

ANNUAL NEW YORK CONFERENCE
2024 OUTLOOK

US IG & Crossover 2024 Outlook: Hurry Up & Wait

Winnie Cisar: Global Head of Strategy, *CreditSights*

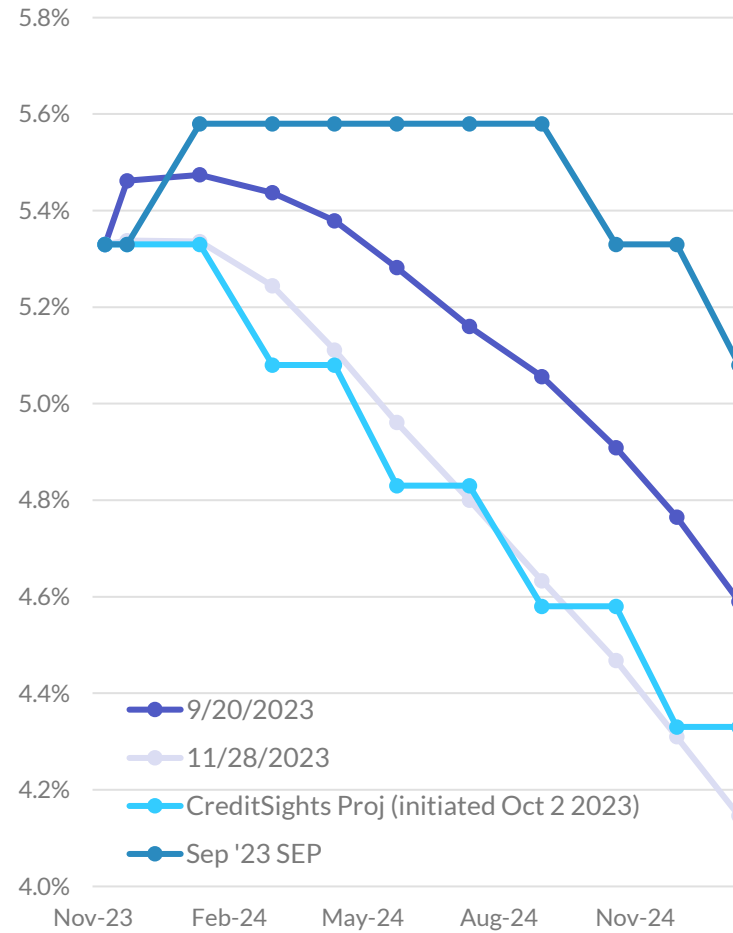
Zachary Griffiths: Head of Macro & US IG Strategy, *CreditSights*

CreditSights
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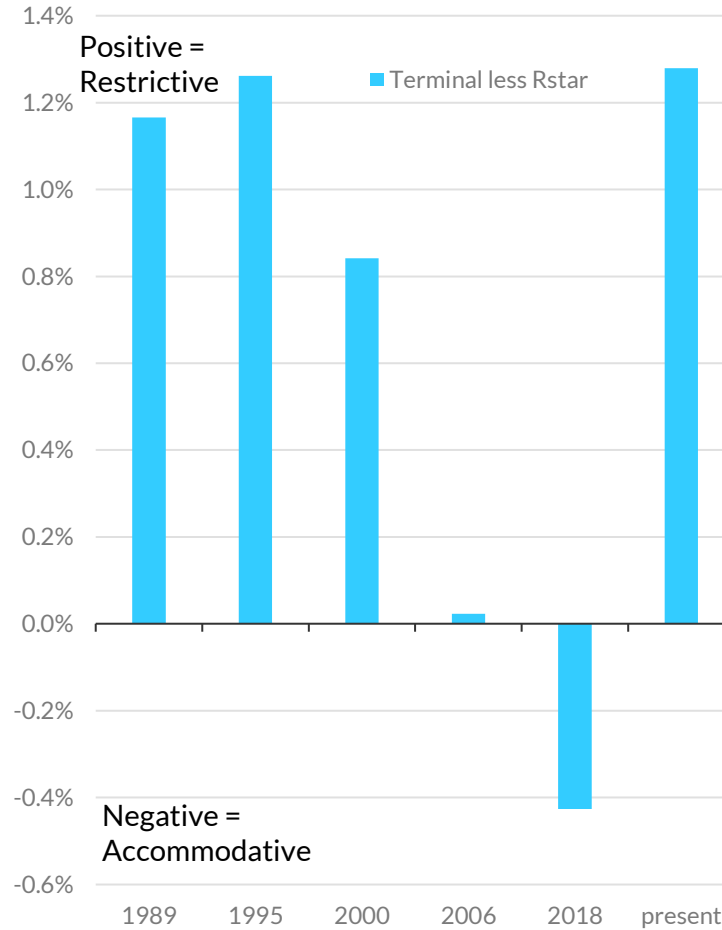
Research
CovenantReview
LevFinInsights

Fed "Normalization" Begins (Slowly) in March 2024

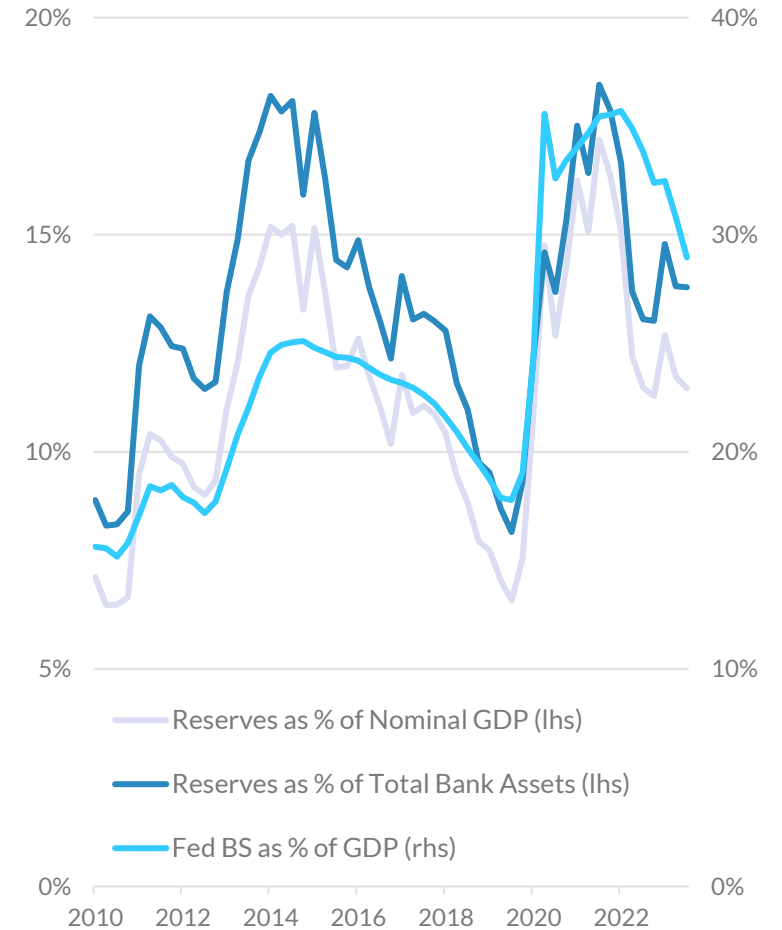
Fed Funds: Market, CS, & Dot Plot



Real Policy Rate Is Very Restrictive

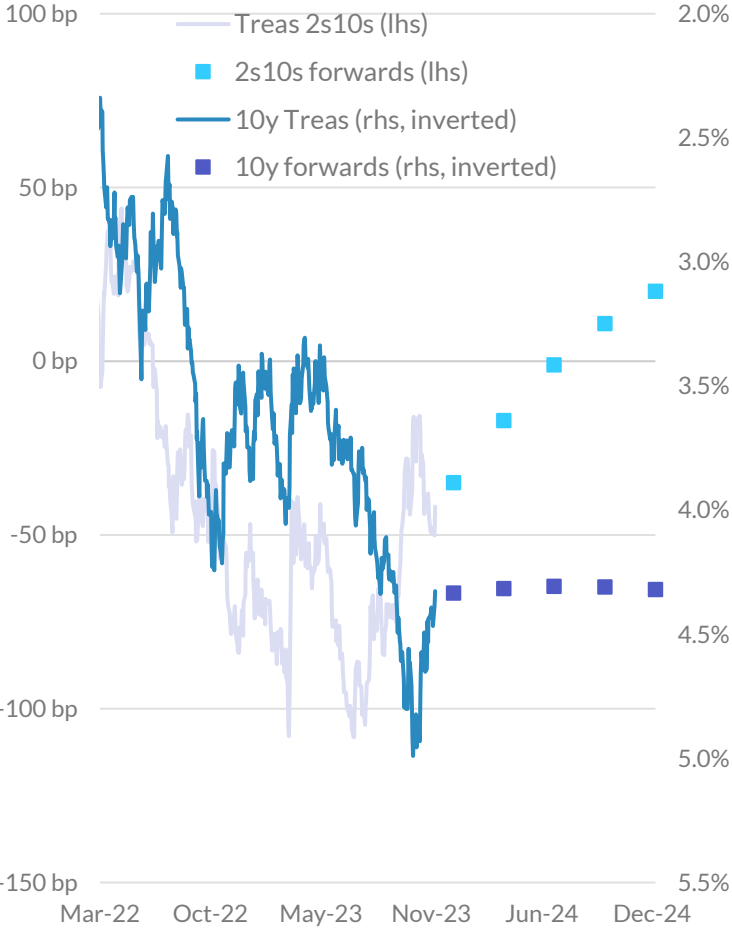


Reserves Still Elevated

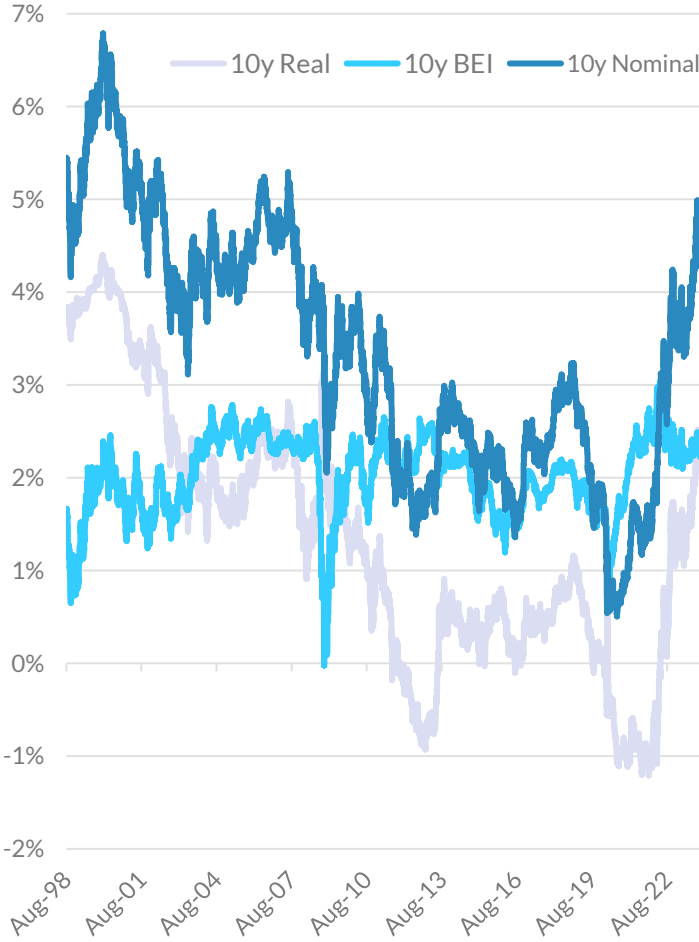


Treasury Yields Fall Gradually with Fed Funds

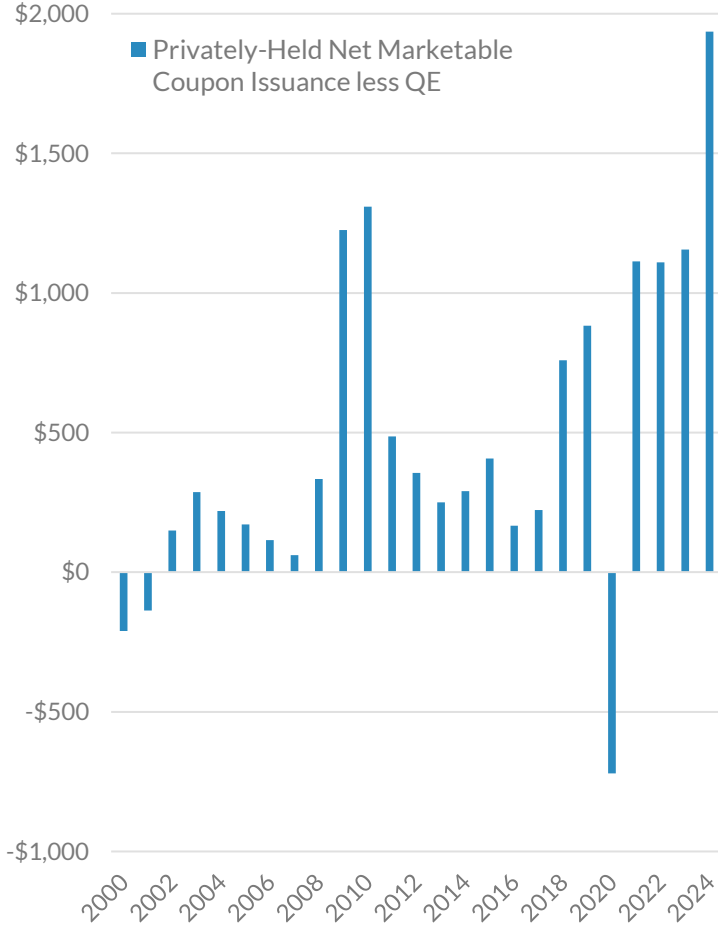
Treasury Curve to Bull Steepen



Real Yields Come Back to Earth



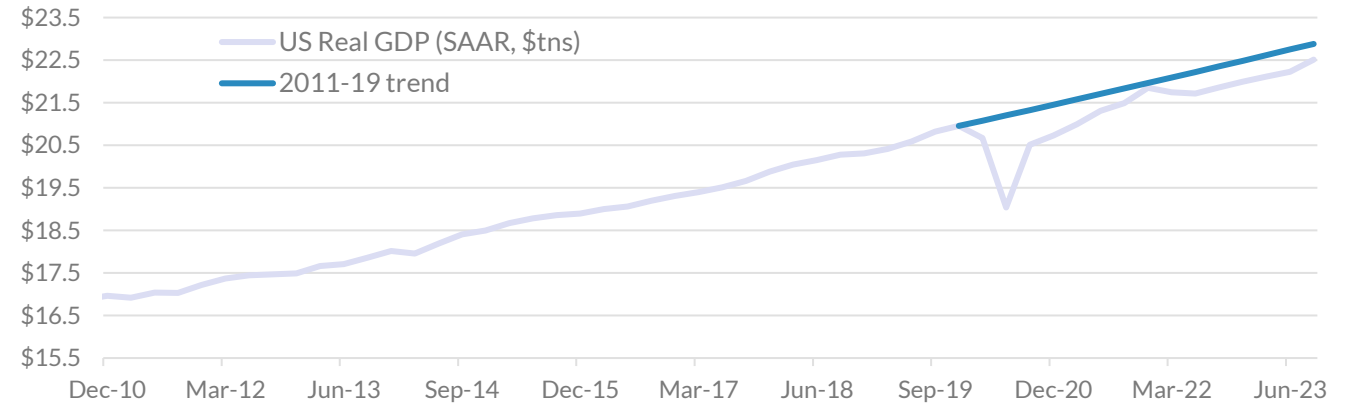
Heavy Coupon Supply Is a Key Risk



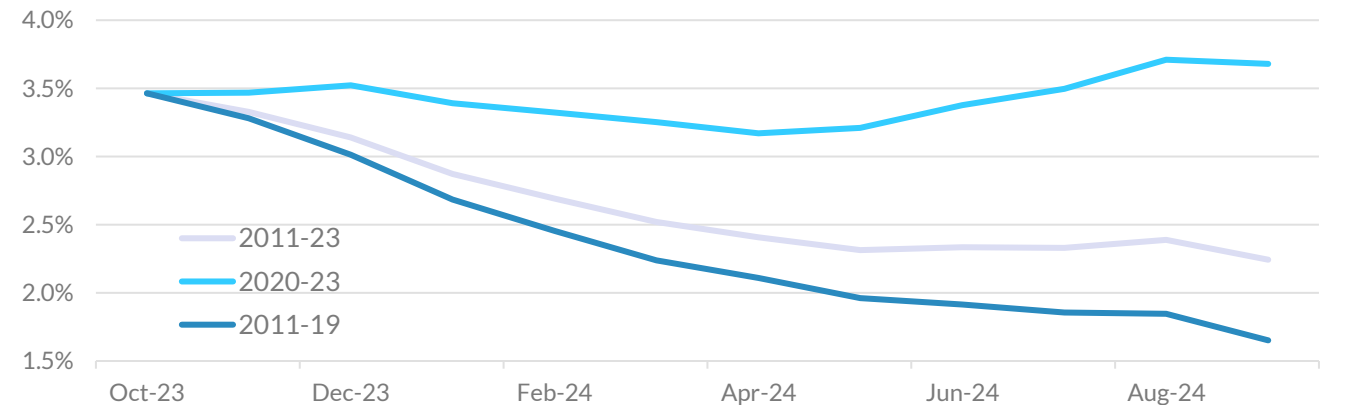
Slowing Growth & Inflation in the Pipeline

- GDP: Slowdown in 2024 to 1-1.5% annualized.
- PCE: Slowing driven by weaker consumer spending with Services in the crosshairs.
- Fixed Investment:
 - Could see Residential spending slowly improve as rates come down.
 - Non-Resi fixed investment similarly set to expand, albeit at a tempered pace.
- Government Consumption: Stealth fiscal easing in 2023 to fade into 2024.
- Lower inflation driven by:
 - Lagged effect of decline in M2 Money Supply.
 - Universally tighter lending standards.
 - Lagged effect of falling home prices on shelter indices.

Base Case: Bumpy Landing/Uneven Growth Continues



Core PCE Deflator in Various Return to Mean Scenarios



Election Noise Likely to Heat Up in the Summer Months

Investment Grade Total Returns in Election Years

Year	IG Total Return		Election Outcome	
	YTD to Election	3-Months to Election	Post-Election Through Year-End	
2020	6.5%	-1.5%	3.1%	Democratic Sweep
2016	8.0%	-1.0%	-1.9%	Republican Sweep
2012	10.1%	2.1%	0.3%	Democratic President; D Held Senate; R Held House
2008	-13.8%	-12.3%	8.1%	Democratic Sweep
2004	4.8%	3.7%	0.6%	Republican Sweep
2000	5.3%	1.8%	3.6%	Republican President; Narrow Republican Congressional Majority
Average	3.5%	-1.2%	2.3%	
Median	5.9%	0.4%	1.8%	
Ex.-GFC Average	6.9%	1.0%	1.1%	
Ex.-GFC Median	6.5%	1.8%	0.6%	

Credit Spreads: Driven More by Economic/Credit Conditions than Elections

IG OAS				HY OAS			
Year	YTD to Election	3-Months to Election	Post-Election Through Year-End	Year	YTD to Election	3-Months to Election	Post-Election Through Year-End
2020	31 bp	-9 bp	-29 bp	2020	147 bp	-9 bp	-121 bp
2016	-34 bp	-11 bp	-10 bp	2016	-197 bp	-63 bp	-77 bp
2012	-103 bp	-43 bp	4 bp	2012	-184 bp	-65 bp	-14 bp
2008	374 bp	285 bp	-1 bp	2008	1019 bp	815 bp	193 bp
2004	-3 bp	-5 bp	-8 bp	2004	-70 bp	-50 bp	-39 bp
2000	70 bp	17 bp	17 bp	2000	299 bp	149 bp	125 bp
Average	56 bp	39 bp	-5 bp	Average	169 bp	130 bp	11 bp
Median	14 bp	-7 bp	-5 bp	Median	39 bp	-30 bp	-27 bp
Ex-GFC Avg.	-8 bp	-10 bp	-5 bp	Ex-GFC Avg.	-1 bp	-8 bp	-25 bp
Ex-GFC Median	-3 bp	-9 bp	-8 bp	Ex-GFC Median	-70 bp	-50 bp	-39 bp

What's the Fed To Do?

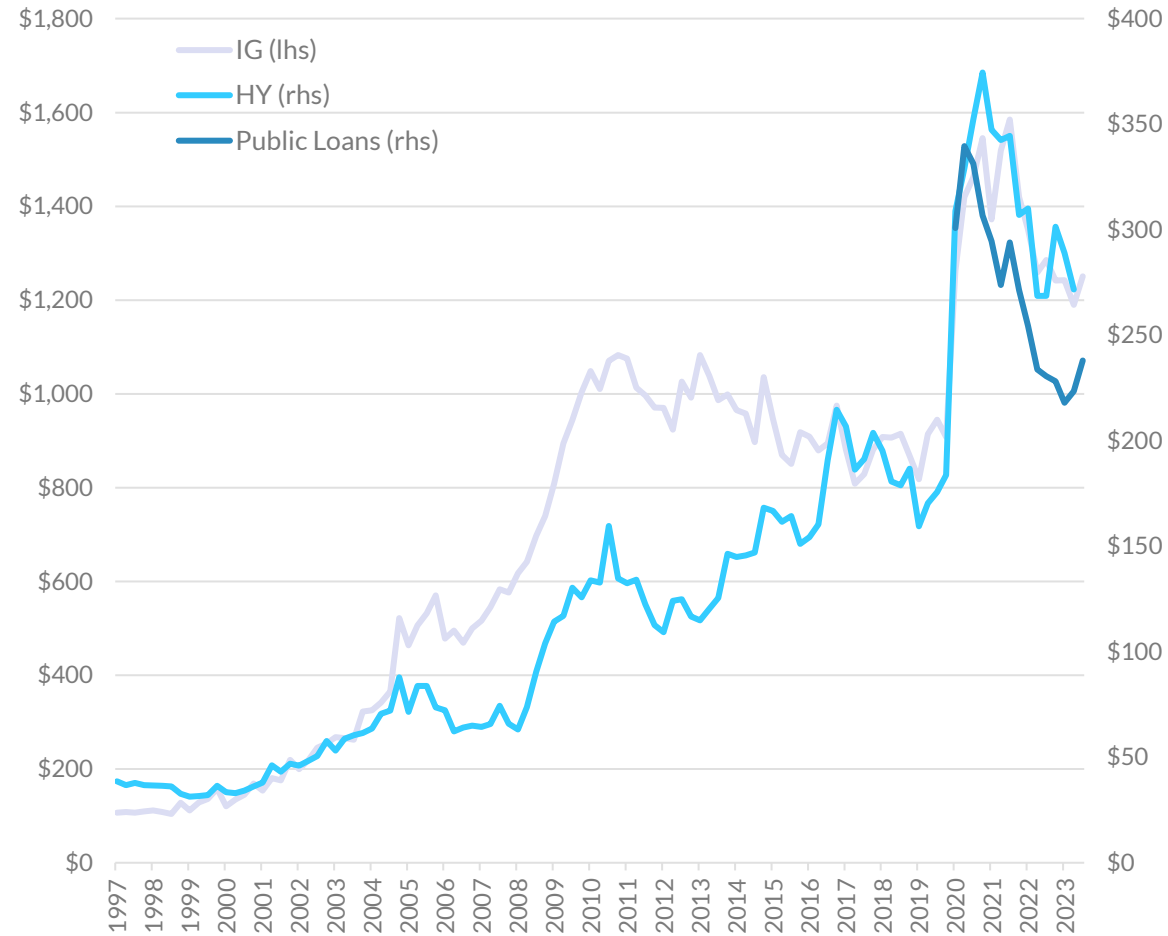
FOMC Policy Decisions Around Prior Presidential Elections			
Date	Election Result	Policy move	
		Pre-election FOMC	Post-election FOMC
11/3/2020	Biden	0	0
11/8/2016	Trump	0	25
11/6/2012	Obama (incumbent)	0	0
11/4/2008	Obama	-50	-75
11/2/2004	W Bush (incumbent)	25	25
11/7/2000	W Bush	0	0
11/5/1996	Clinton (incumbent)	0	0
11/3/1992	Clinton	0	0
11/8/1988	HW Bush	0	0
11/6/1984	Reagan (incumbent)	-175	-50
11/4/1980	Reagan	0	0
11/2/1976	Carter	0	0
11/7/1972	Nixon (incumbent)	0	0

US IG, HY, & Leveraged Loan Forecasts for 2024

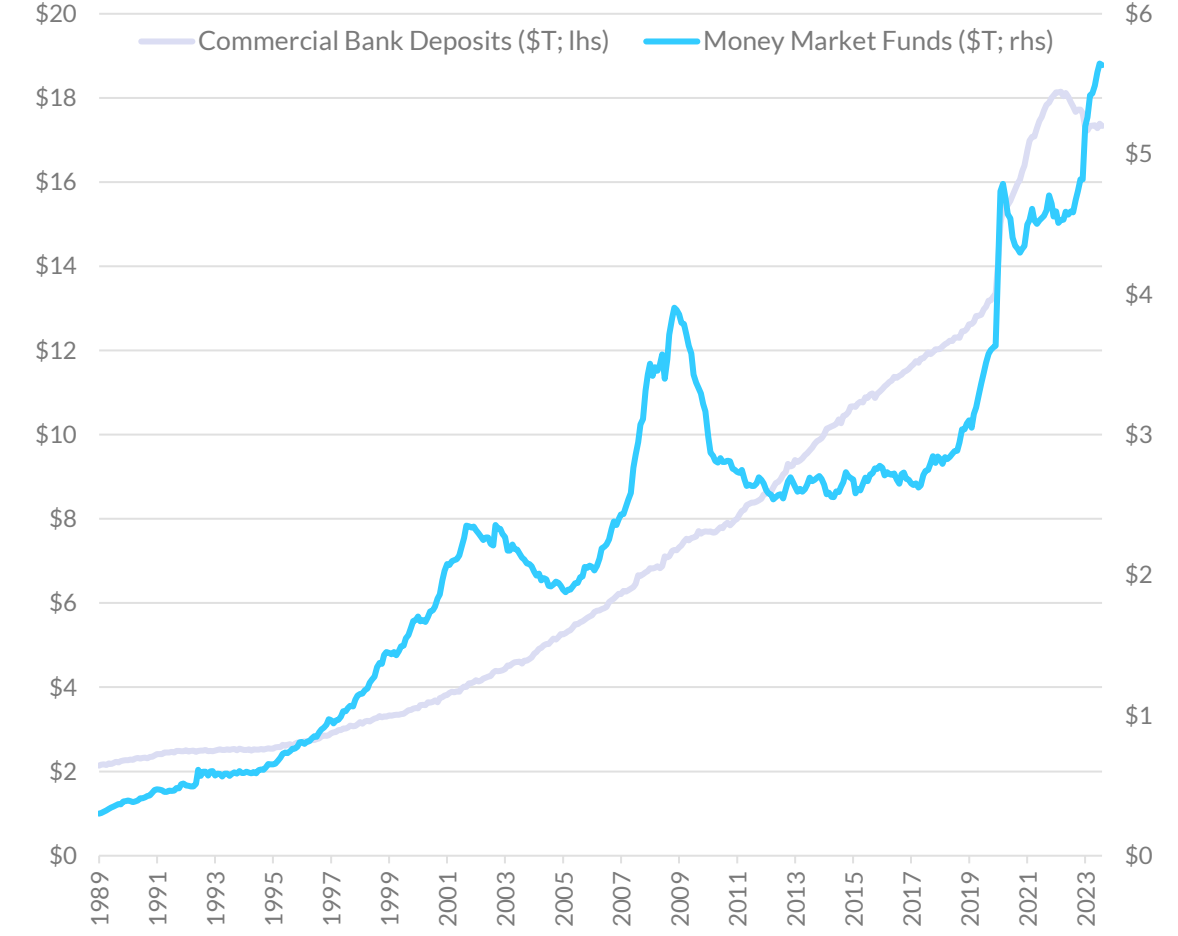
	YE 2022	YTD 2023 as of 11/30	YE 2024 Scenarios			
			CreditSights View	Fedspeak View	Bear 1: Stagflation	Bear 2: Hard Landing
Probability Weighting			45%	30%	15%	10%
US Treasury Yields						
Fed Funds Target (Upper)	4.4%	5.5%	4.5%	5.0%	6.8%	1.5%
2-Yr UST	4.4%	4.7%	3.5%	4.5%	6.8%	2.0%
5-Yr UST	4.0%	4.3%	3.5%	4.7%	6.5%	2.3%
10-Yr UST	3.9%	4.3%	3.8%	4.8%	6.0%	2.5%
2-Yr/10-Yr UST Curve	-55bp	-36bp	25bp	25bp	-75bp	50bp
US Investment Grade						
OAS	138bp	111bp	100bp	130bp	150bp	200bp
Excess Return ¹	-1.4%	4.2%	1.8%	0.1%	-1.1%	-4.0%
YTW	5.5%	5.7%	5.0%	6.3%	7.7%	4.7%
Total Return ¹	-15.4%	4.2%	10.7%	2.1%	-7.6%	12.4%
Gross Supply (\$bn)	1,241	1,152	1,300	1,000	900	1,100
Net Supply (\$bn)	434	403	455	340	180	275
US High Yield						
OAS	479bp	384bp	350bp	450bp	500bp	750bp
YTW	9.0%	8.5%	7.4%	9.5%	11.9%	10.1%
Total Return ¹	-11.2%	9.4%	12.3%	6.3%	-0.4%	4.6%
Gross Supply (\$bn)	113	160	250	200	150	125
Net Supply (\$bn)	62	51	100	80	30	31
HY Defaults (TTM % Issuers)	1.6%	2.8%	3.5%	4.0%	5.0%	7.5%
US Broadly Syndicated Leveraged Loans						
Bid Price	\$91.89	\$94.52	\$96.00	\$93.00	\$87.00	\$80.00
Effective Yield	10.3%	10.3%	8.7%	9.5%	12.2%	6.7%
Total Return ¹	-1.1%	11.3%	10.3%	6.7%	0.3%	-10.1%
Gross Supply (\$bn)	224	213	225	200	175	150
Net Supply (\$bn)	168	81	101	70	35	38
Loan Defaults (TTM % Issuers)	1.6%	2.8%	4.0%	5.0%	6.0%	10.0%

Cash Still a Powerful Support for Corporates and Markets

Median IG and HY Corporate Cash Balances (\$MM)

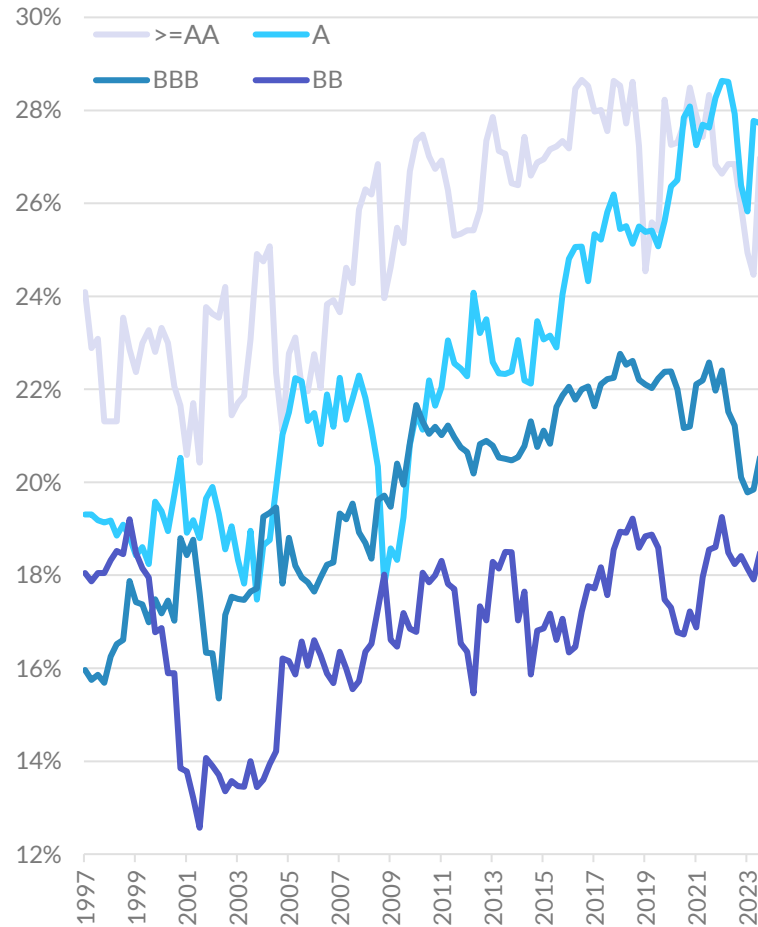


Deposits Stabilizing; Money Markets Climbing

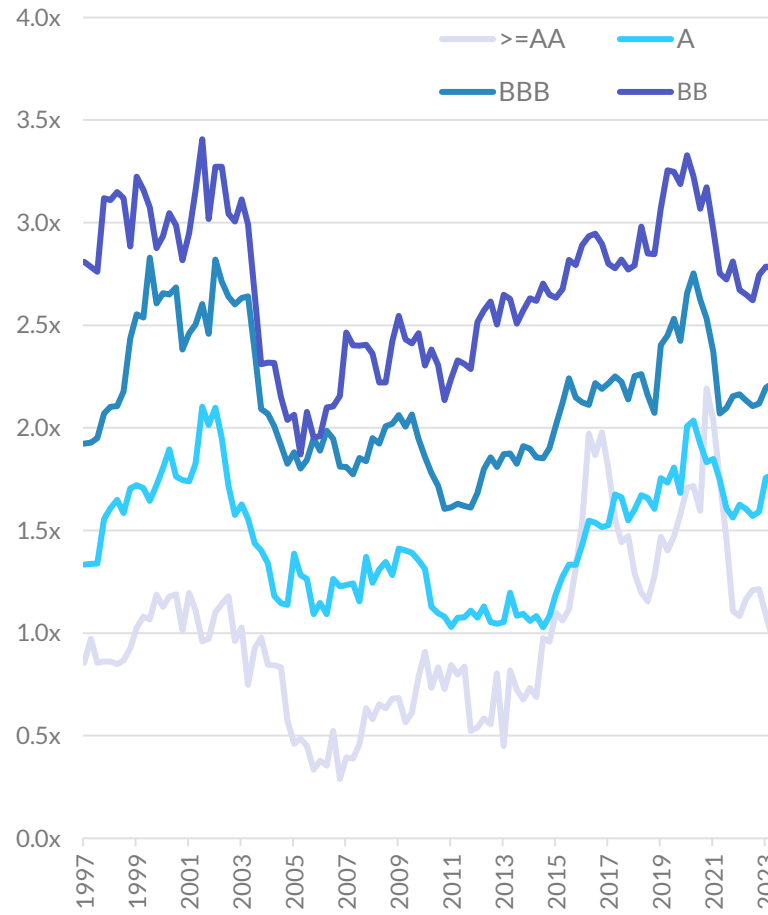


Credit Fundamentals: Still Strong, but Slowly Normalizing

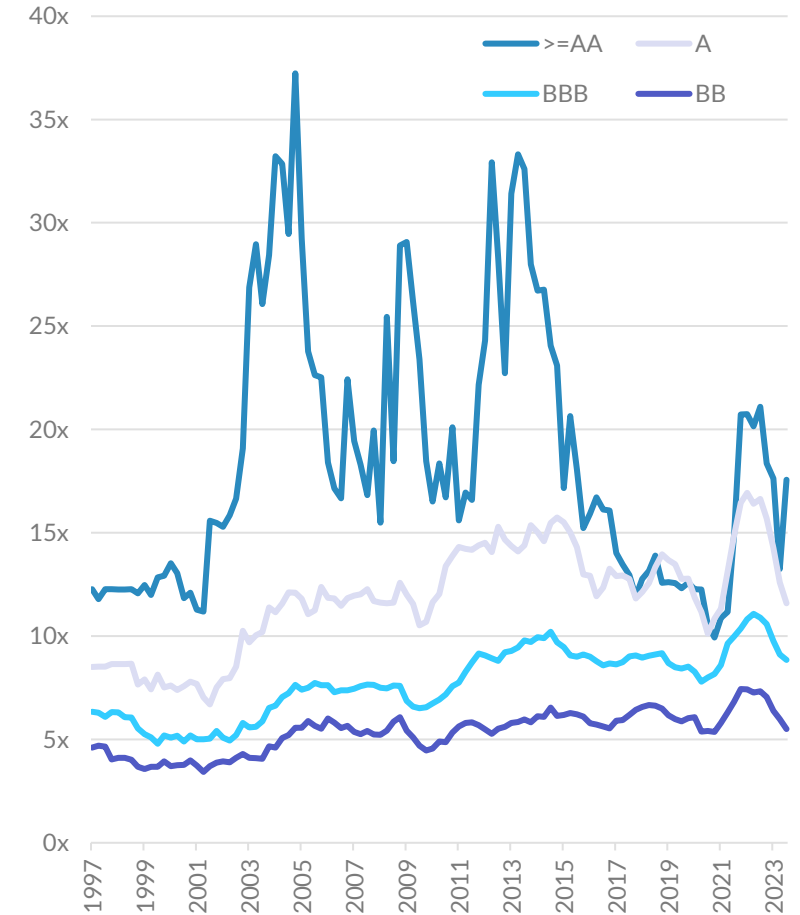
US IG & BB EBITDA Margins



US IG & BB Net Leverage

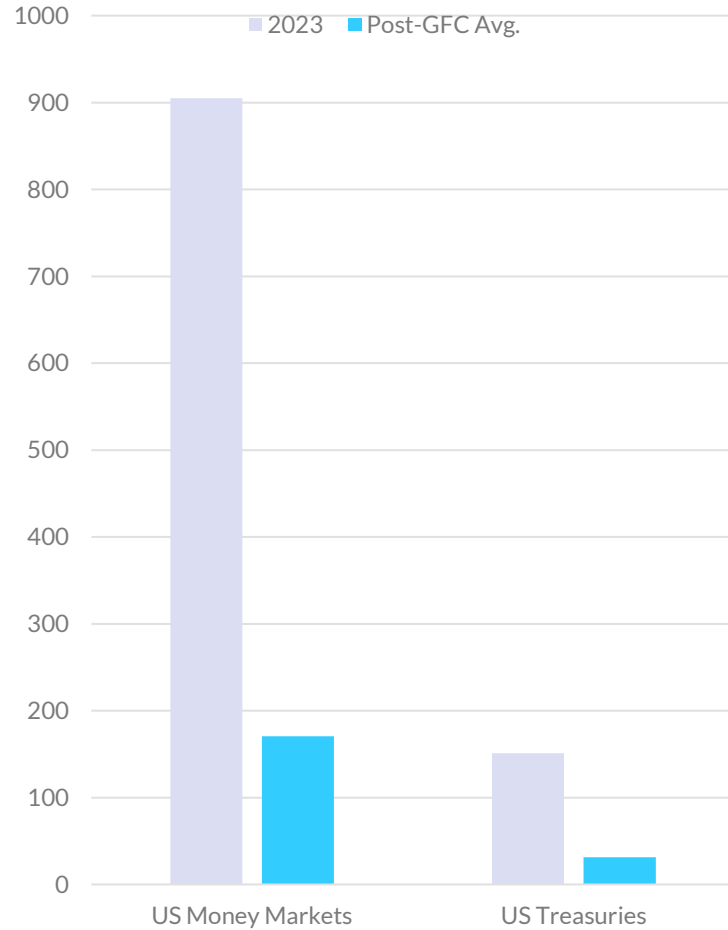


US IG & BB Interest Coverage

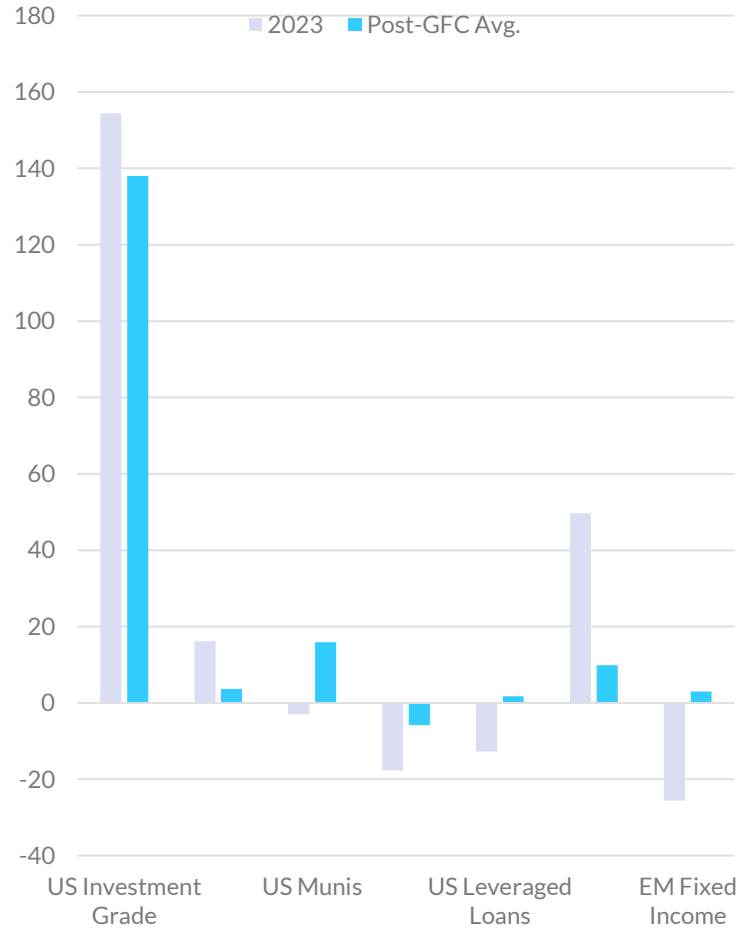


Retail Investors Steered toward Safety: Cash, USTs, IG, & MBS

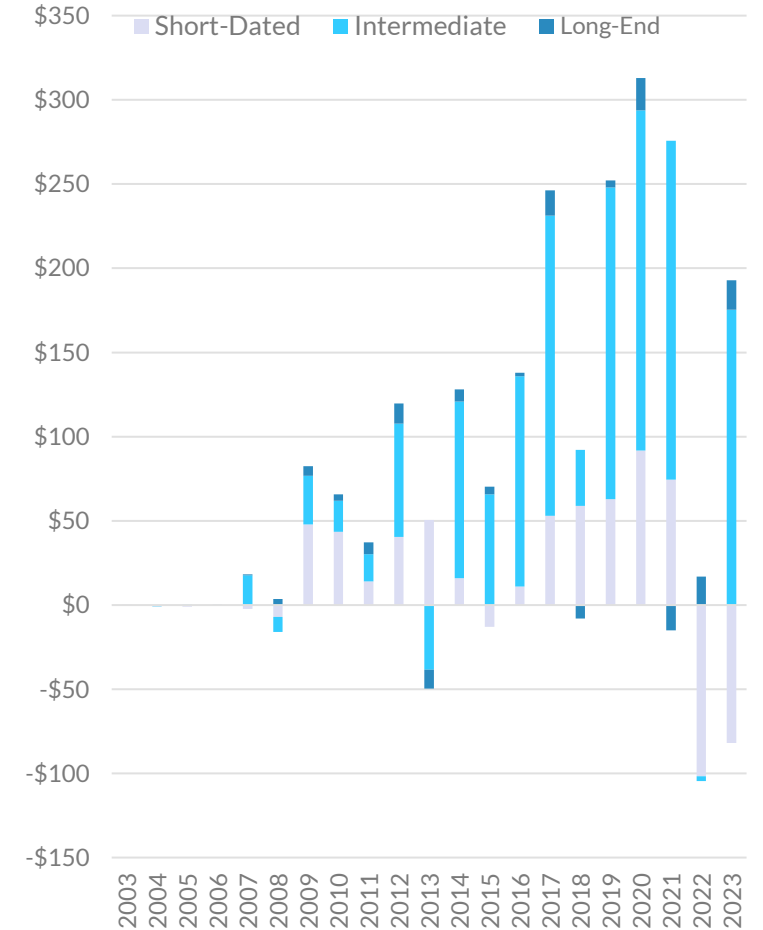
Money Market/UST Flows (\$B)



Cross Asset Retail Flows (\$B)

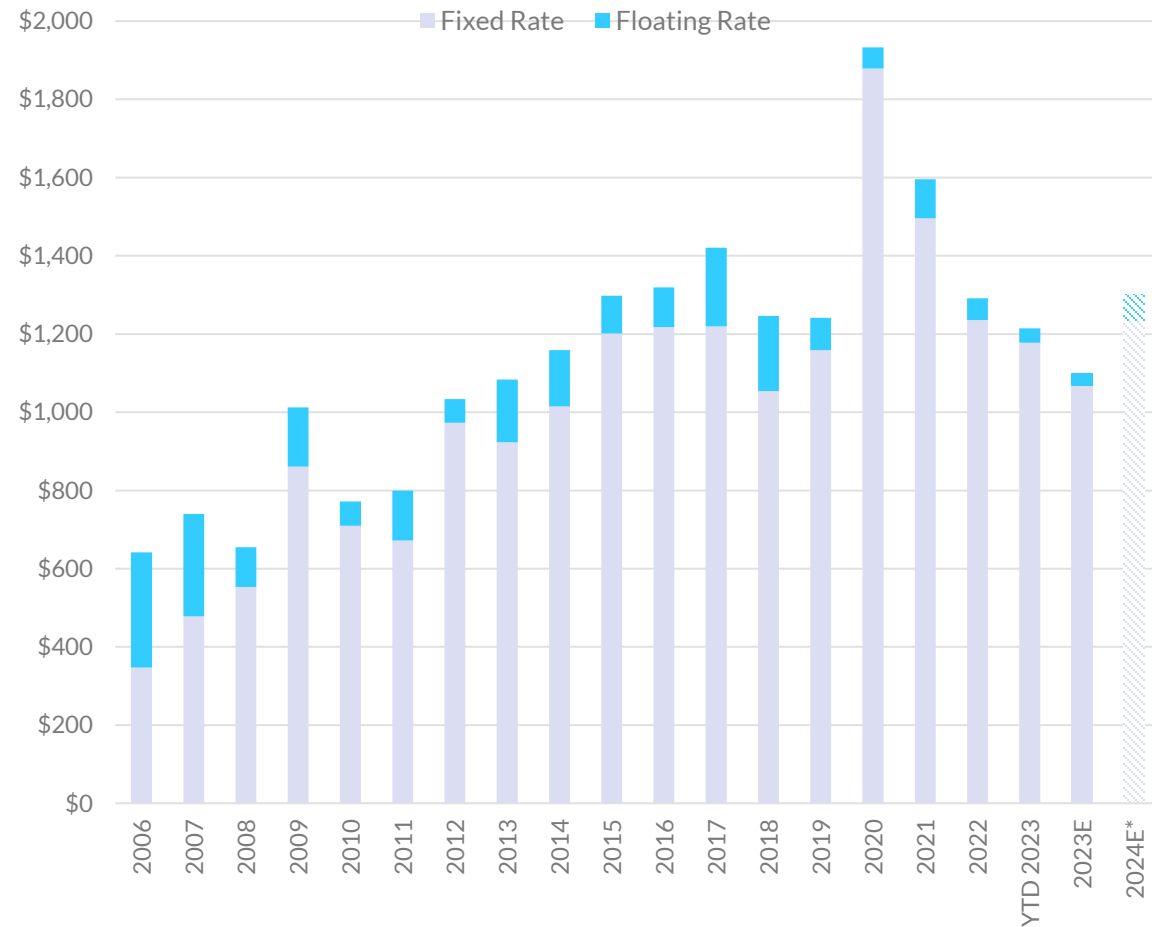


IG Retail Flows by Duration (\$B)

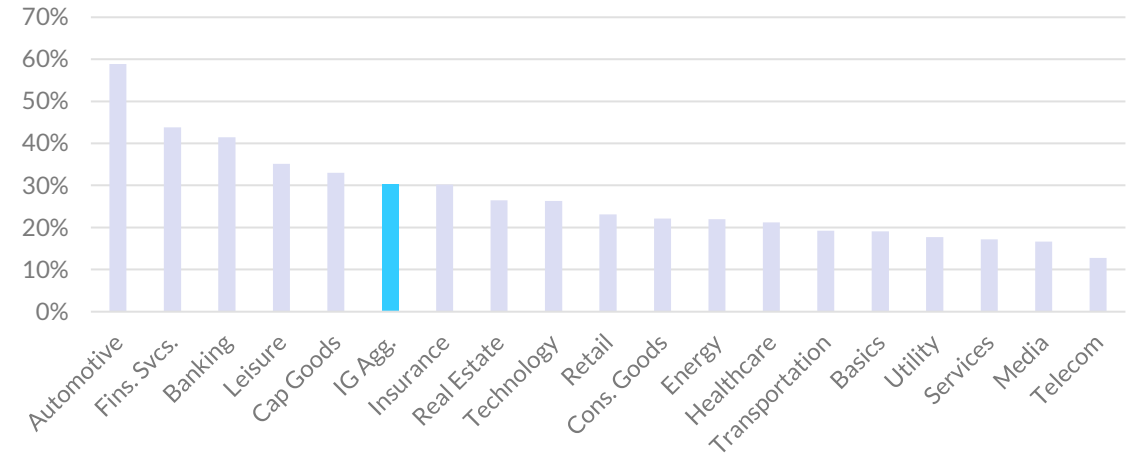


IG Primary: Issuance Picks Up the Pace (\$1.3T Forecast, Up from \$1.2T)

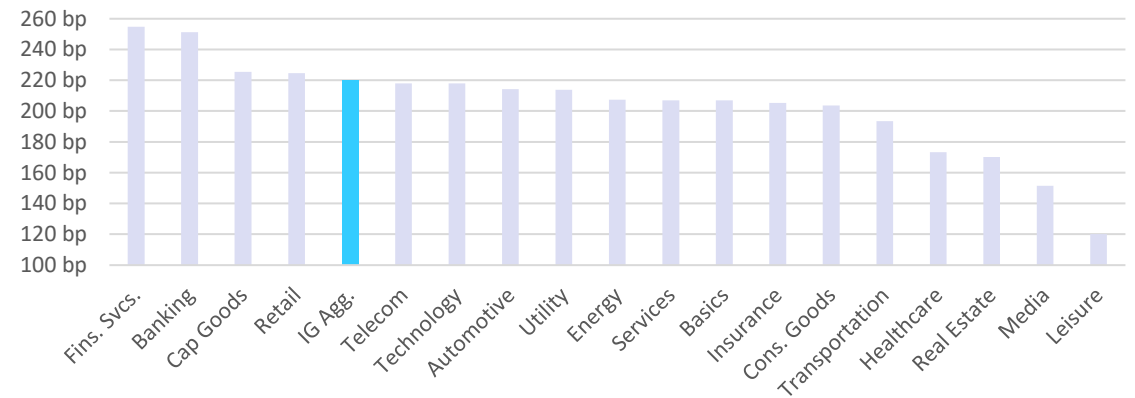
US Investment Grade: Actual and Est. New Issue (\$B)



US IG Near-Term Maturities by % Outstanding*

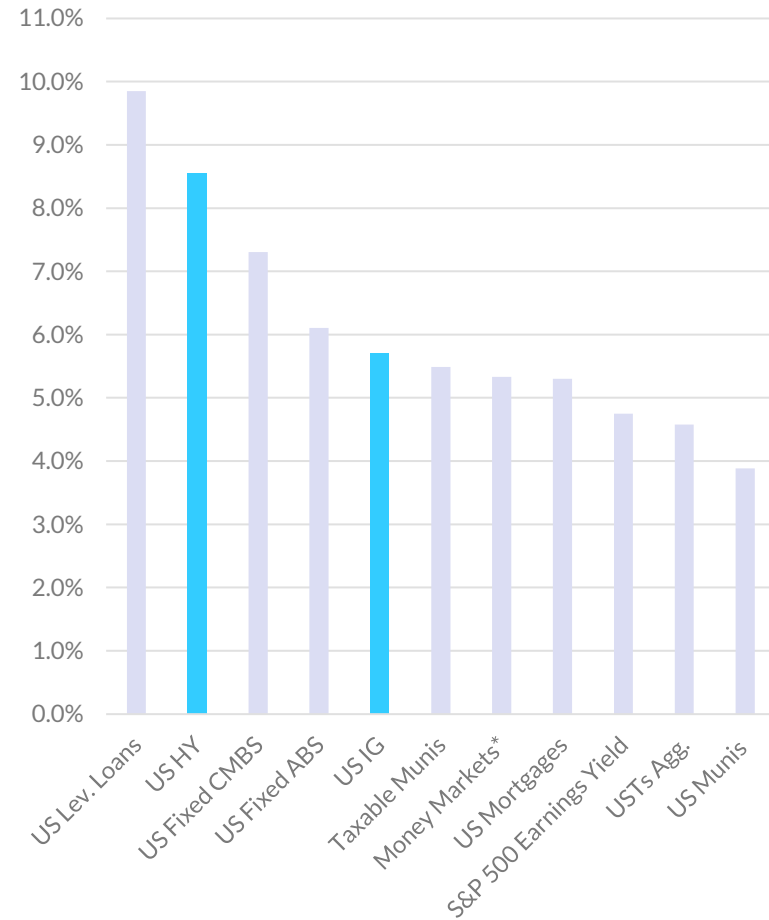


New Issue Coupon vs. Coupon on NT Maturities

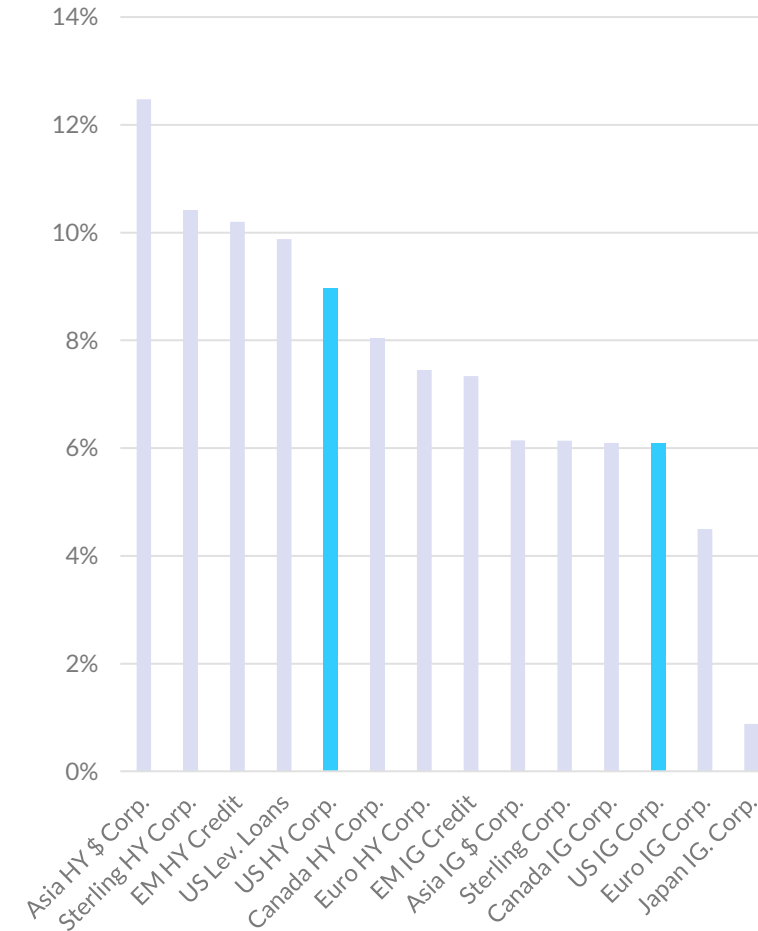


IG Credit Has Grown Incrementally More Compelling Relative to Equities

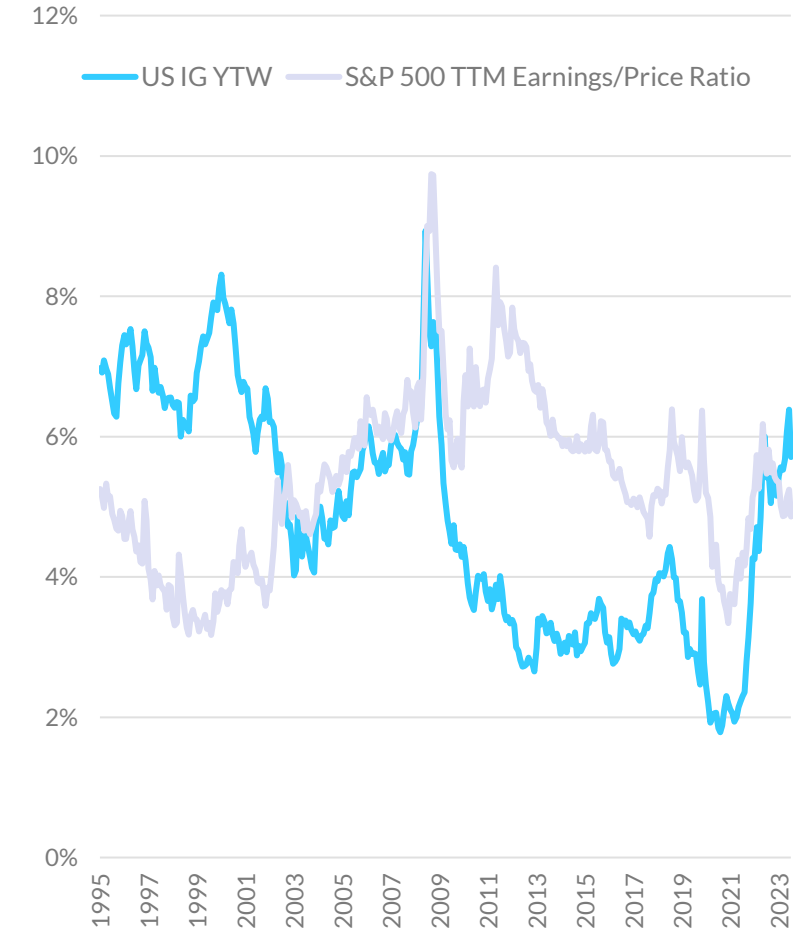
IG Yields Elevated



Global Corporate Credit Yields

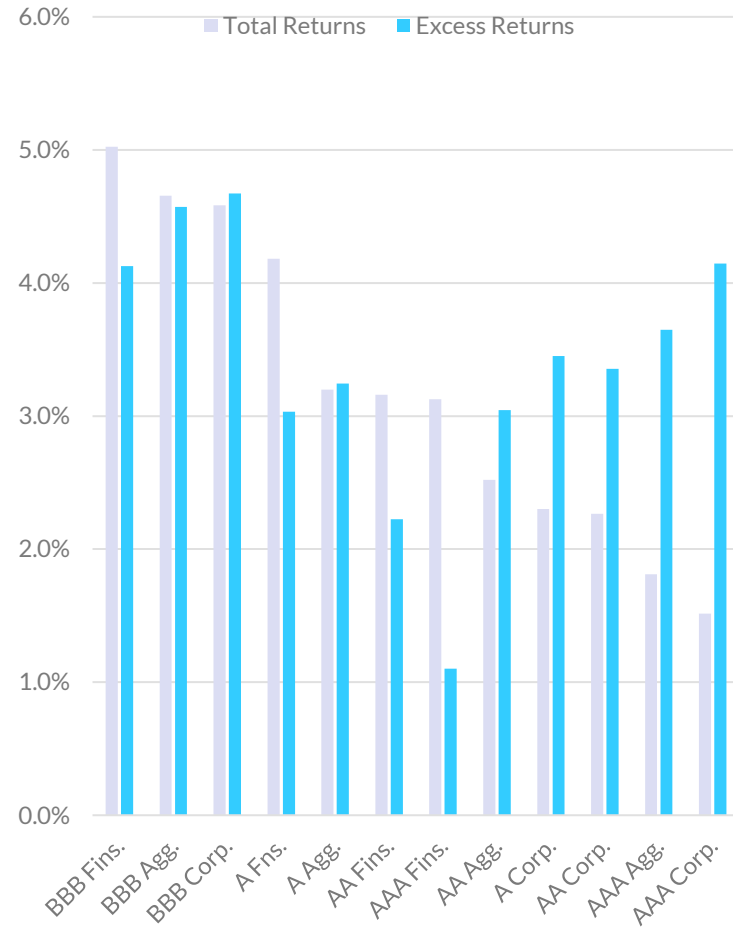


IG YTW vs. S&P 500 Earnings Yield

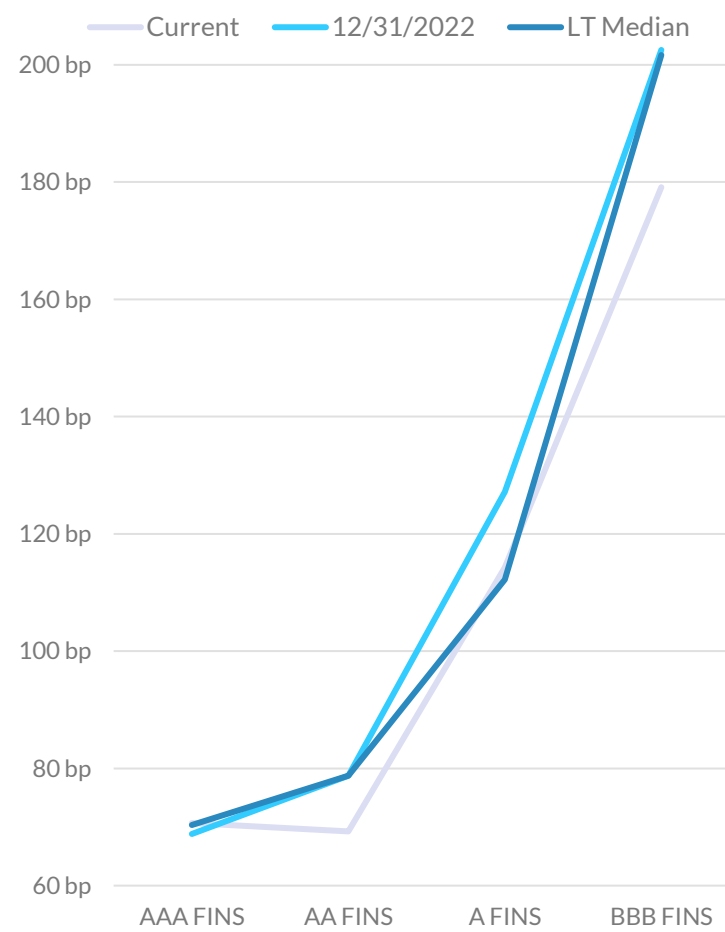


Rating Curve Steepest for A-Rated Financials

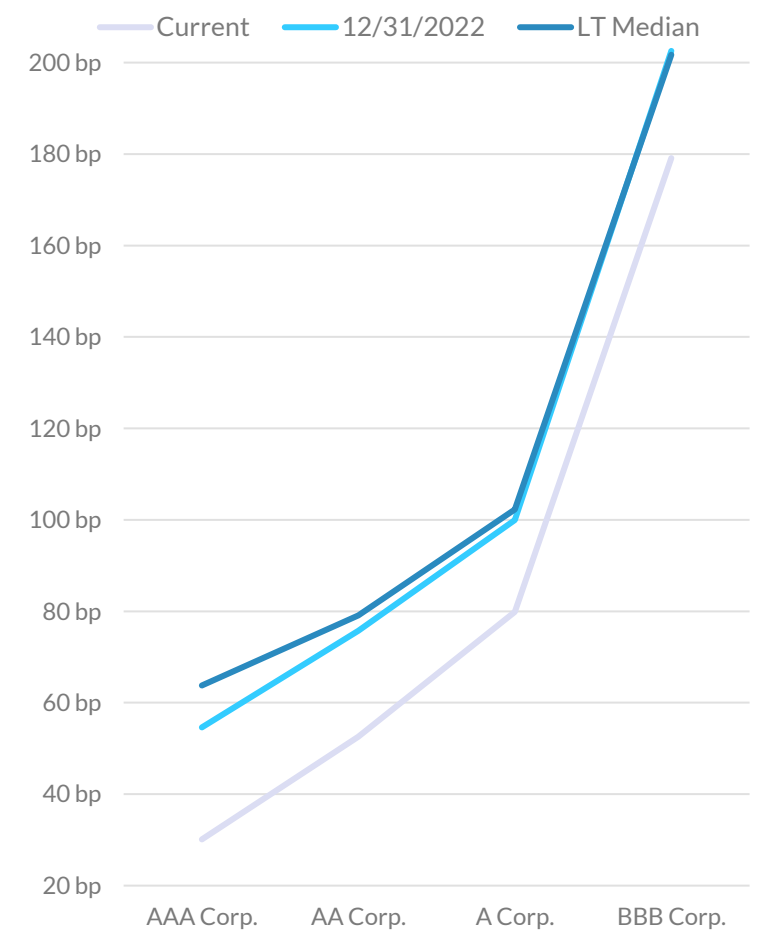
US IG YTD Returns by Rating



US IG Financials Spread Curve

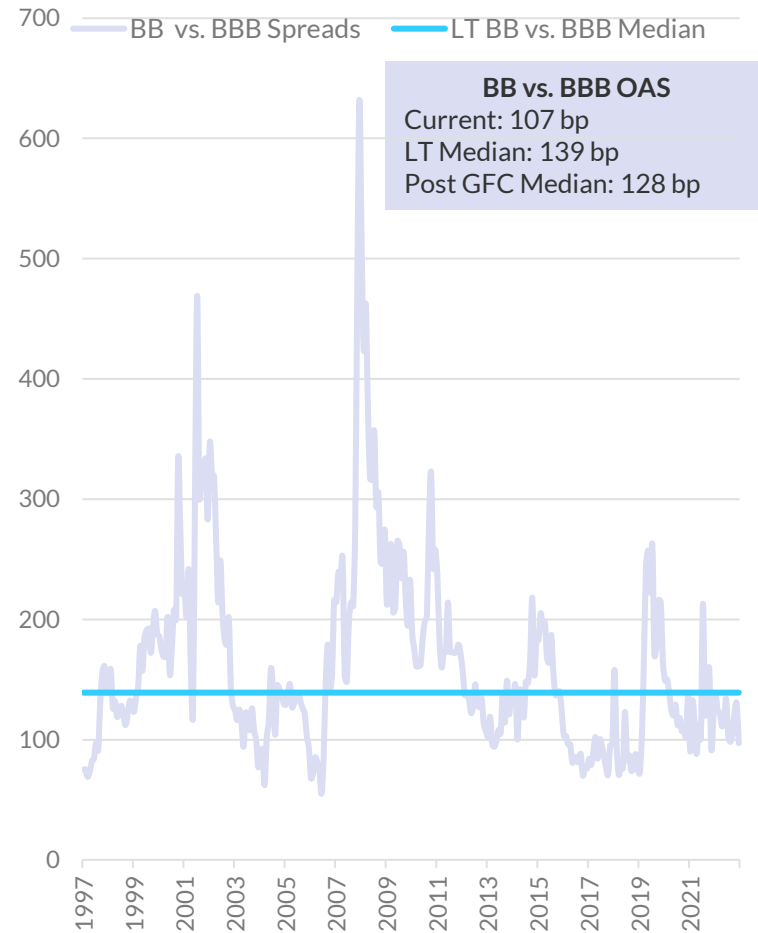


US IG Corporates Spread Curve

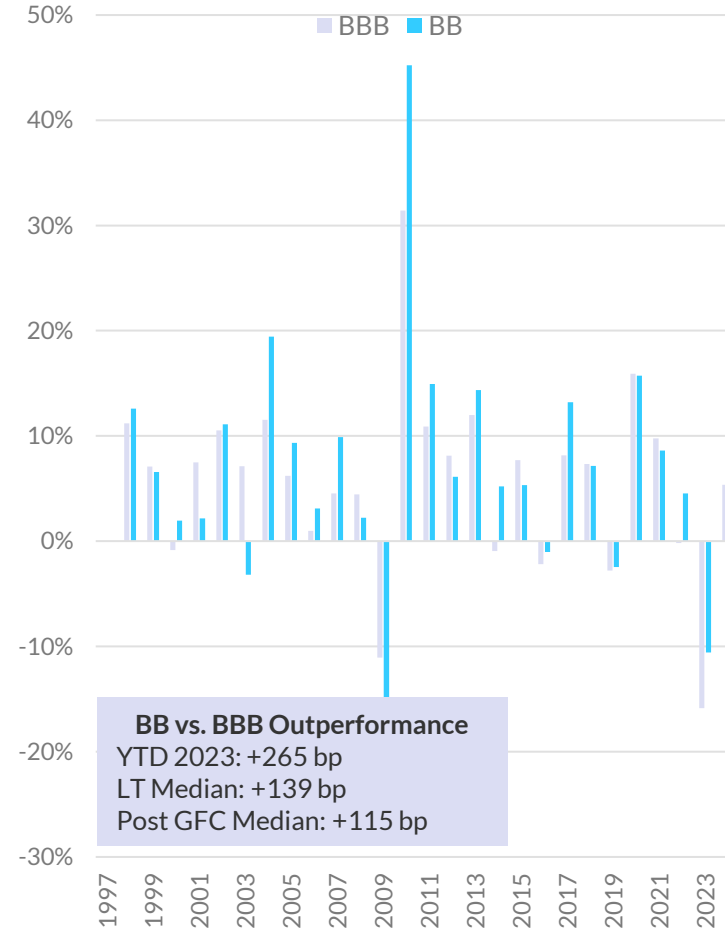


BBs Not Cheap, but Set to Outperform in Our Core Forecast

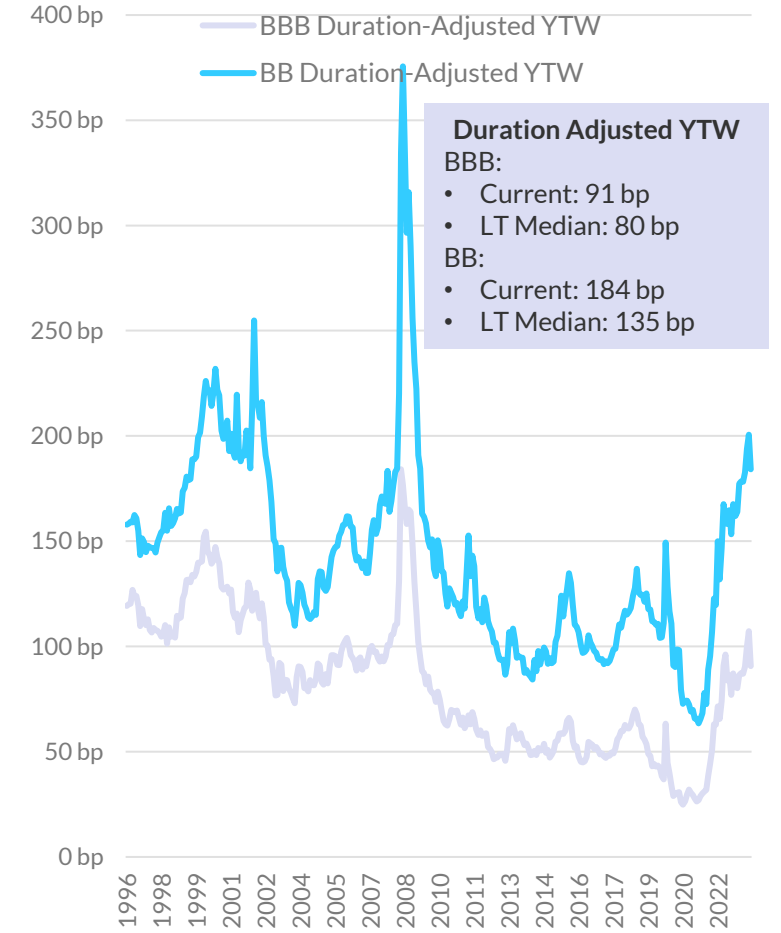
BB vs. BBB Spread History



BB & BBB Total Return History

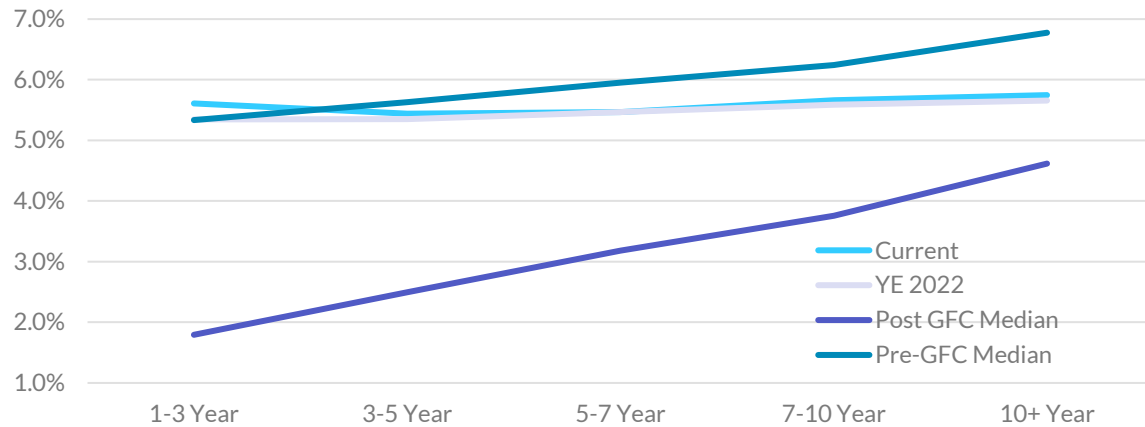


BB & BBB Return History

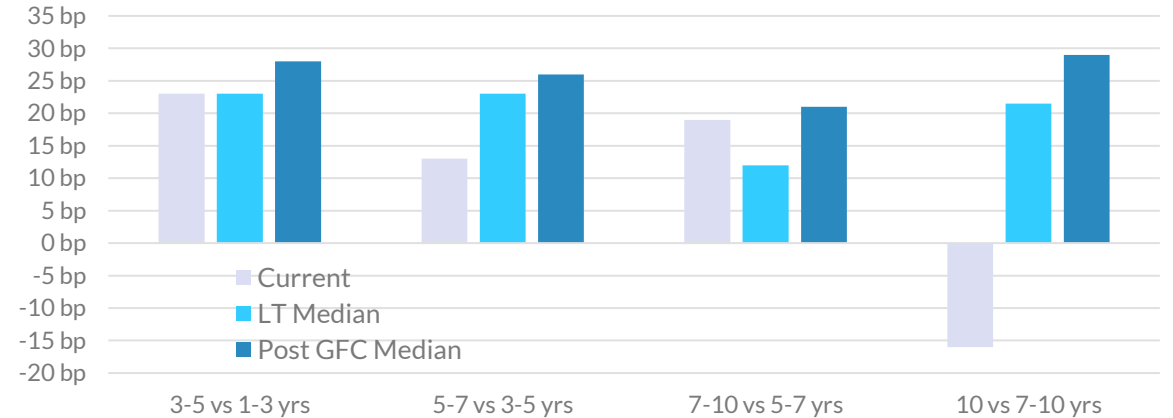


Total Return Prospects Strongest in Long-End; Excess Returns in the Belly

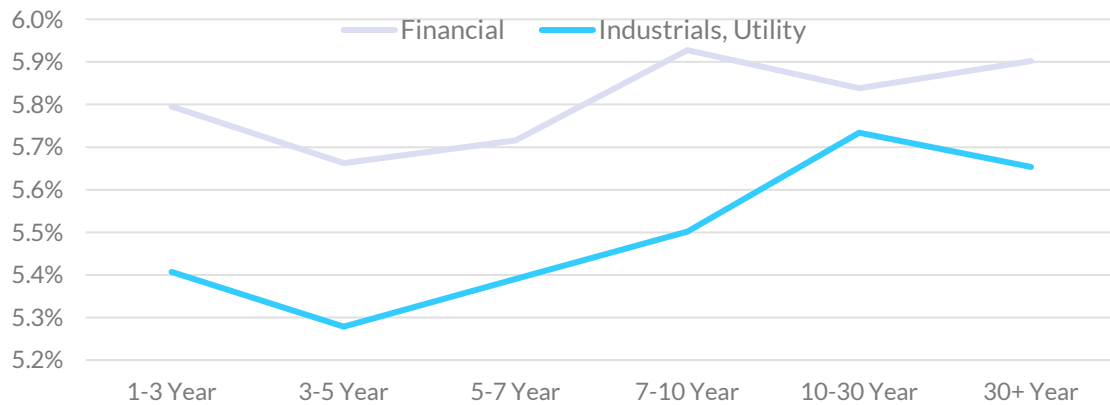
Yield Curve Still Flat, but Duration Looking Better



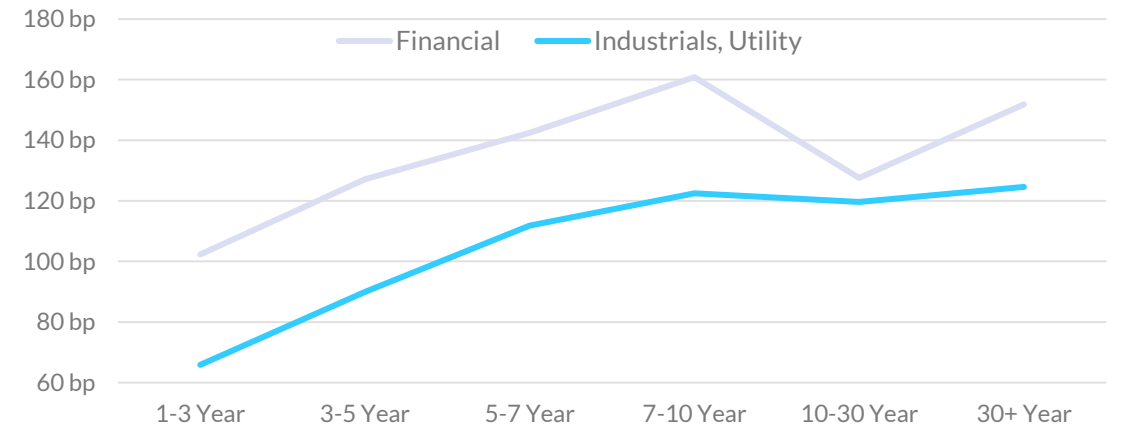
Aggregate Spread Curves Steepest in 3-5s & 7-10s



Financials Contributes to Elevated Front-End



Front-End Offers Good Carry & Roll

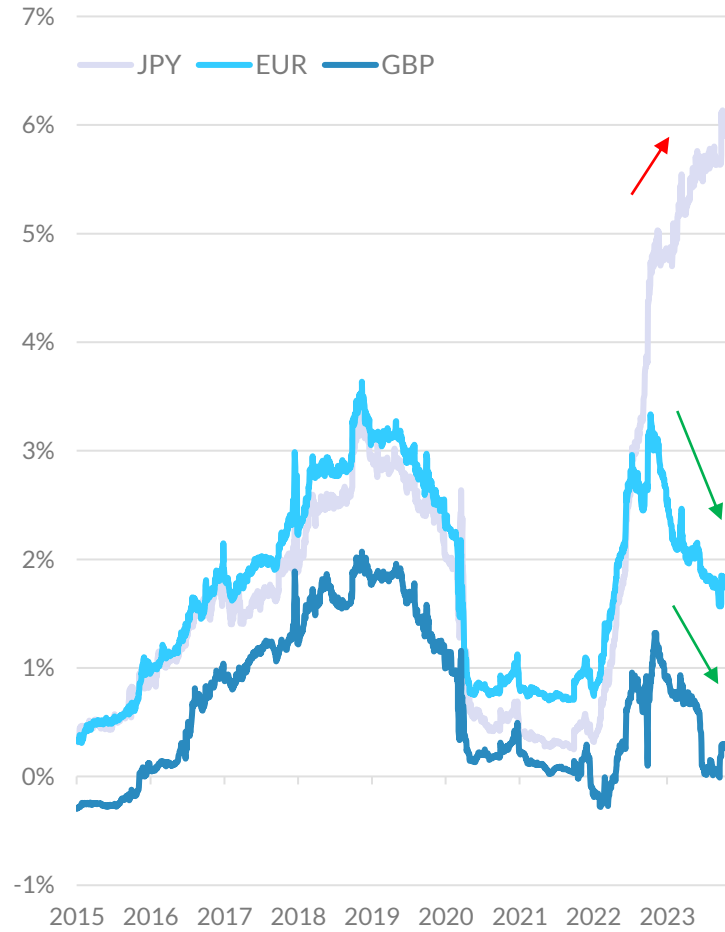


FX Hedging Costs Rising in Japan, Falling for Euro and Sterling Investors

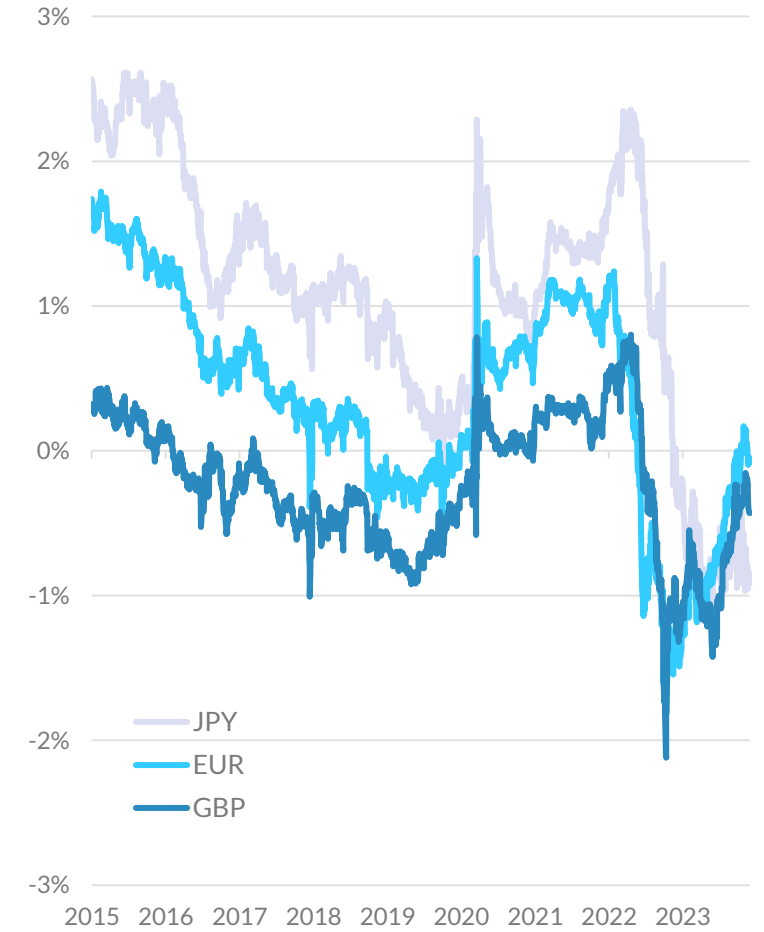
Unhedged Yield Differentials



Annualized Hedging Costs*



FX-Adj. Yields (US vs. Foreign)



CreditSights Global Corporate Credit Relative Value

CreditSights Global Strategy Coverage & Recommendations

Asset Class	OAS	YTW	Duration	Market Value (\$B)	YTD Total Return	CreditSights Rec.	CreditSights Analyst	Near-Term Risk View	Spread Outlook (12-Month)
Investment Grade									
US Investment Grade	111 bp	5.68%	6.6 yrs	\$7,904	4.2%	Overweight	Griffiths	On	Tighter
Euro Investment Grade ¹	145 bp	4.06%	4.5 yrs	\$160	5.1%	Overweight	Miller	On	Tighter
US Investment Grade Tax Exempt Munis ²	20 bp	3.74%	6.8 yrs	\$1,123	4.0%	Underweight	Luby	On	Tighter
Asia Investment Grade (\$-Denominated)	106 bp	5.65%	5.0 yrs	\$709	4.3%	Market Weight	Shenoi	On	Tighter
EM Investment Grade Sovereign (\$-Denominated)	112 bp	5.64%	8.1 yrs	\$528	2.1%	Market Weight	Chatellier	Neutral	Sideways
US Investment Grade Taxable Munis	93 bp	5.51%	8.9 yrs	\$175	2.8%	Market Weight	Luby	On	Tighter
Leveraged Finance									
US Broadly Syndicated Leveraged Loans ³	558 bp	9.78%		\$1,384	11.3%	Market Weight	Cisar	Neutral	Sideways
US High Yield	384 bp	8.50%	3.5 yrs	\$1,189	9.4%	Overweight	Cisar	On	Tighter
Euro High Yield ¹	432 bp	7.06%	2.9 yrs	\$21	8.9%	Market Weight	Miller	Off	Tighter
EM High Yield Sovereign (\$-Denominated)	613 bp	10.54%	5.4 yrs	\$344	9.8%	Overweight	Chatellier	Neutral	Tighter
US High Yield Munis	182 bp	5.68%	7.0 yrs	\$42	3.6%	Underweight	Luby	Off	Sideways

Source: CreditSights, FactSet, ICE Data Indices, LLC

¹ On an FX-adjusted basis, Euro IG yields 5.7% while Euro HY yields 8.7%.

² Underweight recommendation for tax agnostics investors; Market Weight for US high income retail investors.

³ Uses 3-year discount margin for OAS and 3-year index yield for YTW.

Near-Term risk view represents 3-month outlook.

Cheap Financials Make Corps Look Rich

US IG Rich/Cheap Analysis By Sector					
	OAS	Current Spread to Index	2015-present z-score	Rich/Cheap	CreditSights Recommendation
Financials	128	14	2.19	very cheap	OP
Insurance	138	24	1.59	cheap	OP
Banking ¹	127	13	1.50	cheap	OP
Real Estate	151	37	1.31	cheap	MP
Utility	125	11	0.74	cheap	MP
Financial Services ²	126	12	0.06	fair	OP
Automotive	104	-10	0.00	fair	OP
Capital Goods	87	-27	-0.26	fair	UP
Leisure	138	24	-0.30	fair	MP
Healthcare	87	-27	-0.31	fair	UP
Consumer Goods	91	-23	-0.41	fair	MP
Basic Industry	139	25	-0.62	rich	OP
Transportation	111	-3	-0.76	rich	MP
Media	126	12	-0.82	rich	UP
Technology & Electronics	78	-36	-0.84	rich	UP
Retail	78	-36	-1.00	rich	UP
Energy	123	9	-1.03	rich	MP
Telecommunications	111	-3	-1.92	rich	MP
Industrials	104	-10	-2.38	very rich	OP

Note: Gray shading and bold font represents level 2 major subsectors, while the remaining subsectors are industry level 3 breakouts

¹ Valuations based on the ICE Banking & Brokerage Index, which includes both US Large and Regional Banks.

² Recommendation applies to Aircraft Leasing, which is classified as Financial Services.

Source: CreditSights, FactSet, ICE Data Indices, LLC

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