



Feedback

Portfolio perspectives | White paper - 4 Min

Fixed Income Outlook – Corporate bonds still a bright spot



2 AUTHORS - PORTFOLIO PERSPECTIVES
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We expect corporate bonds to deliver positive returns in the primarily due to the attractive yields. With money market ra

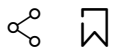
In this article:

US investment-grade corporate bonds - Attractive yields

US high-yield credit - Cautious, but opportunistic

Eurozone IG bonds - Yield and potential for tighter spreads

EU high-yield - More cautious, but still opportunistic

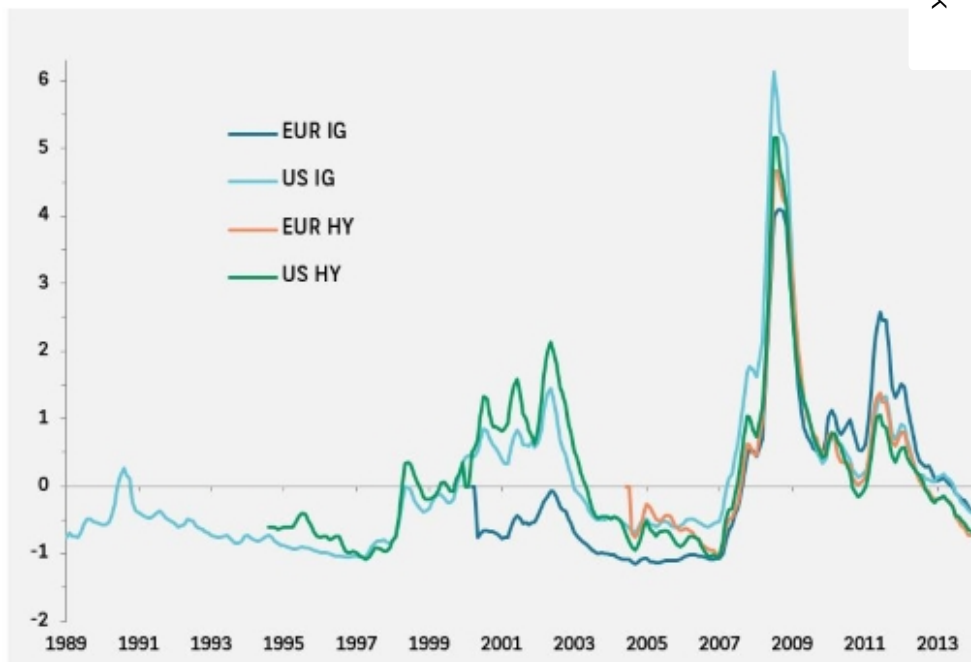


attractive as interest rate cuts loom, further supporting inflow likely.

The main risk to our view is core US inflation remaining above the target level for longer than the market expects, taking interest rates down. Such a scenario looks unlikely, in our view, and could be actually attracted by current yields, the combination of inflation and high risk appetite, eroding some of the demand for the asset class currently.

Exhibit 1

Corporate credit spreads are below average
Z-score for index option-adjusted spread



Data as at 17 April 2024. Sources: FactSet, BNP Paribas Asset Management.

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US investment-grade corporate bonds – Attractive yields

The US has been the strongest economy in the developed world one most likely to lead global growth in the year ahead. The dec earnings seen in recent quarters is increasingly likely to pivot to supported by robust company guidance in the most recent earni

While many companies remained cautious (to their long-term be eventually lower interest rates should now both increase the av; reduce its cost, leading to greater enthusiasm for capital expend acquisitions (M&A).

Aggregate yield spreads over US Treasuries have tightened mode substantial rally in the final quarter of 2023) and are currently b levels seen before the COVID-19 pandemic. However, inflows into strong, from both domestic and overseas investors, and we expe

Investment-grade (IG) credit's absolute yields (currently at over standards and lower interest rates should only increase the opp cash. For investors seeking income, such as pension funds, c attraction – not the possibility of capital appreciation due to our view, investors could be rewarded for following their lea

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US high-yield credit – Cautious, but opportunistic

The outlook for high-yield (sub-investment grade) bonds in the l

The US economy, despite all its strengths and opportunities, has The consumer, to take one example, has been impressively robust (particularly among the lower and middle-income brackets) sug waning. Within the high-yield asset class, the average credit rati while an increase in distress ratios suggest a modest increase in matter of time.

In our view, lower interest rates and a turnaround in growth are high-yield asset class more compelling. While we expect both ar ahead, and inflows into the asset class could accelerate rapidly improves, the current combination of patchy fundamentals and

suggests that a selective name-by-name approach to identify this is warranted.

Eurozone IG bonds – Yield and potential for tighter spread

The eurozone economy has been stagnating, largely due to tighter more structural slowdown in Germany. However, we expect a mild months, driven by the more peripheral countries and the broader see core inflation reaching the European Central Bank's 2% target year, we expect the ECB to begin a swift series of interest rate cuts in the deposit rate falling to below 2% in 2025.

Meanwhile, corporate fundamentals have proven resilient, enter high starting point. The high level of cash held by many eurozone example, suggests they were well positioned to weather the recent Current valuations are attractive for long-term investment: high cushion to absorb a further rise in yields before capital loss

However, we expect yields not to rise. We also believe that feedback conditions necessary to generate strong total returns in the Attractive yields, a soft landing for the eurozone economy, a strong robust demand.

Security selection is essential, however, as not all sectors and companies perform equally well in this environment. We continue to favour the additional yield, while concentrating our exposure in non-cyclical utilities, telecommunications, and some consumer sectors and consistent average earnings growth.

EU high-yield – More cautious, but still opportunistic

The market consensus on the outlook for eurozone high-yield bonds the idea that current yields (however high they may be) don't attract investors for the many risks including weaker-than-expected growth monetary conditions, the conflict in Ukraine, and the emergence

approach to strategic industrial sectors.

While we agree with this assessment in aggregate, we think it m forest.

Within the asset class, the higher end of the credit spectrum car opportunities. While defaults are rising across the asset class, sc companies may be performing in line with expectations, have re risks, greater potential in a lower-rate environment, and thus th return. Similarly, within individual industries and sectors, there opportunities. For example, we continue to see value in higher- r financials sector, such as [AT1 paper in the banking sector](#), or sel 2025 or 2026 from companies with low refinancing risk.

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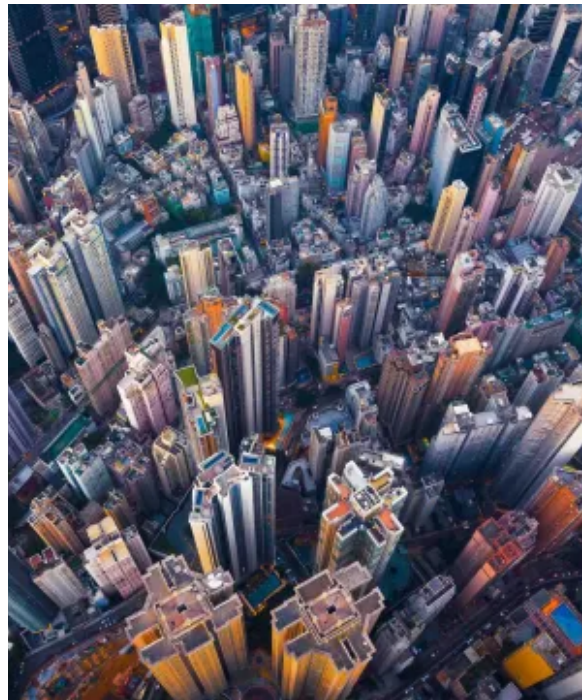
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