

Special Report

High Yield – US Spotlight



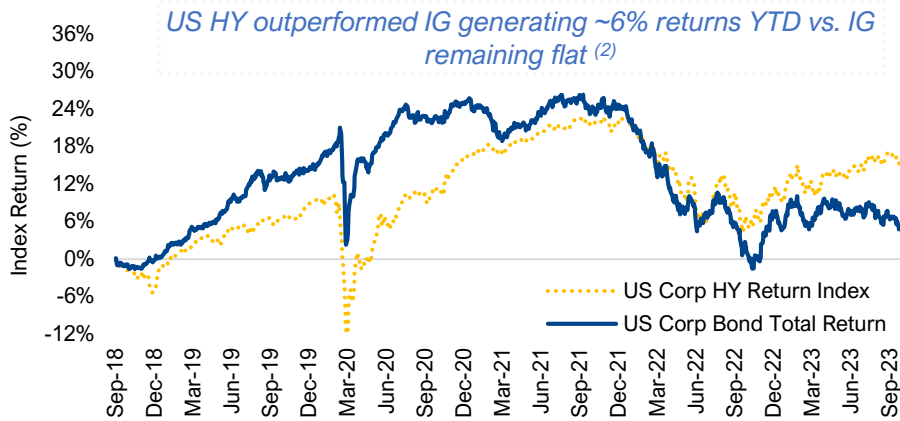
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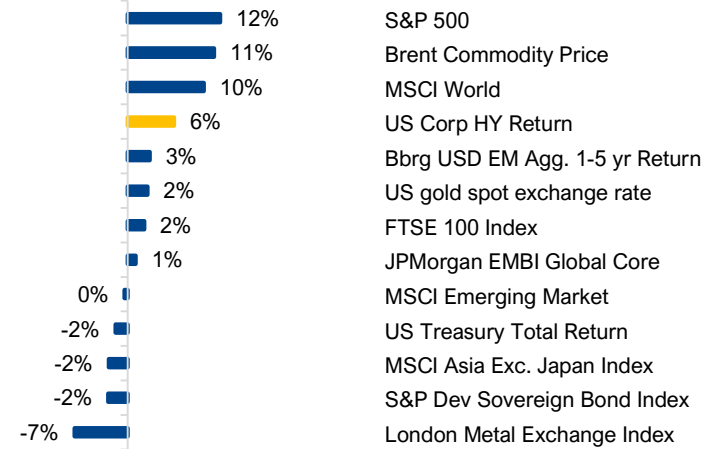
The US High Yield Bond Market Performance

HY Outperforming IG in '23 as Immediate Recessionary Fears Subsided

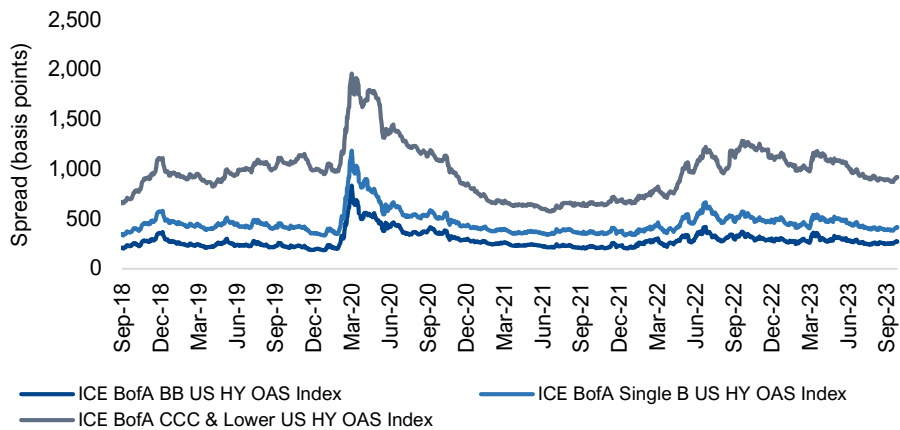
Bond Market Returns Recovered in '23 (1)



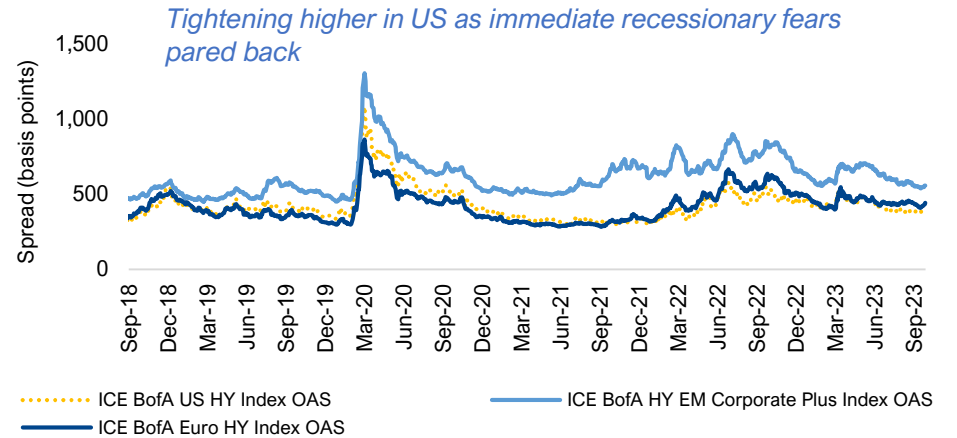
Equity & Energy Outperforms in '23 While Metals Underperform (2)



Spreads Tightened in '23, Tighter Across Riskier B & CCC Bonds



US HY Spreads Tightened Markedly in YTD'23 (2)



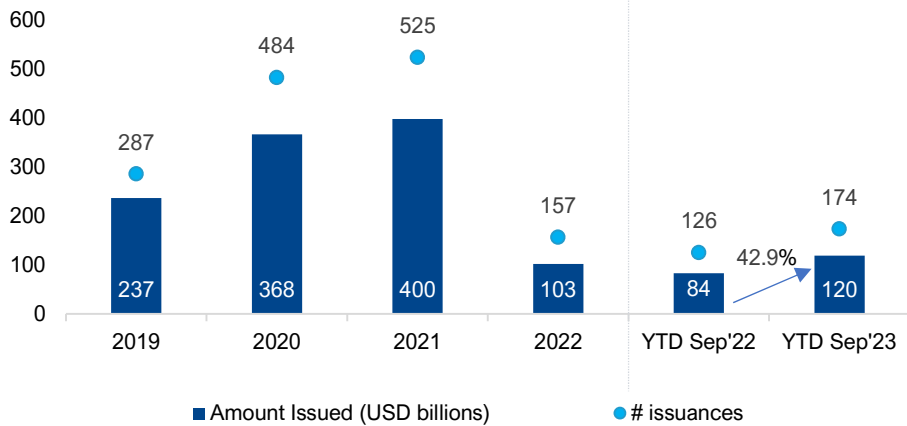
Source: Bloomberg; Federal Reserve Economic Data (FRED) - a database maintained by Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/>

(1) HY return calculated on base price of \$2,003.87 as on October 1, 2018. IG return calculated on base price of \$2,831.64 as on October 1, 2018. (2) YTD Returns as of Sep 30, 2023.

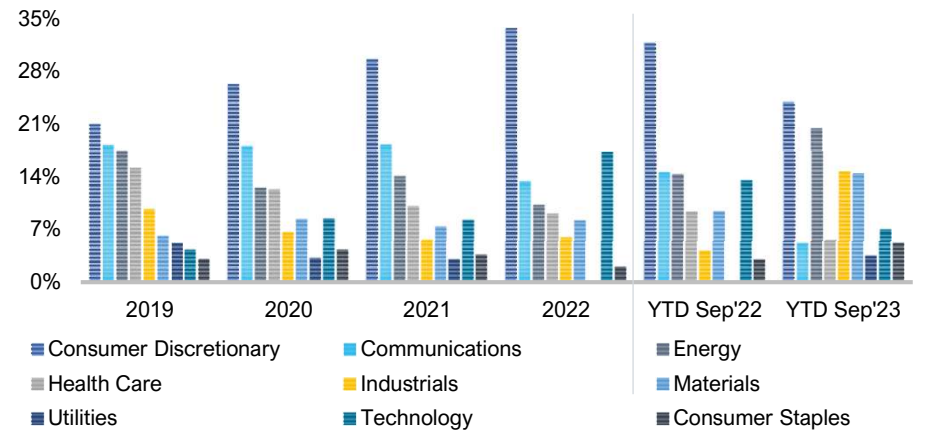
The US High Yield Issuance Trend

Higher Borrowing Costs Continue to Impact HY Issuances, Below 5-Year Historical Average

YTD Sep'23 Issuances Higher vs. YTD Sep'22 Driven by Refinancing

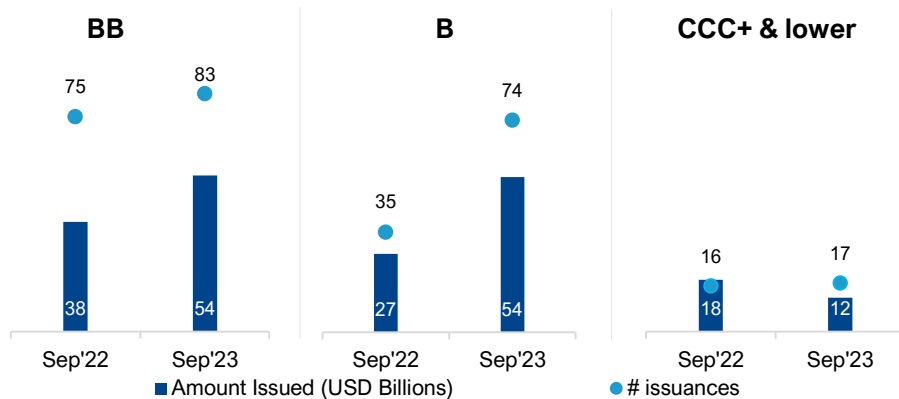


YTD Energy, Industrial, and Materials Issuances Pick up Pace (1)

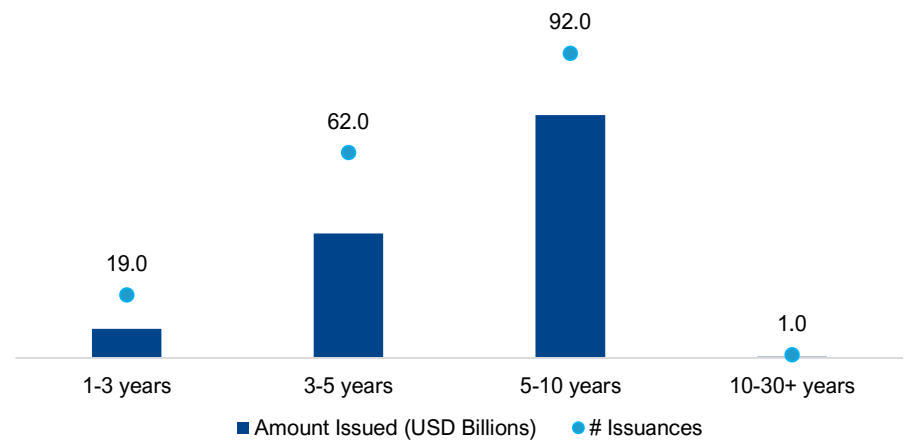


US HY Issuance by Rating Category – YTD Sep'23 (2)

Growth in BB/B rated bonds driven by bond-for-loan refinancing increase



US HY Issuance by Maturity Bucket – YTD Sep'23



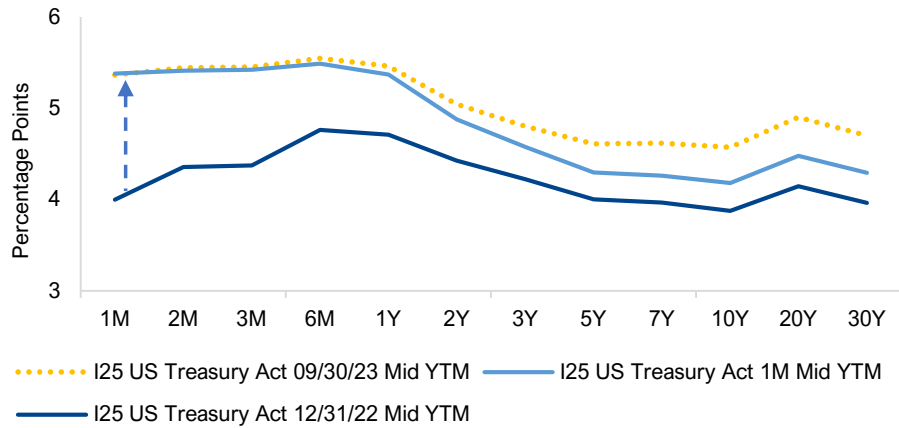
Source: Bloomberg; includes only USD denominated corporate bonds with amount issued above \$100mm, excludes bonds issued across financial sector.

(1) Sector based on Bloomberg's BICS Level 1 Classification; (2) BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC+ & lower includes CCC+, CCC, CCC-, and DDD+

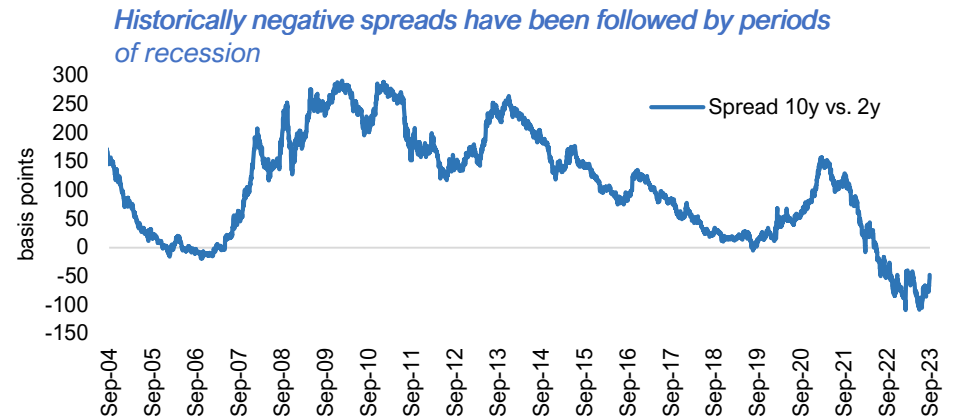
Sovereign Yield Trends

Sovereign Yields Have Increased as Inflation Remains High and Interest Rates Continue to Rise

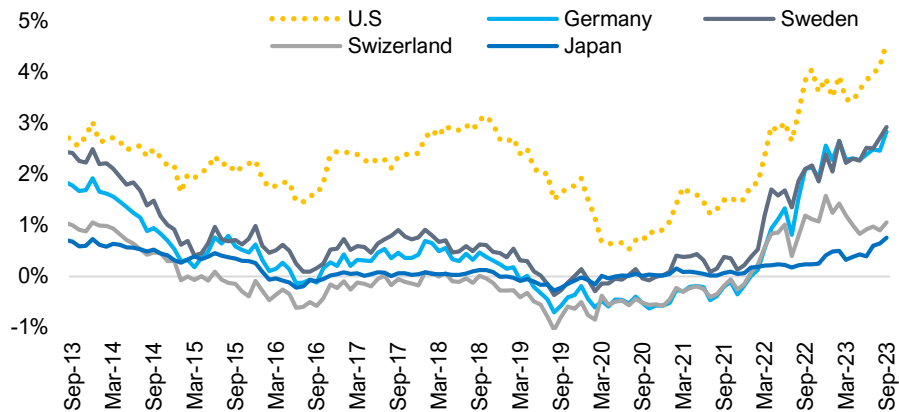
Yield Curve Inversion Highlights Recession Fears (1)



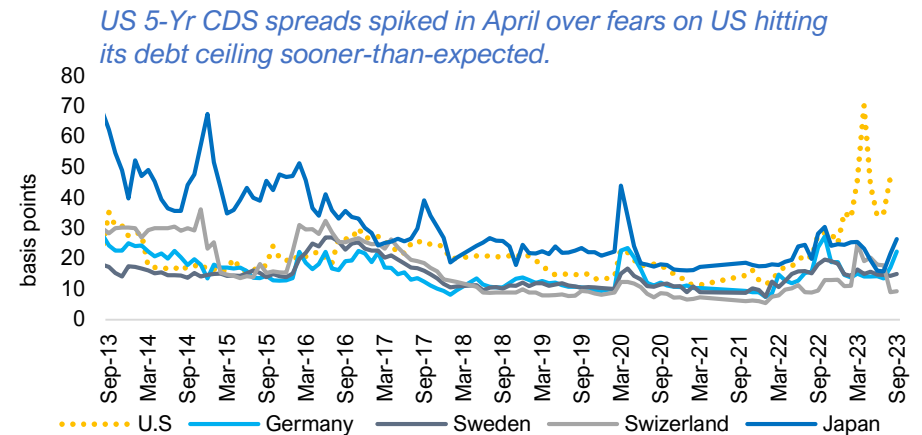
10Y – 2Y Spread Negative For Over a Year Now (2)



10-Year UST Yields Crossed 4%, Level Not Seen in Past 15 Years (3)



US 5-Yr Sr CDS Spreads Widened in '23, Highest in Past Decade (3)



Source: Bloomberg, Investing.com, [United States Government Bonds - Yields Curve \(worldgovernmentbonds.com\)](https://www.worldgovernmentbonds.com)

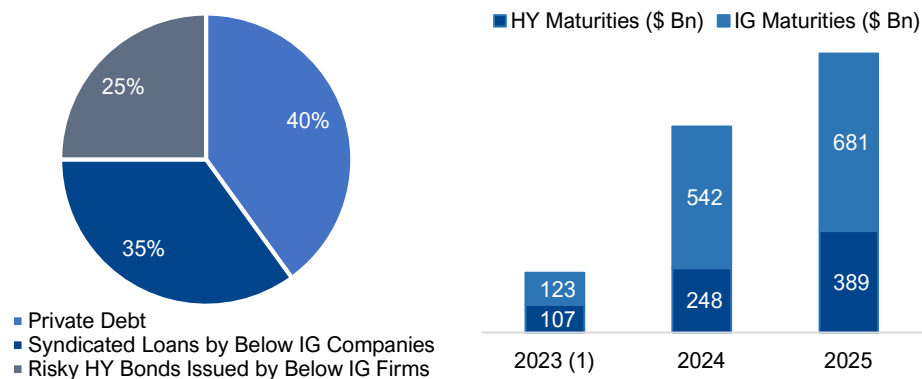
(1) Spot as on September 30, 2023. (2) Includes Daily Prices. (3) Includes monthly Prices.

The US Corporate Default Rate and Bankruptcy Trends

Default Rates and Bankruptcies Spiked in 2023 As Corporates Struggled with Higher Interest and Refinancing Risk

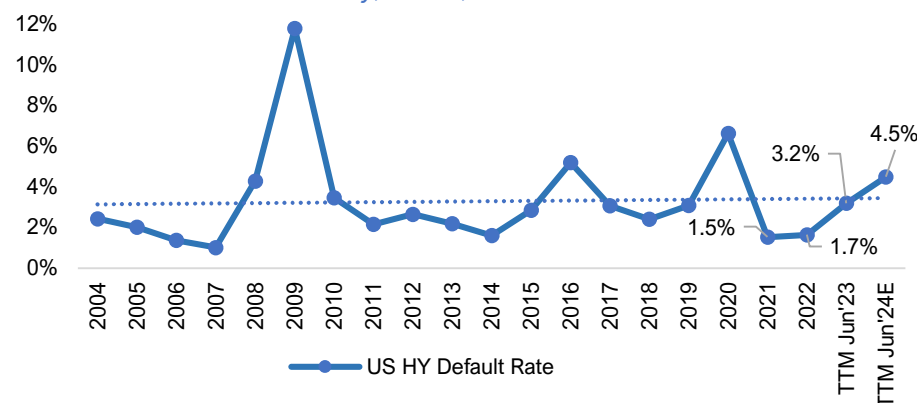
Piling Debt, Upcoming Mat, Higher for Longer Rates Signal Trouble

\$1Tn HY debt piled in past 5 years. Upcoming debt mat and high coupon rates pose refinancing risk



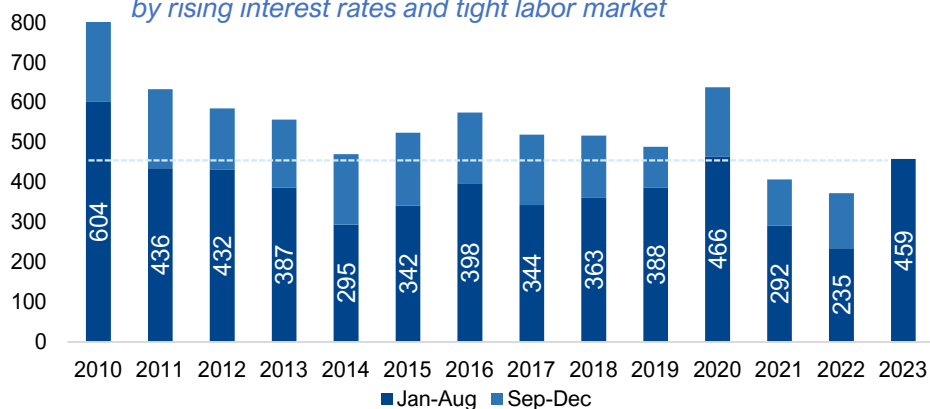
Refinancing at Higher Rates To Drive Default Rates in '23 and '24

Higher rates to dent cash flows. Default rate est. @ >20-yr average. Consumer discretionary, media, and healthcare most vulnerable

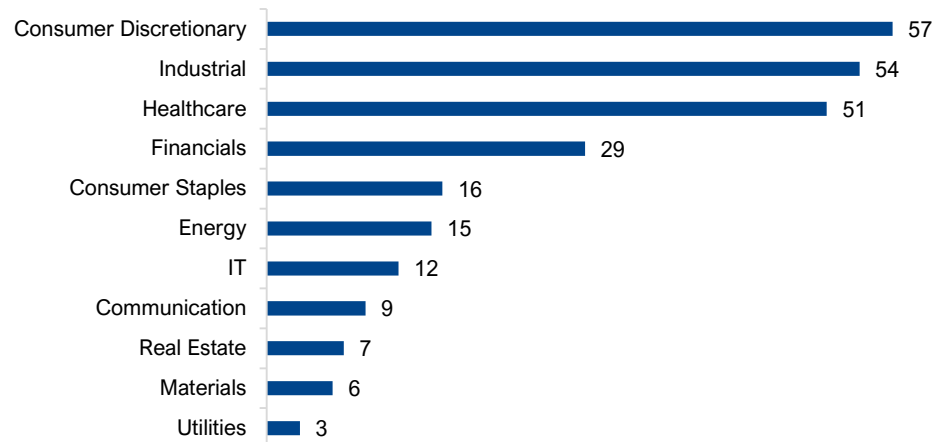


YTD '23 US Corporate Bankruptcies Surpassed '21 & '22 Levels (2)

US Corporates sought higher Ch.11 protection in '23 driven by rising interest rates and tight labor market



Consumer Disc., Industrials, and Healthcare Top Bankruptcies (2)



Source: Bank of America; S&P Global; Fitch Rating

Note: 1. Aug-Dec 2023. 2. Covers public or private companies with public debt. Primary sector not available for 200 bankruptcies files in 2023; Consumer discretionary includes retailers and restaurants.

Key US Chapter 11 Bankruptcies Filed in 2023

Creditors have Pushed Borrowers to File for Bankruptcy Protection Filing on Concerns of Default

Healthcare	
1 Envision Healthcare (Private)	Envision filed for bankruptcy in May'23, entered a restructuring agreement. It was challenged by governance risks, labor woes, out-of-network status with UnitedHealth, high debt, and unsustainable capital structure.
2 Lannett Company (Private)	Lannett filed Chapter 11 (Ch. 11) bankruptcy in May'23. Underwent restructuring by eliminating ~\$600mm of debt and equitizing \$500mm of prepetition debt, leading to an emergence from bankruptcy in June 2023.
3 Mercy Iowa City (Private)	Mercy Iowa City hospital filed bankruptcy in Aug'23. The hospital is reportedly doubtful of recovering patient accounts receivables of \$162mm out of \$189mm.

Media & Communications	
1 Vice Media (Private)	Once valued >\$5Bn in 2017, Vice Media filed for bankruptcy in May'23 amid business and governance issues. It is now set to be acquired by its creditors (Fortress, Soros & Monroe) for \$350mm.
2 Diamond Sports (Private)	Diamond filed for Ch. 11 protection in Mar'23 challenged by expensive broadcast rights, cord-cutting trends, and debt pile. It is calling mediators into its discussions with creditors for a reorganization plan (intended till Sep'23).
3 Starry Internet (Private)	Starry filed for Ch. 11 in Feb'23 to reduce debt, just one year after it did a SPAC merger with FirstMark Horizon Acquisition Corp. As it moves to exit Ch. 11 proceedings, Starry underwent an executive restructuring.

Consumer Discretionary	
1 Bed Bath & Beyond (BBBYQ)	BBBYQ stores closed after it wrapped up liquidation sales following its April bankruptcy filing. The retailer will live on online after longtime rival Overstock won its intellectual property at auction.
2 David's Bridal (Private)	Bankrupt David's' received court approval to sell its business to Cion Investment in a no-cash transaction, a deal to keep 195 stores open and avoid a total shutdown. Cion agreed to pay its debts and certain other costs.
3 Lordstown Motors (RIDEQ)	The electric-truck maker filed Ch 11 bankruptcy in Jun'23 after a dispute with Foxconn alleging it failing to honor \$170mm commitment. Separately, it also reached a \$40mm settlement with Karma Automotive over a lawsuit.

Buzz in the Market - US Special Situations

With Distressed Exchanges Increasing in '23 and Driving Defaults, Distressed Firms Could Seek Ch. 11 Protection

Healthcare	
1	<p>Bausch Health Cos (BHC) Sr Unsec: CCC- YTM: 31%</p> <p>BHC's debt structure looks unsustainable due to potentially near-term generic competition to top product Xifaxan. Post recent distressed exchange, future subpar repurchases likely due to significant trading discount.</p>
2	<p>Akumin Inc. (AKU) Sr Unsec: CCC YTM: 22%</p> <p>Labor and supply headwinds, soft patient volume, contributed to recent weak results. Upcoming conversion of subordinated debt to cash pay, raises prospects for a restructuring event.</p>
3	<p>Diversified Healthcare (DHC) Sr Unsec: CCC- YTM: 12.5%</p> <p>DHC's failed merger with OPI and its noncompliance with incurrence covenants led to uncertainty in refinancing options. DHC could struggle to repay debt maturities due in next six months.</p>
4	<p>Rite Aid (RAD) Sr Unsec: C YTM: 40%</p> <p>Rite Aid could face bankruptcy with ongoing losses, federal opioid lawsuit and ineffective management. It does not have enough cash generation to pay both interest expenses and the potential lawsuit settlements.</p>
5	<p>Mallinckrodt (MNKTQ) 2L Notes: D YTM: 30%</p> <p>Mallinckrodt missed an interest payment in June and entered a forbearance agreement in July with 1L and 2L lenders. Moreover, it delayed the payment of the opioid litigation settlement.</p>
Media & Communications	
1	<p>Altice USA (ATUS) Sr Unsec: CCC+ YTM: 18%</p> <p>\$60Bn debt pile, rising borrowing costs, and arrest of co-founder signals trouble for Altice. Broadreels band business challenges and fiber frenzy drag free cash flow.</p>
2	<p>Lumen Technologies (LUMN) Sr Unsec: CCC- YTM: 36%</p> <p>LUMN is challenged by significant upcoming debt maturities, high investment needs, weak FCF, higher debt costs. Lenders have come together to discuss debt covenants and a potential breach over an asset sale.</p>
3	<p>Ligado Networks (Private) Sr Unsec: Caa1 YTM: 1400%</p> <p>Ligado seeks to restructure debt again to ease satellite deal, comes ahead of ~\$4Bn bond maturity in Nov'23.</p>
Technology	
1	<p>Exela Technologies (XELA) Sr Sec: CCC YTM: 122%</p> <p>Exela Technologies recently completed subpar debt distressed exchanges; liquidity cushion remains a concern.</p>



500+

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Global clients

120+

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80+

Countries where we have delivered projects

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