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# 2022 Credit Market Outlook

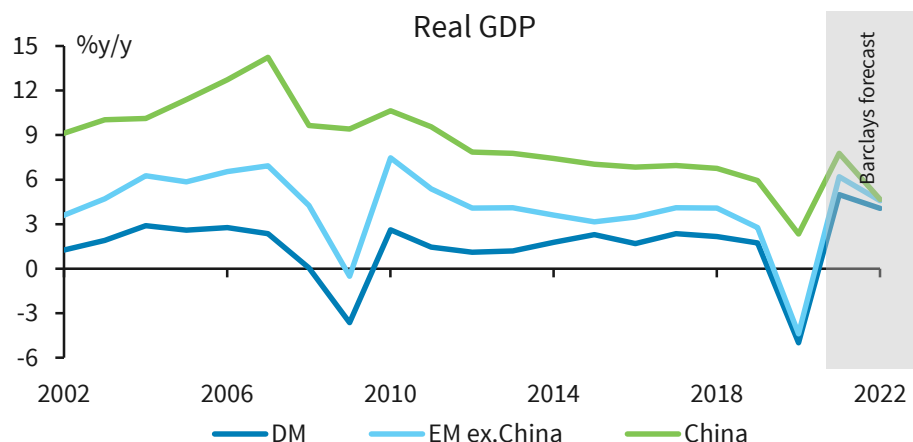
January 2022

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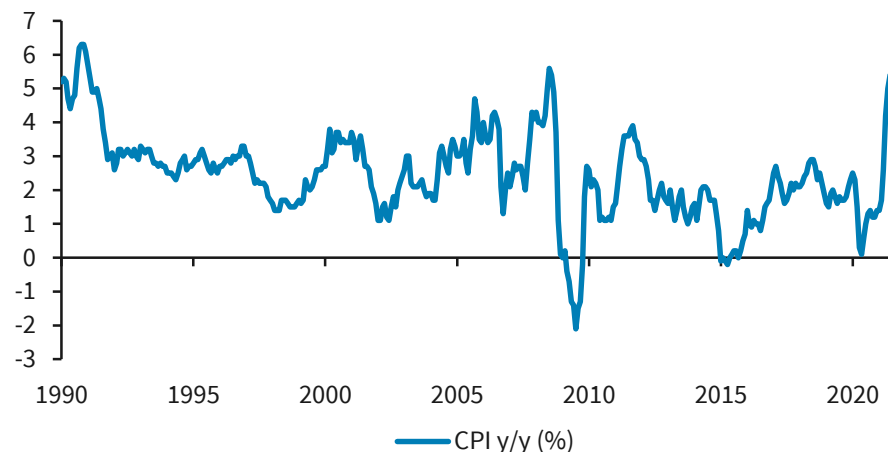
PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING AFTER PAGE 13.

# Slower growth, higher inflation and subsequently a more hawkish Fed are a few of the concerns that make the bear case the easy one

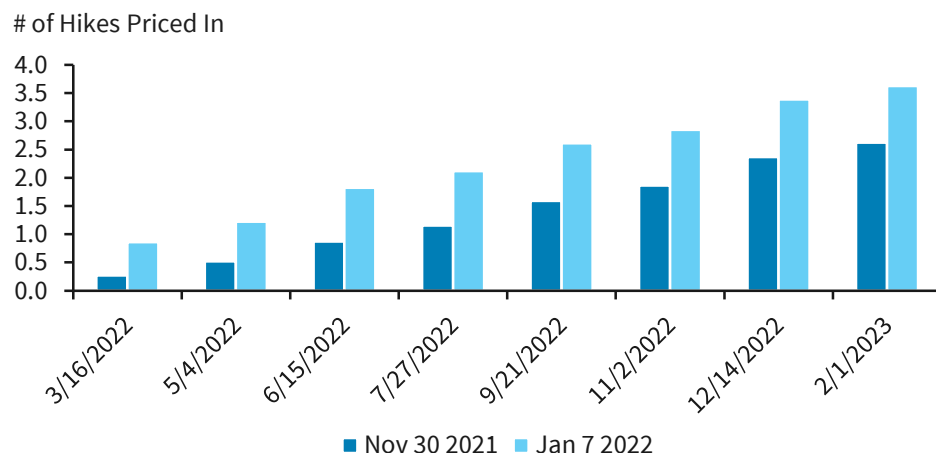
## Growth Is Expected to Slow



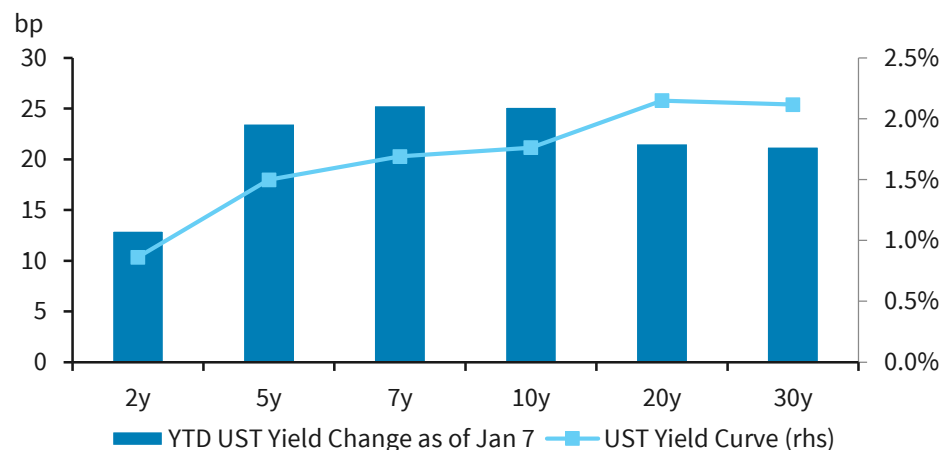
## Inflation Is at Multi-Decade Highs



## The Fed Is Expected to Tighten



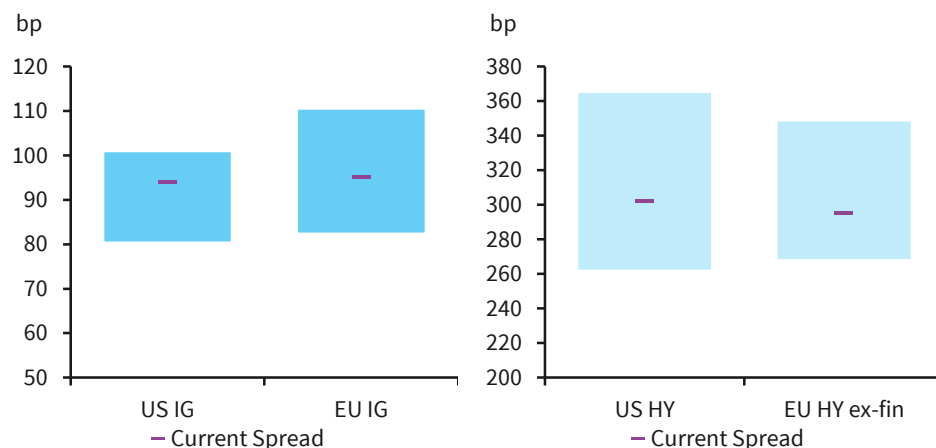
## UST Curve Continues to Flatten



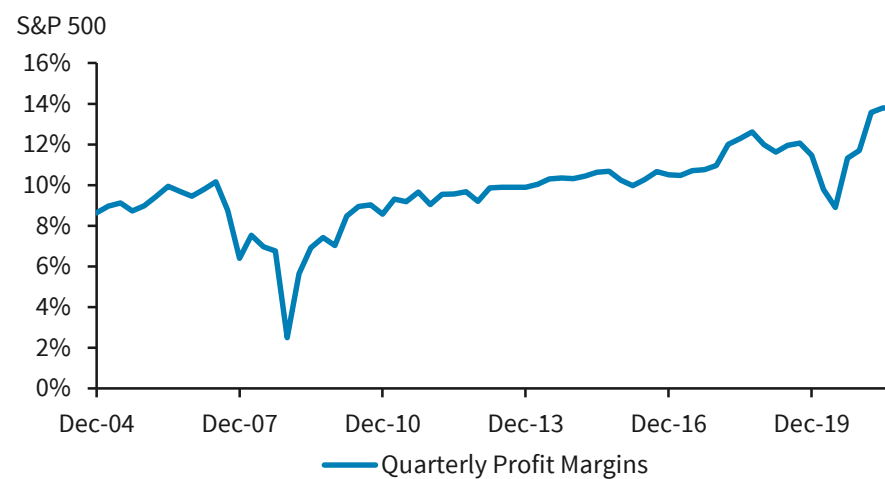
Source for all charts: Our World in Data, Bloomberg, Barclays Research

But with fundamentals not among the list of concerns, we recommend investors “don’t take the easy way” as credit will persevere

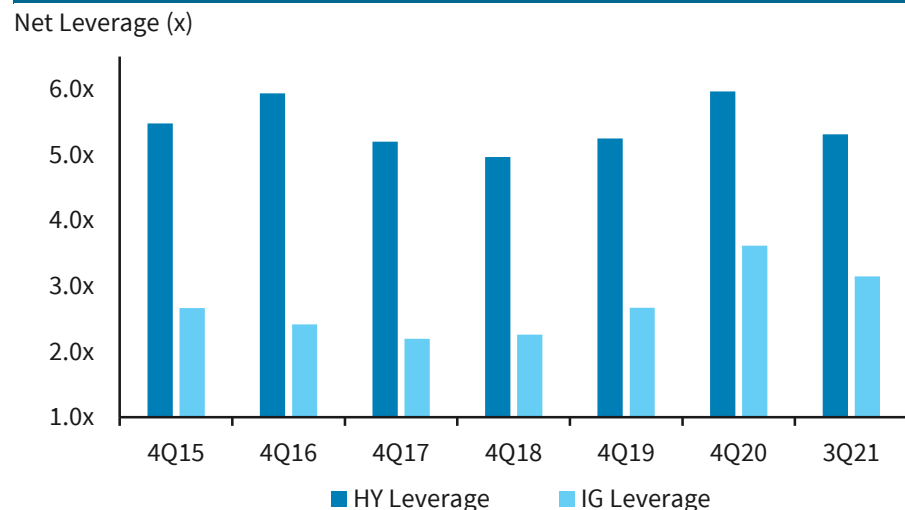
## Valuations Are Average within 1yr Range



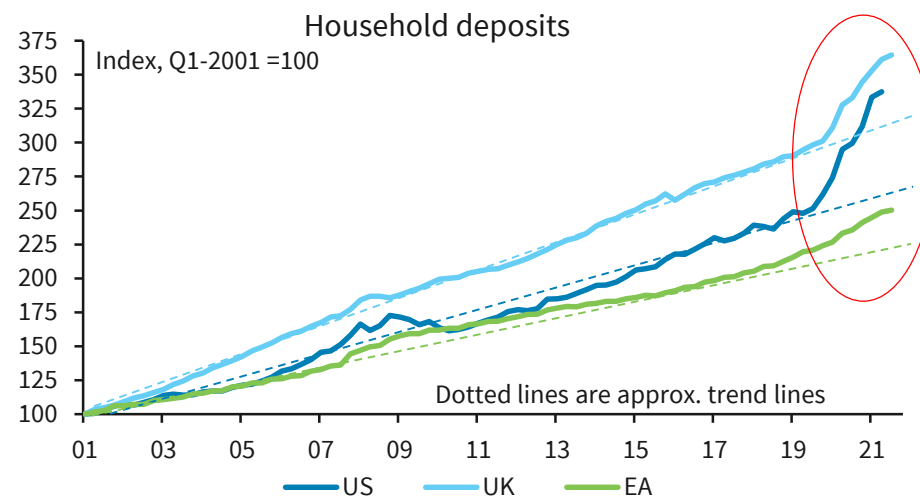
## Profit Margins Remain Elevated



## US Corporate Leverage Has Declined



## Households Have Built Up Savings

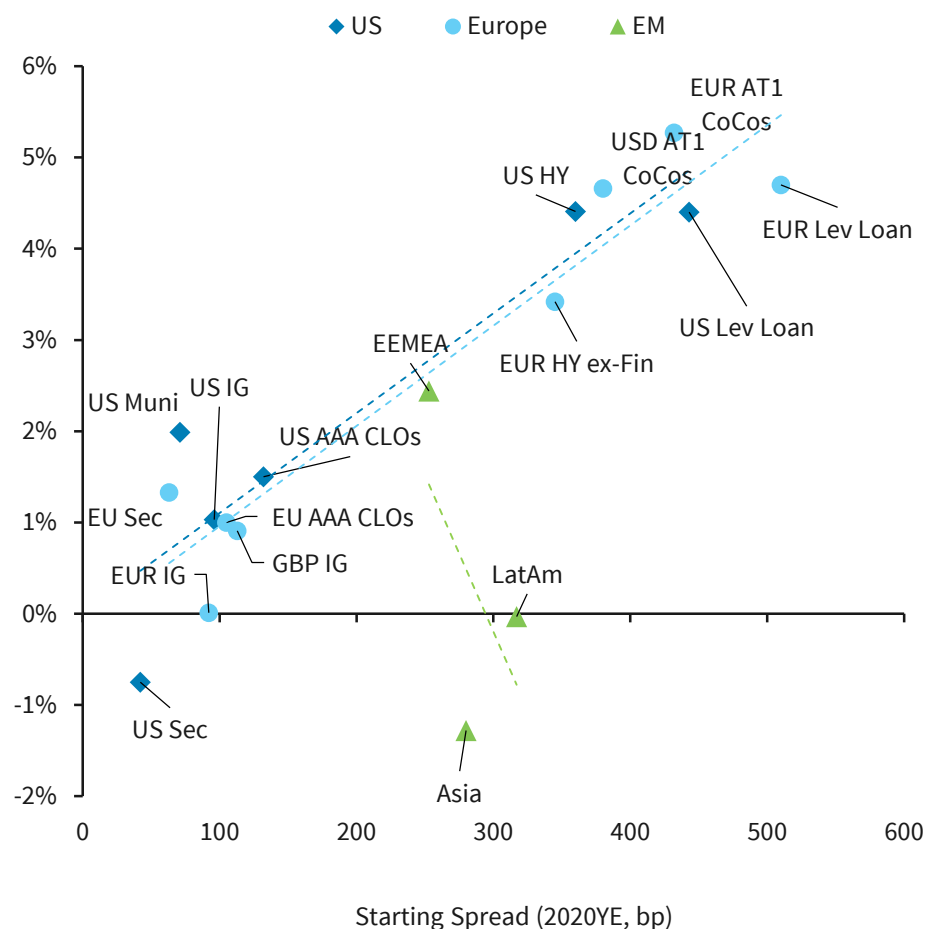


For more details, see “[Global Credit Outlook: Don’t take the easy way](#)” Dec 3, 2021. Source for all charts: FRB, BoE, ECB, Haver Analytics, CapIQ, Factset, Compustat, Bloomberg, Barclays Research

# Despite lower starting valuations, 2021 was a good year for spread investors; December rally took most of the potential tightening from 2022

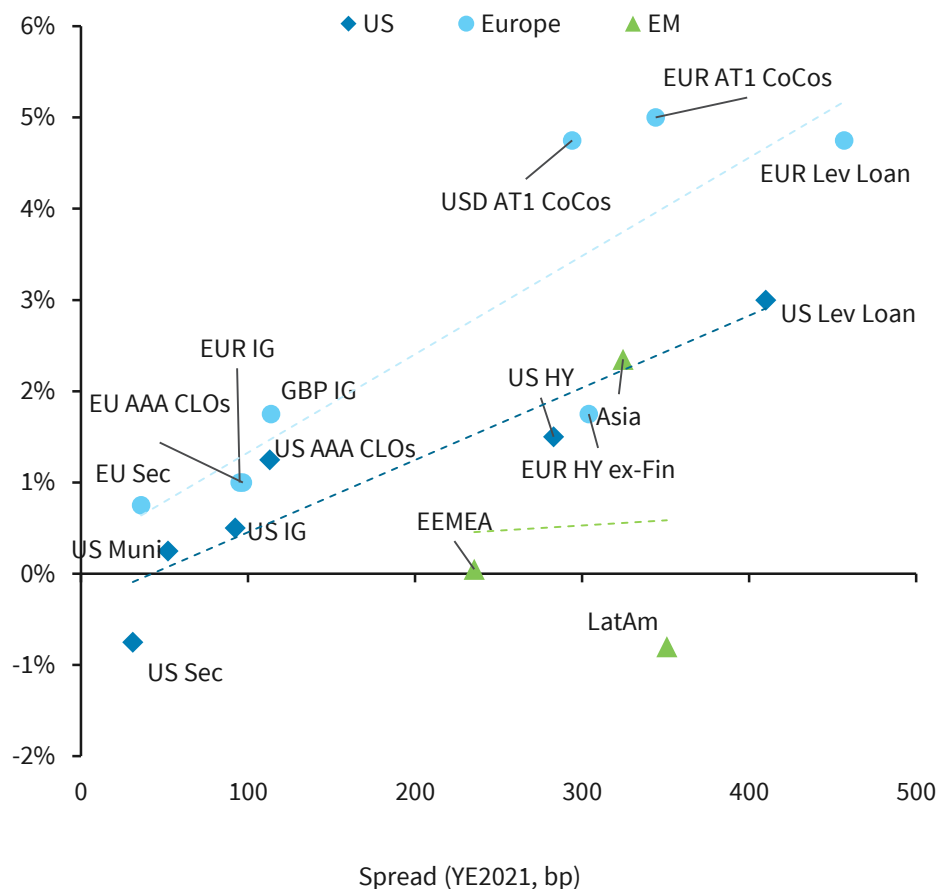
## 2021 Excess Return vs. Starting Spread

2021 YTD Excess Return



## 2022 Excess Return F/C vs. Current Spread

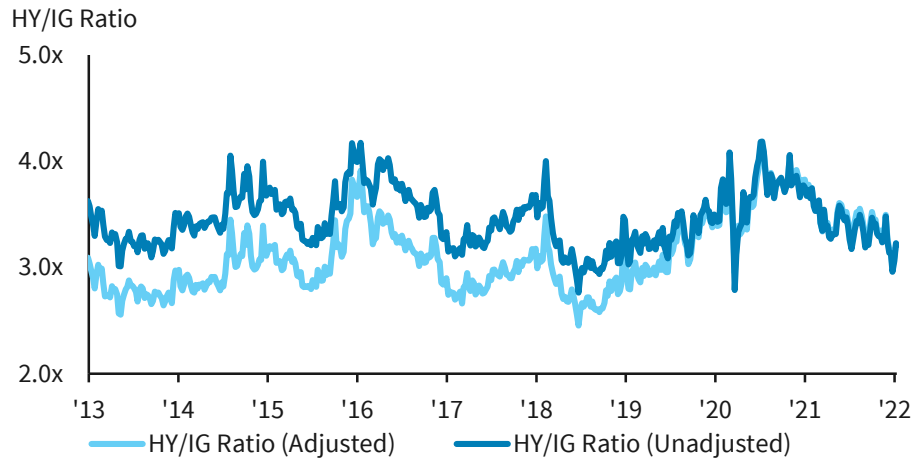
2022 Excess Ret Forecast



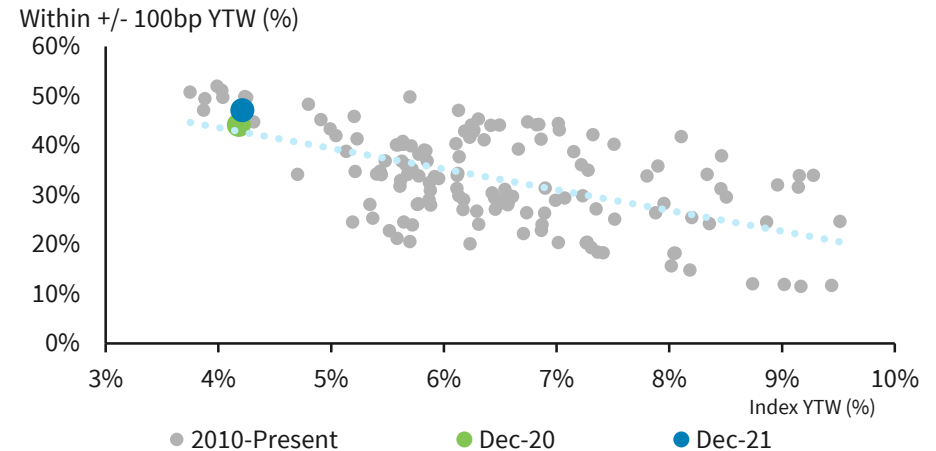
Note: Current spreads and YTD excess returns as of Nov 30, 2021. For more details, see ["Global Credit Outlook: Don't take the easy way"](#) Dec 3, 2021. Source for all charts: Bloomberg, Barclays Research

# HY market has historically low dispersion. Bs are cheap to BBs and CCC carry is important in a low-yield environment

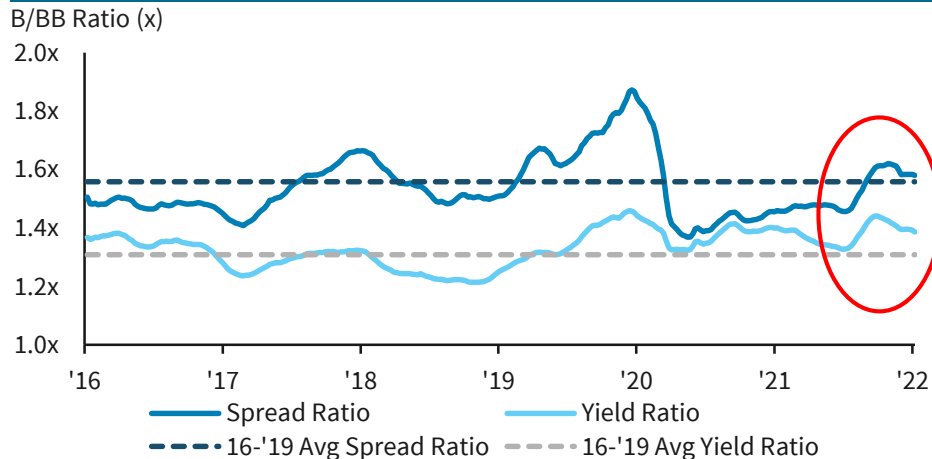
## Adjusted HY Spreads Elevated vs IG



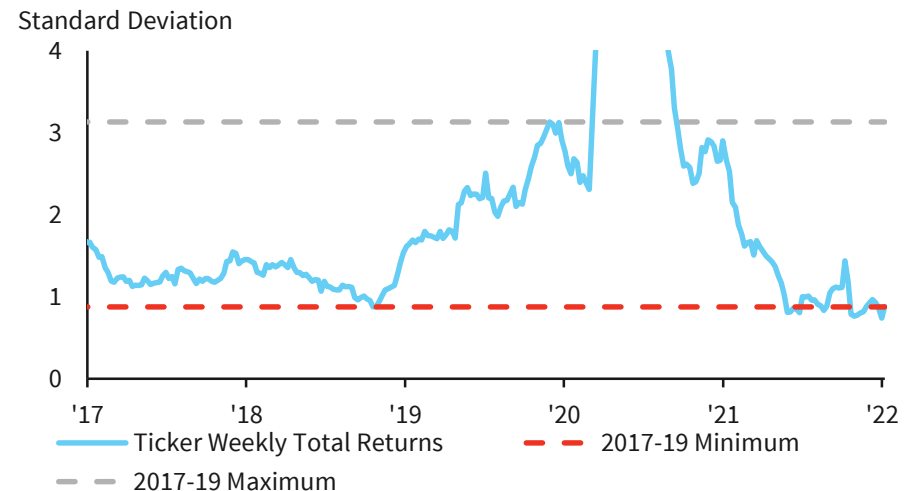
## Most Bonds Trades +/-100bp from Index



## Single-B Bonds Screen Cheap to BBs



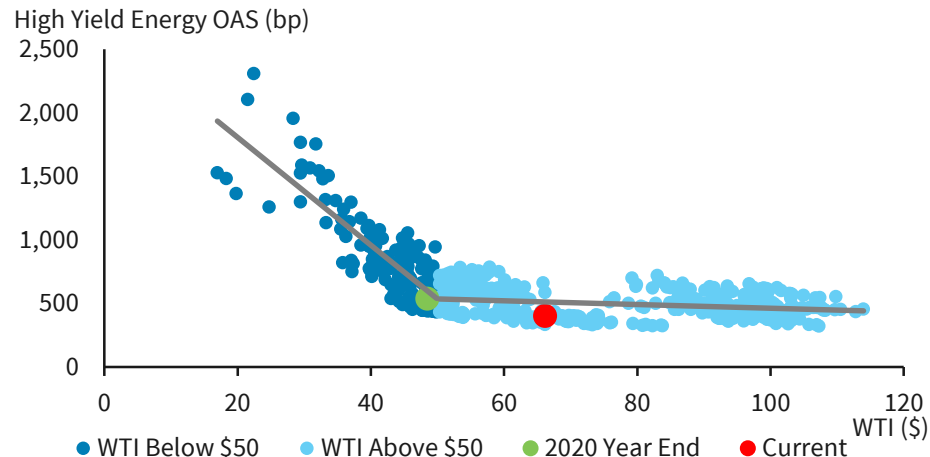
## Dispersion at Low Levels



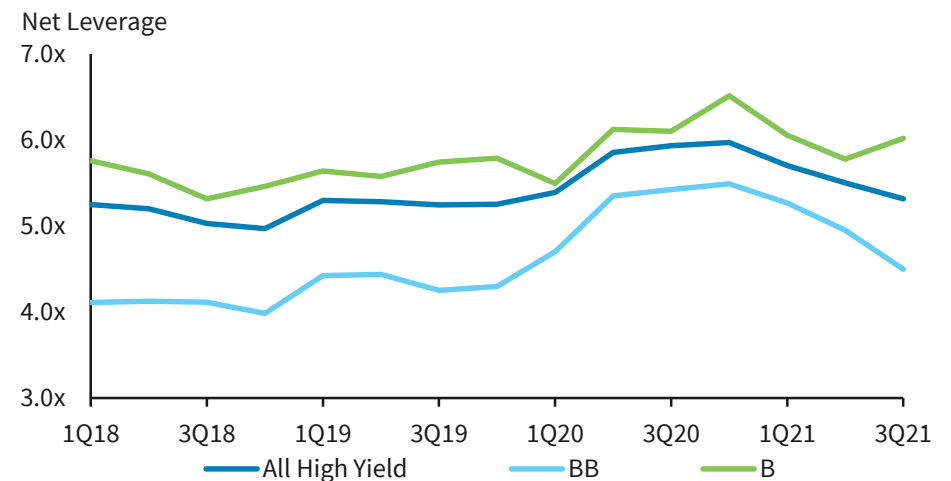
For more detail, see ["US High Yield: Still some wind in the sails"](#), December 3, 2021. Source for all charts: Bloomberg, Barclays Research

# Fundamentals have improved and cyclicals could rally further although we are less sanguine on energy

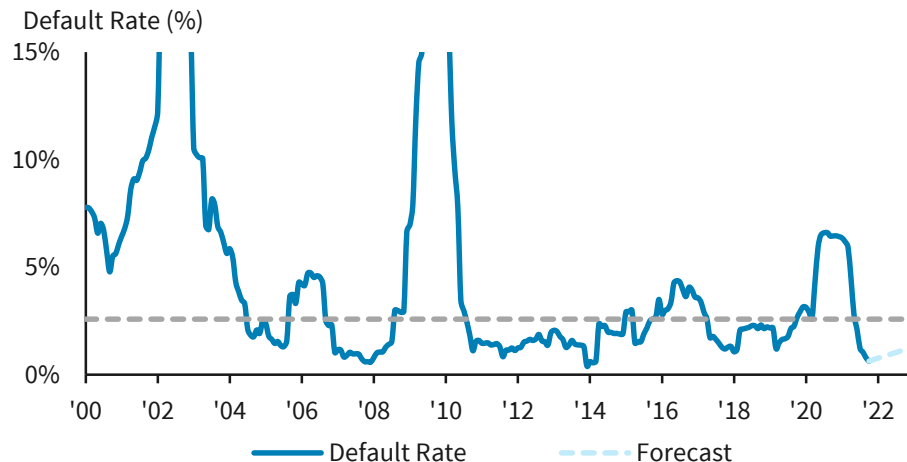
## Limited Upside in Energy



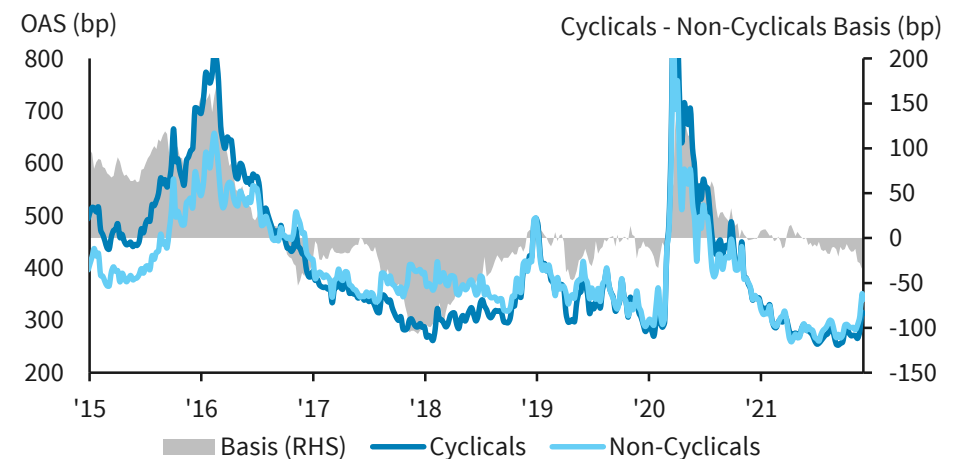
## Leverage Is Back Near Pre-pandemic Lvl



## Default Rate Should Remain Low



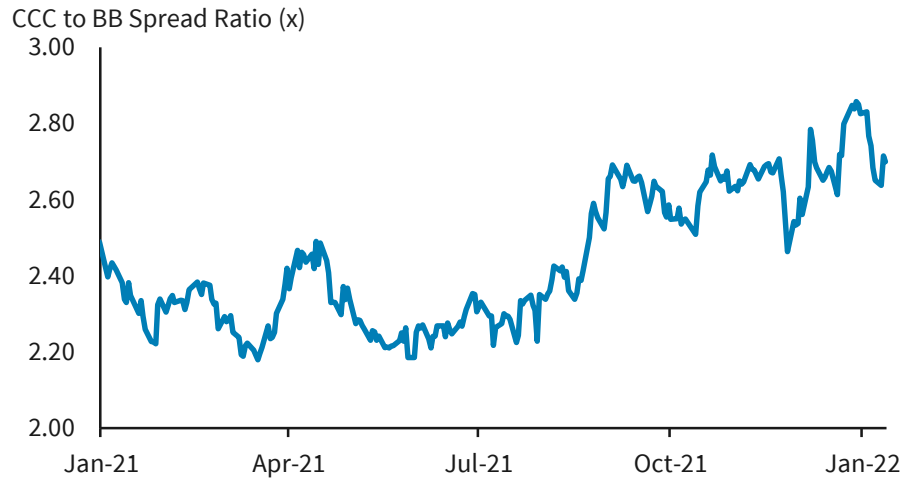
## Cyclicals Have More Room to Run



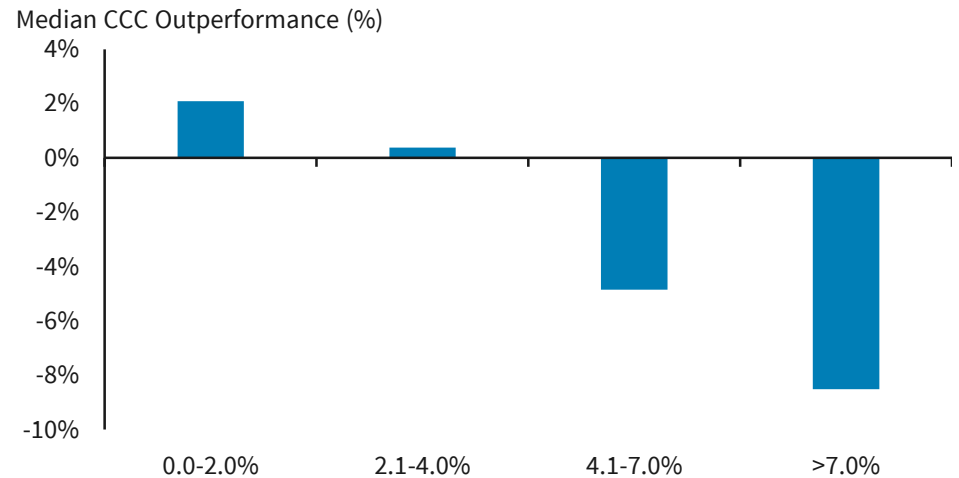
For more detail, see [US High Yield: Still some wind in the sails](#), December 3, 2021. Source for all charts: Bloomberg, Moody's, Barclays Research

# CCCs present attractive carry in an environment where there is not much of that available and should benefit from low defaults

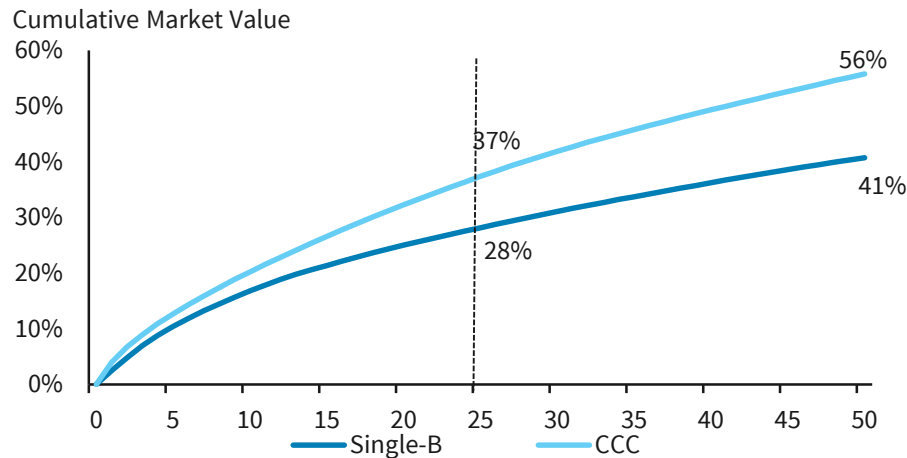
## CCCs Attractive Within Context of HY



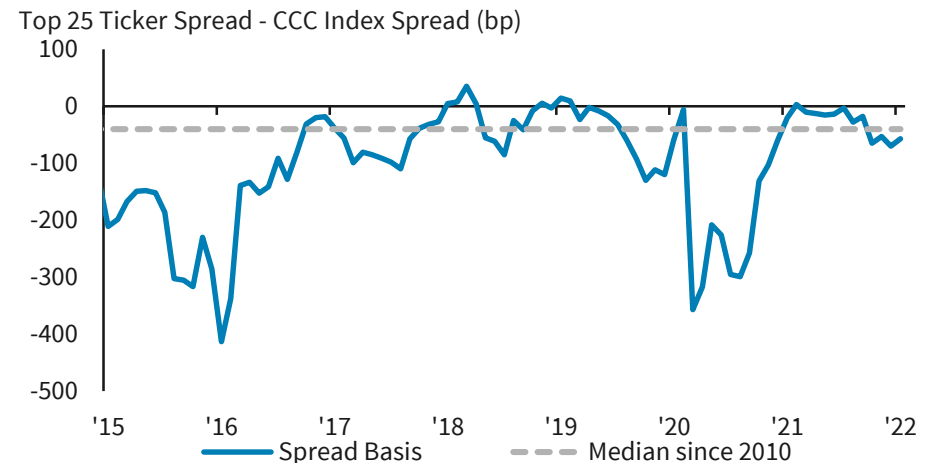
## Low Defaults Augur Well for CCCs



## CCCs are Very Concentrated



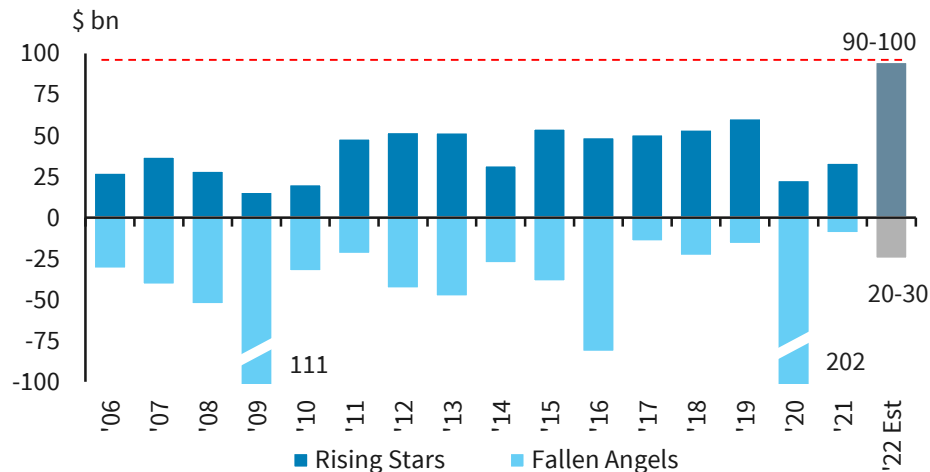
## Larger CCCs Typically Have Less Spread



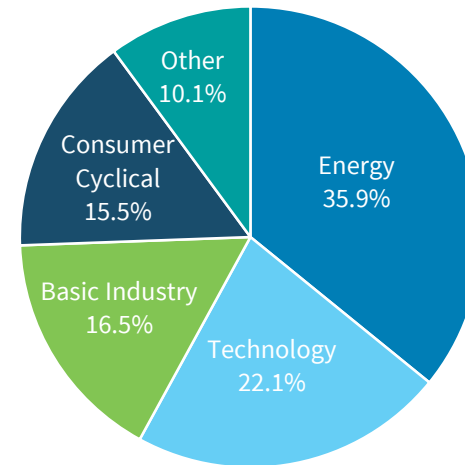
Source for all charts: Bloomberg, Barclays Research, Moody's

# Rising star momentum should pick up in 2022, but the opportunity for spread compression is more limited

## We Forecast More Rising Stars in 2022

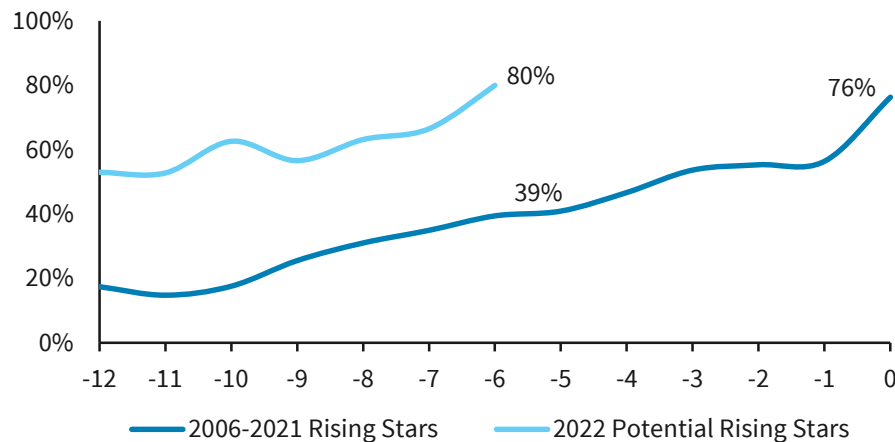


## Energy & Tech Dominated Rising Stars in '21



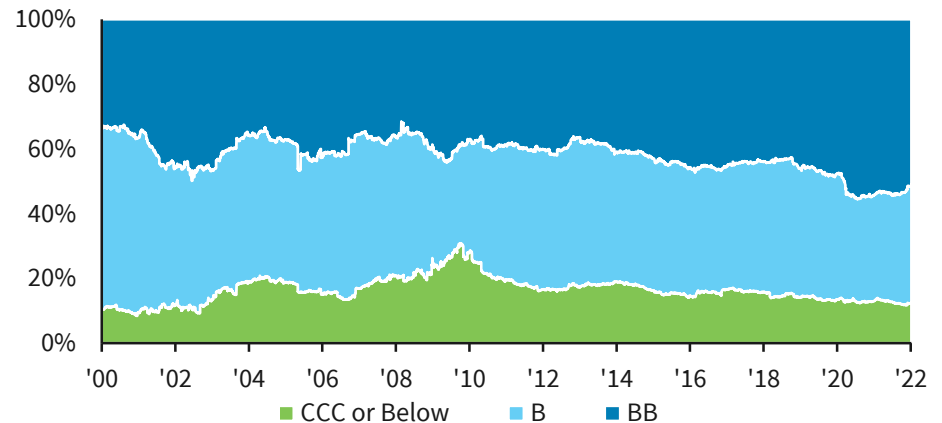
## 2022 Upgrades Have Priced In for Many

Portion of Upgrade Priced in (%)



## Share of BBs Likely to Decrease in 2022

Market Value (%)

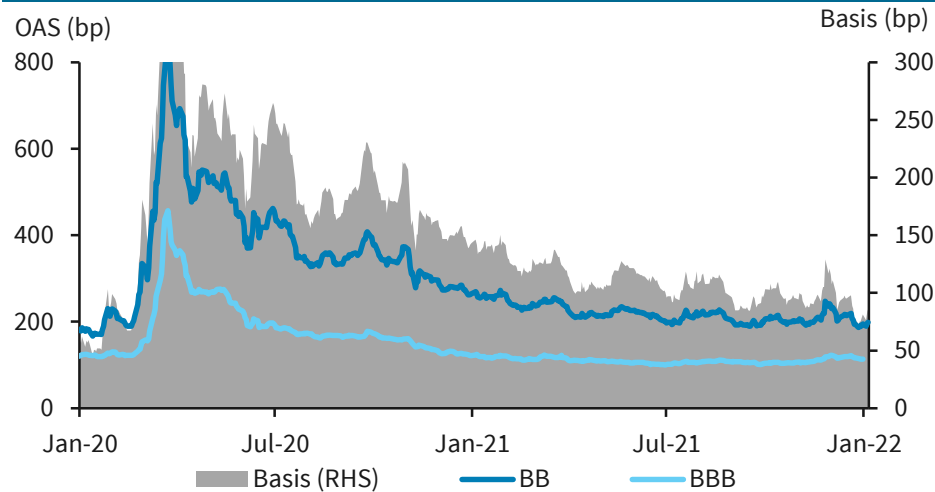


Note: For more details, see ["2022 Rising Star and Fallen Angels Outlook: Stars to Keep Shining Bright"](#), 22 October, 2021. Source for all charts: Bloomberg, Barclays Research

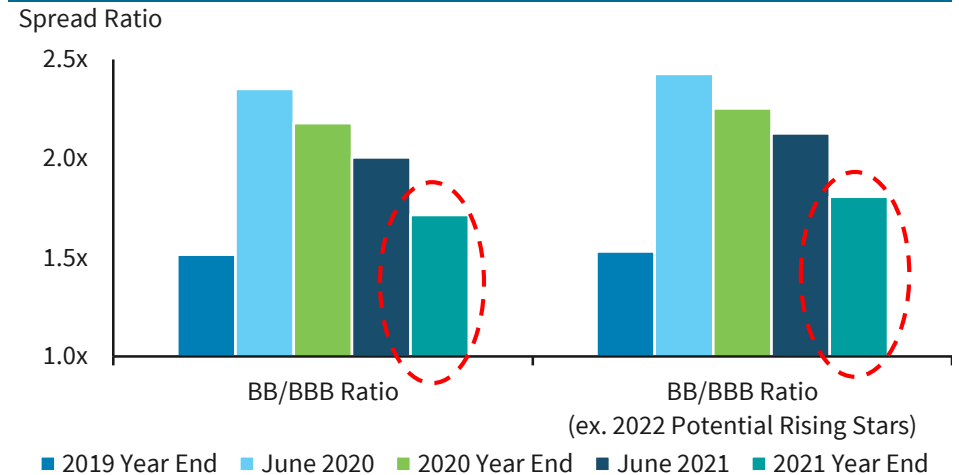


# BB cash has meaningfully outperformed vs. BBB cash and BB CDS. Despite a small recent reversal, BBs still appear too tight

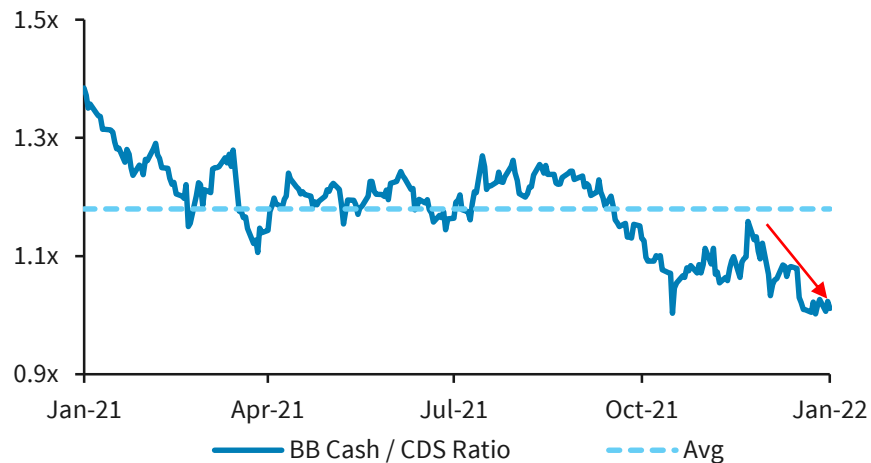
## BB/BBB Ratio Near Post-Pandemic Lows



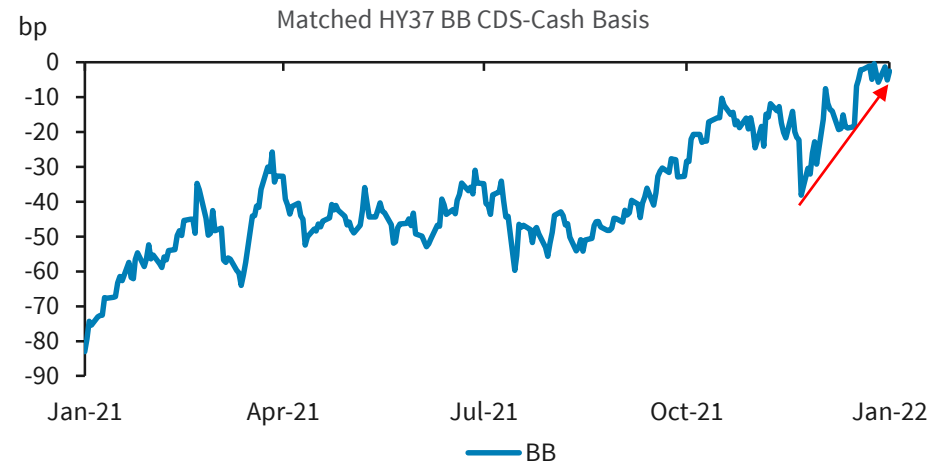
## BBs Look Rich w/o Potential Rising Stars



## BB Cash / CDS Ratio Also Compressed



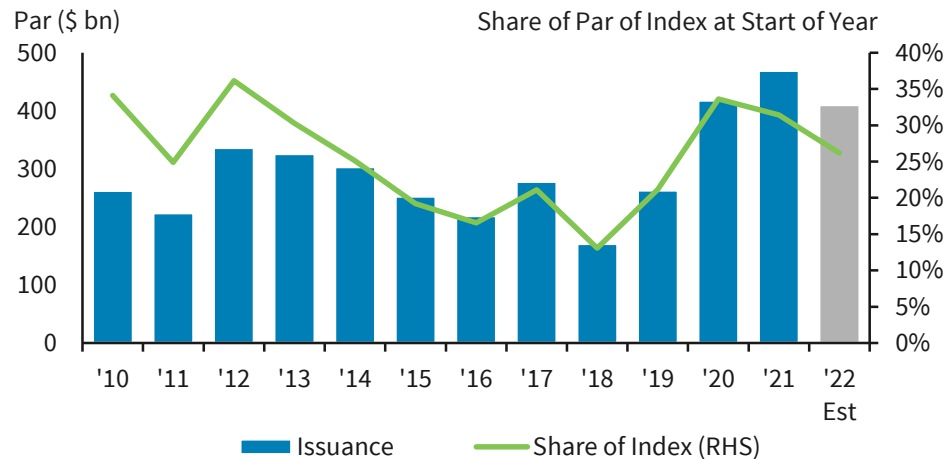
## BBs Trading On Top of Their CDS on Avg.



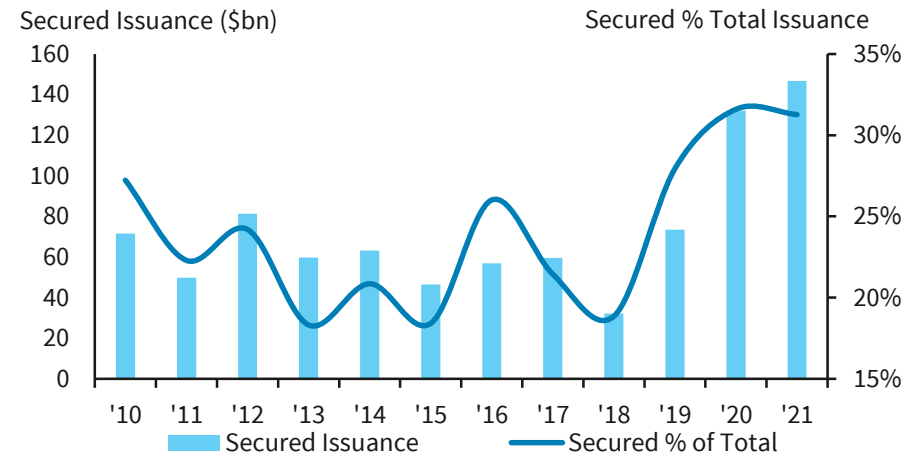
For more details, see ["BBs Overheat in December"](#), 7 January, 2022. Source for all charts: Bloomberg, Barclays Research

# Issuance is unlikely to hit the highs of 2021, but we expect demand to support any increase in LBO and M&A issuance

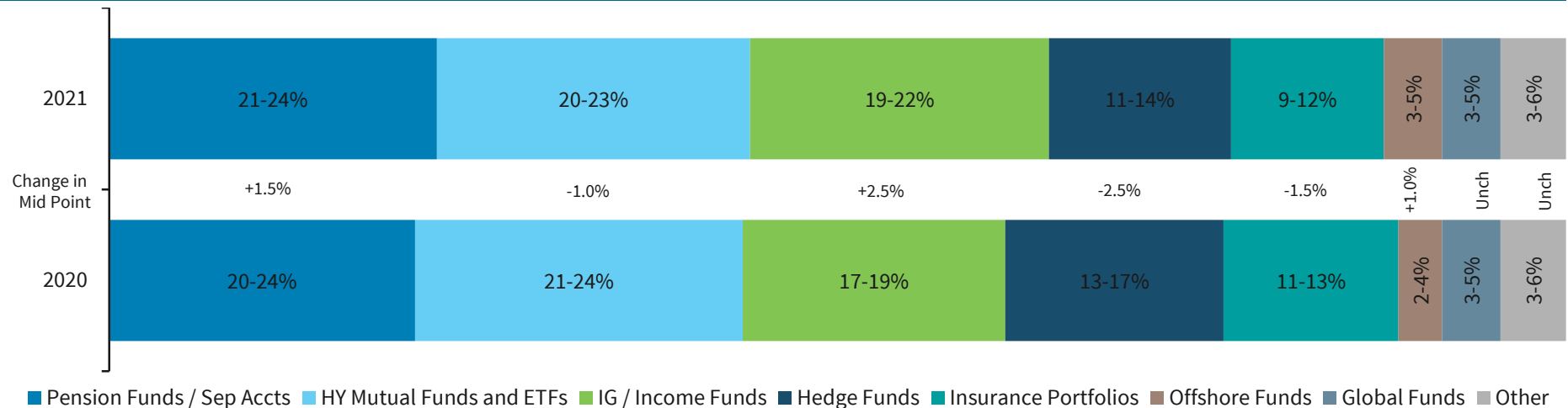
## Issuance Forecasted to Decline Off Highs



## Secured Issuance Likely to Decline as Well



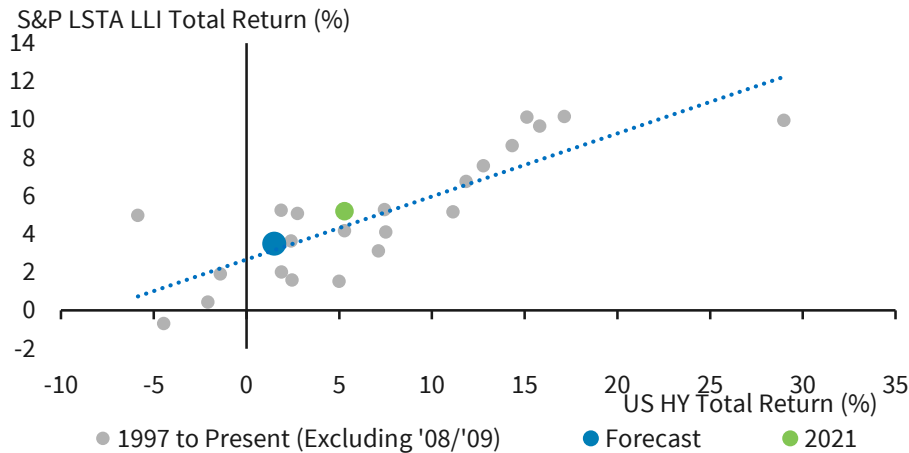
## Search for Yield Supported Higher Supply



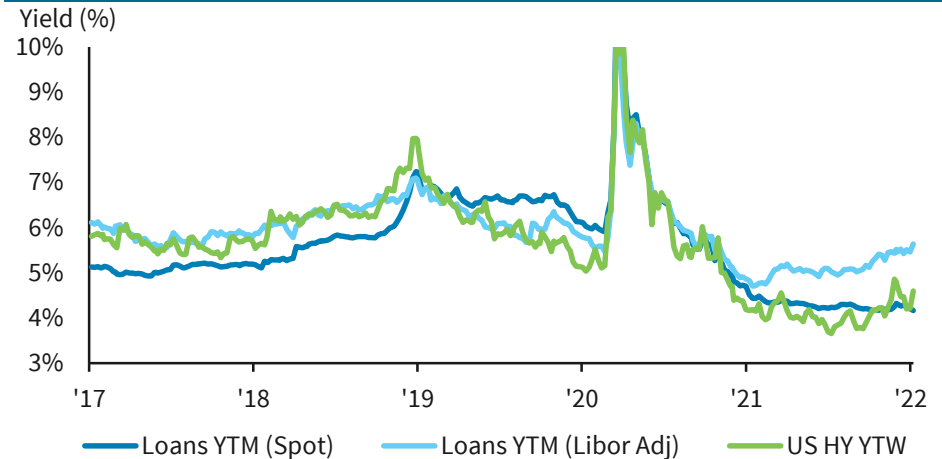
Source for all charts: Bloomberg, S&P LCD, Lipper, EPFR, Federal Reserve, Kanerai, Barclays Research

# Loans should outperform high yield on the strength of carry and rising rates; we believe the carry of Bs make them more attractive than BBs

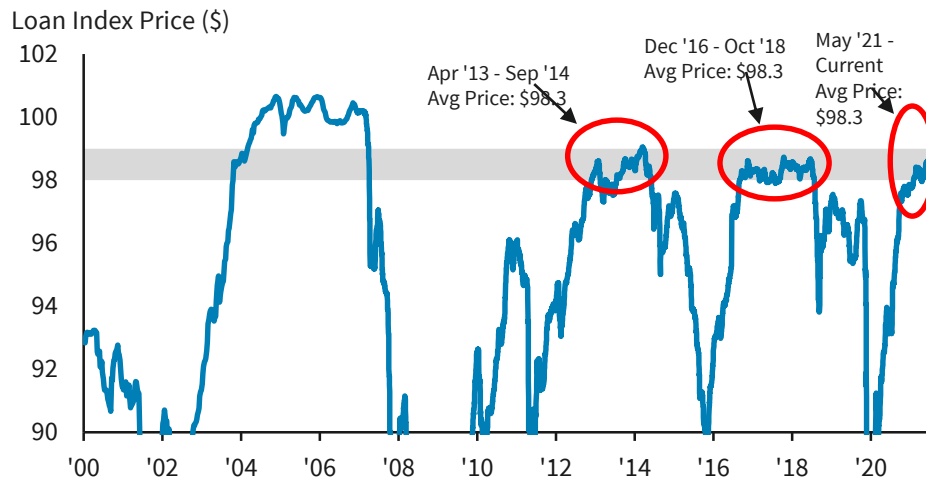
## Loan and High Yield Returns Linked



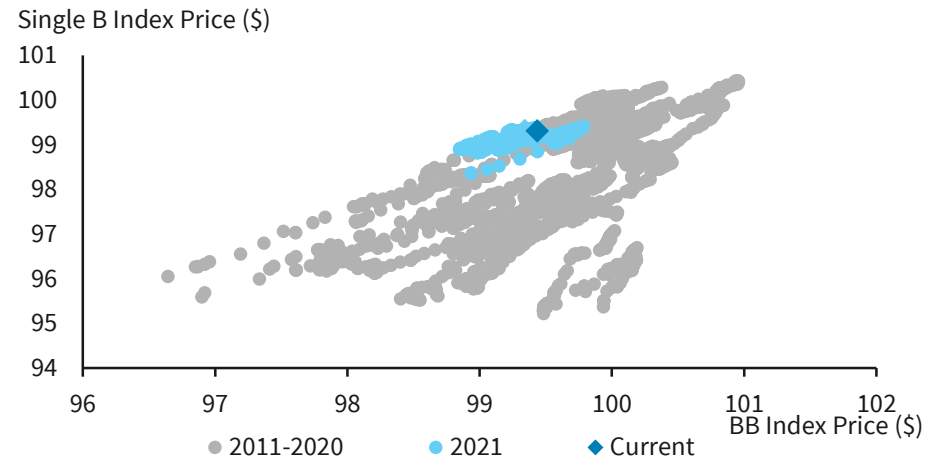
## Fwd Rate Adj. Loan Yields Look Attractive



## Loan Prices Can Stay Elevated



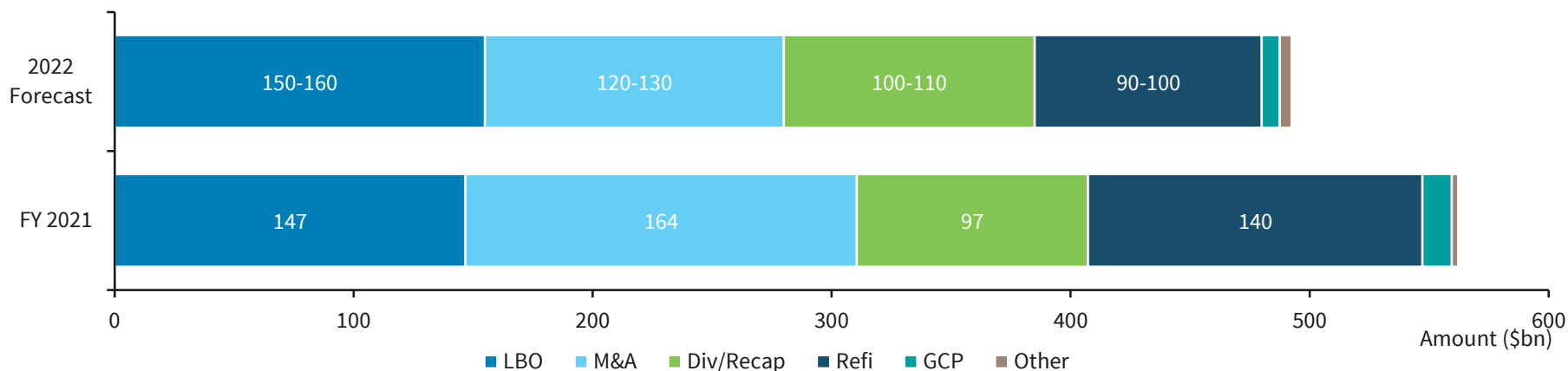
## We Prefer Single-B Loans



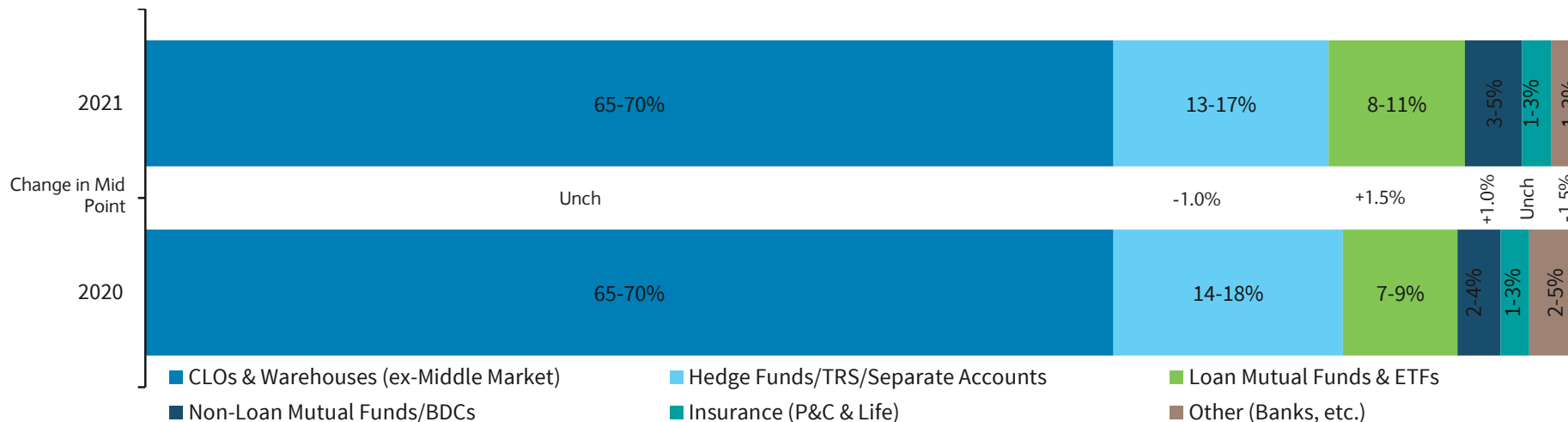
For more detail, see ["US High Yield: Still some wind in the sails"](#) and ["Leveraged Loans: Good enough should be enough"](#), December 3, 2021. Source for all charts: Bloomberg, S&P LCD, Barclays Research

# CLOs are always the major driver of loan demand and we expect continued strong CLO creation to support an increase in LBO supply

## Supply Should Decline from Record Levels



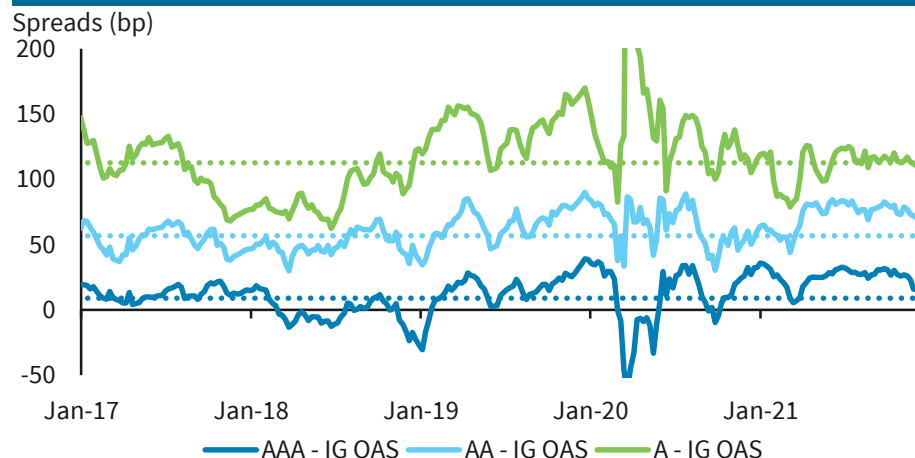
## CLOs Remain Largest Buyer Although Share Is Constant



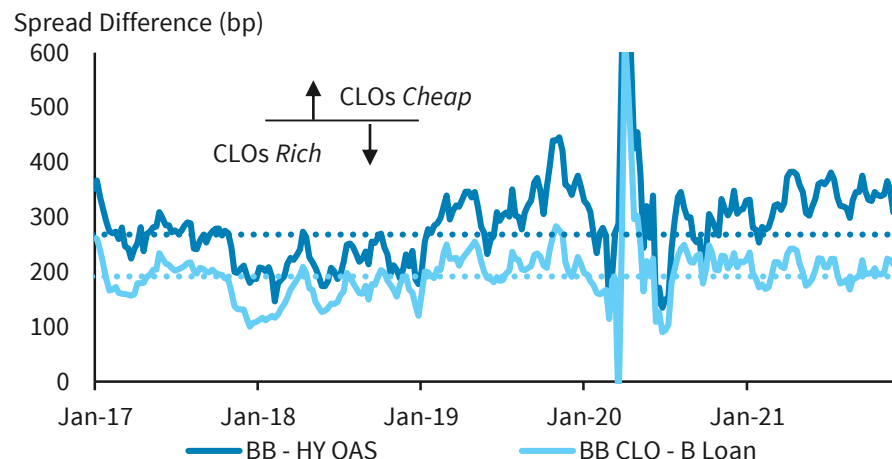
Source for all charts: Bloomberg, S&P LCD, Lipper, EPFR, Federal Reserve, Kanerai, Barclays Research

# For US CLOs, we remain constructive for 2022 and expect modest tightening for AAAs and attractive opportunities in junior mezz

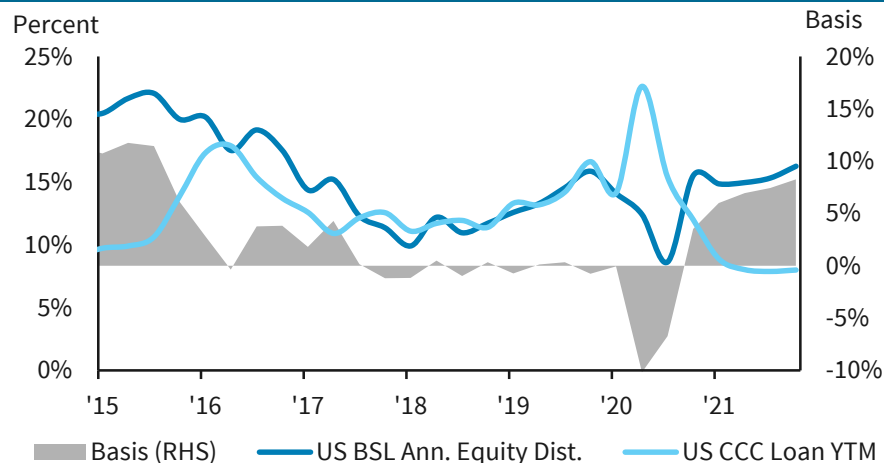
## US BSL Spreads Look Cheap at the Top



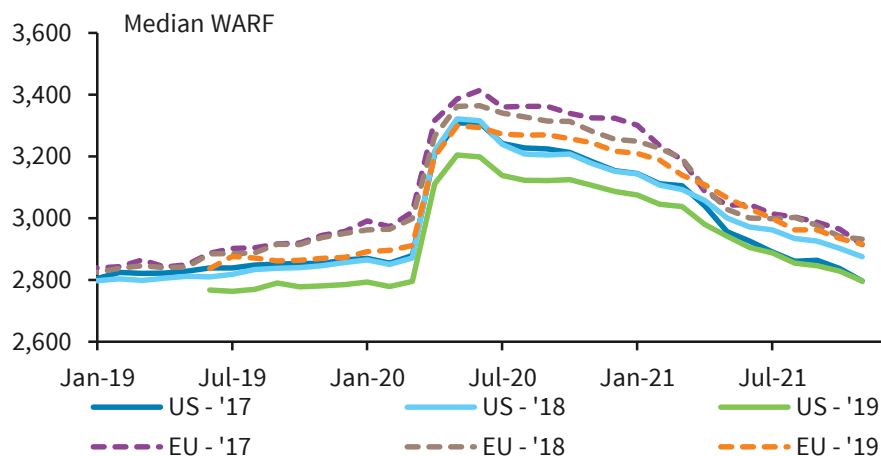
## BB Tranches Are Also Wide vs. Corporates



## CLO Equity Distributions vs. CCC Yields



## WARF Levels Continue to Improve



For more detail, see [“Global CLOs: The machine keeps on churning”](#) December 3, 2021. Source for all charts: Bloomberg, Intex, Kanerai, S&P LCD, Barclays Research

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**Market Weight (MW):** The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.

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