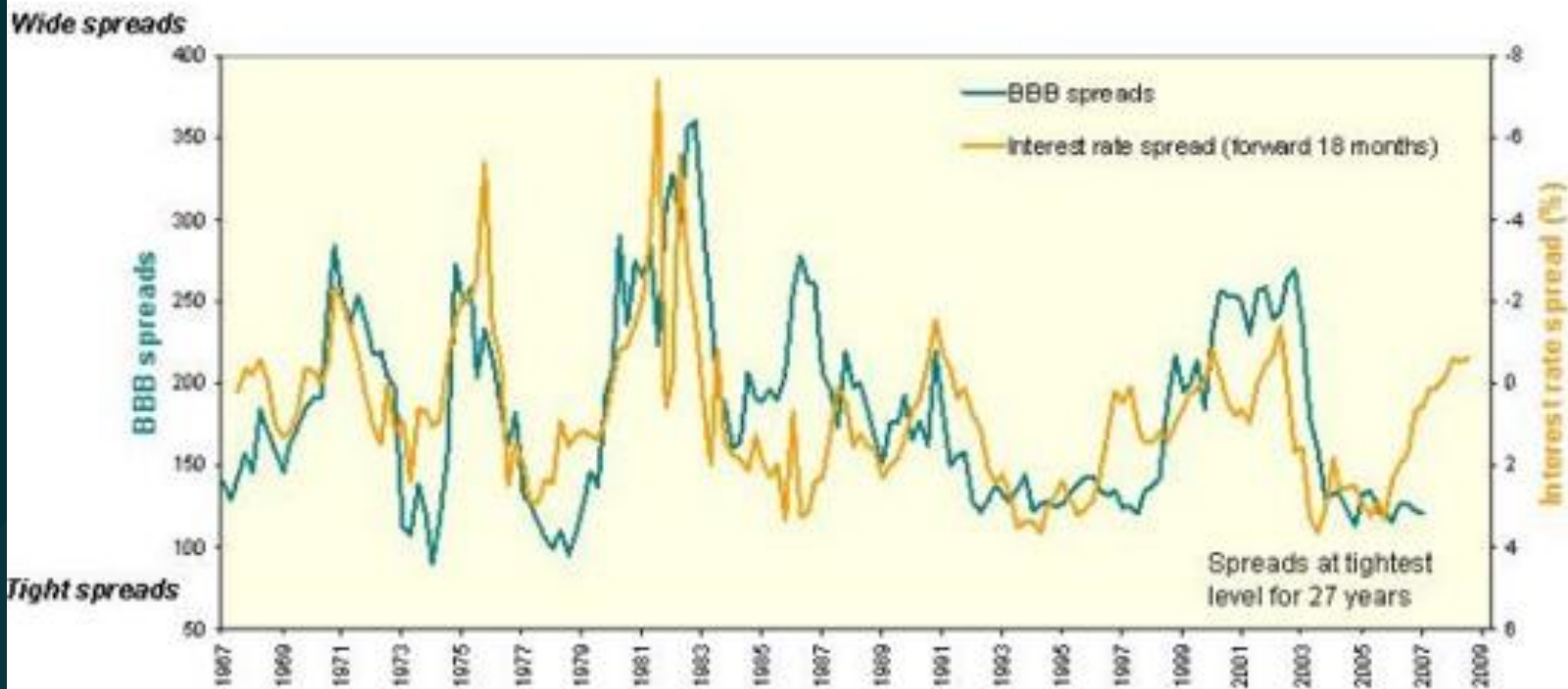


Inverted yield curve is also a good predictor of corporate spreads

US BBB rated corporate bond spreads vs interest rate spread



Lower rated corporate bonds are "priced for perfection"

Source: Bloomberg

M&G
INVESTMENTS



BONDVIGILANTES.COM

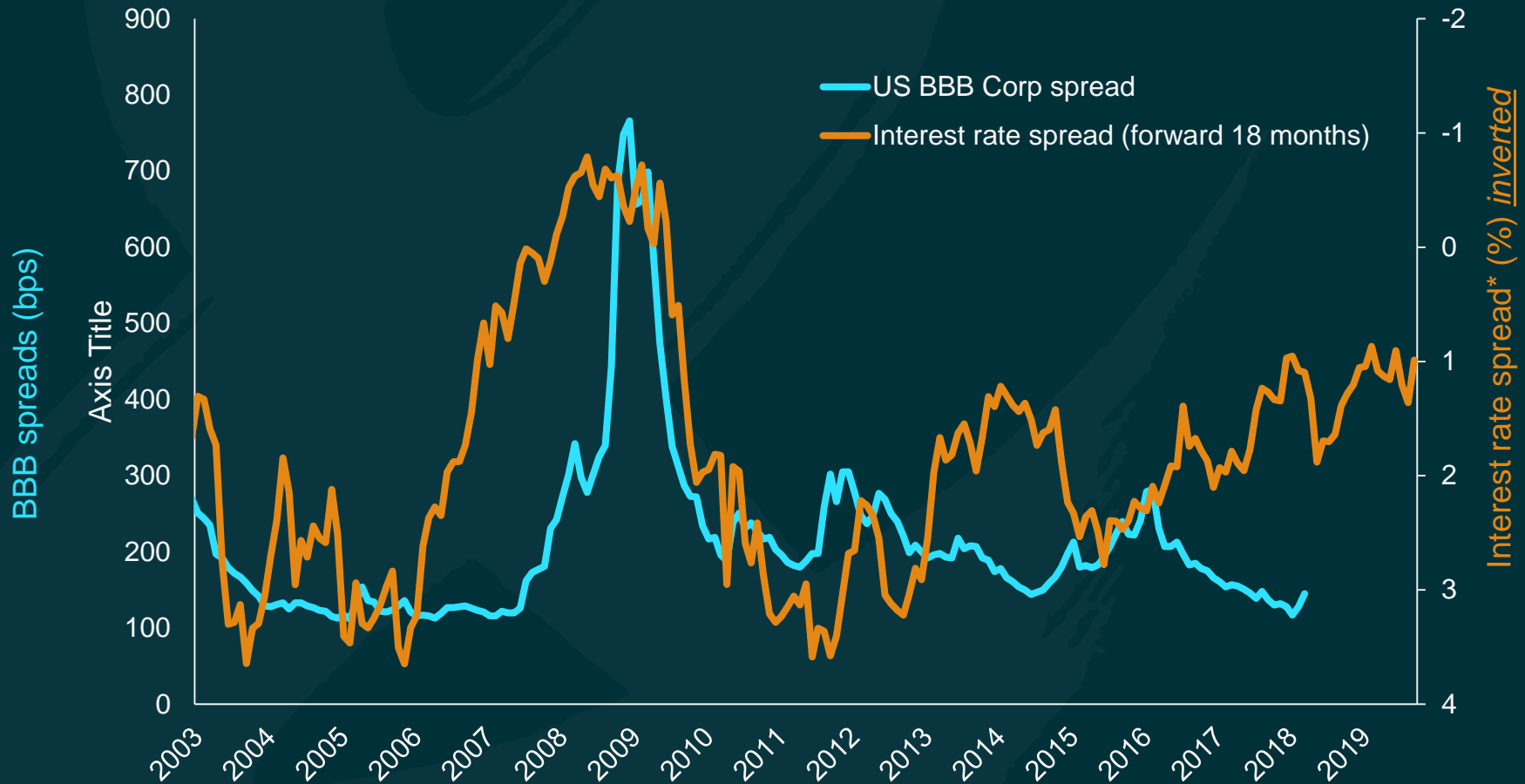
@BONDVIGILANTES

Source: Bloomberg, M&G, 2008.

M&G
INVESTMENTS

The yield curve is also a good predictor of corporate spreads

US BBB rated corporate bond spreads vs interest rate spread



*Interest rate spread = 10y US Treasury yield – Fed rate



Then versus now: This Time Is Different....

The world is a very different place as compared with 2007

US IG index	19 July 2007	20 April 2018
OAS	110bps	110bps
Face Value (\$bn)	2048	6180
Market value (\$bn)	2079	6341
YTW	6.03	3.90
Rating	A2	A3
Effective duration	5.94	7.07
No. issuers	746	1120
Mean debt per issuer	1100	2000
% financials	45	31
FED funds rate	5.28	1.69
US 2yr	4.84	2.43
US10yr	5.01	2.92
WTI (\$/bl)	75.90	68.08



BONDVIGILANTES.COM

@BONDVIGILANTES

Source: Bloomberg, M&G, April 2018.

M&G
INVESTMENTS