



Views From the Floor

Global High Yield: No Time for Beta but Many Opportunities for Active Management



Please note that the opinions discussed below are those of the individual authors and do not reflect a Man Group house view.

24 January – 30 January, 2024

Time to read: 3 minutes

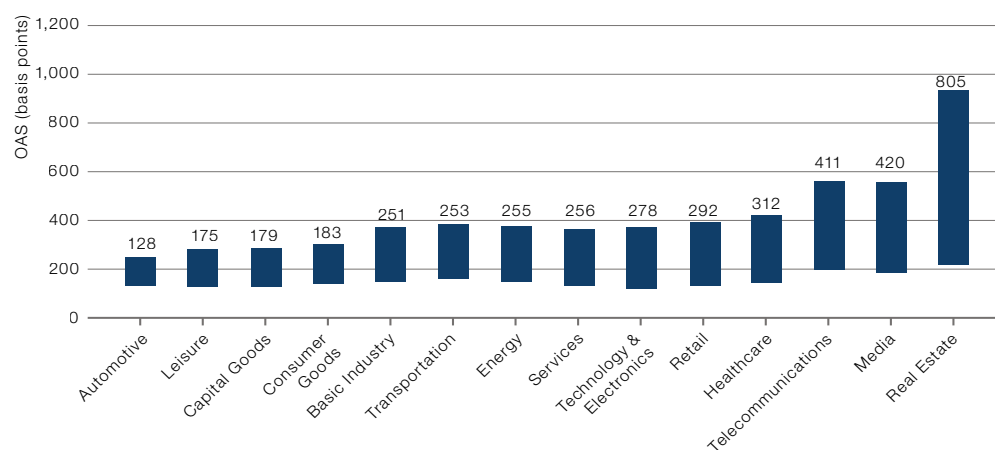
Currently almost 60% of the Global High Yield bond market trades at a credit spread of under 300 basis points, as measured by the ICE BofA Option-Adjusted Spreads (OAS)¹. Any passive strategy that tracks an index, or those offered by managers that tightly hug a benchmark index, is therefore probably full of expensive paper which offers inadequate compensation for the underlying credit risk.

That said, whilst a large chunk of the market may be keenly priced, the high level of dispersion present in certain sectors suggests that there are still ample opportunities to capture mispricing.

We have calculated this by using all corporate sectors of the ICE BofA Global High Yield index (HW00)². This is the most representative benchmark of the HY sector. Each chart plots the OAS (option adjusted spread) to examine the valuations across different sectors.

The following chart depicts the level of dispersion across sectors in the high yield universe, as measured by the interquartile range of the credit spreads of bonds within the sector.

Figure 1. High Yield non-financial sectors ordered in terms of dispersion (interquartile range of OAS)



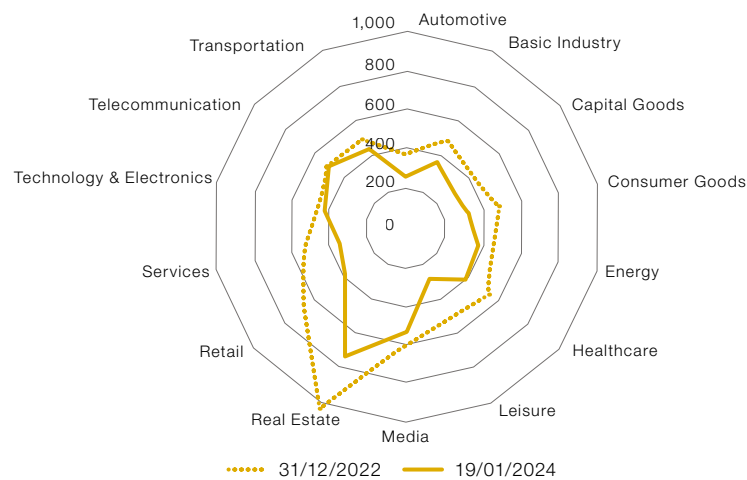
Source: Man GLG, ICE Indices OAS as of 19 January 2024.

1. The ICE BofA Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalisation. **2. ICE BofA Global High Yield Index (HW00)** ICE BofA Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets. <https://indices.ice.com/>

Interestingly, cyclical sectors, which one may expect to exhibit more dispersion in an era of high interest rates and slowing growth, actually display relatively little in terms of pricing differentiation. Whereas, telecommunications, typically viewed as a more resilient non-cyclical sector, has an interquartile range of over three times more than automobiles. The standout is of course real estate, with a dispersion level that offers twice the overall option-adjusted spread (OAS) than the market as a whole. To us, this implies that there is a lot of mispricing going on within these areas which can present active managers — who can properly assess fundamentals and are not passively tracking an index — with opportunities to exploit.

Taking this a step further and looking at pure valuations, the following chart displays overall valuations (in terms of OAS) of industrial sectors at present versus just over 12 months ago. Whilst spreads have contracted across most areas, we can still observe that most sectors typically viewed as cyclical — such as leisure, retail and consumer goods — all have average spreads of 400 basis points or lower.

Figure 2. Non-financial sector spreads in 2024



Source: ICE Indices (HW00) OAS spread levels as at 31/12/2022 and 19/01/2024.

Real Estate continues to be the one sector where valuations are more reflective of the pain of higher rates, perhaps due to the more direct linkage between commercial mortgages and underlying interest rates compared to other sectors. The underlying strength of the consumer, in terms of savings and overall disposable income, may also have contributed to less dispersion being observed in other sectors.

At this stage of the credit cycle, we believe that corporate sector sensitivities to cyclicity are not fully reflected in valuations, aside from real estate. Hence why we focus on idiosyncratic opportunities as opposed to broad beta plays.

With contributions from Jon Lahraoui, Director, Credit Man GLG.

ICE BofA Option-Adjusted Spreads and ICE BofA High Yield Index (HW00) a product of ICE Data Indices, LLC and are used with permission. ICE® is a registered trademark of ICE Data Indices, LLC or its affiliates and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA"), and may not be used without BofA's prior written approval. The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third party suppliers and along with the ICE BofA trademarks has been licensed for use by Man Group. ICE Data and its Third Party Suppliers accept no liability in connection with the use of such index data or marks. See <https://www.ice.com> for a full copy of the Disclaimer.

Important Information

This information is communicated and/or distributed by the relevant Man entity identified below (collectively the 'Company') subject to the following conditions and restriction in their respective jurisdictions.

Opinions expressed are those of the author and may not be shared by all personnel of Man Group plc ('Man'). These opinions are subject to change without notice, are for information purposes only and do not constitute an offer or invitation to make an investment in any financial instrument or in any product to which the Company and/or its affiliates provides investment advisory or any other financial services. Any organisations, financial instrument or products described in this material are mentioned for reference purposes only which should not be considered a recommendation for their purchase or sale. Neither the Company nor the authors shall be liable to any person for any action taken on the basis of the information provided. Some statements contained in this material concerning goals, strategies, outlook or other non-historical matters may be forward-looking statements and are based on current indicators and expectations. These forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. The Company and/or its affiliates may or may not have a position in any financial instrument mentioned and may or may not be actively trading in any such securities. Past performance is not indicative of future results.

Unless stated otherwise this information is communicated by the relevant entity listed below.

Australia: To the extent this material is distributed in Australia it is communicated by Man Investments Australia Limited ABN 47 002 747 480 AFSL 240581, which is regulated by the Australian Securities & Investments Commission (ASIC). This information has been prepared without taking into account anyone's objectives, financial situation or needs.

Austria/Germany/Liechtenstein: To the extent this material is distributed in Austria, Germany and/or Liechtenstein it is communicated by Man (Europe) AG, which is authorised and regulated by the Liechtenstein Financial Market Authority (FMA). Man (Europe) AG is registered in the Principality of Liechtenstein no. FL-0002.420.371-2. Man (Europe) AG is an associated participant in the investor compensation scheme, which is operated by the Deposit Guarantee and Investor Compensation Foundation PCC (FL-0002.039.614-1) and corresponds with EU law. Further information is available on the Foundation's website under www.eas-liechtenstein.li. This material is of a promotional nature.

European Economic Area: Unless indicated otherwise this material is communicated in the European Economic Area by Man Asset Management (Ireland) Limited ('MAMIL') which is registered in Ireland under company number 250493 and has its registered office at 70 Sir John Rogerson's Quay, Grand Canal Dock, Dublin 2, Ireland. MAMIL is authorised and regulated by the Central Bank of Ireland under number C22513.

Hong Kong SAR: To the extent this material is distributed in Hong Kong SAR, this material is communicated by Man Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission in Hong Kong. This material can only be communicated to intermediaries, and professional clients who are within one of the professional investors exemptions contained in the Securities and Futures Ordinance and must not be relied upon by any other person(s).

Japan: To the extent this material is distributed in Japan it is communicated by Man Group Japan Limited, Financial Instruments Business Operator, Director of Kanto Local Finance Bureau (Financial instruments firms) No. 624 for the purpose of providing information on investment strategies, investment services, etc. provided by Man Group, and is not a disclosure document based on laws and regulations. This material can only be communicated only to professional investors (i.e. specific investors or institutional investors as defined under Financial Instruments Exchange Law) who may have sufficient knowledge and experience of related risks.

Switzerland: To the extent the material is made available in Switzerland the communicating entity is:

- For Clients (as such term is defined in the Swiss Financial Services Act): Man Investments (CH) AG, Huobstrasse 3, 8808 Pfäffikon SZ, Switzerland. Man Investment (CH) AG is regulated by the Swiss Financial Market Supervisory Authority ('FINMA'); and
- For Financial Service Providers (as defined in Art. 3 d. of FINSA, which are not Clients): Man Investments AG, Huobstrasse 3, 8808 Pfäffikon SZ, Switzerland, which is regulated by FINMA.

United Kingdom: Unless indicated otherwise this material is communicated in the United Kingdom by Man Solutions Limited ('MSL') which is a private limited company registered in England and Wales under number 3385362. MSL is authorised and regulated by the UK Financial Conduct Authority (the 'FCA') under number 185637 and has its registered office at Riverbank House, 2 Swan Lane, London, EC4R 3AD, United Kingdom.

United States: To the extent this material is distributed in the United States, it is communicated and distributed by Man Investments, Inc. ('Man Investments'). Man Investments is registered as a broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ('FINRA'). Man Investments is also a member of the Securities Investor Protection Corporation ('SIPC'). Man Investments is a wholly owned subsidiary of Man Group plc. The registration and memberships described above in no way imply a certain level of skill or expertise or that the SEC, FINRA or the SIPC have endorsed Man Investments. Man Investments, 1345 Avenue of the Americas, 21st floor, New York, NY 10105.

This material is proprietary information and may not be reproduced or otherwise disseminated in whole or in part without prior written consent.

Any data services and information available from public sources used in the creation of this material are believed to be reliable. However accuracy is not warranted or guaranteed. ©Man 2024.

MKT010550/ST/GL/W