Newsletter

High yield

December 2023

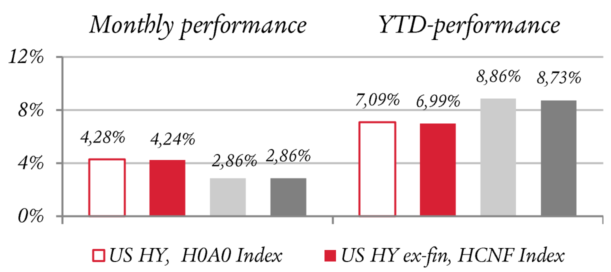
After a complicated October, markets rallied strongly in November. The positive performance was triggered by the publication of lower-than-expected US inflation figures. Government yields contracted and all asset classes posted a positive performance, with a notable outperformance for US markets. The S&P 500 had its best November since the 1980s. In the high-yield space, the euro market ended the month with a performance of +2.86%, while the US market finished with a strong upward trend at +4.24%, its best November in more than 20 years.

Highlights of the month

Performance

November saw a strong market rebound linked to a fall in inflation, suggesting that the cycle of interest rate hikes has indeed come to an end. The HY US and HY EUR markets ended the month of November with positive performances of +4.24% and +2.86% respectively. Lower interest rates and tighter risk premiums explain the strong performance.

PERFORMANCE OF THE HIGH-YIELD MARKETS

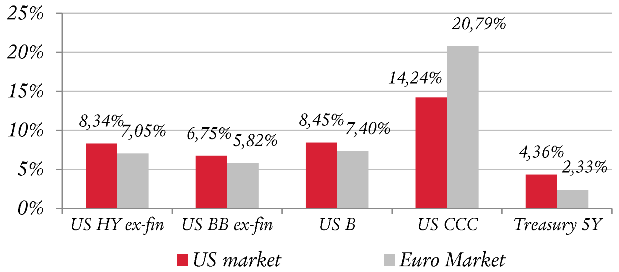


Source: Swiss Life Asset Managers – 30.11.2023

Rating Segments

The rating segments most sensitive to government yields (BB) logically outperformed due to the significant fall in rates. BB Euro: +2.68%; BB US: +4.37%. The other rating segments performed quite similarly apart from the CCC Euro, which underperformed significantly. B Euro: +3.55%; B US: +4.18%. CCC Euro: +0.71% and CCC US +4.25%.

YIELD TO WORST*



Source: Swiss Life Asset Managers – 30.11.2023

Note: Source: Swiss Life Asset Managers France, Bloomberg. This presentation contains historic market data. Historical market trends are not a reliable indicator of future market behaviour. This data is provided solely by way of illustration. Depending on the publication date, the information presented may differ from the latest data. Performance in foreign currencies is hedged in euros.

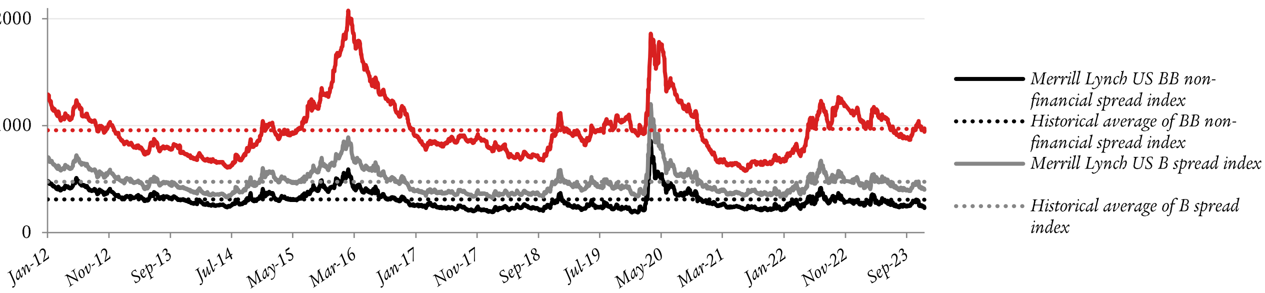
Sectors

While all sectors ended in negative territory in the US in October, November saw a remarkable performance. Europe also performed extremely well as a whole. In both the US and Europe, the big winners are the technology sector (US: +5.85%, Eur. : +3.99%) and the utilities sector (US: +5.65%, Eur. : +3.49%). The only downside is the real estate sector in Europe (MTD: -2.10%) which remains one of the worst performers this year (YTD: -10.20%).

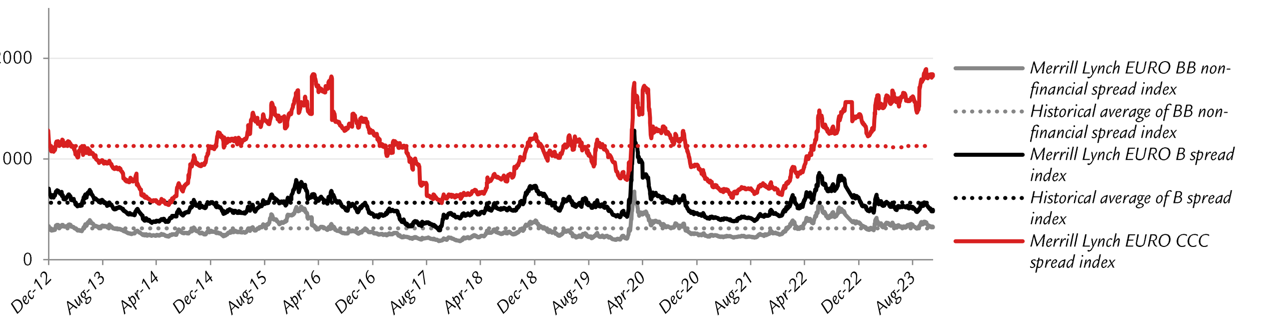
Primary market

In November, HY US issues increased, with USD 16 billion in issues from 23 issuers (compared to USD 11.7 billion in October 2023). The main issue was from Borr, a Norwegian drilling company, which issued USD 1.54 billion of bonds. In terms of HY EUR, after a slowdown in October, the primary market recovered. There were ten issuers, with a combined total of EUR 5.04 billion compared to EUR 1.7 billion the previous month. The main issue was from Var Energi, a Norwegian oil and gas company, for EUR 0.75 billion.

DEVELOPMENT OF SPREADS IN THE UNITED STATES



DEVELOPMENT OF SPREADS IN EUROPE



Default rate and changes in the pool

In the United States, two issuers were upgraded to rising stars: the car manufacturer Ford with USD 39.48 billion and the oil infrastructure company Energy Transfer with USD 2.85 billion. By contrast, no issuers were downgraded in the US HY market.
The same is true in Europe. Two issuers improved their ratings in November: US car manufacturer Ford for EUR 4.2 billion and Elis, a cleaning and hygiene specialist, for EUR 0.5 billion. No issuer was downgraded to fallen angel.
Only the US market saw defaults in November. The only default was the coworking company WeWork for USD 0.5 billion.

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Our strategy

“The market anticipates a very positive scenario”

Édouard Faure
Head High Yield Management

1. High-yield strategy

- Market volatility fell significantly in November and returned to pre-COVID levels. The market continues to be dominated by inflation expectations of government yields. In this respect, the publication of lower-than-expected US inflation figures at the beginning of November gave markets a lot of momentum. This was coupled with dovish comments from various central bankers, weaker-than-expected growth data and falling inflation in most European countries.
- Against this backdrop, government yields fell significantly. The 10-year German rate fell by 36 bps and the 10-year US rate tightened by 60 bps. Short-term rates also benefited from the decline, but to a lesser extent, meaning that the yield curve inversion is still in place.
- This positive sentiment was also reflected in the valuation of high-yield market risk premiums. In Europe, risk premiums fell by more than 50 bps and in the US by almost 60 bps. The difference in absolute performance between the two regions is mainly explained by the stronger decline in rates across the US.
- The primary market was more active than in October as issuers sought to secure attractive coupons when refinancing. We expect issuance to accelerate at the beginning of 2024, especially in Europe, where many issuers have bonds maturing in 2025.
- In the previous months, we had increased our weighting of bonds with a high correlation with government yields, notably through hybrid debt but also through an increase in BBB-rated bonds. We currently believe that markets are anticipating the most positive scenarios (rapid rate cuts by central banks, a “soft landing”, risk premiums offering little opportunity for further tightening). We continue to believe that there are pockets of value within the hybrid segment and quality issuers in the less cyclical sectors.

2. Q3 results remain relatively resilient in the US

- Despite high volatility in the macroeconomic environment, the results for Q3 2023 announced by high-yield issuers in the US remain relatively resilient, albeit with a slight deterioration in the operational trend compared to the most recent results (Q1 and Q2 2023).
- As such, 40% of HY US issuers posted an operating result (“EBITDA”) above consensus expectations, compared to only 17% below. However, it should be noted that this momentum slowed slightly compared to the previous quarter (43% positive surprises, 18% negative surprises).
- In terms of outlook, 27% of HY US issuers issued outlooks seen as positive and 23% as negative. Similarly, we can see a slight deterioration compared to the previous quarter (29% positive outlook and 21% negative outlook).
- Finally, 31% of HY US issuers announced that they were impacted by inflationary pressures (either in terms of commodities or wages), broadly in line with Q2 (33%), but down significantly compared to Q1 (41%).

About Swiss Life Asset Managers

Swiss Life Asset Managers has more than 165 years' experience managing the Swiss Life Group's assets. This close link with insurance underpins its investment philosophy, the main objectives of which are to take a responsible approach to risks and to act each day in its clients' best interests. Swiss Life Asset Managers also offers this proven approach to third-party clients in Switzerland, France, Germany, Luxembourg, the UK and the Nordics.

As at 30 June 2023, Swiss Life Asset Managers managed EUR 265.8 billion in assets for the Swiss Life Group, with more than EUR 114.8 billion in assets under management on behalf of third-party clients. Swiss Life Asset Managers is a leading real estate manager in Europe[1]. Of the EUR 265.8 billion in assets under management, EUR 91.7 billion are invested in real estate. In addition, Swiss Life Asset Managers manages EUR 21.6 billion of real estate assets jointly with Livit. Thus, as at 30 June 2023, Swiss Life Asset Managers managed EUR 113.3 billion in real estate assets.
The clients of Swiss Life Asset Managers benefit from the commitment and expertise of more than 2200 employees in Europe.

A self-determined life

Swiss Life enables people to lead a self-determined life and look to the future with confidence. This is also the goal of Swiss Life Asset Managers: we think long-term and act responsibly. With our expertise and experience, we develop future-oriented savings and investment solutions. We support our clients in achieving their long-term investment goals so that they, in turn, can take into account the needs of their clients and build a self-determined financial future.

1 INREV Fund Manager Survey 2021 (based on AuM as at 31 December 2021).

Swiss Life Asset Managers, data from 30 November 2023

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