Investment-Grade Corporate Bonds

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

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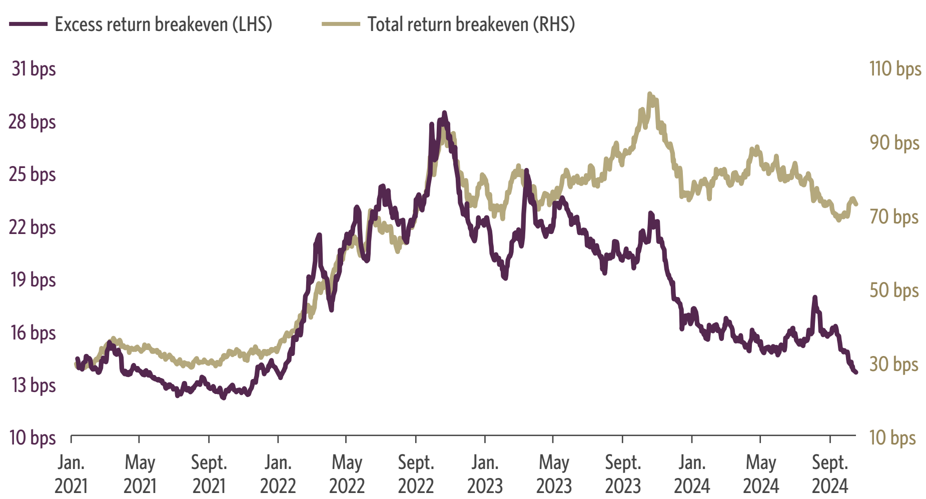
Breakeven Spreads Remain Above 2021 Levels



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