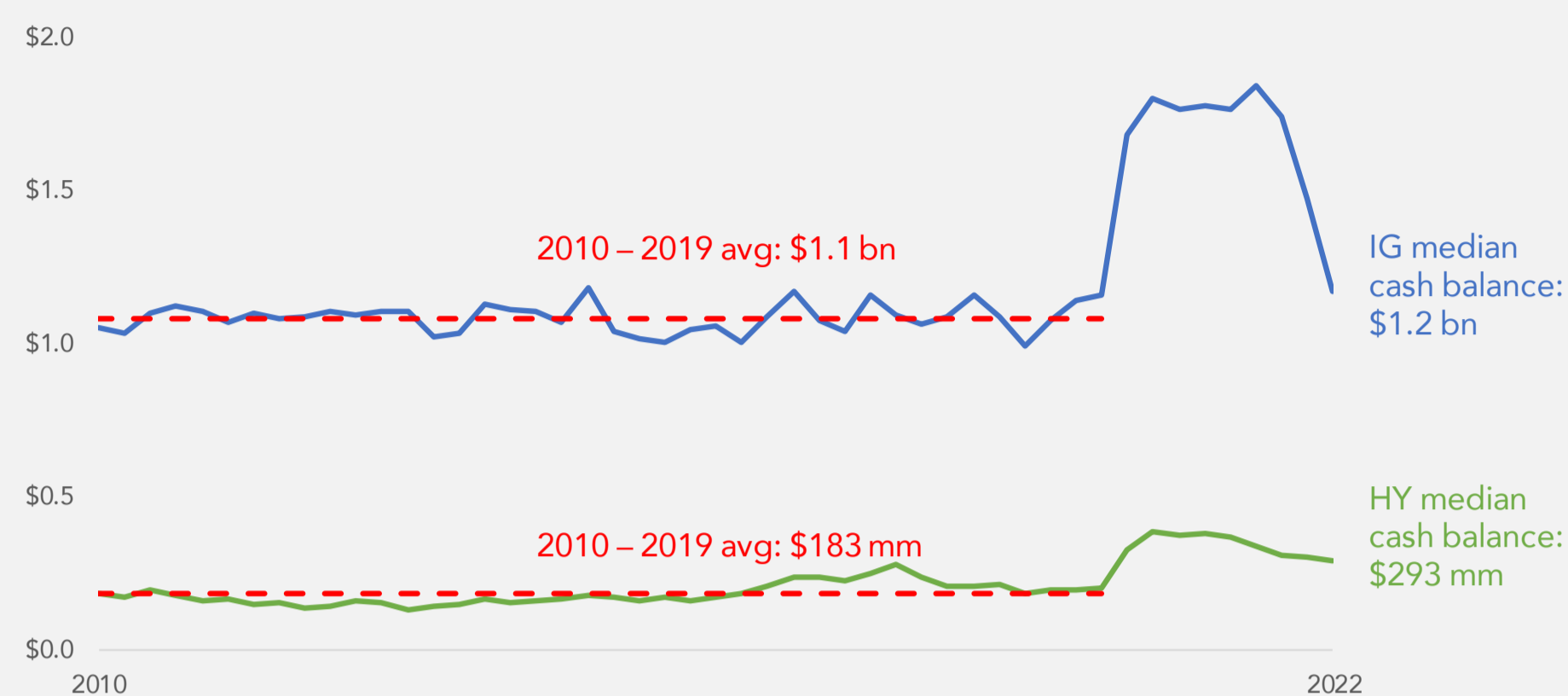


Chart of the Day

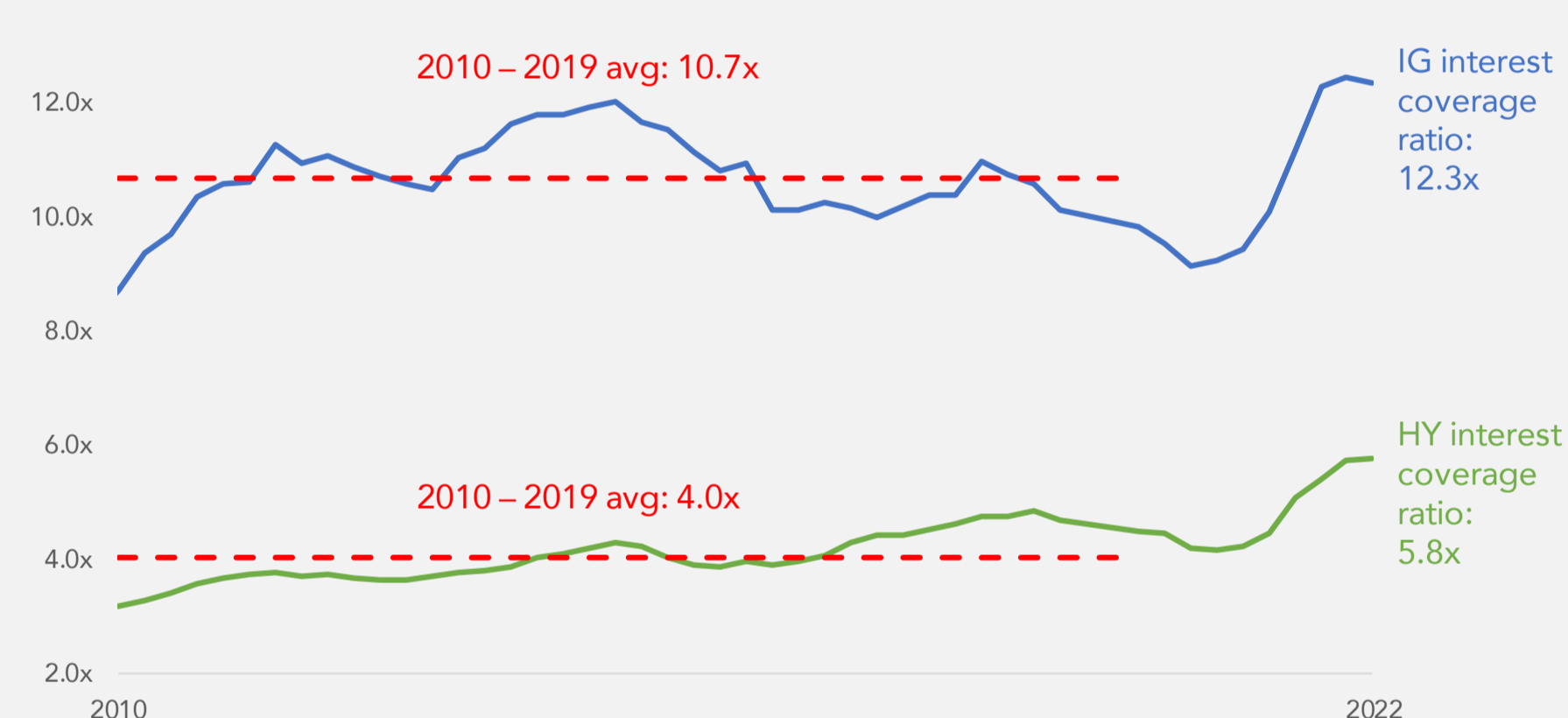
During COVID, corporates acted quickly to stockpile cash and create “fortress balance sheets.” Between Q4 2019 and the peak in cash holdings in Q2 2021, US investment grade corporates increased their median cash holdings by nearly 60% through a combination of pre-funding and impressive earnings growth. However, cash balances have steadily declined in 2022 and are now approaching pre-COVID levels.

US Dollar IG & HY index median cash balances, USD bn



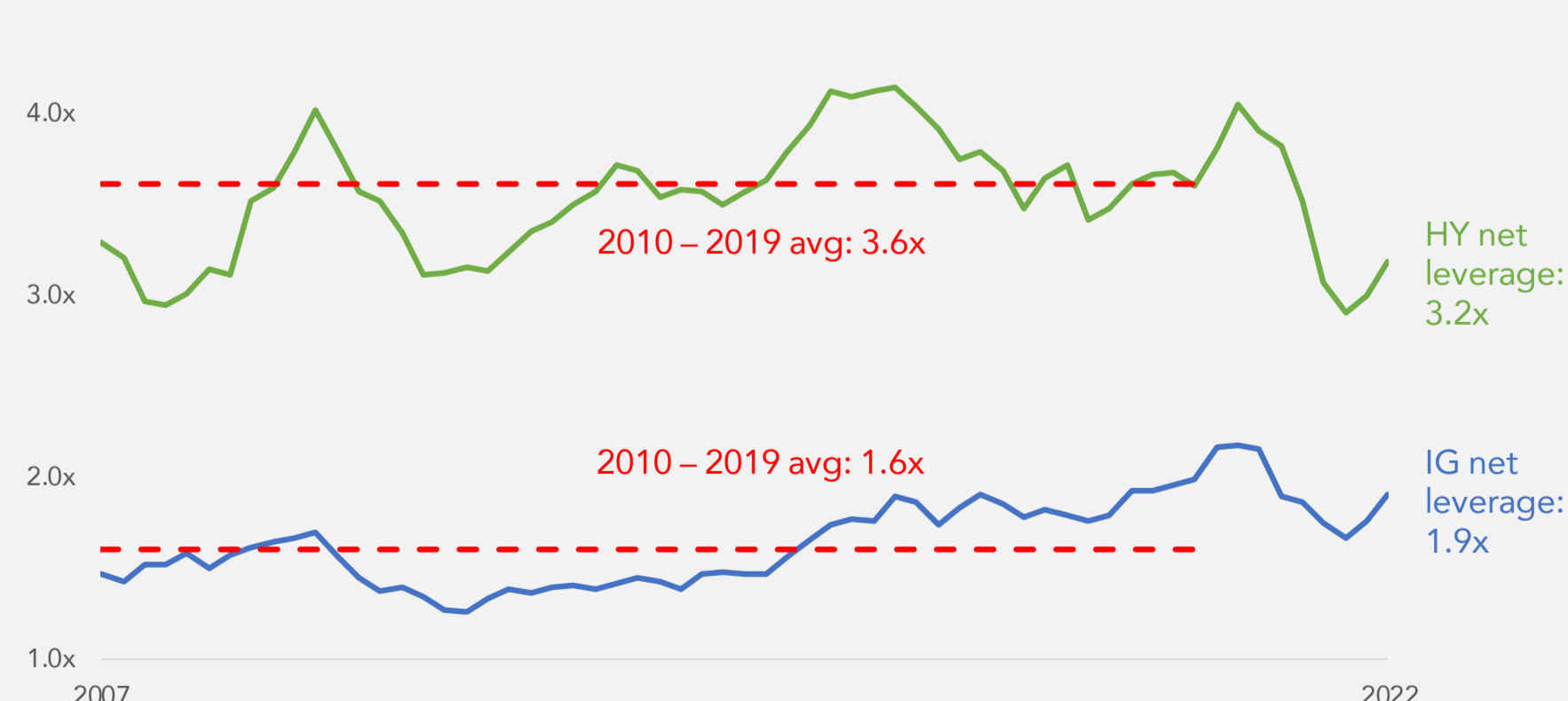
Despite falling cash balances, corporate sector credit fundamentals remain relatively strong, albeit with more differentiation across the ratings spectrum. Notably, interest coverage ratios have risen to record highs on the back of a two year period of elevated earnings and refinancing activity. Rising borrowing costs and slowing earnings growth will weigh on interest coverage in the quarters ahead, but overall liquidity does not appear to be a systemic headwind at this time.

US Dollar IG and HY index interest coverage ratios



The cash drawdown has caused an uptick in net leverage, but both IG and HY leverage ratios still sit near the lower end of historic ranges. We do expect the default rate to rise as US recession comes closer into view and would note that credit default rates have historically been a lagging indicator of US recession risk.

US Dollar IG and HY index net leverage



Source: (1-3) CreditSights (Winnie Cisar). Data as of October 18, 2022. Universe of companies is constituents of the BAML/ICE IG and HY indies. Does not include all private issuers.

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