

High-Yield Bond Market in Today's Fixed Income Landscape

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Sources: Bloomberg, Cbonds

Historical performance

	YTD	2022	2021	2020	2019	2018	Since 2000 (annual equivalent)	Annualized Volatility of returns	Return / Volatility
US									
The Bloomberg US Corporate Bond Index	+3,2%	-15,8%	-1,0%	+9,9%	+14,5%	-2,5%	+5,0%	5,5	0,91
The Bloomberg US Corporate High Yield Bond Index	+4,3%	-11,2%	+5,3%	+7,1%	+14,3%	-2,1%	+6,3%	5,25	1,20
EU									
The Bloomberg Pan-European Aggregate: Credit Index	+1,5%	-16,4%	-0,8%	+2,8%	+7,7%	-1,1%	+3,2%	3,67	0,88
The Bloomberg Pan-European High Yield Index	+3,4%	-11,1%	+4,2%	+1,8%	+12,3%	-3,6%	+5,4%	6,09	0,89
EM									
The Bloomberg Emerging Markets Hard Currency Aggregate Index	+2,3%	-15,3%	-1,7%	+6,5%	+13,1%	-2,5%	+6,9%	5,54	1,24
Bloomberg Emerging Markets High Yield	+1,2%	-12,4%	-3,2%	+4,3%	+11,5%	-4,7%	+7,4%	7,09	1,05
Equity indices									
S&P 500 INDEX	+8,7%	-18,1%	+28,7%	+18,4%	+31,5%	-4,4%	+6,4%	19,87	0,32
STXE 600 (EUR) Pr	+11,3%	-9,9%	+25,8%	-1,4%	+27,9%	-10,1%	+4,3%	19,19	0,22
MSCI ACWI	+8,9%	-17,9%	+19,0%	+16,9%	+27,3%	-8,9%	+5,2%	15,94	0,32

High-yield bonds have the potential to generate equity-like returns over the long-term with lower volatility compared to equity markets.

Snapshot of the characteristics fixed income universe

								OAS over Treasuries		
	Currency	Credit rating	M. Duration	Yield to worst	Average coupon	Average price	Current yield	Current	Average since 2021	Average spread since 2000
The Bloomberg US Corporate Bond Index	USD	A3/BAA1	7,5	5,2	3,8	91,5	4,2%	134	133	152
The Bloomberg US Corporate High Yield Bond Index	USD	BA3/B1	4,2	8,4	5,9	88,9	6,6%	439	429	507
The Bloomberg Pan-European Aggregate: Credit Index	EUR	A1/A2	5,6	4,2	1,9	88,6	2,1%	139	143	119
The Bloomberg Pan-European High Yield Index	EUR	BA3/B1	3,3	8,2	4,0	87,6	4,5%	487	497	511
Bloomberg EM USD Aggregate	USD	BAA2/BAA3	6,5	7,3	4,6	84,7	5,4%	351	358	344
Bloomberg Emerging Markets High Yield	USD	B1/B2	5,3	11,0	5,6	73,5	7,6%	740	728	541
Bloomberg Emerging Markets Investment grade	USD	A3/BAA1	7,1	5,2	3,9	92,4	4,3%	139	148	203

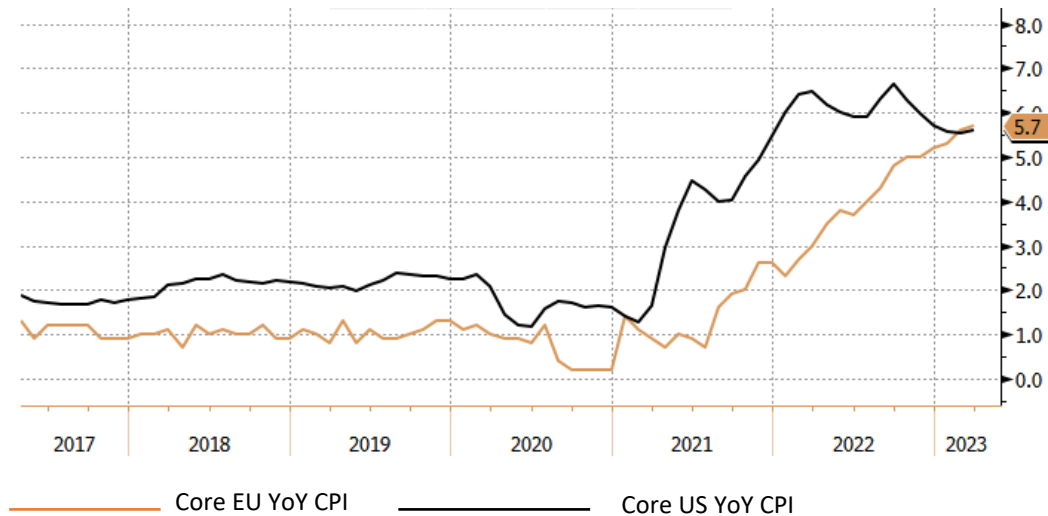
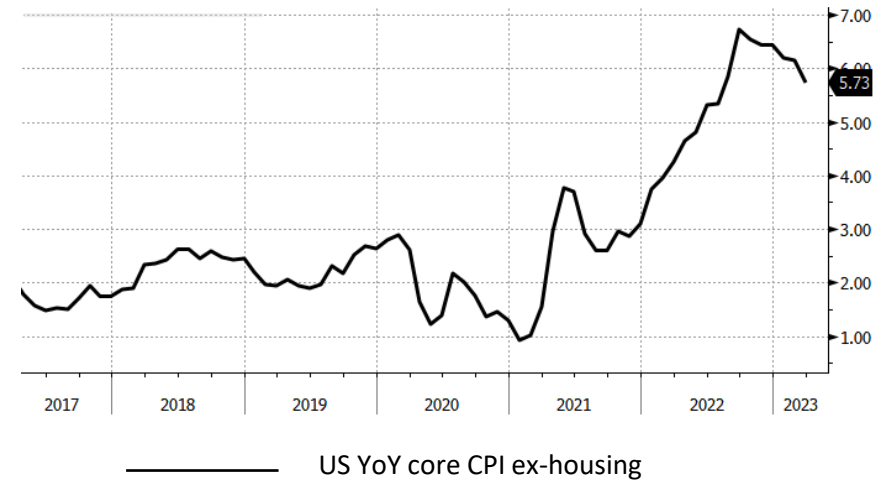
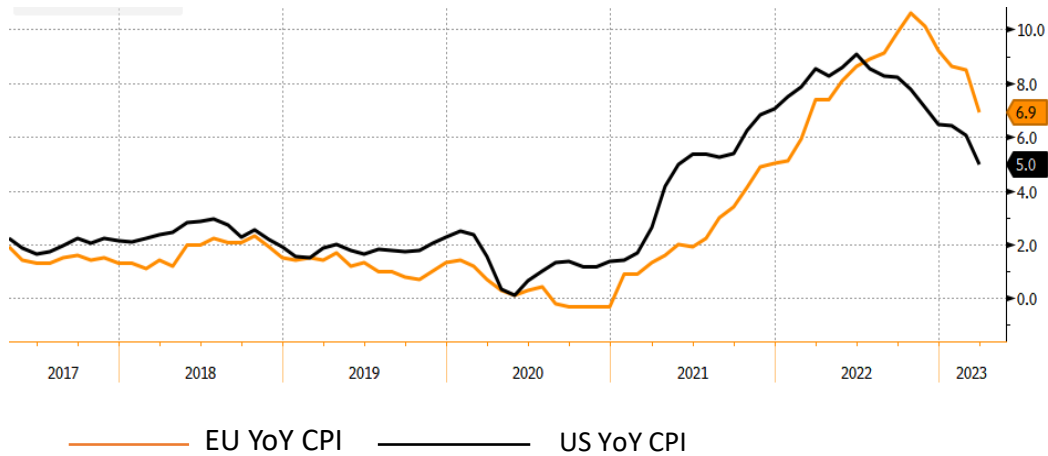
The present levels of spread across most of the fixed income universe are within the average range when viewed in the context of both the long-term historical data and the current volatile market conditions.

Market factors of FI sectors

High-yield bonds exhibit a strong sensitivity to equity risk and tend to have a weak correlation with the fluctuations of government bonds.

Sector	Index	Index OAS to Treasury beta to equity index*	YTM beta to UST10Y Yield	Correlation of YTM with UST10Y
US	The Bloomberg US Corporate Bond Index	-0,99	0,38	0,61
	The Bloomberg US Corporate High Yield Bond Index	-1,40	-0,05	-0,08
EU	The Bloomberg Pan-European Aggregate: Credit Index	-0,81	0,44	0,39
	The Bloomberg Pan-European High Yield Index	-1,15	-0,22	-0,13
EM	Bloomberg EM USD Aggregate	-1,07	0,08	0,14
	Bloomberg Emerging Markets High Yield	-1,07	-0,01	-0,01
	Bloomberg Emerging Markets Investment grade	-1,13	0,19	0,36

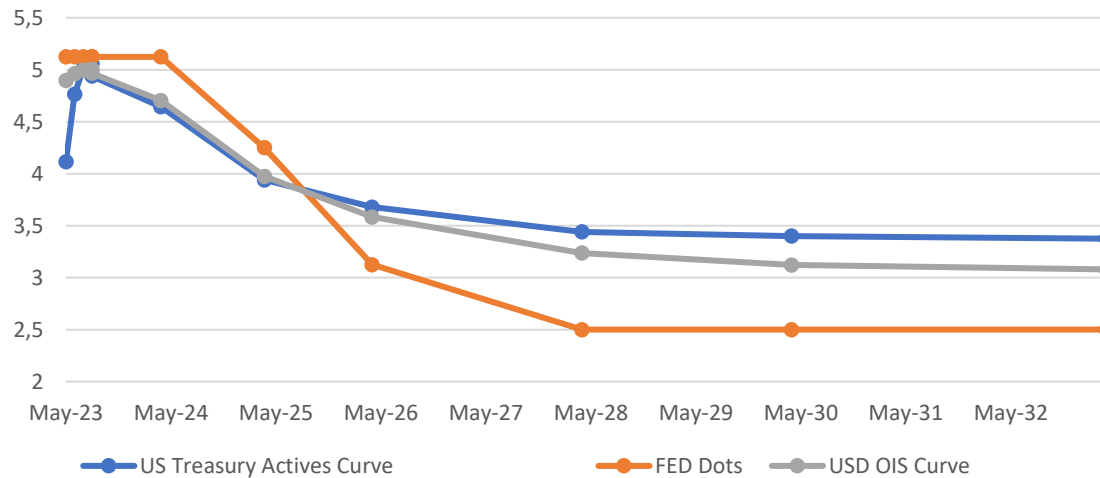
Inflation



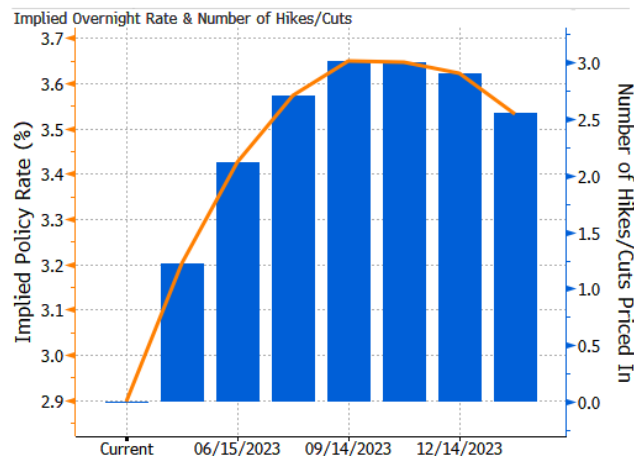
Inflation is slowing, but core inflation persists, especially in services . Housing contributes the most to the US Consumer Price Index (approximately 42% of the index) and has been the primary contributor for last inflation readings.

Forward interest rates: Market vs Central Banks

Forward interest rates vs FED Dots



ICE BofA MOVE Index - index of the implied volatility on Treasury options

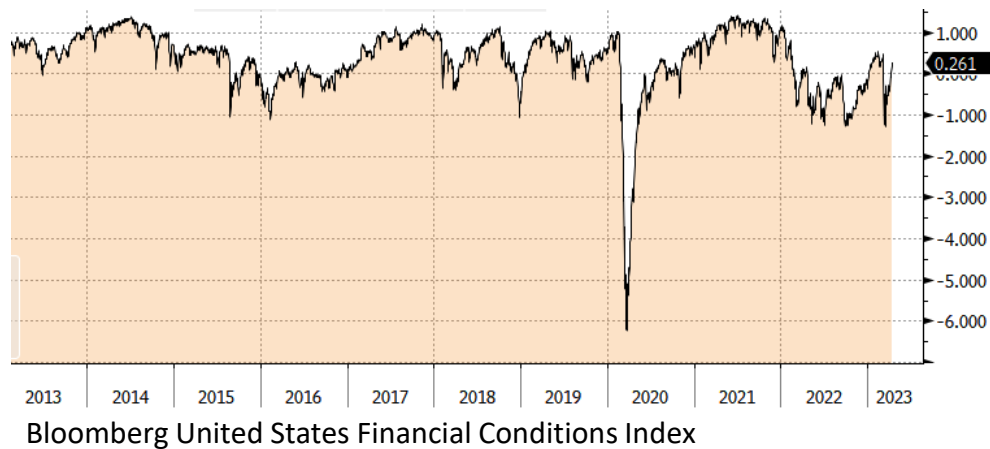
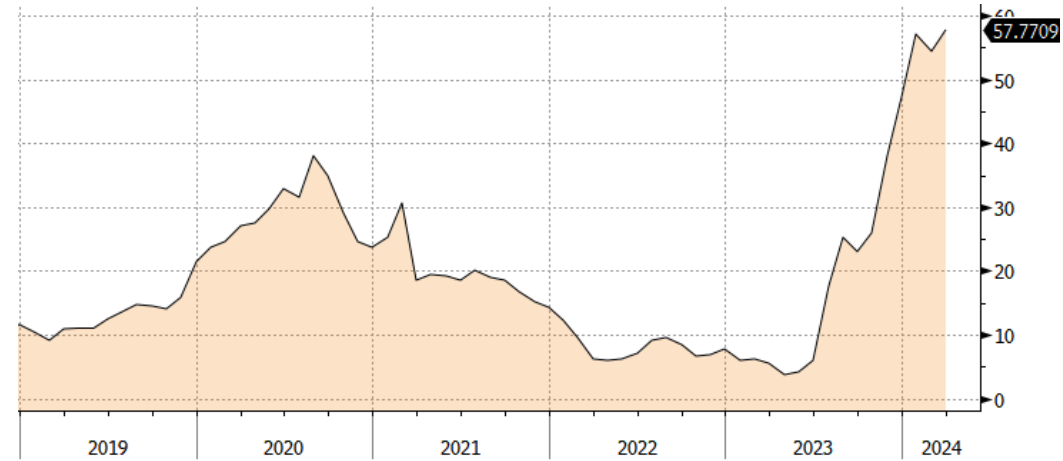
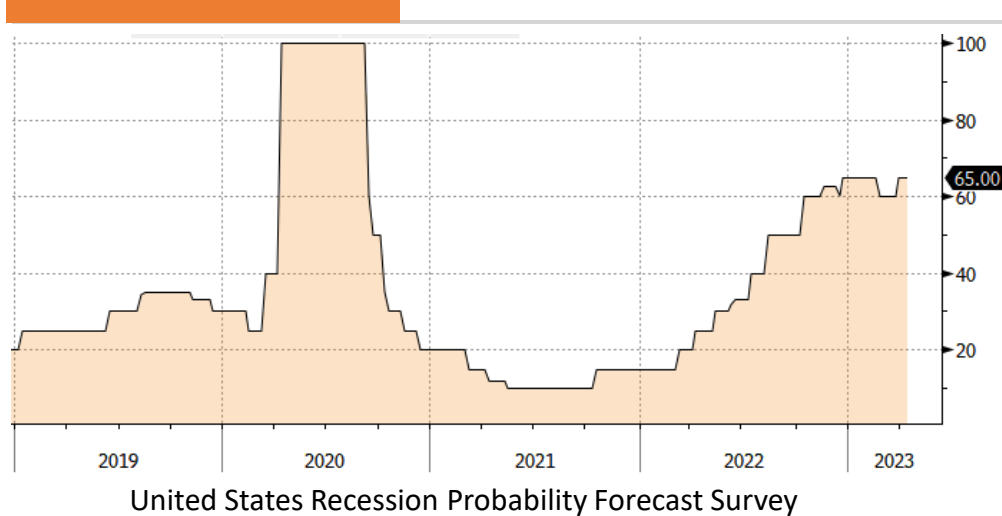


ECB interest rate probability

Number of Hikes/Cuts Priced In
Implied Policy Rate (%)

Market participants are pricing in rate cuts by the Fed this year, but Fed officials maintain that interest rates will remain high. Meanwhile, the ECB has not finished its hiking cycle.

Forward looking economic conditions



Although economic forecasts are becoming more pessimistic and past tightening cycles have often resulted in economic downturns, current employment and overall financial conditions remain robust, indicating that a recession is not yet warranted.

Historical performance of FED cycles

Average performance 100d before – 100 days after the last interest hike (since 1998)

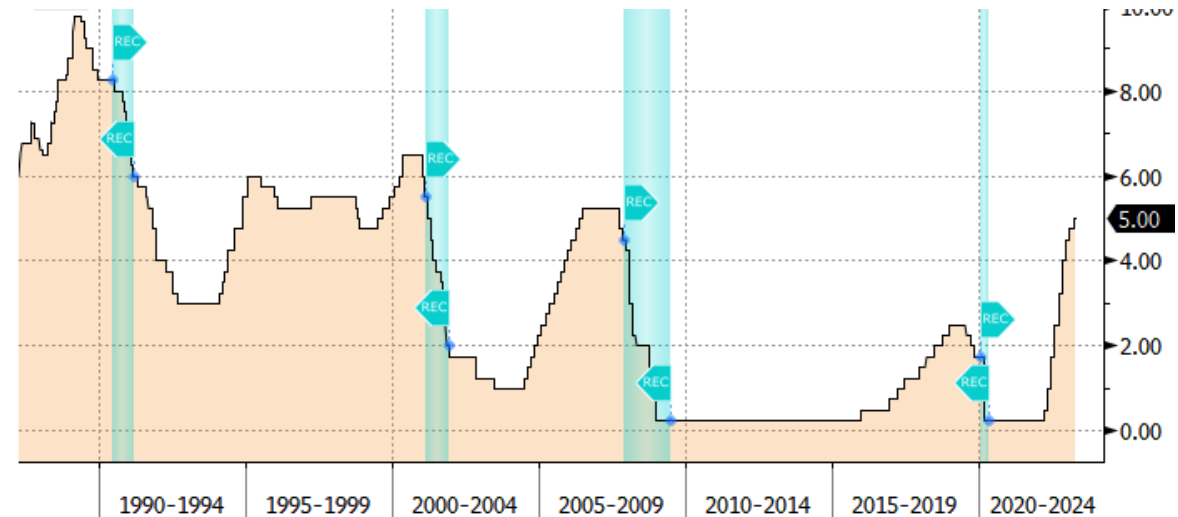
	MAX	Average	MIN
S&P 500 INDEX	20,60%	10,93%	-4,55%
Bloomberg US Corporate High Yield Bond Index	8,07%	3,84%	-0,05%
Bloomberg US Corporate Bond Index	8,42%	4,52%	1,43%

1 negative S&P performance out of 6

Average performance 100d before – 100 days after the first interest cut (since 1998)

	MAX	Average	MIN
S&P 500 INDEX	18,25%	-3,88%	-32,62%
Bloomberg US Corporate High Yield Bond Index	9,09%	-2,78%	-21,06%
Bloomberg US Corporate Bond Index	9,98%	4,27%	-2,55%

3 positive S&P performance out of 9



History FED funds rate and US recession

Market Observations

- Corporate bonds, both investment-grade (IG) and high-yield (HY), presently offer high yields-to-maturity (YTM) levels but average historical spreads.
- The end of the Fed's tightening cycle has historically been favorable for risk-corelated assets.
- High levels of debt and tightening credit conditions make it challenging for corporations, especially those with high-yield bonds, to refinance and meet their liabilities. Additionally, a general economic downturn would put additional pressure on their financial performance.
- Due to the possibility of a recession, there is currently a low appetite and positioning for high-yield (HY) and emerging market (EM) bonds, creating significant opportunities for generating alpha.
- Prefer strategic allocation to the IG bonds; tactical exposure HY, EM bonds. Cash provide high current yield and optionality - important during volatile market conditions.