

Quarterly Global High Yield Update

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- Global high yield (HY) markets (in \$ terms) saw a flat Q4 and a modestly positive 2021 as continued decline in default and distress ratios, and supportive technicals, were balanced out by the hawkish stance from central banks and growth fears over the rise of the Omicron variant.
- Even as the global economic recovery continues to hold on, and Q3 corporate earnings were strong – with 42% of high yield companies beating EBITDA expectations, the number was still down from 59% in Q2 2021, and the Q3 season saw 65% of them mentioning in their earnings release that they are experiencing cost and/or labour inflationary pressures.
- US HY outperformed euro HY over Q4 and financial year 2021, as euro HY is more sensitive to end of easy monetary policy on account of the secondary effect from ECB's intervention in corporate bond markets. EM HY underperformed the others significantly in 2021, mostly due to volatility and weakness in China's HY property sector.

Figure 1
High Yield Spreads

OAS* (bps)	Current Level	Δ 3m	Δ 12m	Δ YTD
Global HY	373	0	-37	-37
US HY	311	-5	-76	-76
Euro HY	331	27	-24	-24
EM HY	634	4	111	111

Source: State Street Global Advisors, as of December 31, 2021.

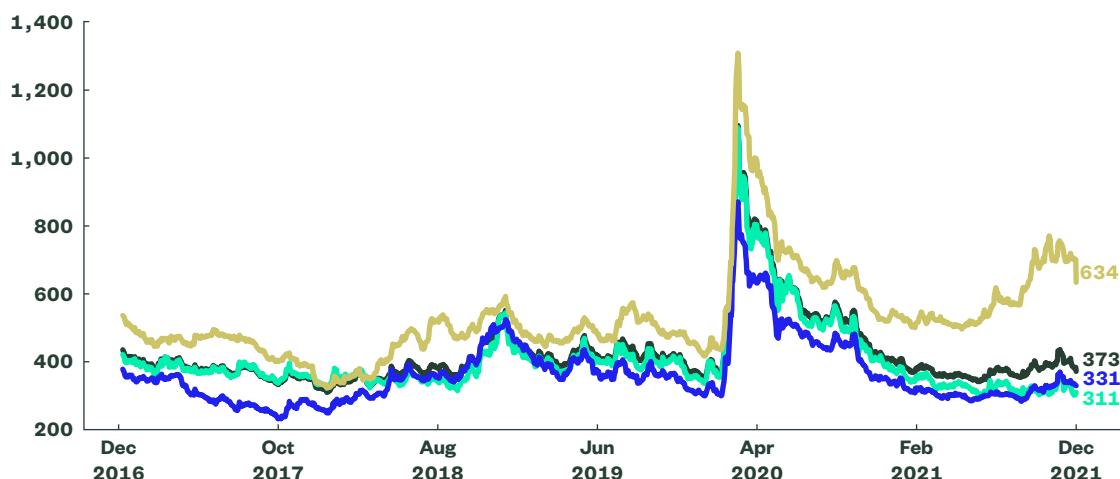
* Option Adjusted Spreads.

Market Highlights

- Default rates were very benign in US and euro HY over 2021, a sharp contrast compared with 2020's pandemic driven surge. US high yield default rate for last 12 months ended the year at a record low 0.29%, much below the historical average of 3.8%. Euro HY saw a similar trend over the same period, with the par default rate dropping to 0.52%, much below the historical average of 2.5%.
- 2021 US HY gross issuance volume was \$483bn, and while this number is similar to 2020 (\$449bn), 2021 saw much lighter net supply (-\$23.1 in 2021 vs \$215 in 2020) due to lack of fallen angels akin to 2020. Net supply volume for euro HY was €88bn for 2021, greater than most annual gross issuance numbers over the past decade.
- Flows have been moving out of US HY funds year-to-date (-\$13.6bn), shifting into leveraged loans (+\$45.4bn) as investors reduce duration from fixed rate to floating rate debt. European HY saw a neutral trend with a small net inflow of €320mm in 2021 (just 0.4% of AUM).
- The rating cycle has been very positive in 2021 with a wave of upgrades from the rating agencies in recognition of strong earnings and improvement in leverage and coverage ratios. The ratio of upgrades/downgrades (by \$ volume) has been on a sharp uptrend this year, with the US high yield ratio reaching 3.0 in 2021, compared to just 0.1 through 2020. Issuers have shown mostly prudent behaviour by deploying excess cash raised last year partially towards debt repayment.

Figure 2
OAS History —
Last 5 Years (bps)

■ Global HY
■ US HY
■ Euro HY
■ EM HY



Source: State Street Global Advisors, as of December 31, 2021.

Figure 3
Total Returns of
Global High Yield

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
Global HY (in \$ terms)	-0.76	-1.11	1.36	1.36
Global HY (\$-Hedged)	-0.33	-0.12	3.04	3.04
Global HY (€-Hedged)	-0.64	-0.62	2.12	2.12
US HY (in \$)	0.64	1.59	5.35	5.35
Euro HY (in €)	-0.33	0.32	3.35	3.35
EM HY (in \$)	-3.65	-6.23	-5.02	-5.02

Source: State Street Global Advisors, as of December 31, 2021. Past performance is not a reliable indicator of future performance.

Figure 4

Return Components of Global High Yield

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
Global HY (\$-Hedged)	-0.33	-0.12	3.04	3.04
Spread Return	-0.09	0.17	4.25	4.25
Treasury Return	-0.24	-0.30	-1.21	-1.21

Source: State Street Global Advisors, as of December 31, 2021. Past performance is not a reliable indicator of future performance.

Performance Highlights

- Treasury returns were negative, both in Q4 and over the year 2021, as the global uptick in realised inflation across the world has led to rate hikes, tapering, or an overall less accommodative monetary policy from most central banks.
- Q4 sector performance in global HY was a continuation of the “reopening” theme, with Automotive (+1.6%), Services (+1.1%) and Energy (+1.0%), all performing well in excess return terms. Real Estate (-9.7%) was an underperforming outlier over the quarter.
- The BB- rated segment outperformed in total return terms over the quarter, with +0.06%. CCC- and lower rated segment, as well as single Bs underperformed, returning -1.20% and -1.00% respectively. This is a slight contrast from overall 2021 performance, which saw significant outperformance of the CCC- and lower rated segment (+8.75%) compared to BB (+2.97%) and the single B (+1.22%) segments.

Valuations

- Even though the yield on global HY stands at 4.59% and is close to all-time lows, spreads at 373bps are at the 20th percentile, and the high yield market has seen an improvement in quality over the years and investors are more comfortable considering it in their overall asset allocation within fixed income.
- We are in a recovery phase of the credit cycle, having passed through the repair phase rapidly. Despite the COVID-19 recession being only last year, we are moving through the cycle faster than usual, and conditions now seem ‘mid-cycle’, where returns from carry tend to dominate — as growth shows signs of moderation from peak levels, and monetary policy starts to shift from a prolonged period of easing.

Further Reading

The Case For Global High Yield
Why Now, Why Indexing

Sources: Bloomberg, JP Morgan. BofA indices HWOC, HUCO, HECO and EMUH were used as a representation of the Global HY, US HY, Euro HY and EM HY markets respectively. As of December 31, 2021.

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* Pensions & Investments Research Center, as of December 31, 2020.

[†] This figure is presented as of September 30, 2021 and includes approximately \$59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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