

Columbia Threadneedle Spread Monitor: November 2022

November 22, 2022

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.

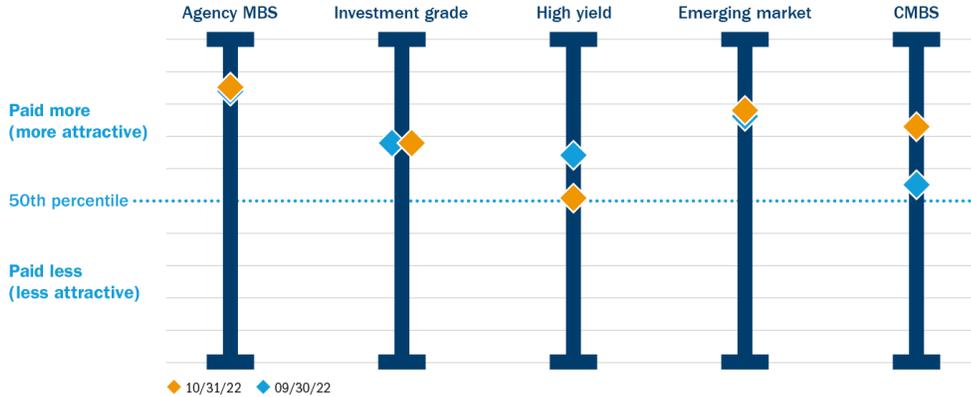
Yield spreads can give market observers a quick snapshot of sentiment. For instance, when investors become risk-averse and favor safer bonds, yield spreads widen, and investors are “paid more” to take on risk. Comparing current spreads relative to historical levels helps investors evaluate opportunities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

Key takeaways for November 2022

- Spreads widened across credit as volatility persisted.
- Although fundamentals continue to hold, headwinds — including tightening financial conditions, high inflation and poor technicals — keep us bearish on lower quality asset classes such as high-yield and emerging market bonds.
- We are neutral to overweight on residential mortgages (both agency and non-agency), where we can be more selective as housing slows and the labor market softens.

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

Range of spreads over more than 20 years

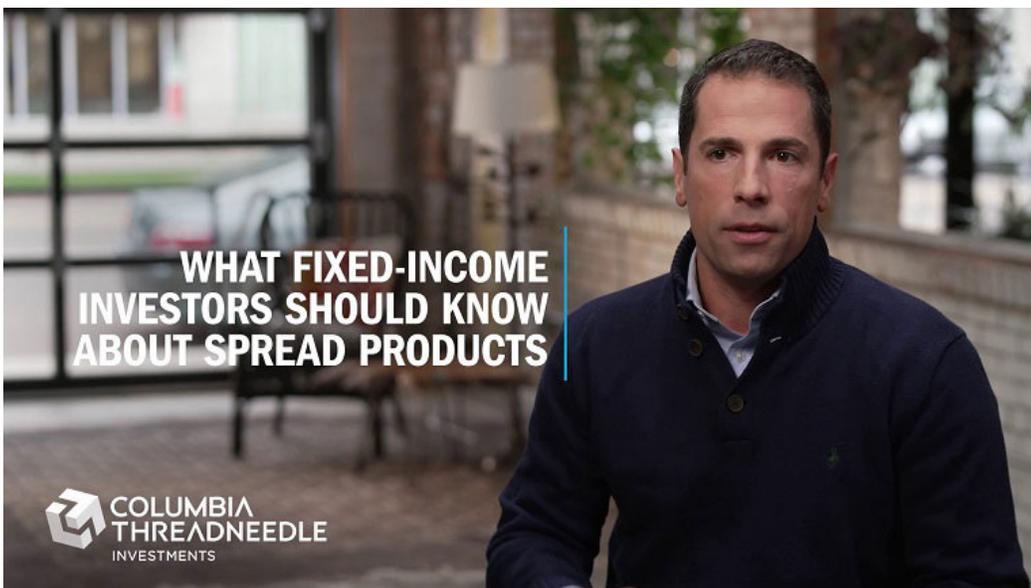


Source: Bloomberg, as of 10/31/22. Each bar represents the range of 20 years of daily spreads, with the current percentile position indicated. Bloomberg U.S. MBS Fixed Rate (Agency MBS); Bloomberg U.S. Agg Corporate Index (Investment Grade); Bloomberg U.S. Corporate High Yield Index (High Yield); Bloomberg 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.



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