Janus Henderson
INVESTORS

JANUS HENDERSON

CORPORATE DEBT INDEX

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Marketing communication | Not for onward distribution
The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

CONTENTS

Introduction 1

Overview 2-5

Industry dynamics 6-8

Debt servicing & sustainability 9-10

Top companies 11-12

Bond markets 13-14

Outlook & viewpoint 15-16

Regions and countries 17-22

Appendices 23-27

Methodology 28

Glossary 29

Why debt in moderation is a good thing 30

INTRODUCTION

JANUS HENDERSON IS AN ASSET MANAGER INVESTING IN GLOBAL MARKETS ON BEHALF OF ITS CLIENTS THROUGHOUT THE WORLD FOR 90 YEARS.

Janus Henderson's mission is to help clients define and achieve superior financial outcomes through differentiated insights, disciplined investments, and world-class service. This means we are ever mindful of the futures of the millions of lives that our thinking and our investments help shape. The human connection matters in all that we do. Teams across Janus Henderson come together every day to deliver outcomes for our clients – and their clients – that make a difference.

We are proud to fulfil our purpose of investing in a brighter future together. With more than 340 investment professionals, we provide access to some of the industry's most talented and innovative thinkers, spanning equities, fixed income, multi-asset and alternatives, globally. Our investment teams blend insight, originality and precision with rigorous analysis, structured processes and robust risk management.

We have US$353 billion in assets under management, more than 2,000 employees and offices in 24 cities worldwide. Headquartered in London, we are an independent asset manager listed on the New York Stock Exchange.

What is the Janus Henderson Corporate Debt Index?

The Corporate Debt Index is the fifth annual edition in a long-term study into trends in company indebtedness around the world, the investment opportunities this provides and the risks it presents. It measures the extent to which the world's largest companies are financing themselves with borrowings and how affordable and sustainable those borrowings are. It compares and contrasts trends across different industries and geographies, and in the corporate bond markets. And it showcases the latest views from our expert fund managers. (See methodology for further details)

The report aims to help readers better understand the world of fixed-income investment and the opportunities it presents.

*As at 31 March 2024

OVERVIEW

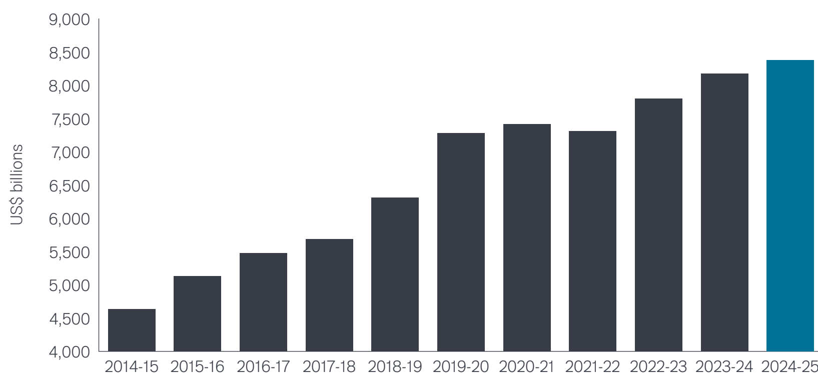
Overview

Corporate borrowing rose to a new record in 2023/24, despite high interest rates

The world's largest listed companies took on $378bn[1] of net new borrowing in 2023/24, pushing the total up 4.9% on a constant-currency basis to a record $8.18 trillion. This increase was, however, significantly lower than in 2022/23[2] and was also well below 2018 and 2019 (2020 and 2021 saw borrowing patterns disrupted by the pandemic). Higher interest rates have clearly been a factor in moderating appetite to borrow over the last year.

Takeovers were the major driver of the increase in corporate net borrowing. Big deals in the healthcare sector alone accounted almost one third of the rise; these included Pfizer's purchase of

COMPANY NET DEBT – GLOBAL (CONSTANT CURRENCY)



Source: Janus Henderson, June 2024. There is no guarantee that past trends will continue, or forecasts will be realised.

NET DEBT BY REGION (US$ BILLIONS)

Region	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
North America	$2,866	$3,347	$3,811	$4,038	$4,007	$4,384	$4,574
Emerging Markets	$547	$537	$629	$507	$539	$576	$567
Europe ex UK	$1,515	$1,592	$1,776	$1,895	$1,743	$1,631	$1,764
UK	$444	$427	$533	$540	$513	$462	$484
Japan	$453	$474	$581	$637	$614	$632	$612
Asia Pacific ex Japan	$211	$162	$205	$182	$123	$114	$177
Total	**$6,036**	**$6,538**	**$7,534**	**$7,801**	**$7,539**	**$7,800**	**$8,178**
Total @2023/24 exchange rates	**$5,686**	**$6,311**	**$7,282**	**$7,415**	**$7,313**	**$7,799**	**$8,178**

Source: Janus Henderson, June 2024

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[1] This is on a constant-currency basis.

[2] $470bn.

OVERVIEW (CONTINUED)

Seagen, Amgen's acquisition of Horizon and Roche buying Telavant. Across all sectors, we estimate that takeovers net of disposals accounted for around half of the increase in global net borrowing in 2023/24.

Another one quarter of the increase came from the world's vehicle manufacturers. They have enjoyed rising sales, with profits up by more than a quarter year-on-year. This has significantly increased their working capital need, in particular related to finance provided to customers.

Some companies from a range of sectors, such as Chevron, Engie, Equinor, BHP and RTX had insufficient cash flow to cover promised dividends and share buybacks and so borrowed the difference. Dividends from the companies in our Corporate Debt Index jumped to a record $1.08 trillion over the last year, while share buybacks were $667bn, down year-on-year but still high by historic standards.

The enormously strong cash flows from the Big 7 technology companies in the US meant their collective net cash balance grew by $52bn during the year, despite spending an astonishing $210bn between them on dividends and share buybacks[3].

GLOBAL CORPORATE DEBT
KEY FIGURES USD BN (2023/24 EXCHANGE RATES)

Key figures	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Cash & cash equivalents	$3,852	$3,738	$3,792	$4,737	$5,091	$5,060	$5,208
Equity	$11,229	$12,031	$12,605	$12,975	$14,699	$15,770	$16,726
Total assets	$31,403	$33,483	$35,649	$37,600	$41,139	$43,438	$45,157
Short-term debt	$1,829	$1,922	$2,208	$2,153	$2,235	$2,416	$2,559
Long-term debt	$9,538	$10,049	$11,074	$12,152	$12,404	$12,860	$13,363
Total debt	$11,367	$11,971	$13,282	$14,305	$14,640	$15,276	$15,922
Net debt	$5,686	$6,311	$7,282	$7,415	$7,313	$7,799	$8,178
Operating profit	$2,259	$2,561	$2,482	$2,167	$3,336	$3,965	$3,688
Interest expense	$287	$312	$359	$358	$340	$368	$458
Interest / Operating profit	13%	12%	14%	16%	10%	9%	12%
Net debt / Operating profit	266%	251%	294%	346%	216%	195%	221%
Debt / Equity	**52%**	**53%**	**57%**	**56%**	**49%**	**49%**	**49%**

Source: Janus Henderson, June 2024

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[3] Only Alphabet saw a decrease in its net cash position following $61bn of share buybacks.

Interest costs jumped by a quarter to record levels

Higher interest rates have taken some time to filter through to company operations, but the impact has now really begun to bite. In 2023/24, the amount companies spent on interest payments surged by a quarter (+24.4% constant currency), paying banks and bondholders a record total of $458bn, up by $89bn year-on-year. Debt service costs are at record levels in every country in our index and in every sector bar one.[4] (see Debt Servicing & Debt Sustainability for more detail).

Profits were lower in 2023/24

Total global corporate profitability (excluding financials) fell in 2023/24 down by 7.7% globally, with lower energy prices making the biggest impact as well as sharp falls in the mining sector. The sector complexion of the UK stock market meant it was most exposed to these trends, but a slowdown in global economic growth and higher finance costs meant lower profits in almost half the sectors in our index.

But balance sheets remained strong and interest costs comfortable relative to company earnings

Despite modest increases in borrowing and the sharp jump in debt servicing costs, there is no indication that the world's largest companies are collectively overindebted. The debt/ equity ratio which compares how much borrowing companies hold to the amount of equity capital provided by shareholders held steady at 48.9%, along with last year the lowest since 2014 (a low ratio means a stronger balance sheet - see Debt Servicing & Debt Sustainability for more detail).

THE AMOUNT COMPANIES ARE SPENDING ON INTEREST PAYMENTS IS SURGING.

Higher interest costs consumed one eighth (12.4%) of operating profits in 2023/24, up markedly from one ninth in 2022/23, and in line with the forecast in our 2022/23 report. Despite the increase they have merely returned to a level consistent with the long-run average. They are likely to take a bigger bite in the year ahead.

Greater focus on short-term debt in anticipation of lower rates to come

There has been a shift towards shorter-term finance in the last year. The ratio of short- to long-term debt climbed to 23.6%, its highest level since 2019 and rose in most parts of the world. The increase was most noticeable in emerging markets and reflects an expectation that lower interest rates are round the corner as well as an associated reluctance to lock into higher rates for the long term. Companies in the US and Canada have the lowest ratios of short- to long-term debt, reflecting their greater access to bond markets for long-term finance and explaining why higher interest rates have made less of an impact on corporate finances here.

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[4] The small non-oil energy sector.

Corporate bonds

The yield on investment grade corporate bonds has risen over the last year, following the trend in benchmark sovereign bonds. The median investment-grade yield in the Bank of America/ICE index[5] was 5.5% in the middle of May, up from 4.9% at the same time in 2023 and compared to 1.7% in 2021. Nevertheless, the spread between investment grade corporate bonds and benchmark government securities has narrowed over the last year. In the less creditworthy high-yield bond segment where there are often more opportunities to be found, the median yield is 6.8% and has actually fallen over the last year from 7.3%, reflecting both a choice by companies to shorten their debt maturity but also because markets have chased these higher yields lower. The spread on these 'high yield' bonds has narrowed even more sharply than for the investment grade segment, reflecting strong demand from investors. The expansion and compression of spreads between sovereign, investment grade and high yield bonds is one of the most important factors influencing corporate-bond investor decision-making.

Outlook

Over the year ahead we expect to see interest costs continue to rise, even as central banks start cutting rates. This reflects the steady refinancing of maturing bonds and loans on low rates with more expensive borrowings. Even if these new loans miss the peak in rates, they are still going to be more costly than the cheap borrowings they replace. Happily, though interest costs are at record highs everywhere in absolute terms, companies have built profit margins and are generally well able to absorb this rising expense.

Higher rates have meant both a slower rise in borrowing and fewer companies expanding their balance sheets, but the last year has still seen a healthy appetite for loans. We expect that to continue in 2024/25 and forecast a rise in net debt of 2.5% to a new record $8.38 trillion.

For debt investors, bond markets look attractive, but it is important to be selective. We currently prefer investment grade bonds with maturities of ten years or less as we judge the current premium (or spread) offered by high yield bonds or those with longer maturities to be insufficient to compensate for their higher risk profile. Equally, we prefer parts of the world like Europe where there is more scope for investment grade spreads over benchmark sovereign bonds to narrow than there is in the US. More broadly, the interest rate cycle has now turned downwards, with the ECB making the first move. The resulting fall in market interest rates will drive capital gains for investors who have waited a long time for central banks to make this move.

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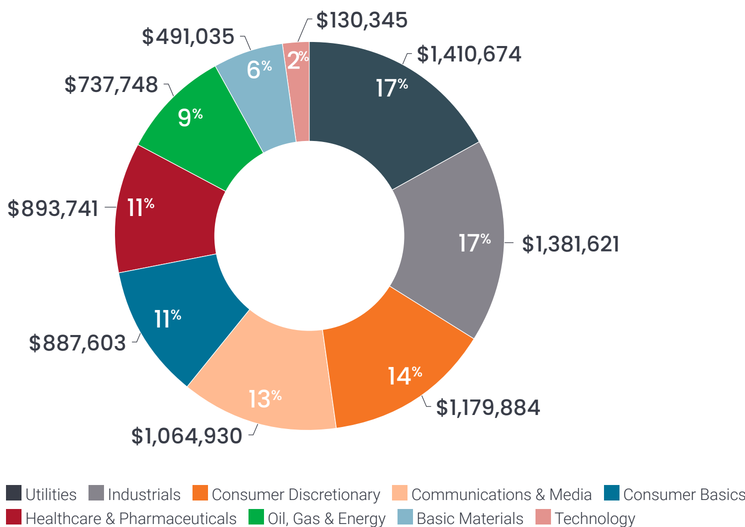
[5] Excluding Financials.

INDUSTRY DYNAMICS

2023/24 NET DEBT BY INDUSTRY
(US$ BILLIONS)



Source: Janus Henderson, June 2024

All companies have equity finance – this is what makes them a company: equity capital is supplied by shareholders either directly when shares are issued or indirectly when profits are retained to fund growth. Almost three quarters of companies in our index also have net borrowings (debt minus cash). Debt is cheaper than equity because lenders take less risk than equity investors (see Appendix for explanation) so companies can use it to enhance returns for their shareholders.

Sector patterns exert a much bigger influence over what mix of equity and debt finance companies choose than where they are based. Macroeconomic and cultural factors certainly mean geography plays a role in how much a company can safely borrow – economic stability enables companies to borrow more, for example. But because industry dynamics are shared, companies in the same sector have more in common with each other wherever they are in the world than companies in different sectors but the same location. For example, capital-intensive industries with fairly predictable cash flows like telecoms typically have very high debts – Verizon, AT&T and Deutsche Telekom are all among the world's five most indebted companies. Sectors where companies have few assets and variable earnings, like general retail, will typically see very low borrowing levels.

Just over half the companies in our index (53%) increased the amount they owe in 2023/34, down from 57% the year before as higher interest rates discouraged more of them from additional borrowing.

Vehicle manufacturers in Japan, the US and Germany made the largest contribution to the increase in global corporate debt in 2023/24 as strong sales growth increased the demand for car finance. Five of the top dozen increases in debt came from this sector. M&A in the pharmaceutical sector was also a major driver, especially among US companies. Indeed, Pfizer's additional $46bn of debt on its purchase of Seagen was the most any company added to its balance sheet during the year; four of the top dozen net new borrowers were in the healthcare industry.

Utilities companies are collectively most indebted (they have one sixth of the world's total net debt) and they also added significantly to their borrowings during the year, with those in the US, France and China and the UK doing the most – for example Engie in France invested significantly more and increased dividends too – the

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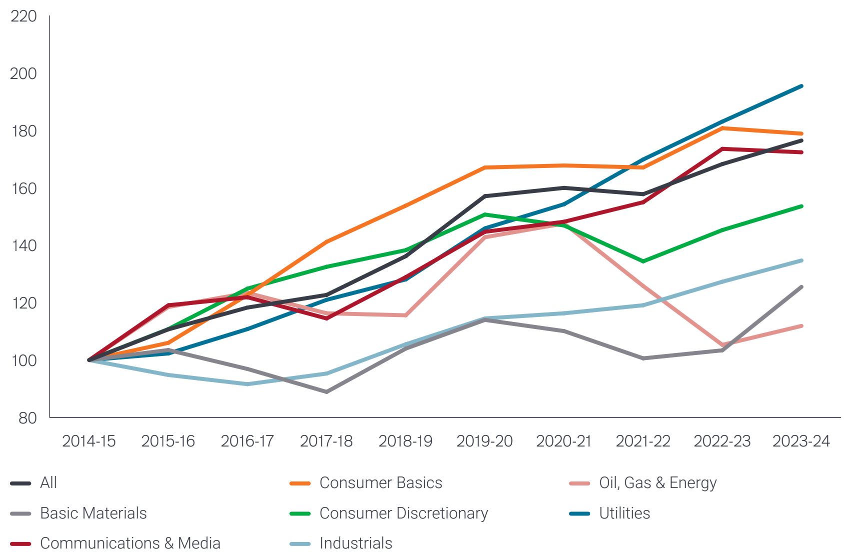
outgoings were not covered by cash flow and so the company borrowed to cover the gap. Nevertheless, utilities collectively took on less new borrowing (+$89bn on a constant currency basis) than at any time in the last three years.

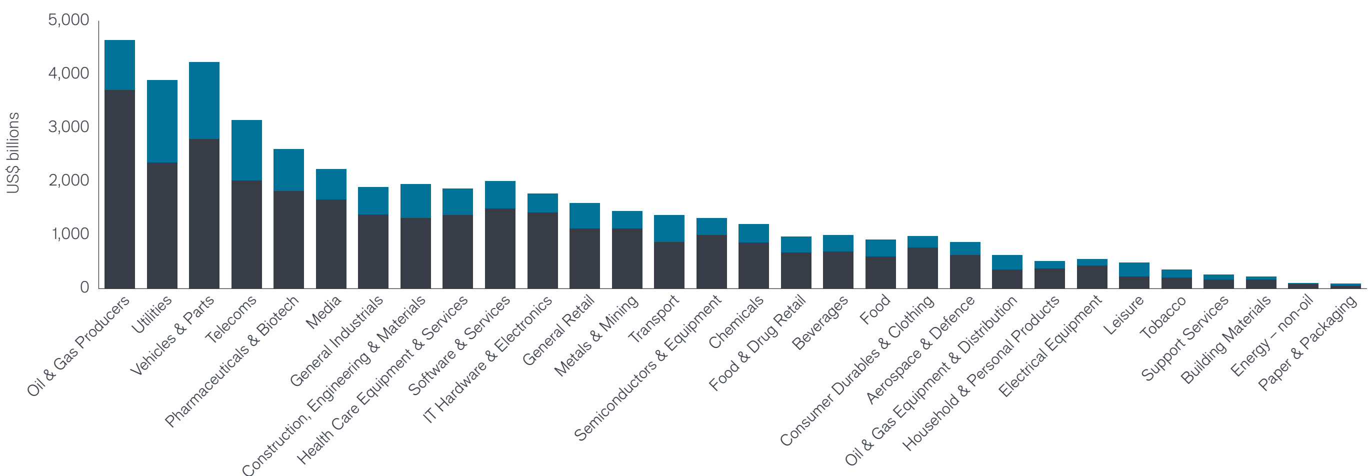
The cyclical downturn in mining and chemicals also meant significantly higher borrowing in those sectors, while, among industrials, share buybacks and dividends were responsible for some of the largest increases in net debt by individual companies (for example at defence contractor RTX and Taiwanese shipping group Evergreen Marine), though acquisitions and investment spending were also at play. Among telecoms groups, Rogers' acquisition of Shaw made the sector's single largest contribution to extra borrowing, while at the other end of the scale strong cash flow growth and lower investment at Deutsche Telekom meant a big drop in its net debts.

NET DEBT BY INDUSTRY
INDEXED



Source: Janus Henderson, June 2024

ASSETS, WITH PROPORTION FUNDED BY DEBT
2023/24



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Several sectors saw net debt fall. The three technology sectors all saw borrowings decline or cash piles grow thanks to continued strong profitability and cash flow – between them technology companies paid down $60bn of debt; indeed a majority of them ended the year with net cash on their balance sheets. The largest increase in net cash came from Nvidia, closely followed by Hon Hai of Taiwan which improved its working capital significantly and Cisco. Samsung and Intel were notable outliers – falling profits and large investment spending meant a smaller cash pile for the former and a three-quarters increase in net borrowing for the latter; Intel even cut its dividend in half to limit outgoings.

Meanwhile Amazon and Chinese retailers Alibaba and PDD both enjoyed very strong cash flow and reduced their debts accordingly. Strong revenues and cash flow meant Amazon, which does not pay dividends or buy back shares, paid down the most debt in the world last year – reducing its net borrowings by $17.3bn.

Google owner, Alphabet, which is in the media sector, remained the world's most cash-rich company for the eighth year running, though its $81bn cash pile is more than a quarter smaller than in 2021 owing to $170bn of share buybacks over the last three years as well as investment. The world's most indebted company was Volkswagen for the first time since 2020. It overtook Verizon by increasing its borrowings to cover its car-finance operation. Its large finance book, as well as its manufacturing plant, mean it is also the most asset-rich company in the world by a large margin.

NET DEBT BY INDUSTRY
(US$ BILLIONS – SELECTED YEARS) AT 2023/24 EXCHANGE RATES

Industry	2014-15	2019-20	2020-21	2021-22	2022-23	2023-24	2023-24 change
Basic Materials	$391	$446	$431	$394	$405	$491	21.3%
Communications & Media	$618	$894	$916	$958	$1,073	$1,065	-0.7%
Consumer Basics	$496	$829	$833	$829	$897	$888	-1.1%
Consumer Discretionary	$768	$1,157	$1,128	$1,032	$1,116	$1,180	5.7%
Healthcare & Pharmaceuticals	$253	$764	$812	$816	$802	$894	11.4%
Industrials	$1,025	$1,174	$1,193	$1,221	$1,305	$1,382	5.9%
Oil, Gas & Energy	$660	$942	$973	$830	$694	$738	6.3%
Technology	-$299	$23	$16	$8	$185	$130	-29.7%
Utilities	$722	$1,053	$1,114	$1,226	$1,321	$1,411	6.7%
ALL	**$4,634**	**$7,282**	**$7,415**	**$7,313**	**$7,799**	**$8,178**	**4.9%**

Source: Janus Henderson, June 2024

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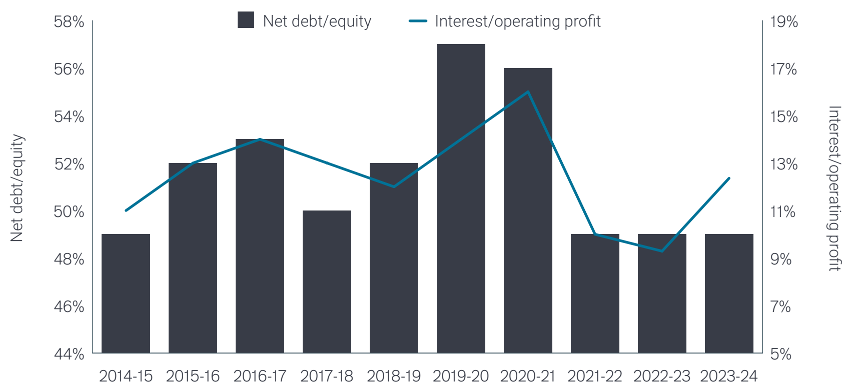
DEBT SERVICING & SUSTAINABILITY

Debt interest reached record levels

Higher interest rates have taken some time to filter through to company operations, but the impact has now really begun to bite. In 2023/24, the amount companies spent on interest payments surged by a quarter (+24.5% constant currency), paying banks and bondholders a total $458bn, up by $90bn year-on-year. Debt service costs are at record levels in every country in our index and in every sector bar one.[6]

The fastest increase came in Japan for the second year running, where rate increases from near-zero levels have pushed interest costs up by two fifths year-on-year. They are now more than double their 2020/21 total. Debt levels are, however, relatively small in Japan compared to the size of the economy and corporate balance sheets are not highly geared. Moreover, interest rates are still extremely low, so the total amount companies spend on interest is very small – the 76 Japanese companies in our index spend have four times as much debt as the 30 Indian ones, but spend around the same on interest.

DEBT SUSTAINABILITY



Source: Janus Henderson, June 2024

Higher rates first made an impact in Europe in 2022/23, where a greater reliance on bank lending has meant more rapid rate transmission than for companies in North America that tend to have a greater reliance on long-term finance from the bond markets. European interest costs jumped again in 2023/24, rising 28% on a constant-currency basis, despite debt levels being roughly flat for five years. Companies in the region are now footing an interest bill 54% larger than in 2020/21. It has taken much longer for US companies to feel the effects of higher interest rates – after escaping almost unscathed in 2022/23, their collective interest bill jumped by more than a fifth (+22.5%) in 2023/24 as bonds were steadily refinanced at higher interest rates.

THE AMOUNT COMPANIES SPENT ON INTEREST IN 2023/24 SURGED BY A QUARTER.

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[6] The small non-oil energy sector.

DEBT SERVICING & SUSTAINABILITY (CONTINUED)

But balance sheets remained strong and interest costs comfortable relative to profit

Despite modest increases in borrowing and the sharp jump in servicing costs, there is no indication that the world's largest companies are collectively overindebted, though individual circumstances clearly vary widely. The debt/equity ratio which compares how much borrowing companies hold to the amount of equity capital provided by shareholders held steady at 48.9%, along with last year the lowest since 2014 (a low ratio means a stronger balance sheet). The biggest increases came in the pharmaceutical sector, reflecting debt-funded acquisitions, and in mining and chemicals, where borrowings rose but profits were sharply lower. Equally asset bases across the wider market remain strong – the world's companies have assets worth more than five times as much as their net borrowings and two thirds larger than all their liabilities added together.

Higher interest costs consumed one eighth (12.4%) of operating profits in 2023/24, up markedly from one ninth in 2022/23 and in line with the forecast in our 2022/23 report. This reflects lower profitability and rising interest rates. Despite the increase they have merely returned to a level consistent with the long-run average. They are likely to take a bigger bite in the year ahead as the delayed impact of higher rates continues to filter through.

DEBT SUSTAINABILITY BY INDUSTRY (%)

Sector	2023/24 Debt/Equity Ratio	2023/24 % of operating profit spent on interest
Technology	6%	6.8%
Basic Materials	36%	13.7%
Healthcare & Pharmaceuticals	52%	14.5%
Consumer Basics	67%	12.0%
Oil, Gas & Energy	32%	9.3%
Utilities	147%	34.4%
Communications & Media	52%	14.5%
Industrials	63%	16.1%
Consumer Discretionary	47%	7.7%
All	**49%**	**12.4%**

Source: Janus Henderson, June 2024

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TOP COMPANIES

LARGEST BORROWERS – US$ BILLIONS

Rank	Company	2018-19	Company	2019-20	Company	2020-21
1	AT&T Inc.	$193	Volkswagen AG	$199	Volkswagen AG	$207
2	Volkswagen AG	$185	AT&T Inc.	$176	Toyota Motor Corp.	$186
3	Mercedes-Benz Group AG	$141	Mercedes-Benz Group AG	$151	AT&T Inc.	$173
4	Verizon Communications Inc.	$130	Toyota Motor Corp.	$141	Deutsche Telekom AG	$152
5	Toyota Motor Corp.	$129	Verizon Communications Inc.	$129	Mercedes-Benz Group AG	$143
6	Ford Motor Company	$120	Ford Motor Company	$122	Verizon Communications Inc.	$127
7	Comcast Corporation Class A	$108	Bayerische Motoren Werke AG	$114	Ford Motor Company	$113
8	Anheuser-Busch InBev SA/NV	$103	Comcast Corporation Class A	$104	Bayerische Motoren Werke AG	$111
9	CVS Health Corporation	$88	Anheuser-Busch InBev SA/NV	$96	Comcast Corporation Class A	$102
10	Bayerische Motoren Werke AG	$86	Deutsche Telekom AG	$87	Charter Communications, Inc. Class A	$83
Top 10		**$1,284**		**$1,319**		**$1,397**
% of global top 900 net debt		**20%**		**18%**		**18%**
11	Deutsche Telekom AG	$86	CVS Health Corporation	$81	Anheuser-Busch InBev SA/NV	$83
12	Charter Communications, Inc. Class A	$79	Petroleo Brasileiro SA	$79	General Motors Company	$79
13	General Motors Company	$76	Shell Plc	$78	AbbVie, Inc.	$79
14	GE Aerospace	$75	General Motors Company	$78	Shell Plc	$76
15	Telefonica SA	$72	Charter Communications, Inc. Class A	$77	CVS Health Corporation	$74
16	Petroleo Brasileiro SA	$69	PetroChina Company Limited Class H	$76	Exxon Mobil Corporation	$69
17	PetroChina Company Limited Class H	$69	Telefonica SA	$67	Enel SpA	$68
18	Nissan Motor Co., Ltd.	$60	Walmart Inc.	$63	Nippon Telegraph and Telephone Corporation	$67
19	Duke Energy Corporation	$59	Duke Energy Corporation	$62	Duke Energy Corporation	$64
20	Enel SpA	$56	Vodafone Group Plc	$60	Petroleo Brasileiro SA	$63
Next 10		**$702**		**$721**		**$721**
Top 20		**$1,985**		**$2,040**		**$2,119**
% of global top 900 net debt		**30%**		**27%**		**27%**

Source: Janus Henderson, June 2024

MOST CASH-RICH COMPANIES – US$ BILLIONS

Rank	Company	2018-19	Company	2019-20	Company	2020-21
1	Apple Inc.	$123	Alphabet Inc. Class A	$104	Alphabet Inc. Class A	$109
2	Alphabet Inc. Class A	$95	Apple Inc.	$98	Samsung Electronics Co., Ltd.	$96
3	Samsung Electronics Co., Ltd.	$77	Samsung Electronics Co., Ltd.	$78	Apple Inc.	$70
4	China Mobile Limited	$48	China Mobile Limited	$48	China Mobile Limited	$57
5	Microsoft Corporation	$33	Microsoft Corporation	$47	Microsoft Corporation	$54
6	Meta Platforms Inc Class A	$31	Meta Platforms Inc Class A	$44	Alibaba Group Holding Limited	$51
7	Cisco Systems, Inc.	$21	Alibaba Group Holding Limited	$32	Meta Platforms Inc Class A	$51
8	Taiwan Semiconductor Manufacturing Co., Ltd.	$17	Sony Group Corporation	$14	Sony Group Corporation	$20
9	Kweichow Moutai Co., Ltd. Class A	$15	Gree Electric Appliances, Inc. of Zhuhai Class A	$14	PDD Holdings Inc. Sponsored ADR Class A	$19
10	Gree Electric Appliances, Inc. of Zhuhai Class A	$14	Taiwan Semiconductor Manufacturing Co., Ltd.	$13	JD.com, Inc. Class A	$18
Top 10		**$474**		**$492**		**$545**

Source: Janus Henderson, June 2024

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TOP COMPANIES (CONTINUED)

LARGEST BORROWERS – US$ BILLIONS (continued)

Rank	Company	2021-22	Company	2022-23	Company	2023-24
1	Volkswagen AG	$185	Verizon Communications Inc.	$172	Volkswagen AG	$196
2	AT&T Inc.	$182	Toyota Motor Corp.	$165	Toyota Motor Corp.	$179
3	Verizon Communications Inc.	$174	Volkswagen AG	$164	Verizon Communications Inc.	$172
4	Toyota Motor Corp.	$167	AT&T Inc.	$154	AT&T Inc.	$152
5	Deutsche Telekom AG	$153	Deutsche Telekom AG	$153	Deutsche Telekom AG	$150
6	Mercedes-Benz Group AG	$109	Comcast Corporation Class A	$102	Ford Motor Company	$111
7	Comcast Corporation Class A	$98	Charter Communications, Inc. Class A	$98	Charter Communications, Inc. Class A	$98
8	Bayerische Motoren Werke AG	$96	Ford Motor Company	$96	Comcast Corporation Class A	$97
9	Charter Communications, Inc. Class A	$92	Mercedes-Benz Group AG	$94	Mercedes-Benz Group AG	$96
10	Ford Motor Company	$90	Oracle Corporation	$85	General Motors Company	$94
Top 10		**$1,347**		**$1,284**		**$1,344**
% of global top 900 net debt		**18%**		**16%**		**16%**
11	General Motors Company	$79	Amazon.com, Inc.	$85	Enel SpA	$82
12	Enel SpA	$78	Enel SpA	$84	Oracle Corporation	$82
13	Anheuser-Busch InBev SA/NV	$76	General Motors Company	$82	Duke Energy Corporation	$80
14	Duke Energy Corporation	$68	Bayerische Motoren Werke AG	$76	Bayerische Motoren Werke AG	$80
15	AbbVie, Inc.	$68	Duke Energy Corporation	$76	Hyundai Motor Company	$75
16	Hyundai Motor Company	$65	Anheuser-Busch InBev SA/NV	$70	NextEra Energy, Inc.	$71
17	Vodafone Group Plc	$60	Hyundai Motor Company	$64	CVS Health Corporation	$68
18	CVS Health Corporation	$60	NextEra Energy, Inc.	$64	Anheuser-Busch InBev SA/NV	$68
19	Enbridge Inc.	$60	UnitedHealth Group Incorporated	$62	UnitedHealth Group Incorporated	$67
20	Nippon Telegraph and Telephone Corporation	$60	Nippon Telegraph and Telephone Corporation	$62	Amazon.com, Inc.	$67
Next 10		**$675**		**$725**		**$741**
Top 20		**$2,022**		**$2,010**		**$2,085**
% of global top 900 net debt		**27%**		**26%**		**26%**

Source: Janus Henderson, June 2024

MOST CASH-RICH COMPANIES – US$ BILLIONS (continued)

Rank	Company	2021-22	Company	2022-23	Company	2023-24
1	Alphabet Inc. Class A	$111	Alphabet Inc. Class A	$84	Alphabet Inc. Class A	$81
2	Samsung Electronics Co., Ltd.	$89	Samsung Electronics Co., Ltd.	$83	China Mobile Limited	$71
3	China Mobile Limited	$77	China Mobile Limited	$68	Samsung Electronics Co., Ltd.	$62
4	Apple Inc.	$54	Alibaba Group Holding Limited	$53	Alibaba Group Holding Limited	$61
5	Alibaba Group Holding Limited	$49	Apple Inc.	$37	Apple Inc.	$38
6	Microsoft Corporation	$48	PDD Holdings Inc. Sponsored ADR Class A	$28	PDD Holdings Inc. Sponsored ADR Class A	$38
7	Meta Platforms Inc Class A	$34	Microsoft Corporation	$26	Microsoft Corporation	$32
8	JD.com, Inc. Class A	$25	Stellantis N.V.	$25	Meta Platforms Inc Class A	$28
9	PDD Holdings Inc. Sponsored ADR Class A	$22	JD.com, Inc. Class A	$23	Taiwan Semiconductor Manufacturing Co., Ltd.	$24
10	Stellantis N.V.	$20	Taiwan Semiconductor Manufacturing Co., Ltd.	$22	Stellantis N.V.	$21
Top 10		**$529**		**$448**		**$455**

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The investor opportunity

Debt provides opportunities for investors. Corporate bonds typically offer higher rates of interest than savings accounts or government bonds, while still offering greater certainty of returns than investing in shares.

Corporate bonds are typically riskier than equivalent government bonds, but the huge diversity of bonds in issue means investors can select the risk profile that suits them and for a term that matches their preferred investment horizon.

Investors can use them in different ways. If they buy them at issue and hold them to maturity (the primary market), the return is fixed in advance for most kinds of bond, providing certainty subject only to default risk.

Or they can buy and sell bonds on the so-called secondary market - if interest rates fall bond prices rise, bringing the possibility of capital gains. Bonds with longer maturities or lower coupons are more volatile and will move further in price so an investor's level of conviction can allow her to calibrate how much risk she wants to take. Investors who want to mitigate their risks can take refuge in bonds that will mature in the very near future as these prices are very much more stable.

Finally there is credit risk. If a company is expected to become stronger – perhaps because the economic cycle favours its business, or because its business is maturing and its cash flows burgeoning, ratings agencies may upgrade its credit rating. The assessment that it is now less risky makes it a so-called Rising Star and will push down the yield on its bonds (and therefore push up the price). Companies going in the other direction (Fallen Angels) will see their bonds prices fall and yields rise when their credit rating is cut. As corporate bond investors we look for companies we expect to become Rising Stars.

YIELDS ARE SIGNIFICANTLY HIGHER THAN A YEAR AGO, BUT SPREADS OVER BENCHMARK SOVEREIGN BONDS HAVE NARROWED.

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The current state of play

The benchmark US government 10-year bond is trading at a significantly higher yield now than it was twelve months ago. This has influenced the yield on investment grade corporate bonds. The median investment-grade yield in the Bank of America/ICE index was 5.5% in the middle of May, up from 4.9% at the same time in 2023 and compared to 1.7% in 2021. Even so, the spread, the premium a borrower must pay over benchmark sovereign bonds reflecting higher risk, has narrowed over the last year. The median maturity has extended too, now more than a year longer than this time last year which means companies have locked into paying today's higher interest rates for longer, having seemingly paused last year in the expectation that rates might fall. Big investment grade companies tend to have a broad capital structure and have built margins in recent years; their cash flows can sustain these higher costs. The collective market value of investment-grade bonds was $8.1 trillion, 10% below face value[8]. The gap between the market and face value is wider than it was a year ago, reflecting the rise in yields in that time. Three years ago, the market value was 9% above face value.

We have also seen a large volume of rising stars over the last year. Bonds with a face value of $124bn have been promoted from the high-yield to the investment-grade index over the last year, 41% more than last year. Examples include Lufthansa, the German airline and Rolls Royce the aerospace concern.

In the less creditworthy high-yield bond segment where there are often more opportunities to be found, the median yield is 6.8% and has fallen over the last year from 7.3%. This reflects a compression in the premium (or spread) less creditworthy companies must pay compared to investment grade peers for a similar bond. This compression results from investors chasing these high yields. In addition to spread compression, companies are borrowing for shorter periods in the hope of refinancing more cheaply in future. The median maturity is significantly shorter than for investment grade bonds and has shrunk to just over three and a half years from almost four and a half a year ago. The shorter maturity and spread compression means the gap between the face value and the $1.75 trillion market value of high yield corporate bonds has narrowed from 13% last year to 9% this year. Bonds with a face value of $42bn have been downgraded from the investment grade segment over the last year, slightly less than in 2022/23. Companies suffering downgrades included Walgreens Boots Alliance and French multinational retailer Elo (previously known as Auchan).

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[8] The value of the principal borrowed and which will be repaid when the bond matures.

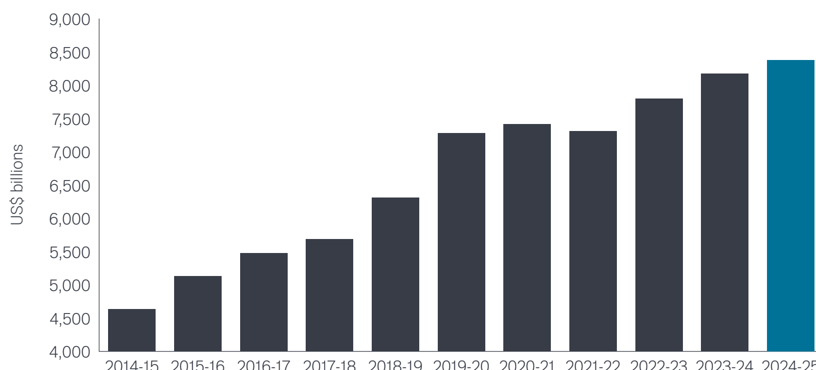
OUTLOOK & VIEWPOINT

BY TIM WINSTONE, CORPORATE CREDIT PORTFOLIO MANAGER

The sharp increase in the amount companies spent on interest in the past year marks a sea change in corporate finances. The time it has taken for higher rates to feed through has varied widely by geography reflecting the different routes companies take to finance their borrowings, but the trend is evident everywhere. It's important to remember this is all coming from a historically low base so to a large extent it is a process of normalisation. Even if central bank policy rates start to fall this year, we expect to see interest bills continue to rise for the time being as the old debts continue to mature and refinance at higher rates. On the whole, companies are absorbing these higher interest costs with little difficulty, though the impact is greater for smaller firms that often face a refinancing cliff edge than for larger ones that typically have a range of maturities for their debts and so see a more gradual shift to higher interest bills.

2023/24 has also shown there is a continued appetite to borrow, despite the higher cost of capital. More companies have been expanding their balance sheets than repaying debts, though each faction is more evenly balanced now. Equally, the value of outstanding net debt has risen, though the more modest increase indicates greater caution. Relatively few companies are responsible for most of the increase too, driven in particular by M&A.

COMPANY NET DEBT – GLOBAL (CONSTANT CURRENCY)



Source: Janus Henderson, June 2024. There is no guarantee that past trends will continue, or forecasts will be realised.

We think borrowing will rise again in the year ahead as the world economy expands, but debt growth is likely to be modest again. We have pencilled in a 2.5% increase for 2024/25, taking global net corporate debt to a new record of $8.38 trillion.

THE NARROWING IN HIGH-YIELD SPREADS HAS BEEN GOOD FOR OUR PORTFOLIO OVER THE LAST YEAR, BUT IT IS NOW OVERDONE AND WE SEE A BETTER RISK/REWARD PROFILE IN INVESTMENT GRADE ISSUERS.

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So what does this all mean for investors?

The bond markets have had a volatile twelve months, as investors have tussled with the question of how quickly inflation will fall around the world and therefore how quickly central banks can cut rates. This 'rate volatility' is relatively hard to navigate as it is also associated with uncertainty over the state of the economies both at the global and regional level. Rate cuts are in view, with the ECB already having made the first move, but the expected timing of cuts in the UK and the US, for example, has pushed back as inflation has proved stickier than hoped.

FORECAST: 2.5% INCREASE FOR 2024/25, TAKING GLOBAL NET CORPORATE DEBT TO A NEW RECORD OF $8.38 TRILLION.

There has also been volatility in the yields corporates must pay, though spread volatility has been relatively low. Changes in spreads present opportunities for us as investors. For example, investment grade bonds in the US are trading at an exceptionally tight premium over US benchmark Treasuries[9] compared to their historic spreads indicating that there is no room for improvement. This reflects strong demand for US assets from investors attracted by high yields available there. Meanwhile in Europe spreads still have room to narrow, though yields overall are lower. This gap makes European investment grade bonds look more attractive in our view than their US counterparts. Equally there has been more volatility on spreads according to credit risk and term. The narrowing in high-yield spreads has been good for our portfolio over the last year, but it is now overdone in our view and we see a better risk/reward profile in investment grade issuers. We also favour non-cyclical industries at present, because companies in highly cyclical industries, like mining, are enjoying unjustifiably narrow spreads given the higher risk to their earnings. Equally, the markets have eroded the premium an investor should expect to earn from longer-dated bonds despite the higher risks these entail – spreads are roughly flat beyond 10 years so we prefer to avoid this segment too.

WE ARE OPTIMISTIC FOR THE YEAR AHEAD. AS THE RATE CYCLE TURNS DOWNWARDS, BONDS WILL PERFORM WELL AS YIELDS FALL, DRIVING CAPITAL RETURNS FOR INVESTORS.

We are optimistic for the year ahead. Economies have weathered higher rates well and seem to be landing relatively softly. As the rate cycle finally turns downwards, bonds will perform well as yields fall, driving capital returns for investors.

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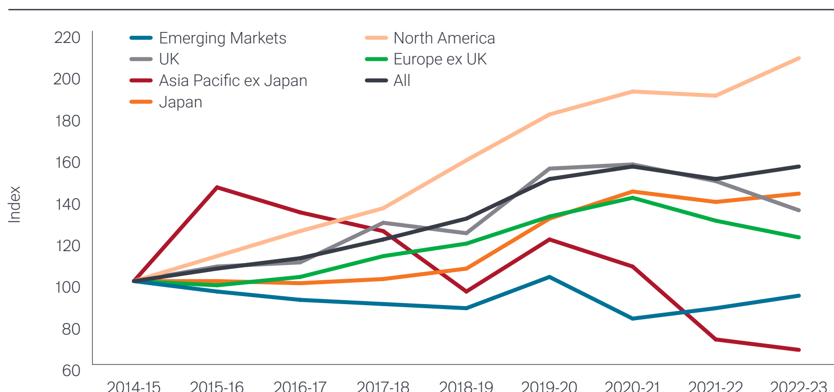
[9] US IG bonds.

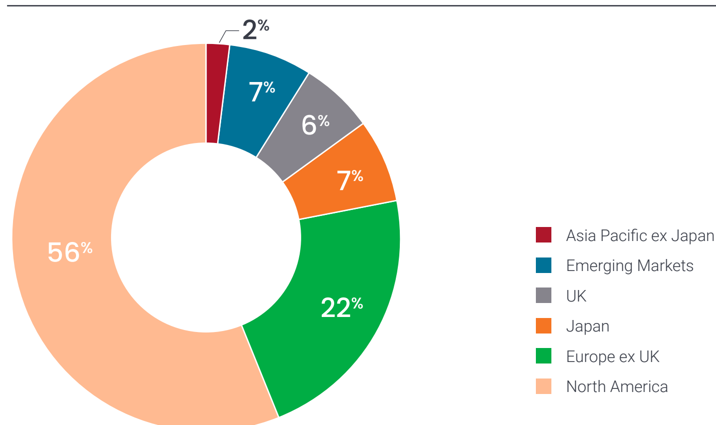
REGIONS AND COUNTRIES

NET DEBT INDEXED



Source: Janus Henderson, June 2024

2023/24 NET DEBT



Source: Janus Henderson, June 2024

North America

United States

US companies increased their net debts by just 3.5% in 2023, slower than the global average. Excluding 2021, when the pandemic disrupted activities and prompted companies to pay down borrowings, this was the smallest increase in net debt for US companies on our ten-year record and was a rare incidence of US company net debt rising more slowly than the global average. A 22.5% increase in the interest cost for US companies helps explain the slowdown in new borrowing.

More than half the $160bn net increase resulted from takeovers in the pharmaceutical industry. This was also partially offset by the enormously strong cash flows from the Big 7 technology companies in the US whose collective net cash balance grew by $52bn during the year, despite spending an astonishing $210bn between them on dividends and share buybacks[10]. Roughly equal numbers of US companies took on more borrowing against those that repaid debts (51% v 49%), very different from 2022/23 when the split was 59% v 41%.

NET DEBT BY REGION (US$ BILLIONS – SELECTED YEARS) AT 2023/24 EXCHANGE RATES

Region	2014-15	2019-20	2020-21	2021-22	2022-23	2023-24	2023-24 Change
North America	$2,091	$3,806	$4,032	$3,996	$4,396	$4,574	4.0%
Emerging Markets	$470	$580	$482	$515	$578	$567	-1.9%
Europe ex UK	$1,252	$1,759	$1,742	$1,699	$1,685	$1,764	4.6%
UK	$313	$525	$515	$493	$469	$484	3.2%
Japan	$355	$409	$462	$489	$557	$612	9.7%
Asia Pacific ex Japan	$154	$203	$181	$121	$112	$177	58.0%
All	**$4,634**	**$7,282**	**$7,415**	**$7,313**	**$7,799**	**$8,178**	**4.9%**

Source: Janus Henderson, June 2024

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[10] Only Alphabet saw a decrease in its net cash position following $61bn of share buybacks

Eight US companies in ten have net borrowings compared to just under seven in ten outside the US. The small increase in borrowings meant the US debt/equity ratio fell to 66% in 2023/24.

Canada

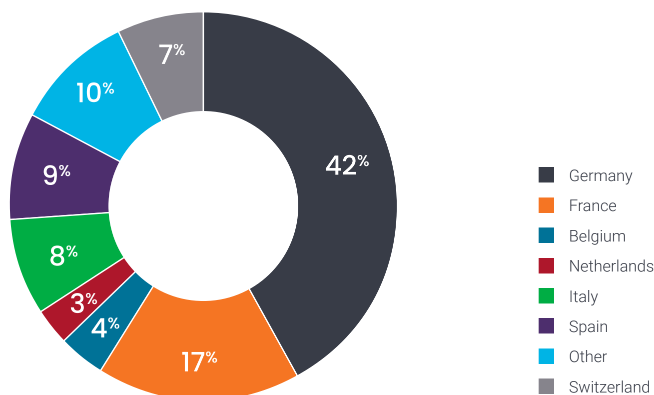
Almost half the 9.9% increase in net debt in Canada was down to the borrowing telco Rogers took on to buy Shaw and also explains why the Canadian net debt/equity ratio jumped to 79%.

Europe ex UK

France

French company net borrowing rose by 11.5% on a constant-currency basis, rising $32bn to $307bn[11], the sixth largest total in the world after the US, Germany, Japan, UK and Canada. Luxury goods group Kering contributed more than one fifth of this increase to fund a shopping spree that included fragrance house Creed and a stake in Valentino, while Engie accounted for another fifth, partly to fund its dividend. Thales, the defence contractor, and Sartorius Stedim Biotech made large acquisitions funded by borrowing too. Meanwhile, strong cash flow at TotalEnergies meant a reduction in its debts. The total interest cost for French companies rose by 43% during the year as higher interest rates combined with higher borrowings. The collective net debt/equity ratio of French companies was just 39%, however, less than its average for the last ten years and less than the global 49%, indicating that French companies are relatively less indebted than their peers elsewhere.

2023/24 NET DEBT EUROPE EX UK



Source: Janus Henderson, June 2024

Germany

German companies in aggregate did not add to their borrowings in 2023/24 – they remained flat on a constant-currency basis (+0.4%). Vehicle manufacturers account for half the net German corporate borrowing in our index, and their debts are heavily influenced by sales finance for customers buying vehicles – Volkswagen's activities in particular grew the sector's collective balance sheet last year. Deutsche Telekom is Germany's second most indebted company, owing a net $150bn. It had strong cash flow and spent less on investment during the year which enabled its borrowings to fall. Higher interest rates meant German companies spent an extra 23% during the year to service their debts. The debt/equity ratio of German companies fell to 83%, however, its lowest level for at least the last ten years as companies retained a significant portion of their annual profits.

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[11] Following its nationalisation we have deleted EDF from our dataset which means the figures differ from our previous reports.

Switzerland

Swiss net corporate borrowing rose by 15.5% in constant-currency terms, mostly driven by acquisitions such as Roche's acquisition of Telavant, Novartis's purchase of Chinook and DTx, and Sika, which bought MBBC from BASF. Nestle spent CHF13bn on dividends and share buybacks, borrowing to make up the shortfall from its cash flow. The combination of higher rates and higher borrowing meant Swiss corporate interest costs rose by 30.1% during the year.

Italy

After declining in 2022/23, corporate borrowing rose 9.9% in 2023/24 on a constant-currency basis, up by $12.5bn. The single biggest impact came from Stellantis which spent more than its operating cash flow to fund investment and share buybacks and ran down its cash position to do so. Italian corporate interest costs jumped by 36.5% during the year owing to higher borrowings and higher interest rates.

Spain

Spanish companies collectively paid back debts in 2023/24, with the net total falling 1.9% on a constant-currency basis. Utility Endesa made a particularly large contribution owing mainly to asset disposals, while strong profitability at Inditex meant cash flow comfortably exceed all outgoings. Interest costs rose just 14.8%, less than the global average, having jumped considerably faster the year before. The large contingent of utilities in the Spanish index means the collective debt/equity ratio is high at 94.1%, but this was the lowest in at least 10 years.

Belgium

There are relatively few companies in our Belgian index, so the largest, AB InBev tends to dominate. It enjoys very strong cash flow and has been steadily paying down debt for the last eight years following a period of industry consolidation. The last year has continued that trend. Along with two smaller Belgian companies, net debt fell 4.1%, while interest costs rose 4.7%.

Netherlands

Heineken made the largest contribution to the 3.8% increase in net corporate debt in the Netherlands, as investment spending consumed most of its cash flow, meaning borrowing was needed to fund part of the company's dividend and share buybacks. On the other hand, Dutch software company Adyen added strongly to its net cash balance in the last year thanks to robust cash flow from operations, and does not yet return any cash to shareholders. The cost of interest rose by one third in the Netherlands (+33.6%), having risen much more slowly the year before.

Denmark

Companies took on 9.6% more in net debt in 2023/24 in Denmark, with the largest impact coming from Moller Maersk whose cash flow fell sharply but which still paid large dividends and bought back shares. Meanwhile, renewable energy company Orsted spend more on investment and dividends than it made in cash flow and so borrowed the difference. Interest expenditure rose by one sixth (17.6%) in Denmark on a constant-currency basis.

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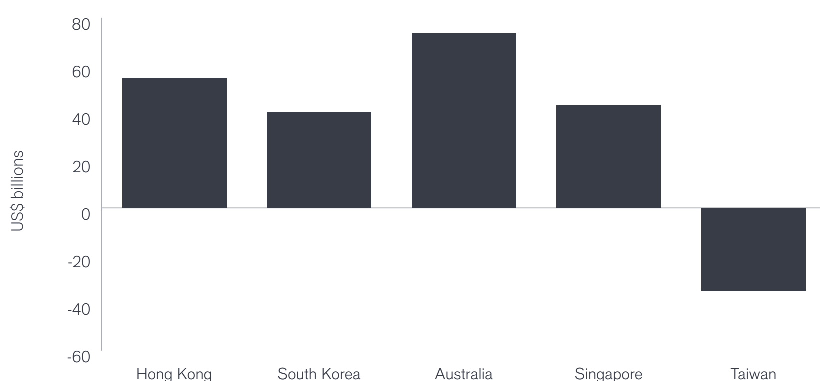
REGIONS AND COUNTRIES (CONTINUED)

Sweden
The largest contributor to a 15.5% increase in net debt in Sweden was Assa Abloy, the lock specialist, that made a number of acquisitions during the year. Interest costs across the companies in our index jumped 62.6% owing to steep rate hikes from the country's central bank.

Norway
Equinor spent significantly on share buybacks and dividends without sufficient cash flow to fund them all so it borrowed the difference. This accounted for the large increase in net debts from Norwegian companies from a very low base.

UK
British company net debts rose just 3.2% in 2023/24 at constant exchange rates to $484bn, a slower increase than the global rate. Mining groups Anglo American and Glencore made the largest impact as both borrowed significantly to fund dividends and share buybacks as operating cash flow fell due to less favourable market conditions. Acquisitions, dividends and share buybacks meant higher borrowing for Ashtead, too. Vodafone, Britain's most indebted company, reduced its net borrowings with the proceeds of asset disposals. Interest costs for UK companies rose by 29.6% year-on-year.

2023/24 NET DEBT
ASIA PACIFIC EX JAPAN



Source: Janus Henderson, June 2024

BRITISH COMPANY NET DEBTS ROSE JUST 3.2% IN 2023/24 TO $484BN, A SLOWER INCREASE THAN THE GLOBAL RATE.

Asia Pacific ex Japan

Hong Kong
In Hong Kong net debts fell by 12.3% as a significant majority of companies reduced their borrowings during the year. The largest contributions came from Li Auto which turned profitable and improved its working capital position significantly and Xiamo whose surging profits drove strong cash flow. Meanwhile China Energy Engineering spent far more on investment than it earned and borrowed the difference. Interest costs rose by just 13.4% as higher rates were offset by lower borrowing.

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Taiwan

The majority of companies in our Taiwan index have no debt, and most of these added to their net-cash positions during the year, especially Hon Hai Precision. At the other end of the scale a 97% fall in operating cash flow at Evergreen Marine, the shipping group, combined with higher investment and large dividends meant it borrowed significantly more. Taken together the corporate net cash position was broadly unchanged year-on-year.

Singapore

Corporate borrowing in Singapore was also broadly flat year-on-year (+1.3%) as higher borrowings at Jardine Matheson to fund dividends and share buybacks were offset by debt repayments at food group Wilmar on the back of much improved working capital. Interest costs in Singapore rose by 29.1%.

South Korea

Companies in S Korea swung from a collective net cash position in 2022/23 to net debt in 2023/24. This was driven primarily by Samsung, whose net cash pile fell by a fifth owing to sharply lower profits, and Hyundai which required significantly more working capital to fund higher sales. Hyundai also paid a record dividend and pushed capex higher.

HONG KONG NET DEBTS FELL BY 12.3% AS A SIGNIFICANT MAJORITY OF COMPANIES REDUCED THEIR BORROWINGS DURING THE YEAR.

Australia

Australia's June financial year end means the data here is several months older than elsewhere in the world. The 59.9% constant-currency increase in net borrowing was due to CSL's acquisition of Vifor and to BHP, whose dividends exceeded free cash flow significantly. Other companies made a much small contribution. Interest costs rose by 24.5% but are likely to rise more sharply in the current financial year to reflect higher debt levels.

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Japan

Japanese companies saw their net borrowings rise by 7.3% in 2023/24 at constant exchange rates. Toyota, Honda and Nissan accounted for by far the largest portion of this increase, mainly related to car-financing operations, while Astellas Pharma took part in the industry consolidation wave, buying Iveric with borrowed capital. The majority of Japanese companies in our index reduced their debts however, with Hitachi making the largest contribution as free cash flow far exceeded dividends and share buybacks. The end of near-zero interest rates meant the interest costs in Japan jumped by 38.6% on a constant-currency basis.

Emerging Markets

Emerging market debts fell very slightly year-on-year in 2023/24 on a constant-currency basis as higher interest rates deterred borrowing. China, Thailand and Mexico were among those to see lower debts, while India saw net debt flatline. Across the diverse range of countries, however, slightly more companies increased borrowings than paid them down. Interest costs across emerging markets rose by just over a fifth (+21.3%) at constant exchange rates.

China

In common with Hong Kong, company debts in China fell by 4.1% in 2023/24 at constant exchange rates. Strong cash flows from companies as diverse as Alibaba, Tencent, PetroChina and Amperex contributed the most to the trend. A small majority of companies in China repaid borrowings in the year compared to those that increased them. Interest costs rose by 21.4%.

Latin America:

Brazil:

Net debt in Brazil rose by 4.6%, in line with the global average. Investment, dividends and share buybacks by Vale, the mining company were a significant contributor to the increase. Three quarters of the net debts in our index belong to Petrobras.

Mexico

A 13.0% constant fx decline in Mexico's net corporate debts reflected FEMSA's sale of assets to Heineken. Most other companies in the country saw relatively little change.

Colombia

Ecopetrol reduced its dividend which meant its net borrowings were broadly unaffected by lower cash flow.

Chile

There was no significant change in the net debts of the two companies in our index in Chile, meaning just 2.2% constant fx increase in the total.

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APPENDICES

NET DEBT BY INDUSTRY IN USD BILLIONS AT 2023/24 EXCHANGE RATES – SELECTED YEARS

Industry	2014-15	2020-21	2021-22	2022-23	2023-24	2023-24 Change
Basic Materials	$391	$431	$394	$405	$491	21.3%
Communications & Media	$618	$916	$958	$1,073	$1,065	-0.7%
Consumer Basics	$496	$833	$829	$897	$888	-1.1%
Consumer Discretionary	$768	$1,128	$1,032	$1,116	$1,180	5.7%
Healthcare & Pharmaceuticals	$253	$812	$816	$802	$894	11.4%
Industrials	$1,025	$1,193	$1,221	$1,305	$1,382	5.9%
Oil, Gas & Energy	$660	$973	$830	$694	$738	6.3%
Technology	-$299	$16	$8	$185	$130	-29.7%
Utilities	$722	$1,114	$1,226	$1,321	$1,411	6.7%
ALL	**$4,634**	**$7,415**	**$7,313**	**$7,799**	**$8,178**	**4.9%**

Source: Janus Henderson, June 2024

NET DEBT BY SECTOR IN USD BILLIONS AT 2023/24 EXCHANGE RATES – SELECTED YEARS

Industry	Sector	2014-15	2020-21	2021-22	2022-23	2023-24	2023-24 Change
Basic Materials	Metals & Mining	$291	$198	$153	$151	$190	-1.6%
	Chemicals	$91	$205	$206	$205	$246	-0.2%
	Building Materials	$19	$19	$22	$20	$26	-6.8%
	Paper & Packaging	$18	$25	$25	$30	$30	19.3%
Communications & Media	Media	$20	$91	$88	$184	$159	107.7%
	Telecoms	$641	$878	$886	$882	$906	-0.5%
Consumer Basics	Food & Drug Retail	$156	$217	$223	$236	$234	5.9%
	Food	$107	$208	$215	$232	$238	7.7%
	Household & Personal Products	$54	$80	$94	$106	$105	12.5%
	Beverages	$140	$231	$206	$196	$190	-4.9%
	Tobacco	$66	$119	$107	$113	$120	5.6%
Consumer Discretionary	General Retail	$81	$38	$54	$132	$103	142.6%
	Consumer Durables & Clothing	$29	$14	$39	$50	$48	28.7%
	Vehicles & Parts	$663	$1,014	$832	$777	$855	-6.6%
	Leisure	$73	$184	$163	$173	$173	6.5%
Healthcare & Pharmaceuticals	Pharmaceuticals & Biotech	$102	$461	$429	$399	$498	-7.0%
	Health Care Equipment & Services	$155	$364	$392	$397	$396	1.3%
Industrials	Aerospace & Defence	$28	$137	$131	$127	$154	-3.2%
	General Industrials	$579	$410	$402	$378	$359	-5.9%
	Transport	$244	$363	$348	$341	$365	-2.1%
	Construction, Engineering & Materials	$212	$304	$318	$368	$409	15.7%
	Support Services	$39	$65	$66	$71	$70	7.7%
	Electrical Equipment	$16	$17	$37	$46	$24	25.6%
Oil, Gas & Energy	Oil & Gas Producers	$599	$753	$605	$455	$493	-24.7%
	Oil & Gas Equipment & Distribution	$152	$234	$237	$235	$240	-0.9%
	Energy - non-oil	$13	$8	-$1	-$6	$5	810.4%
Technology	IT Hardware & Electronics	-$235	-$146	-$134	-$77	-$89	-42.7%
	Software & Services	-$40	$85	$87	$193	$153	120.5%
	Semiconductors & Equipment	-$39	$61	$45	$68	$66	49.9%
Utilities	Utilities	$776	$1,162	$1,263	$1,319	$1,411	4.4%

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APPENDICES (CONTINUED)

NET DEBT BY REGION IN USD BILLIONS AT 2023/24 EXCHANGE RATES – SELECTED YEARS

Region	2014-15	2020-21	2021-22	2022-23	2023-24	2023-24 Change
North America	$2,091	$4,032	$3,996	$4,396	$4,574	4.0%
Emerging Markets	$470	$482	$515	$578	$567	-1.9%
Europe ex UK	$1,252	$1,742	$1,699	$1,685	$1,764	4.6%
UK	$313	$515	$493	$469	$484	3.2%
Japan	$355	$462	$489	$557	$612	9.7%
Asia Pacific ex Japan	$154	$181	$121	$112	$177	58.0%
ALL	**$4,634**	**$7,415**	**$7,313**	**$7,799**	**$8,178**	**4.9%**

Source: Janus Henderson, June 2024

NET DEBT BY COUNTRY IN USD BILLIONS AT 2023/24 EXCHANGE RATES – SELECTED YEARS

Region	Country	2014-15	2020-21	2021-22	2022-23	2023-24	2023-24 Change
Asia Pacific ex Japan	Hong Kong	$72	$122	$64	$62	$55	-12.3%
	Australia	$60	$74	$57	$46	$74	59.9%
	Singapore	$23	$32	$38	$43	$43	1.3%
	South Korea	$2	-$23	-$9	-$5	$41	-989.7%
	Taiwan	-$4	-$25	-$28	-$35	-$35	1.5%
Emerging Markets	China	$220	$119	$146	$187	$179	-4.1%
	India	$69	$143	$150	$157	$158	0.8%
	Brazil	$77	$77	$64	$59	$62	4.6%
	South Africa	$3	$0	$3	$5	-$1	-112.6%
	Indonesia	$3	$5	$2	$3	$6	128.3%
	Mexico	$50	$63	$52	$57	$49	-13.0%
	United Arab Emirates	$1	$0	-$1	$4	$5	19.8%
	Thailand	$14	$27	$43	$49	$48	-1.6%
	Colombia	$7	$11	$20	$24	$23	-2.9%
	Philippines	$3	$7	$7	$8	$8	1.6%
	Malaysia	-$2	-$2	-$3	-$1	-$1	-5.1%
	Chile	$8	$12	$12	$14	$14	2.2%
	Czech Republic	$6	$4	$5	$7	$7	-1.8%
	Argentina	$0	-$2	$0	$0	-$1	-563.1%
Europe ex UK	Switzerland	$50	$103	$93	$112	$129	15.5%
	France	$205	$314	$289	$275	$307	11.5%
	Germany	$465	$758	$747	$733	$736	0.4%
	Belgium	$44	$82	$75	$70	$67	-4.1%
	Netherlands	$56	$62	$59	$56	$58	3.8%
	Denmark	$54	$15	$16	$20	$26	28.8%
	Spain	$151	$151	$157	$161	$158	-1.9%
	Italy	$117	$119	$127	$125	$138	9.9%
	Norway	$23	$37	$14	$0	$5	1313.8%
	Sweden	$24	$31	$31	$46	$54	15.5%
	Finland	$2	$5	$5	$4	$3	-12.2%
	Ireland	$30	$30	$52	$49	$48	-3.0%
	Austria	$9	$15	$13	$9	$7	-27.4%
	Israel	-$1	-$2	-$2	-$2	-$2	-6.6%
	Portugal	$23	$22	$22	$27	$31	14.5%
Japan	Japan	$355	$462	$489	$557	$612	9.7%
North America	United States	$1,890	$3,712	$3,658	$4,043	$4,186	3.5%
	Canada	$200	$320	$338	$353	$388	9.9%
UK	United Kingdom	$313	$515	$493	$469	$484	3.2%

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APPENDICES (CONTINUED)

DEBT/EQUITY RATIO BY INDUSTRY %

Industry	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Basic Materials	35%	41%	39%	32%	31%	36%
Communications & Media	51%	53%	52%	48%	53%	52%
Consumer Basics	67%	69%	68%	64%	68%	67%
Consumer Discretionary	70%	72%	63%	48%	50%	47%
Healthcare & Pharmaceuticals	55%	58%	56%	50%	47%	52%
Industrials	72%	75%	73%	64%	63%	63%
Oil, Gas & Energy	38%	47%	53%	41%	31%	32%
Technology	-12%	1%	0%	0%	9%	6%
Utilities	128%	133%	139%	145%	145%	147%
ALL	**52%**	**57%**	**56%**	**49%**	**49%**	**49%**

Source: Janus Henderson, June 2024

DEBT/EQUITY RATIO BY SECTOR %

Industry	Sector	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Basic Materials	Metals & Mining	36%	39%	36%	25%	23%	28%
	Chemicals	30%	42%	44%	39%	38%	45%
	Building Materials	39%	30%	19%	20%	18%	24%
	Paper & Packaging	89%	95%	82%	75%	89%	86%
Communications & Media	Media	12%	15%	10%	9%	18%	15%
	Telecoms	79%	83%	90%	86%	89%	91%
Consumer Basics	Food & Drug Retail	68%	78%	87%	87%	94%	89%
	Food	64%	65%	60%	58%	63%	65%
	Household & Personal Products	43%	41%	36%	45%	54%	52%
	Beverages	68%	71%	71%	57%	53%	48%
	Tobacco	100%	105%	103%	90%	94%	127%
Consumer Discretionary	General Retail	34%	12%	9%	10%	27%	18%
	Consumer Durables & Clothing	1%	10%	4%	11%	13%	11%
	Vehicles & Parts	93%	99%	89%	65%	58%	59%
	Leisure	155%	231%	248%	193%	241%	242%
Healthcare & Pharmaceuticals	Pharmaceuticals & Biotech	41%	49%	52%	42%	37%	47%
	Health Care Equipment & Services	75%	73%	63%	63%	65%	61%
Industrials	Aerospace & Defence	80%	98%	84%	71%	67%	83%
	General Industrials	68%	72%	67%	59%	55%	50%
	Transport	88%	81%	98%	75%	70%	75%
	Construction, Engineering & Materials	82%	84%	76%	72%	81%	82%
	Support Services	66%	77%	77%	69%	73%	70%
	Electrical Equipment	15%	20%	11%	21%	24%	11%
Oil, Gas & Energy	Oil & Gas Producers	31%	40%	45%	32%	23%	24%
	Oil & Gas Equipment & Distribution	97%	108%	131%	130%	128%	114%
	Energy – non-oil	22%	25%	35%	-2%	-18%	17%
Technology	IT Hardware & Electronics	-28%	-20%	-21%	-18%	-10%	-11%
	Software & Services	-3%	16%	14%	13%	28%	20%
	Semiconductors & Equipment	5%	14%	13%	8%	10%	9%
Utilities	Utilities	128%	133%	139%	145%	145%	147%

Source: Janus Henderson, June 2024

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DEBT/EQUITY RATIO BY REGION %

Region	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
North America	66%	71%	74%	64%	68.3%	66.8%
Emerging Markets	34%	37%	26%	25%	26%	25%
Europe ex UK	66%	73%	76%	63%	56%	58%
UK	55%	67%	71%	61%	55%	59%
Japan	34%	40%	41%	38%	39%	36%
Asia Pacific ex Japan	11%	13%	11%	7%	6%	9%
ALL	**52%**	**57%**	**56%**	**49%**	**49%**	**49%**

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DEBT/EQUITY RATIO BY COUNTRY %

Region	Country	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Asia Pacific ex Japan	Hong Kong	19%	21%	18%	8%	8%	6%
	Australia	44%	48%	64%	45%	29%	45%
	Singapore	56%	53%	45%	49%	57%	58%
	South Korea	-6%	-2%	-5%	-2%	-1%	6%
	Taiwan	-8%	-6%	-12%	-12%	-13%	-12%
Emerging Markets	China	22%	23%	11%	12%	14%	13%
	India	62%	69%	54%	53%	51%	46%
	Brazil	61%	64%	58%	41%	38%	39%
	Turkey	114%	162%	188%	243%	155%	91%
	South Africa	-4%	5%	7%	12%	21%	-2%
	Indonesia	36%	41%	29%	13%	12%	27%
	Mexico	84%	97%	86%	60%	63%	55%
	United Arab Emirates	-10%	-4%	0%	-8%	22%	26%
	Thailand	20%	37%	54%	77%	82%	75%
	Colombia	46%	55%	80%	115%	108%	115%
	Philippines	79%	86%	91%	93%	86%	78%
	Malaysia	-33%	-32%	-31%	-36%	-11%	-10%
	Chile	71%	55%	62%	50%	55%	53%
	Czech Republic	26%	41%	36%	68%	59%	62%
Europe ex UK	Switzerland	28%	33%	34%	28%	36%	45%
	France	40%	51%	51%	41%	36%	39%
	Germany	103%	112%	119%	98%	85%	83%
	Belgium	141%	111%	105%	93%	81%	70%
	Netherlands	41%	49%	48%	40%	35%	33%
	Denmark	69%	25%	19%	17%	17%	25%
	Spain	113%	115%	119%	109%	98%	94%
	Italy	74%	76%	89%	74%	60%	62%
	Norway	40%	62%	80%	29%	1%	7%
	Sweden	42%	45%	44%	38%	50%	57%
	Finland	0%	5%	11%	9%	7%	6%
	Ireland	200%	187%	173%	198%	187%	171%
	Austria	40%	49%	82%	61%	35%	24%
	Israel	-46%	-44%	-49%	-52%	-56%	-54%
	Portugal	102%	118%	106%	98%	120%	109%
Japan	Japan	34%	40%	41%	38%	39%	36%
North America	United States	66%	71%	73%	64%	67.9%	65.8%
	Canada	75%	78%	81%	75%	74%	79%

Source: Janus Henderson, June 2024

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METHODOLOGY

Janus Henderson analysed balance-sheet data from the most recent individual company annual reports and from Factset to build the picture of overall company indebtedness over the last ten years. Most companies in the index (85%) had year-ends between December and March. Separately it used market data from a variety of sources, including company announcements, Bloomberg, ICE and others, to consider the role corporate bond markets play in company funding.

Bond markets: We have analysed market data for bonds worth over $100m, with at least a year to run, and with fixed interest rates. These account for approximately seven tenths of the total market.

Janus Henderson converted all the data to USD, using spot exchange rates on the balance sheet date for balance sheet items, and average annual exchange rates for income and expense items.

Janus Henderson excluded all financial and real estate companies from the analysis, as financial-company debt serves a different purpose to industrial companies.

There are 933 companies in the index. These correspond to the non-financial companies in the Janus Henderson Global Dividend Index which tracks the largest 1,200 companies in the world by market capitalisation.

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GLOSSARY

BEAR MARKET	– A financial market in which the prices of securities are falling. A generally accepted definition is a fall of 20% or more in an index over at least a two-month period. The opposite of a bull market.
BOND	– A bond is a parcel of debt. By buying a bond, investors give money to a borrower, usually for a fixed term and for a fixed rate of interest. Bonds can be bought and sold on financial markets, and the value changes over time with varying market conditions.
CYCLICAL INDUSTRY	– The revenues and profits of an industry rise and fall over the course of an economic cycle.
EQUITY	– The amount of money left over for shareholders if all of a company's assets were liquidated and its assets sold off.
GEARING	– The ratio of debt to equity finance on the balance sheet – not to the market value of the shares; also called leverage.
LEVERAGE	– The ratio of debt to equity finance on the balance sheet – not to the market value of the shares; also called gearing.
NET DEBT	– All borrowings minus any cash or cash equivalents.
RUNNING YIELD	– The interest paid on a bond divided by its current market value.
VOLATILITY	– Rapid, unpredictable, changeability.
YIELD TO MATURITY	– The interest paid on a bond divided by its current market value, taking account of the capital gain or loss that will occur when the bond matures and is repaid.

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WHY DEBT IN MODERATION IS A GOOD THING

Debt is helpful for companies

Companies need capital to invest. Often, this capital comes from cash flow, but if the need for capital is greater than a company's internal resources, it may also need to issue new shares (equity finance) or borrow either from banks or by issuing bonds that are traded on financial markets. Debt plays a valuable role in a well-functioning economy, and in well managed companies.

As a rule, equity finance is more expensive than debt. Debt is cheaper partly because interest expense is tax deductible, so debt is a tax-efficient way to finance investment. But more importantly, lenders face less risk of loss than shareholders and so provide finance more cheaply - in the event of a company winding up, lenders get their money back before shareholders do; moreover, shareholder dividends are only paid after interest on debts has been settled. For shareholders, the upside is the potential for capital gains and growing income. For lenders the value comes from the greater certainty of returns. Shareholders therefore expect a higher return than lenders.

Shareholders welcome the use of an appropriate level of debt as it has the potential to multiply their gains, though it also multiplies any losses. Why issue shares and spread the profits over more shareholders if capital can be raised more cheaply by borrowing? Most companies therefore use a mix of equity and debt finance. The relationship between the two is called gearing or leverage. Big cash deposits might seem attractive, but they simply dilute returns and so are often a source of conflict with shareholders.

But what is an appropriate level of debt for a company? This is primarily influenced by geography and the industry concerned. Asset-rich companies with secure cash flows in economically and politically stable parts of the world are able to maintain higher debt levels than those in highly cyclical industries, those with limited tangible assets and those in less developed parts of the world. Cultural factors also play a role, as does the prevailing inflation and interest-rate environment.

In all these ways, corporate bonds provide real opportunities for investors and can make them a very valuable addition to an investor's portfolio. And of course, adding corporate bonds to a portfolio brings the significant benefits of diversification. This is often achieved in multi-asset funds, or investors can add corporate bond funds to complement their existing holdings.

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