



Vontobel

Yields trump spreads

2025 Global Credit Outlook



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Global Credit - 10 questions to start 2025:



Macroeconomics

1. How about global growth and a potential divergence?
2. What is the likely path for rate cuts?
3. What are the implications of the US Election?



Microeconomics

4. Which direction for credit metrics?
5. Are we done with rating upgrades?
6. Does M&A pose a risk to investors?



Technical Factors

7. Will bond issuance continue to increase?
8. What about investors' risk appetite?

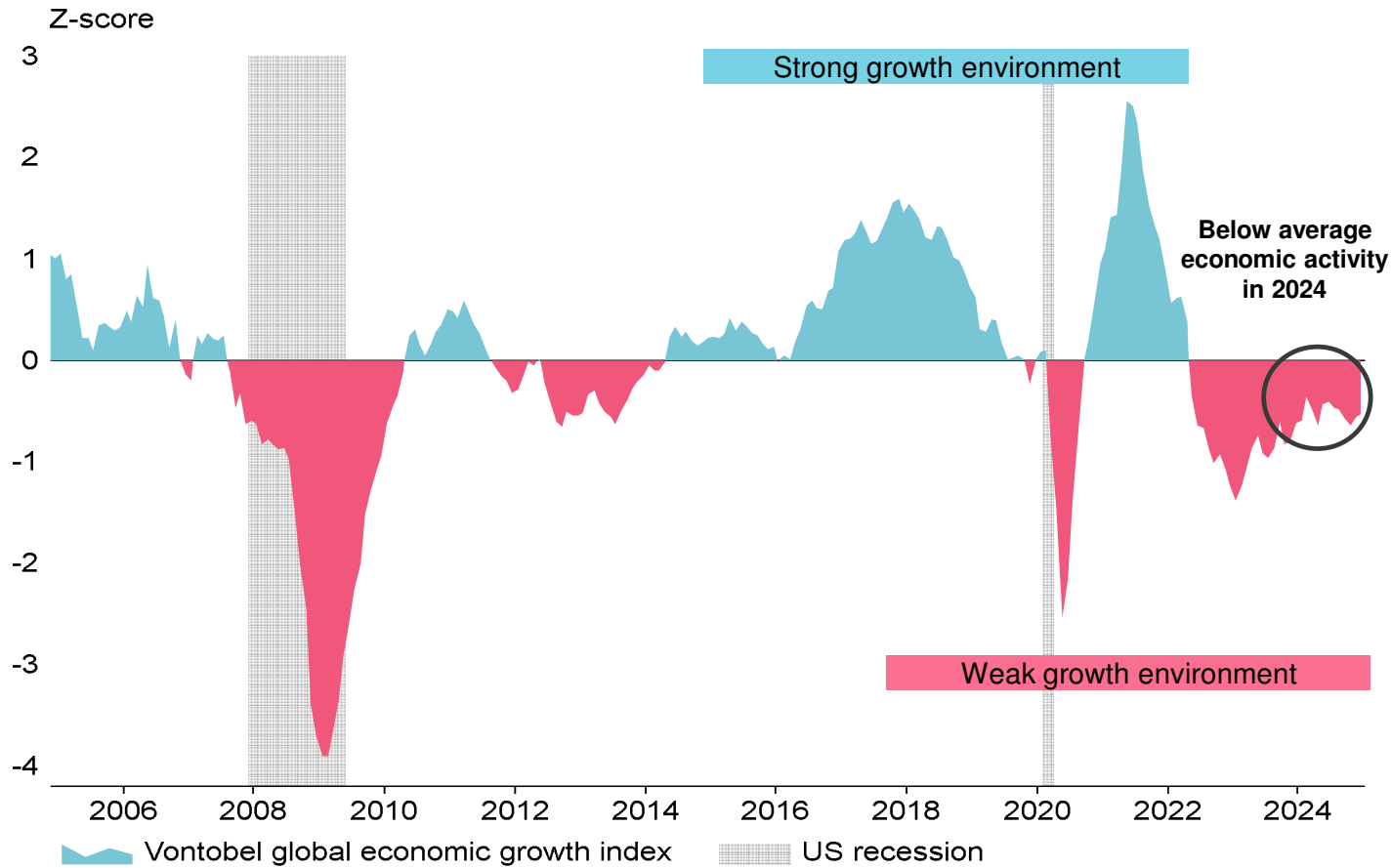


Valuation

9. Spreads screen tight, so why should I buy?
10. Where can I find value in global credit?

#1. Low global growth but no recession...

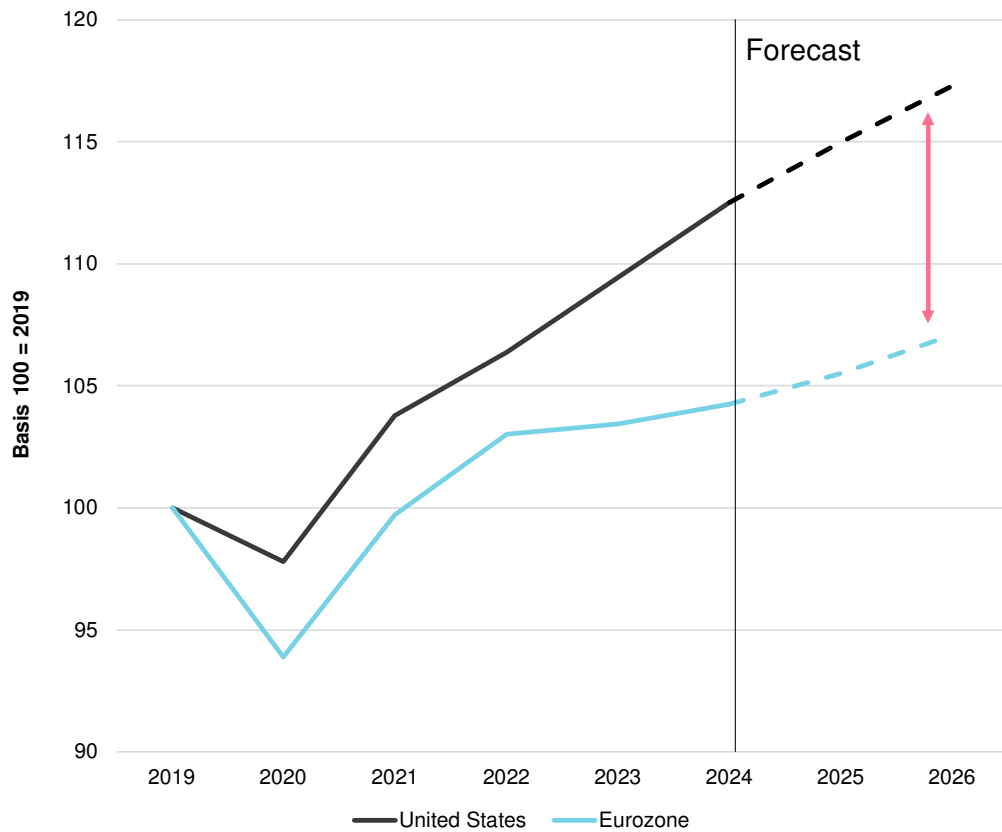
Overall, the global economy expanded at a below average rate but managed to avoid a recession



Our Vontobel global economic growth index reflects the current economic situation compared to its long-term history.
Source: LSEG, Vontobel, 12.2024

...with the US diverging from Europe.

Real GDP US versus Europe and forecast

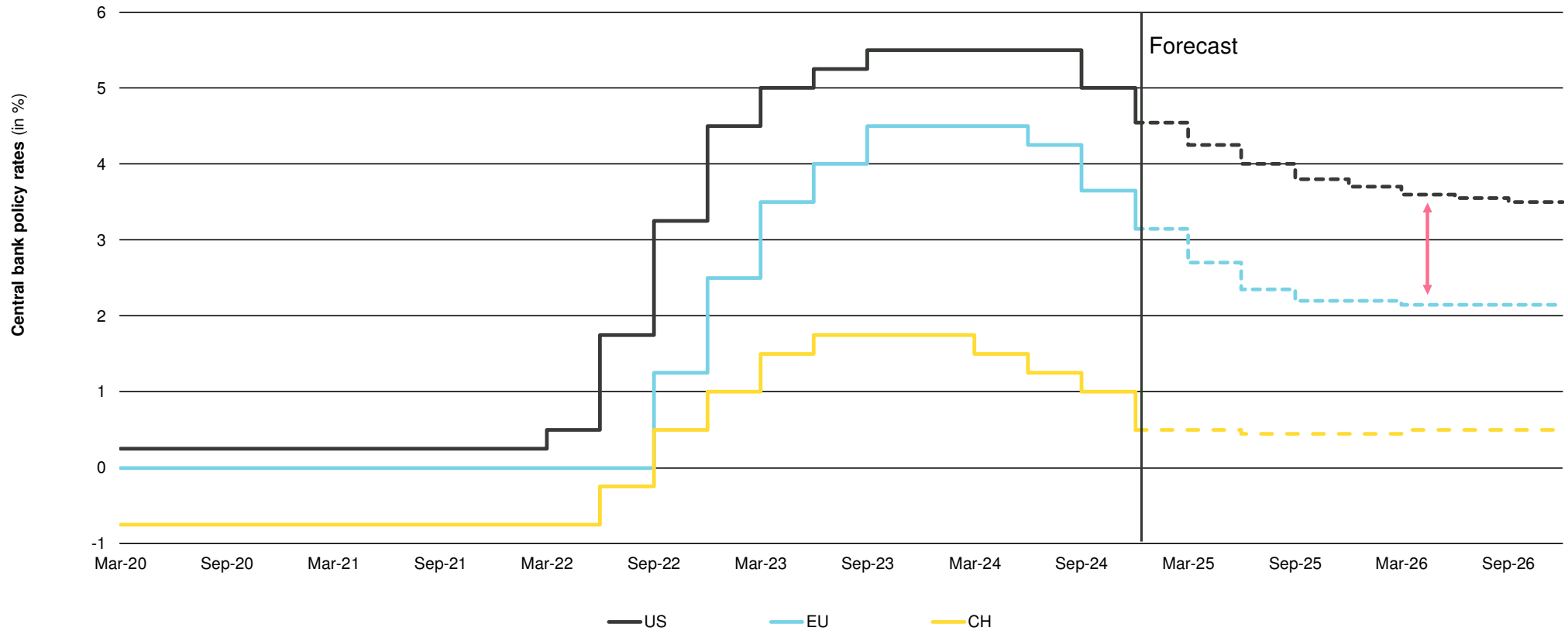


GDP (YoY%) Consensus Forecasts	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26
US	2.4%	2.4%	2.1%	1.9%	1.9%	2.0%
Eurozone	1.0%	1.0%	1.1%	1.1%	1.3%	1.3%
Switzerland	1.8%	1.7%	1.4%	1.4%	1.3%	1.5%
UK	1.7%	1.4%	1.4%	1.5%	1.6%	1.6%
China	4.9%	4.5%	4.7%	4.5%	4.3%	4.1%

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#2. Central banks turned the corner, but we likely see more divergence.

Most central banks are in a cutting cycle with the Fed joining last September



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#3. US election results with potential impact on global trade and certain sectors...

Top-down policies

Via Executive Orders

Tariffs:
Higher tariffs likely, with 60% on China and 10% on ROW. Potential drag on consumption in the US and globally.

Deregulation:
To favor economic growth and enable fiscal consolidation. Expect more favorable M&A environment.

Sanctions:
Likely on Technology and Commodity related sectors.

Via Congress Approval

Taxes:
Lower corporate taxes from 21% to 15% possible. Discussions on US deficit likely.

Immigration:
Limit on immigration with effects on growth and wages.

Efficiency:
Lower government spending likely to help deficits but also negative impact from lower spending.

Sector implications

Banking

- Less regulation to drive loan growth and capital markets activities
- Capital burden could be reduced on large banks

Utilities / Energy

- Incentives cut for clean energy
- Roll back of some emissions policies to delay coal plant retirements

Telecom / Media / Tech

- Lower corporate tax rate benefits telecoms
- Auction of new spectrum licenses possible
- More Media M&A

...with policy changes likely to cause higher deficits.

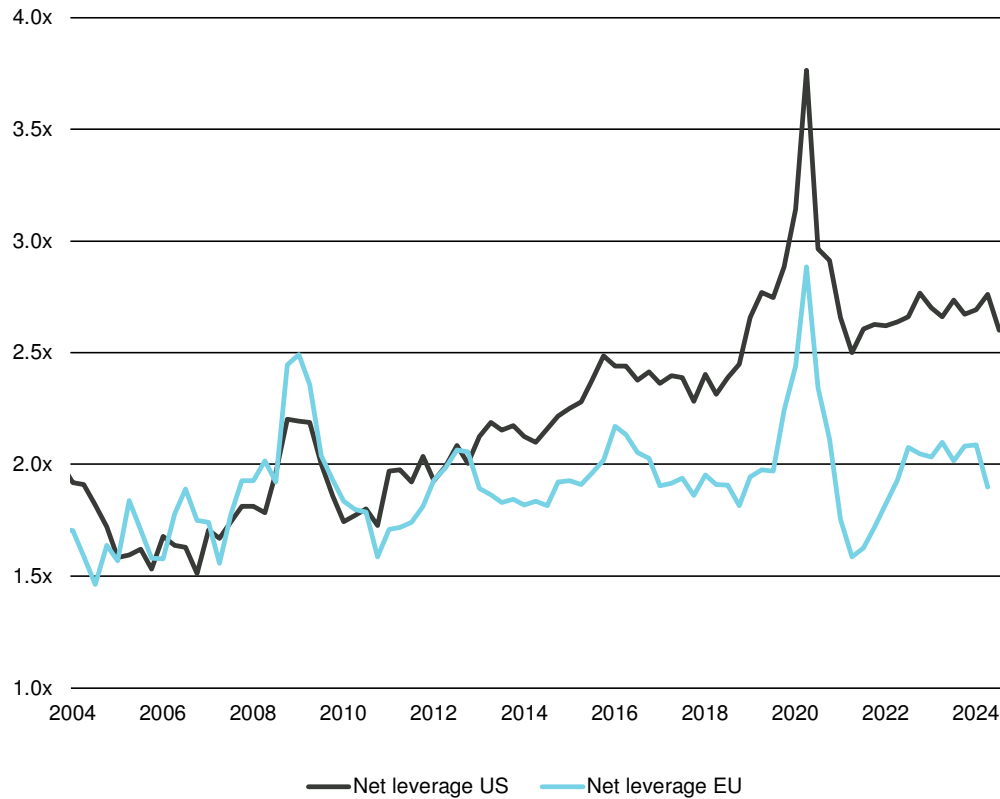
Fiscal deficit in the US expected to increase, while Europe more on a downward trend



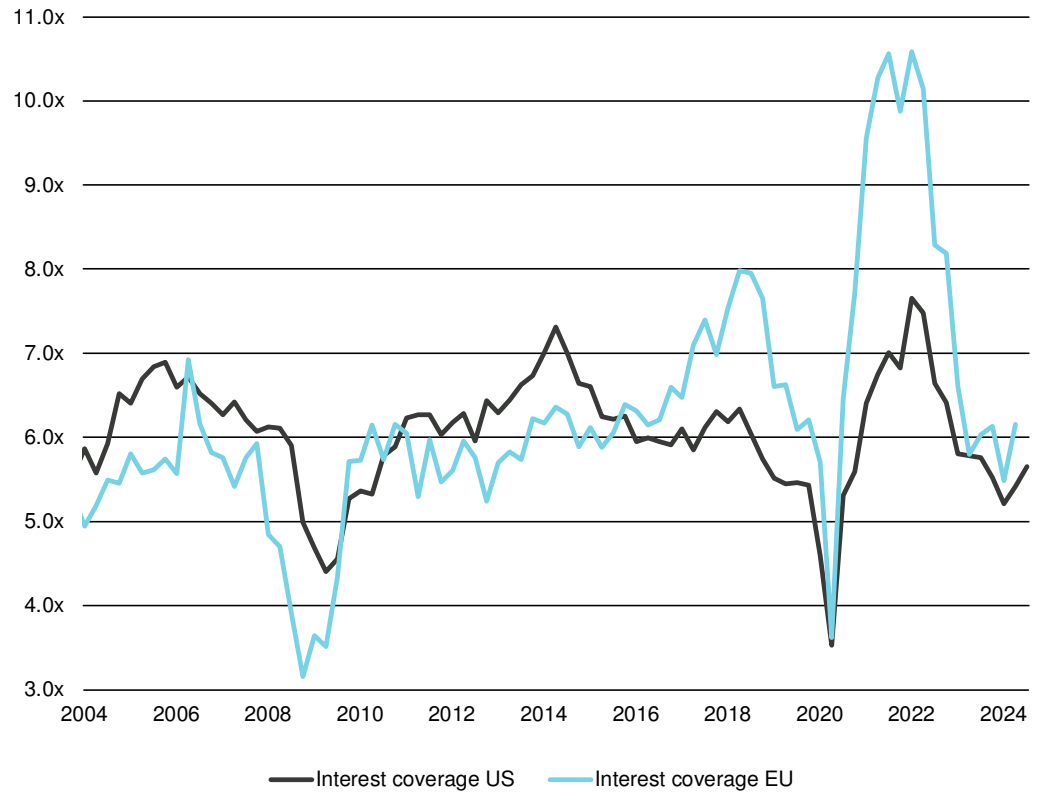
Any projections or forward-looking data herein are based on a variety of estimates and assumptions. There can be no assurance that those estimates or assumptions will prove accurate, and actual results may differ materially. Source: DB, Vontobel, 12.2024.

#4. Robust credit metrics, with...

Leverage improved and now consolidating



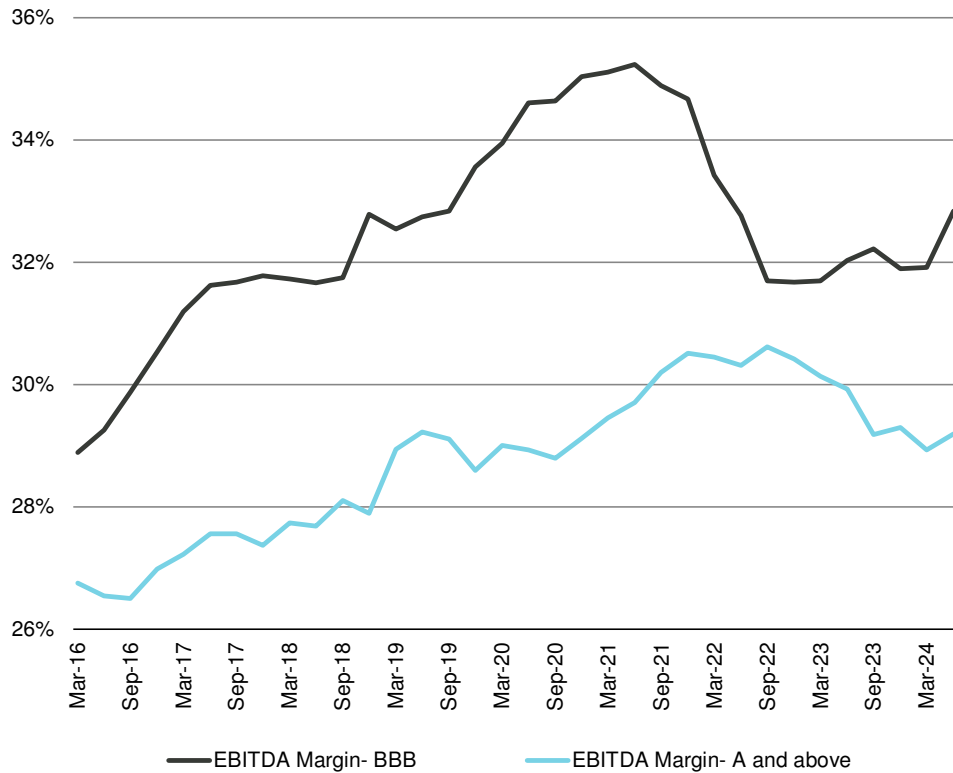
Interest coverage ratio at pre-Covid levels



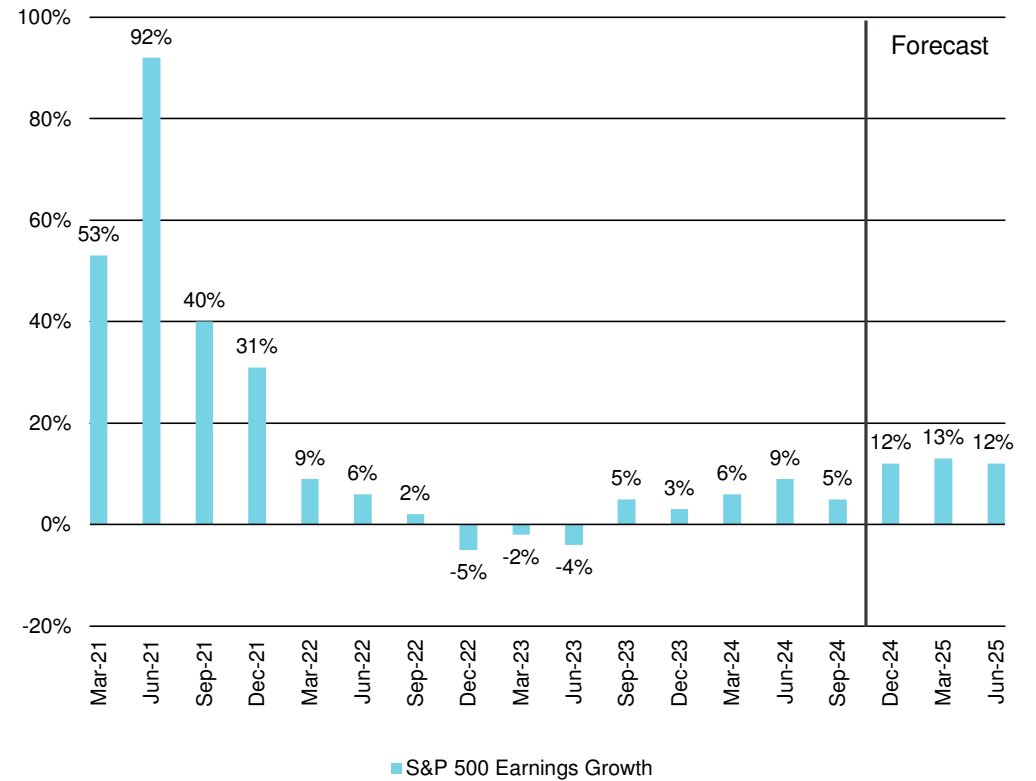
Source: Goldman Sachs, Vontobel, 12.2024. Note: Data includes Q3 2024 results of US Investment Grade Non-Financial issuers. Net leverage = Total debt-cash divided by EBITDA

...margin improvement and decent earnings expectations.

Better margin improvement for BBBs



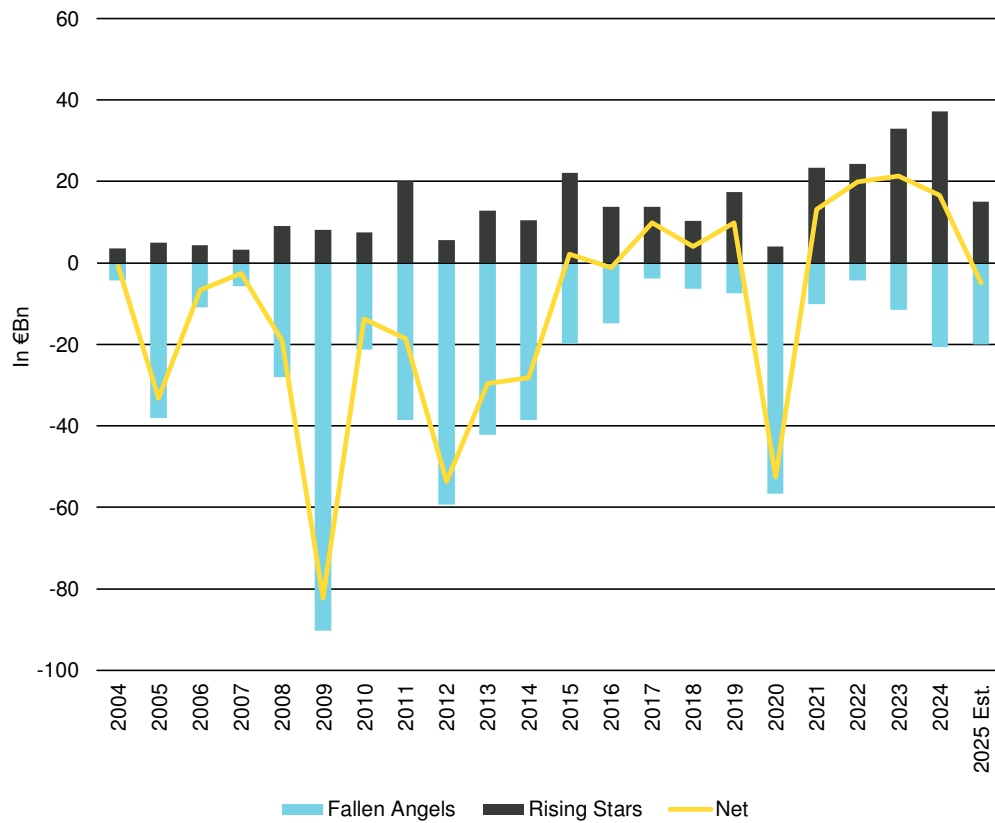
Double-digit earnings growth expected



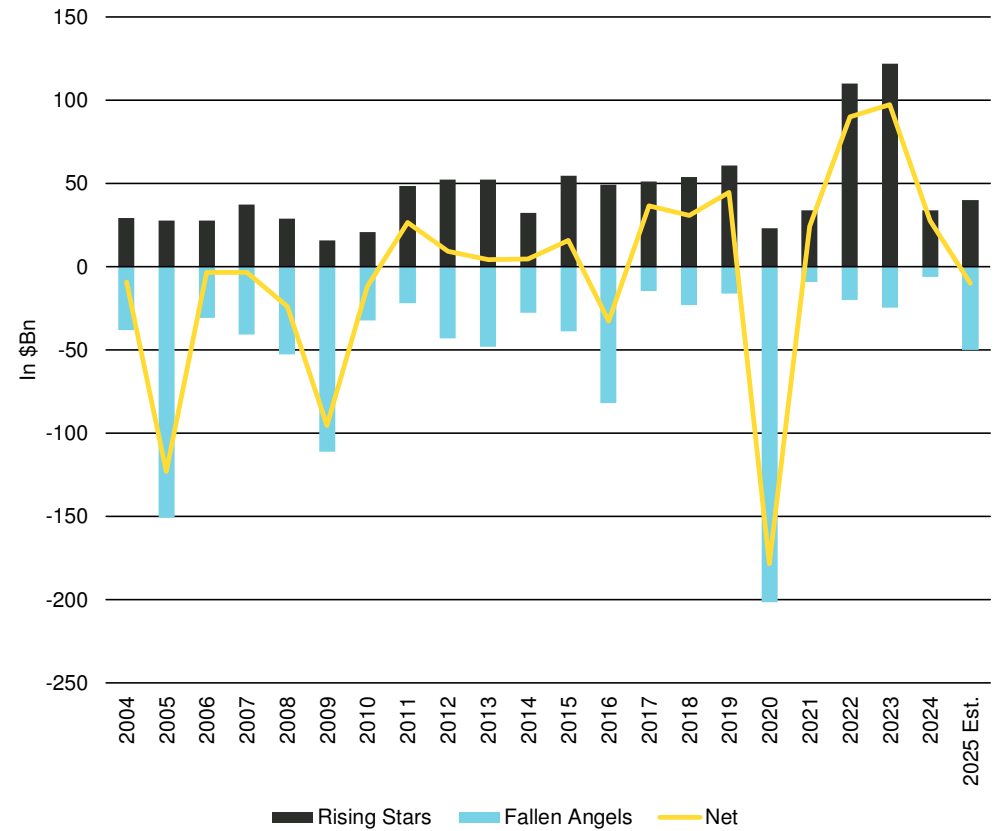
Any projections or forward-looking data herein are based on a variety of estimates and assumptions. There can be no assurance that those estimates or assumptions will prove accurate, and actual results may differ materially.
Source: JP Morgan, Vontobel, 12.2024.

#5. Positive rating trend likely to be more balanced going forward, but typically...

Europe



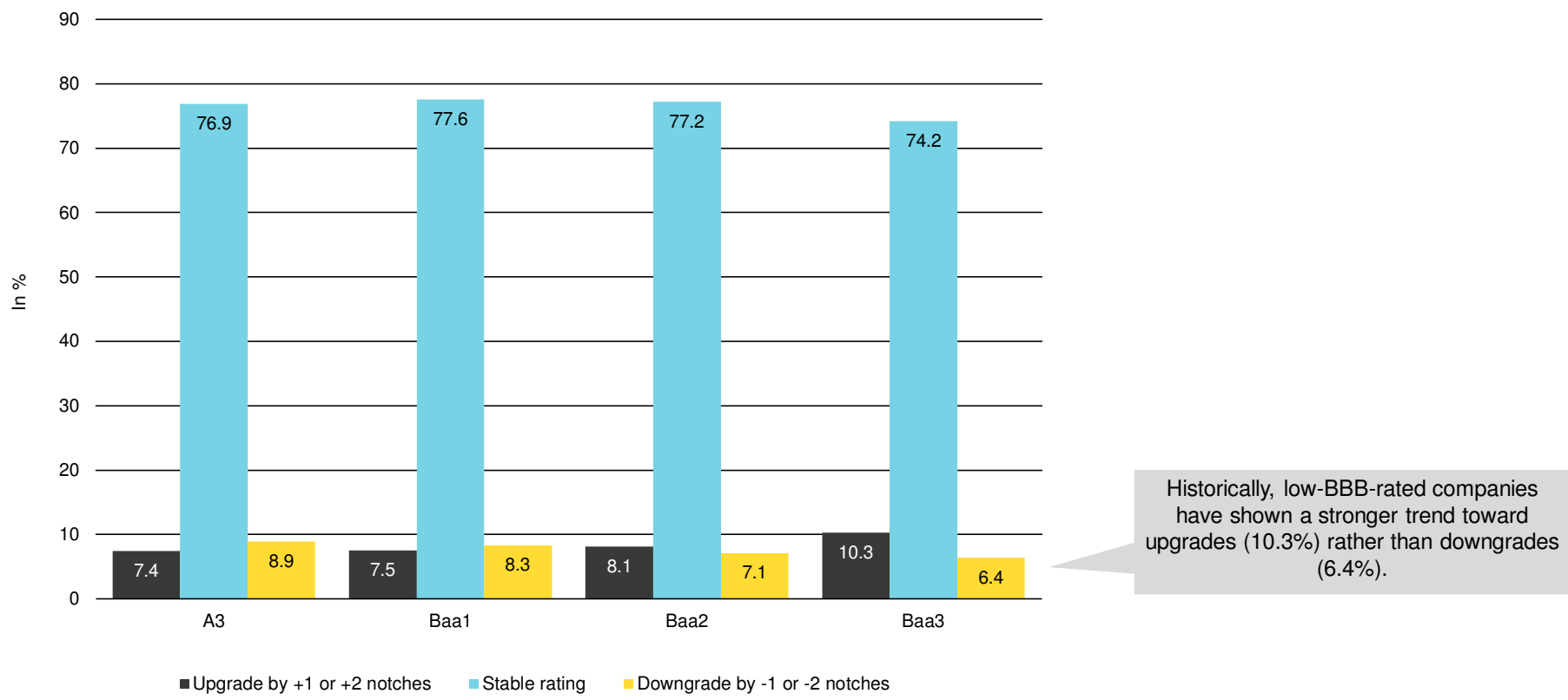
United States



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Source: Barclays, Vontobel, 12.2024.

... low BBB rated corporates tend to benefit from upgrades more than other categories.

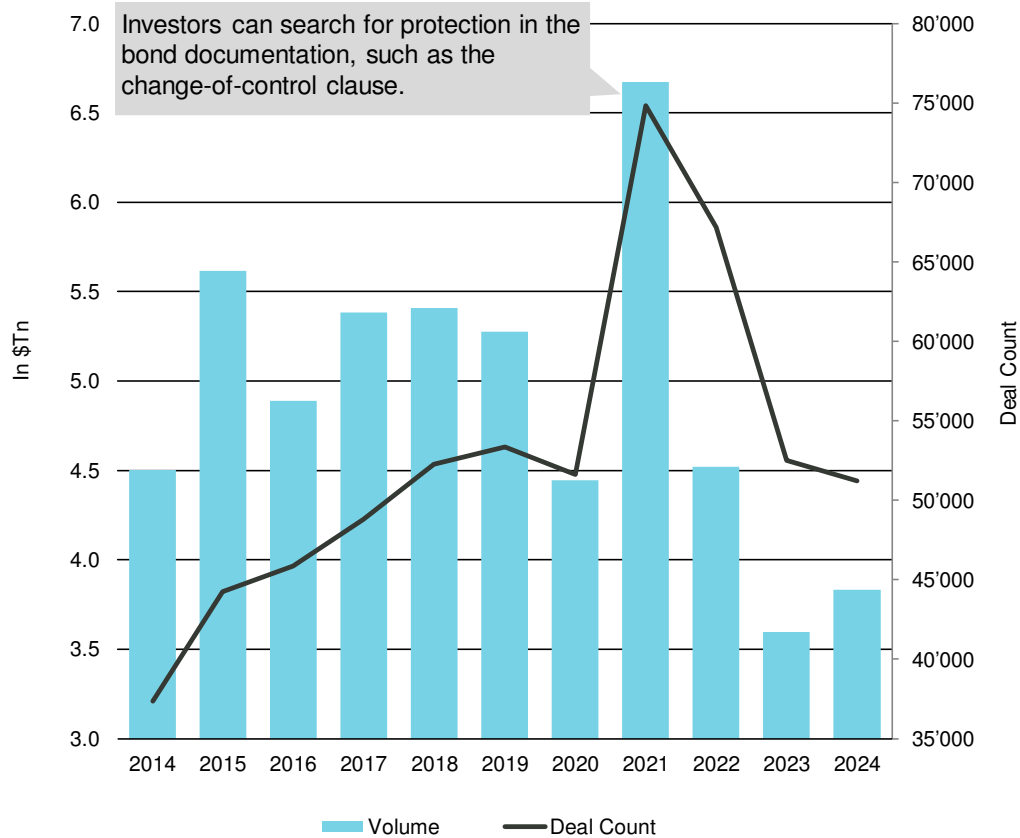
Moody's one-year rating migration table, 1983-2023



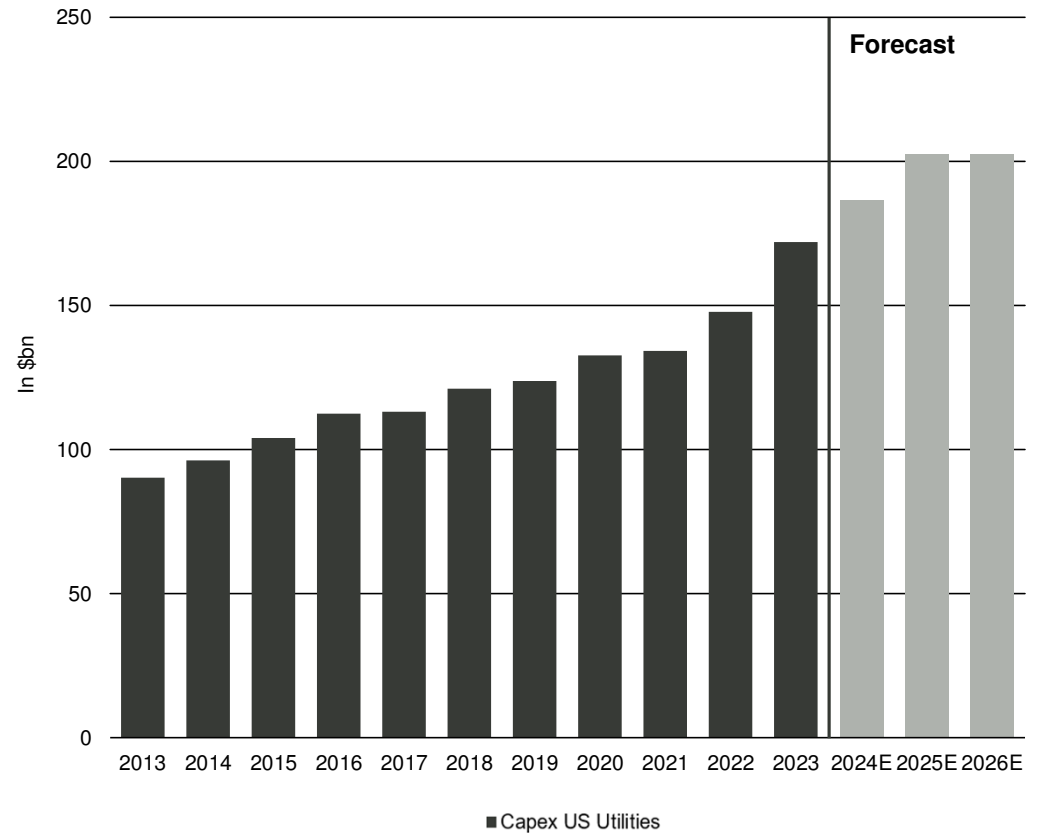
Source: Moody's, Vontobel, 12.2024

#6. M&A activities likely to rise from a low base, as well as capex...

Global M&A activities low, for now



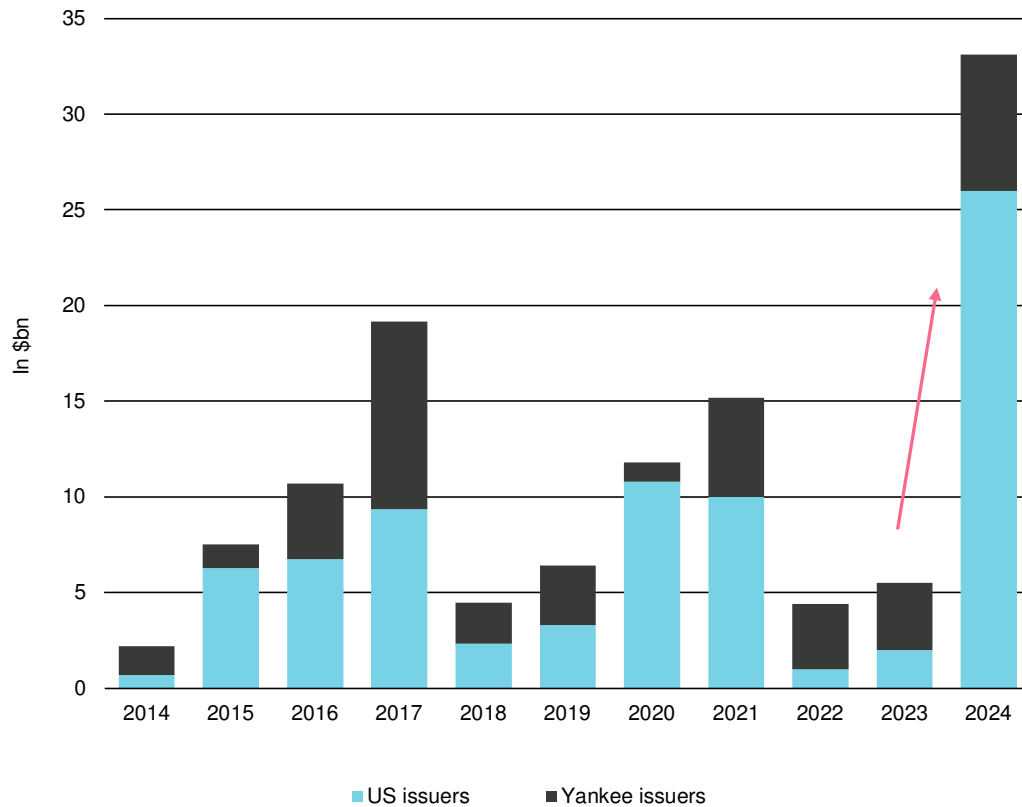
Capital Expenditures continue to increase in some sectors



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...while more hybrid issuance can help to ease the impact on credit metrics.

Corporate hybrids in the US as a growing market segment

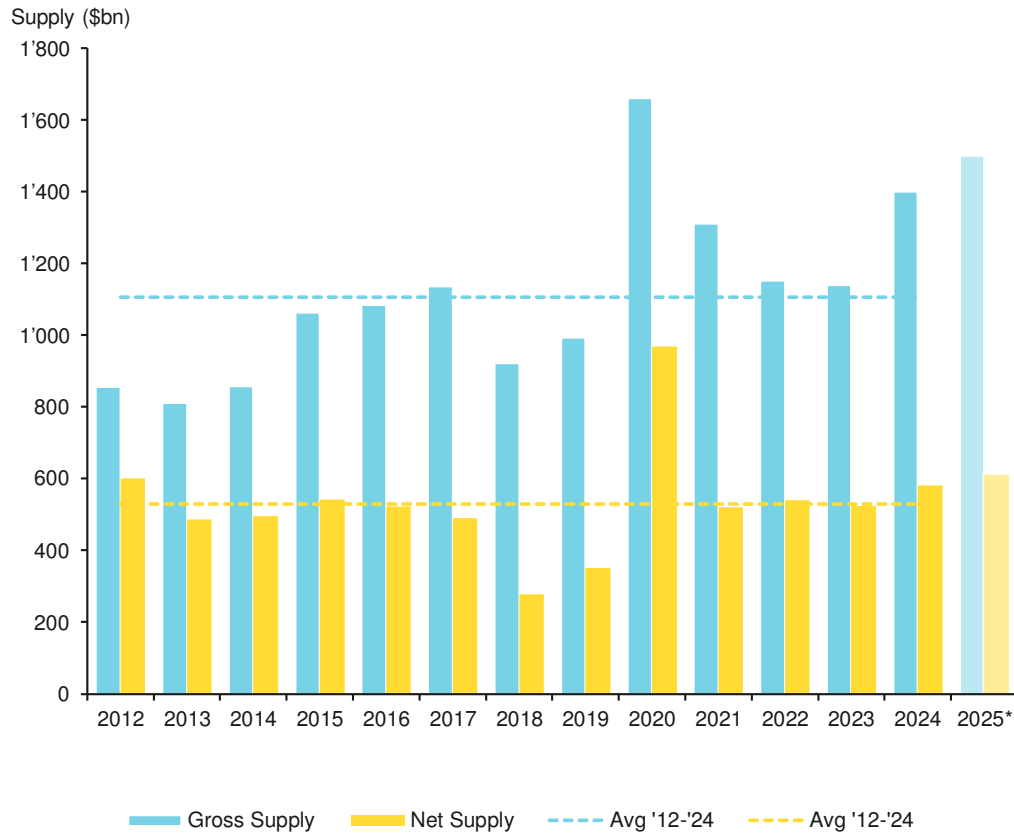


Background:

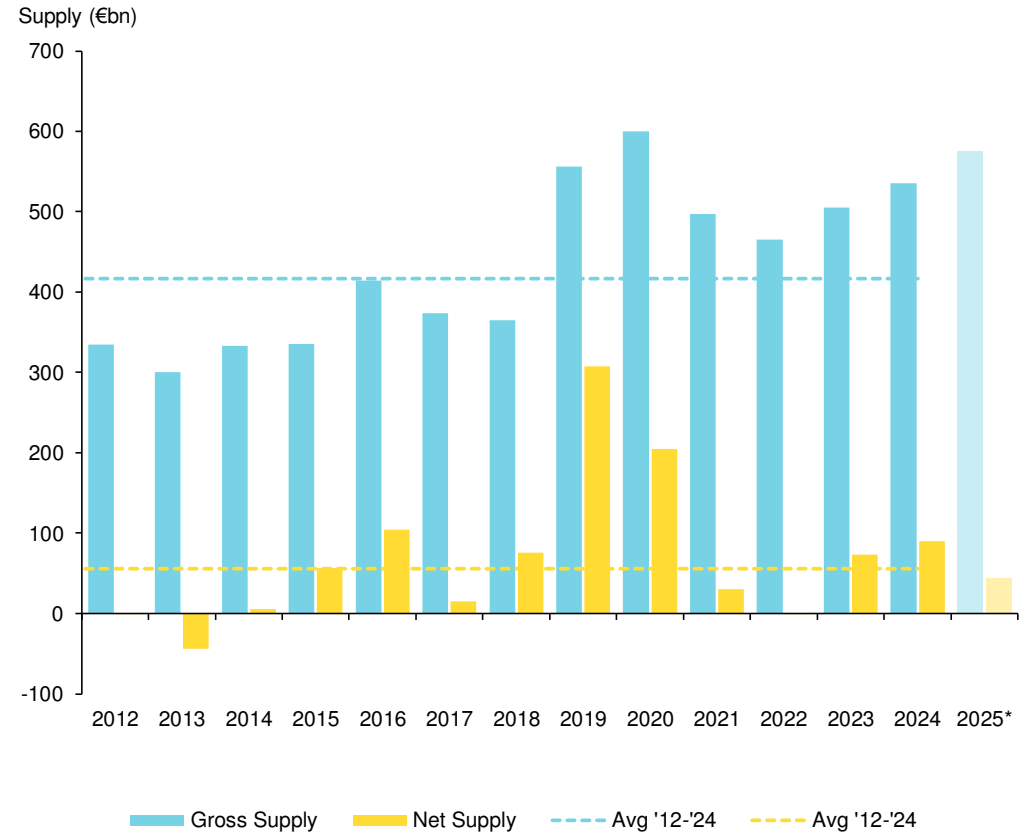
- **Methodology change:** During 2024, Moody's decided to increase the equity content of US hybrids, from 25% to 50%. This caused strong hybrid issuance, mostly from the Utility and Energy sector.
- **What's next:** More hybrid issuance is likely in 2025, as Utility companies highlighted already their need to increase capex spending. Other sectors might join in on hybrid issuance.

#7. Bond issuance likely to stay at high levels, driven by redemptions and M&A...

USD IG bond supply



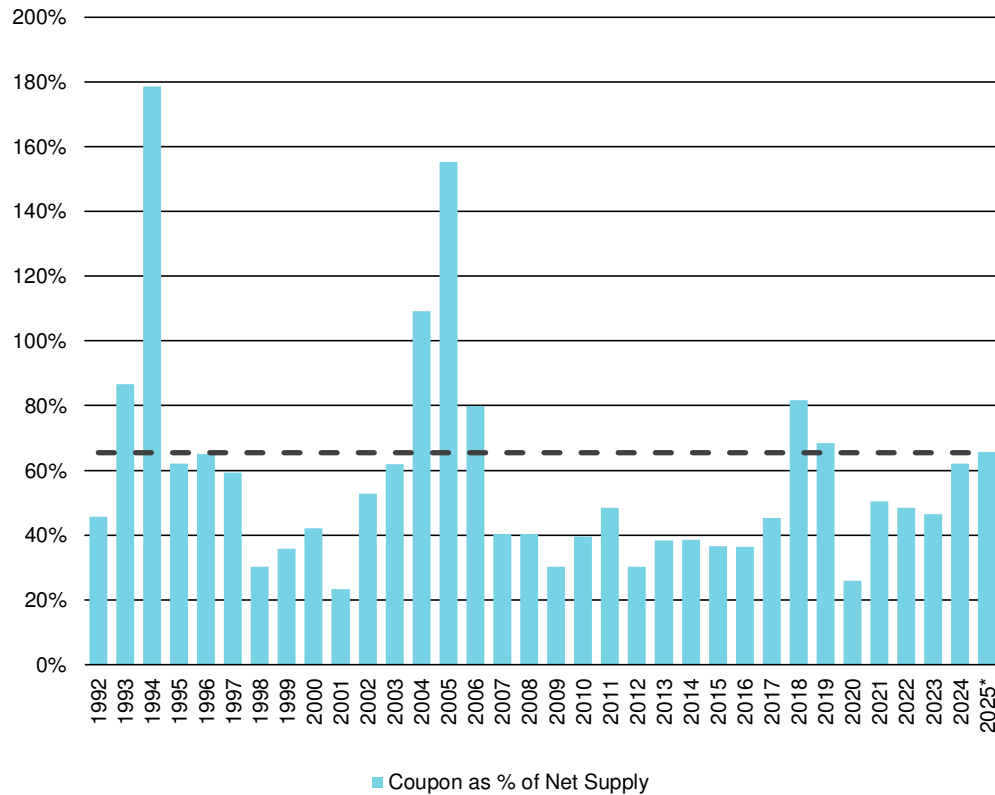
EUR IG bond supply



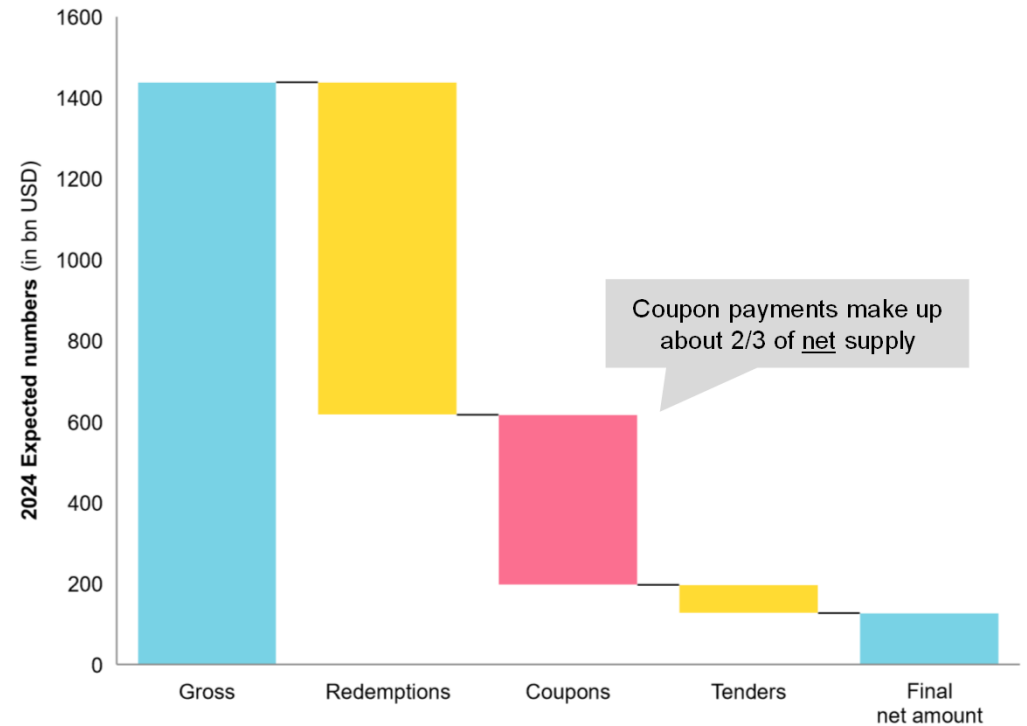
Any projections or forward-looking data herein are based on a variety of estimates and assumptions. There can be no assurance that those estimates or assumptions will prove accurate, and actual results may differ materially. Source: * expected numbers for 2025. Barclays, BAML, Vontobel, 12.2024

...but coupon payments may absorb a large part of the net supply.

Coupons as % of bond supply



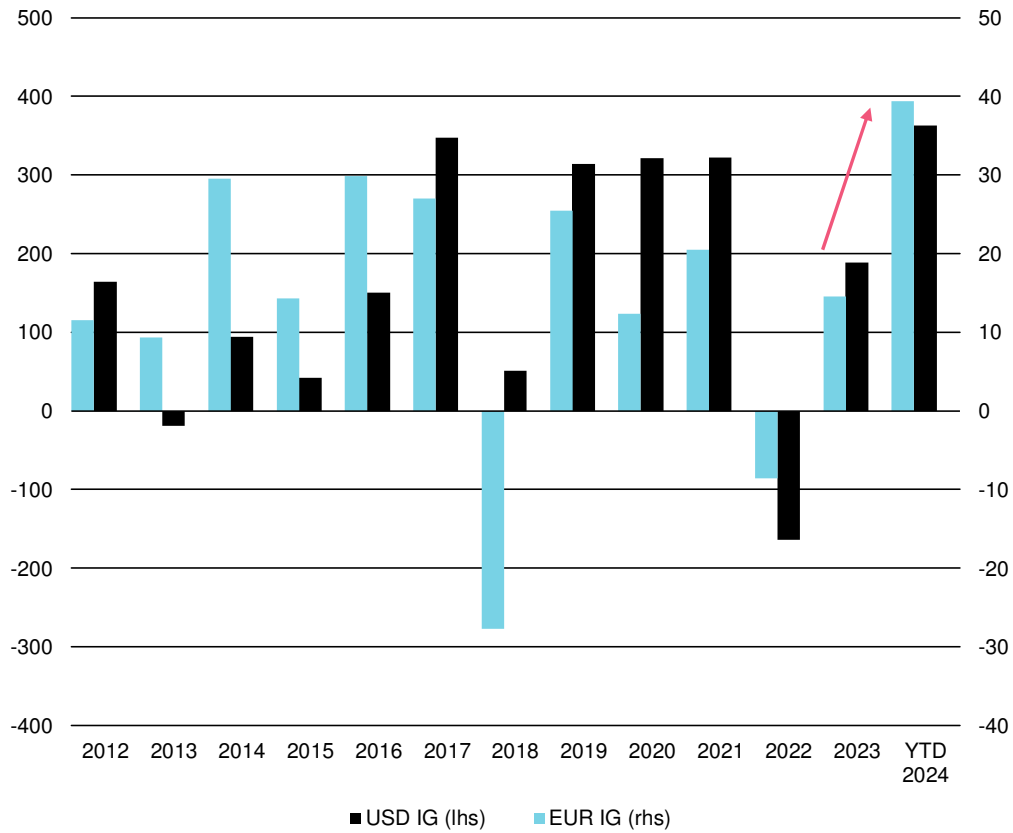
Net supply lower due to large redemptions and coupons



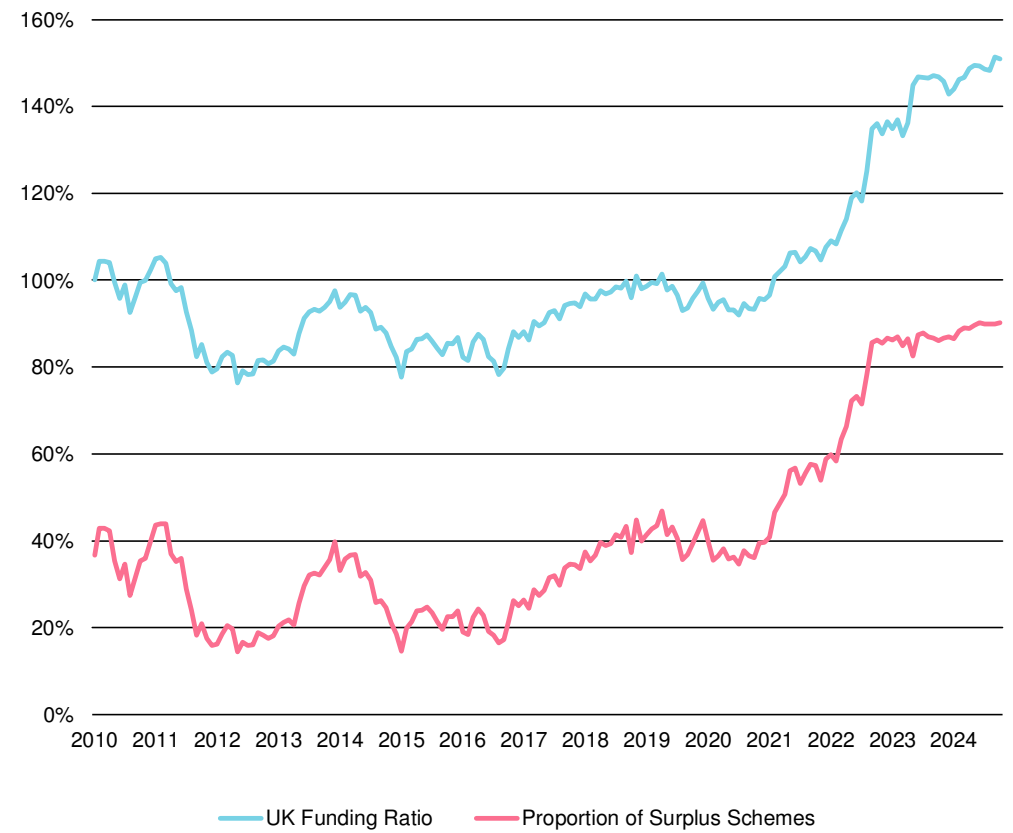
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#8. Inflows into global credit are supported by pension fund demand...

Fund Flows Investment Grade



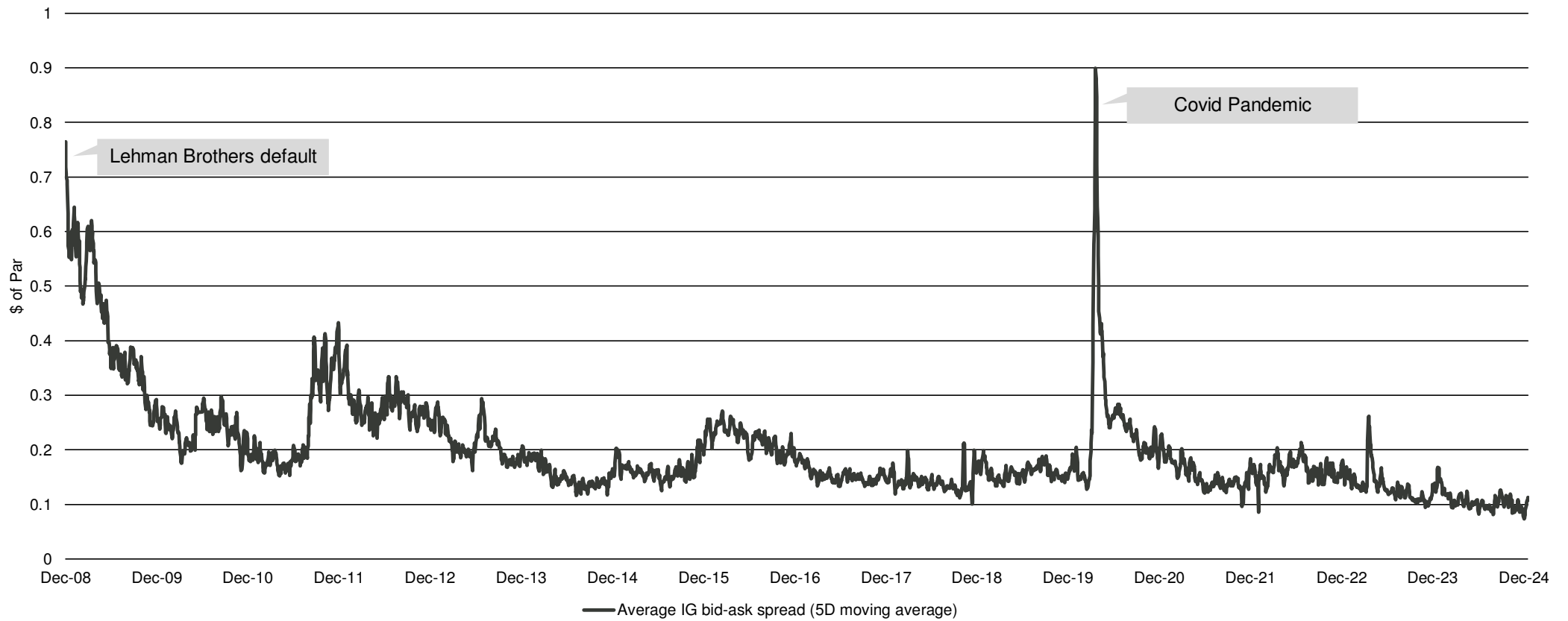
Pension funding ratios improved significantly



Source: JP Morgan, EPFR data based on US and EU IG fund flows, Pension Protection Fund UK (PPF7800 Index), Vontobel, 12.2024.

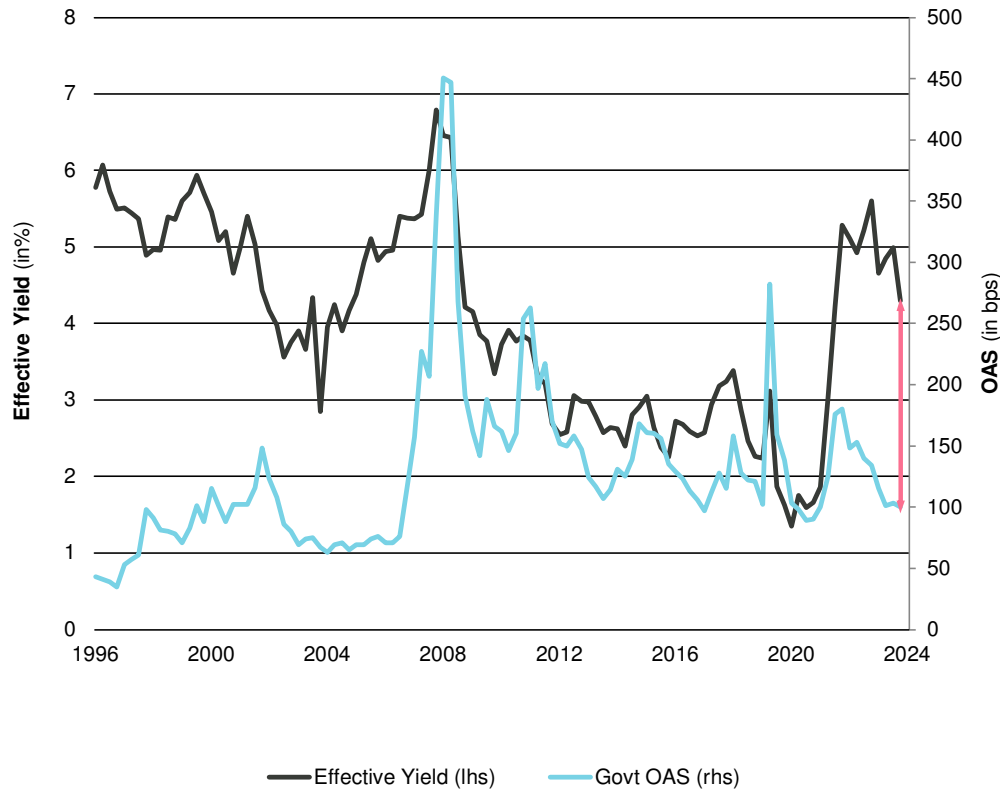
...while market liquidity in global credit has improved over the years.

Bid-Ask spread narrowed for Investment Grade bonds

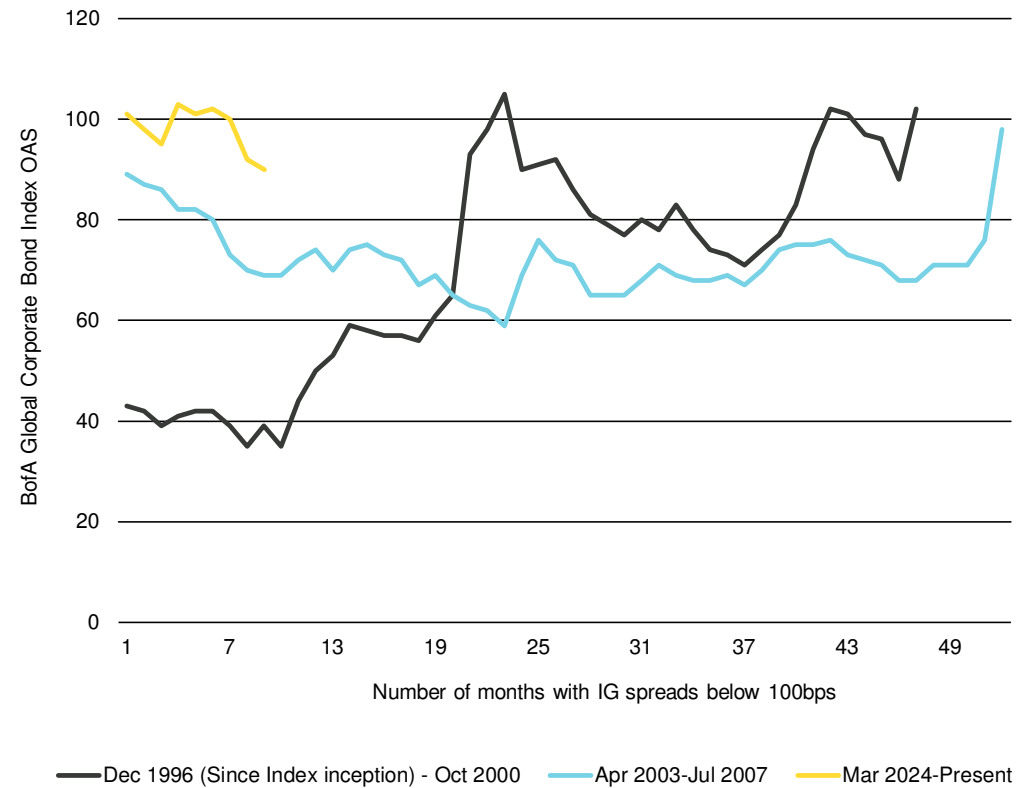


#9. Spreads screen tight as fundamentals look solid, but investors buy the yield...

Global corporate yields at a multi-year high



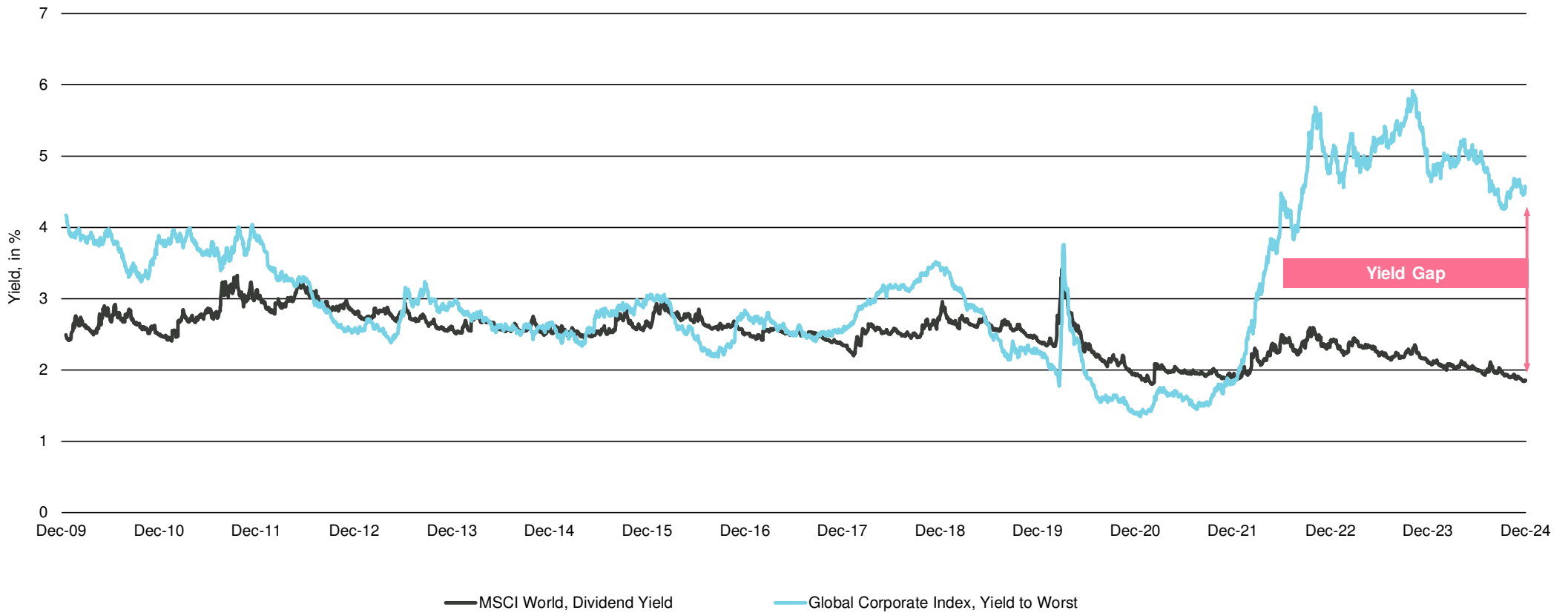
Global Corporate spreads can stay tight for some time



Past performance is not an indication of future results.
Source: Bloomberg, ICE BofA Global Corporate Index, 12.2024.

...as global credit remains attractive versus other asset classes...

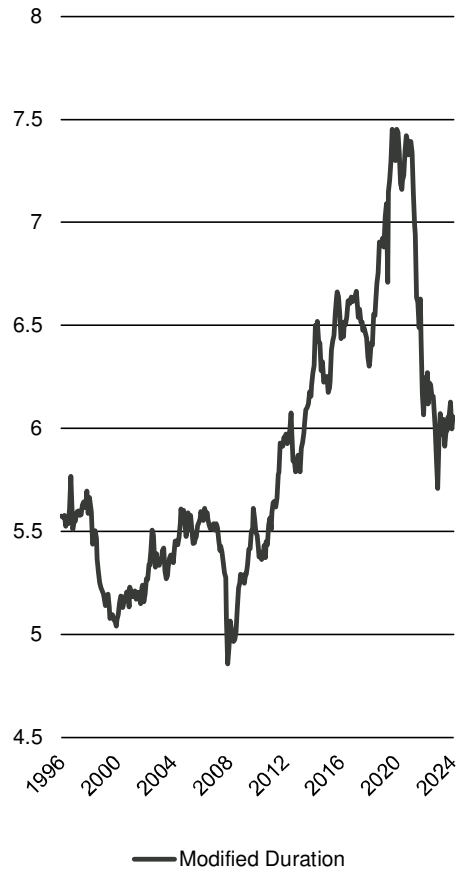
Bond yields compare favorably versus dividend yields



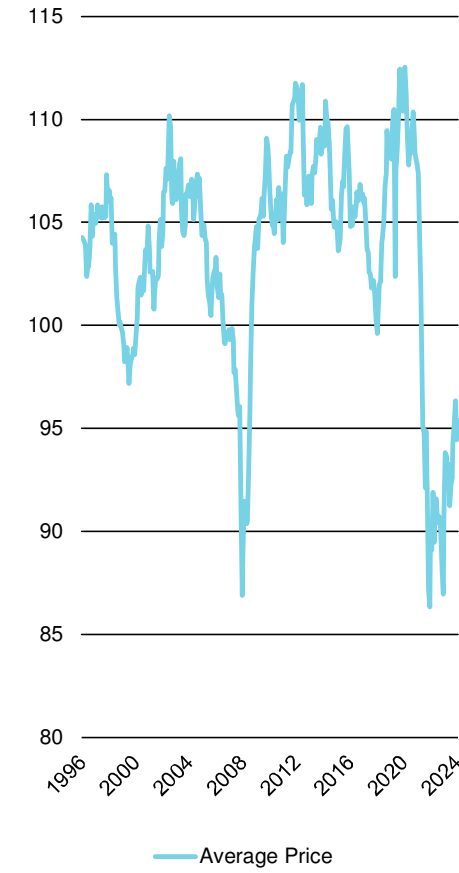
Past performance is not an indication of future results.
Source: Bloomberg, ICE BofA Global Corporate Index, 12.2024

...and investors acknowledge that market characteristics have improved recently.

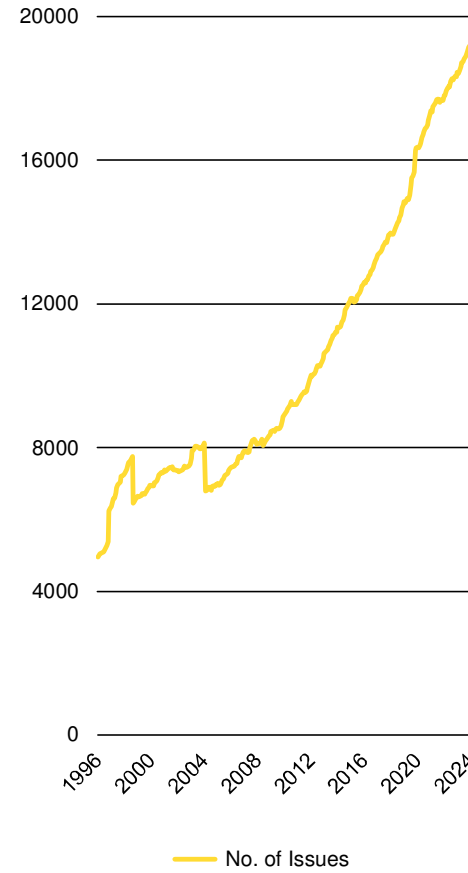
Lower Duration



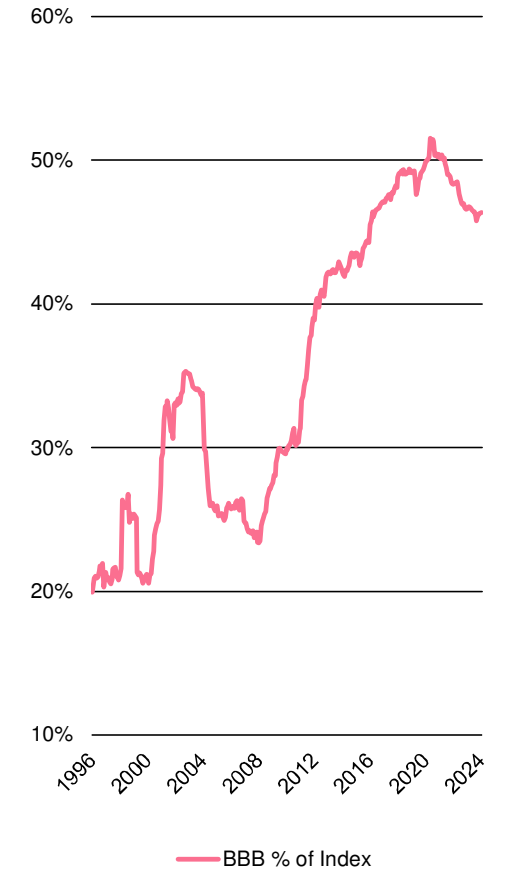
Low Price



Better Diversification



Higher Quality



Source: Bloomberg, ICE BofA Global Corporate Index, 12.2024

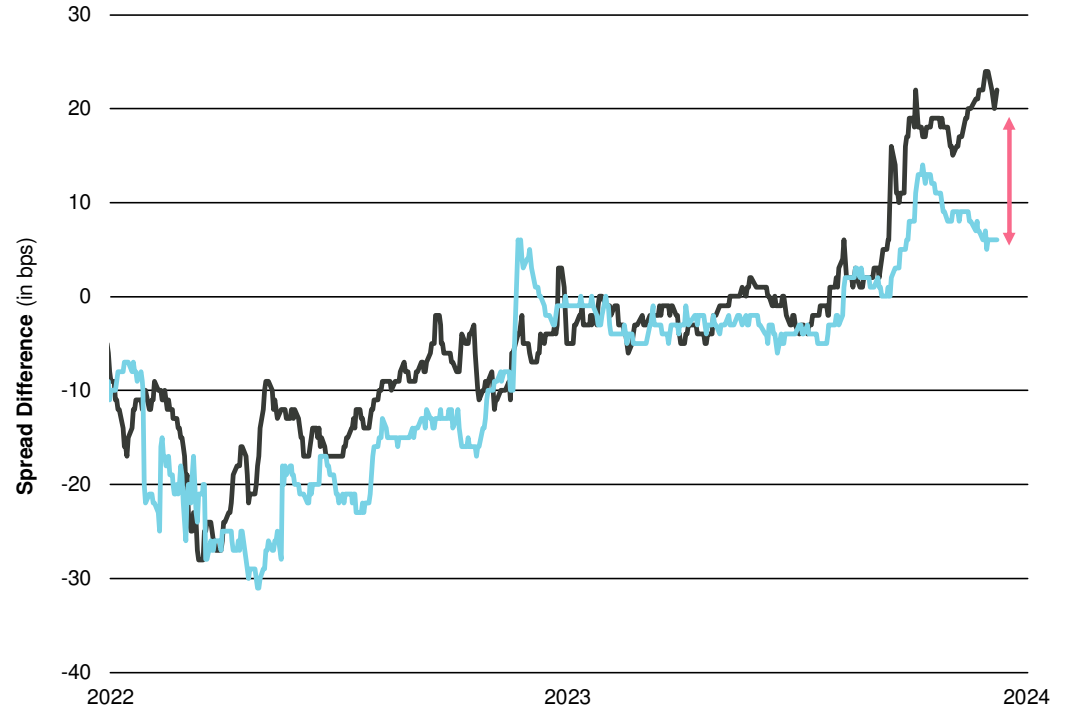
#10. Some sector trades remain in place and dispersion increased elsewhere...

Hold on to the Banks versus Non-Financials preference



— iBoxx EUR Banks Senior / Non-Financial Senior Z-Spread

Global automotive spreads dispersion



— EUR Auto - EUR IG Spread Difference

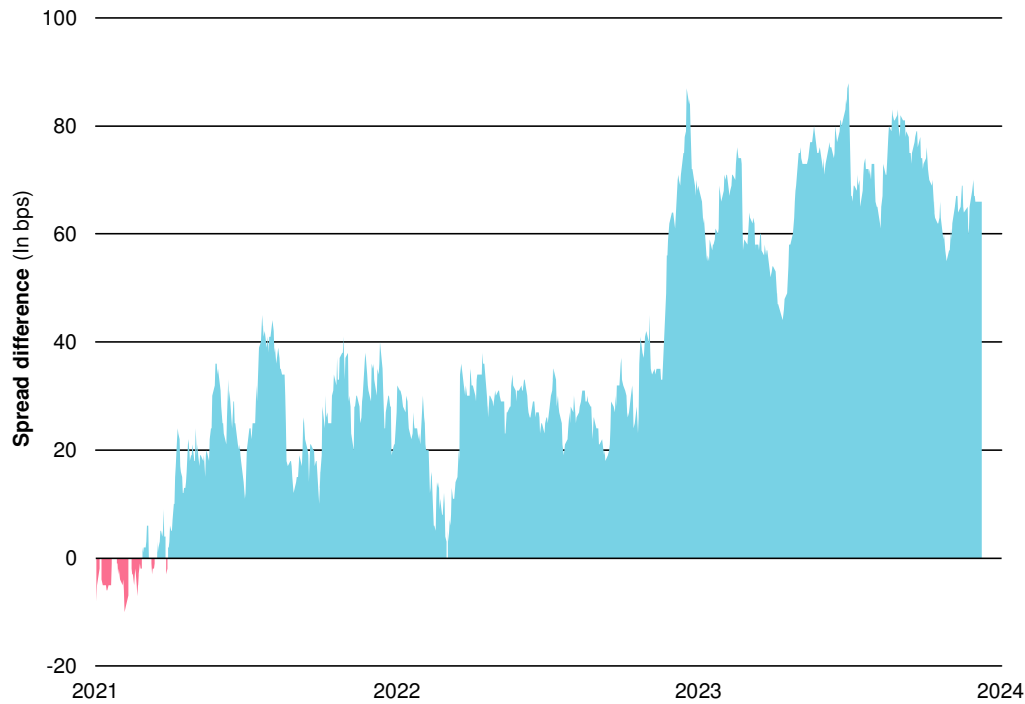
— USD Auto - USD IG Spread Difference

Past performance is not an indication of future results.

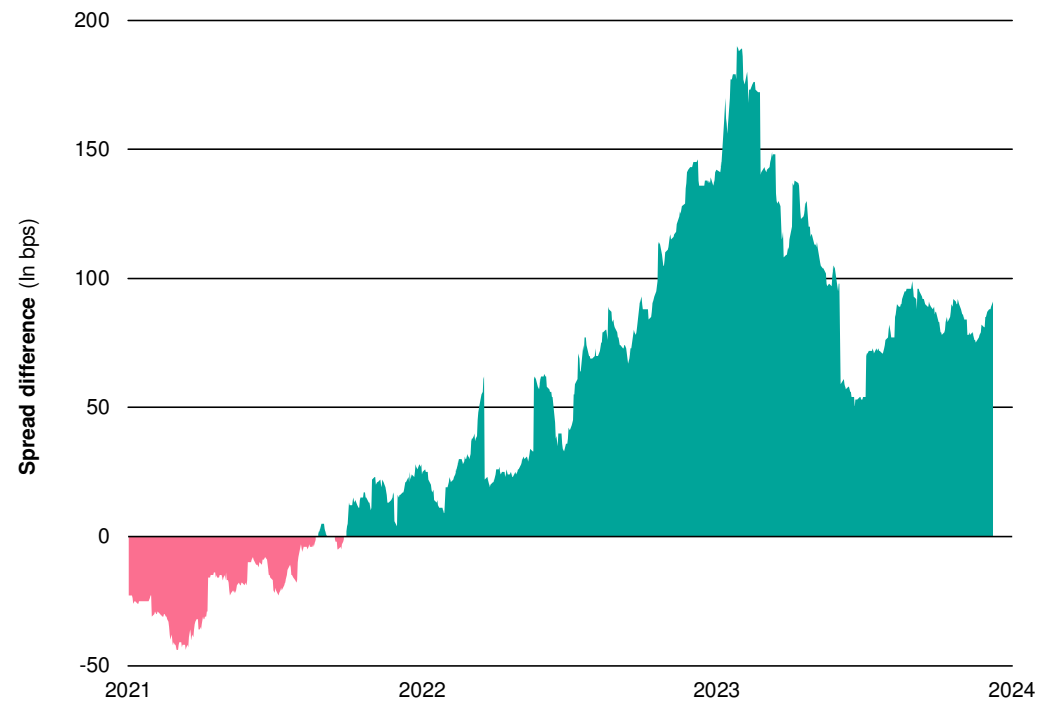
Source: Bloomberg, ICE BofA Index family, Vontobel, 12.2024.

... and value in “fallen angels” has become substantial.

Pricing of US Fallen Angels vs BBs



Pricing of EU Fallen Angels vs BBs



Source: Bloomberg, ICE BofA Index family, Vontobel, 12.2024.

Summary: How to prepare for 2025?



How does the world look?

Macroeconomics:
Divergence on economic growth and central bank action in the US and EU can become a theme. The US election impact on credit markets varies across sectors.

Microeconomics:
Credit metrics broadly stable with rating upgrades to continue. Risks are likely rising M&A and more fallen angels.

Technicals:
Issuance likely to remain high but well digested due to strong investor demand.

Valuation:
High starting yields offer a good return potential and protect investors. Market characteristics have improved.



How may investors extract value?

Take an active approach to benefit from a potential economic divergence. Swiftly **switch across regions and sectors**.

Be more selective and identify issuers with a **stable to improving** credit trend. Keep an eye on the growing corporate **hybrids** activity in the US.

Screen for new bonds with **attractive premiums** but also for increasing **dispersion** in the secondary market.

Higher coupon bonds translate into **higher income**. Screen for **relative value** opportunities, such as sector comparisons.

This is not the end...

...as there are obviously more interesting topics on our agenda, and we are more than happy to share our thoughts with you.



Christian Hantel
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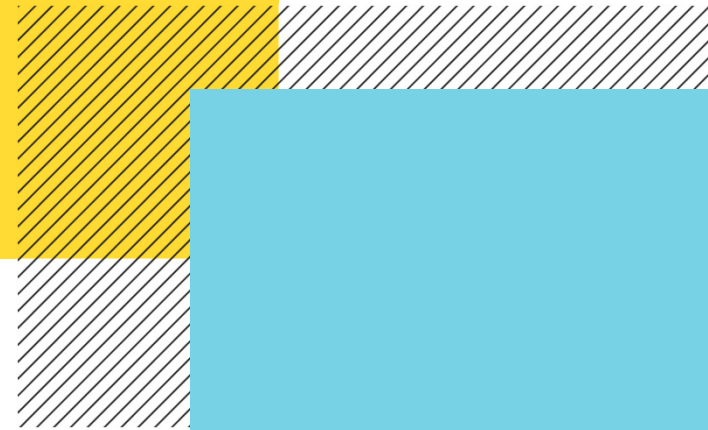
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Thank you.



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