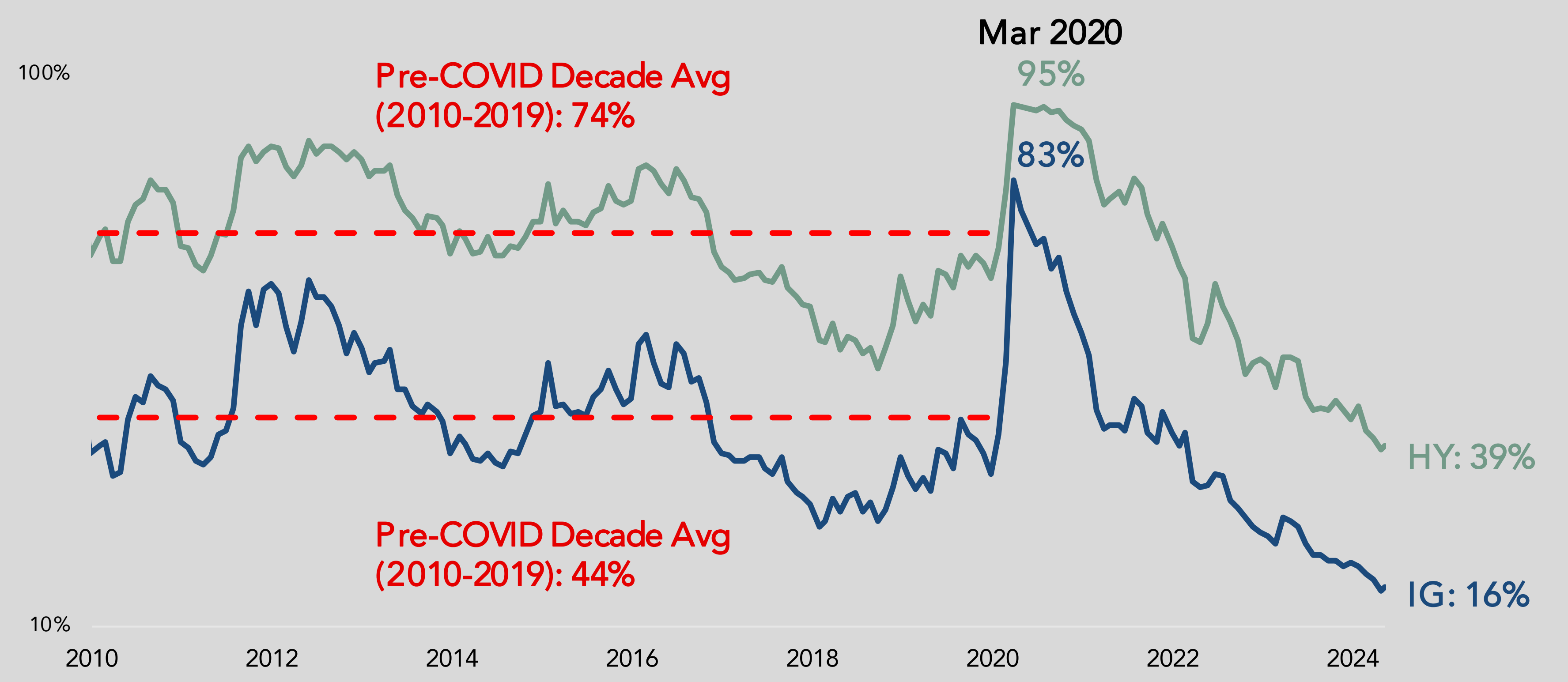
Capital Markets Strategy
Essential inCights for the C-Suite

Chart of the Day

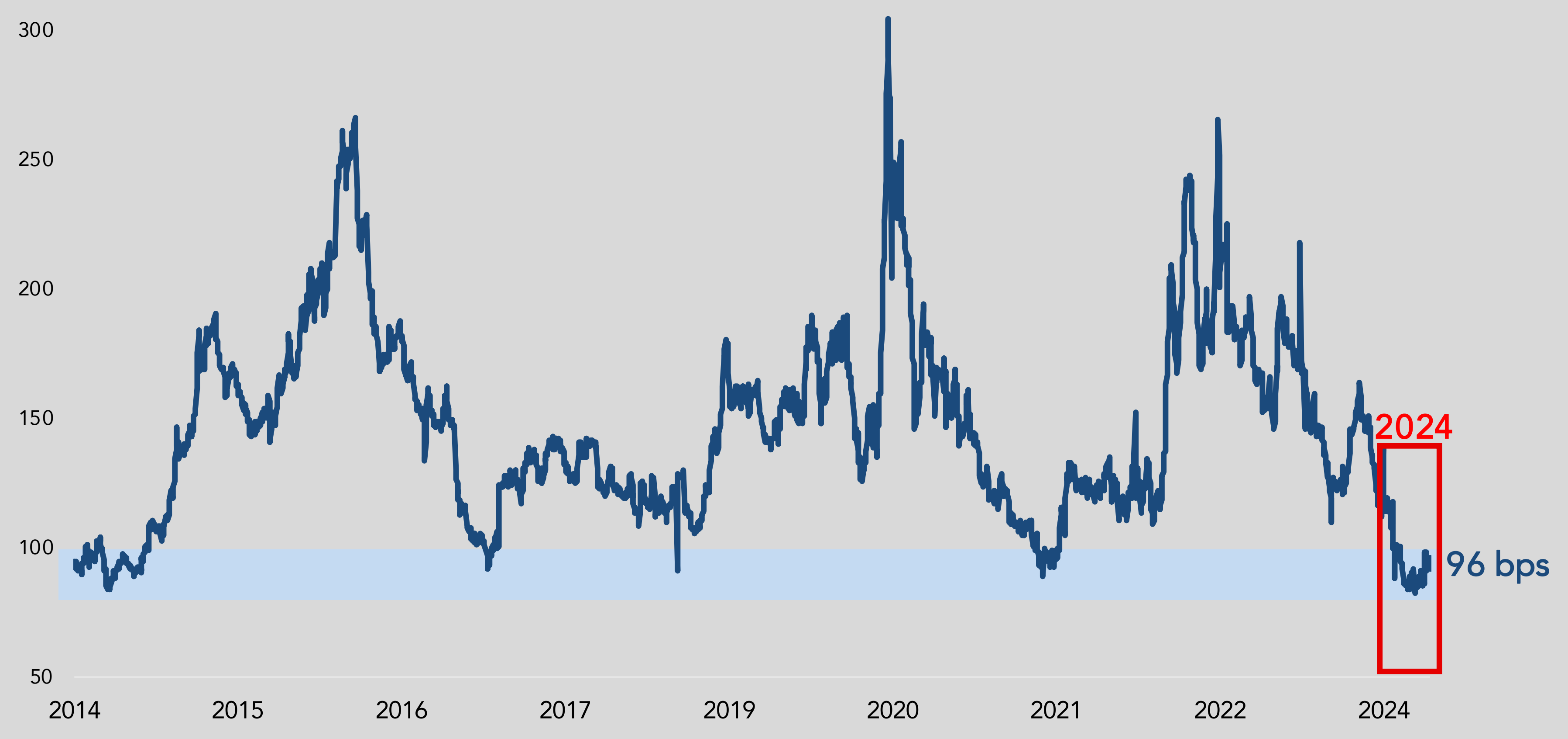
USD credit spreads have compressed near cycle lows in both IG and HY while spread volatility, as measured by the high-low spread range year to date, is at historic tights in high yield. US Treasuries, conversely, remain range bound at higher levels, therefore dominating the direction of all-in financing costs. Despite a myriad of positive technical and fundamental credit drivers, the decline in individual credit risk as a proportion of all-in financing costs is vulnerable to widening against the backdrop of a slowing economy and rising default rates.

HY & IG spreads as a percentage of yield to worst



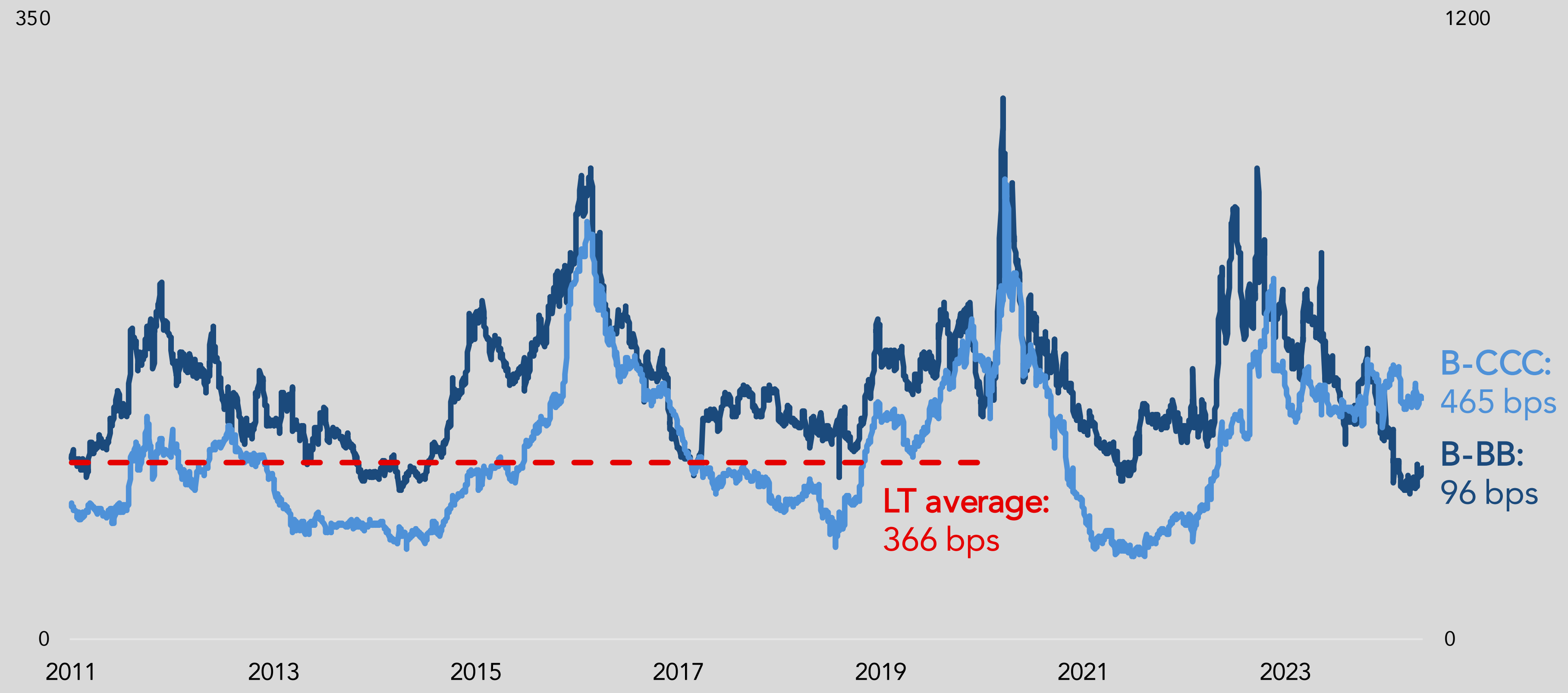
Single B to BB USD corporate credit spreads tightened to their lowest levels in more than a decade in early 2024, signaling higher investor risk appetite following the economy's resilience to the Fed tightening cycle.

USD corporate B-BB spreads



Even as investor risk appetite has strengthened, CCC spreads, the lowest part of the credit spectrum, have diverged wider as the impact of restrictive policy rates have begun to take their toll on higher levered businesses. Although B-CCC spread differentials remain in-line with historical averages, they have not tightened with the broader market in recent months.

USD corporate B-BB & B-CCC spreads



Source: (1) CreditSights. Index is ICE BofA. (2-3) Bloomberg. Data as of May 20, 2024.

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"Macro stability isn't everything, but without it, you have nothing."