NCRAM

Monthly Update

April 1, 2024

US High Yield

After two flat months, the US high yield market escaped from the return doldrums in March. The ICE BofA US High Yield Constrained Index (HUC0) gained 1.19% on the month, increasing 1Q24's total return to 1.51%. High yield issuers' profitability remains resilient, as the recently completed fourth quarter earnings season saw operating earnings increase around 5% y/y on average. Despite elevated CPI and PPI inflation data two months running, FOMC members currently expect three 25 bps rate cuts this year, raising investors' hopes for slower but positive economic growth and renewed disinflation as 2024 unfolds. High yield returns rose in March on both spread tightening and a decline in base rates; HUC0's OAS narrowed by 14 bps to 315, while the yield to worst slid 15 bps to 7.75%.

There was little performance dispersion by quality bucket in March, as BBs, Bs, and CCC-rated bonds all posted similar returns. Broadcasters bounced after recent underperformance, and investors warmed to the wide spreads offered by retailers, lifting bond prices higher. Losing sectors in March included telecommunications and cable television, where certain heavily leveraged issuers could pursue debt restructuring transactions that may not work to the advantage of all classes of bondholders.

Looking ahead, high yield bonds continue to offer attractive yields, and NCRAM expects the asset class' carry to drive total return this year. HUC0's relatively tight OAS probably leaves little room for spread tightening over the balance of 2024. Furthermore, the tailwind from Fed rate cuts may bestow fixed income markets with

with only a gentle breeze rather than the hoped-for gale. The Fed Funds futures market has moved toward alignment with the FOMC's projections and is now pricing in two or three cuts this year, down from the six easing moves expected at the start of 2024. High yield fundamentals remain robust, as demonstrated by strong balance sheets and solid interest coverage in the high yield universe.

New issuance will likely slow after the furious pace in 1Q24, which saw almost $90bn of high yield bonds come to market. Nearly 85% of that issuance was earmarked for refinancing existing debt, further lowering the limited maturity wall prior to 2027. Light net and slower gross new issue activity should provide supportive technical backing for the high yield market.

European High Yield

The European high yield market returned 0.45% (EUR, unhedged) in March and 1.91% in 1Q24, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). Spreads widened by 15 bps during the month, led by B- and CCC-rated issuers, largely due to volatility in the Altice structure and some associated contagion to other distressed situations. BB-rated credit performed strongly on technical demand for high quality paper. The ECB has emphasized that inflation continues to trend above target, thus the bank expects to hold rates at current levels until price levels show appropriate progress towards the long term goal. The new issue market has been dominated by high quality refinancing activity, although the end of March saw some pick-up in net new issuance. Technicals should remain positive for high yield returns, and expected refinancing activity for credit throughout the quality spectrum should be constructive for reducing default rate expectations.

Emerging Markets

Emerging markets hard currency sovereign bonds, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBIG), posted a 1.90% return in March, bringing the first quarter total return to 1.40%. High yield sovereign credits outperformed, with a 2.83% gain during the month (4.48% in 1Q24), mostly driven by CCC-rated and defaulted credits across regions, while investment grade sovereigns gained 1.23%.

Similarly, in the EM corporates space, high yield credits had the best performance within the JPMorgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI BD) with a 1.16% return in March. The overall CEMBI BD index gained 1.00% for the month and 2.32% in 1Q24. Overall spreads tightened by 50 bps on the quarter, as high yield corporate spreads declined 87 bps. Real estate, transportation, and metals and mining were the best performing sectors in 1Q24 among corporates. NCRAM's EM strategies outperformed their respective benchmarks YTD (gross of fees and expenses).

Multi-Asset Credit

NCRAM's Responsible Multi-Asset Credit Strategy posted a solid gain in March, similar to its custom blended reference index. Our tactical risk and duration management was a positive contributor to performance, while security selection was a detractor. A soft landing, with slower but positive economic growth, is our base case for 2024, supported by expectations for an easing cycle, lower inflation, and a resilient economy. In March, we tactically reduced duration early in the month as the 10-year US Treasury rally brought the yield close to 4.0%, then extended later in March when rates approached 4.3%. The portfolio continues to adopt a barbell strategy of holding higher risk assets like high yield, loans, and EM debt, which benefit from growth, and investment grade and long duration assets as a hedge against an economic slowdown.

David O. Crall

David Crall, CFA
NCRAM CEO and CIO

Disclosures

This document is prepared by Nomura Corporate Research and Asset Management Inc. (NCRAM) and is for informational purposes only. All information contained in this document is proprietary and confidential to NCRAM. All opinions and estimates included herein constitute NCRAM's judgment, unless stated otherwise, as of this date and are subject to change without notice. There can be no assurance nor is there any guarantee, implied or otherwise, that opinions related to forecasts will be met. Certain information contained herein is obtained from various secondary sources that are believed to be reliable, however, NCRAM does not guarantee its accuracy and such information be incomplete or condensed. Historical investment performance is no guarantee of future results. There is a risk of loss. Strategy performance references are based on gross of fees performance.

Certain information contained in this document contains forward-looking statements including future-oriented financial information and financial forecasts under applicable securities laws (collectively referred to herein as forward-looking statements). Except for statements of historical fact, information contained herein constitutes forward-looking statements. Although NCRAM believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that forward-looking statements will prove to be accurate. These statements are not guarantees of future performance and undue reliance should not be placed on them. Forward-looking information is subject to certain risks, trends, and uncertainties that could cause actual performance and financial results in future periods to differ materially from those projected. NCRAM undertakes no obligation to update forward-looking statements if circumstances or NCRAM's estimates or opinions should change.

This document is intended for the use of the person to whom it is delivered. Neither this document nor any part hereof may be reproduced, transmitted or redistributed without the prior written authorization of NCRAM. Further, this document is not to be construed as investment advice, or as an offer to buy or sell any security, or the solicitation of an offer to buy or sell any security. Any reproduction, transmittal or redistribution of its contents may constitute a violation of the U.S. federal securities laws.

Performance data is calculated by NCRAM based upon market prices obtained from market dealers and pricing services or, in their absence, an estimate of market value based on NCRAM's pricing and valuation policy. All performance is historical and assumes reinvestment of dividends, interest and capital gains. Performance data stated herein may vary from pricing determined by an advisory client or by a third party on behalf of the advisory client. Performance data set forth herein is provided for the purpose of facilitating analysis of account assets managed by NCRAM, and should not be used for the purpose of reporting or advertising performance of specific account portfolios to account beneficiaries or to third parties.

An investment in high yield instruments involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

A copy of NCRAM's Code of Ethics and its Part 2A of Form ADV are available upon request by contacting NCRAM's Chief Compliance Officer via e-mail at compliancenomuraasset@nomura.com or via postal mail request at Nomura Corporate Research and Asset Management Inc., Worldwide Plaza, 309 West 49th Street, Compliance Department, Attn: Chief Compliance Officer, New York, NY 10019-7316.

The views and estimates expressed in this material represent the opinions of NCRAM and are subject to change without notice and are not intended as a forecast or guarantee of future results. Such opinions are statements of financial market trends based on current market conditions. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provided, and should not be relied upon as legal or tax advice.