



Vontobel

Prepare for landing

Global Corporate Bond Outlook

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Global Credit - 10 major topics for the remainder of 2024:



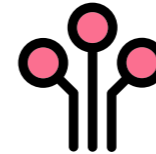
Macroeconomics

1. From a soft to a hard landing scenario?
2. What to expect from central banks?
3. Will the US Election impact credit markets?



Microeconomics

4. Which direction for credit metrics?
5. Do high interest rates impact credit ratings?
6. How well are banks prepared?



Technical Factors

7. Will record bond issuance continue at this pace?
8. What about investors' demand and expectations?

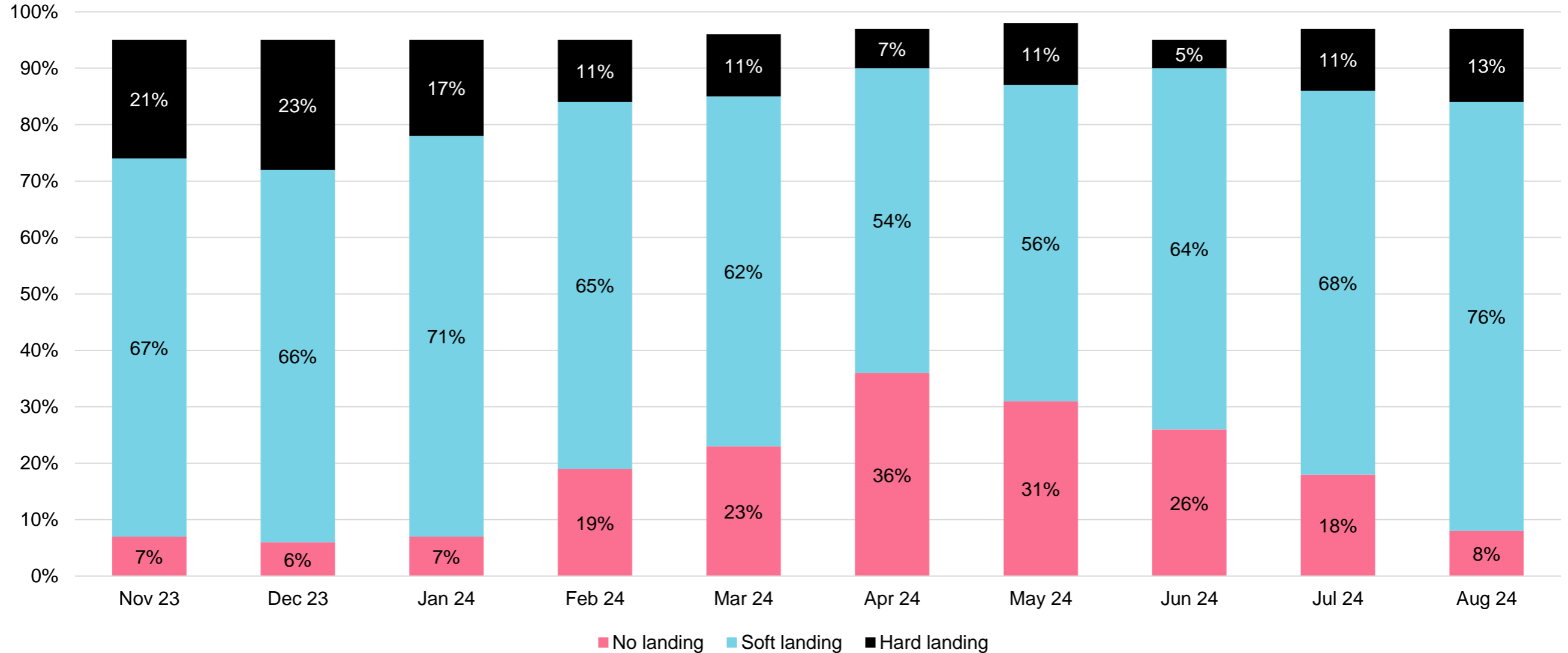


Valuation

9. Where to find value in global credit?
10. Is credit attractive now and what to expect for returns?

#1. Fears about a hard landing increased recently, as...

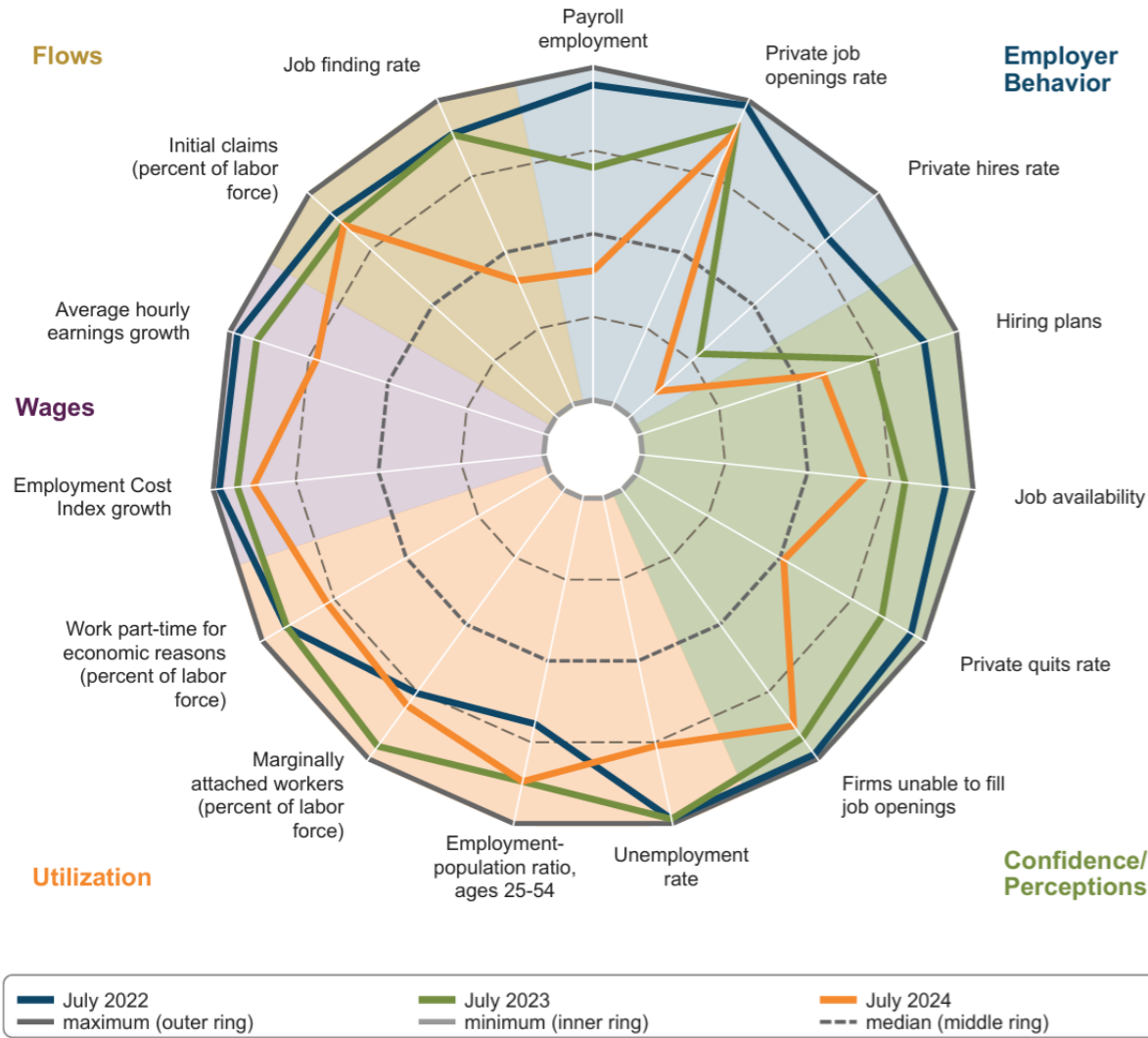
Global fund manager survey: What is the most likely outcome for the global economy in the next 12 months?



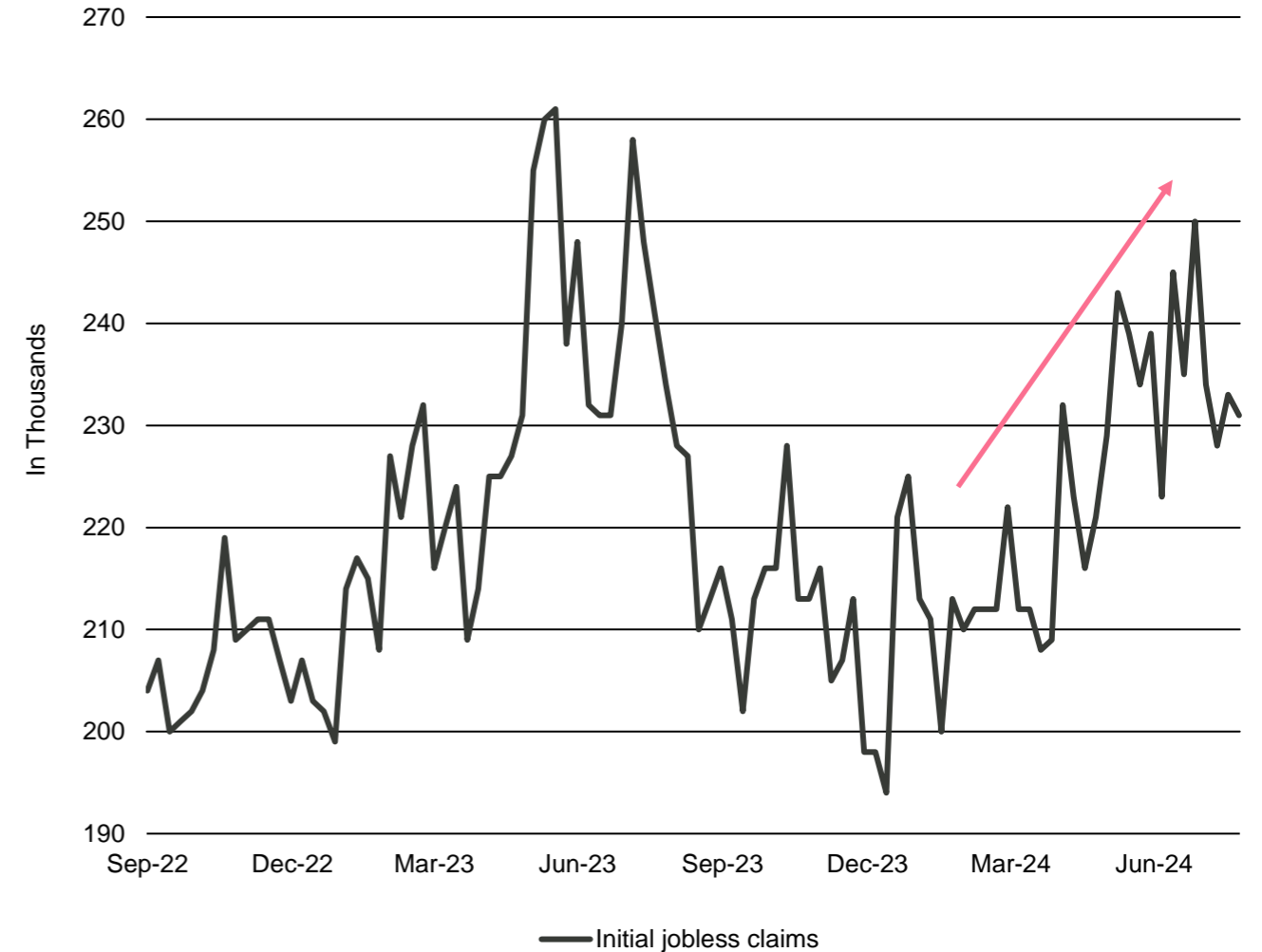
Source: BofA Global Fund Manager Survey, Vontobel, 02.09.2024. Note: Soft landing = inflation back to 2% target, no recession. Hard landing = recession. No landing = inflation not back to 2% target, economy continues to grow.

... the US job market shows signs of weakness...

US labor market conditions are deteriorating



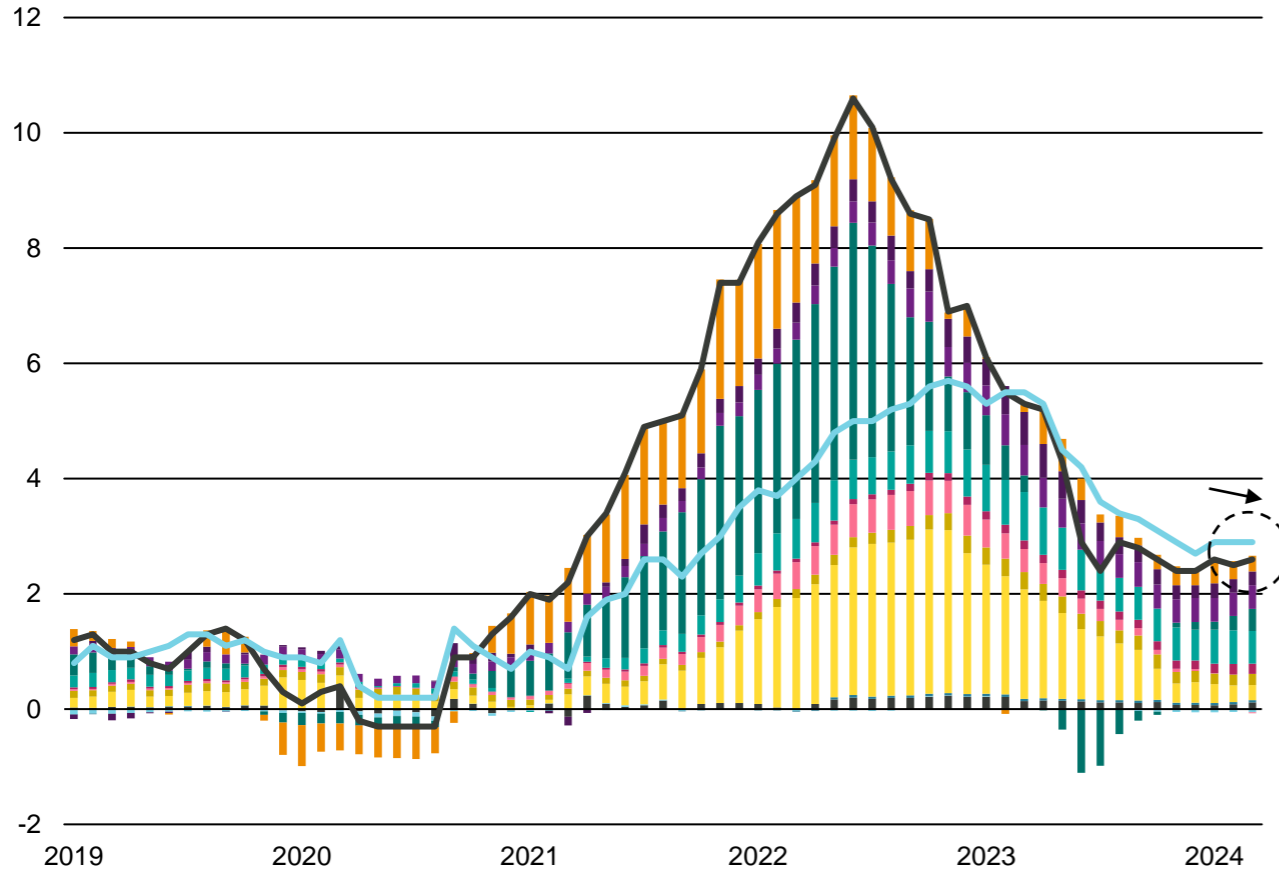
US jobless claims increasing steadily



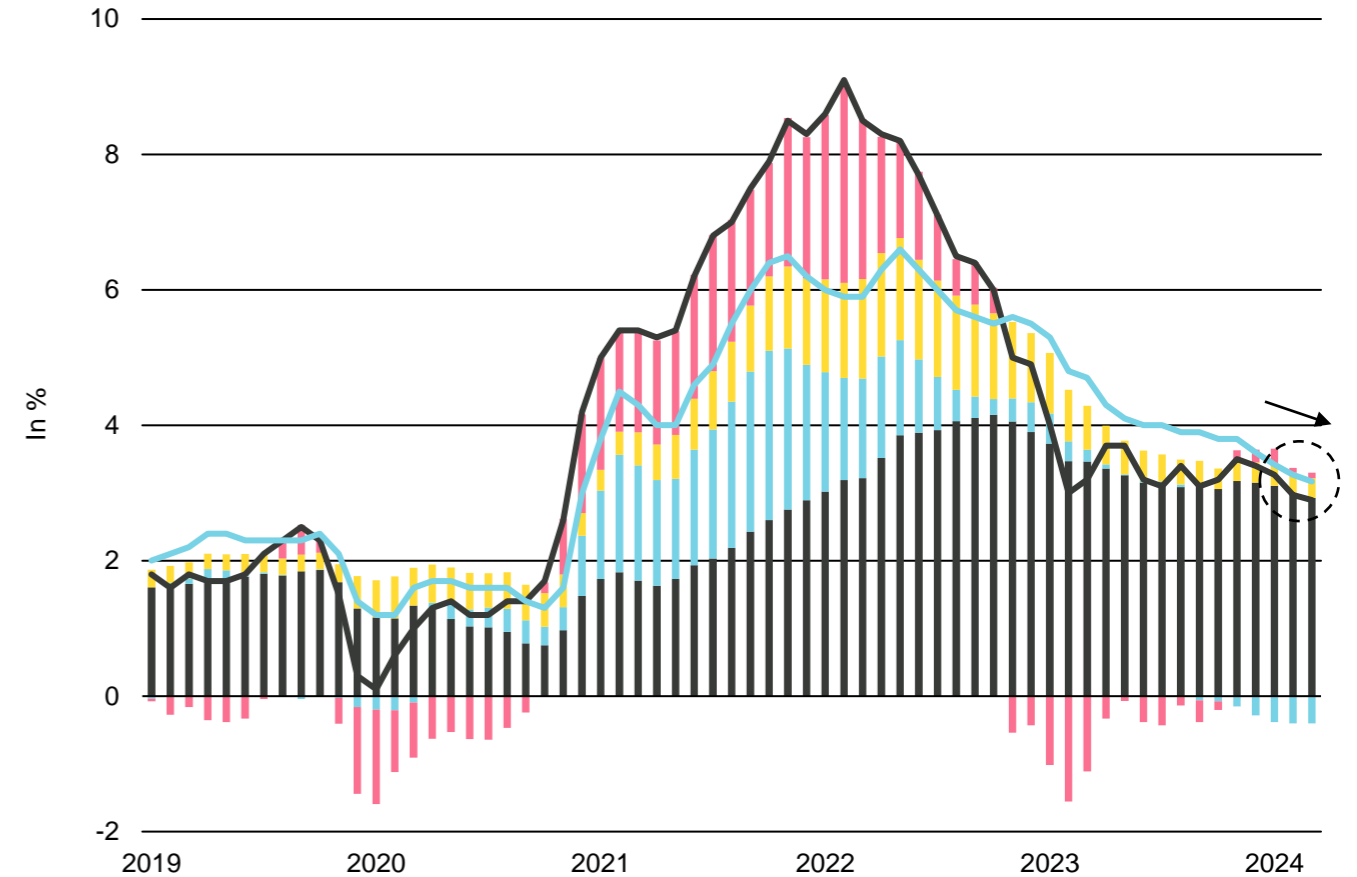
Source: Atlanta Fed, Bloomberg, Vontobel, 02.09.2024. Note: Atlanta Fed spider graph indicates the strength/weakness of the US labor market. The closer the lines are to the center of the circle, the weaker the indicator is. The latest chart is comparing July 2024 to previous years.

.. while inflation data is moving in the right direction.

EU Inflation by contributors



US inflation by contributors

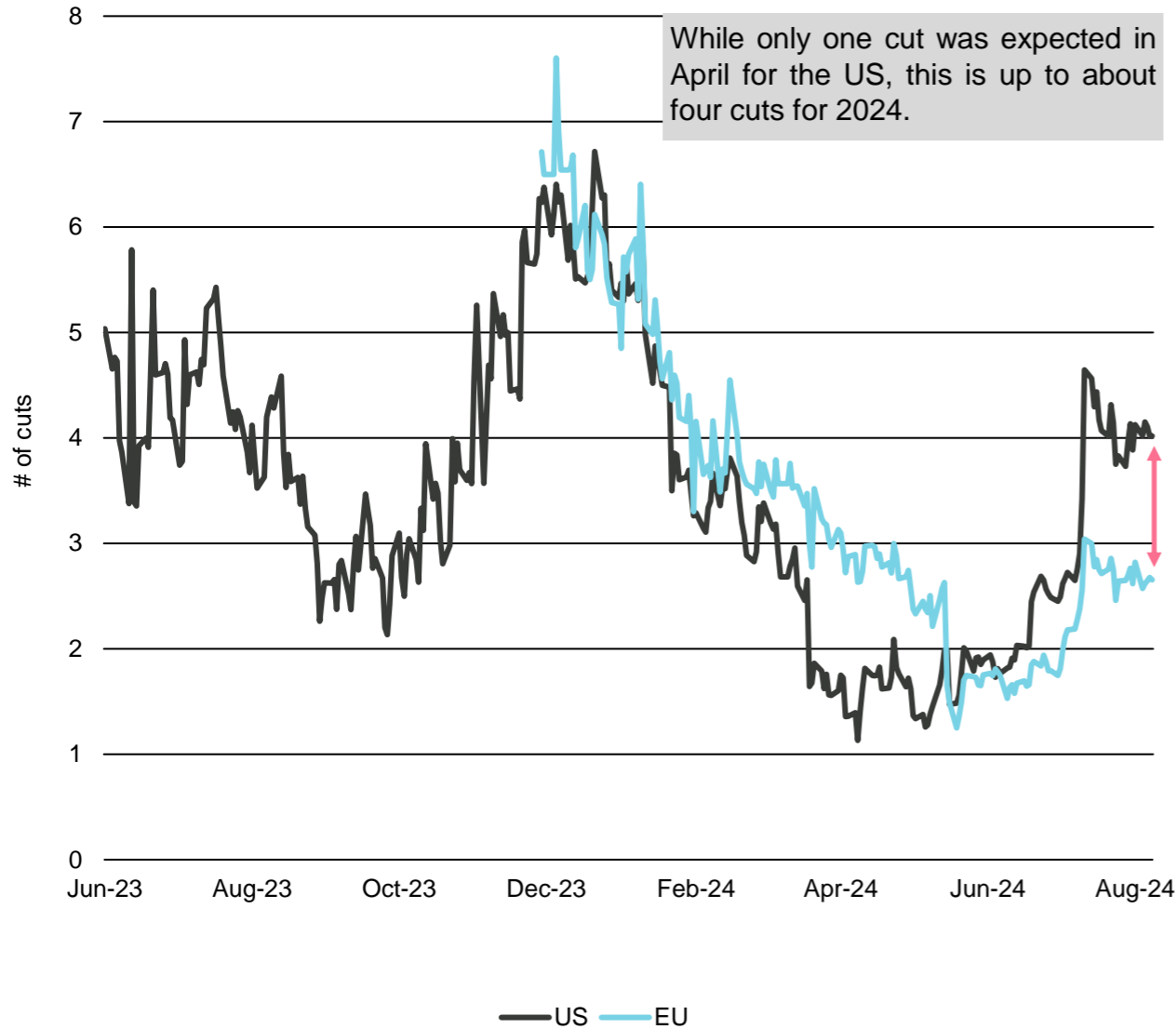


- Clothing and Footwear
- Food and Beverages
- Health
- Misc. Goods and Services
- All items
- Communications
- Alcohol, Tobacco
- Restaurants and Hotels
- Recreation and Culture
- Core HICP
- Education
- Furnishings/Household
- Housing & Utils
- Transport

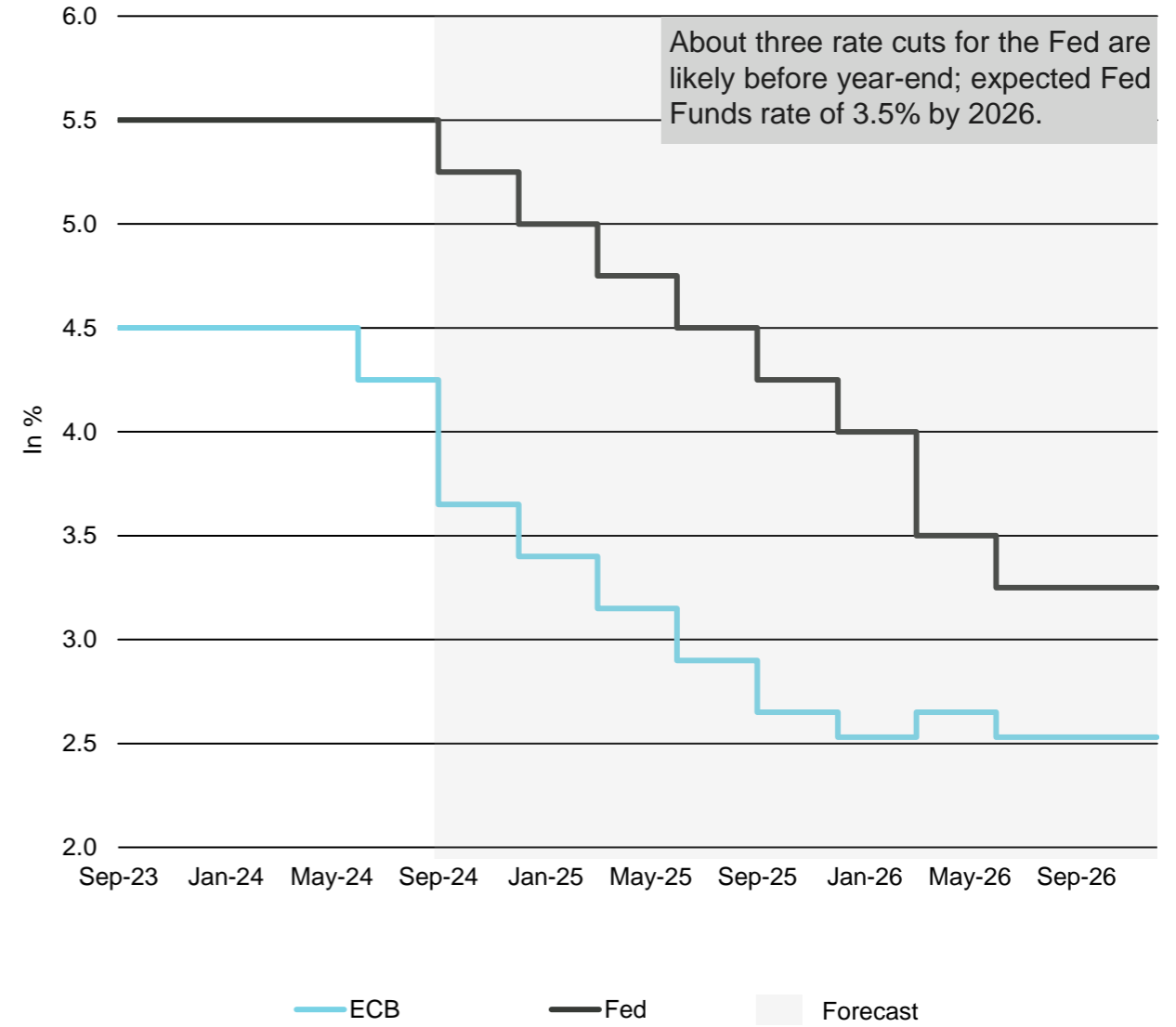
- Core Services
- Energy
- Core Goods
- Headline YoY%
- Food
- Core YoY%

#2. The rate cut cycle has just started, with the Fed likely to catch up.

Rate cuts expectations for December 2024 materially up



We expect the Fed to catch up on rate cuts versus the ECB



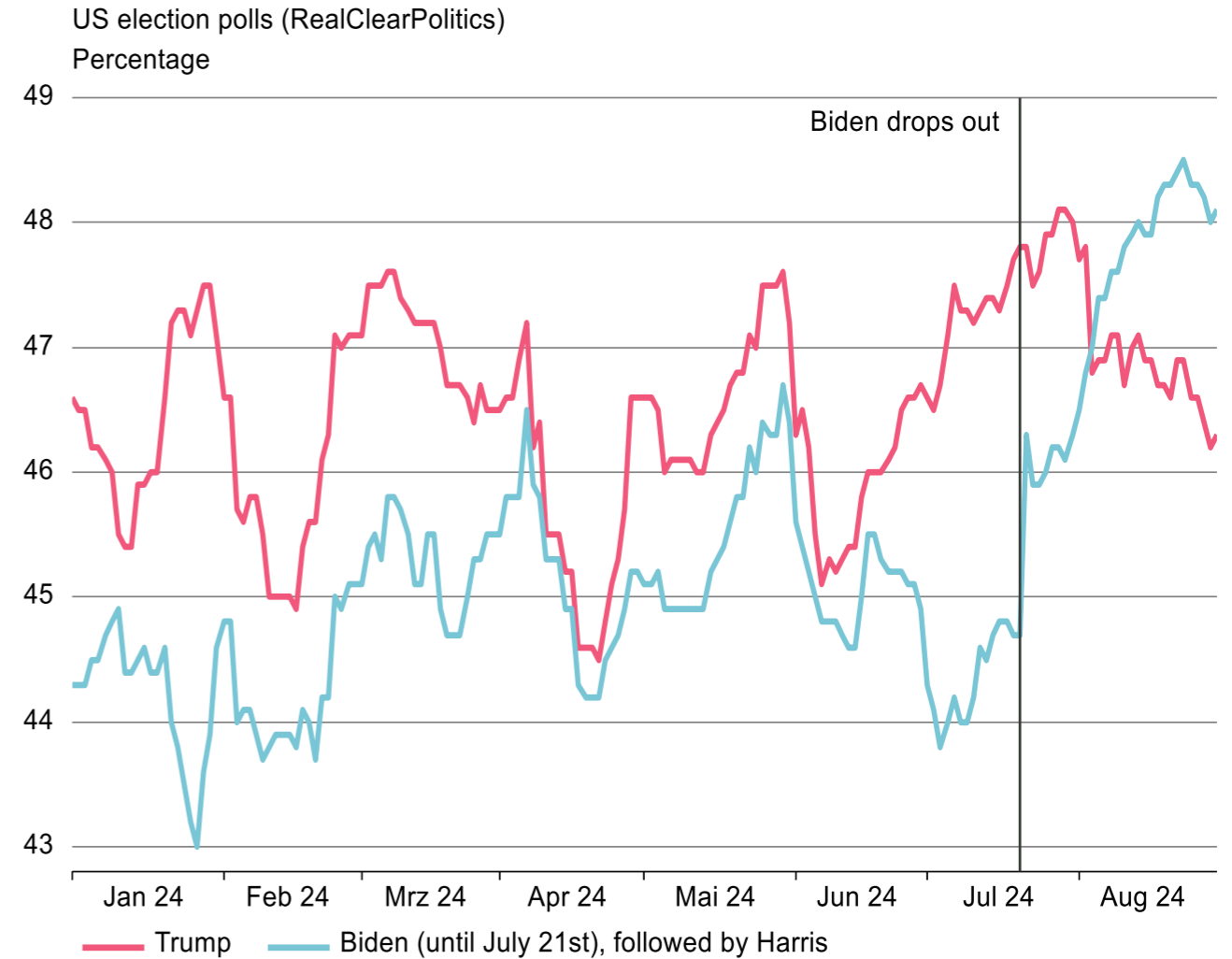
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#3. US election results likely to impact certain sectors and issuers.

US election and the potential impact on:

	Republicans	Democrats
Regulation	Less regulation to favor economic growth	To remain relatively high
Taxes	Extension of individual tax cuts and lower corporate tax rate	Tax increase for upper-income and corporates
Trade / Tariffs	Tariffs on China to increase substantially, less on Europe	More moderate tariffs
Banking sector	Less regulation to drive loan growth and capital markets activities	Regulation to remain strict; Fed oversight
Utilities / Energy	Incentives cut for clean energy; roll back of some emissions policies	Tax benefits for clean energy continue and could be expanded
Telecom / Media / Tech	Lower corporate tax rate benefits telecoms; more Media M&A	Restrictive stance toward Tech M&A remains

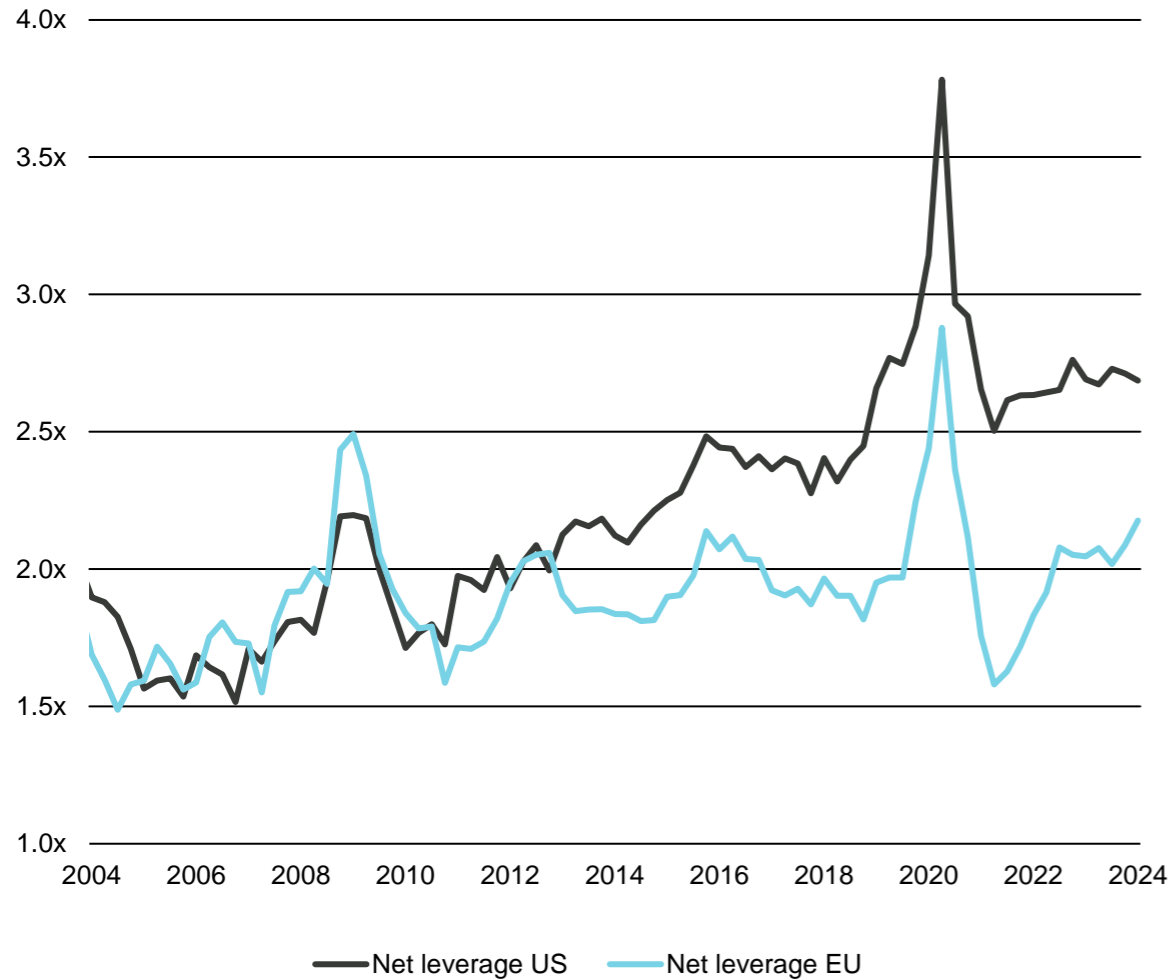
Democrats catching up since the nomination of Kamala Harris



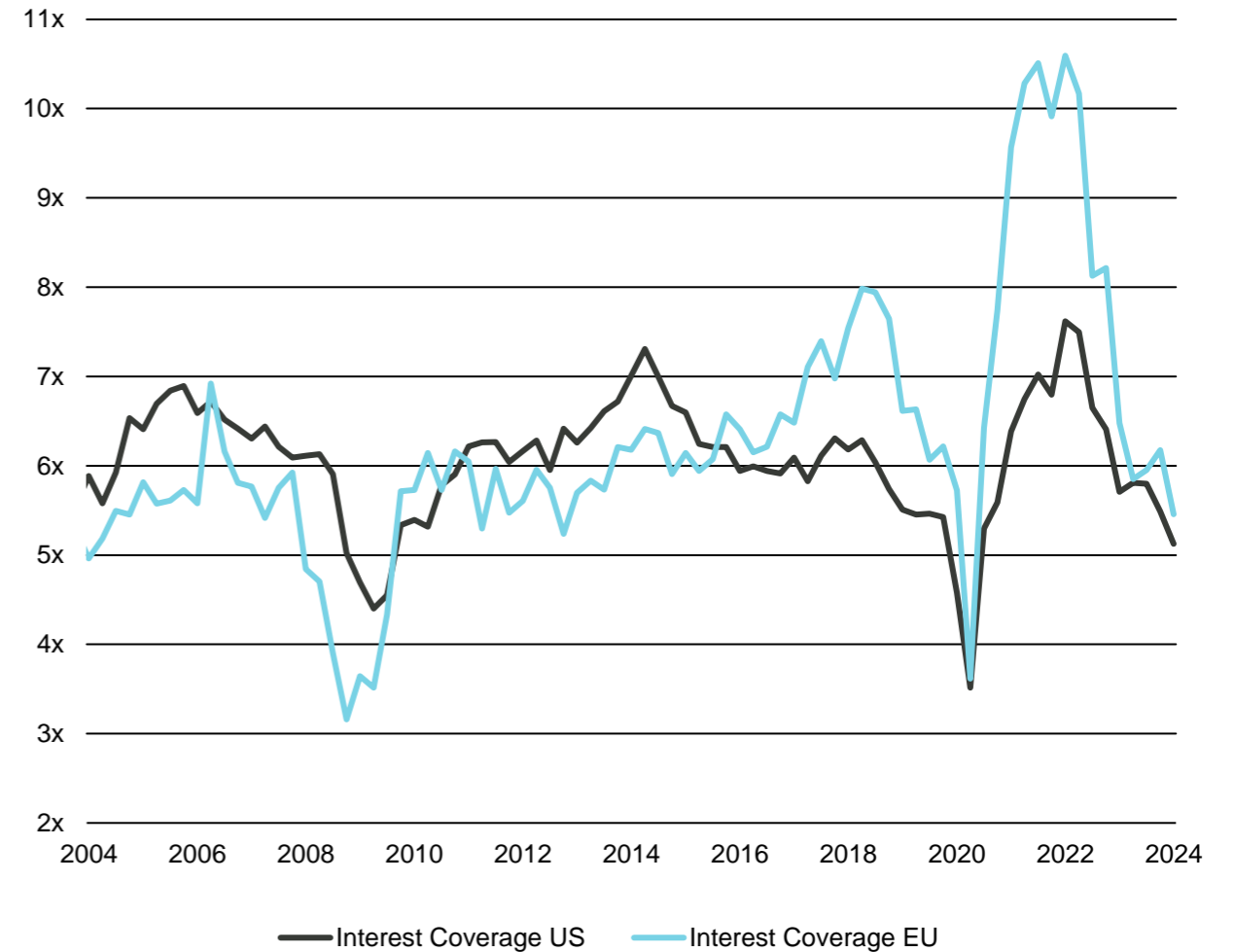
Any projections or forward-looking data herein are based on a variety of estimates and assumptions. There can be no assurance that those estimates or assumptions will prove accurate, and actual results may differ materially. Source: Aggregated Poll Average from www.realclearpolling.com, Vontobel, 02.09.2024.

#4. Robust credit metrics, as...

Leverage improved and now consolidating

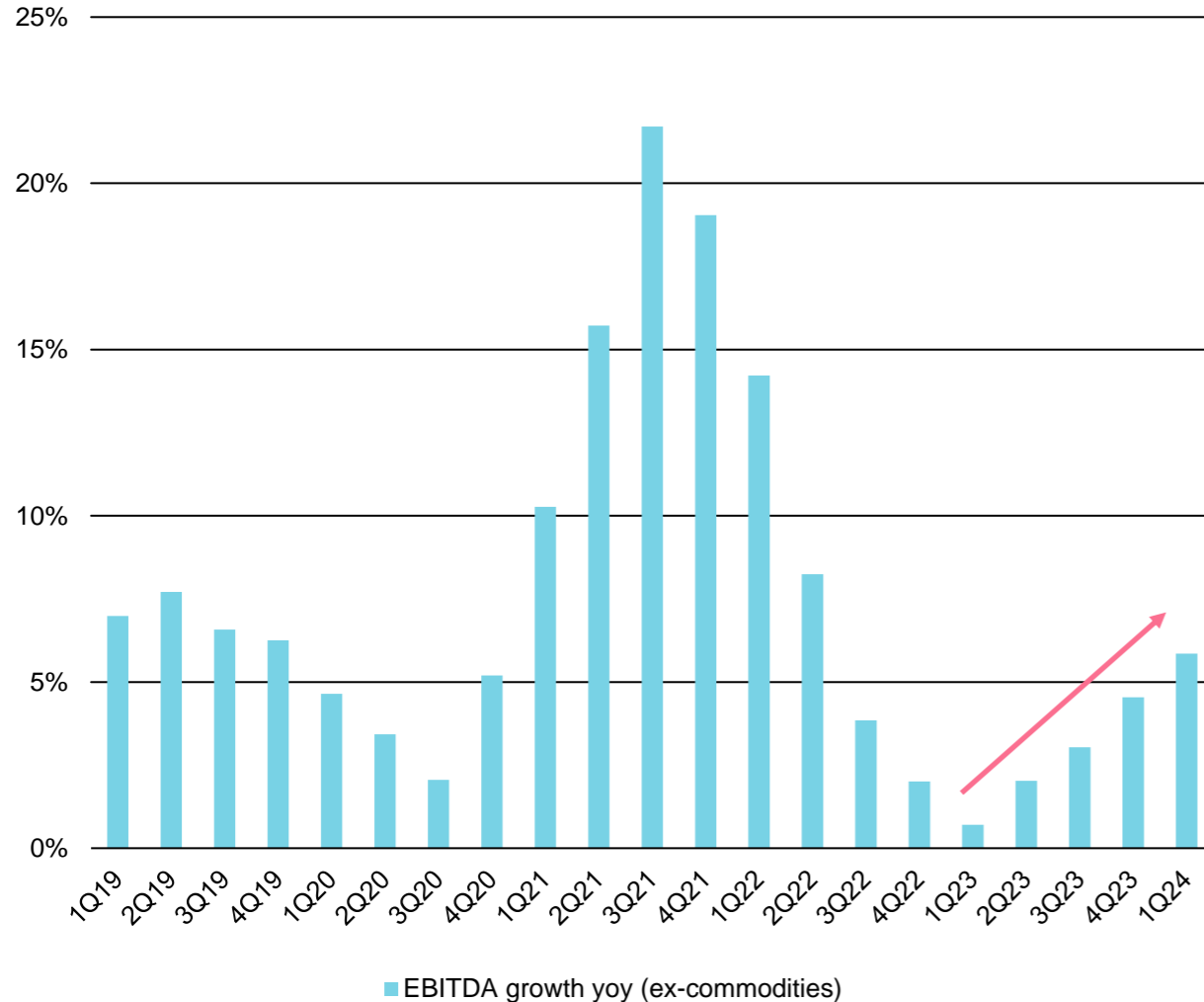


Interest coverage ratio at pre-Covid levels



...earnings momentum remains solid, despite some dispersion among sectors.

Solid earnings trend continued

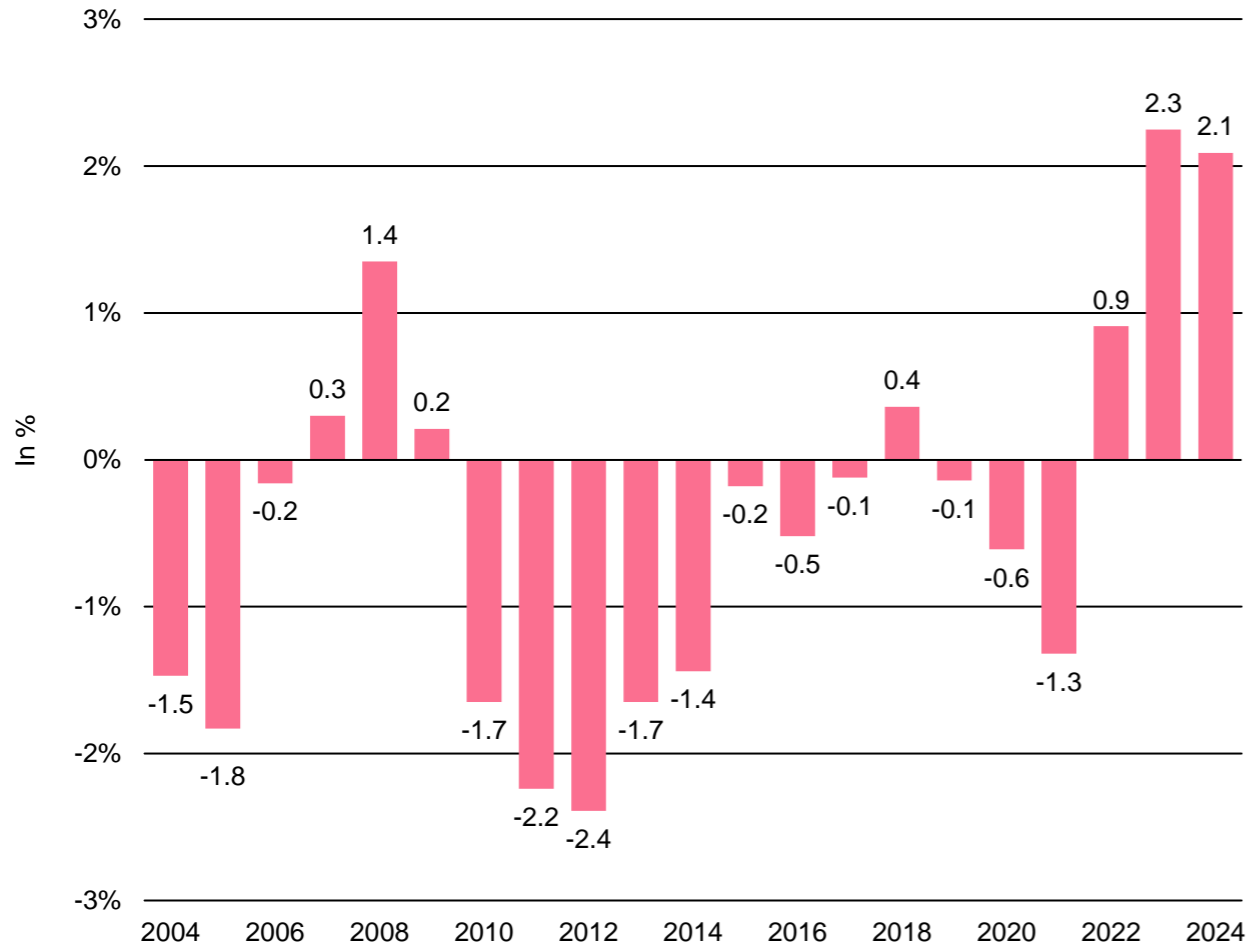


Dispersion among sectors

EBITDA margins	Q1 2024	q/q chg	y/y chg
Utilities	41.2%	0.5%	3.4%
Diversified Media	20.4%	0.4%	3.1%
Telecoms - Domestic	40.2%	-0.1%	0.8%
Energy	32.8%	-0.3%	0.7%
Technology	35.3%	0.5%	0.7%
Capital Goods	17.2%	0.1%	-1.1%
Chemicals	17.3%	-0.2%	-1.5%
Transportation	47.4%	-0.2%	-1.6%
Metals/Mining	29.5%	0.5%	-5.3%
Pharma/Medical Products	35.0%	-1.2%	-5.9%
Overall	30.9%	-0.1%	-0.3%

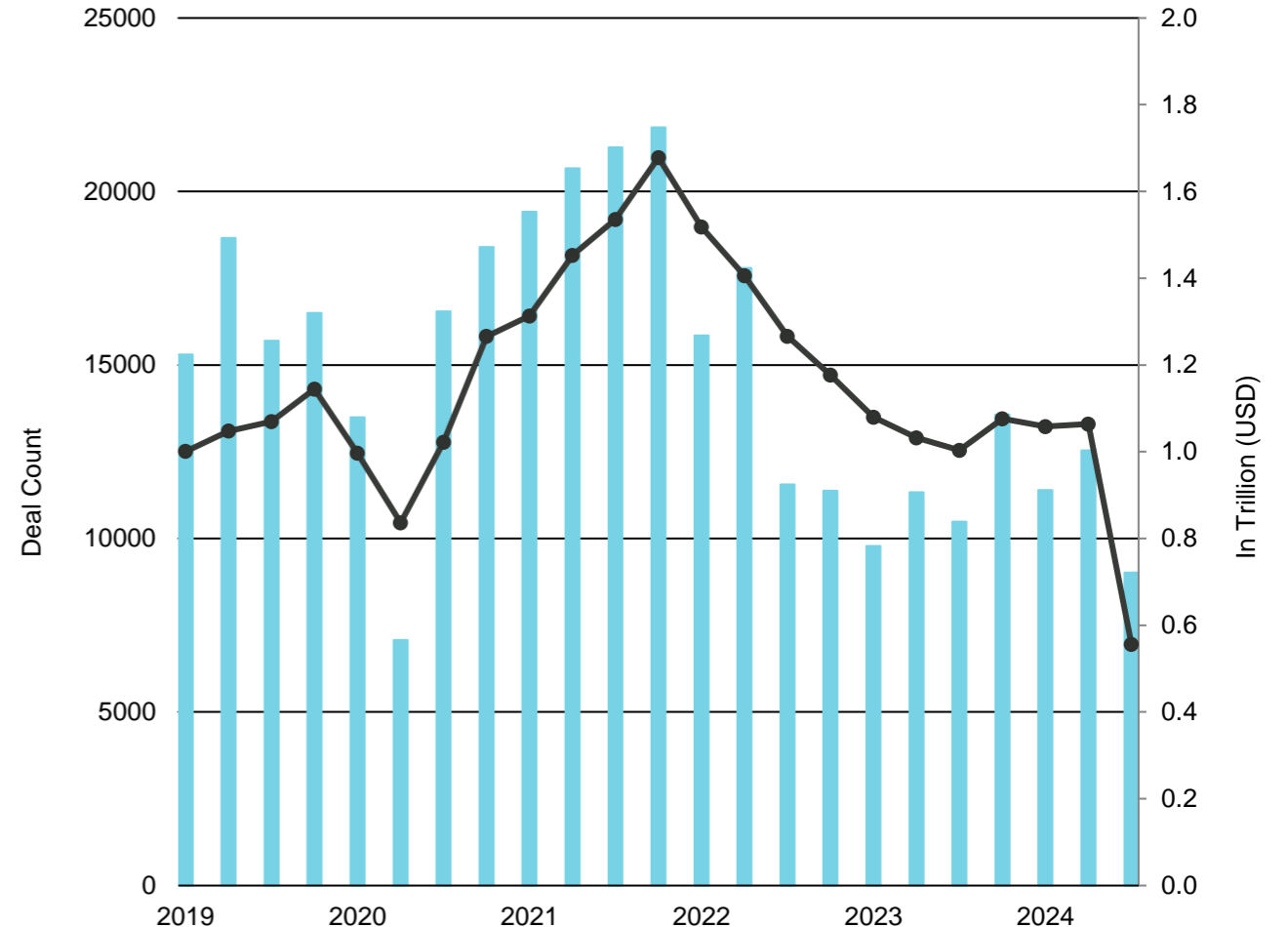
#5. Higher refinancing costs translating into lower M&A activities...

Average coupon now much higher than for maturing bonds



■ Difference Avg Issued Coupon vs. Avg Maturing Coupon (US)

Global M&A volumes down significantly

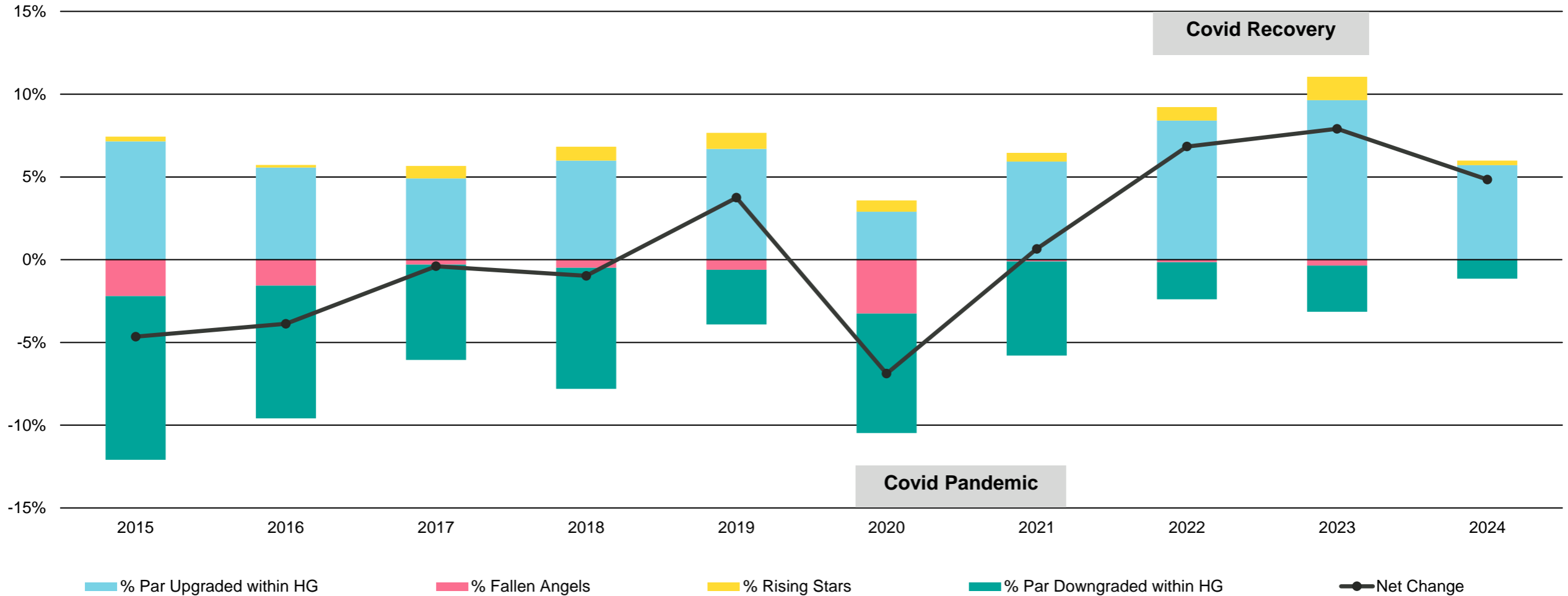


■ Volume (rhs)

● Deal Count (lhs)

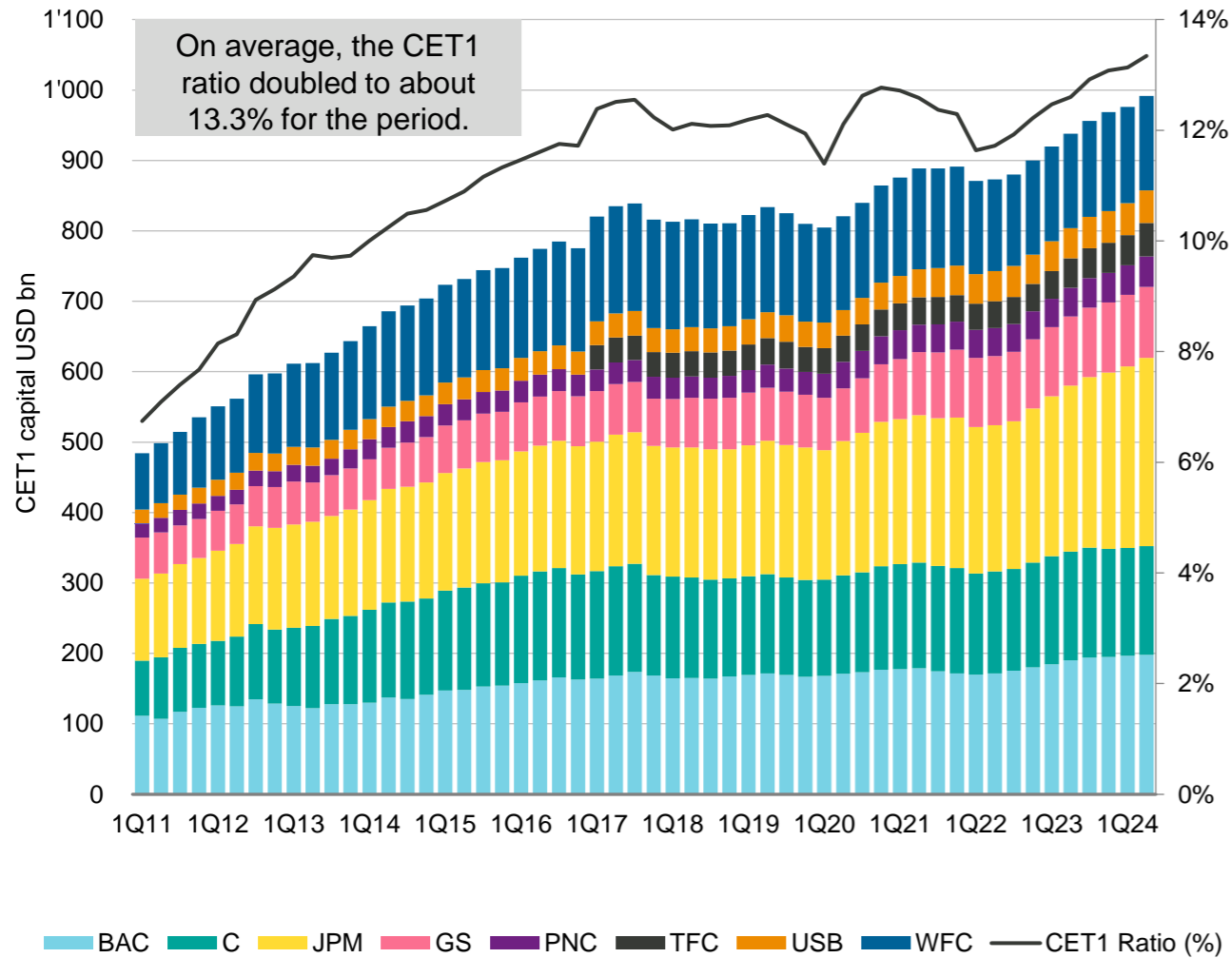
...helping the strong ratings upgrade momentum to continue.

Positive ratings upgrade trend

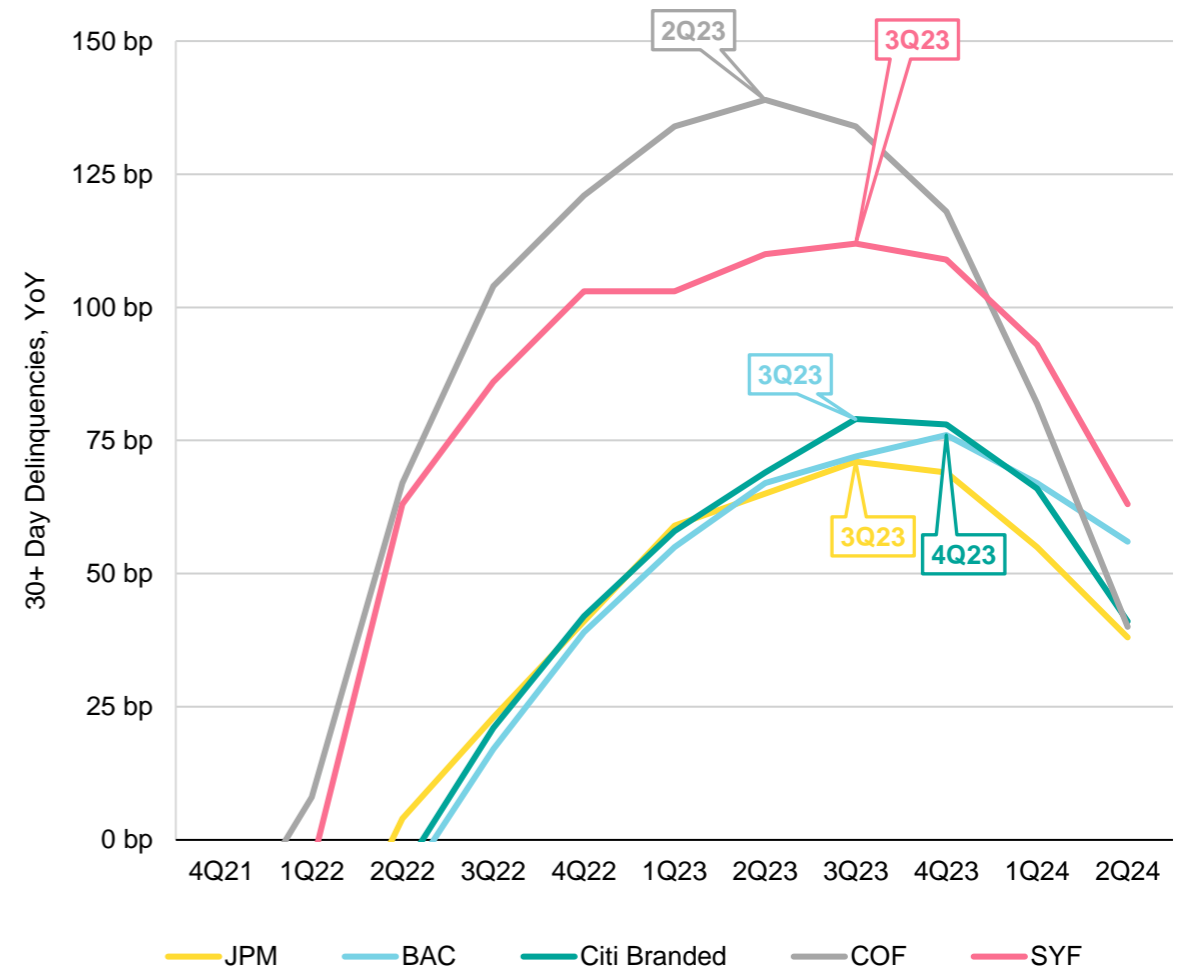


#6. Banks with robust capital levels and credit quality deterioration easing.

Strong capital base for US Banks (CET1 capital)



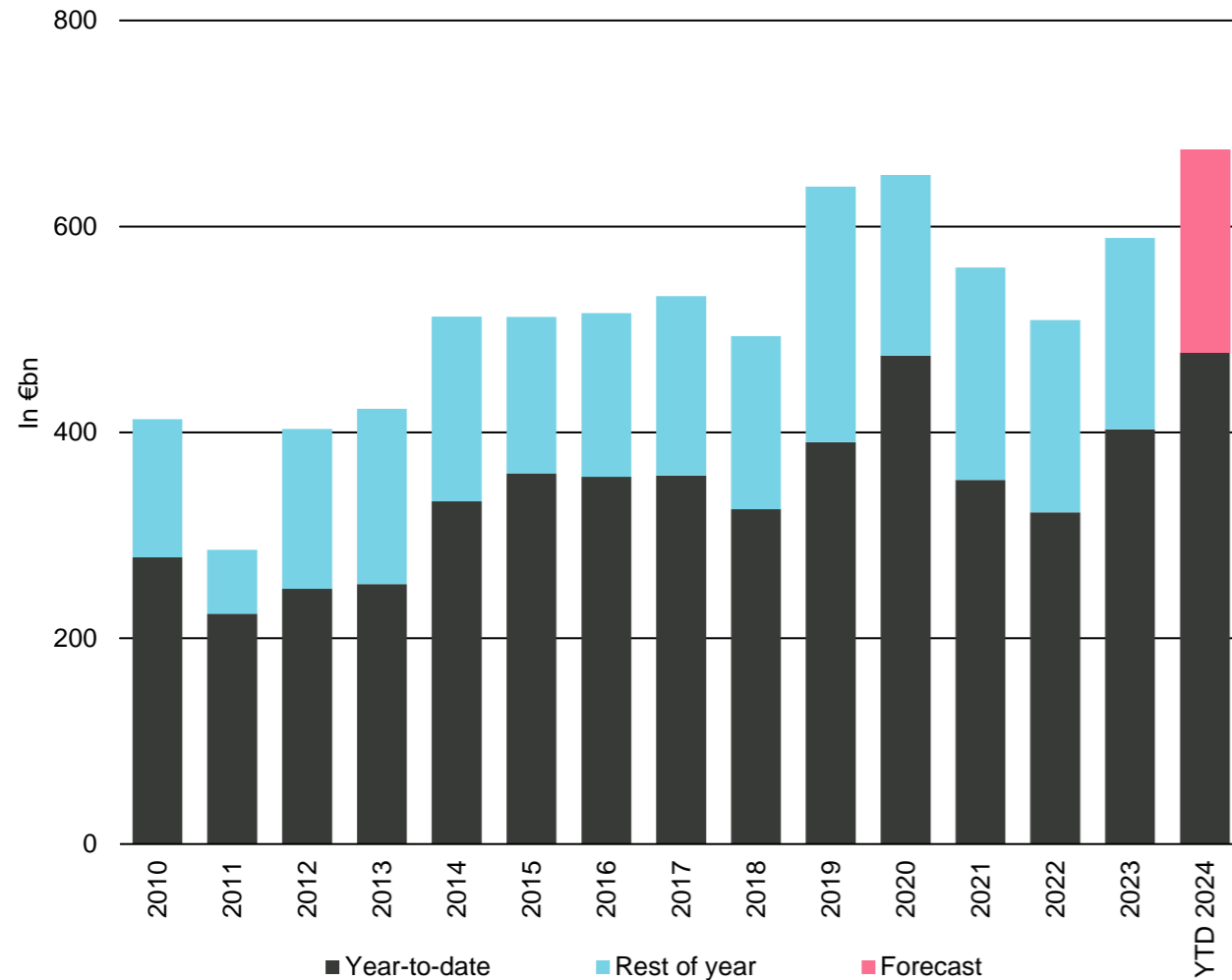
The deterioration in consumer credit quality has likely peaked



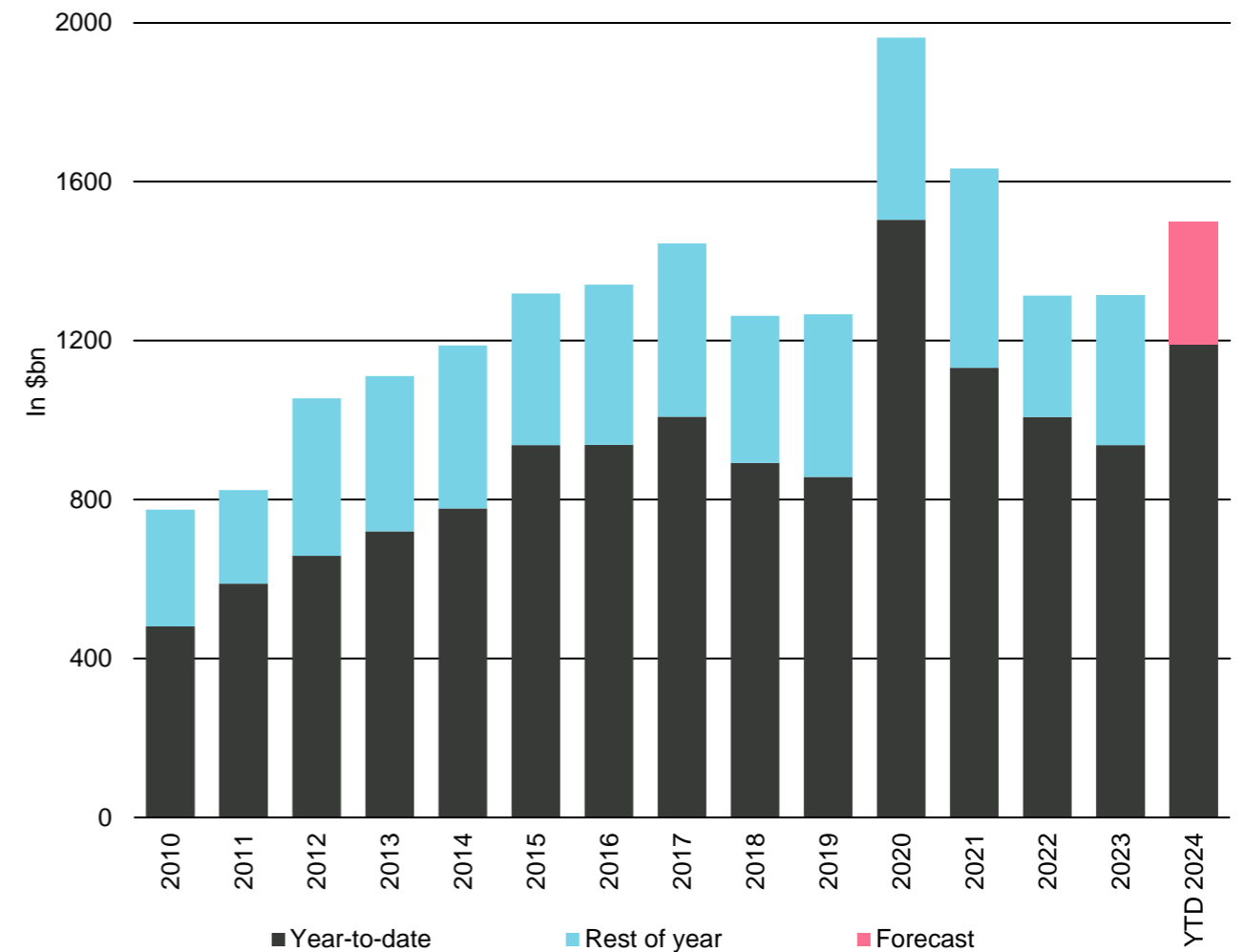
Source: Morgan Stanley, Credit Sights, Vontobel, 02.09.2024. Note: CET1 = core equity tier 1 capital for banks according to Basel 3 requirements.

#7. Strong issuance levels surprised to the upside, but unlikely to keep pace, with...

Gross corporate bond issuance in Europe



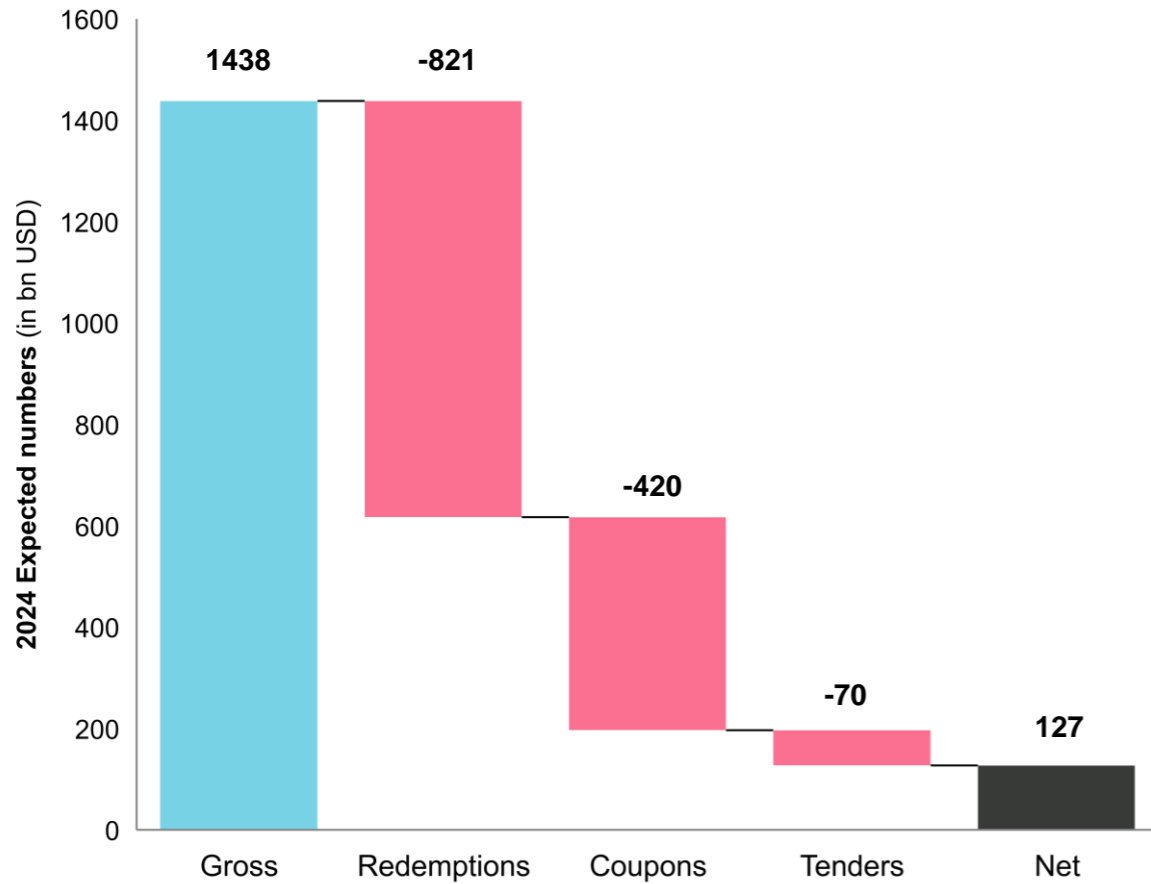
Gross corporate bond issuance in the US



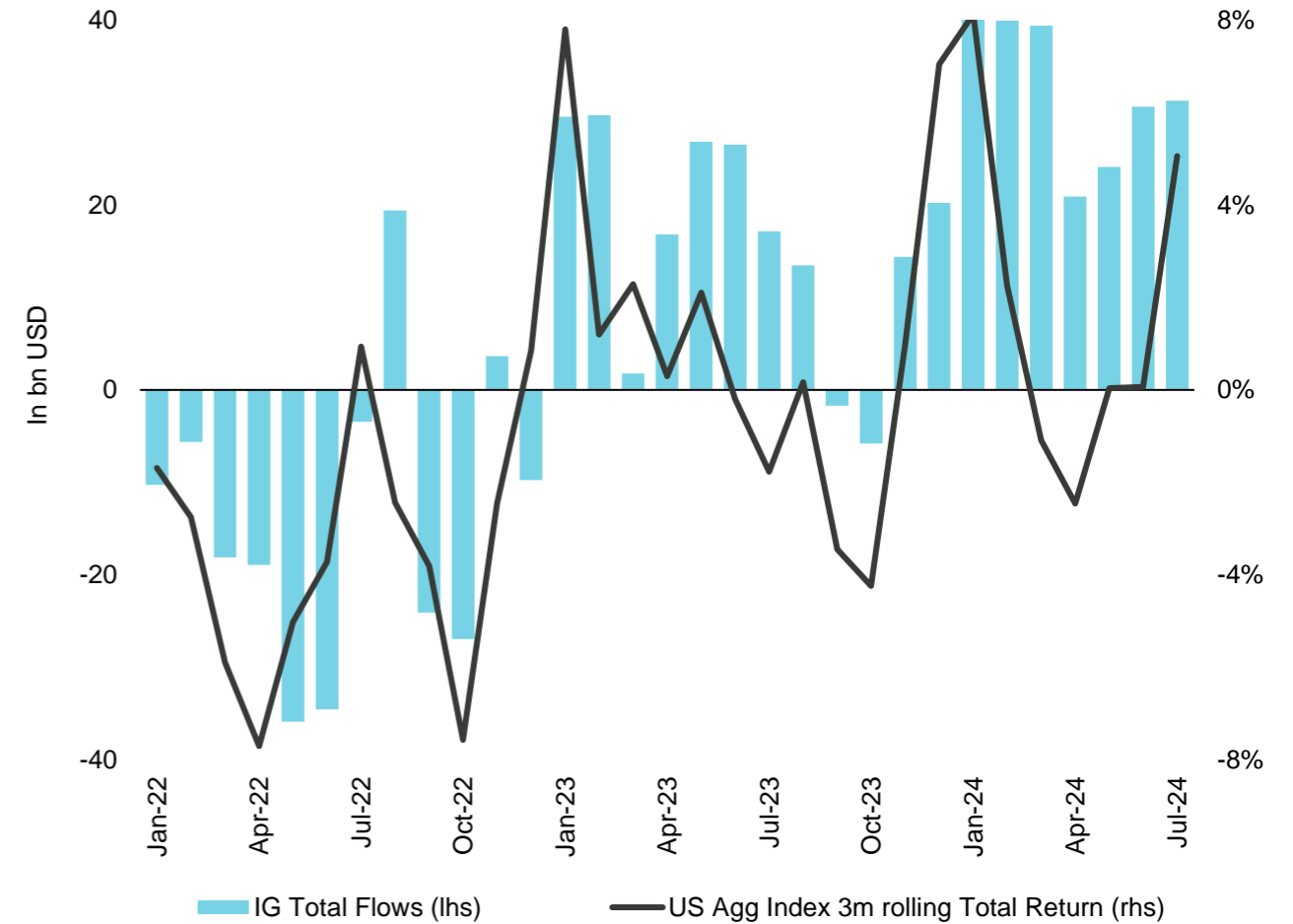
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#8. ...net supply much lower, while demand for corporate bonds remains supportive...

Net supply lower due to large redemptions



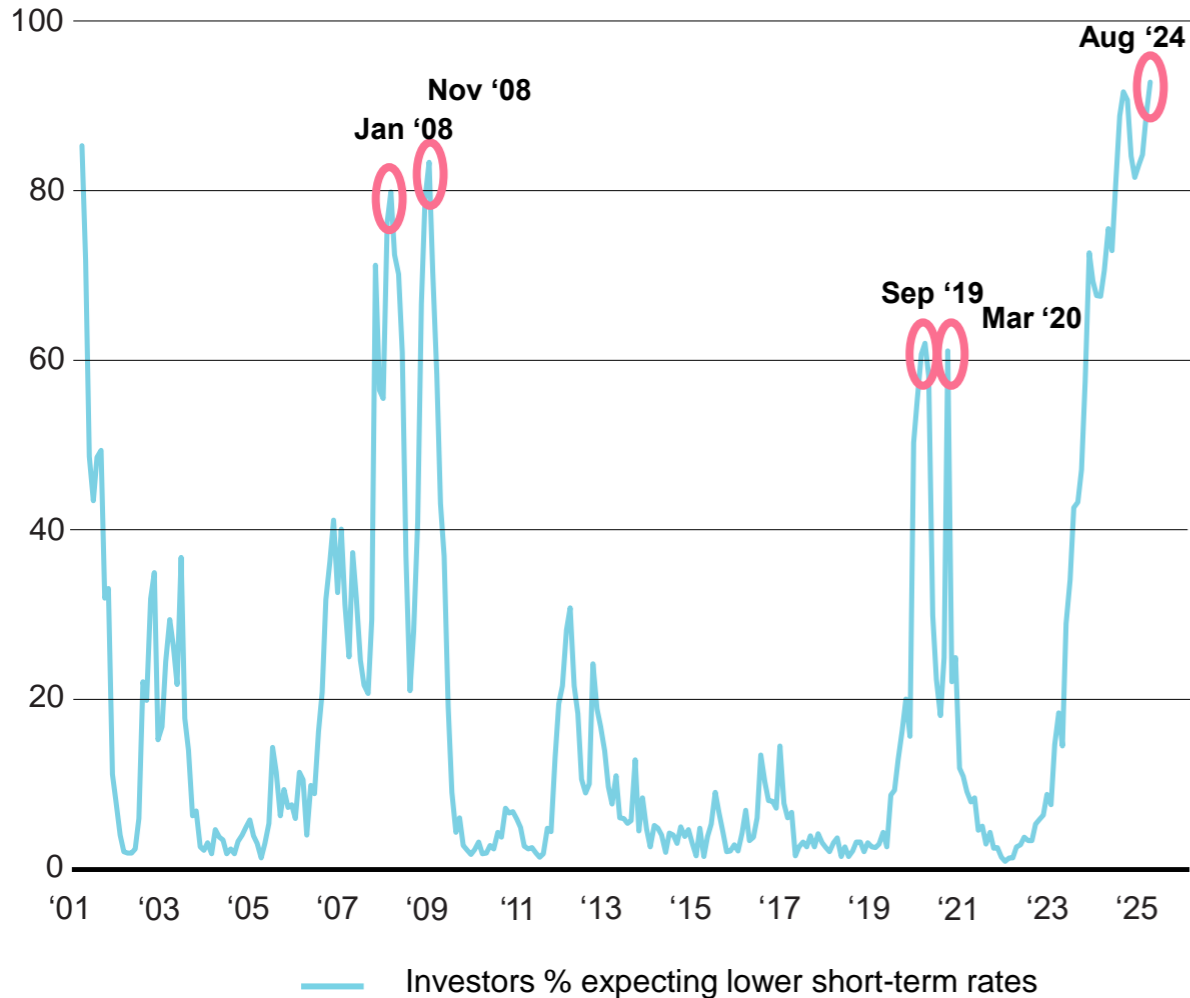
Flows tend to follow returns



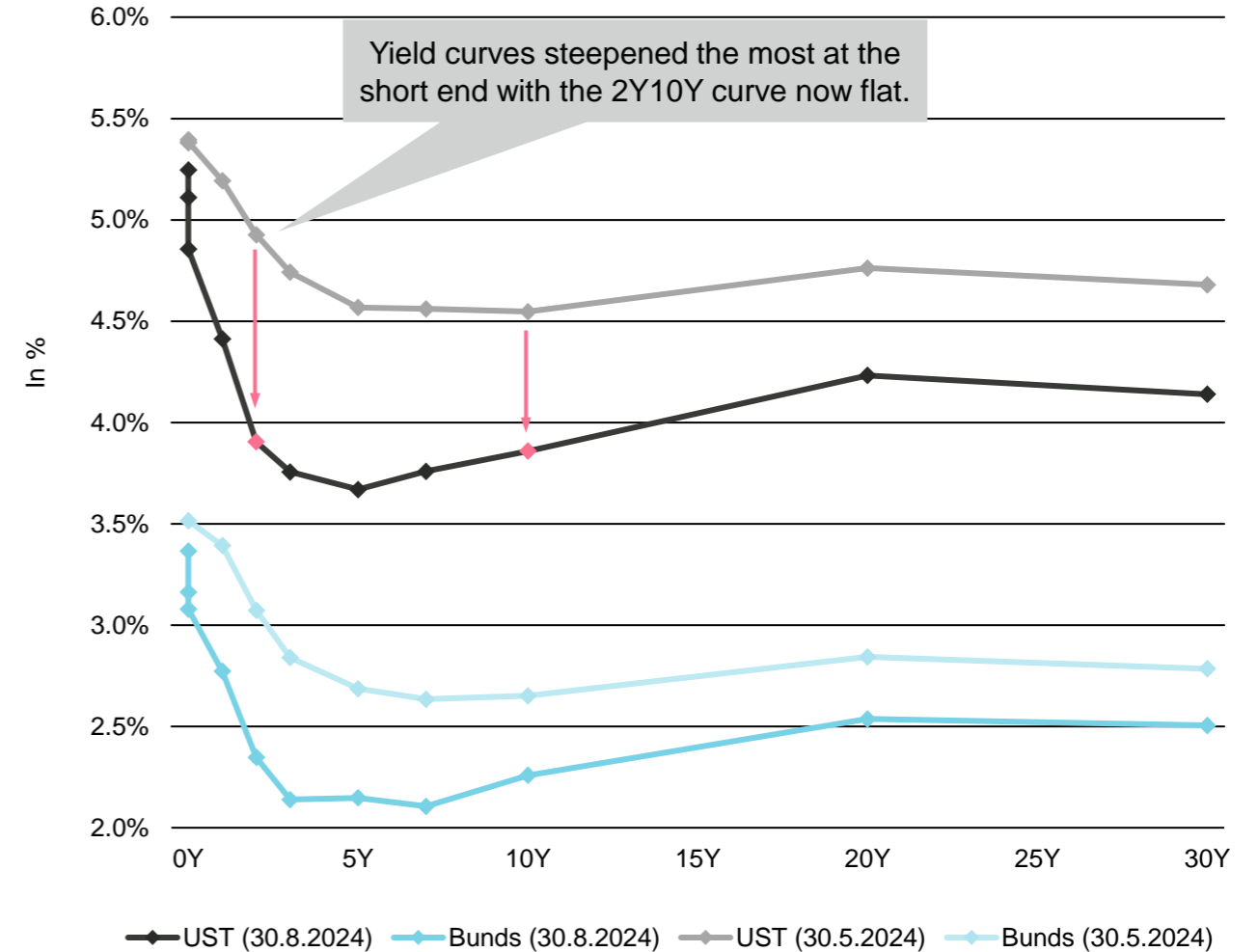
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 Source: JP Morgan, Vontobel, 02.09.2024.

...driven by expected lower rates and normalizing rate curves.

Expectations for lower short-term rates highest on record



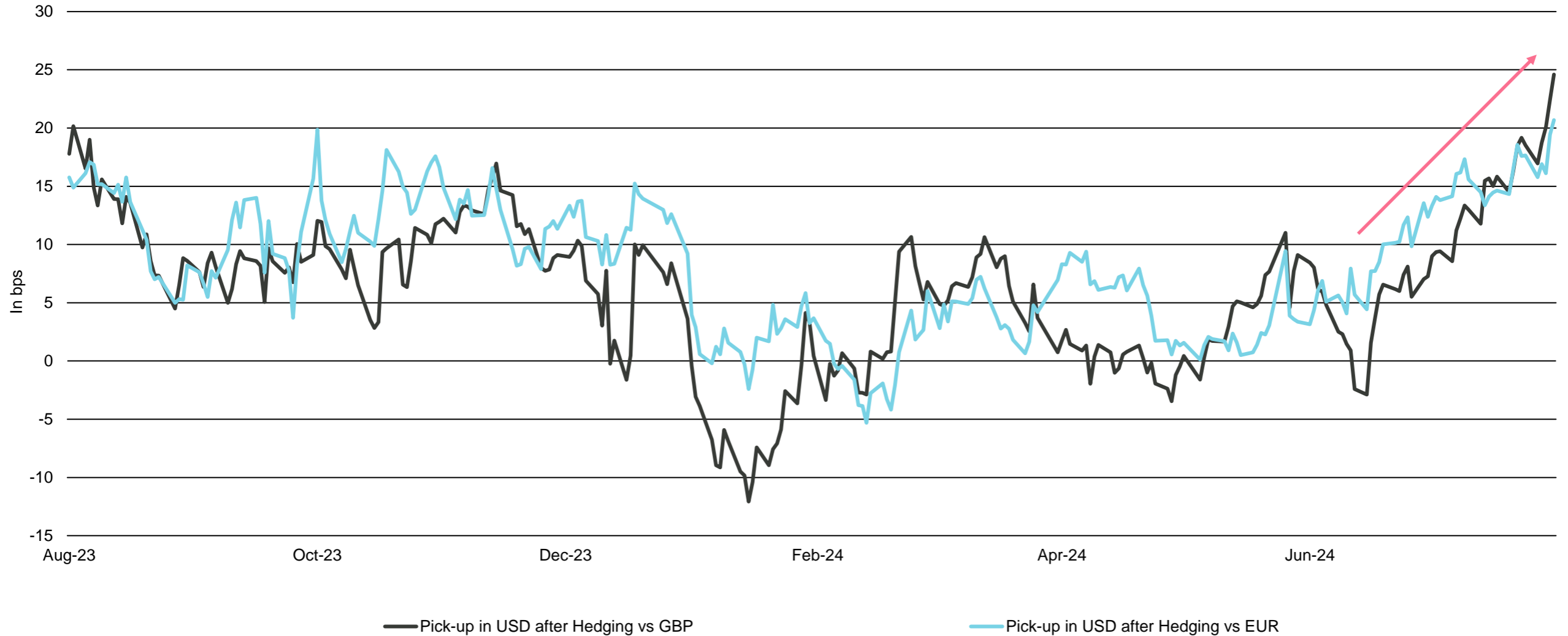
As a result, yield curves started to normalize



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#9. Comparing global credit spreads across categories offers value...

USD credit has become more attractive since Q2 2024 versus EUR and GBP



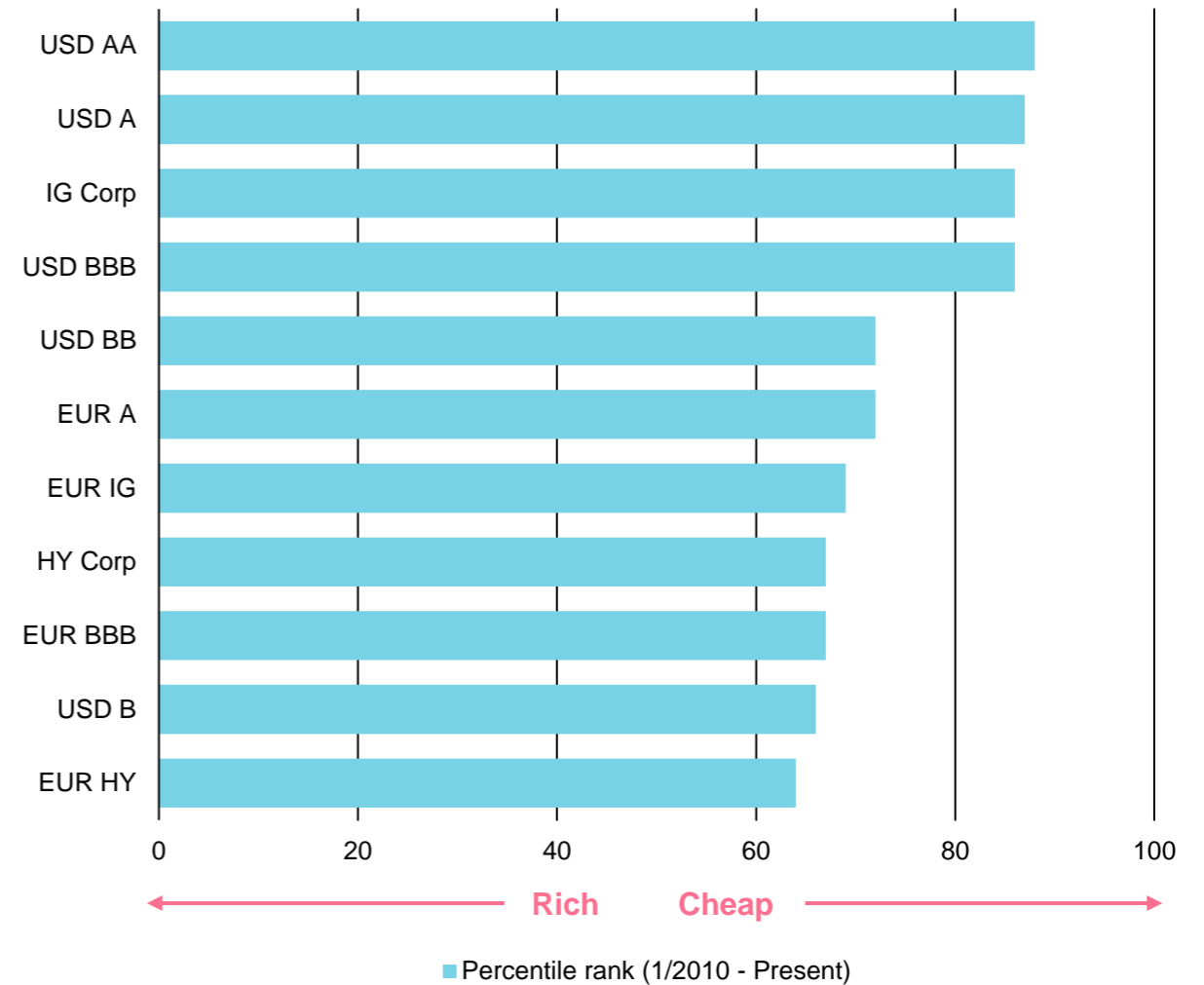
Source: Bloomberg, ICE BofA Corporate Bond Index family, JP Morgan, Vontobel, 02.09.2024.

...and yields across market segments screen attractive.

Banks versus Non-Financials remains attractive

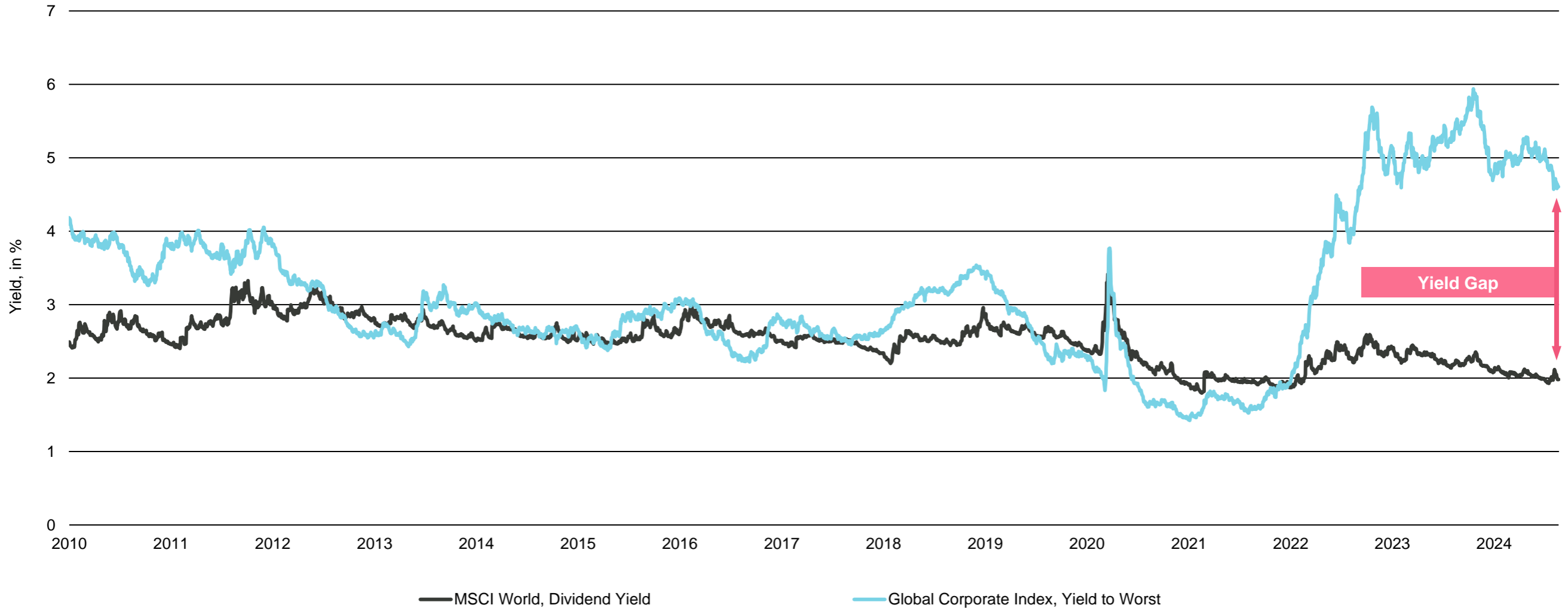


Percentile ranks for yields across markets (2010-current)



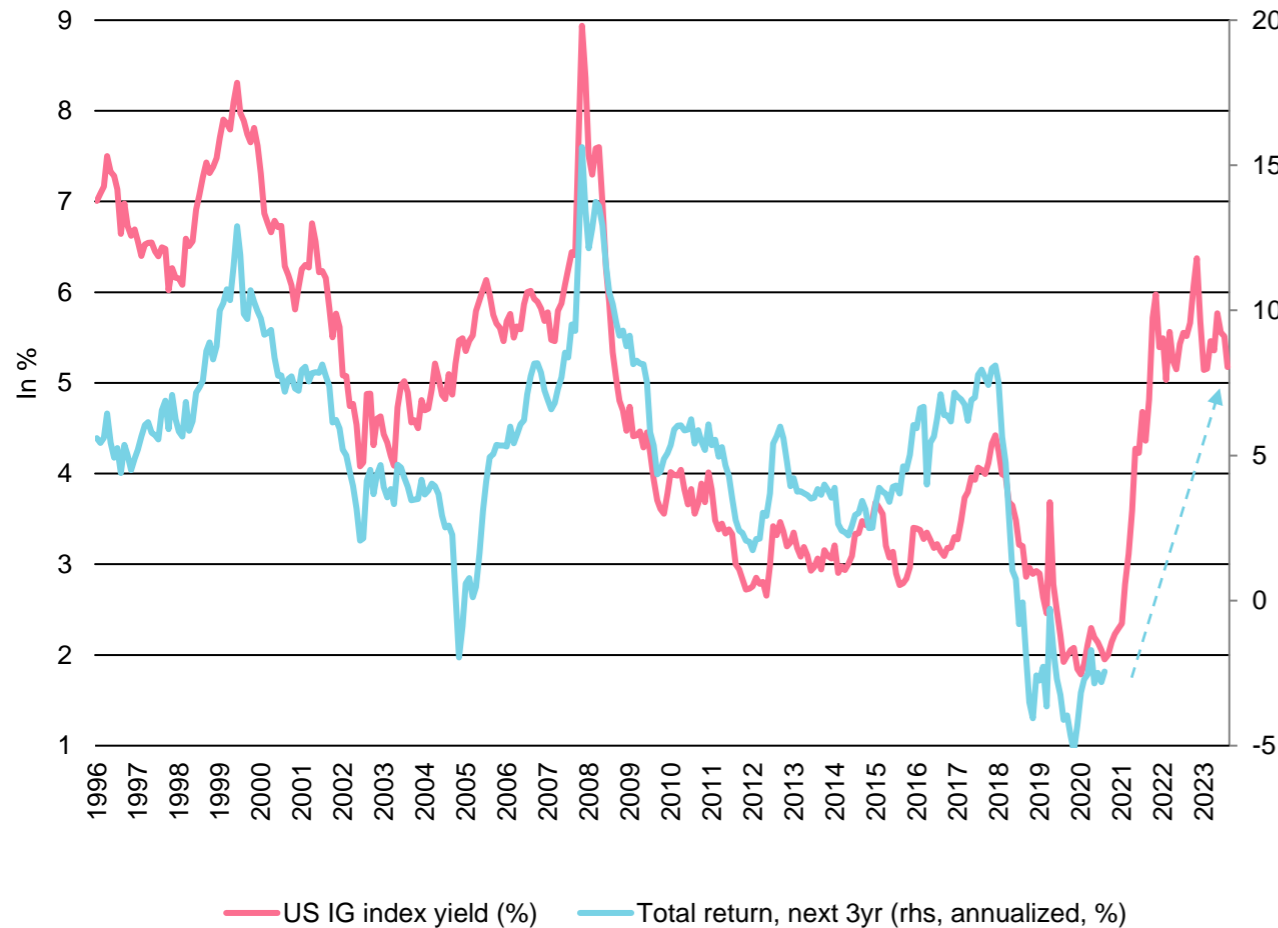
#10. Overall, corporate bonds offer a decent yield advantage and...

Bond yields compare favorably versus dividend yields

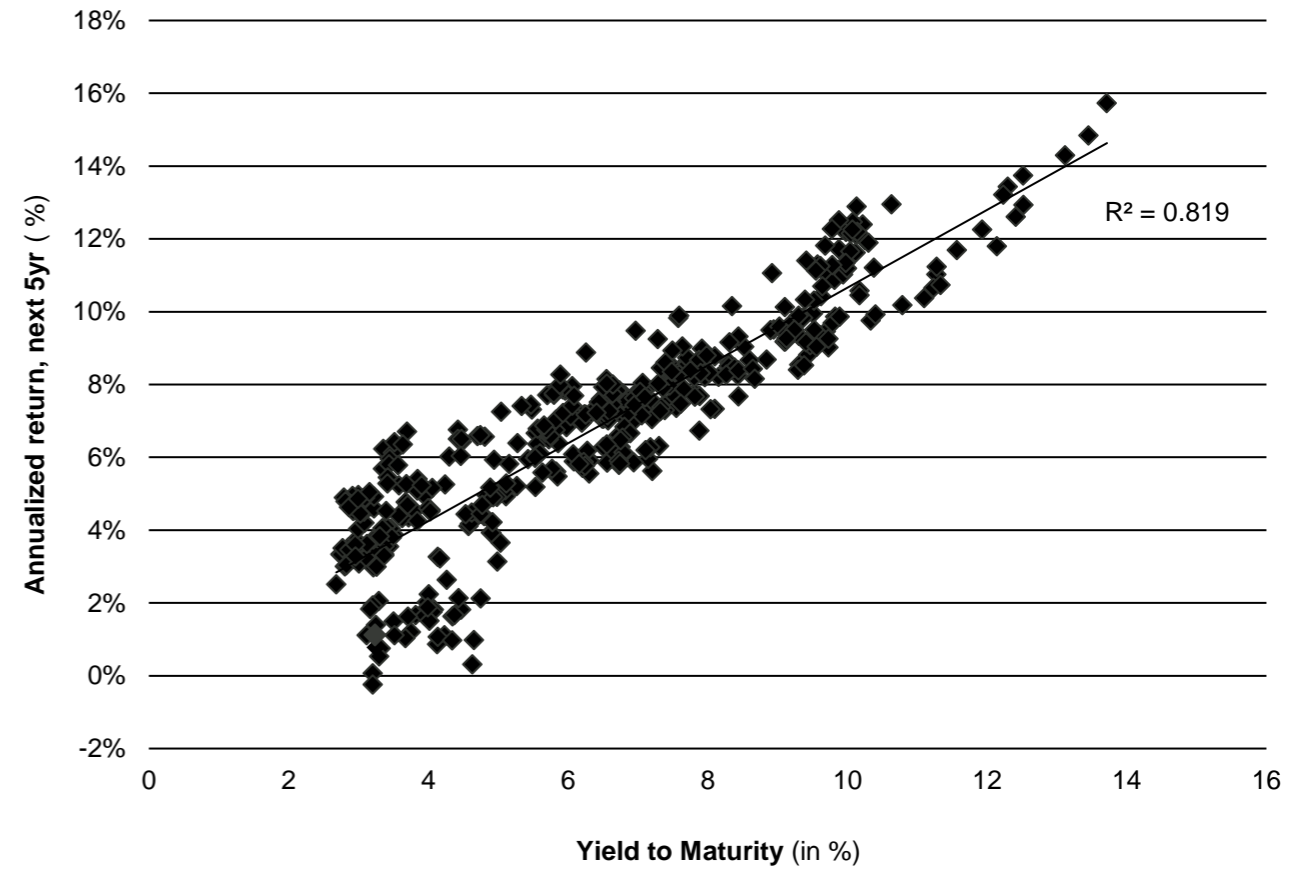


...current yields tended to be a good indicator of future returns.

Returns over the next 3y tend to closely follow yields



High index yields indicate strong 5y returns



Summary: How to prepare for the remainder of the year?



How does the world look?

Macroeconomics:

A soft landing scenario is the most likely outcome. The Fed will likely catch up with the ECB on rate cuts and the US election might impact credit markets.

Microeconomics:

Credit metrics broadly stable with some dispersion among sectors. Higher financing costs helping the positive rating trend.

Technicals:

Issuance should slow down while investor demand is decent. Yield curve expected to further normalize.

Valuation:

High starting yields offer a strong return potential and protect investors.



How may investors extract value?

Take an active approach to benefit from the different timing of central banks. Swiftly **switch across regions**.

Be more selective and identify issuers with a **stable to improving** credit and rating trend. Keep an eye on consumer credit quality for banks.

Screen for new bonds with **attractive premium** and ongoing **dispersion** in the secondary market.

Higher coupon bonds are likely to translate into **higher income** over time. Screen for **relative value** opportunities.

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
Executive Director
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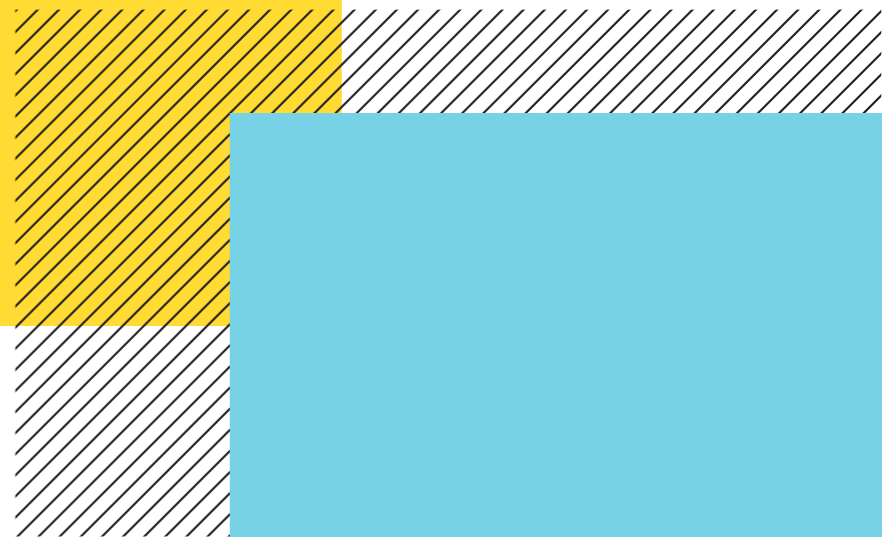
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