

INVESTMENT-GRADE CORPORATE BONDS

Spreads Widen Amid Record Supply, Geopolitical Tensions

This report is excerpted from the *Second Quarter 2026 Fixed-Income Sector Views*.

Sector selection and duration positioning remain key amid market shifts.

Investment-grade credit spreads widened and finally broke out of their historically tight trading range in the first quarter as record primary supply, shifting rate expectations, concerns around private credit, and geopolitical tensions increased risk premiums in corporate spreads. Nonfinancial issuance surged while the financial sector felt pressure from business development company (BDC) redemptions stemming from AI disruption concerns. Despite elevated volatility, technicals remained resilient as institutional demand absorbed heavy issuance without significant dislocation. The quarter highlighted the importance of sector selection.

Sector Commentary

- First quarter issuance represented the highest first quarter and the second highest quarter of all time with gross supply reaching \$640 billion, up 19 percent year over year, driven largely by nonfinancial issuers (up 25 percent vs. 2025). March alone saw \$240 billion in primary supply.
- The BBB/A spread reached year-to-date wides of 38 basis points by late March, while the BB/BBB spread hit a four-month wide of 105 basis points. This decompression was driven by repriced Fed rate paths and growth expectations rather than specific credit deterioration.
- The investment-grade long/short ratio, measured by prime brokerage firms, fell to a multi-year low of 0.94 in early March. This implies a net short position for the investor base, the first in over two years. However, the reduction in exposure was not a result of selling risk but by shorting ETFs while maintaining cash long positions.

Investment Themes

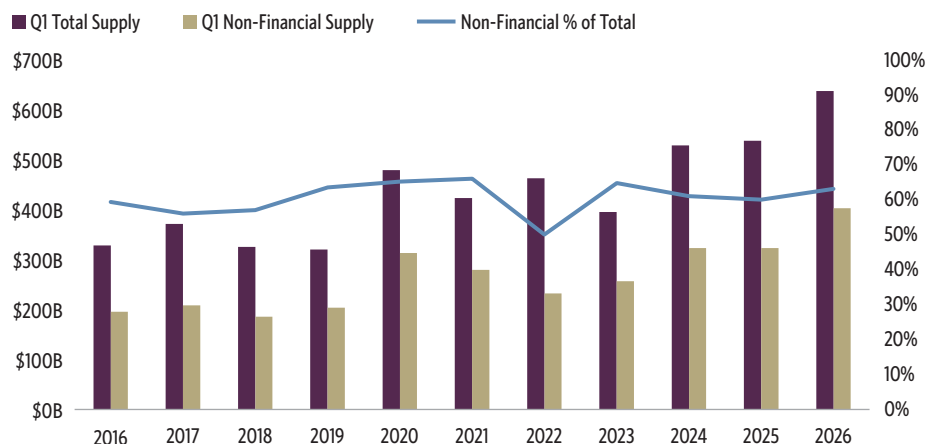
- Banks and insurance companies offer stronger fundamentals and more predictable supply calendars. Nonfinancial issuance has surged 44 percent year to date, creating technical headwinds, while software and AI-vulnerable credits face ongoing pressure from hyperscaler capital expenditure disruption.
- Utility hybrids benefit from coupon floors and structural support, while insurance and industrial hybrids offer compelling risk-adjusted yields.
- Long-duration corporates are attractive when all-in yields approach 6 percent. Demand from insurance and pension buyers continues to support the long end, and we see value in adding duration on rate backups to lock in elevated yields.
- Rate and spread backups over the quarter have improved entry points for shorter-duration risk. Additionally, we favor expressing long investment-grade risk via the CDX North American Investment-Grade Index.

By Justin Takata

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First Quarter Investment-Grade Issuance Sets a New Record

Q1 Supply: Non-Financial vs. Total Gross Issuance (2016-2026)



Source: Guggenheim Investments, J.P. Morgan. Data as of 3.31.2026.

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