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# From insight to income: Barings' global credit advantage

An era of narrow spreads and rising dispersion requires global flexibility, rigorous underwriting, unique origination and integrated insights across public and private debt.

Faced with an increasingly complex credit landscape, a differentiated fixed income capability goes way beyond the ability to deliver incremental yield. The focus must also be on depth of platform, discipline in underwriting and dynamic allocation across regions, sectors and liquidity profiles.

This approach is especially important in the high yield universe. Following the sector's growth in size and sector composition over the past decade, a global remit is not simply about broader opportunity; it's about relative value, diversification and flexibility.

The US high yield market, for example, remains more concentrated in energy and basic industry, while Europe offers greater exposure to sectors such as telecoms and autos.

Further, during periods of regional dislocation, this disparity can be decisive. The 2015 commodity crisis was a case in point – US high yield materially underperformed due to its heavy energy weighting, whereas a meaningful overweight to Europe at that time saw strong relative performance.

For established players in this space, such as Barings, a global approach across fixed income – including high yield – captures value across capital structures and currencies. That flexibility is difficult to replicate in regional or benchmark-constrained mandates.

## **A bottom-up, selective view**

In high yield, where credit selection is a primary driver of returns, there are no shortcuts to rigorous underwriting and continuous monitoring.

This is particularly true in today's market, where tight spreads, uneven macro conditions and shifting technicals leave little room for indiscriminate risk-taking.

"Against this backdrop, we focus on companies with credible deleveraging plans, consistent cash flows, and identifiable catalysts," said Scott Roth, head of global high yield at Barings.

As a result, some areas where the firm sees potential include: discounted short-duration credits and higher-quality BBs for durable income; credits with company specific catalysts, such as refinancing events, balance sheet optimisation or potential take-outs; and select CCC credits, where US economic resilience supports improving fundamentals.

On the flipside, AI related disruption fears have been driving widespread investor panic and sell off across the software sector. "We think issuers most at risk include horizontal, development and operations players, as well as those issuers that provide software which is a bit more generic in nature versus purpose-built for specific workflows and verticals, and/or doesn't have a data moat," Roth added.

## **Making the research count**

To conduct the required credit works, Barings' high yield platform comprises over 75 dedicated investment professionals, with sector-focused analysts typically covering between 35 and 45 issuers.

"We adhere to a time-tested bottom-up approach to investing, where the fundamental attributes of each issuer are fully

underwritten,” explained Roth. Each credit is then assigned an internal Barings credit grade based on a proprietary credit grading system, which incorporates ESG considerations.

The firm’s Investment Committee (IC) must also approve every credit. “The IC-based approach fosters a team environment where all aspects of our high yield platform are utilised, instead of relying solely on individuals,” Roth added.

#### Mitigating the downside

Another benefit of a well-resourced research team is managing credit risk. While high yield typically exhibits lower duration than other fixed income segments, defaults and drawdowns remain a key consideration.

To tackle this, Barings operates a benchmark-aware but not benchmark-driven approach. “We do not buy credits simply because they are benchmark constituents,” highlighted Roth. For example, this might involve avoiding a name or market segment entirely if problems might be lurking on the horizon, even if the decision may cause the strategy to significantly deviate from the benchmark.

Liquidity management is equally vital. Barings has never gated its high yield funds, maintaining robust liquidity through strict issue size requirements, position limits and embedded trading expertise.

#### Fully integrated in fixed income

Barings’ insurance heritage – as a subsidiary of MassMutual – plus the balance-sheet discipline embedded in its investment philosophy, are core drivers behind the firm’s global fixed income offering, which spans investment grade, high yield, emerging market debt, structured credit, and various private debt offerings.

“This private–public feedback loop enables deeper fundamental research, better relative-value decisions across the credit spectrum and enhanced risk management via diversified perspectives,” said Martin Horne, co-head of global investments at Barings. For example, identifying how early warning

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signs such as changes in lending standards in one market can impact another.

There are also synergies relative to other market participants. These exist, for example, through deeper relationships with liquidity providers, the ability to originate unique ‘off-market’ investment opportunities, or by providing capital solutions to borrowers that can span different asset types, maturities and currencies, Horne added.

At the same time, Barings’ ownership structure enables long-term thinking and innovation.

Evidence is the firm’s early-mover status in portfolio finance. It has also leveraged CLO technology to expand into new asset classes, with Barings being the first manager to bring a European middle-market direct lending CLO to market.

This matters in an environment where income remains attractive but dispersion is rising – with global reach, deep fundamental research, disciplined risk management and cross-platform insight seemingly more important than ever.

