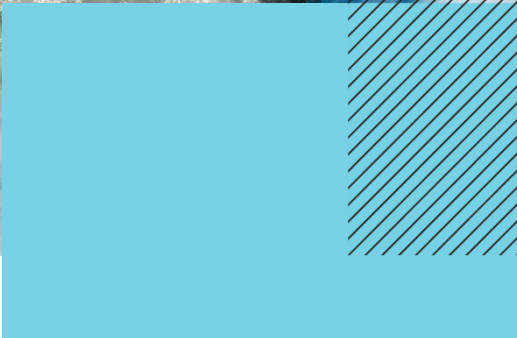


# Vontobel

## Flying High

Global Corporate Bond Outlook Q4

Fixed Income Boutique



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October 2023

## Global Credit- 10 major topics into year-end



### Macroeconomics

1. Is a soft landing possible?
2. Is inflation coming down fast enough?
3. Will rates remain high for longer?



### Microeconomics

4. Which direction for credit metrics?
5. Are higher financing costs an issue?
6. How about credit ratings?



### Technical Factors

7. What is bond issuance used for?
8. Is demand really so strong?

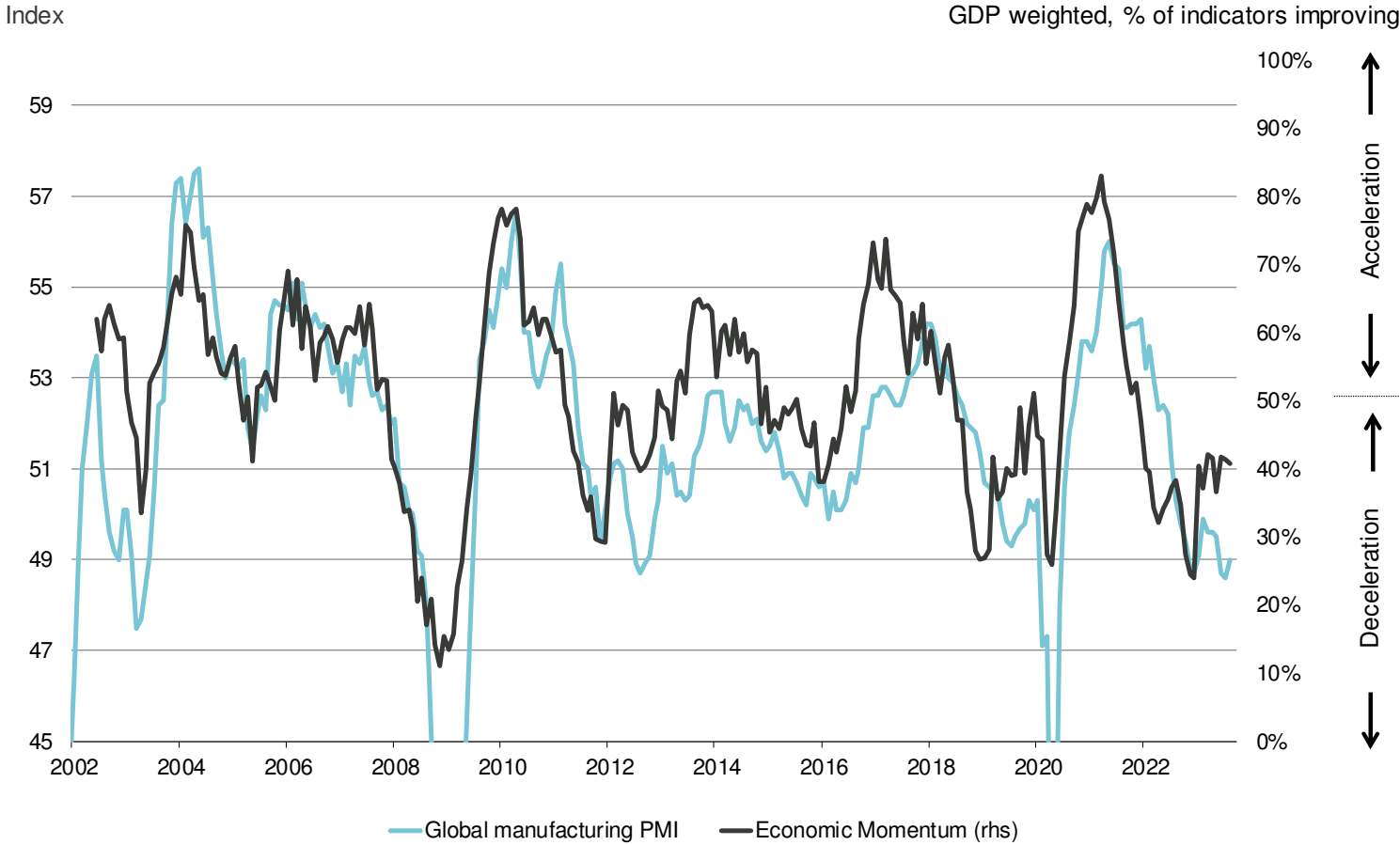


### Valuation

9. How is the risk/ reward for credit and what to expect for returns?
10. Is there dispersion in the market?

# #1. Leading indicators cooling down, but a recession seems not to arrive, as...

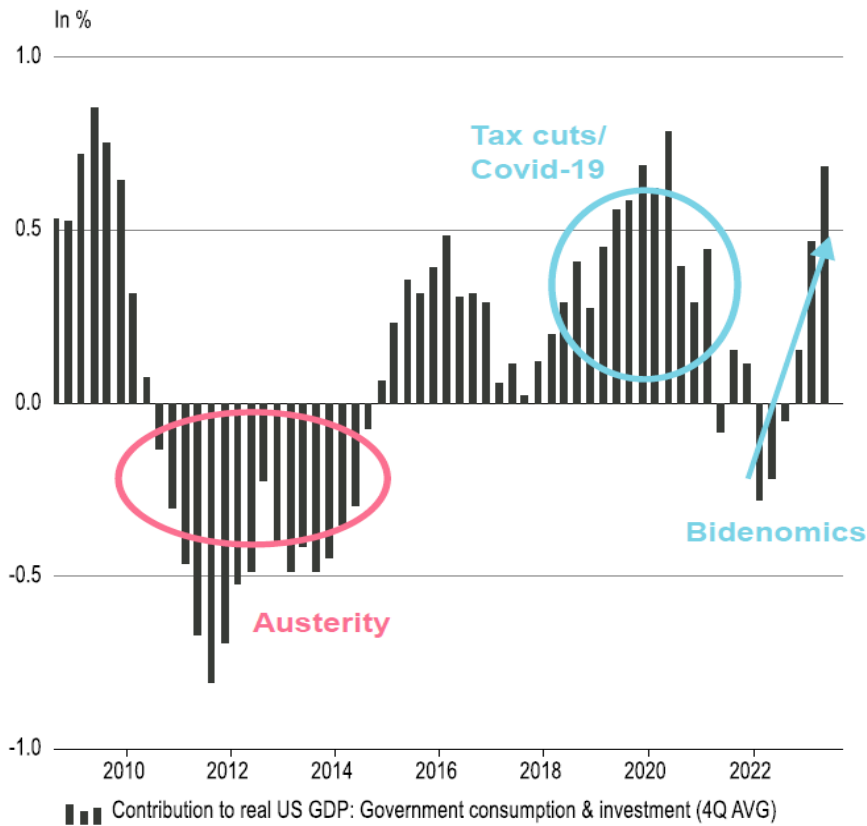
Global economic growth momentum is weak, but has not yet ended in a recession



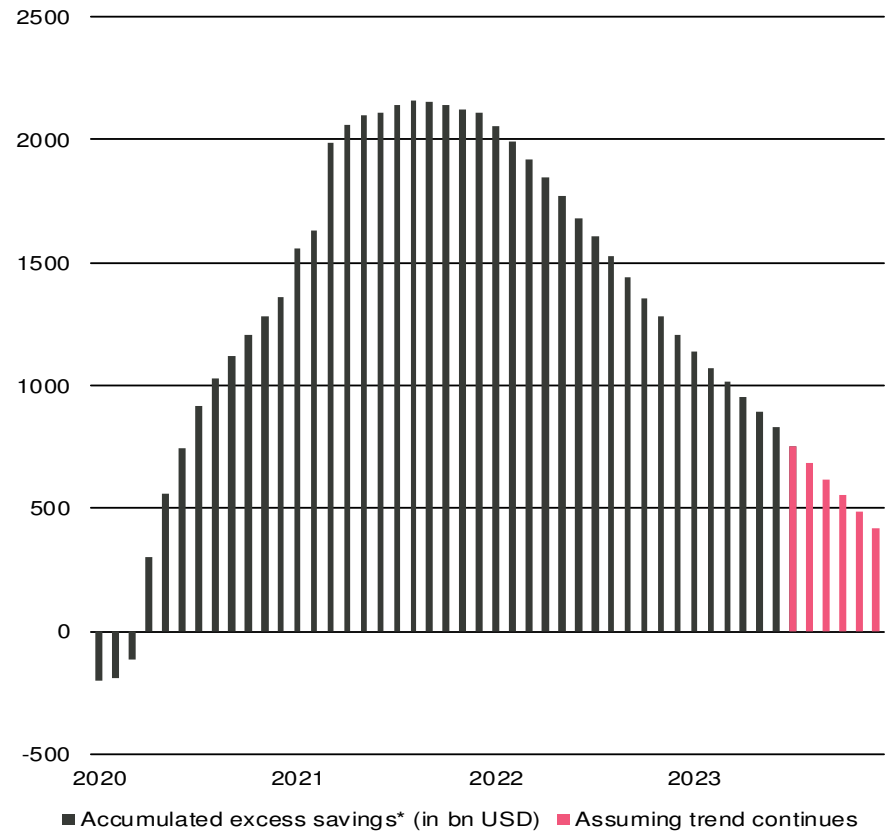
Source: LSEG, Vontobel, 9.2023

# ...fiscal spending helps the economy and the consumer remains still in good shape.

## Fiscal stimulus might help to avoid a recession



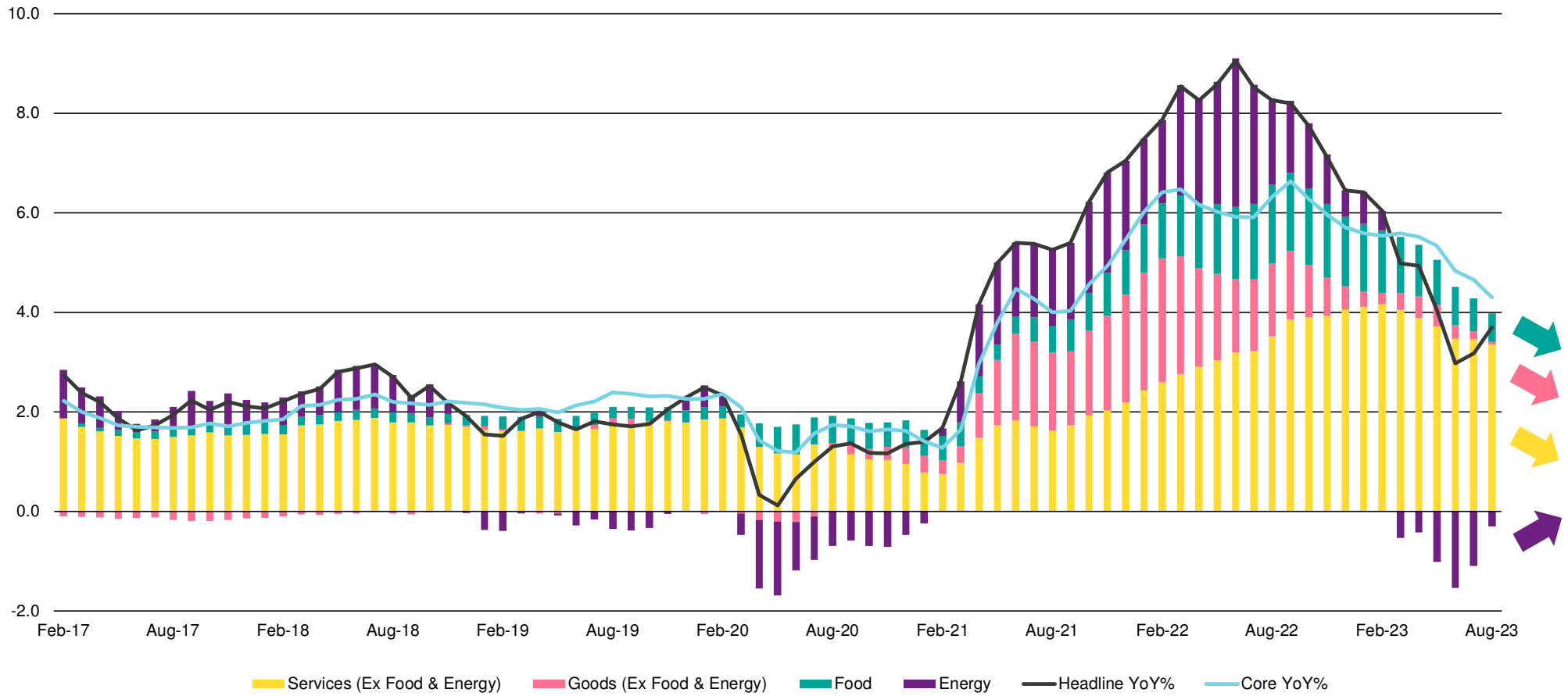
## Excess covid-19 savings nearly depleted by end of 2023



Forecasts opinion; not guaranteed; and actual outcomes may differ materially.  
\*Actual savings versus pre-pandemic trend. Source: Refinitiv Datastream, Vontobel, 9.2023

## #2. Headline inflation decreasing fast, but contribution from services remains high...

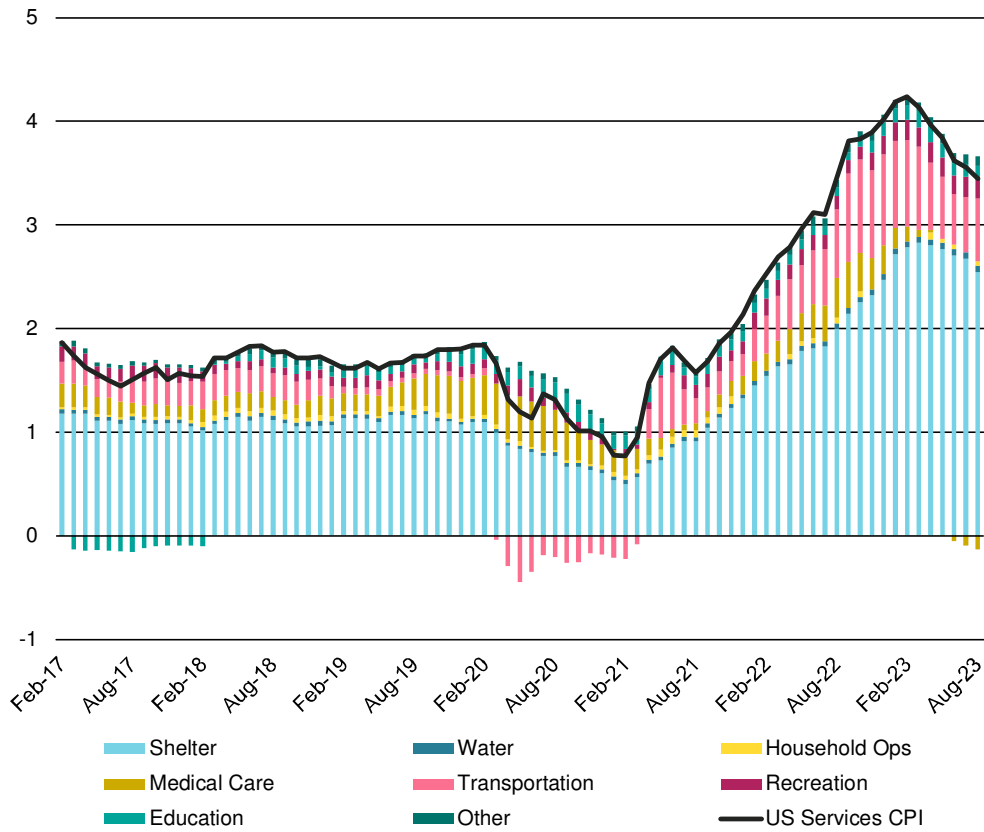
### Decomposition of US inflation by contributors



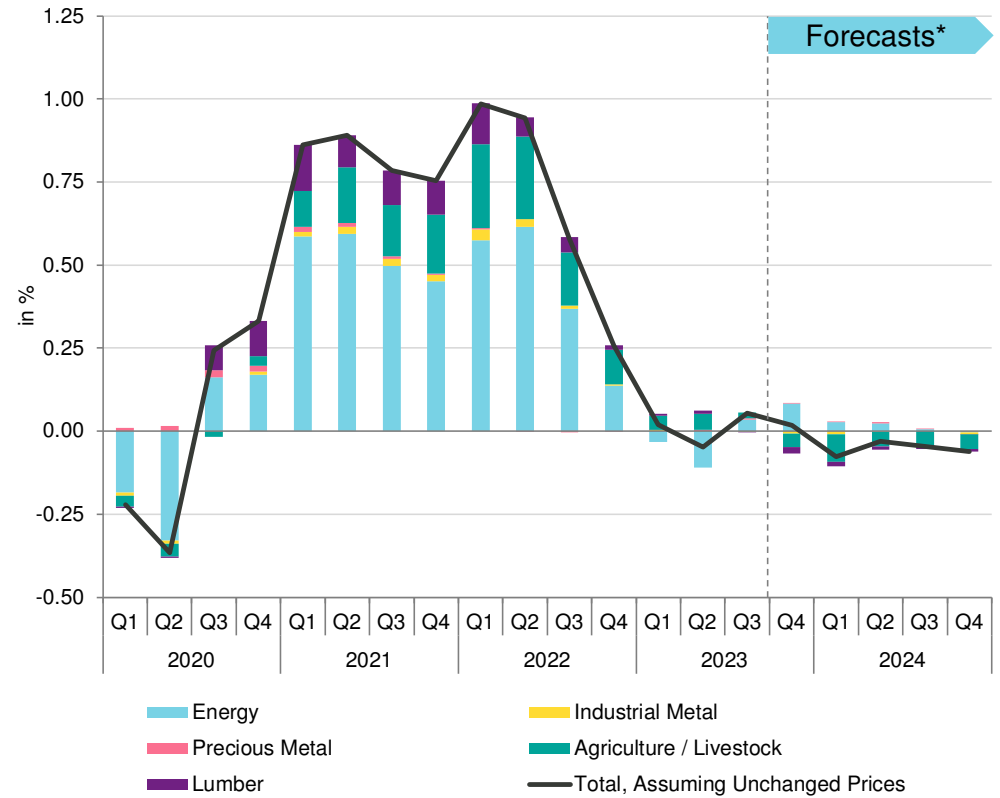
Source: Bloomberg, Vontobel, 9.2023

## ... as shelter and transportation inflation decrease only slowly.

### Composition of US services inflation



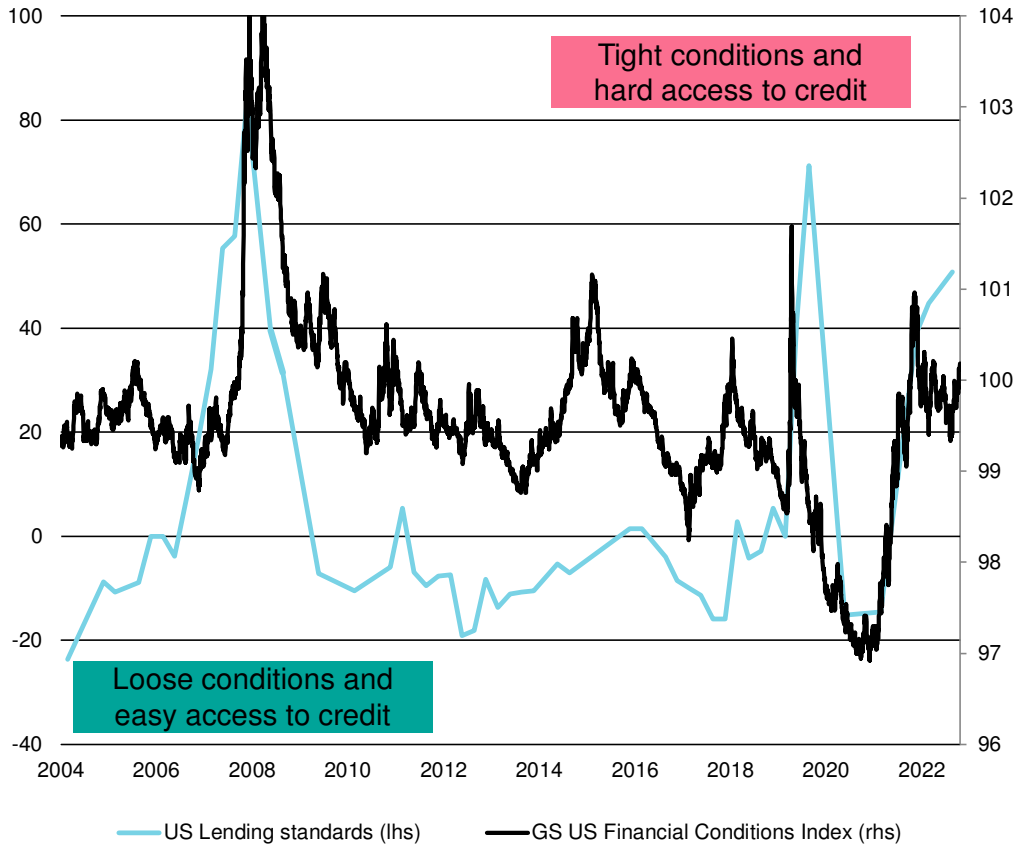
### Estimated impact of commodity prices on core inflation



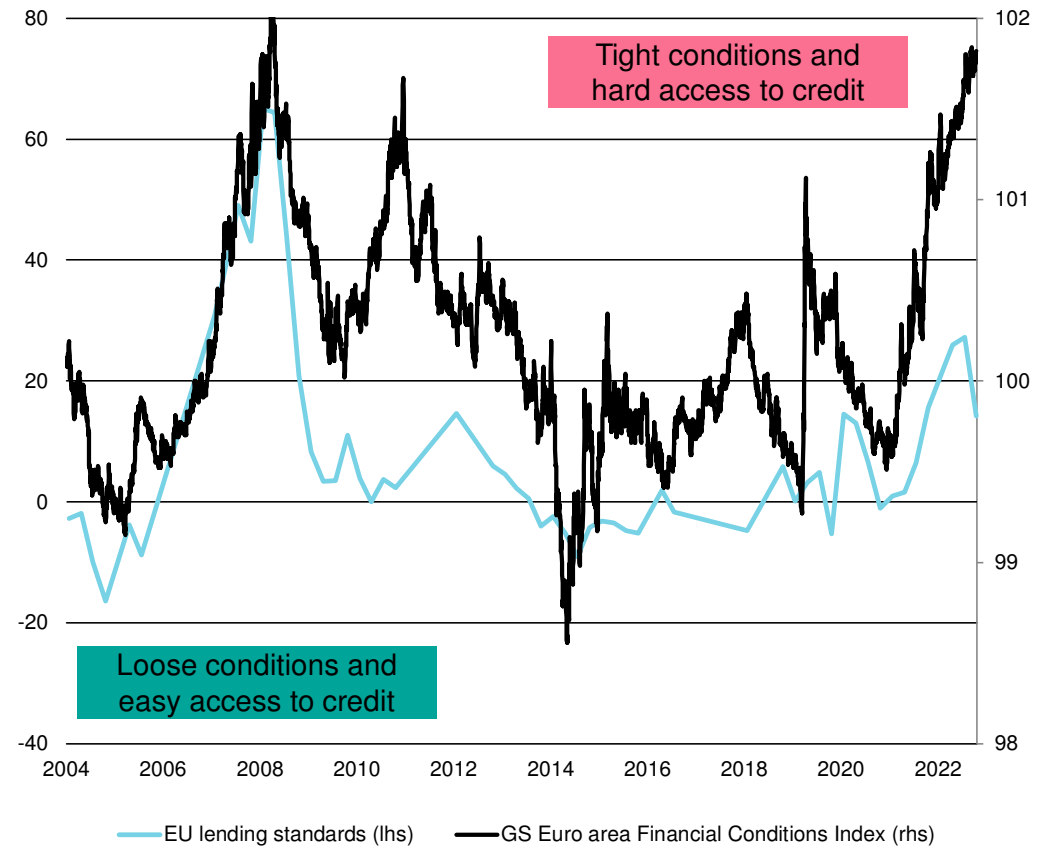
Forecasts opinion; not guaranteed; and actual outcomes may differ materially.  
 Source: Bloomberg, Goldman Sachs, Bureau of Labor Statistics (BLS), calculations by Vontobel, 9.2023

### #3. Rates could remain high for now, despite reaching restrictive territory.

#### US: Harder access to credit allows the Fed to pause



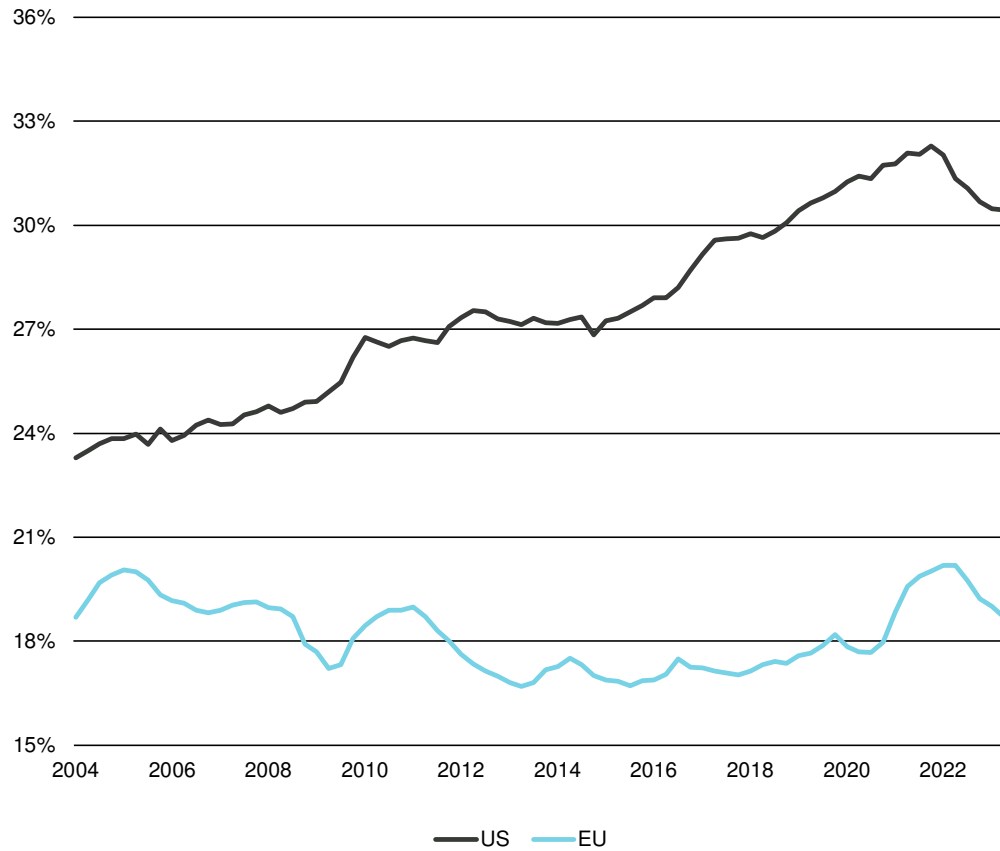
#### EU: A hawkish ECB is not yet reflected in credit conditions



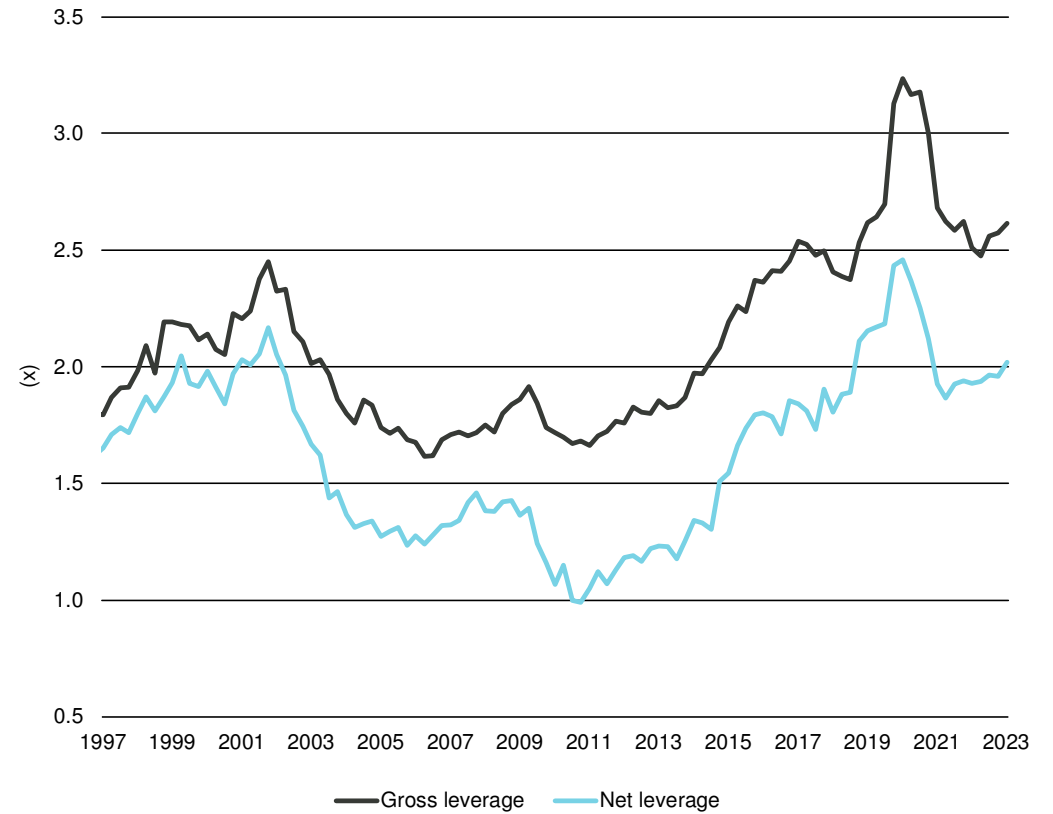
Source: US Senior Loan Officer Survey, ECB Bank Lending Survey, Goldman Sachs, Bloomberg, Vontobel, 9.2023

## #4. Margin decline ongoing but credit metrics remain solid...

### Margins decline but from very high levels



### Leverage improved and is now consolidating

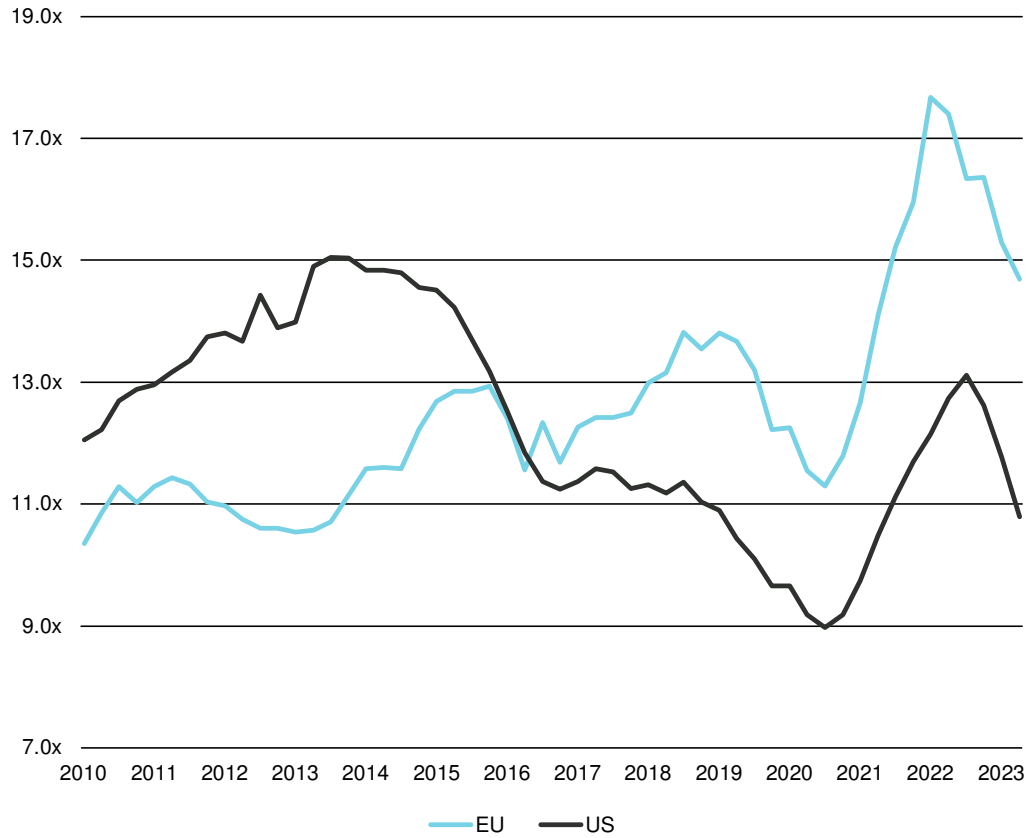


Source: JP Morgan, BofA ML, Vontobel, 9.2023. Note: Data includes Q2 2023 results of US Investment Grade Non-Financial issuers. Net Leverage = Total debt-cash divided by EBITDA

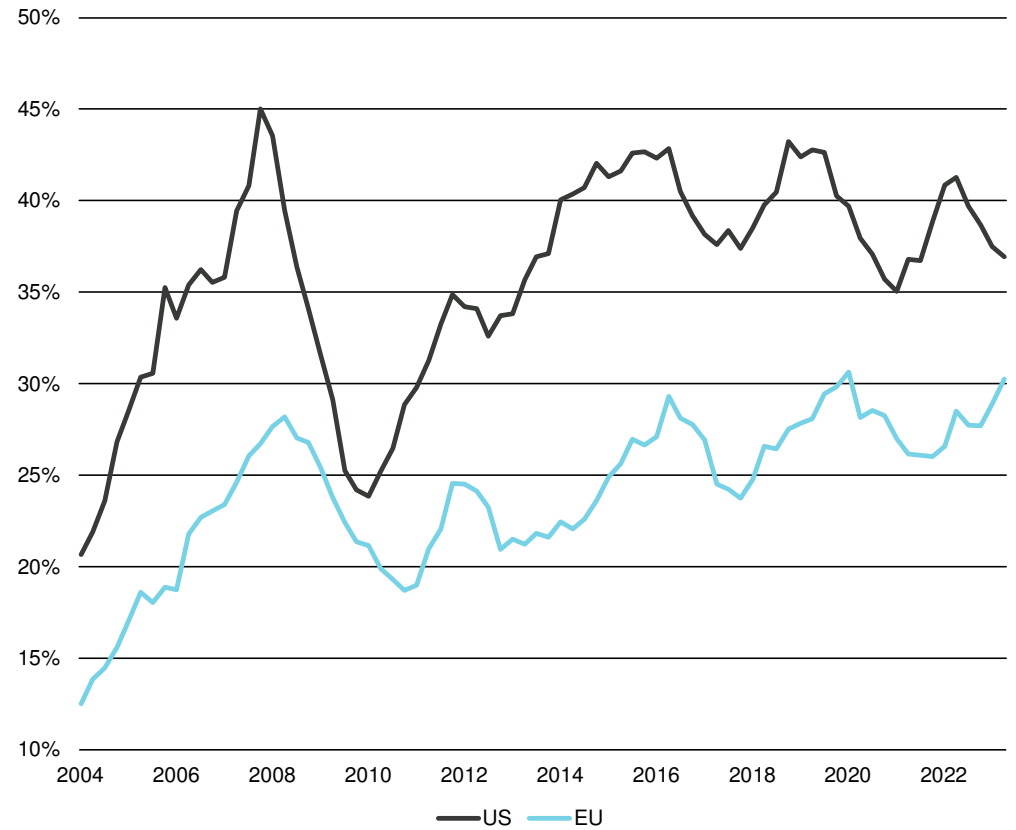


## ...while companies get more prudent.

### Interest coverage ratio deteriorating recently



### Earnings payout ratio moderate and trending lower



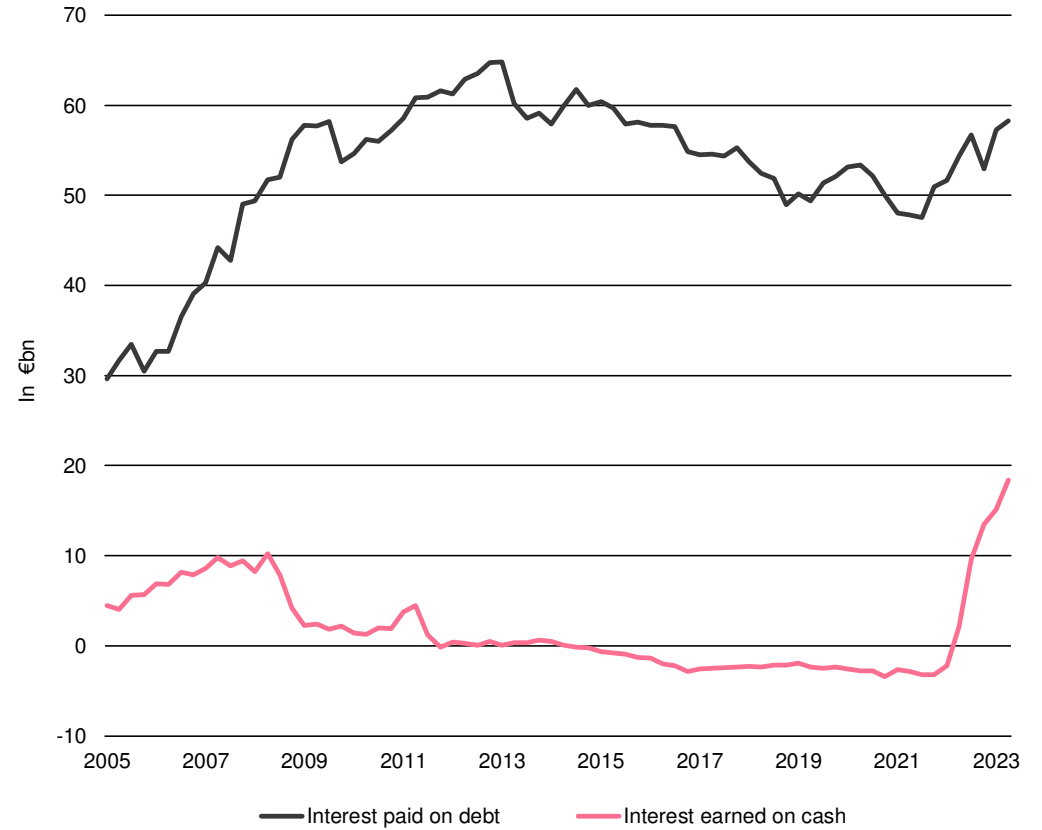
Source: JP Morgan, Barclays Vontobel, 9.2023. Note: Data includes Q2 2023 results of US and EU Investment Grade Non-Financial issuers.

# #5. Financing costs increased substantially but much less on a net basis.

## Yields up significantly, but average coupon only moderately



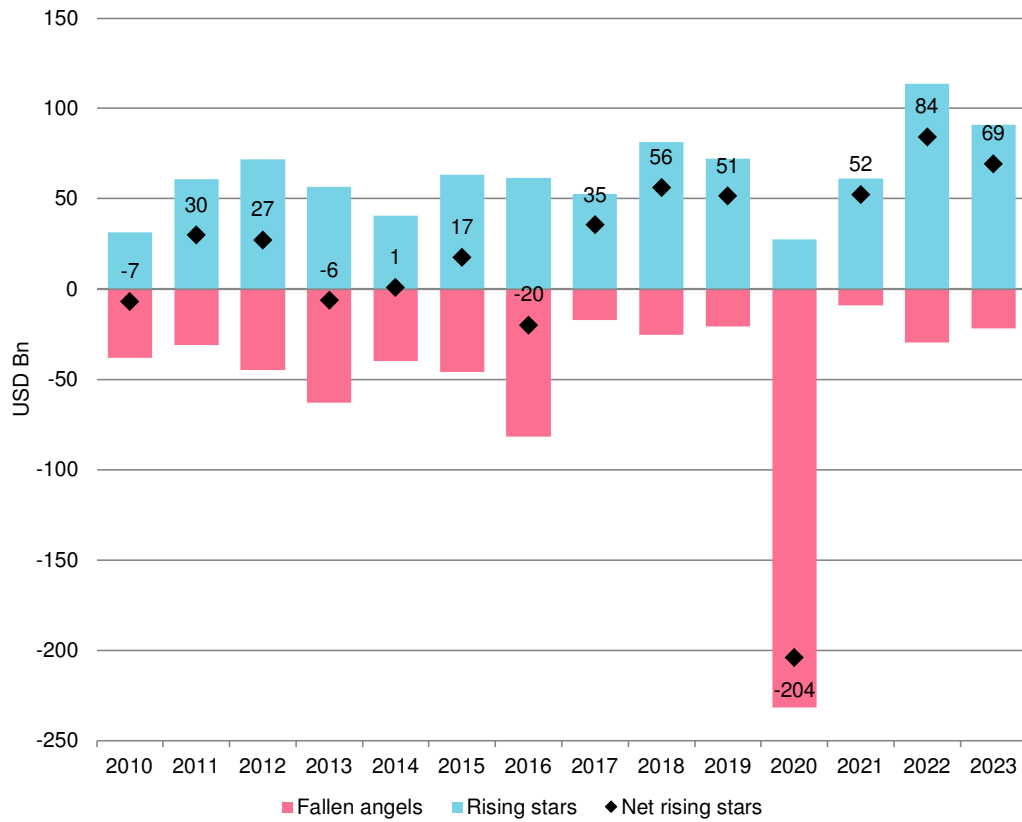
## Higher cost of debt mitigated by the interest earned



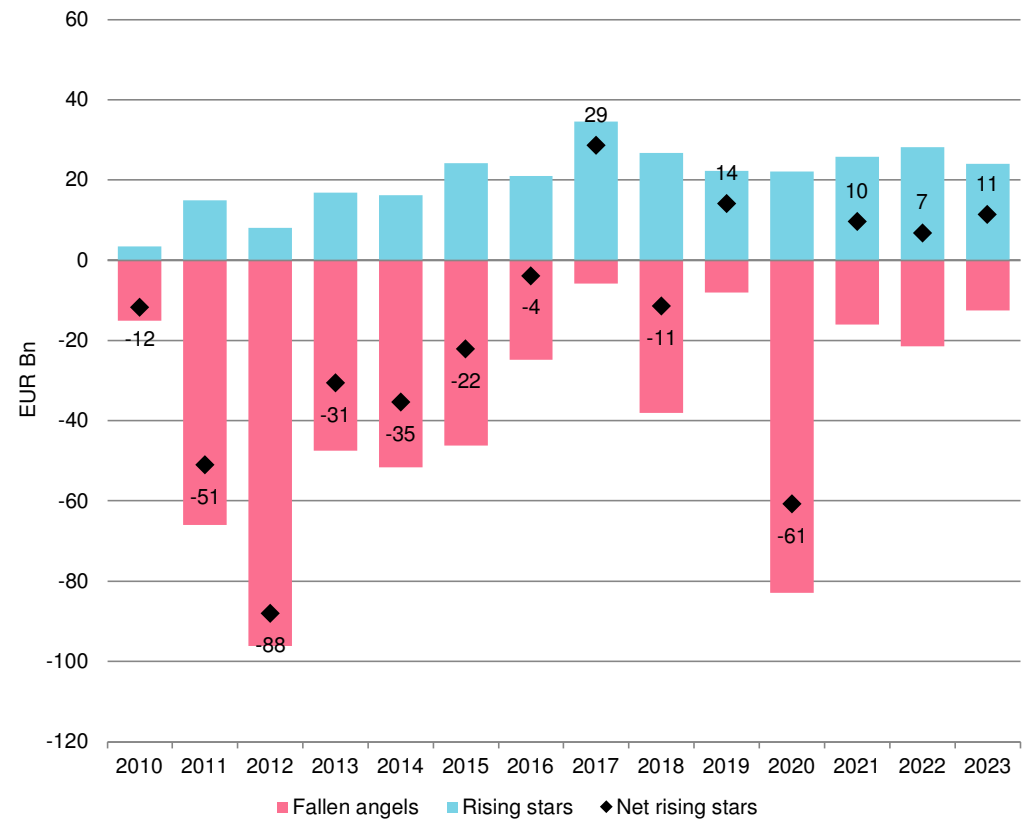
Source: JP Morgan, ICE BofA Corporate Bond Index family Bloomberg, Vontobel, 9.2023. Note: Data includes Q2 2023 results of EU Investment Grade Non-Financial issuers.

## #6. Positive rating trend for both, US and European credit, which...

### US



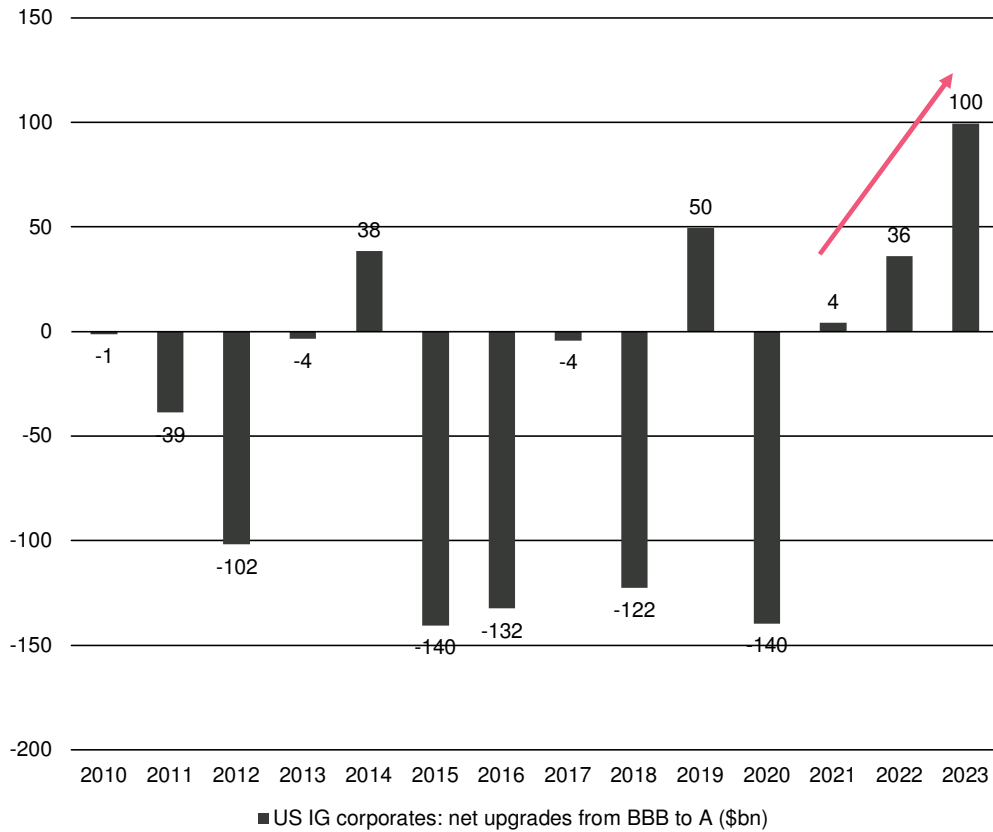
### Europe



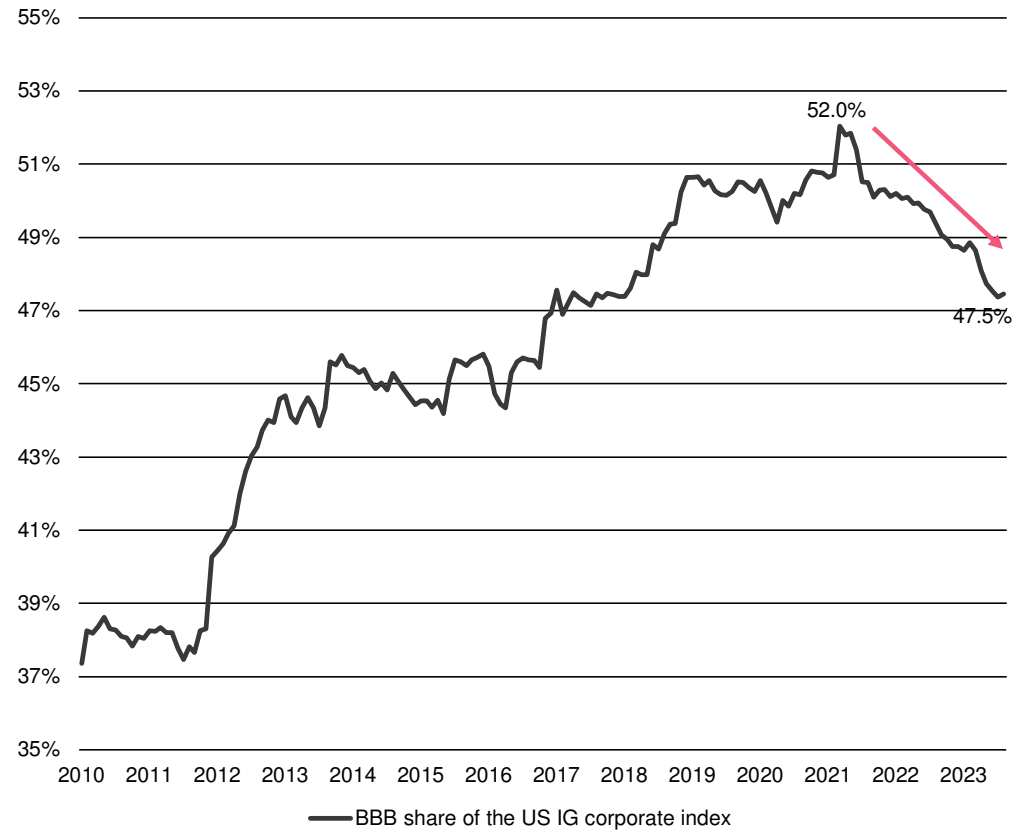
Source: Goldman Sachs, Vontobel, 9.2023.

... also translates into an improved rating composition within the IG Index.

Positive rating trend within Investment Grade



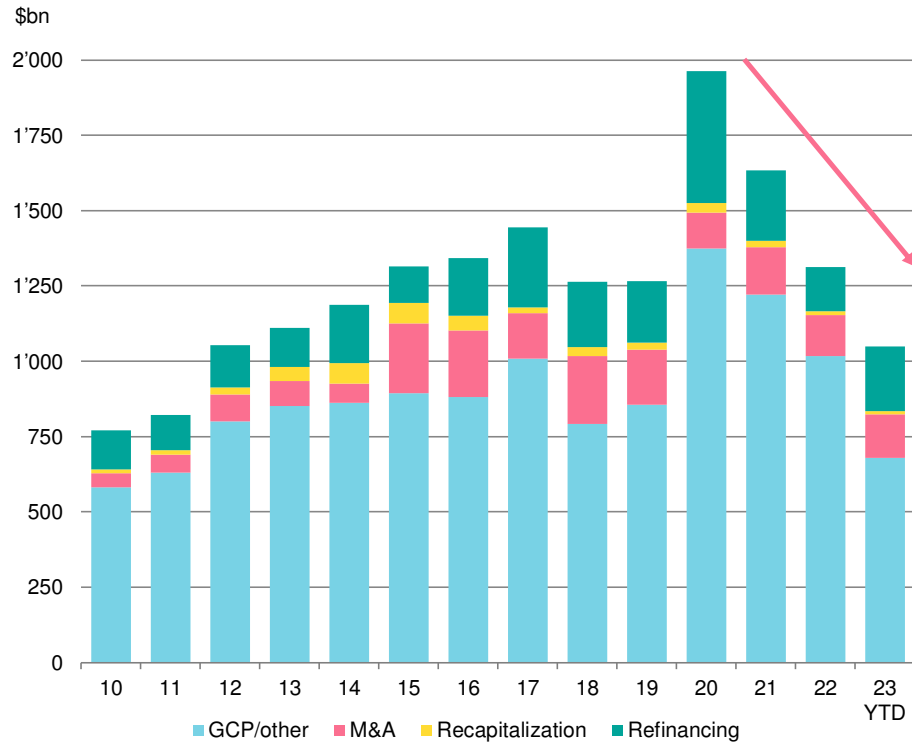
Rating upgrades translate into better quality of IG indices



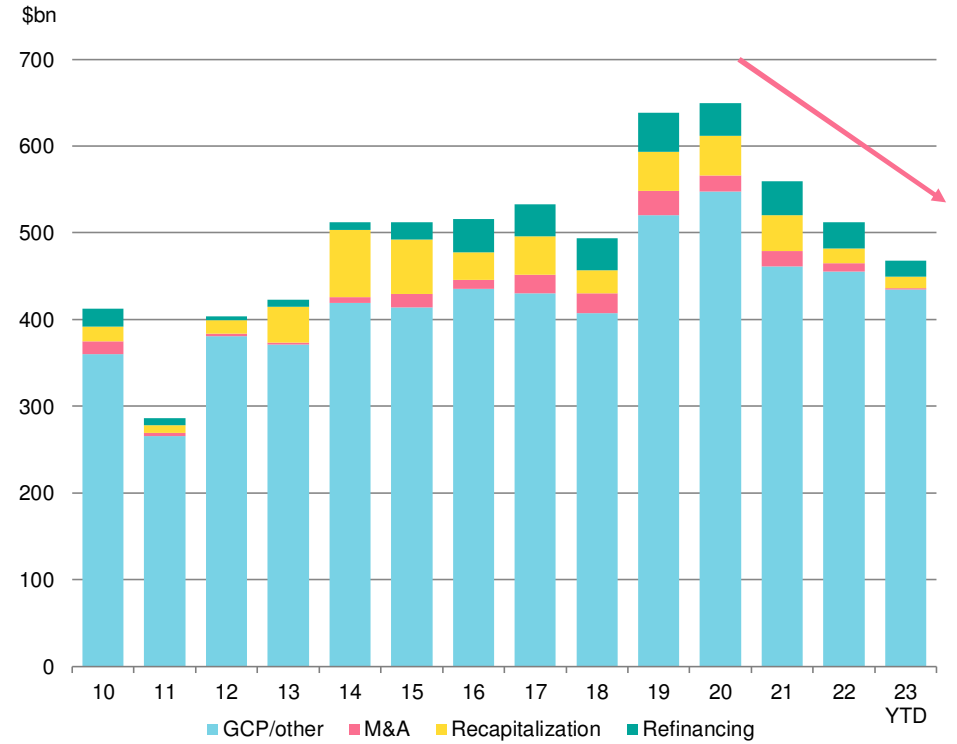
Source: BofA ML, Vontobel, 9.2023.

## #7. Issuance slowing down, even more in the US than in Europe.

### USD IG gross issuance by use of proceeds



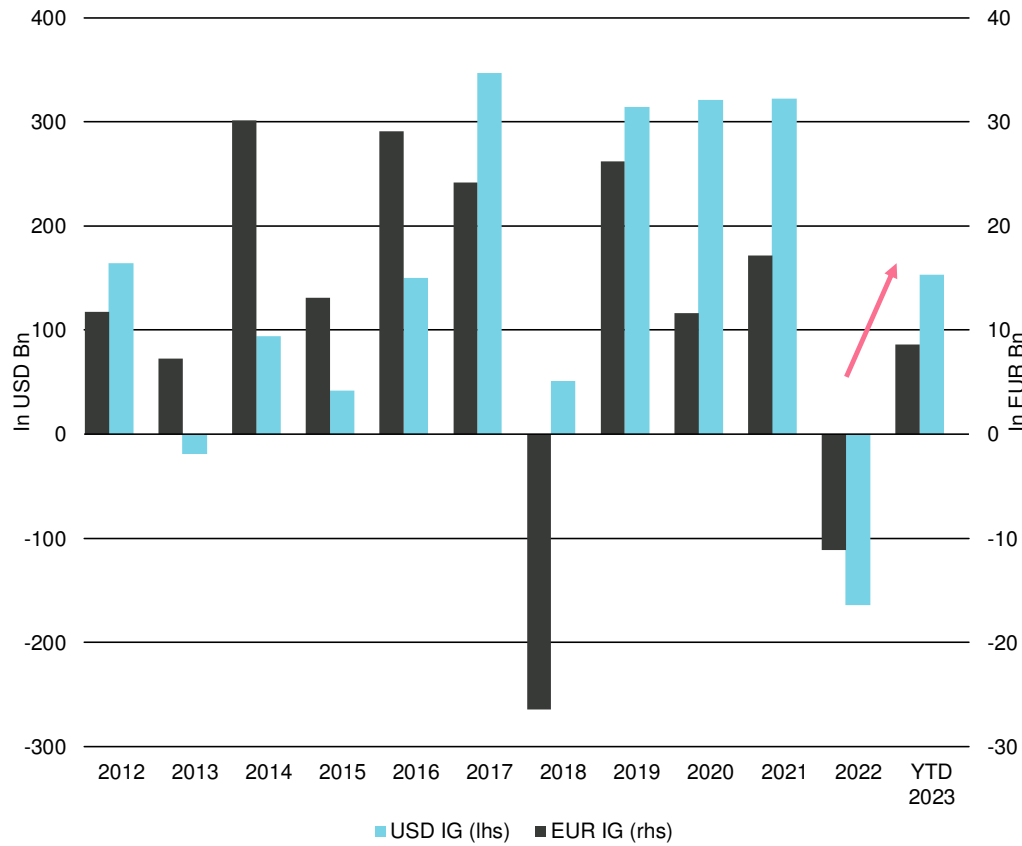
### EUR IG gross issuance by use of proceeds



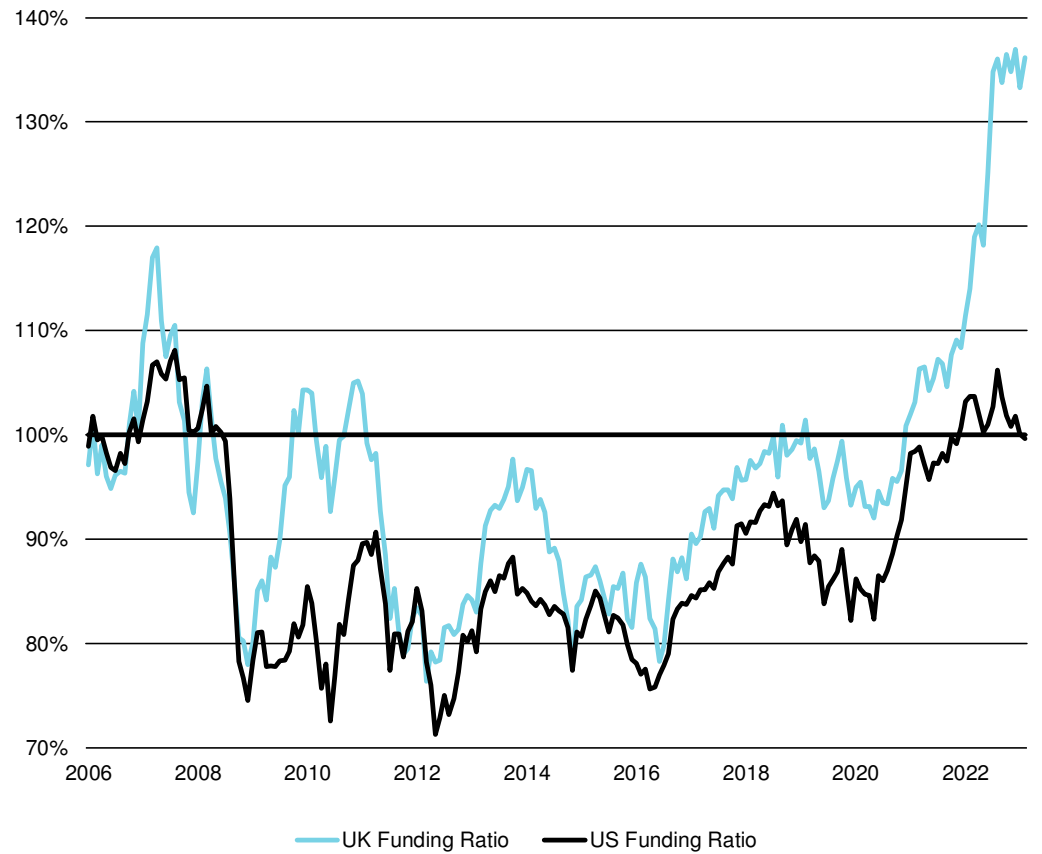
Source: Goldman Sachs, Vontobel, 9.2023. GCP = General Corporate Purpose.

## #8. Demand for IG is expected to remain strong, driven by institutional investors...

### Fund flows are recovering from 2022 levels



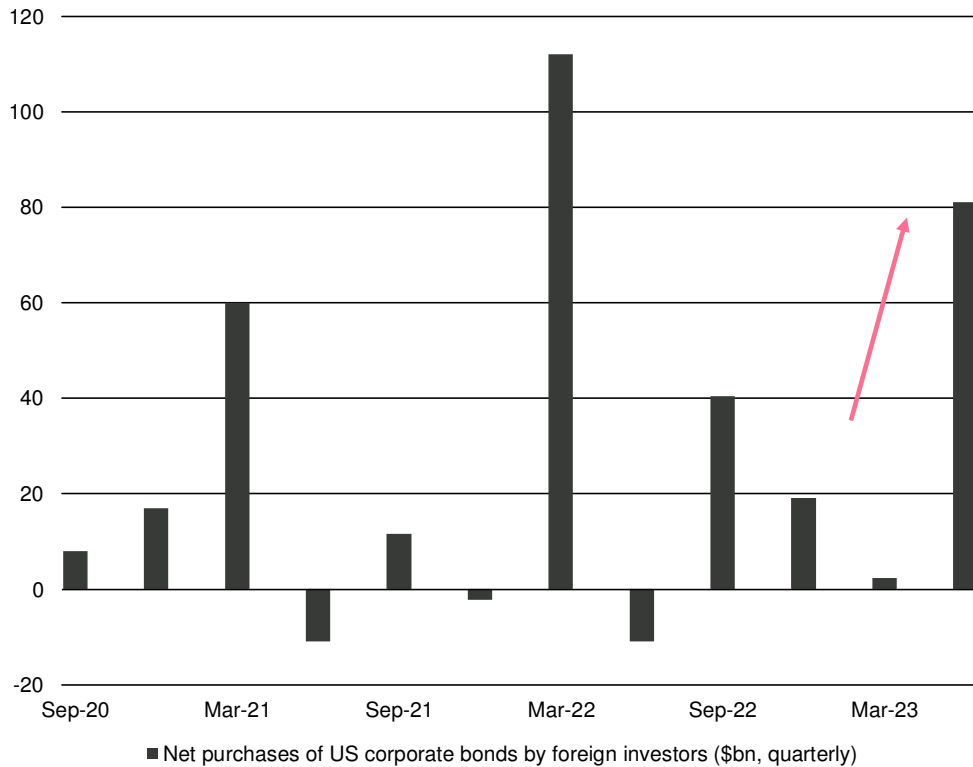
### UK Pension Funding Ratios improved significantly



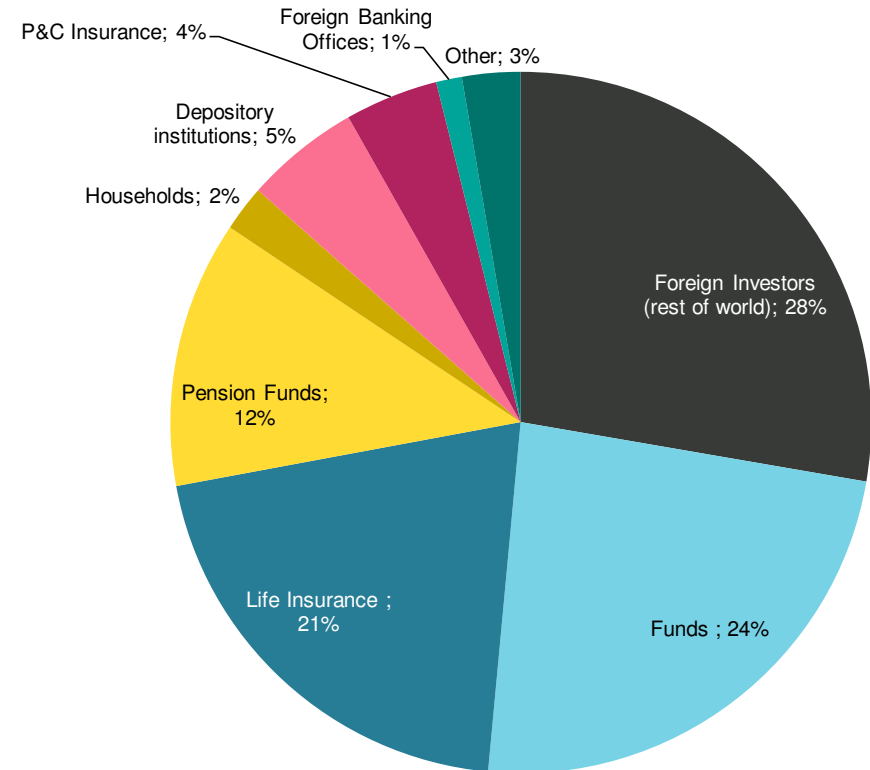
Source: JP Morgan, EPFR data based on US IG fund flows, Pension Protection Fund UK, Vontobel, 9.2023.

## ... and foreign investors, which are large holders of USD bonds.

### Increasing foreign demand

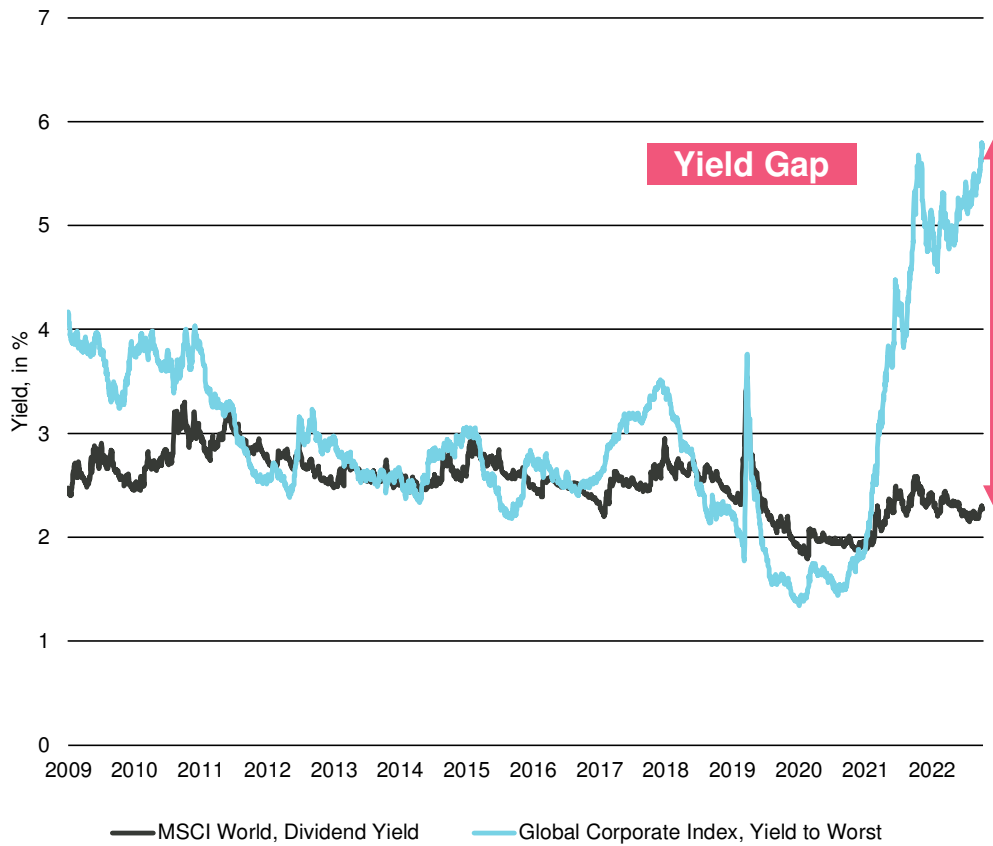


### Foreign buyers remain a large buyer base of global credit

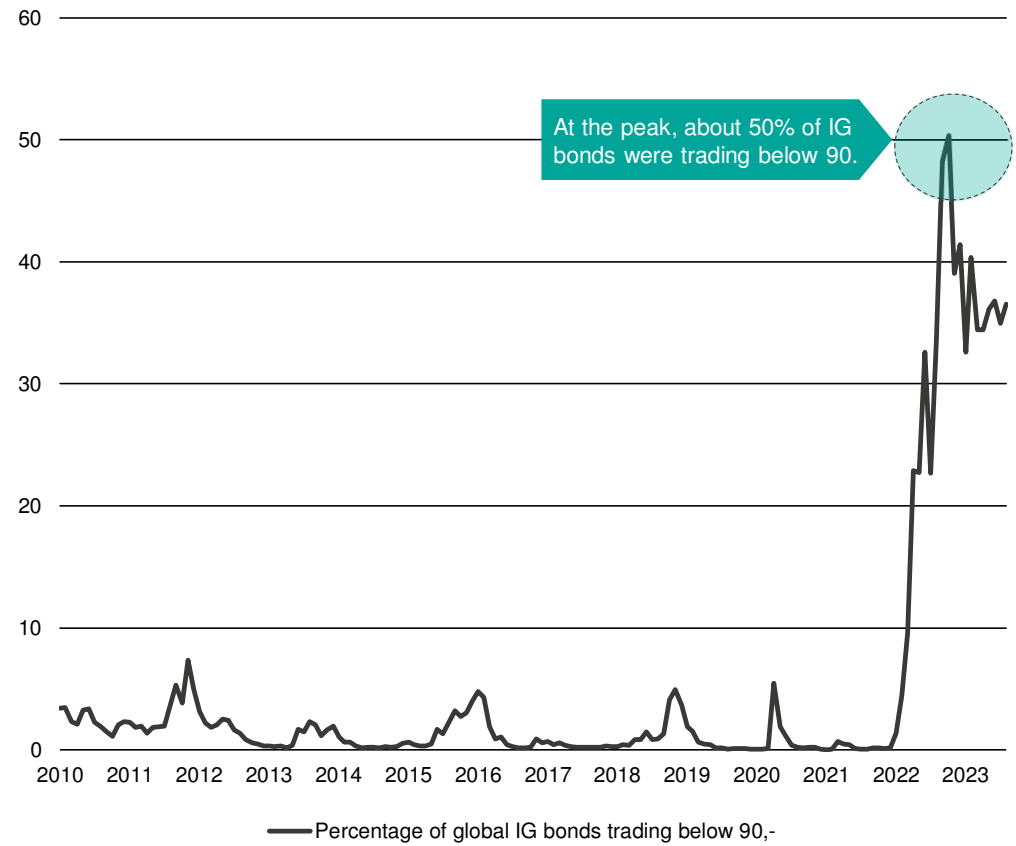


# #9. The risk reward of corporate bonds improved since 2022 ...

## Bond yields compare favorably versus dividend yields



## Very high amount of low cash price bonds (IG Index)



Past performance is not an indication of future results.

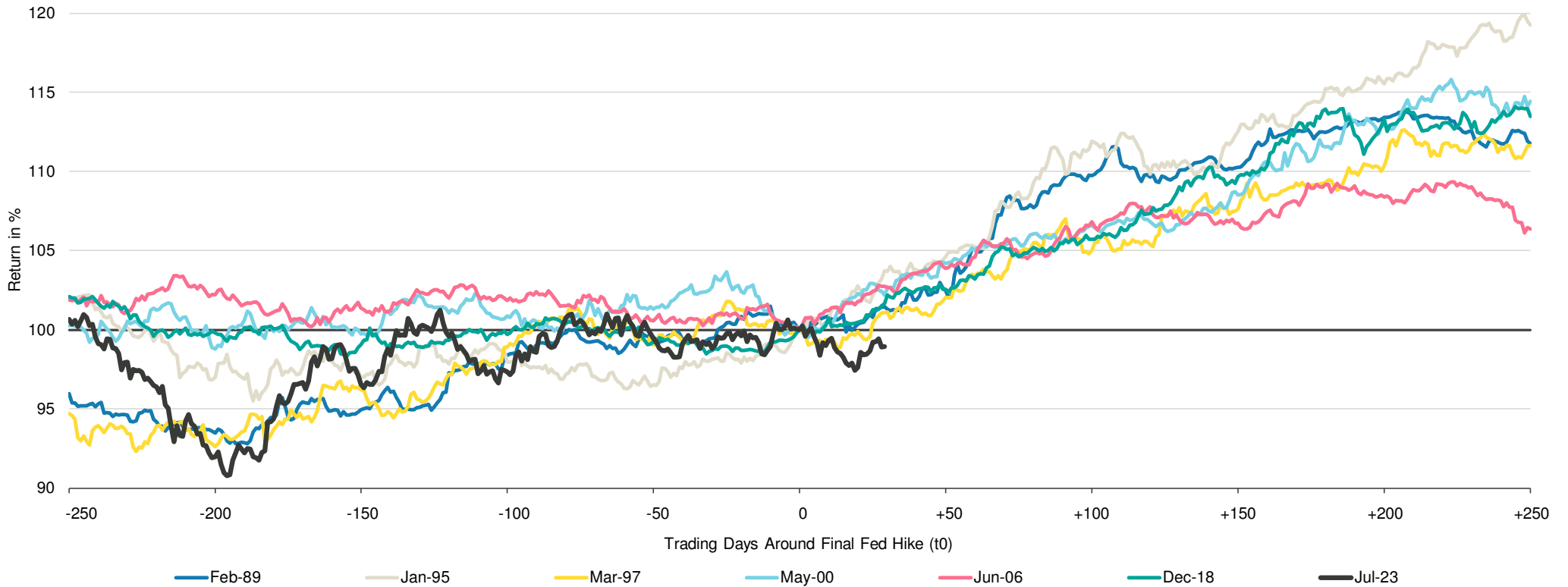
Source: Vontobel, Bloomberg, BofA ML Corporate Bond Index family, Barclays Bloomberg Global Agg Corporate Index, as of 9.2023.



... and typically, credit performs well after the last rate hike by central banks.

### Performance of IG credit after the last rate hike, in the previous hiking cycles

US IG Total Return Index Around Last Hike (t0=100)

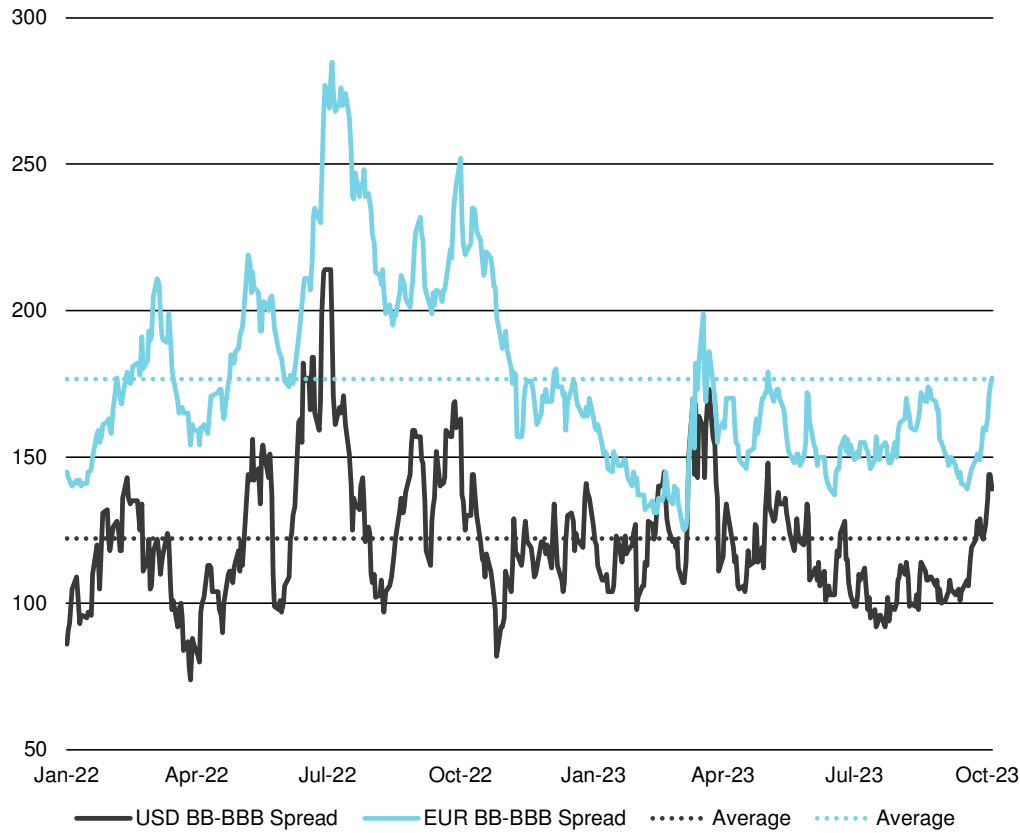


Past performance is not an indication of future results.

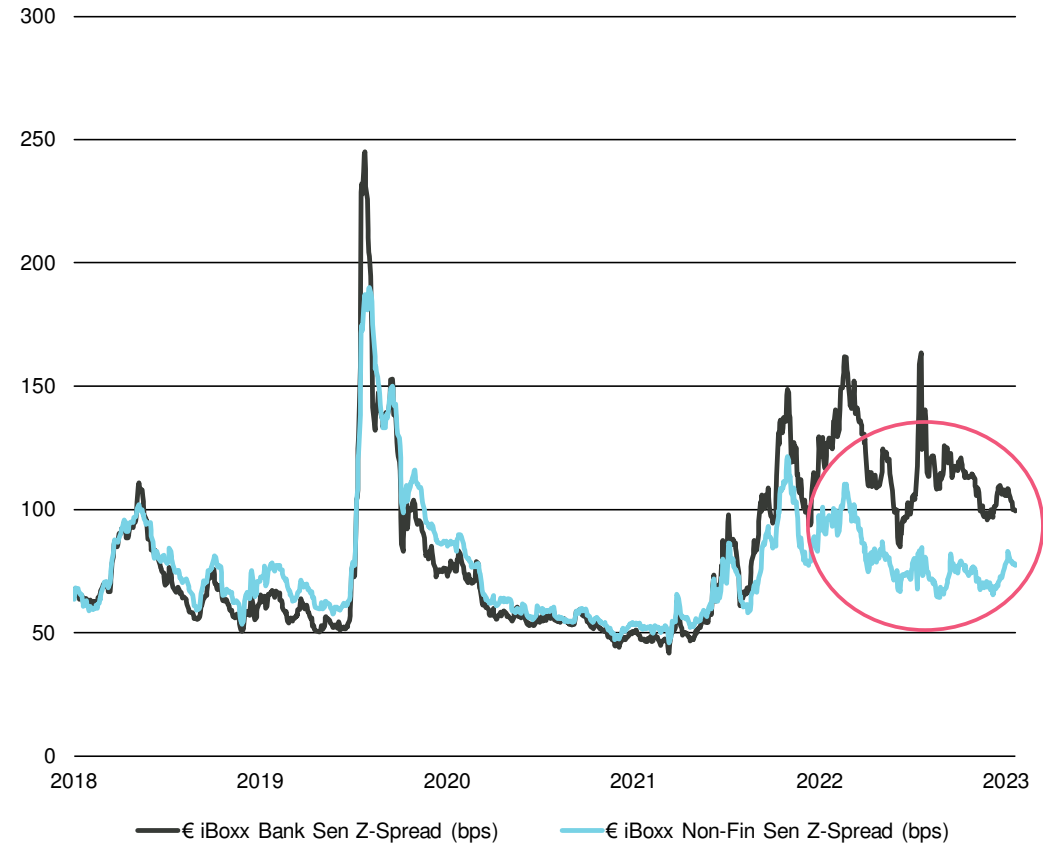
Source: Morgan Stanley, Vontobel, 9.2023. Note: Total returns in IG consistently picked up after the final Fed hike, looking back at the past six hiking cycles.

# #10. Comparing rating and sector categories offers value to investors...

## BBs are getting more attractive recently



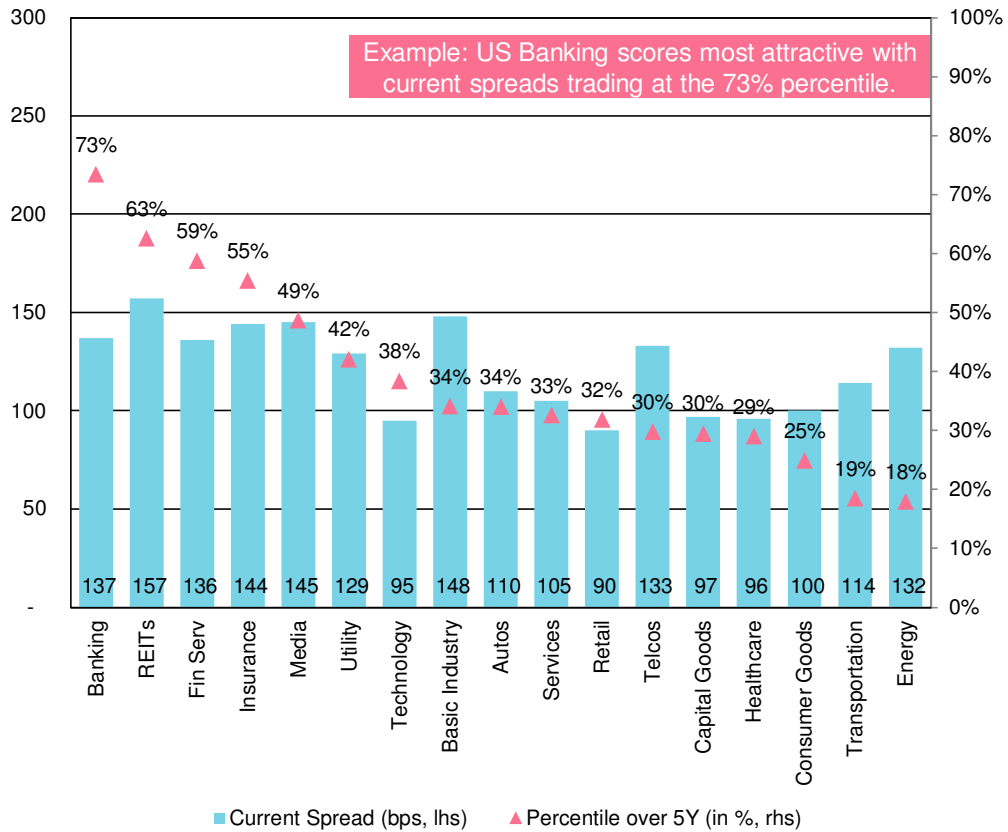
## Financials vs. Non-Financials at attractive levels



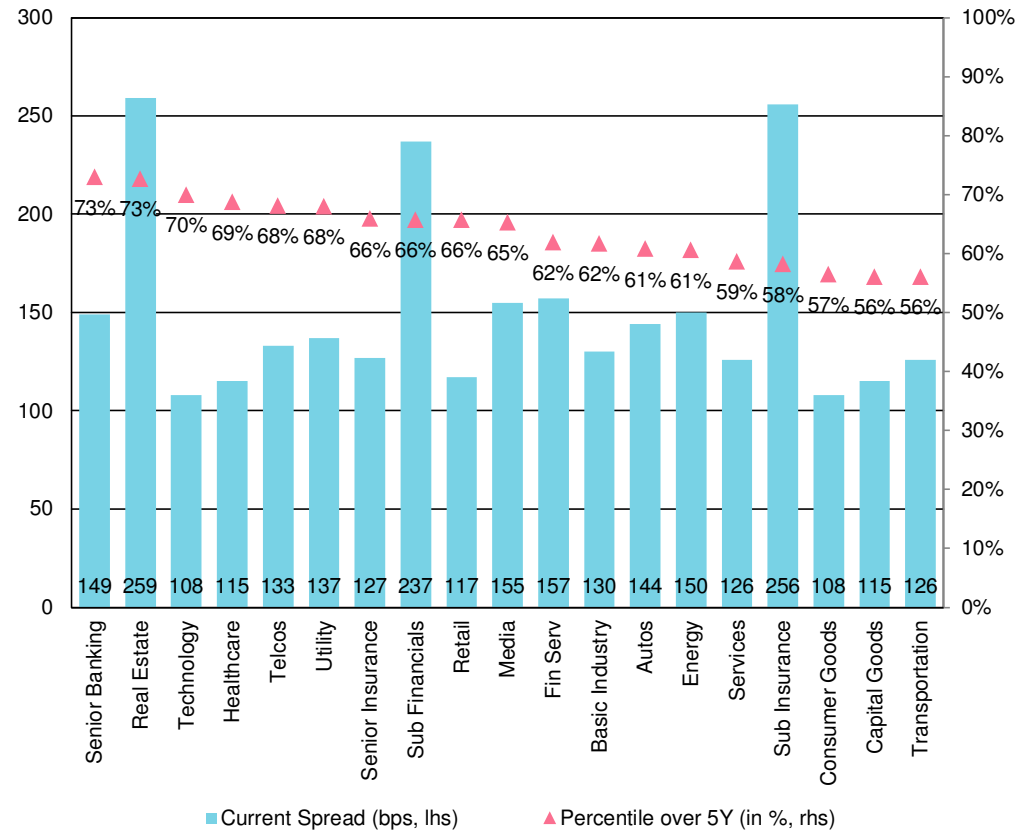
Source: Bloomberg, ICE BofA Corporate Bond Index family, Citi, Vontobel, 9.2023.

...with more dispersion on a detailed sector/ issuer level.

USD IG Universe

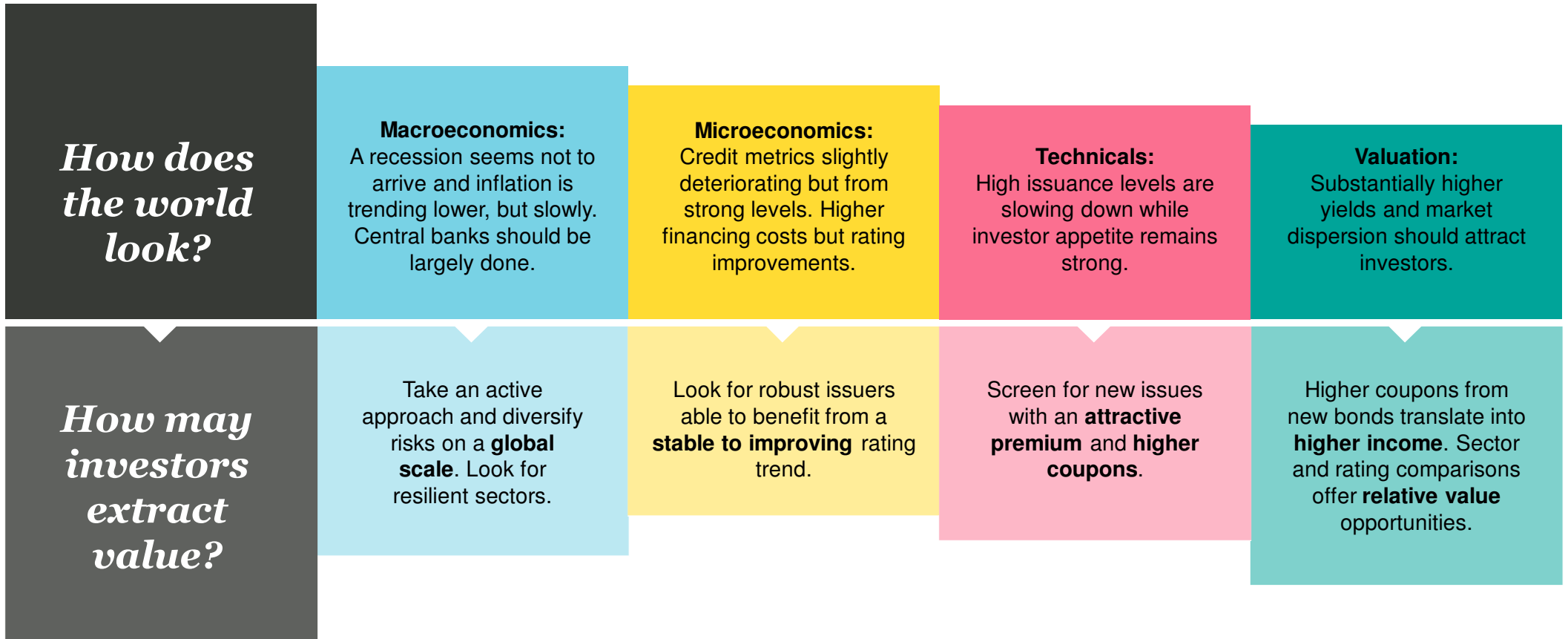


EUR IG Universe



Source: Bloomberg, ICE BofA Corporate Bond Index family, Vontobel, 9.2023. Note: depending on the respective index, the sector breakdown might differ.

## Summary: How may investors extract value?



**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  
Asset Management



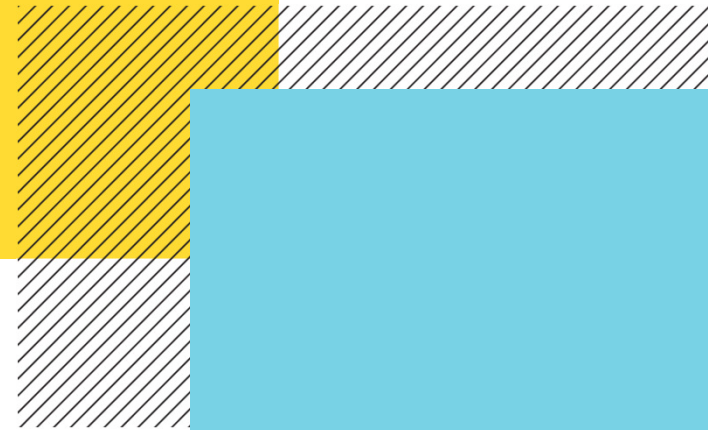
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Director  
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Director  
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**Thank you.**



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