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**Credit market outlook:**  
Fed pivot triggers rally in higher-quality  
credit with attractive all-in yields

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**Apollo Global Management**

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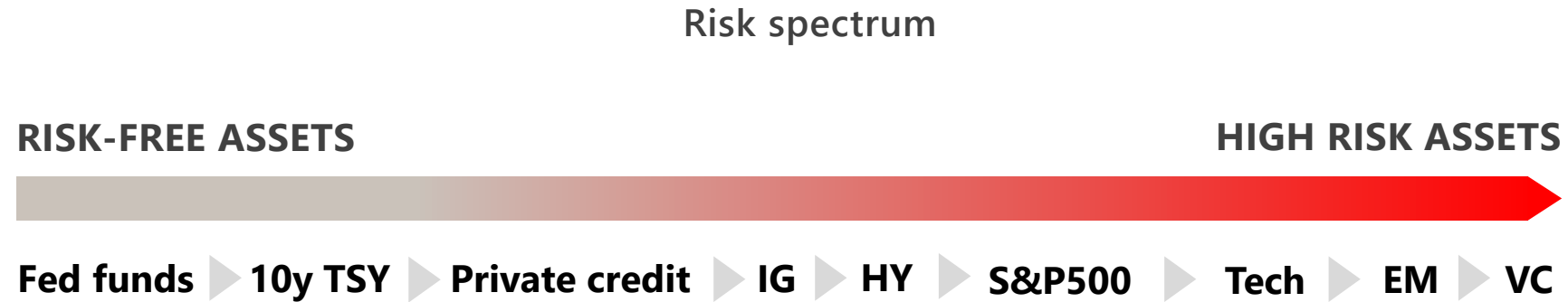
## Key themes for credit investors

- 1. New issuance rallying sharply, as demand remains strong from pension, annuity sales, and retail.** Credit spreads continue to tighten and are trading near the tight end of the two-year range. Beta compression remains a key theme across credit, with the exception of CCCs.
- 2. Credit spreads are tight, but all-in yields are attractive with a Fed cutting outlook.** Strong demand from yield buyers should limit the extent of any spread widening, bar a material worsening in the macro backdrop.
- 3. Uncertainty about the ongoing soft landing will keep volatility elevated.** Hard landing or reacceleration in inflation are still possible scenarios.
- 4. Mid-beta credit such as BBB debt offers the attractive combination of wide spreads and stronger sponsorship from yield-driven demand.** Financial conditions have eased recently but funding costs remain high, which combined with slowing growth could impact firms with weak balance sheets. Elevated cash balances on investment grade corporate balance sheets could drive a pick-up in M&A activity.

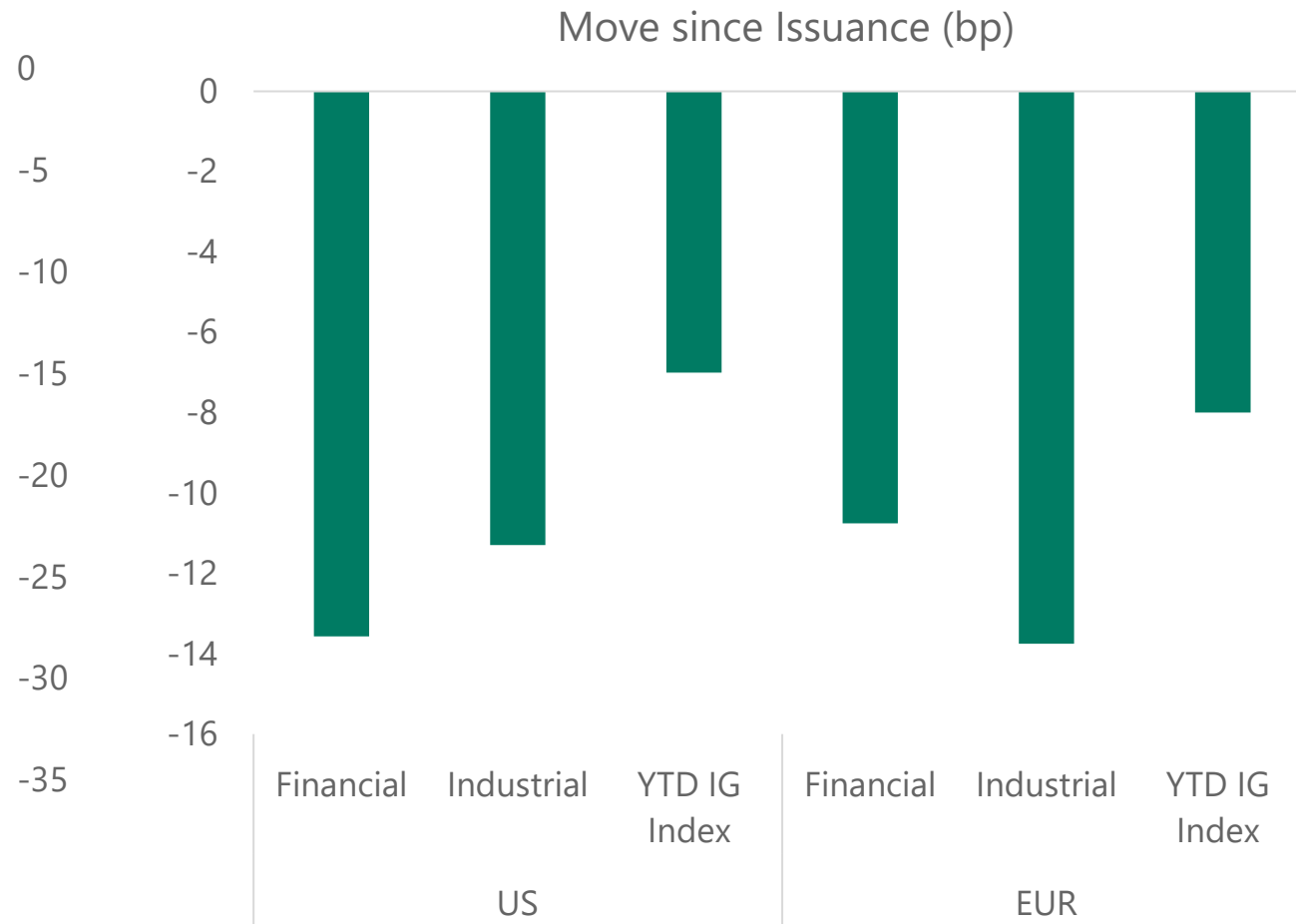
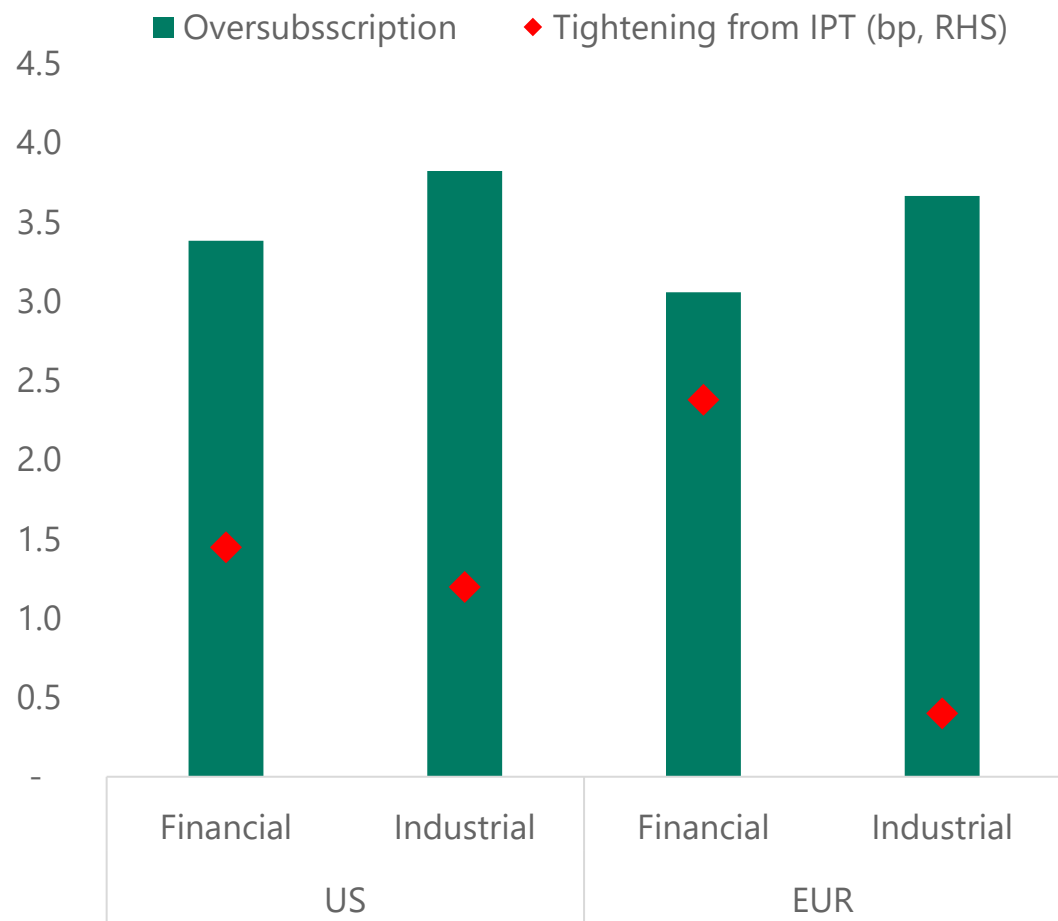
1) New issuance rallying sharply  
– driven by strong demand



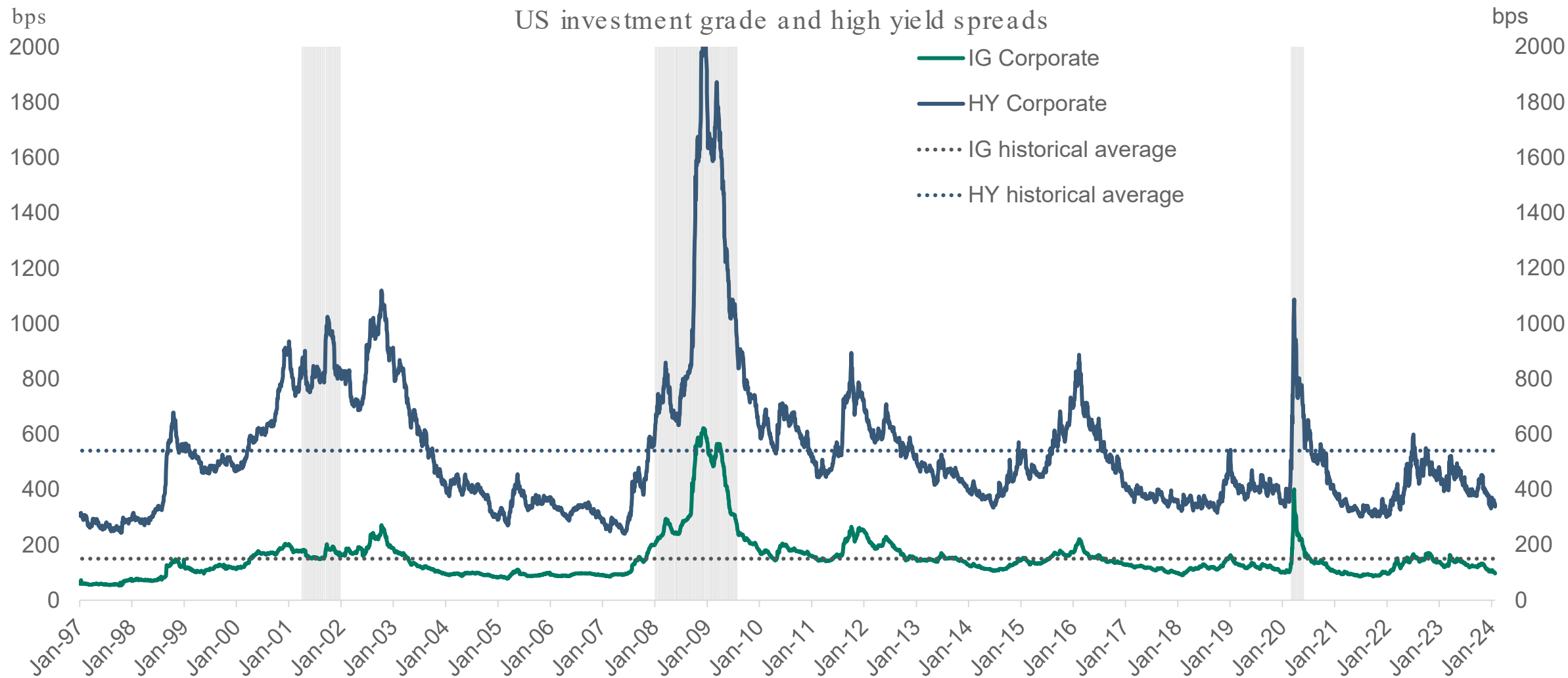
Fed signaling lower risk-free interest rates is bringing back the hunt for yield



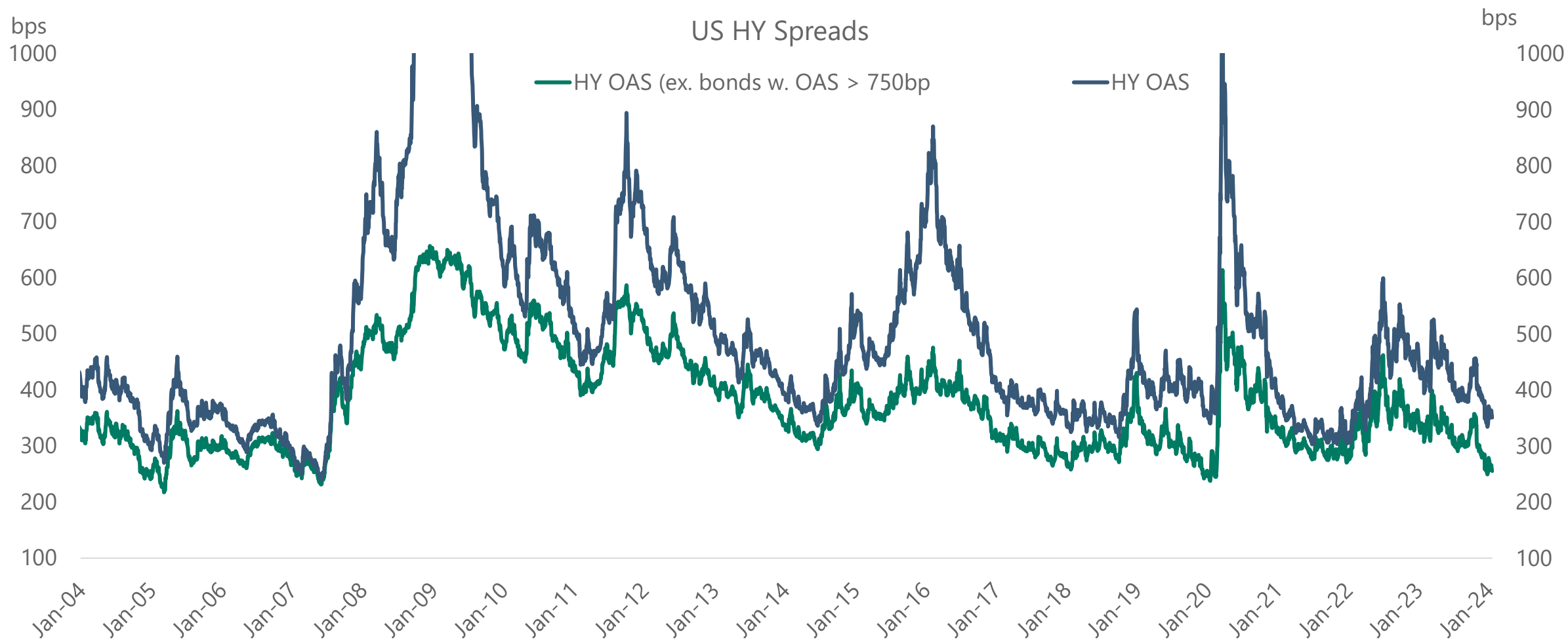
# January supply has performed well as elevated all-in yields have attracted strong demand



# Credit spreads have continued to tighten

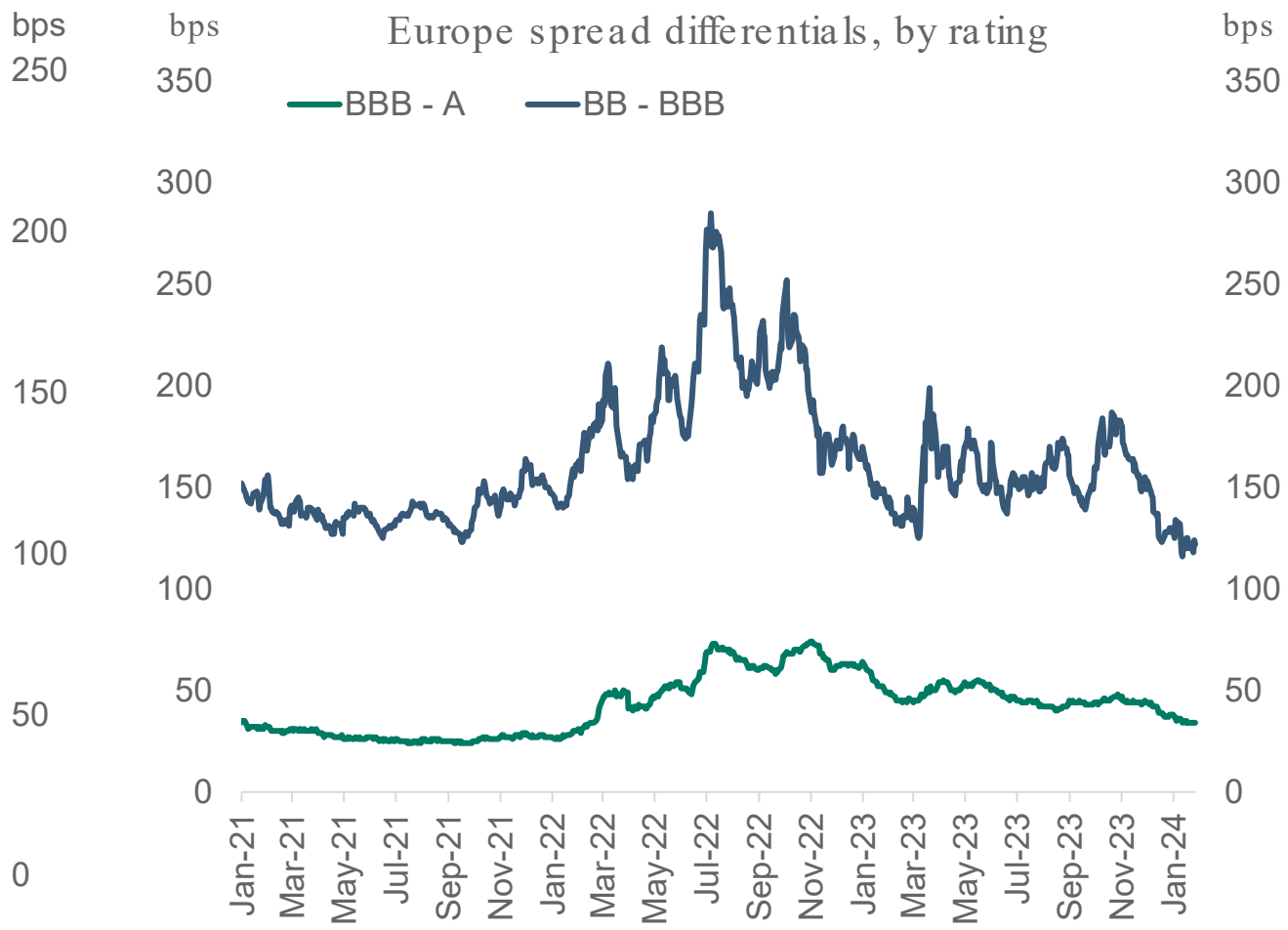
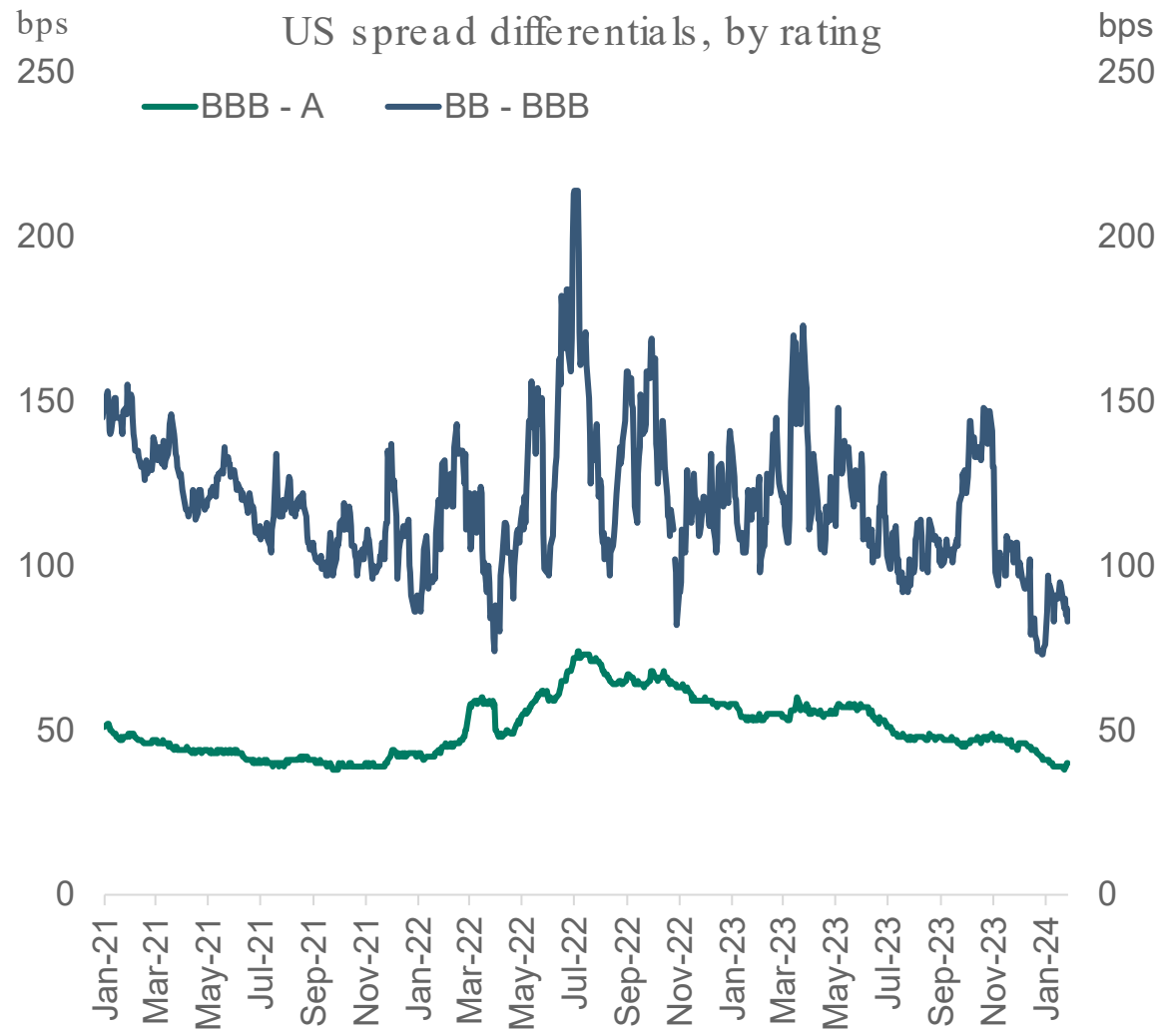


# US HY credit spreads (ex. the right tail) are near post-COVID tights





# Except for CCCs, beta compression remains a key theme



# Nearly 70% of the US LL market trades over \$99

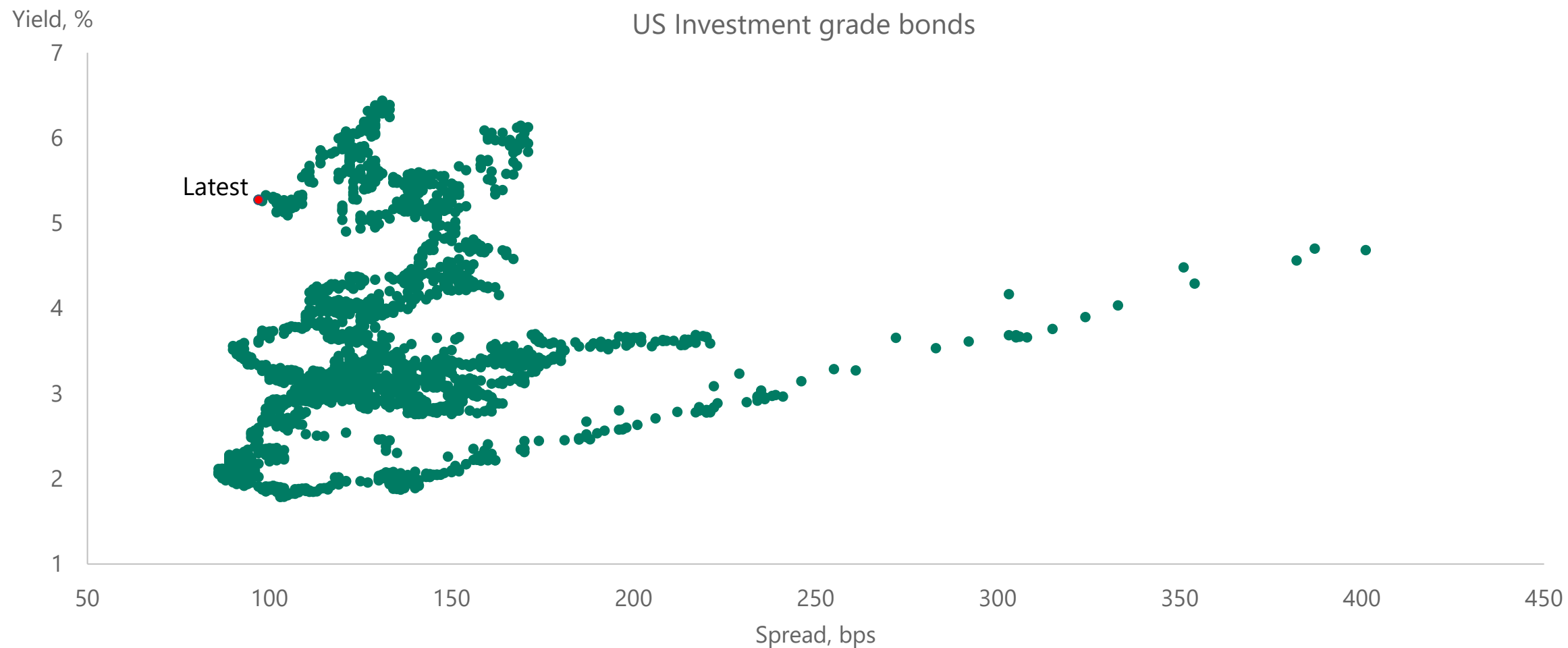


Source: ICE BofA Index, Bloomberg, Apollo Chief Economist

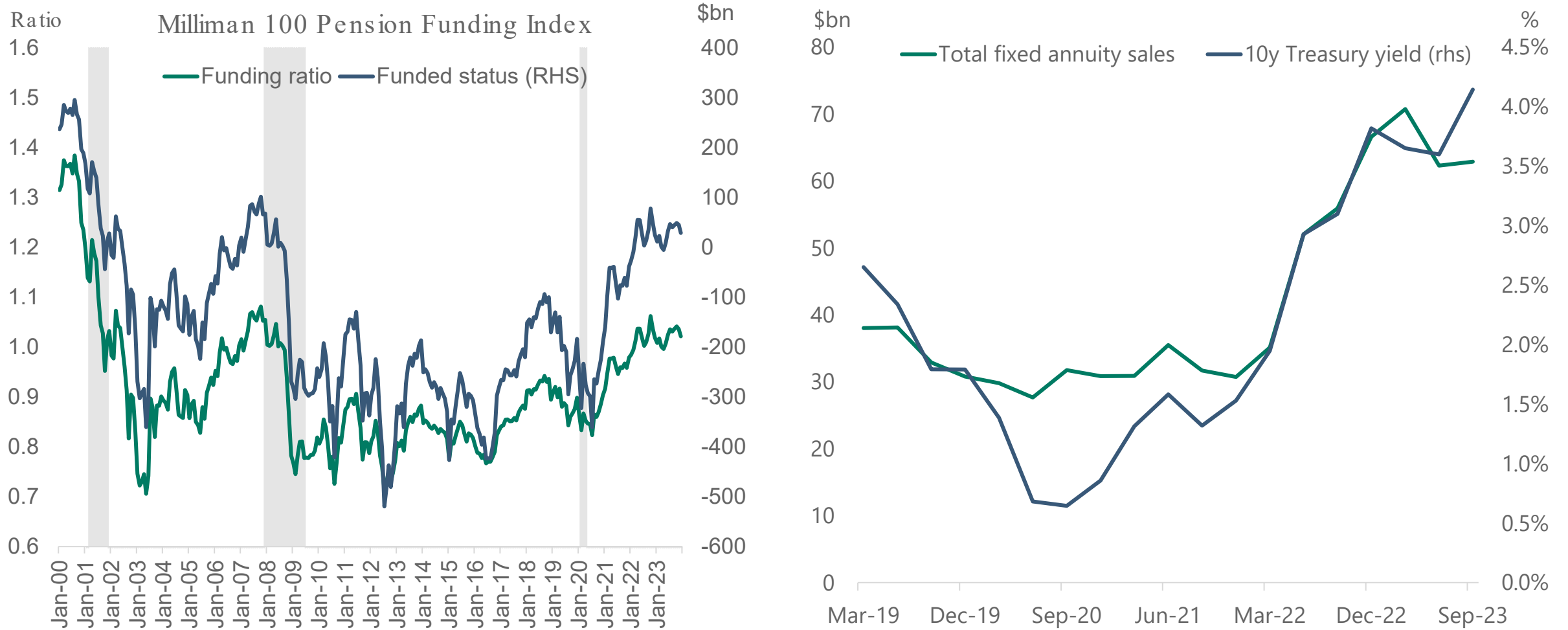
2) Credit spreads tight, but all-in yields are attractive for pension, insurance, and retail



# While spreads are tight, all-in yields are more attractive

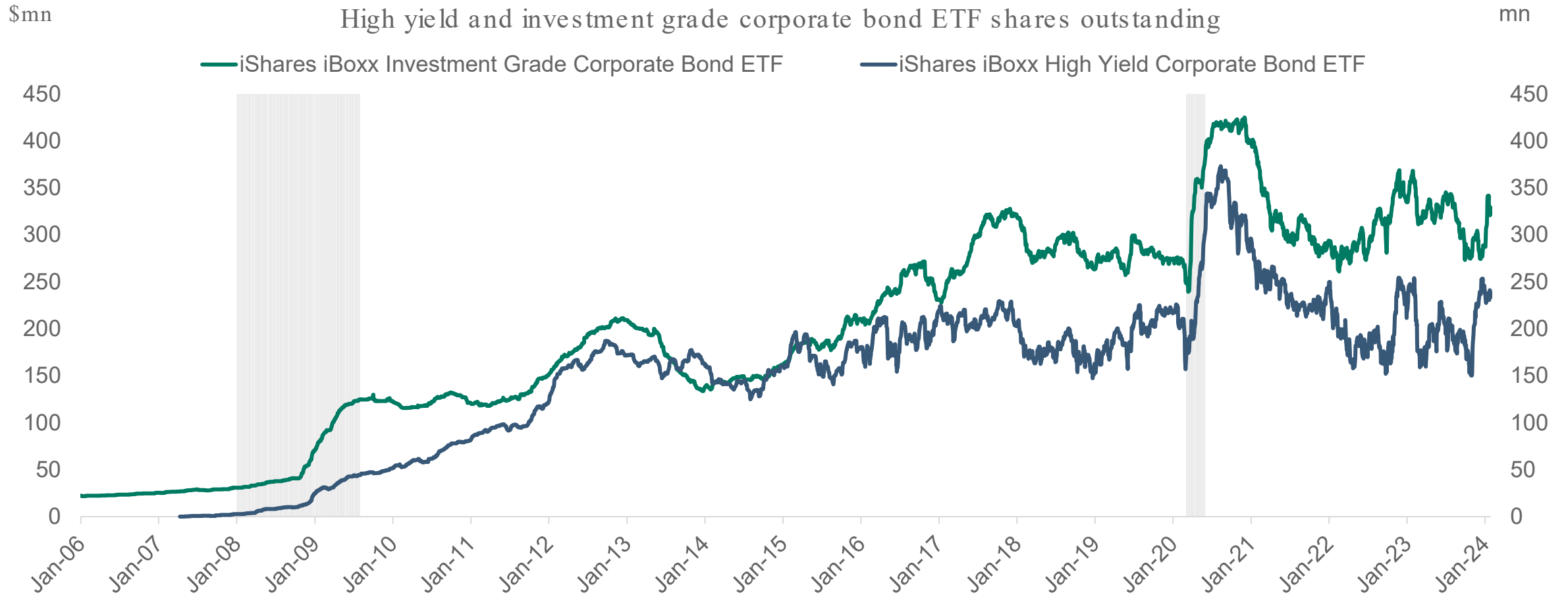


# Demand from all-in yield buyers should remain elevated



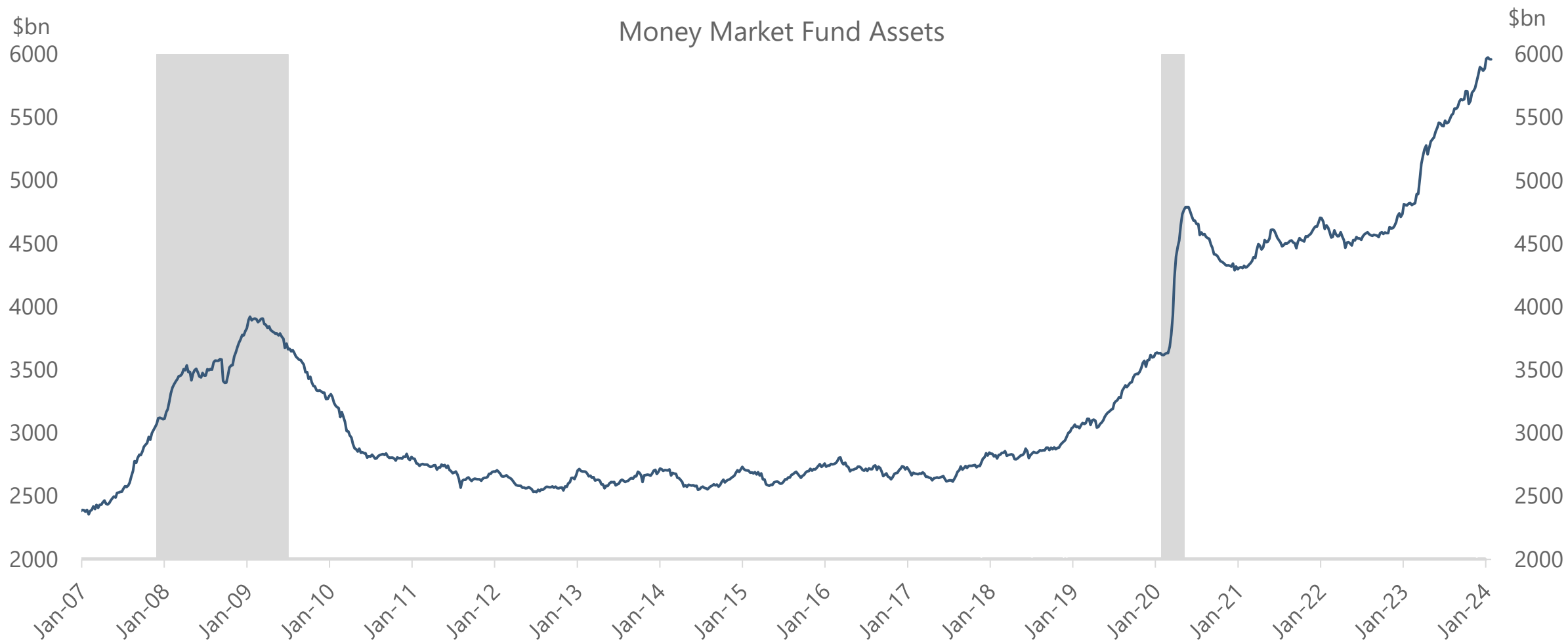
Source: Bloomberg, Apollo Chief Economist. Quarterly data shown for fixed annuity sales. The 10y Treasury yield is the average for the quarter.

# Retail investor activity in IG and HY



Source: Bloomberg, Apollo Chief Economist. Note: Tickers used HYG US Equity and LQD US Equity

# Money market fund assets at all-time high \$6trn

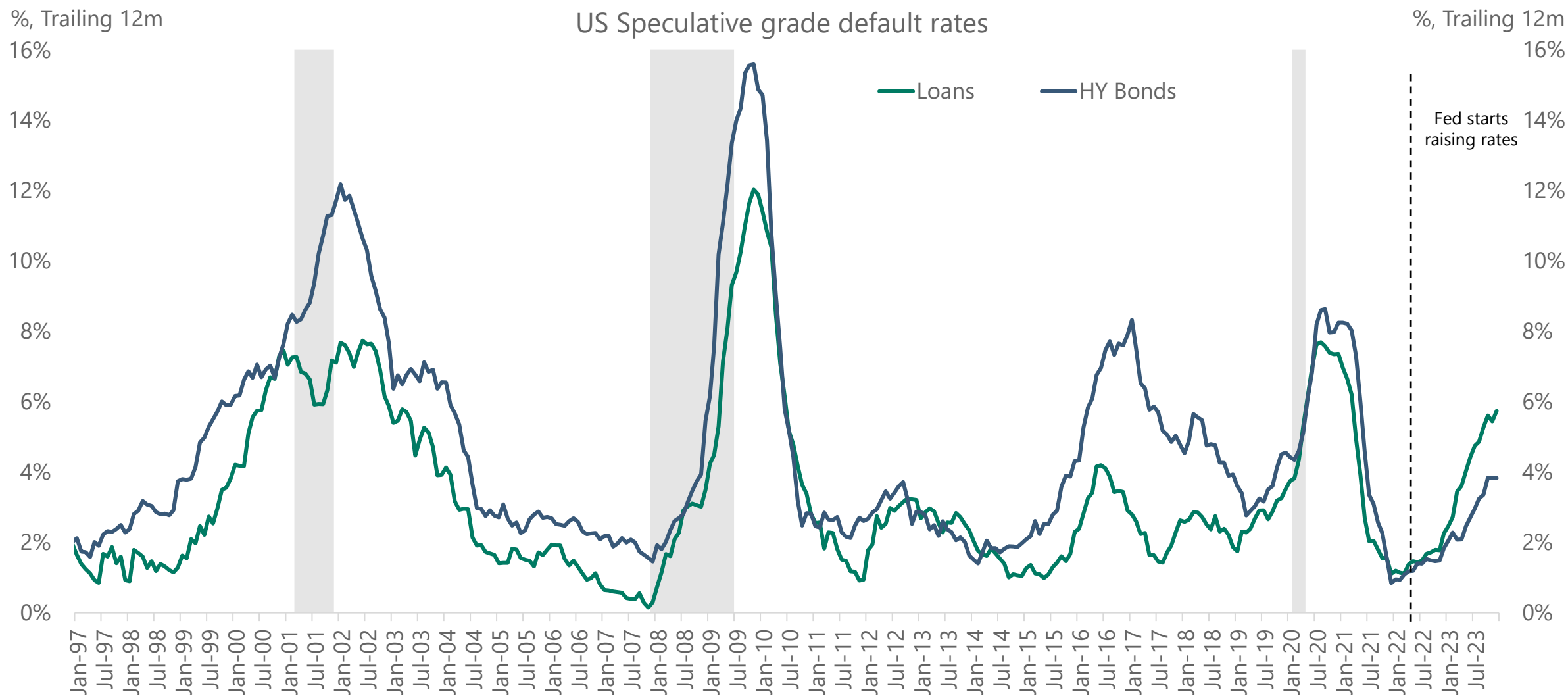


3) Uncertainty about soft landing  
will keep volatility elevated



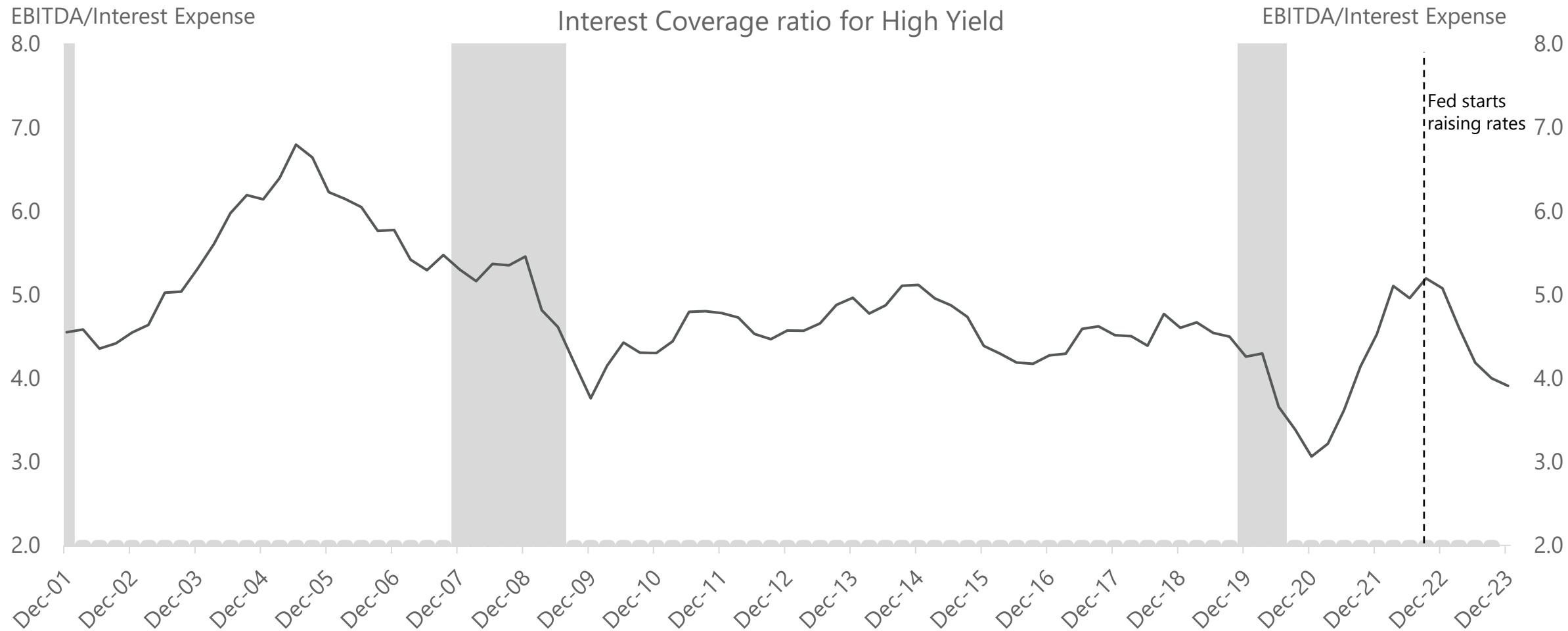


# A default cycle has started but Fed pivot could reverse the current uptrend in defaults

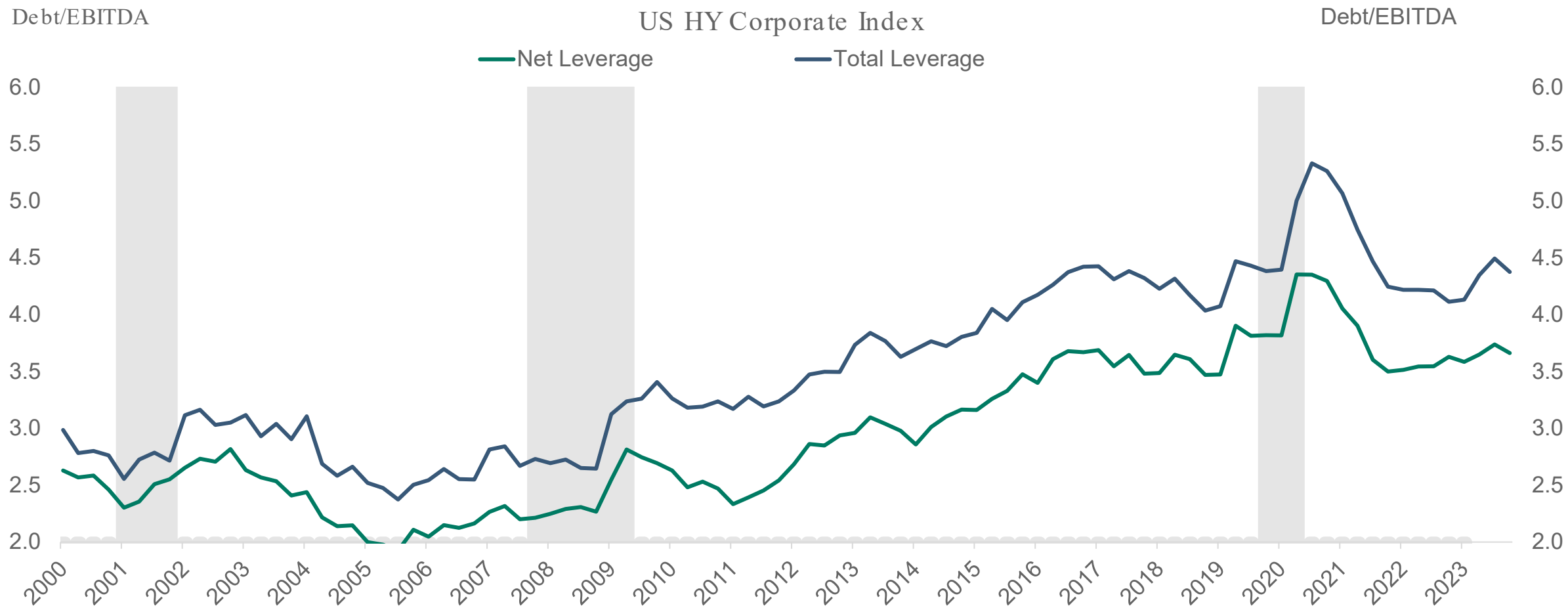


Source: Moody's Analytics, Apollo Chief Economist

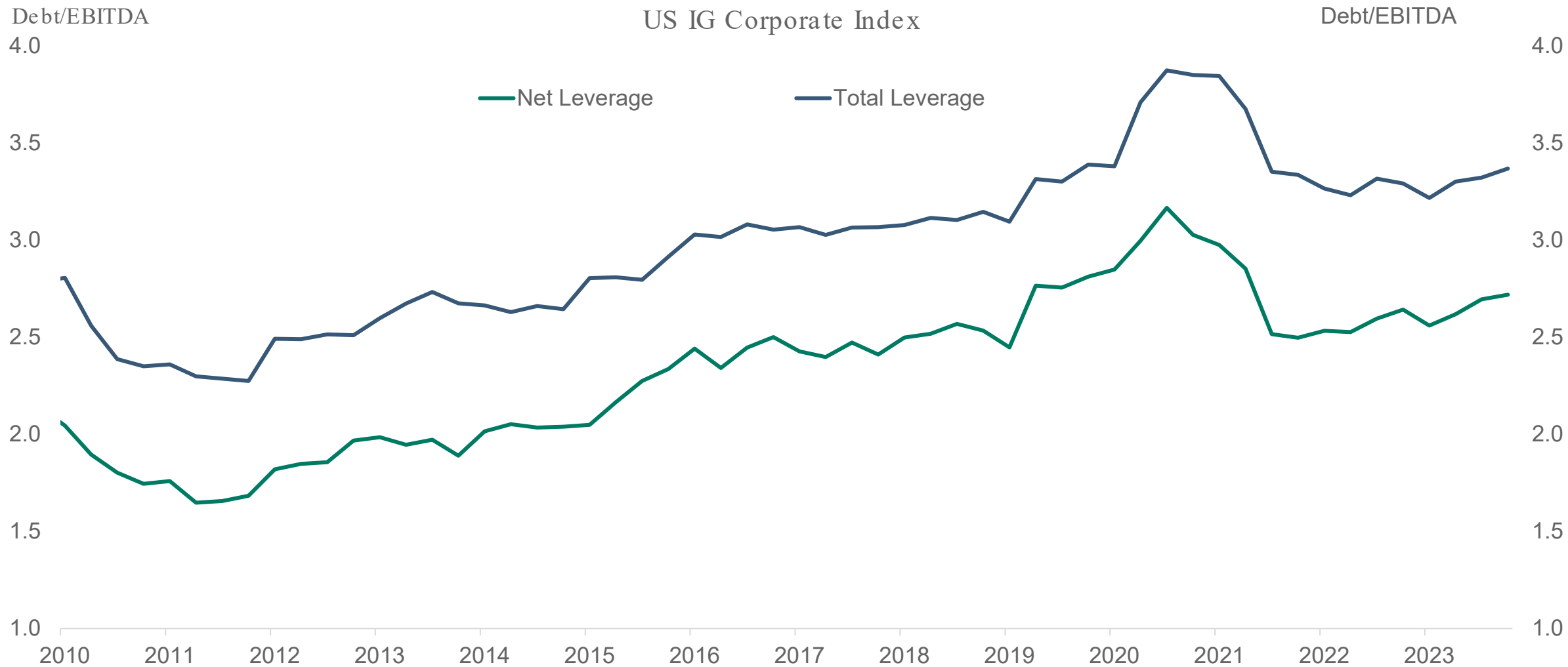
# Interest Coverage Ratio continues to decline ...



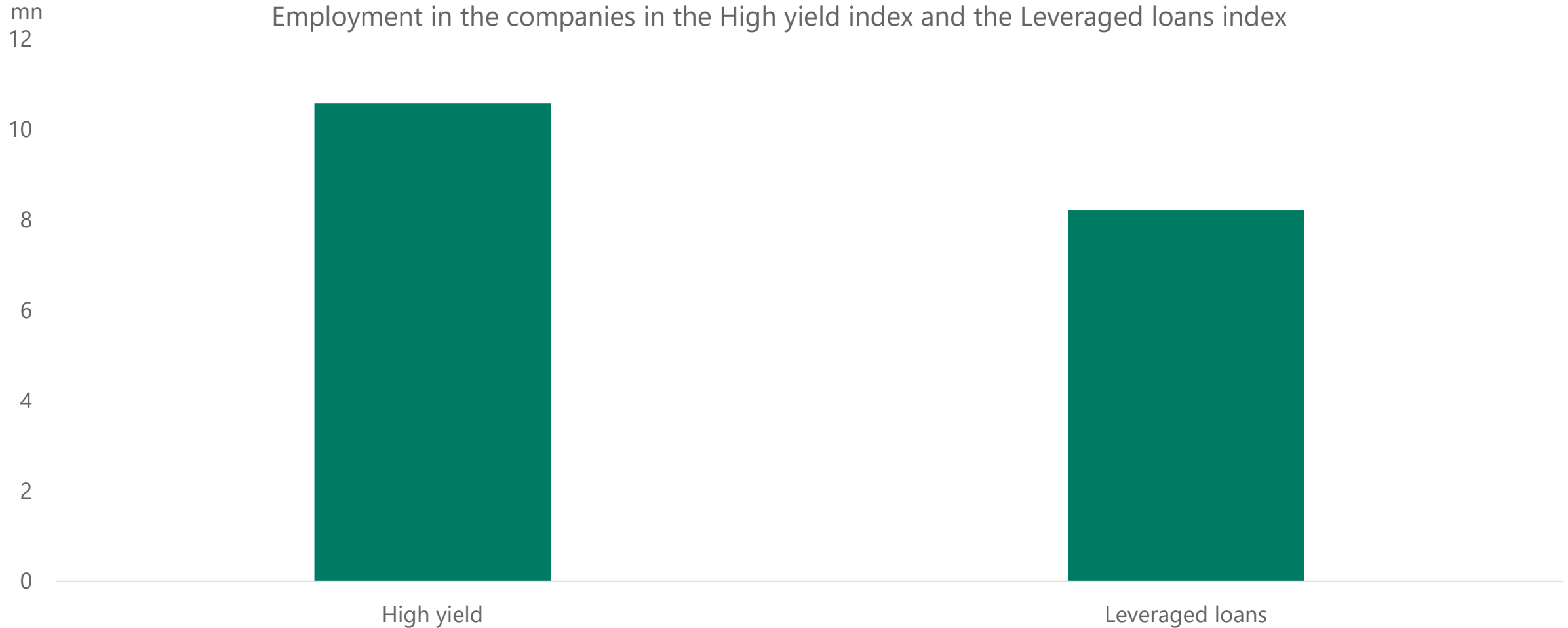
... but net leverage has been more stable



# Leverage for investment grade companies is also stable



Total employment in firms in the US high yield index: 11 million  
Total employment in firms in the leveraged loans index: 8 million

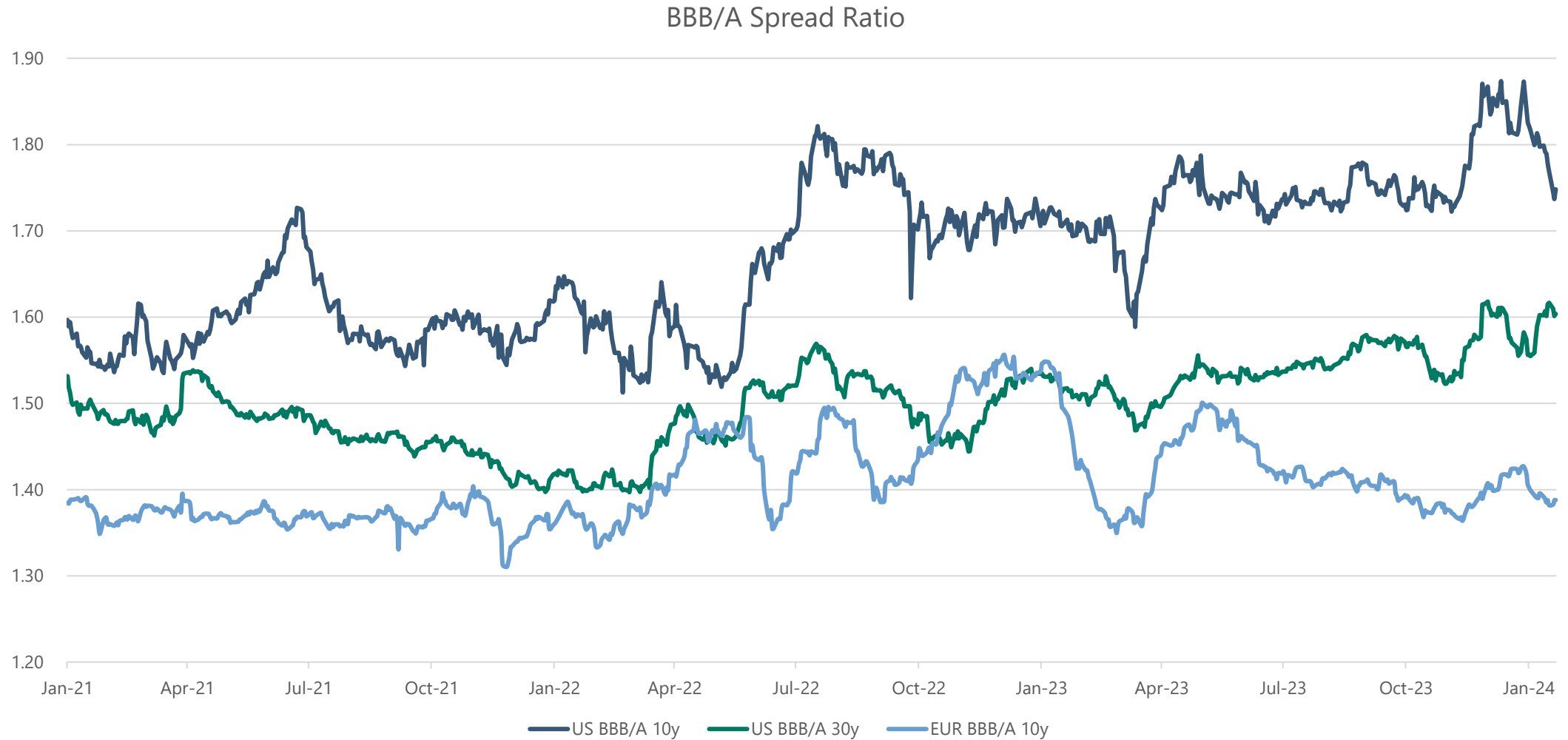


Source: Bloomberg, ICE BofA H0A0 Index, Morningstar LSTA Index, Apollo Chief Economist. Note: Data includes 842 companies in the HY index with employment data available for 584 companies and median employment assumed for the rest. Similarly, there are 1073 companies in the leveraged loans index with employment data available for 450 companies and median employment assumed for the rest.

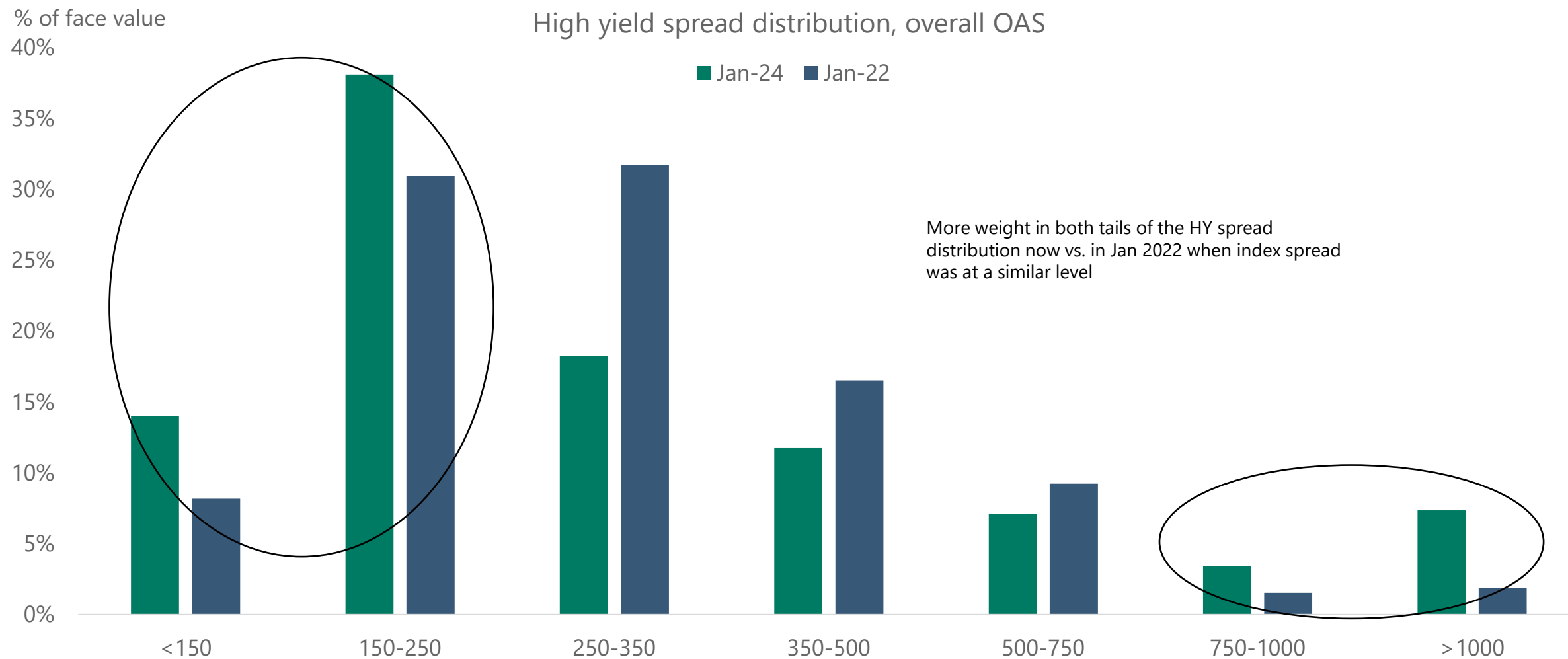
#### 4) Relative value within credit



BBB-A spread ratios have remained stable/increased slightly as credit spreads have compressed

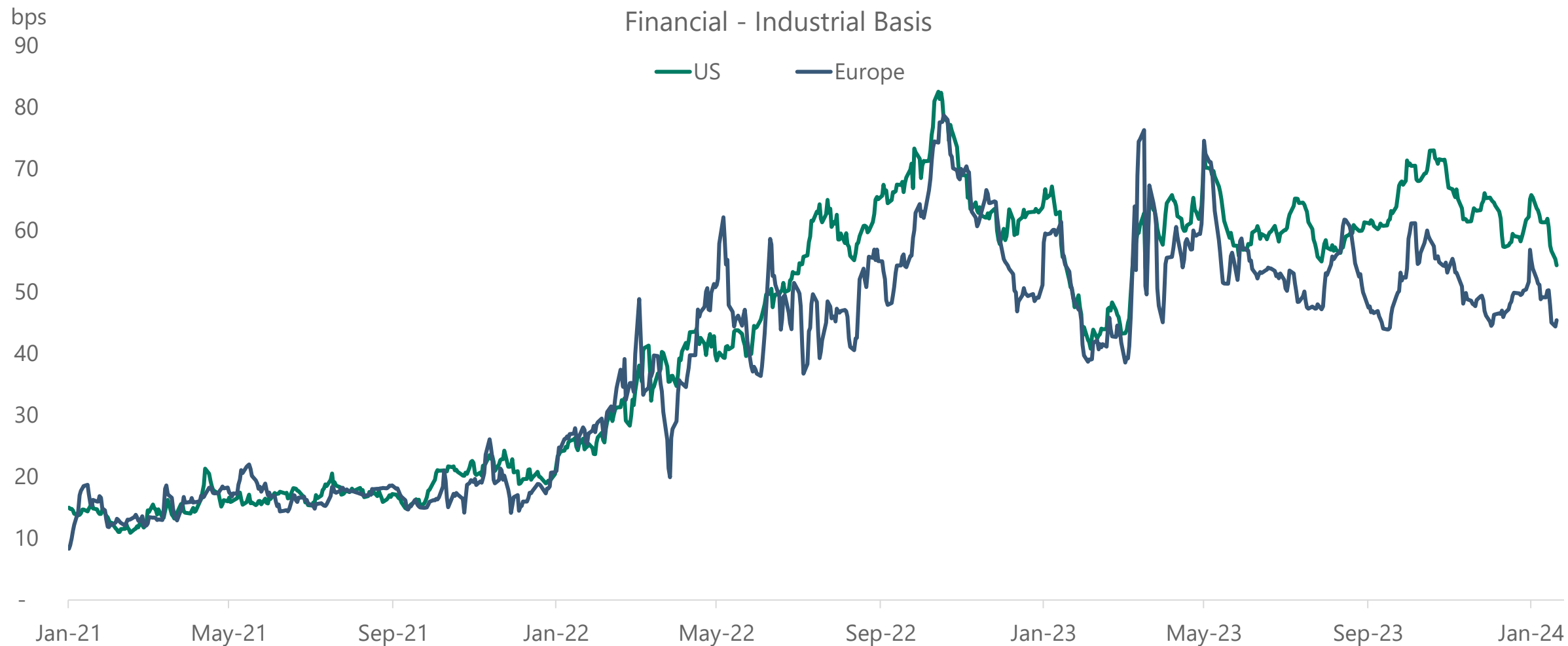


# Spread dispersion is high in high yield credit



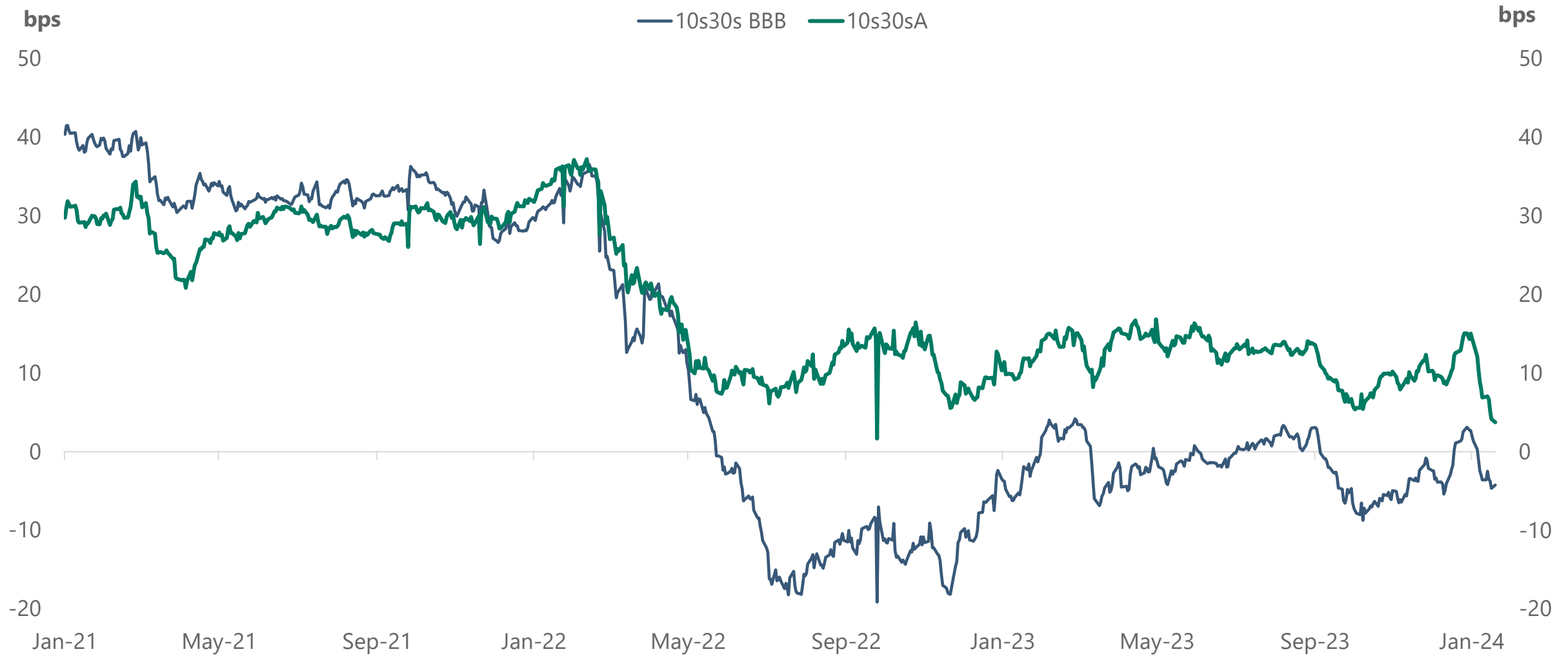


# Financial – industrial basis remains wide



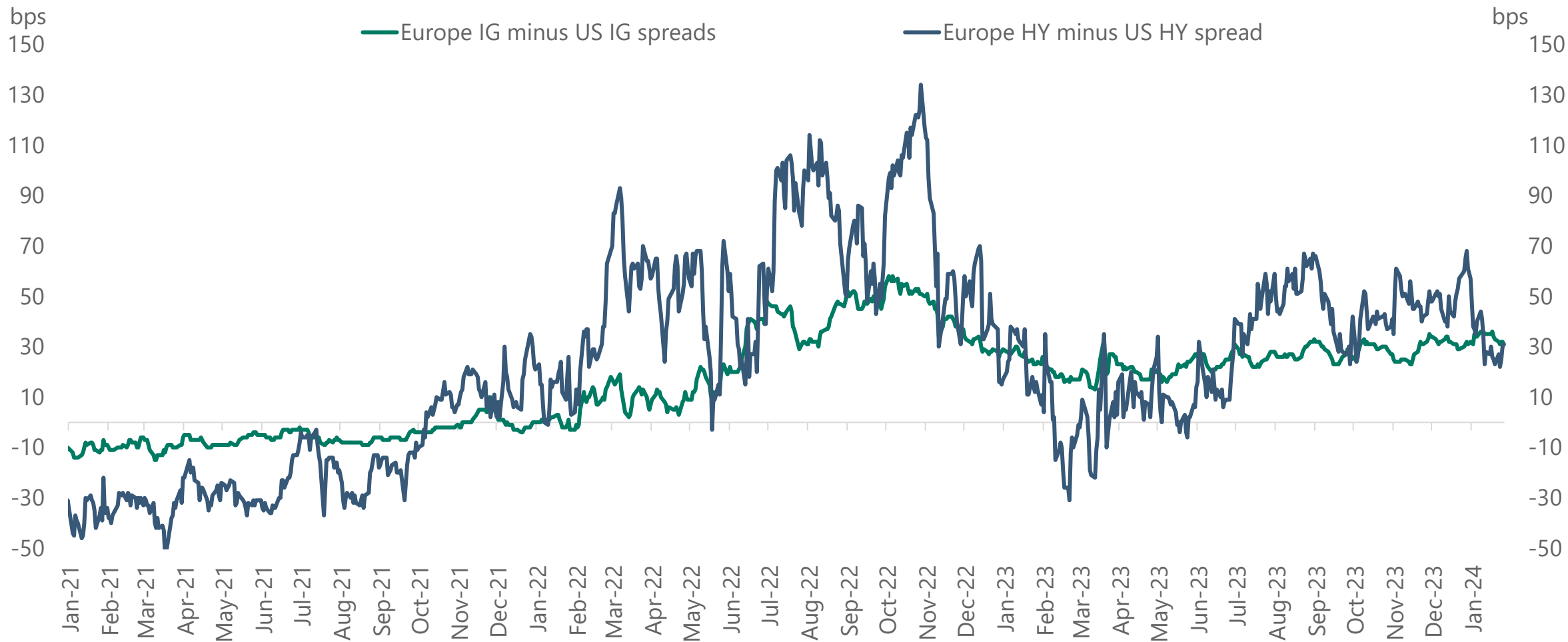
Source: ICE BofA Index, Bloomberg, Apollo Chief Economist. Based on 8-11y A-rated senior debt for both financials and industrials.

# 10s30s credit spread curves have flattened significantly



Source: ICE BofA Index, Bloomberg, Apollo Chief Economist. Credit curves for industrial debt. 10y based on 8-11yr maturity, 30y based on 25-35y debt.

# European credit has lagged the recent rally compared with US



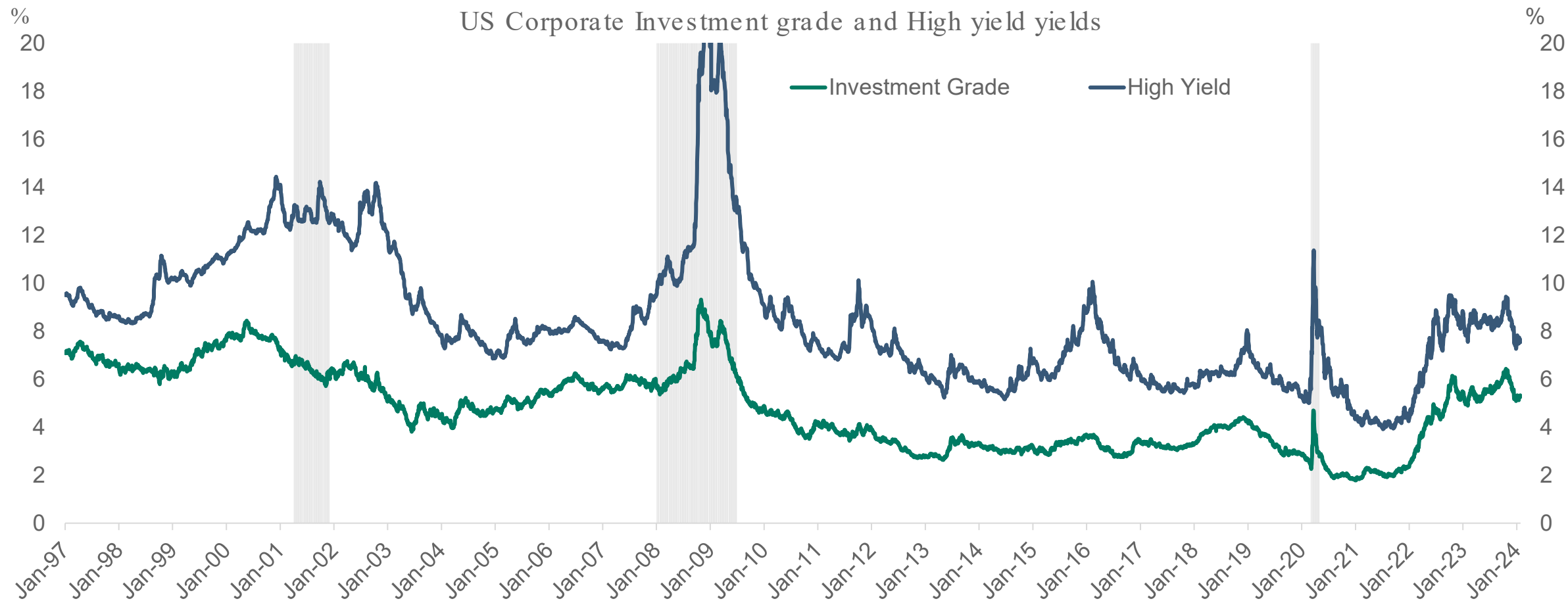
# Divergence between and US and Europe lower rated junk bond spreads



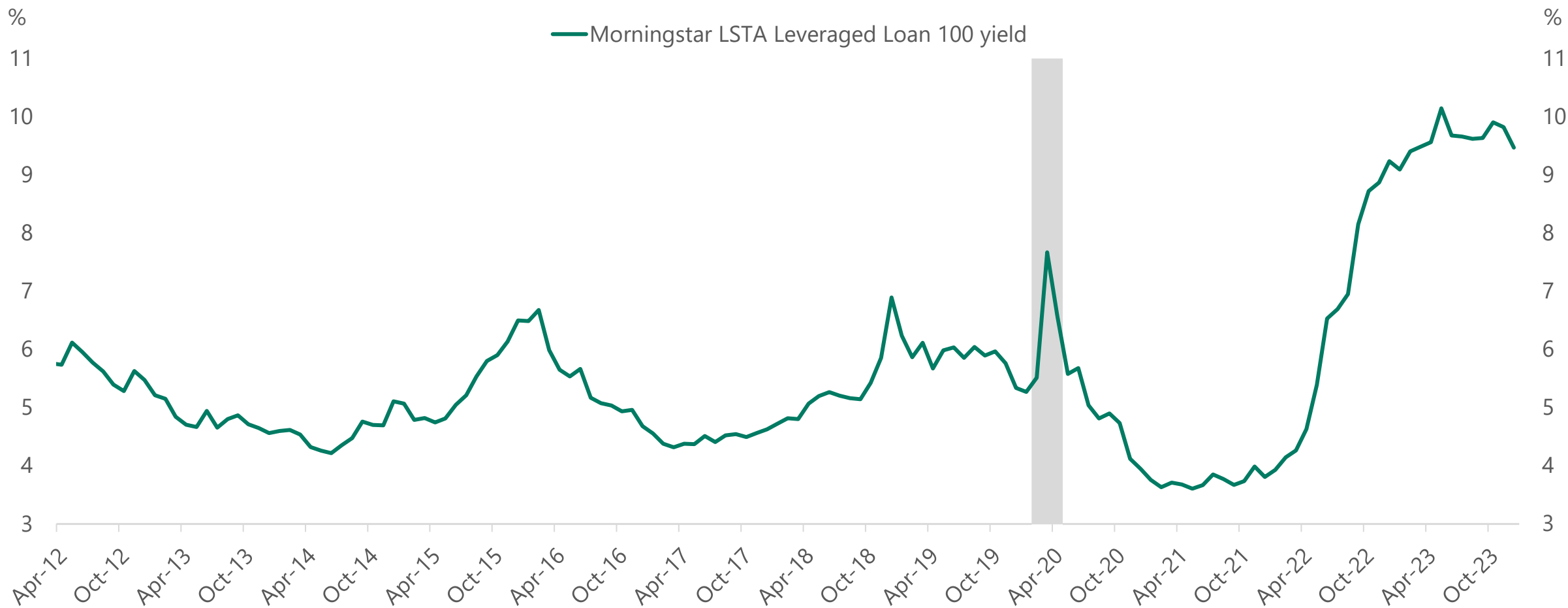
Yield levels



# US IG yield around 5.3% and HY yield around 7.6%



# Yield for the leveraged loan index: 9.5%

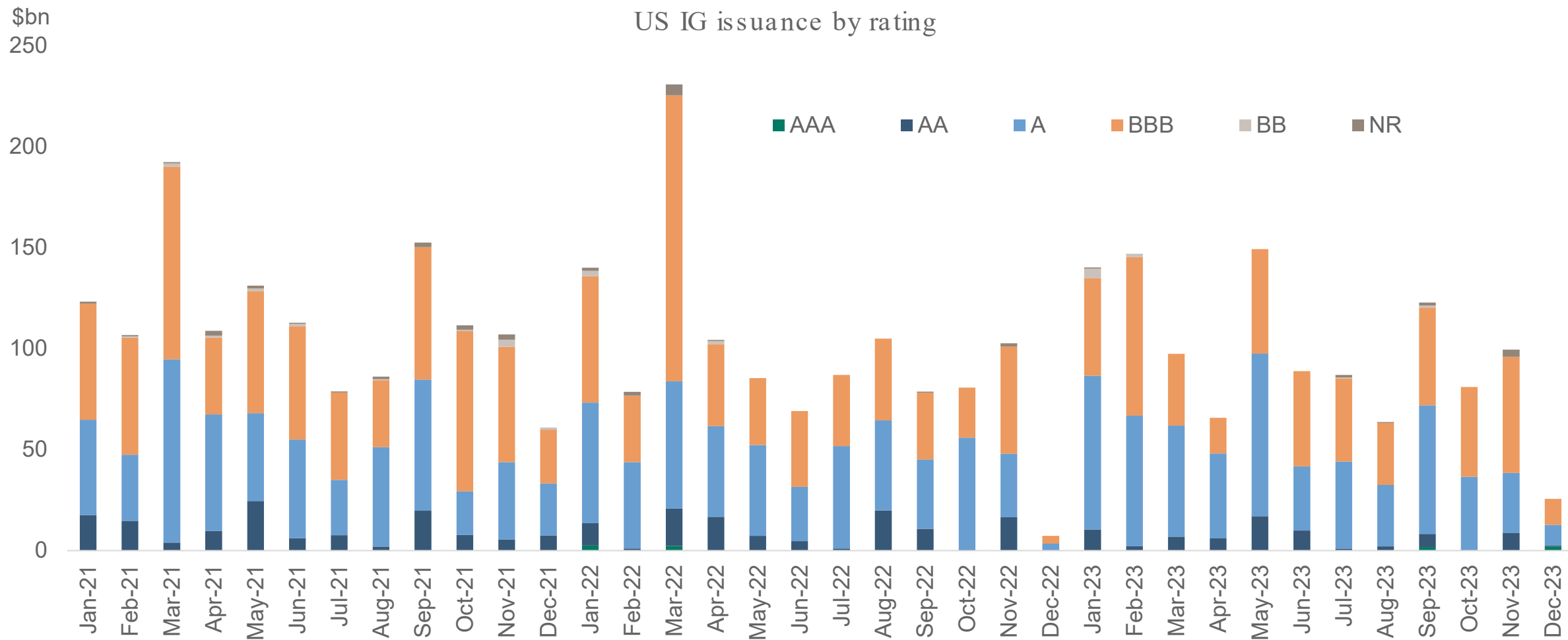


New issuance



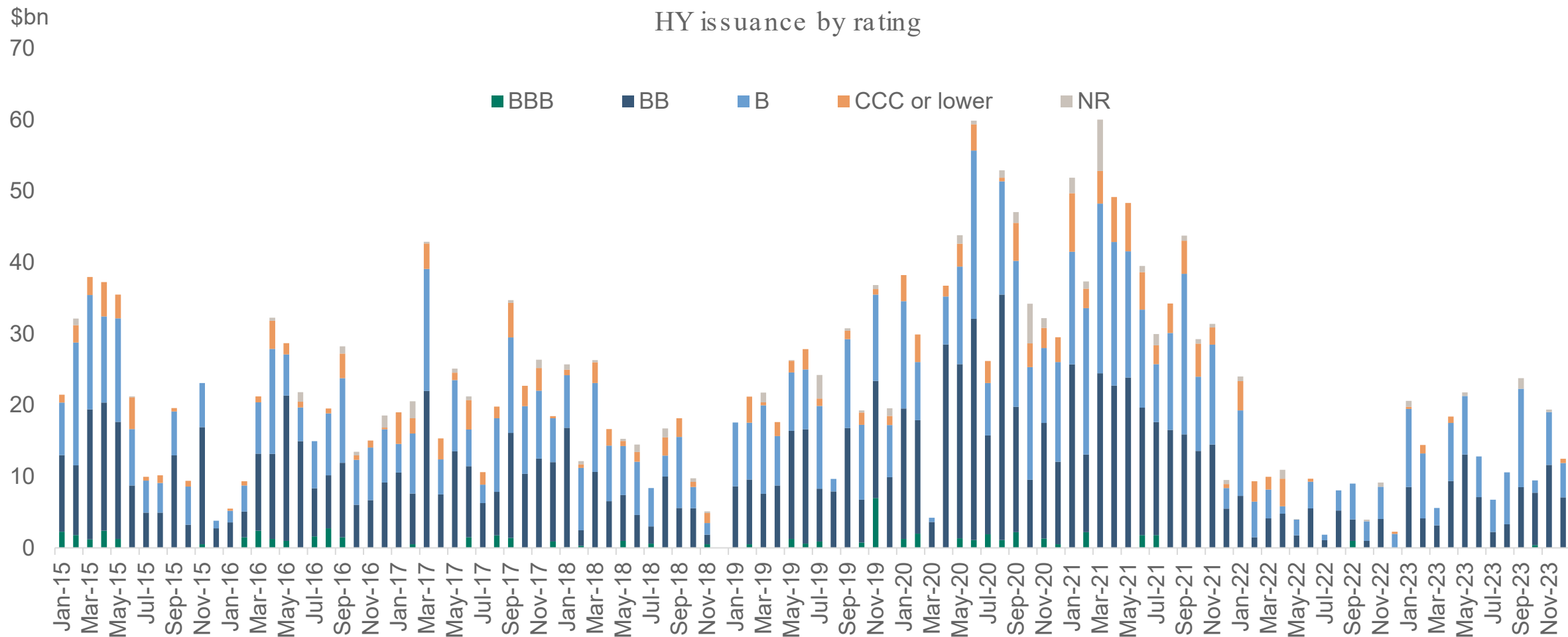


# IG issuance by rating



Source: Pitchbook LCD, Apollo Chief Economist.

# HY issuance by rating

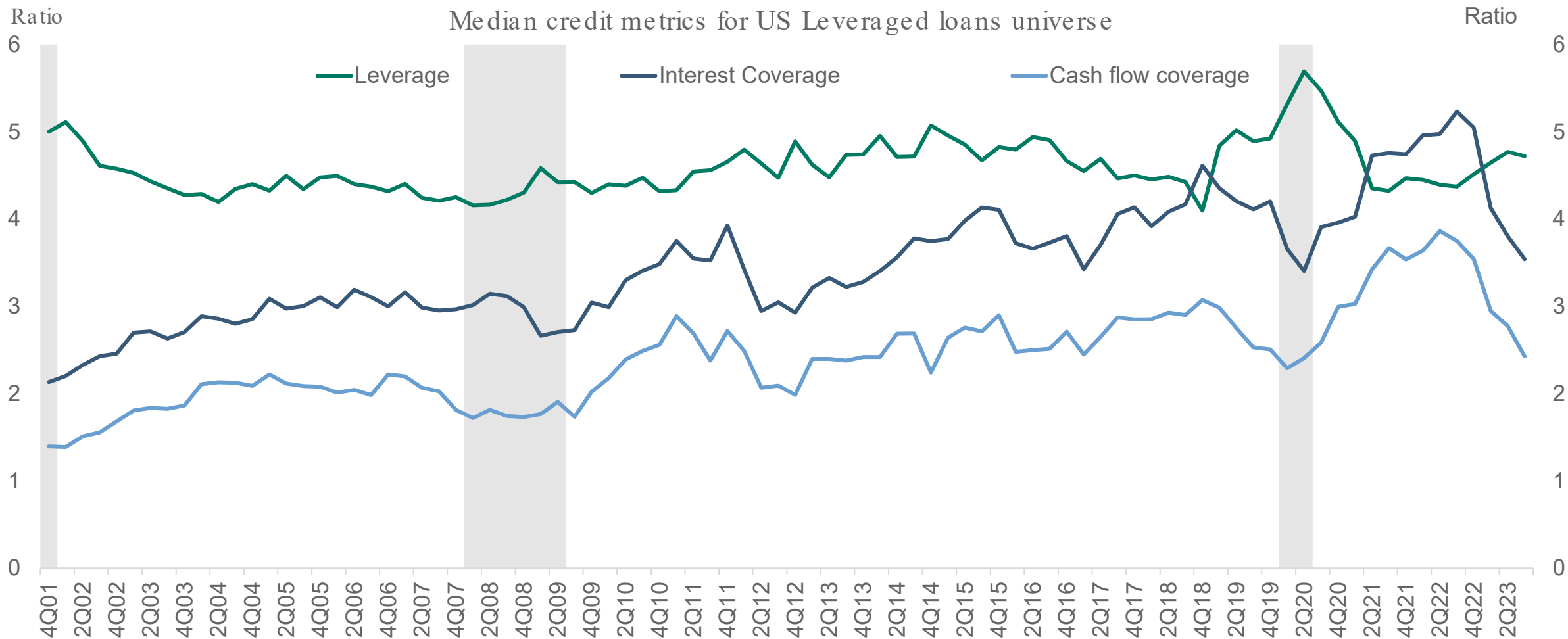


Source: Pitchbook LCD, Apollo Chief Economist.

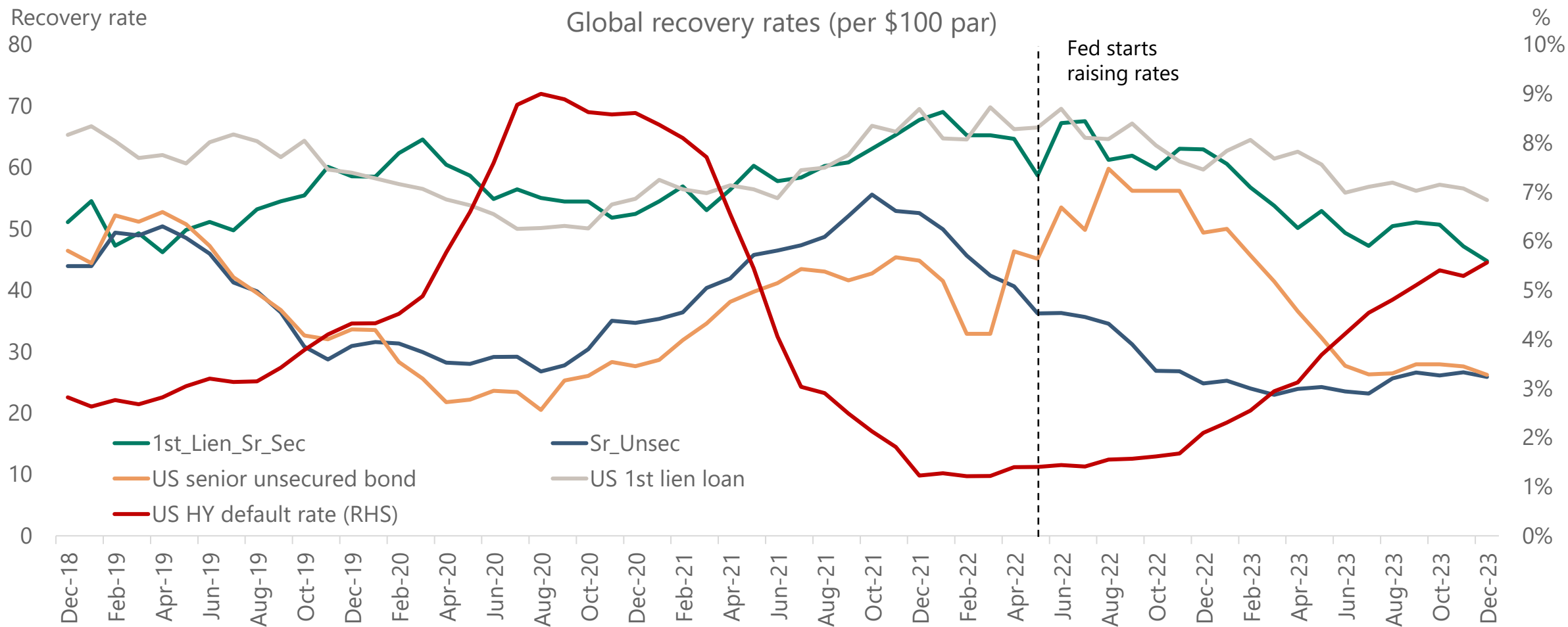
# Credit fundamentals



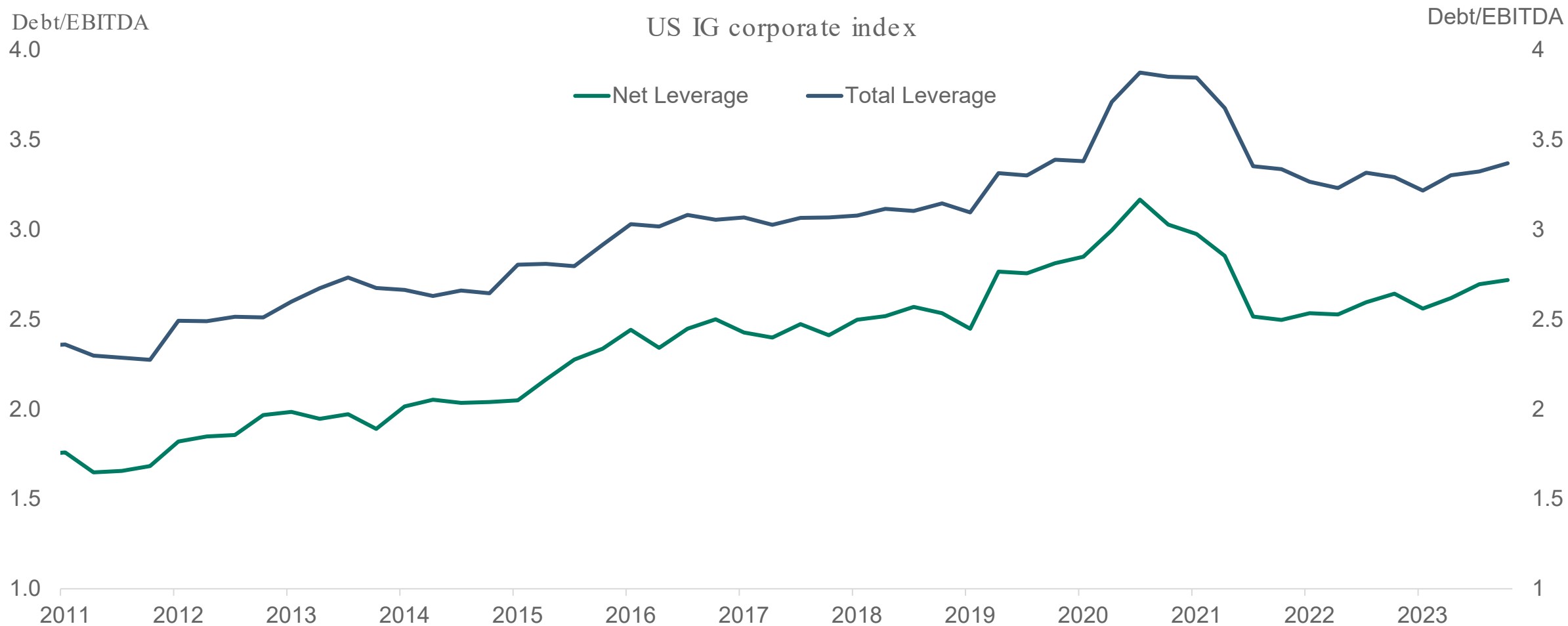
# Credit metrics for leveraged loan deals: ICR and cash flow down sharply



# Recovery rates

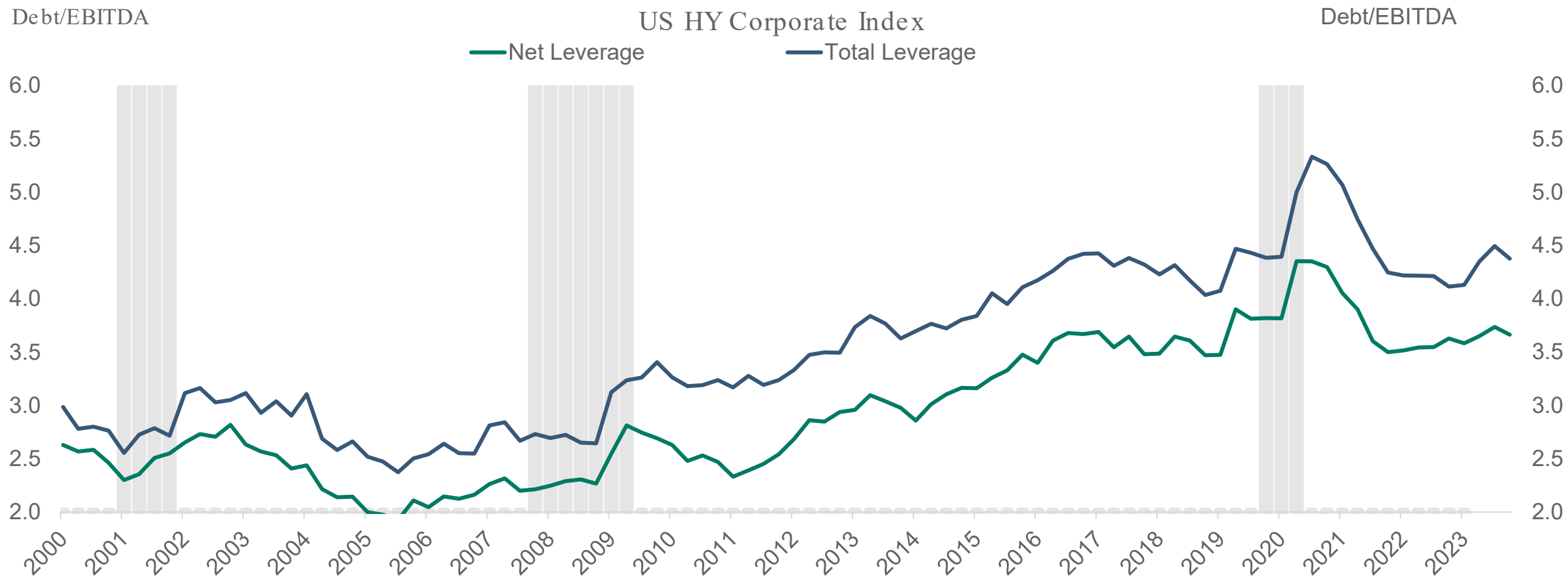


# IG leverage has come down after the pandemic



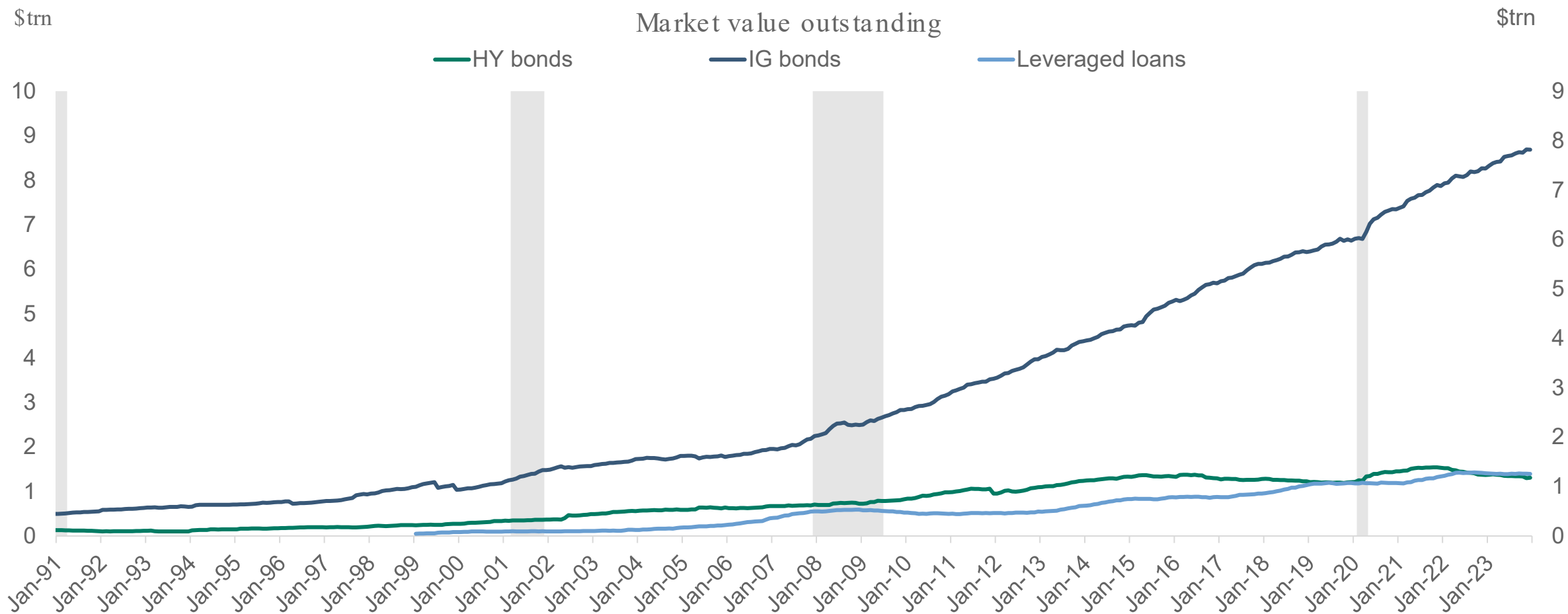
Source: ICE BofA, Bloomberg, Apollo Chief Economist. Note: Index used COA0 Index

# High yield leverage



Source: Bloomberg, Apollo Chief Economist. Note: Median leverage for the bonds in H0A0 index

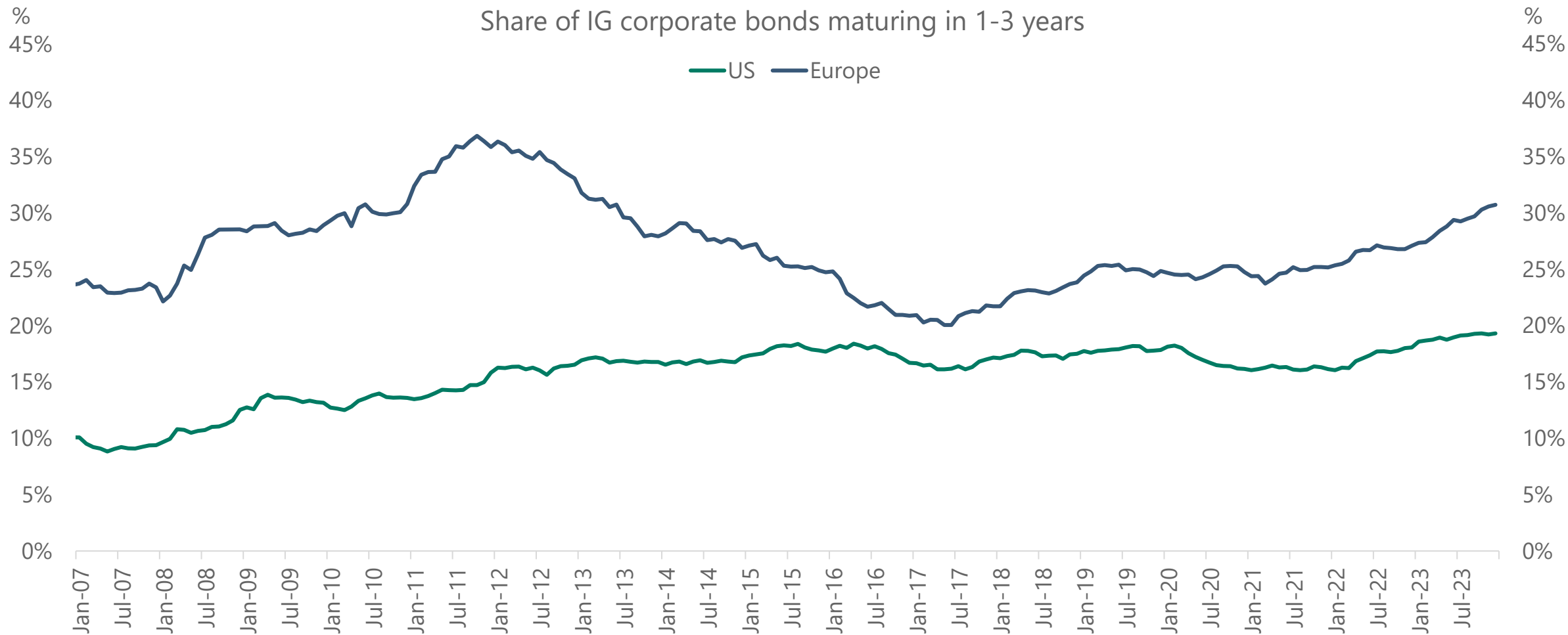
# IG market is eight times bigger than HY and eight times bigger than the loan market



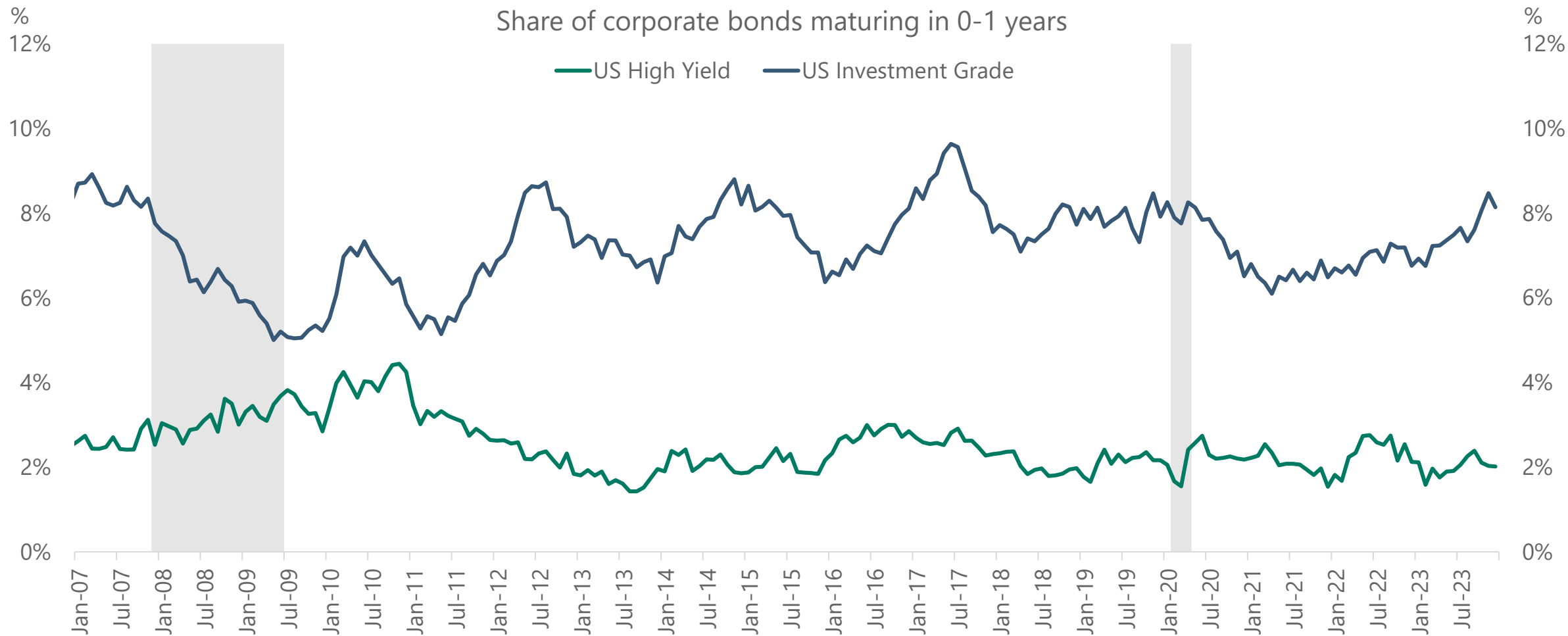
Source: ICE BofA, Bloomberg, Pitchbook LCD, Apollo Chief Economist. Note: Ticker used for HY is HOA0 Index and for IG it is COA0 Index and for Loans it is SPBDALB Index.



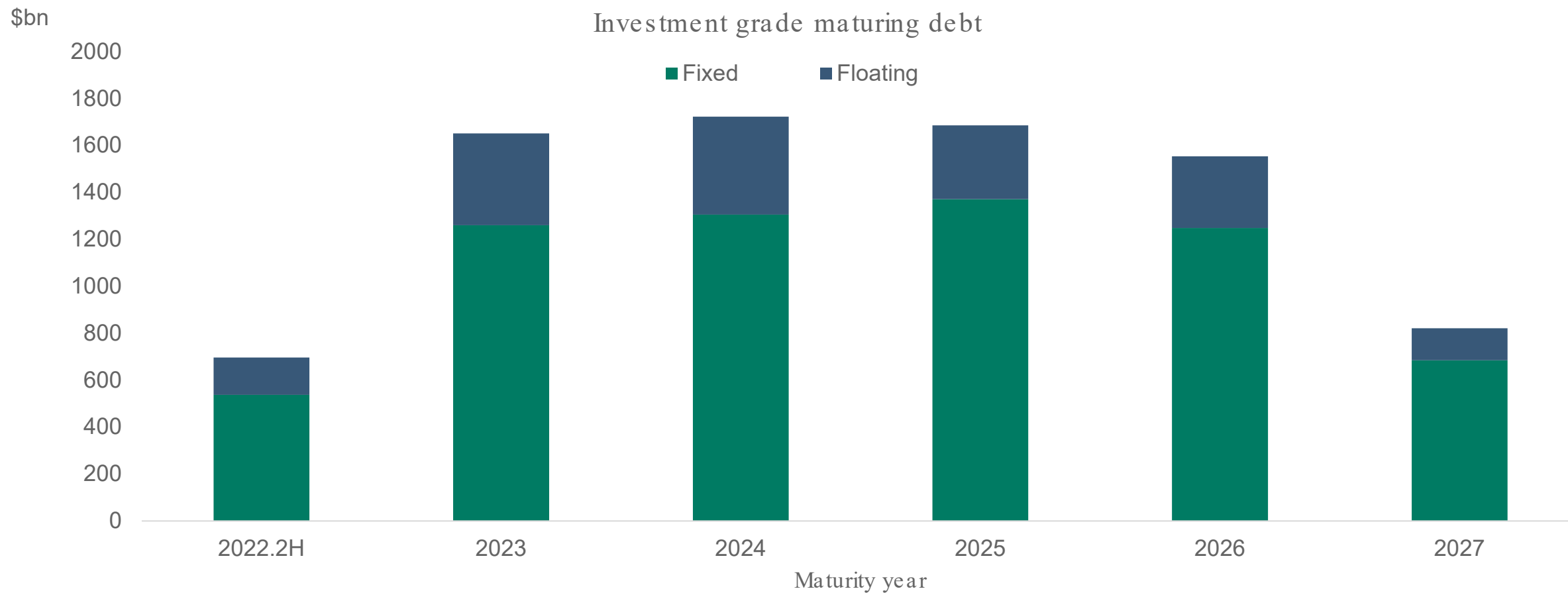
# IG: Europe hitting the maturity wall before the US



# The share of IG and HY bonds maturing within a year

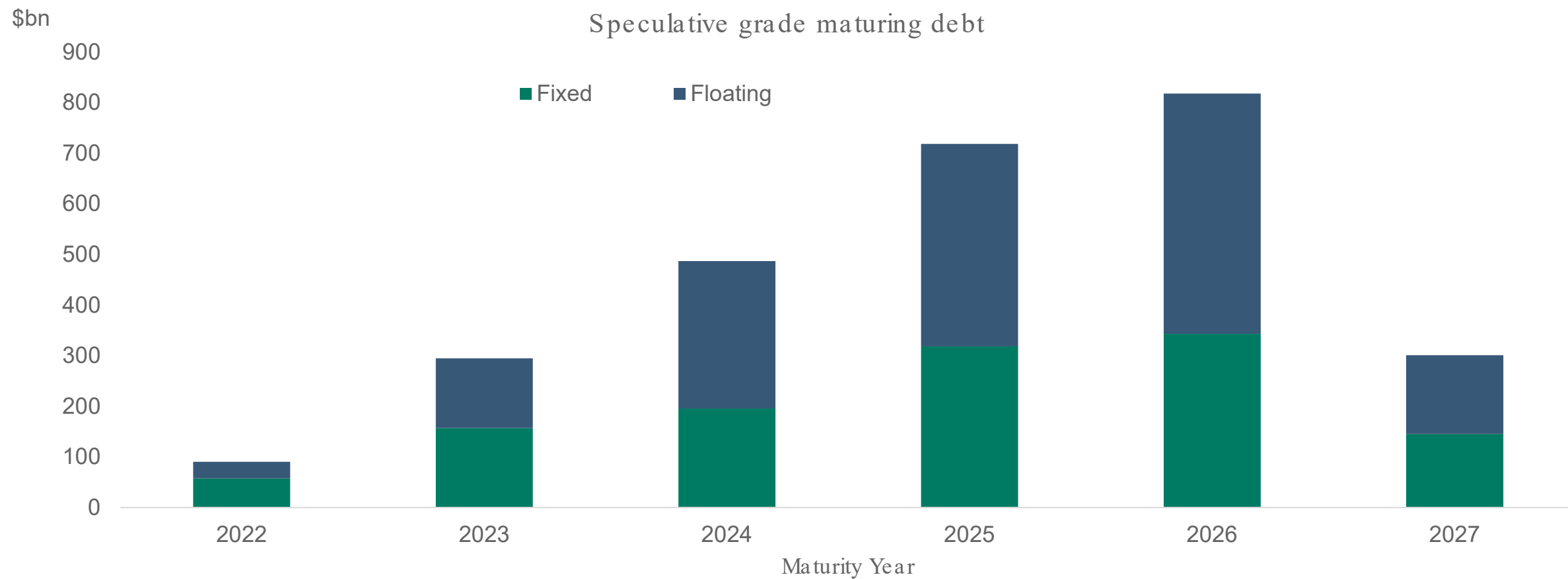


# Investment grade maturity wall

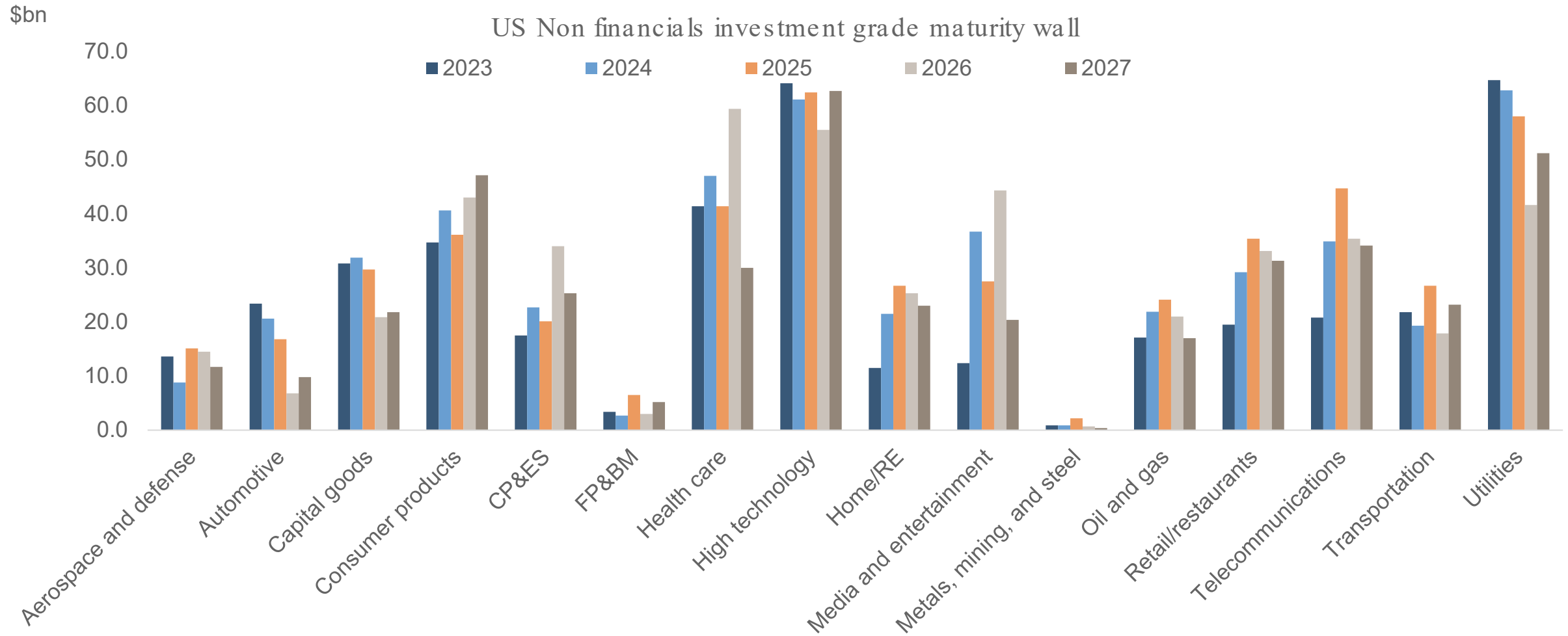


Source: S&P Global ratings Research, Apollo Chief Economist. Note: Data as of July 1, 2022. Includes issuers' investment-grade bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings.

# High yield maturity wall

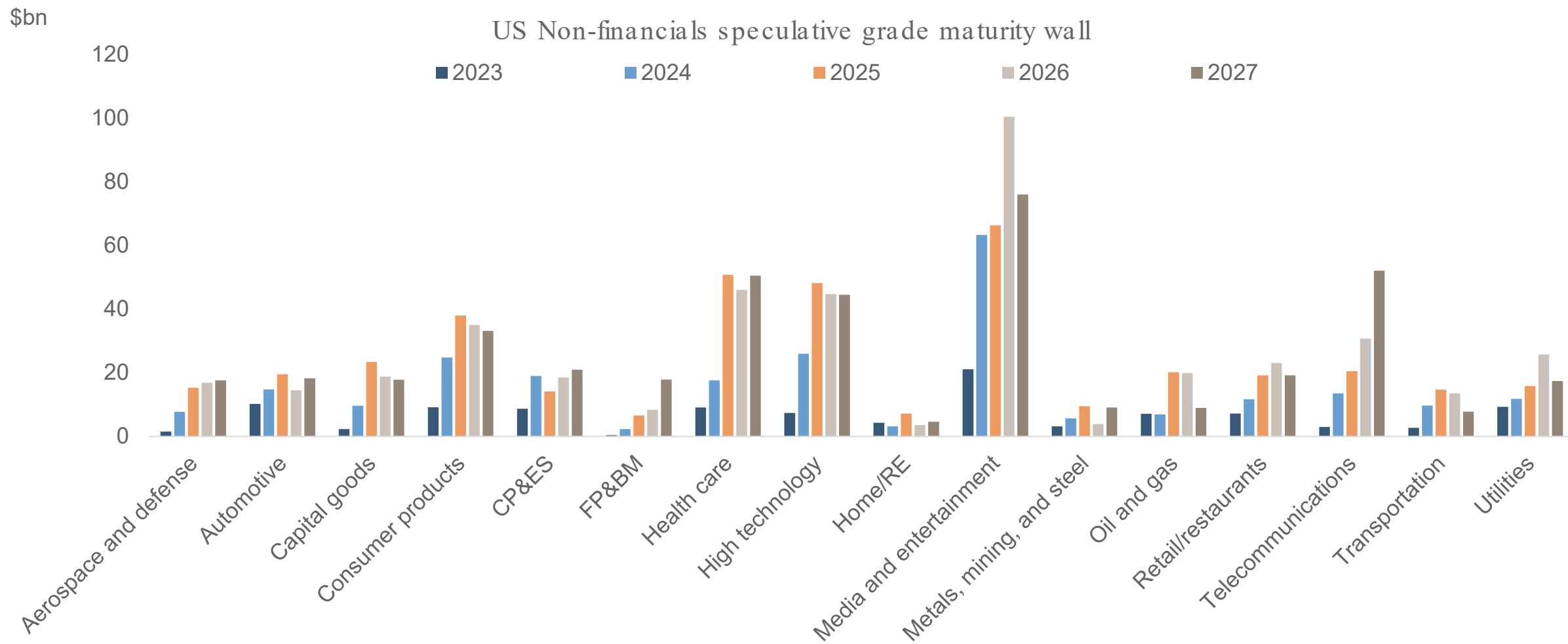


# IG: US Non financials maturity wall



Source: S&P, Apollo Chief Economist. Note: CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. Media and entertainment includes the leisure sector. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Data as of Jan 1, 2023.

# HY: US Non financials maturity wall

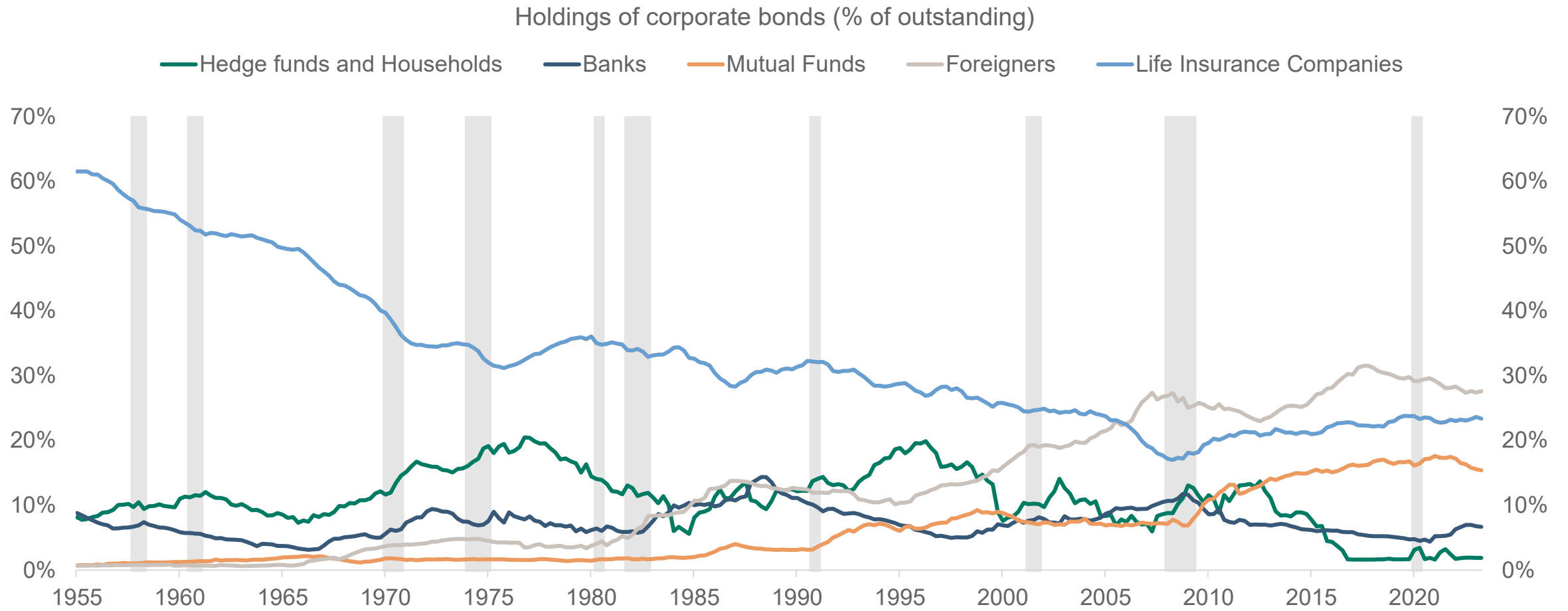


Source: S&P, Apollo Chief Economist. Note: CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. Media and entertainment includes the leisure sector. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Data as of Jan 1, 2023.

# Corporate bond holdings



Who owns US credit? Since 2020 foreigners and mutual funds have been lowering their shares. Banks and life insurance have been increasing their shares.

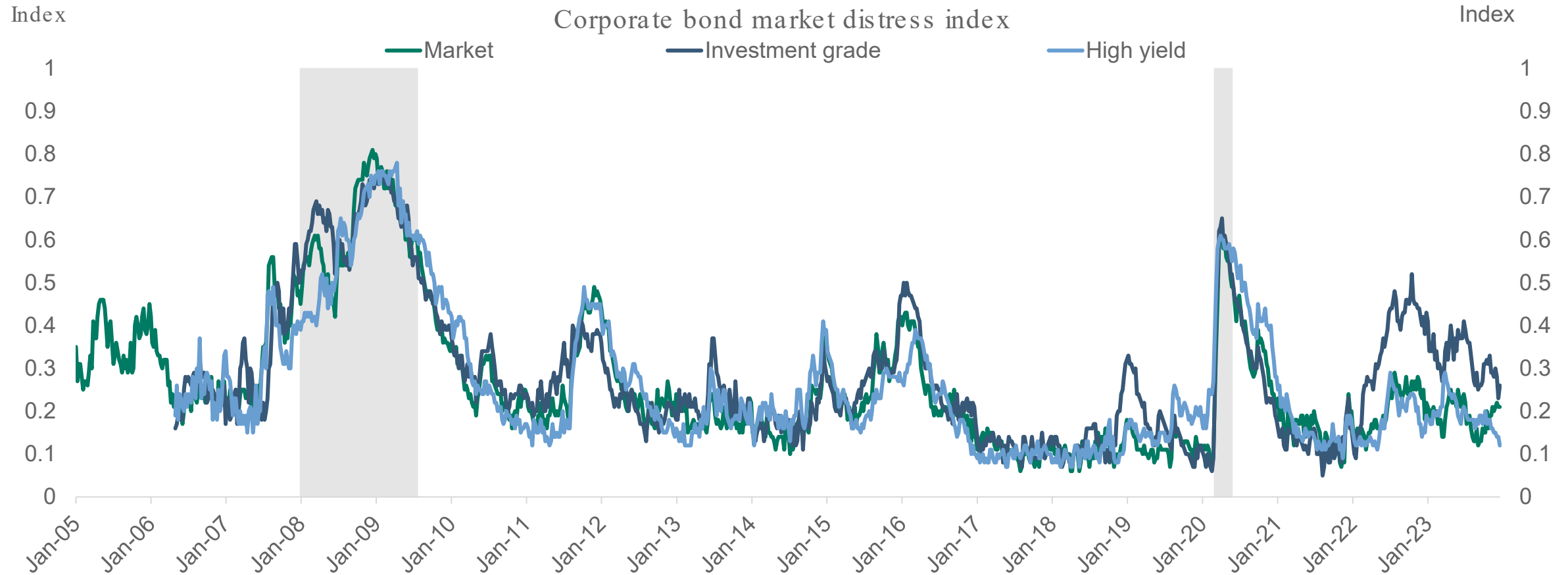




# Liquidity in US credit markets

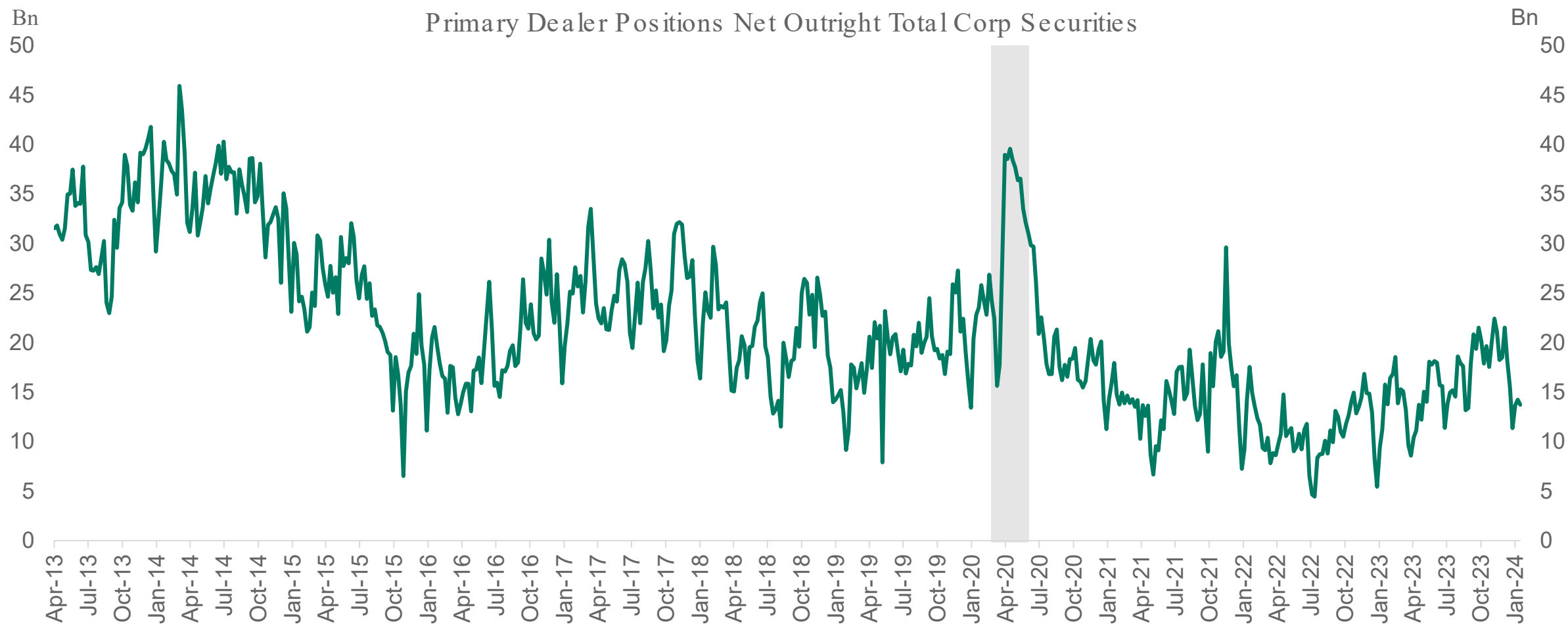


# NY Fed measure of corporate bond market functioning



Source: FRB of New York, Apollo Chief Economist (Note: Corporate bonds are a key source of funding for U.S. non-financial corporations and a key investment security for insurance companies, pension funds, and mutual funds. Distress in the corporate bond market can thus both impair access to credit for corporate borrowers and reduce investment opportunities for key financial sub-sectors. CMDI offers a single measure to quantify joint dislocations in the primary and secondary corporate bond markets. Ranging from 0 to 1, a higher level of CMDI corresponds with historically extreme levels of dislocation. CMDI links bond market functioning to future economic activity through a new measure.

# Dealer inventory of corporate bonds (IG+HY)



Top issuer names



# Top issuer names for IG and HY

	<b>Top 50 Investment Grade corporate bond issuers</b>	<b>Top 50 High Yield corporate bond issuers</b>
1	Bank of America Corporation	Ford Motor Credit Company LLC
2	JPMorgan Chase & Co.	CCO Holdings LLC/ CCO Holdings Capital Corp.
3	Morgan Stanley	Tenet Healthcare Corporation
4	Citigroup Inc.	TransDigm Inc.
5	Goldman Sachs Group Inc.	Carnival Corporation
6	Wells Fargo & Company	Ford Motor Company
7	Apple Inc.	Royal Caribbean Group
8	HSBC Holdings PLC	CSC Holdings LLC
9	AT&T Inc	Community Health Systems Incorporated
10	Oracle Corporation	DISH DBS Corporation
11	Verizon Communications Inc.	Bausch Health Companies Inc
12	Comcast Corporation	Caesars Entertainment Inc New
13	UnitedHealth Group Inc.	Sirius Xm Radio Inc
14	Amazon.com Inc.	Iron Mountain Inc.
15	Amgen Inc.	OneMain Financial Corporation
16	UBS Group AG	AAdvantage Loyalty IP Ltd/ American Airlines Inc
17	CVS Health Corp	Albertsons Cos Inc / Safeway Inc / New Albertsons LP / Albertsons LLC / (Albertsons Safeway LLC)
18	T-Mobile USA Inc.	Mozart Debt Merger Subordinated Inc.
19	Mitsubishi UFJ Financial Group Inc.	Equitrans Midstream Corporation
20	AbbVie Inc.	Altice France S.A
21	The Boeing Company	1011778 B.C. Unlimited Liability Company / New Red Finance Inc.
22	Intel Corporation	Bombardier Inc.
23	Microsoft Corporation	Ball Corporation
24	Barclays PLC	United Rentals (North America) Inc.
25	Sumitomo Mitsui Financial Group Inc.	Hilton Domestic Operating Co Inc.
26	Walt Disney Company	Calpine Corporation
27	Charter Communications Operating LLC/Charter Communications Operating Capital Corp.	Icahn Enterprises L.P. / Icahn Enterprises Finance Corporation
28	Home Depot Inc	Post Holdings Inc.
29	Walmart Inc	Level 3 Financing Inc.
30	Lowe's Companies Inc.	Univision Communications Inc.
31	Anheuser-Busch InBev Worldwide Inc.	Vistra Operations Co LLC
32	Pfizer Investment Enterprises Pte Ltd.	The Goodyear Tire & Rubber Company
33	HCA Inc.	Venture Global LNG Inc.
34	General Motors Financial Company Inc	FirstEnergy Corp.
35	Pacific Gas and Electric Company	Uniti Group LP/Uniti Fiber Holdings Inc/Uniti Group Finance 2019 Inc/CSL Capital LLC
36	Energy Transfer LP	HUB International Ltd.
37	Broadcom Inc	Bath & Body Works Inc
38	BNP Paribas SA	Service Properties Trust
39	Royal Bank of Canada	Carvana Co
40	Bristol-Myers Squibb Company	Transocean Inc.
41	Raytheon Technologies Corporation	Venture Global Calcasieu Pass LLC
42	International Business Machines Corporation	YUM Brands Inc
43	Merck & Co. Inc	Newell Brands Inc.
44	Toyota Motor Credit Corp.	GFL Environmental Inc.
45	Shell International Finance B.V.	Uber Technologies Inc
46	Philip Morris International Inc.	Navient Corporation
47	U.S. Bancorp.	NCL Corporation Ltd.
48	The Bank of New York Mellon Corporation	Standard Buildings Solutions Inc.
49	Exxon Mobil Corporation	Mauser Packaging Solutions Holding Company
50	Pepsico Inc	Vodafone Group PLC



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**Chief Economist**

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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.



# Shobhit Gupta

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Shobhit Gupta joined Apollo in January 2024 as the Head of Multi-Credit Strategy and is responsible for identifying key themes and opportunities across global credit.

Prior to joining Apollo, Mr. Gupta spent 15 years at Barclays as the head of US credit strategy, covering investment grade, high yield, loans, credit derivatives and securitized products. He also worked at Citadel for two years focusing on opportunities in subordinated capital securities.

Mr. Gupta has a PhD in Operations Research from MIT, and a Bachelor's degree in Mechanical Engineering from IIT Bombay.