

Resilient Fundamentals

The environment remains supportive of investment-grade bonds.

As Bloomberg U.S. Investment Grade Corporate Bond Index spreads flirt with near zero percentile levels, the rally in spreads will likely subside. Still, we believe the sector’s all-in yields, which hover around the 60th percentile, will remain attractive to allocators, many of whom are yield-based investors. Furthermore, although spreads are tight, the breakeven total return leaves some cushion for volatility and marginal widening in spreads. Stable fundamentals, easing monetary policy, supportive supply technicals, strong fund inflows, and attractive yields should keep investment-grade spreads rangebound through year end.

Sector Commentary

- Fourth quarter gross primary supply estimates of \$225 billion are a sharp decline from the torrid pace of \$400 billion in the third quarter, which broke monthly records for both July and September.
- Net primary issuance will likely be close to flat in the fourth quarter due to upcoming maturities and higher coupon income that will likely be reinvested into investment-grade corporate bonds in the secondary market.
- Fund flows remain a tailwind, with \$284 billion of flows into investment-grade bond funds through the third quarter.
- Ratings actions were positive, with a 2.6x upgrade/downgrade ratio in the third quarter. The share of BBB-rated issuers declined to 9.5 percent, the lowest level since the fourth quarter of 2009, highlighting the resilient credit fundamentals within the investment-grade sector.

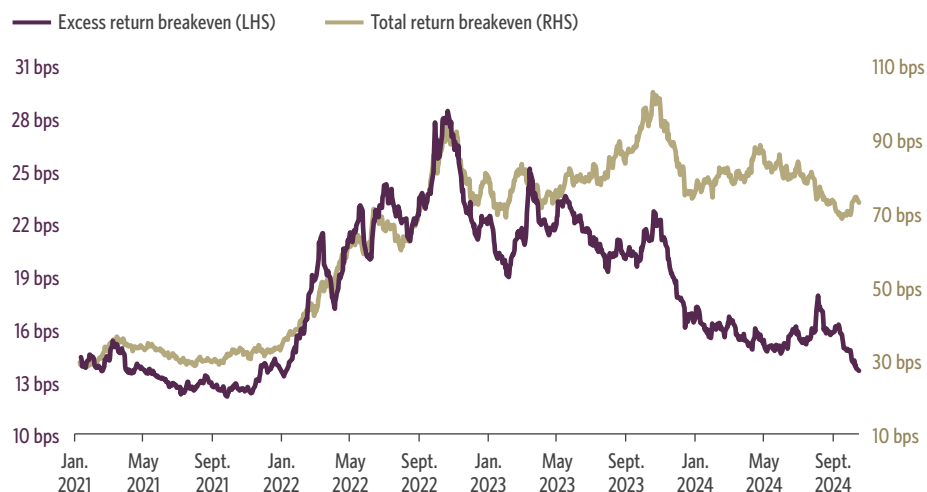
Investment Themes

- A-rated and BBB-rated bond spreads should continue to compress amid stable credit fundamentals and low credit dispersion.
- Amid geopolitical and economic uncertainty, we favor increasing the liquidity profile in portfolios.
- Preferred securities and hybrids remain attractive on a fundamental and technical basis. We favor securities with short-dated call features and/or higher current coupon securities. Seasonally, we view tax-loss harvesting as a buying opportunity.
- Financials and utilities are still attractive. Insurers, although exposed to commercial real estate, continue to see growth from policy premiums and healthy investment performance.

By Justin Takata

Although spreads are tight, the breakeven total return leaves some cushion for volatility and marginal widening in spreads.

Breakeven Spreads Remain Above 2021 Levels



Source: Guggenheim Investments, Bloomberg. Data as of 9.30.2024.

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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.

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