The Wind at Our Backs

Notes from the Trading Desk - Q1 2024

2024 began with plenty of bond issuance, continued disinflation, and a truckload of economic data for investors to assess and “divine” the likely path of central bank interest rate policies across the world. The first quarter saw quite a range of rate expectations for North America, from no cuts at all to 5-6 cuts, but as of quarter-end, markets were pricing in around 3 cuts in the U.S. and Canada for this calendar year.

Yields remain elevated both by historical standards and compared to other asset classes. Although we expect to see more volatility in the second quarter, we continue to identify very compelling opportunities in the bond market. Typically, as central banks ease, investors move money out of cash or money market back into fixed income, resulting in rising demand for bonds and potentially ushering in a new era for highly liquid credit assets.

We continue to find attractive absolute and relative value in Yankee Banks, which are European banks issuing USD-denominated bonds. In early Q1, we were able to participate in new supply by Barclays, a Global Systemically Important Bank and the second largest bank in the UK. Despite Barclays being systemically important and a well-run institution, the credit spread offered by their bonds was notably higher than American banks with the same credit rating and even more so than the average bank bond in the Global Aggregate Index. We took advantage of this dislocation and bought USD-denominated issues across the bank’s capital structure at extremely attractive levels of all-in yield. Barclays continues to be a top performer across our strategies.

Looking forward, we expect new issuance to slow down later in Q2, making the secondary market a larger focus and providing us the perfect opportunity to apply our credit selection expertise in picking the most attractively priced bonds in a company’s capital structure. This, combined with the high inflows into fixed income, lends for a significant tailwind. As such, active credit can provide compelling absolute and relative returns through dynamic security selection while still offering better liquidity and safety than many other areas of the debt market.

After years of headwinds for fixed income, 2024 is shaping up to be the much anticipated “Year of the Bond,” and fixed income investors are finally feeling the wind at their backs. We believe bond investors are in a unique position today to take advantage of these shifting market expectations and capitalize on the above-average, 90th percentile yields and the return potential in fixed income.

For more updates on the credit market, read our **Credit Market Themes in 5 Charts** article for this quarter.