

NB Global Corporate Income Trust (ASX:NBI)

Market Commentary and Portfolio Update - 31 March 2022

In light of recent price action, we would like to provide an update regarding recent market conditions of the Global High Yield bond market and NB Global Corporate Income Trust (ASX:NBI).

RECENT MARKET AND GEOPOLITICAL EVENTS

The recent price action and increased volatility were brought about by 2 key events: 1) Russian invasion of Ukraine and 2) concerns that the Federal Reserve — and other central banks — will face tougher battles in their fight against higher inflation.

We believe that the direct negative impacts from the Russia-Ukraine conflict in terms of company fundamentals for issuers within the U.S. High Yield market are likely to be limited. About 80% of the revenues for U.S. High Yield issuers (which is the largest share of Global High Yield) are derived in the U.S. which is more insulated from the conflict in Eastern Europe than some other regions. The sectors most acutely impacted by the ongoing conflict would likely be in the Energy space, but generally, higher commodity prices are positive for the near-term cash flow profiles for issuers in these sub-sectors. Again, there will be varied regional impacts depending on the direct and indirect exposures to the Eastern European conflict and its fallout.

As it relates to European High Yield, while spreads have widened sharply following the Russia/Ukraine conflict, we believe this movement is overdone given underlying credit fundamentals. Although the outcome and timeframe of the tragic Russian invasion of Ukraine remains highly uncertain, it would appear initially at least that this will see a paradigm shift in European energy markets and security arrangements at a minimum, with its immediate shockwaves, in the form of heightened energy and commodity prices, together with supply chain disruption, likely to have significant effects. We expect that they will exacerbate the cost-of-living crisis, potentially changing patterns in consumer behavior, and see changes also to fiscal policy, such as a material uptick in defense spending. Absent a significant escalation of the conflict, we do not believe a prolonged recession is likely at this time.

As of 16 March, the U.S. Federal Reserve (“the Fed”) started its rate hiking campaign with a 25 basis point hike. Risk markets rallied on Fed Chair Powell’s press conference as it relieved some of the uncertainty on monetary policy and the central banks’ balance sheet run-off plans. The generalized macro volatility could potentially continue to moderate (like it did after Chairman Powell’s press conference) as markets now have less uncertainty on the path of Fed policy and there is at least more talk of negotiations toward a resolution of the conflict in Eastern Europe. In fact, the VIX — a measure of macro volatility — has steadily declined since mid-March. As markets get more clarity on the conflict in Eastern Europe and as the Fed and other central banks assure markets that they are working to keep inflation at bay, spreads will likely continue to come back in. Fed policy, in this cycle, is simply working to bring supply and demand back into balance, when demand is still running well above potential and supply is seeing temporary disruptions as a result of the pandemic and war in Ukraine. These factors represent different dynamics than at the start of past rate hike cycles. In other words, the economy could potentially handle faster rate increases.

- High commodity prices (oil, gas) and higher prices in general on necessities (shelter, food, fuel, etc) tend to bring about slowing real GDP growth, which will also help the Fed’s efforts to rein in inflation,
- The consumer (70% of U.S. GDP) is in great shape with solid wage growth, high savings, 1.7 job openings per unemployed person and home values way up.
- Non-investment grade and investment grade issuer fundamentals (balance sheets, FCF, leverage, strong growth, relatively high starting profit margins with most issuers being able to pass on price) remain in solid standing.

We view current yields and spread levels in Global High Yield as attractive, especially given the benign default outlook.

INFLATION AND RISING RATES

High yield bonds have performed well in rising interest rate environments, compared to, for example, global investment grade bonds. This is because typically in a rising interest rate environment, the economy is doing well, and we see growth in company earnings and improvement in company fundamentals. Credit risk for companies generally decreases and so default rates tend to be lower.

		Annualized Total Returns (USD) when 10Y UST yields increased by more than 100 basis points					
Periods when 10Y UST yields increased by more than 100 bps		USHY	US Agg	IG Corp	10Y UST Index	5Y UST Index	US TIPS Index
1/31/1999	1/31/2000	0.64%	-1.85%	-3.26%	-9.61%	-3.83%	1.67%
5/31/2003	5/31/2004	11.68%	-0.44%	-0.44%	-5.38%	-2.26%	2.76%
6/30/2005	6/30/2006	4.33%	-0.81%	-2.22%	-5.79%	-2.34%	-1.64%
12/31/2008	3/31/2010	49.71%	6.21%	16.79%	-7.14%	0.09%	9.52%
7/31/2012	12/31/2013	9.83%	-1.14%	0.31%	-6.22%	-1.65%	-5.55%
7/31/2016	10/31/2018	5.84%	-0.94%	-0.24%	-4.61%	-1.88%	-0.74%
7/31/2020	1/31/2022	5.94%	-2.59%	-2.07%	-5.95%	-3.20%	4.13%
Average		12.57%	-0.22%	1.27%	-6.39%	-2.15%	1.45%
Average Excluding Post GFC		6.38%	-1.30%	-1.32%	-6.26%	-2.53%	0.11%

Source: Neuberger Berman, S&P LCD and Bloomberg. Performance shown above is calculated in USD. Data as of 31 January 2022. Indexes used include the ICE BofA US High Yield Constrained Index, the Bloomberg US Aggregate Bond Index, the Bloomberg Corporate Investment Grade Index, the Bloomberg Treasury, the ICE BofA Current 10-Year US Treasury Index, the ICE BofA Current 5-Year US Treasury Index and the US TIPS Index.

Inflationary pressures are present however are unlikely to destabilize favorable credit fundamentals of the Global High Yield Market. We view that inflation and supply chain issues are more persistent, but solid consumer fundamentals and demand provide a means for most issuers to navigate without material credit degradation.

	Commodities/Materials	Supply Chain/Logistics	Wages
Outlook	Evolving and policy-dependent	Persistent	Longer term, potentially structural
Sectors Most Impacted	<ul style="list-style-type: none"> Airlines Autos Capital Goods Chemicals Consumer Products Energy Food/Beverage Utilities 	<ul style="list-style-type: none"> Autos Chemicals Consumer Products Food/Beverage Metals/Mining Retail Technology 	<ul style="list-style-type: none"> Airlines Capital Goods Healthcare Lodging/Leisure Restaurants Retail
Key Factors	<ul style="list-style-type: none"> Strong demand Regulatory policy Geopolitical environment 	<ul style="list-style-type: none"> Shipping rates and capacity, port closures/capacity constraints Lack of available capacity for stateside logistical services Reopening of production facilities 	<ul style="list-style-type: none"> Workforce participation Expiration of unemployment benefits Impact of COVID-19 variants (e.g. Delta) on temporary work needs

Source: Neuberger Berman. This material is intended as a broad overview of the Portfolio Manager's views and is subject to change without notice. Portfolio Manager's views may differ from that of other portfolio managers as well as the views of the firm. Historical trends do not imply, forecast or guarantee future results. Information is as of the date indicated and subject to change without notice. Nothing herein constitutes a prediction or projection of future events or future market behavior.

Overall healthy economic growth and strong demand has supported the ability for most issuers to pass through higher prices to mitigate cost pressures and supply chain headwinds. Sectors/issuers of concern are primary business models where price is unable to keep pace with rising input costs (typically sectors with weak demand or less demand elasticity; situations where supply chain disruptions are reducing volume without the ability to raise price).

IMPLICATIONS TO NBI PORTFOLIO

The recent market events have caused volatility in the market and fluctuation in face value (bond prices) of the underlying bonds and in turn affecting the NTA of the Trust. We would like to highlight that the change in face value of underlying bonds does not impact the ability of the bonds paying fixed coupons. As global markets normalize, it is expected that prices will recover.

The NTA of the Trust has declined primarily as a result of a generalized risk-off environment because of an unprovoked invasion of Ukraine by Russia, rather than being driven by material idiosyncratic credit risk, it is also in-line with the price movement of the broader Global High Yield market (represented by ICE BofA Global High Yield Index (AUD Hedged)).

Performance (net) ¹	Jan 2022 – March 2022
NBI Total Return ²	-4.47%
ICE BofA Global High Yield Index (AUD Hedged)	-5.54%

Past Performance is not a reliable indicator of future performance. Periods less than one year are not annualized.

We would like to highlight that:

- The Trust had minimal direct exposure (0.03%) to Russian or Ukrainian investments as of 28 February 2022.
- The Global High Yield bond market is composed mostly of U.S. high yield and the Trust is overweight more U.S. domestic focused issuers with 53% of the Trust in U.S.-domiciled issuers as of 28 February 2022.
- The team had already looked to position away from issuers with little to no ability to pass on rising input costs via price going into this period of heightened geopolitical volatility.
- European issuers have seen a bit more volatility, but our analysts and Portfolio Managers continue to monitor the impacts from higher commodity prices and the conflict in Eastern Europe.
- While risks have risen and growth outlooks have been revised modestly down, we still consider the outlook to be constructive for credit, and in particular, the U.S.

We wanted to reassure our investors the following points on the NB Global Corporate Income Trust (ASX:NBI):

- NBI continues to deliver on its investment objective and has exceeded its Target Distribution for 3 consecutive years since listing. Furthermore, NBI remains on track to achieve its Target Distribution for FY2022³.
- NBI's performance and current Target Distribution (at 4.75% p.a.) remains highly competitive versus other fixed income offerings.
- NBI's investment portfolio is well-positioned, has experienced no defaults⁴ and we believe the fundamentals of and outlook for Global High Yield remain positive.

¹ Performance is calculated net of management costs, which includes the Responsible Entity fee, the Management fee, the Administration fee, along with custodian, audit and legal fees and other transactional and operational costs. Investors should review the PDS for full details of NBI, including, in particular, the "Fees and Other Costs" section of the PDS.

² Total Return is calculated based on the pre-distribution month end NTA and assumes all distributions are reinvested.

³ For FY2022, NBI has set the target distribution amount per Unit, which is paid monthly by NBI, at 4.75% p.a. (net of fees and expenses) on the NTA per Unit as at 1 July 2021 ("Target Distribution"). The Target Distribution is only a target and may not be achieved. Actual distributions will be monitored against the Target Distribution. The Target Distribution will be formally reviewed at least annually (as at the end of each financial year) and any change in Target Distribution will be notified by way of ASX announcement as required. Investors should review the "Risk Factors" set out in Section 8 of NBI's product disclosure statement dated 21 January 2020 ("2020 PDS"). Section 3.3.1 of the 2020 PDS sets out the Manager's views in relation the interest rate environment and impact on target distributions.

⁴ As of 31 March 2022.

DISCLOSURES

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