Investment-Grade Corporate Bonds

Volatility Creates Opportunity in IG

Sector fundamentals should counter political and market uncertainty.

We expect volatility to increase as the new administration takes control in Washington, D.C., the Fed enacts changes to monetary policy, and front-loaded primary supply pushes spreads wider in January, but we view uncertainty as an opportunity to allocate to higher quality, liquid risk in investment-grade (IG) corporate bonds. A more benign economic backdrop, manageable net primary supply, a deregulatory environment, and attractive all-in yields should keep spreads rangebound in the latter part of the first quarter.

Sector Commentary

- After a dearth of primary supply in December, we expect gross new issue supply to expand in January to a potential record-breaking $200 billion.
- Heightened M&A activity will likely increase bond supply but will be more impactful in the second quarter.
- Investment-grade corporate spreads remain at historical tights. Yet, yields on the Bloomberg U.S. Investment-Grade Corporate Bond Index are around 5.35 percent versus the five-year average of 3.94 percent, which will continue to attract investors.
- Despite starting the third year of above-average funding costs for fixed income, the investment-grade market is well positioned to handle higher rates relative to high yield markets.
- The upgrade/downgrade ratings ratio hit a record 4.7x in 2024. Although we expect this ratio to be positive in 2025, we anticipate it to normalize to a longer-term run rate.

Investment Themes

- Although gross supply will be robust in the first quarter, redemptions and maturities will be strong as well. This will lead to much lower net supply and will support secondary spreads.
- Issuers tend to be higher quality, and focused heavily in financials, implying shorter duration issuance and a flatter credit curve.
- We continue to see value in 30-year paper with 10/30s credit curves at their recent steep levels.
- We also believe industrials look tight relative to financials given likelihood of increased debt funding from M&A activity.
- Preferred and hybrid securities remain attractive, especially for current income investors.
- We expect the 2024 trend of negative net supply in preferreds to continue into the first quarter of 2025, which should support price stability in the asset class.

By Justin Takata

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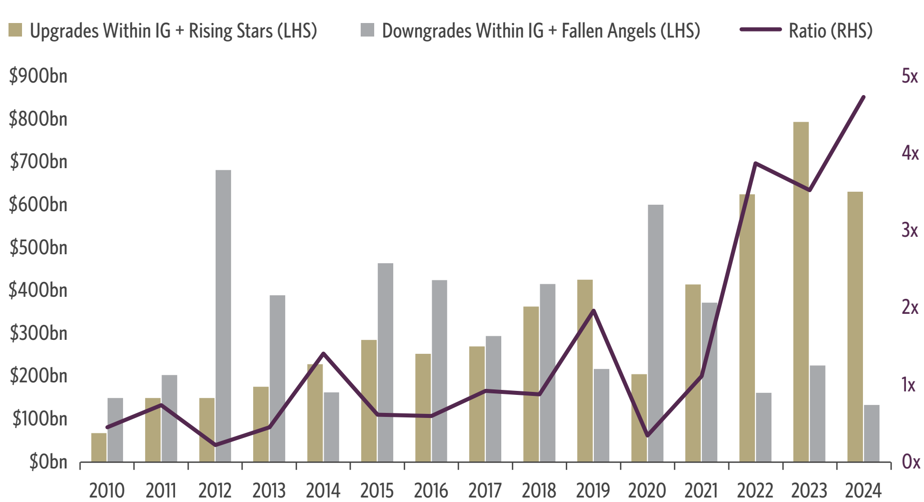
We Expect the Upgrade/Downgrade Ratio to Normalize in 2025



Source: Guggenheim Investments, JP Morgan. Data as of 12.31.2024.