

# High Yield 2Q Survey: Sentiment Swings Negative



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## 1. Big Negative Swing as Junk Overshadowed by High Grade: BI Survey

(Bloomberg Intelligence) -- Investor views swung hugely negative for high yield return prospects in our 2Q survey, turning them net underweight -- as the 1Q rally makes spreads seem rich -- reversing the 1Q survey's verdict. The cash component of junk portfolios rose to a record 7.1% as investors shunned the asset class. They expect defaults to rise and €11.2 billion of index-eligible supply despite high borrowing costs. Rising rates and central banks are seen as critical in driving high yield returns.

High grade dominates junk for 2Q positioning, after the reversal in 1Q. By geography, Europe is marginally preferred over US junk, but with many ambivalent. High grade is the only overweight by rating, with BBs neutral and CCCs and Bs avoided. Communications is the most favored sector, cyclical the least. All survey data is available on BI STRTE. (04/24/23)

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## Survey Topics

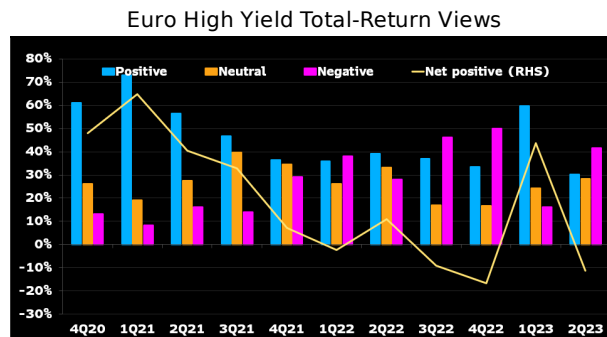
### Market View

## 2. Net Junk Underweight on Negative Return Views and Rich Spreads

Despite junk delivering 2.71% total returns in 1Q23, 42% of respondents believe it will provide negative returns in 2Q, making sentiment 11% net negative from 44% net positive in 1Q. Junk spreads are seen rich now (42%) translating to a 30% net rich view, which ties in with normalized spreads at 0.54 standard deviations too tight. In terms of portfolio positioning, this translates into 49% underweight on junk, making it 30% net underweight vs. 15% net overweight in 1Q. (04/24/23)

## 3. Junk Return Views Turn Negative Again for 2Q After Positive 1Q

(04/24/23)

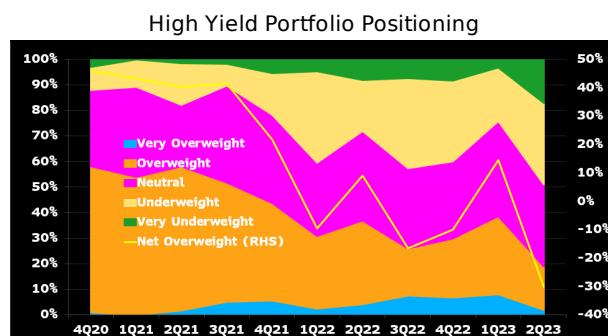


Source: Bloomberg Intelligence

## 4. Negative Return Expectations Lead to Net Underweight Positioning

(04/24/23)

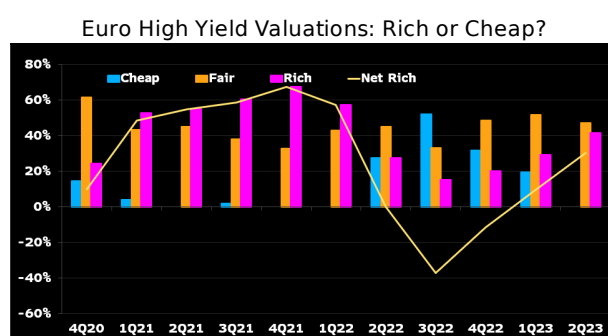
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Source: Bloomberg Intelligence

## 5. High Yield Spreads Seen as Rich in 2Q Despite Banking Correction

(04/24/23)



Source: Bloomberg Intelligence

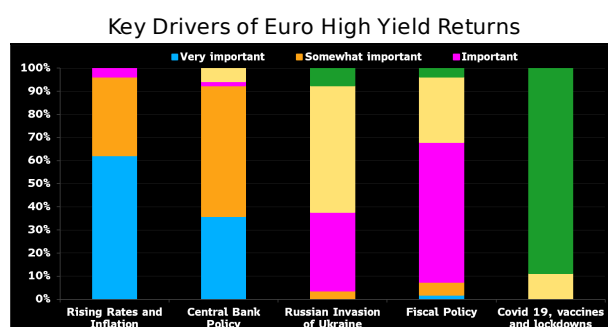
## Flows/Fundamentals

### 6. Record Cash Holdings Amid Higher Default and Supply Expectations

Rising yields, inflation and central bank policy remain the key drivers of junk returns, investors believe. Given recession fears, default predictions rose to 2.4 for 2Q, with the index seeing its first default in eight quarters. Negative return views led to portfolio cash hitting a record 7.1% from 6.1% in 1Q. After a bumper 1Q index-eligible supply of €14.9 billion, expectations for 2Q remain high at €11.2 billion despite the high costs. (04/24/23)

### 7. Rising Rates, Central Banks Continue as Top Junk-Return Drivers

(04/24/23)

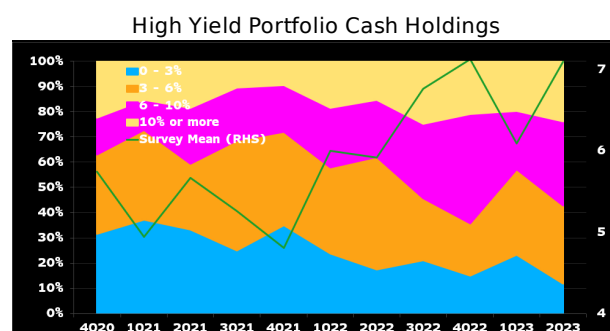


Source: Bloomberg Intelligence

### 8. High Yield Portfolio 2Q Cash Rises Back to Record 7.1% From 6.1%

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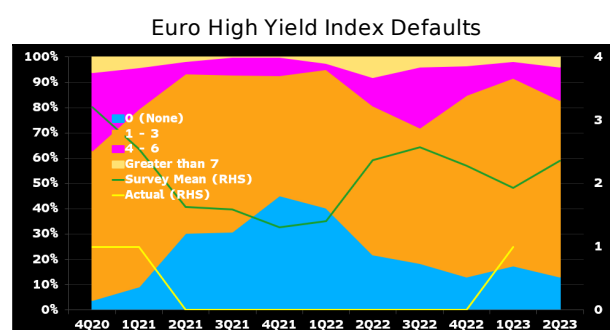
(04/24/23)



Source: Bloomberg Intelligence

## 9. First Index Default in Eight Quarters; 2.4 Defaults Seen for 2Q

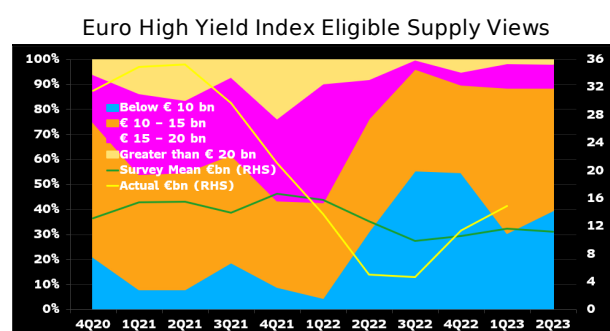
(04/24/23)



Source: Bloomberg Intelligence

## 10. Supply Expectations of €11.2 Billion in 2Q Despite High Costs

(04/24/23)



Source: Bloomberg Intelligence

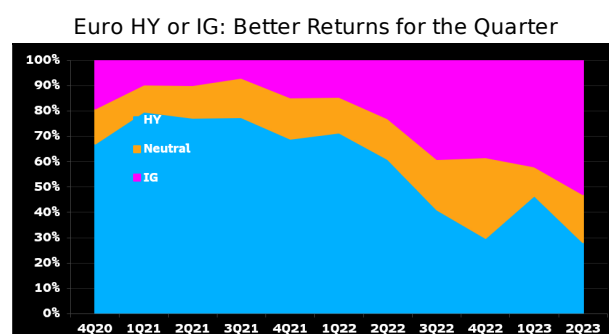
## Relative Value

### 11. High Grade Beat Junk; B, CCC Underweight; Europe Marginal vs. US

High grade is the clear preference by rating, well ahead of neutral BBs, with an obvious underweight on Bs and CCCs. High grade beats junk as an asset class by a massive 25% in net preference. Banking and communications are still the most-favored sectors, with consumer cyclicals the least preferred. Euro junk is only a marginal choice over the US now, with many investors neutral by region. (04/24/23)

## 12. Investor Preference Swings Back to High Grade Over Junk for 2Q

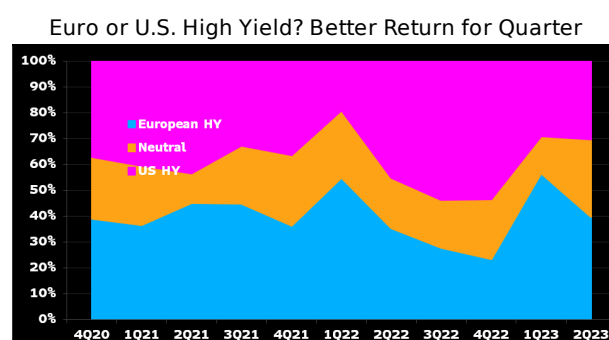
(04/24/23)



Source: Bloomberg Intelligence

## 13. Many More Neutral by Region in Junk; Europe Preference Marginal

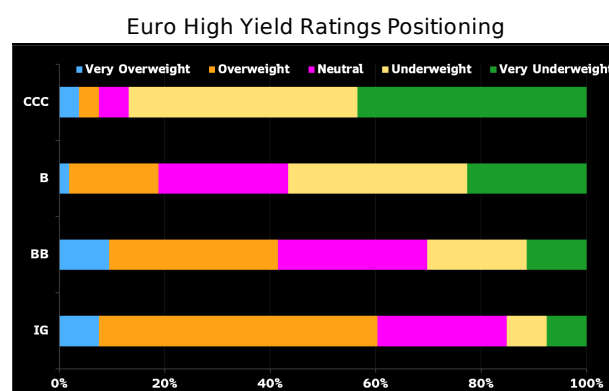
(04/24/23)



Source: Bloomberg Intelligence

## 14. High Grade Overweight by Ratings; BB Neutral; B, CCC Underweight

(04/24/23)

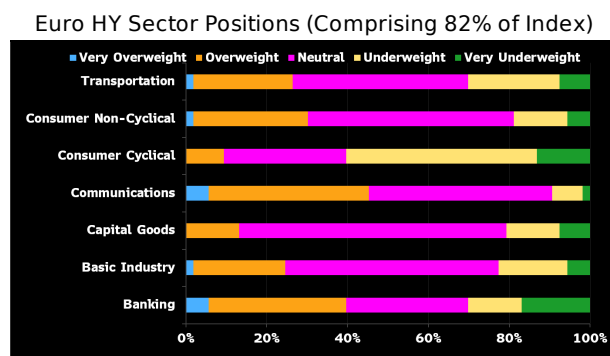


Source: Bloomberg Intelligence

## 15. Communications Overweight; Cyclical Highly Underweight

(04/24/23)

## Bloomberg Intelligence



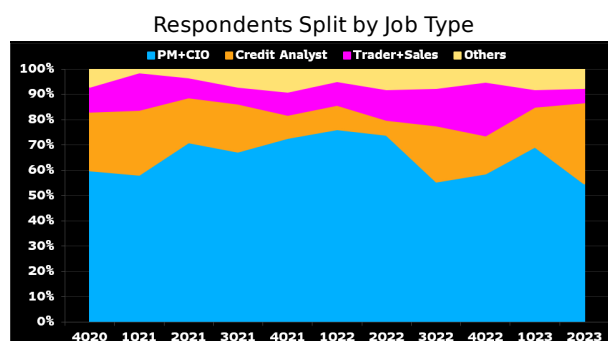
Source: Bloomberg Intelligence

### Response Mix

#### 16. High Yield Survey Methodology and Respondent Mix

Our High Yield Survey for 2Q was conducted jointly by Bloomberg Intelligence and European High Yield Online. The survey, a regular quarterly feature and the 11th iteration, was conducted over March 20 to April 20. The questions are based on the Bloomberg Euro High Yield Index (LP02, also called I02501), including sectors, ratings, supply and defaults. The survey had 53 respondents, dominated as usual by portfolio managers and CIOs -- 55% together. For the cash in portfolio question, we have excluded non-buyside responses as not applicable.

We have also shown how the survey has fared in predicting the future on relevant questions where data isn't easy to track, such as issuance and defaults. (04/24/23)



Source: Bloomberg Intelligence

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