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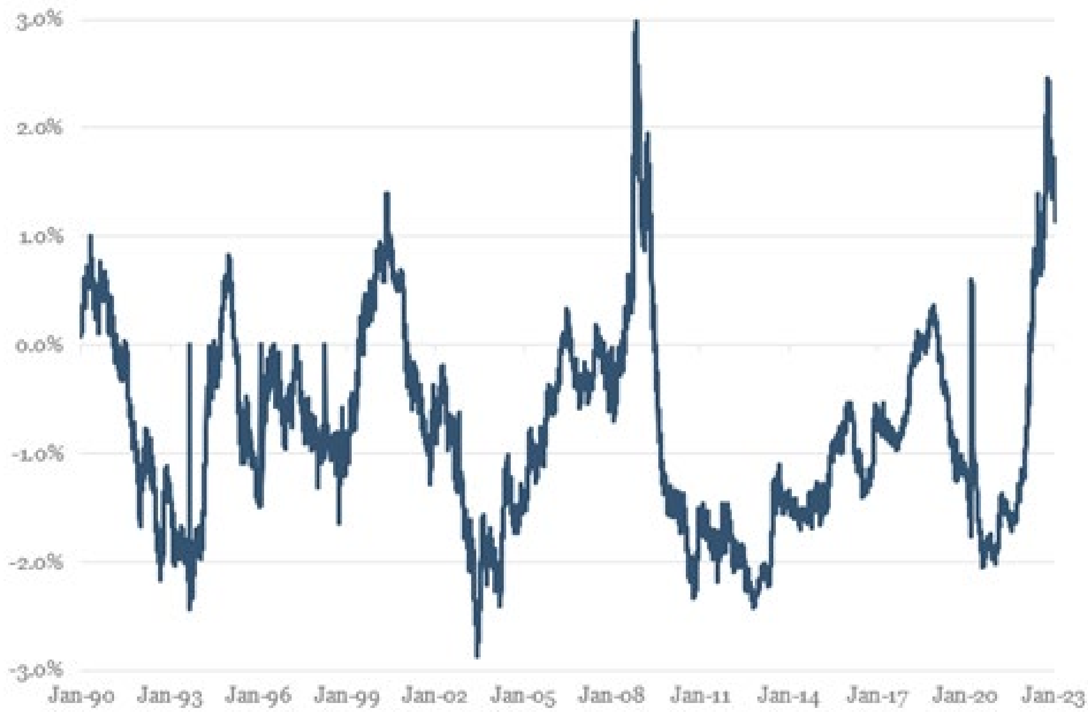
MARKET COMMENTARY

Fig. 1: US Investment Grade Corporate Bond Yield-to-Worst less Coupon



Source: Bloomberg, Mill Creek.

The average current coupon and yield-to-worst of US investment-grade corporate bonds are 3.75% and 5.00%, respectively. The 125-basis point difference has come down from its recent near all-time high going back +30 years but remains above long-term historical averages (Fig. 1).

What does this mean?

In general, coupon payments represent the cost of a company's existing debt while yield-to-worst is the current 'market price' of that debt if it was refinanced today. The elevated difference between the two means companies are highly disincentivized to refinance debt early because it would cost over one percentage point more in interest expense.

Fortunately, a record number of investment-grade companies locked in low rates in 2021 and extended bond maturities for several years. As such, rising rates have a less immediate impact on the space and firms have time to prepare (by raising prices, reducing headcount, etc.) for higher anticipated future debt service costs. As such, while we expect the economy to cool in 2023, we believe corporate borrowers are well-positioned to navigate through variable market conditions.

QUICK LINKS

This week's contributor: Nora Pickens, CAIA

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