

# NAVIGATING DISLOCATIONS IN GLOBAL CREDIT

*Catherine LeGraw, Joe Auth, Jon Roiter, and Tina Vandersteel* | April 13, 2022

---

“

*Within fixed income, we think there is a wonderful hunting ground for alpha opportunities because of breadth and variety... today we find many alpha opportunities that are ranking at top quartile or top decile relative to history.*

Catherine LeGraw | Asset Allocation

## OVERVIEW

Inflation, geopolitical risks, and pending interest rate hikes have brought increased uncertainty and extreme price volatility to global credit markets in 2022. Spreads and yields have increased due to this heightened volatility, creating idiosyncratic opportunities in certain corners of the market. GMO investment professionals Joe Auth, Jon Roiter, Tina Vandersteel and Catherine LeGraw discuss how they are navigating credit dislocations within their areas of expertise.

---

## KEY POINTS

- Areas within the credit spectrum are currently attractive and yielding excellent alpha opportunities. This is an area to consider if you have been under allocated within your fixed income portfolio.
- Within emerging country debt, the spread opportunity between emerging market sub-investment grade sovereigns and investment grade is at one of the highest levels in post-GFC history. The current difference at over 500 bps is 6th percentile for the post-GFC era, and top quartile going back to 1998. In addition, we are finding attractive opportunities within the quasi-sovereign space, where the issuer spread over sovereign has materially widened.
- Within structured products, we see opportunities in fixed rate sectors with high levels of supply. Spreads have widened in commercial mortgage-backed securities, single family rentals, and parts of residential mortgage-backed securities. While duration has ticked up in these corners of the market, their convexity profiles have generally improved, creating upside potential across various pockets of structured credit.
- Within the stressed and distressed credit environment, we are seeing interesting opportunities amongst the mortgage originators, the telecommunications industry, and the emerging markets real estate and gaming sectors. The first quarter of 2022 was one of the worst quarters on record for the high yield asset class, creating an abundance of bonds trading below par that offer the potential for attractive returns and fundamental downside protection.



**Catherine LeGraw**

Ms. LeGraw is a member of GMO's Asset Allocation team and a partner of the firm. Prior to joining GMO in 2013, she worked as a director at BlackRock.

Previously, Ms. LeGraw was an analyst at Bear, Stearns & Co. She received her BA and her BS in Economics from the University of Pennsylvania. She is a CFA charterholder.



**Joe Auth**

Mr. Auth is the head of GMO's Structured Products team and a partner of the firm. He is engaged in portfolio management for the Structured Products

and High Yield strategies. Prior to joining GMO in 2014, he was a Portfolio Manager for the Harvard Management Company. Previously, he was a Research Director at Standish Mellon Asset Management. Mr. Auth earned his bachelor's degree in Government and History from the Connecticut College and his MBA from the University of Connecticut. He is a CFA charterholder.



**Jon Roiter**

Mr. Roiter is the head of GMO's Credit Opportunities team and is engaged in portfolio management. Prior to joining GMO in 2011, Mr. Roiter was a senior analyst

for TPG Credit Management. Previously, he was an analyst for the leveraged finance group at Citigroup Global Markets. Mr. Roiter earned his bachelor's degree in Economics from Columbia University.



**Tina Vandersteel**

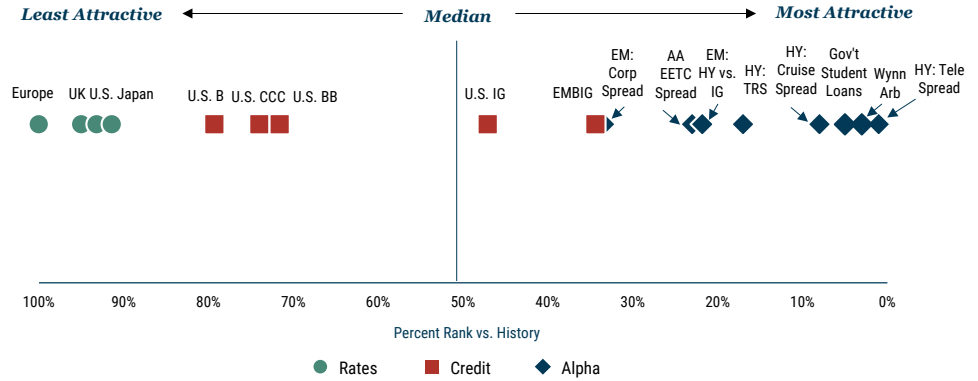
Ms. Vandersteel is the head of GMO's Emerging Country Debt team and a partner of the firm. Prior to joining GMO in 2004, she worked at J.P. Morgan

in fixed income research developing quantitative arbitrage strategies for emerging debt and high yield bonds. She began her career at Morgan Guaranty Trust, attending Morgan Finance Program #18, before establishing her career in emerging debt. Ms. Vandersteel earned her bachelor's degree in Economics from Washington & Lee University. She is a CFA charterholder.

**FIXED INCOME SPECTRUM OF OPPORTUNITY**

*Credit is becoming attractive, and we find excellent alpha potential*

PERCENTILE RANK OF FIXED INCOME OPPORTUNITIES ACROSS RATES, CREDIT, AND ALPHA



As of 3/31/2022 | Source: GMO, Global Financial Data, Treasury.gov, JP DataQuery, JP Morgan, Citigroup  
 Inception of series: 10 year-real yields - U.S.: 1/31/97; UK: 1/31/85; Europe: 6/30/09; Japan: 3/31/04 (real yield is proxied prior to these dates back to 12/31/80 as nominal 10-year yield - prior 10-year CPI). Credit spreads - U.S. BB: 1/31/94; U.S. B: 1/31/94; U.S. CCC: 1/31/94; U.S. IG: 6/30/89; EMGIB: 12/31/1997. EM: HY vs. IG: 1/31/1998; EM Corporate Credit Spread (state-controlled corporates / quasi-sovereigns; country-matched spread): 12/31/14; HY TRS on IBOX (10 day moving average): 3/21/12; Telecom spread over HY Index: 3/12/07; Cruise (proxied by Carinval) spread over HY Index: 12/21/09; American Airlines junior EETC spread over duration matched U.S. Treasuries: 9/9/14; Wynn Macau vs. Wynn Las Vegas spread: 4/11/14; Senior Gov't Guaranteed Student Loans (10-year tenor) spread over LIBOR: 3/31/10.

**RELATED STRATEGIES**

Please click on the links below to access strategies related to this event.

- [Emerging Country Debt Strategy](#)
- [Emerging Country Local Debt Strategy](#)
- [Opportunistic Income Strategy](#)
- [Credit Opportunities Strategy](#)
- [High Yield Strategy](#)

**RELATED RESEARCH**

Please click on the links below to access research related to this event.

- [The What-Why-When-How Guide to Owning Emerging Country Debt \(2017 Edition\)](#)
- [GMO Opportunistic Income Strategy: Year-end Letter for 2021](#)
- [GMO Credit Opportunities Strategy: Year-end Letter for 2021](#)

**Disclaimer**

The views expressed are the views of Catherine LeGraw, Joe Auth, Jon Roiter, and Tina Vandersteel through the period ending April 13, 2022, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.