Credit Calls

Monday, March 17, 2025

Feature

Aircraft Leasing Credit Update: AL (Hazy Retiring), AER, DUBAEE, ACGCAP, AVOL, AYR, MCAIRH; BOCAVI *(Mark Streeter, CFA)*
We hosted the management teams of eight aircraft lessors on day two of the Industrials Conference this week. We published joint notes with our equity counterparts on AER (here) and AL (here), and have included takeaways from the remaining private lessors below, as well as a BOCAVI credit update following its FY24 earnings release. We also comment on the post-conference news regarding Steven Udvar-Hazy's retirement from Air Lease.

Electric Utilities & Power: Sparking Credit: IPPs CDS Spotlight: CPN, VST, NRG *(Kevin L Kwan)*
We provide a summary of our views on CPN, VST, NRG CDS beginning on page 4 of this report.
Over the past week, Utilities widened 7bp versus a 8bp widening in the JULI index and a 8bp widening in the JULI Non-Financial Index. Utility GenCos widened 9bp, OpCos widened 7bp and HoldCo's widened 8bp. Secured OpCos widened 6bp and unsecured OpCos widened 7bp. YTD, Utilities widened 19bp versus a 15bp widening in the JULI index and a 16bp widening in the JULI Non-Financial Index. Utilities are currently trading -3bp tight to the JULI index at 110bp and OpCos are trading 5bp inside of HoldCos at 109bp.

Strategy & Sector Commentary

Catch-Up Call: Weekly Investment Grade TMT Review *(Christian Crosby, CFA)*
In today's TMT weekly, we lead with Intel as the firm named a new CEO and reports revived hopes for TSMC involvement in IFS. We also touch on softer indications out of U.S. wireless, deal updates at Paramount, Oracle results, and more.
Theme of the week – *Everything is Computer!* It seems like we can't stop talking about Semis these days, particularly Intel. Intel and Foundry JV spreads performed well this week, reverting last week's widening after *Reuters* reported that **TSMC has pitched U.S. chip designers (AVGO, AMD, NVDA, and QCOM) about taking stakes in a JV to operate Intel's fabs**. This syncs with the idea raised in reports last month, even though investors seemed to assume last week that scope for any deal around Intel foundry was "off the table" after TSMC's fresh U.S. investment plan. The article pointed out that President Trump is "keen to revive Intel's fortunes," a view we have held for some time given Intel's position as the only U.S. entity with advanced chip capacity, although naturally a new entity would likely need significant U.S. ownership. The report interestingly added that "Intel board members have backed a deal and held negotiations with TSMC, while some executives are firmly opposed." On that front, Intel announced a **new CEO** in Lip-Bu Tan on Wednesday afternoon. Mr. Tan will also have a Board seat, having left the Board over the summer amid reported clashes with management over a

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need to cut more costs and move faster with the company. We see Mr. Tan as a great hire for the company, and upon reading his initial letter to employees expect an engineering focus as he seeks to restore Intel's former glory. We view him as a steady hand who can shepherd Intel through not just operational improvements and cost cuts, but also as a well-respected leader who can negotiate asset sales, stake sales, and even a separation of the firm's core operating lines in the months and quarters ahead. We walked through how a separation of Intel might look last month (here), and **continue to see value in Foundry JV notes, Intel CDS, and Intel long bonds.** At the broader industry level, we also published our **4Q24 Semis Update** this week (here), where you can find detailed end market, inventory, and China exposure data.

Cracking Credit: JPM High Grade & High Yield Chemicals Weekly *(Aaron Rosenthal, CFA)*
Welcome to this week's issue of Cracking Credit. The J.P. Morgan HG Chemicals Index (ex EM) has returned 152bp YTD compared to the total return of 161bp for the broader J.P. Morgan HG Index (ex EM). Over the last week, Chemicals has returned -69bp vs -61bp for the broader HG Index. Our J.P. Morgan HY Chemicals Index has returned 151bp year to date compared to the total return of 134bp for the broader J.P. Morgan HY Index. Over the last week, Chemicals has returned -57bp vs -62bp for the broader HY Index.

Credit Market Outlook & Strategy: Credit markets are sanguine on the economy so far, and most technicals justify it *(Eric Beinstein / Nathaniel Rosenbaum, CFA)*
HG bond spreads sold-off 8bp WoW to their 6m wides along with S&P500 which is also at a 6m low. The equity market is pricing in significantly higher recession risk than credit markets but the latter has been right over the past couple of years to not get too bearish even when equity markets were weaker.

Credit Strategy Weekly Update: High Yield and Leveraged Loan Research *(Nelson Jantzen, CFA)*
High-yield bond spreads widened over the past week by the most since August to a 6-month high, as market volatility remained elevated amid escalating trade war and policy uncertainty. Meanwhile, yields jumped by the most since November 2023 alongside a -4.3% loss in equities, resurfacing outflows for the asset class, and underperformance down in quality.**High-yield bond yields and spreads rose 32bp and 33bp over the past week to 7.74% and 372bp, respectively**. **Notably, spreads are at a 6-month high and are 74bp wider since 2/18.** Meanwhile, HY bonds are down -1.12% in March which is on track to be the worst performing month since October 2023. And underperforming MTD are CCCs (-2.24%), Transportation (-1.73%), Paper/Packaging (-1.59%), and Media (-1.48%). **Looking ahead, we expect spreads to remain biased wider due to an unpredictable macro (trade, inflation, etc.), elevated volatility and rising growth concerns. That said, robust underlying fundamentals for HY issuers, limited net issuance activity and low default risk remain supportive of the HY asset class outside of a recession materializing.**

HG & HY Consumer Checkup: Giving earnings season an Irish goodbye *(Carla Casella, CFA)*
Credit markets followed equities lower over the past week as an escalating trade war weighed on equities and spreads widened: SPX fell into correction territory throughout the week, down 3.78%, as Trump continues to lob tariff after tariff, with a 25% tariff on steel and aluminum imports from Canada going into effect, and the most recent one being a 200% tariff on alcoholic beverages if the EU doesn't remove its 50% tariff on whiskey imports. A potential government shutdown also added to market uncertainty, moderating late in the week. Treasuries bull steepened, with the 5yr -3bps to 4.02% and the 10yr -1bp to 4.28%. The JULI fell -0.4%, with **HG Consumer Products slightly outperforming at -0.3%** and **Tobacco underperforming at -0.7%.** In high yield, JPHY declined -0.86%, with **HY Consumer Products outperforming at -0.68%.** By ratings: higher quality outperformed,

with AAs -0.3%, As -0.4%, BBBs -0.5%, BBs -0.57%, Bs -1.02%, and CCCs -1.53%.

HG & HY Food for Thought: Markets Going Deeper? All We Can Focus On Is Deep Dish for pi Day *(Carla Casella, CFA)*
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HG & HY Weekly Register: Retail needs some luck of the Irish! *(Carla Casella, CFA)*
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High Grade Automotive: Weekly Road Trip *(Evan Piascik)*
Welcome to this week's edition of the Weekly Road Trip. The JULI Automotive index widened 23bp YTD to 128bp while JULI widened 15bp YTD to 108bp.

High Yield Energy: Fracking Credit – JPM High Yield Energy Weekly *(Tarek Hamid)*
Welcome to this week's issue of Fracking Credit. Our J.P. Morgan HY Energy index has returned 118bps year to date, as compared to the total return of 134bps for the broader J.P. Morgan HY Index. Over the last week, Energy has returned -54bps vs -62bps for the broader HY Index.

The Occasional Healthcare Weekly: Upcoming IG/HY Credit Workshop; Turmoil in DC: recap of recent DC visit; MODV challenges; CTEV OW; OGN PIV challenge; ENDP merger *(Rishi S Parekh)*
Upcoming Event
March 18: IG/HY Credit Workshop. *Agenda below.* This afternoon workshop will provide a survey of the Healthcare sector for both high grade and high yield fixed-income investors, giving an opportunity to gain timely insight from credit and equity analysts and traders, rating agencies, regulatory experts, and other important perspectives from around the Healthcare industry. We will circulate more information as we approach the date of the event, including the agenda. Consistent with prior years, lunch will be available prior to the start of the workshop with speaker presentations starting promptly at 1pm. **Registration link HERE.**

- J.P. Morgan Credit Research Ideas
- Provider / Payor Regulatory discussion
- Views from J.P. Morgan Equity Research

- J.P. Morgan IG and HY Credit Trading Perspectives
- Views from S&P Global
- Pharma / PBM Regulatory Discussion

Company Comments

BMW US Capital: Mixed 4Q24 Results; FY25 Guidance Includes Tariff Impacts *(Evan Piascik)*

SUMMARY:

Focused on the 2025 outlook. BMW's 4Q24 results were mixed, including solid Automotive EBIT margins although Financial EBIT margins were below expectations. Automotive free cash flow was strong versus expectations. BMW's 2025 outlook was also mixed overall, with the company's 5-7% automotive EBIT margin range a bit below consensus at the midpoint, but includes a ~1% negative impact from tariffs (while other OEMs have not included the impact of Mexico/Canada tariffs in 2025 guidance). But BMW expects to generate over €5 billion of automotive free cash flow in 2025, which is consistent with consensus.

Daimler Truck Finance: Mixed 4Q24 Results; FY25 Outlook Not Dependent on EPA-Related Pre-Buy *(Evan Piascik)*

SUMMARY:

Mixed 4Q24 results, largely in-line FY25 guidance. Daimler Truck reported mixed 4Q24 results as revenue was above expectations (€14.35 billion v. €13.78 billion consensus), but consolidated free cash flow was below consensus (€1.02 billion v. €1.74 billion consensus). The company introduced largely in-line FY25 guidance that was not impacted by the potential changes to EPA regulations. The outlook did not account for tariffs.

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