

Chart of the Day

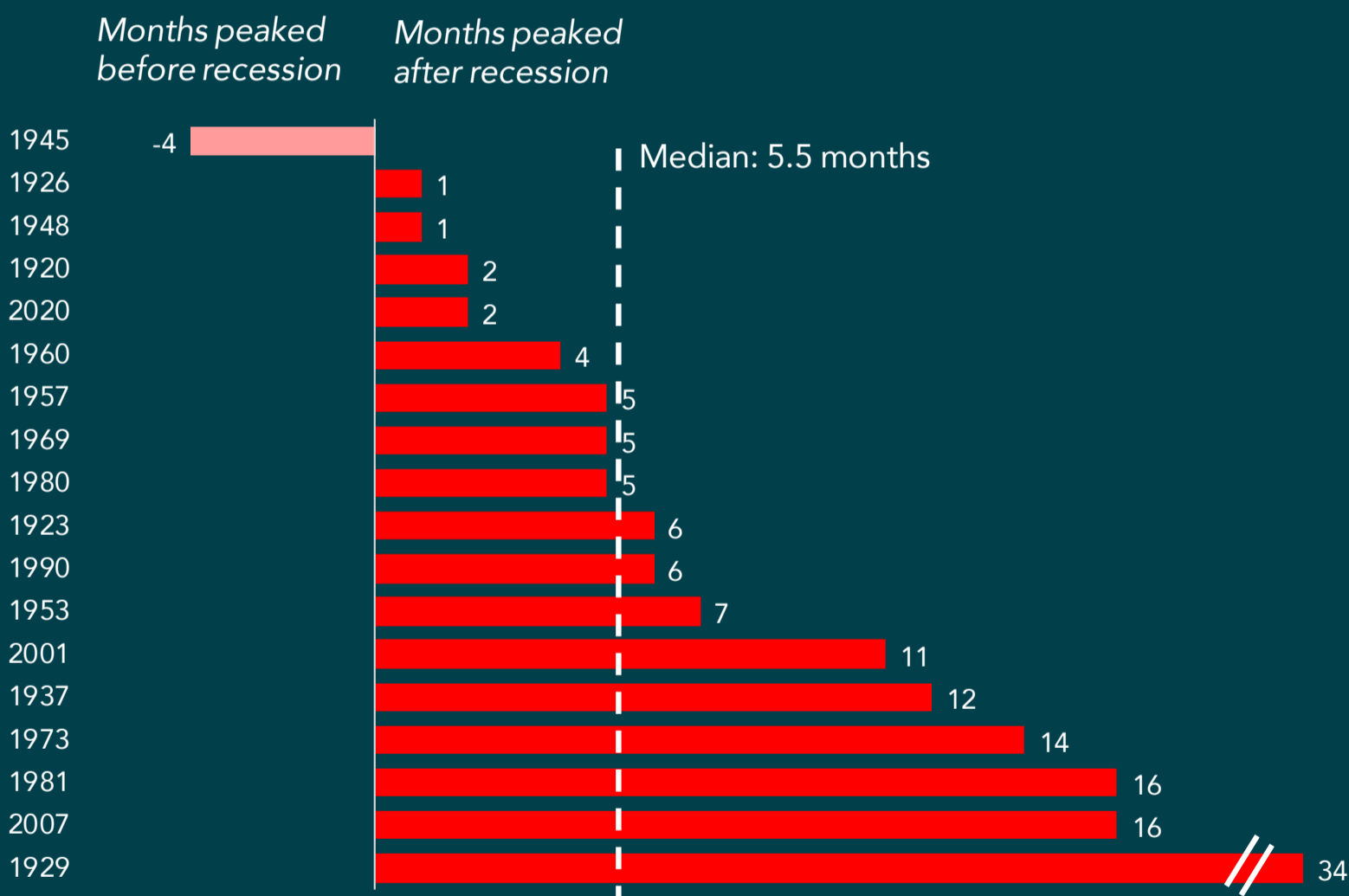


Just as equity markets seldom hit bottom before recessions, corporate credit spreads rarely peak in advance of US recessions. In fact, in the nearly 20 US recessions over the last 100 years, corporate credit spreads peaked before the recession on only one occasion.

We continue to believe that the strong Q4 tightening in both USD IG and HY credit spreads is not sustainable. In our view, corporate credit spreads will likely gap-out sharply wider as the US economy becomes more firmly entrenched in recession in the 2H of 2023.

Over the last 100 years, corporate credit spreads have typically peaked 5-7 months after the start of the recession.

of months after recession starts to spread peak



Source: (1) Capital Economics, "We Think US Corporate Bond Spreads Will Widen Again" (December 12, 2022). Shiller, NBER, Bloomberg, Refinitiv. Spreads are derived using the OAS of ICE BofA (2000-today) or Moody's seasoned Baa-rated US corporate bond yield (1962-1999) or the NBER US yields on lowest rating corporate bonds (1920-1961).

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"Macro stability isn't everything, but without it, you have nothing."