

Investment-Grade Spreads Tighten to Multi-Decade Lows

This report is excerpted from the *Fourth Quarter 2025 Fixed-Income Sector Views*.

Up-in-quality trades favored amid spread compression as growth risks emerge.

Investment-grade corporate bond spreads relative to Treasuries ended the third quarter at 74 basis points, marking the tightest levels since 1998. Despite compressed spreads, robust primary supply, and declining U.S. Treasury yields, demand for investment-grade debt remained strong, supported by steady fund inflows, cash accumulation, and record low spread volatility. However, with these factors expected to weaken into year end and issuance picking up, caution is advised through diversification and a focus on higher quality allocations in the fourth quarter.

Sector Commentary

- Investment-grade corporate fund flows remain strong, with 20 consecutive weeks of inflows totaling approximately \$70 billion year to date as of the third quarter, driven predominantly by ETFs, which account for over two-thirds.
- Spread compression continued, with the option-adjusted spread (OAS) differential between BBB and A-rated bonds narrowing to 29 basis points, near a five-year low.
- While net issuance was negative for two out of three months in the third quarter, gross supply managed to jump 23 percent above the four-year average to \$397 billion.
- Elevated M&A activity is expected to persist as rates decline. Although 2025 total M&A-related issuance is down 25 percent from 2024 totaling just \$150 billion, a robust pipeline of \$77 billion is already anticipated for 2026.

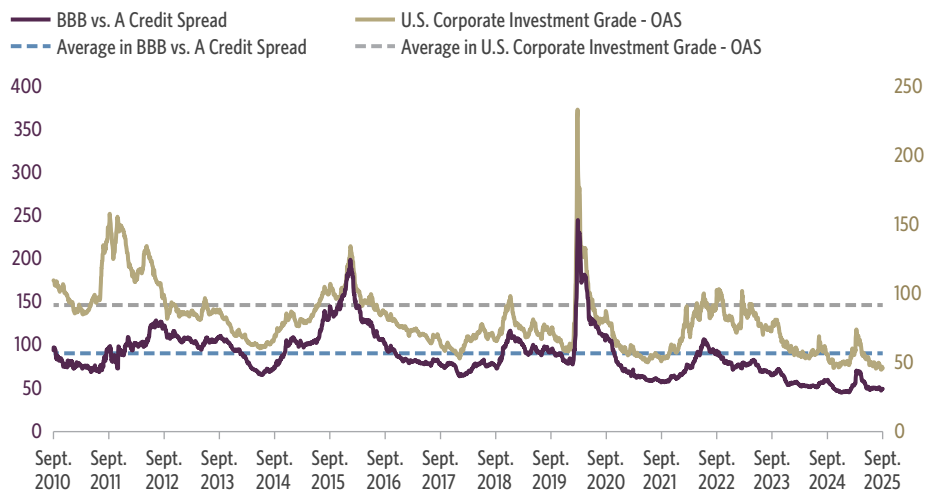
Investment Themes

- The compression of A versus BBB-rated bond spreads to five-year tight supports up-in-quality trades, as overall spreads remain at historically tight levels.
- Within financials, we favor banks and insurance across unsecured and preferred securities. Preferred securities remain attractive for buy-and-hold investors and offer reasonable carry for total return strategies.
- Insurance and industrial hybrids provide attractive relative value versus high yield unsecured debt, with utility hybrids benefiting from coupon floors amid declining rates.
- Despite 10/30s credit curve being on the flatter side, limited primary supply in 30-year bonds and a steepening yield curve should support long-duration securities.
- Diversification is prudent given spreads are at 25-year tight and the potential for slower economic growth.

By Justin Takata

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IG Spreads Are Compressed and at Their Tightest Levels in Decades



Source: Guggenheim Investments, Bloomberg, Barclays Research. Data as of 9.30.2025.

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