annual interest expense growth

%



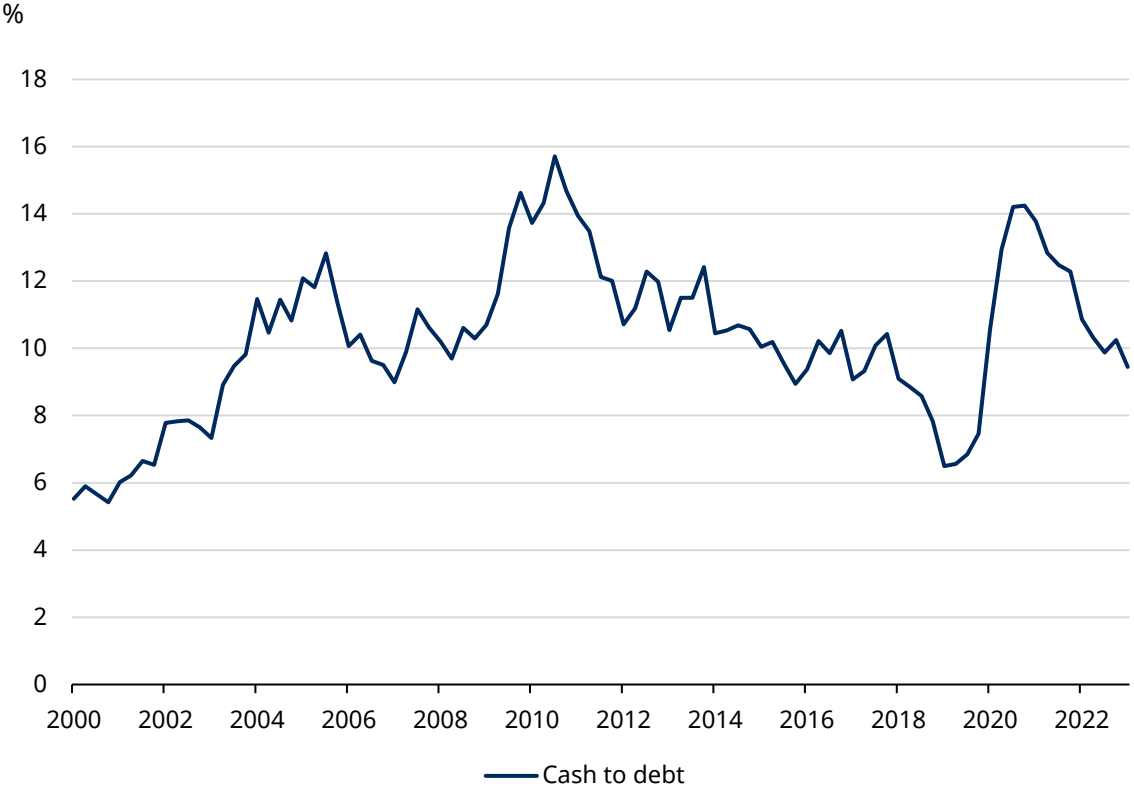
Interest expense growth is the highest since the global financial crisis as higher interest rates are starting to have an impact

Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

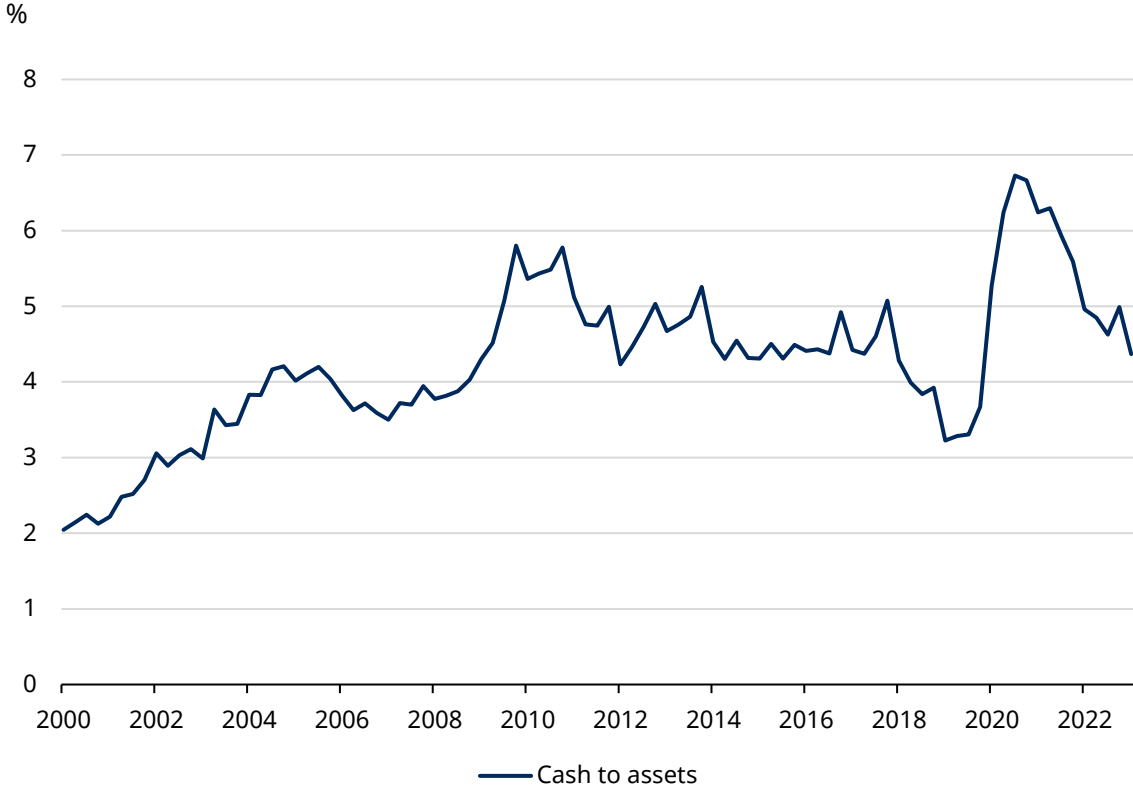
US HY cash levels

Cash balances slightly down in Q1

US HY cash to debt



US HY cash to assets



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

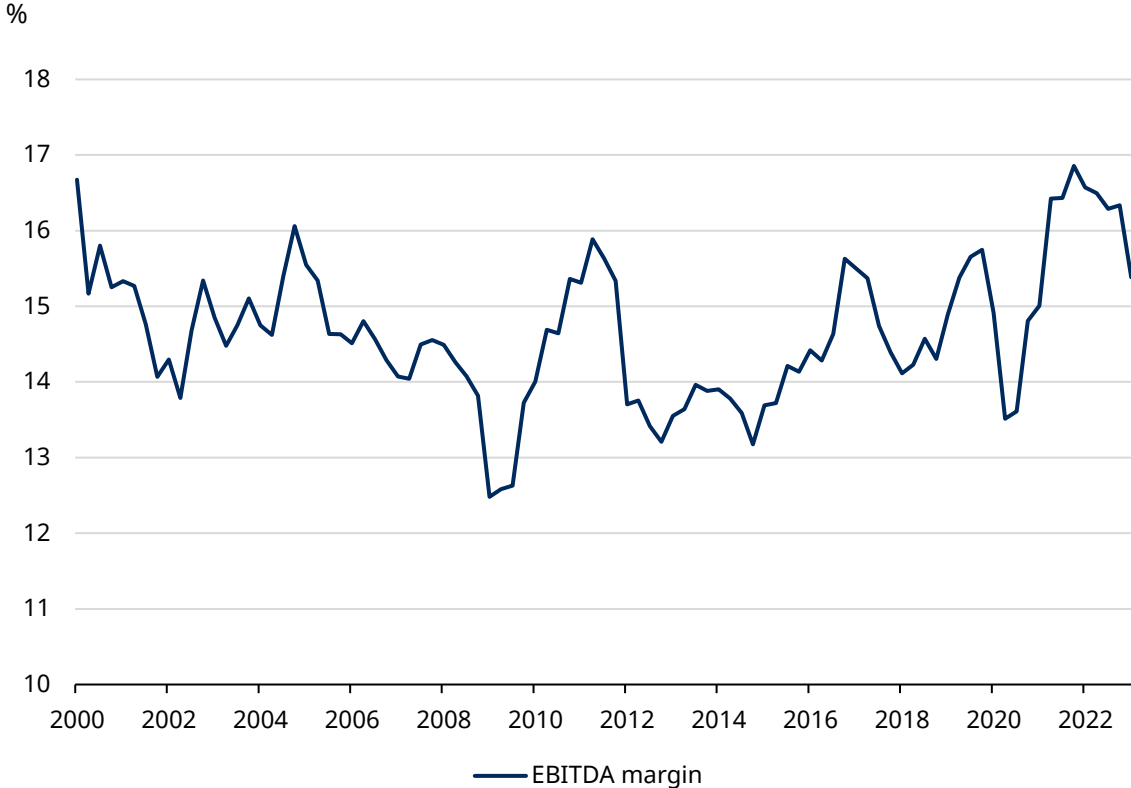
US HY corporate margins

EBITDA margins declined in Q1, albeit from high levels

US HY EBITDA margin



US HY ex-energy EBITDA margin



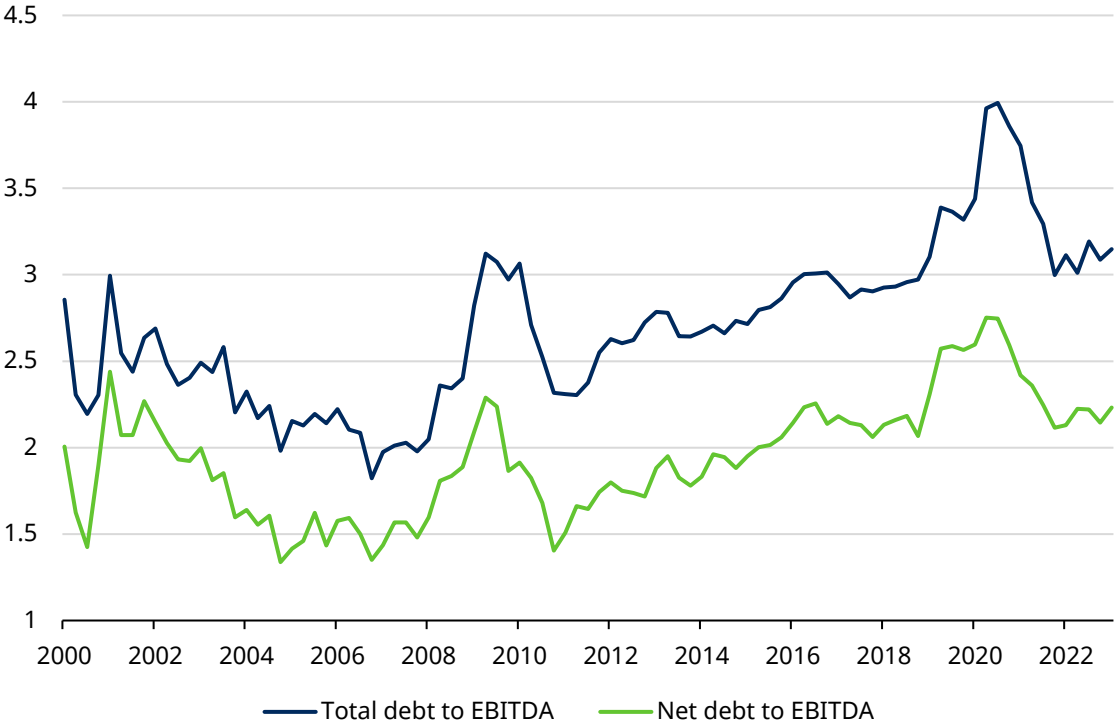
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Euro IG leverage, earnings and debt growth

Leverage has been broadly stable in recent quarters

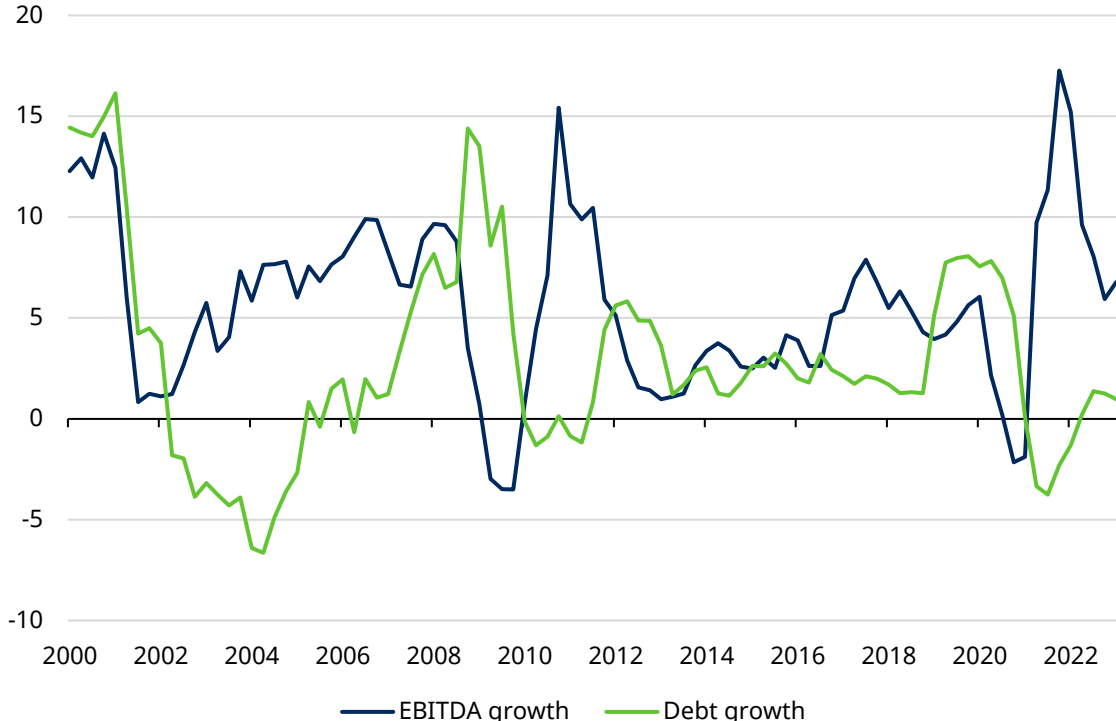
Euro IG leverage

Debt to last 12 months EBITDA



Euro IG EBITDA and debt growth (last 12 months)

%



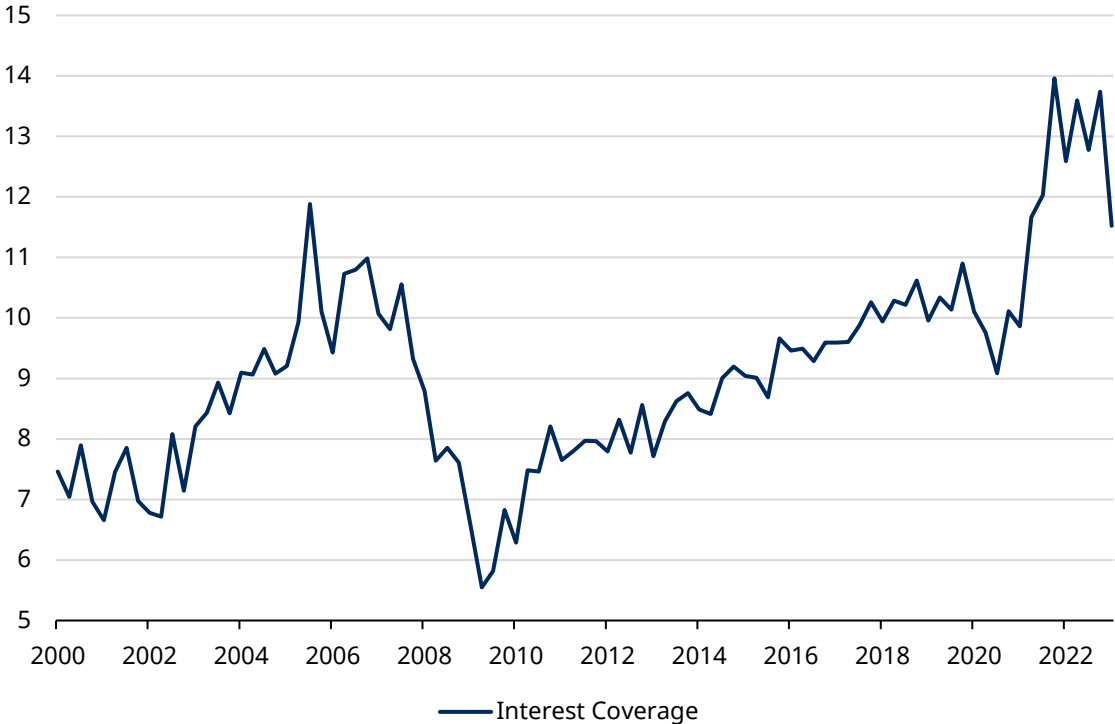
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Euro IG interest coverage

Interest coverage has declined but remains very elevated

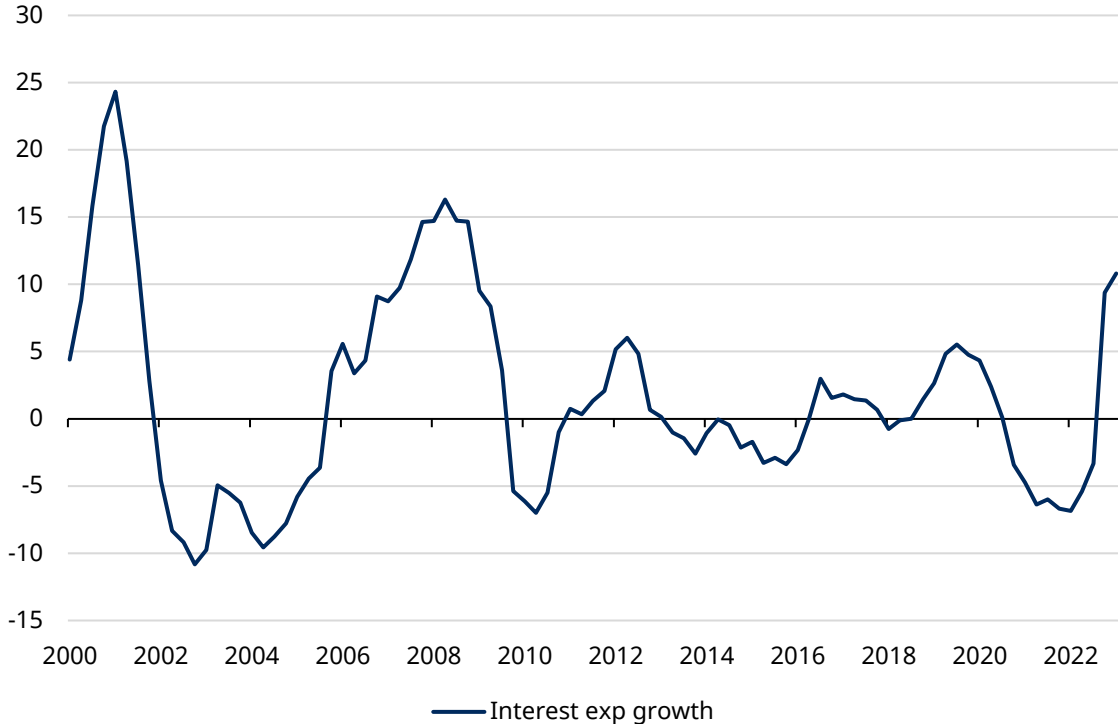
Euro IG interest coverage ratio

Last 12 months EBITDA to interest expense



Euro IG annual interest expense growth

%

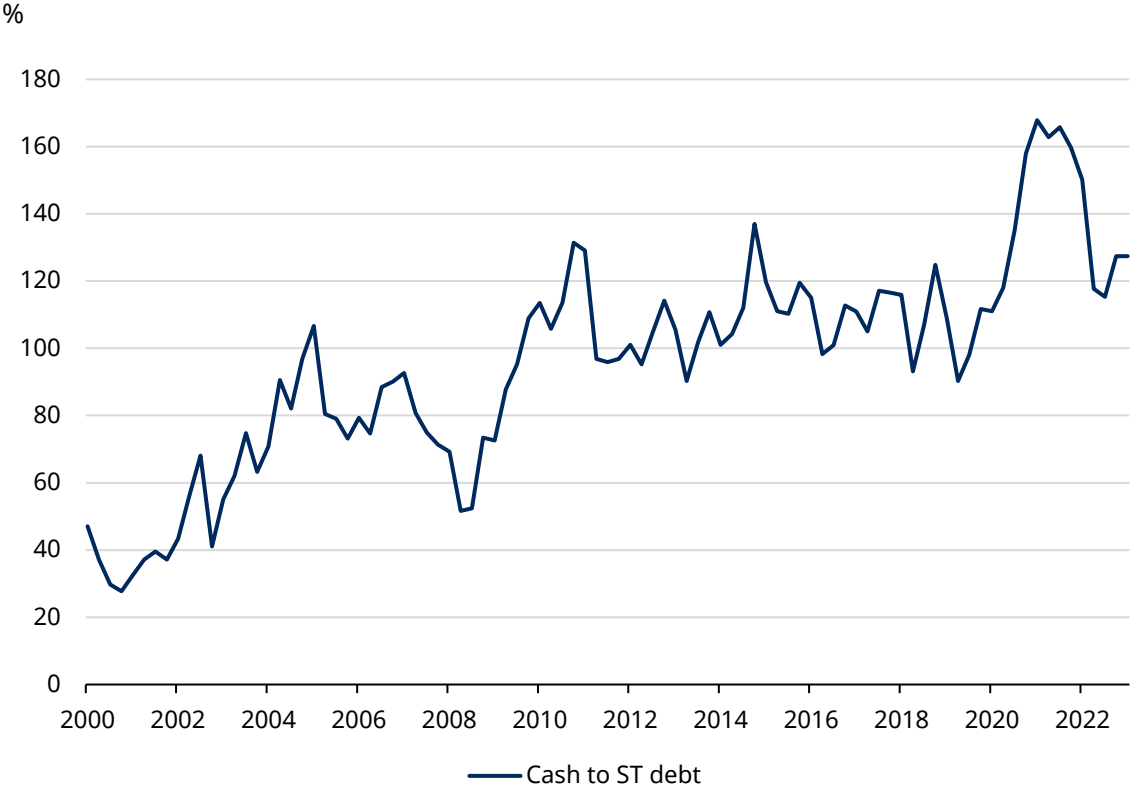


Interest expense growth is the highest since the global financial crisis as higher interest rates are starting to have an impact

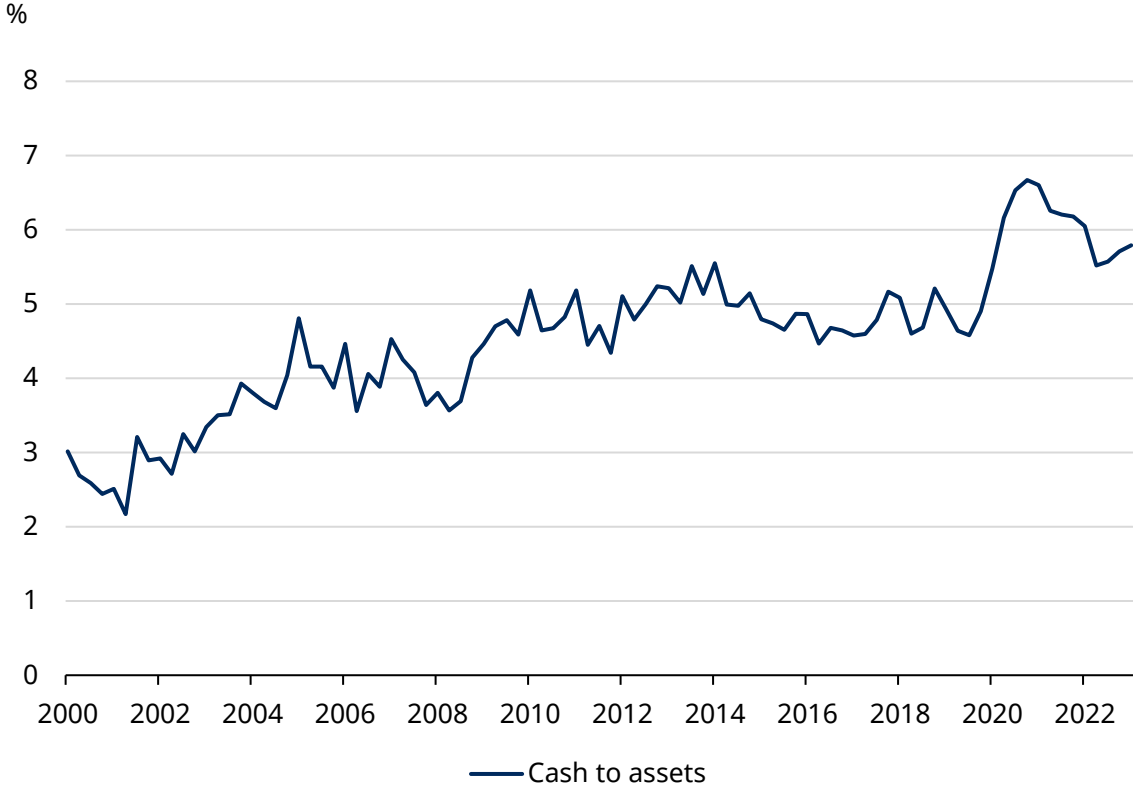
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Euro IG cash levels

Euro IG cash to short term debt



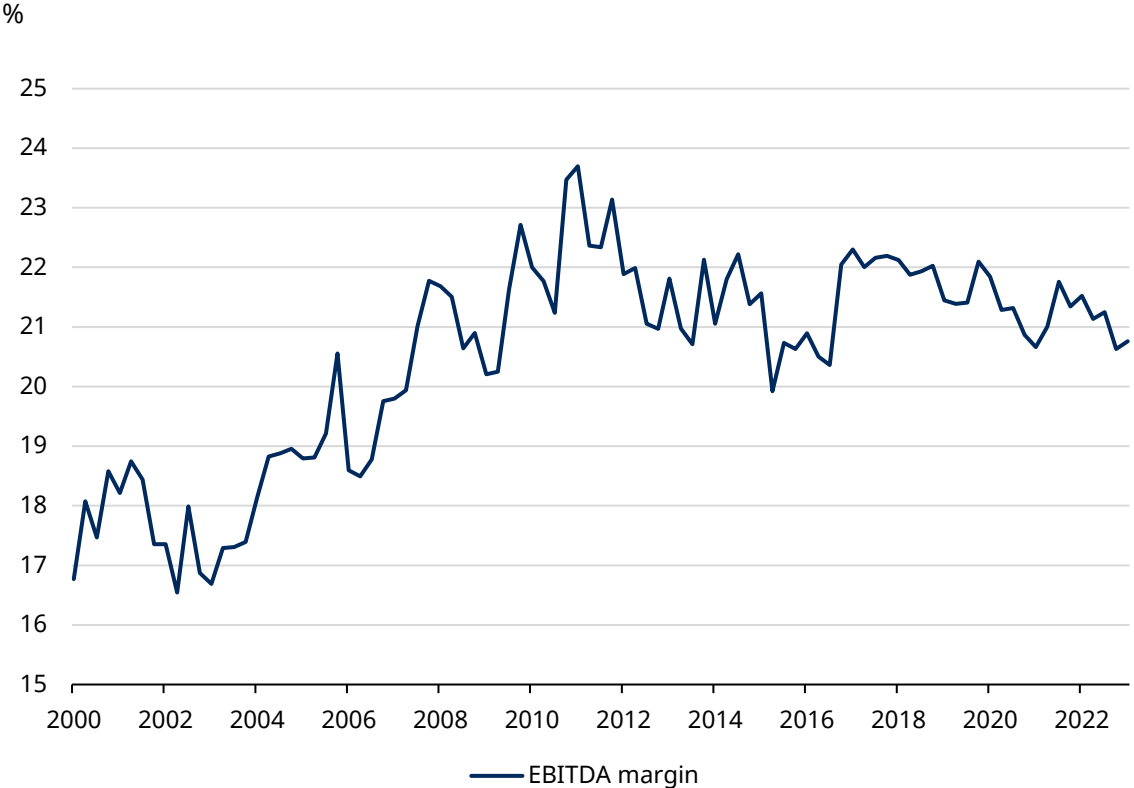
Euro IG cash to assets



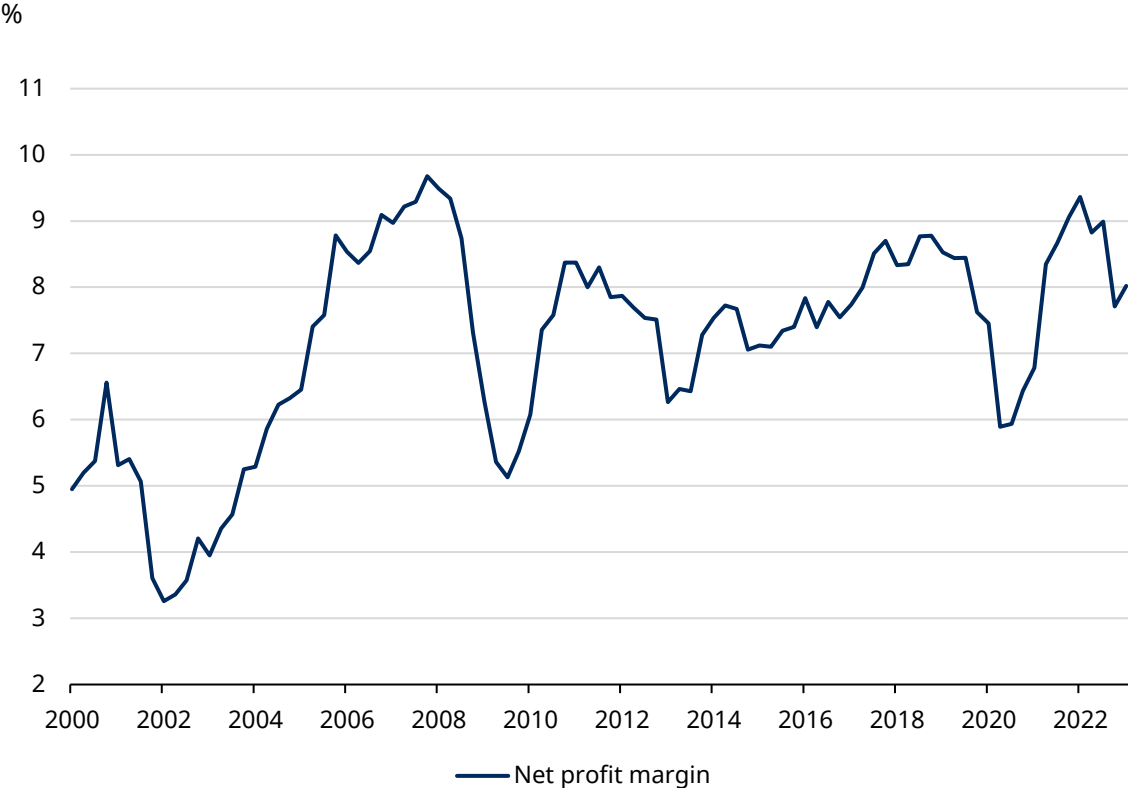
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Euro IG corporate margins

Euro IG EBITDA margin



Euro IG net profit margin



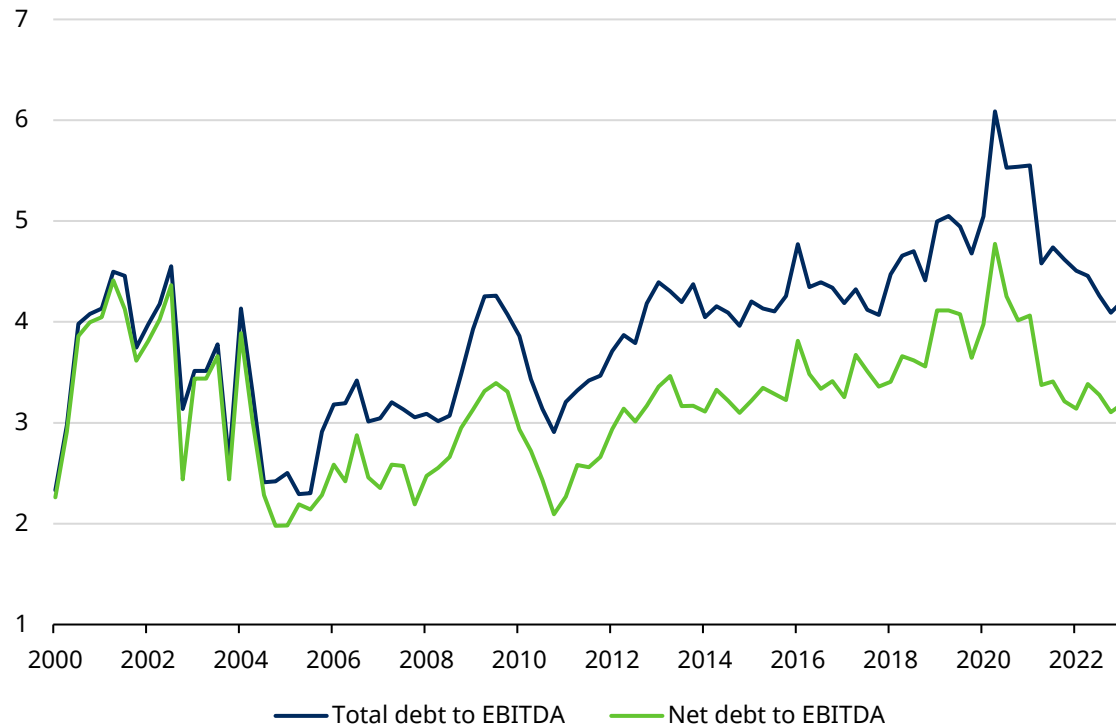
Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Euro HY leverage

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

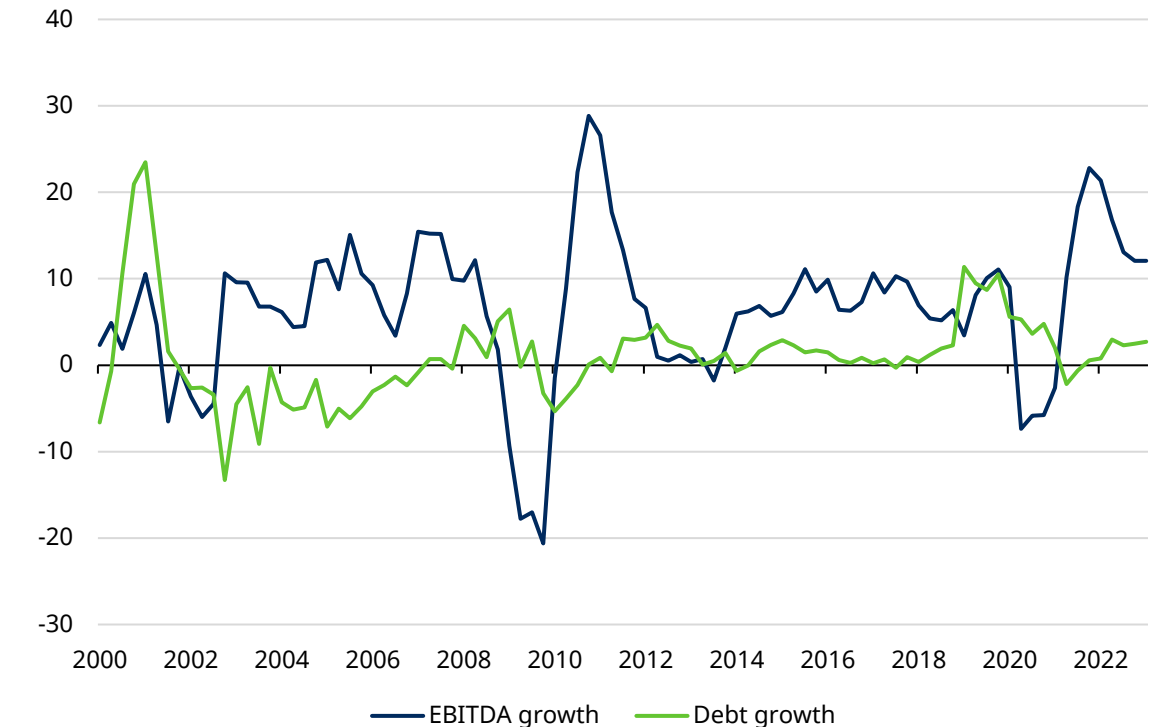
Euro HY leverage

Debt to last 12 months EBITDA



Euro HY EBITDA and debt growth (last 12 months)

%



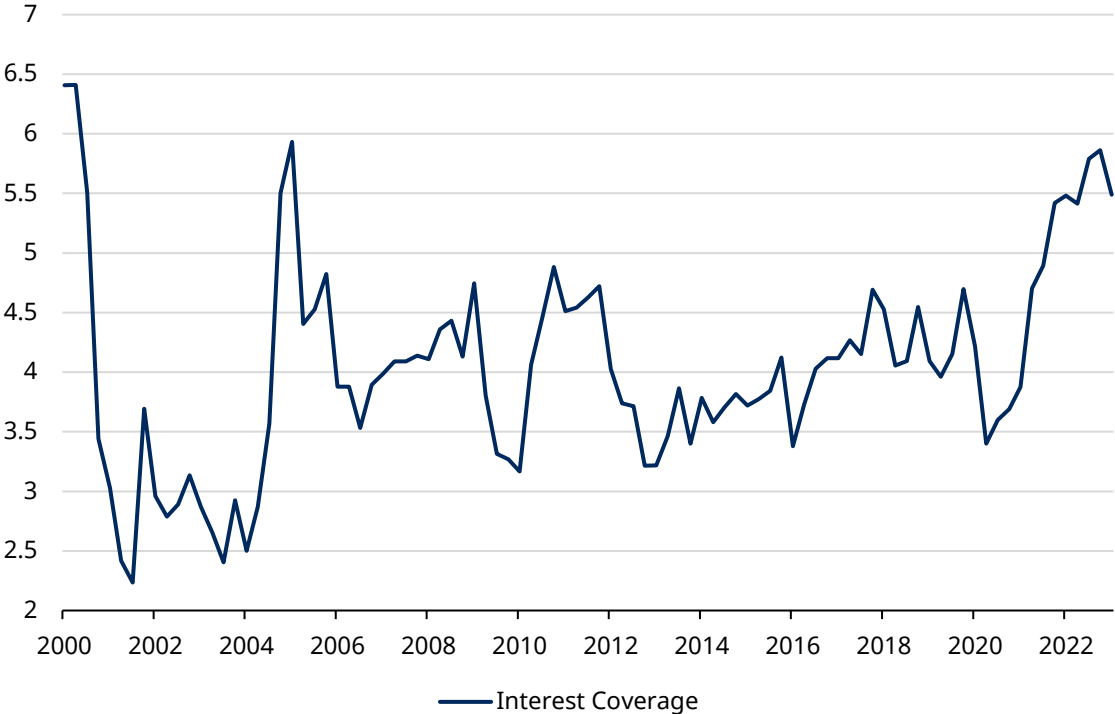
Source: Schrodgers, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Euro HY interest coverage

Interest coverage has slightly declined but remains elevated

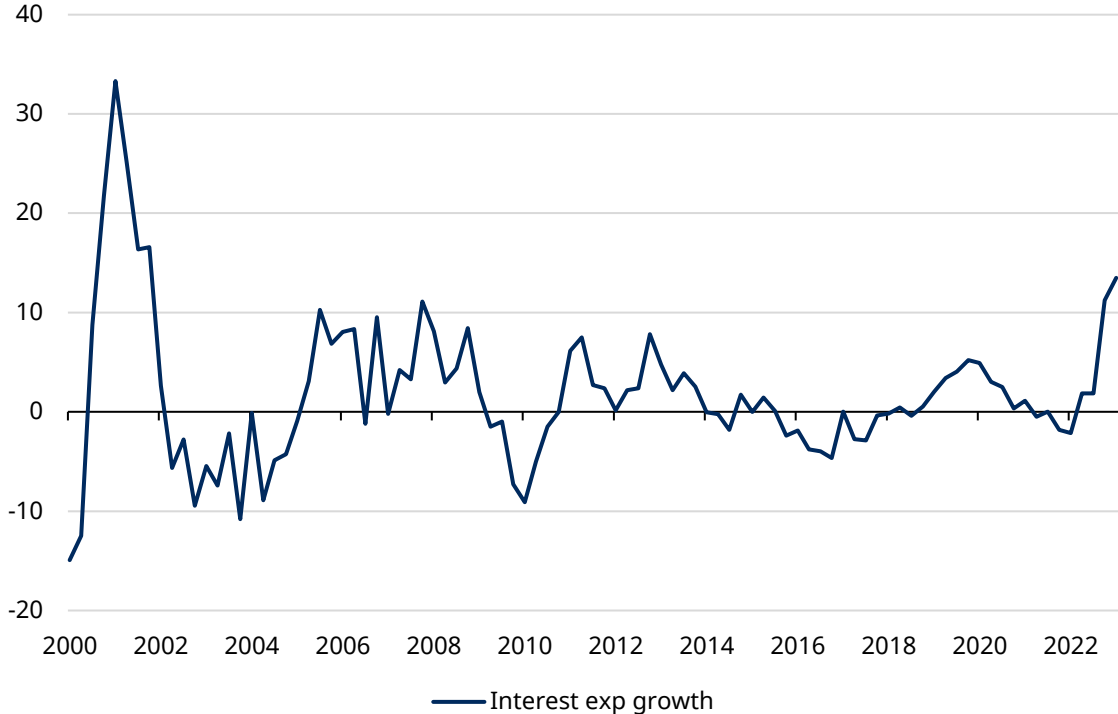
Euro HY interest coverage ratio

Last 12 months EBITDA to interest expense



Euro HY annual interest expense growth

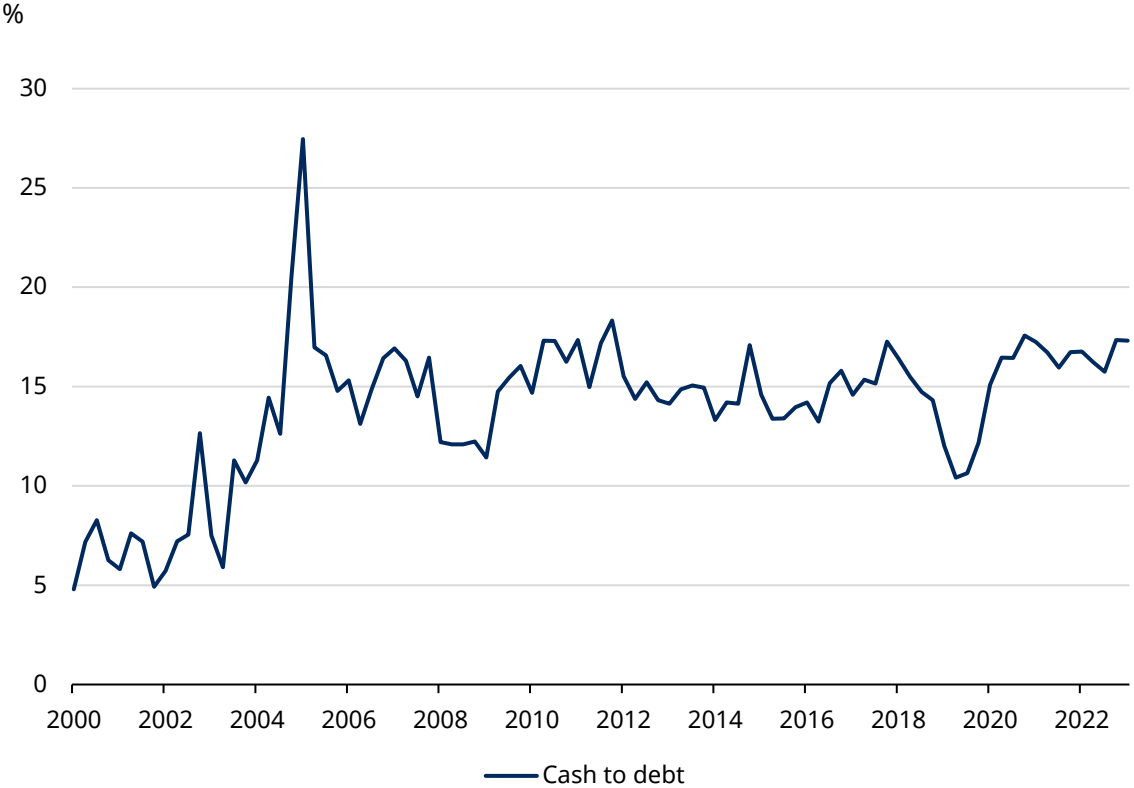
%



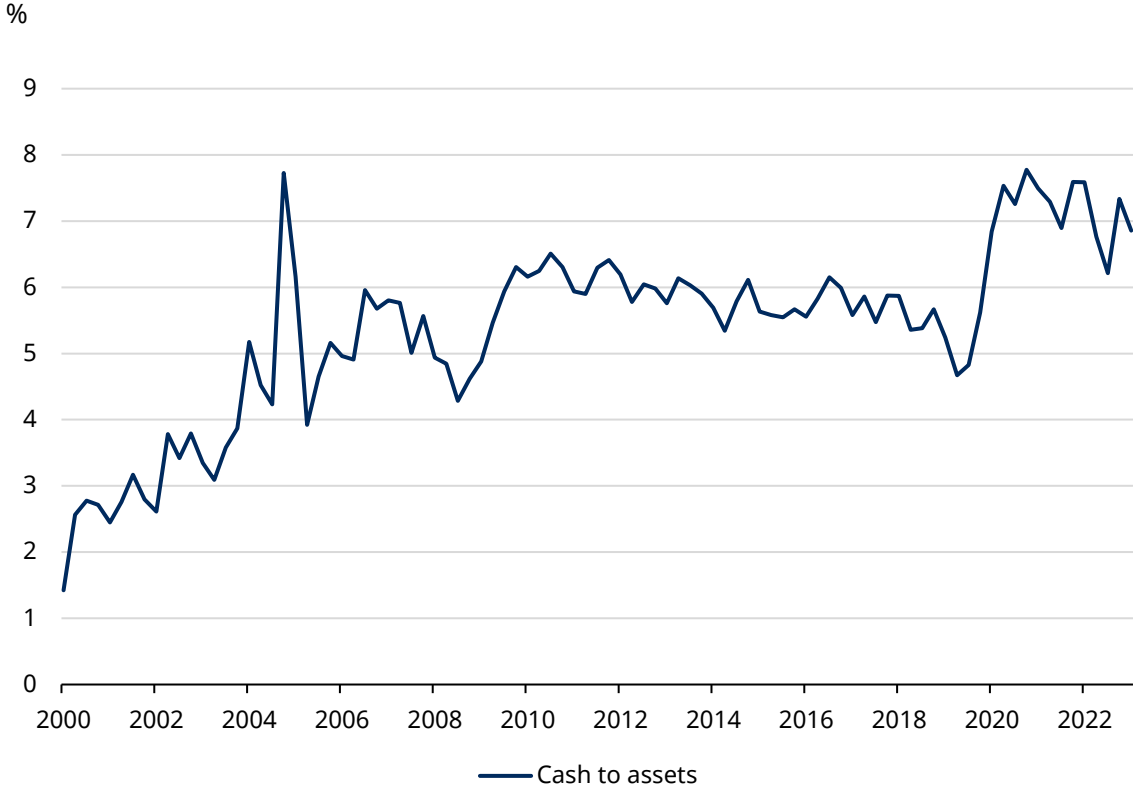
Source: Schroders, Bloomberg, Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Euro HY cash levels

Euro HY cash to debt



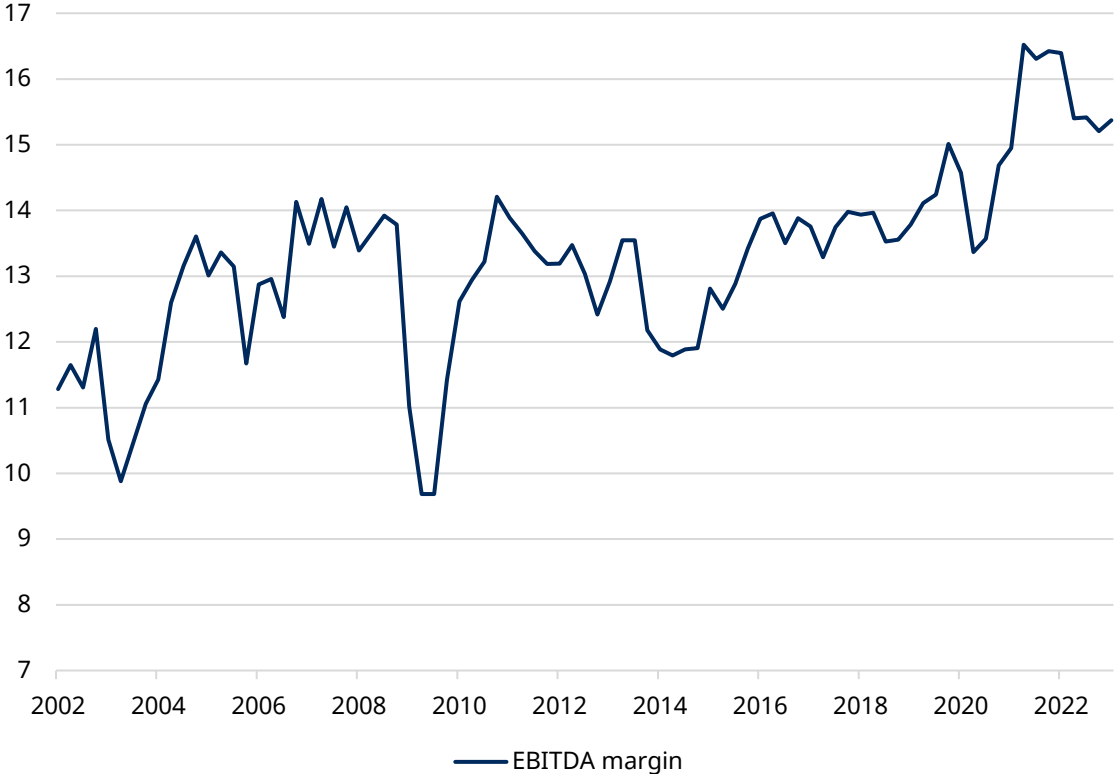
Euro HY cash to assets



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

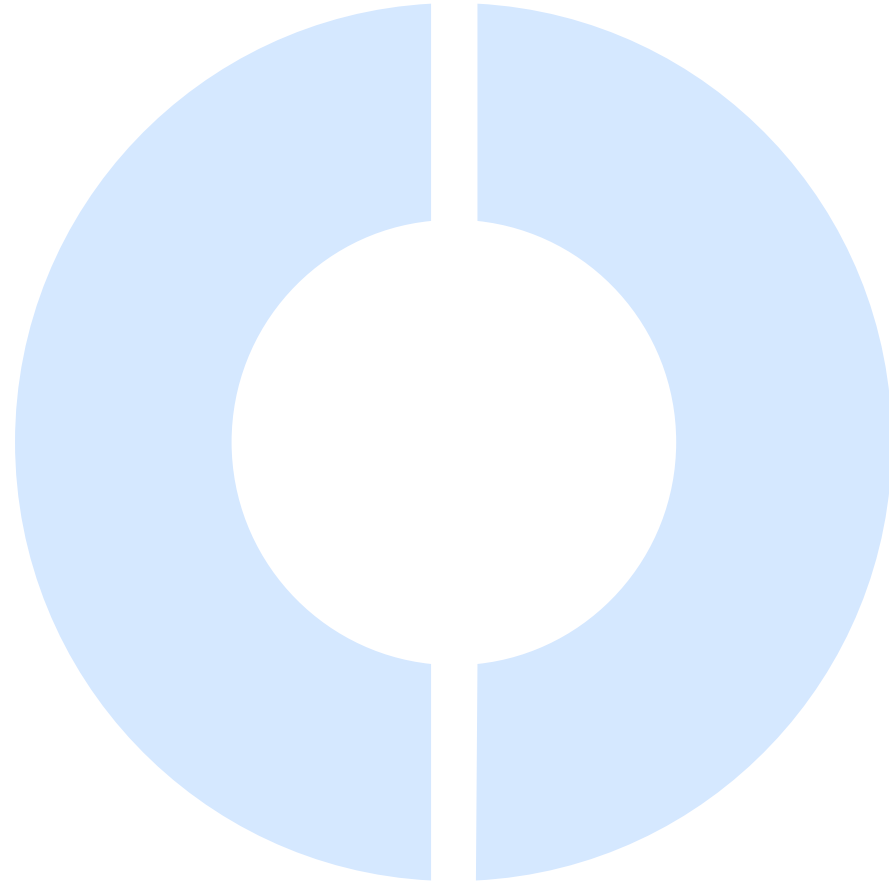
Euro HY corporate margins

Euro HY EBITDA margin



Source: Schroders, Bloomberg. Median issuer ex-Financials. Data as of Q1 2023. Please see relevant disclaimers on page 68.

Schroders



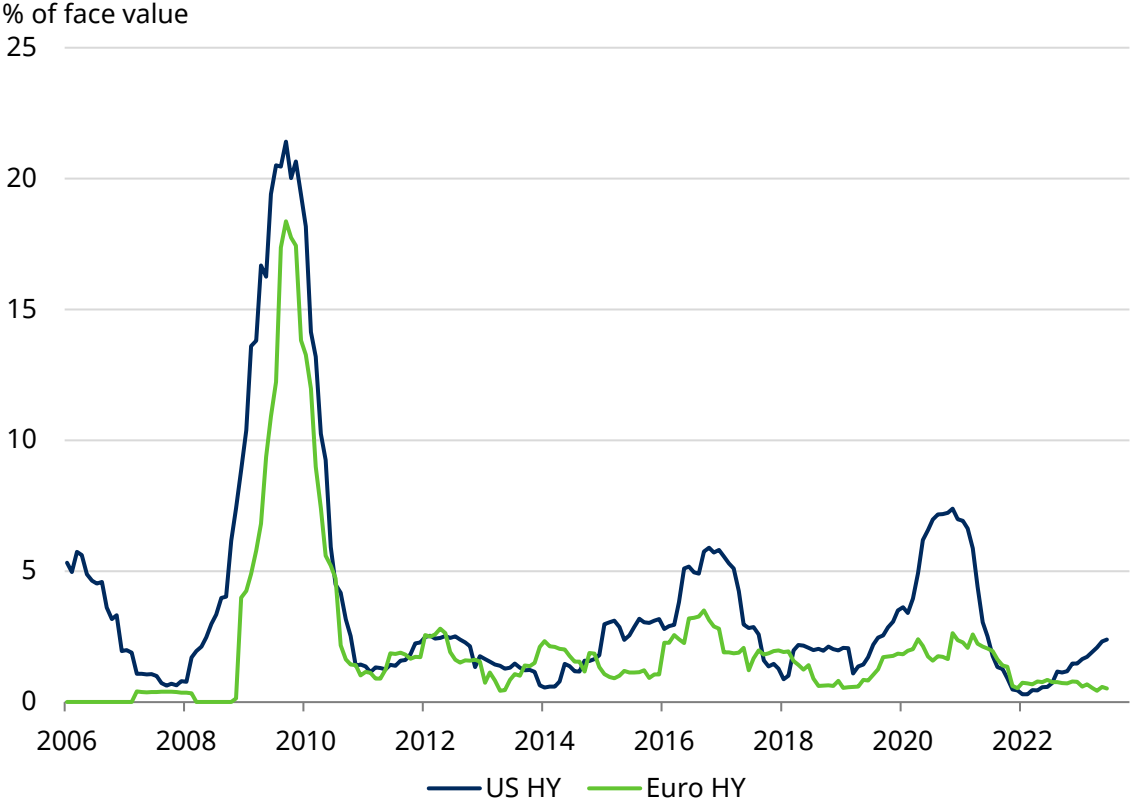
Corporate credit

Technicals

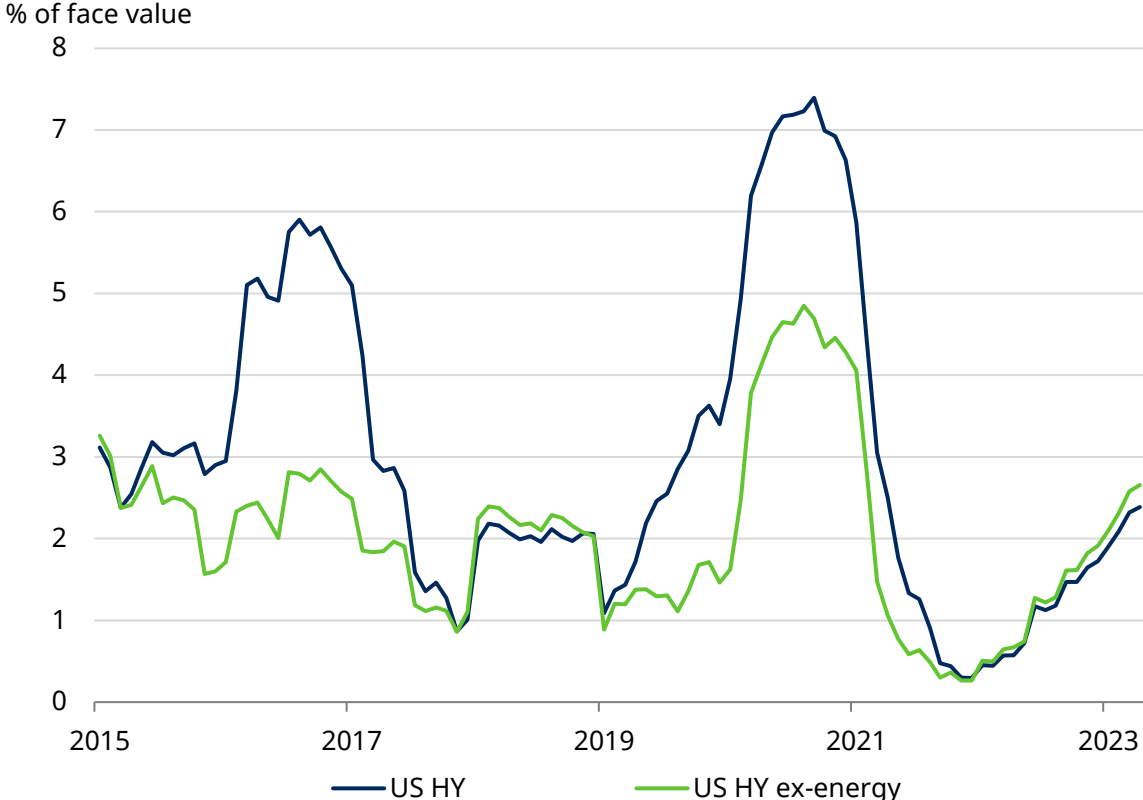
HY default rates

US HY default rates are rising

HY par default rate (last twelve months)



US HY par default rate (last twelve months)

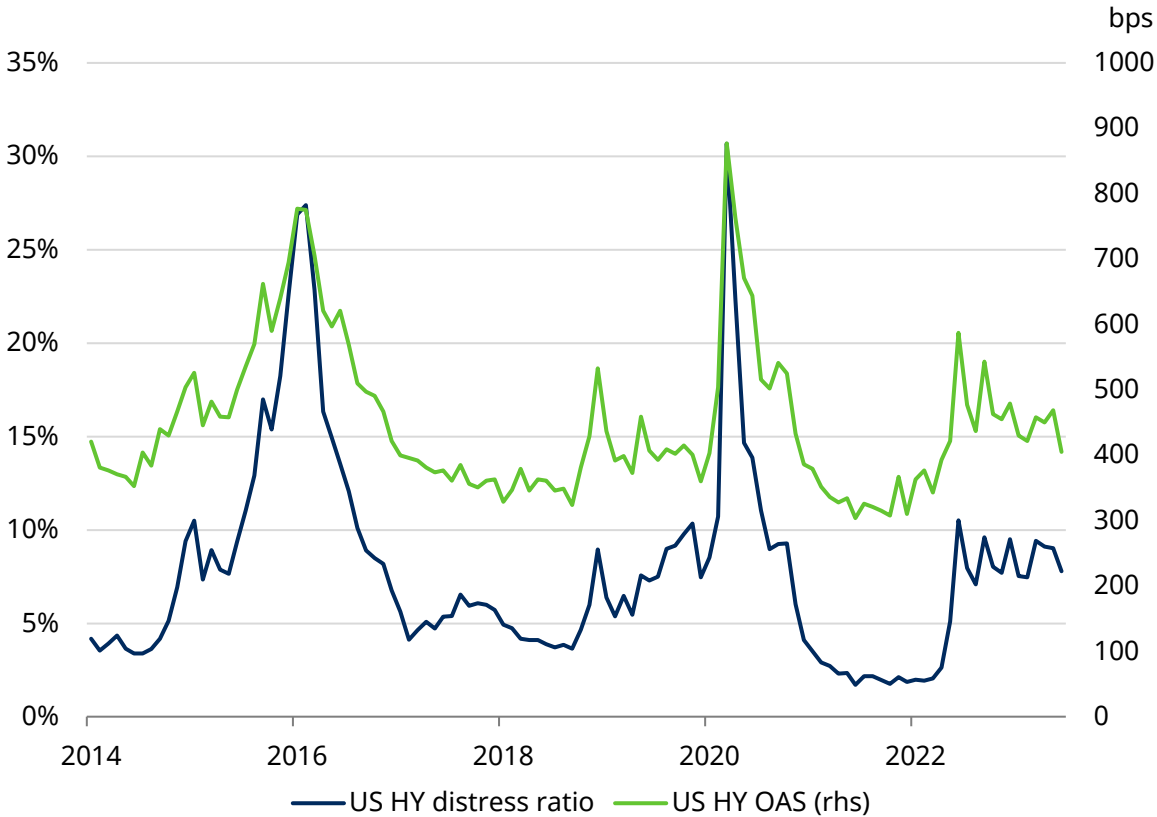


Source: Schroders, BofA Global Research, Moody's. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

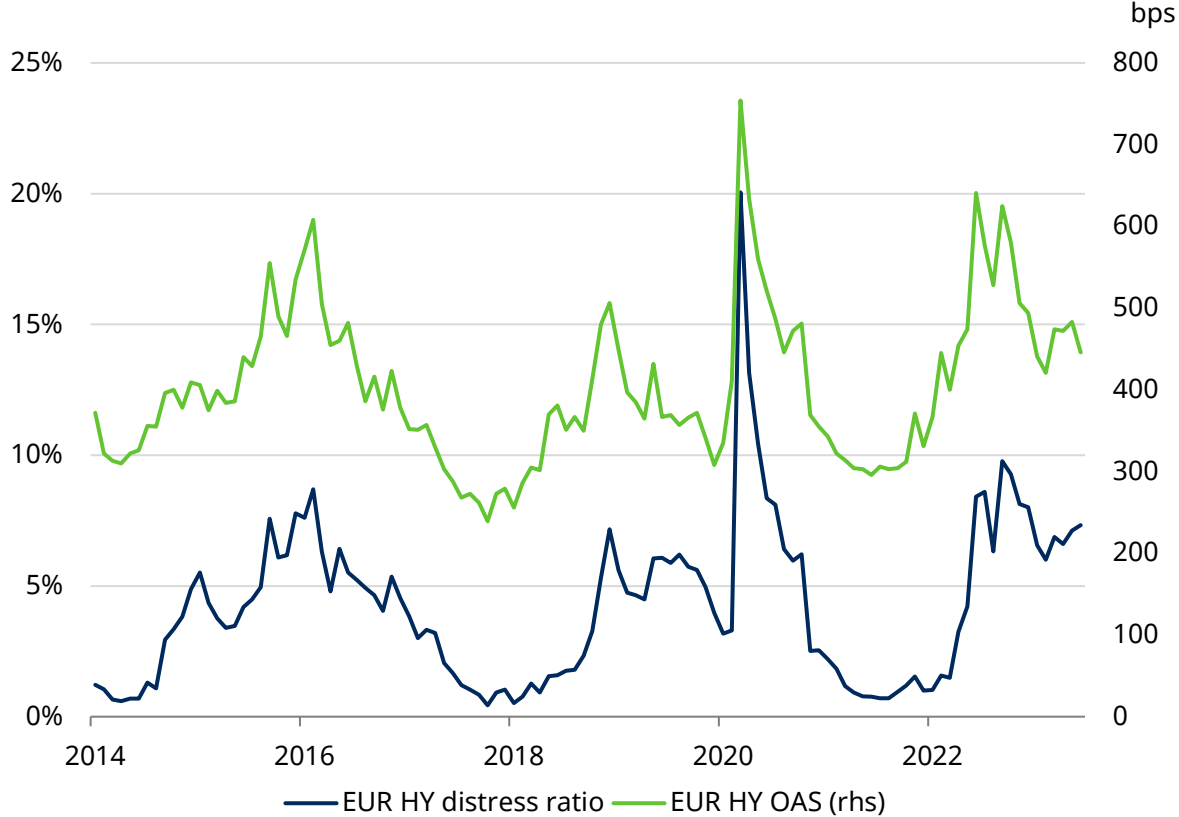
HY distress ratios

Higher distress is usually a harbinger of defaults

US HY distress ratio¹



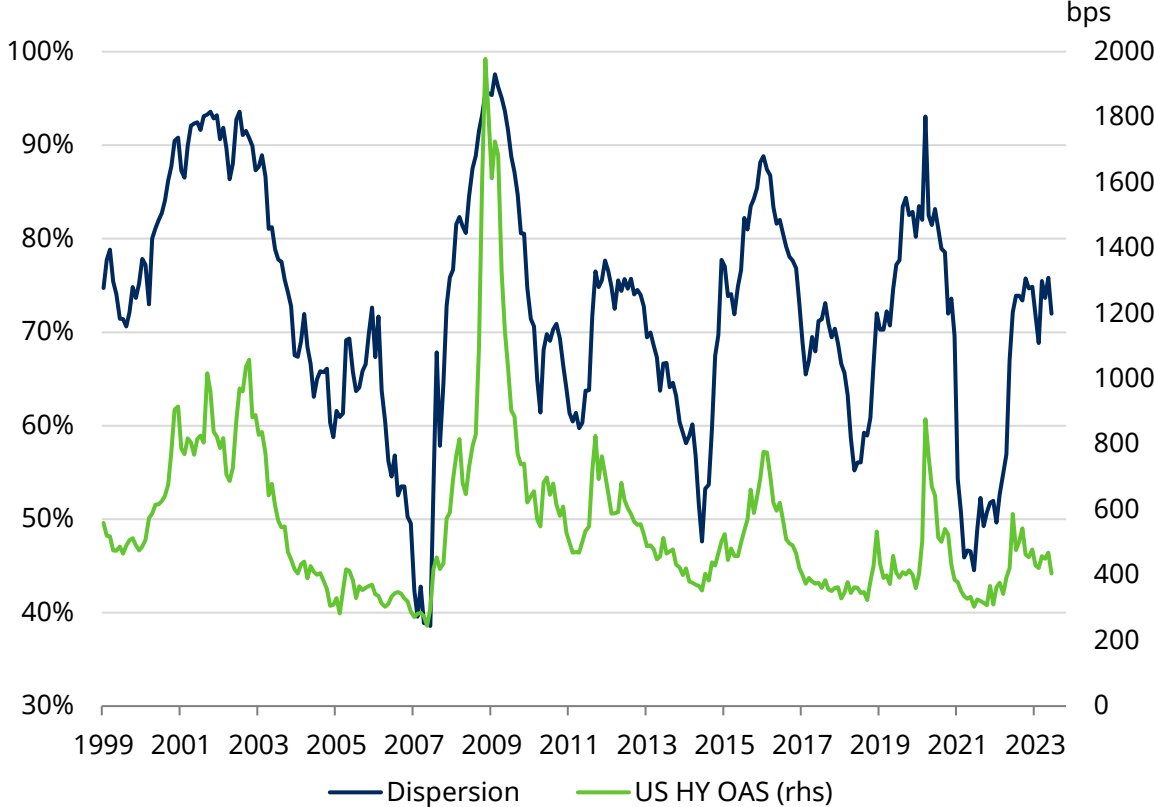
Euro HY distress ratio¹



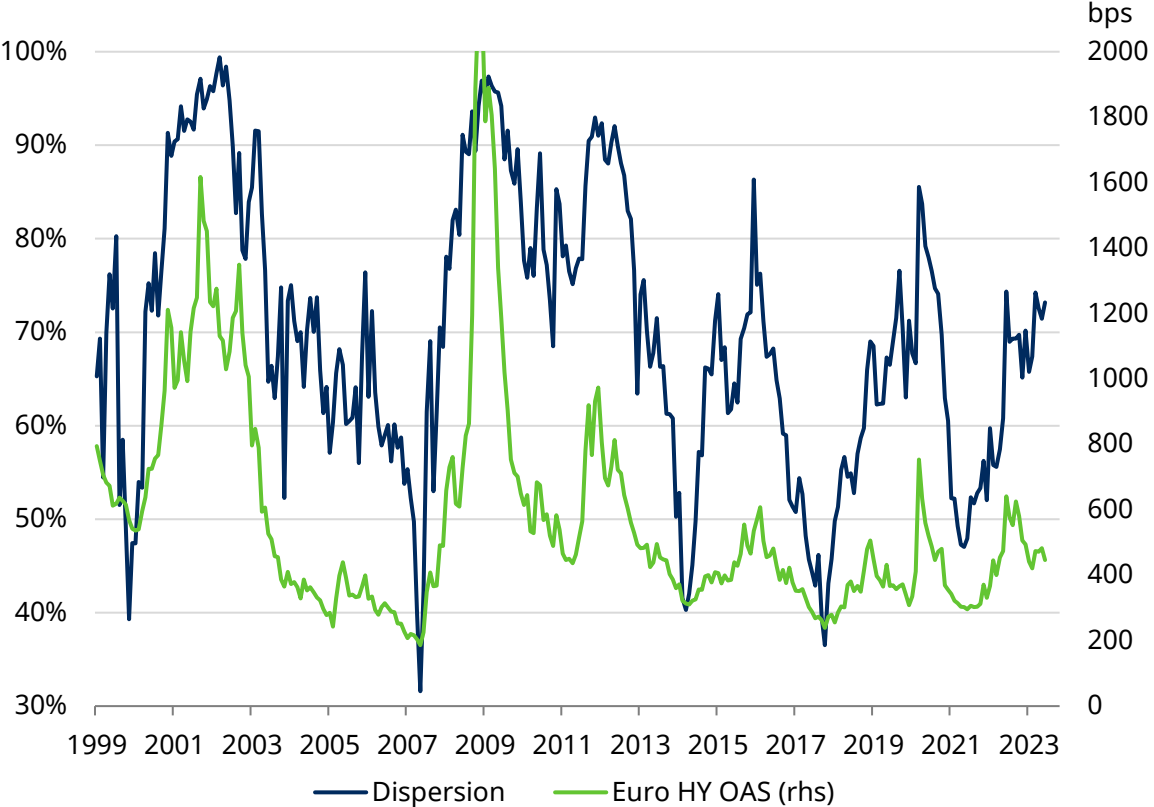
Source: Schroders, BofA Global Research, Moody's. Data as at 30 June 2023. ¹HY distress is defined as percentage of issues in the index trading with spreads > 1,000bp. Please see relevant disclaimers on page 68.

HY spread dispersion

US HY dispersion¹ vs US HY spread



Euro HY dispersion¹ vs Euro HY spread



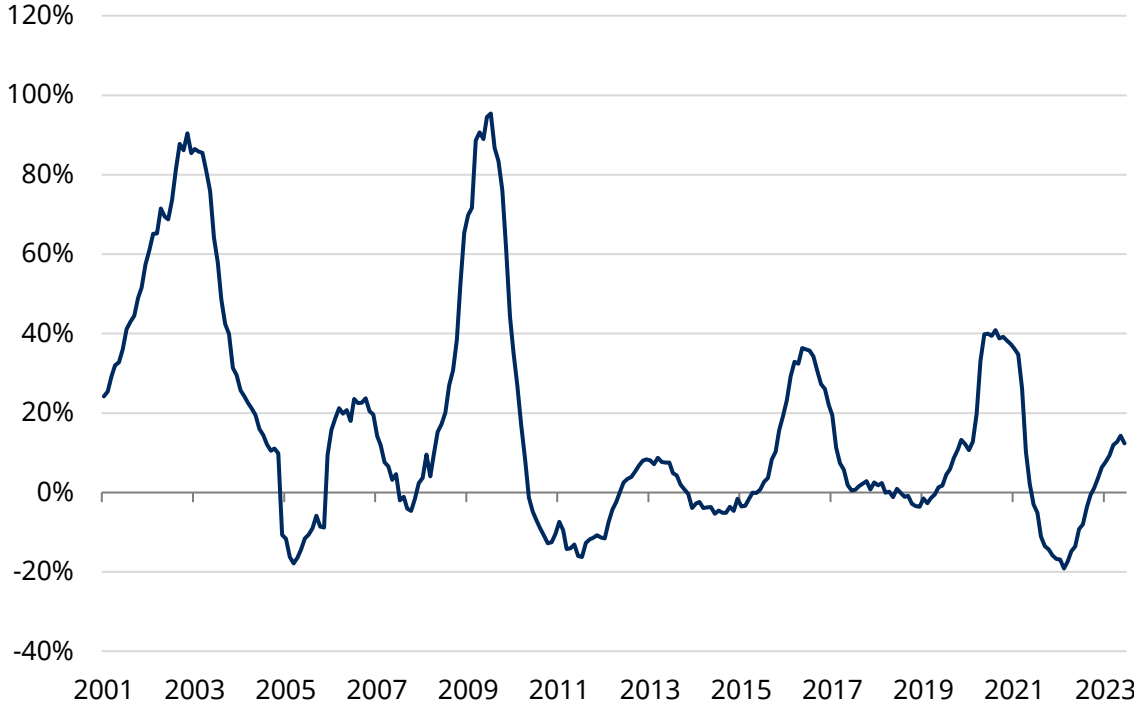
Source: Schroders, BofA Global Research. Data as at 30 June 2023. ¹ Proportion of face value in index marked outside +/-100bps of overall index level. Please see relevant disclaimers on page 68.

US HY ratings migration (net downgrades)

Indicator of changes in credit quality

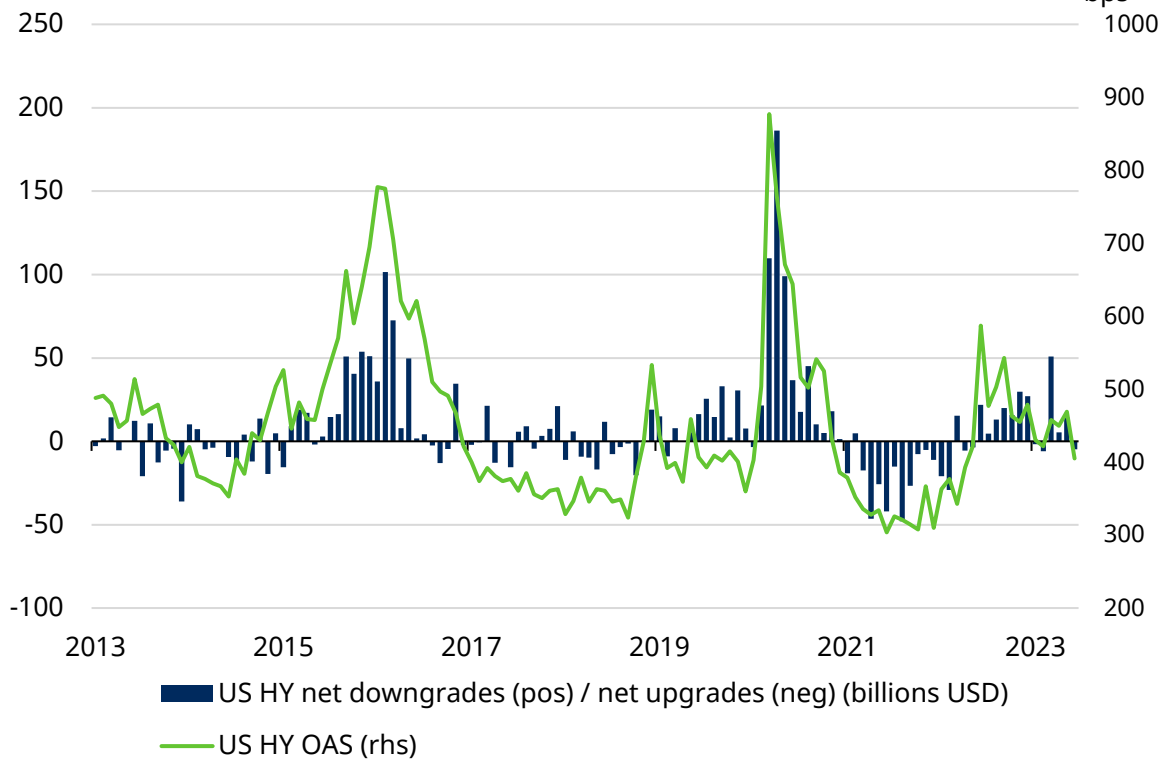
US HY net downgrades¹

Percentage of the HY index, last 12 months



US HY monthly net downgrades

Billions USD



Downgrades have been outpacing upgrades

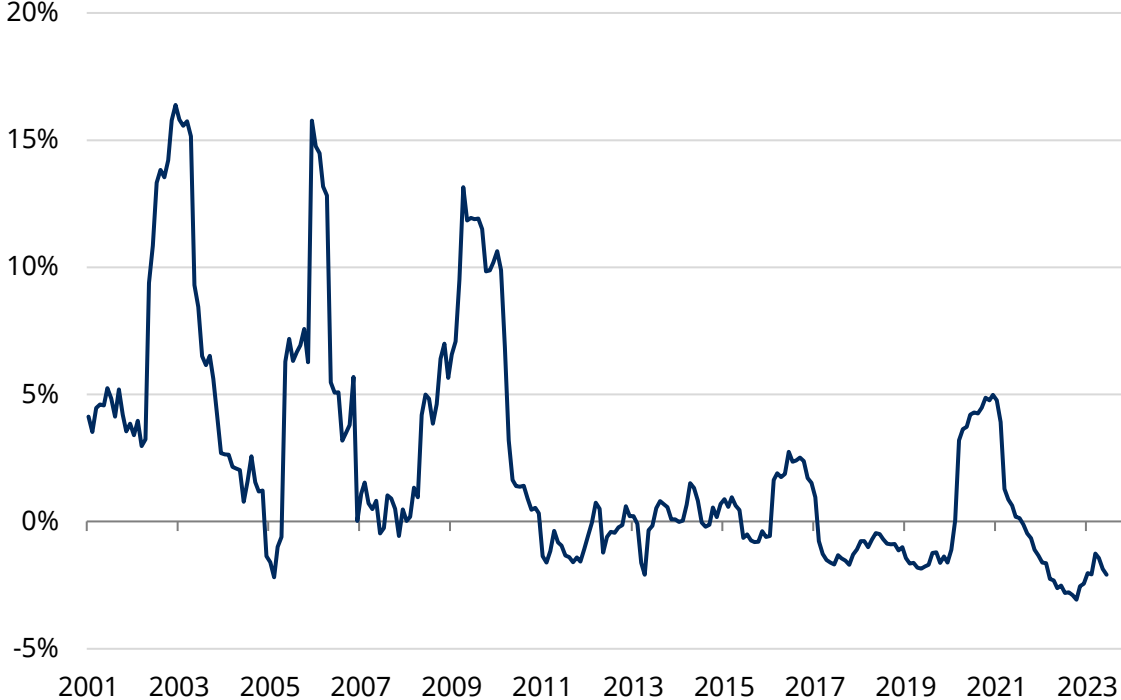
Source: BofA Global Research, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.
¹Face value of downgraded HY bonds minus face value of upgraded bonds divided by face value of the index. Excludes upgrades from HY to IG.

US IG fallen angels/rising stars

Bonds downgraded from IG to HY

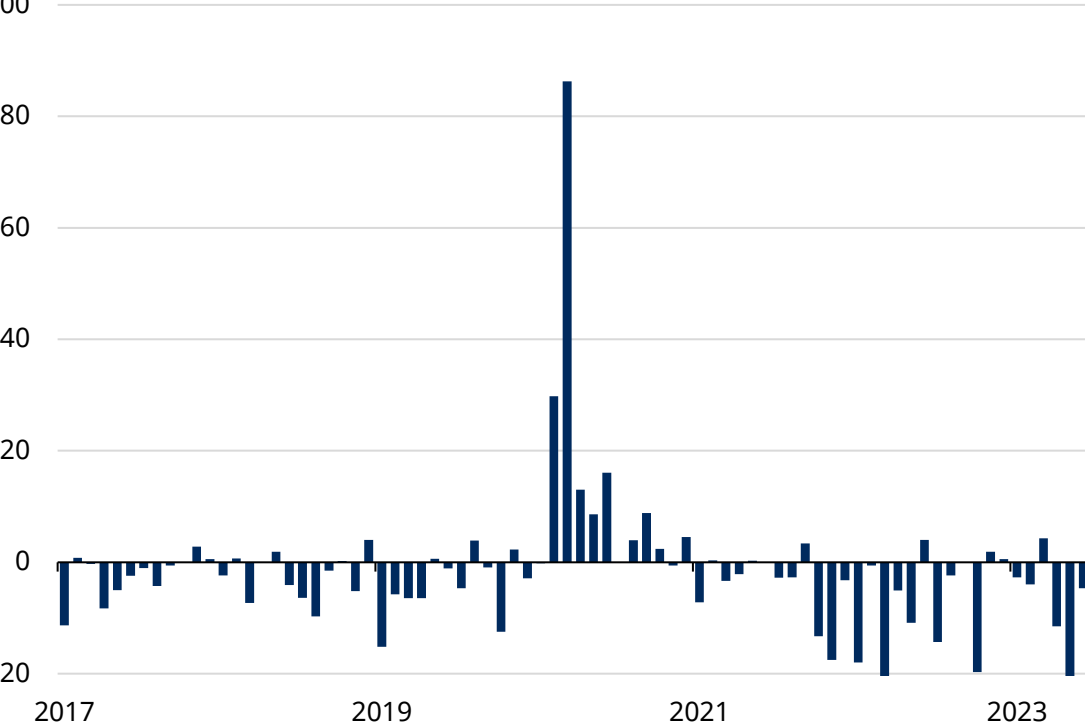
US IG net fallen angels¹

Percentage of the BBB index, last 12 months



US IG monthly net fallen angels

Billions USD

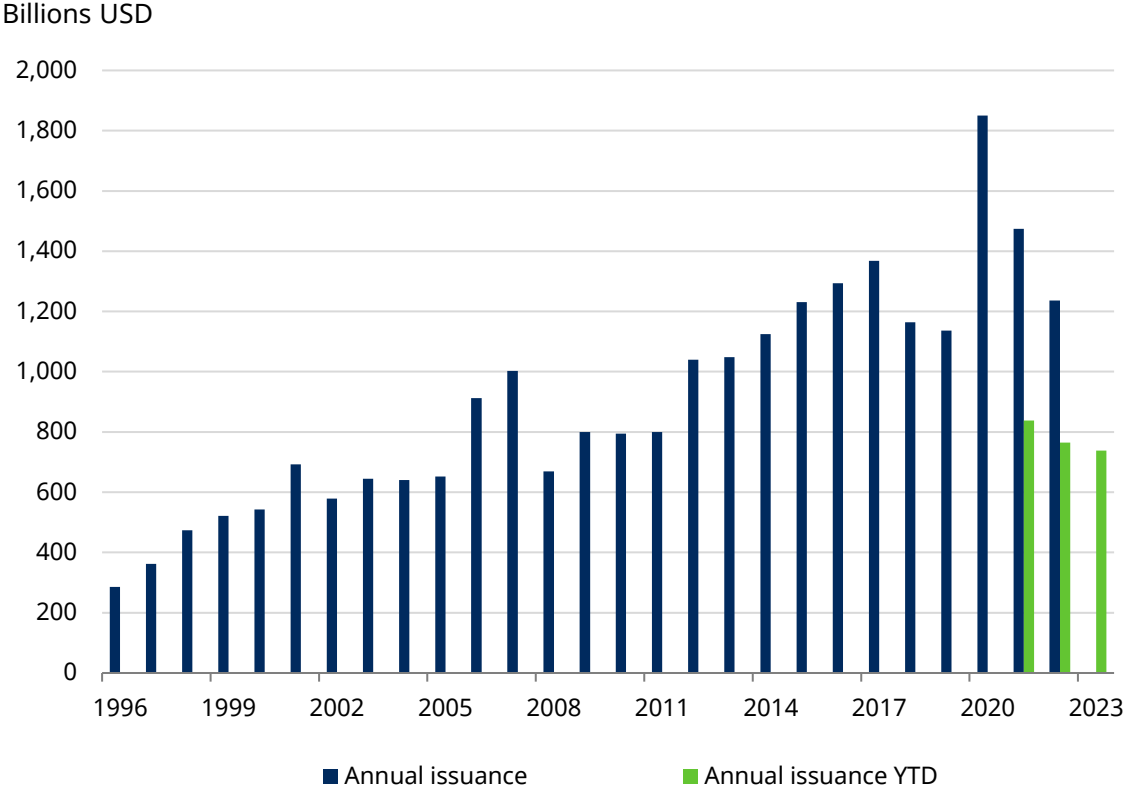


Source: BofA Global Research. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

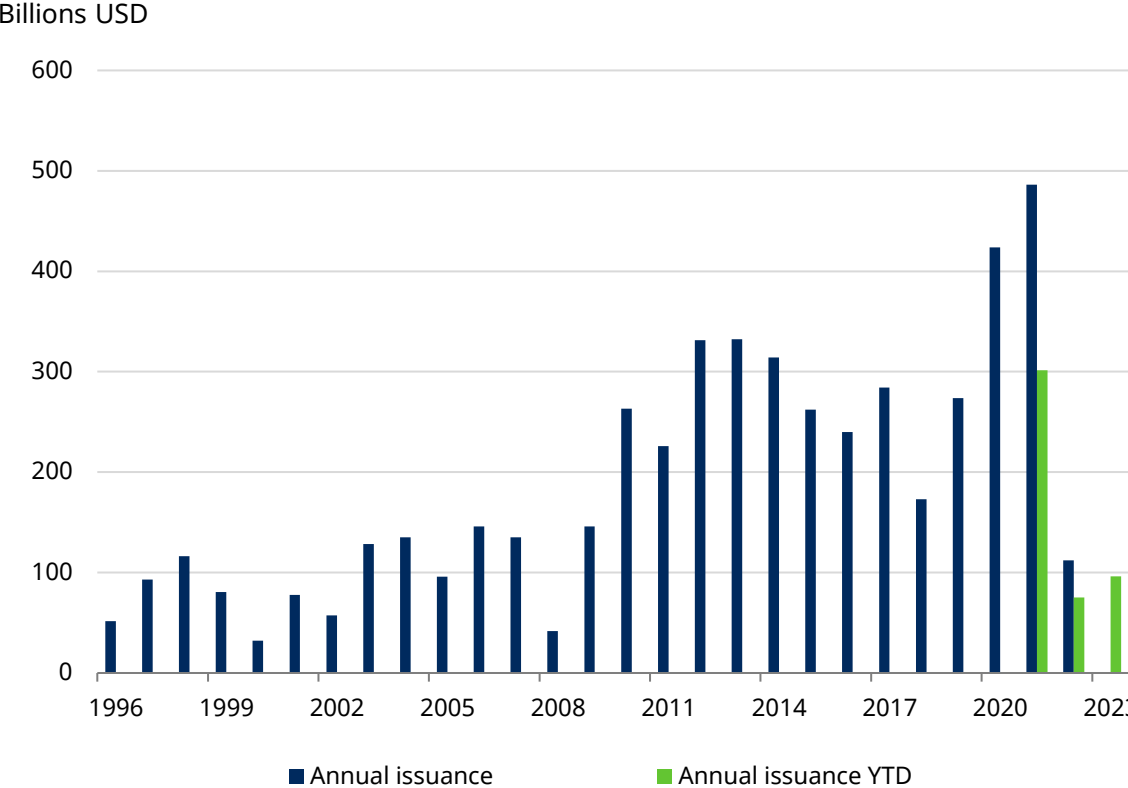
¹Face value of downgrades from IG to HY minus face value of upgrades from HY to IG, divided by face value of the BBB index

US IG and HY gross issuance

US IG gross issuance



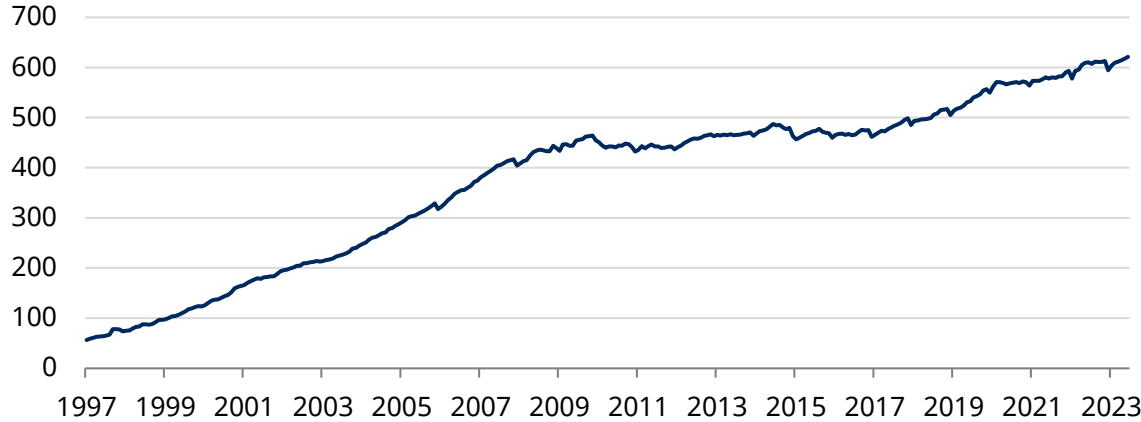
US HY gross issuance



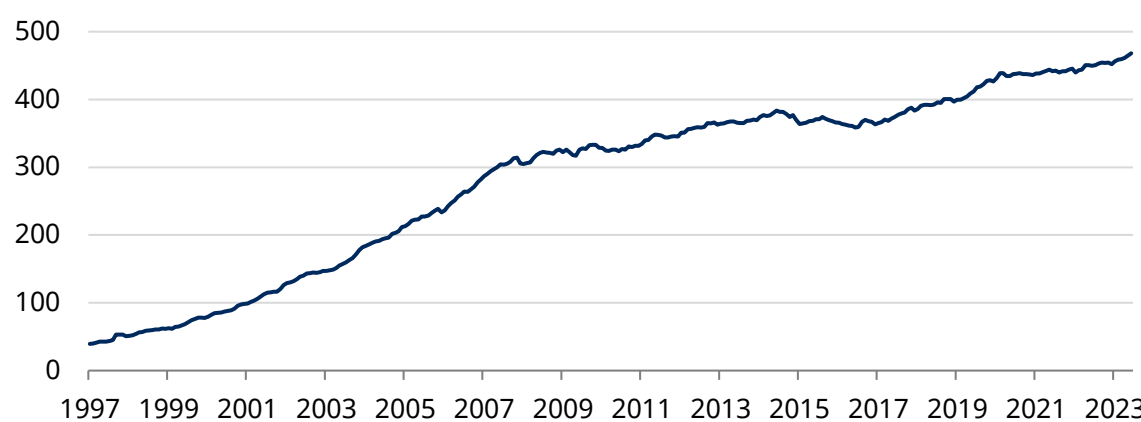
Source: Sifma. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

IG bonds outstanding

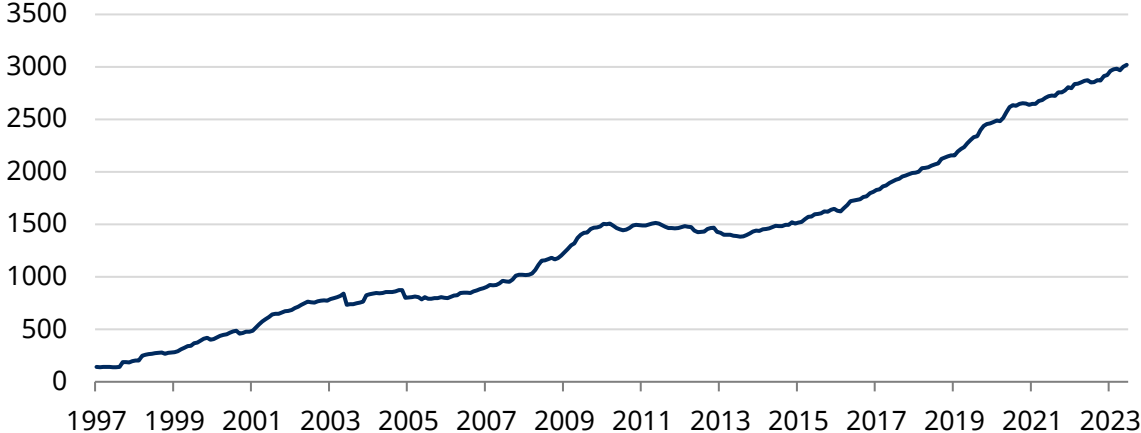
IG GBP non-gilts amount outstanding (bn GBP)



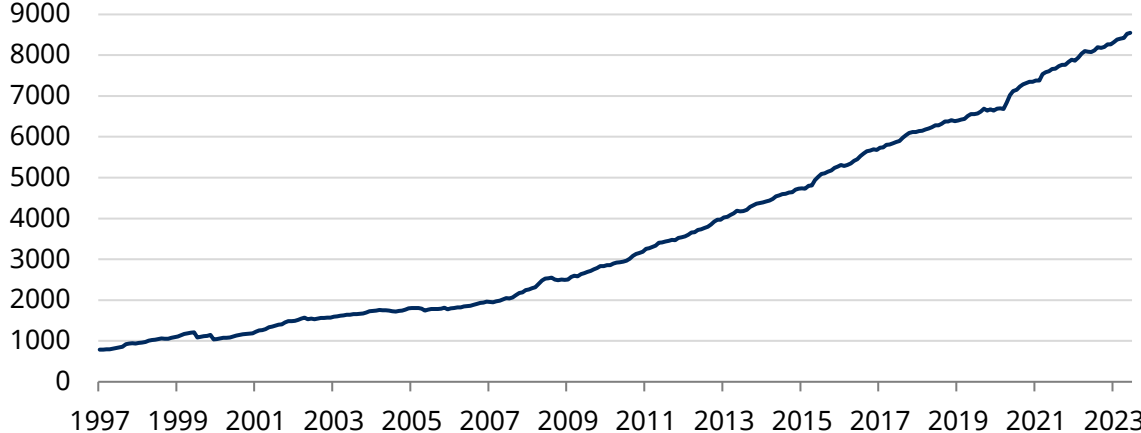
IG GBP corporates amount outstanding (bn GBP)



IG EUR amount outstanding (bn EUR)



IG USD amount outstanding (bn USD)



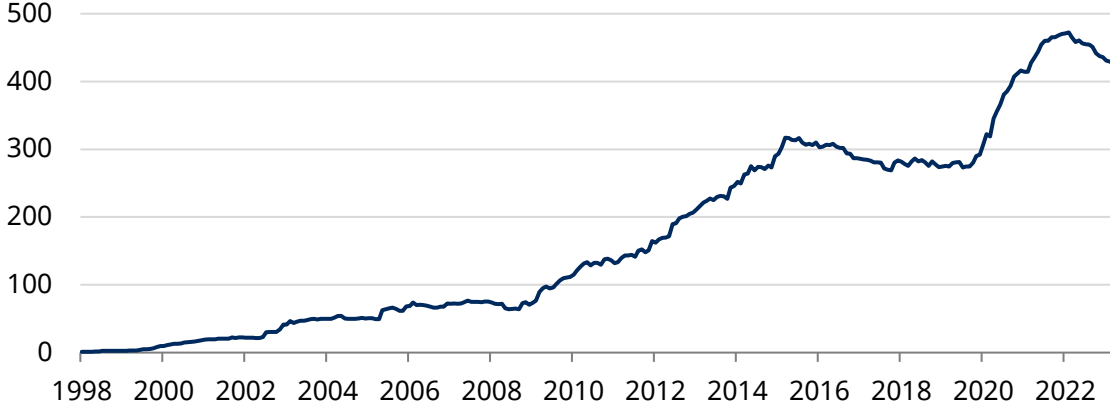
Source: Schroders, ICE Data Indices. Data as at 30 June 2023. Charts show face value of bond outstanding within relevant indices. Please see relevant disclaimers on page 68.

HY bonds outstanding

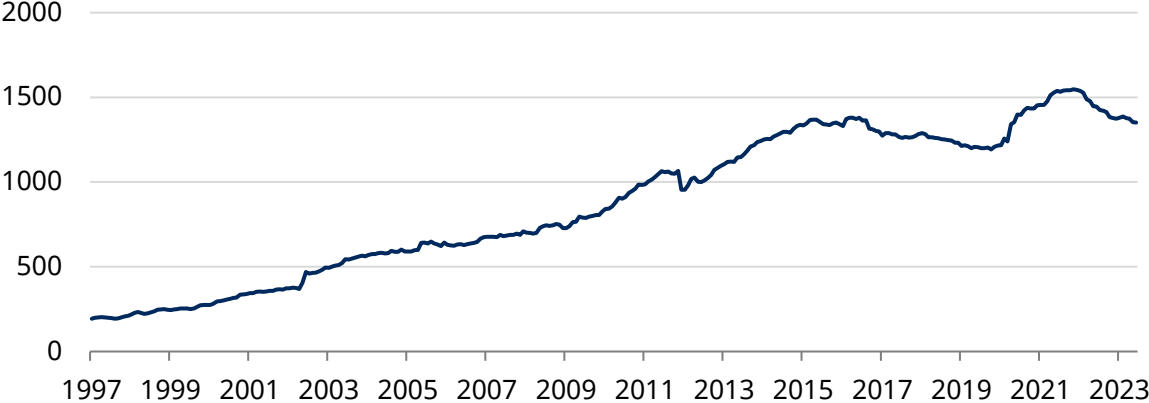
HY GBP amount outstanding (bn GBP)



HY EUR amount outstanding (bn EUR)



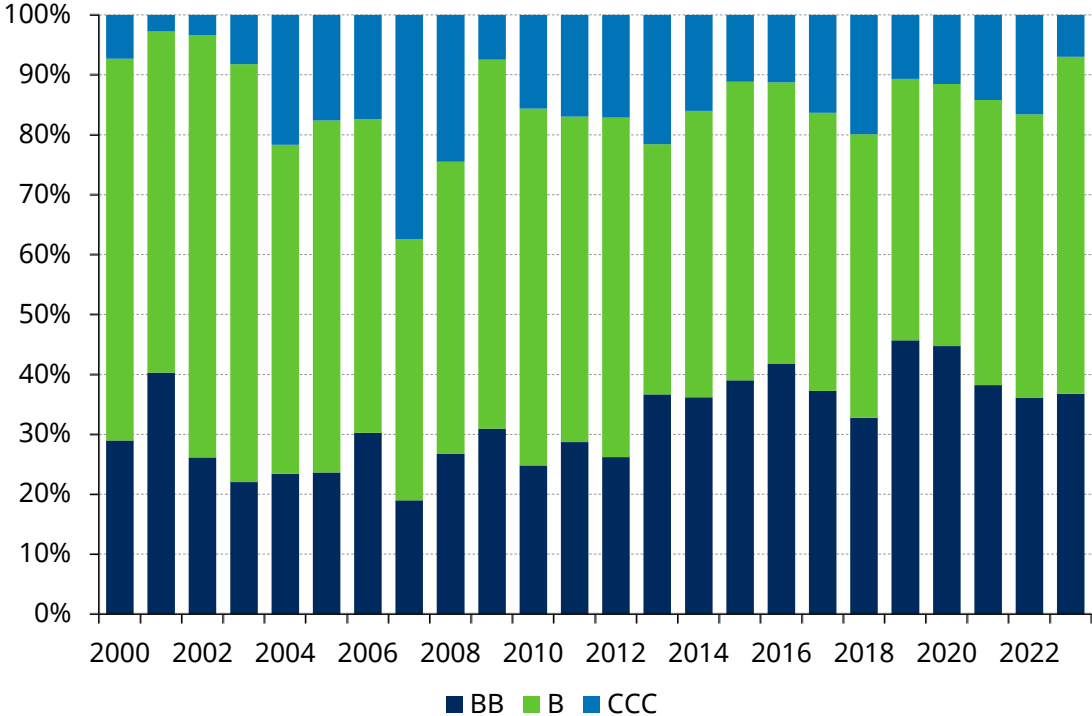
HY USD amount outstanding (bn USD)



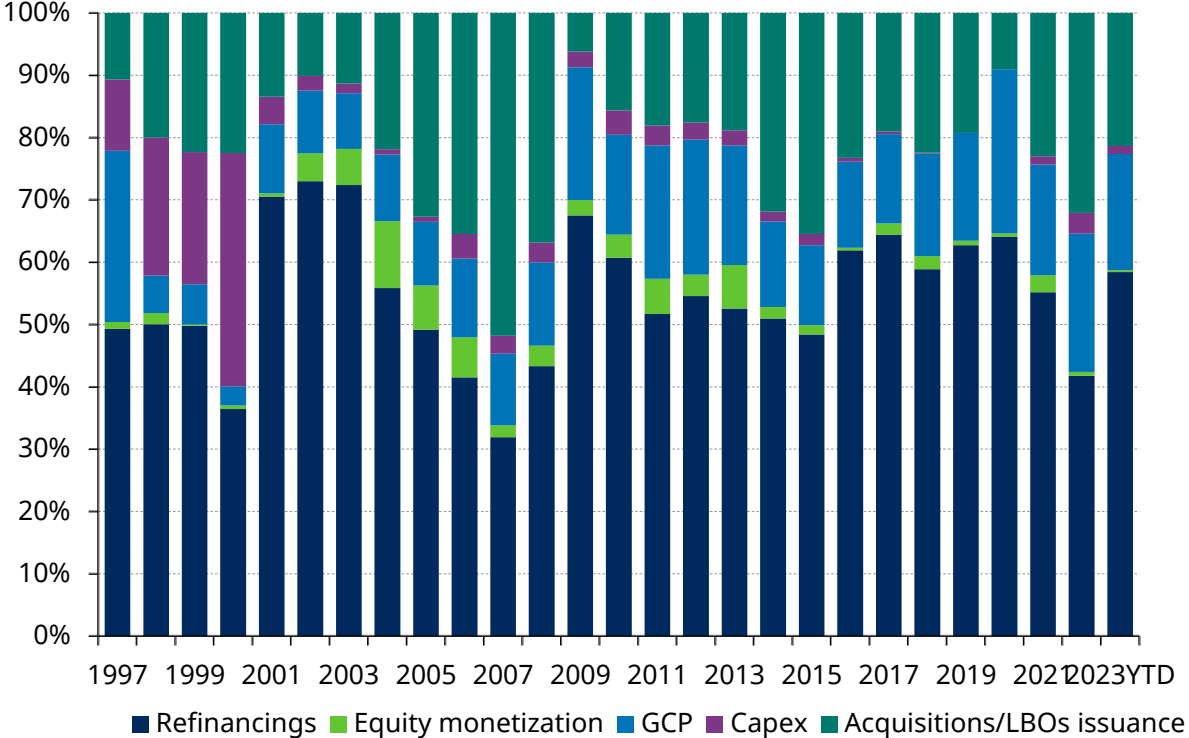
Source: Schroders, ICE Data Indices. Data as at 30 June 2023. Charts show face value of bond outstanding within relevant indices. Please see relevant disclaimers on page 68.

Global HY issuance details

Issuance by rating (percentage of issuance)



Issuance by use of proceeds⁽¹⁾

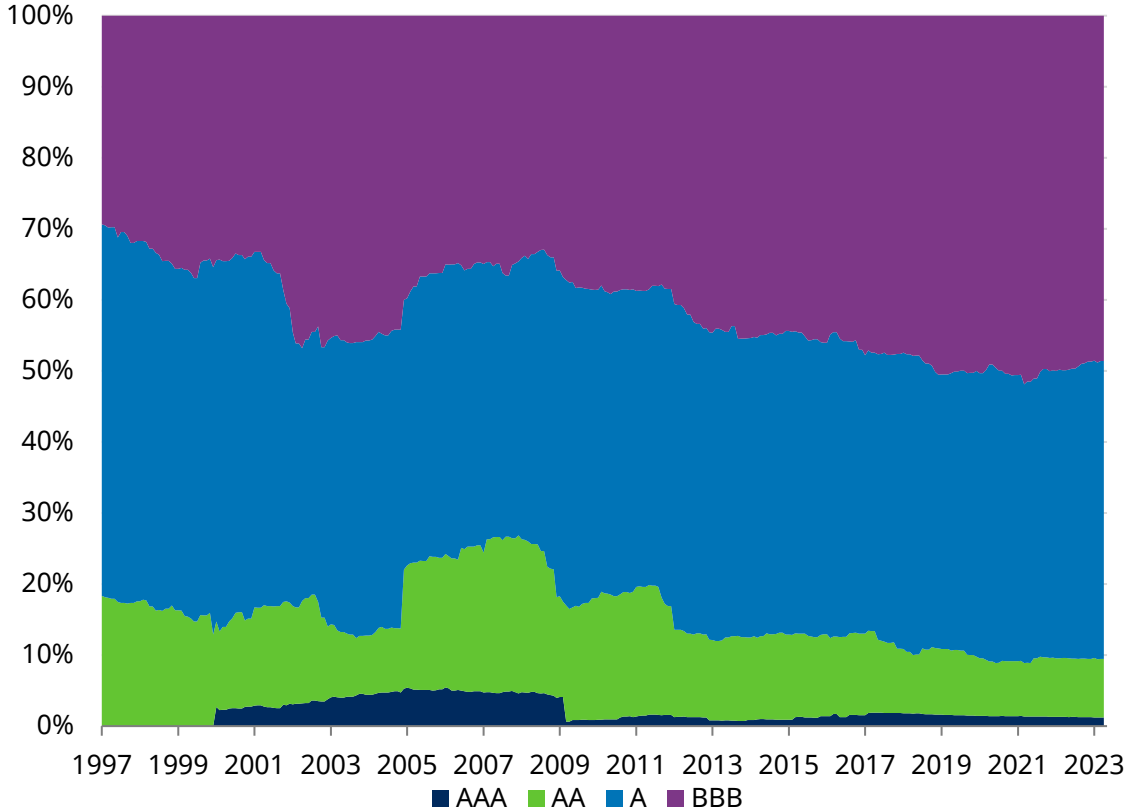


Source: Schrodgers, BofA Global Research, Moody's. Data as at 30 June 2023. Please see relevant disclaimers on page 68.
 (1) GCP is General Corporate Purposes; Equity monetization includes dividends and share repurchases

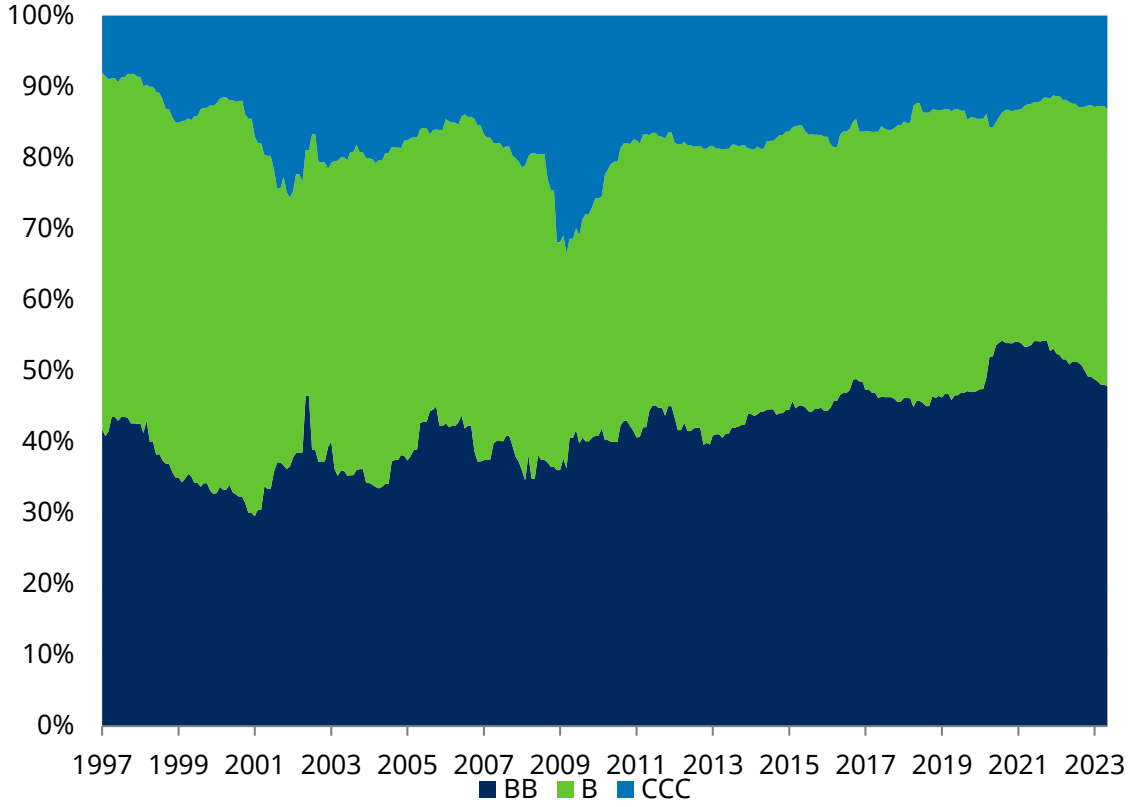
US dollar credit historical ratings split

Significant changes in credit quality over time

US IG ratings split



US HY ratings split

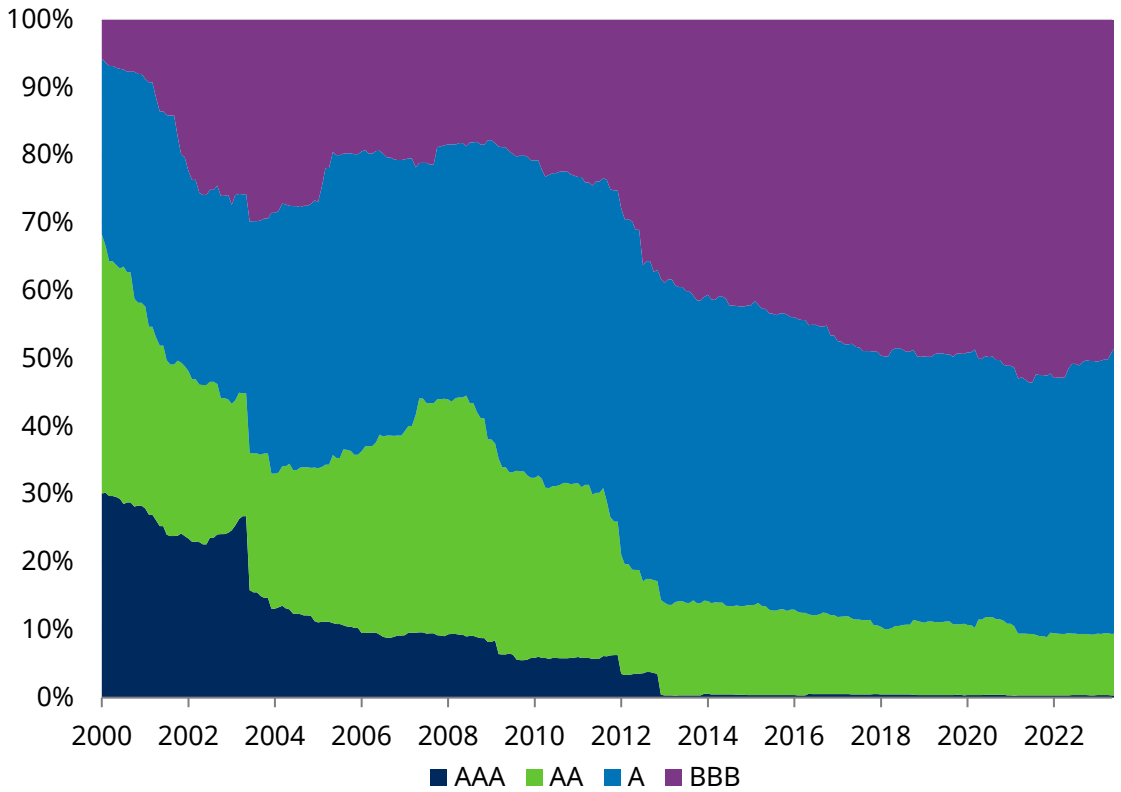


Source: Schroders, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

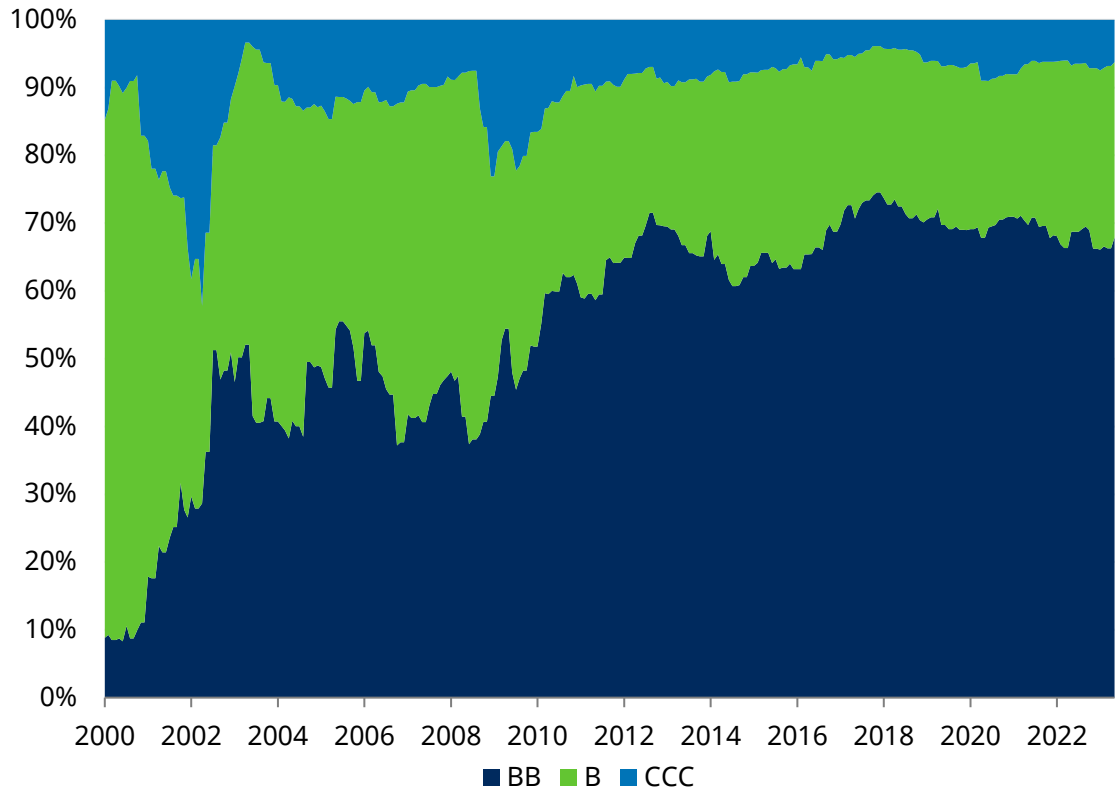
Euro credit historical ratings split

Significant changes in credit quality over time

Euro IG ratings split



Euro HY ratings split

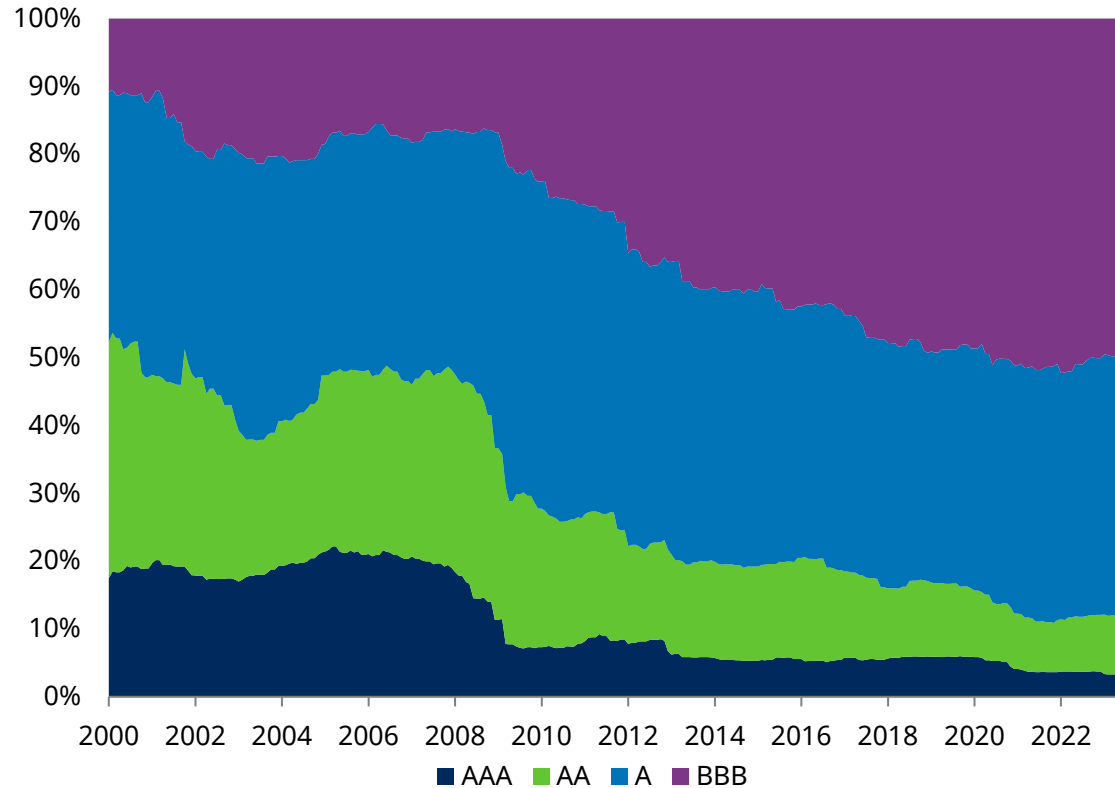


Source: Schroders, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

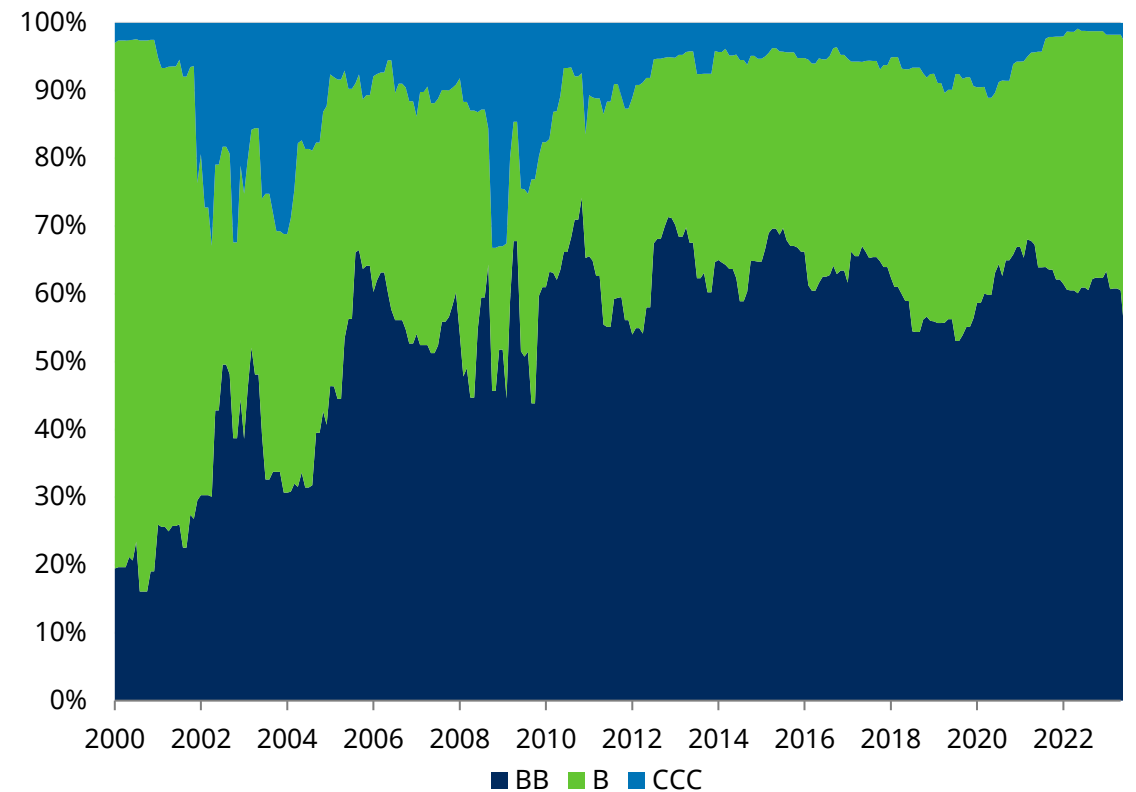
Sterling credit historical ratings split

Significant changes in credit quality over time

GBP IG ratings split



GBP HY ratings split



Source: Schroders, Refinitiv Datastream. Data as at 30 June 2023. Please see relevant disclaimers on page 68.

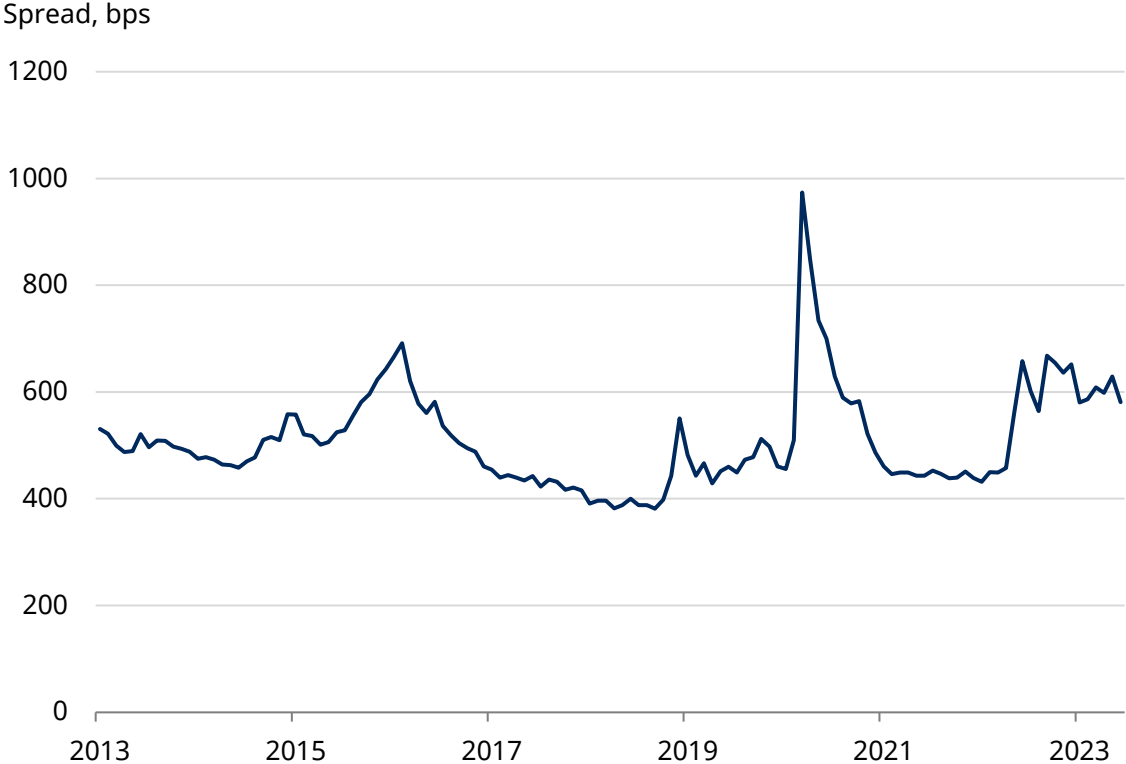
Schroders



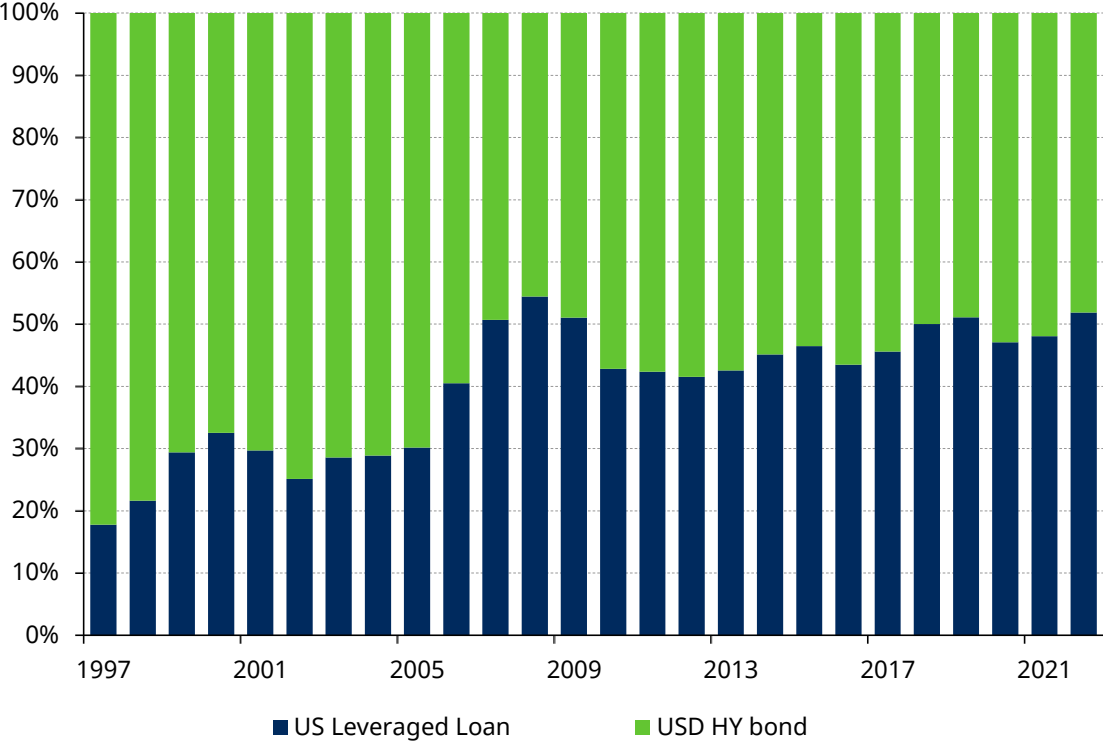
Appendix: Alternatives

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 30 June 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 Loan** - Credit Suisse Leveraged Loans Index
- **EUR leveraged Loan** - Credit Suisse 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.**

Important information (1 of 3)

Marketing material for professional investors or advisers only. It is not to be provided to retail clients.

The views and opinions contained herein are those of the authors as at the date of publication and are subject to change due to market and other conditions. Such views and opinions may not necessarily represent those expressed or reflected in other Schroders communications, strategies or funds.

This presentation is intended to be for information purposes only. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument or security or to adopt any investment strategy. The information provided is not intended to constitute investment advice, an investment recommendation or investment research and does not take into account specific circumstances of any recipient. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. Any references to securities, sectors, regions and/or countries are for illustrative purposes only.

Information herein is believed to be reliable but Schroders does not represent or warrant its completeness or accuracy. No responsibility or liability is accepted by Schroders, its officers, employees or agents for errors of fact or opinion or for any loss arising from use of all or any part of the information in this document. No reliance should be placed on the views and information in the document when taking individual investment and/or strategic decisions. Schroders has no obligation to notify any recipient should any information contained herein change or subsequently become inaccurate. Unless otherwise authorised by Schroders, any reproduction of all or part of the information in this document is prohibited.

Any data contained in this document have been obtained from sources we consider to be reliable. Schroders has not independently verified or validated such data and they should be independently verified before further publication or use. Schroders does not represent or warrant the accuracy or completeness of any such data.

All investing involves risk including the possible loss of principal.

This material has not been reviewed by the regulators.

Exchange rate changes may cause the value of any overseas investments to rise or fall. Past Performance is not a guide to future performance and may not be repeated. This document may contain “forward-looking” information, such as forecasts or projections. Please note that any such information is not a guarantee of any future performance and there is no assurance that any forecast or projection will be realised. For your security, communications may be taped or monitored.

Third party data is owned or licensed by the data provider and may not be reproduced or extracted and used for any other purpose without the data provider's consent. Third party data is provided without any warranties of any kind. The data provider and issuer of the document shall have no liability in connection with the third party data. The Prospectus and/or www.schroders.com contains additional disclaimers which apply to the third party data.

The forecasts stated in this presentation are the result of statistical modelling, based on a number of assumptions. Forecasts are subject to a high level of uncertainty regarding future economic and market factors that may affect actual future performance. The forecasts are provided to you for information purposes as at today's date. Our assumptions may change materially with changes in underlying assumptions that may occur, among other things, as economic and market conditions change. We assume no obligation to provide you with updates or changes to this data as assumptions, economic and market conditions, models or other matters change.

Important information (2 of 3)

For readers/viewers in Argentina: Schroder Investment Management S.A., Ing. Enrique Butty 220, Piso 12, C1001AFB - Buenos Aires, Argentina. Registered/Company Number 15. Registered as Distributor of Investment Funds with the CNV (Comisión Nacional de Valores). Nota para los lectores en Argentina: Schroder Investment Management S.A., Ing. Enrique Butty 220, Piso 12, C1001AFB - Buenos Aires, Argentina. Inscripto en el Registro de Agentes de Colocación y Distribución de PIC de FCI de la Comisión Nacional de Valores con el número 15.

Note to readers/viewers in Australia: Issued by Schroder Investment Management Australia Limited Level 20, Angel Place, 123 Pitt Street, Sydney NSW 2000 Australia ABN 22 000 443 274, AFSL 226473

For readers/viewers in Brazil: Schroder Investment Management Brasil Ltda., Rua Joaquim Floriano, 100 – cj. 142 Itaim Bibi, São Paulo, 04534-000 Brasil. Registered/Company Number 92.886.662/0001-29. Authorised as an asset manager by the Securities and Exchange Commission of Brazil/Comissão de Valores Mobiliários (“CVM”) according to the Declaratory Act number 6816.

For readers/viewers in Canada: Schroder Investment Management North America Inc., 7 Bryant Park, New York, NY 10018-3706. NRD Number 12130. Registered as a Portfolio Manager with the Ontario Securities Commission, Alberta Securities Commission, the British Columbia Securities Commission, the Manitoba Securities Commission, the Nova Scotia Securities Commission, the Saskatchewan Securities Commission and the (Quebec) Autorité des marchés financiers.”

For readers/viewers in the European Union/European Economic Area: Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registered No. B 37.799

Note to readers/viewers in Hong Kong S.A.R.: Issued by Schroder Investment Management (Hong Kong) Limited. Level 33, Two Pacific Place, 88 Queensway, Hong Kong. This material has not been reviewed by the Securities and Futures Commission.

Note to readers/viewers in Indonesia: Issued by PT Schroder Investment Management Indonesia Indonesia Stock Exchange Building Tower 1, 30th Floor, Jalan Jend. Sudirman Kav 52-53 Jakarta 12190 Indonesia PT Schroder Investment Management Indonesia is licensed as an Investment Manager and regulated by the Indonesian Financial Services Authority (OJK). This material has not been reviewed by the OJK.

For readers/viewers in Israel: Note regarding the Marketing material for Qualified Clients or Sophisticated Investors only. This communication has been prepared by certain personnel of Schroder Investment Management (Europe) S.A (Registered No. B 37.799) or its subsidiaries or affiliates (collectively, ‘SIM’). Such personnel are not licensed by the Israeli Securities Authority. Such personnel may provide investment marketing, to the extent permitted and in accordance with the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995 (the ‘Investment Advice Law’). This communication is directed at persons (i) who are Sophisticated Investors (ii) Qualified Clients (‘Lakoach Kashir’) as such term is defined in the Investment Advice Law; and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should act on the contents or access the products or transactions discussed in this communication. In particular, this communication is not intended for retail clients and SIM will not make such products or transactions available to retail clients.

Note to readers/viewers in Japan: Issued by Schroder Investment Management (Japan) Limited 21st Floor, Marunouchi Trust Tower Main, 1-8-3 Marunouchi, Chiyoda-Ku, Tokyo 100-0005, Japan Registered as a Financial Instruments Business Operator regulated by the Financial Services Agency of Japan (“FSA”). Kanto Local Finance Bureau (FIBO) No. 90 This material has not been reviewed by the FSA.

Note to readers/viewers in Singapore: For Accredited and or Institutional Clients only, where appropriate Issued by Schroder Investment Management (Singapore) Ltd (Co. Reg. No. 199201080H) 138 Market Street #23-01 CapitaGreen, Singapore 048946 This advertisement or publication has not been reviewed by the Monetary Authority of Singapore

Important information (3 of 3)

Note to readers/viewers in South Korea: Issued by Schroders Korea Limitedn26th Floor, 136, Sejong-daero, (Taepyeongno 1-ga, Seoul Finance Center), Jung-gu, Seoul 100-768, South Korea . Registered and regulated by Financial Supervisory Service of Korea ("FSS")This material has not been reviewed by the FSS.

For readers/viewers in Switzerland: Marketing material for professional clients and qualified investors only. This document has been issued by Schroder Investment Management (Switzerland) AG, Central 2, CH-8001 Zurich, Switzerland a fund management company authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Bern.

Note to readers/viewers in Taiwan: Issued by Schroder Investment Management (Taiwan) Limited 9F., No. 108, Sec. 5, Xinyi Road, Xinyi District, Taipei 11047, Taiwan. Tel +886 2 2722-1868 Schroder Investment Management (Taiwan) Limited is independently operated. This material has not been reviewed by the regulators.

Note to readers/viewers in Thailand: This presentation has not been approved by the Securities and Exchange Commission which takes no responsibility for its contents. No offer to the public to purchase any fund will be made in Thailand and this presentation is intended to be read for information only and must not be passed to, issued to, or shown to the public generally. Schroder Investment Management (Singapore) Ltd does not have any intention to solicit you for any investment or subscription in any fund and any such solicitation or marketing will be made by an entity permitted by applicable laws and regulations.

Note to readers/viewers in Malaysia: This presentation has not been approved by the Securities Commission Malaysia which takes no responsibility for its contents. No offer to the public to purchase any fund will be made in Malaysia and this presentation is intended to be read for information only and must not be passed to, issued to, or shown to the public generally. Schroder Investment Management (Singapore) Ltd does not have any intention to solicit you for any investment or subscription in any fund and any such solicitation or marketing will be made by an entity permitted by applicable laws and regulations.

For readers/viewers in the People's Republic of China: Issued by Schroder Investment Management (Shanghai) Co., Ltd. Unit 33T52A, 33F Shanghai World Financial Center, 100 Century Avenue, Pudong New Area, Shanghai, China, AMAC registration NO. P1066560. Regulated by Asset Management Association of China ("AMAC") This material has not been reviewed by the AMAC

For readers/viewers in the United Arab Emirates: Schroder Investment Management Limited, located on 1st Floor, Gate Village Six, Dubai International Financial Centre, PO Box 506612 Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority. This document is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any Prospectus or other documents in connection with this Fund. Accordingly, the DFSA has not approved any associated documents nor taken any steps to verify the information set out in the Prospectus for the fund, and has no responsibility for it. This document is intended to be for information purposes only and it is not intended as promotional material in any respect. This document is intended for professional investors only as defined by the DFSA rules which can be accessed from their website www.dfsa.ae

For readers/viewers in the United Kingdom: Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage. Issued by Schroder Investment Management Limited, 1 London Wall Place, London EC2Y 5AU. Registered Number 1893220 England. Authorised and regulated by the Financial Conduct Authority.

For readers/viewers in the United States: For financial professionals and consultant only. Schroder Investment Management North America Inc., 7 Bryant Park, New York NY 10018-3706. CRD Number 105820. Registered as an investment adviser with the US Securities and Exchange Commission.