CORPORATE CREDIT HIGHLIGHTS

MARCH 31, 2024

	Monthly Return (%)	Year-to-Date Return (%)	Yield (%)	Option-Adjusted Spread (BPS)			
	3/31/24	3/31/24	3/31/24	3/31/24	12/31/23	12/31/22	12/31/21
Investment-Grade Corporate Bonds	1.23	-0.41	5.25 [1]	85	93	121	87
Single A Bonds	1.21	-0.55	5.17	77	85	109	74
BBB Bonds	1.38	-0.14	5.50	110	121	159	115
1-3 Year Credit	0.50	0.72	5.21	50	58	61	35
7-10 Year Credit	1.41	-0.38	5.27	105	112	152	93
Long Credit	1.91	-1.65	5.46	109	117	157	130
Bank Loans [2]	0.83	2.52	10.65	509	528	652	439
BB Loans [3]	0.76	1.92	8.68	312	315	363	307
B Loans [3]	0.81	2.48	10.50	494	496	691	444
Over $90 [3]	0.83	2.40	9.79	423	418	497	417
Up to and including $90 [3]	0.85	3.88	21.41	1585	1416	1419	1380
Issues over $1 billion [3]	0.78	2.46	10.14	458	476	596	395
Issues $201 million to $300 million [3]	0.86	3.13	14.03	847	882	932	639
High Yield	1.18	1.47	7.66 [1]	299	323	469	283
BB Bonds	1.25	1.13	6.49	184	201	295	194
CCC Bonds	1.10	2.14	11.87	717	776	1008	549
Intermediate High-Yield Bonds	1.17	1.46	7.67	299	323	471	285
Long High-Yield Bonds	1.66	2.07	7.49	320	341	401	252

Source: Bloomberg, Credit Suisse and Morningstar as of 3/31/24.

Investment-grade corporate bonds represent the Bloomberg US Credit Index and index components. This index measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with at least ten years to maturity. **Bank loans** represent the Credit Suisse Leveraged Loan Index and index components. This index is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. **High yield** represents the Bloomberg US Corporate High Yield Index and index components. This index covers performance for U.S. high-yield corporate bonds. An **option-adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.

[1] Yield quoted is yield-to-worst. **Yield-to-worst** is a measure of the lowest possible yield from purchasing a bond apart from a company defaulting.
[2] Yields represent four-year effective yields. The **effective yield** is a financial metric that measures the interest rate (or coupon rate) return on a bond.
[3] Yields represent three-year effective yields. The effective yield is a financial metric that measures the interest rate (or coupon rate) return on a bond.

Highlights

Investment Grade

- JP Morgan Strategy making a large revision to their year-end spread forecast: "We lower our year-end investment grade JP Morgan U.S. Liquid Index (High Grade JULI) spread target to 95 basis points, 10 basis points lower than the current level (our prior forecast was 125 basis points). Simply put, the strong technicals remain in the driver's seat as demand for high grade credit remains overwhelming and supply is starting to ease off the record pace year-to-date." [1]

- HSBC on near record quarterly investment grade (IG) primary supply: "This is now the second largest quarter ever at $509.94 billion, and it is the largest quarter one on record. This is only the second quarter to ever surpass $500 billion." [2]

- Citi Strategy on IG fundamentals: "Our snapshot of Q4'23 fundamentals suggests that U.S. IG corporate credit metrics remain at generally healthy levels. IG issuer leverage in Q4 is flat compared with Q3. While gross and net leverage remain low compared to the 2015 – 2022 range, they are high relative to the years 2005-14. Median IG interest coverage ratios remain in healthy territory at over 9x, however the trend is concerning. The median ratio has fallen by over four turns from the September 2022 peak of 13.9x and now sit at their lowest levels since the mid 2000s. While this is a sign that rates hikes are slowly seeping into corporate interest costs, it does not signal a serious threat to creditworthiness at this stage: the bottom 25th percentile of IG corporates still generate over 7x more in EBITDA than what they pay out in interest expense." [3]

High Yield

- JP Morgan Strategy on agency actions: "The number of high yield (HY) bond issuers upgraded (38) in February exceeded downgrades (34) for the first time since September. Rising star and fallen angels totaled a record $134.7 billion and $23.7 billion in 2023, respectively." [4]

- Bank of America Strategy on the 2024-2026 maturity wall coming down: "high-yield/broadly syndicated loan issuers have made a substantial progress in addressing the wall of their near-term maturities: their debt coming due in 2024-2026 has been cut by $329 billion or 40% of where it stood a year ago. This episode represents one of the most aggressive instances of maturity extension in the history of leveraged finance. Having said that, most of the refinances took place in the highest quality segments first, before expanding to mid-quality in the last few months. Lowest quality market access remains substantially constrained…. We are now looking at $513 billion in 2024-2026 maturities, broken out as $255 billion in bonds and $258 billion in loans. This episode represents one of the most aggressive instances of maturity extension in the history of leveraged finance, on par with early-2017." [5]

Bank Loans

- Morgan Stanley Strategy on 4Q loan fundamentals: "Trailing 12 Months (T12M) EBITDA ended the year at 0.9% quarter over quarter. Despite lackluster growth, earnings have not rolled over and continued to outpace sales. As a result, margins held steady at ~16%. The key metrics of leverage and cash flow profiles saw modest improvement. While interest coverage deterioration persisted, the ratio declined at a slower pace amid peaking policy rates." [6]

Sources

[1] J.P. Morgan Strategy, March 27, 2024.
[2] HSBC, March 30, 2024.
[3] Citi Strategy, March 19, 2024.
[4] J.P. Morgan Strategy, March 19, 2024.
[5] Bank of America Strategy, March 25, 2024.
[6] Morgan Stanley Strategy, March 25, 2024.

Definitions

- **Bank loans** (also known as floating-rate loans or leveraged loans) invest in bonds and other fixed-income securities that have variable, as opposed to fixed, interest rates.
- A **basis point** is one hundredth of a percent, so 100 basis points is equivalent to 1%.
- **Bonds** are units of corporate debt issued by companies and securitized as tradeable assets.
- **Broadly syndicated loans (BSL)** are loans issued by below-investment grade companies and purchased by institutional investors. They are senior secured and have a floating rate coupon that adjusts with short-term interest rates.
- **Cash flow** is the net cash and cash equivalents transferred in and out of a company
- **EBITDA**, or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income.
- **Fallen angels** refers to investment grade bonds that are given a reduced rating to “junk bond” due to a decline in the credit rating of the issuer.
- The **gross leverage ratio** is the sum of an insurance company's net premiums written ratio, net liability ratio, and ceded reinsurance ratio.
- **High-yield bonds** (or junk bonds) are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds.
- The **interest coverage ratio** is calculated by dividing earnings before interest and taxes (EBIT) by the total amount of interest expense on all of the company's outstanding debts. A company's debt can include lines of credit, loans, and bonds.
- **Investment grade** refers to the quality of a company's credit. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's.
- **JP Morgan U.S. Liquid Index (JULI)** is a credit index that covers a wide range of instruments in primarily U.S. and European markets. It provides performance comparisons and valuation metrics across a carefully defined universe of investment grade corporate bonds, tracking individual issuers, sectors and sub-sectors by their various ratings and maturities.
- A **leverage ratio** is any one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.
- **Maturity** is the date on which the life of a transaction or financial instrument ends, after which it must either be renewed or it will cease to exist.
- **Net Leverage** means the ratio of net financial debt (sum of interest-bearing loans and borrowings, current and non-current, less cash and cash equivalents) to Adjusted EBITDA.
- A **refinance** refers to the process of revising and replacing the terms of an existing credit agreement, usually as it relates to a loan or mortgage.
- **Rising star** refers to a bond that is rated as a "junk bond" but could become investment grade because of improvements in the issuing company's credit quality.
- **Spread** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, represented by treasury bonds. Spread income refers to the additional income from this difference.
- **Trailing 12 Months (TTM or T12M)** is a term that describes the past 12 consecutive months of a company's performance data used for reporting financial figures. These figures represent a more current picture of a business's financial performance than using its annual filings and reports, which, at times, can contain information that is nearly one year old.
- **Yield** is the income returned on an investment, such as the interest received from holding a security.

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