

U.S. Credit Update – June 01, 2021

- Sector Performance Recap
- Industry Total Returns and Spread Performance
- Reported Data and Real Time Indicators
- Scenario Analysis
- Weekly Feature – Credit Markets Threaten to Become Interesting
- Issuance Recap



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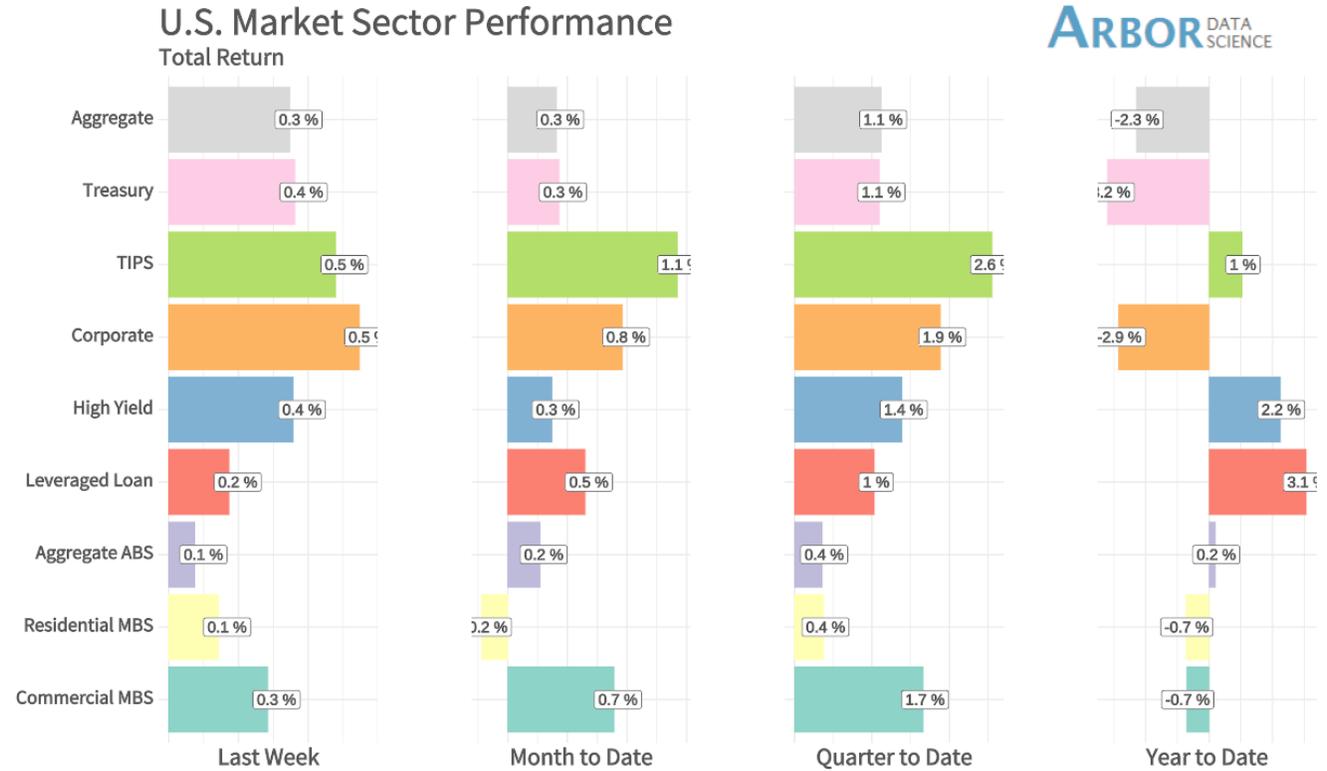
Sector Total Returns

Corporates lead Last Week

Corporates had the highest returns last week with TIPS close behind.

Safer assets remain in a hole for the year. Investment grade corporates are -2.9% and USTs are down -3.2% for the year. TIPS have fared better with a total return of 0.6%.

Riskier assets continue to hold the lead with high yield +2.2% and leveraged loans +3.1% for 2021.



Data Source: Bloomberg Barclays, Credit Suisse

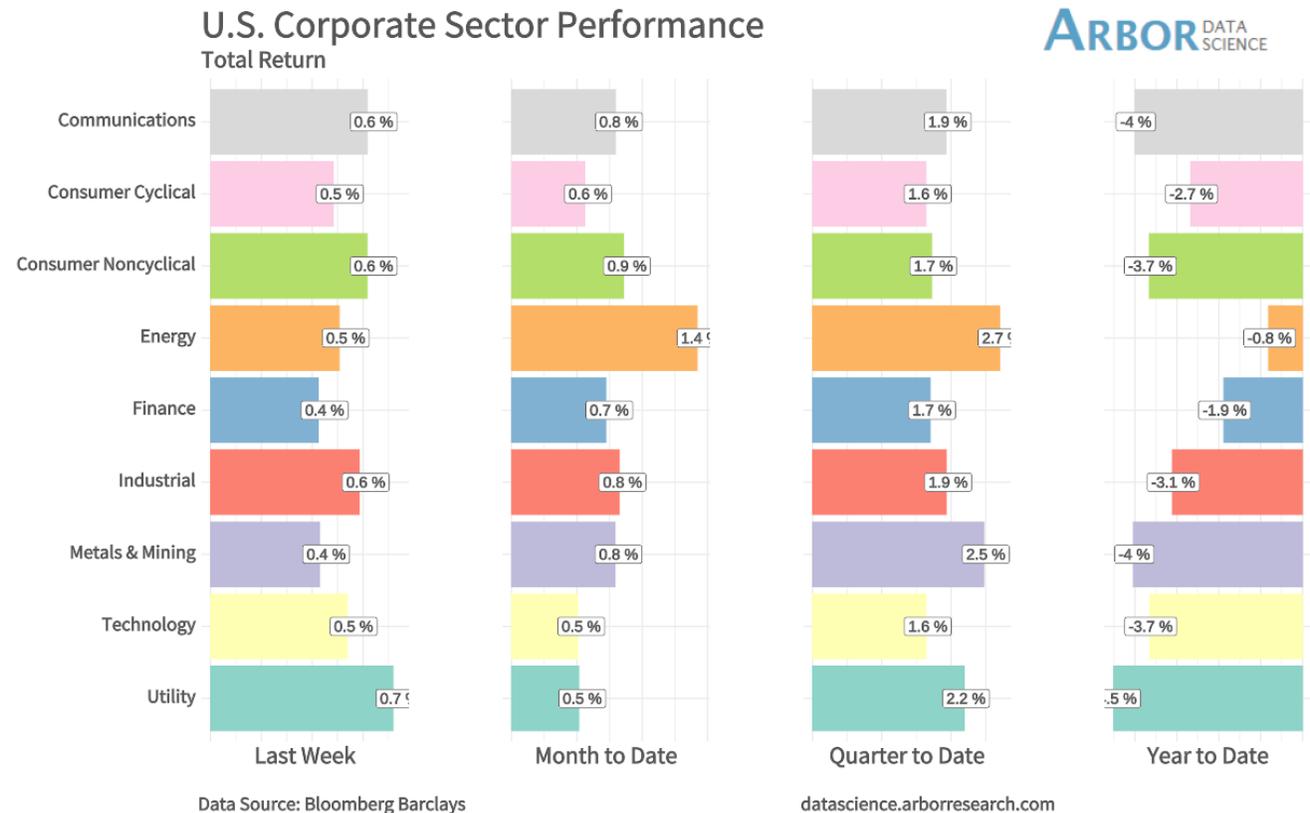
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Sector Total Returns

Energy Outperforms

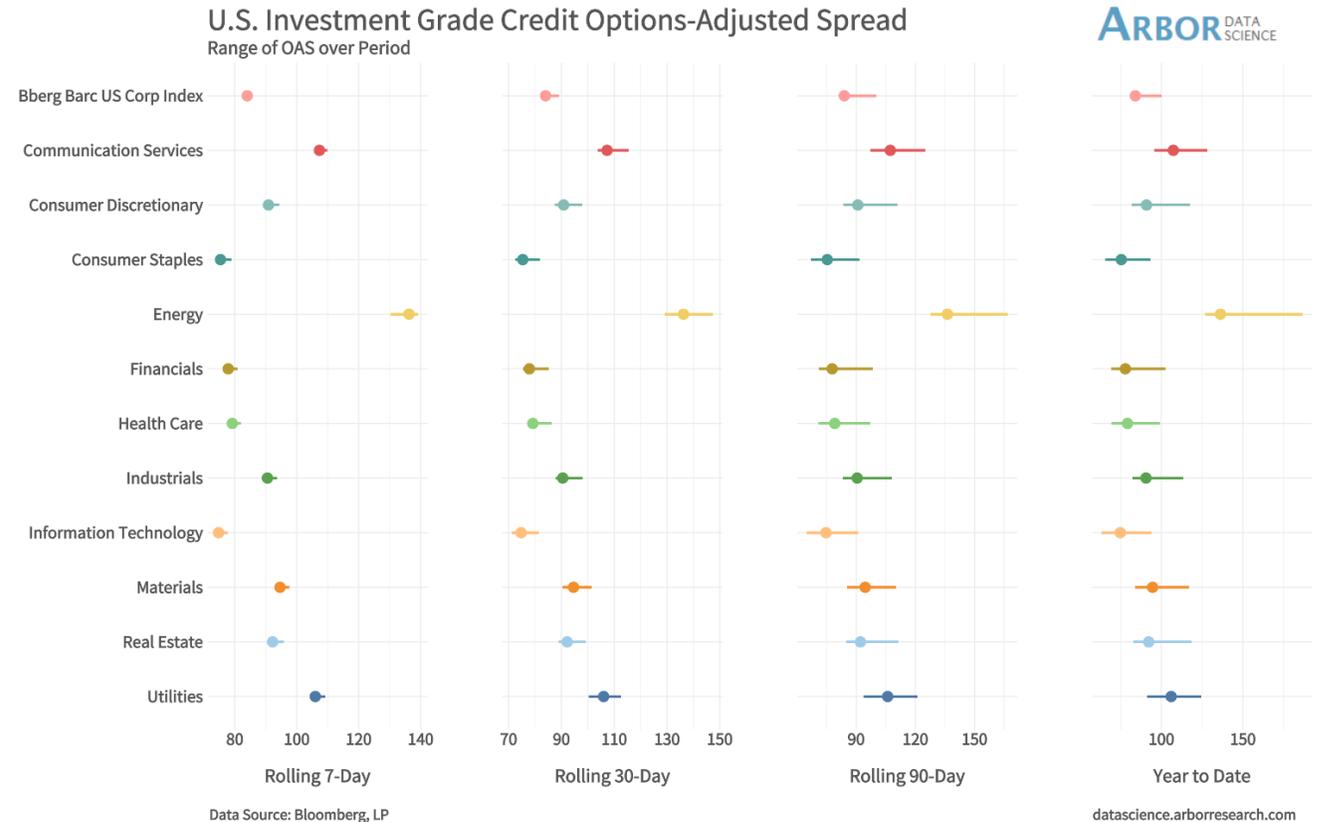
Corporates fared better last week. Utility performed the best with a total return of 0.7%. Energy is still the best performing sector year to date.



Options-Adjusted Spreads by Industry

Credit spreads continued to grind tighter last week. Communications were the best performer as AT&T and Discovery both improved vs. their competition.

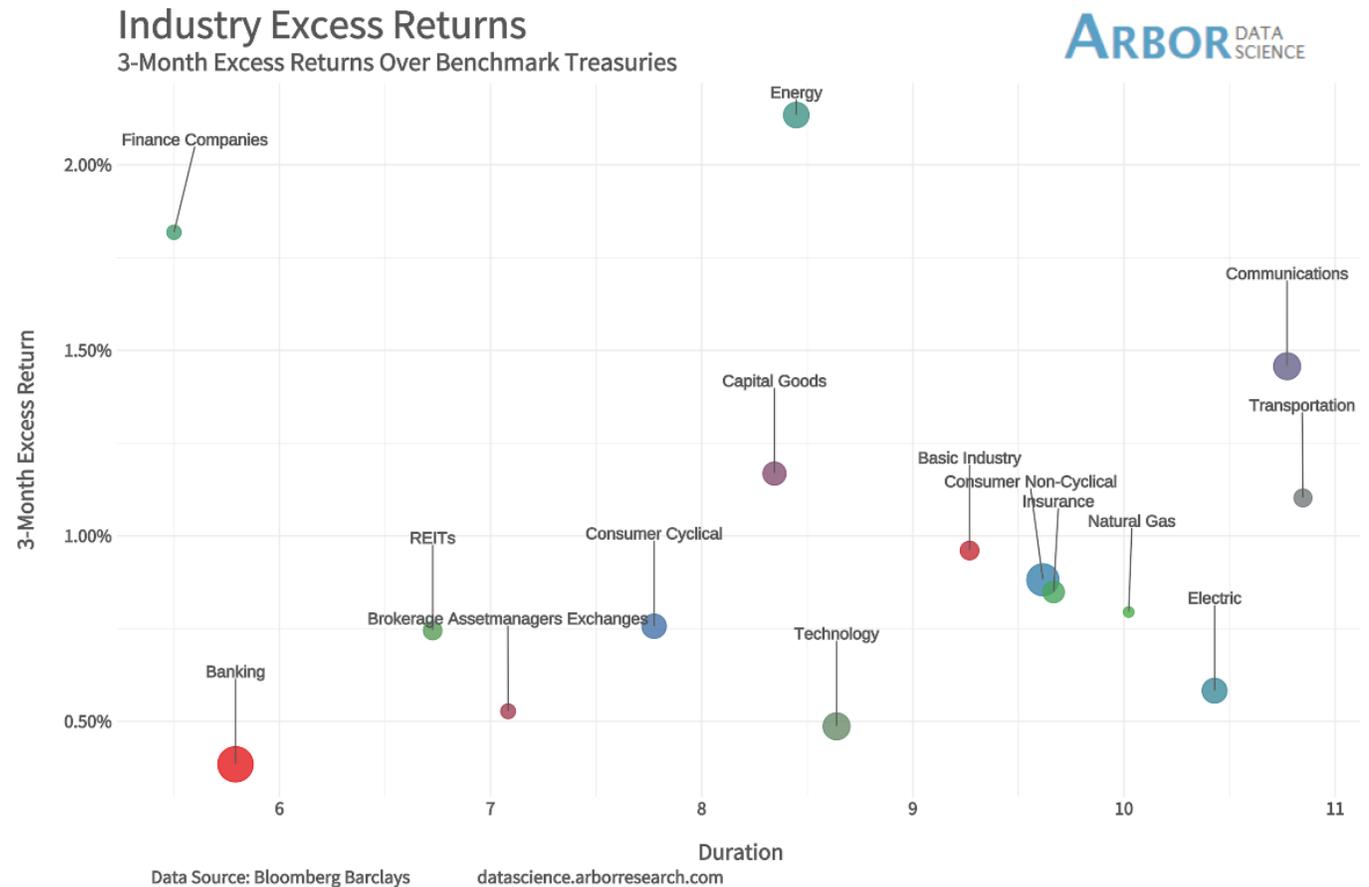
The Bloomberg Barclays US Corporate Index OAS reached a low point for the year falling to 84 bp where it remains.



Industry Excess Returns – Spreads Stabilize

Energy, Finance Companies, and Communications remain the top performers in excess to treasuries.

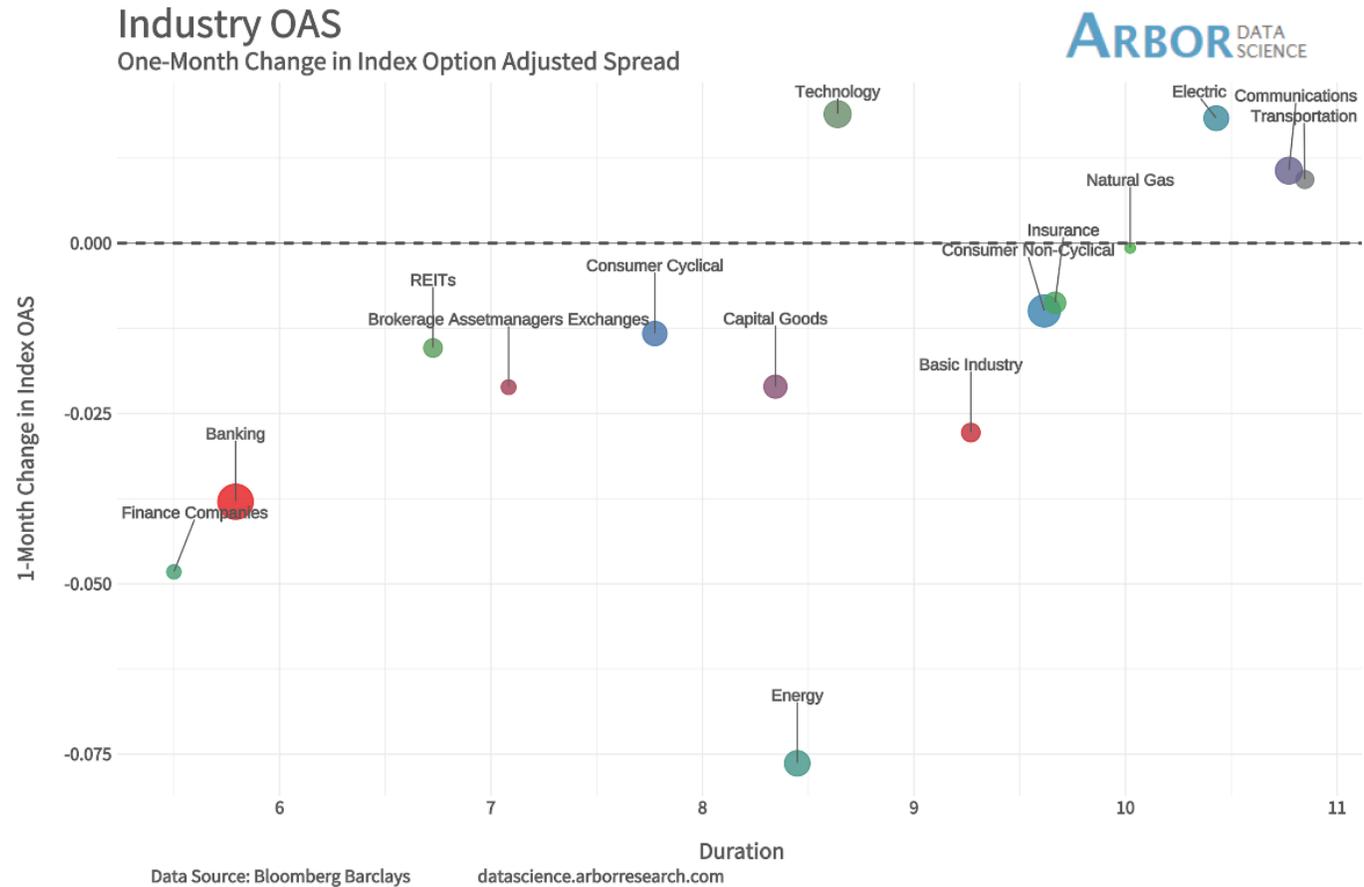
The chart shows three-month excess returns over benchmark Treasuries versus weighted average duration for Bloomberg Barclays investment grade indices.



Industry Spread Performance – Safety Underperforming

High grade spreads tightened by a basis point or two last week, closing at the tights for the week.

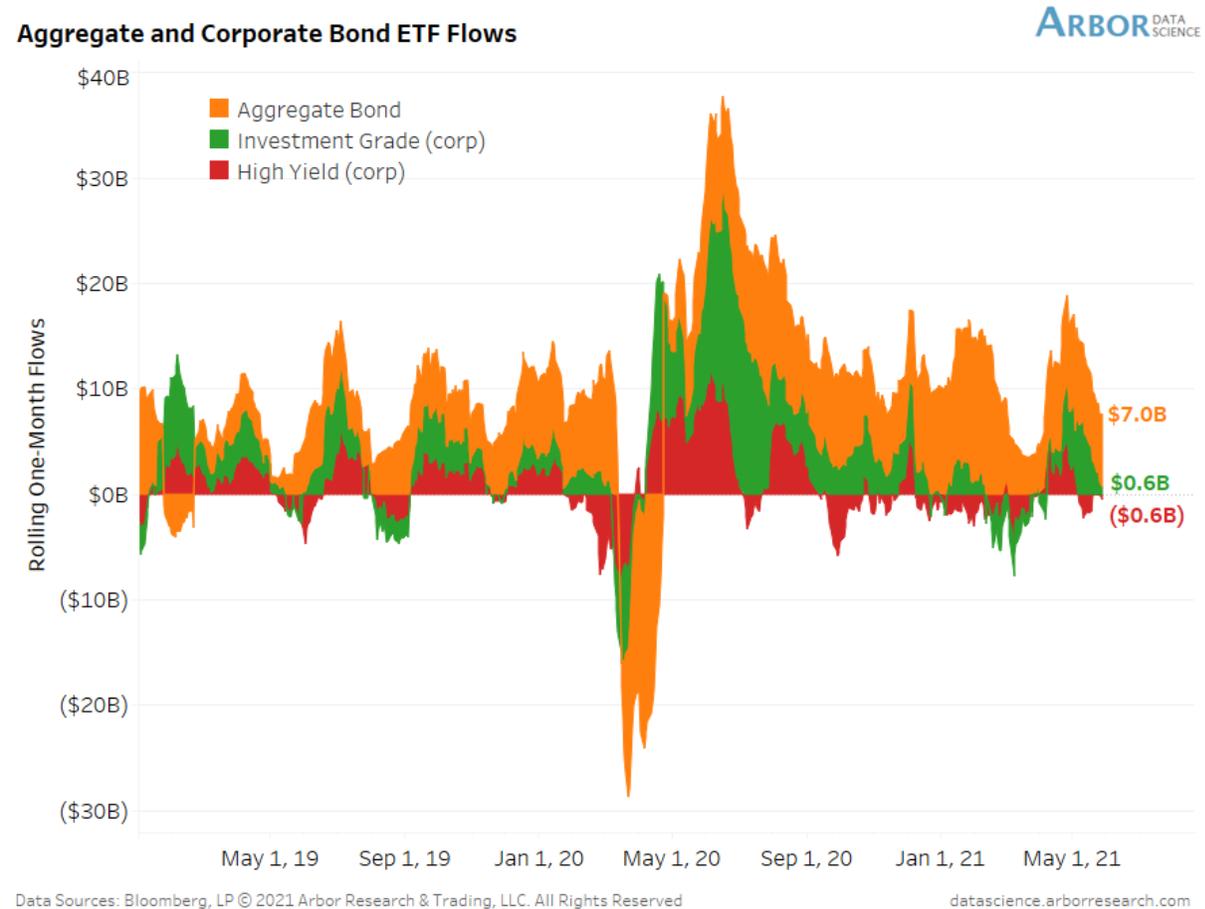
The chart shows one-month changes in index option-adjusted spread (OAS) versus weighted average duration for Bloomberg Barclays investment grade indices.



Reported Economic Data – Aggregate and Corporate Bond ETF Flows

ETF flows into bonds declined again last week. Investment Grade corporate bond ETFs saw decreased flows while High Yield ETFs saw outflows of \$0.6 Billion.

The chart shows stacked rolling one-month flows into bond ETFs.

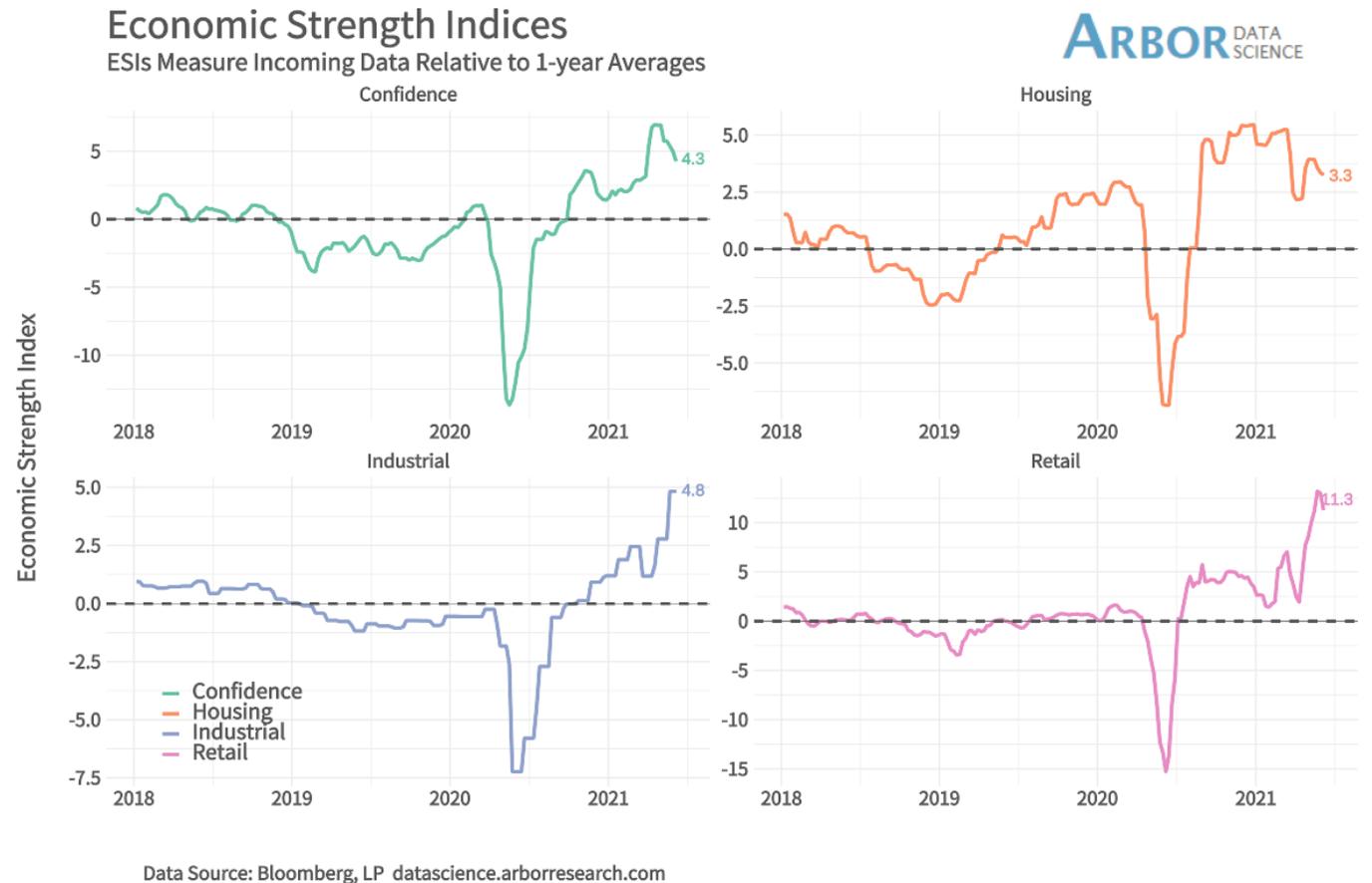


Reported Economic Data - Economic Strength Indices

Last week saw decline in three of our economic strength indices relative to their 1-year average. Though this could be a sign of slowing growth, it is also possible that, at this time last year, the worst period for the economy had ended and therefore the average is higher.

Retail strength, on the other hand, has continued to grow as consumers get out and spend their accumulated savings.

The chart shows our Economic Strength Indices for global industrial activity by region. ESIs measure incoming data relative to one-year averages.



Real Time Indicators – Google Search Activity

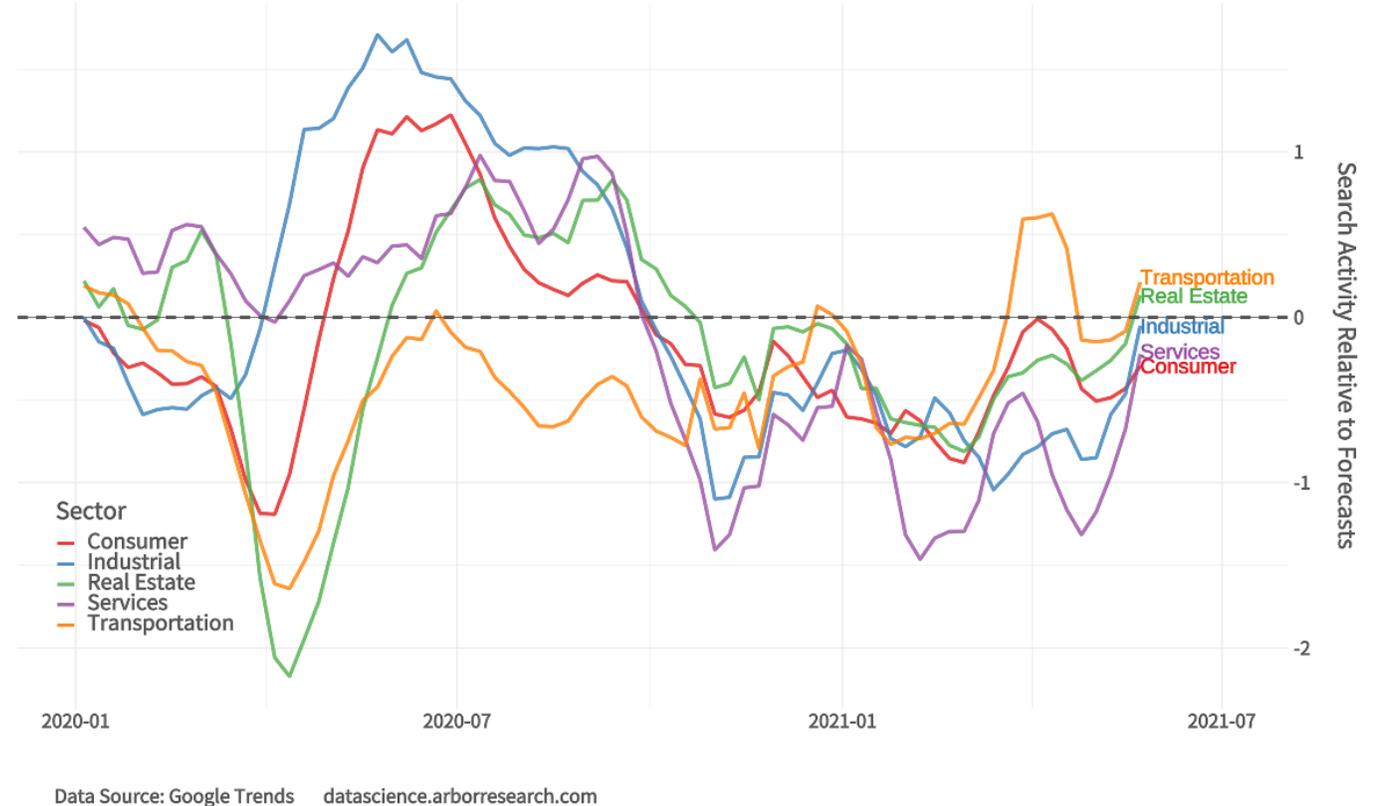
US Google search activity has continued upward after falling earlier this month. Real Estate searches have risen and are neck and neck with Transportation. Consumer, Industrial, and services are a just below forecasts.

Supply chain frictions and lockdowns abroad will continue to be constraints, but the US economy is still chugging along in the second quarter.

The chart aggregates Google searches across several dozen categories, showing the four-week average of search activity relative to forecasts in five key sectors.

Search Activity Looking Upwards

4-Week Avg Searches vs. Forecasts - US thru May 31

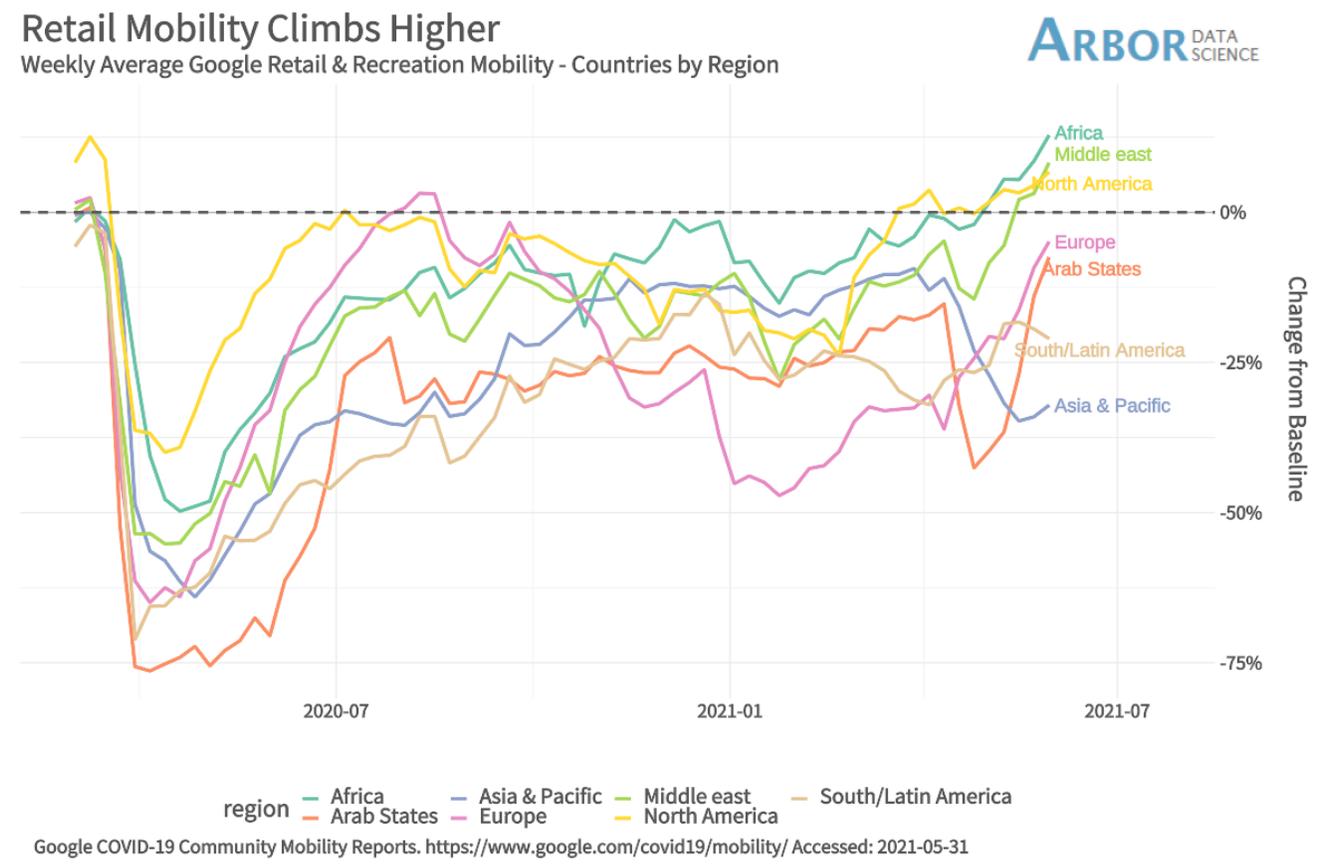


Real Time Indicators – Mobility

Globally, Google’s retail & recreation mobility is mixed. Africa now leads the pack in mobility with North America and the Middle East just behind. Mobility in Europe and the Arab States is increasing quickly but remains lower than the baseline.

South/Latin America and Asia’s mobility have not yet bounced back from the most recent virus outbreaks in the regions. India and Brazil are both still being hammered by COVID cases and consumers are unlikely to return in full force until their countries can better control the spread.

The chart shows global 7-day averages of Google’s retail & recreation mobility relative to the pre-lockdown baseline by census region.



Real Time Indicators – Mobility

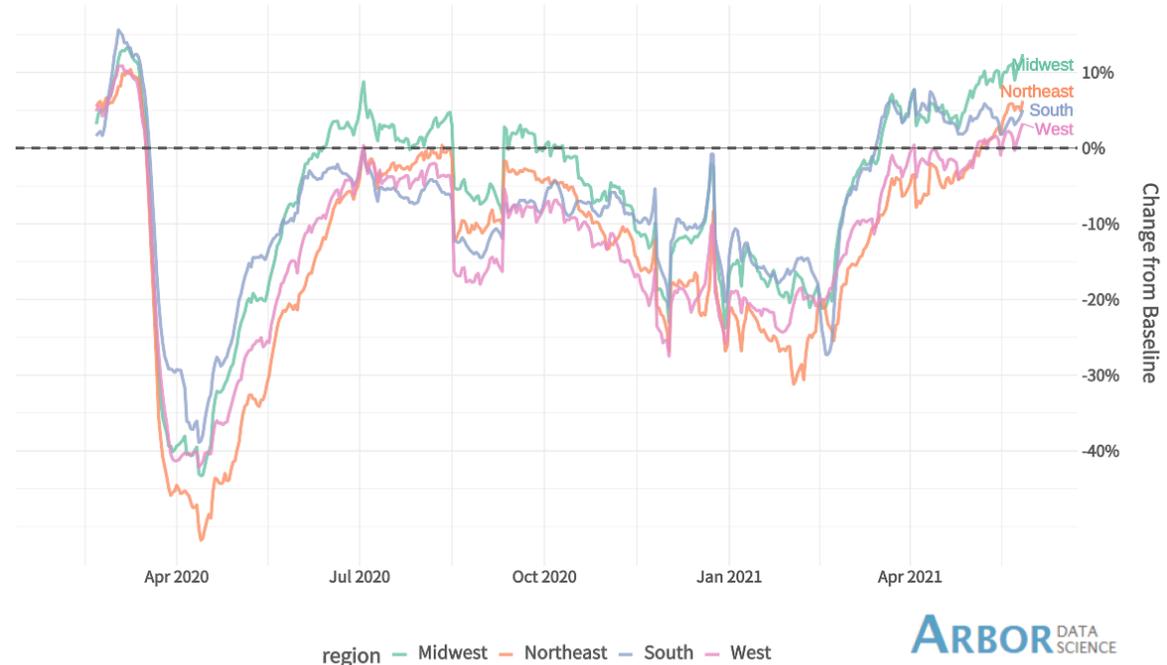
U.S. Retail Mobility has remained above baseline in every census region signaling the strength of the recovery in the US.

All signs continue to this summer being one of spending and travel for the American consumer as pent-up demand, stimulus, and record savings see higher purchasing power.

The chart shows Google US Retail Mobility by census region.

US Retail & Recreation Sustaining Recent Gains

Google Workplace Mobility - US States by Census Region



Google COVID-19 Community Mobility Reports. <https://www.google.com/covid19/mobility/> Accessed: 2021-05-31

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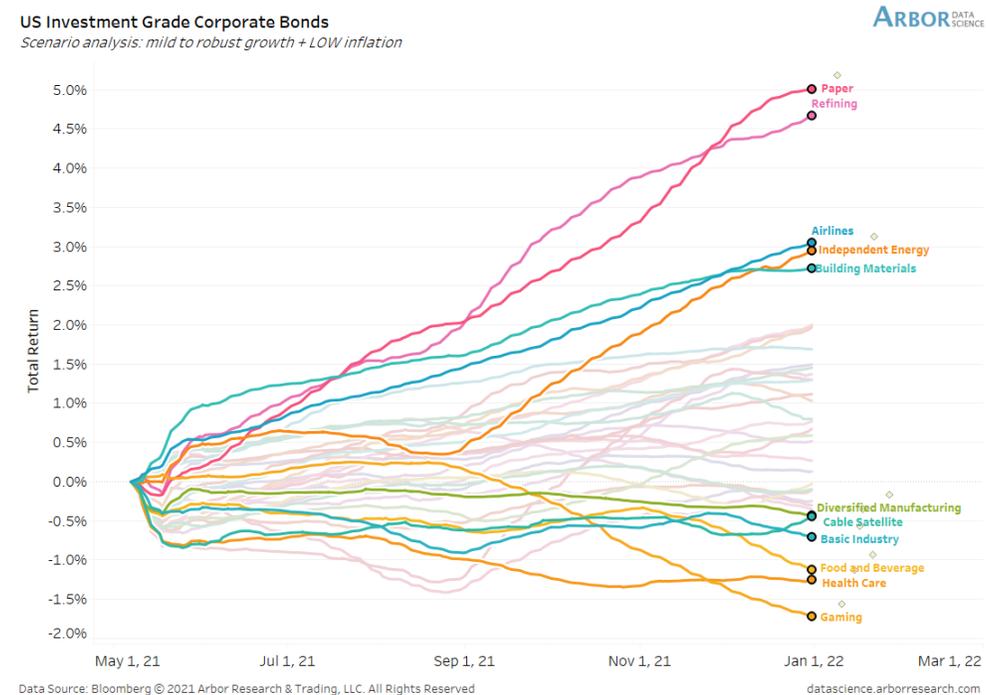
Scenario Analysis – Low Inflation

Looking ahead, economic growth and inflation will be major variables in the direction of US Credit Returns.

Assuming low inflation, Paper and Refining are projected to be the greatest outperformers trailed by Airlines, Independent Energy and Building Materials.

Meanwhile, industries like gaming, health care, and Food/Beverage are expected to underperform.

The chart shows projected U.S. Corporates Total Returns through year-end based on scenarios of varying economic data, search activity, and policy uncertainty.



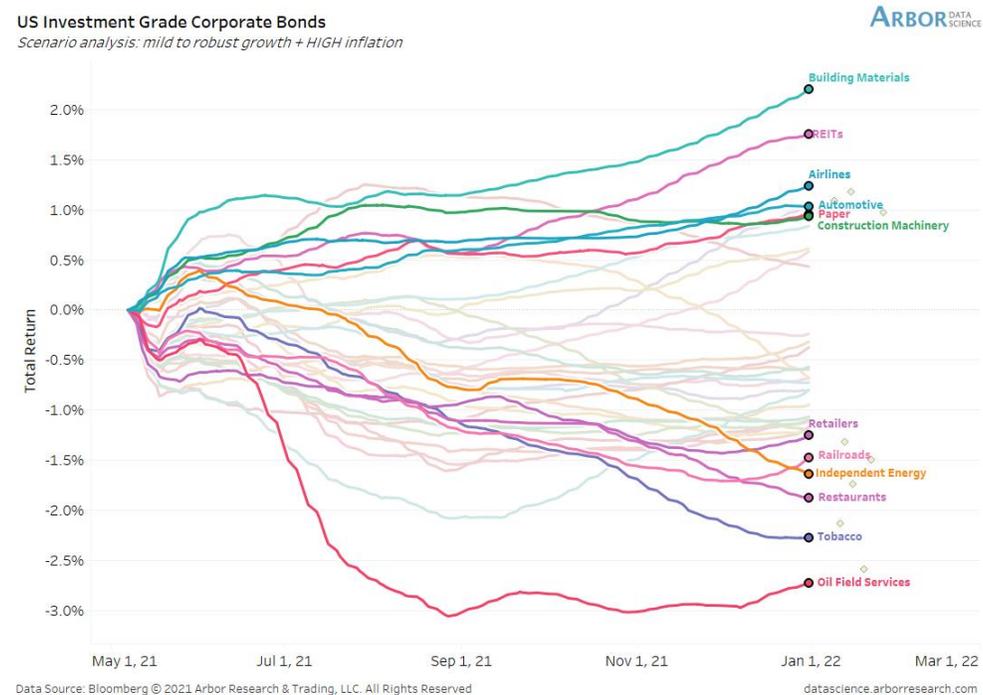
Scenario Analysis – High Inflation

On the other hand, if inflation is high, our projections show the biggest outperformers being Building Materials and REITs. In either scenario, Building Materials outperforms.

Oil is projected to be the worst-off industry if we see high inflation with Tobacco performing only a little better.

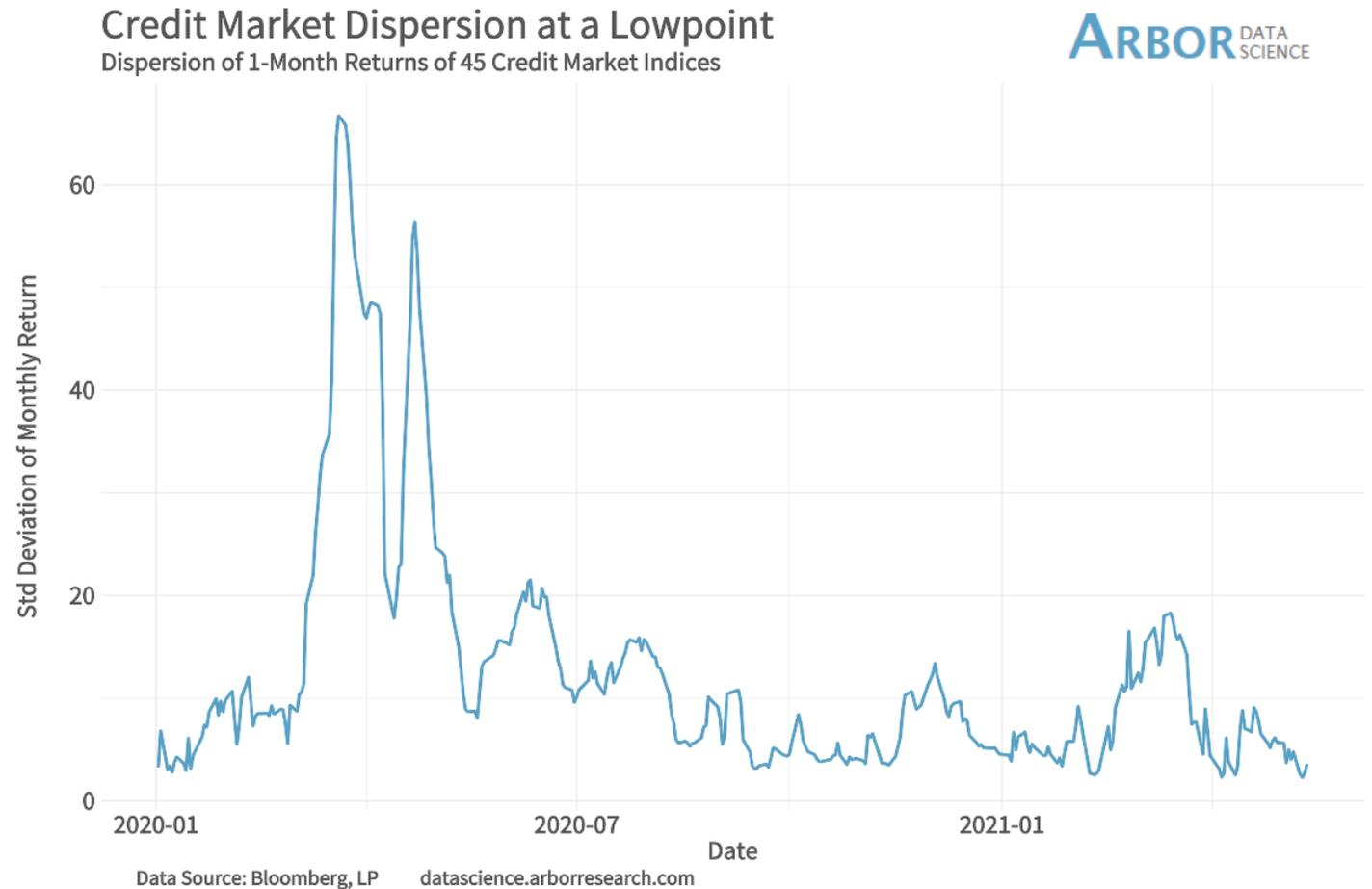
For more info on scenario analysis:
[Industrials](#)

The chart shows projected U.S. Corporates Total Returns through year-end based on scenarios of varying economic data, search activity, and policy uncertainty.



Weekly Feature – Credit Markets Threaten to Become Interesting

Dispersion in credit markets remain at a lowpoint while correlation continues to rise. Although this makes credit less interesting for investors (there are few stand-outs), it signals to us that credit may be overbought.



Weekly Feature – Credit Markets Threaten to Become Interesting

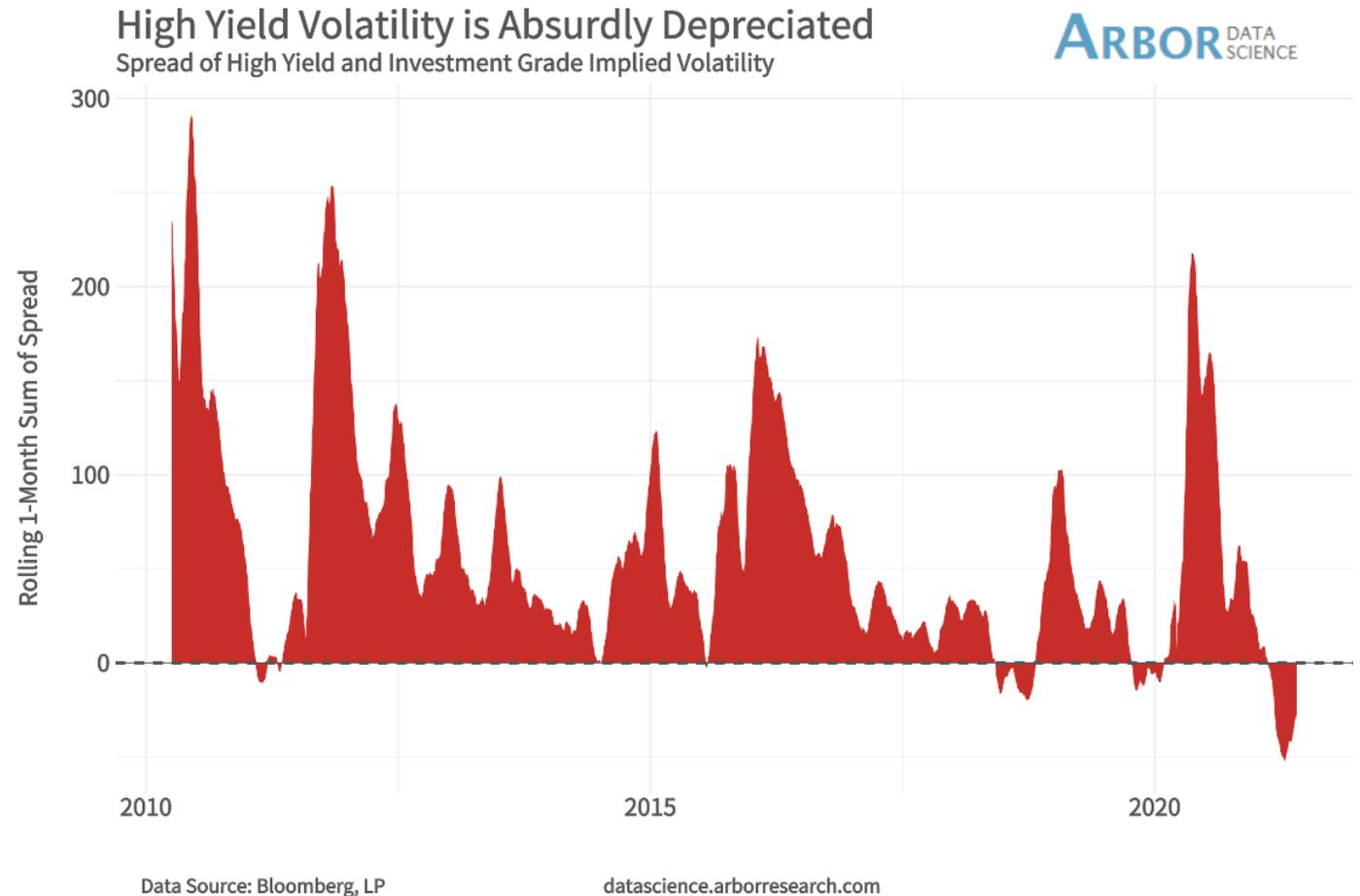
Alongside this, credit volatility is also unique. The implied volatility of high yield credit is significantly lower than investment grade, something we've never seen to this extent the past decade.

This further points to the trend of movement into riskier assets and may explain the popularity of something like cryptocurrency.

For more, check out:

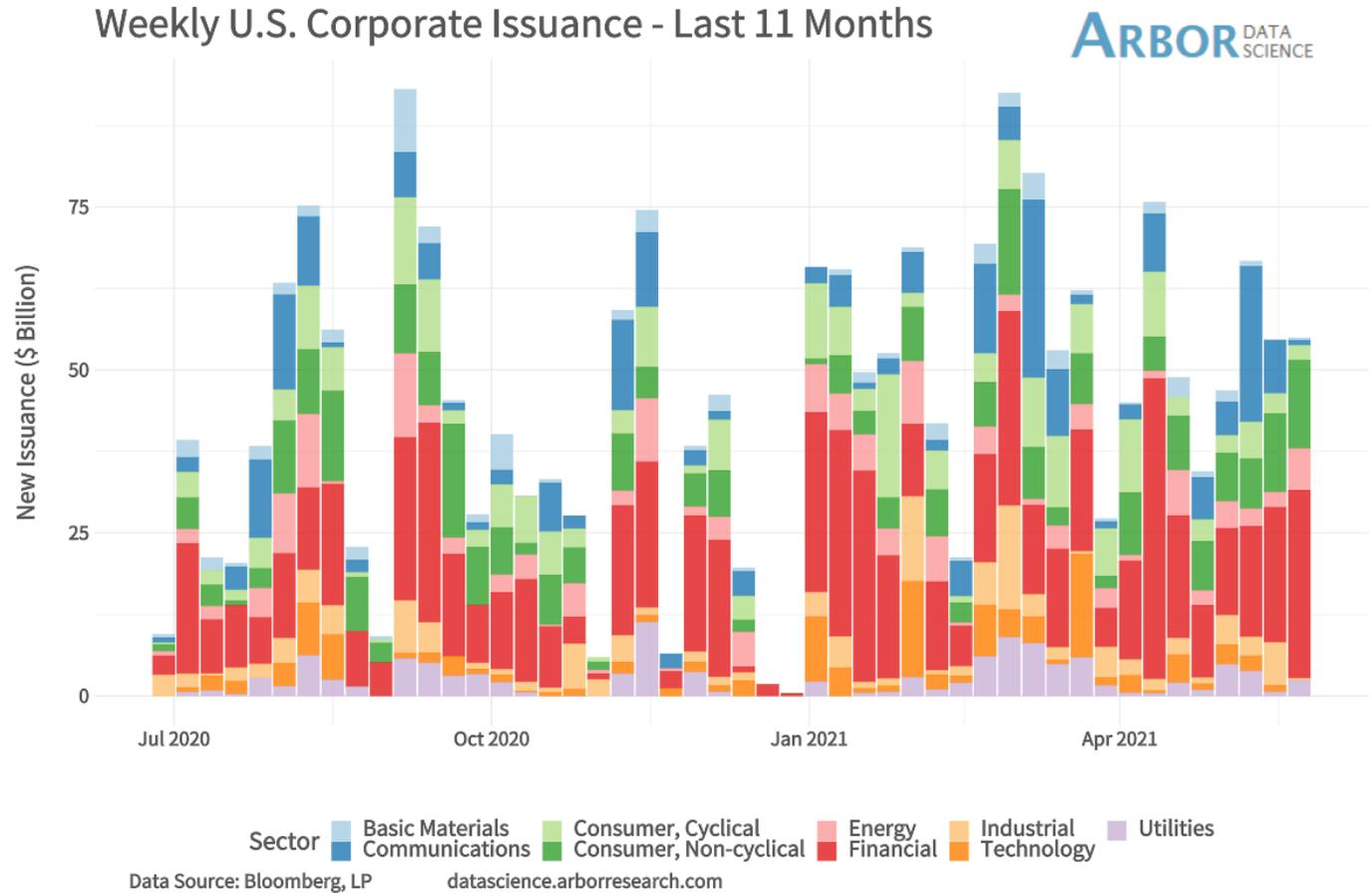
[Credit Markets Threaten to Become Interesting](#)

This chart shows the rolling 90-day spread of High Yield and Investment Grade Implied Volatility.



Issuance Recap

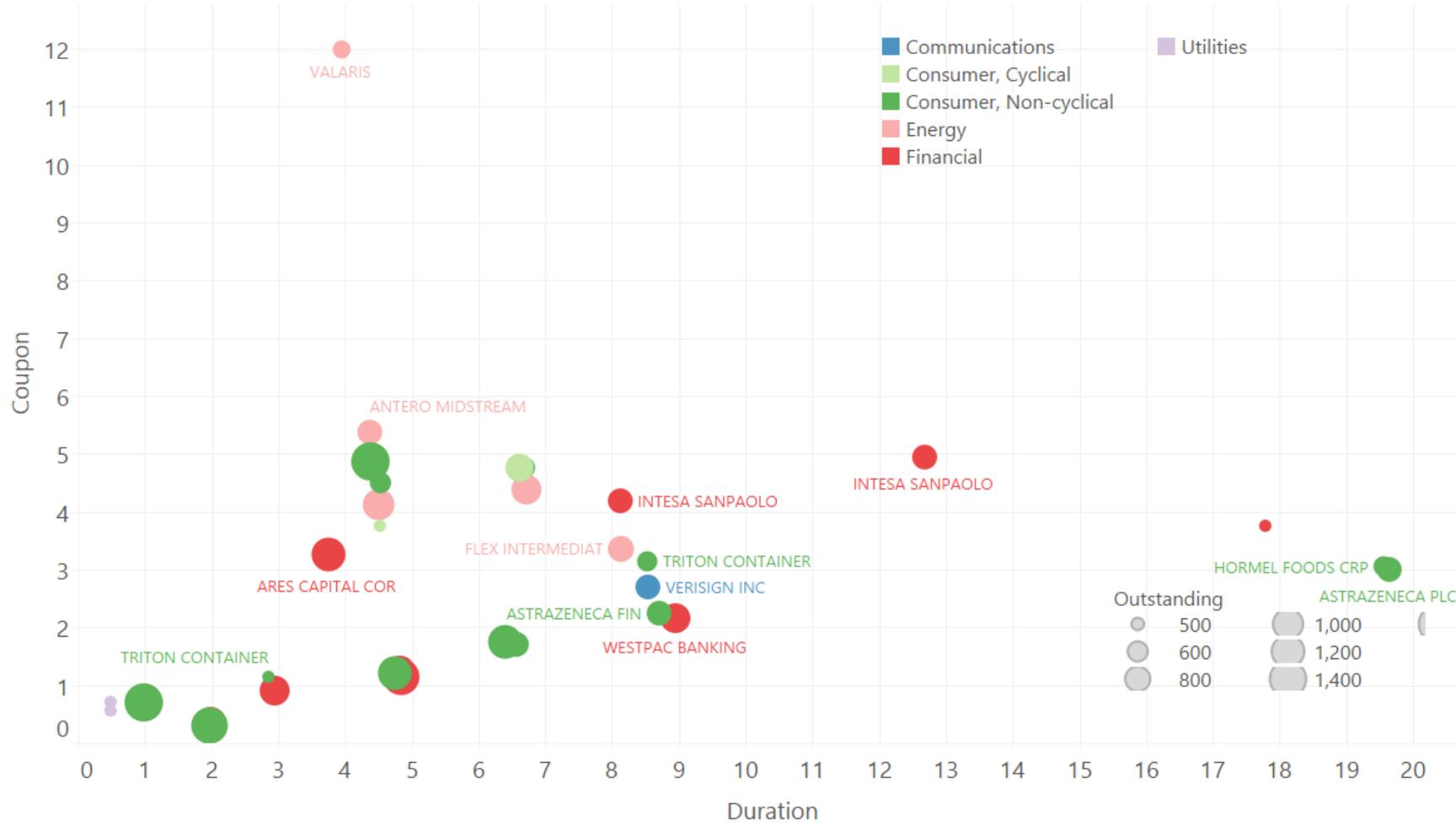
Primary issuance was limited last week, due to the holiday weekend but came in about the same as the week prior.



Issuance Recap

New Credit Issuance - Last Week

Coupon vs. Duration



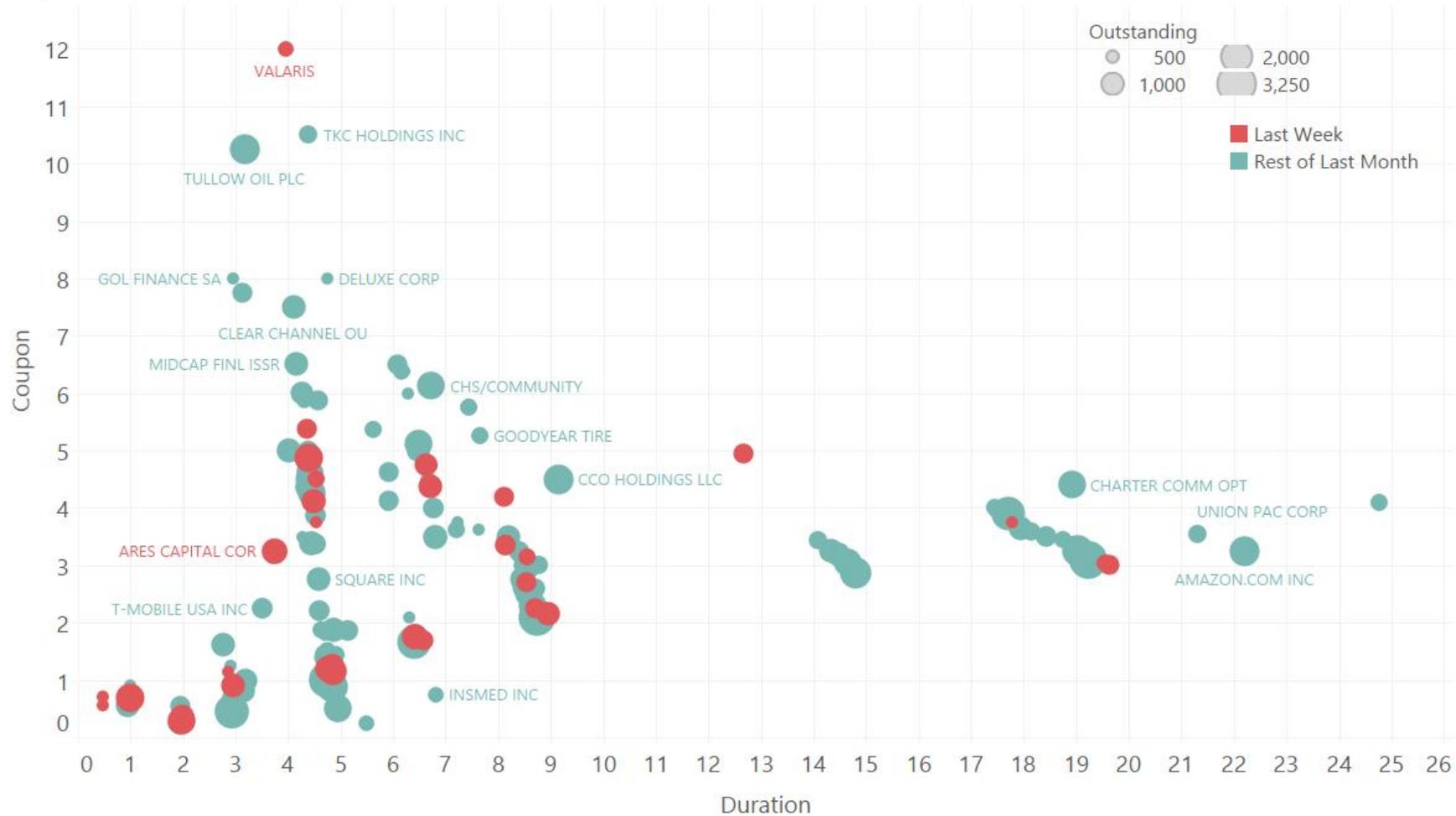
Data Source: Bloomberg LP datascience.arborresearch.com

Issuance Recap

New Credit Issuance - Last Calendar Month

Coupon vs. Duration

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Data Source: Bloomberg LP datascience.arborresearch.com

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