

Global Credit Outlook

Credit Health Check: Our
10 Most Burning Questions

Fixed Income Boutique

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Credit Health Check: our 10 most burning questions

Macroeconomics

1. What to expect from global economic growth/inflation?
2. What will central banks do?
3. What to expect from QT?

Microeconomics

4. How do corporate credit metrics look at the moment?
5. What are companies likely do with their cash?
6. Is the trend of rating upgrades going to end?

Technical factors

7. How do you see the supply/demand for the asset class?
8. Is there value in the new issue market?

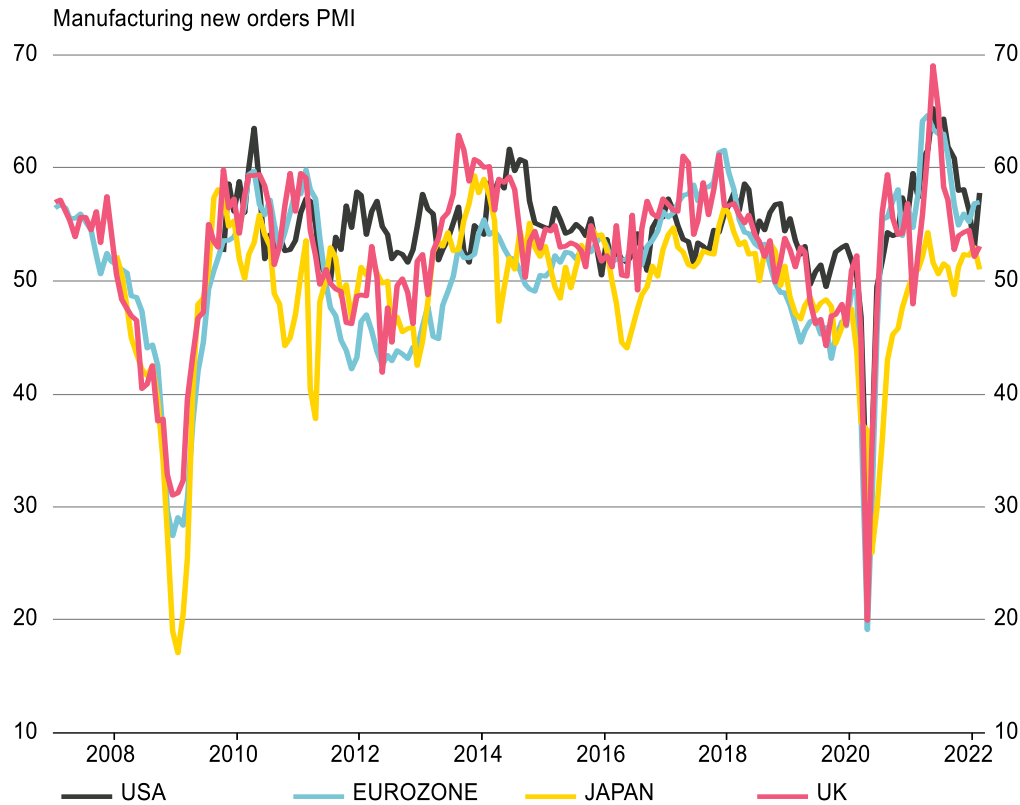
Valuation

9. Are credit spreads now attractive?
10. How to benefit from the current market conditions?

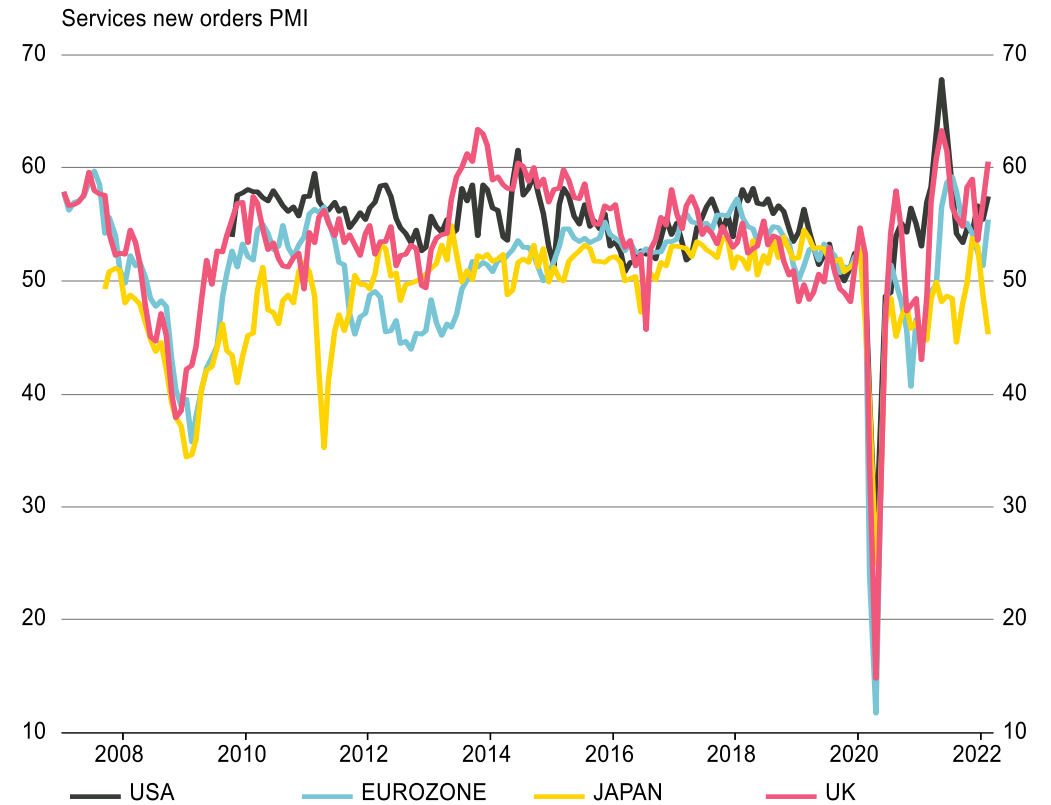
#1. Global economic growth at solid levels, so far. But...

Macro

Manufacturing new orders: up from solid levels



Services new orders: uprise after “restriction”

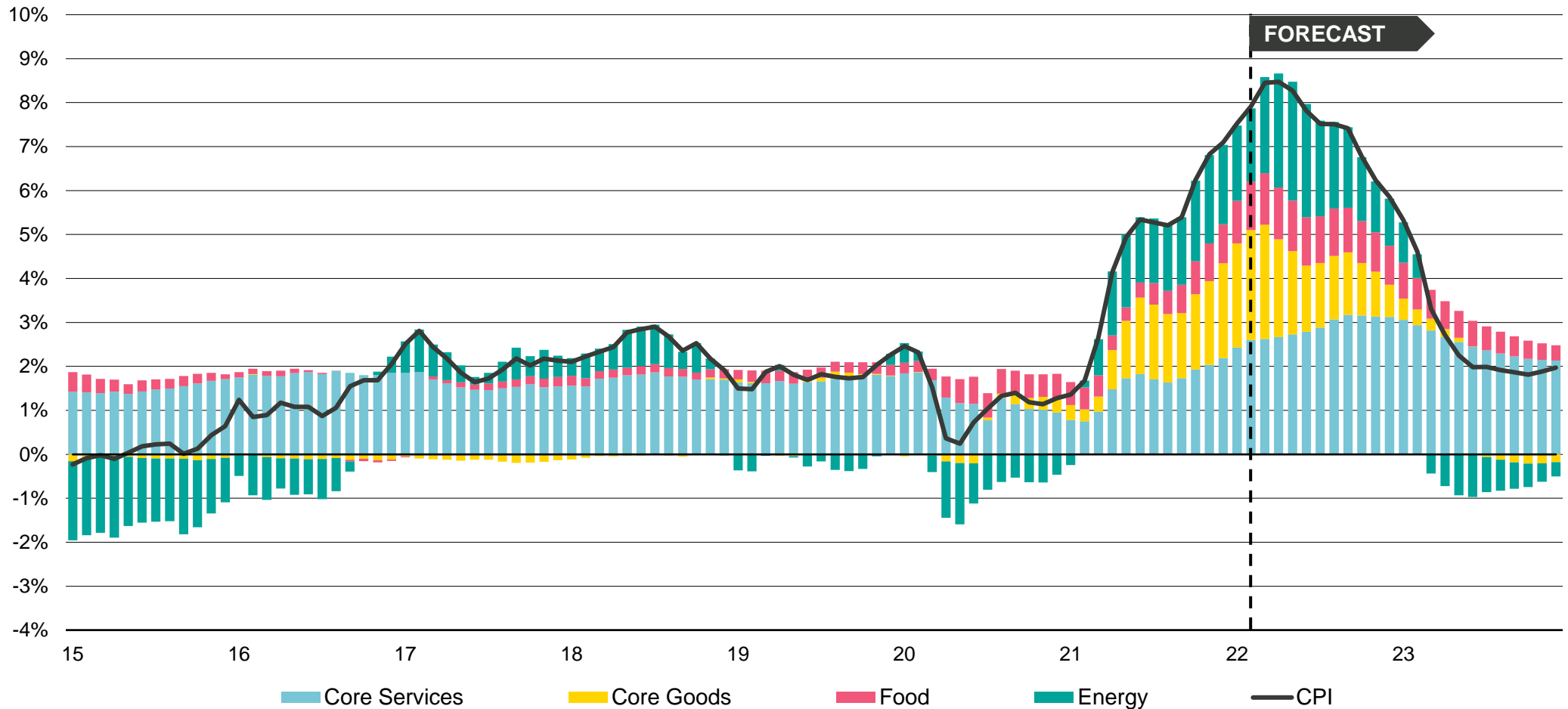


...inflation is up significantly and likely to remain elevated.

Macro

US Inflation – globally impacted but also homegrown

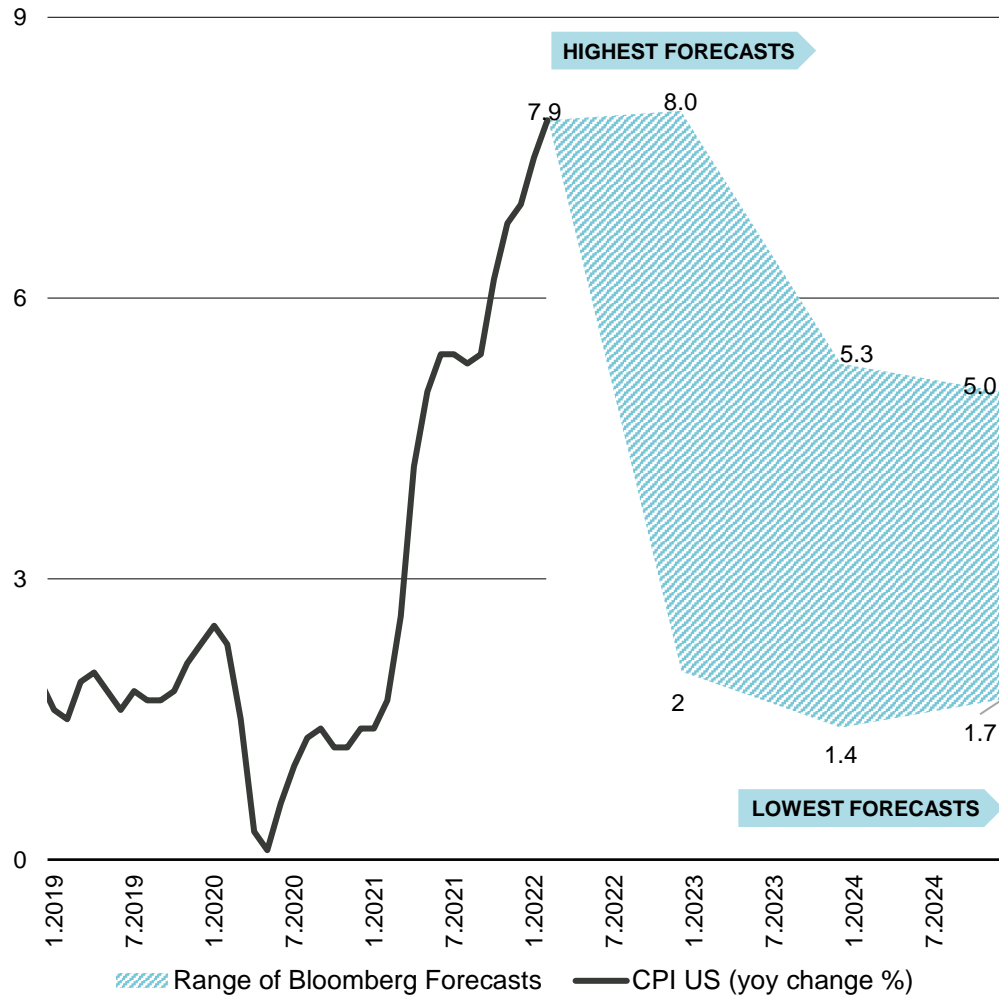
CONSUMER PRICE INDEX (% YOY CHANGE)



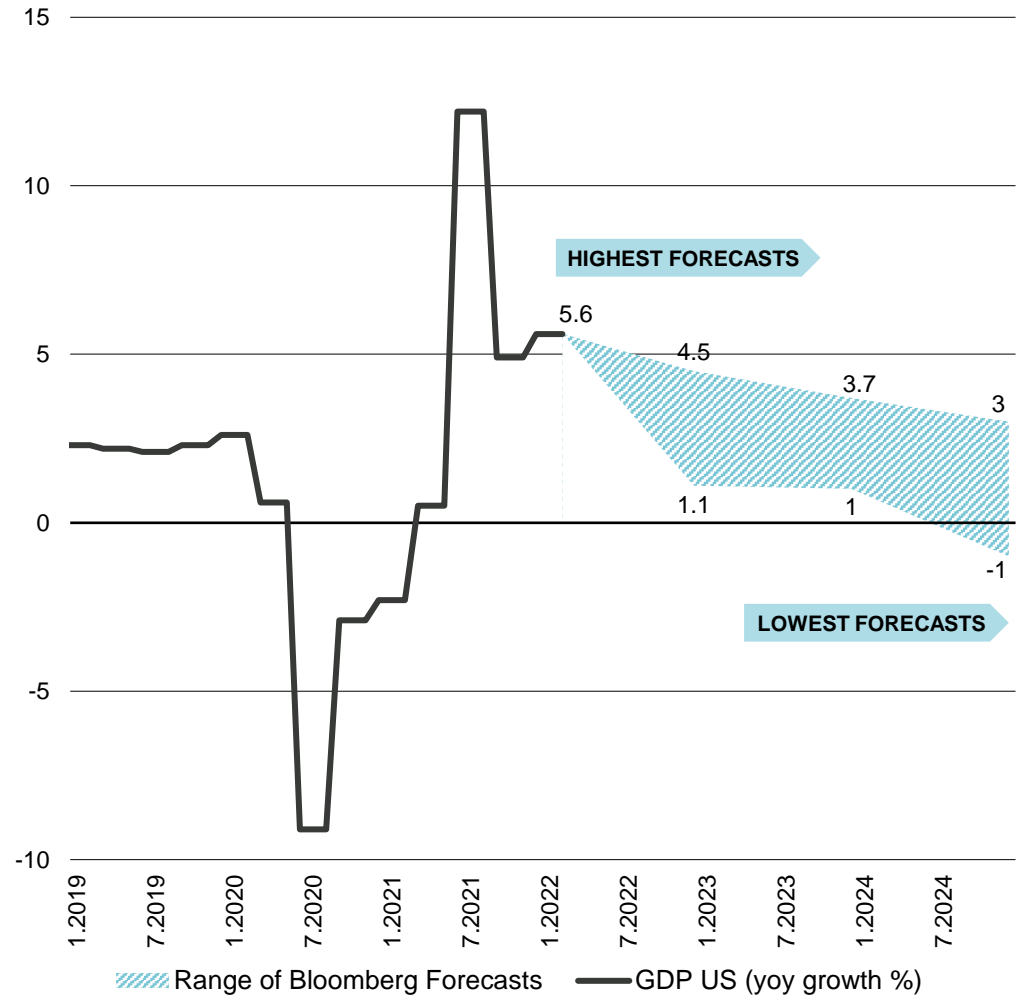
#2. Central Banks are in a difficult spot and currently...

Macro

Inflation needs to be stabilized



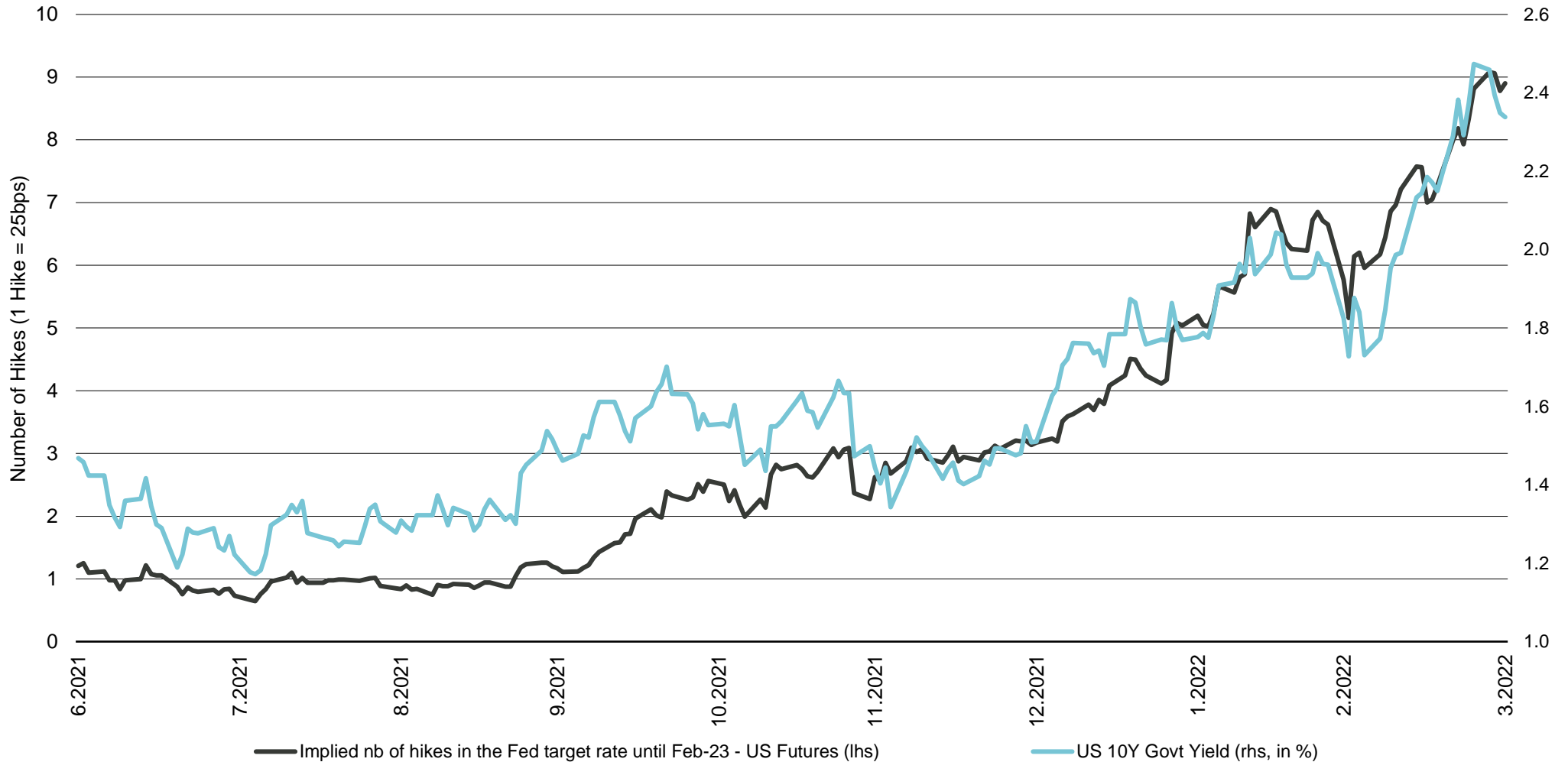
Economic growth needs to be maintained



... about 9 rate hikes are priced in for the next 10 month.

Macro

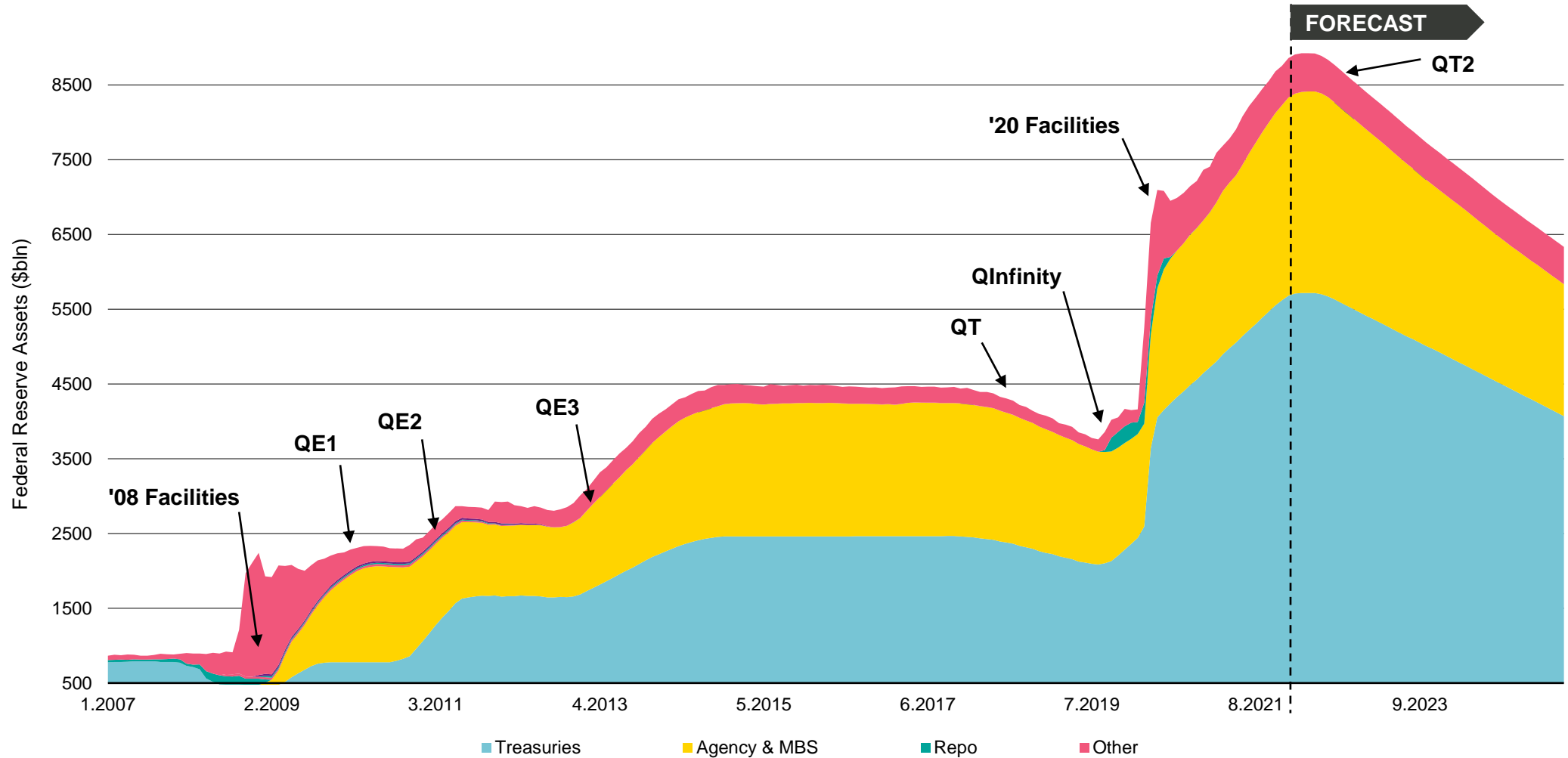
Implied rate hikes by the Fed versus current yields



#3. The Fed balance sheet is expected to runoff towards USD 6trn until 2025.

Macro

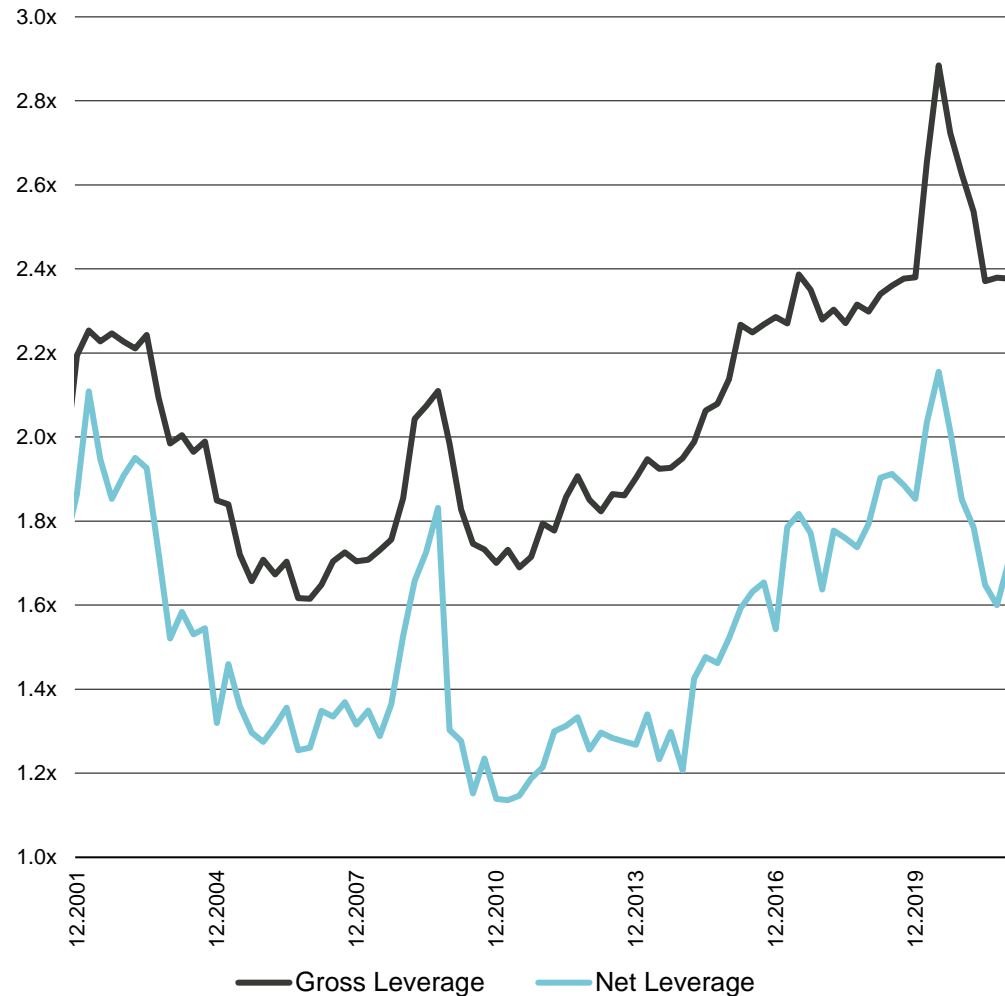
US QT – Fed balance sheet



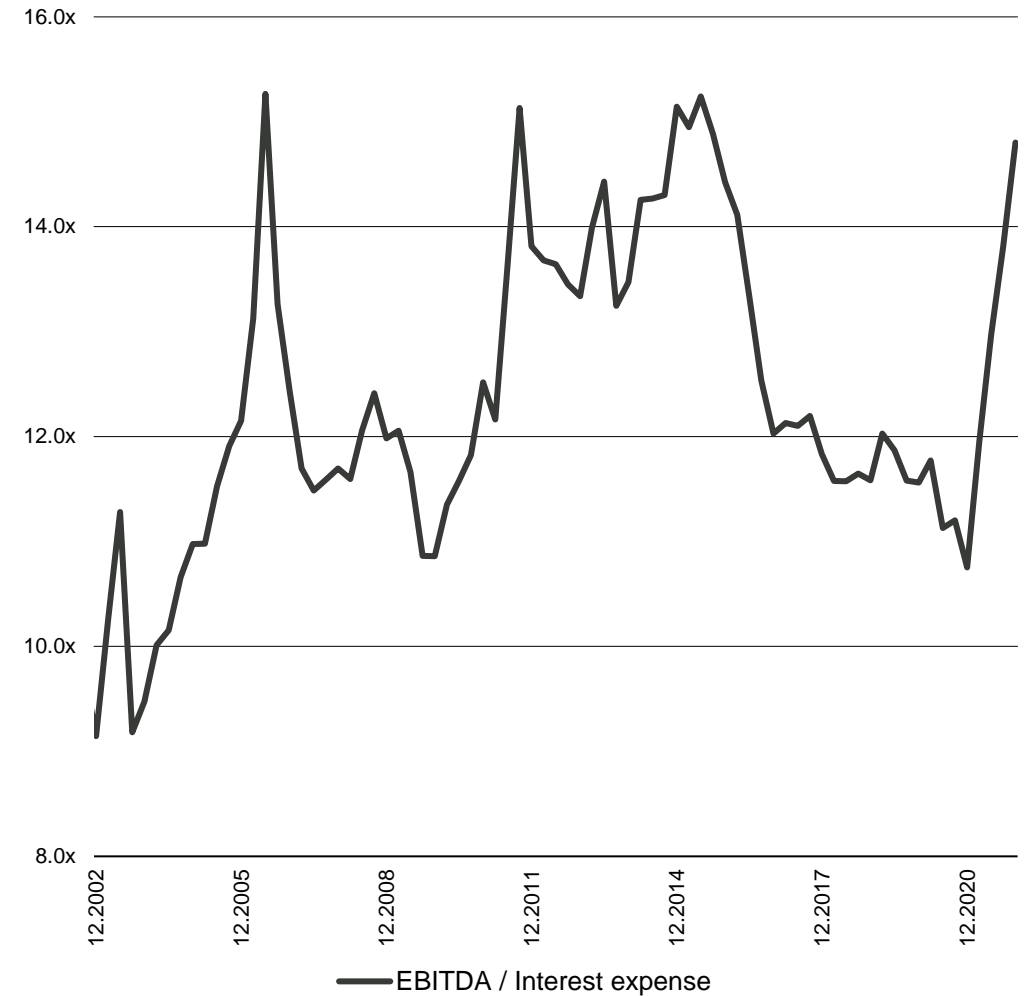
#4. Credit metrics continued to improve during Q4...

Micro

Corporate leverage improved



Interest coverage at strong levels



Including Q4 2021 results. Net debt is gross debt minus cash and marketable securities. Gross leverage = Debt / LTM EBITDA. Interest coverage = EBIT / Interest Expenses. Source: Morgan Stanley, Barclays, as of March 2022.

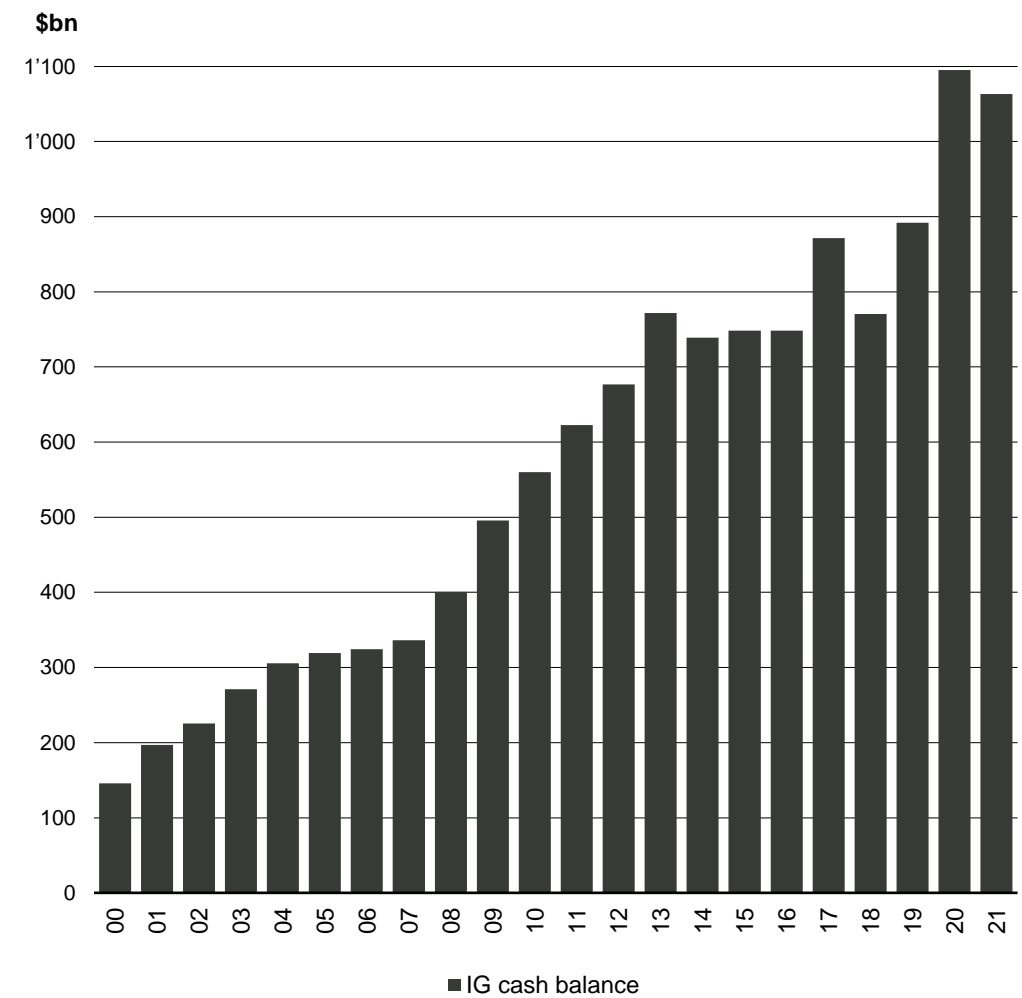
...with still strong margins and high cash balances.

Micro

Profit margins at strong levels

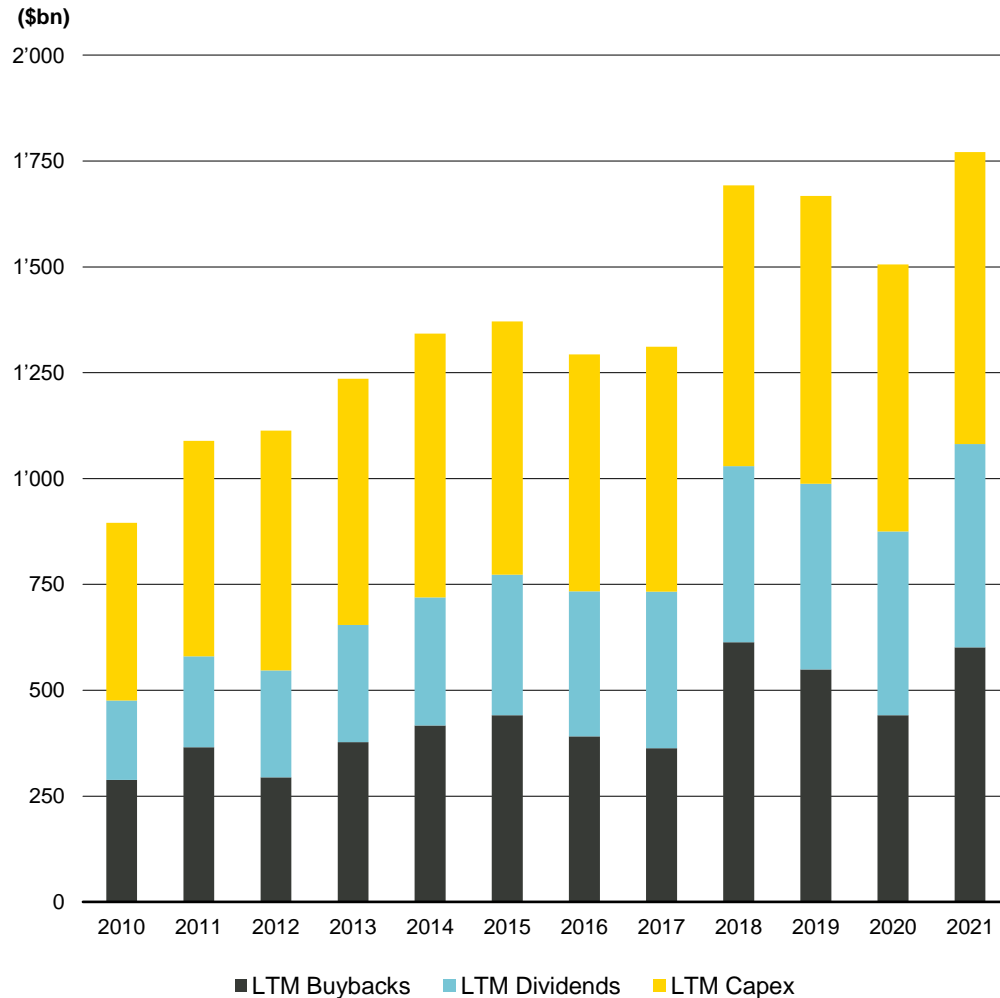


Cash levels remain very high

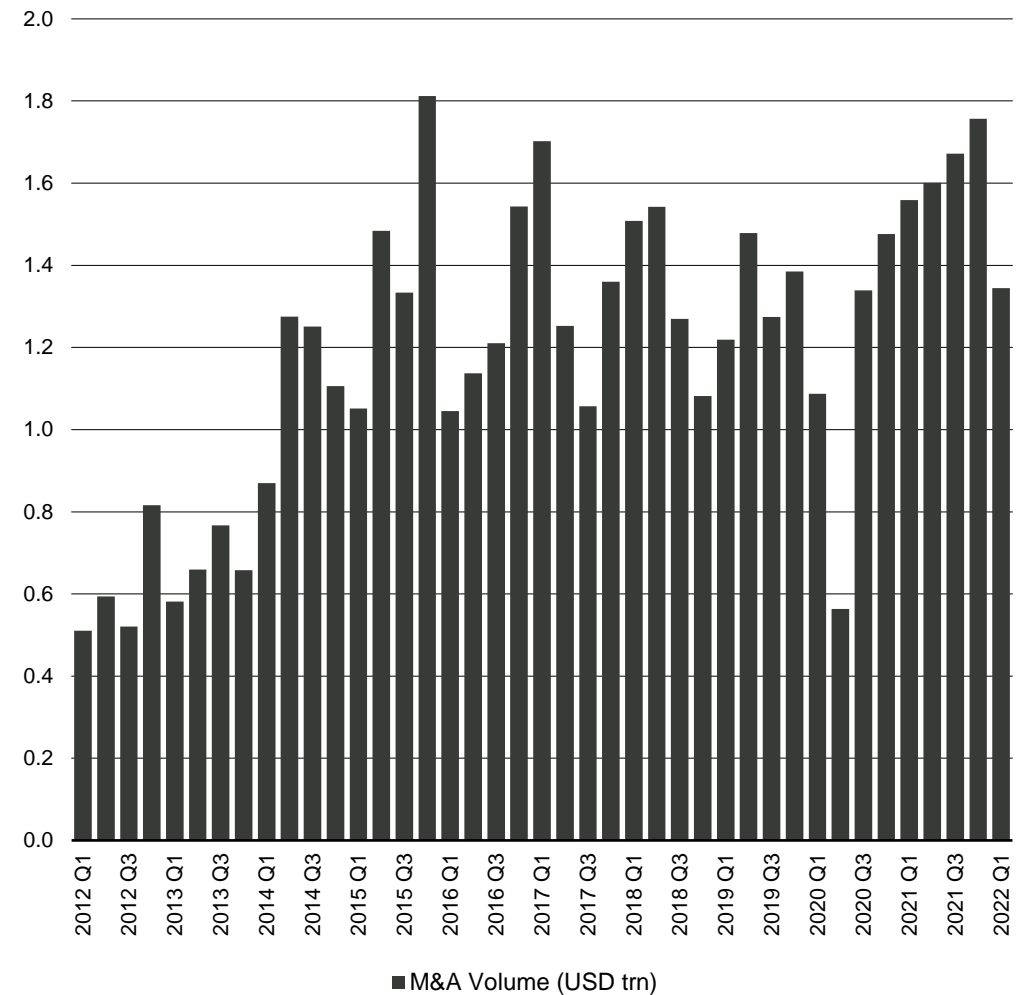


#5. Cash also used for shareholders, capex and some M&A, but moderately.

Non-Fin cash spend (US)



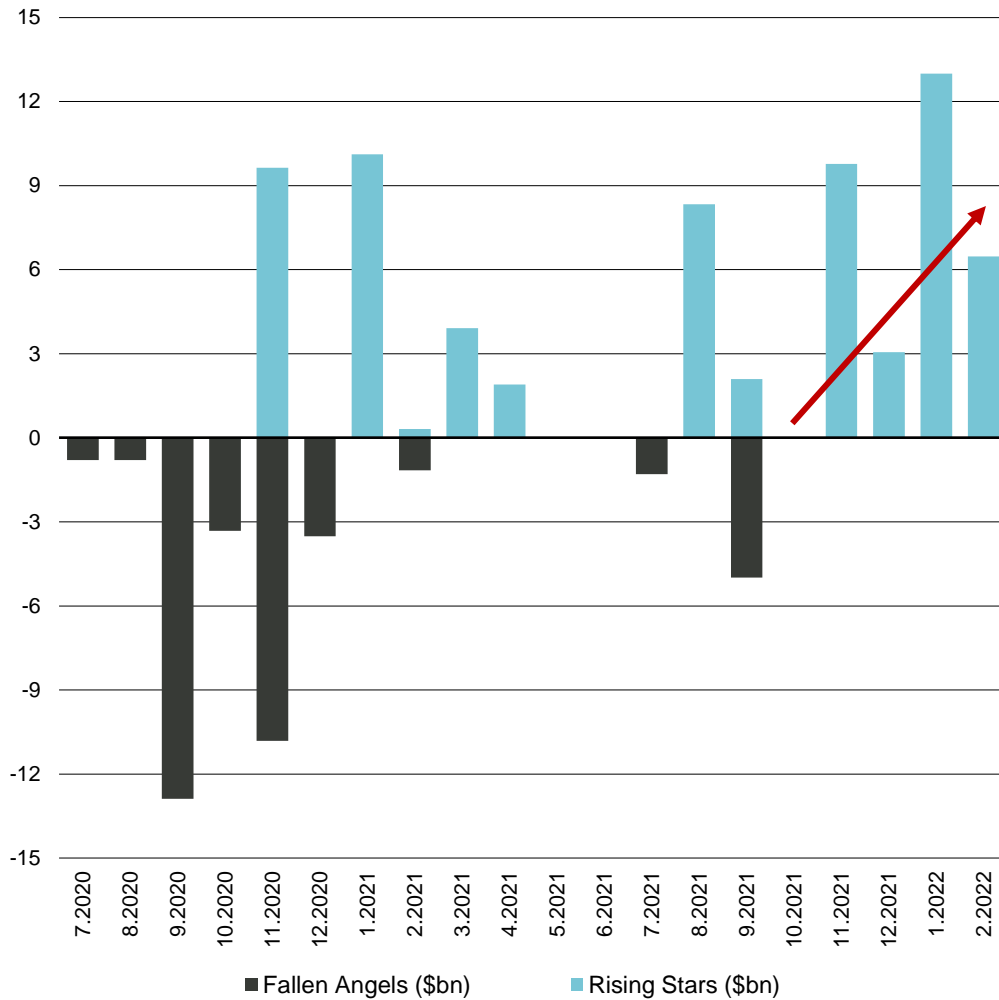
M&A activities slightly up (global)



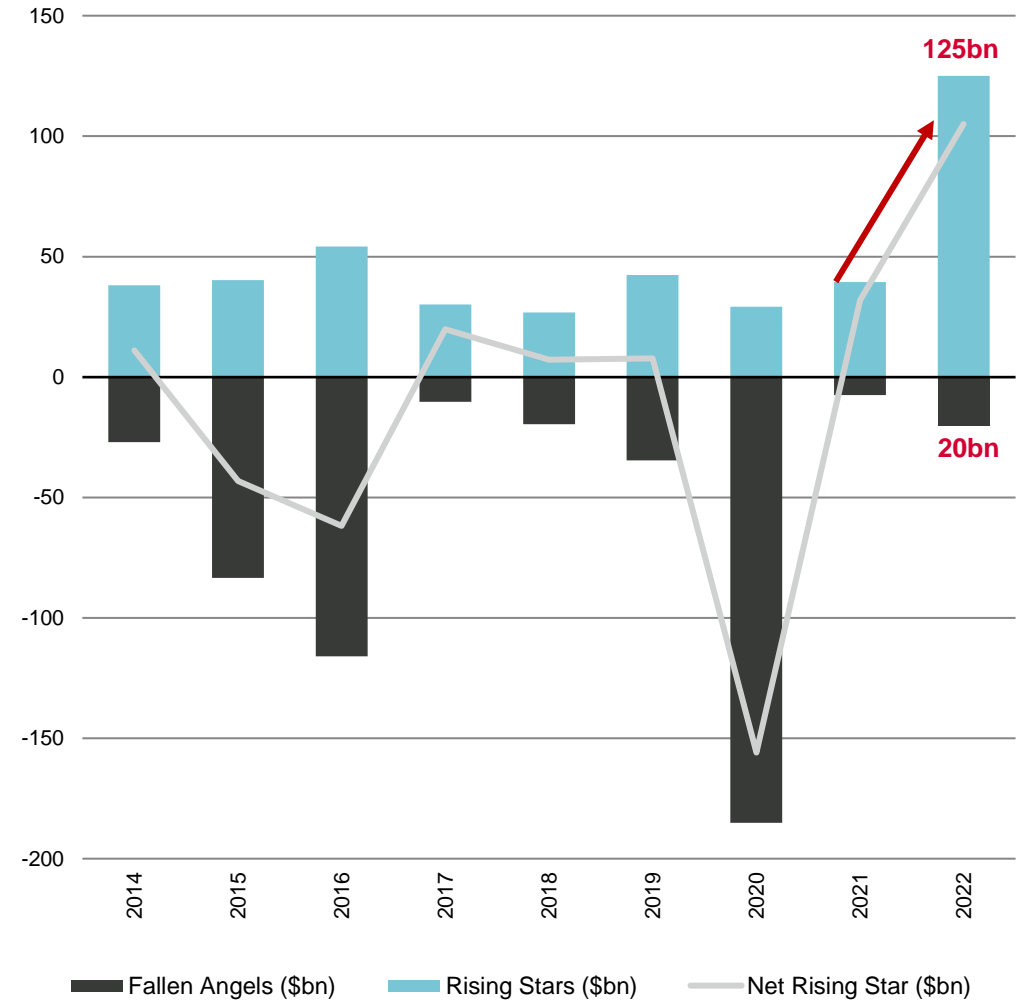
#6. We expect more rating upgrades and rising stars.

Micro

Strong ratings momentum



Rising stars expectation

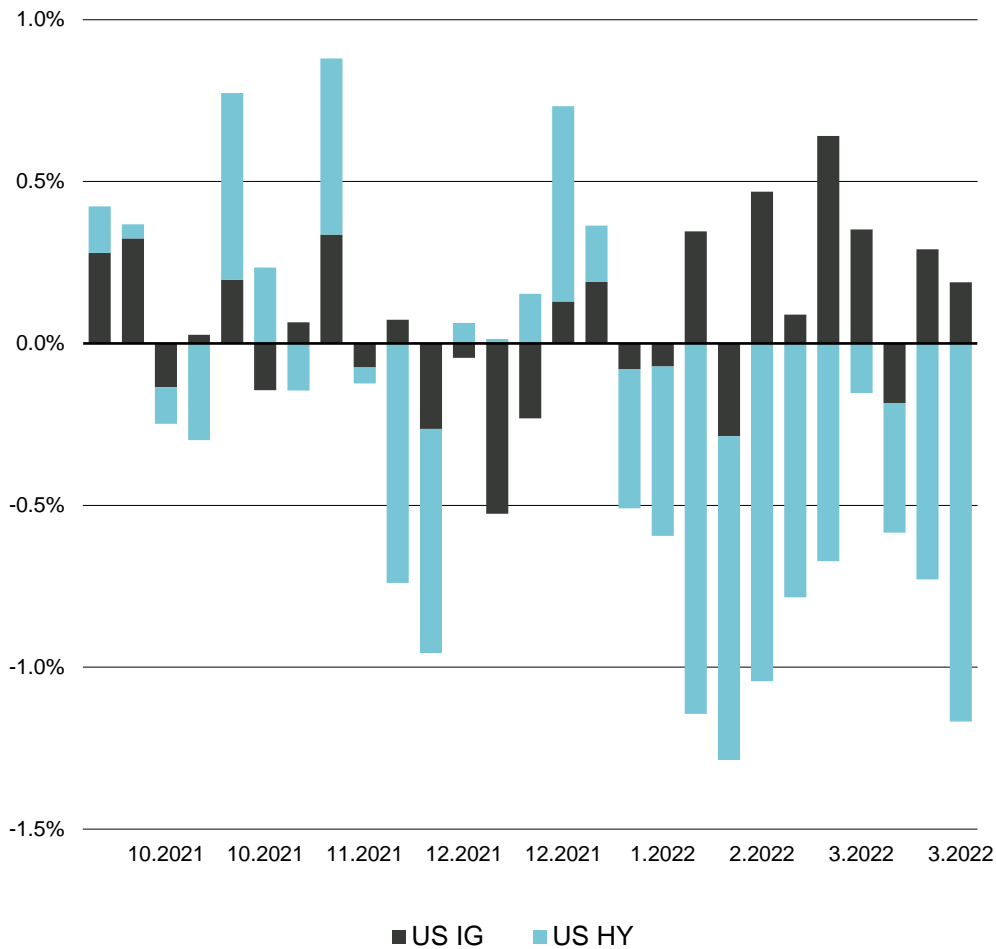


#7. Investor demand was lower recently but improved and...

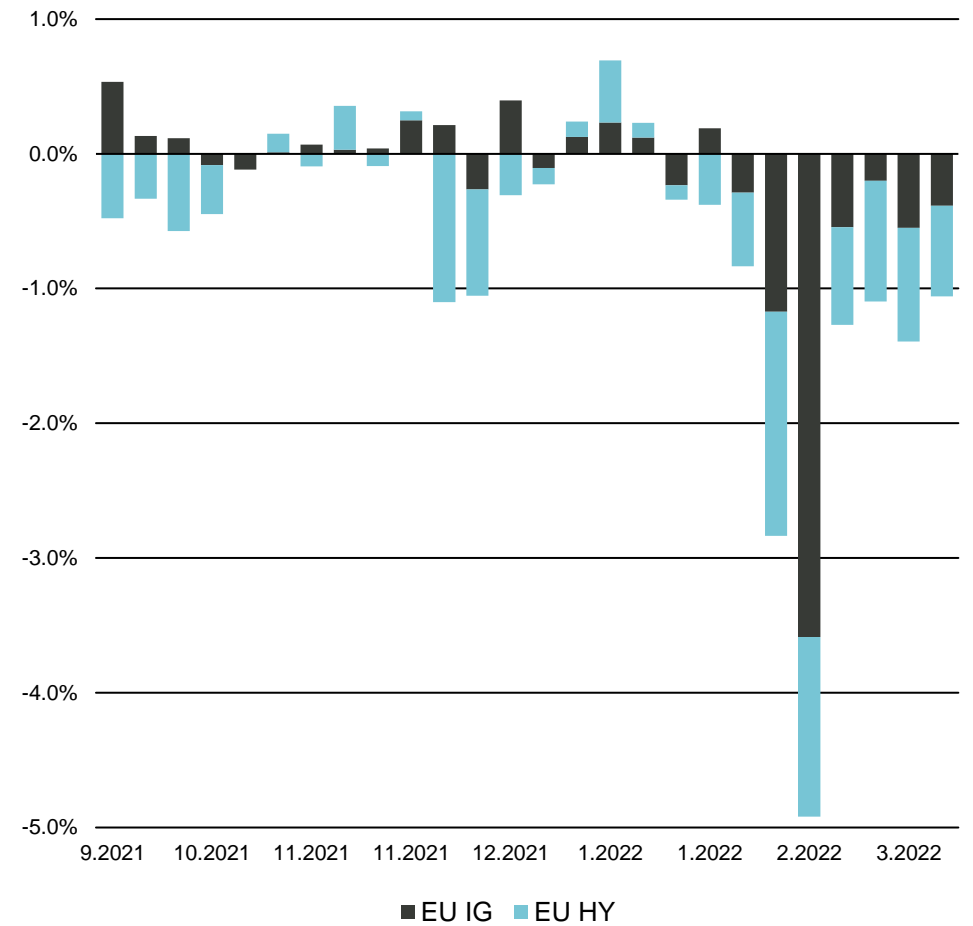
Technicals

Investment Grade flows

US, % NAV



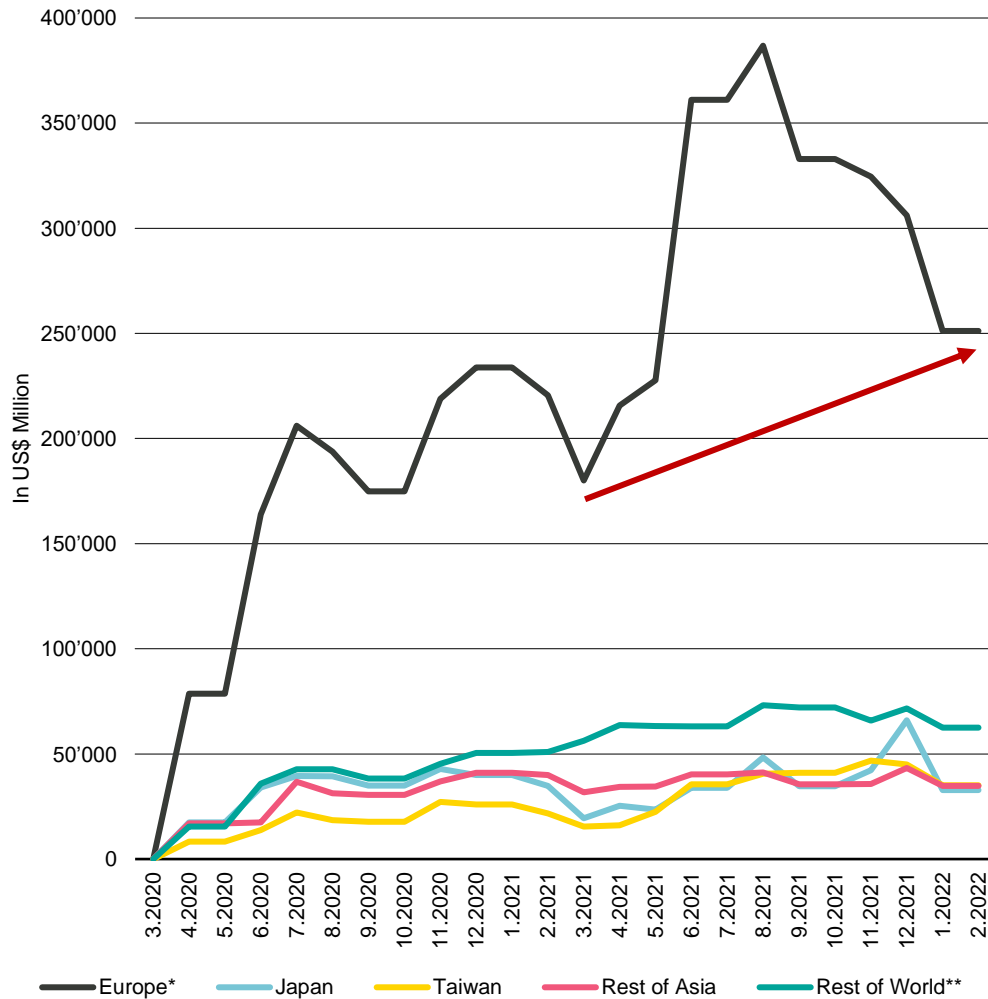
EU, % NAV



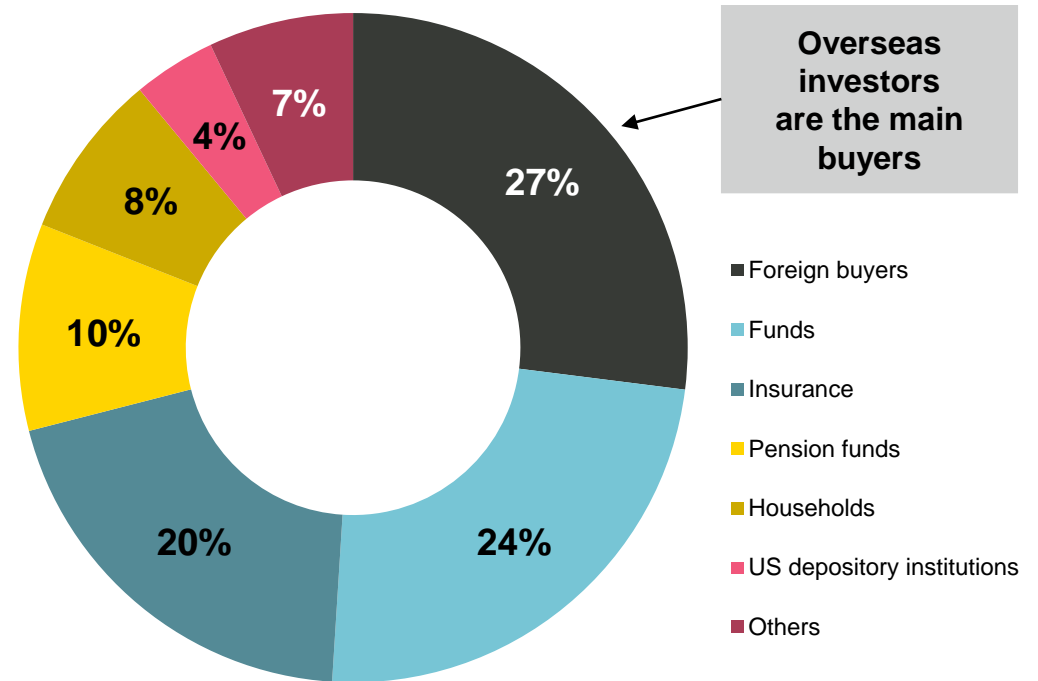
...investors also like to be invested globally.

Technicals

Foreign purchases of US corporate bonds



Ownership structure of the global (US) corporate bond market

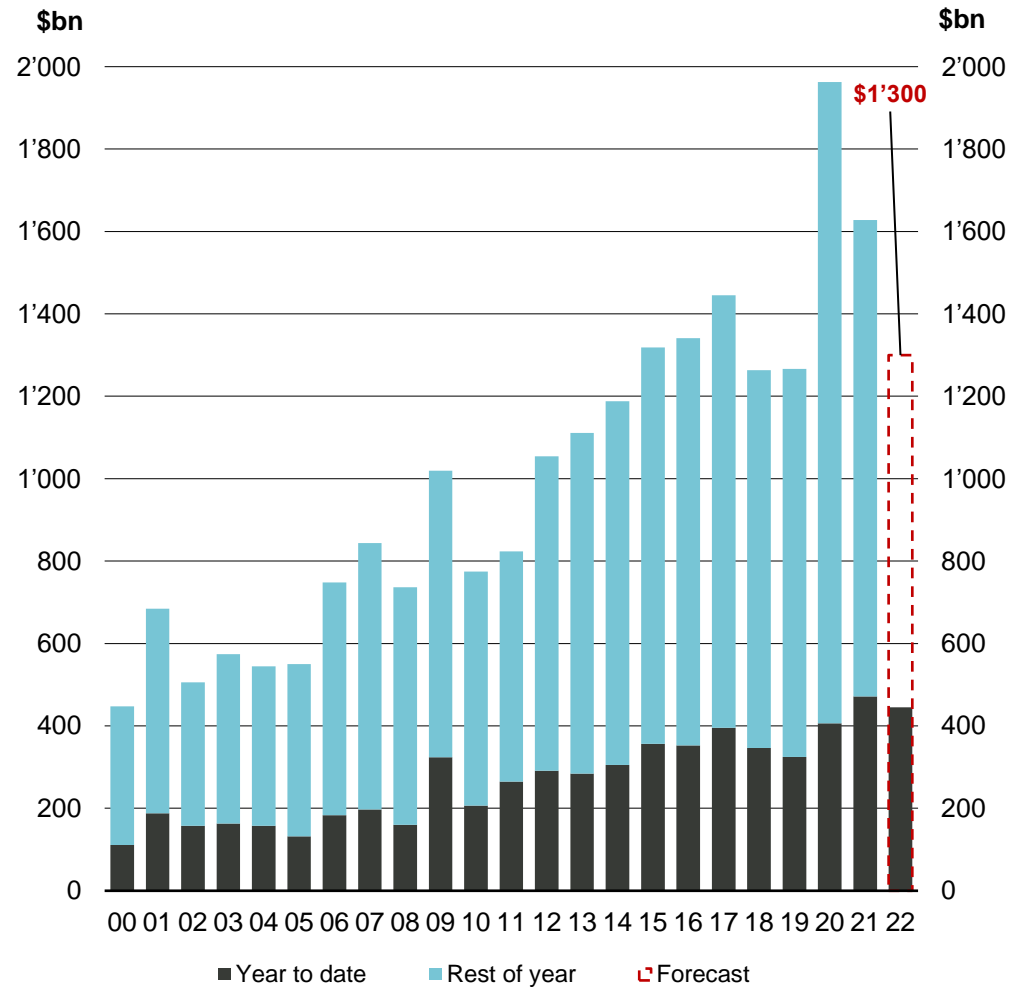


Overseas investors are the main buyers

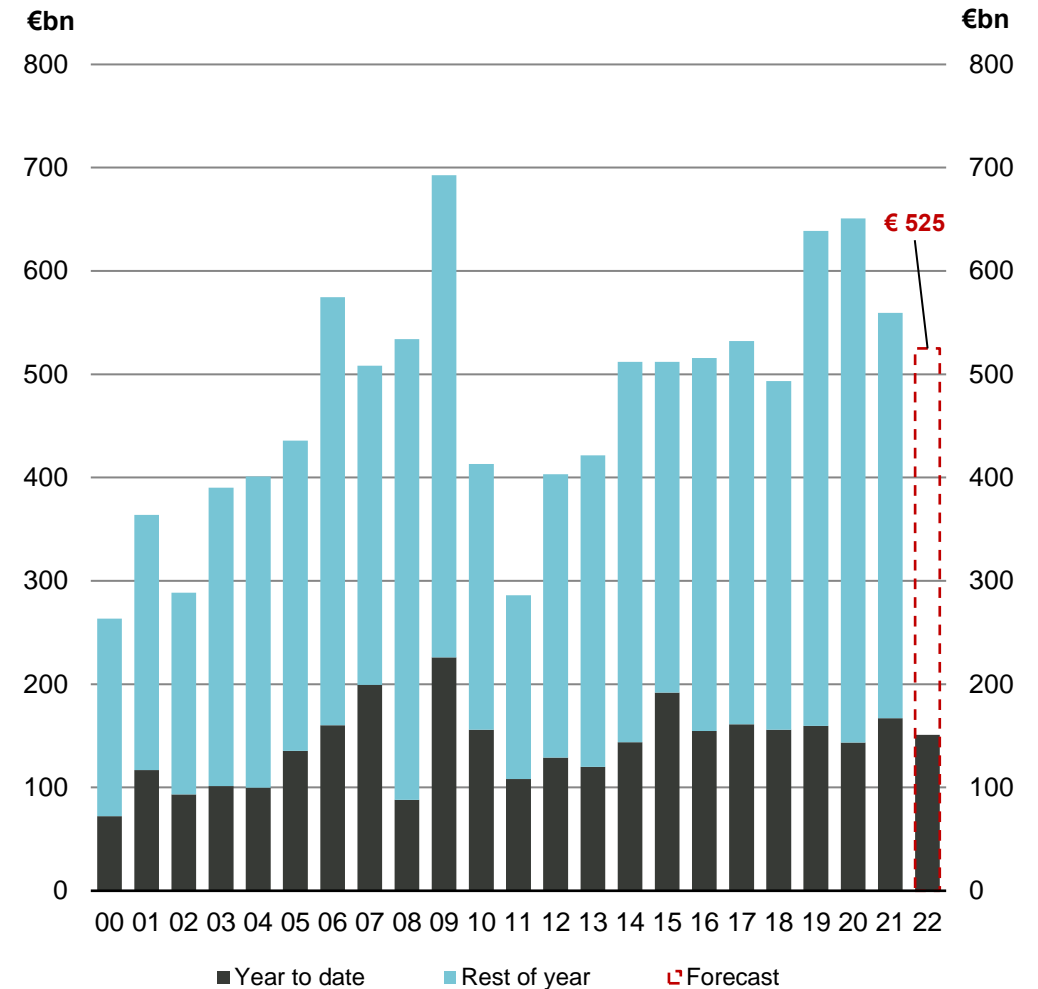
#8. Bond issuance is expected to decline globally, while...

Technicals

USD IG Corporate Bond gross issuance



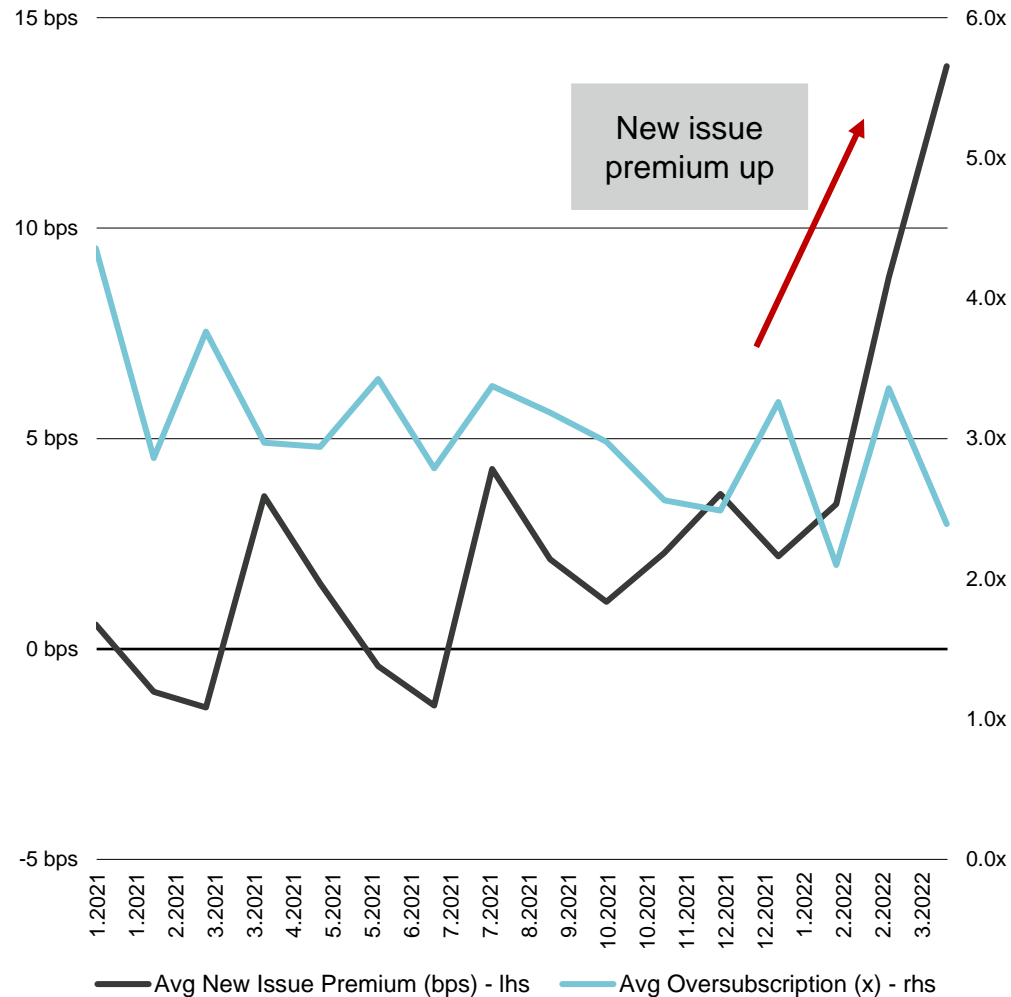
EUR IG Corporate Bond gross issuance



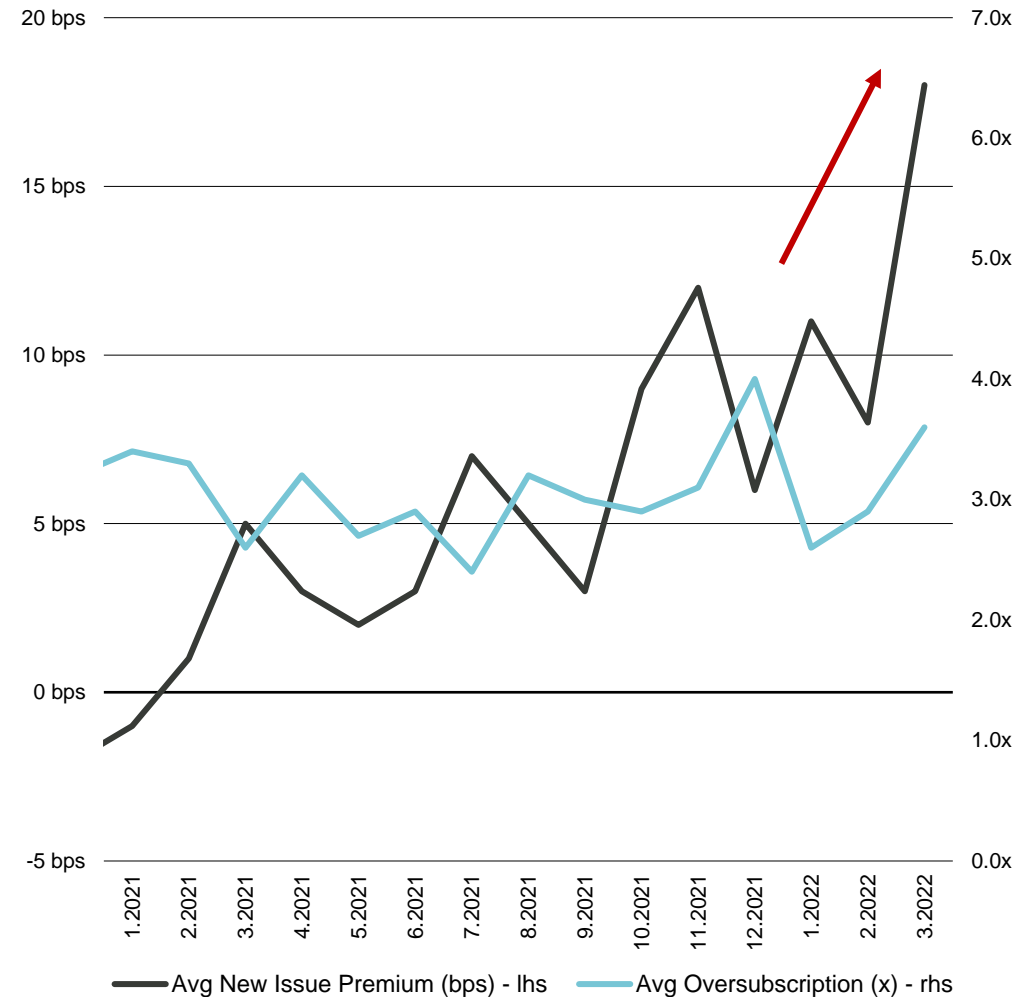
...investors now have more favorable market conditions.

Technicals

USD IG Primary Market

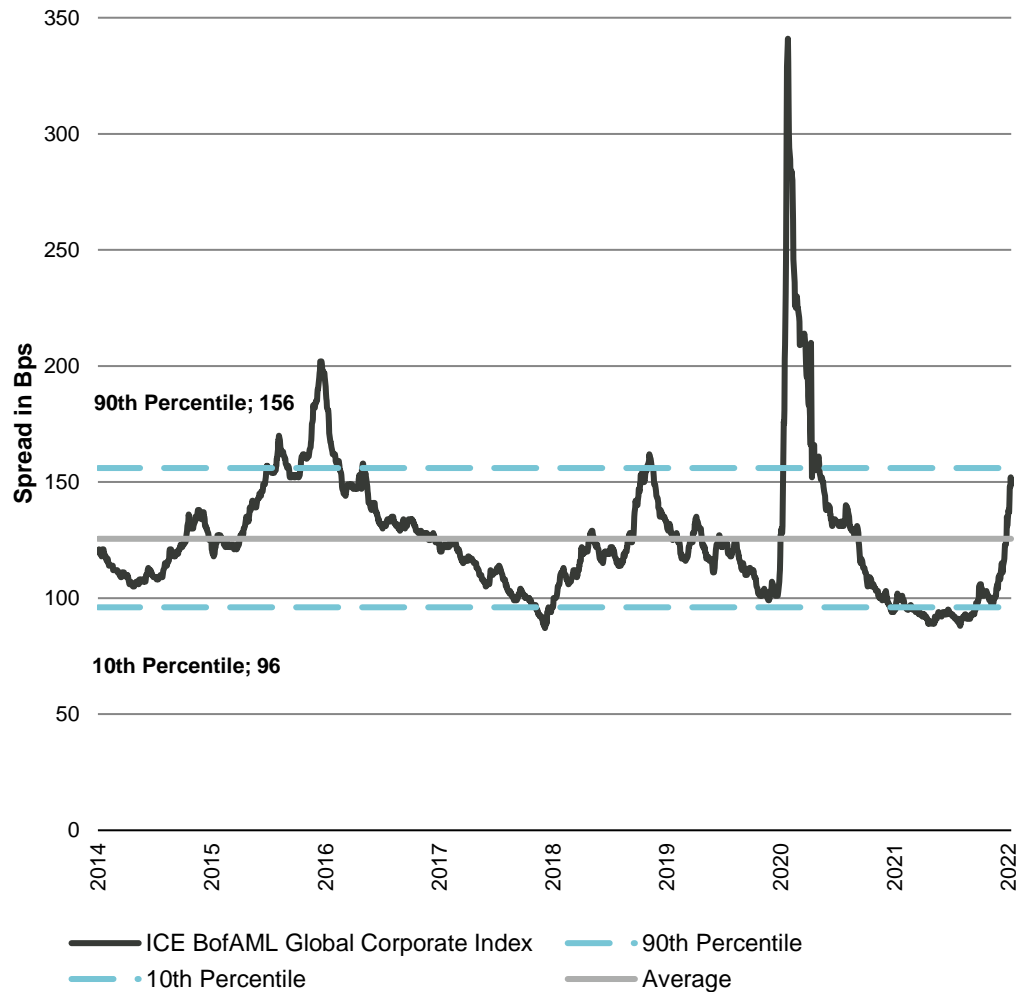


EUR IG Primary Market

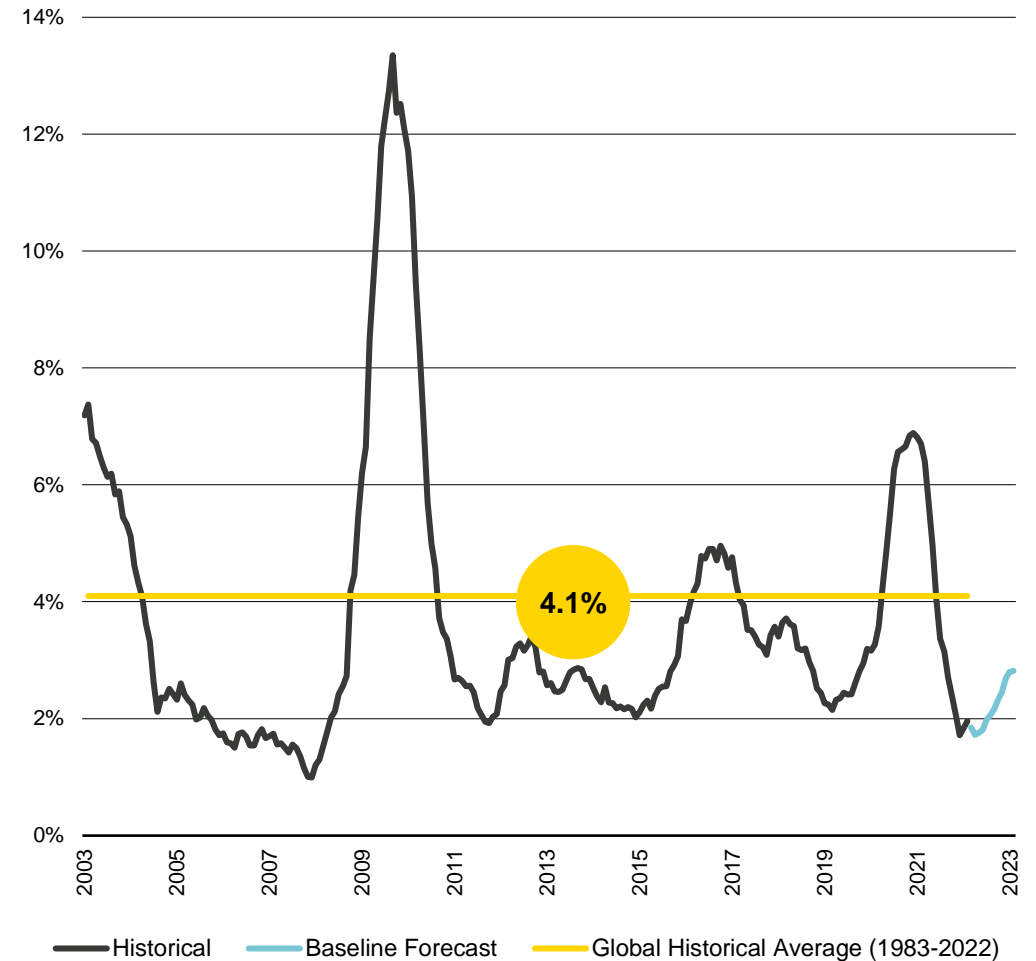


#9. Spreads should be tighter when compared to default rates and...

IG Spreads at wide levels



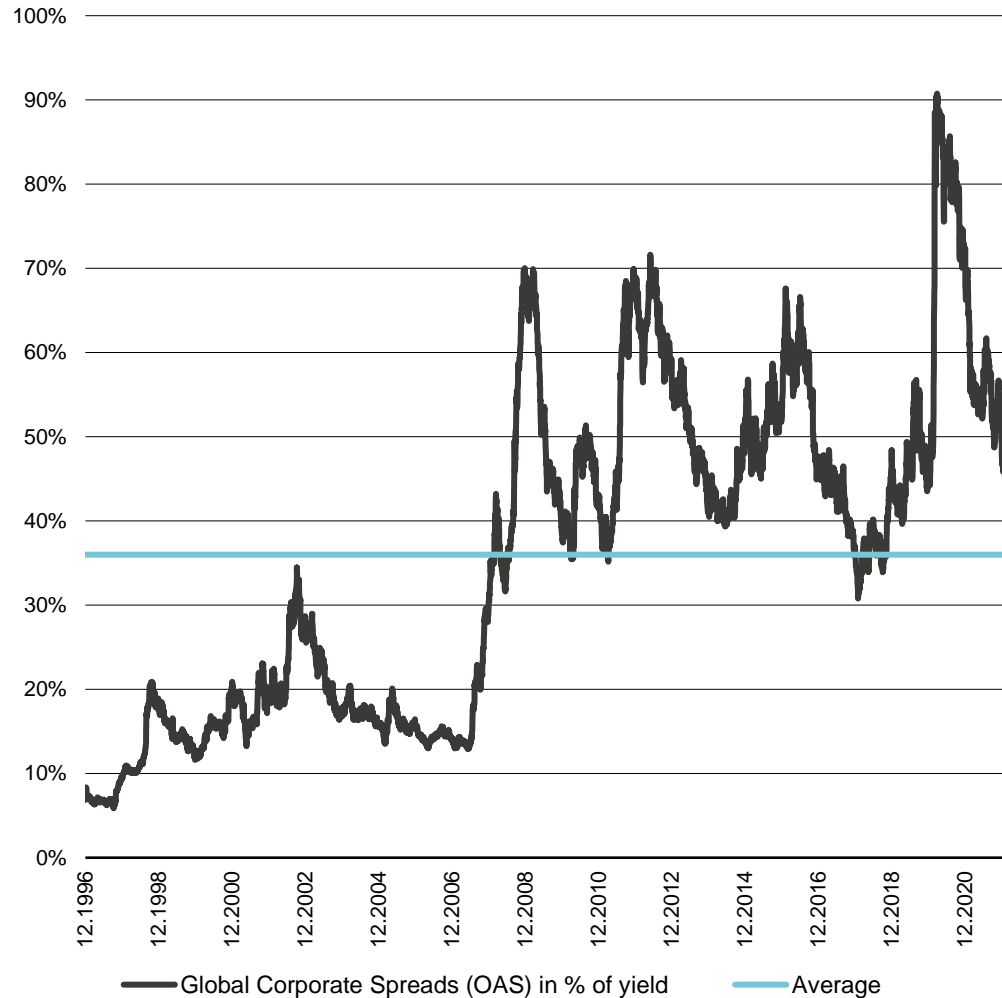
Default rate is at half its historical print



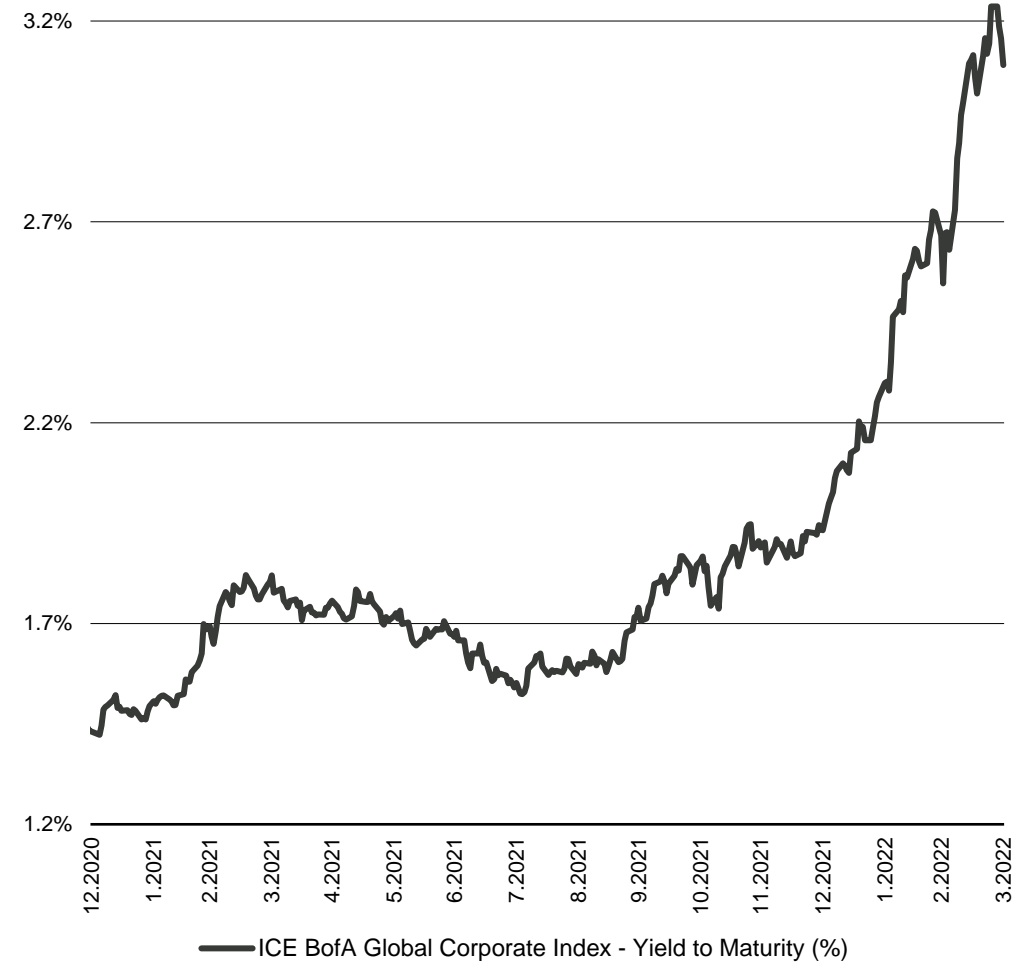
...now offer a better entry point for investors.

Valuation

Spread-to-yield ratio is elevated



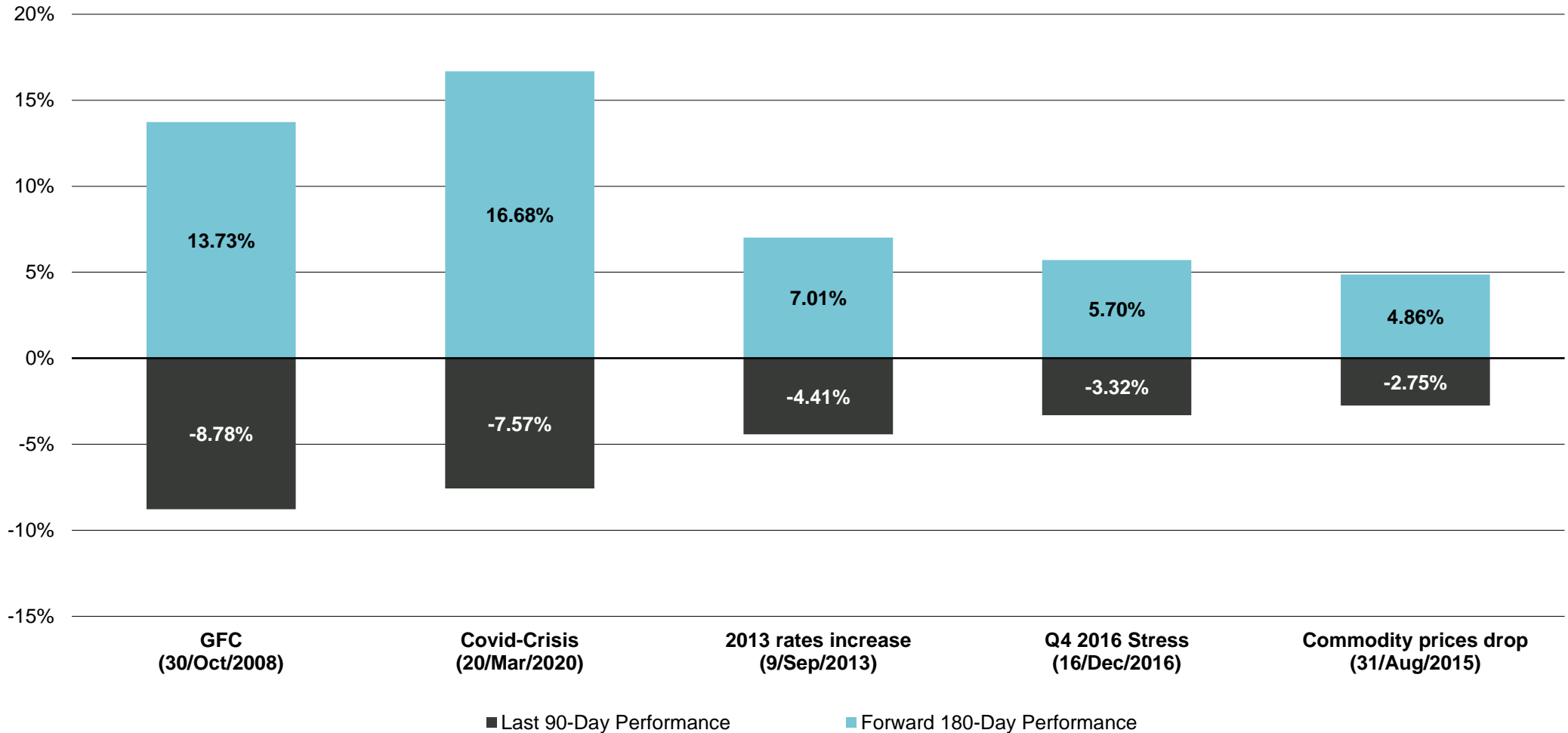
Yields more than doubled since the start of 2021



Historically, market sell-offs offered a favorable asymmetry of returns for investors.

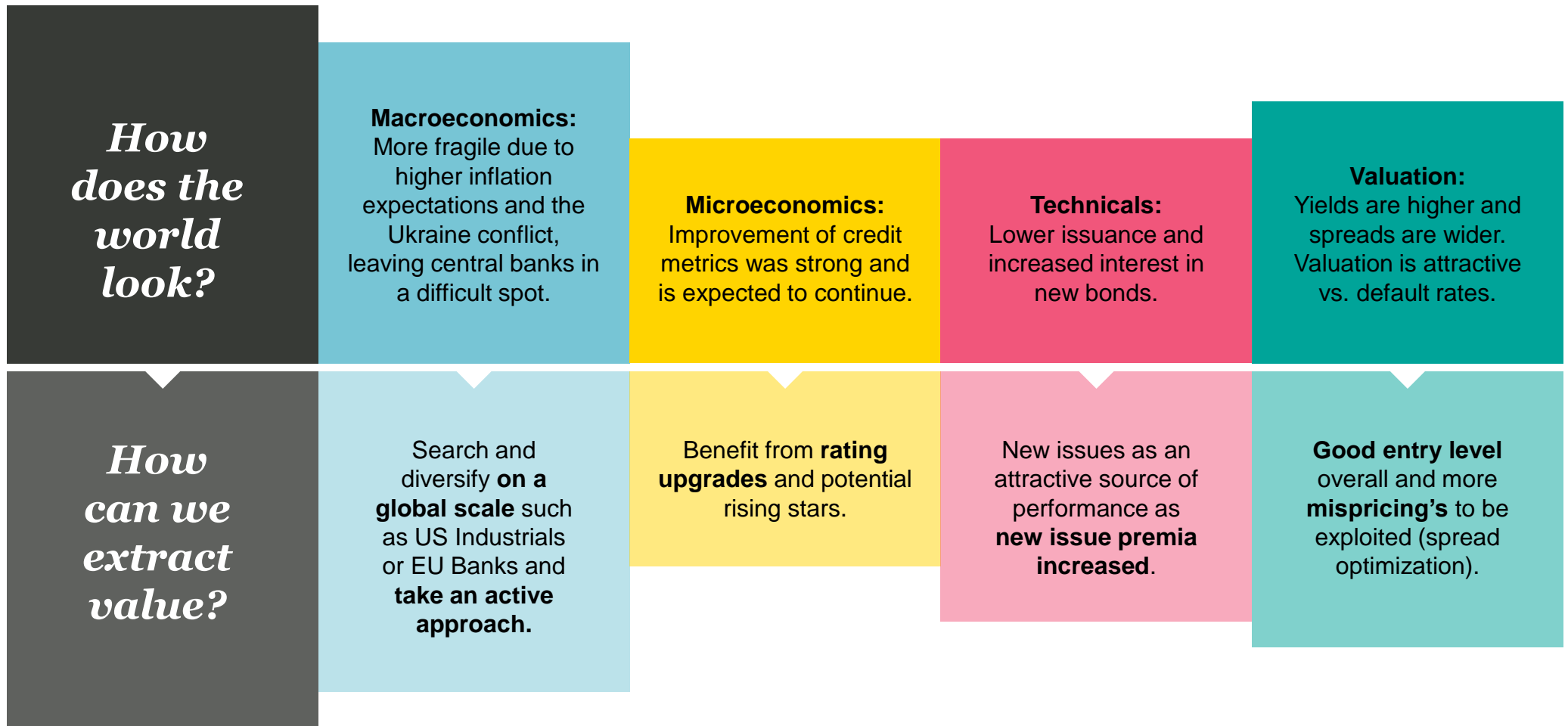
Valuation

Performance of the ICE BofA Global Corporate index during periods of stress



Source: Vontobel, ICE BofA Global Corporate Index, as of March 2022. Methodology: for the IG Global Corporate Bond index, we analyzed on a daily frequency the highest drawdowns over 90-day periods (last 90-day performance) and the returns over the 180-day period immediately following the drawdown (forward 180-day performance). Data set over 2002–2022; performance in USD hedged. Example: during the Covid-Crisis, the ICE BofA Global Corporate Index (USD hedged) suffered from a -7.6% drawdown over the 90-day period finishing on 20.3.2020, but benefitted from a +16.7% return in the immediately following 180-day period.

#10. How to benefit from current market conditions?



This is not the end...

...as there are obviously more questions on investors' minds and we are more than happy to share our thoughts with you.



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