

Credit and Technicals Are Stable, but Spreads Have Shifted Wider

We expect continued volatility and increased dispersion.

Investment-grade credit spreads widened and yield curves steepened due to increased volatility from tariff uncertainty, heavy supply prior to the tariff announcement, and increased recession concerns. While the fundamental and technical backdrops for corporate debt remain supportive in the short term, the weaker macro environment is raising growth concerns that may affect corporate earnings and credit quality. Uncertainty surrounding economic stability, trade wars, and monetary policy has triggered bouts of volatility, keeping investment grade spreads more elevated and rangebound with a marginal bias toward widening. This presents selection opportunity.

Sector Commentary

- Following record-breaking first quarter gross issuance of \$539 billion, the second quarter is expected to see lighter gross and net issuance.
- The maturity wall from heavy COVID-era issuance should sunset in the second quarter, tempering net supply.
- Thirty-year corporate bond yields remain historically attractive, hovering in the 95th percentile over the last decade, while spreads are at the tighter end of the range, trending in the 20th percentile.
- Balance sheet fundamentals are stable, with over \$300 billion of U.S. investment-grade bonds anticipating upgrades. First quarter growth estimates are trending lower, however.
- Uncertainty around U.S. rates and higher European yields pulled foreign demand away from U.S. corporates. This trend warrants monitoring as foreign ownership of U.S. corporates at 29 percent is the highest among cohorts.

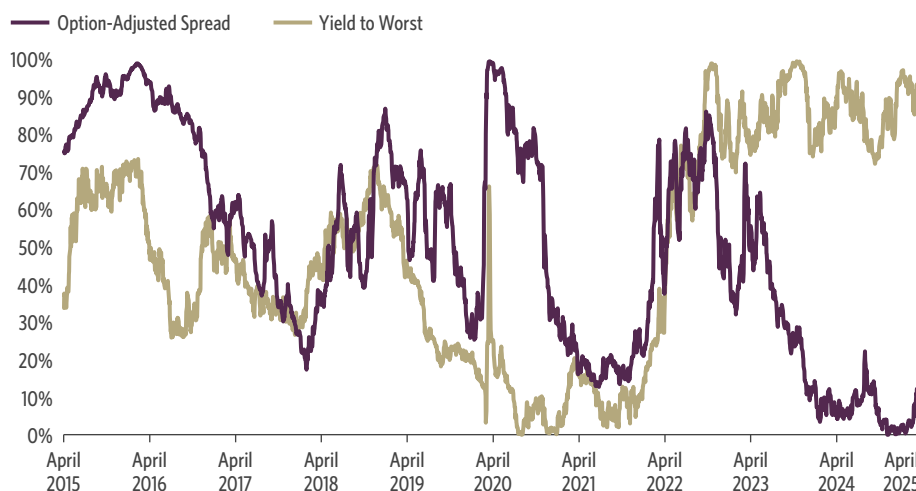
Investment Themes

- We continue to favor longer-duration corporate risk for liability management due to historically attractive all-in yields, with robust demand from insurance and pension funds.
- Insurance investors are aggressively extending duration and increasing net interest margins, capitalizing on steeper yield curves.
- Autos, utilities, and consumer cyclicals underperformed over the quarter. We anticipate continued weakness in these sectors, though utilities appear promising at wider levels, despite pressure from renewable energy policy headlines. The need for increased electricity generation and distribution remains the dominant trend.
- Global systemically important bank preferred securities are attractive from both yield and technical perspectives. Decreased bank regulation, particularly potential lower capital requirements, may reduce the need for Tier 1 capital, thus decreasing net issuance of this asset class going forward.

By Justin Takata

Investment-grade credit spreads widened and yields curves steepened due to increased volatility from tariff uncertainty, heavy supply, and increased recession concerns.

Uncertainty Has Caused IG Spreads to Widen Off of Extremely Tight Levels and Yields to Steepen



Source: Guggenheim Investments, Bloomberg. Data as of 4.7.2025.

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