

Global Credit Outlook

Goodbye negative yields – 10 hot topics for the summer

Fixed Income Boutique



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Goodbye negative yields: 10 hot topics for the summer

Macroeconomics	Microeconomics	Technical factors	Valuation
1. Lower economic growth	4. Strong corporate credit metrics	6. Lower bond issuance expected	8. Spreads and yields at multi-year highs
2. Inflation likely to remain high	5. Rating trend remains intact	7. Higher new issue premia	9. Record amount of low cash price bonds
3. Central banks committed to deliver			10. How to benefit from this environment

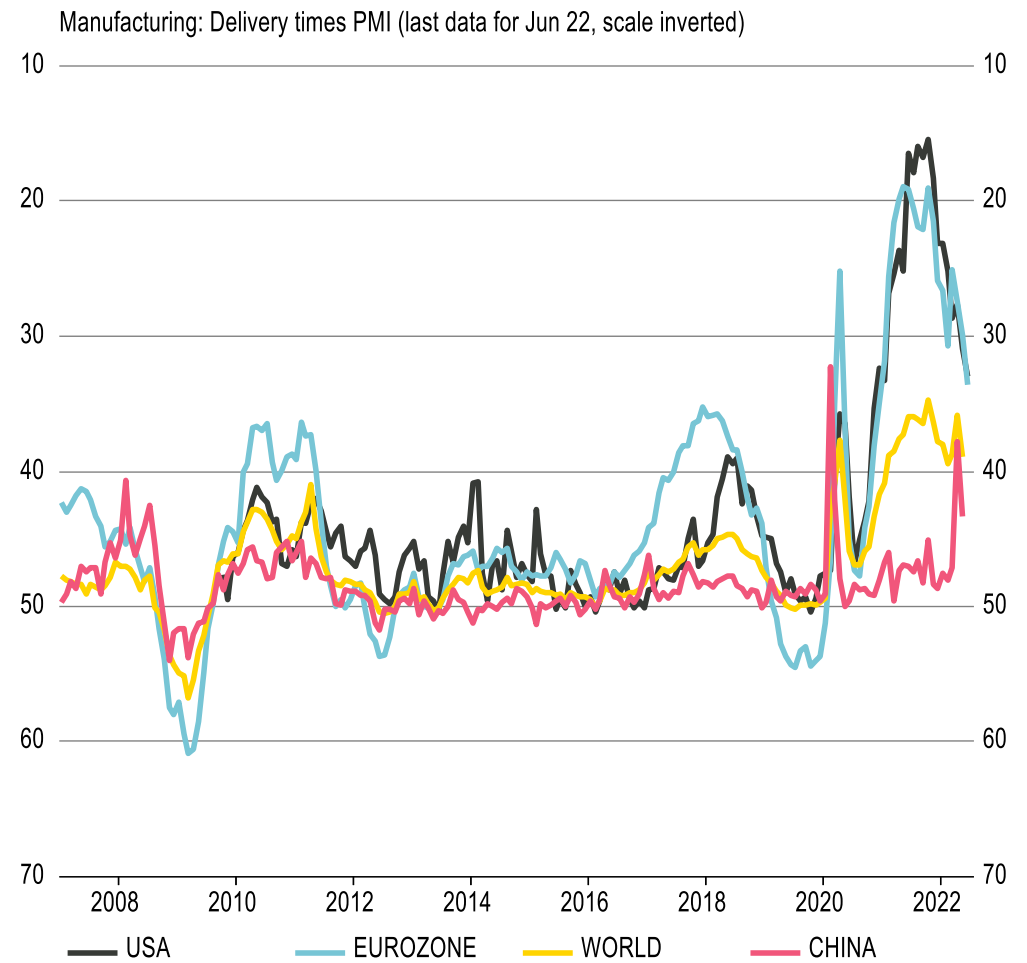
#1. Lower economic growth expected

Macro

New orders in DM still doing well, but China's ...



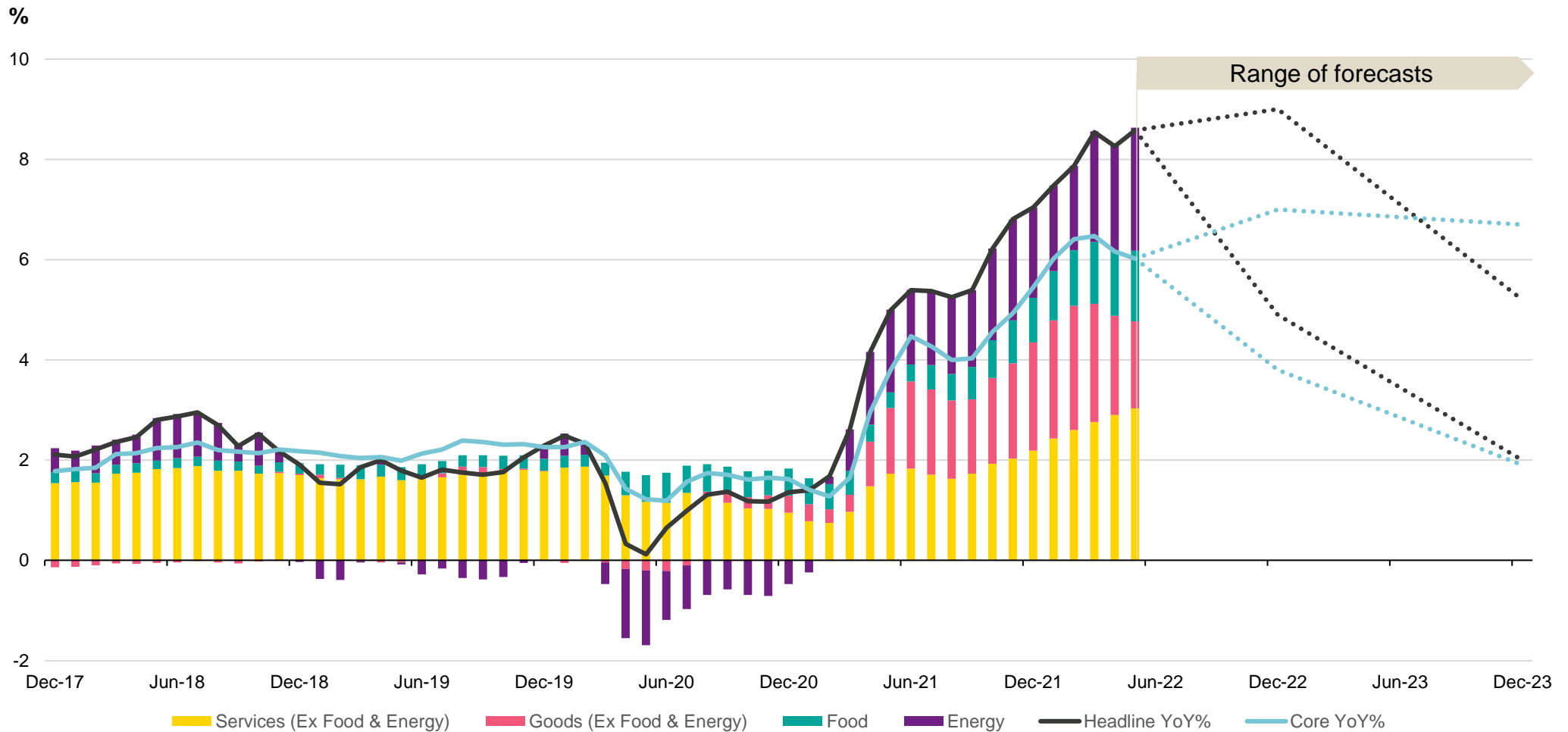
... lockdowns hurt growth and supply chains.



#2. Inflation likely to remain high

Macro

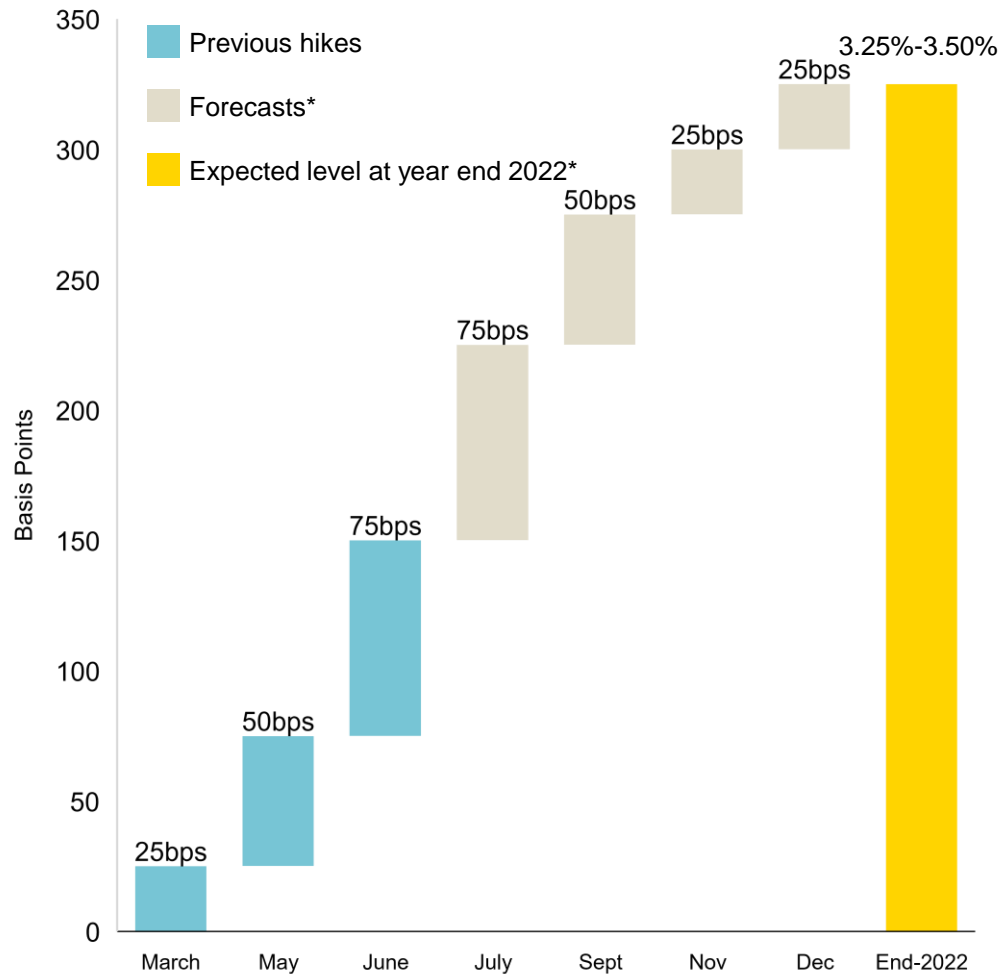
US inflation forecasts remain high and wide but indicate a slow down at some point



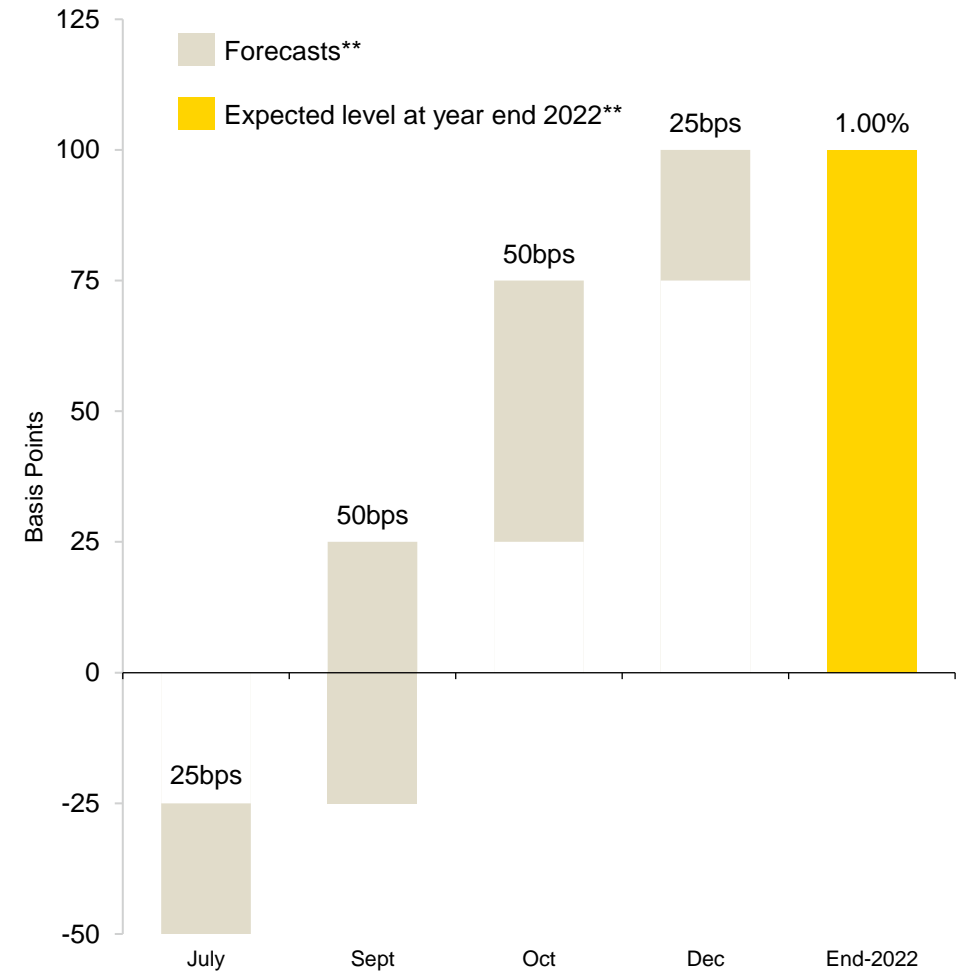
#3. Central banks committed to deliver

Macro

Fed: accelerated rate hikes until summer



ECB: progressive start in summer

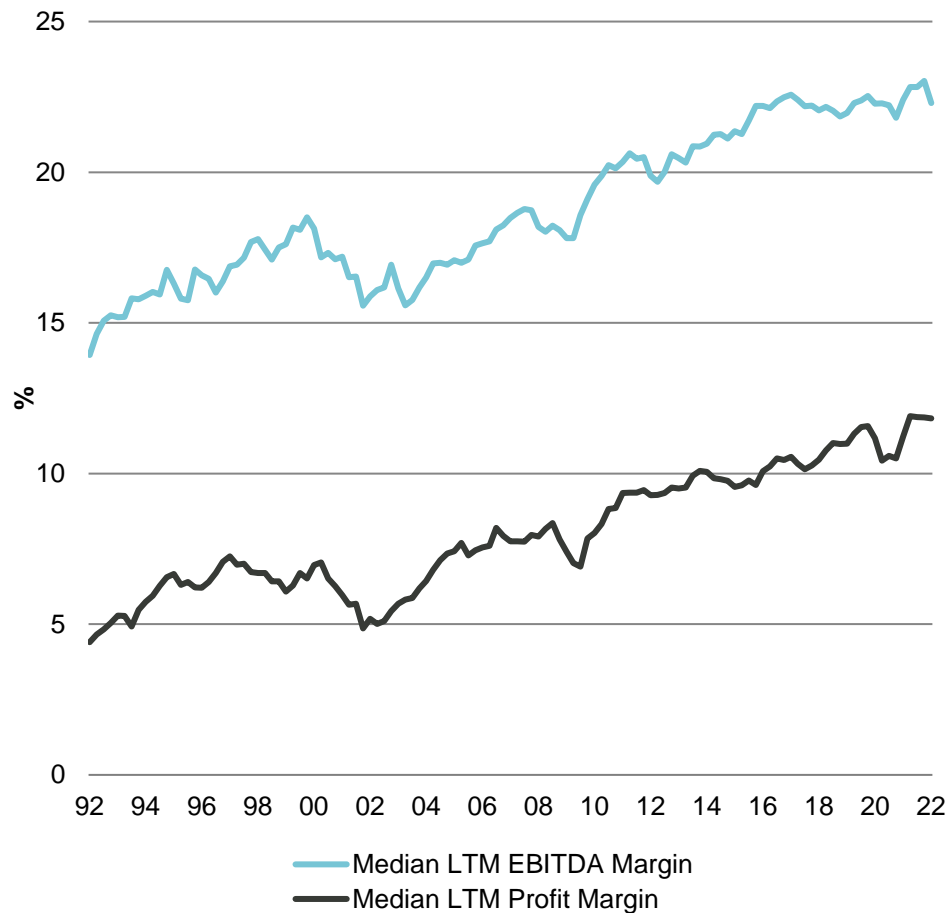


Source: *Median hike forecast of the Fed fund rate from Goldman Sachs, BAML, JP Morgan, Citi and Barclays. **Median hike forecast of the ECB deposit rate from Goldman Sachs, JP Morgan, Citi, Deutsche Bank and Barclays, June 2022.

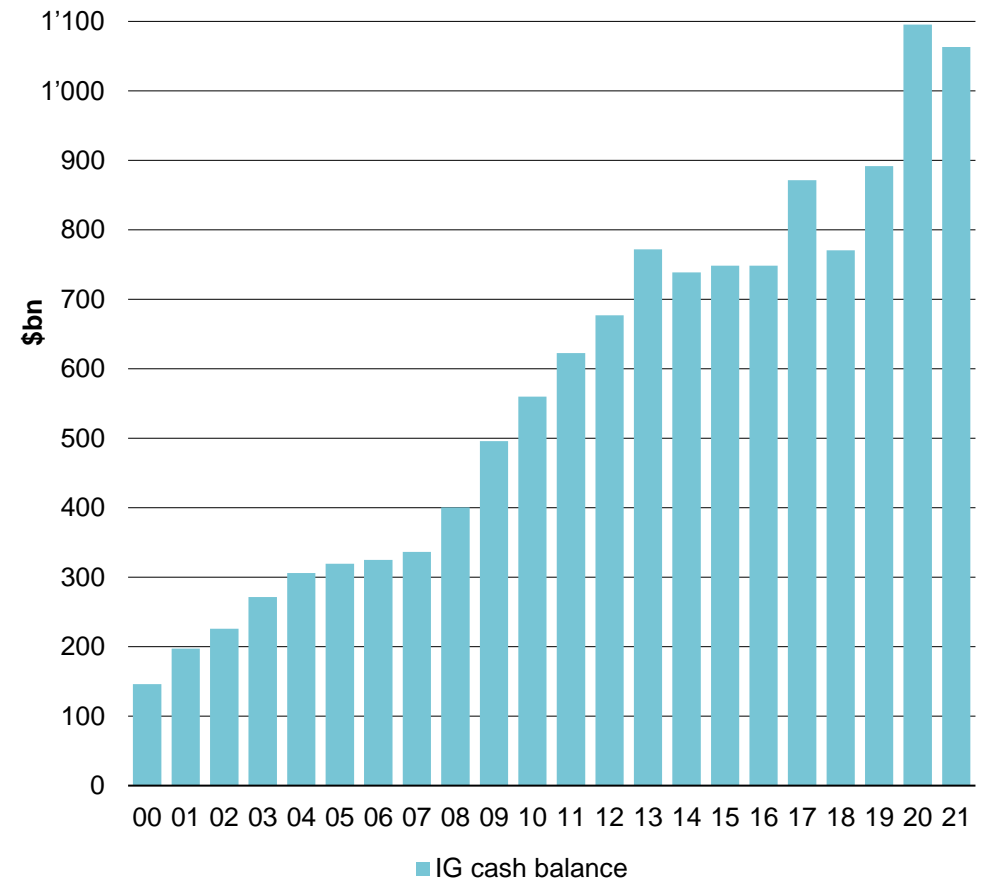
#4. Strong margins and high cash balances, plus...

Micro

Profit margins at strong levels



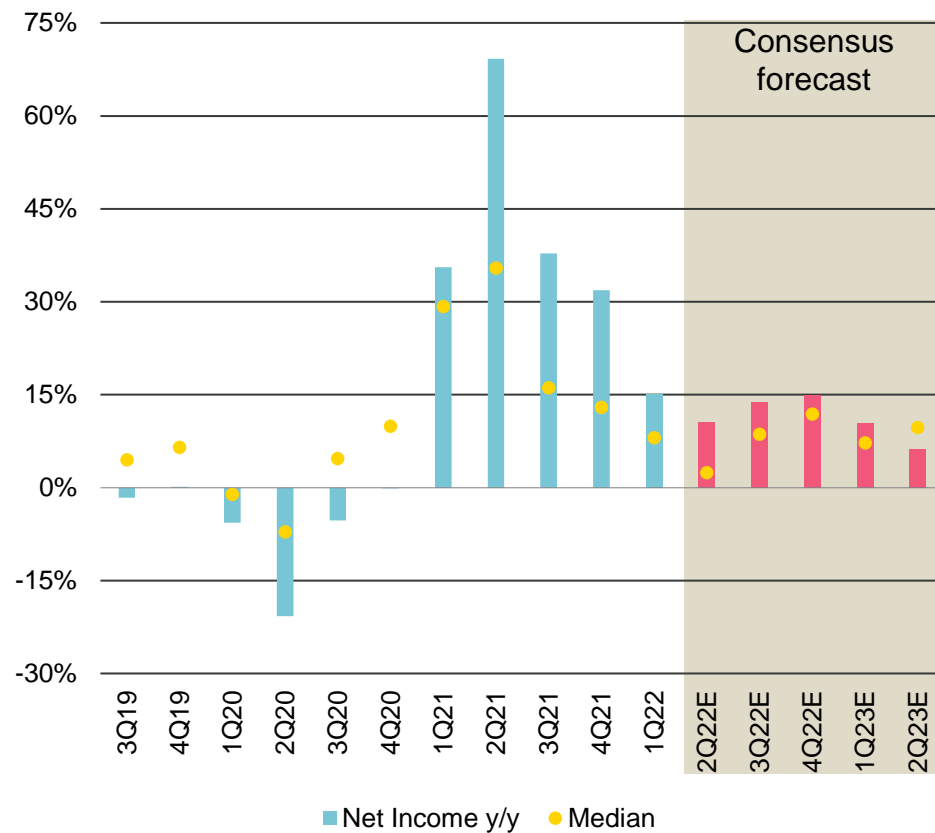
Cash levels remain elevated



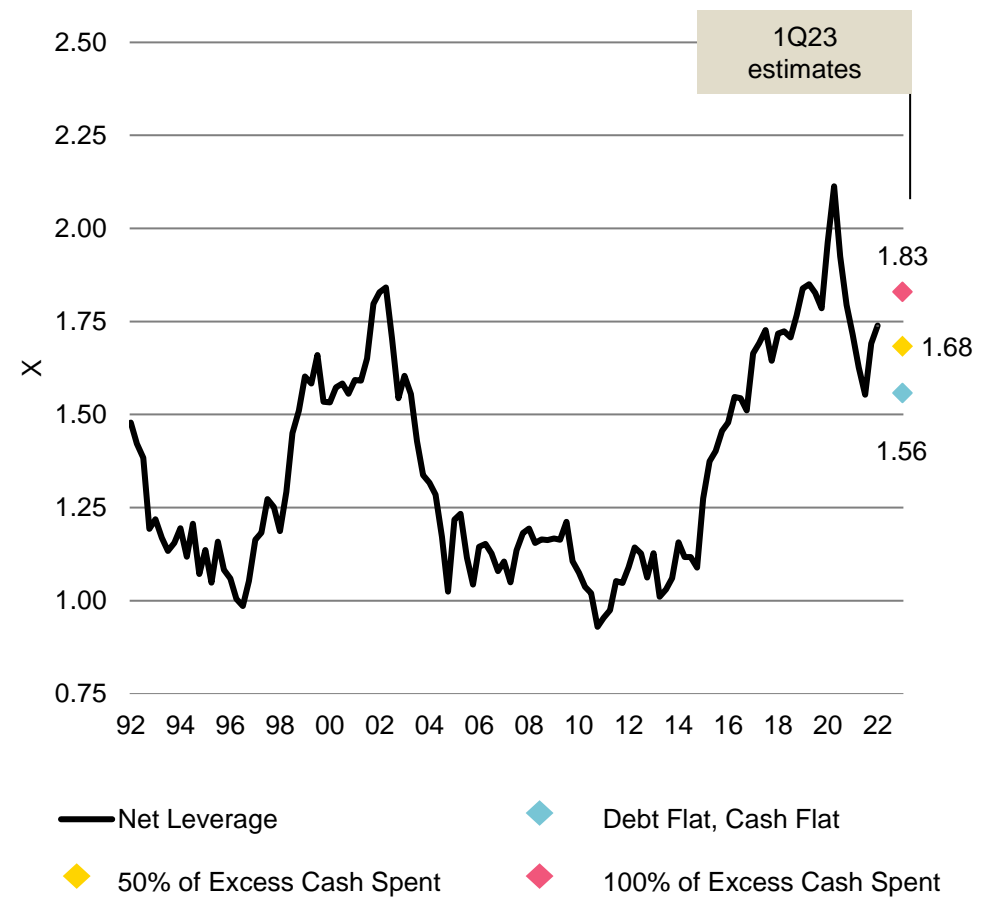
...solid earnings, are expected to keep leverage at moderate levels.

Micro

Earnings set to normalize



Net leverage improved

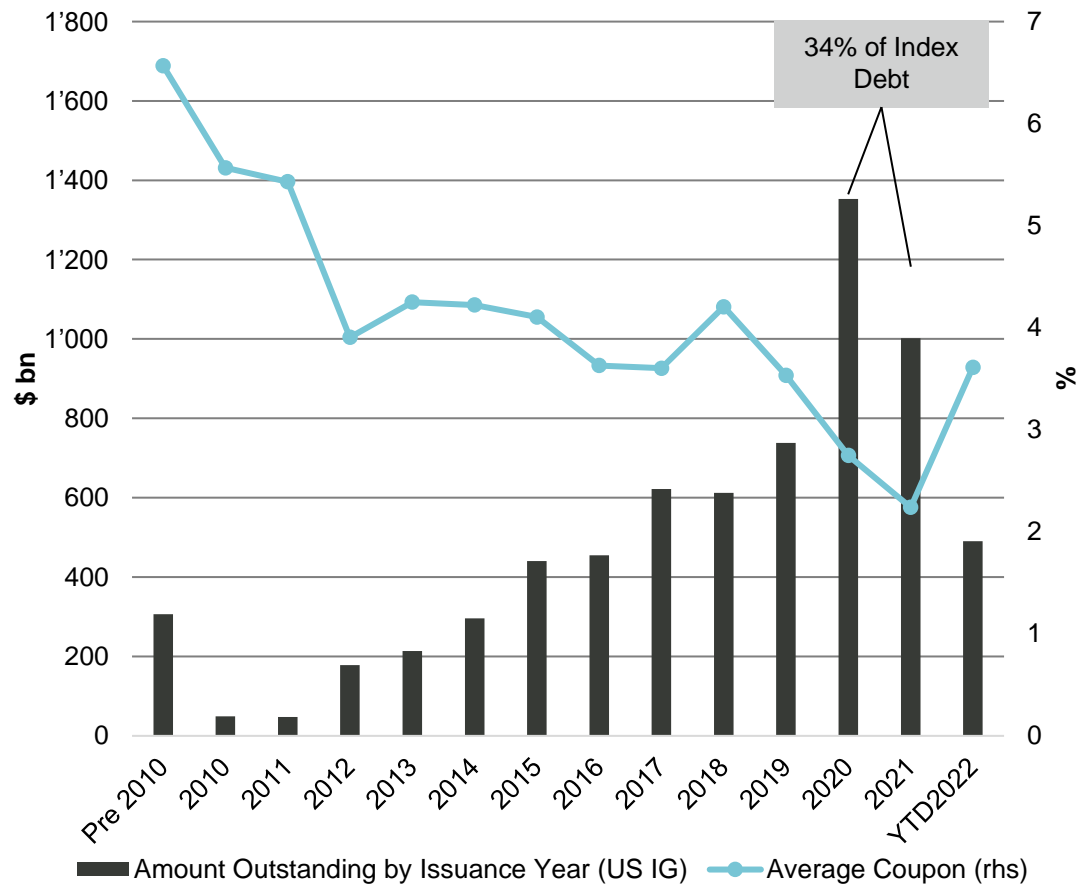


Including Q1 2022 results. Net Leverage = Net Debt / LTM EBITDA. Net debt is gross debt minus cash and marketable securities. Source: Goldman Sachs, Morgan Stanley, as of June 2022.

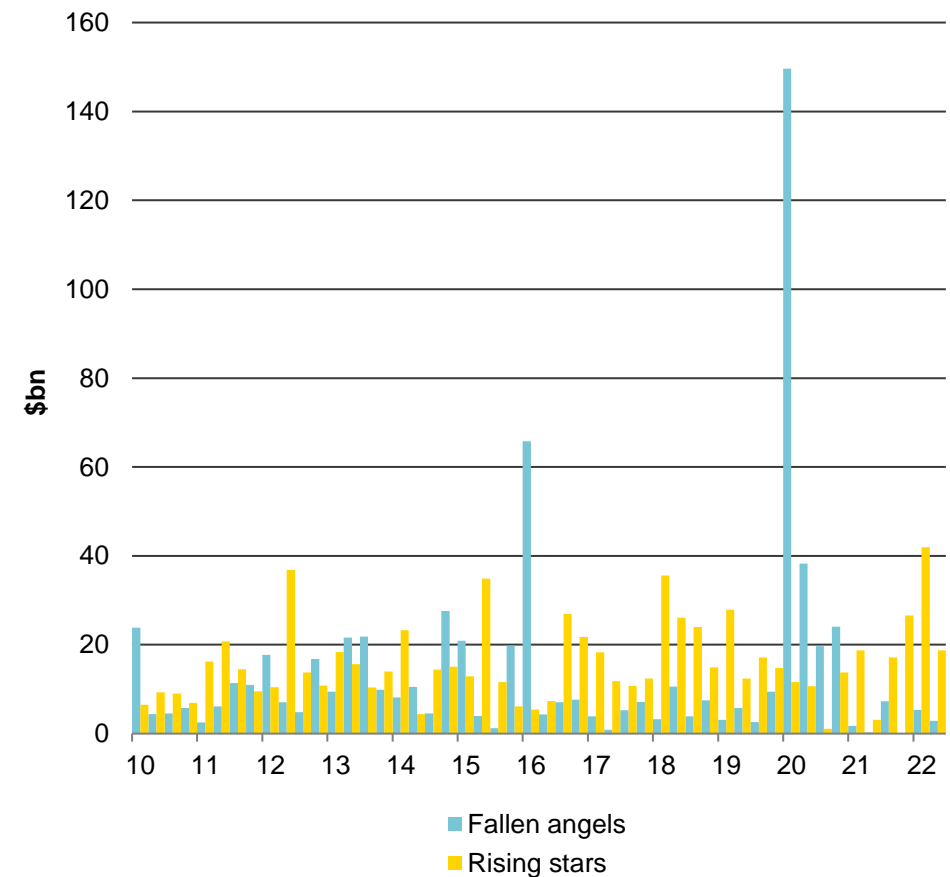
#5. Cheap funding was secured and rating trend remains intact

Micro

Record issuance with the lowest coupon



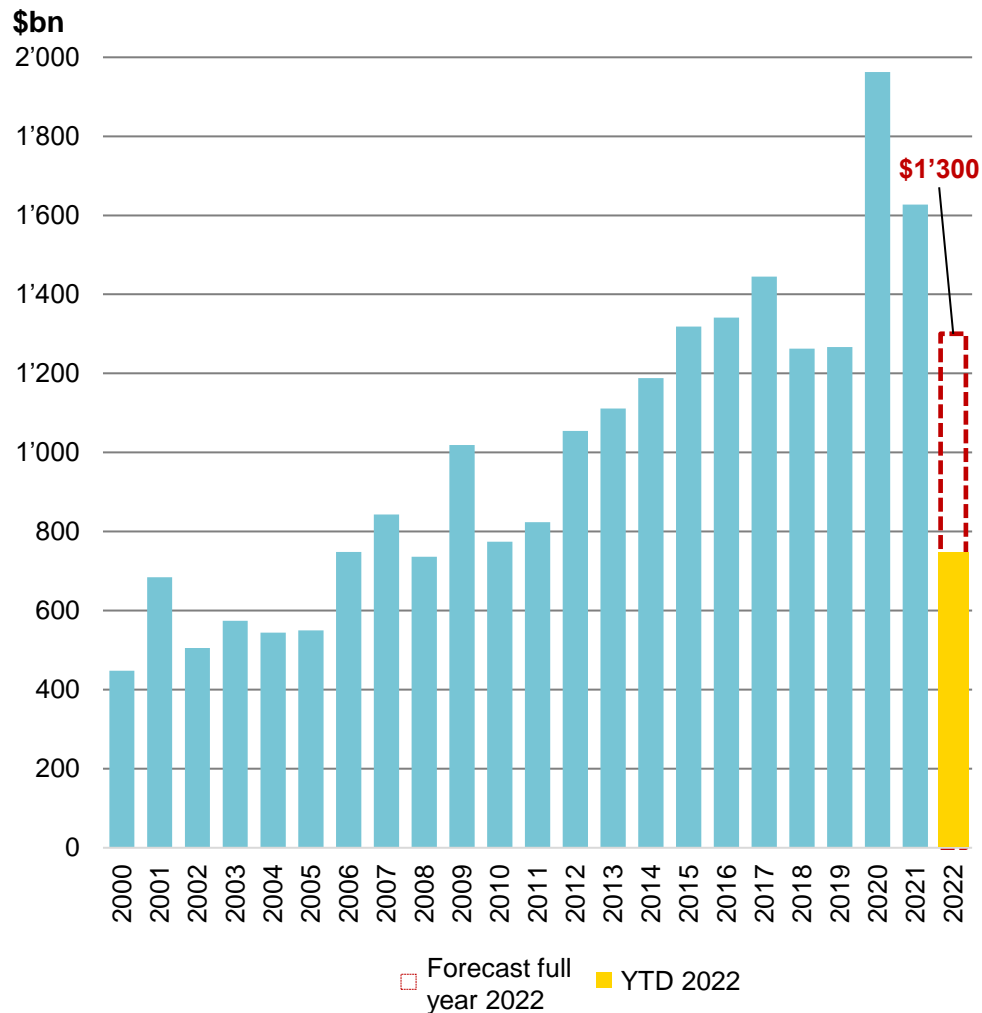
Rating trend remains favorable



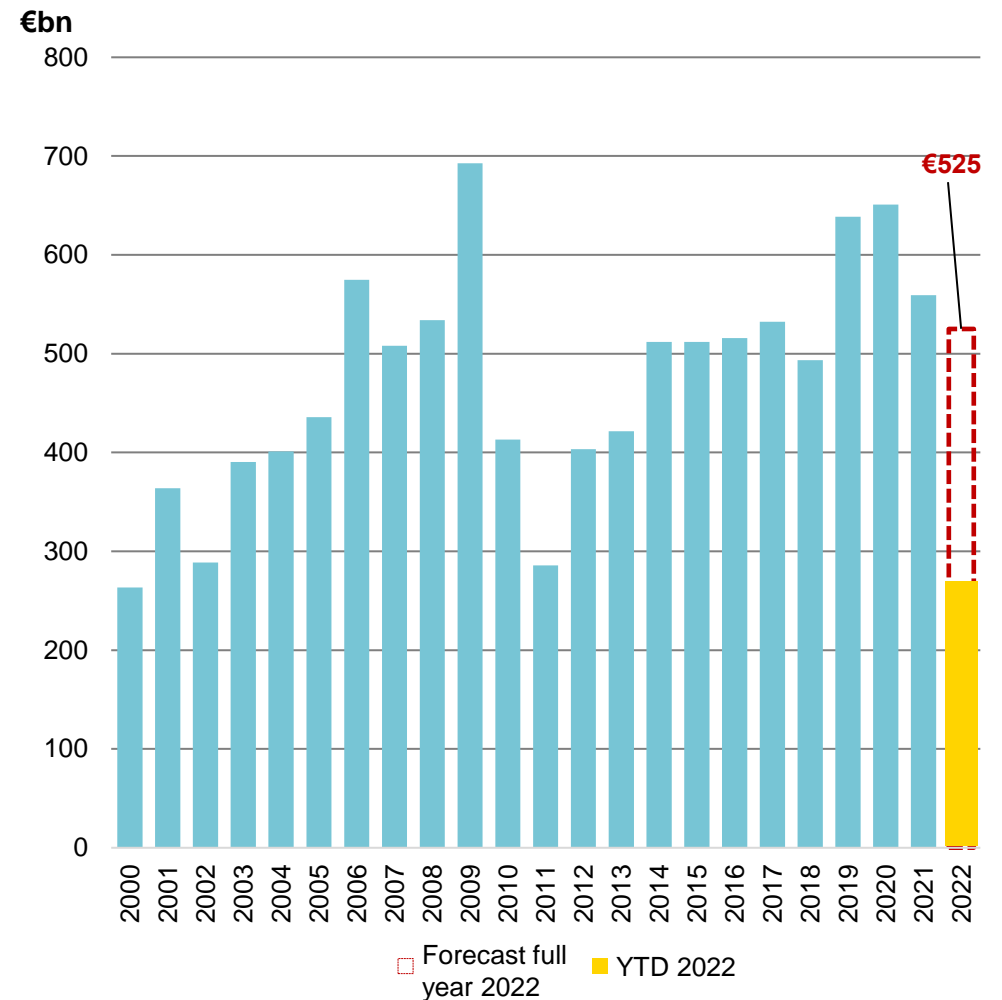
#6. Bond issuance is expected to decline globally, also as...

Technicals

USD IG corporate bond gross issuance



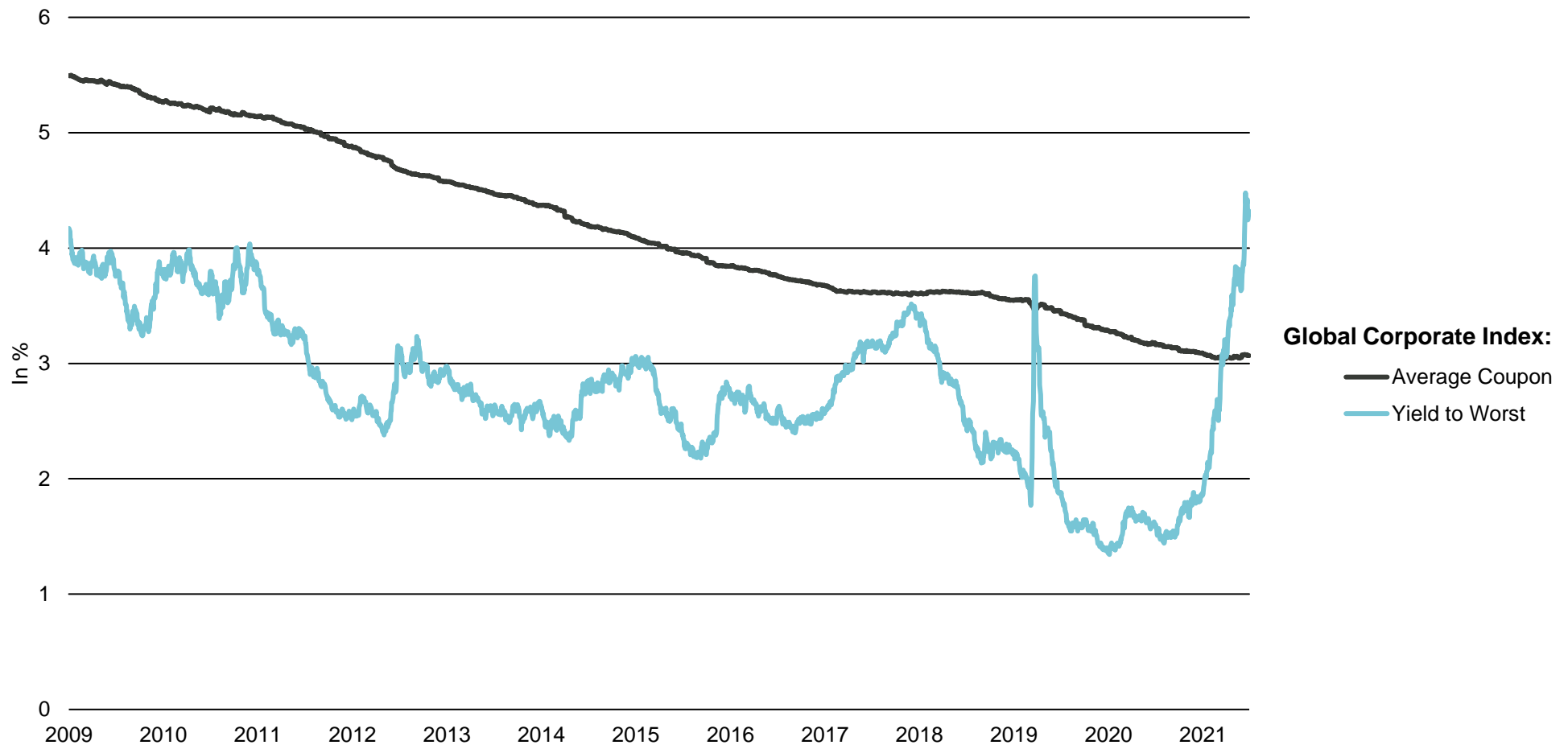
EUR IG corporate bond gross issuance



...refinancing is more expensive now, while...

Technicals

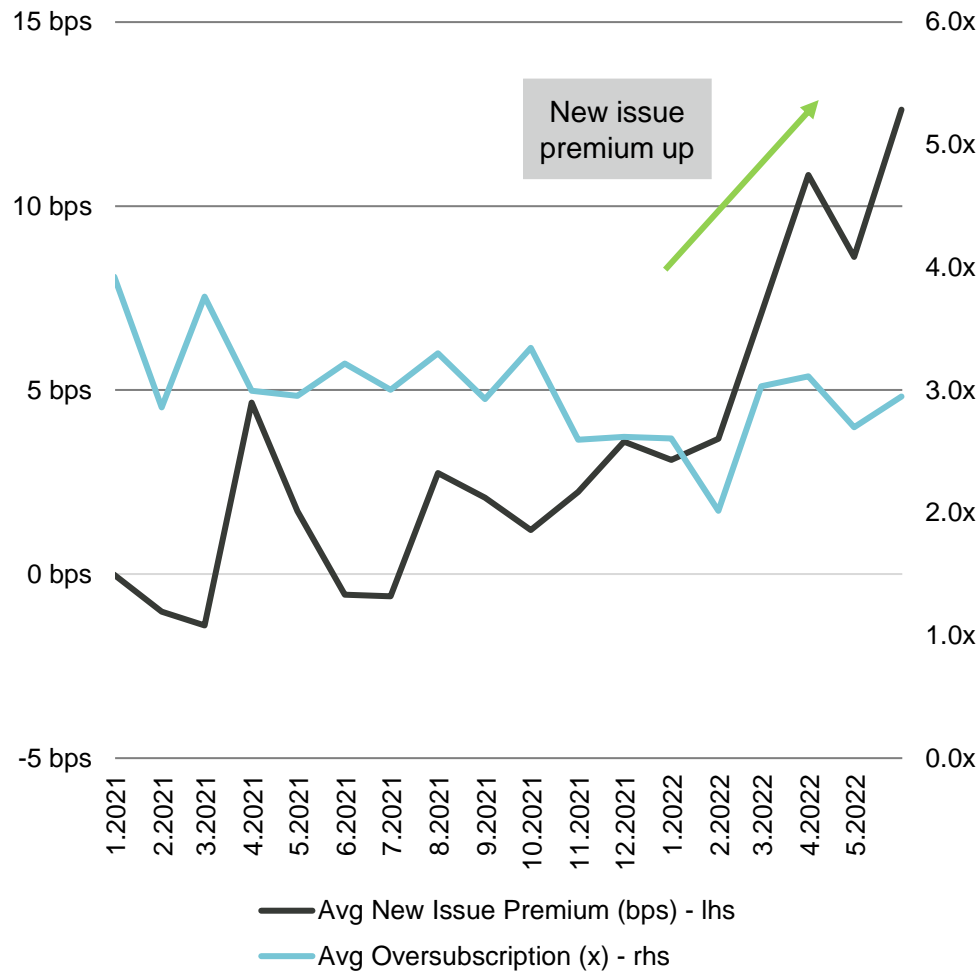
Less supply to be expected as yields moved higher



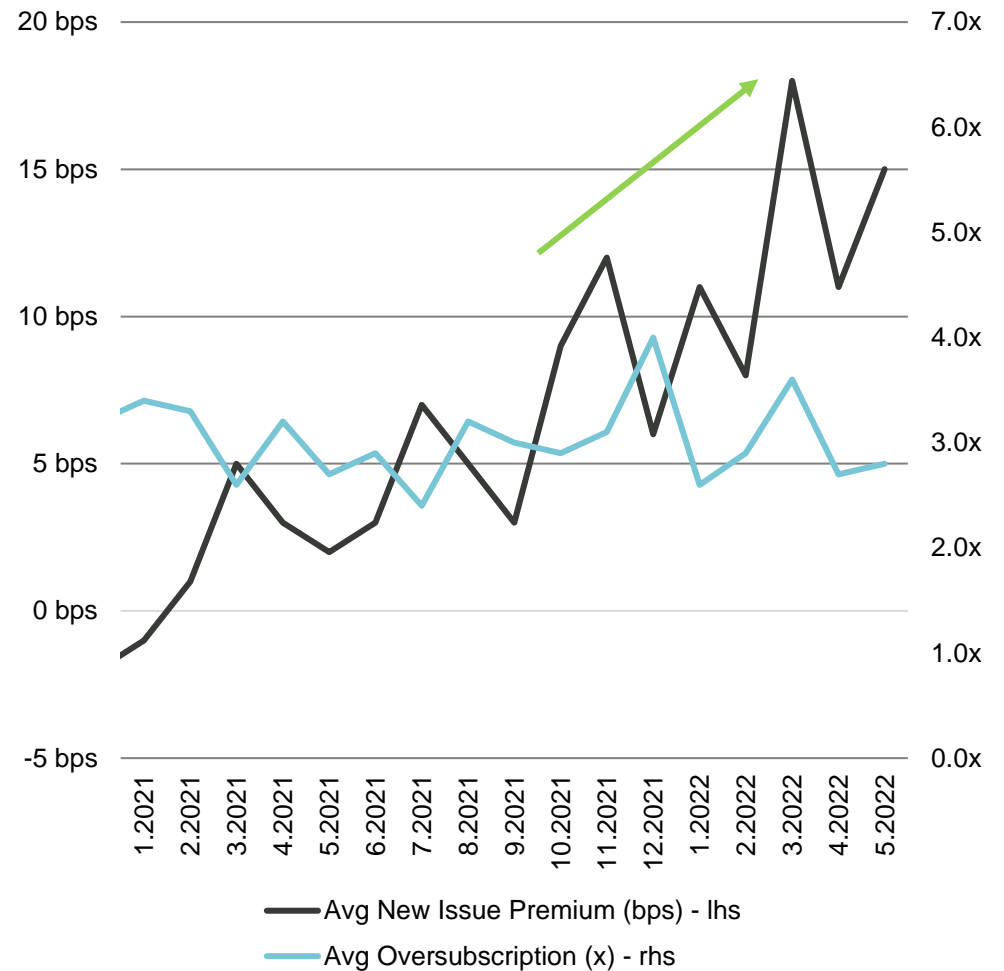
#7...investors can benefit from more favorable market conditions.

Technicals

USD IG primary market



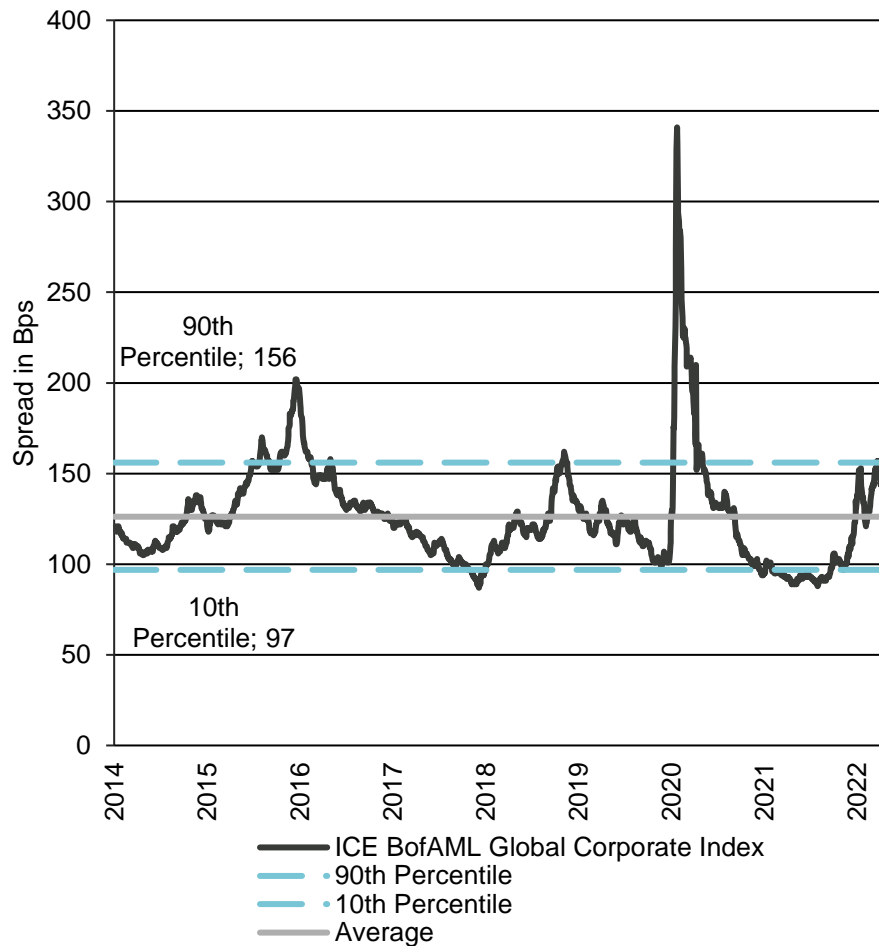
EUR IG primary market



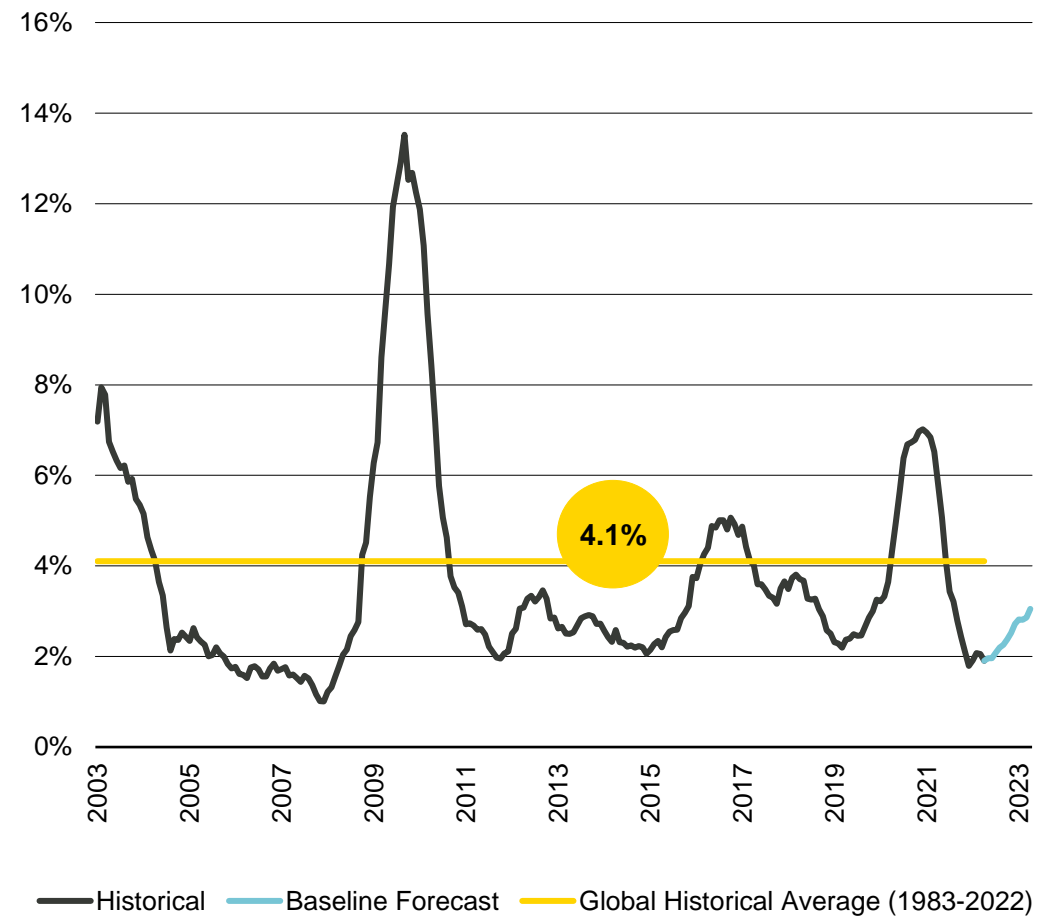
#8. Spreads should be tighter when compared to default rates

Valuation

IG spreads at wide levels



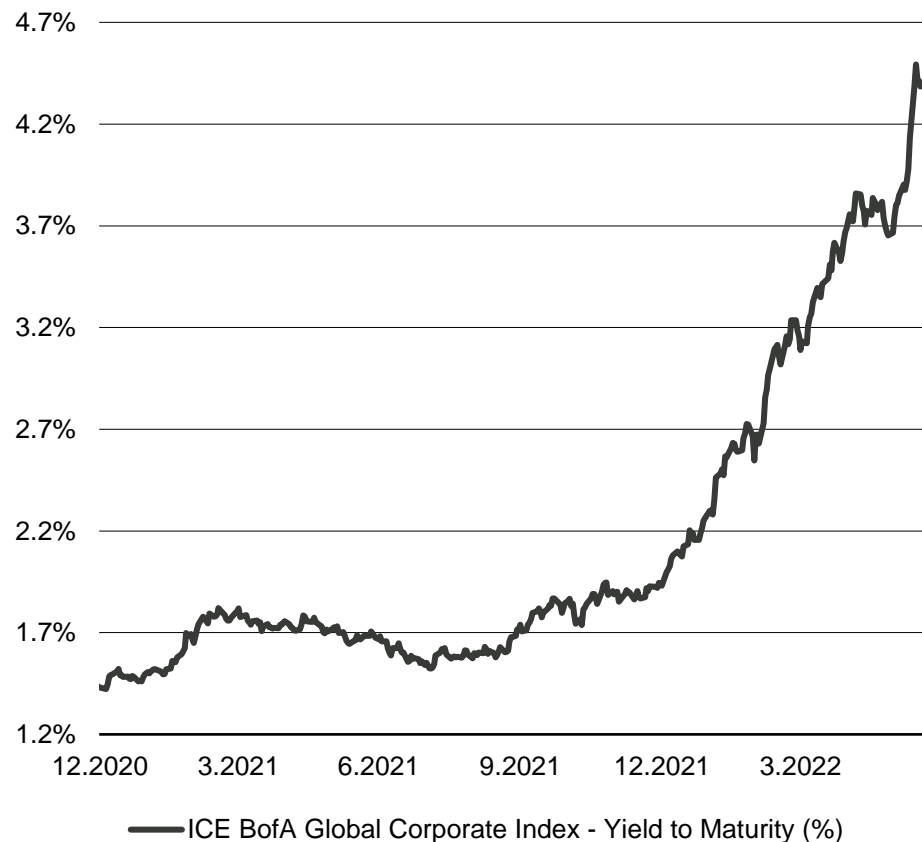
Default rate is at half its historical print



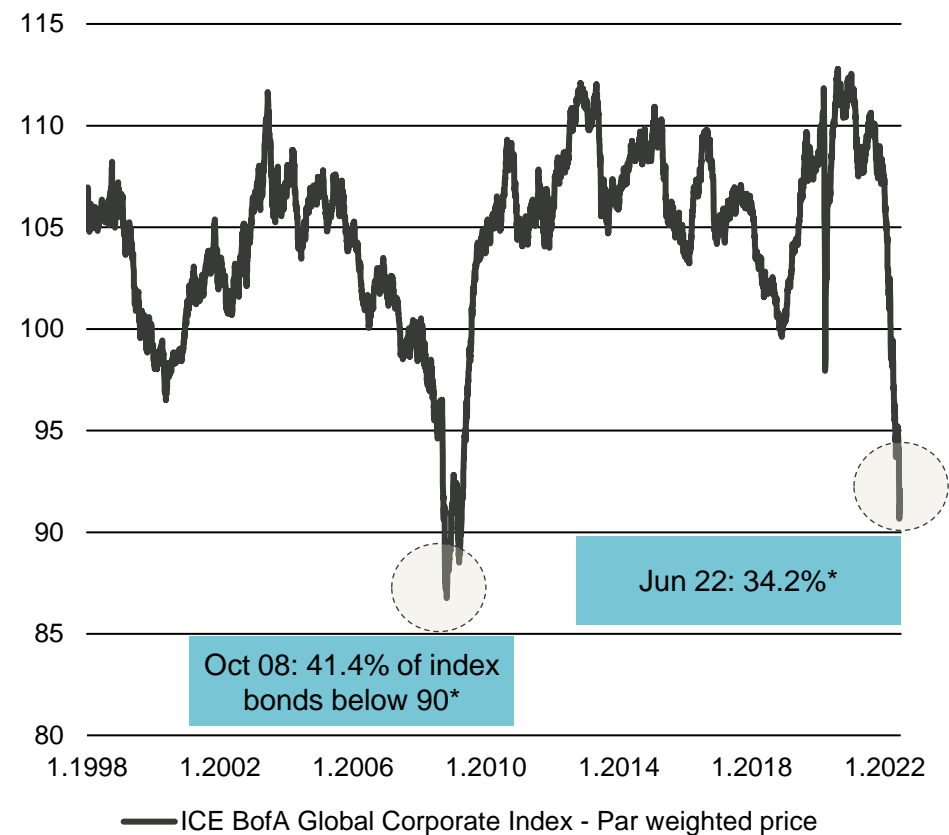
#9. Yields up significantly and bond prices down...

Valuation

Yields up since the start of 2021



Record amount of low cash price bonds

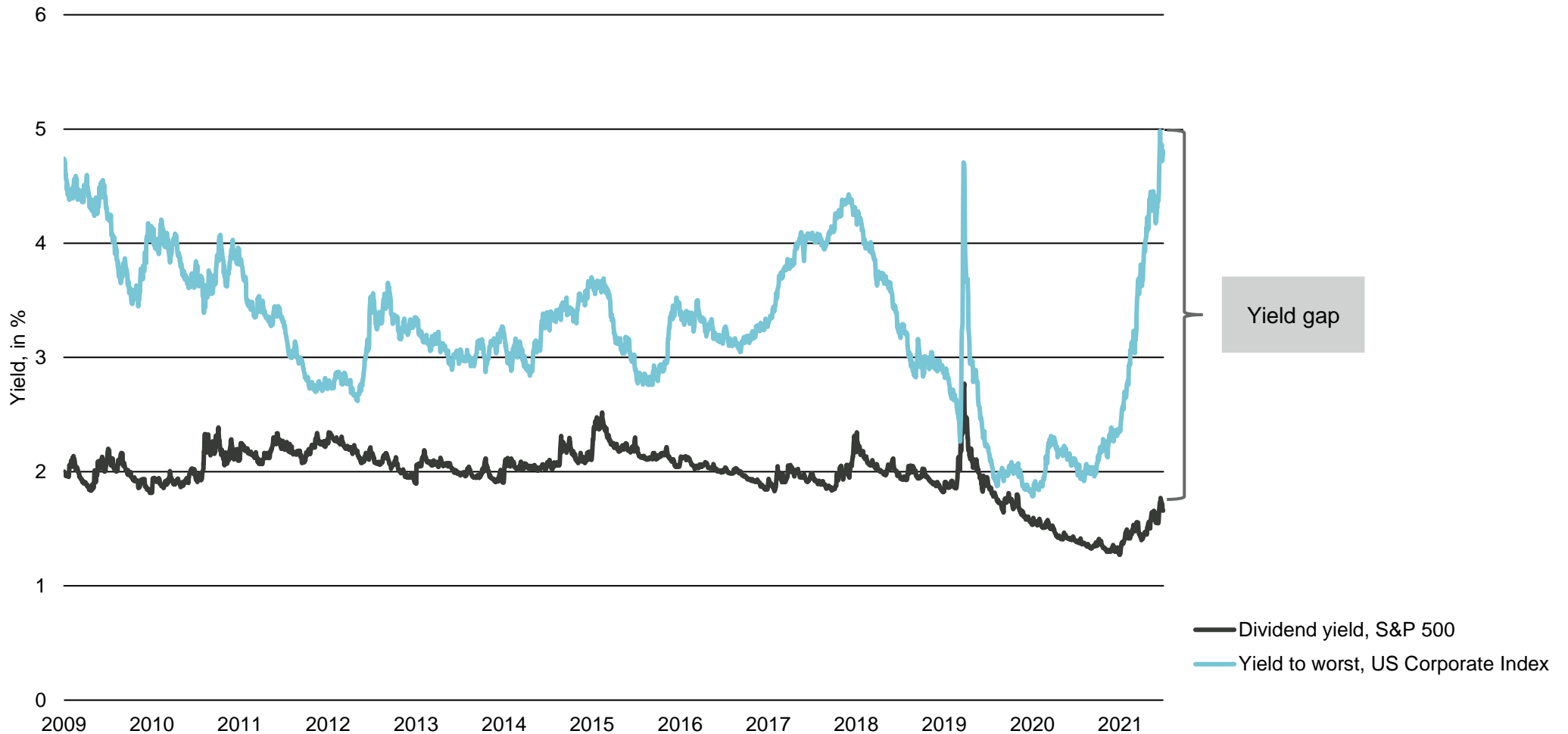


Percentage figures in the boxes correspond to the percentage of index value of bonds trading below 90 cash price.

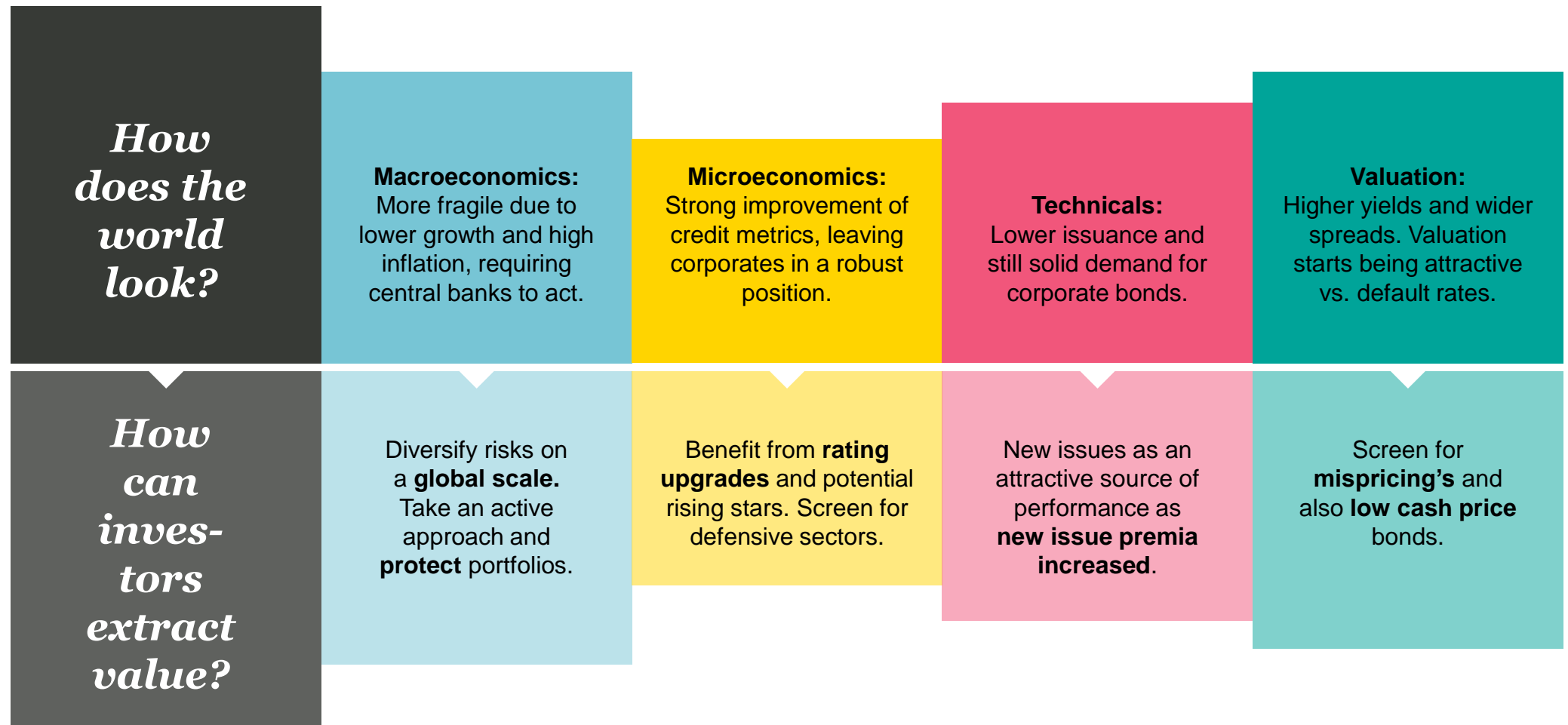
...and the yield gap widening: corporate bond yield ahead of dividend yield.

Valuation

IG yields are at decade highs



#10. How to benefit from this environment?



This is not the end...

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



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