

US Fixed Income: The Global Source For Yield

FIXED INCOME INSIGHTS - JUNE 2022

KEY TAKEAWAYS

- > Amid the significant increase in market yields, US fixed income has maintained its relative yield advantage to global counterparts
- > Finding sectors and credits that can effectively handle rising input costs and decelerating growth is key to taking advantage of the higher yields offered in the US market
- > Hedging costs for foreign investors into the US have risen but, in many cases, the US yield pickup remains attractive

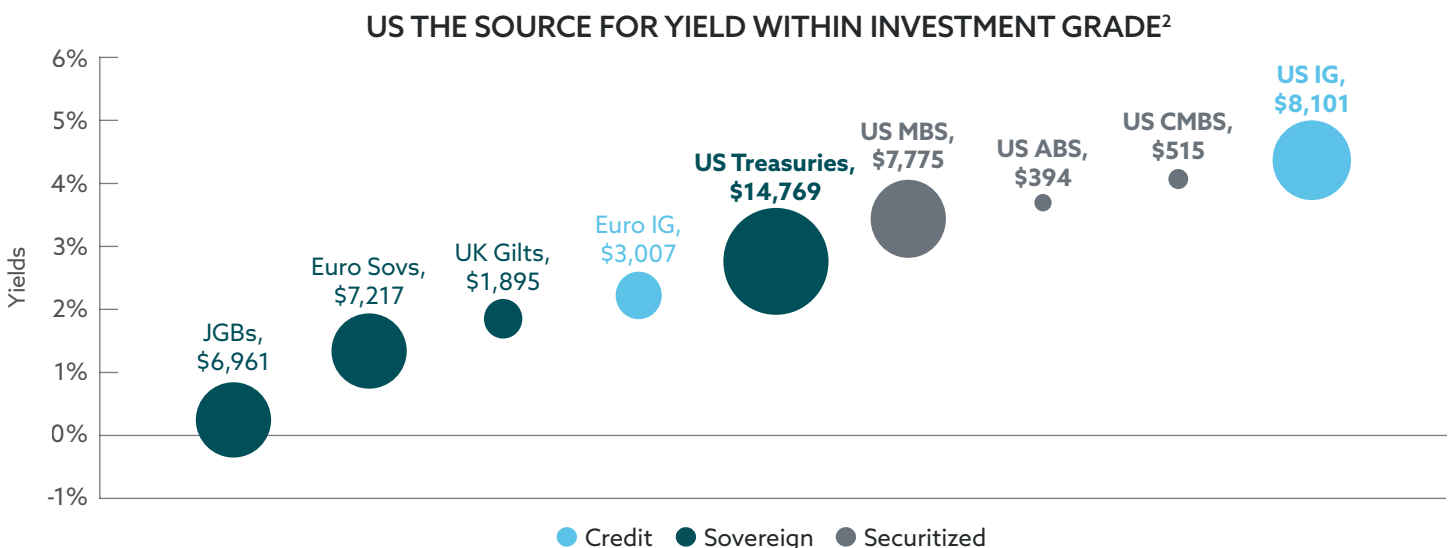
In October 2021, we [dove into the data](#) around global yields. It showed that US fixed income was the source for yield on a relative basis, despite that period's low interest rate environment. Fast forward nine months and times sure have changed. Inflation has proven persistent, driven by [supply chain constraints](#), [post-pandemic demand](#) and [rising wages](#). This environment has led many global central banks to begin interest rate hiking cycles, with participants quickly raising market yields in anticipation. These factors have led to a very volatile period for global markets.

However, while the absolute level of yields has shifted significantly higher, the relative comparison has not shifted all that much. US fixed income remains the global source for yield.

IT'S ALL RELATIVE

The yield that can be earned in global investment grade strategies predominately comes from the US. Investment grade corporate bonds lead the way, but both US Treasuries and US securitized debt (ABS, CMBS, MBS) also offer yield pickup to their global counterparts. Interestingly, the yield of the 10-year US Treasury is currently higher than the yield of the ICE BofA Euro Corporate Index (see next page). In fact, it is telling that US bonds accounted for 73% of the yield in the ICE BofA Global Corporate Bond Index at the end of April 2022.¹

In each asset class, the US is the largest market in the world. That can be especially important during turbulent market times when liquidity is at a premium.



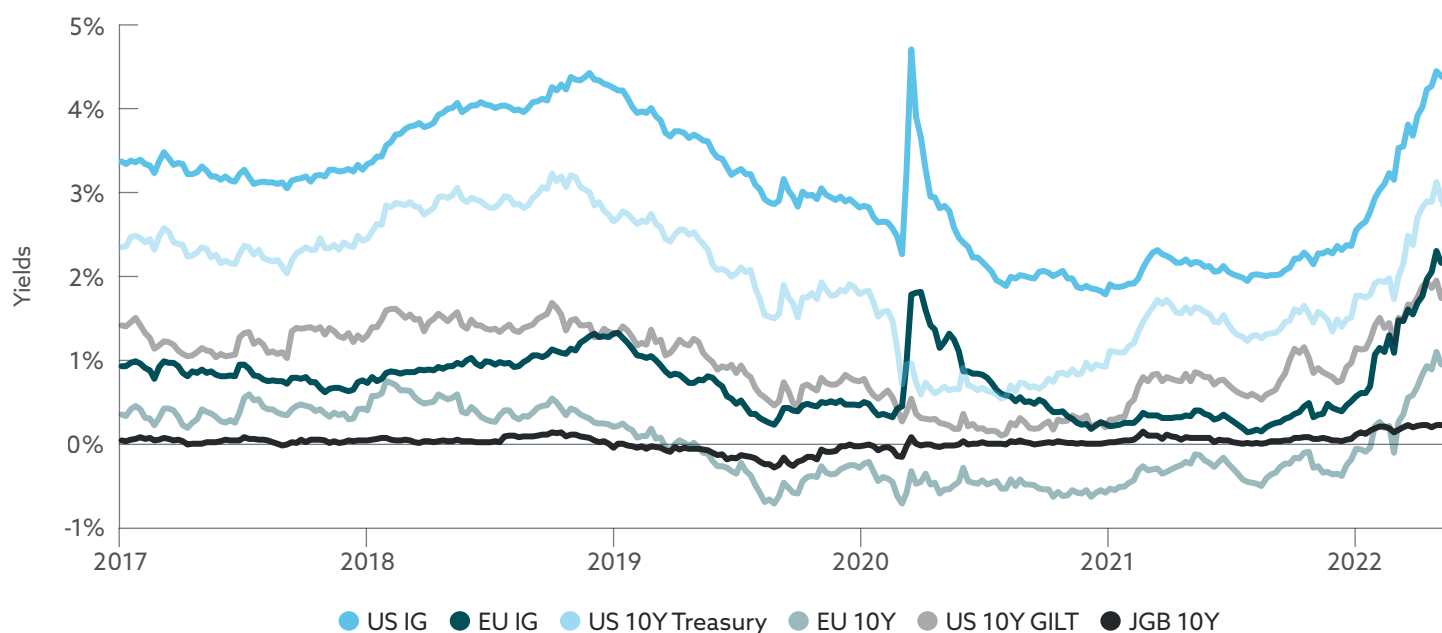
(1) FactSet. As of 30 April 2022. Based on the ICE BofA Global Corporate Bond Index and the ICE BofA US Corporate Bond Index, the respective yield to maturities, market values and weights. (2) ICE Data Services. Yields as of 20 May 2022. Bubble size represents the size of each asset class in USD, as of 30 April 2022. Indices are the ICE BofA Japan Government, ICE BofA Euro Government, ICE BofA UK Gilt, ICE BofA Euro Corporate, ICE BofA US Treasury, ICE BofA US Mortgage Backed Securities, ICE BofA US Fixed Rate Asset Backed Securities, ICE BofA US Fixed Rate CMBS and ICE BofA US Corporate.

Transitioning to global high yield, the story is similar. US high yield corporate bonds currently offer a significant yield pickup to European high yield, as well as emerging market corporates and sovereigns.

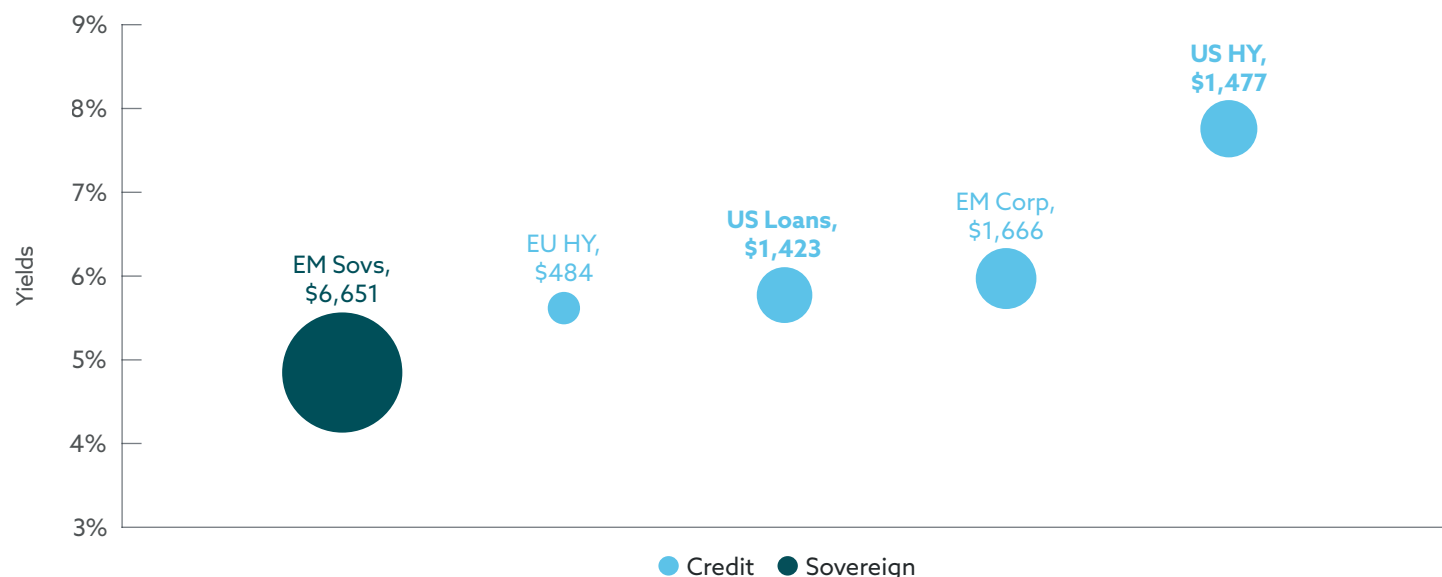
Yields at the time of investment are long-term drivers of total return in bonds. Coupon income is also a particularly important driver of total returns in the high yield bond market. Global fixed income markets have had a weak

start to 2022 due to fears of aggressive central bank tightening, rising interest rates and elevated fundamental risks (war in Ukraine, negative impacts from inflation), raising market yields in the process. It can be difficult for an investor to look forward after such a weak period, but the prospects for income generation from US fixed income have improved with the drawdown and the relative yield advantage to global peers.

US INVESTMENT GRADE HAS MAINTAINED ITS YIELD ADVANTAGE³



US HIGH YIELD CORPORATE BONDS OFFER SIGNIFICANT YIELD PICKUP⁴



(3) FactSet. Weekly data through 20 May 2022. (4) ICE Data Services. Yields as of 20 May 2022. Bubble size represents the size of each asset class in USD, as of 30 April 2022. Indices are the ICE BofA Emerging Markets Sovereign Bond, ICE BofA Euro High Yield, S&P/LSTA Leveraged Loan, ICE BofA Emerging Markets Corporate Plus and ICE BofA US High Yield.

We would also point out that US corporate credit profiles entered 2022 in a position of fundamental strength in terms of leverage, liquidity and maturity schedules. However, fundamental risks have risen during the year. Inflation and input costs are likely to pressure profits in certain areas of the market, but we do see pockets of post-pandemic recovery demand supporting profit growth. There will also be industries and individual companies where fundamentals will weaken as a result of decelerating growth, but other segments and credits that will remain sound. Investors that focus on sector rotation and security selection could excel in such an environment, which plays well into PPM's institutional strengths in credit research and opportunistic positioning.

CONSIDERING HEDGING COSTS

There can be two parts of the equation for foreign investors. The first is relative yields. The second involves hedging costs (for select investors). Hedging costs for foreign investors into the US have risen.

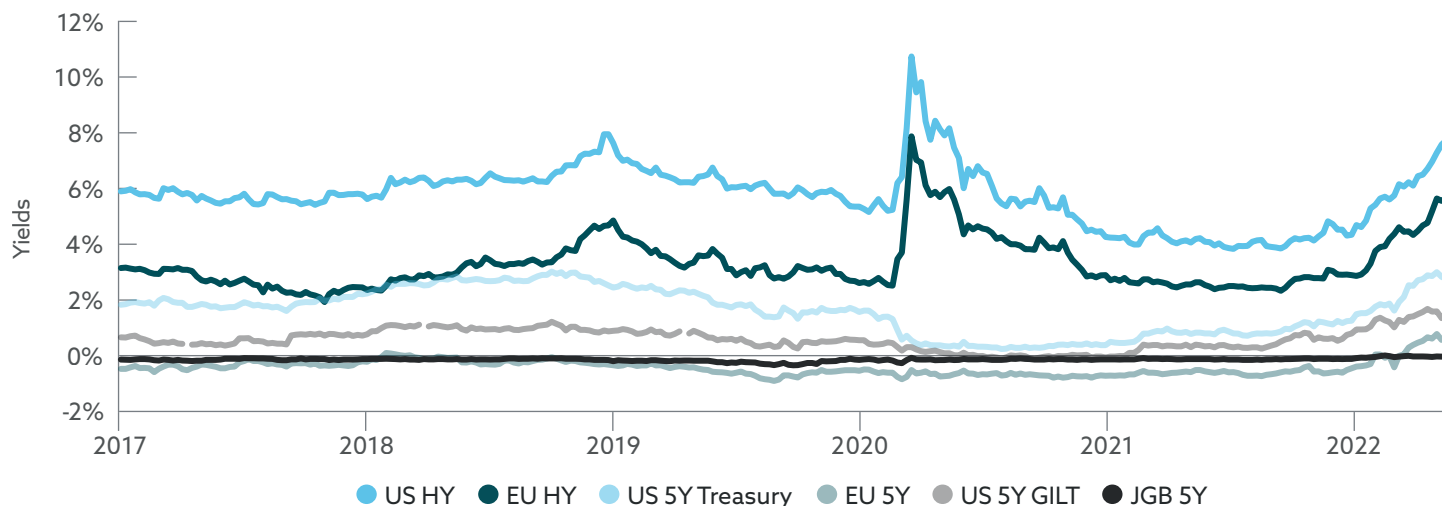
The calculation differs by investor, depending on whether they hedge, which currency they are hedging, how much of their exposure they are hedging, etc. Hedging costs can also be variable through time, due to factors such as future central bank interest rate moves. Currently, hedging costs are below the highs seen in 2018.

In many cases, the US yield pickup remains attractive. As an example, Credit Suisse recently noted that US investment grade yields continue to look attractive from an Asian investor perspective, despite rising currency hedge costs.⁵

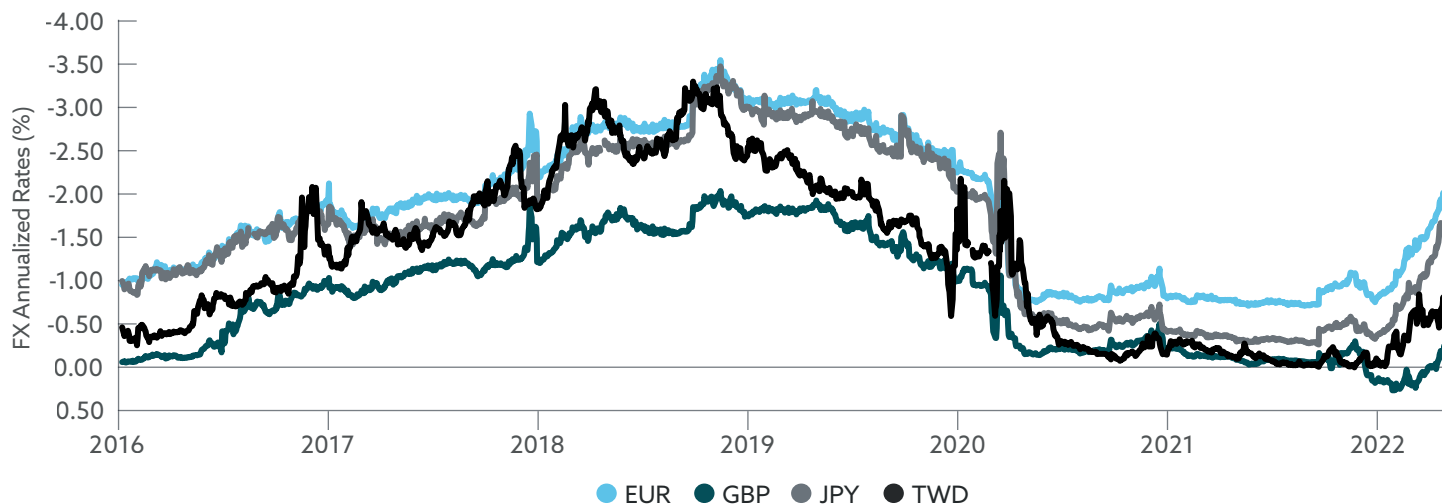
CONCLUSION

There's a saying, "the more things change, the more they stay the same." The interest rate environment has changed dramatically since Q4 2021, increasing market yields in the process. But the relative yield comparison has not changed all that much for international investors. US fixed income yields have maintained their place at the top of the developed world.

US HIGH YIELD HAS ALSO MAINTAINED ITS YIELD ADVANTAGE⁶



HEDGING COSTS ARE OFF LOWS, BUT WITHIN HISTORICAL RANGES⁷



(5) Credit Suisse. 3 May 2022. (6) FactSet. Weekly data through 20 May 2022. (7) Bloomberg. Daily data through 9 May 2022. Hedging costs are derived from 3-month FX forwards.

ABOUT PPM AMERICA

PPM America, Inc. (PPM) is a client-focused investment manager. PPM has the expertise, global reach and substantial resources to provide our clients with investment solutions across markets, including fixed income, private equity and commercial real estate. However, like a smaller shop, PPM remains nimble, investment-led and responsive to the opportunities that

our teams discover together. Our mission is to deliver specific client solutions and service to investors around the world with the goal of meeting investors' unique investment objectives. In addition, PPM employees are committed to building our community and supporting local nonprofits that strengthen families and increase economic opportunities.

Indices are unmanaged and are not available for direct investment. The index returns do not reflect management fees, transaction costs, or other expenses. Performance of any index does not represent actual portfolio performance. A portfolio may differ significantly from the securities included in an index. The index information provided is for comparison purposes only to reflect general market conditions for the period shown.

The **ICE BofA Emerging Markets Corporate Plus Index** can include corporate and quasi-sovereign issuers from all countries other than FX G10, Western Europe and US or Western European territories, with no country cap. Issues are at least one year to maturity, have fixed coupons, are denominated in US dollars or euros, and have a minimum size of 250M.

The **ICE BofA Emerging Markets Sovereign Bond Index** is a subset of ICE BofA World Sovereign Bond Index excluding all securities with a country of risk that is a member of the FX G10, all Western European countries, and territories of the US and Western European countries. The ICE BofA World Sovereign Bond Index is designed to track the performance of sovereign debt publicly issued and denominated in the issuer's own domestic currency.

The **ICE BofA Euro Corporate Index** tracks the performance of EUR-denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets.

The **ICE BofA Euro High Yield Index** tracks the performance of EUR-denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets.

The **ICE BofA Euro Government Index** tracks the performance of EUR-denominated sovereign debt publicly issued by Euro member countries in either the eurobond market or the issuer's own domestic market.

The **ICE BofA Japan Government Index** tracks the performance of JPY-denominated sovereign debt publicly issued by the Japanese government in its domestic market.

The **ICE BofA Global Corporate Bond Index** provides a broad measure of the performance of the global investment grade corporate bond market. It includes publicly-issued corporate debt issued in the major domestic and Eurobond markets.

The **ICE BofA UK Gilt Index** tracks the performance of GBP-denominated sovereign debt publicly issued by the UK government in its domestic market.

The **ICE BofA US Corporate Bond Index** provides a broad measure of the USD-denominated investment grade corporate debt securities publicly issued in the US domestic market.

The **ICE BofA US Fixed Rate Asset Backed Securities Index** provides a measure of the performance of USD-denominated investment grade fixed rate asset backed securities publicly issued in the US domestic market.

The **ICE BofA US Fixed Rate CMBS Index** provides a broad measure of the performance of USD-denominated investment grade fixed rate commercial mortgage backed securities publicly issued in the US domestic market.

The **ICE BofA US High Yield Index** provides a broad measure of below investment grade, USD-denominated fixed rate corporate debt. It includes corporate bonds with risk exposures to countries that are members of the FX-G10, Western Europe or territories of the US and Western Europe.

The **ICE BofA US Mortgage Backed Securities Index** provides a broad measure of USD-denominated fixed rate residential mortgage pass-through securities publicly issued by US agencies in the US domestic market.

The **ICE BofA US Treasury Index** tracks the performance of USD-denominated sovereign debt publicly issued by the US government in its domestic market. Bills, inflation-linked debt and strips are excluded from the Index.

The **S&P/LSTA Leveraged Loan Index** provides a broad, market value-weighted measure of US institutional leveraged loans. It includes the institutional tranches of loans syndicated to US loan investors.

The information presented herein has been prepared solely for informational purposes and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Unless otherwise stated, information or views herein contained are as of the date of this presentation. The views expressed herein, as well as forecast or portfolio strategies, may be changed in the future, reflecting change of various factors, including economic fundamentals.

This presentation is not an offer, or a solicitation of an offer, to buy or sell any instrument. Nothing contained herein shall be relied upon as a promise or representation whether as to past or future performance. All investments contain risk and may lose value. Currency rates may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. There is no guarantee that referenced investment strategies, including hedging, will work under all market conditions.