



Why Underweight Long Duration Credit Credit Curve Steepening

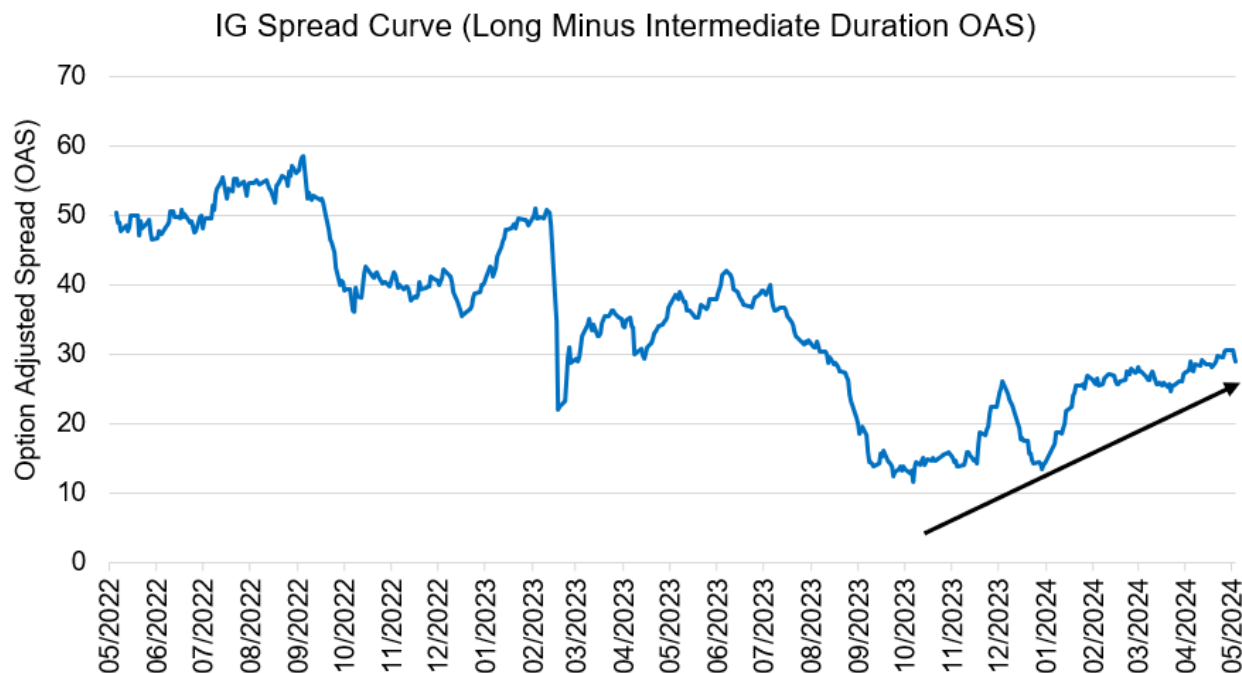
When the fixed income market talks about curves it is usually in reference to sovereign rates. The credit curve gets less attention but it and what signals it may be flashing are the center of our focus today. We split this into two examinations—the Investment Grade (IG) *spread* curve and the IG *yield* curve.

For this analysis we define the investment grade curves, spread and yield, as the difference between the long duration and intermediate duration segments of the market.

Over the past several months things have been changing. Both the IG spread and yield curves touched multi-year flats last year and have since been steadily steepening.

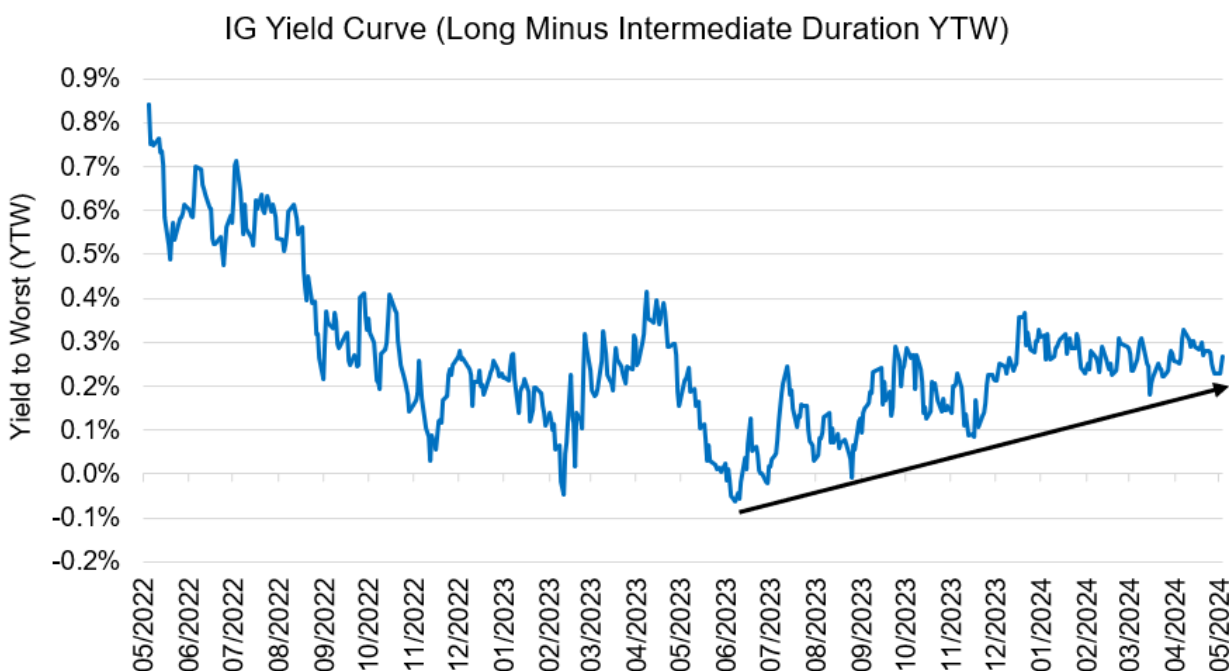


The IG spread curve hit 12bps in November of 2023 and has subsequently steepened to 29bps near the end of May 2024.



Source: Smith Capital Investors, Barclays (5/29/24)

The IG yield curve hit a low of -1bp in July of 2023 and has consistently steepened to 27bps near the end of May 2024.



Source: Smith Capital Investors, Barclays (5/29/24)

While the history of the credit curve, outside of recessions, is not a clear leading indicator, we believe we may be seeing the early signs of non-recessionary but more defensive positioning within the investment grade corporate credit market as investors seemingly favor shorter duration spread sensitivity over that of long duration. If appropriately suggestive, this would

make sense when considering the current environment of tight credit spreads and compressed risk bands.

Valuation (OAS)		Percentile of OAS Valuation Range						
	5.29.24 OAS	3m	6m	1y	3y	5y	10y	15y
U.S. Credit Intermediate Duration	76	2	1	0	21	26	16	11
U.S. Credit Long Duration	105	9	9	5	2	1	0	0
A	73	3	2	1	16	17	10	6
BBB	105	2	1	0	8	5	2	2
BB	178	25	13	6	2	3	1	1
[Long Dur. - Int. Dur. Credit] (IG Spread Curve)	29	81	91	68	24	16	8	20
BBB-A	32	0	0	0	0	0	0	0
BB-BBB	72	30	15	7	3	8	6	4

YTW		Percentile of YTW Range						
	5.29.24 YTW	3m	6m	1y	3y	5y	10y	15y
U.S. Credit Intermediate Duration	5.56%	80	90	63	83	90	95	96
U.S. Credit Long Duration	5.82%	80	90	71	87	92	96	87
A	5.51%	80	90	67	86	92	96	96
BBB	5.84%	80	89	62	82	89	95	95
BB	6.77%	77	81	40	57	73	85	81
[Long Dur. - Int. Dur. Credit] (IG Yield Curve)	0.27%	56	56	76	40	24	12	8
BBB-A	0.33%	0	0	0	0	0	0	0
BB-BBB	0.94%	20	10	5	18	26	32	25

Source: Smith Capital Investors, Barclays (5/29/24)

Lastly, for bond investors, and particularly those underweight long duration IG credit, this becomes an area of the market to not only watch closely from a macro signaling perspective but also a potentially developing hunting ground for future security selection opportunities.

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Let's keep talking!

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