

Neuberger Berman Non-Investment Grade Credit Team

PORTFOLIO MANAGER: Vivek Bommi, Stephen Casey, Russ Covode, Daniel Doyle, Chris Kocinski, Joe Lind, Joe Lynch, and Simon Matthews

Market Context and Investment Implications

Non-investment grade credit markets have experienced significant volatility in recent weeks due to the spread of COVID-19, its impact on global growth expectations and movement towards an oil price war. Credit spreads in US and Global High Yield have widened materially, approaching the +700bps level, and leveraged loan dollar prices have declined into the low-90s. Additionally, hedging costs have declined by over 100bps for non-dollar denominated asset owners seeking to invest in USD credit. Following recent spread widening and dollar price declines, we think non-investment grade credit is at an attractive long-term entry point for investors.

- Sectors most directly impacted by recent events are industries exposed to Travel and Leisure as well as Energy and Gas Distribution. We think price declines in Travel and Leisure will be transitory, while higher defaults and permanent impairments are likely to increase within oil-focused E&P issuers. We also think price declines in Gas Distribution will prove temporary in nature due to lower direct commodity exposure and the critical nature of their hard assets.
- Liquid bonds and loans are typically sold first during periods of sharp drawdown in markets, followed by a sorting out of issuers that can survive stressed conditions and those that require restructuring.
- Bottom-up, fundamental analysis of individual credits with a focus on default avoidance will continue to be the primary determinant of long-term performance in high yield and leveraged loans.
- We believe capital markets in high yield and loans remain open for high quality businesses experiencing transitory challenges.
- Potential fallen angels and disrupted BBB issuers are providing an additional source of opportunity.
- Further central bank intervention will likely occur in response to market volatility, with the potential for a significant fiscal response depending upon changes in employment and overall economic activity.

In our view, high yield spreads around +700bps and loan prices in the low 90's provide investors with good potential return opportunities even in the face of higher expected defaults that are likely to materialize. Additionally, interest rate cuts and potential fiscal responses have the potential to limit the duration and severity of economic disruption as well as improve hedged return profiles for foreign investors.

While initial periods of volatility typically see declines in the value of bonds and loans across all companies, we expect that the market quickly works towards separating out winners and losers. As this dispersion occurs, it favors investment managers with scale and research resources to be on the leading edge of sorting through the market to find opportunities. We are already seeing what we believe to be attractive relative value opportunities across ratings categories where we are selectively adding to issuers we believe will be accretive to future returns.

This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. This material may include estimates, outlooks, projections and other "forward-looking statements." Due to a variety of factors, actual events may differ significantly from those presented. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. Diversification does not guarantee profit or protect against loss in declining markets. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. Investing entails risks, including possible loss of principal. Investments in hedge funds and private equity are speculative and involve a higher degree of risk than more traditional investments. Investments in hedge funds and private equity are intended for sophisticated investors only. Indexes are unmanaged and are not available for direct investment. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

This material is being issued on a limited basis through various global subsidiaries and affiliates of Neuberger Berman Group LLC. Please visit www.nb.com/disclosure-global-communications for the specific entities and jurisdictional limitations and restrictions

The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

446012 © 2020 Neuberger Berman Group LLC. All rights reserved.