Junior-Subordinated Capital Securities Markets

March 2023 Updates

The bond markets were very mixed in March with US Treasury prices impelled higher from a run in the US banking deposit system and junior subordinated bank debt impaired as a result. The Fed & the FDIC joined to quickly restore sufficient confidence in the banking system with a liquidity program and some deposit guarantees (more on this later). Even despite the financial pressure, the Fed raised the federal funds rate by another 25bps this month and said that some additional policy firming may be appropriate. The 30yr bond closed the month yielding 3.66% (26bps lower) and the 10yr note closed yielding 3.48% (44bps lower). Real rates on the front end of the treasury curve (e.g., UST 5yr TIPS) fell by 50bps (to 1.16%); the 5yr implied breakeven inflation rate (i.e., the difference in yields between the 5yr UST and the 5yr Treasury Inflation Protected Security) fell 11bps to close at 2.48%. Clearly, the bond market is discounting a pivot from the Fed coming soon as financial stress from sudden high rates is evident. The VIX (i.e., Chicago Board Options Exchange Volatility Index) fell 2pts 18.70 as the S&P 500 rose to 4019, up 139 points, which was further above the 20% decline mark (3835) which would suggest that a recession is imminent.

Before we talk hybrids, the performance for comparative references on returns and yield changes in some of the other corporate credit sectors is shown below:

- The junk market (measured by the ICE BofA High Yield ***h0a0*** index) rose 1.13% to close yielding 8.43% (22bps lower).
- Global bank credit (measured by ICE BofA ***e0ba*** index) rose 1.29% to close yielding 5.44% (18bps lower).
- The BBB rated 5-10yr corporate sector (measured by ICE BofA ***c6a4*** index) rose 2.69% to close yielding 5.43% (40bps lower).

Review of Market Structure:

The market for hybrids or **global junior-subordinated capital securities** (*i.e.,* "**Jsubs**") as we call them is comprised of two core sectors:

1. Preferred Securities, and
2. Contingent Capital Securities

Each sector has evolved with unique technical, structural, and fundamental features that are discussed and updated below:

Global junior subordinated capital securities are comprised of two sub-sets that represent a broad group of global junior-subordinated capital securities, which can be referenced by two ICE BofA indexes: 1) The ICE BofA US All Capital Securities Index (***i0cs***) and 2) The ICE BofA US Dollar Contingent Capital Index (***cdlr***).

Our litmus test for hybrids satisfies two core characteristics:

1) any non-payment of distributions would not accelerate an event of default (i.e., distributions are "junior-subordinated" to ordinary interest obligations) and,

2) balance sheet classification is something other than common stock under GAAP disclosure.

The US All Capital Securities (***i0cs***) benchmark of preferred securities represents $331 billion (face amount) of investment grade and below investment grade instruments in both the retail $25par market (36%) and the institutional $1,000par market (64%). The USD Contingent Capital Index of US dollar denominated junior-subordinated capital securities

(cdlr) represents $136 billion (face amount) of investment grade and below investment grade fixed-rate instruments with contractual triggers that could subordinate them to common stock in a reorganization that would not fall into a receivership after the bail-in. These two benchmarks combine for a $467 billion universe of fixed-rate junior-subordinated USD capital securities with preferred securities (measured by ***iocs***) being a 70% subset and contingent capital securities (measured by ***cdlr)*** being a 30% subset of the total global USD junior subordinated group.

Preferred Securities

In the preferred securities sleeve, there are four sub-component indexes in the US All Capital Securities Index (***i0cs)*** – this entire index is comprised of global "preferred securities". A **"preferred security"** can represent a capital security issued either through charter amendment (i.e., as a stock) or through indenture (i.e., as a bond) typically within the context of a "gone-concern" statutory authority (*e.g.,* US banks). As a gone concern, a company reorganization would be processed through a bankruptcy court. Preferred security payments are in priority to common stock dividends, yet can be deferred (i.e., payments are cumulative) or eliminated (i.e., payments are non-cumulative) without causing an immediate event of default; any principal loss absorption on a preferred security would be forced only *ex-post* through a statutory resolution in a bankruptcy proceeding.

The four sub-components of the *i0cs* benchmark that consolidate into the retail and institutional sectors of rated preferred securities are:

1) **ICE BofA Fixed Rate Preferred Index (*p0p1*) @ 44% *of i0cs***
   - Comprised of IG $25par and IG $1,000par (incl. US AT1)
      - ❖ The *p0p1* fell 3.32% this month to close yielding 6.86% (+49bps)
2) **ICE BofA US Capital Securities Index (*c0cs*) @ 23% of *i0cs***
   - Comprised of dated IG $1,000par dated hybrids (excl. US AT1)

- ❖ The *c0cs* fell 2.12% this month to close yielding 7.04% (+38bps)

3) ICE BofA High-Yield Capital Securities Index (*h0cs*) @ 5% of *i0cs*

- o Comprised of BIG $1,000par legacy Tier1 and BIG $1,000par hybrids
  - ❖ The *h0cs* fell 4.85% this month to close yielding 8.32% (+35bps)

4) ICE BofA High Yield Fixed Rate Preferred Index (*p0hy*) @ 28% of *i0cs*

- o Comprised of BIG $25par and BIG 1,000par (incl. US AT1)
  - ❖ The *p0hy* fell 9.63% this month to close yielding 8.83% (+116bps)

Overall, the ICE BofA All US Capital Securities Index (***i0cs***) fell 4.75% in March to close yielding 7.46%, which was 61bps higher than last month's closing yield and a spread of +381bps over comparable US Treasury securities (110bps wider).

Contingent Capital Securities

A **"contingent capital security"** (i.e., a "CoCo") represents a capital security issued through indenture typically within the context of a "going-concern" type regulatory regime for banking, which would reorganize a potentially insolvent bank through the contracts of its capital before falling into a conservatorship proceeding. CoCos payments are non-cumulative and *pari passu* to common stock dividends and can be reduced or eliminated without causing an event of default. Principal loss absorption on a CoCo could be forced ex-ante through a regulatory action in advance of any bankruptcy proceeding (note that an actual bankruptcy may not happen because enough loss absorbing bail-in capital, including tier-2 capital, could be available through the "living will" of the entity's core capital). The ICE BofA USD Contingent Capital Index (***cdlr***) is comprised of US dollar denominated constituents (exclusively), which represent 60% of the mature master multi-currency benchmark (*coco*). We will utilize the USD benchmark (*cdlr*) as it more meaningfully reflects the contingent capital currency primarily held in our portfolios. The ICE BofA USD Contingent Capital Index (***cdlr***) plunged 13.67% this month to close yielding

8.57%, which was 31bps higher than last month and a spread of +493bps over comparable US Treasury securities (90bps wider).

Discussion of Retail and Institutional Sectors:

We report on the retail and institutional sectors using statistical tables in a ***Spread Value Matrix*** to provide readers with data on absolute and relative spread positionings. The data samples are sourced from ICE BofA benchmarks starting in March 2017, which is when retail benchmark calculations on yield-to-worst for currently callable $25par preferred securities were improved to reflect actual yields, even if negative. We provide measures of inflation coverage in a ***Purchasing Power Matrix***; and a table for yield-to-worst, net of inflation and of historical default in a ***Real Yield Matrix*** that compares hybrids, investment grade corporates and high yield bonds. Finally, we show data on prior credit cycles for each sector to give you a ***Comprehensive Risk Estimate*** to the average bottom of the last 3 credit cycles (2013, 2016 and 2018) -- the rationale here is to illustrate risk measures relative to prior down credit cycles, but not necessarily an outlook to that direction. By following these tables monthly (and sometimes as “pop-outs” in flash reports), investors should gain consistent insights to assist in making more informed and supportive asset allocation decisions using junior subordinated capital securities. Each signal is intended to be independently supplementary to foster a more balanced value assessment for each sector.

Snapshot of Junior Subordinated Spread Sector Moves vs. Global Financials:

	p0p4	p0p4-e0ba	stb8	stb8-e0ba	cdlr	cdlr-e0ba
Capital Securities Spread Value Matrix	(a)	(b)	(a)	(b)	(a)	(b)
	Retail	Retail	NoCo	NoCo	CoCo	CoCo
Sample Periods	03/31/2017 to Date		03/31/2017 to Date		03/31/2017 to Date	
Jr-Subs	*Absolute	**Relative	*Absolute	**Relative	*Absolute	**Relative
High	588	251	486	205	660	313
Low	-178	-267	176	60	223	143
Range	766	518	310	145	437	170
Average	67	-44	252	141	333	222
Stdev	122	104	48	27	64	37
Monthend	184	29	336	181	456	301
Spread Scores:						
(monthend-ave)/stdev	0.96	0.70	1.75	1.48	1.92	2.14
Δ from Last Month	0.53	0.29	1.84	1.93	1.82	2.22

Source: Bloomberg; ICE BofA Bond Indices

** Absolute = Option Adjusted US Government Spread; (current-ave)/stdev*

*** Relative = spread to global financials measured by e0ba ICE Bond Index; (current-ave)/stdev*

Here, we look at option adjusted spread (OAS) to haircut spread to comparable US Treasuries for interest rate volatility and time to expiry. The way we interpret the above option adjusted spread table is by the statistical positioning of the *Spread Scores* where, **zero** = "*fair value*", **+/- 1stdev.** = "*undervalued"/ "overvalued*", respectively and **+/- 2stdevs** = "*very undervalued"/ "very overvalued*", respectively.

Spread performance for hybrids this month was negatively impacted by the deposit flight that brought down Silicon Valley Bank and Signature Bank. The Absolute Spread Score on retail paper widened by 0.53 standard deviations; and at 0.96 is *undervalued*. The Absolute Spread

Score for the institutional $1,000par preferred securities sector ("NoCos") widened by 1.84 standard deviations; and at 1.75 is *undervalued*. The Absolute Spread Score for the CoCo sector widened by 1.82 standard deviations; and at 1.92 is well into *undervalued* territory. Note that these are statistical positionings and the absolute differentials and price risks between sectors are further considered through the Comprehensive Risk Estimates below.

Implications of Market Activity:

$25par Retail Preferred Securities Sector

The retail preferred securities sector measured by *p0p4* fell $5.35 to $81.24, largely the result of a significant sell-off in the regional banking sector after the withdrawal run on Silicon Valley Bank's deposits. Yet despite the 27% blow-off in $25par Regional Banks sector this month, the overall retail sector closed March still 4.42% higher than its close of 2022. At the end of last year, our Comprehensive Risk Estimate (CRE) was deeply positive (i.e., 8.90%), which meant that over the next 12mos., the return potential was 8.90% even if the sector's current yield retraced to 6.70% or the average of the last three credit cycle bottoms. There was a point during the month that had completely retraced January's 13.72% gain but, after markets slowly absorbed the Fed's immaculate cure for the bank-run psychology with its Bank Term Funding Program, the credit markets (and US treasuries) rallied. This month's score computed from the three prior credit cycles is positive again at 3.95%:

Retail Pfds.	Valuation Implosions			Average		Diff. to	
Credit Cycle Bottoms >	2013	2016	2018	Prior Bottoms	Current	Average	
GA10	2.98%	1.64%	2.74%	**2.45%**	3.48%	1.03%	
PCE DEFY	1.48%	0.59%	1.86%	**1.31%**	5.00%	3.69%	
Real UST10yr	1.50%	1.05%	0.88%	**1.14%**	-1.52%	-2.66%	
$25Coupon	6.64%	6.46%	6.05%	**6.38%**	5.43%	-0.95%	
$25Price	$94.06	$98.66	$93.09	**$95.27**	$84.14	-$11.13	
$25Current Yield	7.06%	6.55%	6.50%	**6.70%**	6.45%	-0.25%	
Mdur Worst	9.52	10.44	10.95	**10.30**	12.57	2.27	
CY Spread vs. T10yr	4.08%	4.91%	3.76%	**4.25%**	2.97%	-1.28%	
Source: Bloomberg; ICE BofA Bond Indices						-2.50%	Est. Price Risk to AveCY
			2nd place >	**Comprehensive Risk Est.**		3.95%	**Est. Price Risk + CY**
				Recapture Rate (yrs.)		0.39	Est. Price Risk / CY
					Memo:	4.42%	Total Return YTD

The current yield of the retail sector closed February at 6.45%, which was 18bps higher than last month and 25bps lower than the average current yield at the bottom of the last three credit cycles. The current yield spread to the 10yr US Treasury note is 297bps which is 128bps less than the average spread of the last three credit cycle bottoms as retail preferred yields are still high, but spread is being squeezed by UST yields being high, as well -- a gauge to yields being high is the discount price to the sector. The rebalanced dollar price of the retail sector is $2.45 lower this month and $11.13 lower than the average of the prior bottoms, which means that there is more convexity to the retail market during this cycle than there was during the prior cycles even though yields were higher. The implication of a 0.25% current yield increase to 6.70% (the average current yield of the prior bottoms) is an estimated 2.50% price decrease using the current modified duration of 12.57; then adding back a current book yield (assuming a 12month path) of 6.45% makes the *Comprehensive Risk Estimate* for returns in the retail sector positive 3.95%. The income recapture rate of the illustrated price loss is 0.39yrs because the market yield is higher than the illustrated price risk indicating the retail sector has more opportunity than risk.

Performance Memos (p0p4 -5.58%):

The primary detractors from the p0p4 performance this month were Regional Banks, which detracted 3.06% from performance – the next two detractors were Diversified Banks (-0.57%) and Life & Health Insurance (-0.38%).

The primary contributors to p0p4 performance were Telecom (0.16%), Self-Storage REITS (0.11%), and Autos (0.05%).

Year-to-date, below investment grade $25pars underperformed investment grade paper by 2.73%.

$1,000par Institutional Preferred Securities Sector

The $1,000 par institutional sector of the preferred securities market fell $3.55 as yields rose 52bps to 7.72% this month. The biggest movers were the Regional Banks, which declined 7.91% in the investment grade sector and 9.67% in the below investment grade sector. The following table illustrates the institutional preferred securities sector's three prior credit cycles compared to closing valuations this month:

Institutional Pfds.	Valuation Implosions			Average		Diff. to	
Credit Cycle Bottoms >	2013	2016	2018	Prior Bottoms	Current	Average	
GA10	2.94%	1.75%	2.74%	**2.48%**	3.48%	1.00%	
PCE DEFY	1.17%	0.59%	1.86%	**1.21%**	5.00%	3.79%	
Real UST10yr	1.77%	1.16%	0.88%	**1.27%**	-1.52%	-2.79%	
Coupon	6.77%	6.43%	5.88%	**6.36%**	5.19%	-1.17%	
Price	$103.96	$99.62	$97.23	**$100.27**	$90.36	-$9.91	
Current Yield	6.51%	6.45%	6.05%	**6.34%**	5.74%	-0.59%	
Mdur Worst	5.90	5.23	4.64	**5.26**	3.66	-1.60	
CY Spread vs. T10yr	3.57%	4.70%	3.31%	**3.86%**	2.26%	-1.60%	
Source: Bloomberg; ICE BofA Bond Indices						-2.18%	Est. Price Risk to AveCY
			3rd place >	Comprehensive Risk Est.		3.57%	Est. Price Risk + CY
				Recapture Rate (yrs.)		0.38	Est. Price Risk / CY
					Memo:	-0.23%	Total Return YTD

The current yield of the institutional preferred sector closed the month at 5.74%, which was 19bps higher than last month. This brings the current yield of the sector to 59bps less than the average current yield at the bottom of the last three credit cycles. The implication of a 0.59% current yield increase to 6.34% (the average current yield of the prior bottoms) is an estimated 2.18% price decline using the modified duration of 3.66; then adding back a current book yield (assuming a 12month path) of 5.74% makes the *Comprehensive Risk Estimate* for the NoCo sector equal to a 3.57% horizon return to accept the risk, which is 98bps better than last month. It would take 0.38yrs to recapture this capital loss estimate with book income. The NoCo sector continues to be in a cushioned valuation position.

Performance Memos (cips -2.52%; hips -8.90%):

The primary detractors from investment grade NoCo performance this month were Diversified Banks (-0.49%), Investment Banks & Brokerage (-0.39%) and Regional Banks (-0.37%).

There were no contributors to investment grade NoCo performance this month.

The primary detractors from below investment grade NoCo performance this month were Diversified Banks (-5.52%), Consumer Finance (-0.66%) and Regional Banks (-0.42%).

There were no contributors to investment grade NoCo performance this month.

Year-to-date, below investment grade $25pars underperformed investment grade paper by 4.56%.

Silicon Valley Bank's receivership detracted 4.05% from below investment grade performance.

Contingent Capital Securities Sector

The CoCo sector fell $13.04 as this month to $78.34 and was materially impacted by the bail-in absorption of Credit Suisse by UBS this month. With a yield of 6.02% net of historical default and current inflation expectations, the CoCo sector has a 257bp advantage over high yield (i.e., junk) bonds.

The following table illustrates the contingent capital securities sector's three prior credit cycles compared to closing valuations this month:

CoCo Securities	Valuation Implosions			Average		Diff. to	
Credit Cycle Bottoms >	2013	2016	2018	Prior Bottoms	Current	Average	
GA10	3.01%	1.75%	2.88%	**2.55%**	3.48%	0.93%	
PCE DEFY	1.48%	0.59%	1.86%	**1.31%**	5.00%	3.69%	
Real UST10yr	1.53%	1.16%	1.02%	**1.24%**	-1.52%	-2.76%	
Coupon	7.63%	6.40%	6.78%	**6.94%**	6.22%	-0.72%	
Price	$105.04	$89.12	$96.21	**$96.79**	$87.46	-$9.33	
Current Yield	7.26%	7.18%	7.05%	**7.16%**	7.11%	-0.05%	
Mdur Worst	4.76	5.30	3.95	**4.67**	2.77	-1.90	
CY Spread vs. T10yr	4.25%	5.43%	4.17%	**4.62%**	3.63%	-0.99%	
Source: Bloomberg; ICE BofA Bond Indices						-0.14%	Est. Price Risk to AveCY
			1st place >	Comprehensive Risk Est.		6.97%	Est. Price Risk + CY
				Recapture Rate (yrs.)		0.02	Est. Price Risk / CY
					Memo:	-11.05%	Total Return YTD

The current yield of the CoCo sector closed March at 7.11%, which was 44bps higher than last month and 5bps less than the average current yield at the bottom of the last three credit cycles (i.e., 7.16%). The current yield spread to treasury 10yr notes is 99bps lower than the average of the last three credit cycle bottoms because 10yr treasury yields are higher than in prior cycles. The CoCo price average of $87.46 is lower than the last 3 three cycles, which (like the other hybrid sectors) highlights that the term structure of interest rates (i.e., high real US Treasury yields) being the primary reason for discounted prices. The implication of a 0.05% current yield increase to 7.16% (the average current yield of the prior bottoms) is an estimated 0.14% price decline using the modified duration of 2.77; then adding back the current book yield (assuming a 12month path) of 7.11% makes the *Comprehensive Risk Estimate* for return in the CoCo sector 6.97%. The recapture rate of the estimated capital risk is less than one month for CoCos.

Performance Memos (cdlr -13.67%):

The primary detractors from investment grade NoCo performance this month were Diversified Capital Markets (-9.96%), Diversified Banks (-3.26%) and Multiline Insurance (-0.08%).

The Credit Suisse bail-in detracted 9.17% from cdlr performance.

Outlook:

The target federal funds bound was raised by another 25bps to 4.70% - 5.00%. We continue to believe that the risk to the terminal rate is a 5.00% - 5.25% bound given the strength in labor and seeming resilience in the financial system though the deposit flight into money markets virtually guarantees much tighter lending conditions and an imminent recession. Here is a review of what we said in December:

- Three key questions remain for Fed policy on federal funds:
    1. How high?
        - ✓ Answer: 4.75% - 5.00%
            - ❖ **Risk: 5.25% - 5.50%**
    2. How fast?
        - ✓ Answer: by March 2023
            - ❖ **Risk: by June 2023**
    3. How long?
        - ✓ Answer: hold for 1yr = March 2024
            - ❖ **Risk: hold for 6 months = December 2023**

We know that The Fed always gets what the Fed wants, and the Fed wants a PCE Deflator-to-federal funds rate gap to show a positive real rate. Though the gap has narrowed, we do not expect the Fed to stop raising rates until the PCE deflator crosses into the federal funds bound – a positive real federal funds rate is the evidence to that goal being achieved. After the yield curve made another strong move to invert 2s-10s by over 108bps last month, the deposit crisis impelled a swift reversal to -56bps by the end of the month. Despite the strains in the banking

system (which are symptomatic of the Fed's policy rates), the Fed will continue to fight inflation with policy rates and manage system confidence with its balance sheet.

Main takeaways:

- **Rate hikes are nearing the end**—inflation is waning but slowly, and the federal funds rate should rise steadily to a terminal rate – likely 5.50%.
- **The Fed will invert the gap** – this should create a positive real rate between federal funds and the PCE Deflator as rates are held high for some time to further slow inflation.

Why they matter:

- **The rate hikes and curve inversion are still making lower duration sectors generally more attractive than higher duration sectors, but the move in treasuries this month and repricing in junior subordination has flipped retail paper to be more attractive than NoCo paper when measured by the Comprehensive Risk Estimate** – the CoCo sector continues to be 1st place followed by the retail $25par sector in 2nd place and NoCo paper in 3rd place.

The high absolute level of rates and the yield curve inversion continues to create an anomaly where investors can get paid more for less duration when considering the fixed-to-refixed structures typical of NoCos and CoCos – here, capital appreciation potential should be considered in addition to spread scores and the Comprehensive Risk Estimate. Capital appreciation could benefit total return as time ages to a term when coupon gets reset higher. Here's a look at the multiples of 5yr average implied inflation that are available in hybrid yield-to-worst compared to more senior financials:

	A	B	C	D=B/C	E=D/A
Purchasing Power Matrix: Financials	Mdur	YTW%	5yrBE Inflation%	Inflation Coverage	Inflation Coverage/ Mdur
Retail $25par (p0p4)	12.57	6.76	2.48	2.73	0.22
NoCos (stb8)	3.66	7.70	2.48	3.10	0.85
CoCos (cdlr)	2.77	8.61	2.48	3.47	1.25
More Sr. Fins (e0ba)	4.88	5.43	2.48	2.19	0.45

Source: Bloomberg; ICE BofA Bond Indices

The inflation coverages are improved from last month and quite robust at 2.73x to 3.49x for junior subordination. The contingent convertible sector (CoCos) is the winner on *Inflation Coverage* and risk adjusted coverage when factoring in duration. The NoCo sector wins the silver medal again on both scores. The retail sector measures up too, but one must accept more duration risk of NoCos to get the coverage.

Bottomline:

- The Fed's Bank Term Funding Program completely protects the deposit system from any bank-run – liquidity will be available when needed.
- Accounting flexibilities available to banks so that unrealized losses will not necessarily need to be taken, thus supporting equity capital.
- Investors can buy repriced banking paper with absolute confidence that the financial system will not collapse from illiquidity contagion as deposits now have, in effect, been transposed into currency backed by US Treasuries.
- There is uncommon value in the junior subordinated sectors based on discounted price, current returns in retail paper and total return prospects when considering fixed-to-refixed structures.

Maintaining a core portfolio defense in structure, liquidity and credit concentrations are our three primary investment objectives this year. Real yields are quite attractive in hybrids and even more so when we consider historical credit default risks (with estimated adjustment for SIVB & CS) from real yields. Below we assess a more comprehensive view of real yields net of inflation and net of 10yr average default in a *Real Yield Matrix* to double risk adjusted yield comparisons in hybrids, investment grade corporates and below investment grade corporates (i.e., junk bonds):

Real Yield Matrix	Hybrids		Corporates	
	Preferreds	CoCos	IG Corps	BIG Corps
Bloomberg Index	*cips+hips*	*cdlr*	*c6c0*	*h0a0*
Mod.Duration	3.66	2.77	6.24	4.08
Yield-to-Worst	7.70	8.61	5.22	8.5
Inflation[1] Adjustment	2.48	2.48	2.48	2.48
Real Yields	5.22	6.13	2.74	6.02
Default[2] Adjustment	-0.44	-0.44	-0.04	-2.57
YTW, net, net adj.	**4.78**	**5.69**	**2.70**	**3.45**
Composite Rating	*BBB2*	*BB1*	*BBB1*	*B1*
Last Month End:	**Hybrids**		**Corporates**	
	Preferreds	CoCos	IG Corps	BIG Corps
YTW, net, net adj.	4.50	5.56	2.98	3.49
Change from Last	☆ 0.28	☆ 0.13	☆ -0.28	☆ -0.04

Source: Bloomberg; ICE BofA Bond Indices

[1] *Inflation assuption based on the UST5yr breakeven inflation rate*
[2] *Sprectrum's 10yr annual default study through 2021 adjust for SIVB & CS*

Hybrids offer the most positive double-net real yield opportunity in credit. As the Fed focuses more on labor (i.e., one of its policy objectives which is still robust) and wage cost increases than it will on recession, it should keep its more restrictive policy in place until its job is comfortably done on inflation – Hybrid yields rates are likely to stay elevated for some time, which should keep the window of opportunities in Hybrids open for longer especially as volatility is likely to be somewhat elevated in the near term as the banking sectors correct. In a year when we don't expect duration to be a major contributor to institutional performance, the income accretion component of Hybrids (especially those with QDI) looks compelling to core corporates and to high yield -- especially net of longer run average default risks.

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