COLUMBIA THREADNEEDLE INVESTMENTS

Columbia Threadneedle Spread Monitor: May 2023

May 16, 2023

Track fixed-income opportunities with this monthly update.

One way to understand where opportunity may lie in the broad fixed-income market is to look at bond spreads — which measure the difference in yield between two bonds with similar maturity, where one has a higher credit rating than the other (e.g., government Treasuries and corporate bonds). 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 relatively 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 May 2023

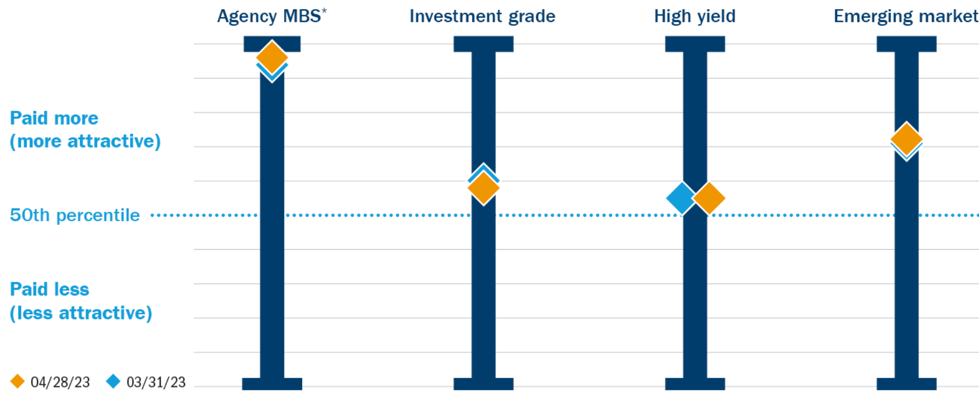
- Treasury yields and credit spreads largely moved sideways as markets recovered from shocks to the banking sector in March.

- With credit spreads roughly flat across the quality spectrum, lower rated fixed-income sectors outperformed due to their yield advantage.

- While the announced liquidations of Signature Bank's and Silicon Valley Bank's mortgage portfolios are expected to be gradual and orderly, the process could place near-term pressure on agency MBS and lower coupon bonds.

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

Range of spreads over 20 years



Source: Columbia Threadneedle Investments.

*Agency MBS are represented by 30-year Agency mortgage-backed securities (FNCL) traded in the TBA market (current coupon) using LIBOR discounting (data available since July 2006).

Each bar represents the range of daily spreads for the last 20 years, with the current percentile position indicated. Investment grade is represented by the **Bloomberg U.S. Corporate Investment Grade Index**, which measures the investment-grade, taxable corporate bond market. High yield is represented by the **Bloomberg U.S. High Yield Corporate Bond Index**, which includes the universe of fixed-rate, non-investment grade debt. Emerging markets are represented by the **Bloomberg Emerging Markets Bond Index**, which includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. 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 potential value.

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