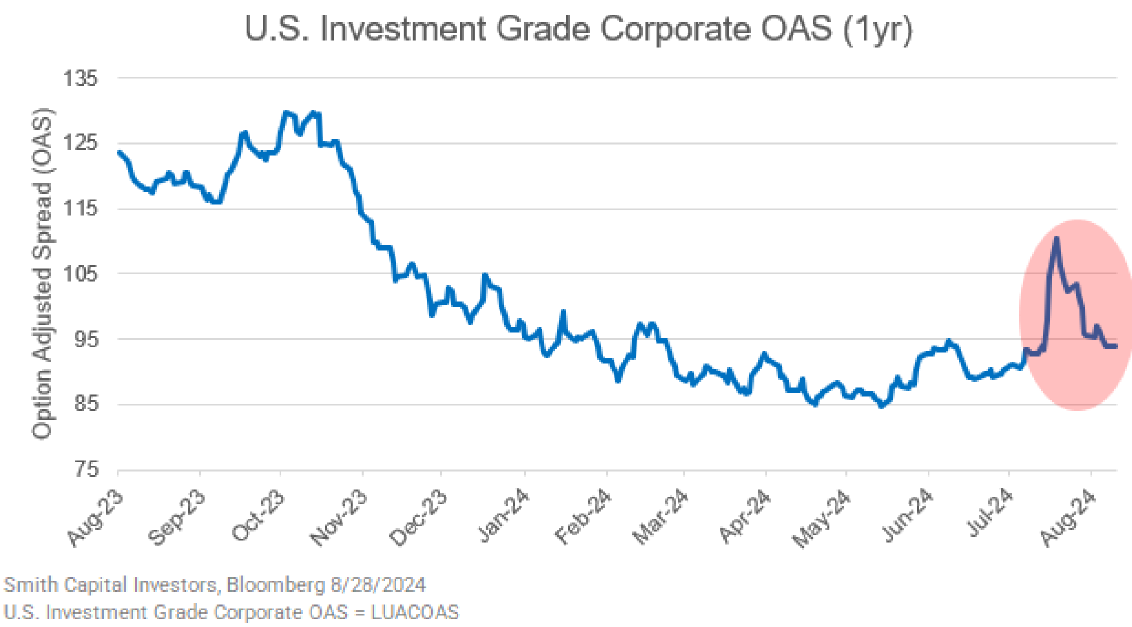
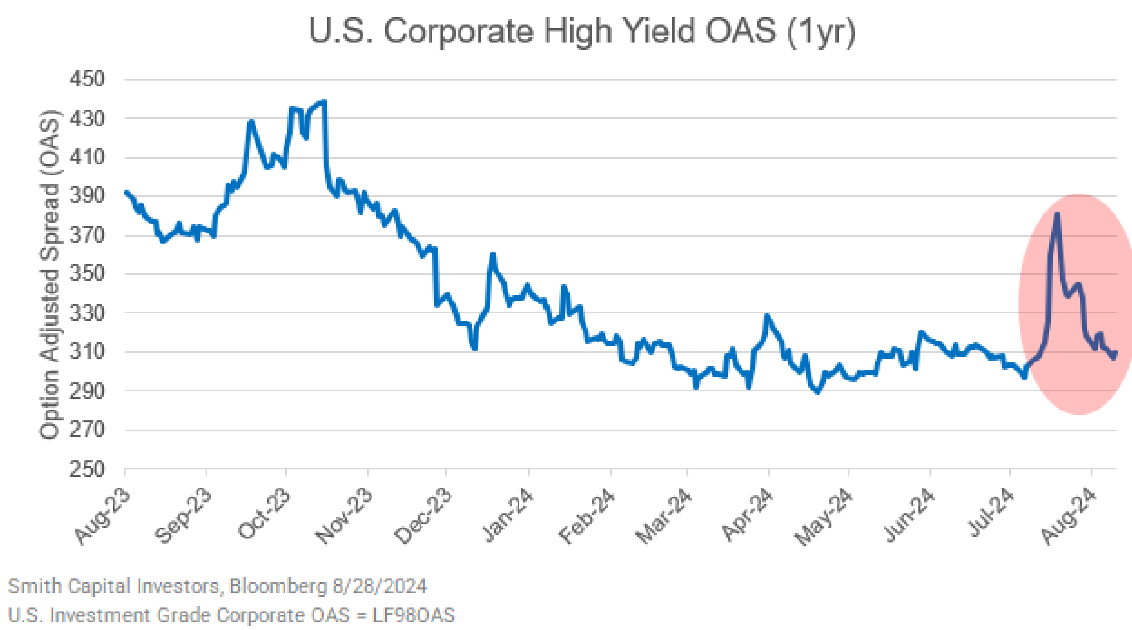
SMITH CAPITAL INVESTORS

Rapid Rebounds: The Swift Dynamics of Credit Spreads and Volatility

At the start of the month, a convergence of factors drove the VIX higher and significantly widened corporate credit spreads. However, since then, we have nearly reversed those movements. While this brief piece doesn't explore the specifics of the events that triggered the volatility, the recent non-farm payroll report has largely been held responsible. Our in-depth analysis of recent U.S. labor market developments can be found here.

Investment grade spreads initially widened by 18 basis points, and high yield spreads by 67 basis points. Yet, almost as quickly as they widened, spreads have rebounded—investment grade has retraced all but 2 basis points, and high yield has not only recovered but surpassed the original widening, trading 2 basis points tighter (as of August 19, 2024). This entire process unfolded in less than three weeks.





In the context of historical spread movements, these shifts were remarkable not for their magnitude but for the rapidity of both the selloff and the subsequent recovery. We've observed this increasing trend over the years along with a series of mini cycles. The speed and volume of these market events seems to trigger an acceleration of capital flow and high levels of uncertainty.

These environments, marked by frequent and sharp spikes in volatility, remind us of the importance of an active fixed income strategy that emphasizes adaptability and proactive preparation. We remain in a defensive position with a focus on liquidity across our strategies.

Let's keep talking!

Smith Capital Investors

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