



Then, who is best positioned to withstand this downturn should it be a three-year cycle?

In the HY credit markets, liquidity will be a top driver of performance combined with assets in the best marginal costs plays. This will be further enhanced by better clarity of through cycle leverage. Companies starting off with reasonable leverage, moderate FCF burn, and good hedging are already ahead of the game. In addition, companies that recently termed out RBLs and are working with a high % of current availability will also be well positioned. Lastly, E&Ps that were able to execute on asset sales at pre-crisis valuations are also positioned well where liquidity is concerned. Some HY companies trying to see assets will see those plans put on hold, while others who recently bought will now look like they overpaid.

If we want to invest in HY E&P today, how do we sift through the more fragment E&P credits to identify outliers?

To answer this question, we developed a screen to apply across a universe of approximately 30 high yield credits – some of which we have a rating on (ie covered companies) and some of which we do not. In order to include non-covered companies in this analysis, we have used Bloomberg consensus estimates to develop sensitivity analysis. Please see the following section called “E&P Universe Screening Methodology” for the full details on our methodology for screening the HY E&P universe and creating sensitivity analysis across all 30 credits.