Investment Managers

The Case for US investment grade credit

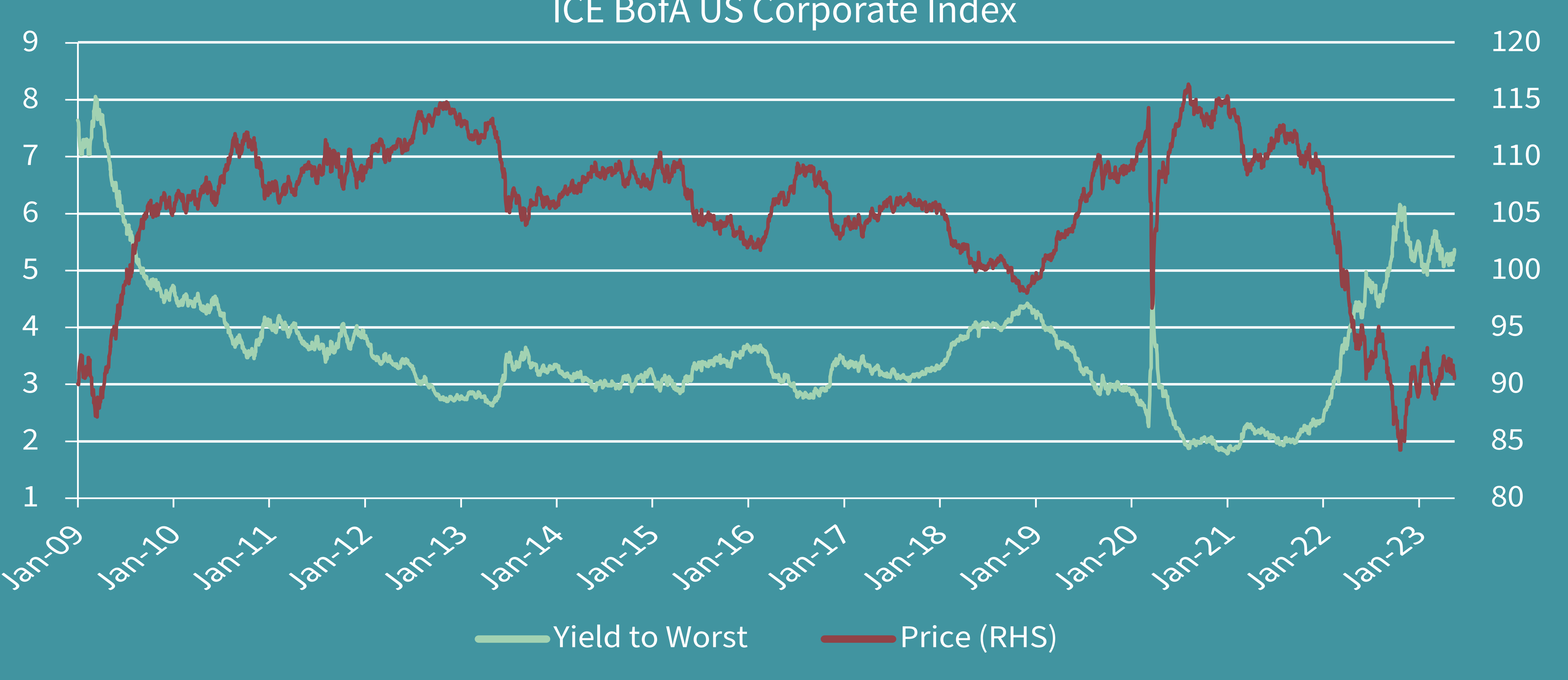
US corporates are showing resilient fundamentals and solid balance sheets despite ongoing monetary tightening and market disruption.

At a macro level, with inflation falling in response to monetary tightening by the Federal Reserve ('the Fed'), investors can potentially benefit from more attractive entry points as income takes over following the negative returns of the last two years.

1. Credit fundamentals remain robust

The US economy remains likely to enter a mild recession some time in 2023. That said, investment grade (IG) issuers should enter a potential recession in relatively good shape fundamentally.

US IG yield and price evolution since 2009



Source: Bloomberg, AXA IM, date from 1/2/2009 to 5/17/2023

- All-in credit yields for IG bonds are **historically attractive** after the Fed's 500bps hike in rates from March 2022 to April 2023, and have not reached these levels since 2009.
- IG credit may also offers **attractive compensation** for interest rate and credit risks.

2. Making size and liquidity matter

With a value of around **US$8 trillion**, the **US credit** universe accounts for roughly **two-thirds** of the **global corporate market,** and has several key features:

- Strong **liquidity** profile
- **Diversified** with an abundance of selection opportunities
- **Positive technicals** following a decline in issuance

3. Accessing short-to-intermediate duration strategies

An inverted US government bond curve creates comparable yields for short-to-intermediate vs full duration strategies without incremental interest rate and credit risks.

Key features of shorter duration bonds:

- An ability to boost liquidity via regular cashflows to the portfolio
- A higher potential reinvestment rate by seizing opportunities when rates rise
- A price closer to par for bonds nearer maturity versus longer duration bonds
- Lower volatility in returns compared with the broader market

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