PGIM INVESTMENTS

# THE GOLDEN AGE OF CREDIT

Credit is in a boom cycle. Companies have ready-access to the credit markets and many issuers are using the proceeds to prioritise bondholders over equity holders. Despite tightening spreads, valuations remain compelling.

## 3 reasons to take a closer look at the bond market

### Subdued market outlook spells opportunity

Bondholders can benefit when companies take precautionary measures and refrain from things like **capital expenditures, buybacks** and **dividend payments**

**$400bn**

Forecast global dividend drop in 2020.[1]

With uncertainty still looming, preservation of cash flow will continue to be one of the main priorities for corporations.

**KEEP IN MIND**

The rockier the road to recovery, the longer credit investors can profit from bond-friendly conditions.

### The force is with bondholders

Central banks have unleashed their combined firepower to deter a global financial breakdown.

**10.4%**

Overall money supply increase in the euro area in September 2020.[2]

**Across countries, economic-stimulus responses to the COVID-19 crisis outsize those to the 2008 financial crisis[3]**

Economic-stimulus crisis response, % of GDP

| Country | 2008 financial crisis | COVID-19 crisis |
|---|---|---|
| Germany | 3.5 | 33.0 |
| Japan | 2.2 | 21.0 |
| France | 1.4 | 14.6 |
| United Kingdom | 1.5 | 14.5 |
| United States | 4.9 | 12.1 |
| Canada | 2.8 | 11.8 |
| India | 1.2 | 10.0 |
| South Africa | 2.9 | 8.6 |
| Brazil | 0.6 | 5.5 |

**KEEP IN MIND**

Governments and central banks are more willing to do 'whatever it takes' than they were in 2008.

### Valuations remain attractive across select sectors and issuers

In March 2020, credit spreads jumped to their widest level since the global financial crisis but have tightened significantly since then.[5]

Average credit spread through 20 March 2020[5]

Spread in Morningstar's investment-grade index widened out 299 basis points to **+396**

Spread in the Morningstar high-yield index skyrocketed 643 basis points to **+999**

Going forward, increasingly optimistic default rate expectations make high yield an attractive option for investors.

2021 US high yield default forecasts: April vs. September[4]

**8%** April forecast

**3.5%** September forecast

**KEEP IN MIND**

Debt holders can potentially benefit from the dislocation between spreads and expected default rates.

Over the medium and long term, the current level of spread compensation in concert with strong fiscal and monetary support in a moderately low economic growth backdrop bodes favourably for credit investing.

**Step into the golden age of credit with us at pgimfunds.com**

[1] Janus Henderson Global Dividend Index. [2] ECB [3] McKinsey [4] JP Morgan as of 30 September 2020. [5] Morningstar: For more information, please refer to: https://www.morningstar.com/articles/973818/corporate-bonds-at-second-widest-level-in-20-years
Forecasts may not be achieved. All data accurate as of 30 October 2020.


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