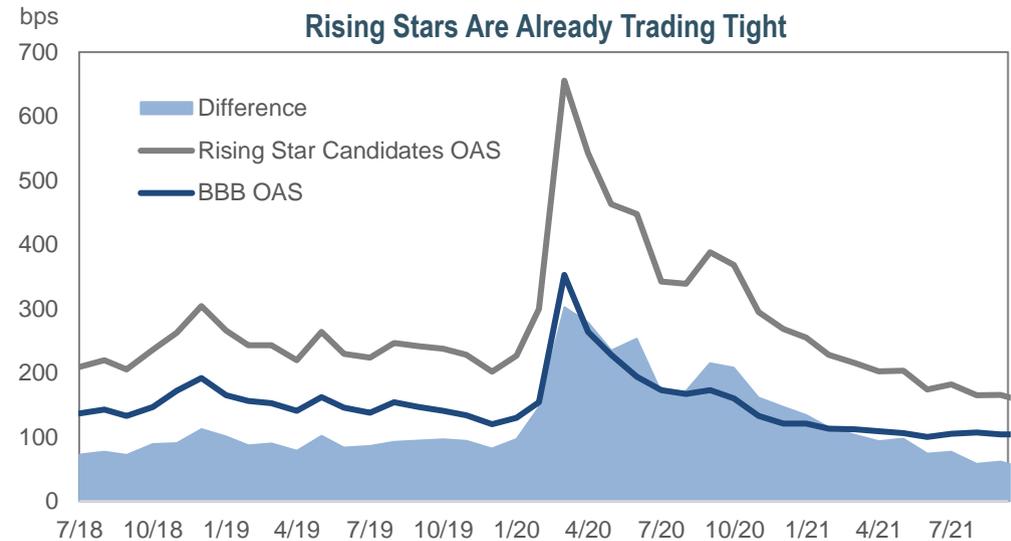
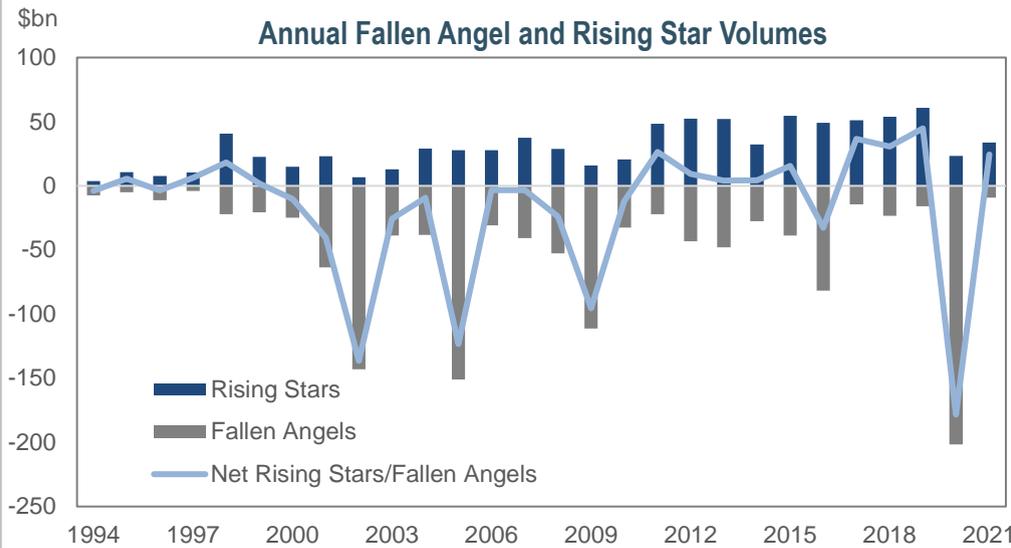


Twinkle, Twinkle Rising Stars, How I Wonder Where You Are?



- Coming into 2021, the market forecasted a wave of upgrades to investment grade (IG) ratings for high yield (HY) issuers. There were a record number of fallen angels last year and expectations were for this trend to sharply reverse amid the economic recovery. Fundamentals also supported this outlook, with credit metrics of many high-yield issuers, such as leverage and interest coverage ratios, improving to pre-pandemic levels.
- However, the number of rising stars has been underwhelming. Year-to-date, there have only been \$33 billion of rising stars, compared to last year's \$185 billion of fallen angels. Instead, most rating actions have taken place within the IG and HY rating cohorts. Rating agencies were quick to downgrade to HY many credits impacted by the pandemic but have taken a more measured approach to upgrades, despite the vast amount of economic support.
- Investors looking to take advantage of any upgrade to IG may have already missed the majority of spread tightening potential. Rising star candidates typically outperform well ahead of any rating action (similar to how spread widening usually happens months before an IG issuer is downgraded to HY). For example, Netflix was most recently upgraded from HY to IG when S&P adjusted the credit rating from BB+ to BBB-. Spreads have been relatively stable since the upgrade but have compressed almost 100bps relative to the IG corporate index over the last twelve months.
- At IR+M, we believe active management and rigorous credit analysis is key to taking advantage of these opportunities. We believe more companies will follow Netflix from HY to IG in the coming quarters; investors who have not already identified these issuers may miss out on any upside potential.

Source: Bloomberg (10/27/21), Barclays Research (Top left chart, 10/22/21), JPM (Top right chart, 10/9/21). Year-to-date rising stars were sourced from Bloomberg Intelligence as of 10/13/21. IG corporate index is the Bloomberg Corporate Index. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. "Bloomberg®" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product.