Promotional document
Professional and non-professional investors

Newsletter

High yield

November 2023

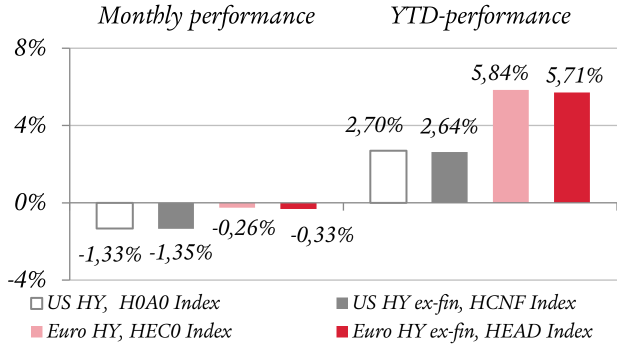
In October, we saw a resurgence of geopolitical risks following the Hamas terrorist attack in Israel, but also better-than-expected macroeconomic data in the United States, which accentuated the upward trend in sovereign yields impacting bond valuations.
Risk assets performed negatively, with a significant underperformance from the most speculative assets.

Highlights of the month

Performance

In October, there was a resurgence of the Israeli-Palestinian conflict, which made investors even more nervous than they were in September. The HY US and HY EUR markets ended October with negative performances of -1.35% and -0.33%, respectively – both were impacted by increased risk premiums
(US: +39bps, EUR: +47bps).

PERFORMANCE OF THE HIGH-YIELD MARKETS

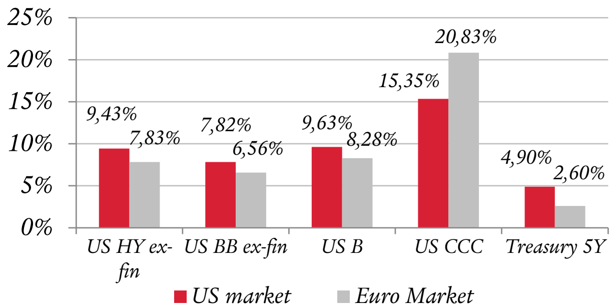


Source: Swiss Life Asset Managers – 31.10.2023

Rating segments

The negative market sentiment weighed on all ratings. Performances were negative on both sides of the Atlantic. The increase in risk premiums had a particular impact on the more speculative ratings. The B segment ended at -0.53% in Europe and -1.42% in the US. CCCs, meanwhile, plunged to -2.24% in Europe and -3.48% in the US. Although in the red, the BB segment was more resilient (EUR -0.10%, US -0.70%).

YIELD TO WORST*



Source: Swiss Life Asset Managers – 31.10.2023

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.

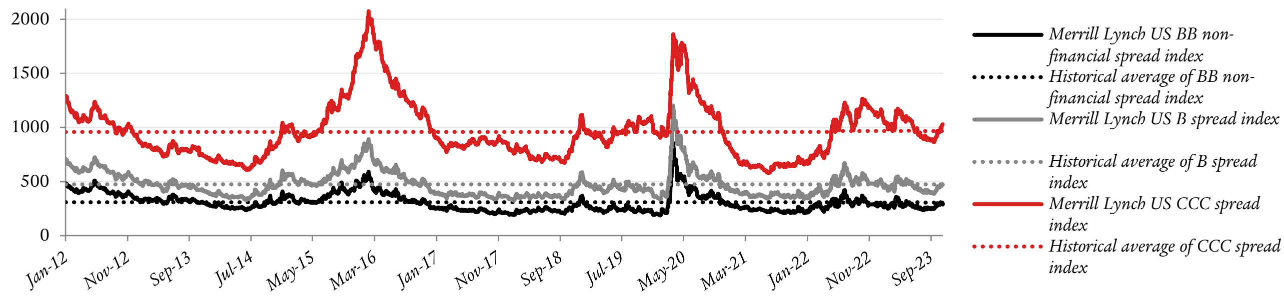
Sectors

As in the previous month, all sectors ended in negative territory in the US. The biggest losers in October were healthcare (-1.82%) and technology (-1.30%). In Europe, the HY market was driven by technology and real estate, with performances of -5.94% and -2.62%, respectively. The top performers of the month in Europe remained the same as they have been all year (e.g. energy MTD +0.64% / YTD +11.30%; utilities MTD +0.18% / YTD +6.76%).

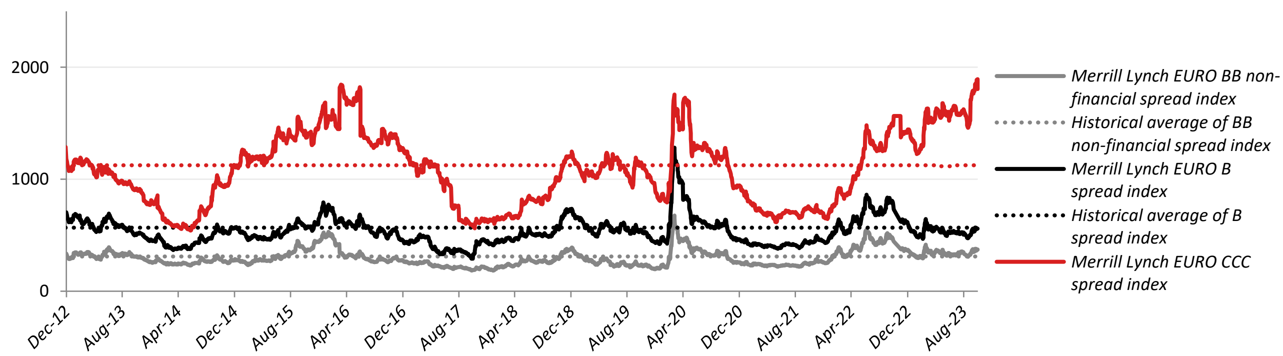
Primary market

In October, issues on the HY US market declined slightly with USD 11.7 billion in issues from 12 issuers (compared to USD 13.4 billion in September 2023). The main issue was Venture Global LNG, the producer of liquefied natural gas, which issued USD 4 billion in bonds.
In terms of HY EUR, the primary market slowed sharply. There were only four issuers, with a combined total of EUR 1.7 billion compared to EUR 6.14 billion the previous month. The largest issue was from the French automotive supplier Valéo for EUR 0.6 billion.

DEVELOPMENT OF SPREADS IN THE UNITED STATES



DEVELOPMENT OF SPREADS IN EUROPE



Default rate and changes in the pool

In the US, two issuers were upgraded to rising stars, consulting firm Gartner for USD 2.2 billion and real estate development company Meritage Homes for USD 1 billion. By contrast, no investment-grade issuers were downgraded in the US HY market.
In Europe, no investment-grade issuers were upgraded in October. The only fallen angel of the month was the French satellite operator Eutelsat for EUR 2 billion.
Only the US market saw defaults in October. These occurred in the healthcare sector with pharmaceutical chain Rite Aid for USD 1.2 bn and the radiology and oncology company Akumin for USD 1.4 bn.

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Our strategy

“Political risk adds to interest rate volatility”

Édouard Faure
Head High Yield Management

1. High-yield strategy

- Market volatility increased in October due to several factors. First, significant concerns about inflation persisted, driving government yields to levels not seen since 2007 (the rate on 10-year US bonds temporarily passed the 5% mark). Second, despite strong figures emerging from China, the real estate sector there remains under significant strain. Finally, the resurgence of geopolitical risks in the Middle East is a key factor for market developments.
- Against this backdrop, there has been a pronounced increase in risk premiums in the high-yield segment.
- Solid economic figures in the US and the associated steep rise in sovereign yields accentuated the negative performance of the asset class. The HY US market recorded its worst month in the last year.
- In Europe, deteriorating economic indicators had a favourable effect on sovereign yields, which dampened the impact of the increase in risk premiums. Even though performance remains negative, they are much better than on the other side of the Atlantic.
- A search for quality is key for HY. This sentiment is reflected very well in the performance of the various rating bands. The most speculative performed significantly worse than the most defensive ones.
- Given the increasing volatility and surrounding risks, the primary market remained closed, with few companies seeking to refinance during the month.
- Our positioning allowed us to benefit from the increase in risk premiums. Nevertheless, we made some investments, while remaining focused on defensive sectors and good-quality ratings. We took advantage of the market movement to add a few short-call hybrids with an attractive yield and some BBB issuers whose risk/return ratio appeared attractive. In the portfolios that can invest in US securities, we increased our exposure to US companies, profiting from their underperformance.

2. Corporate hybrid bonds: an essential building block for high-yield funds

- Corporate hybrid bonds are equity-like debt securities (under IFRS accounting standards) issued by a company with a long (or even perpetual) maturity and with the possibility for the issuer to redeem the securities early after a certain number of years (usually 5 years). Corporate hybrid bonds therefore have similar characteristics to traditional bonds (fixed coupon, possibility for the issuer to redeem the security early) but also to the equity universe (possible non-payment of coupons without triggering a credit event, perpetual maturity). Please note that for corporate hybrid bonds issued by investment-grade issuers (i.e. almost the entire universe), rating agencies generally rate these instruments at 50% as equity and 50% as debt. In the event of a credit event for the issuer, hybrid corporate bonds are considered to be subordinated debt, with a limited recovery value compared to traditional bonds. Because they are therefore subordinate to senior debt, corporate hybrid bonds typically have a rating two notches lower than the issuer's senior bonds. At the beginning of October 2023, for example, the French hotel group Accor issued EUR 500 m of hybrid bonds with a coupon of 7.25%, an early redemption date set in 2029 and a rating of BB from S&P, compared to BBB- for its senior bonds.
- Over the past 10 years, the global corporate hybrid bond market has grown from around EUR 100 bn to over EUR 250 bn, allowing issuers of these securities to optimise their cost of capital compared to issuing new shares, and to avoid dilution for existing shareholders. Investors find corporate hybrid bonds attractive as, for the same probability of default, they on average trade with a credit risk premium of around +200 bps higher than that of senior bonds from the same issuer. However, it should be noted that corporate hybrid bonds are more volatile. Given the uncertainties on the credit market and the likely continuation of the upward trend in default rates, we consider corporate hybrid bonds issued by investment-grade defensive issuers (utilities, telecommunications, health etc.) to be particularly attractive for a high-yield allocation.

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 as at 31 October 2023

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