



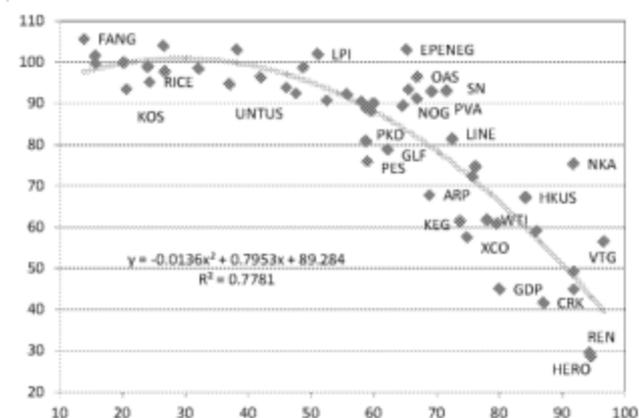
The top portion on the graph reflects industry sectors, and bottom portion shows a breakout by leverage category. Left side displays current average spread-per-turn (SPT) in basis points, while the right-hand side shows percentile ranking score of current SPT vs history since Dec 2009.

On a sector level, the interesting conclusions are: everything is trading to a certain degree of tightness, with an average percentile ranking score of 20%, which perhaps is not an eye opener for most experienced market participants. Specifically on sectors, autos and telecoms look relatively interesting here, while tech and gaming are the most overvalued based on this metric. We note that autos also came out as the most undervalued sector on our equity-reaction-to-oil screen in January. Auto equities have outperformed S&P 500 by 5.5% since that publication date, and we continue to believe, reinforced by today's findings, that there is more to go in capturing autos outperformance in both equities and credit. The sector that came out most overvalued in equities in January – utilities – has proceeded to underperform S&P 500 by 12.5% since then. It did not make it to our HY SPT screen due to a low issuer count, but the original equity signal pointed towards a 30% overvaluation, so perhaps more to go there too.

We excluded energy from the above SPT sector analysis for the obvious reason that the sector is too distressed at this point to be meaningfully judged against the rest of the market through the lenses of a single valuation framework. Here, we think a better approach would be to look at debt-to-enterprise-values as a factor for bond dollar prices. As a reminder, we have previously shown this indicator to have strong predictive power over future defaults (names trading over 65% D/EV have experienced a 1:3 subsequent default probability).

Here, in Figure 4 we are showing US energy single-Bs and CCCs bond prices (average by ticker, y-axis), plotted against each issuer's total debt/EV. The scatter plot shows a nice and tight fit between the two (78% r-squared), and on Figure 5 we go on to highlight the largest divergences from regression line. Top portion here shows names that are too far below the regression line, i.e. bond dollar prices are too low given where the D/EV ratio stands; the bottom portion shows the opposite extremes.

Figure 4: Energy single-Bs/CCCs
Bond dollar prices (y-axis) vs Debt/EV (x-axis)



Source: Deutsche Bank

Figure 5: Energy single-Bs/CCCs, largest gaps to D/EV

ISIN	Ticker	Cpn	Mty	Rating	Bond Dollar Price			Est-Act
					Debt/EV	Estimate	Actual	
Largest Undervaluation Gaps in Bonds								
US382410AF58	GDP	8.875	2019	CCC2	80	66	45	+21
US427093AE98	HERO	10.25	2019	B3	95	43	30	+13
US205768AJ30	CRK	9.5	2020	B3	87	56	42	+14
US76116AAB44	REN	8.5	2020	CCC2	94	43	30	+14
US049296AC06	ARP	7.75	2021	CCC1	69	80	67	+13
US701081AY70	PKD	7.5	2020	B1	59	89	82	+8
US92922PAC05	WTI	8.5	2019	B3	78	69	62	+7
Average					80	66	51	+13
Largest Overvaluation Gaps in Bonds								
US654677AB94	NKA	6.5	2019	CCC2	92	48	75	-28
US676253AJ67	VTG	7.5	2019	B3	97	39	58	-18
US707882AE64	PVA	8.5	2020	CCC1	69	79	94	-15
US06846NAC83	BBG	7.625	2019	B3	67	82	95	-13
US40537QAB68	HKUS	9.75	2020	CCC2	84	60	68	-8
US536022AJ55	LINE	6.25	2019	B2	72	75	81	-5
US665531AB54	NOG	8	2020	CCC1	65	84	90	-6
Average					78	69	80	-11

Source: Deutsche Bank