

Bloomberg Intelligence

Euro High-Yield 2Q Survey: Rich But Still Overweight

BI Credit, Europe Dashboard



Mahesh Bhimalingam
Team: Strategy
BI Chief European Credit Strategist



Bhumika Gupta
Team: Strategy
BI Fixed Income Associate Analyst

1. Low Defaults, Big Supply, Rich Spreads Rule 2Q High-Yield Survey

(Bloomberg Intelligence) -- Investors are optimistic about euro high-yield (HY) in 2Q, with more than half of respondents to our latest online survey expecting very low defaults, 15 billion euros of index-eligible supply, and positive returns despite a strong 1Q. Investors remain overweight HY, even as a majority fear rich valuations, and 67% have more than 3% cash in their HY portfolios, which would help digest strong supply. An even-greater majority expects HY to beat high grade in 2Q.

Bs are the clear favorite by rating. Cyclicals are the preferred sector, but communications is the most underweight sector. Covid-19 lockdowns and vaccinations, along with central bank policies, are expected to drive returns more than fiscal spending or rising rates. HY Investors are equally split between U.S. and European HY. (04/21/21)

[Table of Contents](#)

[Survey Topics](#)

[Market View](#) **NEW**

[Flows/Fundamentals](#) **NEW**

[Relative Value](#) **NEW**

[Response Mix](#) **NEW**

Survey Topics

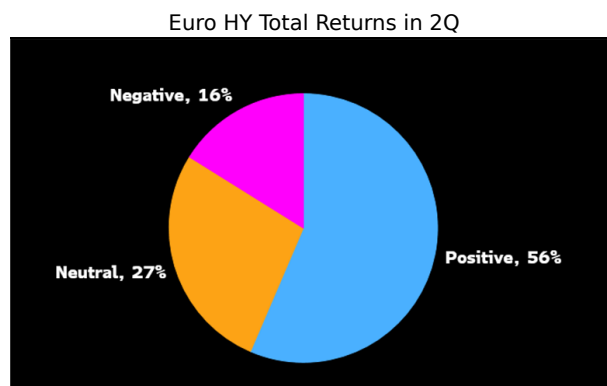
Market View

2. Lower HY Conviction Reflects Rich Valuations; Still Overweight

Investor conviction in HY seems to have dropped since 1Q. Some 56% of survey respondents believe HY will deliver positive returns, vs. 73% before. Still, the majority is still overweight HY, despite no respondents believing HY valuations are cheap at this stage. A majority believes that HY valuations are more rich than fair. (04/21/21)

3. Just Over Half Expect Positive Returns for Euro High-Yield

(04/21/21)



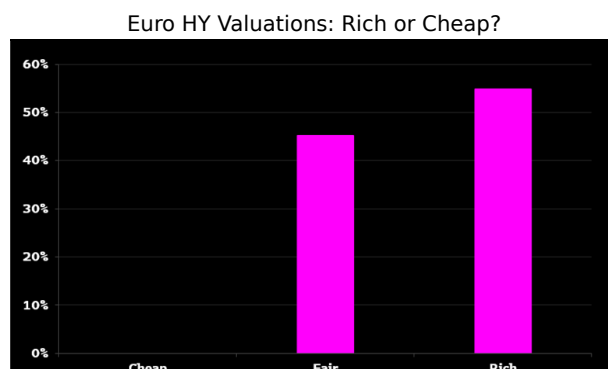
Source: Bloomberg Intelligence

4. Majority Deem Euro High-Yield Valuations Rich

This report may not be modified or altered in any way. The BLOOMBERG PROFESSIONAL service and BLOOMBERG Data are owned and distributed locally by Bloomberg Finance LP ("BFLP") and its subsidiaries in all jurisdictions other than Argentina, Bermuda, China, India, Japan and Korea (the "BFLP Countries"). BFLP is a wholly-owned subsidiary of Bloomberg LP ("BLP"). BLP provides BFLP with all the global marketing and operational support and service for the Services and distributes the Services either directly or through a non-BFLP subsidiary in the BLP Countries. BFLP, BLP and their affiliates do not provide investment advice, and nothing herein shall constitute an offer of financial instruments by BFLP, BLP or their affiliates.

Bloomberg Intelligence

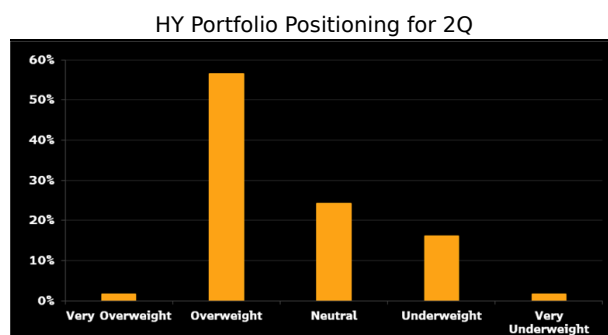
(04/21/21)



Source: Bloomberg Intelligence

5. Still 58% Respondents Are Overweight HY for 2Q

(04/21/21)



Source: Bloomberg Intelligence

Flows/Fundamentals

6. Lower Defaults Expected; More Cash May Help Digest Supply

Central bank policy and Covid 19 lockdowns and vaccinations are viewed as more critical than fiscal policy or rising rates for HY returns in 2Q. As the pace of vaccinations vary across Europe, our respondents remain skeptical about governments getting their acts together. But default expectations are lower than in our last survey.

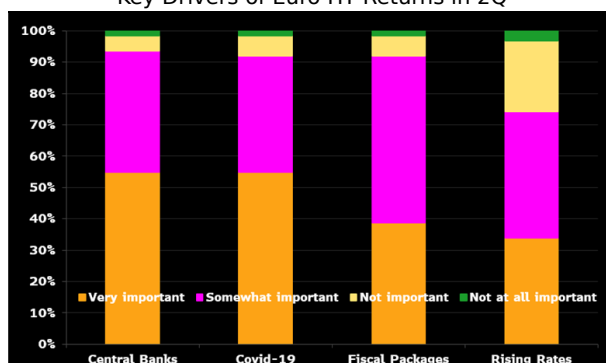
Cash in portfolios is up slightly vs. 1Q, with 67% having more than 3% cash. This means the 15 billion euros of expected supply for 2Q should be easily digested, we believe. (04/21/21)

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

(04/21/21)

Bloomberg Intelligence

Key Drivers of Euro HY Returns in 2Q

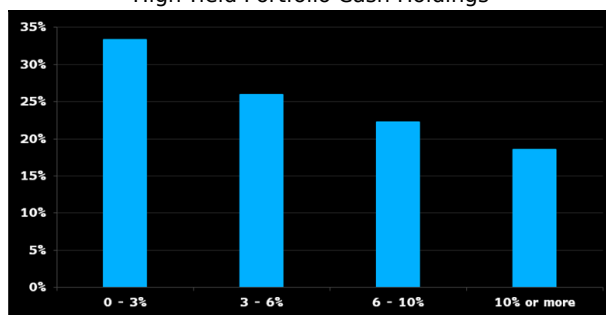


Source: Bloomberg Intelligence

8. 67% of High-Yield Portfolios Have More Than 3% Cash

(04/21/21)

High-Yield Portfolio Cash Holdings

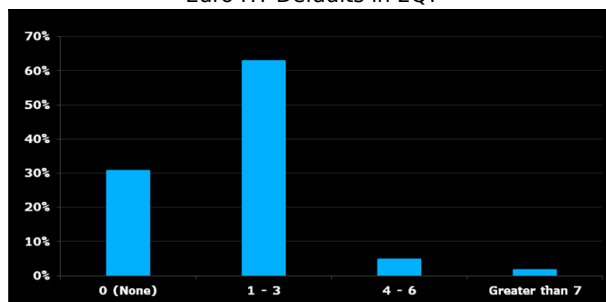


Source: Bloomberg Intelligence

9. 63% See 1-3 European High Yield Defaults in 2Q

(04/21/21)

Euro HY Defaults in 2Q?



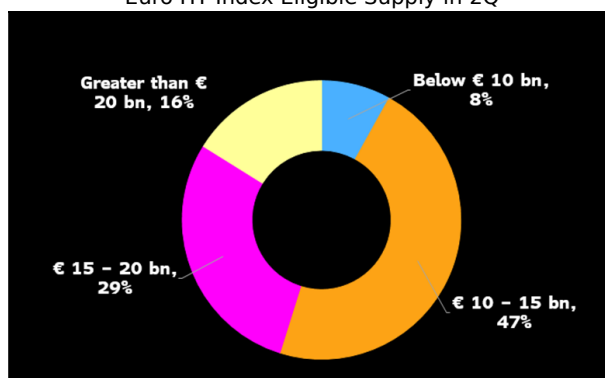
Source: Bloomberg Intelligence

10. 15 Billion Euros of High-Yield Supply Expected for 2Q

(04/21/21)

Bloomberg Intelligence

Euro HY Index Eligible Supply in 2Q



Source: Bloomberg Intelligence

Relative Value

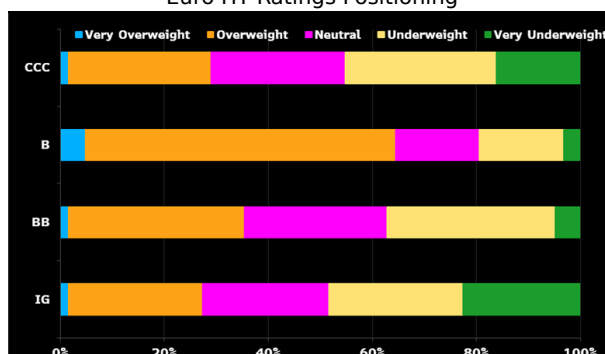
11. Preference for Bs, Cyclical Amid Confidence HY Beat IG

There is a clear preference for Bs in this survey, continuing the theme from 1Q, while the underweight for investment-grade (IG) has only accelerated. CCCs aren't much liked either, while the market seems split on BBs. Cyclical have come up strong in the sector preference, while communications is the least-preferred sector going into 2Q. There is nearly a perfect tie between U.S. euro HY, where as the U.S. was the 1Q favorite. A majority, 77% vs. 80% before, believe HY will beat IG again in 2Q. (04/21/21)

12. Bs Are Big Overweight; IG and CCCs Underweight

(04/21/21)

Euro HY Ratings Positioning



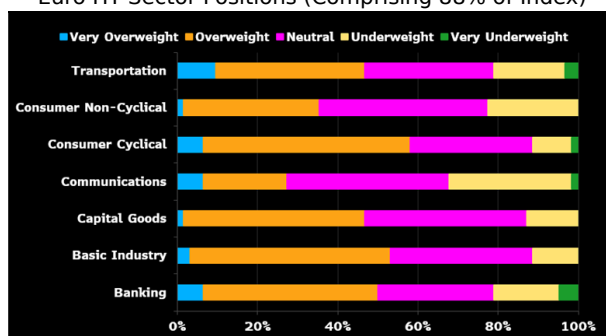
Source: Bloomberg Intelligence

13. Cyclical, Basic Industry Overweight; Communications Underweight

(04/21/21)

Bloomberg Intelligence

Euro HY Sector Positions (Comprising 88% of Index)

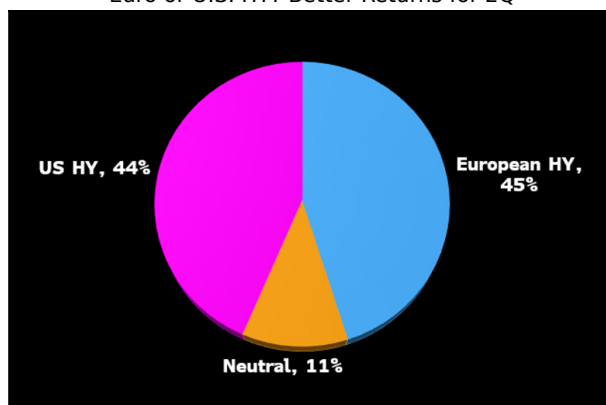


Source: Bloomberg Intelligence

14. Market Split Between U.S. HY and Euro HY

(04/21/21)

Euro or U.S. HY? Better Returns for 2Q

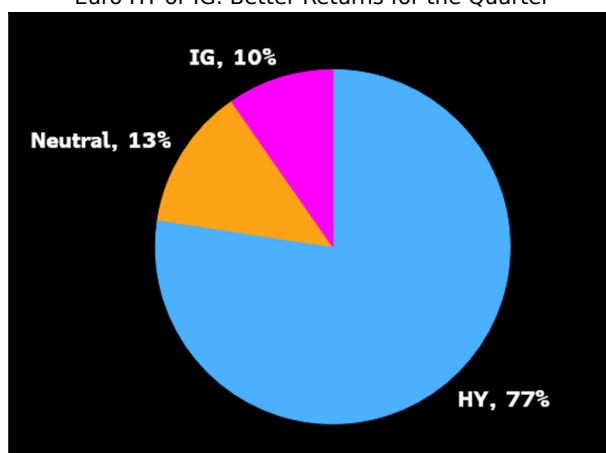


Source: Bloomberg Intelligence

15. 77% Expect High-Yield to Beat Investment-Grade

(04/21/21)

Euro HY or IG: Better Returns for the Quarter



Source: Bloomberg Intelligence

Response Mix

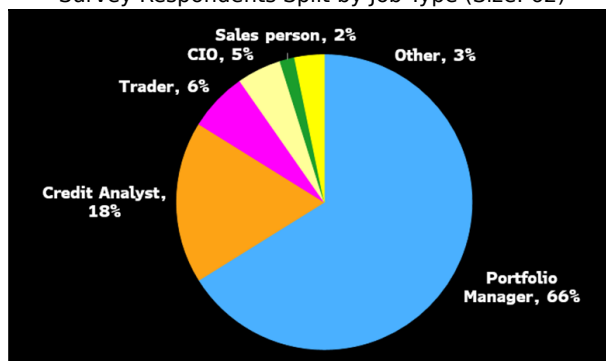
16. HY Survey Methodology and Respondent Mix

This report may not be modified or altered in any way. The BLOOMBERG PROFESSIONAL service and BLOOMBERG Data are owned and distributed locally by Bloomberg Finance LP ("BFLP") and its subsidiaries in all jurisdictions other than Argentina, Bermuda, China, India, Japan and Korea (the "BFLP Countries"). BFLP is a wholly-owned subsidiary of Bloomberg LP ("BLP"). BLP provides BFLP with all the global marketing and operational support and service for the Services and distributes the Services either directly or through a non-BFLP subsidiary in the BLP Countries. BFLP, BLP and their affiliates do not provide investment advice, and nothing herein shall constitute an offer of financial instruments by BFLP, BLP or their affiliates.

Bloomberg Intelligence

Our Euro High-Yield Survey for 2Q was conducted jointly by Bloomberg Intelligence and European High Yield Online. The survey, a regular quarterly feature, was conducted March 22-April 16 and follows January's 1Q survey. The questions are based on the Bloomberg Barclays Euro High-Yield Index (LP02), including sectors, ratings, supply and defaults. The survey had 62 respondents, dominated by portfolio managers. For the cash in portfolio question, we have excluded non-buy-side responses as not applicable. (04/21/21)

Survey Respondents Split by Job Type (Size: 62)



Source: Bloomberg Intelligence

To contact the analyst for this research:
Mahesh Bhimalingam at mbhimalinga6@bloomberg.net