Focus

Beware of Impairments

The growing amount of goodwill in recent years could be a source of concern for investors, as companies tend to underperform in the months after taking a goodwill impairment. We highlight companies with elevated near-term risk of taking an impairment.

| FOCUS

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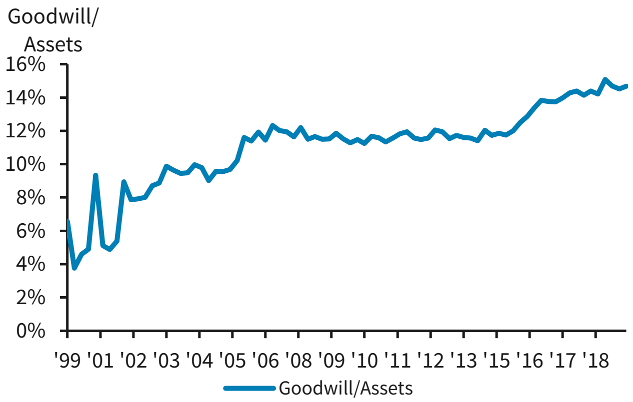
Corporate fundamentals appear generally robust, in our view, with aggregate non-financial net leverage close to its long-term average after adjusting for changes in GAAP accounting rules (see BBBs Have Only a Few Bad Apples). Furthermore, highly leveraged BBB companies, which were the center of attention coming into last year, have deleveraged, a trend that we expect to continue. Elevated EBITDA margins and interest coverage ratios, as well as corporates' terming out debt, should also be supportive of fundamentals. However, one potential area of concern, which is typically overlooked by credit investors because of the non-cash nature of the asset, is the growing amount of goodwill on balance sheets. Goodwill as a percent of assets is currently about 15%, an all-time high for index-eligible US non-financial corporates (Figure 1), and we believe goodwill impairments pose a material risk to valuations.

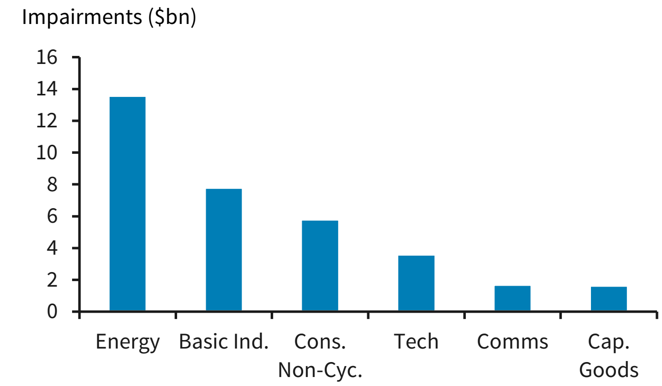
There is a noticeable uptick in the amount of goodwill relative to total firm assets beginning in 2014/15, which not surprisingly coincided with the start of the most recent M&A cycle. Although goodwill itself does not represent a problem, the impairments associated with the asset can be a signal of future underperformance. Now that we are three years removed from the peak in M&A volumes, we think investors should remain alert to a potential wave of impairments from deals that might not be meeting the initial expectations of management teams, because typically, impairments are taken 2-3 years after the M&A associated with the asset write-down (see Goodwill Hurting). This time around, the relatively robust economic environment may have delayed some impairments - challenged businesses likely get additional leeway in such an environment before auditors deem an impairment necessary.

FIGURE 1. **Goodwill as a Percent of Assets Has Grown for Index-eligible Non-financials**



Source: Factset, Barclays Research

FIGURE 2. **Sector Distribution of Goodwill Impairments, 2019 Year-to-Date**

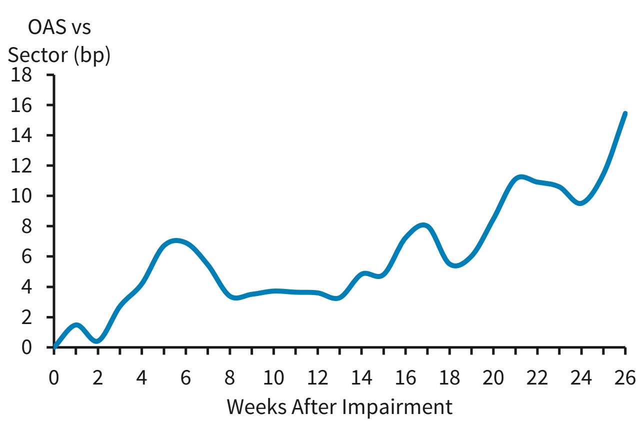


Source: Factset, Barclays Research

So far in fiscal year 2019, through the third-quarter reporting cycle, US non-financials have taken approximately $35bn of goodwill impairments - note that this does not include goodwill impairments announced in 4Q18 earnings, which were reported in calendar year 2019. Although this is on track to be lower than the year-end 2018 total of $82bn of impairments taken by non-financials, there is potential for that number to grow substantially. Historically, more than 50% of impairments in a given year are taken in the fourth quarter, as companies typically test for goodwill impairments as a part of their annual review (see *Goodwill Hurting*).

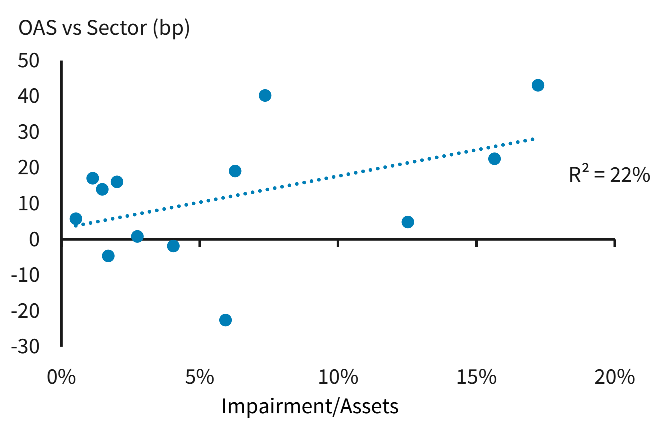
2019 impairments have been led by the energy and basic industry sectors. The energy sector had the largest goodwill impairment in 2019, as Schlumberger took an $8.8bn charge in 3Q (representing approximately one-third of the goodwill on its balance sheet) relating to its drilling and Cameron segments. Schlumberger has underperformed the energy sector since the announcement of the impairment, a theme for the other companies that took impairments in 2019 as well.

FIGURE 3. **OAS versus Sector of Companies That Took Impairments of More Than $500mn in 2019**



Source: Factset, Bloomberg, Barclays Research

FIGURE 4. **Size of Impairments versus Underperformance**



Source: Factset, Bloomberg, Barclays Research

While not every company that took an impairment charge underperformed, on average, members of this cohort widened by more than 15bp versus their corresponding sectors in the following six months. Figure 3 shows the median OAS move versus the sector for companies that took impairments of more than $500mn in 2019. A large part of the move occurs within the first five weeks, but spreads continue to lag the sector in subsequent months. With corporate spreads at only 100bp, a widening of this magnitude could eat into a meaningful portion of the ticker's excess returns.

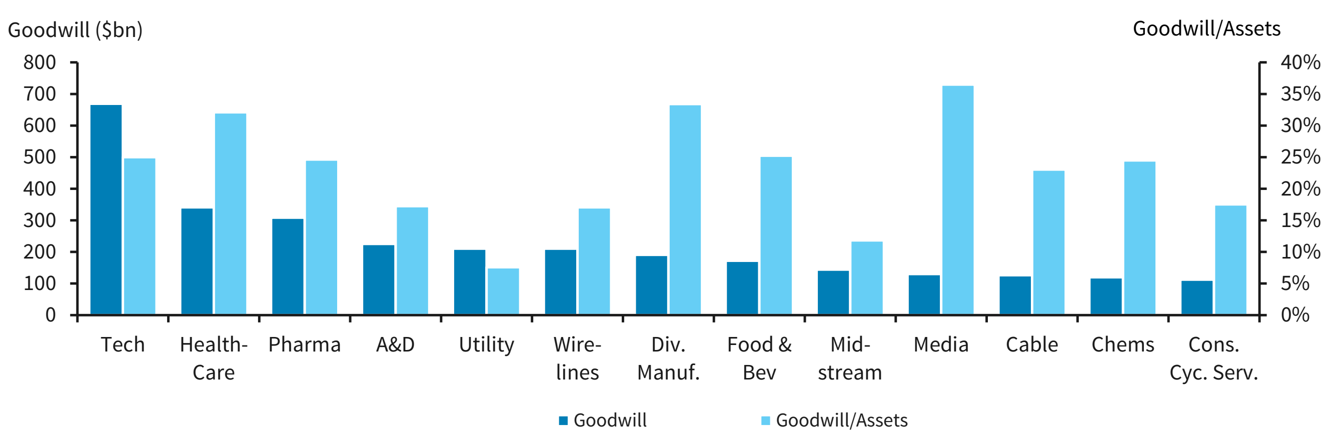
Figure 4 shows the size the goodwill impairment relative to the asset base of the company and the spread performance versus the sector six months after the announcement of the impairment. Not surprisingly, they are positively correlated - the spread reaction of a ticker tends to be more negative the larger the impairment as a percent of assets. Contributing to the spread underperformance is the fact that a goodwill charge usually acts as a signal of a challenging operating environment. Indeed, we have previously shown that EBITDA growth of a company lags the sector in the 1-2 years post-impairment.

Companies with Elevated Risk of Taking an Impairment

Goodwill impairments are fairly difficult to predict given the inherent subjectivity in measuring the fair value of acquired assets, which is typically based on valuation models that incorporate future cash flow expectations and assumptions of how market participants would value the asset. Therefore, timing of impairments can be difficult to forecast; however, we isolate companies where the risk of impairment appears elevated.

First, we identify areas of the market where goodwill both in nominal terms and as a percent of total assets is elevated. Figure 5 shows the sectors with the largest amounts of goodwill for the US Corporate Index. The most acquisitive sectors in recent years, technology, healthcare/pharma, and aerospace & defense, are atop the list with over $1.5trn in combined goodwill, and in each case, it represents at least 15% of total assets. In addition, diversified manufacturers, food & beverage, and media stand out as having a high amount of goodwill relative to total assets.

FIGURE 5. Non-Financial Sectors with the Largest Amount of Goodwill



Source: Factset, Bloomberg, Barclays Research

We screen for companies that potentially have a higher-than-average likelihood of taking an impairment as follows: We filter for those that have experienced a meaningful increase (at least 5%) in goodwill in the past five years. The screen is overlaid with metrics that attempt to capture any deterioration in the operating environment or decline in expectations about future earnings potential:

- **Five-year EBITDA margin change** – Companies that are facing downward pressure on margins may eventually have to adjust the long-term forecast of individual business units and take goodwill impairments if the expected future cash flows of the business have worsened materially.

- **Five-year EV/EBITDA change** and **LTM equity return** – A decline in equity valuations affects impairments two ways: it increases the likelihood of triggering an impairment test, and the test is more likely to produce a negative result with lower equity valuations.

Starting with this screen, we collaborate with fundamental analysts to highlights companies with an elevated risk of taking a goodwill impairment in the near to medium term.

FIGURE 6. **Quantitative Screen for Companies with Elevated Risk of Impairments**

Ticker	Sector	MV of Debt ($bn)	Rating	Goodwill		Fundamentals			
				Goodwill ($bn)	5y GW chg as % of Assets	5y EBITDA Margin chg	5y EV/ EBITDA chg	LTM Equity Return	High Risk Flag
KHC	Food and Beverage	22.5	BAA3	35.8	24%	0%	-0.5	-59%	High Risk
TAP	Food and Beverage	6.6	BAA3	8.3	19%	1%	-10.5	-9%	High Risk
SJM	Food and Beverage	4.2	BAA2	5.9	19%	0%	-0.5	5%	High Risk
ADM	Food and Beverage	6.2	A2	2.5	5%	0%	4.3	2%	High Risk
CXO	Independent	4.5	BAA3	2.2	8%	0%	-2.5	-27%	High Risk
EQM	Midstream	3.5	BAA3	1.1	12%	5%	-	-43%	High Risk
T	Wirelines	103.0	BAA2	146.4	14%	-4%	2.3	29%	High Risk
UTX	Aerospace/Defense	31.3	BAA1	48.1	15%	0%	2.1	40%	
GD	Aerospace/Defense	8.9	A2	19.6	17%	0%	2.8	12%	
CHTR	Cable Satellite	32.1	BAA3	29.6	19%	1%	-0.4	71%	
CMCSA	Cable Satellite	86.8	A3	66.2	16%	-2%	1.9	26%	
AMZN	Consumer Cyc Services	25.3	A1	14.5	7%	8%	-16.4	14%	
MMM	Diversified Manufacturing	13.9	A1	10.1	7%	0%	1.8	-6%	
STZ	Food and Beverage	10.1	BAA3	8.1	26%	7%	-0.9	27%	
GIS	Food and Beverage	9.4	BAA2	14.1	18%	2%	-0.5	30%	
CPB	Food and Beverage	6.5	BAA2	4.6	16%	-6%	3.8	40%	
LH	Healthcare	5.8	BAA2	7.4	27%	-2%	2.1	36%	
CVS	Healthcare	61.6	BAA2	78.7	27%	-1%	-1.5	10%	
CI	Healthcare	29.7	BAA2	44.5	25%	-3%	4.3	11%	
HCA	Healthcare	15.4	BAA3	7.6	19%	-1%	-0.6	15%	
CAH	Healthcare	6.5	BAA2	8.3	9%	-1%	-3.4	8%	
DISCA	Media Entertainment	14.8	BAA3	13.0	17%	5%	-6.4	17%	
MPLX	Midstream	17.8	BAA2	2.6	11%	8%	2.2	-6%	
EPD	Midstream	31.8	BAA1	5.7	6%	13%	-6.0	4%	
BIIB	Pharmaceuticals	5.1	BAA1	5.7	18%	9%	-19.2	-9%	
ABBV	Pharmaceuticals	60.5	BAA2	15.7	16%	11%	-4.7	2%	
JNJ	Pharmaceuticals	24.1	AAA	30.5	5%	0%	1.9	13%	
MPC	Refining	7.7	BAA2	20.2	21%	3%	2.2	-6%	
SBUX	Restaurants	10.8	BAA1	3.5	11%	-1%	5.4	41%	
ORCL	Technology	53.6	A1	43.8	12%	-3%	2.5	14%	
QCOM	Technology	14.2	A3	6.5	8%	6%	-1.4	60%	
AVGO	Technology	26.4	BAA3	26.9	53%	0%	-5.8	22%	
FDX	Transportation Services	14.9	BAA2	7.0	8%	-2%	-0.7	-8%	
CCI	Wireless	14.0	BAA2/BAA3	10.1	16%	-1%	4.5	34%	
AMT	Wireless	17.3	BAA3	5.5	5%	-3%	3.3	44%	

* Only companies with more than $4bn in market value of debt included.
Source: Factset, Bloomberg, Barclays Research

Commentary on Individual Companies

Food & Beverage - Priya Ohri-Gupta, CFA

Molson Coors – Given continued weakness in the US and European segments, we think that there is a risk that Molson Coors could be subject to further goodwill impairments. In 3Q19, the company took a goodwill impairment of $667mn related to its Canada segment because of prolonged weakness in the country's beer market, which adversely affected performance of the company's business in 2019, as well as expected future cash flows for the segment. The European reporting unit has been identified by the company as remaining at risk of impairment, although it has not yet experienced a triggering event.

Kraft Heinz - We have recently seen impairment actions (such as with Constellation) stemming from assets that have been put up for sale, which has necessitated a reconciliation to market value. In this vein, we expect that Kraft Heinz could be subject to further goodwill impairments in the event that it pursues asset sales following the outcome of its strategic review (the results of which are expected in the next month or two). The company has previously highlighted the risk of further impairments given the limited amount of cushion between the carrying amounts and fair value, with the majority of the goodwill related to assets with 10% or less in fair value coverage. Reporting units with 10% of less fair value over carrying include US Grocery, US Refrigerated, US Foodservice, Canada Retail, Canada Foodservice, Latin America Exports, EMEA East, Australia and New Zealand, and Northeast Asia, with a carrying amount of $32.9bn. Specific brands that fall into this categorization include Kraft, Philadelphia, Velveeta, Lunchables, Miracle Whip, Planters, Maxwell House, Cool Whip, and ABC, with a total carrying amount of $26.4bn. The growth rates associated with the aforementioned operating units/brands assume a low single-digit pace of increase; however, a more cautious view suggests that this could be somewhat optimistic, particularly in the short term. If this proves to be the case, current values may need to be further adjusted downward. We note that no reporting units had a fair value over carrying amount in excess of 50%, while the goodwill for reporting units with fair value over carrying amount of 20-50% totaled $2.4bn and for 10-20% totaled $593mn (composed of Continental Europe). Brands whose fair value was 10-20% in excess of the related goodwill carrying amount include Oscar Mayer, Jet Puffed, and Quero (total carrying amount of $3.6bn), while brands with a goodwill carrying amount of $4.2bn had 20-50% fair value in excess of the carrying amount, and brands with a carrying amount of $9.3bn had over 50% in excess fair value.

Smucker and **Archer-Daniels-Midland** - We expect both firms to take relatively small impairments given that both have made multiple acquisitions in the past five years and have a history of taking goodwill impairments. Smucker, in particular, has taken $100mn+ goodwill impairments in each of the past two years, and Big Heart Pet Brands has been underperforming since the 2015 acquisition.

Given that companies typically take impairments two to three years following an acquisition, we believe it is too early to see any related write-downs for the Pinnacle Foods (Conagra) or Snyders-Lance (Campbell) deals, which closed in 2018. This is an area deserving of attention given the weaker start to both subsequent to deal closing.

Telecommunications – Sandeep Gupta

AT&T - We believe there is a meaningful chance that AT&T might decide to take a writedown on its DirecTV acquisition in the near to medium term. The satellite TV business has been under pressure in the past few years as the growth of streaming services has caused customers to defect from traditional TV services such as DirecTV. The satellite industry has been particularly affected by this trend, given the demographics of its customer base and the lack of associated broadband offering. In response to the declines in its satellite subscriber business, AT&T has become focused on improving profitability, which in turn has accelerated subscriber losses, partially impairing DTV's intrinsic value. As a note, AT&T acquired DirecTV in 2015 at an enterprise valuation of $67.1bn ($48.5bn in equity value and $18.6bn in net debt). Given the underperformance of the asset in recent years, we would not be surprised to AT&T book a significant goodwill impairment charge to better reflect the fair value of this business.

Energy - Harry Mateer

EQM Midstream - EQM impaired some goodwill during 3Q19, but still reported a goodwill balance of $962mn as of September 30 that we think could be at risk of impairment, given challenging fundamentals in the Northeast gas market and EQM's unit price performance, which was at one point 34% lower during the quarter before recovering to finish 8% lower. Given what we expect to be a moderating outlook for gas production growth in the partnership's operating region, driven by weak natural gas prices and lower producer budgets, our expectation is that EQM's acquired assets could be further revalued lower, thereby negatively affecting goodwill.

Concho Resources - Although Concho equity is well off the October 2019 lows, the stock's 32% drop in the days after its 2Q19 earnings release, which featured disappointing operating results, has left it meaningfully lower in the past 12 months. Given that CXO has periodically used M&A to supplement its growth, including a $9.5bn purchase of RSP Permian in 2018, the company has some goodwill on the balance sheet that we think could be at risk of being written down. That said, CXO performed a goodwill impairment test at September 30, 2019, and did not take any charges beyond a minor one related to a planned asset sale, so the recent rally in CXO equity may enable management to avoid taking a charge in the near term.

Commentary on Sectors

In some cases, although credits screen as having an elevated risk of an impairment, our fundamental analysts believe that other factors reduce the likelihood of a write-down.

Aerospace & Defense – Andrew Keches, CFA

Although the amount of goodwill among aerospace and defense companies is large, both in nominal terms and as a percentage of assets, we do not see significant impairment risk given our constructive view on sector fundamentals. Elevated goodwill balances can be attributed to the wave of acquisitions over the past several years, as a substantial portion of companies looked to improve scale and diversification and/or optimize supply chains (NOC/Orbital ATK, LMT/Sikorsky, BA/KLXI, UTX/COL, GD/CSRA). The industry has experienced above-trend growth for many years, and we expect positive earnings momentum to continue. The growing defense budget, fueled by rising global tensions and the need to continuously update technology, should be supportive for earnings, particularly with the modernization portion (key driver of contractor revenues) growing at mid-/low single digits. The gap between the modernization budget and actual dollars spent has also compress recently, suggesting accelerating cash flow growth for defense primes. While not a goodwill impairment, we do expect Boeing to recognize a substantial charge ahead of 4Q19 earnings as it adjusts its customer compensation estimates due to the grounding stretching into 2020 and simulator training requirements.

Healthcare/Pharmaceuticals – Brittany Chen

Across the health care sector, both aggregate goodwill and goodwill as a percentage of assets tend to be elevated given the industry's acquisitive nature, but among the companies highlighted by our specific screening parameters, many recently took impairment charges, which reduces the likelihood of further re-valuations in the near term. Some notable charges include: CVS Health's $3.9bn pre-tax charge related to the LTC reporting unit recorded in the second quarter of 2018; Allergan's $2.5bn charge to its General Medicine Reporting unit in the first quarter of 2019 and another $1.1bn charge to the same segment in the second quarter of 2019; and Cardinal Health's $1.4bn charge to its Medical segment in the fourth quarter of fiscal 2018. In addition, the M&A boom began earlier for healthcare than for many other sectors, in

2014 ($384bn, up from $195bn in 2013), with 2015 representing a record year for the sector by aggregate deal value ($430bn, accordingly to Bloomberg). As we have highlighted in the past, impairments are typically recorded 2-3 years after the associated transaction is completed; accordingly, now nearly five years removed from the start of the cycle, we are likely past the window during which most impairments related to those deals would occur.

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3M CO, A/CD/CE/D/J/K/L/M/N

Representative Bond: MMM 2 1/4 09/19/26 (USD 99.83, 16-Jan-2020)

ABBVIE INC, Overweight, A/CD/CE/D/J/K/L/M

Representative Bond: ABBV 3.2 05/14/26 (USD 103.73, 15-Jan-2020)

AMAZON.COM INC, Market Weight, CD/CE/J/K/M/N

Representative Bond: AMZN 3.8 12/05/24 (USD 108.21, 15-Jan-2020)

AMERICAN TOWER CORP, Overweight, A/CD/D/E/J/K/L/M/N

Representative Bond: AMT 4.4 02/15/26 (USD 109.67, 15-Jan-2020)

ARCHER-DANIELS-MIDLAND CO, CD/CE/D/J/K/L/M/N

Representative Bond: ADM 2 1/2 08/11/26 (USD 102.05, 15-Jan-2020)

Representative Bond: ADM 3 3/4 09/15/47 (USD 111.65, 15-Jan-2020)

AT&T INC, Market Weight, A/CD/CE/D/E/J/K/L/M/N

Representative Bond: T 4 3/4 05/15/46 (USD 113.86, 15-Jan-2020)

BIOGEN INC, CD/CE/J/K/N

Representative Bond: BIIB 3 5/8 09/15/22 (USD 104.16, 15-Jan-2020)

BROADCOM INC, Overweight, A/CD/CE/D/E/J/K/L/M

Representative Bond: AVGO 4 3/4 04/15/29 (USD 109.55, 15-Jan-2020)

CAMPBELL SOUP CO, Market Weight, CD/CE/D/J/K/L/M

Representative Bond: CPB 4.15 03/15/28 (USD 109.56, 15-Jan-2020)

Representative Bond: CPB 4.8 03/15/48 (USD 117.30, 15-Jan-2020)

CARDINAL HEALTH INC, Underweight, CD/CE/D/J/K/L/M/N

Representative Bond: CAH 2.616 06/15/22 (USD 100.92, 15-Jan-2020)

CHARTER COMMUNICATIONS OPERATING LLC / CHARTER COMMUNICATIONS OPERATING CAPITAL, Overweight, A/CD/D/J/K/L/M/N

Representative Bond: CHTR 3 3/4 02/15/28 (USD 104.33, 15-Jan-2020)

CIGNA CORP, Market Weight, CD/CE/J/K/M/N

Representative Bond: CI 4 3/8 10/15/28 (USD 111.71, 15-Jan-2020)

COMCAST CORP, Market Weight, A/CD/CE/D/E/J/K/L/M/N

Representative Bond: CMCSA 4.6 08/15/45 (USD 121.02, 15-Jan-2020)

CONCHO RESOURCES INC, Market Weight, CD/CE/J/K/M

Representative Bond: CXO 3 3/4 10/01/27 (USD 104.75, 15-Jan-2020)

CONSTELLATION BRANDS INC, Market Weight, CD/CE/J/K/M/N

Representative Bond: STZ 3.6 02/15/28 (USD 106.21, 15-Jan-2020)

Representative Bond: STZ 4.1 02/15/48 (USD 106.92, 15-Jan-2020)

CROWN CASTLE INTERNATIONAL CORP, A/CD/CE/D/J/K/L/M

Representative Bond: CCI 3.7 06/15/26 (USD 106.18, 16-Jan-2020)

CVS HEALTH CORP, Overweight, A/CD/CE/D/E/J/K/L/M

Representative Bond: CVS 2 7/8 06/01/26 (USD 101.68, 15-Jan-2020)

Discovery Inc, Market Weight, A/CD/CE/D/J/K/L/M/N

Representative Bond: DISCA 4 7/8 04/01/43 (USD 110.65, 15-Jan-2020)

ENTERPRISE PRODUCTS OPERATING LLC, Market Weight, A/CD/D/E/J/K/L/M

Representative Bond: EPD 3.7 02/15/26 (USD 106.99, 15-Jan-2020)

Representative Bond: EPD 3.9 02/15/24 (USD 106.38, 15-Jan-2020)

EQM MIDSTREAM PARTNERS LP, CD/CE/J/K/M

Representative Bond: EQM 5 1/2 07/15/28 (USD 94.88, 16-Jan-2020)

FEDERAL EXPRESS CORP, CD/J

Representative Bond: FDX 7.6 07/01/97 (USD 146.34, 16-Jan-2020)

GENERAL DYNAMICS CORP, CD/CE/J/K/M/N

Representative Bond: GD 2 5/8 11/15/27 (USD 103.09, 16-Jan-2020)

GENERAL MILLS INC, Underweight, A/CD/CE/D/J/K/L/M/N

Representative Bond: GIS 4.2 04/17/28 (USD 111.94, 15-Jan-2020)

Representative Bond: GIS 4.7 04/17/48 (USD 119.71, 15-Jan-2020)

HCA INC, Market Weight, A/CD/D/J/K/L/M/N

Representative Bond: HCA 4 1/2 02/15/27 (USD 108.63, 15-Jan-2020)

Representative Bond: HCA 4 3/4 05/01/23 (USD 107.50, 15-Jan-2020)

Representative Bond: HCA 5 03/15/24 (USD 109.75, 15-Jan-2020)

Representative Bond: HCA 5 1/2 06/15/47 (USD 115.13, 15-Jan-2020)

Representative Bond: HCA 5 1/4 04/15/25 (USD 112.50, 15-Jan-2020)

Representative Bond: HCA 5 1/4 06/15/26 (USD 112.63, 15-Jan-2020)

JM SMUCKER CO/THE, CD/CE/J

Representative Bond: SJM 3 1/2 03/15/25 (USD 105.69, 15-Jan-2020)

JOHNSON & JOHNSON, CD/CE/J/K/N

Representative Bond: JNJ 2.9 01/15/28 (USD 104.92, 15-Jan-2020)

KRAFT HEINZ FOODS CO, Market Weight, A/CD/D/J/K/L/M

Representative Bond: KHC 4 5/8 01/30/29 (USD 110.51, 15-Jan-2020)

LABORATORY CORP OF AMERICA HOLDINGS, A/CD/CE/D/J/K/L/M/N

Representative Bond: LH 3 1/4 09/01/24 (USD 103.66, 16-Jan-2020)

MARATHON PETROLEUM CORP, Rating Suspended, A/CD/CE/D/E/J/K/L/M

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Representative Bond: MPC 3 5/8 09/15/24 (USD 105.17, 15-Jan-2020)

MOLSON COORS BEVERAGE CO, Underweight, CD/CE/J/K/N

Representative Bond: TAP 3 07/15/26 (USD 101.40, 15-Jan-2020)

MPLX LP, Overweight, A/CD/CE/D/J/K/L/M

Representative Bond: MPLX 4 02/15/25 (USD 104.90, 15-Jan-2020)

ORACLE CORP, Market Weight, CD/CE/J/K/M/N

Representative Bond: ORCL 4 11/15/47 (USD 113.77, 15-Jan-2020)

QUALCOMM INC, Overweight, CD/CE/J/K/M

Representative Bond: QCOM 3.45 05/20/25 (USD 106.11, 15-Jan-2020)

STARBUCKS CORP, CD/CE/J

Representative Bond: SBUX 2.45 06/15/26 (USD 101.21, 16-Jan-2020)

Representative Bond: SBUX 3 3/4 12/01/47 (USD 104.43, 15-Jan-2020)

UNITED TECHNOLOGIES CORP, Overweight, CD/CE/FA/FB/J/K/M/N

Representative Bond: UTX 4 5/8 11/16/48 (USD 127.39, 15-Jan-2020)

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For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

Market Weight (MW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be in line with the six-month excess return of the relevant index.

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Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.

Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.

Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

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Market Weight (MW): The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.

Underweight (UW): The analyst expects the six-month total return of the rated debt security subject to this rating to be less than the six-month expected total return of the relevant sector.

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Market Weight (MW):
The analyst expects the six-month excess return of the country's index eligible bonds to be in line with the six-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

Underweight (UW):
The analyst expects the six-month excess return of the country's index eligible bonds to be less than the six-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

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