Investment-Grade Corporate Bonds

Take Advantage of Market Strength

Broad investor demand for investment-grade bonds presents an opportunity to trade up in quality.

The delicate balance between all-in yield buyers and spread sellers remains intact in the investment-grade corporate bond sector. We expect primary issuance to reduce materially over the remainder of the year, resulting in negative net issuance given an increase in bond maturities and coupon income likely redeployed into investment-grade credit. Overall, we see investment-grade corporate bond cash spreads rangebound for most of the second quarter, buoyed by strong technicals and attractive yields.

Sector Commentary

- Despite a record breaking first quarter for primary issuance of $566 billion, a 32 percent increase year over year, the Bloomberg U.S. Investment-Grade Corporate Bond Index tightened by 12 basis points in the first quarter.
- The sector experienced 25 consecutive weeks of investment-grade bond fund inflows, which helped support spreads.
- Index option-adjusted spreads (OAS) as percentage of yield sits at 16 percent vs. 20-year average of 37.5 percent. Only 2006 was lower, at 14 percent.
- Over the same timeframe, the index yield of 5.50 percent is in the 70th percentile, while long duration corporate yields are in the 90th percentile.

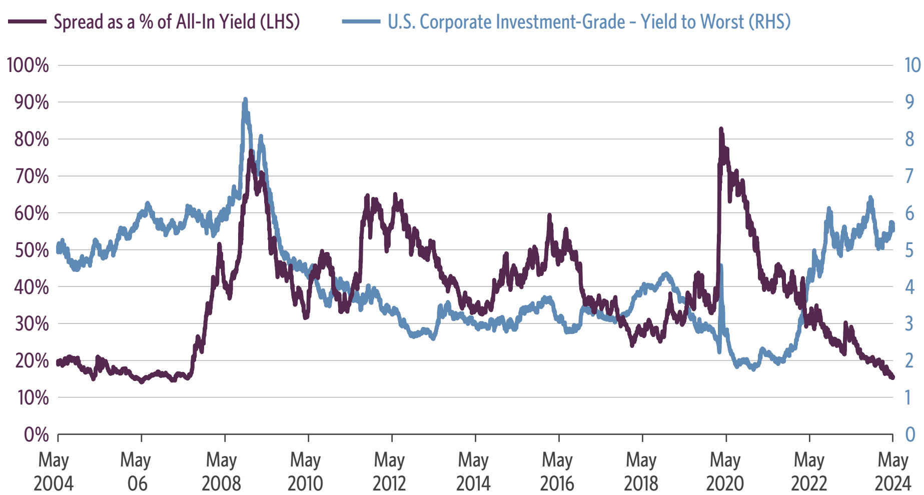
Investment Themes

- Looking forward, we favor banks over industrials. Banks, especially large money center banks, still look attractive despite a potentially higher for longer rate environment.
- Preferred securities still offer good relative value in short callable or higher current coupon vintages with a strong technical of negative net supply.
- The cheapness of BBB-rated bonds relative to A-rated bonds remains attractive and will likely compress further, albeit at a slower pace than the first quarter.
- We believe the second quarter presents an ideal time to move up in quality while reducing exposure to lower quality, cyclical bonds.

By Justin Takata

The Bloomberg U.S. Investment-Grade Corporate Bond Index tightened by 12 basis points in the first quarter.

Yields Are Attractive, but Spreads Are Tight



Source: Guggenheim Investments, Bloomberg. Data as of 4.30.2024. Past performance does not guarantee future results.