

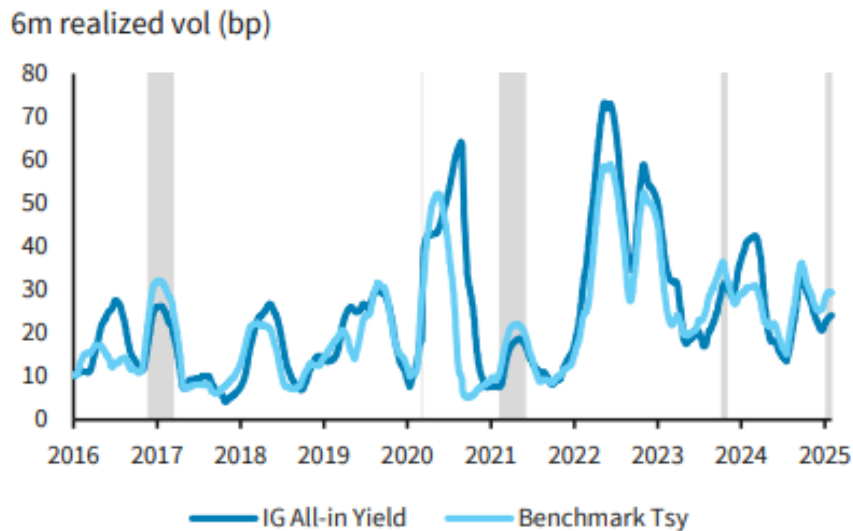


Realizing the Volatility – Investment Grade Corporate Credit Spreads and Interest Rate Volatility

Investment Grade (IG) Corporate Credit spreads have been remarkably resilient, particularly considering the volatility experienced in the US Treasury market, which we believe is directly linked to increasing economic and policy uncertainty.

In fact, a chart from Barclays illustrates how IG all-in yields have been less volatile than respective benchmark Treasury yields, a phenomenon that neither occurs often nor persists for long.

IG Yields Currently Less Volatile Than Treasuries, Which Does Not Happen Very Often



Source: Bloomberg, Barclays Research (2/14/2025).

*Gray bars indicate periods when the difference between IG-Tsy yield vol was as large as current levels.

Regarding volatility sequencing, we often see that economic uncertainty (see our prior pieces, [here](#), [here](#), [here](#), and [here](#)) leads to rate volatility, which eventually reverberates into spread volatility.

Last week marked the first instance within IG where the resiliency of spreads was truly tested under the recent, but growing burden of the aforementioned sequencing. To

exacerbate the situation, we entered this week expecting \$70bn+ in IG primary market issuance, which so far is meeting expectations. Corporations are taking advantage of the tight spreads and low yields to issue.

We expect uncertainty and volatility to remain high. With spreads starting from historically tight levels and having only backed up just over 8bps through Wednesday, March 5th from the YTD tightness (Bloomberg Indices and Barclays 2025), we believe additional compensation for increased volatility is warranted. We also expect that we will see heightened liquidity disruption and increased dispersion across corporate sectors and securities. We further believe this will create an environment where we can take advantage of opportunities.

Below, we highlight the Investment Grade percentile rankings over different periods of time. The graphic highlights the tight valuations on spread and the reasonable valuations on yield to worst. In this environment of tight spreads and reasonable yields, we find that taking duration in the rates market over the credit market is a more efficient positioning, creating optionality and liquidity in portfolios.

Corporate Credit Spread and Yield Heat Map

IG Credit Valuations								
	<u>3/5/2025</u>	Percentile Range						
OAS	Last	3m	6m	1y	3y	5y	10y	15y
U.S. Credit Intermediate Duration	75	94	79	40	14	30	19	13
U.S. Credit Long Duration	106	94	81	45	16	10	5	3
A	73	94	81	42	14	23	14	9
BBB	104	94	77	39	13	10	5	3
BB	176	88	69	45	15	9	5	3
<i>{Long Dur. - Int Dur. Credit} IG Spread Curve</i>	31	63	74	83	46	29	15	21
BBB-A	31	96	59	30	10	6	3	2
BB-BBB	73	72	62	55	19	11	11	7
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	<u>3/5/2025</u>	Percentile Range						
YTW	Last	3m	6m	1y	3y	5y	10y	15y
U.S. Credit Intermediate Duration	4.89%	19	41	28	28	56	78	85
U.S. Credit Long Duration	5.64%	26	62	63	70	82	91	87
A	5.00%	22	49	33	39	63	82	88
BBB	5.32%	22	47	32	31	59	79	86
BB	6.13%	25	45	27	18	49	72	73
<i>{Long Dur. - Int Dur. Credit} IG Yield Curve</i>	0.75%	96	98	99	93	57	28	19
BBB-A	0.32%	97	61	31	10	6	3	2
BB-BBB	0.81%	71	48	25	8	10	19	14

Source: Smith Capital Investors, Bloomberg (3/5/2025).

Let's talk! – Smith Capital Investors

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