WEBINAR:
GLOBAL FIXED INCOME MARKETS UPDATE

ECB commits to COVID19 support.
Time for a rethink.

Webinar, 20.03.2020

DEGROOF PETERCAM ASSET MANAGEMENT

EMERGING MARKETS DEBT EXPERTISE

Bonds Sustainable

20.03.2020

DPAM

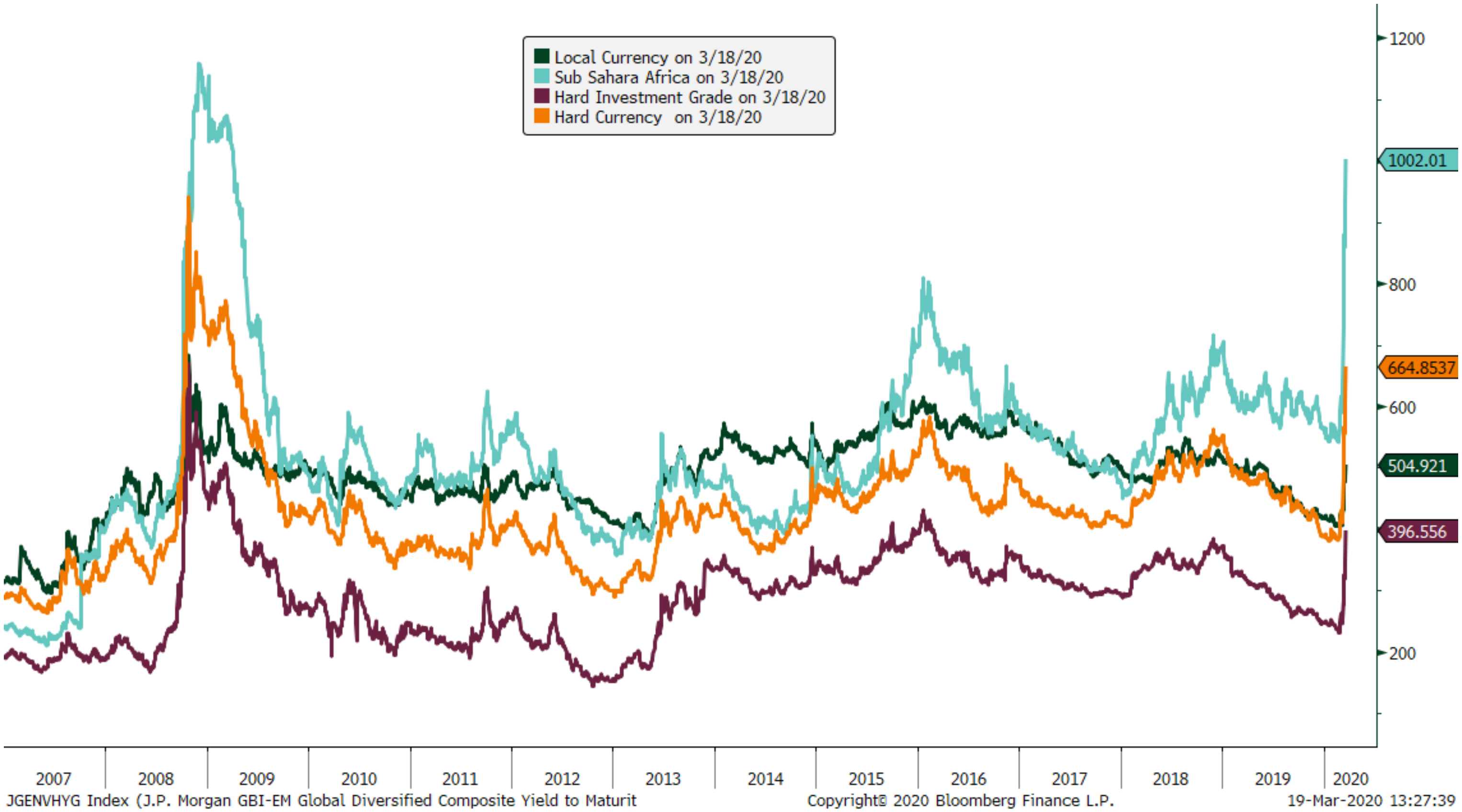
DEGROOF PETERCAM ASSET MANAGEMENT

ESG

LUXFLAG Label

- Spread widening above 2016 peak -

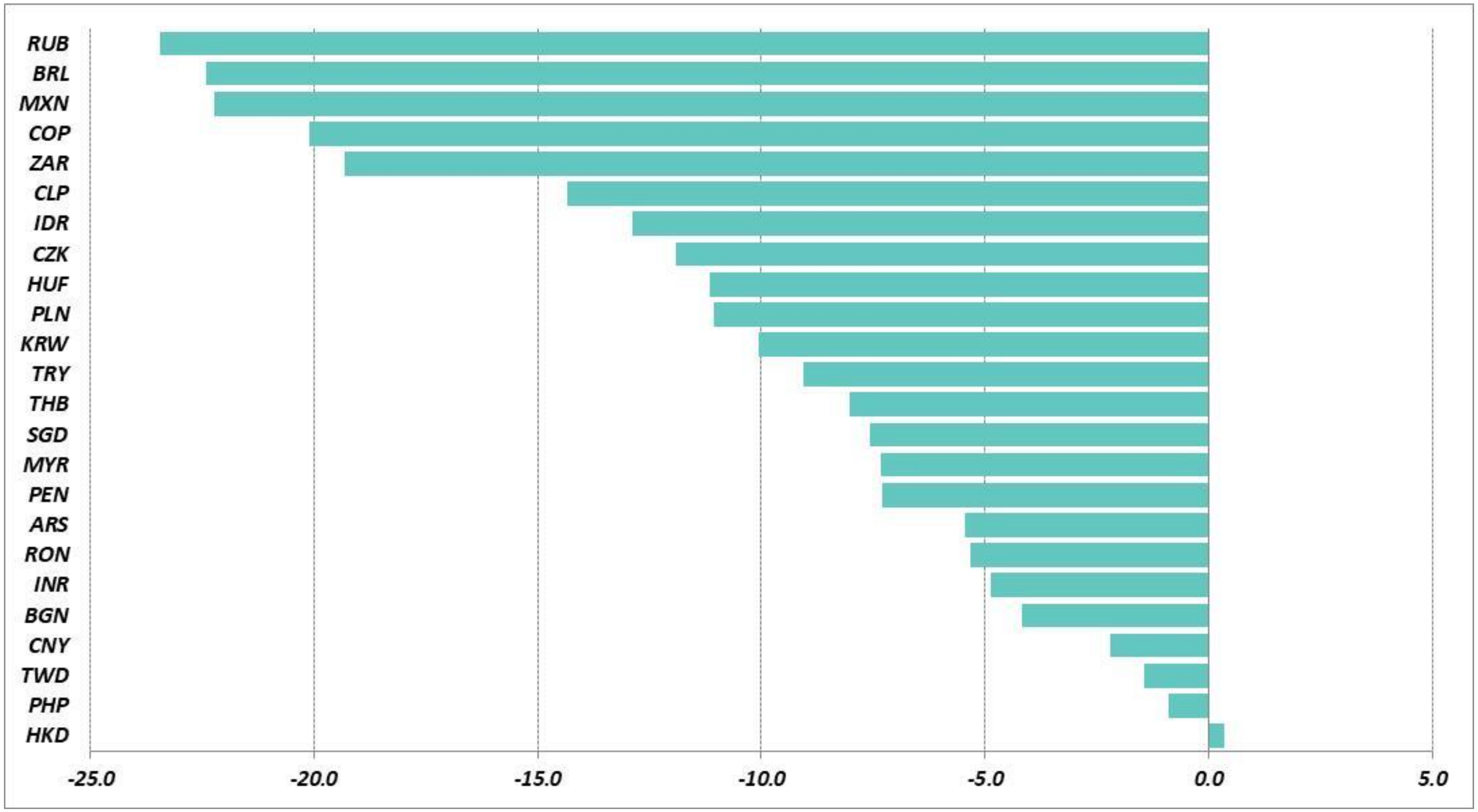
WHAT HAPPENED? - SPREADS



Source: Bloomberg, DPAM

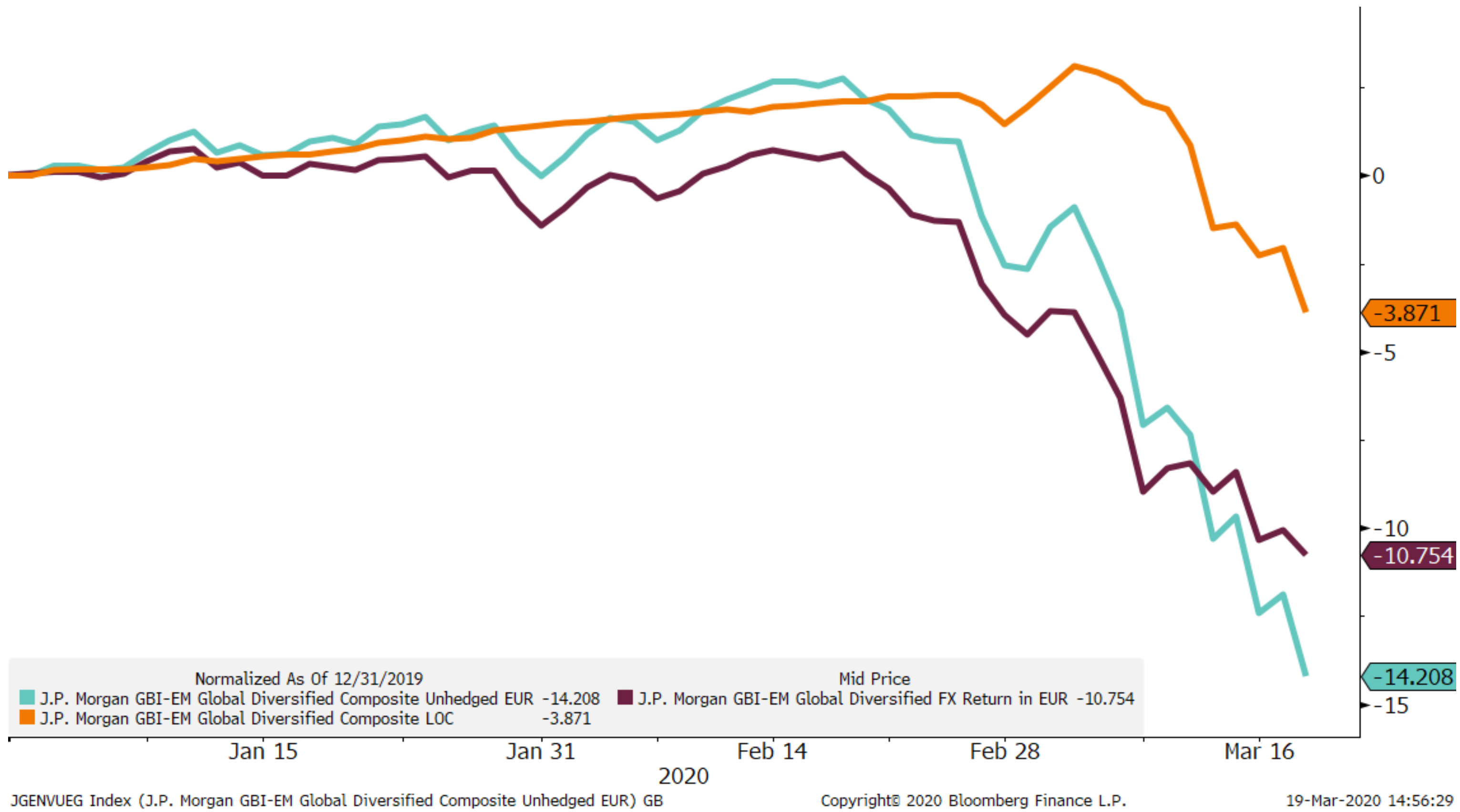
- Weak EMFX, especially in Latin America -

WHAT HAPPENED? – EM FX



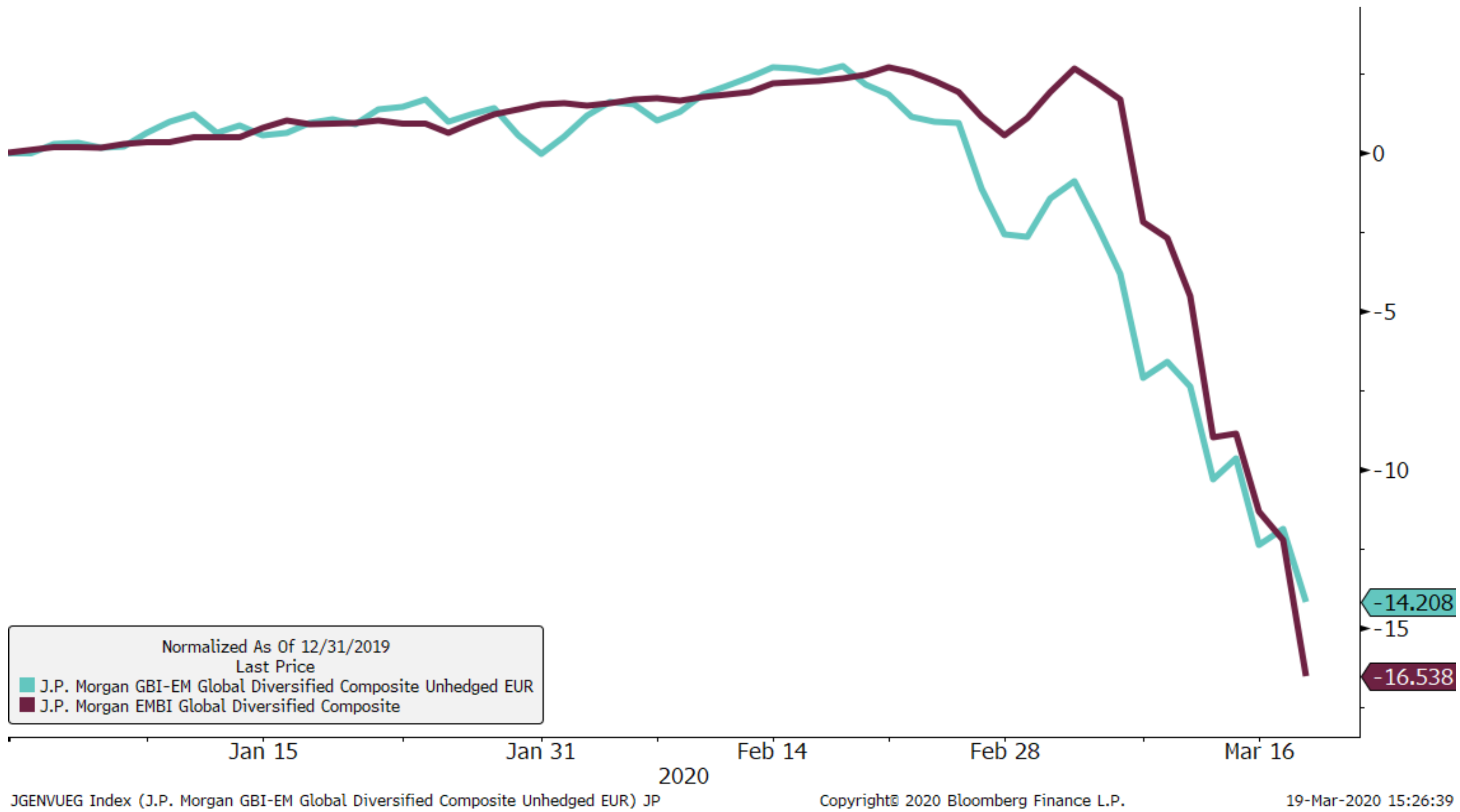
Source: Bloomberg, DPAM

WHAT HAPPENED? – EM FX IMPACT ON RETURNS



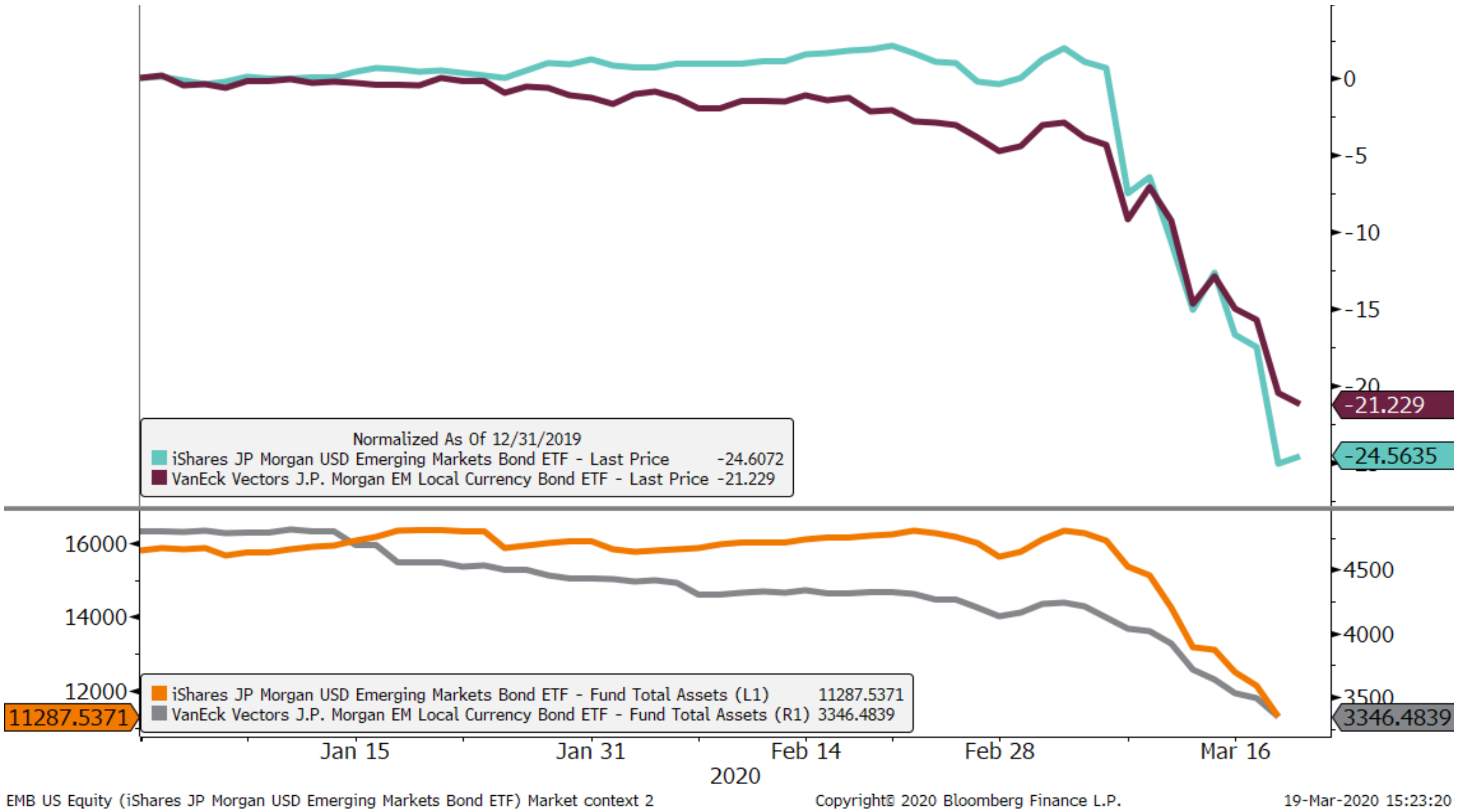
Source: Bloomberg, DPAM

EM HARD CURRENCY - HAVING A HARD TIME AS WELL!



Source: Bloomberg, DPAM

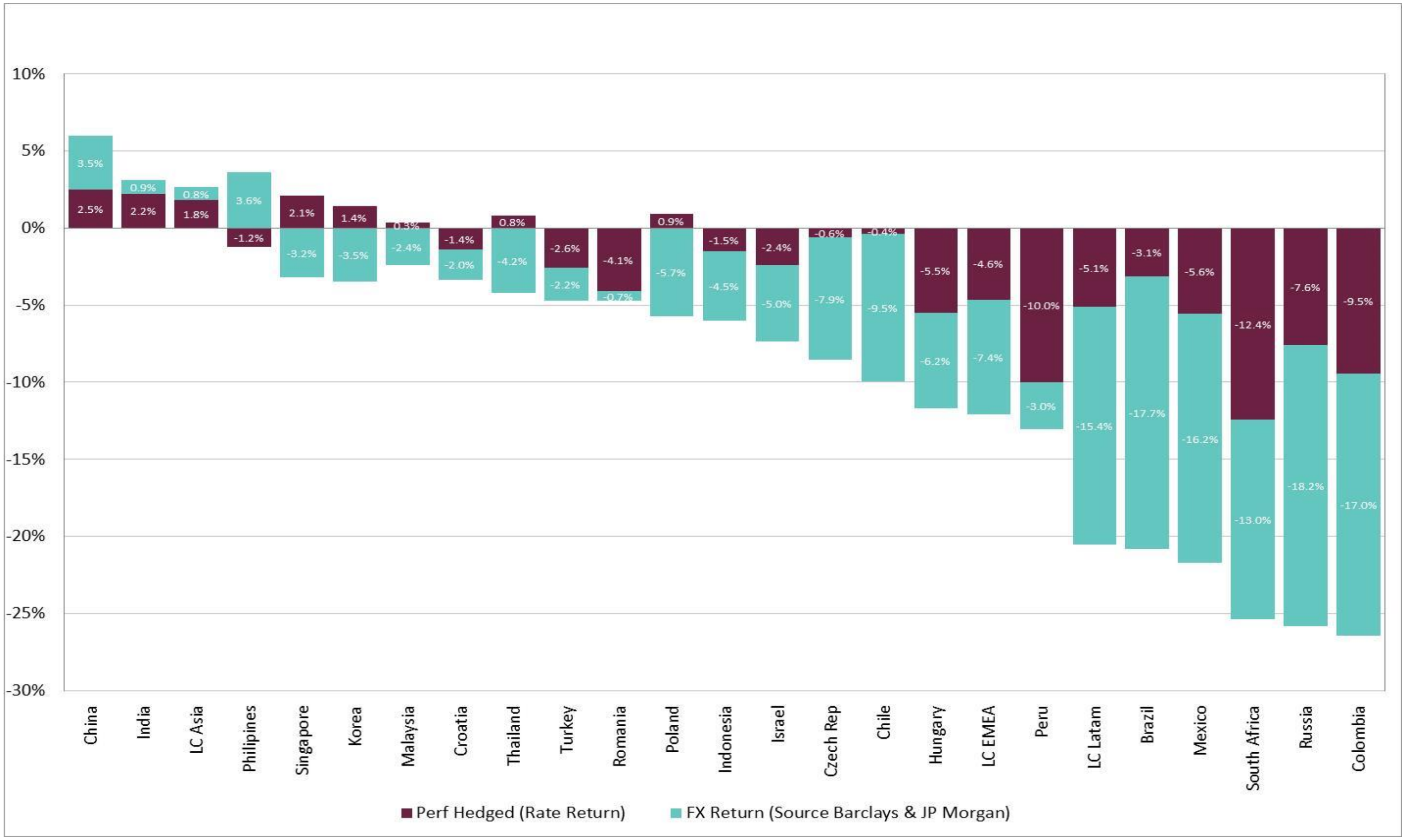
ETF'S HIT EVEN HARDER – DUE TO DRAWDOWNS



Source: Bloomberg, DPAM

- Commodity Exporters hit hard -

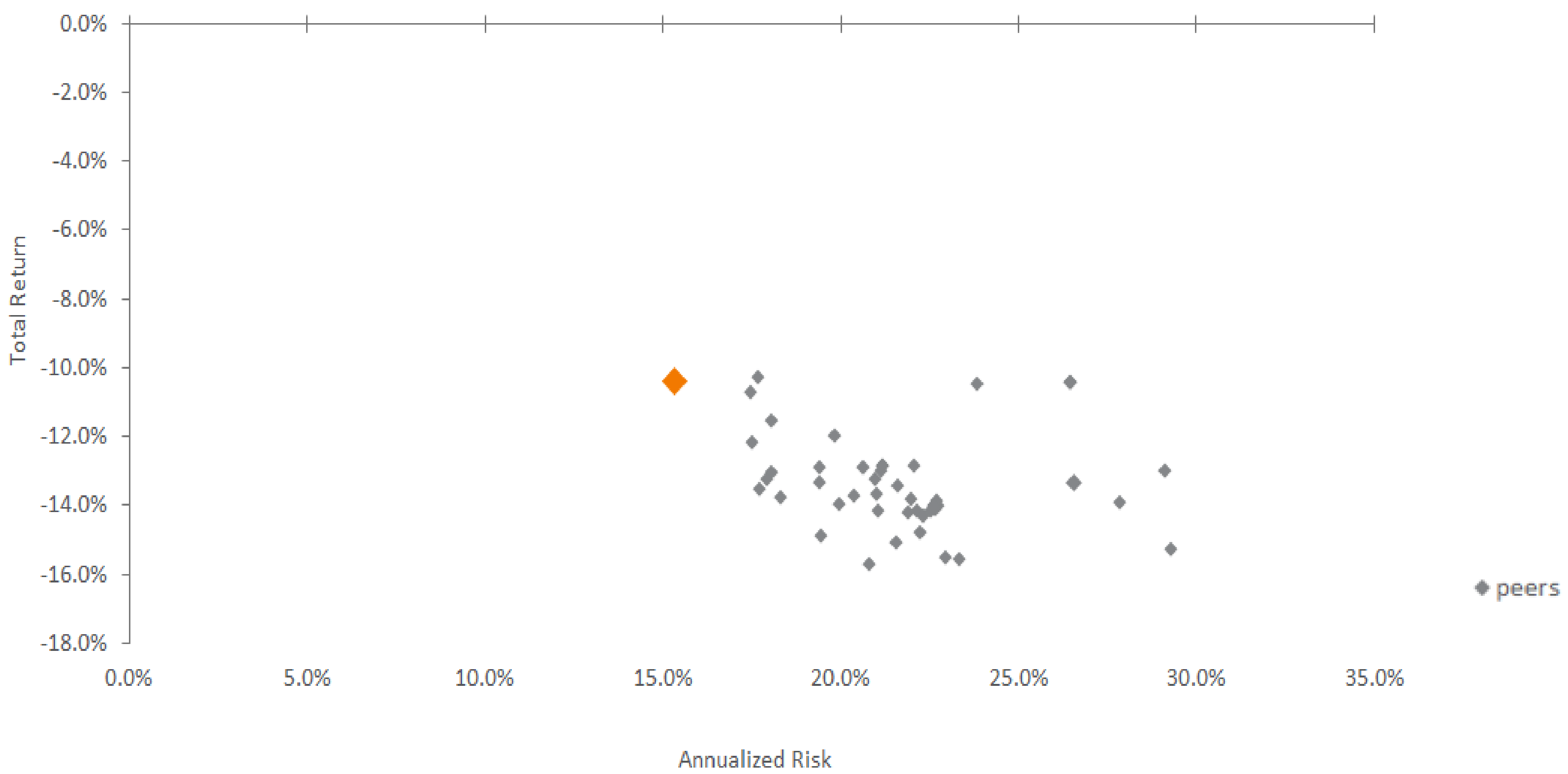
WHAT HAPPENED? - COUNTRIES



Source: DPAM, Barclays, JP Morgan

- *DPAM L Bonds Emerging Markets Sustainable* -

RISK/RETURN VS PEER GROUP YTD



HIGH YIELD EXPERTISE

Hit by Corona virus and lower oil prices

20.03.2020

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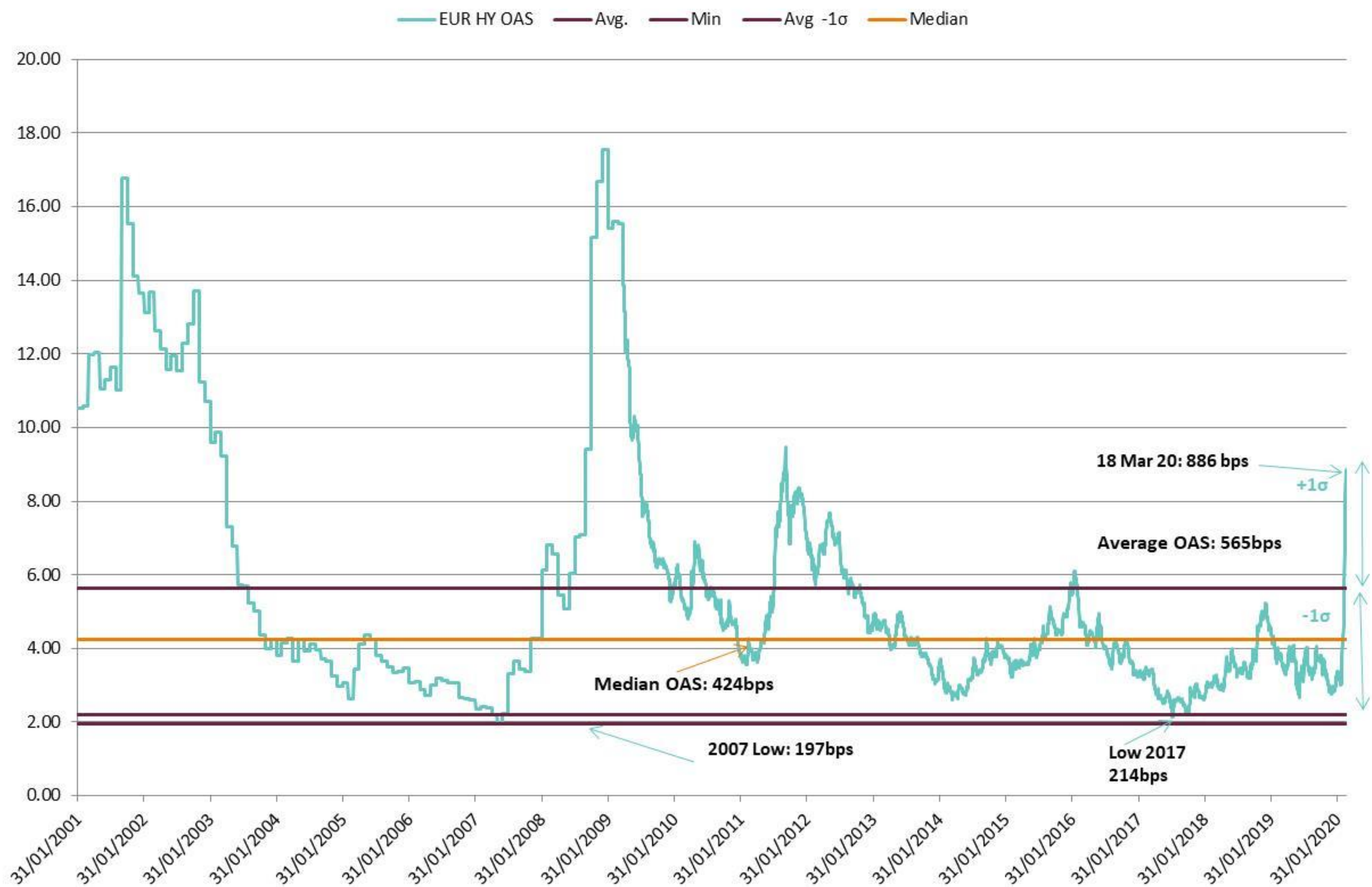
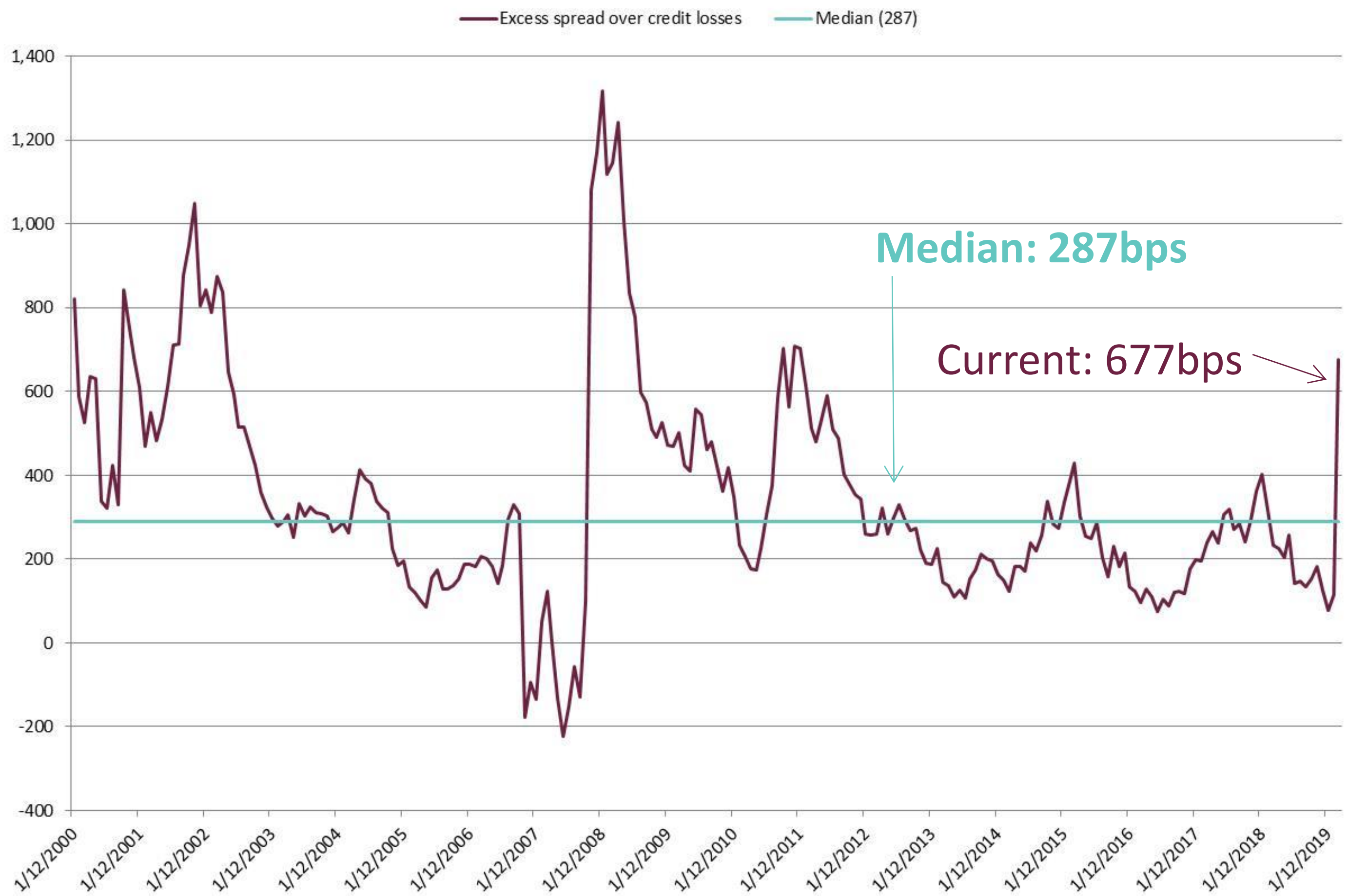
DEGROOF PETERCAM **ASSET MANAGEMENT**

HISTORIC SPREAD : 1 Σ OVER AVERAGE



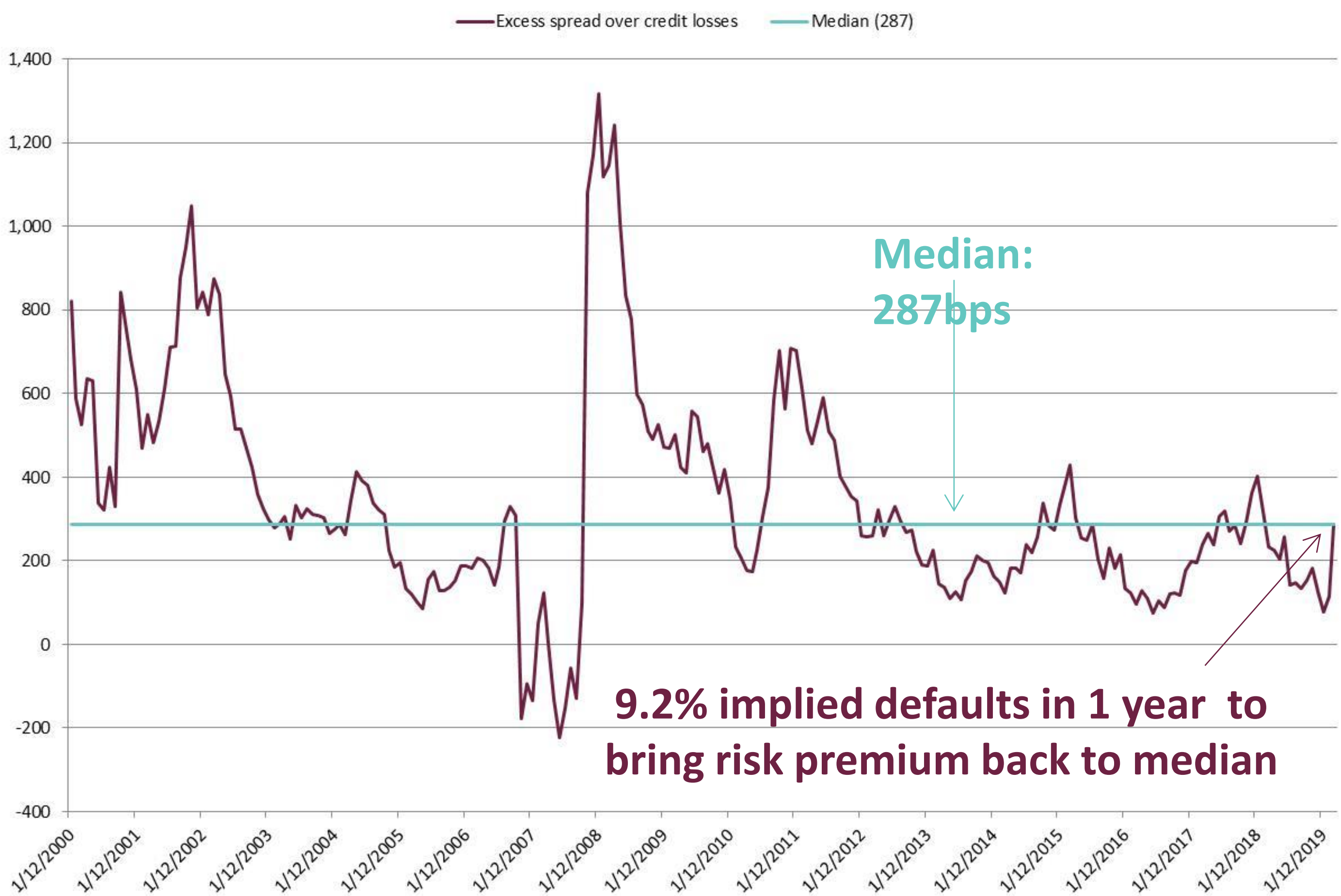
Source: Bloomberg, DPAM

RISK PREMIUM
(258BPS ASSUMING A 3.2% DEFAULT RATE IN 12 MONTHS)



Source: Bloomberg, DPAM

RISK PREMIUM
(ASSUMING 9.2% DEFAULTS IN 12 MONTHS)



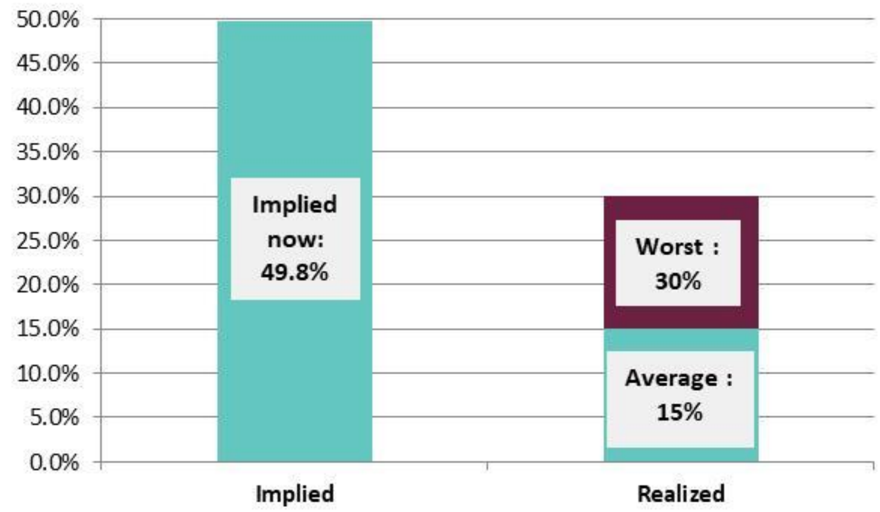
Source: Bloomberg, DPAM

5 YEAR DEFAULT CYCLE AS IMPLIED BY SPREADS

Credit vs Historical default rate (with different recovery rates)

Implied 5 year cumulative default rate at current spread

	Spread	0% Recovery	10% Recovery	20% Recovery	30% Recovery	40% Recovery
HY All	886	*34.6%*	*37.5%*	*40.9%*	*44.9%*	*49.8%*



Source: Bloomberg, DPAM

HIGH YIELD | WHERE ARE THE PROBLEMS?

- The number of bonds trading below 70% jumped to over 17%.

- **Trading below 70**: 82 lines (out of 460, i.e. 17.8%) of the benchmark (LEXFTREU)

- Stress is widespread and affecting a wide number of industries, such as specialty retail, travel, gaming, automotive, construction,…

HIGH YIELD | BIGGER CSPP (PEPP)

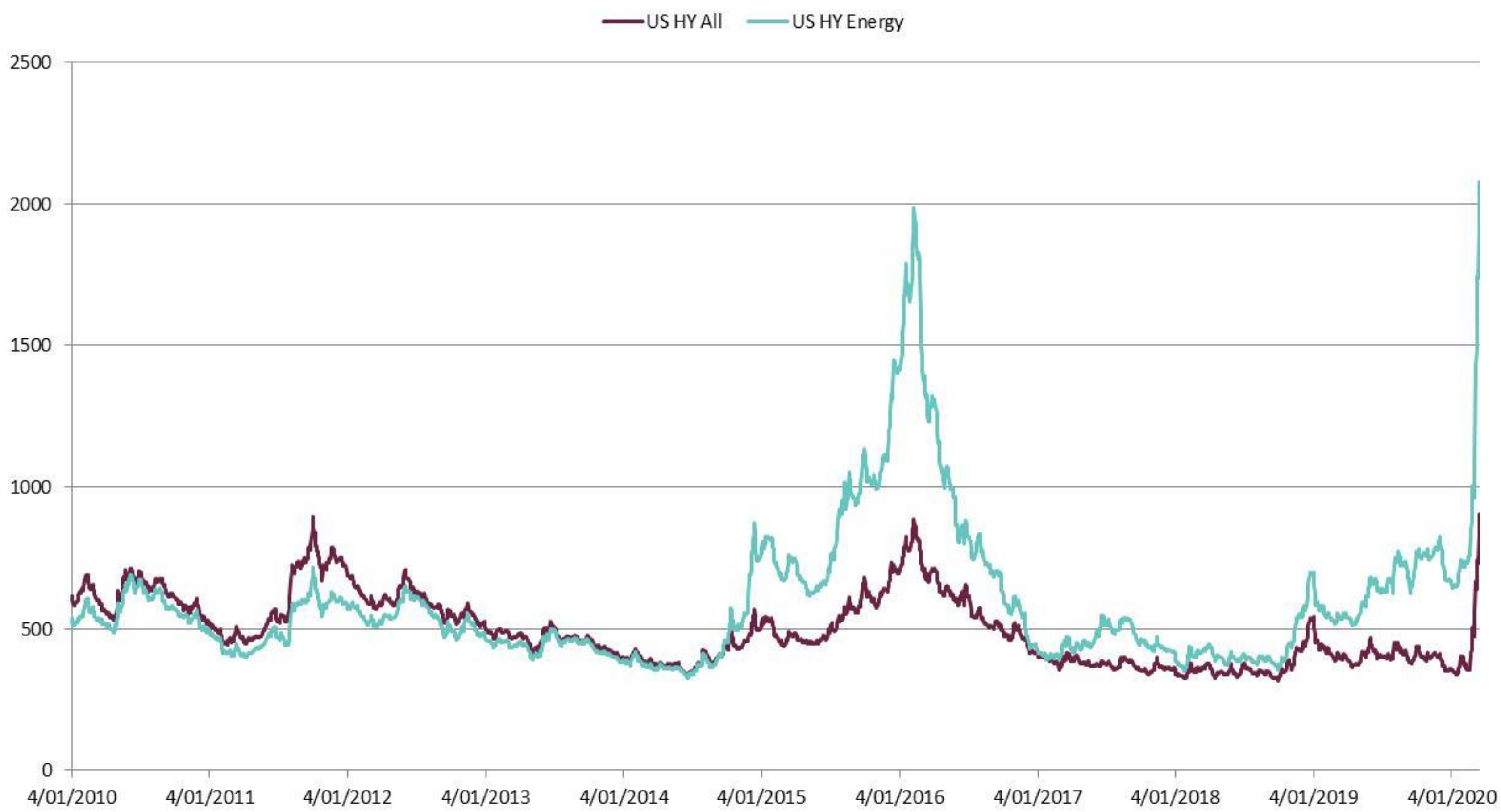
- ECB enlarged CSPP
  - Existing APP: EUR 20bn/mth
  - Additional EUR 120bn announced last week
  - EUR 750bn Pandemic Emergency Purchase Programme

- For corporate sector: Impact in a first round probably **only on eligible bonds**. Eligible products' spread likely to tighten over time.

- HY debt, bank debt and sub debt still not eligible.

- Likely also improves market access and funding cost for eligible corporates. Solvency might still be affected by sluggish macro-environment and as such the programme will not avoid downgrades.

US HIGH YIELD SPREADS VS US HY ENERGY SPREADS



Source: IceBofA, DPAM

HIGH YIELD | IMPACT OF OIL PRICE ON US HY

- **US High Yield** : 11.4% of the index is energy and energy-related.
- Over 26% of energy high yield bonds are trading at distressed levels.
- At current oil prices, **default wave likely to come** (shale oil producers in particular).
- US leveraged loan market less exposed (3%)
- **European high yield** far less exposed to energy (3%). International flows might however negatively affect European high yield as well.

HIGH YIELD | CONCLUSIONS

- **Value has been created**. Over a 6-12 month horizon, historically, high yield has produced positive returns coming from current spread levels.

- **Visibility remains very limited**, though. Impact of Covid-19 and its containment measures will likely reverberate for some time through the world economy and financial markets. Some businesses might have to rethink their business models permanently.

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