

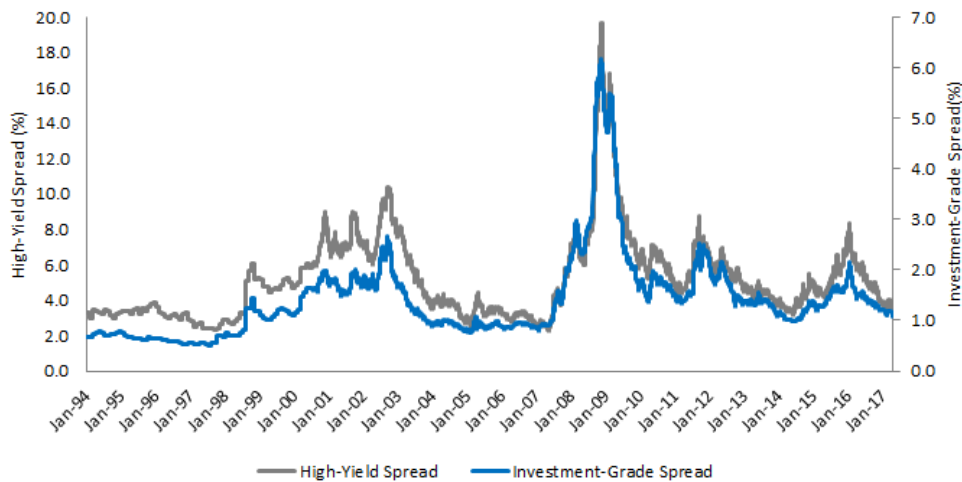
U.S. FIXED INCOME: TAKING ALL THE CREDIT

Kevin Flanagan – Head of Fixed Income Strategy
05/24/2017

Without a doubt, one of the better-performing sectors in the fixed income arena over the last year or so has been the U.S. [corporate bond](#) market. Indeed, both the [high-yield \(HY\)](#) and [investment-grade \(IG\)](#) asset classes have enjoyed visibly positive returns both in 2016 and thus far in 2017, with HY registering specifically robust readings. Against this backdrop, questions have surfaced as to whether these types of performance can be sustained for the remainder of 2017.

And here we are, almost five months into the calendar, and the question remains: Can the U.S. corporate bond market continue to produce positive outcomes? Oftentimes, market participants tend to focus on more recent trends, and in the process apply their findings to determine whether an asset could be overbought or oversold. In order to put recent developments in U.S. corporates into some perspective, we thought it would be a useful exercise to take a look at how HY and IG spreads have fared over a longer period.

Investment-Grade Spread (RS) vs. High-Yield Spread (LS)



Sources: Bloomberg, Barclays, as of 5/18/2017. Past performance is not indicative of future results.

So, where exactly are U.S. corporate bond spreads? According to the [Bloomberg Barclays U.S. Aggregate Corporate Index](#), IG spreads have narrowed by 10 [basis points \(bps\)](#) since the end of the year, and stood at 113 bps as of this writing. This is the lowest level since the latter half of 2014. On the HY front, the [Bloomberg Barclays U.S. Corporate High Yield Index](#) shows the spread at 376 bps, a decline of 33 bps from the year-end 2016 tally, and also resides at levels last seen almost three years ago. A slightly more dramatic way of looking at the current readings is to focus on how much these spreads have come in since the recent high watermarks were posted in February of last year. From this key risk-off period, IG spreads have declined by more than 100 bps, and an eye-

popping 463 bps for HY. It is this combination of recent spread-narrowing and current levels that has prompted the aforementioned questions.

This is where some historical perspective is in order, specifically: Have we entered uncharted territory? The accompanying graph certainly reveals many past peaks and valleys in U.S. corporate spreads, even without the impact of the financial crisis and great recession of 2008–2009. More importantly, the graph also reveals that the current spread readings for both IG and HY have been in this territory before, and even lower, most recently during the 2003–2007 timeframe. For the four-year period prior to the beginning of the financial crisis, the average spread for IG was 93 bps, and 349 bps for HY, which is below current readings. Taking it one step further, the low watermarks during that timeframe were 76 bps and 233 bps for IG and HY, respectively. While we would not expect to revisit these lows this time around, we do feel it provides a good frame of reference. In the case of the IG low point, it was actually printed right in the middle of the [Federal Reserve's \(Fed\)](#) last round of rate hikes back in 2005.

Conclusion

The bottom line message is that U.S. [credit spreads](#) may not necessarily have to widen in any visible fashion from their current postings, especially if there are no significant risk-off events to contend with. To be sure, continued economic growth (most economists do expect a noticeable rebound in Q2 real GDP) and a gradual, deliberate Fed policy could provide a steady underpinning for both the IG and HY markets in the months ahead.

Unless otherwise noted, source is Bloomberg, as of 5/18/2017.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Corporate Bonds: a debt security issued by a corporation.

High Yield: Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securities.

Investment grade: An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

Barclays U.S. Corporate Index: is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.

Basis point: 1/100th of 1 percent.

Barclays U.S. Corporate High Yield Index: Covers the universe of fixed-rate, non-investment-grade corporate debt.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Credit spread: The portion of a bond’s yield that compensates investors for taking credit risk.