RBC Global Asset Management

Five reasons to consider Investment Grade Securitized Credit

April 2023

Tom Mowl
BlueBay Portfolio Manager, Securitized Credit

BlueBay Fixed Income Team

Lucy Best
BlueBay Institutional Portfolio Manager, Securitized Credit

BlueBay Fixed Income Team

Published April 2023

Recent events in markets have highlighted that having a margin of safety is crucial, especially in an environment where central banks have been aggressively raising rates and are yet to achieve control on inflation. The continued pressure on consumers and corporates in addition to the pullback in credit availability has increased recessionary risks, ultimately leading to higher expectations of idiosyncratic deterioration and defaults. Investment Grade Securitized Credit offers investors protection from defaults alongside exceptional value.

Below we highlight five reasons for an allocation to Investment Grade Securitized Credit.

1. **Protection against defaults:** with the continuing strain being placed on the real economy by higher interest rates, Securitized Credit offers default protection to investors - High Grade/Investment Grade rated bonds have the highest level of default protection and are significantly remote from default risk.
2. **Attractive value:** credit spreads are currently at wide levels across much of the Securitized Credit market on an absolute basis versus long-term averages and on a relative basis versus similar or lower-rated Corporates.
3. **Take advantage of higher cash rates and an inverted yield curve:** in a world where cash rates are high and investors are looking for “cash plus” products Investment Grade Securitized Credit presents a compelling opportunity given much of the market is floating rate. Bonds in this space also pay coupons above the front end of the yield curve which given the inverted yield curve and wider credit spreads is boosting all in yields
4. **Technicals driving valuations:** while macro volatility in 2022 added to spread moves, levels are predominantly driven by technical factors, such as persistent primary supply and heavy secondary trading volume.
5. **Lower sensitivity to credit moves:** Securitized Credit typically offers shorter spread duration versus Corporates as demonstrated in the table below. This shorter spread duration means lower sensitivity to credit volatility and importantly alongside the higher yields means breakevens are higher.

Asset class by rating, yield and spread duration

Asset class		Average rating	Yield (Euro, hedged)	Typical spread duration
Securitized Credit	High Grade	AAA	4-5%	1-2 years
	Investment Grade	AA	6-7%	2-3 years
Corporates	Investment Grade	AA	3-4%	5-6 years
		A	4-5%	5-6 years

Source: RBC BlueBay representative accounts for high grade and investment grade securitized credit, as at 1 March 2023. Corporates - AA index ER20, A index - ER30.

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