# IG Fixed Income Recap

October 2024

A monthly review of IG Fixed Income Sectors

| | bps | bps | % | % |
|---|---|---|---|---|
| | OAS | OAS change | Total Return | Excess Return |
| IG Corporate Market | 83 | -5 | -2.43 | 0.38 |
| Intermediate | 73 | -5 | -1.53 | 0.31 |
| Long | 104 | -3 | -4.16 | 0.51 |
| A Finance | 74 | -4 | -2.04 | 0.22 |
| BBB Finance | 112 | -8 | -1.81 | 0.53 |
| A Industrials | 61 | -2 | -2.93 | 0.21 |
| BBB Industrials | 100 | -7 | -2.34 | 0.54 |
| BBB-A basis | 40 | -5 | | |
| | | | | |
| EM USD | 222 | -20 | -1.37 | 1.09 |
| IG | 99 | -7 | -2.30 | 0.41 |
| HY | 420 | -45 | 0.17 | 2.21 |
| Asia | 131 | -16 | -1.17 | 0.74 |
| Latin America | 348 | -29 | -1.06 | 1.74 |
| | | | | |
| High Yield | 279 | -18 | -0.54 | 0.64 |
| CCCs | 590 | -90 | 0.76 | 1.93 |
| Euro Agg Corporate | 104 | -12 | -0.31 | 0.66 |



# USD IG Corporate Market

By Elizabeth Henderson, CFA

**Another strong month for Corporate bonds**

As economic data continued to be supportive of risk-taking and rates increased, corporate spreads tightened across the curve. The demand for high quality yield continues from domestic buyers as well as foreign. Additionally, the supply of corporate bonds is expected to fall as we approach the election and lull that comes during the holiday season. Earnings season has been positive thus far for larger capitalized companies. That said, the more cautious tone regarding consumer demand that emerged during the second quarter earnings season has continued thus far for more interest-rate sensitive sectors like autos and homebuilders. Larger banks described consumer spending as "normalizing" but still healthy. One form of that is the return of more "discerning" behavior.

Source (table above): Bloomberg, AAM

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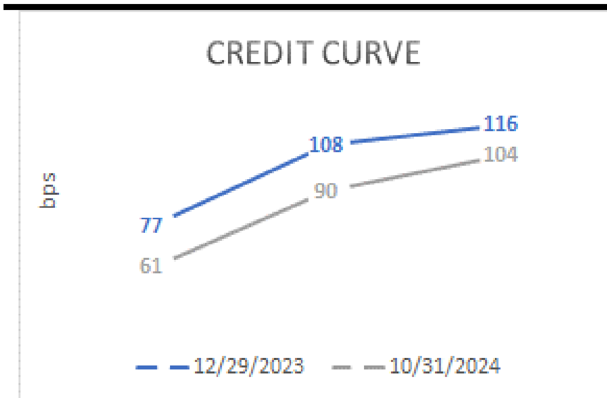



# Sector Relative Value

**Sector relative value shifted last month with more sectors falling into "fair" category relative to Industrials from a Z-score perspective. Industrial BBB OAS is 40 bps wide of A, which is close to a historic tight, more than one standard deviation from this basis' mean. High yield spreads are also close to 2 standard deviations rich vs. IG given the strong performance in HY over the last twelve months. BBs are 70bps wide of BBB Industrials. Utility spreads have outperformed, and BBB Ute OAS is finally inside BBB Industrial OAS, which is a historic norm.**

Looking at sectors relative to broad Industrials (LTM noted otherwise 5+ year history) (bold=new; strike-through = no longer valid vs last month):

o Z scores >1.5: ~~Aerospace/Defense,~~ Cable, Media, **Integrated Energy,** Health Insurance, ~~Supermarkets~~, ~~Independent Energy~~

o Z scores <-1.5: Metals & Mining, Diversified Materials, Food and Beverage~~, Midstream~~, ~~Wireline, Electric Utilities (LTM), Retail, Consumer Products~~

Source (graph): Bloomberg, AAM

# Technicals and Rating Changes

New bonds issued in Oct tightened an average of 3 bps while the OAS was 5 tighter.

High Grade bond supply in October was **in line with expectations** at $99B, **13% higher than the average issuance in Oct** over the past 4 years (2019-2023; ex-2020). This was the first month in some time in which supply did not exceed monthly estimates.

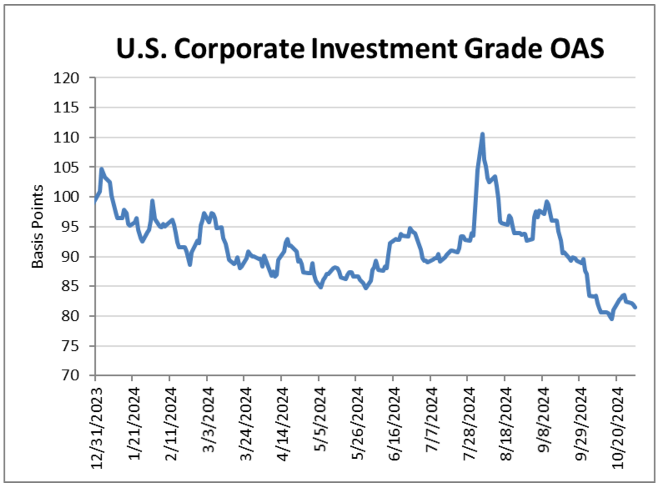
The **average daily trading volume for HG bonds** was lower than last month ($37B vs. 41B/day for cash) and for HY bonds as well ($15B vs. 17B/day).

New issue supply is expected to be around **$80-90B in November**, with Wall Street expecting negative net issuance after coupons and maturities.

Source: AAM, JPM, Bank of America

***Rating changes (rising stars/fallen angels) Source: Bloomberg:***

- *Fallen angels: none*
- *Rising stars: FTI Consulting, Expand Energy Corp (and related Southwestern Energy), NMI Holdings, DT Midstream,*




# Ticker level performance

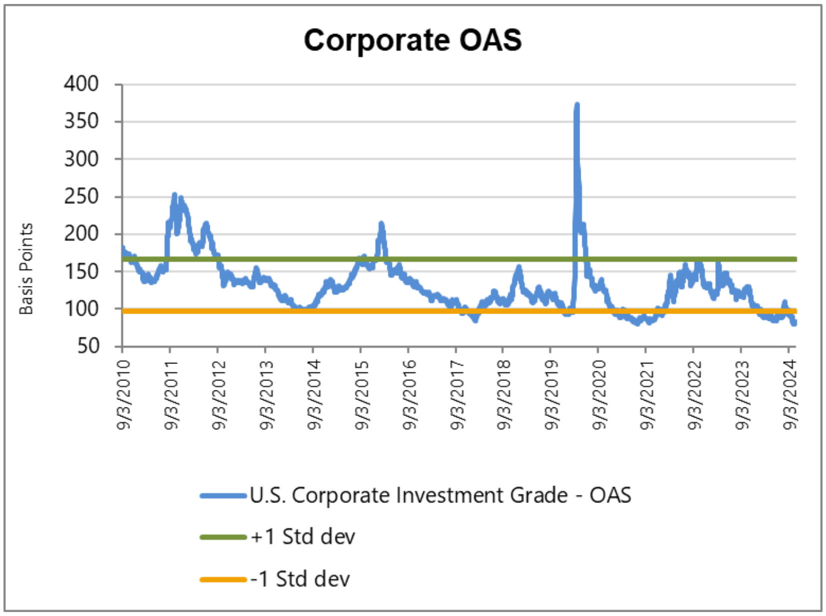
The following shows the top and bottom performing issuers based on excess return per unit of duration. This list excludes those with market values less than 0.04% of the Corporate Index. AAM's analysts have provided an explanation for issuer performance.

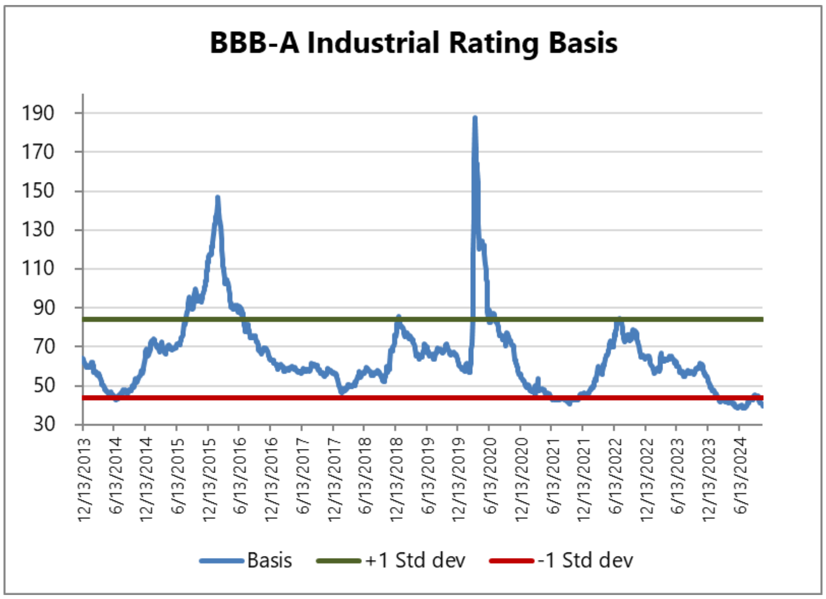
| Top 15 tickers | Tickers | Sector | ER (%) | MV%* | Duration | Notes |
|---|---|---|---|---|---|---|
| 1 | **FSK** | Finance Companies | 0.79 | 0.05 | 2.7 | High beta, Short duration, BDC |
| 2 | **BCRED** | Finance Companies | 0.82 | 0.07 | 3.1 | High beta, Short duration, BDC |
| 3 | **ALLY** | Banking | 1.13 | 0.11 | 4.3 | Better than expected results |
| 4 | **GM** | Automotive | 1.16 | 0.74 | 4.6 | Solid earnings, relief from September fears |
| 5 | **KRC** | Office REITs | 1.22 | 0.04 | 5.0 | Downgraded to BBB-, but outlook stabilized. Better than expected results. |
| 6 | **OCINCC** | Finance Companies | 0.86 | 0.07 | 3.5 | High beta, Short duration, BDC |
| 7 | **WBD** | Media Entertainment | 1.77 | 0.41 | 7.5 | Comcast signals it is open to partnerships with Peacock and a spin of its networks |
| 8 | **CHTR** | Cable Satellite | 2.19 | 0.53 | 9.4 | Better than expected results |
| 9 | **BA** | Aerospace/Defense | 1.72 | 0.71 | 7.5 | Equity sale proposed to keep ratings IG |
| 10 | **SYF** | Banking | 0.75 | 0.06 | 3.5 | CFPB late fee rule delay |
| 11 | **PARA** | Media Entertainment | 1.59 | 0.17 | 7.43 | Comcast signals it is open to partnerships with Peacock and a spin of its networks |
| 12 | **TDY** | Technology | 0.89 | 0.04 | 4.17 | Solid results, better outlook |
| 13 | **ARCC** | Finance Companies | 0.6 | 0.1 | 2.87 | High beta, Short duration, BDC |
| 14 | **F** | Automotive | 0.80 | 0.67 | 4.0 | Solid earnings, relief from September fears |
| 15 | **SOUBOW** | Midstream | 1.32 | 0.05 | 6.7 | Continues to compress to BBB peers |

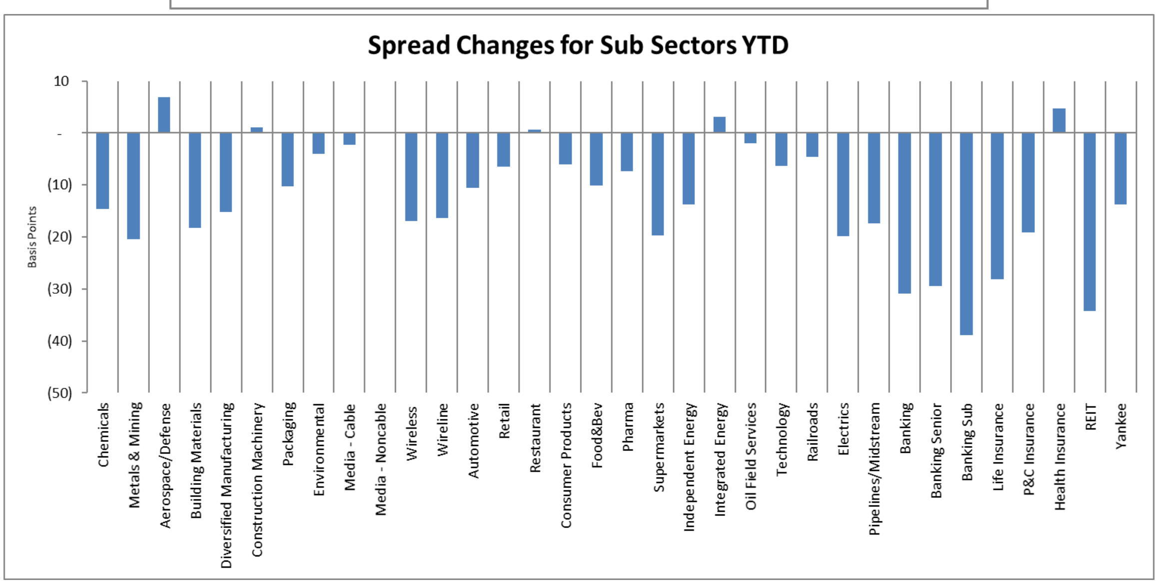
| Bottom 15 | Tickers | Sector | ER (%) | MV% | Duration | Notes |
|---|---|---|---|---|---|---|
| 1 | **TPR** | Retailers | -0.93 | 0.08 | 4.0 | FTC blocks transaction with CPRI |
| 2 | **TELVIS** | Media Entertainment | -0.71 | 0.04 | 10.3 | Business uncertainty (weak results, FIFA probe, restructurings); HY rating risk |
| 3 | **CNC** | Health Insurance | -0.28 | 0.21 | 4.1 | Weaker results driven by Medicaid |
| 4 | **CVS** | Healthcare | -0.48 | 0.74 | 7.6 | Disappointing 3Q. Guidance down. |
| 5 | **COST** | Retailers | -0.25 | 0.06 | 4.1 | Short duration |
| 6 | **HUM** | Health Insurance | -0.41 | 0.17 | 7.0 | Weaker results driven by Medicare Advantage |
| 7 | **BRK** | | -0.60 | 0.23 | 10.3 | High quality |
| 8 | **NKE** | Retailers | -0.47 | 0.10 | 8.6 | High quality |
| 9 | **TD** | Banking | -0.15 | 0.33 | 3.1 | Consent order with OCC, subsequent downgrades by Moody's and S&P. |
| 10 | **CL** | Consumer Products | -0.28 | 0.05 | 6.7 | High quality |
| 11 | **EL** | Consumer Products | -0.32 | 0.09 | 7.8 | Very weak quarterly results |
| 12 | **AMAT** | Technology | -0.28 | 0.08 | 6.98 | ASML weak results, semi equip wider |
| 13 | **ELV** | Health Insurance | -0.31 | 0.33 | 8.74 | Weaker results driven by Medicaid /New issue |
| 14 | **CI** | Healthcare | -0.24 | 0.39 | 7.5 | M&A to reapproach Humana based on election results |
| 15 | **MSFT** | Technology | -0.29 | 0.55 | 10.3 | High quality |

Source (graph, table data): Bloomberg, AAM

# Market graphs (Source: Bloomberg, AAM)

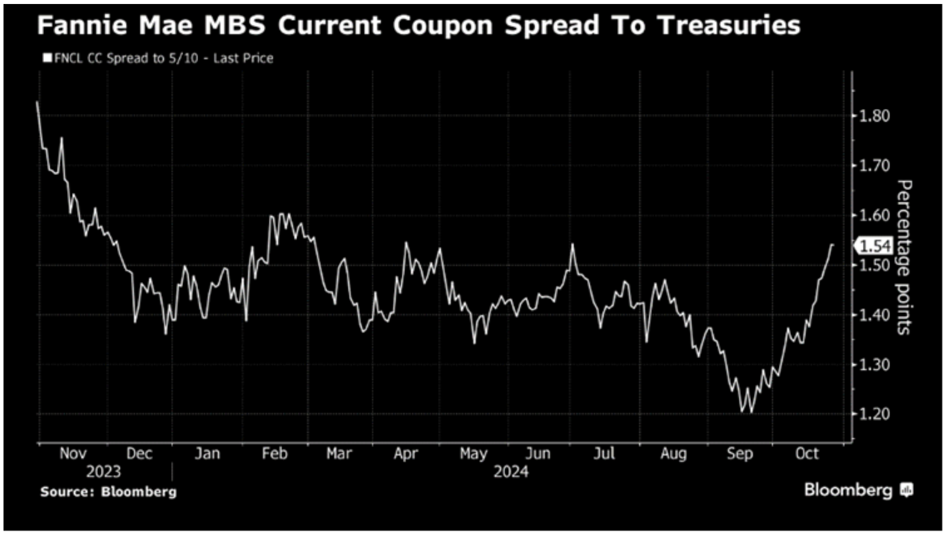


# Structured Products

By Chris Priebe and Mohammed Ahmed




**Agency MBS underperformed, the tone in CMBS continues to improve and ABS issuance remains heavy. Election likely to be a catalyst for the MBS market.**

***Rating Changes***

Rating changes continued to be negative for CMBS conduit and single-asset deals in October. More ABS deals were upgraded than downgraded in October, continuing a positive trend.

The Agency RMBS sector US Treasuries for the second straight month. Current coupon MBS spreads were on a one-way train wider, as rate volatility increased and the probability of near-term Fed cuts decreased. The MBS mortgage basis widened from +128 bps in early October to +155 to end the month. The market has quieted with investors appearing to be on the sidelines until the election. Most money managers are slightly overweight, and banks are still not buying in size (yet), and that negative technical has contributed to the widening in spreads. **AGY MBS ER -51 bps**

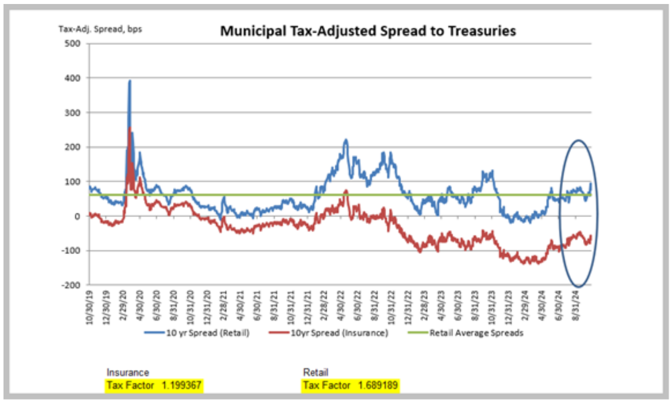
CMBS spreads tightened in October with new issuance continuing in single-asset (SASB) and conduit vehicles. Demand has improved, with insurance companies adding CMBS in September and October as fixed annuity writers are trying to find yield in Securitized sectors with tighter windows. Positive news in the market in regards to properties getting refinanced is supportive for spreads. **CMBS ER +11 bps**

The ABS market made history this month. New issue ABS supply year-to-date was $320 billion at the end of October. With two months left of the year, the supply will be on pace to break the old record by over 20%. The October deals were multiple times oversubscribed after a positive tone at a well-attended industry conference. 70% of the October issuance was in the Auto sector, and that was the highest percentage in years. **ABS ER +25 bps**

Similar to the ABS markets, **CLOs** continue to see paydowns and resets/refinance, in addition to experiencing a record pace of origination at $159 billion YTD. The pace of paydowns has been decreasing the net supply YTD. The positive technical related to "higher-for-longer" rates based on a strong domestic economy has kept the demand for CLOs steady. While SOFR rates have compressed 45 bps to 4.55%, CLO spreads have revised to 137 (from 125) bps for a new issue CLO, with secondary spreads remaining unchanged. There has also been an uptick in reset and refinancing of CLO transaction especially as the underlying loan prices for lower rated loans has been improving with the rally in high yield risk. These transactions allow for addition of newer collateral and improve the metrics into a new issue deal. Floating rate assets, including CLOs, outperformed fixed in October.

Sources: Bloomberg Index, JPM

# Municipal Bonds




Source: Greg Bell, CFA, CPA

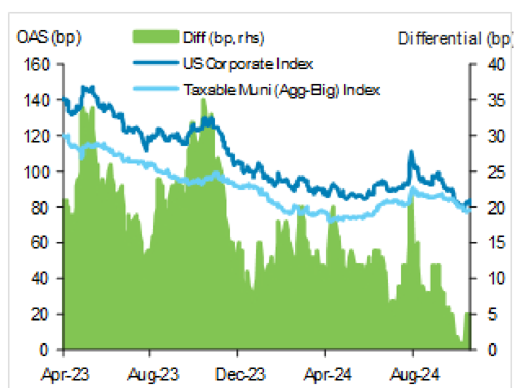
**Tax exempt muni spreads widened due to heavy issuance while taxable spreads were unchanged. Environment is supportive for both markets into year-end.**

**Tax-exempts** Weaker technicals in October, due to 5 straight weeks of new issuance that exceeded $10B, pressured relative valuations to weaker levels. After 10yr muni-to-Treasury yield ratios hit a 2-month low point of 66% on 10/4, it moved to as high as 72.3% on 10/24. Tax-adjusted spreads over this period were wider by 11bps and 24bps in 3yrs and 5yrs, respectively. Ratios in 10yrs ended the month at 70%, with tax-adjusted yield spreads to Treasuries (corporate tax rate of 21%) at -67bps. (Source: Bloomberg and Refinitiv)

Supply for the month came in at $56.63B, much higher than the expected $50B level, and it also is the highest monthly total in 2024. It also marked the 7th-consecutive month that supply has exceeded $40B. On a year-over-year basis, supply for the month of October was up 44.3% and on a year-to-date basis, overall supply is up 37.8. (Source: Bond Buyer)

Looking forward, with the expected election-related volatility behind the market, issuance is expected to moderate going into year-end, with November and December expected to produce issuance levels of $38B and $40B, respectively. Demand technicals are also expected to improve as we move into the December-to-February period, where reinvestment flows during this period produce the 2nd strongest demand cycle during the year. (Source: BofA)

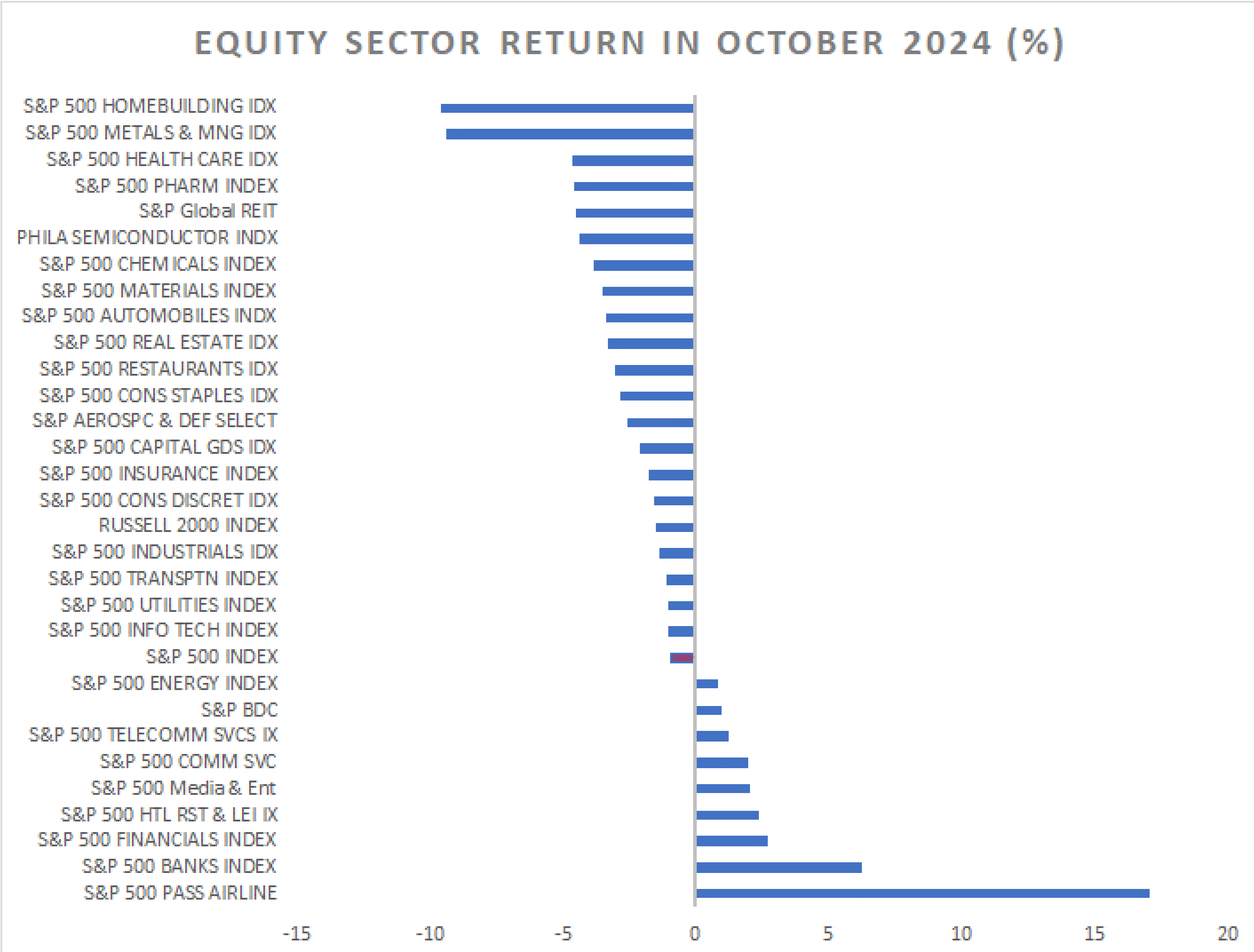
**Taxables** The taxable muni sector continued to exhibit a very steady tone with a modest firming bias. The anemic new issuance trend continued to be one of the main areas of support for the sector. New issuance for the year is down 4% year-to-date. After August and September produced $2.4B and $1.6B, respectively, October taxable issuance came in at $4.74B, which was an 18% year-over-year increase. (Source: Bond Buyer)




In reviewing spreads over the last month, the taxable muni OAS of the Bloomberg AGG index tightened modestly by 6bps to finish the month of October at 79bps. When reviewing trades and secondary offerings, spreads across the curve were essentially unchanged for the month. With the continued elevated rate environment, we expect that the combination of relatively attractive funding levels in the tax -exempt market and the elevated call activity within the taxable market will continue to be supportive of current spreads levels over the balance of this year.

Source: Bloomberg, Barclays; first graph above: Bloomberg, Refinitiv MMD (market information as well)

# Other Asset Classes




Source: Bloomberg, AAM