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# Outlook 2021: Investment grade corporate debt

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## OVERVIEW

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- Markets: Five things to know for 2021
- Economy: Upside surprises in 2021
- IG Corporate Debt: Out-of-consensus calls for 2021

## MARKETS: FIVE THINGS TO KNOW FOR 2021

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- The yield curve should steepen faster than forward rates imply
- Lower-rated credits should outperform higher-rated credits
- Private debt should deliver strong returns
- Debt from best-in-class niche platforms should do well
- Returns to informationally intensive assets should run above average

## ECONOMY: UPSIDE SURPRISES IN 2021

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- Consensus 2021 economic forecasts: 3% real GDP growth, unemployment rate falls to around 6% by end of year, and inflation settles at 1¾%.
- Three possible surprises for next year:
  - 1. A Near-Complete COVID Recovery
  - 2. Labor Market Approaches Full Employment by End-2021
  - 3. Inflation Could Be Up or Down in 2021

## OUT-OF-CONSENSUS CALLS IN INVESTMENT GRADE CORPORATE DEBT FOR 2021

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- Gross Supply to decline in 2021; but Net Supply may prove more stable
- Shareholder remuneration returns at the expense of the balance sheet
- Brick-and-mortar is not necessarily dead
- Reports of REITs' demise grossly exaggerated
- Technology could outperform again – but as a down-in-credit trade
- IG aircraft lessors poised for continued outperformance in 1H20

## GROSS SUPPLY TO DECLINE IN 2021; BUT NET SUPPLY MAY PROVE MORE STABLE

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- 2020 IG Corporate new issue volume poised to break \$1.9 trillion
- Compares with five-year average of about \$1.3 trillion
- Estimated net debt issued in 2020 of \$967 billion YTD; or roughly a +10% gain on par amount outstanding
- Use of proceeds in 2020 has been primarily early debt redemption
- Current 3-yr maturities are now \$200 bn lower than at year-end 2019
- Use of proceeds could shift dramatically to debt-funded share repurchases, large-scale M&A
- We expect gross issuance to drop 15-20% to \$1.5 – 1.6 trillion range
- While net supply would only fall 5-10% to \$870 – 920 billion range

## GROSS ISSUANCE VS IG MATURITY SCHEDULE

### Gross USD IG Corporate Debt Issuance

Issuance (USD)	(\$ million)	Projected
<b>2021</b>		<b>\$1.5 to 1.6 trillion</b>
<b>2020 YTD</b>	1,867,168	<b>=&gt; 1,900,000</b>
<b>2019</b>	1,218,646	
<b>2018</b>	1,237,950	
<b>2017</b>	1,411,432	
<b>2016</b>	1,334,887	
<b>2015</b>	1,312,222	
<b>Prior 5yr Avg</b>	<b>1,303,027</b>	

### Upcoming Maturities for IG Issuers – Current vs Last Year End

As of 12/31/19	(\$ million)
<b>3yr Total</b>	<b>2,829,992</b>
<b>2020 Maturities</b>	881,599
<b>2021 Maturities</b>	1,006,438
<b>2022 Maturities</b>	941,955
<b>2023 Maturities</b>	724,572

As of 11/13/20	(\$ million)	(\$ million)
<b>3yr Total</b>	<b>2,618,136</b>	<b>(211,856)</b>
<b>2021 Maturities</b>	837,101	(44,498)
<b>2022 Maturities</b>	892,356	(114,082)
<b>2023 Maturities</b>	888,679	(53,276)
<b>2024 Maturities</b>	677,953	(46,619)

Source: Bloomberg LP, LEAG Tables, Amherst Pierpont Securities

## SHAREHOLDER REMUNERATION RETURNS AT THE EXPENSE OF THE BALANCE SHEET

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- Shareholder remuneration put on hold during pandemic to preserve liquidity
- Sectors that benefited greatly from stay-at-home orders will have hard time replicating top line and EBITDA growth with vaccine on the way
- Leverage now within target ranges due to EBITDA growth/debt reduction
- Shift from balance sheet strengthening to levered shareholder remuneration to support equity price
- Recommend marketweight in Consumer Non-Cyclical for 1H21 with a focus on credit selection
- Consumer Non-Cyclical picks include CAG,STX
- Consumer Non-Cyclical pans include GIS, CPB



# PACKAGED FOOD EQUITY PERFORMANCE RELATIVE TO SPX



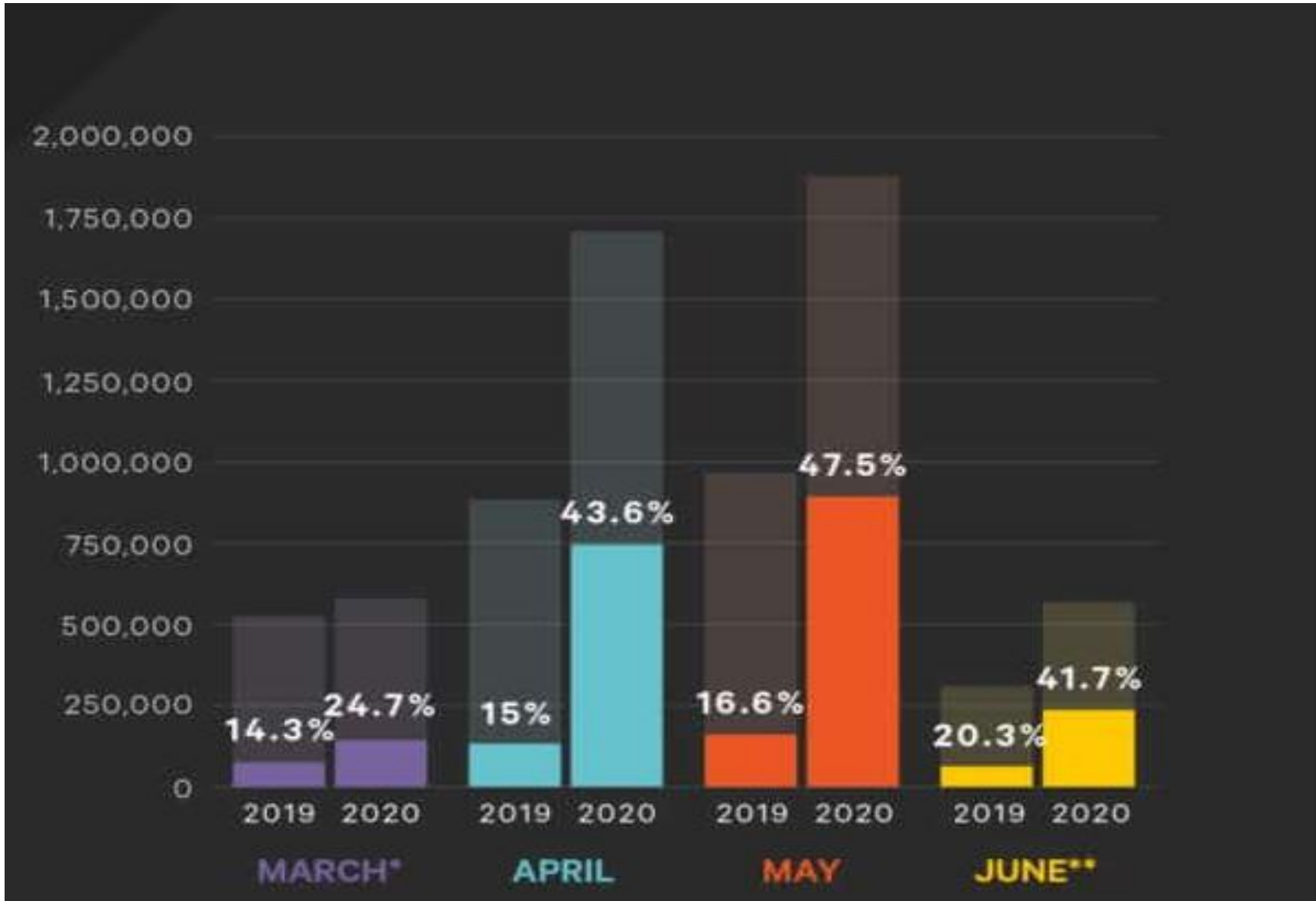
Source: Bloomberg, APS

## BRICK AND MORTAR IS NOT NECESSARILY DEAD

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- Pandemic accelerated shift to online shopping with online sales up approximately 200%
- Buy online pick-up in store (BOPUS) omnichannel option saw biggest growth, up over 350% during lockdown
- BOPUS growth trend continued once lockdown orders lifted; brick and mortar essential as consumer point of pickup
- Brick and mortar act as “mini warehouses” for online fulfillment and used for return option of online orders
- Pent up bargain hunting demand has improved traffic at off-price retailers and dollar stores
- Recommend marketweight in Consumer Cyclical for 1H21 with a focus on credit selection
- Consumer Cyclical top picks include BBY, DG
- Selective risk taking in Off-Price retail with top pick ROST

## BOPIS SHARE OF ONLINE ORDERS



Source: Kibo, Monetate, Certona

\*March shows data from March 16, 2020, when the national lockdown was imposed in the United States until the end of the month.

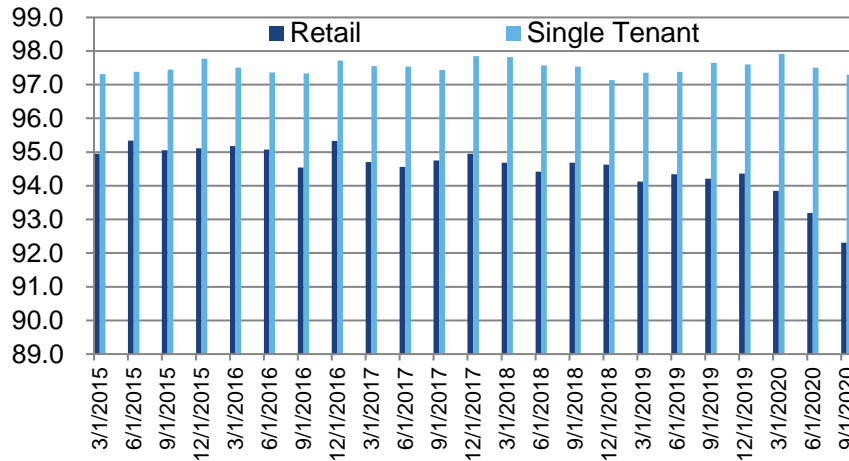
## REPORTS OF REITS' DEMISE GROSSLY EXAGGERATED

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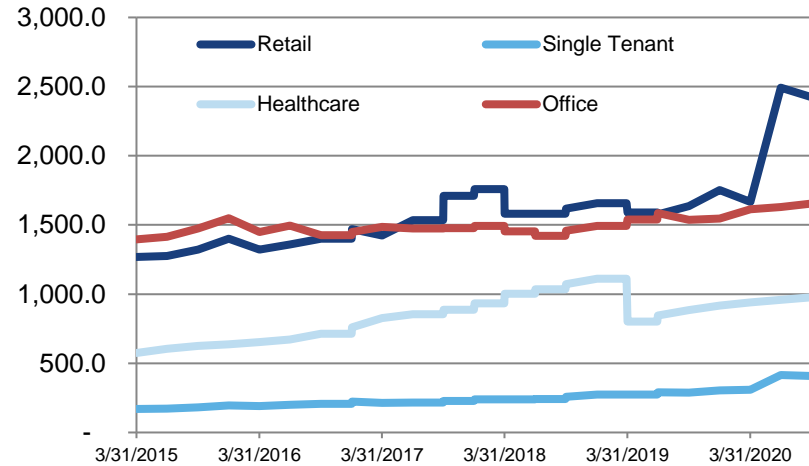
- REITs have underperformed the IG index YTD with excess return of -0.81%
- Future lockdowns pose challenges for industry, in particular Retail and Office subgroups
- IG issuers demonstrating greater resilience, stabilization in 3Q and 4Q
- Key credit and operating metrics have held up better than expected
- IG REITs have brought over 50 new deals since the start of the pandemic
- Issuers have been able to preserve/pay down credit facilities to shore up liquidity and emergency funding
- Recommend overweight in REITs for 1H21
- See value in Single Tenant REITs, top picks include VER, BRX
- Selective risk-taking in Office REITs, top picks include OFC, PDM

# REIT OPERATING STATISTICS – STRESSED IN 2Q, SIGNS OF STABILIZATION IN 3Q-4Q

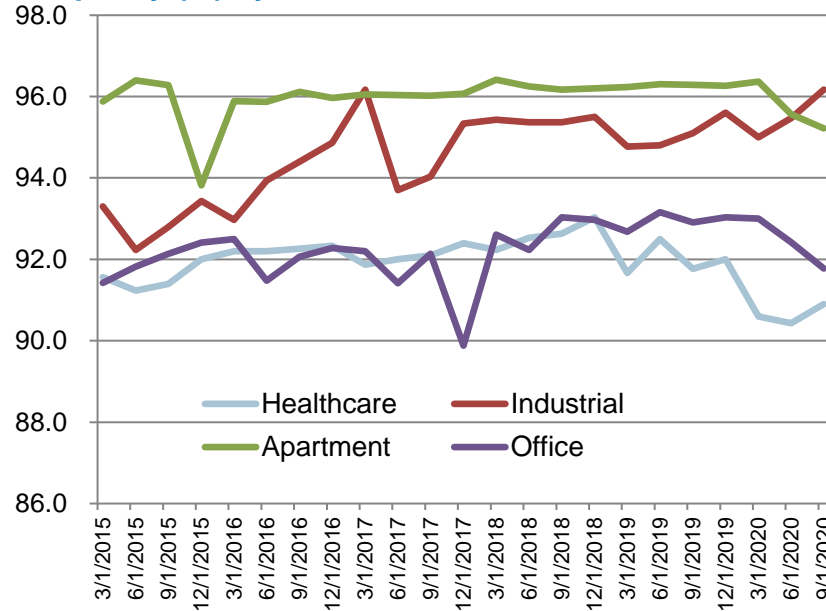
**Occupancy (%) – Retail vs Single Tenant**



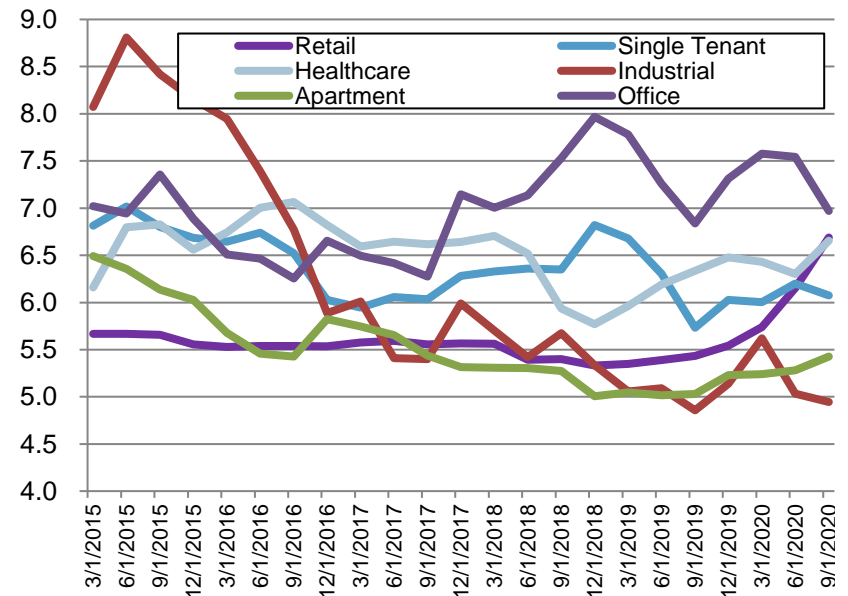
**Accounts Receivable balance by Sector (\$million)**



**Occupancy (%) by Sector**



**Net Leverage by Sector – Avg. Net Debt-to-EBITDA (X)**



Source: Bloomberg, Company Filings, Amherst Pierpont Securities

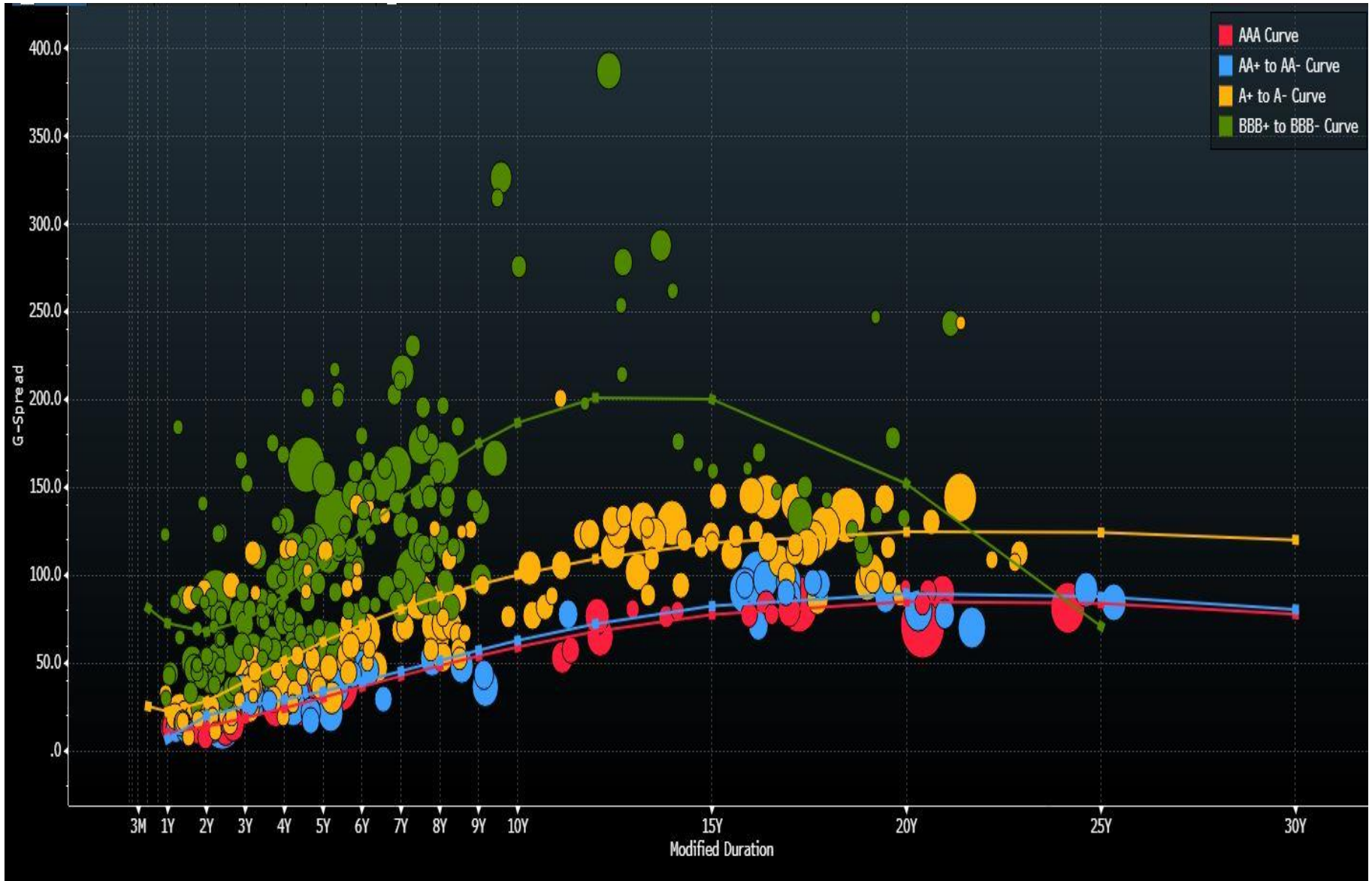
## TECHNOLOGY COULD OUTPERFORM AGAIN AS A DOWN IN CREDIT TRADE

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- IG Technology sector has returned 10.76% YTD (through November)
- High quality technology names remain in large net cash positions: MSFT, AAPL and GOOGL
- Significant spread dislocation between high quality and high beta technology credits
- See spread stability in high quality credits with liquid balance sheets despite increased shareholder remuneration
- See spread compression in high beta credits focusing on further debt reduction
- We are maintaining an overweight in Technology for 1H21
- Top picks in the sector include DELL, AVGO – with a focus in the belly of the curve for both credits



# IG TECHNOLOGY CURVE (AAA TO BBB)



Source: Bloomberg/TRACE, Amherst Pierpont Securities

## IG AIRCRAFT LESSORS POISED FOR CONTINUED OUTPERFORMANCE IN 1H20

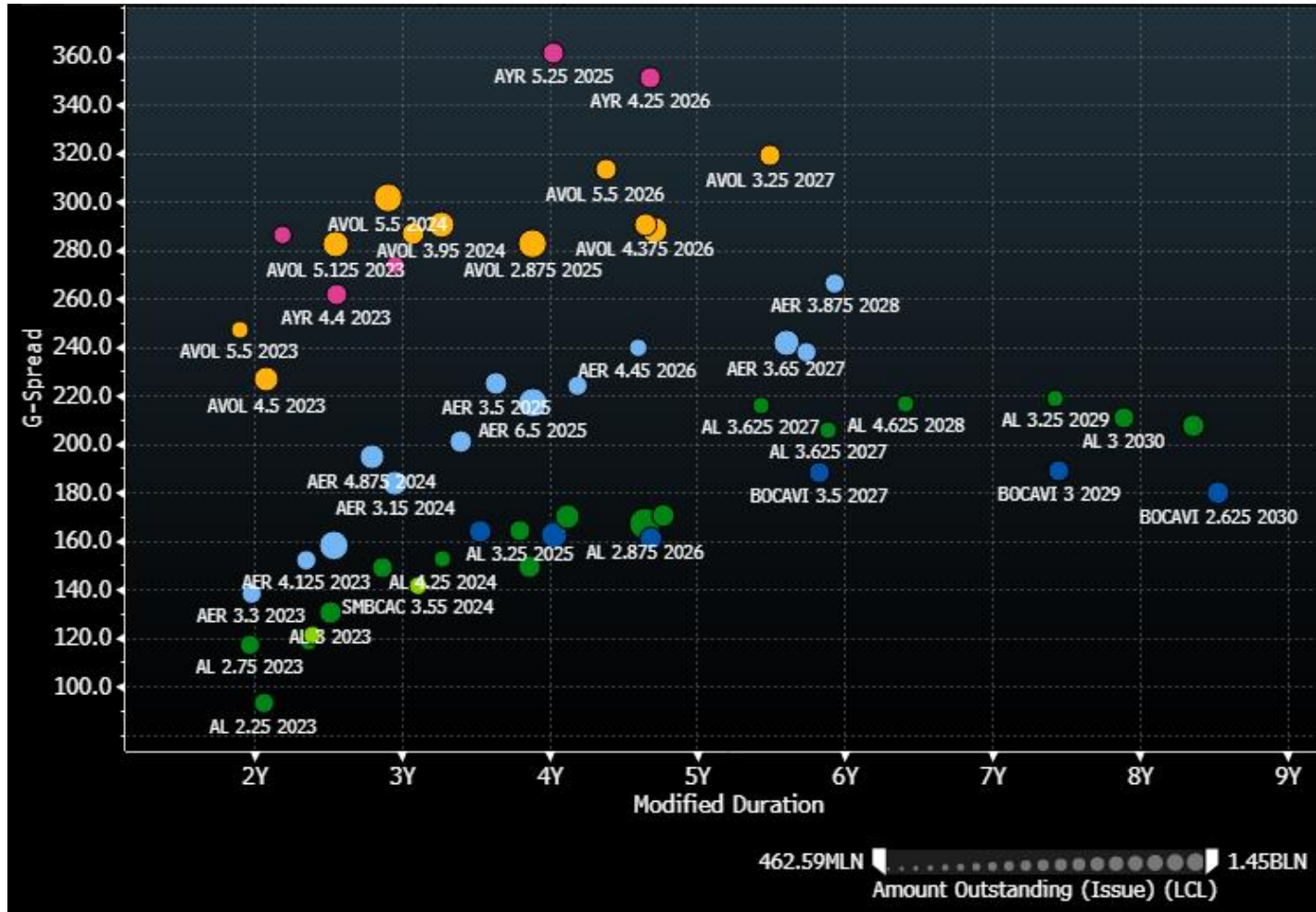
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- Segment has been outpacing the recent recovery in credit
- Excess return YTD -0.44 (+19 OAS)
- Since the end of May, Finance Companies top sector in IG Index with +17.08 excess return (-305 OAS)
- Long-term outlook for the industry remains highly favorable
- Recent vaccine developments and resumption of Boeing 737 Max flights bode well for industry
- We believe air travel will see a faster than expected recovery over the next six months
- We are initiating an overweight view on Aircraft Lessors for 1H21
- Top picks in the segment include AVOL, AYR front-end bonds



# AIRCRAFT LESSORS

## Aircraft Lessors offer attractive spreads despite recent tightening



Source: Bloomberg/TRACE – G-spread indications only, Amherst Pierpont Securities

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