

# Corporate Bond Commentary

## Corporate Bond Market Comments

It was risk-off for investors last week with another category four Hurricane hitting the shore of the United States, a major earthquake in Mexico, and continued political upheaval both globally and domestically with issues over the growing nuclear capability of North Korea and the need to increase the debt ceiling by Congress increasing investors aversion to risk.

Banks and insurers (including re-insurers) experienced some spread widening (prices were down in the 4-5% range) while home improvement retailers and energy providers saw the opposite as prices were up around 6%. In the high yield markets most of the sectors were weaker as the risk-off trade hits high yield much harder than it does investment-grade debt, with only the energy sector experiencing price improvement.

The investment bankers were back to work last week with \$47 billion of new bonds issued and a forward calendar of \$30 billion expected to be priced this week. Secondary investment-grade trading was fairly active with the 10-day Friday moving average of \$11.4 billion, according to data from Bloomberg.

Investment-grade corporate bonds yields ended last week at 3.14% while the spread level over comparable Treasury yields was 113 bps. The IG yield level began the year at 3.39% resulting in yields falling 25 bps this year while spread levels were 122 bps over at the onset of 2017 resulting in spread tightening of nine bps this year. Investment-grade corporate bonds have a year-to-date total return of 5.61% and 2.89% over the past 12-months.

Investment-Grade Corporate Bond Total Return and Statistical Data - 9/8/17

	TR-12	YTD	Yield	Spread	Price	Coupon	Mat	Duration	Convexity
<b>IG Corporates</b>	<b>2.89%</b>	<b>5.61%</b>	<b>3.04%</b>	<b>113</b>	<b>\$106.56</b>	<b>3.99%</b>	<b>11.01</b>	<b>7.59</b>	<b>1.10</b>
Aaa	1.23%	6.41%	2.83%	71	\$105.26	3.28%	17.35	10.77	2.18
Aa	1.50%	4.51%	2.48%	67	\$105.18	3.13%	9.56	6.82	0.99
A	2.20%	5.34%	2.80%	90	\$107.29	3.79%	10.86	7.67	1.13
Baa	3.83%	6.03%	3.35%	142	\$106.32	4.35%	11.14	7.55	1.06
<b>Industrial</b>	<b>2.72%</b>	<b>5.68%</b>	<b>3.14%</b>	<b>118</b>	<b>\$106.64</b>	<b>4.08%</b>	<b>12.06</b>	<b>8.09</b>	<b>1.24</b>
Utility	2.41%	6.78%	3.19%	108	\$110.40	4.36%	15.13	10.04	1.75
Financial	3.40%	5.22%	2.81%	104	\$105.60	3.75%	8.03	6.06	0.70

Source: Bloomberg Barclay's Indices

Preferred securities have a year-to-date total return of 9.42% and a trailing-12 month total return of 4.19%, according to data from Bank of America Merrill Lynch Indices. Leveraged loans have a total return this year of 2.80% and a trailing-12 month total return of 5.75%, according to the same indices.

High yield spreads ended the week at 381 bps over comparable Treasury yields while the yield level was 5.59%. High yield spreads began the year at 398 bps over which has resulted in tightening of 17 bps year-to-date while yields have fallen from 6.01% at the onset of 2017 resulting in yields down 42 bps. High yield corporate bonds have a total return of 6.23% year-to-date and 8.40% over the trailing 12-months, according to data from the Bloomberg Barclay's Indices.

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## High Yield Corporate Bond Total Return and Statistical Data – 9/8/17

	TR-12	YTD	Yield	Spread	Price	Coupon	Mat	Dur	Con
High Yield	8.40%	6.23%	5.59%	381	\$101.52	6.44%	6.27	3.79	(0.28)
Ba	6.88%	6.35%	4.12%	237	\$105.14	5.65%	6.91	4.36	(0.08)
B	7.73%	5.38%	5.51%	376	\$101.97	6.65%	6.08	3.45	(0.51)
Caa	13.79%	7.71%	8.73%	694	\$94.59	7.77%	5.06	3.06	(0.27)
Ca-D	29.62%	12.12%	23.89%	2,064	\$64.94	8.82%	3.65	2.57	0.09
Ba/B	7.24%	5.88%	4.78%	303	\$103.62	6.13%	6.52	3.93	(0.28)
Industrials	8.35%	6.03%	5.68%	390	\$101.15	6.46%	6.30	3.75	(0.30)
Energy	9.97%	2.90%	7.01%	512	\$95.97	6.45%	6.58	4.33	(0.10)
Retailers	0.73%	1.46%	8.06%	605	\$93.31	6.56%	6.69	3.76	(0.12)
Utilities	7.58%	8.08%	5.76%	391	\$101.17	6.59%	6.41	3.75	(0.54)
Financial	9.13%	7.63%	4.65%	294	\$105.32	6.19%	5.95	4.10	(0.01)

Source: Bloomberg Barclay's Indices

### Default Data

S&P estimates that their U.S. trailing-12-month speculative-grade corporate default rate fell to 3.3% in August 2017 from 3.5% in July 2017. Out of the three defaults in August, two were from the energy and natural resources sector, which had an estimated speculative-grade default rate of 15.1%. Excluding the energy and natural resources sector, their speculative-grade default rate estimate is 2.0%.

### Sources:

Bloomberg: Bond News

Bloomberg Barclay's Indices

CreditSights: Monday Morning Meeting Notes: Defense Ahead of Irma. September 11, 2018.

S&P: Global Fixed Income Research. September 5, 2017.

For more information please contact your Financial Advisor.

## **Appendix – Important Disclosures**

Some of the potential risks associated with fixed income investments include call risk, reinvestment risk, default risk and inflation risk. Additionally, it is important that an investor is familiar with the inverse relationship between a bond's price and its yield. Bond prices will fall as interest rates rise and vice versa.

When considering a potential investment, investors should compare the credit qualities of available bond issues before they invest. The two most recognized rating agencies that assign credit ratings to bond issuers are Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S&P"). Moody's lowest investment-grade rating for a bond is Baa3 and S&P's lowest investment-grade rating for a bond is BBB-. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest).

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