

Bloomberg Intelligence

Euro High Yield 3Q Survey: Richer Yet Positive

BI Credit, Europe Dashboard



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1. 3Q Junk Survey: Low Defaults, Cash Help But Less Bullish Tone

(Bloomberg Intelligence) -- Investors are cautiously optimistic about European high yield in 3Q, with just under half expecting positive returns despite a strong year, according to our latest survey. Investors expect very low defaults (a third predict none) and 13.5 billion euros of index-eligible supply. A majority remain overweight the asset class, even with most fearing rich valuations, but 75% have more than 3% cash in their junk portfolios, which would support spreads and digest supply.

Central bank policies are runaway winners in driving returns -- more than Covid-19 or rising rates. An even greater majority expects junk to beat high grade in 3Q. There's a clear gap in investors preferring European to U.S. bonds in 3Q, unlike in 2Q. Bs and BBs are close in preference. Consumer cyclicals is the preferred sector, non-cyclicals the least favorite. (07/27/21)

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Survey Topics

Market View

2. Lower Junk Bullishness Reflects Tight Spreads; Still Overweight

Investor bullishness in high yield naturally dropped over the year after prior expectations were consistently met or beaten, with the asset class delivering 3.3% total returns year to date (about 1.5% for each quarter). Under half of respondents, 47%, believe high yield will deliver positive returns in 3Q, vs. 56% in 2Q and 73% in 1Q.

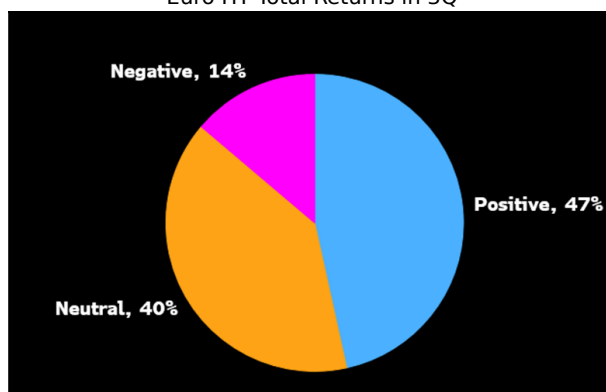
60% believe that junk valuations are rich, more than in 2Q. Yet 52% are overweight high yield in 3Q, despite almost no respondents believing valuations are cheap at this stage. (07/27/21)

3. Just Under Half Expect Positive 3Q Returns for Junk

(07/27/21)

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Euro HY Total Returns in 3Q

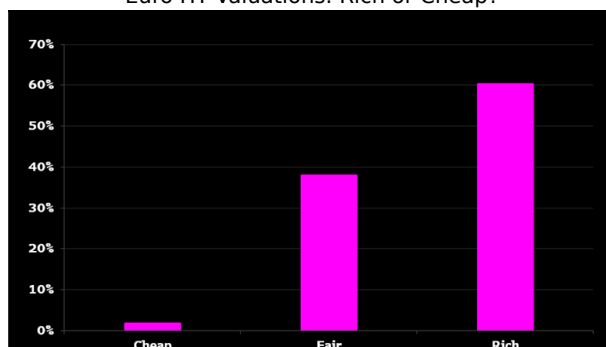


Source: Bloomberg Intelligence

4. Majority Deems Euro High Yield Valuations Rich

(07/27/21)

Euro HY Valuations: Rich or Cheap?

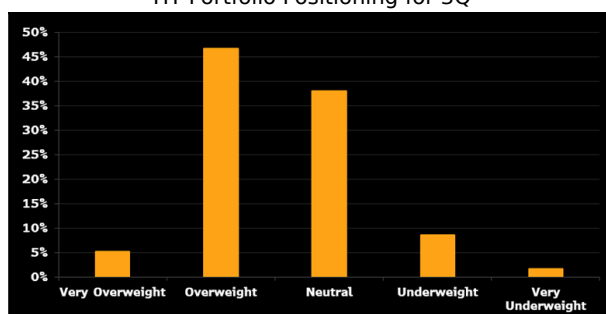


Source: Bloomberg Intelligence

5. 52% of Respondents Are Overweight Junk in 3Q

(07/27/21)

HY Portfolio Positioning for 3Q



Source: Bloomberg Intelligence

Flows/Fundamentals

6. Very Low Defaults Expected; Abundant Cash to Help Digest Supply

Respondents to our survey clearly believe central bank policy will be the key driver of high yield returns in 3Q, beating lockdowns and rising rates. They remain skeptical about governments moving on fiscal policy. Default expectations are very low, with more than 90% saying there'll be fewer than three, and nearly a third predicting none at all.

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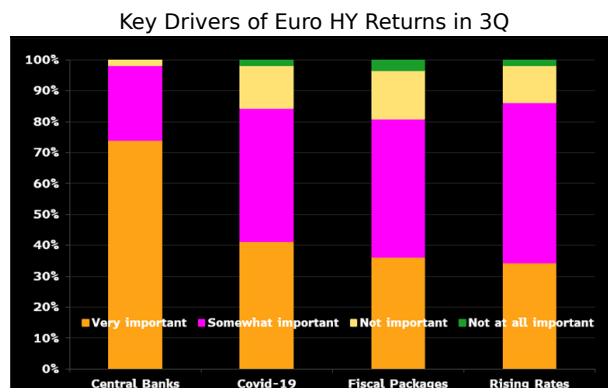
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Cash in portfolios is up again vs. prior quarters this year, with 75% having more than 3% cash vs. 67% in 2Q. This means the 13.5 billion euros of expected supply for 3Q should be easily digested. 2Q delivered double the index-eligible supply vs. survey expectations and was easily digested.

(07/27/21)

7. Central Banks Seen Critical for Junk Return

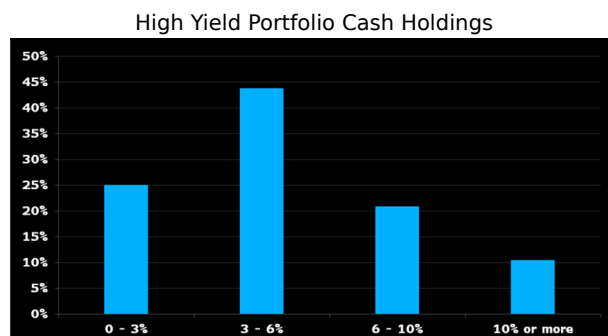
(07/27/21)



Source: Bloomberg Intelligence

8. 75% of High Yield Portfolios Have More Than 3% Cash

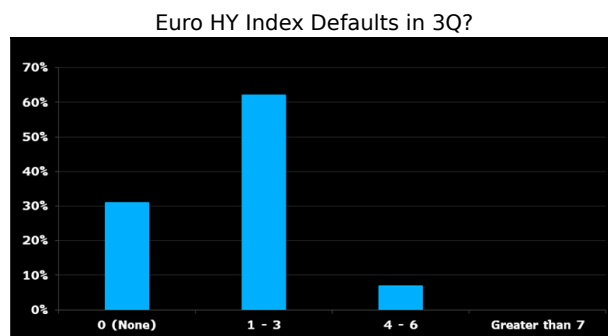
(07/27/21)



Source: Bloomberg Intelligence

9. 93% See Less Than Three Defaults; a Third See None

(07/27/21)



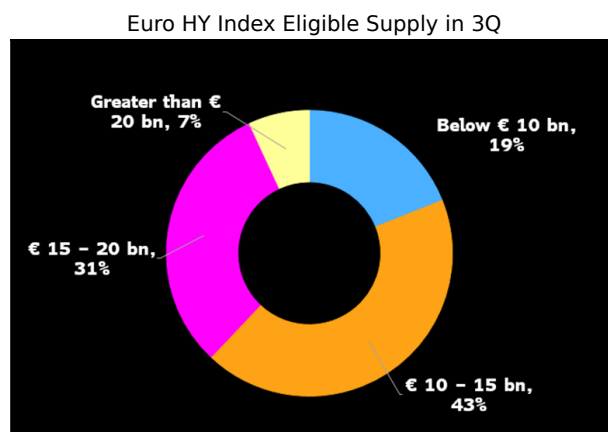
Source: Bloomberg Intelligence

10. 13.5 Billion Euros of Junk Supply Expected for 3Q

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(07/27/21)



Source: Bloomberg Intelligence

Relative Value

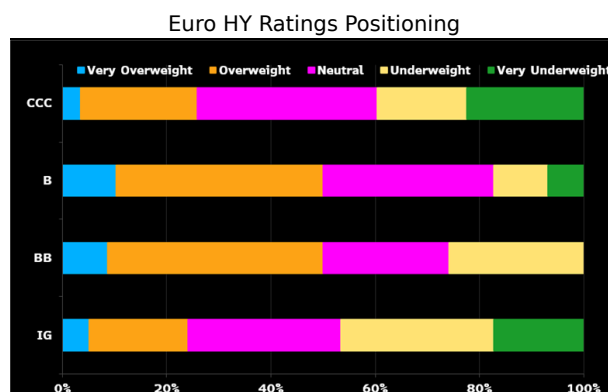
11. B vs. BB Neutral; Euro Junk Preferred to High Grade, U.S. Junk

There is only a marginal preference for B vs. BB in this survey, unlike in 2Q, with a clear underweight on investment grade. CCC isn't much liked, either, with only slightly less underweight than high grade. Consumer cyclicals is the most-liked sector, with non-cyclicals the least preferred going into 3Q.

Though U.S. high yield was the 1Q favorite, the market has clearly shifted in favor of its European counterpart, with more (45%) expecting the latter to outperform. An overwhelming majority (78%) believes high yield will beat investment grade again in 3Q. (07/27/21)

12. B, BB Are Overweight; High Grade, CCC Underweight

(07/27/21)



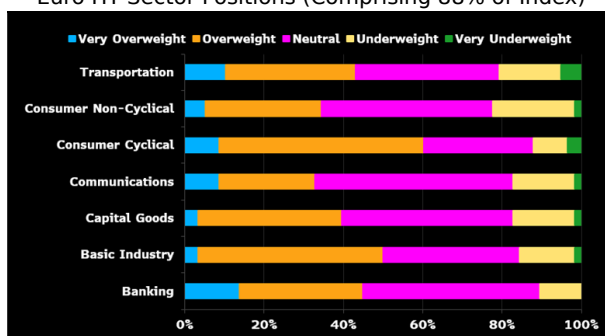
Source: Bloomberg Intelligence

13. Cyclicals, Basic Industry Overweight; Non-Cyclicals Underweight

(07/27/21)

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Euro HY Sector Positions (Comprising 88% of Index)

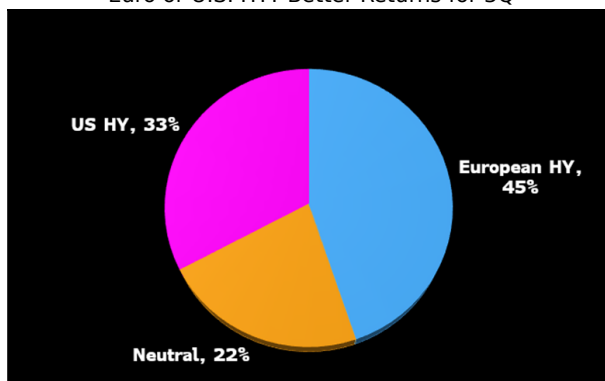


Source: Bloomberg Intelligence

14. Euro Junk Preferred Over U.S. for First Time This Year

(07/27/21)

Euro or U.S. HY? Better Returns for 3Q

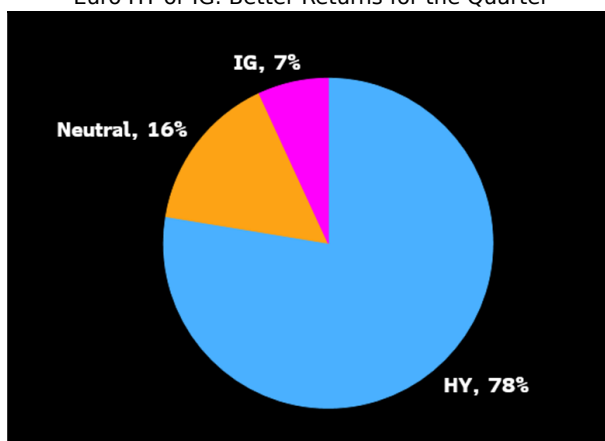


Source: Bloomberg Intelligence

15. 78% Expect High Yield to Beat Investment Grade

(07/27/21)

Euro HY or IG: Better Returns for the Quarter



Source: Bloomberg Intelligence

Response Mix

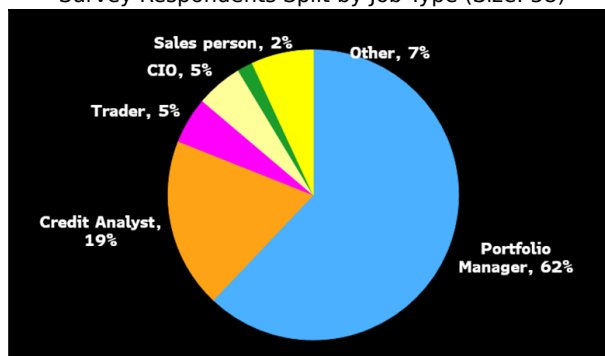
16. HY Survey Methodology and Respondent Mix

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Our Euro High-Yield Survey for 3Q was conducted jointly by Bloomberg Intelligence and European High Yield Online. The survey, a regular quarterly feature, was conducted June 28-July 23 and follows March's 2Q survey. The questions are based on the Bloomberg Barclays Euro High Yield Index (LP02/I02501), including sectors, ratings, supply and defaults. The survey had 58 respondents, dominated by portfolio managers. For the cash in portfolio question, we have excluded non-buy-side responses as not applicable. (07/27/21)

Survey Respondents Split by Job Type (Size: 58)



Source: Bloomberg Intelligence

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