T. ROWE PRICE FIXED INCOME CREDIT SECTOR VIEWS

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

	RISK REGIME		MAC RISK REGIME COMMENTS
Multi-Asset Credit (MAC) Risk Indicator	RISK OFF	RISK ON	▪ All the underlying inputs of our risk model remained positive or neutral except for our sector teams' average sector conviction score, which is leaning negative due solely to overextended valuations in some sectors. If we experience some valuation relief, we would be biased to "buy the dips" and add to risk exposures. ▪ With the risk-on signal persisting, we continued to favor higher-beta sectors (with a few richly valued exceptions). In an environment where risk assets could perform well but valuations are generally tight, we see an opportunity to take advantage of valuation dispersion and add value through tactical sector allocation. ▪ For example, while IG corporate spreads—particularly for long-term issues—are near historical tights, sectors like bank loans remain more reasonably priced. ▪ At our April policy discussions, inflation pressures were seen as the biggest near-term macro concern. Although rising oil prices and higher-for-longer rates could eventually weigh on growth, for now we appear to be in a rather benign reflationary environment and are looking to position in assets that could benefit.

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

SECTOR		SECTOR COMMENTS
Global High Yield (HY) Corporates	■	▪ US HY markets continued to rally last month, but European HY struggled due to negative headlines around liability-management exercises (LME) by some large issuers, which protect equity owners at the expense of bondholders. A familiar risk in the US, LME is a more recent development in Europe. ▪ At the index-level, European HY spread valuations screen attractive relative to other credit sectors. However, we are less enthusiastic over the attractiveness of European HY because index-level spreads reflect a level of loss-given default for some large issuers, meaning wide spreads don't reflect true return opportunity. ▪ We still see value in many idiosyncratic ideas in European HY—such as performing, shorter-dated bonds priced below par—but we aren't willing to advocate blanket overweights to the sector. Rather, we are focusing on bottom-up security analysis to avoid deteriorating situations and identify mispriced bonds. ▪ In the synthetic arena, US credit-default-swap indices screen much more favorably than similar European derivative instruments.
Bank Loans	■	▪ Loans remained our model's top-ranked sector across both risk-on and risk-off regimes. We see value in them, especially if rates remain at high levels for longer. ▪ Predictive factors—namely, stronger manufacturing data and higher oil prices—also supported the case for loans in our sector allocation model. ▪ At current spread levels, our analysis suggests that loans have potential to generate stronger returns than most other sectors over a 12-month horizon.
EM USD Sovereign and Corporate Credit	■	▪ EM credit has produced impressive headline performance in recent months, driven by distressed names, but EM still offers a spread advantage to US credit. ▪ With wider spreads, EM sovereigns have better return potential in the SSAG's view, but EM corporates could be more defensive due to a generally shorter duration and lower volatility profile. In corporates, our EM team has been favoring the HY segment, which offers higher spreads and greater spread dispersion. ▪ Outside of credit, our EM team has a more favorable view on EM local bonds amid stabilizing global growth, more controlled inflation, and potential for rate cuts.
Global Investment-Grade (IG) Corporates	■	▪ As in the HY bond market, we generally prefer the Euro corporate market to the US market, where relative value has become increasingly stretched. ▪ Index derivatives in both markets look expensive following several months of steady tightening; we currently see slightly more value in European IG synthetics. ▪ European credit could be supported by an expected near-term growth upturn in Europe and rate cuts by the ECB, who will likely start well before the Fed moves. ▪ However, we are seeing less relative value in riskier Alternative Tier 1 bonds issued by European banks based on our quantitative team's valuation framework.
Securitized Credit	▼	▪ We have a neutral-to-negative view on securitized credit. We are least keen on RMBS, where valuations are broadly rich following a strong rally this year. ▪ CMBS have rallied as well, and there is little value left in senior CMBS. Subordinate tranches are cheaper but, in many cases, this is justified by fundamental risks. ▪ In CLOs, lower-rated tranches and higher-quality reset deals in the primary market are attractive. While CLO valuations are uninspiring, technicals remain solid. ▪ A glut of ABS issuance has helped the sector retain some value; we like discount priced whole-business securitizations and synthetic prime auto loans.
Agency MBS	■	▪ MBS moved up in our sector ranking model due largely to predictive factors such as a decline interest rate volatility and an improvement in existing home sales. ▪ However, we have concerns that if persistent inflation pressures cause the Fed to revert to a hawkish stance, rate volatility could remain elevated for longer. ▪ There are also technical concerns. Supply has been low but may pick up if home sales and refinancings increase. Money managers are broadly overweight to MBS, and it is questionable how much more they will buy. And while banking concerns have eased, they could crop up again, impairing demand and sentiment.
Taxable Municipals	▲	▪ Valuations are unattractive, but technicals are highly supportive due to limited supply and strong demand from investors looking for higher-quality sources of yield. ▪ There may also be some opportunities due to a recent court ruling permitting extraordinary redemptions of Build America Bonds, securities temporarily issued after the 2008 financial crisis. Certain bonds with these provisions that are priced at discounts could be called early, creating potential for price gains.

*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 31 March 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	8.09	3.58	382	-13	577	377	475	1.57	2.62	14.54
US HY	7.66	3.09	299	-13	489	292	384	1.18	1.47	12.56
Euro HY[2]	8.32	2.68	358	10	518	336	438	0.52	1.99	13.66
Asia HY	10.84	2.32	587	-14	1082	560	858	1.95	6.64	10.25
Loans[3]	8.81	0.25	476	-9	573	475	521	0.91	2.65	12.50
EMERGING MARKETS										
EM Sovereigns (USD)	7.74	6.63	342	-27	498	342	425	2.09	2.04	11.28
EM Corporates (USD)	6.65	4.17	280	-8	381	280	337	1.00	2.32	9.17
INVESTMENT GRADE CORPORATES										
Global IG	4.88	5.93	100	-6	158	99	131	1.26	0.10	6.66
US IG	5.30	6.90	90	-6	148	88	117	1.29	-0.40	5.49
Euro IG[2]	5.59	4.64	114	-7	173	112	149	1.40	0.75	8.99
Asia IG	5.32	4.93	86	-5	147	85	117	0.81	0.28	5.30
SECURITIZED CREDIT										
CLOs	7.08	1.30	286	-4	302	250	278	0.72	2.31	10.91
CMBS	5.33	4.25	96	-6	143	96	129	0.91	0.85	4.84
ABS	5.19	2.55	55	0	86	53	70	0.49	0.68	4.56
OTHER SPREAD SECTORS										
Agency MBS	5.04	6.04	49	-2	82	44	56	1.06	-1.04	1.82
Taxable Munis	5.11	9.14	78	0	120	76	98	1.20	-0.44	4.23

COMMON BENCHMARKS

			Total Returns (%)[1]		
Index	Yield to Maturity (%)	Duration (years)	1M	YTD	1YR
Global Aggregate	3.74	6.57	0.90	0.01	4.40
US Aggregate	4.85	6.14	0.92	-0.78	2.36

SOVEREIGN YIELDS

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.20	-5	4.99	3.31
German bund[2]	4.05	-11	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 31 March 2024, currency hedges increased European sector yields by approximately 175 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

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