

Key Points Concerning Corporate Credit Market and Equities

- What matters to corporate issuers is the ability to sell/roll-over bonds; within reason, the yield companies must pay is borderline irrelevant.
- What matters to corporate bonds buyers are risk spreads; an environment of high base rates (Treasury yields) and tight risk spreads is ideal.
- Current conditions for issuers are as good as they get: low base rates and historically tight spreads. Buyers would prefer higher base rates to reduce duration/rate risk. (Slide 4)
- Total outstanding corporate debt has soared (Slide 5 and 6), but fundamental metrics are still OK. (Slide 7)

Why Does This Matter To Equity Markets?

- Because, with one **NOTABLE** exception, companies have been the only net buyers of equities – their own stock or through M&A – for decades (Slides 8 and 9)
- The exception was last year, and Hedge Funds and Foreign Buyers stepped in. Don't ask me why.
- This year “Nature is Healing” and companies are again allocating money to buybacks at record pace. (Slide 10)

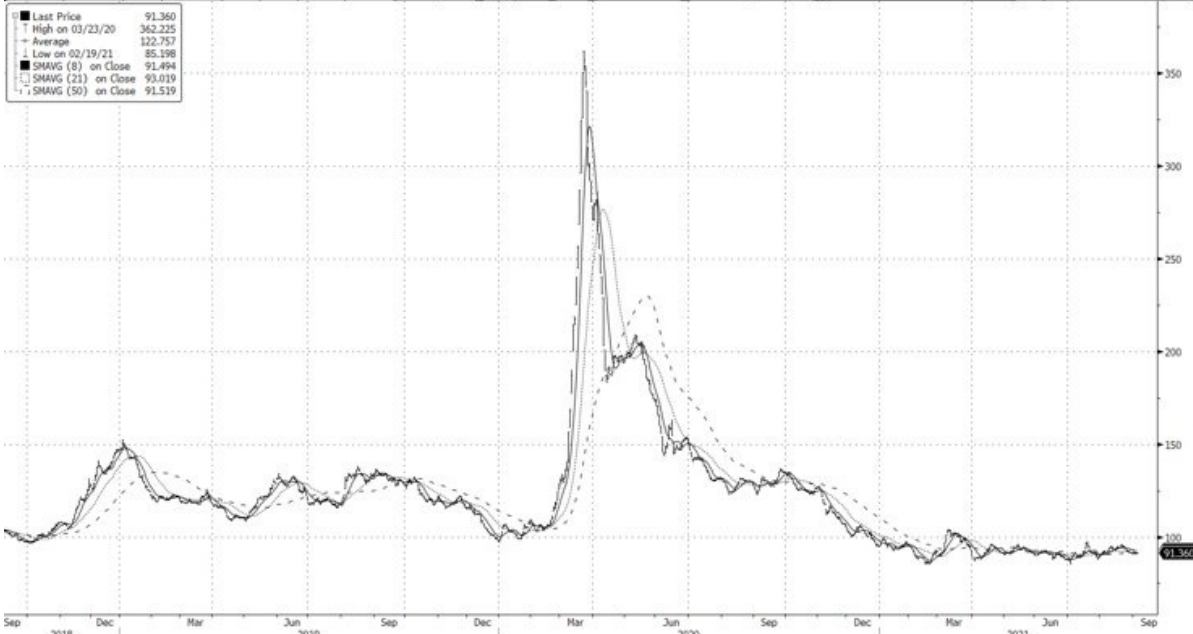
Myths

- “It’s all about the Fed”: It is not. The Fed’s balance sheet is about \$7T, pension and endowments AUM **just in the US** are close to \$35T.
- “But what about QE?": QE has nothing to do with corporate bond or equity purchases, besides the popular narrative that “it does”.
<https://behavioralmacro.com/author/markdow/> Mark Dow has several excellent pieces on how QE actually works from a monetary and psychological standpoint.
- “When Treasury rates rise, the markets will collapse”. Actually, as long as risk spreads behave, the Fed tightening cycle is likely to provide the most intense stage of the equity bull market, as it did in 1995-1999, 2003-2007, and 2009-2020.

IG/HY Spreads at tightest levels ever.

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 At 9/3 Op 90.972 Hi 91.360 Lo 90.660 Prev 91.204 Vol 0

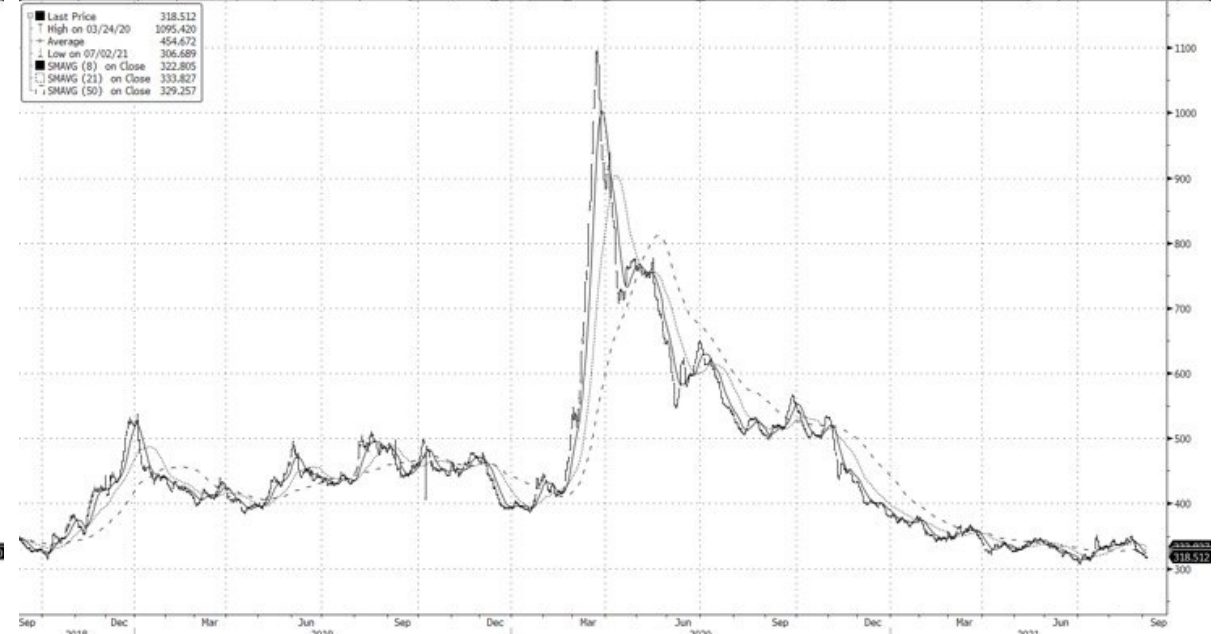
USOAIQTO Index 94 Suggested Charts 90 Actions 97 Edit Bar Chart
 09/07/2018 - 09/06/2021 Last Px Local CCY Mov Avgs Key Events
 10mi 60mi 1M 1H1M 1Y 3Y 20Y Max Daily Table + Compare Add Data Edit Chart



Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2021 Bloomberg Finance L.P.
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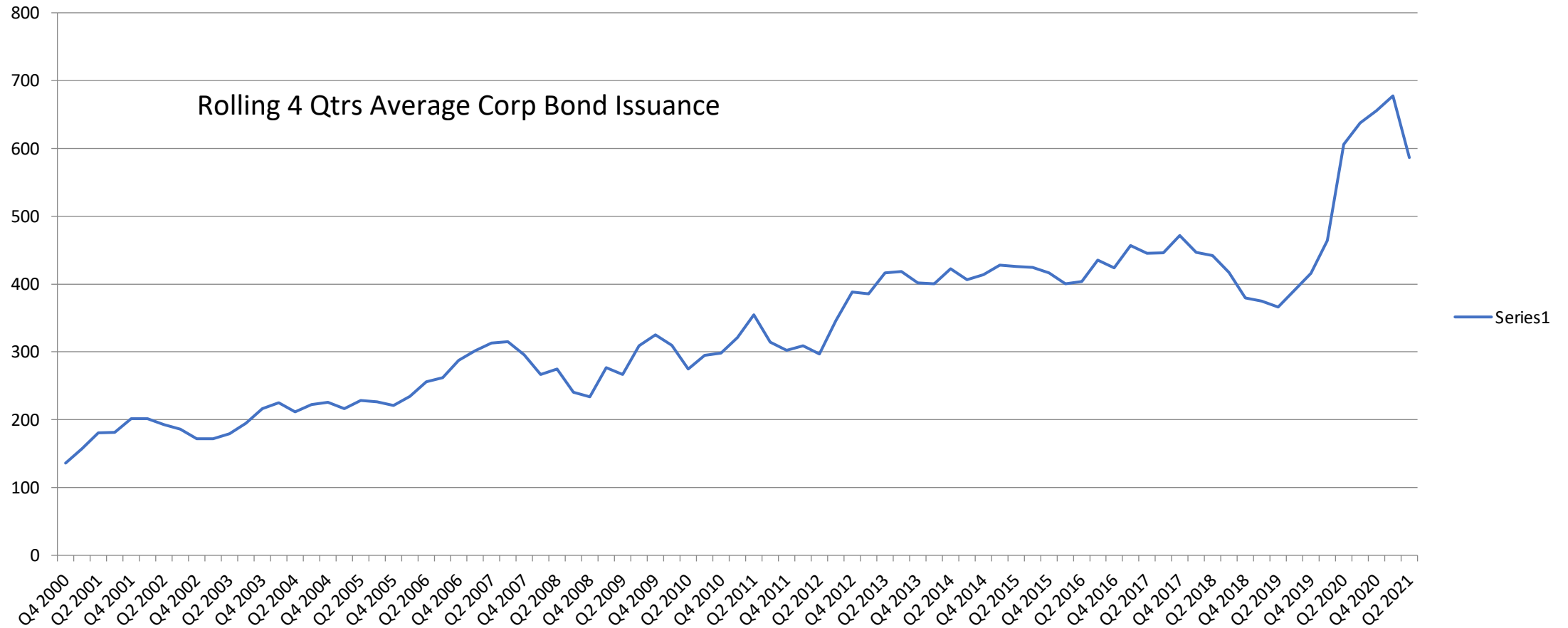
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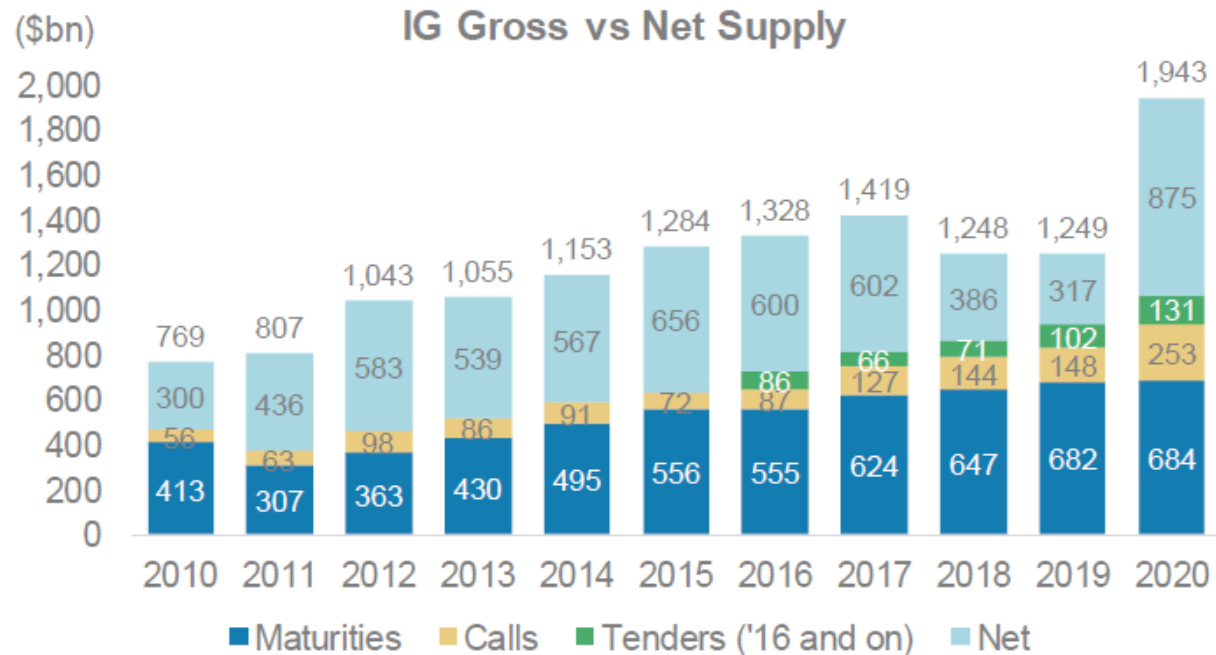
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Buyers can't find enough bonds, and companies are obliging w/ new issuance.
(Source Bloomberg daily NIM)



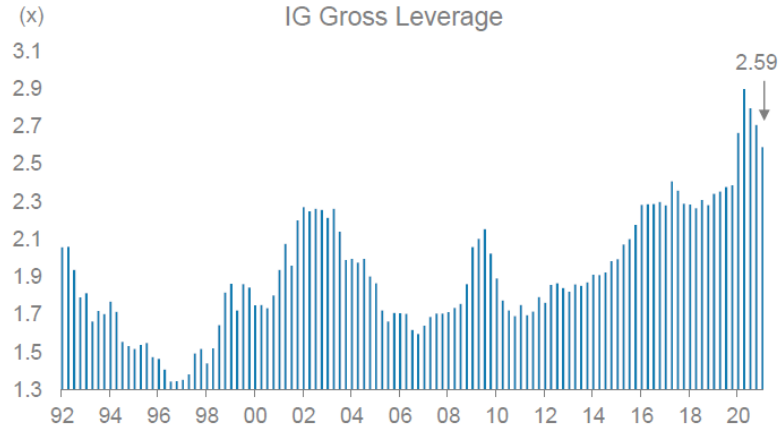
Increased net issuance in '20 by \$875B

Investment Grade New Issuance

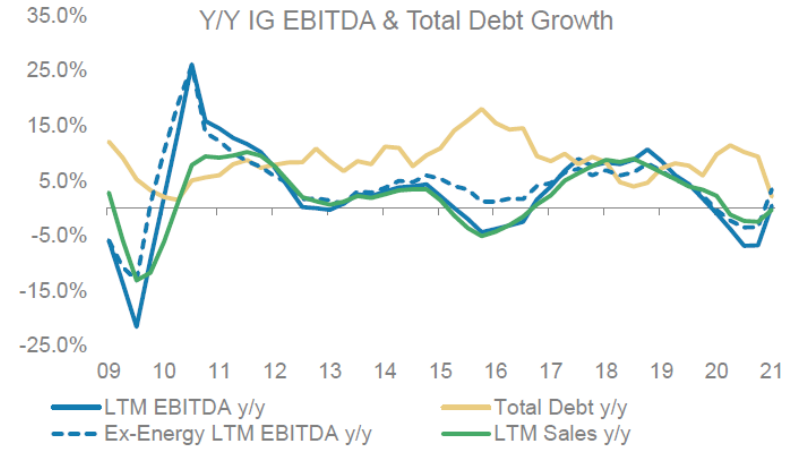


Source: Dealogic, Bloomberg, Morgan Stanley Research Note: Excludes tranches <\$100MM

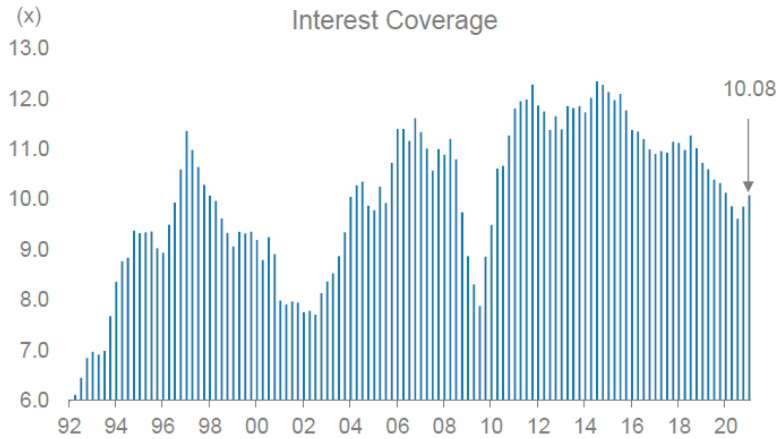
Investment Grade Fundamentals



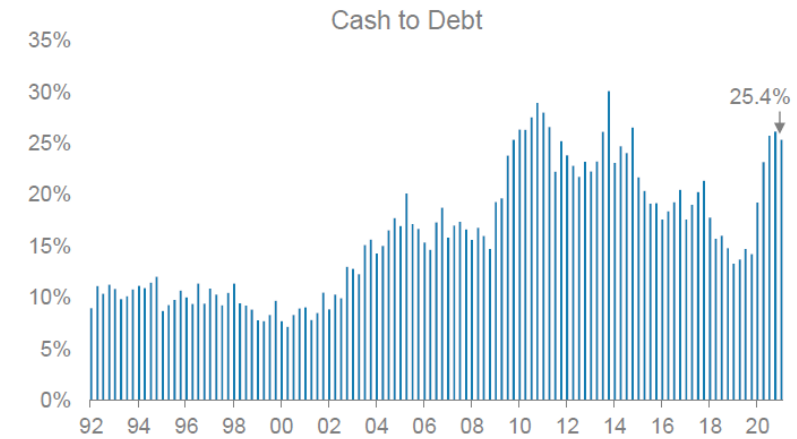
Source: Morgan Stanley, Bloomberg



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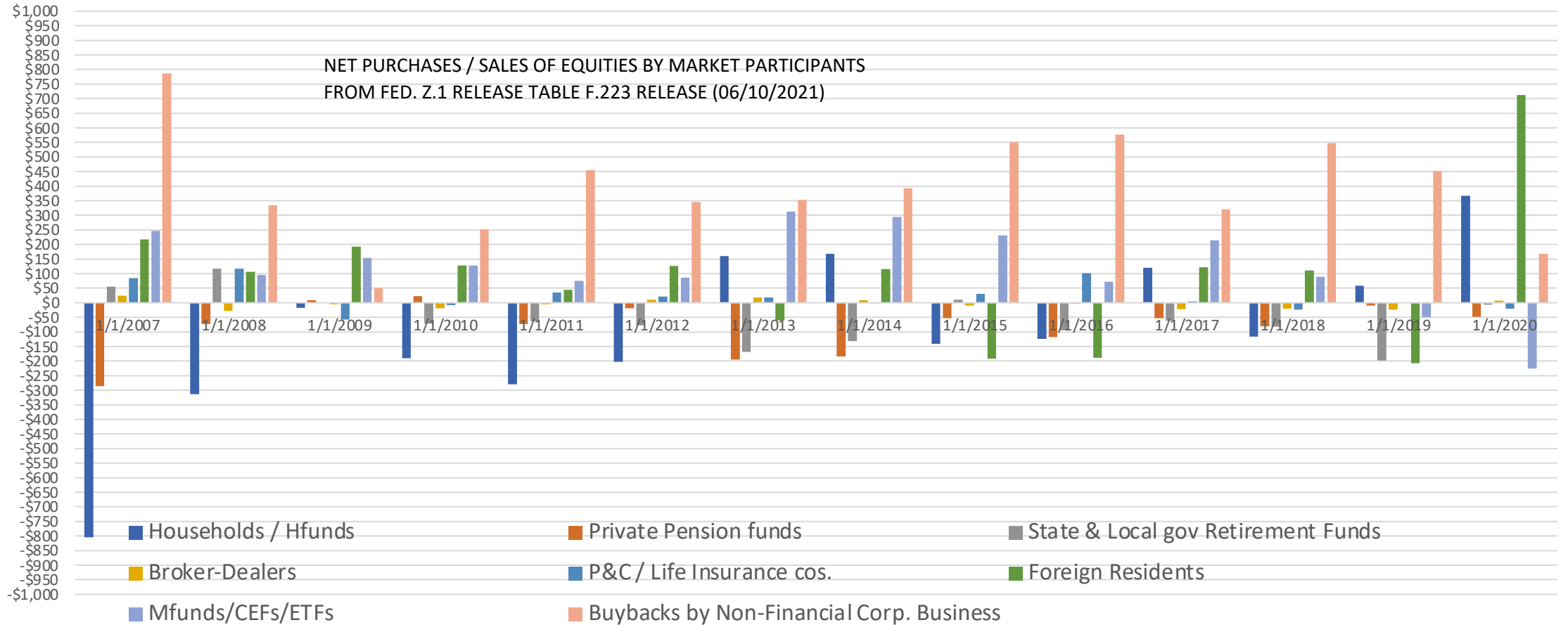


Source: Morgan Stanley, Bloomberg

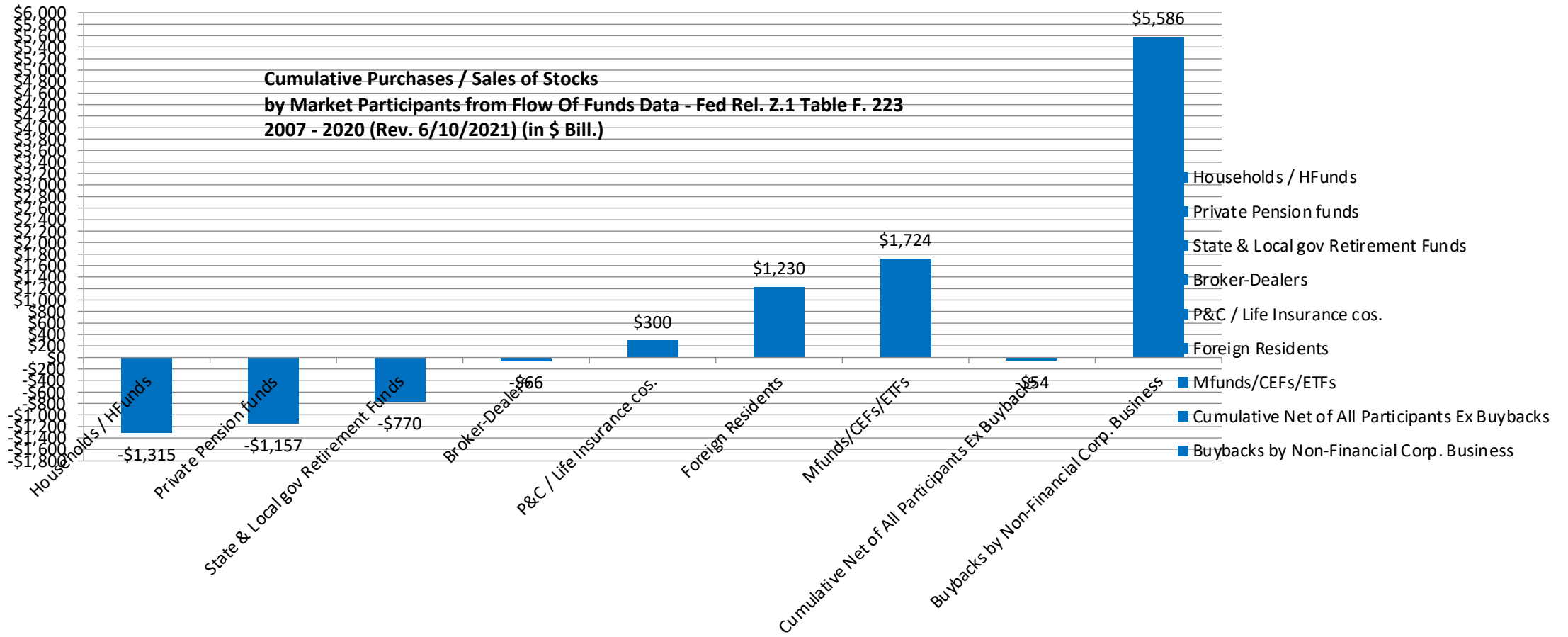


Source: Morgan Stanley, Bloomberg

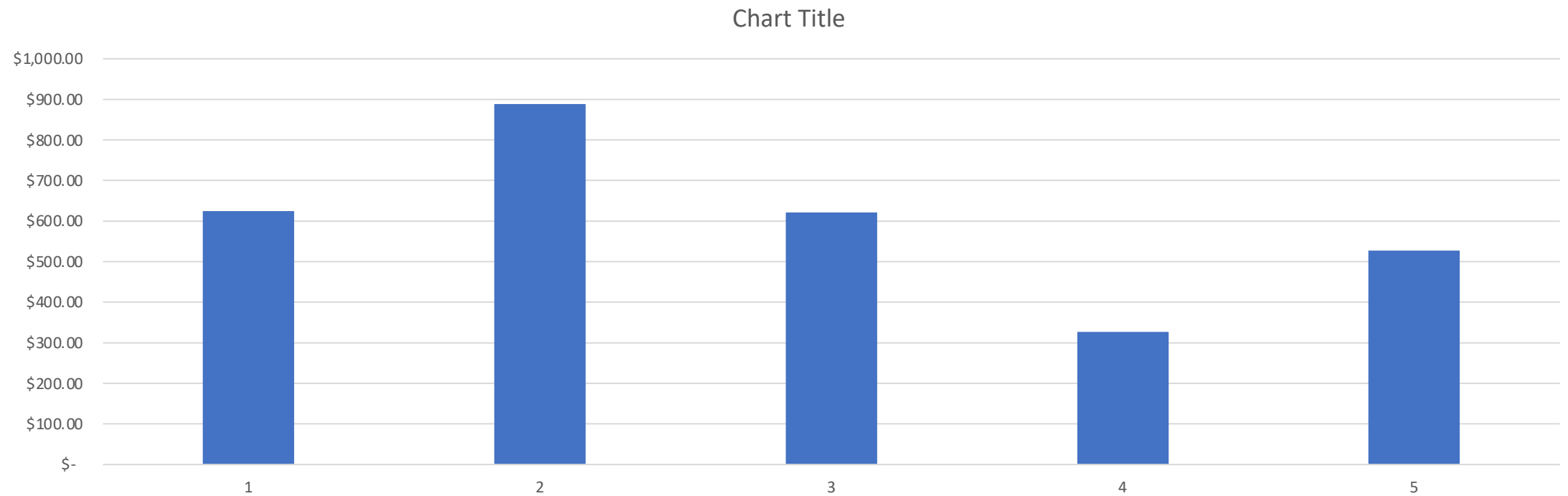
Net Purchases/Sales of Equities by Market Participants (Fed Z.1 Release Table F.223 - Rev. 6/10/21)



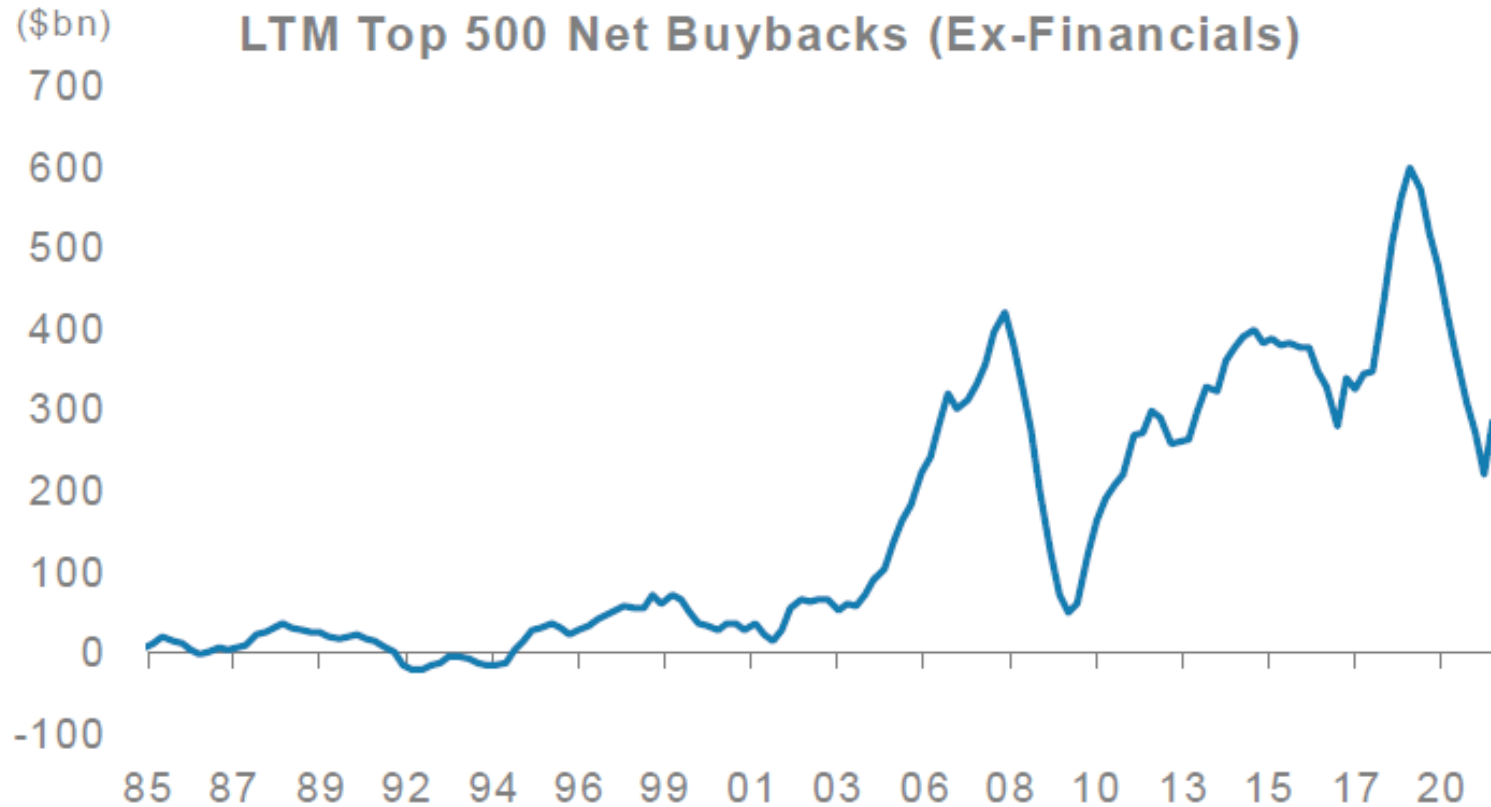
Cumulative Purchases/Sales of Stocks by Market Participants



Last 5yrs New Buyback Announcements

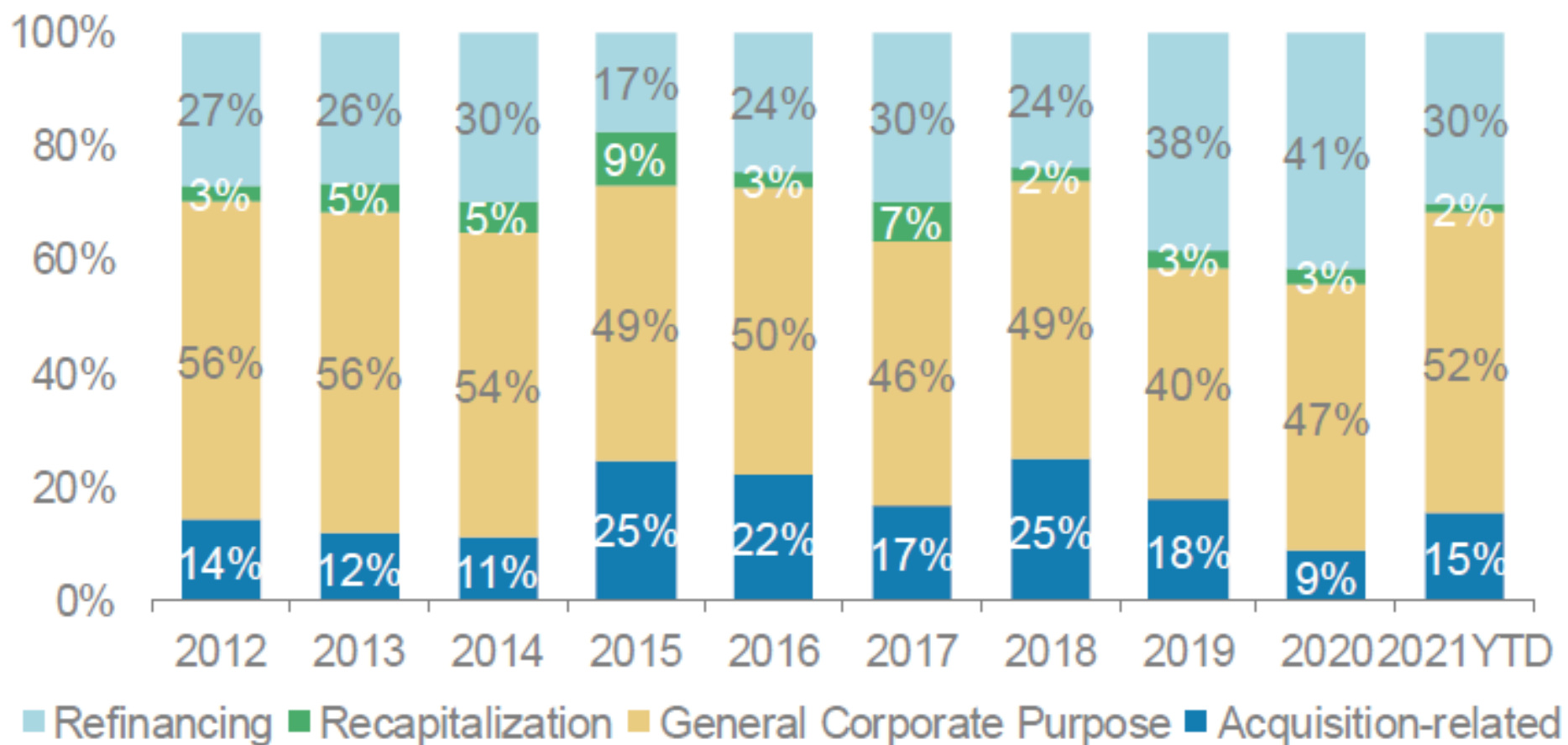


Trailing 12-Months Net Buybacks



Source: Morgan Stanley Research, ClariFi

Investment Grade Issuance: Use of Proceeds



Source: Morgan Stanley, S&P LCD



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