IG Fixed Income Recap

November 2024

A monthly review of IG Fixed Income Sectors

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Other Asset Classes

	bps	bps	%	%
	OAS	**OAS change**	**Total Return**	**Excess Return**
IG Corporate Market	77	-6	1.34	0.49
Intermediate	66	-6	0.88	0.35
Long	98	-6	2.27	0.78
A Finance	69	-5	1.00	0.33
BBB Finance	104	-8	1.25	0.56
A Industrials	57	-3	1.28	0.32
BBB Industrials	92	-9	1.56	0.69
BBB-A basis	35	-5		
EM USD	222	1	1.11	0.35
IG	104	4	0.62	-0.21
HY	412	-9	1.90	1.25
Asia	133	3	0.47	-0.14
Latin America	334	-14	1.95	1.11
High Yield	263	-16	1.15	0.71
CCCs	535	-55	1.41	0.97
Euro Agg Corporate	107	3	1.56	0.00

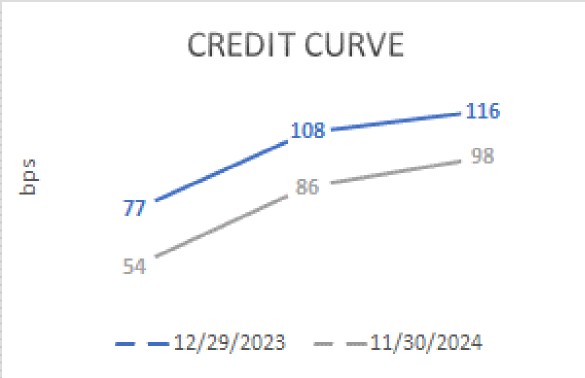
USD IG Corporate Market

By Elizabeth Henderson, CFA

Another strong month for Corporate bonds

The election was a deciding event for markets, with a “red wave” a fairly certain outcome early-on. Corporate bond spreads tightened with BBBs outperforming in a risk-on environment. New issuance was also higher than expected although deals underperformed the market in general. Corporate fundamentals after third quarter earnings reports remain strong with EBITDA growth reaccelerating this year and leverage slightly increasing for more cyclical industries that had reduced debt meaningfully after 2020. Free cash flow and cash balances remain robust, supporting financial flexibility. While M&A activity (and related funding) has increased, overall leverage for the market has remained steady around 2.0x for ‘A’ quality and 3.0x for ‘BBB’s.

Source (table above): Bloomberg, AAM; (commentary): AAM and CapitalIQ data



Sector Relative Value

Low-BBB sectors that offered value last month outperformed with other risk assets. Industries that may stand to benefit from the new Administration outperformed; whereas, those like Pharmaceuticals that could be negatively affected, underperformed. The curve across maturities shifted lower with the 10s30s credit curve at its historic average (30bps). Historically, the credit curve has steepened later in the credit cycle and/or when interest rates are very low.

Looking at sectors relative to broad Industrials (LTM noted otherwise 5+ year history) (bold=new; strike-through = no longer valid vs last month):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: Cable, ~~Media~~, Integrated Energy**,** Health Insurance, **Pharma**

o Z scores <-1.5: ~~Metals & Mining~~, Diversified Materials, ~~Food and Beverage~~, **Packaging, Retail**

Source (graph): Bloomberg, AAM

Technicals and Rating Changes

New bonds issued in Nov widened on average 4 bps while the OAS was 6 tighter.

High Grade bond supply in November was **higher than expectations** at $97B, **5% lower than the average issuance in Nov** over the past 4 years (2019-2023; ex-2020).

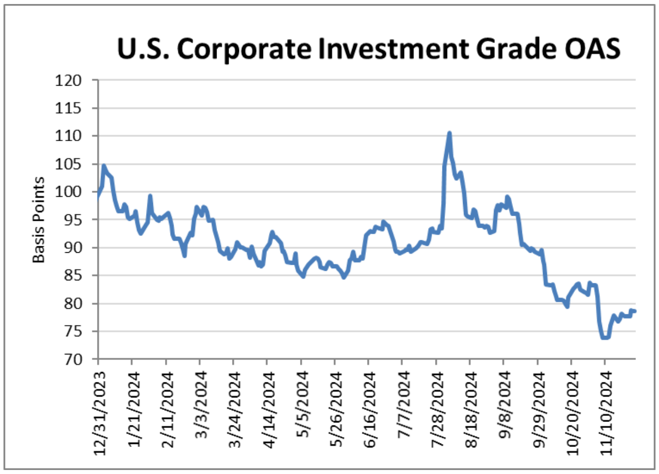
The **average daily trading volume for HG bonds** was in line with last month ($36B vs. 37B/day for cash) and for HY bonds as well ($15B vs. 15B/day).

New issue supply is expected to be around **$30-50B in December**, with Wall Street expecting new issuance in 2025 to be similar to 2024 ($1.5 trillion) with more M&A related funding.

Source: AAM, JPM, Bank of America

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

- *Fallen angels: Celanese*
- *Rising stars: AppLovin, VICI Properties, Ingram Micro (secured), Rocket Mortgage, Avantor Funding (secured), Stericycle (acquired by WM)*



Ticker level performance

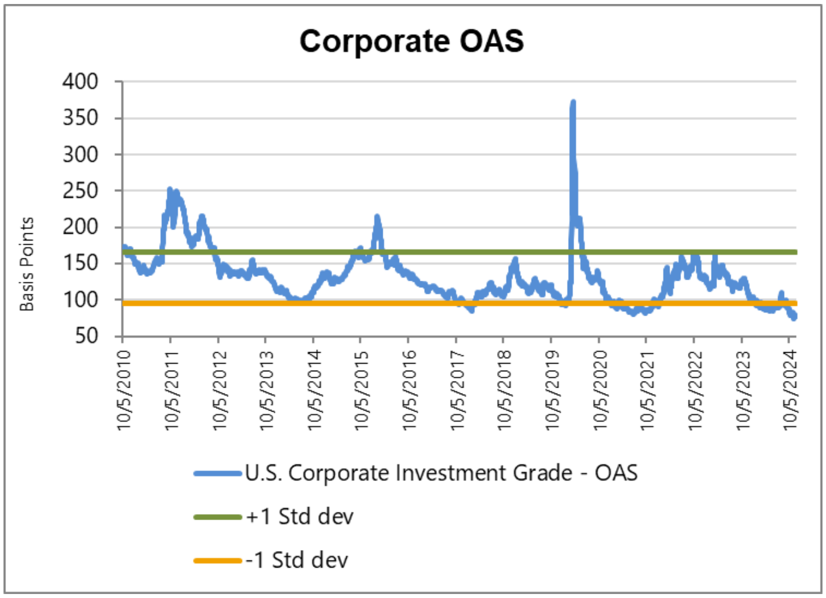
The following shows the top and bottom performing issuers based on excess return per unit of duration. This list excludes those with market values less than 0.04% of the Corporate Index. AAM's analysts have provided an explanation for issuer performance.

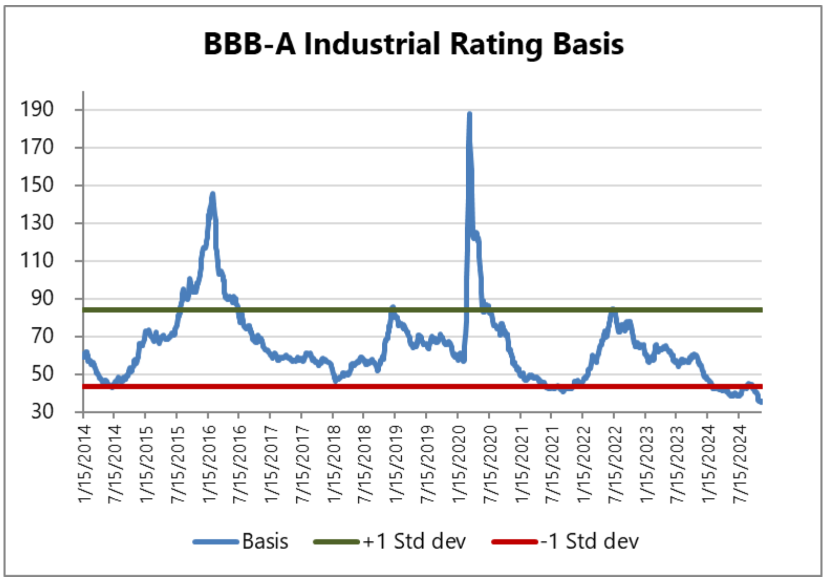
Top 15 tickers	Tickers	Sector	ER (%)	MV%*	Duration	Notes
1	**PARA**	Media Entertainment	3.8	0.17	7.62	Comcast cable networks spin off could result in positive event risk
2	**WBD**	Media Entertainment	3.1	0.42	7.69	Comcast cable networks spin off could result in positive event risk
3	**FSK**	Finance Companies	0.8	0.05	2.58	Issuance and liquidity improvement; short duration, high beta
4	**MRO**	Independent	2.0	0.06	6.26	COP acquisition and tender
5	**BXSL**	Finance Companies	0.7	0.05	2.19	Strong quarter; short duration, high beta
6	**CHTR**	Cable Satellite	3.0	0.54	9.67	Earnings were good; Malone commented on CMCSA and CHTR cable merger potentia
7	**EXE**	Independent	1.0	0.05	3.17	Rising star benefitted from new issue
8	**BERY**	Packaging	1.0	0.06	3.47	Amcor combination
9	**EQT**	Independent	0.9	0.05	3.98	JV announcement with proceeds going used to tender bonds
10	**CQP**	Midstream	1.2	0.10	5.26	To benefit from removal of LNG buildout pause
11	**F**	Automotive	0.9	0.66	4.01	Additional recovery from September fears, pull back from Europe and EVs
12	**ALLY**	Banking	1.0	0.11	4.29	Weighing sale of credit card biz; short duration, high beta
13	**VTRS**	Pharmaceuticals	1.7	0.13	7.67	Solid quarter. Should reach LT leverage target by end of year
14	**OVV**	Independent	1.2	0.07	6.21	Asset sale used to reduce debt
15	**OHI**	Healthcare REITs	0.7	0.05	3.68	Strong quarter; short duration, high beta

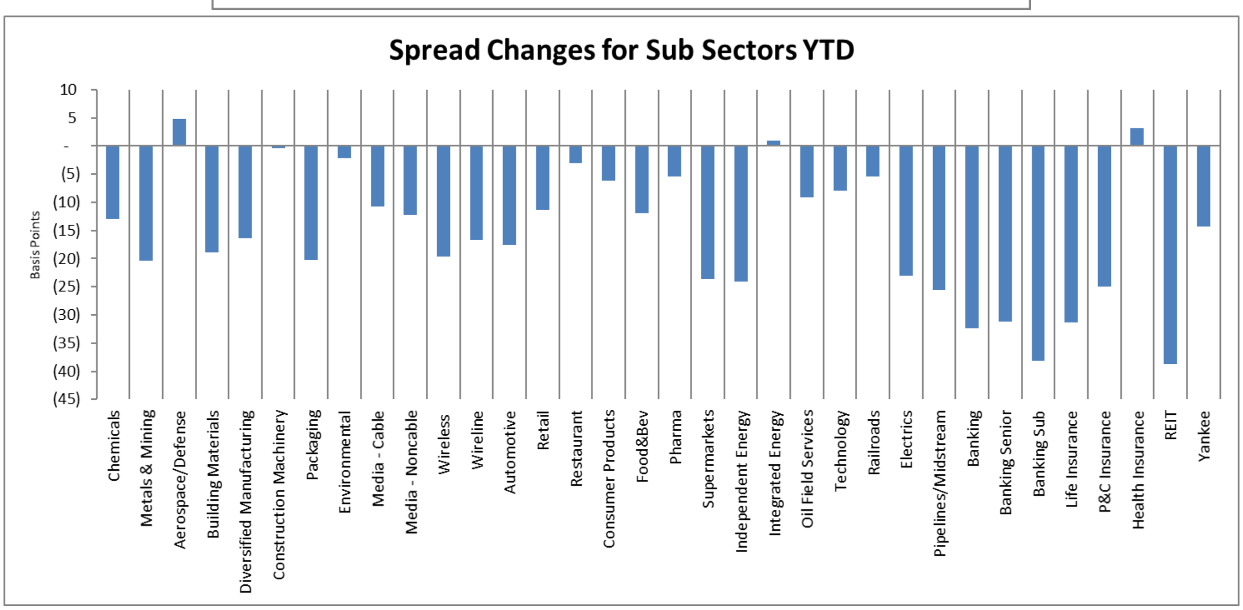
Bottom 15	Tickers	Sector	ER (%)	MV%	Duration	Notes
1	**EL**	Consumer Products	(0.4)	0.09	7.81	Worse than expected financial results. China uncertainty, dividend cut. Negative rating action.
2	**BCECN**	Wirelines	(0.3)	0.08	11.55	Acquisition and weaker than expected earnings; dividend paused to maintain lev
3	**GOOGL**	Technology	(0.2)	0.12	9.20	Regulatory uncertainty
4	**TACHEM**	Pharmaceuticals	(0.2)	0.18	8.65	Policy Uncertainty
5	**PRU**	Life	(0.1)	0.21	8.44	Hi qual
6	**LRCX**	Technology	(0.1)	0.06	7.96	Highest sales exposure to China among US Semi-Equip co's. Chinese demand normalizing in '25
7	**HON**	Diversified Manufacturing	(0.1)	0.27	6.91	Activist involvement. Potential breakup of company possible.
8	**TGT**	Retailers	(0.1)	0.16	8.03	Terrible 3Q results.
9	**PFE**	Pharmaceuticals	(0.1)	0.75	8.54	Policy Uncertainty
10	**MSFT**	Technology	(0.1)	0.54	10.39	FTC probe into cloud businesses
11	**NEM**	Metals and Mining	(0.0)	0.12	7.49	Earnings miss
12	**INTU**	Technology	(0.0)	0.07	6.9	Rollout of a new free tax-filing app weighing on name
13	**ABBV**	Pharmaceuticals	0.0	0.74	8.62	Policy Uncertainty
14	**SWK**	Building Materials	0.0	0.06	6.53	Fundamental pressure. High exposure to China
15	**LLY**	Pharmaceuticals	0.1	0.30	10.05	Policy Uncertainty

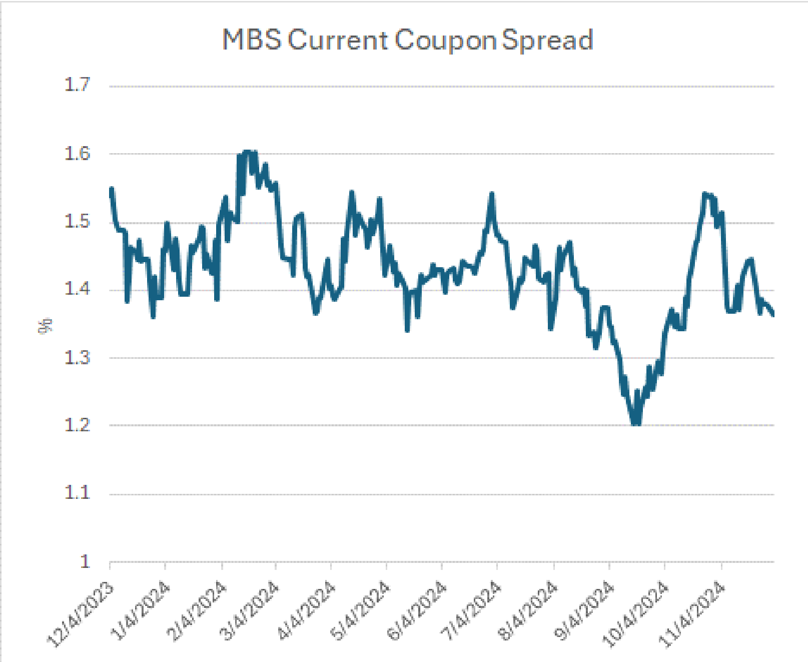
Source (graph, table data): Bloomberg, AAM

Market graphs (Source: Bloomberg, AAM)









Structured Products

By Chris Priebe and Mohammed Ahmed

Agency MBS outperformed, the tone in CMBS continued to be positive and ABS issuance finally slowed.

Rating Changes

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

The Agency RMBS sector outperformed US Treasuries by over 50 bps in November. Current coupon MBS spreads tightened 15 bps from +151 down to +136 bps. MBS demand was strong in November and the basis roared back. We finally saw bank and REIT demand, and we also saw demand from money managers selling Corporates to add MBS. The 30-year coupon stack performance was strong lead by the belly of the stack. 30 year 3.00's through 30 year 5.50's were the top performing coupons in excess returns (ER), while highest coupons lagged. **AGENCY MBS ER +56 bps**

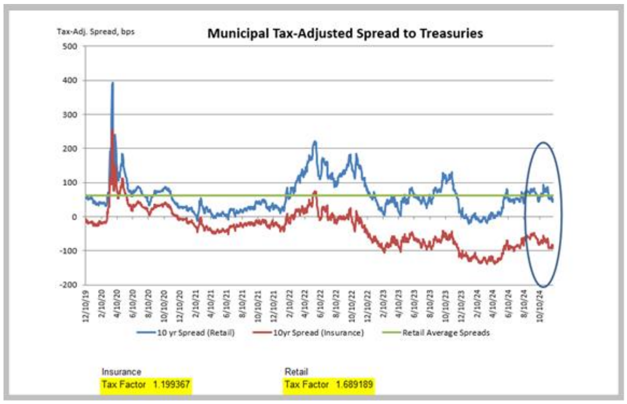
The CMBS market extended its strong rally witnessed in October. CMBS conduit spreads continued to tighten with demand for shorter duration product. The lack of 10-year issuance has also helped the "wings" of the CMBS curve become a strong performer in November. New issue conduit and bid lists were met with huge demand. We have seen 10+ bps of tightening in spreads month over month especially in the 2 year and 7-10-year maturity range. We continue to see positive news on refinancing of single asset (SASB) and conduit deals. **CMBS ER +40 bps**

The ABS new issuance market is finally slowing down after setting records for the number of deals. New issue ABS supply for 2024 has already set a post Covid-crisis record at $332 billion, close to 22% higher than the same time last year. The November deals were once again well oversubscribed, and spreads tightened. **ABS ER +31 bps**

CLO new issue spreads remained flat month over month across AAA and AA classes with subordinate classes tightening in a little more than seniors. CLO issuance remained elevated with all ABS sectors, hitting record issuance of $186.7 billion YTD. CLOs performed in line with fixed alternatives in November. **Total return +60 bps**

Sources: Bloomberg Index (chart: FNCL CC Spread to 5/10), JP Morgan

Municipal Bonds



Source: Greg Bell, CFA, CPA

Tax exempt muni sector had fairly healthy performance with lower net issuance due to election and FOMC uncertainty. Taxable spreads tightened with continued light issuance, which is expected to remain supportive for spreads in December.

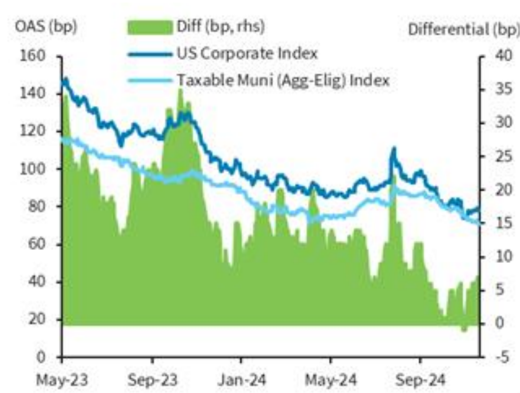
Tax-exempts Tax-exempts exhibited fairly healthy relative performance in November, with 10yr muni-to-Treasury ratios falling from 70% to 66.6% at month-end. Primary catalyst for the performance was moderating new issuance levels for the sector. In terms of spreads, tax-adjusted spreads for institutional investors taxed at 21%, saw spreads tighten by 16bps in 10yrs and widen by 3bps in 5yrs to end the month at -92bps and -84bps, respectively. (Source: Refinitiv, Bloomberg)

For new issue supply, after seeing seven straight months of issuance over $40 per month, that resulted in an average of $48 billion per month, November issuance came in at just $24.7 billion for a year-over-year decrease of 33% relative to November 2023. Issuers were reluctant to bring deals around the general election and the FOMC meeting during the month. November's issuance was the lowest monthly total for the year. (Source: Bond Buyer)

On the demand side, muni mutual fund flows continue to be strong, with the last week of November producing $562 Billion in inflows. That brought the 4-week average for the month to $854 Billion. That's largely in line with October's average weekly inflows of $825 Billion. (Source: Lipper)

Looking forward, the sector is now in the very strong reinvestment cycle that runs from December 1st through February 15th. New issuance, as in November, is expected to moderate from pre-November levels. Overall, the market should see better relative valuation levels into year-end. Current 10yr muni-Treasury ratios of 66% equates to a tax-adjusted spread of 53bps for retail investors subject to the highest marginal tax bracket. Going into year-end, this spread level should be viewed as an attractive entry point for investment. However, in our opinion, institutional investors taxed at 21% should view any strengthening in relative value of tax-exempts as an opportunistic exit point for the sector. (Source: Refinitiv, Bloomberg)

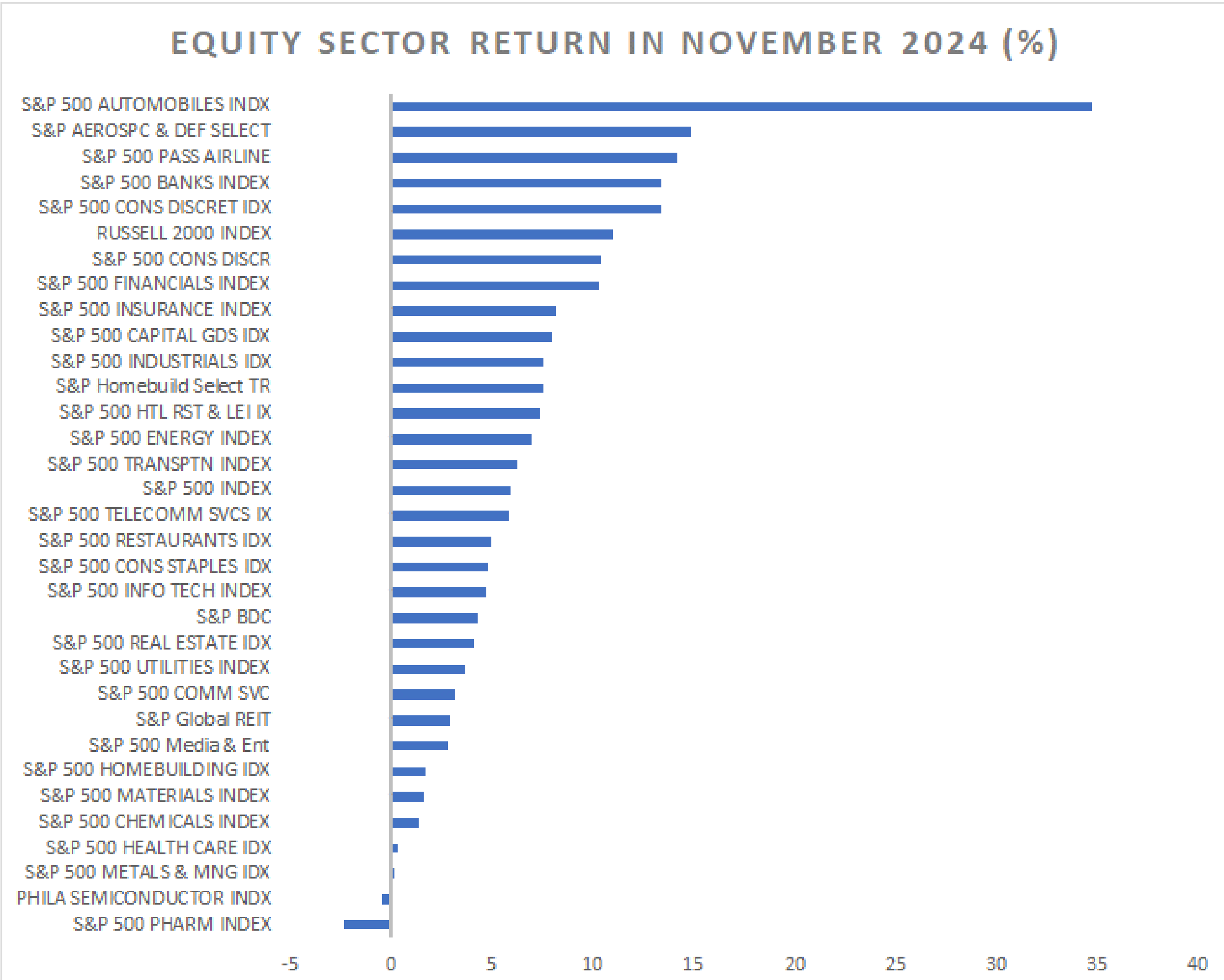
Taxables The taxable muni sector continued to exhibit a very steady tone with a modest firming bias. The anemic new issuance trend continued to be one of the main areas of support for the sector. New issuance for November came in at just $1.6 billion. That was down 48% versus November 2023. (Source: Bond Buyer)



In reviewing spreads over the last month, the taxable muni OAS of the Bloomberg AGG index tightened another 7bps, after tightening by 6bps in October. When reviewing trades and secondary offerings, spreads across the curve were tighter by 6 to 7bps. Favorable technicals for the sector are expected to continue to be a significant driver of support for current spread levels through the end of the year.

Source: AAM, Bloomberg, Barclays

Other Asset Classes



Source: Bloomberg, AAM