



Credit Chronicle

Investment review from Ninety One's
Developed Market Credit team

2023: Quarter 2

Market review

The quarter began on a positive note as risks facing the global banking sector began to dissipate. Subsequently, political debate around raising the US debt ceiling (to prevent the US defaulting on its debt) drove uncertainty, but the necessary deal eventually passed to the relief of market participants. Investors' focus then shifted to global growth dynamics and signals of further rate hikes from key central banks, including the US Federal Reserve, which hiked interest rates by 25bps in May and signalled that further hikes are likely to be needed. This, combined with data evidencing US economic resilience, caused yields to rise meaningfully across the US Treasury curve.

Despite the rise in many developed market sovereign yields, credit markets performed well during Q2. In the high-yield (HY) market, spreads tightened in both the US and Europe, helping to drive positive total returns. Staying in the high-yield market, a combination of progressively rising appetite for risk and light market positioning in CCC rated US credit further helped the asset class. Returns were more muted in the investment-grade market, as higher risk-free rates offset the tightening of spreads that resulted from stronger demand for the asset class given the lure of historically high yields. The loan market was the star performer over the quarter, continuing an impressive run year to date. The asset class continued to benefit from its floating-rate structure, protecting investors from the rise in risk-free rates, while constrained new issue volumes kept demand levels above supply, providing a tailwind.

Current snapshot

We believe that credit markets are driven by three Compelling Forces, and that a careful assessment of each of these is essential for exploiting evolving market inefficiencies and building a robust credit portfolio. Here's our current view:

Compelling force	Fundamentals	Valuations	Technicals
	Fundamental strength	Attractiveness of valuations	Supply/demand dynamics
US high yield	●	●	●
European high yield	●	●	●
US investment grade	●	●	●
European investment grade	●	●	●
US loans	●	●	●
European loans	●	●	●
Bank capital	●	●	●
Corporate hybrids	●	●	●
EM corporate credit	●	●	●
Short-duration high yield	●	●	●

Key: Worst ← ● ● ● ● ● → Best

For illustrative purposes only. For further information on the investment process, please see the important information section.

Are high-yield investors being fairly compensated for default risk in the current climate?

Following the recent rally in risk assets, a common question we are asked is whether high-yield credit investors are still being compensated fairly for default risk as companies face a more testing operating environment. Taking into account a mix of bottom-up and top-down indicators, we assess what the market is telling us in terms of the likely direction of travel for high-yield defaults, and we also assess just how much is 'priced-in' at current spread levels. We think markets are currently pricing a fairly benign default scenario, supporting a skew towards higher quality credits at current valuations.

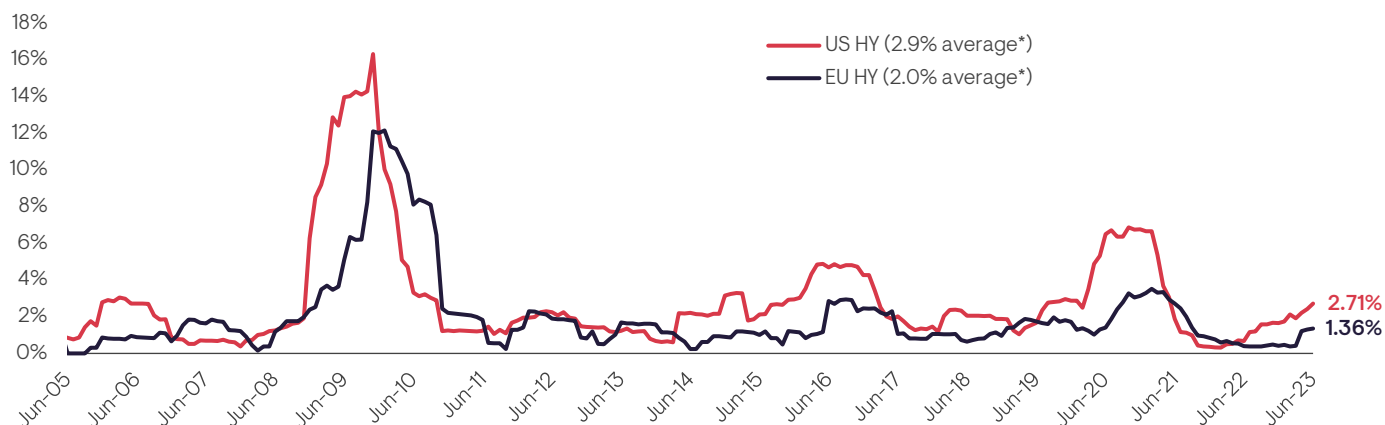
A strong quarter drives down high-yield credit spreads

As shown in the sector summary section later in this report, a combination of improving risk appetite and supportive market technicals made for a strong quarter for high-yield markets. By the end of the Q2, high-yield credit spreads were approaching their tightest levels in 18-months. With clouds looming on the macro horizon, we wanted to reassess high-yield valuations in the context of rising default risks.

But where are default rates heading?

After dropping to historically low levels amid significant COVID-related stimulus, default rates are still below their long-term averages, but they are increasing to more 'normal' levels, as shown in Fig. 1 below. While traditional cyclical peaks see default rates in the range of 10-12%, the key question is how high are they likely to rise in this cycle, and what's being priced into the market?

Figure 1. rolling 12-month high-yield default rate

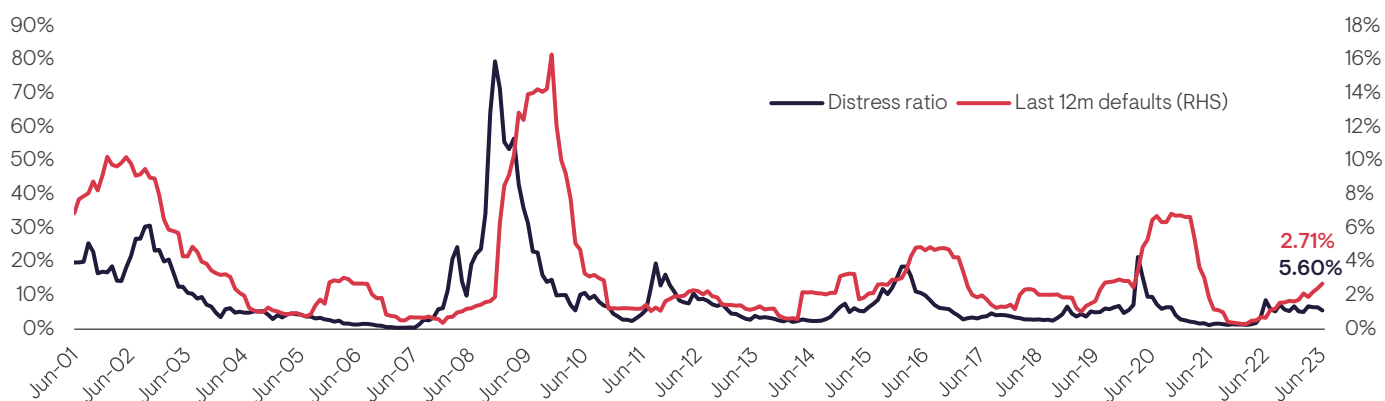


Source: JP Morgan. *Average of monthly data. January 2005 to June 2023.

To inform their default expectations, credit market participants typically look at a mix of bottom-up and top-down indicators, including market and non-market-based indicators. Focusing on these most commonly followed data points, we currently see mixed signals.

On one hand, **distress ratios** remain fairly low, painting a relatively benign picture. Historically a decent leading indicator of default rates, the distress ratio chart below shows the proportion of the US high-yield index trading above a spread of 1000. The current level of distress suggests that the market currently sees relatively few clear default candidates.

Figure 2. US HY: Percentage of index trading above 1000bps OAS, vs. trailing 12-month default rate



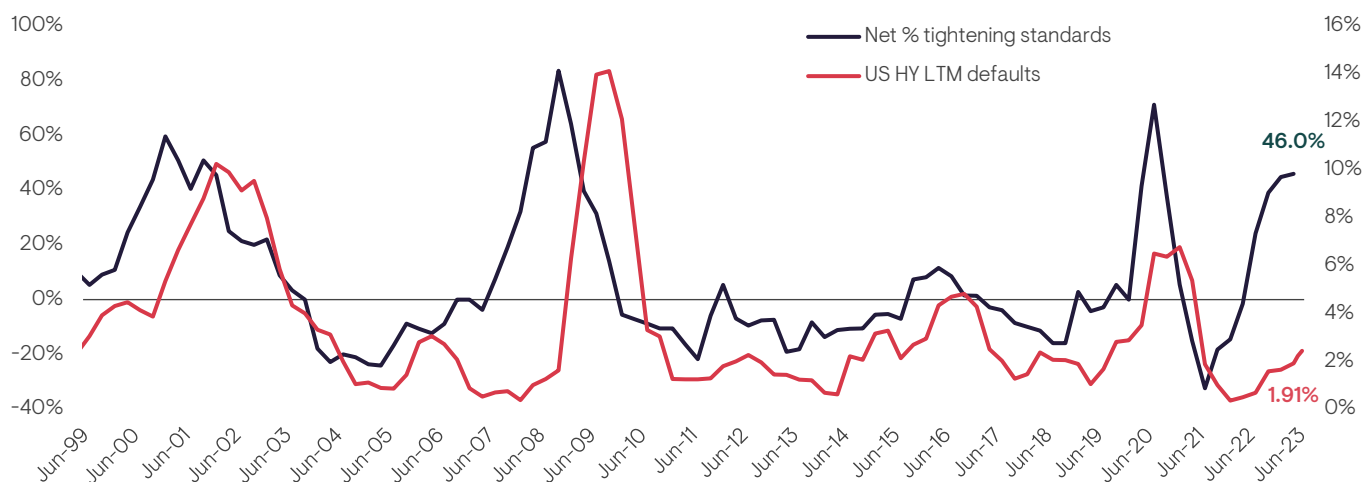
Source: ICE Data Indices, JP Morgan. January 2001 to June 2023.

Developed market credit indicator: Credit Chronicle

Also in the more encouraging camp, **rating trends** appear stable for high-yield debt e.g., US high yield saw more upgrades than downgrades over the last 12 months according to JP Morgan (1.16 upgrade-to-downgrade ratio). The underlying driver of this relatively benign bottom-up trend is the very accommodative market backdrop seen in late 2020 and most of 2021 as policymakers responded to the pandemic; this allowed many borrowers to refinance at favourable conditions and push maturities out further into the future. High yield corporate fundamentals thus still look healthy, with high interest coverage levels and moderate leverage levels indicating that corporates are well placed on aggregate to navigate a more difficult macroeconomic environment.

In contrast, one of the more reliable leading indicators paints a bleaker picture. Trends in **bank lending standards** have historically proven dependable bellwethers for default rates. Key among these, survey results from the Federal Reserve's Senior Loan Officer Opinion Survey on Bank Lending Practices have tended to provide useful information on the direction and magnitude of corporate defaults over subsequent quarters. A tightening in bank lending standards has historically been strongly correlated with defaults over the subsequent few quarters, as shown in the chart below.

Figure 3. US bank lending standards* (LHS) vs. last 12m high-yield default rate (RHS)



Source: Federal Reserve, JP Morgan. LTM = last twelve months. *Net percentage of domestic respondents tightening standards for corporate and industrial loans. US HY LTM defaults as at 30 June. Net % tightening standards as at 30 April.

The latest survey data points to a sharp increase in default rates (potentially to the mid-high single-digits based on historical relationships). While this is certainly not an indicator to ignore we think there is a strong argument to suggest the strength of the correlation may be weakening. So, while the direction of defaults is likely higher, we think the magnitude is likely to be less than that implied by the survey data. A key reason is that a reduction in banks' appetite for corporate risks may be less damaging for credit markets than it has been in the past – while banks remain a significant source of funding for large corporates, their role has been disintermediated over the last couple of decades, with institutional investors playing a larger role.

High-yield markets aside, another potential source of concern comes from the faster pace of credit deterioration evident in the leveraged loan market. As the extraordinarily accommodative monetary policy environment many economies have become accustomed to is unwound, the most direct impact on corporate credit will be via the sharp increase in funding costs. In this regard, although loan default rates currently look similar to bond default rates (JP Morgan estimates 2.9% for US loans over the last 12 months vs. 2.7% for US high yield), it is notable that some loan credit indicators are weakening more quickly than high-yield bonds – e.g. for the last 12 months, JP Morgan reports an upgrade to downgrade ratio of 0.46 for US loans vs. 1.16 for bonds. Since loans are almost entirely floating rate and high-yield bonds are mostly fixed rate, borrowers with loans outstanding face a much more front-loaded impact to their cash flows from the increase in rates. Although slower to filter through, funding costs for fixed-rate borrowers will also rise as borrowers come to market to refinance.

The exact path of defaults will, of course, depend on how various regional macroeconomic scenarios play out (i.e. whether or not there is a recession, and just how deep that recession is). However, default rates look set to return to at least long-term averages in the near term, and given the magnitude of the macroeconomic forces at play, we think it is likely they continue to rise above those averages. However, given a starting point of comparative corporate balance sheet health (loans aside), we think there is a case to be made that default rates do not hit traditional cyclical peaks, even in the event of a recession and full default cycle.

Valuations point to an underpricing of risk

After a strong spread rally in an environment where defaults are starting to rise, the natural question for credit investors is whether we are still being compensated well enough for default risks. Put another way: are current valuations accurately reflecting the level of default risk investors face?

One useful framework for thinking about valuations is to decompose credit spreads into two components:

1. **Credit loss compensation:** the spread required to compensate investors for expected credit losses (calculated as the expected rate of default multiplied by the expected loss given default).
2. **Excess spread premium:** the additional spread required on top of the expected credit loss to compensate investors for other factors such as risk premia and liquidity.

If we assume that the historical average excess spread premium remains constant, and the expected rate of recovery on defaulted credit remains at around 40%, we can then back out the expected rate of default implied by current overall spread levels.

A common approach for estimating the excess spread premium is to look at the differential between credit spreads and the subsequent 12-month realised credit loss (combining historical default and recovery data). Using this approach, the average excess spread premium has been c.300bps for high yield (typically oscillating between 200bps and 400bps). Using this average 300bps excess spread premium historically required by market participants, the table below shows our estimates of the default rate implied by current spread levels for Euro and US dollar high-yield markets.

Table 1. Estimated implied default rates at current spread levels

		US high yield	Euro high yield
End Q2 2023 spread (bps)	(A)	405	446
- minus 300bps "excess spread premium"	(B)	-300	-300
Assumed compensation for credit losses (bps) [A – B]	(C)	105	146
Implied default rate assuming 60% loss given default (%) [C ÷ 60%]		1.8%	2.4%

Source: Ninety One, ICE Data Indices, JP Morgan. As at 30 June.

For US high yield, the implied default rate is 1.8%. This is below the long-run average of around 2.9% and below JP Morgan's latest trailing 12-month estimate of 2.7% (including distressed exchanges). For Euro high yield, the implied default rate is 2.4%. This is slightly above the long-run average of around 2%. While this analysis is only indicative and sensitive to assumptions (in particular, that the additional compensation investors currently demand over expected credit losses is in line with historical averages), we think it is clear that both markets are trading to a relatively benign default outlook.

Although this may be justified based on some default indicators (such as the low proportion of individual names trading at distressed levels), we think current valuations leave little margin for error. The speed and scale of monetary policy tightening means negative surprises are likely. While we think it is unlikely that cyclical peak default rates will be reached over the coming year, using the excess spread premium analysis above, a reversion of default rates into even the mid-single digits (5-6%) would indicate spreads widening back to somewhere around 600bps. History would suggest in an environment of rising defaults, there is also a high chance that spreads overshoot the level required for eventual realised credit losses, at least temporarily.

At an aggregate level, we think this supports a skew towards higher quality credits at current valuations. However, increasing price dispersion also creates opportunities though for informed, fundamentally focused credit selection.

Sector by sector

High yield

US	--	-	0	+	++
Fundamentals			●		
Valuations		●	○		
Technicals				●	
EUR	--	-	0	+	++
Fundamentals		●			
Valuations			●		
Technicals				●	

An empty circle denotes our view in previous quarter, if it differs.

High-yield (HY) markets had a steady second quarter, with US HY and European HY returning 2.5% and 2.3% respectively. On aggregate, technicals remained an important driver of intra-asset returns, with an initial market underweight positioning in lower-quality bonds driving their outperformance as market participants pared that underweight. For example, US CCCs returned 5.7% in the quarter, taking their year-to-date returns to 10.0%. Better-than-expected macro data, coupled with an AI-driven frenzy in equity markets, drove credit investors to add risk throughout the quarter, with HY fund beta reaching its highest level in twelve months. Furthermore, we note a significant skew in valuations, with 55% of the index trading well inside and 10% well wide of index mean. As such, the headline OAS spread of 480bps (as at 22 June) may not be quite as 'investable' as it appears, as we discussed in our recent ['Picture this'](#). In conclusion, we retain our more cautious stance on the asset class, especially in light of technical dynamics (supply and demand forces) becoming less supportive lately.

Global loans

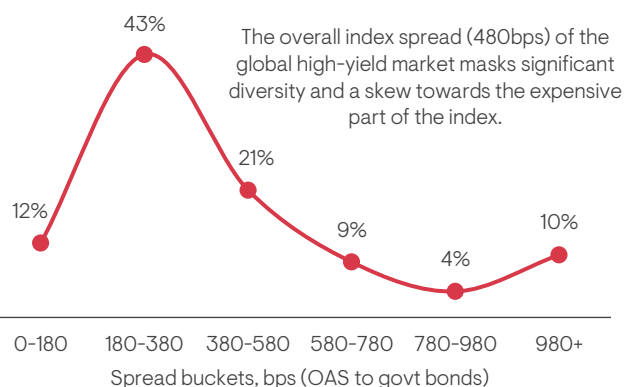
US	--	-	0	+	++
Fundamentals			●		
Valuations				●	
Technicals			●		
EUR	--	-	0	+	++
Fundamentals		●			
Valuations				●	
Technicals			●		

An empty circle denotes our view in previous quarter, if it differs.

The stellar relative performance of loans continued over Q2. US and European markets delivered returns of 3.2% and 3.4% respectively, with June a particularly robust month for US loans (+2.3%) and the second strongest month since May 2020. Year-to-date (YTD) returns for US and European loans now stand at 6.5% and 7.3% respectively, continuing to outperform other credit asset classes. The picture, however, was more mixed when viewed by rating bucket, with US CCCs (+4.9%) outperforming single-Bs (+3.2%) and BBs (+2.7%) in the quarter, versus EUR CCCs (+1.8%) underperforming single-Bs (+3.4%) and BBs (+2.1%).

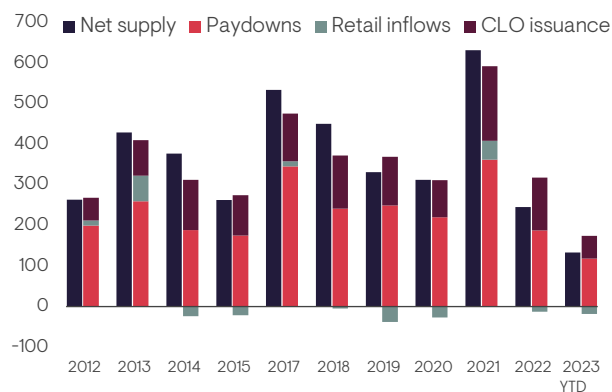
Flows remained weak, with US loan outflows of US\$9.2bn in Q2 bringing the YTD total to -US\$18.5bn vs. +US\$16.5bn in the same period in 2022. June marked the 14th consecutive month of outflows for the asset class, albeit very modest at just -US\$114mn. However, the combination of constrained new issuance volumes (net new issuance -76% year on year), continuing CLO formation and repayment/amortisation means the supply/demand picture remains more balanced, and a notable supportive technical tailwind in driving YTD performance (see chart above). The quarter also ended with a historic moment as LIBOR ceased to be the reference rate for trillions in global assets on 30 June. To date, c.41% of US loans have transitioned to its replacement, SOFR, with most of the remaining loans having fallback language that allows them to convert over the coming year. However, c.8% of US loans do not contain such language, with many of these loans being from riskier issuers that have struggled to refinance their debt to SOFR. Although there are options for these issuers, these only represent temporary fixes with time running out for issuers to secure longer term solutions.

Global high-yield dispersion: the misleading mean



Source: ICE BAML, Bloomberg, as at 22 June 2023. Index = ICE BAML Global High-Yield Index (HWOC).

Excess loan demand in 2023, US\$ billions



Source: JP Morgan data, plotted by Ninety One. June 2023.

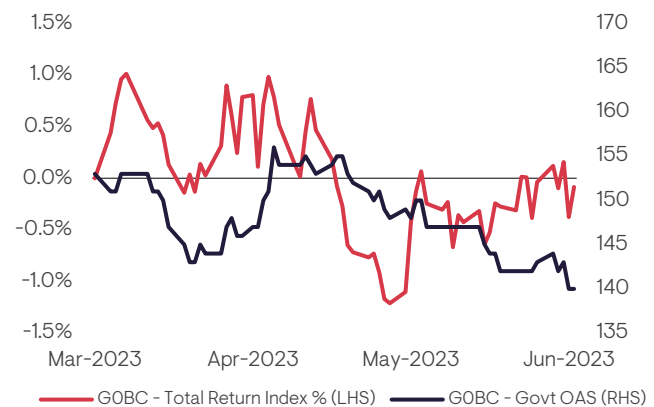
Developed market credit indicator: Credit Chronicle

Investment grade

US	--	-	0	+	++
Fundamentals			●		
Valuations			●	○	
Technicals				●	
EUR	--	-	0	+	++
Fundamentals		●			
Valuations				●	
Technicals	○		●		

An empty circle denotes our view in previous quarter, if it differs.

Global IG spreads (bps) versus total returns (%)



Source: Bloomberg, 30 June 2023. Global IG index = BofA Global IG index (GOBC). Spread is OAS.

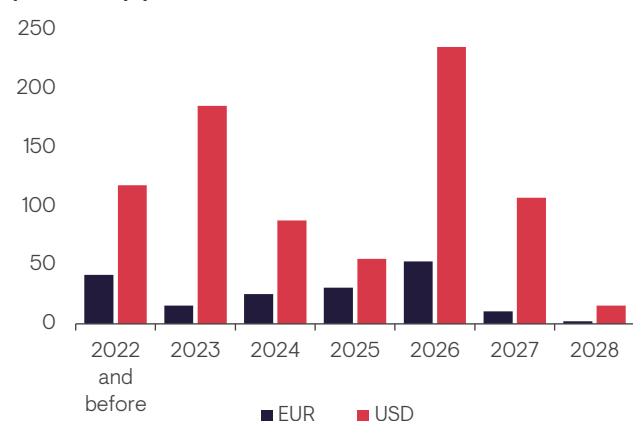
Global investment grade (IG) markets had a muted Q2, with total returns in the asset class flat through the quarter as tighter spreads were offset by higher risk-free rates. US IG meaningfully outperformed EUR IG from a spread perspective (tightening 16bps vs. 4bps) but EUR IG generated a higher total return, a reflection of the headwinds from outsized moves in US Treasury rates. This left yields broadly unchanged at near decade highs of 5%+. These elevated yields continue to attract a large cohort of institutional buyers, partially explaining the move tighter in spreads which has kept prices stable. This dynamic could persist until markets see a significant risk asset selloff. Risk-free rates will therefore be key for how IG markets perform going forward. The core risk for IG is if rates continue to trend higher as the market prices in further hikes to address stubborn inflation, and this then feeds through to drive risk assets lower and credit spreads higher. In this scenario, both rates and spreads would rise, which given the high duration nature of IG markets would have a significant impact on bond prices. This dynamic is what drove IG to be one of the worst performing credit asset classes in 2022. With that said, IG spreads could be relatively resilient even through some market volatility – this is thanks to robust credit fundamentals, which have continued to improve YTD. One data point that supports this is the positive momentum in rating agency outlooks: there are now significantly more low-BBB rated credits on positive watch/outlook than on negative watch/outlook, suggesting we could see more rating upgrades than downgrades in the near-term. This reflects the positive fundamental trajectory of IG companies more broadly, especially at the lower-quality end of the market. Given this dynamic, it was unsurprising to see BBBs tighten towards single-As in the quarter, driving the BBB-A spread differential today to just below the historical median.

Structured credit

Senior CLOs (AAA/AA)	--	-	0	+	++
Fundamentals			●		
Valuations				●	○
Technicals		○	●		
Mezzanine CLOs (A-BB)	--	-	0	+	++
Fundamentals		●			
Valuations				●	
Technicals			●		

An empty circle denotes our view in previous quarter, if it differs.

Balance of Euro and USD CLOs exiting reinvestment periods by year (US\$bn)



Source: Ninety One, Bloomberg, 30 June 2023.

CLO performance was mixed in Q2, with European CLOs keeping pace with strong performance across risk assets, while US CLOs lagged. This divergence was also evident in the underlying loan markets for much of Q2. Having ended Q1 2023 at similar levels, European loan prices were 1.7 points higher than US loan prices by the end of May according to Morningstar loan indices. While US loans closed the gap again in June, US CLO tranches failed to keep up. Taking BB CLOs, for example, European CLOs tightened 33bps in Q2 according to Citi, while US CLOs widened 18bps. A rising pace of loan downgrades in the US, particularly among CCCs, is likely negatively impacting demand for lower mezzanine tranches, where valuations are more sensitive to the lower-quality end of the market. One topic that both CLO and loan investors are increasingly focused on is declining CLO demand for loans. Market conditions are making issuance of new CLOs difficult, and many existing CLOs are approaching or passing the end of their typically 4-to-5-year reinvestment periods, at which point CLO managers lose much of their reinvestment flexibility. For CLO investors, we think one of the implications of tighter reinvestment restrictions is that managers will be forced to return more cash to CLO investors. This is likely to cause an uptick in principal redemptions for shorter, post-reinvestment CLO tranches, which we think will be supportive of valuations for these bonds.

Developed market credit indicator: Credit Chronicle

Specialist credit

Bank capital	--	-	0	+	++
Fundamentals		●			
Valuations				●	○
Technicals		●			
Corporate hybrids	--	-	0	+	++
Fundamentals		●			
Valuations			●		
Technicals		○	●		

EM corporate debt	--	-	0	+	++
Fundamentals		●			
Valuations		●	○		
Technicals				●	
Short-duration high yield	--	-	0	+	++
Fundamentals			●		
Valuations				●	
Technicals			●		

An empty circle denotes our view in previous quarter, if it differs.

Corporate hybrids (perps) started the quarter looking ‘cheap’ vs. BB rated bonds, having seen some contagion from the Credit Suisse AT1 write off. Wide starting valuations, significant inflows for investment-grade managers, paired with a risk-on environment, drove a decent outperformance in the second quarter, with IG corporate hybrids and high-yield hybrids returning 1.5% and 1.9% respectively. On a sector basis, utility perps outperformed as spreads continued to normalise from very elevated levels. Sentiment in utilities was likely further aided by the strong secondary market performance of the new EDF US\$ deal, which traded well despite coming at the tight end of expectations and the absence of a step-up (allowing the issuer to retain equity content perpetually in case of a non-call). At the opposite end of the spectrum, real estate perps continued to underperform.

Bank capital, or contingent convertibles (CoCos), had a strong Q2, returning 5.8%, substantially outperforming comparable asset classes such as high yield. Notably, we saw the primary market reopen following the demise of Credit Suisse in March, as well as a continuation of issuers calling their capital securities, which helped to lift sentiment. Despite the strong performance of the asset class, it still screens cheap relative to various comparable asset classes (namely high yield). We continue to find most value in the large national champion banks and specifically within shorter call structures as we believe that extension risk is still mispriced for a number of these names.

EM corporates produced a positive total return over Q2, with the JP Morgan CEMBI BD returning 1.4%, outperforming developed market investment-grade corporates, but modestly underperforming global high-yield. While both high-yield and investment-grade bonds delivered positive performance, with spread tightening more than offsetting the sell-off in risk-free rates, it was high-yield that drove the index. This was largely driven by a continued recovery in the distressed part of the market, namely in countries such as Ukraine and Argentina. In both markets, investors had previously not been pricing in the underlying fundamental strength of many issuers in these distressed sovereigns. Over the quarter however, the continued ability for many issuers to remain current on their debt obligations, despite the respective challenging domestic backdrops, was finally rewarded by the market, lifting the high-yield area of the index.

Credit market performance	Q2 2023 return (USD hedged) %	Yield-to-worst %	Spread*	Duration
US high yield	2.5	8.6	407	3.6
European high yield	2.3	7.4	446	3.0
US investment grade	0.4	5.6	130	6.9
European investment grade	1.3	4.3	161	4.6
US loans	3.2	10.2	572	0.3
European loans	3.4	9.9	625	0.3
Short duration high yield	1.7	9.4	486	1.7
CoCo's	5.8	8.8	456	2.5
Emerging market corporate debt	1.4	7.3	317	4.2

Past performance is not a reliable indicator of future results, losses may be made. Please see important information section for information on indices.

*OAS spread. Sources: US high yield = BofA US High Yield (HUCO); European high yield = BofA EUR High Yield (HE00); US investment grade = BofA US Investment Grade (COAO); European investment grade = BofA EUR Investment Grade (ER00); US Loans = S&P/LSTA Leverage Loan Index; European EUR Loans = S&P/LSTA European Leverage Loan Index; Short Duration High Yield = BofA 1-3yr Global High Yield (HIWN); CoCo's = BofA Contingent Capital Index (COCO); EMCD = JPM CEMBI BD. All as at 30 June 2023.

General risks

The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth.

Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations.

Specific Risk(s)

Default: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. **Derivatives:** The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Interest rate:** The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. **Liquidity:** There may be insufficient buyers or sellers of particular investments giving rise to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than might be anticipated.

Glossary

Alpha: outperformance of a reference index or market through an investment manager's active investment decisions.

Bank capital: additional capital held by banks to absorb losses under duress. Cheaper and quicker for banks to issue than equity. Helps banks to improve their capital ratios.

Bank preference securities: issued by banks to meet their required capital ratios. These have characteristics of both equities and bonds. The securities are perpetual (with call features), pay dividends, and are subordinated relative to other forms of debt.

Callable bonds: bonds that can be redeemed by the issuer prior to the maturity date of the bonds. The issuer may look to issue new bonds at a lower coupon.

Carry: the net-of-cost return earned by owning a security – a 'carry trade' might involve borrowing at a low interest rate to invest in a security offering a higher interest rate to earn the additional 'carry'.

CLO: collateralised loan obligations are bonds that are backed by pools of (typically sub-investment grade) corporate loans. Several bonds of varying risk and return characteristics are usually issued against each pool of loans. Lower-risk, 'senior' tranches have higher priority claims on the cash flows from the loans but offer a lower yield than the lower-rated 'junior' tranches, which are the first to suffer losses if the underlying loans underperform.

Corporate hybrids: subordinated debt of Investment-grade issuers. They combine characteristics of bonds (payment of coupon) and of equities (no maturity date or very long maturities) and are typically rated a few notches lower than the same issuers' senior debt. Usually callable by the issuer five or 10 years after issue

Coupon: the regular interest payments a bondholder receives from the issuer of the bond.

Credit rating: a score awarded by an independent rating agency to indicate the financial strength of the issuer of a bond, and the potential for it to default on interest and principal payments. The top credit rating is 'AAA'. The lowest rating to be considered 'investment grade' is 'BBB'. Below 'BBB', bonds are termed 'sub-investment grade' or 'high yield'. The higher the credit rating of the issuer of the bond, the higher the 'quality' of the bond.

Credit spread: the difference between the yield offered by a corporate bond and the yield offered by a sovereign (government) bond of an equivalent maturity. This is the reward the investor gets in return for taking on a greater level risk than they would if they just invested in the sovereign bond.

Credit risk: see *Default risk*.

Currency swap: a swap is an agreement between investors to exchange future cashflows, such as interest payments. In a currency swap, the parties to the agreement exchange future cash flows of different currencies

Default risk: the risk that the issuer of a bond may not be able to meet interest payments or repay the money it has borrowed. The lower the credit rating of the issuer, the greater the risk of it defaulting on its debt and the greater the risk of the investor suffering an investment loss.

Duration: a measure of how much a change in interest rate will impact a security's market value. There is an inverse relationship between interest rates and bond prices.

Emerging market credit: bonds issued by companies from emerging markets (e.g. China, Brazil). Can be rated high yield or investment grade. Largely US dollar-denominated, although a small local currency corporate bond market exists.

Excess return: the total return of the bond minus the return attributable to changes in underlying treasury yields of an equivalent maturity.

Extension risk: the risk that the bond issuer will seek to delay when it pays back the amount it has borrowed from bondholders.

Fallen angel: an investment-grade bond issuer that has subsequently had its debt downgraded to a high-yield credit rating.

Floating-rate notes: the floating nature of coupon provides protection in a rising interest rate environment. Issued by both investment-grade and high-yield borrowers. These are typically shorter duration (up to five 5 years).

Interest rate risk: see *Duration* above.

Leveraged loans: loans that are structured, arranged and administered by at least one commercial or investment bank. Typically issued to support a merger or acquisition or to finance company growth. Sub-investment-grade rated. Typically, the coupon is a floating rate rather than fixed.

Maturity: The date the issuer will repay the bondholder.

Subordinated debt: debt that is repaid only after other debt has been repaid (i.e. comes further down in the order of priority for repayments) in the event of the issuer of the debt falling into financial difficulties.

Synthetics: highly liquid financial instruments that artificially simulate other credit market investments. Instruments can be related to a single corporate, or to a whole credit index. Allows for efficient implementation and hedging.

Total return: the investment return on a bond which takes into account a change in credit spread and a change in the yield of the underlying treasury of an equivalent maturity.

Yield: the return investors earn for owning a bond to maturity. This is a function of the price paid for the bond, the coupon, and the time to maturity.

Important information

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