Investment-Grade Corporate Bonds

Opportunistically Moving Up in Credit Quality

We expect technical tailwinds for investment-grade corporate spreads to continue in the first quarter of 2023.

Hawkish perception of Fed policy in the fourth quarter resulted in the Bloomberg U.S. Corporate Bond Index hitting a peak yield for the year of 6.13 percent. This led investment-grade corporate bond investors to broadly start deploying cash. Despite seeing the wides in spreads and highs in yield for the year in the fourth quarter, investment-grade spreads tightened over the fourth quarter, while all-in yields rallied 12 basis points to 5.42 percent over the quarter. Unfortunately, this fourth quarter rally was not enough to save the sector from its worst full-year total return performance in history of -14.8 percent.

We expect the fourth quarter 2022 technical tailwinds for investment-grade corporate spreads to continue in the first quarter of 2023. Traditional money managers and insurance company portfolios continue to carry heavy cash balances, while pension fund rotations into the sector should continue. At the same time, the primary market will likely see lower gross and net issuance as investor preference for low dollar-price bonds in the secondary market and all-in higher yields will continue to support further strength in investment-grade corporates. Absolute yields are attractive relative to both historical corporate bond index standards and equities.

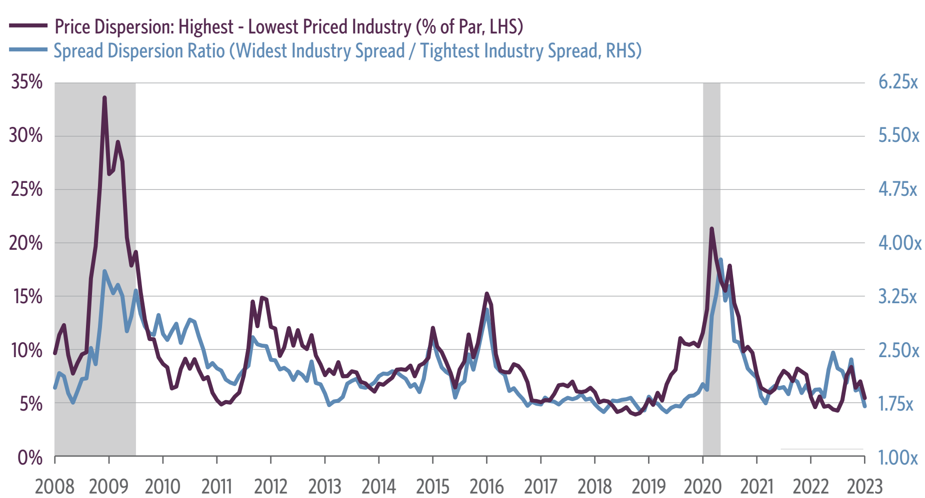
As we begin 2023, we are starting to see the market's focus shift to credit fundamentals through earnings releases and forecasts. Corporate credit fundamentals are likely to deteriorate as the economy shows signs of weakening, although balance sheets are starting from a much stronger position than in prior recessions. We also expect that the effects of quantitative tightening will be felt throughout 2023.

The tight range between the widest and tightest credit spreads in the index—also called the dispersion—implies that the market is not fully priced for a downturn that would affect some industries and issuers more than others. In fact, the ratio between the widest and tightest industry spread is just 1.7x currently, below the historical average of 2.7x and well below recession peaks. This lack of dispersion across investment-grade credit spreads presents an opportunity to reposition portfolios ahead of a likely recession. As we move into this next phase of the credit cycle, dispersion should increase materially to reflect varying degrees of credit deterioration, and we are opportunistically moving up in credit quality, as well as adding to shorter maturity bonds, specifically U.S. banks, through first quarter primary market issuance.

By Justin Takata

The current lack of dispersion across investment-grade credit spreads presents an opportunity to reposition portfolios ahead of a likely recession. The tight range between the widest and tightest credit spreads in the index implies that the market is not fully priced for a downturn that would affect some industries and issuers more than others.

Very Little Industry Dispersion in the Investment-Grade Index



Source: Guggenheim Investments, ICE Index Services. Data as of 1.31.2023. Shaded areas represent recession.

GUGGENHEIM

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

Investing involves risk. In general, the value of fixed-income securities fall when interest rates rise. High-yield securities present more liquidity and credit risk than investment grade bonds and may be subject to greater volatility. Asset-backed securities, including mortgage-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 risk. Investments in floating rate senior secured syndicated bank loans and other floating rate securities involve special types of risks, including credit risk, interest rate risk, liquidity risk and prepayment risk.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Partners Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management.

©2023 Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC.
GPIM 56239