

Fixed income perspective from the Investment Advisory Group

March 22, 2023

Chip Hughey, CFA
Managing Director, Fixed Income

Evan Moog, CFA
Fixed Income Analyst

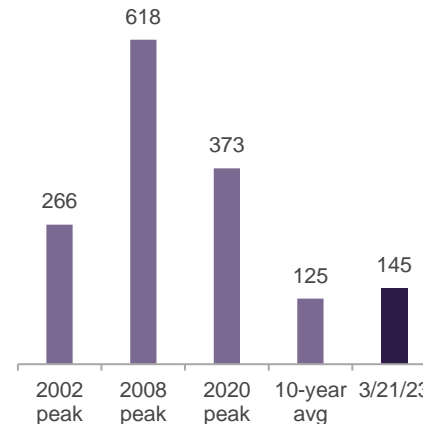
U.S. credit spreads still don't reflect economic risks

Expect further pressure in corporates, especially high yield

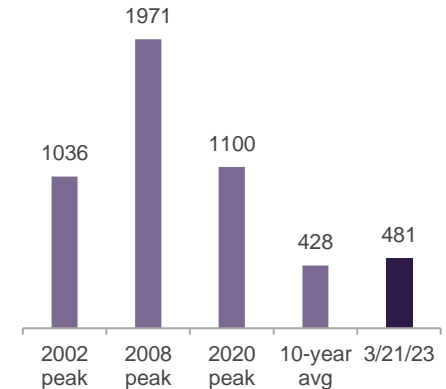
- U.S. corporate bond spreads (i.e., the additional yield corporates offer over like-maturity U.S. Treasury yields), started the year close to their long-run averages. At that time, we stated **credit spreads failed to sufficiently compensate investors for rising economic risks**.
- This month, heightened concerns around the stability of the banking sector and hawkish Fed policy fueled a sharp widening in U.S. credit spreads as investors exited riskier fixed income in favor of higher quality substitutes. Credit spreads for both investment grade and high yield corporate bonds have **moved above their 10-year averages but far below recessionary levels**.
- Rapid Fed rate hikes in response to inflation and higher intermediate yields are contributing to pockets of stress within the banking industry. In general, **we expect lending standards to continue tightening and create a meaningful headwind for growth** as we move through the year.
- Over the past two years, the Fed's hawkish policy stance and **the significant rise in U.S. interest rates have dramatically increased borrowing costs for U.S. companies**. This month's widening in credit spreads have amplified those costs and slowed U.S. companies' new debt issuance to a crawl.
- During periods of uncertainty and rate volatility like we have endured in March, **new issuance of corporate debt tends to fall meaningfully**. This limits corporate issuers' access to cash and can create liquidity challenges. We expect this dynamic to continue in the very near term.

- Given today's tight credit spread levels relative to prior periods of rising economic risk, **we maintain our underweight bias in U.S. credit**, especially below investment grade-rated sectors such as high yield corporate bonds and leveraged loans. We believe the riskiest fixed income sectors remain susceptible to relative underperformance versus high quality fixed income ahead of slower economic activity.
- We would use any spread tightening as an opportunity to lighten overweight credit exposures, particularly among lower-rated sectors**. Within investment grade corporates, we maintain an up-in-quality bias; AA- and A-rated corporate issuers currently offer a more compelling risk-reward profile than the lowest-rated tiers of investment grade debt.

Investment grade credit spreads (basis points)



High yield credit spreads (basis points)



Data source: Truist IAG, Bloomberg; data as of 3/21/2023. One basis point = 0.01%.
 IG credit spreads = Bloomberg U.S. Corporate Bond Index OAS
 HY credit spreads = Bloomberg U.S. Corporate High Yield Bond Index OAS
 Past performance does not guarantee future results



Wealth

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Investing in the bond market is subject to certain risks, including market, interest rate, issuer and inflation risk; investments may be worth more or less than the original cost when redeemed. The value of most bond strategies and fixed income securities are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and more volatile than securities with shorter durations; bond prices generally fall as interest rates rise, and values rise when interest rates decline.

Truist, Truist®, GFO Advisory Services®, and Sterling Capital® are service marks of Truist Financial Corporation. All rights reserved. All other trademarks are the property of their respective owners.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction. Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

Asset classes are represented by the following indexes. An investment cannot be made directly into an index.

Long government bonds = ; All government bonds; Investment grade corporate bonds = ; S&P 500 = ; 1-3 year government bonds = ; High yield corporate bonds = .

©2022 Truist Financial Corporation. Truist, the Truist logo, and Truist purple are service marks of Truist Financial Corporation. All rights reserved.

CN5537244.1 EXP3-2024