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HIGH YIELD EXPERTISE

Webinar

27.09.2022

% DPAM

DEGROOF PETERCAM ASSET MANAGEMENT



High yield markets in a slowing economy – with tightening Central Banks

- What can we expect going into Q4?
- Silver lining: no defaults (yet?) ...





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APPENDIX





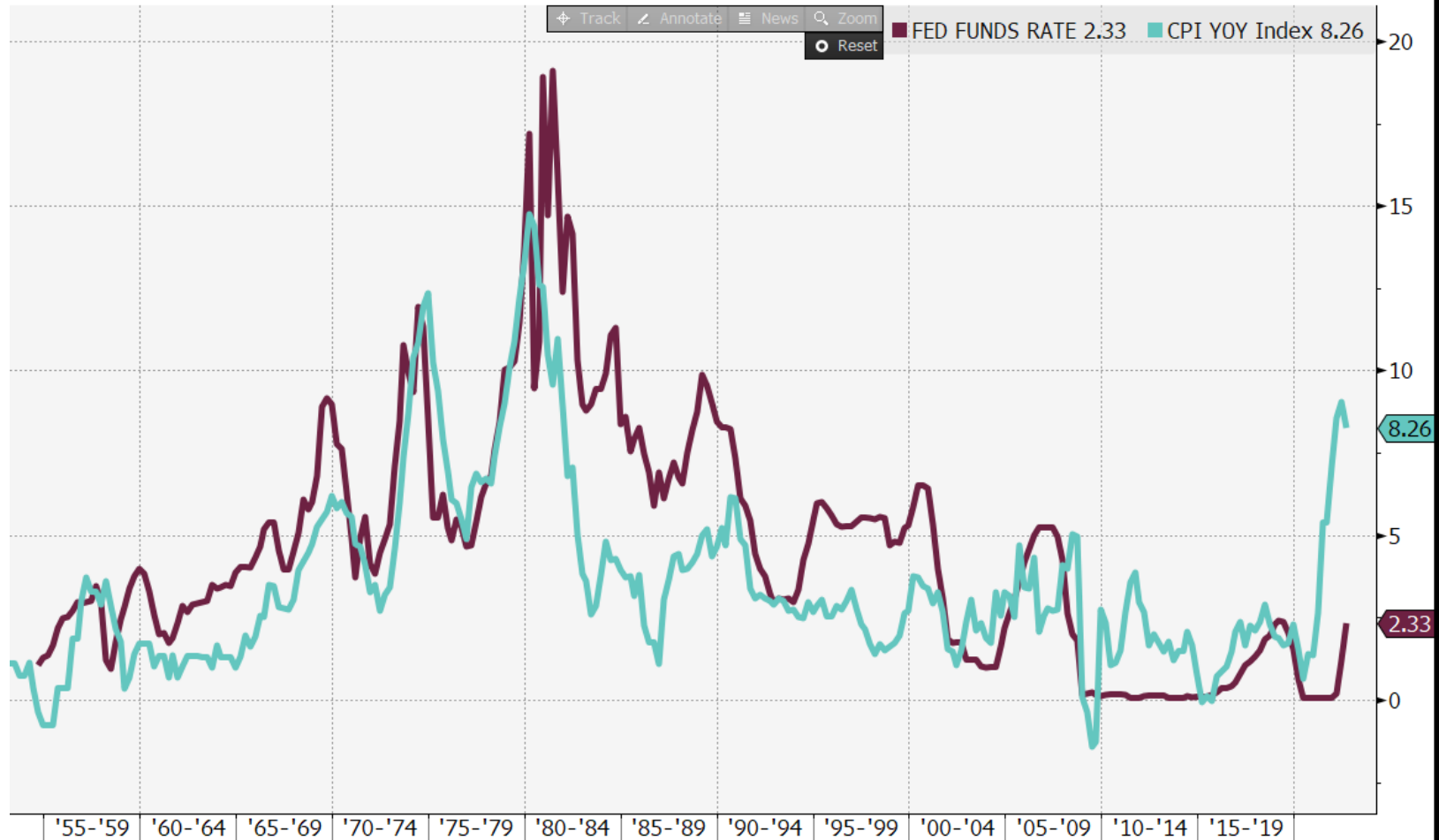
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MARKET UPDATE



FED NOT DONE HIKING

FED FUNDS RATE AND CPI (yoy%)

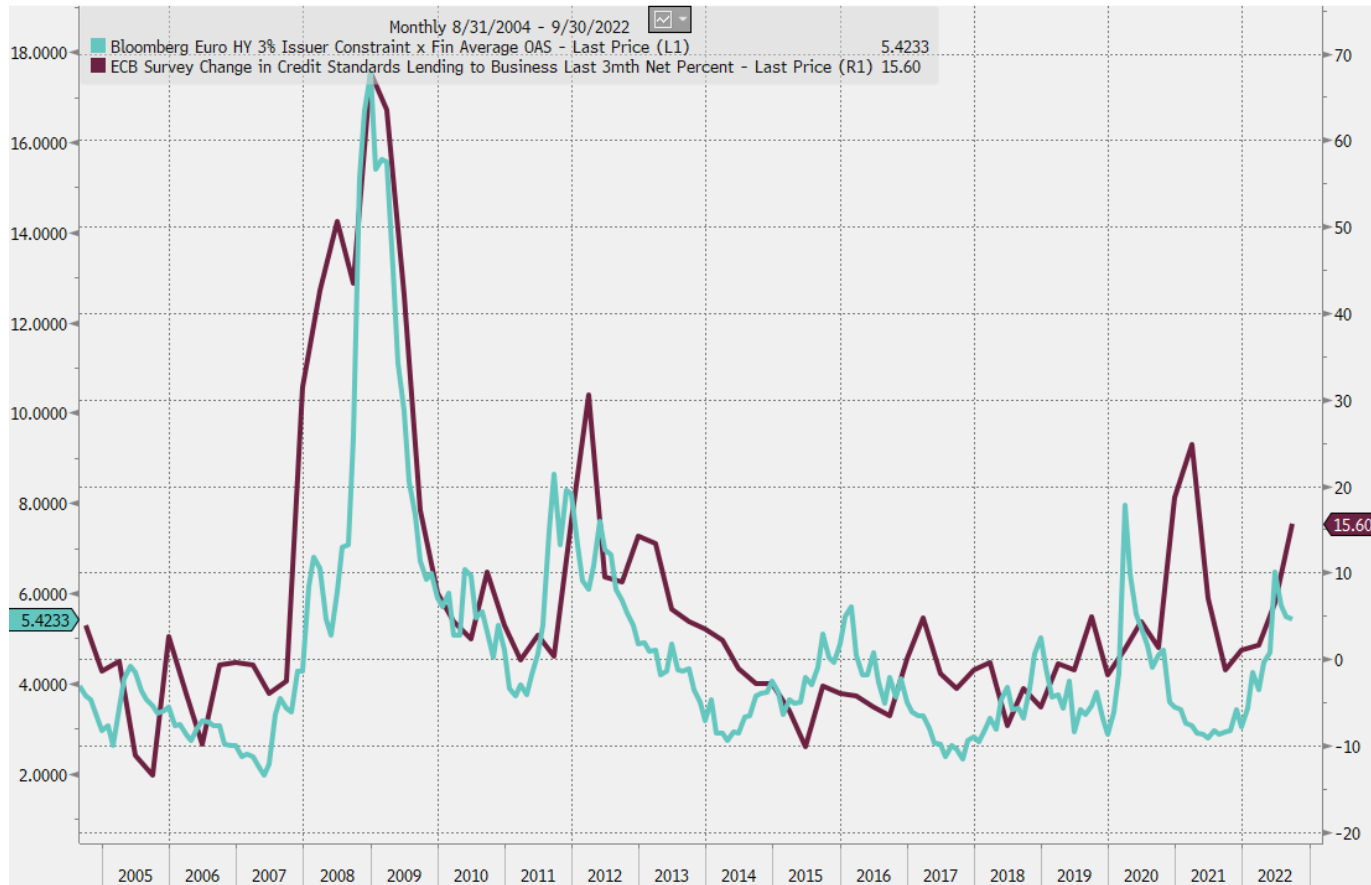


Source: Various



ECB LENDING SURVEY POINTING TO WIDER SPREADS

ECB LENDING SURVEY AND HY SPREADS

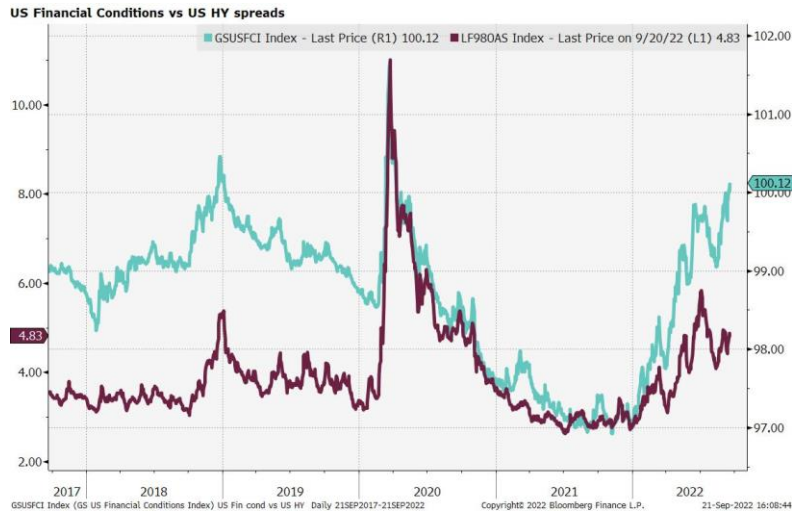


Source: Various

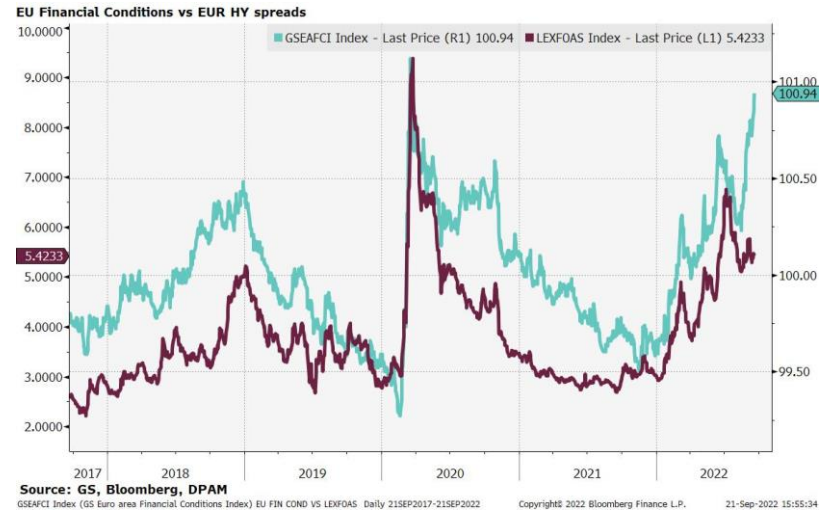


US (left) and EU financial conditions and HY spreads

US AND EU FINANCIAL CONDITIONS WORSENEED BEYOND JUNE LEVELS



Source: Goldman Sachs, Bloomberg, 21.09.2022

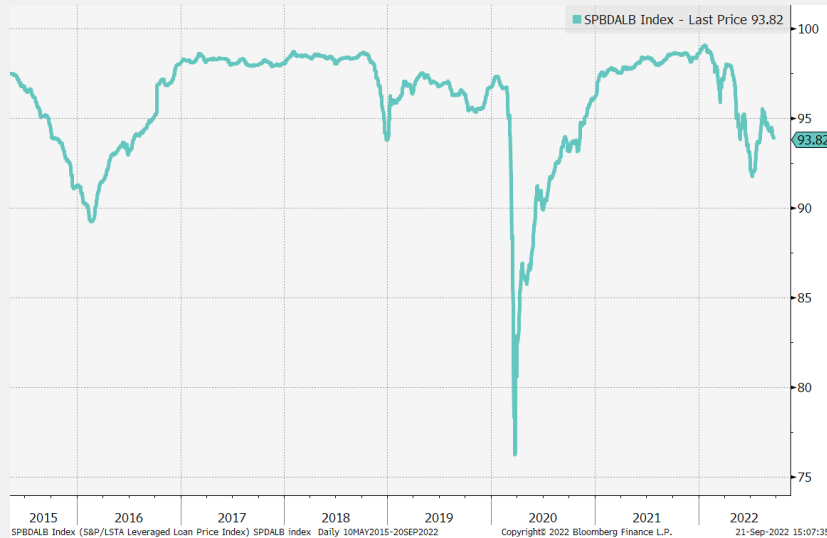


Source: Goldman Sachs, Bloomberg, 21.09.2022



Price chart of US leveraged loan market – similar evolution in Europe

LEVERAGED LOAN MARKETS



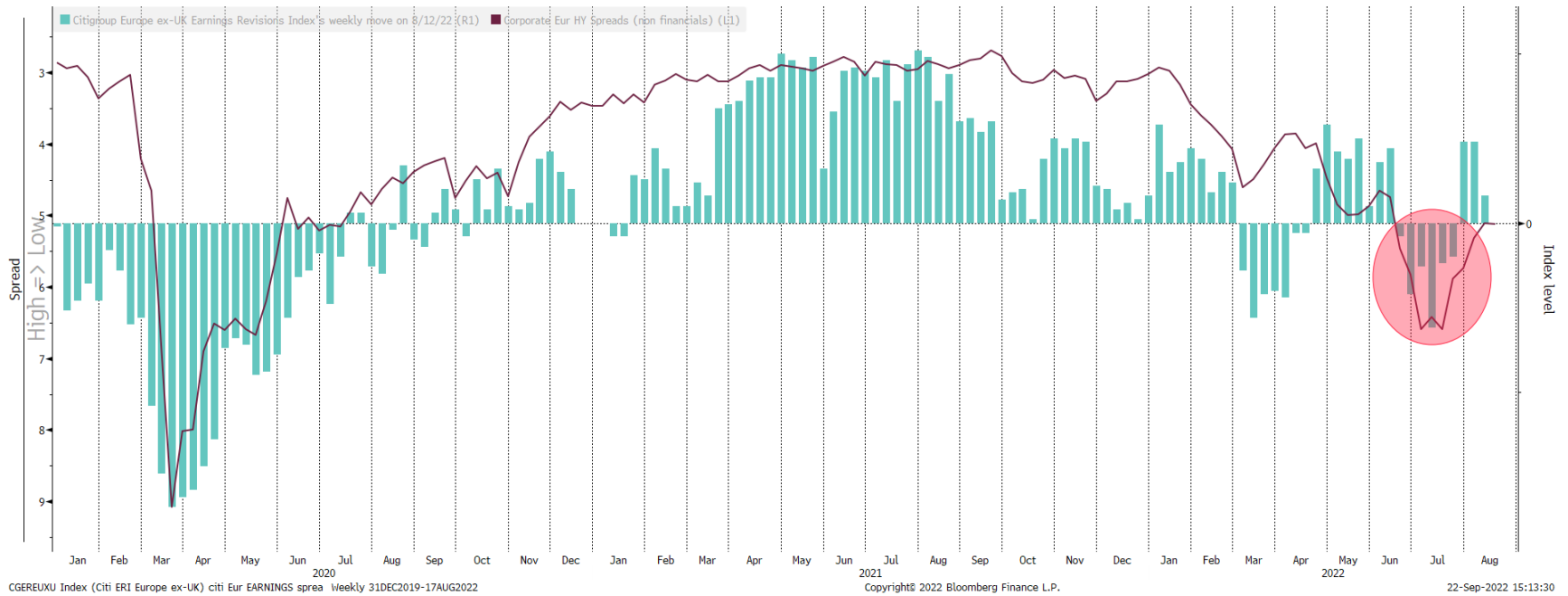
Source: Bloomberg, DPAM, 21.09.2022

- Lev loan market – **floating rate and single B** market on average (i.e. highly levered).
- But companies might become loss making relatively quickly **due to higher interest charges**.
- Defaults can be triggered by non-paid coupons/covenant breaches.
- Weak documentation over recent years.
- **ECB (*) sounded the alarm bell as well on leveraged loans in Europe.** Aggressive underwriting of the past and supervisory scrutiny will not help financing in the high yield market.

(*) <https://www.bankingsupervision.europa.eu/press/speeches/date/2022/html/ssm.sp220920~d41dede079.en.html>



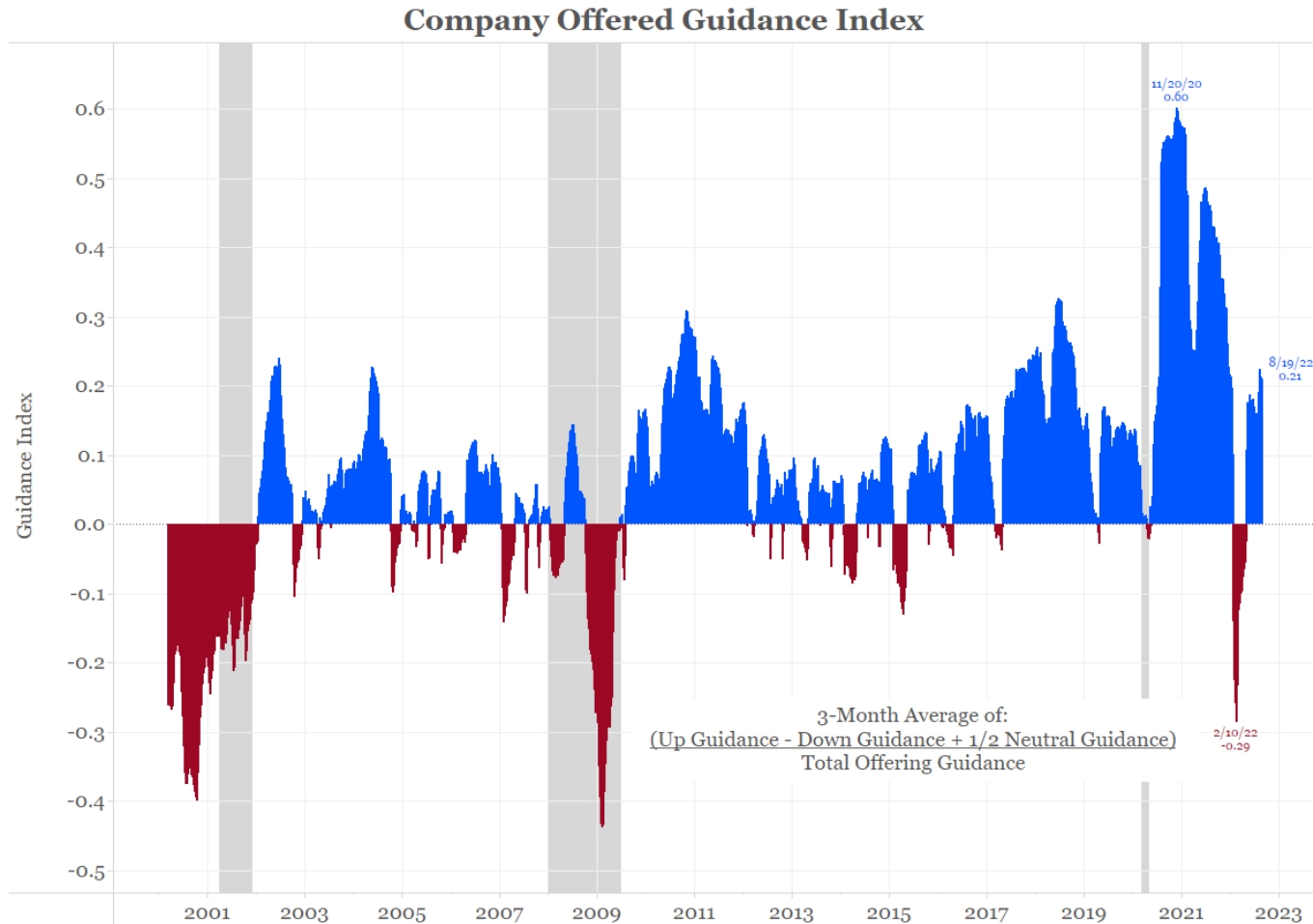
EARNINGS SEASON IN EUROPE HOWEVER STILL SUPPORTIVE



Source: Citi, Bloomberg



GUIDANCE IN THE US ALSO QUITE OPTIMISTIC



Data Source: Bloomberg

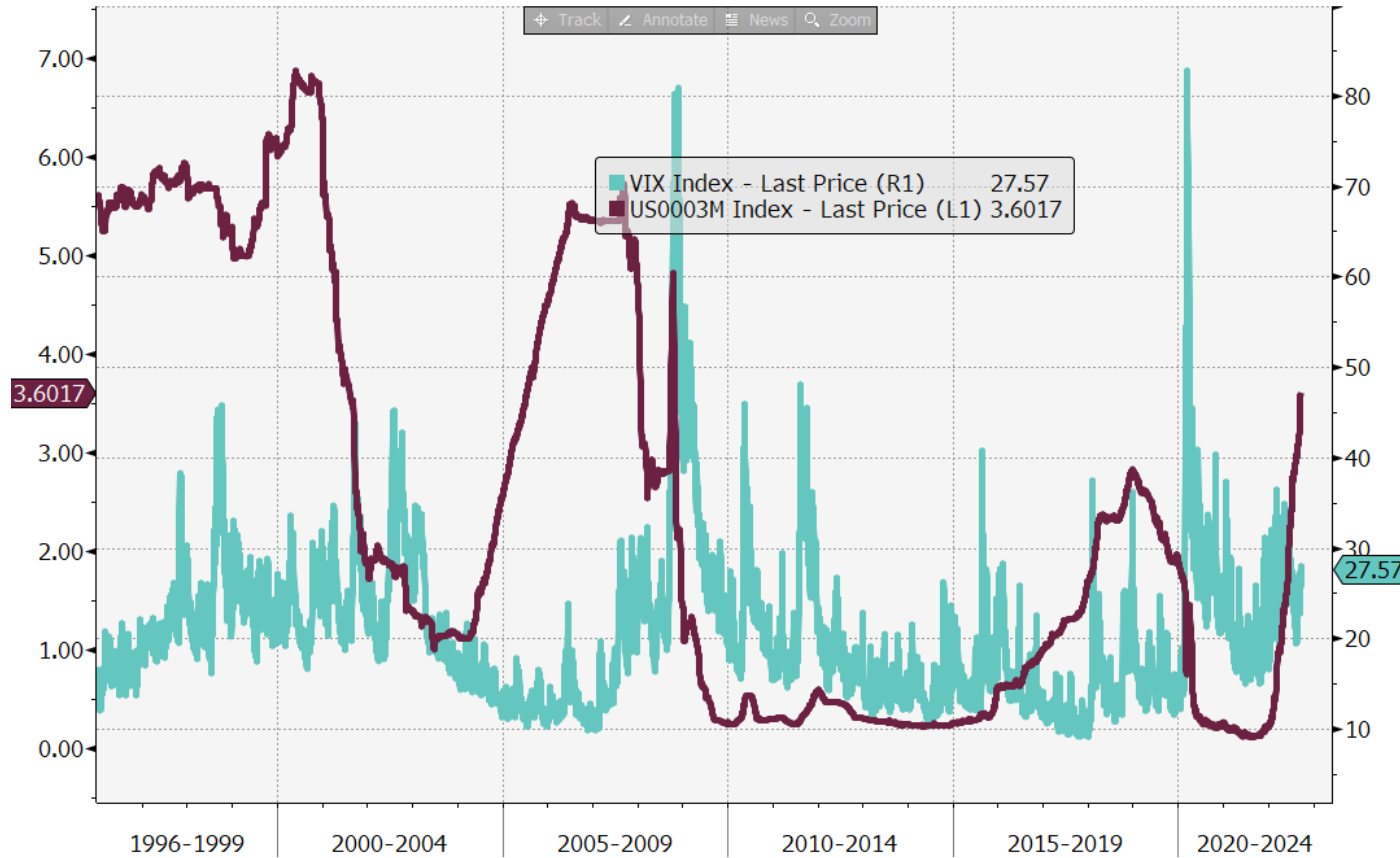
Source: Bloomberg

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SHORT TERM RATE IS NOT SUPPORTIVE FOR VOL

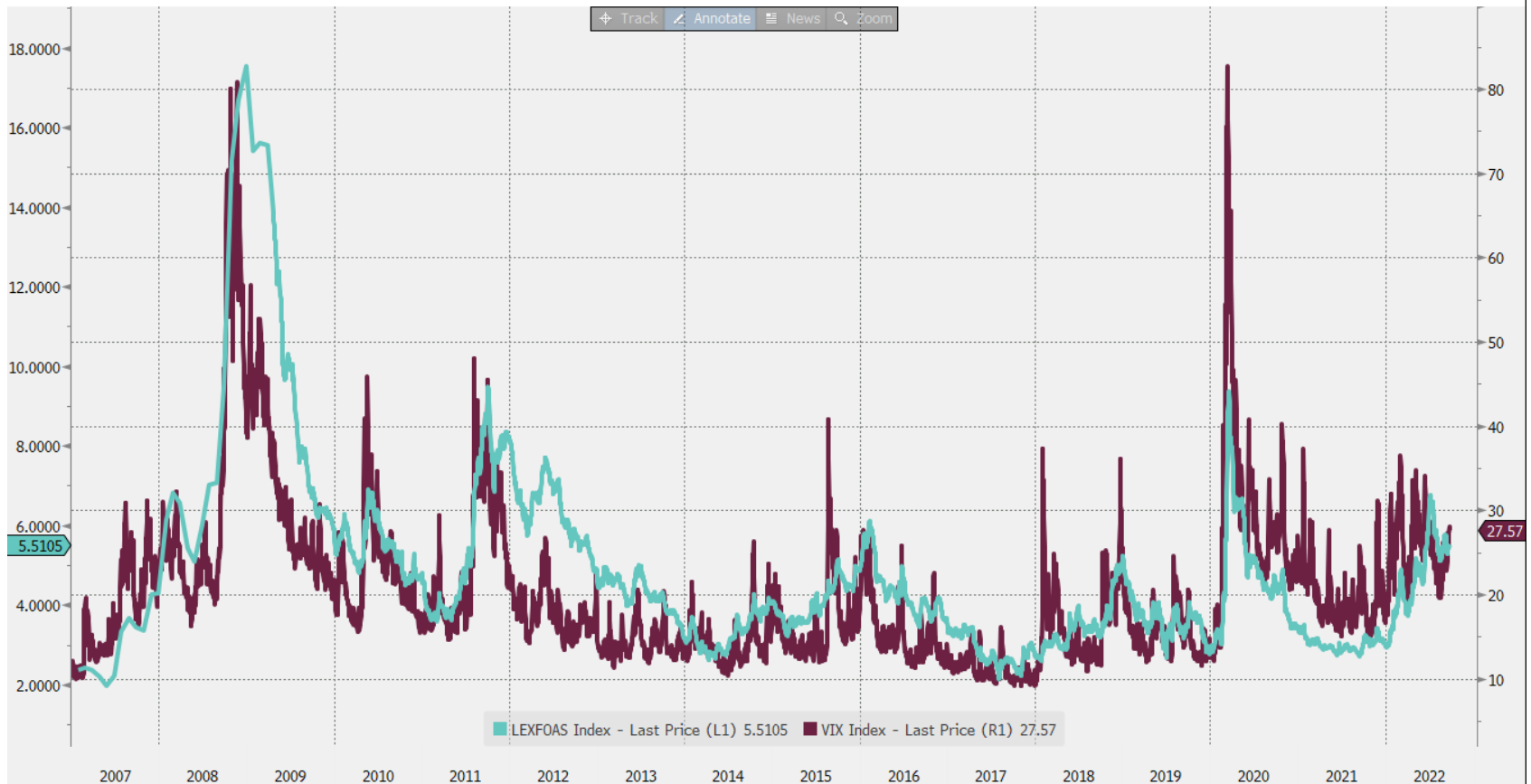
US 3 MONTH RATES AND VIX



Source: dpam, Bloomberg



VIX AND HY SPREADS



Source: Bloomberg

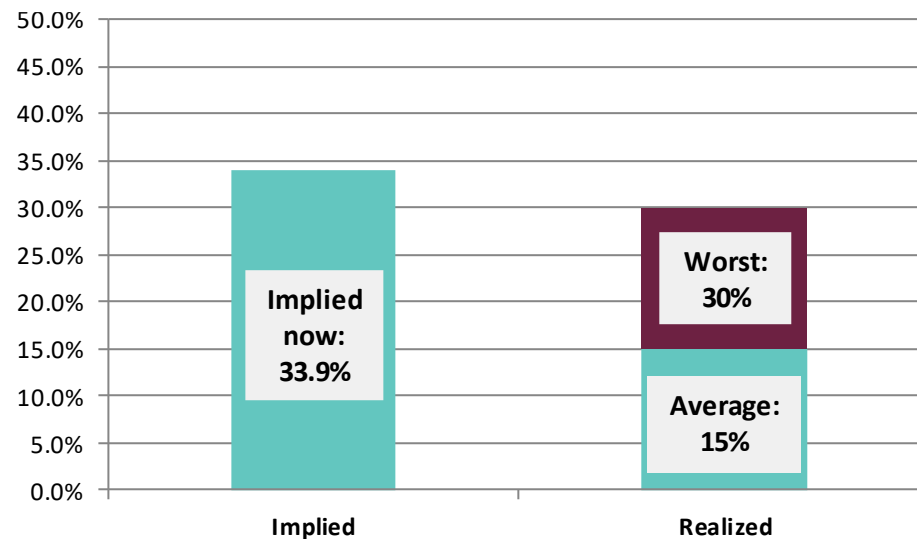


Fundamental valuation: becoming compelling at 542bps

COVERED FOR A 5 YEAR DEFAULT CYCLE OF 33.9% (VS 15% AVERAGE)

Implied 5 year cumulative default rate at current spread

Spread	0% Recovery	10% Recovery	20% Recovery	30% Recovery	40% Recovery
HY Spread 542	22.7%	24.7%	27.3%	30.2%	33.9%

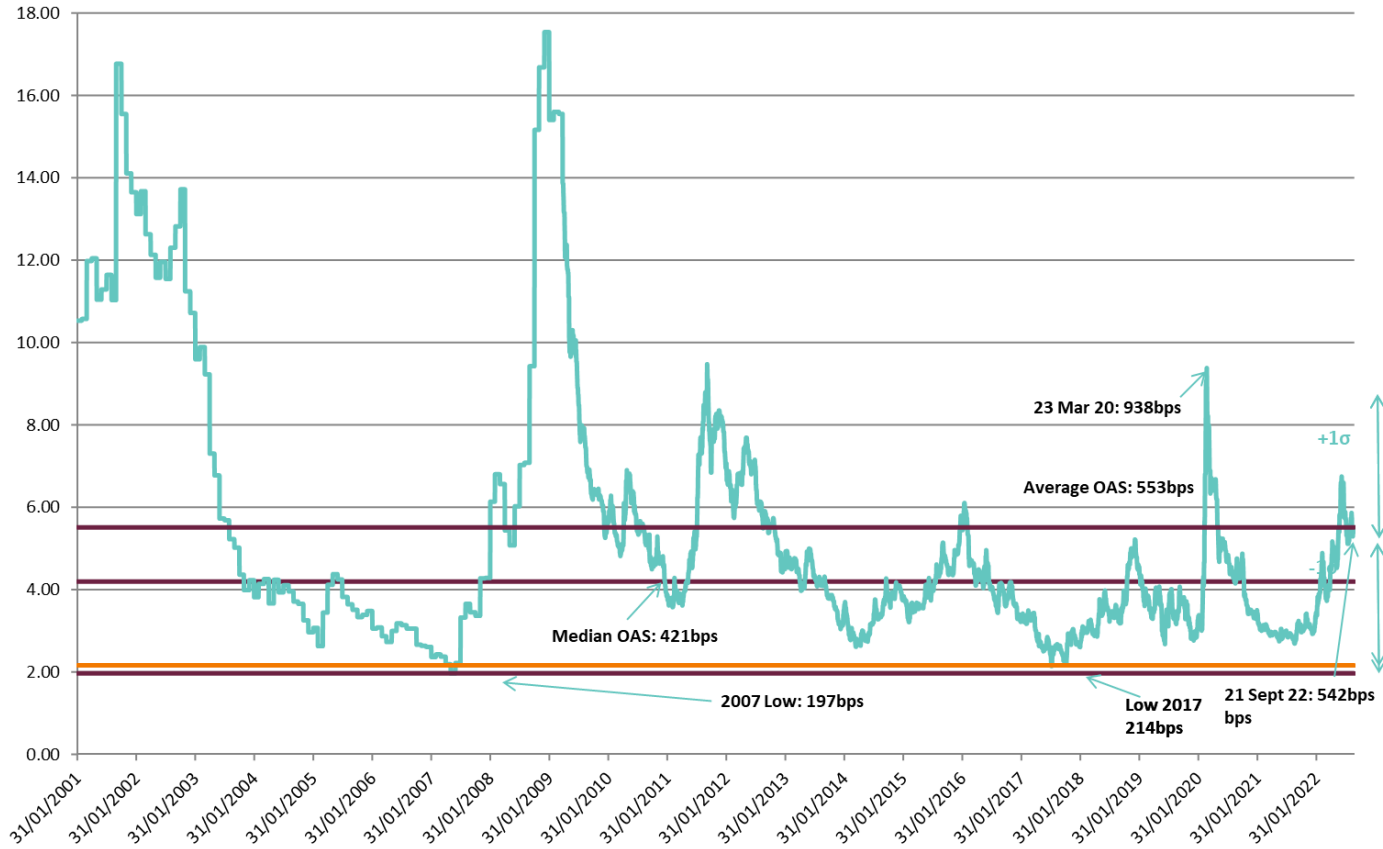


Source: DPAM, 21.09.2022



Historical valuation

SPREADS AT 542BPS



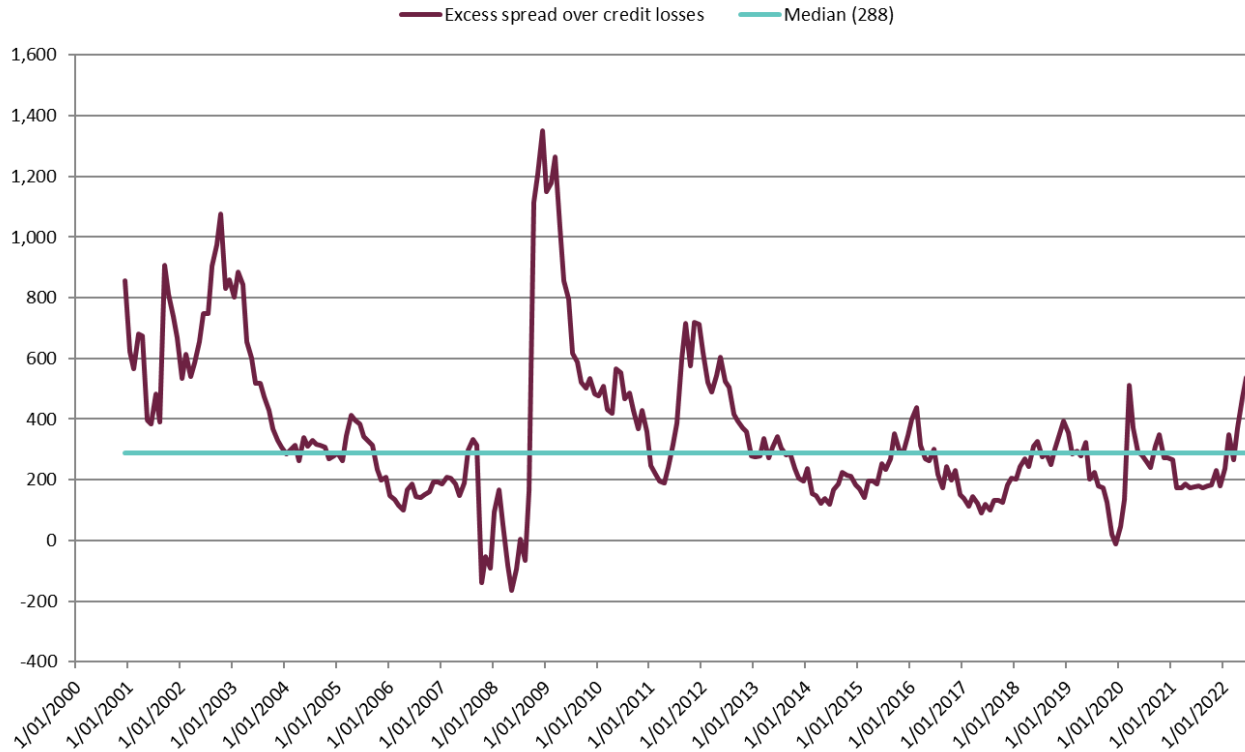
Source: Bloomberg, DPAM, 21.09.2022



Remuneration for volatility and liquidity risk, on top of default risk (with 2.5% defaults, recovery of 40%)

ONE YEAR AHEAD VALUATION – RISK PREMIUM

One year risk premium at 429bps



Source: DPAM 21.09.2022



Flows – funds – outflows slowing somewhat

EUR 10.8BN OUTFLOWS YTD

Figure 15: Monthly European High Yield Fund Flows

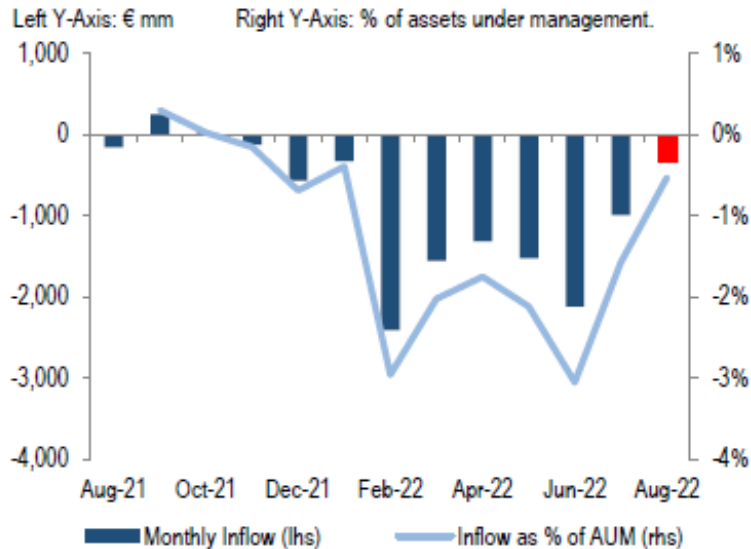
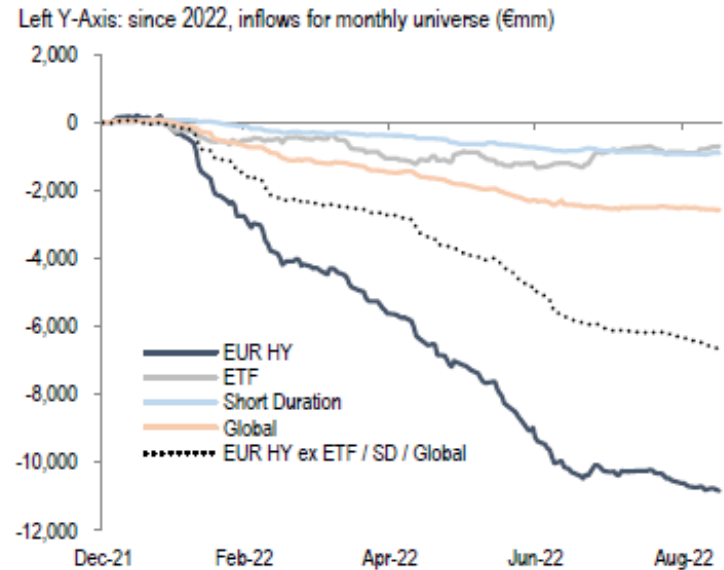


Figure 16: Cumulative Inflows for European High Yield



Source: J.P Morgan, Bloomberg Finance L.P



ZERO ISSUANCE IN AUGUST

Meaning maturity wall (slowly) moving closer, but still quite far away. Tentative re-opening over the last week

EUR m

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
January	4,445	0	275	5,190	2,775	1,493	5,760	5,580	6,630	900	3,710	4,955	3,325	14,290	15,470	6,710
February	2,724	0	0	200	1,957	5,027	5,600	4,520	8,497	540	5,350	3,210	2,825	7,150	10,850	3,350
March	1,352	0	400	4,953	9,013	4,525	8,480	10,045	14,214	5,700	10,402	12,874	6,800	0	11,240	2,900
April	4,552	0	400	6,264	4,143	1,550	5,480	12,896	12,940	5,090	5,790	10,705	9,850	1,170	13,260	0
May	4,878	0	1,212	810	5,770	1,672	7,358	6,345	1,945	6,961	3,015	4,090	7,091	4,930	12,040	2,500
June	6,595	0	650	2,395	2,345	850	1,768	12,061	4,300	5,260	7,580	7,763	4,770	12,450	12,490	1,030
July	998	0	3,375	3,871	3,125	1,615	7,427	7,732	7,030	3,257	6,215	5,321	6,480	11,280	9,000	1,300
August	0	0	0	640	0	973	1,115	1,053	1,100	2,085	1,275	1,292	2,195	700	3,000	0
September	0	0	3,629	5,650	700	6,944	9,901	7,215	2,435	13,025	7,720	7,605	11,425	12,270	13,820	
October	0	0	7,000	7,117	100	2,835	5,255	2,575	2,539	5,628	13,820	4,280	12,635	16,610	13,910	
November	0	0	6,680	4,187	637	2,800	8,575	3,546	2,750	5,205	12,061	2,540	14,675	6,950	12,090	
December	0	0	2,915	600	0	1,655	2,255	3,015	2,460	1,800	5,764	0	1,560	7,080	1,400	
TOTAL	25,544	0	26,536	41,877	30,565	31,939	68,974	76,583	66,840	55,451	82,702	64,635	83,631	94,880	128,570	17,790

Source: SG Cross asset research/Barclays

Source: SG Cross Asset, DPAM, .21.09.2022



DISTRESSED BONDS MAKE UP AROUND 6.1% OF INDEX.

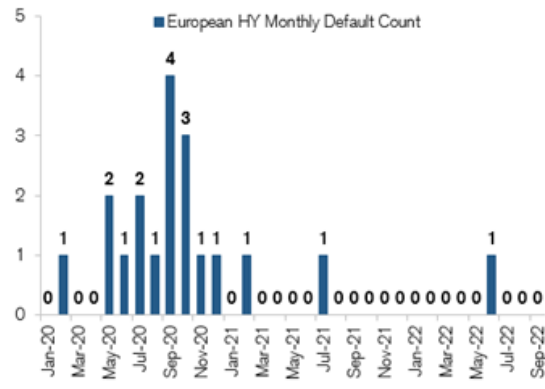
- 6.1% of index now trading below 70%.
- Real estate names (Nordics: SBSS perps, Heimst perp, Castss perp, but also still Adler,...).
- Additionally last month some retail (Casino, Douglas sub, Takko)
- **Very low actual default activity still.**



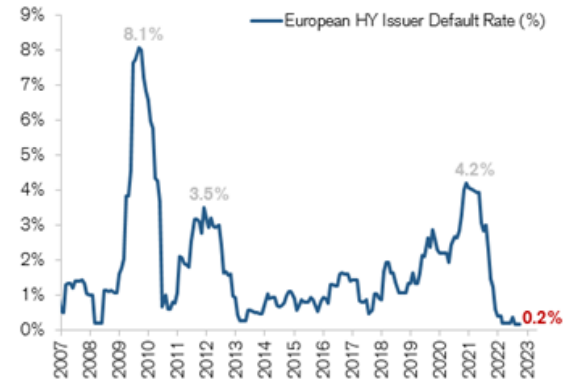
Defaults

ZERO DEFAULTS IN EUROPEAN HY, A FEW IN LOANS MARKET

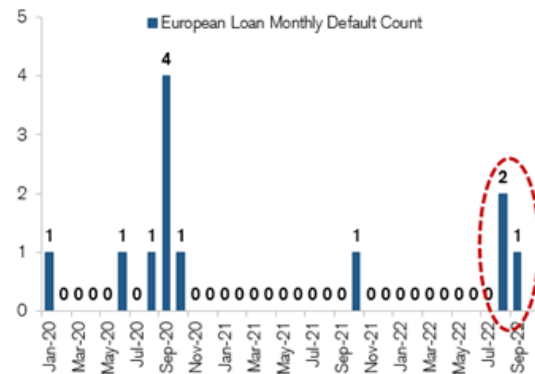
June saw first European HY default in nearly a year



European HY default rate still near zero



Loan defaults among European issuers picking up



European loan issuer default rate ticking higher



Source: Credit Suisse



HY Credit | Conclusions

Valuation

- EUR HY: At 542bps spread, there is value in the market.
- **The outlook remains very difficult though:** Major Central Banks tightening and committed to combat inflation in an economy that is slowing, gas rationing in Europe still a possibility, China slowdown (real estate, Covid,...) still ongoing. Will higher interest rates clear out the excesses in housing markets (eg Sweden,...), loans market (US, EU),

Defaults

- The percentage of distressed bonds is around 6.1.% of our European universe. Some ratings and earnings downgrades, but no panic for the time being. **TTM defaults still historically low and for the time being little identifiable idiosyncratic risk.** We would expect more dispersion going forward. The earnings season was still quite ok, and balance sheets are relatively solid. The primary market is closed, which might create problems down the road for companies that need to refinance.

Flows/technicals

- Outflows of EUR 10.8bn YTD. Primary market virtually closed, a few deals coming to the market recently.

Recommendation

- Keeping our **UW stance** here: despite the fact that value has been created, higher risk premiums are likely to persist and even increase given geopolitical turmoil and high inflation/tightening CBs.

Risks

- **Rising inflation/impact of commodities prices.**
- **Direct effect of Ukraine/Russia impact limited on the European universe.**
- **Primary market virtually closed**
- **Outflows**



2

PORTFOLIO / POSITIONING UPDATE



PORTFOLIO CHARACTERISTICS

	Fund	Benchmark
PORTFOLIO CHARACTERISTICS		
Maturity (Years)	1.92	2.43
Duration (Years)	3.71	3.77
Modified Duration (%)	3.49	3.53
Yield to Worst (%)	6.27	6.88
YTW (ModDur Weighted) (%)	6.52	6.92
Number of Issuers	108	289

STATISTICS

		Fund	Benchmark
Volatility	%	8.73	8.89
Sharpe Ratio		0.07	0.10
Downside Deviation	%	6.87	7.08
Sortino Ratio		0.09	0.12
Positive Months	%	58.33	61.67
Maximum Drawdown	%	-15.47	-14.75
Risk-Free Rate -0.49%			

FUND VERSUS BENCHMARK

Correlation		0.995
R ²		0.989
Alpha	%	-0.02
Beta		0.977
Treynor Ratio	%	0.66
Tracking Error	%	0.93
Information Ratio		-0.254

Benchmark: Bloomberg Euro High Yield 3% Capped ex Fin

Source: DPAM – 31/08/2022 - F share class
 Past performance does not predict future returns



BREAKDOWNS (%)

Sectors	Fund	Bench	Credit Ratings (Scale S&P)	Fund	Bench
Industrials	32.6	27.1	BBB	3.0	1.6
Communication	23.4	25.1	BB	52.9	63.3
Consumer Cyclicals	16.0	24.2	B	32.2	29.2
Consumer Non-Cyclicals	14.7	12.2	C-Category	5.0	5.8
Technology	2.8	4.2	Derivatives	0.0	0.0
Utilities	2.1	4.5	Cash	7.0	0.0
Energy	1.4	2.6			
Derivatives	0.0	0.0			
Cash	7.0	0.0			
Modified Durations	Fund	Bench	Countries	Fund	Bench
< 3%	28.0	40.4	France	26.9	17.9
3 - 5%	46.4	42.9	United States	14.5	14.2
5 - 7%	17.0	14.3	United Kingdom	7.3	7.9
7 - 10%	1.6	2.2	Spain	7.3	10.8
10 - 15%	0.0	0.2	Germany	7.3	13.5
Derivatives	0.0	0.0	Luxembourg	7.2	5.2
Cash	7.0	0.0	Netherlands	4.9	5.0
			Sweden	3.5	2.0
			Finland	3.4	2.0
			Italy	3.2	13.0
			Derivatives	0.0	0.0
			Other	7.6	8.4
			Cash	7.0	0.0

Source: DPAM – 31/08/2022 - F share class



PORTFOLIO CHARACTERISTICS

PORTFOLIO CHARACTERISTICS

Maturity (Years)	1.09
Duration (Years)	1.91
Modified Duration (%)	1.82
Yield to Worst (%)	5.15
YTW (ModDur Weighted) (%)	5.25
Number of Issuers	60

STATISTICS

Volatility	%	5.37
Sharpe Ratio		-0.02
Downside Deviation	%	4.53
Sortino Ratio		-0.03
Positive Months	%	58.33
Maximum Drawdown	%	-10.54
Risk-Free Rate -0.49%		

Source: DPAM – 31/08/2022 - F share class
Past performance does not predict future returns



BREAKDOWNS (%)

BREAKDOWNS (%)

Sectors		Credit Ratings (Scale S&P)	
Consumer Cyclicals	30.9	BBB	2.8
Industrials	23.6	BB	60.6
Communication	23.5	B	29.4
Consumer Non-Cyclicals	8.5	C-Category	1.2
Technology	3.0	Not Rated	0.2
Utilities	1.9	Cash	5.8
Gov. & Gov Related	1.5		
Financials	1.2		
Cash	5.8		
Modified Durations		Countries	
< 3%	90.1	France	35.4
3 - 5%	4.1	United States	20.5
Cash	5.8	Germany	7.4
		Italy	5.7
		Japan	4.3
		United Kingdom	4.0
		Sweden	4.0
		Finland	3.2
		Ireland	2.3
		Denmark	2.1
		Luxembourg	1.7
		Other	3.5
		Cash	5.8

Source: DPAM – 31/08/2022 - F share class



PORTFOLIO CHARACTERISTICS

PORTFOLIO CHARACTERISTICS		STATISTICS		
Maturity (Years)	5.76	Volatility	%	8.10
Duration (Years)	4.71	Sharpe Ratio		0.23
Modified Duration (%)	4.42	Downside Deviation	%	6.11
Yield to Worst (%)	6.57	Sortino Ratio		0.30
YTW (ModDur Weighted) (%)	7.45	Positive Months	%	53.33
Number of Issuers	74	Maximum Drawdown	%	-12.70
		Risk-Free Rate		-0.49%

Source: DPAM – 31/08/2022 - F share class
 Past performance does not predict future returns



BREAKDOWNS (%)

Sectors		Credit Ratings (Scale S&P)	
Gov. & Gov Related	22.7	A	4.7
Communication	15.4	BBB	15.5
Industrials	12.9	BB	51.8
Consumer Cyclicals	11.7	B	17.1
Financials	10.4	C-Category	1.8
Consumer Non-Cyclicals	9.2	Not Rated	0.4
Technology	3.7	Cash	8.8
Energy	3.0		
Utilities	2.2		
Cash	8.8		
Modified Durations		Currencies after hedging	
< 3%	26.6	Euro	57.6
3 - 5%	36.1	US Dollar	24.3
5 - 7%	5.9	Brazilian real	5.5
7 - 10%	16.6	Mexican peso	4.3
10 - 15%	5.2	South African rand	4.0
> 15%	0.7	Indonesian rupiah	1.8
Cash	8.8	Polish zloty	1.3
		Pound sterling	1.2
		Turkish lira	0.0
		Swiss franc	0.0









Source: DPAM – 31/08/2022 - F share class



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