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Global High Yield Bond Outlook

The Return of Income and Capital Appreciation Opportunities

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High Yield Bonds outlook

- A down year in high yield bonds was mostly followed by double digit returns the year after.
- Historically, timing the exact bottom in markets is difficult but risk/reward favors gradually scaling into high yield bonds from the current levels.
- Historically, 12-month forward looking returns tend to be significantly positive from a starting yield level of 9% due to the power of high carry.
- In addition to income returns, the current low bond prices create strong capital appreciation potential.

- There are valid arguments for a more benign default outlook compared to previous cycles.
  - Debt maturity walls have been pushed out leading to low refinancing needs in 2022 and 2023.
  - Lower default expectations in the energy sector, which is currently healthy given strong energy markets.
  - Increased mix of higher credit quality due to survivorship and fallen angels.
  - High yield company balance sheets are in good shape overall at this stage of the credit cycle.
- HY spreads are pricing in cumulative default rates well above historical average.

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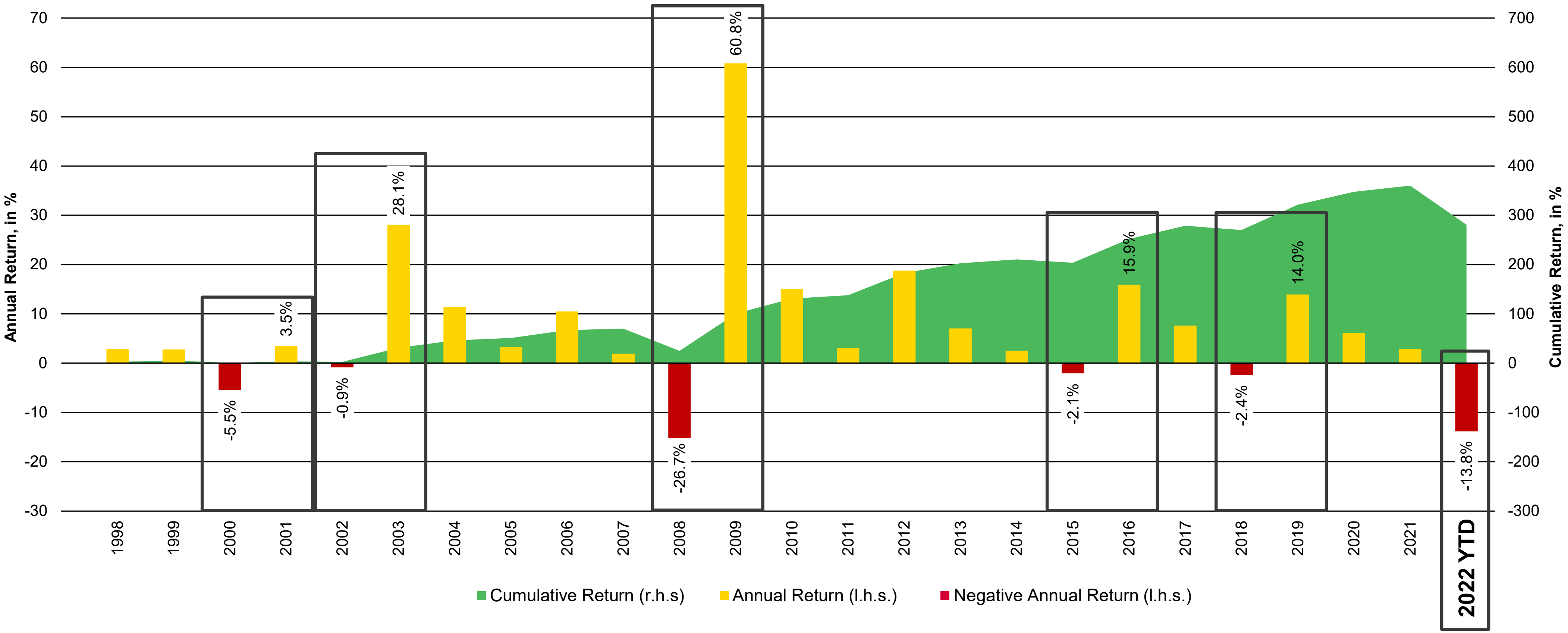
Historically, a down year in HY bonds was mostly followed by double digit returns the year after

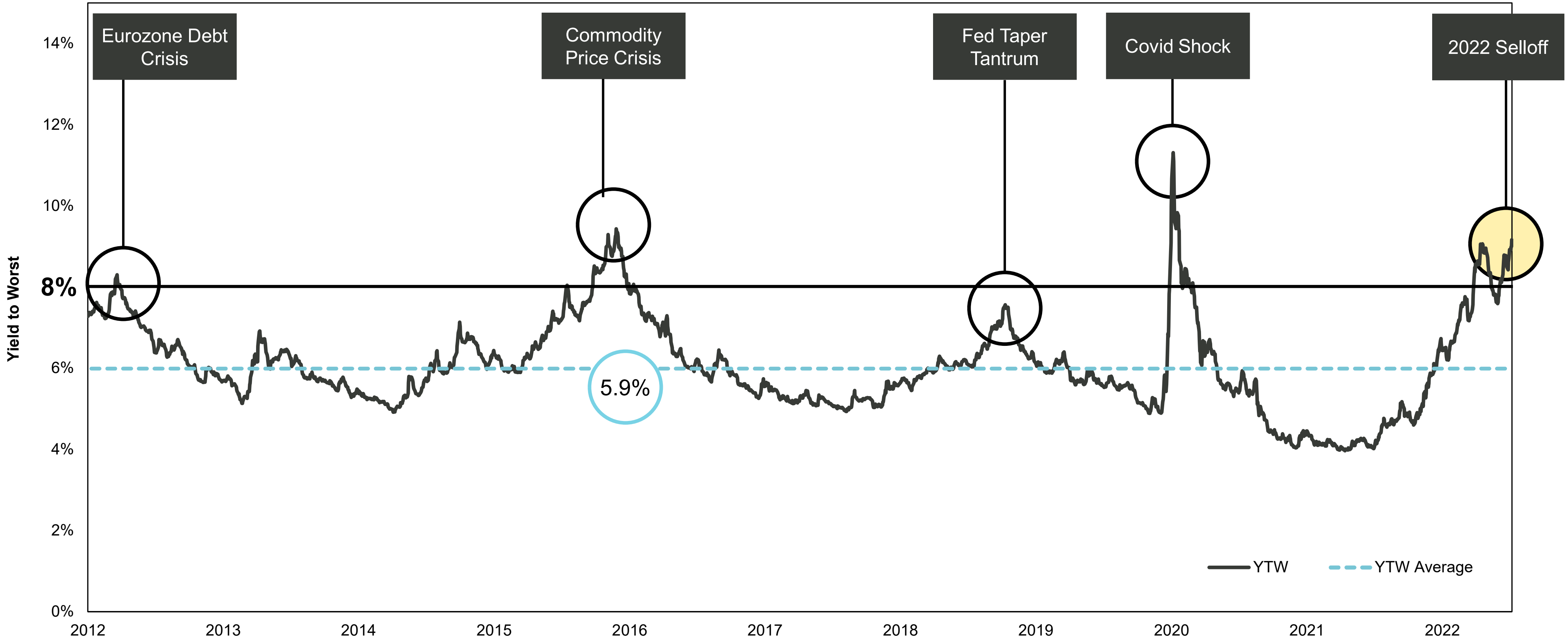
Global High Yield annual performance



Past performance is not a reliable indicator of current or future performance.

Source: ICE BofA Global High Yield Constrained Index (local currency), as of 22.9.2022.

Yield to worst is now higher than last 10-year average and above 9%



Past performance is not a reliable indicator of current or future performance.
Source: ICE BofA Global High Yield Constrained Index (HW0C Index), as of 22.9.2022.

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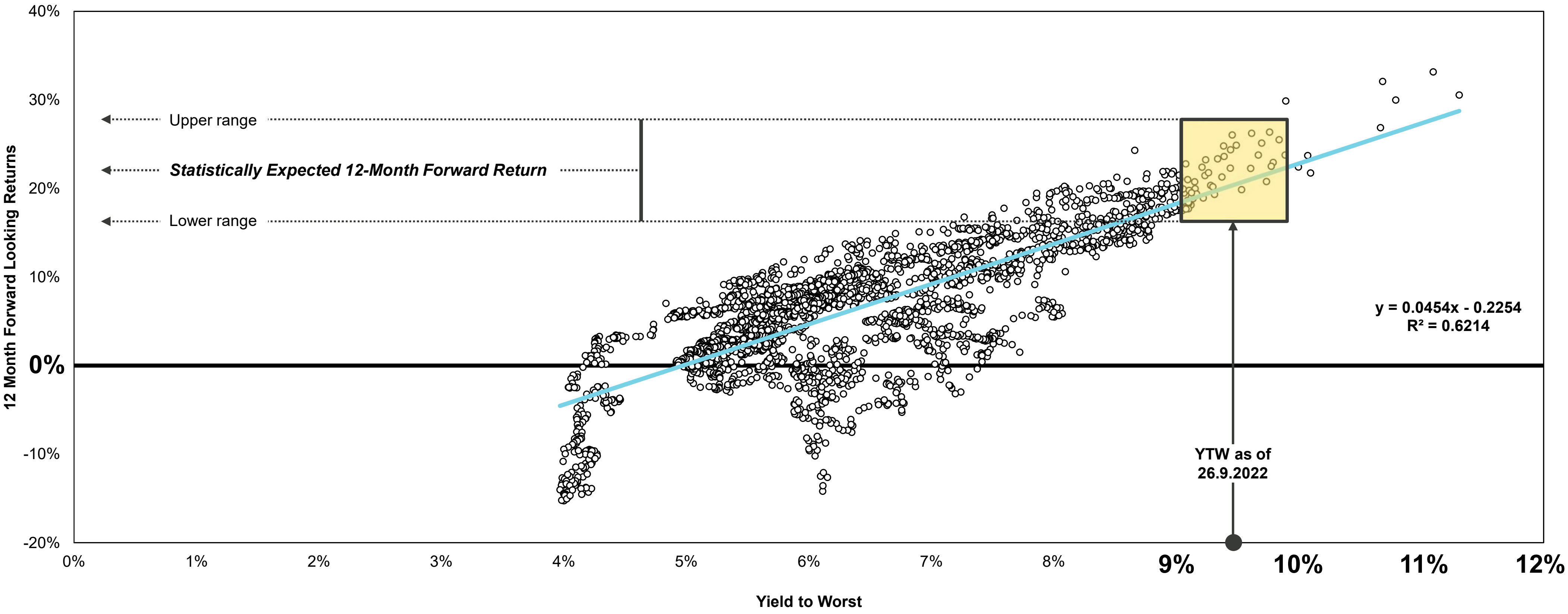
Forward looking returns have been strong when the starting yield is at 9% or higher

Regression of 12-Month Forward Looking Returns on Yield



Past performance is not a reliable indicator of current or future performance.

Source: ICE BofA Global Markets High Yield Constrained Index (HW0C Index). Daily data range from 1.1.2010 to 26.9.2022.

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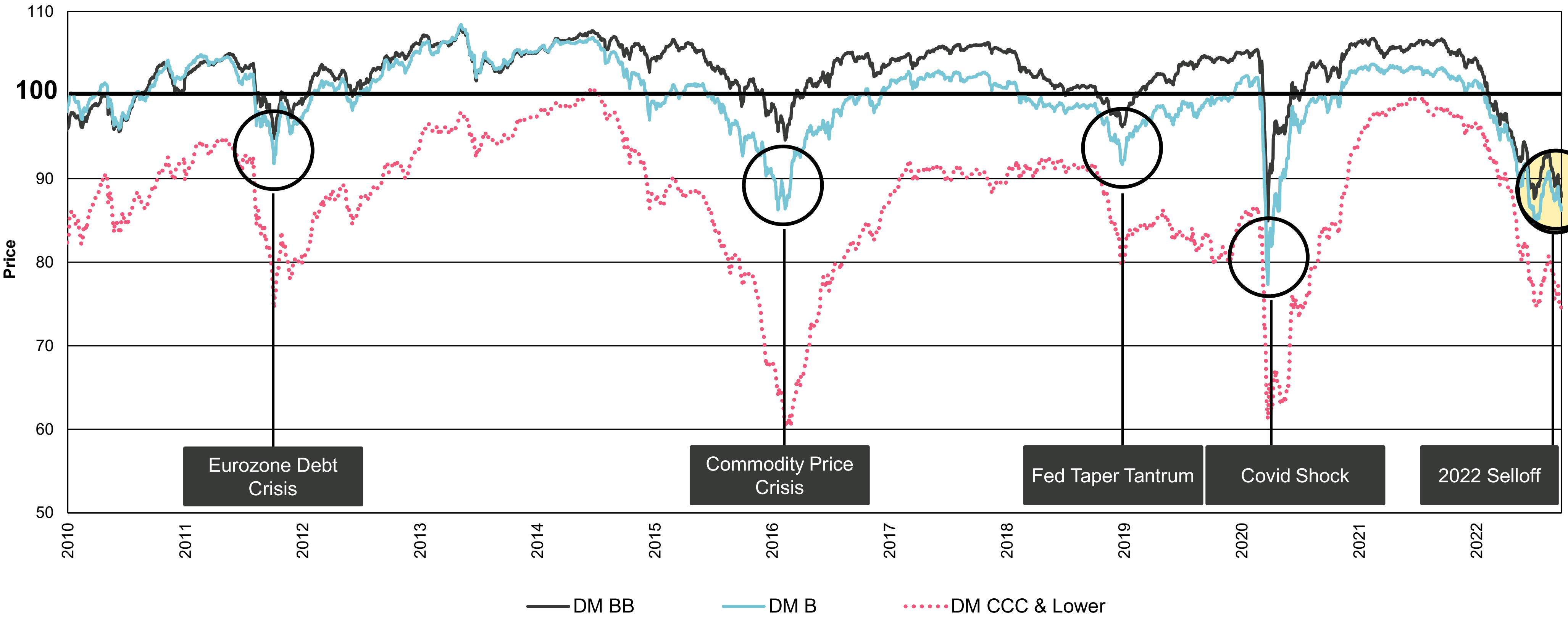
BB and B bond prices have dropped to past crisis lows – pull to par mechanism creates meaningful capital appreciation opportunities.

Bond price evolution in developed high yield market



Past performance is not a reliable indicator of current or future performance.

Source: Vontobel, ICE BofA DM High Yield Indices (HY1D Index, HY2D Index, HY3D Index), as of 22.9.2022.

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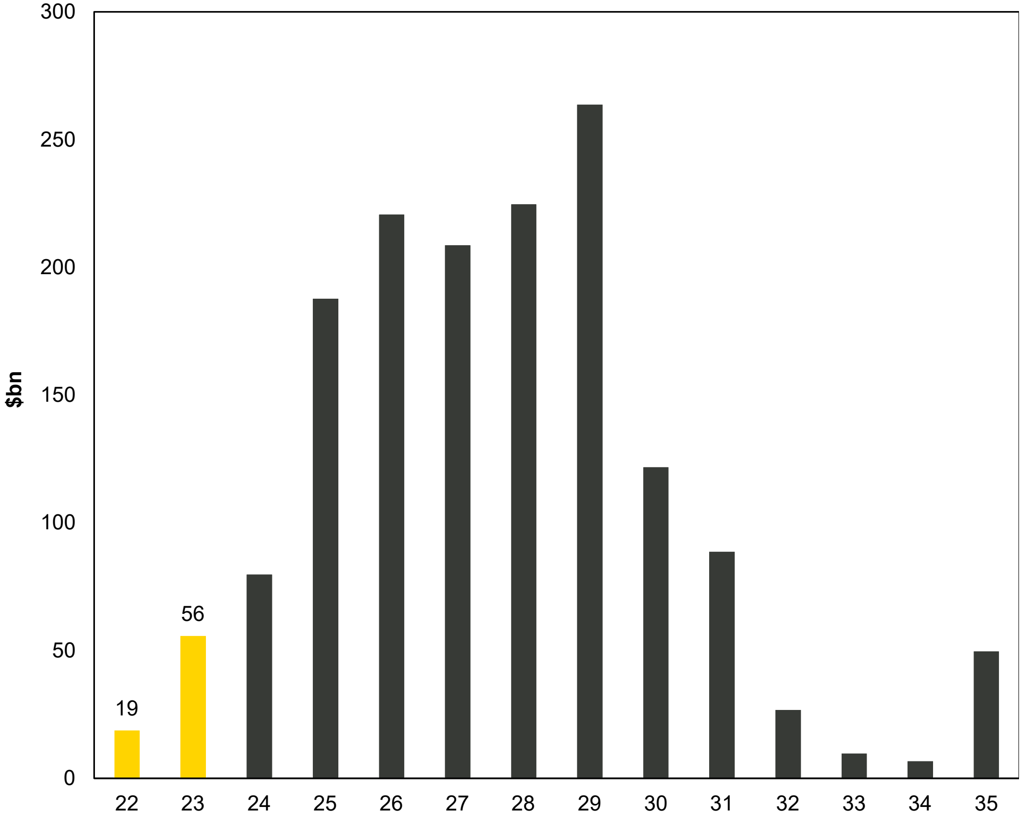
Why default rates may stay low this time around

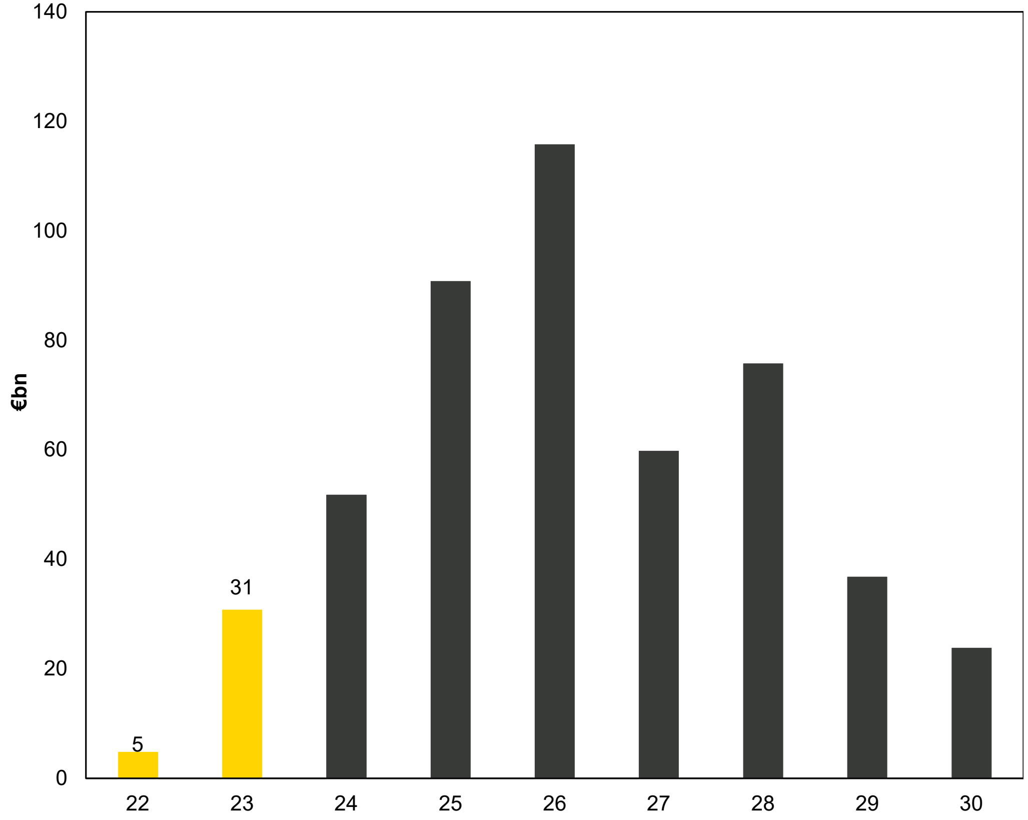
1	Debt maturity walls have been pushed out
2	Strong energy markets should keep defaults low in the energy sector
3	The overall credit quality of the HY market has improved due to survivorship bias and fallen angels
4	High Yield companies entered the current market downturn with good credit metrics

1. Debt maturity wall has been pushed out – low refinancing needs in 2022 & 2023

USD HY bond maturity wall



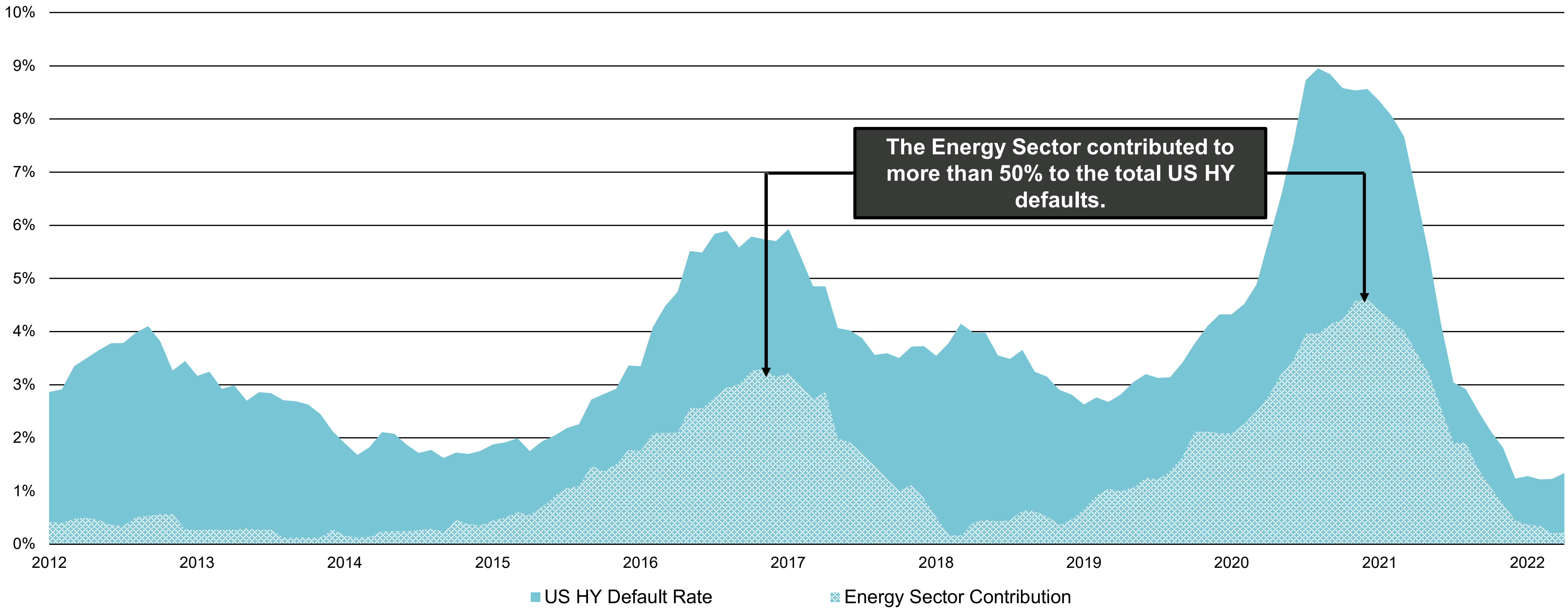
EUR HY bond maturity wall



Source: GS Research, as of 22.3.2022.

2. Strong energy markets should keep defaults low in the Energy sector

US Energy Sector was a major contributor in US HY defaults



Source: Moody's, BofA Research, Vontobel, as of 31.3.2022.

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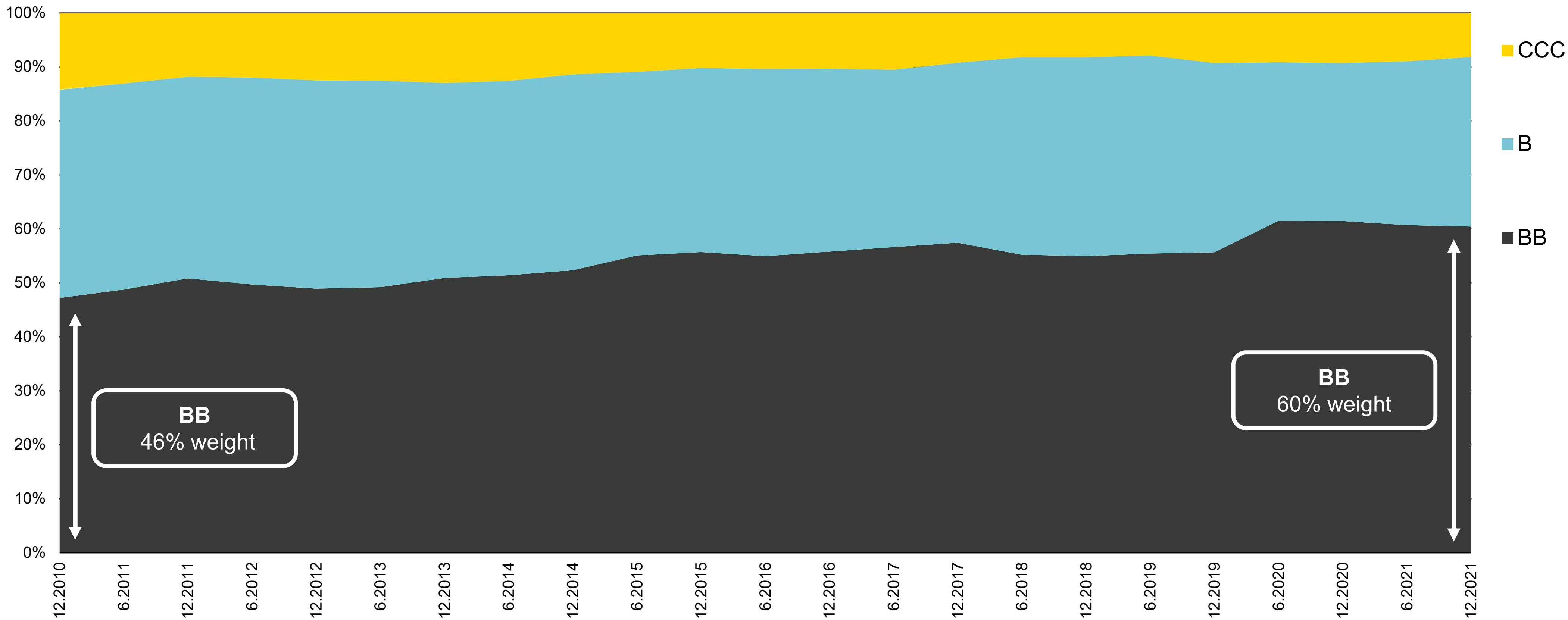
3. Credit quality of the HY universe has improved due to relative increase in the BB universe

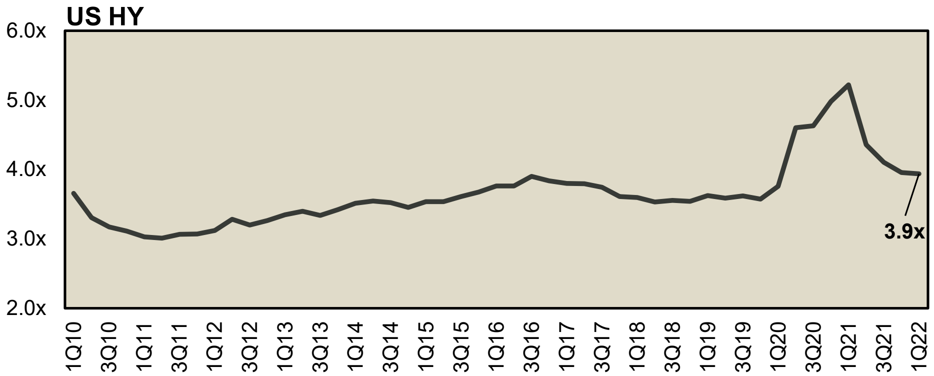
HY Benchmark Rating Composition

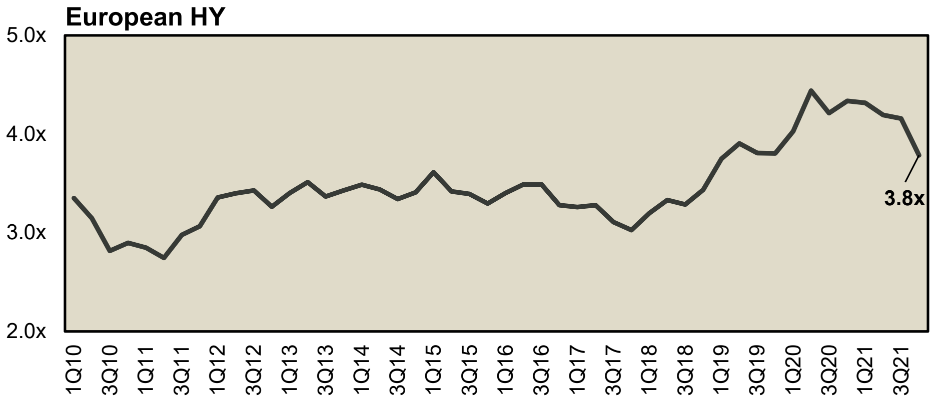


Source: ICE BofA Global High Yield Index (HW00 Index), Vontobel, as of 31.12.2021.

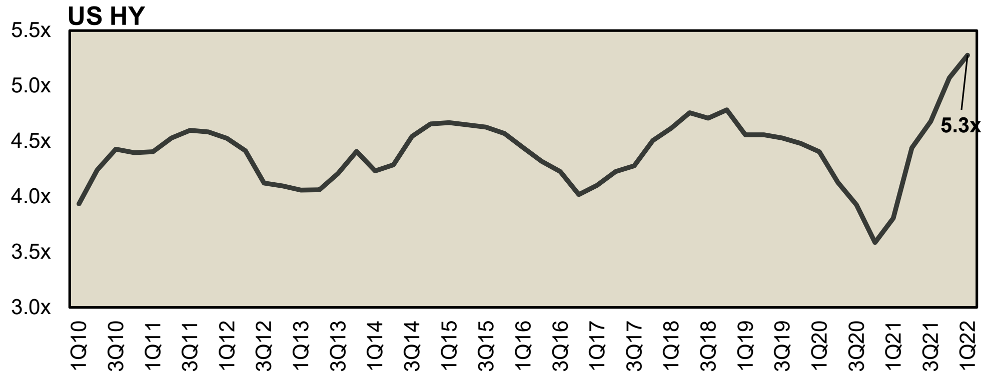
4. HY companies entered the current market downturn with good credit metrics

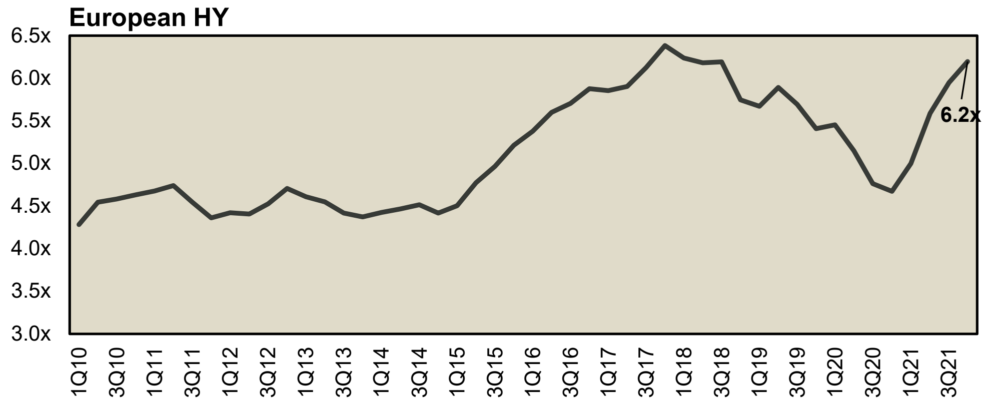
HY net leverage





HY interest coverage





Source: JPM Research. US Metrics as of Q1-22; European Metrics as of Q4-21.

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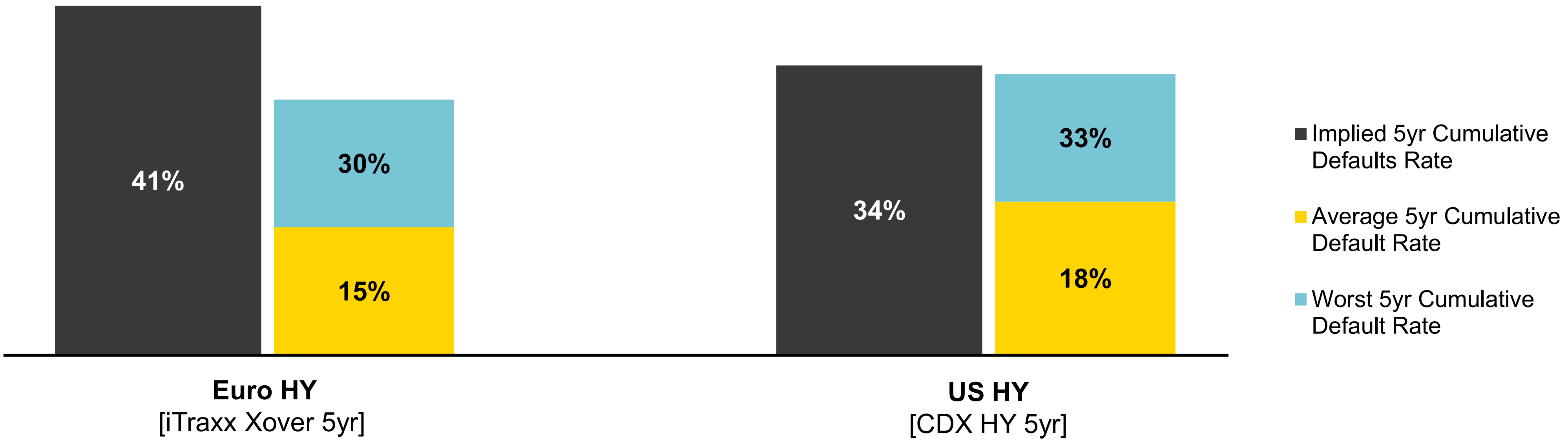
EUR HY spreads priced in 41% 5-year cumulative default rates, well above historical average

Credit spread implied default rates vs. actual historical default rates



Implied defaults calculated using 35% recovery rate as of 23.9.2022. Historic defaults calculated using Moody's default data since 1970 and current index ratings composition as of September.
Source: Morgan Stanley Research, Bloomberg, Moody's, Vontobel.

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