COLUMBIA THREADNEEDLE INVESTMENTS

Columbia Threadneedle Spread Monitor: January 2023

January 19, 2023

Track fixed-income opportunities with this monthly update.

One way to understand where opportunity lies in the broad fixed-income market is to look at bond spreads — which measure the difference in yield between a bond and a risk-free benchmark like U.S. Treasuries. Our proprietary Spread Monitor measures this difference by examining more than 20 years of data.

Yield spreads can give market observers a quick snapshot of sentiment. For instance, when investors become risk-averse and favor safer bonds, yield spreads widen and investors are "paid more" to take on risk. Comparing current spreads relative to historical levels helps investors evaluate opportunities across fixed-income sectors.

Key takeaways for January 2023

- Spreads tightened during the month, resulting in less compensation to take on risk.
- At these levels, we are more cautious about corporate bonds as recession risk remains elevated.
- We are leaning toward Agency and quality non-Agency mortgage-backed securities because of attractive valuations and strong performance. We also prefer mortgage securities issued in 2020 and early 2021, which experienced significant home price appreciation and could provide greater protection as prices decline.

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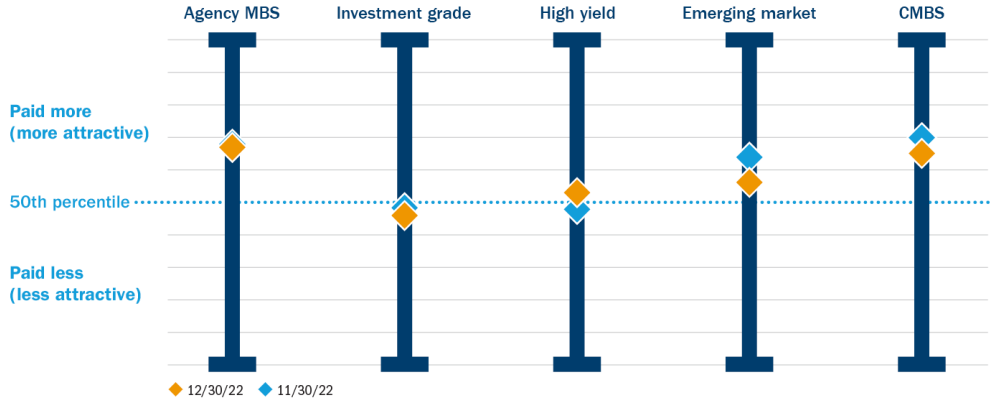
How much are fixed-income investors being paid to take on excess risk?

Range of spreads over more than 20 years



Source: Bloomberg, as of 12/30/22. Each bar represents the range of 20 years of daily spreads, with the current percentile position indicated. Bloomberg U.S. MBS Fixed Rate (Agency MBS); Bloomberg U.S. Agg Corporate Index (Investment Grade); Bloomberg U.S. Corporate High Yield Index (High Yield); Bloomberg EM U.S.D Agg Index (Emerging Markets); Bloomberg U.S. Agg CMBS (CMBS). It is not possible to invest directly in an index. The **Bloomberg U.S. Mortgage-Backed Securities Index** includes 15- and 30-year fixed-rate securities backed by mortgage pools of Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). The **Bloomberg U.S. Corporate Investment Grade Index** measures the investment-grade, taxable corporate bond market. The **Bloomberg U.S. High Yield Corporate Bond Index** represents the universe of fixed rate, non-investment-grade debt. The **Bloomberg Emerging Markets Bond Index** includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The **Bloomberg U.S. CMBS Investment Grade Index** consists of publicly issued, fixed rate, nonconvertible, investment-grade debt securities. It is not possible to invest directly in an index.

Bottom line

Credit spreads are one metric that investors can use to gauge the appropriateness of risk compensation in the bond market. A more thorough understanding of risk versus reward allows us to identify opportunities as they emerge and position portfolios for value.

Learn more about the importance of understanding spreads from Gene Tannuzzo, Global Head of Fixed Income.

Download transcript

Disclosures:

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