Junior-Subordinated Capital Securities Markets

January 2024 Updates

The US Treasury bond market questioned its exuberance over quick and consistent rate cuts this year. The UST 10yr note price slipped 0.53% in January (after a phenomenal 8.11% over the past two months) as traders didn't seem to care that the Fed was pushing back on a March cut in dialogue during its January meeting. Chairman Powell has put emphasis on being "*confident*" on inflation, but the committee is "*not there yet*" and said, "*March isn't the base case*". Clearly, the tone of the post meeting press conference was one of managing expectations that rate cuts are coming, but not as fast and perhaps or as deep as the market has priced. The spread between UST2yr notes and UST10yr notes dis-inverted this month by 7bps to -30bps (note that the average slope of the US Treasury 2s-10s yield curve has been 113bps since Dec-1999 with a high of +281bps and a low of -107). The 30yr bond closed the month yielding 4.21% (16bps higher) and the 10yr note closed yielding 3.95% (8bps higher). Real rates on the front end of the treasury curve (e.g., UST 5yr TIPS) fell another 12bps (to 1.59%); the 5yr implied breakeven inflation rate (i.e., the difference in yields between the 5yr UST and the 5yr Treasury Inflation Protected Security) rose by 10bp to close at 2.26%. We continue to emphasize that the Fed and markets must deal with a very challenging pricing conflict created by ongoing excess fiscal spending (i.e., ongoing UST debt issuance) not being aligned with the Fed's desire to gain confidence in its disinflationary goal. The effect of massive fiscal excess, zooming treasury debt costs and quantitative tightening still risks a "fiscal fit" (i.e., some clear concern expressed by lower UST bond market prices challenging Congress to gain control over spending) that could impel real rates to rise along the term structure of US treasuries; and the Fed's (subtle) acceptance of 3% inflation rather than 2% inflation over time. In fact, Chairman Powell concedes that the Fed doesn't know where the neutral rate (i.e., their long-term policy rate) is

as it's "*just an estimate*" – in other words, policy rates are more touch & feel based on data and expectations than they are based on a formula (like the Taylor Rule) that says policy rates need to come down because real rates go up as inflation comes down – the Fed is not that mechanical. The buzz word is "*confidence*" (i.e., confidence is the new "transitory") so, the committee needs confidence that inflation will stay down and as a result, it wants to avoid moving to soon. Equity is still thrilled about monetary policy being at its back as all the committee members agree that rates should come down sometime this year. Equity prices measured by the S&P 500 cheered again this month by moving another 1.6% higher in January while the VIX (i.e., Chicago Board Options Exchange Volatility Index) rose 15.3% to 14.25 -- financial conditions slipped just a bit but overall, are still quite stellar.

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 0.02% to close yielding 7.77% (8bps higher).
- Global bank credit (measured by ICE BofA ***e0ba*** index) rose 0.55% to close yielding 5.15% (7bps lower).
- The BBB rated 5-10yr corporate sector (measured by ICE BofA ***c6a4*** index) rose 5.30% to close yielding 5.30% (1bp higher).

Review of Market Structure:

The market for **hybrids** or **global junior-subordinated capital securities** (*i.e.,* "**Jsubs**") 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 Jsubs comprise two sub-sets that represent a broad group of hybrids, 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 $314 billion (face amount) of investment grade and below investment grade instruments in both the retail $25par market (37%) and the institutional $1,000par market (63%). The USD Contingent Capital Index of US dollar denominated hybrids ***(cdlr)*** sums to $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 $450 billion universe of fixed-rate junior subordinated USD capital securities with preferred securities (measured by ***iocs***) being a 69% subset and contingent capital securities (measured by ***cdlr****)* being a 31% 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*) @ 45% *of i0cs***
   - Comprised of IG $25par and IG $1,000par (incl. US AT1)
     - The ***p0p1*** rose 2.79% this month to close yielding 5.89% (-44bps)
2) **ICE BofA US Capital Securities Index (*c0cs*) @ 24% of *i0cs***
   - Comprised of dated IG $1,000par dated hybrids (excl. US AT1)
     - The ***c0cs*** rose 1.52% this month to close yielding 6.43% (-22bps)
3) **ICE BofA High-Yield Capital Securities Index (*h0cs*) @ 6% of *i0cs***
   - Comprised of BIG $1,000par legacy Tier1 and BIG $1,000par hybrids
     - The ***h0cs*** rose 1.21% this month to close yielding 7.37% (-6bps)
4) **ICE BofA High Yield Fixed Rate Pfd Index (*p0hy*) @ 25% of i*0cs***
   - Comprised of BIG $25par and BIG 1,000par (incl. US AT1)
     - The ***p0hy*** rose 3.85% this month to close yielding 7.92% (-37bps)

The ICE BofA All US Capital Securities Index (*i0cs*) rose 2.61% this month to close yielding 6.60%, which was 34bps lower than last month's closing yield and a spread of +245bps over comparable US Treasury securities (43bps tighter).

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 procedure (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 made up of US dollar denominated constituents (exclusively), which represent 58% of the mature master multi-currency benchmark (*coco*). We will use 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*) rose 0.71% this month to close yielding 7.55%, which was 7bps lower than last month and a spread of +336bps over comparable US Treasury securities (11bps tighter).**

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	472
Low	-178	-267	176	60	223	143
Range	766	518	310	145	437	329
Average	77	-36	258	144	338	224
Stdev	118	100	48	27	63	37
Monthend	62	-43	254	149	319	214
Spread Scores:						
(monthend-ave)/stdev	-0.13	-0.07	-0.08	0.19	-0.30	-0.27
Δ from Last Month	-0.54	-0.59	-0.42	-0.59	0.05	0.22

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, values of **0 to +/- 1stdev.** = "*fair value*", outside of **+/- 1stdev.** = "*undervalued"/ "overvalued*", and scores outside of **+/- 2stdevs** = "*very undervalued"/ "very overvalued*".

Spread performance (i.e., change in spread from last month) for hybrids was positive for the retail & NoCo sectors but slightly negative for CoCos. The Absolute Spread Score on retail paper tightened by 0.54 standard deviations; **the $25par sector is slight negative *fair value* with a Spread Score of -0.13 standard deviations from average**. The Absolute Spread Score for the institutional $1,000par preferred securities sector ("NoCos") tightened by 0.42 standard deviations; **NoCos are a slight negative *fair value* with a Spread Score of -0.08 standard deviations from average**. The Absolute Spread Score for the CoCo sector widened 0.05 standard deviations; **CoCos are a negative *fair value* with a Spread Score of -0.30 standard deviations from average**. This is the first time in 12 months that the absolute spread scores are less than average. Note that these statistical positionings provide an absolute and relative view on some historical spread, which can be further complimented with some cycle perspectives from the Comprehensive Risk Estimates below that give some perspectives on absolute yields.

Implications of Market Activity:

$25par Retail Preferred Securities Sector

The retail preferred securities sector measured by *p0p4* zoomed up $2.82 to $87.33 and the yield-to-worst fell by 52bps to 5.87% this month as the bond market and the equity market both experienced a continued melt-up after the Fed indicated more rate cuts are coming next year than indicated at the prior meeting. There was no retail sector issuance in December. The two largest $25par passive ETFs (iShares Preferred and Income ETF, PFF; and Invesco Preferred

ETF, PGX), had about $21million of combined net money inflow this month. There seems to have been some tax switching repositioning as PFF grew by $99mm, but PGX shrunk by $121mm.

This month's Estimated Price Risk to Average Current Yield is relatively low, but not nearly as low as it was two months when we noted that it was the lowest (i.e., most positive) it had been since we have been following the measure. The current yield is now 45bps less than the average current yield for the past 3 credit cycles, so if we experience a regression to the mean current yield over the next 12 months it would imply a 5.40% price loss. There is always a Fed cycle associated with the credit cycle, but no cycle is exactly like prior cycles because economic factors that cause credit spread differences change. Given that spreads in retail preferreds are tighter than average this month at -0.13 standard deviations less than average, it appears that most of the lower yields in the retail market are explained by fearless buying of preferred yields despite US treasury yields ebbing higher.

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%**	3.95%	1.50%	
PCE DEFY	1.48%	0.59%	1.86%	**1.31%**	2.60%	1.29%	
Real UST10yr	1.50%	1.05%	0.88%	**1.14%**	1.35%	0.21%	
$25Coupon	6.64%	6.46%	6.05%	**6.38%**	5.46%	-0.92%	
$25Price	$94.06	$98.66	$93.09	**$95.27**	$87.31	-$7.96	
$25Current Yield	7.06%	6.55%	6.50%	**6.70%**	6.25%	-0.45%	
Mdur Worst	9.52	10.44	10.95	**10.30**	12.07	1.77	
CY Spread vs. T10yr	4.08%	4.91%	3.76%	**4.25%**	2.30%	-1.95%	
Source: Bloomberg; ICE BofA Bond Indices						-5.40%	Est. Price Risk to AveCY
				Comprehensive Risk Est.		0.85%	**Est. Price Risk + CY**
				Recapture Rate (yrs.)		0.86	Est. Price Risk / CY
					Memo:	3.67%	Total Return YTD

The current yield of the retail sector closed the month at 6.25%, which was approximately 45bps 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 230bps which is 195bps less than the average spread of the last three credit cycle bottoms as retail preferred yields are 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 $87.31 this month and $7.96 lower than the average price of the prior bottoms, which means that there is significantly more convexity to the retail market during this cycle than there was during the prior cycles even though yields were mostly higher. The implication of a 0.45% current yield increase to 6.70% (the average current yield of the prior bottoms) is an estimated 5.40% price decline using the current modified duration of 12.07; then adding back a current book yield (assuming a 12month path) of 6.25% makes the *Comprehensive Risk Estimate* for returns in the retail sector positive at 0.85%. The assumed loss recapture rate with income is 0.86yrs. Overall, yields in the retail sector appear to be fair valued in the absolute and spreads appear negatively fair valued compared to US Treasuries.

- Year-to-date, below investment grade (BIG) $25pars have outperformed investment grade (IG) retail paper by 1.79% this month.

$1,000par Institutional Preferred Securities Sector

The $1,000 par institutional sector of the preferred securities market rose $1.39, and yields-to-worst fell 23bps to 6.94% this month. 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%**	3.95%	1.47%	
PCE DEFY	1.17%	0.59%	1.86%	**1.21%**	2.60%	1.39%	
Real UST10yr	1.77%	1.16%	0.88%	**1.27%**	1.35%	0.08%	
Coupon	6.77%	6.43%	5.88%	**6.36%**	5.33%	-1.03%	
Price	$103.96	$99.62	$97.23	**$100.27**	$95.64	-$4.63	
Current Yield	6.51%	6.45%	6.05%	**6.34%**	5.57%	-0.77%	
Mdur Worst	5.90	5.23	4.64	**5.26**	3.94	-1.32	
CY Spread vs. T10yr	3.57%	4.70%	3.31%	**3.86%**	1.62%	-2.24%	
Source: Bloomberg; ICE BofA Bond Indices						-3.01%	Est. Price Risk to AveCY
				Comprehensive Risk Est.		2.56%	Est. Price Risk + CY
				Recapture Rate (yrs.)		0.54	Est. Price Risk / CY
					Memo:	2.00%	Total Return YTD

The current yield of the institutional preferred sector closed the month at 5.57%, which was 6bps lower than last month. The $95.64 price of the NoCo sector is $4.63 less than the average price over the last three credit cycles – the implication of the discount is an embedded **"pull toward par"** as time ages and the prospect of higher coupon resets approach becoming available in less than 4yrs on average. The current yield of the sector is 77bps less than the 6.34% average current yield at the bottom of the last three credit cycles. The implication of a 0.77% current yield increase to 6.34% (the average current yield of the prior bottoms) is an estimated 3.01% price decline using the modified duration of 3.94; then adding back a current book yield (assuming a 12month path) of 5.57% makes the *Comprehensive Risk Estimate* for the NoCo sector equal to a 2.56% horizon return to accept the risk, which is 26bps less than last month. It would take 0.54yrs to recapture this capital loss estimate with book income. We consider the NoCo sector to be a fair value but a bit on the negative side of average.

- Year-to-date, below investment grade (BIG) $1000pars underperformed investment grade (IG) institutional paper by 1.79%.
- State Street issued at $1.5billion US AT1 fixed-to-refixed perpetual at 6.70%

Contingent Capital Securities Sector

The CoCo sector rose $0.16 to $95.13 as yields-to-worst declined 7bps to 7.55% this month.

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%	3.95%	1.40%	
PCE DEFY	1.48%	0.59%	1.86%	1.31%	2.60%	1.29%	
Real UST10yr	1.53%	1.16%	1.02%	1.24%	1.35%	0.11%	
Coupon	7.63%	6.40%	6.78%	6.94%	6.37%	-0.57%	
Price	$105.04	$89.12	$96.21	$96.79	$95.02	-$1.77	
Current Yield	7.26%	7.18%	7.05%	7.16%	6.70%	-0.46%	
Mdur Worst	4.76	5.30	3.95	4.67	2.73	-1.94	
CY Spread vs. T10yr	4.25%	5.43%	4.17%	4.62%	2.75%	-1.86%	
Source: Bloomberg; ICE BofA Bond Indices						-1.26%	Est. Price Risk to AveCY
				Comprehensive Risk Est.		5.45%	Est. Price Risk + CY
				Recapture Rate (yrs.)		0.19	Est. Price Risk / CY
					Memo:	0.71%	Total Return YTD

The current yield of the CoCo sector closed the month at 6.70%, which was 2bps lower than last month and 46bps less than the average current yield at the bottom of the last three credit cycles (i.e., 7.16%). The average rebalanced CoCo price of $95.02 is lower than 2 of the last 3 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 the discount is an embedded **"pull toward par"** and time ages and the prospect

of higher coupon resets approach becoming available in less than 3yrs on average. The implication of a 0.46% current yield increase to 7.16% (the average current yield of the prior bottoms) is an estimated 1.26% price decline using the modified duration of 2.73; then adding back the current book yield (assuming a 12month path) of 6.70% makes the *Comprehensive Risk Estimate* for return in the CoCo sector 5.45%. The recapture rate of the estimated capital risk is about 2 months for CoCos. There was no issuance in the CoCo sector this month.

Outlook:

A Fed conundrum: We still believe that if the Fed cuts rates too soon (i.e., in March) it could impair its credibility as an inflation fighter and forfeit the effectiveness of forward guidance in recruiting markets to assist it; but if the Fed leaves rates too high for too long it could prompt a fiscal fit (i.e., volatility in the US Treasury markets) caused by the rising costs of the massive US debt load – either way, it appears inflation will stay elevated (i.e., above 2%), yet it continues to 3 cuts later this year. The bond market has 6 rate cuts priced into next year, which we believe is far too generous given the Fed's view that inflation is still too high while intending to wait beyond March to gain confidence that it's contained.

Neither the bond market nor the equity market is appreciating the need for the Fed to keep interest rates high for longer because fiscal growth pressures (something the Fed cannot directly opine on) are trading against "restrictive" rates pressure and maxed out consumer credit. The yield curve is still inverted so, if the Fed does indeed get its soft landing, then there will be no recession and certainly no need for an inverted yield curve to continue predicting what won't be coming. Consequently, we expect the 2s10s yield curve to normalize by the end of next year to a moderately positive slope.

Implications for Junior Subordinated Capital Securities:

There should be ample opportunities to buy attractive hybrid yields this year because the UST market is in a confirmation mode and cannot run more than what the Fed ultimately does, which appears will be less than the bond market has discounted – so, the rates market rally for this year was largely played out last year. We expect capital returns this year to be largely related to tightening spreads such as the move this month showed. Dec-24 SOFR futures should trade back up toward federal funds parity as the year progresses to the election -- we expect that level to finish 2024 more toward 4.50% which means the US Treasury 10yr note should correct as well and make another move up through 4.25% at some point during the year before rallying back under 4% as it anticipates after the election.

Our credit team views hybrid credit fundamentals are generally sound and the purchasing power matrix scores of hybrids are even better now than they were this time last year – this, despite the laudable credit performance this year (especially this month).

	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)	12.07	5.89	2.26	2.61	0.22
NoCos (stb8)	3.94	6.94	2.26	3.07	0.78
CoCos (cdlr)	2.73	7.70	2.26	3.41	1.25
More Sr. Fins (e0ba)	4.78	5.17	2.26	2.29	0.48

Source: Bloomberg; ICE BofA Bond Indices

- Hybrid yields are lower, breakeven inflation is higher and inflation coverage is down a bit this month but still generous.
- Hybrid yield inflation coverages are 2.61x to 3.41x for junior subordination – shown above. 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 in a mostly "fixed-forever" sector structure to get the coverage.

In relation to positioning:

- Maintain a defensive orientation by positioning fixed-to-refixed structures and barbelling these discounts with current coupon new issuance which embeds a "pull toward par" backstory to preserve capital and offer the potential for income growth.
- Real hybrid yields are compelling and even more so when we consider subtracting estimated historical credit default risks from real yields – shown here in a *Real Yield Matrix*

Real Yield Matrix	Hybrids		Corporates	
	Preferreds	CoCos	IG Corps	BIG Corps
Bloomberg Index	*cips+hips*	*cdlr*	*c6c0*	*h0a0*
Mod.Duration	3.94	2.73	6.09	3.63
Yield-to-Worst	6.94	7.7	5.16	7.84
Inflation[1] Adjustment	2.26	2.26	2.26	2.26
Real Yields	4.68	5.44	2.90	5.58
Default[2] Adjustment	-0.49	-0.49	-0.05	-2.72
YTW, net, net adj.	**4.19**	**4.95**	**2.85**	**2.86**
Composite Rating	*BBB2*	*BB1*	*BBB1*	*B1*
Last Month End:	Hybrids		Corporates	
	Preferreds	CoCos	IG Corps	BIG Corps
YTW, net, net adj.	4.53	4.98	2.91	2.82
Change from Last	-0.34	-0.03	-0.06	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 2023 to date*

- Hybrids offer the most positive double-net real yield opportunity in credit.
- The Fed is likely to cut rates by 75bps later this year, though elevated real yields in US treasuries will likely persist well into 2024 because of a higher "terminal rate" being necessary in the new paradigms de-globalization, de-carbonization, and fiscal excess (all inflationary).
- The structural "pull toward par" discounts should reward hybrid investors who take advantage of today's lower prices and fair value spreads. Indeed, large sectors of the

hybrid markets are not “fixed income”, but rather “fixed-to-refixed income”, which means if rates do stay higher than they have in the past coming out of this rates cycle, income in hybrid portfolios can rise.

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