Global Investment Grade Corporates:
Let the Good Times Roll!

Payden&Rygel

Major central banks easing policy, solid economic growth and moderating inflation should bode well for global investment grade corporate credit. So, is global investment grade corporate the current sweet spot in fixed income? We think it might just be.

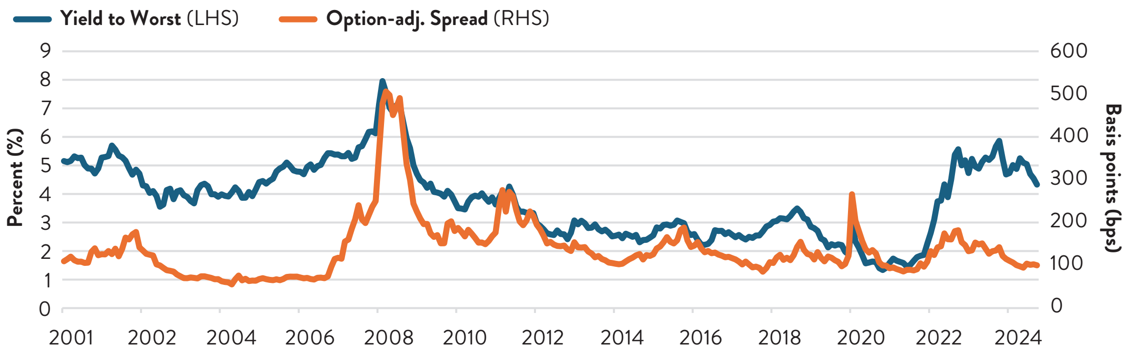
1. Global Economic Backdrop Supports Credit Markets

We expect above-trend GDP growth in the US for the remainder of 2024 and near-trend growth next year. The labor market may soften further but stabilize throughout next year, as we expect layoffs to remain low. Inflation is likely to ease toward the Fed target of 2% by mid-2025, though it may tick up later due to base effects. Growth outside of the US is still expanding but signs of divergence are appearing. Global services remain in expansionary territory while manufacturing has been contracting and countries or regions, like the eurozone, with strong exposure to global trade may experience softer growth going forward. Risks to growth have increased but we expect central banks to mitigate these by moving rates from restrictive to neutral levels. As growth dispersion across regions may increase, we believe that investors could potentially benefit from tapping into the global investment universe, gaining exposure to different economies.

2. All-in Yields Remain Compelling

All-in yields remain historically elevated despite spreads grinding tighter. The current yield-to-worst of 4.67% for the Bloomberg Global Aggregate Corporate Index (as at 31st October 2024) is in the 69th percentile, which means that nearly 70% of the monthly yield observations since January 2001 have been below the current level.

Historical Yield-to-Worst and Option-Adjusted Spreads



Source: Bloomberg Global Aggregate Corporate Bond Index, monthly yield-to-worst and spread data from 31/1/2001 to 31/8/2024

We do acknowledge corporate credit spreads are currently tighter than their longer-term averages but they have been tighter in similar environments, for example from 2004 to mid-2007. Assuming global central banks can orchestrate a soft landing by loosening monetary policy, we believe spreads can remain tight for an extended period.

3. Corporate Fundamentals and Supply/Demand Dynamics are Supportive

While corporate fundamentals are softening, we believe credit issuers remain resilient as many have extended debt at lower rates. Demand/supply dynamics should also be supportive of the asset class. New issuance has been robust this year as corporates continue to refinance upcoming debt maturities and to fund mergers and acquisitions. The increased supply has been met by strong investor demand with new issuances being multiple times oversubscribed on average. Going forward, we expect demand for investment grade corporates to remain elevated as yields continue to generate more interest investment grade corporates where investors are comfortable with the added credit risk versus government bonds.

Summary

Supportive Economic Backdrop	Attractive Valuations	Sound Corporate Fundamentals
Major central banks easing policy + solid economic growth + moderating inflation = Supportive environment for global investment grade credit	Current yield is above long-term average Spreads can remain tight if market is right about a soft landing In a recession, the embedded duration in corporate bonds may help protect capital.	Issuers termed out debt when interest rates were lower Expect issuers to benefit from a robust economy and soft landing especially in the US.

Payden Investment Grade Corporate Investment Philosophy

Conviction-Based, Diversified Portfolio

We build diversified portfolios shaped by our top-down macro views, enriched with high-conviction, bottom-up ideas from our experienced credit analysts.

Forward-Looking Credit Analysis with Global Reach

Our analysts cover sectors globally across capital structures, combining quantitative and qualitative assessments for superior value insights.

Seizing Attractive Market Opportunities

We identify mispriced securities with strong risk-adjusted returns, including primary market opportunities, fallen angels, and subordinated debt.

Mitigating Risk, Avoiding Land Mines

We focus on liquidity, disciplined position sizing, and a strong sell discipline to avoid credit risks and protect investments.

About Payden & Rygel

With $164 billion under management, Payden & Rygel is one of the largest privately-owned global investment advisers focused on the active management of fixed income and equity portfolios. Payden & Rygel provides a full range of investment strategies and solutions to investors around the global including Central Banks, Pension Funds, Insurance Companies, Private Banks, and Foundations. Independent and privately-owned, Payden is headquartered in Los Angeles and has offices in Boston, London, and Milan.

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