Aegon Asset Management

Asset Class Perspective
March 2024

AEGON **INSIGHTS**

High yield: Breaking down the maturity wall

The maturity wall has been a hot topic lately—and rightfully so. After all, the ability of issuers to repay their debt obligations is a key consideration for bond investors. And assessing the upcoming maturity schedule becomes even more critical for high yield companies, some of which may face strained liquidity or challenges accessing capital markets.

With rates likely to remain elevated in the near term, will companies be able to address near-term maturities? How concerning is the upcoming maturity wall for investors? In this piece, we break down the high yield bond maturity wall and discuss why the outlook may not be as dire as some may think.

With rates likely to remain elevated in the near term, will companies be able to address near-term maturities? And how concerning is the upcoming maturity wall for investors?

The evolution of the maturity wall

In recent years, the maturity wall has not been a major concern for high yield investors. Yes, it is always a consideration, but most companies were able to proactively refinance debt at cheap interest rates in 2020 and 2021. As a result, the amount of debt coming due in 2022 and 2023 was relatively low and wasn't a major concern for investors. Many issuers also maintained healthy balance sheets and had ample liquidity. This provided most high yield companies with the luxury of time to address any upcoming maturity issues. And that proactiveness paid off, as many companies were not forced to refinance debt at high interest rates when central banks hiked rates in 2022 and 2023.

However, around the middle of 2023, investors started becoming more fixated on upcoming high yield bond maturity profiles. At that time, a record amount of high yield paper would mature in the next four years and the refinancing runway was becoming shorter. Higher rates meant higher borrowing costs, which in turn placed further pressure on companies. Still, the amount of debt coming due in 2024 looked manageable, but the maturities ballooned in 2025 and 2026. It was becoming increasingly apparent that companies would need to start making a concerted effort to address those looming maturities. Concerns about higher rates for longer exacerbated investors' worries as companies may face unmanageable interest costs, especially those with floating-rate debt.

For institutional and professional investor use only.
Aegon Asset Management is the global investment management brand of Aegon Ltd. See disclosures for more detail.

![AEGON Asset Management]

The power of the Fed pivot

Fast forward to 2024. The Federal Reserve's pivot in its monetary policy rhetoric in late 2023 (from aggressively raising rates to indicating a willingness to consider cutting rates) fueled a swift improvement in market sentiment, as investors and companies alike found comfort in the potential for rate cuts in 2024. As capital market conditions improved, companies capitalized on the opportunity to tackle near-term maturities. Refinancing activity picked up materially in the first few months of 2024. According to JP Morgan, February had the heaviest refinancing activity in high yield bonds since March 2021.[1]

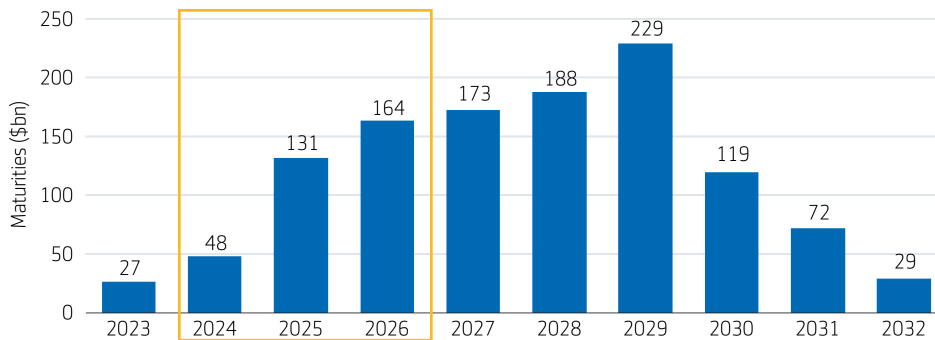
Improving maturity schedule

Since December 2022, issuers have continued to chip away at upcoming debt maturities. The bonds coming due between 2024 and 2026 for US dollar-denominated high yield bonds has been reduced by approximately 26% since 2022. In our view, this improved maturity wall further supports a constructive outlook on high yield bonds. While fundamentals are showing signs of modest deterioration and the economy is slowing, many companies are in a solid position to repay debt maturities and avoid default.

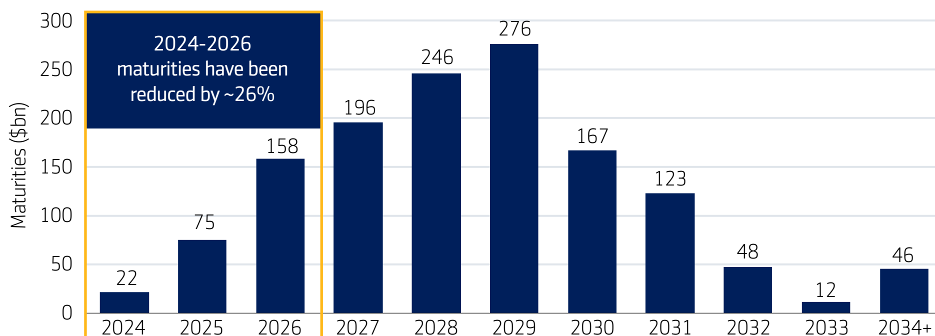
Issuers continue to address upcoming maturities, with February 2024 seeing the heaviest refinancing activity in high yield bonds since March 2021.

2022 vs. 2024: High yield bond maturity wall

December 2022: High yield bond maturity wall (USD billions)



February 2024: High yield bond maturity wall (USD billions)



Source: BofA Research. As of December 31, 2022 and February 29, 2024. Reflects US dollar-denominated high yield corporate bond debt.

[1]JP Morgan as of February 2024. US dollar-denominated high yield bond issuance totaled $27.7 billion.

The moderately improving economic outlook also bodes well for the maturity wall. Although slowing economic conditions do still present headwinds, the lower probability of a hard recession gives companies more flexibility to start proactively addressing their 2025 and 2026 bond maturities, further reducing near-term refinancing risk. If (or when) central banks begin to cut rates, we would expect refinancing activity to increase significantly, provided supportive capital market conditions persist.

Cautious on lower-quality credit

While the overall outlook on the maturity wall has improved, lower-tier companies (CCC-rated bonds and below) present the biggest refinancing risk over the coming years. However, this segment is very idiosyncratic since those companies face nuanced challenges. Weaker firms are more likely to have issues accessing capital markets and those with elevated floating rate debt will face more headwinds.

Mitigating risk, emphasis on selection

In our view, the maturity wall risk can be mitigated through active selection and in-depth research. Given the challenges in certain lower-quality credits, investors may want to focus on high-quality high yield bonds and be very selective in the lower-rated part of the market. Careful research can help investors assess issuers' maturity profiles and scrutinize issuers that have maturity wall concerns or inadequate liquidity. Overall, we believe the improved maturity schedule bodes well for the high yield market and recent refinancing activity has reduced near-term risks, however security and issuer selection are paramount to mitigating downside risk.

About us

We are active global investors. In a complex world we think and act across traditional boundaries. We organize our teams globally by asset class, to bring the breadth and depth of our investment and research capabilities together for clients across the world. We call it investing beyond borders.

Aegon Asset Management

Disclosures

This material is provided by Aegon Asset Management (Aegon AM) as general information and is intended exclusively for institutional and wholesale investors, as well as professional clients (as defined by local laws and regulation) and other Aegon AM stakeholders.

This document is for informational purposes only in connection with the marketing and advertising of products and services, and is not investment research, advice or a recommendation. It shall not constitute an offer to sell or the solicitation to buy any investment nor shall any offer of products or services be made to any person in any jurisdiction where unlawful or unauthorized. Any opinions, estimates, or forecasts expressed are the current views of the author(s) at the time of publication and are subject to change without notice. The research taken into account in this document may or may not have been used for or be consistent with all Aegon AM investment strategies. References to securities, asset classes and financial markets are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions. It has not been prepared in accordance with any legal requirements designed to promote the independence of investment research, and may have been acted upon by Aegon AM and Aegon AM staff for their own purposes.

The information contained in this material does not take into account any investor's investment objectives, particular needs, or financial situation. It should not be considered a comprehensive statement on any matter and should not be relied upon as such. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to any particular investor. Reliance upon information in this material is at the sole discretion of the recipient. Investors should consult their investment professional prior to making an investment decision. Aegon Asset Management is under no obligation, expressed or implied, to update the information contained herein. Neither Aegon Asset Management nor any of its affiliated entities are undertaking to provide impartial investment advice or give advice in a fiduciary capacity for purposes of any applicable US federal or state law or regulation. By receiving this communication, you agree with the intended purpose described above.

Investments in high yield bonds may be subject to greater volatility than fixed income alternatives, including loss of principal and interest, as a result of the higher likelihood of default. The value of these securities may also decline when interest rates increase.

Past performance is not a guide to future performance. All investments contain risk and may lose value. This document contains "forward-looking statements" which are based on Aegon AM's beliefs, as well as on a number of assumptions concerning future events, based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict.

Consequently, such statements cannot be guarantees of future performance, and actual outcomes and returns may differ materially from statements set forth herein.

The following Aegon affiliates are collectively referred to herein as Aegon Asset Management: Aegon USA Investment Management, LLC (Aegon AM US), Aegon USA Realty Advisors, LLC (Aegon RA), Aegon Asset Management UK plc (Aegon AM UK), and Aegon Investment Management B.V. (Aegon AM NL). Each of these Aegon Asset Management entities is a wholly owned subsidiary of Aegon Ltd. In addition, Aegon Private Fund Management (Shanghai) Co., a partially owned affiliate, may also conduct certain business activities under the Aegon Asset Management brand.

Aegon AM UK is authorised and regulated by the Financial Conduct Authority (FRN: 144267) and is additionally a registered investment adviser with the United States (US) Securities and Ex-change Commission (SEC). Aegon AM US and Aegon RA are both US SEC registered investment advisers.

Aegon AM NL is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company and on the basis of its fund management license is also authorized to provide individual portfolio management and advisory services in certain jurisdictions. Aegon AM NL has also entered into a participating affiliate arrangement with Aegon AM US. Aegon Private Fund Management (Shanghai) Co., Ltd is regulated by the China Securities Regulatory Commission (CSRC) and the Asset Management Association of China (AMAC) for Qualified Investors only. The content has not been reviewed or endorsed by any regulatory authority in China.

In Taiwan, neither Aegon AM nor any of its affiliates are registered and may not sell, issue, or offer any products or services while in Taiwan. Marketing is intended for Professional Institutional investors only and the contents have not been reviewed or endorsed by any regulatory authority in Taiwan. The content contained is for information purpose only. Taiwan residents are advised to exercise caution in relation to the proposal. If you are in any doubt about any of the contents of this marketing, you should obtain independent professional advice.

©2024 Aegon Asset Management or its affiliates. All rights reserved.

Adtrax: 6463153.1GBL