



U.S. OUTLOOK CONFERENCE

NEW YORK

Winner Take All: Post Election Playbook & Outlook

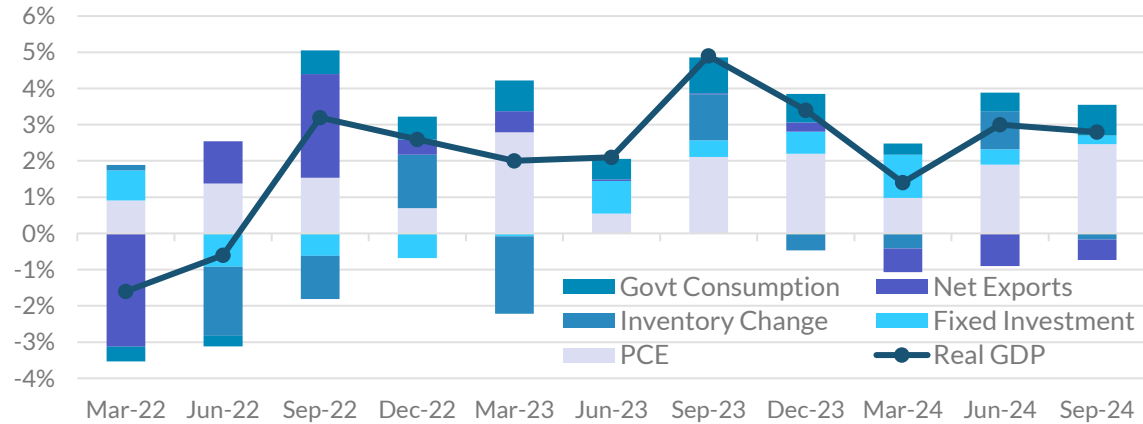
Winnie Cisar, Global Head of Strategy

Zachary Griffiths, CFA, Head of US IG & Macro Strategy

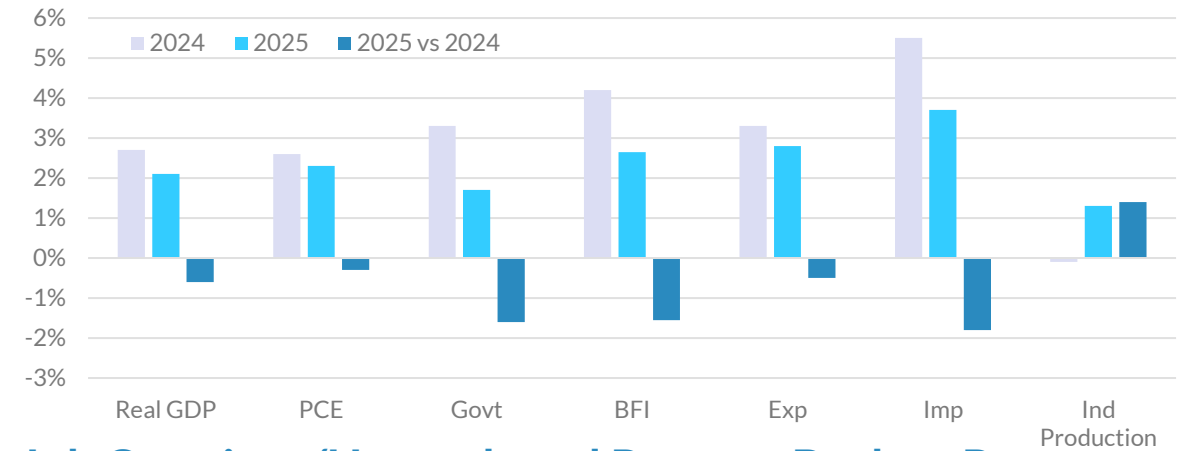
December 5, 2024

Growth Getting Harder to Come by → Focus on Margins & Labor

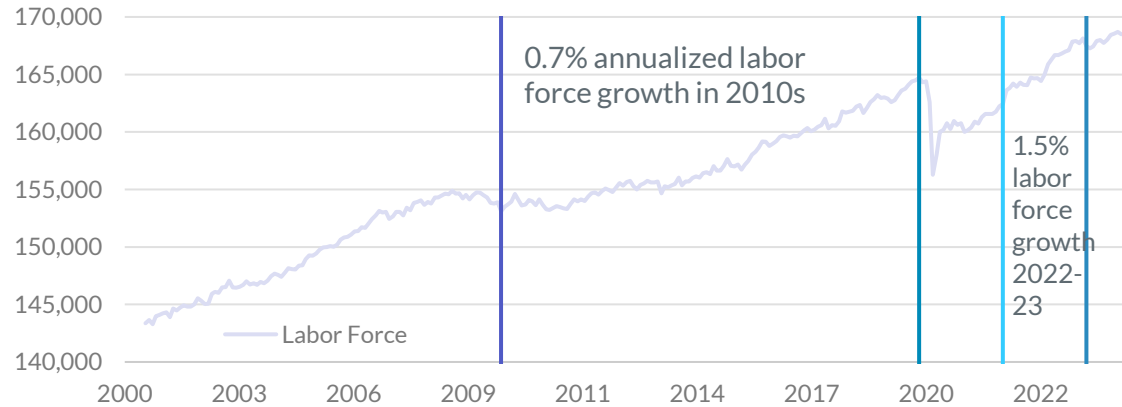
Contribution to GDP Growth by Major Category



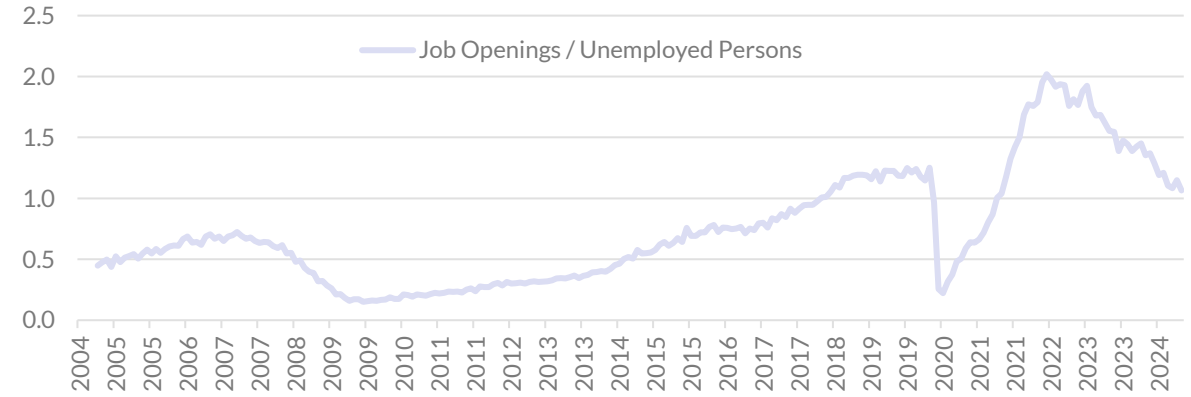
Bloomberg Consensus Calls for Full Year '25 vs '24



US Labor Force Downshift from Rapid 1.5% Annualized to 0.5-1.0%

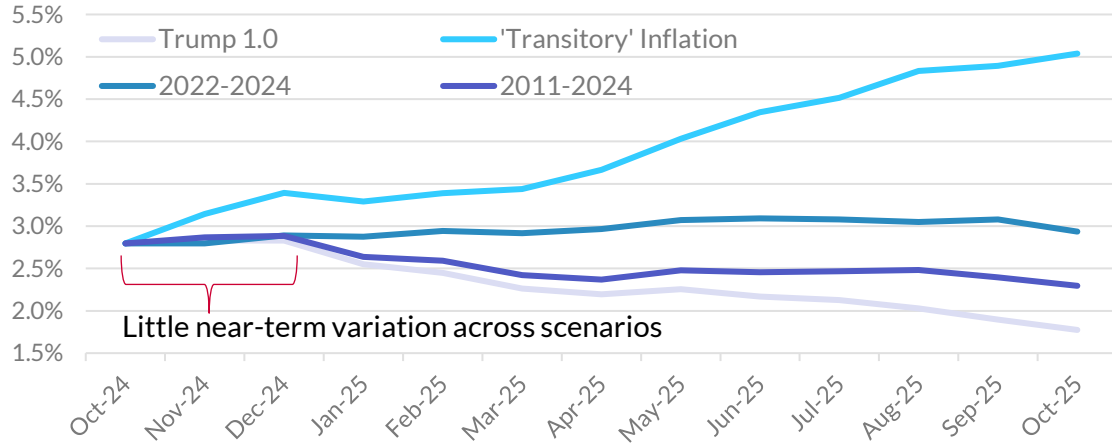


Job Openings/Unemployed Persons Back to Pre-Pandemic Levels

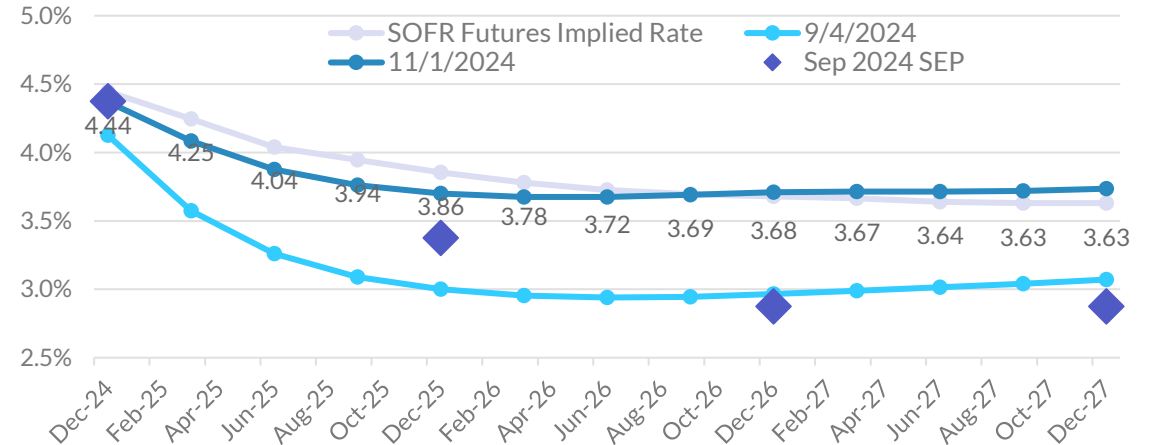


2024 Status Quo → 2025 Status “WOAH, Woe or Oh No”

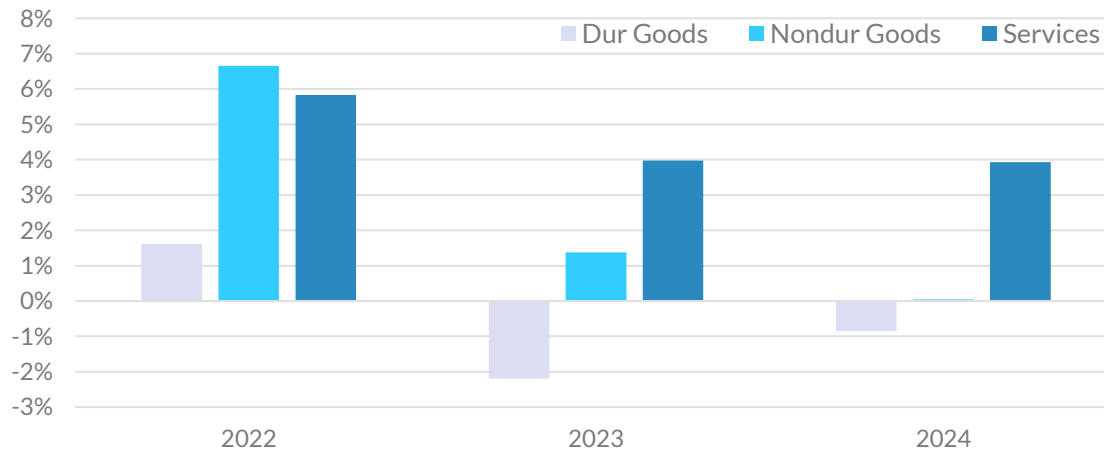
Core PCE Deflator Return-to-Mean Scenarios 12m Forward



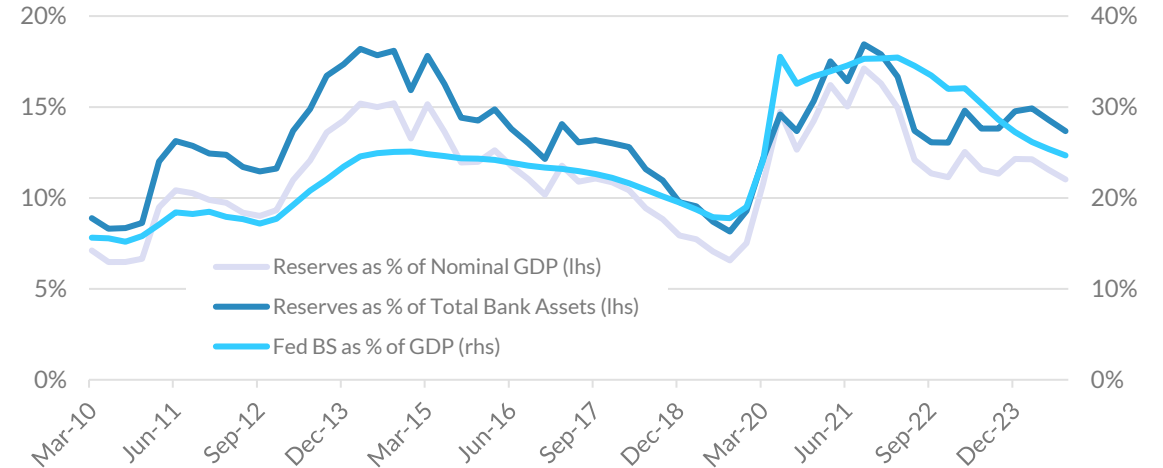
SOFR Futures Implied Policy Path and Sep 2024 SEP



PCE Deflator by Major Subcomponent

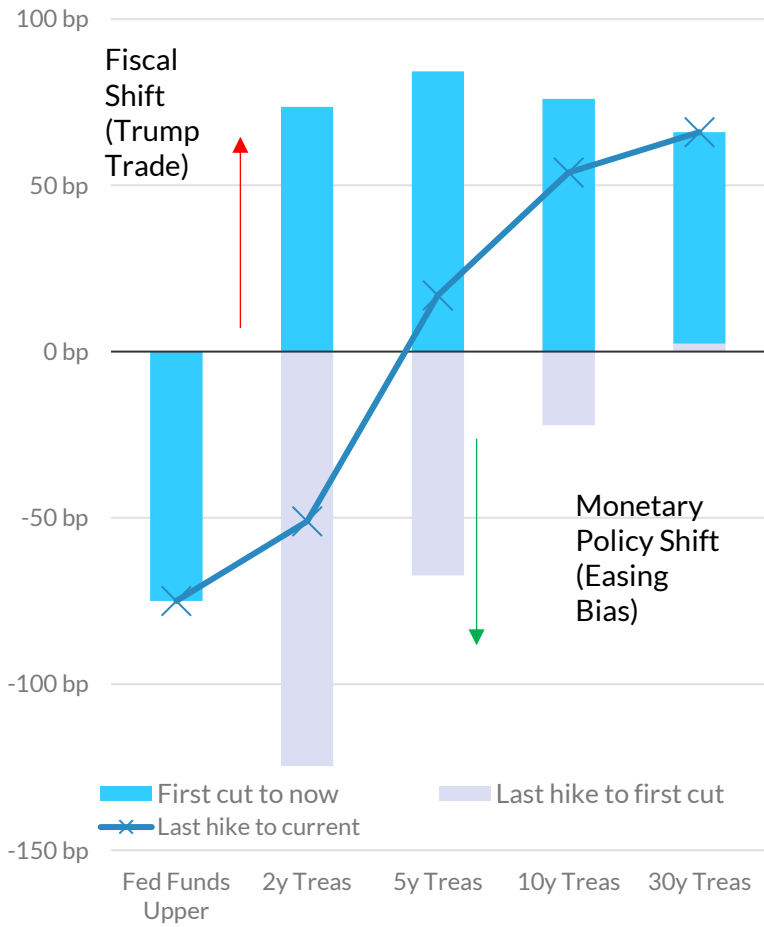


Despite QT, Reserves Remain in ‘Abundant’ Territory



Bumpy Path to Higher Yields

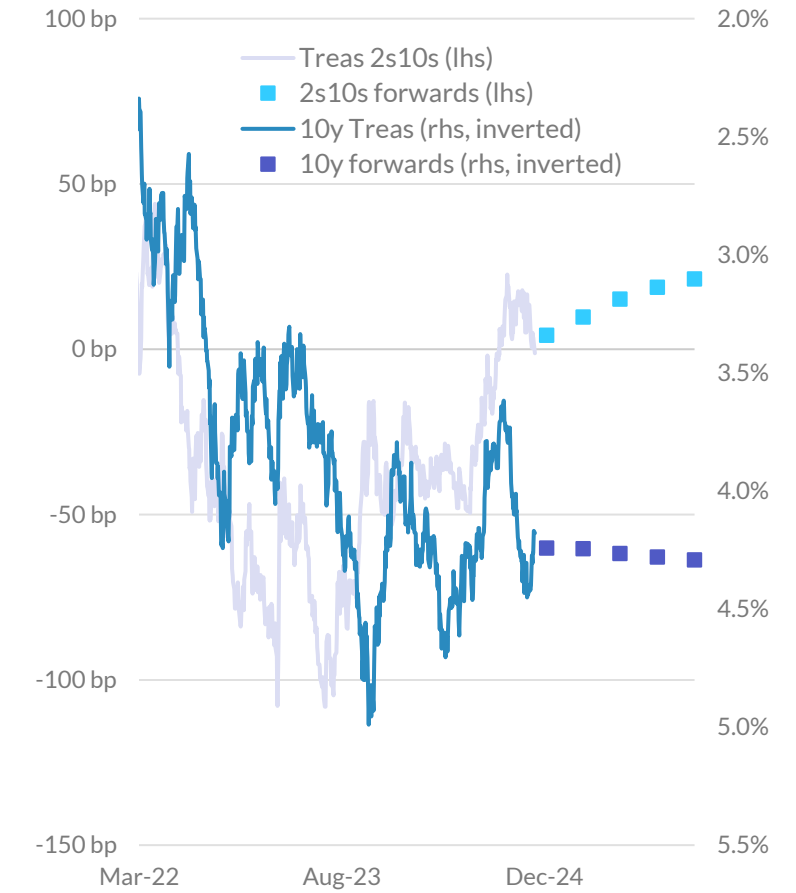
Change in FF and Treas Curve Since Last Hike



Treasury Coupon Supply to Remain Heavy in 2025



10y Treasury Yield and 2s10s Curve + Forwards



US IG, HY & Lev Loan: Full Year 2025 Forecast

	YE 2023	As of 11/29/24	As of 12/31/25			Probability Weighted
			Everything is Awesome (Bull)	It's Complicated (Base)	Aaaaand It's Gone (Bear)	
Probability Weighting			20%	60%	20%	
US Treasury Yields						
Fed Funds Target (Upper)	5.5%	4.8%	3.5%	4.5%	2.0%	3.8%
2-Yr UST	4.3%	4.2%	3.0%	4.6%	2.0%	3.8%
5-Yr UST	3.8%	4.0%	3.8%	4.6%	2.5%	4.0%
10-Yr UST	3.9%	4.2%	4.0%	4.8%	3.0%	4.3%
2-Yr/10-Yr UST Curve	-37bp	2bp	100bp	13bp	100bp	48bp
US Investment Grade						
OAS	104bp	82bp	65bp	110bp	175bp	114bp
Excess Return ¹	4.7%	2.6%	2.0%	-1.0%	-5.4%	-1.3%
YTW	5.1%	5.1%	4.7%	5.9%	4.8%	5.5%
Total Return ¹	8.4%	4.6%	7.3%	-0.7%	6.7%	2.4%
Gross Supply (\$bn)	1,295	1,556	1,800	1,300	1,200	1,380
Net Supply (\$bn)	453	467	810	520	240	522
US High Yield						
OAS	334bp	272bp	225bp	350bp	600bp	375bp
YTW	7.7%	7.1%	6.4%	8.5%	8.9%	8.1%
Total Return ¹	13.4%	8.7%	9.3%	3.3%	2.3%	4.3%
Gross Supply (\$bn)	196	333	450	300	225	315
Net Supply (\$bn)	63	107	180	126	23	116
HY Defaults (TTM % Issuers)	3.0%	2.4%	1.5%	3.0%	6.0%	3.3%
US Broadly Syndicated Leveraged Loans						
Bid Price	\$95.32	\$96.41	\$98.00	\$94.00	\$92.00	\$94.40
Effective Yield	9.1%	8.6%	7.3%	8.6%	6.1%	7.9%
Total Return ¹	13.0%	8.4%	9.8%	6.4%	2.7%	6.4%
Gross Supply (\$bn)	234	468	750	500	300	510
Net Supply (\$bn)	89	201	525	300	120	309
Loan Defaults (TTM % Issuers)*	2.8%	4.7%	3.5%	4.5%	7.5%	4.9%

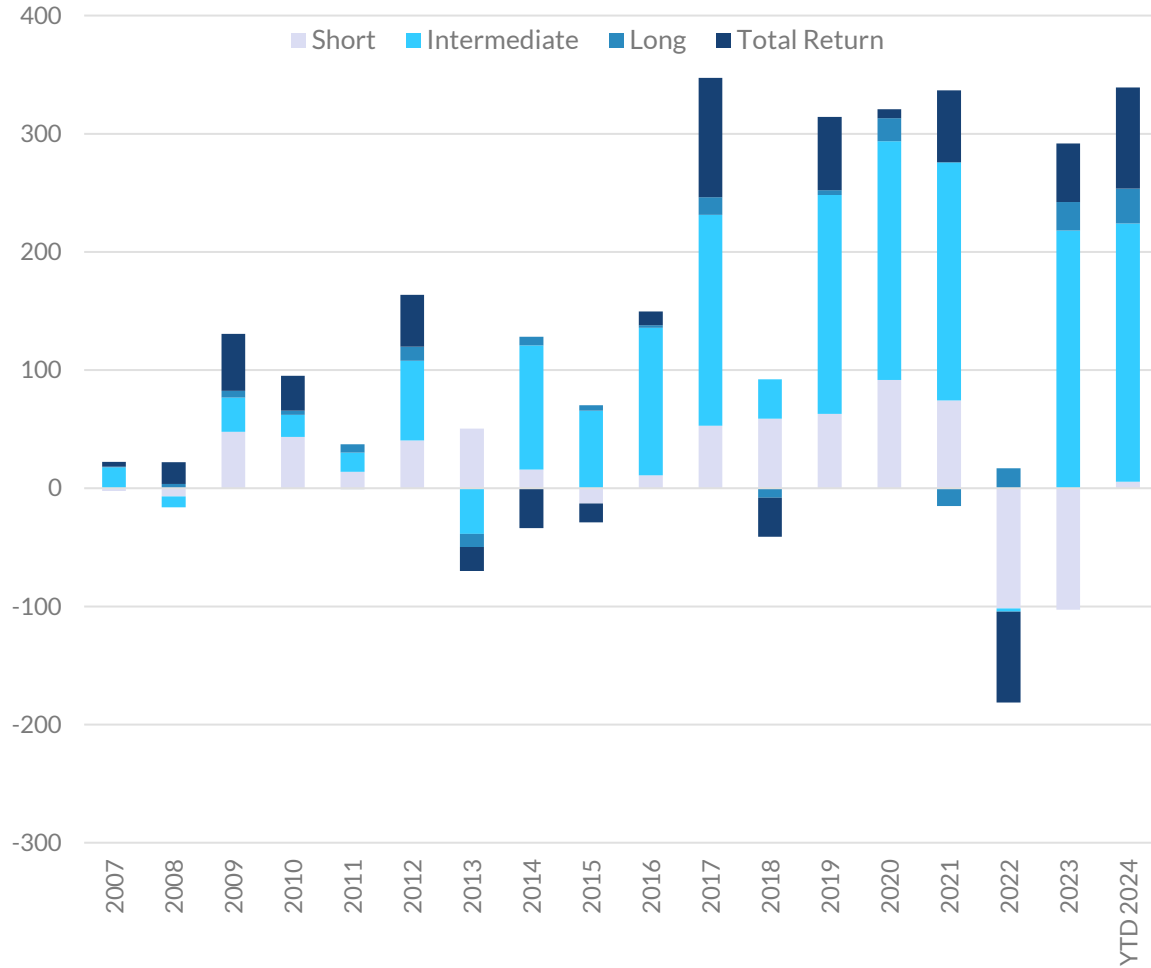
Source: CreditSights, FactSet, ICE Data Indices, LLC, Dealogic, Bloomberg, L.P., Fitch Ratings

¹ Excess and total return represents full year 2025 forecast expectations.

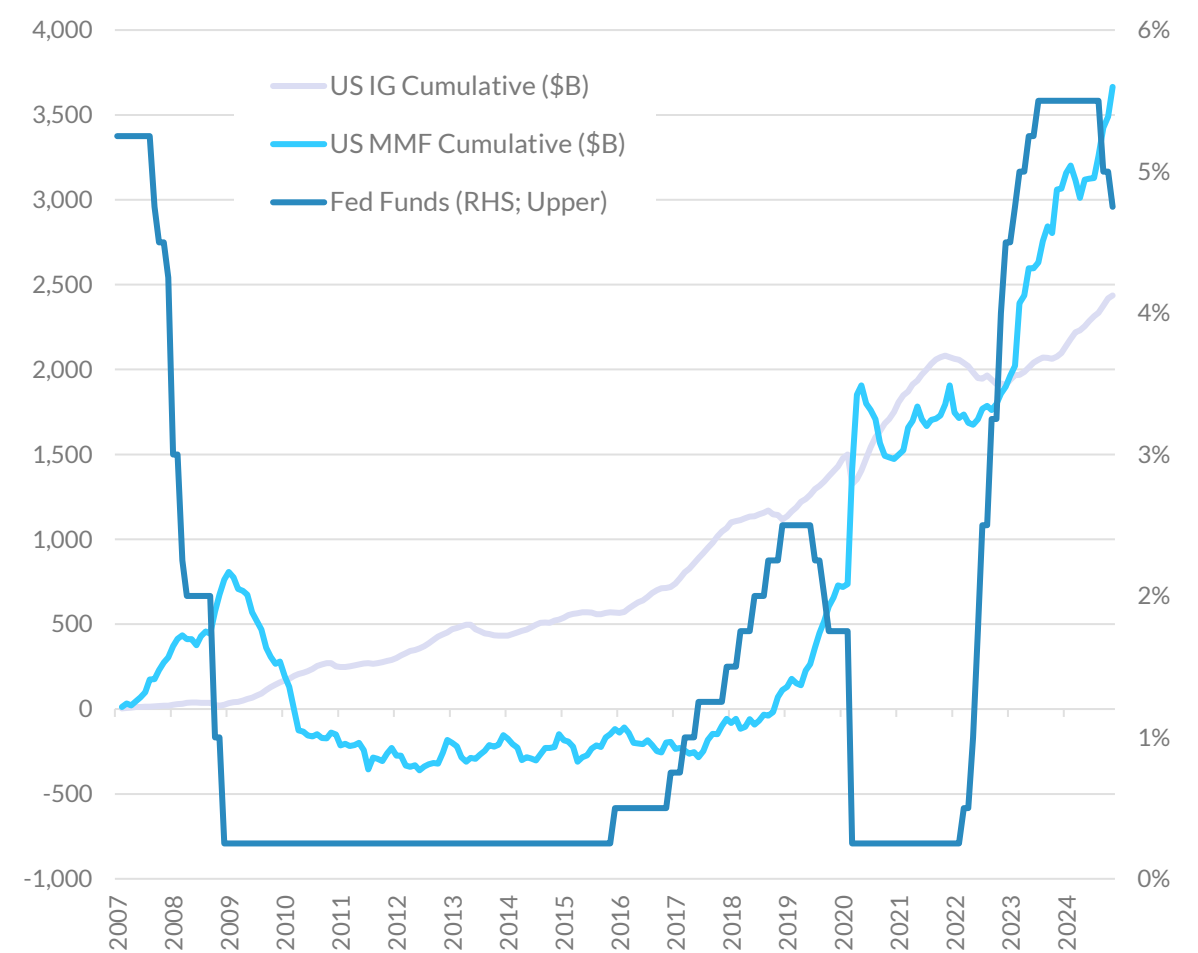
*Uses Fitch Ratings Leveraged Loan Default Rate.

Technical Tailwinds: Even with MMF Inflows; Record IG Demand in '24

US IG 2024 Fund Flows: Intermediates Biggest Beneficiary

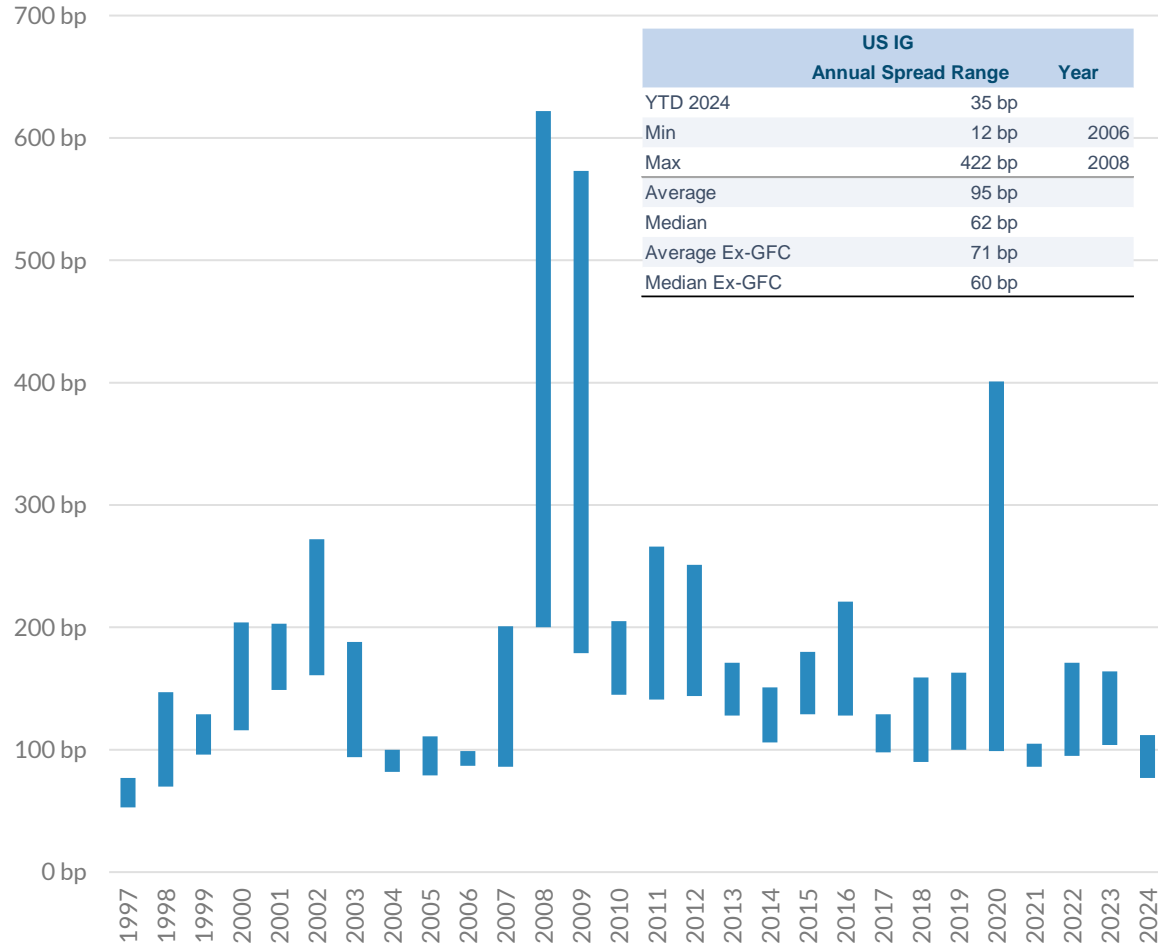


IG Back to "Cash Proxy" Amid Optimistic Econ. Outlook

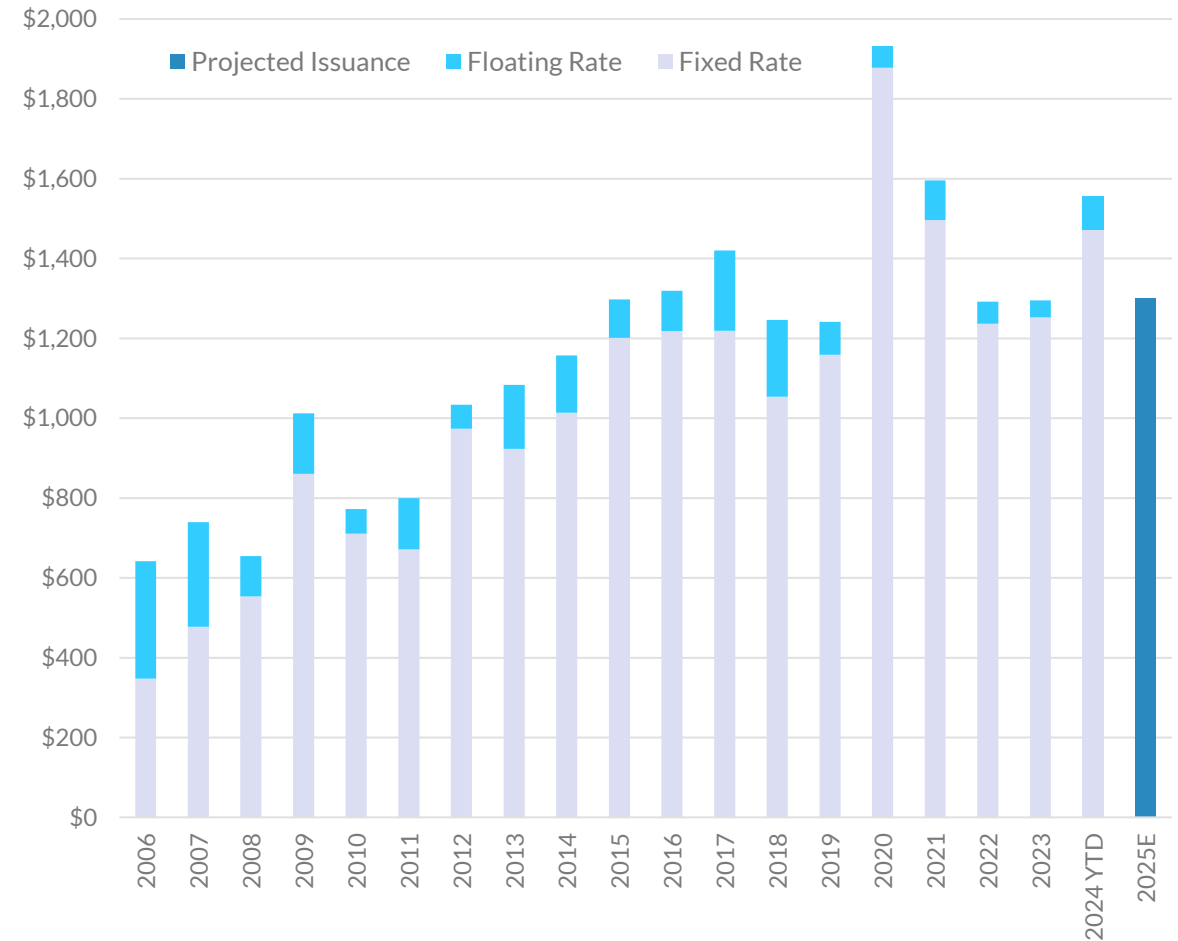


Limited '24 Spread Volatility → Expected to Drive More Net Supply

US IG Annual Spread Ranges

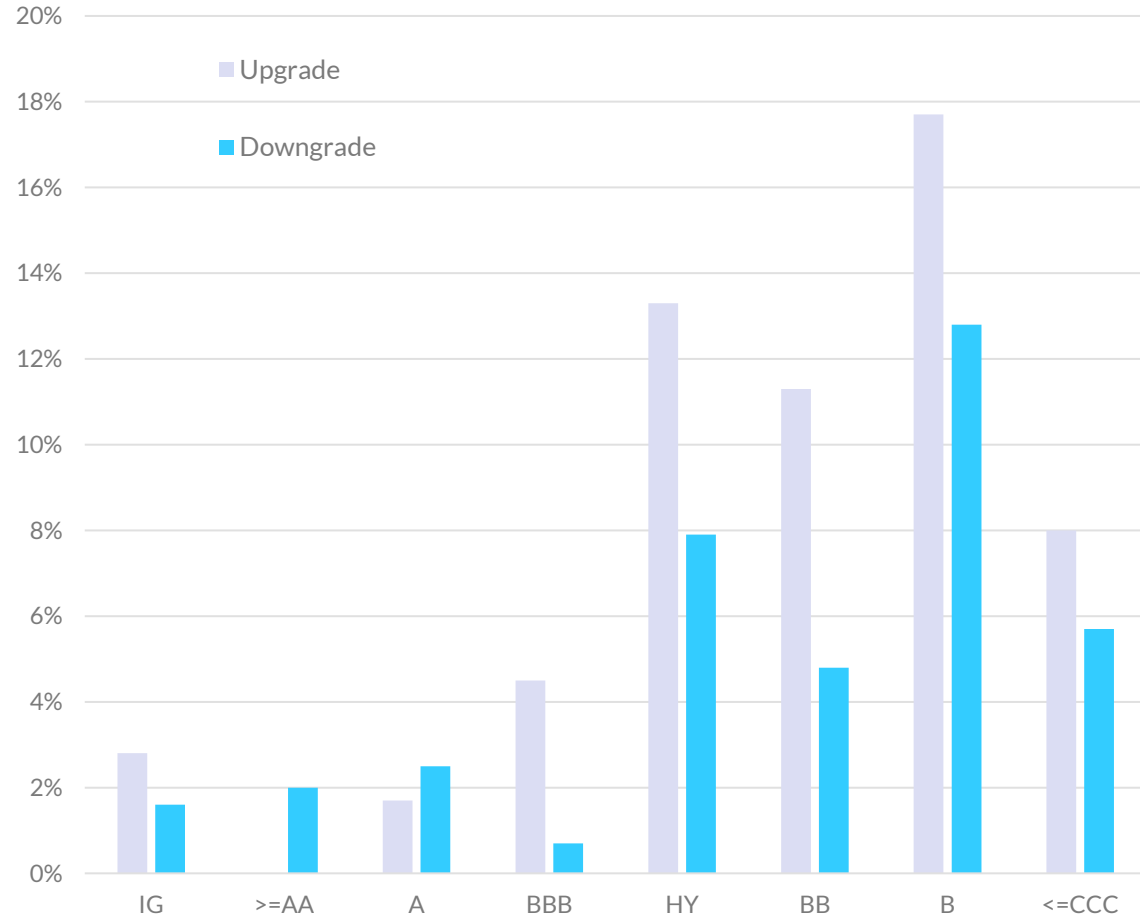


US IG Annual Issuance & Forecasts: \$1.6T 2024; \$1.3T Est. for 2025

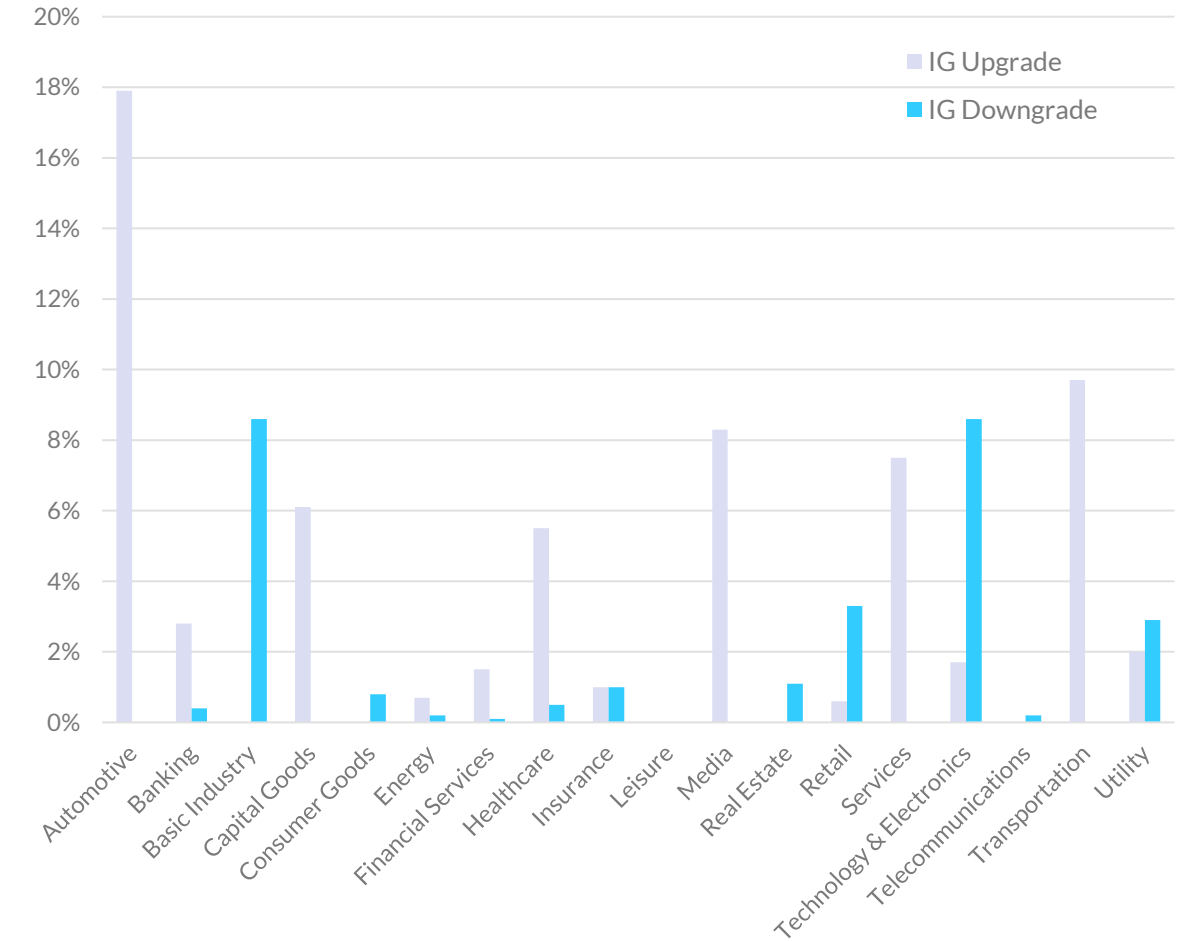


TTM Ratings: Positive Bias on Balance Sheet Focus

US IG & HY TTM Rating Upgrades & Downgrades (% of Face Value)

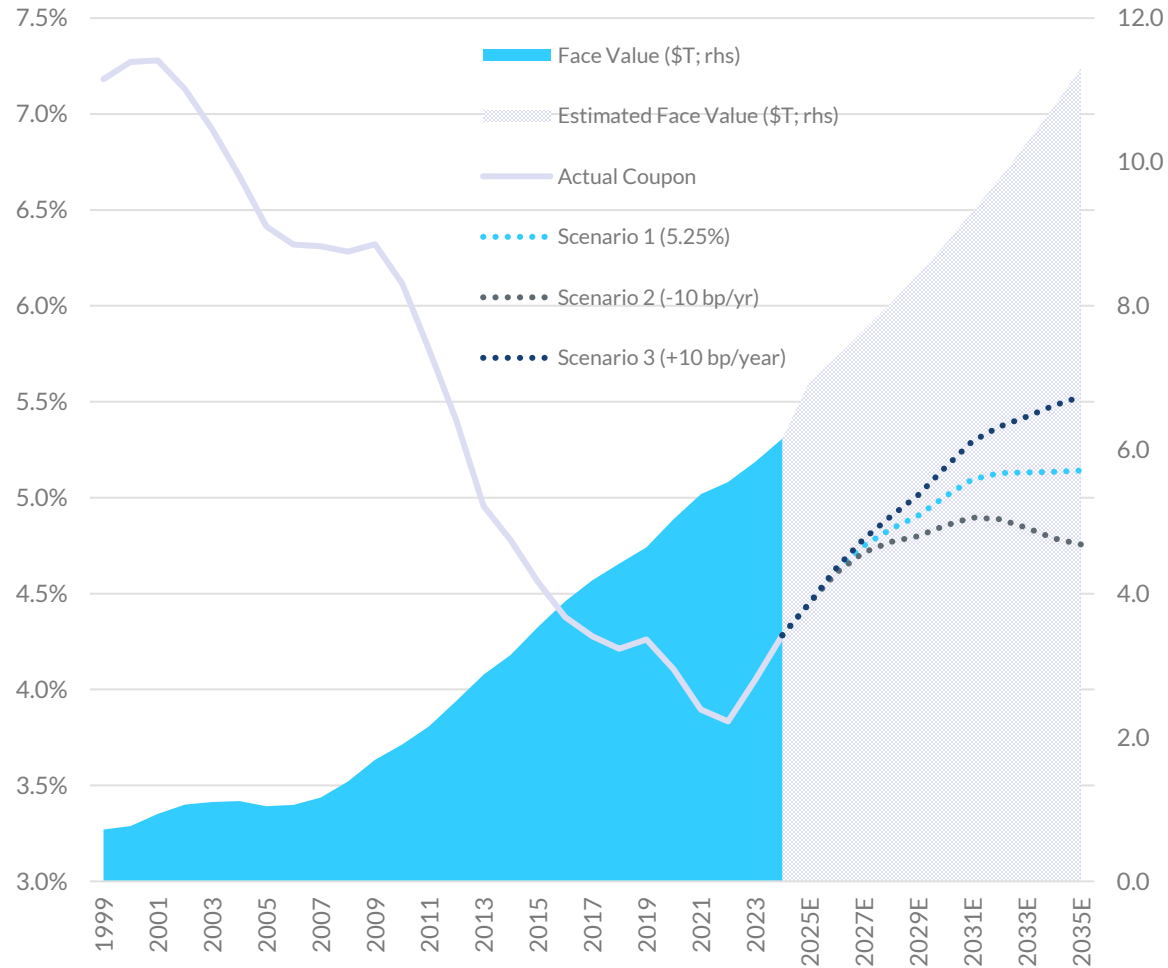


US IG & HY Sector Upgrades & Downgrades (% of Face Value)

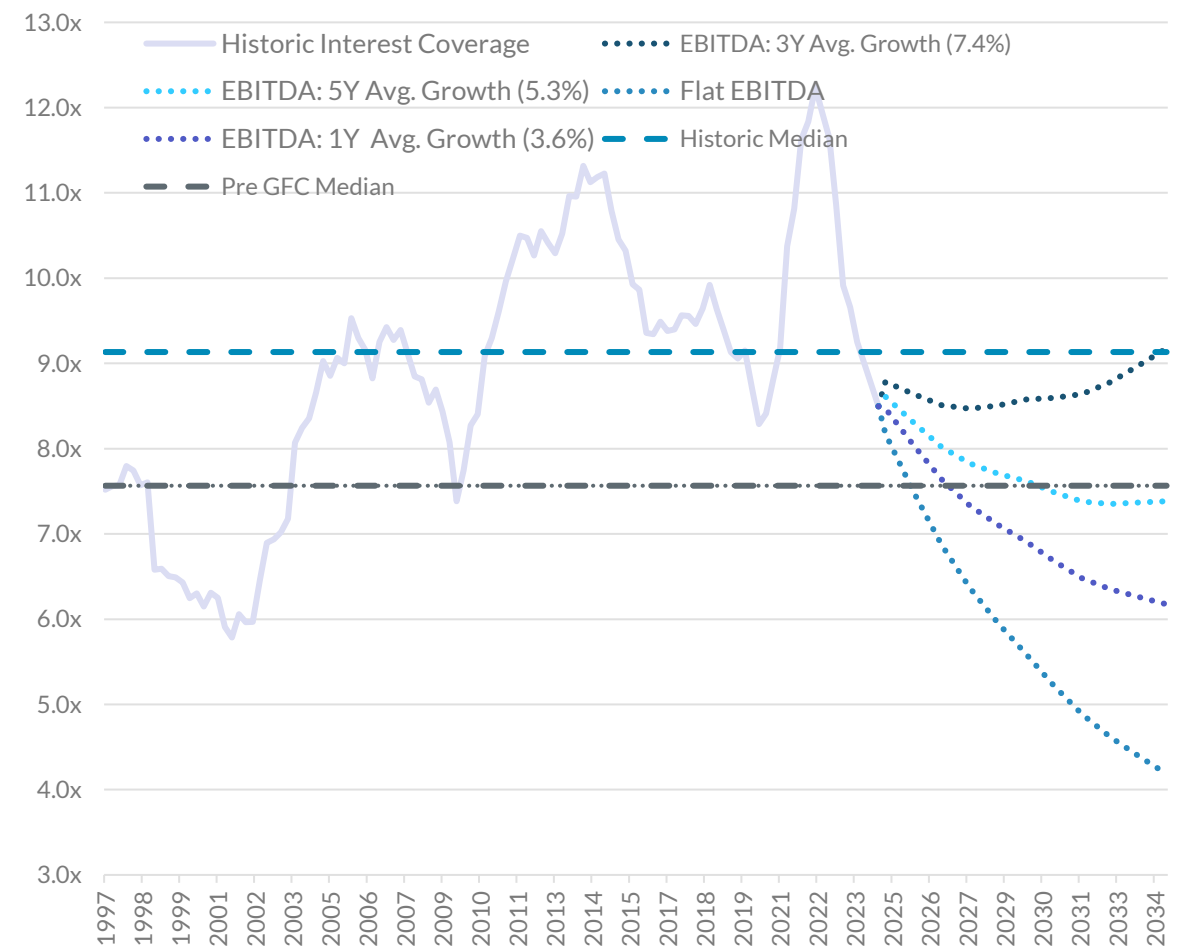


IG Coverage Falling Toward Pre-GFC Median Levels

US IG Ex-Fins Index Coupon Sensitivity Analysis



US IG Ex-Fins Interest Coverage Sensitivity Analysis

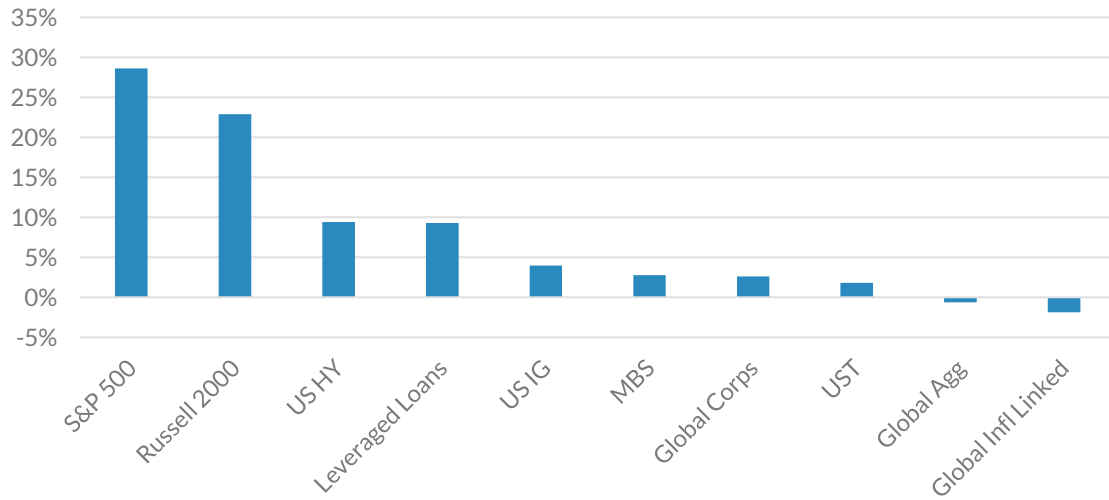


2024 Top Strategies: Risk On, Down in Quality and Out the IG Curve

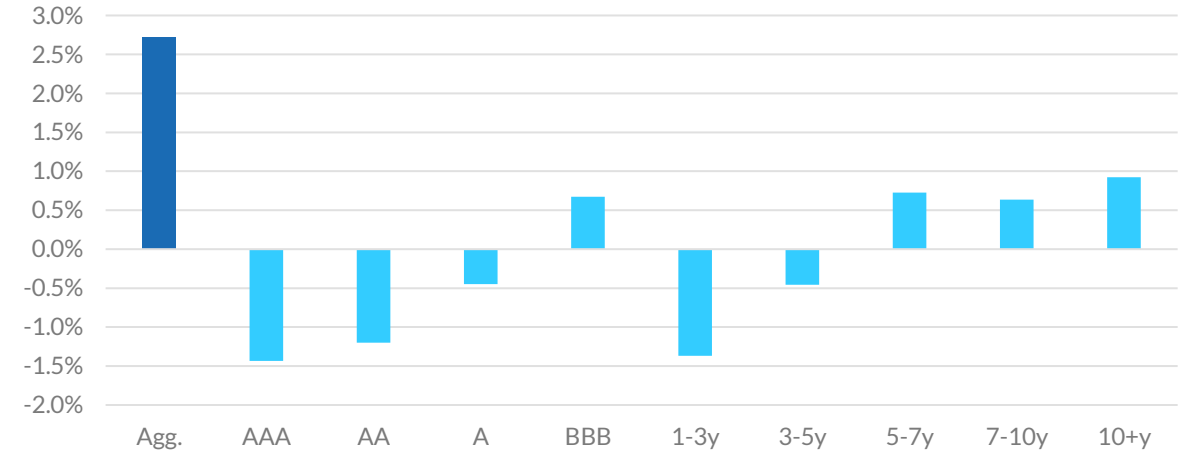
From 2024 Compression to 2025 Decompression → Excess Return Headwinds Emerge

- Our base case is spreads drift wider as consolidation/intentional releveraging shift focus to solid, but deteriorating fundamentals
- Monetary policy may not be the tailwind to fixed income in 2025 that it was in 2024, while fiscal policy may become greater headwind

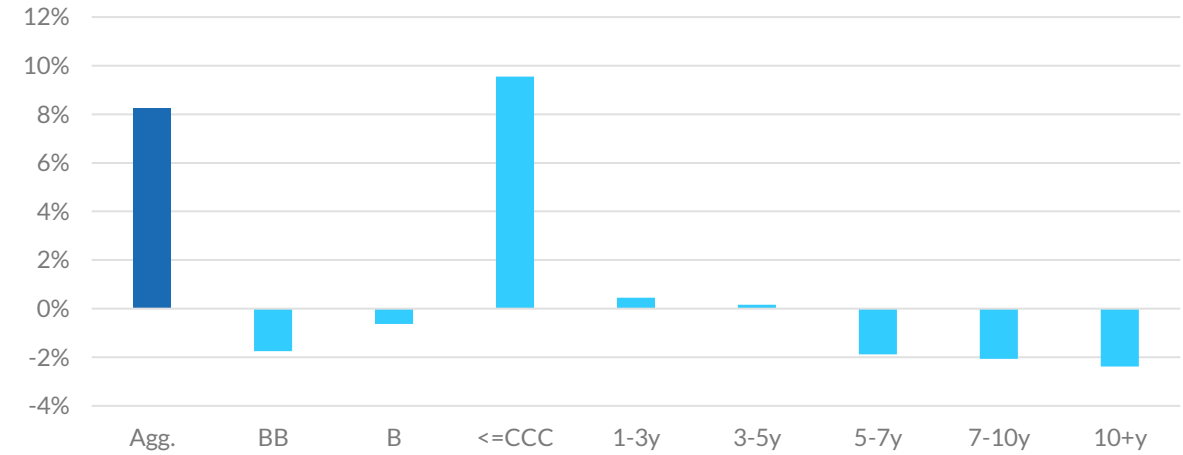
Risk ON → Equities Handily Outperformed Fixed Income



IG Drivers: Long Duration/Overweight BBB

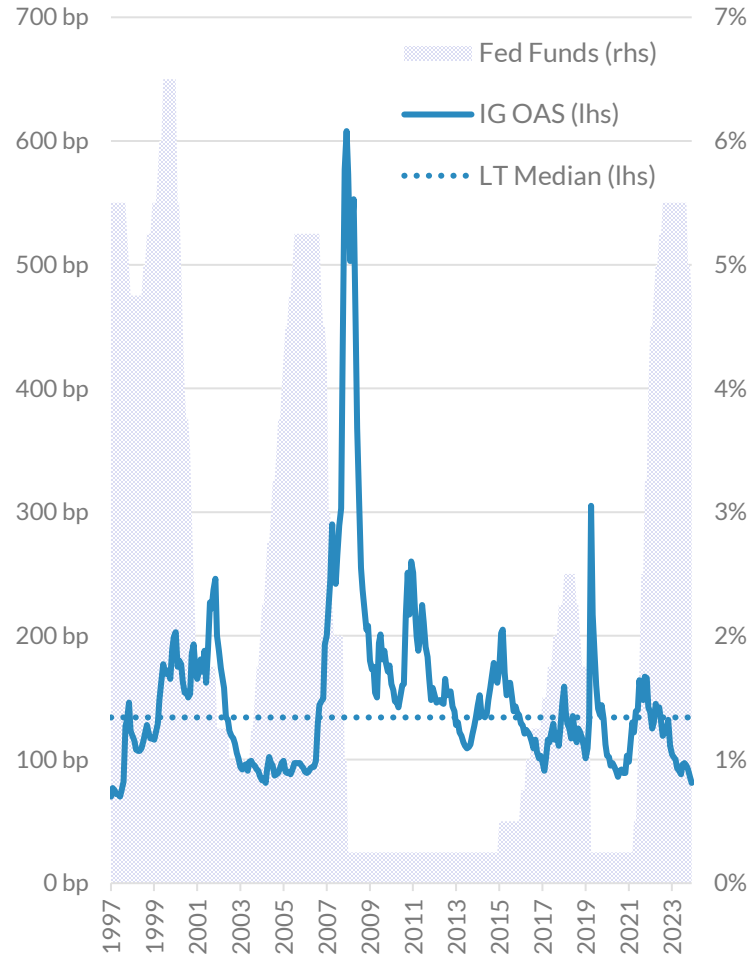


HY Drivers: Short Duration/ Overweight CCC

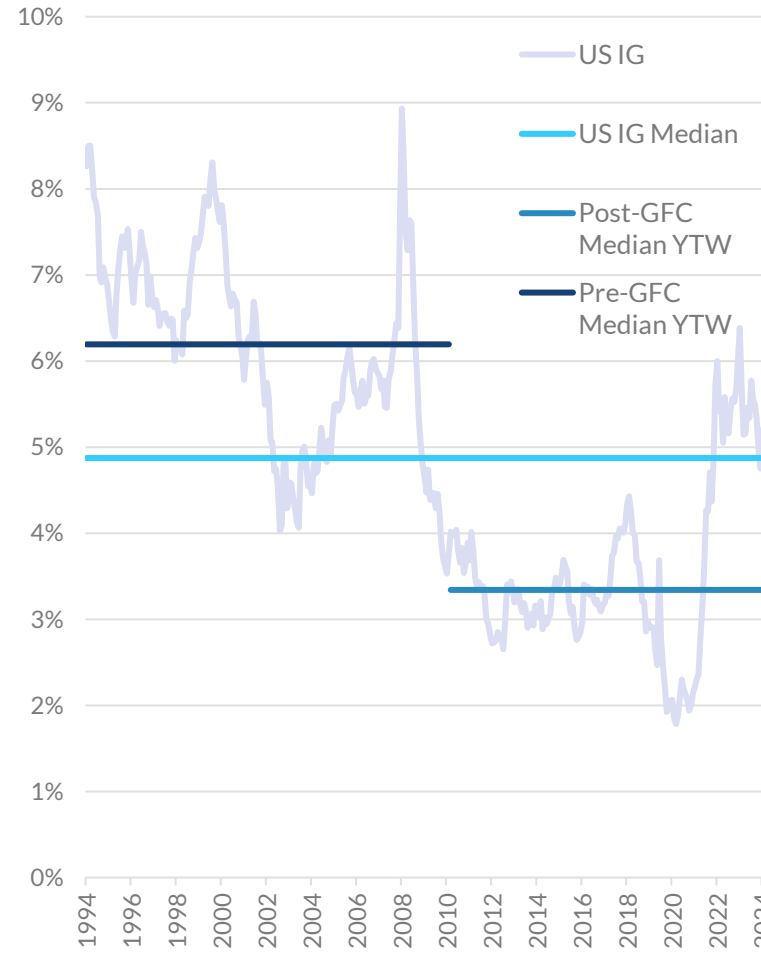


Underweight US IG; Expect Spread Drift

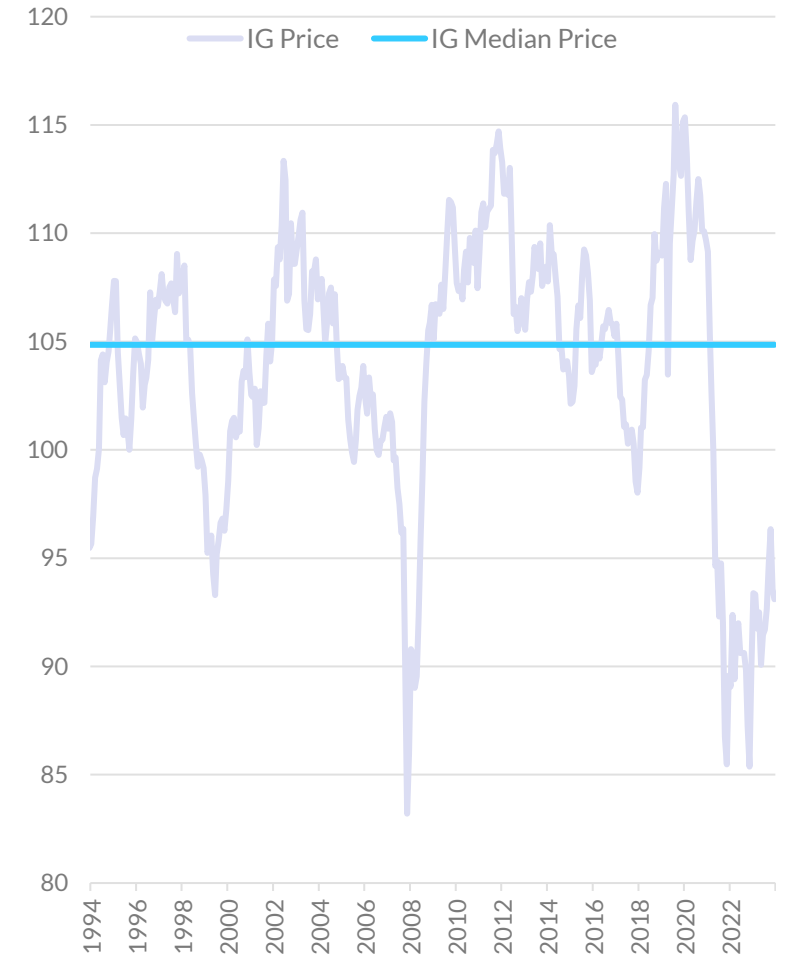
Spreads Reflect Fundamental Optimism & Technical Strength



Yields Holding Around Historical Median

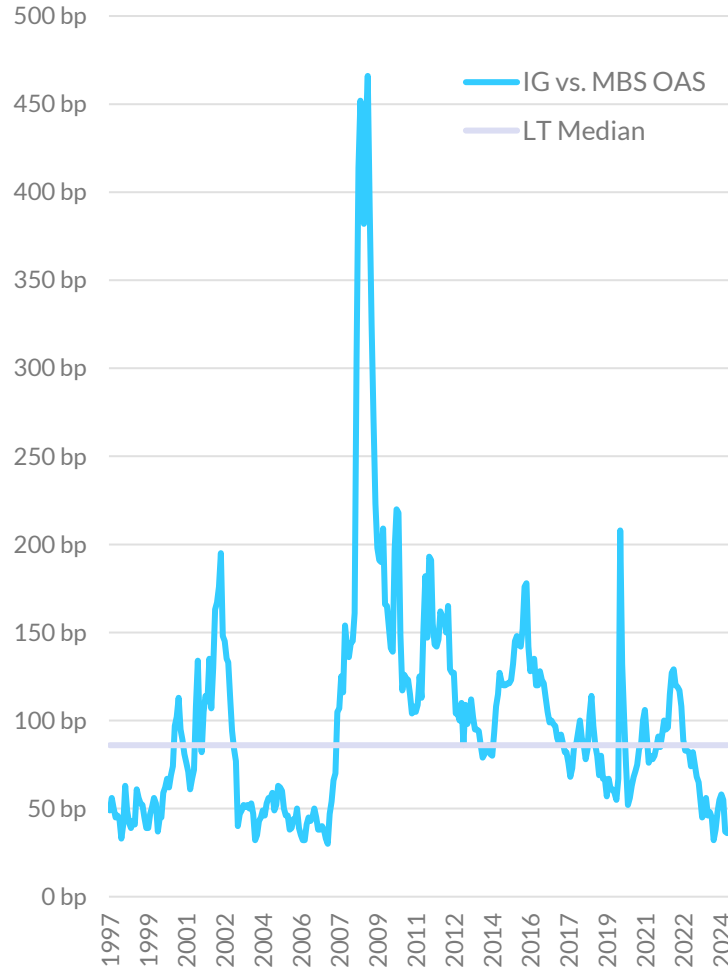


Prices Still Off the Recent Lows Despite Higher Yields

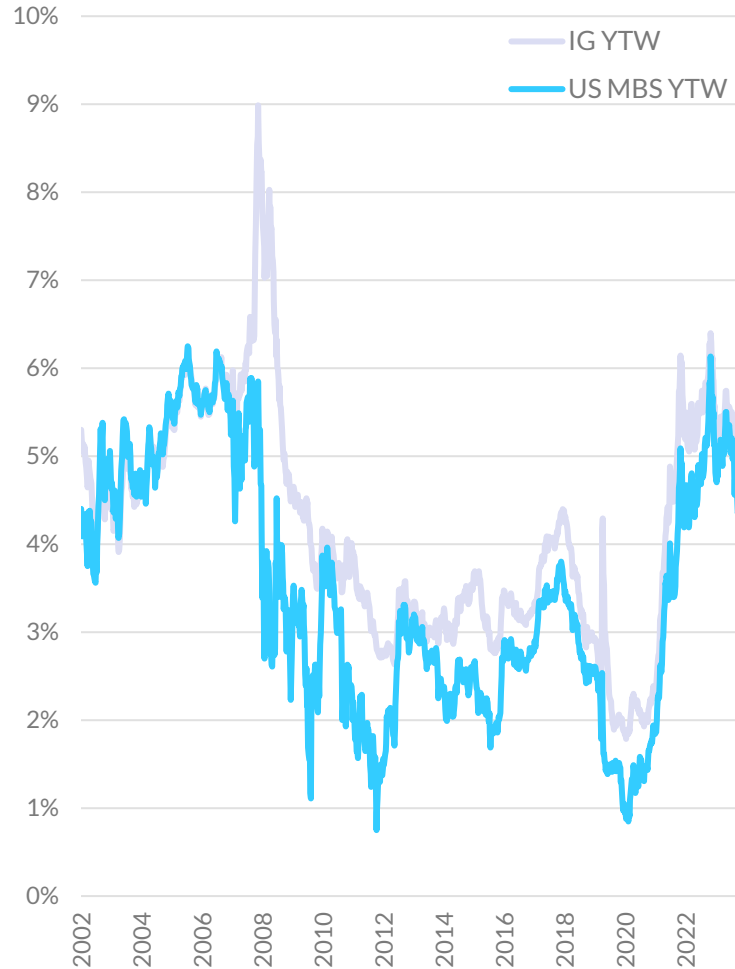


Defensive MBS Increasingly Attractive vs. IG

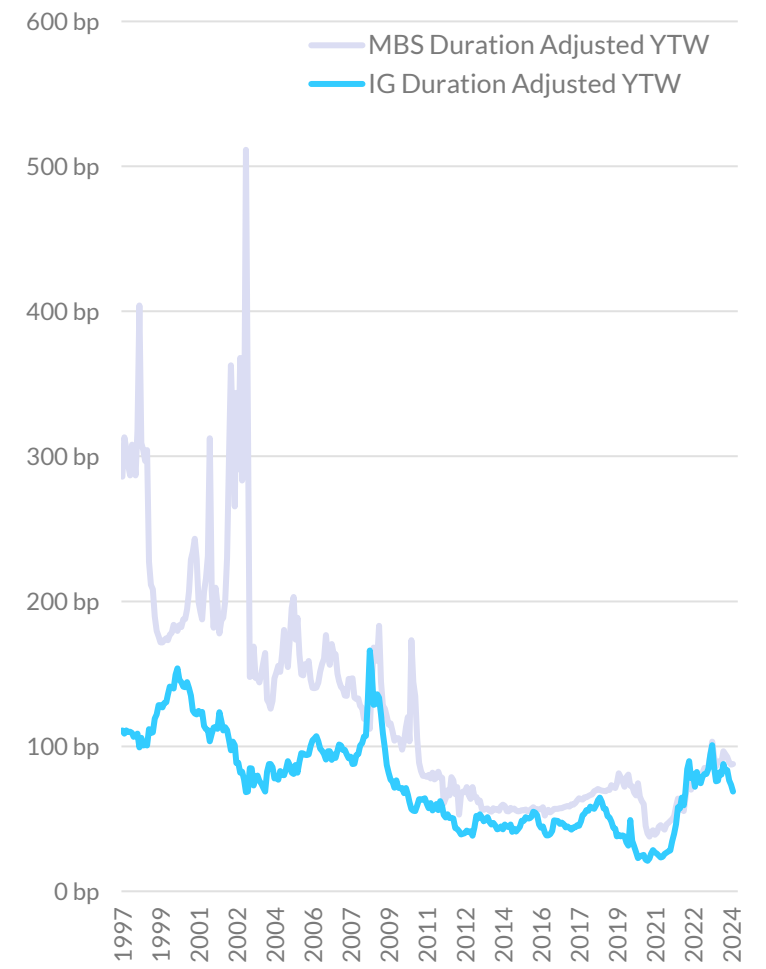
IG Spreads Historically Tight to MBS



Similar IG & MBS Yields

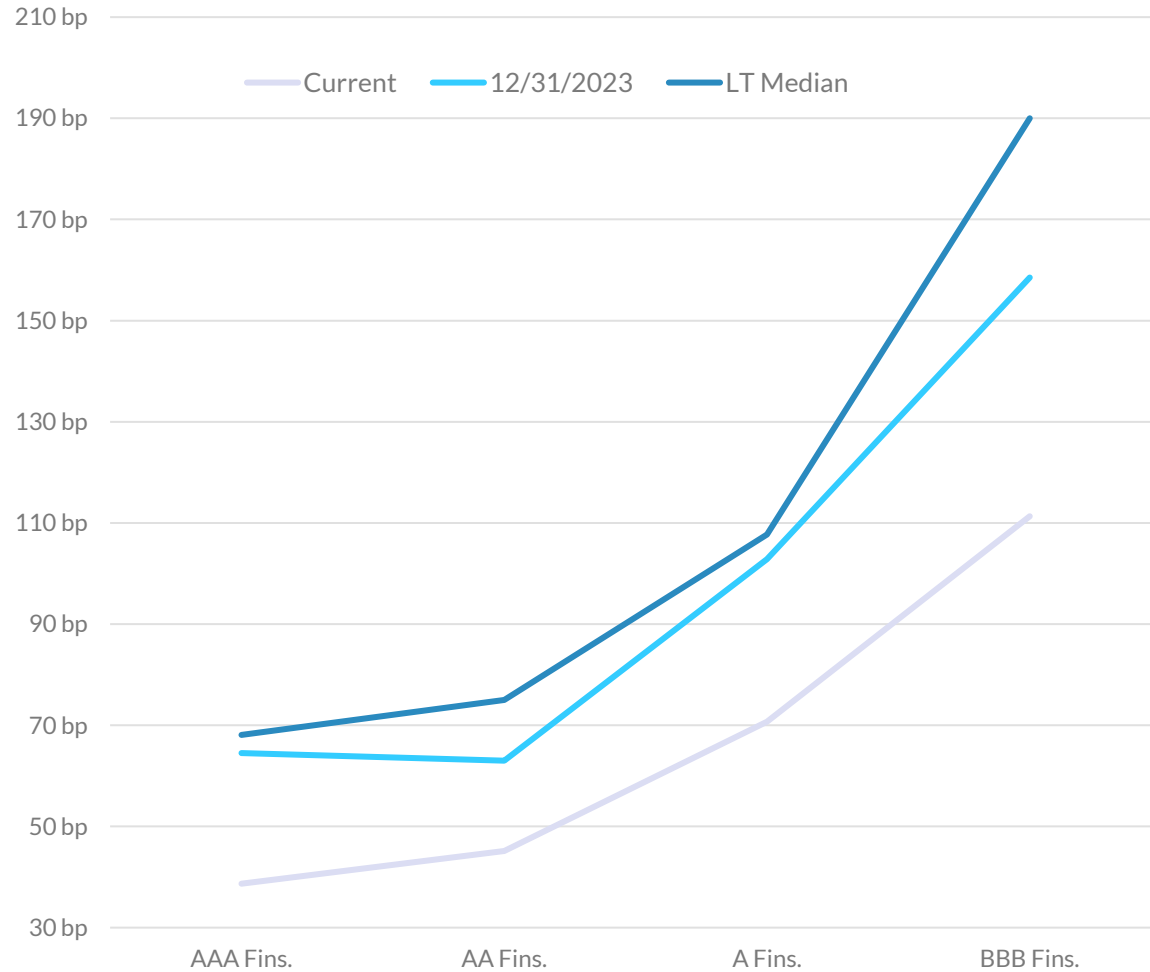


Dur. Adj. IG Yields Even Less Attractive

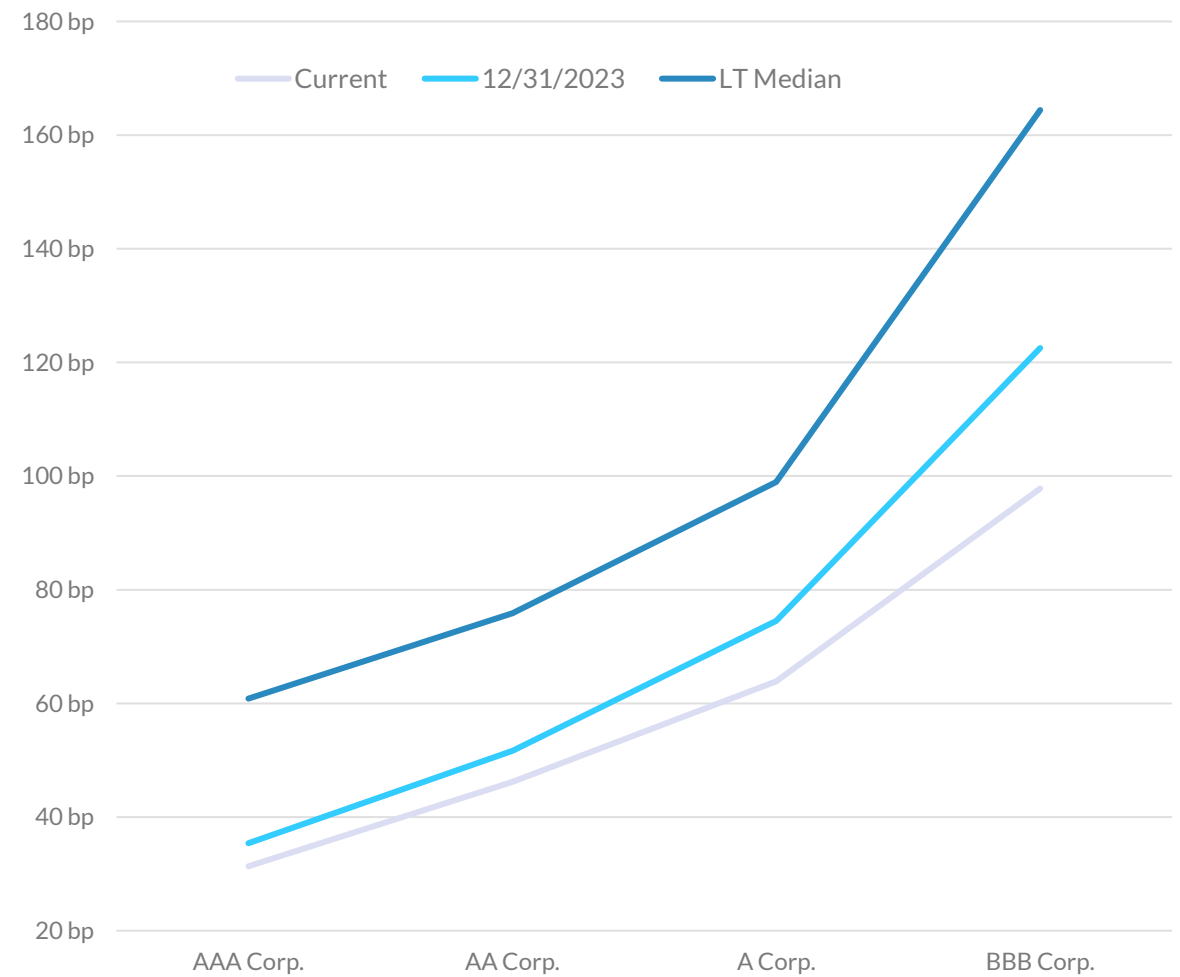


Limited Spread Give-Up for Up in Quality Trades

US IG Financials Spread Curve

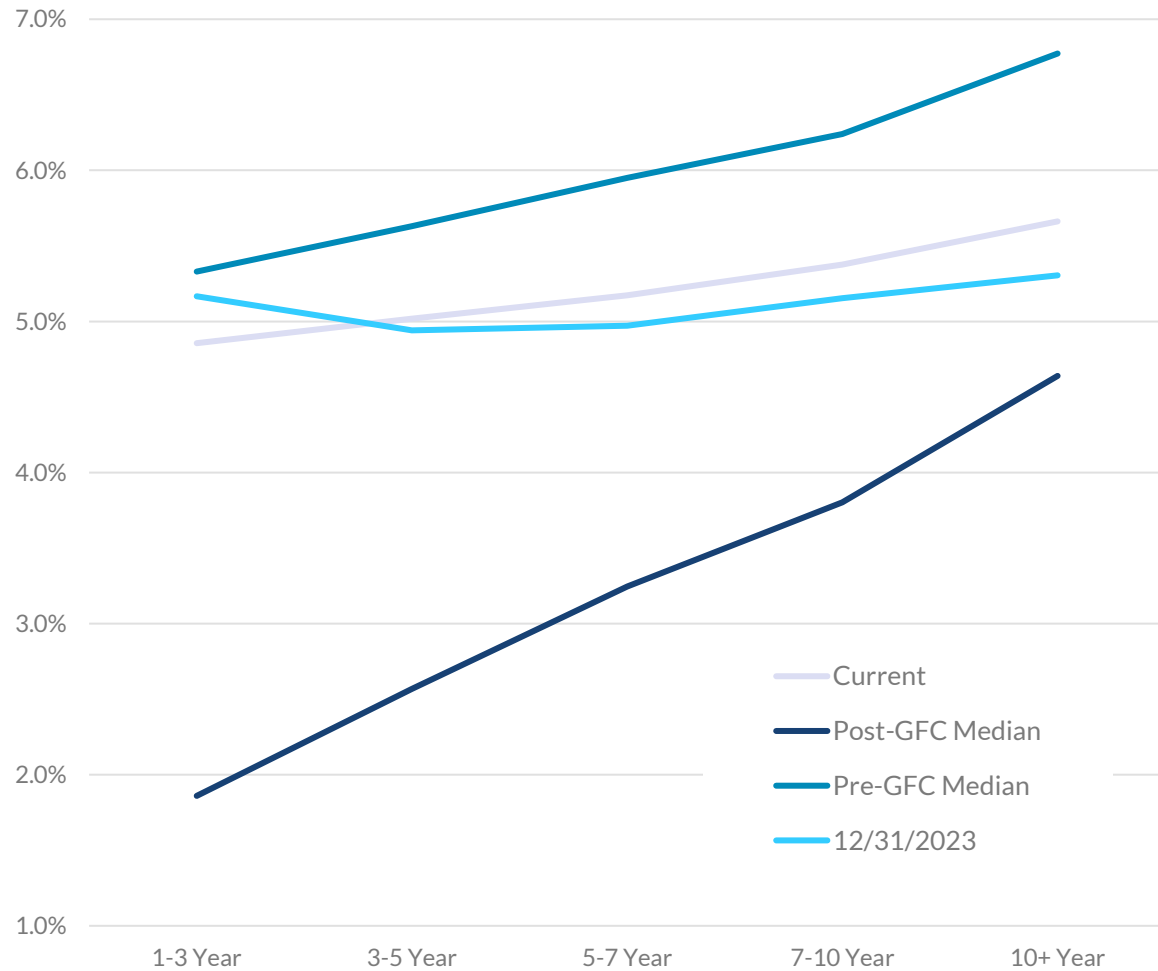


US IG Corporates Spread Curve

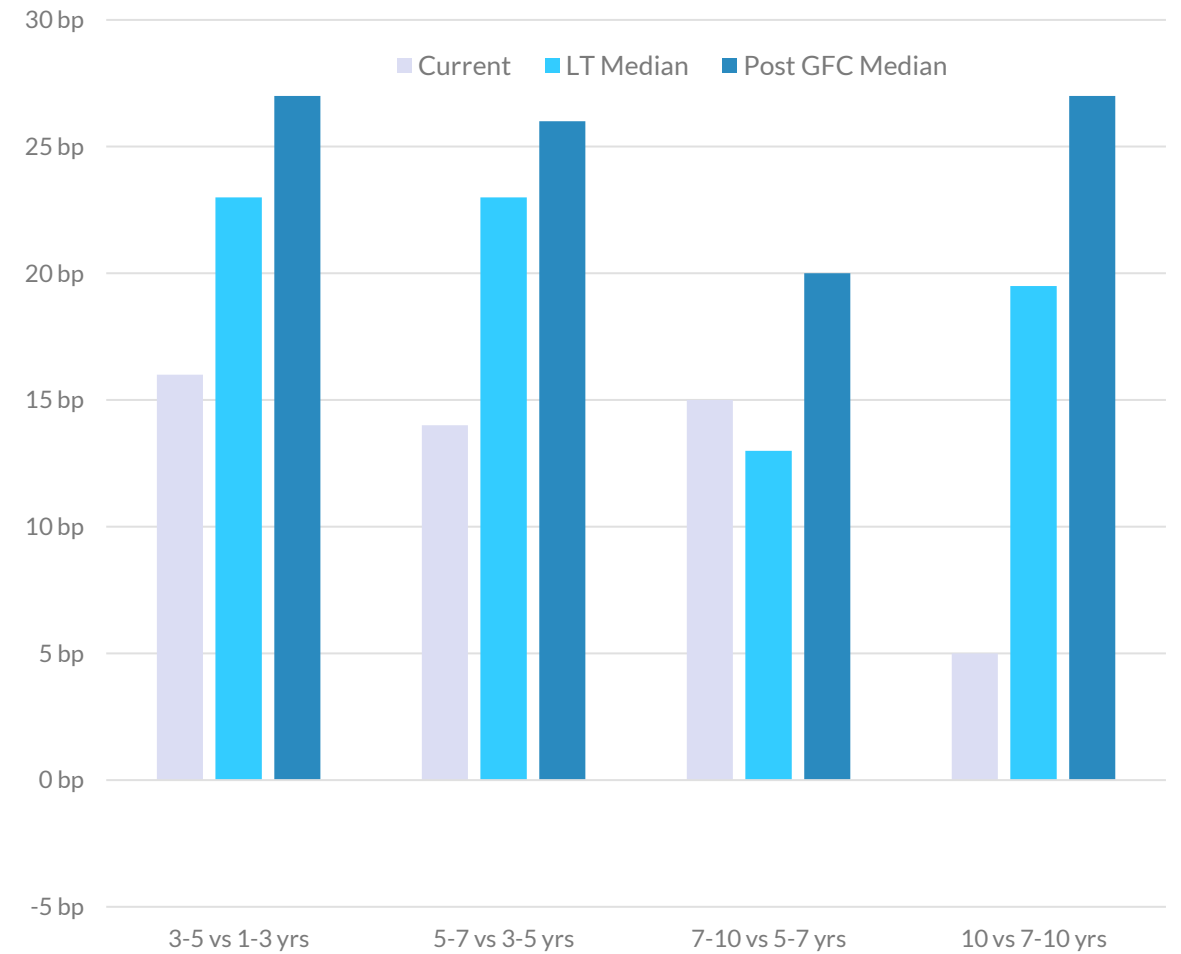


Front-End Spread Pick-Up Still Most Compelling

US IG Yield Curves: Beware the Bear Steepener

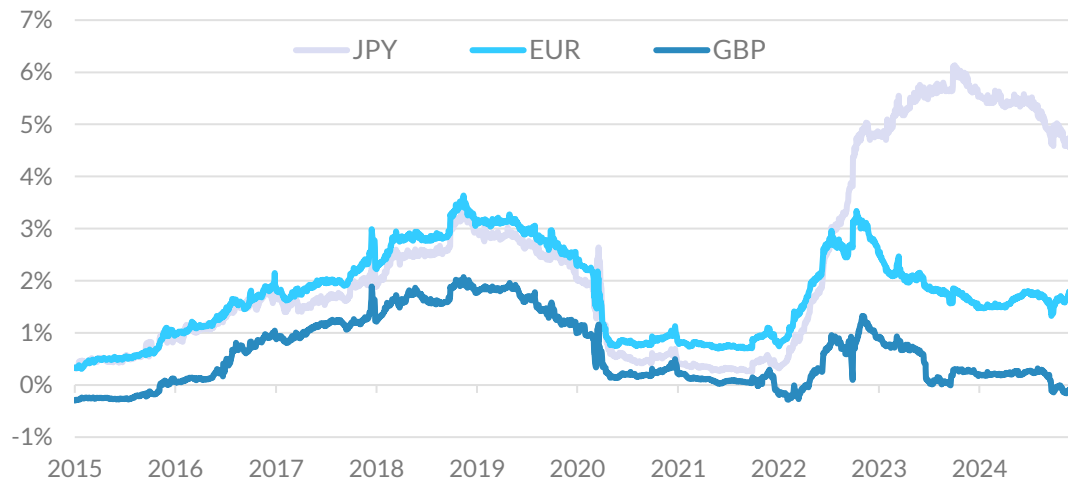


US IG Spread Pick-Up Across Duration: Best in 3-5 & 7-10 Yrs

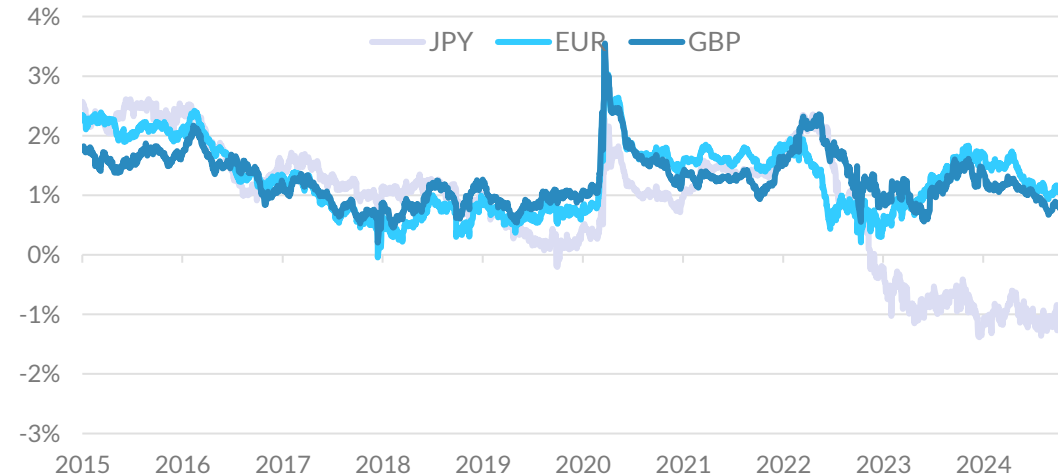


Recent Dollar Strength; Policy Divergence → Foreign Hedging Cost Headwinds

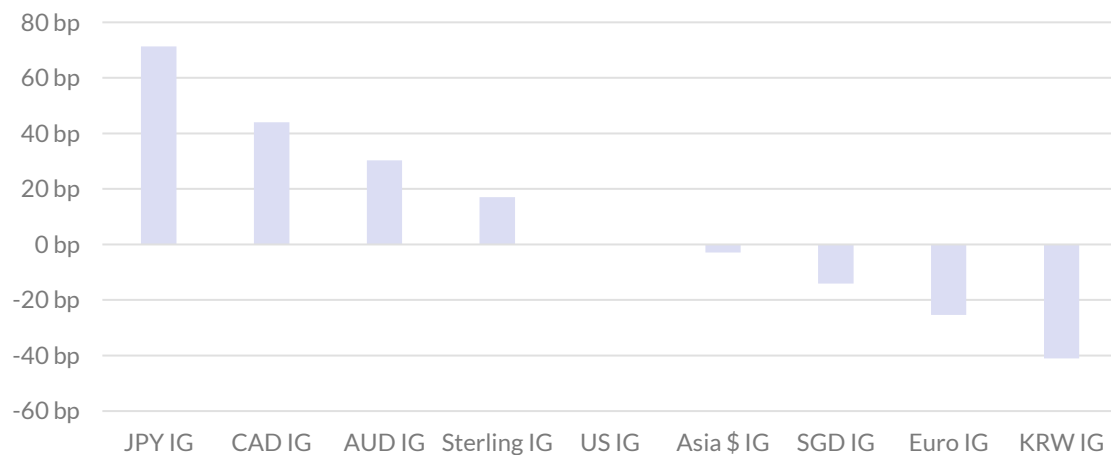
USD Hedging Costs for Various Foreign Investors



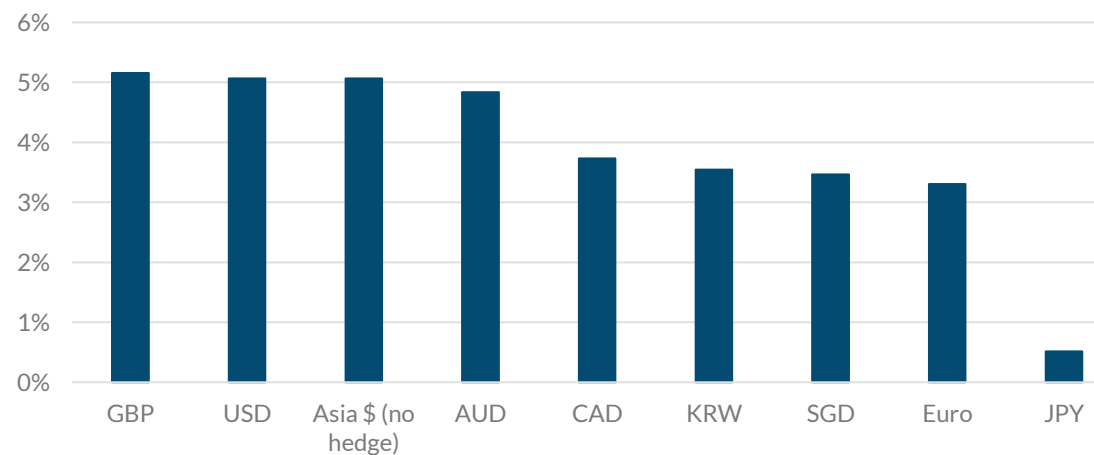
US IG on FX Adjusted Basis Versus Local CCY IG Yield



Foreign IG Yields Relative to US IG after FX Adjustment



US IG Yields for Foreign Investors After FX Hedge



Global Fixed Income Market Relative Value & 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	82 bp	5.06%	6.7 yrs	\$8,720	+4.6%	Underweight	Griffiths	Neutral	Wider
Euro Investment Grade ¹	107 bp	3.05%	4.5 yrs	\$3,254	+5.1%	Underweight	Miller	Off	Wider
US Investment Grade Tax Exempt Munis ²	13 bp	3.47%	6.6 yrs	\$1,282	+2.9%	Underweight	Luby	Neutral	Sideways
Asia Investment Grade (US\$-Denominated)	75 bp	4.96%	5.2 yrs	\$669	+4.8%	Underweight	Zeng	Off	Wider
EM Investment Grade Sovereign (US\$-Denominated)	120 bp	5.45%	8.1 yrs	\$593	+1.8%	Market Weight	Chatellier	Neutral	Wider
US Investment Grade Taxable Munis	55 bp	4.92%	7.6 yrs	\$347	+4.4%	Market Weight	Luby	Neutral	Sideways
Leveraged Finance									
US Broadly Syndicated Leveraged Loans ³	461 bp	8.49%		\$1,411	+8.4%	Market Weight	Cisar	On	Sideways
US High Yield	272 bp	7.13%	3.0 yrs	\$1,343	+8.7%	Underweight	Cisar	Neutral	Wider
Euro High Yield ¹	331 bp	5.70%	2.7 yrs	\$399	+7.9%	Market Weight	Miller	Neutral	Wider
Asia High Yield	366 bp	7.90%	2.4 yrs	\$76	+15.7%	Underweight	Zeng	Off	Wider
EM High Yield Sovereign (US\$-Denominated)	389 bp	8.11%	5.7 yrs	\$404	+16.0%	Underweight	Chatellier	Neutral	Wider
US High Yield Munis ²	104 bp	4.74%	5.7 yrs	\$42	+8.8%	Underweight	Luby	Off	Sideways

Source: CreditSights, FactSet, ICE Data Indices, LLC

¹ On an FX-adjusted basis, Euro IG yields 4.7% while Euro HY yields 7.4%.

² Underweight recommendation for tax agnostic 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.

Investment Themes for 2025 → Consolidation Ahead

Animal Spirits Awakened

- **Theme:** Limited TTM spread volatility, expectations for Fed policy easing and deregulatory optimism will push corporates to focus on buying/creating growth through M&A, spin-offs and other forms of financial engineering.
- **Expectations:** New money issuance should account for a higher share of supply, creating the potential for spread overhang from looming deals.

Rising Event/ Execution Risk

- **Theme:** Balance sheet defense gives way to intentional releveraging amid optimism on growth, tax rates and financial market receptivity to deals.
- **Expectations:** Ratings upgrade cycle decelerates (or reverses) with a wide range of issuers shifting focus away from fortifying balance sheets. In leveraged finance, dividend deals have already picked up and LBO activity is slowly thawing.

Focus on Margins

- **Theme:** Global crosscurrents of dollar strengthening, fundamental challenges outside the US, labor market distortions and decelerating consumer pricing power could pressure margins higher, offsetting benefits of deregulation.
- **Expectations:** A complicated demand backdrop and labor market could result in both layoffs and higher wages, making it difficult for companies to navigate choppy revenue growth and expense volatility.

Political Matters

- **Theme:** The timing of Trump policy rollout and magnitude of change are likely to dictate the path of UST yields and corporate credit spreads over the course of the year.
- **Expectations:** The market is currently pricing in the benefits of deregulation and extensions of (or incremental) tax cuts while looking through potential volatility from imposing policy perceived as unfriendly to markets (tariffs, deportations, pressure on the Fed).

Technical Tailwinds

- **Theme:** Cash on the sidelines remains abundant, generating cash and driving buying of spread/risk assets so long as soft landing/gradual Fed easing is viewed as the most likely economic outcome.
- **Expectations:** Liquidity keeps a lid on private sector systemic risk, while a true soft landing could result in new historic tights across fixed income and equity market highs.

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