Capital Markets Strategy

Essential inCights for the C-Suite

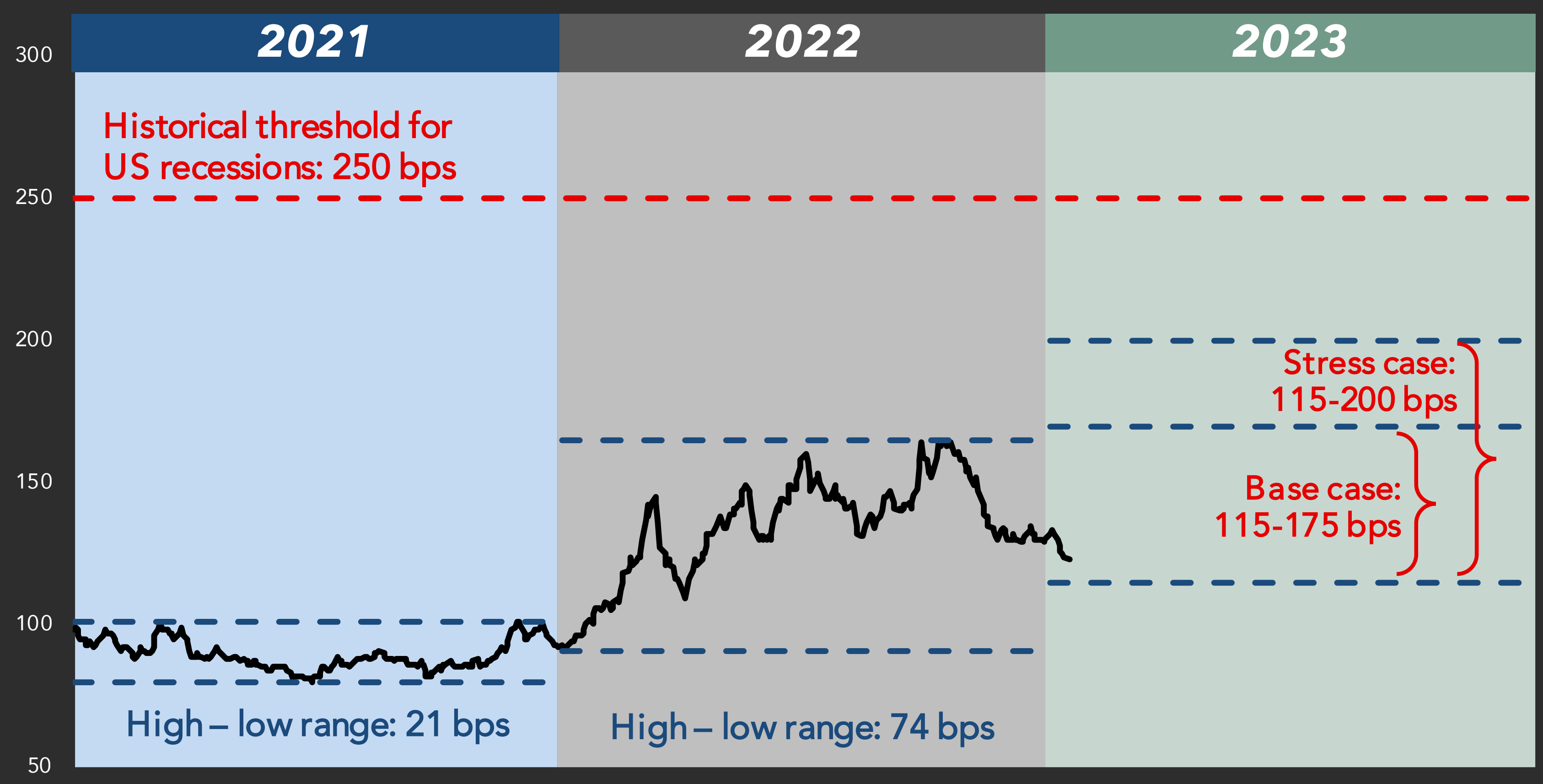
MUFG

Chart of the Day

In our view, pre-funding will be an important part of corporate strategy in 2023. While IG and HY spreads may be resilient in early 2023, we expect them to move higher, and in a wider range, as the year progresses.

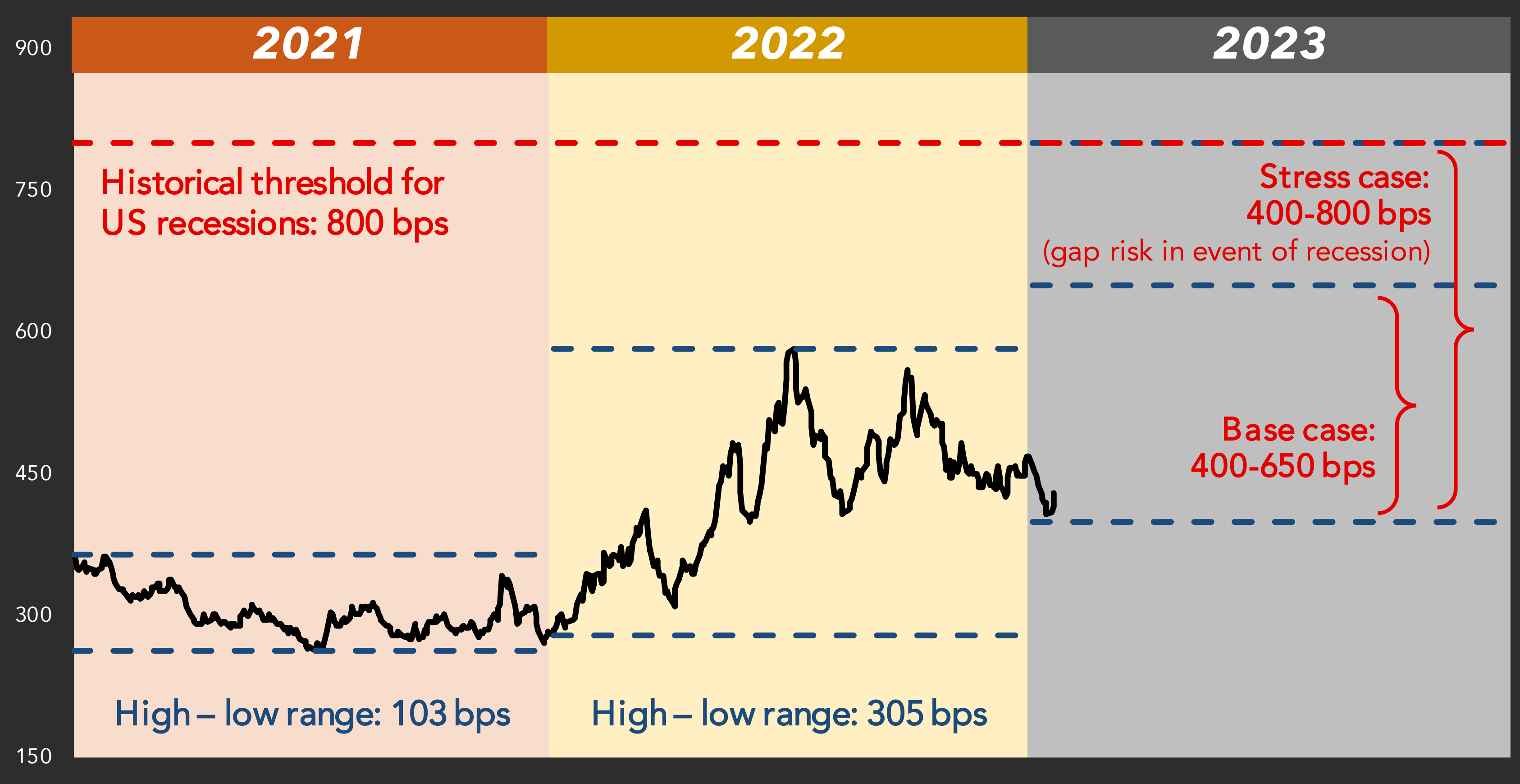
Historically, IG spreads trade above the 250 bps threshold during times of US recession. With strong corporate balance sheets, manageable maturity walls and a potentially mild recession ahead, look for IG credit spreads to trade higher than 2022 (115 – 175 bps, and as wide as 200 bps in more stressed scenarios).

USD IG OAS



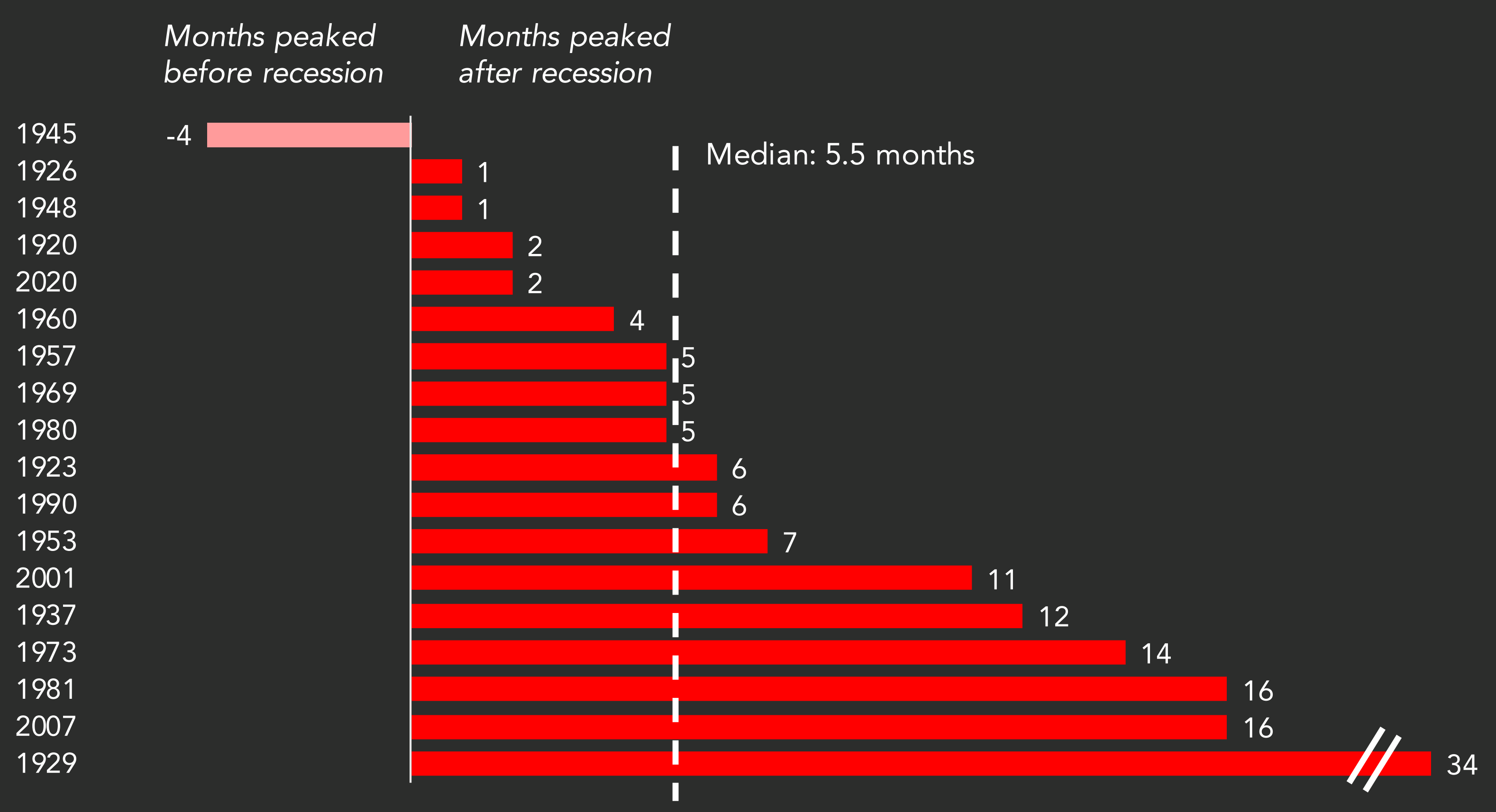
Historically, HY spreads trade above the 800 bps threshold during times of US recession. As economic growth and corporate earnings decelerate in 2023, look for HY spreads to trade higher, between 400-650 bps. Depending on the timing and strength of US recession, HY spreads could gap wider than our base case range later in the year.

USD HY OAS



In nearly 20 US recessions over the last 100 years, USD corporate credit spreads peaked BEFORE the recession on only one occasion. On average, spreads typically hit the wides about 5-7 months AFTER the start of the recession. As such, we believe the strong tightening in spreads over recent months is likely not sustainable, with gap-out risk on spreads increasing in the 2H of 2023.

# of months after recession starts to spread peak



Source: (1-2) Bloomberg. Data as of January 23, 2023. (3) 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).

Global Corporate & Investment Banking Capital Markets Strategy Team

Tom Joyce
Managing Director
Tom.Joyce@mufgsecurities.com
(212) 405-7472

Hailey Orr
Director
Hailey.Orr@mufgsecurities.com
(212) 405-7429

Stephanie Kendal
Associate
Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

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