

Credit Binge May Produce Quite a Hangover

By **James F. Keegan** and **Perry Troisi**
SEIX INVESTMENT ADVISORS

While the current cycle is the longest expansion on record, we believe it will ultimately be known as the Corporate Leverage or Credit Era – a period where debt expansion allowed companies to freely lever up with little pushback from the investment community.

Typically, at the end of a business cycle where profitability is high, corporate leverage is low. In the current economic

exposure into income producing assets.

Even more alarming, a significant amount of this yield chase has been done through passive investment vehicles. Given the backdrop of unattractive valuations and a 10-year debt expansion cycle, investors now more than ever need active management to navigate the inevitable end of cycle dynamics that could see the corporate credit sector undergo significant volatility and re-pricing. ■

James F. Keegan, chief investment officer and chairman of Seix Investment Advisors LLC, has oversight responsibilities for the investment teams and specific portfolio management responsibilities within the investment grade team.

Perry Troisi, managing director and senior portfolio manager at Seix Investment Advisors LLC, focuses on the government-related and securitized asset classes.



environment, it's the exact opposite: leverage is peaking as the cycle begins to turn. This credit binge has led to a considerable deterioration in the overall quality of the investment grade corporate bond universe. As a result, investors are not being compensated for the risk being assumed at this late stage of the cycle.

Approximately one third of the BBB sleeve have non-investment grade leverage metrics, and there is a high risk that a considerable amount of that BBB exposure could become “fallen angels” as the cycle turns. This is a risk not only to the investment grade market, but the high yield market as well.

Compounding this balance sheet deterioration is that a significant portion of the leverage was used for shareholder friendly dividends, M&A, and stock buybacks.

Concurrent with this leverage cycle, a seemingly insatiable quest for yield has pushed many investors to take risk they have historically avoided. This is a dynamic exaggerated not only by low nominal yields globally, but also by demographics as waves of baby boomer retirees shift more

This commentary is the opinion of Seix Investment Advisors. This material was prepared without regard to the specific objectives, financial situation, or needs of any particular person who may receive it. It is intended for informational purposes only and it is not intended that it be relied on to make any investment decision. It does not constitute investment advice or a recommendation or an offer or solicitation and is not the basis for any contract to purchase or sell any security or other instrument.

Past performance is not indicative of future results.

© 2019 Seix Investment Advisors LLC is an investment adviser registered with the SEC and an affiliate of Virtus Investment Partners, Inc. All third party marks are the property of their respective owners.

Learn more at www.seixadvisors.com

SEIX ◆
INVESTMENT
ADVISORS LLC®
A VIRTUS INVESTMENT PARTNER