T. ROWE PRICE FIXED INCOME CREDIT SECTOR VIEWS

Sector Strategy Advisory Group (SSAG)* Insights—July 2024

	RISK REGIME		MAC RISK REGIME COMMENTS
Multi-Asset Credit (MAC) Risk Indicator	RISK OFF	RISK ON	▪ Our risk model continued to recommend holding overweights to credit, as it has since early last year. The signal strengthened somewhat since last month as credit spreads regained some tightening momentum following what seemed to be a technically driven widening spell in June. ▪ Volatility events seem to be increasing (although investors have seen these as opportunities and have quickly stepped in to buy any dips) and credit spreads are tight. However, the US summer months have historically been a relatively calm period for risk assets. ▪ That said, liquidity commonly worsens in late summer, and managers in our group have generally moderated risk and looked to enhance portfolio liquidity. ▪ We believe that higher-risk, lower-duration sectors should continue to outperform. But we are pairing these risk exposures with some higher-quality, safer assets, some of which have longer duration profiles.

SSAG Tactical View: ■ Positive ■ Neutral ■ Negative
Change vs. Prior Month: ▲ Upgraded ■ Stable ▼ Downgraded

SECTOR		SECTOR COMMENTS
Global High Yield (HY) Corporates	■	▪ While HY spreads are near historic tights, we see scope for them to remain at low levels as default rates should remain below average, attractive all-in yields around 8% attract flows, low net issuance results in favorable technicals, and low dollar prices enhance returns with HY bonds typically refinanced before maturity. ▪ The low default environment is driven by a favorable global economic backdrop, a healthy new-issue market, prudent underwriting, and improved credit quality. ▪ We have a more favorable view of US HY credit default swap indices (CDX), whose spreads have decompressed from their IG counterparts and are quite liquid. ▪ While our HY team sees good fundamental stories in Europe, our sector ranking model downgraded Euro HY in the wake of relative outperformance.
Bank Loans	■	▪ Bank loans remain a well-liked sector. In addition to offering the highest spreads in our credit opportunity set, loans have historically exhibited lower volatility than other risk assets. Amid a benign default outlook, we believe that loans can outperform in a risk-on market and hold up well in a risk-off scenario. ▪ Bank loans, on average, have a current yield advantage of about 250 bps over HY bonds. While some of this premium may erode if/when the Fed decides to cut rates, we don't envision that the Fed will cut to such an extent that all of that yield advantage will be eliminated.
EM USD Sovereign and Corporate Credit	■	▪ Resilient global growth and ongoing disinflation creates a relatively neutral backdrop for EM assets, with performance driven largely by domestic developments. ▪ Higher-quality EM credits have mediocre valuations but still offer a spread advantage to US IG credit and could be defensive assets if risk sentiment sours. ▪ EM local currency bonds were highlighted as attractive at our latest policy week discussions. EM central banks have an easing bias, global inflation pressures are likewise easing, and US dollar strength may have peaked with Fed rate cuts on the horizon and global growth leadership expected to shift away from the US. ▪ We see better valuations and return prospects for EM sovereigns than for EM corporates. Sovereigns also have a liquidity advantage over their corporate peers.
Global Investment-Grade (IG) Corporates	■	▪ Like the HY market, European IG credit moved lower in our sector ranking model as volatility in European markets increased following populist election victories. ▪ However, following a brief selloff, spreads on Euro IG have completely recovered as investors shrugged off policy uncertainty and "bought the dip." ▪ Issuance in the US has surprised to the upside year to date, much of it in the industrial subsector. We believe this is the result of issuers pulling forward issuance plans with yields dropping from their highs, credit spreads tight, and a November election looming. We expect issuance to taper off, creating a technical tailwind. ▪ Spread movements have been inversely correlated with movements in rates this year, indicating strong investor demand, especially when yields move higher.
Securitized Credit	▲	▪ Along with loans, ABS are a favored sector. Heavy supply has kept valuations at decent levels and created opportunities in areas like senior auto bonds. ▪ CMBS have also seen a surge in issuance, leading to select opportunities in senior conduit bonds and high-quality single-asset/single-borrower bonds backed by desirable properties. Selectivity is key as the market continued to face a surfeit of negative headlines about the commercial real estate market. ▪ Valuations in the CLO market are rich, but we see value in certain seasoned bonds that are past their reinvestment period and are being refinanced or reset. ▪ RMBS probably offer the least value in the asset class, but collateral performance has held up well, and rising home prices remain supportive fundamentally.
Agency MBS	▼	▪ We expect MBS to outperform credit in a recession scenario, which is not in the offing based on the outlook from our economics team. ▪ MBS aren't screening as attractive while we remain in a risk-on environment, but they offer a good convexity profile (i.e., downside risk is lower than other sectors). ▪ While MBS aren't presently a well-liked sector on their own, investors can use MBS as ballast to offset higher-risk sectors like loans or HY bonds.
Taxable Municipals	■	▪ Taxable munis have cheapened a bit vs. corporates after underperforming on a spread basis, but valuations are not yet near levels where we would want to buy. ▪ Moreover, issuance has been almost nonexistent, so there are few opportunities. However, holding onto muni positions can help diversify corporate exposures.

*See additional information on the next page for details about the SSAG. **Past performance is not a reliable indicator of future performance.**

The **T. Rowe Price Sector Strategy Advisory Group (SSAG)** is comprised of select Fixed Income investment professionals, specializing in a range of disciplines, who collaboratively generate investment ideas for use in portfolios across our platform. Views are based on SSAG research and discussions, combining fundamental analysis from sector specialists with insights from our quantitative research experts and proprietary tools. Views are intended to be tactical, are as of the date indicated, and are subject to change.

What is the MAC Risk Indicator?

The MAC Risk Indicator is a proprietary credit risk model based on an aggregation of five underlying risk signals including:

1. fundamental sector conviction ratings from T. Rowe Price's Fixed Income sector teams;
2. T. Rowe Price economics team's internal forecast for near-term global economic growth;
3. credit spread momentum and value;
4. state of financial market volatility;
5. investor risk sentiment and positioning.

Applying an established set of rules, the combination of these inputs produces either an overall positive ("risk-on") or negative ("risk-off") view on the environment for credit risk, which influences the SSAG's tactical sector allocation views.

SECTOR STATISTICS AND RETURNS

As of 30 June 2024

			Credit Spreads (basis points)					Total Returns (%)[1]		
	Yield to Worst (%)	Duration (years)	Current Spread	M/M Change	1YR High	1YR Low	1YR Avg.	1M	YTD	1YR
HIGH YIELD CORPORATES										
Global HY	8.26	3.54	386	11	524	366	435	0.65	3.88	12.70
US HY	7.91	3.06	309	1	438	289	348	0.94	2.58	10.72
Euro HY[2]	8.70	2.76	370	36	495	331	406	0.49	3.68	12.70
Asia HY	9.82	2.36	490	-15	1054	484	746	1.22	10.14	13.50
Loans[3]	8.78	0.25	464	3	540	457	499	0.32	4.62	11.13
EMERGING MARKETS										
EM Sovereigns (USD)	8.35	6.49	391	11	459	324	397	0.62	2.34	9.23
EM Corporates (USD)	6.73	4.15	267	5	359	261	313	0.93	3.85	9.30
INVESTMENT GRADE CORPORATES										
Global IG	5.04	5.90	104	9	144	95	118	0.69	0.30	5.88
US IG	5.48	6.84	94	9	130	85	105	0.64	-0.49	4.46
Euro IG[2]	6.01	4.67	119	11	165	108	136	0.79	1.11	8.39
Asia IG	5.40	4.93	82	7	130	75	104	0.75	0.99	4.74
SECURITIZED CREDIT										
CLOs	7.22	0.82	264	0	302	250	278	0.49	4.44	10.52
CMBS	5.48	4.17	97	3	141	92	118	0.94	1.53	5.07
ABS	5.32	2.57	57	3	85	50	63	0.67	1.66	5.19
OTHER SPREAD SECTORS										
Agency MBS	5.22	6.03	48	-2	82	42	54	1.17	-0.98	1.39
Taxable Munis	5.33	9.19	83	7	108	72	88	0.94	-1.21	1.78

COMMON BENCHMARKS

			Total Returns (%)[1]		
Index	Yield to Maturity (%)	Duration (years)	1M	YTD	1YR
Global Aggregate	3.90	6.48	0.87	0.13	3.86
US Aggregate	5.00	6.08	0.95	-0.71	2.13

SOVEREIGN YIELDS

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.40	-10	4.99	3.75
German bund[2]	4.50	-8	5.01	3.64

Past performance is not a reliable indicator of future performance.

[1] Returns are hedged to USD.

[2] Yields are hedged to USD. As of 30 June 2024, currency hedges increased European sector yields by approximately 201 basis points for USD-based investors.

[3] Loan yields and spreads are forward to maturity.

Sources: Bloomberg Index Services Limited, J.P. Morgan Chase. Please see the following page for benchmark information.

ADDITIONAL INFORMATION RELATING TO THE MARKET INDICES ON THE PREVIOUS PAGE

Market indices shown on previous page represent the following:

Global HY: Bloomberg Global High Yield Bond Index USD-Hedged; US HY: Bloomberg US Corporate High Yield Bond Index; Euro HY: Bloomberg Pan-European High Yield Bond Index USD-Hedged; Asia HY: Bloomberg Asia USD High Yield Bond Index; Bank Loans: J.P. Morgan Leverage Loan Index; EM Sovereigns (USD): J.P. Morgan EMBI Global Diversified Index; EM Corporates: J.P. Morgan CEMBI Broad Diversified Index; Global IG: Bloomberg Global Aggregate – Corporate Index USD-Hedged; US IG: Bloomberg US Corporate Bond Index; Euro IG: Bloomberg Pan European Aggregate Corporate Index USD-Hedged; Asia IG: Bloomberg Asia USD Investment Grade Bond Index USD-Hedged; CLO: J.P. Morgan CLO Post-Crisis Index; CMBS: Bloomberg US CMBS ERISA Eligible Index; ABS: Bloomberg US ABS Index; Agency MBS: Bloomberg US MBS Index; Taxable Munis: Bloomberg Taxable Muni US Agg Eligible Index; Global Aggregate: Bloomberg Global Aggregate Bond Index USD-Hedged; US Aggregate: Bloomberg US Aggregate Bond Index.

Yields for European credit indices and German bunds are hedged using the EUR 3-month implied yield and 3-month USD LIBOR. Source: Bloomberg.

ADDITIONAL DISCLOSURES

IMPORTANT INFORMATION

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