Quant insight

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2024 credit cliff - where is the most pain?

The credit market remains the dog that refuses to bark.

Anecdotal evidence - credit surveys, bankruptcies, delinquencies - continues to point to a slow moving credit crunch. But credit spreads remain well behaved on any long term historical basis.

That doesn't negate the need to prepare for the lagged effects of Central Bank policy tightening to finally impact at some point.

This chart from Apollo looks at the maturity profile of different US equity sectors across both Investment Grade and High Yield credit.

There are several useful observations to be drawn but, regardless of credit quality, Transport and Real Estate stand out as two of the more vulnerable sectors; Telecommunications and Energy emerge as ones that are comparatively immune from any "refinancing cliff".

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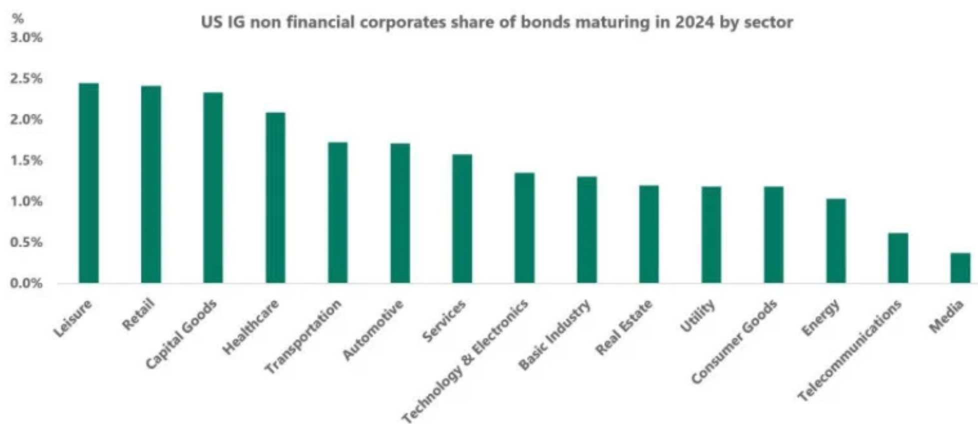
Investment grade maturity by sector in 2024



Source: ICE BofA, Bloomberg, Apollo Chief Economist

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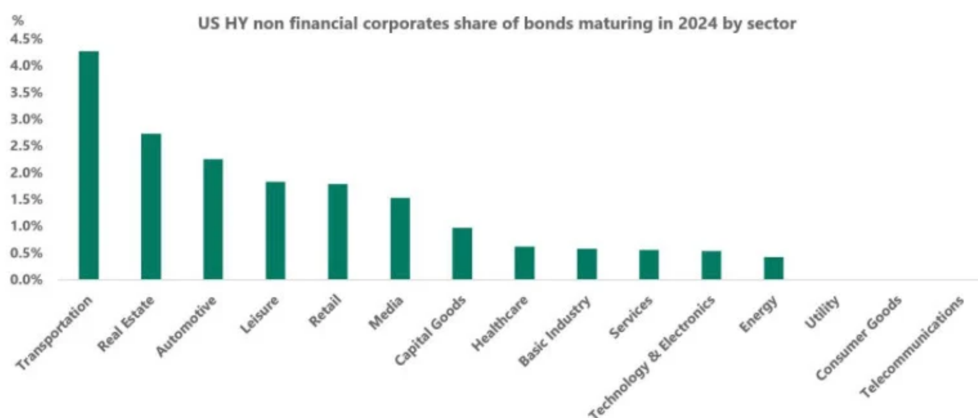
High yield maturity by sector in 2024



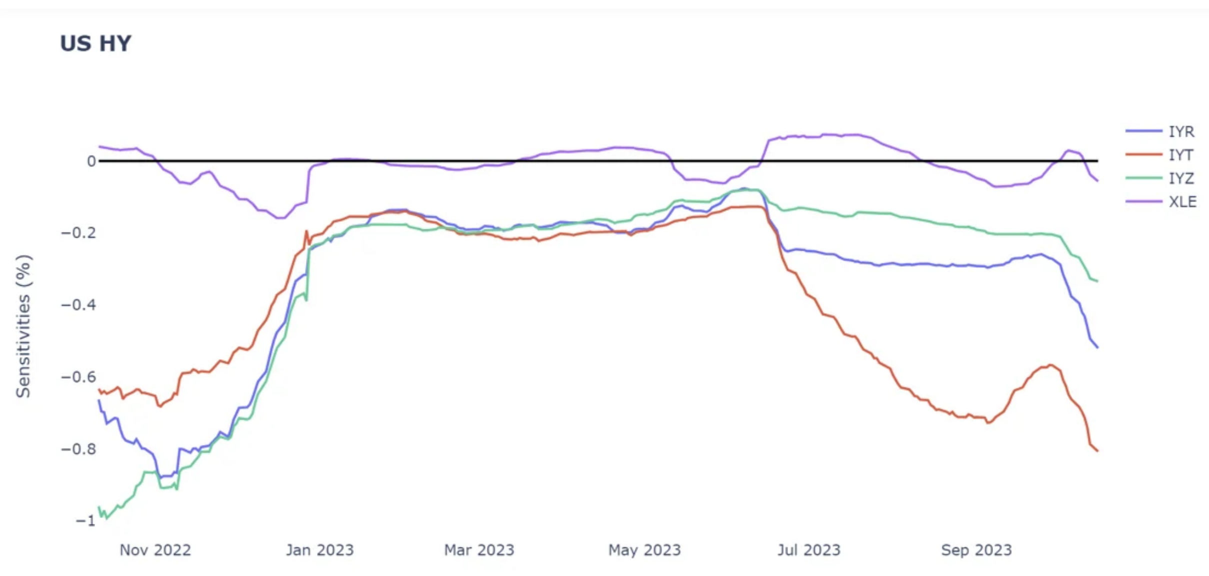
Source: ICE BofA, Bloomberg, Apollo Chief Economist

Qi's **unique factor sensitivities** can **augment** this kind of analysis to help complete **equity risk managers' stress tests.**

Every US equity sector model on Qi includes US High Yield spreads as a driver. In traditional risk jargon, US HY is a descriptor within the US equity model.

More specifically, we measure the percentage impact on any ETF for a one standard deviation shock higher in CDX US High Yield spreads.

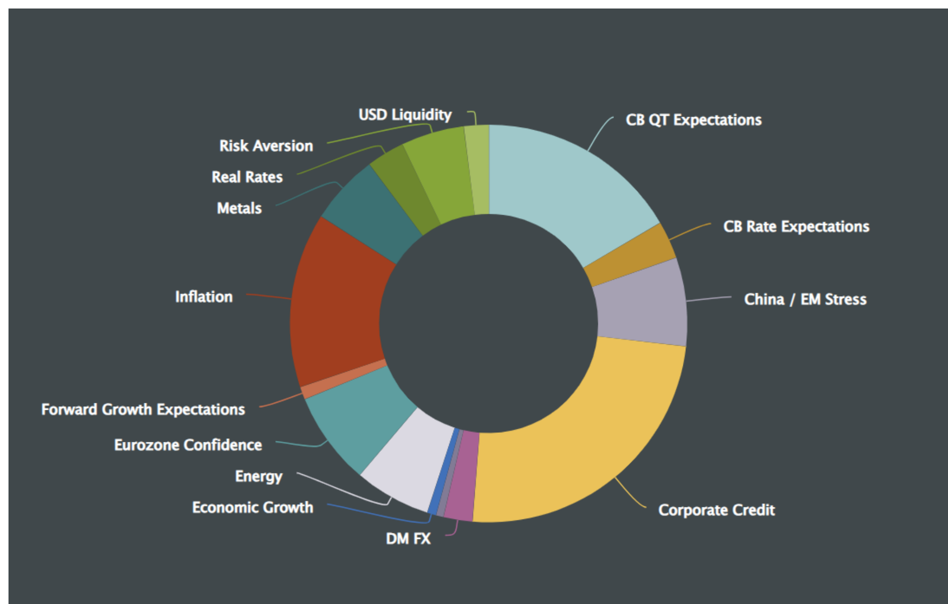
Given Apollo's findings we zoom in on four sectors - Transport, Real Estate, Telecommunications, Energy - and chart their historical sensitivity to HY credit.



The clear standout is Transport. Holding every other factor (descriptor) unchanged, a one standard deviation widening in US HY equates to a 0.8% fall in IYT.

It is by far the most sensitive sector. So, not only is it a sector that faces a relatively **large refinancing cliff in 2024**; it is also one that is **highly sensitive** to shifts in credit spreads.

We would finish by adding that US HY is the biggest single negative driver for Qi; and credit at the bucket level (i.e. adding in European and Japanese credit spreads as drivers / descriptors into the model as well) is the biggest in our model. **Credit spreads account for almost a quarter of model explanatory power alone.**



Real Estate screens as the second most vulnerable. A one standard deviation shock wider in US HY spreads, holding every other macro factor constant, is consistent with a 0.5% fall in IYR on current patterns.

Again credit dominates the current macro regime, both as a bucket and with High Yield as the biggest single negative driver.

Of the two "safe" plays, Energy XLE is noticeable for its comparative indifference to credit spreads. **A useful property if you fear credit crunch fears escalate**.

Telecommunications IYZ may not face any supply concerns in terms of issuance. And sensitivity is small, but it is starting to pick up.

These sensitivities can be run across any macro factor which you deem the most likely theme for the months ahead. Thereby **empowering risk and portfolio managers** to get a better handle on **tail risk scenarios** they wish to stress test.

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