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FEBRUARY 2025

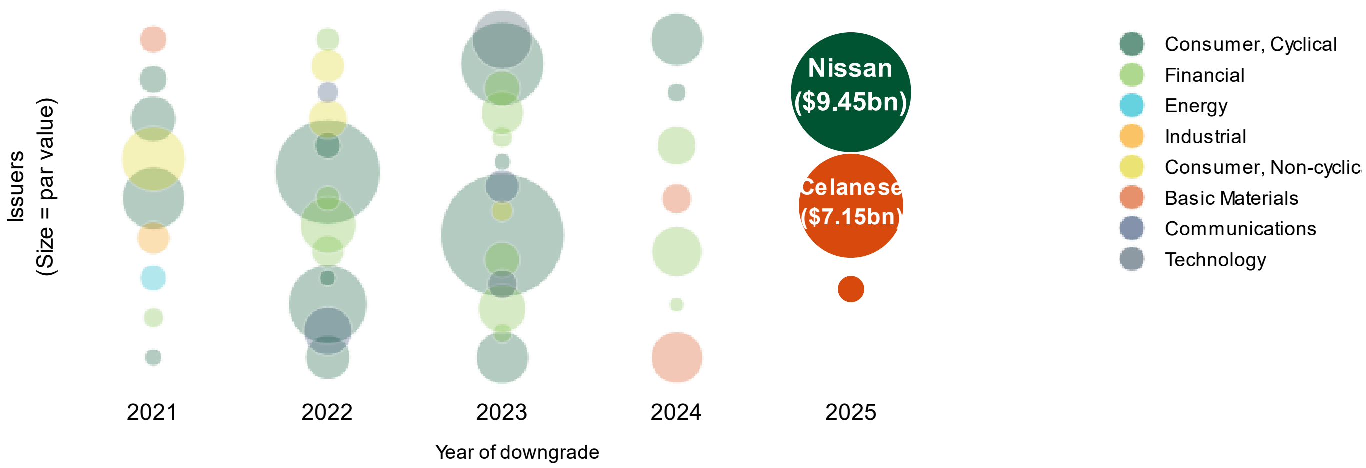
WE TOLD YOU DOWNGRADES WERE COMING

At the start of 2025 we projected US fallen angel downgrades would rise sharply in 2025.

Since then, Moody's downgrades created the two largest fallen angels since the pandemic, collectively migrating over $16bn to the Bloomberg US High Yield Corporate Index at the start of March (Figure 1).

This is already around double the new fallen angel supply we saw in 2024 and about a third of our $50bn projection for 2025[1].

Figure 1: The two largest fallen angel downgrades since the pandemic happened over the last month[2]

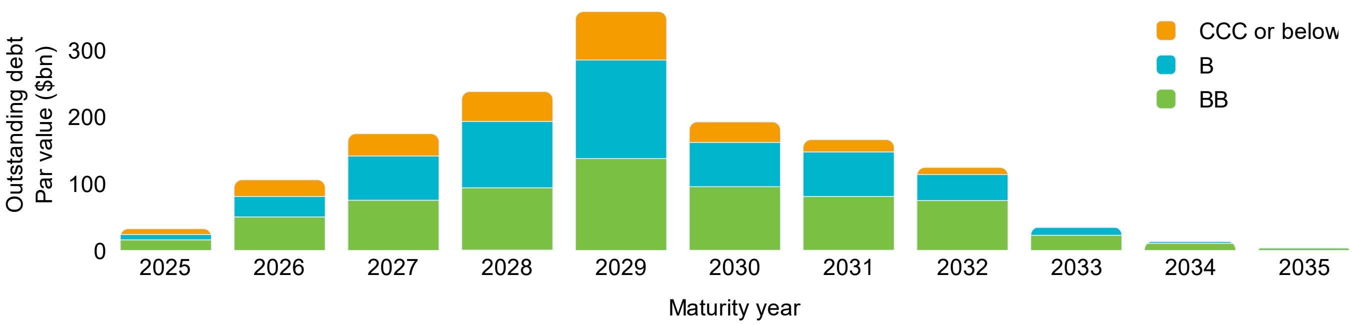


We find new fallen angels have historically delivered attractive returns relative to existing high yield names after predictable periods of volatility. We believe that dedicated fallen angel strategies may be particularly well placed to extract the most value from them.

However, the natural follow-on question concerned investors often ask is if defaults will follow downgrades, with some concerned about "maturity walls" given the higher rate environment.

We believe these concerns are misplaced. The maturity wall in high yield is more of a maturity staircase. A modest c.$140bn is set to mature over the next two years, and almost 80% of it is single-B rated or above (Figure 2). CCC and below debt set to mature in the next two years makes up only 1.1% of the market, with only 0.5% trading at distressed levels.

Figure 2: The high yield maturity wall is more like a "maturity staircase"[3]



[1] Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are specu lative in nature and some or all of the assumptions underlying the projections may not materialize or vary significantly from the a ctual results. Accordingly, the projections are only an estimate.

[2] Bloomberg, Insight, February 2025. The mention of a specific security is not a recommendation to buy or sell such security. The specific securities identified are not representative of all the securities purchased, sold or recommended for advisory clients. It should not be assumed that an investment in the securities identified will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities listed.

[3] Bloomberg, Insight, February 2025

We believe the combination of resilient economic conditions, strong corporate fundamentals and a supportive technical backdrop result in a benign default outlook. Meanwhile, several BBB credits are teetering on the precipice of downgrade.

In our view, high volumes of debt downgrades but low levels of defaults could be a sweet spot for high yield and fallen angel investors.

IMPORTANT INFORMATION

RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/ or income and other earnings. Any gross of fees performance does not include fees, taxes and charges and these can have a material detrimental effect on the performance of an investment. Taxes and costs incurred when purchasing, holding, converting or selling any investment, will impact returns. Costs may increase or decrease as a result of certain currency conversions, such as currency hedging, investment exposure to international markets, and exchange rate fluctuations.

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Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Fixed income

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due. The return risk to a portfolio is higher where a portfolio is highly concentrated in such an issuer.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Leveraged funds: as a result of market conditions, the value of the assets held by a Fund may fall and result in a higher degree of leverage than is deemed appropriate by the Investment Manager. In order to reduce the degree of leverage, the Investment Manager may seek to reduce a Funds' total asset exposure. Investors would need to subscribe for additional Shares in order to maintain the level of sensitivity to market movements. Where such an event is unanticipated, this may result in the investors having less sensitivity to market movements than they might consider appropriate to their individual requirements until they have subscribed for additional Shares

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