

## Spreads are Nearing Historical Lows

**Driven by low net issuance and strong demand, high yield credit spreads continue to tighten towards the lows last seen in 2021.**

High yield spreads experienced a brief bout of volatility in early August triggered by concerns over a weakening labor market, but this quickly turned around as buyers found spread levels and all-in yields to be at an attractive re-entry point. Credit fundamentals and rating migration continue to support the view that default rates will remain below average. With credit spreads approaching their historical tightness, however, we remain selective.

### Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index continued to tighten over the quarter, led by lower quality bonds. Earlier this year, higher quality BB-rated and B-rated credit spreads traded tighter than their 2021 lows, indicating that lower quality bond spreads are catching up.
- CCC-rated credit spreads are approaching their 2021 tightness of 444 basis points, as the start of the Fed easing cycle and recent strength in economic data continue to drive growing expectations of a soft landing scenario. We are underweight.
- Growth opportunities related to artificial intelligence fueled a rally in CCCs as the market outlook improves for struggling sectors like cable and wireline. The communications sector's rebound follows negative returns in the first half of the year.
- Rating agency upgrades outpaced downgrades for the second consecutive quarter, with 130 upgrades versus 76 downgrades.

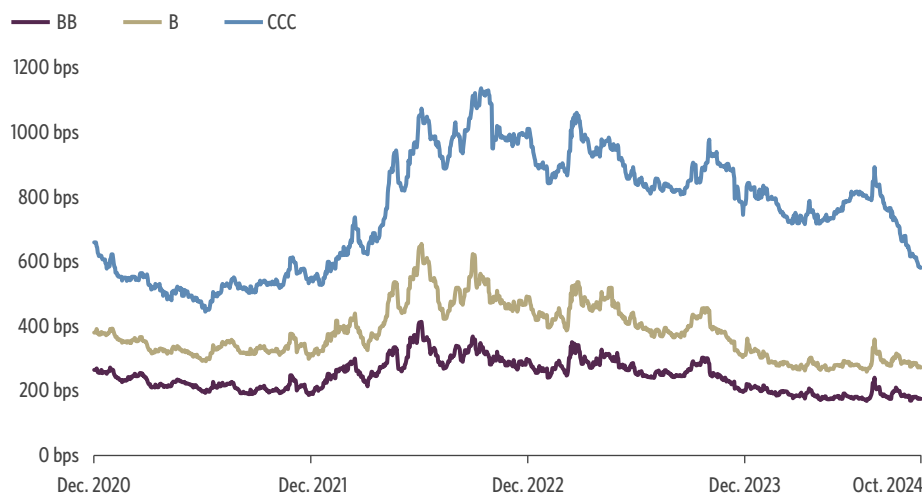
### Investment Themes

- Yields averaged 7 percent in mid-October, providing attractive loss-adjusted income given low default expectations. Spreads declined to 287 basis points, nearing their 2021 lows.
- Refinancing has driven 72 percent of this year's primary market activity, a pace of issuance unlikely to continue.
- Issuer net leverage and interest coverage credit ratios were flat in the second quarter, slightly better than long term averages.
- The high yield last-12-month default rate of 1.4 percent declined slightly relative to last quarter and remains well below its long-term average of 4 percent. The distress rate decreased to 5.1 percent from 7.3 percent in June due to the rally in CCCs.
- We prefer higher quality high yield bonds (rated B or above) due to their stronger fundamentals and lower default risk, but careful credit selection remains important.

*By Thomas Hauser and Maria Giraldo*

CCC-rated credit spreads are approaching their 2021 tightness of 444 basis points, as the start of the Fed easing cycle and recent strength in economic data continue to drive growing expectations of a soft landing scenario.

### CCC Spreads Are Approaching Their 2021 Low



Source: Guggenheim Investments, Bloomberg. Data as of 10.21.2024. HY BB represented by the Bloomberg Ba U.S. High Yield Average option-adjusted spread (OAS); HY B represented by the Bloomberg B U.S. High Yield Average OAS; and HY CCC represented by the Bloomberg Caa US High Yield Average OAS.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

**Investing involves risk, including the possible loss of principal.** In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations (“CLOs”), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Partners Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, and GS GAMMA Advisors, LLC.

© 2024, Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC. GPIM 63193