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Euro High-Yield 1Q Survey: Positive Outlook Sustained

BI Credit, Europe Dashboard



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1. High-Yield 1Q Survey: Low Defaults, High Supply, Positive Return

(Bloomberg Intelligence) -- Investors have a positive outlook for euro high-yield (HY), with more expecting positive returns despite a bumper 4Q, very low defaults and 15 billion euros of index-eligible supply for 1Q, based on the quarterly Bloomberg Intelligence-European High Yield Online survey. Investors remain overweight, even as they fear HY valuations are getting richer, and 63% have more than 3% cash in their portfolios, which would help digest growing supply. An even-greater majority expects HY to beat high grade this quarter vs. our last survey.

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Bs are the clear preference by rating, while banking has moved up among preferred sectors. Covid-19 lockdowns and vaccines, along with central bank policies, are expected to drive returns more than fiscal spending. HY investors slightly prefer the U.S. over Europe, breaking the tie in our last survey. (01/26/21)

Survey Topics

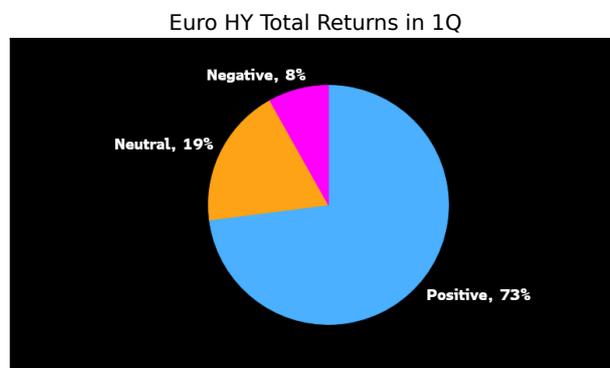
Market View

2. Greater Conviction in High Yield for 1Q Despite Rich Valuations

Investor conviction looks to have increased since 4Q20, as a greater share believes HY will deliver positive returns vs. our last survey, despite tremendous returns in 4Q. A majority are still overweight HY, but a much greater share than before now believes valuations are rich rather than cheap. (01/26/21)

3. Three-Quarters Expect Positive Returns for Euro High Yield

(01/26/21)



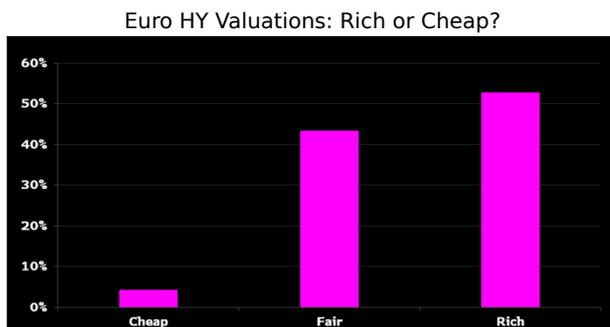
Source: Bloomberg Intelligence

4. Euro High-Yield Valuations Deemed Fair to Rich

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(01/26/21)



Source: Bloomberg Intelligence

5. 54% Respondents Are Overweight HY for 1Q

(01/26/21)



Source: Bloomberg Intelligence

Flows/Fundamentals

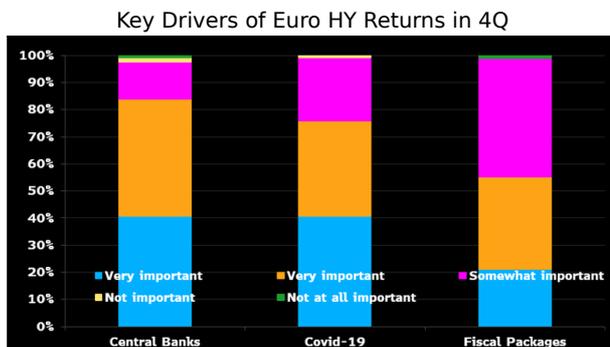
6. Same Defaults as Before With Lower Cash, Enough to Digest Supply

Central bank policy and Covid 19 lockdowns vs. vaccine were considered more critical than fiscal policy for 1Q. Maybe our respondents were skeptical about governments getting their acts together. Brexit wasn't included as a driver. Default expectations stayed at the same lows as the last survey.

Cash in portfolios has slightly dropped vs. 4Q, but 63% have more than 3%. This means the 15 billion euros of expected supply should be easily digested, we believe. (01/26/21)

7. Central Banks, Covid Seen as Critical; Fiscal Policy Less So

(01/26/21)



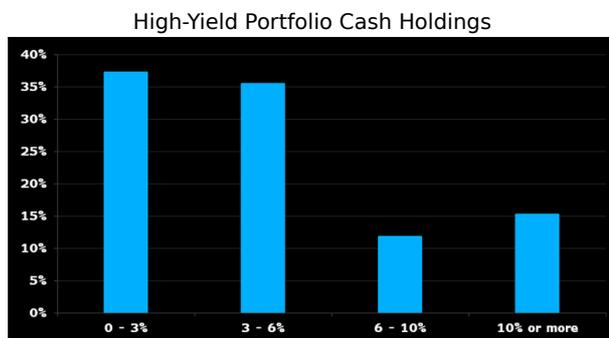
Source: Bloomberg Intelligence

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8. 63% of High-Yield Portfolios Have More Than 3% Cash

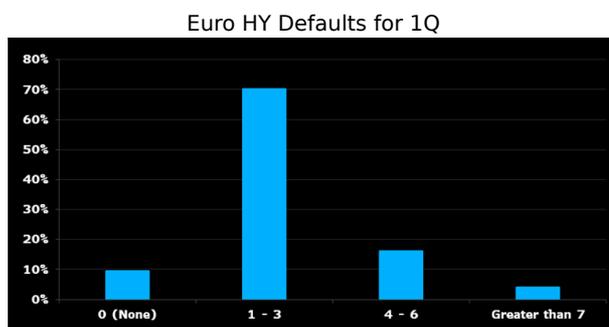
(01/26/21)



Source: Bloomberg Intelligence

9. 70% See 1-3 European Defaults in 1Q

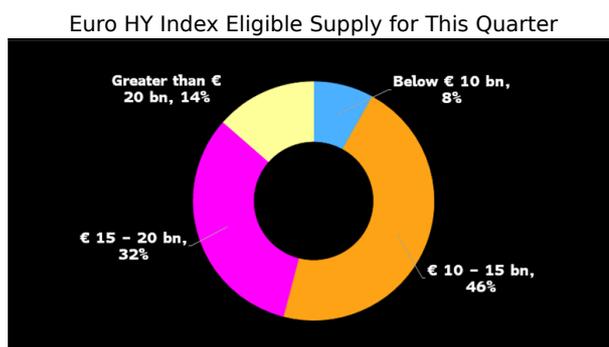
(01/26/21)



Source: Bloomberg Intelligence

10. 15 Billion Euros of High-Yield Supply Expected for 1Q

(01/26/21)



Source: Bloomberg Intelligence

Relative Value

11. Preference for Bs, Banking and U.S. High Yield in This Survey

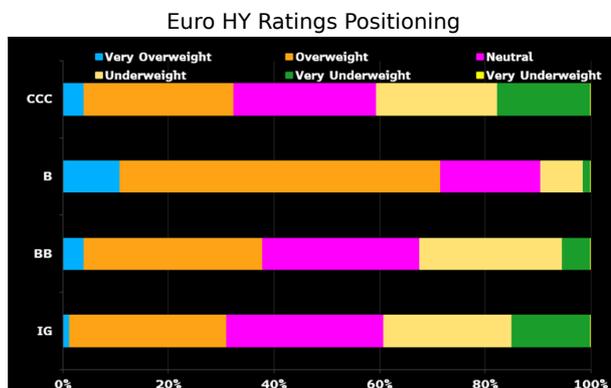
There is a clear preference for Bs in this survey vs. the last one, probably because BB spreads have compressed too much, forcing investors to look down in ratings. Banking seems to have come up strongly in sector preference, while there is a slight preference for U.S. vs. euro HY, unlike the

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perfect tie last time. An even-larger majority, 80% vs. 67% before, believe HY will beat investment grade IG this quarter. (01/26/21)

12. Bs Are Big Overweight, CCCs Underweight

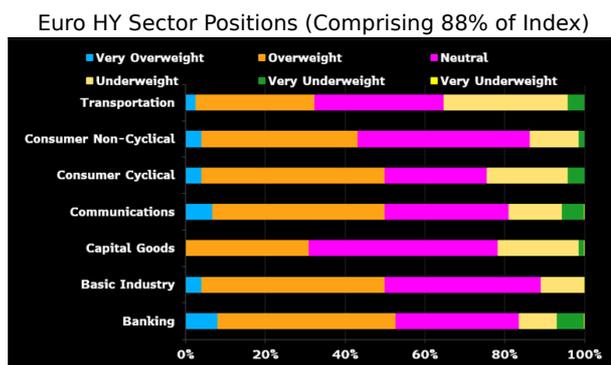
(01/26/21)



Source: Bloomberg Intelligence

13. Banking, Communications, Basic Industry, Cyclical Overweight

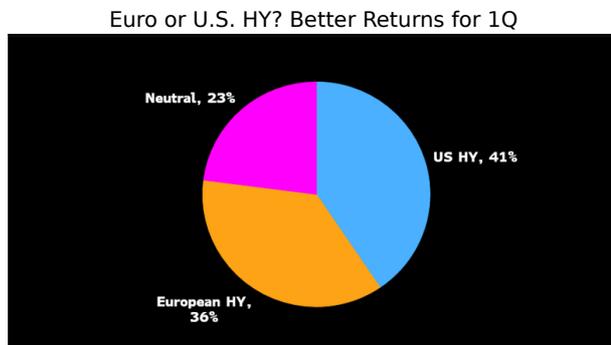
(01/26/21)



Source: Bloomberg Intelligence

14. U.S. HY Is Marginally Preferred Over Euro HY

(01/26/21)



Source: Bloomberg Intelligence

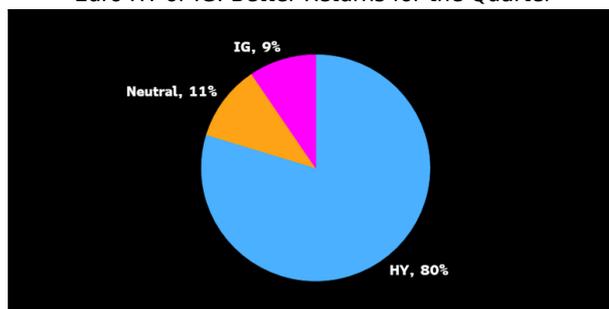
15. 80% Expect High-Yield to Beat Investment-Grade

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(01/26/21)

Euro HY or IG: Better Returns for the Quarter



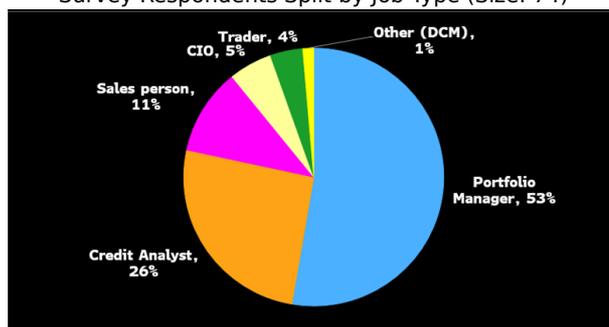
Source: Bloomberg Intelligence

Response Mix

16. HY Survey Methodology and Respondent Mix - Majority PMs

Our Euro High-Yield Survey for 1Q was conducted jointly by Bloomberg Intelligence and European High Yield Online. The survey, which will be a regular quarterly feature, was conducted Jan. 4-22 and follows 4Q20's inaugural survey. The questions are based on the Bloomberg Barclays Euro High Yield Index (LP02), including sectors, ratings, supply and defaults. The survey had 74 respondents, dominated by portfolio managers. For the cash in portfolio question, we have excluded non-buy-side responses as not applicable. (01/26/21)

Survey Respondents Split by Job Type (Size: 74)



Source: Bloomberg Intelligence

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