

# FIXED-INCOME FALLEN ANGELS, RISING STARS

In the bond market, “rising stars” have persistently outperformed the greater high-yield market while on the path to ratings upgrades.

1



## In a weaker economy

Companies’ profitability and leverage get worse, and credit quality falls. Some are even downgraded to high yield — these are the “fallen angels.”

..... There were more fallen angels in 2020 than any year prior.

2



## In a stronger economy

As the economy improves, so do corporate balance sheets. Some companies regain their investment-grade rating — these are the “rising stars.” Identifying rising stars before the credit upgrade occurs means investors can benefit from the subsequent price appreciation.

..... The benefits of owning rising star bonds continue even after the credit upgrade. Most rising stars ultimately achieve a BBB rating and offer higher yields than bonds with better credit ratings.

High-yield  
bonds

Rising  
stars

Investment-  
grade bonds

Rising star bonds have historically outperformed the broader high-yield market over the six-month period before their credit upgrade and the investment-grade market in the six months after their upgrade.\*



**In the current environment, having the research resources to identify rising stars can be a key driver of success for fixed-income investors.**



To learn more, read *Finding opportunity with taxable bond rising stars*

**Past performance does not guarantee future results.**

\*Based on data from Barclays for the period 01/01/00 – 09/30/21. Outperformance is measured against the respective index (the Bloomberg U.S. Corporate High Yield Index and the Bloomberg U.S. Corporate Bond Index) of each high yield issue defined as a rising star, i.e., those high yield issues that received a ratings upgrade from the credit agencies, S&P, Moody's and Fitch. In cases where an issue is followed by more than one agency, at least two agencies must have issued an upgrade. The Bloomberg U.S. Corporate High Yield Bond Index is a market value-weighted index which covers the U.S. non-investment grade fixed-rate debt market. The Bloomberg U.S. Corporate Bond Index consists of publicly issued, fixed rate, non-convertible, investment grade debt securities. It is not possible to invest directly in an index.

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